
**REPORT OF THE BOARD OF DIRECTORS
IN ACCORDANCE WITH ART. 2501 *QUATER* of the Italian Civil Code
ON THE MERGER BY INCORPORATION OF**

CARDINE FINANZIARIA S.P.A.

INTO

SANPAOLO IMI S.P.A.

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INTRODUCTION

Shareholders,

you have been called to the Extraordinary Meeting to decide on the proposed merger by incorporation of Cardine Finanziaria S.p.A. into your Company.

The incorporation of the wholly controlled subsidiary Cardine Finanziaria into SANPAOLO IMI represents an advanced stage of the project to develop and rationalize the Group bank networks, started last year.

The main purposes of this operation are as follows:

- to improve the efficiency of operations thanks to the economies of scale and scope which can be achieved by progressively transferring to the Group's central structures those Cardine Finanziaria functions not directly connected to supporting commercial activities;
- to extend to the Cardine bank networks the distribution model adopted by the Group and recently introduced to Sanpaolo Banco di Napoli;
- to maintain a competitive advantage within the reference territory through historical brands and the effective functioning relationship between the distribution networks which will be obtained through the creation of a nationwide structure for coordination and commercial development.

The strategic motives and realization methods for the merger operation are better illustrated in the context of this report.

THE SANPAOLO IMI GROUP

ESTABLISHMENT, ASSETS AND SHAREHOLDERS

The SANPAOLO IMI Group originates from the merger by incorporation in 1998 of the Istituto Mobiliare Italiano into the Istituto Bancario San Paolo di Torino.

In the years following, the Group expanded significantly through operations such as the acquisition of Banco di Napoli in 2000 – completed in 2002, and the merger with Cardine Banca in 2002.

As of 30 June 2003 the shareholders' equity of the Group was 10,423 million euro.

The SANPAOLO IMI S.p.A. share capital is 5,144,064,800 euro fully paid, and divided into 1,448,831,982 ordinary shares and 388,334,018 preference shares with a nominal unit value of 2.8 euro.

The shareholder structure of SANPAOLO IMI as of 31 July 2003 was as follows:

Shareholders (direct and/or indirect)	Ordinary shares	Preference shares	Total shares	% of total capital (1,837,166,000 shares)	% of ordinary capital (1,448,831,982 shares)
COMPAGNIA DI SAN PAOLO	108,662,399	157,341,052	266,003,451	14.479%	7.500%
FONDAZIONE C.R. PADOVA E ROVIGO	63,487,817	134,968,267	198,456,084	10.802%	4.382%
SANTANDER CENTRAL HISPANO (SCH)			141,461,782	7.700%	9.764%
. Santusa Holding SL	125,260,424				
. Banco Madasant SU SA	16,201,358				
FONDAZIONE C.R. IN BOLOGNA	45,174,581	96,024,699	141,199,280	7.686%	3.118%
GIOVANNI AGNELLI E C. Sapa			70,371,000	3.830%	4.857%
. IFIL Finanziaria di Partecipazioni SpA	70,371,000				
DEUTSCHE BANK AG			67,642,211	3.682%	4.669%
. Deutsche Bank AG (1)	60,150,420				
. Deutsche Bank Sim SpA	4,356,460				
. Morgan Grenfell & Co. Limited ⁽¹⁾	3,135,331				
FONDAZIONE CARIPLO			32,057,549	1.745%	2.213%
CAISSE DES DEPOTS ET CONSIGNATIONS			31,294,572	1.703%	2.160%
. CDC IXIS Italia Holding SA	28,088,822				
. Caisse des Depots et Consignations	3,205,750				
TEMPLETON GLOBAL ADVISERS LTD			28,316,530	1.541%	1.954%
SOCIETA' REALE MUTUA DI ASSICURAZIONI			28,285,876	1.540%	1.952%
. Società Reale Mutua di Assicurazioni	25,909,299				
. Italiana Assicurazioni SpA	2,376,577				
ENTE CASSA DI RISPARMIO DI FIRENZE			28,050,000	1.527%	1.936%
FONDAZIONE CASSA DI RISPARMIO DI VENEZIA			27,088,729	1.474%	1.870%
Other shareholders ⁽²⁾			776,938,936	42.290%	53.625%

(1) of which respectively 3,387,184 and 2,345,331 shares as security

(2) This caption includes own shares held by the Group

The SANPAOLO IMI ordinary shares are quoted on the official stock market in Italy (“Mercato Telematico Azionario”) and on the New York stock exchange, and they are traded on the SEAQ International of London.

