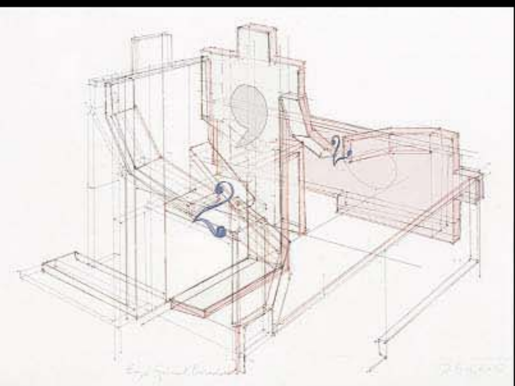
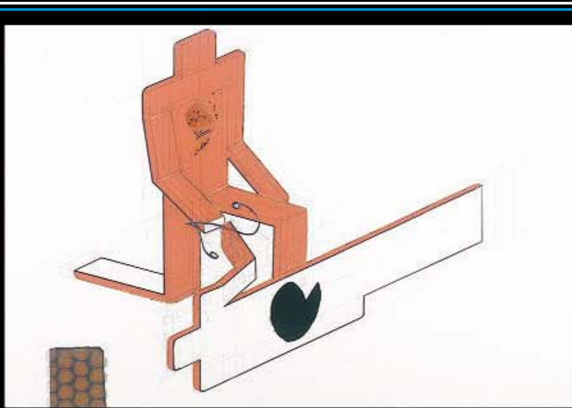
BANCA OPI

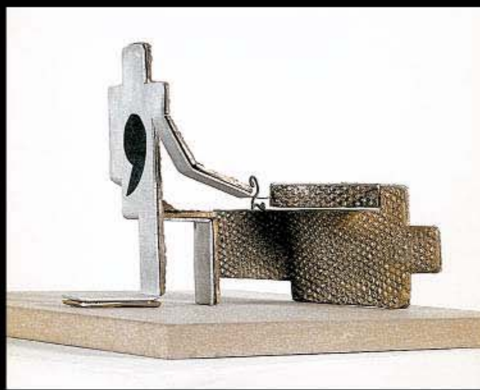
BANCA PER LA FINANZA ALLE OPERE PUBBLICHE E ALLE INFRASTRUTTURE

SANPAOLO

# *Annual Report* ***2003***







BANCA OPI

BANCA PER LA FINANZA ALLE OPERE PUBBLICHE E ALLE INFRASTRUTTURE - SOCIETA' PER AZIONI

REGISTERED OFFICES IN VIALE DELL'ARTE 21, ROME 00144

SECONDARY REGISTERED OFFICE IN PIAZZA MUNICIPIO 17, NAPLES 80100

CAPITAL EURO 500,000,000 FULLY PAID-IN

ROME COMPANY REGISTER AND TAX NO. 00429720584 - VAT NO. 00889821005

COMPANY UNDER THE MANAGEMENT AND COORDINATION OF ITS SOLE SHAREHOLDER

SANPAOLO IMI S.p.A. AND A MEMBER OF THE SANPAOLO IMI BANKING GROUP

ABI CODE 3147.6 - BANKING REGISTER NO. 5434

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND AND THE NATIONAL GUARANTEE FUND

# Loans and funding

(Euro/million)

| | 31/12/03 | 31/12/02 | 31/12/01 |
|---|---|---|---|
| Loans arranged | **6,059** | **7,111** | **5,573** |
| | | | |
| Amounts disbursed: | **6,855** | **3,748** | **3,589** |
| As loans | 5,224 | 3,318 | 3,588 |
| As investment in securities | 1,631 | 430 | 1 |
| | | | |
| Bonds issued | **500** | **750** | **1,522** |
| New funding from international organizations (EIB, CEB, etc.) | **1,362** | **1,738** | **1,240** |

# Profitability and efficiency

(Euro/million)

(%)

| | 31/12/03 | 31/12/02 | 31/12/01 |
|---|---|---|---|
| Net interest and other banking income (financial method) | 162.8 | 123.3 | 126.3 |
| Operating costs (1) | -23.6 | -18.4 | -17.6 |
| Net income (financial method) | 40.4 | 32.4 | 31.8 |
| Net income (as per statutory accounts) | 42.4 | 33.3 | 31.9 |
| | | | |
| Book ROE | 6.2% | 6.6% | 9.1% |
| Operational ROE (2) | 11.3% | 13.2% | 19.6% |
| Cost/income ratio (3) | 14.5% | 14.8% | 13.9% |
| Cost/asset ratio (4) | 0.12% | 0.12% | 0.13% |

(1) administrative costs and adjustments to fixed assets
(2) calculation ignores provisions made for fiscal purposes
(3) operating costs/net interest and other banking income
(4) excludes fixed assets used in the business

# Balance sheet highlights

(Euro/million)

| | 31/12/03 | 31/12/02 | 31/12/01 |
|---|---|---|---|
| Loans to customers (financial method) | 18,576 | 14,500 | 12,893 |
| Guarantees | 359 | 329 | 404 |
| Securities in portfolio | 2,267 | 598 | 168 |
| | | | |
| Shareholders' equity | 690 | 612 | 374 |
| Subordinated liabilities | 83 | 83 | 83 |
| Due to banks | 9,681 | 6,573 | 6,515 |
| Due to international organizations | 4,905 | 3,707 | 2,063 |
| Bonds | 5,391 | 4,564 | 4,882 |

# Regulatory capital and risk weighted assets

(Euro/million)

| | 31/12/03 | 31/12/02 | 31/12/01 |
|---|---|---|---|
| A. Regulatory capital | 801.1 | 717.6 | 479.3 |
| Tier 1 capital | 648.6 | 587.0 | 348.4 |
| Tier 2 capital | 152.5 | 130.6 | 130.9 |
| B. Minimum regulatory requirements | 445.8 | 280.5 | 270.7 |
| C. Capital adequacy ratios | | | |
| Tier 1 capital/risk weighted assets | 10% | 15% | 9% |
| Regulatory capital/risk weighted assets | 13% | 18% | 12% |

# Rating

| Agency | | Rating | Outlook |
|---|---|---|---|
| Moody's Investor Service | Long-term debt | Aa3 | stable |
| | Short-term debt | P-1 | |
| | Financial strength | B | |
| Standard & Poor's | Long-term debt | A+ | stable |
| | Short-term debt | A-1 | |

# Managing Director's Letter

Banca OPI's business strategy for 2003 focused on certain fundamental goals, the most important of which were:

- to support infrastructure development in Italy;

- to reinforce Banca OPI's market position and promote its image as a specialist bank;

- to develop synergies with the Group's networks;

- to adapt its organization to market needs.

Banca OPI's commitment to infrastructure development translated into the disbursement of Euro 6.8 billion in funds to customers (both in the form of loans and securities), representing a major increase since 2002. At the same time, it also added to its range of products and services, as described in the body of this report.

The expansion and reorganization of the Bank's various departments, partly as a result of the transfer of the former Banco di Napoli's public works and infrastructure unit, made it possible to reach a larger number of customers and serve them better.

The outlook for business this year is not without its difficulties, partly due to increased competition by new Italian and foreign entrants to this market. Banca OPI is nonetheless ready to face this new scenario with a reinvigorated sense of dedication and enterprise, in the knowledge that by meeting its customers' needs it satisfies a more important agenda, associated with the wider interests of the community as a whole, such as the environment, latest generation public services and - in its essence - the quality of life.

The future nonetheless offers favourable prospects for growth and it is in such a context that Banca OPI intends to concentrate on:

- projects of national and/or international importance, designed to achieve objectives in the interests of the State (multilateral programmes of research, aerospace projects, etc.);

- strategic projects for modernizing Italy and its participation in the principal channels of communication of the enlarged EU and the Mediterranean basin;

- infrastructure of national importance (healthcare, environmental protection, transport and logistics, water) or local significance (ports, airports, universities, trade fair facilities, major rail stations, cultural and sporting centres of excellence).

- support for plans by Italian public-service providers to internationalize their activities, presenting opportunities for growth worldwide (but especially in South America and Asia).

The development of public-interest projects in Southern Italy will also be supported by the Fondazione Mezzogiorno Tirrenico and the Fondazione Mezzogiorno Sud Orientale (Foundations for the Tyrrhenian South and South East respectively) which have been set up with the support of Banca OPI.

In keeping with market trends regarding Public Sector Financing, the Bank will have to boost its activity in bond issuance, securitization and project finance, which are increasingly taking their place alongside traditional forms of loans.

We genuinely believe that the Bank will be able to maintain its leadership in this market.

As fas as internal organization is concerned, the Bank intends investing major resources in two projects designed to improve the transparency and reliability of its operations and the standard of published information. These specifically refer to the adoption of International Financial Reporting Standards as from 2005 and the New Basel Accord on risks, especially credit ones. Banca OPI intends to handle and quickly resolve the problems associated with these projects, on which the Bank's and Group's resources are already hard at work.

# Contents

# Shareholders

100% SAN PAOLO IMI S.p.A.

# Corporate bodies

## Board of Directors

| | |
|---|---|
| *Chairman* | Alfonso Iozzo |
| *Vice Chairman* | Federico Pepe |
| *Managing Director* | Elia Colabraro |
| *Directors* | Alfredo Checchetto |
| | Carla Patrizia Ferrari |
| | Alessandro Musaio |
| | Giancarlo Sivilotti |

## Board of Statutory Auditors

| | |
|---|---|
| *Chairman* | Ruggero Ragazzoni |
| *Statutory auditors* | Vincenzo d'Aniello |
| | Riccardo Ranalli |
| *Substitute Auditors* | Gaetano De Gregorio |
| | Luciano Quattrocchio |

## General Management

| | |
|---|---|
| *Deputy General Manager* | Antonio Manca |

## Independent Auditors

| | |
|---|---|
| | PricewaterhouseCoopers S.p.A. |

# Notice of calling of the ordinary shareholders' meeting

The ordinary shareholders' meeting of "BANCA OPI S.p.A" will be held in first calling on Wednesday 7 April 2004 at 14.00 and, if necessary, in second calling on Thursday 8 April 2004 at the same time, in the bank's registered offices in Viale dell'Arte 21, Rome (EUR) to discuss and resolve on the following

**Agenda**

1. Financial statements for the year ended 31 December 2003, reports of the Board of Directors and Statutory Auditors, allocation of net income, and related resolutions;

2. Appointment of independent auditors for the annual financial statements and half-year financial statements for the three-year period 2004/2006.

To take part in the meeting, shares have to be deposited with the Bank's treasurer or with SANPAOLO IMI S.p.A.

Rome, 16 March 2004

for THE BOARD OF DIRECTORS
The Managing Director
(Elia COLABRARO)

# ANNUAL REPORT 2003

## RECLASSIFIED FINANCIAL STATEMENTS

**Statement of income**

**Balance sheet**

# Reclassified statement of income

(Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| **NET INTEREST INCOME** | **127,811** | **111,562** | **+14.6** |
| Net commissions and other banking income | 15,080 | 7,830 | +92.6 |
| Profits (losses) on financial transactions and dividends on equity investments | 17,053 | -114 | n.s. |
| **NET INTEREST AND OTHER BANKING INCOME** | **159,944** | **119,278** | **+34.1** |
| Administrative costs | -26,607 | -19,371 | +37.4 |
| *- payroll* | *-12,301* | *-8,974* | *+37.1* |
| *- other administrative costs* | *-10,806* | *-8,885* | *+21.6* |
| *- indirect taxes and similar dues* | *-3,500* | *-1,512* | *+131.5* |
| Other operating income | 32,072 | 22,573 | +42.1 |
| Adjustments to tangible and intangible fixed assets | -23,198 | -15,777 | +47.0 |
| **OPERATING INCOME** | **142,211** | **106,703** | **+33.3** |
| Provisions to reserves for possible loan losses | -78,000 | -65,000 | +20.0 |
| Net adjustments to loans and provisions for guarantees and commitments | 1,431 | 783 | +82.8 |
| **INCOME BEFORE EXTRAORDINARY ITEMS** | **65,642** | **42,486** | **+54.5** |
| Net extraordinary income | 2,872 | 3,507 | -18.1 |
| **INCOME BEFORE TAXES** | **68,514** | **45,993** | **+49.0** |
| Income taxes | -26,100 | -12,700 | +105.5 |
| **NET INCOME** | **42,414** | **33,293** | **+27.4** |

# Reclassified balance sheet

(Euro/000)

| **ASSETS** | 31/12/03 | 01/01/03 pro-forma | Change % 31/12/03 01/01/03 pro-forma |
|---|---|---|---|
| Cash and deposits with central banks and post offices | 51 | 30 | +70.0 |
| Loans | 18,505,766 | 16,904,258 | +9.5 |
| *- due from banks* | *117,215* | *459,666* | *-74.5* |
| *- loans to customers* | *18,388,551* | *16,444,592* | *+11.8* |
| Dealing securities | 2,267,039 | 663,440 | +241.7 |
| Fixed assets | 395,158 | 306,149 | +29.1 |
| *- investment securities* | - | - | - |
| *- equity investments* | *233,815* | *233,800* | *n.s.* |
| *- intangible fixed assets* | *1,037* | *559* | *+85.5* |
| *- tangible fixed assets* | *160,306* | *71,790* | *+123.3* |
| Other assets | 276,150 | 195,952 | +40.9 |
| **Total assets** | **21,444,164** | **18,069,829** | **+18.7** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| | | | |
| Payables | 20,142,318 | 16,879,207 | +19.3 |
| *- due to banks* | *14,585,362* | *10,289,729* | *+41.7* |
| *- due to customers and securities issued* | *5,556,956* | *6,589,478* | *-15.7* |
| Provisions | 33,814 | 23,724 | +42.5 |
| *- for taxation* | *23,332* | *12,496* | *+86.7* |
| *- for employee termination indemnities* | *4,136* | *4,210* | *-1.8* |
| *- for sundry risks and charges* | *6,346* | *6,568* | *-3.4* |
| *- for pensions and similar obligations* | - | - | - |
| Reserve for possible loan losses | 212,028 | 134,925 | +57.1 |
| Other liabilities | 283,435 | 276,818 | +2.4 |
| Subordinated liabilities | 82,634 | 82,634 | - |
| Shareholders' equity | 689,935 | 672,521 | +2.6 |
| **Total liabilities and shareholders' equity** | **21,444,164** | **18,069,829** | **+18.7** |

| **GUARANTEES AND COMMITMENTS** | 31/12/03 | 01/01/03 pro-forma | Change % 31/12/03 01/01/03 pro-forma |
|---|---|---|---|
| Guarantees given | 359,174 | 328,641 | +9.3 |
| Commitments | 5,872,565 | 5,795,226 | +1.3 |

# Report on operations

## General economic situation

The economic situation in 2003 was markedly affected by uncertainties over the timing of recovery, which, after two years of stagnation, started to emerge in the second half of the year, more strongly in the United States than in Europe.

Markets were influenced by geopolitical instability and instances of accounting irregularities, initially involving US companies and then European ones as well.

More specifically, the first part of the year featured widespread fears of another global economic downturn, made worse by uncertainties over the length and consequences of the conflict in Iraq. In May, with the war over, there were fresh signs of the possibility of a sustainable recovery, first emerging in the United States over the summer and in Europe in the late autumn.

Improvements in the euro-zone economy in the last part of the year were particularly associated with stronger demand for exports, partly the result of higher growth in the United States (+3.1%) and certain emerging countries (China +9%; India and Russia +7%). The prospects for a recovery in domestic demand nonetheless appear reasonable.

Italian GDP grew by around 0.3% in 2003, thanks to recovery in the last quarter that outweighed the negative impact of a 2.1% contraction in gross capital investments.

The low level of official interest rates, stable since June at 1% in the United States and at 2% in Europe, and the stimulus provided by US fiscal policy, which will carry through 2004, helped, in the absence of widespread inflationary pressures, to boost household and business confidence, producing a recovery, albeit moderate, in investment and employment and hence in consumption, the main economic driver.

The steep depreciation of the dollar against the euro (25% since the start of the year), particularly buoyed up the US recovery, supporting this economy's role as an engine of global growth.

This produced a large gap between the growth of GDP in the US (3.1%) and in Europe (0.4%). This gap is expected to continue in 2004, with the United States expected to grow by 4.3% and Europe by 1.5%.

The trend in interest rates in 2003 reflected alternating expectations, swinging from fears of fresh recession in the first half to signs of gradual recovery in the second half, resulting in considerable volatility in rate curves:

- in the first half, rates fell all the way along the curve reaching a minimum in June, both in Europe (from 3% to 2% for two-year rates; from 3.8% to 2.7% for five-year rates; from 4.5% to 3.6% for ten-year rates) and in the United States (from 1.8% to 1.1% for two-year rates; from 3.3% to 2% for five-year rates; from 4.0% to 3.1% for ten-year rates);

- in the second half, rates recovered quickly from their low point, reaching their level at the start of the year in August in both Europe and the United States, while even exceeding it momentarily in November.

Public-sector deficits continued to worsen across the euro-zone as a whole in 2003 (except for Belgium); two major countries exceeded the 3% ceiling on the deficit/GDP ratio, which averaged 2.8% for the year (+0.6% compared with 2002) versus a forecast of 1.8% in the stability pacts.

Furthermore, half of the EU countries (including France) is not currently complying with the 60% limit on the ratio between the public debt and GDP.

Based on the European Commission's projections, the deficits should stabilize in the near future at around 2.7% and the debt/GDP ratio at around 71%, slightly higher than in 2003.

As for Italy, government objectives for 2004 include the introduction of measures to stimulate investment, especially in infrastructure, research and innovation and to support household demand and lighten the tax burden. Budgetary measures amounting to around Euro 16 billion were expected, making it possible to maintain the targeted deficit of 2.2% of GDP in 2004. Most recent estimates by research organizations indicate a more realistic value of around 2.5%, which reflects lower projected economic growth. There continues to be uncertainty over the future, partly because of the continued decline in the primary surplus.

There have been no major legislative changes in terms of internal stability pacts, with which municipalities and provinces must comply; the 2004 budget deficit is to be no higher than in 2003, adjusted for target inflation (1.7%). The institutional context of local finance saw the introduction of measures aimed at providing updates, interpretations and directives rather than modernizing the complex system in general.

## Institutions and local finance

With regard to **strategic infrastructure** projects in implementation of Law 443/2001 (the so-called "legge obiettivo" or "general policy law"), fresh legislation gave additional impetus to their realization.

The CIPE (Interministerial Committee for Economic Planning) voted on 25 July 2003 to redetermine and widen the limits for fifteen-year State funding for approved projects (these are grants under funds set aside by article 13 of Law 166/2002, also known as the "Merloni quater" law). Projects receiving the largest allocation of funds are: the motorway and former national roads sector (first macro-lot of the Salerno-Reggio Calabria motorway, Rome Circular Road, Messina-Siracusa-Gela motorway, work on national road no. 156 in the Lepini Mountains in Lazio and on the trunk road in the Isclero valley in the province of Benevento); the underground and secondary rail sector (underground line 1 in Naples and connection with the Alifana rail network, accessibility to Milan trade fair); the MO.S.E. (flood gate) system in Venice; the southern Italian water system (aqueducts in the regions of Sicily, Sardinia, Basilicata and Molise); investment in Grandi Stazioni S.p.A.

The total volume of funds available for the three-year period 2002-2004 is Euro 2.7 billion.

In the same resolution the CIPE introduced the "unified project report", to be updated in real time, as a way to continuously monitor project progress and any related problems.

The 2004 Finance Act (Law 350/2003) introduced new rules designed to facilitate private sector participation. First and foremost, in the case of income generating infrastructure, the award of state aid is subject to verification of the credibility of the financial plans for the project's construction and operation. In general , these provisions seek to increase the level of accountability in public-private relationships.

