

# 2001 Annual Report

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SANPAOLO IMI S.p.A.

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REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

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

COMPANY REGISTER OF TURIN 06210280019

SHARE CAPITAL EURO 3,932,435,119.2 FULLY PAID

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PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

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

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

*(\*) Members of the Executive Committee*

<b>Board of Statutory Auditors</b>	Mario Paolillo	<i>Chairman</i>
	Aureliano Benedetti	<i>Auditor</i>
	Maurizio Dallochio	<i>Auditor</i>
	Angelo Miglietta	<i>Auditor</i>
	Ruggero Ragazzoni	<i>Auditor</i>
	Carlo Pasteris	<i>Supplementary Auditor</i>
	Alessandro Rayneri	<i>Supplementary Auditor</i>

<b>Independent Auditors</b>	PricewaterhouseCoopers S.p.A.
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# Agenda of the Shareholders' Meeting

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## TURIN

- 1<sup>st</sup> calling for the ordinary and extraordinary meetings: 27 April 2002
- 2<sup>nd</sup> calling for the extraordinary meeting: 29 April 2002
- 2<sup>nd</sup> calling for the ordinary meeting and 3<sup>rd</sup> calling for the extraordinary meeting: 30 April 2002

### Ordinary part:

1. Financial statements at 31 December 2001, reports of the Board of Directors and Board of Statutory Auditors, allocation of net income for the year; consolidated financial statements at 31 December 2001.
2. Authorization for the purchase and sale of own shares.
3. Appointment of the Board of Statutory Auditors for the three years 2002/2003/2004 (as per art. 19 of the Articles of Association).
4. Determination of the remuneration of the Board of Statutory Auditors.
5. Remuneration of the Directors.

### Extraordinary part:

1. Resolutions as per art. 2443 of the Civil Code (employee stock plans).





# Letter to the Shareholders

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Shareholders,

The year 2001 marked a breaking point, a discontinuity which was not the result of an isolated fact, even if the tragic events of 11 September represented a particularly dramatic moment. A period characterized by almost ten years of uninterrupted growth in the United States and by a persistent euphoria in the financial markets, also linked to the development of the New Economy, ended. This model was already showing signs of weakness by the second half of 2000 and during 2001 certain critical aspects became even more accentuated, with repercussions that spread from the United States to other geographical areas.

The sharp deterioration in the US economy was in part followed and in part accompanied by yet another recession in Japan, a substantial slowdown in the Euro area, problems in various emerging countries, Argentina in particular, various bankruptcies and accounting irregularities at important international companies, culminating in the Enron affair, perhaps the most serious bankruptcy in economic history. Together, these elements had severe repercussions on the performance of financial markets. The measures taken by the US authorities to loosen monetary and fiscal policy helped to avoid a world-wide recession, stimulating recovery in the main economies and in equity markets, with the initial signs becoming visible now.

But 2001 was also a year of positive events of historical importance for Europe, related to the process of monetary unification and the start of circulation of the Euro which took place without traumas or uncertainties. These are results of huge importance, which can give back to our Continent a whole new economic and political projectuality, susceptible of significant further developments connected to the enlargement of the Union to the countries of Central and Eastern Europe and to a renewed dynamism towards the countries located around the Mediterranean.

Over the last decade, when, not without difficulty, Italy restored stability to its macroeconomic picture, opening itself up to international financial markets and joining the European Monetary Union, Your Group managed to take full advantage of the available growth opportunities and can now look forward to the future with confidence. Ten years ago, San Paolo bank went to the capital market for the first time, transforming itself from a public law credit institution into a joint-stock company, listing its shares and launching its first public share offering. This was followed by various operations of placement and integration with other listed entities - the main one being with IMI - which led the Group to expand its shareholder base considerably to a large number of small investors. During this process, the Group introduced a new model of governance that limited considerably the role of the Banking Foundations at the same time increasing that of the market.

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This transformation in institutional and ownership terms was accompanied by rapid expansion in operations and size, which was achieved by a combination of internal and external growth. In 1992, customer financial assets of Istituto Bancario San Paolo di Torino amounted to the equivalent of 50 billion Euro and the commercial network had less than 850 branches, prevalently located in the North West of Italy. Today, thanks to strong organic growth, the acquisition of Banco di Napoli and the current integration with Cardine, the SANPAOLO IMI Group has financial assets of more than 355 billion Euro and around 3,000 branches located all over Italy, in addition to more than 5,000 financial planners. It is also able to offer households and companies an integrated range of products and services in the various segments of retail and corporate banking activity, investment banking and professional asset management. Growing in size was not an end in itself, but a way of achieving a significant level of profitability, operating efficiency and asset quality, parameters in which the SANPAOLO IMI Group now ranks among the best in Europe.

This reinforcement in recent years has given SANPAOLO IMI a solid basis with which to cope with the market problems that emerged last year and to while at the same time make net income of 1,203 million Euro, just less than the 1,231 million posted the previous year, based on the same scope of consolidation. This economic result, which corresponds to a RoE of 16.6%, is particularly important as it was achieved despite sizeable writedowns of loans and financial assets, in certain cases made for prudence sake. Given this ability to generate earnings, dividend of 0.57 Euro per share is proposed, the unchanged compared to that paid to Shareholders last year and which, based on the average price of the stock for the last six months, gives a dividend yield of just under 5%.

Left behind 2001 - the following report on operations for the year provides ample details and analyses - we now have to look ahead to the challenges that await us in the future. On 5 March 2002, the Shareholders' Meeting approved the project to merge with the Cardine Group and the related business plan. The goals for this merger are of considerable importance: the economic and financial forecasts for the period 2002-2005 contained in the integration project with Cardine map out a development path that would raise the Group's profitability at the end of the period to an RoE of 21%, at the same time reducing the cost/income ratio to a level close to 50%, in line with the best European standards. Above all, the Group has consolidated its market positioning and refined its business model, whose main elements can be summarized as follows:

- a size of operations that guarantees a leading position on the national market and an adequate level of competitiveness at European level, especially in those areas where there is already a great deal of international competition. From this point of view, the Group can count on indirect deposits of more than 220 billion Euro, including almost 140 billion in asset management, direct customer deposits of around 135 billion Euro and net loans to customers of 124 billion Euro. The growth targets for all of these aggregates over the next four years are considerable, and will allow to strengthen the current competitive positioning;
- widespread geographical presence and strong local roots, allowing the Group in all of the main areas of the country to exceed the market shares needed to reach the minimum volumes required to achieve operating efficiency and commercial effectiveness. This widespread geographical presence and strong local roots will

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also be boosted, on the one hand, by enhancing the value of local brands and specializing branches on homogeneous customer segments and, on the other, by centralizing IT and administrative expenditure and services;

- absolute excellence in production and distribution skills and capacity, aiming at offering customers a level of service that represents a strong competitive advantage that is sustainable over time. Production capacity will be able to count on new internal economies of scale and benefit from agreements and alliances with partners of primary international standing, such as the Santander Central Hispano Group and the Eulia Group (the alliance of CDC IXIS with Caisses d'Epargne), as well as with important Italian partners;
- constant attention to the optimization of production efficiency, to guarantee competitive cost levels in line with the Group's ability to generate revenues: as part of this, one point of particular importance is the ability to integrate the operating and IT platforms of the Group's banking networks as quickly as possible;
- selective external growth to reinforce the current geographical coverage and develop new areas, with the support of a business model that is able to foster more aggregations. This provides the reasoning for the investments in Cassa di Risparmio di Firenze and Cassa dei Risparmi di Forlì and the strong commercial partnerships formed with them, and for the interest shown in the countries of Central and Eastern Europe which recently led to the acquisition in Slovenia of a significant stake in Banka Koper; this initiative now flanks other investments that the Group already holds in Hungary and Romania, and the branches of the Bank that operate in all of the main countries in that part of Europe.

The Group has two main objectives: to achieve important levels of growth in all of the main aggregates, both in the balance sheet and in the statement of income, while maintaining careful and constant control and containment of risk profiles, to improve the level of service to customers by further strengthening the Group's distribution capacity on the domestic market, represented by the bank networks and Personal Financial Services, and to upgrade the facilities for the development of specialized products and services. At the same time, the Group intends to exploit all growth opportunities that may arise in new markets and new business, continuing to create development options for the future.

Shareholders,

The coming years will be rich in challenges, both in terms of rising competition in the marketplace, and in terms of implementing as soon as possible the integration processes under way and the new business projects. The Group's top management is ready and willing to accept these commitments with the maximum level of ambition and responsibility, convinced that there can and has to be an essential convergence of the interests of shareholders, customers, managers and all employees of the Group.

The Chairman  


Turin, 26 March 2002

# Key figures

	2001	2000 pro forma (1)	Change 2001 / 2000 pro forma (%)	2000 Financial Statement
<b>CONSOLIDATED STATEMENT OF INCOME (€/mil)</b>				
Net interest income	2,788	2,874	-3.0	2,572
Net commissions and other net dealing revenues	2,608	2,852	-8.6	2,641
Administrative costs	-3,600	-3,572	+0.8	-3,076
Operating income	2,118	2,514	-15.8	2,460
Provisions and net adjustments to loans and financial fixed assets	-737	-639	+15.3	-581
Income before extraordinary items	1,231	1,699	-27.5	1,789
Net extraordinary income	392	402	-2.5	396
Net income	1,203	1,231	-2.3	1,292
<b>CONSOLIDATED BALANCE SHEET (€/mil)</b>				
Total assets	170,191	172,101	-1.1	172,101
Loans to customers (excluding net NPLs and SGA loans)	94,085	94,953	-0.9	94,953
Securities	22,127	25,000	-11.5	25,000
Equity investments	4,697	3,573	+31.5	3,573
Customer deposits and securities issued	106,784	104,144	+2.5	104,144
Subordinated liabilities	5,607	5,158	+8.7	5,158
Shareholders' equity	8,182	7,353	+11.3	7,353
<b>CUSTOMER FINANCIAL ASSETS (€/mil)</b>				
Customer financial assets	305,404	304,141	+0.4	304,141
- Direct deposits	106,784	104,144	+2.5	104,144
- Indirect deposits	198,620	199,997	-0.7	199,997
- Asset management	125,977	128,913	-2.3	128,913
- Asset administration	72,643	71,084	+2.2	71,084
<b>PROFITABILITY RATIOS (%)</b>				
RoE (2)	16.6	18.5		18.1
Cost / Income ratio (3)	64.0	59.2		56.2
Net commissions / Administrative costs	72.4	79.8		85.9
<b>CREDIT RISK RATIOS (%)</b>				
Net non-performing loans / Net loans to customers	1.0	1.0		1.0
Net problem loans and loans in restructuring / Net loans to customers	1.0	1.0		1.0
<b>CAPITAL ADEQUACY RATIOS (%) (4)</b>				
Tier 1 capital / Weighted assets	7.2	6.6		6.6
Total capital / Weighted assets	9.5	9.1		9.1
<b>SANPAOLO IMI SHARES</b>				
Number of shares (millions)	1,404	1,404	-	1,404
- number of shares in circulation	1,387	1,365	+1.6	1,365
- number of own shares held by the Parent Bank	17	39	-56.4	39
Quoted price per share (€; reference prices)				
- average	14.375	16.612	-13.5	16.612
- low	8.764	11.483	-23.7	11.483
- high	18.893	20.800	-9.2	20.800
Earnings per average number of shares in circulation (€)	0.87	0.93	-6.5	0.93
Dividend per share (€)	0.57	0.57	-	0.57
Dividend / Average annual price (%)	3.97	3.42	+16.1	3.42
Shareholders' equity per share in circulation (€)	5.90	5.39	+9.5	5.39
<b>OPERATING STRUCTURE</b>				
Employees	35,028	35,729	-2.0	35,729
Domestic branches	2,212	2,137	+3.5	2,137
Foreign branches and representative offices	95	91	+4.4	91
Financial planners	5,506	5,495	+0.2	5,495

(1) The pro forma figures have been prepared, according to the criteria detailed in the Explanatory Notes, assuming control of Banco di Napoli and Wargny from 1/1/2000. This provides a more consistent comparison with 2001.

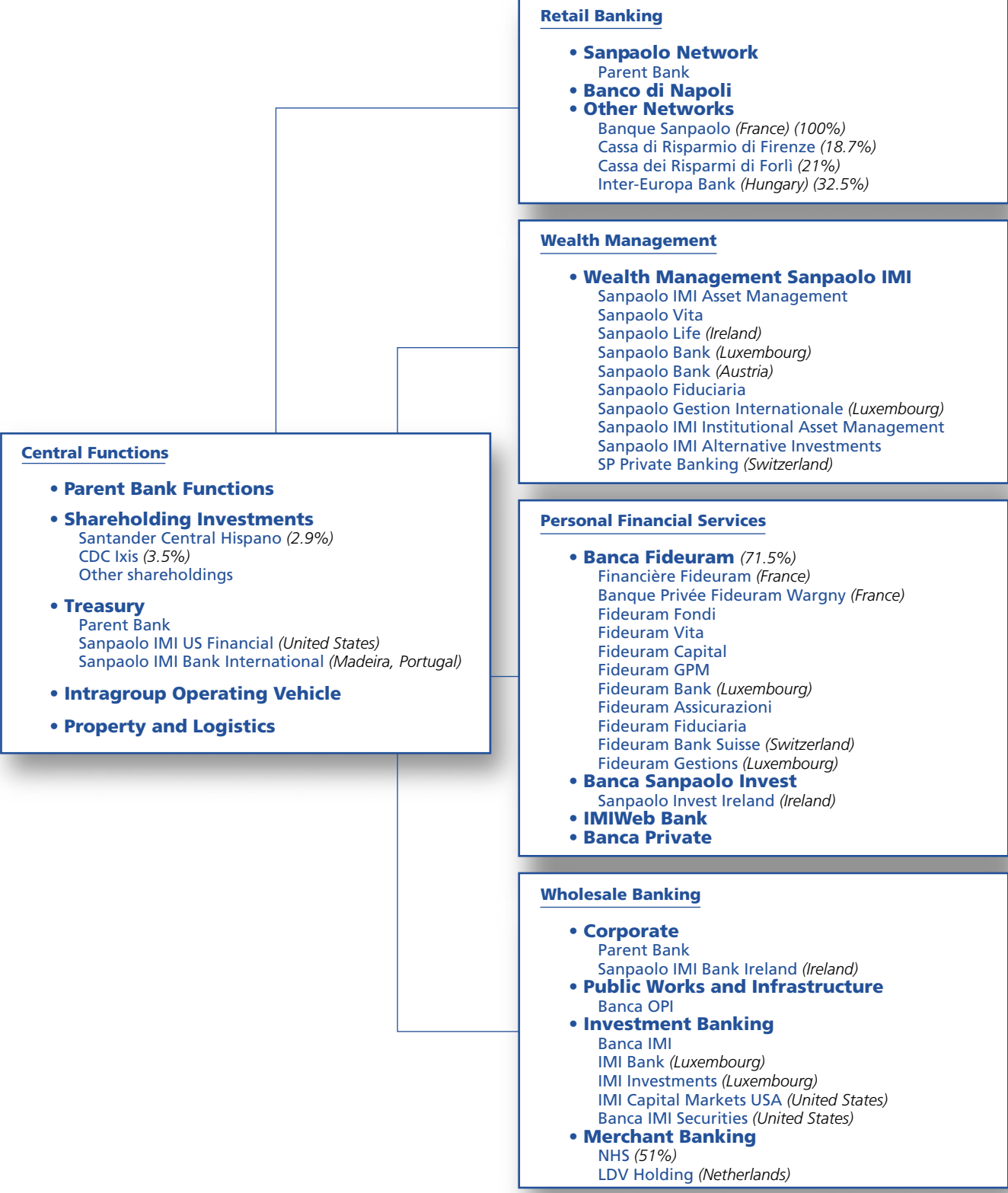
(2) Net income / Average net shareholders' equity excluding income for the period.

(3) Administrative costs (net of recoveries) and amortization (excluding adjustments to goodwill and merger and consolidation differences) / Net interest and other banking income.

(4) The ratios reflect the Bank of Italy's regulatory clarifications made in its technical note of 3 August 2001.

The pro forma figures for the year 2000 are unaudited.

# Group structure





# Consolidated financial statements and reports

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**RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT ON OPERATIONS**

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**INDEPENDENT AUDITORS' REPORT**

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**CONSOLIDATED FINANCIAL STATEMENTS**

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**ATTACHMENTS**

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# Reclassified consolidated financial statements

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RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

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QUARTERLY ANALYSIS OF THE RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

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RECLASSIFIED CONSOLIDATED BALANCE SHEET

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QUARTERLY ANALYSIS OF THE RECLASSIFIED CONSOLIDATED BALANCE SHEET

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## Reclassified consolidated statement of income

	2001 (€/mil)	2000 pro forma (1) (€/mil)	Change 2001 / 2000 pro forma (%)	2000 Financial Statement (€/mil)
<b>NET INTEREST INCOME</b>	<b>2,788</b>	<b>2,874</b>	<b>-3.0</b>	<b>2,572</b>
Net commissions and other net dealing revenues	2,608	2,852	-8.6	2,641
Profits and losses from financial transactions and dividends on shares	274	296	-7.4	263
Profits from companies carried at equity and dividends from shareholdings	207	147	+40.8	146
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>5,877</b>	<b>6,169</b>	<b>-4.7</b>	<b>5,622</b>
Administrative costs	-3,600	-3,572	+0.8	-3,076
- personnel	-2,221	-2,256	-1.6	-1,929
- other administrative costs	-1,180	-1,109	+6.4	-958
- indirect duties and taxes	-199	-207	-3.9	-189
Other operating income, net	234	247	-5.3	213
Adjustments to tangible and intangible fixed assets	-393	-330	+19.1	-299
<b>OPERATING INCOME</b>	<b>2,118</b>	<b>2,514</b>	<b>-15.8</b>	<b>2,460</b>
Adjustments to goodwill and merger and consolidation differences	-150	-176	-14.8	-90
Provisions and net adjustments to loans and financial fixed assets	-737	-639	+15.3	-581
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>1,231</b>	<b>1,699</b>	<b>-27.5</b>	<b>1,789</b>
Net extraordinary income	392	402	-2.5	396
<b>INCOME BEFORE TAXES</b>	<b>1,623</b>	<b>2,101</b>	<b>-22.8</b>	<b>2,185</b>
Income taxes for the period	-318	-770	-58.7	-785
Change in reserves for general banking risks	-1	2	n.s.	2
Income attributable to minority interests	-101	-102	-1.0	-94
Reversal of income Banco di Napoli group (2)	-	-	n.s.	-16
<b>NET INCOME</b>	<b>1,203</b>	<b>1,231</b>	<b>-2.3</b>	<b>1,292</b>

(1) The pro forma statement of income for the year 2000 has been prepared, according to the criteria detailed in the Explanatory Notes, assuming control of Banco di Napoli and Wargny from 1/1/2000. This provides a more consistent comparison with 2001.

(2) This caption refers to the portion of the net result of the second half of 2000 of the Banco di Napoli group included in the price of the various tranches acquired by SANPAOLO IMI during 2000. As described in the Explanatory Notes to the consolidated Financial Statements at 31/12/2000, the reversal is made necessary in that the income statement contribution of the Neapolitan group to consolidated Financial Statements for 2000 was reflected line by line throughout the whole of the second half.

The pro forma statement of income for the year 2000 is unaudited.

## Quarterly analysis of the reclassified consolidated statement of income

	2001				2000 pro forma (1)			
	4th quarter (€/mil)	3rd quarter (€/mil)	2nd quarter (€/mil)	1st quarter (€/mil)	4th quarter (€/mil)	3rd quarter (€/mil)	2nd quarter (€/mil)	1st quarter (€/mil)
<b>NET INTEREST INCOME</b>	<b>697</b>	<b>668</b>	<b>697</b>	<b>726</b>	<b>759</b>	<b>719</b>	<b>709</b>	<b>687</b>
Net commissions and other net dealing revenues	656	623	676	653	735	679	692	746
Profits and losses from financial transactions and dividends on shares	101	35	73	65	76	55	49	116
Profits from companies carried at equity and dividends from shareholdings	54	9	85	59	41	30	41	35
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>1,508</b>	<b>1,335</b>	<b>1,531</b>	<b>1,503</b>	<b>1,611</b>	<b>1,483</b>	<b>1,491</b>	<b>1,584</b>
Administrative costs	-945	-871	-911	-873	-932	-888	-897	-855
- <i>personnel</i>	-567	-538	-561	-555	-601	-561	-550	-544
- <i>other administrative costs</i>	-333	-284	-295	-268	-278	-276	-296	-259
- <i>indirect duties and taxes</i>	-45	-49	-55	-50	-53	-51	-51	-52
Other operating income, net	55	56	69	54	65	62	63	57
Adjustments to tangible and intangible fixed assets	-120	-100	-93	-80	-127	-76	-66	-61
<b>OPERATING INCOME</b>	<b>498</b>	<b>420</b>	<b>596</b>	<b>604</b>	<b>617</b>	<b>581</b>	<b>591</b>	<b>725</b>
Adjustments to goodwill and merger and consolidation differences	-45	-36	-36	-33	-49	-41	-44	-42
Provisions and net adjustments to loans and financial fixed assets	-347	-139	-150	-101	-263	-105	-159	-112
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>106</b>	<b>245</b>	<b>410</b>	<b>470</b>	<b>305</b>	<b>435</b>	<b>388</b>	<b>571</b>
Net extraordinary income	44	171	104	73	41	51	201	109
<b>INCOME BEFORE TAXES</b>	<b>150</b>	<b>416</b>	<b>514</b>	<b>543</b>	<b>346</b>	<b>486</b>	<b>589</b>	<b>680</b>
Income taxes for the period	51	-54	-120	-195	-97	-184	-200	-289
Change in reserves for general banking risks	-4	-1	2	2	-1	-	3	-
Income attributable to minority interests	13	-56	-35	-23	-22	-26	-29	-25
<b>NET INCOME</b>	<b>210</b>	<b>305</b>	<b>361</b>	<b>327</b>	<b>226</b>	<b>276</b>	<b>363</b>	<b>366</b>

(1) The pro forma quarterly statements of income for 2000 have been prepared, according to the criteria detailed in the Explanatory Notes, assuming control of Banco di Napoli and Wargny from 1/1/2000. This provides a more consistent comparison with 2001.

The quarterly statements of income are unaudited.

## Reclassified consolidated balance sheet

	31/12/2001 (€/mil)	31/12/2000 (€/mil)	Change 31/12/01-31/12/00 (%)
<b>ASSETS</b>			
Cash and deposits with central banks and post offices	818	708	+15.5
Loans	118,627	117,825	+0.7
- due from banks	21,571	19,119	+12.8
- loans to customers	97,056	98,706	-1.7
Dealing securities	18,819	18,329	+2.7
Fixed assets	10,098	12,396	-18.5
- investment securities	3,308	6,671	-50.4
- equity investments	4,697	3,573	+31.5
- intangible fixed assets	367	359	+2.2
- tangible fixed assets	1,726	1,793	-3.7
Differences arising on consolidation and on application of the equity method	1,053	989	+6.5
Other assets	20,776	21,854	-4.9
<b>Total assets</b>	<b>170,191</b>	<b>172,101</b>	<b>-1.1</b>
<b>LIABILITIES</b>			
Payables	134,706	133,740	+0.7
- due to banks	27,922	29,596	-5.7
- due to customers and securities issued	106,784	104,144	+2.5
Provisions	3,246	4,601	-29.5
- for taxation	901	1,230	-26.7
- for termination indemnities	734	743	-1.2
- for risks and charges	1,568	1,500	+4.5
- for pensions and similar	43	1,128	-96.2
Other liabilities	17,752	20,534	-13.5
Subordinated liabilities	5,607	5,158	+8.7
Minority interests	698	715	-2.4
Shareholders' equity (1)	8,182	7,353	+11.3
<b>Total liabilities</b>	<b>170,191</b>	<b>172,101</b>	<b>-1.1</b>
<b>GUARANTEES AND COMMITMENTS</b>			
Guarantees given	16,016	15,670	+2.2
Commitments	24,839	26,518	-6.3

(1) Reserves are net of own shares held by the Parent Bank, 39,345,982 at a book value of 697 million Euro at 31 December 2000 and 17,080,403 at a book value of 294 million Euro at 31 December 2001.

