

# Quarterly Report 31 December 2000

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**SANPAOLO IMI**  
SOCIETÀ PER AZIONI

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REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

SECONDARY OFFICE: VIALE DELL'ARTE 25, ROME, ITALY

COMPANY REGISTER OF TURIN NO. 06210280019

SHARE CAPITAL EURO 3,931,250,954.4 FULLY PAID

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PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

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# Key figures

	FY 2000 (1)	FY 2000 restated (2)	FY 1999	Change 2000 restated / 1999 (%)
<b>CONSOLIDATED STATEMENT OF INCOME (Euro/mil)</b>				
Net interest income	2,571	2,168	2,022	+7.2
Net commissions and other dealing revenues	2,638	2,467	2,066	+19.4
Administrative costs	-3,075	-2,650	-2,466	+7.5
Operating income	2,447	2,344	2,069	+13.3
Provisions and net adjustments to loans and financial fixed assets	-570	-452	-481	-6.0
Income before extraordinary items	1,792	1,807	1,504	+20.1
Extraordinary income	396	369	294	+25.5
Group net income	1,292	1,292	1,050	+23.0
<b>CONSOLIDATED BALANCE SHEET (Euro/mil)</b>				
Total assets	172,259	139,333	139,887	-0.4
Loans to customers	98,234	79,555	73,174	+8.7
Securities	24,994	18,349	18,401	-0.3
Equity investments	3,532	4,630	3,347	+38.3
Customer deposits and securities issued	103,630	79,096	78,957	+0.2
Subordinated liabilities	5,165	4,832	1,524	+217.1
Group shareholders' equity	7,338	7,338	8,036	-8.7
<b>FINANCIAL ASSETS OF CUSTOMERS (Euro/mil)</b>				
Total financial assets	303,482	264,857	260,026	+1.9
- Direct deposits	103,630	79,096	78,957	+0.2
- Indirect deposits	199,852	185,761	181,069	+2.6
- Asset administration	71,047	63,513	69,316	-8.4
- Asset management	128,805	122,248	111,753	+9.4
- Group products	124,799	118,808	108,505	+9.5
- Other products	4,006	3,440	3,248	+5.9
<b>PROFITABILITY RATIOS (%)</b>				
RoE (3)	18.1	18.1	14.0	
Cost / Income ratio (4)	56.4	53.5	54.7	
Net commissions / Administrative costs	85.8	93.1	83.8	
<b>CREDIT RISK RATIOS (%)</b>				
Net non-performing loans / Net customer loans	1.1	1.0	2.3	
Net problem and loans in restructuring / Net customer loans	1.0	0.9	1.6	
<b>CAPITAL ADEQUACY RATIOS (%) (5)</b>				
Tier 1 capital / Weighted assets	6.8	n.s.	9.6	
Total capital / Weighted assets	9.0	n.s.	10.3	
<b>SANPAOLO IMI SHARES</b>				
Number of shares (millions)	1,404	1,404	1,402	+0.1
- number of shares in circulation	1,365	1,365	1,375	-0.8
- number of own shares held by the Parent Bank	39	39	27	+45.7
Quoted price per share (Euro)				
- average	16.617	16.617	13.191	+26.0
- low	11.658	11.658	11.102	+5.0
- high	20.870	20.870	16.035	+30.2
Earnings per share in circulation (Euro)	0.95	0.95	0.75	+26.2
Dividend per share in circulation (Euro)	0.568 (6)	0.568 (6)	0.516	+10.0
Dividend / average annual price (%)	3.42	3.42	3.92	-12.7
Shareholders' equity per share in circulation (Euro)	5.38	5.38	5.84	-7.9
<b>OPERATING STRUCTURE</b>				
Employees	35,529	24,874	24,133	+3.1
Domestic branches	2,137	1,406	1,355	+3.8
Foreign branches and representative offices	91	86	76	+13.2
Financial planners	5,495	5,270	4,865	+8.3

(1) The Group financial statements for 2000 reflect the "line by line" consolidation of Banco di Napoli and its subsidiaries from the second half of the year following the criteria reported in the explanatory notes. The financial statements for 2000 will be audited.

(2) The restated financial statements for 2000 have been prepared to allow the most consistent comparison with 1999. They reflect the consolidation of Banco di Napoli and its subsidiaries "at net equity" following the criteria reported in the explanatory notes. The restated financial statements for 2000 are not audited.

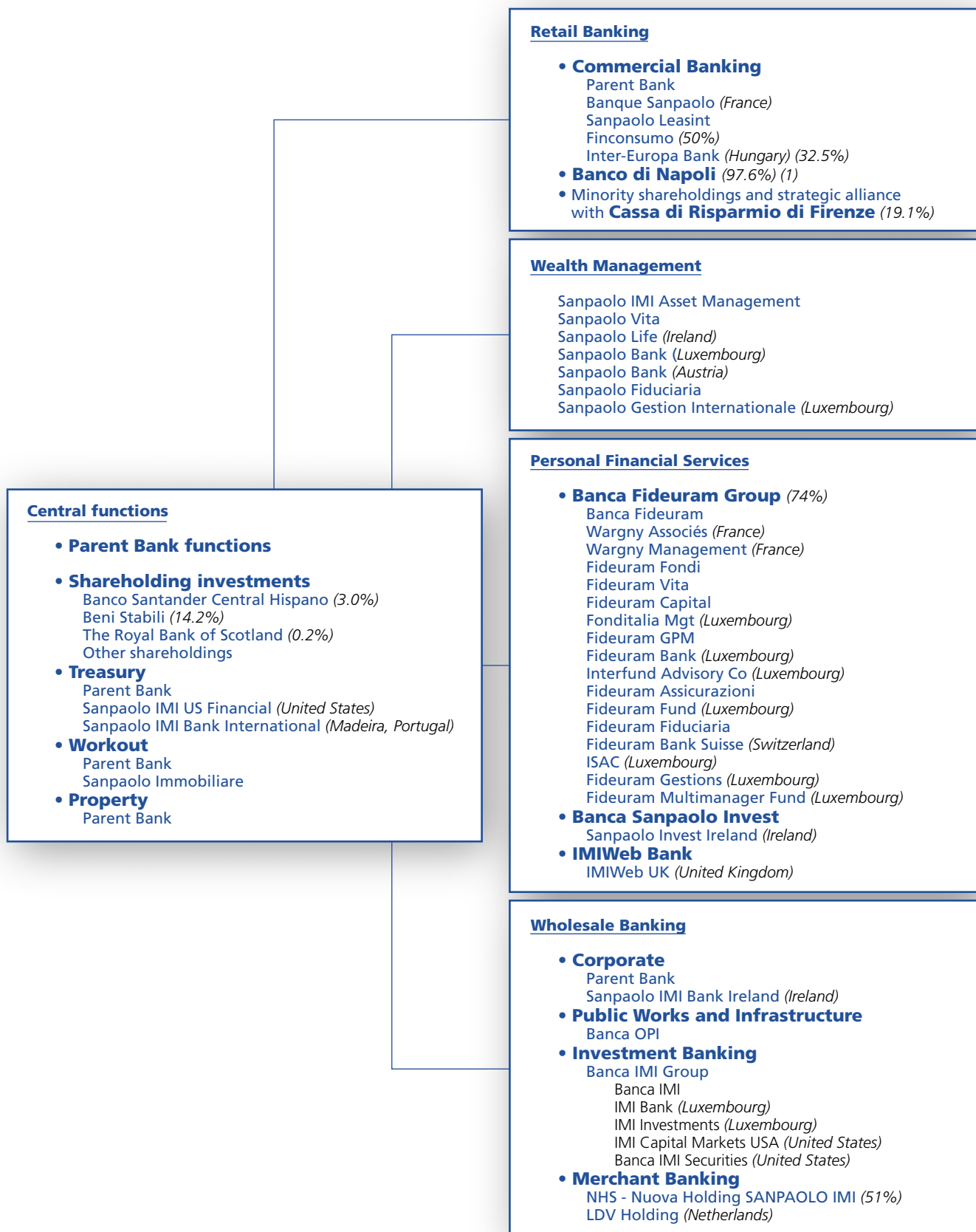
(3) Net income / Average net shareholders' equity excluding income for the year.

(4) Administrative costs (net of recoveries) and amortization (net of value adjustments on goodwill, merger differences and consolidation) / Net interest and other banking income.

(5) The ratios at 31 December 2000 have been partially estimated. It should be noted that, given the effects resulting from the use of own shares for the acquisition of the stake of 10.9% in Cardine Group, concluded in January 2001, and taking into account of the stake of 15% in Cariforli, currently in course, the total ratio should be 9% while the Tier 1 ratio would rise to 7.3%.

(6) Dividend to be proposed to the Shareholders' Meeting.

# Group structure



(1) Shareholding in ordinary capital.

## Reclassified consolidated statement of income

	FY 2000 (1) (Euro/mil)	FY 2000 restated (2) (Euro/mil)	FY 1999 (Euro/mil)	Change 2000 restated / 1999 (%)
<b>NET INTEREST INCOME</b>	<b>2,571</b>	<b>2,168</b>	<b>2,022</b>	<b>+7.2</b>
Net commissions and other dealing revenues	2,638	2,467	2,066	+19.4
Profits and losses from financial transactions and dividends on shares	264	255	276	-7.6
Profits from companies carried at equity and dividends from shareholdings	136	151	205	-26.3
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>5,609</b>	<b>5,041</b>	<b>4,569</b>	<b>+10.3</b>
Administrative costs	-3,075	-2,650	-2,466	+7.5
- <i>personnel</i>	-1,929	-1,619	-1,534	+5.5
- <i>other administrative costs</i>	-957	-858	-763	+12.5
- <i>indirect duties and taxes</i>	-189	-173	-169	+2.4
Other operating income, net	211	188	175	+7.4
Adjustments to tangible and intangible fixed assets	-298	-235	-209	+12.4
<b>OPERATING INCOME</b>	<b>2,447</b>	<b>2,344</b>	<b>2,069</b>	<b>+13.3</b>
Value adjustments on goodwill, merger differences and consolidation	-85	-85	-84	+1.2
Provisions and net adjustments to loans and financial fixed assets	-570	-452	-481	-6.0
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>1,792</b>	<b>1,807</b>	<b>1,504</b>	<b>+20.1</b>
Net extraordinary income	396	369	294	+25.5
<b>INCOME BEFORE TAXES</b>	<b>2,188</b>	<b>2,176</b>	<b>1,798</b>	<b>+21.0</b>
Income taxes	-791	-798	-685	+16.5
Change in reserve for general banking risks	3	3	-1	n.s.
Income attributable to minority interests	-92	-89	-62	+43.5
Reversal of second half income Banco di Napoli Group (3)	-16	-	-	n.s.
<b>NET INCOME</b>	<b>1,292</b>	<b>1,292</b>	<b>1,050</b>	<b>+23.0</b>

(1) The Group statement of income for 2000 reflects the "line by line" consolidation of Banco di Napoli and its subsidiaries from the second half of the year following the criteria reported in the explanatory notes. The statement of income for 2000 will be audited.

(2) The restated statement of income for 2000 has been prepared to allow the most consistent comparison with 1999. It reflects the consolidation of Banco di Napoli and its subsidiaries "at net equity" following the criteria reported in the explanatory notes. The restated statement of income for 2000 is not audited.

(3) Following the criteria reported in the explanatory notes.

## Analysis of quarterly consolidated statement of income

	2000 (1)				1999 (2)			
	4th quarter restated (Euro/mil)	3rd quarter restated (Euro/mil)	2nd quarter (Euro/mil)	1st quarter (Euro/mil)	4th quarter (Euro/mil)	3rd quarter (Euro/mil)	2nd quarter (Euro/mil)	1st quarter pro forma (Euro/mil)
<b>NET INTEREST INCOME</b>	<b>564</b>	<b>542</b>	<b>541</b>	<b>521</b>	<b>513</b>	<b>489</b>	<b>503</b>	<b>517</b>
Net commissions and other dealing revenues	626	593	601	647	579	522	491	474
Profits and losses from financial transactions and dividends on shares	73	49	41	92	83	37	70	86
Profits from companies carried at equity and dividends from shareholdings	42	35	39	35	84	52	36	33
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>1,305</b>	<b>1,219</b>	<b>1,222</b>	<b>1,295</b>	<b>1,259</b>	<b>1,100</b>	<b>1,100</b>	<b>1,110</b>
Administrative costs	-721	-650	-660	-619	-645	-610	-617	-594
- <i>personnel</i>	-442	-399	-392	-386	-387	-382	-386	-379
- <i>other administrative costs</i>	-232	-210	-226	-190	-217	-183	-189	-174
- <i>indirect duties and taxes</i>	-47	-41	-42	-43	-41	-45	-42	-41
Other operating income, net	52	48	48	40	50	40	43	42
Adjustments to tangible and intangible fixed assets	-81	-58	-50	-46	-67	-50	-43	-49
<b>OPERATING INCOME</b>	<b>555</b>	<b>559</b>	<b>560</b>	<b>670</b>	<b>597</b>	<b>480</b>	<b>483</b>	<b>509</b>
Value adjustments on goodwill, merger differences and consolidation	-26	-19	-21	-19	-21	-21	-21	-21
Provisions and net adjustments to loans and financial fixed assets	-157	-81	-123	-91	-155	-99	-123	-104
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>372</b>	<b>459</b>	<b>416</b>	<b>560</b>	<b>421</b>	<b>360</b>	<b>339</b>	<b>384</b>
Net extraordinary income	24	41	195	109	-5	-2	297	4
<b>INCOME BEFORE TAXES</b>	<b>396</b>	<b>500</b>	<b>611</b>	<b>669</b>	<b>416</b>	<b>358</b>	<b>636</b>	<b>388</b>
Income taxes	-139	-171	-220	-268	-159	-128	-248	-150
Change in reserve for general banking risks	-	-	3	-	-1	-	-	-
Income attributable to minority interests	-18	-22	-27	-22	-18	-23	-11	-10
<b>NET INCOME</b>	<b>239</b>	<b>307</b>	<b>367</b>	<b>379</b>	<b>238</b>	<b>207</b>	<b>377</b>	<b>228</b>

(1) The analysis of the quarterly statements of income for 2000 has been prepared using the restated statement of income for the fourth and third quarters following the criteria reported in the explanatory notes. The quarterly statements of income for 2000 have not been audited.

