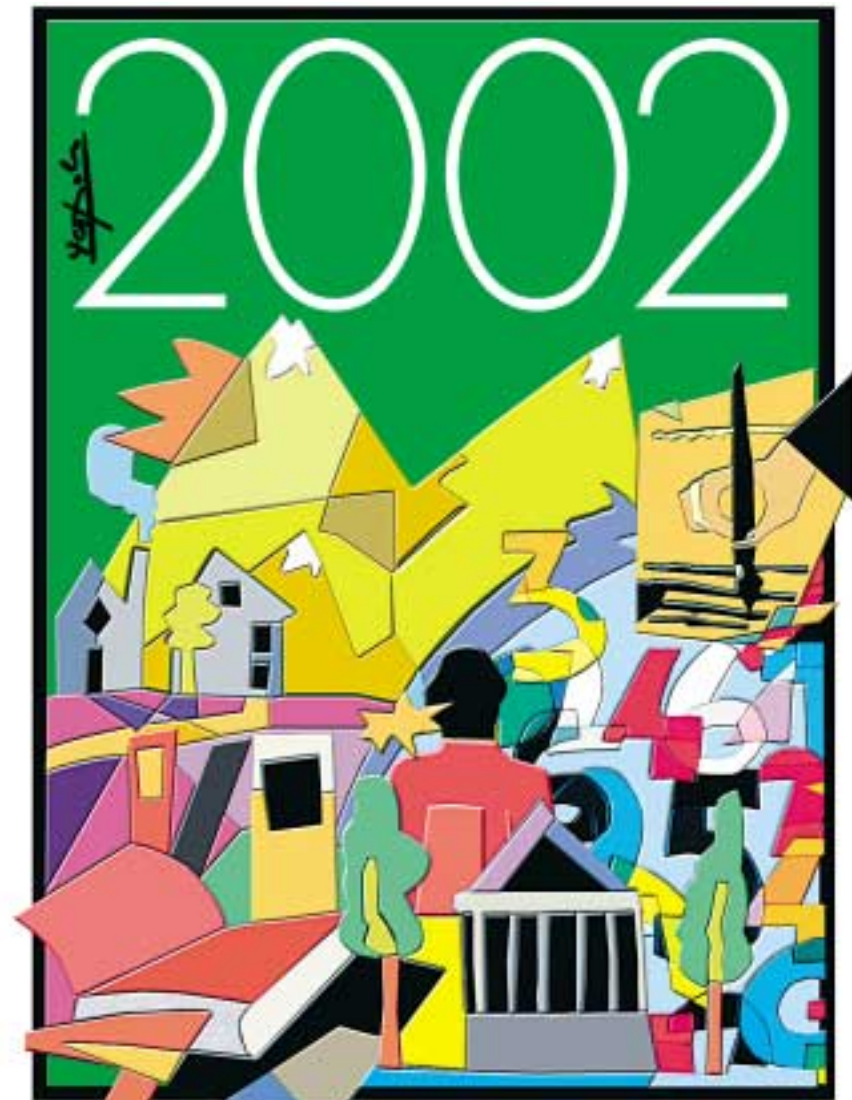


S A N P A O L O I M I



S O C I A L R E P O R T

GRUPPO SANPAOLO IMI

# 2002 Social Report

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## SANPAOLO IMI

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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

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PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

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### Board of Directors

Luigi Arcuti	<i>Honorary Chairman</i>
Rainer Stefano Masera (*)	<i>Chairman</i>
Isabelle Bouillot	<i>Director</i>
Pio Bussolotto (*)	<i>Managing Director</i>
Alberto Carmi	<i>Director</i>
Giuseppe Fontana	<i>Director</i>
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 Juan	<i>Director</i>
Iti Mihalich (*)	<i>Director</i>
Emilio Ottolenghi	<i>Director</i>
Orazio Rossi (*)	<i>Deputy Chairman</i>
Gian Guido Sacchi Morsiani	<i>Director</i>
Enrico Salza (*)	<i>Deputy Chairman</i>
Remi François Vermeiren	<i>Director</i>

*(\*) Members of the Executive Committee*

### 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>

### Ethical Committee

Abel Matutes Juan	<i>Chairman</i>
Isabelle Bouillot	<i>Member</i>
Alberto Carmi	<i>Member</i>
Richard Gardner	<i>Member</i>
Mario Manuli	<i>Member</i>
Antonio Maria Marocco	<i>Member</i>
Rainer Stefano Masera	<i>Member</i>

### Independent Auditors

PricewaterhouseCoopers S.p.A.



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## Letter to Stakeholders



**Rainer Masera**  
Chairman of Sanpaolo IMI



**Abel Matutes Juan**  
Chairman of the Sanpaolo IMI Ethical Committee

Some people in the economic world consider banking and finance as areas which enjoy, or which should enjoy, a sort of “exemption” from the questions posed by ethics, while the observance of regulations and the application of market laws are enough. Others limit themselves to financial business as being neutral to the ethical values. A considerable number of critics and detractors of the financial world itself also legitimize these opinions, albeit for different reasons, and this has a highly distorted influence on the perception of public opinion.

But from whichever point of view one chooses to look, these are profoundly mistaken visions. And not because there is a lack of examples and behaviors which could lend weight to them: enough to think of recent news regarding major financial scandals and bankruptcies, especially in the United States. These episodes show again that the existence of specific and strict rules is not always enough to prevent abuse and that the market, with its laws, cannot appoint itself as its unique regulator. As with every other human activity, lending and finance require an approach animated and guided by a precise ethical reference. And this reference cannot just be considered as a personal individual question: ethics are socially relevant because they are an important factor in creating people’s identity, influencing relationships between individuals and the complex organizations in which they operate.

This is extensively confirmed by the histories, some of which date back centuries, of the banking entities which are part of our Group today, the origins of which are characterized by the initiatives of people and bodies who intended to alleviate poverty and, more generally, contribute to the well-being and balanced development of their respective communities. The evolution of our lending and financial business has never rejected these roots, and has constantly adapted to the transformations and growing complexities of a world which is characterized by full interrelation between economic bodies, their choices and their actions.

The publication of a Social Report thus renders the approach to an ethical vision, which has existed for centuries in the genetics of Sanpaolo and certainly represents another important opportunity to focus on *business ethics* and *corporate social responsibility*, more global, systematic and integrated. In addition to external stimuli, which do exist, several internal elements strongly encouraged us to pursue this initiative.

As a profit-making Public Company, our final aim is to create value for shareholders. We feel it is essential that the growth of the financial results that we pursue is sustainable in the long term and the search to maximize value can be better achieved by overcoming the temptation to set exclusively short-term aims, but rather operating in the context of the medium term. In this context, in full consistency between the creation of value for shareholders and ethical sensitivity, continued and constant attention to customer relations, as well as the full support of those who work for the Group, appears pursuable.

This approach requires constant and responsible attention to the needs of the various company stakeholders, with the aim of creating a sort of “virtuous circle” which encourages the convergence of the specific interests of shareholders, customers, staff and other important partners.

We are talking about approximately 7.5 million retail customers and some 400,000 companies, from the smallest to the largest, with whom we have a strong commitment and who make up our first and most important asset; hundreds of thousands of shareholders, including the Foundations, which are part of the Group’s history; more than 50,000 people who contribute to the company’s success every day and of whom we intend to promote full appreciation. We are also talking about numerous territorial communities for which we perform our activities with the particular configuration of an Italian and European Group operating through banking networks with deep roots in the various local communities. This model - which on the one hand makes it possible to achieve the necessary economies of scale and scope and, on the other, guarantees a close link with the territory - lies at the basis of our strategic plan for 2003-2005. It also concentrates on our relevance with regard to the structure of enterprises, especially micro, small and medium-sized companies. The latter, in turn, implement principles of business social responsibility, a commitment in which we intend to support them promoting their development. Our attention to the territory must be fuelled by extensive interest in environmental issues: the effects directly and indirectly generated by business activity provide us with an important field of verification. Attention to environmental issues has led to a long-standing and active co-operation with the European Investment Bank, the bank of the European Union, with which we have promoted the constitution of a European Forum for the dissemination of environmental policies and practices.

All these topics can be summarized in our continuous commitment to adopt business governance systems in compliance with the best international standards, providing a guarantee not only for shareholders but also for the whole society. Our quotation on the New York Stock Exchange subjects us, the only Italian bank, to the strict provisions of the Sarbanes-Oxley Act. Besides observance of the rules of governance, we are convinced of the importance of clearly orienting the mechanisms used in the issue, placement and distribution of financial products, in respect of our fiduciary relationship with customers: this is also contributed to by the education of staff and investors. On this subject, on the one hand we have taken self-governance initiatives developed at system level (adoption of the Code of Conduct for Listed Companies, participation in the work of the Rapporto Assonime sul Risparmio and active contribution on these themes within the Italian Banking Association); on the other hand we have been working internally for some time on the issue of governance, both to guarantee maximum transparency to our customers and professionalism in asset management, an activity in which we are the leader in Italy.

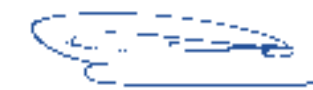
Today our tradition of culture and values has a direct effect on the activity of an Ethical Committee set up in September 2001 within the Board of Directors. The Ethical Committee performs a role in addressing ethical and environmental issues: on its suggestion, we first adhered to the UNEP Declaration, containing principles for environmental protection and support for sustainable development as part of the United Nations program, and then to the UN Global Compact, which associates environmental protection and principles aimed at the defense of human rights and employee rights.

The 2002 Social Report follows a year characterized by important integrations and transformations for the Group, such as the acquisition and incorporation of Banco di Napoli and the merger with the Cardine Group, events which have also produced qualitative changes to our way of operating and of being a bank. The document is an integrated part of a wide project and its entire preparation process enables us to explain better the aims that Sanpaolo IMI has set itself or intends to set itself within this context. It is therefore for us a precise commitment and implies constant supervision of our activities to check systematically and completely the evolution of our progress: therefore the Social Report should also be considered as a governance instrument.

This is why we chose to create a document which is made to measure to suit our Group situation as much as possible. We hope therefore that it is capable of being a useful and effective instrument in the evaluation of the serious nature of our commitment and activating a process of comparison and communication.



Rainer Masera  
Chairman of Sanpaolo IMI



Abel Matutes Juan  
Chairman of the Sanpaolo IMI Ethical Committee



## Introduction and preparation principles

Like many social reports, this one satisfies different requirements, which aren't necessarily those suggested by the manuals. The report should, by definition, represent the end of a process: we start by defining strategies and general and specific aims, organizing things in such a way as to guarantee that they are achieved, and at the end we check what has succeeded and what has failed. In actual fact, in social reporting this rarely happens. Often the social report is used as a self-analysis tool; it is developed as though a management system already exists, to highlight the strengths and weaknesses at all levels of the procedure. And in this case we think that this aim has been achieved: we have understood what already exists and what has still to be done. We will record the results of periodical checks to have an indicator of the progress, including cultural progress, which we will make gradually as the aims are translated into results. The company reorganization linked with the integration process will end up assisting this reflection: this first edition refers to the Parent Bank and to Banco di Napoli which, while having operated as an independent company in 2002, was the subject of a merger into Sanpaolo on 31 December, in view of a subsequent spin off due to take place in July. The social report also serves the purpose of communication. In comparison with a version for exclusively internal use, this form involves an obvious risk of criticism, because - as we know - it is not perfect. But criticism is useful; and, above all, publication will ensure

an even greater undertaking to improve. The report is also useful from this point of view, because it forms a basis for comparison with the outside world. The method aim is to talk to the stakeholders and not just about the stakeholders. And to help them read the report we have decided not to report the Bank's activity according to business areas, but according to the articulation of the interested parties. It is reasonable to assume that this will help them, knowing that a single entity may be, simultaneously, customer and supplier, employee and member of a community, and so on. When planning this report we decided to devote attention to examining the various models that the academic world and agencies dedicate to ethical finance have developed so far, including, obviously, the model presented by the ABI (Italian Bankers' Association) to the Italian banking system. Having said this, we rejected the idea of adopting a standardized model, preferring to attempt to create one which was more "ours" to suit the specific nature of Sanpaolo IMI as much as possible. In order to do so, we tried to configure a model which could be referred to as an expression of the Group's history and traditions. For three reasons: so that the social report could effectively communicate the Group's identity during its evolution; in order that it could speak directly to the various stakeholders; and because, as mentioned earlier, the social report is to be intended not just as a communication tool, but also, and most importantly, as a tool for the growth and verification of

the Group. This is one of the reasons why the next version could be quite different from this one.

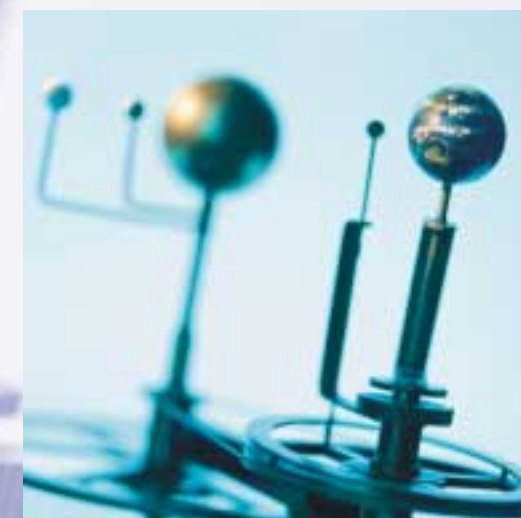
In this first publication, while deciding not to use a prearranged model for the preparation of the social report, we have been inspired by several fundamental social reporting principles. We have made an effort to:

- make the reference stakeholders clearly identifiable. Their individuation was complicated by the fact that the Group has undergone a phase of considerable growth in recent years, therefore it is possible that it may be articulated according to different directions in the future;
- supply information in a summarized and linear way to enable the reader to understand sources of information, criteria and the methods adopted for their organization and motivation of the discretionary decisions made;
- supply information which is useful to stakeholders, presenting facts and data in support of the claims made;
- choose indicators that enable the comparison of the information contained in this first edition of the report with those that will follow. In many cases this wasn't easy, because the quantitative data available could not always be aggregated. It was necessary to implement

simplifications and conversions which will be overcome by the integration of the IT systems, which took place in June 2003 for Sanpaolo and Banco di Napoli, and is due to take place next year for the Cardine networks, achieving a more consistent system. In other cases, the initial information could not be found or could not be used in the form available. We intend to make the indicator system more systematic and complete in future editions;

- explaining economic and other impacts of the activities performed. In this edition it has been possible to reconstruct the contexts concerned, but in future we would like to be more analytical from the quantities point of view, thanks to the development of a more consistent and articulated system of indicators;
- comprehending the degree of satisfaction of stakeholders. In some cases it has been possible to verify it directly thanks to the existence of investigations already carried out on the subject (such as the case of customer satisfaction of customer companies); in other cases it has been possible to obtain data related to satisfaction indirectly by analyzing significant data. For the next edition we could have the results of a series of investigations into several other stakeholders, with the aim of gradually extending tools offering direct comparison on this theme to them.

# Identity and Governance





# Group profile

## Historical evolution

Sanpaolo IMI was created in November 1998 from the merger of two prestigious private banks, each leader in Italy in its reference activity segment. They were two successful and distinctly complementary realities: one, Istituto Bancario San Paolo di Torino, of older origin, specialized largely in the retail lending activity, the other, Istituto Mobiliare Italiano, founded as a Public law Body in 1931, in a particularly delicate moment for the Italian and international economy, which had been shaken by the world-wide recession. The Institute, 50% of the capital of which was held directly by the Treasury, became a merchant and investment bank after the war, having contributed actively to the reconstruction through the activation of the interventions provided for by the European Recovery Program (ERP) in the context of the Marshall Plan.

The more recent merger between Sanpaolo IMI and Banco di Napoli sees the convergence of two realities into a single bank, with their roots set into the same distant historical period, therefore from the need to help the needy, initiatives aimed at creating organizations with a spirit of charity towards weaker social categories spring up all over Italy. While the Sacro Monte della Pietà was set up in Naples in 1539, in 1563, in

Turin, the new capital of the Duchy of Savoy, a brotherhood named Compagnia di San Paolo laid the foundations of that which, just a few years later, was to become the

town's Monte di Pietà. The intention of both institutions was to lend money at very low interest rates to offer the needy an alternative to usury. But the destinies of the two institutes soon took very different routes, developing in the directions that characterized the fortunes of the North and South of the peninsula.

In the second half of the 17th century Monte di Torino assumed the administration of the public debt of the state of Savoy: there was an evolution towards the reality of credit institute, which became final in the mid 18th century, although it was in the 19th century that a real bank was created, with the issue of construction loans beginning in the second half of the century.

Having survived the banking recession at the end of the 1800's without damage, San Paolo began the new century as a leader in the issue of loans for the industrial development of Turin and the economic growth of the country. With a decree in 1932, the finalities of public interest and the primary role of San Paolo in the Italian economy were made official, with the transformation of the bank into a public law Credit Institute, status which was maintained until its transformation into a joint-stock company on 1 January 1992.

The bank continued to grow and expand its domestic network in the 1960's and 70's, beginning a gradual internationalization process in the second half of the 1970's. In the 1990's, with the acquisition of other banks, Sanpaolo continued its dimensional and territorial strengthening, further developing its overseas presence

and the range of products and services on offer. In 1997 the privatization process was completed and, the year after, the integration with IMI took place.

The rest is recent history: having now become a group which operates in various sectors of activity through dedicated companies or specific business units, on the one hand Sanpaolo IMI perfected the acquisition of Banco di Napoli (2000) and on the other, it set up strategic alliances with important Italian and foreign lending realities.

Most recently (2002), the integration with the Cardine Group which was then controlled by Fondazione Cassa di Risparmio di Padova e Rovigo, Fondazione Cassa di Risparmio in Bologna, Fondazione Cassa di Risparmio di Udine e Pordenone and Fondazione Cassa di Risparmio di Gorizia.

With this transaction Sanpaolo IMI gained seven medium-sized banks (Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Cassa di Risparmio di Udine e Pordenone, Banca Popolare dell'Adriatico, Cassa di Risparmio di Gorizia and Banca Agricola di Cerea), operating in North-East Italy and along the Adriatic, with deep roots in the reference area and with considerable indices of penetration, in terms of branches and dealing shares.

Today, having launched a challenging plan for the reorganization of the commercial networks, it faces the market stronger, more efficient and evenly distributed throughout the country, although with different brands.



Turin, piazza San Carlo



Rome, via dell'Arte



Bologna, via Farini

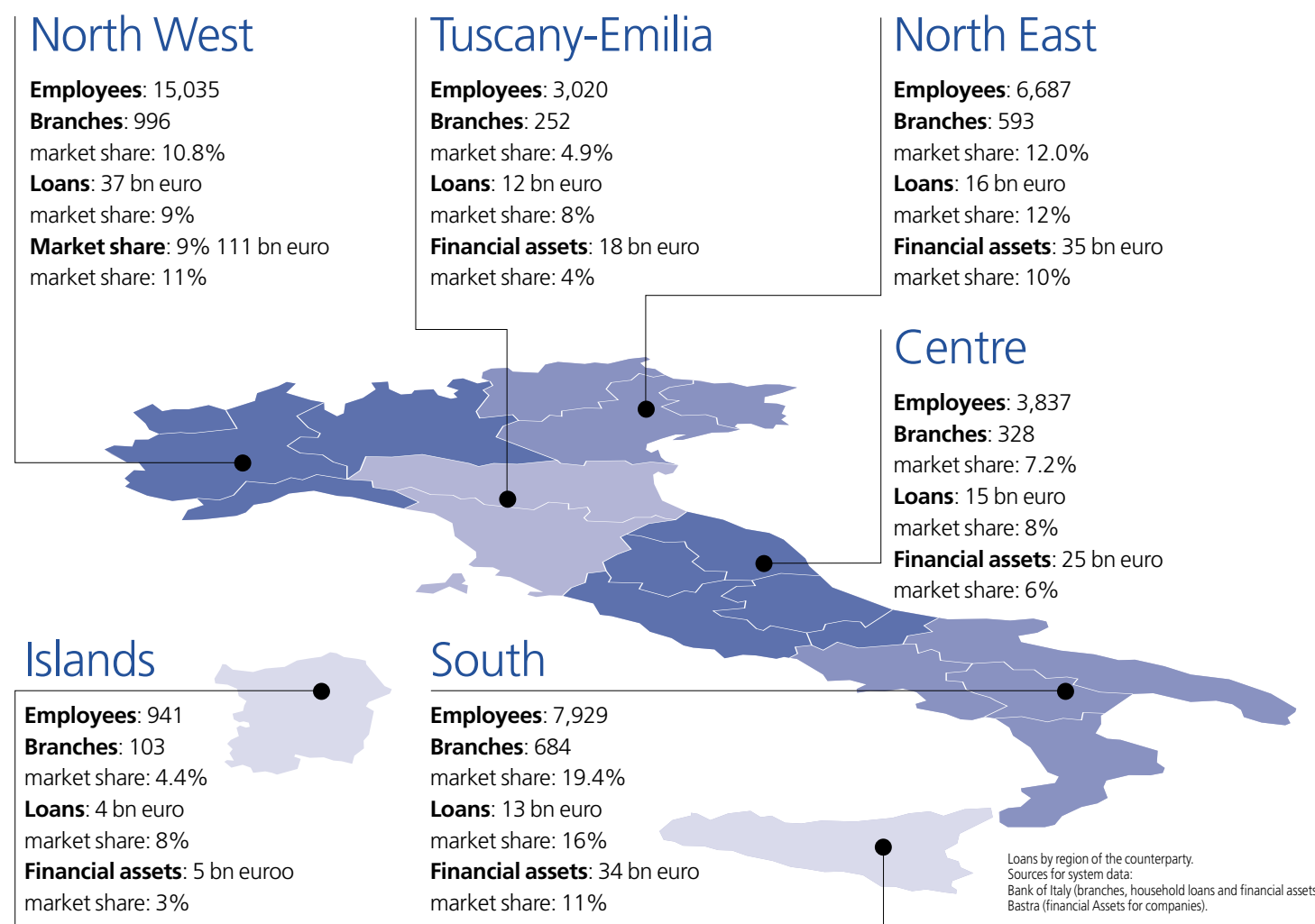


## The geographic presence and organization of the banking networks

Sanpaolo IMI, currently the third domestic banking group, can boast a conspicuous presence in almost all the Italian regions and an adequate territorial coverage of all the main European countries, Asia and America, dedicating particular attention to emerging countries. More specifically, with its 136 branches and 17 representative offices, today Sanpaolo IMI operates in 30 countries. The Group's foreign activity, aimed mainly at offering operational support to business customers involved in international exchanges, is also exercised through the outside support provided for by commercial agreements with the Bank's main strategic

partners, such as the Spanish group Santander Central Hispano, the French group Eulia, created from the alliance between the Caisse de Dépôts et Consignations Group and the Caisse Nationale - Caisse d'Epargne Group. In Italy, where the Group has its core business, after the integration with Banco di Napoli and the Cardine Group, Sanpaolo has a fairly even presence all over the country, in which, at the end of 2002, it had 2,956 banking branches (Sanpaolo, Banco di Napoli and Cardine Networks), joined by 87 Fideuram branches and 26 operating points of other companies with a banking license. Also considering the 494 branches of the Italian banks with which Sanpaolo IMI has made long term strong strategic and commercial alliances - Cassa di Risparmio di Firenze Group and Cassa dei

### GEOGRAPHICAL BREAKDOWN OF EMPLOYEES, BRANCHES, LOANS AND FINANCIAL ACTIVITIES OF THE SANPAOLO, BANCO DI NAPOLI AND CARDINE NETWORKS



The Image Bank

Risparmi di Forlì - the Group has a direct and indirect presence, with several services and products, through 1,038 branches in the North West, 921 in the North East, 814 in the Center and 763 in the South. Therefore, also by virtue of its geographical presence, the Group plays an important role in the promotion of local development: the localization of the branches of our banking networks and the activities they perform, both in terms of the inflow of assets and the granting of credit, bear witness to this. A vast plan for the integration of the Group's domestic banking networks was presented in Autumn 2002. This project aims to achieve relevant economies of scale and scope and to increase the commercial effectiveness and operating efficiency of the networks. The merger by incorporation of Banco di Napoli into Sanpaolo IMI represented the conclusion of the first phase of this unification process; the second saw the constitution, at the beginning of 2003, of a new Southern Territorial Direction comprising 755 Sanpaolo and Banco di Napoli branches in Campania, Apulia, Basilicata and Calabria, mainly dedicated to the completion of the IT systems of the two networks. This phase is destined to culminate, during 2003, in the spin off of this Direction into the new Sanpaolo Banco di Napoli company, equipped with a streamlined structure and operating with its own historical brand - while highlighting the fact that it belongs to the Sanpaolo IMI Group - in the reference areas. In the meantime actions to accelerate the process of operational integration with the former Cardine Group banks will be implemented. The project aims mainly to introduce gradually the distribution model already successfully adopted by the Sanpaolo Network, a model which privileges the specialization of branches by macro customer segments, into all Group networks. It will also guarantee, from a view point of consolidating and exploiting the historical brands and strengthening their prestige in the respective reference areas, a unique strategy at national level and ensure a more effective response to the varying service needs expressed by diverse types of customers and improve the efficiency of the structures and processes of investment in technologies and resources.