## Quarterly analysis of the reclassified consolidated balance sheet

	2001				2000			
	31/12	30/9	30/6	31/3	31/12	30/9 pro forma (1)	30/6 pro forma (1)	31/3 pro forma (1)
	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)
<b>ASSETS</b>								
Cash and deposits with central banks and post offices	818	505	478	507	708	676	617	514
Loans	118,627	114,999	117,097	117,966	117,825	118,220	121,247	118,771
- due from banks	21,571	19,261	18,717	21,382	19,119	23,028	25,852	24,752
- loans to customers	97,056	95,738	98,380	96,584	98,706	95,192	95,395	94,019
Dealing securities	18,819	17,869	21,777	19,283	18,329	18,601	20,929	18,557
Fixed assets	10,098	10,813	11,000	12,197	12,396	12,415	12,164	11,955
- investment securities	3,308	4,321	4,615	5,746	6,671	7,103	7,120	6,635
- equity investments	4,697	4,383	4,240	4,313	3,573	3,199	2,917	3,224
- intangible fixed assets	367	368	377	356	359	335	335	326
- tangible fixed assets	1,726	1,741	1,768	1,782	1,793	1,778	1,792	1,770
Differences arising on consolidation and on application of the equity method	1,053	1,068	1,064	966	989	907	941	918
Other assets	20,776	21,665	22,626	23,452	21,854	21,518	22,003	23,660
<b>Total assets</b>	<b>170,191</b>	<b>166,919</b>	<b>174,042</b>	<b>174,371</b>	<b>172,101</b>	<b>172,337</b>	<b>177,901</b>	<b>174,375</b>
<b>LIABILITIES</b>								
Payables	134,706	130,537	136,156	135,464	133,740	135,093	138,250	134,402
- due to banks	27,922	27,359	31,032	30,679	29,596	31,380	35,115	30,529
- due to customers and securities issued	106,784	103,178	105,124	104,785	104,144	103,713	103,135	103,873
Provisions	3,246	3,012	4,241	4,857	4,601	4,204	4,035	4,194
- for taxation	901	793	864	1,432	1,230	1,147	999	1,352
- for termination indemnities	734	745	758	753	743	743	740	739
- for risks and charges	1,568	1,433	1,509	1,553	1,500	1,132	1,105	903
- for pensions and similar	43	41	1,110	1,119	1,128	1,182	1,191	1,200
Other liabilities	17,752	19,213	20,062	20,077	20,534	20,937	23,844	23,595
Subordinated liabilities	5,607	5,400	5,178	5,148	5,158	3,803	3,760	3,906
Minority interests	698	787	737	736	715	755	730	699
Shareholders' equity (2)	8,182	7,970	7,668	8,089	7,353	7,545	7,282	7,579
<b>Total liabilities</b>	<b>170,191</b>	<b>166,919</b>	<b>174,042</b>	<b>174,371</b>	<b>172,101</b>	<b>172,337</b>	<b>177,901</b>	<b>174,375</b>

(1) The pro forma balance sheet figures at 31/3/2000, 30/6/2000 and 30/9/2000 have been prepared, according to the criteria detailed in the Explanatory Notes, assuming control of Banco di Napoli and Wargny from 1/1/2000.

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

The pro forma balance sheet figures at 31/3/2000, 30/6/2000 and 30/9/2000 as well as the balance sheet figures at 31/3/2001 and 30/9/2001 are unaudited.



# Report on Operations

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# Economic background

## The international economy

The world economy slowed down dramatically during 2001. The rate of growth in real GDP (2.4%) was the lowest since 1974, when in all the major economies there was a brusque inversion of the trend following the first oil crisis. The downturn in production activity in all OECD countries had a negative impact on the rate of growth in international trade and the performance of the emerging economies as a whole, also hit by cuts in inward investment from abroad.

In the United States the 11 September terrorist attacks severely conditioned production activity in the third quarter, transforming the slowdown, which was already underway, into a decline. The figures for the last quarter did, however, show a remarkable ability for the economy to bounce back. It began to grow again at 1.7% and the climate of confidence among companies and households showed a distinct improvement. GDP growth for the year came in at 1.2%, compared with 4.1% in 2000.

To counteract the sharp drop in capital expenditure and production, in January 2001 the Federal Reserve initiated a period of particularly aggressive expansive monetary policy. It made eleven interventions in all, four of them between September and December, cutting the Federal Funds rate from 6.5% to 1.75%, an all-time low in 40 years. At the same time, the Federal Government fostered a policy of tax reductions with higher public spending.

In Japan, the real economy went into recession for the third time in a decade. The problems of the economy relate to persistently weak internal demand and the growing fragility of the financial sector. The increase in unemployment, which is at an all-time high since the end of World War II, the decline in disposable income and ongoing deflation have acted as a disincentive to higher domestic consumption. Growth in public sector consumption and capital expenditure, on the other hand, was held back by the need to limit the expansion of the national debt. GDP in 2001 fell by 0.5%.

Emerging economies tended to follow the trend set by the industrialized nations, showing signs of deterioration that became more evident from the third quarter of 2001, especially in Latin America and Asia.

The situation in Argentina worsened at the end of 2001. Excessive current account deficits, due above all to the overvaluation of the peso's effective exchange rate, had led to a gradual accumulation of foreign debt. With the spreads on Eurobonds rising to more than 50 percentage points, servicing the debt became unsustainable and the Government abandoned the currency board mechanism. Knock-on effect of this serious financial and currency crisis on other emerging nations has however been modest.

## The Euro-zone and Italy

Economic growth slowed down considerably in the Euro-zone during the course of 2001. GDP went up by around 1.5%, compared with 3.4% in the previous year.

The trend in output - particularly negative during the last quarter of the year - was hit both by the decline in exports, because of the general slowdown world-wide, and by the weakness in internal demand, in particular gross capital investments. Surveys carried out in the main Euro-zone countries since the end of the year, however, have begun to indicate an improvement in household and business confidence.

The German economy was the worst hit in the Area by the current slowdown. Germany's GDP slipped in both the third and fourth quarters, above all because of lower demand for capital goods; the change in GDP in 2001 came to 0.6% with gross capital investments down by a total of around 4.1%.

Italy's economic growth was fairly modest in 2001 (+1.8%), but it was still above average for the Euro-zone. The slowdown in production - in line with the trend throughout the Euro-zone - was brought about by lower increases in both internal demand (consumer spending +1.1%; gross capital investments +2.4%) and exports (+0.8% compared with +11.7% in 2000).

Despite this difficult phase in the cycle, the process of consolidating Italy's public finances still continued during the year. The ratio between the public deficit and GDP came to 1.4%, which was 0.3% higher than the forecast contained in the Stability Pact, but a reduction on the previous year's figure 1.7%. The ratio of public debt to GDP fell to 109.4%. During the same period, the deficit/GDP ratio for the Euro-zone went from 0.8% to 1.3%, while the debt/GDP ratio fell to 69%.

Inflation during the first half of 2001 rose considerably both in the Euro-zone and in Italy, hitting 3% in the second quarter. Inflation had started to rise in the second half of 2000, largely due to higher oil prices and the simultaneous devaluation of the Euro, and then continued because of tensions in the prices of certain foodstuffs. Starting in the summer, the drop in oil prices and the elimination of tensions on foodstuffs allowed inflation to fall gradually toward the target figure of 2%. On average, inflation for the year came to 2.6% in the Euro-zone and 2.7% in Italy.

Refound stability in prices and in operators' inflation expectations encouraged the European Central Bank (ECB) to adopt a more expansive monetary policy. The ECB intervened on four occasions during the year, reducing policy rates by 150 basis points, from 4.75% to 3.25%.

### The banking industry

The trend in total bank loans in Italy slowed down considerably during 2001: the aggregate grew by 7.7% compared with 14.3% at the end of 2000.

The overall trend was sustained by the medium/long-term component, which rose by 9% (+10.2% the previous year), while short-term loans grew by 6.3%, compared with 18.6% at the end of 2000.

Banks' lending activities benefited from the strong growth in consumer credit granted to households (+18.3%), but were then hit by the slower trend in capital expenditure and in companies' extraordinary corporate finance requirements. Another element that was weaker than last year, even if still quite dynamic, was the demand for credit from private individuals for housing loans (+5.7%) and from non-financial businesses (+7.2%).

There was a further improvement in the quality of bank loans during 2001. The proportion of non-performing loans to total net loans came to 2.4% at the end of the year compared with 2.9% at the end of 2000, despite the slowdown in the economy.

Total direct bank deposits went up by 5.8% during 2001. Current account deposits rose sharply (+9.2%), mainly because of the increase in the second half of 2001 (+11% on a six-monthly basis) when private investors showed a higher propensity to remain liquid. Total deposits rose overall by 6.2%, taking account of the structural contraction in certificates of deposit. Bond funding also rose significant-

ly: the annual change came to 8.8% compared with 6.8% in 2000. Overseas funding, which fell during the latter months of 2001, rose by 2.3% over the twelve months.

As money market interest rates fell progressively during the year (by around 150 basis points), interest rates on current account deposits were lowered, as were to a greater extent the rates on short-term loans. As a result of these trends between the end of 2000 and the end of 2001, the spread on short-term banking business fell by around 30 basis points.

### Securities brokerage

The main international stock indices suffered substantial losses in 2001. The slowdown in economic activity, the decline in corporate profits and the fears that followed the events of 11 September all had a negative impact on world stock exchanges, despite the interventions by central banks. However, after the lows reached in October, stock indices started rising again.

In the USA, the S&P 500 lost 13%, while in Japan the Nikkei 225 fell by more than 23%. In Europe the DJ Stoxx 50 index shed around 18%, while in Italy the Mibtel and Mib30 dropped by around 25%. High-tech indices were particularly penalized, as were the telecommunications, media, utilities and financial/insurance sectors.

As a result of the fall in stock exchange indices at the end of the year, the total capitalization of domestic companies listed in Italy fell to 592 billion Euro from 818 billion at the end of 2000; the number of newly listed companies came to 18, compared with 45 in 2000. During the year, 7 billion Euro was raised through 20 public offerings (48 in 2000, which raised 13 billion Euro), while 7.6 billion Euro was raised through 25 rights issues (31 in 2000 for 3.8 billion Euro).

### Asset management

Stock exchange turbulence in 2001 also had a severe impact on mutual funds, reducing both net inflows and the valuation of assets already invested.

Total assets of the funds managed by Italian intermediaries at December 2001 amounted to 519 billion Euro, 6% down on the end of 2000.

Total net subscriptions during the year gave rise to a positive inflow of only 0.6 billion Euro. The general trend was

caused largely by the outflow of capital from balanced and equity funds. Many investors switched into monetary funds, especially in the second half of the year, at a time of considerable uncertainty about the prospects of security markets.

Of the other components of asset management, the insurance segment continued to show a positive trend during the course of 2001; based on the figures currently available, the annual rate of growth in life technical reserves is put at around 15%.

## Action points and initiatives in 2001

In presence of a decidedly problematic scenario, in 2001 the SANPAOLO IMI Group carried out various projects to reinforce its competitive position both in Italy and abroad, combining development initiatives in specific markets and customer segments with higher potential in terms of value creation, with rationalizing measures aiming at achieving a greater degree of focus in the various sectors of activity and a structural containment of costs.

### The integration project with Cardine Banca

The most important step on the domestic market took place on 18 December 2001, namely board approval by SANPAOLO IMI and Cardine Banca of the plan to integrate the two banks and the related merger project, whose principle lines were presented to the Bank of Italy on 19 October 2001; this project is of extreme importance within the Italian banking industry as it will lead to the creation of the country's second largest banking group. The Cardine Group, created from the merger of the Casse Venete and the Cassa di Risparmio in Bologna, represents an important banking presence in the regions of North East Italy, where its branch network, made up of 837 branches at the end of the year, is concentrated.

The project approved by the respective Shareholders' Meeting on 5 March 2002 provides for the merger by incorporation of Cardine into SANPAOLO IMI, after transferring the banking business to a new, wholly-owned subsidiary ("Nuova Cardine"), based in Padua, where the Group's expansion towards the markets of Central Eastern Europe will be concentrated.

The merger will take effect for accounting and tax purposes from 1 January 2002; the share exchange ratio has been set at 1.7950 SANPAOLO IMI shares for every Cardine share; on this basis, to serve the share exchange, SANPAOLO IMI will increase its share capital for up to 1,381.7 million Euro by issuing approximately 493.5 million ordinary shares of nominal unit value of 2.80 Euro, to be allocated to the shareholders of the incorporating bank in exchange for up to 274.9 million outstanding ordinary shares of Cardine Banca of nominal value of 5.20 Euro each, which would then be cancelled. SANPAOLO IMI will

take advantage of the faculty to use up to 70 million own shares as part of this exchange.

The logic underlying the aggregation of the two Groups, which is expanded on in the integration plan, is based upon:

- the creation of a banking group of considerable dimensions in terms of volumes and branch network: based on the figures at the end of 2001, combined total assets are put at 213 billion Euro, customer financial assets at 356 billion Euro, loans to customers at 124 billion Euro, while the number of branches in Italy comes to around 3,000;
- a high level of geographical and business complementarity: the new entity will in fact be able to count on the widespread presence of the Sanpaolo Network in the North West, Banco di Napoli's leadership position in the South, and Cardine's roots in the North East, one of the country's richest areas from an industrial and financial point of view; moreover, from a business point of view, SANPAOLO IMI will be able to put at the disposal of Cardine's customers all of its specific skills in asset management, product development and wholesale banking, where it has specialist units;
- the focus on areas of business with high potential: to the traditional business portfolio represented by the banking networks, the distribution networks of Personal Financial Services and by Wealth Management, the new Group will be able to add activities with considerable potential to generate value, such as private banking, consumer banking, private equity and development in Central Eastern Europe;
- the achievement of important economies of scale: the new Group will be able to make use of a *Macchina Operativa Intragruppo* (Intragroup Operating Vehicle) to serve the Sanpaolo Network, Cardine and Banco di Napoli, in which the management of IT systems, auxiliary activities and back office will be concentrated, consistently with the strict program of rationalization and structural containment of costs launched by SANPAOLO IMI at the end of the first half.

The economic-financial projections for 2001-2005 suggest estimates of growing gross synergies from the merger, reaching approximately 280 million Euro before taxes in 2005. These synergies derive from both the improvement in the revenue base from the existing business (130 million Euro), and the achievement of cost synergies (102 million Euro) and, finally, returns coming from the joint development of new businesses with substantial potential future upside, prudently calculated at around 50 million Euro. The integration costs have been valued at 260 million Euro.

The new Group hopes to achieve, in 2005, a RoE target of 21% and a reduction in the cost/income ratio of 14 percentage points approximately compared to their current levels, moving from 65% in pro forma 2001 to 51% in 2005.

Particularly innovative is the shareholding structure of the Parent Bank which will result from the merger: the Compagnia di San Paolo, which holds 16.1% of SANPAOLO IMI, and the Fondazioni Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna, which hold stakes of respectively 40.2% and 28.6% in Cardine Banca, have agreed to limit to a total of 15% their voting rights in ordinary shareholders' meetings of SANPAOLO IMI following the merger.

This objective will be pursued through a schema which envisages the entrusting of this stake to an appropriately dedicated vehicle, established at the beginning of January 2002 and called Fondaco SGR, made of two equal stakes of the capital of the company created from the merger, one of 7.5% by the Compagnia di San Paolo and the other, again of 7.5%, by the other two Fondazioni in proportion to their current shareholdings in Cardine Banca; in greater detail, the Fondazioni Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna will confer respective shares of 4.38% and 3.12%. The remaining shares, not placed in management in the new structure, will be converted into preference shares, convertible in turn, on request, into ordinary shares after a period of 10 years or in case of sale. The shareholding structure of the SGR is divided into equal parts between the Compagnia di San Paolo, on the one hand, and the other two Fondazioni on the other, providing for a minority share of 20% to a qualified independent advisor for the management of the assets, identified in Ersel Finanziaria. It is further expected that Fondaco will substitute the Compagnia in the consultation agreement signed with other private shareholders of SANPAOLO IMI.

### Other developments on the domestic market

As part of the collaboration agreements reached with Cassa di Risparmio di Firenze in 2000, which identify SANPAOLO IMI as the Tuscan bank's main point of reference in the field of asset management, CR Firenze Gestion Internationale, a Luxembourg fund management company owned 20% by SANPAOLO IMI and 80% by the Cassa, became operational in April 2001. The banks of

the Cassa di Risparmio di Firenze Group, with a total of more than 400 branches, began to distribute funds managed by this company.

In June 2001 SANPAOLO IMI and Cassa di Risparmio di Firenze also completed the acquisition of a 15% and a 5% stake respectively in Cassa dei Risparmi di Forlì, bought from Fondazione Cassa dei Risparmi di Forlì for a total of 163 million Euro. A Public Offer for a further 8% stake in Cassa dei Risparmi di Forlì was then launched in the middle of July, as envisaged in the agreements signed in November 2000; the Offer, at a price of 41.413 Euro per ordinary share and 42.246 Euro per preference share, achieved full acceptance, which meant a total outlay of 62 million Euro, and brought SANPAOLO IMI's shareholding to 21% and that of Cassa di Risparmio di Firenze to 7%.

The collaboration agreements between SANPAOLO IMI, Cassa di Risparmio di Firenze and Cassa dei Risparmi di Forlì concerning the distribution of insurance and asset management products, leasing, debt placement and financing and consultancy for companies and local authorities also became operational during the first half of 2001. In particular, Cassa dei Risparmi di Forlì began distributing Sanpaolo Vita policies and fund-based portfolio management by Sanpaolo IMI Asset Management, as well as mutual funds managed by CR Firenze Gestion Internationale, through its network of about 60 branches.

Among the steps taken to reinforce the Group's positioning on the domestic market, there is also the ongoing effort to raise the level of specialization in the production and distribution structures with the purpose of improving the provision of services to the various customer segments; in particular:

- the completion of the project to establish an autonomous Business Area dedicated to Wealth Management, functionally separate from the branch network, to provide products and services to distribution networks within the Group, as well as to institutional investors and other networks. April saw the final transfer of the Parent Bank's interests in subsidiaries handling mutual funds, portfolio management, private banking and life insurance to the new holding company, Wealth Management Sanpaolo IMI;
- the development by the Sanpaolo Network of a new organizational model geared to specialize each branch in the prevalent customer segment: households, small entrepreneurs and companies. The distribution structure in this Area was also reinforced by the launch to cus-

tomers of information and statement services through the Internet and mobile phone as part of a plan to introduce a multi-channel distribution model.

### Alliances and commercial agreements abroad

Among the main initiatives completed in 2001 by SANPAOLO IMI, the collaboration agreements with the French Group Caisse des Dépôts et Consignations (CDC) are to be noted; at the beginning of October, the two Groups formally signed a "Protocol of Agreement" which laid down the guidelines for industrial and commercial collaboration and defined their reciprocal commitments in terms of shareholdings.

Towards the end of 2001 the two Groups started identifying the initiatives by which they could put their understandings into practice, defining the priority areas which are most likely to hold interesting opportunities for joint development; in particular:

- in asset management, where the two Groups are among the leaders in their respective domestic markets, opportunities of reciprocal marketing and creation and development of new lines of innovative and specialist products, exploiting their respective management experiences, are being examined;
- in private equity, where the two Groups are already collaborating on the basis of the agreement concluded last year between NHS and CDC Participation, joint investment opportunities in France and Italy, as well as possible investments, on a reciprocal basis, in specialist funds are currently being evaluated;
- in capital markets, Banca IMI and CDC Ixis Capital Market are assessing the possibility of operating agreements, in particular in debt and equity markets;
- in financing of projects and infrastructure, ways to participate jointly in pool financings in the various sectors of interest have been examined.

The collaboration between the two Groups may be extended to other operating areas such as retail banking, e-banking, life insurance, custody services, property management and financial guarantees.

As envisaged under the agreement, the CDC Group acquired a 2% stake in SANPAOLO IMI at the beginning of October, for 323 million Euro; in December, SANPAOLO IMI formalized its exchange of shares with the Eulia Group, the newly constituted holding company that controls the Caisse des Dépôts et Consignations Group and Caisse

d'Epargne Group, buying in turn an interest for the same amount in CDC Ixis, the CDC Group's investment bank, equal to around 3.5% of the share capital.

Still in Europe, initiatives for joint development with the Santander Central Hispano Group continued. In particular the following should be remembered:

- the project launched in 2000 in partnership with The Royal Bank of Scotland and Société Générale, to create an Internet platform to offer on line treasury and capital market products to companies and institutional investors. To this end, a UK company called Centradia Group was set up and became operational in November with subsidiaries Centradia Services, which manages the IT platform, and Centradia, which acts as a broker;
- the agreement, signed on 9 February 2002, with All Funds Bank (AFB), part of the Santander Central Hispano Group, a central buyer of third-party mutual funds; the project involves a strategic partnership based on sharing the AFB platform.

### Development initiatives abroad

SANPAOLO IMI has identified selected foreign countries where it could apply the experience gained in Italy by the Group in the field of private banking. In particular, at the end of 2000, Banca Fideuram acquired the Wargny group, which can claim, besides a pre-eminent position in France in traditional and on line securities brokerage, a niche presence in private banking. In accordance with the lines of development laid down in Wargny's new business plan approved in early 2001, in July Banque Privée Fideuram Wargny was granted authorization to carry on business as a bank, launching asset management services according to the business model successfully experimented by Fideuram in Italy; the corporate structures of the French group were rationalized at the same time.

Again in the field of international private banking, in February Fideuram Bank (Suisse), with offices in Lugano and Zurich, begun operations.

SANPAOLO IMI also took steps to strengthen its operations in Central Eastern European countries with high growth potential. In particular, after the positive conclusion of the due diligence on Banka Koper at the end of July, an agreement was signed on 30 October 2001 with the main shareholders for the acquisition of a majority stake in the Slovenian bank's share capital. At the end of

November, SANPAOLO IMI paid 37 million Euro for an initial 15% interest in the bank and launched a Public Offer for all of the other shares. All of the shareholders who accepted the offer were granted a nontransferable put option on the residual shares (at the same price as the Public Offer plus interest, net of the dividend), which could be exercised between 31 December 2002 and 31 July 2006. The bid was closed on 25 February 2002 with acceptances on the part of 250,271 shares, equal to 47.1% of Banka Koper; the cost incurred in this operation amounts to 116 million Euro.

As a result of the takeover bid, SANPAOLO IMI now has 62.1% of Banka Koper, but will temporarily limit its voting rights to 32.99%. This in compliance with the authorization granted by the Bank of Slovenia which forms part of a process of gradually opening up the share capital of the country's main banks to European banking groups, also in view of Slovenia's imminent membership of the European Union.

Banka Koper is Slovenia's fourth largest banking institute in terms of total assets and operates through a network of 37 branches concentrated in the area of Ljubljana; its deposits come mainly from retail customers, while its loans are mainly corporate; it is also one of Slovenia's main issuers of debit and credit cards and is active in the fields of trading and fund management. It has a share of around 7% of the Slovenian market, which has close commercial ties with Italy and is among the most interesting markets in that part of Europe in terms of its macroeconomic indicators and growth prospects.

This operation takes on particular interest in light of the coming integration with Cardine Banca, whose business customers, largely concentrated in the North East of Italy, are keen to intensify trade relations with the markets in Eastern Europe.

In July, Sanpaolo Vita signed a letter of intent to create a new bancassurance company in a joint venture with Agrotiki Life & Health, a Greek insurance company controlled by the Agricultural Bank of Greece, the country's number two bank, with a network of more than 440 branches. This new company, which should become operational in 2002, will progressively broaden its activities from Greece to the Balkans, opening up interesting opportunities for Sanpaolo Vita in countries where the life insurance market has considerable growth prospects, both in relation to the imminent reform of the local pension sys-

tem, and in connection with the process of upgrading to the standards of the rest of the other more financially developed markets of the European Union.

### Steps to rationalize the Group structure

In the first half of 2001, SANPAOLO IMI defined a plan for the rationalization and structural containment of costs in order to further improve the levels of Group efficiency. This plan, which was launched in June and will be completed over a period of two years, consists of two distinct projects:

- the creation of a *Macchina Operativa Intragruppo* for SANPAOLO IMI and Banco di Napoli, centralising their information systems, auxiliary systems and back office functions;
- a reorganization of the Parent Bank and subsidiaries' head office functions.

The *Macchina Operativa Intragruppo* project envisages the unification in a single organizational structure of the information systems and support functions of the Parent Bank and Banco di Napoli. Thanks to a common IT platform and the same operating system, the Group's two commercial banks will be able to optimize investments in new technologies and personnel. The principal benefits will be:

- a significant reduction in costs at Group level in information technology and auxiliary activities;
- making available SANPAOLO IMI's multi-channel information system to Banco di Napoli, with its greater functionality and emphasis on customer segmentation;
- the creation of a structure and an IT platform that in future can be extended to other banks, whether inside or outside the Group.