With reference to capital requirements to cover lending and market risks, the following table shows the regulatory capital, risk-weighted assets and consolidated solvency ratios as of 30 June 2003.

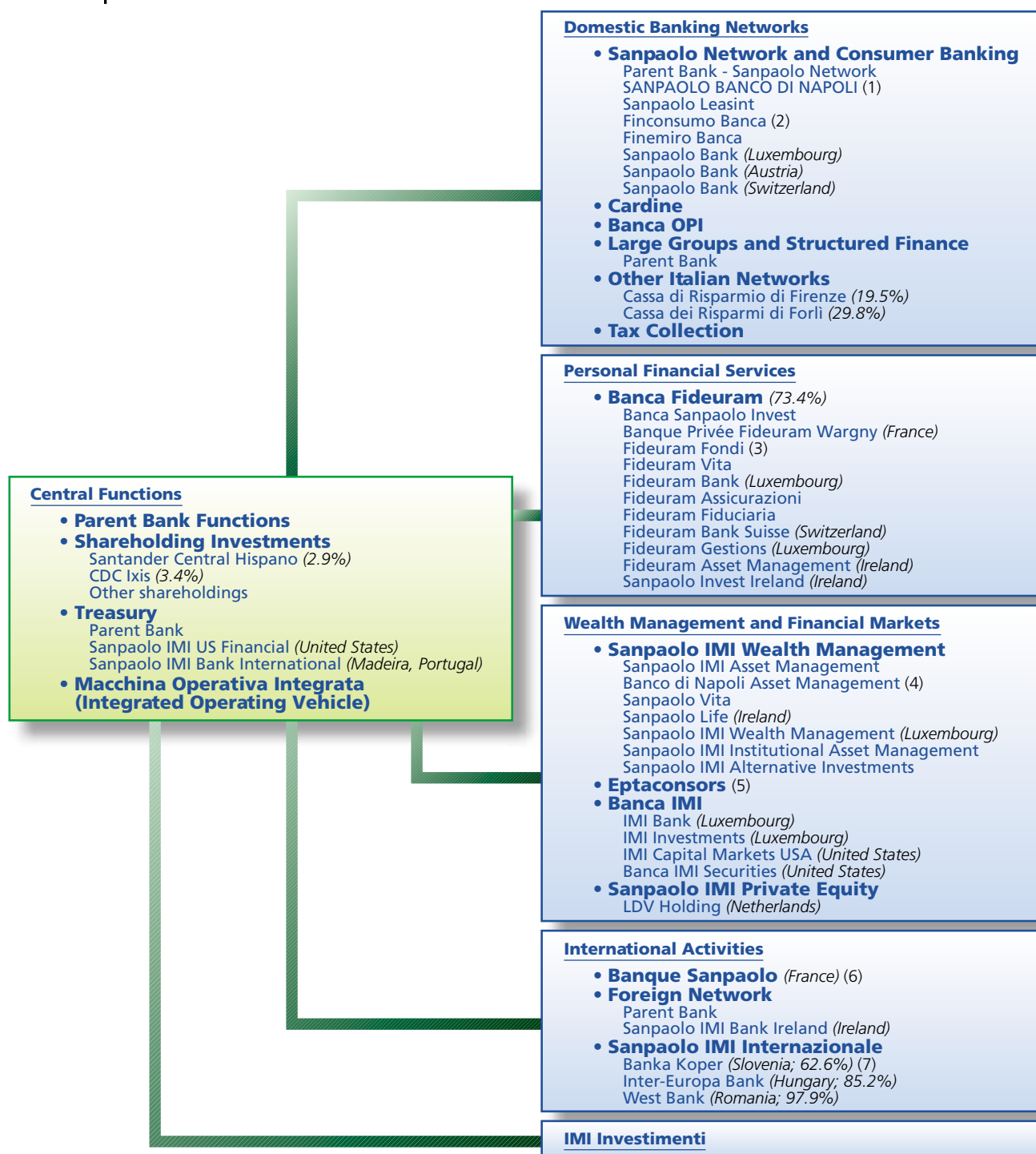
	(€/mil)
	30/06/03
Regulatory capital	
Tier 1 capital	9,835
<i>of which: preferred shares</i>	<i>1,000</i>
Tier 2 capital	4,524
less: prescribed deductions	<u>-454</u>
Regulatory capital	13,905
Tier 3 subordinated loans	<u>600</u>
Total regulatory capital	14,505
Weighted assets	
Credit risk	128,362
Market risk	10,275
Other requirements	<u>563</u>
Total assets	139,200
Solvency ratios (%)	
Total capital ratio	10.4
Tier 1 ratio	7.1
Core tier 1 ratio (net of preferred shares)	<u>6.3</u>

At the end of June 2003, the ratio between the regulatory capital and the total risk-weighted assets, essentially for lending and market risks, presented an overall solvency ratio of 10.4%. The ratio between Group Tier 1 capital and the total risk-weighted assets was 7.1%.