(2) The statement of income for the first quarter of 1999 has been restated consistently with those of successive quarters. The quarterly statements of income for 1999 have not been audited.

## Reclassified consolidated balance sheet

	31/12/2000 (1) (Euro/mil)	31/12/2000 restated (2) (Euro/mil)	31/12/1999 (Euro/mil)	Change 31/12/00 restated - 31/12/99 (%)
<b>ASSETS</b>				
Cash and deposits with central banks and post offices	710	526	528	-0.4
Loans	117,768	96,529	95,318	+1.3
- due from banks	19,534	16,974	22,144	-23.3
- loans to customers	98,234	79,555	73,174	+8.7
Dealing securities	18,317	16,874	16,645	+1.4
Fixed assets	12,346	7,507	6,490	+15.7
- investment securities	6,677	1,475	1,756	-16.0
- equity investments	3,532	4,630	3,347	+38.3
- intangible fixed assets	362	295	267	+10.5
- tangible fixed assets	1,775	1,107	1,120	-1.2
Differences arising on consolidation and on application of the equity method	1,004	1,004	58	n.s.
Other assets	22,114	16,893	20,848	-19.0
<b>Total assets</b>	<b>172,259</b>	<b>139,333</b>	<b>139,887</b>	<b>-0.4</b>
<b>LIABILITIES</b>				
Payables	133,520	106,424	106,969	-0.5
- due to banks	29,890	27,328	28,012	-2.4
- due to customers and securities issued	103,630	79,096	78,957	+0.2
Provisions	4,589	2,293	1,950	+17.6
- for taxation	1,217	1,163	1,029	+13.0
- for termination indemnities	744	450	438	+2.7
- for risks and charges	1,501	638	437	+46.0
- for pensions and similar	1,127	42	46	-8.7
Other liabilities	20,936	17,872	20,869	-14.4
Subordinated liabilities	5,165	4,832	1,524	+217.1
Minority interests	711	574	539	+6.5
Shareholders' equity (3)	7,338	7,338	8,036	-8.7
- capital	3,931	3,931	3,926	+0.1
- reserves (4)	2,115	2,115	3,060	-30.9
- net income	1,292	1,292	1,050	+23.0
<b>Total liabilities</b>	<b>172,259</b>	<b>139,333</b>	<b>139,887</b>	<b>-0.4</b>

(1) The Group balance sheet at 31 December 2000 reflects the "line by line" consolidation of Banco di Napoli and its subsidiaries from the second half of the year following the criteria reported in the explanatory notes. The balance sheet at 31 December 2000 will be audited.

(2) The restated Group balance sheet at 31 December 2000 has been prepared to allow the most consistent comparison with that at 31 December 1999. It reflects the consolidation of Banco di Napoli and its subsidiaries "at net equity" following the criteria reported in the explanatory notes. The restated balance sheet is not audited.

(3) Movement in net shareholders' equity in 2000 is given in detail in the report on operations.

(4) Reserves are net of own shares held by the Parent Group, 27,431,500 at a book value of 336 million Euro at 31 December 1999 and 39,345,982 at a book value of 697 million Euro at 31 December 2000.



## Analysis of quarterly consolidated balance sheet

	2000 (1)				1999 (2)			
	31/12 restated (Euro/mil)	30/9 restated (Euro/mil)	30/6 (Euro/mil)	31/3 (Euro/mil)	31/12 (Euro/mil)	30/9 (Euro/mil)	30/6 (Euro/mil)	31/3 pro forma (Euro/mil)
<b>ASSETS</b>								
Cash and deposits with central banks and post offices	526	511	449	359	528	761	431	574
Loans	96,529	96,532	97,715	94,981	95,318	88,955	91,968	87,598
- due from banks	16,974	19,477	21,732	19,956	22,144	18,752	20,005	18,009
- loans to customers	79,555	77,055	75,983	75,025	73,174	70,203	71,963	69,589
Dealing securities	16,874	16,873	18,909	16,383	16,645	18,125	23,665	23,369
Fixed assets	7,507	7,181	6,624	6,928	6,490	6,503	5,780	5,901
- investment securities	1,475	1,637	1,694	1,711	1,756	1,479	1,687	1,901
- equity investments	4,630	4,184	3,564	3,871	3,347	3,320	2,351	2,132
- intangible fixed assets	295	261	258	257	267	254	267	280
- tangible fixed assets	1,107	1,099	1,108	1,089	1,120	1,450	1,475	1,588
Differences arising on consolidation and on application of the equity method	1,004	81	93	47	58	43	45	51
Other assets	16,893	16,583	16,916	18,622	20,848	14,982	16,842	19,799
<b>Total assets</b>	<b>139,333</b>	<b>137,761</b>	<b>140,706</b>	<b>137,320</b>	<b>139,887</b>	<b>129,369</b>	<b>138,731</b>	<b>137,292</b>
<b>LIABILITIES</b>								
Payables	106,424	107,474	108,996	105,291	106,969	101,362	107,200	104,350
- due to banks	27,328	27,978	30,777	25,457	28,012	22,034	25,679	23,417
- due to customers and securities issued	79,096	79,496	78,219	79,834	78,957	79,328	81,521	80,933
Provisions	2,293	2,193	2,012	2,213	1,950	1,769	1,601	2,225
- for taxation	1,163	1,125	976	1,293	1,029	876	727	1,330
- for termination indemnities	450	448	447	448	438	440	434	442
- for risks and charges	638	576	545	427	437	406	392	405
- for pensions and similar	42	44	44	45	46	47	48	48
Other liabilities	17,872	16,327	18,738	19,303	20,869	15,736	19,788	20,305
Subordinated liabilities	4,832	3,239	2,207	1,494	1,524	1,301	1,346	1,362
Minority interests	574	610	588	560	539	550	170	153
Shareholders' equity (3)	7,338	7,918	8,165	8,459	8,036	8,651	8,626	8,897
- capital	3,931	3,930	3,930	3,926	3,926	4,345	4,345	4,345
- reserves (4)	2,115	2,935	3,489	4,154	3,060	3,494	3,676	4,324
- net income	1,292	1,053	746	379	1,050	812	605	228
<b>Total liabilities</b>	<b>139,333</b>	<b>137,761</b>	<b>140,706</b>	<b>137,320</b>	<b>139,887</b>	<b>129,369</b>	<b>138,731</b>	<b>137,292</b>

(1) The analysis of the quarterly balance sheets in 2000 has been prepared using the restated balance sheets for 31 December and 30 September following the criteria reported in the explanatory notes. The balance sheets at 31 March and 30 September are not audited; the balance sheet at 31 December will be audited.

(2) The pro forma balance sheet at 31 March has been restated consistently with those of successive quarters. The balance sheets at 31 March and 30 September are not audited.

(3) Movement in net shareholders' equity in 2000 is given in detail in the report on operations. In 1999, net shareholders' equity was affected by the property spin-off concluded on 31 October 1999 which led to a reduction of 701 million Euro of which 413 million Euro attributable to equity capital.

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

## Results by Operating Areas

Operating Area	Contribution to Group net income (1)			Average capital		Profitability	
	2000 restated (Euro/mil)	1999 (Euro/mil)	Change 2000 restated / 1999 (%)	2000 restated (Euro/mil)	1999 (Euro/mil)	2000 restated (%)	1999 (%)
<b>RETAIL BANKING</b>							
Commercial Banking	628	403	+55.9	2,477	2,464	25.3	16.3
<b>WEALTH MANAGEMENT</b>							
	101	65	+55.8	266	233	38.0	27.9
<b>PERSONAL FINANCIAL SERVICES</b>							
Banca Fideuram	177	129	+37.1	544	496	32.6	26.0
Banca Sanpaolo Invest	16	21	-24.8	89	46	17.6	45.0
IMIWeb Bank	-29	n.s.	n.s.	41	n.s.	n.s.	n.s.
<b>WHOLESALE BANKING</b>							
Corporate	85	59	+42.8	731	706	11.6	8.4
Public Works and Infrastructure	88	41	+114.3	256	205	34.4	20.1
Investment Banking	54	76	-27.9	356	362	15.3	20.9
Merchant Banking	33	36	-8.3	382	374	8.6	9.6
<b>CENTRAL FUNCTIONS</b>							
Shareholdings	203	240	-14.6	1,397	1,370	n.s.	n.s.
Other	-64	-20	n.s.	620	1,250	n.s.	n.s.
<b>GROUP TOTAL</b>	<b>1,292</b>	<b>1,050</b>	<b>+23.0</b>	<b>7,159</b>	<b>7,506</b>	<b>18.1</b>	<b>14.0</b>

(1) Operating Area results in 2000 are compared with the previous year. Changes from 1999 in Areas whose business is conducted at the Parent Bank level have been partially affected by certain changes in the cost and income divisionalization methodologies.

# Report on Group operations

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ACTION POINTS AND INITIATIVES IN THE QUARTER

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ANALYSIS BY OPERATING AREAS

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## Action points and initiatives in the quarter

The operations of the SANPAOLO IMI Group in the fourth quarter of 2000 were in line with its business strategy which sets out:

- expansion in Retail Banking, Wealth Management and Personal Financial Services, which have the greatest potential for value creation;
- priority to profitability and optimal use of capital in Wholesale operations.

### Public Offer for Banco di Napoli

The reinforcement of the operating structures dedicated to doing business with families and small- and medium-sized companies was primarily achieved externally, through the acquisition of Banco di Napoli, which has 731 branches, concentrated in Southern Italy, and is highly complementary to SANPAOLO IMI's network.

In November, the Public Offer required by Consob for the 43.9% share of the ordinary capital of Banco di Napoli held by third parties was effected. The Public Offer was accepted for 41.5% of the ordinary shares of the Bank. The Offer was made at a price of 1.533 Euro per share, for a total amount of 1,187 million Euro. As a result of the Public Offer, SANPAOLO IMI took its share in the ordinary capital of the Naples bank to 97.6%.

SANPAOLO IMI has further announced its intention to proceed with a residual offer to assume total control of the Bank's ordinary shares.

The acquisition of Banco di Napoli represented a total investment of 3 billion Euro. The obligatory Public Offer was in fact consequent to the following transactions:

- in July, SANPAOLO IMI bought, for 874 million Euro, the 49% share held by Banca Nazionale del Lavoro in Banco Napoli Holding, which controls Banco di Napoli with a 56.1% stake in its ordinary capital;
- in the middle of October the non-proportional spin-off of INA was completed; this resulted in the acquisition by SANPAOLO IMI of the remaining 51% share in Banco Napoli Holding and, thus, the control of Banco di Napoli. The shares of the Bank in the transaction, with a value of 945 million Euro, were taken against the cancellation of the remaining stake of 9.14% held by SANPAOLO IMI in INA, valued at 903 million Euro, as well as

against the assignment of 3.6 million SANPAOLO IMI's own shares to INA shareholders other than Generali, the majority shareholder, valued at 57 million Euro. SANPAOLO IMI also received a cash consideration of 15 million Euro from Generali.

### Other external initiatives and alliances

In the final quarter of 2000 SANPAOLO IMI made further progress in its policy of developing in the domestic market externally and through alliances. In particular:

- SANPAOLO IMI signed a contract, completed in January 2001, for the acquisition from the Fondazione Cassa di Risparmio di Venezia of a stake of 10.9% in the capital of Cardine Banca. The Cardine Group, established at the merger of the Casse Venete and the Cassa di Risparmio di Bologna, is one of the leading credit institutions in North Eastern Italy, where it has a network of some 800 branches. SANPAOLO IMI took its share of 10.9% in Cardine by ceding to Fondazione Carive approximately 27.5 million own shares, for a value of 516 million Euro; the Fondazione Carive thus took an equity stake of 1.96% in SANPAOLO IMI. The agreement also provides for a mechanism, related both to the performance of Cardine's price following quotation and to any further acquisitions of shares in Cardine by SANPAOLO IMI, to integrate the price paid to Fondazione Carive;
- agreement was reached with the Fondazione Cassa dei Risparmi di Forlì to buy a stake in Cassa dei Risparmi di Forlì, which has some 60 branches in Emilia Romagna; the transaction will initially be for 20% of the bank's capital, 15% for SANPAOLO IMI and 5% for Cassa di Risparmio di Firenze, for a total amount of 163 million Euro; SANPAOLO IMI and Cassa di Risparmio di Firenze are also committed to acquire a further share of 8% in the company, for approximately 62 million Euro, through a Public Offer.

The arrangement with Cassa dei Risparmi di Forlì will reinforce the strategic alliance which binds SANPAOLO IMI to Cassa di Risparmio di Firenze, in which it has a share of 19.1%. The agreements reached in 2000 envisage joint business development in Central Italy, where the Tuscan bank has a network of some 370 branches, with SANPAOLO IMI as the primary partner in asset management as well as in the corporate sector. In October 2000, CR Firenze Gestion Internationale, a mutual fund management company, held 20% by SANPAOLO IMI and 80% by Cassa di Risparmio di Firenze was consequently

established in Luxembourg: the company will distribute CR Firenze trademarked products through the branch network of Cassa di Risparmio di Firenze, while financial management consultancy services, administrative management and the depositary bank will be directed to SANPAOLO IMI Group companies.

