

# 2002 Annual Report

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SANPAOLO IMI S.p.A.

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REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

SECONDARY OFFICES:

- VIALE DELL'ARTE 25, ROME, ITALY

- VIA FARINI 22, BOLOGNA, ITALY

COMPANY REGISTER OF TURIN 06210280019

SHARE CAPITAL EURO 5,144,064,800 FULLY PAID

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PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

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This document has been translated from that issued in Italy from the Italian into the English language solely for the convenience of international readers.

## Board of Directors

Luigi Arcuti	<i>Honorary Chairman</i>
Rainer Stefano Masera (*)	<i>Chairman</i>
Isabelle Bouillot	<i>Director</i>
Pio Bussolotto (*)	<i>Managing Director</i>
Alberto Carmi	<i>Director</i>
Giuseppe Fontana	<i>Director</i>
Gabriele Galateri di Genola e Suniglia	<i>Director</i>
Richard Gardner	<i>Director</i>
Alfonso Iozzo (*)	<i>Managing Director</i>
Mario Manuli	<i>Director</i>
Luigi Maranzana (*)	<i>Managing Director</i>
Virgilio Marrone (*)	<i>Director</i>
Abel Matutes	<i>Director</i>
Iti Mihalich (*)	<i>Director</i>
Emilio Ottolenghi	<i>Director</i>
Orazio Rossi (*)	<i>Deputy Chairman</i>
Gian Guido Sacchi Morsiani	<i>Director</i>
Enrico Salza (*)	<i>Deputy Chairman</i>
Remi François Vermeiren	<i>Director</i>

*(\*) Members of the Executive Committee*

## Board of Statutory Auditors

Mario Paolillo	<i>Chairman</i>
Aureliano Benedetti	<i>Auditor</i>
Maurizio Dallochio	<i>Auditor</i>
Paolo Mazzi	<i>Auditor</i>
Enrico Vitali	<i>Auditor</i>
Stefania Bortoletti	<i>Supplementary Auditor</i>
Antonio Ottavi	<i>Supplementary Auditor</i>

## Independent Auditors

PricewaterhouseCoopers S.p.A.

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# Agenda of the Shareholders' Meeting

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TURIN

1<sup>st</sup> calling for the extraordinary and ordinary meetings: 28 April 2003

2<sup>nd</sup> calling for the extraordinary and ordinary meetings: 29 April 2003

Extraordinary part:

1. Increase of the legal reserve to the maximum limit provided for by art. 2430, subsection 1 of the Italian Civil Code, allocating part of the merger surplus, of the reserve ex art. 7, subsection 3, of Law 218/1990, of the reserve ex D. Lgs. 169/1983 and of part of the share premium reserve.

Ordinary part:

1. Financial statements as of 31 December 2002, reports of the Board of Directors and the Board for Statutory Auditors; allocation of net income; consolidated Group financial statements as of 31 December 2002.
2. Authorization for the purchase and sale of own shares.
3. Remuneration of the Directors.



# Letter to the Shareholders

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Shareholders,

2002 was not an easy year for banks and financial operators, characterized by a persistently weak international economic cycle, by the crisis of several important international industrial groups, by growing political and military tension and by serious uncertainties on the stock markets, with the consequent drop in the stock price.

In the twelve months the international stock exchanges lost over 20%; even more dramatic trends featured in Europe, where the FTSE Eurotop lost 33%, and in Italy, where the MIB 30 fell by 26%. Contrary to the initial forecast of an improvement in the recovery, the European economy slowed down considerably in 2002, with GDP averaging 0.8% compared with 2001's 1.5%, despite the gradual reduction of interest rates to all-time lows in the EU.

This scenario created strong pressure on the revenues of Italian and European banks following the compression of lending margins and the drop in commissions from financial services, as well as significant charges in terms of adjustments to loans and shareholding investments.

The SANPAOLO IMI Group, leader in the asset management sector in Italy, was affected by these difficult market conditions, registering a decline in revenues and a reversal in profit levels; strict assessment policies were implemented with regard to financial and lending income, involving significant adjustments to the statement of income; consolidated net income was 889 million euro, down 35.4% on the previous year.

The same difficulties also contributed to creating a strong reaction by the Group, which achieved important operating results and considerably increased transactions with companies as well as with households. As far as loans are concerned, while maintaining a policy of meticulous quality assessment, the Group's net loans to customers grew by 2.2%. This result is significant as it has been obtained by pursuing a policy of selecting and reducing loans to some important domestic and international groups. The level of service, loans aside, to companies has also risen. Relevant in this context was the development of Banca OPI, which took full advantage of the opportunities, deriving from the need for investments in infrastructure, from both the public sector and partnerships with private customers.

Increases were also registered in transactions with households and private customers, in terms of mortgages, personal loans and consumer credit, with regard both to asset management and financial services. The effect of the devaluation of the stock exchanges

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on customer financial assets was largely offset by a net flow of asset management of 3.2 billion euro and a positive trend of direct deposits and assets under administration flows (+1.7% and +3.7% respectively), confirming the capacity of the distribution networks to maintain a relationship of trust and service with customers, despite the adverse market situation, as proven by the increase in traditional banking services.

Operational development was accompanied by constant attention to cost control: thanks to a drop in personnel costs and to actions to rationalize the organizational structure, the Group kept administrative costs quite stable despite considerable integration charges.

The solid financial situation, summarized by a Tier 1 ratio of 7.3% and by a total ratio of 10.7%, the quality of assets and the positive operating results attained in a difficult market, make it possible to propose to shareholders the distribution of a dividend of 0.30 euro per share and represent a solid base on which to build a strategy of sustainable development over the years to come.

The Group responded to the adverse market conditions with effective structural actions, accelerating the integration processes of its distribution networks: in May, a decision was made to integrate Banca Sanpaolo Invest into Banca Fideuram, in June the merger with Cardine Banca took place followed, at the end of the year, by the merger with Banco di Napoli. These company transactions were accompanied by important operating initiatives: all the finance and treasury operations were centralized in the Parent Bank. The integration of the IT systems continued and will be completed by June 2003 for the branches of the former Banco di Napoli and extended, as of the end of the year, to the Cardine bank networks, being completed in the first half of 2004.

The strong impulse to the integration processes is closely linked with the definition of a highly innovative organizational model for the branch networks, which intends to combine the improvement in operating efficiency and the distribution capacity with the local roots and excellent service and the provision of a quick response to customers.

This new distribution model represents the mainstay of the three-year plan for 2003-2005 presented last February by the Board of Directors, confirming the Group's strategic decision to reinforce primarily its position in the domestic banking market, consolidating that gained in services to households and companies thanks to investments and internal and external growth actions performed in previous years. The Group's banking networks, which at the beginning of 2000 included just over 1,300 branches, now number more than 3,000 branches providing extensive coverage of most of the country. The operating links with the Cassa di Risparmio di Firenze Group

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and with the Cassa dei Risparmi di Forlì have also been strengthened, completing the Group's national coverage and distribution capacities.

The Plan shows company loans and services and management of households' savings as being priority markets.

On the loans front, the decision to dedicate attention to all corporate segments resulted in the progressive diversification of the portfolio: despite the confirmed commitment to sustain the main Italian industrial groups, the exposure to several groups in Italy and abroad and, consequently, the level of concentration, were reduced. The weight of the first 10 borrowers in the loan portfolio has fallen over the last three years from 13.4% to 10.4%, while loans to small- and medium-sized companies and to households have increased, both through the banking channel and in the form of consumer credit, where the Group concentrated its investments in Finemiro for synergic development with the banking activity. Corporate loans and services will be strengthened throughout the country, accepting the challenge that the new Basel rules present to banks and companies and thus allocating to this customer segment the network of approximately 130 branches created during the last 18 months and the activity of the specialized companies within the Group aimed at creating innovative financial products.

With the acquisition of Banka Koper, the Public Offer for Inter-Europa Bank, the restoration and consolidation of West Bank and the establishment of a widespread network of offices in the New Europe, the Group is capable of offering efficient services to Italian customers and of contributing to the support of economic and financial relations with countries in that region.

Concerning asset management products, instruments and techniques adopted by the Sanpaolo Network in terms of sales and advisory services to households are concerned, these will be exported to the other distribution networks, benefiting markets in the South and North-East. Simultaneously, the Sanpaolo IMI Wealth Management product factory continues to improve product performance and innovation, taking full advantage of the opportunities offered by the insurance, pensions and welfare market.

The Plan provides for initiatives aimed at improving earnings in all the other main business areas, as well as the active management of the investment portfolio, in order to optimize the allocation and performance of the capital invested and to free up resources to use for new, selected development opportunities. The partnership projects set up or being studied with the foreign groups SCH and CDC Ixis/EULIA are moving in this direction.

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These actions to relaunch operations and revenues will be accompanied by strict policies to rationalize structures and to keep costs down, starting by rationalizing head offices and subsidiaries, with investments in the IT systems of the Macchina Operativa Integrata and with a staff policy enabling a reduction of Group's total personnel and, at the same time, implementing a rejuvenation of staff and boosting resources dedicated to the distribution structures.

The financial targets of the Plan, in which a gradually recovering and fragile economic scenario can be envisaged for 2003 with more sustained growth over the next two years, can be summarized in a RoE progressively increasing by 9% in 2003 up to 15% in 2005<sup>(1)</sup>. The simultaneous action on revenues and costs will enable the Group to make significant improvements to the cost/income ratio, taking it from the current 65% to below 55% in 2005.

These are ambitious aims, especially considering the market conditions that are characterizing the early part of 2003 and the uncertainty that continues to prevail with regard to the performance of the international economy and financial markets, also due to the conflict in Iraq, but to which management is fully committed.

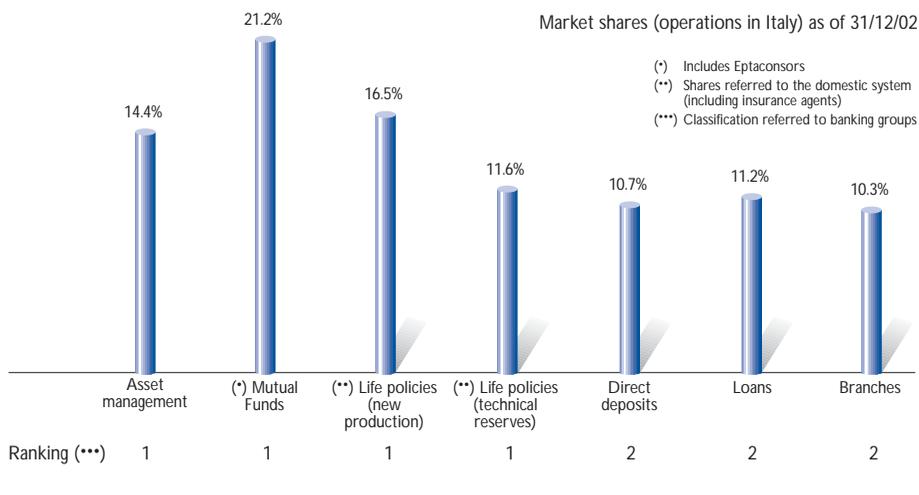
The operating evolution in the first two months of the year confirms the Group's ability to grow in the market, in terms of asset management – with a positive net inflow of mutual funds (1.8 billion euro in the two months), life insurance (about 1.3 billion euro) and other investment products – and in terms of dealing activities and services for households and companies. Despite a negative impact on asset management of 2.4 billion euro resulting from the devaluations of the markets, the stock of financial assets rose by 0.9% from the beginning of the year, while net loans to customers grew by 1.7%. The performance of the financial markets and interest rates continues to pressurize the unit contribution margins to which the Group is responding with an improvement in quality and an expansion of the range of services offered, with the aim of satisfying customer needs and the interest of shareholders.

Turin, 25 March 2003

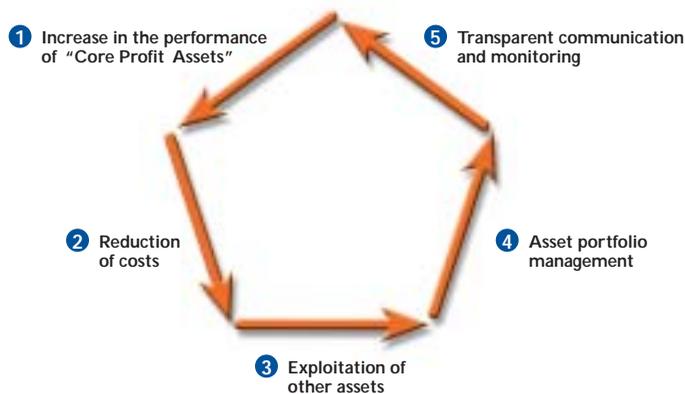
The Chairman  


*(1) The 15% RoE target cannot be directly compared with that presented in December 2001 at the time of the merger with Cardine following a change in the calculation method suggested by the need to comply with international practice. The adoption of the previous method – which substantially excluded current income from the average equity – would take the current RoE target to 16.5% in 2005.*

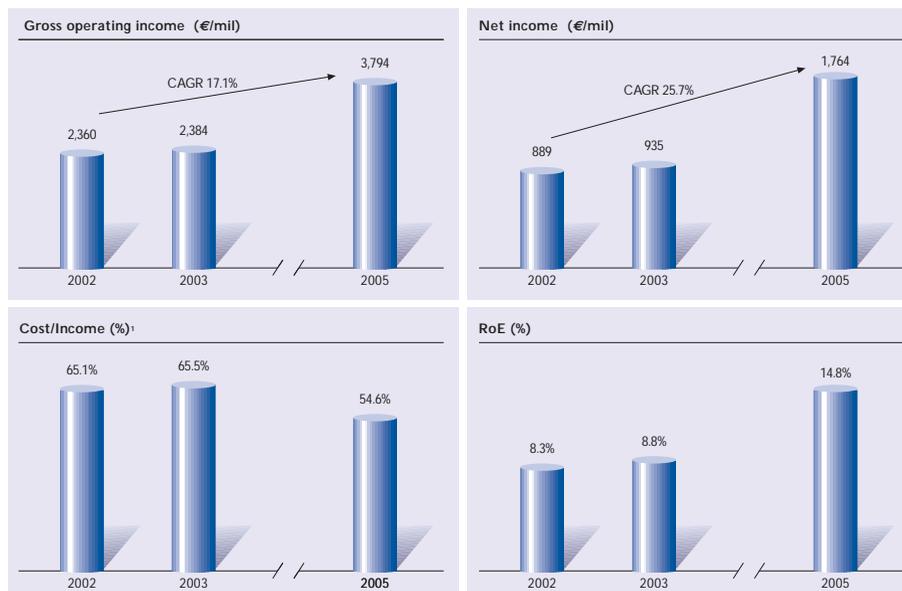
The position of the SANPAOLO IMI Group



The strategic choices for the 2003-2005 Plan: the five guidelines



2003-2005 Plan: the expected results



(1) Administrative costs (excluding indirect duties and taxes) and amortization (excluding adjustments to goodwill and merger and consolidation differences) / Net interest and other banking income (including other net income).

# Key figures

	2002	2001 pro forma (1)	Change 2002 / 2001 pro forma (%)	2001
<b>CONSOLIDATED STATEMENT OF INCOME (€/mil)</b>				
Net interest income	3,773	3,959	-4.7	2,788
Net commissions and other net dealing revenues	2,809	3,056	-8.1	2,608
Administrative costs	-4,648	-4,647	+0.0	-3,600
Operating income	2,360	2,770	-14.8	2,118
Provisions and net adjustments to loans and financial fixed assets	-1,426	-1,007	+41.6	-737
Income before extraordinary items	722	1,591	-54.6	1,231
Net income of the Group	889	1,376	-35.4	1,203
<b>CONSOLIDATED BALANCE SHEET (€/mil)</b>				
Total assets	203,773	213,427	-4.5	170,191
Loans to customers (excluding NPLs and SGA loans)	124,115	121,469	+2.2	94,085
Securities	22,591	28,543	-20.9	22,127
Equity investments	4,064	4,898	-17.0	4,697
Subordinated liabilities	6,613	5,829	+13.4	5,607
Shareholders' equity of the Group	10,537	10,933	-3.6	8,182
<b>CUSTOMER FINANCIAL ASSETS (€/mil)</b>				
Customer financial assets	356,281	357,875	-0.4	305,404
- Direct deposits	137,049	134,803	+1.7	106,784
- Indirect deposits	219,232	223,072	-1.7	198,620
- Asset management	131,515	138,479	-5.0	125,977
- Asset administration	87,717	84,593	+3.7	72,643
<b>PROFITABILITY RATIOS (%)</b>				
RoE (2)	8.3	12.9		15.5
Cost / Income ratio (3)	65.1	61.6		62.1
Net commissions / Administrative costs	60.4	65.8		72.4
<b>CREDIT RISK RATIOS (%)</b>				
Net non-performing loans / Net loans to customers	1.1	1.1		1.0
Net problem loans and loans in restructuring / Net loans to customers	1.1	1.2		1.0
<b>SOLVENCY RATIOS (%) (4)</b>				
Tier 1 ratio	7.3	7.2		7.2
Total ratio	10.7	9.5		9.5
<b>SHARES</b>				
Number of shares (millions)	1,837	1,837	-	1,404
Quoted price per share (€)				
- average	9.439	14.375	-34.3	14.375
- low	5.231	8.764	-40.3	8.764
- high	13.702	18.893	-27.5	18.893
Earnings / Average number of shares in circulation (€)	0.48	0.75	-36.0	0.87
Dividend per share (€)	0.30	0.57	-47.4	0.57
Dividend per share/ Average annual price (%)	3.18	3.97		3.97
Price / Book value	1.1	2.2	-50.0	2.2
Shareholders' equity / Number of shares in circulation (€)	5.74	5.95	-3.5	5.90
<b>OPERATING STRUCTURE</b>				
Employees	45,650	46,556	-1.9	35,028
Domestic branches	3,069	3,049	+0.7	2,212
Foreign branches and representative offices	153	150	+2.0	95
Financial planners	4,955	5,510	-10.1	5,506

(1) The pro forma figures have been prepared, according to the criteria detailed in the Explanatory Notes, assuming the merger with Cardine Banca and the acquisition of the interest in Banka Koper as of 1/1/2001.

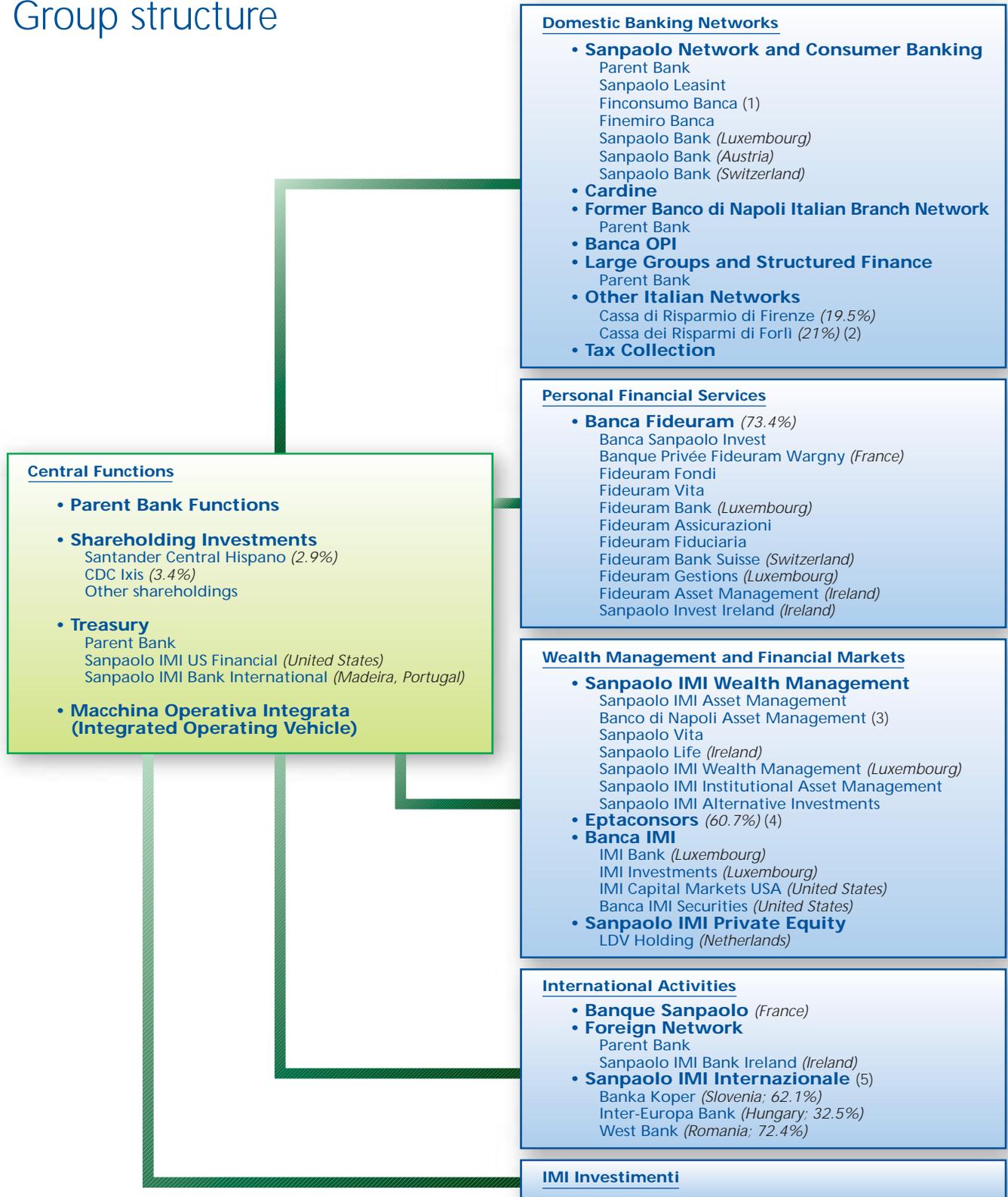
(2) Net income / Average net shareholders' equity.

(3) Administrative costs (excluding indirect duties and taxes) and amortization (excluding adjustments to goodwill and merger and consolidation differences) / Net interest and other banking income (including other net income).

(4) Solvency ratios as of 31/12/2001 are not pro forma.

The pro forma figures for 2001 are unaudited.

# Group structure



(1) On 3 March 2003 an agreement was reached for the sale to Santander Central Hispano of the 50% stake held by SANPAOLO IMI.

(2) The share will rise to 29.8% due to the exercising of a put option by Fondazione Cassa dei Risparmi di Forli, as provided for by the preliminary agreement stipulated with SANPAOLO IMI on 29 November 2000.

(3) On 4 March 2003 Bank of Italy authorized the merger by incorporation of Banco di Napoli Asset Management into Sanpaolo IMI Asset Management, effective as of 1 September 2003.

(4) On 29 January 2003 the share rose to 60.7% following the completion of the acquisition of the 20.24% interest held by Cassa di Risparmio di Firenze.

(5) The conferral of the interests in Banka Koper, Inter-Europa Bank and West Bank to Sanpaolo IMI Internazionale has still to be completed.



# Consolidated financial statements and reports

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RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS

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REPORT ON OPERATIONS

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INDEPENDENT AUDITORS' REPORT

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CONSOLIDATED FINANCIAL STATEMENTS

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ATTACHMENTS

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# Reclassified consolidated financial statements

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RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

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QUARTERLY ANALYSIS OF THE RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

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RECLASSIFIED CONSOLIDATED BALANCE SHEET

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QUARTERLY ANALYSIS OF THE RECLASSIFIED CONSOLIDATED BALANCE SHEET

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## Reclassified consolidated statement of income

	2002 (€/mil)	2001 pro forma (1) (€/mil)	Change 2002 / 2001 pro forma (%)
<b>NET INTEREST INCOME</b>	<b>3,773</b>	<b>3,959</b>	<b>-4.7</b>
Net commissions and other net dealing revenues	2,809	3,056	-8.1
Profits and losses from financial transactions and dividends on shares	286	300	-4.7
Profits from companies carried at equity and dividends from shareholdings	292	228	+28.1
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>7,160</b>	<b>7,543</b>	<b>-5.1</b>
Administrative costs	-4,648	-4,647	+0.0
- <i>personnel</i>	-2,856	-2,862	-0.2
- <i>other administrative costs</i>	-1,528	-1,519	+0.6
- <i>indirect duties and taxes</i>	-264	-266	-0.8
Other operating income, net	358	353	+1.4
Adjustments to tangible and intangible fixed assets	-510	-479	+6.5
<b>OPERATING INCOME</b>	<b>2,360</b>	<b>2,770</b>	<b>-14.8</b>
Adjustments to goodwill and merger and consolidation differences	-212	-172	+23.3
Provisions and net adjustments to loans and financial fixed assets	-1,426	-1,007	+41.6
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>722</b>	<b>1,591</b>	<b>-54.6</b>
Net extraordinary income	296	414	-28.5
<b>INCOME BEFORE TAXES</b>	<b>1,018</b>	<b>2,005</b>	<b>-49.2</b>
Income taxes for the period	-450	-517	-13.0
Change in reserves for general banking risks	364	-6	n.s.
Income attributable to minority interests	-43	-106	-59.4
<b>NET INCOME</b>	<b>889</b>	<b>1,376</b>	<b>-35.4</b>

(1) The pro forma statement of income for 2001 has been prepared, according to the criteria detailed in the Explanatory Notes, assuming the merger with Cardine Banca and the acquisition of the interest in Banka Koper as of 1/1/2001.

The pro forma statement of income for 2001 is unaudited.

## Quarterly analysis of the reclassified consolidated statement of income

	2002					2001 pro forma (1)				
	Fourth quarter	Third quarter	Second quarter	First quarter pro forma (1)	Quarterly average	Fourth quarter	Third quarter	Second quarter	First quarter	Quarterly average
	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)
<b>NET INTEREST INCOME</b>	<b>960</b>	<b>936</b>	<b>950</b>	<b>927</b>	<b>943</b>	<b>1,001</b>	<b>956</b>	<b>1,005</b>	<b>997</b>	<b>990</b>
Net commissions and other net dealing revenues	755	668	689	697	702	776	726	798	756	764
Profits and losses from financial transactions and dividends on shares	64	13	125	84	72	141	6	81	72	75
Profits from companies carried at equity and dividends from shareholdings	53	55	135	49	73	60	7	101	60	57
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>1,832</b>	<b>1,672</b>	<b>1,899</b>	<b>1,757</b>	<b>1,790</b>	<b>1,978</b>	<b>1,695</b>	<b>1,985</b>	<b>1,885</b>	<b>1,886</b>
Administrative costs	-1,224	-1,128	-1,176	-1,120	-1,162	-1,234	-1,105	-1,178	-1,130	-1,162
- <i>personnel</i>	-745	-691	-721	-699	-714	-727	-683	-744	-708	-716
- <i>other administrative costs</i>	-410	-375	-384	-359	-382	-444	-358	-358	-359	-380
- <i>indirect duties and taxes</i>	-69	-62	-71	-62	-66	-63	-64	-76	-63	-66
Other operating income, net	94	93	93	78	90	78	89	102	84	89
Adjustments to tangible and intangible fixed assets	-160	-127	-112	-111	-127	-146	-120	-111	-102	-120
<b>OPERATING INCOME</b>	<b>542</b>	<b>510</b>	<b>704</b>	<b>604</b>	<b>591</b>	<b>676</b>	<b>559</b>	<b>798</b>	<b>737</b>	<b>693</b>
Adjustments to goodwill and merger and consolidation differences	-88	-39	-44	-41	-53	-50	-42	-41	-39	-43
Provisions and net adjustments to loans and financial fixed assets	-661	-453	-156	-156	-357	-443	-192	-228	-144	-252
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>-207</b>	<b>18</b>	<b>504</b>	<b>407</b>	<b>181</b>	<b>183</b>	<b>325</b>	<b>529</b>	<b>554</b>	<b>398</b>
Net extraordinary income	126	34	80	56	74	38	167	130	79	103
<b>INCOME BEFORE TAXES</b>	<b>-81</b>	<b>52</b>	<b>584</b>	<b>463</b>	<b>255</b>	<b>221</b>	<b>492</b>	<b>659</b>	<b>633</b>	<b>501</b>
Income taxes for the period	42	-77	-243	-172	-113	6	-93	-188	-242	-129
Change in reserves for general banking risks	353	13	-2	-	91	-6	-1	1	-	-2
Income attributable to minority interests	-	-14	-15	-14	-11	12	-58	-36	-24	-26
<b>NET INCOME</b>	<b>314</b>	<b>-26</b>	<b>324</b>	<b>277</b>	<b>222</b>	<b>233</b>	<b>340</b>	<b>436</b>	<b>367</b>	<b>344</b>

(1) The pro forma quarterly statements of income have been prepared, according to the criteria detailed in the Explanatory Notes, assuming the merger with Cardine Banca and the acquisition of the interest in Banka Koper as of 1/1/2001.

The quarterly statements of income are unaudited.