GROUP STRUCTURE AND BUSINESS SECTORS

From the moment it was set up, the SANPAOLO IMI Group was organized by Business Areas, each being fully autonomous; this structure was adopted in order to reply efficiently to the volatile competitive scenario, to ensure a clear identification of the profitability of each business taking into account the relevant risk, to assess the adequacy of the total capital and its adequate allocation amongst Business Areas, and to obtain a high level of management responsibility for operating results.

Group structure



(1) New company, operating since 1 July 2003, to which the branches of the former Banco di Napoli in the regions of Campania, Apulia, Calabria and Basilicata have been transferred and which, from 29 September 2003, will include the branches of the Sanpaolo Network operating in this area.

(2) The 50% stake held by SANPAOLO IMI will be sold to Santander Central Hispano following the agreement signed on 3 March 2003.

(3) On 1 July the company adopted the name Fideuram Investimenti.

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

(5) On 30 June 2003 the share rose from 60.7% to 100% following the acquisition of the stakes held by Banca Carige and Banco di Sardegna.

(6) On 31 July 2003 an agreement was reached for the sale of the French subsidiary to Caisse Nationale des Caisses d'Epargne.

(7) On 21 August 2003 the share rose from 62.1% to 62.6% following the exercise of a put option by the shareholders of Banka Koper.

The results for the first six months of 2003 in the business sectors in which the Group operates can be summarized as follows:

Business Areas First Half 2003	Contribution to net income of the Group (Euro/mil)	Average capital (Euro/mil)	Annualized profitability %
DOMESTIC BANKING NETWORK	527	7,973	13.2
PERSONAL FINANCIAL SERVICES	55	701	15.7
WEALTH MANAGEMENT AND FINANCIAL MARKETS	92	1,377	13.4
INTERNATIONAL ACTIVITIES	46	754	12.2
CENTRAL FUNCTIONS (1)	-279	-316	n.s.

(1) Includes holding activities, finance, the Macchina Operativa Integrata and the management of property and shareholding investments and infragroup items. Contribution to net income of the Group in the first half of 2003 is influenced by charges related to staff leaving incentives.

The Group is currently one of the leading Italian and European banking groups. With stock market capitalization at the end of August 2003 of 12,713 million euro, SANPAOLO IMI is among the top three Italian banking groups and is around 25th place in Europe. As of 30 June 2003 the total assets of the Group amounted to 214,605 million euro.

The distribution capacities of SANPAOLO IMI are based on a network of 3,126 branches and 4,828 financial planners in Italy and 178 branches and representative offices abroad. The Group employs 46,237 people, of which 27,889 work for the Parent Bank SANPAOLO IMI S.p.A.

FINANCIAL DATA

The following tables show the most significant changes in the key figures of the Group with reference to the first half of 2003, in terms of income, volume and structure, and also the reclassified consolidated statements of income and balance sheets.