1. Finconsumo (24 branches), Finemiro Banca (1) and Farbanca (1)  
2. Includes: CR Firenze, CR Pistoia e Pescia, CR Orvieto, CR Civitavecchia and CR Mirandola



## The organizational model

Today Sanpaolo IMI is recognized as a multi-specialist group in the context of which the diverse business areas operate on the basis of a underlying principle: responsibility of return on the area statement of income and participation in the maximization of the Group result, through the activation of every possible synergy, both in terms of cost - with the pooling of services and

functions - and revenue - with the joint development of business opportunities and the supply to customers of integrated services. It presents a differentiated mix of business and an organizational structure aimed at the synergic combination of an accentuated vocation towards the retail market and a targeted but significant presence in wholesale banking.

### THE GROUP IS SPLIT INTO FOUR MACRO-AREAS OF BUSINESS:

#### Domestic Banking Networks:

this area is mainly represented by the banking networks of Sanpaolo, the former Banco di Napoli and the Cardine Group, as well as by equity investments and commercial agreements with Cassa di Risparmio di Firenze and Cassa dei Risparmi di Forlì. The structures dedicated to big industrial groups, structured finance and financing and advisory services to public entities and infrastructure projects (exercised through Banca OPI), and to companies operating in the context of consumer credit, leasing and tax collection, are situated in this area.

#### Personal Financial Services:

including banks that distribute mainly through the financial planner network or other innovative non-banking channels. Banca Fideuram and its subsidiary Banca Sanpaolo Invest operate in this area.

#### Wealth management:

this is the sector in which, thanks to their further synergic strengthening, all the activities linked with active asset management (mutual funds, portfolio management, private banking and life insurance), investment banking (Banca IMI) and private equity (Sanpaolo IMI Private Equity), are concentrated.

#### International activities:

this area mainly includes retail operating presences in foreign markets, especially in France, Hungary, Slovenia and Romania.



Andrea Polato



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All the structures described are managed and coordinated by a Corporate Center, set up in the context of the operating Parent Bank, of which the MOI - Macchina Operativa Integrata (Integrated Operating Vehicle) - is a member and is responsible for supplying the Group networks with a common platform regarding IT systems, auxiliary and back office activities, so as to permit, through the optimization of technological investments, significant reductions in costs.

## The main strategic lines

During 2002 the Group pursued strategic choices aimed at combining its need for growth with provisions to cover adverse market conditions. Therefore incisive structural actions aimed at accelerating the integration processes of the banking networks were implemented: in June the merger with Cardine Banca took place followed, at the end of the year, by that with Banco di Napoli. These company transactions were accompanied by important operating initiatives concerning the operational nature and standardization of the IT systems.

The strong impulse to the integration processes is closely linked with the definition of a highly innovative organizational model for the branch networks, which intends to improve the operating efficiency and the distribution capacity, exploit local roots and develop excellent service and the provision of a quick answer to customers.

This new distribution model, mentioned earlier, represents the mainstay of the three-year Plan for 2003-2005, approved in February 2003 by the Board of Directors, which confirms the Group's strategic decision to prioritize the reinforcement of its position in the national banking market, consolidating the position gained in services to households and companies thanks to investments and internal and external growth actions performed in previous years. The operating links with the Cassa di Risparmio di Firenze Group and with the Cassa dei Risparmi di Forlì have also been strengthened, completing the Group's national coverage and distribution capacities. The Plan shows the company loans and services market and retail asset management as being priority markets, areas in which the Group has already made important decisions, obtaining significant results. On the loans front, the decision to dedicate attention to all



Laura Ronchi

the company segments resulted in the progressive diversification of the portfolio: despite the commitment to sustain the main Italian industrial groups, loans to several groups in Italy and abroad and, consequently, the level of concentration, were reduced, while loans to smaller companies and to households increased, both through the banking channel and in the form of consumer credit. Company loans and services will be strengthened throughout the country, accepting the challenge that the new Basel rules present to banks and companies and dedicating to this customer segment the network of approximately 130 dedicated branches created during the last 18 months and the activity of the specialized companies within the Group aimed at creating innovative financial products.

Moreover, with the acquisition of Banka Koper, the Public Offer in InterEuropa Bank, the restoration and consolidation of West Bank and the establishment of a widespread network of offices in the New Europe, the Group is now capable of offering efficient services to Italian customers and contributing to the support of economic and financial relations with countries in the region.

As far as asset management products, instruments and techniques adopted by the Sanpaolo network in terms of sales and advisory services to households are concerned, these will be exported to the other distribution networks, benefiting markets in the South and North-East. Simultaneously, the Sanpaolo IMI Wealth Management product factory will continue to improve product performance and innovation, taking full advantage of the opportunities offered by the insurance, pensions and welfare market.

The plan also provides for initiatives aimed at improving earnings in all the other main business areas, as well as the active management of the investment portfolio, in order to optimize the allocation and performance of the capital invested and to free up resources to use for new, selected development opportunities. The partnership projects with the foreign groups SCH and CDC-IXIS/EULIA are also moving in this direction.

These actions to relaunch operations and revenues will be accompanied by strict policies to improve the efficiency of structures and to keep costs down, starting by rationalizing head offices and subsidiaries, with investments in the IT systems of the MOI and with a careful staff policy.



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## Significant stakeholders

The size and articulation of the Group mean that it enters into contact with different situations and complex problems that involve a wide range of subjects: shareholders, customers (retail and companies), personnel, suppliers, social communities and institutions, the environment (considered as an essential context in which people live and operate). Every one of them expresses needs and expectations which make them parties with an interest in the bank, in other words, stakeholders, with whom the bank must communicate and relate.

We are fully aware that the infinite variety of human relationships does not enable the “immobilization” of people in a prearranged, exclusive role and that many of them may simultaneously belong to several groups of stakeholders.

With this knowledge we have tried to propose the aggregation of our stakeholders and of their interests in us around several macro-categories: this has enabled us to concentrate more, through the partial simplification of the problems, on the main interests of every group and to highlight the themes of communication and confrontation for the near future.







PhotoDisc

# Mission and values

The mission of Sanpaolo IMI is to exercise the financial and lending activity, offering services of excellence aimed at the prudent management of the resources of households and at a commitment towards the sustainable development of the entrepreneurial system, also with the aim of contributing to the Country's global economic growth. The aim of creating value for shareholders is pursued with a view to long-term sustainability and in the context of constant, responsible attention to the company's various stakeholders.

## Values

### Creation of value

The idea of value that we pursue integrates the dimensions of sustainable development, meaning:

- the creation of economic wealth;
- the promotion of social cohesion;
- the defense of the environment and natural resources.

### Customer orientation

We place the customer at the center of our aims to improve constantly. We intend to ensure that every single customer is served in a flexible and innovative way, to the best of our ability, adopting the same spirit of service to internal customers.

### Integrity

We orient the actions and behavior of those who operate on behalf of the bank towards criteria of integrity and honesty, in full and substantial observance of the legal ordination and the financial and lending system and of the spirit of the agreements subscribed with our counterparties.

### Commitment to excellence

We intend to offer high quality services, constantly setting ourselves the aim of improving, looking to the future, anticipating challenges and cultivating innovation and creativity.

### Growth in observance of specific qualities

We intend to combine big dimensions with strong territorial roots; to be a bank that is capable of thinking big without losing sight of the individual.

### Responsibility in the use of resources

We aim to make attentive use of resources, encouraging behavior which avoids ostentation and waste.

# Corporate Governance

Sanpaolo IMI has adhered to the aims and indications of the Code of Conduct developed by a Committee for the corporate governance of companies listed on the Borsa Italiana (the Italian Stock Exchange). In accordance with the Code and in observance of its organizational model, the *governance* of the Company is arranged as follows<sup>3</sup> (a complete copy of the *governance* system report is available in the Annual Report and on the website [www.sanpaoloimi.com](http://www.sanpaoloimi.com)).

## Board of Directors

<b>Functions</b>	Is responsible for strategic direction and holds the powers of ordinary and extraordinary administration, excluding those expressly attributed by law or by the Articles of Association to the exclusive competence of the Shareholders' Meeting. It approves, after examination by the Board of Auditors, transactions with correlated parties considered to be significant <sup>4</sup> .
<b>Composition</b>	18 directors - of which 15 non executive (including the Chairman) - of the non executive directors, 12 are independent, according to the definition of the Code
<b>N° meetings in 2002</b>	19
<b>Expiry</b>	At the time of approval of the 2003 Annual Report

## Executive Committee

<b>Functions</b>	It has powers to be exercised within the context of the strategies, addresses and plans laid out by the Board of Directors. In particular, it has powers concerning loan issue, recovery of loans and shareholdings.
<b>Composition</b>	8 directors - of which 5 non executive - of the non executive directors, 3 are independent
<b>N° meetings in 2002</b>	21

3. Situation updated to May 2003

4. 50,000 euro for atypical or unusual transactions and 10 million euro for loans and other transactions at standard conditions, undertaken with correlated parties outside the Group. Moreover, the definition of correlated parties adopted is particularly restrictive: in addition to that already provided for by the Consob and on the basis of SEC provisions, those adhering to parasocial agreements have also been included.

The Board of Directors is supported in its institutional functions by 4 Technical Committees made up from its members, with advisory and management functions:

## Remuneration and Personnel Policies Technical Committee

<b>Functions</b>	It has the role of evaluating, in agreement with the Chairman of the Board of Statutory Auditors, the remuneration of the directors with particular offices and considering in depth the issues concerning top management remuneration and the approval and modification of the general arrangements concerning work relationships. The involvement of the Managing Directors is envisaged in the limits inherent in the definition of the general directions of top management remuneration and management policies and of a general nature concerning work relationships.
<b>Composition</b>	9 directors, of which 3 executive
<b>N° meetings in 2002</b>	7

## Audit Technical Committee

<b>Functions</b>	It has the responsibility of analyzing the problems and relevant practices related to evaluating the internal control system, with the possibility to make specific analyses and further investigations. It also evaluates the adoption of corrective measures proposed to deal with omissions and anomalies found in the audit processes (both internally and with the independent auditors).
<b>Composition</b>	4 directors, all of which are non executive - of which 3 independent The Chairman of the Board of Statutory Auditors, the Managing Directors and, as speakers, the Accounting and Audit Direction Heads, take part in the meetings.
<b>N° meetings in 2002</b>	16

## Group Risks Technical Committee

<b>Functions</b>	It has the responsibility of setting the risk strategies and policies for the Group, providing the guidelines for defining the risk measurement methods and criteria.
<b>Composition</b>	7 directors, of which 3 are executive
<b>N° meetings in 2002</b>	7

## Ethical Committee

<b>Functions</b>	It has the responsibility of: evaluating the principles for the identification of an ethical/environmental policy; proposing the definition of codes of conduct and compliance with declarations of principles or sectorial organizations; monitoring the internal implementation of the principles; monitoring the preparation of a Social Report and the external communication processes within this context.
<b>Composition</b>	7 directors, all of which are non executive
<b>N° meetings in 2002</b>	4



## BOARD OF DIRECTORS

The nomination of the members of the Board of Directors takes place on the basis of the designations presented by the shareholders who, at the meeting, illustrate the curriculum and professional experience of those proposed.

There is no vote and there is no need to set up a Committee for the nominations for the office of Director, the vigil and active participation of the shareholders and institutional investors in the meetings being expected. The experience of Sanpaolo IMI has shown that the majority shareholders, with the undertaking of reciprocal commitments with regard to the exercising of rights linked with the equity held, have thus far nominated for the office of Director people who were widely appreciated, always addressing choices towards those with a high standing and professional and managerial experience of an ample and diversified nature, matured in a domestic and international context.

It is well known that, in accordance with art. 26 of the Testo Unico Bancario (Single Banking Text), the directors of banks must possess requisites of honorability and professionalism, requesting company exponents to be people of proven honesty and moral integrity and to have competently performed experiences fitting to the office to be held within the Company.

In confirmation of that mentioned above, among the independent Directors of Sanpaolo IMI, profiles emerge which, in addition to years of experience on the Boards of Directors of important banking groups, hold leading roles in the management of industrial groups (Mr Fontana, Mr Ottolenghi, Mr Manuli, Mr Carmi and Mr Rossi) or that, as well as having significant entrepreneurial and managerial expertise, they have held institutional roles and roles in associative circles of absolute importance (Mr. Gardner, Don Matutes, Mr. Salza and Mr. Vermeiren); others (Mr. Marocco and Prof. Sacchi Morsiani) who own prestigious professional studios and university seats.

The professional characteristics of M-me Bouillot, Mr. Marrone and Mr Mihalich, who hold executive positions in the large groups that participate in the Bank's capital, are also well known.

Lastly, a mention goes to the professional profiles of the Chairman and the Managing Directors who, as well as comprising prestigious offices in different contexts within the Group, are a real expression of the company cultures of the Banking groups to which they belong (Sanpaolo, IMI and Cardine Banca), the aggregation of which formed the existing Sanpaolo IMI.

### Chairman and Managing Directors

The Chairman legally represents the Company before third parties. He also calls and presides over the meetings of the Board of Directors and the Executive Committee, ensuring adequate and prompt flows of information to all the Directors to enable the most effective and aware contribution to the work of the corporate bodies.

The Board has conferred to the Managing Directors, considered individually, powers to be exercised within the context of the respective competencies, strategies, addresses and plans laid out by the same Board, with faculty of sub-power of attorney and the

obligation to report quarterly to the Board on the activities performed, the decisions made and the powers of attorney.

The distribution of the areas of responsibility among the three Managing Directors originates from the identification of operational and market contexts with similar characteristics and from the determination to maximize specializations and competencies. Another aim is to achieve maximum sharing of Group targets and successful coordination between distant but correlated operating areas, in order to maximize operating efficiency and supply a service of excellence to all customers .



The Boardroom in the piazza San Carlo office, Turin



### The remuneration of Directors

The remuneration of Directors comprises a fixed annual part, a variable part established on the basis of parameters approved by the Shareholders' Meeting, and a fixed amount inclusive of allowances for each attendance at meetings of corporate bodies (with reimbursement of expenses). The Board of Directors for 2002, as proposed by the Remuneration and Personnel Policies Technical Committee, has

"S. Paolo", anonymus author



established for the Chairman and the Managing Directors, a fixed remuneration and a variable part linked with the achievement of specific targets in Bank and Group results, integrated with stock option plans. The latter, described in detail in the Annual Report, are articulated in a fixed component and a variable component fixed to share performance. The same Board establishes the amounts due to the Deputy Chairmen and members of the Technical Committees.

### The Board of Auditors

In accordance with art. 19 of the Articles of Association, the Board of Auditors is elected by the Shareholders' Meeting by a vote and in observance of a procedure which provides for the preventive publicity of the candidacies and ensures adequate representation of the exponents of the minority shareholders. The Sanpaolo IMI Shareholders' Meeting held on 30 April 2002, nominated the Board of Auditors for the 2002 - 2004 three-year period.

### The system of internal controls

The Sanpaolo IMI system of internal control is made up of a total plural integration of subsystems of control which, operating at all levels throughout the organization, guarantee the effective and efficient management of risks. Audit Direction is particularly responsible for this function and reports directly to the Managing Directors and therefore enjoys the necessary independence from the operating structures. Its responsibilities include the evaluation of the functionalities of the Group's complete system of internal controls, the control of operating regularity and the trend in risks, as well as the highlighting of possible improvements. The Board of Directors and the Audit Technical Committee are informed of the results of the activity on a quarterly basis.

### Internal dealing

Sanpaolo IMI has also complied with the provisions on the matter of internal dealing of Borsa Italiana, adopting a special Code of Conduct with reference to the relevant people. This Code intends to make clear all transactions of purchase and sale undertaken by the Directors and by other "relevant people" in the stocks of listed companies of the Group (excluding non convertible bonds), in other words, those that, by virtue of their role, have access to privileged information. Within ten stock exchange working days of the end of each quarter, the Bank informs the market of the transactions performed by relevant people amounting to at least 50,000 euro or without delay (and by the first day the stock exchange is

open following the transaction) for amounts of more than 250,000 euro. Provision has also been made for the Board of Directors to establish, for specific periods of time, prohibitions or restrictions regarding security transactions.

### American regulations

Sanpaolo IMI, being a company listed on the NYSE and registered with the SEC (Securities and Exchange Commission), is also bound to observe the American regulation applicable to foreign issuers, including the so-called Sarbanes-Oxley Act, introduced on 30 July 2002. These are deeply penetrating provisions regarding market transparency which join the annual informative document, better known as Form 20 F, provided for by the previous regulation. The provisions of the Sarbanes-Oxley Act of major importance include the obligation of the principal executive officer and the principal financial officer to include in the annual reports to be sent to the SEC (starting from those for 2002) a certification stating that they have audited the documents and guarantee the absence of false declarations or omissions regarding relevant facts, as well as the correct nature of the financial conditions reported. Within the picture of the initiatives aimed at putting such regulations into effect and in compliance with SEC requirements, the Board of Directors has established a Disclosure Committee to assist the management departments of the Bank in fulfilling their duties and responsibilities in relation to the controls on accuracy and timing of the disclosure activities. Moreover, Sanpaolo IMI, also consistently with that dictated by the Sarbanes-Oxley Act, in the 2003-2004 biennial will provide for the adoption of an Ethical Code (already approved by the Board of Directors on 25 March 2003, and attached with this document), to monitor the responsibilities of the independent auditors and to make public every off-balance sheet transaction, agreement or obligation which may have a relevant impact on financial and economic conditions.

### Ethical Code

The adoption of an Ethical Code, as of March 2003, follows the indications deriving from the American regulation and the Legislative Decree 231/01 on the administrative responsibility of companies, but completes a process that has already been underway for some time. The document - attached - contains the indication of the ethical principles of reference for the bank and its directors, employees and co-workers in every operating and geographical area.

# Compliance with principles and willingness to communicate

In the process of definition of policies and willingness to communicate on the themes of Corporate Social Responsibility, 2002 was an important year for Sanpaolo IMI.

## UNEP Declaration

Firstly the Bank, as proposed by the Ethical Committee, complied with the principles of environmental protection and support of sustainable development developed by the UNEP in the United Nations Environmental program, subscribing the related Declaration.

The UNEP Financial Institution Initiative was set up in 1992 with the aim of involving a wide range of financial institutions in constructive debate on the link between economic development, environmental protection and sustainable development. The aims of the initiative, with which the Bank is in full agreement, include:

- committing companies to integrate social and ecological preoccupations in their everyday activities and relations with other interested parties;
- promoting the commitment to internal surveillance with regard to environmental objectives;
- encouraging the development of products and services to protect the environment;
- encouraging the communication and sharing of experiences and know how on the matter.

## UN Global Compact

By way of further confirmation and continuation of the direction taken, in December 2002 the Ethical Committee supplied a favorable indication for compliance with UN Global Compact, formalized in May 2003.

UN Global Compact is a voluntary initiative which intends to promote the dissemination of practices aimed at achieving a sustainable development program. The project was launched and is sponsored by the Secretary General of the United Nations, Kofi Annan. It is based on compliance with nine principles related to human rights, employee rights and environmental protection.



The nine principles, which we have guaranteed our complete sharing and support, are the following:

### Human rights

1. Observe and promote the respect of human rights
2. Ensure that the activities performed do not support any kind of abuse

### Employment

3. Freedom to join trade unions
4. Elimination of every form of coercion to work
5. Elimination of child labor
6. Elimination of discrimination in the workplace

### Environment

7. Sensitivity towards environmental issues
8. Promotion of initiatives to disseminate responsibility towards the environment
9. Encouragement of the development and dissemination of eco-compatible technologies



## Cooperation with EIB

The common interest for environmental issues and a relationship of cooperation which has been in force for some time have led us to promote, in conjunction with the EIB, the formation of a European forum for the dissemination of environmental policies and practices. The Forum was created with the aim of developing and sharing with other banks methodologies and costs linked with the development of a best practice in terms of evaluating the environmental impact of investments financed by the same banks. The first meeting, in March 2002 in Rome, enabled the sharing of the know how and approaches of the banks that took part. This initiative, attended by important Italian and foreign groups, offered significant inspiration for comparison and was repeated in March 2003 in London. Sanpaolo IMI contributed to this latest meeting on sustainable mobility.

## Forum for Sustainable Finance

In the context of the search for greater comparison and communication with other operators in the sector and with our stakeholders, we also joined the Forum for Sustainable Finance. The Forum is a no profit multistakeholder association with largely cultural aims, which sets itself the target of disseminating the culture of social responsibility and sustainable development in the Italian financial community. It is the Italian representative of Eurosif (European Sustainable and Responsible Investment Forum), a network of European organizations which intends to promote and support the development of SRI (Socially Responsible Investments) and which enjoys the support of the European Commission.

The contribution includes participation in the research on "Pension Funds and Socially Responsible Investments", conducted by Mefop, by the Forum for Sustainable Finance, with the cooperation of Avanzi srl Research, and sponsored, among others, by Sanpaolo Wealth Management.

## Ftse4Good

Recognition of the concrete, active commitment of Sanpaolo IMI on the themes of the social responsibility of companies and sustainable development also arrived, in July 2001, with the inclusion of the share in the FTSE4Good Europe index. FTSE4Good (Footsie for good) is a series of benchmark indices and commercial indices, created by the FTSE, aimed at facilitating investment decisions by investors in companies that prioritize, along with financial performance, corporate social responsibility.



# The Group and the Parent Bank

In carrying out the general part, dedicated to identity and governance, we made principle reference to the Sanpaolo IMI Group, so as to offer a summarized but thorough vision, capable of illustrating the reality it represents today in the context of the domestic financial system.

As illustrated in the explanatory notes on the publishing criteria, this first edition of the Social Report particularly regards the Sanpaolo IMI Parent Bank, considered as the result of the merger by incorporation completed on 31 December 2002 with Banco di Napoli. In the near future we intend to extend the analysis to the whole Group.

For the moment therefore, our treatment will continue to make exclusive reference to this agglomerate, apart from occasional mentions of other Group companies, where necessary in order to indicate the specific tool with which we communicate with some categories of stakeholders.

To give the reader an idea of the “weight” of the bank, configured as above, compared with the Group, we thought it would be useful to list the figures below which regard the main qualifying data of both realities at the end of 2002.



Naples, via Toledo



Padova, via Trieste

## Key figures

### ECONOMIC AND FINANCIAL FIGURES (in mil €)

	Group	Parent Bank	%
Net income	889	764	86%
Operating income	2,360	1,433	61%
Net interest and other banking income	7,160	4,377	61%
Total assets	203,773	135,007	66%
Shareholders' equity	10,537	9,956	94%
Customer loans	126,701	76,159	60%
Financial assets	356,281	207,652	58%
Direct deposits	137,049	75,213	55%
Indirect deposits	219,232	132,439	60%

### PROFITABILITY RATIOS (%)

	Group	Parent Bank	%
ROE	8.3	7.4	
Cost/Income	65.1	65.6	

### OPERATING STRUCTURE

	Group	Parent Bank	%
Employees	45,650	28,036	61%
Financial planners	4,955	-	-
Domestic branches	3,069	2,115	69%
Foreign branches and representative offices	153	28	18%

### RETAIL AND CORPORATE CUSTOMERS (in mil)

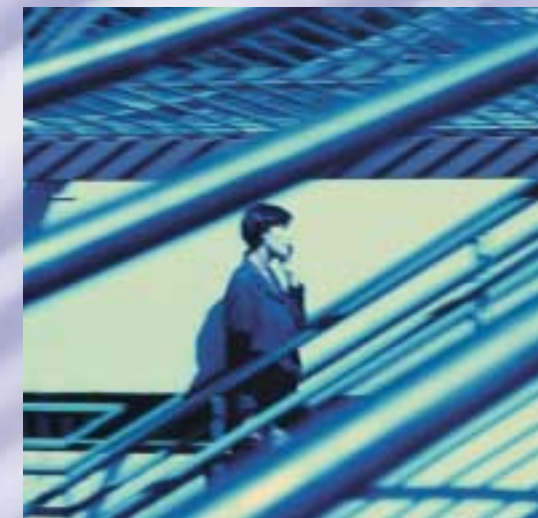
	Group	Parent Bank	%
	7.9	5.3	67%



Milan, piazza Diaz

## Our Stakeholders

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# Customers

## VALUES

### Creation of value

#### Value in detail

Our work aims to provide real benefits for our customers, i.e. it is dedicated to obtaining results which are - and are seen to be - consistent with their expectations.

### Customer orientation

We want our customers to feel they are guided by an organization based on concrete needs, which is willing to talk and offers good listening abilities.

### Integrity

We are convinced that over the long term the loyalty and clarity demonstrated to our customers will become a further source of benefit for the entire organization.

### Commitment to excellence

We want to offer our customers easily accessible quality products and services integrating tradition, through a network of Branches and virtual channels, with the comfort and richness of information available from technological instruments.

### Growth in observance of specific qualities

We operate in order to ensure the highest attention is paid to individuals and, in particular, to the needs of specific categories of customers.

### Responsibility in the use of resources

We aim to allocate financial resources responsibly, through our daily operations, by bringing together the needs for security and remuneration of our customers personal savings accounts with the financial requirements of the business world.

## Customer Satisfaction of the Group

Customer orientation is one of the principal values of reference for the entire Group, which is strongly intent on maximizing customer satisfaction. With this in view, in April 2002 we created the Group Customer Satisfaction Function, with the task of analyzing and developing indicators of position and satisfaction within the areas of Group activities. In particular, the objective of this Function is to develop systematic programs aimed at “continuous improvement” rather than mere monitoring. From the point of view of services offered by the bank, these will allow the integration and support of activities dedicated specifically to retail customers and businesses. The plan of work is set out in two distinct levels of investigation:

**the macro level**, through adherence to the ABI-Eurisko Customer Satisfaction Observatory, for the purpose of measuring trends in the level of satisfaction toward the Group’s banking network, analyzing market position, strengths and weaknesses in respect of main competitors and defining a system of internal comparison which can be applied to the individual banks in the Sanpaolo IMI Group;

**the micro level**, realized by a specific internal project, for the purpose of identifying and taking priority action to improve satisfaction and to increase loyalty through detailed indicators.