***Credibility of financial plans (2004 Finance Act)***
*In practice, the commitment of private financiers must be formalized from the very first phase of the project (paragraphs 134 and 135 of article 3 of the Finance Act). Conversely, the income arising from the infrastructure's operation (identified in the approved economic and financial plan) must be used primarily for repaying the financing obtained and no claims by any other creditors may be brought (paragraph 136 of article 3) against it. Paragraphs 137 to 142 of article 3 set additional rules in the financier's favour in the event that new concessionaires are admitted and for adjusting tariffs over time.*

In line with its priority of obtaining funding for investment in the Turin-Milan-Naples High-Speed railway (TAV), Infrastrutture S.p.A. announced in December 2003 the first issue of a jumbo bond, actually issued at the end of January 2004 for Euro 5 billion.

With regard to **access to credit** by local government authorities, and in particular the condition that borrowing is solely permitted for investment purposes (paragraph 6 of article 119 of the Italian Constitution), the 2004 Finance Act provides a better definition of the limits and contents of previous laws, without however introducing any real changes.

***Access to credit by local government authorities***
*This subject is dealt with in paragraphs 16-20 of article 3 of the 2004 Finance Act. The first clarification given is that the restriction applies not only to local government authorities, but also to the entities and organizations under their control (except for limited companies), and whose results form an annex to the local authority's budget (pursuant to article 172 .1.b of Decree 267/2000). Other clarifications relate to the type of borrowings falling within the restriction and the types of expenditure treated as an investment. Amendments and updates to both types may be decreed by the Ministry of Finance, based on principles defined by the EU.*

Greater flexibility was introduced into the relationship of local government authorities with Cassa Depositi e Prestiti (CDP), their principal, traditional provider of finance. On 28 February 2003 the Ministry of Finance issued two decrees: one introduced the possibility of granting loans for up to thirty years, in connection with new construction, extensions or completions of infrastructure projects; the other decree changed the method of calculating fixed interest rates, by reference to the financial equivalent of swap rates against euribor for the various maturities, therefore bringing them closer to market rates even if the calculation uses monthly rates (and not daily ones, as in the case of normal bank mortgages).

CDP was transformed into a public limited company at the end of 2003; 30% of its capital was sold to 65 banking foundations. The shares sold represented all the preference shares issued at the time of the organization's transformation. The total value of these shares was Euro 1,050 million, for settlement on 30 December 2003. The new Board of Directors took office on 28 January 2004 and has continued in its activity of granting loans as before.

The **private sector** can become involved in funding public works through two possible procedures: the first at the invitation of the public sector (article 19.2 of Law 109/1994, concessions to build and operate) and the second as a private initiative (article 37 bis of the same law, proposals by project promoters for project finance). The banking sector takes part at the project presentation stage, by certifying its economic and financial plans, and in the project's subsequent execution, by financing both the public sector and the concessionaires.

According to a recent survey by OICE (an association between the engineering, architectural and financial advisory professions)[1], the total value of projects involving private capital at their various stages (announcements, calls for bids, contract awards) amounts to around Euro 16.6 billion in the period January 2000 - June 2003 (obviously, having adjusted for duplications for projects taking place in several stages). There is no doubt this is a significant figure if we compare it with total government public-works budget of Euro 18 billion in 2002. However, the figure of Euro 16.6 billion comes down considerably when we consider the projects actually approved at the bidding stage, with the overall volume dropping to an estimated Euro 6.3 billion: this is a truer indication of actual demand, which corresponds to 38% of the above total. Considering only those contracts awarded, there is another sharp contraction in this figure, which comes down to Euro 1.8 billion.

The objects of investment mostly relate to infrastructure in the transport sector, public-sector construction (schools, hospitals, national heritage sites, sports facilities) and public utilities (sewerage, waste treatment and urban waste disposal). The projects involving private resources appear to be concentrated in the regions of Lazio, Puglia, Campania, Lombardy and Veneto.

A second way for banks to provide qualified assistance to local government authorities is in connection with the complex procedure for **obtaining government funding**.

***Government funding***

*We recall:*

- *the EU's URBAN programme;*
- *the PRUSST programme (programmes for urban redevelopment and sustainable development of the territory), managed by the Ministry of Infrastructure and Transport;*
- *the fund in support of planning (article 54 of Law 448/2001, 2002 Finance Act) and the fund in support of building infrastructure that benefits local communities (article 55 of the same law), both managed by the Ministry of Finance's Department of Development Policies.*

*It should be pointed out that following the Constitutional Court's ruling (sentence no. 49 of 29 January 2004) the procedures for accessing these funds (articles 54 and 55 of the 2002 Finance Act) must be amended to take account of agreement with the regional authorities.*

The projects granted access to the fund for building infrastructure mostly relate to municipal and provincial road works, school buildings, the restoration and enhancement of national heritage sites, sporting facilities and urban redevelopment. The projects calling for the involvement of private resources (structured finance, formation of mixed public/private-sector companies, project finance, etc) enjoy priority when allocating public funding.

It should be recalled that the recent Law 376 of 23 December 2003 (published in the Official Gazette no. 12 dated 16.01.2004) has set aside significant funds for the construction of local infrastructure, reallocating resources previously recorded in the Ministry of Finance's "Special fund" for 2003. The most significant projects relate to the transport sector, university and hospital buildings, infrastructure for new industrial development areas, urban schemes in the cities of Siena and Reggio Calabria, and renaturalization of the Venice lagoon. The amounts set aside for the three-year period 2003-2005 amount to a total of Euro 312.2 million.

1. "Project finance in Italy from January 2000 to June 2003". OICE, Rome July 2003.

***Regulations for accessing capital markets by local and regional government authorities***
*In implementation of article 41.1 of Law 448/2001 (2002 Finance Act), these regulations were issued by the Ministry of Finance, in conjunction with the Ministry of the Interior, in its Decree 389 dated 1 December 2003, published in the Official Gazette no. 28 of 4 February 2004. Amongst others, the regulations call for prior monitoring and contain a specific procedure for reporting to the Ministry all medium and long-term financing equal to or more than Euro 100 million. A list of transactions in permitted derivatives is also provided.*

## Operations

The benefits of the Bank's efforts to expand its operations over the past two years were felt in 2003, in terms of the size of the assets in its portfolio.

The stock of loans climbed 39.5% to end the year at Euro 20.8 billion, partly thanks to the transfer of the former Banco di Napoli's public works unit with effect from 1 January 2003.

This operation forms part of a plan to concentrate within Banca OPI medium and long term activities with the public sector conducted by businesses recently merged into the Sanpaolo IMI Group and has also entailed strengthening the Bank's local presence with the opening of an office in Naples to cover Southern Italy.

The significant increase in interest-bearing assets was accompanied by a large rise in the sums disbursed, up from Euro 3.8 billion in 2002 to Euro 6.8 billion in 2003.

The value of transactions came to Euro 7.7 billion, staying at around the same level as the year before. However, the composition of this aggregate was different (Euro 6.1 billion in loans and Euro 1.6 billion in securities issued by customers) following a sharp increase in the bond component.

The most important operations concluded in the year related to road and rail infrastructure in Italy and other European countries (with particular reference to the high speed/capacity rail link), the postal services sector and environmental protection (where the revitalization of the Venice lagoon, supported by specific national laws, continued to be prominent).

Lending was also significant in the vast area of local public service providers, which continue to invest heavily and are rapidly changing their corporate structures, producing major opportunities for work both in terms of lending and advisory services.

In detail, major financing transactions were carried out for many public utilities mostly working in the sectors of energy, urban hygiene, public transport and water supply and whose majority control lay with the public sector.

Again in the area of publicly controlled enterprises, a number of transactions were completed in support of trade fairs, the tourism industry, programmes for enhancing the value and breaking up real estate portfolios and leisure-sector enterprises.

As regards the portfolio of financial instruments offered to customers, government agencies and their associated organizations continued to show their appreciation for the leasing option. New finance leases worth almost Euro 100 million were taken out during the year, versus Euro 58 million in 2002.

On the advisory front, the Bank successfully brought to term its engagement to provide advisory services to a group of public utilities in Emilia Romagna in relation to their corporate and industrial aggregation, and the subsequent stockmarket listing of Hera S.p.A., the company resulting from this process.

Still in the area of privatizations of municipal enterprises, the Bank was able to report a positive outcome to its advisory work for the City of Padua for deciding the best value-enhancement strategies for APS S.p.A., a public utility in this city, and for AMA S.p.A. (100% owned by the City of Rome) for the partial privatization of its subsidiary AMA International S.p.A. of Rome. A similar project was also started in the year for opening part of the capital in Rimini Fiera S.p.A. to private investors.

Banca OPI once again confirmed itself as one of Italy's principal specialists in structuring project finance deals for the execution of infrastructure projects, while also continuing to lend selectively on the foreign reference market.

On the domestic front, the growth in activities associated with infrastructure finance was explained by a number of factors such as: the award of several concessions, having passed the evaluation and bidding processes required by law; the evolution of legislation in the sector; and last but not least, the government and market appreciation of the potential offered by such an instrument.

Among the more important project finance deals in the year were:

- in the Water and Environment sector, the completion of subunderwriting FIBE (still being formalized), a project financing syndicate for the construction and operation of the integrated system for disposing of solid urban waste in the province of Naples. General syndication will follow in the first quarter of 2004;

- in the Transport and Infrastructure sector, the completion of financial and contractual structuring of the Europpass project for the implementation of a toll-charging system for heavy vehicles on the Austrian road network.

The Transport and Infrastructure sector was particularly active, both in Italy and abroad. In Italy this involved a considerable volume of new projects in their proposal stages, for which the Bank provided advisory services (including the certification required by article 37 bis of Law 109/94) and a reasonable number of proposals at the bidding or concession award stages.

Project finance was generally confirmed as an important mechanism for developing Italy's infrastructure in the various sub-sectors, especially public construction, hospital construction, motorways and waste disposal.

As regards operations abroad, a number of important project finance deals were approved and executed in Portugal (Lusoscut Grande Porto), Spain (Barcelona tram and the ENA operation involving a motorway network in the north of Spain), Ireland (the Eurolink project for the licensing of a toll-paying motorway) and the United Kingdom (the Metronet project for the London underground and the project for an integrated refuse system in East London).

The market is also requiring the development of innovative forms of finance to accompany project finance. These have included the creation, in partnership with CDC Ixis, of the Fideme and Galaxy funds in the environmental and transport infrastructure sectors respectively.

Lastly, we recall the Bank's contribution to the project for the Turin-Lyons link, part of the Corridor 5 of Lyons-Trieste- Lubiana-Kiev. This forms part of the Sanpaolo IMI Group's efforts to assist in the realization of strategic projects for the future of the "New Europe", using new financial mechanisms, in accordance with the development policies presented in Brussels by the Ministry of Finance.

## *Equity investments*

FIN.OPI, a Banca OPI subsidiary, reported net income of Euro 5.3 million for 2003. The company's main accomplishments in the year were:

- completion of the project to create a closed-end equity investment fund in the infrastructure sector. This fund, known as Galaxy, is co-sponsored by FIN.OPI and Caisse des Dépôts et Consignations (CDC);
- participation in the capital increase of Transdev S.A., a major European group in the public transport sector;
- subscription to 1% of Hera's capital, under its IPO;
- 3% interest in AEM Turin transferred from Sanpaolo IMI with the aim of concentrating equity investments in the public services sector in this subsidiary;
- acquisition of 14.98% of AMA International, a multinational waste disposal business.

Sinloc, an associated company, was particularly active last year in providing advisory services and assistance to public-sector organizations in evaluating the economic and financial aspects of major infrastructure projects. The company reported net income of Euro 0.7 million.

Some of the more important contributions made by the Bank and FIN.OPI to their particular market sector were:

- the formation of the Associazione Studi e Ricerche per il Mezzogiorno (Association for Research and Analysis relating to Southern Italy), in which Banca OPI is an investor, with a 16.7% interest, along with other members of the Sanpaolo IMI Group and the San Paolo and Banco di Napoli Foundations. This association has been set up to maintain Banco di Napoli's tradition of economic and cultural research and analysis and to exploit the know-how gained by Banco di Napoli's own Research and Communication Division. It aims to represent a centre of excellence in Italian and Southern Italian economic and cultural debate, with particular reference to issues of local finance;
- the investment in one-third of the capital of the Mezzogiorno Tirrenico (Tyrrhenian South) and Mezzogiorno Sud-Orientale (South-East) Foundations, forming part of those planned under Confindustria's programme of "Fondazioni per la progettualità nel Mezzogiorno" (Foundations for feasibility studies in Southern Italy). This programme springs from the need to combine experience and multidisciplinary expertise for the purpose of performing infrastructure feasibility studies and assisting the local economy; its goal is to highlight and deal with the critical points of individual projects, in order that their subsequent execution and economic management be smooth and governable.

## *Financial transactions*

Market volatility allowed the Bank to conduct numerous transactions, within the limits of operational ALM, designed to optimize its fixed-rate portfolio in terms of yield and financial risk.

Amongst others it:

- exercised the call clause relating to certain fixed-rate bonds, resulting in the early termination of the related hedging swaps, at a rate close to the year's minimum and so generating large gains for the statement of income;

- obtained large amounts of long-term fixed-rate funding, subsequently hedged with interest rate swaps, under particularly favourable terms due to the intervening rise in rates.

The Bank also launched a new service during the year for the benefit of its customers, especially local government authorities, aimed at optimizing their debt management in terms of costs and financial risk.

This new service helped enlarge the range of products and services provided to customers, while strengthening their relationship with the Bank.

These services, which, as always, have sought to improve the ratio of cost to risk, reflected the prudent criteria dictated by Decree 389 of 1 December 2003.

## Analysis of results

The results[1] presented in the table overleaf report net interest and other banking income of Euro 163 million, some 32% higher than the year before.

Net interest income is around Euro 14 million higher than in 2002 at Euro 128 million. An important contribution to this result was made by the portfolio transferred by Sanpaolo IMI on 1 January 2003 as part of the merger of Banco di Napoli into the parent bank and the subsequent transfer of its public works and infrastructure unit to Banca OPI.

Net commissions has performed particularly well, soaring 94% to Euro 18 million.

Commission income has topped Euro 20 million. Commission income consists of fees from advisory and project finance activities, fees for arranging loans and guarantees, for placing securities and from derivatives. Commission expense, forming part of net commissions, is mostly paid on guarantees provided by the Parent Bank in respect of supervisory requirements relating to Banca OPI's loans to large customers (Euro 1.6 million) and swaps (Euro 0.9 million).

Profits on financial transactions have been generated on a number of deals for optimizing the portfolio's financial profile, amongst which the exercise of early redemption rights concerning three bonds.

1. The 2003 statement of income currently being reviewed has been prepared using the financial method of lease accounting.

**STATEMENT OF INCOME (financial method)** (Euro/million)

| | 31/12/03 (a) | 31/12/02 (b) | Δ (a-b) | Δ% |
|---|---|---|---|---|
| **NET INTEREST INCOME** | **128.1** | **114.4** | **13.7** | **+12.0%** |
| Net commissions on services and other banking income | 17.5 | 9.0 | 8.5 | +94.4% |
| Profits (losses) on financial transactions | 17.1 | -0.1 | 17.2 | n.s. |
| Income from companies carried at net equity and dividends on equity investments | 0.1 | 0.0 | 0.1 | n.s. |
| **NET INTEREST AND OTHER BANKING INCOME** | **162.8** | **123.3** | **39.5** | **+32.0%** |
| Administrative costs | *-23.0* | *-17.9* | *-5.1* | *+28.5%* |
| *- payroll* | *-12.1* | *-9.0* | *-3.1* | *+34.4%* |
| *- other administrative costs* | *-10.8* | *-8.9* | *-1.9* | *+21.3%* |
| *- indirect taxes and similar dues* | *-0.1* | *0.0* | *-0.1* | *n.s.* |
| Other operating income (expenses), net | -0.1 | 0.3 | -0.4 | n.s. |
| Adjustments to tangible and intangible fixed assets | -0.6 | -0.5 | -0.1 | +20.0% |
| **OPERATING INCOME** | **139.1** | **105.2** | **33.9** | **+32.2%** |
| Provisions against loans and fin. fixed assets | -78.0 | -65.0 | -13.0 | +20.0% |
| Net adjustments to loans and fin. fixed assets | 1.4 | 0.8 | 0.6 | +75.0% |
| **INCOME BEFORE EXTRAORDINARY ITEMS** | **62.5** | **41.0** | **21.5** | **+52.4%** |
| Net extraordinary income | 2.9 | 3.5 | -0.6 | -17.1% |
| **INCOME BEFORE TAXES** | **65.4** | **44.5** | **20.9** | **+47.0%** |
| Income taxes | -25.0 | -12.1 | -12.9 | +106.6% |
| **NET INCOME** | **40.4** | **32.4** | **8.0** | **+24.7%** |

Overall operating costs (including amortization and depreciation of fixed assets and recharges of flat-rate tax to customers) amount to Euro 23.6 million, having risen by Euro 5.2 million since 2002. This increase is mostly explained by the growth in headcount following the transfer of the Banco di Napoli public works and infrastructure unit and as a result of the related organizational changes and the higher volume of overall business.

The most significant "other administrative costs" are as follows:

- Euro 1.8 million in other staff costs, including secondments, auxiliary costs (pensions, insurance, favourable banking terms, canteen and other benefits), travel allowances and training;

- services provided by the Parent Bank (including Euro 3.6 million for IT services, Euro 1.1 million in rental charges and Euro 0.5 million for other services);

- Euro 0.9 million in legal and contractual services provided by third parties and Euro 1.2 million in advisory services;

- Euro 0.6 million in association fees and promotional costs and Euro 0.4 million in other expenses.

Operating income has increased by Euro 34 million to Euro 139 million.

Provisions for general lending risks are Euro 13 million higher than in 2002 at Euro 78 million. These have been calculated on the usual overall basis and do not exceed the maximum deduction allowed by tax regulations.

Net adjustments to loans and financial fixed assets of Euro 1.4 million mostly relate to higher sums recovered for disputed loans than the written down figures contained in the financial statements.

Net extraordinary income consists of Euro 3.8 million in income and Euro 1 million in expense, of which Euro 0.6 million in staff leaving incentives.

The tax charge has increased with respect to 2002 (38.2% versus 27.2%) as a result of changes introduced in the legislation approved at the end of 2002. The provision also includes a charge of Euro 2.9 million for deferred tax assets reversing in the year.

Net income (calculated using the financial method of lease accounting) amounts to Euro 40.4 million, an increase of 24.7% on the year before.

*ROE and operational ROE are both lower than in 2002, reflecting the higher tax charge resulting from the legislative changes approved at the end of 2002 and the full-year impact on equity of the FIN.OPI transfer (in mid 2002).*
*The cost-to-income ratio continues to be excellent.*

**RATIOS** (percentage amounts)

| | 31/12/03 | 31/12/02 | 31/12/01 |
|---|---|---|---|
| ROE(1) | 6.2% | 6.6% | 9.1% |
| Operational ROE (2) | 11.3% | 13.2% | 19.6% |
| Cost to income ratio (3) | 14.5% | 14.8% | 13.9% |
| Cost/asset ratio (4) | 0.12% | 0.12% | 0.13% |
| Net non-performing loans/net loans | 0.02% | 0.02% | 0.02% |

(1) Net income/Average shareholders' equity (excluding net income for the year)
(2) Excludes provisions made for fiscal purposes
(3) Administrative costs and amortization+depreciation/Net interest and other banking income
(4) Excludes fixed assets used in the business

*Net non-performing loans have fallen by Euro 0.5 million since 31 December 2002 to end 2003 at Euro 2.2 million. The gross amount of disputed loans has dropped by as much as Euro 7.5 million to Euro 24.5 million, thanks to a significant amount of recoveries and the final write-off of other loans already written down.*

## Risk management

The activities of control and risk management are based on guidelines set by the Parent Bank's board of directors, which is responsible for decisions relating to the overall management of the Group's risks as well as the taking on of significant exposures.