Creating the *Macchina Operativa Intragruppo* represents an important element in the series of measures taken to reinforce and develop the operations of Banco di Napoli, in accordance with the guidelines laid down in the relaunch plan approved by mid 2001. The plan aims to make Banco di Napoli a point of reference for households and small- and medium-sized companies in the South of Italy by focusing on the geographical areas where it has its historical roots, and the fulfillment of an efficiency plan which, among other things, provides for the disposal of all activities that are not strategic for the core business.

The Banco has already taken the following steps during 2001, in line with the objectives of the relaunch plan:

- restructuring of the domestic distribution network: 11 territorial areas have been identified, reorganizing the

former structure made up of areas, regional offices and dependent offices;

- the revision of the subsidiaries' structure: Fumagalli & Soldan, a subsidiary, was sold off in November; a contract was stipulated to dispose of the investment held in Datitalia, while the sale was completed at the beginning of 2002; fund management activities were concentrated in Wealth Management, to which Banco di Napoli Asset Management will be transferred during the course of 2002;
- withdrawal from the activities carried on by the foreign network: the Hong Kong branch has been transferred to the Corporate Area of the Parent Bank SANPAOLO IMI; the London branch was sold to third parties in February 2002; the operations of the New York branch were cut back in view of its voluntary liquidation, decided in January 2002;
- a voluntary incentive retirement scheme: in 2001 this initiative led to agreements for the departure of some 500 employees.

To foster integration of Banco di Napoli within the Group, SANPAOLO IMI has also carried out various transactions with a view to achieving a total stake in the Naples bank by:

- launching a residual public Offer for the outstanding ordinary shares of Banco di Napoli; the transaction was completed in May 2001 and involved 42.1 million ordinary shares of the Banco which were bought at 1.549 Euro per share, the price established by Consob. At the closing, 84.92% of the shares in question (1.92% of the Banco's ordinary share capital) had been tendered; the outlay incurred by SANPAOLO IMI was therefore equal to 55.4 million Euro and the total stake held in Banco di Napoli's ordinary share capital rose from 97.74% to 99.66%. Banco di Napoli's ordinary share was delisted from 1 June 2001 and SANPAOLO IMI exercised its right to buy up the residual shares in the Banco, given that it already held more than 98%; this operation was completed at the end of September and involved 6.3 million shares, which were bought for 1.549 Euro each, which was the price established by an expert appointed by the President of the Naples Court, with an outlay of 9.8 million Euro;
- the launch in March 2002 of a voluntary Public Offer for all of the Banco's outstanding non-convertible savings shares, a total of around 127 million; the total outlay, on the basis of the price fixed at 1.30 Euro per share, is valued at 165 million Euro in the case of total acceptance and will be wholly financed with own funds. The achievement of a level of acceptances, to reach a stake at least equal to the absolute majority of the savings capital, tak-

ing account of the 0.85% stake already held by SANPAOLO IMI, will be a condition of effectiveness of the Offer.

The agreements with Compagnia di San Paolo involving various equity investments also form part of the interventions designed to rationalize the Group structure; they provide for SANPAOLO IMI to sell to the Compagnia an 8% stake in Cardine Banca out of its current shareholding of 10.8%; this is meant to take place prior to the merger with Cardine Banca. In turn, SANPAOLO IMI:

- following the restructuring of NHS, with the partial spin-off of the company, which involved transferring its private equity activities to a "newco" (NHS S.p.A.) and maintaining the activity which consists of the increase in value of the portfolio of significant industrial investments held by the company spun off (which took on the name of IMI Investimenti) will take its stake in IMI Investimenti to 90% and acquire a residual interest in new NHS;
- will take over 100% of CIP - Compagnia di San Paolo Investimenti Patrimoniali; this shareholding will be transferred to Banca OPI, increasing the subsidiary's net equity.

The value of the Cardine shares involved in this transaction was established by making reference to the implicit value that resulted from applying the exchange ratio envisaged by the merger project between SANPAOLO IMI and Cardine to the average value of SANPAOLO IMI's stock during a period of time decided by the parties, while the equity investments acquired are valued as follows:

- IMI Investimenti and the new NHS, on the basis of their pro forma consolidated net equities at the end of 2001;
- CIP, based on the economic value of the company.

These values are subject to a fairness opinion issued by a leading investment bank.

### Other important initiatives

Other important initiatives during the year included two operations designed to further improve asset quality:

- at the end of May there was the sale without recourse of short-term unguaranteed non-performing loans with a book value of around 110 million Euro; the operation was settled at a price of 2 million Euro above net book value;
- the sale to a leading Italian company of 100% of Sanpaolo Immobiliare, the company that specializes in managing the non-performing mortgage loans sold without recourse by the Parent Bank in 1994; this transaction, which was completed at the beginning of July, reduced the net book value of the Group's non-per-



forming loans by 45 million Euro and led to a pre-tax capital gain of 5 million Euro.

Lastly, there were two important disposals of equity investments:

- the sale in June of a 10.7% interest in Beni Stabili, out of the Bank's total shareholding of 14.2%; this transac-

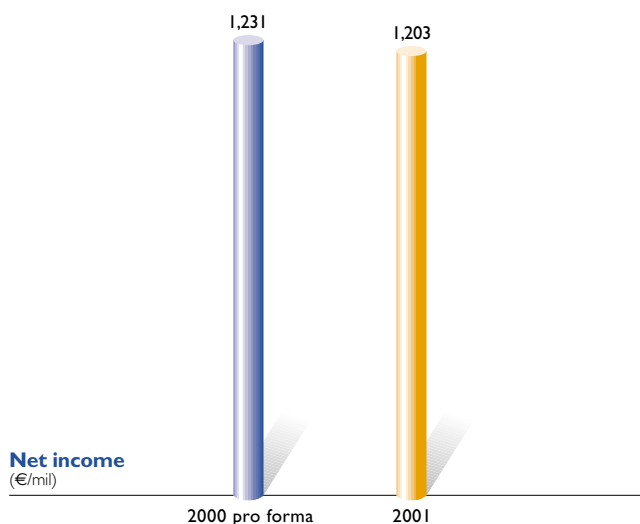
tion generated a capital gain of 50 million Euro;

- NHS, the SANPAOLO IMI Group's merchant bank, sold its 6.2% interest in Montedison, making a capital gain of 228 million Euro; NHS then bought a 7.8% interest in Italennergia, which made the Group one of the company's principal shareholders, together with FIAT, EDF, IntesaBCI and Banca di Roma.

## Consolidated results

In 2001, the results of the SANPAOLO IMI Group have been influenced by the negative state of the market, which led to a general reduction in profit margins compared with the pro forma statement of income for 2000, which has been reconstructed for comparison purposes on the assumption that Banco di Napoli and Wargny were acquired as of 1 January 2000.

This reduction was attenuated by the measures taken at the end of the first half to hold down operating costs and to make full use of all tax planning opportunities; net income therefore came in at 1,203 million Euro, which is only slightly lower than the figure of 1,231 million Euro posted in 2000 (-2.3%).

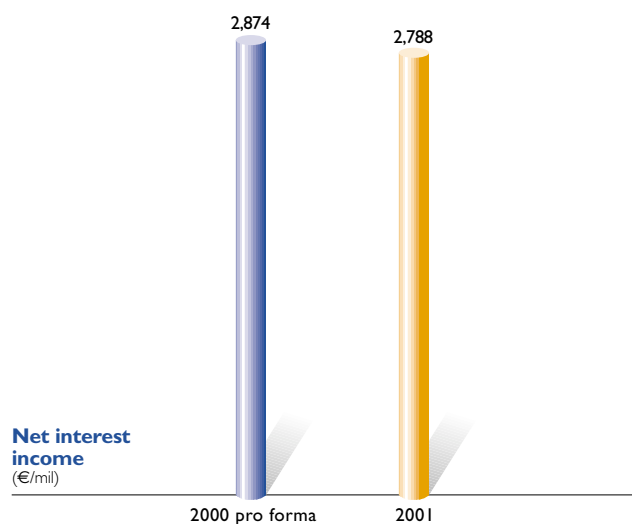


### Net interest income

The net interest income earned by the Group in 2001 amounted to 2,788 million Euro, 3% down on the previous year; the trend was also affected by factors not attributable to ordinary operating conditions:

- the booking of lower interest income on mortgage loans (22 million Euro), in accordance with decree law 394/2000, converted into law 24/2001;
- higher interest expense, 23 million Euro, paid by Banco di Napoli on the liquid assets of the supplementary personnel pension fund spun off in July; these charges were also reflected in a corresponding reduction in personnel cost.

Without these factors, Group net interest income would have shown a reduction of 1.4%, prevalently attributable to the progressive contraction in market interest rates and



### Net interest income

	2001 (€/mil)	2000 pro forma (€/mil)	Change 2001 / 2000 pro forma (%)
Interest income and similar revenues	8,016	8,441	-5.0
Interest expense and similar charges	-5,322	-5,636	-5.6
Reclassification (1)	94	69	+36.2
<b>Net interest income</b>	<b>2,788</b>	<b>2,874</b>	<b>-3.0</b>

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

spreads which began towards the end of 2000 and continued throughout 2001.

As regards market interest rates, the 3-month Euribor rate went down by 1.54 percentage points, from 4.88% at the end of 2000 to 3.34% at the end of December 2001; the average rate for the whole of 2001, namely 4.27%, was 11 basis points lower than in 2000; on average, the 10-year BTP fell by 40 basis points.

In 2001, the yield on the Group's interest-earning assets came to 5.88%, 23 basis points less than in 2000; the cost of interest-bearing liabilities, on the other hand, fell by 19 basis points, from 4.07% to 3.88%. The average spread on customer deposits and loans, excluding repurchase agreements, came to 2.81% in 2001, compared with 2.94% in 2000.

The average balances of the Group's interest-earning assets in 2001 showed a reduction of 1.8% compared

with the previous year; as part of this, the average amount of customer loans, excluding repurchase agreements, on the other hand increased by 3.4%. On the liability side, there was a 1.5% fall in the average volume of customer deposits, excluding repurchase agreements, brought about by a 4.7% reduction in securities issued.

### Net interest and other banking income

The Group's net interest and other banking income in 2001 was 5,877 million Euro, a decrease of 4.7% compared with the previous year.

Net commissions, 2,608 million Euro, showed a decline of 8.6%, which is totally attributable to asset management and dealing activities: indeed, commission income from management, dealing and advisory services went down by 15.4%; as part of this, it is worth emphasizing the growth

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

	2001			2000 pro forma		
	Average amount (€/mil)	Interest (€/mil)	Average rate (%)	Average amount (€/mil)	Interest (€/mil)	Average rate (%)
Interest-earning assets	126,462	7,440	5.88	128,801	7,874	6.11
- loans to customers	89,839	5,721	6.37	86,886	5,738	6.60
- due from banks	15,388	654	4.25	16,967	817	4.82
- securities	14,563	743	5.10	15,794	879	5.57
- repurchase agreements	2,798	126	4.50	4,600	213	4.63
- other interest-earning assets of Banco di Napoli	3,874	196	5.06	4,554	227	4.98
Non interest-earning assets (1)	45,047			44,784		
<b>Total assets</b>	<b>171,509</b>	<b>7,440</b>		<b>173,585</b>	<b>7,874</b>	
Interest-bearing liabilities	119,744	4,652	3.88	122,855	5,000	4.07
- direct customer deposits	89,324	3,176	3.56	90,716	3,318	3.66
- due to customers	52,586	1,319	2.51	52,162	1,252	2.40
- securities issued	36,738	1,857	5.05	38,554	2,066	5.36
- due to banks	18,014	847	4.70	22,150	1,190	5.37
- repurchase agreements	7,109	313	4.40	6,168	240	3.89
- subordinated liabilities	5,297	316	5.97	3,821	252	6.60
Non interest-bearing liabilities (1)	44,519			44,083		
Shareholders' equity	7,246			6,647		
<b>Total liabilities and shareholders' equity</b>	<b>171,509</b>	<b>4,652</b>		<b>173,585</b>	<b>5,000</b>	
<b>Net interest income</b>		<b>2,788</b>			<b>2,874</b>	

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

in net commissions deriving from the placement of insurance products, up from 86 million Euro in 2000 to 109 million Euro in 2001 (+10.5%).

All of the other commission items are up as well, partially offsetting the drop in revenues from asset management and dealing: there was an increase of 16.5% in loans and guarantees, helped in particular by syndacated loans carried out at the end of the year; the commissions related to the management of deposits and current accounts rose by 4.2%, while those earned on collection and payment serv-

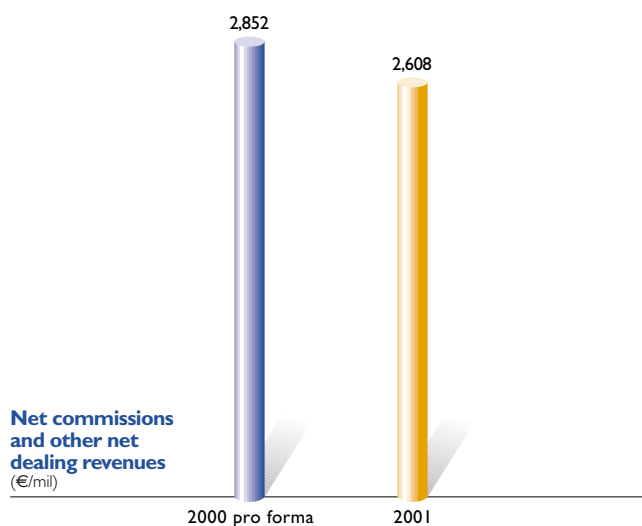
ices rose by 1.8%. Within other commissions, merchant banking contributed 11 million Euro.

In total, Group net commissions in 2001 came to 72.4% of administrative costs; in particular, they were more than sufficient (117.4%) to cover personnel costs.

Profits from financial transactions and dividends on shares in 2001 amounted to 274 million Euro, 7.4% down on the previous year. The trend during the year was conditioned by the difficult state of the market in general, which had a particularly negative impact on the investment banking activity.

Profits from companies carried at equity and dividends from shareholdings amounted to 207 million Euro, up 40.8% on the previous year. Specifically:

- dividends distributed by companies outside the Group doubled compared with 2000, rising to 128 million Euro; they include 38 million Euro distributed by Santander Central Hispano, 27 million Euro deriving from the 10.8% interest in Cardine Banca and 25 million Euro received from the investments held by NHS, the Group's merchant bank;
- profits from companies carried at equity came to 79 million Euro; as part of this, it is worth highlighting the significant growth achieved by the Wealth Management's insurance companies, Sanpaolo Vita and Sanpaolo Life, which contributed 55 million Euro, compared with 27 million in 2000.



### Net interest and other banking income

	2001 (€/mil)	2000 pro forma (€/mil)	Change 2001 / 2000 pro forma (%)
Net interest income	2,788	2,874	-3.0
Net commissions and other net dealing revenues	2,608	2,852	-8.6
- management, dealing and advisory services	1,770	2,092	-15.4
- loans and guarantees	233	200	+16.5
- collection and payment services	174	171	+1.8
- deposits and current accounts	297	285	+4.2
- other services and net dealing revenues	134	104	+28.8
Profits and losses from financial transactions and dividends on shares	274	296	-7.4
Profits from companies carried at equity and dividends from shareholdings	207	147	+40.8
<b>Net interest and other banking income</b>	<b>5,877</b>	<b>6,169</b>	<b>-4.7</b>

## Operating income

Group operating income in 2001 amounted to 2,118 million Euro, 15.8% down on the previous year.

Mention should be made of the positive effects of the measures launched by the Group during the first half to hold down costs on a structural basis: these measures did in fact lead to a steady decline in the rate at which costs were growing, enabling the Group to post administrative costs in 2001 of 3,600 million Euro, substantially in line with the previous year (+0.8%).

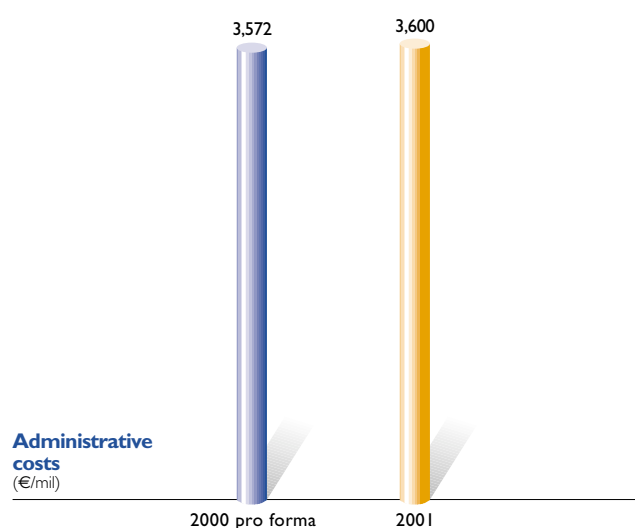
In particular, personnel costs went down by 1.6% to 2,221 million Euro; contributions to this positive trend came not only from the savings achieved by Banco di Napoli as a consequence of the steps to cut the number of staff and the effects of spinning off the supplementary staff pension fund, but also from a more flexible approach to remuneration introduced by the Group's companies which made it possible to restrict the variable part of the payroll, given the decline in revenues.

Other administrative costs increased by 6.4% on 2000, at 1,180 million Euro; this increase also includes certain charges of a non-recurring nature incurred by the Group in the latter part of the year in connection with the external growth initiatives currently being carried out, as well as completion of the procedural updates and other matters related to the physical introduction of the Euro.

Adjustments to tangible and intangible fixed assets in 2001 amounted to 393 million Euro, an increase over the year of 19.1%; this increase was mainly the result of the higher capital investments made to strengthen the distribution channels during the second half of 2000.

## Income before extraordinary items

Group income before extraordinary items came to 1,231 million Euro, 27.5% lower than the previous year.



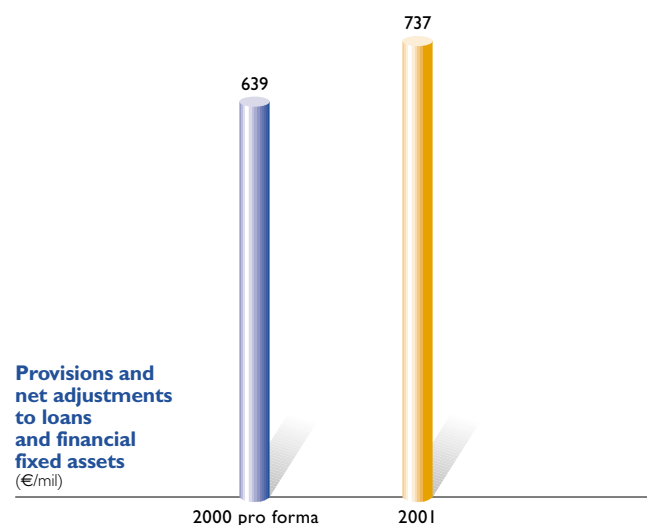
## Operating income

	2001 (€/mil)	2000 pro forma (€/mil)	Change 2001 / 2000 pro forma (%)
Net interest and other banking income	5,877	6,169	-4.7
Operating costs	-3,759	-3,655	+2.8
- administrative costs	-3,600	-3,572	+0.8
- <i>personnel</i>	-2,221	-2,256	-1.6
- <i>other administrative costs</i>	-1,180	-1,109	+6.4
- <i>indirect duties and taxes</i>	-199	-207	-3.9
- other operating income, net	234	247	-5.3
- adjustments to tangible fixed assets	-214	-185	+15.7
- adjustments to intangible fixed assets	-179	-145	+23.4
<b>Operating income</b>	<b>2,118</b>	<b>2,514</b>	<b>-15.8</b>

Adjustments to goodwill and merger and consolidation differences, 150 million Euro, showed a decrease of 14.8% on the previous year: this item includes 85 million Euro related to goodwill amortization of Banco di Napoli.

Provisions and net adjustments to loans and financial fixed assets came to 737 million Euro, 15.3% more than in 2000 (639 million Euro).

In this respect, it should be noted that the adjustments made in 2001 reflect the higher provisions for credit risks (362 million Euro from 272 million in 2000), prudently



taken against the deterioration in the economic scenario; they were designed:

- on the one hand, to cover the writedowns to market value of specific positions; more specifically adjustments were made on Enron's position for 52 million Euro, which raised the coverage of the non-guaranteed portion to 70%;
- on the other, to increase the provisioning for the inherent risk associated with performing loans. At the end of the year, the general adjustments to cover the risk inherent in performing loans amounted to about 700 million Euro, providing coverage of 0.75% of performing loans.

In contrast, the provisions for risks and charges returned to normal levels, after the peak reached in 2000 to cover the effects of the possible renegotiations of subsidized building mortgages.

Writedowns of 223 million Euro were also made to equity investments - those held in portfolio and those held for merchant banking purposes - compared with 6 million in 2000.

### Net income

Net extraordinary income of 392 million Euro, 2.5% lower than 402 million in 2000, contributed to the net income of 1,203 million Euro. Extraordinary income of the year included:

### Income before extraordinary items

	2001 (€mil)	2000 pro forma (€mil)	Change 2001 / 2000 pro forma (%)
Operating income	2,118	2,514	-15.8
Adjustments to goodwill and merger and consolidation differences	-150	-176	-14.8
Provisions and net adjustments to loans and financial fixed assets	-737	-639	+15.3
- provisions for risks and charges	-136	-346	-60.7
- adjustments to loans and provisions for guarantees and commitments	-368	-272	+35.3
- net writedowns	-499	-578	-13.7
- net provisions for guarantees and commitments	-12	-12	-
- recoveries	143	318	-55.0
- net adjustments to financial fixed assets	-233	-21	n.s.
- net adjustments of equity investments	-223	-6	n.s.
- net adjustments of investment securities	-10	-15	-33.3
<b>Income before extraordinary items</b>	<b>1,231</b>	<b>1,699</b>	<b>-27.5</b>

- 228 million Euro of capital gains made by NHS following the sale of its 6.2% stake in Montedison;
- 50 million Euro in capital gains realized on the sale of a 10.7% stake in Beni Stabili;
- 30 million Euro in capital gains realized on the sale of own shares to Fondazione Carivenezia in connection with the acquisition of a 10.8% stake in Cardine Banca.

Extraordinary charges included 114 million Euro in provisions made by Banco di Napoli for risks and charges

that could arise for the Banco in connection with staff pensions.

The Group's tax rate was 19.6%, lower than the 36.6% in 2000. This is largely due to the recovery by subsidiaries of prior tax losses companies for which the corresponding pre-paid taxes were not posted as there was no guarantee of adequate future profits to absorb them, as well as to tax savings of an extraordinary nature related to actions of rationalization of the structure of the Group in Italy and abroad.

#### Net income

	2001 (€/mil)	2000 pro forma (€/mil)	Change 2001 / 2000 pro forma (%)
Income before extraordinary items	1,231	1,699	-27.5
Net extraordinary income	392	402	-2.5
- net gains on disposal of equity investments	426	259	+64.5
- other net extraordinary items	-34	143	n.s.
<b>Income before taxes</b>	<b>1,623</b>	<b>2,101</b>	<b>-22.8</b>
Income taxes for the period	-318	-770	-58.7
Change in reserves for general banking risks	-1	2	n.s.
Income attributable to minority interests	-101	-102	-1.0
<b>Net income</b>	<b>1,203</b>	<b>1,231</b>	<b>-2.3</b>

## Embedded value of the life portfolio

Group net income includes the net accounting results of the Group's life insurance companies; namely:

- Sanpaolo Vita and its subsidiary Sanpaolo Life, both of which belong to Wealth Management, contributed 55 million Euro to Group net income;
- Fideuram Vita, whose results were affected by substantial extraordinary provisions, contributed net income of 5 million Euro.

To fully understand the meaning of these results, it is worth remembering that one of the most significant indicators of an insurance company's performance is the increase over the period in its so-called "embedded value". Embedded value is in fact an estimate made by actuarial methods of the economic value of a company with a closed portfolio, that is disregarding whatever value can be given to future business; this is understood as being the sum of two elements:

- the company's net equity adjusted to market values at the valuation date;
- the value of the portfolio of policies outstanding at the valuation date, calculated as the net present value of the after-tax earnings that the existing portfolio will generate, based on actuarial probabilities, over the years up to its natural expiry, adjusted for the necessary capital cost linked to the restriction created by the solvency margin.