At the end of the year the acquisition by Banca Fideuram of Wargny Associés, the holding company of Group Wargny, was also completed. The aim is to export the successful business model operated by Fideuram in Italy into the French market. The Wargny Group will be developing portfolio management services for high net worth customers, using a network of financial consultants and on line services alongside its traditional brokerage activities.

Finally, among the initiatives carried out in 2000 the reinforcement of the relationship with Banco Santander Central Hispano should be noted. SANPAOLO IMI raised to 3% its share in the Spanish Group, which in turn raised its stake in SANPAOLO IMI to 7%. During the year new projects for joint business development were also launched, including, of particular importance, a project together with Commerzbank, The Royal Bank of Scotland-Natwest and Société Générale, designed to create an Internet platform to offer on line treasury and capital market products to companies and institutional investors.

Investments made in 2000 were financed by SANPAOLO IMI without turning to capital increases. To support the capital adequacy ratios, which the Group intends to maintain at higher levels than the minimum required by the regulator, new subordinated issues for a total of 2.5 billion Euro were made during the year, together with, at the end of the year, an issue of preferred shares for 1 billion Euro.

### Internal initiatives

The initiatives to expand externally have been accompanied by various actions directed at internal reinforcement.

In particular, in Retail Banking, Wealth Management and Personal Financial Services the most significant steps in the final quarter of 2000 were:

- the strengthening of the distribution system: the number of financial consultants of Banca Fideuram and Banca Sanpaolo Invest reached a total of 5,270 at the end of the year, 180 more than at the end of September and approximately 400 more than at the beginning of

the year; the Commercial Banking network in Italy opened six branches in the quarter and 40 since the beginning of the year, to a total of 1,332;

- the conclusion of the first phase of a project aimed at the creation, within Commercial Banking, of a new multichannel distribution model, which envisages the use of the Internet as an integrated channel for the delivery of services to private customers and as a development platform for business with companies;
- the definition of a project to set up an autonomous Operating Area dedicated to Wealth Management, which will provide products and services both to the Group (through, for example, Commercial Banking, Banco di Napoli and Banca Sanpaolo Invest) and to other networks;
- the launch of work to reorganize branches which will gradually cover the whole Commercial Banking branch network in Italy and aimed at the specialization of each outlet according to customer segmentation and distinguishing, in particular, between retail and corporate;
- the acquisition of a banking licence by @IMIWeb in January 2001, which has taken the new name of IMIWeb Bank and is widening its operations from e-trading to e-banking. This follows the transformation to banking status, in July, of Sanpaolo Invest, which will be quoted on the stock market in 2001.

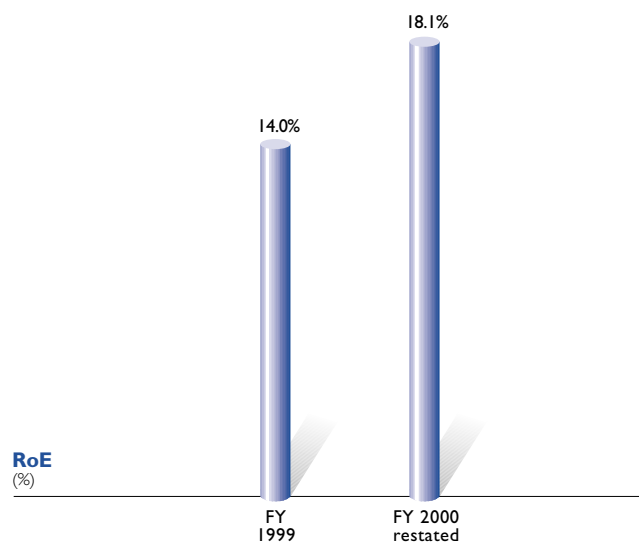
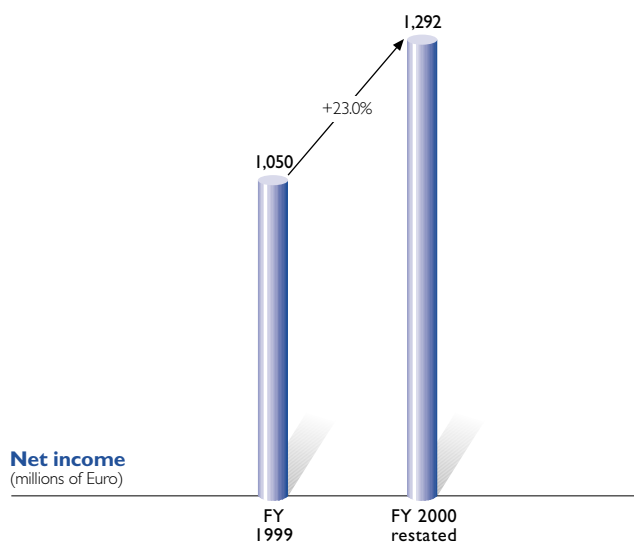
In Wholesale, the aim of optimizing the specialist activities of SANPAOLO IMI led to the redefinition of customer criteria in the Corporate Area, which has, from 2001, the responsibility for groups and companies with a turnover in excess of 500 billion lire, compared to the previous limit of 1,000 billion; this change has been made to respond more efficiently to the needs for more sophisticated products and services which medium-sized industry is also now demanding. The same requirement to emphasize the specialist competencies of the Group also led, in July, to the transfer to Banca OPI of public works lending.

At the central level, SANPAOLO IMI also concluded in December a further non-recourse sale of non-performing loans held at a book value of 90 million Euro. The transaction followed the non-recourse sales in May, of 662 million Euro non-performing loans, mostly in the construction sector. These actions contributed to the reduction in the ratio of net non-performing loans to net loans to customers from 2.3% at the end of 1999 to 1% at the end of 2000, reducing significantly the capital absorbed. The sales led to cash adjustments to the statement of income of more than 100 million Euro in total.

## Analysis of consolidated results

In 2000 the SANPAOLO IMI Group consolidated its market presence, delivering improved profit results against the previous year. In particular:

- net income rose to 1,292 million Euro, an increase of 23% against 1999;
- the RoE rose to 18.1% from 14% in the previous year;
- all operating margins grew, which are referred to here using the restated statement of income in which Banco di Napoli is valued at equity, to allow a consistent comparison with 1999.



The profit targets set by the business plan for the merger between San Paolo and IMI, drawn up in 1998, which put a RoE target of 15% for 2000, have been exceeded.

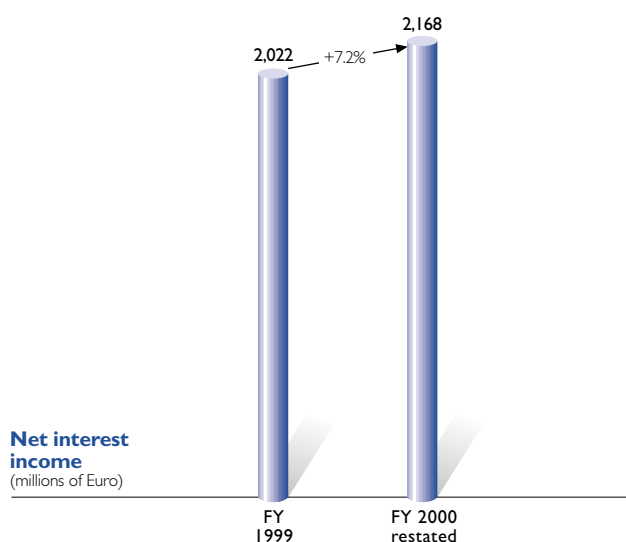
A dividend of 0.568 Euro per share will be proposed to the Shareholders' Meeting.

### Net interest income

The growth in total income was made possible thanks first to the positive development in net interest income, which from the first months of 2000 showed clear signs of recovery, reversing the downward trend which had characterized the previous year. This positive note continued throughout the year, which closed with net interest income of 2,168 million Euro, up 7.2% compared to 1999. The fourth quarter of the year, in particular, yielded a flow of 564 million Euro, the highest since the beginning of the year.

Positive development in customer volumes, primarily, and, to a lesser extent, the reopening of the spread between lending and borrowing rates contributed to the growth in net interest income.

Net loans to Group customers, excluding non-performing loans and before the line by line consolidation of Banco di Napoli, was up 10.2% at the end of December, a substantial recovery following the revision of the Group's loan policy in the previous year. Both the growing demand from companies, related to current economic growth, and loans to large Italian groups to finance extraordinary transactions

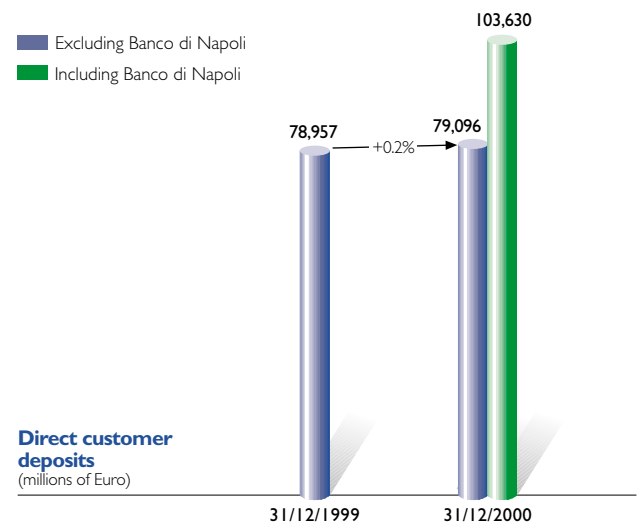
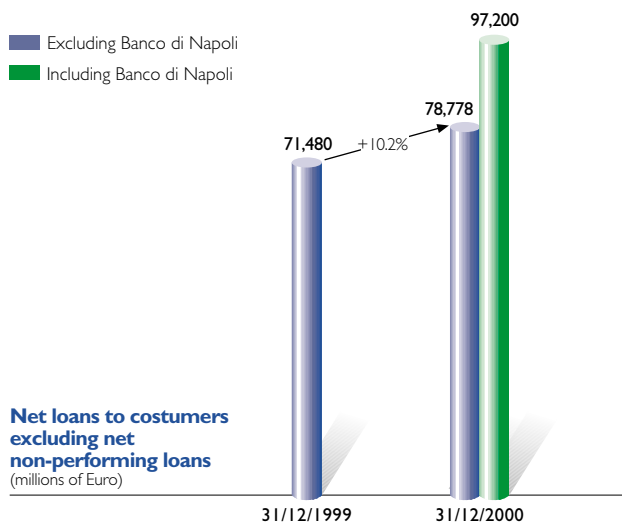


contributed to the increase of 19.6% in the short-term sector, the most dynamic part of the loan portfolio. There was a positive performance in mortgage lending to families: new loans from the Parent Bank amounted to 1,627 million Euro in 2000. In terms of average balances, loans to customers of the Parent Bank, net of non-performing loans, grew by 7.2%.

Direct customer deposits, slightly up at Group level compared to the end of 1999, was affected by a transforma-

tion of the total amounts into less expensive forms of debt during the year: current accounts and deposits grew by 6.8% on an annual base. The Italian branches of the Parent Bank, in particular, showed a rate of growth of 8.7% in terms of average balance.

The shares of loans and customer deposits in Italy at the end of the year were respectively 8% and 6.5%. With the line by line consolidation of Banco di Napoli, these figures rise to 10% and 9.3%.



### Loans to customers

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (Euro/mil)	%	Amount (Euro/mil)	%	Amount (Euro/mil)	%	
Short-term loans	40,774	41.5	31,925	40.1	26,701	36.5	+19.6
Medium- and long-term loans	56,426	57.4	46,853	58.9	44,779	61.2	+4.6
<b>Loans to customers excluding NPLs</b>	<b>97,200</b>	<b>98.9</b>	<b>78,778</b>	<b>99.0</b>	<b>71,480</b>	<b>97.7</b>	<b>+10.2</b>
Non-performing loans	1,034	1.1	777	1.0	1,694	2.3	-54.1
<b>Customer loan portfolio</b>	<b>98,234</b>	<b>100.0</b>	<b>79,555</b>	<b>100.0</b>	<b>73,174</b>	<b>100.0</b>	<b>+8.7</b>

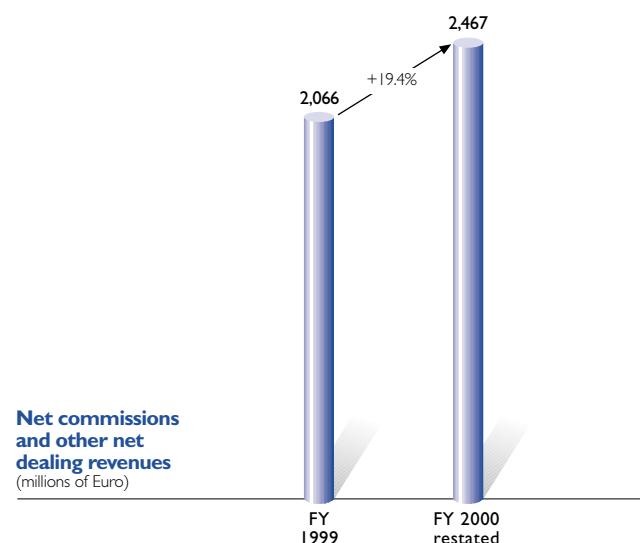
### Direct customer deposits

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (Euro/mil)	%	Amount (Euro/mil)	%	Amount (Euro/mil)	%	
Current accounts and deposits	53,312	51.4	38,559	48.8	36,096	45.7	+6.8
Certificates of deposits	8,891	8.6	6,175	7.8	9,090	11.5	-32.1
Bonds	26,589	25.7	22,136	28.0	23,643	29.9	-6.4
Commercial paper	3,110	3.0	3,110	3.9	2,584	3.3	+20.4
Repurchase agreements and securities lending	6,414	6.2	5,323	6.7	3,758	4.8	+41.6
Other deposits	5,314	5.1	3,793	4.8	3,786	4.8	+0.2
<b>Direct customer deposits</b>	<b>103,630</b>	<b>100.0</b>	<b>79,096</b>	<b>100.0</b>	<b>78,957</b>	<b>100.0</b>	<b>+0.2</b>

In interest rates, 2000 was marked by a significant increase in yields; in particular three month Euribor rose, in average annual terms, from 2.96% in 1999 to 4.38% in 2000, exceeding 5% in the final quarter. The spread progressively increased in the 12 months, regaining the ground seen in 1999; the reopening of the spread was made possible by an increase in the profitability of customer deposits, while competitors' aggressive loan policy was reflected in a lesser increase in loan interest rates than market rates.