Banca OPI manages its risks within the limits of autonomy allowed and carries out the related controls. Decisions regarding the acceptance of financial and credit risks are regulated by a detailed system of authority limits.

The Bank's Risk Management Committee monitors the risks associated with the business, serving as an effective bridge between the management of Banca OPI's risks and the overall assessments at Group level.

***Measurement of financial risks***
*The methods used for measuring financial risks basically seek to quantify the effects of changes in financial market conditions on the fair value of the Bank's portfolio, making use of the following measures of risk:*
- *Shift sensitivity;*
- *Value-at-Risk (VaR);*
- *Sensitivity analysis of net interest income.*

***Shift sensitivity***
*Shift sensitivity measures the change in value of the financial portfolio resulting from adverse movements in the risk factors. In terms of interest rate risk, the adverse movement is defined as a parallel shift of 100 b.p. in the rate curve.*

***Value-at-Risk (VaR)***
*VaR is defined as the maximum potential loss, assuming a specific confidence level and a defined holding period, caused by potential adverse movements in the market. The Bank has decided to use the combination of a 99% confidence level and a holding period of 10 business days (trading days over a two week period), in keeping with the recommendations of the Basel Committee for Banking Supervision in the Amendment to the Agreement on Regulatory Requirements to incorporate market risks.*
*Banca OPI has opted for a parametric approach, featuring two main elements:*
- *risk is measured on the basis of the sensitivity of the position to changes in market factors, the volatility of the latter and the degree of correlation between these factors;*
- *the model depends on the assumption that the logarithmic variations in market yield factors have a normal distribution.*

***Sensitivity of net interest income***
*The sensitivity of net interest income is calculated by estimating its changes during the 12 months following the valuation date, by simulating throughout the portfolio of financial assets and liabilities (including balances due on demand) the impact of an instant, parallel shift in interest rates of +/-25 basis points.*

## Financial risks

The average value of shift sensitivity in 2003 was Euro 19.6 million (Euro 14.8 million in 2002); shift sensitivity at 31 December 2003 was Euro -34.8 million; during the year positive values were reported up until August, reflecting a short fixed-rate position. This position was managed on the basis of interest rate expectations and gradually reduced, resulting in a negative shift sensitivity in the second part of the year.

The average Value at Risk in the year was Euro 8.2 million (Euro 13.5 million in 2002); VaR at 31 December 2003 was higher than the average for the year at Euro 12.6 million, reflecting the revision of rates on floating rate transactions.

Detailed testing was conducted during the year on a project designed to upgrade not only the current Asset & Liability Management system, improving both its control and operating functions, but also the budgeting and financial planning systems. The new software is now being run in parallel for a period with the existing procedures.

## Credit risks

The Bank's activities are characterized by a fairly limited risk profile since most of its customers are central and local government authorities.

Credit risk is measured using established methods, laid down in a group-wide specific set of regulations, which allow all exposures and their related guarantees to be suitably analyzed.

The project for upgrading and enhancing the computerized records, started at the end of the previous year and designed to improve the flow of information to the Bank's top management and its operating units, entered its final stage during the year, with release to a few "pilot" users.

The Bank is also actively involved, together with the Parent Bank, in the "Basel 2 Project" whose purpose is to co-ordinate the work needed to adopt the New Basel Capital Accord, and reap the related benefits for capital.

### *Operating risks*

The Bank defines operating risk in the same way as the Parent Bank.

Work continued in the year on examining the methods for quantifying this risk in order to adapt the Bank's systems of control to the Basel Committee's regulations.

The project for mapping the Bank's processes also continued. This has the goal of making organizational changes in order to optimize critical processes and monitor operating risk. All procedures are currently being revised to match the Bank's new organizational structure.

The Bank's staff takes part in technical teams, whose task is the introduction of measures that meet the standards required by the New Basel Capital Accord regarding operating risks.

## Organizational structure

### *Personnel*

The transfer of the former Banco di Napoli's public works and infrastructure financing unit to Banca OPI was completed during 2003.

As part of this operation, originally involving 41 staff, Banca OPI redefined its organizational structure to make it more competitive and sophisticated, in terms of business capabilities and more efficient monitoring of the individual functions. The Bank has also undertaken a review of its staff, already implementing a number of measures to ensure that older members are properly replaced. The recommendations arising from this review should be implemented in the course of the next three years.

The Bank's employees numbered 146 at 31 December 2003; in keeping with Parent Bank guidelines, during the year 5 new staff were hired, 2 of whom fell into the "compulsory employment" quotas defined in law.

A total of 15 staff left the Bank during the year, of whom 2 resigned voluntarily, 5 under the incentivized leaving programme introduced at the start of the year, and 8 under an intergroup transfer scheme.

| **Headcount** | 31/12/03 | 31/12/02 | 31/12/01 |
|---|---|---|---|
| Executives | 12 | 10 | 9 |
| Middle managers | 70 | 55 | 55 |
| Professional staff (1st/3rd grade) | 64 | 50 | 50 |
| **Total** | **146** | **115** | **114** |

The synergies released within the Group made it possible to increase the number and level of staff seconded, who went from 7 in 2002 to 14 at 31 December 2003.

A significant amount of management time was dedicated to organizing the staff transferred from the Banco di Napoli public works and infrastructure financing unit.

From a legal and financial point of view this operation involved integrating staff in the offices of Rome and Naples, taking as its basis the transfer agreement signed between Banca OPI, Sanpaolo IMI and the national banking sector trade unions.

There was a sharp increase in staffing needs, particularly in the financial reporting and control sector and the credit assessment department. This was associated with a greater amount of administration resulting from the business transfer and a healthy volume of overall business. It also reflected an inherent need arising from the more sophisticated nature of the business (in line with the Bank's plans for development) and the commitment involved in implementing the Basel 2 regulations and International Financial Reporting Standards.

Training activities, designed to consolidate and enhance the professional skills of all the Bank's staff, are going ahead according to plan, with appropriate additional instruction provided to facilitate the full integration of the staff transferred from Banco di Napoli. There was an improvement in both the quality and quantity of training, both on an individual and group basis, with over 7,000 hours dedicated to this activity.

## *Information technology*

A number of important IT projects were taken forward or started during the year. Of particular note was the development of a management accounting system; the work on installing and integrating the budget and planning system; the creation of a system for the everyday control of credit risks generated by all the Bank's operations; the release of a new sophisticated system for reporting lending transactions and applications and procedures for managing term deposits. A number of measures were also undertaken to enhance automation of the work surrounding reporting requirements to the supervisory authorities. A project has also started in recent months for a complete revision of the settlement systems, in order to upgrade them to the new Birel system and change the Bank's mode of participation from direct to passive indirect (via the Parent Bank) as from 2 February 2004.

The Disaster Recovery procedures underwent a first successful test in the first half of the year, proving that the service for restoring the Bank's computer systems in a secondary location worked properly and in the specified time frame.

The IT infrastructure needed for the secondary office in Naples was completed in the second half of the year (workstations, local area network and e-mail, voice and data communications, Information Provider services, IT applications).

The Parent Bank and Banca OPI completely revised the agreement governing the provision of IT services.

## *Organization*

Work was completed in the first half of the year on preparing organizational procedures that reflected the Parent Bank's guidelines on the assignment of audit and non-audit work and the process of approving and reporting transactions with related parties of the Parent Bank.

Further specific procedures were then added, amongst which those for reporting operating risk and for managing the credit approval process and guarantees. Changes were also made to procedures to update them for new regulations and new ways of conducting business. Work also started on revising all the Bank's procedures in the light of its new organizational structure.

The project for mapping the Bank's processes also continued. This has the goal of making organizational changes in order to optimize critical processes and monitor operating risk.

Lastly, the "Report on personal data protection" and the "Privacy protection plan for 2004" were prepared in accordance with the new privacy legislation (Decree 196 of 30 June 2003 "Personal data protection code").

## Transactions with group companies and related parties

The Bank is a wholly-owned subsidiary of Sanpaolo IMI S.p.A., the Parent Bank of the eponymous banking group.

The Bank had current account dealings and various kinds of borrowing arrangements with its Parent Bank during 2003. Certain administrative and organizational support functions are outsourced to the Parent Bank.

Transactions by the Bank with Sanpaolo IMI and its subsidiaries comply with legal requirements and are based on considerations of reciprocal economic benefit.

These transactions are detailed in the specific tables found in the Explanatory Notes to the Financial Statements.

## Other information

The Bank did not carry out any research and development activities during the year.

During the year Banca OPI did not purchase or sell any of its own shares or shares in Sanpaolo IMI, its Parent Bank, either directly or via a trust company or other third party.

## Significant subsequent events

No events of significance have taken place since 31 December 2003.

## Business outlook

Business is proceeding normally in the early part of 2004, giving us hopes for a positive set of results for the year.

## Shareholders,

The financial statements being submitted for your approval report net income of Euro 42,414,303, which we propose allocating as follows:

| | |
|---|---|
| - to the Legal reserve, 5% (art. 23 of the Articles of Association) corresponding to Euro | 2,120,715 |
| - to the Shareholders, a dividend of Euro 80.587176 to each of the 500,000 shares, corresponding to a total of Euro | 40,293,588 |
| | 42,414,303 |

Under the new tax treatment introduced under Decree 344/2003, this dividend no longer carries the tax credit granted under the former rules contained in articles 11 and 14 of Presidential Decree 917/86.

Rome, 11 March 2004

The Board of Directors

# Financial statements of Banca OPI SpA

**BALANCE SHEET**

**STATEMENT OF INCOME**

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS**

# Balance sheet

(Euro)

| ASSETS | 31/12/03 | | 01/01/03 pro-forma | | 31/12/02 | |
|---|---|---|---|---|---|---|
| **10. Cash and deposits with central banks and post offices** | | **51,232** | | **29,464** | | **28,998** |
| **20. Treasury bills and similar bills eligible for refinancing with central banks** | | **160,128,000** | | **161,008,000** | | **161,008,000** |
| **30. Due from banks** | | **117,215,000** | | **459,665,932** | | **409,665,932** |
| *a) repayable on demand* | 1,029,861 | | 143,020,242 | | 93,020,242 | |
| *b) other deposits* | 116,185,139 | | 316,645,690 | | 316,645,690 | |
| **40. Loans to customers** | | **18,388,551,280** | | **16,444,592,603** | | **14,501,804,476** |
| *of which: - loans using public funds* | - | | - | | - | |
| **50. Bonds and other debt securities** | | **2,106,910,943** | | **502,432,347** | | **436,650,292** |
| *a) public entities* | 748,584,985 | | 469,879,647 | | 404,097,592 | |
| *b) banks* | - | | - | | - | |
| *of which: - own bonds* | - | | - | | - | |
| *c) financial institutions* | 1,358,325,958 | | 32,552,700 | | 32,552,700 | |
| *of which: - own bonds* | - | | - | | - | |
| *d) other issuers* | - | | - | | - | |
| **70. Equity investments** | | **3,786,567** | | **3,786,567** | | **3,786,567** |
| **80. Investments in Group companies** | | **230,027,911** | | **230,012,911** | | **230,012,911** |
| **90. Intangible fixed assets** | | **1,036,645** | | **559,271** | | **559,271** |
| *of which: - start-up costs* | - | | - | | - | |
| *- goodwill* | - | | - | | - | |
| **100. Tangible fixed assets** | | **160,305,851** | | **71,789,994** | | **71,789,994** |
| **130. Other assets** | | **124,580,661** | | **38,087,505** | | **33,235,212** |
| **140. Accrued income and prepaid expenses** | | **151,569,565** | | **157,864,620** | | **126,861,351** |
| *a) accrued income* | 128,043,371 | | 130,798,958 | | 99,795,689 | |
| *b) prepaid expenses* | 23,526,194 | | 27,065,662 | | 27,065,662 | |
| *of which: - discounts on bond issues* | - | | 78,230 | | 78,230 | |
| **Total assets** | | **21,444,163,655** | | **18,069,829,214** | | **15,975,403,004** |

(Euro)

| LIABILITIES AND SHAREHOLDERS' EQUITY | 31/12/03 | | 01/01/03 pro-forma | | 31/12/02 | |
|---|---|---|---|---|---|---|
| **10. Due to banks** | | **14,585,362,366** | | **10,289,728,730** | | **10,279,623,221** |
| a) repayable on demand | 94,472,621 | | - | | - | |
| b) time deposits or with notice period | 14,490,889,745 | | 10,289,728,730 | | 10,279,623,221 | |
| **20. Due to customers** | | **166,037,458** | | **59,628,050** | | **50,379,978** |
| a) repayable on demand | 414,323 | | 30,909,946 | | 30,909,946 | |
| b) time deposits or with notice period | 165,623,135 | | 28,718,104 | | 19,470,032 | |
| **30. Securities issued** | | **5,390,917,829** | | **6,529,850,221** | | **4,564,996,880** |
| a) bonds | 5,390,917,829 | | 6,529,850,221 | | 4,564,996,880 | |
| b) certificates of deposit | - | | - | | - | |
| c) other | - | | - | | - | |
| **50. Other liabilities** | | **117,328,191** | | **94,983,804** | | **94,635,950** |
| **60. Accrued expense and deferred income** | | **166,107,151** | | **181,834,701** | | **133,171,124** |
| a) accrued expense | 159,845,635 | | 180,720,095 | | 132,056,518 | |
| b) deferred income | 6,261,516 | | 1,114,606 | | 1,114,606 | |
| **70. Provisions for termination indemnities** | | **4,135,739** | | **4,210,172** | | **3,002,315** |
| **80. Provisions for risks and charges** | | **29,677,559** | | **19,513,859** | | **19,513,859** |
| a) pensions and similar commitments | - | | - | | - | |
| b) taxation | 23,331,758 | | 12,945,989 | | 12,945,989 | |
| c) other | 6,345,801 | | 6,567,870 | | 6,567,870 | |
| **90. Reserve for possible loan losses** | | **212,027,932** | | **134,924,550** | | **134,924,550** |
| **100. Reserve for general banking risks** | | **-** | | **-** | | **-** |
| **110. Subordinated liabilities** | | **82,634,000** | | **82,634,000** | | **82,634,000** |
| **120. Capital** | | **500,000,000** | | **500,000,000** | | **450,000,000** |
| **130. Share premium reserve** | | **49,998,800** | | **49,998,800** | | **39,998,800** |
| **140. Reserves** | | **97,522,327** | | **89,229,284** | | **89,229,284** |
| a) legal reserve | 9,248,224 | | 7,583,572 | | 7,583,572 | |
| b) reserve for own shares | - | | - | | - | |
| c) statutory reserves | - | | - | | - | |
| d) other reserves | 88,274,103 | | 81,645,712 | | 81,645,712 | |
| **170. Distributable net income** | | **42,414,303** | | **33,293,043** | | **33,293,043** |
| **180. Net income for the year** | | **-** | | **-** | | **-** |
| **Total liabilities and shareholders' equity** | | **21,444,163,655** | | **18,069,829,214** | | **15,975,403,004** |

(Euro)

| GUARANTEES AND COMMITMENTS | 31/12/03 | 01/01/03 pro-forma | 31/12/02 |
|---|---|---|---|
| **10. Guarantees given** | **359,174,094** | **404,526,257** | **328,641,440** |
| **20. Commitments** | **5,872,565,129** | **2,497,927,260** | **5,304,904,433** |

# Statement of income

(Euro)

| | 31/12/03 | | 31/12/02 | |
|---|---|---|---|---|
| **10. Interest income and similar revenues** | | **853,921,719** | | **734,495,191** |
| *of which: - on loans to customers* | *785,156,795* | | *714,927,709* | |
| *- on debt securities* | *61,090,869* | | *9,498,614* | |
| **20. Interest expense and similar charges** | | **-726,110,351** | | **-622,933,496** |
| *of which: - on amounts due to customers* | *-31,973,287* | | *-3,241,420* | |
| *- on securities issued* | *-694,137,064* | | *-195,667,898* | |
| **30. Dividends and other revenues** | | **52,034** | | **-** |
| a) on shares, quotas and other equities | - | | - | |
| b) on equity investments | 52,034 | | - | |
| c) on investments in Group companies | - | | - | |
| **40. Commission income** | | **17,799,722** | | **8,956,175** |
| **50. Commission expense** | | **-2,719,838** | | **-1,125,857** |
| **60. Profits/(losses) on financial transactions** | | **17,000,673** | | **-113,773** |
| **70. Other operating income** | | **32,633,194** | | **23,379,203** |
| **80. Administrative costs** | | **-26,606,680** | | **-19,370,540** |
| a) payroll | -12,300,991 | | -8,973,528 | |
| *of which: - wages and salaries* | *-8,881,973* | | *-6,385,082* | |
| *- social security charges* | *-2,814,339* | | *-2,114,712* | |
| *- termination indemnities* | *-604,679* | | *-473,734* | |
| b) other administrative costs | -14,305,689 | | -10,397,012 | |
| **90. Adjustments to tangible and intangible fixed assets** | | **-23,198,143** | | **-15,776,864** |
| **100. Provisions for risks and charges** | | **-** | | **-** |
| **110. Other operating expenses** | | **-560,866** | | **-807,102** |
| **120. Adjustments to loans and provisions for guarantees and commitments** | | **-** | | **-211,853** |
| **130. Writebacks of adjustments to loans and provisions for guarantees and commitments** | | **1,431,030** | | **994,531** |
| **140. Provisions to reserves for possible loan losses** | | **-78,000,000** | | **-65,000,000** |
| **150. Adjustments to financial fixed assets** | | **-** | | **-** |
| **160. Writebacks to financial fixed assets** | | **-** | | **-** |
| **170. Income from ordinary activities** | | **65,642,494** | | **42,485,615** |
| **180. Extraordinary income** | | **3,831,143** | | **3,615,320** |
| **190. Extraordinary expense** | | **-959,334** | | **-107,892** |
| **200. Extraordinary income, net** | | **2,871,809** | | **3,507,428** |
| **220. Income taxes for the year** | | **-26,100,000** | | **-12,700,000** |
| **230. Net income for the year** | | **-** | | **-** |
| **250. Distributable net income** | | **42,414,303** | | **33,293,043** |

# Explanatory notes to the financial statements

# Contents

# Introduction - Background information on the financial statements

## Form and content of financial statements

The Bank's financial statements for 2003 have been prepared pursuant to Decree 87 of 27 January 1992, which implemented EEC Directive 86/635. They also take account of the requirements contained in the Bank of Italy regulations dated 15 July 1992, and subsequent amendments. All matters not covered by specific legislation will be regulated by the provisions of the Italian Civil Code, while making reference to the accounting principles issued by the Italian Accounting Profession.

The financial statements comprise the balance sheet, the statement of income, and these explanatory notes, together with the report of the Board of Directors on the results of operations.

The financial statements are consistent with the underlying accounting records, which reflect all of the transactions carried out during the year.

These notes provide all the information required by law, including any additional data considered necessary to give a true and fair view of the financial and operating situation. The tables required by the Bank of Italy are numbered in accordance with Bank of Italy instructions or refer to the date of the related instructions.

A pro-forma balance sheet at 1 January 2003 has been prepared for comparison purposes; this includes figures deriving from the transfer of the public works and infrastructure unit of Banco di Napoli S.p.A. from SANPAOLO IMI S.p.A..

