

S A N P A O L O I M I



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SANPAOLO IMI GROUP

2003 Annual Report

SANPAOLO IMI S.p.A.

REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

SECONDARY OFFICES:

- VIALE DELL'ARTE 25, ROME, ITALY

- VIA FARINI 22, BOLOGNA, ITALY

COMPANY REGISTER OF TURIN 06210280019

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

PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

Board of Directors

Luigi Arcuti	<i>Honorary Chairman</i>
Rainer Stefano Masera (*)	<i>Chairman</i>
Pio Bussolotto (*)	<i>Managing Director</i>
Alberto Carmi	<i>Director</i>
Giuseppe Fontana	<i>Director</i>
Richard Gardner	<i>Director</i>
Alfonso Iozzo (*)	<i>Managing Director</i>
Mario Manuli	<i>Director</i>
Luigi Maranzana (*)	<i>Managing Director</i>
Antonio Maria Marocco	<i>Director</i>
Virgilio Marrone (*)	<i>Director</i>
Abel Matutes	<i>Director</i>
Iti Mihalich (*)	<i>Director</i>
Anthony Orsatelli	<i>Director</i>
Emilio Ottolenghi	<i>Director</i>
Orazio Rossi (*)	<i>Deputy Chairman</i>
Gian Guido Sacchi Morsiani	<i>Director</i>
Enrico Salza (*)	<i>Deputy Chairman</i>
Remi François Vermeiren	<i>Director</i>

() Members of the Executive Committee*

Board of Statutory Auditors

Mario Paolillo	<i>Chairman</i>
Aureliano Benedetti	<i>Auditor</i>
Maurizio Dallochio	<i>Auditor</i>
Paolo Mazzi	<i>Auditor</i>
Enrico Vitali	<i>Auditor</i>
Stefania Bortoletti	<i>Supplementary Auditor</i>
Antonio Ottavi (**)	<i>Supplementary Auditor</i>

*(**) Prof. Ottavi handed in his resignation, effective as of 19 January 2004*

Independent Auditors

PricewaterhouseCoopers S.p.A.

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Agenda of the Shareholders' Meeting

TURIN

1st calling for the ordinary meeting: 28 April 2004

2nd calling for the ordinary meeting: 29 April 2004

1. Financial statements as of 31 December 2003, reports of the Board of Directors and the Board of Statutory Auditors; allocation of net income; consolidated Group financial statements as of 31 December 2003
2. Nomination, following determination of the number, of the members of the Board of Directors and the Chairman for 2004/2005/2006; detail of related remuneration
3. Assignment of the appointment to audit the financial statements, the Half Year Report and the Annual Report on Form 20-F for 2004/2005/2006
4. Authorization for the purchase and sale of own shares
5. Nomination of a Supplementary Auditor in accordance with Art. 2401 of the Italian Civil Code

Letter to the Shareholders

Shareholders,

the year 2003, a year of light and shade, closed a difficult three-year period, characterized by events which influenced, and will continue to affect, the international economy and politics. While many uncertainties are still hovering over the global social and economic system, the first signs of recovery are appearing and there is hope that they will lead to an improvement in the situation and new optimism on the markets.

With the slowing down of the expansion cycle that had characterized the main international economies for years, in 2001 the economic recession which had already been hinted at in the second half of 2000 became fully obvious. This market situation dissipated the euphoria of the financial markets and the wave of optimism that had induced some to assume the end of economic cycles and the advent of a New Economy.

The crisis was then worsened with the onset of other events which further undermined market confidence and that, if on the one hand accelerated its negative cycle phase, on the other stimulated its economic impact. Above all, the escalation of terrorism and the succeeding crises in the Middle East represented and continue to represent a threat both to industrialized and developing societies. Secondly, cases of insolvency, often in conjunction with accounting crimes, which have concerned certain large companies in the industrialized countries, as well as Argentina's default, created new uncertainty and unavoidable negative influences on the global financial market. The impact of the spread of a series of epidemics, which in some cases slowed the growth of certain of the otherwise internationally more dynamic regions, should not be underestimated.

The 2001-2003 period was also characterized by important global changes. The rapid growth of certain, mostly Asian, countries started modifying economic balances and the increase in de-localization had inevitable negative impacts on employment in industrialized countries, owing to the ever increasing shift of a series of segments of the production chain towards developing countries. Europe in addition experienced the physical introduction of the single currency, leading to closer economic integration of the countries in the euro-zone, and the ratification of the admission of the East European countries, which will soon lead to the enlargement of the European Union and, consequently, to a new series of opportunities, and also challenges, for companies in Western countries.

From a certain point of view, 2003 represented a turning point: the United States and certain Asian economies recorded a significant growth, especially in the second half of the year, and financial markets showed a better than expected recovery, almost constant since the end of the conflict in Iraq. There were also negative aspects: Europe has shown no significant signs of recovery and is still penalized by the rise in the value of the euro compared to the dollar; there have been other extremely serious terrorist attacks; and the confidence of investors still has to be regained after the recent crimes which have affected the economic community.

This scenario had, and will undoubtedly continue to have, a considerable influence on the Italian banking system: the economic difficulties and uncertainty of the equity markets have imposed new business models, increased diversification of the sources of revenue and a marked perception of risk, as regards both company activity and, especially, for customers.

Changes taking place in the European Union will set further challenges, represented by the progressive financial integration which could soon lead all the main operators to compete in a common European arena, but also opportunities, represented by possible expansion in the economies of the New Europe, which are rapidly converging towards models more similar to those of Western countries.

Finally, our country's economic map is changing considerably: the competition brought by emerging countries, especially Asian, is creating difficulties in areas once characterized by a high level of wealth per capita, but new business opportunities and the implementation of economic development policies, are favoring the birth of new industrial districts characterized by considerable dynamism. There are still problems concerning competition and product innovation, which make it even more necessary to destine greater resources to research and development.

Within this scenario, SANPAOLO IMI has established strategies aimed at countering the negative impacts of the economic situation and assuming a better position in view of the challenges and opportunities which are lining up.

Firstly, in the three-year period work began on reorganizing the Group structure, changing the multispecialist arrangement to move towards a business model which, despite the presence of specialist units, is strongly focused on business with households and companies and on exploiting local organizations. The widespread presence throughout the country, which was expanded from the traditional regions to Southern Italy already in 2000 with the acquisition of Banco di Napoli, was completed in June 2002 thanks to the integration into SANPAOLO IMI of the

Cardine Group, with roots in the North East. The expansion of the distribution networks was followed by their rationalization and integration: at the end of 2002 a plan was presented to extend the model successfully adopted by the Sanpaolo Network, based upon the specialization of the operating points and the creation of a certain number of territorial areas and bank networks. This model aims at satisfying more effectively the needs of different types of customers and exploiting strongly rooted brands.

The expansion and rationalization of the distribution networks were joined by initiatives undertaken with important local organizations. In Italy, investments were acquired in Cassa dei Risparmi di Forlì and in Banca delle Marche, in which SANPAOLO IMI now holds shares of 29.8% and 7% respectively. These shareholdings, which according to existing arrangements might still be increased, together with that in Cassa di Risparmio di Firenze, completed in 2000 and currently at 19.5%, not only represent an option for the future, they are also aimed at the implementation of joint projects in numerous sectors. Further shareholdings have been acquired in banks in foreign countries of strategic interest: the Group now holds 62.9% of Banka Koper, operating in Slovenia with 39 branches; 85.9% of Inter-Europa Bank, which has 25 operating points in Hungary; 97.9% of Sanpaolo IMI Bank Romania, operating through 22 branches, as well as shares of 3.6% and 5.6% respectively in the Polish bank Kredyt Bank and the Tunisian bank Biat.

The compression of economic margins as a result of the adverse market scenario also forced SANPAOLO IMI, on the one hand, to diversify its sources of revenue even further and, on the other, to implement effective cost control. The Group, leader in the industry of Italian mutual funds, was influenced by the recession of the financial markets, which not only eroded the value of customer investments, but also involved their recomposition towards products with lower added value; the fall in interest rates, which has put pressure on the credit margin should be added to this scenario. In this negative context SANPAOLO IMI increased transactions with customers and conceived new investment products, becoming leader in Italy in the *bancassurance* sector.

The search for increased operating efficiency was the subject of numerous projects: the Macchina Operativa Integrata was created as a single structure to organize the information systems and network support functions, while finance and treasury activities were centralized in the Parent Bank, along with the purchases and logistics of the bank networks. A generational exchange plan was also approved, making considerable use of the "Fund for staff in the banking industry". The Group's investment portfolio was rationalized: this involved drastic simplifica-

tion of the structure, as in the cases of integration of Sanpaolo Invest in Fideuram, of Noricum Vita and the Eptaconsors group, and the centralization of the tax collection and depositary bank activities, the sale of the investments in Banque Sanpaolo, Finconsumo Banca and Adria Vita and the reorganization of the presence in the international financial centers.

The combination of these initiatives allowed the offsetting of the fall in income and, in 2003, a year in which the economy offered better prospects, to achieve satisfactory results, above budget expectations. Net income, benefiting from the increase in all the economic margins, reached 972 million euro, increasing 7.9% compared with the pro forma result of 2002. This is the result of higher revenues, thanks to the defense of the net interest income and the positive trend of commissions and profits and losses from financial transactions, and of cost control, which restricted the growth of administrative costs to 0.7%. With this result, the total income produced in the last three-year period – a period with a difficult economic scenario - reached 3.1 billion euro, more than 2 billion of which, including the dividend proposed this year by the Shareholders' meeting, were distributed to Shareholders.

If we look at a more long-term picture, the path followed since 1998 - the year of the merger between San Paolo and IMI - has been long and often uphill, but the results have been significant, both in terms of profitability and strategic position. The 9% RoE obtained in 2003 compares with a profitability of the San Paolo capital in 1997 of less than 2%. Simultaneously, the distribution capacity in Italy has more than doubled, moving from about 1,300 to almost 3,200 branches. Customer financial assets have also doubled – about 370 billion euro – as have customer loans – at about 125 billion euro. This growth in size was realized at the same time as an improvement in efficiency and in asset quality: the net non-performing loans to net loans ratio, 3.7% for San Paolo at the end of 1997, has steadily reached about 1% since 2000 and has currently dropped to 0.9%.

These results, achieved thanks to close teamwork which has integrated and exploited different professional approaches and cultures, confirm the validity of the steps taken and enable an optimistic outlook of the future. The strategic decisions of the past did not envisage a short-term view, but focused on putting SANPAOLO IMI in the best position to face future challenges.

The new distribution model, which has already produced significant results for the Sanpaolo Network and is being extended to the Group's other distribution networks, lays the foundations for taking full advantage of the opportunities offered

by the territorial expansion accomplished in recent years. It represents a solid basis for new alliances or acquisitions, thanks to its organization into bank networks and territorial areas with a considerable amount of independence.

The efficiency and solidity achieved also represent a strong reference point on which to build future operating growth. In 2003, the cost to income ratio fell to 61.9% compared with 65.1% in 2002 and a target of about 55% has been maintained for 2005, continuing to represent a challenging yet realistic aim. The capitalization, expressed by a 7.4% tier 1 ratio and a total ratio of 10.5%, enables the development of growth strategies sustainable in future years. Prudent management has been confirmed by the monitoring of asset quality, with the improvement in 2003 of all coverage and the provision of 90% of the exposure towards the Parmalat group, and the booking of all extraordinary charges linked with staff leaving incentives to the statement of income.

Finally, the reorganization of the insurance activities is being studied with the aim of concentrating the various holding companies operating in the sector. This operation will create, on the one hand, the second national insurance pole which will serve not only the Group networks, but also independent networks and will therefore be characterized by considerable critical mass and increased operating efficiency and, on the other, develop innovative products in sectors such as welfare and personal and property insurance.

As leader of the asset management sector in Italy and a main national financial institute, the most pressing challenge facing SANPAOLO IMI is the best management of the difficult moment that Group customers are facing. Recent cases of insolvency, following the decline in share prices and Argentina's default, are threatening the confidence of investors: this lack of security does not imply only a risk of creating distortions on the capital markets which could penalize savers even further, but also of compromising the availability of certain types of financing to companies.

SANPAOLO IMI has taken steps to regain the confidence of investors as regards financial markets as well as to guarantee Italian companies the amounts of capital required for them to operate. As regards this second aspect, the Group intends to confirm its role as reference point for the national industrial system, granting credit to companies with adequate stability, and cooperating in the development of alternative sources of financing, also acting as a channel for collective investments. As far as savings are concerned, SANPAOLO IMI has already begun distributing products aimed at diminishing the risk for investors: traditional asset management products which, by diversifying investments, enable the almost complete neutral-

ization of the specific risk, have been flanked with others that guarantee capital. An Investment Policy has also been approved. This comprises a series of policies aimed at the staff of the distribution networks and addressed towards the diversification of portfolios and the development of increased customer awareness in relation to investment choices. With reference to the holders of debt securities in default, initiatives for their individual assessment with a view to redemption have been carried out in order to establish suitability for sale by the Group banks. Customers have also been guaranteed the necessary support to include the related credit under liabilities, offering particular support to the formation of the "Committee to defend SANPAOLO IMI Group Parmalat bondholders" headed by Prof. Paolo Vercellone.

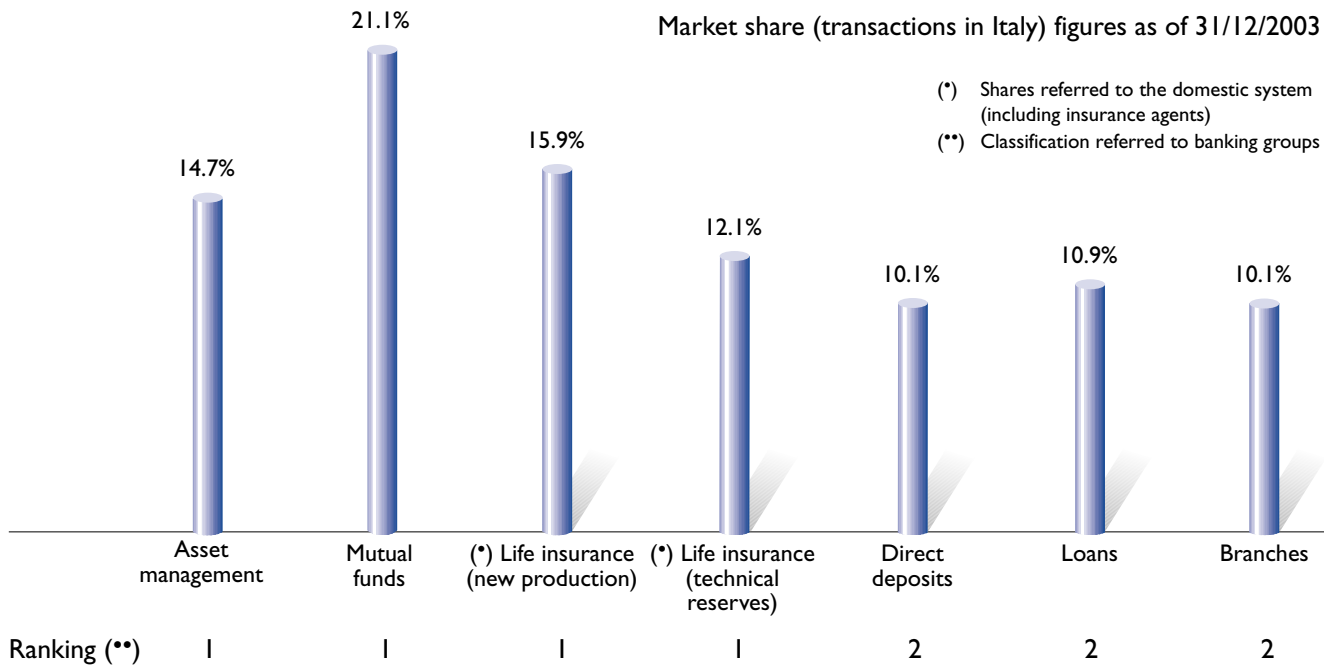
This combination of initiatives demonstrates the commitment to the Bank's current priority, the consolidation of the traditional relationship of confidence with savers. The latter, along with employees, local communities and environmental protection, are one of the stakeholders with whom SANPAOLO IMI has made a commitment of social responsibility. We are firmly convinced that the creation of value for Shareholders cannot put aside the respect and maximization of the relationship with all stakeholders. For this reason, we are making considerable investments so that the ethics and social responsibilities are understood and implemented constantly at all levels. In this sense the role of the Social Report is a fundamental instrument, not only in terms of reporting but also of governance and monitoring. The Social Report, in its second edition, refers to the whole Group and is presented together with the Financial Statements.

As in the past, the years ahead will probably herald further changes and new events, positive and, unfortunately, also negative; certain challenges that await us in the future are already tangible and others are only just perceptible, while others have yet to appear on the horizon. Your Bank has already proven its ability to overcome successfully difficult times and to respond with resolution to the changing external scenario: this enables us to confirm our aims, which envisage, among other things, reaching a RoE of approximately 15% in 2005. The SANPAOLO IMI Group has to look confidently to the future, convinced that it can withstand adversity and exploit fully any opportunities which might arise.

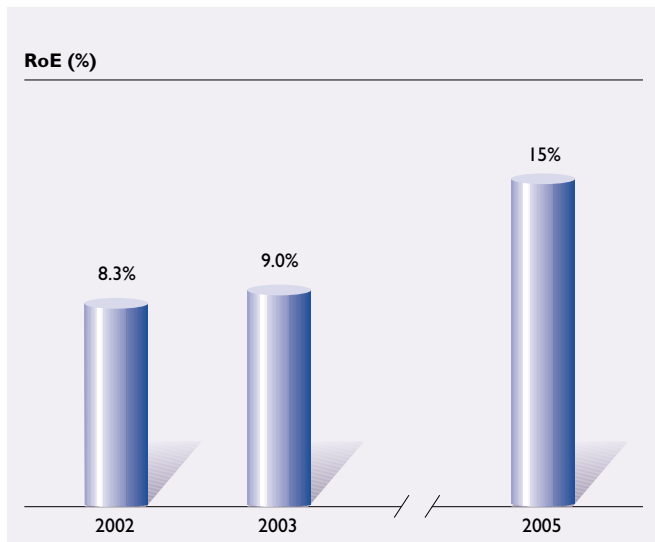
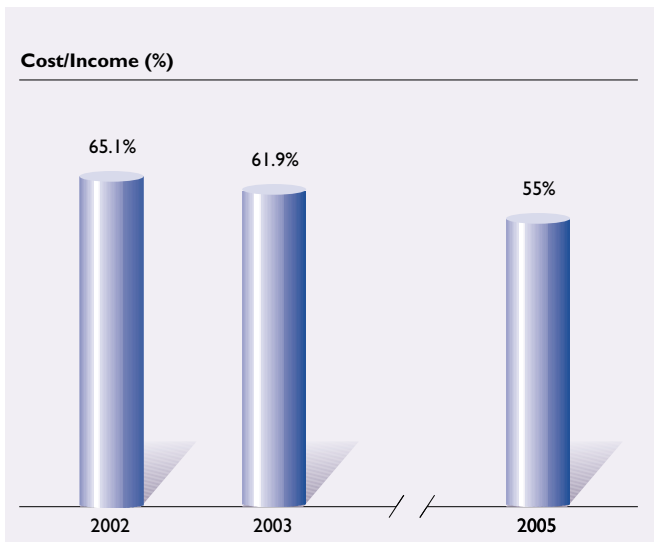
Turin, 26 March 2004

The Chairman


The position of the SANPAOLO IMI Group



2003-2005 Plan: the expected results



Key figures

	2003	2002 pro forma (1)	Change 2003 / 2002 pro forma (%)	2002
CONSOLIDATED STATEMENT OF INCOME (€/mil)				
Net interest income	3,716	3,653	+1.7	3,773
Net commissions and other net dealing revenues	3,036	2,795	+8.6	2,809
Administrative costs	-4,610	-4,578	+0.7	-4,648
Operating income	2,717	2,334	+16.4	2,360
Provisions and net adjustments to loans and financial fixed assets	-859	-1,412	-39.2	-1,426
Income before extraordinary items	1,700	704	+141.5	722
Net income of the Group	972	901	+7.9	889
CONSOLIDATED BALANCE SHEET (€/mil)				
Total assets	202,580	199,645	+1.5	203,773
Loans to customers (excluding NPLs and SGA loans)	122,415	121,676	+0.6	124,115
Securities	25,292	21,406	+18.2	22,591
Equity investments	4,572	4,172	+9.6	4,064
Subordinated liabilities	6,414	6,605	-2.9	6,613
Shareholders' equity of the Group	10,995	10,702	+2.7	10,537
CUSTOMER FINANCIAL ASSETS (€/mil)				
Customer financial assets	368,042	352,411	+4.4	356,281
- Direct deposits	131,721	133,236	-1.1	137,049
- Indirect deposits	236,321	219,175	+7.8	219,232
- Asset management	143,711	132,931	+8.1	131,515
- Asset administration	92,610	86,244	+7.4	87,717
PROFITABILITY RATIOS (%)				
RoE (2)	9.0	8.3		8.3
Cost / Income ratio (3)	61.9	65.1		65.1
Net commissions / Administrative costs	65.9	61.1		60.4
CREDIT RISK RATIOS (%)				
Net non-performing loans / Net loans to customers	0.9	1.0		1.1
Net problem loans and loans in restructuring / Net loans to customers	1.1	1.2		1.1
SOLVENCY RATIOS (%) (4)				
Core tier 1 ratio	6.6	6.6		6.6
Tier 1 ratio	7.4	7.3		7.3
Total ratio	10.5	10.7		10.7
SHARES (4)				
Number of shares (millions)	1,837	1,837	-	1,837
Quoted price per share (€)				
- average	8.158	9.439	-13.6	9.439
- low	5.796	5.231	+10.8	5.231
- high	11.346	13.702	-17.2	13.702
Earnings / Average number of shares in circulation (€)	0.53	0.48	+10.4	0.48
Dividend per share (€)	0.39	0.30	+30.0	0.30
Dividend per share / Average annual price (%)	4.78	3.18		3.18
Book value per share (€) (5)	6.00	5.74	+4.5	5.74
OPERATING STRUCTURE				
Employees	43,465	45,217	-3.9	45,650
Domestic branches	3,168	3,115	+1.7	3,069
Foreign branches and representative offices	122	114	+7.0	153
Financial planners	4,675	4,951	-5.6	4,955

(1) The pro forma figures, which are unaudited, were prepared taking into consideration the changes in the consolidation area, according to the criteria detailed in the Explanatory Notes. In particular, from 1/1/2002, the line by line consolidation of Eptaconsors and Inter-Europa Bank, the proportional consolidation of Cassa dei Risparmi di Forlì and the exclusion of Banque Sanpaolo, Finconsumo Banca and IW Bank from the consolidation area, have been assumed; in the pro forma figures the latter have been carried at equity.

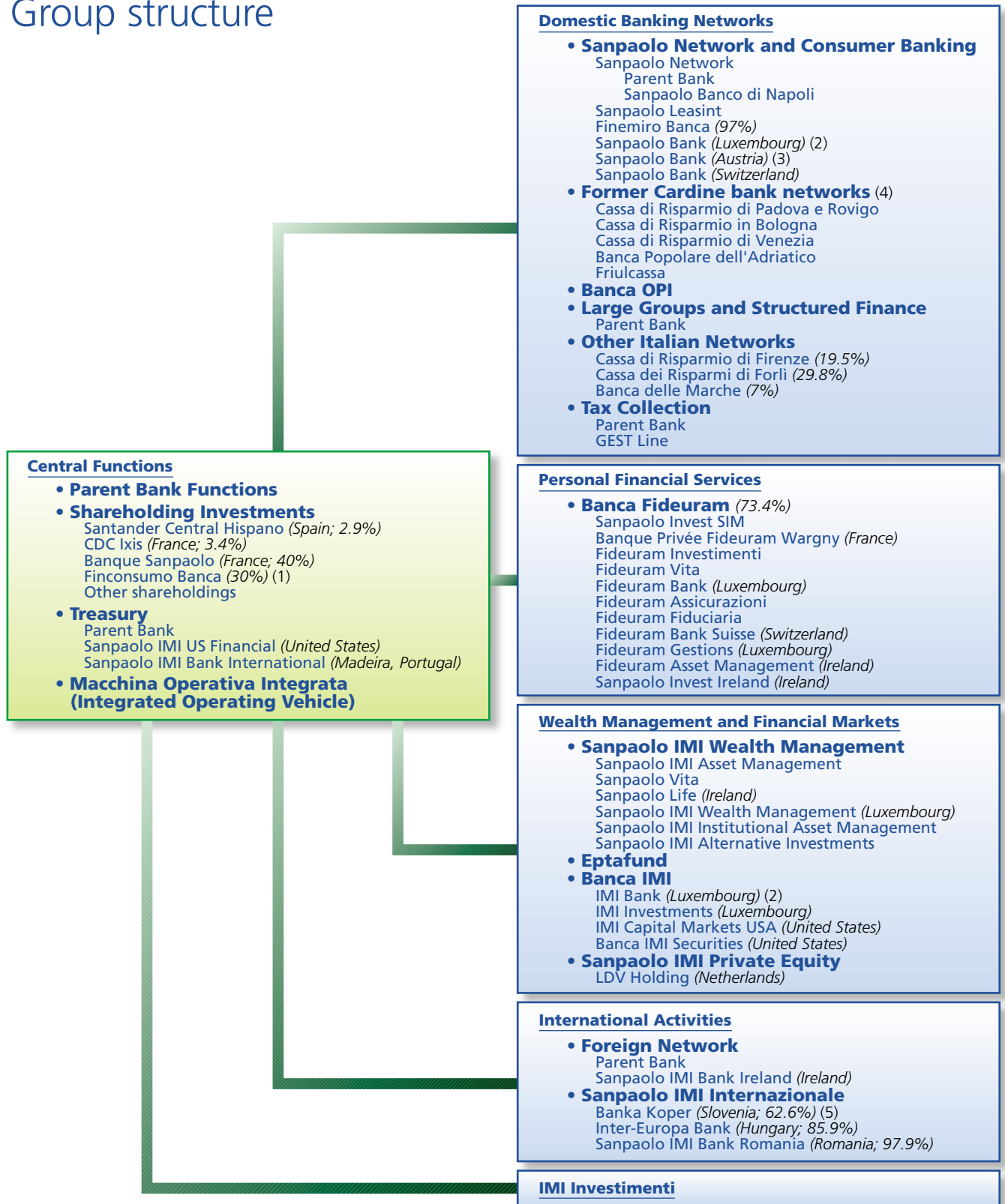
(2) Net income / Average net shareholders' equity (calculated as the arithmetical average of the values at year end).

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

(4) The comparative figures for 2002 are not pro forma.

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

Group structure



(1) The sale of the share to Santander Central Hispano was completed on 23 January 2004.

(2) The merger by incorporation of IMI Bank (Luxembourg) into Sanpaolo Bank (Luxembourg) was approved on 16 December 2003.

(3) The termination of the activity of Sanpaolo Bank (Austria) was authorized on 16 December 2003.

(4) From 1/1/2004, Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia and Friulcassa operate within the North East Territorial Direction, while Banca Popolare dell'Adriatico refers to the Sanpaolo Network.

(5) On 18 February 2004 the share rose from 62.6% to 62.9%.

Consolidated financial statements and reports

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS

REPORT ON GROUP OPERATIONS

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

ATTACHMENTS

Reclassified consolidated financial statements

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

RECLASSIFIED CONSOLIDATED BALANCE SHEET

Reclassified consolidated statement of income

	2003 (€/mil)	2002 pro forma (1) (€/mil)	Change 2003 / 2002 pro forma (%)	2002 (€/mil)
NET INTEREST INCOME	3,716	3,653	+1.7	3,773
Net commissions and other net dealing revenues	3,036	2,795	+8.6	2,809
Profits and losses from financial transactions and dividends on shares	447	304	+47.0	286
Profits from companies carried at equity and dividends from shareholdings	283	314	-9.9	292
NET INTEREST AND OTHER BANKING INCOME	7,482	7,066	+5.9	7,160
Administrative costs	-4,610	-4,578	+0.7	-4,648
- <i>personnel</i>	-2,841	-2,814	+1.0	-2,856
- <i>other administrative costs</i>	-1,512	-1,508	+0.3	-1,528
- <i>indirect duties and taxes</i>	-257	-256	+0.4	-264
Other operating income, net	329	354	-7.1	358
Adjustments to tangible and intangible fixed assets	-484	-508	-4.7	-510
OPERATING INCOME	2,717	2,334	+16.4	2,360
Adjustments to goodwill and merger and consolidation differences	-158	-218	-27.5	-212
Provisions and net adjustments to loans and financial fixed assets	-859	-1,412	-39.2	-1,426
- <i>provisions for risks and charges</i>	-195	-261	-25.3	-261
- <i>net adjustments to loans and provisions for guarantees and commitments</i>	-724	-590	+22.7	-604
- <i>net adjustments to financial fixed assets</i>	60	-561	<i>n.s.</i>	-561
INCOME BEFORE EXTRAORDINARY ITEMS	1,700	704	+141.5	722
Net extraordinary income/expense	-32	320	<i>n.s.</i>	296
INCOME BEFORE TAXES	1,668	1,024	+62.9	1,018
Income taxes for the period	-657	-443	+48.3	-450
Change in reserve for general banking risks	9	363	-97.5	364
Income attributable to minority interests	-48	-43	+11.6	-43
NET INCOME	972	901	+7.9	889

(1) The pro forma figures for 2002, which are unaudited, were prepared to enable consistent comparison with the figures for 2003. The pro forma schedules reflect the line by line consolidation of the Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cassa dei Risparmi di Forlì commencing from 1 January 2002, as well as the exclusion of Banque Sanpaolo and IW Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date.

Quarterly analysis of the reclassified consolidated statement of income

	2003					2002 pro forma (1)				
	Fourth quarter	Third quarter	Second quarter	First quarter	Quarterly average	Fourth quarter	Third quarter	Second quarter	First quarter	Quarterly average
	(€mil)	(1) (€mil)	(1) (€mil)	(1) (€mil)	(€mil)	(€mil)	(€mil)	(€mil)	(€mil)	(€mil)
NET INTEREST INCOME	921	939	932	924	929	926	906	920	901	913
Net commissions and other net dealing revenues	855	786	713	682	759	751	665	686	693	699
Profits and losses from financial transactions and dividends on shares	108	76	178	85	112	68	22	129	85	76
Profits from companies carried at equity and dividends from shareholdings	61	67	99	56	71	58	60	142	54	79
NET INTEREST AND OTHER BANKING INCOME	1,945	1,868	1,922	1,747	1,871	1,803	1,653	1,877	1,733	1,767
Administrative costs	-1,214	-1,128	-1,152	-1,116	-1,153	-1,205	-1,113	-1,157	-1,103	-1,145
- <i>personnel</i>	-735	-696	-713	-697	-710	-733	-683	-709	-689	-704
- <i>other administrative costs</i>	-422	-365	-372	-353	-378	-404	-372	-378	-354	-377
- <i>indirect duties and taxes</i>	-57	-67	-67	-66	-64	-68	-58	-70	-60	-64
Other operating income, net	85	82	81	81	82	92	93	91	78	89
Adjustments to tangible and intangible fixed assets	-148	-113	-116	-107	-121	-159	-128	-112	-109	-127
OPERATING INCOME	668	709	735	605	679	531	505	699	599	584
Adjustments to goodwill and merger and consolidation differences	-43	-35	-46	-34	-40	-91	-40	-45	-42	-55
Provisions and net adjustments to loans and financial fixed assets	-474	-71	-180	-134	-215	-658	-453	-150	-151	-353
- <i>provisions for risks and charges</i>	-88	-44	-36	-27	-49	-98	-65	-53	-45	-65
- <i>net adjustments to loans and provisions for guarantees and commitments</i>	-432	-122	-102	-68	-181	-263	-181	-54	-92	-148
- <i>net adjustments to financial fixed assets</i>	46	95	-42	-39	15	-297	-207	-43	-14	-140
INCOME BEFORE EXTRAORDINARY ITEMS	151	603	509	437	424	-218	12	504	406	176
Net extraordinary income/expense	179	-38	-215	42	-8	150	35	79	56	80
INCOME BEFORE TAXES	330	565	294	479	416	-68	47	583	462	256
Income taxes for the period	-133	-213	-122	-189	-164	42	-74	-242	-169	-111
Change in reserve for general banking risks	3	6	-	-	2	352	13	-2	-	91
Income attributable to minority interests	-14	-13	-12	-9	-12	-	-14	-15	-14	-11
NET INCOME	186	345	160	281	242	326	-28	324	279	225

(1) The pro forma figures, which are unaudited, were prepared to enable consistent comparison. The pro forma schedules reflect the line by line consolidation of Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cassa dei Risparmi di Forlì commencing from 1 January 2002, the exclusion of Banque Sanpaolo and IW Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date, and, with exclusive regard to the first quarter of 2002, the line by line consolidation of the former Cardine Group, taking place for the first time as of 30 June 2002, with accounting effect as of 1 January 2002.

