

S A N P A O L O I M I



QUARTERLY REPORT 31 DECEMBER 2002

SANPAOLO IMI GROUP

Quarterly Report 31 December 2002

SANPAOLO IMI S.p.A.

REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

SECONDARY OFFICES:

- VIALE DELL'ARTE 25, ROME, ITALY

- VIA FARINI 22, BOLOGNA, ITALY

COMPANY REGISTER OF TURIN 06210280019

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

PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

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Key figures

	2002	2001 pro forma (1)	Change 2002 / 2001 pro forma (%)
CONSOLIDATED STATEMENT OF INCOME (€/mil)			
Net interest income	3,771	3,959	-4.7
Net commissions and other net dealing revenues	2,799	3,056	-8.4
Administrative costs	-4,641	-4,647	-0.1
Operating income	2,350	2,770	-15.2
Provisions and net adjustments to loans and financial fixed assets	-1,413	-1,007	+40.3
Income before extraordinary items	727	1,591	-54.3
Net income of the Group	889	1,376	-35.4
Net income of the Group before change in reserves for general banking risks	525	1,382	-62.0
CONSOLIDATED BALANCE SHEET (€/mil)			
Total assets	201,160	213,427	-5.7
Loans to customers (excluding NPLs and SGA loans)	124,358	121,469	+2.4
Securities	22,741	28,543	-20.3
Equity investments	4,142	4,898	-15.4
Subordinated liabilities	6,613	5,829	+13.4
Shareholders' equity of the Group	10,536	10,933	-3.6
CUSTOMER FINANCIAL ASSETS (€/mil)			
Customer financial assets	357,030	357,875	-0.2
- Direct deposits	137,193	134,803	+1.8
- Indirect deposits	219,837	223,072	-1.5
- Asset management	131,523	138,479	-5.0
- Asset administration	88,314	84,593	+4.4
PROFITABILITY RATIOS (%)			
RoE (2)	4.9	12.9	
Cost / Income ratio (3)	65.1	61.6	
Net commissions / Administrative costs	60.3	65.8	
CREDIT RISK RATIOS (%)			
Net non-performing loans / Net loans to customers	1.0	1.1	
Net problem loans and loans in restructuring / Net loans to customers	1.1	1.2	
SOLVENCY RATIOS (%) (4)			
Tier 1 ratio	7.1	7.2	
Total ratio	10.4	9.5	
SHARES			
Number of shares (millions)	1,837	1,837	-
Quoted price per share (€)			
- average	9.439	14.375	-34.3
- low	5.231	8.764	-40.3
- high	13.702	18.893	-27.5
Earnings / Average number of shares in circulation (€)	0.48	0.75	-35.5
Dividend per share (€)	0.30 (5)	0.57	-47.4
Dividend per share / Average annual price (%)	3.18	3.97	
Price / Book value	1.1	2.2	-50.0
Shareholders' equity / Number of shares in circulation (€)	5.74	5.95	-3.5
OPERATING STRUCTURE			
Employees	45,651	46,556	-1.9
Domestic branches	3,069	3,049	+0.7
Foreign branches and representative offices	153	150	+2.0
Financial planners	4,955	5,510	-10.1

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

(2) Net income before change in reserves for general banking risks / Average net shareholders' equity.

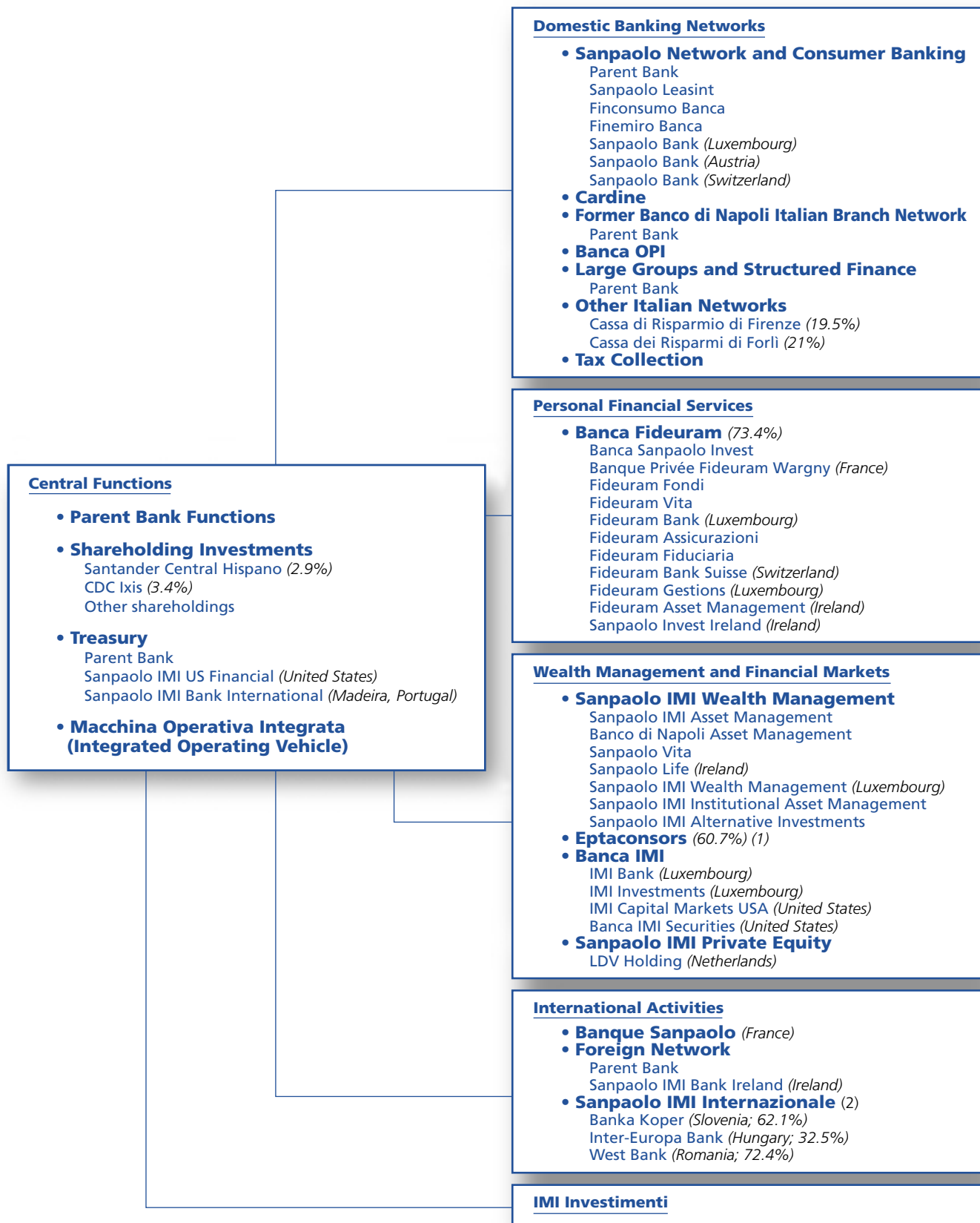
(3) Administrative costs (excluding indirect duties and taxes) and amortization (excluding adjustments to goodwill and merger and consolidation differences) / Net interest and other banking income (including other net operating income).

(4) Values at 31/12/2002 are estimated; the solvency ratios at 31/12/2001 are not pro forma.

(5) Dividend to be proposed at the Shareholders' Meeting.

The pro forma figures for 2001 as well as the figures for 2002 are unaudited.

Group structure



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

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

Reclassified consolidated financial statements

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

QUARTERLY ANALYSIS OF THE RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

RECLASSIFIED CONSOLIDATED BALANCE SHEET

QUARTERLY ANALYSIS OF THE RECLASSIFIED CONSOLIDATED BALANCE SHEET

Reclassified consolidated statement of income

	2002 (€/mil)	2001 pro forma (1) (€/mil)	Change 2002 / 2001 pro forma (%)
NET INTEREST INCOME	3,771	3,959	-4.7
Net commissions and other net dealing revenues	2,799	3,056	-8.4
Profits and losses from financial transactions and dividends on shares	285	300	-5.0
Profits from companies carried at equity and dividends from shareholdings	290	228	+27.2
NET INTEREST AND OTHER BANKING INCOME	7,145	7,543	-5.3
Administrative costs	-4,641	-4,647	-0.1
- <i>personnel</i>	-2,846	-2,862	-0.6
- <i>other administrative costs</i>	-1,530	-1,519	+0.7
- <i>indirect duties and taxes</i>	-265	-266	-0.4
Other operating income, net	356	353	+0.8
Adjustments to tangible and intangible fixed assets	-510	-479	+6.5
OPERATING INCOME	2,350	2,770	-15.2
Adjustments to goodwill and merger and consolidation differences	-210	-172	+22.1
Provisions and net adjustments to loans and financial fixed assets	-1,413	-1,007	+40.3
INCOME BEFORE EXTRAORDINARY ITEMS	727	1,591	-54.3
Net extraordinary income	298	414	-28.0
INCOME BEFORE TAXES	1,025	2,005	-48.9
Income taxes for the period	-458	-517	-11.4
Change in reserves for general banking risks	364	-6	n.s.
Income attributable to minority interests	-42	-106	-60.4
NET INCOME	889	1,376	-35.4

(1) The pro forma statement of income for 2001 has been prepared, according to the criteria detailed in the Explanatory Notes, assuming the merger with Cardine Banca and the acquisition of the interest in Banka Koper at 1/11/2001.

The pro forma statement of income for 2001 as well as the statement of income for 2002 are unaudited.

Quarterly analysis of the reclassified consolidated statement of income

	2002					2001 pro forma (1)				
	4th quarter	3rd quarter	2nd quarter	1st quarter pro forma (1)	Quarterly average	4th quarter	3rd quarter	2nd quarter	1st quarter	Quarterly average
	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)	(€/mil)
NET INTEREST INCOME	958	936	950	927	943	1,001	956	1,005	997	990
Net commissions and other net dealing revenues	745	668	689	697	700	776	726	798	756	764
Profits and losses from financial transactions and dividends on shares	63	13	125	84	71	141	6	81	72	75
Profits from companies carried at equity and dividends from shareholdings	51	55	135	49	72	60	7	101	60	57
NET INTEREST AND OTHER BANKING INCOME	1,817	1,672	1,899	1,757	1,786	1,978	1,695	1,985	1,885	1,886
Administrative costs	-1,217	-1,128	-1,176	-1,120	-1,160	-1,234	-1,105	-1,178	-1,130	-1,162
- <i>personnel</i>	-735	-691	-721	-699	-712	-727	-683	-744	-708	-716
- <i>other administrative costs</i>	-412	-375	-384	-359	-382	-444	-358	-358	-359	-380
- <i>indirect duties and taxes</i>	-70	-62	-71	-62	-66	-63	-64	-76	-63	-66
Other operating income, net	92	93	93	78	89	78	89	102	84	89
Adjustments to tangible and intangible fixed assets	-160	-127	-112	-111	-127	-146	-120	-111	-102	-120
OPERATING INCOME	532	510	704	604	588	676	559	798	737	693
Adjustments to goodwill and merger and consolidation differences	-86	-39	-44	-41	-53	-50	-42	-41	-39	-43
Provisions and net adjustments to loans and financial fixed assets	-648	-453	-156	-156	-353	-443	-192	-228	-144	-252
INCOME BEFORE EXTRAORDINARY ITEMS	-202	18	504	407	182	183	325	529	554	398
Net extraordinary income	128	34	80	56	74	38	167	130	79	103
INCOME BEFORE TAXES	-74	52	584	463	256	221	492	659	633	501
Income taxes for the period	34	-77	-243	-172	-114	6	-93	-188	-242	-129
Change in reserves for general banking risks	353	13	-2	-	91	-6	-1	1	-	-2
Income attributable to minority interests	1	-14	-15	-14	-11	12	-58	-36	-24	-26
NET INCOME	314	-26	324	277	222	233	340	436	367	344

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

The quarterly statements of income are unaudited.