The following schedules are attached to the financial statements:

- Statement of changes in shareholders' equity;
- Statement of cash flows;
- Pro-forma balance sheet at 01.01.2003.

The tables in the explanatory notes are expressed in thousands of euro.

## Audit of the financial statements

The Bank's financial statements are audited by PriceWaterhouseCoopers S.p.A., in accordance with their appointment for the three-year period 2001-2003.

# Part A - Accounting Policies

## Section 1 - Description of accounting policies

The Bank's financial statements as of 31 December 2003 have been prepared using the same accounting policies as for the prior year financial statements.

### Loans, guarantees and commitments

#### *Loans*

Loans, comprising principal not yet due and principal and interest due but not yet collected, are stated at their estimated realizable value, taking account of the solvency of borrowers in difficulty and any debt-servicing problems faced by individual industrial sectors. The assessment performed also takes into consideration any guarantees received. Estimated realizable value is determined following a detailed review of outstanding loans, considering the degree of risk associated with the various forms of lending. The estimated realizable value of doubtful loans (non-performing, problem and restructured loans, loans being restructured and loans to companies under observation, assessed on a case-by-case basis) takes into consideration the likelihood of recovery.

In particular:

- non-performing loans, being loans to borrowers in a state of insolvency or similar, are valued on a case-by-case basis;
- problem loans, being loans to borrowers in temporary difficulties, are valued on a case-by-case basis;
- performing loans, in other words loans to borrowers which do not present specific risks of insolvency, are stated at their face value. Nevertheless, in order to make a prudent assessment of potential risks relating to performing loans, a generic provision is made under liability caption 90. The value of the provision is determined by taking into account the counterparts' rating - and the relevant likelihood of insolvency - as well as losses in case of insolvency (loss given default), calculated on a prudent basis.

The writedowns needed to show loans at their estimated realizable value are then formally approved by the Board of Directors.

Default interest accrued during the year is eliminated from the statement of income since, for the sake of prudence, collection is considered unlikely.

Specific writedowns are made by an adjustment to reduce the value of the asset recorded in the balance sheet on the basis discussed above. The original values may be reinstated by means of writebacks, should the reasons for any writedowns cease to apply.

Repurchase agreements that require the holder to resell securities at a future date are treated as lending (and borrowing) transactions. The cash amounts disbursed (and received) are therefore recorded as receivables (and payables). Income from lending (and the cost of funding), consisting of interest accruing on securities and the differential between the spot and forward prices for such securities, are recorded on an accruals basis as interest in the statement of income.

### *Guarantees and commitments*

Guarantees and commitments giving rise to lending risk are recorded at the total value of the exposure, while the related risk is assessed on the basis described in relation to loans. Expected losses in relation to guarantees and commitments are covered by the related provision.

## Securities

### *Investment securities*

Investment securities, due to be held long term by the Bank as stable investments, are valued at cost, determined according to the "average daily cost" method, as adjusted by accrued issue discounts and accrued dealing discounts (being the difference between the purchase cost of the securities and the related redemption price, net of issue discounts yet to mature).

Such securities are written down to reflect any lasting deterioration in the solvency of the issuers and the ability of the  nations concerned to repay debt, unless there are suitable guarantees. Their original value is reinstated when the reasons for any writedowns cease to apply.

### *Dealing securities*

Securities held for dealing and treasury purposes are stated at their average daily cost, as adjusted to reflect accrued issue discounts. Cost is determined as follows:

- securities quoted in organized markets: the official price quoted on the last trading day of the year;
- securities not quoted in organized markets: at the lower of cost or market value. This latter value is calculated by discounting back future financial flows, using the market rates in force when valuing instruments of a similar type and issuer credit rating. Where possible, estimates are compared with the price of securities with similar financial characteristics. Their original value is reinstated when the reasons for any writedowns cease to apply.

Any transfers between the investment and dealing portfolios are made on the basis of the book value of the securities transferred at the time of the transaction; book value is determined using the method applicable to the originating portfolio. Securities transferred and still held at year-end are valued using the method applicable to the destination portfolio.

## Equity investments

Equity investments are valued at cost. Cost is written down to reflect any permanent losses in value. The original value of equity investments is reinstated if the reasons for any writedowns cease to apply.

The Group's accounting policy on dividends from subsidiaries states that these are booked in the year in which the related earnings "mature".

Dividends from non-subsidiary companies and the related tax credits are recorded in the period in which they are collected.

## Foreign currency assets and liabilities (including off-balance sheet transactions other than derivatives)

With the introduction of the euro, the term foreign currency refers to all currencies outside the EMU.

## Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currencies, or in euro indexed to foreign exchange movements, as well as financial fixed assets funded in foreign currencies, or in euro indexed to foreign exchange movements, are valued using the spot exchange rates applying at year-end. Exchange differences are booked to the statement of income, unless they are covered by specific guarantees.

Foreign currency costs and revenues are stated using the exchange rates applying at the time they arose.

### *Unsettled spot and forward currency transactions*

Unsettled spot and forward currency transactions carried out for hedging purposes are valued in the same way as the assets and liabilities being hedged, whether they are recorded on or off the balance sheet.

Transactions *not carried out for hedging purposes* are valued:

- at year-end spot exchange rates, in the case of spot transactions still to be settled;
- at year-end forward exchange rates for the maturity dates concerned, in the case of forward transactions.

The effect of these valuations is debited or credited to the statement of income.

# Tangible fixed assets

Tangible fixed assets are made up of: property, plant, machinery, furniture, motor vehicles, aircraft and boats that are available for financial leasing, as well as assets used for the Bank's operations.

The assets available for financial leasing include assets that are already being leased, leased assets that have been returned and assets that are waiting to be leased.

Assets under financial leasing contracts are booked at acquisition or production cost, including ancillary expenses and, in certain cases, the revaluation made pursuant to Law 413 of 30/12/1991, net of depreciation.

As regards assets purchased before 1/1/1988, ordinary depreciation is calculated at the rates permitted for tax purposes for their particular category. In the case of assets under financial lease contracts that are shorter than the estimated useful life of the asset, ordinary depreciation has been supplemented by accelerated depreciation within the limits permitted by the tax regulations. Any balance that has not been depreciated at the end of the contract is written off to the statement of income.

On assets leased out between 1/1/1988 and 31/12/1994, depreciation has been calculated on a straight-line basis over the duration of the contract, as per art. 67 of the Tax Code prior to the amendments introduced by Law 549/95.

For the assets leased out after 31/12/1994, depreciation has been charged in proportion to the amount of principal implicit in the lease instalments for the year.

Leased assets that have been returned and are now available for leasing after termination of the contract are shown in the financial statements at acquisition or production cost, including ancillary expenses, net of accumulated depreciation and any writedowns. Starting from the year after termination of the contract, however, these assets are no longer depreciated as they are no longer used, although they are still subject to deterioration. This usually gives rise to losses on disposal, unless they derive from recent short-term lease contracts and are disposed of quickly after their return, in which case they can even give rise to gains.

Assets waiting to be leased are assets for which contracts have not yet been put into effect because they represent investments still to be concluded and entered into the production cycle of the lessee. These assets are stated at acquisition or production cost, including ancillary expenses. Assets that are waiting to be leased are not depreciated.

The assets used in the Bank's own operations are booked at purchase cost, including ancillary expenses and incremental costs; they are depreciated on a straight-line basis over their estimated useful life. Tangible fixed assets are written down in cases where there is a permanent loss in value, regardless of how much depreciation has already been accumulated. The value of such assets is reinstated in future accounting periods if the reasons for any writedowns no longer apply.

Repair and maintenance expenses that do not enhance the value of the related assets are charged against income as incurred.

## Intangible fixed assets

These are stated at acquisition or production cost, including ancillary expenses, and are amortized over their estimated useful life, which cannot exceed five years, except for costs related to certain financing contracts, which are amortized over the duration of the contract in relation to the residual principal.

## Payables

Payables are stated at their face value. The difference between the face value of loans received, or securities placed, and the amount actually received, is recorded in the financial statements among deferrals and released to the statement of income on an accruals basis, in accordance with the repayment plan implicit in the funding transaction. Zero-coupon securities issued are stated at their issue price plus accrued interest.

## Provision for employee termination indemnities

The provision for employee termination indemnities represents the liability to each employee at year-end, accrued in accordance with current legislation and payroll agreements.

## Provisions for risks and charges

Provisions for risks and charges cover known or likely liabilities whose timing and extent cannot be determined at period-end or at the time the financial statements are prepared.

### *Taxation*

The provision for taxation covers corporate income taxes (IRPEG) and the regional tax on business activities (IRAP), as well as deferred taxation and outstanding or potential fiscal disputes.

Income taxes for the year are prudently determined on the basis of current fiscal legislation with reference to the expected taxable income.

Deferred taxation, determined according to the rules indicated in the Bank of Italy instruction dated 3 August 1999, reflects the tax effect of timing differences between the book value of assets and liabilities and their value for tax purposes, which will lead to taxable and deductible amounts in future years. To this end, "taxable timing differences" are defined as those which will give rise to taxable income in future years (deferred capital gains, for example); while "deductible timing differences" are defined as those which will give rise to deductible amounts in future years (such as provisions and costs that can be deducted for tax purposes over a period of years, e.g. general loan writedowns in excess of the fiscally deductible amount).

Deferred tax liabilities are calculated by applying the average tax rate to taxable timing differences likely to generate a tax burden. Deferred tax assets are calculated on deductible timing differences if these are likely to be recovered. Deferred tax assets and liabilities relating to the same kind of tax and reversing in the same period are offset against each other.

### *Other provisions*

Other provisions for risks and charges cover estimated losses arising from litigation and, in particular, from repayments claimed by the receivers of bankrupt customers, as well as the writedown of the loans that are implicit to the leasing business.

## Reserve for possible loan losses

This reserve reflects provisions made during the year to cover lending risks - including risks deriving from derivatives transactions; these risks are only potential, so the reserve is not set off against asset balances.

## Accruals and deferrals

Accruals and deferrals are recognized in accordance with the matching principle.

## Other aspects

### *Derivatives on currency, securities, interest rates, stockmarket indices and other assets*

Derivative contracts are valued individually using the methods applicable to the portfolio concerned (hedging contracts and non-hedging contracts).

The values determined are recorded separately in the balance sheet without offsetting assets and liabilities. Agreements between the parties for offsetting reciprocal receivables and payables in the case of default by one of the counterparts (master netting agreement) is not relevant for disclosure purposes, but is taken into consideration when assessing the counterparty's lending risk.

The values determined by the contract valuation process (hedging and non-hedging) are written down on a case-by-case or a general basis, where appropriate, in order to reflect the lending risk inherent in the contracts.

### *Hedging contracts*

These are entered into with the aim of protecting the value of individual assets or liabilities, as well as any groups of assets or liabilities, on or off the balance sheet, from the risk of market fluctuations. In the case of off-balance sheet items, the hedging objective is achieved via the use of asset and liability management techniques. A transaction is considered to be a hedge in the presence of the following documented conditions:

a) intent to enter into a hedge;
b) high degree of correlation between the technical and financial characteristics of the assets and liabilities hedged and those inherent in the hedging contract.

If just one of the conditions above ceases to apply, then the contract is re-qualified as "non-hedging".

Hedging derivatives are valued on a basis consistent with the assets and liabilities being hedged. The related procedures for presentation in the financial statements are summarized below:

*Balance sheet*: the period's portion of differentials or interest margins on contracts hedging the interest arising from interest-earning/bearing assets and liabilities is classified among "Accrued income" or "Accrued expenses". The period's portion of differentials on forward rate agreements hedging the interest arising from interest-earning/bearing assets and liabilities is classified among "Prepaid expenses" or "Deferred income". The market value of contracts hedging the risk of price fluctuations, and the effect of valuing contracts hedging the exchange risk on lending and funding activities (principal portion) using year-end spot exchange rates, are classified among "Other assets" or "Other liabilities". Contracts hedging investment securities, or total loans and deposits, are valued at cost.

*Statement of income*: where derivative contracts are intended to hedge the interest arising from interest-earning/bearing assets and liabilities, the related economic effect will form part of net interest income on an accruals basis. In this case, the related differentials and margins are allocated either to interest income or to interest expense, depending on their nature. If, on the other hand, the derivative contract hedges the risk of market price or exchange fluctuations (principal portion), then the revenues or costs generated are treated as "Profits (losses) on financial transactions". More specifically, differentials and margins earned on derivative contracts hedging dealing securities are treated as interest, if they relate to multiple-flow contracts (e.g. IRS) or to single-flow contracts where the duration of the underlying asset is less than one year (e.g. FRA); but as profits (losses) on financial transactions, if they relate to single-flow contracts where the duration of the underlying asset is more than one year (e.g. futures and options). Foreign currency derivative contracts: these are stated using the forward exchange rates ruling at year-end for the maturity dates of the transactions subject to valuation.

## *Non-hedging contracts*

These are valued as follows:

*Derivatives on securities, interest rates, stockmarket indices and other assets*: contracts quoted in organized markets are stated at their market value on the last day of the year. Contracts linked to reference indicators subject to official observation are stated on the basis of their financial value (replacement cost), determined with reference to the market quotations for those indicators on the last day of the year. Other contracts are valued with reference to other elements determined on an objective and consistent basis.

*Foreign currency derivatives*: these are stated using the forward exchange rates ruling at year-end for the maturity dates of the transactions subject to valuation.

The related procedures for presentation in the financial statements are summarized below:

*Balance sheet*: the amounts determined from the valuation of non-hedging contracts are classified as "Other assets" or "Other liabilities".

*Statement of income*: the economic effects of non-hedging derivative contracts are classified as "Profits (losses) on financial transactions". This caption is analyzed in a specific table within the explanatory notes with regard to the portfolios in which the transactions took place (securities, currency, other financial instruments) and to the nature of the income / costs arising (from valuations or otherwise).

# Section 2 - Adjustments and provisions recorded for fiscal purposes

## Value adjustments recorded solely for fiscal purposes

No adjustments have been recorded solely for fiscal purposes.

## Provisions recorded solely for fiscal purposes

Provisions for fiscal purposes recorded during the year amount to Euro 68.1 million, as detailed in Part B, Section 7 "Provisions".

# Part B - Balance Sheet

## Section 1 - Loans

### Due from banks (caption 30)

Amounts due from banks are analyzed below by type of counterparty and technical form:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Due from central banks | | | |
| - compulsory reserve | 39 | - | n.s. |
| - other | - | - | - |
| Due from other banks | | | |
| - overdrafts | 1,030 | 93,020 | -98.9 |
| - deposits | - | 280,000 | n.s. |
| - loans | 116,146 | 86,646 | +34.0 |
| - other | - | - | - |
| **Total** | **117,215** | **459,666** | **-74.5** |

Detail of caption 30 "Due from banks" (table 1.1 B.I) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) deposits with central banks | 39 | - |
| b) bills eligible for refinancing with central banks | - | - |
| c) repurchase agreements | - | - |
| d) securities loaned | - | - |

## Analysis of loans to banks

(table 1.2 B.I.) (Euro/000)

| | 31/12/03 | | | 01/01/03 pro-forma | | |
|---|---|---|---|---|---|---|
| | Gross value | Total adjustments | Net book value | Gross value | Total adjustments | Net book value |
| A. Doubtful loans | | | | - | - | - |
| A.1 Non-performing loans | - | - | - | - | - | - |
| A.2 Problem loans | - | - | - | - | - | - |
| A.3 Loans currently being restructured | - | - | - | - | - | - |
| A.4 Restructured loans | - | - | - | - | - | - |
| A.5 Unsecured loans exposed to country risk | - | - | - | - | - | - |
| B. Performing loans | 117,215 | - | 117,215 | 459,666 | - | 459,666 |
| **Total due from banks** | **117,215** | **-** | **117,215** | **459,666** | **-** | **459,666** |

## Loans to customers (caption 40)

Loans to customers are analyzed below, by technical form:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Mortgage and other loans | 18,308,369 | 16,346,169 | +12.0 |
| Overdue instalments receivable | 71,489 | 92,716 | -22.9 |
| Non-performing loans | 2,252 | 2,716 | -17.1 |
| Other loans to customers | 6,441 | 2,991 | +115.3 |
| **Total** | **18,388,551** | **16,444,592** | **+11.8** |

Almost all overdue instalments as of 31 December 2003 were collected during January 2004.

Detail of caption 40 "Loans to customers" (table 1.5 B.I) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) Bills eligible for refinancing with central banks | - | - |
| b) Repurchase agreements | - | - |
| c) Securities loaned | - | - |

"Secured loans to customers", excluding those granted directly to Governments and other Public Sector Entities, which amount to Euro 11,364,982 thousand (Euro 8,790,689 thousand as of 31.12.02), are detailed as follows:

Secured loans to customers (table 1.6 B.I) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) Mortgages | 458,220 | 405,115 |
| b) Pledged assets: | | |
| 1. cash deposits | - | - |
| 2. securities | 112,558 | - |
| 3. other instruments | 87,990 | - |
| c) Guarantees given by: | | |
| 1. Governments | 2,902,758 | 2,632,057 |
| 2. other public entities | 424,909 | 141,154 |
| 3. banks | 1,103,650 | 1,245,999 |
| 4. other operators | 191,595 | 36,522 |
| **Total** | **5,281,680** | **4,460,847** |

"Secured loans to customers" and those granted to Governments or to other Public Sector Entities represent 90.5% of total loans to customers (91.4% as of 31.12.02).

## Degree of risk in loan portfolio

The estimated realizable value of doubtful loans is obtained by applying the accounting policies illustrated above (part A of the explanatory notes to the financial statements).

## Analysis of loans to customers

(table 1.7. B.I.) (Euro/000)

| | 31/12/03 | | | 01/01/03 pro-forma | | |
|---|---|---|---|---|---|---|
| | Gross value | Total adjustments | Net book value | Gross value | Total adjustments | Net book value |
| A. Doubtful loans | 24,878 | 22,626 | 2,252 | 32,037 | 29,321 | 2,716 |
| A.1 Non-performing loans | 24,378 | 22,126 | 2,252 | 31,558 | 28,842 | 2,716 |
| A.2 Problem loans | 500 | 500 | - | 479 | 479 | - |
| A.3 Loans currently being restructured | - | - | - | - | - | - |
| A.4 Restructured loans | - | - | - | - | - | - |
| A.5 Unsecured loans exposed to country risk | - | - | - | - | - | - |
| B. Performing loans | 18,388,531 | 2,232 | 18,386,299 | 16,443,621 | 1,745 | 16,441,876 |
| **Total loans to customers** | **18,413,409** | **24,858** | **18,388,551** | **16,475,658** | **31,066** | **16,444,592** |

Non-performing loans concern the leasing business previously carried on by the former IMI Lease S.p.A. and include loans deriving from default on lease instalments and other loans, all of which have been completely written down. The net value of Euro 2.3 million shown in the table (Euro 2.7 million as of 31.12.02) relates to loans originally included in the portfolio of the subsidiary Spei SpA, and acquired at the end of 1998. It also includes a further loan acquired at the time of Spei's merger in 2001, which has been recorded at its estimated realizable value.
Writedowns to doubtful loans cover 91% of their gross value (91.5% as of 31.12.02).