The calculation of the embedded value of the life insurance business at 31 December 2001 was carried out with the assistance of the actuarial divisions of leading consultancies, according to the following criteria:

- before valuing the current portfolio, an actuarial examination was carried out on the companies' contract portfolios, and the expected future operating scenarios were defined. Key elements in the definition of such scenarios are the assumptions that were made about future asset yields, mortality trends, management costs of the portfolios in question, the trend in early surrenders of policies for anomalous reasons and in options exercised by customers, as well as the tax burden;
- subsequently, a comparison was made, based on generally accepted actuarial procedures, between the operating scenarios used to calculate premiums for the current portfolio and the expected scenarios, as formulated above. This gave rise to a series of estimated values of

the profits that the portfolio will generate in each of the years of its residual life, net of tax charges and the necessary capital cost connected with maintaining the solvency margin;

- this series of values was then discounted at a rate equal to the current rate of interest on a risk-free investment, raised by a certain amount to take account of the uncertainties in the flow of profits outlined above, largely because of the uncertainty whether the underlying assumptions will come true in real life.

The assumptions taken into consideration when formulating the future operating scenarios take account of the characteristics of the various companies' portfolios. More specifically, as regards the yield rate on assets, an average rate curve of 4.8% was assumed for Sanpaolo Vita, a rate of 6.0% for Sanpaolo Life and a rate of 4.9% for the segregated portfolios and 6.25% for the unit linked portfolios for Fideuram Vita. As for the discounting rates, an annual rate 2.25% higher than the above yield rate curve was used for Sanpaolo Vita, while for Sanpaolo Life and Fideuram Vita discounting rates of 7.85% and 8% respectively were used.

On these bases, an estimate of the increase in the embedded value of the Group's life insurance business during 2001 was calculated, taking into account not only the inherent value of the Group's life insurance companies, but also the part of the embedded value that is allocated to the other Group companies to which the insurance companies pay sales, management or maintenance commissions. The results of this estimate are shown in the table below.

### *Embedded value of the life business*

	Life business Wealth Management (€/mil)	Life business Banca Fideuram (€/mil)
Embedded value as of 31/12/2000	646	747 (1)
Embedded value as of 31/12/2001	752	743
Change in the embedded value during 2001	106	-4
<i>of which: increase in value attributable to new production</i>	114	48
Dividends distributed	39	19
Increase of capital	-100	-
Fees during the year	41	-
<b>Value added during the year</b>	<b>86</b>	<b>15</b>

(1) Banca Fideuram's embedded value at 31/12/2000 has been changed in accordance to the refinement of the methodologies performed in 2001.



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

The estimated increase in embedded value during 2001

for the Group's life insurance business is 106 million Euro for the operations carried on by Wealth Management, while Banca Fideuram showed a reduction of 4 million Euro. The value added during the year, considering the dividends distributed by the life insurance companies to other companies of the Group (net of the increase in capital at Sanpaolo Vita) and commissions, comes to 86 million Euro for Wealth Management and 15 million Euro for Banca Fideuram.

## Operating volumes and organization

### Assets managed on behalf of customers

SANPAOLO IMI's customer financial assets at the end of 2001 came to 305.4 billion Euro, an increase of 1.3 billion Euro since the start of the year (+0.4%). The change that took place during the year was conditioned by the devaluation of assets under management and administration due to the negative trend in financial markets; though this was more than offset by the significant inflows generated by the Group's distribution networks.

Within this total, asset management, which is considered the priority segment, continued to be the principal com-

ponent in terms of volumes: at the end of December 2001, it represented 41.2% of customer financial assets, compared with 35% for direct deposits and 23.8% for asset administration.

### Asset management and administration

Assets under management came to 126 billion Euro at the end of 2001; compared with the start of the year, there was a reduction of 2.9 billion Euro (-2.3%) caused by a devaluation of the existing stock of 9.7 billion Euro, partially offset by a net flow of 6.8 billion Euro.

As part of this, mutual funds and fund-based portfolio management fell by 6.3 billion Euro (-6%) on December 2000, particularly hit by the negative performance in equities; the trend of the year was characterized by a recomposition into bond funds, whose weight on the total rose

### Customer financial assets

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Asset management	125,977	41.2	128,913	42.4	-2.3
Asset administration	72,643	23.8	71,084	23.4	+2.2
Direct deposits	106,784	35.0	104,144	34.2	+2.5
<b>Customer financial assets</b>	<b>305,404</b>	<b>100.0</b>	<b>304,141</b>	<b>100.0</b>	<b>+0.4</b>

### Asset management

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Mutual funds and fund-based portfolio management	99,636	79.1	105,980	82.2	-6.0
Portfolio management	7,511	6.0	8,139	6.3	-7.7
Life technical reserves	18,830	14.9	14,794	11.5	+27.3
<b>Asset management</b>	<b>125,977</b>	<b>100.0</b>	<b>128,913</b>	<b>100.0</b>	<b>-2.3</b>

### Change in assets under management

	2001 (€/mil)	2000 pro forma (€/mil)
Net inflow for the period	6,752	15,113
- Mutual funds and fund-based portfolio management	2,053	11,928
- Portfolio management	336	127
- Life technical reserves	4,363	3,058
Performance	-9,688	-5,698
<b>Change in assets under management</b>	<b>-2,936</b>	<b>9,415</b>

from 42.2% to 52.8%, compared with a decline in the weight of equity funds (from 38.8% to 32%) and balanced funds (from 19% to 15.2%). Group net flow during 2001 came to 2.1 billion Euro; in particular flows in the domestic market, including investments in funds by portfolio management and life insurance, amounted to 1 billion Euro, compared with 556 million Euro for the system as a whole; at the end of the year, SANPAOLO IMI had a market share of 18.9%, ranking it in first place among its Italian competitors.

Within asset management, it is also worth highlighting the positive performance of the insurance sector: life technical reserves continued to grow rapidly during the course of the year, being one of the types of investments that customers preferred at a time when financial markets were highly volatile. Overall, the Group's distribution networks generated a net flow of 4.4 billion Euro, raising the year-end amount to 18.8 billion Euro (+27.3%).

Asset administration volumes also rose during the year to reach 72.6 billion Euro at the end of 2001 compared with

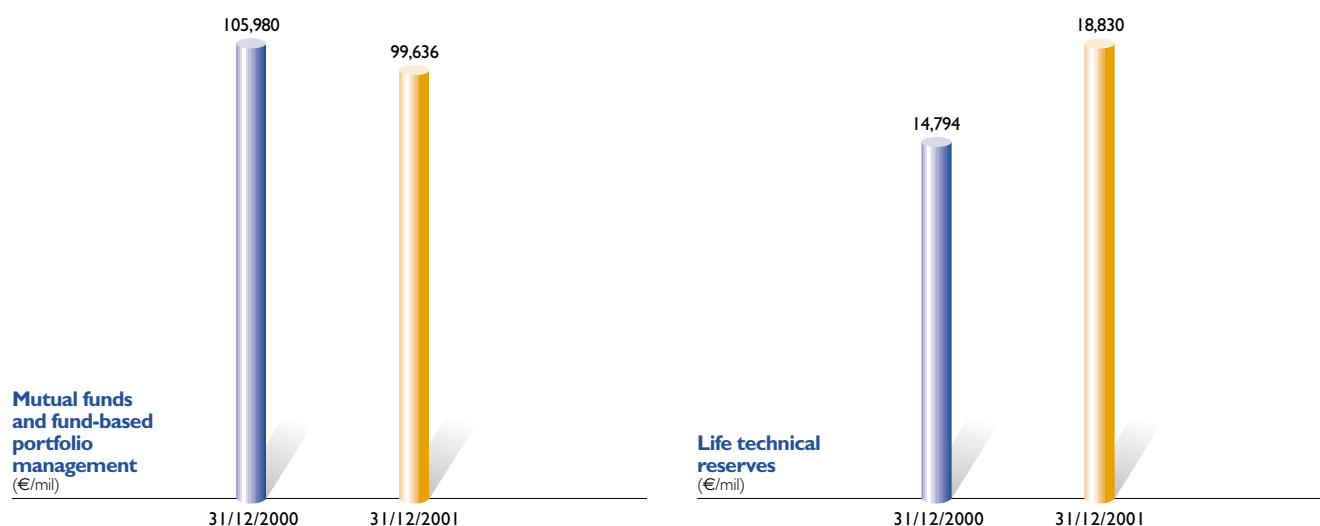
71.1 billion at the end of 2000, an increase year-on-year of 2.2%.

The assets managed by the Group on behalf of insurance companies, banks, pension funds and other entities came to 3.9 million Euro at the end of the year. In the field of pension funds, where assets amounted to 1.7 million Euro, operations continued in the area of open-ended funds distributed by the Sanpaolo Network and by the financial planners of Banca Sanpaolo Invest and Banca Fideuram.

#### Direct deposits

Direct customer deposits at the end of 2001 came to 106.8 billion Euro, an increase of 2.6 billion Euro from the beginning of the year (+2.5%), helped by a particularly dynamic trend in the latter part of the year.

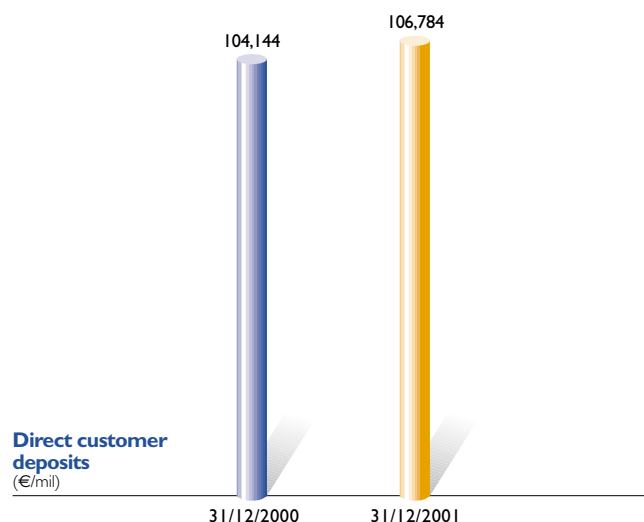
Customers preferences, given the uncertainty of the market, were directed in particular towards short-term investments: repurchase agreements rose during the year by 1.2



#### Mutual funds by type

	31/12/2001 %	31/12/2000 %
Equity	32.0	38.8
Balanced	15.2	19.0
Bond	52.8	42.2
<b>Total Group mutual funds</b>	<b>100.0</b>	<b>100.0</b>

billion Euro (+15%), commercial paper by around 1 billion Euro (+33.2%) and current accounts and deposits by 0.3 billion Euro (+0.6%).



Within medium- and long-term funding, the outflow of certificates of deposit continued, down 6.1% from the end of 2000, while there were signs of recovery in the bond sector, with year-on-year growth of 4.2%. In line with the funding policies adopted by the Bank, two Tier II subordinated bonds were also issued for a total of 0.5 billion Euro; subordinated liabilities, not included in customer deposits, rose to 5.6 billion Euro (+8.7%).

The Group's share of the domestic market for direct customer deposits came to 8.4% at the end of 2001.

### Loans to customers

At the end of 2001 the amount of loans to customers, excluding net non performing loans and loans to SGA, the company into which Banco di Napoli's doubtful loans were transferred, were 94.1 billion Euro, showing a fall in the 12 months of 0.9%.

#### Direct customer deposits

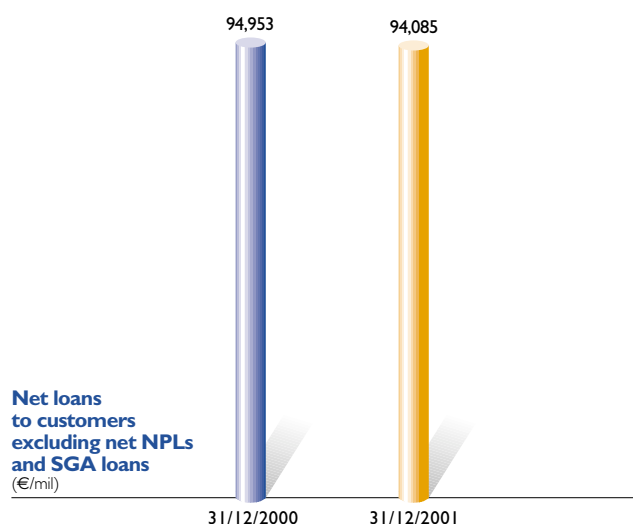
	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Current accounts and deposits	53,724	50.3	53,396	51.3	+0.6
Certificates of deposit	8,346	7.8	8,888	8.5	-6.1
Bonds	27,695	25.9	26,589	25.5	+4.2
Commercial paper	4,137	3.9	3,107	3.0	+33.2
Repurchase agreements and securities lending	9,133	8.6	7,944	7.6	+15.0
Other deposits	3,749	3.5	4,220	4.1	-11.2
<b>Direct customer deposits</b>	<b>106,784</b>	<b>100.0</b>	<b>104,144</b>	<b>100.0</b>	<b>+2.5</b>

#### Loans to customers

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Short-term loans	38,652	39.8	41,438	42.0	-6.7
Medium- and long-term loans	55,433	57.1	53,515	54.2	+3.6
<b>Loans to customers excluding net NPLs and SGA loans</b>	<b>94,085</b>	<b>96.9</b>	<b>94,953</b>	<b>96.2</b>	<b>-0.9</b>
Net non-performing loans	930	1.0	1,015	1.0	-8.4
SGA loans	2,041	2.1	2,738	2.8	-25.5
<b>Loans to customers</b>	<b>97,056</b>	<b>100.0</b>	<b>98,706</b>	<b>100.0</b>	<b>-1.7</b>

Within this total, medium- and long-term loans were the more active component, showing an annual growth of 3.6%. In this field good progress in lending to the retail sector continued: mortgages disbursements by the Sanpaolo Network to households were 1.7 billion Euro in 2001, up by 8% on the previous year.

In an economic context of persistent weakness, short-term loans, which saw a rapid expansion in 2000, largely in connection with extraordinary corporate finance deals on the part of large Italian groups, fell by 6.7% in 2001; this outflow also took place mainly towards the end of the year, following the repayment of certain very large loans.



### Loans to customers by counterparty

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Loans to households	15,489	16.0	14,736	14.9	+5.1
Loans to family businesses and non-financial companies	54,977	56.6	55,895	56.6	-1.6
Loans to financial companies	13,669	14.1	14,765	15.0	-7.4
Loans to governments and public bodies (1)	12,535	12.9	12,756	12.9	-1.7
Other	386	0.4	554	0.6	-30.3
<b>Loans to customers</b>	<b>97,056</b>	<b>100.0</b>	<b>98,706</b>	<b>100.0</b>	<b>-1.7</b>

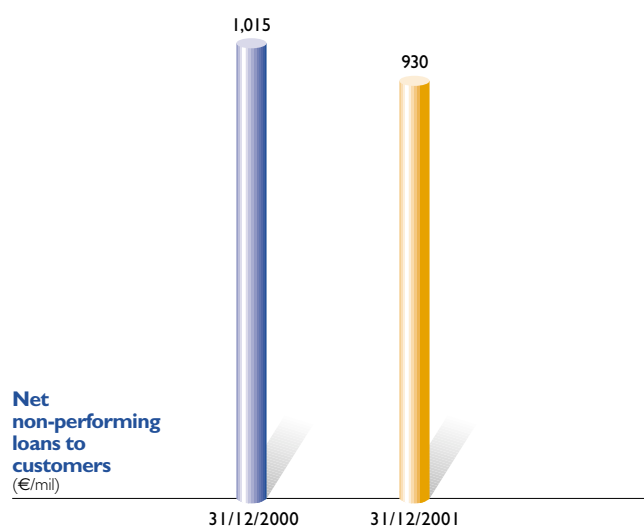
(1) Excluding Banca OPI's loans to municipalized companies (included among loans to financial companies).

### Loans to customers by type of lending

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Loans to households	15,489	16.0	14,736	14.9	+5.1
- Domestic network	14,299	14.8	13,534	13.7	+5.7
- overdraft	1,148	1.2	1,178	1.2	-2.5
- personal loans	934	1.0	900	0.9	+3.8
- mortgage loans	11,571	11.9	10,898	11.0	+6.2
- other	646	0.7	558	0.6	+15.8
- Foreign network	1,190	1.2	1,202	1.2	-1.0
Loans to family businesses, companies, governments, public bodies and others	81,567	84.0	83,970	85.1	-2.9
- Domestic network	69,035	71.1	70,434	71.4	-2.0
- overdraft	9,028	9.3	9,981	10.1	-9.5
- repurchase agreements	2,567	2.6	2,193	2.2	+17.1
- import/export financing	2,183	2.2	2,234	2.3	-2.3
- leasing	2,082	2.1	1,753	1.8	+18.8
- mortgage loans	32,985	34.1	33,209	33.7	-0.7
- other	20,190	20.8	21,064	21.3	-4.1
- Foreign network	12,532	12.9	13,536	13.7	-7.4
<b>Loans to customers</b>	<b>97,056</b>	<b>100.0</b>	<b>98,706</b>	<b>100.0</b>	<b>-1.7</b>

As regards customer economic segments, the most dynamic trend in 2001 was shown by loans to households (+5.1%).

It should also be mentioned that the current economic and political international crisis - the events of 11 September in particular - hit certain sectors more than others, above all air transport, tourism and hotels, entertainment and insurance. Total Group exposure to these sectors is 3% of the total loan portfolio, with almost half of them being counterparts in the insurance sector which have maintained a high level of lending quality. The telecommunications sector, which has attracted particular attention from the market over the last 12-18 months, constitutes 4.2% of total exposure in terms of loans and guarantees; its weight was reduced substantially during the course of the year.



It should also be remembered that the Group has a high degree of coverage for the risks related to current exposures; at the end of 2001, the reserve set aside to cover the risk inherent in performing loans represented 0.75% of total cash loans.

With reference to the operations of Group banks in Italy, the trend in loans was substantially uniform in the various geographical areas; the trend in loans to customers resident in Central Italy was slightly above average, mainly due to loans granted to the public sector.

The Group's share of the domestic market for customer loans at the end of 2001 was 8.4%.

Finally, it should be noted that loans granted by the Group's foreign network fell by 6.9% during the year.

### Doubtful loans

The Group's net doubtful loans at the end of 2001 amounted to 1,948 million Euro, 209 million less than at the end of 2000 (-9.7%). This positive trend was achieved by SANPAOLO IMI in a variety of ways: maintaining rigorous loan authorization criteria, intensive efforts devoted to debt recovery, and recourse to extraordinary operations. Among these the completion, in May, of a non-recourse sale of non-performing loans with a book value of about 110 million Euro and the sale, in July, of 100% of Sanpaolo Immobiliare, the company that handled the non-performing mortgage loans acquired without recourse from the Parent Bank in 1994, which led to a reduction in net non-performing loans of 45 million Euro, should be noted.

### Analysis of loan portfolio

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Non-performing loans	930	1.0	1,015	1.0	-8.4
Problem, restructured and in course of restructuring loans	928	1.0	982	1.0	-5.5
Loans to countries at risk - customers	32	0.0	106	0.1	-69.8
Performing loans	95,166	98.0	96,603	97.9	-1.5
<b>Total loans to customers</b>	<b>97,056</b>	<b>100.0</b>	<b>98,706</b>	<b>100.0</b>	<b>-1.7</b>
Non-performing and problem loans - banks	1		1		-
Loans to countries at risk - banks	57		53		+7.5

In further detail, within customer loans, net non-performing loans fell at the end of December 2001 to 930 million Euro, a decrease of 85 million Euro from the start of the year; the ratio of net non-performing loans to net loans to customers remained at 1%. At the end of 2001, the Group's non-performing loans coverage ratio was 75%, taking fiscal write-offs into account.

Problem, restructured and in course of restructuring loans came to 928 million Euro, down by 54 million Euro on the beginning of the year; taking account of fiscal write-offs, the coverage ratio was 28.1%.

The reduction in non-guaranteed loans to customers in countries subject to country risk was particularly significant, falling during the year from 106 to 32 million Euro; this was due above all to the repayment of loans to customers resident in Argentina, which, in net terms, at the end of the year were largely written-off.

## Activities on financial markets

### Dealing and treasury activities

The Group's securities portfolio at the end of 2001 amounted to 22.1 billion Euro, down 11.5% compared with the end of 2000. The investment element fell to 3.3 billion Euro, representing 15% of the total, compared with 26.7% at the end of last year; this decrease is principally attributable to the operational refocusing of Banco di Napoli's foreign network.

The dealing portfolio held by Banca IMI fell during the year to 7.4 billion Euro, a change of 23.4% over the year; at the end of 2001 the total balance consisted approximately 50% of government bonds and 35% of other types of bonds. Banca IMI reinforced its role as primary dealer on the more important government bond markets in Europe and consolidated its presence in Eurobonds issued by highly-rated entities.

The Parent Bank's treasury securities portfolio at the end of the year amounted to 5.7 billion Euro, an increase of 24.2% since the start of the year. The portfolio was managed with a view to generating income and to satisfy the Group's secondary liquidity needs in connection with refinancing transactions with the European Central Bank. The portfolio mix has continued to have a prevalence of government bonds: at the end of the year, CCTs and BOTs represented 60% of the total, while another 10% was accounted for by other government securities. The overall volume of securities traded by the Parent Bank amounted to 24 billion Euro; operations in repurchase agreements, used to satisfy the needs of retail and corporate customers, totalled 147 billion Euro, of which 82 billion Euro handled on the MTS/PCT platform.

Operations on the interbank market were carried out by both the Parent Bank and the subsidiaries that specialize in raising funds on foreign markets. About two-thirds of the volumes traded on the interbank market by the Parent Bank's treasury activities involved funding in Euro; a significant part of the total, 228 billion Euro, was channeled through e-Mid, an on line circuit in which the Bank has maintained a market share of around 3.6%.

### Securities, interbank position and derivatives

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Investment securities	3,308	15.0	6,671	26.7	-50.4
Dealing securities (1)	18,819	85.0	18,329	73.3	+2.7
<b>Total portfolio</b>	<b>22,127</b>	<b>100.0</b>	<b>25,000</b>	<b>100.0</b>	<b>-11.5</b>
Loans to banks	21,571		19,119		+12.8
Funding from institutional banking organizations	4,621		4,542		+1.7
Funding from other banks	23,301		25,054		-7.0
Derivatives and forward transactions in foreign currencies (at nominal value)	410,950		311,625		+31.9

(1) This item includes SANPAOLO IMI shares bought by subsidiaries as part of their securities dealing activities, for 10 million Euro as of 31/12/2001 and 42 million Euro as of 31/12/2000.

As regards medium- and long-term funding, the activity involved certain important operations which made SANPAOLO IMI one of the leading issuers on the international market in terms of volumes and investor appreciation. Total funding raised in 2001 amounted to 5.2 billion Euro, of which 4.7 billion of senior notes and 0.5 billion represented by two Lower Tier II subordinated bond issues. A fair proportion of this funding, around 3.5 billion Euro, was achieved thanks to placements on foreign markets, while a smaller portion, 1.2 billion, was placed to customers of the Sanpaolo Network. Within senior loans, the Parent Bank carried out four public issues through its affiliate, Sanpaolo IMI Bank International of Madeira, for a total of 2 billion Euro.

#### Placement and advisory business

In 2001 Banca IMI confirmed its position as Italy's leading underwriter in issues of Euro-denominated Eurobonds; during the year, the bank acted as lead manager or sole placer in 40 bond issues for a total of more than 13 billion Euro. In the area of financial institutions, the bank organized placements for Banca Antonveneta, CR Bolzano, CR Forlì and Findomestic Banca, the benchmark issues for Banca di Roma and Bear Sterns, as well as three separate issues of subordinated instruments for Banca Popolare di Milano; it also brought to market some important financing deals for corporate issuers such as Parmalat, ENEL, Reno de' Medici and Grandi Navi Veloci. In securitisation, Banca IMI organized various groundbreaking operations, such as the securitization of INPS' receivables and of public sector real estate, as well as the operation involving Mosaico Finance, the first multi-originator in Italy.

During 2001 Banca IMI confirmed its leadership position in the field of equity placements in Italy; in particular it

achieved the number one position as Global Coordinator in terms of both the number of operations and the value of the placements, with a market share of 29% and 35% respectively. The main operations included placement of the fifth tranche of ENI, IPOs for Snam Rete Gas and Juventus and increases in capital for Olivetti and Banca Popolare di Milano; as regards pan-European offerings, Banca IMI acted as lead manager in Italy Orange's for IPO.

In corporate finance the bank completed 14 operations, mainly relating to advisory services for acquisitions, sales and restructurings, as well as consultancy services for company valuation and partnership search. In particular the strong increase in cross-border activity, leading to the conclusion of some particularly important deals during the year, such as Buzzi Unicem's acquisition of a stake in Dyckerhoff and MTS's purchase of Preussag's boiler division, both in Germany, should be noted.

