1999 Annual Report

SANPAOLO IMI

SOCIETÀ PER AZIONI

REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN

SECONDARY REGISTERED OFFICE: VIALE DELL'ARTE 25, ROME

REGISTERED WITH THE TURIN COURT, COMPANY NO. 4382/91

PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

SANPAOLO IMI

Board of Directors

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

(*) Member of the Executive Committee

Board of Statutory Auditors

Mario Paolillo	*Chairman*
Aureliano Benedetti	*Auditor*
Maurizio Dallocchio	*Auditor*
Angelo Miglietta	*Auditor*
Ruggero Ragazzoni	*Auditor*
Carlo Pasteris	*Supplementary Auditor*
Alessandro Rayneri	*Supplementary Auditor*

General Management

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

Independent Auditors

Arthur Andersen S.p.A.

Contents

Agenda of the Shareholders' meeting

TURIN

1st calling for the ordinary and extraordinary meetings: April 26, 2000
2nd calling for the extraordinary meeting: April 27, 2000
2nd calling for the ordinary meeting and
3rd calling for the extraordinary meeting: April 28, 2000

Extraordinary part:

1. Amendment of the powers granted to the Board of Directors on the basis of Articles 2443 and 2420 ter of the Italian Civil Code following the conversion of the share capital into Euro; changes to Article 6, paras 3 and 4 of the Articles of Association.

2. Amendment of the mandate granted under Art. 2443 of the Italian Civil Code by the shareholders in general meeting on July 31, 1998 relating to the determination of the subscription price for the ordinary shares reserved for employees.

3. Amendment of Article 19, paras 6, 7 and 11 of the Articles of Association (Board of Statutory Auditors).

Ordinary part:

1. 1999 financial statements and accompanying reports of the Board of Directors and Board of Statutory Auditors; allocation of the net income for the year; 1999 consolidated financial statements.

2. Appointment of the Independent Auditors to audit the financial statements, the half-year report and Form 20 – F for the three-year period 2001-2003.

3. Authorization to purchase and sell own shares.

4. Increase in the number of Directors; consequent appointments and determination of remuneration.

5. Identification and definition of the reference base for the calculation of the variable part of the remuneration due to the Board of Directors for the year 2000, pursuant to Art. 15, para 8 of the Articles of Association.

Letter to the Shareholders

Shareholders,

The Sanpaolo IMI Group closed 1999 with a consolidated ROE of 14%, well up on last year's figure of 11.3%. Net income came to Euro 1,050 million, a 15.5% improvement on the previous year. Earnings per share rose to 0.75 Euro, compared with 0.65 Euro in 1998. We are proposing to distribute a dividend of 0.516 Euro per share for a total of Euro 724 million, in addition to the allocation of around Euro 700 million realized during the year on the partial real estate spin-off to Beni Stabili.

These are results that put the Group in a condition to meet the competitive challenges that are assailing the market. In fact, the banking, financial and insurance services market is now in a period of profound transformation, driven by technological and distribution innovations. In this dynamic and highly competitive scenario, the Group is planning considerable investments over the next three years, geared to internal and external expansion in areas of greater profitability and growth potential.

Above all, we are planning steps to develop innovative distribution channels: our Commercial Banking Area has launched a project that envisages the transformation of the branch technology environment to create a distribution system that allows customers to operate with the Bank in an integrated fashion through branches, Internet, telephone banking, remote banking, ATM cash dispensers and POS terminals. Banca Fideuram and Sanpaolo Invest are planning to use the Internet and telephone banking as support tools for their financial consultants. And lastly, strategic agreement has been reached with Tiscali, an Internet service provider, to reinforce @IMIWEB, the on-line trading company set up by the Sanpaolo IMI Group at the end of 1999. @IMIWEB will apply for a banking licence, it will be listed on the Stock Exchange and will turn into a global provider of financial services by offering all kinds of banking and insurance products, including those not developed by the Group. A total of Euro 250 million is expected to be invested in these various Internet initiatives, with a target of more than 500,000 network customers by 2002.

We are also planning to reinforce the distribution network located throughout the territory. The Commercial Banking Area has in fact planned to open more than 100 lightweight retail branches in 2000-2001 and is considering the possibility of opening additional branches in 2002. It is also looking into the idea of opening financial shops and is currently recruiting and training staff to specialize in the field of asset management. Banca Fideuram is reinforcing its own network thanks to 400 additional consultants and 30 new branches, and is considering plans to expand abroad. Sanpaolo Invest has commenced its transformation into a bank and is further improving its activities by introducing dedicated products, improved technology and taking on 400 new consultants.

The Group has also expanded through alliances and acquisitions. Agreement was reached with Cassa di Risparmio di Firenze, a bank that has almost 400 branches in Central Italy. Our understanding has been ratified by the purchase of a 15% stake in the company, in addition to the 4.1% already held by the Group. Furthermore, there is a sales and marketing agreement in the field of asset management and corporate banking services. The foundations have also been laid for aggregation with Banco di Napoli, Southern Italy's largest bank.

Lastly, we are investing in a series of important European banks with a view to enlarging the range of our strategic options in the event of future transnational alliances. In particular, our stake in Banco Santander Central Hispano was raised from 2% at the end of 1999 to 2.8% in early 2000.

Internal and external expansion will be achieved without any recourse to increases in capital. Instead, it will be financed by issuing preferred shares and subordinated loans, and by freeing up capital that is currently invested in non-strategic minority interests. Further capital will be released by means of loan securitization and derivative operations. This will make it possible to achieve a more balanced and efficient capital structure, better focused on our core business.

Our profitability targets are ambitious: based on the same scope of consolidation, the Group is planning for an ROE of more than 17% in 2002, with average annual growth in earnings per share over the three years of more than 10%.

The achievement of these results will be thanks to the personal commitment and professional skills of all the Staff.

Turin, March 28, 2000

The Group in figures

	31/12/1999 (Euro/mn)	31/12/1998 pro forma (Euro/mn)	31/12/1998 (Euro/mn)	Change 1999-'98 pro forma (%)	31/12/1999 (L/bn)
STATEMENT OF INCOME					
Net interest income	2,047	2,423	2,651	-15.5	3,964
Net commissions and other banking income	2,066	1,744	1,738	+18.5	4,000
Administrative costs	-2,466	-2,466	-2,495	-	-4,775
Provisions and net adjustments to loans and financial fixed assets	-481	-698	-723	-31.1	-931
Income before extraordinary items and minority interests	1,504	1,374	1,481	+9.5	2,912
Extraordinary net income	294	120	159	+145.0	569
Net income attributable to the Group	1,050	909	909	+15.5	2,033
BALANCE SHEET					
Total assets	139,887	141,524	158,289	-1.2	270,859
Loans to customers	73,174	72,968	86,889	+0.3	141,685
Securities portfolio	18,401	23,906	25,727	-23.0	35,629
Equity investments	3,347	1,672	1,321	+100.2	6,481
Customer deposits and securities issued	78,957	84,499	97,397	-6.6	152,882
Subordinated liabilities	1,524	1,382	1,511	+10.3	2,951
Shareholders' equity attributable to the Group	8,036	8,668	8,668	-7.3	15,560
CUSTOMER ASSETS UNDER ADMINISTRATION					
Total	260,026	233,816	241,250	+11.2	503,481
- Direct deposits	78,957	84,499	97,397	-6.6	152,883
- Current accounts and deposits	36,096	31,167	30,037	+15.8	69,892
- Certificates of deposit	9,090	11,761	12,059	-22.7	17,601
- Bonds	23,643	25,897	38,437	-8.7	45,779
- Commercial paper	2,584	1,395	1,395	+85.2	5,003
- Repurchase agreements and securities loaned	3,758	8,863	8,766	-57.6	7,277
- Other deposits	3,786	5,416	6,703	-30.1	7,331
- Indirect deposits	181,069	149,317	143,853	+21.3	350,598
- Asset administration	70,597	65,700	60,545	+7.5	136,695
- Asset management	110,472	83,617	83,308	+32.1	213,903
- Mutual funds	76,019	59,412	59,359	+28.0	147,193
- Fund-based portfolio management	17,836	10,467	10,467	+70.4	34,535
- Portfolio management	6,117	6,069	5,813	+0.8	11,844
- Life policies	10,500	7,669	7,669	+36.9	20,331
PROFITABILITY RATIOS (%)					
RoE (Net income / Shareholders' equity excluding current-year profits)	14.0	11.3	11.3		14.0
Cost / Income ratio (Administrative costs and amortization and depreciation net of recoveries / Net interest and other banking income)	56.6	55.5	54.3		56.6
Net commissions / Net interest and other banking income	83.8	70.7	69.6		83.8
LENDING RISK RATIOS (%)					
Net non-performing loans / Net loans to customer	2.3	2.7	2.3		2.3
Net problem and rescheduled loans / Net loans to customers	1.6	2.2	1.9		1.6
CAPITAL ADEQUACY RATIOS (%)					
Tier 1 capital / Weighted assets	9.6	n.d.	9.7		9.6
Total capital / Weighted assets	10.3	n.d.	11.1		10.3
SAN PAOLO IMI SHARES					
Number in issue (millions)	1.402	1.402	1.402	-	1.402
- number of shares in circulation	1.375	1.402	1.402	-1,9	1.375
- number of own shares of the Parent Bank	27	-	-	n.s.	27
Earnings per share (Euro/lire)					
• average	13.19	12.43	12.43	+6.2	25,541
• low	11.10	8.65	8.65	+28.3	21,496
• high	16.04	16.10	16.10	-0.4	31,049
Earnings per share (Euro/lire)	0.75	0.65	0.65	+15.6	1,452
Dividend per share (Euro/lire)	0.52	0.46	0.46	+11.1	1,000
Ordinary dividend / Average share price (%)	3.92	3.60	3.60	+8.8	3,92
Shareholders' equity per share	5.84	6.18	6.18	-5.5	11,316
ORGANIZATION					
Average workforce	24,133	24,299	24,527	-0.7	24,133
Domestic branches	1,355	1,346	1,346	+0.7	1,355
Foreign branches and representative offices	76	75	75	+1.3	76
Financial consultants	4,865	4,497	4,497	+8.2	4,865

Pro forma figures as of December 31, 1998 are unaudited. They have been reconstructed on a consistent basis with those as of December 31, 1999, in line with the accounting principles contained in the Explanatory Notes.

Group structure

Corporate Centre

Commercial Banking

- Parent Bank
- Banque Sanpaolo *(France)*
- Sanpaolo IMI Asset Management
- Sanpaolo Vita
- Sanpaolo Life *(Ireland)*
- Sanpaolo Bank *(Luxembourg)*
- Sanpaolo Bank *(Austria)*
- Sanpaolo Fiduciaria
- Sanpaolo Gestion Internationale *(Luxembourg)*
- Sanpaolo Leasint
- Finconsumo (*)

Large Corporate

- Parent Bank
- Sanpaolo IMI Bank Ireland *(Ireland)*

Public Entities and infrastructure

- Parent Bank
- IMI Lease (**)

Investment Banking

- Banca IMI Group
  - Banca IMI
  - @IMIWEB
  - IMI Sigeco UK *(United Kingdom)*
  - IMI Bank *(Luxembourg)*
  - IMI Investments *(Luxembourg)*
  - IMI Capital Markets USA *(United States)*
  - Banca IMI Securities *(United States)*

Personal Financial Services

- Fideuram Group
  - Banca Fideuram
  - Fideuram Fondi
  - Fideuram Vita
  - Fideuram Capital
  - Fonditalia Mgt *(Luxembourg)*
  - Fideuram GPM
  - Fideuram Bank *(Luxembourg)*
  - Interfund Advisory Co *(Luxembourg)*
  - Fideuram Assicurazioni
  - Fideuram Fund *(Luxembourg)*
  - Fideuram Fiduciaria
  - Turis *(Switzerland)*
  - ISAC *(Luxembourg)*
  - Fideuram Gestions *(Luxembourg)*
- Sanpaolo Invest

Merchant Banking

- Nuova Holding Subalpina
- LDV Holding *(Netherlands)*

Workout

- Parent Bank
- Sanpaolo Immobiliare

Other major Shareholdings in subsidiaries

- Sanpaolo IMI International *(Luxembourg)*
- Sanpaolo US Financial *(United States)*
- Sanpaolo IMI Bank International Madeira *(Portugal)*
- Sanpaolo Riscossioni Genova
- Sanpaolo Riscossioni Prato

Minority Investments(***)

- Cassa di Risparmio di Firenze *(19.1%)*
- INA *(9.2%)*
- Banco Santander Central Hispano *(2.8%)*
- Beni Stabili *(16.8%)*

(*) *Company controlled jointly with Banco Santander Central Hispano S.A.*
(**) *The conferral to IMI Lease of the Parent Bank's Government Agencies and Infrastructures Area is under consideration.*
(***) *Figure as of March 28, 2000*


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Consolidated Financial Statements and accompanying Reports

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

	1999 (Euro/mn)	1998 pro forma (Euro/mn)	1998 (Euro/mn)	Change 1999/'98 pro forma (%)	1999 (L/bn)
NET INTEREST INCOME	**2,047**	**2,423**	**2,651**	**-15.5**	**3,964**
Net commissions and other dealing revenues	2,066	1,744	1,738	+18.5	4,000
Profits/(losses) on financial transactions and investment income	251	316	324	-20.6	486
Profits of companies carried at equity and dividends on equity interests	205	173	108	+18.5	397
NET INTEREST AND OTHER BANKING INCOME	**4,569**	**4,656**	**4,821**	**-1.9**	**8,847**
Administrative costs	-2,466	-2,466	-2,495	-	-4,775
• *personnel*	*-1,534*	*-1,526*	*-1,543*	*+0.5*	*-2,970*
• *other administrative costs*	*-763*	*-769*	*-780*	*-0.8*	*-1,478*
• *indirect taxes and similar dues*	*-169*	*-171*	*-172*	*-1.2*	*-327*
Other operating income, net	175	184	185	-4.9	338
Adjustments to tangible and intangible fixed assets	-293	-302	-307	-3.0	-567
OPERATING INCOME	**1,985**	**2,072**	**2,204**	**-4.2**	**3,843**
Provisions for risks and charges	-81	-100	-125	-19.0	-157
Adjustments to loans and provisions for guarantees and commitments	-313	-531	-531	-41.1	-606
Writedowns of financial fixed assets, net	-87	-67	-67	+29.9	-168
INCOME BEFORE EXTRAORDINARY ITEMS	**1,504**	**1,374**	**1,481**	**+9.5**	**2,912**
Net extraordinary income	294	120	159	+145.0	569
INCOME BEFORE TAXES	**1,798**	**1,494**	**1,640**	**+20.3**	**3,481**
Income taxes	-685	-534	-630	+28.3	-1,326
Change in reserve for general banking risks	-1	-8	-8	n.s.	-2
Net income attributable to minority interests	-62	-43	-93	+44.2	-120
NET INCOME ATTRIBUTABLE TO THE GROUP	**1,050**	**909**	**909**	**+15.5**	**2,033**

Pro forma figures as of December 31, 1998 are unaudited. They have been reconstructed on a consistent basis with those as of December 31, 1999, in line with the accounting principles contained in the Explanatory Notes.

CONSOLIDATED QUARTERLY RESULTS

	1999				1998			
	4th quarter (Euro/mn)	3rd quarter (Euro/mn)	2nd quarter (Euro/mn)	1st quarter pro forma (Euro/mn)	4th quarter pro forma (Euro/mn)	3rd quarter pro forma (Euro/mn)	2nd quarter pro forma (Euro/mn)	1st quarter pro forma (Euro/mn)
NET INTEREST INCOME	**516**	**499**	**520**	**512**	**583**	**583**	**633**	**624**
Net commissions and other dealing revenues	579	522	491	474	445	428	468	403
Profits/(losses) on financial transactions and investment income	80	27	53	91	41	39	95	141
Profits of companies carried at equity and dividends on equity interests	84	52	36	33	46	47	45	35
NET INTEREST AND OTHER BANKING INCOME	**1,259**	**1,100**	**1,100**	**1,110**	**1,115**	**1,097**	**1,241**	**1,203**
Administrative costs	-645	-610	-617	-594	-615	-613	-633	-605
• *personnel*	*-387*	*-382*	*-386*	*-379*	*-379*	*-380*	*-382*	*-385*
• *other administrative costs*	*-217*	*-183*	*-189*	*-174*	*-196*	*-193*	*-203*	*-177*
• *indirect taxes and similar dues*	*-41*	*-45*	*-42*	*-41*	*-40*	*-40*	*-48*	*-43*
Other operating income, net	50	40	43	42	45	43	50	46
Adjustments to tangible and intangible fixed assets	-88	-71	-64	-70	-88	-74	-72	-68
OPERATING INCOME	**576**	**459**	**462**	**488**	**457**	**453**	**586**	**576**
Adjustments to loans and provisions for guarantees and commitments	-103	-90	-97	-104	-93	-127	-216	-195
Writedowns of financial fixed assets, net	-52	-9	-26	-	-30	-	-11	-26
INCOME BEFORE EXTRAORDINARY ITEMS	**421**	**360**	**339**	**384**	**334**	**326**	**359**	**355**
Net extraordinary income	-5	-2	297	4	92	6	14	8
INCOME BEFORE TAXES	**416**	**358**	**636**	**388**	**426**	**332**	**373**	**363**
Income taxes	-159	-128	-248	-150	-160	-112	-137	-125
Change in reserve for general banking risks	-1	-	-	-	-1	-4	-2	-1
Net income attributable to minority interests	-18	-23	-11	-10	-8	-14	-8	-13
NET INCOME ATTRIBUTABLE TO THE GROUP	**238**	**207**	**377**	**228**	**257**	**202**	**226**	**224**

Pro forma figures are unaudited. They have been reconstructed on a consistent basis with those as of December 31, 1999, in line with the accounting principles contained in the Explanatory Notes.

RECLASSIFIED CONSOLIDATED BALANCE SHEET

	31/12/1999 (Euro/mn)	31/12/1998 pro forma (Euro/mn)	31/12/1998 (Euro/mn)	Change 99/'98 pro forma (%)	31/12/1999 (L/bn)
ASSETS					
Cash and deposits with central banks and post offices	528	421	421	+25.4	1,022
Loans	95,318	95,426	109,982	-0.1	184,562
• *due from banks*	*22,144*	*22,458*	*23,093*	*-1.4*	*42,877*
• *loans to customers*	*73,174*	*72,968*	*86,889*	*+0.3*	*141,685*
Dealing securities	16,645	21,565	23,385	-22.8	32,229
Fixed assets	6,490	5,915	5,634	+9.7	12,567
• *investment securities*	*1,756*	*2,341*	*2,342*	*-25.0*	*3,400*
• *equity investments*	*3,347*	*1,672*	*1,321*	*+100.2*	*6,481*
• *intangible fixed assets*	*267*	*296*	*302*	*-9.8*	*517*
• *tangible fixed assets*	*1,120*	*1,606*	*1,669*	*-30.3*	*2,169*
Differences arising on consolidation and on application of the equity method	58	59	59	-1.7	112
Other assets	20,848	18,138	18,808	+14.9	40,367
Total assets	**139,887**	**141,524**	**158,289**	**-1.2**	**270,859**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Payables	106,969	109,640	125,160	-2.4	207,121
• *due to banks*	*28,012*	*25,141*	*27,763*	*+11.4*	*54,239*
• *due to customers and securities issued*	*78,957*	*84,499*	*97,397*	*-6.6*	*152,882*
Reserves	1,950	2,069	2,241	-5.8	3,776
• *for taxation*	*1,029*	*1,178*	*1,320*	*-12.6*	*1,993*
• *for employee termination indemnities*	*438*	*431*	*436*	*+1.6*	*848*
• *for risks and charges*	*421*	*394*	*419*	*+6.9*	*815*
• *for pensions and similar obligations*	*62*	*66*	*66*	*-6.1*	*120*
Other liabilities	20,869	19,620	20,315	+6.4	40,408
Subordinated liabilities	1,524	1,382	1,511	+10.3	2,951
Minority interests	539	145	394	+271.7	1,043
Shareholders' equity	8,036	8,668	8,668	-7.3	15,560
• *capital stock*	*3,926*	*4,345*	*4,345*	*-9.6*	*7,602*
• *equity reserves*	*3,060*	*3,414*	*3,414*	*-10.4*	*5,925*
• *net income for the year*	*1,050*	*909*	*909*	*+15.5*	*2,033*
Total liabilities and shareholders' equity	**139,887**	**141,524**	**158,289**	**-1.2**	**270,859**
GUARANTEES AND COMMITMENTS					
Guarantees given	11,045	11,465	11,024	-3.7	21,386
Commitments	18,028	18,355	19,984	-1.8	34,907

Pro forma figures as of December 31, 1998 are unaudited. They have been reconstructed on a consistent basis with those as of December 31, 1999, in line with the accounting principles contained in the Explanatory Notes.