## Movements during the year in gross doubtful loans to customers

(Table 1.8 B.I.) (Euro/000)

| | Non-performing loans | Problem loans |
|---|---|---|
| A. Gross value as of 01.01.03 | 31,558 | 479 |
| A.1 of which: for default interest | 10,364 | 207 |
| B. Increases | 682 | 1,284 |
| B.1 inflows from performing loans | 131 | - |
| B.2 default interest | - | - |
| B.3 transfer from other categories of doubtful loan | - | 1,116 |
| B.4 other increases | 551 | 168 |
| C. Decreases | 7,862 | 1,263 |
| C.1 outflows to performing loans | 609 | - |
| C.2 write-offs | 4,699 | 940 |
| C.3 collections | 533 | 323 |
| C.4 disposals | 16 | - |
| C.5 transfer to other categories of doubtful loan | 1,116 | - |
| C.6 other decreases | 889 | - |
| D. Gross value as of 31.12.03 | 24,378 | 500 |
| D.1 of which: for default interest | 7,880 | 153 |

# Movements during the year in adjustments made to loans granted to customers

(Table 1.9 B.I.) (Euro/000)

| | Non-performing loans | Problem loans |
|---|---|---|
| A. Total adjustments as of 01.01.03 | 28,841 | 479 |
| A.1 of which: for default interest | 10,364 | 207 |
| B. Increases | 1,057 | 1,284 |
| B.1 adjustments | - | - |
| B.1.1 of which: for default interest | - | - |
| B.2 use of reserves for possible loan losses | 506 | - |
| B.3 transfer from other categories of doubtful loan | - | 1,116 |
| B.4 other increases | 551 | 168 |
| C. Decreases | 7,772 | 1,263 |
| C.1 writebacks from valuations | 610 | - |
| C.1.1 of which: for default interest | - | - |
| C.2 writebacks following collections | 458 | 323 |
| C.2.1 of which: for default interest | - | - |
| C.3 write-offs | 4,699 | 940 |
| C.4 transfer to other categories of doubtful loan | 1,116 | - |
| C.5 other decreases | 889 | - |
| D. Total adjustments as of 31.12.03 | 22,126 | 500 |
| D.1 of which: for default interest | 7,880 | 153 |

# Other information relating to loans

Information regarding the distribution of loans, by category of borrower, industry, geographical area, currency and maturity, is provided in part B, section 11 of these notes.

# Section 2 - Securities

Securities owned by the Bank are analyzed as follows:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Treasury bills and similar bills eligible for refinancing with central banks (caption 20) | 160,128 | 161,008 | -0.5 |
| Bonds and other debt securities (caption 50) | 2,106,911 | 502,432 | +319.3 |
| **Total** | **2,267,039** | **663,440** | **+241.7** |
| *of which: - investment securities* | - | - | - |
| *- dealing securities* | *2,267,039* | *663,440* | *+241.7* |

"Treasury bills and similar bills eligible for refinancing with central banks" are those securities which are eligible for refinancing but are not being used for this purpose at the balance sheet date.

"Bonds and other debt securities" include Euro 748.6 million in securities issued by local government agencies or their vehicle companies and Euro 1,358.3 million in securities issued by other issuers.

## Dealing securities

These securities, held for treasury and dealing purposes, amount to Euro 2,267,039 thousand, of which:

Euro 922,152 thousand is associated with derivative contracts;
Euro 1,344,887 thousand is not linked to derivative contracts.

(Euro/000)

| | 31/12/03 | | 01/01/03 pro-forma | |
|---|---|---|---|---|
| | Book value | Market value | Book value | Market value |
| 1. Debt securities | | | | |
| 1.1 Government securities | | | | |
| - quoted | 160,128 | 161,126 | 161,008 | 161,008 |
| - unquoted | - | - | - | - |
| 1.2 other securities | | | | |
| - quoted | - | - | - | - |
| - unquoted | 2,106,911 | 2,193,003 | 502,432 | 518,841 |
| 2. Equities | | | | |
| - quoted | - | - | - | - |
| - unquoted | - | - | - | - |
| **Total** | **2,267,039** | **2,354,129** | **663,440** | **679,849** |

Changes in dealing securities during the year (table 2.4 B.I) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| A. Opening balance | 663,440 | 168,114 |
| B. Increases | | |
| B1. purchases | | |
| - debt securities | - | - |
| - government securities | - | 3,644 |
| - other | 1,630,550 | 491,578 |
| - equities | - | - |
| B2. writebacks and revaluations | - | 104 |
| B3. transfers from investment portfolio | - | - |
| B4. other changes | - | - |
| C. Decreases | | |
| C1. sales and redemptions | | |
| - debt securities | | |
| - government securities | - | - |
| - other | 25,860 | - |
| - equities | - | - |
| C2. adjustments | 1,091 | - |
| C3. transfers to investment portfolio | - | - |
| C5. other changes | - | - |
| D. Closing balance | 2,267,039 | 663,440 |

Subcaption B4. "Increases - other changes" is detailed as follows:

B4. Increases - other changes (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| Exchange differences | - | - |
| Transfers from equity investment portfolio | - | - |
| Capitalization of accrued interest on treasury bills (BOT) and zero coupon bonds | - | - |
| Accrued issue discounts | - | - |
| Other | - | - |
| **Total other changes** | - | - |

## Other information relating to securities

Information regarding the distribution of securities, by geographical area, currency and maturity, is provided in part B, section 11 of these notes.

# Section 3 - Equity investments

Equity investments, reported in asset captions 70 and 80, are detailed below:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| Equity investments (caption 70) | 3,787 | 3,787 |
| Investments in Group companies (caption 80) | 230,028 | 230,013 |
| **Total** | **233,815** | **233,800** |
| *of which: - significant investments* | *233,787* | *233,787* |
| *- other holdings* | *28* | *13* |

## Significant investments

Significant investments held by the Bank in subsidiary companies or companies under significant control as defined by articles 4 and 19 of Decree 87/92 are as follows:

Significant investments (table 3.1 B.I.) (Euro/000)

| Name of company | Registered offices | Business | Shareholders' equity | Net income / (loss) | % held | Book value |
|---|---|---|---|---|---|---|
| FIN. OPI S.p.A.(a) | Turin | finance | 231,877 | 5,303 | 100.00 | 230,000 |
| Sinloc S.p.A.(a) | Turin | finance | 46,126 | 703 | 8.15 | 3,787 |
| **Total** | | | | | | **233,787** |

(a) Financial statements as of 31.12.2003.

## Other holdings

(Euro/000)

| Name of company | Registered offices | Business | Shareholders' equity | Net income / (loss) | % held | Book value |
|---|---|---|---|---|---|---|
| CONS. S.R.F. (a) | Rome | operating | 258 | - | 5.00 | 13 |
| Ass.ne Studi e Ricerche per il Mezzogiorno | Naples | non-finance | 90 | - | 16.67 | 15 |
| **Total** | | | | | | **28** |

(a) Financial statements as of 31.12.2002.

# Composition of investment portfolio

Analysis of caption 80 "Investments in Group companies" (table 3.5 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) in banks | | |
| 1. listed | - | - |
| 2. unlisted | - | - |
| b) in financial institutions | | |
| 1. listed | - | - |
| 2. unlisted | 230,000 | 230,000 |
| c) other | | |
| 1. listed | - | - |
| 2. unlisted | 28 | 13 |
| **Total** | **230,028** | **230,013** |

Analysis of caption 70 "Equity investments" (table 3.4 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) in banks | | |
| 1. listed | - | - |
| 2. unlisted | - | - |
| b) in financial institutions | | |
| 1. listed | - | - |
| 2. unlisted | 3,787 | 3,787 |
| c) other | | |
| 1. listed | - | - |
| 2. unlisted | - | - |
| **Total** | **3,787** | **3,787** |

## Changes during the year in the equity investment portfolio

Investments in Group companies (table 3.6.1 B.I) (Euro/000)

| | 31/12/03 |
|---|---:|
| A. Opening balance | 230,013 |
| B. Increases | |
| B1. purchases | 15 |
| B2. writebacks | - |
| B3. revaluations | - |
| B4. other changes | - |
| C. Decreases | |
| C1. sales | - |
| C2. adjustments | - |
| *of which: - permanent writedowns* | - |
| C3. other changes | - |
| D. Closing balance | 230,028 |
| E. Total revaluations | - |
| F. Total adjustments | - |

Subcaption B.1 "purchases" relates to the formation of Associazione Studi e Ricerche per il Mezzogiorno by Banca OPI together with other Group companies and the Fondazione Compagnia di San Paolo and Fondazione Banco di Napoli. Its capital, totaling Euro 90,000, has been paid in equal shares by its (six) associates (Euro 15,000 each).

Other equity investments (table 3.6.2 B.I.) (Euro/000)

| | 31/12/03 |
|---|---|
| A. Opening balance | 3,787 |
| B. Increases | |
| B1. purchases | - |
| B2. writebacks | - |
| B3. revaluations | - |
| B4. other changes | - |
| C. Decreases | |
| C1. sales | - |
| C2. adjustments | - |
| *of which: - permanent writedowns* | - |
| C3. other changes | - |
| D. Closing balance | 3,787 |
| E. Total revaluations | - |
| F. Total adjustments | - |

## Inter-group assets and liabilities

Inter-group assets and liabilities as of 31 December 2003 are made up as follows:

(Euro/000)

| Group companies | Assets | Liabilities | Income | Expenses |
|---|---|---|---|---|
| Sanpaolo IMI S.p.A. | 1,014 | 8,435,095 | 3,755 | 219,740 |
| Sanpaolo IMI Bank S.A. | 4 | 171,880 | - | 3,387 |
| Sanpaolo Banco di Napoli S.p.A. | 6 | - | - | 870 |
| Banca Fideuram S.p.A. | 9 | - | 47 | 804 |
| Banca IMI S.p.A. | - | 129,880 | 732 | 4,604 |
| Cardine Finanziaria S.p.A. | - | 6 | - | 18 |
| Friulcassa S.p.A. | - | - | - | 15 |
| NHS Mezzogiorno SGR S.p.A. | - | - | 9 | - |
| Sanpaolo Imi Asset Management SGR S.p.A. | - | - | 20 | - |
| **Total** | **1,033** | **8,736,861** | **4,563** | **229,438** |

Inter-group assets and liabilities (table 3.2 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| a) Assets | | | |
| 1. amounts due from banks | 1,033 | 323,412 | -99.7 |
| *of which: - subordinated* | | | |
| 2. due from financial institutions | - | - | - |
| *of which: - subordinated* | | | |
| 3. due from other customers | - | - | - |
| *of which: - subordinated* | | | |
| 4. bonds and other debt securities | - | - | - |
| *of which: - subordinated* | | | |
| **Total assets** | **1,033** | **323,412** | **-99.7** |
| b) Liabilities | | | |
| 1. due to banks | 8,654,227 | 6,392,116 | +35.4 |
| 2. due to financial institutions | - | - | - |
| 3. due to other customers | - | - | - |
| 4. securities issued | - | - | - |
| 5. subordinated liabilities | 82,634 | 83,461 | -1.0 |
| **Total liabilities** | **8,736,861** | **6,475,577** | **+34.9** |
| c) Guarantees and commitments | | | |
| 1. Guarantees given | - | - | - |
| 2. Commitments | - | - | - |
| **Total guarantees and commitments** | **-** | **-** | **-** |

There are no amounts due to or from companies in which the Bank has an equity investment but which do not belong to the Group.

# Section 4 - Tangible and intangible fixed assets

## Tangible fixed assets (caption 100)

They comprise the following:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| a) Assets in leasing | 140,953 | 67,304 | +109.4 |
| b) Assets returned from leasing | 391 | 673 | -41.9 |
| c) Assets that are waiting to be leased | 18,788 | 3,713 | +406.0 |
| c) Assets used in the business | 174 | 100 | +74.0 |
| **Total** | **160,306** | **71,790** | **+123.3** |

## Changes in tangible fixed assets during the year (table 4.1 B.I.)

a) Assets in leasing (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| A. Opening balance | 67,304 | 78,526 |
| B. Increases | 97,632 | 6,734 |
| B1. Purchases | 97,632 | 6,734 |
| B2. Reversal of value adjustments | - | - |
| B3. Revaluations | - | - |
| B4. Other changes | - | - |
| C. Decreases | -23,983 | -17,956 |
| C1. Sales | -1,222 | -877 |
| C2. Adjustments | | |
| a) depreciation | -21,814 | -14,180 |
| b) permanent writedowns | - | - |
| C3. Other changes | -947 | -2,899 |
| D. Closing balance | 140,953 | 67,304 |
| E. Total revaluations | - | 258 |
| F. Total adjustments | 112,925 | 113,711 |
| a) depreciation | 112,925 | 113,711 |
| b) permanent writedowns | - | - |

b) Assets returned from leasing (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| A. Opening balance | 673 | 1,311 |
| B. Increases | 947 | 2,899 |
| B1. Purchases | - | - |
| B2. Reversal of value adjustments | - | - |
| B3. Revaluations | - | - |
| B4. Other changes | 947 | 2,899 |
| C. Decreases | -1,229 | -3,537 |
| C1. Sales | -435 | -2,445 |
| C2. Adjustments | | |
| a) depreciation | -791 | -1,092 |
| b) permanent writedowns | - | - |
| C3. Other changes | -3 | - |
| D. Closing balance | 391 | 673 |
| E. Total revaluations | - | - |
| F. Total adjustments | 4,922 | 5,944 |
| a) depreciation | 4,922 | 5,271 |
| b) permanent writedowns | - | 673 |

c) Assets that are waiting to be leased (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| A. Opening balance | 3,713 | - |
| B. Increases | 15,075 | 3,713 |
| B1. Purchases | 15,075 | 3,713 |
| B2. Reversal of value adjustments | - | - |
| B3. Revaluations | - | - |
| B4. Other changes | - | - |
| C. Decreases | - | - |
| C1. Sales | - | - |
| C2. Adjustments | | |
| a) depreciation | - | - |
| b) permanent writedowns | - | - |
| C3. Other changes | - | - |
| D. Closing balance | 18,788 | 3,713 |
| E. Total revaluations | - | - |
| F. Total adjustments | - | - |
| a) depreciation | - | - |
| b) permanent writedowns | - | - |

d) Assets used in the business

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| A. Opening balance | 100 | 123 |
| B. Increases | 125 | 29 |
| B1. Purchases | 125 | 29 |
| B2. Reversal of value adjustments | - | - |
| B3. Revaluations | - | - |
| B4. Other changes | - | - |
| C. Decreases | -51 | -52 |
| C1. Sales | - | - |
| C2. Adjustments | | |
| a) depreciation | -51 | -52 |
| b) permanent writedowns | - | - |
| C3. Other changes | - | - |
| D. Closing balance | 174 | 100 |
| E. Total revaluations | - | - |
| F. Total adjustments | 424 | 377 |
| a) depreciation | 424 | 377 |
| b) permanent writedowns | - | - |

# Intangible fixed assets (caption 90)

These comprise the following:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| a) software | 1,028 | 407 | +152.6 |
| b) leasehold improvements | - | - | - |
| c) other deferred charges | 9 | 152 | -94.1 |
| d) registration tax on increase in capital | - | - | - |
| **Total** | **1,037** | **559** | **+85.5** |

# Changes in intangible fixed assets during the year (table 4.2 B.I.)

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| A. Opening balance | 559 | 872 |
| B. Increases | 1,020 | 141 |
| B1. Purchases | 1,020 | 141 |
| B2. Reversal of value adjustments | - | - |
| B3. Revaluations | - | - |
| B4. Other changes | - | - |
| C. Decreases | -542 | -454 |
| C1. Sales | - | - |
| C2. Adjustments | | |
| a) depreciation | -542 | -454 |
| b) permanent writedowns | - | - |
| C3. Other changes | - | - |
| D. Closing balance | 1,037 | 559 |
| E. Total revaluations | - | - |
| F. Total adjustments | 10,848 | 10,306 |
| a) depreciation | 10,848 | 10,306 |
| b) permanent writedowns | - | - |

During the year, investments in software to create a management accounting and planning system were concluded, while there was an increase in investments in software to create a budgeting and strategic planning system, commissioned to third parties and not yet completed.

Caption C2 "a) amortization" includes Euro 399 thousand for software amortization and Euro 143 thousand for other deferred charges.

# Section 5 - Other assets

## Other assets (caption 130)

Analysis of caption 130 "Other assets" (table 5.1 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Amounts related to derivative contracts and foreign exchange transactions: | 46,262 | 7,049 | +556.3 |
| - *valuation of derivatives on interest rates and stockmarket indices* | *45,847* | - | *n.s.* |
| - *amounts related to currency hedges, cross-currency swaps and forex swaps* | *415* | *7,049* | *-94.1* |
| - *premiums paid on options purchased* | - | - | - |
| Due from tax authorities: | 14,524 | 13,579 | +7.0 |
| - *prepaid current year direct taxes* | *12,296* | *9,163* | *+34.2* |
| - *taxes withheld during the year and tax credits on dividends* | *386* | *10* | *n.s.* |
| - *tax credits relating to prior years* | *1,456* | *4,039* | *-64.0* |
| - *taxes paid in advance on termination indemnities (Law 662/96)* | *386* | *367* | *+5.2* |
| Excess taxes paid in advance compared with income taxes due | 2,498 | 5,426 | -54.0 |
| Other | 7,168 | 8,152 | -12.1 |
| Amounts to be settled with other banks | 51,577 | 2,223 | n.s. |
| Net effect of translating funds from EU agencies using current rates, with the exchange risk borne by third parties | 2,552 | 1,658 | +53.9 |
| Checks and other instruments held | - | - | - |
| Items relating to securities transactions | - | - | - |
| Amounts due for settlement | - | - | - |
| **Total** | **124,581** | **38,087** | **+227.1** |

# Accrued income and prepaid expenses (caption 140)

Analysis of caption 140 "Accrued income and prepaid expenses" (table 5.2 B.I) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Accrued income | | | |
| - income from derivative contracts | 26,918 | 214 | n.s. |
| - interest on loans to customers | 65,044 | 116,336 | -44.1 |
| - interest on securities | 27,049 | 3,549 | +662.2 |
| - bank interest | - | - | - |
| - other income | 9,032 | 10,701 | -15.6 |
| Prepaid expenses | | | |
| - charges on derivative contracts | - | - | - |
| - commission on placement of securities and mortgage loans | 22,899 | 26,867 | -14.8 |
| - discounts on bond issues | - | 78 | n.s. |
| - other charges | 628 | 120 | +423.3 |
| **Total** | **151,570** | **157,865** | **-4.0** |

# Section 6 - Payables

## Due to banks (caption 10)

Deposits taken from banks are analyzed as follows:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Due to central banks | | | |
| - repurchase agreements and securities borrowed | 711,435 | - | n.s. |
| - other deposits from the Italian Exchange Office | - | - | - |
| - other deposits from central banks | - | - | - |
| Due to banks | 8,216,342 | 6,186,984 | +32.8 |
| - deposits | 128,367 | - | n.s. |
| - repurchase agreements and securities borrowed | | | |
| - medium and long-term loans from international agencies | 4,904,817 | 3,707,004 | +32.3 |
| - current accounts | 94,473 | - | n.s. |
| - other | - | - | - |
| - other loans | 529,928 | 395,741 | +33.9 |
| **Total** | **14,585,362** | **10,289,729** | **+41.7** |

Detail of "Due to banks" (table 6.1 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) Repurchase agreements | 839,802 | - |
| b) Securities borrowed | - | - |

# Due to customers and securities issued (captions 20 and 30)

Amounts due to customers and securities issued are made up of:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Due to customers | | | |
| - current accounts | 414 | 30,910 | -98.7 |
| - repurchase agreements and securities borrowed | - | - | - |
| - savings deposits | - | - | - |
| - other | 165,623 | 28,718 | +476.7 |
| Securities issued | | | |
| - bonds | 5,390,918 | 6,529,850 | -17.4 |
| - certificates of deposit | - | - | - |
| - bankers' drafts | - | - | - |
| - other | - | - | - |
| **Total** | **5,556,955** | **6,589,478** | **-15.7** |

Detail of "Due to customers" (table 6.2 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) Repurchase agreements | - | - |
| b) Securities borrowed | - | - |

Securities already expired or drawn for redemption are nil.