Reclassified consolidated balance sheet

	31/12/2002 (€/mil)	31/12/2001 pro forma (1) (€/mil)	Change 31/12/02 - 31/12/01 pro forma (%)
ASSETS			
Cash and deposits with central banks and post offices	1,423	1,172	+21.4
Loans	149,025	151,346	-1.5
- due from banks	22,083	26,436	-16.5
- loans to customers	126,942	124,910	+1.6
Dealing securities	19,833	24,557	-19.2
Fixed assets	9,687	11,889	-18.5
- investment securities	2,908	3,986	-27.0
- equity investments	4,142	4,898	-15.4
- intangible fixed assets	406	444	-8.6
- tangible fixed assets	2,231	2,561	-12.9
Differences arising on consolidation and on application of the equity method	1,026	1,243	-17.5
Other assets	20,166	23,220	-13.2
Total assets	201,160	213,427	-5.7
LIABILITIES			
Payables	161,417	171,285	-5.8
- due to banks	24,224	36,482	-33.6
- due to customers and securities issued	137,193	134,803	+1.8
Provisions	4,122	4,278	-3.6
- for taxation	979	1,219	-19.7
- for termination indemnities	965	955	+1.0
- for risks and charges	1,835	1,761	+4.2
- for pensions and similar	343	343	-
Other liabilities	18,155	20,309	-10.6
Subordinated liabilities	6,613	5,829	+13.4
Minority interests	317	793	-60.0
Shareholders' equity	10,536	10,933	-3.6
Total liabilities	201,160	213,427	-5.7

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

The pro forma balance sheet figures at 31/12/2001 as well as the balance sheet figures at 31/12/2002 are unaudited.

Quarterly analysis of the reclassified consolidated balance sheet

	2002				2001 pro forma (1)			
	31/12 (€/mil)	30/9 (€/mil)	30/6 (€/mil)	31/3 pro forma (1) (€/mil)	31/12 (€/mil)	30/9 (€/mil)	30/6 (€/mil)	31/3 (€/mil)
ASSETS								
Cash and deposits with central banks and post offices	1,423	1,042	1,029	1,454	1,172	710	688	709
Loans	149,025	145,679	146,607	147,273	151,346	144,674	145,957	145,269
- due from banks	22,083	21,977	22,735	21,189	26,436	22,681	21,340	23,434
- loans to customers	126,942	123,702	123,872	126,084	124,910	121,993	124,617	121,835
Dealing securities	19,833	23,737	25,100	25,657	24,557	23,724	28,029	24,712
Fixed assets	9,687	10,093	10,660	11,732	11,889	12,620	12,750	14,574
- investment securities	2,908	3,117	3,642	3,931	3,986	4,995	5,286	7,028
- equity investments	4,142	4,170	4,120	4,837	4,898	4,621	4,433	4,511
- intangible fixed assets	406	390	407	426	444	442	449	426
- tangible fixed assets	2,231	2,416	2,491	2,538	2,561	2,562	2,582	2,609
Differences arising on consolidation and on application of the equity method	1,026	1,095	1,141	1,120	1,243	1,260	1,260	1,167
Other assets	20,166	23,128	22,995	23,116	23,220	23,763	24,871	25,611
Total assets	201,160	204,774	207,532	210,352	213,427	206,751	213,555	212,042
LIABILITIES								
Payables	161,417	163,743	166,657	168,360	171,285	164,162	169,456	166,504
- due to banks	24,224	26,902	30,201	32,943	36,482	34,789	38,629	36,888
- due to customers and securities issued	137,193	136,841	136,456	135,417	134,803	129,373	130,827	129,616
Provisions	4,122	4,291	4,159	4,565	4,278	3,945	5,108	5,840
- for taxation	979	1,194	1,058	1,392	1,219	1,027	1,029	1,730
- for termination indemnities	965	969	989	993	955	966	979	969
- for risks and charges	1,835	1,786	1,769	1,810	1,761	1,616	1,700	1,731
- for pensions and similar	343	342	343	370	343	336	1,400	1,410
Other liabilities	18,155	19,765	19,755	19,611	20,309	21,469	22,414	22,671
Subordinated liabilities	6,613	6,218	6,155	5,793	5,829	5,621	5,401	5,365
Minority interests	317	429	437	797	793	882	831	841
Shareholders' equity (2)	10,536	10,328	10,369	11,226	10,933	10,672	10,345	10,821
Total liabilities	201,160	204,774	207,532	210,352	213,427	206,751	213,555	212,042

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

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

The pro forma balance sheet figures as well as the balance sheet figures at 30/9/2002 and 31/12/2002 are unaudited.

Report on Group Operations

ACTION POINTS AND INITIATIVES IN THE QUARTER

CONSOLIDATED RESULTS

CAPITAL AND RESERVES

FINANCIAL RISK MANAGEMENT

SUPPLEMENTARY INFORMATION

Performance of share prices

Shareholders

Ratings

GROUP BUSINESS AREAS

Action points and initiatives in the quarter

Integration between SANPAOLO IMI and Banco di Napoli

On 25 November 2002 the respective Extraordinary Meetings approved the merger by incorporation of Banco di Napoli into SANPAOLO IMI, becoming legally effective from 31 December 2002 and effective for accounting purposes from 1 January 2002. As SANPAOLO IMI held all 1,864,097,491 ordinary shares of Banco di Napoli, no exchange of these took place, in accordance with art. 2504 ter of the Italian Civil Code. In relation to savings shares, the exchange ratio was set at 1 SANPAOLO IMI ordinary share to 6 Banco di Napoli savings shares. Considering that SANPAOLO IMI held 111,765,709 savings shares in the company to be incorporated and that the latter held no own shares, this ratio determined the assignment of 2,718,608 SANPAOLO IMI ordinary shares in exchange and replacement of 16,311,650 Banco di Napoli savings shares not held by the incorporating company. The assignment took place without the issue of new shares, using own shares held in portfolio by the incorporating company and therefore without an increase in capital by the same.

The merger of Banco di Napoli with SANPAOLO IMI ended the first phase of the integration project between the two banks and marked entry into the second phase, which provides for the distributive and commercial integration of the Sanpaolo and Banco di Napoli networks.

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

The realization of the third phase is expected to take place in the second half of 2003, when, upon completion of the

unification of the IT systems, the Southern Territorial Direction will be spun off into Nuovo Banco di Napoli, a company based in Naples and the only bank in the SANPAOLO IMI Group to operate in the regions of Campania, Apulia, Calabria and Basilicata. Nuovo Banco di Napoli will have a streamlined directional structure, to coordinate the territorial areas in which the reference branch network will be articulated. The branches of Nuovo Banco di Napoli will use their own traditional brands (Banco di Napoli or Sanpaolo), also highlighting that they belong to the SANPAOLO IMI Group.

Integration of distribution networks

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

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

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

The aim of the project is to gradually introduce the distribution model already successfully adopted by the Sanpaolo Network, based upon the specialization of the operating points and better suited to satisfying the needs of the various types of customers, into all Group networks. This translates into the specialization of the branch networks

and the distribution structures by macro customer segments, guaranteeing a unique strategy at national level and ensuring a more effective response to the varying service needs expressed by various types of customers and improving the efficiency of the structures and processes of investment in technologies and resources.

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

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

The realization of the new distribution model finds a first immediate application in the territorial reorganization of the branch network in the Southern regions following the merger of Banco di Napoli into SANPAOLO IMI and the subsequent spin off in a separate legal entity of the Southern branches, due to take place next July.

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

The public sector, which includes financing and advisory services for local bodies and former municipal companies for the realization of infrastructure and public works, offers interesting development prospects for the years to come. The SANPAOLO IMI Group operates in this sector through Banca OPI, which has continued the tradition of IMI and San Paolo.

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

The Group's presence in the tax collection sector will be rationalized by concentrating tax collection activities in Esaban, with the aim of achieving the economies of scale

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

Acceleration of the integration with Cardine Finanziaria

The project for the rationalization of the SANPAOLO IMI Group networks also provides for the acceleration of the integration with Cardine Finanziaria, through centralization in the Parent Bank, in 2003, of the Cardine Finanziaria support functions (Macchina Operativa Integrata and Logistics). This initiative is aimed at achieving, right from the first phase, the necessary benefits in terms of economy of scale and scope.

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

Other initiatives to rationalize the Group structure

The integration between Banca Fideuram and Banca Sanpaolo Invest

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

The transaction is among the actions to further strengthen the leadership position held in Personal Financial Services,

to which SANPAOLO IMI attributes strategic priority, as well as to rationalize the Group operating structure.

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

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

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

Eptaconsors has been operating actively for almost 20 years in asset management (through the specialized companies Eptafund and EGI) and securities dealing (through Eptasim). In the mutual funds sector, the Eptaconsors Group manages assets of approximately 13 billion euro and has a 2.8% market share.

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

The sale of IMIWeb Bank

On 17 December 2002 the SANPAOLO IMI Group reached an agreement with Centrobanca (Banca Popolare di Bergamo – Credito Varesino Group) for the sale to the latter of an 80% stake in IMIWeb Bank, specialized in online trading. The purchase of the shareholding by Centrobanca is conditional to the release of the necessary authorizations by the Bank of Italy: it will probably be completed in the early months of 2003. The price, arranged at 80% of the free capital of IMIWeb Bank at 31 December 2002, will be increased by an amount proportionate to the company profits for the next three years. The SANPAOLO IMI Group will continue to hold 20% of the capital.

The strategic alliance with the EULIA Group

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

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

The project joins initiatives previously implemented by the two Groups, such as the agreement at the end of September between Sanpaolo IMI Private Equity, CDC Ixis Private Equity and Bayerische Landesbank Equity Management for the constitution of the EAGLE FUND, the first pan European private equity fund with the aim of investing in small and medium European companies, mainly in Italy, France and Germany. The fund will be jointly managed by the three groups, which will invest, as sponsors, 50 million euro each. The first closing is expected for the end of April 2003 and the minimum commitment from other investors will be 2 million euro.

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

EIF (European Investment Fund), as well as those mentioned above.

Agreements with FIAT and Italenergia

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

In this context, in July 2002, the banks granted a “to be converted” financing for a three year period, for 3 billion euro (400 million of which provided by SANPAOLO IMI), which provides, upon expiry and in accordance with procedures and at a price agreed between the parties, for the conversion of their loans into ordinary FIAT shares through compensation between the aforementioned loans and the corresponding subscription obligation, while FIAT retains the faculty to proceed with cash reimbursement of the loan under set conditions.

Still in the context of the agreements referred to, the banks also reached a technical agreement to take over from FIAT Auto 51% of Fidis’ consumer loans activity in Europe, at a price in line with the shareholders’ equity of the compendium, adjusted according to due diligence. In this context a credit line will also be granted to ensure adequate financial resources upon the change of control.