Report on operations

Economic background

The international economy

The world economic scenario improved considerably during 1999, after a difficult spell following the financial crises in 1997 and 1998.

The recovery in the South East Asian economy, followed by those of Latin America and Eastern Europe, favoured the return to more stable conditions on international financial markets. Spreads on Eurobond issues fell, while net investment flows, both direct and portfolio investments, towards emerging countries began to grow again.

The United States continued to drive the world economy with a GDP growth rate of 4.1% in 1999. Increased labour productivity made it possible for supply to meet internal demand and to contain the upward pressure on prices due to higher raw material costs.

The Fed intervened on three occasions to bring the policy rate back to where it was prior to the Asian crisis (5.50%), to avoid economic overheating and to keep the lid on medium-term inflationary tensions.

The dollar appreciated during the year by around 16% against the Euro. The strength of the American currency is still linked to the better cyclical position that the United States finds itself in compared with the Eurozone, and to confidence on the part of international investors about the growth prospects of US corporations.

Japan has shown a different economic trend compared with the other main areas in the world. Even though it gained some benefit from the tax cuts approved by the government the previous year, the Japanese economy still had a weak profile in 1999, above all because of the continued absence of growth in private consumption.

The Eurozone and the Italian economy

Real growth in the Eurozone was 2.2% in 1999, down on the 1998 figure of 2.7%, but better than the trend shown in the first half. The climate of confidence on the part of both companies and households improved steadily, and in the second half both internal demand and net exports were on the rise.

Inflation averaged 1.1% in 1999, but started rising again in the second half of the year, reaching 1.7% in December, largely due to the increase in energy prices. The ECB's main refinancing rate was raised to 3% in November, having been cut by 50 basis points in March. The double motive for the increase was to lower the speed at which the monetary supply was expanding and to contain the risks of higher inflation in the medium term.

Growth in the various economies making up the Eurozone was not uniform. The cyclical slowdown that followed the financial crises in 1997 and 1998 hit countries with different levels of intensity. Some, such as France, Ireland and Spain, have shown a more lively performance; others, such as Germany and Italy, turned in only modest growth, even if the situation improved in the second half.

Italy's GDP grew in 1999 by 1.4%. Inflation averaged 1.7% but touched 2% in December. The process of consolidating the public finances continued, with the deficit down to 1.9% of GDP, while the national debt came in at 114.7% of GDP.

The banking industry

Bank lending in Italy went up by 9.1% in 1999, slightly higher than the rate for the whole of the Eurozone. At a time of rising capital expenditure, lending also benefited from higher demand for credit from families for house buying and from companies to finance extraordinary operations.

Bank funding statistics show that throughout 1999 there was a strong preference on the part of private investors to remain liquid. This translated into a sharp increase in current accounts, against a decline in certificates of deposit and slower growth in bonds.

Securities brokerage

On the Italian equity market, higher trading volumes and better performance indices pushed total capitalization by the end of the year to Euro 727 billion, approximately two thirds of Italy's GDP, up 48.5% on twelve months earlier.

Placement business on the primary market and trading on the secondary market both grew during the year. There were 38 new listings and 30 increases in share capital which raised Euro 21.9 billion.

Equity indices performed well. MIBTEL and MIDEX rose by 22.3% and 38.7% respectively. The market seemed to be particularly keen on the stocks of those companies – service companies in the main – that are able to exploit the opportunities to be drawn from using the new web technologies in sectors such as telecommunications, finance and banking.

Asset management

The asset management business – mutual funds, portfolio management and life insurance - continued to grow strongly in 1999, even if the rate was down on the high achieved in 1998. This growth was, however, lower because of the shift in household investments in the previous year. At the end of the year, the assets invested in Italian and Luxembourg mutual funds were in excess of Euro 500 billion, an increase of 30% on 1998. Net inflow was particularly strong in the equity fund segment, foreign ones in particular, thanks to strong performances in the major markets.

The Sanpaolo IMI Group in 1999

Strategy

In 1999 the Group completed the process of integration and rationalization that followed the merger of San Paolo and IMI which took place in 1998. The strategy lines developed in 1998 and applied in 1999 envisaged:
- the development of commission income through the strengthening of the Group's presence in the retail sector, especially in the field of asset management;
- a reduction in normal operating costs;
- an improvement in asset quality and the containment of financial risks;
- the definition and launch of projects for future growth.

The steps taken to boost income were designed to develop customer services, so as to offset the structural decline in margins available from traditional money management. Efforts were aimed in particular at the asset management sector to consolidate the substantial market share held by Sanpaolo IMI. The action taken was geared to both products and the distribution network. This improved the Group's market shares in segments with higher value-added for customers and for the Bank, guaranteeing a rising flow of commissions.

Another important priority was cost containment: new rationalization projects were undertaken, which made it possible to offset the investments made in faster growing areas, especially in asset management and new distribution channels.

Considerable attention was paid to the management of lending and market risks: activities with inadequate returns compared with the level of risk taken on were cut back; the credit selection process was carefully monitored, helped by new customer classification procedures; and stronger steps were taken to recover non-performing loans.

Development initiatives concerned above all business areas with greater growth potential:
- the Commercial Banking area, which looks after households and small to medium-sized enterprises through the branch network, defined new ranges of products and services for the retail segment; it also introduced a new professional role – the customer portfolio manager; it revised the process by which loans are disbursed and monitored and launched initiatives in the field of private banking; lastly, it launched a territorial expansion plan to open new "lightweight" branches and started up a project to build a multi-channel distribution system that enables the clientele to interact with the Bank in an integrated fashion through branch counters, Internet, call centre, remote banking, ATM cash machines and POS terminals;
- in the field of Personal Financial Services, Banca Fideuram has reinforced its leadership position through new products and services, a higher number of financial consultants and the launch of a geographical diversification plan. Sanpaolo Invest is developing a plan that envisages its transformation into a bank, the creation of dedicated products, the recruitment of financial consultants and the provision of on-line services;
- the Investment Banking area has not only completed concentration of all of the Group's capital market activities in Banca IMI, but has also launched a trading on line service through @IMIWEB; in the first few months of 2000 it also reached an agreement with Tiscali, one of Italy's main ISPs, to reinforce @IMIWEB and its transformation into a bank able to offer a whole range of banking, financial and insurance products through Internet.

Important initiatives also concerned:
- the Government Agencies and Infrastructures area, which began a project to set up as a separate company;
- the Large Corporate area, which looks after large Italian and foreign companies, refined its lending procedures, using a system of internal ratings and adopting a new system of correct pricing based on the risk and capital absorbed;
- the Merchant Banking area, which, with the agreement of Compagnia di San Paolo, saw the creation of NHS – Nuova Holding Subalpina, to which Sanpaolo IMI transferred its merchant banking activities;
- the spin-off of a sizeable proportion of the Group's real estate interests to Beni Stabili, which was quoted on the Stock Exchange, generating around Euro 700 million for shareholders;
- the organization of a sale without recourse of almost 40,000 non-performing loans, mainly property loans, carried in the balance sheet at a net book value of around Euro 700 million. This operation, which will be finalized over the next few months at a price that is expected to be higher than their book value, will make it possible to reduce future legal expenses and to free up

people who can be used to recover the remaining balances and to increase control over lending activities. As a result of this deal, the ratio of non-performing loans to total loans will drop from 2.3% to just over 1%.

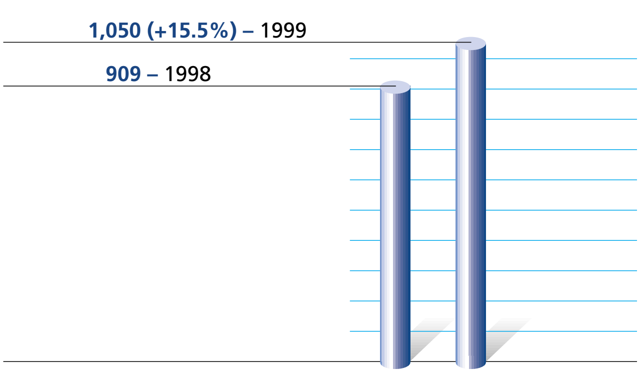
In addition to this internal growth, steps have also been taken to expand the Group by means of alliances and acquisitions, given the favourable economic conditions; for example:
- the alliance with Cassa di Risparmio di Firenze, ratified by Sanpaolo IMI's purchase of a 15% stake in the company, as well as the 4.1% interest held by NHS; this agreement provides for a commercial partnership in the field of asset management and in the corporate area;
- definition of an agreement which should enable Sanpaolo IMI to integrate with Banco di Napoli;
- consolidation of the international alliance with Banco Santander Central Hispano, by increasing Sanpaolo IMI's investment in the Spanish bank to 2%; it was then raised again to 2.8% in early 2000.

Results

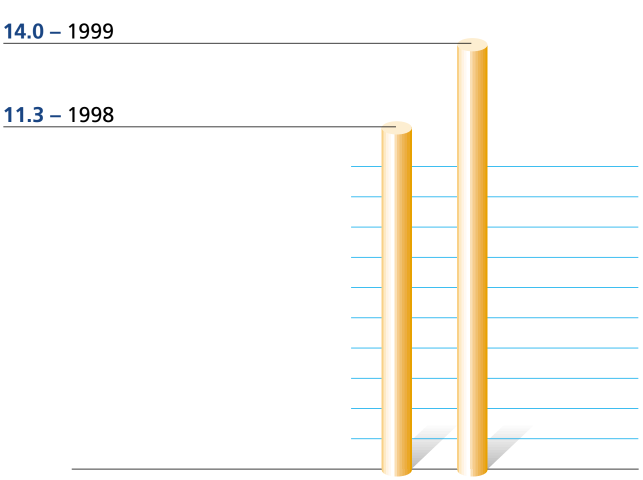
These steps taken by the Group led to a Return on Equity (RoE) of 14%, up on 1998's figure of 11.3%. Net income amounted to Euro 1,050 million, which is 15.5% better than in 1998. Note that:
- net income before extraordinary items came in at Euro 1,504 million (+9.5%); this was managed thanks to higher net commissions, lowering operating costs and fewer loan writedowns, which more than offset the drop in net interest income and profits on financial transactions;
- extraordinary income came to Euro 294 million compared with Euro 120 million in 1998.

Note that net income in 1999:
- includes the book results of the insurance companies Sanpaolo Vita and Sanpaolo Life, for a total of Euro 26 million, and of Fideuram Vita, for Euro 54 million; it should be emphasised, however, that the intrinsic value of the Sanpaolo Vita and Sanpaolo Life businesses rose during the year by around Euro 197 million; the increase registered by Fideuram Vita was Euro 102 million;
- includes a writedown of Euro 58 million of the 18% investment held at the end of the year in Beni Stabili, which was adjusted for prudence sake to the average market price posted in the second half of the year;
- does not include the extraordinary impact of the change in accounting principle on deferred taxation, as this was charged in advance by the Sanpaolo IMI Group in the 1998 financial statements;
- is in line with the announcement made at the time of the fourth quarter report as of December 31, 1999.

Further detail is as follows: Group net interest income came to Euro 2,047 million, a reduction of 15.5% on the previous year. This figure was heavily affected by the sharp drop in market interest rates between 1998 and 1999 following the introduction of the European Single Currency, which entailed reducing the spread to customers and a reduced return on the imbalance between interest-earning assets and interest-bearing liabilities. Net interest income was also affected by the decline in customer lending volumes in the first half of the year. This came about partly because of a management decision to review the Group's loan policy and to reduce any types of higher risk lending that did not gen-



Net Income
millions of Euro



ROE (%)

erate adequate returns. Finally, there was a negative impact from the reduction of the imbalance between interest-earning assets and interest-bearing liabilities following substantial investments in equity shareholdings.

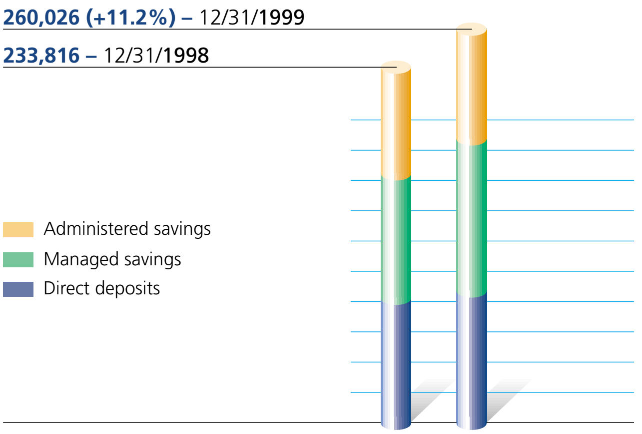
The importance attributed by the Group to asset management was reflected in a strong increase in net commissions from services and in other banking income, coming in at Euro 2,066 million, an increase of 18.5%. Assets under management for customers rose considerably: the stock of managed savings at the end of 1999 was in excess of Euro 110,000 million, up 32.1%, with a flow of more than 26,800 million; the Group's market share at the end of the year is also reckoned to be up by an estimated 13%. In detail:

- mutual funds and fund-based portfolio management schemes accounted for Euro 93,800 million, an increase of 34.3%; this again meant a 17.5% share of the Italian market;
- the technical reserves of the Group's insurance companies reached Euro 10,500 million, with a flow during the year of more than 2,700 million and a market share of premiums written estimated at more than 8%.

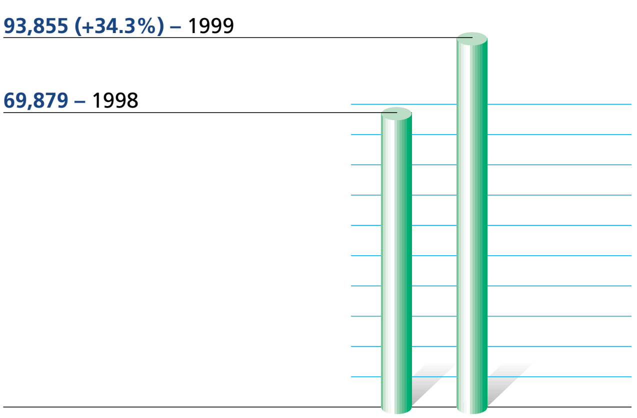
Administrative costs and depreciation, for a total of Euro 2,584 million, net of cost recoveries, are in line with the previous year. The Parent Bank managed to lower its operating costs, thanks to rationalization and greater efficiency, but this was offset by the higher costs related to various projects initiated, again by the Parent Bank and by group companies operating in sectors with the highest growth potential, especially asset management and trading on-line.

The improvement in asset quality is reflected in a further reduction in provisions and writedowns of loans and investment securities, which have been reduced to Euro 481 million, 31.1% less than in 1998. Net non-performing loans decreased by 15.5%, coming in at 2.3% of loans, while problem loans and those being rescheduled went down in total by 28.5% and unsecured loans to countries at risk fell by 29.5%.

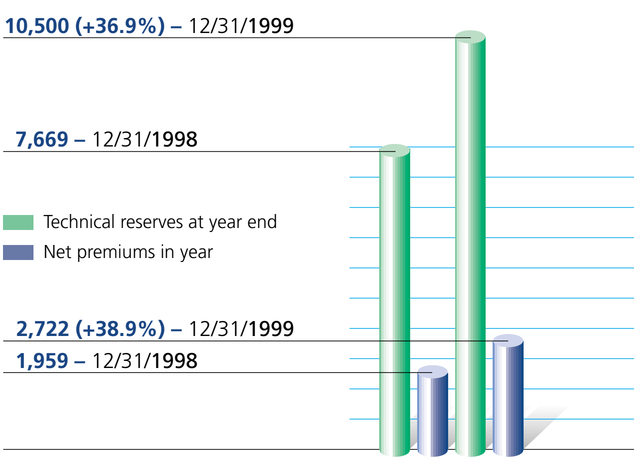
Extraordinary income came to Euro 294 million as a result of two transactions in the first half of the year: the sale of a 20% stake in Crediop to the Dexia Group and acceptance (with a 0.75% interest) of Olivetti's takeover bid for Telecom Italia.



Customer financial assets
millions of Euro



Mutual funds and portfolio management
millions of Euro



Life policies
millions of Euro

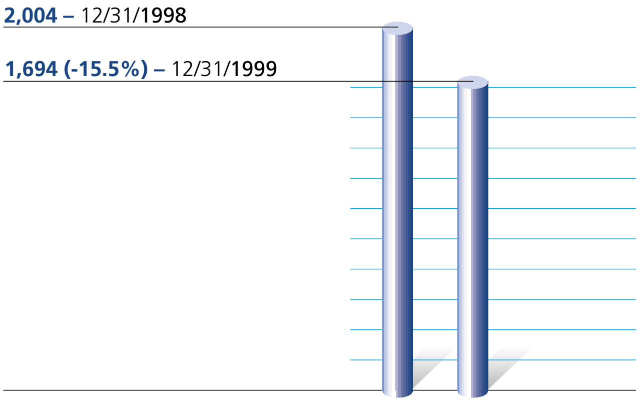
Business sectors

The various situations that have been described at Group level can also be found in the results of the various business sectors. In particular:

- Commercial Banking offset the downward trend in net interest income thanks to the flow of commissions generated by a growing volume of asset management business, measures to contain costs and by reducing provisions and loan adjustments; net income for the sector came to Euro 468 million, which is more than half of the Group's total net income prior to extraordinary items; expressed in terms of RoRAC (Return on Risk Adjusted Capital), this sector achieved 18%;
- Personal Financial Services benefited from the favourable trend in assets under management on behalf of customers: Banca Fideuram and Sanpaolo Invest together showed net income of Euro 150 million, with a return of 27.6%;
- Investment Banking, which is carried out by Banca IMI, managed net income of Euro 76 million, with a return of 20.9%, despite the initial investments needed to start up trading on-line through @IMIWEB;
- the Public Agencies and Infrastructures sector achieved net income of Euro 41 million, a return of 20.1%, thanks to margin protection and a low level of capital absorption;
- the Large Corporate sector operated in a market that featured high levels of customer liquidity, thanks to the very positive free cash flow achieved in recent years; the market also saw a considerable increase in the supply of sophisticated transnational services offered by foreign competitors. Although the market was extremely competitive, this sector managed net income of Euro 59 million and a return of 8.4%;
- Merchant Banking had net income of Euro 36 million and a return of 9.6%, calculated without taking into consideration unrealised gains on equity investments.