#### Equity investments

The Group's investments in companies that are not consolidated on a line by line basis amounted to 4.7 billion Euro at period end, a net increase of 1.1 billion Euro with respect to the beginning of the year. The main operations, which have already been commented on above, were:

- the acquisition in January from Fondazione Cassa di Risparmio di Venezia of a 10.8% stake in Cardine Banca; SANPAOLO IMI paid for the investment by giving Fondazione Cassa di Risparmio di Venezia 27.5 million of own shares, equal to 1.96% of its share capital worth 516 million Euro;
- the purchase at the end of the year of a 3.5% interest in CDC Ixis, the investment bank of the CDC Group,

#### Non-consolidated equity investments

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
<b>Investments</b>	<b>4,697</b>	<b>100.0</b>	<b>3,573</b>	<b>100.0</b>	<b>+31.5</b>
- carried at equity	982	20.9	811	22.7	+21.1
- carried at cost	3,715	79.1	2,762	77.3	+34.5
- in listed companies	1,977	42.1	2,234	62.5	-11.5
- in other companies	1,738	37.0	528	14.8	n.s.



for 323 million Euro; this operation forms part of a partnership arrangement agreed with the French group during 2001;

- the acquisition by SANPAOLO IMI and Cassa di Risparmio di Firenze of 15% and 5% respectively of Cassa dei Risparmi di Forlì, bought from Fondazione Cassa dei Risparmi di Forlì. This deal, which was completed in June, involved an outlay of 122 million Euro for SANPAOLO IMI and 41 million for Cassa di Risparmio di Firenze. A Public Offer for a further 8% of Cassa dei Risparmi di Forlì was launched in the middle of July, as envisaged in the agreements signed in November 2000; the Offer, at a price of 41.413 Euro per ordinary share and 42.246 Euro per preference share, achieved full acceptance, which meant a total outlay of 47 million Euro for SANPAOLO IMI, which gave its stake to 21%, and 15 million Euro for Cassa di Risparmio di Firenze, raising its stake to 7%;
- the acquisition, at the end of November, of 15% of Banka Koper, a bank operating in Slovenia, for an outlay of about 37 million Euro; in the same month, SANPAOLO IMI launched a Public Offer on the totality of the bank's shares. The Offer was closed on 25 February 2002 with the granting of 250,271 shares, equal to 47.1% of Banka Koper; the cost incurred in this operation amounts to 116 million Euro.

Disposals during the period amounted to 0.5 billion Euro, generating pre-tax gains of 437 million Euro. They included:

- the sale of a 6.2% interest in Montedison by NHS, the merchant bank of the SANPAOLO IMI Group, generating pre-tax capital gains of 228 million Euro;

- the sale in June of a 10.7% interest in Beni Stabili, out of the Bank's total shareholding of 14.2%; this transaction generated a capital gain of 50 million Euro;
- the sale by mid 2001 of 100% of Sanpaolo Immobiliare, the company that specializes in handling the non-performing mortgage loans acquired without recourse from the Parent Bank in 1994, making a pre-tax capital gain of 5 million Euro.

## Operating structure

### The distribution network

During 2001, the Group continued its efforts to strengthen the distribution structure, taking action along the following lines:

- development of innovative channels;
- selective growth in the branch network, accompanied by branch specialization in the prevalent customer segment;
- consolidation of the network of financial planners.

As regards innovative channels, at the beginning of March of particular importance was the Sanpaolo Network launch to customers of information and statement services through the Internet and mobile phone; at the end of the year, the number of contracts allowing private customers to operate in an integrated way using both traditional and direct channels amounted to 180,000. Also, companies and small entrepreneurs were provided with Internet services; in this context a remote light service was launched.

### Distribution network

	31/12/2001	31/12/2000	Change 31/12/01-31/12/00 (%)
<b>Banking branches and area offices</b>	<b>2,289</b>	<b>2,213</b>	<b>+3.4</b>
- Italy	2,212	2,137	+3.5
<i>of which: Parent Bank</i>	1,376	1,332	+3.3
- Abroad	77	76	+1.3
<i>of which: Banque Sanpaolo</i>	59	61	-3.3
<b>Representative offices</b>	<b>18</b>	<b>15</b>	<b>+20.0</b>
<b>Financial planners</b>	<b>5,506</b>	<b>5,495</b>	<b>+0.2</b>
<i>of which: Banca Fideuram</i>	3,795	3,782	+0.3
<i>of which: Banca Sanpaolo Invest</i>	1,494	1,488	+0.4

Group companies operating in the Personal Financial Services sector also developed their business through electronic banking, concentrating the work of the financial planner networks on activities with higher value-added. At the same time, measures were taken to reinforce the commercial capacity of the financial planner networks, also through recruiting of new experienced planners and release of those with lower potential. At the end of 2001, the SANPAOLO IMI Group had a total of 5,506 financial planners, of which 3,795 operating in Banca Fideuram and 1,494 in Banca Sanpaolo Invest.

The strengthening of the distribution structure was also directed towards the development of the Group's Italian branch networks in terms of both quantity and quality; in terms of quantity, the Parent Bank's network increased by 44 branches, bringing the total at the end of 2001 to 1,376; the Group's domestic network consists of 2,212 branches in total, of which 731 belong to Banco di Napoli, 82 to Fideuram and 23 to Finconsumo Banca. Of these, 45.6% operate in the North West of Italy, 36.8% in the South and Islands, 11.6% in the Centre and the other 6% in the North East.

The objective of reinforcing the quality of the network was pursued by the Sanpaolo Network adopting a new organizational model geared to specialize each branch in the prevalent customer segment: households and small entrepreneurs on the one hand, and small- and medium-sized companies on the other; in particular, at the end of the year 35 business centers were operational.

Retail customers were also serviced through the Parent Bank's network of ATMs and POS terminals, which at the

end of the year included 1,893 automatic Bancomat tellers and 21,440 POS terminals; Banco di Napoli's automated structures at the same date consisted of 909 Bancomat and 9,879 POS terminals. As for corporate customers, at the end of 2001, the Parent Bank had 38,731 remote banking links, while Banco di Napoli had 2,094.

The Group operates abroad with a network of 77 branches, of which 59 belonging to the French subsidiary Banque Sanpaolo, and 18 representative offices.

### Personnel

Group personnel at the end of the year consisted of 35,028 employees, 701 fewer than at the end of the previous year.

The Parent Bank's personnel was more or less stable, with a net increase over the year of 9 people, the result of 658 new hires and 649 resignations; Banco di Napoli saw a decrease of 998 employees, of which around 300 due to the disposal of subsidiary companies during the course of the year; overall, the personnel at other Group companies increased by 288 people.

This is the result of the following:

- on the one hand, staff rationalization, also obtained through the prosecution of programs of voluntary incentive retirement: in 2001 these concerned around 300 employees of the Parent Bank and 500 of Banco di Napoli;
- on the other, implementation of the plans of commercial development in sectors with higher earnings potential, such as Wealth Management and Personal Financial Services.

### Distribution network in Italy as of 31/12/2001

	Parent Bank		Banco di Napoli		Other (1)		TOTAL	
		%		%		%		%
North-West (Piedmont, Val d'Aosta, Lombardy and Liguria)	963	70.0	4	0.5	42	40.0	1,009	45.6
North-East (Veneto, Trentino Alto Adige, Friuli Venezia Giulia and Emilia Romagna)	108	7.9	1	0.1	23	21.9	132	6.0
Centre (Tuscany, Marches, Umbria, Lazio, Abruzzo and Molise)	127	9.2	107	14.7	23	21.9	257	11.6
South and Islands (Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia)	178	12.9	619	84.7	17	16.2	814	36.8
<b>Banking branches and area offices in Italy</b>	<b>1,376</b>	<b>100.0</b>	<b>731</b>	<b>100.0</b>	<b>105</b>	<b>100.0</b>	<b>2,212</b>	<b>100.0</b>

(1) Includes the networks of Banca Fideuram (82 branches) and Finconsumo Banca (23 branches).

As regards human resources management, remuneration policies were increasingly based on the use of various forms of incentives linked to objectives. This has made it

possible to achieve greater flexibility, reducing the weight of the fixed components of payroll and cooling down the overall growth in personnel costs.

### Personnel

	31/12/2001		31/12/2000		Change 31/12/01-31/12/00 (%)
		%		%	
Period-end headcount	35,028	100.0	35,729	100.0	-2.0
- executives (1)	649	1.9	542	1.5	n.s.
- managers (1)	11,946	34.1	11,480	32.1	n.s.
- other employees	22,433	64.0	23,707	66.4	-5.4

(1) The distinction between executives and managers at 31/12/2001 follows the changes in the staff organization introduced by the National Collective Labour Contract for the banking sector. The comparison with the previous periods is therefore inconsistent.

## Capital and reserves

### Net shareholders' equity

Group shareholders' equity at 31 December 2001 was 8,182 million Euro, net of own shares held by the Parent Bank. Movements during the year were as follows:

<i>Movements in Group shareholders' equity</i>	<i>€/mil</i>
<b>Net shareholders' equity at 1 January 2001</b>	<b>7,353</b>
<b>Decreases</b>	<b>-787</b>
- Dividends	-787
<b>Increases</b>	<b>1,616</b>
- Capital	1
- Share premium reserve	4
- Provision for general banking risks	1
- Exchange and other adjustments	4
- Decrease in own shares held by the Parent Bank	403
- Net income for the year	1,203
<b>Net shareholders' equity at 31 December 2001</b>	<b>8,182</b>

The increase of 1 million Euro in equity capital and of 4 million Euro in the share premium reserve followed the subscription of 422,916 shares at a unit price of 12.396 Euro by Group senior managers, as part of the stock option plan explained below.

### Own shares

Own shares held by the Group at 31 December 2001 were 17,895,967, or 1.27% of the equity capital, and were written into the balance sheet at 304 million Euro.

Movements in SANPAOLO IMI shares carried out by the Group during the year were as follows:

- at the end of 2000, the Parent Bank held 39,345,982 shares (for a nominal value of 110 million Euro), with a book value carried at cost of 697 million Euro. During the year, it bought 5,238,150 shares (15 million Euro nominal value) at a total cost of 83 million Euro, and sold 27,503,729 shares (77 million Euro nominal value) for total proceeds of 516 million Euro; the shares were sold to Fondazione Cassa di Risparmio di Venezia as part of the acquisition of a 10.8% stake in Cardine Banca. At the end of December 2001 the Parent Bank held 17,080,403 shares (48 million Euro nominal value), with a book value carried at cost of 294 million Euro (17.2 Euro per share);
- at the end of 2000 the subsidiary Banca IMI held 2,437,400 shares as part of its institutional dealing activity (7 million Euro nominal value) carried at a market value of 42 million Euro. During 2001, it bought 39,473,663 shares (111 million Euro nominal value) at a total cost of 523 million Euro, and sold 41,095,499 shares (115 million Euro nominal value) for total proceeds of 540 million Euro. At 31 December 2001 Banca IMI held 815,564 shares (2 million Euro nominal value) carried at a market value of 10 million Euro.

On 15 March 2002, the Group held 35,435,076 SANPAOLO IMI shares, or 2.5% of the equity capital, with a book value of 510 million Euro. The increase since the start of the year reflects implementation of a plan to buy own shares on the market to service the exchange of shares as part of the merger with Cardine Banca, consistently with the policy of active capital management adopted by the Group.

### Regulatory capital and capital adequacy

At 31 December 2001, the ratio of regulatory capital to total risk-weighted assets, essentially for credit and market risks, showed a total solvency ratio of 9.5%; in particular, the market risks attributable to the Parent Bank and to other Group companies, 8 billion Euro at the end of December 2001, were almost entirely covered by Tier 3 subordinated liabilities totalling 610 million Euro.

The ratio between the Group's Tier 1 capital and total risk-weighted assets at the end of December 2001 came to 7.2%.

It should be emphasized that the Bank of Italy's tends, in line with international best practice (considering the status of "Financial Holding Company" as intended in the US regulations), to ask for capital to be maintained at levels higher than the regulatory minimums, especially in the case of large intermediaries; this is due to the systemic implications that might arise if they found themselves in difficulty and to the concentration of assets that is being caused by the processes of consolidation and privatization of the production system. As regards the SANPAOLO IMI Group, the changes in the capital structure that will take

place following the merger with Cardine and the related measures of capital management that have been taken are sufficient to ensure full alignment in the future with the new capital adequacy requirements.

#### Regulatory capital and capital adequacy (1)

	31/12/2001	31/12/2000
<b>Regulatory capital (€/mil)</b>		
Tier 1 capital	7,656	6,868
Tier 2 capital	3,552	3,257
less: prescribed deductions	-1,740	-1,259
Regulatory capital	9,468	8,866
Subordinated Tier 3 capital	610	601
Total capital	10,078	9,467
<b>Weighted assets (€/mil)</b>		
Credit risk	97,137	95,050
Market risk	8,025	8,087
Other requirements	538	513
Total assets	105,700	103,650
<b>Capital adequacy ratios (%)</b>		
Tier 1 ratio	7.2	6.6
Total capital ratio	9.5	9.1

(1) The ratios reflect the Bank of Italy's regulatory clarifications made in its technical note of 3 August 2001.

# Risk management and control

## Basic principles

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

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

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

The Parent Bank also carries on general functions of risk management and control and takes risk-acceptance decisions in the case of particularly large risks, with the support of the Risk Management unit.

The Business Areas that generate credit and/or financial risks are all assigned maximum powers of approval and each has its own control structure.

## Financial risk management and control

### The organizational arrangement

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

The Group Financial and Market Risk Committee is responsible for defining the criteria and methods by which risks are measured, as well as the structure of the operating limits to be followed by the Parent Bank and its Business Areas, and for monitoring the risk profile of Group com-

panies. The Committee consists of the Managing Directors, the heads of the units that take on risks, and by the Risk Management unit.

The Risk Management unit is responsible for developing ways of monitoring corporate risk and for making proposals regarding the system of operating limits for the Bank's and the Group's various lines of business, as well as for measuring outstanding risks in the various operating units and for checking that they comply with the limits laid down by the Board of Directors and the Executive Committee.

The individual Business Areas are responsible for measuring their financial risks, applying a system of limits in line with the overall scheme approved by the Parent Bank.

### The measurement techniques used

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

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

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

Sensitivity analysis quantifies the change in value of a financial portfolio following adverse movements in risk factors. An adverse movement as regards interest rate risk is defined as a parallel and uniform shift of 100 basis points in the interest rate curve.

The Worst Case Scenario method measures the maximum potential loss, which is the worst possible economic result of those obtained in various hypothetical scenarios, built in such a way as to represent a significant shock to current market parameters on the basis of a holding period of one day and accumulating the losses deriving from the various risk factors in absolute value. The principle underlying the determination of the shocks to be assigned to the risk factors is to ensure a high degree of prudence; indeed, the objective is to quantify and limit the maximum potential loss that could emerge in extreme market conditions.

### Financial risks from lending business

The financial risks generated by the Group's lending activity (Asset and Liability Management) are monitored by means of sensitivity analysis, together with VaR measurement.

During 2001, the potential loss on the fair value of the Bank's loan book, measured according to the sensitivity analysis technique, showed an average of 169 million Euro, with a low of 120 and a high of 239 million Euro; the increase in value during the year, based on the same scope of consolidation, relates to management's policy of maximising the fair value of the loan book in relation to expected interest rate scenarios.

#### Sensitivity analysis – lending

	2001 (€/mil)	2000 pro forma (1) (€/mil)
Average	168.8	143.6
Low	120.1	20.0
High	239.2	266.0
31 December	239.2	88.8

(1) Including Banco di Napoli's figures from 1/1/2000.

The VaR of the lending business fluctuated during 2001 around an average of 96 million Euro, coming in at the end of December at 115 million Euro.

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

#### Equity investments in non-Group listed companies

At the end of December, the market value of equity investments in quoted companies not consolidated line by

line or at net equity amounted to 2,111 million Euro at year-end prices, of which 382 million was held by NHS, the merchant bank 51% controlled by SANPAOLO IMI. The market value of these equity investments showed potential net capital gains on book value of 22 million Euro, after deducting minority interests in NHS.

The monitoring of market risk of the shareholding portfolio (whose values do not have a direct impact on the Group's income statement because of the cost accounting used) is measured through VaR.

During 2001 the average VaR for minority investments in quoted companies, net of minority interests in NHS, came to 266 million Euro, with a low of 215 and a high of 326 million Euro, which was reached during the fourth quarter following a sharp increase in the volatility of share prices. At the end of December 2001, VaR came to 297 million Euro, compared with 312 million Euro at the end of 2000.

#### VaR of listed shareholding portfolio

	2001 (€/mil)	2000 (€/mil)
Average	266	228
Low	215	189
High	326	312
31 December	297	312

#### Trading activities

Trading activities, mainly in securities (fixed-interest and equities), exchange rates and derivative contracts are measured.

The VaR of the trading activities, which are performed by the subsidiary Banca IMI, oscillated during 2001 between a

#### VaR - trading by type of risk

	2001				2000	
	31 December (€/mil)	Average (€/mil)	Low (€/mil)	High (€/mil)	31 December (€/mil)	Average (€/mil)
Interest rate risk	5.5	2.5	0.1	7.1	2.1	4.2
Exchange rate risk	0.5	0.5	0.0	3.0	0.1	0.2
Share price risk	3.9	6.7	2.1	18.5	15.7	12.7
Diversification effect	-3.0	-2.2	n.s.	n.s.	-2.2	-3.4
<b>Total</b>	<b>6.9</b>	<b>7.5</b>	<b>3.1</b>	<b>18.5</b>	<b>15.7</b>	<b>13.7</b>

low of 3.1 million Euro and a high of 18.5 million Euro, with an average of 7.5 million Euro, which is down on the previous year.

In addition to VaR, the Worst Case technique is also used to monitor the impact of potential losses that might arise in extreme circumstances. The trend in the maximum potential daily loss has shown figures oscillating around the yearly average of 41.7 million Euro, in line with the previous year.

Backtesting has shown the prudence of these measurement techniques are very prudent; in no case was the ex ante potential daily exposure, in terms of VaR and maximum Potential loss, exceeded by the losses actually incurred.

## Credit risk management and control

### The organizational arrangement

The Group is organized so as to maximize the efficiency of the credit risk management and control process by

means of:

- the allocation of precise responsibilities for the management of credit risk to the individual Business Areas;
- the separation of credit risk management from credit risk control.

SANPAOLO IMI has laid down lines of conduct to be followed when taking on credit risk; these rules are to be applied throughout the Group. They provide for approval levels defined in terms of Group exposure to a particular counterparty and principally differentiated according to the counterparty's rating (internal or an agency rating). The first approval level is that of the Business Areas and the subsidiaries, which in turn define the approval limits to be delegated to the network. Transactions in excess of these limits have to be submitted to the Parent Bank's Decision-Making Bodies, which consist of (in rising order) the Group Loans Committee (composed of the Managing Directors and the heads of the loan functions and the Risk Management unit), the Executive Committee and the Board of Directors.



Maximum potential daily loss in trading (€/mil)



Credit risks vis-à-vis financial institutions are all centrally monitored by the Group Financial and Market Risks Committee, which also decides on problems related to country risk.

As regards the risk control structures, the Risk Management unit is responsible for the definition, updating and testing of the measuring techniques used by the Parent Bank and by the Group as a whole, ensuring that they are constantly in line with best practice. It is also responsible for analyzing the risk profile of the Parent Bank and Group and for proposing any corrective action. Lastly, the Risk Management unit is also responsible for measuring the exposure of larger borrowers, checking the measurements carried out by the risk control units at the various Business Areas for consistency and accuracy, and preparing summary reports on changes in loan quality and on the use of economic capital by the Business Areas for the Parent Bank's top management.

The control structures operating within the individual Business Areas are responsible for measuring and monitoring their portion of the loan portfolio.

#### The measurement techniques used

SANPAOLO IMI has a series of instruments to ensure analytic control over the quality of loans to customers and financial institutions, as well as of exposures subject to country risk.

For loans to customers, various grading models have been developed. These differ according to the counterparty's size and industry sector. These models make it possible to summarize the counterparty's credit quality in a single measurement, the rating, which reflects the risk of insolvency over the next 12 months. By means of statistical calibrations, these ratings have been rendered totally comparable with the rankings of the official rating agencies, forming one overall scale of reference. Backtesting analyses carried out to date, comparing insolvency forecasts with actual defaults, have confirmed that the models used are reliable.

As regards the Sanpaolo Network's loan portfolio, i.e. households, small entrepreneurs and small- and medium-sized companies, credit quality management uses a system of classifying customers into categories, based on an evaluation by the loan supervisors, who are specifically responsible for certain matters (frequency of credit line reviews

and recovery measures). Lastly, control over credit quality uses an early warning system to identify any anomalous situations as early as possible.

For banking and financial counterparties, a scoring system has been devised which classifies financial institutions with credit lines on a scale consistent with those used by the rating agencies. The risk class constitutes the basic level of information, which is integrated by the type and duration of the transaction, as well as by any guarantees that are given. All of this leads to the setting of maximum credit limits for each counterparty. In the case of transactions covered by bank guarantees, the creditworthiness of the counterparty being guaranteed also is taken into consideration when weighting the maximum exposure.

Lastly, as regards country risk, ratings are assigned on the basis of a model that takes into consideration the views of rating agencies and other specialized institutions, market information and internal valuations.

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

SANPAOLO IMI also pays a great deal of attention to the innovative proposals concerning credit risks made by the Basle Committee for the reform of the Accord on Capital, which among other things envisages using internal ratings for calculating capital requirements. The measurement techniques used by the Group appear to be in line with the methods being proposed.

#### Credit risk

What is being measured here is all of the on- and off-balance sheet credit exposures. This analysis, which was initially applied to the Parent Bank's loan book, has been gradually extended to the main subsidiaries that take on credit risk, namely Banco di Napoli, Banca OPI, Sanpaolo IMI Bank Ireland and Sanpaolo Leasint. The loan book analyzed represents more than 90% of the Group's risk-weighted assets.

Analytical ratings are available for 80% of the counterparties contained in the loan portfolio, in terms of exposure.

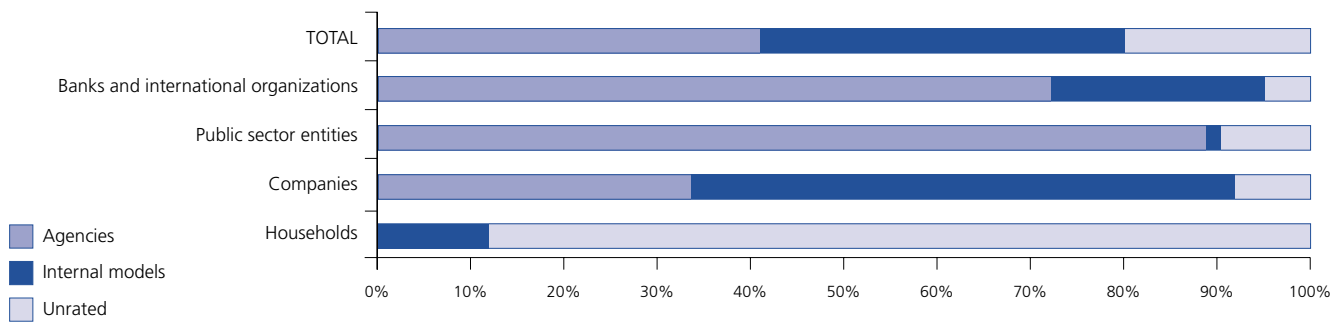
Unrated counterparties that have been given a rating based on the average probability of insolvency are concentrated in the households sector; analytical ratings cover more than 90% of counterparties in other sectors.

As regards the analytical ratings, just over half of them have been produced by specialized rating agencies, while the rest are internal ratings; the latter are by large the prevailing ones in the corporate sector.

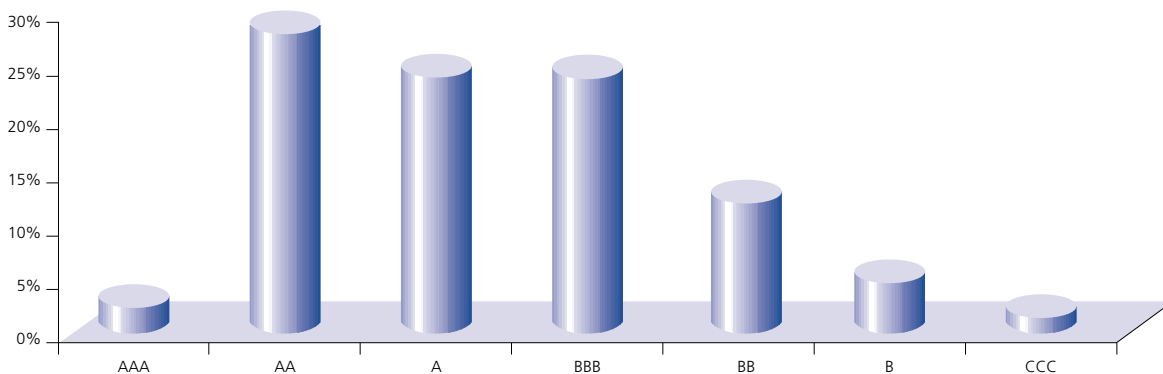
Customer loans that have been assigned an analytical rating, which are the main reference population for the cred-

it risk management model, are showing a high level of asset quality: more than 75% of loans are rated investment grade (from AAA to BBB), a proportion that remained more or less stable throughout the year.