Key figures

	First half 2003	First half 2002 pro forma (1)	Change first half 2003 / First half 2002 pro forma (%)	2002 pro forma (1)
CONSOLIDATED STATEMENT OF INCOME (€/mil)				
Net interest income	1,919	1,881	+2.0	3,775
Net commissions and other net dealing revenues	1,428	1,416	+0.8	2,866
Administrative costs	-2,329	-2,322	+0.3	-4,700
Operating income	1,356	1,314	+3.2	2,367
Provisions and net adjustments to loans and financial fixed assets	-320	-310	+3.2	-1,426
Income before extraordinary items	956	917	+4.3	723
Net income of the Group	441	603	-26.9	901
CONSOLIDATED BALANCE SHEET (€/mil)				
Total assets	214,605	208,675	+2.8	204,841
Loans to customers (excluding NPLs and SGA loans)	127,732	121,879	+4.8	125,257
Securities	28,174	28,358	-0.6	22,137
Equity investments	3,860	4,043	-4.5	4,015
Subordinated liabilities	6,784	6,147	+10.4	6,605
Shareholders' equity of the Group	10,423	10,406	+0.2	10,554
CUSTOMER FINANCIAL ASSETS (€/mil)				
Customer financial assets	376,042	365,643	+2.8	363,896
- Direct deposits	137,245	137,211	+0.0	137,884
- Indirect deposits	238,797	228,432	+4.5	226,012
- Asset management	145,861	139,144	+4.8	138,135
- Asset administration	92,936	89,288	+4.1	87,877
PROFITABILITY RATIOS (%)				
Annualized RoE (2)	8.4	11.3		8.4
Cost / Income ratio (3)	61.9	62.6		65.4
Net commissions / Administrative costs	61.3	61.0		61.0
CREDIT RISK RATIOS (%)				
Net non-performing loans / Net loans to customers	1.0	1.1		1.0
Net problem loans and loans in restructuring / Net loans to customers	1.2	1.2		1.1
SOLVENCY RATIOS (%) (4)				
Tier 1 ratio	7.1	7.2		7.3
Total ratio	10.4	10.0		10.7
SHARES				
Number of shares (millions)	1,837	1,837	-	1,837
Quoted price per share (€)				
- average	6.964	11.638	-40.2	9.439
- low	5.796	9.479	-38.9	5.231
- high	8.539	13.702	-37.7	13.702
Earnings / Average number of shares in circulation (€)	0.24	0.33	-26.9	0.49
Dividend per share (€)				0.30
Dividend per share / Average annual price (%)				3.18
Book value per share (€) (5)	5.67	5.66	+0.2	5.75
OPERATING STRUCTURE				
Employees	46,237	47,222	-2.1	46,456
Domestic branches	3,126	3,107	+0.6	3,115
Foreign branches and representative offices	178	170	+4.7	176
Financial planners	4,828	5,205	-7.2	4,951

(1) The pro forma figures have been prepared, according to the criteria detailed in the Explanatory Notes, assuming, from 1/1/2002, the line by line consolidation of Eptaconsors and Inter-Europa Bank, the proportional consolidation of Cassa dei Risparmi di Forlì, the valuation at equity of Finconsumo Banca and the exclusion of IMIVWeb Bank from the consolidation area.

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

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

(4) Solvency ratios at 30/6/2002 and 31/12/2002 are not pro forma.

(5) Net shareholders' equity / Number of shares in circulation.

The pro forma figures for the first half of 2002 and for the year 2002 are unaudited.

Reclassified consolidated balance sheet

	30/6/2003 (€/mil)	30/6/2002 pro forma (1) (€/mil)	Change 30/6/03-30/6/02 pro forma (%)	31/12/2002 pro forma (1) (€/mil)
ASSETS				
Cash and deposits with central banks and post offices	980	1,098	-10.7	1,508
Loans	151,344	148,044	+2.2	150,117
- due from banks	21,129	23,046	-8.3	22,268
- loans to customers	130,215	124,998	+4.2	127,849
Dealing securities	24,805	24,696	+0.4	19,217
Fixed assets	9,804	10,639	-7.8	9,615
- investment securities	3,369	3,662	-8.0	2,920
- equity investments	3,860	4,043	-4.5	4,015
- intangible fixed assets	372	426	-12.7	433
- tangible fixed assets	2,203	2,508	-12.2	2,247
Differences arising on consolidation and on application of the equity method	1,027	1,195	-14.1	1,080
Other assets	26,645	23,003	+15.8	23,304
Total assets	214,605	208,675	+2.8	204,841
LIABILITIES				
Payables	165,842	167,679	-1.1	162,513
- due to banks	28,597	30,468	-6.1	24,629
- due to customers and securities issued	137,245	137,211	+0.0	137,884
Provisions	3,718	4,218	-11.9	3,844
- for taxation	460	1,099	-58.1	681
- for termination indemnities	971	995	-2.4	967
- for risks and charges	1,939	1,776	+9.2	1,848
- for pensions and similar	348	348	-	348
Other liabilities	27,546	19,780	+39.3	20,983
Subordinated liabilities	6,784	6,147	+10.4	6,605
Minority interests	292	445	-34.4	342
Shareholders' equity	10,423	10,406	+0.2	10,554
Total liabilities	214,605	208,675	+2.8	204,841
GUARANTEES AND COMMITMENTS				
Guarantees given	18,309	16,661	+9.9	20,590
Commitments	31,696	25,983	+22.0	27,997

(1) The pro forma consolidated balance sheets as of 30 June 2002 and 31 December 2002, which are unaudited, were prepared according to the criteria detailed in the Explanatory Notes to enable consistent comparison with the consolidated financial statements as of 30 June 2003. The pro forma schedules reflect the line by line consolidation of Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cariforli as of 1 January 2002, as well as the exclusion of IMIWeb Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date.