In relation to the Italenergia/Edison group, in September 2002 SANPAOLO IMI, through IMI Investimenti, purchased a further 4.66% stake in Italenergia Bis (along with the other two banking partners, Banca Intesa and Capitalia), in addition to the original share of 7.82%, from the FIAT Group, thus reaching an overall share of 12.48% in this

holding. SANPAOLO IMI made disbursements of approximately 182 million euro. With this transaction, the FIAT shareholding dropped from 38% to about 24%, with the consequent separation of the Italenergia/Edison debt from that of FIAT. Based on the subscribed agreements, the banking partners also obtained put options on the shareholding, that can be exercised starting in 2005, towards the industrial partner EDF – Electricité de France, at price conditions that guarantee the recovery of the original investments plus a financial profit, allowing for any upside.

It should be noted that in December 2002 the merger of Edison into Italenergia, which, at the same time, adopted the company name Edison and was listed on the Milan Stock Exchange, became operational.

Previously IMI Investimenti, along with the other shareholders in Italenergia, had placed its shares in the new company, Italenergia Bis, which has thus become the leading holding company in the Group.

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

- 1,000 million euro to Italenergia Bis;
- 503 million euro to the permanent partners of Italenergia Bis (the IMI Investimenti share being 66 million euro, already issued in the form of “payment in capital increase”);
- the remaining 592 million euro to the market; the related execution is expected to be completed in March 2003.

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

Consolidated results

Summary of results

The international trend showed no signs of improvement in the fourth quarter of 2002: the economic scenario deteriorated compared with the first part of the year both in the EU area and on the American and Japanese markets. Prolonged uncertainty, also brought by the delicate situation in Iraq, had a negative effect on the investments made by companies, on oil prices and, in general, on confidence in the equity markets, which continue to be characterized by relevant share prices fluctuations.

In the light of this difficult situation, the fact that the SANPAOLO IMI Group achieved, in the last quarter of the year, an operating income higher than that for the previous quarter, should be considered positive. This was possible thanks to an improvement in net interest and other banking income that more than offset the seasonality of operating costs which are traditionally higher towards the end of the year. However, the quarterly operating income is still below the quarterly average for 2002 and 2001, restated within the same consolidation setting.

Overall, results in 2002 showed a drop in the main operating margins compared with the previous year. There was however an improvement in changes on an annual basis in net interest income and commissions compared with the figures for the half of the year; the drop in net interest and other banking income (-5.3%) remains just under the levels regis-

tered in June while the drop in operating income has slightly deteriorated, from -14.8% to -15.2%, due to the increase in adjustments to tangible and intangible fixed assets.

Income before extraordinary items, down more than half on 2001, was heavily conditioned by provisions and adjustments, which accelerated considerably in the second half year. In this context adjustments to the listed investment portfolio, aligned with the usual prudence with the particularly low prices expressed by the market in this phase, took on extreme importance.

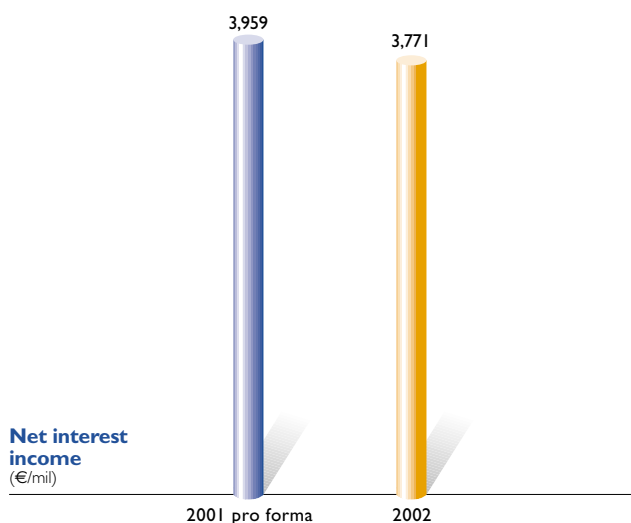
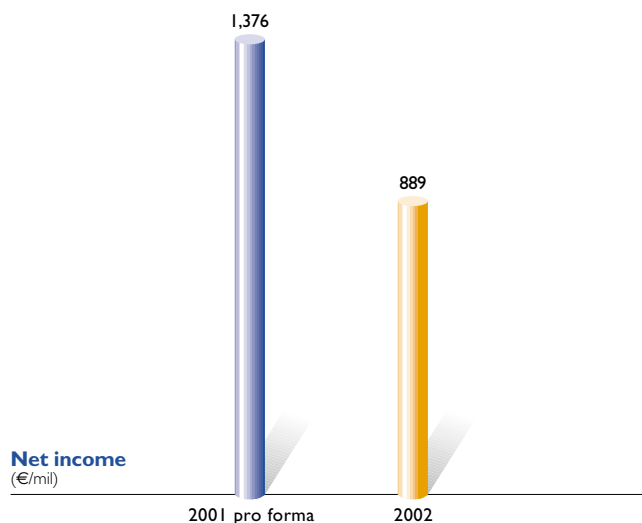
In order to face the extraordinary economic impact linked with the management of shareholdings and considering the need to make Group fiscality as efficient as possible, it was deemed necessary to use the reserve for general banking risks existing in the net shareholders' equity.

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

The dividend that will be proposed at the Shareholders' Meeting is 0.30 euro per share.

Net interest income

Net interest income in 2002, 3,771 million euro, presented a flow of 958 million in the fourth quarter, the highest since the beginning of the year. Comparison with 2001 shows a decline of 4.7%, recovering compared with the



6.2% reduction in the half year Report. The fall compared with the previous year is attributable to the closure of customer spreads, only partially compensated for by the positive development of the average amounts of sight deposit and medium- and long-term loans related to customer business. This is joined by a decline in liquidity volumes and returns.

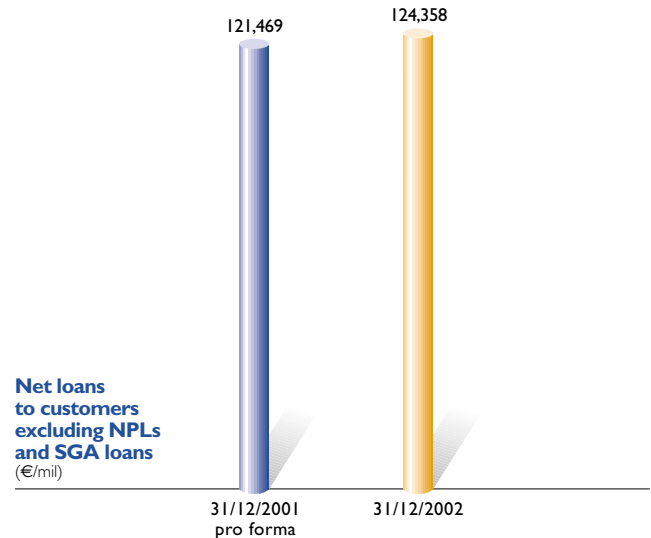
In terms of market rates, three-month Euribor, although slightly decreasing from 3.34% at the end of December 2001 to 2.96% at the end of 2002, averaged yearly 95 basis points less than 2001.

In 2002 the return on the interest-earning assets of the Group was 5.18% and the cost of interest-bearing liabilities was 2.93%. In customer business the average spread was 2.91% compared with 3.07% in 2001.

The average interest-earning assets of the Group showed a reduction of 4.7% on 2001; in this context the average amounts of loans to customers, excluding repurchase agreements, thus recorded an increase of 2.1%. On the liability side, there was an increase of 2.9% in average volumes of customer deposits, net of repurchase agreements,

due to an increase in the short-term (+3.4%) and medium- and long-term component (+2.2%).

At the end of 2002 the amounts of net loans to Group customers were 124.4 billion euro, up 2.4% compared with the end of December 2001. This change is the result of active



Analysis of average amounts and interest rates

	2002		2001 pro forma		Change 2002 / 2001 pro forma	
	Average amount (€/mil)	Average rate (%)	Average amount (€/mil)	Average rate (%)	Change in average amount (%)	Difference in rates (%)
Interest-earning assets	157,194	5.18	164,957	5.99	-4.7	-0.81
- loans to customers (excluding repos)	118,880	5.69	116,462	6.55	+2.1	-0.86
- securities	17,441	4.24	21,326	4.92	-18.2	-0.68
- other interest-earning assets	20,873	3.09	27,169	4.44	-23.2	-1.35
Non interest-earning assets (1)	50,299		50,778		-0.9	
Total assets	207,493		215,735		-3.8	
Interest-bearing liabilities	149,287	2.93	154,079	3.85	-3.1	-0.92
- direct customer deposits (excluding repos)	115,020	2.78	111,788	3.48	+2.9	-0.70
- due to customers	66,888	1.56	64,677	2.44	+3.4	-0.88
- securities issued	48,132	4.47	47,111	4.90	+2.2	-0.43
- other interest-bearing liabilities	34,267	3.45	42,291	4.82	-19.0	-1.37
Non interest-bearing liabilities (1)	47,471		50,962		-6.9	
Shareholders' equity	10,735		10,694		+0.4	
Total liabilities and shareholders' equity	207,493		215,735		-3.8	

(1) This figure includes Banca IMI group's average volumes, in line with the reclassification of the related interest income and expense, reported in the "profits and losses from financial transactions and dividends on shares" caption being closely connected, from an operating point of view, with the result of the stock broking activities.

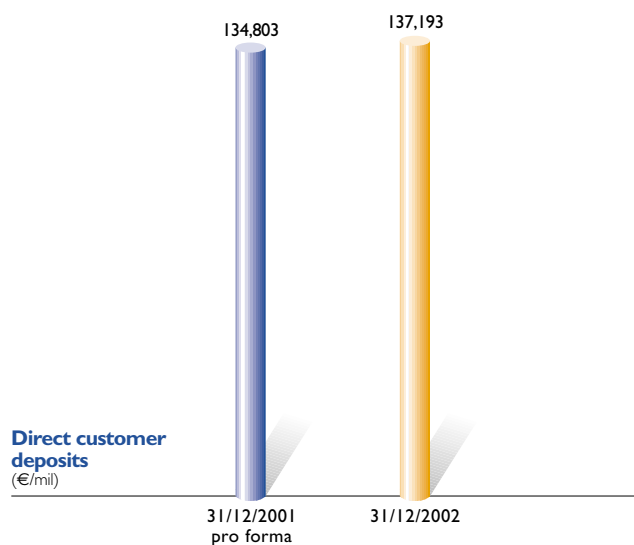
movements of medium- and long-term loans, up 8.2% on an annual basis, and of a 5.4% drop in short-term loans.

In medium- and long-term loans, good progress in financings directed to the retail sector continued: mortgage disbursements to households by the Sanpaolo Network in 2002 were 1.9 billion euro, up 17.1% on the previous year. These are joined by 0.9 billion disbursed by Cardine bank networks and 0.4 billion by Banco di Napoli. The evolution in terms of loans made by Banca OPI for public works and infrastructure, which rose to 14.7 billion euro at the end of December 2002, up by 10.9% since the beginning of the year, was also positive.