During the second half of the year, Banca OPI issued two bonds for a total of Euro 500 million, underwritten by the Parent Bank.

There have been no issues of bonds convertible into shares of the Bank or other companies, or similar securities or dividend-bearing shares.

# Other information relating to payables

Information regarding the distribution of payables by geographical area, degree of liquidity and currency is reported in Part B, Section 11 of these notes.

# Section 7 - Provisions

These provisions are analyzed below:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Provisions for termination indemnities (caption 70) | 4,136 | 4,210 | -1.8 |
| Provisions for risks and charges (caption 80) | | | |
| - pensions and similar commitments (caption 80.a) | - | - | - |
| - taxation (caption 80.b) | 23,332 | 12,946 | +80.2 |
| - other (caption 80.c) | | | |
| - provisions for guarantees and commitments | - | - | - |
| - provisions for other risks and charges | 6,346 | 6,568 | -3.4 |
| - provisions for other personnel charges | - | - | - |
| Reserve for possible loan losses (caption 90) | 212,028 | 134,925 | +57.1 |
| **Total** | **245,842** | **158,649** | **+55.0** |

## Provisions for termination indemnities (caption 70)

Changes in the provisions for termination indemnities during the year (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Opening balance | 4,210 | 2,894 | +45.5 |
| Increases | | | |
| - provisions | 428 | 316 | +35.4 |
| - transfers | - | 1,208 | n.s. |
| Decreases | | | |
| - advances allowed under Law 297/82 | 36 | 154 | -76.6 |
| - indemnities to employees leaving the Bank | 279 | 43 | +548.8 |
| - transfers | 162 | - | n.s. |
| - other changes | 25 | 11 | +127.3 |
| **Closing balance** | **4,136** | **4,210** | **-1.8** |

# Taxation (caption 80.b)

Changes in taxation during the year (Euro/000)

| | 31/12/03 | | | 31/12/02 | | |
|---|---|---|---|---|---|---|
| | Income taxes | Deferred taxes | Total | Income taxes | Deferred taxes | Total |
| Opening balance | 12,946 | - | 12,946 | 9,422 | - | 9,422 |
| Increases | | | | | | |
| - provision for 2003 income taxes | 23,172 | - | 23,172 | 11,957 | - | 11,957 |
| - creation of provision for income taxes | - | - | - | - | - | - |
| Decreases | | | | | | |
| - payment of income taxes | 12,316 | - | 12,316 | 8,433 | - | 8,433 |
| - exchange differences | - | - | - | - | - | - |
| - other changes | 470 | - | 470 | - | - | - |
| **Closing balance** | **23,332** | **-** | **23,332** | **12,946** | **-** | **12,946** |

The caption "income taxes" covers current direct taxes. The Bank applied for the 2003 tax amnesty with a total cost of around Euro 470 thousand, debited to the provision for taxation.

Movements in deferred tax assets and liabilities booked to the statement of income are as follows:

| Deferred tax assets credited to the statement of income (table 7.4 B.I.) as of 31.12.03 | (Euro/000) |
|---|---|
| 1. Opening balance | 5,426 |
| 2. Increases | |
| 2.1 Deferred tax assets arising during the year | - |
| 2.2 Other increases (deferred tax assets arising in previous years) | 211 |
| 3. Decreases | |
| 3.1 Deferred tax assets reversing during the year | 3,139 |
| 3.2 Other decreases | - |
| **4. Closing balance** | **2,498** |

| Deferred tax liabilities charged to the statement of income (table 7.5 B.I.) as of 31.12.03 | (Euro/000) |
|---|---|
| 1. Opening balance | - |
| 2. Increases | |
| 2.1 Deferred tax liabilities arising during the year | - |
| 2.2 Other increases (deferred taxes arising in previous years) | - |
| 3. Decreases | |
| 3.1 Deferred tax liabilities reversing during the year | - |
| 3.2 Altre diminuzioni | - |
| **4. Closing balance** | - |

# Provisions for risks and charges - Other provisions (caption 80.c)

Analysis of caption 80.c "Provisions for risks and charges - Other provisions" (table 7.3 B.I.) (Euro/000)

| | 31/12/03 | | | | 01/01/03 pro-forma | | | |
|---|---|---|---|---|---|---|---|---|
| | Guarantees and commitments | For risks and charges | Other personnel charges | Total | Guarantees and commitments | For risks and charges | Other personnel charges | Total |
| Opening balance | - | 6,568 | - | 6,568 | - | 7,084 | - | 7,084 |
| Increases | | | | | | | | |
| - provisions | - | - | - | - | - | - | - | - |
| - other changes | - | - | - | - | - | - | - | - |
| Decreases | | | | | | | | |
| - used to cover charges on settlement of disputes | - | 81 | - | 81 | - | 314 | - | 314 |
| - other changes | - | 141 | - | 141 | - | 202 | - | 202 |
| **Closing balance** | **-** | **6,346** | **-** | **6,346** | **-** | **6,568** | **-** | **6,568** |

The provision for "risks and charges" includes Euro 1,705 thousand against estimated losses resulting from litigation, Euro 578 thousand against assets returned from leasing and Euro 4,063 thousand against possible future portfolio risks.

# Reserve for possible loan losses (caption 90)

Changes during the year in "Reserves for possible loan losses" (table 7.2 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| 1. Opening balance | 134,925 | 72,387 |
| 2. Increases | | |
| 2.1 Provisions | 78,000 | 65,000 |
| 2.2 Other changes | - | - |
| 3. Decreases | | |
| 3.1 Utilization | 897 | 2.462 |
| 3.2 Other changes | - | - |
| **4. Closing balance** | **212,028** | **134,925** |

At 31 December 2003, the provision to this reserve made for tax purposes amounts to Euro 184.0 million (Euro 115.8 million at 31.12.02).

# Section 8 - Capital, equity reserves and subordinated liabilities

Shareholders' equity is detailed below:

(Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Shareholders' equity | | | |
| - capital (caption 120) | 500,000 | 500,000 | - |
| - share premium reserve (caption 130) | 49,999 | 49,999 | - |
| - reserves (caption 140) | | | |
| a) legal reserve | 9,248 | 7,583 | +22.0 |
| b) reserve for own shares | - | - | - |
| c) other reserves | 88,274 | 81,646 | +8.1 |
| - distributable net income (caption 170) | 42,414 | 33,293 | +27.4 |
| **Total shareholders' equity** | **689,935** | **672,521** | **+2.6** |
| Own shares in portfolio | - | - | - |
| Subordinated liabilities (caption 110) | 82,634 | 82,634 | - |

On 20 december 2002 the extraordinary meeting of the shareholders of Banca OPI S.p.A. approved the proposal to increase share capital in relation to the transfer, from its sole shareholder Sanpaolo IMI S.p.A., of the public works and infrastructure business formerly belonging to Banco di Napoli S.p.A., which was absorbed by Sanpaolo IMI S.p.A. under a merger deed dated 18 December 2002.

The increase in share capital from Euro 450 million to Euro 500 million involved issuing 50,000 shares at a price of Euro 1,200.00 each. The share premium of Euro 10 million (Euro 200.00 per share) was credited to the share premium reserve.

## Other information

In line with Bank of Italy guidelines on disclosure of information, the breakdown of the regulatory capital as well as a description of the minimum requirements for supervisory purposes are shown below.

(Table 8.1 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| Category/amount | | |
| A. Regulatory capital | | |
| A.1 Tier 1 capital | 648,605 | 586,962 |
| A.2 Tier 2 capital | 152,521 | 130,652 |
| A.3 Items to be deducted | - | - |
| A.4 Regulatory capital | 801,126 | 717,614 |
| B. Minimum regulatory requirements | | |
| B.1 Lending risk | 391,365 | 268,899 |
| B.2 Market risk | 50,586 | 11,612 |
| *of which: - risks on dealing portfolio* | *50,586* | *11,612* |
| *- exchange risks* | - | - |
| B.3 Third-degree subordinated loans | - | - |
| B.4 Other minimum requirements | 3,850 | - |
| B.5 Total minimum requirements | 445,801 | 280,511 |
| C. Risk assets and capital-adequacy ratios | | |
| C.1 Risk-weighted assets | 6,368,579 | 4,007,307 |
| C.2 Tier 1 capital/risk-weighted assets | 10% | 15% |
| C.3 Regulatory capital/risk-weighted assets | 13% | 18% |

The regulatory capital is shown net of a dividend of Euro 40,3 million which will be proposed for distribution.

# Subordinated liabilities (caption 110)

(Euro/000)

| | Amount shown in the financial statements as of 31.12.2003 | Amount in original currency | Interest rate | Issue date | Maturity date | Amount shown in the financial statements as of 31.12.2002 |
|---|---|---|---|---|---|---|
| Subordinated loan in Euro | 82,634 | 82,634 | floating | 29.09.00 | 29.09.10 | 82,634 |

On 29 SepteSmber 2000, the Bank received a subordinated loan, from the Parent Bank, face value Euro 82.6 million.

The main features of the loan are as follows:

- duration: 10 years, including a 5-year pre-redemption period;

- interest: indexed at 6-month Euribor +70 b.p., payable half-yearly in arrears;

- repayment: at par in 5 equal annual repayments of principal, from 29 September 2006 to 29 September 2010;

- subordination clause: should Banca OPI SpA be wound up, the loan will be repaid only after fulfilling the obligations towards the other non-equally subordinated creditors, but with a pre-emption right in respect of Banca OPI's shareholders.

# Section 9 - Other liabilities

## Other liabilities (caption 50)

Analysis of caption 50 "Other liabilities" (table 9.1 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Valuation of derivatives on interest rates and stockmarket indices | 46,546 | 9,145 | +409.0 |
| Unprocessed transactions (a) | 13,239 | 40,477 | -67.3 |
| Amounts available for third parties | - | - | - |
| Non-liquid balances from portfolio transactions | - | - | - |
| Amounts due to employees | - | - | - |
| Due to the tax authorities | 2,834 | 1,471 | +92.7 |
| Amounts due for settlement (a) | 27,350 | 40,220 | -32.0 |
| Deposits guaranteeing agricultural and construction loans | - | - | - |
| Items relating to securities transactions | - | - | - |
| *of which: - "short position"* | - | - | - |
| Premiums collected on options sold | - | - | - |
| Other | 27,359 | 3,671 | +645.3 |
| **Total** | **117,328** | **94,984** | **+23.5** |

(a) These amounts were mostly settled during the first few days of January.

## Accrued expenses and deferred income (caption 60)

Analysis of caption 60 "Accrued expenses and deferred income" (table 9.2 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Accrued expenses | | | |
| - charges on derivative contracts | 40.129 | 30.528 | +31,4 |
| - interest on securities issued | 70.513 | 97.196 | -27,5 |
| - interest on amounts due to banks | 42.803 | 49.519 | -13,6 |
| - interest on amounts due to customers | 1.079 | 102 | n.s. |
| - payroll and other operating costs | 2.070 | 1.191 | +73,8 |
| - other charges | 3.251 | 2.185 | +48,8 |
| Deferred income | | | |
| - interest on discounted notes | - | - | - |
| - income from derivative contracts | 4.075 | 8 | n.s. |
| - other income | 2.187 | 1.106 | +97,7 |
| **Total** | **166.107** | **181.835** | **-8,6** |

# Section 10 - Guarantees and commitments

## Guarantees given (caption 10)

Analysis of caption 10 "Guarantees given" (table 10.1 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| a) Commercial guarantees | - | - | - |
| b) Financial guarantees | 359,174 | 328,641 | +9.3 |
| c) Assets lodged in guarantee | - | - | - |
| **Total** | **359,174** | **328,641** | **+9.3** |

## Commitments (caption 20)

Analysis of caption 20 "Commitments" (table 10.2 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| a) Commitments to grant finance (certain to be called on) | 10,990 | - | n.s. |
| b) Commitments to grant finance (not certain to be called on) | 5,861,575 | 5,795,227 | +1.1 |
| **Total** | **5,872,565** | **5,795,227** | **+1.3** |

The figure as of 31 December 2003 represents the total amount to be disbursed against loans stipulated.

## Assets lodged in guarantee of the Bank's liabilities

(table 10.3 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma | Change % |
|---|---|---|---|
| Loans assigned to guarantee interbank funding | 3,306,405 | 2,947,883 | +12.2 |
| Securities pledged to guarantee interbank funding | 483,563 | - | n.s. |
| **Total** | **3,789,968** | **2,947,883** | **+28.6** |

# Forward transactions

(table 10.5 B.I.) (Euro/000)

| | Hedging transactions | Dealing transactions | Other transactions | Total |
|---|---|---|---|---|
| 1. Purchase/sale of | | | | |
| 1.1 Securities | | | | |
| - purchases | | | | |
| - sales | | | | |
| 1.2 Currency | | | | |
| - currency against currency | | | | |
| - purchases against Euro | | | | |
| - sales against Euro | | | | |
| 2. Deposits and loans | | | | |
| - to be disbursed | | | 5,861,575 | 5,861,575 |
| - to be received | | | | |
| 3. Derivative contracts | | | | |
| 3.1 With exchange of capital | | | | |
| a) securities | | | | |
| - purchases | | | | |
| - sales | | | | |
| b) currency | | | | |
| - currency against currency | 22,214 | | | 22,214 |
| - purchases against Euro | 28,524 | | | 28,524 |
| - sales against Euro | 24,667 | | | 24,667 |
| c) other instruments | | | | |
| - purchases | | | | |
| - sales | | | | |
| 3.2 Without exchange of capital | | | | |
| a) currency | | | | |
| - currency against currency | | | | |
| - purchases against Euro | | | | |
| - sales against Euro | | | | |
| b) other instruments | | | | |
| - purchases | 2,568,292 | 2,053,256 | | 4,621,548 |
| - sales | 6,844,031 | 2,053,256 | | 8,897,287 |
| **Total** | **9,487,728** | **4,106,512** | **5,861,575** | **19,455,815** |

At year-end, hedging derivative contracts show a potential net loss of Euro 237.8 million (marked to market net of accruals and the exchange effect). In accordance with the Bank's accounting policies, this value has not been included in the financial statements given the interest and exchange rate hedging function that these derivatives provide in relation to funding, lending or investment transactions: these contracts have been valued using the same methods as the transaction being hedged, recording appropriate adjustments relating to interest rate and/or exchange rate differentials accruing at the balance sheet date. Derivative contracts used to hedge the dealing portfolio total Euro 922 million. Caption 3.2b includes interest rate derivatives without an underlying security (e.g. interest rate swaps and interest rate options) entered in the Bank's normal course of business with public sector entities (Regions, Municipalities, Provinces, etc.) to meet their growing demand for this kind of product.

# Financial information relating to derivative contracts and forward currency purchase/sale transactions

Notional amounts (Euro/000)

| | Interest rate related | Exchange rate related | Stockmarket index related | Other | Total |
|---|---|---|---|---|---|
| OTC trading contracts | 4,075,826 | | | | 4,075,826 |
| - Forward | | | | | |
| - Swap | 1,505,174 | | | | 1,505,174 |
| *- Options purchased* | 1,285,326 | | | | 1,285,326 |
| *- Options sold* | 1,285,326 | | | | 1,285,326 |
| *- Other derivative contracts* | | | | | |
| Quoted trading contracts | | | | | |
| *- Futures purchased* | | | | | |
| *- Futures sold* | | | | | |
| *- Options purchased* | | | | | |
| *- Options sold* | | | | | |
| *- Other derivative contracts* | | | | | |
| **Total trading contracts** | **4,075,826** | | | | **4,075,826** |
| OTC non-trading contracts | 8,968,200 | 75,405 | | | 9,043,605 |
| - Forward | | | | | |
| - Swap | 8,968,200 | 75,405 | | | 9,043,605 |
| - Options purchased | | | | | |
| - Options sold | | | | | |
| - Other derivative contracts | | | | | |
| Quoted non-trading contracts | | | | | |
| - Futures purchased | | | | | |
| - Futures sold | | | | | |
| - Futures currency against currency | | | | | |
| - Options purchased | | | | | |
| - Options sold | | | | | |
| - Other derivative contracts | | | | | |
| **Total non-trading contracts** | **8,968,200** | **75,405** | | | **9,043,605** |
| **Grand total** | **13,044,026** | **75,405** | | | **13,119,431** |
| Forward contracts | | | | | |
| - Trading forward currency contracts <2 days | | | | | |
| - Trading basis Swap with exchange of indices | 30,686 | | | | 30,686 |
| - Other trading derivatives with exchange of indices | | | | | |
| - Non-trading forward currency contracts <2 days | | | | | |
| - Non-trading basis Swap with exchange of indices | 444,123 | | | | 444,123 |
| - Other non-trading derivatives with exchange of indices | | | | | |
| - Forward contracts on securities | | | | | |
| - Deposits and loans | | | | | |
| **Total** | **13,518,835** | **75,405** | | | **13,594,240** |

Residual maturity of notional amounts underlying OTC derivative contracts (Euro/000)

| | Up to 12 months | Between 1 and 5 years | Beyond 5 years | Total |
|---|---|---|---|---|
| Interest rate related | 1,004,881 | 2,123,196 | 9,915,949 | 13,044,026 |
| Exchange rate related | | 33,180 | 42,225 | 75,405 |
| Stockmarket index related | | | | |
| Other contracts | | | | |

Credit quality of OTC derivative contracts, by counterparty (Euro/000)

| | Positive market value | Add on | Equivalent lending risk (current value) |
|---|---|---|---|
| Governments and central banks | | | |
| Banks* | 127,108 | 49,989 | 177,097 |
| Other operators | | | |
| **Total** | **127,108** | **49,989** | **177,097** |
| Adjustments for clearing agreements | | | |
| **Total** | **127,108** | **49,989** | **177,097** |

* includes derivatives with organizations in the national public sector (equivalent to banks)

Notional amounts of OTC transactions, related market values and add on (Euro/000)

| | Interest rate related | Exchange rate related | Stockmarket index related | Other | Total |
|---|---|---|---|---|---|
| Notional amounts | 13,044,026 | 75,405 | | | 13,119,431 |
| Market value of OTC trading contracts | | | | | |
| - positive | 44,241 | | | | 44,241 |
| - negative | -38,173 | | | | -38,173 |
| Add on | 20,920 | | | | 20,920 |
| Market value of OTC non-trading contracts | | | | | |
| - positive | 82,867 | | | | 82,867 |
| - negative | -340,086 | -6,809 | | | -348,272 |
| Add on | 25,902 | 3,167 | | | 29,069 |

# Section 11 - Concentration and distribution of assets and liabilities

## Significant exposures

Major borrowing positions that exceed 10% of the Bank's regulatory capital and defined by the Bank of Italy as "significant exposures", are as follows:

(table 11.1 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| a) Amount (in thousands of euro) | 2,797,477 | 1,734,153 |
| b) Number | 16 | 11 |

The above positions comprise all risk assets outstanding in relation to customers and groups of related customers (including banks).