Reclassified consolidated statement of income

	First half 2003 (€/mil)	First half 2002 pro forma (1) (€/mil)	Change first half 2003 / First half 2002 pro forma (%)	2002 pro forma (1) (€/mil)
NET INTEREST INCOME	1,919	1,881	+2.0	3,775
Net commissions and other net dealing revenues	1,428	1,416	+0.8	2,866
Profits and losses from financial transactions and dividends on shares	267	214	+24.8	300
Profits from companies carried at equity and dividends from shareholdings	139	184	-24.5	293
NET INTEREST AND OTHER BANKING INCOME	3,753	3,695	+1.6	7,234
Administrative costs	-2,329	-2,322	+0.3	-4,700
- <i>personnel</i>	-1,449	-1,436	+0.9	-2,888
- <i>other administrative costs</i>	-745	-754	-1.2	-1,551
- <i>indirect duties and taxes</i>	-135	-132	+2.3	-261
Other operating income, net	162	169	-4.1	354
Adjustments to tangible and intangible fixed assets	-230	-228	+0.9	-521
OPERATING INCOME	1,356	1,314	+3.2	2,367
Adjustments to goodwill and merger and consolidation differences	-80	-87	-8.0	-218
Provisions and net adjustments to loans and financial fixed assets	-320	-310	+3.2	-1,426
INCOME BEFORE EXTRAORDINARY ITEMS	956	917	+4.3	723
Net extraordinary income/expense	-172	137	n.s.	321
INCOME BEFORE TAXES	784	1,054	-25.6	1,044
Income taxes for the period	-322	-420	-23.3	-463
Change in reserves for general banking risks	-	-2	n.s.	363
Income attributable to minority interests	-21	-29	-27.6	-43
NET INCOME	441	603	-26.9	901

(1) The pro forma consolidated balance sheets for the first half of 2002 and for the year 2002, which are unaudited, were prepared according to the criteria detailed in the Explanatory Notes to enable consistent comparison with the consolidated financial statements for the first half of 2003. The pro forma schedules reflect the line by line consolidation of Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cariforli as of 1 January 2002, as well as the exclusion of IMIWeb Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date.

CARDINE FINANZIARIA

BUSINESS

Cardine Finanziaria S.p.A. is a financial institution created following the transformation of Cardine Adriatico S.r.l. into a company limited by shares, in the context of the merger of Cardine Banca S.p.A. into SANPAOLO IMI S.p.A.

The company became operative on 1 June 2002 and, at the same time, a company branch was transferred to it comprising, in particular, the controlling shareholdings previously held by Cardine Banca in the following banks:

Company name	Shareholding
Cassa di Risparmio di Padova e Rovigo S.p.A.,	100%
Cassa di Risparmio in Bologna S.p.A.,	100%
Cassa di Risparmio di Venezia S.p.A.,	100%
Banca Popolare dell'Adriatico S.p.A.;	70.86%
Cassa di Risparmio di Udine e Pordenone S.p.A.,	100%
Cassa di Risparmio di Gorizia S.p.A.	100%
Banca Agricola di Cerea S.p.A. ¹	100%

Some minority shareholdings in the infrastructure and transport sectors, as well as investments in operating and financial companies, completed the assets transferred to the company.

Since its establishment Cardine Finanziaria has assumed a role in coordinating and managing, as well as developing the business of the Cardine network of banks, with the aim of continuing the role previously carried out by Cardine Banca and consistent with the strategic and operative guidelines defined by the Parent Bank. It also provides the majority of operating, organizational and consultancy services previously performed by Cardine Banca.

Cardine Finanziaria currently employs 1,233 people.

FINANCIAL DATA

As of 30 June 2003, the total of assets recorded to the balance sheet was euro 2,608 million, most of which referred to equity investments which totaled 2,152 million euro (of which 2,102 million euro refer to directly controlled banks).

Shareholders' equity, net of the loss for the period (70 million euro), totals 2,484 euro and includes share capital (euro 1,800 million), share premium reserve (600 million euro), other reserves (154 million euro). This result, which does not take into account the current income from subsidiary banks, can be attributed to the 60 million euro adjustment to the book value of the shareholding in Banca Popolare dell'Adriatico which was prudently aligned to an adequate level, considering the portion of majority shares held, in respect of the price of the recent Public Offer on flotation of the shares². At consolidated level, in the

¹ This bank was merged with Cassa di Risparmio di Padova e Rovigo with legal effect from 1 June 2003

² The Public Offer was launched by the Parent Bank in May and was successfully concluded with the purchase of 26.38% of the capital of the subsidiary bank by SANPAOLO IMI.

first half of the year the Cardine Finanziaria group achieved a positive net result of 117 million euro.