### Net commissions and other net dealing revenues

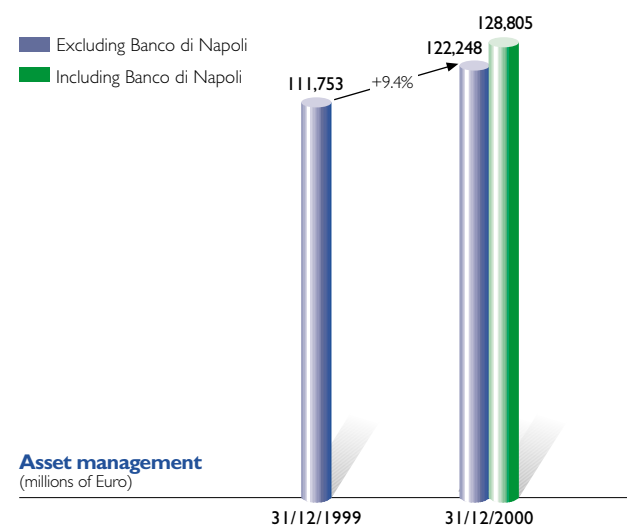
Growth in commissions from services and other net dealing revenues was sustained and increased by 19.4%, compared to last year, with a flow in the fourth quarter of 626



million Euro, greater than the average in previous periods. Within the line item, the contribution from management, dealing and consultancy, which showed an increase of more than 25% on an annual basis, rose from 74% in 1999 to 77%.

Asset management, of strategic importance for the Group, showed growth rates superior to the market average in 2000. In fact, the amounts reached by the end of the year, before the line by line consolidation of Banco di Napoli, were 122.2 billion Euro, 9.4% higher than at the end of 1999. The net annual inflow was 16 billion Euro. In particular:

- mutual funds and fund-based portfolio management in Group funds amounted to 100.9 billion Euro, up 7,8%



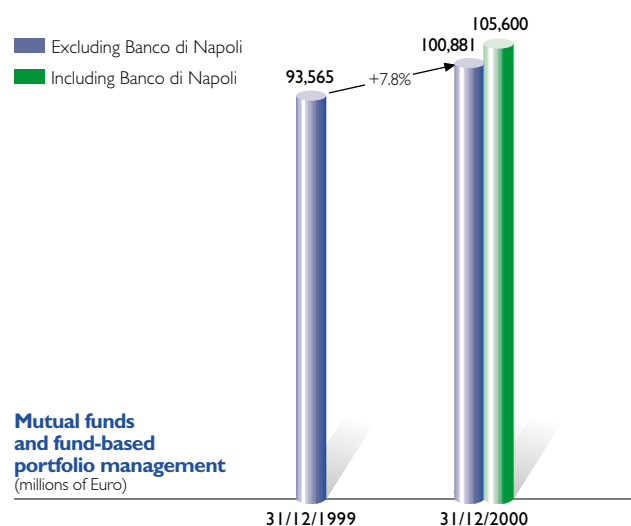
### Asset management

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (Euro/mil)	%	Amount (Euro/mil)	%	Amount (Euro/mil)	%	
Group products	124,799	96.9	118,808	97.2	108,505	97.1	+9.5
- Mutual funds and fund-based portfolio management	105,600	82.0	100,881	82.5	93,565	83.7	+7.8
- Portfolio management	6,829	5.3	5,557	4.6	5,009	4.5	+10.9
- Life assurance	12,370	9.6	12,370	10.1	9,931	8.9	+24.6
Other products	4,006	3.1	3,440	2.8	3,248	2.9	+5.9
<b>Asset management</b>	<b>128,805</b>	<b>100.0</b>	<b>122,248</b>	<b>100.0</b>	<b>111,753</b>	<b>100.0</b>	<b>+9.4</b>



against the 93.6 billion Euro at the end of December 1999; the net inflow in the year, 12.6 billion Euro, represented more than a third of the whole Italian market, allowing SANPAOLO IMI to take its market share from 17.5% at the end of 1999 to 18.1% at the end of 2000; the share rose to 18.9% if Banco di Napoli is included in the Group. The increase concerned the more remunerative sorts of fund, equity and balanced, away from bond funds; at Group level at the end of 2000 the share of equity funds in the total was 39.4%, against 36% at the end of 1999; balanced funds grew during the year from 14.7% to 19.1%;

- also positive were the performances of SANPAOLO IMI in life assurance: the life companies in fact showed growth of 24.6% on an annual basis, amounting to



12.4 billion Euro at the end of the year and reaching a market share estimated around 6.6%; the net flow in the year was 2.7 billion Euro.

The positive trend in asset management continued into January 2001: Group mutual funds showed a net monthly inflow of 348 million Euro, against the tendency in the sector, which registered an outflow of 485 million Euro. The total stock of funds and fund-based portfolio management of the SANPAOLO IMI Group rose to 106 billion Euro at the end of January; market share reached 19%.

### Profits from financial transactions and income from companies valued at equity and dividends

Profits from financial transactions amounted to 255 million Euro, showing a reduction of 7.6% compared to the end of 1999; this is attributable to the decision to contain the risk profile of the Group in a market context of growing volatility.

Income from companies valued at net equity and dividends from non-consolidated shareholdings fell by 26.3%, as a result of the present in the 1999 accounts of the extraordinary dividends paid by INA, as well as the contribution to Group income from the equity valuation of the 40% stake still held in Crediop and sold in April 2000 to the Dexia Group. Among the companies valued at equity should be noted the contribution of the Group's assurance companies of 75 million Euro. In the restated statement of income, this line also includes the valuation at net equity of Banco di Napoli attributable to the Group of 17 million Euro.

### Net asset management flows

	2000 (Euro/mil)	2000 restated (Euro/mil)	1999 (Euro/mil)
Group products	14,776	15,827	16,205
Other products	267	190	642
<b>Net asset management flows</b>	<b>15,043</b>	<b>16,017</b>	<b>16,847</b>

### Mutual funds by type

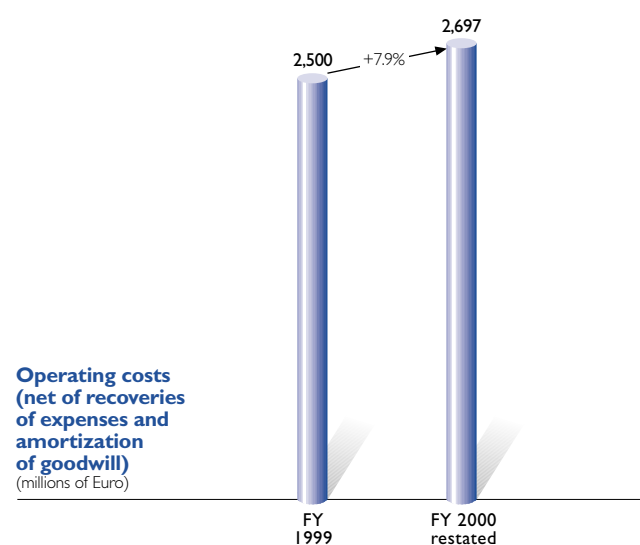
	31/12/2000 (%)	31/12/2000 restated (%)	31/12/1999 (%)
Equity	38.8	39.4	36.0
Balanced	19.0	19.1	14.7
Bond	42.2	41.5	49.3
<b>Total Group mutual funds</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Dividends from shareholdings, inclusive of tax credits, amounted to 55.3 million Euro; among them should be noted the dividends paid by BSCH (24.3 million Euro) and Beni Stabili (10.8 million Euro).

### Operating costs

SANPAOLO IMI has directed significant financial resources to investment designed to improve its market positioning, and in particular to reinforce the sales network and introduce new electronic channels. The increase in administrative expenses and value adjustments to tangible and intangible fixed assets, net of recoveries of expenses and amortization of goodwill, was 7.9%.

The growth in costs related to new projects was accompanied by the continuing work to contain operating



costs: Parent Bank costs, where the rationalization was concentrated, in fact registered an increase of 2.3%, nearly all related to the reinforcement of the distribution channels.

### Provisions and adjustments

Significant progress was made in Group credit quality. The ratio of net non-performing loans and net customer loans fell during the year to 1%, against 2.3% at the end of 1999. Other net problematical loans (problem, restructured and unguaranteed exposures to country risk) against net customer loans fell to 1%, compared to 1.7% at December 1999. Various tools were used to achieve these results: the use of strict credit criteria, in accordance with the new loan policy adopted by the Group; vigorous recovery efforts; and non-recourse sales of non-performing loans for a total net book value of approximately 750 million Euro.

The improvement in Group asset quality led to a reduction in provisions and net adjustments, which in 2000 amounted to 452 million Euro, 6% less compared to 1999. The reduction was particularly significant given that, during the year, provisions and prudential adjustments of approximately 277 million Euro were made for general provisions against performing loans as well as the possible risks of mortgages to be renegotiated. Writebacks were registered in the capital and interest accounts of the Parent Bank for 268 million Euro, of which 100 million related to the previously mentioned sales.

The coverage ratios for Group non-performing loans, taking account of writeoffs, rose to 82% while the

### Analysis of loan portfolio

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (Euro/mil)	%	Amount (Euro/mil)	%	Amount (Euro/mil)	%	
Non-performing loans	1,034	1.1	777	1.0	1,694	2.3	-54.1
Problem, restructured and in course of restructuring	988	1.0	731	0.9	1,162	1.6	-37.1
Loans to countries at risk - customers	106	0.1	95	0.1	48	0.1	+97.9
Performing loans	96,106	97.8	77,952	98.0	70,270	96.0	+10.9
<b>Total loans to customers</b>	<b>98,234</b>	<b>100.0</b>	<b>79,555</b>	<b>100.0</b>	<b>73,174</b>	<b>100.0</b>	<b>+8.7</b>
Non-performing and problem loans - banks	2		1		-		n.s.
Loans to countries at risk - banks	53		53		105		-49.5

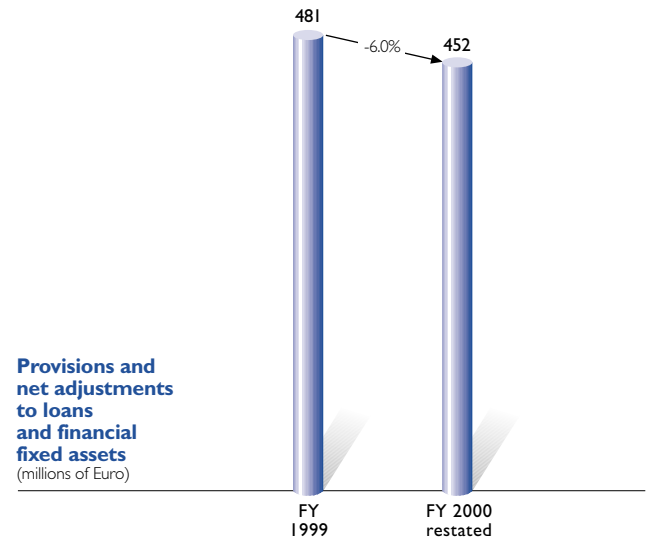
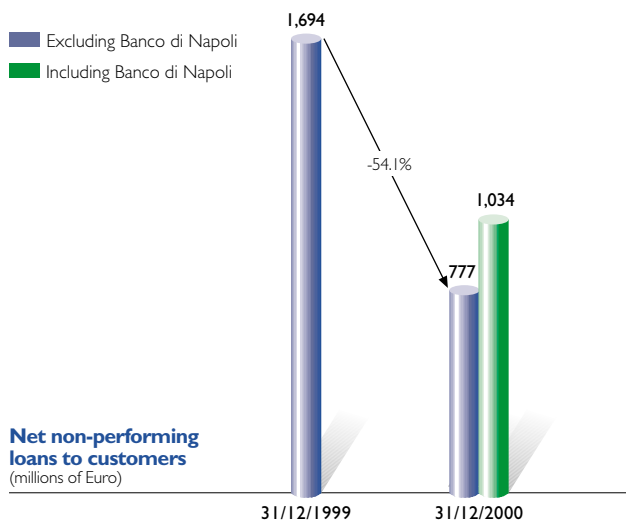
ratio for problem and restructured loans amounted to 35%. Following the line by line consolidation of Banco di Napoli, the figures are respectively 80% and 33%.