Some freecall numbers, mainly dedicated to direct channels users, are available for Sanpaolo and Banco di Napoli customers, whose requests are responded by a dedicated Function, with 169 operators.

Our customers form an important part of our wealth: Sanpaolo and Banco di Napoli have a total of 5 million retail customers and more than 300,000 business clients.

Our customers are shown dividing their treatment into two large groups, which correspond to the fundamental activities of a financial institution: households represent the reservoir for the inflow of assets; they are offered savings accounts and asset management. Businesses, on the other hand, form the demand for financial resources (venture capital or borrowed capital), which is satisfied in different ways, from investment in share capital to short and long term loans. Naturally, there are significant areas which overlap, in the sense that also households are granted loans of one sort or another, just as assets can be managed for businesses. Then there are actors, professionals, family manufacturers and small businesses which, whilst belonging to the business sector, are really halfway between the two categories, in terms of both characteristics and in the products and services offered.



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### PRINCIPAL VOLUMES OF ACTIVITY TOWARD CUSTOMERS

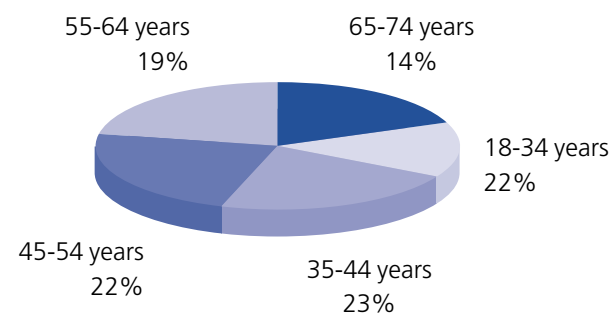
(In millions of Euro)

<b>Financial asset</b>	<b>207,652</b>
Asset management	71,087
Asset administration	61,352
Direct deposits	75,213
<b>Loans</b>	<b>76,159</b>
of which Mortgage loans	33,155

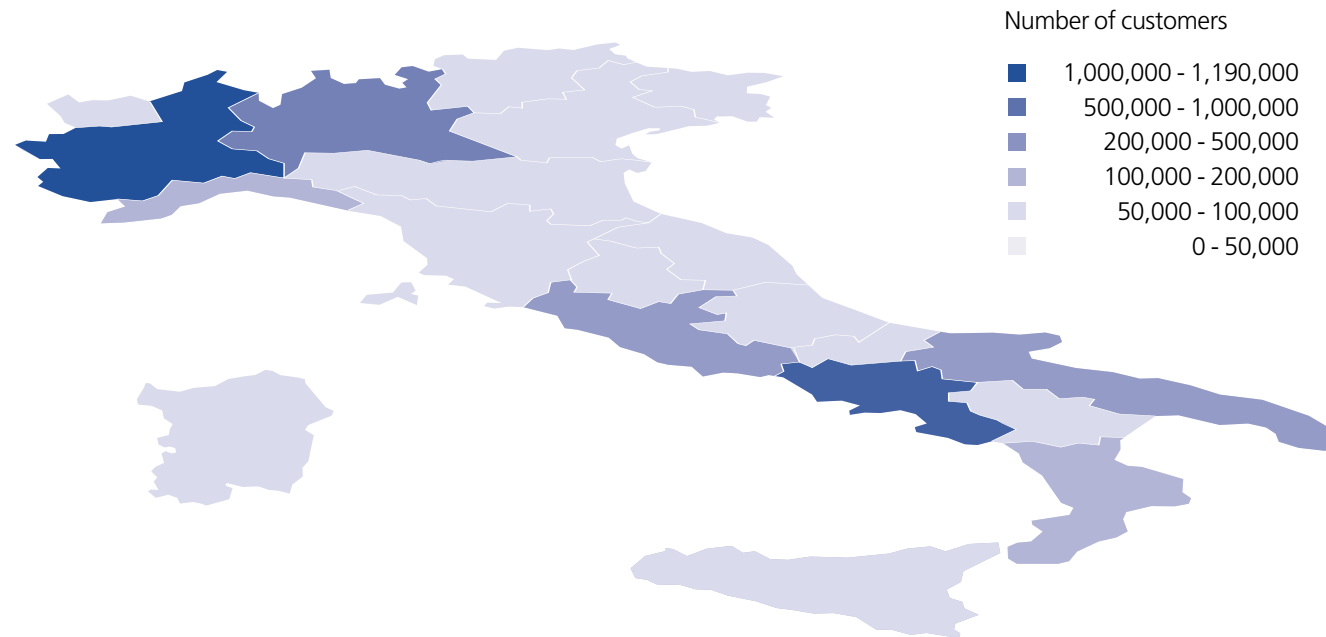
# Retail customers

The Bank has around 5 million retail customers, distributed over all age brackets and across the entire country. The areas of highest customer concentration are - obviously - those where Sanpaolo and Banco di Napoli are deeply rooted: the North West and the South.

**BREAKDOWN OF RETAIL CUSTOMERS BY AGE**  
(INTEGRATED DATA FOR SANPAOLO AND BANCO DI NAPOLI)



**BREAKDOWN OF RETAIL CUSTOMERS BY AGE**  
(INTEGRATED DATA FOR SANPAOLO AND BANCO DI NAPOLI)



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## The asset management business

The economic environment of this business activity was characterized by intense uncertainties and by a crisis in investors trust in the efficiency and functionality of the markets, particularly stock markets. Being the Group leader on the market of asset management, with a share of 14.4%, during 2002 we tried to strengthen our role as guide and orientation in asset management services for households. For these purposes we have counted on the traditional elements of strength in our Network: customer relations, capillarity and proximity to the market, image of soundness and trust.

With the support and personalized assistance offered by our Branch networks, customers have changed the general composition of portfolios (asset mix) in favor of products containing insurance policies and protected capital to meet the demand for security and assurance.

With the desire to improve the level of service and the global efficiency of the distribution processes within the investments sector, we started a series of initiatives, such as the *Client Financial Planning*, and realized service models for the different customer segments.

### Client Financial Planning

The main objective of the *Client Financial Planning* project is to significantly improve the professionalism of the operators and the quality of assistance provided to the customer in respect of investments, supporting the Network in a difficult market environment, characterized by the widespread lack of confidence of customers toward financial intermediaries. The *Client Financial Planning* project identified different areas for intervention, with the aim to:

- improve the culture of the sales force, strengthening its technical and management skills;
- to prepare instruments, even software, suitable to support the Network and to rationalize the management of economic information provided;
- realize instruments to monitor the commercial efficiency of the sales force.

### ASSOCIATION FOR THE PROTECTION OF INVESTORS IN ARGENTINEAN SECURITIES

In September 2002 we, along with seven other important Italian banks, established the *Association for the protection of investors in Argentinean securities*, with the task of representing the interests of investors in Argentinean securities by providing, free of charge, consultancy and assistance. For this purpose, we created a space on the [www.sanpaoloimi.com](http://www.sanpaoloimi.com) website for publishing documents produced and sent to customers, press releases issued by the Association and all other forms of correspondence and notification of possible interest to the investor.

### Investment Policy

The principal inspirations behind the *Client Financial Planning* were incorporated within the *Investment Policy*, a document distributed to all employees in April 2003, which combines the guiding principles for providing investment services to customers, setting out the following objectives:

- to confirm the importance of customer assistance, within the scope of the Bank's strategies, in respect of investments;
- to promote the development of awareness oriented toward monitoring the risk and consistency of customers' portfolio investments in respect of specific financial requirements;
- to define some rules for managing customer relations, inspired by some essential financial principles, in order to strengthen the ability to interpret customers' needs in an impartial manner, whilst respecting the Bank's targets for income over the medium term.

## THE GUIDING PRINCIPLES OF THE INVESTMENT POLICY

- 1 The objective of the assistance to investments is to serve the Customer better in choosing, helping him to satisfy his financial needs.
- 2 The investment of assets and flow of Customer savings must be made by selecting activities with a risk/yield profile consistent with the financial needs.
- 3 The diversification of investments allows efficiency in the portfolio to be increased, improving the combination of risk/yield.
- 4 Investing in asset management products is an efficient choice from the point of view of financial principles.
- 5 The long term global performance of the portfolio is largely attributable to the choice of asset allocation and, to a lesser extent, to the performance of individual investment tools.
- 6 Periodical investment reduces the risk of concentrating purchases to a particular moment in the market.
- 7 Equity investments require a medium/long term horizon.
- 8 The guidelines for investments must be explained to the Customer in order to direct him in his choice.
- 9 Assistance with investments must be provided to the Customer continually.
- 10 The consultant/manager must operate impartially to defend the interests of and to satisfy the Customer.
- 11 Investments in individual shares/bonds, for which the Bank does not provide suggestions, must always be made solely on explicit request by the Customer.
- 12 Speculation activities on financial markets must be performed only by those Customers with adequate risk profile and on specific request.





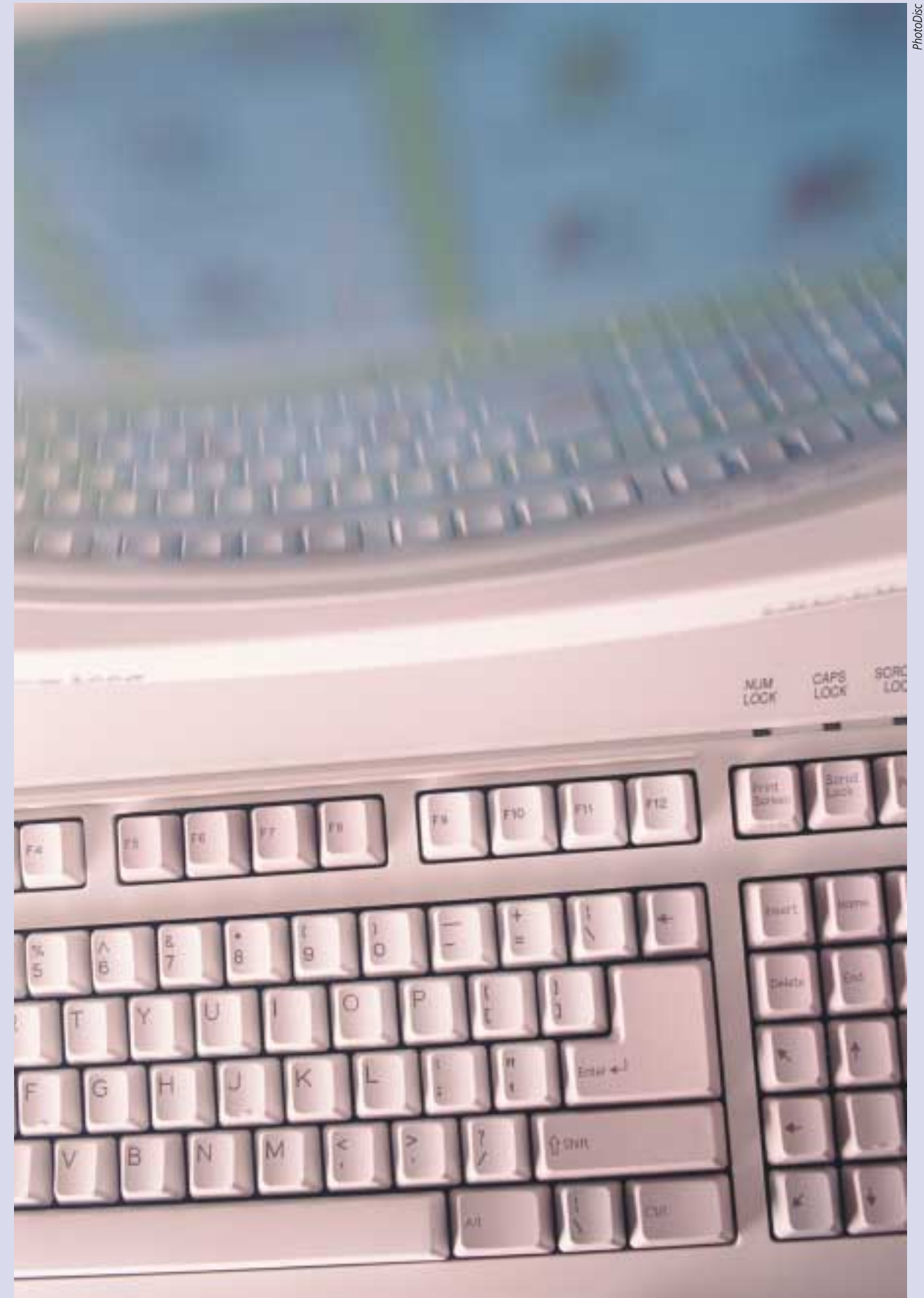
**CLIENT FINANCIAL PLANNING:  
INVESTMENT NEEDS**

	NEEDS	MEANINGS	EXAMPLES
<b>SECURITY</b>	LIQUIDITY	<ul style="list-style-type: none"> <li>The availability of funds to cover ordinary expenses</li> </ul>	<ul style="list-style-type: none"> <li>Ordinary payments</li> <li>Liquidity cushion (for unexpected occurrences)</li> </ul>
	ASSURANCE AND INSURANCE COVER	<ul style="list-style-type: none"> <li>To obtain an annuity at the end of the working life</li> <li>To have a cover against extraordinary events</li> </ul>	<ul style="list-style-type: none"> <li>Pension integration</li> <li>Risks cover:                             <ul style="list-style-type: none"> <li>- personal accident - permanent disability</li> <li>- sickness - unemployment</li> </ul> </li> </ul>
	CAPITAL PROTECTION	<ul style="list-style-type: none"> <li>To minimize the risk of capital losses and deadlines to guarantee availability for future financial predetermined investments</li> </ul>	<ul style="list-style-type: none"> <li>To buy home</li> <li>Wedding</li> <li>Children studies</li> </ul>
<b>GROWTH</b>	ACCUMULATION	<ul style="list-style-type: none"> <li>To increase the capital according to his/her risk aversion and time horizon</li> </ul>	<ul style="list-style-type: none"> <li>Investment in a product portfolio to get a "X" yield in a "Y" year timeframe with a fixed probability</li> </ul>
	SPECULATION (derivatives)	<ul style="list-style-type: none"> <li>To obtain the maximum capital growth, also in the short term, with the risk to lose the entire sum</li> </ul>	<ul style="list-style-type: none"> <li>Investment in speculative instruments (CW, derivatives) not for hedging purposes</li> </ul>

THE PROJECT IDENTIFIES FIVE MACRO-NEEDS FOR INVESTMENT: "LIQUIDITY", "ASSURANCE AND INSURANCE COVER", "CAPITAL PROTECTION", "ACCUMULATION" AND "SPECULATION"; MEETING WITH THE CUSTOMER PROVIDES THE OCCASION TO DISCUSS ALL THE INVESTMENT NEEDS, TAKING CARE TO ANALYZE THE PRIORITIES WHICH MUST BE SATISFIED. THEREFORE THE UNDERLYING THEME OF THIS PROJECT ARE THE NEEDS AND THE CHARACTERISTICS OF THE CUSTOMER, WITH PARTICULAR ATTENTION TO THE ANALYSIS OF THE TOLERATION OF RISK.

**The growth in investment risk awareness towards the sales network...**

The above activities contributed to the growth in knowledge of the sales force of the social responsibility of the Bank and of all its operators, when performing their tasks. These activities were supported by important initiatives in internal communication and training, which involved all sales Network and all the Branch managers. Together with the creation of new software, the main documentary support available to the branches was also subjected to review. As a matter of fact, a manual entitled "Invest Today - Client Financial Planning" has been published, which contains, in addition to important in-depth studies, all the reorganized product charts according to the logics of the Client Financial Planning.



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### ... and towards investors

With an aim to articulate a strategy to improve the knowledge of the investors in respect of the risks connected to their investments, as part of the Italian Banking Association, we have also contributed to some working panels.

For this purpose an extensive initiative has started, involving the entire banking system, articulated at different points, among which the classification of financial instruments into homogeneous classes to facilitate the understanding of risks and some auto regulatory initiatives (workshops on operations defined “inadequate” according to Consob classifications). We have also included an *education* section on the [www.sanpaoloimi.com](http://www.sanpaoloimi.com) site, which shows the importance of “investing in a conscious manner”, focusing on financial instruments in existence on the market and also on the risks connected to different types of investment. In particular, the chapter “Some suggestions before investing” is aimed at discouraging the customer from approaching markets for speculation and to make him aware of the illusion of rapid and high earnings.

### Offering Ethical Funds

Through Sanpaolo Asset Management Spa, Sanpaolo IMI Wealth Management was one of the first operators in Italy to launch 3 “socially responsible” funds in 1997 which comprise the Ethical System and which enrich the Sanpaolo Italian Funds on offer. In order to respect the strictest of ethical principles, Sanpaolo Wealth Management resorts to some of the most important research companies in the sector for specialized consulting in the “ethical rating” of a company. The control is carried out by an independent Ethical Committee, chaired by Cardinal Ersilio Tonini, with the task to verify constantly that management choices conform to the declared ethical principles. The members of the Committee express their opinion on the conformity of the choices made to the managers of the Ethical funds in respect of the issuers of the bonds in the portfolio and of potential issuers. The Sanpaolo Ethical System does not only control the ethics of investments (eg. environmentally friendly or conformity to human rights), it also provides concrete help for those in need, through donation of 0.01% of the average global monthly net equity of the Ethical System funds each year: a portion of the donation is destined to 17 associations part of a convention, a portion to humanitarian initiatives selected by the Board of Directors on the basis of suggestions

proposed by the Ethical Committee. Even subscribers to the Sanpaolo Ethical Bond can, if they wish, donate all or part of their income from coupons to one or more of such associations (in 2002 a total of 93,400 euro was donated)<sup>5</sup>.

Today Sanpaolo IMI Wealth Management is in a leadership position on the Italian market, with assets under management in ethical funds totaling around 1 billion euro, representing almost 42% of Italian ethical funds (data at February 2003).

## ETHICAL SYSTEM

### International Ethical Shares

Invests in companies listed on major international markets, chosen on the basis of ethical principles, avoiding for example, companies which show an indifference toward safeguarding health or the environment or which exploit child labor<sup>6</sup>

### Ethical Bonds

Invests in fixed income securities mainly denominated in euro. The Fund is recommended to investors on a medium term horizon and with a low risk factor, aimed above all at preserving the value of the investment whilst respecting ethical principles and without renouncing a moderate growth. The Fund is also characterized by the annual distribution of revenues and offers the subscriber the possibility of donating part of the annual coupon to charity.

### Foreign Ethical Bonds

Invests in fixed income securities mainly in foreign currencies and by issuers selected taking into account ethical principles. The Fund is recommended to investors on a medium term horizon and with a low risk factor, aimed at preserving the value of the investment whilst respecting ethical principles.

<sup>5</sup> The associations belonging to the convention are: FOND. PRO - JUVENTUTE DON GNOCCHI, LEGA ITALIANA PER LA LOTTA CONTRO I TUMORI, LEGAMBIENTE, A.I.S.M. (ASS. ITALIANA SCLEROSI MULTIPLA), GRUPPO ABELE, Ai.Bi. (ASS. AMICI DEI BAMBINI), A.M.U. (AZIONI PER UN MONDO UNITO), ANT (ASS. NAZIONALE TUMORI), COMETA (COORD. ASS. MALATTIE METABOLICHE EREDITARIE), FANEP (ASS. FAMIGLIE NEUROLOGIA PEDIATRICA), FOND. ADVENTUM, FOND. BANCO ALIMENTARE, FOND. OPERA SAN FRANCESCO PER I POVERI, FOND. VITA, OPERA DI SANTA TERESA.  
<sup>6</sup> The first 5 shares held by Sanpaolo International Equity Ethical at 30 April 2003 were Microsoft (3,0%), Vodafone Group e BP Plc (con il 2,1%), HSBC (1,8%) e Glaxosmithkline (1,7%).





## Meeting the needs of the customer

### The new range of current accounts

During 2002 we renewed and expanded the offer to current account holders, by launching a new range of products which better reflect the diverse needs of the customer: from that with greater autonomy, for whom we created an account for users of virtual channels, to the natural need for simplicity and certainty in costs. Included in the range are two current accounts specifically studied for those with prevailing investment needs and, therefore, who need more qualified and professional information.

### Products for young people

We have also renewed the entire range of products for Under 18s (more specifically, two savings books aimed at the 0-5 age group and 6-17 age group), with the aim of creating the basis for establishing a long term relationship with our youngest customers. In addition to supporting campaigns by sponsoring ethical and social activities (contributing to the Davide.it portal, for safe surfing on the Internet, supporting WWF and Unicef), these products are characterized by the absolute absence of costs: as a matter of fact, charges for stamp duty required by law on opening an account are borne by the Bank. With the future of our younger customers in mind, we have also created "Premio Giò", an insurance product which rewards scholastic results with resources which can be used by the younger customers as a form of scholarship for University or to start-up their first business activity.

NEED	PRODUCT	PRINCIPAL CHARACTERISTICS
Possibility to reduce account costs to zero	Benefit Bonus	<ul style="list-style-type: none"> <li>charges for keeping account: 10 euro quarterly</li> <li>remuneration of deposits: not expected</li> <li>possibility to reduce quarterly charges to zero with an average quarterly balance of more than 5,000 euro and high level number of transactions via remote channels</li> </ul>
	Benefit Bonus Under 23	<ul style="list-style-type: none"> <li>the cost for account holders with less than 23 years of age remains zero</li> </ul>
Definite and contained cost	Benefit Facile	<ul style="list-style-type: none"> <li>charges for keeping account: 10 euro quarterly</li> <li>interest bearing: not expected</li> </ul>
Completely autonomous 24/7	Benefit Web	<ul style="list-style-type: none"> <li>charges for keeping account: 10 euro quarterly</li> <li>transactions through direct channels and withdrawals with debit cards</li> <li>other operations included: 9 per quarter</li> <li>interest bearing</li> </ul>
Exclusive Investments and Services	MultiBenefit (two versions)	<ul style="list-style-type: none"> <li>charges for keeping account: 15 euro or 30 euro quarterly, depends which version</li> <li>interest bearing</li> <li>Trust Deposit free of charge</li> <li>"Integrated Reports" service</li> </ul>
	MultiBenefit Platinum	<ul style="list-style-type: none"> <li>charges for keeping account: 60 euro quarterly</li> <li>interest bearing</li> <li>Trust Deposit free of charge</li> <li>"Integrated Reports" service</li> <li>Debit cards: free of charge</li> </ul>

### Clarity and transparency at the forefront: - in the mortgage loans sector

Following a considerable drop in interest rates, we renegotiated mortgage contracts in favor of holders of fixed rate mortgages. Initially negotiations commenced freely and under agreement with some consumer associations then, in accordance with law 24/2001, they were extended to include all contracts in force as at 31/12/2000. We also adhered to the European Code of Conduct for home mortgages. In order to improve clarity of contracts, we changed the mortgage forms to conform to the Italian Banking Association, in accordance with the principal consumer associations. Customers requesting an estimate are provided with the "Standard European informative Prospectus" containing the elements which identify the precise characteristics and bank charges (including TAEG) of the mortgage requested. We have also commenced a project aimed at obtaining the UNI EN ISO 9001:2000 certificate for issuing Domus and Assidomus mortgages.



### - in the foreign payments sector

In the International Payments sector and in that of the European Monetary Union (EMU), we issued a new internal regulation and carried out some technological implementations which have allowed us to achieve on the one side greater transparency in respect of the commissions applied to customers and, on the other side, to reduce the maximum time to perform a bank transfer between countries belonging to the EU. This allowed our Bank to be among the promoters on a European level of a payment scheme<sup>7</sup> which provides for the entire operation (end-to-end) for payment by international bank transfer<sup>8</sup> over a maximum of 3 working days, halving the time required according to normal regulations<sup>9</sup>. Since July 2002, Sanpaolo has been among the top 20 banks (of around 9,000 Commercial Banks in Europe) to offer this type of service for payment, at particularly competitive prices. In order to improve information for customers and to be in a condition to provide standardized cross border operations, since the end of 2000 we have also, way in advance of the rest of the European Banking Industry, included a box in our bank statements showing the international banking coordinates. It is also useful to highlight that the new internal procedures allow the branches to provide better assistance to customers, through the availability of the majority of regulations and norms in electronic format and on-line. International Payment and EMU services are certified in respect of UNI EN ISO 9001:2000<sup>10</sup>.

### EXECUTIVE PROGRAMME

Executive is a points program created to offer holders of the MultiBenefit account rewards and benefits absolutely free of charge. To obtain them, in accordance with the Regulations, it is sufficient to use the banking and investment services and products connected to the MultiBenefit account and thus accrue, on a monthly basis, "points" which can be converted into the reward to be chosen from catalogue. In the latest version of this program, the Account holders can also convert the points accrued into donations to the Save the Children fund, the largest international movement for the defense and protection of children's rights, with a network of 30 voluntary and non-profit making organizations in more than 120 countries, including Italy. Collaboration with the FAI and Airc associations remain alongside that of *Save the Children*. The FAI (Italian Heritage Society) has, over the past 25 years, safeguarded the artistic and naturalistic heritage in Italy: by donating to this organization, customers have the possibility to participate in financing works of art, monuments and gardens and receive two free entrance tickets to visit FAI property. Since 1965 Airc, (Italian Association for Cancer Research) has financed cancer research projects, distributed scholarships and promoted sensitization campaigns.

During 2002 Executive account holders donated 17,800 euro to charity, through 356 donations.

7. Known as CREDEURO.

8. The International Bank Code of the beneficiary's bank and the IBAN of the latter.

9. In particular, EC directive 97/5 and the Italian Dlgs 253/2000 which establish the precise regulations in terms of transparency and maximum time to perform transfers.