Reclassified consolidated balance sheet

	31/12/2003 (€/mil)	31/12/2002 pro forma (1) (€/mil)	Change 31/12/03 - 31/12/02 pro forma (%)	31/12/2002 (€/mil)
ASSETS				
Cash and deposits with central banks and post offices	1,474	1,499	-1.7	1,406
Loans	146,877	145,921	+0.7	148,701
- due from banks	22,278	21,744	+2.5	22,000
- loans to customers	124,599	124,177	+0.3	126,701
Dealing securities	22,357	19,015	+17.6	19,694
Fixed assets	9,822	9,103	+7.9	9,596
- investment securities	2,935	2,391	+22.8	2,897
- equity investments	4,572	4,172	+9.6	4,064
- intangible fixed assets	343	398	-13.8	406
- tangible fixed assets	1,972	2,142	-7.9	2,229
Differences arising on consolidation and on application of the equity method	959	1,080	-11.2	1,030
Other assets	21,091	23,027	-8.4	23,346
Total assets	202,580	199,645	+1.5	203,773
LIABILITIES				
Payables	160,255	157,369	+1.8	161,505
- due to banks	28,534	24,133	+18.2	24,456
- due to customers and securities issued	131,721	133,236	-1.1	137,049
Provisions	4,019	3,889	+3.3	3,813
- for taxation	732	742	-1.3	670
- for termination indemnities	946	967	-2.2	961
- for risks and charges	2,037	1,832	+11.2	1,839
- for pensions and similar	304	348	-12.6	343
Other liabilities	20,626	20,738	-0.5	20,971
Subordinated liabilities	6,414	6,605	-2.9	6,613
Minority interests	271	342	-20.8	334
Shareholders' equity	10,995	10,702	+2.7	10,537
Total liabilities	202,580	199,645	+1.5	203,773
GUARANTEES AND COMMITMENTS				
Guarantees given	19,912	20,060	-0.7	20,483
Commitments	25,839	27,287	-5.3	27,574

(1) The pro forma figures as of 31 December 2002, which are unaudited, were prepared to enable consistent comparison with the figures as of 31 December 2003. The pro forma schedules reflect the line by line consolidation of the Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cassa dei Risparmi di Forlì commencing from 1 January 2002, as well as the exclusion of Banque Sanpaolo and IW Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date.

Quarterly analysis of the reclassified consolidated balance sheet

	31/12 (€/mil)	2003				2002 pro forma (1)			
		30/9 pro forma (1) (€/mil)	30/6 pro forma (1) (€/mil)	31/3 pro forma (1) (€/mil)	31/12 (€/mil)	30/9 pro forma (1) (€/mil)	30/6 pro forma (1) (€/mil)	31/3 pro forma (1) (€/mil)	
ASSETS									
Cash and deposits with central banks and post offices	1,474	963	974	967	1,499	965	1,086	1,502	
Loans	146,877	139,679	146,381	148,267	145,921	142,835	143,830	144,214	
- due from banks	22,278	17,607	20,050	22,741	21,744	21,604	22,450	20,702	
- loans to customers	124,599	122,072	126,331	125,526	124,177	121,231	121,380	123,512	
Dealing securities	22,357	23,642	24,580	20,489	19,015	23,068	24,384	25,058	
Fixed assets	9,822	9,690	9,586	9,866	9,103	9,812	10,406	11,521	
- investment securities	2,935	2,864	2,895	2,950	2,391	2,634	3,185	3,484	
- equity investments	4,572	4,424	4,253	4,453	4,172	4,478	4,428	5,175	
- intangible fixed assets	343	334	339	370	398	371	389	411	
- tangible fixed assets	1,972	2,068	2,099	2,093	2,142	2,329	2,404	2,451	
Differences arising on consolidation and on application of the equity method	959	992	1,027	1,055	1,080	1,148	1,195	1,175	
Other assets	21,091	22,893	26,460	22,131	23,027	22,982	22,781	22,831	
Total assets	202,580	197,859	209,008	202,775	199,645	200,810	203,682	206,301	
LIABILITIES									
Payables	160,255	155,736	160,518	162,154	157,369	159,913	162,937	164,353	
- due to banks	28,534	26,638	28,087	27,896	24,133	26,686	30,155	32,455	
- due to customers and securities issued	131,721	129,098	132,431	134,258	133,236	133,227	132,782	131,898	
Provisions	4,019	4,026	3,680	3,908	3,889	4,293	4,181	4,585	
- for taxation	732	725	436	838	742	1,195	1,078	1,412	
- for termination indemnities	946	985	971	971	967	975	995	998	
- for risks and charges	2,037	2,007	1,925	1,751	1,832	1,776	1,760	1,800	
- for pensions and similar	304	309	348	348	348	347	348	375	
Other liabilities	20,626	20,555	27,311	19,010	20,738	19,593	19,566	19,505	
Subordinated liabilities	6,414	6,484	6,784	6,533	6,605	6,210	6,147	5,785	
Minority interests	271	298	292	354	342	437	445	805	
Shareholders' equity	10,995	10,760	10,423	10,816	10,702	10,364	10,406	11,268	
Total liabilities	202,580	197,859	209,008	202,775	199,645	200,810	203,682	206,301	

(1) The pro forma figures, which are unaudited, were prepared to enable consistent comparison. The pro forma schedules reflect the line by line consolidation of Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cassa dei Risparmi di Forlì commencing from 1 January 2002, the exclusion of Banque Sanpaolo and IW Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date, and, with exclusive regard to the first quarter of 2002, the line by line consolidation of the former Cardine Group, taking place for the first time as of 30 June 2002, with accounting effect as of 1 January 2002.

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Economic background

The international context

Despite economic developments in the first half of the year failed to live up to expectations -as result of geo-political tensions connected with the Iraqi conflict - the performance of the world economy strengthened in the second half of 2003. Led by the United States and China, the cyclical recovery broadened to Japan and the main emerging areas, albeit not homogeneously. On the contrary, in the Euro-zone and - Italy there were no clear signs of a solid economic upturn .

In the United States GDP increased by 3.1% in 2003, thanks to the acceleration in the second half of the year which led the growth rate near to the potential level. The resilience of private consumption was joined by the positive trend of gross fixed investment and exports. The domestic and foreign components of demand benefited, on the one hand, from extensive monetary and fiscal policies and, on the other, from the large depreciation of the dollar. Notwithstanding the favorable cyclical momentum, inflation in the United States continued its downward trend, reaching an annual average of 2.3%.

The recovery of the American manufacturing activity however was not followed by a rise in employment, nor by absorption of the domestic and international imbalances. The creation of new jobs has so far been clearly lower than in previous phases of recovery. Furthermore, the improvement in the financial balance of the private sector has been replaced by a worsening in public accounts. The external imbalance has enlarged even further.

The growth rate in Japan rose from -0.3% in 2002 to over 2% in 2003, higher than its long-term value, estimated at around 1%. The Japanese economy benefited both from the positive trend of commerce in the Asian area, thanks to an increased openness of China to foreign exchanges, and from the recovery of the private investment cycle. Household consumption remained weak because of the difficulties in the labor market and the persistence of deflationary pressures on prices.

In 2003 the emerging countries showed a sustained growth for the second consecutive year. The Asian economies provided a decisive contribution, followed by the good performance of the East European and Mediterranean coun-

tries and by the return to positive growth rates in Latin America. The improvement in the economic prospects of the emerging areas favored the inflows of foreign capital and the accumulation of official reserves.

The euro-zone and Italy

In 2003 the economic growth in the Euro-zone was fairly disappointing; flat in the first half of the year with only a slight revival in the second half. GDP growth (+0.4%, one half of the 2002 figure) was lower than expected, due to the persistent weakness of domestic demand, especially in the first half year. In the second half of the year, the strong rebound in global trade brought about an increase in exports that in turn sustained the recovery of manufacturing activities; confidence indicators improved and industrial production picked up only slightly (+0.4%). However, since November 2003 the large appreciation of the euro against the dollar began to influence exports negatively.

During the year inflation in the Euro-zone moved - with only slight oscillations - around an annual average of 2.1%. The rise in the value of the euro contributed to containing the inflationary pressures generated by price rises in food and energy, during the second half of the year. Improved expectations regarding inflation did favor the expansionary stance of the ECB. Policy rates in the first half of the year were reduced, with two interventions, by 75 basis points, reaching 2% in June.

Growth and inflation showed different trends in the various countries in the area. In 2003 the Germany slipped into recession (-0.1% the change in real GDP), partly offset at the end of the year by the recovery in industrial activity. Inflation rose by 1%. Despite the support of public expenditure, especially in the second half of the year, France registered a real growth rate of just 0.2% and an inflation rate of 2.2%. The difficult economic momentum influenced negatively the public accounts in all major EMU countries. In Germany and France, for the second year running, the deficit/GDP ratio exceeded the 3% threshold value set by the Maastricht Treaty.

Economic growth in Italy (+0.3%) was slightly lower than the area average. Industrial production fell again (-0.4%), largely owing to the crisis of the manufacturing sector (-1.5%). The aggregate demand, especially investments and consumption of durable goods, remained weak. At the same time, the domestic share in international trade fell as

a result of the decline in demand from the main geographical areas and for products of specialized sectors. Moreover the strong appreciation of the euro favored a highly competitive international environment. The sectors which suffered the most were leathers and footwear, textiles and clothing, but also transport and electronics. The construction sector, on the contrary, was the most dynamic one.

Difficult economic conditions also affected heavily the public balance in Italy: the net debt of the Public Administration, while remaining below the 3% level, differed from the target of the Stability Pact, signed at the end of 2002 by the EMU members, climbing to 2.4% of GDP. The public debt/GDP ratio fell once more, reaching about 106% at the end of the year.

Inflation in Italy was higher than in the Euro-zone in general; the average annual growth in prices reached 2.7%.

Banking industry

Despite a modest economic growth, bank loans in the year confirmed the growth rate shown in 2002, at around 6%.

The general trend was sustained by the medium and long-term funding, which grew at particularly high rate (+13% compared with +11.5% in 2002) while short-term loans offered a negative contribution (-1.7% against the 0.3% of 2002). The evolution of the two components was influenced by the structural tendency to extend the maturity of banking loans, still continuing.

The fall in interest rates on new disbursements stimulated the demand for loans by households (+10.2% gross of non-performing loans), mainly linked to retail mortgages (+22.1%) and consumer credit (+15.7%). A contribution to the growth of total loans also came from non-financial businesses (+6.9% gross of non-performing loans), especially in the services, construction and public works sectors.

The prolonged weakness of the manufacturing industry triggered a slight deterioration of the credit quality in the second half of the year. The phenomenon worsened even further owing to the crisis suffered by some companies, including Parmalat. The impact of net non-performing loans on loans rose to 2.2% at the end of 2003.

Banking deposits maintained sustained growth rates (+5.2% from 4.4% in 2002), benefiting from the expan-

sion of all the main forms of funding. Total deposits increased in general (+2.5%) as a result of the good performance of current accounts (+6.3%), sustained by the demand for liquidity typically associated to weak phases in the economic cycle. The aggregate of deposits however suffered from the structural contraction of certificates of deposit (-16.1%) and the reduction in repurchase agreements (-12.7%). Banking bonds confirmed a very lively trend (+8.6%). After the collapse in 2002, the external liabilities also returned to record positive changes (+7.2%).

The drop in the benchmark interest rates in the first half of 2003 favored the decrease in banking interest rates, which continued throughout the year. In December the short-term spread fell to 3.9% (about -50 basis points compared with December 2002) as a result of a drop in the average rate on short-term loans of about 100 basis points, about double the intensity of the reduction of the average rate on current accounts.

Securities brokerage

After a still disappointing first quarter of 2003, the international stock markets climbed during the rest of the year, favored by the rapid military solution in the conflict in Iraq, by signs of recovery of the economic cycle in the major areas and by the positive trend of profits from companies. The increase in share prices also benefited from further cuts to the official rates by the Fed and the ECB.

The main international share indexes closed 2003 with significant increases, following three years of considerable losses. In 2003 S&P500 earned 26.4%, Nikkei 24.5%, DJ Euro Stoxx 18.1% and Mibtel 13.9%. At sectorial level, the technological indexes earned the most (Nasdaq rose by 50%). In the Euro-zone, besides the technological sector, the share indexes of the banking, industrial and telecommunications sectors made the most consistent increases.

As a result of the recovery of the share prices, the stock market capitalization of the Italian companies quoted in domestic markets rose to 487 billion euro, 37.6% of GDP (36.4% in 2002), although the number of new companies listed fell to 4 (6 in 2002). The flow of investments into the Italian market, as channeled through a Public Offer amounted to 2.8 billion euro (2.9 billion in 2002), through six transactions instead of the nine transactions that were completed during 2002. The total funds obtained by the listed companies through capital increases reached 9.8 billion euro (compared with 3.7 billion in 2002), based on 28

transactions (18 in 2002). The average daily value of shares exchanged rose to 2.7 billion euro (compared with 2.5 billion in 2002).

Asset management

In 2003 mutual funds grew at a significant rate as a result of both extensive inflows and revaluation of the amounts outstanding, due to the increase in share prices.

The shareholders' equity of funds managed by Italian brokers at the end of December 2003 reached 509 billion euro, showing a 9.2% variation in the twelve months. The

annual balance of net flows was about 25.2 billion, a value which had not been reached since 2000.

Net inflows of capital were addressed mainly towards low risk investments, such as liquidity and bond funds and towards equity funds, only in the second half of the year, with the recovery of stock market prices.

The other areas of assets under management received a strong impulse from the insurance-welfare sector. Preliminary estimates at the end of 2003 indicate an increase in life technical reserves largely in line with that registered in 2002, amounting to 16%.

Action points and initiatives in the year

The initiatives undertaken by the SANPAOLO IMI Group during the year were aimed at the pursuit of the targets of the 2003-2005 Plan, articulated in five issues: the improvement of the core business performance, the control of operating costs, the exploitation of other assets, the active management of the investment portfolio, and the transparent communication and constant monitoring of the progress of the same Plan. Significant results were achieved during 2003 with reference to all the lines of intervention mentioned above, through the integration of the banking networks, the optimization of the IT platform and the rationalization of the Group structure.

Integration of distribution networks

During the year, initiatives were taken to add consistency to the plan to develop and rationalize the Group distribution networks, aiming at extending gradually the model already successfully adopted by the Sanpaolo Network. This model is based on the breakdown into territorial areas and the specialization of operating points by customer segments, combining the policies of a unique strategy at national level with the satisfaction of the specific service needs expressed by different types of customers.

The plan envisages that, at full capacity, the Group's territorial presence will cover a certain number of territorial areas and bank networks with light central structures, providing uniform supervision of the respective territory.

Integration of the Sanpaolo and Banco di Napoli networks and incorporation of Sanpaolo Banco di Napoli

The network integration plan found a first application in the territorial reorganization of the distribution structures of Sanpaolo and Banco di Napoli, following the merger between SANPAOLO IMI and the Neapolitan bank on 31 December 2002.

During the year the integration of the Sanpaolo and Banco di Napoli branches took place from a commercial, credit, organizational and IT perspective. In particular:

- at the beginning of the year the network was reorganized into territorial areas with unitary responsibility for

the Sanpaolo and Banco di Napoli branches;

- the organization model of the Sanpaolo networks, based on specialization by the type of customer served, was extended then gradually to the Banco di Napoli branches;
- the SANPAOLO IMI IT systems have also been extended to the Banco di Napoli branches.

During the second half of the year, the Sanpaolo Banco di Napoli start-up was launched. This is the only Group bank operating in mainland Southern Italy, to which the branches operating in the Campania, Apulia, Calabria and Basilicata regions were transferred. The transfer took place in two phases, in order to consider organizational and IT needs connected with the completion of the operation: the 624 Banco di Napoli operating points were integrated on 1 July, while the 121 Sanpaolo operating points in the same area were transferred on 29 September.

Sanpaolo Banco di Napoli has 745 branches, comprising 688 branches and 57 other operating points, and 5,813 employees at the service of more than one million retail customers and about 20,000 companies. Net shareholders' equity totaled around 1.2 billion euro at the end of December 2003, to which 400 million in subordinated loans are added, thus allowing a solvency ratio of more than 10%.

Integration of the Cardine network

The aim to apply the Group's distribution model also to the North East regions included various transactions during the last year which involved the former Cardine Group.

On 25 March 2003 the Board of Directors of SANPAOLO IMI decided to proceed with a voluntary Public Offer for the ordinary shares of Banca Popolare dell'Adriatico, a company listed on the restricted market, in which the Parent Bank already indirectly held 71.76% of the share capital.

The Offer included all the ordinary shares in circulation, excluding those already indirectly held by SANPAOLO IMI, at a price of 7.26 euro per share. When the operation closed on 18 June 2003, the shares acquired represented 93.40% of the securities subject to the Offer and 26.38% of the issuer's share capital. This acceptance threshold enabled SANPAOLO IMI to reach a total share of 98.14%, above the level of effectiveness of the Offer. Moreover, having exceeded the shareholding threshold of 98%, SANPAOLO IMI exercised the right to purchase the remaining shares in December 2003.

Still on 25 March, the Board of Directors of SANPAOLO IMI approved concentration of the activities of Banca Agricola di Cerea into the Cassa di Risparmio di Padova e Rovigo. The transaction was completed on 1 June 2003, through the merger by incorporation of Banca Agricola di Cerea into Cassa di Risparmio di Padova e Rovigo.

In November the merger between Cassa di Risparmio di Udine e Pordenone and Cassa di Risparmio di Gorizia was effected, with the establishment of a regional bank named Friulcassa S.p.A. Cassa di Risparmio Regionale (becoming legally effective from 1 December 2003 and effective for accounting and tax purposes from 1 January 2003).

On 25 November 2003, the Shareholders' Meeting approved the merger by incorporation of Cardine Finanziaria into the Parent Bank, becoming legally effective from 31 December 2003 and effective for accounting and tax purposes from 1 January 2003. The aim pursued by this integration was:

- realization of scale and scope economies, with the gradual centralization in the Parent Bank of the operating support functions (MOI and Logistics);
- best exploitation of local brands, deeply rooted in the regional reference markets;
- maximizing distributive effectiveness through a common commercial policy.

The merger, already envisaged in the 2003-2005 Plan, led to the creation of the North East Territorial Direction, in support of the four bank networks operating in the Triveneto (comprising the regions Veneto, Friuli Venezia Giulia and Trentino Alto Adige) and Emilia areas (Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio di Venezia, Cassa di Risparmio in Bologna and Friulcassa). The Direction, based in Padua, controls the commercial and credit activities of the Group branches operating in this area. It also supports the development activities on its reference market, coordinating the distribution networks and the other Group structures.

The territorial reorganization processes

At the end of 2003, the integration between SANPAOLO IMI and Banco di Napoli and the need for coordination with the former Cardine bank networks highlighted the opportunity of several interventions on the organization of the territorial areas, which were carried out through the incorporation of certain areas and the redefinition of the outline of others, adopting criteria aiming, on the one

hand, at providing efficient management of the network and, on the other, at enabling integration in the territories characterized by the presence of various historical brands.

Development initiatives in Italy

During the year the industrial partnership between SANPAOLO IMI, Cassa dei Risparmi di Forlì and Cassa di Risparmio di Firenze strengthened, a partnership which already found an application in numerous initiatives set up in the field of retail banking, asset management, loans and credit risk management, in the foreign sector, investment banking and the public works sector.

On 12 May 2003 the transfer by Fondazione Cassa dei Risparmi di Forlì of an 11.66% share of its capital to SANPAOLO IMI and Cassa di Risparmio di Firenze was completed. The transaction, linked with the exercise of the first tranche of the put option granted to the same Fondazione, involved 11,140,493 shares, for a total price of 90 million euro. The number of shares subject to purchase by SANPAOLO IMI amounted to 8,355,370, equal to 8.75% of the share capital, for a cost of 68 million euro; the investment in Cassa dei Risparmi di Forlì held by the Group rose from 21.02% to 29.77%.

On 18 November 2003 SANPAOLO IMI acquired 7% of the capital of Banca delle Marche, in accordance with the agreement signed in July with Banca delle Marche, Fondazione CR Jesi, Fondazione CR Provincia di Macerata and Fondazione CR Pesaro. In particular, a 4.8% share was purchased directly from Banca delle Marche and 2.2% was purchased from the Fondazioni. The purchase price of 1.77 euro per share, involved a total outlay of 92 million euro. SANPAOLO IMI also granted the Fondazioni a put option on a further 8% of the bank's capital, exercisable before 31/12/2006.

The agreement also provides for a collaboration agreement aimed at developing commercial and operating synergies in wealth management, investment banking, corporate and international banking and in the financing of public works.

Banca delle Marche, leader in one of Italy's most dynamic regions, operates for retail customers and small- and medium-sized companies through a network of 262 branches in Central Italy, of which 230 situated in the Marche.

For SANPAOLO IMI the acquisition is part of a development project that prioritizes alliances or aggregations with medi-

um-sized banks rooted in their reference territories and equipped with operating networks concentrated in territorial areas of particular interest.

Agreements and alliances with international partners

During the year SANPAOLO IMI and Santander Central Hispano (SCH) signed an agreement for the development of a pan European project in the wholesale distribution of third party mutual funds, through the activation of a joint venture. To this end on 9 October 2003 the purchase/sale contract was signed for the taking over by the Group of 50% of All Funds Bank S.A. (AFB). The company, wholly owned by SCH, has a platform offering access to third party funds available to institutional customers. The agreement between the partners regulating the aspects of governance and way out and the operational and commercial relationships between AFB and the two promoting groups was also signed. In particular, the latter undertook to ensure that each group's unlisted subsidiaries refer exclusively to AFB for the distribution and placement of third party funds and for connected and instrumental activities.

With this transaction SANPAOLO IMI and SCH intend to consolidate their leadership at European level and identify potential strategic partners in the main European markets.

On 3 December 2003, the disposal of 60% of the French subsidiary Banque Sanpaolo to Caisse Nationale des Caisses d'Epargne (CNCE) was completed by SANPAOLO IMI. The transaction, which generated a gross capital gain of 240 million euro for the Group, completed the first part of the agreement signed on 31 July which, for the remaining 40%, provides for a put and call option system exercisable after four years, liable to extension by two, in exchange for cash or shares in one of the companies of the CNCE Group.

The initiative, which is part of the context of the strategic agreements defined in 2001 between SANPAOLO IMI and EULIA, the French holding company created by the Caisse des Dépôts et Consignations Group and by the Caisse d'Epargne Group, enables the creation of a partnership of significant importance. The latter will serve the realization of a leading entity in banking services to small- and medium-sized companies on the French market, combining the potential for market penetration of the distribution network of the Caisse d'Epargne Group with the experience acquired by Banque Sanpaolo in the SME segment.

The initiatives to rationalize the Group structure

On 30 June 2003, SANPAOLO IMI, Banca Carige and Banco di Sardegna stipulated an agreement which provided for the sale to the SANPAOLO IMI Group of the shares in Eptaconsors held by Banca Carige and Banco di Sardegna and equal to 20.24% and 19.04% of the company, respectively. SANPAOLO IMI, which already held 60.72% of Eptaconsors, now holds full control over the company; this has enabled to continue the rationalization process of its shareholdings in asset management, also enhancing the equity of Eptaconsors in the context of current and future strategic projects. The transaction was completed at a total price of 36 million euro.

In relation to the tax collection sector, effective on 1 October 2003, the following tax collection subsidiaries underwent the merger by incorporation into Esaban, which adopted the name GEST Line S.p.A: Ge.Ri.Co., Sanpaolo Riscossioni Genova and Sanpaolo Riscossioni Prato. The incorporation of the Group's tax collection business into a single company enables an increase in operating efficiency, with the achievement of significant scale economies on structural costs.

On 3 December 2003, full control was acquired in Noricum Vita, an insurance company which sells its own products through the branches of Cassa di Risparmio in Bologna and Banca Popolare dell'Adriatico, with the acquisition (by Sanpaolo Vita) of the 51% share belonging to Unipol Assicurazioni and (directly by the Parent Bank) of the 5% share belonging to Reale Mutua, which joined the 44% already held by SANPAOLO IMI following the merger with Cardine Finanziaria. The transaction, which involved a total outlay of 44 million euro, allows consolidation of the Group's already relevant presence in the insurance sector.

Noricum Vita is the corporate vehicle identified for the realization of the plan to concentrate the Group's insurance activities. The strategic lines of the feasibility study, implemented towards the end of the year, were approved by the Boards of Directors of the Parent Bank and Banca Fideuram. This plan provides for the concentration of all the life insurance companies and those in the property and casualty branch into a single pole, and is aimed at expanding and strengthening the range and innovative capacity of products in sectors such as pensions, personal protection and property insurance.

The completion, on 12 November 2003, of the sale of the 24.5% shareholding in Adriavita S.p.A., held by Cardine

Finanziaria, to Generali Assicurazioni (who already held 75.5% of the company) following the dissolution of the business partnership between Generali and Casse Venete, also falls within the scope of the same rationalization project.

On 16 December 2003 the Board of Directors approved the merger by incorporation of IMI Bank (Luxembourg) into Sanpaolo Bank (Luxembourg). The evolution of the reference markets and the convergence of the supply systems enabled the integration of the two companies and the rationalization of the structures, with consequent obtainment of cost synergies. The termination of the activity of Sanpaolo Bank (Austria) was authorized on the same date, considering the presence of a foreign branch of the Parent Bank in the same area and the progressive reduction in the interest of savers for Austria.

On the basis of the agreements of 3 March 2003, SANPAOLO IMI sold its 50% shareholding in Finconsumo Banca to SCH, holder of the other 50%. The transaction, which is part of the rationalization of the shareholdings of both companies, took place in two phases. The sale of a 20% share was completed on 8 September 2003 at a price of 60 million euro, determining, at consolidated level, a gross capital gain of 44 million euro. As regards the remaining 30% share still held by SANPAOLO IMI at the end of 2003, the put option was exercised on 20 January 2004, as envisaged by the March agreements. These agreements established the mutual concession of put options to SANPAOLO IMI and of call options to SCH, exercisable from the end of 2003 for a period of 12 months. The transaction was completed on 23 January 2004 at a price of 80 million euro, determining, at consolidated level, a gross capital gain of 55 million euro, which will be booked to the 2004 statement of income.

The staff leaving incentive is part of a wider project for the rationalization of the Group structure: consistent with the forecasts of the 2003-2005 Plan, the decision was made to use the "Income, employment and re-training fund for staff in the banking industry" ("Fondo di solidarietà per il sostegno del reddito, dell'occupazione e della riconversione e riqualificazione professionale del Personale del Credito"). This enabled the Group not only to absorb excess personnel by offering staff leaving incentives, but also to implement a rejuvenation of staff, the benefits of which, in terms of savings on personnel expenses, represent the main cost synergies already incorporated in the Plan.

Development initiatives in foreign markets

On 25 February 2003 Sanpaolo IMI Internazionale approved the launch of a Public Offer on the Hungarian bank Inter-Europa Bank, of which SANPAOLO IMI already owned a 32.5% share. The Offer, launched on 17 March by Sanpaolo IMI Internazionale (to whom the interest held by the Parent Bank was transferred on 4 April), was concluded on 15 April with the delivery of a number of shares equal to 52.7% of the share capital of the bank, bringing the total shareholding held to 85.2%. The total outlay for the Offer amounted to 31 million euro. Following further purchases, the shareholding amounted to 85.9% at the end of the year.

Agreements with FIAT and Italennergia

In accordance with that provided for by the Framework Agreement in May 2002 between FIAT, on the one side, and SANPAOLO IMI, together with Banca Intesa, Unicredito and Capitalia, on the other, in May 2003 the final contracts were signed for the acquisition by the above mentioned banks (SANPAOLO IMI operated through IMI Investimenti) from FIAT Auto of 51% of Fidis Retail Italia, leading company for consumer credit activities in the automobile sector in various European countries, at a price in line with the shareholders' equity of the compendium, adjusted according to due diligence. These agreements were implemented in two phases: the first, referred to a first group of companies, was terminated at the time of closing on 27 May, while the second phase of the transaction, regarding the sale of further former Fidis assets, was formalized on 30 September 2003 and completed during the month of October. The outlay by IMI Investimenti amounted to 93 million euro, susceptible to limited variations following the envisaged price adjustment. It has been agreed that FIAT Auto can repurchase the shareholding, at a prearranged price, by exercising a call option by 2006.

This transaction completed all the operations provided for by the aforementioned Framework Agreement, including, in particular, the granting of a "to be converted" financing for a total of 3 billion euro in July 2002 (of which 400 million by SANPAOLO IMI), and the taking over by FIAT of 14% of the capital of Italennergia Bis by Banca Intesa, Capitalia and SANPAOLO IMI, which purchased a 4.66% share through IMI Investimenti.

As regards the FIAT group, in July 2003, IMI Investimenti subscribed, for the pro quota attributable, the capital increase of

FIAT S.p.A., for a total of 1,836 million euro, presented in the context of the automobile group's relaunch plan presented in June; the related outlay was 27 million euro. Therefore, as of 31 December 2003, the Group owned a total of 14.6 million FIAT shares (equal to 1.487% of the total capital), including those allocated in the dealing portfolio.

In relation to the Italennergia group, in May 2003 the Edison capital increase was completed for 2,095 million euro, subscribed as follows:

- 1,000 million euro from Italennergia Bis;
- 503 million euro from the partners of Italennergia Bis (the IMI Investimenti share being 66 million euro);
- the remaining 592 million euro from the market, within the context of the Offer supervised by a banking placement consortium.

On the new Edison shareholding purchased by the SANPAOLO IMI Group, the extension of the put option towards EDF – Electricité de France for the percentage share referable to the original stake held in Italennergia (corresponding to 41 million euro, against the total investment of 66 million euro mentioned earlier), has been negotiated.

Corporate bond risk and the protection of savers

The considerable decline in medium- and long-term interest rates and the elimination of the exchange rate risk following the introduction of the single currency have favored transactions on the international debt market involving companies operating in the euro-zone. The development of corporate bonds in Italy regarded a more limited number of companies, with a greater degree of concentration compared with other countries, both in terms of issuers and of industrial sectors, and a consequent lower possibility of diversification for investors interested in domestic issuers. This happened in a context where savers, to offset the drastic drop in rates, increased the demand for corporate and/or emerging market bonds, sometimes lacking an official rating or with a rating below the investment grade.

To deal with the heavy repercussions of defaults at domestic and international level on savers' portfolios, the Group has taken several initiatives to protect its customers. In the belief that it has maintained an attitude focused on maximum correctness in the performance of investment services, SANPAOLO IMI has adopted an approach aimed at examining, with particular attention, also resorting to appropriate guarantee review procedures, those areas in

which customers complain of specific shortcomings in the relationship with the reference branch. The aim of this activity is to fairly and amicably resolve any complaints.

In relation to the Cirio case, the Italian judiciary authorities are investigating a number of credit institutes, including SANPAOLO IMI, with regard to dealing activities with savers in bonds issued by Cirio group companies and with regard to any lending relationships with the above mentioned group. The investigations are still in the preliminary stage and also involve company representatives including two SANPAOLO IMI Directors.

Confident of the absolute regularity, in general terms, of the company's activities in relation to the situations under investigation and, in particular, of the total lack of involvement in such situations of the aforementioned company representatives, the Bank is cooperating fully with the judiciary authorities in the context of the investigations underway.

With regard to the Parmalat case, SANPAOLO IMI's openness towards its customers has been confirmed by the agreement stipulated with the "Committee to defend SANPAOLO IMI Group Parmalat bondholders". This committee was founded on 2 February 2004 as the result of the initiative of several Group customers, with the aim of taking all actions necessary for the admission of credits into the extraordinary administration procedures and instigating any collective legal proceedings for compensation. In accordance with this agreement, SANPAOLO IMI has undertaken to provide organizational and financial support to guarantee the protection of the interests of its customers free of charge.

In the context of a more comprehensive attention to the problems linked with the performance of investment services and the safeguard of investors, in 2003 SANPAOLO IMI issued a specific "Investment Policy", declaring the fundamental principles which have always governed the management of relationships with savers, aimed at the diversification of portfolios and the development of increased customer awareness in relation to investment choices. Moreover, since 2002 even more cautious selection policies have been adopted when offering customers securities for placement through the trading securities portfolios offered to Group customers, aligned with those adopted for proprietary investments and the acceptance of credit risks.

The Bank has also intensified its monitoring of the composition of customer portfolios, helping customers search for

the best solutions, in order to pursue the reduction of the risk profile by adopting diversification policies.