## Reclassified consolidated balance sheet

	31/12/2002 (€/mil)	31/12/2001 pro forma (1) (€/mil)	Change 31/12/02 - 31/12/01 pro forma (%)
<b>ASSETS</b>			
Cash and deposits with central banks and post offices	1,406	1,172	+20.0
Loans	148,701	151,346	-1.7
- due from banks	22,000	26,436	-16.8
- loans to customers	126,701	124,910	+1.4
Dealing securities	19,694	24,557	-19.8
Fixed assets	9,596	11,889	-19.3
- investment securities	2,897	3,986	-27.3
- equity investments	4,064	4,898	-17.0
- intangible fixed assets	406	444	-8.6
- tangible fixed assets	2,229	2,561	-13.0
Differences arising on consolidation and on application of the equity method	1,030	1,243	-17.1
Other assets	23,346	23,220	+0.5
<b>Total assets</b>	<b>203,773</b>	<b>213,427</b>	<b>-4.5</b>
<b>LIABILITIES</b>			
Payables	161,505	171,285	-5.7
- due to banks	24,456	36,482	-33.0
- due to customers and securities issued	137,049	134,803	+1.7
Provisions	3,813	4,278	-10.9
- for taxation	670	1,219	-45.0
- for termination indemnities	961	955	+0.6
- for risks and charges	1,839	1,761	+4.4
- for pensions and similar	343	343	-
Other liabilities	20,971	20,309	+3.3
Subordinated liabilities	6,613	5,829	+13.4
Minority interests	334	793	-57.9
Shareholders' equity	10,537	10,933	-3.6
<b>Total liabilities</b>	<b>203,773</b>	<b>213,427</b>	<b>-4.5</b>

(1) The pro forma balance sheet figures at 31/12/2001 have been prepared, according to the criteria detailed in the Explanatory Notes, assuming the merger with Cardine Banca and the acquisition of the interest in Banka Koper as of 1/1/2001.

The pro forma balance sheet figures as of 31/12/2001 are unaudited.

## Quarterly analysis of the reclassified consolidated balance sheet

	2002				2001 pro forma (1)			
	31/12 (€/mil)	30/9 (€/mil)	30/6 (€/mil)	31/3 pro forma (1) (€/mil)	31/12 (€/mil)	30/9 (€/mil)	30/6 (€/mil)	31/3 (€/mil)
<b>ASSETS</b>								
Cash and deposits with central banks and post offices	1,406	1,042	1,029	1,454	1,172	710	688	709
Loans	148,701	145,679	146,607	147,273	151,346	144,674	145,957	145,269
- due from banks	22,000	21,977	22,735	21,189	26,436	22,681	21,340	23,434
- loans to customers	126,701	123,702	123,872	126,084	124,910	121,993	124,617	121,835
Dealing securities	19,694	23,737	25,100	25,657	24,557	23,724	28,029	24,712
Fixed assets	9,596	10,093	10,660	11,732	11,889	12,620	12,750	14,574
- investment securities	2,897	3,117	3,642	3,931	3,986	4,995	5,286	7,028
- equity investments	4,064	4,170	4,120	4,837	4,898	4,621	4,433	4,511
- intangible fixed assets	406	390	407	426	444	442	449	426
- tangible fixed assets	2,229	2,416	2,491	2,538	2,561	2,562	2,582	2,609
Differences arising on consolidation and on application of the equity method	1,030	1,095	1,141	1,120	1,243	1,260	1,260	1,167
Other assets	23,346	23,128	22,995	23,116	23,220	23,763	24,871	25,611
<b>Total assets</b>	<b>203,773</b>	<b>204,774</b>	<b>207,532</b>	<b>210,352</b>	<b>213,427</b>	<b>206,751</b>	<b>213,555</b>	<b>212,042</b>
<b>LIABILITIES</b>								
Payables	161,505	163,743	166,657	168,360	171,285	164,162	169,456	166,504
- due to banks	24,456	26,902	30,201	32,943	36,482	34,789	38,629	36,888
- due to customers and securities issued	137,049	136,841	136,456	135,417	134,803	129,373	130,827	129,616
Provisions	3,813	4,291	4,159	4,565	4,278	3,945	5,108	5,840
- for taxation	670	1,194	1,058	1,392	1,219	1,027	1,029	1,730
- for termination indemnities	961	969	989	993	955	966	979	969
- for risks and charges	1,839	1,786	1,769	1,810	1,761	1,616	1,700	1,731
- for pensions and similar	343	342	343	370	343	336	1,400	1,410
Other liabilities	20,971	19,765	19,755	19,611	20,309	21,469	22,414	22,671
Subordinated liabilities	6,613	6,218	6,155	5,793	5,829	5,621	5,401	5,365
Minority interests	334	429	437	797	793	882	831	841
Shareholders' equity (2)	10,537	10,328	10,369	11,226	10,933	10,672	10,345	10,821
<b>Total liabilities</b>	<b>203,773</b>	<b>204,774</b>	<b>207,532</b>	<b>210,352</b>	<b>213,427</b>	<b>206,751</b>	<b>213,555</b>	<b>212,042</b>

(1) The pro forma balance sheet figures have been prepared, according to the criteria detailed in the Explanatory Notes, assuming the merger with Cardine Banca and the acquisition of the interest in Banka Koper as of 1/1/2001.

(2) Reserves are net of own shares held by the Parent Bank.

The pro forma balance sheet figures and the balance sheet figures as of 30/9/2002 are unaudited.



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# Economic background

## The international context

During 2002, economic growth in the major international areas – despite the recovery from the minimums registered in the second half of 2001 – was particularly vulnerable and, on the whole, more modest than expected at the beginning of the year.

The dynamics of the cycle were negatively affected by endogenous factors, especially the decline in expenditure for fixed investment in the main industrialized economies, and by exogenous factors, such as the financial scandals involving leading US companies and the possible developments of the military and political tension in Iraq. Both factors had a considerable effect on the confidence and the decisions of operators regarding expenditure, compounding existing uncertainties on the future direction of the major economies and financial markets. The development of international commerce was penalized, revealing itself to be incapable of sustaining the expected relaunch of international manufacturing activity.

In 2002, in the United States GDP recovered globally, with a growth rate of 2.4% compared with 0.3% in 2001. Manufacturing activity was supported by private consumption and public expenditure, while the change in fixed investment remained negative. In the last part of the year however, the major indicators of the cycle showed new deterioration of the market situation. The industrial production index fell again. GDP slowed considerably, taking the rate of unemployment to 6%. Simultaneously, there was a dramatic reversal in consumer confidence indexes.

In this context, in November, about a year after the last intervention, the Fed dropped interest rates again, taking the rate on Federal Funds to 1.25%. Uncertainties regarding the prospects of the economy and the modest performance of capital flows which, in the years characterized by expansion, had made it easy to finance the growing deficit of the current amounts, reflected negatively on the US currency. The dollar fell during the year in comparison with the euro and the yen.

In Japan, according to preliminary estimates, GDP grew by 0.3% over the year. The manufacturing dynamics were sustained by net exports, while the contribution of domestic demand remained negative, especially because of the

decline in private investments. Structural problems linked with the vulnerability of the banking system and the manufacturing sector on the one hand, and the limited possibility for intervention with monetary and tax policies on the other, represent considerable restrictions to the possibility of recovery by the Japanese economy in the short term.

During the year emerging countries showed greater dynamism than in 2001, yet with evident differences between the various areas. The Asian economies performed better thanks to lively domestic demand and the intensification of intra area commercial exchanges. The situation remained critical in Latin America, especially in Argentina and Venezuela, owing to the economic and political difficulties in the two countries.

East European economies showed sustained growth as a whole, even though, especially during the second half of the year, they suffered the effects of the persistent weakness of economic activity in the European Union, the area's main commercial partner. The dynamics of the bond spreads of the candidate countries benefited from the prospects of joining the European Union in 2004, confirmed in Copenhagen at the end of 2002.

## The euro-zone and Italy

In the euro-zone, the dynamics of GDP in 2002, despite the recovery of the market situation compared with the minimum point reached in the last quarter of 2001, was modest over the year (+0.8% compared with 1.5% in 2001). Development suffered the difficult recovery in domestic demand but benefited from the increase in exports. However, at the end of the year, in Europe as well, the cyclical indicators showed a new phase of deterioration in the market situation; the production index fell again and unemployment increased once more in various countries.

Within the area the weak market situation mainly regarded Germany and Italy, but recently began to affect France too, albeit in a minor way. In Germany the general drop in fixed investments (-6.5%) highlighted the severe recession in the manufacturing sector.

In Italy the growth of GDP (+0.4%) was higher only than that in Germany (+0.2%). Economic stagnation can be attributed to the persistent weakness of domestic demand (+0.7%), which recovered in terms of investments in the

second half of the year, and to export difficulties (-1%) caused by the recession in the main export markets.

The difficult market situation in the area had negative effects on the dynamics of public accounts, jeopardizing the respect of targets agreed to previously with the European Commission. In some cases, such as Portugal, France and Germany, the relationship between public deficit and GDP exceeded the upper limit of 3%. In Italy the net debt of the Public Administration was 2.3% of the GDP, well below the level indicated in the Maastricht Treaty, but 1.8 percentage points higher than the previously established convergence plan. The ratio between the public debt and the GDP fell once more (from 109.5 in 2001 to 106.7 in 2002), continuing the reduction phase which started in 1995.

In 2002 the current rate of inflation in the area alternated, rising to 2.5% in the first quarter due to increases in prices as a consequence of the changeover and, after a brief fall, rising again in the third quarter as a result of the increase in the price of oil. Towards the end of the year, the dynamics of prices suffered as a result of the slowing down of the market situation and of the considerable rise in the value of the euro. Therefore in 2002 the rate of inflation settled at 2.2% (2.5% in Italy).

The controversial performance of inflation restricted the action of the Central Bank. In December, with signs of a deterioration in the market situation and simultaneous deceleration towards the target rate of inflation, the ECB reduced the policy rate from 3.25% to 2.75%.

### Banking industry

The tone of the real economy, below the expectations expressed at the beginning of the year, determined a consistent resizing in terms of growth of bank loans in Italy in 2002, up 5.9% compared with 7.8% in 2001.

The evolution of the total aggregate discounted the evident slowing down of the short-term component (+0.3% against +6.5% in 2001), partially because of the decline in loans linked with merger and acquisition transactions. Medium- and long-term loans on the other hand gave a strong impulse to the dynamics of loans, with an increase of 11.5% (+9.1% in 2001).

The low level of bank rates on disbursements stimulated the demand for loans by households (+9.4%), used as

consumer credit (+19.2%) and domestic mortgage loans (+23.5%). Despite the delicate financial situation in the major industrial sectors, the dynamics of company loans were positive (+5%). However there was a decline in the volume of loans to Public Administration (-2.8%).

During 2002, direct banking deposits showed a moderate deceleration (+4.4%) compared with the previous year (+5.9%). The trend was conditioned by the considerable decline in funding from abroad (-6.8%). During the year the dynamics of the remaining funding components was influenced by the higher propensity for liquidity expressed by households in the face of uncertainties regarding the evolution of markets, as well as by the inflow of capital from abroad following Decree Law 350 dated 25/9/01. In December total deposits were up 7.4% as a result of the increase in the amounts of current accounts (+7.6%) and, after several years of decline, of savings accounts (+6.7). The dynamics of the inflow benefited by the considerable increase in the stock of bonds (+9.5%).

With the fall in money market rates (the 3-month Euribor fell by 39 basis points between December 2001 and December 2002), short-term banking rates also fell. During the year, because of the fall in the average rate on short-term loans by 26 basis points and a reduction of 13 basis points in the average rate of open accounts payable, the short-term banking spread was down by 13 basis points.

### Securities brokerage

In 2002 the main international share indexes suffered substantial losses. In line with the dynamics of the real cycle, the negative trend of the stock markets suffered from endogenous factors linked with the reduced development of productive activity and the general decline in company earnings and from exogenous shocks attributable to the company scandals which occurred during the second quarter and the risks, which grew in the third quarter, regarding the developments of the military and political situation in Iraq.

In United States markets, the cut in costs following improvements to various companies offered support to the evolution of the company's accounts; however, in the absence of an effective recovery of revenues, this was not sufficient to avoid a new drop in stock market prices. During the year the S&P500 fell by 23.4%. The Nikkei

225 index fell by 18.6% and the DJ Stoxx 50 index fell by 35%. In Italy the MIB30 was down by 26% and the Mibtel was down by 23.5%. All the major international sector indices registered declines, which were more evident in the technology, insurance, finance, telecommunications, automotive, media, pharmaceutical and utilities sectors.

As a result of the decline in the stock markets at the end of the year the total capitalization of the Italian companies quoted in domestic market fell by 458 billion euro, 36.6% of the GDP (from 592 billion, 48.7% of the GDP, in 2001). The number of new companies quoted fell to six (from 18 in 2001). The flow of investments into the Italian market, as channeled through a Public Offer amounted to 2.9 billion euro (in comparison with 7 billion in 2001), through nine transactions instead of the 20 transactions that were implemented during 2001. The total funds obtained by the quoted companies through capital increases were equivalent to 3.7 billion euro, as opposed to 7.6 billion in 2001, based on 18 transactions (25 in 2001). The average daily value of shares exchanged was 2.5 billion euro (2.6 billion in 2001).

### Asset management

The volatility of the financial markets and the decline in stock market prices, which was particularly evident in the second and third quarters of 2002, had considerable repercussions on the dynamics of mutual funds, leading to extensive devaluation of assets and high net outflows. Because of these trends, in December the amount of funds managed by Italian brokers fell to 466 billion euro, down 9.4% in comparison to 2001.

During the year net inflows registered a reduction of 6.4 billion, despite the slight recovery during the last quarter. Net disinvestments were high for the bond funds (-18.4 billion), balanced funds (-12 billion) and equity funds (-9.8 billion). The prudent attitude of investors helped the flow of capital into liquidity funds (+29.8 billion), but was not sufficient to offset the weak dynamics of the other categories.

The general dynamics of assets under management benefited from the strong growth of the life insurance area. On the basis of currently available figures an annual growth in life technical reserves is estimated at about 16%.

## Action points and initiatives in the year

### The merger between SANPAOLO IMI and Cardine Banca

The merger act between SANPAOLO IMI and Cardine Banca was signed on 24 May 2002, becoming legally effective on 1 June and effective for accounting and tax purposes starting on 1 January 2002. The transaction entailed the merger of Cardine into SANPAOLO IMI, following the conferral by Cardine of part of its business to a wholly controlled subsidiary, Cardine Finanziaria, whose headquarters are located in Padua.

#### The merger terms and impact on shareholder structure

The merger, based on an exchange ratio of 1.7950 SANPAOLO IMI shares for each Cardine share, led to an increase in the equity capital of SANPAOLO IMI from 3,932.4 to 5,144.1 million euro; the new equity capital is composed of 1,837.2 million shares of nominal unit value of 2.80 euro. To serve the exchange 432.7 million new SANPAOLO IMI shares, constituting the above mentioned capital increase were issued and 48 million own shares held by the Parent Bank were used. Of the 274.9 million of ordinary shares, of nominal unit value of 5.20 euro, representing the total capital of Cardine Banca, a total of 7.1 million shares held by the incorporating and the incorporated bank were cancelled without exchange.

Regarding the aspects relating to the shareholder structure of the Parent Bank upon completion of the merger, the Compagnia di San Paolo, which – prior to the integration – held 16.1% of the capital of SANPAOLO IMI, and the Fondazioni Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna, which held 40.2% and 28.6%, respectively, of the capital of Cardine Banca, had agreed, pursuant to the provisions of D.Lgs. 153/1999, to request the post merger conversion of part of the respective ordinary shares into preference shares, so as to hold, after the conversion, a total of 15% of the ordinary capital.

The Fondazioni had further agreed to place these ordinary shares (subdivided into two equal stakes, one of which, in the amount of 7.5%, attributable to the Compagnia di San Paolo, and the other of which, in the same amount, attributable to the other two Fondazioni, in proportion to the

shares held by each of them in Cardine Banca), in a company dedicated to this specific purpose, set up in January 2002 and named Fondaco SGR. Participation in the capital of Fondaco was divided equally between the Compagnia di San Paolo, on the one hand, and the two Fondazioni, on the other hand, with a 20% minority share reserved for Ersel Finanziaria, a qualified independent investment management advisor.

Pursuant to the above mentioned requests and as decided by the respective Shareholders' Meetings, on 1 June 2002, as part of the merger effect, 388.3 million ordinary shares were converted into preference shares, each with a nominal unit value of 2.80 euro. These preference shares will in turn be converted into ordinary shares after a period of ten years or in case of alienation. The post merger shareholder structure of SANPAOLO IMI is presented in greater detail in a following chapter of this Report.

### Reorganization of the Group

The increased dimensional complexity of the Group following the merger revealed the existence of certain needs relating to governance and coordination which allow to achieve maximal sharing of common objectives and close connections among the various operating areas, which are necessary conditions for the development of operational efficiency and for the provision of excellent service to all of the Group's customers.

To place itself in the best position for achieving these goals, and in compliance with the instructions issued by the Regulatory Authorities, SANPAOLO IMI established its own Business Regulation Framework, approved by the Board of Directors on 26 March 2002, which defines the global organizational structure, the basic principles according to which the Group operates, its areas of competence and the responsibilities of the central structures, as well as the Group's coordination mechanisms and instruments. The Regulation represents the regulatory frame of reference and is intended to characterize the Group through its common entrepreneurial design, its strong internal cohesiveness and its unified management, in a manner consistent with the directives issued by the Bank of Italy and in compliance with the requirements for sound and prudent management of the Group.

The basic underlying principles of the Regulation are represented by: the relevance and centrality of a system of shared values; central control of strategic decisions and

decisions involving the risks associated with loans, financing and operations, especially in view of the expected evolution of the Basel Capital Agreement; the exploitation of managerial resources and the assignment of responsibility to those personnel; coordinated and consistent action by all of the companies within the Group.

On 26 March 2002 the SANPAOLO IMI Board of Directors approved a new business model based on the exploitation of the customer relations and customer service capacities, on the specialization of the professional capabilities of the productive, distributive and service units and on the allocation of responsibility and the measurement of results.

Within the Group, Cardine Finanziaria, which holds the controlling shares in the seven bank networks of the Cardine Group and other shareholdings related to business, has been assigned responsibility for cooperating with the Parent Bank and assisting it with activities involving the direction, governance and control of the Cardine bank networks, especially with regard to operational planning for the target markets, monitoring of progress toward stated goals and risk management.

### Integration actions

During the year, actions were undertaken to allow the synergies envisaged by the industrial plan and obtain the opportunities offered by the integration: high-priority operational approaches were implemented in accordance with the master plan developed at the start of the year.

In consideration of the extent of the synergies that could be achieved, maximum attention was given to:

- the activation of the Macchina Operativa Integrata, to serve the domestic banking networks: the necessary steps to satisfy the requirements of the merger have been taken, to achieve proper integration of management reporting systems and control at Parent Bank level and to allow the use of certain SANPAOLO IMI applications of particular importance for Cardine; the assessment of the target IT system was made, evaluating the impact of the adoption of the SANPAOLO IMI system for the Group's banks, in terms of the effectiveness of its support to the business, efficiency of operating processes and sustainability of the technological infrastructure;
- initiatives to centralize operations at the Parent Bank SANPAOLO IMI in treasury, medium- and long-term funding and property portfolio management, on a centralized operational Group finance model. In particular, the Parent

Bank has taken over the management of deposit and lending needs of the bank networks and the access to Forex and Money markets, and Banca IMI has assumed the securities management, the access to regulated and over the counter markets, as well as the structuring of derivative products for clients of the customer desks;

- actions to develop revenues from retail customers, also through the sharing with the Cardine networks of the products and know how of SANPAOLO IMI.

### Acceleration of the integration with Cardine Finanziaria

In the context of a wider project for the rationalization of the Group's distribution networks, in October 2002 provision was made for the acceleration of the integration between SANPAOLO IMI and Cardine Finanziaria, which provides for the merger of the latter by the end of 2003. From the operating point of view, provision has also been made for the centralization in the Parent Bank of the Cardine Finanziaria support functions (Macchina Operativa Integrata and Logistics). This initiative is aimed at achieving the planned benefits in terms of scale and scope economies.

The other commercial coordination and operating support functions performed for bank networks will be successively centralized in relation to the operating effectiveness of the individual banks. Accordingly, in terms of efficiency and rationalization, the activities to transfer to the Parent Bank and to the bank networks will be evaluated.

### Integration between SANPAOLO IMI and Banco di Napoli

On 25 November 2002, the respective Extraordinary Meetings approved the merger by incorporation of Banco di Napoli into SANPAOLO IMI, becoming legally effective from 31 December 2002 and effective for accounting and tax purposes from 1 January 2002.

As SANPAOLO IMI held all the 1,864,097,491 ordinary shares of Banco di Napoli, no exchange of these took place, in accordance with art. 2504 ter of the Italian Civil Code. In relation to savings shares, the exchange ratio was set at one SANPAOLO IMI ordinary share to six Banco di Napoli savings shares. Considering that SANPAOLO IMI held 111,765,709 savings shares in the company to be incorporated and that the latter held no own shares, this ratio determined the assignment of 2,718,608 SANPAOLO

IMI ordinary shares in exchange and replacement of 16,311,650 Banco di Napoli savings shares not held by the incorporating company. The assignment took place without the issue of new shares, using own shares held in portfolio by the incorporating company and therefore without an increase in capital by the same.

The merger of Banco di Napoli into SANPAOLO IMI represents the first phase of a project which provides for, as the next step, the distribution and commercial integration of the Sanpaolo and Banco di Napoli networks.

The unification of the networks is an essential step to achieve the aims in terms of scale and scope economies of the merger and to enable the exchange of know how, products and marketing techniques needed to increase the levels of commercial effectiveness and operating efficiency of the two networks. The Southern Territorial Direction, made up of the Naples, Campania, Apulia and Calabro-Lucana Areas, based in Naples and directly supervised by the Sanpaolo Network Management, was established on 31 December 2002. The Southern Territorial Direction has a total of 738 operating points, 117 of which belong to the Sanpaolo Network and 621 belonging to the former Banco di Napoli.

The realization of the third phase is expected to take place in the second half of 2003 when, upon completion of the unification of the IT systems, the Southern Territorial Direction will be spun off into Sanpaolo Banco di Napoli, a company based in Naples and the only bank in the SANPAOLO IMI Group to operate in the regions of Campania, Apulia, Calabria and Basilicata. Sanpaolo Banco di Napoli will have a streamlined directional structure, to coordinate the territorial areas in which the reference branch network will be structured.

### Integration of distribution networks

The integration of the Sanpaolo and Banco di Napoli networks is part of a major plan to develop and rationalize the distribution networks of the SANPAOLO IMI Group, which aims to take full advantage of the territorial expansion involving the acquisition of Banco di Napoli and the merger with Cardine Banca. The distribution model, presented at the end of the third quarter of 2002, is designed for an approach targeting macro customer segments, for an improved and more effective response to different needs of households and companies.

The project provides for articulation of the Group branch networks into operating structures aimed at three macro markets:

- Companies, which will mainly involve, in customer relations, the specialized areas of consulting and financial assistance, in the broad sense of the term, as well as the capacity to evaluate and manage the credit risk above certain levels or with particular characteristics.
- Private, which targets on the affluent customer segment requiring personalized and top of the range investment management services.
- Retail (households, small companies and small entrepreneurs), in which the capacity to supply a complete range of services, from credit to asset management services, will be flanked by special attention to the efficiency of basic banking services.

The aim of the project is gradually to introduce the distribution model already successfully adopted by the Sanpaolo Network, based upon the specialization of the operating points and better suited to satisfying the needs of the various types of customers, into all Group networks. This translates into the specialization of the branch networks and the distribution structures by macro customer segments, guaranteeing a unique strategy at national level and ensuring a more effective response to the varying service needs expressed by various types of customers and improving the efficiency of the structures and processes of investment in technologies and resources.

The new distribution model aims at achieving a correct balance between the specialization of the operating points by macro market segments and the territorial coordination that, through the Area Manager or the Branch Manager, to whom all the retail, business and private branches in the same territory report, must supervise and fulfill the needs for osmosis between the various customer segments.

At full capacity, the Group territorial presence in banking activity should cover a certain number of territorial areas and bank networks with light central structures, which will provide uniform and overall supervision of the respective territory.

### Activity in the public works and infrastructure sector and in the tax collection sector

The public sector, which includes financing and advisory services for local bodies and former municipal companies for the realization of infrastructure and public works, offers interest-

ing development prospects for the years to come. The SANPAOLO IMI Group operates in this sector through Banca OPI, which has continued the tradition of IMI and San Paolo.

Following the merger of Banco di Napoli into SANPAOLO IMI and in line with the rationalization project, which provides for the concentration of professional abilities and know how, centralizing all medium/long-term operations performed by the different banks of the Group in this area, activity in the public works and infrastructure sector of the Neapolitan bank was transferred to Banca OPI on 1 January 2003.

The Group's presence in the tax collection sector will be rationalized by concentrating tax collection activities in Esaban, with the aim of achieving the economies of scale and scope essential to sustain the profitability in this sector. On 1 October 2002, the activities previously performed by Banco di Napoli in the provinces of Naples and Caserta were concentrated in Esaban, which will also handle all the other tax collection activities performed by Group companies: Sanpaolo Riscossioni Genova, Sanpaolo Riscossioni Prato and GE.RI.CO. (licensee of the provinces of Bologna, Venice, Padua, Rovigo and Gorizia). The choice of location of the company office in Naples derives from the weight carried by the tax collection activity in the Neapolitan area.

## The initiatives to rationalize the Group structure

### The integration between Banca Fideuram and Banca Sanpaolo Invest

The acquisition of Banca Sanpaolo Invest by Banca Fideuram was completed on 8 October 2002 with conferral to the latter of the total shareholding held by SANPAOLO IMI in Banca Sanpaolo Invest. The shareholding has been valued at 603.8 million euro, net of the extraordinary dividend of 8.7 million euro that was distributed by the company at the end of July. To serve the conferral, Banca Fideuram made a capital increase (from 236.4 to 254.9 million euro) reserved to SANPAOLO IMI, through the issue of 71 million ordinary shares, integrated by a compensatory sum of 10 million euro. Following the integration, the SANPAOLO IMI Group's stake in Banca Fideuram rose to 73.4%.

The transaction is among the actions further to strengthen the leadership position held in Personal Financial Services, to which SANPAOLO IMI attributes strategic priority, as well as to rationalize the Group operating structure.

The transaction will make possible the development and full exploitation of the potential of Banca Sanpaolo Invest, leveraging on the best practice of Banca Fideuram, and allow strategic coordination of the financial planner networks, through the adoption of consistent marketing and brand policies.

### Rationalization of the Group's presence in private equity

Among the initiatives aimed at a greater focus and specialization of the operations of the Business Areas in the various activity sectors, the redesign of the structure of NHS, the company in which SANPAOLO IMI held a 51% share and which fulfilled the role of merchant bank in the Group, should be noted. This restructuring led to the partial and proportional split of the subsidiary, with the allocation of the merchant banking and private equity activities into a new company (NHS S.p.A., renamed Sanpaolo IMI Private Equity S.p.A.) and the maintenance of the portfolio of substantial industrial investment inside the original company, which took the name of IMI Investimenti.

Sanpaolo IMI Private Equity, established with legal office in Bologna and initial capital of 245 million euro, has as its strategic objective the strengthening and consolidation of its position in private equity, becoming a preferred interlocutor for small- and medium-sized companies in the field of risk capital raising.

The activities of IMI Investimenti, which had a net shareholders' equity, after the split, of 566 million euro, aim at the management of the shareholding portfolio, which contains the Group's major industrial interests.

The shareholder structure of the two subsidiaries after the split was also revised, through shareholding exchanges with the Compagnia di San Paolo. Specifically, before the merger with Cardine, SANPAOLO IMI transferred to the Compagnia, at a price of 440 million euro, 8% of its 10.8% share in Cardine Banca, taking over in turn the shares held by the Compagnia in Compagnia di San Paolo Investimenti Patrimoniali (renamed FIN.OPI) (100%), Sanpaolo IMI Private Equity (27.02%), and IMI Investimenti (39.77%). SANPAOLO IMI completed its acquisition of all of the shares of IMI Investimenti and Sanpaolo IMI Private Equity by purchasing further minority shares. It also placed the shareholding in Compagnia di San Paolo Investimenti Patrimoniali with the subsidiary Banca OPI, thereby increasing the subsidiary's own capital. The transaction was subject to a fairness opinion by a major investment bank.

### Purchase by SANPAOLO IMI of the Cassa di Risparmio di Firenze stake in Eptaconsors

On 15 October 2002 SANPAOLO IMI and Cassa di Risparmio di Firenze reached an agreement which provides for the sale of the 20.24% stake of Eptaconsors, held by the Florentine group, to the SANPAOLO IMI Group, which already had a shareholding of 40.48%, thus becoming the majority shareholder of the Eptaconsors group. The transaction was completed on 29 January 2003, with authorization from the Antitrust.