10. In particular the certificate refers to "The design, realization and performance of Financial Clearing and Commercial Euro services and Customer Service and end-to-end transfers for payment operations entering into the Single European Payment Area (SEPA) and cross-border".



### Differentiated service models

In light of the new needs for consumer security and protection, we believe that a distinctly fundamental ability is represented by the capacity to build and maintain a solid relationship with the customer. Our commitment to achieve this objective is accomplished, in addition to the development of policies for a product characterized by innovation and competitiveness, by the ever increasing departure from the “general” distribution set up, to come up with solutions based on service models for the different customer segments.

With this in view, we intend to promote a new organizational model in the Retail Branches, based on specialized models which will allow us to bring together a focalized and personalized commercial approach and a high level of distributive efficiency. In fact, the evolution of the organizational model answers the need to “get closer” to the customer and determines, through interaction of the operators in a “team play” logic, to construct a long term relationship with the customer, based on professionalism and on the knowledge of the customers’ needs. For this purpose, a specialized professional figure will be created for each market segment.

In particular, the following initiatives will be developed during 2003 to give greater impulse to the differentiation of the service models:

- consolidation of the new service model, realized in 2002, aimed at the Private customers (customers with considerable financial liquidity and the need for specific assistance, not only financial), with the objective of increasing the quality of services through:
  - a more capillary presence of dedicated operating points over the territory, characterized by the presence of a team of specialists;
  - the expansion and evolution of the range of products and specialized services on offer (an “exclusive” current account, a specific portfolio management in funds with personalized asset allocation, a new platform of non-financial consultancy services);
  - further growth in the skills of the segment specialists;
- consolidation of the service models by customer segments with investment needs, centered on Personal Banking which, as opposed to the traditional model organized by function, allows the customer to communicate always with the same person. This choice creates value and ensures continuity for the customer, in addition to favoring the optimization of individual portfolios in terms of risk/yield;

- start-up of the “Front Line” project, aimed at promoting the Household sector and to bring a strong contribution to the front-line of the Network by promoting the utilization of direct channels for customers that do not need assistance at branches. The heart of this activity is concentrated on the “front line” of the branch operators, the physical area of access which provides the customer with the first impression on the level of quality offered in terms of reception, professionalism and service.

Within this project, the Commercial Customer Chart was created, an instrument which will allow relations with the customer to strengthen even more, through greater knowledge of the customer’s financial and personal profile. The guidelines for this project were inspired by an analysis of the Family customer, with the goal of investigating the needs expressed by the reference market, in terms of type and purpose of the investments and loans, of perceived use of services and preferred methods of operating with the Bank;

- continuous development in the professionalism of Small Business Managers (dedicated exclusively to small businesses, eg. shopkeepers and professionals) through capillary activities in training, communication and direct involvement<sup>11</sup>. The role of the Small Business Manager is decisive, both to maintain the assumptions of satisfaction, which is indispensable for a long-term relationship with this type of client, and to seize the opportunity to strengthen the relationship itself.

<sup>11</sup> For more details on Small Business segment, see section companies customers.



## Distributive Innovation

### Multi-channels

We have chosen to expand the direct channels (Internet, phone and mobile banking) in close integration with the branch Network, on the one side valuing the relationships and assistance of a “classical bank” and on the other side, offering the customer the comfort and richness of information available from the most sophisticated technological instruments.

In addition to visiting a branch, subscribers to the Sanpaolo multichannel service can perform simple operations, from home, on their current accounts and investments at any hour of the day.

The internet banking allows a large number of operations to be performed from a Personal Computer, phone banking through a simple telephone call and mobile banking directly from a mobile telephone.

These services will also be extended to Banco di Napoli customers who, from June 2003 will be able to use the same online services.

In the two years since the launch of the direct channels, more than 300,000 multichannel contracts have been signed, with a growth of 92% on 2001. The level of operations has quadrupled: in 2002 almost 528,000 operations were performed, such as bank transfers, account transfers and charges to mobile telephone cards, while purchase and sale transactions in securities and funds totaled around 570,000.

As far as services offered are concerned, in 2002 facilities for standing orders for paying utility bills, taxes and fiscal contributions, among others, were also activated.

The Internet Banking service for retail customers was certified by Det Norske Veritas to be in compliance with BS 7799 standard<sup>12</sup>.

During 2003 the Direct Banking sector will be

assigned an important role both in terms of expansion of the services offered to its current customers and in terms of the activity of acquiring new customers largely oriented toward the utilization of direct channels and new technologies. For these purposes, the activities will focus on the personalization of services and on commercial promotions with the following main objectives:

- growth in the number of multichannel customers and expansion of the methods of use of direct channels;
- further expansion of the range of investment, payments and banking services offered, also in the light of widening the customer segment;
- distribution of insurance products (eg. car insurance offered on the internet and telephone banking)

Telephone campaigns will also be intensified to support the promotions and to follow relations by extending customer care to non-multichannel customers.

### The spread of new instruments for payment

#### Prepaid cards

A number of initiatives commenced or were developed in 2002 with the aim of providing access to new tools for payment by people who, for social, cultural or economic reasons (unemployed, foreigners) do not have any relations of any kind with banking systems or have only a basic relationship with banks (pensioners, young people):

- in December 2001 we launched the first prepaid debit cards (which can be re-charged as necessary) in order to facilitate the passage to the Euro for those belonging to social categories normally most resistant to the use of electronic monetary systems;
- in 2002 a prepaid card for use on international circuits (Soldintasca international) was realized, mainly for minors, for them to gain more confidence in using such instruments and to be able to use them on journeys abroad for study or vacation. The card can immediately solve problems relating to expenses, thanks to the possibility of being recharged by the parent and used by the child while at a distance.



### Bank Pass Web for safer e-commerce

Within the context of the more frequent use of debit cards, the level of security guaranteed to the user is of particular importance. With this in mind, we were the first in 2002 to launch Bankpass Web, a “protected” payment service for use when purchasing on the Internet, which guarantees the consumers and the retailer against the fraudulent use of debit cards and credit cards over the Internet.

Among the services which can be purchased over the Internet with Bankpass Web is the Trenitalia Spa ticketing service, which has been supported by our Bank since 1997 through POS terminals and self service machines in railway stations.

### Web technology applied to self service machines

As far as self service machines are concerned, we are currently adopting web technology: as a new self service solution denominated “ATM” (Automatic Transaction Model). This will allow the customer to perform multiple bank operations even outside of the normal hours of service, providing a more elastic and complete use of banking services (eg. payments, bank transfers). Alongside this, self service points are being reviewed in order to improve their services and to guarantee greater access to the public, particularly the disabled. On this subject, some points are being moved and architectural barriers eliminated; in addition a vocal solution is also being studied for use by the blind.

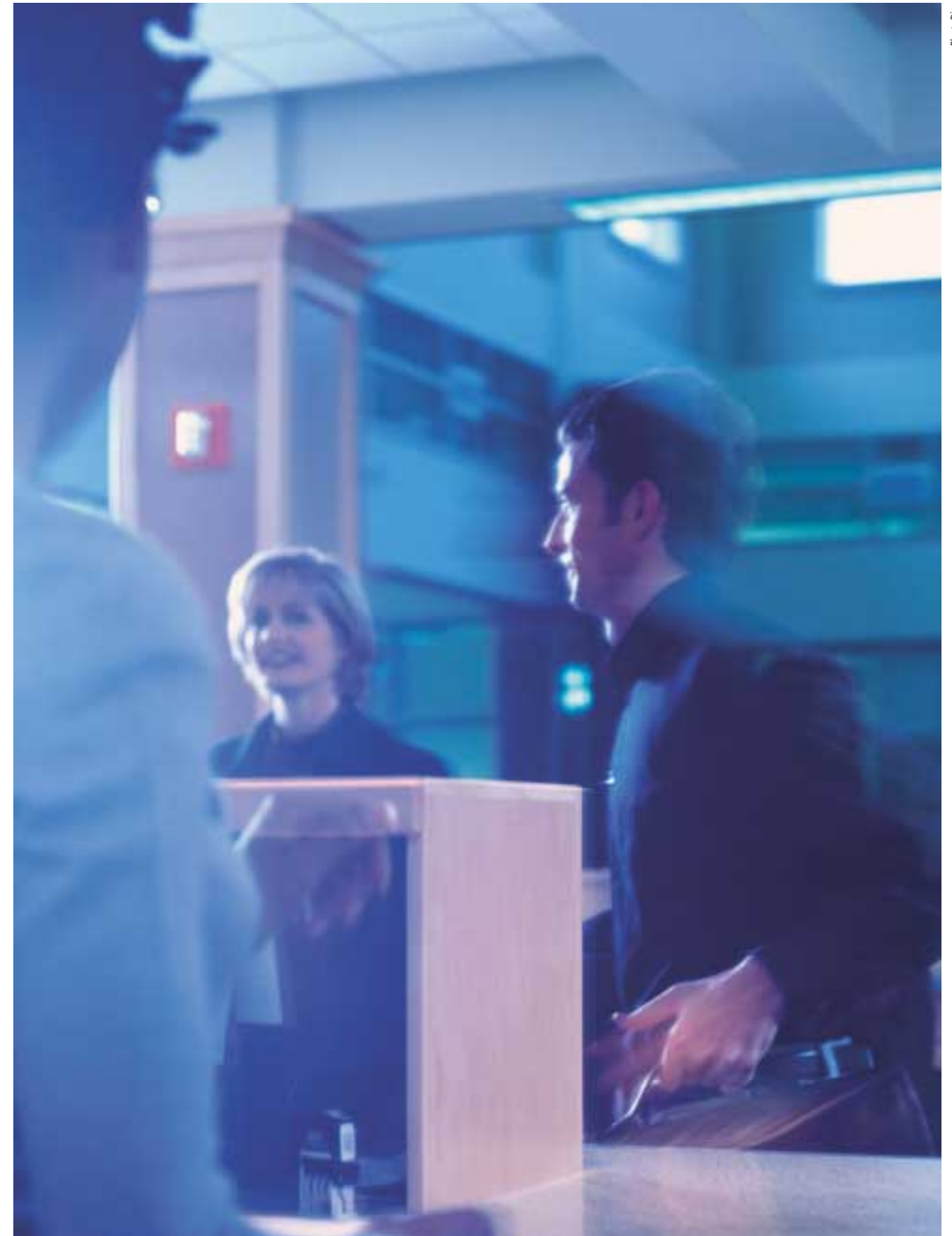
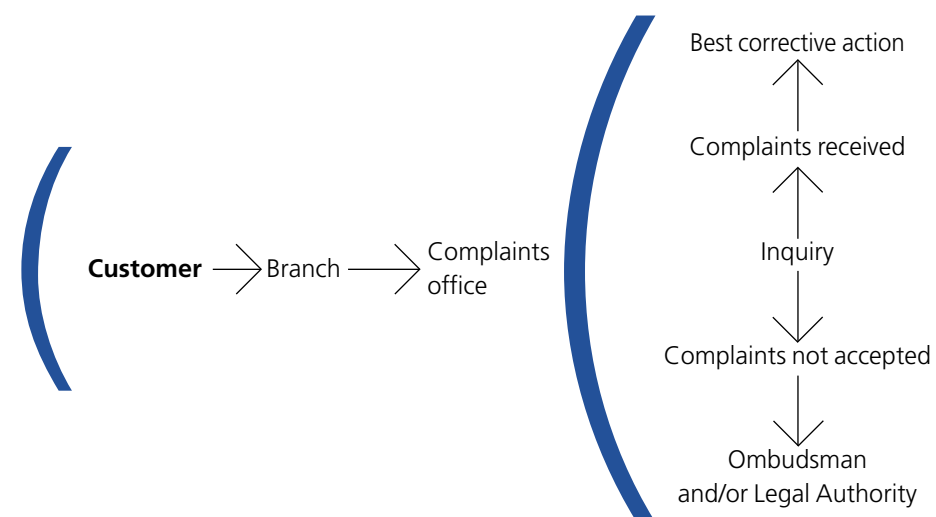
<sup>12</sup> This is a certificate for processes, recognized by the Information Security Management System (ISMS) of the Sanpaolo IMI MOI - Architecture and Security - relating to phases of analysis, design, development, management and maintenance of Internet Banking services for retail customers.



## Customer comments

Customer comments represent an opportunity for the bank to improve and an occasion to investigate the dynamics of customer relations. The management of customer complaints is initially entrusted directly to the personnel involved, from whom the customer can obtain a solution to any problems deriving from daily operations. In the event that the solution is not satisfactory, the customer can contact the Complaints Office, which will intervene, within the terms provided by the regulations for the sector, in order to clarify the situation with the customer in a formal manner. If the internal inquiry verifies the existence of the complaint, the customer may be awarded compensation in cash. Any dissatisfied customer can, in any event, contact the banking Ombudsman (a collective body provided by the banking system as the highest grade for resolving controversies to the value of up to 10,000 euro) or the competent legal Authorities.

In 2002 the Sanpaolo and Banco di Napoli Complaints Office received a total of 7,060 notices of complaint and awarded compensation to customers for around 516,700 euro. A total of 208 dissatisfied customers contacted the Banking Ombudsman. More specifically, the Sanpaolo Complaints Office received 5,147 notices of complaint, a 7% drop on 2001; while complaints of anatocism - non-homogenous methods of accounting interest payable and receivable - practically disappeared (in 2000 they numbered 4,936, falling to 839 in 2001 and down to 51 in 2002), there was a net increase in the number of complaints about investments, particularly regarding the economic results of asset management and the non-redemption of bonds on expiry owing to debtor insolvency.



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Complaints regarding loans were significantly less and referred mainly to withdrawn facilities or loan applications refused owing to lack of necessary requirements. In 2002 complaints for the mortgage loans sector dropped considerably when compared to the past and are limited to complaints about operations (eg. delays in canceling mortgages, missing registrations, etc). On the other hand, as in the previous two years, there has been a considerable increase in complaints about the system of payments sector (+38% between 2001 and 2002, +46% between 2000 and 2001, +43% between 1999 and 2000): the causes for complaint are, above all, attributable to loss, theft and fraudulent use of debit or credit cards or, in some cases, to the wrong issue of banknotes by bancomat tellers. Complaints about Direct Banking (phone banking, internet banking and mobile banking) remained substantially stable. Correspondence received generally referred to

requests for explanations, information and valuations on the functionality of the Internet site, or even notification of malfunctions or errors in telematic operations. The timing of replies by the Complaints Office is, where possible, limited to the same day on which the complaint is received. Complaints in respect of investments and those of more complex nature are an exception, as they require more in-depth investigation. The Complaints Office of the Banco di Napoli received 1,913 complaints in 2002, a significant reduction on the previous year (5,042 in 2001, more than half of which referred to anatocism). There is still strong criticism of the system of payment owing to the widespread phenomenon of false debit cards and the fraudulent use of such cards on national and international circuits. In the latter part of 2002, another area subject to a number of complaints by customers was current deposit and savings accounts.

#### SANPAOLO COMPLAINTS

	2001	2002	%Change
Accounts and Deposits	814	866	
Investments	875	1.275	
Loans	1,387	915	
Systems of payment	748	1,035	
Direct banking	304	352	
Anatocism	839	51	
Other	180	304	
	<b>5,147</b>	<b>4,798</b>	<b>-7%</b>





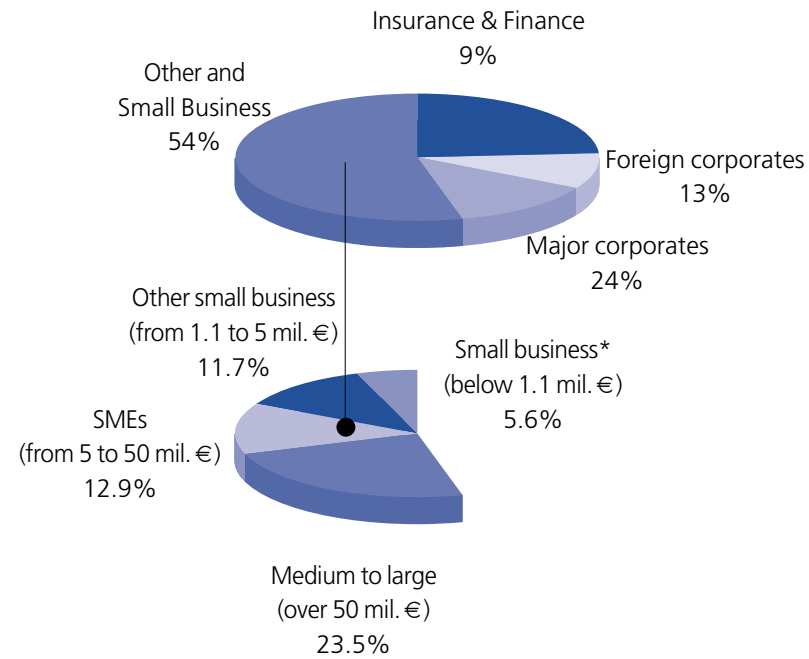
# Companies Customers

## Customer profile

Loans granted by Sanpaolo and Banco di Napoli to Italian and foreign companies, including small businesses, insurance companies and financial institutions totaled almost 59 billion euro. Detail of the portfolio is provided in the graphic table.

## LOANS TO COMPANIES, SMALL BUSINESSES, INSURANCE COMPANIES AND FINANCIAL INSTITUTIONS, BROKEN DOWN BY CATEGORY AND INCOME BRACKET

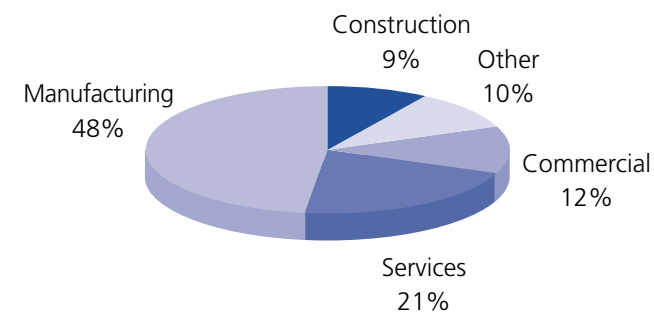
(Excluding non-performing loans)



\* The small business segment includes family owned manufacturing companies, micro businesses and professionals which, in addition to the limited amount of revenues, have credit lines of less than 130,000 euro and less than 20 employees.

## BREAKDOWN OF LOANS PORTFOLIO TO COMPANIES AND SMALL BUSINESSES BY SECTOR

(Excluding non-performing loans)



## Specialization and origins withing the territory

### Decentralization: a deep-rooted choice

The combination of the criteria of specialization with that of territorial origin is the basis for the new distribution model adopted by the Group and forms a crucial point in the 2003-2005 strategic plan. For business clients the application of the new model provides the possibility to refer to a territorial structure offering professional skills, operational guidelines and products specifically dedicated to their needs. Within a strategy to decentralize, which has already been successfully adopted by Sanpaolo, this allows the combination of the advantages of building information about the realities of local production, the history and different entrepreneurial styles with the professionalism of specifically dedicated staff, which can understand the specifics and adequately support, as and when needed, the financial needs and plans for development of each business.

### Branches and business teams

The criteria for specialization is applied today in a network composed of 129 business branches (two of which are mainly dedicated to corporate clients) and 61 teams detached from the Sanpaolo Network. Following the merger with Banco di Napoli and the subsequent territorial rationalization, the number of dedicated branches will exceed 150 units.

This organizational model obviously requires specialized professional staff: during 2002 more than 10,700 working days were spent on training staff operating in the business branches, corresponding to an average of 4.4 days per head. The most considerable commitment was directed toward the managers of the business branches which attended on average 7.6 days of training, while commercial staff benefited from 6.8 days per head.

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**An inquiry into customer satisfaction at business branches**

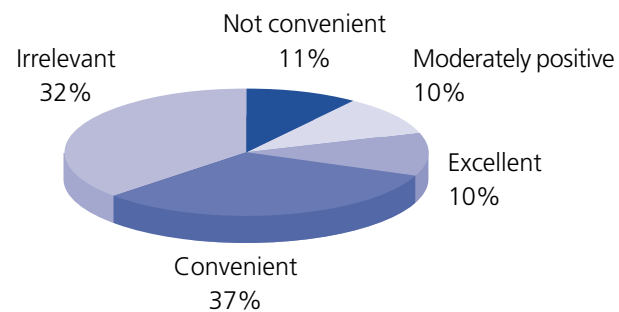
It would appear that one of the principal objectives of this specialization, that is to improve the skill of each operator to identify the needs of the business customer, either explicit or hidden, has been achieved: an investigation into customer satisfaction carried out in July 2002 and involving around 2,000 customers represented by small and medium businesses, showed a positive level of satisfaction in this customer segment in respect of the new network of dedicated branches. The new structure was in fact judged by 47 % of those interviewed to be "excellent" or "convenient", rising to 57% if we also include those who judged the structure to be "moderately positive". The structure was considered to be irrelevant by 32% of those interviewed considered, who preferred to wait a while longer before giving an opinion on efficiency, while only 11% of those interviewed gave negative opinions.

When asked whether it was already possible to notice any positive effect on the relationship between the company and the bank through this new organizational model, 24% of those interviewed believed that relations had improved, 63% said they were unchanged and 13% said they had worsened.

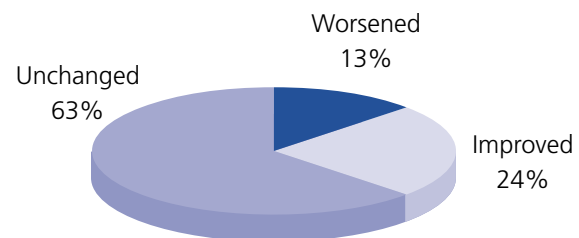
The level of satisfaction in relations with the manager was high. Two statistics demonstrate this: a good 86% believed they had "an efficient relationship with the company", while 70% judged the ability of the manager to be "excellent" or "good" and capable of anticipating the needs and requirements of the customer.



**JUDGEMENT ON THE NEW ORGANIZATIONAL STRUCTURE**



**JUDGEMENT ON CURRENT RELATION WITH THE COMPANY**



**Small Business Models**

The evolution of the organizational structure of the retail branches, based on the model of differentiated service by customer segment, also foresees some measures to be taken to improve the quality of relations with businessmen and professionals: appropriate "Small Business Models" will be established in operating points with more than 15 staff members. Dedicated team logic will also be applied to this customer segment, aimed at focusing the maximum attention and highest standards of service to both beneficiary customers and those for whom we only manage personal and company assets.

**The relational 'Business Project'**

In order to simplify, and at the same time to let the small business and professional activities grow, a relational program called Business Project was launched in May 2001. The program is composed of three fixed charge multi service current accounts allowing the customer to choose the type of account most economically balanced in respect of his/her operations and guaranteeing the maximum transparency, thanks to clearly pre-defined costs.

The launch of this project was preceded by market research carried out on around a thousand businessmen and professionals, from which emerged an overall interest in the relational program and toward each type of banking/financial or extra-banking service.

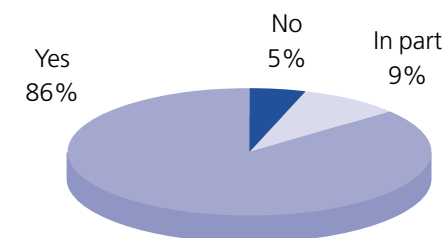
In order to monitor customer satisfaction and the correspondence of the Business Project to public needs, each year a customer research is performed to analyze the choices made and future intentions of account holders

and their degree of approval of the packages on offer. The constant collaboration with the major associations in this category also provides a better overview of the needs of potential customers and, therefore the possibility of personalizing offers to specific targets.

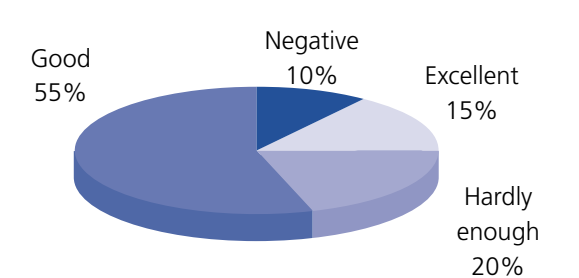
**Commercial ventures on the Small Business segment**

In 2003 some commercial ventures will be established with the aim to improve the efficiency of service provided to Small Business customers: from the current activities a new commercial policy will arise in terms of segmentation of customers, commercial policy, (the logic of credit lines and management policies, development of remote channels, targeted package proposals), identification of priorities (to be applied not only commercially but also in customer management) and actions (integration of the range of products, commercial ventures and relevant supporting tools).

**THE BUSINESS SPECIALIST IS AN EFFECTIVE SUPPORT**



**JUDGEMENT ON PROPOSAL CAPACITY**





## Credit Business

During 2002 a commercial policy, a charter of values, sales strategies and operative procedures referring specifically to business customers were drawn up for all members of staff. The commercial policy which will become fully operative in the Sanpaolo and Banco di Napoli network in 2003, reveals how the creation of value for the Bank and its shareholders necessarily involve satisfying the needs of the business, constant training and improvement in professionalism of dedicated staff and the constant application of ethical principles.

However the commercial policy does not exhaust the code for behavior which Sanpaolo has always kept in mind when carrying out its banking activities. As a matter of fact the Bank has always made every effort to meet the expectations of a civil society aimed at identifying a balance between the objectives of profitability for the Bank and those connected to models of sustainable growth and the strict observation of human rights.

The attention to the impact of companies on the environment, for the purposes of valuing loans granted by the Bank, is dealt with in the chapter specifically dedicated to the Environment.