With reference to the need for clear, comprehensible and transparent customer advisory activities, the banks belonging to the SANPAOLO IMI Group have also joined the “PattiChiari” initiative promoted by ABI (the Italian Bankers Association). Asset management has obtained specific priority in the interventions provided for by such initiative and two training and communication initiatives have been assigned to it. The first is aimed at savers with no experience or financial information and mainly involves the identification of a list of low risk and low earning bonds, listed in the regulated markets of the main coun-

tries. The second initiative is aimed at customer segments with greater financial culture and envisages, with regard to structured and subordinated banking bonds, the publication of comprehensible information in order to make investors aware of the risks inherent in this type of financial investment.

The concept of diversifying investments continues to be the mainstay of the Group’s Investment Policy, confident that no security, issued by anyone with any rating, is completely risk free. Therefore, adequate diversification is based on the use of asset management products and systems focused on a prompt indication of positions of concentration on individual securities, issuers or sectors.

Consolidated results

Summary of results

During 2003, the SANPAOLO IMI Group, in the configuration following variations in the consolidation setting during the period, showed a positive evolution of the income margins and less vulnerability to the drop in interest rates and to the volatility of the markets.

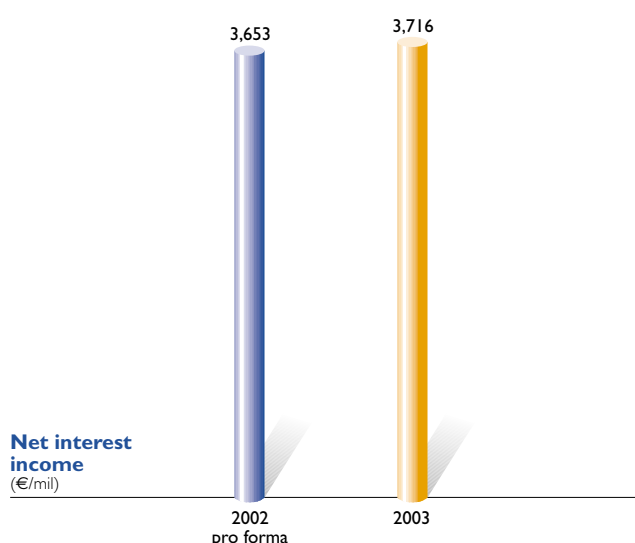
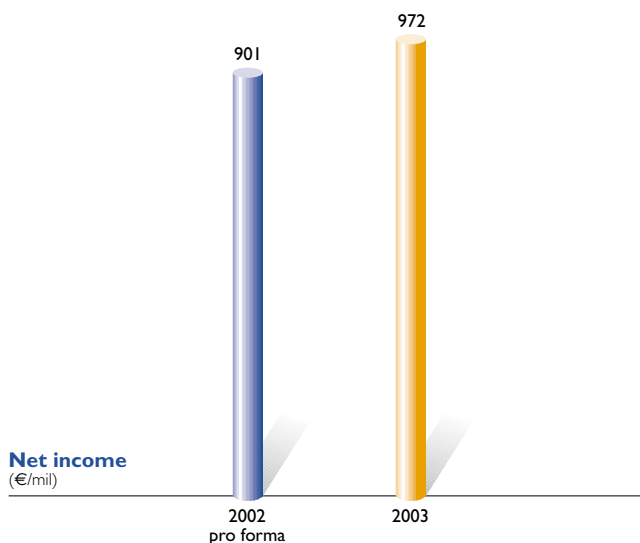
The lively trend in operating revenues and the cost containment actions, together with the writebacks and profits made on the investment portfolio, enabled extensive compensation for adjustments to loans and extraordinary expenses linked with the staff leaving incentives. The net income for the year, amounting to 972 million euro, showed a growth of 7.9% compared with 2002; it also

exceeded the budget target, confirming the growth forecast in the 2003-2005 Plan.

Net interest income

The net interest income for 2003 was 3,716 million euro; the 1.7% increase compared with last year was mainly the result of the positive contribution attributable to the evolution of volumes, joined by an improvement in customer spreads. The lower contribution of the fund imbalance, both in terms of amount and return worked in the opposite sense.

In terms of market rates, three-month Euribor, decreasing from 2.96% in December 2002 to 2.15% in December 2003, averaged 99 basis points lower when compared to 2002, moving from 3.32% to 2.33%.



Net interest income

	2003 (€/mil)	2002 pro forma (€/mil)	Change 2003 / 2002 pro forma (%)	2002 (€/mil)
Interest income and similar revenues	7,443	8,455	-12.0	8,693
Interest expense and similar charges	-3,701	-4,837	-23.5	-4,955
Reclassification (1)	-26	35	n.s.	35
Net interest income	3,716	3,653	+1.7	3,773

(1) The reclassification refers to the interest income of the Banca IMI group which, in the interest of a better representation of the Group results, has been reclassified under "Profits and losses from financial transactions and dividends on shares" as it is more closely related, from an operating point of view, to securities dealing.

The return on the Group's interest-earning assets was 4.53% and the cost of interest-bearing liabilities was 2.20%. As a consequence, the total spread of 2.33% is largely in line with that recorded in 2002. Customer transactions on the other hand generated an average spread which was 10 basis points higher.

The average amounts of the Group's interest-earning assets showed a growth of 4.5% compared with 2002, despite the 10.5% reduction in the securities portfolio following the rationalization measures undertaken by the centralized Group Finance. The positive trend in the total aggregate was determined by the increase in loans to customers (+2.9%) and repurchase agreements (+80%). On the liability side, average interest-bearing liabilities rose by 5.2%, favored by interbank expansion and repurchase agreements; the 0.8% decrease in average volumes of customer deposits on the other hand is the result of a drop in funding from securities (-5.8%), only partially compensated for by an increase in other customer deposits (+2.9%).

Net interest and other banking income

Group net interest and other banking income in 2003 came to 7,482 million euro, up 5.9% on the previous year.

This trend can be attributed, in addition to the increase in net interest income, to the favorable development of commissions and profits from financial transactions. On the contrary, the profits from companies carried at equity and dividends from shareholdings registered a decline.

Group net commissions in 2003 amounted to 3,036 million euro, up 8.6% compared with the previous year. The dynamics of the aggregate, partially attributable to the recovery of the financial markets, have improved gradually since the beginning of the year.

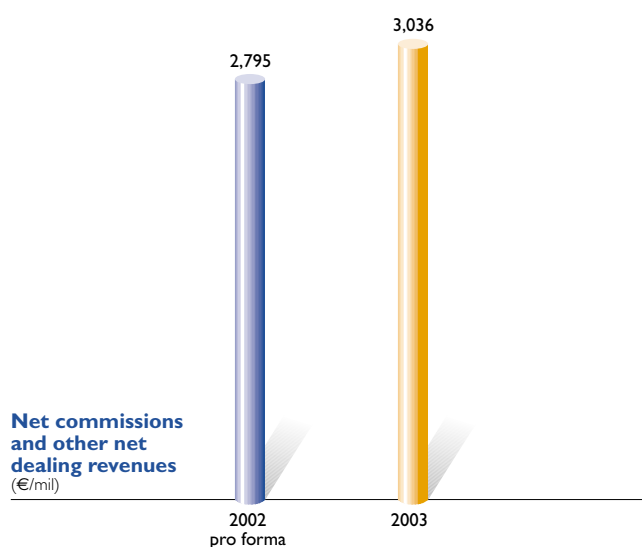
The growing trend of commission revenues characterized all areas. Management, dealing and advisory services increased by 6.2% thanks to the positive trend of revenues

Analysis of average amounts and interest rates

	2003		2002 pro forma		2002	
	Average amounts (€/mil)	Average rate (%)	Average amounts (€/mil)	Average rate (%)	Average amounts (€/mil)	Average rate (%)
Interest-earning assets	155,977	4.53	149,297	5.31	157,066	5.20
- loans to customers	116,659	5.17	113,369	5.83	118,868	5.66
- due from banks	12,452	2.09	10,961	3.21	12,120	3.29
- securities	14,528	3.17	16,240	4.16	17,351	4.32
- repurchase agreements	10,787	2.35	5,992	3.09	5,992	3.09
- other interest-earning assets	1,551	3.74	2,735	3.66	2,735	3.66
Non interest-earning assets (1)	47,004		53,313		50,299	
Total assets	202,981		202,610		207,365	
Interest-bearing liabilities	152,223	2.20	144,687	2.95	149,287	2.94
- direct customer deposits	110,360	2.03	111,196	2.79	115,020	2.76
- due to customers	66,822	1.14	64,957	1.54	66,888	1.53
- securities issued	43,538	3.39	46,239	4.54	48,132	4.47
- due to banks	24,177	2.38	18,802	2.88	19,643	3.03
- repurchase agreements	11,214	2.21	8,723	3.34	8,671	3.34
- subordinated liabilities	6,472	4.39	5,966	5.62	5,953	5.59
Non interest-bearing liabilities (1)	39,909		47,077		47,343	
Shareholders' equity	10,849		10,846		10,735	
Total liabilities and shareholders' equity	202,981		202,610		207,365	

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

for brokerage and custody of securities and currencies (+12.1%), and asset management related commissions (+5%). The latter, which had registered largely negative variations during the year, showed a progressive recovery, attributable to the evolution of assets under management. The effect of these commissions on the total aggregate fell from 50.4% of 2002 to 48.7% of 2003. Among other commission revenues, loans and guarantees, deposits and current accounts and other net services and net dealing revenues registered increases between 13% and 15%.



During 2003 the Group's total net commissions accounted for 65.9% of administrative costs and 106.9% of personnel costs, registering a significant improvement compared with the previous year in terms of hedging operating costs.

During the year, profits from financial transactions and dividends on shares were 447 million euro, up 47% compared with 2002. More than two thirds of these revenues were formed by income generated by Banca IMI's and the Parent Bank's dealing activities in securities, foreign exchange and derivatives. Both benefited from revenues from the placement of interest and exchange rate derivatives for companies structured by Banca IMI and distributed by the commercial network.

Profits from companies carried at equity and dividends from shareholdings, amounting to 283 million euro, decreased by 9.9% compared with the previous year. In particular:

- profits from companies carried at equity were 197 million euro against 159 million in the previous year. The increase was mainly attributable to the results of the insurance companies of Sanpaolo IMI Wealth Management, of minority shareholdings in tax collection companies and to the fact that the negative results of several minor shareholdings ceased to apply;
- dividends paid to the Group by minority shareholdings not included in the consolidation area amounted to 86 million euro, compared with 155 million euro collected for 2002, which discounted unrepeatable components.

Net interest and other banking income

	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002
	(€/mil)	(€/mil)		(€/mil)
Net interest income	3,716	3,653	+1.7	3,773
Net commissions and other net dealing revenues	3,036	2,795	+8.6	2,809
- management, dealing and advisory services	1,776	1,673	+6.2	1,673
- asset management	1,479	1,408	+5.0	1,387
- brokerage and custody of securities and currencies	297	265	+12.1	286
- loans and guarantees	281	248	+13.3	245
- collection and payment services	239	229	+4.4	227
- deposits and current accounts	488	425	+14.8	438
- other services and net dealing revenues	252	220	+14.5	226
Profits and losses from financial transactions and dividends on shares	447	304	+47.0	286
Profits from companies carried at equity and dividends from shareholdings	283	314	-9.9	292
Net interest and other banking income	7,482	7,066	+5.9	7,160

Operating income

Operating income amounted to 2,717 million euro, 16.4% more compared with 2002.

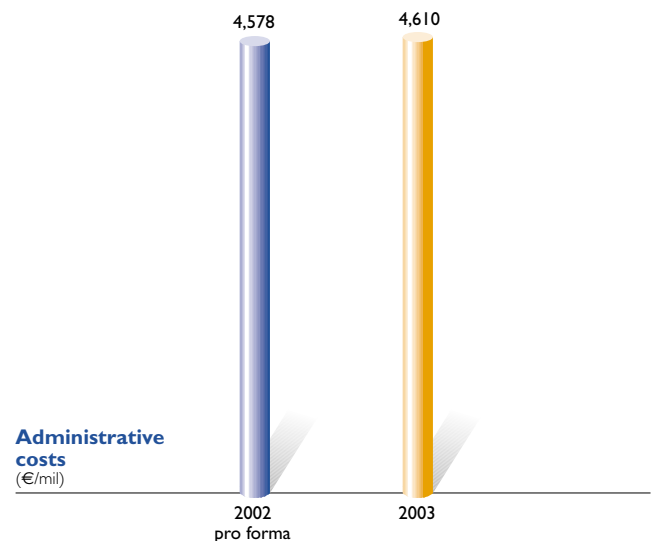
The control of the trend of administrative costs allowed the Group to absorb the non-negligible impact of integration and restructuring costs due to the Group's expansion operations in recent years.

Administrative costs amounted to 4,610 million euro, against 4,578 million euro incurred during 2002. The 0.7% annual increase, significantly lower than the rate of inflation (2.7%), is attributable to the growth in personnel costs, while other administrative costs and indirect duties and taxes were almost unchanged.

Despite the increases induced by the national collective labor contract (expired, for the economic part, at the end of 2003), personnel costs showed a contained growth of 1%, reaching 2,841 million euro. This result was achieved thanks to the actions to contain and optimize staff, diminished by 2.9% in average terms compared with 2002. The benefits expected from the staff leaving incentives using the "Fund for staff in the banking industry", while becoming more intensely effective from 2004, began to appear already in 2003.

Other administrative costs, 1,512 million euro, reached similar levels to those of 2002, confirming the meticulous control over all types of costs, which enabled savings espe-

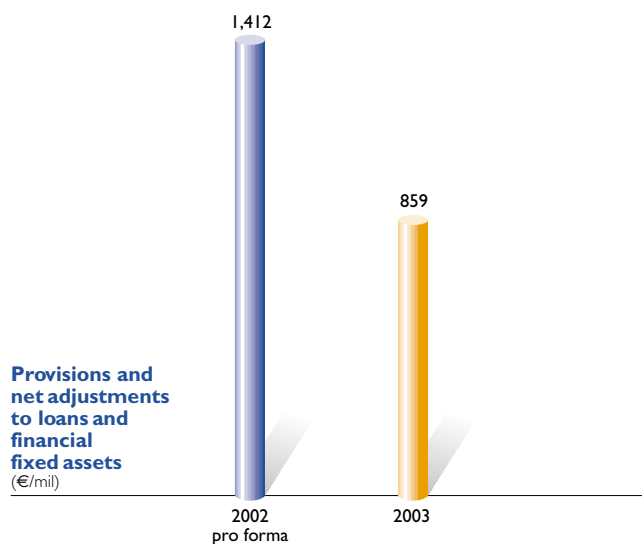
cially in the context of professional, general, promotional and advertising and utilities costs. As regards other expense captions, where property costs were substantially stable, there has been an increase in IT costs and indirect personnel costs. The growth of IT costs must be placed in relation to the charges connected with the unification of the IT systems of the banking networks in the Parent Bank's Macchina Operativa Integrata (MOI); the increase in indirect personnel costs is attributable to transfer and training charges related to the processes underway, aimed at integrating the distribution networks.



Operating income

	2003 (€/mil)	2002 pro forma (€/mil)	Change 2003 / 2002 pro forma (%)	2002 (€/mil)
Net interest and other banking income	7,482	7,066	+5.9	7,160
Operating costs	-4,765	-4,732	+0.7	-4,800
- administrative costs	-4,610	-4,578	+0.7	-4,648
- personnel	-2,841	-2,814	+1.0	-2,856
- other administrative costs	-1,512	-1,508	+0.3	-1,528
- indirect duties and taxes	-257	-256	+0.4	-264
- other operating income, net	329	354	-7.1	358
- adjustments to tangible fixed assets	-252	-292	-13.7	-294
- adjustments to intangible fixed assets	-232	-216	+7.4	-216
Operating income	2,717	2,334	+16.4	2,360

Adjustments to tangible and intangible fixed assets came to 484 million euro, compared with the 508 million of 2002 (-4.7%). The drop is in line with the trend of investments which, despite reaching high levels, were lower than those made in the previous year. A relevant share of these investments was destined to improve the central processing capacity and modernize technological infrastructure in the context of the integration of the IT systems of the bank networks in the MOI. Relevant resources were also allocated to the development of new applications and new products and to the reorganization and specialization of the commercial network.



The cost/income ratio fell from 65.1% to 61.9%, improving by more than 3 percentage points on 2002, owing to the favorable trend in revenues.

Income before extraordinary items

The Group's income before extraordinary items came to 1,700 million euro, compared with 704 million in 2002.

Adjustments to goodwill and merger and consolidation differences, 158 million euro, were 27.5% lower than the value booked the previous year. This drop is mainly attributable to the completion, at the end of 2002, of the ten-year amortization related to the incorporation of the former Banca Provinciale Lombarda and the former Banco Lariano. The 2002 statement of income also discounted the registration of adjustments to the positive consolidation differences for the French group Fideuram Wargny.

Provisions and net adjustments to loans and financial fixed assets in 2003 were 859 million euro, falling 39.2% from the 1,412 million of 2002. This reduction was largely attributable to the writeback of shareholding in Santander Central Hispano (SCH), against the adjustment which significantly influenced the 2002 statement of income.

Provisions for risks and charges came to 195 million euro, lower than the 261 million of 2002. The reduction is mainly related to the recalculation of the potential charge in connection with the renegotiation of subsidized home mortgage loans (Art. 29 of Law 133/99), in accordance with the

Other administrative costs

	2003 (€/mil)	2002 pro forma (€/mil)	Change 2003 / 2002 pro forma (%)	2002 (€/mil)
IT costs	426	401	+6.2	404
Property costs	289	291	-0.7	294
General expenses	268	277	-3.2	279
Professional and insurance fees	260	282	-7.8	287
Utilities	87	90	-3.3	93
Promotion, advertising and marketing expenses	91	93	-2.2	96
Indirect personnel costs	91	74	+23.0	75
Other administrative costs	1,512	1,508	+0.3	1,528

terms established by the Government with the Ministerial Decree dated 31/3/2003. The one-off restructuring costs accrued in 2002 by Banca Fideuram for the integration with Banca Sanpaolo Invest must also be considered.

Provisions and adjustments to loans, deriving from adjusting the estimated realizable value of specific accounts and from the coverage of the physiological risk on performing loans, include the provision (273 million euro) of 90% of the exposure to the Parmalat group and the provision (10 million) aimed at the full writedown of the exposure to the Cirio group. The total amount of provisions and adjustments to loans was higher than in 2002 (724 million euro against 590 million).

The valuation of financial fixed assets determined net writebacks of 60 million euro, compared with the 561 million net adjustments for 2002. Equity investments enabled the registration of net writebacks for 66 million while 6 million of adjustments were made to investment securities. With regard to the investment portfolio, there was a rise in the shares of SCH which, in accordance with the average price for the last six months (8.075 euro), produced a writeback of 215 million euro (against the 399 million adjustment in 2002). The adjustment of the value of the shareholding in H3G involved the booking of a capital loss of 105 million euro, corresponding to the Group's share of the estimated year loss of the telecom company. Lastly, the adaptation of the stake in FIAT to average market values in December

(6.397 euro) determined the booking of a loss of 12 million euro in the statement of income for the year.

Net income

Net income, 972 million euro, included 32 million euro of net extraordinary charges, in comparison with the 320 million euro of net income attributable to extraordinary management in 2002.

The flow of net extraordinary charges of the year includes:

- 475 million euro in provisions for staff leaving, largely attributable to the "Income, employment and re-training fund for staff in the banking industry";
- 16 million euro in expenses for use of the tax reform. This amount corresponds to part of the Group's total outlay, which also includes 11 million related to insurance subsidiaries, the results of which are recorded using the net equity method, and 20 million for which existing tax reserves were used;
- 320 million gains on the sale of shareholdings, of which 240 million attributable to the sale of the majority share of the capital (60%) of Banque Sanpaolo and 44 million to the sale of the first tranche (20%) of Finconsumo Banca;
- 84 million euro income from the release of reserves for potential expenses in excess, largely owing to the renegotiation of subsidized home mortgage loans.

Income before extraordinary items

	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002
	(€/mil)	(€/mil)		(€/mil)
Operating income	2,717	2,334	+16.4	2,360
Adjustments to goodwill and merger and consolidation differences	-158	-218	-27.5	-212
Provisions and net adjustments to loans and financial fixed assets	-859	-1,412	-39.2	-1,426
- provisions for risks and charges	-195	-261	-25.3	-261
- adjustments to loans and provisions for guarantees and commitments	-724	-590	+22.7	-604
- <i>net writedowns</i>	-972	-723	+34.4	-742
- <i>net provisions for guarantees and commitments</i>	6	-67	n.s.	-68
- <i>recoveries</i>	242	200	+21.0	206
- net adjustments to financial fixed assets	60	-561	n.s.	-561
- <i>net writedowns of equity investments</i>	66	-539	n.s.	-539
- <i>net writedowns of investment securities</i>	-6	-22	-72.7	-22
Income before extraordinary items	1,700	704	+141.5	722

The flow of 2002 was largely characterized by the disposal of shareholdings and the use of funds considered in excess on the basis of actuarial estimates, as well as real estate sales.

Income taxes for the year, totaling 657 million euro, established a Group tax rate of 39.4%, lower than that registered in 2002 (43.3%). The improvement was the result of

the two percentage point reduction in IRPEG (Corporate Income Tax) and the half percentage point reduction in IRAP (Regional Income Tax), and by the higher amount of income taxable at reduced rates or not subject to IRAP, such as writebacks of equity investments, gains for the sale of shareholdings and dividends, which balanced the non-deductibility in terms of IRAP of staff leaving incentives expenses.

Net income

	2003 (€/mil)	2002 pro forma (€/mil)	Change 2003 / 2002 pro forma (%)	2002 (€/mil)
Income before extraordinary items	1,700	704	+141.5	722
Net extraordinary items	-32	320	n.s.	296
- net gains on disposal of equity investments	320	149	+114.8	149
- other net extraordinary items	-352	171	n.s.	147
Income before taxes	1,668	1,024	+62.9	1,018
Income taxes for the period	-657	-443	+48.3	-450
Change in reserve for general banking risks	9	363	-97.5	364
Income attributable to minority interests	-48	-43	+11.6	-43
Net income	972	901	+7.9	889

Embedded value of the life portfolio

The Group's net income includes the consolidated result of Sanpaolo Vita and the companies within its consolidation setting (Sanpaolo Life, Noricum Vita, Egida Assicurazioni and Universo Servizi) as well as Fideuram Vita; in particular:

- the consolidated result of Sanpaolo Vita contributed 79.5 million euro to the Group's net income;
- Fideuram Vita registered 35.5 million euro net income.

To understand fully the importance of these results, it should be remembered that one of the most significant indicators of the management performance of a life insurance company is the increase registered in a year by the so-called embedded value. The embedded value is an estimate, made using the actuarial techniques, of the economic value of a closed portfolio company, regardless of the value attributable to future production. This is intended as the sum of two elements:

- the company shareholders' equity adjusted to market value as of the date of evaluation;
- the value of the policy portfolio as of the date of evaluation, calculated as the current value of income after taxes, that the portfolio in force is likely to generate over the years until its natural extinction, corrected by the maintenance cost of the capital required to respect the solvency limit.

The calculation of the embedded value of the life insurance business as of 31 December 2003 has been carried out with the assistance of the actuarial divisions of a leading consulting company, according to the following criteria:

- in preparation for the evaluation of the portfolio in force, an actuarial technical examination of the portfolio of contracts held by the companies was carried out. This was joined by a formulation of expected future operating scenarios, important elements of this being the hypotheses assumed with regard to the performance of assets, the mortality rate, the management costs of the portfolio in question, the trend in premature closure due to abnormal causes and options exercised by customers, and the tax burden;
- subsequently, the comparison made with the support of the actuarial procedures of general sharing between the operating scenarios used as reference for the cal-

ulation of the premiums related to the current portfolio and anticipated scenarios, as formulated above, was used to obtain the succession of the estimated values of income that the portfolio will generate during the individual years of remaining life, net of taxes and of the opportunity cost linked with the maintenance of the solvency limit;

- this succession of values was then discounted by applying a discount rate equal to the performance of a non-risk investment, increased to consider the uncertainty of the flow of income as determined above. This is linked to the uncertainty that the operating hypotheses formulated correspond to actual operations.

The hypotheses considered in the formulation of the future operating scenarios anticipated imply the characteristics of the portfolios of the various companies. In particular, as regards the performance rates of the assets, a rate of 4.21% was considered for Sanpaolo Vita during the first five years, with a rate of 4.12% for the following years (separate management); a constant rate of 4.80% was considered for Sanpaolo Life (unit linked management); a constant rate of 4.10% was considered for Noricum Vita both for separate and unit linked management; for Fideuram Vita rates of 4.55% for separate management, 4.95% for guaranteed unit linked management and 4.85% for non guaranteed unit linked management were considered. As regards the discounting rates, both for the Companies within the Sanpaolo Wealth Management setting and for Fideuram Vita, a rate of 7.25% was considered.

On this basis, an estimate of the increase registered in 2003 by the embedded value at Group level inherent in the life insurance business was made, considering not only the component implicit in the life insurance companies but also the part of value allocated to other Group companies, to which the companies acknowledge sale, management or maintenance commissions. The results of the estimate are reported in the table below.

The embedded value of the life insurance business in the Group companies that receive sale, management or maintenance commissions is estimated as the current value of specific income, net of costs and after tax, that these companies will register on the policy portfolio until their contractual dissolution.

The change in the embedded value during 2003, for the Group's life insurance business, was 299 million euro for

operations carried out by Wealth Management and 264 million euro for Banca Fideuram. The added value of the year, considering the dividends distributed by the compa-

nies to Group companies (net of capital increases) and commissions, came to 324 million euro for Wealth Management and 237 million euro for Banca Fideuram.

Embedded value of life insurance business

	Wealth Management life insurance business (€/mil)	Banca Fideuram life insurance business (€/mil)
Embedded value as of 31/12/2002	899	844
Embedded value as of 31/12/2003	1,198	1,108
Change in the embedded value during 2003	299	264
<i>of which: increase in value attributable to new production</i>	242	206
<i>new policies excluding migration (1)</i>		95
<i>new policies resulting from migration</i>		50
<i>new policies resulting from changes</i>		61
Dividends distributed	26	4
Capital increase / capital payments	-87	-31
Fees during the year (net of network costs and taxes)	86	-
Added value for the year	324	237

(1) Including the new production from Sanpaolo Invest network.

Operating volumes and organization

Assets managed on behalf of customers

At the end of December 2003, customer financial assets amounted to 368 billion euro, up 4.4% on the value registered at the end of 2002.

Indirect deposits showed a growth of 7.8% on an annual basis. This is largely attributable to the positive performance of the financial markets, which is reflected in new subscriptions and in the revaluation of the existing stock. Direct deposits on the other hand fell slightly.

Asset management and administration

At the end of 2003, asset management volumes reached 143.7 billion euro, up 8.1% compared with the end of 2002. The net increase during the year, of 10.8 billion euro, is attributable for 7.8 billion to net flow and 3 billion to the revaluation of stocks.

In the context of the various products, mutual funds and fund-based portfolio management reached 102.7 billion euro, up 4.9% since the beginning of the year, thanks to a net flow equal to 2.7 billion and to a positive performance effect. The performance of the financial markets, which began to recover only in March, induced customers to prefer lower risk products in the first part of the year, with a return to equity funds only towards the end of the year. As

Customer financial assets

	31/12/2003		31/12/2002 pro forma		Change 31/12/03-31/12/02 pro forma (%)	31/12/2002	
	Amount (€/mil)	%	Amount (€/mil)	%		Amount (€/mil)	%
Asset management	143,711	39.0	132,931	37.7	+8.1	131,515	36.9
Asset administration	92,610	25.2	86,244	24.5	+7.4	87,717	24.6
Direct deposits	131,721	35.8	133,236	37.8	-1.1	137,049	38.5
Customer financial assets	368,042	100.0	352,411	100.0	+4.4	356,281	100.0

Asset management

	31/12/2003		31/12/2002 pro forma		Change 31/12/03-31/12/02 pro forma (%)	31/12/2002	
	Amount (€/mil)	%	Amount (€/mil)	%		Amount (€/mil)	%
Mutual funds and fund-based portfolio management	102,738	71.5	97,982	73.7	+4.9	94,918	72.2
Portfolio management	7,437	5.2	8,586	6.5	-13.4	9,443	7.2
Life technical reserves	33,536	23.3	26,363	19.8	+27.2	27,154	20.6
Asset management	143,711	100.0	132,931	100.0	+8.1	131,515	100.0

Change in assets under management

	2003 (€/mil)	2002 pro forma (€/mil)	2002 (€/mil)
Net inflow for the period	7,748	3,175	3,197
- Mutual funds and fund-based portfolio management	2,659	-3,716	-3,641
- Portfolio management	-1,251	-687	-853
- Life policies	6,340	7,578	7,691
Performance effect	3,032	-9,849	-10,161
Change in assets under management	10,780	-6,674	-6,964

a result of these choices, the breakdown of funds by type as of 31 December 2003 shows a recomposition from the balanced funds in favor of the equity, bond and liquidity funds. At the end of 2003, the SANPAOLO IMI Group held the top position in the domestic market, with a share of 21.1%, in line with the levels registered at the end of December 2002.

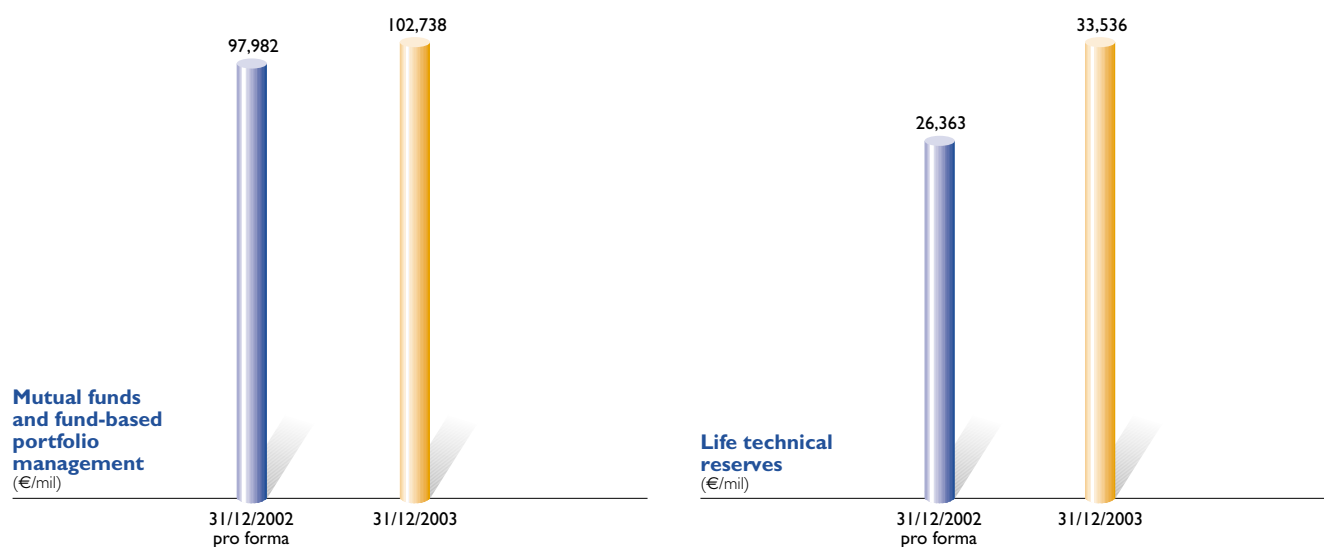
In 2003 the life insurance sector confirmed the growth already shown during the previous year; life technical reserves, equal to 33.5 billion euro, grew by 27.2% benefiting from a net flow of 6.3 billion. Index linked and unit linked policies represented one of the forms of investment preferred by customers who place their assets in the hands of professional consultants.

At the end of 2003 asset administration also showed a positive trend, reaching 92.6 billion euro, with an annual growth of 7.4%.

Direct deposits

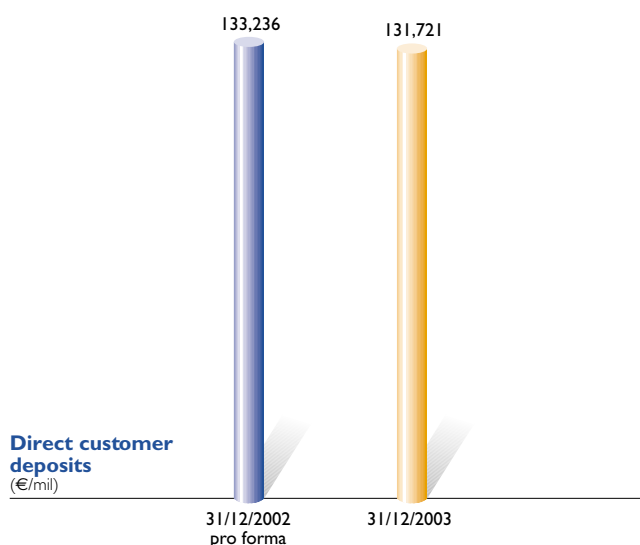
Direct customer deposits, 131.7 billion euro at the end of December 2003, showed a 1.1% reduction over the 12 months, owing to the diverging trends of the various components. In more detail, declines were registered by current accounts and deposits (-0.8%), commercial papers (-7.2%) and repurchase agreements (-19.7%). On the other hand, certificates of deposit showed a positive annual change (+26.6%) thanks to the high number of placements of foreign currency certificates by the Parent Bank's London branch, as well as the bonds issued by Group companies (+2.1%).