## Distribution of loans to customers, by category of borrower

Loans to customers, including assets in leasing, show the following distribution by category of borrower:

(table 11.2 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| a) Governments | 6,433,970 | 5,145,739 |
| b) Other public sector entities | 4,931,012 | 3,644,950 |
| c) Non-financial businesses | 7,088,384 | 5,669,504 |
| d) Financial institutions | 58,661 | 96,706 |
| e) Family businesses | 926 | 3,693 |
| f) Other operators | 16,551 | 12,783 |
| **Total** | **18,529,504** | **14,573,375** |

## Distribution of loans to resident non-financial and family businesses

The distribution of loans to non-financial and family businesses resident in Italy is detailed below, by industry:

(table 11.3 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| a) Internal transport services | 1,798,420 | 1,712,845 |
| b) Energy products | 1,518,240 | 1,608,000 |
| c) Other services for sale | 1,516,606 | 203,346 |
| d) Communication services | 1,100,000 | 1,300,000 |
| e) Transport related services | 414,327 | 289,678 |
| f) Other sectors | 246,739 | 152,406 |
| **Total** | **6,594,332** | **5,266,275** |

## Distribution of guarantees given, by category of counterparty

Guarantees given by the Bank are classified by category of counterparty as follows:

(table 11.4 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| a) Governments | - | - |
| b) Other public sector entities | - | - |
| c) Banks | - | - |
| d) Non-financial businesses | 359,174 | 328,641 |
| e) Financial institutions | - | - |
| f) Family businesses | - | - |
| g) Other operators | - | - |
| **Total** | **359,174** | **328,641** |

# Geographical distribution of assets and liabilities

The geographical distribution of assets and liabilities is detailed below, by reference to the countries of residence of the counterparties concerned:

(table 11.5 B.I.) (Euro/000)

| | 31/12/03 | | | | 31/12/02 | | | |
|---|---|---|---|---|---|---|---|---|
| | Italy | Other EU countries | Other countries | Total | Italy | Other EU countries | Other countries | Total |
| 1. Assets | | | | | | | | |
| 1.1 due from banks | 112,715 | - | 4,500 | 117,215 | 259,666 | 150,000 | - | 409,666 |
| 1.2 loans to customers | 17,765,608 | 502,097 | 120,846 | 18,388,551 | 14,042,814 | 450,180 | 80,381 | 14,573,375 |
| 1.3 securities | 2,126,210 | 130,829 | 10,000 | 2,267,039 | 595,105 | 2,553 | - | 597,658 |
| **Total** | **20,004,533** | **632,926** | **135,346** | **20,772,805** | **14,897,585** | **602,733** | **80,381** | **15,580,699** |
| 2. Liabilities | | | | | | | | |
| 2.1 due to banks | 9,161,075 | 5,424,287 | - | 14,585,362 | 6,205,147 | 4,071,997 | 2,479 | 10,279,623 |
| 2.2 due to customers | 166,037 | - | - | 166,037 | 50,380 | - | - | 50,380 |
| 2.3 securities issued | 5,390,918 | - | - | 5,390,918 | 4,564,997 | - | - | 4,564,997 |
| 2.4 other accounts | 117,328 | - | - | 117,328 | 94,636 | - | - | 94,636 |
| **Total** | **14,835,358** | **5,424,287** | **-** | **20,259,645** | **10,915,160** | **4,071,997** | **2,479** | **14,989,636** |
| 3. Guarantees and commitments | 5,627,412 | 438,789 | 165,538 | 6,231,739 | 5,266,670 | 313,779 | 53,096 | 5,633,545 |

# Maturities of assets and liabilities

The residual maturities of assets and liabilities are detailed in the following table:

(table 11.6 B.I.) (Euro/000)

| | Specified maturity | | | | | | | Unspecifie maturity | Total |
|---|---|---|---|---|---|---|---|---|---|
| | On demand | Up to 3 months | Between 3 and 12 months | Between 1 and 5 years | | Beyond 5 years | | | |
| | | | | Fixed rate | Indexed rate | Fixed rate | Indexed rate | | |
| 1. Assets | | | | | | | | | |
| 1.1 treasury bonds eligible for refinancing | - | 80,032 | 80,096 | - | - | - | - | - | 160,128 |
| 1.2 due from banks | 1,030 | - | - | 72,547 | 41,799 | - | 1,800 | 39 | 117,215 |
| 1.3 loans to customers | 74,737 | 750,607 | 2,364,474 | 2,243,567 | 4,267,273 | 3,663,373 | 5,163,222 | 2,252 | 18,529,505 |
| 1.4 bonds and other government securities | - | 467 | 70,560 | 484,282 | 624,422 | 436,163 | 487,188 | 3,829 | 2,106,911 |
| 1.5 off-balance sheet transactions | - | 2,069,499 | 8,827,839 | 615,292 | - | 1,606,801 | - | - | 13,119,431 |
| **Total assets** | **75,767** | **2,900,605** | **11,342,969** | **3,415,688** | **4,933,494** | **5,706,337** | **5,652,210** | **6,120** | **34,033,190** |
| 2. Liabilities | | | | | | | | | |
| 2.1 due to banks | 94,473 | 3,054,191 | 575,411 | 1,195,697 | 4,665,854 | 291,217 | 4,708,519 | - | 14,585,362 |
| 2.2 due to customers | 5,829 | - | 160,208 | - | - | - | - | - | 166,037 |
| 2.3 securities issued | | | | | | | | | |
| - bonds | 109,355 | 139,719 | 1,566,522 | 1,117,151 | 1,260,620 | 750,257 | 447,294 | - | 5,390,918 |
| - certificates of deposit | - | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - | - |
| 2.4 subordinated liabilities | - | - | - | - | 49,580 | - | 33,054 | - | 82,634 |
| 2.5 off-balance sheet transactions | - | 1,310,964 | 2,466,225 | 1,399,096 | - | 7,943,146 | - | - | 13,119,431 |
| **Total liabilities** | **209,657** | **4,504,874** | **4,768,366** | **3,711,944** | **5,976,054** | **8,984,620** | **5,188,867** | **-** | **33,344,382** |

# Assets and liabilities denominated in foreign currencies

The Bank's assets and liabilities denominated in foreign currencies are detailed below:

(table 11.7 B.I.) (Euro/000)

| | 31/12/03 | 01/01/03 pro-forma |
|---|---|---|
| a) Assets | | |
| 1. due from banks | 11 | - |
| 2. loans to customers | 211,283 | 194,517 |
| 3. securities | - | - |
| 4. equity investments | - | - |
| 5. other accounts | - | - |
| **Total assets** | **211,294** | **194,517** |
| b) Liabilities | | |
| 1. due to banks | 248,791 | 241,590 |
| 2. due to customers | - | - |
| 3. securities issued | - | - |
| 4. other accounts | - | - |
| **Total liabilities** | **248,791** | **241,590** |

Liabilities in foreign currency do not constitute a position open to exchange risk, since they have been transformed into Euro through derivative contracts (mainly CCS) substantially offsetting them against the corresponding assets in foreign currency.

The principal spot exchange rates as of 31 December 2003 used to translate the Bank's foreign currency assets and liabilities are indicated below:

| | 31/12/03 |
|---|---|
| US dollar | 1.2630 |
| Swiss franc | 1.5579 |
| Pound sterling | 0.7048 |
| Japanese yen | 135.05 |
| Norwegian krona | 8.4141 |
| Danish krona | 7.4450 |

# Securitization transactions

The Bank holds investment and dealing securities arising from third-party securitizations:

(table 11.8 B.I.) (Euro/000)

| Type of underlying asset | Asset quality | Senior | Mezzanine | Junior | Total |
|---|---|---|---|---|---|
| | | Book value | | | |
| Dealing portfolio | | | | | |
| - health care receivable | Performing loans | 399,097 | - | - | 399,097 |
| - other loans | Performing loans | 805,400 | 35,000 | 20,000 | 860,400 |
| **Total** | | **1,204,497** | **35,000** | **20,000** | **1,259,497** |

There were no adjustments to securities. The Bank has no interest in vehicle companies and does not act as a servicer or arranger.
The securitized assets underlying junior securities total Euro 333 million as of 31 December 2003 and do not include any non-performing and problem loans.

# Part C - Statement of Income

## Section 1 - Interest

### Interest income and similar revenues (caption 10)

Analysis of caption 10 "Interest income and similar revenues" (table 1.1 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) On amounts due from banks | 7,674 | 9,955 | -22.9 |
| *of which: - deposits with central banks* | *65* | - | *n.s.* |
| b) On loans to customers | 785,157 | 714,928 | +9.8 |
| *of which: - loans using public funds* | - | - | - |
| c) On debt securities | 61,091 | 9,499 | +543.1 |
| d) Other interest income | - | 113 | n.s. |
| e) Net positive differential on hedging transactions | - | - | - |
| **Total** | **853,922** | **734,495** | **+16.3** |

Detail of caption 10 "Interest income and similar revenues" (table 1.3 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) On assets denominated in foreign currency | 5,998 | 7,361 | -18.5 |

As already mentioned in Part A - Accounting policies, default interest accrued during the year, amounting to Euro 8,586 thousand, has been written off in full.

Interest income includes Euro 10,232 thousand in income relating to repurchase agreements (Euro 500 thousand in 2002).

# Interest expense and similar charges (caption 20)

Detail of caption 20 "Interest expense and similar charges" (table 1.2 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) On amounts due to banks | 339,458 | 313,624 | +8.2 |
| b) On amounts due to customers | 31,973 | 3,241 | +886.5 |
| c) On securities issued | 213,997 | 195,668 | +9.4 |
| *of which: - certificates of deposit* | - | - | - |
| d) On public funds administered | - | - | - |
| e) On subordinated liabilities | 2,738 | 3,518 | -22.2 |
| f) Net negative differential on hedging transactions | 137,944 | 106,882 | +29.1 |
| **Total** | **726,110** | **622,933** | **+16.6** |

Detail of caption 20 "Interest expense and similar charges" (table 1.4 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) On liabilities denominated in foreign currency | 4,795 | 12,886 | -62.8 |

Interest expense includes Euro 695 thousand in commission pertaining to the year on the placement of bonds (Euro 983 thousand in 2002).

Interest expense includes Euro 26,037 thousand relating to repurchase agreements (Euro 2,867 thousand in 2002).

# Other information relating to interest

Information concerning the interest arising on transactions with Group companies is reported in part C, section 7 of these notes.

# Section 2 - Commission

## Commission income (caption 40)

Analysis of caption 40 "Commission income" (table 2.1 B.I) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) Guarantees given | 1,323 | 1,457 | -9.2 |
| b) Credit derivatives | 1,157 | - | n.s. |
| c) Management, dealing and advisory services | - | - | - |
| 1. dealing in securities | - | - | - |
| 2. dealing in currency | - | - | - |
| 3. portfolio management | - | - | - |
| 4. custody and administration of securities | - | - | - |
| 5. custodian bank | - | - | - |
| 6. placement of securities | - | - | - |
| 7. acceptance of instructions | - | - | - |
| 8. advisory services | - | - | - |
| 9. distribution of third-party services: | - | - | - |
| 9.1 portfolio management | - | - | - |
| 9.1.1. individual | - | - | - |
| 9.1.2. collective | - | - | - |
| 9.2. insurance products | - | - | - |
| 9.3. other products | - | - | - |
| d) Collection and payment services | 8 | - | n.s. |
| e) Servicing of securitization transactions | - | - | - |
| f) Tax collection services | - | - | - |
| g) Other services | 15,312 | 7,499 | +104.2 |
| **Total** | **17,800** | **8,956** | **+98.7** |

Subcaption "g) Other services" is detailed as follows: (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Organization and syndication of loans | 5,506 | 3,938 | +39.8 |
| Corporate and project advisory services | 5,121 | 3,208 | +59.6 |
| Other services | 4,685 | 353 | n.s. |

Analysis of caption 40 "Commission income" (table 2.2 B.I.): Distribution channels of products and services (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) Own branches: | | | |
| 1. portfolio management | - | - | - |
| 2. placement of securities | - | - | - |
| 3. third-party products and services | - | - | - |
| b) Door-to-door: | | | |
| 1. portfolio management | - | - | - |
| 2. placement of securities | - | - | - |
| 3. third-party products and services | - | - | - |

## Commission expense (caption 50)

Analysis of caption 50 "Commission expense" (table 2.3 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) Guarantees received | 1.577 | 901 | +75.0 |
| b) Credit derivatives | 858 | - | n.s. |
| c) Management and dealing services | 83 | 60 | +38,3 |
| 1. dealing in securities | - | - | - |
| 2. dealing in currency | - | - | - |
| 3. portfolio management | - | - | - |
| 4. custody and administration of securities | - | - | - |
| 5. placement of securities | - | - | - |
| 6. door-to-door sale of securities, products and services | 83 | 60 | +38,3 |
| d) Collection and payment services | 202 | 165 | +22,4 |
| e) Other services | - | - | - |
| **Total** | **2.720** | **1.126** | **+141,6** |

The amount in a) above relates to fees paid to the Parent Bank for guarantees given.

# Section 3 - Profits (losses) on financial transactions

## Profits (losses) on financial transactions (caption 60)

Analysis of caption 60 "Profits (losses) on financial transactions" (table 3.1. B.I.) (Euro/000)

| | 31/12/03 | | | | 31/12/02 | | | |
|---|---|---|---|---|---|---|---|---|
| | Security transactions | Currency transactions | Other transactions | Total | Security transactions | Currency transactions | Other transactions | TotalS |
| A1. Revaluations | - | - | - | - | -107 | - | - | -107 |
| A2. Writedowns | -1,091 | - | - | -1,091 | - | -7 | - | -7 |
| B. Other profits and losses | 17,813 | -50 | 329 | 18,092 | - | - | - | - |
| **Total** | **16,722** | **-50** | **329** | **17,001** | **-107** | **-7** | **-** | **-114** |
| *of which: 1. on Government securities* | *-1,091* | | | | *-107* | | | |
| *2. on other debt securities* | - | | | | - | | | |
| *3. on equities* | - | | | | - | | | |
| *4. on security derivatives* | - | | | | - | | | |

The amount under subcaption B for "Security transactions" includes Euro 13,058 thousand relating to the unwinding of certain interest rate swaps closed out before their maturity following the prepayment of the underlying bonds; the remainder refers to trading derivatives.

# Section 4 - Administrative costs

## Payroll costs (caption 80.a)

(Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Wages and salaries | 8,882 | 6,385 | +39.1 |
| Social security charges | 2,814 | 2,115 | +33.0 |
| Termination indemnities | | | |
| - provision for termination indemnities | 605 | 474 | +27.6 |
| **Total** | **12,301** | **8,974** | **+37.1** |

Average number of employees by category (table 4.1 B.I.)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| a) Executives | 11 | 9 |
| b) 3rd and 4th grade officials | 46 | 39 |
| c) Other employees | 93 | 67 |
| **Total** | **150** | **115** |

# Other administrative costs (caption 80.b)

(Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Computer costs | 3,825 | 3,450 | +10.9 |
| Data processing services | 3,551 | 3,235 | +9.8 |
| Subscription to data banks | 274 | 215 | +27.4 |
| Property management charges | 1,125 | 753 | +49.4 |
| Rented premises | 1,125 | 753 | +49.4 |
| General expenses | 1,248 | 911 | +37.0 |
| Postal charges | 39 | 28 | +39.3 |
| Stationery | 133 | 110 | +20.9 |
| Books, publications, newspapers and magazines | 52 | 55 | -5.5 |
| Group personnel on secondment | 891 | 582 | +53.1 |
| Other expenses | 133 | 136 | -2.2 |
| Professional and insurance expenses | 3,016 | 2,767 | +9.0 |
| Advisory services (a) | 923 | 895 | +3.1 |
| Legal and judiciary expenses | 963 | 1,041 | -7.5 |
| External audit fees (b) | 300 | 233 | +28.8 |
| Other professional and insurance expenses | 125 | 49 | +155.1 |
| Expenses for corporate officers | 705 | 549 | +28.4 |
| Promotional, advertising and marketing costs | 621 | 209 | +197.1 |
| Advertising and entertainment | 280 | 21 | n.s. |
| Contributions to trade unions and professional associations | 341 | 188 | +81.4 |
| Indirect personnel costs | 971 | 795 | +22.1 |
| Other expenses for personnel training, travel and assignments | 971 | 795 | +22.1 |
| **Total** | **10,806** | **8,885** | **+21.6** |
| Indirect duties and taxes | | | |
| - substitute tax (Pres. Decree 601/73) | 3,431 | 1,480 | +131.8 |
| - local property taxes | 3 | 8 | -62.5 |
| - other | 66 | 24 | +175.0 |
| **Total** | **3,500** | **1,512** | **+131.5** |
| **Total other administrative costs** | **14,306** | **10,397** | **+37.6** |

(a) "Advisory services" include Euro 473 thousand (Euro 427 thousand in 2002) for outsourced services, mainly in the administrative area, provided by the Parent Bank.
(b) This caption includes fees paid to PricewaterhouseCoopers S.p.A. for the following activities:
- audit of the financial statements;
- limited audit of the half-yearly report;
- ongoing supervision pursuant to art. 155 of the Financial Services Act;
- work relating to the transfer of the former Banco di Napoli's public works and infrastructure unit from the Parent Bank;
- Form 20-F

Euro 3,431 thousand in substitute tax was recharged in full to customers.

# Section 5 - Adjustments, writebacks and provisions

## Adjustments to intangible and tangible fixed assets (caption 90)

(Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Adjustments to intangible fixed assets | | | |
| - amortization of capital increase costs | - | 155 | n.s |
| - amortization of software costs | 399 | 226 | +76.5 |
| - amortization of other deferred charges | 143 | 72 | +98.6 |
| Adjustments to tangible fixed assets | | | |
| - depreciation of leased assets | 21,814 | 14,180 | +53.8 |
| - depreciation of assets in deposit | 791 | 1,092 | -27.6 |
| - depreciation of other deferred charges | 51 | 52 | -1.9 |
| **Total** | **23,198** | **15,777** | **+47.0** |

Individual assets have been written down with reference to their remaining useful lives using, in most cases, the maximum fiscally-allowed rates.

## Provisions for risks and charges (caption 100)

Like in the previous year, no further additional provisions were booked this year.

## Provisions to reserves for possible loan losses (caption 140)

(Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Provision | 78,000 | 65,000 | +20.0 |

The provision has been calculated using the prudent criteria relating to general banking risks described in Part A of the Notes, as well as fiscal regulations.

# Adjustments to loans and provisions for guarantees and commitments (caption 120)

(table 5.1 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| a) Adjustments to loans | - | 212 | n.s. |
| *of which: - general adjustments for country risk* | - | - | - |
| *- other general adjustments* | - | - | - |
| b) Provisions for guarantees and commitments | - | - | - |
| *of which: - general provisions for country risk* | - | - | - |
| *- other general provisions* | - | - | - |
| **Total** | **-** | **212** | **n.s.** |

# Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)

(Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Writebacks of adjustments to loans | - | - | - |
| Surplus of provisions against future non-performing and problem leasing loans | 650 | 572 | +13.6 |
| Collection of loans previously written down | 781 | 423 | +84.6 |
| **Total** | **1,431** | **995** | **+43.8** |

# Section 6 - Other statement of income captions

## Dividends and other revenues (caption 30)

(Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| From equity investments | | | |
| - Sinloc SpA | 33 | - | n.s. |
| Tax credits | 19 | - | n.s. |
| **Total** | **52** | **-** | **n.s.** |

## Other operating income (caption 70)

(table 6.1 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Expenses recharged to customers | | | |
| - other taxes | 3,431 | 1,479 | +132.0 |
| - legal costs | - | 90 | n.s. |
| - other recharges | 155 | 140 | +10.7 |
| Reimbursement of services rendered to third parties | 74 | 93 | -20.4 |
| Income from leasing activities | 28,969 | 21,537 | +34.5 |
| Other income | 4 | 40 | -90.0 |
| **Total** | **32,633** | **23,379** | **+39.6** |

"Income from leasing activities" includes Euro 28,924 thousand (Euro 21,006 thousand in 2002) relating to finance lease instalments.