Growth prospects

These results enable the Group to meet the challenges that the market will face in the near future with the necessary solidity. The Group's plan for the three-year period 2000-2002, which was approved at the start of this year, envisages considerable investments geared to the internal and external expansion of the areas with high growth potential. Reinforcement of the Group will be achieved without recourse to increases in capital, but rather by issuing preferred shares and subordinated loans, freeing up the capital invested in non-strategic minority shareholdings and the conclusion of various securitization and loan derivative transactions. This will lead to a more efficient and balanced capital structure which is more concentrated on the Group's core business.



Non-performing loans
millions of Euro

Group results

Net interest income

In 1999, Group net interest income came to Euro 2,047 million, down 15.5% on the previous year.

Net interest income was affected by the sharp reduction in market rates between 1998 and 1999, following the introduction of the single European currency, which differentiated the two years quite considerably: the Euribor 3-month interbank rate went down by an average of 2 points during the year, from 5% to 3%.

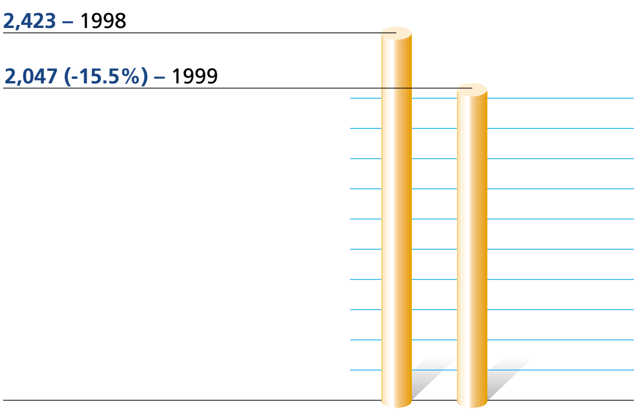
Lower market rates firstly led to smaller spreads being applied to customers. Sight balances at the Italian branches of the Parent Bank went down on average by 80 basis points. The rates earned on loans to customers fell a good deal more than those paid on deposits. Lending rates were affected quite significantly by the aggressive lending policy pursued by competitors, which is reflected in an increase in elasticity of lending rates compared with the reduction in market yields. Borrowing rates, on the other hand, suffered from the problems met in shifting all of the decline in market yields onto the interest rates paid on sight deposits; these fell to a little over 1% on average during the year.

The fall in market rates also meant a lower yield on the net balance of interest-earning assets and interest-bearing liabilities.

The general decline in volumes handled with customers – a feature of most of the year – did not make it possible to offset the negative impact of lower rates and spreads on net interest income. This was the result of a management decision to review the Group's loan policy, and to reduce any types of higher risk lending that did not generate adequate returns.

Net interest income was also affected by the reduction in the net balance between interest-earning assets and interest-bearing liabilities; this was due to considerable purchases of equity investments.

Interest rates in the fourth quarter of 1999 started to return into line with the same period of 1998; this, together with the gradual upswing in lending volumes, made it possible to limit the negative trend in net interest income for the last few months of the year. The decline of 15.5% posted at the end of the year was in fact an improvement on the first half and first three quarter results, respectively -17.8% and -16.8%. The situation is confirmed by the results for the first two months of the current year, with an accentuation of the recovery trend in net interest income.



Net interest income
millions of Euro

Net interest income

	1999 (Euro/mn)	1998 pro forma (Euro/mn)	Change 1999/1998 (%)
Interest income and similar revenues	5,981	8,642	-30.8
Interest expense and similar charges	-3,934	-6,219	-36.7
Net interest income	**2,047**	**2,423**	**-15.5**

Analysis of average amounts, interest and rates

	1999			1998 pro forma		
	Average level (Euro/mn)	Interest (Euro/mn)	Average rate (%)	Average level (Euro/mn)	Interest (Euro/mn)	Average rate (%)
Interest-earning assets	**113,419**	**6,031**	**5.32**	**131,638**	**8,660**	**6.58**
- loans to customers	*69,115*	*4,195*	*6.07*	*69,992*	*5,413*	*7.73*
- in Euro	62,633	3,882	6.20	n.d.	n.d.	n.d.
- in foreign currency	6,482	313	4.83	n.d.	n.d.	n.d.
- due from banks	*18,174*	*635*	*3.49*	*22,198*	*1,111*	*5.00*
- in Euro	14,502	502	3.46	n.d.	n.d.	n.d.
- in foreign currency	3,672	133	3.62	n.d.	n.d.	n.d.
- securities	*17,980*	*913*	*5.08*	*26,082*	*1,475*	*5.65*
- in Euro	14,658	731	4.99	n.d.	n.d.	n.d.
- in foreign currency	3,322	182	5.48	n.d.	n.d.	n.d.
- repurchase agreements	*8,150*	*288*	*3.53*	*13,366*	*663*	*4.96*
- in Euro	5,996	218	3.64	n.d.	n.d.	n.d.
- in foreign currency	2,154	70	3.25	n.d.	n.d.	n.d.
Non interest-earning assets	**21,684**			**21,749**		
Total assets	**135,103**	**6,031**		**153,387**	**8,660**	
Interest-bearing liabilities	**108,949**	**3,984**	**3.66**	**124,655**	**6,237**	**5.00**
- due to customers	*37,273*	*622*	*1.67*	*36,024*	*1,209*	*3.36*
- in Euro	36,137	577	1.60	n.d.	n.d.	n.d.
- in foreign currency	1,136	45	3.96	n.d.	n.d.	n.d.
- securities issued	*35,677*	*1,881*	*5.27*	*38,229*	*2,382*	*6.23*
- in Euro	30,454	1,625	5.34	n.d.	n.d.	n.d.
- in foreign currency	5,223	256	4.90	n.d.	n.d.	n.d.
- due to banks	*20,966*	*917*	*4.37*	*29,300*	*1,592*	*5.43*
- in Euro	14,663	662	4.51	n.d.	n.d.	n.d.
- in foreign currency	6,303	255	4.05	n.d.	n.d.	n.d.
- repurchase agreements	*12,419*	*406*	*3.27*	*18,243*	*853*	*4.68*
- in Euro	10,515	339	3.22	n.d.	n.d.	n.d.
- in foreign currency	1,904	67	3.52	n.d.	n.d.	n.d.
- subordinated liabilities	*2,614*	*158*	*6.04*	*2,859*	*201*	*7.03*
- in Euro	1,697	100	5.89	n.d.	n.d.	n.d.
- in foreign currency	917	58	6.32	n.d.	n.d.	n.d.
Non interest-bearing liabilities	**18,135**			**20,177**		
Shareholders' equity	**8,019**			**8,555**		
Total liabilities and shareholders' equity	**135,103**	**3,984**		**153,387**	**6,237**	
Net interest income		**2,047**			**2,423**	

Net interest and other banking income

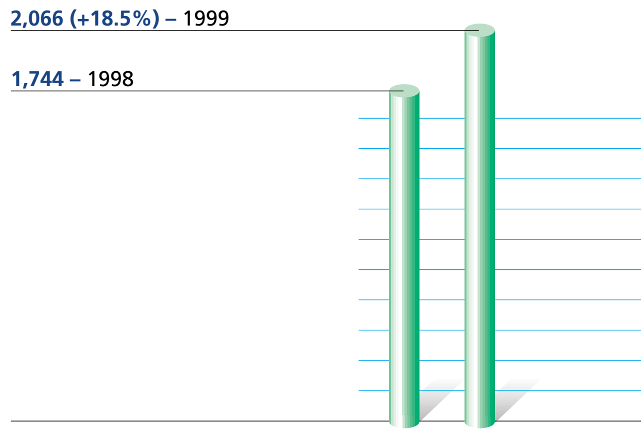
The decline in net interest income was almost entirely offset by the increase in net commissions, largely thanks to asset management services to households. Commissions permitted net interest and other banking income to come in at Euro 4,569 million, limiting the decline from 1998 to 1.9%.

Net commissions and other dealing revenues amounted to Euro 2,066 million, an increase of 18.5% over the year, even better than the 11% achieved in the first half and the 14.6% achieved in the first nine months.

Commissions earned by the asset management, dealing and advisory areas, in particular, showed an increase of 25% in 1999. This was above all thanks to the growth in mutual funds, portfolio management and insurance policies sold to customers, which rose by more than 32% with a flow of more than Euro 26,800 million; secondly, it was thanks to the growing importance of mutual funds and higher value-added products, especially unit linked and index linked policies. The proportion of equity funds went up over the twelve months from 24% to 38%, while unit linked and index linked policies rose by 115%.

Also of importance in the composition of other commissions and net dealing revenues was the increase in income from merchant banking activities, which went from Euro 8 to 26 million.

The increase in commissions led to a further improvement in the ratio between commissions and personnel expenses, which rose from 114% at the end of 1998 to 135%. The ratio between commissions and total administrative costs also improved from 71% to 84%.



Net commissions and other dealing income
millions of Euro

Net interest and other banking income

	1999 (Euro/mn)	1998 pro forma (Euro/mn)	Change 1999/1998 (%)
Net interest income	2,047	2,423	-15.5
Net commissions	2,066	1,744	+18.5
- on management, dealing and advisory services	*1,523*	*1,218*	*+25.0*
- on loans and guarantees	*174*	*170*	*+2.4*
- on collection and payment services	*127*	*127*	*-*
- on deposit and current accounts	*169*	*185*	*-8.6*
- on other services	*73*	*44*	*+65.9*
Profits/(losses) on financial transactions and dividends on shares	251	316	-20.6
Profits of companies carried at equity and dividends on equity investments	205	173	+18.5
Net interest and other banking income	**4,569**	**4,656**	**-1.9**

There was also an improvement in the earnings made by the companies valued at net equity and in dividends on equity investments (Euro 205 million), 18.5% better than in 1998. As part of this, Sanpaolo Vita and Fideuram Vita, the Group's insurance companies that operate in the field of life insurance, contributed Euro 80 million to consolidated net income, 5% better than in 1998. Dividends amounted to Euro 87 million against Euro 25 million in 1998. The increase was due to the Group's purchase of additional equity investments during the year and includes Euro 38 million of extraordinary dividends paid out by INA in November.

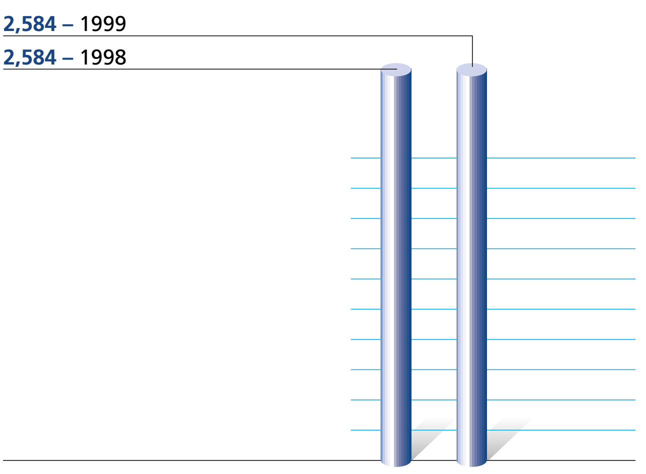
The change in market scenario and the decision to restrict the Group's risk profile, on the other hand, have had an effect on the level of profits from financial transactions, down 20.6% to Euro 251 million. There was a particular reduction in the operations carried out by the foreign network on securities and derivatives and in transactions in foreign exchange, due to the introduction of the Euro.

Operating income

Operating income amounted to Euro 1,985 million, down 4.2% compared with the end of 1998.

Administrative costs and amortization and depreciation, for a total of Euro 2,584 million, net of cost recoveries, were in line with 1998. The Parent Bank's operating costs were lower, thanks to measures taken to rationalise and to boost efficiency, but these were offset by the higher costs incurred on the various projects initiated by the Parent Bank and other Group companies operating in areas with higher growth potential, especially in the field of asset management and trading on-line. The investments made in these projects led to an interruption of the decline in the cost to income ratio: including amortization and depreciation and net of recoveries, this came to 56.6% compared with last year's figure of 55.5%.

The steps taken by the Parent Company to rationalize operating costs were incisive: personnel expenses were reduced by 2%; other administrative expenses by 5.8%. The workforce was reduced by 500 people, leading to a reduction of almost 1,300 jobs in the last two years.



Administrative costs and amortization net of recoveries
millions of Euro

Operating income

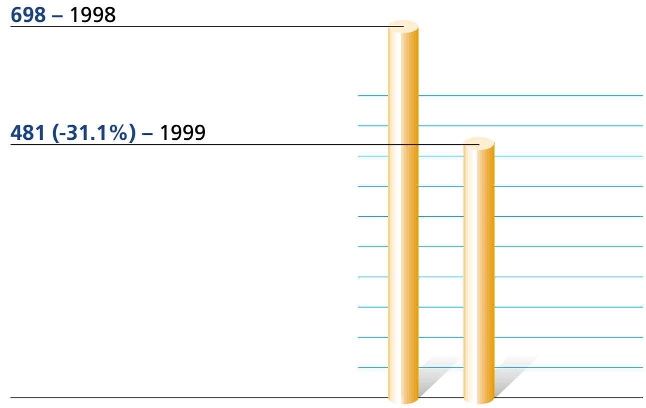
	1999 (Euro/mn)	1998 pro forma (Euro/mn)	Change 1999/1998 (%)
Net interest and other banking income	4,569	4,656	-1.9
Administrative costs	-2,466	-2,466	-
• *personnel*	*-1,534*	*-1,526*	*+0.5*
• *other administrative costs*	*-763*	*-769*	*-0.8*
• *indirect taxes and similar dues*	*-169*	*-171*	*-1.2*
Other operating income	175	184	-4.9
Adjustments to tangible fixed assets	-133	-147	-9.5
Adjustments to intangible fixed assets	-160	-155	+3.2
Operating income	**1,985**	**2,072**	**-4.2**

Income before extraordinary items

Lower provisions and value adjustments, thanks to the improvement in asset quality, enabled the Group to achieve income before extraordinary items of Euro 1,504 million, an increase of 9.5% over the previous year.

Adjustments to the value of loans and investment securities, together with provisions, fell by 31.1% to Euro 481 million. A lower flow of doubtful loans and more effective recovery procedures were reflected in a 15.5% decrease in net non-performing loans since the start of the year, as well as 28.5% fewer doubtful loans and loans being rescheduled and a 29.5% cut in unsecured loans to residents in countries at risk. There was also a good proportion of doubtful loans that were collected for amounts higher than their net book value, written down in previous years: Euro 224 million of principal and interest were reinstated, while losses on transactions and disposals were held to Euro 31 million, confirming the strict valuation policy adopted by the Group.

Value adjustments include the writedown, equal to Euro 58 million, of the 18% stake in Beni Stabili, which was adjusted for prudence sake to average market prices for the second half of the year. Value adjustments also include Euro 60 million of writedowns of unsecured loans and investment securities vis-à-vis residents in Russia, whose coverage was raised from 60% to 85% of their nominal value.



Provisions and net adjustments to loans and financial fixed assets
millions of Euro

Income before extraordinary items

	1999 (Euro/mn)	1998 pro forma (Euro/mn)	Change 1999/1998 (%)
Operating income	1,985	2,072	-4.2
Provisions for risks and charges	-81	-100	-19.0
Net adjustments to loans and provisions for guarantees and commitments	-313	-531	-41.1
- writedowns and losses, net	*-537*	*-662*	*-18.9*
- net provisions for guarantees and commitments	*-*	*-16*	*n.s.*
- recoveries	*224*	*147*	*+52.4*
Net adjustments to financial fixed assets	-87	-67	+29.9
- writedowns of equity investments, net	*-73*	*-41*	*+78.0*
- writedowns of investment securities, net	*-14*	*-26*	*-46.2*
Income before extraordinary items	**1,504**	**1,374**	**+9.5**

Net income

Net income amounted to Euro 1,050 million, up 15.5% on 1998.

Net extraordinary income came to Euro 294 million, essentially because of two transactions that took place in the first half of the year:

- the sale of a 20% stake in Crediop, which led to a capital gain of Euro 94 million;
- the acceptance of Olivetti's takeover bid for Telecom Italia, which generated a capital gain of Euro 215 million.

Net income

	1999 (Euro/mn)	1998 pro forma (Euro/mn)	Change 1999/1998 (%)
Income before extraordinary items	1,504	1,374	+9.5
Extraordinary income/(expense):	294	120	+145.0
- net gains on disposals of properties and equity investments	*323*	*24*	*n.s.*
- other extraordinary income (loss), net	*-29*	*96*	*n.s.*
Income before income taxes	1,798	1,494	+20.3
Income taxes	-685	-534	+28.3
Change in reserve for general banking risks	-1	-8	-87.5
(Income)/Loss attributable to minority shareholders	-62	-43	+44.2
Net income	**1,050**	**909**	**+15.5**

Embedded value of the life portfolio

The embedded value of the life companies

Group net income includes the results of the Group's life insurance companies, namely:
- Sanpaolo Vita, together with its subsidiary Sanpaolo Life, with net income of Euro 26 million;
- Fideuram Vita posted net income of Euro 54 million.

To understand fully the meaning of these results, it is worth remembering that one of the most significant indicators of an insurance company's performance is the increase over the period in its embedded value. Embedded value is in fact an estimate made by actuarial methods of the economic value of a company with a closed portfolio, in other words disregarding whatever value can be given to future business. This is understood as being the sum of two elements:
- the company's net equity adjusted to market values at the valuation date;
- the value of the portfolio of policies outstanding at the valuation date, calculated as the net present value of the after-tax earnings that the existing portfolio will generate, based on actuarial probabilities, over the years up to its natural expiry, adjusted for the opportunity cost linked to the restriction created by the solvency margin.

The estimated increase in embedded value during 1999 for the Group's insurance companies is Euro 132 million for Sanpaolo Vita and Euro 88 million for Fideuram Vita. In detail:

Embedded value of the life company

	Sanpaolo Vita/ Sanpaolo Life (Euro/mn)	Fideuram Vita (Euro/mn)
• Embedded value as of 12/31/99	410	725
• Estimate of the increase in value during 1999	132	88
including:		
• Increase in value attributable to 1999	*122*	*21*

It should pointed out that the embedded value as of December 31, 1999 of Sanpaolo Vita, Sanpaolo Life and Fideuram Vita was calculated with the help of the actuarial divisions of leading auditing companies, according to the following criteria:
- before valuing the current portfolio, an actuarial examination was carried out on the companies' contract portfolios, and the expected future operations scenarios were defined. Key elements in the definition of such scenarios are the assumptions that were made about future asset yields, mortality trends, management costs of the portfolios in question, the trend in early abandonment of policies for anomalous reasons and in options exercised by customers, as well as the tax burden;
- subsequently, a comparison was made, based on generally accepted actuarial procedures, between the operating scenarios used to calculate premiums for the current portfolio, normally more prudent, and the expected scenarios, as formulated above. This gave rise to a series of estimated values of the profits that the portfolio will generate in each of the years of its residual life, net of tax charges and the opportunity cost connected with maintaining the solvency margin;
- this series of values was then discounted at a rate equal to the current rate of interest on a risk-free investment, raised by a certain amount to take account of the uncertainties in the flow of profits outlined above, largely because of the uncertainty whether the underlying assumptions will come true in real life.

Note that as far as Sanpaolo Vita is concerned, its embedded value was calculated for the first time as of December 31, 1999.

The assumptions taken into consideration when formulating the future operating scenarios were defined with considerable prudence. They also take account of the characteristics of the various companies' portfolios. In particular, the discounting rate used was 7.85% for Sanpaolo Vita and Sanpaolo Life, and 7.5% for Fideuram Vita, substantially higher than the figure assumed for the rate that the assets were assumed to yield, namely 4.85% and 5% respectively. Similar levels of prudence were used in defining the demographic and actuarial assumptions.