Eptaconsors has been operating actively for almost twenty years in asset management (through the specialized companies Eptafund and EGI) and securities dealing (through Eptasim). At the end of February 2003, the Eptaconsors group, in the mutual funds sector, managed assets of approximately 13 billion euro, with a 2.7% market share.

The purchase of Eptaconsors is part of the rationalization of the equity investments that will enable SANPAOLO IMI to strengthen its position on the reference markets and, through the aggregation process, further to exploit the important competencies of the new subsidiary.

### Other rationalization initiatives

On 3 March 2003 SANPAOLO IMI and Santander Central Hispano, which participate jointly in the capital of Finconsumo Banca, reached an agreement which provides for the sale of the shareholding of Banca Finconsumo held by the Italian group to Santander Central Hispano. The operation, which is part of the rationalization of the respective shareholdings, will determine for the Parent Bank a total gross capital gain of 123 million euro. The agreement provides for the sale of an initial share of 20% at a total price of 60 million euro, while on the remaining 30% it establishes the mutual concession of put options to SANPAOLO IMI and call options to Santander Central Hispano, which can be exercised from the end of 2003 for a period of 12 months, at a total price of 80 million euro. The completion of the transaction is subject to obtainment of the necessary authorizations.

On 17 December 2002, the SANPAOLO IMI Group reached an agreement with Centrobanca (Banca Popolare di Bergamo – Credito Varesino Group) for the sale to the latter of an 80% stake in IMIWeb Bank, specialized in online trading. The purchase of the shareholding by Centrobanca is conditional to the release of the necessary authorizations by Bank of Italy: it will probably be completed in the early

months of 2003. The price, arranged at 80% of the free capital of IMIWeb Bank at 31 December 2002, will be increased by an amount proportionate to the company profits for the next three years. The SANPAOLO IMI Group will continue to hold 20% of the capital.

### Development initiatives in foreign markets

In line with the development objectives mentioned in the plan for the merger with Cardine, SANPAOLO IMI has been taking steps to strengthen its operational capabilities in foreign countries with major opportunities for growth. Accordingly, Sanpaolo IMI Internazionale was formed in order to reinforce and control the Group's presence in countries deemed to be of strategic interest through operations involving acquisitions and alliances.

A Public Offer for all of the shares of the Slovenian Bank, Banka Koper, which had been launched at the end of November 2001 after the acquisition of an initial tranche consisting of 15% of the capital of the bank, was completed on 25 February 2002. All shareholders who accepted the Offer were given a non transferable put option on the outstanding shares (at the same price as in the Offer, plus interest and net of dividends). This option may be exercised at any time between 31 December 2002 and 31 July 2006. 250,271 shares, corresponding to 47.1% of the capital of Banka Koper, were contributed to the offer, at an incurred cost equivalent to 116 million euro. SANPAOLO IMI, which as a result of the Offer holds a total share of 62.1% of Banka Koper, will temporarily limit the exercise of its voting rights to 32.99%, in compliance with authorization from Bank of Slovenia.

On 25 February 2003 Sanpaolo IMI Internazionale approved the launch of a Public Offer on the Hungarian bank Inter-Europa Bank, of which SANPAOLO IMI already owns a 32.5% share. The bank's remaining capital is held by Santander Central Hispano, with a share of approximately 10%, Simest, 7.8%, other leading international institutional investors and free float (approximately 45% quoted on the Budapest Stock Exchange). The Public Offer, subject to approval by the relevant authorities, provides for a price of 2,000 Hungarian forints per share, at a premium of 2.1% on the last Stock Exchange price of 24 February 2003, and of 9.2% and 22.7% on the average prices for the past 30 and 180 days respectively before the approval. Assuming full acceptance, the total value of the transaction will be approximately 40 million euro.

## Commercial agreements and alliances abroad

Within the context of the strategic agreements defined in 2001 between SANPAOLO IMI and EULIA, the French holding company created by the Caisse des Dépôts et Consignations Group and by the Caisse d'Epargne Group, and following the Framework Agreement signed by the two Groups in February 2002, the collaboration project became operational, producing generally satisfactory results in the capital market and financing sectors and in the private equity activity.

In particular, in the context of private equity, a draft agreement dedicated to the development of a joint analysis of closed-end investment funds in the infrastructure sector and in public-private partnership initiatives was prepared in November. The project provides for the evaluation of joint investment opportunities in Italy, France and at European level, and aims to define a common strategy also in terms of other institutional investors and European institutions. In consideration of the subject of the agreement, the structures of the SANPAOLO IMI Group dedicated to intervention in the public works and infrastructure sector, particularly Banca OPI and its subsidiary FIN.OPI (the former Compagnia di San Paolo Investimenti Patrimoniali) will be involved in its implementation.

The project joins initiatives previously implemented by the two Groups, such as the agreement at the end of September between Sanpaolo IMI Private Equity, CDC Ixis Private Equity and Bayerische Landesbank Equity Management for the constitution of the EAGLE FUND, the first pan European private equity fund with the aim of investing in small and medium European companies, mainly in Italy, France and Germany.

Still in the context of private equity, Sanpaolo IMI Private Equity and CDC-Pme (a subsidiary of Caisse des Dépôts et Consignations) have signed an agreement with the French government for participation in a new investment fund, which aims to invest in French regional funds which, in turn, invest in small and medium local companies. The fund will have 70 million euro and the investors include the EIF (European Investment Fund), as well as those mentioned above.

Still on the European market, SANPAOLO IMI and Santander Central Hispano continued the industrial collaboration initiatives and, to this end, reached an agreement for the development of a pan European project in the

wholesale distribution of third party mutual funds. At the base of the agreement there is the establishment of a pan European joint venture between the two banking groups, which provides for the acquisition by SANPAOLO IMI of a 50% shareholding of Allfunds Bank S.A., a company wholly owned by Santander Central Hispano and operating in the placement of third party funds with institutional customers. SANPAOLO IMI, which, with this transaction, would have the opportunity to enter a sector which is not yet covered, and Santander Central Hispano intend to develop the joint venture in order to consolidate their leadership at European level; for this purpose the two banking groups will aim at identifying potential strategic partners in the main European markets.

## Agreements with FIAT and Italergergia

Finally, in May 2002 SANPAOLO IMI, together with Banca Intesa, Unicredito and Capitalia, subscribed a Framework Agreement concerning an articulated plan of financial operations regarding the FIAT Group.

In this context, in July 2002, the banks granted a “to be converted” financing for a three year period, for 3 billion euro (400 million of which provided by SANPAOLO IMI), which provides, upon expiry and in accordance with procedures and at a price agreed between the parties, for the conversion of their loans into ordinary FIAT shares through compensation between the aforementioned loans and the corresponding subscription obligation, while FIAT retains the faculty to proceed with cash reimbursement of the loan under set conditions. In September 2002 SANPAOLO IMI, through IMI Investimenti, purchased (along with the other two banking partners, Banca Intesa and Capitalia) a further 4.66% stake in Italergergia Bis (new leading holding company of the Italergergia group receiving the shares), in addition to the original share of 7.82%, from the FIAT Group, thus reaching a total share of 12.48% in this holding. SANPAOLO IMI made disbursements of approximately 183 million euro. With this transaction, the FIAT shareholding dropped from 38% to about 24%, with the consequent separation of the Italergergia/Edison debt from that of FIAT. Based on the subscribed agreements, the banking partners also obtained put options on the shareholding, that can be exercised starting in 2005, towards the industrial partner EDF – Electricité de France, at price conditions that guarantee the recovery of the original investments plus a financial profit, allowing for any upside.

Still in the context of the agreements referred to, the banks also signed, in March 2003, the contractual agreements for the acquisition from FIAT Auto of 51% of Fidis' consumer loans activity in Europe ("Fidis Retail"), at a price in line with the shareholders' equity of the compendium, adjusted according to due diligence (the SANPAOLO IMI commitment is about 100 million euro). The execution of these agreements, after obtaining the necessary approvals, is expected to take place in May-July 2003. It has been agreed that FIAT Auto can repurchase the shareholding, at a prearranged price, by exercising a call option by 2006.

In relation to the Edison group, it should be noted that in December 2002 the merger by incorporation of Edison into Italoenergia, which, at the same time, adopted the company name Edison and was listed on the Milan Stock Exchange, became operational.

Also in December 2002, Edison approved a capital increase of up to 2,095 million euro, subscription of which is reserved:

- 1,000 million euro to Italoenergia Bis;
- 503 million euro to the permanent partners of Italoenergia Bis (the IMI Investimenti share, being 66 million euro, already issued in the form of "payment in capital increase");
- the remaining 592 million euro to the market; the related execution is expected to be completed in March-May 2003. The shareholders of Italoenergia Bis will underwrite any increase not absorbed by the market (the maximum commitment envisaged for SANPAOLO IMI is about 73 million euro).

On the new Edison shareholding being purchased by the SANPAOLO IMI Group, the extension of the put option towards EDF for the share referable to the original stake held in Italoenergia has been negotiated.

# Consolidated results

## Summary of results

The deterioration of the international economic scenario and prolonged uncertainty on the financial markets during 2002 penalized the Group's economic results, causing a general drop compared with the levels registered in 2001, within the same consolidation setting.

Beside the drop in revenues, the year was conditioned by high provisions and adjustments mainly to the listed investment portfolio, which was prudently aligned with the prices expressed by the market in this phase.

In order to face the extraordinary economic impact linked with the management of shareholdings and considering the need to optimize the Group's tax position, it was

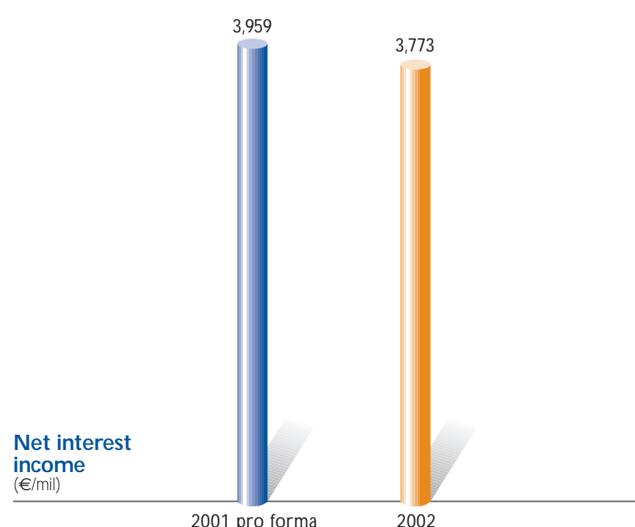
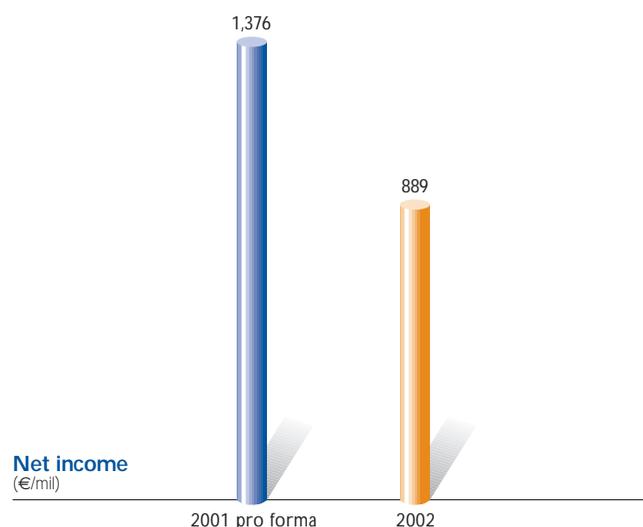
deemed necessary to use the reserve for general banking risks existing in the net shareholders' equity.

Net income for 2002 reached 889 million euro (525 million euro before the mentioned use of the reserves for general banking risks), compared with 1,376 million in 2001.

It should be noted that the following is made in comparison to the pro forma figures for 2001, prepared according to the criteria detailed in the Explanatory Notes.

## Net interest income

Net interest income in 2002 was 3,773 million euro; comparison with the previous year shows a decline of 4.7%, mainly attributable to the fall in interest rates, which was reflected in a closure of spreads only partly compensated for by the positive development of the average amounts of



## Net interest income

	2002 (€/mil)	2001 pro forma (€/mil)	Change 2002 / 2001 pro forma (%)
Interest income and similar revenues	8,693	10,451	-16.8
Interest expense and similar charges	-4,955	-6,586	-24.8
Reclassification (1)	35	94	-62.8
<b>Net interest income</b>	<b>3,773</b>	<b>3,959</b>	<b>-4.7</b>

(1) The reclassification refers to the net interest income of the Banca IMI group which, in the interest of a better representation of the SANPAOLO IMI Group results, has been reclassified under "Profits and losses from financial transactions and dividends on shares" as it is more closely related to securities dealing.

sight deposits and medium- and long-term loans related to customer business. This is joined by a decline in fund imbalance volumes and returns.

As regards market rates, three-month Euribor fell by 39 basis points in terms of end period values, from the 3.35% of December 2001 to the 2.96% of December 2002, and by 95 basis points in average terms. The return on the ten-year BTP, in average terms, recorded a reduction of 14 cents.

In 2002 the return on the interest-earning assets of the Group was 5.20% and the cost of interest-bearing liabilities was 2.94%. In customer business the average spread between deposits and loans, excluding repurchase agreements, was 2.90% compared with 3.07% in 2001.

The average interest-earning assets of the Group showed a reduction of 4.8% on 2001; in this context the average

amounts of loans to customers, excluding repurchase agreements, thus recorded an increase of 2.1%. On the liability side, there was an increase of 2.9% in average volumes of customer deposits, net of repurchase agreements, as a result of an increase in the short-term (+3.4%) and medium- and long-term component (+2.2%).

### Net interest and other banking income

Group net interest and other banking income in 2002 came to 7,160 million euro, down 5.1% on the previous year.

This activity can be attributed, as well as to the drop in net interest and other banking income, to the negative trend in commissions and profits from financial transactions, only in part compensated for by the increase in profits from companies carried at equity and dividends from shareholdings.

#### Analysis of average amounts, interest and rates

	2002			2001 pro forma		
	Average amounts (€/mil)	Interest (€/mil)	Average rate (%)	Average amounts (€/mil)	Interest (€/mil)	Average rate (%)
Interest-earning assets	157,066	8,166	5.20	164,957	9,884	5.99
- loans to customers	118,868	6,732	5.66	116,462	7,628	6.55
- due from banks	12,120	399	3.29	20,497	885	4.32
- securities	17,351	750	4.32	21,326	1,049	4.92
- repurchase agreements	5,992	185	3.09	2,798	126	4.50
- other interest-earning assets of Banco di Napoli	2,735	100	3.66	3,874	196	5.06
Non interest-earning assets (1)	50,299			50,778		
<b>Total assets</b>	<b>207,365</b>	<b>8,166</b>		<b>215,735</b>	<b>9,884</b>	
Interest-bearing liabilities	149,287	4,393	2.94	154,079	5,925	3.85
- direct customer deposits	115,020	3,174	2.76	111,788	3,886	3.48
- due to customers	66,888	1,022	1.53	64,677	1,578	2.44
- securities issued	48,132	2,152	4.47	47,111	2,308	4.90
- due to banks	19,643	596	3.03	27,171	1,291	4.75
- repurchase agreements	8,671	290	3.34	9,597	421	4.39
- subordinated liabilities	5,953	333	5.59	5,523	327	5.92
Non interest-bearing liabilities (1)	47,343			50,962		
Shareholders' equity	10,735			10,694		
<b>Total liabilities and shareholders' equity</b>	<b>207,365</b>	<b>4,393</b>		<b>215,735</b>	<b>5,925</b>	
<b>Net interest income</b>		<b>3,773</b>			<b>3,959</b>	

(1) This figure includes Banca IMI group's average volumes, in line with the reclassification of the related interest income and expense.

Net commissions amounted to 2,809 million euro, down 8.1% compared with the previous year. The change on an annual basis was conditioned by the negative trend of the financial markets, which reduced revenues from asset management and securities dealing; in particular, commissions from management, dealing and advisory services fell by 14.5%. In 2002 commissions from asset management represented about 49.4% of the total, compared with the 52% of the previous year. The decline in these commission revenues was caused both by the downsizing of assets under management induced by the fall in equity markets and by the change in the customer financial assets mix oriented towards low-risk and reduced financial duration investments.

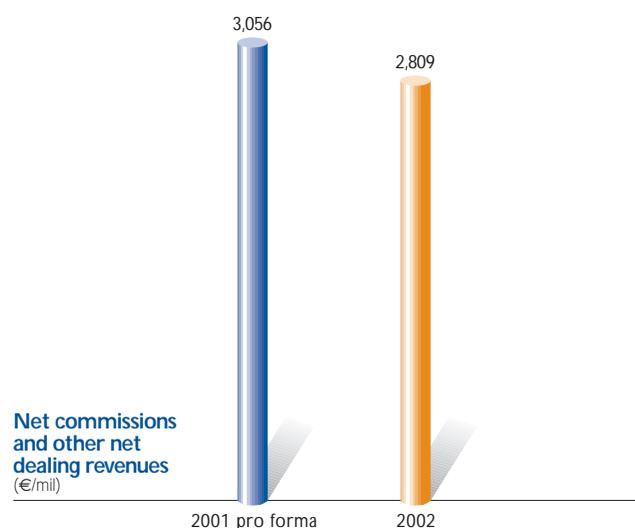
Other commission revenues include the 13.8% increase in the deposits and current accounts area.

Overall, in 2002 the Group's net commissions accounted for 60.4% of administrative costs and 98.4% of personnel costs.

In 2002 net profits from financial transactions and dividends on shares reached 286 million euro, down by 4.7% compared with the 300 million in 2001. This moderate drop is caused by the decline in the non-structural component of the aggregate, attributable to the sale, in 2001, of equity positions which were no longer strategic for the Group. The most structurally stable part of the aggregate, referable to the Parent Bank and Banca IMI, showed growth of approximately 50 million euro compared with 2001.

Profits from companies carried at equity and dividends from shareholdings, 292 million euro, rose by 28.1% compared with 2001. In particular:

- profits from companies carried at equity were 137 million euro against 82 million in 2001; they referred mainly to the insurance subsidiaries, which are significantly expanding, and to the other shareholdings in the banking area which are subject to a significant influence by the Group;
- dividends paid to the Group by minority shareholdings not included in the consolidation area amounted to 155 million euro, substantially aligned with those received in 2001.



### Net interest and other banking income

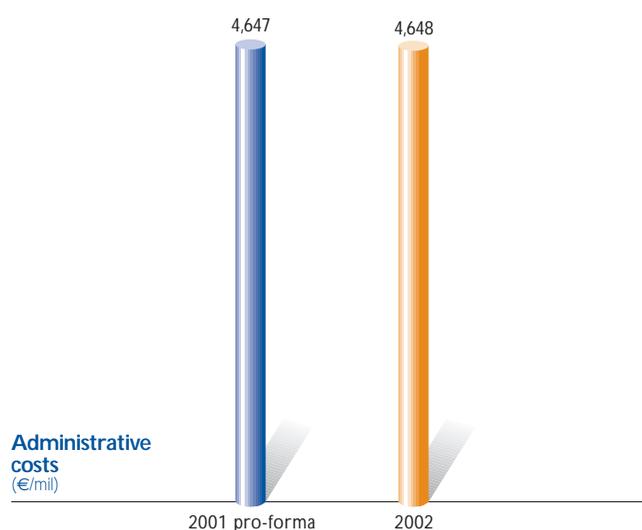
	2002 (€/mil)	2001 pro forma (€/mil)	Change 2002 / 2001 pro forma (%)
Net interest income	3,773	3,959	-4.7
Net commissions and other net dealing revenues	2,809	3,056	-8.1
- management, dealing and advisory services	1,673	1,957	-14.5
- <i>asset management</i>	1,387	1,588	-12.7
- <i>dealing/custody of securities and currencies</i>	286	369	-22.5
- loans and guarantees	245	249	-1.6
- collection and payment services	227	228	-0.4
- deposits and current accounts	438	385	+13.8
- other services and net dealing revenues	226	237	-4.6
Profits and losses from financial transactions and dividends on shares	286	300	-4.7
Profits from companies carried at equity and dividends from shareholdings	292	228	+28.1
<b>Net interest and other banking income</b>	<b>7,160</b>	<b>7,543</b>	<b>-5.1</b>

## Operating income

Operating income amounted to 2,360 million euro, 14.8% less compared with 2001.

The structural cost containment actions taken in 2001 allowed the Group to maintain strict control of the trend of administrative costs, which were almost unchanged, despite the non-negligible impact of integration and restructuring costs due to the Group's expansion operations in recent years. Altogether, administrative costs amounted to 4,648 million euro.

Personnel costs, 2,856 million euro, benefited from a reduction in staff; in 2002 the number of employees fell by



906, mainly at the former Banco di Napoli and, to a lesser extent, at SANPAOLO IMI and Cardine Finanziaria. The reduction in these costs was made despite the contractual increases occurred during the year, following the renewal of the national collective labor contract, and part of the contractual adjustments attributable to the year for the personnel of the former Banco di Napoli.

Other administrative costs presented an increase of 0.6%, at 1,528 million euro. The increase is a result of the initiatives to rationalize the Group structures, the development and promotion of products and unrepeatable costs sustained in the early months of 2002 for the lira/euro changeover.

In 2002 amortization of tangible and intangible fixed assets was 510 million euro, up 6.5% on the previous year; the trend is influenced in particular by investments made to strengthen and specialize the commercial network, and to improve and integrate IT systems.

## Income before extraordinary items

The Group's income before extraordinary items came to 722 million euro, down 54.6% compared with 2001.

Adjustments to goodwill and merger and consolidation differences, 212 million euro, recorded an increase on the year of 23.3%. This increase is attributable to the adjustment to the positive consolidation differences for the French group Fideuram Wargny, which reflects, besides ordinary amortization, an extraordinary adjustment of 45

## Operating income

	2002 (€/mil)	2001 pro forma (€/mil)	Change 2002 / 2001 pro forma (%)
Net interest and other banking income	7,160	7,543	-5.1
Operating costs	-4,800	-4,773	+0.6
- administrative costs	-4,648	-4,647	+0.0
- <i>personnel</i>	-2,856	-2,862	-0.2
- <i>other administrative costs</i>	-1,528	-1,519	+0.6
- <i>indirect duties and taxes</i>	-264	-266	-0.8
- other operating income, net	358	353	+1.4
- adjustments to tangible fixed assets	-294	-268	+9.7
- adjustments to intangible fixed assets	-216	-211	+2.4
Operating income	2,360	2,770	-14.8

million euro to the goodwill of the French subsidiaries, made to take account of the downward trend in financial markets and of a more prudent evaluation of the subsidiary's future profit prospects.

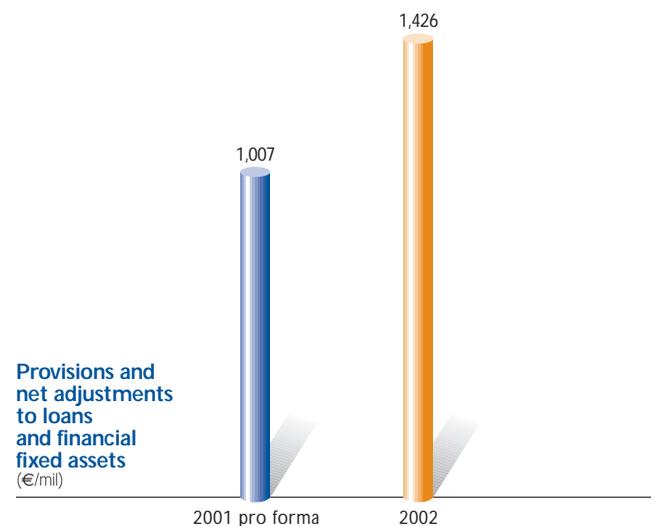
Provisions and net adjustments to loans and financial fixed assets were 1,426 million euro, compared with 1,007 million euro in the previous year (+41.6%).

The net flow includes:

- 261 million euro of provisions to the risks and charges fund, compared with the 214 million of 2001; these provisions were made to cover losses on legal disputes and claims from bankruptcy liquidators (58 million), potential charges for the renegotiation of mortgage loans (40 million), charges for commercial and operational risks connected with the distribution of financial products (68 million) and other charges for personnel, premium transactions and other potential liabilities (95 million);
- 604 million euro of provisions and adjustments for credit risks (540 million in 2001), aiming both at adjusting the estimated realizable value of specific accounts, included in doubtful loans, and strengthening the coverage of the physiological risk of the performing loans and guarantees portfolio. With an economic scenario which continues to be characterized by a considerable degree of uncertainty, the Group has in fact further strengthened control of credit risk, increasing the general risk reserve, also taking account of the reserves for possible loan losses, to 0.9% of the performing loan

portfolio. This level of coverage, also established using the indications taken from the Group's credit risk management portfolio model, represents a correct control over the negative trend in the economic scenario, taking account of the high quality of the credit portfolio. At the end of the year, the Group's general reserves for the coverage of such risks amounted to a total of 1,064 million euro;

- 561 million euro of adjustments to financial fixed assets (253 million in 2001), attributable largely to the shareholdings in Santander Central Hispano (SCH) and FIAT. The value of the shareholding in SCH, held by the Parent Bank and by Sanpaolo IMI International, has been



### Income before extraordinary items

	2002 (€/mil)	2001 pro forma (€/mil)	Change 2002 / 2001 pro forma (%)
Operating income	2,360	2,770	-14.8
Adjustments to goodwill and merger and consolidation differences	-212	-172	+23.3
Provisions and net adjustments to loans and financial fixed assets	-1,426	-1,007	+41.6
- provisions for risks and charges	-261	-214	+22.0
- adjustments to loans and provisions for guarantees and commitments	-604	-540	+11.9
- <i>net writedowns</i>	-742	-702	+5.7
- <i>net provisions for guarantees and commitments</i>	-68	-26	+161.5
- <i>recoveries</i>	206	188	+9.6
- net adjustments to financial fixed assets	-561	-253	+121.7
- <i>net writedowns of equity investments</i>	-539	-237	+127.4
- <i>net writedowns of investment securities</i>	-22	-16	+37.5
Income before extraordinary items	722	1,591	-54.6

aligned to a value of 6.5 euro per share, the average of the market prices for the second half of 2002. This evaluation involved the booking of capital loss of 399 million euro. In relation to the shareholding in FIAT held by IMI Investimenti, the book value was prudently aligned with the average market price in December (8.7 euro per share), using the faculty provided for by current standards. The capital losses recorded were 82 million euro. It is believed that the intrinsic value of the Turin Group remains higher than the market prices, also in the light of recent plans to refinance its debt and the industrial reorganization initiatives.

### Net income

Net income, 889 million euro, includes 296 million euro of net extraordinary income, compared with 414 million euro in 2001.

The most relevant component of this aggregate is represented by the 149 million euro of capital gains from the

sale of shareholdings, 62 million of which attributable to the sale of an 8.6% share in Cardine Banca, related to the mentioned operations of shareholding purchase and sale with Compagnia di San Paolo and minority shareholders of IMI Investimenti. The remainder is made up of uses of reserves considered in excess on the basis of the most recent actuarial estimates, real estate proceeds and sales, tax reimbursements and other minor contingent assets.

As anticipated, to face the extraordinary economic impact linked with the management of shareholdings, on the one hand, and considering the need to optimize the Group's tax position, on the other, the reserves for general banking risks were utilized through transfer to the statement of income, for an amount of 364 million euro.

Because of a tax liability of 450 million euro, the tax rate of the SANPAOLO IMI Group was 44.2%, a significant increase on that recorded in 2001 (25.8%), which had benefited from the recovery of prior tax losses by Group companies and the lower incidence of the IRAP taxable amount.

### Net income

	2002 (€/mil)	2001 pro forma (€/mil)	Change 2002 / 2001 pro forma (%)
Income before extraordinary items	722	1,591	-54.6
Net extraordinary income	296	414	-28.5
- net gains on disposal of equity investments	149	432	-65.5
- other net extraordinary items	147	-18	n.s.
Income before taxes	1,018	2,005	-49.2
Income taxes for the period	-450	-517	-13.0
Change in reserves for general banking risks	364	-6	n.s.
Income attributable to minority interests	-43	-106	-59.4
Net income	889	1,376	-35.4

## Embedded value of the life portfolio

The Group's half year net income includes the net accounting result registered by the insurance companies operating in the life sector; in particular:

- Sanpaolo Vita and its subsidiary Sanpaolo Life, belonging to Wealth Management, contributed 71 million euro to the Group's net income;
- Fideuram Vita registered 46 million euro net income.