## Other operating expenses (caption 110)

(table 6.2 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Expenses relating to leasing activities | 561 | 807 | -30.5 |

This amount comprises around Euro 536 thousand (Euro 763 thousand in 2002) in losses arising on the redemption of leased assets.

## Extraordinary income (caption 180)

(table 6.3 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Out-of-period income | | | |
| - out-of-period income on leasing activities | 1,096 | 925 | +18.5 |
| - other out-of-period income | 2,735 | 2,690 | +1.7 |
| **Total** | **3,831** | **3,615** | **+6.0** |

## Extraordinary expense (caption190)

(table 6.4 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Leaving incentives | 592 | - | n.s. |
| Other out-of-period expenses | 367 | 108 | +239.8 |
| Amounts not collectible | - | - | - |
| **Total** | **959** | **108** | **+788.0** |

## Income taxes for the year (caption 220)

Breakdown of caption 220 "Income taxes for the year" (table 6.5 B.I.) (Euro/000)

| | 31/12/03 | 31/12/02 | Change % |
|---|---|---|---|
| Current income taxes | 23,172 | 11,957 | +93.8 |
| Deferred taxes | - | - | - |
| Deferred tax assets reversing in the year | 2,928 | 743 | +294.1 |
| Deferred tax assets arising in the year | - | - | - |
| Use of provision for taxation | - | - | - |
| **Total income taxes for the year** | **26,100** | **12,700** | **+105.5** |

# Section 7 - Other information regarding the statement of income

The supplementary information on the statement of income given below mainly concerns economic relationships with companies in the SANPAOLO IMI Banking Group and the effect on the financial statements of applying the financial method of lease accounting.

## Income and expenses arising from transactions with Group companies

Income and expenses arising from transactions with companies in the SANPAOLO IMI Banking Group, as defined in article 4 of Decree 87/92, are detailed below:

(Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| Income | | |
| - interest income and similar revenues | 3,878 | 8,298 |
| - dividends and other revenues | - | - |
| - commission income | 656 | - |
| - other operating income | 29 | - |
| **Total** | **4,563** | **8,298** |
| Expenses | | |
| - interest expense and similar charges | 222,190 | 211,498 |
| - commission expense | 1,483 | 901 |
| - other operating expenses | 5,765 | 5,136 |
| Total | **229,438** | **217,535** |

The Bank's asset and liability balances in respect of Group companies at year-end are shown in Part B, Section 3, of these notes.

## Geographical distribution of revenues

The geographical breakdown of revenues under captions 10, 40, 60,and 70 of the statement of income has been omitted since these markets are not significantly different for the Bank's organization.

## Effects on the financial statements of applying the financial method of lease accounting

The financial method of lease accounting shows the "implicit loans" contained in financial lease transactions instead of the assets being leased out, making transactions similar to "loans" and leased assets similar to "guarantees".

It should be pointed out that the most important difference between the statutory and financial methods is the differences arising between the depreciation of assets booked in the statutory balance sheet (charged on a straight-line basis) and the principal portions of expired instalments relating to implicit loans (which rise over time).

The effects that would have been produced on the results for the year if the financial method of lease accounting had been applied are summarized below:

(Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| Statutory income | 42,414 | 33,293 |
| Statutory depreciation of leased assets | 22,605 | 15,271 |
| Leasing instalments | -28,924 | -21,005 |
| Implicit interest in instalments | 2,777 | 4,026 |
| Other changes due to the different accounting method | 1,554 | 810 |
| **Income as a result of applying the financial lease accounting method** | **40,426** | **32,395** |

The balance of "Other changes" mainly refers to the net effect of the various financial gains and losses with respect to the statutory ones.

As for the balance sheet, the application of financial lease accounting results in a financial reserve, movements in which are shown below:

Change in the financial reserve (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| Opening financial reserve | 5,701 | 6,600 |
| Difference between statutory and financial results | -1,989 | -899 |
| **Closing financial reserve** | **3,712** | **5,701** |

Breakdown of the financial reserve (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| (a) Gross implicit loans | 143,792 | 71,570 |
| (b) Leased assets | 141,344 | -67,303 |
| (a-b) | 2,448 | 4,267 |
| Financial accruals | -642 | 828 |
| Advance instalments to be applied to the final months | 6 | 6 |
| Provision difference | 1,900 | 600 |
| **Closing financial reserve** | **3,712** | **5,701** |

Shareholders' equity (Euro/000)

| | 31/12/03 | 31/12/02 |
|---|---|---|
| Capital | 500,000 | 450,000 |
| Reserves | 147,521 | 129,228 |
| Net income for the year | 42,414 | 33,293 |
| **Statutory shareholders' equity** | **689,935** | **612,521** |
| Financial reserve | 3,712 | 5,701 |
| **Shareholders' equity using the financial lease accounting method** | **693,647** | **618,222** |

The financial reserve represents the effect of the timing difference between the statutory results and those deriving from application of the financial lease accounting method. This difference cancels itself out completely on the natural completion of the contracts.

# Part D - Other information

## Section 1 - Directors and Statutory Auditors

### Remuneration

The annual remuneration of the Directors and the Statutory Auditors of the Bank is reported below:

(table 1.1 B.I.) (Euro/000)

| | 31/12/03 |
|---|---|
| Directors | 642 |
| Statutory Auditors | 63 |

During 2003, no loans were granted or guarantees given in favour of Directors and Statutory Auditors.

# Section 2 - Parent Bank

## Name of company

SANPAOLO IMI S.p.A.

## Registered office

Piazza San Carlo, 156

10121 Turin

## Secondary offices

Viale dell'Arte, 25

00144 Rome

Via Farini, 22

40124 Bologna

Registered banking group number: 1025/6

Turin Company Register no. 06210280019

# Attachments

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**STATEMENT OF CASH FLOWS**

**PRO-FORMA BALANCE SHEET AS OF 01.01.2003**

# Statement of changes in shareholders' equity

(Euro/000)

| Description | Capital | Legal reserve | Share premium reserve | Ordinary reserve | Net income (loss) for the year | Shareholders' equity |
|---|---|---|---|---|---|---|
| **BALANCE AS OF 31 DECEMBER 2001** | **260,000** | **5,986** | **-** | **76,301** | **31,943** | **374,230** |
| Increase in share capital | 190,000 | - | 39,999 | - | - | 229,999 |
| Allocation of 2001 net income | | | | | | |
| - legal reserve | - | 1,597 | - | - | -1,597 | - |
| - ordinary reserve | - | - | - | 5,346 | -5,346 | - |
| - dividends distributed | - | - | - | - | -25,000 | -25,000 |
| Net income for the period | - | - | - | - | 33,293 | 33,293 |
| **BALANCE AS OF 31 DECEMBER 2002** | **450,000** | **7,583** | **39,999** | **81,646** | **33,293** | **612,521** |
| Increase in share capital | 50,000 | - | 10,000 | - | - | 60,000 |
| Allocation of 2002 net income | | | | | | |
| - legal reserve | - | 1,665 | - | - | -1,665 | - |
| - ordinary reserve | - | - | - | 6,628 | -6,628 | - |
| - dividends distributed | - | - | - | - | -25,000 | -25,000 |
| Net income for 2003 | - | - | - | - | 42,414 | 42,414 |
| **BALANCE AS OF 31 DECEMBER 2003** | **500,000** | **9,248** | **49,999** | **88,274** | **42,414** | **689,935** |

# Statement of cash flows

(Euro/000)

| | | |
|---|---|---|
| APPLICATION OF FUNDS | | |
| Use of funds generated by operations | | 39,986 |
| Use of reserves for termination indemnities and pensions | 502 | |
| Use of the provision for taxation | 12,786 | |
| Use of provisions for risks and charges (other provisions) | 801 | |
| Use of the reserve for possible loan losses | 897 | |
| Dividends distributed | 25,000 | |
| Increase in funds applied | | 5,813,843 |
| Cash and deposits with central banks | 22 | |
| Loans to customers | 3,886,747 | |
| Dealing securities | 1,696,207 | |
| Equity investments | 15 | |
| Tangible fixed assets | 113,779 | |
| Intangible fixed assets | 1,019 | |
| Other assets | 116,054 | |
| Decrease in funds taken | | 1,014,099 |
| Securities issued | 983,603 | |
| Due to customers | 30,496 | |
| **Total** | | **6,867,928** |

| | | |
|---|---|---|
| SOURCES OF FUNDS | | |
| Funds generated by operations | | 168,998 |
| Net income for the year | 42,414 | |
| Provision for termination indemnities | 1,636 | |
| Charge to the provision for taxation | 23,172 | |
| Charge to the provision for risks and charges (other provisions) | 578 | |
| Provision to the reserve for possible loan losses | 78,000 | |
| Adjustments to tangible fixed assets | 22,656 | |
| Adjustments to intangible fixed assets | 542 | |
| Increase in funds taken | | 6,377,045 |
| Due to banks | 4,305,739 | |
| Due to customers | 146,153 | |
| Securities issued | 1,809,524 | |
| Other liabilities | 55,629 | |
| Shareholders' equity | 60,000 | |
| Decrease in funds applied | | 321,885 |
| Cash and deposits with central banks | 91,990 | |
| Due from banks | 200,461 | |
| Dealing securities | 26,827 | |
| Tangible fixed assets | 2,607 | |
| **Total** | | **6,867,928** |

# Pro-forma balance sheet

(Euro)

| ASSETS | | 31/12/2002 | | transferred from SPIMI as of 01/01/03 | | 01/01/03 pro-forma |
|---|---|---|---|---|---|---|
| | | (a) | | (b) | | (c=a+b) |
| **10. Cash and deposits with central banks and post offices** | | **28,998** | | **466** | | **29,464** |
| **20. Treasury bills and similar bills eligible for refinancing with central banks** | | **161,008,000** | | **-** | | **161,008,000** |
| **30. Due from banks** | | **409,665,932** | | **50,000,000** | | **459,665,932** |
| a) repayable on demand | 93,020,242 | | 50,000,000 | | 143,020,242 | |
| b) other deposits | 316,645,690 | | - | | 316,645,690 | |
| **40. Loans to customers** | | **14,501,804,476** | | **1,942,788,127** | | **16,444,592,603** |
| *of which: - loans using public funds* | - | | - | | - | |
| **50. Bonds and other debt securities** | | **436,650,292** | | **65,782,055** | | **502,432,347** |
| a) public entities | 404,097,592 | | 65,782,055 | | 469,879,647 | |
| b) banks | - | | - | | - | |
| *of which: - own bonds* | - | | - | | - | |
| c) financial institutions | 32,552,700 | | - | | 32,552,700 | |
| *of which: - own bonds* | - | | - | | - | |
| d) other issuers | - | | - | | - | |
| **70. Equity investments** | | **3,786,567** | | **-** | | **3,786,567** |
| **80. Investments in Group companies** | | **230,012,911** | | **-** | | **230,012,911** |
| **90. Intangible fixed assets** | | **559,271** | | **-** | | **559,271** |
| *of which: - start-up costs* | - | | - | | - | |
| *- goodwill* | - | | - | | - | |
| **100. Tangible fixed assets** | | **71,789,994** | | **-** | | **71,789,994** |
| **130. Other assets** | | **33,235,212** | | **4,852,293** | | **38,087,505** |
| **140. Accrued income and prepaid expenses** | | **126,861,351** | | **31,003,269** | | **157,864,620** |
| a) accrued income | 99,795,689 | | 31,003,269 | | 130,798,958 | |
| b) prepaid expenses | 27,065,662 | | - | | 27,065,662 | |
| *of which: - discounts on bond issues* | *78,230* | | - | | *78,230* | |
| **Total assets** | | **15,975,403,004** | | **2,094,426,210** | | **18,069,829,214** |

**LIABILITIES AND SHAREHOLDERS' EQUITY** (Euro)

| | 31/12/2002 | | conferito da SPIMI al 01/01/03 | | 01/01/03 pro-forma | |
|---|---|---|---|---|---|---|
| | (a) | | (b) | | (c=a+b) | |
| **10. Due to banks** | | **10,279,623,221** | | **10,105,509** | | **10,289,728,730** |
| a) repayable on demand | - | | - | | - | |
| b) time deposits or with notice period | 10,279,623,221 | | 10,105,509 | | 10,289,728,730 | |
| **20. Due to customers** | | **50,379,978** | | **9,248,072** | | **59,628,050** |
| a) repayable on demand | 30,909,946 | | - | | 30,909,946 | |
| b) time deposits or with notice period | 19,470,032 | | 9,248,072 | | 28,718,104 | |
| **30. Securities issued** | | **4,564,996,880** | | **1,964,853,341** | | **6,529,850,221** |
| a) bonds | 4,564,996,880 | | 1,964,853,341 | | 6,529,850,221 | |
| b) certificates of deposit | - | | - | | - | |
| c) other | - | | - | | - | |
| **50. Other liabilities** | | **94,635,950** | | **347,854** | | **94,983,804** |
| **60. Accrued expense and deferred income** | | **133,171,124** | | **48,663,577** | | **181,834,701** |
| a) accrued expense | 132,056,518 | | 48,663,577 | | 180,720,095 | |
| b) deferred income | 1,114,606 | | - | | 11,114,605 | |
| **70. Provisions for termination indemnities** | | **3,002,315** | | **1,207,857** | | **4,210,172** |
| **80. Provisions for risks and charges** | | **19,513,859** | | **-** | | **19,513,859** |
| a) pensions and similar commitments | - | | - | | - | |
| b) taxation | 12,945,989 | | - | | 12,945,989 | |
| c) other | 6,567,870 | | - | | 6,567,870 | |
| **90. Reserve for possible loan losses** | | **134,924,550** | | **-** | | **134,924,550** |
| **100. Reserve for general banking risks** | | **-** | | **-** | | **-** |
| **110. Subordinated liabilities** | | **82,634,000** | | **-** | | **82,634,000** |
| **120. Capital** | | **450,000,000** | | **50,000,000** | | **500,000,000** |
| **130. Share premium reserve** | | **39,998,800** | | **10,000,000** | | **49,998,800** |
| **140. Reserves** | | **89,229,284** | | **-** | | **89,229,284** |
| a) legal reserve | 7,583,572 | | - | | 7,583,572 | |
| b) reserve for own shares | - | | - | | - | |
| c) statutory reserves | - | | - | | - | |
| d) other reserves | 81,645,712 | | - | | 81,645,712 | |
| **170. Distributable net income** | | **33,293,043** | | **-** | | **33,293,043** |
| **Total liabilities and shareholders' equity** | | **15,975,403,004** | | **2,094,426,210** | | **18,069,829,214** |

# Report of the Board of Statutory Auditors

Shareholders,

In accordance with article 153 of Decree 58/98 and article 2429.3 of the Italian Civil Code, we shall now report on our monitoring activities, required under law, during the year ended 31 December 2003. These activities were performed in co-ordination with PricewaterhouseCoopers, the independent auditors, and also took account of the code of conduct for statutory auditors recommended by the Italian Accounting Profession. In detail:

- we took part in eleven meetings of the Board of Directors and we met four times to carry out the reviews specifically required of us; we also received regular information from the directors concerning the business and the more important transactions carried out by the Bank in terms of their impact on its results, financial position and capital structure; we checked that the decisions taken and implemented complied with the law and the Bank's articles of association and did not represent potential conflicts of interest or divergences from the resolutions passed by the shareholders;

- within the limits of our responsibilities, we gathered information and monitored the adequacy of the Bank's organizational structure and its respect for correct management principles; we did this by making direct observations, gathering information from the heads of organizational functions and holding meetings with the independent auditors for the reciprocal exchange of important information;

- we assessed the adequacy of the internal control and accounting and administration systems, as well as the latter's ability to reflect the results of operations correctly; we did this by obtaining information from heads of company functions, examining company documents and analyzing the results of the work performed by the independent auditors and the internal audit department;

- we checked compliance with laws concerning the preparation and presentation of financial statements and the report on operations; we did this by performing direct reviews and using the information obtained from the independent auditors. We also checked the adequacy of the financial statement formats adopted for representing the Bank's activities;

- during the course of our regular meetings, the independent auditors informed us that during their audit of the annual financial statements and quarterly reviews, they did not become aware of any reprehensible deeds or facts as defined by article 155.2 of Decree 58/1998 or any that would require disclosure;

- transactions between Banca OPI and its parent Sanpaolo IMI and subsidiaries and related parties of the latter, are adequately described in the report on operations and comply with the law, as well as being based on considerations of reciprocal economic benefit;

- we checked compliance with the instructions given by the Parent Bank in accordance with article 114.2 of Decree 58/1998;

- we expressed our opinion regarding the appointment of the independent auditors for non-audit engagements.

The Board of Directors provided us with the draft financial statements for the year ended 31 December 2003 at the end of its meeting on 11 March 2004. These were prepared in accordance with Decree 87/1992 and the Bank of Italy instruction dated 30 July 1992 and subsequent amendments.

During the course of our activities, as described above, no significant facts came to our attention that would require reporting to the Supervisory Authorities or mention in this report. Furthermore, no claims have been brought under article 2408 of the Italian Civil Code, or complaints of any other kind.

Taking account of the work described above and having examined the contents of the independent auditors' preliminary letter on the results of their work, which reports no matters of significance, we see no reason for not approving the financial statements for the year ended 31 December 2003 and the proposed allocation of net income by the Board of Directors, which complies with the provisions of law and the Bank's articles of association.

Turin, 17 March 2004

The Board of Statutory Auditors

Ruggero Ragazzoni (Chairman)

Vincenzo d'Aniello (Auditor)

Riccardo Ranalli (Auditor)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 AND WITH ARTICLE 165 OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholder of
Banca Opi SpA

1 We have audited the financial statements of Banca Opi SpA as of 31 December 2003. These financial statements are the responsibility of Banca Opi's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 27 March 2003.

3 In our opinion, the financial statements of Banca Opi SpA as of 31 December 2003 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and the results of operations of the Company.

4 As reported by the Directors in the report on operations, during the year, the Company was involved in the transfer, effective 1 January 2003, of the business branch for public works which belonged to former Banco di Napoli SpA. This transfer is part of the plan to centralize the operations of the public investment division of the Sanpaolo Imi Group in Banca Opi SpA. Balance sheet information connected with the transfer is provided in the relevant sections of the notes to the financial statements.

Rome, 22 March 2004

PricewaterhouseCoopers SpA

Lorenzo Pini Prato
(Partner)

**This report has been translated from the original, which was issued in accordance with Italian legislation**

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# Summary of resolutions passed by the shareholders' meeting

The ordinary meeting of shareholders of "Banca per la finanza alle opere pubbliche e alle infrastrutture - Società per Azioni" (abbreviated to "Banca OPI S.p.A") met in first calling on 7 April 2004, at 2 p.m. at its registered office in Viale dell'Arte 21, Rome.

The meeting approved the financial statements for the year ended 31 December 2003 and the allocation of net income in accordance with the proposal made by the Board of Directors.

Lastly, the shareholders appointed PricewaterhouseCoopers S.p.A., with registered office in Via Vittor Pisani 20, Milan as independent auditors to audit the annual and half-year financial statements for the financial years 2004, 2005 and 2006. This firm was also appointed for the four-year period 2003-2006 to verify certain figures and/or information contained in Form 20-F, checking that US GAAP had been properly applied, in compliance with specific instructions issued by the Parent Bank.

cover

**János Sugár**
- Ego Spiral Paradox, 2/4, cm 20x30, drawing, 2002
- Convergent series, cm 82x120, masonite, film, pencil, ceramics
- model for Ego Spiral Paradox, bronze, aluminium, 202

János Sugár's project' Convergent series' is based on the mathematical theories of Arthur Koestler.
Only theory and its figure - the symbol - allows man to reach his true identity, the number 1.


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graphic design of the cover
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COMUNICAZIONE VISIVA