**Extraordinary income**

Extraordinary income contributed 369 million Euro to the total result, as follows:

- 134 million Euro related to the sale of the remaining 40% share of Crediop to Dexia; the capital gain, originally quantified at 150 million Euro, has been recalculated to take account of revisions in the tax treatment concerning sales of important shareholdings, in line with contractual agreements;
- 82 million Euro from the sale of own shares by the Parent Bank;
- 77 million Euro from sales of minority interests by NHS.

Taxes have been calculated prudentially without taking account of the incentives envisaged by the Ciampi Law from the merger of San Paolo and IMI and the acquisition of Banco di Napoli.



# Equity Capital

## Shareholders' equity

Group shareholders' equity amounted to 7,338 million Euro net of own shares held by the Parent Bank at 31 December. Movements during the year were as follows:

<i>Movements in Group shareholders' equity</i>	<i>Euro/mil</i>
<b>Net shareholders' equity at 1 January 2000</b>	<b>8,036</b>
<b>Decreases</b>	<b>-2,112</b>
- Dividends	-724
- Offset of goodwill arising on consolidation	-1,027
- Increases in own shares held by the Parent Bank	-361
<b>Increases</b>	<b>1,414</b>
- Equity capital	5
- Issuance premium reserve	18
- Exchange and other adjustments	99
- Net income for the year	1,292
<b>Net shareholders' equity at 31 December 2000</b>	<b>7,338</b>

The increase in equity capital of approximately 5 million Euro and the share issue premium reserve of approximately 18 million Euro was the result of the assignment of 1,833,250 shares, at a unit price of 12.396 Euro, to Group management, in the context of the stock option plan launched by Board of Directors of the Parent Bank on 9 February 1999, following the motion taken by the Shareholders' Meeting on 31 July 1998.

The reconciliation of differences arising upon consolidation are illustrated in the relevant paragraph of the explanatory notes.

## Own Shares

SANPAOLO IMI shares held by the Group at 31 December 2000 amounted to 41,783,382 or 3% of the equity, booked at 739 million Euro. At the end of the year, the Parent Bank, in particular, held 39,345,982 shares, booked at 697 million Euro.

In January 2001, approximately 27.5 million own shares (516 million Euro) were made over to Fondazione Carive, in the context of the acquisition of a stake of 10.9% in the Cardine Group.

## Regulatory capital and capital adequacy

On the basis of preliminary estimates for the end of 2000, the ratio between Group regulatory capital and total weighted assets would amount to 9%. The ratio between Group primary capital alone and total weighted assets would be 6.8%.

Given the effects of the use of own shares for the acquisition of 10.9% of the Cardine Group, completed in January 2001, and taking account of the 15% stake in Cariforli, currently under discussion, the total solvency ratio will be approximately 9%, while the Tier 1 ratio will rise to 7.3%.

# Risk management

## Basic principles

The SANPAOLO IMI Group lays strong emphasis on risk management and control, based on three principles:

- clear identification of responsibility for taking on risks;
- measurement and control systems in line with international best practice;
- separation of duties between Business Areas and control functions.

The Parent Bank’s Board of Directors and Executive Committee defines the policies relating to the acceptance of credit and financial risks, which use the support of specific Committees (Financial Risk; Credit Risk; Financial and Institutional Credit Risk; Country Risk).

The Parent Bank also exercises central management functions and overall control of risks and centralizes decisions of taking on large risks. To achieve this, it uses the support of Risk Management and Risk Control.

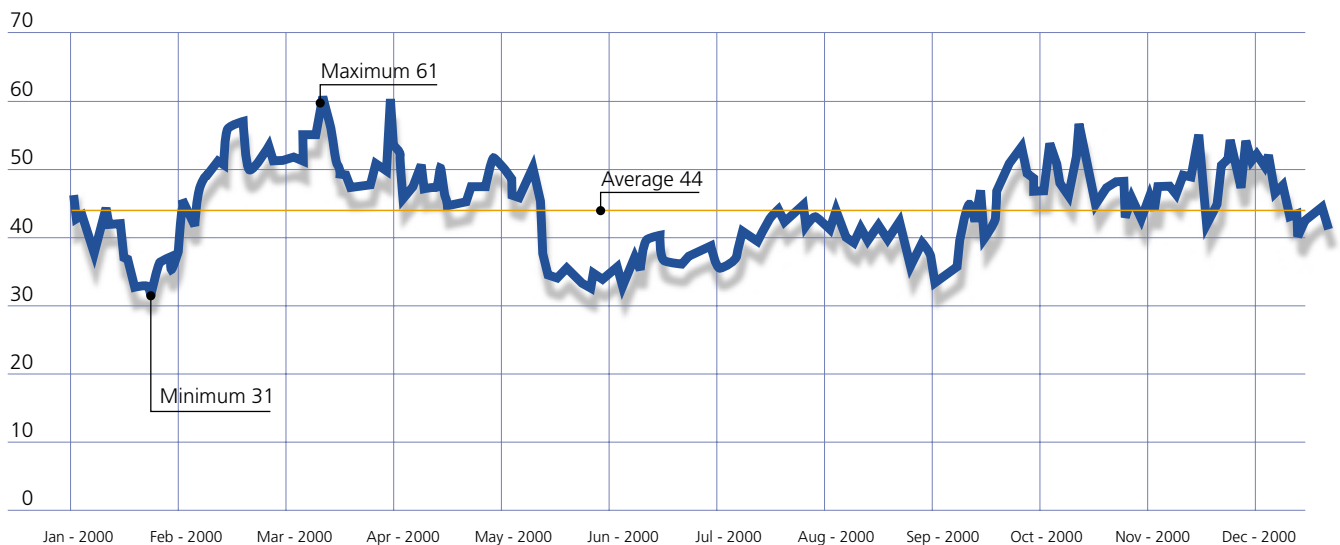
The Areas of Business which generate credit and/or financial risks operate within the limits of autonomy assigned to them and have their own control structures.

## Financial risks

Market risk generated by the Group’s lending business showed a further reduction during the year. The change in market value of the banking book, measured in terms of shift sensitivity, as an upward, parallel and uniform movement, of 100 basis points in the interest rate curve, showed an average negative value of 62 million Euro in 2000, less than the negative value of 105 million Euro in the previous year. In the fourth quarter, shift sensitivity had an average negative value, including the part attributable to Banco di Napoli, of 65 million Euro.

The Value at Risk (VaR) of the banking book - calculated as maximum unexpected potential loss of the market value of the portfolio which could occur in the 10 following working days with a statistical confidence interval of 99% - for the fourth quarter was maintained at an average value of 128 million Euro, lower than the 188 million Euro in the first nine months of the year, and was approximately 132 million Euro at the end of December.

Own financial risks in Group trading activities, concentrated in the subsidiary Banca IMI, registered an average value, measured in terms of Value at Risk, of 14 million Euro in the final quarter of the year, in line with the average values of the year (13.5 million Euro). At the end of December the



Maximum potential daily loss in trading (Euro/mil)

VaR amounted to 15.7 million Euro. The Worst Case Scenario methodology is also used, in addition to VaR, to monitor the impact of the potential losses which could occur in extreme conditions; the movement in maximum potential daily loss registered in the fourth quarter a substantial stability in risks which oscillated close to annual average values and was 43.8 million Euro.

The market value of minority shareholding investments held by the Parent Bank and the subsidiary Sanpaolo IMI International in quoted companies amounted to 2,816 million Euro at the end of December, showing a potential capital gain against book value of 298 million Euro, attributable mostly to interests in Banco Santander Central Hispano, Beni Stabili and The Royal Bank of Scotland. The market value of the quoted shareholding portfolio of the merchant bank NHS, 51% controlled by SANPAOLO IMI, amounted to 568 million Euro at the end of December; the potential capital gain, against book value, was 148 million Euro.

The VaR relative to minority shareholding investments held by the Parent Bank and the subsidiaries Sanpaolo IMI International and NHS (as attributable to SANPAOLO IMI) in quoted companies grew in the fourth quarter as a result of the rise in value of the portfolio and the increase in share price volatility, and was in total 312 million Euro at the end of December.

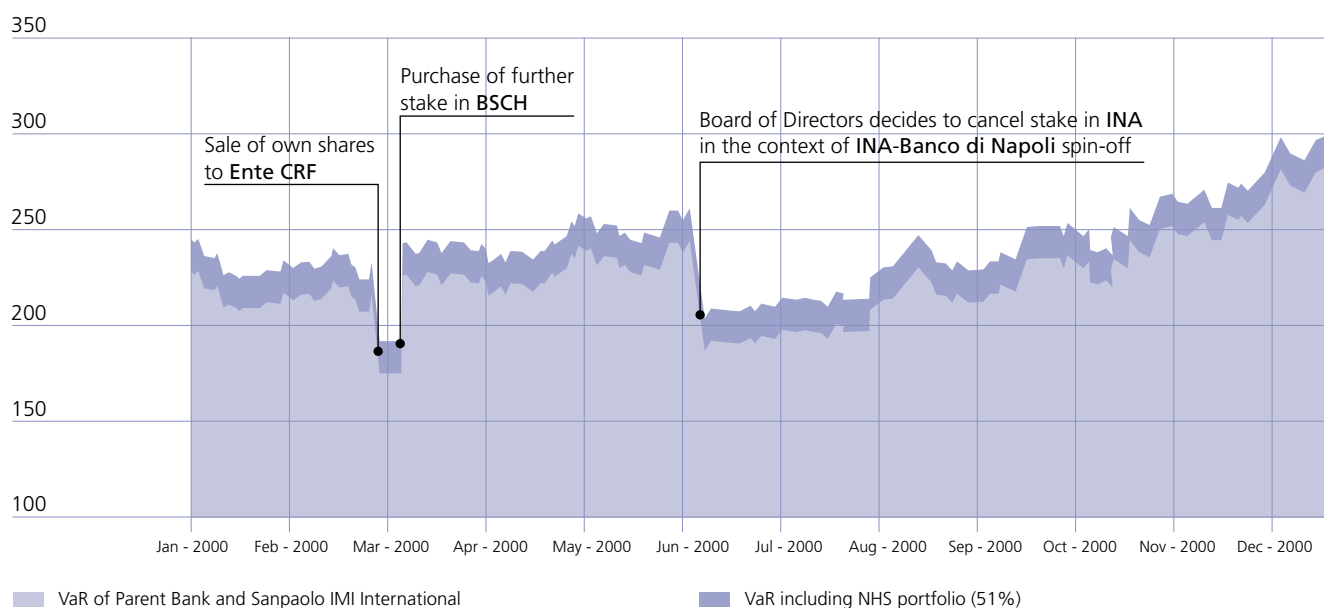
## Credit risks

Credit risks generated from banking operations are mostly concentrated in the Parent Bank and Banca OPI, which, in terms of weighted assets, account for 85% of Group credit risks.

Credit risks are managed through various instruments and, in particular, ratings. This tool is available for more than three quarters of exposure to counterparties in the portfolio. Slightly less than half of the ratings are internal, while the rest come from specialist agencies. The non-rated portfolio is essentially represented by households and in particular by residential mortgages.

Loans to customers in Commercial Banking, Corporate and Banca OPI, which represent the main reference point for credit risk management models, show high and progressively improving credit quality during the year. More than 80% of loans are investment grade.

The ratings constitute, as well as a direct instrument to monitor credit quality, a primary element for the credit risk portfolio model which combines asset quality information with risk indicators, such as capital at risk; this is defined as maximum unexpected loss which the Bank may incur with a confidence level of 99.95%.

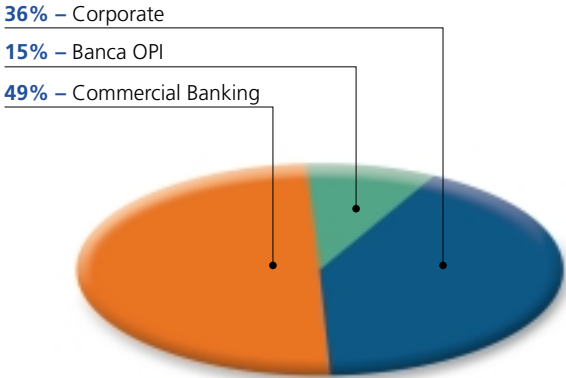


VaR of Group shareholding portfolio (Euro/mil)

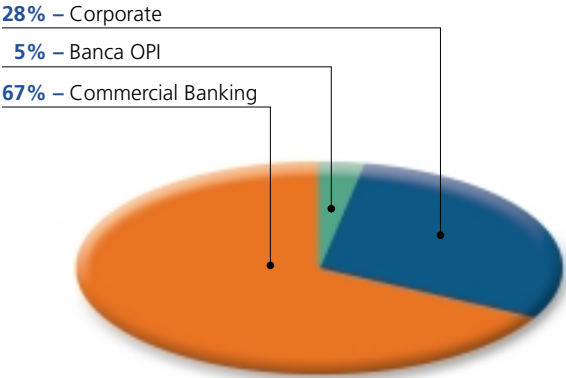
Capital against loans attributable to the Business Areas was 2,404 million Euro in September, or 3.15% of utilized credit, three tenths lower than in December 1999 (consistently reconstructed) and confirms the improvement in credit quality. Two thirds of this capital is allocated to Commercial

Banking, while the rest is divided between Corporate and Banca OPI, which have a lower level of risk in their activities.

Banco di Napoli will be integrated into the credit risk measurement system from the beginning of 2001.