Embedded value of the Group's insurance business

In the interests of full disclosure, information is also given on the estimated increase in the embedded value of the Group's life insurance business during 1999. The reason for this is that apart from the embedded value of the Group's life insurance companies, as just discussed, there is another component to be considered: namely the part of the embedded value that is allocated to the other Group companies that earn sales, management or maintenance commissions. The results of the estimate are as follows:

Embedded value of the business

	Sanpaolo Vita / Sanpaolo Life (Euro/mn)	Fideuram Vita (Euro/mn)
• Estimate of the embedded value as of 12/31/99	506	744
• Estimate of the increase in embedded value during 1999	197	102
including:		
• *Increase in value attributable to 1999*	*180*	*34*

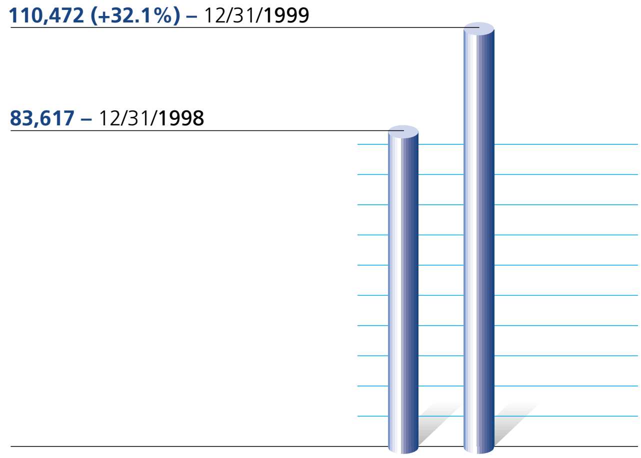
Note that the embedded value of the life business at Group companies that earn sales, management or maintenance commissions from the Group's life insurance companies is estimated as the net present value of the specific profits, net of costs and after taxes, that such companies will earn on the policy portfolio up to the end of their contractual commitment.

Operating volumes and organization

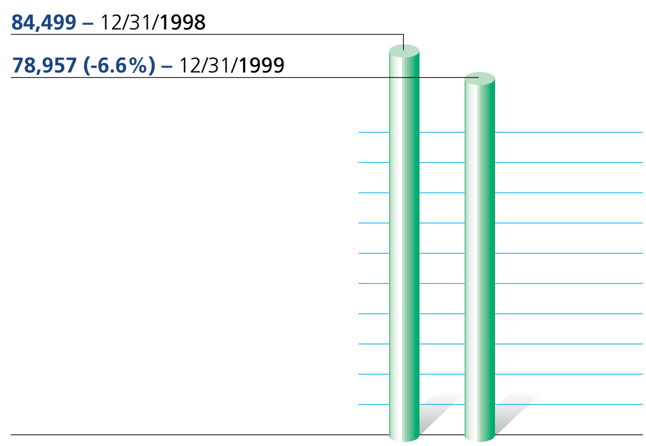
Assets managed on behalf of customers

The Group attributes a great deal of importance to the management of customers' financial assets. In 1999 this was reflected in the fact that this aggregate grew even further. Customers' financial assets at the end of 1999 reached a total of Euro 260,026 million, a net inflow of Euro 26,210 million (+11.2%).

This development in customers' financial assets reflects the results achieved in the professional asset management sector. This is the area where the Group concentrated most of its efforts, as this is where customers expressed the most needs. By the end of December, mutual funds, portfolio management schemes and insurance policies exceeded a total of Euro 110,000 million, an additional inflow of Euro 26,855 million with a rate of growth of 32.1%. Asset management therefore represented 42% of total customers' financial assets at the end of 1999, compared with 36% at the end of 1998.



Asset management
millions of Euro



Direct deposits
millions of Euro

Customers' financial assets

	12/31/99 (Euro/mn)	12/31/99 %	12/31/98 pro forma (Euro/mn)	12/31/98 pro forma %	Change 1999/1998 (%)
Asset management	110,472	42.5	83,617	35.8	+32.1
- mutual funds	*76,019*	*29.2*	*59,412*	*25.4*	*+28.0*
- fund-based portfolio management	*17,836*	*6.9*	*10,467*	*4.5*	*+70.4*
- portfolio management	*6,117*	*2.4*	*6,069*	*2.6*	*+0.8*
- life insurance	*10,500*	*4.0*	*7,669*	*3.3*	*+36.9*
Asset administration	70,597	27.1	65,700	28.1	+7.5
Direct customer deposits	78,957	30.4	84,499	36.1	-6.6
- current and deposit accounts	*36,096*	*13.9*	*31,167*	*13.3*	*+15.8*
- certificates of deposit	*9,090*	*3.5*	*11,761*	*5.0*	*-22.7*
- bonds	*23,643*	*9.1*	*25,897*	*11.1*	*-8.7*
- commercial paper	*2,584*	*1.0*	*1,395*	*0.6*	*+85.2*
- repurchase agreements	*3,758*	*1.4*	*8,863*	*3.8*	*-57.6*
- other	*3,786*	*1.5*	*5,416*	*2.3*	*-30.1*
Customers' financial assets	**260,026**	**100.0**	**233,816**	**100.0**	**+11.2**

Market positioning

The positive trend in customers' financial assets made it possible to reinforce the Group's competitive positioning on the domestic market: Sanpaolo IMI's market share at the end of 1999 was estimated at 11%, an improvement from the beginning of the year. The increase in the Group's share of the asset management market, some 13%, increased over the year by one percentage point, which more than offset the decline in direct deposits, down from 7.9% to 7.1%.

Asset management and administration

The increase in the Group's asset management business affected all types of customer investments.

Mutual funds and fund-based portfolio management schemes showed an inflow of Euro 23,976 million during the year, reaching Euro 93,855 million (+34.3%). Net funding over the twelve months came to Euro 13,984 million, of which Euro 7,837 million refers to the banking channel and 6,147 million to Banca Fideuram and Sanpaolo Invest's networks of financial consultants. Total funds under management underwent a revaluation of Euro 9,992 million.

The Group maintained its number one place in the ranking of mutual funds on the domestic market with a share at the end of 1999 of 17.5%. This meant that effective action was taken to counteract the potential decrease that could have resulted from increased competition, as well as from the higher flows of direct and administered funding that is being diverted into asset management schemes by new competitors that entered the market after Sanpaolo IMI. The proportion of equity funds also rose, up from 24% to 38% over the twelve months.

The technical reserves of the Group's insurance companies reached a total of Euro 10,500 million, for an inflow of more than Euro 2,800 million during the year (+36.9%). Sanpaolo Vita, Sanpaolo Life and Fideuram Vita overall could claim a market share of premiums written of more than 8%, putting them in second place in absolute terms after Italy's most important insurance group and in first place among the insurance companies owned by banks.

Assets under administration came to Euro 70,597 million, up 7.5% since the start of the year, mainly due to the substantial revaluation of equity prices in 1999.

Services provided to institutional clients

There was also an increase in asset management services provided to institutional clients: at the year end, the portfolios managed by the Group on behalf of insurance companies, banks, pension funds and other entities came to Euro 6,600 million, an increase of 34% since the start of the year. In the field of pension funds, where assets exceeded Euro 1,700 million, it is worth mentioning the start of operations in the area of open-ended pension funds, launching two products that are being distributed by the Parent Bank's branches and by the financial consultants of Sanpaolo Invest and Banca Fideuram.

Considering the high growth potential of the business with institutional clients, the Group set up Sanpaolo IMI Institutional Asset Management SGR, whose capital is split between the Group's asset management companies and Banca IMI.

Direct deposits

Private investors are continuing to switch out of traditional forms of funding and into asset management schemes. This has led to a decline in direct deposits of 6.6% over the year, ending up at a total of Euro 78,957 million.

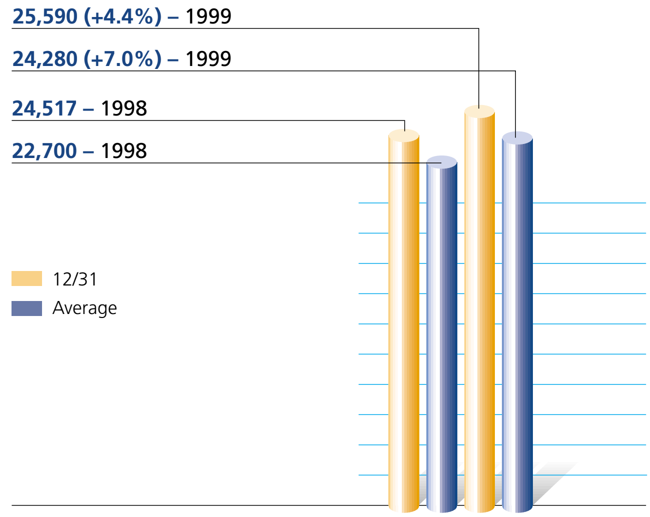
To start with, this switch into asset management has affected the trend in time deposits: bonds have fallen by

Market share %

		12/31/99	12/31/98 pro forma
Asset management market		13.0 (estimated)	11.9
Of which:	*- Mutual funds and fund-based portfolio management*	*17.5*	*17.5*
	- Portfolio management	*4.6*	*3.4*
	- Life insurance	*7.6*	*6.9*
Direct deposits		7.1	7.9

8.7%, while certificates of deposit have fallen by 22.7%; the strong preference on the part of customers for professional management of their savings has also led to a decline in repurchase agreements, down by 57.6%.

The use of current and deposit accounts, on the other hand, went up by 15.8%. This reflects above all the year-end increase in short-term deposits taken by the Bank's branches in Italy and by the banks operating abroad. The sight deposits of Italian branches, which is the most remunerative portion of total funding, showed an increase of 4.4% at the end of 1999 and of 7% in terms of the average total balance during the year.



Current accounts and deposits with Italian branches of the Parent Bank
millions of Euro

Direct deposits by maturity and residence

	12/31/99 (Euro/mn)	12/31/99 %	12/31/98 pro forma (Euro/mn)	12/31/98 pro forma %	Change 1999/1998 (%)
On demand	33,958	43.0	29,380	34.8	+15.6
Maturing within 12 months	21,836	27.7	26,162	31.0	-16.5
Maturing beyond 12 months	23,163	29.3	28,957	34.3	-20.0
- fixed-rate	*12,214*	*15.5*	*13,497*	*16.0*	*-9.5*
- floating	*10,949*	*13.9*	*15,460*	*18.3*	*-29.2*
From Italian residents	57,089	72.3	66,058	78.2	-13.6
From residents of other EU countries	14,742	18.7	13,395	15.9	+10.1
From residents elsewhere	7,126	9.0	5,046	6.0	+41.2

Customer loans

Customer loans at the end of the year came to Euro 73,174 million, substantially in line with the figure at the start of the year.

Consumer loans went up by 13.4%. Personal loans, granted by the Parent Bank and by Finconsumo, a subsidiary, grew by 41%. House-buying loans showed an increase in mortgages on the domestic market of Euro 1,750 million. This market, to which the Group devoted a considerable

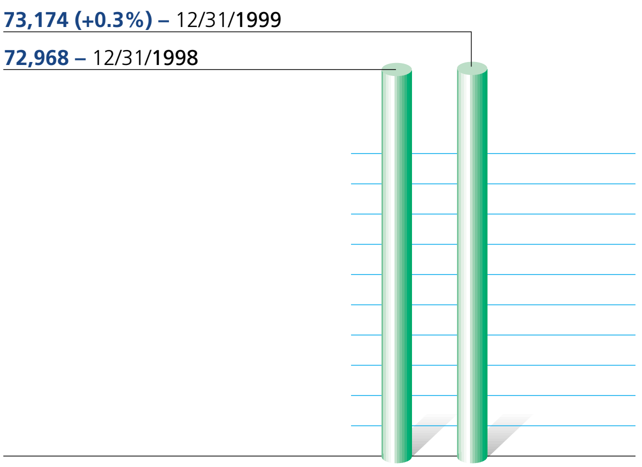
Loans to customers

	12/31/99 (Euro/mn)	12/31/99 %	12/31/98 pro forma (Euro/mn)	12/31/98 pro forma %	Change 1999/1998 (%)
Short-term	26,701	36.5	27,607	37.8	-3.3
Medium- and long-term	44,779	61.2	43,357	59.4	+3.3
Non-performing loans	1,694	2.3	2,004	2.8	-15.5
Customer loans portfolio	**73,174**	**100.0**	**72,968**	**100.0**	**+0.3**

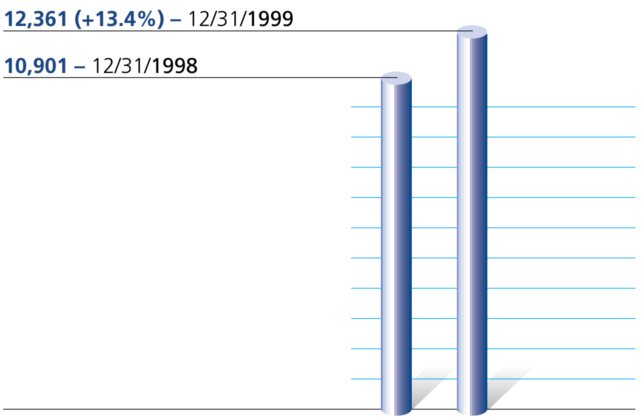
sales effort, benefited from the favourable trend in the property market. This was partly thanks to the level of interest rates which were still very attractive for the general public despite the upturn towards the end of the year.

Loans to companies and other businesses, on the other hand, showed a 2% contraction. The lending trend was affected not only by the Group's policy to give preference to the return on capital absorbed by each loan. It was also affected by companies' greater recourse to self-financing and the capital market, as well as early repayment of bank loans by many large corporate borrowers. It is also important to emphasise that the decline in loans to corporate clients mainly concerned finance companies, down 26.8%, falling as a percentage of total loans over the last two years from 13.5% to 9.2%.

Short-term loans fell by 3.3%, with a significant decline in the portion represented by domestic repurchase agreements (-46%). Medium/long-term loans, on the other hand, went up by 3.3%, thanks to the positive trend in property loans and public works financing. This offset the decline in lending to the financial sector and to large corporate clients.



Net loans to customers
millions of Euro



Loans to families
millions of Euro

Loans to customers by counterparty

	12/31/99		12/31/98 pro forma		Change 1999/1998
	(Euro/mn)	%	(Euro/mn)	%	(%)
Consumers	12,361	16.9	10,901	14.9	+13.4
Family businesses and non-financial companies	43,260	59.1	43,746	60.0	-1.1
Financial companies	6,751	9.2	9,225	12.6	-26.8
Governments and public bodies	9,940	13.6	8,839	12.1	+12.5
Other	862	1.2	257	0.4	+235.4
Total customer loans	**73,174**	**100.0**	**72,968**	**100.0**	**+0.3**

Loans to customers by category

	12/31/99 (Euro/mn)	12/31/99 %	12/31/98 pro forma (Euro/mn)	12/31/98 pro forma %	Change 1999/1998 (%)
Consumers	12,361	16.9	10,901	14.9	+13.4
- Domestic network	*11,132*	*15.2*	*9,829*	*13.5*	*+13.3*
- overdrafts	*848*	*1.2*	*758*	*1.0*	*+11.9*
- personal loans	*966*	*1.3*	*685*	*0.9*	*+41.0*
- mortgages	*8,615*	*11.8*	*7,787*	*10.7*	*+10.6*
- other	*703*	*1.0*	*599*	*0.8*	*+17.4*
- Foreign network	*1,229*	*1.7*	*1,072*	*1.5*	*+14.6*
Family businesses, companies, governments, public bodies and other	60,813	83.1	62,067	85.1	-2.0
- Domestic network	*52,333*	*71.5*	*54,523*	*74.7*	*-4.0*
- overdrafts	*7,996*	*10.9*	*7,479*	*10.2*	*+6.9*
- repurchase agreements	*1,245*	*1.7*	*2,304*	*3.2*	*-46.0*
- import/export financing	*1,290*	*1.8*	*1,359*	*1.9*	*-5.1*
- leasing	*1,580*	*2.2*	*1,339*	*1.8*	*+18.0*
- instalment-based loans	*28,176*	*38.5*	*29,012*	*39.8*	*-2.9*
- other	*12,046*	*16.5*	*13,030*	*17.9*	*-7.6*
- Foreign network	*8,480*	*11.6*	*7,544*	*10.3*	*+12.4*
Total customer loans	**73,174**	**100.0**	**72,968**	**100.0**	**+0.3**

Loans to customers by maturity and residence

	12/31/99 (Euro/mn)	12/31/99 %	12/31/98 pro forma (Euro/mn)	12/31/98 pro forma %	Change 1999/1998 (%)
On demand	12,405	17.0	11,414	15.6	+8.7
Repayable within 12 months	22,322	30.5	22,872	31.3	-2.4
Repayable beyond 12 months	36,492	49.9	35,730	49.0	+2.1
- fixed-rate	*15,451*	*21.1*	*15,000*	*20.6*	*+3.0*
- floating	*21,041*	*28.8*	*20,730*	*28.4*	*+1.5*
Unspecified duration	1,955	2.7	2,952	4.0	-33.8
To Italian residents	60,999	83.4	62,725	86.0	-2.8
To residents of other EU countries	7,679	10.5	6,764	9.3	+13.5
To residents elsewhere	4,496	6.1	3,479	4.8	+29.2

Market positioning

These movements have led to a reduction in the share of the Group's lending on the domestic market, down from 9.3% to 8.5%. This contraction affected both short-term loans, down by 0.4 points, and medium/long-term loans, down by 1.2 points.

Market shares

%

	12/31/99	12/31/98 pro forma
Short-term	5.9	6.3
Medium/long-term	11.0	12.2
Total	**8.5**	**9.3**

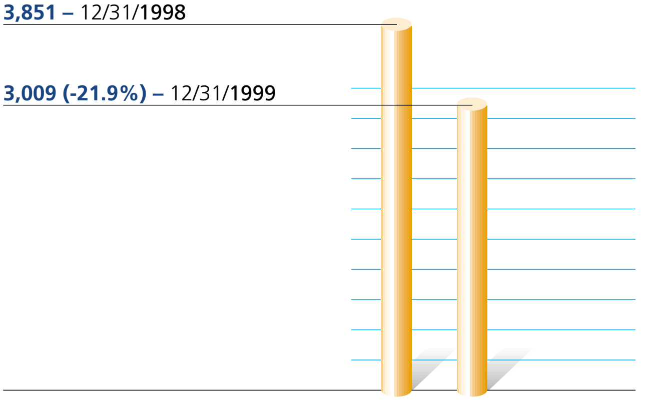
Doubtful loans

A lower flow of doubtful loans thanks to the improvement in asset quality and better procedures for the recovery of critical positions led to a further reduction in doubtful loans. Non-performing loans, problem loans, rescheduled loans and those being rescheduled, together with the unsecured loans to countries at risk, did in fact drop to a total of Euro 3,009 million, a decline over the year of Euro 842 million (-21.9%).

Net non-performing loans, in particular, went down during the period by 15.5%, coming in at Euro 1,694 million, partly thanks to collections of Euro 442 million. The proportion of net non-performing loans to total customer loans fell 2.3%, compared with 2.7% at the end of 1998. Net of write-offs, coverage has increased from 66.5% to 71%.

Problem loans, rescheduled loans and those being rescheduled, net of adjustments, came in at Euro 1,162 million, with a decline of 28.5%. As a percentage of total customer loans, they came down to 1.6%, against 2.2% in December 1998. Total coverage, including write-offs, rose from 33.7% to 42%.