Direct customer deposits in 2002 presented a positive trend: the flow from the beginning of the year, 2.4 billion euro, brought the total amount to 137.2 billion euro, up 1.8% on the 12 months. This evolution was favored by the growth in current accounts and deposits and in repurchase agreements, partly attributable to the effects of the inflow of capital from abroad and partly to continuing uncertainty on the financial markets, which has directed customer preferences towards short-term investments. In medium- and long-term funding the outflow in certificates of

deposit, 3.5 billion euro, continued, only partially compensated for by a 2.9 billion euro increase in bonds.

At the end of the year the Group's domestic market shares were respectively 11.2% in loans and 10.7% in direct customer deposits.



Loans to customers

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€mil)	%	Amount (€mil)	%	
Short-term loans	49,033	38.6	51,849	41.5	-5.4
Medium- and long-term loans	75,325	59.3	69,620	55.8	+8.2
Loans to customers excluding NPLs and SGA loans	124,358	97.9	121,469	97.3	+2.4
Non-performing loans	1,332	1.0	1,400	1.1	-4.9
SGA loans	1,252	1.1	2,041	1.6	-38.7
Loans to customers	126,942	100.0	124,910	100.0	+1.6

Direct customer deposits

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€mil)	%	Amount (€mil)	%	
Current accounts and deposits	70,256	51.2	67,634	50.2	+3.9
Certificates of deposit	7,312	5.3	10,777	8.0	-32.2
Bonds	39,441	28.8	36,529	27.1	+8.0
Commercial paper	4,139	3.0	4,137	3.1	+0.0
Repurchase agreements and securities lending	12,949	9.4	11,477	8.5	+12.8
Other deposits	3,096	2.3	4,249	3.1	-27.1
Direct customer deposits	137,193	100.0	134,803	100.0	+1.8

Net commissions and other net dealing revenues

Group net commissions in 2002 amounted to 2,799 million euro, down 8.4% on the previous year. The flow for the fourth quarter, 745 million, was the higher in 2002, mainly due to commission revenues attributable to the deposits and current accounts area.

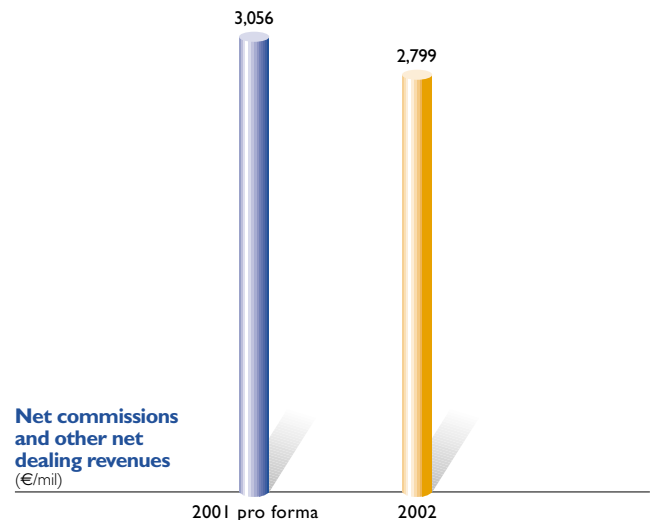
The change on annual basis was conditioned by the negative trend of the financial markets, which squeezed revenues from asset management and securities dealing; commissions from management, dealing and advisory services showed a fall of 14.5% compared with 2001, only in part compensated for by the increase recorded in the deposits and current accounts area (+15.1%).

Commissions from asset management, which represented approximately 45% of the total in 2002, fell by 17.1% compared with the previous year, causing a drop in revenues of over 250 million euro. The decline in these commission revenues was due both to the downsizing of assets under management induced by the fall in equity markets and by the less favorable customer financial assets mix oriented towards low-risk and reduced financial duration investments.

Within indirect deposits there was a fall of 1.5% between December 2002 and December 2001, due to the down-

sizing of asset management against an annual increase of 4.4% in asset administration, up to 88.3 billion euro.

Assets under management were penalized by the trend in quoted securities, which translated into a devaluation of portfolios of 10.2 billion euro, only partially offset by a positive net flow of 3.2 billion euro; the total amount was



Net commissions and other net dealing revenues

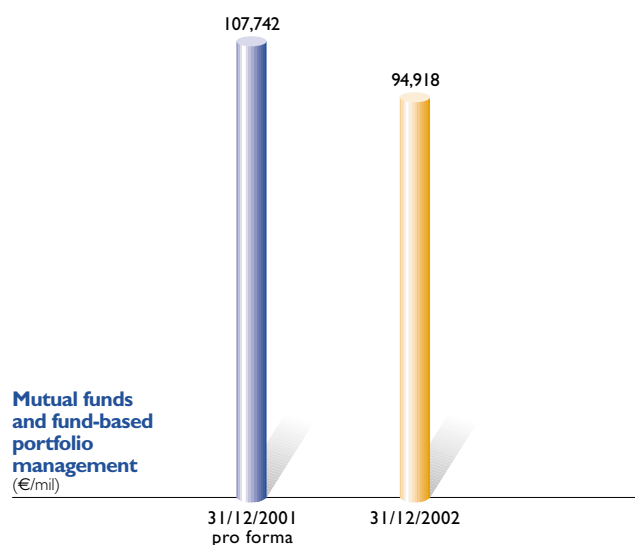
	2002 (€/mil)	2001 pro forma (€/mil)	Change 2002 / 2001 pro forma (%)
Management, dealing and advisory services	1,674	1,957	-14.5
Loans and guarantees	240	249	-3.6
Collection and payment services	229	228	+0.4
Deposits and current accounts	443	385	+15.1
Other services and net dealing revenues	213	237	-10.1
Net commissions and other net dealing revenues	2,799	3,056	-8.4

Customer financial assets

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Asset management	131,523	36.9	138,479	38.7	-5.0
Asset administration	88,314	24.7	84,593	23.6	+4.4
Direct deposits	137,193	38.4	134,803	37.7	+1.8
Customer financial assets	357,030	100.0	357,875	100.0	-0.2

131.5 billion euro, 7 billion euro down on the end of December 2001. In this context note that:

- the volumes of mutual funds and fund-based portfolio management fell to 94.9 billion euro (-11.9% on annual basis); the trend in equity markets and the consequent choices of customers led to a significant recomposition in the different types: in particular the proportion on the total of liquidity funds rose from 17.3% at the end of 2001 to 27.1% at the end of December 2002, while the proportion of equity funds fell from 32.1% to 22.3%. At the end of the year the SANPAOLO IMI Group occupied the second place in the domestic market, with a market share of 18.4%; it should be noted, however, that with the acquisition of control of Eptaconsors, concluded in January 2003, the Group gained market leadership with a share of 21.3%;



Asset management

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Mutual funds and fund-based portfolio management	94,918	72.2	107,742	77.8	-11.9
Portfolio management	9,451	7.2	10,698	7.7	-11.7
Life technical reserves	27,154	20.6	20,039	14.5	+35.5
Asset management	131,523	100.0	138,479	100.0	-5.0

Change in assets under management

	2002 (€/mil)	2001 pro forma (€/mil)
Net inflow for the period	3,194	6,702
- Mutual funds and fund-based portfolio management	-3,724	1,886
- Portfolio management	-773	114
- Life policies	7,691	4,702
Performance effect	-10,150	-10,301
Change in assets under management	-6,956	-3,599

Mutual funds by type

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

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

Profits from financial transactions, profits from companies carried at equity and dividends

Net profits from financial transactions and dividends on shares reached 285 million euro, 63 million of which realized in the last quarter, with a drop of 5% compared with the previous year. This moderate drop is due to the decline in non-structural component of the aggregate, attributable to the sale, in 2001, of equity positions which were no longer strategic for the Group. The most structurally stable part of the aggregate, referable to the Parent Bank and Banca IMI, showed growth of approximately 50 million euro compared with 2001.

Profits from companies carried at equity and dividends from shareholdings, 290 million euro, rose by 27.2% compared with 2001. In particular:

- profits from companies carried at equity were 137 million euro against 82 million in 2001; they referred mainly to the insurance subsidiaries, which are significantly expanding, and to the other shareholdings in the banking area which are subject to a significant influence by the Group;

- dividends paid to the Group by minority shareholdings not included in the consolidation area amounted to 153 million euro, substantially aligned with those received in 2001.

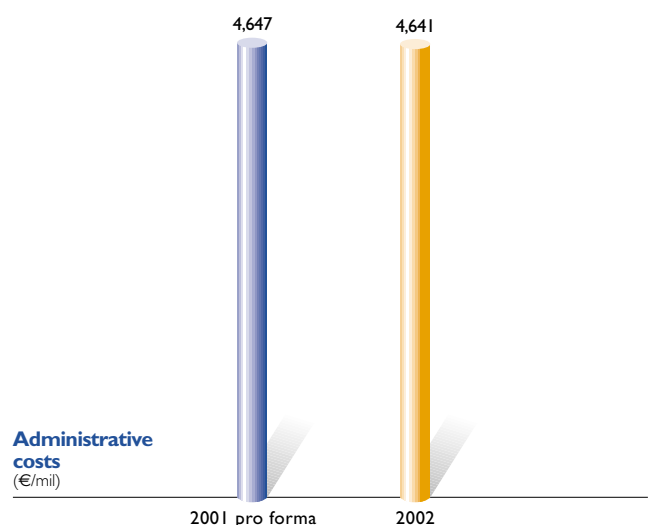
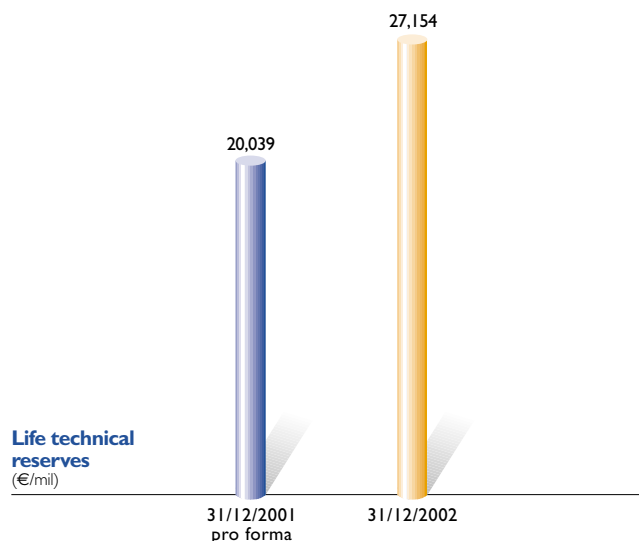
Costs

The structural cost containment actions taken in 2001 allowed the Group to maintain strict control of the trend of administrative costs (-0.1%), despite the non-negligible impact of integration and restructuring costs due to the Group's expansion operations in recent years. Overall, administrative costs amounted to 4,641 million euro against 4,647 million in 2001.

More specifically, personnel costs fell by 0.6%, mainly due to the reduction of staff: in 2002 the number of employees fell in fact by 905, mainly at the former Banco di Napoli and, to a lesser extent, at SANPAOLO IMI and Cardine Finanziaria.

Other administrative costs presented an increase of 0.7%, at 1,530 million euro. The increase is due to initiatives to rationalize the Group structures, the development and promotion of products and unrepeatable costs for the lira/euro changeover.

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



Adjustments to goodwill and merger and consolidation differences, 210 million euro, recorded an increase on the year of 22.1%; this increase is attributable to the adjustment to the positive differences of consolidation for the French group Fideuram Wargny, which reflects, besides ordinary amortization, an adjustment of 45 million euro to the goodwill of the French subsidiaries, made to take account of the downward trend in financial markets and of a more prudent evaluation of the subsidiary's future profit prospects.