To understand fully the importance of these results, it should be remembered that one of the most significant indicators of the management performance of an insurance company is the increase registered in a year by the so-called embedded value. The embedded value is an estimate made using actuarial techniques of the economic value of a closed portfolio company, regardless of the value attributable to future production. This is intended as the sum of two elements:

- the company's shareholders equity adjusted to market value as of the date of valuation;
- the value of the policy portfolio as of the date of valuation, calculated as the current value of income after taxes, that the portfolio in force is likely to generate over the years until its natural extinction, corrected by the maintenance cost of the capital required to respect the solvency margin.

The calculation of the embedded value of the life insurance business as of 31 December 2002 has been carried out with the assistance of the actuarial divisions of leading consulting companies, according to the following criteria:

- in preparation for the valuation of the portfolio in force, an actuarial technical examination of the portfolio of contracts held by the companies was carried out. This was joined by a formulation of expected future operating scenarios, important elements of this being the hypotheses assumed with regard to the performance of assets, the mortality rate, the management costs of the portfolio in question, the trend in premature closure due to abnormal causes and options exercised by customers, and the tax charge;
- subsequently, the comparison made with the aid of actuarial procedures of general sharing between the operating scenarios used as reference for the calculation of the premiums related to the current portfolio and anticipated scenarios, as formulated above, was used to obtain the succession of the estimated values of income that the portfolio will generate during the individual years of

remaining life, net of taxes and of the opportunity cost linked with the maintenance of the solvency margin;

- this succession of values was then discounted by applying a discount rate equal to the performance of a non-risk investment, increased to consider the uncertainty of the flow of income as determined above.

This is linked to the uncertainty that the operating hypotheses formulated correspond to actual operation. In particular, as regards the performance rates of the assets, a curve which refers mainly to the forward rates curve as of 31/12/2002 was used for Sanpaolo Vita, characterized by a yield to maturity of 4.02% in the first two years, 4.30% on five years and 4.73% on 10 years. A constant rate of 4.8% was considered for Sanpaolo Life, with 4.27% for Fideuram Vita separate management, 5% for guaranteed unit linked management and 5.1% non guaranteed unit linked management. As regards the discounting rates, an annual rate which is 2.25% higher than the aforementioned rate curve is considered for Sanpaolo Vita, as in the previous evaluations, while discounting rates of 7.0% and 7.25% have been considered for Sanpaolo Life and Fideuram Vita respectively.

On this basis, an estimate of the increase registered in 2002 by the embedded value at Group level inherent in the life insurance business was made, considering not only the component implicit in the life insurance companies but also the part of value allocated to other Group companies, to which the companies acknowledge sale, management or maintenance commissions. The results of the estimate are reported in the table below.

### Embedded value of the life insurance business

	Wealth Management life insurance business (€/mil)	Banca Fideuram life insurance business (€/mil)
Embedded value as of 31/12/2001	752	743
Embedded value as of 31/12/2002	899	844
Change in the embedded value during 2002	147	101
<i>of which: increase in value attributable to new production</i>	180	171
<i>new policies excluding migration (1)</i>		71
<i>new policies resulting from migration (2)</i>		100
Dividends distributed	29	29
Capital increase	-70	-74
Fees during the year (net of Network costs and taxes)	43	-
<b>Value added during the year</b>	<b>149</b>	<b>56</b>

(1) Excluding the new production from the Banca Sanpaolo Invest channel.

(2) With the contextual drop in the value of the Banca Fideuram asset management portfolio by 79 million euro.

The embedded value of the life insurance business in the Group companies that receive sale, management or maintenance commissions is estimated as the current value of specific income, net of costs and after tax, that these companies will register on the policy portfolio until their contractual dissolution.

The change in the embedded value during 2002, for the

Group's life insurance business, was 147 million euro for operations carried out by Wealth Management and 101 million euro for Banca Fideuram. The added value of the year, considering the dividends distributed by the companies to Group companies (net of capital increases) and commissions, came to 149 million euro for Wealth Management and 56 million euro for Banca Fideuram.

# Operating volumes and organization

## Assets managed on behalf of customers

At the end of December 2002, customer financial assets amounted to 356.3 billion euro, down slightly on the value registered at the end of 2001 (-0.4%).

The evolution during the year was largely influenced, on the one hand, by the inflow of capital from abroad as a result of the so-called "tax shield", and, on the other, by the devaluation of asset management and asset administration determined by the drop in share prices. The uncertainty of the financial markets directed customer preferences towards asset administration, which accounted for 24.6% of total financial

assets compared with 23.6% at the end of 2001, and towards direct deposits, which accounted for 38.5% of the total aggregate at year end (37.7% at 31 December 2001).

## Asset management and administration

Despite the difficult external scenario, in 2002 the Group had a positive net asset management flow of 3.2 billion euro; however, against this inflow, the decline in market prices led to a devaluation of 10.2 billion euro in the Group's total existing assets under management, which at the end of December came to 131.5 billion euro, down by 5% since the end of December 2001.

Among the various asset management products, mutual funds and fund-based portfolio management were most penalized by the trend in the financial markets: the amounts fell to 94.9 billion euro (-11.9% in comparison to the end of

### Customer financial assets

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Asset management	131,515	36.9	138,479	38.7	-5.0
Asset administration	87,717	24.6	84,593	23.6	+3.7
Direct deposits	137,049	38.5	134,803	37.7	+1.7
<b>Customer financial assets</b>	<b>356,281</b>	<b>100.0</b>	<b>357,875</b>	<b>100.0</b>	<b>-0.4</b>

### Asset management

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Mutual funds and fund-based portfolio management	94,918	72.2	107,742	77.8	-11.9
Portfolio management	9,443	7.2	10,698	7.7	-11.7
Life technical reserves	27,154	20.6	20,039	14.5	+35.5
<b>Asset management</b>	<b>131,515</b>	<b>100.0</b>	<b>138,479</b>	<b>100.0</b>	<b>-5.0</b>

### Change in assets under management

	2002 (€/mil)	2001 pro forma (€/mil)
Net inflow for the period	3,197	6,702
- Mutual funds and fund-based portfolio management	-3,641	1,886
- Portfolio management	-853	114
- Life policies	7,691	4,702
Performance effect	-10,161	-10,301
<b>Change in assets under management</b>	<b>-6,964</b>	<b>-3,599</b>

December 2001). The trend in equity markets and the consequent choices of customers led to a significant recomposition in the different types: in particular the proportion on the total of liquidity funds rose from 17.3% at the end of 2001 to 27.1% at the end of December 2002, while the proportion of equity funds fell from 32.1% to 22.3%. At the end of the year the SANPAOLO IMI Group occupied second place in the domestic market, with a market share of 18.4%; it should be noted, however, that with the acquisition of control of Eptaconsors, concluded in January 2003, the Group gained market leadership with a share of 21.3%.

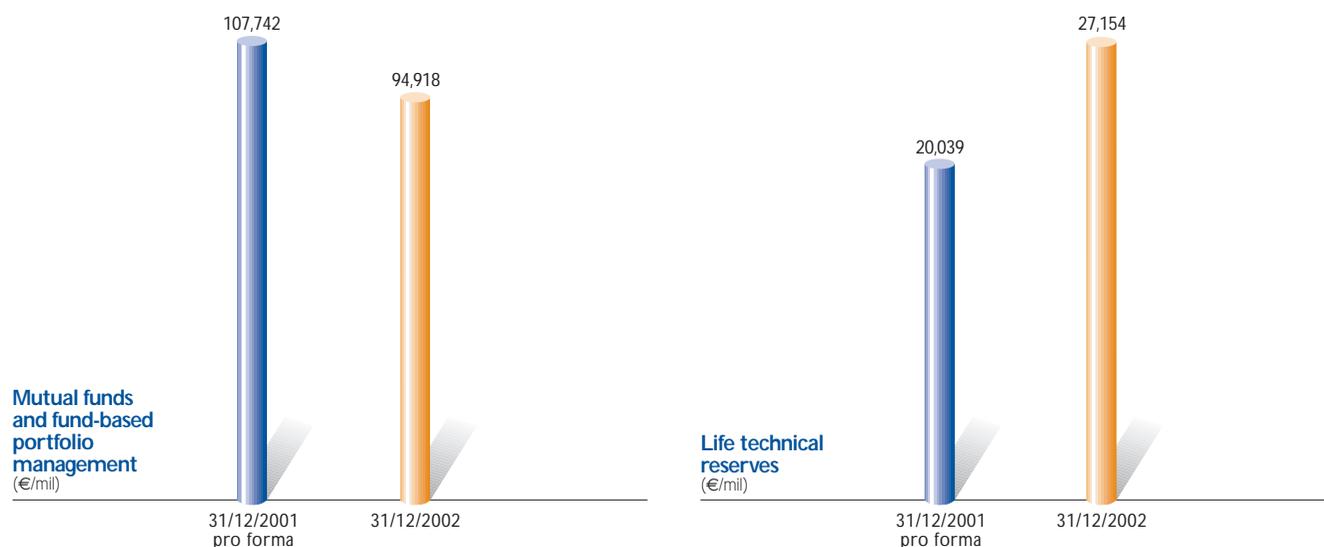
Life technical reserves benefited from the positive trend shown during 2002 in the placement of insurance products, representing one of the forms of investment preferred by customers; the net inflow realized by the distribution networks from the beginning of the year, 7.7 billion euro, took the amount at the end of 2002 to 27.2 billion euro, up 35.5%.

Customer security needs are also reflected in the expansion of assets under administration; despite the devaluation of stocks, the amounts have risen to 87.7 billion euro, presenting a flow of 3.1 billion euro since the end of 2001 (+3.7%).

#### Direct deposits

Direct customer deposits in 2002 presented a positive trend: the flow from the beginning of the year, 2.2 billion euro, brought the total amount to 137 billion euro, up 1.7% on the twelve months.

This evolution was encouraged by the growth in current accounts and deposits and in repurchase agreements, partly attributable to the effects of the inflow of capital from abroad and partly to continuing uncertainty on the financial markets, which has directed customer preferences

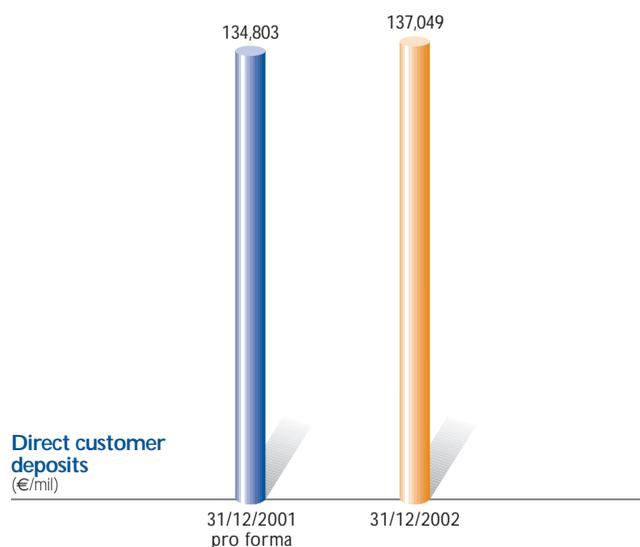


#### Mutual funds by type

	31/12/2002 %	31/12/2001 pro forma %
Equity	22.3	32.1
Balanced	10.9	14.2
Bond	39.7	36.4
Liquidity	27.1	17.3
Total Group mutual funds	100.0	100.0

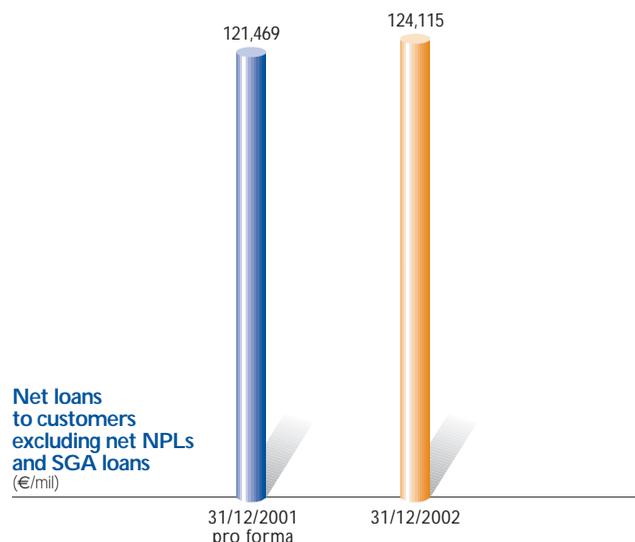
towards short-term investments. In medium- and long-term funding the flow in certificates of deposit, 3.5 billion euro, continued and was only partially compensated for by a 2.9 billion euro increase in bonds.

At the end of the year, the Group's domestic market share was 10.7%.



## Loans to customers

At the end of 2002, the amounts of net loans to Group customers, excluding non-performing loans and loans to SGA, the company into which the doubtful loans of the former Banco di Napoli were transferred, were 124.1 billion euro, up 2.2% on the end of December 2001. This



### Direct customer deposits

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Current accounts and deposits	70,313	51.3	67,634	50.2	+4.0
Certificates of deposits	7,310	5.3	10,777	8.0	-32.2
Bonds	39,447	28.9	36,529	27.1	+8.0
Commercial paper	4,139	3.0	4,137	3.1	+0.0
Repurchase agreements and securities lending	12,917	9.4	11,477	8.5	+12.5
Other deposits	2,923	2.1	4,249	3.1	-31.2
<b>Direct customer deposits</b>	<b>137,049</b>	<b>100.0</b>	<b>134,803</b>	<b>100.0</b>	<b>+1.7</b>

### Loans to customers

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Short-term loans	48,637	38.4	51,849	41.5	-6.2
Medium- and long-term loans	75,478	59.5	69,620	55.8	+8.4
<b>Loans to customers excluding NPLs and SGA loans</b>	<b>124,115</b>	<b>97.9</b>	<b>121,469</b>	<b>97.3</b>	<b>+2.2</b>
Non-performing loans	1,334	1.1	1,400	1.1	-4.7
SGA loans	1,252	1.0	2,041	1.6	-38.7
<b>Loans to customers</b>	<b>126,701</b>	<b>100.0</b>	<b>124,910</b>	<b>100.0</b>	<b>+1.4</b>

change is the result of lively dynamics in medium- and long-term loans, which are up 8.4% on an annual basis, and of a 6.2% drop in short-term loans.

In medium- and long-term loans, good progress in financings directed to the retail sector continued: mortgage disbursements to households by the Sanpaolo Network in 2002 were 1.9 billion euro, up 17.1% on the previous year. These are joined by 0.9 billion disbursed by Cardine bank networks and 0.4 billion by the network of the former Banco di Napoli. The evolution in terms of loans made by Banca OPI for public works and infrastructure, which rose to 14.7 billion euro at the end of

December 2002, up by 10.9% since the beginning of the year, was also positive.

These results contributed to a growth in loans to the private sector: loans to households presented a variation of 8.8% compared with the end of December 2001; loans to family businesses and non-financial companies also increased (+1.6% since the end of 2001).

With reference to Group transactions in Italy, the geographical breakdown shows more sustained movement in loans to customers resident in the North East, up 9.6% on an annual basis, in Central Italy (+7.2%) and in the North

#### Loans to customers by counterparty

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Loans to households	24,586	19.4	22,603	18.1	+8.8
Loans to family businesses and non-financial businesses	73,680	58.2	72,551	58.1	+1.6
Loans to financial companies	13,985	11.0	14,248	11.4	-1.8
Loans to governments and public bodies (1)	13,481	10.6	13,947	11.2	-3.3
Other	969	0.8	1,561	1.2	-37.9
<b>Loans to customers</b>	<b>126,701</b>	<b>100.0</b>	<b>124,910</b>	<b>100.0</b>	<b>+1.4</b>

(1) Excluding Banca OPI's loans to municipalized companies.

#### Loans to customers by type of lending

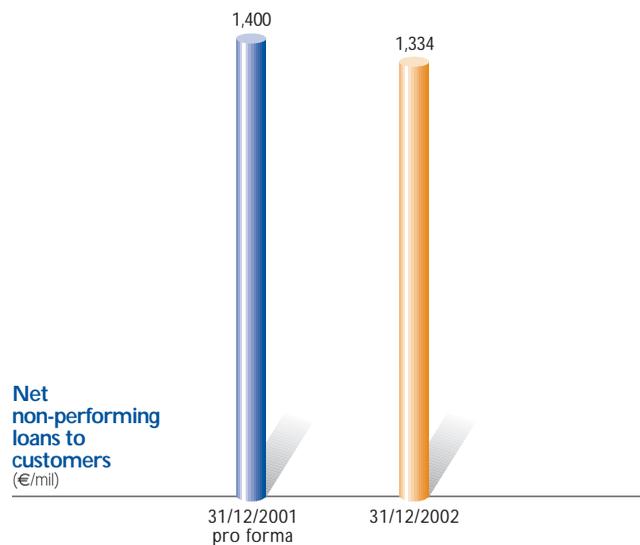
	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Loans to households	24,586	19.4	22,603	18.1	+8.8
- Domestic network	23,260	18.4	21,333	17.1	+9.0
- overdraft	1,736	1.4	1,732	1.4	+0.2
- personal loans	3,360	2.7	3,066	2.5	+9.6
- mortgage loans	16,390	12.9	14,922	11.9	+9.8
- other	1,774	1.4	1,613	1.3	+10.0
- Foreign network	1,326	1.0	1,270	1.0	+4.4
Loans to family businesses, companies, governments, public bodies and others	102,115	80.6	102,307	81.9	-0.2
- Domestic network	91,375	72.1	89,369	71.5	+2.2
- overdraft	15,199	12.0	15,523	12.4	-2.1
- repurchase agreements	1,613	1.3	2,590	2.1	-37.7
- import/export financing	2,882	2.3	2,183	1.7	+32.0
- leasing	4,090	3.2	3,039	2.4	+34.6
- mortgage loans	41,799	33.0	39,702	31.8	+5.3
- other	25,792	20.3	26,332	21.1	-2.1
- Foreign network	10,740	8.5	12,938	10.4	-17.0
<b>Loans to customers</b>	<b>126,701</b>	<b>100.0</b>	<b>124,910</b>	<b>100.0</b>	<b>+1.4</b>

West (+6.5%). The Group's market share in the domestic market at the end of 2002 was 11.2% for total loans; more specifically, medium- and long-term loans had a 12.4% share, while short-term loans took 9.8%.

Loans issued by the Group's foreign network came to 12.1 billion euro, down 15.1% since the end of December 2001.

### Doubtful loans

Against an economic scenario which is still characterized by a considerable degree of uncertainty, the Group continued to defend the asset quality during the year, in particular through the adoption of strict loan-issue selection policies by all the banking networks, as well as an intense recovery activity and prudent provision policies.



At the end of 2002 Group net doubtful loans were 2,892 million euro, 68 million down on the end of December 2001 (-2.3%). More specifically, in loans to customers:

- net non-performing loans were 1,334 million euro against 1,400 million euro at the end of December 2001 (-4.7%); the ratio of net non-performing loans to net loans to customers was 1.1%, stable on the values at the end of 2001. At the end of December 2002 the Group's non-performing loans presented a coverage ratio of 68.9%;
- problem, restructured and in course of restructuring loans were 1,447 million euro, 1% down on the amount at the end of 2001; the coverage ratio was 30.1%;
- non-guaranteed loans to customers in countries subject to country risk rose to 59 million euro from the 35 million at the end of 2001.

### Activities on financial markets

#### Dealing and treasury activities

After the establishment of the integrated Treasury, following the reorganization of Group Finance implemented during 2002, interbank transactions for the domestic Network Banks and all the Group Companies in general, for which direct access to the monetary markets was considered inefficient, were progressively centralized at the Parent Bank. The integrated treasury activity, carried out in order to optimize the Group's exchange, rate and liquidity risk and therefore maximize profitability, guaranteed the domestic banking networks immunity from financial risks, offsetting intra-Group transactions by the centralized channeling of flows. The different location of the Treasury, in Turin for the euro market, New York for

### Analysis of loan portfolio

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Non-performing loans	1,334	1.1	1,400	1.1	-4.7
Problem, restructured and in course of restructuring loans	1,447	1.1	1,462	1.2	-1.0
Loans to countries at risk - customers	59	0.0	35	0.0	+68.6
Performing loans	123,861	97.8	122,013	97.7	+1.5
<b>Total loans to customers</b>	<b>126,701</b>	<b>100.0</b>	<b>124,910</b>	<b>100.0</b>	<b>+1.4</b>
Non-performing and problem loans - banks	1		1		-
Loans to countries at risk - banks	51		62		-17.7

the dollar market and Tokyo and Singapore for the Far East market, satisfied customer needs and the pursuit of a meticulous policy to diversify funding sources. On the interbank market, approximately 50% of the volumes negotiated by the Parent Bank regarded collection transactions in euro; a significant portion of the total amount (265 billion euro), was channeled through the e-Mid circuit, on which the Bank maintained a market share of about 3%.

At the end of 2002, the Group's securities portfolio came to 22.6 billion euro, down 20.9% on the pro forma amount at the end of 2001. The investment component fell to 2.9 billion euro, accounting for 12.8% of the total, in comparison to the 14% at the end of the previous year (4.0 billion euro).

At the end of the year the dealing portfolio of the subsidiary Banca IMI was 6.6 billion euro, down 10.8% compared with the 7.4 billion held at the end of 2001; this included approximately 52% Government and EU public issue bonds and approximately 19% other bonds.

The Parent Bank's bond portfolio, comprising the portfolios of Cardine Banca and Banco di Napoli acquired during the merger, amounted to 14.4 billion euro. At the end of the year, the dealing component of the portfolio amounted to 12.4 billion euro, while the investment component amounted to 2 billion euro. In the context of the dealing portfolio, Government bonds accounted for 40%; bonds from financial and banking issuers represented 56%, while the remaining 4% share comprised corporate bonds and securitization-related issues. Approximately 70% of the investment component was represented by Government

and bank bonds, with the remaining 30% made up of corporate issues related to securitization transactions. The volume of the securities negotiated by the Parent Bank was 25 billion euro, while transactions in repurchase agreements, entered into for retail and corporate customers and to support activity on the monetary markets, amounted to 296 billion euro, 197 billion of which were handled by the MTS/PCT platform.

Within the context of the guidelines adopted during 2002 concerning the funding liquidity risk, the Board of Directors tied up a minimum quantity of eligible securities to be held available for spot hedging of the very short-term liquidity risk. "A liquidity target ratio" was introduced with these guidelines, to be respected in the short-term as regards the imbalance between expiring assets or those suitable for prompt liquidation, and expiring liabilities, divided into time brackets. Consequently the dealing portfolio, according to the different holding purposes and the diverse risk/performance profile of the securities, was split into four different operating sub-portfolios: (i) Liquidity, (ii) Dynamic Investment, (iii) Corporate Bonds, (iv) Group Debt. The sizing of these sectors took place according to values such as to maximize the profitability aims and satisfy the secondary liquidity needs of the Bank and the Group Companies for which the Parent Group activated the integrated Treasury during the year.

As regards medium- and long-term funding, the activity carried out during 2002 confirmed SANPAOLO IMI among the leading issuers on the domestic and international market. Globally the issues generated inflows of 7.5 billion euro (4.1 billion euro obtained through the domestic banking networks and 3.4 billion euro on the international mar-

### Securities, interbank position and derivatives

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Investment securities	2,897	12.8	3,986	14.0	-27.3
Dealing securities (1)	19,694	87.2	24,557	86.0	-19.8
<b>Total securities</b>	<b>22,591</b>	<b>100.0</b>	<b>28,543</b>	<b>100.0</b>	<b>-20.9</b>
Loans to banks	22,000		26,436		-16.8
Funding from institutional banking organizations	5,881		4,621		+27.3
Funding from other banks	18,574		31,861		-41.7
Derivatives and forward transactions in foreign currencies (at nominal value)	354,244		427,570		-17.1

(1) This item includes SANPAOLO IMI shares bought by subsidiaries as part of their securities dealing activities.

ket), of which 6.5 million of senior nature and 1 billion of subordinated nature in the form of a second level issue (Lower Tier II). Within the context of public transactions, the Parent Bank realized two issues of senior nature for a cost of 1.5 billion euro and two issues of subordinated nature for a total cost of 800 million euro.

#### Placement and advisory business

During 2002, despite a primary debt market characterized at international level by contained operating volumes, Banca IMI confirmed its status as one of the main Italian operators, assuming the role of leader or sole placer in 36 bond issues, for a total of approximately 13 billion euro. In the financial institutions sector in particular, it accompanied Finconsumo Banca and Banco Desio in their debut on the euromarket. Other transactions include the benchmark issues for SANPAOLO IMI (senior and subordinated), the senior issues of Banca Agrileasing, Efibanca and Lehman Brothers and the organization of an issue of hybrid investment instrument for Cassa di Risparmio di Firenze. In relation to sovereign state issues, attention ought to be drawn to the jumbo issue for the Greek Republic and, as regards corporate issuers, the placement of a senior issue for Italennergia through OPS and the debut issue of I Viaggi del Ventaglio on the euromarket. Lastly, the securitization sector includes the “European Auto Securitization” for FIAT Auto, the securitization of the residential mortgages of the Cassa di Risparmio di Firenze, and the appointment from the Cassa Depositi e Prestiti for a securitization of 3.6 billion euro.

In the equity sector, 2002 registered substantial stagnations in the IPO sector, as a result of market conditions, while there was a considerable increase in capital market operations through capital increase options. In this last context, the Bank realized, among other things, the biggest transaction carried out in Italy, in relation to the Alitalia SpA capital increase (by 1.4 billion euro in shares and convertible bonds) and also took part in the Fiat capital increase (1 billion euro).

In the context of equity placements, the Bank took part in the main transactions carried out on the Italian market (Fiera Milano, ASM Brescia, Astaldi, Pirelli Real Estate, Fondo Alpha, Banca Lombarda), it acted as sponsor in the listing admission of ordinary and savings shares of Italennergia (renamed Edison herewith) and took part in important transactions on the international market enabling consolidation of its positive track record. To this

end it participated as co-lead manager in the Institutional placement consortium of Autoroutes du Sud de la France (global offer of over 2.4 billion euro), the activity within the context of the offer of shares in the American CIT Group Inc. (financing company of the American group, Tyco) and in the International Institutional Offer of shares in Enagas (principal supplier of services in transport and stockholding of natural gas in Spain). It also acted as co-manager in the private placement of shares in Telekom Austria AG.

Market conditions privileged Public Offers, where Banca IMI acted as financial consultant and coordinating intermediary in the collection of applications regarding the offer launched by ENI S.p.A. on Italgas S.p.A. which, at a cost of 2.5 billion euro, represented the biggest takeover bid launched on the Italian market during 2002. Banca IMI also acted as coordinating intermediary for the residual offer launched by Idra Partecipazioni S.p.A. for Idra Presse S.p.A. ordinary shares.

With regard to Corporate Finance Advisory, despite the presence of an unfavorable market, Banca IMI completed several particularly significant M&A transactions and handled the financing structuring of various acquisitions. The main activities include the participation in the extensive financial restructuring process of the FIAT Group. In this context, Banca IMI handled the sale of a 51% share of Fidis to the financing banks.

Important advisory activity was carried out for the Buzzi Unichem Group regarding the establishment of the exchange ratio in the merger by incorporation of Unimed into Buzzi Unichem. Significant consulting activity was carried out in the energy, telecommunications and IT services sectors, which also concerned the advisory for AEM Torino, for the exploitation of electricity generation assets, and the advisory for the Albanian government in the project for the privatization of the fixed telecommunication and energy (oil & gas) sectors. During the last quarter Banca IMI acquired a mandate from Edison to supply assistance in the sale of reserves of gas in Egypt and from Finmeccanica for the exploitation of the Elsag assets.

#### Equity investments

The Group's investments in companies that are not consolidated on a line-by-line basis amounted to 4.1 billion euro, with a net decrease of 0.8 billion euro compared with the pro forma value as of 31 December 2001.

Globally, during the year acquisitions amounted to 490 million euro. The main transactions, mentioned earlier, regarded:

- the acquisition by Fiat of a further 4.66% share of Italergeria Bis, for 183 million euro, in the context of the agreements with this group; the acquisition, in addition to the original 7.82% share, took the total investment in this holding to 12.48%, for a cost of 431 million euro. The value of the equity investment is covered by way out agreements completed with the industrial partners EDF (Electricité de France) and FIAT. Prior to the above-mentioned acquisition, the share originally held in Italergeria (7.82%) had been placed, together with the shares of the other shareholders, into the new Italergeria Bis, with consequent assumption by the latter of the new role of leading holding company of the Group.
- the acquisition by Banca Intesa of 3.33% of the capital of Borsa Italiana, with an outlay of 32 million euro, increasing the Group's interest to 12.51%; the purchase follows recent increases in the shareholding deriving from the application for the exchange offer launched by Borsa Italiana on Monte Titoli;
- the subscription in February 2002 of the FIAT capital increase for 15 million euro.