The deposits of the Domestic Bank Networks, which represent about two thirds of the Group's direct deposits, showed a decline (-1.7%), largely attributable to the Sanpaolo Network and Consumer Banking and to Banca



Mutual funds by type

	31/12/2003 (%)	31/12/2002 pro forma (%)	31/12/2002 (%)
Equity	23.6	22.5	22.3
Balanced	7.4	10.2	10.9
Bond	41.5	40.3	39.7
Liquidity	27.5	27.0	27.1
Total Group mutual funds	100.0	100.0	100.0



OPI; the performance of the atypical components of the aggregate was also negative, being characterized by increased volatility, especially Banca IMI deposits from foreign counterparties and through repurchase agreements (Wealth Management and Financial Markets) and, to a lesser extent, the deposits of the Parent Bank's foreign branches (International Assets). On the contrary, funding from securities made by Group Finance (Central Functions) increased by 16.9%.

At the end of the year the Group's share of direct deposits on the domestic market was 10.2%, down compared with the 10.7% at the end of the previous year.

Direct customer deposits

	31/12/2003 (€ mil)	31/12/2002 pro forma (€ mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€ mil)
Current accounts and deposits	68,373	68,894	-0.8	70,313
Certificates of deposit	7,149	5,646	+26.6	7,310
Bonds	39,979	39,161	+2.1	39,447
Commercial paper	3,766	4,057	-7.2	4,139
Reverse repurchase agreements and securities lending	10,073	12,543	-19.7	12,917
Other deposits	2,381	2,935	-18.9	2,923
Direct customer deposits	131,721	133,236	-1.1	137,049

Direct customer deposits by Business Sector

	31/12/2003 (€ mil)	31/12/2002 pro forma (€ mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€ mil)
Domestic Banking Networks	87,064	88,533	-1.7	88,356
- Sanpaolo Network and Consumer Banking (1)	52,783	53,722	-1.7	37,799
- Cassa di Risparmio di Padova e Rovigo	10,280	9,797	+4.9	9,797
- Cassa di Risparmio in Bologna	6,875	7,122	-3.5	7,122
- Cassa di Risparmio di Venezia	4,427	4,142	+6.9	4,142
- Friulcassa	2,977	2,826	+5.3	2,826
- Banca Popolare dell'Adriatico	2,571	2,481	+3.6	2,481
- Banca OPI	5,557	6,587	-15.6	4,615
- other Business Areas	1,594	1,856	-14.1	19,574
Personal Financial Services	3,581	3,901	-8.2	3,901
Wealth Management and Financial Markets	10,365	13,427	-22.8	13,370
International Activities (2)	3,198	3,838	-16.7	7,956
Central Functions	27,513	23,537	+16.9	23,466
Direct customer deposits	131,721	133,236	-1.1	137,049

(1) The figures as of 31/12/2003 and 31/12/2002 pro forma comprise the former Banco di Napoli Italian Network, included in other Business Areas as of 31/12/2002.

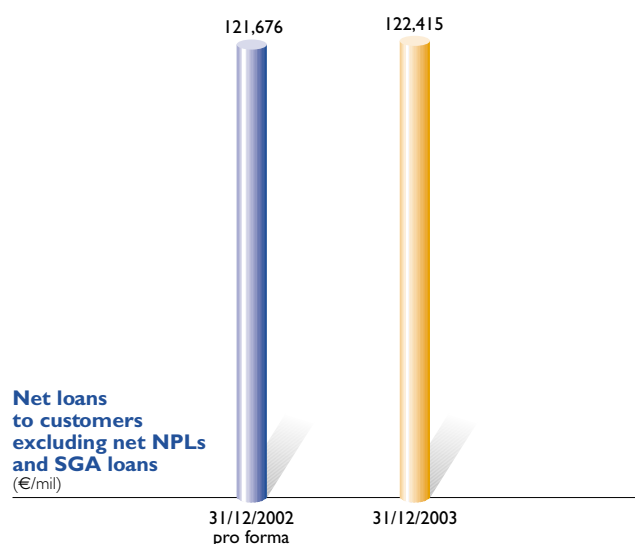
(2) The figure as of 31/12/2002 includes Banque Sanpaolo.

Loans to customers

The Group's net loans to customers, excluding non-performing loans and loans to SGA (the company into which the doubtful loans of the former Banco di Napoli were transferred), were 122.4 billion euro, up 0.6% since the end of 2002. This change is the result of lively dynamics in medium- and long-term loans, up 8.2%, countered by the drop in short-term loans (-11%).

In medium- and long-term loans, good progress in financings directed to the retail sector continued: mortgage disbursements to households by the Group's banking networks were 3.9 billion euro, up about 22% compared with the previous year. The significant presence of the Group's banks in the sector gained an advantage from the favorable evolution of the Italian real estate market in 2003, confirmed by the increase in the average quotations of real estate for residential purposes and the number of the purchase/sale transactions. The evolution in terms of loans made by Banca OPI for public works and infrastructure, which rose to 18.7 billion euro, showing an annual increase of 11.8%, was also positive.

From the analysis of counterparty loans emerges the increased tendency towards indebtedness by households, also favored by extremely low interest rates. A 8.3% growth in loans to households has been registered, and the trend in loans to Governments and public bodies is also



Loans to customers

	31/12/2003 (€mil)	31/12/2002 pro forma (€mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€mil)
Short-term loans	42,815	48,105	-11.0	48,637
Medium- and long-term loans	79,600	73,571	+8.2	75,478
Loans to customers excluding NPLs and loans to SGA	122,415	121,676	+0.6	124,115
Non-performing loans	1,171	1,249	-6.2	1,334
Loans to SGA	1,013	1,252	-19.1	1,252
Loans to customers	124,599	124,177	+0.3	126,701

Loans to customers by counterparty

	31/12/2003 (€mil)	31/12/2002 pro forma (€mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€mil)
Loans to households	24,962	23,042	+8.3	24,586
Loans to family businesses and non-financial companies	74,732	74,425	+0.4	73,680
Loans to financial companies	10,222	12,304	-16.9	13,985
Loans to governments and public bodies (1)	13,826	13,454	+2.8	13,481
Other	857	952	-10.0	969
Loans to customers	124,599	124,177	+0.3	126,701

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

positive (+2.8%). Loans to family businesses and non-financial companies were stable (+0.4%), while loans to financial companies showed a reduction (-16.9%).

Loans issued by the Group's foreign network came to 7.5 billion euro, down 15.4%; this trend is the result of increased selectivity which has enabled reduction of the

Loans to customers by type of lending

	31/12/2003 (€/mil)	31/12/2002 pro forma (€/mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€/mil)
Loans to households	24,962	23,042	+8.3	24,586
- Domestic network	24,708	22,876	+8.0	23,260
- overdraft	1,588	1,752	-9.4	1,736
- personal loans	3,164	2,865	+10.4	3,360
- mortgage loans	18,026	16,477	+9.4	16,390
- other	1,930	1,782	+8.3	1,774
- Foreign network	254	166	+53.0	1,326
Loans to family businesses, companies, governments, public bodies and others	99,637	101,135	-1.5	102,115
- Domestic network	92,398	92,448	-0.1	91,375
- overdraft	15,482	15,393	+0.6	15,199
- repurchase agreements	856	1,613	-46.9	1,613
- import/export financing	3,003	2,897	+3.7	2,882
- leasing	4,579	4,048	+13.1	4,090
- mortgage loans	46,123	41,962	+9.9	41,799
- other	22,355	26,535	-15.8	25,792
- Foreign network	7,239	8,687	-16.7	10,740
Loans to customers	124,599	124,177	+0.3	126,701

Loans to customers by Business Sector

	31/12/2003 (€/mil)	31/12/2002 pro forma (€/mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€/mil)
Domestic Banking Networks	112,593	109,446	+2.9	109,518
- Sanpaolo Network and Consumer Banking (1)	55,240	54,554	+1.3	46,663
- Large Groups and Structured Finance	11,410	13,017	-12.3	13,061
- Cassa di Risparmio di Padova e Rovigo	9,483	8,567	+10.7	8,567
- Cassa di Risparmio in Bologna	8,606	8,109	+6.1	8,109
- Cassa di Risparmio di Venezia	3,466	3,139	+10.4	3,139
- Friulcassa	2,580	2,412	+7.0	2,412
- Banca Popolare dell'Adriatico	2,479	2,361	+5.0	2,361
- Banca OPI	18,693	16,717	+11.8	14,735
- other Business Areas	636	570	+11.6	10,471
Personal Financial Services	735	576	+27.6	576
Wealth Management and Financial Markets	1,097	3,683	-70.2	3,663
International Activities (2)	4,639	6,117	-24.2	9,238
Central Functions	3,351	1,854	+80.7	1,120
Loans to customers excluding NPLs and loans to SGA	122,415	121,676	+0.6	124,115

(1) The figures as of 31/12/2003 and 31/12/2002 pro forma comprise the former Banco di Napoli Italian Network, included in other Business Areas as of 31/12/2002.

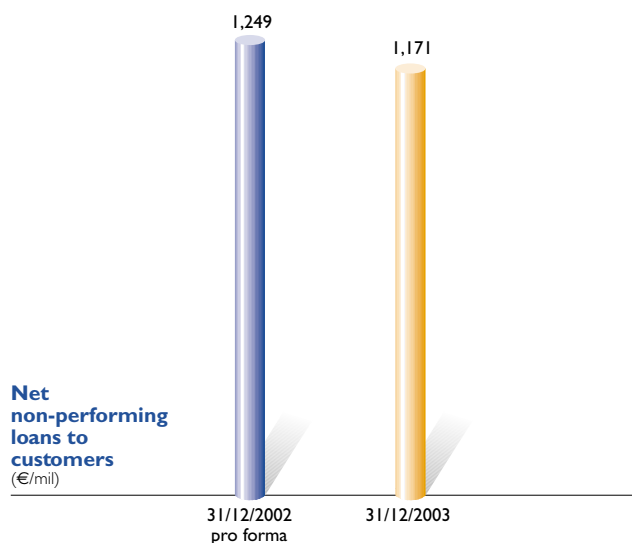
(2) The figure as of 31/12/2002 includes Banque Sanpaolo.

risk profile with corporate counterparties, and of the effect of the exchange rates linked with the devaluation of the dollar, pound sterling and yen against the euro.

The aforementioned general growth of loans to customers excluding non-performing loans and loans to SGA is the result of different trends within the Group's various Business Sectors. In particular loans issued by the Domestic Bank Networks increased (+2.9%), supported by the commercial networks and Banca OPI, which fully offset the resizing of exposure towards large groups. Loans in the Wealth Management and Financial Markets and International Activities sectors also showed weak growth. Treasury customer business grew, thanks to repurchase agreements, while there was a decline in intersector transactions. Both components are positioned under Central Functions.

The Group's market share in the domestic market at the end of the year was 10.8% for total loans, falling slightly compared with 11.1% of 2002. More specifically, medium-

and long-term loans reached a 12% share, while short-term loans a 9.2%.



Qualitative analysis of loan portfolio

	31/12/2003		31/12/2002 pro forma		Change 31/12/03-31/12/02 pro forma (%)	31/12/2002	
	Amount (€mil)	%	Amount (€mil)	%		Amount (€mil)	%
Non-performing loans	1,171	0.9	1,249	1.0	-6.2	1,334	1.1
Problem, restructured and in course of restructuring loans	1,348	1.1	1,460	1.2	-7.7	1,447	1.1
Loans to countries at risk	22	0.0	58	0.0	-62.1	59	0.0
Doubtful loans - customers	2,541	2.0	2,767	2.2	-8.2	2,840	2.2
Performing loans	122,058	98.0	121,410	97.8	+0.5	123,861	97.8
Total loans to customers	124,599	100.0	124,177	100.0	+0.3	126,701	100.0
Non-performing and problem loans - banks	-		1		n.s.	1	
Loans to countries at risk - banks	30		50		-40.0	51	
Total doubtful loans - customers and banks	2,571		2,818		-8.8	2,892	

Securities, interbank position and derivatives

	31/12/2003 (€mil)	31/12/2002 pro forma (€mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€mil)
Investment securities	2,935	2,391	+22.8	2,897
Dealing securities (1)	22,357	19,015	+17.6	19,694
Total securities	25,292	21,406	+18.2	22,591
Loans to banks	22,278	21,744	+2.5	22,000
Funding from international banking organizations	6,360	5,881	+8.1	5,881
Funding from other banks	22,174	18,252	+21.5	18,574
Derivatives and forward transactions in foreign currencies (at nominal value)	560,068	351,044	+59.5	354,244

(1) This figure includes SANPAOLO IMI shares bought by subsidiaries as part of their dealing activities.

Quality of the loan portfolio

In a context still characterized by elements of uncertainty, the Group continued to pay strict attention to the quality of assets, extending the adoption of strict loan-issue selection policies and prudent provision policies to all the network banks.

Net doubtful loans at the end of the year were 2,571 million euro, down 8.8% since the end of 2002. In particular, in loans to customers:

- net non-performing loans were 1,171 million euro against 1,249 million at the end of 2002 (-6.2%); the net non-performing loans/net loans to customers ratio was 0.9%, down compared with 1% of 31 December 2002. The coverage ratio of the Group's non-performing loans rose to 73.2% from 69.3% at the end of 2002;
- problem, restructured and in course of restructuring loans were 1,348 million euro, falling 7.7% compared with the end of December 2002. The coverage ratio was 33.9% against 30% at the end of 2002;
- non-guaranteed loans to customers in countries subject to country risk fell to 22 million euro from the 58 million as of 31 December 2002.

The ratio of gross doubtful loans to gross loans to customers remained stable at 5%, the same level registered in 2002, confirming the substantial stability of the quality of the Group's credit portfolio. A general reserve was created to cover the physiological risk inherent in the performing loan portfolio. At the end of 2003 it was equal to 1,102 million euro, corresponding to 0.9% of the performing loan portfolio (excluding loans to SGA), in line with 2002. This total provision offers adequate coverage of the risk of deterioration in creditworthiness inherent in the Group's portfolio, with particular reference to larger exposures to certain specific industrial sectors, including the automotive sector.

Activities on financial markets

Dealing and treasury activities

In line with the Group Finance organizational model, redefined in 2002 with the establishment of the integrated treasury, during 2003 the Parent Bank continued the centralization activity related to market operations with domestic banking networks and, generally, with the Group companies. Keeping direct access to said companies was considered to be not ideal. Further strengthening of

exchanges between Group companies enabled the treasury to create univocal intervention strategies with regard to the management of deposits and loans. On the interbank market, 63% of the volumes negotiated by the Parent Bank, net of exchanges between Group companies, regarded collection transactions; a significant portion of the total amount was channeled through the e-Mid circuit. In the context of short term deposits, roughly 18% of funding was carried out via the issue of certificates of deposit and commercial paper, realized through "Issuance programs" destined to foreign markets.

As regards medium- and long-term funding, also centralized with the Parent Bank in relation to the needs of the banking networks and Group companies adhering to the integrated treasury service, in 2003 SANPAOLO IMI placed, through the internal network and the Sanpaolo Banco di Napoli network, securities for 3.3 billion euro, of which 2.8 billion of senior nature and 550 million of Lower Tier II and Tier III subordinated nature. Securities for 1.2 billion euro were placed on the international markets, of which 800 million of senior nature and 400 million of Lower Tier II and Tier III subordinated nature. Other funding, for 1.4 billion euro, was deposited in the form of private placement or direct deposits from banks and international organizations. Medium- and long-term issues of the former Cardine bank networks, placed entirely with retail customers through the internal network, also generated total net flows of 2.5 billion euro.

At the end of 2003, the Group's securities portfolio came to 25.3 billion euro, up 18.2% on the pro forma amount at the end of 2002. The investment component came to 2.9 billion euro, accounting for 11.6% of the total, in comparison to 11.2% at the end of the previous year (2.4 billion euro).

At the end of the year the dealing portfolio of the subsidiary Banca IMI was 10.7 billion euro, up 62.1% compared with the 6.6 billion held at the end of 2002; this included 70.1% Government and EU public issue bonds and 10.4% other bonds.

At the end of the year, the Parent Bank's securities portfolio came to 11.3 billion euro, down 19.4% compared with the pro forma amounts at the end of 2002 (determined taking into account the renewal of capitalization contracts as credits/loans). This reduction is attributable to the adjustment of the portfolios acquired during the merger of Cardine Banca and Banco di Napoli to the management of the Parent Group's securities portfolio, in respect of the risk/return profile, according to the different holding pur-

poses, authorized by the guidelines approved during 2002 by the Bank's Board of Directors. On the whole, corporate bonds have fallen and the sizing of the various portfolio segments took place according to fair values such as to maximize the profitability aims and satisfy the secondary liquidity needs of the Bank and the Group.

At the end of the year, the dealing component of the Parent Bank's portfolio amounted to 8.8 billion euro, while the investment component amounted to 2.5 billion euro. In the context of the dealing portfolio, the share of Government bonds accounted for 22%, while bonds from financial and banking issuers (including Group securities) represented 78%. Approximately 90% of the investment component was represented by Government and international organisation bonds, with the remaining 10% made up of corporate issues. During the whole of 2003, in observance of the guidelines adopted concerning the funding liquidity risk, the securities portfolio maintained the minimum quantity of eligible securities to be held available for spot hedging of the very short-term liquidity risk while the "liquidity target ratio", to be respected in the short-term as regards the imbalance between expiring assets or those suitable for prompt liquidation, and expiring liabilities, divided into time brackets, was constantly higher than the unit at consolidated level. The volume of the securities negotiated by the Parent Bank was 31 billion euro, while transactions in repurchase agreements, entered into for retail and corporate customers and to support activity on the monetary markets, amounted to 429 billion euro, 298 billion of which were handled by the MTS/PCT platform.

Placement and advisory business

During 2003 Banca IMI confirmed its status as one of the main operators on the primary debt market, taking on the role of leader and sole placer in 62 bond issues, for total amount of approximately 25 billion euro. This context includes: in the financial institutions compartment, the senior issues of SANPAOLO IMI, Banca delle Marche, Credito Valtellinese, Landsbanki Islands, Kaupthing Bunadarbanki, Merrill Lynch, Banco Itau Europa and the subordinate issues of SANPAOLO IMI, Caja de Madrid, Banca CR Firenze and Findomestic Banca; in the corporate issuers compartment, the issues of Deutsche Bank, Hellenyc Railways, GMAC and Daimler Chrysler, and Edison's EMTS program; in the local bodies' and government bonds compartment, the issues of the Municipality of Pisa, the Independent Province of Bolzano, Piedmont Region and the first inflation indexed BTP, welcomed with

considerable interest by investors; the securitization transactions performed by Cassa Depositi e Prestiti, INPS and Master Dolfin (Findomestic Banca).

As regards the equity sector, the improvement of the markets in Europe was only partially reflected in a recovery in transactions on the primary market where, against a good level of activity in capital increases linked with financial restructuring processes, the placement and quotation of new companies was still extremely modest. In this last area Banca IMI led the placement of Hera and the quotation of Isagro, participated in the Meta Initial Public Offer and made a placement with leading institutional investors of shares of the capital of Edison and CDC, a IT products retail company quoted on the New Market. On the international scene there was also participation, as co-manager, in the institutional offer of shares in Timken, an important US manufacturing company.

In capital increases, Banca IMI confirmed its strong presence on the market, taking part as coordinator in the main transactions carried out in Italy (including Edison, AEM Torino, Reno de Medici and IFIL) and as lead manager (FIAT), also taking part and acting as guarantor in three major operations launched on the European markets (Banco Commercial Portugues, Royal & Sun Alliance and the German insurance company Allianz). It also performed the first four tranches of the Mondo TV capital increase and participated in the capital increase option of Banca Antoniana Popolare Veneta.

Lastly, as regards delisting transactions, it took part as advisor/coordinator in the Public Offers promoted by ENI on the Italgas shares, by Wide Design on Italdesign Giugiaro and by SANPAOLO IMI on Banca Popolare dell'Adriatico.

In relation to the corporate finance activity, despite an international downturn in the M&A market, the Italian sector showed signs of recovery. The bank supplied advisory services for the Ministry of Economy and Finance in the evaluation for the privatization of ETI and for the country's major industrial groups. In particular:

- assisted Edison in the sale of gas reserves in Egypt, ENEL for the sale of electricity generation assets, ENI for the exploitation of assets in the chemical sector and Buzzi Unicem for the Public Offer on Dyckerhoff preference shares;
- continued the activity of global advisor for the FIAT Group and supplied consultancy to Business Solutions for the sale of the majority shareholding in the IPI subsidiary;

- assisted the Parent Bank (the purchase of the majority shareholding of Fidis with a pool of banks and a 7% share in Banca delle Marche) and Sanpaolo IMI Wealth Management (purchase of Eptafund and constitution of a joint venture with Santander Central Hispano).

Furthermore, at the end of the year activities for FS, Alitalia, Finmeccanica and Mediaset were underway.

As regards medium-sized companies, assistance was given to the issuers in the Public Offers of Roland, Manuli and Banca di Sassari, and to Cassa di Risparmio di Firenze and Carige in the acquisition, respectively, of C.R. La Spezia and C.R. Carrara.

Equity investments

The Group's investments in companies that are not consolidated on a line by line basis amounted to 4.6 billion euro, with a net increase of 0.5 billion euro compared with the value as of 31 December 2002, comprising 493 million euro increases for purchases and subscriptions, 226 million euro decreases for disposals, 66 million euro net adjustments and 175 million euro other net decreases.

During the year purchases of companies not consolidated using the line by line method amounted to 493 million euro; disposals were also completed for 226 million euro, realizing capital gains amounting to 339 million euro (including income from merchant banking for 15 million euro) gross of the tax effect. The main transactions, some of which were mentioned earlier, regarded:

- in the context of transactions by Central Functions, as regards acquisitions:
 - the take over of the 7% share of the capital of Banca delle Marche with an outlay of 92 million euro;
 - the increase of the share held in Cassa dei Risparmi di

- Forli, from 21.02% to 29.77%;
 - the subscription of the share in the capital increase of the Unipol subsidiary, to support the acquisition of the Italian assets of Winterthur, with an outlay of 27 million euro;
 - the increase of the share held by the Group in Borsa Italiana, from 12.5% to 13.7%, by taking over a 1.2% share from several minority shareholders at the price of 12 million euro;
 - the purchase of the 1.05% share of Hera, a multiutility company operating in the energy, water treatment and environment markets, with an outlay of 10 million euro;
 - the pro quota subscription of the CDC Ixis capital increase for 5.1 million euro;
 - the acquisition of 5% of Noricum Vita from Reale Mutua Assicurazioni at the price of 3.6 million euro;
- and as regards disposals:
- the sale on the market of part of the investments in Beni Stabili, Banca Popolare di Lodi, Olivetti and Meliorbanca. The Group was paid a total of 60 million euro for these disposals, obtaining a net capital gain of 6 million euro;
 - the sale to Santander Central Hispano of a first tranche, equal to 20% of the capital, of Finconsumo Banca at the price of 60 million euro, realizing a capital gain of 44 million euro;
 - the sale of the Group's 1.4% stake in Intesa Holding Asset Management to Banca Intesa for 7.5 million euro, earning a capital gain of 7 million euro;
 - the sale to Generali Assicurazioni of the 24.5% held in the capital of Adriavita; the sale, for a price of 4.7 million euro, realized a capital gain of 1 million euro;
 - the sale of the 3.53% stake in C.B.I. Factor for the sale price of 2.6 million euro and realization of a capital gain of approximately 0.6 million euro;
 - the sale of Finnat Corporate for 1.2 million euro, earning the Group a capital gain of about the same amount;

Non-consolidated equity investments

	31/12/2003 (€/mil)	31/12/2002 pro forma (€/mil)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (€/mil)
Equity investments	4,572	4,172	+9.6	4,064
- carried at equity	1,775	1,374	+29.2	1,266
- carried at cost	2,797	2,798	-0.0	2,798
- in listed companies	1,331	1,302	+2.2	1,302
- in other companies	1,466	1,496	-2.0	1,496

- in the context of transactions by IMI Investimenti, as regards acquisitions:
 - the purchase of 25% of Synesis Finanziaria, a new company which took over from FIAT Auto 51% of Fidis Retail Italia S.p.A., with an outlay of 93 million euro;
 - the subscription of a 1.75% share of the quoted company Edison, for 66 million euro, in the context of its recapitalization (totaling 2,095 million euro) in relation to the share reserved to permanent partners of Italenergia Bis. Part of the Edison shares corresponding to the original shareholding in Italenergia Bis were extended in a put option towards EDF;
 - the pro quota subscription of the FIAT capital increase linked with the implementation of the automobile group's new Strategic plan, with an outlay of 27 million euro;
 - the increase of the shareholding in AEM Torino, from the original 1.5% to 3%, following the capital increase of the municipal company and subsequent purchases on the market, with an outlay of 10 million euro;
 and the sale on the market of part of the investments in ENI, Edison and Banca Popolare di Lodi and of the entire shareholdings in ENEL and Olivetti. The Group was paid a total of 77 million euro for these disposals, obtaining a net capital gain of 10 million euro;
- in the context of transactions in Wealth Management and Financial Markets, with reference to acquisitions:
 - the acquisition of 51% of Noricum Vita from Unipol Assicurazioni at the price of 40 million euro;
 - the purchase, with an investment of 9 million euro (including financing by partners for 2.7 million euro), of 30% of the new company Aeroporti Holding S.r.l., with the aim of creating a network of regional airports. As its first initiative, the subsidiary was granted the tender for the privatization of Aeroporti di Firenze, a company quoted on the Stock Exchange of which it purchased 29%;
 - the purchase, by Sanpaolo IMI Private Equity, of a 0.50% share of the capital of EIF (European Investment Fund), taking it over from the majority shareholder European Investment Bank, at the price of 3 million euro and with a maximum commitment of 8 million euro;
 and, with reference to disposals, the sale to a group of banks in Emilia Romagna of the 17.31% investment held in AMPS S.p.A., realizing a capital gain of 5.3 million euro against a cost of 44 million euro.

Writebacks of 216 million euro refer substantially to the shareholding in Santander Central Hispano, while adjustments for a total of 150 million euro mainly regard the

investments held in Hutchinson 3G Italia (for 75 million), in 3G Mobile Investments (for 30 million), in FIAT (for 12 million) and in Kredyt Bank (for 11 million).

The other net changes include, as regards increases, the conferral of the Parent Bank's real estate branch to CSP Investimenti (160 million euro) and the book value of the shares in Banque Sanpaolo (173 million) and Finconsumo Banca (25 million), valued for the first time at equity, and, as regards decreases, the transfer of certain investments (amounting to 179 million euro) to the dealing securities portfolio in respect of their intended disposal.

Operating structure

The distribution network

During 2003 the Group continued operating towards the development and rationalization of the distribution networks characterized, as already described in detail, by the restructuring process, involving, on the one hand, the rationalization of the territorial organization of the whole Sanpaolo Network and the start-up, within this context, of Sanpaolo Banco di Napoli, and, on the other, the merger by incorporation of Cardine Finanziaria into SANPAOLO IMI (with the consequent creation of the North East Territorial Direction), the establishment of the regional bank Friulcassa and the incorporation of Banca Agricola di Cerea into Cassa di Risparmio di Padova e Rovigo.

At full capacity, the Group territorial presence in banking activity should cover a certain number of territorial areas and bank networks with light central structures, which will provide uniform and complete supervision of the respective territory. The plan to develop and rationalize the networks also provides for a distribution model based on the specialization by macro customer segments, in order to supply an improved and more effective response to different household and company needs.

At the end of December the SANPAOLO IMI Group had a network of 3,168 banking branches in Italy, 32.8% of which are distributed throughout the North West, which is in-depth covered by the Sanpaolo Network, 29.3% in the North East, where the former Cardine bank networks are concentrated, and 25.5% in Southern Italy and the Islands, where the Sanpaolo Network also operates (through the 688 branches and 57 operating points of Sanpaolo Banco di Napoli for the mainland regions). The remaining 12.4% of the Group net-

work is situated in Central Italy, where there are branches of Cassa di Risparmio di Firenze (in which a 19.5% interest is held) and Banca delle Marche (in which a 7% interest is held). SANPAOLO IMI has stipulated distribution agreements with both banks. Further commercial agreements have been stipulated with Cassa dei Risparmi di Forlì, which has about eighty branches mainly operating in the North East.

The share of branches held throughout Italy amounts to 10.4%. The Group in particular has an 11.1% share in the North West, 11.3% in the North East, 5.7% in the Center and 13.6% in the South and the Islands.

On the basis of the customer segments serviced, the consolidation of the networks specialization projects into Retail (personal, family market and small business), Private and Company branches continued during 2003. The Sanpaolo Network was also involved in the opening of 16 new branches.

The Group confirmed its commitment towards innovative channels. At the end of the year, with regard to the private

and retail segments, direct banking contracts managed by Sanpaolo Network branches, including transactions by Sanpaolo Banco di Napoli, rose above 457,000, an increase of about 40% since the beginning of the year. Internet banking contracts with companies and small businesses reached 31,000 units, up 45% since the beginning of the year. On the date, the former Cardine bank networks had roughly 60,000 phone and Internet banking contracts.

With reference to direct channels, the retail customer service is carried out through the network of automatic Bancomat tellers which, at the end of the year, included 2,803 Sanpaolo ATMs (of which 860 belonging to Sanpaolo Banco di Napoli) and 1,016 related to the former Cardine bank networks, and through the POS terminals (38,722 of the first Network, of which 10,036 related to Sanpaolo Banco di Napoli, and 20,213 of the second).

The Group's distribution structure is also made up of 4,675 financial planners, mainly of Banca Fideuram and Sanpaolo Invest SIM. During 2003 the latter completed its transformation into SIM, ceasing performance of banking activity

Group distribution network

	31/12/2003	31/12/2002 pro forma	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002
Banking branches and area offices	3,272	3,182	+2.8	3,205
- Italy	3,168	3,115	+1.7	3,069
of which: Parent Bank	1,438	1,390	+3.5	2,115
- Abroad	104	97	+7.2	136
Representative offices	18	17	+5.9	17
Financial planners	4,675	4,951	-5.6	4,955
of which: Banca Fideuram (1)	4,543	4,754	-4.4	4,754

(1) Including Sanpaolo Invest SIM.

Group distribution network in Italy as of 31/12/2003

	Sanpaolo Network (1)		Former Cardine bank networks		Other (2)		TOTAL	
		%		%		%		%
North-West (Piedmont, Val d'Aosta, Lombardy and Liguria)	987	46.4	13	1.5	39	20.9	1,039	32.8
North-East (Veneto, Trentino Alto Adige, Friuli Venezia Giulia and Emilia Romagna)	107	5.0	719	84.1	104	55.6	930	29.3
Centre (Tuscany, Marche, Umbria, Lazio, Abruzzo and Molise)	242	11.4	123	14.4	27	14.4	392	12.4
South and Islands (Campania, Apulia, Basilicata, Calabria, Sicily and Sardinia)	790	37.2	-	-	17	9.1	807	25.5
Banking branches and area offices in Italy	2,126	100.0	855	100.0	187	100.0	3,168	100.0

(1) Includes, in addition to the 1,438 branches of the Parent Bank, the 688 branches of Sanpaolo Banco di Napoli.

(2) Includes the branches of Banca Fideuram (88), Finemiro Banca (22), Farbanca (1) and Cassa dei Risparmi di Forlì (76).

and focusing on the provision of investment services through its network of financial planners.

The Group operates abroad through a network of 104 branches and 18 representative offices. Also during the year, the Parent Bank opened a branch in Shanghai and representative offices in Madrid and Barcelona.

Personnel

At the end of the year the Group employed 43,465 resources, down 1,752 units (-3.9%) compared with 31 December 2002 pro forma.

This decrease is attributable to the realization of operations for the rationalization and integration at Group level as established within the context of the 2003-2005 Plan which focuses, in terms of cost, on making business support structures as efficient as possible to favor improvement of the distribution networks, in order to sustain the commercial expansion plans aimed at strengthening/increasing market shares and profitability.

To achieve the aims mentioned, staff leaving incentives were adopted, also using the "Income, employment and re-training fund for staff in the banking industry".

The use of the aforementioned Fund was defined with the Group Agreement signed with the trade unions on 10 June 2003 and subsequently applied in each company office.