Provisions and adjustments

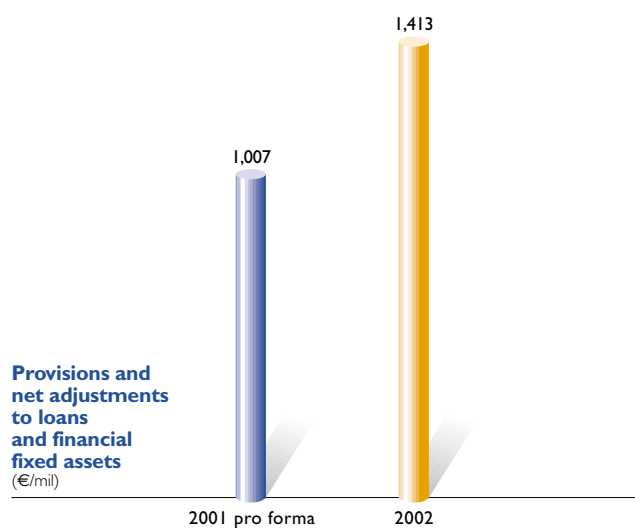
Provisions and net adjustments to loans and financial fixed assets were 1,413 million euro, compared with 1,007 million euro in the previous year (+40.3%).

The net flow includes:

- 258 million euro of provisions to the risks and charges fund;
- 606 million euro of provisions and adjustments for credit risks, aiming both at adjusting the estimated realizable value of specific accounts and strengthening the coverage of the physiological risk of the performing loans and guarantees portfolio. Due to a scenario which continues to be characterized by a considerable degree of uncertainty, the Group has further strengthened control of credit risk, increasing the general risk reserve, also taking account of the reserves for possible loan losses, to 0.9% of the performing loan portfolio. This level of coverage, also established using the indications taken from the Group's risk management portfolio models, represents a correct balance between the high quality of the credit portfolio and the worsening economic scenario. Attention should be drawn to the fact that the

above-mentioned provisions also represent an adequate amount with regard to the exposure for the FIAT Group;

- 549 million euro of adjustments to financial fixed assets, attributable largely to the shareholdings in Santander Central Hispano (SCH) and FIAT. The value of the shareholding in SCH, held by the Parent Bank and by Sanpaolo IMI International, has been aligned to a value of 6.5 euro per share, the average of the market price for the second half of 2002. This evaluation involved the booking of capital losses of 399 million euro, up 220 million compared with September. In relation to the shareholding in FIAT held by IMI Investimenti, while believing that the embedded value of the Turin Group remains higher than the market prices, also in the light of recent plans to refinance its debt and the industrial reorganization initiatives for the car sector, the book



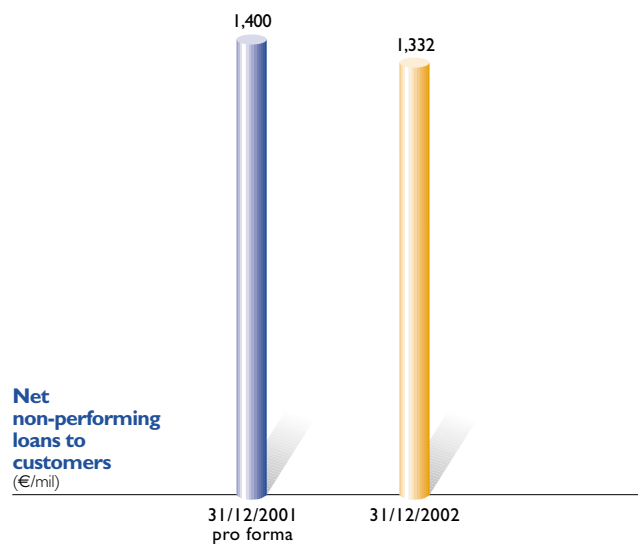
Analysis of loan portfolio

	31/12/2002		31/12/2001 pro forma		Change 31/12/02-31/12/01 pro forma (%)
	Amount (€/mil)	%	Amount (€/mil)	%	
Non-performing loans	1,332	1.0	1,400	1.1	-4.9
Problem, restructured and in course of restructuring loans	1,459	1.1	1,462	1.2	-0.2
Loans to countries at risk - customers	70	0.1	35	0.0	+100.0
Performing loans	124,081	97.8	122,013	97.7	+1.7
Total loans to customers	126,942	100.0	124,910	100.0	+1.6
Non-performing and problem loans - banks	1		1		-
Loans to countries at risk - banks	49		62		-21.0

value was prudently aligned with the average market price in December (8.7 euro per share), using the faculty provided for by current standards. The capital losses recorded were 82 million euro, up 17 on September.

At the end of 2002 Group net doubtful loans were 2,911 million euro, 49 million down on the end of December 2001 (-1.7%). More specifically, in loans to customers:

- net non-performing loans were 1,332 million euro against 1,400 million euro at the end of December 2001 (-4.9%); the ratio of net non-performing loans to net loans to customers was 1%, almost stable on the values at the end of 2001. At the end of December 2002



Group non-performing loans presented a coverage ratio of 68.8%;

- problem, restructured and in course of restructuring loans were 1,459 million euro, just under the amount at the end of 2001 (-0.2%); the coverage ratio was 28.4%;
- non-guaranteed loans to customers in countries subject to country risk doubled compared with 2001, reaching 70 million euro.

Extraordinary income and taxes

Group net extraordinary income in 2002 was 298 million euro, down 28% compared with the 414 million euro of the previous year.

The most relevant component of this aggregate is represented by the 148 million euro of capital gains from the sale of shareholdings, 62 million of which attributable to the sale of an 8.6% share in Cardine Banca, related to the operations of shareholding purchase and sale with Compagnia di San Paolo and minority shareholder's of IMI Investimenti. For the remainder, uses of reserves considered in excess on the basis of the most recent actuarial estimates, real estate proceeds and sales, tax reimbursements and other contingent assets were booked.

In 2002 the tax rate of the SANPAOLO IMI Group was 44.7%, an increase on that recorded in 2001 (25.8%), which had benefited from the recovery of prior tax losses by Group companies and the lower incidence of the IRAP taxable amount.

Capital and reserves

Net shareholders' equity

Group shareholders' equity, 10,536 million euro at 31 December 2002, showed in the year the following movements:

<i>Movements in Group shareholders' equity</i>	<i>(€/mil)</i>
Shareholders' equity as of 1 January 2002	8,182
Decreases	-1,142
- Dividends	-773
- Exchange and other adjustments	-5
- Use of reserves for general banking risks	-364
Increases	3,496
- Merger with Cardine Banca	2,063
- <i>capital</i>	1,212
- <i>reserves</i>	851
- Decrease in own shares held by the Parent Bank	294
- Tax benefits quota on the merger of Banco di Napoli	250
- Net income for the period (1)	889
Shareholders' equity as of 31 December 2002	10,536

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

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

- among reductions, the use of the reserves for general banking risks made by the Parent Bank (358 million euro) and in residual measure by other subsidiaries, to cover the negative impact on net income of the devaluations of the listed investment portfolio, also taking account of the need to make Group fiscality as efficient as possible;
- among increases:
 - 250 million euro of tax benefits out of funds concerning the deferred tax asset generated by the merger of Banco di Napoli into SANPAOLO IMI and in relation to the quota of goodwill on Banco di Napoli, booked in

2000 to offset pre-existing negative differences at first consolidation;

- 2,063 million euro related to the effect of the merger with Cardine; this amount represents the consolidated equity of the incorporated bank (3,213 million euro), reduced to take account mainly of alignment with Group accounting principles (86 million euro), of compensation of the positive differences of consolidation with the negative differences (296 million euro), of the use of SANPAOLO IMI own shares in the exchange (678 million euro), as well as of the cancellation of Cardine shares in the portfolios of the merged companies (90 million euro).

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

In 2002, transactions in own shares made by the Parent Bank were particularly directed to:

- effect the program to purchase own shares on the market, to serve the exchange in the context of the merger with Cardine Banca, in line with the active capital management policies adopted by the Group. At the time of the merger, 48 million own shares were used;
- purchase the shares necessary to the assignment of shares to employees, in June, in relation to the extended employee stock plan;
- raising on the market the securities needed to replace the Banco di Napoli savings shares exchanged in the context of the merger of Banco di Napoli into SANPAOLO IMI. At the time of the merger, 3 million own shares were used.

Regulatory capital and solvency ratios

At the end of December 2002 the ratio of regulatory capital to total weighted assets against credit and market risks was estimated at 10.4%; the ratio of Group primary capital to total weighted assets was estimated at 7.1%.

Financial risk management

Financial risks from lending activities

The market risk generated by the Group's lending activities in 2002 was slightly higher than the average level observed last year, suitably restated to take the inclusion of the Cardine Banca's accounts into consideration. In 2002, the change in the banking book's market value, measured in terms of shift sensitivity, as an upward, parallel and uniform movement of 100 basis points in the interest rate curve, had an average negative value of 230 million euro, against an average negative value of 199 million euro during 2001. The shift sensitivity observed on average in the fourth quarter (-259 million euro) was up compared with the first nine months of the year, following the Group operating policies adopted in relation to the expected scenarios with regard to interest rates.

The Value at Risk (VaR) of the banking book, calculated as the maximum unexpected potential loss of the market

value of the portfolio which could occur in the 10 subsequent working days with a statistical confidence interval of 99%, oscillated during 2002 around an average value of 97 million euro. The VaR was 105 million euro at the end of the year.

Equity investments in non-Group listed companies

Equity investments held in quoted companies not consolidated line by line or at net equity showed a market value, at the end of the year prices, of 1,338 million euro, 291 million of which held by IMI Investimenti. The market value of the equity investments showed, according to the end of December prices, a net potential capital gain on book value of 11 million euro.

The Value at Risk related to the minority investments in quoted companies came to 226 million euro at the end of the year; this value was higher than the levels observed at the end of September (179 million euro) due to the increase in the portfolio market value.

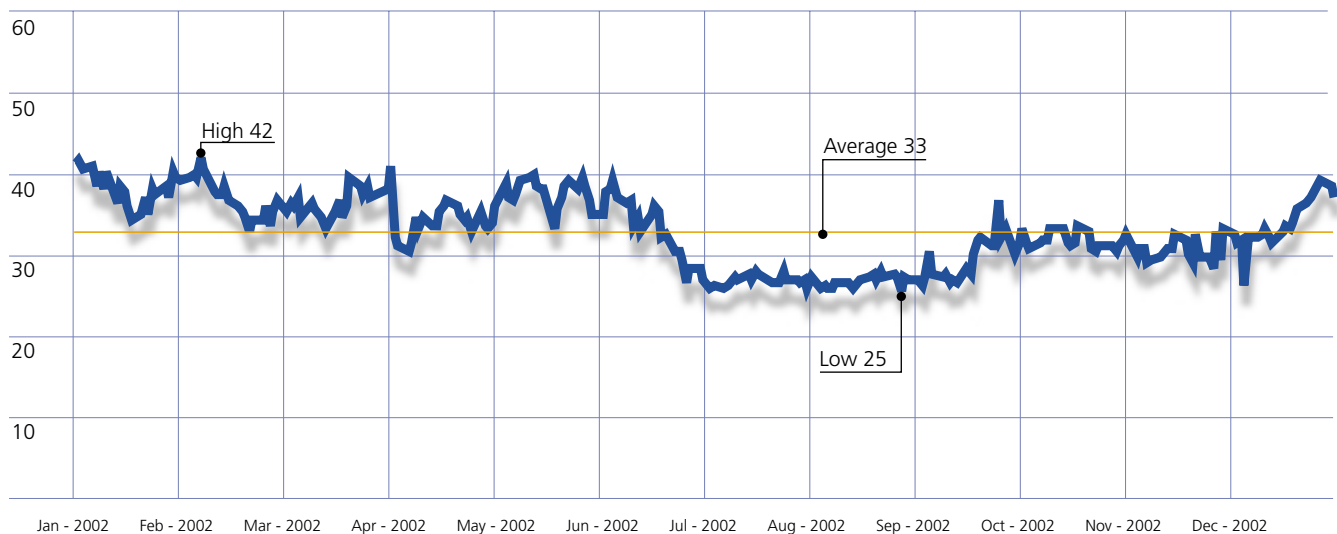
Trading activities

Dealings, mainly in fixed rate and equity securities, exchanges and derivative contracts are measured here.