During the year disposals of shares in companies not consolidated using the line-by-line method amounted to 831 million euro, realizing capital gains of 146 million euro net of the tax effect. These include:

- the sale to Compagnia di San Paolo, before the merger with Cardine, of an 8% holding in Cardine Banca, at the price of 440 million euro, and the simultaneous acquisition by Compagnia di San Paolo of shareholdings in FIN.OPI (100%), in Sanpaolo IMI Private Equity (27.02%) and IMI Investimenti (39.77%). SANPAOLO IMI also acquired the minority interest in IMI Investimenti using a further 0.61% share in Cardine

Banca. These transactions involved the booking of gross capital gains of 62 million euro;

- the complete sale of the 0.19% stake in the Royal Bank of Scotland, with the realization of total capital gains of about 64 million euro (14 million euro booked in 2002 and 49 million euro deducted in 2001 as a result of the valuation of the inherent equity and exchange risk hedging transactions);
- the sale of a 0.06% share of the 0.26% stake originally held in ENI; the transaction created capital gains of 7 million euro for an outlay of 43 million euro;
- the re-sale of the 8.49% held in Banca Agricola Mantovana for a cost of 206 million euro (corresponding to the relative book value) through the exercising of a put option with Monte dei Paschi di Siena;
- the sale by Banco di Napoli, before the merger, of the 70% share held in Datitalia Processing, at a price of 11 million euro, realizing capital gains of 3 million euro.

Further disposals regarded the interests held as part of the merchant banking activity and, in particular, the complete sale of the shares held in Camuzzi Gazometri, Cartiere Fedrigoni, UTET and Salvagnini, as well as the partial sale of the Davide Campari shares, with global gross capital gains of about 14 million euro on a sale price of 81 million euro.

## Operating structure

### The distribution network

The merger with Cardine and, subsequently, the incorporation of Banco di Napoli and the constitution of the Southern Territorial Direction, already described in detail, contributed to strengthening the Group's distribution network, enabling excellent coverage of the country.

### Non-consolidated equity investments

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
<b>Equity investments</b>	<b>4,064</b>	<b>100.0</b>	<b>4,898</b>	<b>100.0</b>	<b>-17.0</b>
- carried at equity	1,266	31.2	1,102	22.5	+14.9
- carried at cost	2,798	68.8	3,796	77.5	-26.3
- in listed companies	1,302	32.0	2,024	41.3	-35.7
- in other companies	1,496	36.8	1,772	36.2	-15.6

The plan to develop and rationalize the SANPAOLO IMI Group networks also provides for a distribution model based on the specialization by macro customer segments, in order to supply an improved and more effective response to different household and company needs.

At the end of December the SANPAOLO IMI Group had a network of 3,069 banking branches in Italy, 33.9% of which are distributed throughout the North West, which is in-depth covered by the Sanpaolo Network, 27.4% in the North East, where the Cardine network is concentrated, 26.2% in Southern Italy and the Islands, where the branches of the former Banco di Napoli operate. The remaining 12.5% of the Group network is situated in Central Italy, where there are more than 400 branches of Cassa di Risparmio di Firenze, in which a 19.5% interest is held and with which SANPAOLO IMI has stipulated distribution agreements. Further commercial agreements have been stipulated with Cassa dei Risparmi di Forli, which has about sixty branches mainly operating in the North East.

The share held by the Group throughout Italy amounts to 10.3%. SANPAOLO IMI in particular has an 11.3% share in the North West, 10.6% in the North East, 5.7% in the Center and 13.7% in the South and the Islands.

The strengthening of the branch networks realized via the specialization of branches to deal with their reference customer segments led to the creation of 129 “company branches” in the Sanpaolo network; similar specialization initiatives regarded the Banco di Napoli and Cardine networks.

The Group confirmed its commitment towards innovative channels. The Sanpaolo Network in particular carried out commercial development activities with regard to the services offered through direct channels, expanding their functionality and strengthening the customer service instruments. At the end of December the number of contracts enabling private customers to operate in an integrated way through traditional channels and direct channels rose to

#### Group distribution network

	31/12/2002	31/12/2001 pro forma	Change 31/12/02-31/12/01 pro forma (%)
<b>Banking branches and area offices</b>	<b>3,205</b>	<b>3,178</b>	<b>+0.8</b>
- Italy	3,069	3,049	+0.7
of which: Parent Bank (Sanpaolo Network and Banco di Napoli Network)	2,115	2,107	+0.4
- Abroad	136	129	+5.4
of which: Banque Sanpaolo	62	59	+5.1
<b>Representative offices</b>	<b>17</b>	<b>21</b>	<b>-19.0</b>
<b>Financial planners</b>	<b>4,955</b>	<b>5,510</b>	<b>-10.1</b>
of which: Banca Fideuram	3,520	3,795	-7.2
of which: Banca Sanpaolo Invest	1,234	1,494	-17.4

#### Group distribution network in Italy as of 31/12/2002

	Sanpaolo		Banco di Napoli		Cardine		Other (1)		TOTAL	
		%		%		%		%		%
North-West (Piedmont, Val d'Aosta, Lombardy and Liguria)	980	70.5	3	0.4	13	1.5	43	38.1	1,039	33.9
North-East (Veneto, Trentino Alto Adige, Friuli Venezia Giulia and Emilia Romagna)	107	7.7	1	0.1	706	84.0	26	23.0	840	27.4
Centre (Tuscany, Marche, Umbria, Lazio, Abruzzo and Molise)	127	9.1	110	15.2	122	14.5	26	23.0	385	12.5
South and Islands (Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia)	176	12.7	611	84.3	-	-	18	15.9	805	26.2
<b>Banking branches and area offices in Italy</b>	<b>1,390</b>	<b>100.0</b>	<b>725</b>	<b>100.0</b>	<b>841</b>	<b>100.0</b>	<b>113</b>	<b>100.0</b>	<b>3,069</b>	<b>100.0</b>

(1) Includes the branches of Banca Fideraum (87), Finconsumo Banca (24), Finemiro Banca (1) and Farbanca (1).

325,000, with an increase of more than 145,000 since the beginning of the year, and Internet banking contracts with companies exceeded 19,000. On the date, the Cardine bank networks had approximately 57,000 phone and Internet banking contracts.

With reference to direct channels, the retail customer service is carried out through the network of automatic Bancomat tellers which, at the end of the year, included 1,899 Sanpaolo ATMs, 979 belonging to the Cardine bank networks and 895 to former Banco di Napoli, and through the POS terminals of the Sanpaolo Network (27,064), Cardine (18,619) and former Banco di Napoli (10,100).

The Group's distribution structure is also made up of 4,955 financial planners, mainly of Banca Fideuram and Banca Sanpaolo Invest. In this context it should be noted that the acquisition of Banca Sanpaolo Invest by Banca Fideuram was completed during the year. The transaction will increase the commercial effectiveness of the sales network, enabling strategic coordination of the financial planners, the adoption of a range of common products and consistent brand and marketing policies.

The Group operates abroad through a network of 136 branches, of which 62 belonging to the French Banque Sanpaolo, and 17 representative offices.

### Personnel

At the end of the year Group personnel consisted of 45,650 employees, down by 906 on the previous year, considering the pro forma inclusion as of 31/12/2001 of the Cardine Group and Banka Koper.

This net reduction fits into a series of interventions to contain personnel dynamics, and therefore costs, implement-

ed during the last two years, without sacrificing investments in personnel to strengthen and expand the commercial network.

With particular reference to the Parent Bank, on 31 December 2002, the staff was made up of 28,036 employees, down 973 in comparison to the previous year (reconstructed pro forma to include the staff of the former Banco di Napoli net of the spin off of the tax collection sector and 24 employees of the former Cardine Foreign branches in London and Luxembourg, acquired by the Parent Bank in June 2002).

The staff reduction, realized via 1,546 resignations and 573 new hires, can be attributed to a management strategy which, while adopting voluntary redundancy plans on the one hand, continues development actions on the other, with the introduction of new resources into its structures, simultaneously ensuring a gradual generational change. In particular, the voluntary redundancy initiatives resulted in the resignation of over 1,100 people.

With regard to the other Group companies, as of 31/12/2002 the Cardine structure, made up of Cardine Finanziaria and the seven bank networks, had 9,719 members of staff, down 86 compared with 31/12/2001 (reconstructed pro forma in consideration of the assignment of the 24 resources mentioned above).

The other companies grew by 153 units, mainly due to commercial expansion in Eastern European countries.

The actions implemented up to now will be completed and continued as provided for by the 2003-2005 three-year plan, which places considerable emphasis on the recovery of efficiency, realized mainly through the integration of the

### Personnel

	31/12/2002		31/12/2001 pro forma (1)		Change 31/12/02-31/12/01 pro forma (%)
		%		%	
Period-end headcount	45,650	100.0	46,556	100.0	-1.9
- Executives (2)	881	1.9	834	1.8	+5.6
- Third and fourth level managers (2)	5,975	13.1	6,252	13.4	-4.4
- other personnel	38,794	85.0	39,470	84.8	-1.7

(1) Includes the employees of the former Cardine Group and Banka Koper as of 31/12/01.

(2) The distinction between executives and third and fourth level managers as of 31/12/02 follows the changes in the staff organization introduced by the National Collective Labour Contract for the banking sector with the constitution of the "extended management" in the context of the former Banco di Napoli. The comparison with 2001 is therefore inconsistent.

distribution networks and the common exploitation of the business support structures.

The reduction of staff planned during the three years will enable substantial elimination of the inertial growth dynamics of the cost, also through a consistent “rejuvenation” action linked with investments in new personnel to strengthen the distribution structure and therefore improve commercial effectiveness.

This strengthening operation will also be implemented through the recomposition of the ratio between resources assigned to the business structures and resources assigned

to the business support structures, actuating intense professional conversion processes for the resources of the corporate center.

With reference to the management tools used during the year, within the context of the Group's commercial banks, the integration of the planning and development systems and those to extend the incentive models and programs for the enhancement of the professional skills and potential of people continued, and were also actuated through growing investments in training. Together with this, the gradual application of the same systems continued, suitably adapted to the Group's different specialist situations.

## Capital and reserves

### Net shareholders' equity

Group shareholders' equity, 10,537 million euro as of 31 December 2002, showed in the year the following movements:

<i>Movements in Group shareholders' equity</i>	<i>€/mil</i>
Shareholders' equity as of 1 January 2002	8,182
<b>Decreases</b>	<b>-1,141</b>
- Dividends	-773
- Exchange and other adjustments	-4
- Use of reserves for general banking risks	-364
<b>Increases</b>	<b>3,496</b>
- Merger with Cardine Banca	2,063
- <i>capital</i>	1,212
- <i>reserves</i>	851
- Decrease in own shares held by the Parent Bank	294
- Portion of tax benefits from the Banco di Napoli merger	250
- Net income for the year (1)	889
<b>Shareholders' equity as of 31 December 2002</b>	<b>10,537</b>

(1) Includes the use of reserves for general banking risks for 364 million euro.

Besides the distribution of the 2001 dividend and the net income for 2002, the changes compared with the figures at the end of December 2001 reflect:

- among reductions, the use of the reserves for general banking risks by the Parent Bank (358 million euro) and in residual measure, by other subsidiaries, to cover the negative impact on net income of the devaluations of the listed investment portfolio and considering the need to optimize the Group's tax position;
- among increases:
  - 250 million euro of tax benefits out of funds concerning the deferred tax asset generated by the merger of Banco di Napoli into SANPAOLO IMI and in relation to the quota of goodwill on Banco di Napoli, booked in 2000 to offset pre-existing negative differences at first consolidation;
  - 2,063 million euro related to the effect of the merger with Cardine; this amount represents the consolidated equity of the incorporated bank (3,213 million euro), reduced to take account mainly of alignment with Group accounting principles (86 million euro), of compensation of the positive differences of consolidation with the negative differences (296 million euro), of the use of SANPAOLO IMI own shares in the exchange (678 million euro), as well as of the cancellation of Cardine shares in the portfolios of the merged companies (90 million euro).

### Own shares

As of 31 December 2002 the own shares held by the Group were 4,940,751, equal to 0.27% of the equity capital and booked at market value in the dealing portfolio for 31 million euro, in line with that done by the subsidiaries in their financial statements.

Group transactions with SANPAOLO IMI shares during 2002 were the following:

- as of 31 December 2001, the Parent Bank held 17,080,403 own shares in its portfolio (48 million euro nominal value), for a book value, at cost, of 294 million euro. During the year it purchased 35,578,038 shares (100 million euro nominal value) for a total cost of 423 million euro. The shares were destined as follows:
    - 48,013,809 shares (134 million euro nominal value) were used in the exchange involved in the merger with Cardine Banca;
    - 2,718,608 shares (8 million euro nominal value) were exchanged with Banco di Napoli saving shares in the context of the merger by incorporation of the Banco di Napoli into SANPAOLO IMI;
    - 1,912,373 shares (5 million euro nominal value), for a cost of 19 million euro were assigned to employees in June in relation with the extended employee stock plan;
    - 13,650 shares (38,220 euro nominal value), for a book value of 137,000 euro, were sold on the market for a cost of about 135,000 euro;
- As of 31 December 2002, therefore, the Parent Bank held just 1 own share in its portfolio, with 2.8 euro nominal value, for a book value of 7.41 euro;
- as of 31 December 2001, the subsidiary Banca IMI, in relation to its institutional dealing activity, held 815,564 SANPAOLO IMI shares in its portfolio (2 million euro nominal value), booked at a market value of 10 million euro. During the year the company purchased 46,589,230 shares (130 million euro nominal value), for a cost of 452 million euro, and sold 45,810,050 shares (128 million euro nominal value) for a total outlay of 441 million euro. As of 31 December 2002, Banca IMI held 1,594,744 shares in its portfolio (4 million euro nominal value), booked at a market value of 10 million euro;
  - as of 31 December 2002, the subsidiary IMI Investimenti held 219,190 SANPAOLO IMI shares in its dealing portfolio (1 million euro nominal value), booked at a market value of 1.4 million euro. The shares arise from the conversion of Cardine Banca shares into SANPAOLO IMI shares following the merger between the two banks;

- furthermore, following the merger with Cardine Banca, the number of SANPAOLO IMI shares in the Group's portfolio rose by 3,126,815 shares (9 million euro total nominal value) thanks to the contribution of several companies of the former Cardine Group. The total number of these shares, which remained unchanged in the period following the merger, was thus composed as of 31 December 2002:
  - 3,073,729 shares (9 million euro nominal value), at a market value of 19 million euro, booked by Prospettive 2001, following the conferral to the same of a company branch of Fincardine SpA;
  - 53,087 shares in its portfolio (0.1 million euro nominal value), booked at a market value of 0.3 million euro, held by Banca Popolare dell'Adriatico.

### Regulatory capital and solvency ratios

As of 31 December 2002 the ratio of the Group's total regulatory capital to total weighted assets against risks, deriving mainly from credit and market risks, showed a total solvency ratio of 10.7%; in particular, the market risks referable to the Parent Bank and other Group companies, 10 billion euro at the end of December 2002, were largely hedged by Tier 3 subordinated liabilities, entered into for a total of 589 million euro.

The ratio between the Group's Tier 1 capital and the total weighted assets reached, at the end of December 2002, 7.3% (Tier 1 ratio).

Lastly, the core Tier 1 ratio (calculated on the Tier 1 capital net of preferred shares) came to 6.6%.

The regulatory capital structure of the SANPAOLO IMI Group is therefore consistent with the recommendations recently formulated by the Bank of Italy which, following a more general international orientation aimed at stimulating the creation of more solid capital endowment for the most important banks (e.g.: aligned to the status of Financial Holding Company in accordance with United States standards), indicated to the Bank stricter than obligatory target ratios:

- Core Tier 1 ratio = 6%;
- Total Risk ratio = 10%.

### Regulatory capital and capital adequacy

	31/12/2002	31/12/2001
<b>Regulatory capital (€/mil)</b>		
Tier 1 capital	9,765	7,656
<i>of which: preferred shares</i>	1,000	1,000
Tier 2 capital	4,406	3,552
less: prescribed deductions	-470	-1,740
Regulatory capital	13,701	9,468
Tier 3 subordinated loans	589	610
Total regulatory capital	14,290	10,078
<b>Weighted assets (€/mil)</b>		
Credit risk	123,575	97,137
Market risk	9,588	8,025
Other requirements	550	538
Total assets	133,713	105,700
<b>Solvency ratios (%)</b>		
Total risk ratio	10.7	9.5
Tier 1 ratio	7.3	7.2
Core tier 1 ratio (net of preferred shares)	6.6	6.3

# Risk management and control

## The basic principles

The SANPAOLO IMI Group is strongly committed to risk management and control, which is based on three principles:

- clear identification of responsibility for taking on risks;
- measurement and control systems in line with international best practice;
- organizational separation between the Business Areas that carry on day to day operations and those that carry out controls.

The policies relating to the acceptance of credit and financial risks are defined by the Parent Bank's Board of Directors and Executive Committee with support from the Group Risks Technical Committee and specific operating committees.

The Parent Bank also performs general functions of risk management and control and makes risk-acceptance decisions in the case of particularly large risks, supported by the Risk Management department.

The Business Areas that generate credit and/or financial risks are all assigned with limits of autonomy and each has its own control structure.

## Financial risk management and control

### Organization

As regards the management and control of financial risks, the fundamental role is assigned to the Board of Directors of the Parent Bank, which defines the orientations and strategic addresses concerning market risks, allocates capital on the basis of the expected risk/return profile, approves the operating risk limits for the Parent Bank and the guidelines for the subsidiaries.

The Group Financial and Market Risks Committee (CRFMG) is responsible for defining the risk measurement criteria and methodologies, the structure of the Parent Bank and Business Areas' risks limits and verifying the Group companies' risk profile. The Committee consists of the Managing

Directors, the heads of the business units that take on risks, and the Risk Management department.

The Risk Management Department is responsible for developing the risk monitoring methods and the proposals regarding the system of operating risks limits for the various lines of business of the Bank and the Group, as well as the measurement of risks existing in the various operating units and monitoring the Business Areas compliance with the limits laid down by the Board of Directors and Executive Committee.

The individual Business Areas measure internally the financial risks, using approved methodologies, models and a system of limits consistent with the Parent Bank's global design.

### Measurement techniques

The financial risk measurement methods used by the Group consist mainly of:

- Value at Risk (VaR);
- Sensitivity analysis;
- Worst Case Scenario,

VaR corresponds with the maximum loss of the value of the portfolio which could occur in the ten subsequent working days in 99% of cases, based on the volatility and historical correlations (of the last 250 working days) between the individual risk factors, made up, for every currency, of the short and long-term interest rates, the exchange rate and share prices.

The sensitivity analysis expresses the change of value in the portfolio following adverse movements of the risk factors. For interest rate risk, adverse movement is defined as a parallel and uniform shift of 100 basis points of the interest rate curve. For companies in the banking book, is also applied a measure of net interest income at risk, which is defined as the potential change in net interest income resulting from a parallel and instantaneous shock of  $\pm 25$  basis points in the level of interest rates over the next twelve months. This measurement shows the effect of the changes in interest rates on the portfolio being measured, excluding assumptions regarding future changes in the assets and liabilities mix, and therefore cannot be considered a predictor of the future level of the Group's net interest income.

The Worst Case method establishes a risk measurement (Maximum Potential Loss), which represents the worst possible economic result of those obtained in various hypo-

thetical scenarios, built in such a way as to represent a significant shock to current market parameters on the basis of a holding period of one day and accumulating the losses deriving from the various risk factors in absolute value. The idea underlying the determination of the shocks to be assigned to the risk factors is to ensure a high degree of prudence; indeed, the objective is to quantify and limit the maximum potential loss that could emerge in extreme market conditions.

### Financial risks from lending activities

The financial risk generated by the Group's lending activities (Asset and Liability Management) in 2002 was slightly higher than the average level which could be established for last year, appropriately restated including the measurements of the former Cardine Group.

During 2002, the potential loss on the fair value of lending activities, measured using the sensitivity analysis, had an average value of 231 million euro, with a minimum and a maximum of 185 and 279 million euro respectively; the rise in value emerging from the comparison with the previous year, within the same consolidation setting, is attributable to the Group operating policies aimed at maximizing the fair value of the portfolio, in relation to the expected scenarios with regard to interest rates.

#### Sensitivity Analysis – Lending activities

	2002 (€/mil)	2001 (€/mil)
Average	230.6	199.2
Low	184.9	150.5
High	278.7	269.6
31 December	251.1	269.6

The VaR of the lending activities during 2002 oscillated around the average value of 97 million euro, amounting to 105 million euro at the end of December.

The exchange risk generated by the lending activities was very limited during the year.

The sensitivity of the net interest income for companies in the "banking book" - assuming a rise in rates of 25 basis points - amounted at the end of December to 20 million euro (-19 million euro in the case of reduction), corresponding to 0.5% of the consolidated annual net interest income.

### Equity investments in non-Group listed companies

Equity investments held in quoted companies not consolidated line by line or at net equity showed a market value, at the end of the year prices, of 1,338 million euro, 291 million of which held by the subsidiary IMI Investimenti. The market value of the equity investments showed, according to prices at the end of December, a net potential capital gain on book value of 17 million euro.

The monitoring of the market risk of the equity investments portfolio, the oscillations in the value of which do not directly influence the Group's statement of income, given that such investments are accounted at cost, is accomplished by calculating the Value at Risk.

The Value at Risk related to minority investments in quoted companies, recorded during 2002 an average level of 248 million euro, with a minimum of 166 million euro and a maximum of 302 million euro. At the end of December 2002 the VaR reached 226 million euro; this value was lower than the levels observed at the end of 2001 (297 million euro) following the reduction in the value of the portfolio.

#### Listed investment portfolio VaR

	2002 (€/mil)	2001 (€/mil)
Average	248.0	266.0
Low	166.3	215.0
High	301.6	326.0
31 December	226.3	297.0

### Trading activities

The major part of this risks are concentrated in Banca IMI and its subsidiaries and arise from dealing in fixed income securities, equity securities, currency and other derivatives.

The VaR of trading activities registered an average value during the year of 8.8 million euro, oscillating between a minimum of 3 million euro and a maximum of 15 million euro. At the end of December the VaR was 14.4 million euro, rising compared with the 6.9 million of the previous year.

In addition to the VaR, the Worst Case Scenario technique is used to monitor the impact of potential losses that might arise under extreme market conditions. The development of the maximum potential daily loss was largely stable in

the year, in terms of potential risks, always oscillating around the yearly average of 33 million euro.

Backtesting showed the prudential nature of the internal measurement techniques used, considering the volatility observed on the markets during the period. In 2002, actual losses were never higher than the risk measures expressed in terms of maximum potential loss, while the trading results exceeded the ex-ante VaR, measured on a daily basis, in just two cases.

## Credit risk management and control

### Organization

The Group organizational model, defined with the aim of maximizing the efficiency of the process to manage and

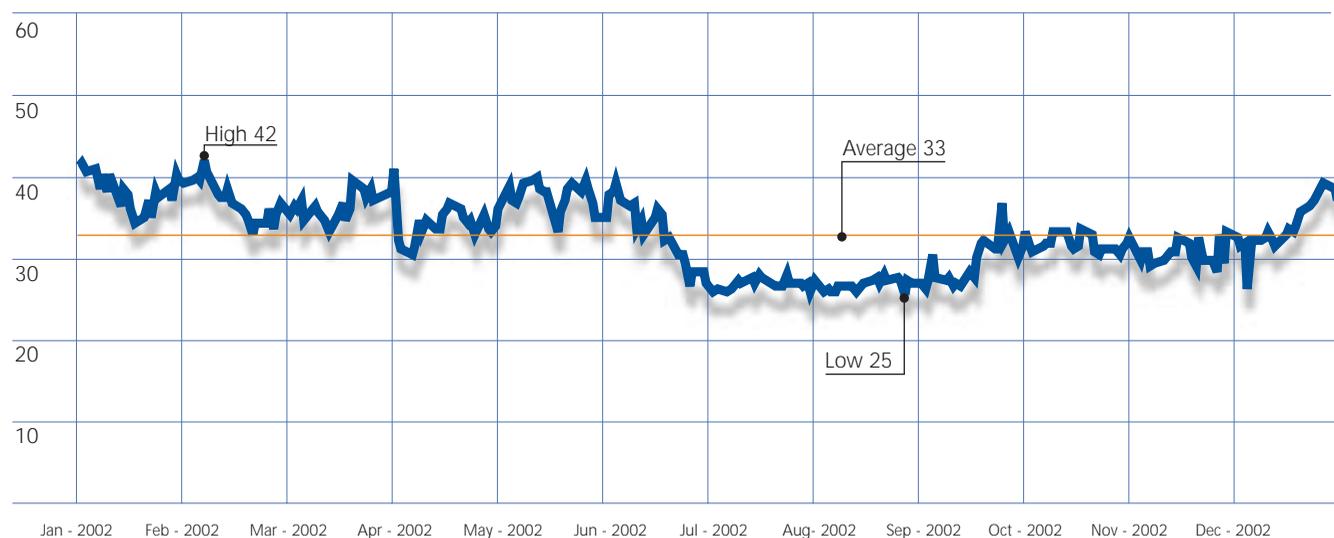
control credit risks, provides for:

- the allocation of precise responsibilities as regards the management of the credit risk to the individual Business Areas;
- the separation of the management and control of credit risks.

SANPAOLO IMI has established lines of conduct to be followed when taking on credit risk; these rules are to be applied throughout the Group. They provide for approval levels defined in terms of Group exposure to the counterparty and differing mainly with regard to the rating (internal or agency) of the counterparty. The first approval level is represented by the Business Areas and the subsidiaries, which, in turn, establish the approval limits to be delegated to the network. Transactions in excess of these limits must be submitted to the appropriate body within the Parent Bank, consisting of (according to the increased level of exposure Group Credit Committee (composed of the

### VaR of trading activities broken down by type of risk

	2002				2001	
	31 December (€/mil)	Average (€/mil)	Low (€/mil)	High (€/mil)	31 December (€/mil)	Average (€/mil)
Interest rate risk	8.8	4.1	0.1	9.5	5.5	2.5
Exchange risk	0.4	0.5	0.1	2.8	0.5	0.5
Share price risk	9.9	6.9	1.3	13.8	3.9	6.7
Diversification effect	-4.7	-2.8	n.s.	n.s.	-3.0	-2.2
<b>Total</b>	<b>14.4</b>	<b>8.8</b>	<b>3.0</b>	<b>15.0</b>	<b>6.9</b>	<b>7.5</b>



### Trading Activity Maximum Potential Daily Loss (€/mil)

joint Managing Directors and the heads of the Group Credit Management and Risk Management departments), the Executive Committee and the Board of Directors.

As regards credit risks with financial institutions, the centralized and unitary control is attributed to the Committee for Group Financial and Market Risks, which is also responsible for the approval of problems concerning country risk.

The Risk Management department is responsible for defining and updating the Group measurement methods, with the aim of guaranteeing alignment with best practice, as well as the analysis of the Parent Bank and Group risk profile and the proposal of any corrective measures. The Risk Management department is also given the responsibility of measuring the exposure of the larger counterparties, verifying the consistency and integrity of the measurements carried out by the risk control units within the Business Areas, preparing key reports for the heads of the Parent Bank on the changes in credit quality of the credit activities and on the use of economic capital by the individual Business Areas.

The control structures operating within the individual Business Areas are responsible for measuring and monitoring the portfolio assigned to them.

### Measurement techniques

SANPAOLO IMI has developed a series of instruments to ensure analytical control over the quality of the loans to customer and financial institutional, as well as exposures to subject to country risk.

With reference to loans to customers, differentiated grading models have been developed according to the operating segment of the counterparty, in terms of economic sector and size. These models make it possible to synthesize the credit quality of the counterparty in a measurement, the rating, which reflects the probability of insolvency in a period of one year, calibrated to the average level of the economic cycle. The ratings calculated are also reported, through statistical adjustments, as fully comparable with the classifications of the official rating agencies, within a consistent reference scale. The backtesting analyses carried out, comparing the insolvency forecasts with the defaults effectively incurred, confirmed the validity of the models used.

As regards the portfolio attributed to the SANPAOLO Network (including the former Banco di Napoli), made up of households, small entrepreneurs and small- and medi-

um-sized companies, credit quality management is supported by a system which classifies customers into categories, based on assessment by the credit managers, to whom specific management responsibilities are assigned (frequency of revisions of lines of credit and recovery actions). Lastly, the control of the credit quality uses an early warning system aimed at the anticipated indication of any anomalous situations.

With reference to the banking and financial counterparties, a system has been established to classify the financial institutions in a scale consistent with those used by agencies specialized in ratings. The risk class forms the basic information which, integrated by the technical form and the duration of the transaction, as well as by any guarantees present, makes it possible to establish the credit limits with each counterparty. In the case of transactions covered by guarantees issued by banks, the credit quality of the guaranteed counterparty is also taken into consideration when weighting the limit.

Lastly, as regards the country risk, the rating is assigned on the basis of a model which considers the judgment of specialized institutions and agencies, market information and internal assessments.

Besides being a direct instrument for monitoring credit quality, ratings provide a primary element for the credit risk portfolio model, which summarizes the information on the quality of the assets in risk indicators, including the expected loss and risk capital.