The economic capital against loans to customers, including country risk, came at the end of the year to 3,460 million Euro, which is equal to 3.53% of drawdowns, down 13 basis points compared with December 2000. 70% of total capital is allocated to the Sanpaolo Network, Banco di Napoli and Sanpaolo Leasint, while the remainder is split between Corporate and Banca OPI,



Drawn down loan portfolio by rating source (%)



Drawn down loan portfolio by level of rating (%)

which both have a lower risk profile because of the type of business they are in.

**Management and control of other risks**

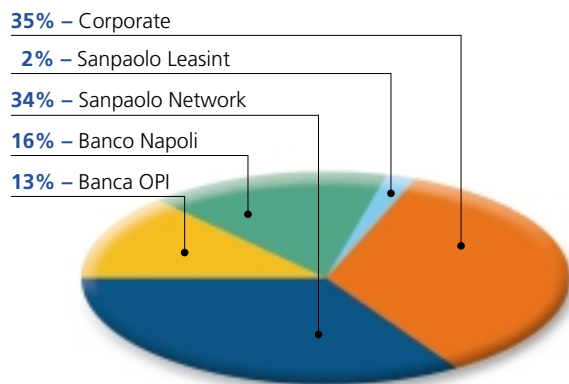
SANPAOLO IMI also considers two other types of risk in its models: operational risk and business risk.

Operational risk is defined as the risk of incurring losses as a result of four macro categories of events: fraud, legal risks (including non-performance of contractual obligations), weaknesses in internal control or information systems, and natural calamities. A database of significant events that took place in the last ten years has been used for each category, from which it is possible to identify the impact in terms of losses from public sources of information. The empirical distributions of losses calculated in this way are estimated by means of distribution theories according to the extreme value theory. The capital at risk is identified as the minimum measurement, net of any insurance cover, that is needed to cope with the maximum potential loss with a confidence level of 99,95%; this technique also provides for the application of a correction factor to take account of the effectiveness of internal controls in the various operating areas.

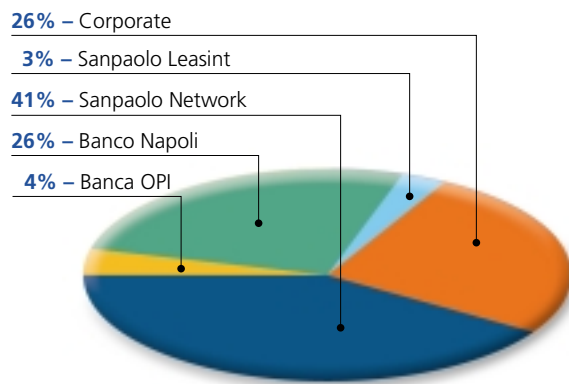
It should be mentioned that this method was developed in order to allocate to the Business Areas and to the Group as a whole a quantity of capital consistent with the likelihood of these types of events. Operating risks are controlled by defining internal rules and procedures and having the Internal Audit department check that they are complied with.

Further refinements are currently being made on this subject, which principally concern extending external data bases, building internal data bases, developing more advanced statistical calculation engines, using exposure indicators and the economic effect that follows the effectiveness and intensity of internal controls.

Of particular importance is the Group's participation in cooperative initiatives to share data on operational losses and exposure indicators; this activity has been developed at a national level by helping to set up the DIPO (Database Italiano delle Perdite Operative - Italian Database of Operational Losses) Consortium and at an international level by acting as a founder member of the new ORX (Operational Risk eXchange) Consortium; both of these consortiums have been set up by leading national and international banking groups to gather, process and distribute information on operational risks.



Loans and guarantees by Business Area



Capital against credit risk by Business Area

These developments are in line with the best practices being put out by the international taskforces working on these subjects, which see SANPAOLO IMI as an active participant; they are also consistent with the indication made by the Basle Committee in its proposed revision of the Accord on Capital, which envisages the introduction of a specific capital charge for operational risks.

Business risk, also known as strategic risk, is the risk of incurring losses as a result of changes in the macro- or

micro-economic scenario which could jeopardize the ability to generate income, typically by reducing the volume of operations or compressing margins.

It is evaluated by breaking down the activity of the Business Areas, on the basis of their respective cost and revenue structures, into fundamental “industrial” business sectors (e.g. EDP, consulting, distribution, etc.). The Business Areas are then allocated a level of capitalization in line with the norm for companies operating in the same type of activity.

## Supplementary information

### Performance of share prices

At the end of December 2001, the price of SANPAOLO IMI share was 12.041 Euro; this was 30.3% down on the start

of the year, compared with a reduction of 31.2% in the MIB bancario. On the same date, SANPAOLO IMI share traded on a price/book value of 2.2 and a price/earnings, calculated on consensus earnings in 2002, of 13.8.

On 22 March 2002, the price was 13.333 Euro, 10.7% up on the start of the year.

### Market comparison

	22/3/2002	28/12/2001	29/12/2000	Change 28/12/01- 29/12/00 (%)
SANPAOLO IMI share price (€) (1)	13.333	12.041	17.269	-30.3
Banking index (historical MIB bancario)	2,541	2,371	3,444	-31.2

### SANPAOLO IMI share price (1)

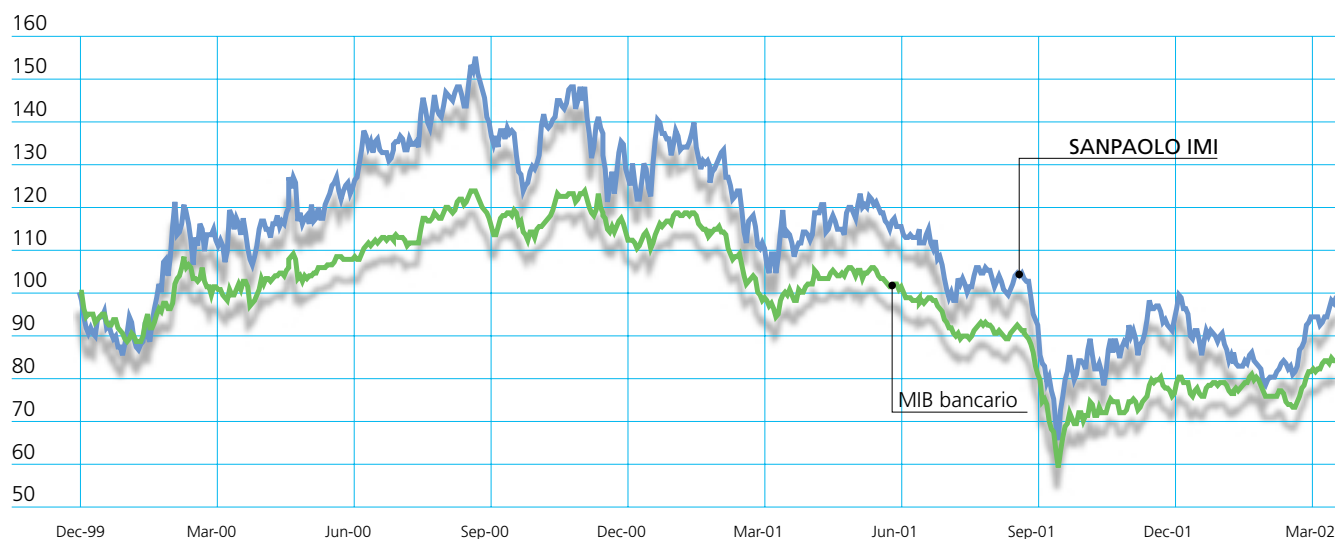
Year	High (€)	Low (€)	Average (€)
1995	5.118	4.025	4.577
1996	5.269	4.236	4.766
1997	8.800	4.564	6.275
1998	16.274	8.717	12.429
1999	16.071	10.970	13.192
2000	20.800	11.483	16.612
2001	18.893	8.764	14.375
2002 (until 22/3/2002)	13.333	10.548	11.685

### SANPAOLO IMI market indices

	28/12/2001	29/12/2000
Price/book value	2.2	3.0
Price/earnings on consensus earnings (2)	13.8	17.3

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

(2) Calculated on consensus earnings 2002 for 28/12/2001 and on consensus earnings 2001 for 29/12/2000.



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

## Shareholders

At 31 December 2001 the shareholder structure of SANPAOLO IMI, based on available information, was as follows:

<i>Shareholders of SANPAOLO IMI</i>	%
Compagnia di San Paolo	16.13
Santander Central Hispano	6.48
Monte dei Paschi di Siena	6.15
IFI / IFIL	4.98
Fondazione Cariplo	2.77
Ente Cassa di Risparmio di Firenze	2.57
Caisse des Dépôts et Consignations (CDC)	2.04
Società Reale Mutua di Assicurazioni	2.00
Fondazione Cassa di Risparmio di Venezia	1.96
Other shareholders (1)	54.92
<b>Total</b>	<b>100.00</b>

(1) Includes own shares held by the Group.

## Ratings

During 2001 there were no changes in the ratings assigned to SANPAOLO IMI's debt.

### *SANPAOLO IMI debt ratings*

Fitch	
• Short-term debt	F1+
• Medium/long-term debt (senior)	AA-
Rating and Investment Information (Japan)	
• Medium/long-term debt (senior)	AA
Moody's Investors Service	
• Short-term debt	p-1
• Medium/long-term debt (senior)	Aa3
Standard & Poor's	
• Short-term debt	A-1
• Medium/long-term debt (senior)	A+ outlook positive

Concerning Group companies, Moody's and Standard & Poor's rated Banca OPI's debt during 2001, giving it the same ratings as SANPAOLO IMI.

## Transactions with Group companies and related parties

Transactions between companies belonging to the SANPAOLO IMI Group form part of the normal operations of the Group, which is organized into a series of subsidiary and associated companies which handle specific lines of business.

The description of the most important transactions with Group companies and related parties, from a financial, economic and balance sheet point of view, are given in the pertaining sections of the Reports on Operations of the Group and of the Bank and in their respective Explanatory Notes.

Assets, liabilities, guarantees, revenues and charges in relation to Group companies and companies subject to significant influence outstanding at 31 December 2001 are detailed in Section 3, Part B of the Explanatory Notes to the Bank's financial statements, while the dividends relating to these companies are shown in Section 6, Part C of the same Explanatory Notes.

Transactions with Group companies and related parties as defined in the Consob Communications dated 20 February 1997, 27 February 1998 and 6 April 2001 form part of the Bank's normal operations and are conducted at market conditions, on the basis of valuations of mutually beneficial conditions. Note that:

- all significant transactions between the Parent Bank and Group companies or with related parties are approved by the Board of Directors;
- except as mentioned elsewhere in this Report on Operations in connection with agreements with Compagnia di San Paolo for the transfer of equity investments, none of the transactions with Group companies or related parties during 2001 could be considered atypical or unusual. These types of transactions, which have been identified on the basis of Consob's guidelines contained in the Communication dated 6 April 2001, are those which in terms of materiality/importance, nature of the counterparties, object of the transactions, method of determining the transfer price or conclusion close to the year end could lead to doubts about the fairness/completeness of the information provided in the

financial statements, possible conflicts of interest, custody of the company's assets and the protection of minority shareholders.

As regards transactions with subjects carrying on functions of administration, management and control of the Bank or of Group companies, art. 136 of D. Lgs. 385/93 (Testo Unico Bancario) applies; accordingly, such transactions have to be unanimously approved by the Board of Directors with the consent of all the Statutory Auditors, applying the normal rules on abstentions. The same procedure also applies to those who carry on functions of administration, management and control at a bank or company belonging to the Group for transactions carried out with the same company or with another company or

bank belonging to the Group. In such cases, transactions have to be approved by the Board and Statutory Auditors of the contracting company or bank, with the Parent Bank's consent.

Section D of the Explanatory Notes to the financial statements lists, in addition to their remuneration, any loans and guarantees granted to the Directors, Statutory Auditors and General Managers of the Parent Bank.

The following table gives details of the shares of the Parent Bank and of subsidiaries held by Directors, Statutory Auditors and General Managers of the Parent Bank and others as per art. 79 of Consob Resolution no. 11971 dated 14 May 1999:

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

Name	Company	How held	Title to shares	Shares held on 31/12/00	Shares bought during 2001	Shares sold during 2001	Shares held on 31/12/01
Arcuti Luigi	SANPAOLO IMI	Direct	Full	46,857	3,000	-	49,857
		Spouse	Full	3,657	-	-	3,657
Carmi Alberto	SANPAOLO IMI	Spouse	Full	10,000	-	-	10,000
Iozzo Alfonso	SANPAOLO IMI	Direct	Full	7,087	-	-	7,087
Masera Rainer	SANPAOLO IMI	Direct	Full	30,000	150,916	16	180,900
		Spouse	Full	-	27,500	-	27,500
Matutes Abel	SANPAOLO IMI	Subsidiary	Full	761,517	-	-	761,517
Mihalich Iti	SANPAOLO IMI	Direct	Full	-	8,000	2,000	6,000
Ottolenghi Emilio	SANPAOLO IMI	Direct	Full	310,000	10,000	-	320,000
		Subsidiary	Full	4,110,000	-	-	4,110,000
		Spouse	Full	4,000	-	-	4,000
Pasteris Carlo	SANPAOLO IMI	Direct	Joint	1,500	500	1,250	750
Rayneri Alessandro	SANPAOLO IMI	Subsidiary	Full	11,000	4,000	-	15,000
Salza Enrico	SANPAOLO IMI	Direct	Full	500	-	-	500
		Spouse	Full	-	1,250	-	1,250
Sclavi Antonio	SANPAOLO IMI	Direct	Full	750	-	-	750

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

## Stock option plans

The Shareholders' Meeting held on 31 July 1998 authorized the Board of Directors to introduce stock option plans in favor of Group managers, making use of paid increases in capital for up to 40 million Euro, as subsequently defined, equal to 14,285,714 shares.

In accordance with this mandate, as explained in greater detail in the 2000 Annual Report, the Board of Directors:

- at the meeting held on 9 February 1999 launched a first plan, assigning to the Managing Directors, as General Managers, and 56 other top managers a total of 6,772,000 rights, a third of which could be exercised from 2000, a third from 2001 and the other third from 2002 and not beyond 31 March 2003, at a subscription price of 12.396 Euro per share;
- at the meeting held on 27 June 2000, launched a second plan, assigning to the Managing Directors, as General Managers, and 122 other top managers a total of 3,378,270 rights, which could be exercisable from 2003

and not beyond 31 March 2005, at a subscription price of 16.45573 Euro per share.

On 18 December 2001 the Board of Directors approved a third stock option plan, which is structured as follows:

- beneficiaries: 171 Group top managers, around 40 of whom are employed by subsidiaries, depending on the position that they fill;
- rights assigned: 4,030,000 residual rights not yet assigned from the 14,285,714 rights included in the mandate granted by the Shareholders' Meeting to the Board of Directors;
- exercising rights: after payment of the dividend for 2003 and not beyond 31 March 2006; it is possible to exercise these rights in four periods during the year, each of 25 days, following approval of the Group's quarterly results;
- subscription price: 12.7229 Euro, which is the SANPAOLO IMI stock's average price for the month prior to the resolution approving the plan;
- restrictions: exercising rights is subject to restrictions and cancellations, which are detailed in the stock option plan

### Development of stock option plans in 2001

	Number of shares	Average exercise price (€)	Market price (€)
(1) Rights existing at 1/1/2001	8,227,020	14.06305	17.269 (a)
(2) New rights assigned in 2001	4,030,000	12.7229	11.860 (b)
(3) Rights exercised in 2001	-422,916	12.396	15.675 (c)
(4) Rights lapsed in 2001 (d)	-180,000	-	-
(5) Rights existing at 31/12/2001	11,654,104	13.66497	12.041 (e)
(6) Of which: exercisable at 31/12/2001 (f)	-	-	-

(a) Reference market price at 29/12/2000.

(b) Reference market price at 19/12/2001, first day after the date of the resolution of the Board of Directors.

(c) Average market price weighted for amounts exercised in market days during the "2001 exercising periods".

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

(e) Reference market price at 28/12/2001.

(f) No rights were exercisable at 31/12/2001 in that the date is not included in the infra-annual periods when rights may be exercised. At 31/12/2001, 2,048,501 residual rights for exercise (at a price of 12,396 Euro) in 2001 existed; there rights will again be exercisable from 2002.

### Detail of rights by exercise price and remaining validity

Exercise price (€)	Rights assigned at 31/12/2001				of which: exercisable at 31/12/2001	
	Minimum remaining contractual validity			Total	Total	Average remaining contractual validity
	February 2002 - March 2003	May 2003 - May 2004	May 2004 - March 2006			
12.396	4,305,834	-	-	4,305,834	-	-
16.45573	-	3,318,270	-	3,318,270	-	-
12.7229	-	-	4,030,000	4,030,000	-	-
<b>Total</b>	<b>4,305,834</b>	<b>3,318,270</b>	<b>4,030,000</b>	<b>11,654,104</b>	<b>-</b>	<b>-</b>



regulations; such restrictions relate to the transferability of the rights and the role of the beneficiaries in the organization.

The rights exercised during the course of 2001 entailed an increase in capital of 1 million Euro and the booking of a share premium reserve of 4 million Euro, as a result of the subscription of 422,916 shares at a price of 12.396 Euro each. It should be noted that the rights exercised up to 31 December 2000 had entailed an increase in capital of 5 million Euro and in the share premium reserve of 18 million Euro. If the rights assigned and not yet exercised were to be exercised, this would entail further increases in capital of 33 million Euro and the booking of share premium reserve of 127 million Euro.

In accordance with Consob Resolution no. 11971 dated 14 May 1999, it is worth noting that with reference to the 1999/2001 stock option plan, Mr. Rainer Stefano Masera exercised 123,416 rights on the Bank's shares during the year at a price of 12.396 Euro.

It should also be remembered that on 5 March 2002 the Board of Directors decided to repeat this initiative regarding management stock option plans by gradually including up to 250-300 top managers of the new Group that will result from the merger between SANPAOLO IMI and Cardine Banca, thus maintaining the structure of the Group's "total management compensation" in line with current best practice in the banking industry. To implement the stock option plan, whose working characteristics will be established by the Board from time to time, maintaining that the assignment price will be equal to the "normal fiscal value", paid increases in capital will be used, as for the other plans previously launched. A specific point is included to this end in the agenda for the Extraordinary Shareholders' Meeting.

Note that from 1 May 2001, the Bank's organizational structure no longer envisages the role of the General Managers. In accordance with a resolution passed by the Board of Directors on 30 April 2001 in connection with the pre-existing stock option plans, Mr. Masera's shift from Managing Director and General Manager to Chairman, and Mr. Maranzana's shift from Managing Director and General Manager to Managing Director have not had any effect on the rights assigned to them.

Lastly, note that with separate resolutions the Board of Directors has:

- decided in accordance with art. 15 clause 9 of the Articles of Association that the remuneration of the Chairman, Mr. Rainer Masera, and of the Managing Directors, Mr. Alfonso Iozzo and Mr. Luigi Maranzana, should be supplemented by means of a stock option plan assigning to each of them 450,000 fixed rights for the three years of their term of office (2001-2003), plus another 150,000 rights on condition that the SANPAOLO IMI stock reach a price of 20 Euro by the end of the three-year period;
- decided, also in accordance with art. 15 clause 9 of the Articles of Association, on the appointment of Mr. Pio Bussolotto as Managing Director, that his remuneration should be supplemented by means of a stock option plan assigning him 300,000 fixed rights for the two years of his term of office (2002/2003), plus another 100,000 rights on condition that the SANPAOLO IMI stock reach a price of 20 Euro by the end of the two-year period;
- approved a voluntary bonus issue of shares to employees of the Bank for an amount varying according to the individual's level of remuneration, linked to the productivity bonus. The shares will be assigned during 2002, at the time that the 2001 productivity bonus is paid.

To implement this stock option plan, a proposal will be made to the Shareholders' Meeting called to approve the 2001 Annual Report, to authorize the purchase of own shares, as foreseen in a next point on the agenda. The assignment price will be the "normal value" of the shares calculated according to current tax regulations.

### The Euro project

The conclusive stages of the Euro project were completed during 2001: information systems were upgraded for the switch from the dual-currency regime to just the Euro; then all balances with customers who had not asked for their balances to be converted in advance during the period of dual circulation ended 31 December 2001, were automatically converted to the new currency.

During the course of the year, SANPAOLO IMI also implemented a detailed plan to make all members of staff aware of what it would be like to use the Euro in practice, thus completing the training programme that began in the first stage when everyone was given a basic grounding in the new currency.

Considerable efforts were directed to the implementation of the actions aiming at preparing private customers and

companies for the Euro, giving them information and advice as to the best way to organize the change-over, both in accounting and in monetary terms. This objective was pursued by preparing brochures and fliers for companies and private customers, coordinated with advertising campaigns of institutions and banking system.

These initiatives fostered regular implementation of the complex procedures for the currency change-over during the period of dual circulation from 1 January to 28

February 2002. This operation was supported by specific coordination functions, supervising possible emergencies and maintaining links with government entities and the supervisory bodies handling the change-over nation-wide.

The charges incurred in implementing the Euro project amounted to 99 million Euro, of which 28 million booked to 2001 income statement. The residual charges still to be amortized in future years amount to 15 million Euro.

# Group Business Areas

## Organization by Business Area

A restructuring of the Group was implemented from 1 September 2001 to enable the Business Areas to focus better on their respective prevalent markets and to permit more effective supervision of the clientele. As a result of this reorganization, the Group is now structured as follows:

- Retail Banking, to handle services to households and small- and medium-sized companies; at the end of 2001, it included the Sanpaolo Network, which operates on the Italian market through the Parent Bank's 1,376 branches and the Internet, phone and mobile banking direct channels; the Banco di Napoli, which has 731 branches concentrated in the South of Italy; the Other Networks including, in Italy, the distribution networks of Cassa di Risparmio di Firenze and Cassa dei Risparmi di Forlì and, abroad, the French subsidiary Banque Sanpaolo and the Hungarian bank Inter-Europa Bank;
- Wealth Management: this Area was created in April 2001 to provide asset management products and services both to the Group's internal distribution structures (Sanpaolo Network, Banco di Napoli and Banca Sanpaolo Invest) and to institutional investors and other networks;
- Personal Financial Services, which include the distribution of financial services to households with medium-high savings potential, handled by the networks of financial planners of Banca Fideuram and Banca Sanpaolo Invest, as well as the on line trading operations developed by IMIWeb Bank;
- Wholesale Banking, which at the end of 2001 included the activities carried on by Corporate, Public Works and Infrastructure, Investment Banking and Merchant Banking.

The Group also has Central Functions that include: holding activities, treasury, *Macchina Operativa Intragruppo*, property and shareholding investment management activities.

In view of the imminent merger with Cardine, a new Group structure was introduced in March 2002 to ensure a quick achievement of the benefits following the integration.

The figures for the economic and operating results of the Business Areas are shown based on the structure with which the Group operated in the first eight months of 2001; it should be noted that this structure included, within Commercial Banking, the operations of the Italian

Branch Network (now performed by the Sanpaolo Network) and those of the foreign subsidiaries Banque Sanpaolo and Inter-Europa Bank (subsequently allocated to Other Networks).

For completeness, the Business Areas' overall results and profitability ratios for 2001 are also shown, restated on the assumption that the structure existing at the end of the year had been in place for the whole of 2001.

## Criteria to calculate the Business Areas' profitability

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

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

The capital for each Area has also been quantified according to the following criteria:

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, consolidation of the average economic capital of the Parent Bank with that of the subsidiaries has been effected. The capital is measured according to VaR, distinguishing among the different types of risk: credit risk, market risks and operational risks;

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

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

- risks in the Areas have been calculated with a confidence interval of 99.95%, in line with the rating attributed to the Group;
- risks in the Areas have been wholly covered with primary capital.