The Cardine Finanziaria balance sheet can be summarized as follows:

CARDINE FINANZIARIA: BALANCE SHEET

	(euro/1000)			
	30/06/2003	30/06/2002	Change %	31/12/2002
ASSETS				
Loans to banks	196,800	34,321	473.4	95,417
Fixed assets	2,244,562	2,319,727	-3.2	2,314,149
- equity investments	2,152,391	2,212,287	-2.7	2,212,864
- intangible fixed assets	26,710	38,112	-29.9	33,385
- tangible fixed assets	65,461	69,328	-5.6	67,900
Other assets	166,875	90,683	84.0	265,230
Total assets	2,608,237	2,444,731	6.7	2,674,796
LIABILITIES				
Provisions	70,359	859	n.s.	24,103
- for taxation	68,736	117	n.s.	22,421
- for termination indemnities	540	32	n.s.	505
- for future charges	1,083	710	52.5	1,177
Other liabilities	53,622	47,100	13.8	57,285
Shareholders' equity	2,484,256	2,396,772	3.7	2,593,408
Total liabilities	2,608,237	2,444,731	6.7	2,674,796

As of 30 June 2003 the financial data of the most significant bank networks controlled by Cardine Finanziaria is as follows:

	<i>Euro/mil.</i>					
	<i>Employees</i>	<i>Branches</i>	<i>Total Assets</i>	<i>Net shareholders' equity</i>	<i>Net income as of 30/6/03</i>	
Cassa di Risparmio di Padova e Rovigo	3,374	269	12,108	743	62	
Cassa di Risparmio in Bologna	2,193	183	9,763	608	39	
Cassa di Risparmio di Venezia	1,544	128	5,298	284	20	
Banca Popolare dell'Adriatico	1,306	133	3,133	265	8	
Cassa di Risparmio di Udine e Pordenone	786	99	2,614	146	8	
Cassa di Risparmio di Gorizia	353	35	956	80	4	

RECENT DEVELOPMENTS

In 2003 Cardine Finanziaria commenced rationalization of its bank networks, with a view to increase its territorial cover whilst also realizing economies of scale and cost savings at head office level.

In particular, the Company performed the merger by incorporation of Banca Agricola di Cerea in Cassa di Risparmio di Padova e Rovigo, effective for accounting and tax purposes as of 1 January 2003 and with legal effect as of 1 June 2003. The merger operation, which achieved cost and revenue synergies and optimized the structure of capital, took place without the issue of shares, since the incorporating company and the company incorporated were held by the single shareholder Cardine Finanziaria.

There is also an imminent merger operation between Cassa di Risparmio di Udine e Pordenone and Cassa di Risparmio di Gorizia, which will result in the establishment of Friulcassa Spa – Cassa di Risparmio Regionale. Also in this case benefits are expected in respect of improvements to the efficiency of operational processes and of reaching a greater critical amount.

THE PURPOSE AND METHOD OF THE MERGER

REFERENCE FRAMEWORK

External growth

During the past three years the SANPAOLO IMI Group carried out some important operations to grow externally aimed at expanding its territory and consolidating its strategic position. With the acquisition and subsequent merger by incorporation of Banco di Napoli and the merger with Cardine Banca, the Group has, in fact, attained:

- the completion of a strong distribution network with a widespread presence over the national territory;
- the strengthening of the commercial bank, with a specific vocation for retail and with considerable territorial roots;
- economies of scale sufficient to obtain high levels of operational efficiency and to create the conditions for balanced and sustainable growth in the medium term.

The integration process and the new distribution model

The growth in size of the Group externally was accompanied by a progressive rationalization process of the structures aimed at achieving the following objectives:

- integration of the distribution networks whilst safeguarding the value of each brand in the reference markets;
- concentration at Group level of the specialized units and product factories and the common exploitation of their services;
- realization within the Parent Bank of a strong central unitary control of strategic activities and coordination of commercial and loan policies as well as control of risks and management trends;

- progressive convergence of the different IT systems towards a single platform.

The programs have been set in motion with the aim of extending the distribution model already adopted successfully by the Sanpaolo network to the entire SANPAOLO IMI Group network and to the entire domestic market. This model is characterized by specialized operating points targeting macro customer segments with similar characteristics, identified according to businesses, private customers and retail customers.