### THE PRINCIPLES OF THE COMMERCIAL POLICY

- 1 the Business sector is strategic to the Bank;
- 2 managing the financial needs of the Business sector requires extremely high levels of professionalism and skills;
- 3 the development of operations with the Business sector is naturally limited in respect of ethical values which are recognized by the Bank as being fundamental;
- 4 to ensure the efficiency necessary to manage Business sector customers, the Bank adopts a combined organization based on the principle of involvement and responsibility of the resources involved for the results obtained by the Business sector;
- 5 all staff involved in the management of the Business sector must direct their behavior toward the ultimate goal of generating value for the Bank. For this purpose, the Network is allocated operational objectives consistent with its aims, defined by taking into account the power of each figure;
- 6 each resource involved in the management of the Business sector is valued on the basis of his contribution in terms of quality and quantity, from an individual viewpoint and taking into account the result obtained by the “team” of which he is a member;
- 7 in order to achieve his objectives, the manager must plan and appoint a hierarchy of importance in terms of actions to be taken for all customers in his portfolio, utilizing as a guideline the estimated impact of such actions on the net income of the Bank;
- 8 the manager can develop revenues acting on four fundamental leverages: the number of customers, volumes, pricing and product mix;
- 9 in addition to the impact on revenues, the commercial activity has an effect on costs; when planning actions to be taken, it is necessary to take this sufficiently into account;
- 10 in order to be able to successfully conclude each commercial action, it must be carefully prepared in advance and followed professionally over its course;
- 11 the Business sector is managed on a daily basis;
- 12 in order to create a long term and profitable relationship, accurate knowledge of and frequent contact with the customer is fundamental, even through personal visits.



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## OUR RELATIONS WITH THE ARMAMENTS SECTOR

The subject of financing arms manufacturers has, for some time, been the object of growing attention by the general public and remains an extremely delicate and complex subject, for which it is not easy to identify a balancing point.

Sanpaolo IMI believes it to be not only opportune and a duty, but also appropriate to the identity of the company, to make an operational and business choice consistent with its mission and values.

Such choice is established in full support and in the spirit of the Constitution of our Republic, the principles of which state “Italy repudiates war as an offensive weapon against the liberty of other populations and as a method of resolving international controversies”. In this spirit, we are also convinced that the defense and safeguarding of security constitute unavoidable tasks of a democratic State, which must promote and guarantee the protection of liberty and the security of its citizens.

Consequently, on the basis of the Italian law and on internal auto disciplinary regulations, we only carry out operations dedicated to defending and safeguarding security. In particular, we have limited the financing of military supplies produced by foreign companies solely to operations “destined for countries belonging to the European Union and/or Nato and therefore destined, by their nature, solely for the purposes of security.”

In parallel, we do not support the sale of weapons and believe that the principles explained above are consistent with, for instance, providing financial support for the purchase of weapons for police forces, in order to give our nation the instruments necessary to defend and safeguard the security of its citizens.

To conclude, we have therefore adopted principles limiting the scope of support provided and strict valuation criteria for each operation.

On 5 September 2002, the Group Loans Committee, supported by the Ethical Committee, established an internal disciplinary code to regulate this subject in order that all Group units take the same position. In addition to what has already been explained, the internal disciplinary code provides that any loan to Italian and foreign companies which produce or sell any weaponry materials must be submitted to the Group Loans Committee for an opinion on conformity, which shall remain mandatory for granting the loan. Operations with companies which manufacture weapons and related products - even if they operate, obviously, within the law - are subject to specific examination by the deliberative bodies of the Parent Bank. For the record, such examination is subject to inspection by the Loans Committee in order to understand, within the limits of information available, if and to what extent any form of finance granted to a company is utilized to support military activities, in which case it is valued according to the principles described above. The connection of sectors to the arms industry is extremely complex: on one side, there is the design, production and assembly, which is realized by dedicated conglomerates, which are very often also leaders in civil production completely alien to the arms industry. On the other side, many technological applications, above all components, lend themselves to promiscuous uses, both civilian and military.



## Attention to the peculiarity of some business categories and to local reality

Over the past years, whilst continuing with its traditional policy of supporting all business segments, Sanpaolo IMI has progressively diversified its loan portfolio. Even if it confirmed its commitment to support the principle Italian industrial groups, also considering their highly important role to the nation in respect of employment, the Group has reduced its exposure toward some Italian and foreign groups and, as a consequence, the level of concentration. The effect of the top 10 borrowers has dropped over the past three years from 13.4% to 10.4%, while the ratio of loans to Small and Medium Enterprises (SMEs) and to households has increased in absolute and percentage terms. This increase continued at Parent Bank level also in 2002: in December loans to small and medium businesses reached 69.4% of the total loans granted to domestic companies, against 66.2% in December 2001.

### Attention to Small and Medium Enterprises ...

The financial support to domestic SMEs is one of the most crucial strategic choices of the Bank's business plan. This direction has also been dictated by social motives as well as commercial, in that SMEs represent the backbone of the country's industrial system, absorbing 98% of the total business population and almost 60% of the employment rate. Furthermore, Italian SMEs are the most flexible components and, quite often, the most efficient of the entire domestic economic system: they have demonstrated to be better equipped to remain afloat in moments of crisis, such as the present-day reality.

### ... the models for rating for Small and Medium Enterprises

To improve the offer of loans to SMEs, in terms of expanding the client base and improving interest rates and the quality of loans, specific valuation models have been developed internally. These models are currently in use by the functions in the Head Office (Risk Management and Loan Granting) in support of the inquiries for loan granting which exceed the branch limits. The trend toward internal models for ratings dedicated to SMEs benefits from the advantage of the in-depth knowledge about the realities of local production accrued over the years by Sanpaolo and Banco di Napoli, and advanced methods of valuation, with the aim of understanding the peculiarities of such realities in order

to support financial needs and plans for development, even over the medium / long term.

For Sanpaolo IMI this choice represents the possibility to improve considerably the Banks' skills in differentiating the expected profitability of such operations on the basis of the quality and stability of its investment projects. Thus it is intended to hold the "cross benefit" mechanisms to within the SMEs portfolio and aim to evaluate the effective capacity for growth of the individual companies.

In light of the success obtained from utilizing the internal models at function level in the Head Office, the lead structures of the Business centers and branches in the Milan Area have started up an experimental project ahead of the forecast complete decentralization of these models to the Business branches, supporting the delegation of decisions to the structure which has direct contact with the business customer.

The intention of the programmed plan is to promote a new method of increasing loans to SMEs, through the alliance between the strong territorial roots of the Sanpaolo and Banco di Napoli network and the increased decentralization of rating models. The plan also provides the further refinement of internal models to evaluate small and medium businesses in accordance with the requirements of the new Basel Capital Accord. This will also lead to a reduction in the absorption of assets required by regulations, producing better conditions for granting loans and better interest rates and therefore creating value for Bank shareholders, businessmen and for industry in general.



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## BASEL II PROJECT

The Basel Capital Accord, established by the supervisory authorities of the G10 countries who meet together as the Basel Committee on Banking Supervision of the Bank of International Settlements, has since 1988, determined the international regulations for computing the minimum required capital which banks must hold in order to guarantee stability and efficiency in the international financial system.

At the moment a bank's capital is calculated, according to such regulations, as a fixed percentage on the total value of loans granted (8%), taking into account to a limited extent the risk profile of each loan. After a long series of meetings which commenced in 1999, in October 2002 the Basel Committee published a proposal to radically modify the original Accord. The New Capital Accord ("Basel II"), intends to create a more rigid connection between capital and the risk profile of the banks' activities. The supervisory authorities identified in the rating, that is in the analytical valuation on the creditworthiness of the applicants, the measure through which the credit risk is quantified, thus managing to gauge the capital requirements on the risk profile of the applicants.

For supervisory purposes, "Basel II" recognizes the minimum requirements for capital calculated using the official or model ratings which the bank uses internally to measure, control and manage credit risk. With the new regulations, less sophisticated and smaller banks can, through the so called Standardized approach, utilize the official ratings produced by specialized agencies, to determine regulatory capital. Instead, larger and more advanced banks will be stimulated to promote and/or consolidate the adoption of increasingly sophisticated internal systems to measure, manage and control risks, with the aim of assigning internal ratings to the different loan applicants (Foundation and Advanced Internal Rating Based or IRB approaches). In 2002 the Bank formalized its intention to adopt the most advanced version of the New Capital Accord, through the use of sophisticated techniques to measure and manage risk, to obtain advantages in terms of lower capital requirements according to its loan portfolio. The adoption of the "Basel II" Advanced IRB approach therefore represents a strategic project which is aimed at obtaining a competitive advantage in terms of less capital consumption to serve our customers efficiently and skillfully. In order to reap the strategic opportunities offered by the new regulations, we have already prepared a plan for substantial investments within the "Basel II" project, which could involve resources of 35 million euro over the next three years. The most significant measures can be briefly summarized as follows:

- 1) the preparation and alignment of rating models in compliance with regulations;
- 2) the preparation of an operative organizational structure and technical and computer support adequate to the historical detailed and homogeneous needs for data and for the software characteristics required;
- 3) the widest combination of relations with rating agencies, investment institutions and the market.

In order to combine careful examination and control of the risks involved in granting loans and to offer an excellent service to businesses in terms of transparency and precision in loan application procedures, Sanpaolo IMI has, for some years, anticipated in Italy the regulatory changes and international best practices in its procedures for risk management.

As already mentioned, Internal rating models have in fact been developed in a specific and dedicated manner for both the Large Business and Small and Medium Enterprises segments.



Basel seen from the river

The Image Bank

### Credit lines to support Fiat side-line businesses

With respect to the peculiarity of local situations, particular attention is paid to supporting SMEs during periods of considerable economic difficulty. Among the initiatives which characterized 2002, we are reminded of the setting up of a credit line to support small and medium sub-alpine businesses in the FIAT side-line, with the aim of transforming short term credit lines into long term lines.

Furthermore, specific measures were taken to support small businesses, such as issuing facilitated credit lines to finance recovery in production activities and urgent measures for regions in the South of Italy badly damaged by meteorological events in November 2002.

### The 'Quality Agriculture' project

Within the scope of initiatives for specific categories, we started a project known as "Quality Agriculture", with the aim of promoting new business for agro-alimentary companies operating according to high standards of quality. It is our intention also to extend this proposal to small business. This new approach is consistent with the change in market demand, which is directed toward well constructed and diverse products requiring considerable investments.

### Collaboration with the National Association of Young Accountants and the Piedmont and Aosta Federfarma

Within the scope of small businesses we have planned to collaborate in 2003 with:

- the National Association of Young Accountants to jointly develop a series of activities - by establishing mixed work groups - aimed at creating products and banking/financial services for around 10,000 members of the 100 associated unions and their clients;
- Federfarma, the Piedmont and Aosta Valley association of pharmacists, with more than 1,500 members. The agreement signed in 2002 through the Farmacia Amica Association, allowed us to realize communication initiatives and meetings involving direct contact with our contact staff.

## Our commitment to exchange and confrontation

### Business seminars with entrepreneurs

During 2002 we aimed at improving our professional relations with our business customers through an exchange of experiences. For this purpose mixed "business seminars" were organized, following two threads.

The first was concentrated on sessions with business entrepreneurs and managers from Piedmont, organized and managed by the Sanpaolo and Unione Industriale trainee divisions. For the purpose of open and constructive communication, the five models and role-playing, which involved almost 100 industrialists and almost the same number of Sanpaolo professionals, revealed the importance of maximum completeness, transparency and mutual exchange in the flow of information between businesses and banks in all stages of relations.

Following an in-depth consideration on the impact of the introduction of the New Basel Accord, we also organized a series of meetings with businessmen and associations in that category, with the aim of illustrating the new elements arising from the Accord.

A series of meetings were held in the majority of Italian regions, with the purpose of:

- overcoming the concerns of a possible rationing of loans to small and medium businesses and a consequent worsening in the conditions on offer;
- defining the nature of the rating models, the statistical tools for evaluating the creditworthiness of the customer that support the final decision to grant the loan, which is always left to the manager;
- highlighting the strict correlation between the rating assigned to the customer and the pricing of the loan. These ties represent an opportunity for small and medium businesses to receive loans at "fair" conditions, in relation to the effective quality of each business, on the basis of which interest will be defined.

### Banks and companies project - access to credit

Research into improving customer relations and public opinion affects not only the commercial strategy of Sanpaolo IMI, but is felt by the entire banking industry. Towards the end of 2002, the Italian Banking Association launched a wide-ranging project to do with retail customers and businesses named "Banks and society", the completion and implementation of which is forecast for 2003. With specific reference to the work in progress relating to access to loans, in which we have been

particularly active, the objective to improve customer relations, especially with domestic small and medium businesses, has been researched through:

- greater transparency and access for outsiders to the various phases in the loans application process, for which a Guide has been prepared for SMEs;
- the preparation of a tool to measure the timing of inquiry into/awarding of a loan, allowing customers to compare the efficiency of the banks to whom they may eventually apply for a loan.



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## Telematic services for business

The new internet version of the traditional remote banking site was considerably expanded in 2002, known as LINKS Sanpaolo, with the aim to enrich the range of services on offer, making access easier by extending the use of multichannels, improving the efficiency of the services provided.

On the whole, Sanpaolo customers using the telematic services are continually increasing and we are witnessing a gradual move from traditional methods (-46%) toward Internet banking (+207%).

	No. Companies	% change on 12/01
LINKS Internet Solutions	26,379	207%
Other Sanpaolo remote solutions	11,431	-46%
Customers of other banks banks utilizing remote solutions	19,830	5%
Total customers utilizing telematic services	57,640	18%

At the same time there is a substantial expansion in the transactions or information provided over the telematic channel and, especially on the web, where to date there is already a considerable volume of collection and payment made by business customers.

Similarly, new telematic functions are continually released. The new operational areas refer principally to taxation and foreign transactions: recent releases include F24WEB (electronic payment of F24 tax returns), IBOS for International Cash Management and electronic signature.

The utilization of the Sanpaolo LINKS station, with all of its functions, has recently been extended to former Banco di Napoli customers (around 2,000) and, among the forthcoming projects, a single workstation is shortly to be launched for all customers of the banking Group. The contents and functions of the showcase "sanpaoloimprese.com", which has been active since 2001, is constantly being enriched in order to: provide companies and professionals with specialized information and consultancy; promote products and services, even extra-banking services useful for management of companies (such as treasury and management control and commercial information); develop personal contact with visitors and customers through newsletters and e-mail.

Some data relating to the performance of the "sanpaoloimprese.com" site at 2002 year end:

- total number of registered users: 6,000
- total subscribers to newsletters: 5,000
- page views: approximately 350,000 per month

The latest new feature of the site for 2003 is the European Horizons channel, which aims to keep businesses informed in a timely and customized way on opportunities in respect of investments, market outlets, calls for tenders, benefits within the community, etc.

Similar to remote banking, from 1 June 2003, "sanpaoloimprese.com" will become the reference site also for business customers of the new Sanpaolo Banco di Napoli.



# The people

## VALUES

### Creation of value

#### Value in detail

We pay attention to people and value their skills and experience because they are the key factors for generating sustainable competitive benefits and, therefore, creating value.

### Customer orientation

We pay the highest attention to each member of staff, who represent “internal customers”, providing them with support and information so that they can perform their best.

### Integrity

We want to constantly express values of ethical behavior, which are interpreted in the actions and decisions oriented toward impartiality, honesty ethics and social responsibility.

### Commitment to excellence

We cultivate drive and innovation by following operational procedures aligned at best practice and consistent with the needs of the business; we develop a sense of responsibility through the objectives expected paying attention to future implications.

### Growth in observance of specific qualities

It is our intention to develop a harmonious and integrated social system within the company which, values the identity and individual professional skills and supports development.

### Responsibility in the use of resources

We seek efficiency and the responsible utilization of staff and pay attention to each source of cost to ensure future growth.



After efficient pre-merger operations, the merger by incorporation of Banco di Napoli (8,106 people) into Sanpaolo IMI at year end brought the total headcount of the Parent Bank to 28,036 (of which 278 employed abroad), a reduction of 973

in respect of 2001. From an employment contract perspective, 63.9% of the headcount is composed of professionals (-0.7% on 2001), 34.5% managers (+0.5% on 2001) and 1.6% directors (+0.1% on 2001).

#### BREAKDOWN OF EMPLOYEES BY CATEGORY (in percentages)

	2001			2002		
	Male	Female	Total	Male	Female	Total
Directors	1.4	0.1	1.5	1.5	0.1	1.6
Managers	26.0	8.0	34.0	25.7	8.8	34.5
Professionals	32.2	32.3	64.5	31.0	32.9	63.9
<b>TOTAL</b>	<b>59.6</b>	<b>40.4</b>	<b>100</b>	<b>58.2</b>	<b>41.8</b>	<b>100</b>

2001 (29,009 employees)  
2002 (28,036 employees)





Corbis

A growth in the number of female employees should be mentioned (+0.7% on 2001) which, at 11,697 account for 41.8% of the total. A total of 2,481 female employees are employed at management level (managers and directors). Average seniority within the company and the average age of the employees are correlated to the professional level.

	AVERAGE SENIORITY		AVERAGE AGE	
	2001	2002	2001	2002
Directors	26.5	26.3	51.2	51.0
Managers	22.2	22.6	45.7	46.1
Professionals	15.5	15.9	39.3	39.8

Data refers to employees with contracts in Italy (2001=28,664; 2002=27,758)



Corbis

From an educational point of view, 20.8% of the workforce have a degree and 68.5% have completed higher education.

	Directors	Managers	Professionals	Total	
Graduate	230	2,196	3,342	<b>5,768</b>	<b>20.8%</b>
Undergraduate		18	61	<b>79</b>	<b>0.3%</b>
Higher education	226	7,102	11,593	<b>18,921</b>	<b>68.2%</b>
Other		285	2,705	<b>2,990</b>	<b>10.7%</b>

Data from 2002 relating to employees with contract in Italy (27,758)



Presentation of the "Investment Policy" at Città della Scienza, Naples



## The path to updating the personnel administration system

People are the main craftsmen in generating tenable competitive benefits and, therefore are the source of creating value for the business: in Sanpaolo IMI this element has given us the strength to undertake a wide ranging strategic course which gives value to people, to the lines of business and to the Group, placing the “professionalism” of people and their “value to the company” in the center of the policies and systems of managing and developing personnel.

### The system of tasks

Therefore, continuing a project which began in 2000, we have significantly innovated the system of analyzing skills to consolidate better the “distinct tasks” of each stage in the business system with the “skills required by the staff”.

The system we have developed uses advance technological support:

- a) to reveal and monitor the “professional portfolio” and the “key tasks” capable of supporting the company’s objectives and the specific business/macro areas of company processes;
- to orient the action of valuation, establishing an integrated platform for the “people management” system.

In 2002 the tasks for all personnel working in branches and in the territorial areas of all the Network banks of the Group were identified, as well as for the majority of staff allocated in the centralized structure of the Parent Bank.

### The system of incentivating and evaluating

We want to make people aware of the generation of value, to consider the aim of the business is to grow in terms of capital, or rather, to consider the bank as an investment.

In keeping with this argument, in 2002 a new system of incentivating and valuation of clerical staff and management was implemented. Aligned to best practice, it integrates the evaluation of short term results (split by business areas and central structures on the basis of specific variables and indicators) with the evaluation of excellent examples of behavior (by different businesses and in relation to professionalism) to guarantee continuity of results over the long term.

### Professional paths in the distribution network

The definition of paths for the professional growth of branch personnel within the network was completed through the development of “Unitarian maps” (to allow greater organizational flexibility) and specific on-line support was made available to personnel management at the beginning of 2003.

### Analyzing employees potential for development

We have redefined the criteria to identify highly potential resources for promotion. Furthermore, a Group method based on five prospects has been defined to evaluate nominations for the promotion to Director:

- the role to be covered within the company’s organization;
- the level of professional skills acquired;
- the managerial capacity of the nominee, particularly in respect of strategic vision and leadership qualities;
- the wealth of professional experience earned in terms of number/complexity of the roles covered in the past and the results achieved;
- the margin of future use determined on the basis of personal reference and targeting the possible use of the resource in a role carrying greater/more complex responsibility.

### Using new technologies

We have invested in new technologies, developing a platform of e-learning which gives each employee access to online training directly from his/her place of work.

### Updating management systems to business objectives

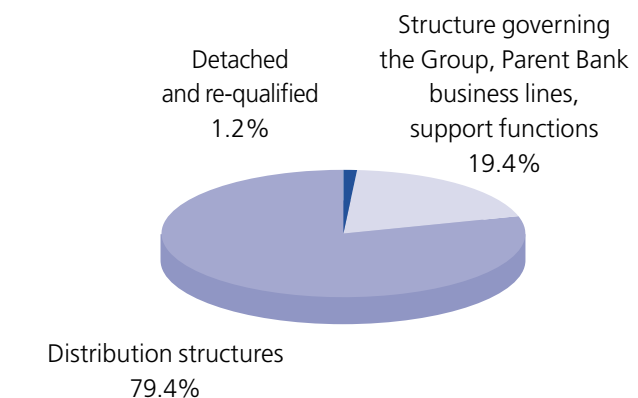
Linked to the business requirements, we have realigned the organizational model of the branch, redesigning the professional figure for the “household market” (mass market) and analyzing ex ante (within the concept of a multi-disciplinary analysis) the effect on the plan of duties, the professional paths, training activities, promotion and dynamics of labor cost, while others are still be studied.

## Action to improve efficiency and flexibility

### Efficiency to allow growth

Continuing prior year activities to ensure future growth, we pay particular attention to the themes of restructuring the workforce, labor costs, generational replacement and the safeguarding of the wealth and skills of our resources. Within this line of action we have, on one hand allowed 1,546 dismissals (also by offering dismissal incentives to 1,104 resources) and, on the other hand, created 573 new posts for young people. This activity was realized with a drive consistent with the industrial plan and prudent management which also weighs the advantages and disadvantages in terms of average rates of skill. As far as the new positions are concerned, the percentage of resources employed under a flexible contract is significantly higher than those employed under open-end contracts. This figure highlights the importance that we place not only on costs variable, but also on controlling the professional level of our resources and their contribution to producing value, in order to safeguard the investment in new resources.

line of the Parent Bank and in the functions that provide support. A portion of the remaining 1.2% of staff are distributed around other areas within the Group and the other portion are in professional requalification programs.



### EMPLOYED 2002

Open-end contracts	19.72%
Fixed term contracts	46.25%
Apprenticeships	28.62%
Other	0.70%
Foreign contracts	4.71%
Total employed	573

Our attention to the needs of the customer, the efficiency of our business, the ever increasing importance of professionalism in marketing activities and in services to the business has influenced the distribution of the resources between the various entities of the Parent Bank. With the merger of Banco di Napoli, personnel within the distribution structure comprise 79.4% of the total number of employees. On the other hand, 19.4% of staff of the Parent Bank operate within the management structure of the Group and business



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**Flexibility and efficient wages**

Our activities to increase the level of organizational/managerial efficiency and flexibility are accompanied by a system of remuneration based on merit, which rewards professionalism according to market value and the commitment of the employee in achieving the objectives of performance. In the context of the strategy to maintain costs in respect of gross pay before extraordinary and contractual phenomena, the pre-merger figures for the Parent Bank show the average ratio of variable components to be 10.6% on gross annual remuneration (GAR) and 9.5% on total annual remuneration (TAR). It is worth highlighting, as already described earlier, that all the resources are involved in incentive plans tied to achieving results (individual and/or team) and levels of good conduct. This incentive model will be extended to the colleagues in the former Banco di Napoli during 2003. Other additional instruments forming variables in remuneration are also applied: a lump sum payment and bonus for company productivity.

**VARIABLE AND GLOBAL RATIOS**

	on GAR	on TAR
Directors	33.2%	24.9%
Managers	13.6%	12.0%
Professionals	7.7%	7.2%
Total average	10.6%	9.5%

Data source: Parent Bank pre-Banco di Napoli merger

It is our policy to increase the ratio of variable components to allow employees to contribute more in achieving Company and Group objectives and to provide greater flexibility in the global cost of such components. In order to involve as many people as possible in the objectives of the industrial plan, our company also provides bonuses in the form of company shares.

In 2002 the Board of Directors approved the first stock granting of Sanpaolo IMI shares to all Parent Bank staff employed at 27 June 2002. This voluntary incentive, involved 14,427 people, equal to 72.5% of those entitled to participate. In order to strengthen the sense of belonging to the company and to show the importance we place on individual efforts and the results of the company, we have again issued bonus shares to our employees in 2003. As far as management is concerned, our company already issued bonus shares in 1999 and the shareholders meeting of 30 April 2002 empowered the Board of Directors to issue new bonus shares in favor of Group directors. In this respect, on 17 December 2002 the Board of Directors launched a new stock option plan involving 291 directors of the Group, of which 214 from within the Parent Bank. This plan is characterized by the fact that a part of the entitlements assigned to the top management is conditional upon obtaining in 2003 the strategic objectives of ROE and Group cost/income.