The VaR of trading activities, concentrated in Banca IMI and its subsidiaries, registered an average value during the year of 8.8 million euro, oscillating between a minimum of 3.1 million euro and a maximum of 15 million euro. In the fourth quarter, the average value of the VaR was 11.7 million euro, up on the 7.8 million euro of the first nine months of the year; at the end of December, the VaR was 14.4 million euro.

In addition to the VaR, the Worst Case Scenario technique is used to monitor the impact of potential losses that might arise under extreme market conditions. The development of the maximum potential daily loss was largely stable in the year, in terms of potential risks, always oscillating around the yearly average of 33 million euro.

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



Maximum potential daily loss in trading (€/mil)

Supplementary information

Performance of share prices

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

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

On 7 February 2003, the quoted price was 6.177 euro, representing a drop of 0.4% since the start of the year.

Market comparison

	7/2/2003	30/12/2002	28/12/2001	Change 30/12/02-28/12/01 (%)
SANPAOLO IMI share price (€)	6.177	6.200	12.041	-48.5
Banking index (historical MIB bancario)	1,684	1,727	2,371	-27.2

SANPAOLO IMI share price (1)

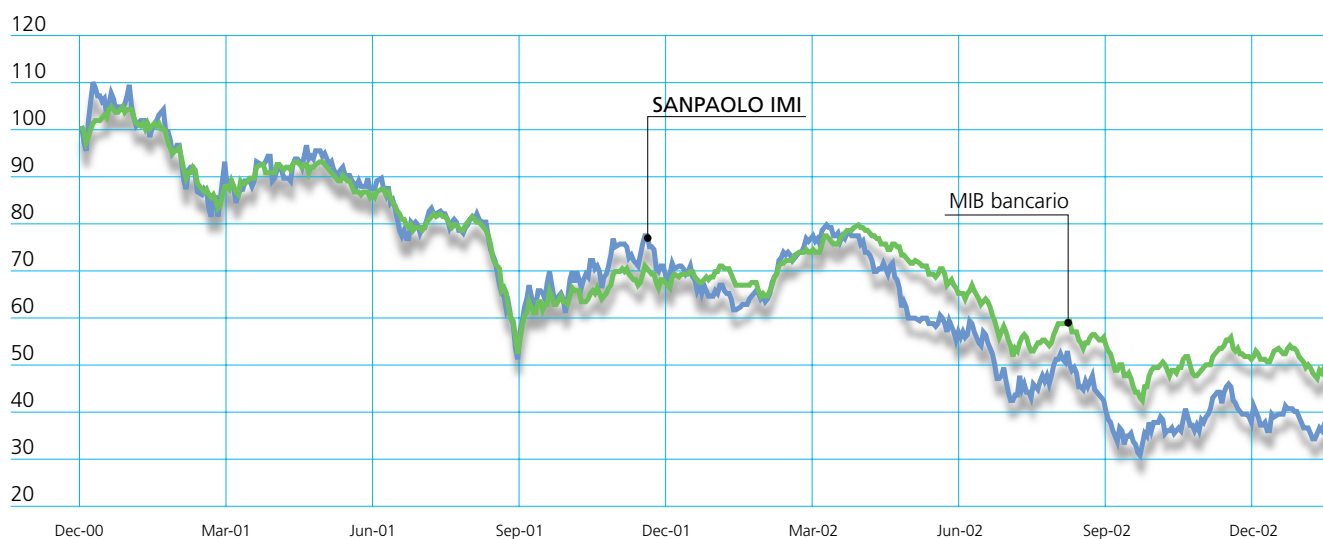
Year	High (€)	Low (€)	Average (€)
1995	5.118	4.025	4.577
1996	5.269	4.236	4.766
1997	8.800	4.564	6.275
1998	16.274	8.717	12.429
1999	16.071	10.970	13.192
2000	20.800	11.483	16.612
2001	18.893	8.764	14.375
2002	13.702	5.231	9.439
2003 (until 7/2/2003)	7.029	5.827	6.474

SANPAOLO IMI market indices

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

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

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



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

Shareholders

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

Shareholders of SANPAOLO IMI

	% of capital	
	total	ordinary
Compagnia di San Paolo	14.48	7.50
Fondazione CR Padova e Rovigo	10.80	4.38
Fondazione CR Bologna	7.69	3.12
Santander Central Hispano	5.12	6.55
IFI / IFIL	3.83	4.86
Deutsche Bank	3.68	4.67
Ente CR Firenze	2.06	2.61
Fondazione Cariplo	1.75	2.21
Caisse des Dépôts et Consignations (CDC)	1.70	2.16
Templeton Global Advisers	1.54	1.95
Società Reale Mutua di Assicurazioni	1.54	1.95
Fondazione CR Venezia	1.47	1.87
Other shareholders (1)	44.34	56.17
Total	100.00	100.00

(1) Includes own shares held by the Group.

Ratings

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

SANPAOLO IMI debt ratings

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

Concerning Group companies, following the merger of Banco di Napoli into SANPAOLO IMI, the three agencies withdrew the rating of the Neapolitan bank's debt from 31 December 2002.

Group Business Areas

Organization by Business Areas

In the fourth quarter of 2002 the SANPAOLO IMI Group operated through a structure organized by Business Areas articulated in the following business sectors:

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

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

The most relevant initiatives realized in the fourth quarter by the main Business Areas are described below; the operating and income results for the year will be presented in detail in the 2002 Annual Report.

Domestic Banking Networks

Sanpaolo Network and Consumer Banking

In 2002 Sanpaolo Network and Consumer Banking operated according to an activity base including the following business units:

- the Sanpaolo Network, comprising the over 1,350 branches of the Parent Bank performing activities for retail customers, the 129 branches and 62 detached teams dedicated to companies and the 15 operating points specialized in serving the private sector. The Network is supported by Internet, phone and mobile banking direct channels;
- the subsidiaries operating in consumer credit (Finconsumo Banca and Finemiro Banca), leasing (Sanpaolo Leasing which incorporated Cardine Leasing on 1 October) and international private banking (Sanpaolo Bank Luxembourg, Sanpaolo Bank Austria and Sanpaolo Bank Switzerland).

In the fourth quarter of 2002 the Sanpaolo Network pursued the aims defined in the budget, which provide for the strengthening of the market position in terms of private and retail customers as well as the development of relations with companies with appropriate creditworthiness. The Sanpaolo Network also implemented activities needed for the integration with the distribution structures of Banco di Napoli, in view of the merger of the Neapolitan bank on 31 December 2002.

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

- the specialization of the distribution model by customer segments. That will be achieved continuing a project,

which will be completed in 2003, leading to the expansion of the network dedicated to private customers and to the creation, within the retail branches, of modules specialized in serving customers of the various markets: private, affluent, family and small entrepreneurs;

- the provision to branches of customer relation support tools. A project providing for adoption by branches of evolved models for the evaluation of the customer financial profile is in the advanced stages;
- the spread of multi-channel infrastructure: at the end of December direct banking contracts rose to 325,000, with an increase of over 145,000 since the beginning of the year.

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

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

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

Under the operational profile, Sanpaolo Network customer financial assets showed a recomposition of asset management in favor of asset administration and sight deposits. Loans to customers were up 8% on the end of December 2001; in this context retail mortgages for households showed a positive trend, with disbursements for 1.9 million euro on the 12 months and a 21% increase of the amounts.

The income results of the Sanpaolo Network realized during the year fell compared with 2001, having suffered from the lower contribution of direct deposits due to the closure of spreads, and to the lower flow of commission from asset management.

Cardine

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

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

- the implementation of an optimal organizational model to fulfill the duties assigned to Cardine Finanziaria within the Group. These include assisting the Parent Bank in direction, governance and control of the bank networks, as well as, during the initial phase, providing support to these banks in the IT sector and for administrative, accounting and logistical functions;
- the performance of activities connected with the realization of the Macchina Operativa Integrata project;
- the improvement of the customer service capacity. The implementation of the commercial arrangement was concluded in the quarter with the adoption of a new distribution model articulated by customer segments and based upon the management of customer portfolios by specialized consultants. In this context the activities performed were primarily aimed at the completion of the attribution of portfolios to the consultants, at the planning and realization of the projects intended for the development of revenues from retail customers, also through the sharing of SANPAOLO IMI's products and know how, as well as at the activation of specific projects for training operators and, in particular, corporate and private consultants.

During 2002 the activities of the Cardine bank networks were characterized by the development of the main operational aggregates. In asset management, the net inflow from the start of the year, 1.5 billion euro, more than offset the devaluation of the stocks, which at the end of December 2002 were 13.2 billion euro, up 6.2% in the 12 months. The trend of direct customer deposits was also positive, showing growth of 2.7% on an annual basis. Loans to customers, net of non-performing loans, were up 4.9% compared with the end of December 2001; new disbursements to households in connection with retail mortgages were also relevant at 856 million euro, 274 million of which in the fourth quarter.

The profit results for 2002 were affected by the erosion of the mark down and the major general provisions for loans made during the period for alignment with the prudential standards of the Parent Bank.

Banco di Napoli

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

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

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

In the last quarter of 2002, Banco di Napoli implemented the activities needed for the integration of the distribution structures with those of the Sanpaolo Network; with reference to the Macchina Operativa Integrata project, the activities necessary in order to guarantee the transition to the new IT system are under way.

In the last part of the year the focusing of operations in its area of traditional roots also continued, along with the disposal of assets not instrumental to the performance of the core business:

- on 1 October the tax collection activities, once performed by Banco di Napoli in its capacity as government commissioner for Naples and Caserta, were transferred to Esaban;
- from 1 January 2003, operations in the public works and infrastructure sector once performed by Banco di Napoli were transferred to Banca OPI.

In relation to operating volumes, in the fourth quarter the recomposition of customer financial assets towards asset management continued; the amount rose at the end of

December 2002 to 10.5 billion euro, up by 1.7 billion euro from the beginning of the year (+19.7%); the increase was due to positive net flows, 1.9 billion euro, in a market characterized by strong disinvestments out of mutual funds. Banco di Napoli's profit results benefited from the reduction in structural costs and from high net extraordinary income, mainly attributable to realization from property and shareholdings, which succeeded in contrasting the drop in revenues due to the downsizing of corporate activity.