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

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, profitability has been expressed in terms of RORAC (Return On Risk Adjusted Capital) reporting the Area's contribution to net income of the Group to the relative economic capital quantified according to VaR;
- for those Areas whose business is carried out exclusively by subsidiaries, profitability has been expressed in terms of RoE (Return on Equity), reporting the Area's contribution to net income of the Group to the respective average accounting net shareholders' equity (excluding income for the year), consistently with

the principles adopted for the Group.

The data for the year 2000 are pro forma estimates; they have been prepared on the basis of the following assumptions as of 1/1/2000:

- the acquisition of control of Banco di Napoli and Wargny;
- the change in the customer profiles included in the Commercial Banking and Corporate Areas following allocation to Corporate of companies with turnover of between 250 and 500 million Euro, previously handled by Commercial Banking;
- the establishment of the Wealth Management Area;
- the transfer to Banca OPI of the public works and infrastructure activities.

The 2001 data for Wealth Management, established in April 2001, are also pro forma. The income statement has been prepared on the basis of the results of individual companies belonging to the Area appropriately adjusted.

## Results of the Business Areas

The results of the Business Areas, based on the structure that the Group used for the first eight months of 2001, are in summary the following:

Business Area	Contribution to net income of the Group			Average capital		Profitability	
	2001 (€/mil)	2000 pro forma (1) (€/mil)	Change 2001 / 2000 pro forma (%)	2001 (€/mil)	2000 pro forma (1) (€/mil)	2001 (%)	2000 pro forma (1) (%)
<b>RETAIL BANKING</b>							
Commercial Banking	412	625	-34.1	2,254	2,417	18.3	25.9
Banco di Napoli	-10	84	n.s.	1,358	1,286	n.s.	6.5
<b>WEALTH MANAGEMENT (2)</b>	213	106	+100.9	348	267	61.2	39.7
<b>PERSONAL FINANCIAL SERVICES</b>							
Banca Fideuram	173	175	-1.1	612	544	28.3	32.2
Banca Sanpaolo Invest	18	16	+12.5	93	89	19.4	18.0
IMIWeb Bank	-47	-28	+67.9	84	41	n.s.	n.s.
<b>WHOLESALE BANKING</b>							
Corporate	94	92	+2.2	892	804	10.5	11.4
Public Works and Infrastructure	69	98	-29.6	349	279	19.8	35.1
Investment Banking	34	60	-43.3	302	356	11.3	16.9
Merchant Banking	33	33	-	391	382	8.4	8.6
<b>CENTRAL FUNCTIONS</b>	214	-30	n.s.	563	182	n.s.	n.s.
<b>GROUP TOTAL</b>	<b>1,203</b>	<b>1,231</b>	<b>-2.3</b>	<b>7,246</b>	<b>6,647</b>	<b>16.6</b>	<b>18.5</b>

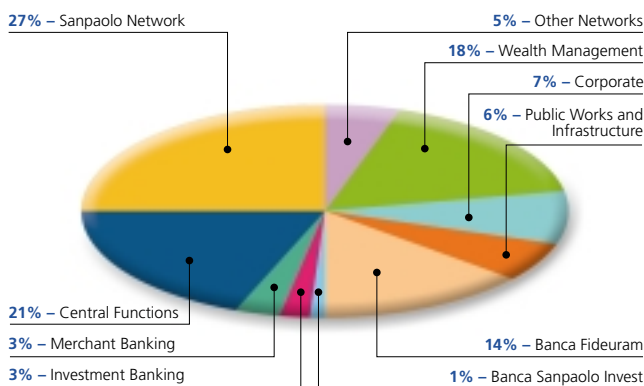
(1) The figures for 2000 are pro forma; they have been prepared to provide a consistent comparison with 2001, according to the methods explained above.

(2) The 2001 figures are pro forma as the Area was set up in April 2001. It should be noted that the net result for 2001 has benefited from lower current taxes and the posting of prepaid taxes against the recovery of prior tax losses.

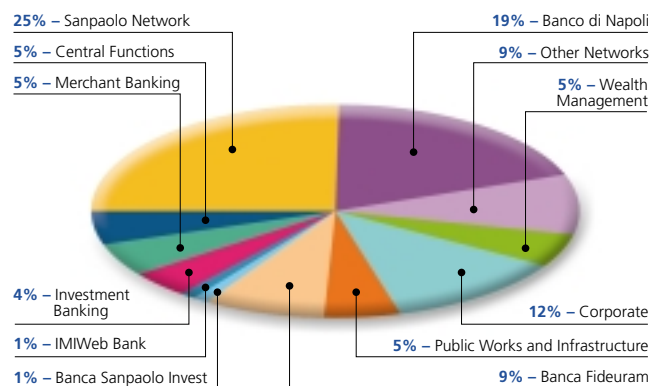
The 2001 results of the Business Areas, restated on the assumption that the structure existing at the end of the

year had been in place for the whole of 2001, are in summary the following:

Business Area	2001		
	Contribution to net income of the Group (€/mil)	Average capital (€/mil)	Profitability (%)
<b>RETAIL BANKING</b>			
Sanpaolo Network	323	1,824	17.7
Banco di Napoli	-10	1,358	n.s.
Other Networks	58	638	9.1
<b>WEALTH MANAGEMENT</b>			
	213	348	61.2
<b>PERSONAL FINANCIAL SERVICES</b>			
Banca Fideuram	173	612	28.3
Banca Sanpaolo Invest	18	93	19.4
IMIWeb Bank	-47	84	n.s.
<b>WHOLESALE BANKING</b>			
Corporate	90	892	10.1
Public Works and Infrastructure	69	349	19.8
Investment Banking	34	302	11.3
Merchant Banking	33	391	8.4
<b>CENTRAL FUNCTIONS</b>			
	249	355	n.s.
<b>GROUP TOTAL</b>	<b>1,203</b>	<b>7,246</b>	<b>16.6</b>



Net income 2001 by Business Area



Allocated capital 2001 by Business Area

## Retail Banking

### Commercial Banking

Commercial Banking, structured as it was for the first eight months of 2001, operated in Italy through the branch networks of the Parent Bank and, abroad, through the French subsidiary Banque Sanpaolo and the Hungarian bank Inter-Europa Bank.

Overall, Commercial Banking Area showed 412 million Euro of net income in 2001, 34.1% less than the previous

year; this reduction is mainly due to the decline in commission income, which led to an 8.4% decrease in net interest and other banking income. The Area's profitability, expressed in terms of RORAC, was 18.3%.

In the new Group structure in place at the end of 2001, the previous Commercial Banking Area was replaced by two autonomous Business Areas:

- the Sanpaolo Network, which operates in Italy through the Parent Bank's 1,376 branches, as well as through the Internet, phone and mobile banking direct channels; the Network is made up of two Divisions, the first

	Commercial Banking			of which: Italian Branch Network		
	2001	2000 pro forma	Change 2001 / 2000 pro forma (%)	2001	2000 pro forma	Change 2001 / 2000 pro forma (%)
<b>STATEMENT OF INCOME (€/mil)</b>						
Net interest and other banking income	3,017	3,294	-8.4	2,697	2,973	-9.3
Operating costs	-1,990	-1,904	+4.5	-1,774	-1,717	+3.3
Operating income	1,027	1,390	-26.1	923	1,256	-26.5
Provisions and net adjustments to loans and financial fixed assets	-236	-222	+6.3	-202	-197	+2.5
Income before extraordinary items	791	1,168	-32.3	721	1,059	-31.9
Net extraordinary income	-3	12	n.s.	-5	1	n.s.
Income before taxes	788	1,180	-33.2	716	1,060	-32.5
Income taxes for the period	-376	-555	-32.3	-344	-505	-31.9
Net income	412	625	-34.1	372	555	-33.0
<b>ALLOCATED CAPITAL (€/mil)</b>	2,254	2,417	-6.7	1,824	2,004	-9.0
<b>RATIOS (%)</b>						
RORAC	18.3	25.9		20.4	27.7	
Cost / Income ratio	66.0	57.8		65.8	57.8	
	31/12/2001	31/12/2000 pro forma	Change 31/12/01-31/12/00 pro forma (%)	31/12/2001	31/12/2000 pro forma	Change 31/12/01-31/12/00 pro forma (%)
<b>OPERATING DATA (€/mil)</b>						
Customer financial assets	160,879	160,185	+0.4	148,166	146,955	+0.8
- Direct deposits	36,093	33,747	+7.0	31,188	28,945	+7.7
- Asset management	69,945	71,125	-1.7	64,583	65,424	-1.3
- <i>Mutual funds and fund-based portfolio management</i>	55,824	59,629	-6.4	52,310	55,237	-5.3
- <i>Portfolio management</i>	5,169	4,848	+6.6	4,065	4,249	-4.3
- <i>Life technical reserves</i>	8,952	6,648	+34.7	8,208	5,938	+38.2
- Asset administration	54,841	55,313	-0.9	52,395	52,586	-0.4
Net asset management flows	3,226	7,674		2,916	6,204	
Net loans to customers excluding NPLs	37,336	38,304	-2.5	33,375	34,431	-3.1
<b>OPERATING STRUCTURE</b>						
Employees	17,973	17,750	+1.3	16,158	16,046	+0.7
Branches	1,435	1,393	+3.0	1,376	1,332	+3.3

devoted to private customers and small entrepreneurs, the second to companies with turnover generally less than 250 million Euro;

- the Other Networks, which include the French subsidiary Banque Sanpaolo and the Hungarian bank Inter-Europa Bank, previously included within Commercial Banking, as well as the Italian distribution networks of Cassa di Risparmio di Firenze, in which the Group has a 18.7% interest, and Cassa dei Risparmi di Forlì, in which the Group's interest is 21%.

The actions taken by the Sanpaolo Network in 2001 concerned above all the following:

- development of the multi-channel distribution model: the range of services offered through direct channels was expanded by giving customers information and statement services through the Internet and mobile phone; at the end of the year, the number of contracts allowing private customers to operate in an integrated way using both traditional and direct channels amounted to 180,000. During the year Internet services were also provided to companies and small entrepreneurs, and a remote light service was launched;
- revision of the organizational structure which increased the number of territorial areas from 16 to 20, and the adoption of a new organizational model geared to specialization of each branch in the prevalent customer segment: households and small entrepreneurs on the one hand, and small- and medium-sized companies on the other; at the end of 2001, 35 business centers were operational;
- selective expansion of the branch network, with an increase during the year of 44 branches;
- reinforcement of management systems and technology tools used to support corporate banking operations to ensure that the standards reached in lending risk management are maintained and to improve commercial relations with corporate customers;
- reinforcement of the network incentive systems based on economic and commercial results with the introduction of an individual component for personal consultants.

Operating volumes of the Sanpaolo Network, which coincide with those previously referred to the Italian Branch Network, were affected by the negative market conditions in 2001. Customer financial assets picked up considerably during the latter part of the year, raising the total amount to 148.2 billion Euro, an increase of 1.2 billion compared with the end of

2000 (+0.8%). Specifically: direct deposits increased by 2.2 billion Euro (+7.7%) during the year; asset administration fell by 0.2 billion Euro, as a result of new inflows of 4.5 billion Euro and a devaluation of 4.7 billion Euro; asset management decreased by 0.8 billion Euro brought about by a negative performance effect of 3.7 billion Euro, only partially offset by a net inflow of 2.9 billion Euro. Within this, it is worth mentioning the positive trend in insurance: life technical reserves rose to 8.2 billion Euro (+38.2%).

Loans by the Sanpaolo Network showed an annual fall of 3.1%; the performance in household mortgages, moreover, was positive, recording disbursements in the year of 1.7 billion Euro, up 8% on 2000.

The Sanpaolo Network's statement of income, restated on the assumption that the new structure had been adopted from 1 January 2001, shows net income for the year of 323 million Euro and a RORAC of 17.7%. The lower net income compared with that of the preexisting Italian Branch Network is mainly due to the different organizational structure and a to the different method of allocating net interest income.

As regards the Other Networks, one of the main initiatives during the year was the restructuring of the central functions and the branch network of the French subsidiary Banque Sanpaolo, in line with the policies of rationalization and cost containment adopted by the Group; in particular the French bank is raising the level of specialization of its branches, concentrating attention on high net worth private customers and on companies.

At the end of 2001 the subsidiary's financial assets amounted to 12.3 billion Euro, 5.6% down on the end of 2000; within this figure, the trend in asset management was positive, with a net inflow over the year of 310 million Euro.

As for the Italian distribution networks, the following should be noted:

- the achievement, at the end of December, of an amount of 1.8 billion Euro in funds managed by CR Firenze Gestion Internationale, a company held 80% by Carifirenze and 20% by SANPAOLO IMI and operative since April 2001;
- the placing by the Cariforlì network of 85 million Euro in SANPAOLO IMI Group products, from the end of the first half.

*Banco di Napoli*

Banco di Napoli, which entered the SANPAOLO IMI Group in the second half of 2000, operates in the field of retail banking in Southern Italy through a network of 731 branches.

June 2001 saw the approval of the Banco di Napoli relaunch plan, which defines the steps that are required to achieve the strategic objectives underlying the acquisition of the Naples bank. The plan aims to make the Banco a

point of reference for households and small- and medium-sized companies in the South of Italy through the focus on its traditional regional presence and the realization of an efficiency program which, among other things, provides for the disposal of all activities that are not strategic for the core business. During the year the Banco has taken the following steps in line with the objectives of the relaunch plan:

- restructuring of the domestic distribution network, creating 11 territorial areas to replace the previous 48 regional offices;

*Banco di Napoli*

	2001	2000	Change 2001 / 2000 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	1,109	1,167	-5.0
Operating costs	-895	-908	-1.4
Operating income	214	259	-17.4
Provisions and net adjustments to loans and financial fixed assets	-106	-375	-71.7
Income before extraordinary items	108	-116	n.s.
Net extraordinary income	-30	-398	-92.5
Income before taxes	78	-514	n.s.
Income taxes for the period	-75	241	n.s.
Use of reserves for general banking risks	-	367	n.s.
Net income	3	94	-96.8
Contribution to net income of the Group (1)	-10	84	n.s.
<b>ALLOCATED CAPITAL (€/mil)</b>	1,358	1,286	+5.6
<b>RATIOS (%)</b>			
RoE	n.s.	6.5	
Cost / Income ratio	80.7	77.8	
	31/12/2001	31/12/2000	Change 31/12/01- 31/12/00 (%)
<b>OPERATING DATA (€/mil)</b>			
Customer financial assets	38,034	38,819	-2.0
- Direct deposits	22,759	24,606	-7.5
- Asset management	8,761	6,678	+31.2
- <i>Mutual funds and fund-based portfolio management</i>	6,255	4,719	+32.5
- <i>Portfolio management</i>	1,421	1,272	+11.7
- <i>Life technical reserves</i>	1,085	687	+57.9
- Asset administration	6,514	7,535	-13.6
Net asset management flows	2,480	-1,161	
Net loans to customers excluding NPLs and SGA loans	15,740	15,688	+0.3
<b>OPERATING STRUCTURE</b>			
Employees	9,643	10,641	-9.4
Financial planners	200	225	-11.1
Domestic branches	731	731	-

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



- restructuring of the shareholding portfolio: the subsidiary Fumagalli & Soldan was sold off in November with a capital gain of 8 million Euro; the sale contract for the shareholding in Datitalia was stipulated and its conclusion, at the beginning of 2002, led to a capital gain of 6 million Euro; in November a new company called Esaban, in which the tax-collection activities currently carried out by the Banco will be transferred during 2002, was set up;
- concentration of fund management activities in the Wealth Management Area of the SANPAOLO IMI Group, to which Banco di Napoli Asset Management will be transferred during the course of 2002;
- withdrawal from the activities carried on by the foreign network: the Hong Kong branch has been transferred to the Corporate Area of the Parent Bank; the London branch was sold to third parties in February 2002; the operations of the New York branch were downsized in view of its voluntary liquidation, decided in January 2002;
- a voluntary incentive retirement scheme which led to agreements for the departure of some 500 employees.

Among the other operations carried out during the year, the setting up at the end of July of a new entity in the form of a foundation, to manage the Banco di Napoli's supplementary staff pension fund, should be noted; the balances of the supplementary pension fund, previously accounted for as part of the Banco's balance sheet, were transferred to this new entity.

In addition, to facilitate full integration with the Naples bank, the Parent Bank SANPAOLO IMI increased its share

of the Banco's ordinary capital from 97.6% to 100% and in March 2002 it launched a voluntary Public Offer for all of the savings shares.

The operational performance of Banco di Napoli's during 2001 was marked by a significant recomposition of customer financial assets towards various forms of asset management: the net asset management flow during the period, 2.5 billion Euro, raised the amounts at the end of 2001 to 8.8 billion Euro, an increase of 31.2% year on year. Direct deposits, on the other hand, fell by 7.5% from the beginning of the year (partly attributable to the downsizing of the foreign network) coming in at 22.8 billion Euro, and asset administration dropped by 13.6% to 6.5 billion, also following the negative performance of stock markets.

In loans, the policy followed by the Banco, in accordance with the guidelines laid down in the relaunch plan, was oriented towards concentrating operations with the target customer base of households and small entrepreneurs; at the end of the year, net loans, excluding non-performing loans and SGA loans, were more or less in line with the figures at the end of 2000.

The trend in Banco di Napoli's main profit margins was conditioned by the progressive withdrawal from activities, currently in progress, and by the provisions for risks, among which those accounted for under risks and charges that could arise for the Banco in connection with pensions, shown under extraordinary charges, should be noted. Net income thus fell to 3 million Euro.

## Wealth Management

Wealth Management provides asset management products and services both to the internal distribution networks of the Group (Sanpaolo Network, Banco di Napoli and Banca Sanpaolo Invest) and to institutional investors and other networks. The Area was set up in April 2001 when the Parent Bank transferred to the holding Wealth Management Sanpaolo IMI its subsidiaries operating in the field of mutual funds and portfolio management (Sanpaolo IMI Asset Management, Sanpaolo IMI Institutional Asset Management, Sanpaolo Gestion Internationale and Sanpaolo Fiduciaria), in private banking (Sanpaolo Bank Luxembourg, Sanpaolo Bank Austria and SP Private Banking) and in life insurance (Sanpaolo Vita and Sanpaolo Life).

As part of the process of integrating Banco di Napoli within the SANPAOLO IMI Group, the fund management activities

of the Banco's management company were also transferred to the Wealth Management structures during the year.

The Area carried out numerous initiatives in 2001 to develop its product range. In particular:

- in asset management, Sanpaolo IMI Institutional Asset Management SGR, which specializes in managing assets on behalf of institutional customers, became operational at the beginning of January; then in the second half of the year, Sanpaolo IMI Alternative Investments SGR was set up to operate in hedge funds;
- in mutual funds, a new, non-harmonized, equity fund was created and the Sanpaolo Liquidità fund was segmented, with the introduction of two categories of units for retail customers and for corporate and private customers; the range of Luxembourg products was also redesigned;
- the range of fund-based portfolio management was enriched by a new multimanager line, which includes

### Wealth Management

	2001 pro forma	2000 pro forma	Change 2001 / 2000 pro forma (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	251	261	-3.8
Operating costs	-85	-62	+37.1
Operating income	166	199	-16.6
Adjustments to goodwill and merger and consolidation differences	-7	-	n.s.
Provisions and net adjustments to loans and financial fixed assets	-14	-43	-67.4
Income before extraordinary items	145	156	-7.1
Net extraordinary income	-3	-	n.s.
Income before taxes	142	156	-9.0
Income taxes for the period	59	-26	n.s.
Change in reserves for general banking risks and income attributable to minority interests	-1	3	n.s.
Net income	200	133	+50.4
Contribution to net income of the Group (1)	213	106	+100.9
<b>ALLOCATED CAPITAL (€/mil)</b>	348	267	+30.3
<b>RATIOS (%)</b>			
RoE	61.2	39.7	
Cost / Income ratio	33.9	23.8	
	31/12/2001	31/12/2000 pro forma	Change 31/12/01-31/12/00 pro forma (%)
<b>OPERATING DATA (€/mil)</b>			
Asset management	73,238	74,331	-1.5
<b>OPERATING STRUCTURE</b>			
Employees	431	343	+25.7

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

three asset allocation products and two global equity products designed for affluent customers;

- in insurance, new single-premium policies which can pay out an annual amount equal to the previous year's increase in value, unit linked multimanager policies, and policies with guaranteed results, were launched; a new unit linked policy with dynamic capital protection was created; four tranches of index linked were placed through the various distribution networks; the design of a new capitalization product for companies was completed.

The various initiatives with the sales networks linked to the Group included the following:

- the launch of a new fund by CR Firenze Gestion Internationale, owned 20% by the SANPAOLO IMI Group and 80% by Cassa di Risparmio di Firenze, which is run by the Luxembourg companies of Wealth Management;
- the start, in the first half, of the commercialization by Cassa dei Risparmi di Forlì of a full range of fund-based portfolio management and the launch of insurance products.

At the end of the year, the Area had assets under management of 73.2 billion Euro, 1.1 billion less than at the end of 2000 (-1.5%): the devaluation of the stock, 4.9 billion Euro, was only partially recovered by a net flow generated by the distribution networks of 3.8 billion Euro.

In 2001 Wealth Management had net interest and other banking income of 251 million Euro, down by 3.8% on the previous year; this trend was largely due to a 19.4% drop in net commission, against a substantial increase in the contribution made by the insurance companies Sanpaolo Vita and Sanpaolo Life, accounted for in profits from companies carried at equity. Operating income was also down (-16.6%) because of the hefty increase in operating costs (+37.1%), mainly due to the charges incurred in adopting the new corporate structure. Lower current taxes and the posting of prepaid taxes against the recovery of prior tax losses moreover allowed the Area to improve its net income by 50.4%, raising its contribution to net income of the Group to 213 million Euro.

## Personal Financial Services

### Banca Fideuram

Banca Fideuram, which has a network of 3,795 financial planners and 82 branches in Italy, operates using its own specialist companies dedicated to the production of asset management services.

The measures taken by Banca Fideuram during 2001 included the following:

- the definition and implementation of a business plan for the French group Wargny, which was acquired at the end of 2000. This involved the following: Banque Privée Fideuram Wargny was authorized to carry on banking activities and launched operations in the field of asset management according to the distribution model tried out successfully in Italy; at the same time, the French group was restructured through the merger of the two financial companies at the head of the group (Wargny Management and Financière Fideuram) and the incorporation of Fideuram Wargny Société de

### Banca Fideuram

	2001	2000 pro forma (1)	Change 2001 / 2000 pro forma (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	578	579	-0.2
Operating costs	-280	-273	+2.6
Operating income	298	306	-2.6
Adjustments to goodwill and merger and consolidation differences	-24	-42	-42.9
Provisions and net adjustments to loans and financial fixed assets	-47	-10	n.s.
Income before extraordinary items	227	254	-10.6
Net extraordinary income	10	2	n.s.
Income before taxes	237	256	-7.4
Income taxes for the period	-11	-32	-65.6
Income attributable to minority interests	-	-2	n.s.
Net income	226	222	+1.8
Contribution to net income of the Group (2)	173	175	-1.1
<b>ALLOCATED CAPITAL (€/mil)</b>	612	544	+12.5
<b>RATIOS (%)</b>			
RoE	28.3	32.2	
Cost / Income ratio	48.4	47.2	
	31/12/2001	31/12/2000	Change 31/12/01- 31/12/00 (%)
<b>OPERATING DATA (€/mil)</b>			
Customer financial assets	50,414	51,073	-1.3
- Direct deposits	3,564	2,725	+30.8
- Asset management	37,477	40,613	-7.7
- Mutual funds and fund-based portfolio management	31,022	34,923	-11.2
- Life technical reserves	6,455	5,690	+13.4
- Asset administration	9,373	7,735	+21.2
Net asset management flows	339	6,150	
<b>OPERATING STRUCTURE</b>			
Employees	1,647	1,587	+3.8
Financial planners	3,795	3,782	+0.3
Domestic branches	82	74	+10.8

(1) The pro forma figures are prepared on the basis of the acquisition of the Wargny group from 1/1/2000.

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

Bourse into Banque Privée Fideuram Wargny;

- the boosting of the range of products and services offered to customers, with particular emphasis on the insurance sector;
- the launch of private banking services on the Swiss market through Fideuram Bank (Suisse);
- the restructuring of the Luxembourg subsidiaries, concentrating the five product companies into a single vehicle company, Fideuram Gestions;
- the establishment in Ireland of Fideuram Asset Management Ireland, operative since the beginning of 2002, to handle the asset management activities of the Luxembourg funds.