Andrea Polato

## Investment in the development and valuation of personnel

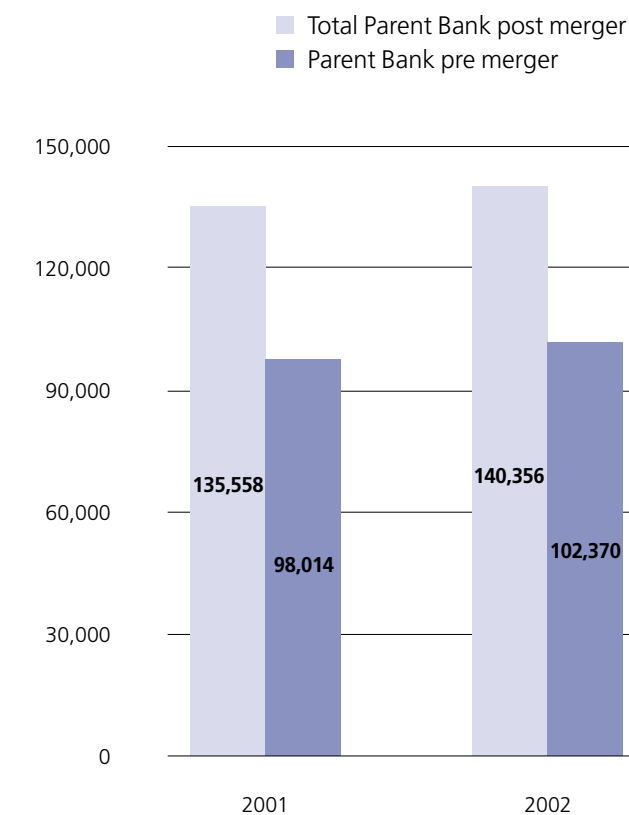
We firmly believe that competitive advantage is the outcome of an excellent organization based on open, flexible, creative professionalism. Our efforts are bent on implementing a bank model composed of a network of competent, motivated people capable of following precise objectives and equipped with powerful working autonomy. Our objective is to develop professionalism in order to create value.

**Investment in training**

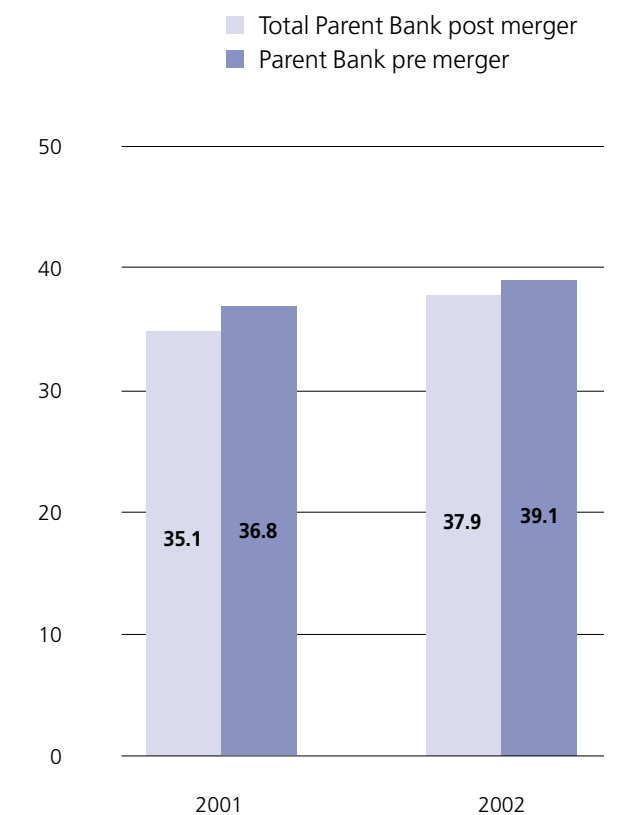
In the context of human capital development, our training policy represents a significant moment within the broader process of investing in people. The trend over the past five years continued in 2002 when we further increased the average number of days and hours per person spent on training. Our training activities are designed and realized consistently with the individual needs for development, with the requirements of the sector, with the company's plans for development and are based on three macro axes:

- development of specialized knowledge and conduct, in line with the contents of the "system of duties". This method of training refers to training programs and courses (basic and specialized) according to the different families and professional figures, as well as "customized" training connected to specific requirements expressed by each area of business or by head office functions. According to particular needs, we also provide the possibility to attend inter-company specialization courses, organized and held externally (consultancy firms, universities, etc.);
- supporting the organizational and commercial development of the bank in order to provide all employees with the knowledge and instruments necessary to face and successfully manage changes within the company. This activity is composed of seminars and participation in specialized courses planned in correspondence with the actual development of change management programs;
- supporting management policies and activities and

**TOTAL TRAINING DAYS**



**AVERAGE PER HEAD TRAINING HOURS**



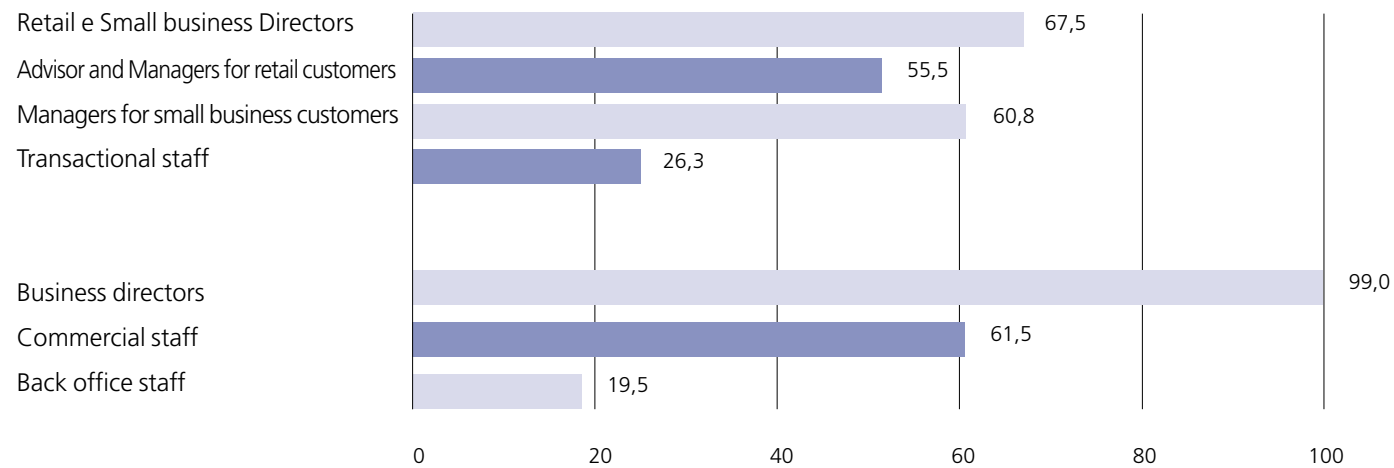


development of key resources and management, through the preparation of ad hoc participation to support and assist the path of growth and/or training of those interested.

The use of new technologies, developing a platform of e-learning which gives each employee access to online training directly from his/her place of work: more than 33,000 days of training have been provided through this

channel (*pre-merger Parent Bank data*). Our investment in human resources is also shown by the possibilities offered for self-development: the total number of days spent training outside of working hours totaled 8,200, of which 3,200 were performed by Banco di Napoli employees.

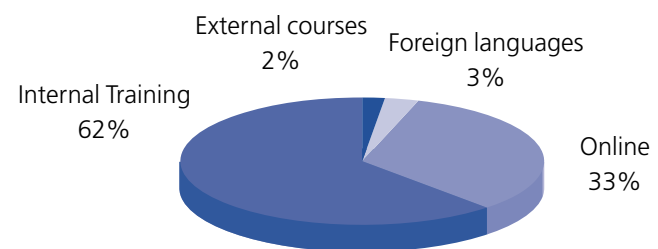
**DISTRIBUTION OF HOURS OF TRAINING (PRE-MERGER PARENT BANK DATA)**  
Professionals in the Network (average per head)



Contrasto

Internal training (63,578 days within working hours) involved around 500 members of highly qualified professional staff, bringing the percentage of days spent training by this category to 59%. We made use of 140 tutors for long-distance training. We prepared specific training programs to increase the efficiency of internal teachers and tutors.

**BREAKDOWN OF TRAINING DAYS BY TYPE**



Pre-merger data. Reference: 102,970 days

The total efforts of this investment contributed to increasing the average rate of skill of our resources: an increase of 22% over two years for branch employees (Parent Bank before the merger with Banco di Napoli).

Even if significant, the existing level of skill is not yet in line with the "maximum required" and our programmed activities are aimed at bringing the professional level to the target of excellency.

The organizational development and constant research to increase levels of efficiency in working processes, determines the need for professional reconversion. We have developed a training process to provide staff with an easy introduction into the reality of working in our branches, which comprises a training course (composed of lectures and support in a branch) and one or more technical/professionals on site in the branch. In 2002 143 employees were assigned to branches.

**The exploitation of newly employed staff**

Our attention to valuating personnel provided considerable flexibility in moving newly employed staff from transactions/back office to direct contact with customers or to specialized support roles. As a matter of fact, staff dedicated to transactions/back office fell from 93% to 57%, with the 2005 target for utilizing newly employed staff (in 2000) in this type of activity set at 20%.

**Managing by community**

We have followed a path along which our policies for the development of staff places emphasis on the segments of the population which, together with the family and professional figures, are important to the company over both the short term and the medium/long term. The terminology we use for this segment of the population

is "community". This "community" allows us to aim specifically towards developing and concentrating the best of our investments, managing to constantly protect it. Another peculiarity regarding the "community management" is the possibility of easily integrating it with current management policies, becoming a factor of integration and aggregation at Group level. The four communities currently being managed are: newly employed, promising young employees, promising employees and management.

The "newly employed community" includes all those personnel with seniority within the company of between 0 and 24 months. The objective is to accompany the introductory phase in order to increase knowledge of the Group, create a sense of belonging, bring out the potential of each employee in the direction of the subsequent professional course.

The route to management level is constructed of individual interviews and small group meetings (max. 12 participants). The induction, introductory and motivation interviews initiate a mechanism of direct confrontation from which impressions, considerations and motivations emerge, also to overcome any criticisms.

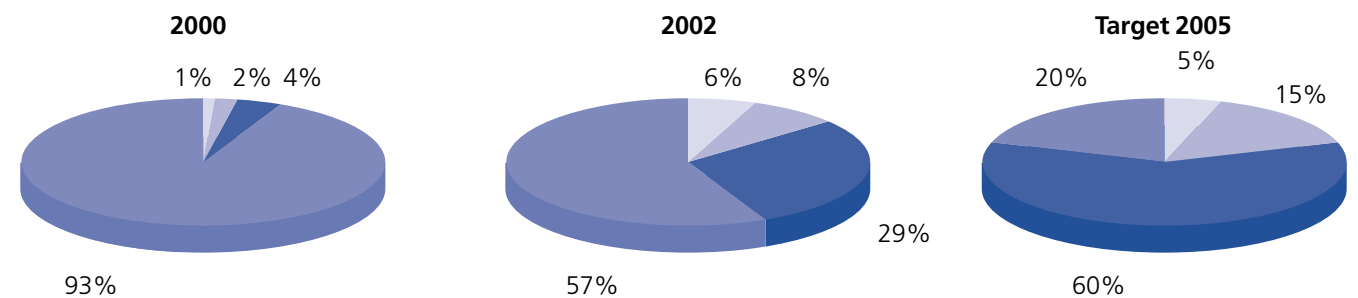
The meetings held to verify and understand professional direction represent a further moment in evaluating the introduction process.

At the end of 2002 the community placed 957 new employees within the Parent Bank.

The "Community of promising young employees" included staff of normally not more than 32 years of age, with average to high performance and skills. The objective is to identify, manage and develop young

**NEWLY EMPLOYED STAFF ACTIVITIES**

- Sale and advisory activity to retail and small business customers
- Sale and advisory activity to business customers
- Transactions and back office
- Specialist support



staff with high potential, which can cover skilful and complex roles. The route to management level is constructed of an initial report showing medium/high skills and performances, which then proceeds to a “Meeting for orientation and development”, focused on empowerment through simulations and exercises in which the participants can put to use the skills acquired and reveal the possible areas for personal development. It is concluded with a training program which defines an individual improvement plan. At the end of 2002 the community placed 316 promising young employees within the Parent Bank.

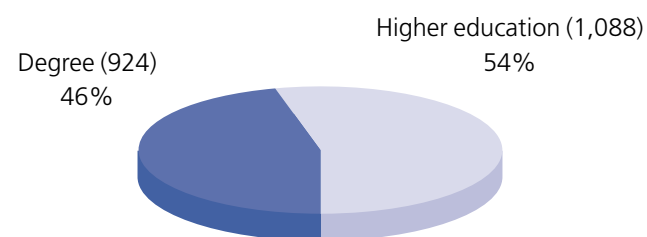
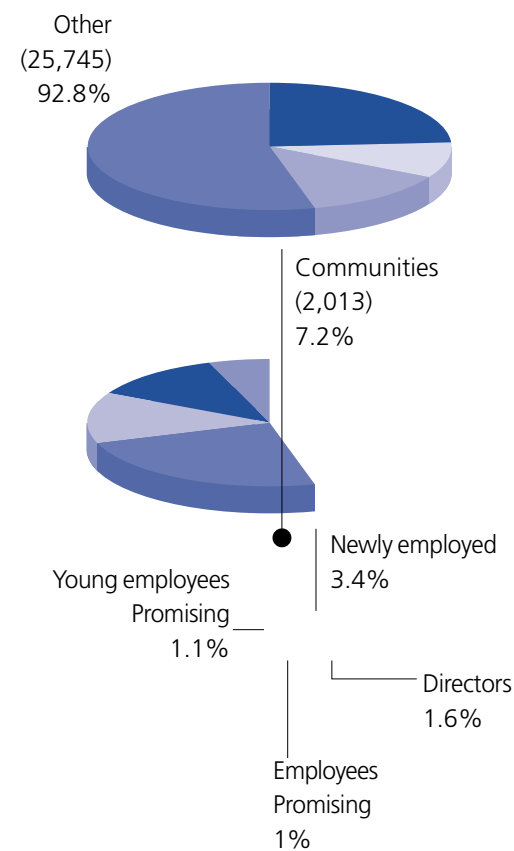
The “Community of promising employees” is composed of staff over 33 years of age. The objective is to identify, manage and evaluate staff with high potential in order to create a reservoir to cover management roles within the Group. The potential of staff is evaluated on two axis of reference: the possession of methods-skills as an essential requirement for professional development and the level of skills relating to the targeted managerial profile. In order to develop the potential synergistically and consistently, we have identified a moment for selection by the direct head, a moment for self evaluation in order to allow the employee to present himself/herself with a personal description of work experience, a group work project which will allow the observation and development of some managerial skills. Lastly an evaluation program aimed at introducing accelerated professional routes. At the end of 2002 the community placed 284 promising employees within the Parent Bank.

The “management community”: the objectives are to direct behavior toward strategic and organizational logistics of the Group for the effective integration of business, emphasizing the opportunities for transversal development. Training activities cover a number of areas:

- a basic program aimed to train managers in the business and organizational context of Sanpaolo IMI;
- training to integrate and strengthen skills through the acquisition of managerial methods and tools;
- opportunities to compare and focus on current themes;
- personalized training.

The method for managing these communities is currently being extended to include all Group companies.

**PROFESSIONAL COMMUNITIES DATA**



**The evolution of a career**

The method for managing these communities is currently being extended to include all Group companies. Our policy of awarding bonuses on a merit basis is evident in a dynamic of careers based on “skills/performance and results over a period/potential development”. In 2002, 1,075 people benefited from career promotions.

	Men	Women	Total
Promoted to director	62	4	66
Promoted to upper management	467	114	581
Promoted to management	270	158	428
<b>TOTAL</b>	<b>799</b>	<b>276</b>	<b>1,075</b>



**The sistem of providing benefits to support loyalty**

In order to develop a sense of belonging, our company has for many years, offered a system of benefits which can assume a considerable economic value:

**Company benefits in favor of employees**

Company regulations provide numerous forms of contribution:

- supplementary pension funds, replenished by minimum company contributions equal to 3% of the base salary;
- relief funds in favor of employees in retirement and in service, which can be extended by the latter, to immediate members of the family;
- insurance policies for professional and private injury;
- educational grants and university scholarships for employees and their children who attend junior or high schools or university;
- annual benefits for spouses and each child under the burden of the employee, afflicted by serious physical or mental illness.

**Preferential terms for employees**

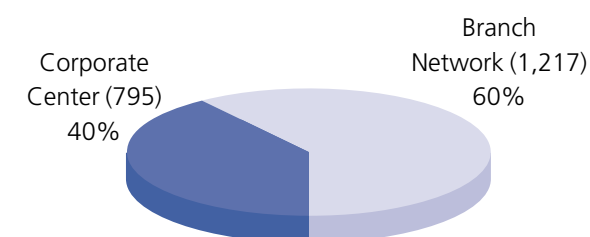
We offer a vast range of easy term loans to employees:

- mortgages for the purchase of first or second homes;
- loans and overdrafts for flexibility in cash;
- facilitated loans for disabled employees;
- extension of legal provisions in relation to advances on employee severance indemnities.

**Company social club**

The company social club operates nationally directly and/or through de-centralized structures. In particular, in addition to a vast range of agreements, the social club offers a choice of activities nationally (eg. tourism, summer camps for employees’ children, children’s summer holiday centers with recreational and sporting activities, including daily transport for employees’ children between the ages of 6 and 14 years) and locally (eg. day trips, visits to exhibitions and museums).

Furthermore, all directors receive a personal computer on free loan and a limited number also have use of a company car.





## Communication to employees

### The role of internal communication

Internal communications within Sanpaolo IMI are fundamental in allowing employees to participate fully in the working life of the company. It provides an opportunity for multi-directional relations aimed at circulating information and knowledge, it facilitates interpersonal collaboration, it stimulates a sense of belonging and, naturally, provides everyone with the concrete support to perform professionally. We are fully aware that in order to achieve this objective, internal communication must express the fundamental values which are impressed on our company and which, through the actions of each member of staff, are manifest externally. Internal communication inspired by these criteria requires constant attention in respect of the diverse professional and social cultures within a nationally widespread, internationally complex Group. Within a general and permanent context, the processes of integration currently taking place between the banking realities characterized by strong traditions, identity and territorial roots are also added to this phase of evolution of Sanpaolo IMI. Arising from this, internal communication has the task of “facilitator” in spreading and sharing a common business culture, capable of constructing a strong regard in respect of its peculiarity.

### Facilities and tools

In 2002 our company established a specific facility for Internal Communication, with the aim of coordinating and providing support to the different company functions for the development of communications, with the collaboration of the specialized functions of the Corporate Center, which protect the company's image and technologies. The agency also directly manages the Group's most significant activities. In order to operate accurately and efficiently, internal communication requires a variety of tools and technologies able to satisfy the needs for timing, access and utilization which the business requires. For this purpose, the Sanpaolo IMI Group utilizes a variety of communication tools destined to satisfy the specific requirements according to the contents, end users and specific context of the contents (house organ, internal magazine which celebrated 7 years of publication in 2002; news sheets, issued by company departments providing news and updates on activities; teleconferences, meetings, intranet sites managed by

specific company structures to provide support and information on professional activities; etc.) Towards the end of 2002 a project was started to realize an intranet site for internal communications, aimed initially at staff within the Parent Bank. The site started in June 2003.

### Projects under way

In the second half of 2002 a wider project to develop and integrate the system of internal communications was started. The project began from the recognition and analysis of the needs to communicate and then proceeded in formulating proposals to rationalize existing instruments and to eventually establish new activities aimed at increasing the efficiency and accuracy of the communication processes; this project also foresees the adoption of ways to verify the efficiency of the action carried out, through the use of adequate instruments and a specific method of observation. During the analysis in the last quarter of the year, an appraisal was made of the quality of the organizational climate involving a sample of around 600 people, represented by the diverse realities of the Group, utilizing the Focus Group method handled by external professionals (or rather semi-structured meetings in which issues relating to existing and forecast systems of communications were discussed). The value and significance of the communications are a critical factor for the daily business of the company and the personnel working therein. Sanpaolo IMI therefore believes it is important to promote the development and valuation of the skills of communication of its staff, commencing from those that cover the various positions of responsibility and coordination. For this purpose, a specific training program is planned, destined for branch managers and supervisors of operating units.



## Industrial relations

Our company fully and unconditionally guarantees its workers all the rights and entitlements legally recognized by western countries. We have always been attentive that our personnel are made fully aware of such rights and entitlements and that they are rigorously applied within the company. The commitment of the Bank has always been aimed, even beyond the formal guarantees, at effectively achieving the objectives of equal opportunity employment in respect of its female employees, disabled workers, the protection of minority interests and supporting voluntary workers.

### Relations with Trade Unions

The rate of employee trade union membership is 75%, which is in line with the national average for this sector. Company rules on trade union relations guarantees the wide application of comparison and information to the trade union organizations. The renewed company contract, signed on 21 May 2001, included ample space in respect of health, security, equal opportunities, with renewal and development of the mixed Business Commissions - Unions on Security and Equal Opportunities and a provision for introducing a European Business Committee at Parent Bank level. In respect of the latter initiative, in 2002 specific training programs financed by the European Commission were performed. In 2002 the Executive Labor Contracts were signed in relation to the merger of Banco di Napoli and Banca Cardine with Sanpaolo IMI, which specified the clauses aimed at limiting the occupational terms, introducing guarantees for territorial turnover, professional reconversion and requalification and at identifying the moments for “ad hoc” intervention by trade unions before each reorganization action.

### Working relationship

The company regulations in respect of employment constitute one of the most articulate contracts in the entire sector and offers employees protection and guarantees significantly better than those offered by the law. By agreeing to renew the integrated company contract, regulations in respect of leave of absence to assist children, in cases of severe illness and for justifiable personal reasons, have been greatly expanded and are considerably better than those provided for by law 53/2000. In addition, in case of the death of an employee, company regulations are in favor of offering employment to the remaining spouse or child.

In relation to disputes with employees, there is a tradition of minor conflict in respect mainly of economic retribution and promotion.

### Protected categories

Of our total number of employees, 1,188 belong to a protected category. On that issue, procedures have been taken to ensure that legal requirements for employment of this category have been fully respected. As a matter of fact, specific agreements have been made nationally and with the provinces of Turin and Milan for the employment of staff from this category.

Disabled	848
Orphans, Widows, Refugees:	340

### SENSIBILITY TOWARD THE ETHNIC INTEGRATION OF INTER-ETHNIC CULTURE

Sanpaolo IMI has complied fully with the Almaterra project, promoted by the association of the same name for inter-ethnic cultural integration and by the Turin City Council. This project, aimed at promoting the employment of young female foreigners with higher education or a degree in education, has developed through assignment of 7 scholarships supported by the City Council from regional financing from the European Union and integrated with a contribution issued by the Bank for apprenticeship. After the training period, all those involved were employed.

## Safety

Historically and statistically, the banking activity is among those at least risk. Nevertheless, even in this form of business critical areas can be found, mainly recognized in four types:

- the ergonomics of the workplace (furniture and fittings and equipment);
- climatic and environmental exposure (noise, light, temperature, humidity, suitability of the office environment);
- mobility (accidents during transfers - journey between home and work and vice versa);
- management of emergency facilities (fire prevention and first aid).

The number of accidents in Sanpaolo last year, confirm the following: 183 events based on 19,658 people. Of which, 111 (61%) are due to mobility and 72 (39%) to the working environment. Since the data relating to accidents in Banco di Napoli are held by each operating point, no detailed information is available at present.

### The system

The health and safety of employees is regulated by complex regulations, which we are wholly committed to complying to. We believe that the standard regulations represent a starting point, not the point of arrival, to ensure the maximum level of well being for all of our employees.

Since health and safety issues are faced in each phase of our working activity, we can only be systematic in their management. For this reason, we have realized articulated procedures which identify the precise responsibilities and adequate resources. In fact, after the enactment of D.Lgs 626 on "health and safety in the working environment", since 1994 our company has set up a structure composed of internal experts, assisted by specialized external consultants who were already part of a previous commission (since 1987). The issues upon which this structure operates cover a vast range of problems, among which: the ergonomics of the workplace, machinery and equipment, technological plant, adequacy of the workplace, fire prevention and first aid, prevention of criminal activity. It is also its responsibility to update and integrate the operating structures (technical and building) and company organization to conform to current legislation.

In accordance with the provisions of D.Lgs 626/94, each operating point has been supplied with a safety plan to ensure rapid and safe evacuation of the workforce from the buildings.

Furthermore, since 1991, immediately after approval of EEC directive 270/1990 in relation to video terminals, employees

may request periodical visits to opticians and/or physiotherapists, with examination of anonymous collective data from an epidemic view point.

The possibility to undergo such visits voluntarily, has also been extended to those employees which are not legally recognized as "video terminal operators".

### Multimedia training

Particular attention has been paid to the training of and information provided to employees in respect of health and safety: in accordance with the law, a CD Rom is created for training. We are currently preparing a version of on-line training available to all employees and a specific course for employees which utilize video terminals.

### Some specific projects

Sanpaolo has paid greater attention to risks involving the health and safety of its employees when compared to legal requirements. In this respect, we would like to highlight:

#### • Anti-smoking campaign

The knowledge of the risks involved from the presence of smoke in closed environments has encouraged us to perform an anti-smoking campaign, the strength of which was banning smoke for all employees in the workplace from 1998, requesting all visitors to refrain from smoking and the distribution to all employees of a pamphlet explaining the risks of smoking.

#### • Workplaces

Considering the necessity to operate in compliance with recent criteria on ergonomics in the workplace, we have adopted types/positioning of furniture for all newly constructed/reconstructed branches and/or central offices which involve the following use of space:

Type of place	Space occupied (m <sup>2</sup> )
Consultancy position/cash desk	10.9
Cash desk counter	8.9
Back office/central office	11.5

## Security

To provide adequate protection from physical risks involving the exposure of employees and customers to criminal acts during banking activities, we have created a specific structure, the Security Operating Unit, with the task of identifying and taking the necessary measures to ensure security (plant and norms).

### Methods

Decisions are made and agreed upon by a mixed technical committee composed of different company functions and unions. In order to evaluate the suitability of a security measure in respect of the most common risk, that of robbery, an internal procedure has been developed which analyses and quantifies the probability of such an act, taking into account numerous factors which influence such phenomena.