Banca OPI

Banca OPI provides financial services to the public sector, with particular reference to the financing of infrastructure investments and works. From 1 January 2003 it includes the activities in the public works sector previously performed by Banco di Napoli.

In the fourth quarter of 2002, the bank:

- issued new loans aimed mainly at the railway, airport and road infrastructure sector, as well as loans to Regions to support health services and interventions to restore flood damage; it also participated, as leader, in an important transaction for the Agency for the "Torino 2006" XX Winter Olympic Games for the construction of sports venues, transport infrastructure and reception structures;
- financed Territorial Entities (mainly Regions) through the subscription of securities;
- in project financing took on advisory and financial structuring mandates for various major projects in Italy and abroad. In particular, the main interventions on the domestic market regarded the health sector, urban and re-qualification furnishings, transports, the water sector and the management of integrated waste disposal systems; on the foreign market it was co-arranger in an important transaction for the thirty year license of three London Underground lines;
- in advisory acquired a new mandate from AMA S.p.A. for the partial privatization of its subsidiary AMA International; it took on a mandate from a concert party of public utilities aimed at the purchase of a minority share in a Piedmontese company operating in the same sector; it completed the activity related to the mandate conferred by Rimini Fiera S.p.A. for the definition of the business plan and evaluation of the company, in view of partial privatization.

In 2002 the bank made new disbursements for 3.2 billion euro, 1.3 billion of which in the fourth quarter, which took

total loans at the end of December to 14.7 billion euro, up 10.9% in the 12 months. The positive performance of customer operations was helped by a flow of new subscriptions of securities issued by public bodies, 0.4 billion euro, entirely within the last quarter. The income results for 2002 were conditioned by the losses of the subsidiary FIN.OPI. This, together with the increase in operating costs and despite the growth in commissions, led to a lower net income. Provisions made mainly for tax purposes were in line with those of the previous year.

Large Groups and Structured Finance

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

In 2002 the Large Groups unit achieved income results which were substantially in line with those for the same period in 2001 despite the general decline in the economic context; during the year particular attention to risk management in the automobile sector was confirmed. The results of the Structured Finance unit, on one side, were affected by prolonged difficulties on specific markets, which made it necessary to increase provisions for some projects, and on the other, registered an increase in the acquisition sector, with the definition of important transactions, the economic effects of which will become more evident in the years to come.

Other Italian Networks

Other Italian Networks operates in the domestic market through the distribution networks of the Cassa di Risparmio di Firenze, in which the Group has a stake of 19.5%, and the Cassa dei Risparmi di Forlì (21% stake).

In the context of the distribution agreements between SANPAOLO IMI and the companies in the Area, the following should be noted:

- positive progress in the marketing of mutual funds managed by CR Firenze Gestion Internationale (in which an 80% interest is held by Carifirenze and a 20% interest by SANPAOLO IMI). The net flow for the fourth quarter, equal to 104 million euro, brought the flow from the beginning of the year to 413 million euro and overall volumes to 2.1 billion euro;

- placement by the Cariforlì network, in the year, of SANPAOLO IMI Group asset management products for 80 million euro, 17 million of which in the fourth quarter. This net flow took the stock, at the end of December, to 166 million euro, up 84.4% since the beginning of the year.

In profit terms, the contribution to the SANPAOLO IMI Group's net income, accounted for in the context of the profits from companies carried at equity, was 22 million euro for Carifirenze and 6 million euro for Cariforlì.

Personal Financial Services

Banca Fideuram

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

In the fourth quarter of 2002 Banca Fideuram:

- continued with the realization of the activities connected with the integration with Banca Sanpaolo Invest, completed on 8 October with the acquisition of the total shareholding held by SANPAOLO IMI;
- made interventions on shareholdings which involved foreign subsidiaries and are destined to continue in 2003, also in Italy.

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

At the end of December 2002 customer financial assets of Banca Fideuram, including the results of Banca Sanpaolo Invest, were 56.4 billion euro, down 6.3% since the beginning of the year. Within the total aggregate the trend in asset administration, up by 18.3% on the 12 months, has been positive; this increase partially compensated for the reduction in assets under management, mainly due to the

devaluation of the stock. Profit margins for the year were generally reduced, mainly because of the fall in commission revenues, as well as the adjustment of goodwill and the positive differences of consolidation of the French subsidiaries.

Wealth Management and Financial Markets

Sanpaolo IMI Wealth Management

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

The main initiatives realized by the Area in the fourth quarter concerned:

- the widening of the product range, through placement, by Sanpaolo Vita, of a new index linked policy;
- the increase in the Sanpaolo Vita capital endowment in relation to the company's strong commercial development during 2002;
- the reorganization of subsidiaries consistently with the rationalization process of the Group's investment portfolio: in January 2003 the acquisition of the stake held by Sanpaolo Bank Luxembourg in Sanpaolo IMI Wealth Management Luxembourg was completed;
- the introduction, on 21 October 2002, of a new Italian fund commission system together with a rationalization process for Luxembourg funds, through the merger of several sectors and changes to the characteristics of the existing sectors.

The Area's assets under management at the end of December amounted to 83.4 billion euro, down 1.6% from the start of the year. Within the total aggregate the sustained growth in life technical reserves, which rose to 14.3 billion euro (+47% in comparison with the end of December 2001), should be noted. The profit results for the Area, whose assets include a considerable stock component, during the year reflected the negative market environment, recording an overall reduction in comparison with the previous year.

Banca IMI

Banca IMI, the Group's investment bank, covers securities dealing both on own account and for customers, the raising

of risk and debt capital for companies, as well as consulting in corporate finance. It uses its own subsidiaries, excluding IMIWeb Bank, which operates in online trading. Following the agreement reached in December with Centrobanca (Banca Popolare di Bergamo – Credito Varesino Group) an 80% stake in IMIWeb Bank will be sold to the latter in the early months of 2003.

In the fourth quarter of 2002, with reference to corporate finance and capital markets, Banca IMI:

- with regard to Public Offerings, acted as financial consultant and coordinating intermediary in the collection of applications regarding the offer launched by ENI on Italgas;
- in the context of stock placements, took part in the only major transaction carried out on the Italian market during the period (Fiera di Milano) and acted as co-manager in the private placement of Telekom Austria shares promoted by Telecom Italia;
- was co-sponsor, with Deutsche Bank, in the listing admission of ordinary and savings shares of Italennergia (subsequently renamed Edison), a company created from the merger by incorporation of Edison into Italennergia.

With regard to corporate finance advisory, Banca IMI: supplied consulting to Alitalia in the share swap project with Air France; supplied assistance to the Fontana Group for the reorganization of the structure and refinancing of the debt; acquired a mandate from Edison to supply assistance in the sale of reserves of gas in Egypt; supplied advisory services for extraordinary financing transactions in the IT and telecommunications sectors; continued the consulting activities related to existing mandates, such as the global advisory activity for the FIAT Group, assistance to the Albanian government in the project for the privatization of the fixed telecommunication and energy sectors and advisory to AEM Torino in the project for the exploitation of certain electricity generation assets.

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

In 2002 the total revenues of Banca IMI were conditioned by the high instability of the financial markets. The profit results, although benefiting from profits from the dealing of equity and bonds, were lower than revenues for the previous year due to major provisions for IMIWeb Bank. Excluding the latter, the comparison between 2002 and 2001 shows a net income which is substantially in line.

Sanpaolo IMI Private Equity

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

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

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

In the fourth quarter of 2002 action aimed at centralization in the company of the private equity activities of the Group resulting from the merger with Cardine continued. The strategic plan which places emphasis on the promotion and management of closed-end funds financed by capital collected mainly on the market also was approved. It also provides for the launch of new reserved closed-end equity funds of regional nature (one of which focusing on the Central regions and one on the North Western regions) and of sectoral nature (in the health sector) and in pan European scope, together with CDC IXIS Private Equity and Bayerische Landesbank Equity Management.

In October an agreement was signed for the participation in a new investment fund launched by the French government in support of small- and medium-sized local companies, in cooperation with CDC-Pme (a subsidiary of Caisse des Dépôts et Consignations) and the EIF (European Investment Fund).

At the end of January 2003 the acquisition by Cardine Finanziaria of the entire capital of Alcedo, the advisory company of the Cardine Impresa and Eptasviluppo Funds, was deliberated; it will be completed in February. This transaction completed the centralization of the private equity activities of the Group.

International Activities

Banque Sanpaolo

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

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

In operating terms, the bank reported a positive trend in customer volumes: compared with the end of December 2001, direct deposits were up 2.6% and loans to customers rose by 2.9%; this produced a favorable trend for net interest income, which partially offset the drop in commissions. The higher operating costs that were sustained in connection with the strengthening of the bank's market position and lower extraordinary income nevertheless led to a lower net income.

Foreign Network

The Area is responsible for the foreign network of the Parent Bank composed, following the transfer of Cardine's operating points, of 12 branches, 17 representative offices (joined by a new office in Madrid on 7 January 2003) and 1 operating desk, as well as for the Irish subsidiary Sanpaolo IMI Bank Ireland. This structure has a direct presence in 26 countries. To strengthen the position in its reference markets, the organization of the Area was based on three regional offices (Americas, Europe and Asia) to direct and control the various operating points.

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

In profit terms, the Foreign Network achieved an operating income for 2002 which was slightly lower than the previous year. The worsening of the risk level in the corporate lending sector led to higher provisions for loans, mainly connected to the adjustments to the Marconi position.

Sanpaolo IMI Internazionale

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

In December, the transfer to the company of the equity investments held by the Group in Central Eastern Europe and in the Mediterranean Area was deliberated, conditional to approval by the local Regulatory Authorities. The shareholdings include: Banka Koper, in which SANPAOLO IMI has a share of 62.1%, operating in Slovenia through a network of 39 branches; Inter-Europa Bank (32.5%), which has 23 branches on the

Hungarian market; West Bank (72.4%) with 17 operating points in Romania.

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

IMI Investimenti

IMI Investimenti manages the Group's relevant industrial shareholdings. The economic performance in 2002 was heavily penalized by the significant adjustments made to the equity portfolio (with particular reference to the devaluation of the FIAT shareholding), despite being mitigated by capital gains realized on the sale of part of the ENI shares held by the company.

Explanatory Notes

ACCOUNTING AND VALUATION PRINCIPLES

CHANGES IN THE CONSOLIDATION AREA

CONSOLIDATED PRO FORMA STATEMENTS FOR 2001
AND FOR THE FIRST QUARTER OF 2002

Accounting and valuation principles

The Quarterly Report of the SANPAOLO IMI Group at 31 December 2002 has been prepared according to Consob Regulation 11971 of 14 May 1999 and successive modifications and integration.

The balance sheet at 31 December 2002 and the statement of income for 2002 have been prepared using accounting and valuation principles consistent with the Annual Report 2001 to which reference is made for further detail. Here, the following should be noted:

- the accounting situations used for consolidation are those prepared by subsidiary companies (consolidated line by line, proportionally or at net equity) with reference to 31 December 2002, as adjusted when necessary in line with Group accounting principles;
- valuations according to the net equity method of subsidiaries subject to a significant degree of influence have been made on the basis of information made available by them also using, for the statement of income for the period, prudent estimates;
- the positive differences, generated by line by line, proportional and net equity consolidation, have been taken against the total of negative differences at first consolidation pre-existing or arising in the same year and to their extent, pursuant to art. 32 of D. Lgs. n. 87 of 27/1/1992 and successive applicative instructions issued by Bank of Italy;
- adjustments and provisions made exclusively for tax purposes by the Parent Bank and by consolidated companies are reversed;
- only significant balances and transactions with Group companies have been eliminated;
- the statement of income reflects the use of the reserves for general banking risks among others by SANPAOLO IMI S.p.A. (358 million euro) to face the extraordinary economic impact linked with the management of shareholdings and also considering the need to make Group fiscality as efficient as possible.