Exposure to countries at risk, due to unsecured cash loans, fell to Euro 153 million, of which Euro 48 million relates to customer loans and Euro 105 million to interbank loans. The reduction during 1999, of Euro 64 million, was mainly due to increasing the percentage writedown of loans to Russia from 60% to 85%. Total coverage of loans to countries at risk went up from 38.9% to 54.5%.



Doubtful loans
millions of Euro

Doubtful loans

	12/31/99		12/31/98 pro forma		Change 1999/1998
	(Euro/mn)	%	(Euro/mn)	%	(%)
Non-performing	1,694	2.3	2,004	2.7	-15.5
Problem, rescheduled, being rescheduled	1,162	1.6	1,626	2.2	-28.5
Customer loans subject to country risk	48	0.1	107	0.1	-55.1
Normally-performing loans	70,270	96.0	69,231	94.9	+1.5
Total customer loans	**73,174**	**100.0**	**72,968**	**100.0**	**+0.3**
Non-performing and under-performing loans to banks	-		4		n.s.
Loans to banks subject to country risk	105		110		-4.5

Activities on financial markets

Brokerage

Group operations on the financial markets featured a constant emphasis on the risk profile.

Trading activities, carried on by Banca IMI and its subsidiaries, saw the Group strengthen its position on the main international markets. Banca IMI acted as primary dealer in the public debt of Italy, Germany, France, Belgium, Holland, Spain and Greece, and it also consolidated its operations on the secondary market in Polish and Hungarian government securities. Trading activities were mainly geared to taking advantage of arbitrage opportunities, rarely taking direct directional positions. Even though trading increased, especially in equities, this did not entail higher risk profiles than in the previous year.

On the interbank market, Sanpaolo IMI confirmed its position as a leading protagonist by the inclusion of the Parent Bank in the Euribor panel, which consists of Europe's top banks. The Parent Bank's operations amounted to Euro 350,000 million, of which 171,000 million on the e-MID screen-based market, giving a market share of 4.65%. Interbank business featured a greater recourse of European banks and a more accentuated use of the Group's funding vehicles.

The securities portfolio decreased by 23%, finishing the year at Euro 18,401 million. This decline affected both the investment portion, which dropped by 25%, and the dealing and treasury portion, which decreased by 22.8%.

Securities, interbank position and derivatives

	12/31/99		12/31/98 pro forma		Change 1999/1998
	(Euro/mn)	%	(Euro/mn)	%	(%)
Investment securities	1,756	9.5	2,341	9.8	-25.0
Dealing securities	16,645	90.5	21,565	90.2	-22.8
Securities portfolio	**18,401**	**100.0**	**23,906**	**100.0**	**-23.0**
Deposits with banks	22,145		22,458		-1.4
Funding from institutional banking organizations	4,278		4,345		-1.5
Funding from other banks	23,734		20,796		+14.1
Derivatives and forward transactions in foreign currencies (at nominal value)	268,741		330,607		-18.7

Securities by category and maturity

	12/31/99		12/31/98 pro forma		Change 1999/1998
	(Euro/mn)	%	(Euro/mn)	%	(%)
Debt securities	16,937	92.0	22,705	95.0	-25.4
- government securities	*9,390*	*51.0*	*15,794*	*66.1*	*-40.5*
- other	*7,547*	*41.0*	*6,911*	*28.9*	*+9.2*
Equities	1,464	8.0	1,201	5.0	+21.9
Sight securities	1,197	6.5	148	0.6	+708.8
Short-dated (within 12 months)	3,940	21.4	9,168	38.4	-57.0
Long-dated (beyond 12 months)	11,800	64.1	13,389	56.0	-11.9
- fixed-rate	*5,290*	*28.7*	*7,953*	*33.3*	*-33.5*
- floating	*6,510*	*35.4*	*5,436*	*22.7*	*+19.8*
Quoted securities	14,327	77.9	20,501	85.8	-30.1
Unquoted securities	4,074	22.1	3,405	14.2	+19.6

Placement and advisory business

The Group reinforced its position in placement and special finance business on the domestic market.

In the bond segment, Banca IMI arranged and took part in the placement of loans for corporate and banking issuers for a total of Euro 4,500 million, 40% more than in 1998. It was also the first Italian bank to carry out a receivables securitization deal by means of a special purpose vehicle.

In the equity segment, Banca IMI acted as global coordinator or sponsor for numerous placements, including: Tiscali, Acea, Italdesign/Giugiaro, Permasteelisa, Mirato and Grandi Navi Veloci. Banca IMI also took part, as a member of the public offer management group, in the placement syndicates for Enel, Autostrade and Banca Monte dei Paschi di Siena; it acted as lead manager in the placement of the Italian tranche of Deutsche Telekom, the first pan-European public offer for sale; and lastly, it handled the private placement of an approximately 19% stake in the capital of Banca Agricola Mantovana.

In addition, Banca IMI increased its corporate advisory business in mergers and acquisitions and other special deals for leading Italian and foreign clients.

Merchant banking

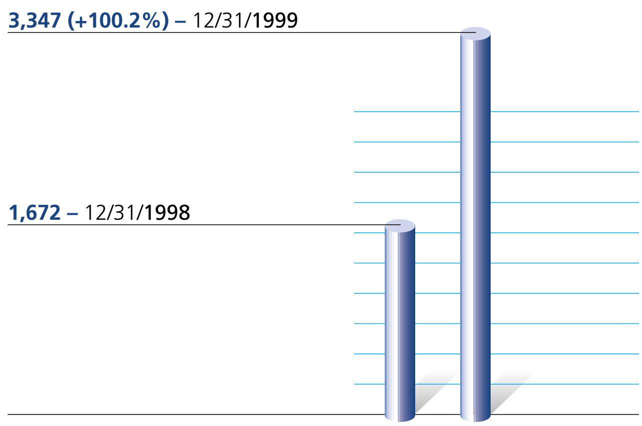
The Group operated in the field of merchant banking through the Parent Bank and, from September, through NHS–Nuova Holding Subalpina. Almost Euro 90 million was invested in minority shareholdings and an overseas closed-end investment fund was set up worth Euro 120 million to invest in medium-sized European enterprises.

Equity investments

The Group's investments in companies that are not consolidated on a line-by-line basis amounted to Euro 3,347 million at year end, a net increase of Euro 1,675 million over the year.

Changes in equity investments during the year refer essentially to the following areas of intervention:

- the definition of projects for expansion on the Italian market;
- selective investment in European banks;
- continuing disposals of non-strategic investments.



Shareholdings
millions of Euro

Non-consolidated equity investments

	12/31/99 (Euro/mn)	12/31/99 %	12/31/98 pro forma (Euro/mn)	12/31/98 pro forma %	Change 1999/1998 (%)
Investments	3,347	100.0	1,672	100.0	+100.2
- carried at equity	*843*	*25.2*	*959*	*57.4*	*-12.1*
- carried at cost	*2,504*	*74.8*	*713*	*42.6*	*+251.2*
- in listed companies	*2,258*	*67.5*	*541*	*32.4*	*+317.4*
- in other companies	*246*	*7.3*	*172*	*10.3*	*+43.0*

Cassa di Risparmio di Firenze

The projects for expansion on the domestic market mainly concerned an agreement to buy a 15% interest in Cassa di Risparmio di Firenze. This stake was sold by the bank's Fondazione for Euro 387 million, of which Euro 92 million were paid during the year and the remainder in early 2000. The investment comes on top of the 4.1% interest already held by NHS, bringing the Group's total holding in the Tuscan bank to 19.1%.

Cassa di Risparmio di Firenze has a network of almost 400 branches located mainly in Tuscany, with direct customer deposits at the end of 1999 of Euro 17,731 million and loans of Euro 5,865 million. Net income for the year came to Euro 59 million, while its RoE was 8.5%.

This investment forms part of a wider plan to form a strategic and operational partnership. A stable shareholder syndicate able to control the bank has been set up, consisting of Ente Cassa di Risparmio di Firenze, Sanpaolo IMI and Paribas. An operating agreement has also been signed, with Sanpaolo IMI as the Cassa's leading point of reference in the fields of asset management and for initiatives in the corporate segment.

The alliance has also been ratified by Ente Cassa di Risparmio di Firenze buying a 2% interest in Sanpaolo IMI early this year.

The INA-Banco di Napoli operation

The Group also increased its holding in INA during the year from 3% to 9.2%, for an outlay of Euro 703 million. The intention is that this investment should lead to an agreement that will enable Banco di Napoli to integrate with Sanpaolo IMI.

The aggregation that Sanpaolo IMI envisages would permit the Group to acquire an important presence in the South of Italy in the area of households and small/medium-sized enterprises: Banco di Napoli is the South's most important bank, thanks to a network of 730 branches, direct customer deposits that at the end of 1999 amounted to Euro 23,000 million, customers' financial assets under management of Euro 7,700 million and loans of Euro 15,300 million. The Bank's net income in 1999 came to Euro 131 million, with an RoE of 11%.

Investments in foreign banks

Investments in European banks by the Parent Bank and by Sanpaolo IMI International, its Luxembourg subsidiary, were geared to expanding the range of strategic options in view of possible future transnational alliances, and to taking advantage of purely financial opportunities. Deals entailed the following:

- an increase from 0.46% to 2% in the shareholding held in Banco Santander Central Hispano, which involved an outlay of Euro 581 million; this interest was further raised to 2.8% in early 2000;
- the purchase of a 0.29% stake in the Royal Bank of Scotland, which involved investing Euro 50 million; it was raised to 0.33% in early 2000;
- the acquisition of a shareholding in Banque Nationale de Paris; part of it was sold off during the year, generating a capital gain of Euro 23 million; at the end of the year, the residual investment amounted to 0.26% of the share capital, for an investment of Euro 90 million; the stake was further reduced to 0.07% in early 2000.

The disposal of non-strategic investments

Total disposals amounted to Euro 725 million, leading to total pre-tax capital gains of Euro 349 million. They included:

- the sale of a 20% stake in Crediop to the Dexia Group for Euro 218 million, with a gross capital gain of Euro 94 million. The residual stake of 40% still held by Sanpaolo IMI will be sold by the end of 2001 under an agreement reached at the end of 1998;
- acceptance of Olivetti's takeover bid for Telecom Italia with a 0.75% stake, proceeds of Euro 448 million and a pre-tax capital gain of Euro 215 million.

Other initiatives

These include:

- taking a 16% interest in Beni Stabili as a result of the spin-off carried out in October of part of the Sanpaolo IMI Group's real estate activities. It was subsequently raised to 18% through purchases on the market. This investment, equal to Euro 160 million, was prudently written down to Euro 102 million to take account of the share's performance during the second half of the year. In early 2000, the stake was reduced to 16.8%;

- the acquisition of a 9.6% stake in Banca Agricola Mantovana, with an investment of Euro 206 million, as part of the placement of 19% of BAM by Banca IMI.

The operating structure

The distribution network

In 1999 the Group carried out selective reinforcement of its distribution network, laying the foundation for the growth planned for the next three years. The action taken was based on the following concepts:
- introduction of innovative distribution channels;
- consolidation of Banca Fideuram and Sanpaolo Invest's networks of financial consultants;
- expansion of the branch network;
- specialisation of existing branches by market segment.

Towards the end of the year, the Group launched a trading on-line service for retail customers. The service is provided by @IMIWEB under the IMIWEBTRADER brand name. This is the first step in a plan to develop innovative distribution channels. This plan will be implemented over the next three years and will involve all operational sectors of the Group. Euro 250 million of capital expenditure has been budgeted and the project has a target of 500,000 customers on line in 2002.

Also worth mentioning is the extent to which the networks of financial consultants have been strengthened. 368 new consultants were hired to consolidate Sanpaolo IMI's efforts in an area of high profitability and growth potential. This brought the total of the Group's financial consultants to 4,865. The network of Banca Fideuram in particular has grown from 3,168 to 3,509. Further recruitment will take place over the next three years, during which another 800 consultants are expected to be hired.

The Group has also developed a plan to strengthen the network of domestic branches. The plan envisages the opening of more than 100 outlets in the period 2000-2001. Branches will be positioned on a selective

Distribution network

	1999	1998 pro forma	Change 1999/1998 (%)
Banking branches and area offices	1,419	1,409	+0.7
- Italy	*1,355*	*1,346*	*+0.7*
- Parent Bank	*1,292*	*1,289*	*+0.2*
- North West (Piedmont, Valle d'Aosta, Lombardy and Liguria)	*935*	*933*	*+0.2*
- North East (Triveneto and Emilia Romagna)	*89*	*89*	*-*
- Central Italy (Tuscany, the Marches, Umbria, Latium, Abruzzo and Molise)	*115*	*115*	*-*
- South and islands (Campania, Apulia, Basilicata, Calabria, Sicily and Sardinia)	*153*	*152*	*+0.7*
- Banca Fideuram	*63*	*57*	*+10.5*
- Abroad	*64*	*63*	*+1.6*
- Parent Bank	*11*	*11*	*-*
- Banque Sanpaolo	*52*	*52*	*-*
- Banca IMI	*1*	*-*	*n.s.*
Representative offices	12	12	-
Financial advisors	4,865	4,497	+8.2
- Banca Fideuram	*3,509*	*3,168*	*+10.8*
- Sanpaolo Invest	*1,356*	*1,329*	*+2.0*

basis, they will mostly be lightweight and they will be devoted to serving private customers.

Lastly, the process of specializing the Italian branches by market segment and raising their productivity continued.

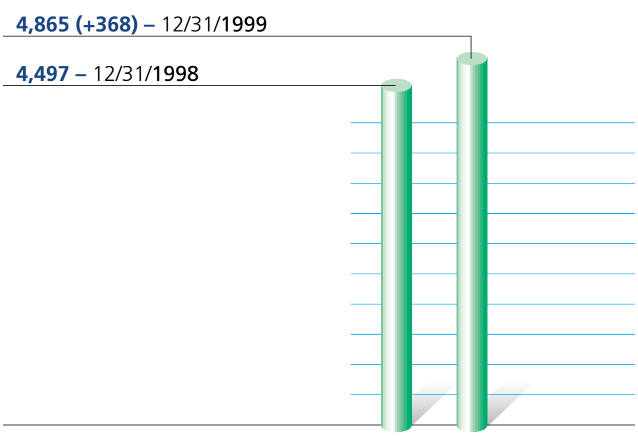
As for the automated and electronic banking structures, the Parent Bank recorded almost 64 million ATM transactions, an increase of 8% on the previous year. POS transactions increased by more than 20% in terms of value. Telephone banking contracts came to more than 72,000, an increase of 37% since the start of the year. The market share in remote banking with companies came to more than 9% in terms of payment instructions.

Personnel

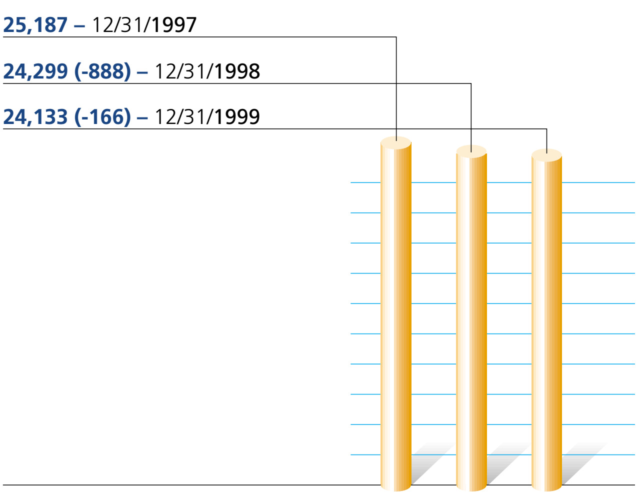
Group personnel is made up of 24,133 people, 166 fewer than at the start of the year. This follows the decrease of 888 employees in 1998.

Staff reductions are mainly because of the rationalization carried out by the Parent Bank's head office and branch structures: staff levels fell by 498 during the year, after a contraction of 789 in 1998.

Group companies, on the other hand, increased their staffing levels, which rose by 332 during 1999. The main areas to be reinforced were asset management and trading on-line.



Salesforce



Employees

Personnel

	12/31/99	%	12/31/98 pro forma	%	Change 1999/1998
Year-end headcount	24,133	100.0	24,299	100.0	-0.7
- Executives	345	1.4	330	1.4	+4.5
- Managers	4,416	18.3	4,359	17.9	+1.3
- Other employees	19,372	80.3	19,610	80.7	-1.2
Average during the year	24,216		24,622		-1.6

Capital and reserves

Shareholders' equity

Shareholders' equity attributable to the Group amounted to Euro 8,036 million as of December 31, 1999, net of own shares held by the Parent Bank. Movements during the year were as follows:

Shareholders' equity — *millions of Euro*

Net shareholders' equity as of January 1, 1999	8,668
Decreases	
- Dividends	*-652*
- Real estate spin-off	*-701*
Increases	
- Differences on foreign exchange and other adjustments	*6*
- Change in reserve for general banking risks	*1*
- Net income for the year	*1,050*
Shareholders' equity as of December 31, 1999	8,372
- Own shares in portfolio	*-336*
Net shareholders' equity as reclassified as of December 31, 1999	8,036

Own shares

The own shares of Sanpaolo IMI held by the Group as of December 31, 1999 amounted to 28,988,157 shares, equal to 2.06% of the share capital, carried in the balance sheet at Euro 356.5 million, with an unrealized capital gain of around Euro 100 million.

Transactions in Sanpaolo IMI shares by the Group during the year were as follows:

- at the end of 1998, the Parent Bank did not hold any of its own shares. During 1999, it bought 27,470,250 shares (for a nominal value of Euro 76.9 million, paying a total of Euro 336.1 million) and sold 38,750 shares (for a nominal value of Euro 0.1 million and total proceeds of Euro 0.5 million). At the end of 1999, the Parent Bank held 27,431,500 shares (with a nominal value of Euro 76.8 million, at a carrying value of Euro 335.6 million);
- at the end of 1998, Banca IMI held 354,124 Sanpaolo IMI shares (nominal value Euro 1 million, carrying value Euro 5.3 million). During the year, it bought 12,970,956 shares (nominal value Euro 36.3 million, paying a total of Euro 191.5 million) and sold 11,768,423 shares (nominal value Euro 32.9 shares and total proceeds of Euro 175.9 million). At the end of the year, Banca IMI held 1,556,657 shares (nominal value Euro 4.4 million, at a carrying value of Euro 20.9 million);
- at the end of 1998, IMI Sigeco UK did not hold any Sanpaolo IMI shares. During the year, it bought 1,079,021 shares (nominal value Euro 3 million, paying a total of Euro 16.14 million) and sold the same quantity of shares (for proceeds of Euro 16.15 million). At the end of the year, IMI Sigeco UK did not hold any Sanpaolo IMI shares.

In the first few months of 2000, the number of own shares held fell substantially as a result of the transfer of 28,050,000 shares (2% of the share capital) to Ente Cassa di Risparmio di Firenze as part of the alliance formed between Sanpaolo IMI and the Cassa di Risparmio di Firenze. As of March 28, 2000 the own shares held by the Group amounted to 4,977,632 (0.35% of the share capital).

Regulatory capital and capital adequacy

The Sanpaolo IMI Group meets the solvency requirements set by the Bank of Italy.

The ratio between regulatory capital and total assets weighted for lending risk and market risk stands at 10.3%. The solvency ratio for lending risks alone is 11.3% compared with the 8% minimum required by the regulatory authorities. The ratio between Tier 1 capital and total risk-weighted assets is 9.6%.