On completion of this process the operating structures of the Group's commercial banks will be focused on three markets:

- Business: which, in customer relations, will mainly involve specialization in the areas of consulting and financial assistance, as well as the capacity to evaluate and manage credit risk above certain levels.
- Private: which will be oriented toward high net-worth requiring personalized services, especially in investment management;
- Retail (households, small companies and small entrepreneurs): this market, the largest and most varied, where benefits for the bank are not only the quality of the products offered, but also the continuity of a loyal and personal relationship, the proximity and ease of the services, shall be governed by a territorial structure characterized by historical brands which bring a competitive advantage in terms of local social and economic roots.

The specialization of operating points allows a more efficient response to the needs of the different types of customer, but implies the necessity for an adequate connection between the commercial initiatives. In order to meet these needs, the Group has established, and is implementing, a geographical organizational structure according to the territorial areas and bank networks. This will ensure the local level of efficiency of the coordination of policies offered by branches operating in the respective markets.

The realization of this objective is achieved through an organizational model based on:

- the single of presence within the territory: all the branches operating within a certain area must form part of a single organizational structure and/or company in order to guarantee internally, maximum efficiency and effectiveness through single leadership and, externally, clear and unequivocal identification of the Group;
- active policies differentiating the management of the brands, thereby increasing local recognition of the leading retail brand and improving the visibility of the specialized services;
- strong territorial coordination of the distribution structures, ensuring a constant link between the strategic aims of the Group and specific commercial policies;
- progressive implementation throughout the Group of a single, multibanking and multichannel IT system which, by being interactive, guarantees maximum flexibility.

This arrangement of the commercial bank fits in perfectly with the configuration of the Business Areas of the Group. The latter comprises strengthened specialized units and product factories with whom the 'redesigned' distribution networks will develop synergic relations, following the main objective to constantly improve the quality of service offered to customers.

REALIZATION OF THE PROJECT

The project comprises the merger by incorporation of Cardine Finanziaria into SANPAOLO IMI with the consequent realignment of activities carried out by the subsidiary under the Parent Bank and the creation of a North East Territorial Direction (hereafter “Direction”) supporting the network of banks operating in the area between the Tre Venezie and Emilia Romagna.

As already mentioned, to date Cardine Finanziaria has coordinated, developed and controlled those banks forming the network of banks controlled by Cardine, providing the same centralized services as those previously supplied by Cardine Banca, such as IT, administration, accounting and financial reporting, auditing and staff services (legal, human resources, company secretariat). Therefore the company has an organizational structure best equipped to perform such activities.

The purpose and method of the merger

The process of reconfiguring the Cardine Finanziaria organization through the proposed merger operation is based on the reallocation and redefinition of the activities carried out to date and mainly aimed at:

- realizing scale and scope economies by gradually transferring toward the Group’s central structures (Corporate Centre, Product factories) those activities not directly connected to the management of business. With this in mind, processes to centralize IT and logistics are already taking place, and will result in the Cardine bank networks fully implementing the Group IT system;
- safeguarding the competitive advantage on the reference market, evaluating the capacity and experience matured, by assigning to the new Direction the commercial and lending activities of Cardine Finanziaria necessary for developing business;
- maximizing commercial efficiency, thanks to the opportunities for the Cardine networks, through the common support of the Group’s product factories and single commercial coordination, the benefits of exchanging experiences – of internal benchmarking in terms of efficiency and profitability and of the single aims of strategic marketing, customer relationship and customer satisfaction.

The reorganization arising from the integration of the companies provides for the current functions of Cardine Finanziaria to evolve according to three steps:

1. convergence into the Direction of the activities involving the development of business of the bank networks;
2. transfer those functions not covered by the Direction to the Sanpaolo IMI Corporate Centre, with the possibility of forming local support centers or de-centralized pools to govern such activities efficiently;
3. terminate those institutional functions tied to the existence of Cardine Finanziaria as a legally autonomous entity.

North East Territorial Direction

The Direction will be responsible, in respect of the guidelines of the central structures, for governing and supervising the commercial and lending activities of the bank networks and of the Sanpaolo branches operating within its territory. It will also be responsible for developing business within the reference territory, positioning itself as the Structural link between the network of banks and the Group structure to channel and exploit the business opportunities offered by the territorial reference market.

The area of the Direction shall comprise the Tre Venezie and Emilia Romagna and the head office will be in Padua.