Loans and guarantees by Operating Area



Capital against credit risk by Operating Area

## Supplementary information

### Performance of share prices

In the first half of 2000 SANPAOLO IMI shares showed strong growth, touching their historical high of 20.87 Euro at the beginning of September. Market turbulence in the later part of the year reduced the rise and the share closed the year at 17.78 Euro. Nonetheless the

price grew by 32.4% in 2000, more than double compared to the MIB Bancario (+13.9%). SANPAOLO IMI shares were included in the Eurostoxx 50 from 18 September 2000.

SANPAOLO IMI's market indicators showed a significant improvement: P/BV rose in 2000 from 2.4x to 3x; P/E, calculated on consensus earnings for 2001, was 17.3x at the end of the year; the December 1999 P/E, calculated on consensus earnings for 2000, was 16.2x.

### Market comparisons

	8/2/01	29/12/00	30/12/99	Change (%) 29/12/00-30/12/99
SANPAOLO IMI share price (Euro)	17.535	17.780	13.424	+32.4
Banking index (current MIB Bancario, base 30/12/99 = 1,000)	1,146	1,139	1,000	+13.9

### SANPAOLO IMI Share price

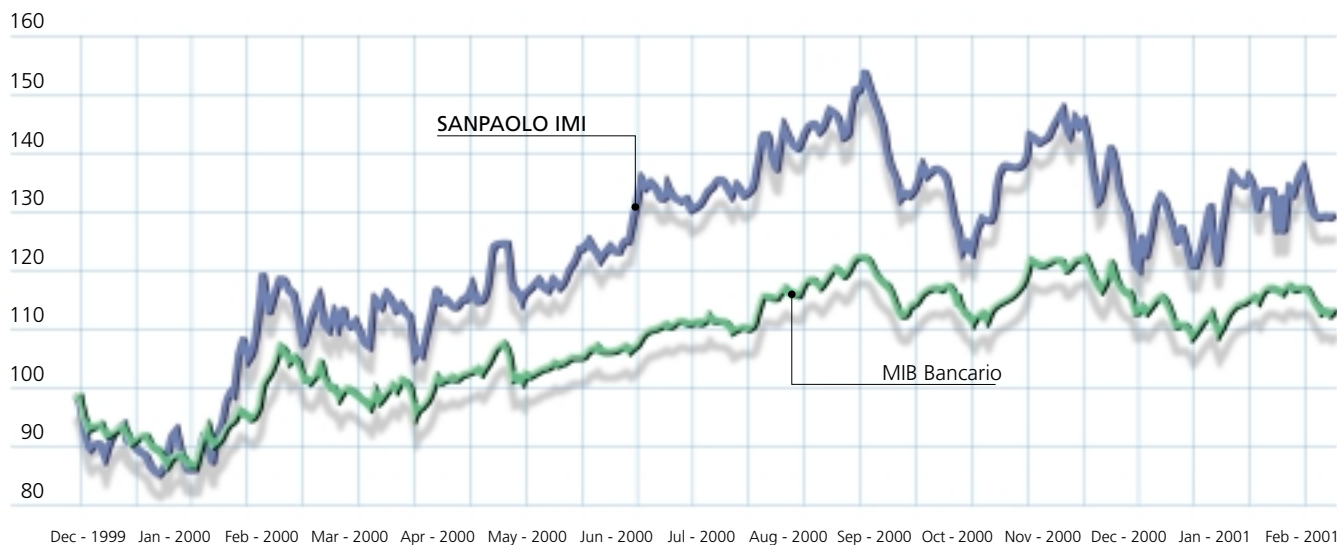
Year	High (*) (Euro)	Low (*) (Euro)	Average (*) (Euro)
1995	5.110	4.030	4.573
1996	5.287	4.210	4.758
1997	8.833	4.583	6.263
1998	16.102	8.654	12.427
1999	16.035	11.102	13.191
2000	20.870	11.658	16.617
2001 (to 8/2/2001)	18.627	16.416	17.836

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

### SANPAOLO IMI market indices

	29/12/2000	30/12/1999
Price book value	3.0	2.4
Price earnings on consensus earnings (*)	17.3	16.2

(\*) Calculated on consensus earnings 2001 for 29/12/2000 and consensus earnings 2000 for 30/12/1999.



SANPAOLO IMI share price and MIB Bancario (30/12/99=100)



## Shareholders

Based on available information, the shareholder structure of SANPAOLO IMI at 31 December 2000 was as follows:

<i>Shareholders of SANPAOLO IMI</i>	%
Compagnia di San Paolo	16.13
Banco Santander Central Hispano	7.02
Monte dei Paschi di Siena	6.17
IFI / IFIL	4.99
Fondazione Cariplo	2.77
Ente Cassa di Risparmio di Firenze	2.57
Società Reale Mutua di Assicurazioni	2.06
KBC Bank	1.16
Other shareholders (*)	57.13
<b>Total</b>	<b>100.00</b>

(\*) Includes own shares held by the Group.

In January 2001 the Fondazione Carivenezia took a stake of 1.96% in SANPAOLO IMI.

## Ratings

In April 2000, Moody's reviewed its ratings for the SANPAOLO IMI Group:

- from A1 creditwatch positive to Aa3 with stable outlook for SANPAOLO IMI's medium/long term rating;
- from C+ to B SANPAOLO IMI's Bank Financial Strength Rating;
- from P-2 to P-1 and from A3 to A2 Banque Sanpaolo's short and medium/long term ratings.

In October, Standard & Poor's raised the outlook for SANPAOLO IMI and Banca Fideuram from stable to positive.

### SANPAOLO IMI debt ratings

Rating agency	Type of rating	Rating
Fitch	• Short-term	F1+
	• Medium/long-term debt (senior)	AA-
Japan Rating and Investment Information	• Medium/long-term debt (senior)	AA
Moody's Investors Service	• Short-term	P-1
	• Medium/long-term debt (senior)	Aa3
Standard & Poor's	• Short-term	A-1
	• Medium/long-term debt (senior)	A+ with outlook positive
Thomson BankWatch	• Short-term	TBW-1
	• Medium/long-term debt (senior)	AA-

### Rating Subsidiary company debt

Group company	Rating agency	Rating Short-term	Medium/long-term (senior)
Banque Sanpaolo	Fitch	F1	A+
	Moody's Investors Service	P-1	A2
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	-

### Other SANPAOLO IMI ratings

Type of rating	Rating agency	Rating
Bank Financial Strength	Moody's Investors Service	B
Individual	Fitch	B/C
Legal	Fitch	2
Issuer	Thomson BankWatch	B

# Analysis by Operating Areas

## Retail Banking

Retail Banking, which serves households and small- and medium-sized companies, is organized through Commercial Banking as well as Banco di Napoli from 2001, following the acquisition of control. In Retail Banking there is also the activity of Cassa di Risparmio di Firenze, in which SANPAOLO IMI has a stake of 19.1%.

## Commercial Banking

Commercial Banking operates, in Italy, through the Parent Bank's network of 1,332 branches; abroad, it is active through Banque Sanpaolo, the French subsidiary with 61 branches, and Inter-Europa Bank in Hungary, where the Group has a stake of 32.5%. Commercial Banking also has specialist companies in consumer credit (Finconsumo, jointly controlled with Banco Santander Central Hispano) and leasing (Sanpaolo Leasint).

The decision to establish an autonomous Business Area dedicated to Wealth Management will involve taking the

	Commercial Banking		of which: Italian branches		of which: Banque Sanpaolo (*)	
	FY 2000	Change % 2000/1999	FY 2000	Change % 2000/1999	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME (Euro/mil)</b>						
Net interest and other banking income	3,324	+13.6	3,007	+13.3	210	+26.2
Operating income	1,415	+31.0	1,290	+32.6	80	+48.1
Income before extraordinary items	1,176	+48.6	1,076	+50.2	69	+85.2
Net income	628	+55.9	565	+56.0	46	+35.3
<b>AVERAGE ECONOMIC CAPITAL (Euro/mil)</b>						
	FY 2000	FY 1999	FY 2000	FY 1999	FY 2000	FY 1999
	2,477	+0.5	2,066	-2.0	284	+10.4
<b>INDICATORS</b>						
RORAC (%)	25.3	16.3	27.3	17.2	16.0	13.1
Cost / Income ratio (%)	57.4	63.1	57.1	63.4	61.9	67.5
	31/12/00	Change % 2000/1999	31/12/00	Change % 2000/1999	31/12/00	Change % 2000/1999
<b>OPERATING DATA (Euro/mil)</b>						
Financial assets	161,077	-	147,843	+3.2	13,065	-25.5
- Direct deposits	34,603	+4.8	29,796	+1.8	4,638	+36.5
- Asset management	71,161	+6.8	65,461	+4.7	5,700	+38.9
<i>of which: Group products</i>	69,433	+7.4	65,461	+4.7	3,972	+85.9
- <i>Mutual funds and fund-based portfolio management</i>	58,671	+4.9	55,298	+2.3	3,373	+80.0
- <i>Portfolio management</i>	4,865	+15.9	4,266	+8.4	599	+127.7
- <i>Life assurance</i>	5,897	+30.0	5,897	+30.0	-	-
<i>of which: Other products</i>	1,728	-12.1	-	-	1,728	-12.1
- Assets administration	55,313	-9.9	52,586	+2.3	2,727	-72.8
Net flow in asset management	7,583		6,114		1,469	
Net loans to customers excluding NPLs	40,350	+8.5	36,493	+8.5	3,552	+18.2
<b>STRUCTURE</b>						
Employees	17,571	+0.6	16,046	+0.1	1,221	+5.0
Branches	1,393	+3.6	1,332	+3.1	61	+17.3

(\*) Banque Sanpaolo's figures illustrate contribution to Group results.

asset management companies out of Commercial Banking. The accounts for Commercial Banking for 2000 and 1999 have been restated to exclude their contribution and to represent the new structure.

In Italy the initiatives undertaken in 2000 have been directed mainly to reinforcing the Area's competitive positioning. These have concerned in particular:

- a distribution model to allow clients to access services in an integrated way through branches, the Internet, Call Centre and Mobile Banking: in the final quarter Internet information functions were launched and these will be followed by statement ordering and operating services in the first quarter of this year; the Call Centre reaching 100,000 customers has been strengthened; and projects have been launched to use the Internet as a platform to develop commercial relationships with companies;
- the reinforcement of the branch network both quantitatively and qualitatively: the number of branches increased by 40; particular attention has been paid to branches dedicated to private banking, with eight more added during the year; the whole network is being reorganized to specialize each branch according to its predominant client segment and differentiate between retail and business branches;
- the strengthening of marketing capacity, with priority attention to higher value added clients and the increase in cross selling: personal portfolio managers with more sophisticated IT resources to improve private client service have been identified; new marketing initiatives have been launched, with the creation of new products and services;
- the improvement of asset quality, with the acquisition of a distinct credit risk management capacity; new workstations as well as more modern scoring and critical monitoring systems have been introduced in support;
- the reinforcement of incentive schemes, more strongly directed to marketing and profitability results achieved.

In consumer credit, Finconsumo, with a market share of 4.3% and at number eight in the Italian sector, has taken

the necessary steps for its transformation into a bank, envisaged for the middle of 2001; it has securitized 350 million Euro; it also set out a plan to develop credit card business.

In France, Banque Sanpaolo has reinforced its distribution structure: in particular in 2000 the bank acquired seven branches from Banque Générale du Commerce, taking its network to 61. Further steps were taken to conclude a project aimed at strengthening electronic channels with the activation of a new Internet Banking channel.

In total, Commercial Banking has registered a significant increase in profit margins: net income grew by 55.9%; RORAC was 25.3% against 16.3% in 1999; the cost to income ratio fell to 57.4%, against 63.1% in 1999. The results were made possible, on the one hand, by positive progress in net interest income and above all in commissions and, on the other, containment of ordinary costs and improvement in asset quality. The last, in particular, was reflected both in lower adjustments and in less capital absorbed compared to the increase in loans.

Volumes in asset management grew considerably and reached 71.2 billion Euro at the end of the year, thanks to a net inflow of 7.6 billion Euro, with 1.6 billion Euro in assurance. In particular:

- the Italian network had a net flow of 6.1 billion Euro, taking the total of asset management to 65.5 billion Euro. The market share in mutual funds and fund-based portfolio management was 10.6% at the end of the year; the most significant development was in equity and balanced funds whose weight in the total grew, respectively, from 23.8% to 28% and from 23.1% to 31%;
- Banque Sanpaolo, with a net inflow of 1.5 billion Euro, took its stock of asset management to 5.7 billion Euro.

The area maintained positive progress in net loans to customers excluding NPLs with annual growth of 8.5%; private mortgage lending from the Italian network, in total 1,627 million Euro, and from Banque Sanpaolo, whose mortgages rose approximately 23% against 1999, contributed to the result.

## Wealth Management

	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME</b> (Euro/mil)		
Net interest and other banking income	256	+45.7
Operating income	194	+58.5
Income before extraordinary items	153	+29.1
Net income	129	+44.8
Contribution to Group net income (*)	101	+55.8
<b>AVERAGE ECONOMIC CAPITAL</b> (Euro/mil)		
	FY 2000	FY 1999
<b>INDICATORS</b>		
RoE (%)	38.0	27.9
Cost / Income ratio (%)	24.2	30.4
	31/12/00	Change % 2000/1999
<b>OPERATING DATA</b> (Euro/mil)		
Asset management	74,223	+5.6
<b>STRUCTURE</b>		
Employees	343	+31.4

(\*) After the posting of consolidation attributable to the Area.

The know-how acquired by the SANPAOLO IMI Group in asset management and market opportunities connected to the growth of open architecture distribution solutions led to the design of a project aimed to set up an autonomous Business Area dedicated to Wealth Management.