Regulatory capital and capital adequacy

	12/31/99 (Euro/mn)	12/31/98 (Euro/mn)
Shareholders' equity for supervisory purposes		
Tier 1 capital	7,505	8,045
Tier 2 capital	1,255	1,277
less: prescribed deductions	-737	-116
Total capital	**8,023**	**9,206**
Weighted assets		
Lending risk	70,838	72,775
Market risk	6,637	9,500
Other requirements	500	700
Total assets	**77,975**	**82,975**
Capital adequacy ratios		
Tier 1 capital / Total risk-weighted assets	9.6%	9.7%
Total capital / Total risk-weighted assets	10.3%	11.1%

Risk management

The basic principles

The Sanpaolo IMI Group lays a great deal of emphasis on 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 best international practice;
- separation of duties between the business areas that carry on day-to-day operations and those who carry out controls.

The policies relating to the acceptance of lending and financial risks are defined by the Parent Bank's Board of Directors and Executive Committee with input from specific committees (the Financial Risk Committee, the Credit Committee and the Financial and Institutional Lending Risk Committee).

The Parent Bank also carries on general functions of risk management and control and takes risk-acceptance decisions in the case of particularly large loans. It has the support of the Risk Management unit, which reports directly to a Managing Director, and of a Risk Control unit, which is part of the Financial Statements and Planning Department.

The business units that generate lending and/or financial risks are all assigned autonomous limits of approval and each has its own control structure.

Financial risk management and control

The organizational arrangement

The main body responsible for the management and control of financial risks is the Parent Bank's Board of Directors. It defines the lines of strategy and overall approach to the acceptance of market risk, it allocates capital on the basis of the expected risk/return profile, and approves the operating limits for the Parent Bank and guidelines for subsidiaries.

The Financial Risk Committee is responsible for defining the criteria and methods by which risks are measured, as well as the structure of the operating limits to be followed by the Parent Company and its business units, and for monitoring the risk profile of Group companies. The Committee consists of the Joint Managing Directors, the heads of the business units that take on and control risks, and by a representative of the Risk Management department.

The Risk Management department, helped by the Financial Analysis Development department, is responsible for developing ways of monitoring corporate risk and for making proposals regarding the system of operating limits for the various business areas of the Bank and the Group.

The Risk Control department is responsible for measuring outstanding risks in the various operating units and for checking that they comply with the limits laid down by the Board of Executive Committee, and by the Financial Risk Committee.

The individual business areas measure financial risk, applying a system of limits in line with the Parent Bank's overall plan.

The measurement methods used

The methods used by the Group to measure financial risks mainly consist of the following:

- *Value at Risk (VaR);*
- *Sensitivity Analysis;*
- *Worst Case Scenario.*

VaR, as calculated, reflects the maximum loss that the portfolio can incur in the next ten working days with a 99% confidence level, based on historical volatility and correlations (of the last 250 working days) between the individual risk factors, for each currency made up of short and long-term interest rates, exchange rates and equity prices.

Sensitivity Analysis quantifies the change in value of a financial portfolio following adverse movements in risk factors. For interest rate risk, an adverse movement is defined as a parallel, uniform shift of 100 basis points in the interest rate curve.

The Worst Case Scenario method measures the worst possible economic result of those obtained in various hypothetical 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.

Non trading activities

Lending

The financial risks generated by the Group's lending activity (also known as *Asset and Liability Management*) are monitored by means of *Sensitivity Analysis. VaR* measurement was also started during the year and it is currently being tested.

During 1999, the potential loss on the fair value of the Bank's loan book, measured according to the *Sensitivity Analysis* technique, showed an average of Euro 105.4 million, with a minimum of Euro 92.8 million and a maximum of Euro 120.8 million. This is substantially lower than the previous year (when the average was Euro 152.8 million), thanks to the Bank's strategy of positioning free capital at floating rates. Forecasting an upswing in interest rates, which did take place, the Bank in fact systematically hedged the medium/long-term fixed-rate position so as to protect its market value.

The *VaR* of the lending business showed an average (from May 1999 to the end of the year) of Euro 194.9 million.

The exchange risk generated by the lending business during the year was very low.

Equity investments in non-Group listed companies

The market value as of December 31, 1999 of the equity investments held by the Parent Bank and by Sanpaolo IMI International in listed companies that are not part of the Group, excluding the merchant banking portfolio, amounted to Euro 2,359 million, with unrealized capital gains over book value of Euro 346 million.

From last September, the Parent Company transferred its merchant banking activities to NHS - Nuova Holding Subalpina, a subsidiary of Sanpaolo IMI (with 51%). At the year end, the subsidiary's portfolio of quoted investments, at market value, amounted to Euro 319 million, with unrealized capital gains over book value of Euro 74 million.

The *VaR* technique is used to monitor the market risk of the investment portfolio, though fluctuations in its value do not directly affect the Group's statement of income, given that such investments are shown at cost.

The *VaR* of quoted non-Group investments in 1999 averaged Euro 192 million, with a low of Euro 93 million. A high of Euro 263 million was reached at the year end, which was justified by the higher volume of investments made, the general increase in share prices and their volatility in the latter part of the year. The average level of *VaR* recorded by NHS, for the portion pertaining to Sanpaolo IMI, came to Euro 15 million.

The following table makes it possible to compare 1999's risk measurements with those of 1998. The increase is largely due to the growth in the investment portfolio during the year.

Sensitivity analysis - lending

	1999 (Euro/mn)	1998 (Euro/mn)
Average	105.4	152.8
Low	92.8	120.0
High	120.8	188.0
12/31	94.4	177.6

VaR - portfolio Parent Bank and Sanpaolo International

	1999 (Euro/mn)	1998 (Euro/mn)
Average	192	88
Low	93	66
High	263	114

The following graph shows the trend in *VaR* during the course of 1999 for the Parent Bank and SANPAOLO IMI International and, from September, for NHS.

Trading activities

What is being measured here is the trading activities, mainly in securities (fixed-interest and equities), exchange rates and derivative contracts.

Within the Sanpaolo IMI Group, the only unit authorized to take on market risks as part of its trading activities is Banca IMI. In 1999 the process of concentration of trading activities was concluded and the consequent specialization of the Parent Bank in the management of the financial risk related to lending activities.

The *VaR* of the trading activities during 1999 oscillated between a low of Euro 4.3 million and a high of Euro 24.2 million, with an average of Euro 11.9 million, as shown in the next table.

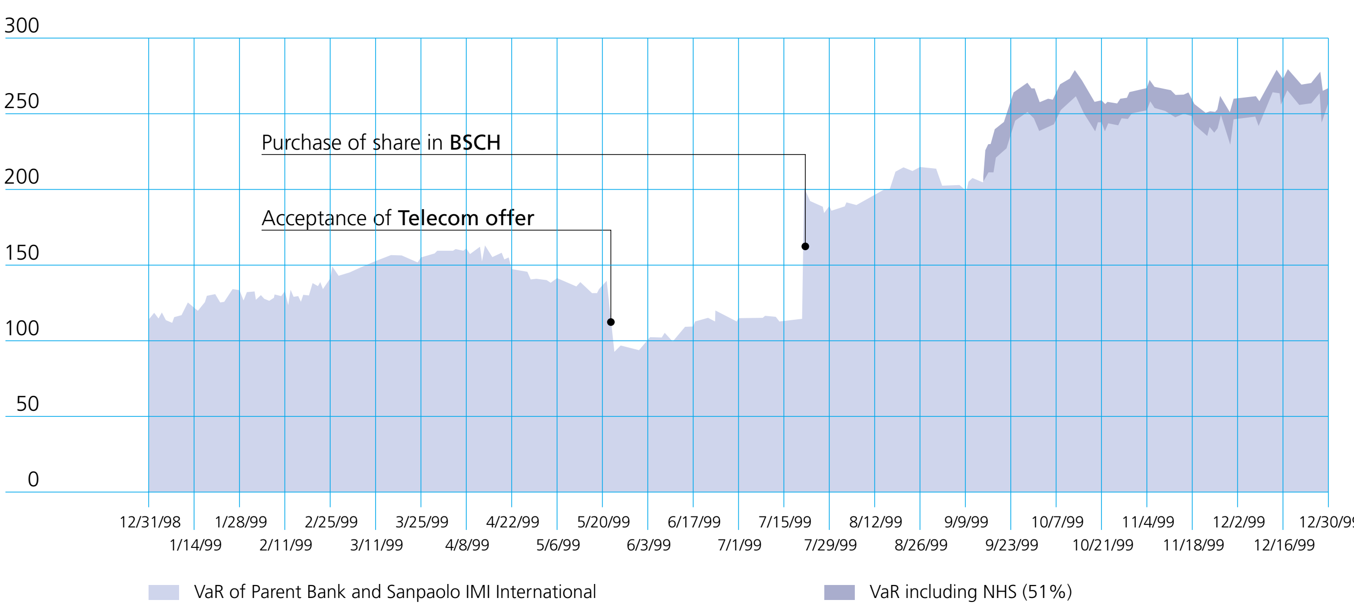
In addition to *VaR*, the *Worst Case* technique is also used to monitor the impact of potential losses that might arise in extreme circumstances.

The evolution in the maximum potential daily loss shows an increase in potential risks during the first part of the year, reaching a high of approximately Euro 58 million in July, to then fall gradually to around the yearly average of Euro 42 million.

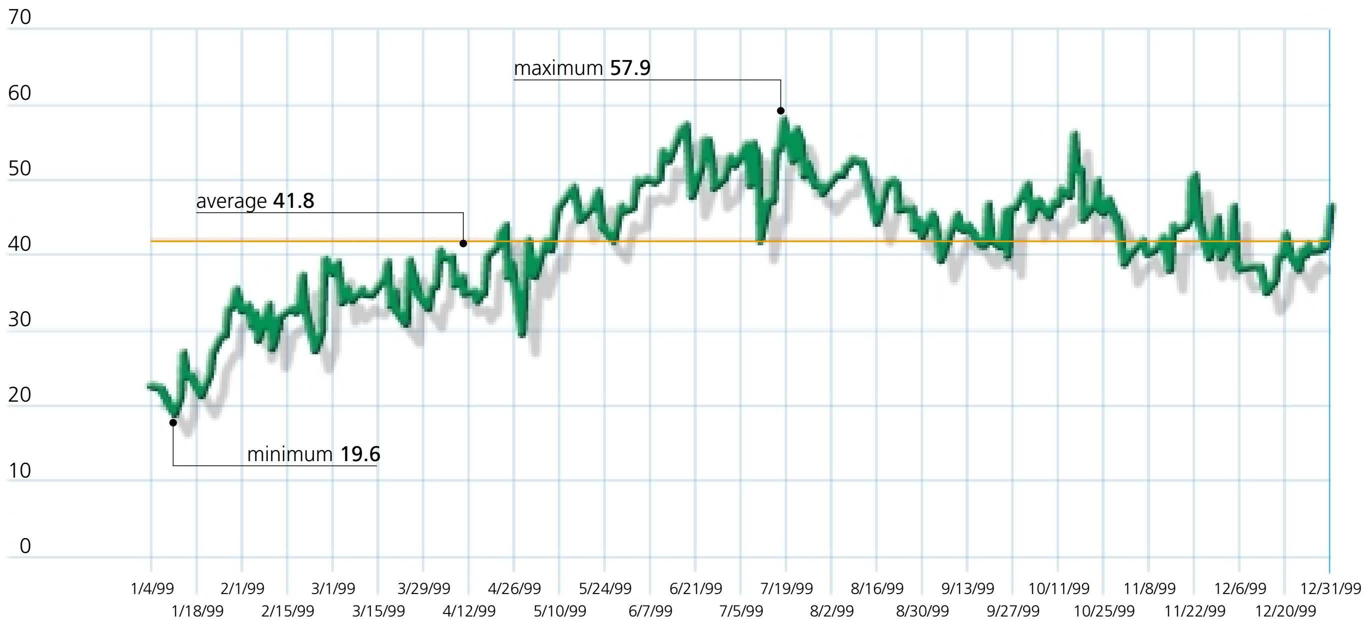
Backtesting has shown that these measurement techniques are very prudent. In no case was the *ex ante* potential daily exposure, in terms of *VaR* and *Worst Case*, exceeded by the losses actually incurred.

VaR - trading

	1999				1998
	Average (Euro/mn)	Low (Euro/mn)	High (Euro/mn)	12/31 (Euro/mn)	12/31 (Euro/mn)
Interest rate risk	5.3	2.3	8.9	11.9	7.8
Exchange rate risk	0.5	0.4	0.6	0.0	0.4
Share price risk	9.7	3.6	21.7	8.7	9.2
Diversification effect	-3.6	-2.0	-7.0	-6.0	-3.6
Total	**11.9**	**4.3**	**24.2**	**14.5**	**13.8**



VaR of Group shareholdings
millions of Euro



Maximum potential daily loss in trading
millions of Euro

Lending risk management and control

The organizational arrangement

The Group is organized in such as way as to maximise the efficiency of the lending risk management and control process by means of:

- the allocation of precise responsibilities for the management of lending risk to the individual business units
- a distinct separation between lending risk management and control
- a specific Loan Recovery Department, so as to handle non-performing loans as efficiently as possible.

The business units that grant credit to customers have a certain level of approval power as defined by the Board of Directors. In particular, as regards the loans granted by the Commercial Banking division, the lending process is split into precise lines of responsibility for the granting and management of loans, with rising approval levels by branch, area and division. This process was revised during 1999, with the definition of a loan policy and a system of loan classification, as well as new credit line proposal procedure. Proposals in excess of the approval limit of the Heads of the Corporate Areas have to be approved by the Joint Managing Directors, the Loans Committee, the Executive Committee or the Board of Directors, depending on the amount involved.

As regards lending risks vis-à-vis financial institutions, a special committee was set up during the year – consisting of the Joint Managing Directors, the heads of the units taking on and controlling the risks, and a representative of the Risk Management department – which has responsibility to decide on the maximum credit lines to be granted by the Group to individual counterparties and to divide these limits into sublimits to be assigned to the individual Group companies. A special unit was set up for this purpose, called the Financial Institution Credit Line department, which has the task of doing preliminary investigations and monitoring the risks taken on versus financial counterparties by the various business units of the Bank and of the Group.

As for country-risk, a committee is about to be formed which will have the task of deciding on credit limits for each country at risk and to allocate the related sublimits to the Group's Business Areas.

The risk management and control structures are made up as follows:

- the Risk Management department is responsible for the definition, updating and verification of the measuring techniques used by the Parent Bank and by the Group as a whole, ensuring that they are constantly in line with industry best practice. It is also responsible for analysing the risk profile of the Parent Bank and Group and for proposing any corrective action.

- the control structures operating within the individual Business Areas are responsible for measuring and monitoring their portion of the loan book. Given the size of the loan book in their area, the Credit Control department of the Commercial Banking division is particularly important.
- Lastly, the Risk Control department is responsible for measuring the exposure of larger borrowers, checking the measurements carried out by the risk control departments in the various business units for consistency and accuracy, and ending the Parent Bank's top management summary reports on changes in loan quality and on the use of capital by the business units.

The measurement techniques used

A series of instruments have been developed to ensure analytic control over the quality of loans to customers and financial institutions, as well as of exposures to country risk.

As regards loans to customers, various grading models have been developed. These differ according to the counterparty's size and industry sector. These models make it possible to summarize the counterparty's credit quality as a single measurement, known as a rating, which reflects the risk of insolvency over the next twelve months. By means of statistical calibrations, these ratings have been rendered totally comparable with the rankings done by the official rating agencies, forming one overall scale of reference. Backtesting analyses carried out to date, comparing insolvency forecasts with actual defaults, have confirmed that the models used are reliable.

As regards the Commercial Banking department's loan book, i.e. households, small businesses and SMEs, credit quality management used a system of classifying customers into categories, based on an evaluation by the loan supervisors, who are specifically responsible for certain matters (frequency of credit line reviews and recovery measures). Control over credit quality uses a scoring system, based like the grading system on financial and behavioural indicators, though it is geared not so much to estimating the risk of insolvency, but to giving an early warning of any anomalous situations.

For banking and financial counterparties, a scoring system has been devised which classifies financial institutions with credit lines on a scale consistent with those used by the rating agencies. The risk class constitutes the basic level of information, which is integrated by the type and duration of the transaction, as well as by any guarantees that are given. All of this leads to the setting of maximum credit limits for each counterparty.

Lastly, as regards country-risk, a rating is assigned on the basis of the ratings and scores provided by specialised institutions and by internal evaluations.

These ratings are not just a direct instrument to monitor the credit risk portfolio, but also a primary element for the credit risk portfolio model, which summarises the information on asset quality in risk indicators, including the expected loss and capital at risk. The latter is defined as the maximum expected loss that the Bank could incur with a confidence level of 99.95%.

Sanpaolo IMI lending risks

The control instruments discussed above have been developed starting with the Parent Bank, which on a risk-asset weighted basis handles 85% of the Group's lending risks.

Analytical ratings are available for more than two-thirds of the counterparties contained in the Bank's loan portfolio, in terms of exposure; the unrated portion of the portfolio is essentially made up of households. As regards the analytical ratings, just over half of the them are internal ratings, while the rest are the work of specialised rating agencies. They reveal a high level of credit quality – more than 80% of the loans are "investment grade" – with a steady improvement visible throughout the period.

As for customer loans, measurement of the capital at risk, meaning lending risk including country-risk, came to Euro 2,430 million at the end of the year, around 3.4% of the drawn down portion of credit lines. The following charts show that two-thirds of this amount is allocated to the Commercial Banking division, while the rest is split between Large Corporate and Government Agencies and Infrastructures, which have a lower risk profile. Available figures also show a general trend towards a reduction in the level of portfolio risk.

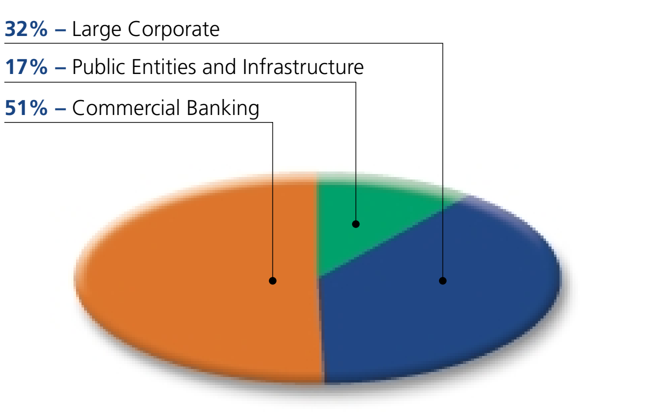
The management and control of operating risks

Operating risks are classified into two categories: "Business risk" and "event risk".

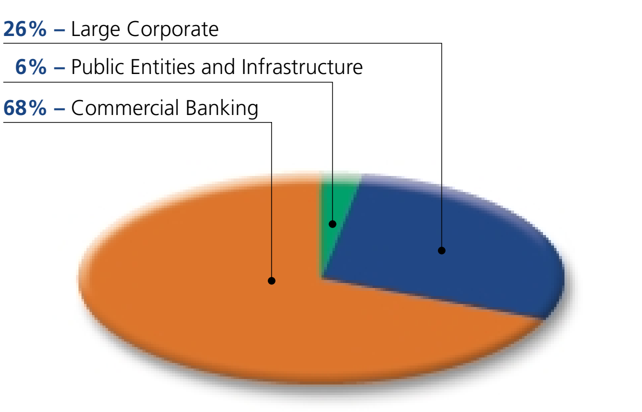
Business risk is the risk of incurring losses as the result of changes in the macro or microeconomic scenario able to jeopardise the company's ability to generate revenue, typically by reducing operating volumes or eroding margins. It is evaluated by breaking down the activity of the Business Areas, on the basis of the respective cost and revenue structures, into fundamental business sectors (e.g. EDP, consulting, mass retailing, etc.). The Business Areas are then allocated a level of capitalisation in line with the norm for companies operating in the same type of activity.