The quarterly balance sheet and statement of income have not been independently audited.

Changes in the consolidation area

The principal changes in the line by line and proportional consolidation area against 31 December 2001 concern:

- inclusion in the line by line consolidation area, with

acquisition of related financial flows since the beginning of 2002:

- of the former Cardine Group companies following the merger by incorporation of the Cardine Banca Parent Bank into SANPAOLO IMI S.p.A.;
- of FIN.OPI S.p.A. (the former Compagnia di San Paolo Investimenti Patrimoniali S.p.A.) held entirely by Banca OPI S.p.A.;
- the inclusion in the proportional consolidation area of the Slovenian company Banka Koper, following the increase in the stake already held in the previous year by the Parent Bank, as of 1 January 2002.

Please note the change to the company name of NHS S.p.A. to Sanpaolo IMI Private Equity S.p.A..

Consolidated pro forma statements for 2001 and for the first quarter of 2002

To allow consistent comparison of the results, the balance sheet and statement of income figures for last year and for the first quarter of 2002 used as a comparable basis for the analyses and comments contained in this Quarterly Report are presented in pro forma versions, which conventionally assume the merger by incorporation of Cardine Banca S.p.A. into SANPAOLO IMI S.p.A. as of 1 January 2001. The pro forma accounts for last year also suppose the proportional consolidation from 1 January 2001 of the Slovenian company Banka Koper, which entered the proportional consolidation area in the first quarter of 2002.

Therefore, attached to the present Explanatory Notes are the statement of reclassified consolidated pro forma statement of income for 2001 and the reclassified consolidated pro forma balance sheet as of 31 December 2001, while for the corresponding statements of reconciliation for the other quarters of 2001 and the first quarter of 2002 reference should be made to the Half Year Report of the SANPAOLO IMI Group for 2002.

In methodological terms, the preparation of the 2001 pro forma versions has been based on the use of the consolidated stand alone accounting of the SANPAOLO IMI Group and the former Cardine Group at their respective dates. In particular, the figures of the former Cardine Group for the first three quarters of 2001 have been properly adjusted in accordance with criteria which are consistent with those used by the same Group for the year end financial statements with regard to the effects of the tax benefits pro-

vided for by D. Lgs. 153 dated 17/5/99 (Legge Ciampi). Taxes have been restated without taking account of the incentive in question and further provisions have been made to neutralize the prior benefits envisaged by the same law. Furthermore, the figures of the former Cardine Group have been adjusted to take account of the reversal of the extraordinary component, net of the related tax effect, due to the change of valuation principles for the dealing securities portfolio made in the previous year and attributable on an accrual basis to the year 2000.

To prepare the pro forma totals, the following adjustments were made to take account of, as by convention:

- the acquisition on 1/1/2001 by SANPAOLO IMI of own shares to reach the number effectively used for the exchange. It has been conventionally simulated that the acquisition is posted against borrowings, with the consequent recording of the related economic effects;
- the effects of the merger. In particular, the conventional procedure is to cancel the shareholding in Cardine Banca held by SANPAOLO IMI on the basis of the percentage stake and book value effectively cancelled on merger. This cancellation was made at the various dates in exchange of the corresponding portion of the net shareholders' equity of Cardine Banca, excluding current income. As effectively occurred in the merger, the goodwill thus generated is posted to "equity investments", thus generating a positive difference on con-

solidation whose related quota of amortization is reflected in the statement of income;

- other adjustments designed to eliminate related transactions between the two Groups, as well as the alignment to consistent accounting principles, including: 1) the determination by the former Cardine Group of the actualization reserve for doubtful loans and latent capital losses on the investment portfolio which, net of related tax effects, have been posted to adjust equity at first consolidation; 2) the compensation, by the values present in the quarterly financial statements for 2001 of the former Cardine Group, of the positive differences of consolidation with the negative differences; consequently the related share of amortization posted to the statement of income has been adjusted;
- the contribution for 2001 of the proportional consolidation of Banka Koper.

The amounts of the adjustments made in preparing the pro forma statements at 31/12/2001 are explained in the detailed notes reported in the attachments.

Please note that the above pro forma schedules are unaudited.

Turin, 11 February 2003

The Board of Directors

Attachments

STATEMENTS OF THE RECLASSIFIED CONSOLIDATED PRO FORMA
STATEMENT OF INCOME FOR 2001 AND OF THE RECLASSIFIED
CONSOLIDATED PRO FORMA BALANCE SHEET AT 31/12/2001

Statement of reclassified consolidated pro forma statement of income for 2001

(€/mil)

	SANPAOLO IMI Group (a)	Cardine Group (1) (b)	Acquisition of SANPAOLO IMI own shares (c)	Proper merger effects (d)	Other adjustments (e)	Banka Koper pro forma contribution (f)	SANPAOLO IMI Group pro forma (g)=(a+b+c+d+e+f)
NET INTEREST INCOME	2,788	1,186	-22 (4)	-	-	7	3,959
Net commissions and other net dealing revenues	2,608	439	-	-	-	9	3,056
Profits and losses from financial transactions and dividends on shares	274	25	-	-	-	1	300
Profits from companies carried at equity and dividends from shareholdings	207	21	-	-	-	-	228
NET INTEREST AND OTHER BANKING INCOME	5,877	1,671	-22	-	-	17	7,543
Administrative costs	-3,600	-1,029	-	-	-	-18	-4,647
- <i>personnel</i>	-2,221	-630	-	-	-	-11	-2,862
- <i>other administrative costs</i>	-1,180	-332	-	-	-	-7	-1,519
- <i>indirect duties and taxes</i>	-199	-67	-	-	-	-	-266
Other operating income, net	234	107	-	-	-	12	353
Adjustments to tangible and intangible fixed assets	-393	-83	-	-	-	-3	-479
OPERATING INCOME	2,118	666	-22	-	-	8	2,770
Adjustments to goodwill and merger and consolidation differences	-150	-28	-	-4 (5)	18 (6)	-8	-172
Provisions and net adjustments to loans and financial fixed assets	-737	-263	-	-	-	-7	-1,007
INCOME BEFORE EXTRAORDINARY ITEMS	1,231	375	-22	-4	18	-7	1,591
Net extraordinary income	392	22 (2)	-	-	-	-	414
INCOME BEFORE TAXES	1,623	397	-22	-4	18	-7	2,005
Income taxes for the period	-318	-209 (3)	9 (4)	-	-	1	-517
Change in reserves for general banking risks	-1	-5	-	-	-	-	-6
Income attributable to minority interests	-101	-5	-	-	-	-	-106
NET INCOME	1,203	178	-13	-4	18	-6	1,376

(1) The figures for 2001 approved by the Competent Bodies of Cardine Banca have been adjusted as specified in the following detailed notes.

(2) The caption has been reduced to reflect the reversal of the extraordinary component due to the change in valuation principles of dealing securities attributable to the preceding year (12 million euro).

(3) The caption has been reduced to reflect the tax effect (5 million euro) related to note (2).

(4) The adjustment reflects the cost of the funding needed to finance the purchase of SANPAOLO IMI shares to reach the number of own shares used in the exchange and the related tax effect.

(5) The adjustment concerns the amortization of the positive differences of consolidation generated by the allocation of merger goodwill.

(6) The adjustment concerns the change in amortization of the positive differences of consolidation made by the Cardine Group as a result of the new positive differences (post compensation).

Statement of reclassified consolidated pro forma balance sheet at 31/12/2001

	(€/mil)						
	SANPAOLO IMI Group	Cardine Group	Acquisition of SANPAOLO IMI own shares	Proper merger effects	Other adjustments	Banka Koper pro forma contribution	SANPAOLO IMI Group pro forma
	(a)	(b)	(c)	(d)	(e)	(f)	(g)=(a+b+c+d+e+f)
ASSETS							
Cash and deposits with central banks and post offices	818	331	-	-	-	23	1,172
Loans	118,627	32,686	-	-	-397	430	151,346
- due from banks	21,571	5,053	-	-	-282 (3)	94	26,436
- loans to customers	97,056	27,633	-	-	-115 (3)(4)	336	124,910
Dealing securities	18,819	5,561	-	-	-	177	24,557
Fixed assets	10,098	1,932	-	-105	-36	-	11,889
- investment securities	3,308	714	-	-	-36 (5)	-	3,986
- equity investments	4,697	327	-	-105 (2)	-	-21	4,898
- intangible fixed assets	367	75	-	-	-	2	444
- tangible fixed assets	1,726	816	-	-	-	19	2,561
Differences arising on consolidation and on application of the equity method	1,053	212	-	38 (2)	-132 (6)	72	1,243
Other assets	20,776	2,334	-	-	48 (4)(5)	62	23,220
Total assets	170,191	43,056	-	-67	-517	764	213,427
LIABILITIES							
Payables	134,706	35,717	445	-	-303	720	171,285
- due to banks	27,922	8,834	-	-	-303 (3)	29	36,482
- due to customers and securities issued	106,784	26,883	445 (1)	-	-	691	134,803
Provisions	3,246	1,024	-9	-	-	17	4,278
- for taxation	901	326	-9 (1)	-	-	1	1,219
- for termination indemnities	734	221	-	-	-	-	955
- for risks and charges	1,568	177	-	-	-	16	1,761
- for pensions and similar	43	300	-	-	-	-	343
Other liabilities	17,752	2,502	22 (1)	-	-	33	20,309
Subordinated liabilities	5,607	222	-	-	-	-	5,829
Minority interests	698	95	-	-	-	-	793
Shareholders' equity	8,182	3,496	-458 (1)	-67 (2)	-214 (4)(5)(6)	-6	10,933
Total liabilities	170,191	43,056	-	-67	-517	764	213,427

(1) The adjustment reflects the acquisition (and related indebtedness) of SANPAOLO IMI own shares needed to reach the number used for the exchange.

(2) The adjustment reflects the cancellation of the accounting value (105 million euro) of the Cardine Banca shares held by SANPAOLO IMI at the time of the merger against the corresponding portion of net shareholders' equity of the incorporated company (63 million euro). The merger difference (38 million euro), net of the share of amortization attributable to the period, is registered in the "equity investments" caption establishing a positive difference of consolidation of the same amount.

(3) The adjustment reflects the elimination of the most significant reciprocal accounts between the two Groups as of 31 December 2001 (282 million euro of loans to banks, 21 million euro of loans to customers and 303 million euro due to banks).

(4) The adjustment reflects the actualization of doubtful loans of the Cardine Group to take account of the adoption of SANPAOLO IMI accounting principles. The adjustment to loans is estimated at 94 million euro with a positive tax effect of 35 million euro included in "other assets".

(5) This is the adjustment to net shareholders' equity of the newly consolidated companies to reflect the capital losses on investment securities of 36 million euro, with a positive tax effect of 13 million euro included in "other assets".

(6) This reflects offsetting, in accordance with current Italian banking regulations, of positive differences of consolidation against the negative differences of the Cardine Group as of 31 December 2001.