At the end of December 2001, Banca Fideuram had customer financial assets for a total of 50.4 billion Euro, a little down on the figure at the end of 2000 (-1.3%). Direct deposits had a particularly positive trend during the year (+30.8%), as did asset administration (+21.2%); indeed, these forms of investment acted as a temporary alternative for customers to asset management in expectation of a mar-

ket recovery. Assets under management fell by 7.7% compared with the start of the year, entirely due to the market's negative performance; net flow during the year was positive, reaching 339 million Euro. In asset management, the most dynamic element was the insurance sector: life technical reserves rose to 6.5 billion Euro at the end of December 2001, an increase of 13.4% on the start of the year.

Banca Fideuram managed to keep its net interest and other banking income substantially in line with that of the previous year at 578 million Euro; net commissions grew by 8.2%, helped by a reduction in the incentive commissions paid to financial planners. However, the higher charges related to the investments made to reinforce operations and the higher provisions made to cover the risk of non-recovery of provisional advance payments to planners, given the unfavourable market conditions, led to a 10.6% reduction in income before extraordinary items. Net income came to 226 billion Euro, 1.8% up on 2000; RoE came to 28.3%.

*Banca Sanpaolo Invest*

Banca Sanpaolo Invest took various steps during the year to reinforce its business model, which envisages the distribution of products prepared by the Group and by other leading operators through a network of 1,494 financial planners which operate with the support of the direct sales channels.

The main initiatives carried out in 2001 were as follows:

- the completion, in June, of the process of migration of customers from the branches of SANPAOLO IMI, made possible by the achievement of full operating autonomy

by Banca Sanpaolo Invest; this involved around 90,000 customers with total assets of 5.7 billion Euro;

- the expansion of the product range, experimenting an open architecture approach: a new Irish umbrella fund, managed by the subsidiary Sanpaolo Invest Ireland, was introduced; new fund-based portfolio management run by Sanpaolo IMI Asset Management and Invesco, were launched; a new structured bond developed together with Banca IMI, was marketed; new unit linked policies managed by Skandia were launched; the placing of the new single-premium Multinvest Alternative policy with indexed capital and a fixed maturity, was initiated;

*Banca Sanpaolo Invest*

	2001	2000	Change 2001 / 2000 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	79	69	+14.5
Operating costs	-52	-49	+6.1
Operating income	27	20	+35.0
Provisions and net adjustments to loans and financial fixed assets	-3	-	n.s.
Income before extraordinary items	24	20	+20.0
Net extraordinary income	-	6	n.s.
Income before taxes	24	26	-7.7
Income taxes for the period	-8	-10	-20.0
Change in reserves for general banking risks	2	-	n.s.
Net income	18	16	+12.5
Contribution to net income of the Group (1)	18	16	+12.5
<b>ALLOCATED CAPITAL (€/mil)</b>	93	89	+4.5
<b>RATIOS (%)</b>			
RoE	19.4	18.0	
Cost / Income ratio	65.8	71.0	
	31/12/2001	31/12/2000	Change 31/12/01- 31/12/00 (%)
<b>OPERATING DATA (€/mil)</b>			
Customer financial assets	9,677	10,178	-4.9
- Direct deposits	363	52	n.s.
- Asset management	8,108	9,180	-11.7
- <i>Mutual funds and fund-based portfolio management</i>	5,708	7,017	-18.7
- <i>Portfolio management</i>	524	597	-12.2
- <i>Life technical reserves</i>	1,876	1,566	+19.8
- Asset administration	1,206	946	+27.5
Net asset management flows	470	1,711	
<b>OPERATING STRUCTURE</b>			
Employees	210	176	+19.3
Financial planners	1,494	1,488	+0.4

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

- the improvement of the commercial capacity of the distribution network: 250 new financial planners were recruited during the year, releasing those with lower potential;
- the reinforcement of the business carried on through the phone and Internet banking direct channels: during the year, 76,900 security trades were carried out by phone and 24,200 by Internet.

Banca Sanpaolo Invest achieved in the year a positive net asset management flow of 470 million Euro, of which 137 million were in mutual funds and portfolio management and 333 million in life policies. Assets under management fell to 8.1 billion Euro, down by 11.7% from the end of December 2000, following a devaluation of 1.5 billion Euro from the beginning of the year. Direct deposits at the end of 2001 came to 363 million Euro, compared with 52 million at the start of the year.

Banca Sanpaolo Invest's operating margins in 2001 showed a positive performance; in particular net interest and other banking income came to 79 million Euro, an increase of 14.5% on the previous year, and operating income rose by 35%. Net income, influenced by the lack of extraordinary income compared to the previous year, was 18 million Euro against 16 million in 2000; RoE rose from 18% to 19.4%.

### *IMIWeb Bank*

Having obtained banking license at the beginning of 2001, IMIWeb Bank was able to manage directly the customer accounts initially opened at Banca IMI.

In order to consolidate its position as primary on line broker on the Italian market, during 2001 IMIWeb Bank focused its attention on day-traders. In particular, the bank:

- launched innovative services, such as stock lending and short selling;
- initiated operations in derivatives; in this context it set up an Internet platform which allows customers to operate on the IDEM market (Fib, MiniFib, MIBO 30 and share options) and on foreign derivatives (the main stock market indices, foreign exchange and fixed interest securities);
- gave customers the possibility to trade on the Tlx electronic market exchange.

IMIWeb Bank operating volumes grew significantly during the year: the average number of daily executed trades rose to around 10,000, from 2,000 at the start of the year. From an economic point of view, the company in 2001 had revenues of 9 million Euro, up on the prior year's figure of 6 million; however, the costs incurred to reinforce its market position and to disengage from foreign initiatives led to a net loss for the year of 47 million Euro.

### *IMIWeb Bank*

	2001	2000	Change 2001 / 2000 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	9	6	+50.0
Operating costs	-42	-35	+20.0
Loss before extraordinary items	-33	-29	+13.8
Net extraordinary income	-14	1	-
Net loss	-47	-28	+67.9

## Wholesale Banking

### Corporate

In 2001 Corporate developed its relations with large- and medium-sized companies and groups in the field of lending and banking services. At the end of the year, the Area consisted of two structures, dedicated to Italian customers and foreign companies respectively; the Corporate network in Italy consisted of six territorial head offices, while abroad it had 11 branches and 16 representative offices, as well as the subsidiary Sanpaolo IMI Bank Ireland.

At the beginning of 2001 the range of Italian customers attributed to the Area was extended to include also groups with consolidated turnover of between 250 and 500 million Euro.

In an extremely competitive context, marked by considerable market uncertainty, the business has turned to selective relationships placing particular attention on the profitability of business and monitoring of risks. To achieve this, the Area has emphasized business which guarantees significant commission revenues, developing its participation in syndicated loans where the Bank could take a leading role.

In 2001 the foreign network, centered on three regional offices (Americas, Europe and Asia) with strategic functions and control over the operating offices, was further strengthened through:

- the acquisition of the Hong Kong branch of Banco di Napoli, which began full operations on 1 October 2001;
- the opening of representative offices in Mexico City, Prague and Budapest.

### Corporate

	2001	2000 pro forma	Change 2001 / 2000 pro forma (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	335	298	+12.4
Operating costs	-105	-105	-
Operating income	230	193	+19.2
Provisions and net adjustments to loans and financial fixed assets	-67	-35	+91.4
Income before extraordinary items	163	158	+3.2
Net extraordinary income	2	-	n.s.
Income before taxes	165	158	+4.4
Income taxes for the period	-71	-66	+7.6
Net income	94	92	+2.2
<b>ALLOCATED CAPITAL (€/mil)</b>	892	804	+10.9
<b>RATIOS (%)</b>			
RORAC	10.5	11.4	
Cost / Income ratio	31.3	35.2	
	31/12/2001	31/12/2000 pro forma	Change 31/12/01-31/12/00 pro forma (%)
<b>OPERATING DATA (€/mil)</b>			
Net loans to customers excluding NPLs	24,161	24,803	-2.6
Guarantees	8,578	7,933	+8.1
Total loans and guarantees	32,739	32,736	+0.0
<b>OPERATING STRUCTURE</b>			
Employees	486	481	+1.0
Area offices in Italy	6	6	-
Foreign branches and representative offices	27	23	+17.4



Total loans at the end of December 2001 came to 32.7 billion Euro, more or less the same as at the end of the previous year, despite the negative phase of the economy, especially in the second half.

In 2001 the Area made net interest and other banking income of 335 million Euro, up by 12.4% on 2000; this was the result of an increase in net interest income (+5.6%), and above all the growth in commissions, up from 76 to 99 million Euro, following the syndicated loan business.

There was a considerable increase in operating income

(+19.2%), partly due to this rise in net interest and other banking income and partly to the containment of operating costs, which was reflected in an improvement in the cost/income ratio, which in 2001 fell to 31.3% from 35.2% in 2000.

The positive trend in revenues partially offset the negative effects of the deterioration in the economy, which led to a greater absorption of capital and an increase in provisions and adjustments to loans (partially related to the Enron position), such as to maintain a level of general risk reserves higher than the amount of the expected loss; the RORAC thus came to 10.5%.

### Public Works and Infrastructure

The provision of financial services to the public sector, with particular reference to the financing of investments and infrastructure, has been undertaken since July 2000 by Banca OPI, a specialist company through which the Group aims to consolidate its leading role in Italy in this sector.

Banca OPI's main initiatives during 2001 were as follows:

- disbursement of new financings aimed principally to the healthcare sector, railway infrastructure, and projects to safeguard the Venetian Lagoon;
- the participation in interventions to restructure the local energy market by public utilities and to reinforce postal services in Italy and abroad;
- project financing, in particular in the Transport and Environmental Water sectors: in this context Banca OPI also continued to act as arranger of the "Waste to Energy" project in Naples, carried out various consul-

tancy works and took part in a number of project financing operations abroad;

- the fulfillment of advisory commitments directed to value companies and assets of local government entities; in this context new mandates for projects by municipal administrations, were received.

In 2001 Banca OPI stipulated new contracts worth 5.6 billion Euro, of which 3.7 billion in mortgage loans, 1.6 billion in short-term or revolving loans and 0.3 billion in guarantees. Disbursement in 2001 came to 3 billion Euro; during the year revolving loans were also granted for a net of 570 million Euro. Loans at the end of December came to 13.3 billion Euro, an increase of 10.9% on the end of 2000.

Compared with the pro-forma 2000 results, Banca OPI in 2001 showed a 2.3% reduction in net interest and other banking income, due to a 4.2% decline in net interest

### Public Works and Infrastructure

	2001	2000 pro forma	Change 2001 / 2000 pro forma (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	127	130	-2.3
Operating costs	-18	-15	+20.0
Operating income	109	115	-5.2
Provisions and net adjustments to loans and financial fixed assets	-65	-8	n.s.
Income before extraordinary items	44	107	-58.9
Net extraordinary income	2	2	-
Income before taxes	46	109	-57.8
Income taxes for the period	-14	-11	+27.3
Net income	32	98	-67.3
Contribution to net income of the Group (1)	69	98	-29.6
<b>ALLOCATED CAPITAL (€/mil)</b>	349	279	+25.1
<b>RATIOS (%)</b>			
RoE	19.8	35.1	
Cost / Income ratio	14.2	11.5	
	31/12/2001	31/12/2000 pro forma	Change 31/12/01-31/12/00 pro forma (%)
<b>OPERATING DATA (€/mil)</b>			
Net loans to customers	13,284	11,973	+10.9
Disbursements in the period	3,018	3,128	-3.5
<b>OPERATING STRUCTURE</b>			
Employees	114	99	+15.2

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

income caused by the expiry of certain large operations with high spreads, which were replaced by new loans with lower margins. Net income was influenced by higher provisions, as permitted under tax law, and did not benefit from the positive effects arising from the booking of pre-

paid taxes recorded in the previous year; it therefore fell to 32 million Euro, compared with 98 million in 2000. The contribution to net income of the Group, after reversing the provisions made for tax purposes, came to 69 million Euro; RoE came to 19.8%.

### Investment Banking

Investment Banking handles securities dealing both on own account and on behalf of customers, the raising of risk and debt capital for corporate customers, as well as consultancy in matters of corporate finance. Investment banking activities are carried on by the Banca IMI group, excluding IMIWeb Bank, which operates in the field of on line trading.

During the course of 2001:

- Banca IMI acted as lead manager or sole placer in 40 bond issues for a total of more than 13 billion Euro. In the area of financial institutions, the bank organized placements for Banca Antonveneta, CR Bolzano, CR Forli and Findomestic Banca, the benchmark issues for Banca di Roma and Bear Sterns, as well as three sepa-

rate issues of subordinated instruments for Banca Popolare di Milano; it also brought to market some important financing deals for corporate issuers such as Parmalat, ENEL, Reno de' Medici and Grandi Navi Veloci. In securitisation, Banca IMI organized various ground-breaking operations, such as the securitization of INPS' receivables and of public sector real estate, as well as the operation involving Mosaico Finance, the first multi-originator in Italy;

- it confirmed its leadership position in the field of equity placements in Italy; it achieved the number one position as Global Coordinator in terms of both the number of operations and the value of the placements, with a market share of 29% and 35% respectively. The main operations included placement of the fifth tranche of ENI, IPOs for Snam Rete Gas and Juventus and increases in capital for Olivetti and Banca Popolare di Milano; as

### Investment Banking

	2001	2000	Change 2001 / 2000 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	197	250	-21.2
Operating costs	-160	-161	-0.6
Operating income	37	89	-58.4
Provisions and net adjustments to loans and financial fixed assets	-7	1	n.s.
Income before extraordinary items	30	90	-66.7
Net extraordinary income	-1	8	n.s.
Income before taxes	29	98	-70.4
Income taxes for the period	5	-31	-116.1
Net income	34	67	-49.3
Contribution to net income of the Group (1)	34	60	-43.3
<b>ALLOCATED CAPITAL (€/mil)</b>	302	356	-15.2
<b>RATIOS (%)</b>			
RoE	11.3	16.9	
Cost / Income ratio	81.2	64.4	
<b>OPERATING DATA (€/mil)</b>			
Banca IMI SpA trading volumes			
- trading	681,694	474,918	+43.5
- sales	121,814	100,060	+21.7
- repurchase agreements	1,440,015	817,939	+76.1
- placements	14,506	19,537	-25.7
	31/12/2001	31/12/2000	Change 31/12/01- 31/12/00 (%)
<b>OPERATING STRUCTURE</b>			
Employees	653	683	-4.4
Branches	2	2	-

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

regards pan-European offerings, Banca IMI acted as lead manager for Italy in Orange's IPO;

- in corporate finance, the bank completed 14 operations, mainly relating to advisory services for acquisitions, sales and restructurings, as well as consultancy services such as company valuations and partnership searches. In particular the strong increase in cross-border activity, leading to the conclusion of some particularly important deals during the year, such as Buzzi Unicem's acquisition of a stake in Dyckerhoff and MTS's purchase of Preussag's boiler division, both in Germany, should be noted.
- in brokerage, Banca IMI consolidated its operations both in fixed income, confirming its role as primary dealer on the main markets for European and American government securities, and in equities; in particular during the year it achieved a 5.3% share in own account and third party business in the electronic equity market, putting it in third position in the national ranking; in derivatives, it had a 7.4% share of the FIB30 market, putting the bank in third position in the general classification;

- on foreign markets, the group upgraded the safe-custody and custodian bank services offered by IMI Bank, its Luxembourg subsidiary, and reinforced its operations in electronic execution on US and European equity markets through Banca IMI Securities Corp., its US subsidiary; this company consolidated its services to institutional customers, namely the distribution of European equities and securities issued by American government agencies; it also continued working on the creation of a desk for the sale of European equity products to US institutional investors.

The results of Investment Banking saw an improvement in the latter part of 2001, but this was not sufficient to offset the negative effects due to adverse market conditions in earlier months. Net interest and other banking income came to 197 million Euro, down 21.2% on an annual basis, and income before extraordinary items fell to 30 million Euro, down by 66.7%. The contribution to net income of the Group in 2001 came to 34 million Euro, compared with 60 million in 2000, giving a RoE of 11.3%.

### Merchant Banking

NHS, the company that handles the Group's merchant banking activities, made investments during the year totaling 497 million Euro; the most important operations involved:

- the acquisition from the Treasury as part of a private placement in February of a packet of ENI shares representing 0.26% of the share capital, for an outlay of 143 million Euro;
- the purchase, for 248 million Euro, of the 7.8% interest in the share capital of Italennergia, the company that acquired control of the Montedison Group by means of a public offer;
- the purchase of a 6.3% interest of Merloni Termosanitari, a company specialized in the production of domestic heating appliances, for a total investment of 22 million Euro;

- the investment in Cartiere Fedrigoni & C., a producer of special papers, by taking a 10% stake for an outlay of 14 million Euro;
- the participation in the public offering for sale by Davide Campari, a company that operates in the production and distribution of beverages, with an investment of 13.5 million Euro for 1.5% of the share capital;
- the acquisition, for an outlay of 7.2 million Euro, of a further 1.6% of Azimut, world leader in the production of boats; this brought the total investment to 34 million Euro, or 9.2% of the company's capital.

Also worth mentioning is the partial discharge, for 2.8 million Euro at the beginning of 2002, of the commitment previously taken to invest up to 10 million Euro in Idra Partecipazioni, to finance the voluntary public offer launched by the company for Idra Presse, as well as subsequent increases in capital to finance its expansion plans.

### Merchant Banking

	2001	2000	Change 2001 / 2000 (%)
<b>STATEMENT OF INCOME (€/mil)</b>			
Net interest and other banking income	14	51	-72.5
Operating costs	-11	-9	+22.2
Operating income	3	42	n.s.
Adjustments to goodwill and merger and consolidation differences	-16	-	n.s.
Provisions and net adjustments to loans and financial fixed assets	-131	-10	n.s.
Income before extraordinary items	-144	32	n.s.
Net extraordinary income	228	93	+145.2
Income before taxes	84	125	-32.8
Income taxes for the period	-30	-49	-38.8
Net income	54	76	-28.9
Contribution to net income of the Group (1)	33	33	-
<b>ALLOCATED CAPITAL (€/mil)</b>	391	382	+2.4
<b>RATIOS (%)</b>			
RoE	8.4	8.6	
Cost / Income ratio	78.6	17.6	
	31/12/2001	31/12/2000	2001 net flow
<b>OPERATING DATA (€/mil)</b>			
Merchant banking direct investments	430	479	-49
Other shareholdings	672	460	+212
	31/12/2001	31/12/2000	Change 31/12/01- 31/12/00 (%)
<b>OPERATING STRUCTURE</b>			
Employees	52	52	-

(1) Related to the 51% held by SANPAOLO IMI and after the posting of consolidation attributable to the Area.

The principal disposals during the year concerned:

- the two-stage disposal of all of the 6.2% stake in Montedison: sales on the market in the first half, followed, in early July, by the sale to Itالenergia of the remainder 4.4% stake of the ordinary capital; this operation generated an overall pre-tax capital gain of 228 million Euro;
- the partial disposal of the investment in Santé Luxembourg, for a gain of 11 million Euro;
- the sale of the interest in ADR International Airport South Africa Ltd with a gain of 1.4 million Euro.

An agreement was also signed in 2001 to sell the 2.8% interest held in Camuzzi Gazometri with the majority shareholder Mill Hill, completed in March 2002 with a capital gain of 6.7 million Euro.

In January 2002, the establishment of NHS Mezzogiorno SGR should also be noted; the company will run the "Fondo di promozione del capitale di rischio per il Mezzogiorno" ("Risk capital fund for Southern Italy"), specializing in investments in small- and medium-sized com-

panies located in the South of Italy and which will reach a size of 100 million Euro.

Lastly, the restructuring of NHS in March 2002, with the partial spin-off of the company, which involved transferring its private equity activities to a "newco" (NHS S.p.A.) and maintaining the activity which consists of the increase in value of the portfolio of significant industrial investments held by the company spun off (which took on the name of IMI Investimenti), should be mentioned.

During the course of 2001 the merchant banking business generated total net commission income and other net dealing revenues of 12 million Euro; during the year, the company also earned extraordinary income of 228 million Euro attributable to the sale of interest in Montedison. Higher provisions and adjustments to financial fixed assets made as a result of the deterioration in financial markets led to net income of 54 million Euro, 28.9% down on the 76 million Euro earned in 2000. The contribution to net income of the Group, for the 51% share, amounted to 33 million Euro and RoE was 8.4%.

## Significant events after the year end

### Economic background

The forward-looking indicators of the business cycle and of the climate of confidence of companies and households in the USA and the Euro-zone showed an improvement in the early months of 2002, after a period when the signals were still contradictory. According to authoritative observatories, the low point of the cycle has already been passed, but there is still uncertainty about the intensity of the recovery taking place in these two areas.

Based on the price of 3-month interest rate futures in March, the market considers the expansive phase of the monetary policy applied by the Federal Exchange and the European Central Bank to be over. Expectations are now for a new cycle of policy rate hikes in 2002, though their timing and extent are likely to differ between the two areas. In view of a cyclical recovery and a rise in money market rates, the long-term rates on government benchmark securities in the USA and in Europe have risen considerably since the beginning of March, especially compared with the lows of last November.

In the first two months of 2001, the main Stock Exchange indices showed in general a negative performance, given the disappointing data on corporate profits for the last quarter of 2001. Since the beginning of March - given better expectations for the future trend in the US and European economies - share prices have recovered considerably.

As a result of these trends in the first two months of 2002, the sector representing mutual funds managed by Italian intermediaries was still in some difficulty. Net inflows for the period were positive for 0.8 billion Euro, while total assets under management suffered a further loss of value, falling to 517 billion Euro.

Inflows and the performance of funds are both expected to improve over the coming months in presence of a recovery of the economy and of the main stock market indices. Within the various forms of asset management, the life insurance sector is expected to see a good trend in inflows.

### Group performance in the first two months of the current year

At the end of the first two months of 2002 the Group's financial assets amounted to 305.6 billion Euro, slightly higher than at the end of 2001 (+0.1%). Within this overall aggregate, there has been a significant shift in favour of asset administration, which has gone up by 2.5 billion Euro since the start of the year, compared with a 1.9 billion Euro reduction in direct deposits. Assets under management are down slightly on the end of 2001, entirely due to negative market performance; the trend of life policies has continued to be particularly dynamic, with an increase of 0.8 billion Euro (+4.5%) since the beginning of the year and a change over the 12 months of 31.5%.

The principal economic margins are substantially in line with the path envisaged by the budget for 2002, which was taken as a point of reference when preparing the business plan for the merger with Cardine, presented at the beginning of the year.

The results of ordinary operations show a number of negative variances compared with the same period in 2001; bear in mind when analyzing this trend that the results for the first two months of 2001 were not yet affected by the crisis that would subsequently condition the rest of the year to an increasing extent.

From a management point of view, it is worth emphasizing that at a time when there is still considerable difficulty in increasing revenues, a great deal of attention has been given to holding down administrative costs, as was the case in 2001.

### Future prospects

While the scenario still holds considerable uncertainty, the short-term prospects do show some positive signals. The "Tax Shield" law introduced by the Government to encourage the return to Italy of capital held abroad is making a contribution towards the growth in financial assets. Moreover, the latest change in money market rates should permit a more favorable trend in net interest income.

In order to cope with the delicate transition from recession to the hoped for recovery of the economy, the Group has decided on certain steps to bolster profitability, in particular offering a more effective asset allocation service for cus-



tomers, developing products that respond better to the need for security that has emerged recently and approaching in a pro-active commercial way the middle corporate and small business segments.

At the same time, various initiatives have been launched to ensure rapid integration with Cardine Banca in order to accelerate the emergence of potential synergies between the two Groups.

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

To the Shareholders of  
Sanpaolo IMI SpA

- 1 We have audited the consolidated financial statements of Sanpaolo IMI SpA and its subsidiaries (the "Sanpaolo IMI Group") as of 31 December 2001. These consolidated financial statements are the responsibility of Sanpaolo IMI's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
  
- 2 We conducted our audit in accordance with the Auditing Standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries, representing 22 per cent of consolidated "Total assets", 24 per cent of consolidated "Net interest income" and 33 per cent of consolidated "Net interest and other banking income", have been audited by other auditors, who have provided us with their related reports. Our opinion expressed on this report, insofar as it relates to the amounts of such subsidiaries included on the consolidated financial statements, is also based on the audits carried out by other auditors.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to the auditors' report issued by other auditors on 2 April 2001.

- 3 In our opinion, the consolidated financial statements present fairly the financial position of the Sanpaolo IMI Group as of 31 December 2001 and the results of its operations for the year then ended in accordance with the Italian regulation governing financial statements.

Turin, 9 April 2002

PricewaterhouseCoopers SpA

Signed by  
Sergio Duca  
(Partner)

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