Event risk, on the other hand, is defined as the risk of incurring losses as a result of four macro categories of events: fraud, non-performance of contractual liabilities, weaknesses in internal control or in information systems, and natural calamities. A database of significant events that took place in the last ten years has been used for each category, from which it is possible to identify the impact in terms of losses from public sources of information. The empirical distributions of losses calculated in this way are estimated by means of distribution theories according to the extreme value theory. The capital at risk is identified as the minimum measurement, net of any insurance cover, that is needed to cope with the maximum potential loss with a confidence level of 99.95%. This technique also provides for the application of a correction factor to take account of the effectiveness of internal controls.

It should be pointed out that these methods have been developed not so much to provide the Bank with an operating risk management system, but rather to allocate an adequate amount of capital to the Business Areas and to the Group as a whole. Operating risks are controlled by defining internal rules and procedures and having the Internal Audit department check that they are complied with.



Loans by Area of Business



Risk capital by Area of Business

Supplementary information

Ratings

There was no change in Sanpaolo IMI's debt ratings during 1999.

In addition to the ratings given to the Bank's debt, there are also the *Bank Financial Strength Rating* given by Moody's (C+ reviewed upwards to B on April 4, 2000), the *Individual Ratings* and the *Legal Rating* given by Fitch-IBCA (respectively B/C and 2) and the I*ssuer Rating* given by Thomson BankWatch (B).

Apart from the Parent Bank, Banque Sanpaolo, Banca Fideuram and the funding companies Sanpaolo IMI Bank International and Sanpaolo US Financial have also been awarded ratings.

Sanpaolo IMI debt ratings

Rating agency	Rating type	Rating
Fitch-IBCA	• Short-term debt	F1+
	• Medium/long-term (senior) debt	AA-
Japan Rating and Investment Information	• Medium/long-term (senior) debt	AA
Moody's Investors Service	• Short-term debt	P-1
	• Medium/long-term (senior) debt	A1 (creditwatch positive(*))
Standard & Poor's	• Short-term debt	A-1
	• Medium/long-term (senior) debt	A+ with outlook stable
Thomson BankWatch	• Short-term debt	TBW-1
	• Medium/long-term (senior) debt	AA-

(*) The rating was reviewed upwards to Aa3 on April 4, 2000

Debt ratings of subsidiary companies

Group companies	Rating agency	Short-term debt rating	Senior debt rating
Banque Sanpaolo	Fitch-IBCA	F1	A+
	Moody's Investors Service	P-2(*)	A3(*)
Banca Fideuram	Standard & Poor's	A-1	A+
SANPAOLO IMI Bank International	Moody's Investors Service	P-1	A1
	Standard & Poor's	A-1	A+
	Thomson BankWatch	TBW-1	AA-
Sanpaolo US Financial	Moody's Investors Service	P-1	--
	Standard & Poor's	A-1	--
	Thomson BankWatch	TBW-1	--

(*) The short-term rating was reviewed upwards to P-1 and the medium/long-term debt was taken to A2 on April 4,2000.

Performance of the Bank's share price

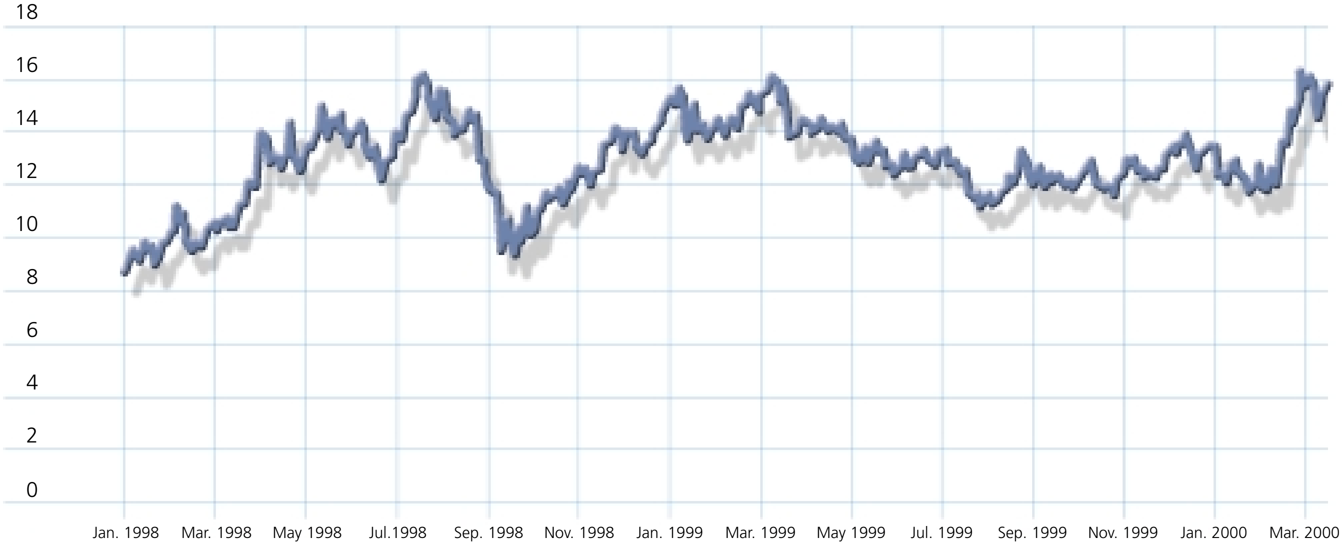
For most of 1999, the Sanpaolo IMI stock followed the same bearish trend as the rest of the banking sector, with a decline of 8.1% over the year. In early 2000 the Sanpaolo IMI stock picked up considerably: by mid-March the stock was about 17% up on the start of the year, cancelling the decline posted in 1999.

	High (*) (Euro)	Low (*) (Euro)	Average (*) (Euro)
1994	5.774	4.388	4.991
1995	5.110	4.030	4.573
1996	5.287	4.210	4.758
1997	8.833	4.583	6.263
1998	16.102	8.654	12.427
1999	16.035	11.102	13.191
2000 (to March 15)	16.209	11.658	13.278

(*) Prices prior to November 2, 1999 have been restated to take account of the property spin-off.

Comparison with the market:

	March 15, 2000	December 30, 1999	December 30, 1998	Change % 15/3/00-30/12/98
Sanpaolo IMI (Euro)	15.681	13.424	14.679	+6.8
Banking index (current MIB for banking, base 12/30/98 = 1,000)	1,053	1,030	1,000	+5.3



Sanpaolo IMI share price
in Euro

Shareholders of Sanpaolo IMI

Based on available information, the shareholder structure of Sanpaolo IMI as of December 31, 1999 was as follows:

Shareholders of Sanpaolo IMI	%
Compagnia di San Paolo	16.16
Banco Santander Central Hispano	6.91
Monte dei Paschi di Siena	6.21
IFI/IFIL (1)	4.91
Fondazione Cariplo	2.77
Società Reale Mutua di Assicurazioni	2.06
Lehman Brothers International (Europe)	2.00
KBC Bank	1.16
Other shareholders (2)	57.82
Total	**100.0**

(1) Taken to 4.999% in early 2000.
(2) Including own shares held by the Group.

Intercompany transactions and transactions with related parties

Transactions between the Parent Bank, subsidiary companies and associated companies take place in accordance with current legislation and are arranged on a mutually equitable basis. Details of intercompany transactions during the period are provided in the explanatory notes to the Parent Bank's financial statements.

Transactions with related parties as defined in the CONSOB Communications dated February 20, 1997 and February 27, 1998 - including those with personnel and officers of the SANPAOLO IMI Group and any companies they control - similarly comply with current legislation and are conducted on an arm's-length basis. Investments in the Parent Bank and in the companies it controls held by the directors, statutory auditors and managing directors of the Parent Bank and by other persons as per Article 79 of Consob Resolution 11971 of May 14, 1999 are as follows:

Shares held by persons as per Article 79 of Consob Resolution 11971 of May 14, 1999

Name	Company	How held	Title to shares	Shares held on 12/31/98	Additions during 1999	Shares sold during 1999	Shares held on 12/31/99
Luigi Arcuti	Sanpaolo IMI	Direct	Full	5,857	14,000	-	19,857
		Via spouse	Full	3,657	-	-	3,657
Aureliano Benedetti	Sanpaolo IMI	Direct	Full	-	1,000	1,000	-
Divo Gronchi	Sanpaolo IMI	Direct	Full	50	2,000	50	2,000
Rainer Masera	Sanpaolo IMI	Direct	Full	5,827	-	-	5,827
Emilio Ottolenghi	Sanpaolo IMI	Direct	Full	310,000	-	-	310,000
		Via subsidiary	Full	4,110,000	-	-	4,110,000
Carlo Pasteris	Sanpaolo IMI	Direct	Full	-	1,000	1,000	-
	Banca Fideuram	Direct	Full	-	1,000	1,000	-
Stefano Preda	Banca Fideuram	Direct	Full	-	7,000	-	7,000
Alessandro Rayneri	Sanpaolo IMI	Via subsidiary	Full	10,045	-	-	10,045
Enrico Salza	Sanpaolo IMI	Direct	Full	500	-	-	500

Stock option plan

Implementing the shareholders' resolution passed at the meeting held on July 31, 1998, on February 9, 1999, the Parent Bank's Board of Directors launched a stock option plan, structured as follows:

- *Beneficiaries*: the Managing Directors and 56 top managers within the Group, as identified by the Managing Directors with the Chairman's agreement.
- *Rights decided by the Board of Directors*: 7,000,000 rights to buy 7,000,000 shares.
- *Rights assigned*: 6,772,000, of which 370,000 to each of the Managing Directors and 6,032,000 to the other 56 managers.
- *Duration*: three years from January 1, 1999.
- *Exercising rights*: a third of the rights can be exercised after the shares become ex-dividend for the financial year 1999, another third when they become ex-dividend for the financial year 2000 and the final third when they become ex-dividend for the financial year 2001. Rights not exercised will expire by March 31, 2003.
- *Subscription price*: initially set at 12.7746 Euro, which was the average market price of Sanpaolo IMI shares in the last quarter of 1998; subsequently adjusted to 12.3960 Euro to take account of the real estate spin-off to Beni Stabili in October.
- *Increase in share capital and impact on net equity*: if all 6,772,000 rights were to be exercised, this would lead to an increase in share capital of Euro 19 million (0.48%), booking additional paid-in capital of Euro 65 million.
- *Restrictions*: exercising rights may be subject to restrictions and cancellations, which are detailed in the stock option plan regulations; such restrictions relate to the transferability of the rights and the role of the beneficiaries in the organization.

The Euro

Having successfully completed the first stage of the project, which allowed customers to operate in Euro from January 1, 1999, further steps were taken during the year to offer a series of dual currency Euro/Lira products and services.

The actions expected to take place in 2000-2001 will be essentially to the IT system. They will be geared to introducing the Euro for management reporting purposes, followed by the change-over from the dual currency system to one with just the Euro. Preparatory work is also taking place on the various aspects connected with introducing Euro banknotes and coins from January 1, 2002, taking into account the recent decision to reduce the period of double circulation.

The charges incurred in implementing this project amount to Euro 43 million, of which 39 million were booked in previous years. The residual charges still to be amortized in future years amount to Euro 15 million.

The Year 2000

The "Year 2000 Project" was completed successfully. The date-change did not involve any sort of inconvenience, thanks to the updates made to the IT systems and to internal equipment. This was also thanks to the involvement and cooperation of suppliers and counterparties and the simulations carried out on all systems considered critical. The project can now be considered closed, although close attention is being kept on the situation for any late manifestations of the millennium bug.

The costs incurred by the Parent Bank for the entire project came to Euro 17 million, of which 6 million were booked in prior years and 11 million in 1999, almost 10 million of which was expensed during the year. In addition, there were approximately 25 man/years of internal labour costs.

The total costs borne by subsidiaries up to the end of 1999 amounted to Euro 11 million.

Self regulation of quoted companies

The Board of Directors of Sanpaolo IMI has announced that it will adhere to the Code of Self-Regulation of Quoted Companies, as recommended by the company that runs the Italian Stock Exchange. Sanpaolo IMI has a system of corporate governance that complies with the requirements of the Code, whose purpose is to guarantee an adequate division of responsibilities and powers, with a proper balance between management and control, in line with best practice in the world's most developed financial markets.

Operating sectors

Organization by business area

The Group has been organized into autonomous business areas, supported and directed by a Corporate Centre. The new structure, adopted at the end of 1998 on completion of the merger between San Paolo and IMI, has been designed to:

- respond effectively to the changing competitive conditions;
- clearly identify the profitability and exposure to risk of each business;
- establish the adequacy of total Group capital and its correct allocation to the business areas;
- make managers strictly accountable for results.

The following business areas have been identified, the activities of which are carried out by the Parent Bank and/or its subsidiaries.

- Commercial Banking
- Large Corporate
- Public Entities and Infrastructure
- Personal Financial Services
- Investment Banking
- Merchant Banking
- Corporate Centre (including treasury operations, loan recovery and the management of equity investments)

The profitability of each area has been determined in terms of RoRAC (Return on Risk Adjusted Capital), i.e. the ratio between income generated by the area and its average economic capital during the period. The latter is quantified with reference to the specific degree of risk using VaR (Value at Risk) statistical criteria.

In order to evaluate the profitability of a given area, the accounting information deriving from the Parent Bank's activities in that area is consolidated with that deriving from the activities of the subsidiaries concerned. Within the Parent Bank, results are allocated to individual business areas on the following basis:

- net interest income is calculated using appropriate internal transfer rates;
- in addition to actual commissions, notional commissions are also quantified for the services rendered by one area to another;
- the direct costs of each area are determined and parameters are used to apportion the cost of central services except for specific holding company functions.

Economic capital is allocated to each business area according to the following criteria:

- in sectors where business is conducted both by the Parent Bank and by subsidiaries, the average economic capital absorbed by the two is consolidated; the economic capital is calculated according to VaR by type of risk: credit risk, market risk and operational risk.
- In sectors where business is conducted exclusively by subsidiaries, reference is made to accounting net capital.

The difference between the accounting net capital of the Group and the capital absorbed by the sectors is posted to the Corporate Centre.

Particularly prudent criteria were adopted for allocating the Parent Bank's capital to the various business areas. Among these:

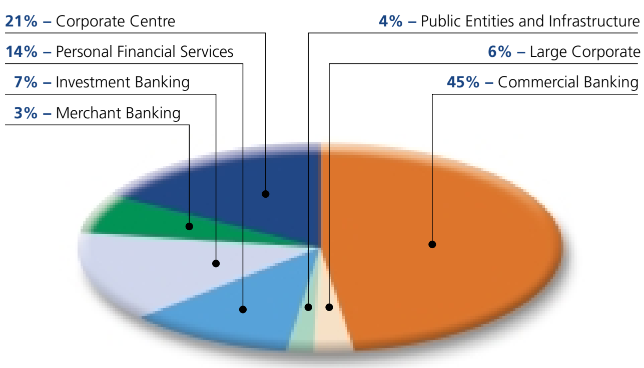
- the exposure of each area to lending and financial risk was calculated at a 99.95% confidence level, consistent with the Group's rating;
- these risks were covered using Tier 1 capital.

The results posted by the various business areas in 1999 are not comparable with the figures shown in the 1998 and interim 1999 financial statements. This is because the Group was organized into business areas at the end of 1998, after completion of the merger between San Paolo and IMI, and it was only during the course of 1999 that the operating perimeters of the various areas, transfer prices and the method of calculating capital absorbed were defined.

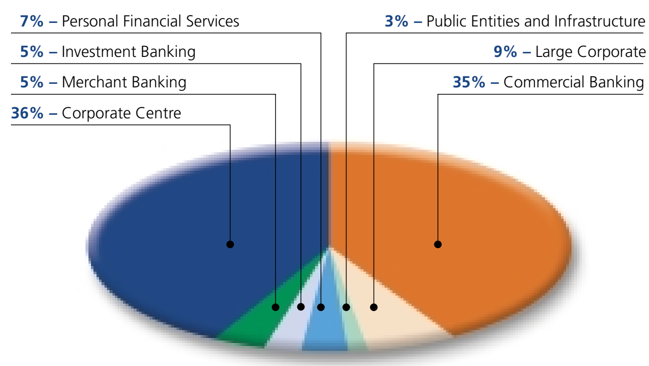
1999 results by business area

The results of the Group's business areas are summarized in the following table:

Business area	Net income (Euro/mn)	Average economic capital (Euro/mn)	Annualized RORAC (%)
Commercial Banking	468	2,607	18.0
Large Corporate	59	706	8.4
Public Agencies and Infrastructure	41	205	20.1
Personal Financial Services	150	542	27.6
Investment Banking	76	362	20.9
Merchant Banking	36	374	9.6
Corporate Centre	220	2,710	n.s.
Sanpaolo IMI Group	**1,050**	**7,506**	**14.0**



Net income by Area of Business (in %)



Economic capital by Area of Business (in %)

The Corporate Centre is responsible for treasury operations, loan recovery and the management of equity investments. Income for the period consists mainly of extraordinary income from equity investments, totalling about Euro 308 million before taxes.

Commercial Banking

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	1,180
Net income	468
AVERAGE ECONOMIC CAPITAL (Euro/mn)	2,607
RORAC (%)	18.0

	12/31/99
OPERATING FIGURES (Euro/mn)	
Net cash loans to customers	38,264
Funding from customers	164,662
- Direct funding	*35,072*
- Indirect funding	*129,590*
- Asset administration	*62,125*
- Asset management	*67,465*
- Mutual funds	*46,174*
- Fund-based portfolio management	*10,330*
- Portfolio management	*5,843*
- Life assurance policies	*5,118*

The Commercial Banking area does business with households, small businesses and SMEs, offering payment services, financing and asset management products.

The area operates in Italy through the Parent Bank's 1,292 branches and abroad via Banque Sanpaolo's 52 branches in Paris, Lyon and the Côte D'Azur, and a 32.5% interest in Inter-Europa Bank, Hungary. Operations are supported by specialized Group companies, mostly active in asset management (Sanpaolo IMI Asset Management, Sanpaolo Vita, Sanpaolo Bank Lux, Sanpaolo Bank Austria, Sanpaolo Fiduciaria and Sanpaolo Gestion Internationale). The area also includes leasing (via Sanpaolo Leasint) and consumer credit (via Finconsumo, which is controlled jointly with Banco Santander Central Hispano).

In the Italian market, the action taken by the Commercial Banking area during 1999 aimed principally at reinforcing the Group's competitive position in offering banking services to households. In this context, the following organizational and commercial actions were made:

- in the asset management field, the main steps were customer segmentation by types of financial asset, the assignment of individual portfolios to specialist operators, and the adoption of financial planning tools; a new model of financial manager was also developed; and new life products for the private sector were created;
- in the housing loan sector, innovative products were launched, especially various type of flexible mortgage loans, part floating and part fixed rate;
- in services, a new range of bank accounts were made available to customers, featuring greater flexibility and provision of information.

Projects designed to improve loan quality went ahead during the year. The entire lending process at the Parent Bank was redesigned by issuing a new loan policy, introducing a new system for classifying loans and adopting a new form for loan applications and approvals; work on developing a new loan manager computerized workstation was also begun.

Other actions concerned:

- a project to develop operations in the private banking sector;
- an incentive plan for the staff, focusing on targets that include financial results, loan quality, asset management and customer development;
- completion of a project to rationalize the Parent Bank's operating structures, which made it possible to cut about 1,000 posts in the two-year period 1998-99.

Plans for growth on the domestic market were also defined. They will be implemented over the next three years, 2000-2002:

- a project to create a multi-channel distribution system that will allow customers to operate with the bank in an integrate fashion through branches, Internet, the call centre, remote banking, ATMs and POS terminals;
- a plan to open more than 100 lightweight, household-oriented branches by the end of 2001.