The new Area, whose pro forma accounts for 2000 and 1999 are reported here, will be operative from 2001. It will provide products and services both to the distribution networks inside the Group (Commercial Banking, Banco di Napoli and Banca

Sanpaolo Invest), and to external networks. Commercial Banking's companies operating mutual funds and portfolio management (Sanpaolo IMI Asset Management, Sanpaolo Gestion Internationale and Sanpaolo Fiduciaria), private banking (Sanpaolo Bank Lussemburgo and Sanpaolo Bank Austria) and life assurance (Sanpaolo Vita and Sanpaolo Life) will be within Wealth Management.

In 2000, the Wealth Management companies have launched initiatives directed at improving the range of products and services. In particular:

- in asset management 15 new funds have been created and portfolio management has been strengthened;
- a new policy, Index Linked Multimanager, has been launched in assurance and new products dedicated to higher value added clients have been introduced;
- in private banking steps have been made to establish a bank in Switzerland, to widen international business.

The Wealth Management companies have also launched initiatives directed at widening their distribution channels. In particular agreements have been reached for:

- the creation of assurance products distributed by Poste Italiane;
- mutual fund investment management products distributed by Cassa di Risparmio di Firenze through a new company held by Cassa di Risparmio di Firenze and SANPAOLO IMI.

Wealth Management reported strong growth in 2000, thanks to the positive performance of the amounts managed: contribution to Group income increased by 55.8%, taking profitability to 38%.

## Personal Financial Services

The distribution of financial services to households and small businesses with medium/high savings potential through financial planners is undertaken by the networks of Banca Fideuram and Banca Sanpaolo Invest; the e-banking activity of IMIWeb Bank is also included.

### Banca Fideuram

	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME</b> (Euro/mil)		
Net interest and other banking income	524	+32.2
Operating income	295	+40.7
Income before extraordinary items	253	+52.3
Net income	223	+41.3
Contribution to Group net income (*)	177	+37.1
<b>AVERAGE ECONOMIC CAPITAL</b> (Euro/mil)	544	+9.6
	FY 2000	FY 1999
<b>INDICATORS</b>		
RoE (%)	32.6	26.0
Cost / Income ratio (%)	43.7	47.2
	31/12/00	Change % 2000/1999
<b>OPERATING DATA</b> (Euro/mil)		
Financial assets	51,070	+14.2
- Direct deposits	2,722	+21.1
- Asset management	40,614	+12.5
- <i>Mutual funds and fund-based portfolio management</i>	34,923	+2.2
- <i>Life assurance</i>	5,690	+14.1
- Assets administration	7,734	+21.3
Net flow in asset management	6,150	
<b>STRUCTURE</b>		
Employees	1,373	+5.8
Financial planners	3,782	+7.8
Branches	74	+17.5

(\*) Relates to the 74% held by SANPAOLO IMI and after posting consolidation attributable to the Area.

Banca Fideuram, with a network of 3,782 financial planners and 74 branches, uses its own specialist companies dedicated to asset management services.

During the year, Banca Fideuram put into place a number of initiatives, including the following:

- the strengthening of the distribution channels, through the increase of the financial planners' network by 273 people, the opening of 11 new branches and the development of on line operations;
- the deepening of the product range, with specific attention to the affluent sector; in particular a new line of unit-linked policies for large portfolios was created;
- the expansion into foreign markets in international private banking; at the end of the year the acquisition of the Wargny Group (with a strong position in France in traditional and on line securities dealing as well as a niche presence in private banking) was completed. Banca Fideuram also requested banking authorization for its subsidiary Turis, as part of its development in Switzerland. Turis took the legal name of Fideuram Bank (Suisse) at the beginning of February 2001.

The profitability margins of Banca Fideuram showed high rates of growth in 2000 taking profitability to more than 30%.

Asset management showed increases superior to that of the average in the Italian banking system: total amounts at the end of the year were 40.6 billion Euro, thanks to a net flow of 6.2 billion Euro, of which 726 million Euro was in life assurance. The domestic market share of mutual funds and fund-based portfolio management grew by approximately 0.6%, reaching 6.3% at the end of the year; the performance of the equity component of this was particularly positive and represented 53.4% of the total at the end of December.

*Banca Sanpaolo Invest*

	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME</b> (Euro/mil)		
Net interest and other banking income	71	+13.6
Operating income	21	-37.8
Income before extraordinary items	21	-20.5
Net income	16	-24.8
<b>AVERAGE ECONOMIC CAPITAL</b> (Euro/mil)	89	+92.2
	FY 2000	FY 1999
<b>INDICATORS</b>		
RoE (%)	17.6	45.0
Cost / Income ratio (%)	70.7	46.6
	31/12/00	Change % 2000/1999
<b>OPERATING DATA</b> (Euro/mil)		
Financial assets	10,155	+8.5
- Direct deposits	52	n.s.
- Asset management	9,157	+12.0
<i>of which: Group products</i>	7,446	+8.0
- <i>Mutual funds and fund-based portfolio management</i>	6,766	+8.7
- <i>Portfolio management</i>	222	-19.1
- <i>Life assurance</i>	458	+15.6
<i>of which: Other products</i>	1,712	+33.6
- Assets administration	946	-20.2
Net flow in asset management	1,763	
<b>STRUCTURE</b>		
Employees	176	+60.0
Financial planners	1,488	+9.7

Sanpaolo Invest worked to reinforce its competitive positioning ready for its stock market quotation planned for 2001. The principal initiatives concerned:

- the transformation to banking status, organizationally autonomous from the Parent Bank;
- the adoption of a multichannel distribution model, using the Internet and phone banking, directing the sales network towards higher value-added services;
- the broadening of the range offered both through the creation of banking services and asset management products and through adopting an open architecture

approach: a specialist Irish fund management company, Sanpaolo Invest Ireland Ltd., has been set up for this purpose and at the same time distribution agreements were concluded with major international managers, such as Credit Agricole, Indosuez, Credit Suisse, J.P.Morgan and Pictet, which include 200 types of fund in total.

Financial performance for the year was influenced by the extraordinary costs connected to its transformation to banking status and for the preparation for its stock market quotation: net income fell approximately 25% compared to 1999.

Operationally, Banca Sanpaolo Invest maintained sustained rates of growth in 2000, taking asset management to 9.2 billion Euro, with a net inflow of approximately 1,8 billion Euro. Market share in mutual funds and portfolio management in funds grew during the year to reach 1.3%; funds placed were strongly biased towards equities which reached 69% of the total at the end of 2000.

*IMIWeb Bank*

	FY 2000
<b>STATEMENT OF INCOME</b> (Euro/mil)	
Net interest and other banking income	6
Operating income	-29
Net loss	-29
	31/12/00
<b>OPERATING DATA</b> (Euro/mil)	
Number of active customers	12,000
Trading on line market share	7%

IMIWeb, established at the end of 1999 as the Group's trading-on line company, was successful in its market attracting approximately 12,000 active clients and a market share estimated at 7% in 2000. In the context of broadening its business from e-trading to e-banking activities, the company applied for a banking license which was issued in January 2001.

IMIWeb closed its first full year of operations with a loss of 29 million Euro, attributable to its considerable investments.

## Wholesale Banking

Wholesale Banking includes the activities undertaken by Corporate, Public Works and Infrastructure, Investment Banking and Merchant Banking.

### Corporate

	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME (Euro/mil)</b>		
Net interest and other banking income	269	+15.5
Operating income	169	+28.6
Income before extraordinary items	144	+44.7
Net income	85	+42.8
<b>AVERAGE ECONOMIC CAPITAL (Euro/mil)</b>		
	FY 2000	FY 1999
<b>INDICATORS</b>		
RORAC (%)	11.6	8.4
Cost / Income ratio (%)	37.2	43.6
	31/12/00	Change % 2000/1999
<b>OPERATING DATA (Euro/mil)</b>		
Net loans to customers excluding NPLs	23,480	+16.4
<b>STRUCTURE</b>		
Employees	462	+5.5
Branches	22	-

Corporate covers lending and the provision of services to larger companies and groups. In Italy it uses the Parent Bank structure including central units and six decentralized offices; abroad business is conducted through the branches and the representative offices of the Parent Bank, as well as the subsidiary Sanpaolo IMI Bank Ireland.

Corporate operated in Italy in 2000 with those Italian companies with a turnover of more than 1,000 billion lire. In view of the growing demand for specialist services from medium-sized firms, it was decided to widen the customer base, for 2001, to Italian companies and groups with a turnover of more than 500 billion lire.

In an extremely competitive market, Corporate moved in 2000 to reinforce its profitability through the improvement in commission income, the rationalization of business and the optimization of capital absorbed. To achieve these aims:

- attention was directed to structured finance and syndicated loans where it is a primary player; the teams dedicated to project and export financing were also reinforced;

- organizational rationalization of the foreign network, divided into three macro areas (Europe, Americas and Asia) and technological centralization of the European branches;
- agreement was reached in Internet Banking with Banco Santander Central Hispano, Commerzbank, The Royal Bank of Scotland-Natwest and Société Générale to provide companies, through a common European portal, with money market and capital markets products;
- steps have been taken to securitize certain performing loans in order to reduce the amount of capital absorbed.

Loans increased by 16.4% in 2000, amounting to 23.5 billion Euro at the end of the year, or approximately 25 billion Euro taking account of the new customer base.

Results in 2000 were positive: expansion in loan volumes and growth in commissions compensated for the tendency towards spread compression, allowing RORAC to amount to 11.6%.

### Public Works and Infrastructure

	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME (Euro/mil)</b>		
Net interest and other banking income	115	+27.3
Operating income	97	+25.0
Income before extraordinary items	89	+32.5
Net income	88	+114.3
<b>AVERAGE ECONOMIC CAPITAL (Euro/mil)</b>		
	FY 2000	FY 1999
<b>INDICATORS</b>		
RoE (%)	34.4	20.1
Cost / Income ratio (%)	15.3	13.7
	31/12/00	Change % 2000/1999
<b>OPERATING DATA (Euro/mil)</b>		
Net loans to customers excluding NPLs	11,921	+11.1
Disbursements during the year	3,128	+18.0
<b>STRUCTURE</b>		
Employees	99	-10.0

Public Works and Infrastructure looks after the provision of financial services to the public sector, with particular reference to the financing of major infrastructure works. In the first half of 2000 operations were conducted through the Parent Bank. The business was placed from 1 July into a dedicated corporate structure, the subsidiary IMI Lease, which acquired its banking license and took the name of Banca OPI.

In 2000 actions were directed at reinforcing market share and emphasizing its specialist role. This was also accomplished through synergies with the Group's Italian network which is charged with origination from local authorities.

Public Works and Infrastructure closed the year with a significant improvement in profit. Moreover, net income must be considered as positively affected both by the posting of pre-paid taxes against prior losses of IMI Lease, and by the application of Dual Income Tax to the new corporate structure. Loans to customers showed growth of approximately 11%, thanks to new loans of 3.1 billion Euro during the year.

### Investment Banking

	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME</b> (Euro/mil)		
Net interest and other banking income	248	-5.1
Operating income	90	-26.7
Income before extraordinary items	88	-23.5
Net income	61	-19.1
Contribution to Group net income (*)	54	-28.0
<b>AVERAGE ECONOMIC CAPITAL</b> (Euro/mil)	356	-1.5
	FY 2000	FY 1999
<b>INDICATORS</b>		
RoE (%)	15.3	20.9
Cost / Income ratio (%)	63.9	53.3
	31/12/00	Change % 2000/1999
<b>OPERATING DATA</b> (Euro/mil)		
Banca IMI Spa trading volumes		
- trading	474,918	-14
- sales	100,060	+179
- repo	817,939	-23
- placings	19,537	+16
<b>STRUCTURE</b>		
Employees	683	+14.6
Branches	2	-

(\*) After the posting of consolidation attributable to the Area.

Investment Banking covers securities dealing for its own account and for others, raising risk capital and debt for corporate customers and corporate finance consultancy. Investment banking is undertaken by Banca IMI and its subsidiaries, excluding IMIWeb Bank.

Banca IMI concentrated its actions to reinforce its operations and widen its range of products and services. During 2000 the Bank:

- consolidated its leadership in placement and advisory: Banca IMI has organized and participated in bond issues worth 10,225 million Euro; in equities, it was Global Coordinator and Sponsor in placings for AEM Torino, BB Biotech, AS Roma, CDC, Mondo TV, Inferentia, TXT, Bioserch Italia, Novuspharma, Engineering. Banca IMI was also Regional Retail Lead Manager for the placing in Italy of the second tranche of Deutsche Telecom, as well as Co-Lead Manager for the Italian offering of shares in Banco Santander Central Hispano;
- reinforced its role as primary dealer in the main European government securities markets and strengthened its presence in high grade Euromarket issuance;
- increased its business in quoted covered warrants, also obtaining the possibility of direct dealing in the equity and derivatives markets in Germany.

As part of the rationalization of the activities of the Group, Banca IMI transferred to NHS its 5% stake in Andala, holder of a UMTS mobile telephone license, at the end of the year.

Investments made to reinforce its operations and the reduced income resulting from tensions in the financial markets in the second part of the year caused the income results to fall compared to 1999. Net income was 61 million Euro; the contribution to Group income was 54 million Euro, following the reversal of the infragroup capital gain resulting from the sale to NHS of 5% of Andala. The profitability of Banca IMI and its subsidiaries, excluding IMIWeb Bank, was 15.3%.