Based on the results of such analysis, the measures to strengthen security are applied, with the double aim of guaranteeing adequate protection to the branch and providing the best form of investment and organization. The methods for evaluating the risks of robbery currently used by Sanpaolo will be extended to the former Banco di Napoli network.

### Regulations and training

As far as regulations are concerned, a specific document has been prepared and is constantly updated in respect of the "methods of behavior for protecting people and assets". This document is also available online. Furthermore, whilst on the subject of security, training courses have been held and attended by more than 6,000 people over the past two years.

### Results

The work performed to date has provided us with one of the most secure banks in respect of the average for the sector.



	NUMBER OF CRIMINAL EVENTS PER 100 BRANCHES	
	Parent Bank after the merger	Banking system
Robbery		
- in 2002	5.0	8.3
- in 2001	5.6	7.8
Theft		
- in 2002	0.3	0.7
- in 2001	0.2	0.6





# Shareholders

## VALUES

### Creation of value

It is our intention to guarantee over the medium-long term period, adequate remuneration in the capital invested by shareholders, through the distribution of dividends and with the valuation of shares on the stock exchange.

### Customer orientation

We believe that creating interest for our customers with the greatest spirit of service, is not only an essential condition for the growth of the Bank, but it is also one of the premises for increasing the value of our shareholders' capital.

### Integrity

We must ensure that the Bank's administration is constantly characterized by honesty, correctness and transparency.

### Commitment to excellence

We have set ambitious strategic, profitability and performance objectives, in line with European best levels, developing a sense of responsibility in everyone in respect of achieving these aims.

### Growth in observance of specific qualities

We want to treat each shareholder with the same respect and consideration that we reserve for the large investor.

### Responsibility in the use of resources

We are aware that the capital of the bank is represented by the resources of our shareholders and that it is our precise duty to utilize such resources with respect, because their future depends on our care and attention.

The share capital of Sanpaolo IMI is composed of 1,837 million shares, of which 1,449 million ordinary shares and 388 privileged shares. The introduction of privileged shares, which to date are held by the three Foundations listed at the beginning of the table below, can be traced to the realization of the project to integrate the Sanpaolo and Cardine Groups, within the scope of which Compagnia di San Paolo on one side, and Fondazioni Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio di Bologna on the other side, chose, on the basis of art. 28, subsection 3, lett. a) of D.Lgs n. 153/99, - as in the letter of intent - to convert the excess ordinary shares held into privileged shares for a total of 15% of the capital of the Bank post merger. With this conversion, the Foundations have, for the

corresponding quota, waived their voting rights in ordinary shareholders meetings: as a matter of fact, the privileged shares maintain the voting rights only in Extraordinary shareholders' meetings. In light of this waiver, the "privilege" consists of pre-emption in case of reimbursement of capital and of the right to the distribution of net profit from the financial statements at 5% of the nominal value of the share, as well as the right to accumulation of the dividend not collected with that matured in the two subsequent financial years. At the moment there are no other limitations other than the privileged shares. The aforementioned Foundations have also agreed to place the ordinary shares in management to a company specifically set up for such purpose for a

#### PRINCIPAL SHAREHOLDERS (in %)

	% on share capital	
	total	ordinary
Compagnia di San Paolo	14.48	7.50
Fondazione CR Padova e Rovigo	10.80	4.38
Fondazione CR Bologna	7.69	3.12
Santander Central Hispano	6.37	8.08
Giovanni Agnelli e C.	3.83	4.86
Deutsche Bank	3.68	4.67
Monte Paschi di Siena	2.04	2.59
Credito Emiliano Holding	1.96	2.49
Fondazione Cariplo	1.74	2.21
Caisse de Depots et Consignations	1.70	2.16
Templeton Global Advisers LTD	1.54	1.95
Società Reale Mutua Assicurazioni	1.54	1.95
Ente Cassa di Risparmio di Firenze	1.53	1.94
Fondazione Cassa di Resp. di Venezia	1.47	1.87

Situation updated to May 2003.





period of 10 years (Fondaco SGR S.p.A.). This company was established with a technical partner, Ersel Finanziaria, and before commencing operations it is still waiting to complete regulatory requirements.

The presence of the Foundations, which are part of our history, in the shareholdings testify the strong ties between the banks in the Group and the respective reference territories. Furthermore, the wide geographical distribution of the areas covered represent additional guarantee in the aim of the Bank to enact strategies able to, on the one side, reconcile national and international objectives and, on the other side, the direct needs emerging locally. As bearers of the essentially non-profit vision connected to their institutional role, the Foundations also form an important reference point for the knowledge of this reality and for the definition, within the business policies of the Bank, of choices characterized by the best equilibrium between business and social responsibility.

The break down of the shareholders by category reveals that almost 76% of the share capital is in the hands of institutional investors and private entrepreneurs.

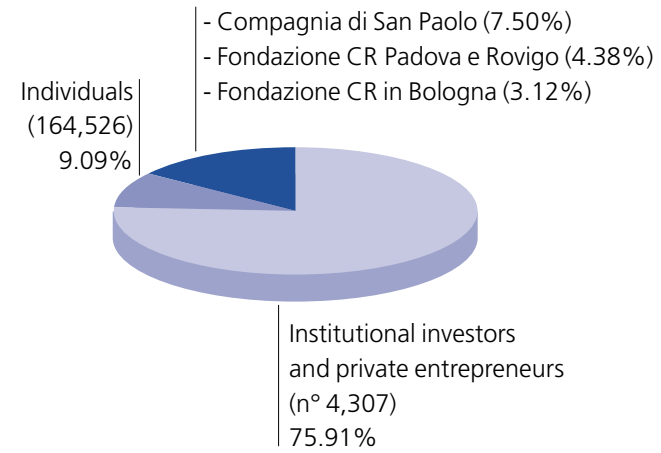
Within the scope of the widespread shareholding initiative for employees promoted in June 2002, 14,427 Sanpaolo IMI employees requested the assignement of ordinary shares in the company.

Consultation agreements exist between some of the principal shareholders, who hold a total of 16.2% of the ordinary capital (extracts from the agreements are available on the Internet site [www.sanpaoloimi.com](http://www.sanpaoloimi.com)).

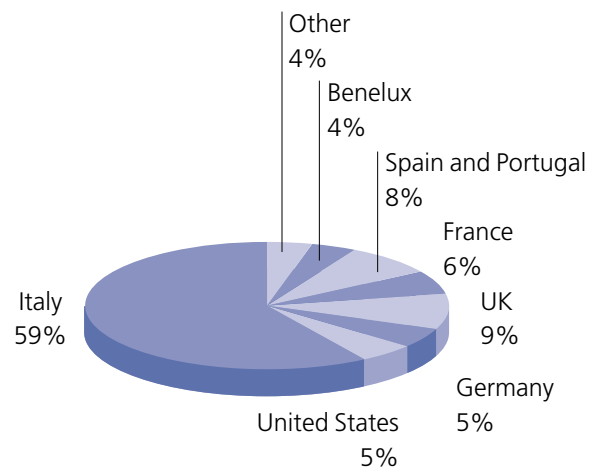
From a geographical point of view, 59% of the ordinary capital is held by Italians, while the remaining 41% is held by foreign shareholders, the majority of which are European (32.5%).

The Sanpaolo IMI shares are dealt with in New York as American Depositary Shares (ADSs), sponsored by JP Morgan as depositary bank, at a ratio of 2 ordinary shares/1 ADS. The price in ADS shares reflects not only the trend in Sanpaolo IMI shares, but also the trend in the Euro/\$ exchange rate. At the end of 2002, the number of registered shareholders totaled 14,245,636 ADS.

**BREAKDOWN OF ORDINARY CAPITAL**



**GEOGRAPHICAL DISTRIBUTION OF ORDINARY CAPITAL**



The Executive Committee Room in the piazza San Carlo office, Turin



## Strategic Plan 2003-2005

We believe that the best way to guarantee shareholders' maximum remuneration in the long term begins with the adoption of a strategic plan oriented towards the creation of value. In this sense the Group has confirmed, in its 2003-2005 Strategic Plan, the priority of the domestic banking market and the intention to consolidate the position achieved in services to households and companies, especially small- and medium-sized companies.

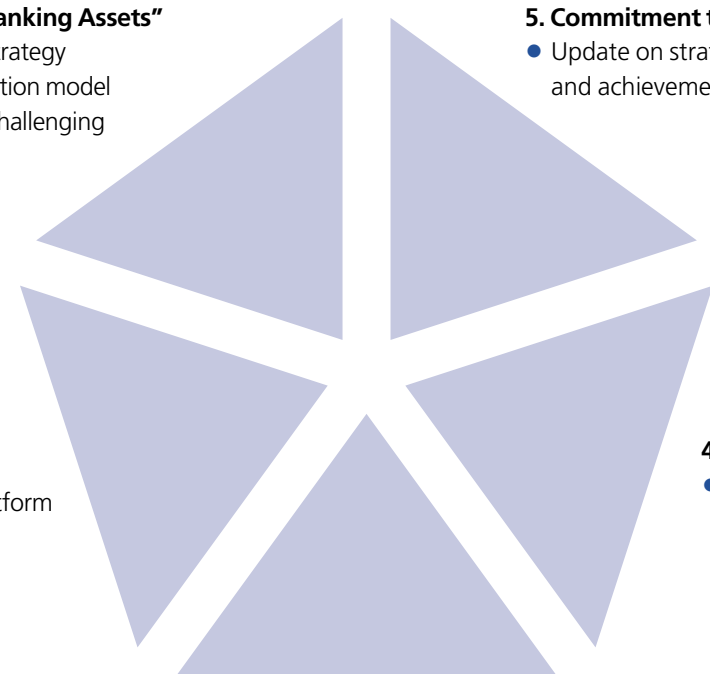
Altogether, the Strategic Plan, starting from uncertain market conditions, sets itself ambitious aims, as proven by the profitability and performance ratios, but which can be considered achievable through the actions envisaged. These actions follow five directions.

### 1. Focus on "Core Retail Banking Assets"

- Continuation of current strategy
- Innovative branch distribution model
- Growth of revenues in a challenging environment

### 2. Cost control

- Human resources
- Optimization of the IT platform
- Logistics/buying process



### 3. Focus on profitability for other activities

- Increasing profitability of business portfolio
- Strengthening of the Group's presence in high growth business

### 5. Commitment to market communication

- Update on strategic guidelines and achievements

### 4. Portfolio Management

- Active and efficient management of the portfolio of shareholdings

Thanks also to the economic results achieved in time, the Group is distinguished by the fact that it has always adopted a generous income distribution policy (the *pay-out* ratio in 2002 was 62% of the consolidated income), simultaneously paying particular attention to maintaining a solid capital endowment (the *Core Tier 1 ratio* net of preferred shares and Total ratio targets are 6% and 10% respectively). The company's economic-financial solidity is proven by the *ratings* attributed to Sanpaolo IMI.

### SANPAOLO IMI DEBT RATINGS

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

Several indicators of particular importance to shareholders and more closely linked with the strategic plan are:

- *Shareholders' equity per share performance*: this is an indicator that highlights the importance of the bank's solidity, taking account of the capital performance. Despite the adverse condition of the markets and the negative influences on statements of income, the indicator highlights a minimum change of -3.5%<sup>13</sup>;
- *Dividend yield* (dividend/average annual price): alongside the share performance, this represents the average annual yield of the investment in shares. In 2002 it was equal to 3.18%, just under the average of the last three years (3.5%);
- *2005 RoE target 2005*, which identifies a three-year target for the total profitability of capital. This has been set at 15% compared with the 8.4% achieved in 2002;
- *Three-year CAGR of earnings per share*, which measures the net income target change in the medium/long term: for the 2003-2005 three-year period at +25.7%;
- *Cost/income ratio*: this is equivalent to the ratio between total costs and revenues and constitutes a very popular synthetic indicator of efficiency. The 2005 target is equivalent to 54.6% compared with the 65.1% registered in 2002;
- *NPLs ratio*: this indicates the ratio of net non performing loans/net loans to customers. For 2002 it is equal to 1.0%. Used as an indicator of credit quality, its



Corbis

slightness places Sanpaolo IMI at levels of absolute excellence at European level.

The performance of the Sanpaolo IMI shares, which suffered a decline of 48.5% in 2002, is strongly influenced by the total *performance* of the markets and by a high number of variables outside the Company. In view of the creation of medium-/long-term value for shareholders, the performance of the Sanpaolo IMI share compared with the Mib Bancario is important: this change makes it possible to highlight the shift attributable to the specific share compared with those of the other companies in the same sector quoted in the same market, and therefore subject to the same exogenous phenomena. The indicator is equivalent to -29.1%: the penalization of the share in 2002 can be traced back in particular to the related major exposure of the Group results to the turbulence of the stock market, in relation to the leading position held in the asset management sector as well as to the high revenue commission component. During 2003, the Sanpaolo IMI share registered an amply positive trend, +36.3% at 11 June, with a related overperformance compared with the Mib Bancario (up 16.3 in the same period) by more than 17%.

<sup>13</sup> The shareholders' equity per share was 5.74 euro at the end of 2002.

## Corporate Governance

Among the Group's priorities, the pursuit of corporate governance models in line with the best international standards has been confirmed. The Group's level of excellence is also proven by the results of the "Corporate Governance Ranking" research carried out by the DWS in conjunction with Deminor Rating, on the Dow Jones STOXX 50 index. The research, focused on corporate governance commitment, information transparency,

rights and duties of shareholders, lack of poison pills against takeovers and Board functioning and structure, sees Sanpaolo IMI, the leading Italian financial institution, in 12<sup>th</sup> place compared with 21<sup>st</sup> place last year. For full details refer to the Annual Report and the website [sanpaoloimi.com](http://sanpaoloimi.com), where a copy of the governance system report is available, or, for a simplified version, to the specific section of this document.

## Partecipazione by shareholders in business governance

The Shareholders' Meeting was held three times during 2002: the first on 5 March to approve the merger with Cardine, the second on 30 April for the approval of the financial statements and the last on 25 November for the merger with Banco di Napoli. An average 54.2% of the capital voted at the first two meetings while 62.50% of the share capital (ordinary and privileged shares) voted at the Extraordinary Meeting in November.

Within the context of these percentages, in addition to the presence of the shareholders complying with the advisory agreement or subscribers to the letter of intent mentioned, as well as the other banking Foundations - an average of 13.8% of participants included a consistent number of institutional investors. The Bank did not deem it necessary to proceed to specific initiatives designed to amend the percentage ceilings provided for by current regulation for actions and prerogatives to safeguard minorities. No provision has been made for a presence on the Board of Directors nominated exclusively by minority shareholders, the latter being sufficiently represented on the Board of Statutory Auditors, which has an influential effect on the management of the Company and currently includes two Statutory Auditors nominated by the same (out of a total of 5 members). The vote by correspondence is not currently provided for by the Company's Articles of Association.

PhotoDisc



## Relation with investors and with the market

Transparency and direct communication to shareholders, institutional investors and the financial community on the whole is ensured and managed by Investor Relations. This department guarantees prompt illustration of activity, strategies and Group's results, in full observance of the regulation on price sensitive information. Communication to the public is inspired by criteria of trust, clarity and informative continuity. Particularly noteworthy is the fact that the Bank communicates the results on a quarterly basis: promptness is proven by the fact that, in 2002, an average of 27 working days went by between the end of the reference quarter and communication to the market. The results communicated are published in accordance with the accounting standards in force in Italy. However, an annual report published in accordance with American standards (US Generally Accepted Accounting Principles), 20-F, is available on paper by request and can be viewed on the Sanpaolo IMI website.

In 2002, the activity of Investor Relations was expressed in the form of:

- 4 roadshow in the main European financial market places;
- 5 conference call;
- 245 meetings with investors, 44% of which with the participation of *top management*.

Communication to the financial community - analysts, institutional investors, rating agencies - occurs on a two-way basis: that already illustrated is flanked by an intense incoming communication activity. Top management is regularly informed of market moods, the result of meetings and their effectiveness, by means of a series of instruments, including the fundamentally important monitoring of market expectations with regard to share performance. To this end, using the contribution of more than 30 brokers, the consensus on the figures of the statement of income and target price

are constantly updated. In addition to direct meetings, an important instrument for communication with the financial community and retail investors, is provided by the website ([www.sanpaoloimi.com](http://www.sanpaoloimi.com)). In the Investor Relations section news on the profile of the Group and the Bank's shareholders, economic-financial information on the Group (financial statements, half year reports and quarterly reports as well as summary tables), press releases issued by the Company and the annual calendar of relevant corporate events, are promptly and clearly provided. The website also provides news of periodical meetings organized with financial analysts, making available a copy of the documentation distributed. More than 2,000 messages were sent to the IR department e-mail address in 2002.

The promptness with which the requests of our investors were answered contributed to making it one of the most widely appreciated sites in the Italian market (the most complete according to research performed by the company [Investor-relations.it](http://Investor-relations.it), November 2002).

The next steps envisage:

- an increase in the frequency of meetings with investors, especially an intensification of the roadshow activity in the various European and American market places. In 2002, 8 European market places were visited by IR (just one of these twice) during 4 roadshows, but no visits were made to the United States;
- the creation of a new institutional site ([www.grupposanpaoloimi.com](http://www.grupposanpaoloimi.com)), with an analytical section on corporate governance, and one dedicated to the social and environmental responsibility of business;
- communication, through the website, of the updated consensus figure (starting in April 2003);
- the intensification of relations with SRI investors, with whom initial contact has already been made.





VALUES

Creation of value

Value in detail

We want to responsibly play a leading role in order to actively contribute to supporting and developing the country's economy.

Customer orientation

We see the territory as a network of relations to serve with a spirit of service.

Integrity

We want to take the concept of business citizenship and translate it into concrete behavior, guaranteeing maximum transparency of our action.

Commitment to excellence

One of our most ambitious aims is to become market leader in financial services for the territory.

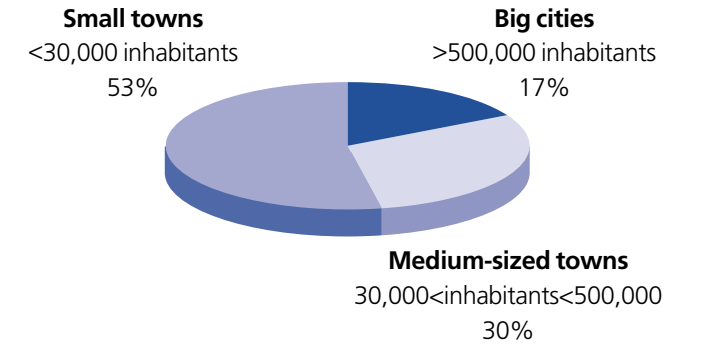
Growth in observance of specific qualities

We intend to combine the dimension of an international group with territorial roots, exploiting local cultures and facilitating access to credit and basic financial services, even to marginal subjects and economies to encourage greater participation in economic and civil life.

Responsibility in the use of resources

We devote maximum attention to the direct and indirect social consequences of the actions we perform or finance.

The fact that we operate in a global market does not rule out the importance of a sense of belonging to a collective community, where words must be considered in the widest possible sense, encompassing the whole planet. Our values indicate the need to remember that we belong to an extended group. Being a citizen-business imposes fiduciary duties towards the organized structures of civil society, however they may be articulated.



Local communities

Sanpaolo IMI, which has its roots in the same tradition as the saving banks, considers territorial roots to be one of its fundamental values. Attention towards local communities of all sizes is also proven by the 2,115 branches of the Sanpaolo Network and Banco di Napoli, which guarantee provision of service to the territory, especially in small towns, in which more than half of our operating points are located.

Territorial roots

Roots as a strategic choice...

Roots and proximity to the territory are the lynchpins of our strategy: they have guided our choices of external growth in recent years and have been recently confirmed in the 2003-2005 Strategic Plan. Territorial proximity makes it possible to gather and properly interpret the financial needs of customers and facilitates the flow of communication between the latter and the Bank, enabling, at the same time, respect and exploitation of the links developed with the local communities over a period of time, links which strongly characterize the history and tradition of the banks that make up the Group today.

....combined with specialization

As we see it, the benefits of territorial roots are accompanied by the need for specialization on the basis of various market segments: retail, companies and private customers. This methodological choice makes it possible to offer a top level service, diversified to suit the different needs expressed by customers: the link between these segments, which requires unitary governance and strict coordination, is guaranteed by the territorial Area. This type of organization ensures the best levels of efficiency and fast action and eases flows of communication with regard to commercial, lending and risk control policies, from the center towards the local offices and vice versa, also permitting due consideration of the specific requirements of the individual territories. This is an aspect which is particularly important for a Group like Sanpaolo IMI, present throughout the country, which has provided for the delegation of a wide range of power to the managers of the various territorial areas.



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### The brands

The great effort towards optimum integration of the various realities which make up the Group, respect for specific local situations and the exploitation of local roots also form the pillars on which the brand management logics are founded. The Sanpaolo brand will flank the local brands, which enjoy extensive recognition on the territory and with which customers associate continuing relations.

### Consultative Committees on the local economy

We consider it fundamentally important to communicate freely with the local communities, economic, social and cultural operators so that they can actively contribute to optimizing our credit allocation policies and range of banking services. To this end we intend to promote the constitution, in the areas in which the Bank is present, of Consultative Committees on the local economy, bodies appointed to encourage communication with the leaders of the local economy, open for contributions of ideas and analysis by leaders in the production world, local communities, professional and cultural sectors.

In particular, in virtue of the deep commitment towards Southern Italy, we envisage the activation of Consultative Committees in the Campania, Apulia, Basilicata and Calabria regions.

They will ordinarily meet three times a year, using the structures and support of the Bank and other Group companies.

### Attention to weaker categories

#### Social banking

In the context of the Italian Banking Association, we cooperate actively with the “Banks and Companies” project, participating in a work focusing on problems related to current accounts. In particular, we have become active with regard to specific themes, such as transparency, comparable offer and basic banking services (social banking), aimed at encouraging the affiliation to banks of those who have difficulty in accessing credit circuits. The project envisages the issue of multi channel services, encouraging the use of a debit card not necessarily linked with a current account, to reduce banking commissions for users. We have always paid attention to disadvantaged categories of consumers through conventions that provide for facilitated conditions and the issue of personal loans to members of Bodies and

Associations. These include: ANFASS (National Association of Families of the Mentally and Relationally Handicapped), A.N.D.I (Italian National Association for the Disabled), Unione Nazionale Ciechi, Fondazione Provinciale Comunità Comasca Portatori di Handicap, and numerous associations in support of international adoptions (AiBi Amici dei Bambini - Amici di Don Bosco - Fondazione Nidoli). Besides these initiatives, we have stipulated conventions that provide for subsidized loans in the event of natural disasters or to small economic operators in areas involved in public works. Cooperating initiatives are also underway with the Legal Authorities to contrast anti-social phenomena such as laundering, usury, domestic and international terrorism and child pornography.



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### The microcredit project

Social micro credit must be considered in a logic of support to the territory and of particular attention to the social reference fabric. This form of lending, being reserved to those who, on the basis of the traditional criteria used when granting loans, would otherwise be excluded, represents an important instrument, also in an evolved economy, to guarantee support to weaker categories and to combine economic growth and social benefit. It also constitutes an activity which converges the activity of banks, Foundations and non profit organizations. San Paolo IMI is supporting the development of a project of social micro credit promoted by Compagnia di Sanpaolo, which is due for activation in 2003 and provides for the accomplishment of events in the provinces of Turin, Genoa, Rome and Naples. More precisely, the Compagnia has made available the funds necessary to set up a guarantee reserve to cover possible insolvencies originating from micro credit operations, simultaneously involving religious bodies or local ONLUS (the Archdiocese of Turin; Fondazione Antiusura Santa Maria del Soccorso, based in Genoa; Fondazione S. Giuseppe Moscati - Fondo di Solidarietà Antiusura, based in Naples, and Fondazione Risorsa Donna, based in Rome) which, in the context of the project, have the job of individuating the people and initiatives that deserve to obtain credit. Sanpaolo IMI intervenes in the initiative in the dual role of operating partner and issuer of a service, making available its organizational capacities (loan management using IT systems and procedures and territorial coverage thanks to the branch network) and reserving special economic conditions for the beneficiaries of micro credit (current account management costs and costs for transactions).

With Fondazione Risorsa Donna, an initiative named “A woman, a computer, an opportunity”, supporting the purchase of personal computers by women, is also being created. Also, in order to favor access to credit by female entrepreneurs, local conventions are being stipulated with some Chambers of Commerce. Lastly, the possibility of offering subsidized tariffs to extra-EU immigrants who need to send sums of money to their families in their countries of origin is being verified (with particular aid for payments to Morocco and Brazil, thanks to agreements entered into with local banks). A request to this effect has been put forward by the Turin Council Department for Employment, but the intention is to make the service active all over Italy, concentrating it in several branches.

### Support for the ‘Facciamo Futuro’ project for the elderly

The increase in the number of elderly people in Italy requires increased attention to the needs of people who are not self-sufficient and to the importance of preventative medicine and an integrated approach to health. A pilot project concentrating on this has been presented by the San Giovanni-Addolorata Hospital in Rome, one of the most advanced hospitals in Italy, supported by Sanpaolo in Spring 2003. The aim of the initiative is to supply an absolutely innovative service through the creation of a *Clinic for the Pathologies of the Elderly*, capable of guaranteeing integrated prevention and monitoring of pathologies and boosting home assistance.

To support fund raising to implement the project, we have involved more than 2,000 branches all over the country, in which, as of March 2003, anyone can donate at least 3 euro by filling in a special form. In this way the funds raised are destined to the purchase of health equipment for the center.