Its activation enabled the Group to absorb redundancies directly, through the resignation of personnel from the structures in question, and indirectly, actuating intense professional conversion processes. These redundancies will also enable the creation of space in the distribution network for the entry of new staff, thus making an important investment for future growth and development, and speed

up the acquisition of benefits from the most recent CCNL and CIA employment contracts.

The staff leaving incentives, offered to staff who matured the right to a pension during 2003, ended on 31 December 2003. An approximate total of 800 redundancies were defined.

These leaving incentives were applied for by a total of about 3,750 employees (out of about 4,800 people), of whom about 2,900 through the "Fund for staff in the banking industry" and about 800 for voluntary retirement, 750 having already taken place in 2003.

The actions described above involved a total cost of approximately 520 million euro. This cost is covered by the provisions made to the Provisions for risks and charges.

With particular reference to the Parent Bank, on 31 December 2003, the staff was made up of 22,086 employees, down 1,221 (-5.2%) in comparison to the same period of the previous year, reclassified consistently to take into account the transfer of resources operating in the branches converged to Sanpaolo Banco di Napoli, the resources from the merger by incorporation of Cardine Finanziaria and the spin off of the resources of the public works sector to Banca OPI.

The reduction was mainly realized through leaving incentives, taken up by approximately 1,300 employees, 700 of whom through the "Fund for staff in the banking industry" pursuant to the Company agreement stipulated on 14 June 2003, 111 through a similar initiative launched by the former Banco di Napoli in 2002 and about 500 through voluntary retirement.

With reference to Sanpaolo Banco di Napoli, at the end of the year personnel consisted of 5,813 employees, down by 104 units compared with the date of conferral, following

Personnel

	31/12/2003		31/12/2002 pro forma (1)		Change 31/12/03-31/12/02 pro forma (%)	31/12/2002	
		%		%			%
Period-end headcount	43,465	100.0	45,217	100.0	-3.9	45,650	100.0
- executives	821	1.9	852	1.9	-3.6	881	1.9
- third and fourth level managers	5,408	12.4	5,934	13.1	-8.9	5,975	13.1
- other personnel	37,236	85.7	38,431	85.0	-3.1	38,794	85.0

(1) The pro forma figures have been prepared to take into account the changes in the consolidation area, according to the criteria detailed in the Explanatory Notes. The pro forma figures are unaudited.

243 resignations (of which 199 with incentives) and 139 new entries (of which 124 following contract transfers from the Parent Bank).

As of 31 December 2003 the staff of the former Cardine Group bank networks consisted of 8,288 employees, down 137 units compared with 31 December 2002, reclassified consistently to take into account the transfer of personnel on secondment from the bank networks to Cardine Finanziaria on 1 October 2003.

The other Group companies showed a reduction of 225 units compared with 31 December 2002 pro forma. The decrease is the result of actions made to reduce staff employed by companies operating in sectors involved in rationalization, such as tax collection (-4.5%) and leasing (-11.1%), with an increase in areas subject to recent commercial expansion, such as Eastern Europe (+2.4%) and consumer banking (+13.1%).

The integration of companies operating in particular business sectors also involved the definition of the reorganization of the Epta Group in 2003, which was consolidated, also through conversion and re-training processes, with the absorption by other Group companies of the staff involved.

With reference to the management tools used during the year, the “integrated system of planning/management/development of resources” used by the Parent Bank was extended to the Group’s commercial banks and was consolidated through the adoption of the cost/staff budget system, the skills system, the evaluation and incentives system and also of instruments for individuating resources with high development potential, thus realizing a methodological and operational integration for the Group.

Revaluation of real estate

At the time of approval of the 2003 financial statements, Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Friulcassa and Banca Popolare dell'Adriatico took advantage of the possibility to revalue the company assets booked to the 2002 financial statements, in accordance with subsections 25 and 27 of Art. 2, of Law no. 350 dated 24/12/2003 (2004 Financial Law), which reopened the terms provided for by the original law 342/2000 (Art. 10-16).

The revaluation, which includes the payment of a substitute tax replacing IRPEG (Corporate Income Tax) and IRAP (Regional Income Tax), equal to 19% on gains related to amortizable assets and 15% on those related to non amortizable assets, regarded properties not used by the company (operating and non-operating).

The criteria chosen to determine the maximum limit of the revaluation value was that of “market value”, established by appraisals recently prepared by independent companies and professionals (applying a 17.5% reduction in value to the so-called “package sales”), and also prudently taking into account any lower realizable value of properties for which purchase offers were made.

Income from revaluation was assigned to a special reserve, subject to deferred taxation, net of the related substitute tax.

The properties were revaluated at a total of 65 million euro, the substitute tax was calculated at 11 million euro, thus involving the registration of a revaluation reserve, equal to the difference, of 54 million euro.

Capital and reserves

Net shareholders' equity

Group shareholders' equity, 10,995 million euro at 31 December 2003, showed in the year the following movements:

<i>Movements in Group shareholders' equity</i>	<i>(€/mil)</i>
Pro forma shareholders' equity as of 31 December 2002	10,702
Reversal of pro forma adjustments	-165
Shareholders' equity as of 31 December 2002	10,537
Decreases	-568
- Dividends	-550
- Exchange and other adjustments	-9
- Use of reserve for general banking risks	-9
Increases	1,026
- Monetary revaluation	54
- Net income	972
Shareholders' equity as of 31 December 2003	10,995

Besides the distribution of the 2002 dividend and the net income for 2003, the changes compared with the figures at the end of December 2002 reflect:

- among decreases, the use of the reserve for general banking risks by certain subsidiaries;
- among increases, the effects of the monetary revaluation of real estate made, at the time of approval of the financial statements, by the subsidiaries Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Banca Popolare dell'Adriatico and Friulcassa in accordance with Law no. 342 of 21/11/2000 (as amended by Law no. 350 of 24/12/2003).

Own shares

As of 31 December 2003, the Parent Bank alone held 3,220,919 SANPAOLO IMI shares in its portfolio, equal to 0.18% of the share capital, which were recorded, among the assets in the Balance sheet, at market value for 34 million euro (10.413 euro unit cost).

During 2003 the Group pursued the aim of concentrating the ownership of SANPAOLO IMI shares by the Parent Bank, excluding those negotiated by Banca IMI in relation to its institutional dealing activities.

Group transactions entered into were the following:

- as of 31 December 2002, the Parent Bank held just one own share in its portfolio with a nominal value of 2.8 euro and book value of 7.41 euro, sold in 2003. In application of that established in the decisions made by the Shareholders' meeting regarding authorization to purchase and dispose of own shares, during the year it purchased 6,097,849 shares (nominal value 17.1 million euro), for a total cost of 48.6 million euro. The shares were destined as follows:
 - 2,344,522 shares (6.6 million euro nominal value), for a cost of 19 million euro, were assigned to employees in relation to the extended employee stock plan;
 - 434,953 shares (1.2 million euro nominal value), for a cost of 3.7 million euro, were transferred to Fondazione CR Venezia as payment of the debt arising from the price revision clause in the former Cardine Banca share purchase agreement, entered into by the aforementioned Fondazione and completed in 2001;
 - 97,455 shares (273,000 euro nominal value), for a book value of 0.8 million euro, were sold on the market for a cost of about 0.9 million euro;
- as of 31 December 2002, the subsidiary Prospettive 2001 held 3,073,729 SANPAOLO IMI shares in its dealing portfolio (8.6 million euro nominal value), booked at a market value of 19.1 million euro. During the first half of 2003 the company sold the entire shareholding on the market for 22.7 million euro;
- as of 31 December 2002, the subsidiary Banca Popolare dell'Adriatico held 53,087 SANPAOLO IMI shares in its dealing portfolio (0.1 million euro nominal value), booked at a market value of 0.3 million euro. During the first half of 2003 the company sold the entire shareholding on the market for 0.4 million euro;
- as of 31 December 2002, the subsidiary IMI Investimenti held 219,190 SANPAOLO IMI shares in its dealing portfolio (0.6 million euro nominal value), booked at a market value of 1.4 million euro. The entire shareholding was sold on the market in July 2003 for 1.9 million euro;
- as of 31 December 2002, the subsidiary Banca IMI, in relation to its institutional dealing activity, held 1,594,744 SANPAOLO IMI shares in its portfolio (4.5 million euro nominal value), booked at a market value of 9.9 million euro. During the year the company purchased 8,542,252 shares (23.9 million euro nominal value), for a cost of 77.7 million euro, and sold 10,532,571 shares (29.5 million euro nominal value) for a total outlay of 95.0 million euro. Consequently, as of 31 December 2003, among the liabilities in Banca IMI's accounts there was a "short-term position" in relation to 395,575 shares of the Parent Bank (1.1 million euro nominal

value), attributable to the normal dealing activity and financially balanced by transactions in derivatives.

Regulatory capital and solvency ratios

As of 31 December 2003 the ratio of the Group's total regulatory capital to total weighted assets against risks, deriving mainly from credit and market risks, showed a total solvency ratio of 10.5%; in particular, the market risks referable to the Parent Bank and other Group companies, 11 billion euro at the end of December 2003, were largely hedged by Tier 3 subordinated liabilities, entered into for a total of 598 million euro.

The ratio between the Group's Tier 1 capital and the total weighted assets reached, at the end of December 2003, 7.4% (tier 1 ratio). On the same date, the Core tier 1 ratio (calculated by reference to the Tier 1 capital net of preferred shares) came to 6.6%.

The regulatory capital structure of the SANPAOLO IMI Group is therefore consistent with the recommendations formulated by the Bank of Italy which, following a more general international orientation aimed at stimulating the formation of more solid capital endowment for the most important banks (e.g.: aligned to the status of Financial

Holding Company in accordance with US standards), recommended to the Bank stricter targets than the obligatory target ratios:

- Core tier 1 ratio = 6%;
- Total ratio = 10%.

Regulatory capital and solvency ratios

	31/12/2003	31/12/2002
Regulatory capital (€/mil)		
Tier 1 capital	10,038	9,765
<i>of which: preferred shares</i>	1,000	1,000
Tier 2 capital	4,470	4,406
less: prescribed deductions	-837	-470
Regulatory capital	13,671	13,701
Tier 3 subordinated loans	598	589
Total regulatory capital	14,269	14,290
Weighted assets (€/mil)		
Credit risk	124,987	123,575
Market risk	10,963	9,588
Other requirements	563	550
Total assets	136,513	133,713
Solvency ratios (%)		
Core tier 1 ratio	6.6	6.6
Tier 1 ratio	7.4	7.3
Total ratio	10.5	10.7

Risk management and control

The basic principles

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

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

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

The Parent Bank also performs general functions of risk management and control and makes risk-acceptance decisions in the case of particularly large risks, supported by the Risk Management department.

The Business Areas that generate credit and/or financial risks are all assigned with limits of autonomy and each has its own control structure. In the case of Sanpaolo Banco di Napoli these functions are carried out, on an outsourcing contract basis, by the Parent Bank's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary. This organization model will be extended gradually to all Group's Domestic Banking Network.

The Basel II Project

During 2003 SANPAOLO IMI set up the "Basel II Project", with the mission of preparing the Group for adoption of the advanced approaches right from the coming into force of the New Accord envisaged for the end of 2006. This option enables to benefit from lower capital requirements through a proven and efficient capacity to measure and manage risks.

The adoption of the advanced approaches of "Basel II" therefore represents a strategic opportunity to gain a com-

petitive advantage in terms of lower capital absorbed, while improving the efficiency and the effectiveness of service to our customers.

For 2004 investments are planned to support the first necessary activities, which briefly concern:

- improvement of the risk measurement methodologies and historical databases, especially for credit risks (rating models, Loss Given Default, Exposure at Default) and operational risks;
- updating of the organizational procedures and connected technological supports, with particular reference to credit processes.

For some years now, in order to combine careful assessment and control of credit risks and the delivery of excellent services to companies in terms of transparent and rigorous lending procedures, SANPAOLO IMI has represented one of the Banks in Italy which anticipated, in its risk management procedures, the evolution of supervisory regulation and international best practice.

The risk measurement methods used by the Group and described below appear in fact substantially in line with the framework set out by the Basel proposal.

Financial and market risk management and control

Organization

The main body responsible for the management and control of financial risks is the Board of Directors of the Parent Bank. It defines the criteria and strategic issues concerning market risks, allocates capital on the basis of the expected risk/return profile and approves the operating risk limits for the Parent Bank and the guidelines for the subsidiaries.

The Group Financial and Market Risks Committee ("CRFMG") is responsible for defining risk measurement criteria and methodologies, the structure of the Parent Bank and Business Areas' risks limits and verifying the Group companies' risk profile. The CRFMG consists of the Managing Directors, the heads of the Business Areas and the Risk Management Department.

The Group Treasury Department of the Parent Bank is responsible for the treasury activities, including access to markets and immunization against market risks generated by lending activities of the Domestic Banking Network.

The Risk Management Department, a department of the Parent Bank, is responsible for developing risk monitoring methodologies and proposals regarding the system of operating risks limits for the various lines of business of Sanpaolo IMI and of the Group. The Risk Management Department is also responsible for the measurement of risks existing in the various operating units and for monitoring the Business Areas compliance with the limits laid down by the board of directors and Executive Committee of the Parent Bank.

The individual Business Areas measure internally the financial risks, using a system of limits consistent with the Parent Bank's global design.

Measurement techniques

The financial risk measurement methods used by the Group consist mainly of:

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

VaR modeling is a statistical technique that produces an estimate of the potential loss in a portfolio over a specified holding period which is statistically unlikely to be exceeded more than once during the given holding period. The Group uses a model based on historical volatility and correlations between the individual risks of each currency made up of short and long-term interest rates, exchange rates and equity prices. The Group's model is based on the last 250 trading days, a 10-day holding period and a 99% confidence level.

The Sensitivity Analysis quantifies the change of value in the portfolio following adverse movements of the risk factors. For interest rate risk, adverse movement is defined as a parallel and uniform shift of 100 basis points of the interest rate curve. For the main companies in the banking book, a measure of net interest income at risk is also applied. Net interest income at risk is the potential change in net interest income resulting from a parallel and instantaneous shock of ± 25 basis points in the level of interest rates over the next 12 months. This measurement shows the effect of the changes in interest rates on the portfolio. The measurement excludes assumptions regarding future changes in the assets and liabilities mix, and, therefore, cannot be considered a predictor of the future level of the Group's net interest income.

The Worst Case method establishes a risk measurement ("maximum potential loss"), which represents the worst

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

Financial risks from lending activities

The financial risk generated by the Group's lending activities (Asset and Liability Management) in 2003 was considerably lower than the average level observed last year.

During 2003, the potential loss on the fair value of lending activities, measured using the sensitivity analysis, assuming an increase in rates of 100 basis points, had an average value of 131 million euro (with a minimum and a maximum of 76 and 190 million euro respectively), compared to an average value of 231 million registered in 2002.

Sensitivity Analysis - Lending activities

	2003 (€/mil)	2002 (€/mil)
Average	130.9	230.6
Low	76.3	184.9
High	190.4	278.7
31 December	149.2	251.1

The VaR of the lending activities during 2003 fluctuated around the average value of 78 million euro, amounting to 75 million euro at the end of December.

In 2003, the exchange risk generated by the lending activities was not material.

The sensitivity of the net interest income for companies in the "banking book", - assuming a rise in rates of 25 basis points - amounted at the end of December to 40 million euro (-35 million euro in the case of reduction), corresponding to 1% of the consolidated annual net interest income.

Equity investments in non-Group listed companies

Equity investments held in quoted companies not consolidated line by line or at net equity showed a market

value, at end of the year prices, of 1,674 million euro, 270 million of which held by the subsidiary IMI Investimenti. The market value of equity investments showed, according to prices at the end of December, a net potential capital gain on book value of 197 million euro (after economic adjustments of the value during the quarter).

The VaR related to minority investments in listed companies, recorded during 2003 an average level of 231 million euro, with a minimum of 200 million euro and a maximum of 274 million euro. At the end of 2003 the VaR was 217 million euro; this value is in line with the levels observed at the end of 2002 (226 million euro), since the effect of the increase in the market value of the portfolio was substantially compensated for by the decrease in average volatility of share prices.

Listed investment portfolio VaR

	2003 (€/mil)	2002 (€/mil)
Average	230.9	248.0
Low	199.8	166.3
High	273.5	301.6
31 December	217.1	226.3

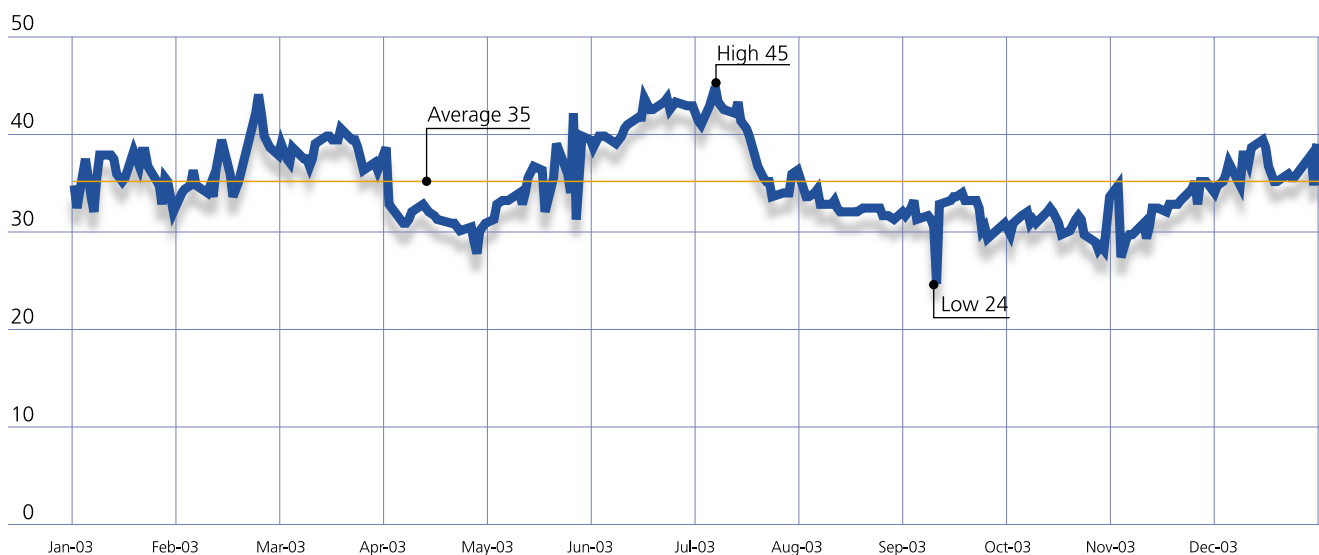
Trading activities

Most of these risks are concentrated in Banca IMI and its subsidiaries and arise from dealing in fixed income securities, equity securities, currency and other derivatives.

The VaR of trading activities registered an average value during the year of 12.1 million euro (against 8.8 million in

VaR of trading activities by type of risk

	2003				2002	
	31 December (€/mil)	Average (€/mil)	Low (€/mil)	High (€/mil)	31 December (€/mil)	Average (€/mil)
Interest rate risk	1.6	3.8	0.2	11.7	8.8	4.1
Exchange rate risk	2.8	0.8	0.0	3.5	0.4	0.5
Share price risk	14.0	11.6	6.1	18.5	9.9	6.9
Diversification effect	-3.5	-4.1	n.s.	n.s.	-4.7	-2.8
Total	14.8	12.0	6.3	18.3	14.4	8.8



Trading activity maximum potential daily loss (€/mil)

2002), oscillating between a minimum of 6.3 million euro and a maximum of 18.3 million euro. At the end of December the VaR was 14.8 million euro, in line with the figure at the end of the previous year (14.4 million).

In addition to VaR, the Worst Case Scenario technique is used to monitor the impact of potential losses that might arise under extreme market conditions. The maximum potential daily loss in 2003 showed an average value of 35 million euro, compared with 33 million last year.

In 2003, backtesting showed the prudent nature of the internal measurement techniques used. Actual daily losses were never higher than the risk measures expressed in terms of maximum potential loss and daily VaR.

Credit risk management and control

Organization

SANPAOLO IMI has established lines of conduct to be followed when taking on credit risk; these rules are to be applied throughout the Group. They provide for approval levels limits defined in terms of total Group credit exposure to a particular counterparty, differentiated principally according to the counterparty's rating (which can be an internal rating or an agency rating). The first level of approval limits applies to each individual Business Area or subsidiary, which in turn defines the approval limits to be delegated to its branches. Transactions in excess of these limits must be submitted to the appropriate body within the Parent Bank, consisting of (according to the increasing level of exposure) the Group Credit Committee (composed of the Managing Directors and the heads of the Credit and Risk Management functions), the Executive Committee and the Board of Directors.

As regards credit risks with financial institutions, the centralized and unitary control is attributed to the Committee for Group Financial and Market Risks, which is also responsible for the approval of exposures to risk countries.

The Risk Management Department is responsible for defining and updating the Group measurement methodologies, with the aim of guaranteeing alignment with best practice, as well as the analysis of the Parent Bank and Group risk profile and the proposal of any corrective measures. The Risk Management Department is also responsible of measuring the exposure to the larger counterparties and of

reporting to the Parent Bank's senior management on the changes in portfolio credit quality and on the use of the economic capital by the Business Areas.

The control structures operating within the individual Business Areas are responsible for measuring and monitoring the portfolio assigned to them.

Measurement techniques

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

With reference to loans to customers, differentiated grading models have been developed according to the operating segment of the counterparty, in terms of economic sector and size. These models make it possible to summarize the credit quality of the counterparty in a measurement, the rating, which reflects the probability of default in a period of one year, calibrated to the average level of the economic cycle. The ratings calculated are also reported, through statistical adjustments, as fully comparable with the classifications of the official rating agencies, within a consistent reference scale. The backtesting analyses carried out periodically, comparing the insolvency forecasts with actual defaults, confirm the reliability of the models used.

As regards the Sanpaolo Network's portfolio (including Sanpaolo Banco di Napoli), made up of households, small business and small- and medium-sized companies, credit quality management is supported by a system which classifies customers into categories, based on assessment by the credit managers, to whom specific management responsibilities are assigned (frequency of credit lines reviews and recovery actions). Lastly, the control of the credit quality uses an early warning system aimed at the anticipated indication of any anomalous situations.

With reference to the banking and financial counterparties, a system has been established to classify the financial institutions in a scale consistent with those used by agencies specialized in ratings. The risk class forms the basic information which, integrated by the facility type and the duration of the transaction, as well as by any collateral and guarantees present, makes it possible to establish the credit limits with each counterparty. In the case of transactions covered by guarantees issued by banks, the credit quality

of the guaranteed counterparty is also taken into consideration when weighting the limit.

Lastly, as regards the country risk, the rating is assigned on the basis of a model which considers the judgment of specialized institutions and agencies, market information and internal assessments.

Besides being a direct instrument for monitoring credit quality, ratings provide a primary element for the credit risk portfolio model, which summarizes the information on asset quality in term of risk indicators, including the expected loss and risk capital.

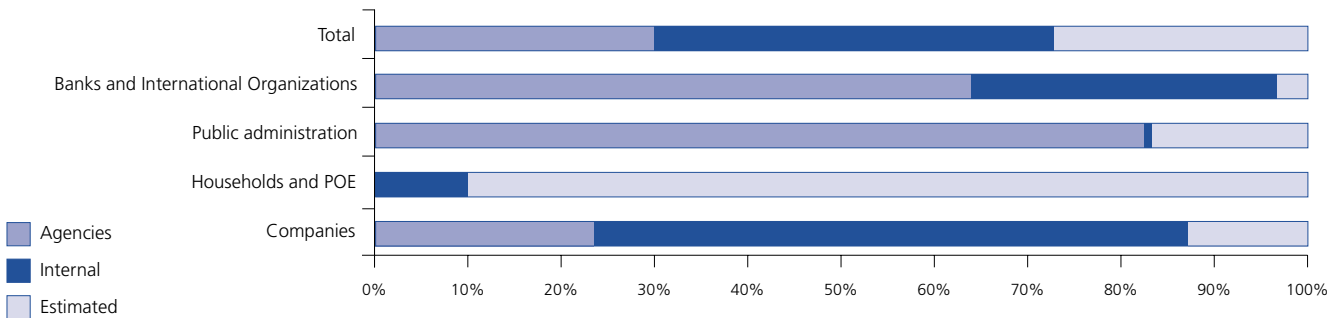
The “expected loss” is the product of probability of default (derived from the rating), exposure at default and loss given default; the latter is measured with reference to an economic, as opposed to accounting, concept of loss com-

prehensive of legal costs, calculated prudently on the recoveries from disputes on a discounted base.

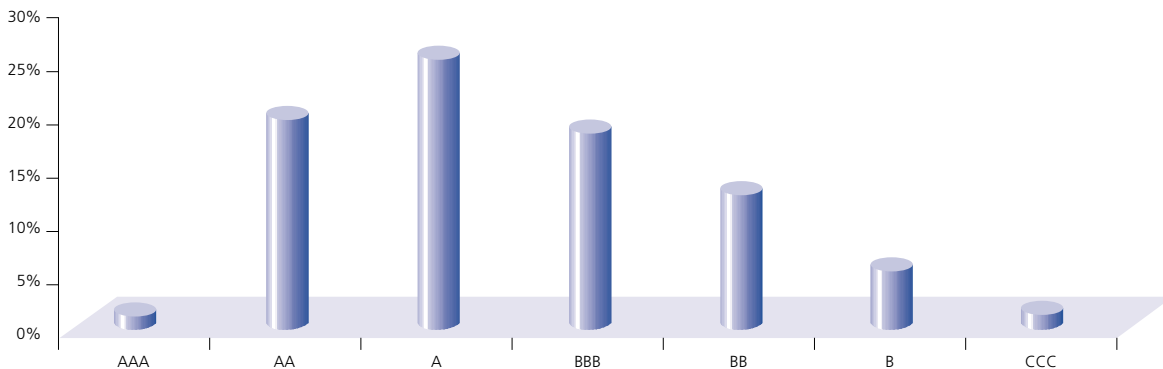
The “expected” loss represents the average of the loss distribution, while the risk capital is defined as the maximum “unexpected” loss which the Group could incur with a confidence level of 99.95%.

Credit risks

All of the on- and off-balance sheet credit exposures are measured here. The analysis is developed on the portfolio of the Parent Bank, Sanpaolo Banco di Napoli, Banca Popolare dell’Adriatico, Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Friulcassa, Banca OPI, Sanpaolo IMI Bank Ireland and Sanpaolo Leasint. Altogether, the credit portfolio analyzed represents more than 90% of the Group’s risk weighted assets.



Drawn down loan portfolio by rating source



Drawn down loan portfolio by level of rating

In terms of exposure, the analytical rating covers 70% of the credit portfolio. The unrated counterparties, to whom a rating estimated on the basis of the average historical default rate has been assigned, are concentrated in the household sector. Analytical ratings coverage for other sectors is just under 90%.

In relation to the combination of analytical ratings, less than half is represented by ratings of specialized agencies, while the majority are internal ratings; the latter are by large the prevailing ones in the corporate sector.

Loans to customers to which an analytical rating has been assigned, which represent the main reference of the credit risk management model, show a high credit quality, with a portion of investment grade loans (from AAA to BBB) equal to about three quarters of the total portfolio.

At the end of the year the expected loss of the portfolio considered accounted for 0.46% of loans. The expected loss measure has been taken into account in establishing the amount of general writedown to cover the inherent risk of the performing loan portfolio. On the same date the economic capital accounted for about 4.50% of loans.

The Sanpaolo Network and Consumer Banking (including Sanpaolo Banco di Napoli) and the former Cardine bank networks represent two thirds of the loans and absorb almost 80% of the capital. On the contrary, for the Foreign Network and Banca OPI, the share of capital absorbed is lower than the outstanding, as these areas are characterized, due to the activity undertaken, by a lower risk profile. In the case of Large Groups and Structured Finance, the high quality of the counterparties is offset by the concen-

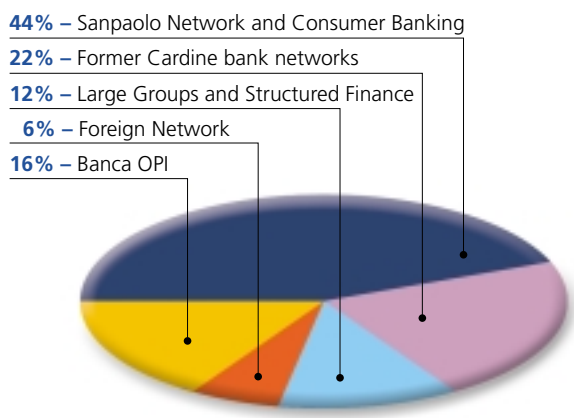
tration risk, therefore the outstanding and the capital absorbed are both just over 10% of the total.

The concentration risk fell during 2003: exposure towards the largest 20 industrial groups decreased by about 900 million euro compared with the end of 2002 and the share on the total portfolio decreased from 11.4% to 10.2%. This led to a recomposition of the portfolio, on the one hand, toward the public sector and infrastructure and, on the other, toward small- and medium-sized companies and households.

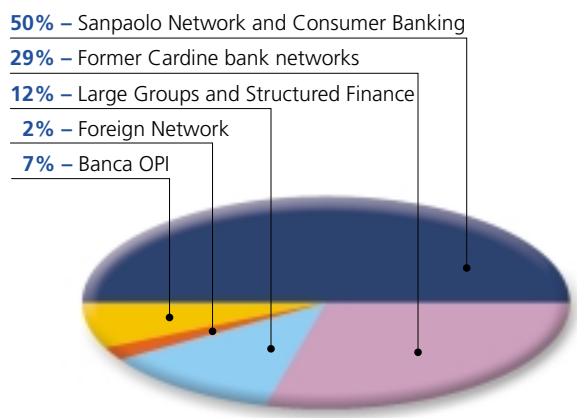
The management and control of other risks

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

Operational risk is defined as the risk of incurring losses as a result of four macro categories of events: fraud, legal risks (including non-performance of contractual obligations), weaknesses in internal control or information systems, and natural calamities. For each category use was made of a database of relevant events occurred in the last ten years and from which it was possible to identify the impact in terms of loss from public information sources. The empirical distributions of losses calculated in this way are estimated by means of distribution theories according to the extreme value theory. The risk capital is defined as the minimum measurement, net of existing insurance policies, needed to face the maximum potential loss with a confidence level of 99.95%; the method also provides for the application of a correction factor to take account of the effectiveness of internal controls in the various operating areas.



Loans and guarantees by Business Area



Capital against credit risk by Business Area

It should be pointed out that this method was developed with the intention to allocate to the Business Areas and to the Group as a whole a quantity of capital adjusted to the potential of these types of events. The controls of operating risks are carried out at process level through the definition of internal rules and procedures, the observance of which is monitored by the Audit Department of the Parent Bank.

The measurement method is evolving, especially with regard to the improvement of statistical calculation engines of the different information sources, both internally and in relation to the banking system, the determination of the economic effect linked with the effectiveness and intensity of internal controls and the development of scenario analyses. Work also continues on the extension of the databases related to operating losses and exposure indicators, both through the continuous updating of the internal databases and through the participation in consortium initiatives with

leading banking groups for shared use of the same: at a national level by helping to set up the DIPO (Database Italiano delle Perdite Operative – Italian Database of Operational Losses) Consortium and at an international level by acting as a founder member of the ORX (Operational Riskdata eXchange association) Consortium.

Business risk (also called strategic risk) is the risk of incurring losses as a result of changes in the macro- or micro-economic scenario which could jeopardize the ability to generate income, typically by reduced operating volumes or margin compression. This is evaluated through the break down of the Business Area assets, on the basis of the respective cost and revenue structures, into fundamental “industrial” business sectors (such as EDP, consulting and distribution). The Business Areas are then allocated a level of capitalization in line with the norm for companies operating in the same type of activity.

Supplementary information

Performance of share prices

At the end of December 2003 SANPAOLO IMI's share price was 10.34 euro, up 66.8% from the beginning of the year,

against an increase of 30.3% in the MIB bancario index. On the same date the SANPAOLO IMI share traded on a price/book value of 1.7 and a price/earnings, calculated on consensus earnings for 2003, of 14.6.

On 24 March 2004 the quoted price was 9.146 euro, down 11.5% since the start of the year.