Lastly, 1999 saw the concentration in Sanpaolo Fondi, which took the name Sanpaolo Imi Asset Management SGR, of the Italian mutual fund and portfolio management businesses on behalf of the customers of the Group's bank branches.

On the Italian market, these steps assisted the 30% growth in various types of asset management, totalling Euro 62,524 million at the end of December. Net loans came to Euro 34,971 million. Two figures that stand out are the increase in property loans to the retail sector, thanks to disbursements of Euro 1,750 million, and in personal loans, up 40%.

On the French market, the policy of rapid commercial expansion in the retail field implemented by Banque Sanpaolo led to a substantial increase in asset management schemes, up 27%, and in retail mortgages, up 36%.

Commercial Banking has in fact offset the expected decline in money-management margins caused by the drop in customer spreads with the flow of commissions coming from rising volumes of asset management and with the reduction in provisions and adjustments for bad loans; operating costs are also down. Net income came to Euro 468 million, accounting for more than half of total Group net income before extraordinary items; Commercial Banking's profitability was 18%.

The results of the individual companies making up this Area were positive; in particular, Banque Sanpaolo closed the year with net income of around Euro 45 million, up 11%.

Large Corporate

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	131
Net income	59
AVERAGE ECONOMIC CAPITAL (Euro/mn)	706
RORAC (%)	8.4
	12/31/99
OPERATING FIGURES (Euro/mn)	
Net cash loans to customers	20,688

The Large Corporate Area provides loans and other banking services to big companies. In Italy, the Area handles the Bank's operations on behalf of groups with sales of more than Lire 1,000 billion, through a number of central units plus six area offices. Foreign operations are conducted via the Parent Bank's 11 branches and 11 representative offices abroad, as well as through Sanpaolo IMI Bank Ireland.

In 1999, the Large Corporate Area's operations on the Italian market were carried out in a scenario of declining net interest income caused by the trend on financial markets. In addition, there was rising competition from foreign institutions, as well as the continuing tendency on the part of large groups to reduce their bank loans as part of the recomposition of their liabilities. Given this situation, the Area followed a policy of limiting the absorption of capital and developing fee-based services. The Area also refined its lending procedures, using internal ratings and adopting pricing systems that better reflect the degree of risk and capital employed.

On foreign markets, the Large Corporate Area reorganized its activities during the year, identifying three main branches, New York, London and Tokyo, to handle operations in their respective areas. This was a preparatory step prior to the selective development of the corporate business envisaged for the next three years: the model that has been chosen is that of the local specialist, choosing the countries and sectors in which to operate, with a view to offering customers integrated products in corporate lending and investment banking.

In 1999, this Area made net income of Euro 59 million and profitability of 8.4%. Loans over the twelve months showed varying trends depending on the type of clientele: strong growth in foreign corporate business, while in Italy volumes were defended.

Public Agencies and Infrastructures

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	78
Net income	41
AVERAGE ECONOMIC CAPITAL (Euro/mn)	205
RORAC (%)	20.1
	12/31/99
OPERATING FIGURES (Euro/mn)	
Net cash loans to customers	10,728

The Public Agencies and Infrastructure area provides financial services to public-sector organizations (notably, the financing of capital projects and major infrastructure schemes). In addition to the lending activity, the Group also provides specialized services, such as help in structured finance operations or advice in the transformation of municipal utilities or public agencies into limited companies.

Since Crediop is no longer under Group control, operations are conducted by a central department of the Parent Bank, which deals directly with major customers. Relations with smaller customers are coordinated via the domestic branch network of the Commercial Banking Area.

The Area has worked during the year to strengthen its leadership of the public-works financing sector, in which the Group has a 16% market share. Demand rose steadily during the period, as did competition from Italy and abroad. Lending volumes, including business abroad, saw disbursements of Euro 3,000 million (of which Euro 350 million of endorsement credits), mostly represented by loans to be repaid by the government.

Consistent with budget guidelines, the area has sought to expand operations by exploiting synergies with the Commercial Banking branch network. Against the decline in margins multi-product packages including consulting services and assistance with the issue of securities were also offered. This area also acts as global advisor for the transformation into limited companies of municipal utilities and public agencies.

The Group embarked on a project to spin off this area into a dedicated company, identified in IMI Lease, with a view to maximizing its flexibility.

Net income for the year was Euro 41 million, with a return of 20.1%. There was a sharp rise in loans in the latter part of the year, thanks mainly to interventions in favour of local bodies.

Personal Financial Services

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	225
Net income	150
AVERAGE ECONOMIC CAPITAL (Euro/mn)	542
RORAC (%)	27.6
	12/31/99
OPERATING FIGURES (Euro/mn)	
Funding from customers	54,493
- Direct funding	*3,014*
- Indirect funding	*51,479*
- Asset administration	*8,472*
- Asset management	*43,007*
- Mutual funds	*29,844*
- Fund-based portfolio management	*7,506*
- Portfolio management	*274*
- Life assurance policies	*5,383*

Banca Fideuram and Sanpaolo Invest, which constitute the Personal Financial Services Area, distribute financial services through their networks of financial consultants. The market mainly consists of personal customers and small business owners with a medium-to-high savings potential.

Banca Fideuram and Sanpaolo Invest, which respectively deploy 3,509 and 1,356 financial consultants, constitute Italy's largest network of such professionals. Banca Fideuram operates through a number of specialized asset-management companies (Fideuram Fondi, Fideuram Vita, Fideuram Capital, Fideuram Gestions, Fonditalia, Fideuram Bank Lux, Fideuram Fiduciaria, Fideuram GPM, Interfund Advisory, ISAC, Fideuram Assicurazioni, Fideuram Fund and Turis). Sanpaolo Invest currently works with the product companies belonging to the Commercial Banking Area.

During the year, the area worked to strengthen its leadership in the Italian market, in a sector that offers considerable potential for creating shareholder value.

In particular, Banca Fideuram implemented the following projects:
- reinforcement of the distribution network, adding 341 new consultants;
- consolidation of the product range by introducing the Fondo Pensione Fideuram, Fideuram Fund (a Luxembourg-based multisector fund), and Fideuram Unit Linked, an insurance product;
- completion of the Personal Financial Planning system and development of new planning models;
- a stock option plan;
- foreign expansion in the field of private banking, setting up Fideuram Bank Lux in Luxembourg and opening two representative offices in Switzerland;
- a project to use Internet as a network-support tool.

Sanpaolo Invest revised its business mission with a project that envisages:
- transformation of the company into a bank, independent from the Parent Bank from an organizational point of view;
- the creation of a range of asset management, hedging and other products dedicated to the network (including the formation of Sanpaolo Invest Ireland Ltd.);
- the provision of on-line services to customers;
- upgrading of central information services and those used by the financial consultants;
- expansion of the network of financial planners and their retention, via a profit-sharing scheme.

Together, Banca Fideuram and Sanpaolo Invest showed net income of Euro 150 million and profitability of 27.6%. The increase in net income compared with 1998 was only 4.2% because of the considerable investments that had to be made during the period; the benefits will be felt from 2000 onwards. Banca Fideuram made net income of Euro 158 million, contributing Euro 129 million to the Group result (as Sanpaolo IMI holds 74%). Sanpaolo Invest made net income of Euro 21 million.

The Personal Financial Services Area achieved a 41% increase in customer funds under management during the year. These now total Euro 43,007 million. Mutual funds grew by 33%, portfolio management schemes by 134% and insurance products by 15%. By the end of the year, equity funds had risen to 53% of total mutual funds.

Investment Banking

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	122
Net income	76
AVERAGE ECONOMIC CAPITAL (Euro/mn)	362
RORAC (%)	20.9

	12/31/99
OPERATING FIGURES (Euro/mn)	
Dealing volumes of Banca IMI S.p.A.	1,670,840
- trading	*550,013*
- sales	*35,840*
- repurchase agreements	*1,068,123*
- placements	*16,864*

The Investment Banking Area handles trading on own and third party account. It also raises equity and debt capital for corporate customers, and advises on corporate finance matters. These activities are conducted by Banca d’Intermediazione Mobiliare (Banca IMI) and by its subsidiaries.

During the period, the area was involved in the reorganization resulting from the merger between San Paolo and IMI, by which all of the Group's investment banking activities will be handled by Banca IMI. More specifically, the following transactions took place:

- the London branch of Banca IMI opened, having taken over the brokerage activities previously conducted by IMI Sigeco (UK) and by the Parent Bank's branch in London;
- Banca IMI Securities Corp., previously Mabon Securities Corp., a subsidiary of Banca IMI, took over the investment banking activities formerly carried out by the Parent Bank's branch in New York;
- Banca IMI took over Intersim’s brokerage activities on the Italian market.

During the year, Banca IMI reinforced its position in the field of financial brokerage both in Italy and abroad. Banca IMI also increased its advisory activities in mergers and acquisitions and consolidated its leadership on the domestic market in the field of bond and equity placements. Towards the end of the year, Banca IMI launched IMIWEBTRADER, an on-line trading service, through the subsidiary @IMIWEB (formerly Intersim).

The net income made by Banca IMI and its subsidiaries in 1999 came to Euro 76 million, with profitability of 20.9%.

Merchant Banking

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	81
Net income	36
AVERAGE ECONOMIC CAPITAL (Euro/mn)	374
RORAC (%)	9.6

	12/31/99
OPERATING FIGURES (Euro/mn)	
Merchant banking investments	125
Other investments	307

The Merchant Banking Area acquires and grooms minority interests with a view to generating capital gains on their subsequent divestment. It pursued its activities during the first nine months via specialized staff employed by the Parent Bank, and for the rest of the year through NHS-Nuova Holding Subalpina. In both cases, the activity was also pursued through LDV Holding, a subsidiary based in Holland.

Net income for the year was Euro 36 million, mainly thanks to the capital gains of Euro 29 million made on the sale of its merchant banking investments, and trading profits of Euro 33 million. The return was 9.6%, without taking into account unrealized capital gains on the equity investment portfolio.

Significant merchant banking investments were made during the year, with an outlay of Euro 89 million. The main ones involved: a minority holding in Azimut, a shipbuilding company (Euro 31 million); a minority interest in UTET, the holding company of the UTET publishing group (Euro 19 million); 26.7% of Nuova Strategia (Euro 13 million) which launched a successful takeover bid for Deroma Holding, the Veneto-based leader in the production of terracotta vases. In early 2000, this Area made another investment for Euro 21 million in the Camuzzi Group, which operates in the fields of energy production and distribution, urban waste disposal and the whole of the water cycle.

In the advisory field, the Area was appointed as lead adviser for the Hermes consortium, headed by the Benetton, Pirelli and Caltagirone Groups, taking part in the competitive bidding for control of Aeroporti di Roma.

Significant investments were also made in listed companies for a total of Euro 86 million, buying shares in Tecnost (Euro 50 million), ENEL (Euro 20 million) and SNIA (Euro 16 million).

In September, the Area was reinforced thanks to a strategic partnership with Compagnia di San Paolo. This entailed setting up a new company, called NHS-Nuova Holding Subalpina, in which Sanpaolo IMI injected the Group’s activities in the sector and in which it has a 51% stake. NHS-Nuova Holding Subalpina has funds of more than Euro 750 million. These considerable financial resources, an important capacity for origination, and the complementary nature of its activities and the products and services offered by the Group will allow it to take on a leading role in Italy in the field of private equity and a primary role in public utilities. This initiative will be accompanied by the formation in early 2000 of a foreign closed-end fund worth Euro 120 million with NHS acting as sponsor. The fund will make investments in medium-sized manufacturing companies.

Corporate Centre

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	168
Net income	220
AVERAGE ECONOMIC CAPITAL (Euro/mn)	2,710
	12/31/99
OPERATING FIGURES (Euro/mn)	
Investments in companies not consolidated on a line-by-line basis	2,165

The Corporate Centre exercises the usual holding company functions (strategic direction, supervision, administration and investor relations) and provides supporting services to the Parent Bank (systems and organization, back-office management, logistics, purchasing and management of real estate holdings). The Corporate Centre also carries out treasury operations, collects non-performing loans and manages minority equity investments.

Most of the Corporate Centre's net income for the period came from extraordinary gains on equity investments (about Euro 308 million before taxes), following the sale of interests in Crediop (20%) and Telecom Italia.

Treasury

The Parent Bank's treasury activities have been geared towards maintaining a low risk profile. Special care has been taken in the management of fixed-rate positions, given the gradual rise in long-term interest rates throughout the period.

The Treasury Italy department took over the handling of interbank relationships in the Eurozone currencies. Greater use was made of European banks than in the past, and of Group funding vehicles operating in international markets.

Loan recovery (Workout)

Activity focused on maximizing recoveries and reducing the level of the non-performing loans recorded by the Parent Bank and Sanpaolo Immobiliare, using a staff of more than 200 people located throughout the country.

Non-performing loans totalling Euro 560 million were recovered during the year, with gains of Euro 125 million representing the difference between collections and the written-down value of the related loans. Including write-downs, net non-performing loans at the start of the year decreased by 36.9% to Euro 1,201 million. New positions amount to Euro 401 million, 30.7% less than in 1998. The year-end balance amounted to Euro 1,602 million, a reduction of 15.8%.

The Area is currently working on a securitization deal for the assignment without recourse of non-performing property loans. The operation will concern almost 40,000 positions that have a net book value of Euro 700 million. The operation will be concluded over the next few months at a price that is expected to be in excess of the book value of the loans.

This transaction will enable the Bank to reduce future legal costs and to free up staff that could be used to recover other positions and to further improve credit control. As a result of this operation, the proportion of non-performing loans to total loans will fall from the reported 2.3% to a little more than 1%.

Equity investments

The management of equity investments, which was especially intensive during the period, has been discussed in a separate section of this report.

Real estate (spin-off)

In October, the Group completed the spin-off of part of its real estate assets. This involved assets of Euro 700 million, made up principally of buildings not used for business purposes, property investments and related receivables.

These assets were transferred to Beni Stabili, a subsidiary, which was listed on the Stock Exchange. As a result of the spin-off, the Parent Bank kept a 16% minority holding in Beni Stabili, while the remaining 84% was allocated directly to the shareholders of Sanpaolo IMI. The share capital of Sanpaolo IMI was reduced as a result from Euro 4,345 to 3,932 million.

Sanpaolo IMI’s 16% investment in Beni Stabili was subsequently increased to 18%, buying shares on the market, this being the level at the end of the year. In early 2000, the investment in Beni Stabili was reduced to 16.8%.

Significant events after the year end

Economic background

The developments in the world economy in early 2000 appear to be in line with the trends seen in the second half of 1999: a recovery on the part of emerging countries, a weak economy in Japan, sustained growth in the United States, and an improvement in the Eurozone.

In the first few months of the year, the US and European central banks raised their policy rates in two steps by 50 basis points, confirming a tendency to tighten monetary policy. Three month interest rates on futures expiring in June and December 2000 show market expectations of further rises in the reference rates, both in the United States and in Europe, during the course of the year.

Since the start of the year, forward cycle indicators herald an acceleration in the Eurozone's economic recovery, especially in Germany and Italy. Estimates of growth in Italy's GDP for 2000 were marked up recently by the main research centres to 2.5%. The economy should benefit from stronger internal demand on the part of companies and households, and from stronger export demand.

Group performance in the first two months of the current year

In the first two months of the current year, the Group has performed well. An upward trend in revenues has improved net income and other banking income as well as operating income.

Commission growth has been substantial, thanks to the contribution from asset management, the equity component in particular. Customer assets under management rose to more than Euro 116,000 million by the end of February, an increase of 32% year on year and 6% from the start of the current year.

Net interest income is still showing negative growth, but there is a distinct improvement since the start of the year, thanks to the favourable trend in the spread and the volumes handled on behalf of customers.

Programmed investments are reflected in higher administration costs incurred by Group companies. However, the Parent Bank's operating costs are declining.

Lastly, the improvement in asset quality has made it possible to reduce provisions and adjustments on loans.

Future prospects

The Group's prospects for 2000 are good: net income is expected to be up on 1999, thanks to the favourable trend in commissions, a better interest margin and continuation of the virtuous circle in provisions and adjustments on loans. And this, notwithstanding the considerable investments being planned in the Group's major growth area, which will see fruit in future years.

Turin, March 28, 2000

The Board of Directors

ARTHUR ANDERSEN

Report of the Independent Auditors on the consolidated financial statements pursuant to Article 156 of Legislative Decree 58 of February 24, 1998

Arthur Andersen SpA
Galleria San Federico 54
10121 Torino

To the shareholders
of Sanpaolo IMI S.p.A.:

1. We have audited the consolidated financial statements of Sanpaolo IMI S.p.A. and subsidiaries as at December 31, 1999. The responsibility for the consolidated financial statements rests with the managing directors. Our responsibility is the professional judgement expressed on the consolidated financial statements and based on the audit.

2. Our examination has been conducted according to the auditing standards and procedures recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("CONSOB"). In accordance with these standards and procedures, the audit has been planned and effected to identify every item necessary to ascertain that the consolidated financial statements are free of significant errors and are together reliable. The audit includes the examination, on the basis of sampling checks, of supporting items and information included in the financial statements, as well as the evaluation of the adequacy and correctness of the accounting principles used and of the reasonable nature of the estimates made by the managing directors. We consider that the work undertaken provides a reasonable basis for the our professional judgement.

   The financial statements of subsidiary and affiliated companies which represent respectively 26.8% of consolidated assets and 24.6% of consolidated net interest and other banking income have been examined by other auditors who have provided us with their reports. Our judgement, expressed in this report, is also based on the audits conducted by other auditors with regard to the amounts concerning companies included in the scope of consolidation.

   For our judgement on the consolidated financial statements for the previous year, whose data are presented for comparison as required by law, reference is made to our report dated April 6, 1999. In order to facilitate comparison with the consolidated financial statements as at December 31, 1999, the pro forma consolidated financial statements as at December 31, 1998 are presented excluding Crediop from the scope of full consolidation; the principles adopted are described in the consolidated explanatory notes.

3. In our judgement, the consolidated financial statements of Sanpaolo IMI S.p.A. and its subsidiaries as at December 31, 1999 confirms to the rules which govern the principles of exposition; as such, they have been presented clearly and furnish a true and correct account of the balance sheets and income statements of the company and its subsidiaries.

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Bari Bologna Brescia Firenze
Genova Milano Napoli Padova
Roma Torino Treviso Verona

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4. For further elucidation of the consolidated financial statements, attention is directed to the following significant facts described in greater detail in the report on operations and consolidated explanatory notes:

   - In determining the reserve for taxes and duties, Sanpaolo IMI S.p.A. has taken account of the incentives envisaged by Law 461 of 1998 (the “Ciampi Law”) and Legislative Decree 153 of 1999. The application of the incentives has however been effected using prudential criteria to assess the amount of the benefit. Furthermore, as a result of the incentives, an average proportion inferior to that theoretically available has been used to calculate prepaid taxes concerning future years and lower prepaid taxes have therefore been required.

     As required by CONSOB (27052 of April 7, 2000) Sanpaolo IMI S.p.A. announced that the incentives of the Ciampi Law have been suspended and noted that any net benefit not to be taken (approximately Euro 13 million as prudently calculated) is covered in the provision for taxes and duties for current and potential tax disputes.

   - In the course of the year, Sanpaolo IMI S.p.A. spun off a portion of property assets to Beni Stabili S.p.A. and conferred its merchant banking activity to NHS – Nuova Holding Subalpina S.p.A.

Turin, April 10, 2000

Arthur Andersen S.p.A.

Giulio Lubatti - Partner   Mario M. Busso - Partner