The expected loss is the product of probability of default (derived from the rating), exposure at default and loss given default; the latter is measured with reference to an economic, as opposed to accounting, concept of loss comprehensive of legal costs, calculated prudently on the recoveries from disputes on a discounted base.

The “expected” loss represents the average of the loss distribution, while the risk capital is defined as the maximum “unexpected” loss which the Group could incur with a confidence level of 99.95%.

In terms of the innovations introduced by the proposed revision of the New Basel Capital Accord, SANPAOLO IMI intends to stand for the most advanced approaches to the calculation of the regulatory capital, which also provide for the possibility of using internal ratings for the calculation of the capital requirements. An interfunctional project is

being set up for the purpose of completing the steps still needed in order to comply with Basel II requirements.

As regards the creditworthiness measurement methods, those currently used by the Group appear substantially in line with that set out by the Basel proposal.

**Credit risks**

All of the on- and off-balance sheet credit exposures are measured here. The analysis is developed on the Parent Bank’s portfolio including the former Banco di Napoli, Banca OPI, Sanpaolo IMI Bank Ireland, Sanpaolo Leasint and the Cardine bank networks.

Altogether the credit portfolio analyzed represents about 90% of the Group’s weighted assets.

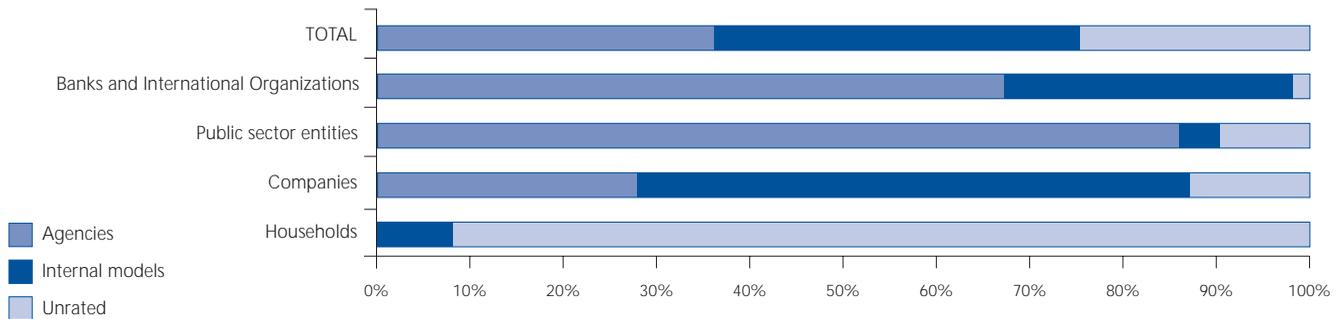
In terms of exposure, the analytical rating covers 75% of the credit portfolio. The unrated counterparties, to whom

a rating estimated on the basis of the average likelihood of insolvency has been assigned, are concentrated in the household sector. Analytical ratings coverage for other sectors is approximately 90%.

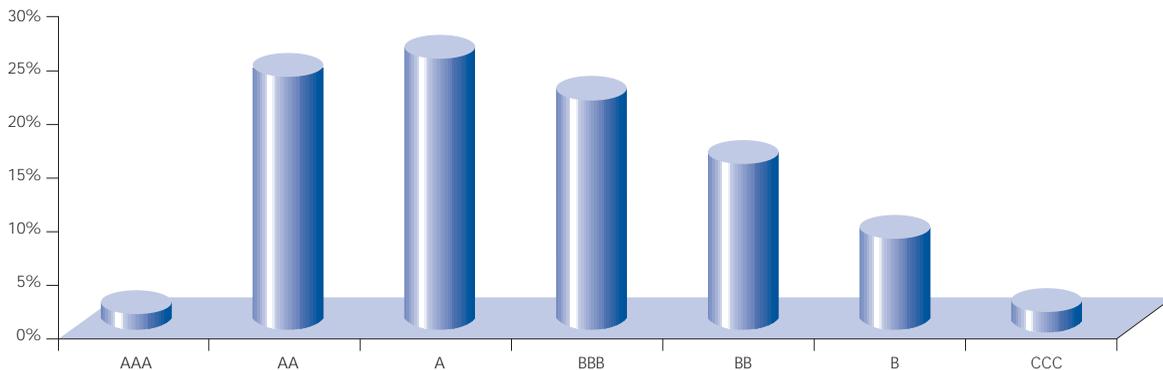
In relation to the combination of analytical ratings, just under half are represented by ratings of specialized agencies, while the remainder are internal ratings; the latter are by large the prevailing ones in the corporate sector.

Loans to customers to which an analytical rating has been assigned, which represent the main reference of the credit risk management model, show a high credit quality, with a portion of investment grade loans (from AAA to BBB) equal to three quarters of the total and substantially stable during the year.

The expected loss of the portfolio considered, at the end of the year, accounted for 0.50% of loans. The expected loss measure has been taken into account in establishing the



**Drawn down loan portfolio by rating source (%)**



**Drawn down loan portfolio by level of rating (%)**

amount of general writedown to cover the inherent risk in performing loans.

The economic capital was equal to 4.20% of loans; on the basis of the impact simulations made, it was substantially in line with the requirement deriving from the current proposal of the New Basel Capital Accord, calculated according to the advanced methods.

The concentration risk fell considerably during the year: exposure towards the first 20 corporate groups registered a reduction of about 2.3 billion euro and, also because of the merger with Cardine, the proportion on the total portfolio fell from 16.5% to 11.4%. This led to a recomposition of the portfolio, on the one hand, toward operators in the public sector and, on the other, small- and medium-sized companies and households.

### The management and control of other risks

SANPAOLO IMI also considers two other types of risk in its models: operational risk and business risk.

Operational risk is defined as the risk of incurring losses as a result of four macro categories of events: fraud, legal risks (including non-performance of contractual obligations), weaknesses in internal control or information systems, and natural calamities. For each category use was made of a database of relevant events occurring in the last ten years and from which it was possible to identify the impact in terms of loss from public information sources. The empirical distributions of losses calculated in this way are estimated by means of distribution theories according to the extreme value theory. The risk capital is defined as the minimum measurement, net of existing insurance policies, needed to face the maximum potential loss with a confidence level of 99.95%; the method also provides for the application of a correction factor to take account of the effectiveness of internal controls in the various operating areas.

It should be pointed out that this method was developed with the intention of allocation to the Business Areas and

to the Group as a whole a quantity of capital adjusted to the potential of these types of events. The control of operating risks is carried out at process level through the definition of internal rules and procedures, the observance of which is verified by the Audit Direction.

The measurement method is evolving, especially with regard to the improvement of statistical calculation engines, the determination of the economic effect linked with the effectiveness and intensity of internal controls and the development of scenario analyses. Work also continues on the extension of the databases related to operating losses and exposure indicators, both through the continuous updating of the internal databases and through the participation in consortium initiatives with leading banking groups for shared use of the same; this activity has been developed at a national level by helping to set up the DIPO (Database Italiano delle Perdite Operative – Italian Database of Operational Losses) Consortium and at an international level by acting as a founder member of the ORX (Operational Riskdata eXchange association) Consortium.

These developments are aligned with the advanced methods of determination of the capital requirements provided for by the proposal of the New Basel Capital Accord and are also consistent with the best practices emerging from the international work groups operating in this field, with which SANPAOLO IMI actively cooperates.

Business risk (also called strategic risk) is the risk of incurring losses as a result of changes in the macro- or micro-economic scenario which could jeopardize the ability to generate income, typically by reduced operating volumes or margin compression.

This is evaluated through the break down of the Business Area assets, on the basis of the respective cost and revenue structures, into fundamental “industrial” business sectors (such as EDP, consulting and distribution). The Business Areas are then allocated a level of capitalization in line with the norm for companies operating in the same type of activity.

## Supplementary information

### Performance of share prices

At the end of December 2002, SANPAOLO IMI's share price was 6.20 euro; this was a fall of 48.5% from the beginning

of the year, against a decline of 27.2% in the MIB bancario. On the same date, the SANPAOLO IMI share traded on a price/book value of 1.1 and a price/earnings, calculated on consensus earnings for 2003, of 11.1.

On 20 March 2003, the quoted price was 6.565 euro, up 5.9% since the start of the year.

### Market comparison

	20/3/2003	30/12/2002	28/12/2001	Change 30/12/02-28/12/01 (%)
SANPAOLO IMI share price (€)	6.565	6.200	12.041	-48.5
Banking index (historical MIB bancario)	1,736	1,727	2,371	-27.2

### SANPAOLO IMI share price (1)

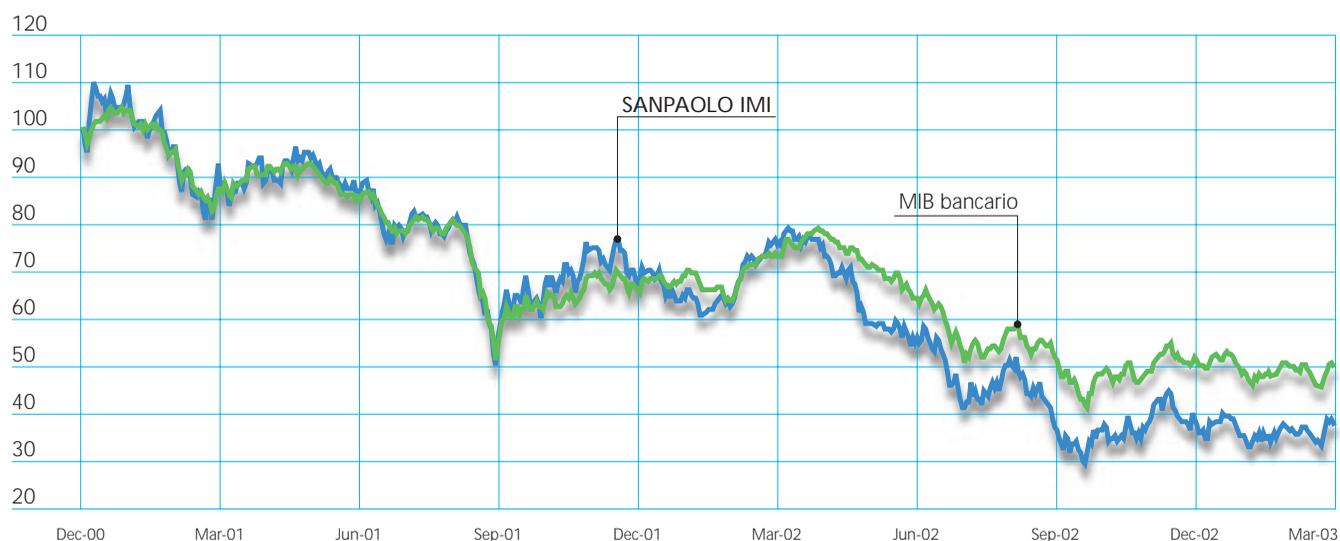
Year	High (€)	Low (€)	Average (€)
1995	5.118	4.025	4.577
1996	5.269	4.236	4.766
1997	8.800	4.564	6.275
1998	16.274	8.717	12.429
1999	16.071	10.970	13.192
2000	20.800	11.483	16.612
2001	18.893	8.764	14.375
2002	13.702	5.231	9.439
2003 (up to 20/3/2003)	7.029	5.796	6.386

### SANPAOLO IMI market indices

	30/12/2002	28/12/2001
Price/book value	1.1	2.2
Price/earnings on consensus earnings (2)	11.1	13.8

(1) Share prices before 2 November 1999 have been adjusted for the real estate spin-off.

(2) Calculated on consensus earnings 2003 for 30/12/2002 and on consensus earnings 2002 for 28/12/2001.



SANPAOLO IMI share price and MIB bancario (29/12/00=100)

## Shareholders

As of 31 December 2002 the shareholder structure of SANPAOLO IMI, based on available information, was as follows:

### *Shareholders of SANPAOLO IMI*

	% of capital	
	total	ordinary
Compagnia di San Paolo	14.48	7.50
Fondazione CR Padova e Rovigo	10.80	4.38
Fondazione CR Bologna	7.69	3.12
Santander Central Hispano	5.17	6.55
IFI / IFIL	3.83	4.86
Deutsche Bank	3.68	4.67
Ente CR Firenze	2.06	2.61
Fondazione Cariplo	1.75	2.21
Caisse des Dépôts et Consignations (CDC)	1.70	2.16
Templeton Global Advisers	1.54	1.95
Società Reale Mutua di Assicurazioni	1.54	1.95
Fondazione CR Venezia	1.47	1.87
Other shareholders (1)	44.29	56.17
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(1) Includes own shares held by the Group.

After 31/12/2002 information was received confirming that Monte dei Paschi di Siena holds a 1.60% share of the total capital.

## Ratings

The following table shows the main ratings assigned to the debt of SANPAOLO IMI.

### *SANPAOLO IMI debt ratings*

Fitch	
• Short-term debt	F1+
• Medium/long-term debt (senior)	AA-
Moody's Investors Service	
• Short-term debt	P-1
• Medium/long-term debt (senior)	Aa3
Standard & Poor's	
• Short-term debt	A-1
• Medium/long-term debt (senior)	A+

Concerning Group companies, in 2002 Moody's and Standard & Poor's evaluated the debt of Sanpaolo IMI Bank International and Banca OPI, assigning the companies the same ratings as SANPAOLO IMI.

## Transactions with related parties

The transactions entered into with "related parties" of a typical or usual nature, as governed and established by the Consob (Communications dated 20 February 1997, 27 February 1998, 6 April 2001 and 30 September 2002) lie within the scope of the normal operations of the Group and are usually entered into under market conditions, on the basis of valuations made for mutual economic convenience, also in observance of the internal procedure provided for this purpose.

In particular, as far as intra-Group transactions are concerned, reciprocal relations between the principal company groups into which the SANPAOLO IMI banking Group is divided can be attributed to the ordinary internal operations of a multifunctional banking organization, and principally concern:

- support by SANPAOLO IMI for the financial needs of the other Group companies, both in the form of loans (37% of total Group companies balances existing at the end of the year), both in the form of subscription of securities issued by the subsidiaries (6.4% of total Group companies balances existing at the end of the year);
- the channeling of foreign funding made by the Group's specialist companies (Sanpaolo IMI US Financial Co., Sanpaolo IMI Bank International S.A., Sanpaolo IMI Capital Company I L.L.C.) towards the Parent Bank and, in a minimal part, towards other subsidiaries (26% of total Group companies balances existing at the end of the year);
- the lending transactions of the liquidity of subsidiaries with the Parent Bank in the forms of current accounts, deposits and repurchase agreements (21% of total Group companies balances existing at the end of the year).

The following tables show the balance sheet and income balances for relations existing as of 31 December 2002 between the principal company groups of the banking Group.

Information related to relations existing with the subsidiaries not consolidated on a line-by-line basis, as well as with affiliated companies subject to significant influence, are reported in the Explanatory Notes to the Consolidated Financial Statements (Part B – Section 3).

The Explanatory Notes to the Parent Bank Financial Statements (Part B – Section 3) report the analytical list of

relations existing between the Parent Bank and the affiliated companies, subsidiaries or companies subject to significant influence.

During the year the Group has entered into transactions with related parties of particular relevance as regards the organizational-business model and/or relations with the Parent Bank shareholders.

These transactions, reference to some of which has already been made to within this Report, regarded:

- the conferral from Cardine Banca to Cardine Finanziaria of the company branch inclusive of the shareholdings in the bank networks of the former Cardine group, within the context of the reorganization connected with the merger;
- the conferral from Banco di Napoli to Esaban of the company branch concerning tax collection activities;

### Balances as of 31/12/2002 of infra-Group transactions between the Group's main company groups (1)

Borrowers	Parent Bank	Foreign funding vehicles (2)	Cardine Finanziaria Group	Banca OPI	Banca IMI Group	Wealth Management Group	Banca Fideuram Group	Other	TOTAL
€/mil									
Creditors									
<b>Loans</b>									
Parent Bank	-	-	1,552	6,262	2,139	190	1	7,027	17,171
Foreign funding vehicles (2)	11,825	-	-	157	-	-	-	125	12,107
Cardine Finanziaria Group	5,472	-	-	-	9	-	-	84	5,565
Banca OPI	232	-	-	-	-	-	-	150	382
Banca IMI Group	1,477	-	2	50	-	5	-	29	1,563
Wealth Management Group	2,648	-	1	-	5	-	-	630	3,284
Banca Fideuram Group	146	-	-	-	672	-	-	69	887
Other	601	-	48	-	30	23	30	-	732
<b>TOTAL</b>	<b>22,401</b>	<b>-</b>	<b>1,603</b>	<b>6,469</b>	<b>2,855</b>	<b>218</b>	<b>31</b>	<b>8,114</b>	<b>41,691</b>
<b>Securities</b>									
Parent Bank	-	51	56	2,843	1	-	-	3	2,954
Foreign funding vehicles (2)	-	-	-	-	-	-	-	-	-
Cardine Finanziaria Group	-	-	-	-	-	-	-	-	-
Banca OPI	-	-	-	-	-	-	-	-	-
Banca IMI Group	249	4	13	-	-	-	1	2	269
Wealth Management Group	6	79	-	-	-	-	-	-	85
Banca Fideuram Group	42	14	-	-	697	-	-	-	753
Other	10	-	2	-	-	-	-	-	12
<b>TOTAL</b>	<b>307</b>	<b>148</b>	<b>71</b>	<b>2,843</b>	<b>698</b>	<b>-</b>	<b>1</b>	<b>5</b>	<b>4,073</b>
<b>Other</b>									
Parent Bank	-	147	2	38	8	138	1	13	347
Foreign funding vehicles (2)	50	-	-	-	-	-	-	-	50
Cardine Finanziaria Group	66	-	-	-	-	-	-	5	71
Banca OPI	-	-	-	-	-	-	-	-	-
Banca IMI Group	23	-	6	-	-	1	2	-	32
Wealth Management Group	6	-	-	-	-	-	-	3	9
Banca Fideuram Group	1	-	-	-	2	9	-	-	12
Other	94	-	-	-	-	-	-	-	94
<b>TOTAL</b>	<b>240</b>	<b>147</b>	<b>8</b>	<b>38</b>	<b>10</b>	<b>148</b>	<b>3</b>	<b>21</b>	<b>615</b>

(1) The groups shown refer exclusively to companies consolidated on a line-by-line basis and do not include the amounts referable to shareholdings and dividends. The tables do not show the transactions performed within the individual groups, as they are compensated.

(2) Sanpaolo IMI US Financial Co., Sanpaolo IMI Bank (International) S.A., Sanpaolo IMI Capital Company I L.l.c..

- the conferral from the Parent Bank to Banca Fideuram of the total shareholding in the subsidiary Banca Sanpaolo Invest;
- the conferral by the Banco di Napoli of the total shareholding in the subsidiary Banco di Napoli Asset Management to Sanpaolo IMI Wealth Management.
- the sale of a 30% shareholding in Sanpaolo IMI Institutional Asset Management by Fideuram Capital SIM (a Banca Fideuram subsidiary) to Sanpaolo IMI Wealth Management, for an outlay of 8 million euro;
- the agreement with Cassa di Risparmio di Firenze for the acquisition of the 20.24% shareholding of Eptaconsors held by the Florentine group. This transaction was completed in January 2003 at a price of 19 million euro;
- the sale, by the Parent Bank, to the shareholder Compagnia di San Paolo of a portion of the shareholding

### Economic components for 2002 in relation to infra-Group transactions between the Group's main company groups (1)

Companies that sustain costs	Parent Bank	Foreign funding vehicles (2)	Cardine Finanziaria Group	Banca OPI	Banca IMI Group	Wealth Management Group	Banca Fideuram Group	Other	TOTAL
<i>€/mil</i>									
Companies that receive revenues									
<b>Interest</b>									
Parent Bank	-	1	17	275	124	14	-	140	571
Foreign funding vehicles (2)	378	-	-	11	-	-	-	4	393
Cardine Finanziaria Group	146	-	-	-	4	-	-	6	156
Banca OPI	8	-	-	-	1	-	-	1	10
Banca IMI Group	33	-	-	2	-	-	1	-	36
Wealth Management Group	58	-	-	-	1	-	-	39	98
Banca Fideuram Group	9	-	-	2	34	-	-	7	52
Other	23	-	2	-	3	3	-	-	31
<b>TOTAL</b>	<b>655</b>	<b>1</b>	<b>19</b>	<b>290</b>	<b>167</b>	<b>17</b>	<b>1</b>	<b>197</b>	<b>1,347</b>
<b>Commission</b>									
Parent Bank	-	-	-	1	33	550	-	4	588
Foreign funding vehicles (2)	-	-	-	-	-	-	-	-	-
Cardine Finanziaria Group	1	-	-	-	11	-	-	5	17
Banca OPI	-	-	-	-	-	-	-	-	-
Banca IMI Group	7	-	1	-	-	3	-	1	12
Wealth Management Group	1	-	-	-	-	-	1	-	2
Banca Fideuram Group	1	-	-	-	7	45	-	-	53
Other	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>10</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>51</b>	<b>598</b>	<b>1</b>	<b>10</b>	<b>672</b>
<b>Other revenues/costs</b>									
Parent Bank	-	-	40	5	1	9	3	6	64
Foreign funding vehicles (2)	-	-	-	-	-	-	-	-	-
Cardine Finanziaria Group	36	-	-	-	-	-	-	12	48
Banca OPI	-	-	-	-	-	-	-	-	-
Banca IMI Group	-	-	-	-	-	-	1	-	1
Wealth Management Group	1	-	-	-	-	-	-	-	1
Banca Fideuram Group	-	-	-	-	-	-	-	-	-
Other	13	-	-	-	-	-	1	-	14
<b>TOTAL</b>	<b>50</b>	<b>-</b>	<b>40</b>	<b>5</b>	<b>1</b>	<b>9</b>	<b>5</b>	<b>18</b>	<b>128</b>

(1) The groups shown refer exclusively to companies consolidated on a line-by-line basis and do not include the amounts referable to shareholders and dividends. The tables do not show the transactions performed within the individual groups, as they are compensated.

(2) Sanpaolo IMI US Financial Co., Sanpaolo IMI Bank (International) S.A., Sanpaolo IMI Capital Company I L.L.C..

- in Cardine Banca (before the merger), amounting to 8% of the capital of the latter, for a price of 440 million euro;
- the purchase by the Parent Bank, for a cost of 230 million euro, of 100% of the share held by the shareholder Compagnia di San Paolo in Compagnia di San Paolo Investimenti Patrimoniali S.p.A.. The company was subsequently transferred to Banca OPI and changed its name to FIN.OPI;
- the purchase by the Parent Bank of the minority shares held in Sanpaolo IMI Private Equity (formerly NHS) by Cassa di Risparmio di Firenze (5% for a price of 14 million euro), by Compagnia di San Paolo (two tranches for a total of 39.8 % for a total outlay of 101 million euro), by Petrolifera Italo Rumena, a company attributable to a director of the Parent Bank (1.7% for a price of 5 million euro) and by other partners (2.5% of the capital);
- the purchase by the Parent Bank of the minority shares held in IMI Investimenti by Compagnia di San Paolo (39.8% for a total price of 145 million euro), by Cassa di Risparmio di Firenze (exchange of 915,023 Cardine Banca shares against 3,861,228 IMI Investimenti shares, 5% of the capital), Petrolifera Italo Rumena, (1.7% for a price of 6 million euro) and by other partners (2.5% of the capital).

The above-mentioned transactions were performed on the basis of evaluations and appraisals carried out by independent experts.

As regards transactions with subjects who fulfill administrative, managerial, and executive duties for the Bank, or for banking Group companies, these are governed by the provisions of Article 136 of D.Lgs. 385/93 (Testo Unico Bancario – Consolidated Banking Law). Accordingly, any such transactions were the subject of unanimous decisions by the Board of Directors, with the favorable vote of all of the Statutory Auditors, subject to the abstention obligations provided by said law. The same procedure also applies to the parties who carry out the administrative, managerial, and executive duties within a bank or a company belonging to the Group, for actions taken in connection with the company itself or for financing transactions entered into with other companies or banks within the Group. In such cases, the transactions were approved by the boards of the contracting company or bank, with the prior consent of the Parent Bank.

Section D of the Explanatory Notes to the Parent Bank Financial Statements report the loans and guarantees issued to Directors and Auditors of the Parent Bank.

The same section of the Explanatory Notes also reports, in accordance with art. 78 of Consob Resolution 11971 of 14/5/99, the remuneration of the Directors and Auditors of the Parent Bank.

The shares of the Parent Bank and subsidiaries, held by Administrators and Auditors of the Parent Bank and by others, as provided for by art. 79 of Consob Resolution 11971 of 14/5/99, are detailed in the table on the next page.

### Offices held by Directors in other companies

In accordance with the recommendations of the Code of Conduct for Listed Companies issued by Borsa Italiana S.p.A., Section D of the Explanatory Notes to the Parent Bank Financial Statements reports the list of the offices of Director or Auditor held by the Directors of SANPAOLO IMI in other companies listed in regulated markets (also foreign), in financial, banking, insurance and other significant-sized companies.

### Stock incentive plans

The Shareholders' Meeting, held on 31 July 1998, authorized the Board of Directors to make stock incentive (stock option) plans in favor of Group executives, resorting to increases in capital against payment up to a maximum amount subsequently established as 40 million euro, corresponding to 14,285,714 shares.

On the strength of this power of attorney, the Board of Directors:

- in the meeting held on 9 February 1999, presented a first plan, assigning to the Managing Directors, inasmuch as General Managers, and to other 56 executives, a total of 6,772,000 rights exercisable for one third as of 2000, for one third as of 2001 and for the remaining third as of 2002 and no later than 31 March 2003 (extended to 31 March 2004 with resolution of the Board of Directors of 30 July 2002), at a subscription price of 12.396 euro per share;
- in the meeting of 27 June 2000, it presented a second plan, assigned to the Managing Directors, inasmuch as General Managers, and to 122 other executives, 3,378,270 rights exercisable as of 2003 and no later than 31 March 2005, at a subscription price of 16.45573 euro per share;

*Shares held by individuals as per Article 79 of Consob Resolution no. 11971 of 14/5/99 (1)*

Surname and name	Company	How held	Title to shares	Shares held on 31/12/01	Shares bought during 2002	Shares sold during 2002	Shares held as of 31/12/02
Bussolotto Pio	SANPAOLO IMI	Direct	Full	3,000			3,000
Carmi Alberto	SANPAOLO IMI	Spouse	Full	10,000			10,000
Fontana Giuseppe	SANPAOLO IMI	Direct	Full	-	30,000	30,000	-
Iozzo Alfonso	SANPAOLO IMI	Direct	Full	7,087			7,087
Masera Rainer	SANPAOLO IMI	Direct Spouse	Full Full	180,900 27,500		30,900	150,000 27,500
Matutes Abel	SANPAOLO IMI	Subsidiary	Full	761,517			761,517
Mihalich Iti	SANPAOLO IMI	Direct	Full	6,000	2,000		8,000
Ottolenghi Emilio	SANPAOLO IMI	Direct Subsidiary Spouse	Full Full Full	320,000 4,110,000 4,000	548,731 (2)		320,000 4,658,731 4,000
Rayneri Alessandro	SANPAOLO IMI	Subsidiary Spouse	Full Full	15,000	3,000 2,000		18,000 2,000
Rossi Orazio	SANPAOLO IMI	Direct Spouse	Full Full	52,593.50		0.50 34,000	52,593 34,000
Sacchi Morsiani Gian Guido	SANPAOLO IMI	Direct	Full	33,000	200,591.25 (2)	33,591.25	200,000
Salza Enrico	SANPAOLO IMI	Direct Spouse	Full Full	500 1,250			500 1,250

(1) Shares held in the issuing company and in its subsidiaries by Directors, Statutory Auditors, Managing Directors and by their not legally divorced spouses and minor sons, directly, through a subsidiary, a trust or a third party.

(2) Shares from the exchange of Cardine Banca shares.

*Development of stock option plans in 2002*

	Number of shares	Average exercise price (€)	Market price (€)
Rights existing as of 1/1/2002	11,654,104	13.66497	12.041 (a)
New rights assigned in 2002 to Executives	5,455,000	7.1264	6.703 (b)
New rights assigned to the Chairman and Managing Directors	1,650,000	12.6244	11.742 (c)
Rights exercised in 2002	0		-
Rights lapsed in 2002 (d)	-245,000	14.3989	-
(5) Rights existing as of 31/12/2002	18,514,104	10.9061	6.200 (e)
(6) Of which: exercisable as of 31/12/2002 (f)	0		-

(a) Reference market price as of 31/12/2001.

(b) Reference market price as of 18/12/2002, first day after the resolution of the Board of Directors.

(c) Reference market price as of 15/05/2002, first day after the resolution of the Board of Directors.

(d) Rights no longer exercisable because holders no longer work for the Bank.

(e) Reference market price as of 31/12/2002.