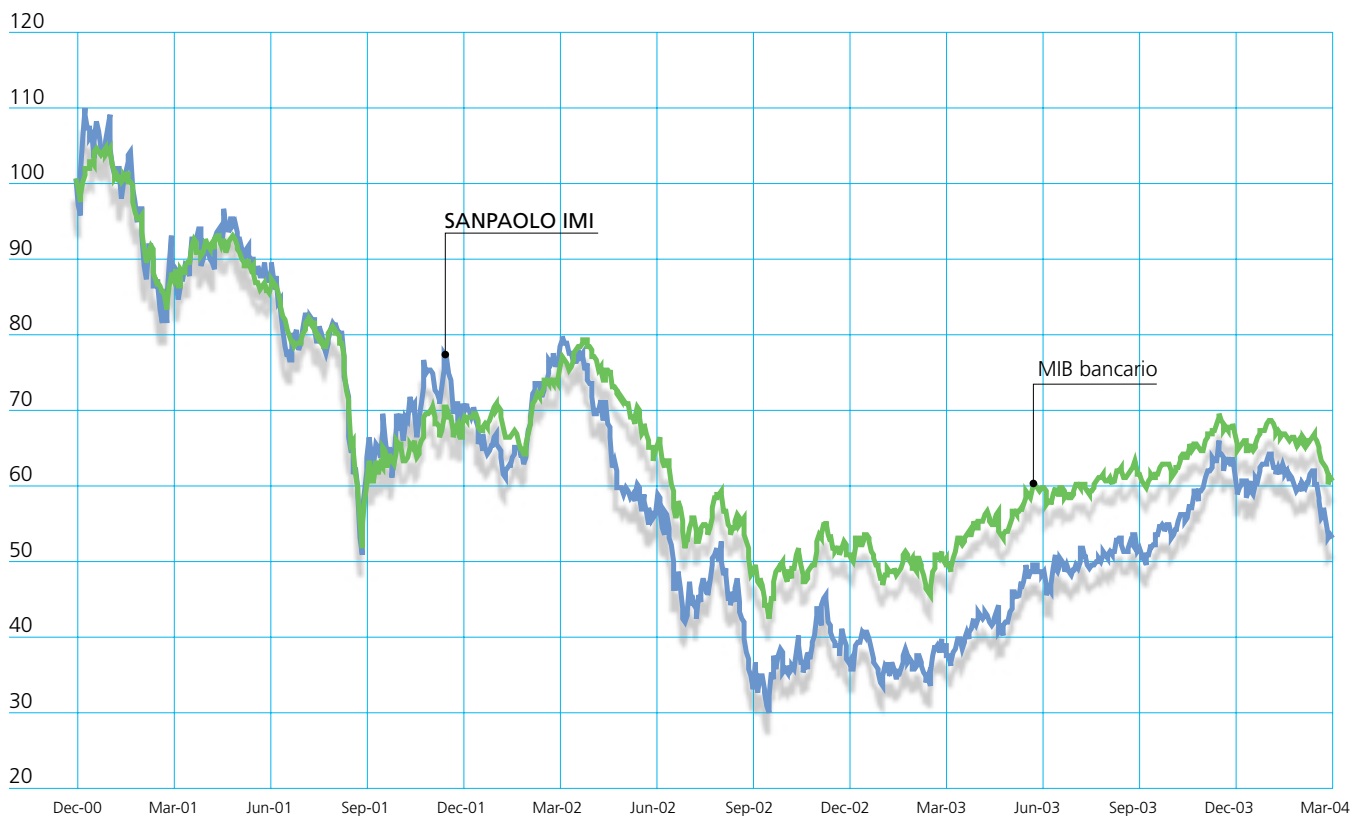
	30/12/2003	30/12/2002
Book value per share (€)	6.00	5.74
	2004E	2005E
Consensus earnings per share (EPS) (€)	0.71	0.86

Market comparison

	24/3/2004	30/12/2003	30/12/2002	Change 30/12/03 - 30/12/02 (%)
SANPAOLO IMI share price (€)	9.146	10.340	6.200	+66.8
Banking index (historical MIB bancario)	2,086	2,251	1,727	+30.3

SANPAOLO IMI share price

Year	High (€)	Low (€)	Average (€)
1995	5.118	4.025	4.577
1996	5.269	4.236	4.766
1997	8.800	4.564	6.275
1998	16.274	8.717	12.429
1999	16.071	10.970	13.192
2000	20.800	11.483	16.612
2001	18.893	8.764	14.375
2002	13.702	5.231	9.439
2003	11.346	5.796	8.158
2004 (up to 24/03/2004)	11.072	9.141	10.373



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

Shareholders

As of 31 December 2003 the shareholder structure of SANPAOLO IMI, based on available information, was as follows:

Shareholders of SANPAOLO IMI

	% of capital	
	total	ordinary
Compagnia di San Paolo	14.48	7.50
Fondazione CR Padova e Rovigo	10.80	4.38
Santander Central Hispano	7.71	9.78
Fondazione CR in Bologna	7.69	3.12
Giovanni Agnelli e C.	3.83	4.86
Deutsche Bank	2.13	2.71
Mediobanca	1.93	2.45
Fondazione Cariplo	1.75	2.21
Caisse des Dépôts et Consignations (CDC)	1.70	2.16
Società Reale Mutua di Assicurazioni	1.53	1.94
Ente CR Firenze	1.53	1.94
Credit Lyonnais	1.50	1.90
Fondazione CR Venezia	1.50	1.90
Other shareholders (1)	41.92	53.15
Total	100.00	100.00

(1) Includes own shares held by the Group.

After 31 December 2003, Santander Central Hispano issued news of the increase of the shareholding in the total share capital of SANPAOLO IMI to 8.6%. At the beginning of March 2004 Deutsche Bank announced its reduction of the share held in the total capital to 2%.

Ratings

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

SANPAOLO IMI debt ratings

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

In October 2003 Moody's officially assigned to Banca IMI the following ratings: Aa3 on medium/long-term debt, P-1

on short-term debt and C+ on financial solidity, all with a stable outlook.

Transactions with related parties

Procedural aspects

The Board of Directors of SANPAOLO IMI, in accordance and compliance with the Consob regulation (Communications dated 20 February 1997 and 27 February 1998 and subsequent integrations), has identified the parties related to the Bank and defined a Group procedure for the deliberation of transactions with such parties, aimed at setting competencies and responsibilities, as well as indicating the informative flows between the structures of the Bank and the Companies directly and indirectly controlled.

To this end, please refer to that described in detail in the "Report on the corporate governance and implementation of the code of conduct for listed companies" reported in an attachment to this document.

As regards transactions with subjects exercising functions of administration, management and control of the Bank, Art. 136 of the D. Lgs. 385/93 (Testo Unico Bancario - Consolidated Banking Law) will be applied. For these subjects (regardless of the fact that they are related counterparties) these transactions were approved unanimously by the Board of Directors, with the favorable vote of all the Statutory Auditors, subject to the obligations provided by the Italian Civil Code regarding the interests of the directors. The same procedure also applies to the parties who carry out the administrative, managerial, and executive duties within a bank or a company belonging to the Group, for actions taken in connection with the company itself or for financing transactions entered into with other companies or banks within the Group. In such cases, the transactions are decided upon by the boards of the contracting company or bank, with the prior consent of the Parent Bank.

Section D of the Explanatory Notes to the Consolidated and Parent Bank Financial Statements reports the loans and guarantees issued to Directors and Auditors of the Parent Bank.

The same section of the Explanatory Notes to the Parent Bank Financial Statements also reports, in accordance with Art. 78 of Consob Resolution 11971/99, the remuneration of the Directors and Auditors of the Parent Bank.

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

Surname and name	Company	How held	Title to shares	Shares held as of 31/12/02	Shares bought during 2003	Shares sold during 2003	Shares held as of 31/12/03
Bussolotto Pio	SANPAOLO IMI	Direct	Full	3,000			3,000
Carmi Alberto	SANPAOLO IMI	Spouse	Full	10,000			10,000
Iozzo Alfonso	SANPAOLO IMI	Direct	Full	7,087			7,087
Masera Rainer	SANPAOLO IMI	Direct Spouse	Full Full	150,000 27,500			150,000 27,500
Matutes Abel	SANPAOLO IMI	Subsidiary	Full	761,517			761,517
Mihalich Iti	SANPAOLO IMI	Direct	Full	8,000		5,000	3,000
Ottolenghi Emilio	SANPAOLO IMI	Direct Subsidiary Spouse	Full Full Full	320,000 4,658,731 4,000			320,000 4,658,731 4,000
Rossi Orazio	SANPAOLO IMI	Direct Spouse	Full Full	52,593 34,000		34,000	52,593 -
Sacchi Morsiani Gian Guido	SANPAOLO IMI	Direct	Full	200,000			200,000
Salza Enrico	SANPAOLO IMI	Direct Spouse	Full Full	500 1,250			500 1,250
Vitali Enrico	SANPAOLO IMI	Direct	Full		642	642	-

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

The shares of the Parent Bank and subsidiaries, held by Administrators and Auditors of the Parent Bank and by others, as provided for by Art. 79 of Consob Resolution 11971/99, are detailed in the table above.

Transactions with related parties

a) Corporate reorganization procedures

During the year the Group has entered into transactions with particularly significant related parties mainly as regards the organizational-business model.

The most significant transactions with related counterparties are listed below, with reference to the structure and the Business Areas into which the group is articulated; some have already been mentioned elsewhere in the Report.

Transactions entered into with reference to Central Functions and Domestic Banking Networks operations:

- as of 1 January 2003, SANPAOLO IMI transferred to Banca OPI the assets which previously belonged to Banco di Napoli in the public works and infrastructure sector at a value of 60 million euro. With this transfer, the share capital of Banca OPI was increased by 50 million euro, while the remaining 10 million euro was destined as the premium of the shares issued;
- on 29 January 2003, the SANPAOLO IMI Group (through Invesp), which already owned a 40.48% shareholding,

perfected its purchase of the share of Eptaconsors held by the Cassa di Risparmio di Firenze group, equivalent to 20.24%, at a cost of 19 million euro. The transaction is part of a more extensive reorganization process which provided for, among other things, the acquisition by Unicredito Italiano of the residual share of Eptafid, a company controlled by Eptaconsors, and its successive merger by incorporation into Sanpaolo Fiduciaria. With regard to this and considering the termination of the operational mission of certain companies subject to organizational restructuring, in December the merger by incorporation into Invesp of Eptaconsors and its subsidiary Eptasim and of RSP S.r.l. was completed according to the simplified procedure. Prior to the effects of the merger, Eptasim sold the on line trading divisions to IW Bank and dealing activities on behalf of third parties to Banca IMI;

- on 2 April 2003, the sale of the Bologna branch of the former Banco di Napoli Network to Cassa di Risparmio di Firenze was completed at a price of 11 million euro, corresponding to a valuation that also considers the goodwill linked with the ordinary customer deposits portfolio (direct and indirect);
- on 10 April the deed setting up Sanpaolo Banco di Napoli was signed, with an initial share capital of 6.3 million euro. The company is the beneficiary (in the third quarter of 2003) of the conferral of the company branch represented by the Southern Territorial Direction of the Parent Bank, subject to valuations by independent

experts, taking the capital endowment to 1.2 billion euro. To support the transaction technically, at the end of June, reciprocal interbank deposits at market conditions were made with Banca Fideuram, Banca OPI and IMI Bank Luxembourg, and were successively extinguished at the beginning of July;

- the merger by incorporation of Banca Agricola di Cerea into Cassa di Risparmio di Padova e Rovigo was completed on 1 June. The merger took place without share issues, since the incorporating company and the company to be incorporated were held by the single shareholder Cardine Finanziaria;
- on 30 June, SANPAOLO IMI joined the CDC Ixis capital increase for 5.1 million euro. With reference to the strategic alliance with the Eulia Group, in the context of a wider partnership which also involves the Caisse des Dépôts et Consignations (CDC) Group, see that described in the section Action points of this Report;
- on 11 September – effective on 1 October – the other tax collection subsidiaries, Ge.Ri.Co., Sanpaolo Riscossioni Genova and Sanpaolo Riscossioni Prato, underwent the merger by incorporation into Esaban. In December the stake in Esatri (31.5% of the capital held directly by the Parent Bank), for a book value of 4.2 million euro was transferred through a capital increase to the incorporating company, which took the name GEST Line;
- on 11 November 2003 the Board of Directors authorized the takeover by the Parent Bank (which already held about 69%) of 31% of the capital held by the Luxembourg subsidiary Sanpaolo IMI International S.A. in Sanpaolo IMI Bank (International) S.A. of Madeira. The stake was transferred on 16 January 2004 for a price of 56 million euro, corresponding to the equity pro quota as of 30 September 2003. This price was considered as the “normal value” for the transaction, taking into account its income structure and the instrumental nature of the company, since Sanpaolo IMI Bank (International) S.A. of Madeira is a funding vehicle at the exclusive service of the Group companies;
- in the same month of November the merger between Cassa di Risparmio di Udine e Pordenone and Cassa di Risparmio di Gorizia was effected, with the establishment of a regional bank named Friulcassa Cassa di Risparmio Regionale (becoming legally effective from 1 December 2003 and effective for accounting and tax purposes from 1 January 2003);
- in December 2003, according to the guidelines of the plan for rationalization and reallocation of minority investments among Group companies approved by the Board of Directors on 14 January 2003, FIN.OPI took

over from IMI Investimenti the 3% share held in AEM Torino, for a price of 18 million euro, determined on the basis of the average market price of the AEM share of the previous month;

- in the same month of December, Cardine Finanziaria underwent the merger by incorporation into SANPAOLO IMI. The transaction was realized through cancellation of all the shares of the incorporated company, without the issue and/or assignment of shares and without definition of the exchange ratio;
- in the same month of December, the conferral to the subsidiary CSP Investimenti of the company branch comprising the properties not functional to the activities of the bank was completed, at a value – subject to appraisal – of 200 million euro, booking a capital gain in the SANPAOLO IMI S.p.A. financial statements of 51 million euro.

Transactions entered into in the context of the operations of Personal Financial Services:

- effective as of 1 July, the integration of Banca Sanpaolo Invest (SPI) into Banca Fideuram (BF), realized through the partial split in favor of the holding company BF of the entire banking SPI banking branch, was completed. The following mergers by incorporation were also completed: Fideuram Gestioni Patrimoniali SIM into Fideuram Fondi, taking the new name Fideuram Investimenti SGR, and the merger by incorporation into Banca Fideuram of the subsidiary Fideuram Capital SIM, held in its entirety, following the sale by the latter to Fideuram Fondi of the investment management advisory activity;
- upon completion of the authorization process, in March 2004 Fideuram Vita purchased from Banca Fideuram the entire investment in Fideuram Assicurazioni for an outlay of 20 million euro.

Transactions entered into in the context of transactions in Wealth Management and Financial Markets:

- on 14 April 2003, Sanpaolo IMI Private Equity – in its capacity as sponsor – subscribed class A shares in the “Fondo di Promozione del Capitale di Rischio per il Mezzogiorno” (Risk capital fund for Southern Italy) managed by NHS Mezzogiorno SGR, for a value of 42.5 million euro, at the same conditions reserved for all subscribers;
- on 11 June a new agreement was subscribed between Sanpaolo Vita and Reale Mutua Assicurazioni concerning the Egida subsidiary (held in equal stakes). The new contract envisages in particular:
 - the strengthening of the “governance” positions of Sanpaolo Vita;

- the extension of the duration of the cooperation (not exclusive) between Sanpaolo Vita and Reale Mutua Assicurazioni in the damages branch;
- the replacement of SANPAOLO IMI by Sanpaolo Vita in the ownership of the call option on the 50% stake of Egida owned by Reale Mutua, the value of which will be established by an independent expert on the basis of the net equity and goodwill values.

A specific fairness opinion has been acquired from an independent advisor with regard to the terms;

- on 20 June, Sanpaolo IMI Private Equity purchased from NHS Luxembourg the 10% stake held in Convergenza SCA at the price of 7.8 million euro, using appraisal valuations;
- on 25 July, Sanpaolo IMI Private Equity purchased the shares of the Eptasviluppo and Cardine Impresa funds in the SANPAOLO IMI portfolio at a total price of 30 million euro, an evaluation determined on the basis of the results of the appraisal report prepared by the expert appointed by the Chief Justice of the Turin Court;
- effective as of 1 September 2003, the merger by incorporation of Banco di Napoli Asset Management SGR (BNAM) into Sanpaolo IMI Asset Management SGR (SPIAM), was completed, taking advantage of the simplified process provided for by the Italian Civil Code. Prior to this transaction, during 2002, the former Banco di Napoli had conferred 100% of BNAM to Sanpaolo IMI Wealth Management, which controlled 100% of SPIAM;
- on 21 October 2003, Universo Servizi was set up, of which 99% of the 18 million euro capital is managed by Sanpaolo Vita – which subscribed its share through the conferral of a business branch – and 1% is managed by Sanpaolo Wealth Management;
- on 16 December, the Board of Directors of the Bank authorized the drawing up of an agreement – signed in February 2004 – for the coinsurance sale by Sanpaolo Vita to Reale Mutua Assicurazioni of a certain amount of premiums on the new annual production, the maximum amount of which was estimated at 85 million euro. The economic conditions are in line with those usually practiced on the market.

Transactions entered into in the context of the operations of International Activities:

- on 4 April the 32.51% share in Inter-Europa Bank held by the Parent Bank was transferred to Sanpaolo IMI Internazionale for a value of 17 million euro corresponding to the appraisal valuation;
- in the second half of the year the transfer from the Parent Bank to Sanpaolo IMI of the shareholdings in

Kredyt Bank S.A. (20 million euro) and Biat S.A. (8 million euro) was also completed.

b) Transactions of atypical and/or unusual nature

In accordance with that established by the regulations in force, no transactions of “atypical or unusual nature” were carried out during 2003, the relevance/importance of which might give rise to doubts with regard to the safety of the shareholder’s equity and the protection of minority shareholders, neither with related parties nor with subjects other than related parties.

c) Transactions of ordinary or recurrent nature

The transactions entered into with related parties of atypical or usual nature (under standard conditions) lie within the scope of the normal operations of the Group and are usually entered into under market conditions, on the basis of valuations made for mutual economic convenience, also in observance of the internal procedures mentioned above.

Receivable and payable balances at the end of the year in the consolidated accounts with related parties amount to a total which is not relevant to the entity of the Group’s portfolio. They refer mainly to transactions with affiliated companies and subsidiaries not consolidated line by line, while balances with other related parties are marginal.

Similarly, the influence of income and charges with related parties on the consolidated operating income is not relevant. In particular, commission income from the placement of the Group’s insurance products, included under the relevant caption of the consolidated statement of income for 254 million euro, is largely offset by the results of the Group’s insurance companies, counterparties of these economic flows, valued using the equity method.

• Transactions with Group companies

As far as transactions with Group companies other than those mentioned above are concerned, reciprocal relationships between the main company groups into which the SANPAOLO IMI banking Group is divided can be attributed to the ordinary internal operations of a multifunctional banking organization, and principally concern:

- support by SANPAOLO IMI for the financial needs of the other Group companies, both in the form of loans and in the form of subscription of securities issued by the subsidiaries;

- the channeling of foreign funding made by the Group's specialist companies (Sanpaolo IMI US Financial Co., Sanpaolo IMI Bank International S.A., Sanpaolo IMI Capital Company I L.L.c.) towards the Parent Bank and, to a lesser degree, towards other subsidiaries;
- the lending transactions of the liquidity of subsidiaries with the Parent Bank;
- optimization of the Group's tax position using the procedure of "transfer of IRPEG (Corporate Income Tax) credit between Group companies" provided for by tax regulations. In fact, during 2003 sales were completed for a total of 248 million euro.

To this end it should be noted that transactions with Group companies are largely regulated at the conditions under which the Parent Bank accesses the reference markets, which are not necessarily the same as those which would be applicable if the counterpart companies were to operate independently. In any case these conditions are applied in observance of substantial correctness and always in pursuit of the aim to create value for the Group.

The analytical list of assets, liabilities, guarantees, income and charges of SANPAOLO IMI with Group companies and subsidiaries subject to significant influence as of 31 December 2003, are presented in detail in the Explanatory Notes to the Parent Bank Financial Statements (Part B – Section 3).

Information related to financial balances existing with the subsidiaries not consolidated on a line by line basis, as well as with affiliated companies subject to significant influence, are reported in the Explanatory Notes to the Consolidated Financial Statements (Part B – Section 3).

• *Transactions with important Shareholders*

As regards transactions with important shareholders and subjects related to latter (in accordance with the Consob regulation) – in addition to that already mentioned in this Report with reference to the strategic alliance with the Eulia Group, in the context of a wider partnership which also involves the Caisse des Dépôts et Consignations (CDC) Group – relations between the principal company groups into which the SANPAOLO IMI banking Group and important shareholders are divided can be attributed to the ordinary internal operations of a multifunctional banking organization, and are entered into at the same market conditions practiced with other non-related counterparties with the same creditworthiness.

• *Transactions with Representatives*

As regards transactions with representatives and subjects linked with them (in accordance with the Consob regulation), relations between the principal company groups into which the SANPAOLO IMI banking Group and company representatives are divided can be attributed to the ordinary internal operations of the Group and are entered into at market conditions, applying special conditions for employees and/or co-workers and, in the case of legal entities, for other non-related counterparties with the same creditworthiness.

Offices held by Directors in other companies

In accordance with the recommendations of the Code of Conduct for Listed Companies issued by Borsa Italiana, Section D of the Explanatory Notes to the Parent Bank financial statements reports the list of the offices of Director or Auditor held by the Directors of SANPAOLO IMI in other companies listed in regulated markets (also foreign), in financial, banking, insurance and other significant-sized companies.

Stock incentive plans

The Shareholders' Meeting, held on 31 July 1998, authorized the Board of Directors to make stock incentive (stock option) plans in favor of Group executives, resorting to increases in capital against payment up to a maximum amount subsequently established as 40 million euro, corresponding to 14,285,714 shares.

On the strength of this power of attorney, the Board of Directors:

- in the meeting held on 9 February 1999, presented a first plan, assigning to the Managing Directors, inasmuch as General Managers, and to other 56 executives, a total of 6,772,000 rights exercisable for one third as of 2000, for one third as of 2001 and for the remaining third as of 2002 and no later than 31 March 2003 (extended to 31 March 2004 with resolution of the Board of Directors of 30 July 2002), at a subscription price of 12.396 euro per share;
- in the meeting of 27 June 2000, it presented a second plan, assigned to the Managing Directors, inasmuch as General Managers, and to 122 other executives, 3,378,270 rights exercisable as of 2003 and no later than 31 March 2005, at a subscription price of 16.45573 euro per share;

- on 18 December 2001, it approved a third stock option plan, assigning to 171 Group executives, of which about 40 employees of subsidiaries, 4,030,000 rights exercisable after the issue of the dividend for 2003 and no later than 31 March 2006, at a price of 12.7229 euro.

The Shareholders' Meeting, held on 30 April 2002, conferred a new power of attorney to the Board of Directors to make stock incentive plans in favor of Group executives, resorting to increases in capital against payment up to a maximum amount of 51,440,648 euro, corresponding to 18,371,660 shares.

On the strength of this power of attorney the Board of Directors, on 17 December 2002, presented a new stock option plan, assigning to 291 Group executives, of which about 77 employees of subsidiaries, in relation to the office held, 8,280,000 rights (of which 5,455,000 fixed and 2,825,000 with effective exercise subordinated to the achievement of the Group's RoE and cost income targets for 2003), which can be exercised at a price of 7.1264 euro

per share on detachment of the dividend relating to the year 2004 and not after 31 March 2007.

Furthermore, the Board of Directors, on 14 May 2002, presented a stock option plan for the Chairman and the Managing Directors, for the 2001-2003 three-year period, on the basis of the power of attorney approved by the Ordinary meeting of 30 April 2002 to use own shares at the service of the same plan.

The plan provides for the assignment of 2,200,000 total rights (own shares) of which 1,650,000 fixed plus another 550,000 with effective exercise subordinated to the achievement of an average share price of 20 euro (in the thirty days before the Meeting to approve the 2003 financial statements). The purchase price is 12,6244 euro. The period of exercise of the rights is forecast for the end of the 2001/2003 three-year period, after the issue of the dividend for 2003 and before approval by the Board of Directors of the 2005 financial statements and no later than 31 March 2006.

Development of stock option plans in 2003

	Number of shares	Average exercise price (€)	Market price (€)
(1) Rights existing as of 1/1/2003	18,514,104	10.9061	6.200 (a)
(2) Rights already assigned in 2002 plan (b)	2,825,000	7.1264	-
(3) Rights exercised in 2003	-	-	-
(4) Rights lapsed in 2003 (c)	-220,000	12.8934	-
(5) Rights existing as of 31/12/2003	21,119,104	10.0333	10.340 (d)
(6) Of which: exercisable as of 31/12/2003 (e)	-	-	-

(a) Reference market price as of 30/12/2002.

(b) These rights were already assigned in the plan for 2002 with exercise subject to achieving the RoE and Cost/Income targets for 2003.

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

(d) Reference market price as of 30/12/2003.

(e) The exercise of rights is admitted within specific periods of time, which did not include 31 December 2003. On this date 4,305,834 rights at a price of 12.396 euro each had already become eligible for exercise, the expiry being set for March 2004, and further 3,093,270 rights, at a price of 16.45573 euro, the expiry being set for March 2005.

Detail of rights by exercise price and residual maturity

Exercise price (€)	Rights assigned as of 31/12/2003				Total	of which: exercisable as of 31/12/2003	
	Minimum remaining contractual validity					Total	Average residual contractual maturity
	February 2003 - March 2004 (a)	May 2003 - March 2005	May 2004 - March 2006	May 2005 - March 2007			
12.396	4,305,834	-	-	-	4,305,834	-	-
16.45573	-	3,093,270	-	-	3,093,270	-	-
12.7229	-	-	3,860,000	-	3,860,000	-	-
12.6244	-	-	1,650,000	-	1,650,000	-	-
7.1264	-	-	-	8,210,000	8,210,000	-	-
Total	4,305,834	3,093,270	5,510,000	8,210,000	21,119,104	-	-

(a) The Board of Directors has postponed the deadline for exercising the 1999 plan from March 2003 to March 2004.

In 2002 the Board of Directors approved the first stock granting operation of SANPAOLO IMI shares to all Parent Bank personnel in service on 27 June 2002. The initiative, application for which was voluntary, was connected with the 2001 company production premium issued in May 2002.

Lastly, the Board of Directors on 4 March 2003 approved a second plan for the stock granting operation to Parent Bank personnel (considered in the company configuration at that time) with voluntary application, for a cost graduated in relation to the individual level of remuneration, providing for a connection with the 2002 company production premium issued in 2003. The assignment of these free shares (unavailable for three years) involved 14,090 employees, 51.3% of those entitled. On the basis of the regulations of this initiative, personnel in service on 27 June 2003 received 2,344,522 shares with a reference cost per unit of 8.1271 euro (calculated according to the current tax standards) for a commitment of 19 million euro.

In greater detail, Banca Fideuram approved stock incentive plans in 2002 and 2003 in favor of the Fideuram and Sanpaolo Invest networks. More details can be found in the company's financial statements.

Transition to IAS/IFRS international accounting policies

In relation to EC Regulation 1606/2002, which, as of 2005, obliges listed companies of the member states to prepare the consolidated financial statements applying the international accounting policies issued by the IASB (International Accounting Standard Board) and approved by the European Commission, in December 2002 the SANPAOLO IMI Group launched a project with the aim of planning and realizing the operations necessary to cope in an adequate manner with the transition to the new regulatory framework.

In the context of the project, the Parent Bank took on a role of directing and controlling the activities entered into by the Group companies which, on the one hand, involved the definition, at the end of 2003, of "Group Guidelines"

aimed at supplying methodological and operational support to subsidiaries for the planning of adaptation processes and, on the other, provides for constant monitoring of the progress of the operations underway with subsidiaries.

The project is mainly split into two areas of activity:

- study and analysis of the new international accounting policies and the main problems caused by their introduction. This activity, which involves a high number of resources (about 120 specialists within the Parent Bank and the main subsidiaries and split into 15 work teams) has enabled the production of the first IAS compliant version of the "Group Accounting Policies Handbook", which represents the univocal point of reference for the Parent Bank and all the subsidiaries for the preparation of financial statements using consistent Group policies;
- organization and IT operations, performed separately within the different Group areas on the basis of the above mentioned "guidelines".

In particular, the Parent Bank's activities are divided as follows:

- operations on IT systems, already started and to be completed during 2004;
- organizational operations regarding administration, valuation and accounting processes, forecast for the second half of 2004;
- training operations, programmed during 2004, with the aim of spreading knowledge of the new regulatory framework to the Parent Bank and all the subsidiaries through special courses and meetings with different levels of specialization and detail.

A valuation of the impacts of the introduction of the new accounting policies on the Group's income and equity configuration can only be made in the context of the above mentioned project during 2004, as soon as the new and final reference regulatory framework has been established. At the moment the European Commission has still not approved the accounting policies on the matter of registration and valuation of financial products and of hedging transactions, key rules for the financial statements of banking businesses.

Group Business Areas

Organization by Business Areas

In 2003, the SANPAOLO IMI Group operated through a structure organized by Business Areas in the following Business Sectors:

- Domestic Banking Networks
- Personal Financial Services
- Wealth Management and Financial Markets
- International Activities
- Central Functions.

The following tables show the data of the statement of income, the operating structure and the profitability ratios. There are two types of report: that referring to Business Sectors (“Reportable Segments”), with data expressing the contribution to the Group income, and that referring to Business Areas (“Business Segments”), where the data is expressed, in the case of business carried out by companies, before the posting of consolidation, reporting the contribution to Group income as additional information.

Where necessary, the figures used to evaluate the performance compared with the previous year have been consistently reconstructed, assuming that this organizational model was launched as of 1/1/2002. The data published in the 2002 financial statements is also provided for information purposes.

Criteria for calculating the profitability of Business Sectors and Business Areas

The statement of income of the Business Sectors is the result of the statements of income of its Business Areas. The latter have been prepared as follows:

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, consolidation of the accounts of the Parent Bank attributable to the relevant Area has been effected with the income statement line items of the subsidiary companies. In particular, the attribution to individual Areas of Parent Bank line items is made on the basis of the following principles:
 - the net interest income has been calculated using appropriate internal transfer rates;
 - in addition to commissions in effect, notional commissions for services rendered by one Area to another have also been quantified;

- the direct costs of each Area have been calculated and, according to parameters, costs of the central structures other than those attributable to holding company functions, have been allocated to the Areas. It should be noted that, for IT services, allocation was made on the basis of services performed at standard prices, allocating to head office the difference between costs effectively sustained and costs allocated. This methodological choice is aimed at making the central structures responsible for the recovery of efficiency and will be extended during 2004 to all bodies providing services to operating business units;
- for those Areas whose business is carried out wholly by subsidiaries, the income statements of the companies are reported; their contribution to consolidated net income is also shown, net of minority interest and after the posting of consolidation attributable to the Area.

As with the statement of income, the capital of the Business Sectors is the result of adding up the capitals of the respective Business Areas. The capital has also been attributed to each Area according to the following criteria:

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, consolidation of the average economic capital of the Parent Bank with that of the subsidiaries has been effected. The capital is measured according to VaR, distinguishing among the different types of risk: credit risk, market risks and operational risks;
- for those Areas whose business is carried out exclusively by subsidiaries, reference is made to the average accounting net shareholders’ equity (including income for the year).

In allocating capital to the Areas of the Parent Bank, the risks have been wholly covered with primary capital.

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

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

(including income for the year), consistently with the principles adopted for the Group.

Results of the Business Sectors

The **Domestic Banking Networks**, which constitute the Group's core business, comprise: the Sanpaolo Network, which is widespread in North Western Italy and, through Sanpaolo Banco di Napoli, in the mainland South; the former Cardine bank networks, rooted in the North East. The networks, dedicated to the service of retail and private customers and companies, present an optimal coverage of the Italian territory through more than 3,000 banking branches and integrated multi-channel infrastructures. The banking networks are flanked by specialist units to serve domestic clients: Banca OPI, which provides consultancy and medium- and long-term financing to public bodies and infrastructure, tax collection activities, as well as, within the Sanpaolo Network and Consumer Banking, companies operating in private banking, consumer credit and leasing. This sector also includes the Other Italian Networks, which handles the Group's shareholdings in Cassa di Risparmio di Firenze, in Cassa dei Risparmi di Forlì and in Banca delle Marche, as well as Large Groups and Structured Finance.

The Domestic Banking Networks manage most of the volumes handled by the Group, accounting for almost 96% of net interest income. Owing to the defense of spread and the positive contribution generated by the evolution of the assets of deposits and loans, this income margin showed a growth of 3.3% in 2003.

The favorable trend of all the components of revenue was reflected in a 6% increase in the sector's net interest and other banking income compared with 2002 pro forma. This income margin represents 81% of the Group value. A relevant share of customer financial assets and transactions in securities, exchanges and derivatives can in fact be attributed to this sector.

The trend of operating costs, which fell in real terms, allowed an 11.6% increase in operating income. Personnel costs form a relevant component of the costs of the Domestic Banking Networks, which employ 33,314 resources, corresponding to 77% of the Group's total staff.