### Merchant Banking

	FY 2000	Change % 2000/1999
<b>STATEMENT OF INCOME</b> (Euro/mil)		
Net interest and other banking income	51	-41.5
Operating income	44	-46.0
Income before extraordinary items	34	-54.0
Net income	76	+43.6
Contribution to Group net income (*)	33	-8.3
<b>AVERAGE ECONOMIC CAPITAL</b> (Euro/mil)		
	FY 2000	FY 1999
<b>INDICATORS</b>		
RoE (%)	8.6	9.6
RoE mark to market (%)	17.0	n.d.
Cost / Income ratio (%)	15.2	8.2
	31/12/00	Net flow 2000
<b>OPERATING DATA</b> (Euro/mil)		
Direct investments in merchant banking	479	+369
Other shareholdings	462	+153
	31/12/00	Change % 2000/1999
<b>STRUCTURE</b>		
Employees	52	+4.0

(\*) For the 51% held by SANPAOLO IMI and after relative consolidation.

Merchant Banking is in charge of the acquisition and optimization of minority shareholdings to achieve capital gains. The business is undertaken by NHS, 51% held by SANPAOLO IMI, and its Dutch subsidiary LDV Holding.

During 2000, NHS made new investments of more than 700 million Euro; among the most important transactions to be noted are:

- the purchase, at a market price of approximately 220 million Euro, of a stake of 2,2% in the ordinary capital of FIAT from Compagnia di San Paolo; the acquisition

led to the arrival of NHS in the FIAT shareholders' agreement with IFI/IFIL, Generali and Deutsche Bank;

- the acquisition of a stake of 7% in Andala, with an investment of approximately 240 million Euro; as already noted, part of the interest (5%) was sold to NHS by Banca IMI;
- direct merchant banking investments in AEFEE, Azienda Municipalizzata di Parma, Camuzzi, SAGAT and AEM di Torino.

NHS also promoted the closed-end SANPAOLO IMI Private Equity Fund I (120 million Euro) aimed at acquiring shares in medium-sized companies, committing itself to 35 million Euro. NHS is also working on the establishment of two new funds, to be set up in 2001, the former destined towards small- and medium-sized companies in Southern Italy, the second to investments in quoted and non-quoted securities in Italian and European public utilities.

During the year, NHS sold shareholdings worth 328 million Euro into the market, booking capital gains of 100 million Euro. Among the transactions to note are the total sale of the interest in Countrywide Assured, Milano Assicurazioni and Efibanca, the partial sale of the stakes in Tecnost, Buzzi Unicem and Acea, as well as the transfer to the Parent Bank of the share (4.1%) in Cassa di Risparmio di Firenze.

NHS closed the year with increased net income, thanks to extraordinary income from the sale of shareholdings. The contribution of the company to Group net income (51% attributable) was however lower than in 1999; this was due to greater income attributable to minorities and to the reversal of the infragroup capital gain resulting from the sale of the stake in Cassa di Risparmio di Firenze, net of the related tax effect. The profitability of the Area was 8.6%; this rises to 17% on the basis of adjusted income and balance sheet taking into account the investment portfolio at market value.



# Explanatory notes

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## Accounting and valuation principles

The Quarterly Report of the SANPAOLO IMI Group at 31 December 2000 has been prepared according to Consob Regolamento 11971 of 14 May 1999 and successive modifications and integration. It has been published, as the preceding interim reports, using the accounting and valuation principles used in the Annual Report to which reference is made for further detail. Here should be noted:

- the accounting positions taken for consolidation are those prepared preliminarily by subsidiary companies (consolidated line by line or at equity) with reference to 31 December 2000, adjusted in line with Group accounting principles;
- valuations according to the equity method of subsidiaries subject to a significant degree of influence have been made, for their contribution to the period's results, on the basis of the information made available by these subsidiaries, also with recourse to prudent estimates;
- the positive differences, generated by line by line, proportional and equity consolidation are posted against the total amount of already existing negative differences of consolidation or taken in the same period and as due, pursuant to Art. 32 of Legislative Decree 87 of 27/1/1992 and successive regulatory instructions made by the Banca d'Italia;
- adjustments and provisions made exclusively for tax purposes by the Parent Bank or consolidated companies have been reversed;
- own shares held by the Parent Bank are valued at cost and posted against net consolidated shareholders' equity reserves;
- only significant intercompany transactions and balances have been eliminated.

The quarterly balance sheet and statement of income at 31 December 2000 have not been independently audited.

## Amendments to presentation

From this Quarterly Report the presentation of the statement of income has been modified as compared to previous Annual and Interim Reports as follows:

- to give a better management representation of the results of the Group, the net interest income of the subholding Banca IMI, which is strictly connected, in operating terms, to the results from securities dealing, is posted to line item "profits and losses from financial transactions and dividends from shareholdings". Consequently the previous comparative data have been appropriately reclassified;

- "value adjustments on goodwill, merger differences and consolidation" is posted separately given the significance of acquisitions made during the year. Consequently the comparative data are presented in a consistent manner.

## Changes in the scope of consolidation

The main changes in 2000 in the scope of line by line consolidation and equity concern:

- the inclusion in consolidation at net equity of Cassa di Risparmio di Firenze S.p.A., following the closing, in March 2000, of a strategic agreement between the shareholders and the increase from 4.1% to 19.1% of the interest held by the Group, establishing a relationship of significant influence;
- the inclusion in line by line consolidation of Banco di Napoli Group which SANPAOLO IMI, in the second half of 2000, took control of through the following three phases:
  - at the beginning of July SANPAOLO IMI acquired the 49% stake held by Banca Nazionale del Lavoro in Banco Napoli Holding, which controlled Banco di Napoli with a stake of 56.1% in its ordinary capital;
  - in the middle of October the non-proportional spin-off of INA was completed; this resulted in the acquisition by SANPAOLO IMI of the remaining 51% share in Banco Napoli Holding and, thus, the control of Banco di Napoli.
  - at the beginning of December the obligatory Public Offer for the remaining ordinary capital of Banco di Napoli which led to the acquisition of a further 41.5% stake of ordinary shares of the Bank was concluded;
- the inclusion in line by line consolidation of the French Group Wargny Associés, of which Banca Fideuram took control at the end of 2000 acquiring 95% of the Parent Holding (53% directly and 42% through Wargny Management, a 100% subsidiary, also newly acquired and consolidated line by line).

## Methods and effects of consolidation of shareholdings acquired during the year

The three acquisitions described in the preceding paragraph are reflected in the consolidated accounts as follows:

- the consolidation at net equity of the shareholding in Cassa di Risparmio di Firenze has led to "a positive difference on consolidation", determined as the excess acquisition cost against net attributable shareholders'

equity at 31 December 1999, of 255 million Euro. This includes: a) 173 million Euro attributable to the excess cost compared to the average market value of the Carifirenze shares, have been posted against the “negative differences of consolidation” already existent in the consolidated financial statements at 31 December 1999; b) the remaining 82 million Euro have been posted in consolidated assets to be amortized, given the nature of the investment, in 10 years from 2000;

- the line by line consolidation of Banco di Napoli Group, for which reference is made to the net equity attributable at the various dates of acquisition of the three tranches acquired - appropriately adjusted according to the accounting principles of the SANPAOLO IMI Group and to take account of expected restructuring charges - shows a “positive difference of consolidation” equal in total to 1,673 million Euro. This “difference” has been posted: a) 854 million Euro to reduce the remaining “negative differences of consolidation” already included; b) the remaining 819 million Euro to consolidated balance sheet assets to be amortized, given the nature of the investment, in 10 years. For 2000 amortization against the statement of income, commensurate with the period of ownership of the various tranches acquired, with regard to the part not taken with the negative differences of consolidation, was 4 million Euro. Given that the control of Banco di Napoli was perfected, as described above, in the second half of 2000, the consolidated statement of income of SANPAOLO IMI at 31 December 2000 reflects, line by line, the income of Banco di Napoli Group companies for the second half of the year, appropriately adjusted to take account of the adjustments made to capital used to determine the differences of consolidation. The share of consolidated income of Banco di Napoli in the second half included in the purchase price of the various tranches acquired is given in the specific income statement line item “Reversal of second half income Banco di Napoli Group” and subtracted from the consolidated result;
- the line by line consolidation of the Wargny Group has led, compared to the net shareholders’ funds of the Group from preliminary results at 31 December 2000, to the posting to consolidated assets of a “positive difference of consolidation” of 78 million Euro, amortized, given the nature of the investment, in 10 years. Given that control of the Group took place in November 2000, the consolidated statement of income of SANPAOLO IMI at 31 December 2000 does not reflect the income of the French subsidiary.

### Comparison of results consistent with 1999

To allow consistent comparison with 1999, the presentations of statement of income and balance sheet at 31 December 2000 have also been provided in a “restated” version, in which the newly acquired Banco di Napoli Group is consolidated with the equity method and reflected in the financial statements exclusively in line items “shareholdings” and “income of companies valued at equity”. The same criteria have been used to restate the analysis of the quarterly consolidated statement of income and balance sheet.

Finally, in the quarterly analyses, as in previous reports, the balance sheet and income statement data for the first quarter of 1999 are presented pro forma as appropriate for the loss of control of Crediop, which occurred from June 1999, and given the importance of the contribution of Crediop to SANPAOLO IMI Group’s accounts. This pro forma situation reflects the consolidation of Crediop and its subsidiaries with the equity method.

### Pro forma consolidated statement of income for 2000

In order to present the financial results of the Group following the acquisition of Banco di Napoli, a pro forma consolidated statement of income for 2000 has been also prepared, according to the convention of bringing forward the acquisition of Banco di Napoli to 1/1/2000. The accounts of Banco di Napoli have been consolidated line by line for the whole year and financial and economic effects due to the timetable of the acquisition have been estimated. The pro forma statement of income has thus not affected net income in that the effects have been cancelled against equal line item adjustments. The pro forma statement of income is attached. This will be used as the basis of comparison for Group income data in future years.

### Criteria to calculate the profitability of the Operational Areas

The statement of income of the Business Areas has been prepared as follows:

- for the Areas whose operations are undertaken at both Parent Bank and subsidiary level, consolidation of the line items of the Parent Bank attributable to the Area of operations with the statement of income of the subsidiaries in the same field has been prepared. The posting to individual Areas of the line items of the Parent Bank, in particular, has been based on the following:

- net interest income has been calculated using appropriate internal transfer rates;
- notional commissions have been quantified, in addition to actual commissions, for services rendered by one Area to another;
- the direct costs of each Area have been calculated and the operating costs of the Central Functions other than those of holding allocated to the Areas;
- for the Areas whose operations are undertaken wholly at subsidiary level, income results are reported; contribution to net consolidated income is also given, net of minorities and after the posting of consolidation attributable to the Area; goodwill amortization consequent upon investments in the Areas made directly by Parent Bank are thus allocated to the Central Functions.

For each Area, capital has also been quantified according to the following criteria:

- for the Areas whose activity is undertaken at Parent Bank and subsidiary level, the average economic capital absorbed at the Parent Bank with that absorbed at the subsidiaries is consolidated. The capital absorbed has been measured according to VaR, distinguishing between the various types of risk: credit risk, market risk and operational risks;
- for the Areas whose activity is undertaken wholly by subsidiaries, the average net shareholders' equity is used (excluding income for the period).

In allocating Parent Bank capital to the Areas, particularly prudential criteria have been adopted. In particular:

- the risks of each Area have been calculated with confidence interval of 99.95%, in line with the rating given to the Group;
- the risks of each Area are wholly covered against tier 1 capital.

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

- for the Areas whose business is undertaken both at Parent Bank level and by subsidiary companies, profitability has been expressed in terms of RORAC (Return On Risk Adjusted Capital) reporting the contribution to Group net income of the Area with the relative economic capital quantified according to VaR;
- for the Areas whose business is undertaken exclusively by subsidiary companies, profitability has been expressed in terms of RoE (Return on Equity), reporting the contribution to Group net income of the Area at average net shareholders' equity (excluding income for the year), consistently with the criteria adopted for the Group.

The results of the Operating Areas in 2000 are compared with the preceding year. The changes compared to 1999 of the Areas whose business is undertaken at Parent Bank level are partially influenced by certain changes in the methodologies of divisionalization of cost and income components.

Turin, 13 February 2001

The Board of Directors

# Attachments

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PRO FORMA STATEMENT OF INCOME FOR 2000

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## Pro forma statement of income for 2000

	2000 pro forma (1) (Euro/mil)
<b>NET INTEREST INCOME</b>	<b>2,873</b>
Net commissions and other dealing revenues	2,800
Profits and losses from financial transactions and dividends on shares	292
Profits from companies carried at equity and dividends from shareholdings	138
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>6,103</b>
Administrative costs	-3,527
- <i>personnel</i>	-2,234
- <i>other administrative costs</i>	-1,086
- <i>indirect duties and taxes</i>	-207
Other operating income, net	245
Adjustments to tangible and intangible fixed assets	-329
<b>OPERATING INCOME</b>	<b>2,492</b>
Value adjustments on goodwill, merger differences and consolidation	-163
Provisions and net adjustments to loans and financial fixed assets	-629
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>1,700</b>
Net extraordinary income	402
<b>INCOME BEFORE TAXES</b>	<b>2,102</b>
Income taxes	-774
Change in reserves for general banking risks	3
Income attributable to minority interests	-98
Adjustments to reconcile to official net income	59
<b>NET INCOME</b>	<b>1,292</b>

(1) The pro forma consolidated statement of income has been prepared, following the criteria detailed in the explanatory notes, on the basis of the acquisition of control of Banco di Napoli at 1 January 2000. The pro forma consolidated statement of income has been set out to furnish a statement of the profit data of the Group following the acquisition of Banco di Napoli; it will be used as the basis for comparison with future Group statements of income.