The organizational structure of the Direction will be composed of the following functions:

- Commercial Development, with the task of assuring that the bank networks reach the market objectives, within the commercial policies established by the central structures (Corporate Centre and Product Factories). It will encourage the coordination and synchronization of the commercial activities and governing of the territory and guarantee the efficiency of advertising and promotional initiatives, which shall be consistent with the company's image and guidelines for communications. It shall also represent the link between the bank networks and the specialized structures and product factories for developing new products and services and for coordinating specific initiatives within the territory.
- Loans, with the task of governing the application of Group loan policies within the bank networks; it will guarantee constant alignment in the processes of providing and managing loans in accordance with the principles and rules established by Group Regulations.

Furthermore, two support centers are planned to provide support for management of personnel and management control.

The Direction should be composed of approximately 120 people.

Centralization of IT activities and operations

Within those activities which, since they do not form part of the mission of the Direction, will be centralized within the Parent Bank are, especially, those activities and operations involving IT. These will be assembled under the support functions of the Infragroup "Macchina Operativa Integrata" ("MOI").

The aim of this centralization is, within the scope of the aforementioned integration process, to guarantee the efficiency of operations and that they reach even higher levels of service.

The Infragroup MOI, already shared by the Sanpaolo and Sanpaolo Banco di Napoli networks, will concentrate on managing hardware and telecommunications, designing, developing and maintaining IT programs and supporting the back office activities of the entire Group. It will manage an integrated multibank and multichannel IT system, which represents the pre-requisite for achieving cost synergies and most advanced technologies and productions.

The planned migration of the IT system toward that used by the Parent Bank accounts for a gradual implementation at each Cardine bank, beginning from the end of December 2003 and will be completed in the subsequent year.

LEGAL PROFILES

CHARACTERISTICS OF THE MERGER

Since the incorporating company holds the entire shares of Cardine Finanziaria, the merger will be performed in compliance with Article 2504 quinquies of the Italian Civil Code and in accordance with the terms and conditions of the merger project. Therefore it was not necessary to proceed with the issue and/or allocation nor to determine an exchange ratio. On completion of the merger the entire shares in the incorporated company will be cancelled.

Since a bank is participating in the merger, it is subject to the provisions of D.Lgs. no. 385 of 1 September 1993 (Consolidation Act of banking and lending laws) and, especially, to Art. 57 of the Bank of Italy instructions.

No changes are expected to be made to the by-laws of the incorporating company in respect of the merger.

The financial statements prepared by the two companies in accordance with Art. 2501 ter of the Italian Civil Code refer to the situation as of 30 June 2003.

Neither of the companies has any convertible bonds in circulation. Only SANPAOLO IMI has ordinary bonds in circulation.

EFFECTS OF THE MERGER

The legally effective date of the merger shall be established in the merger deed. It may even be subsequent to the date of the last entry provided by Art. 2504 of the Italian Civil Code.

The operations of the company being incorporated shall be recorded for tax purposes to the financial statements of the incorporating company commencing from 1 January of the year in which the merger becomes legally effective.

The incorporating company shall assume all rights and obligations of the company being incorporated from the legally effective date of the merger.

The merger shall not have any effect on the share composition of the incorporating company, nor on any of its parasocial contracts existing and in force at the time of the merger.

Given the characteristics of the merger, it shall not determine a withdrawal of entitlement in respect of Art. 2437 of the Italian Civil Code or Art. 131 of D. Lgs. no. 58 of 24 February 1998.

FISCAL ASPECTS OF THE OPERATION ON THE COMPANIES INCLUDED IN THE MERGER

In accordance with Art. 123 of the Consolidation act of income taxes, approved with Presidential Decree no. 917 of 22 December 1986, the merger does not constitute the realization or distribution of profit or loss of the assets of the companies being merged. Furthermore, the merger goodwill recorded to the financial statements as a result of the effect of annulling the shares of the incorporated company does not contribute to the income of the incorporating company (the difference between the book value of shareholders' equity of the incorporated company and the cost of the cancelled shares of the same company as a result of the merger).

There being no reserves subject to taxation in the shareholders' equity of the incorporated bank, there shall be no requirement to re-establish such reserves in the financial statements of the incorporating bank for the purpose of maintaining the original tax regime.

For income tax purposes, the effect of the merger shall be backdated to 1 January 2003, in accordance with subsection 7 of Art. 123, which allows backdating to a date not earlier than the latest closing date of the year end financial statements of the companies involved in the merger.

In accordance with Art. 2, subsection 3, letter f) of DPR no. 633/1972, the merger is not subject to VAT, but is subject to a fixed registration tax.

Turin, 12 September 2003

THE BOARD OF DIRECTORS