(f) No rights were exercisable as of 31/12/2002, in that the date is not included in the infra-annual periods in which rights may be exercised. As of 31/12/2002, 4,305,834 residual rights for exercise (at a price of 12.396 Euro) in 2002 existed; these rights will again be exercisable from 2003.

*Detail of rights by exercise price and residual maturity*

Exercise price (€)	Rights assigned as of 31/12/2002				Total	of which: exercisable as of 31/12/2002	
	Minimum remaining contractual validity					Total	Average residual contractual maturity
	February 2003 - March 2004 (a)	May 2003 - March 2005	May 2004 - March 2006	May 2005 - March 2007			
12.396	4,305,834	-	-	-	4,305,834	-	-
16.45573	-	3,208,270	-	-	3,208,270	-	-
12.7229	-	-	3,895,000	-	3,895,000	-	-
12.6244	-	-	1,650,000	-	1,650,000	-	-
7.1264	-	-	-	5,455,000	5,455,000	-	-
<b>Total</b>	<b>4,305,834</b>	<b>3,208,270</b>	<b>5,545,000</b>	<b>5,455,000</b>	<b>18,514,104</b>	<b>-</b>	<b>-</b>

(a) The Board of Directors has postponed the deadline for exercising the 1999 plan from March 2003 to March 2004.

- on 18 December 2001, it approved a third stock option plan, assigning to 171 Group executives, of which about 40 employees of subsidiaries, 4,030,000 rights exercisable after the detachment of the dividend for 2003 and no later than 31 March 2006, at a price of 12.7229 euro.

The Shareholders' Meeting, held on 30 April 2002, conferred a new power of attorney to the Board of Directors to make stock incentive plans in favor of Group executives, resorting to increases in capital against payment up to a maximum amount of 51,440,648 million euro, corresponding to 18,371,660 shares.

On the strength of this power of attorney the Board of Directors, on 17 December 2002, presented a new stock option plan, structured thus:

- recipients: 291 Group executives, of which about 77 employees of subsidiaries, in relation to the office held;
- rights assigned: 8,280,000, of which 5,455,000 fixed and 2,825,000 with effective exercise subordinated to the achievement of the Group's ROE and cost income targets for 2003;
- exercise of rights: after the detachment of the dividend for 2004 and no later than 31 March 2007; the exercise of the rights is permitted in the context of four periods during the year, each lasting 25 days, following approval of the Group's quarterly/half-year results;
- share subscription price: 7.1264 euro, corresponding to the average of SANPAOLO IMI's share prices in the month before approval of the plan;
- restrictions: the exercise of the rights is subject to restrictions and cancellations, described in detail in the plan regulations, principally linked with the transferability of the rights and the organizational role of the beneficiaries.

Furthermore, the Board of Directors, on 14 May 2002, presented a stock option plan for the Chairman and the Managing Directors, for the 2001-2003 three-year period, on the basis of the power of attorney approved by the Ordinary meeting of 30 April 2002 to use own shares at the service of the same plan.

The plan thus presented, has the following characteristics:

- total rights: 2,200,000 own shares;
- recipients and assignable quantities:
  - Dr. Rainer MASERA, Alfonso IOZZO, Luigi MARANZANA: 450,000 total fixed rights each for the 2001-

2003 three-year period, plus another 150,000 total rights each for the three-year period upon achieving an average share price (in the thirty days before the Meeting to approve the 2003 financial statements) of 20 euro;

- Pio BUSSOLOTTO: 300,000 total fixed rights for the remaining part of the 2001-2003 three-year period, with the possibility for increase by 100,000 rights at the same conditions stated above;
- purchase price: arithmetic average of the prices during the last month before the Board's approval of the plan, which amounts to 12.6244 euro;
- periods of exercise of rights: at the end of the 2001/2003 three-year period, after the detachment of the dividend for 2003 and before approval by the Board of Directors of the 2005 financial statements and no later than 31 March 2006;
- restrictions: non-admissible inter vivos transferability of the rights; forfeiture of the rights in the event of termination of office before expiry of the mandate; faculty of the Board of Directors, upon proposal of the Remuneration and Personnel Policies Technical Committee and having heard the opinion of the Board of Auditors, to confirm the rights, establishing the measure, taking account of the period of office already covered and the reasons determining the interruption of the same office.

In 2002 the Board of Directors approved the first stock granting operation of SANPAOLO IMI shares to all Parent Bank personnel in service on 27 June 2002. The initiative, application for which was voluntary, was connected with the 2001 company production premium issued in May 2002.

The assignment of free shares, stock granting, (unavailable for three years) involved 14,427 employees, 72.5% of those entitled. On the basis of the initiative regulations, personnel received 1,912,373 shares with a reference cost per unit of 10.0196 euro (calculated according to the current tax standards) for a commitment of 19.2 million euro.

Lastly, the Board of Directors on 4 March 2003 approved the repetition of the stock granting operation to Parent Bank personnel, with voluntary application, for a cost graduated in relation to the individual level of remuneration, providing for a connection with the 2002 company production premium which will be issued in 2003.

# Group Business Areas

## Organization by Business Areas

As of 26 March 2002 the SANPAOLO IMI Group has adopted a new organizational model, in order to enable rapid achievement of the benefits deriving from the merger with Cardine. The new model, based on the exploitation of capacity for customer relationship and service, specialization of the production, distribution and service units' skills and responsibility and measurement of results, is structured in four business sectors:

- Domestic Banking Networks, including: the Sanpaolo Network, which is widespread in North Western Italy, Cardine, rooted in the North East, and the network of the former Banco di Napoli, (merged into the Parent Bank on 31 December 2002, with effect for accounting purposes as of 1 January 2002) operating in the Southern regions. The three networks, dedicated to the service of retail and business markets, provide excellent national coverage through approximately 3,000 banking branches and an integrated multi-channel infrastructure. The banking networks are flanked by specialist units to serve domestic clients: Banca OPI, which provides consultancy and medium- and long-term financing to public bodies and infrastructure, tax collection, as well as, within the Sanpaolo Network and Consumer Banking, companies operating in private banking, consumer credit, and leasing. This sector also includes the Other Italian Networks, which handles the Group's shareholdings in Cassa di Risparmio di Firenze and in Cassa dei Risparmi di Forlì, as well as Large Groups and Structured Finance;
- Personal Financial Services, with activities carried out by the networks of financial planners of the Banca Fideuram group (which, since October 2002, includes Banca Sanpaolo Invest) to serve customers with a medium/high savings potential;
- Wealth Management and Financial Markets which include: the Sanpaolo IMI Wealth Management companies, dedicated to providing asset management products to the Group networks and associated networks, as well as institutional investors and other networks; Eptaconsors, 60.7% held, operating mainly in corporate finance, asset management, securities dealing and trading on line; Banca IMI, the Group's investment bank, whose business priorities concern, on the one side, the supply of specialist services to companies and institutional customers and, on the other, the development of structured products distributed to retail customers and

companies through the Group's networks; Sanpaolo IMI Private Equity (previously NHS), in which the private equity activities of the Group have been concentrated;

- International Activities, which include the French subsidiary Banque Sanpaolo, the Parent Bank's Foreign Network, limited to corporate lending, and Sanpaolo IMI Internazionale, established to develop the presence in foreign countries of strategic interest through appropriate growth initiatives, in particular acquisitions and alliances. Holding activities, finance, the Macchina Operativa Integrata and the management of property, shareholding investments and Group's lending policy, are included in the Central Functions.

## Criteria for calculating the profitability of the Business Areas

The income statement by Business Areas has been prepared as follows:

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, consolidation of the accounts of the Parent Bank attributable to the relevant Area has been effected with the income statement line items of the subsidiary companies. The attribution to individual Areas of Parent Bank line items, in particular, is made on the basis of the following principles:
  - the net interest income has been calculated using appropriate internal transfer rates;
  - in addition to commissions in effect, notional commissions for services rendered by one Area to another have also been quantified;
  - the direct costs of each Area have been calculated and, according to parameters, operating costs of the central structures other than those attributable to holding company functions, have been allocated to the Areas;
- for those Areas whose business is carried out wholly by subsidiaries, the income statements of the companies are reported; their contribution to consolidated net income is also shown, net of minority interest and after the posting of consolidation attributable to the Area; amortization of goodwill consequent upon investments made directly by the Parent Bank in the Areas has thus been allocated to Central Functions.

Capital has also been attributed to each Area according to the following criteria:

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, consolidation of the average economic capital of the Parent Bank with

that of the subsidiaries has been effected. The capital is measured according to VaR, distinguishing among the different types of risk: credit risk, market risks and operational risks;

- for those Areas whose business is carried out exclusively by subsidiaries, reference is made to the average accounting net shareholders' equity (including income for the year).

In allocating capital to the Areas of the Parent Bank, the risks have been wholly covered with primary capital.

Finally, the profitability of each Area has been calculated. In particular:

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, profitability has been expressed in terms of RORAC (Return On Risk Adjusted Capital), reporting the Area's contribution to net income of the Group to the relative economic capital quantified according to VaR;

- for those Areas whose business is carried out exclusively by subsidiaries, profitability has been expressed in terms of RoE (Return on Equity), reporting the Area's contribution to net income of the Group to the respective average accounting net shareholders' equity (including income for the year), consistently with the principles adopted for the Group.

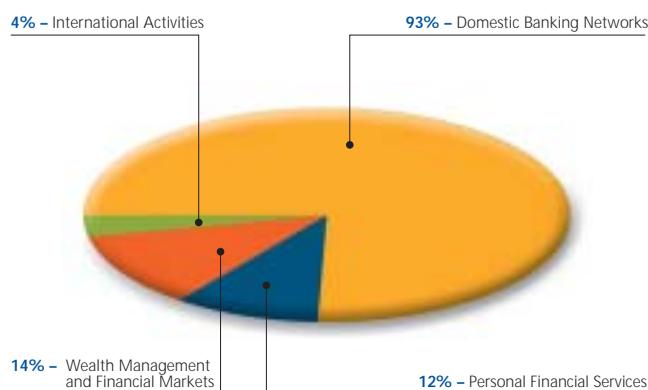
## Results of the Business Areas

The table below summarizes the economic results and the profitability ratios for the sectors in which the Group has operated.

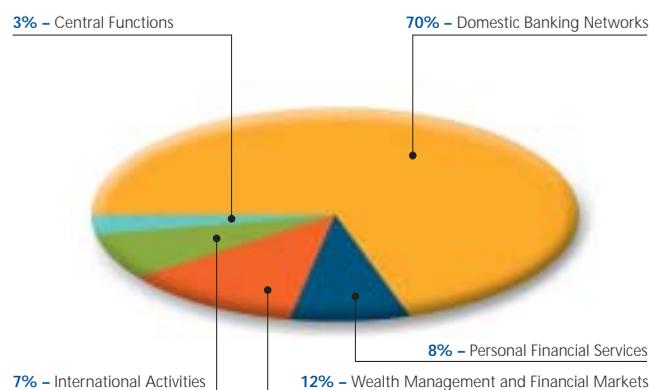
Where necessary, the figures used to evaluate the performance compared with the previous year have been consistently reconstructed, assuming that the new organizational model was launched as of 1/1/2001.

	Contribution to net income of the Group			Average capital		Profitability	
	2002 (€/mil)	2001 (€/mil)	Change 2002 / 2001 (%)	2002 (€/mil)	2001 (€/mil)	2002 (%)	2001 (%)
<b>DOMESTIC BANKING NETWORKS</b>	830	909	-8.7	7,544	7,431	11.0	12.2
<b>PERSONAL FINANCIAL SERVICES</b>	111	191	-41.9	789	806	14.1	23.7
<b>WEALTH MANAGEMENT AND FINANCIAL MARKETS</b>	125	257	-51.4	1,268	1,268	9.9	20.3
<b>INTERNATIONAL ACTIVITIES</b>	40	44	-9.1	789	794	5.1	5.5
<b>CENTRAL FUNCTIONS (1)</b>	-217	-25	n.s.	345	395	n.s.	n.s.
<b>GROUP TOTAL</b>	<b>889</b>	<b>1,376</b>	<b>-35.4</b>	<b>10,735</b>	<b>10,694</b>	<b>8.3</b>	<b>12.9</b>

(1) These include holding activities, finance, the Macchina Operativa Integrata, the management of property and shareholding investments and Group postings; the results for 2002 include, among revenue components, the use of the reserves for general banking risks and, among cost components, devaluations of the listed investment portfolio.



Net income 2002 by business sectors (2)



Allocated capital 2002 by business sectors

(2) The chart does not include the Central Functions which present a negative value; the percentages of Domestic Banking Networks, Personal Financial Services, Wealth Management and Financial Markets, International Activities are calculated relating the contribution of each one to the net income (889 million euro).

## Domestic Banking Networks

### Sanpaolo Network and Consumer Banking

In 2002 the Sanpaolo Network and Consumer Banking Area operated according to an activity setting comprising the following business units:

- the Sanpaolo Network, consisting of the over 1,390 branches of the Parent Bank; according to a commercial specialization, it includes, besides the branches performing activities for retail customers, the 129 branches

and 61 detached teams dedicated to companies and the 17 operating points specialized in serving the private sector. The Network is supported by Internet, phone and mobile banking direct channels;

- the subsidiaries operating in consumer credit (Finemiro Banca and Finconsumo Banca; the 50% stake held by SANPAOLO IMI in the latter will be sold to SCH, by effect of the agreement reached in March 2003), leasing (Sanpaolo Leasing which incorporated Cardine Leasing on 1 October) and international private banking (Sanpaolo Bank Luxembourg, Sanpaolo Bank Austria and Sanpaolo Bank Switzerland).

	Sanpaolo Network and Consumer Banking			of which: Sanpaolo Network (1)		
	2002	2001	Change 2002 / 2001 (%)	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>						
Net interest and other banking income	3,088	3,090	-0.1	2,713	2,753	-1.5
Operating costs	-1,918	-1,929	-0.6	-1,764	-1,776	-0.7
Operating income	1,170	1,161	+0.8	949	977	-2.9
Provisions and net adjustments to loans and financial fixed assets	-276	-232	+19.0	-206	-215	-4.2
Income before extraordinary items	894	929	-3.8	743	762	-2.5
Net extraordinary income	2	7	-71.4	-6	8	n.s.
Income before taxes	896	936	-4.3	737	770	-4.3
Income taxes for the period	-407	-421	-3.3	-357	-368	-3.0
Change in reserves for general banking risks and income attributable to minority interests	-	-2	n.s.	-	-	-
Net income	489	513	-4.7	380	402	-5.5
<b>ALLOCATED CAPITAL (€/mil)</b>	2,660	2,702	-1.6	2,031	2,060	-1.4
<b>RATIOS (%)</b>						
RoRAC	18.4	19.0		18.7	19.5	
Cost / Income ratio	62.3	62.6		65.0	64.5	
	31/12/2002	31/12/2001	Change 31/12/02-31/12/01 (%)	31/12/2002	31/12/2001	Change 31/12/02-31/12/01 (%)
<b>OPERATING DATA (€/mil)</b>						
Customer financial assets	152,899	154,347	-0.9	147,129	147,823	-0.5
- Direct deposits	37,799	36,505	+3.5	33,919	32,548	+4.2
- Asset management	60,884	65,236	-6.7	60,602	64,583	-6.2
- <i>Mutual funds and fund-based portfolio management</i>	45,444	52,566	-13.5	45,320	52,310	-13.4
- <i>Portfolio management</i>	3,597	4,462	-19.4	3,439	4,065	-15.4
- <i>Life technical reserves</i>	11,843	8,208	+44.3	11,843	8,208	+44.3
- Asset administration	54,216	52,606	+3.1	52,608	50,692	+3.8
Net asset management flows	-220	2,841		-41	2,916	
Net loans to customers excluding NPLs	46,663	43,766	+6.6	43,257	39,053	+10.8
<b>OPERATING STRUCTURE</b>						
Employees	17,638	17,809	-1.0	16,388	16,644	-1.5
Domestic branches	1,416	1,401	+1.1	1,390	1,376	+1.0

(1) Including business with companies with turnover in excess of 250 million euro and the depositary bank.

Altogether, during 2002, the Sanpaolo Network and Consumer Banking posted net income of 489 million euro, a drop of 4.7% in comparison with the previous year. This drop is mainly attributable to the increase in provisions by the companies operating in the consumer credit sector. The profitability of the Area, expressed in terms of RORAC, was 18.4%.

Regarding the Sanpaolo Network in particular, the major initiatives undertaken during the year were aimed on the one hand at strengthening the market position in terms of private and retail customers and, on the other, at the development of relations with companies with appropriate creditworthiness. The Sanpaolo Network also implemented activities in preparation for integration with the distribution structures of Banco di Napoli in view of the merger by incorporation of the Neapolitan bank on 31 December 2002.

The strengthening of the market position in terms of private customers was mainly sought through:

- the specialization of the distribution model by customer segments. That will be achieved continuing a project which will be completed in 2003, aimed at the expansion of the network dedicated to private customers and to the creation, within the retail branches, of modules specialized in serving the customers of the various markets: private, affluent, family and small entrepreneurs;
- the provision to branches of customer relationship support tools. A project providing for adoption by branches of evolved models for the evaluation of the customer financial profile is in the advanced stages;
- the expansion of the range of services offered: in line with market needs, new protected capital investment products as well as new retail mortgages for households were introduced;
- the spread of multi-channel infrastructures: at the end of December direct banking contracts rose to 325,000, with an increase of more than 145,000 since the beginning of the year.

The development of operations with companies was pursued with the launch of targeted commercial projects, the most relevant of these being:

- the initiative aimed at expanding the range of financial instruments dedicated to hedging and investment;
- the activity aimed at spreading the use of direct channels; Internet banking contracts with companies and small entrepreneurs exceeded 19,000 at the end of the year compared with 8,500 at the beginning of the year.

Significant efforts were also made towards the integration between the Sanpaolo Network distribution structures and those of the former Banco di Napoli Italian Network. Waiting for the unification of the two networks' IT systems, which will take place in the first half of 2003, criteria for the unified management of the territory and commercial policies were defined. The Sanpaolo Network in particular was reorganized into 23 territorial areas, 4 of which operating in the Southern Italian regions traditionally served by Banco di Napoli, each with unitary responsibility for both Sanpaolo and Banco di Napoli branches.

Under the operational profile, Sanpaolo Network customer financial assets showed a recomposition of asset management (-6.2%), in favor of asset administration (+3.8%) and sight deposits (+4.2%). Loans to customers were up 10.8% on the end of December 2001; in this context retail mortgages for households showed a positive trend, with disbursements for 1.9 million euro in the 12 months and a 21% increase in the amounts.

The income results of the Sanpaolo Network realized during the year fell compared with 2001, having suffered from the lower contribution of direct deposits due to the reduction of the mark down, and to the lower flow of commissions from asset management. The reduction of net interest and other banking income (-1.5%) was partially compensated by savings on operating costs (-0.7%) and by lower levels of provisions and adjustments (-4.2%). Net income reached 380 million euro, compared with the 402 million euro of 2001, with a RORAC of 18.7%.

### Cardine

Cardine operates in North East Italy, through the 841 branches of the seven bank networks: Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Cassa di Risparmio di Udine e Pordenone, Cassa di Risparmio di Gorizia, Banca Agricola di Cerea and Banca Popolare dell'Adriatico.

During the year, Cardine performed the activities associated with its integration with the SANPAOLO IMI Group, with the rationalization of its operations and with the focusing on its business of reference. The main initiatives were aimed at:

- the implementation of an optimal organizational model to fulfill the duties assigned to Cardine Finanziaria within the Group. These include assisting the Parent Bank in direction, governance and control of the bank networks as well as, during the initial phase, providing support to

these banks in the IT sector, as well as for administrative, accounting and logistical functions;

- the performance of activities connected with the realization of the Macchina Operativa Integrata project;
- the improvement of the customer service capacity. The implementation of the commercial arrangement was concluded in the last part of the year with the adoption of a new distribution model articulated by customer segments and based upon the management of customer portfolios by specialized consultants. In this con-

text, activities were primarily aimed at programming and realizing projects focused on developing revenues from retail customers, through the sharing of SANPAOLO IMI's products and know how.

During 2002, the activities of Cardine were characterized by the development of the main operational aggregates. In asset management, the net inflow from the start of the year, 1.5 billion euro, more than offset the devaluation of the stock, which at the end of December 2002 was 13.2

### Cardine (1)

	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	1,435	1,434	+0.1
Operating costs	-855	-894	-4.4
Operating income	580	540	+7.4
Provisions and net adjustments to loans and financial fixed assets	-276	-158	+74.7
Income before extraordinary items	304	382	-20.4
Net extraordinary income	-11	6	n.s.
Income before taxes	293	388	-24.5
Income taxes for the period	-148	-178	-16.9
Change in reserves for general banking risks and income attributable to minority interests	-10	-9	+11.1
Net income	135	201	-32.8
Contribution to net income of the Group (2)	191	201	-5.0
<b>ALLOCATED CAPITAL (€/mil)</b>	2,536	2,601	-2.5
<b>RATIOS (%)</b>			
RoE	7.5	7.7	
Cost / Income ratio	59.3	61.7	
Normalized cost / income ratio (3)	60.8	63.2	
	31/12/2002	31/12/2001	Change 31/12/02- 31/12/01 (%)
<b>OPERATING DATA (€/mil)</b>			
Customer financial assets	51,815	49,683	+4.3
- Direct deposits	26,524	25,820	+2.7
- Asset management	13,159	12,394	+6.2
- Mutual funds and fund-based portfolio management	8,539	8,104	+5.4
- Portfolio management	3,038	3,081	-1.4
- Life technical reserves	1,582	1,209	+30.9
- Asset administration	12,132	11,469	+5.8
Net asset management flows	1,478	-50	
Net loans to customers excluding NPLs	24,588	23,433	+4.9
<b>OPERATING STRUCTURE</b>			
Employees	9,719	9,805	-0.9
Domestic branches	841	834	+0.8

(1) Cardine Finanziaria group consolidated.

(2) After the posting of consolidation attributable to the Area, mainly represented by the reversal of the discounting of loans performed for the first time in 2002 for consistency with the Group's criteria.

(3) Calculated assuming the inclusion of the holding Cardine Finanziaria for the whole year rather than just seven months.

billion euro, up 6.2% in the 12 months. The trend of direct customer deposits was also positive, showing growth of 2.7% on an annual basis. Loans to customers, net of non-performing loans, were up 4.9% compared with the end of December 2001; new disbursements to households in connection with retail mortgages were also relevant at 856 million euro.

In 2002 the operating income showed an increase of 7.4%, at 580 million euro. This movement was made possible by the reduction of operating costs (-4.4%) and by maintenance of revenues, favored by the increase in the flow of commissions which more than compensated the drop in net interest income and profits from financial transactions. The profit results for the year were affected by the extraordinary

components related to the discounting of doubtful loans and the higher general provisions for loans made for alignment with the prudential standards of the Parent Bank. The contribution to the Group's operating income amounted to 191 million euro, down 5% compared with 2001.

The above figures refer to the consolidated financial statements of Cardine Finanziaria and of the seven bank networks unlike the results, presented in the previous Reports, which included the accounts of the bank networks alone.

#### Former Banco di Napoli Italian Network

During 2002 Banco di Napoli operated in the regions of Southern Italy through a network of 725 branches.

#### Former Banco di Napoli Italian Network (1)

	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	819	873	-6.2
Operating costs	-648	-706	-8.2
Operating income	171	167	+2.4
Provisions and net adjustments to loans and financial fixed assets	-82	-79	+3.8
Income before extraordinary items	89	88	+1.1
Net extraordinary income	-	-	-
Income before taxes	89	88	+1.1
Income taxes for the period	-57	-58	-1.7
Net income	32	30	+6.7
<b>ALLOCATED CAPITAL (€/mil)</b>	885	848	+4.4
<b>RATIOS (%)</b>			
RORAC	3.6	3.5	
Cost / Income ratio	79.1	80.9	
	31/12/2002	31/12/2001	Change 31/12/02- 31/12/01 (%)
<b>OPERATING DATA (€/mil)</b>			
Customer financial assets	32,064	32,467	-1.2
- Direct deposits	16,155	18,093	-10.7
- Asset management	10,485	8,761	+19.7
- <i>Mutual funds and fund-based portfolio management</i>	7,603	6,255	+21.6
- <i>Portfolio management</i>	1,325	1,421	-6.8
- <i>Life technical reserves</i>	1,557	1,085	+43.5
- Asset administration	5,424	5,613	-3.4
Net asset management flows	1,910	2,480	
Net loans to customers excluding NPLs and SGA loans	8,692	10,244	-15.2
<b>OPERATING STRUCTURE</b>			
Employees	6,554	6,607	-0.8
Financial planners	193	200	-3.5
Domestic branches	725	731	-0.8

(1) Includes the Italian Branch Network and the depositary bank of the former Banco di Napoli.

On 25 November, the respective Extraordinary Meetings approved the merger by incorporation of Banco di Napoli into SANPAOLO IMI, legally effective from 31 December 2002 and effective for accounting purposes from 1 January 2002. This transaction, as already described in a previous chapter of this Report, is part of a much bigger plan of integration and rationalization of the Sanpaolo, Banco di Napoli and Cardine networks.

The Southern Territorial Direction, made up of the Naples, Campania, Apulia and Calabro-Lucana Areas, based in Naples and directly supervised by the Sanpaolo Network was established on 31 December 2002; it will be subsequently spun off into Sanpaolo Banco di Napoli upon completion of the unification of the IT procedures, which will take place in the first half of 2003.

The main actions performed by Banco di Napoli in 2002 were essentially aimed both at the focusing of operation in its area of traditional roots and at the disposal of assets which were not instrumental to the performance of the core business. The major initiatives include:

- the sale, at the end of January 2002, of the share held in Datitalia and the disposal, completed in July, of the minority shareholding in Cedel International;
- the conferral to Sanpaolo IMI Wealth Management of the subsidiary Banco di Napoli Asset Management, in view of the subsequent merger, authorized by the Bank of Italy at the beginning of March 2003, effective as of 1 September 2003;
- the disposal of real estate not instrumental for the commercial network;
- disengagement from the activities of the foreign network, with the sale to third parties of the London branch and the sale of the New York branch property;
- the conferral to Esaban, on 1 October, of the tax collection activities, previously performed by Banco di Napoli in its capacity as government commissioner for Naples and Caserta;
- the conferral to Banca OPI, as of 1 January 2003, of the operations in the public works and infrastructure sector.

In the last part of the year, the activities needed for the integration of the distribution structures of the Sanpaolo Network and of the former Banco di Napoli Italian Network were implemented; in particular, with reference to the Macchina Operative Integrata project, the activities necessary in order to guarantee the transition to the new IT system are under way.

In 2002 the trend in operating volumes of former Banco di Napoli Italian Network was characterized by the significant recomposition of customer financial assets towards asset management, which rose at the end of December 2002 to 10.5 billion euro, up by 1.7 billion euro from the beginning of the year (+19.7%); the increase was due to positive net flows, 1.9 billion euro, in a market characterized by strong disinvestments out of mutual funds. Direct deposits on the other hand registered a drop of 10.7%, attributable mainly to the downsizing of operations, reaching 16.2 billion euro, and assets under management fell to 5.4 billion, down 3.4%.

The profit results of former Banco di Napoli Italian Network benefited from the reduction in structural costs (-8.2%), which succeeded in balancing the reduction in revenues (-6.2%) due to the downsizing of activities. The net income for the year was therefore up 6.7%.

#### Banca OPI

Banca OPI provides financial services to the public sector, with particular reference to the financing of infrastructure investments and works. During the year the bank was strengthened by the conferral, by the Parent Bank, of the whole shareholding in FIN.OPI (former Compagnia di San Paolo Investimenti Patrimoniali); as of 1 January 2003, it also includes the activities in the public works sector previously performed by Banco di Napoli.

In 2002 the bank:

- issued new loans aimed mainly at the railway, airport and road infrastructure sector, environmental protection and land preservation, as well as loans to Regions to support health services and interventions to restore flood damage; it also participated, as leader, in an important transaction for the Agency for the “Torino 2006” XX Winter Olympic Games for the construction of sports venues, transport infrastructure and reception structures;
- financed Territorial Entities (mainly Regions) through the subscription of securities;
- participated, in conjunction with CDC Ixis, in a closed-end investment fund governed by French law, which will invest in companies operating in France in support of the development of renewable energy;
- in project financing, took on advisory and financial structuring mandates for various major investment projects in Italy and abroad. In particular, the main interventions on the domestic market regarded the health sector, urban and re-qualification furnishings, transport,

the water sector and the management of integrated waste disposal systems; on the foreign market it was co-arranger in important international initiatives concerning high-speed rail systems and the modernization of local transport;

- in advisory, acquired new mandates for the exploitation of the companies and local bodies' assets.

In 2002 the bank made new disbursements for 3.2 billion euro, which took total loans at the end of December to 14.7 billion euro, up 10.9% in the 12 months. These were joined by a flow of new subscriptions of securities issued by public bodies, 0.4 billion euro, entirely within the last quarter.