The considerable increase in provisions and net adjustments to loans influenced net income, which reached 973

million euro, showing a growth of 15.8% compared with the previous year, higher than that of the capital allocated to the sector. This enabled improvement in the profitability of the Domestic Banking Networks which reached 12.7%, compared with 11.4% in 2002. The sector absorbed 71% of the Group capital.

Personal Financial Services manage the activities carried out by the networks of financial planners of the Banca Fideuram group to serve customers with a medium/high savings potential. The staff operating in this sector includes 4,543 financial planners and 1,871 employees. The contribution to the Group's net income was 132 million euro compared with 111 million in 2002.

The sector contributed 14% to the Group's net income and absorbed 7% of the capital.

Transactions benefited from a better level and mix of net asset management flow than expected. The economic results were obtained through the realization of revenues just below those of the previous year, against a reduction in costs and provisions. RoE rose to 17.9% from 14.1% in 2002.

Wealth Management and Financial Markets include: the Sanpaolo IMI Wealth Management companies, dedicated to providing asset management products to the Group networks and associated networks, as well as institutional investors and other networks; Eptafund, operating mainly in asset management; Banca IMI, the Group's investment bank, whose business priorities concern, on the one side, the supply of specialist services to companies and institutional customers and, on the other, the development of structured products distributed to retail customers and companies through the Group's networks; Sanpaolo IMI Private Equity, in which the private equity activities of the Group have been concentrated.

Wealth Management and Financial Markets contributed 22% of the consolidated net income for 2003, absorbing 12.5% of the capital. The sector, which obtains considerable synergies from the placement of its products through the Group's banking networks, which are widespread throughout the country, was characterized by high profitability levels, which rose to 15.7% during the year, from 12.9% in 2002.

The contribution to consolidated net income was 214 million euro, up compared with the 158 million of the previ-

ous year, thanks to the expansion of revenues against a substantial stability of the cost structure.

International Activities is made up of the Parent Bank's Foreign Network, limited to corporate lending, and Sanpaolo IMI Internazionale, established to develop and supervise the Group's activities in geographical areas and foreign countries of strategic interest.

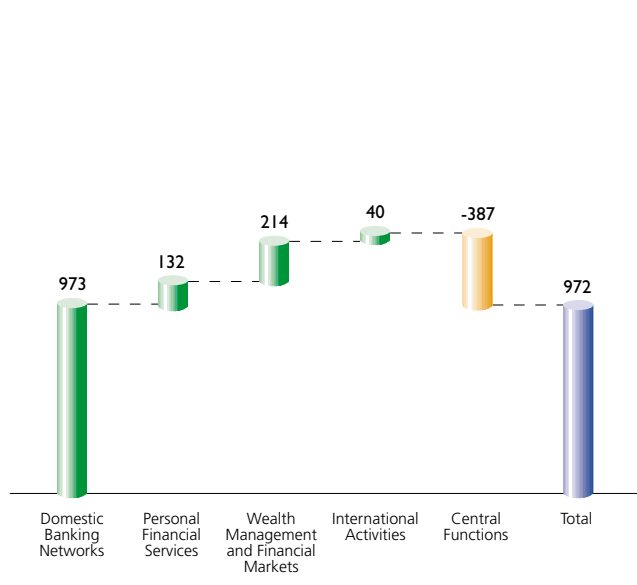
International Activities operated in 2003 through a network of 116 branches and representative offices, employing 1,689 resources.

Thus following the exit of Banque Sanpaolo, the sector's contribution to Group income was 4%, with just 3% absorption of capital.

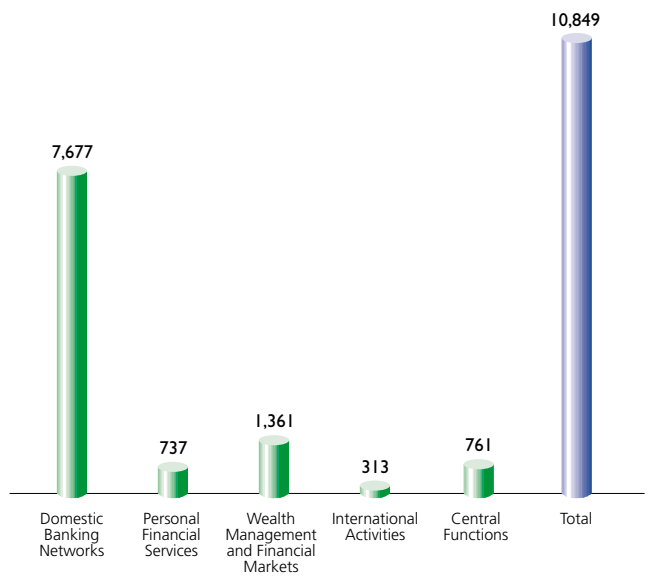
The reduction of net interest income and the increase in operating costs prevailed over the positive trend of non financial revenues, causing the sector's operating income to fall by 5.7%. The contribution to net income was 40 million euro, higher than the value registered in 2002, discounting the booking of consistent adjustments to loans. The profitability ratio was 12.8% compared with the previous year's 4.7%.

Central Functions includes holding activities, including the former Cardine Finanziaria, finance, the Macchina Operativa Integrata and the management of property, shareholding investments and Group lending policy. Consequently, all the activities for the direction, support, management and control of the Group's other Business Sectors as well as the inter-sector posting are positioned in this sector.

The income results reflect the transversal nature of these Functions, which sustain costs using a centralized system and on behalf of other Group companies, only partially allocating them to the operating units. This decision answers the need to safeguard cost control by central bodies, which have the facilities to govern costs and tangibly monitor the pursuit of "objective" efficiency levels declared in the internal integration processes. Central Functions registered a loss of 387 million euro in 2003, largely attributable to the share of costs not allocated to operating functions and also to the amortization of goodwill consequent upon equity investments made at holding level and not attributable to operating Business Areas. The writeback of the shareholding in Santander Central Hispano (SCH), the capital gains on the disposals of the equity portfolio and the extraordinary charges for personnel were also allocated to Central Functions in 2003.



Net income 2003 by Business Sectors (€/mil)



Allocated capital 2003 by Business Sectors (€/mil)

2003

	Domestic Banking Networks	Personal Financial Services	Wealth Management and Financial Markets	International Activities	Central Functions	Group total
STATEMENT OF INCOME (€/mil)						
Net interest income	3,557	51	5	102	1	3,716
Net commissions and other net dealing revenues	2,299	479	231	61	-34	3,036
Profits and losses from financial transactions and dividends on shares	127	26	222	10	62	447
Profits from companies carried at equity and dividends from shareholdings	50	37	103	-	93	283
Net interest and other banking income	6,033	593	561	173	122	7,482
Administrative costs	-3,687	-321	-256	-82	-264	-4,610
- <i>personnel</i>	-2,161	-148	-121	-43	-368	-2,841
- <i>other administrative costs</i>	-1,449	-150	-133	-37	257	-1,512
- <i>indirect duties and taxes</i>	-77	-23	-2	-2	-153	-257
Other operating income, net	200	24	19	1	85	329
Adjustments to tangible and intangible fixed assets	-65	-42	-23	-10	-344	-484
Operating income	2,481	254	301	82	-401	2,717
Adjustments to goodwill and merger and consolidation differences	-	-2	-16	-	-140	-158
Provisions and net adjustments to loans and financial fixed assets	-812	-33	-16	-18	20	-859
- <i>provisions for risks and charges</i>	-112	-31	-8	-3	-41	-195
- <i>net adjustments to loans and provisions for guarantees and commitments</i>	-697	-2	-1	-11	-13	-724
- <i>net adjustments to financial fixed assets</i>	-3	-	-7	-4	74	60
Income before extraordinary items	1,669	219	269	64	-521	1,700
Net extraordinary income/expense	51	-6	1	-2	-76	-32
Income before taxes	1,720	213	270	62	-597	1,668
Income taxes for the period	-735	-34	-54	-21	187	-657
Change in reserve for general banking risks	12	-	-2	-	-1	9
Income attributable to minority interests	-24	-47	-	-1	24	-48
Net income	973	132	214	40	-387	972
AVERAGE ALLOCATED CAPITAL (€/mil)	7,677	737	1,361	313	761	10,849
RATIOS (%)						
Profitability (RoE, RORAC)	12.7	17.9	15.7	12.8	n.s.	9.0
Cost / Income ratio	59.0	55.1	47.8	51.7	n.s.	61.9

31/12/2003

OPERATING STRUCTURE

Employees	33,314	1,871	1,149	1,689	5,442	43,465
Financial planners	132	4,543	-	-	-	4,675
Domestic branches	3,080	88	-	-	-	3,168
Foreign branches and representative offices	1	4	1	116	-	122

2002 pro forma

	Domestic Banking Networks	Personal Financial Services (1)	Wealth Management and Financial Markets	International Activities	Central Functions	Group total
STATEMENT OF INCOME (€/mil)						
Net interest income	3,444	70	8	109	22	3,653
Net commissions and other net dealing revenues	2,140	486	182	55	-68	2,795
Profits and losses from financial transactions and dividends on shares	81	-9	178	6	48	304
Profits from companies carried at equity and dividends from shareholdings	29	50	106	-	129	314
Net interest and other banking income	5,694	597	474	170	131	7,066
Administrative costs	-3,611	-330	-254	-76	-307	-4,578
- <i>personnel</i>	-2,138	-141	-114	-42	-379	-2,814
- <i>other administrative costs</i>	-1,402	-165	-138	-32	229	-1,508
- <i>indirect duties and taxes</i>	-71	-24	-2	-2	-157	-256
Other operating income, net	202	25	20	3	104	354
Adjustments to tangible and intangible fixed assets	-61	-40	-29	-10	-368	-508
Operating income	2,224	252	211	87	-440	2,334
Adjustments to goodwill and merger and consolidation differences	-	-51	-8	-	-159	-218
Provisions and net adjustments to loans and financial fixed assets	-585	-68	-32	-62	-665	-1,412
- <i>provisions for risks and charges</i>	-113	-66	-5	-4	-73	-261
- <i>net adjustments to loans and provisions for guarantees and commitments</i>	-471	-2	-4	-56	-57	-590
- <i>net adjustments to financial fixed assets</i>	-1	-	-23	-2	-535	-561
Income before extraordinary items	1,639	133	171	25	-1,264	704
Net extraordinary income/expense	-17	15	10	10	302	320
Income before taxes	1,622	148	181	35	-962	1,024
Income taxes for the period	-742	-13	-18	-19	349	-443
Change in reserve for general banking risks	-7	15	-2	-1	358	363
Income attributable to minority interests	-33	-39	-3	2	30	-43
Net income	840	111	158	17	-225	901
AVERAGE ALLOCATED CAPITAL (€/mil)	7,338	786	1,222	365	1,135	10,846
RATIOS (%)						
Profitability (RoE, RORAC)	11.4	14.1	12.9	4.7	n.s.	8.3
Cost / Income ratio	61.1	55.6	56.9	48.6	n.s.	65.1

31/12/2002 pro forma

OPERATING STRUCTURE

Employees	34,559	1,880	1,202	1,647	5,929	45,217
Financial planners	197	4,754	-	-	-	4,951
Domestic branches	3,028	87	-	-	-	3,115
Foreign branches and representative offices	2	4	2	106	-	114

(1) The figures shown are not pro forma, as there were no changes in the company setting during 2003.

Change 2003 / 2002 pro forma (%)

	Domestic Banking Networks	Personal Financial Services	Wealth Management and Financial Markets	International Activities	Central Functions	Group total
STATEMENT OF INCOME (€/mil)						
Net interest income	3.3	-27.1	-37.5	-6.4	-95.5	1.7
Net commissions and other net dealing revenues	7.4	-1.4	26.9	10.9	-50.0	8.6
Profits and losses from financial transactions and dividends on shares	56.8	n.s.	24.7	66.7	29.2	47.0
Profits from companies carried at equity and dividends from shareholdings	72.4	-26.0	-2.8	-	-27.9	-9.9
Net interest and other banking income	6.0	-0.7	18.4	1.8	-6.9	5.9
Administrative costs	2.1	-2.7	0.8	7.9	-14.0	0.7
- <i>personnel</i>	1.1	5.0	6.1	2.4	-2.9	1.0
- <i>other administrative costs</i>	3.4	-9.1	-3.6	15.6	12.2	0.3
- <i>indirect duties and taxes</i>	8.5	-4.2	-	-	-2.5	0.4
Other operating income, net	-1.0	-4.0	-5.0	-66.7	-18.3	-7.1
Adjustments to tangible and intangible fixed assets	6.6	5.0	-20.7	-	-6.5	-4.7
Operating income	11.6	0.8	42.7	-5.7	-8.9	16.4
Adjustments to goodwill and merger and consolidation differences	-	-96.1	100.0	-	-11.9	-27.5
Provisions and net adjustments to loans and financial fixed assets	38.8	-51.5	-50.0	-71.0	n.s.	-39.2
- <i>provisions for risks and charges</i>	-0.9	-53.0	60.0	-25.0	-43.8	-25.3
- <i>net adjustments to loans and provisions for guarantees and commitments</i>	48.0	-	-75.0	-80.4	-77.2	22.7
- <i>net adjustments to financial fixed assets</i>	200.0	-	-69.6	100.0	n.s.	n.s.
Income before extraordinary items	1.8	64.7	57.3	156.0	-58.8	141.5
Net extraordinary income/expense	n.s.	n.s.	-90.0	n.s.	n.s.	n.s.
Income before taxes	6.0	43.9	49.2	77.1	-37.9	62.9
Income taxes for the period	-0.9	161.5	200.0	10.5	-46.4	48.3
Change in reserve for general banking risks	n.s.	n.s.	-	n.s.	n.s.	-97.5
Income attributable to minority interests	-27.3	20.5	n.s.	n.s.	-20.0	11.6
Net income	15.8	18.9	35.4	135.3	72.0	7.9
AVERAGE ALLOCATED CAPITAL (€/mil)	4.6	-6.2	11.4	-14.2	-32.9	0.0

Change 31/12/2003 - 31/12/2002 pro forma (%)

OPERATING STRUCTURE						
Employees	-3.6	-0.5	-4.4	2.6	-8.2	-3.9
Financial planners	-33.0	-4.4	-	-	-	-5.6
Domestic branches	1.7	1.1	-	-	-	1.7

2002

	Domestic Banking Networks	Personal Financial Services	Wealth Management and Financial Markets	International Activities	Central Functions	Group total
STATEMENT OF INCOME (€/mil)						
Net interest income	3,525	70	6	210	-38	3,773
Net commissions and other net dealing revenues	2,126	486	148	116	-67	2,809
Profits and losses from financial transactions and dividends on shares	81	-9	178	-4	40	286
Profits from companies carried at equity and dividends from shareholdings	36	50	73	8	125	292
Net interest and other banking income	5,768	597	405	330	60	7,160
Administrative costs	-3,694	-330	-231	-180	-213	-4,648
- <i>personnel</i>	-2,159	-141	-103	-105	-348	-2,856
- <i>other administrative costs</i>	-1,461	-165	-125	-69	292	-1,528
- <i>indirect duties and taxes</i>	-74	-24	-3	-6	-157	-264
Other operating income, net	183	25	18	4	128	358
Adjustments to tangible and intangible fixed assets	-84	-40	-27	-19	-340	-510
Operating income	2,173	252	165	135	-365	2,360
Adjustments to goodwill and merger and consolidation differences	-2	-51	-8	-	-151	-212
Provisions and net adjustments to loans and financial fixed assets	-600	-68	-31	-70	-657	-1,426
- <i>provisions for risks and charges</i>	-115	-66	-5	-4	-71	-261
- <i>net adjustments to loans and provisions for guarantees and commitments</i>	-484	-2	-4	-65	-49	-604
- <i>net adjustments to financial fixed assets</i>	-1	-	-22	-1	-537	-561
Income before extraordinary items	1,571	133	126	65	-1,173	722
Net extraordinary income/expense	-16	15	9	10	278	296
Income before taxes	1,555	148	135	75	-895	1,018
Income taxes for the period	-713	-13	-3	-36	315	-450
Change in reserve for general banking risks	-7	15	-2	-1	359	364
Income attributable to minority interests	-5	-39	-5	2	4	-43
Net income	830	111	125	40	-217	889
AVERAGE ALLOCATED CAPITAL (€/mil)	7,544	786	1,268	789	348	10,735
RATIOS (%)						
Profitability (RoE, RORAC)	11.0	14.1	9.9	5.1	n.s.	8.3
Cost / Income ratio	62.2	55.6	60.3	57.8	n.s.	65.1
31/12/2002						
OPERATING STRUCTURE						
Employees	35,834	1,880	1,058	2,238	4,640	45,650
Financial planners	197	4,754	-	-	4	4,955
Domestic branches	2,982	87	-	-	-	3,069
Foreign branches and representative offices	2	4	2	145	-	153

Results of the Business Areas

Domestic Banking Networks

Sanpaolo Network and Consumer Banking

Sanpaolo Network and Consumer Banking operate according to an activity base comprising the following

business units:

- the Sanpaolo Network, consisting of more than 2,400 operating points of the Parent Bank and of Sanpaolo Banco di Napoli, supported by the Internet, phone and mobile banking direct channels;
- the subsidiaries, supporting the banking business, operating in consumer credit (Finemiro Banca), leasing (Sanpaolo Leasint) and international private banking

	Sanpaolo Network and Consumer Banking				of which: Sanpaolo Network			
	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002 (1)	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002 (1)
STATEMENT OF INCOME (€/mil)								
Net interest and other banking income	3,998	3,813	+4.9	3,088	3,632	3,472	+4.6	2,713
Operating costs	-2,556	-2,495	+2.4	-1,918	-2,389	-2,338	+2.2	-1,764
- administrative costs	-2,584	-2,519	+2.6	-1,947	-2,387	-2,337	+2.1	-1,763
- <i>personnel</i>	-1,501	-1,485	+1.1	-1,110	-1,433	-1,419	+1.0	-1,041
- <i>other administrative costs</i>	-1,074	-1,027	+4.6	-826	-953	-917	+3.9	-721
- <i>indirect duties and taxes</i>	-9	-7	+28.6	-11	-1	-1	-	-1
- other operating income, net	42	38	+10.5	45	-2	-1	+100.0	-1
- amortization	-14	-14	-	-16	-	-	-	-
Operating income	1,442	1,318	+9.4	1,170	1,243	1,134	+9.6	949
Provisions and net adjustments to loans and financial fixed assets	-369	-348	+6.0	-276	-313	-287	+9.1	-206
Income before extraordinary items	1,073	970	+10.6	894	930	847	+9.8	743
Net extraordinary income/expense	37	1	n.s.	2	23	-6	n.s.	-6
Income before taxes	1,110	971	+14.3	896	953	841	+13.3	737
Income taxes for the period	-488	-457	+6.8	-407	-437	-420	+4.0	-357
Change in reserve for general banking risks and income attributable to minority interests	-24	-29	-17.2	-	-	-	-	-
Net income	598	485	+23.3	489	516	421	+22.6	380
AVERAGE ALLOCATED CAPITAL (€/mil)	3,828	3,640	+5.2	2,660	3,021	2,916	+3.6	2,031
RATIOS (%)								
RORAC	15.6	13.3		18.4	17.1	14.4		18.7
Cost / Income ratio	64.1	65.6		62.3	65.7	67.3		65.0
	31/12/2003	31/12/2002 pro forma	Change 31/12/03- 31/12/02 pro forma (%)	31/12/2002 (1)	31/12/2003	31/12/2002 pro forma	Change 31/12/03- 31/12/02 pro forma (%)	31/12/2002 (1)
OPERATING DATA (€/mil)								
Customer financial assets	206,324	193,412	+6.7	152,899	200,465	187,874	+6.7	147,129
- Direct deposits	52,783	53,722	-1.7	37,799	49,806	50,074	-0.5	33,919
- Asset management	77,354	71,369	+8.4	60,884	77,083	71,087	+8.4	60,602
- <i>Mutual funds and fund-based portfolio management</i>	55,728	53,046	+5.1	45,444	55,539	52,923	+4.9	45,320
- <i>Portfolio management</i>	3,568	4,923	-27.5	3,597	3,486	4,764	-26.8	3,439
- <i>Life technical reserves</i>	18,058	13,400	+34.8	11,843	18,058	13,400	+34.8	11,843
- Asset administration	76,187	68,321	+11.5	54,216	73,576	66,713	+10.3	52,608
Net asset management flows	3,638	1,689		-220	3,704	1,869		-41
Net loans to customers excluding NPLs	55,240	54,554	+1.3	46,663	53,110	51,742	+2.6	43,257
OPERATING STRUCTURE								
Employees	23,164	24,207	-4.3	17,638	22,028	23,060	-4.5	16,388
Domestic branches	2,149	2,117	+1.5	1,416	2,126	2,115	+0.5	1,390

(1) Does not include the Italian Network and the depositary bank of former Banco di Napoli.

(Sanpaolo Bank Luxembourg and Sanpaolo Bank Switzerland).

Globally, during the year, Sanpaolo Network and Consumer Banking presented a net income of 598 million euro, up 23.3% on the previous year. The profitability of the Area, expressed in terms of RORAC, was 15.6%.

2003 was characterized by important organizational events. In particular:

- the distribution structures of Sanpaolo and Banco di Napoli were integrated following the merger between SANPAOLO IMI and the Neapolitan bank on 31 December 2002. This integration involved, initially, the unification of the IT systems of the two distribution networks, with the adoption of the Sanpaolo systems by the branches of Banco di Napoli. At the same time, the systems for the management of the territory were shared: at the beginning of the year, the network was reorganized into territorial areas with unitary responsibility for the Sanpaolo and Banco di Napoli branches; the organization model of the Sanpaolo networks, based on specialization by type of customer served combined with strong local coordination, was extended then gradually to the Banco di Napoli branches;
- on 1 July 2003 began operating Sanpaolo Banco di Napoli, the Group's company dedicated to the four Southern regions traditionally serviced by Banco di Napoli: Campania, Apulia, Calabria and Basilicata. With regards to the Sanpaolo Network structures existing in the other Italian regions, the company operates with a single commercial coordination. The IT, administration and control activities are outsourced to SANPAOLO IMI.

Following the start-up of Sanpaolo Banco di Napoli, work continued on the rationalization of the territorial organization of the whole Sanpaolo Network, aiming at enabling the integration in the territories characterized by the presence of various historical brands and at consolidating further the distribution model adopted by the Group. The organizational intervention reduced the territorial management Areas from 22 to 17. Of these, 14 coordinate the operations of the Parent Bank branches and three address the operations of the Sanpaolo Banco di Napoli branches. In more detail:

- considering the importance of the proximity to the reference market for operations with private customers, some Areas have been subdivided into several Markets. A total of 28 Markets have been set up to supervise the operations performed by over 2,200 private and retail operating points;

- the rationalization of the branches specialized in services to companies has been completed. The network dedicated to companies is now organized into 17 Markets and comprises 151 branches and 63 specialist teams;
- specific Markets dedicated to operations with Public Bodies and Companies have been set up to support operational development for services to the public sector in the areas with the greatest growth potential, especially in Southern Italy.

In order to pursue the budget targets set out for the year, which provided for the strengthening of the market position in terms of private and retail customers as well as the development of relations with companies with adequate creditworthiness, the Sanpaolo Network took the following actions:

- regarding private and retail segments, the initiatives aimed at improving relations with customers and specializing and personalizing the product range were entered into. In more detail:
 - the distribution model based on the specialization of operating points by customer segments was consolidated; it had been extended throughout the network at the beginning of the year. In the current organizational structure, the retail branches are articulated in modules dedicated to serving the customers of its various submarkets: personal, family market and small business, dedicated respectively to customers with significant financial funds, to households and to customers comprising professionals, artisans, farmers and smaller companies. Within the retail branches, there are also modules specialized in serving private customers, which, together with the branches specifically dedicated to this type of customer, ensure a better coverage of the territory;
 - an intense training activity and more evolved models were implemented to provide branch operators with more effective means for a financial planning tailored to suit customer needs. This meets the requirements of the "Investment Policy", presented in April 2003, which establishes the guidelines to be followed in the assistance provided by branches to customers in relation to investments, with the aim of developing greater awareness towards monitoring risks and consistency between the customer's investment portfolio and his specific financial needs;
 - the design of new products, particularly with guaranteed capital, was developed;
 - initiatives aimed at increasing operations with small businesses with reasonable creditworthiness were set

up. This was carried out by making specific products and instruments for this segment available to branch specialists;

- the spread of multi channel infrastructures went ahead: at the end of December, direct banking contracts rose to more than 457,000, with a growth of around 40% on an annual basis;
- as regards business customers, major emphasis has been placed on small- and medium-sized companies, also through the activation of commercial campaigns. Also noteworthy is the commercial effort related to several specific strategic areas, including:
 - risk hedging: about 3,000 companies used Sanpaolo products to hedge financial and exchange risks connected with operations, compared with 1,000 in 2002;
 - telematic channels: intense activity aimed at maximizing the dissemination and use of remote stations continued; at the end of 2003, the number of Internet banking contracts, including small business, reached 31,000 units, climbing 45% from the beginning of the year;
 - foreign: the relaunch of the sector through the strengthening of the offer and operational rationalization showed the first results; trading flows and revenues for the last months of 2003 have increased compared with the previous year, despite the stable market trend.

Lastly, also worth noting are:

- the definition, in the second half of the year, of the new “Commercial Policy”, which represents the “charter of values” to which the daily management of business with companies aims to comply;
- the issue to consultants of new instruments to facilitate the identification of commercial actions, as well as the definition of pricing in relation to the risk undertaken and to operating costs.

Under the operational profile, Sanpaolo Network customer financial assets showed an annual growth of 6.7%, attributable to asset management and administration. The net asset management flow in particular was almost doubled during the year if compared to the whole of 2002. Loans to customers increased by 2.6% compared with the end of 2002. The particularly strong performance of retail mortgages for households was confirmed: 2.6 billion euro have been disbursed during the year, up 12% compared with the previous year.

The operating income of the Sanpaolo Network in 2003 showed a growth of 9.6% compared with last year, thanks

to the positive trend in all revenue components and to the limited movement registered in costs. Net income, equal to 516 million euro, increased by 22.6%. RORAC reached 17.1%, compared with 14.4% in 2002.

Former Cardine bank networks

The former Cardine bank networks include the 855 branches of Cassa di Risparmio di Padova e Rovigo (which merged Banca Agricola di Cerea), Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Banca Popolare dell'Adriatico and Friulcassa (resulting from the merger between Cassa di Risparmio di Udine e Pordenone and Cassa di Risparmio di Gorizia).

As described in more detail in the chapter “Action points and initiatives in the year”, to which reference should be made, the merger by incorporation of Cardine Finanziaria into the Parent Bank took place on 31 December 2003, leading to the creation of the North East Territorial Direction, to control and supervise the commercial and credit activities of the Group branches operating in the areas of Triveneto (comprising the regions Veneto, Friuli Venezia Giulia and Trentino Alto Adige) and Emilia. Therefore, in the reports of the Business Areas for 2003 and for 2002 pro forma, the income and operating results of the Cardine Finanziaria holding are converged into Central Functions.

The main initiatives during 2003 were aimed at the extension to all of the former Cardine bank networks and successive improvement of the Sanpaolo Network distribution model articulated by customer segments. In particular, specialized consultants were individuated to serve the different customer segments and were given instruments for monitoring the total portfolio and the positions of individual customers. Lastly, the products and services for the various types of customers were identified.

From the commercial viewpoint, the activity of the bank networks was concentrated on the retail market, organized into personal, family market and small business segments, in particular offering products originating from the SANPAOLO IMI Group's companies, notably in relation to asset management and bancassurance products. With reference to the other customer segments, the networks operated aiming towards selective growth of volumes - with particular attention to the containment of risks - and at expanding margins, for the corporate sector, as well as increasing the number of customers and the amounts managed, for the private sector.

Towards the end of the year the first interventions on the organization and commercial direction began in preparation for the migration of the bank networks' IT systems towards the SANPAOLO IMI target.

During 2003, the activities of former Cardine bank networks were characterized by the favorable development of the main operational aggregates. Customer financial assets showed a growth of 6.1%, supported by asset man-

Former Cardine bank networks

	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002 (1)
STATEMENT OF INCOME (€/mil)				
Net interest and other banking income	1,469	1,436	+2.3	1,435
Operating costs	-815	-802	+1.6	-855
- administrative costs	-917	-916	+0.1	-919
- <i>personnel</i>	-562	-557	+0.9	-585
- <i>other administrative costs</i>	-297	-301	-1.3	-276
- <i>indirect duties and taxes</i>	-58	-58	-	-58
- other operating income, net	150	159	-5.7	131
- amortization	-48	-45	+6.7	-67
Operating income	654	634	+3.2	580
Provisions and net adjustments to loans and financial fixed assets	-176	-278	-36.7	-276
Income before extraordinary items	478	356	+34.3	304
Net extraordinary income/expense	-83	-11	n.s.	-11
Income before taxes	395	345	+14.5	293
Income taxes for the period	-190	-172	+10.5	-148
Change in reserve for general banking risks and income attributable to minority interests	11	-7	n.s.	-10
Net income	216	166	+30.1	135
Contribution to net income of the Group (2)	270	220	+22.7	191
AVERAGE ALLOCATED CAPITAL (€/mil)	2,177	2,203	-1.2	2,536
RATIOS (%)				
RoE	12.4	10.0		7.5
Cost / Income ratio	56.0	56.6		59.3
	31/12/2003	31/12/2002 pro forma	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002 (1)
OPERATING DATA (€/mil)				
Customer financial assets	54,566	51,413	+6.1	51,815
- Direct deposits	27,130	26,367	+2.9	26,524
- Asset management	14,328	12,910	+11.0	13,159
- <i>Mutual funds and fund-based portfolio management</i>	9,028	8,340	+8.2	8,539
- <i>Portfolio management</i>	3,204	3,038	+5.5	3,038
- <i>Life technical reserves</i>	2,096	1,532	+36.8	1,582
- Asset administration	13,108	12,136	+8.0	12,132
Net asset management flows	1,135	1,478		1,478
Net loans to customers excluding NPLs	26,615	24,588	+8.2	24,588
OPERATING STRUCTURE				
Employees	8,288	8,425	-1.6	9,719
Domestic branches	855	841	+1.7	841

(1) Cardine Finanziaria group consolidated.

(2) After the posting of consolidation attributable to the Area, mainly concerning in 2002 the reversal of the discounting of loans for consistency and, in 2003, the integration of the criteria of attribution of the expenses connected with staff leaving incentives.

agement and administration. Also positive was the development of loans to customers, net of non-performing loans, which were up 8.2% on an annual basis; new disbursements to households in connection with retail mortgages were particularly relevant at 1.3 billion euro.

The operating income showed an increase of 3.2% compared with 2002, reaching 654 million euro. This trend was made possible by the growth of revenues (+2.3%), encouraged by the positive evolution of the commissions and profits from financial transactions and by the control of operating costs. Provisions and adjustments fell by 36.7% compared with the previous year, which included extraordinary components in relation to the actualization of doubtful

loans and provisions to the general reserve. Net income was 216 million euro, up 30.1% on 2002. RoE was 12.4%.

Banca OPI

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

During the year the bank:

- issued new loans mainly concerning the rail sector, land preservation, the road and freeway infrastructure sector

Banca OPI

	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002
STATEMENT OF INCOME (€/mil)				
Net interest and other banking income	165	139	+18.7	120
Operating costs	-25	-23	+8.7	-20
- administrative costs	-28	-24	+16.7	-20
- <i>personnel</i>	-13	-12	+8.3	-10
- <i>other administrative costs</i>	-11	-10	+10.0	-9
- <i>indirect duties and taxes</i>	-4	-2	+100.0	-1
- other operating income, net	3	1	+200.0	1
- amortization	-	-	-	-1
Operating income	140	116	+20.7	100
Provisions and net adjustments to loans and financial fixed assets	-78	-68	+14.7	-68
Income before extraordinary items	62	48	+29.2	32
Net extraordinary income/expense	9	4	+125.0	4
Income before taxes	71	52	+36.5	36
Income taxes for the period	-25	-17	+47.1	-9
Net income	46	35	+31.4	27
Contribution to net income of the Group (1)	100	77	+29.9	66
AVERAGE ALLOCATED CAPITAL (€/mil)	686	675	+1.6	500
RATIOS (%)				
RoE	14.6	11.4		13.2
Cost / Income ratio	14.3	15.7		16.5
	31/12/2003	31/12/2002 pro forma	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002
OPERATING DATA (€/mil)				
Net loans to customers excluding NPLs	18,693	16,717	+11.8	14,735
Disbursements in the period	5,209	n.d.	n.d.	3,231
OPERATING STRUCTURE				
Employees	156	167	-6.6	126

(1) After the posting of consolidation attributable to the Area, mainly represented by the reversal of adjustments to loans made exclusively for tax purposes.