The income results for 2002 were conditioned by the losses of the subsidiary FIN.OPI. This, together with the increase in operating costs and despite the considerable growth in commissions, led to a 15.6% reduction of net income. Provisions made mainly for tax purposes were substantially in line with those of the previous year.

## Large Groups and Structured Finance

The management of relations with the 30 major groups of domestic and international importance, as well as project financing (for energy, oil & gas and telecommunications sectors) and specialized structured lending (acquisition, LBO, real estate) were centralized to optimize the risk/performance profile, in two specialist units: Large Groups and Structured Finance.

In 2002 the Large Groups unit achieved lower profit results than in 2001, in line with the general decline in the economic context. The RORAC reached 9.9% despite the increase of the risk capital absorbed following the decline in the ratings of the automotive sector; in this context, during the year, particular attention was dedicated to the management of the correlated risk.

The results of the Structured Finance unit were influenced, on one side, by prolonged difficulties in specific markets, which made it necessary to increase provisions for some

### Banca OPI

	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	120	127	-5.5
Operating costs	-20	-18	+11.1
Operating income	100	109	-8.3
Provisions and net adjustments to loans and financial fixed assets	-68	-65	+4.6
Income before extraordinary items	32	44	-27.3
Net extraordinary income	4	2	+100.0
Income before taxes	36	46	-21.7
Income taxes for the period	-9	-14	-35.7
Net income	27	32	-15.6
Contribution to net income of the Group (1)	66	69	-4.3
<b>ALLOCATED CAPITAL (€/mil)</b>	500	365	+37.0
<b>RATIOS (%)</b>			
RoE	13.2	18.9	
Cost / Income ratio	16.5	14.0	
	31/12/2002	31/12/2001	Change 31/12/02- 31/12/01 (%)
<b>OPERATING DATA (€/mil)</b>			
Net loans to customers excluding NPLs	14,735	13,284	+10.9
Disbursements in the period	3,231	3,018	+7.1
<b>OPERATING STRUCTURE</b>			
Employees	126	114	+10.5

(1) After the posting of consolidation attributable to the Area, mainly represented by the reversal of the discounting of loans, performed exclusively for tax purposes.

projects, and on the other, by the increase in the finance acquisition sector, with the definition of important transactions, the economic effects of which will become more evident in the years to come.

#### Other Italian Networks

Other Italian Networks operates in the domestic market through the distribution networks of the Cassa di Risparmio di Firenze, in which the Group has a stake of 19.5%, and the Cassa dei Risparmi di Forlì (21% stake). With reference to the latter, by effect of the exercising of a put option by the Fondazione Cassa dei Risparmi di Forlì, this stake will rise to 29.8%.

In the context of the distribution agreements between SANPAOLO IMI and the companies in the Area, the fol-

lowing should be noted:

- positive progress in the marketing of mutual funds managed by CR Firenze Gestion Internationale (in which an 80% interest is held by Carifirenze and a 20% interest by SANPAOLO IMI). The net flow for the year, equal to 413 million euro, brought the total amounts to 2.1 billion euro;
- placement by the Cariforlì network, in the year, of SANPAOLO IMI Group asset management products for 80 million euro. This net flow took the stock, at the end of December, to 166 million euro, up 84.4% since the beginning of the year.

In profit terms, the contribution to the SANPAOLO IMI Group's net income, accounted for in the context of the profits from companies carried at equity, was 18 million euro for Carifirenze and 8 million euro for Cariforlì.

## Personal Financial Services

### Banca Fideuram

Banca Fideuram has a network of 3,520 financial planners, joined by 1,234 Banca Sanpaolo Invest planners, and 87 branches in Italy. It operates using its own specialized companies dedicated to the production of asset management services.

During the year, Banca Fideuram:

- carried out the activities connected with the integration

with Banca Sanpaolo Invest, completed on 8 October with the acquisition of the total shareholding held by SANPAOLO IMI;

- made rationalization interventions on shareholdings which involved foreign subsidiaries and are destined to continue in 2003, also in Italy. In particular, it continued the implementation of the business plan relating to the operational development of the French group Wargny; completed the restructuring of the subsidiaries in Luxembourg, with the concentration of the five product companies in a single corporate vehicle, Fideuram Gestions; launched, in Ireland, the operations of the subsidiary Fideuram Asset Management

### Banca Fideuram (1)

	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	598	657	-9.0
Operating costs	-344	-333	+3.3
Operating income	254	324	-21.6
Adjustments to goodwill and merger and consolidation differences	-58	-24	+141.7
Provisions and net adjustments to loans and financial fixed assets	-68	-49	+38.8
Income before extraordinary items	128	251	-49.0
Net extraordinary income	19	11	+72.7
Income before taxes	147	262	-43.9
Income taxes for the period	-13	-19	-31.6
Change in reserves for general banking risks and income attributable to minority interests	16	1	n.s.
Net income	150	244	-38.5
Contribution to net income of the Group (2)	111	191	-41.9
<b>ALLOCATED CAPITAL (€/mil)</b>	789	806	-2.1
<b>RATIOS (%)</b>			
RoE	14.1	23.7	
Cost / Income ratio	55.3	49.3	
	31/12/2002	31/12/2001	Change 31/12/02- 31/12/01 (%)
<b>OPERATING DATA (€/mil)</b>			
Customer financial assets	56,444	60,222	-6.3
- Direct deposits	3,901	3,927	-0.7
- Asset management	40,028	45,716	-12.4
- Mutual funds and fund-based portfolio management	28,756	36,718	-21.7
- Portfolio management	525	525	-
- Life technical reserves	10,747	8,473	+26.8
- Asset administration	12,515	10,579	+18.3
Net asset management flows	-1,153	646	
<b>OPERATING STRUCTURE</b>			
Employees	1,880	1,857	+1.2
Financial planners	4,754	5,289	-10.1
Domestic branches	87	82	+6.1

(1) Including Banca Sanpaolo Invest.

(2) Related to the share held by SANPAOLO IMI and after the posting of consolidation attributable to the Area.

Ireland, which is responsible for the asset management activities of the Luxembourg funds.

The integration with Banca Sanpaolo Invest, which is part of the actions further to strengthen the leadership position in Personal Financial Services, is aimed at: fully exploiting the potential of Banca Sanpaolo Invest, leveraging on the best practice of Banca Fideuram; allowing strategic coordination of the financial planner networks, with the adoption of consistent marketing and brand policies; realizing scale economies through the creation of a common technological platform and a shared product portfolio, appropriately adapted to suit the commercial characteristics of each network.

At the end of December 2002 customer financial assets of Banca Fideuram, including the results of Banca Sanpaolo

Invest, were 56.4 billion euro, down 6.3% since the beginning of the year. Within the total aggregate the trend in asset administration, up by 18.3% on the 12 months has been positive; this increase partially compensated for the reduction in assets under management, mainly because of the devaluation of the stock.

Profit margins for the year were generally reduced; net interest and other banking income, 598 million euro, fell by 9%, mainly because of the decline in commission revenues. Higher charges sustained for the implementation of the development plan for the French subsidiaries, as well as the adjustment of the goodwill paid on these to reflect the drop in the expected profitability, created a profit of 150 million euro, down by 38.5% compared with 2001. The RoE was 14.1%.

## Wealth Management and Financial Markets

### Sanpaolo IMI Wealth Management

Wealth Management provides asset management products and services both to the Group's internal distribution networks and to institutional investors, associated networks and other networks. The Area was established in April 2001 through the conferral by the Parent Bank to the holding Sanpaolo IMI Wealth Management of the subsidiaries operating in mutual funds, portfolio management and life insurance.

The main initiatives realized by the Area in the year concerned:

- the expansion of the range of services offered, with the launch of protected capital portfolio management. The range of insurance products was also reviewed on the basis of emerging needs of customers. In particular, a new index linked policy was marketed by Sanpaolo Vita

- and new unit linked policies to be distributed through the network of the Cassa dei Risparmi di Forlì were launched;
- the launch of the distribution of products through the new Group networks: in particular, marketing of funds through the Cardine network has begun. Agreements with extra-captive networks were also entered into. These agreements envisage the distribution of the funds and portfolio managed assets of Wealth Management;
- the increase in the Sanpaolo Vita capital endowment in relation to the company's strong commercial development during 2002;
- the introduction, on 21 October 2002, of a new Italian fund commission system together with a rationalization process for Luxembourg funds, through the merger of several sectors and changes to the characteristics of the existing sectors.

In the context of the Group's restructuring, during the first half of the year Banco di Napoli Asset Management was transferred to Sanpaolo IMI Wealth Management, which

### Sanpaolo IMI Wealth Management (1)

	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	207	233	-11.2
Operating costs	-88	-73	+20.5
Operating income	119	160	-25.6
Adjustments to goodwill and merger and consolidation differences	-7	-7	-
Provisions and net adjustments to loans and financial fixed assets	-	-7	n.s.
Income before extraordinary items	112	146	-23.3
Net extraordinary income	2	-	n.s.
Income before taxes	114	146	-21.9
Income taxes for the period	-8	39	n.s.
Change in reserves for general banking risks and income attributable to minority interests	-7	-8	-12.5
Net income	99	177	-44.1
Contribution to net income of the Group (2)	109	190	-42.6
<b>ALLOCATED CAPITAL (€/mil)</b>	630	522	+20.7
<b>RATIOS (%)</b>			
RoE	17.3	36.4	
Cost / Income ratio	45.5	34.4	
	31/12/2002	31/12/2001	Change 31/12/02- 31/12/01 (%)
<b>OPERATING DATA (€/mil)</b>			
Assets under management	83,407	84,724	-1.6
<b>OPERATING STRUCTURE</b>			
Employees	404	348	+16.1

(1) Does not include Sanpaolo Bank Luxembourg and its subsidiaries.

(2) After the posting of consolidation attributable to the Area, mainly represented by the reversal of amortization of goodwill on Group companies.

also acquired from Banca Fideuram 30% of Sanpaolo IMI Institutional Asset Management, a company dedicated to management activities for institutional investors. Sanpaolo IMI Alternative Investments SGR, a company dedicated to the management of hedge funds, also became operational. In the third quarter, Sanpaolo Fiduciaria was sold to the Parent Bank. In January 2003 the acquisition of the share held by Sanpaolo Bank Luxembourg in Sanpaolo IMI Wealth Management Luxembourg was completed.

The Area's assets under management at the end of December amounted to 83.4 billion euro, down 1.6% from the start of the year. Within the total aggregate the sustained growth in life technical reserves, which rose to 14.3 billion euro (+47% in comparison with the end of December 2001) should be noted.

In 2002 Wealth Management registered net interest and other banking income of 207 million euro, down by 11.2%

compared with the previous year; this trend was due in particular to a 23.7% reduction in net commissions only partially compensated by the considerable growth of the contribution of the insurance companies Sanpaolo Vita and Sanpaolo Life, booked as profits from companies carried at equity. The drop in revenues, together with the 20.5% increase in operating costs led to net income of 99 million euro. The profitability, expressed in terms of RoE, was 17.3%.

### Banca IMI

Banca IMI, the Group's investment bank, covers securities dealing both on own account and for customers, the raising of risk and debt capital for companies, as well as consulting in corporate finance. It uses its own subsidiaries, excluding IMIWeb Bank. Following the agreement reached in December with Centrobanca (Banca Popolare di Bergamo – Credito Varesino Group) an 80% stake in IMIWeb Bank will be sold to the latter.

### Banca IMI

	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	185	197	-6.1
Operating costs	-150	-160	-6.3
Operating income	35	37	-5.4
Provisions and net adjustments to loans and financial fixed assets	-5	-7	-28.6
Income before extraordinary items	30	30	-
Net extraordinary income	5	-1	n.s.
Income before taxes	35	29	+20.7
Income taxes for the period	-2	5	n.s.
Net income	33	34	-2.9
Contribution to net income of the Group	33	34	-2.9
<b>ALLOCATED CAPITAL (€/mil)</b>	341	332	+2.7
<b>RATIOS (%)</b>			
RoE	9.7	10.2	
Cost / Income ratio	81.0	81.1	
<b>OPERATING DATA (€/mil)</b>			
Banca IMI SpA trading volumes			
- trading	671,677	681,694	-1.5
- sales	143,809	121,814	+18.1
- repurchase agreements	1,621,992	1,440,015	+12.6
- placements	6,360	14,506	-56.2
	31/12/2002	31/12/2001	Change 31/12/02- 31/12/01 (%)
<b>OPERATING STRUCTURE</b>			
Employees	634	653	-2.9
Branches	2	2	-

During 2002, with reference to corporate finance and capital markets, Banca IMI:

- with regard to Public Offerings acted as a coordinating intermediary in the context of the residual Public Offer launched by SANPAOLO IMI on the savings shares of Banco di Napoli, and for the Public Offer launched by Idrá Partecipazioni on Idrá Presse and by ENI on Italgas;
- was a participant in equity placements in some of the major IPOs (Initial Public Offerings) that took place in Europe, such as Autoroutes du Sud de la France, Enagas in Spain, and PPC in Greece, as well as, in Italy, in the transactions with ASM Brescia and Fiera di Milano; it acted as co-manager in the private placement of Telekom Austria shares promoted by Telecom Italia;
- in capital increases, led, along with a small group of financial institutions, the capital increase of FIAT and performed, as joint lead manager, the activities regarding the Alitalia capital increase. It also participated in capital increases for IT Holding, Aedes and SS Lazio;
- was co-sponsor, with Deutsche Bank, in the listing admission of ordinary and savings shares of Italenergia (subsequently renamed Edison), a company created from the merger by incorporation of Edison into Italenergia.

With regard to corporate finance advisory, Banca IMI: supplied consulting for the sale of the majority shareholding of Utet to De Agostini, and with regard to the entry of Autogrill into the capital of Pastarito; served as financial consultant in the definition of the exchange ratio in the merger by incorporation of Unimed into Buzzi Unicem; supplied consulting to the FIAT Group, to CR Firenze in the partial disposal of a non-performing portfolio, to Inferentia in structuring an increase in capital, to Alitalia in the share swap project with Air France, to the Fontana Group for the reorganization of the structure and refinancing of the debt; acquired a mandate from Edison to supply assistance in the sale of reserves of gas in Egypt; supplied advisory services for extraordinary financing transactions in the IT and telecommunications sectors; provided assistance to the Albanian government in the project for the privatization of the fixed telecommunication and energy sectors and advisory to AEM Torino in the project for the exploitation of certain electricity generation assets.

Also noteworthy are the launch of the corporate sales activity to support the SANPAOLO IMI network and the development of personal finance products distributed through the Group networks.

In 2002, the total revenues of Banca IMI were conditioned by the high instability of the financial markets, reaching

185 million euro, down by 6.1% compared with the previous year. The reduction in operating costs and higher extraordinary income allowed the bank to achieve net income of 33 million euro, substantially in line with that of 2001, and a RoE of 9.7%.

### Sanpaolo IMI Private Equity

Sanpaolo IMI Private Equity (previously NHS) is responsible for the private equity activity of the Group, with the strategic goal of strengthening and consolidating its presence in this sector, which is characterized by high growth potential in the medium term.

The company is to operate as a point of reference for venture capital investments in small- and medium-sized companies, supporting their possibilities of growth, aggregation and reorganization. Accordingly, Sanpaolo IMI Private Equity is concentrating its efforts on promotion, management and placement of closed-end private equity funds.

The company heads the subsidiaries specialized in the management of closed-end security investment funds (Sanpaolo IMI Fondi Chiusi SGR and NHS Mezzogiorno SGR) as well as several foreign subsidiaries instrumental to the management of foreign law closed-end investment funds (including the SIPEF Fund) and the merchant banking activity.

The actions carried out in 2002 were aimed at the centralization in the company, with the role of sub holding, of the private equity activities of the Group following the merger with Cardine, as well as those belonging to the Eptaconsors group. The model, in terms of corporate and organizational structure, provides for the attribution to the sub holding of the centralized co-ordination, control and performance of services for subsidiaries, and advisor for foreign law closed-end funds.

At the end of the year the 2003-2005 strategic plan, which places emphasis on the promotion and management of closed-end funds financed by capital collected mainly on the market, both at regional level (one of which focusing on the Central regions and one on the North Western regions), and at pan European level, in conjunction with CDC Ixis Private Equity and Bayerische Landesbank Equity Management, was approved.

In March 2003 Cardine Finanziaria acquired the entire capital of Alcedo, the advisory company of the Cardine Impresa and Eptasviluppo Funds. This transaction completed the centralization of the private equity activities of the Group.

Also programmed is the participation in a new investment fund promoted by the French government in support of small- and medium-sized local companies, following an agreement signed with CDC-Pme (a subsidiary of Caisse des Dépôts et Consignations) and EIF (European Investment Fund).

With reference to the financial statement results, in 2002 Sanpaolo IMI Private Equity, together with its subsidiaries, achieved an operating income of 8 million euro and a net loss of 14 million euro, mainly determined by the amortization of positive differences arising on consolidation and adjustments to financial fixed assets.

## International Activities

### Banque Sanpaolo

Banque Sanpaolo operates in France, through a network of 62 branches, with a customer base of 125,000 private customers with a medium/high savings potential and small- and medium-sized companies.

In 2002 Banque Sanpaolo carried on the specialization of the branch network on the reference customer segments.

In operating terms, the bank reported a positive trend in customer volumes: compared with the end of December

2001, direct deposits were up 2.6% and loans to customers rose by 5.2%.

This produced a favorable trend for net interest income, which was not however sufficient to compensate the drop in commissions and higher losses on financial transactions. Therefore net income fell by 21.1%, reaching 30 million euro.

### Foreign Network

The Area is responsible for the foreign network of the Parent Bank composed, following the transfer of Cardine's operating points, of 12 branches, 17 representative offices (joined

### Banque Sanpaolo

	2002	2001	Change 2002 / 2001 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	196	201	-2.5
Operating costs	-135	-134	+0.7
Operating income	61	67	-9.0
Provisions and net adjustments to loans and financial fixed assets	-13	-16	-18.8
Income before extraordinary items	48	51	-5.9
Net extraordinary income	1	3	-66.7
Income before taxes	49	54	-9.3
Income taxes for the period	-19	-16	+18.8
Net income	30	38	-21.1
Contribution to net income of the Group (1)	29	37	-21.6
<b>ALLOCATED CAPITAL (€/mil)</b>	447	457	-2.2
<b>RATIOS (%)</b>			
RoE	6.5	8.1	
Cost / Income ratio	66.3	64.7	
	31/12/2002	31/12/2001	Change 31/12/02- 31/12/01 (%)
<b>OPERATING DATA (€/mil)</b>			
Customer financial assets	11,485	12,340	-6.9
- Direct deposits	4,648	4,532	+2.6
- Asset management	5,204	5,362	-2.9
- <i>Mutual funds and fund-based portfolio management</i>	3,527	3,514	+0.4
- <i>Portfolio management</i>	865	1,104	-21.6
- <i>Life technical reserves</i>	812	744	+9.1
- Asset administration	1,633	2,446	-33.2
Net asset management flows	548	310	
Net loans to customers excluding NPLs	3,582	3,406	+5.2
<b>OPERATING STRUCTURE</b>			
Employees	1,239	1,257	-1.4
Branches	62	59	+5.1

(1) After the posting of consolidation attributable to the Area.

by a new office in Madrid in January 2003) and one operating desk, as well as of the Irish subsidiary Sanpaolo IMI Bank Ireland. This structure has a direct presence in 26 countries.

To strengthen the position in its reference markets, the organization of the Area was based on three regional offices (Americas, Europe and Asia) to direct and control the various operating points. Moreover, to optimize the synergies with Sanpaolo IMI Internazionale, the latter was assigned, as of 2003, the hierarchical responsibility for the six representative offices in Central Eastern Europe, which will however continue to remain, from the corporate point of view, within the Parent Bank.

The activity, targeted at the development of business to encourage the internationalization of Italian companies and to increase the presence of foreign multinationals on the Italian market, was marked by the selectivity of relations and safeguarding the quality of the assets rather than increasing operating volumes, in a market environment characterized by generalized economic uncertainty and growing levels of risk in the corporate sector. The Foreign Network concentrated, on one side, on consolidating the position achieved in a European context and, on the other, on reducing the total risk with foreign counterparties, especially from the United States, through major diversification in both the number of customers and economic sectors.

As regards the economic profile, corporate lending activities with foreign counterparties confirmed good maintenance of the operating income, which reached 55 million euro, compared with the 58 million on 2001. The difficult international context and the deterioration of the corpo-

rate risk led to an increase in provisions, mainly connected to the adjustments to the Marconi position.

#### Sanpaolo IMI Internazionale

Sanpaolo IMI Internazionale was formed for the purpose of developing and supervising the presence of the Group in those foreign countries deemed to be of strategic interest through operations involving acquisitions and alliances.

In December, the transfer to the company of the equity investments held by the Group in Central Eastern Europe and in the Mediterranean Area was approved, conditional to the obtainment of the necessary authorization from the local Regulatory Authorities. The shareholdings include: Banka Koper, in which SANPAOLO IMI has a share of 62.1%, operating in Slovenia through a network of 39 branches; Inter-Europa Bank (32.5%), which has 23 branches on the Hungarian market; West Bank (72.4%) with 17 operating points in Romania.

In 2002 the Area performed the activities necessary to the completion of the start up phase of the new company and in preparation for the transfer of equity investments into it. Initiatives aimed at exploiting the potential of the two most recently acquired banks, Banka Koper and West Bank also continued: for this purpose actions aimed at enabling the sharing of the Group's know how in the operating areas that offer greater development opportunities in the reference markets were identified and undertaken.

It should also be noted that, on 25 February 2003, Sanpaolo IMI Internazionale approved the launch of a Public Offer on the Hungarian bank Inter-Europa Bank.

## IMI Investimenti

IMI Investimenti manages the major industrial holdings with particular reference to the amount, the impact in terms of “significant exposures” and the strategic importance attributed by the Group.

Financial fixed assets, including loans to subsidiaries, reached 965 million euro at the end of December, following investments for 306 million euro, of which 262 million for the increase of the stake in the Italenergia/Edison group, and disinvestments for 43 million euro regarding the shareholding in ENI. It should also be noted that, on 10 March 2003, the preliminary contracts for the acquisition, through a newco in which the company participates jointly with Capitalia, Banca Intesa and Unicredito, from the FIAT Group of 51% of the European network of the finance company Fidis (concerning exclusively the retail financing activities) has

been subscribed, with a total commitment by IMI Investimenti for about 100 million euro.

Under the sectoral profile, at the end of December 2002 the equity portfolio was split between the Utilities & Energy sector (66%), Tlc (22%), Automotive (8%) and other (4%).

The economic performance in 2002 showed positive operating income for 3 million euro, thanks mainly to the contribution of the dividends collected and to the considerable reduction in structural costs made possible by the reorganization operations performed. The significant adjustments made to the shareholding portfolio (with particular reference to the devaluation of the FIAT shareholding and of the company vehicles with investments in the mobile telecommunications company H3G), despite being mitigated by capital gains realized on the sale of part of the ENI shares held by the company, heavily penalized the income for the year, which incurred losses for 89 million euro.

# Developments after the end of the year

## Economic background

Since the beginning of 2003 the real cycle indicators have further deteriorated. Share prices have fallen. At the same time, both in the United States and in the euro-zone, long-term rates have dropped, especially in the real component, more sensitive to the operators' expectations on the cycle prospects. With the continuation of the crisis in Iraq, oil prices continued to rise while the euro gained even more strength against the dollar.

In this context, the ECB, taking account of the improvement in the inflation rate in the euro-zone, at the beginning of March performed a new reduction of policy rates taking the reference rate to 2.5%.

The drop in stock market indexes had a negative effect on mutual funds, whose amounts, at the end of February, were down by 0.1% compared to the end of 2002, despite positive net flows for 4.9 billion euro in the two months.

The prospects of the international economy and markets are particularly uncertain in this phase. The development of the market situation in the main international areas appears to be largely conditioned by two factors: the persistent weakness of the cycle indicators and the still uncertain consequences of the military and political situation in Iraq. An extension or an expansion in the tensions linked with the conflict could negatively influence the degree of confidence and decisions made by operators in terms of expenditure, causing the United States economy to slide into a new recession and dragging the euro-zone economy with it. On the contrary, rapid absorption of the tensions could encourage a rise in confidence indicators and market share prices.

In the best case, accepted by the major forecasters of the reference scenarios, assuming stabilization of the international military and political situation in the short term, the recovery profile of the international economy and the financial markets, on the basis of contained rates in the next quarters, is expected to accelerate only from the end of the year.

## The Group's financial position in the first two months of the new year

Despite the adverse conditions of the financial markets, the Group's stock of financial assets shows signs of improvement in the first two months of 2003, with growth of 0.9%, 3.2 billion euro, since the beginning of the year. With regard to the total amount, growth was observed in asset management (+0.5%), asset administration (+1.7%) and direct deposits (+0.8%).

As regards asset management products a net flow of 3 billion euro was achieved, more than balancing the negative market performance, totaling 2.4 billion euro. The development of insurance policies was particularly positive, with the collection of premiums in the two months reaching 1.3 billion euro.

As regards lending activities, net loans to customers recorded a 1.7% increase, corresponding to a positive flow of 2.1 billion euro.

Concerning the management of the Group, awaiting an effective recovery of the economic cycle to lower the level of uncertainty and volatility of the markets, and thus boost revenues, constant attention was maintained on cost control and the quality of assets, which already characterized 2002.

The main profit margins achieved in the first two months of 2003, though penalized by the drop in rates and in the stock exchange trend, were substantially aligned with the budgeted targets.

Alignment with the period targets confirms the validity of the actions taken during 2002 to strengthen customer relations by offering a complete service to households and companies, and lays the foundations to ensure the ambitious development program of Group activities outlined in the 2003-2005 plan approved on 11 February 2003.

In this context the Group strategy was targeted at several fundamental issues, among which:

- the improvement of the performance of Core Profit Assets through the integration of the banking networks, the adoption of a unique and innovative distribution model and the alignment of Wealth Management performances with those of the best operators;
- the improvement of the profitability of other activities with high growth potential and the full exploitation of new business development opportunities;

- the active and efficient management of the shareholding portfolio, aimed at ensuring a return on assets which is higher than the capital cost.

### Future prospects

The Group has responded to the unstable market conditions with structural actions, accelerating the integration of its banking networks; the rationalization of head offices and IT systems will be completed by June 2003 for the former Banco di Napoli branches and extended to the Cardine bank networks from the end of the year, being completed in the first half of 2004.

To handle the delicate transition from a phase characterized by strong deterioration to one with an improving economic scenario, the Group can rely on the network's renewed distribution capacity, which is based on strong territorial roots, the exploitation of traditional brands and

a single management policy, in terms of strategic and commercial management throughout the country. During this year it will be possible to achieve the synergies and profit returns expected from investments and internal and external growth performed in previous years.

The specialization of the distribution networks is joined by the know how and product innovation of the Group companies in their respective businesses, and traditional strong points such as the solid financial situation and the high quality of assets, confirmed by the solvency ratios and credit risk ratios.

As regards exogenous factors, the banking industry could gain a boost, on the liability side, from the extension to the first half of 2003 of the government provisions related to the tax shield, while on the asset side, loans to companies are linked with the gradual recovery of the cycle, which is expected to become more consistent from the end of the year.

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW  
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of  
Sanpaolo IMI SpA

- 1 We have audited the consolidated financial statements of Sanpaolo IMI SpA and its subsidiaries (the "Sanpaolo IMI Group") as of 31 December 2002. These consolidated financial statements are the responsibility of Sanpaolo IMI's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
  
- 2 We conducted our audit in accordance with the Auditing Standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries, representing 13 per cent of consolidated "Total assets", 3 per cent of consolidated "Net interest income" and 7 per cent of consolidated "Net interest and other banking income", have been audited by other auditors, who have provided us with their related reports. Our opinion expressed on this report, insofar as it relates to the amounts of such subsidiaries included on the consolidated financial statements, is also based on the audits carried out by other auditors.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 9 April 2002.

- 3 In our opinion, the consolidated financial statements present fairly the financial position of the Sanpaolo IMI Group as of 31 December 2002 and the results of its operations for the year then ended in accordance with the Italian regulation governing financial statements.
- 4 For a more immediate understanding of the consolidated financial statements, we draw your attention to the following circumstances, more widely described in the Report on Operation and in the Explanatory Notes to the consolidated financial statements:
  - (a) Cardine Banca SpA merged into Sanpaolo IMI SpA during the current financial year; the merger became effective, for accounting and tax purposes, starting from 1 January 2002;
  - (b) the Group's net income for the current year includes a credit of 364 million euro due to the release of the reserve for general banking risk to the Statement of Income.

Turin, 10 April 2003

PricewaterhouseCoopers SpA

Signed by  
Sergio Duca  
(Partner)

**“This report has been translated into the English language solely for the convenience of international readers. The original report was issued in accordance with Italian legislation.”**