- in Italy and abroad and local public services, with particular reference to water cycle systems and environmental hygiene; supported local authority investment programs (regional, provincial and municipal councils); carried out significant interventions in the re-qualification of urban infrastructure, especially through government financings;
- subscribed securities from public issuers (mainly local authorities and foreign counterparties from government sector);
 - in the context of innovative forms of financial intervention, has participated, through the subsidiary FIN.OPI and in conjunction with CDC Ixis, in investment funds aimed at the environmental sector and infrastructure for transport. Participation in the project for the Turin-Lyons, part of Corridor 5 Lyons-Trieste-Lubiana-Kiev link should also be noted;
 - in the advisory sector, assisted the process of aggregation of some multi-utilities located in the Emilia Romagna region, leading to the establishment of the Hera company and the successive placement of its shares on the stock market; acquired a mandate from Rimini Fiera S.p.A. to partially privatize the company; carried out mandates regarding the privatization of APS S.p.A., a public utility in Padua, and the valuation of a company for its acquisition by the public utility based in Settimo Torinese, ASM S.p.A.; performed a preliminary study, commissioned by the Municipality of Orvieto in view of the exploitation of an important property asset; assisted AMA S.p.A. of Rome in the selection procedure for investors in the privatization of the subsidiary AMA International S.p.A.;
 - in project financing:
 - together with an important German bank, structured the FIBE project for the construction and management of an integrated waste disposal system for the Province of Naples, which has reached the subunderwriting phase; began the procedures for participation in the project to construct and manage a highway in Ireland, as well as the purification system servicing in The Hague;
 - continued, together with an Austrian bank, the arranging mandate for the Euroypass project (sponsored by Autostrade S.p.A.) in relation to the construction of a toll paying system for heavy vehicles on the Austrian road network, for which the inspection phase has begun;
 - assisted - in the presentation of proposals for the assignment of new concessions - companies operating in the freeway transport sector, such as Pedemontana Veneta S.p.A., Astaldi S.p.A. - Giustino Costruzioni S.p.A. (Avellino-Sicignano) and Nuova Romea S.p.A. (Ravenna-Mestre) and took part in the project finance

transaction for the acquisition of Empresa Nacional de Autopistas (ENA), a company managing freeways in Northern Spain and Chile;

- in the equity investment activity, through the subsidiary FIN.OPI, has taken over significant investments in the local utilities AEM Torino and Hera, quoted on the Stock Exchange, and in AMA International held by the Municipality of Rome.

In 2003 the bank made new disbursements for 5.2 billion euro; these were joined by a flow of new subscriptions of securities issued by Public Bodies, amounting to 1.7 billion euro. Total financings rose at the end of December to 18.7 billion euro, up 11.8% in the 12 months, while securities in portfolio issued by reference customers reached 2.1 billion euro, about five times higher than the values of the previous year.

The income results for the year showed a rise in net interest and other banking income (+18.7%), determined mainly by the higher net commissions and greater profits from financial transactions. The favorable trend of revenues is reflected in the net income, which reached 46 million euro, up 31.4%.

Large Groups and Structured Finance

Large Groups and Structured Finance are the Group's two specialist units, the first appointed to manage relations with the major groups of domestic and international importance, the latter project financing and specialized structured lending.

In 2003, despite improved operating revenues, the economic results of the Large Groups unit were penalized by major provisions to deal with the Parmalat group default in the last quarter of the year.

The Structured Finance unit defined important transactions, the effects of which will become evident from the current year: the positive evolution of several transactions registered towards the end of the year also enabled the realization of significant recoveries on provisions already made.

Other Italian Networks

Other Italian Networks operate in the domestic market through the distribution networks of the Cassa di Risparmio di Firenze, in which the Group has a stake of 19.5%, the Cassa dei Risparmi di Forlì (29.8% stake), and

the Banca delle Marche, in which SANPAOLO IMI acquired a 7% share in November.

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

- positive progress in the marketing of mutual funds managed by CR Firenze Gestion Internationale (in which an

80% interest is held by Carifirenze and a 20% interest by SANPAOLO IMI); the net flow for the year, equal to 1.6 billion euro, brought the total amounts at the end of December to 3.9 billion euro;

- placement by the Cariforli network, in the year, of SANPAOLO IMI Group asset management products for 69 million euro. This net flow took the stock, at the end of December, to 234 million, up 41% on the 12 months.

Personal Financial Services

Banca Fideuram

Banca Fideuram has a network of 4,543 financial planners and 88 branches in Italy and operates using its own spe-

cialized companies dedicated to the production of asset management services.

During 2003, Banca Fideuram's activities were mainly aimed at the completion of the integration process with Sanpaolo Invest SIM (formerly Banca Sanpaolo Invest). In

Banca Fideuram (1)

	2003	2002 pro forma (2)	Change 2003 / 2002 pro forma (%)	2002
STATEMENT OF INCOME (€/mil)				
Net interest and other banking income	592	596	-0.7	596
Operating costs	-338	-342	-1.2	-342
- administrative costs	-321	-329	-2.4	-329
- <i>personnel</i>	-147	-140	+5.0	-140
- <i>other administrative costs</i>	-151	-165	-8.5	-165
- <i>indirect duties and taxes</i>	-23	-24	-4.2	-24
- other operating income, net	26	27	-3.7	27
- amortization	-43	-40	+7.5	-40
Operating income	254	254	-	254
Adjustments to goodwill and merger and consolidation differences	-6	-58	-89.7	-58
Provisions and net adjustments to loans and financial fixed assets	-31	-68	-54.4	-68
Income before extraordinary items	217	128	+69.5	128
Net extraordinary income/expense	-6	34	n.s.	34
Income before taxes	211	162	+30.2	162
Income taxes for the period	-36	-13	+176.9	-13
Change in reserve for general banking risks and income attributable to minority interests	1	1	-	1
Net income	176	150	+17.3	150
Contribution to net income of the Group (3)	132	111	+18.9	111
AVERAGE ALLOCATED CAPITAL (€/mil)	737	786	-6.2	786
RATIOS (%)				
RoE	17.9	14.1		14.1
Cost / Income ratio	55.2	55.4		55.4
	31/12/2003	31/12/2002 pro forma (2)	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002
OPERATING DATA (€/mil)				
Customer financial assets	59,517	56,457	+5.4	56,457
- Direct deposits	3,581	3,901	-8.2	3,901
- Asset management	44,573	40,028	+11.4	40,028
- <i>Mutual funds and fund-based portfolio management</i>	31,736	28,756	+10.4	28,756
- <i>Portfolio management</i>	593	525	+13.0	525
- <i>Life technical reserves</i>	12,244	10,747	+13.9	10,747
- Asset administration	11,363	12,528	-9.3	12,528
Net asset management flows	3,560	-1,153		-1,153
OPERATING STRUCTURE				
Employees	1,871	1,880	-0.5	1,880
Financial planners	4,543	4,754	-4.4	4,754
Domestic branches	88	87	+1.1	87

(1) Including Sanpaolo Invest SIM.

(2) The figures shown are not pro forma, as there were no changes in the company setting during 2003.

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

June the spin off of the Banca Sanpaolo Invest banking branch to Banca Fideuram was signed, becoming legally effective as of 1 July 2003. The latter therefore has ceased to perform banking activity, concentrating on the provision of investment services through its network of financial planners, and assumed the status of SIM in December.

Banca Fideuram also completed the program for the reorganization of investment services. Effective as of 1 July 2003:

- after Fideuram Capital sold the advisory branch to Fideuram Fondi in March, it was incorporated in Banca Fideuram;
- Fideuram Fondi incorporated Fideuram Gestioni Patrimoniali and simultaneously took the name of Fideuram Investimenti, extending its activity to the individual management of investment portfolios on behalf of third parties.

The reorganization of the French subsidiary Fideuram Wargny also continued.

At the end of 2003 customer financial assets of Banca Fideuram were 59.5 billion euro, up 5.4% on the 12 months. This evolution reflects the strategy to reconvert the assets under administration, aimed at increasing the weight of asset management. At the end of December 2003, the amounts of asset management were 44.6 billion euro (+11.4% since the beginning of the year), thanks to a net inflow of 3.6 billion, countering the outflow of the previous year.

Operating income for the year, 254 million euro, maintained the level of 2002, benefiting from actions to contain operating costs (-1.2%) which succeeded in contrasting the slight drop in revenues (-0.7%). Lower levels of provisions enabled net income to reach 176 million euro, up 17.3% compared with 2002. Profitability was 17.9% compared with 14.1% in the previous year.

Wealth Management and Financial Markets

Sanpaolo IMI Wealth Management

Wealth Management provides asset management products and services both to the Group's internal distribution networks and to institutional investors, associated networks and other networks. The Sanpaolo IMI Wealth Management holding company heads the Group companies operating in mutual funds, portfolio management and life insurance.

In 2003, the Area realized initiatives aimed at rationalizing its corporate structure. In particular, these regarded:

- the reduction of 50%, less one share, to the shareholding held in Sanpaolo Bank Luxembourg, following the capital increase of the latter company, fully subscribed by the Parent Bank SANPAOLO IMI, which assumed control;
- the acquisition of full control of Sanpaolo IMI Wealth Management Luxembourg, through the purchase of the 11.8% share held by Sanpaolo Bank Luxembourg;
- the merger by incorporation of Banco di Napoli Asset Management into Sanpaolo IMI Asset Management;
- the capital increase of the subsidiary Sanpaolo IMI Alternative Investments, a company dedicated to the management of hedge funds;

Sanpaolo IMI Wealth Management

	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002
STATEMENT OF INCOME (€/mil)				
Net interest and other banking income	256	237	+8.0	207
Operating costs	-85	-88	-3.4	-88
- administrative costs	-88	-91	-3.3	-91
- <i>personnel</i>	-32	-33	-3.0	-33
- <i>other administrative costs</i>	-55	-57	-3.5	-57
- <i>indirect duties and taxes</i>	-1	-1	-	-1
- other operating income, net	13	13	-	13
- amortization	-10	-10	-	-10
Operating income	171	149	+14.8	119
Adjustments to goodwill and merger and consolidation differences	-14	-7	+100.0	-7
Provisions and net adjustments to loans and financial fixed assets	-4	-	-	-
Income before extraordinary items	153	142	+7.7	112
Net extraordinary income/expense	-10	2	n.s.	2
Income before taxes	143	144	-0.7	114
Income taxes for the period	-10	-8	+25.0	-8
Change in reserve for general banking risks and income attributable to minority interests	-1	-1	-	-7
Net income	132	135	-2.2	99
Contribution to net income of the Group (1)	142	145	-2.1	109
AVERAGE ALLOCATED CAPITAL (€/mil)				
	719	658	+9.3	630
RATIOS (%)				
RoE	19.7	22.0		17.3
Cost / Income ratio	36.1	40.0		45.5
	31/12/2003	31/12/2002 pro forma	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002
OPERATING DATA (€/mil)				
Assets under management	93,650	83,407	+12.3	83,407
OPERATING STRUCTURE				
Employees	387	404	-4.2	404

(1) After the posting of consolidation attributable to the Area, mainly represented by the reversal of amortization for goodwill on Group companies.

- the acquisition by Sanpaolo Vita of the shareholding held by Banca Fideuram in Sanpaolo Life (Ireland), thus gaining complete control, and the acquisition, again by Sanpaolo Vita, of the Noricum Vita share held by Unipol Assicurazioni;
- the setting up, following a spin off from Sanpaolo Vita, of Universo Servizi, a company offering IT-administration insurance services.

Sanpaolo IMI Wealth Management S.p.A. also implemented actions to strengthen the range of commercial products and to increase the penetration of the Group banking networks by these products, especially through:

- the widening of the product range, with the launch of funds of funds, protected funds and an inflation linked fund, the placement of two new index linked policies by Sanpaolo Vita, the launch of the new GP PrivateSolution dedicated to the private customer segment and the start up of the marketing of the Sanpaolo Etico Venezia Serenissima ethical fund in conjunction with the reopening of the “La Fenice Theater”;
- the unification of the product range of Sanpaolo IMI Wealth Management and Banco di Napoli Asset Management, especially mutual funds and portfolio management;
- the marketing of the Area’s products through the former Cardine bank networks;
- the opening of the eleventh and twelfth seasons of the “Active Portfolio” protected capital unit linked policy;
- the commercial relaunch of the range of funds of hedge funds by Sanpaolo IMI Alternative Investments;
- the technical and commercial support of the activity to rationalize the product range, mainly mutual funds, pension funds and portfolio management, in view of the integration with Eptafund.

The Area’s assets under management amounted to 93.7 billion euro, up 12.3% on an annual basis. Within the total aggregate the sustained growth in life technical reserves, which rose to 19.4 billion euro (+35.7% compared with the end of December 2002) should be noted.

In 2003 Wealth Management registered net interest and other banking income of 256 million euro, up by 8% compared with the previous year; this trend was determined by the increase in net commissions and the contribution of the insurance companies Sanpaolo Vita and Sanpaolo Life, booked as profits from companies carried at equity. This, together with the reduction in operating costs (-3.4%), led to a 14.8% growth of the operating income. The net

income of 132 million euro was influenced by extraordinary expenses attributable to use of the Budget Law 2003 for the tax reform. The profitability, expressed in terms of RoE, was 19.7%.

Banca IMI

Banca IMI, the Group’s investment bank, covers securities dealing both on own account and for customers, the raising of risk and debt capital for companies, as well as corporate finance consultancy.

During 2003, with reference to corporate finance and capital markets, Banca IMI:

- with regard to Public Offerings, participated, acting as joint advisor and joint global coordinator in the Public Offer of Italgas shares promoted by ENI and of Italdesign Giugiaro by Wide Design, which led to the cancellation of the respective shares from the list;
- in the context of equity placements, guided, as joint bookrunner, the placement of Hera and, as global coordinator, the quotation of Isagro. It participated in the Meta Initial Public Offer and made a placement with leading institutional investors of shares of the capital of Edison and CDC, a company quoted on the New Market, which distributes IT products;
- with reference to capital increases, in Italy, coordinated the capital increases of Edison, AEM Torino and Reno de Medici and participated as lead manager in the FIAT capital increase and as coordinator and lead manager for the IFIL capital increase. It performed the first four tranches of the Mondo TV capital increase and participated in the capital increase option of Banca Antoniana Popolare Veneta. On the foreign market it intervened as guarantor in the capital increases of Banco Comercial Português and Royal & Sun Alliance. It also acted as co-manager in the institutional offer of Timken shares;
- in the debt market, performed the role of leader and placer in 62 transactions. In particular, was joint lead manager and bookrunner for the first inflation indexed BTP. In the financial institutions compartment, it performed the role of joint lead manager and bookrunner for the senior issues of SANPAOLO IMI, Banca delle Marche, Credito Valtellinese, Landsbanki Islands, Kaupthing Bunadarbanki, Merrill Lynch and Banco Itau Europa and the subordinate issues of SANPAOLO IMI, Caja de Madrid, Cassa di Risparmio di Firenze and Findomestic Banca; it held the role of sole manager for the issues of SNS Bank, Caixa Geral de Depositos, Natexis Banque Populaire and Caixa Economica Montepio Geral and of arranger of the EMTN

program of Mediocredito Trentino Alto Adige. As regards corporate issuers, it was co-arranger for Edison's EMTN program and joint lead manager and bookrunner for the related debut issue. It participated as joint lead manager and bookrunner for the issues of Deutsche Bahn, Hellenic Railways, GMAC and Daimler Chrysler. In relation to activity with local authorities, acted as joint-bookrunner for an issue by Pisa Municipal Council, as rating advisor for the Independent Province of Bolzano and obtained a mandate

as joint lead manager and bookrunner for the issue by Piedmont Region. Lastly, in securitization, it acted as joint arranger and bookrunner for the transactions of Cassa Depositi e Prestiti, INPS and Master Dolphin (the master trust of Findomestic Banca).

As regards corporate finance advisory, Banca IMI:

- completed the assistance to Edison (sale of gas reserves in Egypt), ENEL (sale of electricity generation assets), ENI

Banca IMI

	2003	2002 pro forma	Change 2003 / 2002 pro forma (%)	2002
STATEMENT OF INCOME (€/mil)				
Net interest and other banking income	255	185	+37.8	185
Operating costs	-150	-150	-	-150
- administrative costs	-138	-133	+3.8	-133
- <i>personnel</i>	-75	-67	+11.9	-67
- <i>other administrative costs</i>	-62	-65	-4.6	-65
- <i>indirect duties and taxes</i>	-1	-1	-	-1
- other operating income, net	3	4	-25.0	4
- amortization	-15	-21	-28.6	-21
Operating income	105	35	n.s.	35
Provisions and net adjustments to loans and financial fixed assets	-4	-5	-20.0	-5
Income before extraordinary items	101	30	n.s.	30
Net extraordinary income/expense	-	5	n.s.	5
Income before taxes	101	35	+188.6	35
Income taxes for the period	-34	-11	n.s.	-2
Change in reserve for general banking risks and income attributable to minority interests	-2	-	n.s.	-
Net income	65	24	+170.8	33
Contribution to net income of the Group	66	24	+175.0	33
AVERAGE ALLOCATED CAPITAL (€/mil)	392	361	+8.6	341
RATIOS (%)				
RoE	16.8	6.6		9.7
Cost / Income ratio	58.9	81.0		81.0
OPERATING DATA (€/mil)				
Banca IMI SpA trading volumes				
- trading	705,250	671,677	+5.0	671,677
- sales	211,620	143,809	+47.2	143,809
- repurchase agreements	1,922,541	1,621,992	+18.5	1,621,992
- placements	9,392	6,360	+47.7	6,360
	31/12/2003	31/12/2002 pro forma	Change 31/12/03-31/12/02 pro forma (%)	31/12/2002
OPERATING STRUCTURE				
Employees	608	634	-4.1	634
Branches	1	2	-50.0	2

(exploitation of businesses in the chemical sector), the Ministry of Economy and Finance (evaluation for the privatization of ETI), Buzzi Unicem (consulting in the Public Offer on Dyckerhoff preference shares), SANPAOLO IMI (purchase of the majority shareholding of Fidis Retail Italia, together with a pool of banks, and of the 7% share in Banca delle Marche), Sanpaolo IMI Wealth Management (taking over of Eptafund and constitution of a joint venture with SCH), Cassa di Risparmio di Firenze and Cassa di Risparmio di Genova (purchase of Cassa di Risparmio di La Spezia and Cassa di Risparmio di Carrara, respectively), the Merlo group and to the issuers in the Roland, Manuli and Banca di Sassari Public Offers. With reference to the FIAT Group, as well as advisory activity in the context of a Global Advisory mandate, the bank assisted Business Solutions for the sale of the majority shareholding in IPI;

- regarding transactions underway, performed advisory activity for FS, Alitalia, Finmeccanica and Mediaset.

During the year Banca IMI also performed interest and exchange rate derivatives distribution activities for corporate customers of the SANPAOLO IMI network and the development of personal finance products placed through the Group networks.

In 2003 the total revenues of Banca IMI reached 255 million euro, up 37.8% compared with the previous year, benefiting from the recovery of capital markets activity, the positive trend in risk management, as well as an improvement in the sales sector margin. This, together with the control of operating costs, allowed the bank to achieve a net income of 65 million euro, compared with 24 million in 2002, and a RoE of 16.8%.

The operating income and results do not include the results of IW Bank.

Sanpaolo IMI Private Equity

Sanpaolo IMI Private Equity is responsible for the private equity activity of the Group, with the strategic goal of strengthening and consolidating its presence in this sector, mainly through the promotion and management of closed-end investment funds dedicated to equity investment in small and medium-sized companies.

The company, which performs sectorial sub-holding functions, heads two SGR in Italy authorized to manage closed-end investment funds (Sanpaolo IMI Fondi Chiusi SGR and Sanpaolo IMI Investimenti per lo Sviluppo SGR), as well as

an advisory company to support their activity (Alcedo S.r.l.), while the subsidiaries instrumental to the management of international law closed-end investment funds and the merchant banking activity are located abroad.

The actions carried out in 2003 were aimed at the centralization of the Group's private equity activities into Sanpaolo IMI Private Equity. Both the acquisition from Cardine Finanziaria of the entire capital of Alcedo, the advisory company of the Cardine Impresa and Eptasviluppo funds, and the passage of the management of the Eptasviluppo Fund from Eptafund to the Sanpaolo IMI Fondi Chiusi SGR subsidiary were completed. The Group's private equity funds were reallocated, concentrating them in Sanpaolo IMI Private Equity, which purchased the shares of the Convergenza fund from the NHS Luxembourg subsidiary and the shares of the Cardine Impresa, Eptasviluppo and Emerald funds.

Sanpaolo IMI Private Equity, together with SAGAT and TecnoHolding, was granted the tender for the privatization of Florence Airport, directly investing its own capital, and is currently involved in the Aeroporti Holding project for the construction of a network of regional airports.

Two important private equity transactions in small/medium-sized companies (Kedron group and Proel S.p.A.) were completed during the year, through coinvestments by the Cardine Impresa and Eptasviluppo funds (managed by Sanpaolo IMI Fondi Chiusi SGR) and Fondo Mezzogiorno (managed by Sanpaolo IMI Investimenti per lo Sviluppo SGR).

Sanpaolo IMI Fondi Chiusi SGR performed the preliminary activities for the launch of two new multi-regional funds Nord Ovest Impresa and Centro Impresa, dedicated to investments in small- and medium-sized companies in their respective areas of competence, for which authorization from the Bank of Italy was received in January 2004.

With reference to the other SGR, previously named NHS Mezzogiorno SGR, work began on the procedures to change the name to Sanpaolo IMI Investimenti per lo Sviluppo SGR, in order to exploit the Group brand and in view of an extension of the field of action also to other areas of activity, such as investments in infrastructure. These procedures were completed in February 2004. The fund raising activities for "Fondo di Promozione del Capitale di Rischio per il Mezzogiorno" ("Risk capital fund for Southern Italy") were completed in the first half of the year, with 100 million euro subscribed capital. Towards the end of the year this Fund completed, through co-investments with other Group

Funds, the first two private equity transactions in companies located in Southern Italy, as mentioned earlier.

As regards the activity of foreign funds, in addition to SIPEF1, which is already operational, activities were set up for the structuring of the new pan European fund E.A. Partners, in conjunction with CDC IXIS and Bayerische Landesbank. In this context a first bridge transaction for the new fund was completed towards the end of the year, with a 10 million euro investment in the Modena-based group Argenta, leader in the sector of beverage and snack vending machines.

Lastly, consistent with the strategic plan which provides for the gradual disposal of merchant banking shareholdings, the Dutch subsidiary LDV completed the disposal of the entire shareholding in AMPS, the former municipal company of Parma.

With reference to the income results, in 2003 Sanpaolo IMI Private Equity, along with its subsidiaries, showed a slight net income compared with the loss registered for the previous year, the first year of operation after the spin off of the former NHS.

International Activities

Foreign Network

The Area is responsible for the foreign network of the Parent Bank composed, at the end of December 2003, of 12 branches, 18 representative offices and 1 operating desk, as well as for the Irish subsidiary Sanpaolo IMI Bank Ireland. The strategic position in the reference markets is supervised through three territorial structures (Americas, Europe and Asia), giving direction and controlling the various operating points which guarantee a total direct presence in 27 countries.

Moreover, to optimize the synergies with Sanpaolo IMI Internazionale, the latter was assigned, as of 2003, the hierarchical responsibility for the 6 representative offices in Central Eastern Europe, which will however continue to remain, from the corporate point of view, within the Parent Bank.

The Area is evolving consistently with the Group's global objectives, aimed at encouraging the internationalization of Italian companies and increasing the presence of foreign multinationals on the Italian market.

During 2003, the lending activities with foreign counterparties were marked by the selectivity and safeguard of the quality of the portfolio rather than increasing operating volumes, confirming a strong customer oriented policy. The synergies with the Group's product factories and domestic networks have gained strength. In relation to the cross selling of products and services, significant results were achieved in the sale of international cash management services.

From an economic viewpoint, operations with Foreign Network customers in 2003 showed an improvement in revenues, bringing RORAC to 18.7%.

The amount of loans with foreign counterparties fell compared with the end of December 2002, partly attributable to the rise in the value of the euro compared to the dollar and the pound. The good quality of the loans disbursed enabled maintenance of reservation levels at physiological

values. The adjustment of some positions was amply offset by significant recoveries in value as a result of the total repayment of partially written down loans, such as Xerox, and the restructuring of critical loans, such as Marconi, at better conditions than expected.

Sanpaolo IMI Internazionale

Sanpaolo IMI Internazionale was formed for the purpose of developing and supervising the activities of the Group in those geographic areas and foreign countries deemed to be of strategic interest.

So far, the Parent Group has assigned the company the shareholding in the Hungarian Inter-Europa Bank, which has 25 branches, the 3.6% shareholding in the Polish Kredyt Bank and the 5.6% shareholding in the Tunisian bank BIAT (Banque Internationale Arabe de Tunisie). The former assignment took place on 4 April 2003, while the remaining assignments were performed on 2 July 2003. The transfer of the shareholding in Sanpaolo IMI Bank Romania (97.9%), operating in Romania through 22 branches, was completed on 3 February 2004, after receiving the necessary authorization from the Central Bank. Sanpaolo IMI Internazionale is also responsible for the operational control of Banka Koper, operating in Slovenia through a network of 39 branches, of which 62.6% was held by the Parent Bank at the end of December. This share rose to 62.9% on 18 February 2004.

On 15 April 2003 the full Public Offer launched by Sanpaolo IMI Internazionale for Inter-Europa Bank, of which SANPAOLO IMI already owned a 32.5% share, was completed. The Offer saw the delivery of a number of shares equal to 52.7% of the bank's share capital, bringing the total shareholding to 85.2%. The total outlay for the Offer amounted to 31 million euro. Following further purchases made on the market, the shareholding amounted to 85.9% at the end of the year.

The plan to restructure and strengthen the capital of Sanpaolo IMI Bank Romania continued during the year, with the payment of a first tranche of capital increase of 5 million euro. In this context, the name was changed from West Bank to Sanpaolo IMI Bank Romania in October.

IMI Investimenti

IMI Investimenti manages the major industrial shareholdings with particular reference to the amount, the impact in terms of “significant exposures” and the strategic importance attributed by the Group.

With regard to the investment portfolio, on 14 May 2003, Synesis Finanziaria S.p.A. was established. This is a newco in which the company participates equally with Capitalia, Banca Intesa and Unicredito, taking over from the FIAT group 51% of Fidis Retail Italia. The transaction took place in two phases: the first, referred to a first group of companies, was completed on 27 May, at the time of the exchange of shares, and involved an outlay of 63 million euro by IMI Investimenti, while the second phase of the transaction, completing the sale of the former Fidis assets, was formalized on 30 September 2003 and completed during the month of October at a price of 30 million. The total exposure, amounting to 93 million euro, is susceptible to limited variations following the envisaged price adjustment.

In July 2003, IMI Investimenti subscribed, for the pro quota attributable, the capital increase of FIAT S.p.A., for a total

of 1,836 million euro, presented in the context of the automobile group’s relaunch plan presented in June; the related outlay was 27 million euro. Therefore, as of 31 December 2003, IMI Investimenti possessed a total of 14.6 million FIAT shares (equal to 1.487% of the total capital), including those allocated in the dealing portfolio.

In the context of the plan to reallocate the minority investment portfolio within the Group which sees IMI Investimenti, on the one hand, as the seller of several assets such as SAGAT and AEM Torino and, on the other, as the buyer of shareholdings in Merloni Termosanitari, Fincantieri, Infracom and Sitcom, the sale of the stake in AEM Torino (3% of the capital) to FIN.OPI for 18 million euro was completed in December.

After the end of the year, IMI Investimenti also acquired, in January 2004, the SANPAOLO IMI stake in Fincantieri and in Infracom, and in February, the Finemiro Banca stake in Sitcom.

The economic performance in 2003 is penalized by significant adjustments to the investment portfolio (in particular H3G) which have resulted in a negative influence of the Group’s net income for 59 million euro.

Developments after the end of the year

Economic background

In the early months of 2004 trend indicators confirm a non homogenous recovery at international level. In the United States there have been several signs of strengthening of the economic upturn, although the weak labor market and the large foreign imbalance cast doubts on the sustainability of the current growth rates in the medium term.

The cyclical phase in Europe, while being expected to improve during the year, still appears fragile due to the uncertainty about the strength of the domestic demand and the negative effects of the appreciation of the euro on competition. In this context, the major central banks stayed on hold confirming a prudent attitude .

Owing to largely stable market rates and a positive trend in company earnings, in the first two months of 2004 the share indexes confirmed the increases recorded in 2003. However the uncertainty about the evolution of the European cycle and the insolvency of some companies in Italy have influenced negatively the household confidence and the dynamics of net transaction of mutual funds. Despite negative net flows of about 2.3 billion euro, in the first two months of the year, the amount outstanding of asset under management has grown by about 1%, thanks to positive performances. . The market condition deteriorated in March, partly because of exogenous factors such as the terrorist attacks in Spain.

The Group's financial position and significant events after the end of the year

In a scenario characterized by elements of uncertainty regarding the economic recovery, Group transactions in the first two months of 2004 were characterized by moderate growth of financial assets and a reverse trend in loans.

The stock of financial assets shows signs of improvement, continuing the trend registered at the end of the year. Since the beginning of the year, within the total aggregate there have been positive trends for all components, especially indirect deposits.

In relation to asset management products, the positive trend of the financial markets has determined an increase in amounts. Among the various sectors, insurance products have confirmed the rising trend that has characterized them in recent years.

As regards lending activities, net loans to customers recorded a decrease, reflecting the weak economic cycle in Italy.

The income results for the two months appear in line with the budget, thanks to the effectiveness of the steps taken last year to defend margins and control operating costs, and with the positive flow of revenues during this first part of the year.

In January 2004 the Antitrust Authority notified Sanpaolo IMI Wealth Management, as holder and outsourcer of Sanpaolo Vita, and Fideuram Vita that they were subject to inspections being undertaken. The preliminary investigation promoted by said Authority, first regarding a number of insurance companies and later extended to the Group companies, is aimed at verifying any practices to restrict competition in relation to the purchase of an advisory service from a company specialized in analyzing the insurance market and acquiring information on the conditions of contracts, prices and data related to competitors in the life insurance and pensions sector. According to the Antitrust Authority, the fact that several companies share the same information would appear to be potentially damaging to the competition. The Group companies, in a precautionary context aimed at reducing risks resulting from the verification of violations, terminated the advisory relationship with the supplier of the aforementioned market data before the investigation began. The developments of the investigation are being closely monitored.

At the beginning of March news was issued concerning the start of proceedings by the Legal Authorities to investigate a certain number of financial planners of the Banca Fideuram subsidiary and employees of Fideuram Bank Suisse. All claimed hypotheses concern participation to the crime of abusiveness (consisting in the offer of investment services or financial products by a subject unauthorized in Italy), apart from one financial planner charged with money laundering. The bank, which has not yet been involved in the investigation, in conjunction with the Parent Bank, has set up a special work team for the quick and in-depth verification of the facts and ensured maximum cooperation to the investigating Authorities.

Future prospects

The strategies indicated in the 2003-2005 Plan have been confirmed for 2004. In particular, the Group intends to complete the spread of the Sanpaolo Network distribution model to all the commercial networks, combining efficiency, achieved thanks to the unique nature of the strategic and commercial management and to common support structures, with the strengthening of relationships with customers, generated by the strong territorial roots of the various historical brands that are now part of the Group.

The rationalization of the distribution channel is joined by the initiatives to make the companies specialized by business activities (product factories) as efficient as possible, aiming to optimize know how and product innovation,

and traditional strong points such as the solid financial situation and the high quality of assets, confirmed by the solvency ratios and credit risk ratios.

As regards exogenous factors, the banking industry could gain a boost both from the gradual recovery of the economic cycle, which is expected to improve in the second half of the year, and from the recomposition of the financing methods for companies in favor of banking loans. As regards this second aspect, various corporate bond issues will expire during the year and, given the different market conditions, they will not be fully renewed owing to the higher risk perceived by investors which makes this form of financing more expensive. Therefore, the loan development opportunities will be screened by the Group's banks with the usual attention.

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

To the Shareholders of
Sanpaolo IMI SpA

- 1 We have audited the consolidated financial statements of Sanpaolo IMI SpA and its subsidiaries (the "Sanpaolo IMI Group") as of 31 December 2003. These consolidated financial statements are the responsibility of Sanpaolo IMI's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The responsibility for the audit of the financial statement of certain subsidiaries, representing 13 per cent of consolidated "Total assets", 1 per cent of consolidated "Net interest income", and 8 per cent of consolidated "Net interest and other banking income", rests with other auditors.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 10 April 2003.

- 3 In our opinion, the consolidated financial statements of Sanpaolo IMI Group as of 31 December 2003 comply with the laws governing the criteria for their representation; accordingly, they give a true and fair view of the financial position and of the results of operations of the group.

Turin, 8 April 2004

PricewaterhouseCoopers SpA

Signed by
Sergio Duca
(Partner)

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