The play-bill of the project





## Regional territory and development

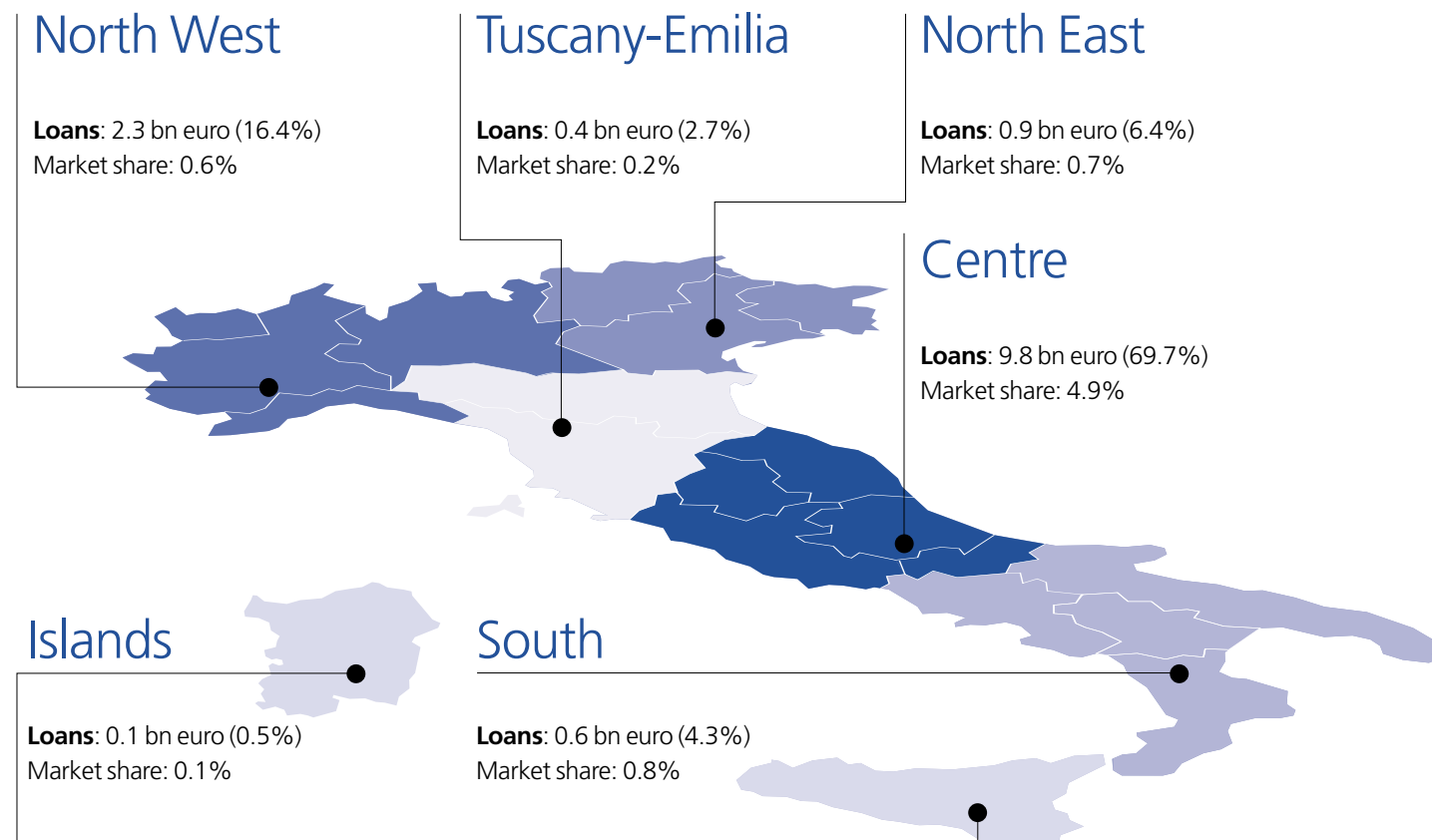
Every local community finds in the creation of infrastructures and the development of small- and medium-sized companies, two essential moments in its development. In both these activities, Sanpaolo and Banco di Napoli represent reference points on the whole national territory, both in big cities and in small towns and rural communities.

### Partnership between public and private sectors

We consider “financing the territory” as an expanding business which requires a financial and professional commitment which is at least equal to the commitment reserved by the Bank to its more traditional activity, business financing, which it highly complements. Alongside the growing financial needs of regional areas, the increased suitability of the territory and its structures for financing by extra-public capital compared with the past helps stimulate banks to take on a new important role. Therefore public-private partnership (PPP) formulas

are being confirmed, actuated by Law 443/02 through a vast program of public works considered strategic to the development and modernization of the country. Our Group is present in the sector of public works and infrastructures through Banca OPI, as regards lending and advisory services, through Finopi, equity investor of Banca OPI, which supplies risk capital in infrastructure development programs, and lastly, through Sinloc, offering equity financing and advisory service focused on local development projects and the relaunch of the territory. The control of Banca OPI means that our market share in the public administration sector is equal to 26%, more than double the percentage of other sectors. The desire to consolidate our considerable presence in this area of activity is also confirmed in plans for the future, which envisage further strengthening and relaunch of operations in the public works sector, in order to make Banca OPI a leading operator in the European context.

### TERRITORIAL BREAKDOWN OF BANCA OPI LOANS (bn Euro and % of total)



## BANCA OPI: AN INSTRUMENT AT THE SERVICE OF THE TERRITORY

Through advisory service, the arrangement of project finance operations and traditional financing for public authorities such as councils, provinces, regions, former municipal companies, government bodies and other similar organizations, Banca OPI actively contributes to the improvement of economic and competitive conditions in the territorial areas to which financing is aimed. Of the financing activity performed in 2002 (for a total of 7.1 billion euro), approximately 32% (2.2 billion euro) is aimed at operations with a strong social and environmental character.

In particular, these are operations in the environmental services sector in the strictest sense (waste and water cycle management), in the conservation sector (protection of the Lagoon of Venice) or for the development of innovative urban transport systems: altogether, 581 million euro were channeled towards the financing of these activities in 2002. A significant amount of financing by Banca OPI was also destined to urban improvements and social construction projects (1,063 million euro), and to the renovation of infrastructures damaged as a result of natural disasters (208 million euro).

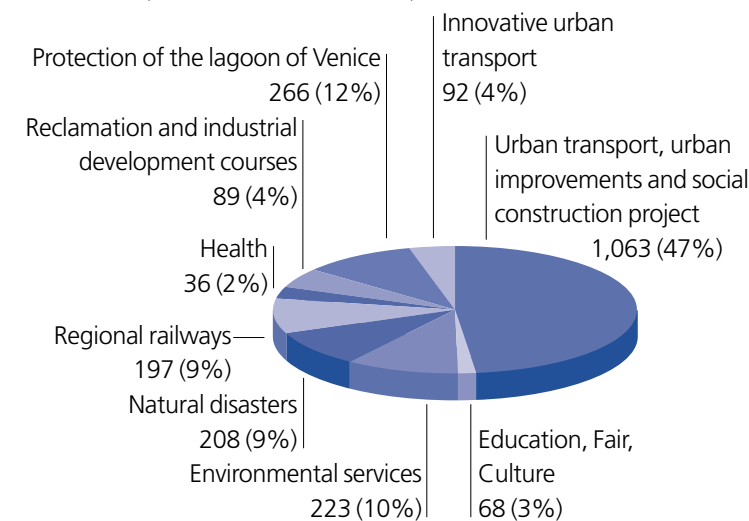
Banca OPI is also active in the financial advisory field for the development of infrastructure projects in which the most consistent share of financing which could be potentially activated regarded the management of waste and the water cycle, for which advisory activities are underway for projects that would involve investments of more than 1,600 million euro. Smaller, but numerically significant investments regarded the advisory activity for the organization of operations to finance projects in the social construction sectors (health and education), urban improvement and the development of urban transport systems.

A further increase in the advisory activity in sectors with a strong environmental aspect is forecast for 2003, following the adjudication of a series of public tenders for the construction and management of plants to overcome the environmental emergency in the field of waste and the purification of water in some areas of southern Italy (Campania, Apulia and Sicily). Advisory activities and organization of project finance operations in the public urban transport sector are also forecast for this year, with particular reference to restricted electric driving systems. These systems are part of the initiatives presented by numerous Italian towns to reduce pollution by noxious gas and noise.

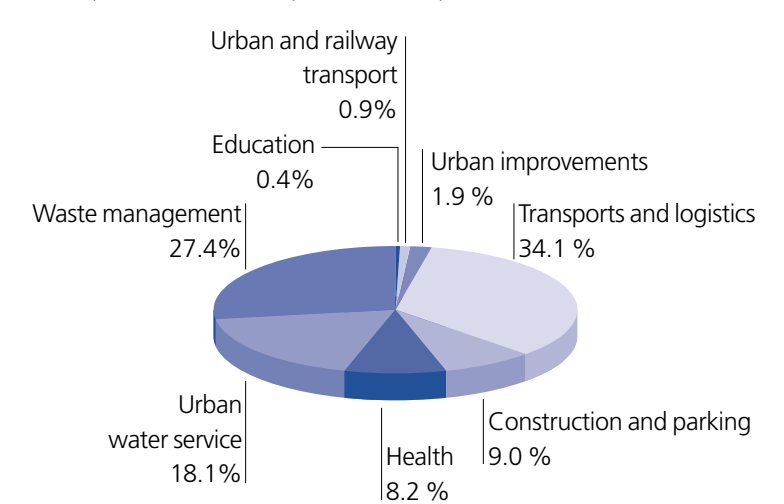
### A specific project

In the context of the advisory activity performed by Banca OPI, particularly noteworthy is the organization of a project financing operation aimed at creating an integrated waste disposal system to serve the province of Naples. The project regards the creation and management of a system made up of four recycling and final disposal plants, which represents the first large scale application of integrated waste management, as provided for by national regulations on the matter. These regulations, in keeping with European regulations, envisage differentiated waste collection and recycling, with the recovery of materials and energy and a final process of disposal in dumps.

### BANCA OPI SOCIAL AND ENVIRONMENT FINANCING (mil. euro and % on total)



### BANCA OPI DESTINATION OF INVESTMENTS OBJECT OF ADVISORY (Total investments 3,651 mil. euro)





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## SINLOC: AN INSTRUMENT FOR LOCAL INITIATIVES

Sinloc (Sistema Iniziative Locali) offers equity financing and advisory service and its activity focuses on local development and initiatives to relaunch the territory, combining public and private interest in a logic of efficiency and profitability. We hold capital in Sinloc through Group companies and the shareholders include several Foundations (Compagnia di San Paolo, Fondazione Cassa di Risparmio di Venezia), the Cassa Depositi e Prestiti and an international operating partner, the Caisse des Dépôts et Consignations (CDC) Group. Sinloc offers support and specific innovative services to local bodies and companies operating in public utilities, promoting initiatives for the exploitation of Public Administration services and investments. The main areas of operation regard local public transport and infrastructure in the territory, urban transformation aimed at the recovery of rundown or disused areas as well as residential and specialized social (health and university residence) buildings. Sinloc intervenes in these sectors supplying financial, technical-organizational and legal advice for the actuation of processes to liberalize local services and relaunch and/or dispose of public assets, constantly monitoring the evolution of European policies on the matter of local services and infrastructures and, lastly, promoting domestic and international study projects in conjunction with universities and research institutes.

Public-private partnership initiatives were also subject to an agreement signed in November 2002 with Eulia (the French holding created by the Caisse des Dépôts et Consignations Group and the Caisse d'Épargne Group), aimed at setting up closed-end funds oriented at investment in infrastructure. The creation of 4 funds is envisaged:

- *Galaxy*, specialized in investment in infrastructure projects in the transport sector in the European Union;
- *PPP Italia*, a closed-end fund which will invest in territorial development projects in Italy;
- and two other funds destined to public-private partnership initiatives: *PPP Europa e Développement des territoires France*.

### Our commitment in support of the Turin-Lyon link

Within our relation with France, our Group is committed, with the European Investment Bank, and in collaboration with the other actors involved, to the analysis of possible solutions for troubles arising from the financing of major infrastructural projects and, in particular of the Turin-Lyon link. This link, deemed as essential for its economic and

environmental effects for the two countries, has costs which seem high for Public Finance, with particular reference to the ties of the Stability Pact. To this end, hypothesis that combine public and private have emerged, therefore reducing the burden on Public Finance and making the financing more attractive for private partners.



### Private equity

By way of the financing and direct capital acquisition activity, the Bank covers an important role in the economic development of the areas in which it operates. Selecting meritorious business initiatives, it presents itself as a fundamental partner for the development of companies which, in turn, create employment and economic well-being in the respective reference areas. This is particularly obvious in the case of recently set up companies and those with high potential. In addition, it must be said that a Group as big as ours has the strength, roots and knowledge of the territory necessary to attract foreign capital in support of local business projects. Through Sanpaolo IMI Private Equity, we dedicate particular attention to the support of the development of small- and medium-sized companies through participation in risk capital and subsequent sharing of the related entrepreneurial design. For the 2003-2005 three-year period we have already provided for, in addition to the management of existing closed-end private equity funds (SIPEFI, Cardine Impresa and Eptasviluppo), the launch of the following important new initiatives, in order to place the Group in a leadership position in Italy in this sector.

### The Fund for the promotion of capital for Southern Italy

A first new close-end fund which is now ready to operate is the *Fund to Promote Risk Capital for Southern Italy*, presented in October 2002, for which subscriptions closed in April 2003. It is aimed at an area in which we have a strong presence and for which we envisage extensive support: the capital of the *Fund* has reached the considerable sum of 100 million euro. In addition to Sanpaolo IMI Private Equity, subscribers include the European Investment Fund (EIF), specialized in investments in risk capital reserves and currently the most important European operator in the sector, and CDC PME, which belongs to the Caisse des Dépôts et Consignations Group, which is active in the management of closed end private equity funds for French small and medium-sized companies. These are joined by prestigious banking Foundations and several entrepreneurs and industrial associations from the South. The *Fund* will be managed by NHS Mezzogiorno SGR, localized in the historical offices of Banco di

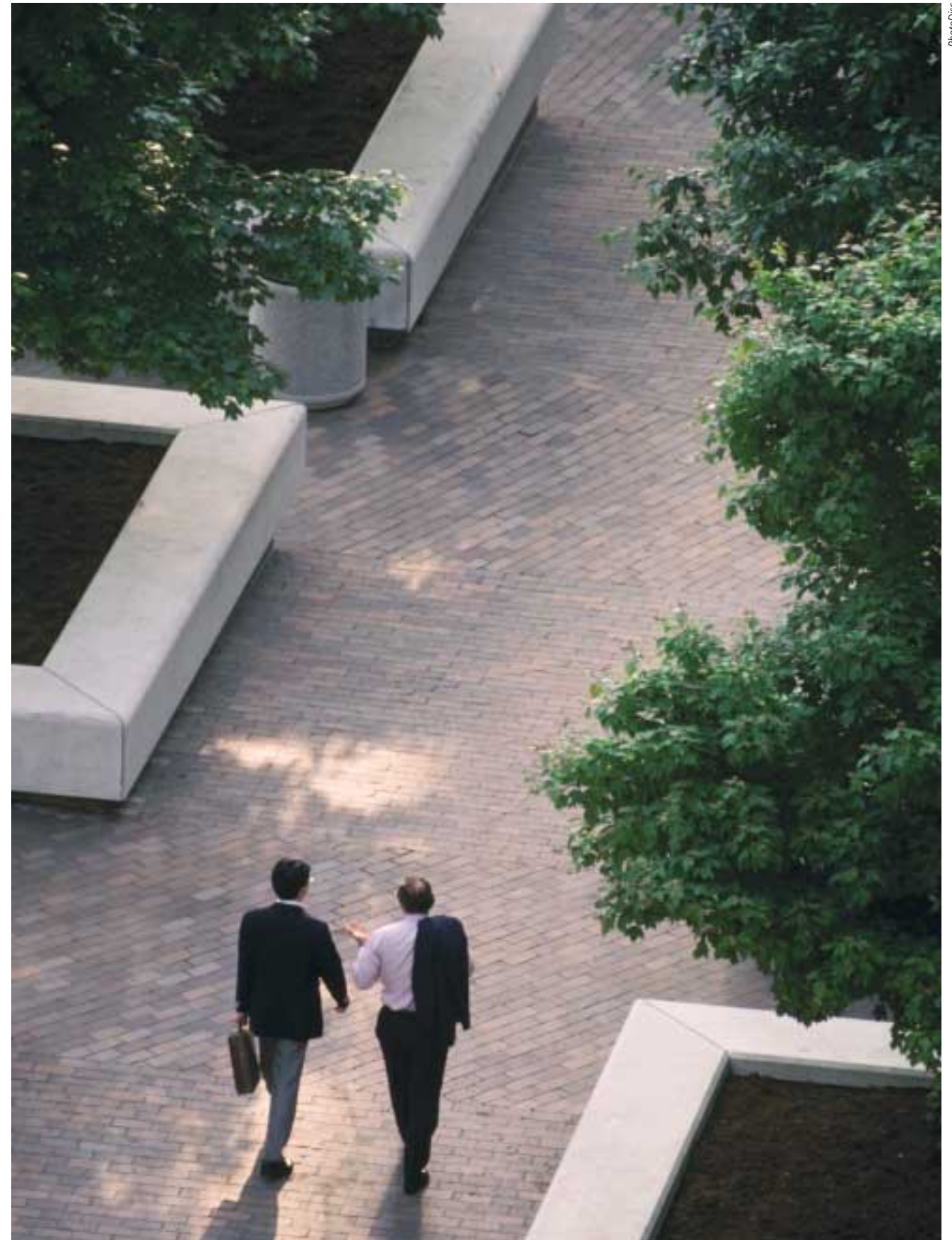
Napoli, which will invest its capital in private equity and venture capital transactions, mainly acquiring minority shares in the capital of small- and medium-sized companies in Southern Italy, including recently set up companies, with capable managements totally focused on pursuing ambitious growth projects.

The aim of the *Fund* is to contribute to the development of local enterprise and employment, stimulating the creation of an efficient risk capital market in Southern Italy in order to favor the growth of companies. The *Fund* also intends to contribute to achieving the aims pursued by the European Union through the EIF: the growth of the technological impulse in Europe and the balanced development of the regions which make it up. For subsidiary companies the *Fund* represents an important opportunity to accelerate their development and, through the introduction of adequate governance rules, to consolidate the entrepreneurial culture of the South of Italy.

### Other territorial closed-end funds

Faith in the great prospects of this sector of activity has led us to envisage the constitution of other funds, which will also be specialized in investments in small- and medium-sized companies: the *Closed end-fund for investments in Central Italy*, which is due for launch in 2003, managed in conjunction with Cassa di Risparmio di Firenze and Cassa dei Risparmi di Forlì; and the *Closed-end fund for investments in North West Italy*, specialized in investments in small- and medium-sized companies situated in Piedmont, Liguria and Valle d'Aosta, and conceived to provide a positive answer to widespread fears of the effects of the automobile recession on the economic fabric of the area in question.

Furthermore, together with CDC IXIS Private Equity and Bayerische Landesbank, we have reached an agreement for setting up a small pan European fund named *Eagle Fund*, the investments of which will be destined to small- and medium-sized European companies, situated mainly in Italy, France and Germany.





### Activity in favor of the economic culture of Southern Italy

Through its Studies and Communication Department, Banco di Napoli has always performed an intense activity aimed at favoring the growth of the economic culture of operators in Southern Italy. The activity initially focused on promoting relations with companies, associations and local public bodies, in order to strengthen relations with entrepreneurs and economic bodies for direct finalization towards growth projects. It has also promoted cultural and economic initiatives aimed at favoring the dissemination of specific knowledge in the South, both in the various production sectors - in many cases also offering inspiration for joint initiative with companies - and

in the public sector, with regard to themes related to the creation of infrastructures. Various conventions and seminars have been activated on these themes, along with research into the trend of the main economic sectors in specific geographic areas, national and regional economic and lending policies, structural and long-term phenomena of the real and monetary economy and public finance, always with specific reference to Southern Italy. In this context, two publications created by Studies and Communication, distributed to companies and public entities throughout the whole of Southern Italy, as well as in the academic world and amongst trade associations, take on particular importance: the *European Union Dossier* and the *Economic Review*.



Gioia Tauro Terminal (Reggio Calabria)



European Parliament, "The Spaak and Spinelli Buildings", Brussels



### The European Union Dossier

The *European Union Dossier* is an operating publication which takes an in-depth look at subjects of considerable interest for Southern Italy, linked with development and planning: system of public incentives (regional, national and community), regional operative plans (POR), territorial integrated projects, public works and infrastructures are just some of the themes covered by the magazine. Aimed not only at companies, but also at public entities, trade associations and advisory companies, the Dossier, as well as presenting the work of the Studies function, contains articles written by authoritative independent exponents, including the European Commission and the Ministry of Economy.

### The Economic Review

The *Economic Review*, first published in 1931, intends to supply innovative stimuli in the entrepreneurial and institutional field on the most important and current questions concerning the Southern economy, involving in the debate the main entrepreneurial and institutional forces of Southern Italy. The cultural commitment shown, aimed at identifying the new frontiers of development in Southern Italy and proposals for the removal of restrictions to growth, have made the *Economic Review* one of the reference points in handling problems inherent in the development of the South. In 1998 it was joined by the *Research Books*, aimed at taking an in-depth look at themes regarding sectors and

territories specific to Southern Italy and exploiting Southern intellectual energies in the economic field.

### Association of Studies and Research for Southern Italy

In order to preserve the tradition of analysis and research in the economic and cultural field of Banco di Napoli and in the context of the reorganization of the Sanpaolo IMI Group structures, and to further exploit the experience and knowledge acquired to date, the *Association of Studies and Research for Southern Italy* is being set up, with the intention of providing a center of excellence in the context of the economic and cultural debate concerning the various aspects of southern public and private finance. The Association, of which Compagnia di San Paolo and Istituto Fondazione Banco di Napoli will be members, will concentrate its attention on themes related to the development of Southern Italy, and especially to themes regarding the role of the local entities/bodies and infrastructure operations required to exploit the territory of the South. The non profit sector and themes of ethical finance will also be subject to investigation.



## Attention to society and culture

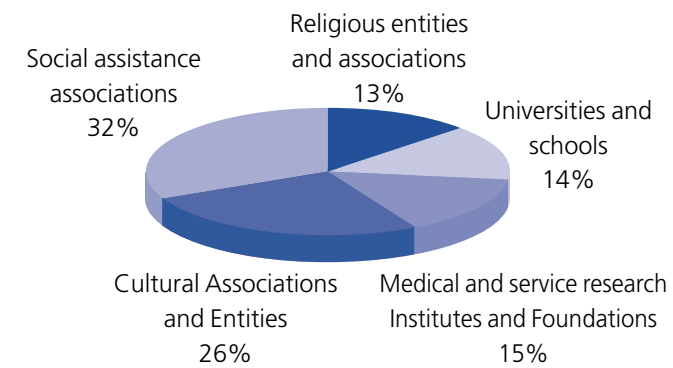
A pervasive feature of our business culture, the attentive and cooperative relationship with the context in which we operate is also substantiated in specific contexts of operation in support of socially and cultural relevant realities and initiatives, which will be illustrated in the chapter. Here we have also included, grouped into themes, references to the artistic heritage which - like many other banks - Sanpaolo IMI has collected throughout its history.

### Disbursements and liberality

Following the institutional reorganizations performed in actuation of the Amato/Carli Law, public law credit institutes and saving banks have been transformed into joint stock companies. The capital of these new companies was assigned to Foundations which have the task of pursuing the tradition of disbursements for beneficial and social purposes, making this activity more systematic, articulated and regulated, assuming it institutionally as their mission.

This process has not detracted from Sanpaolo's consistency with the values that are part of its "genetic code", its history and its traditions. In this spirit, the Bank, which operates at the service of collectivity with a business logic aimed at making a profit, has continued to confirm its attention to the social context, also through disbursements and donations of funds: in 2002 it destined a total of about 1.1 million euro to these activities. These disbursements regarded, in the context of the behavior set by the Administration, initiatives with bodies with socially and culturally beneficial initiatives. In this context, just under 350,000 euro were dedicated to relevant operations - in terms of geographic area and/or specific importance - provided

### BREAKDOWN OF DISBURSEMENTS FOR RELEVANT OPERATIONS



by head office and by the territorial areas: the breakdown of this amount is illustrated in the graph.

A relevant sum was destined to the issue of scholarships, split into two modules related to business risk assessment and, more generally, credit and finance, and regarded 30 people, all of whom were hired at the end of the specialization courses. The remaining part of the funds was used for disbursements of a limited amount in support of beneficial, social and cultural initiatives at local level.

### Sponsorship

The Bank is also active in the sponsorship sector which, while undoubtedly creating a positive effect in the social and cultural context, must be separate from liberal disbursement. In sponsorship, the support of events and initiatives is linked with the aim to obtain a positive return in terms of image and therefore a commercial return for the sponsor. In this case therefore, the benefit regards both the direct and indirect receivers of the sponsorship (the beneficiary and, for example, the public attending the event presented thanks to the sponsor's contribution) and the sponsor. As regards the activity of sponsorship, in 2002 we allocated resources for a total of 11.6 million euro.

Backing for the sporting world accounted for about 2/3 of the total. In this context, most relevance goes to the XX Torino 2006 Winter Olympic Games. Sanpaolo IMI is one of the Principal Sponsors - with national coverage and dimensions - of this great sporting event, which will be held in Piedmont in February 2006. With this appointment, the Olympic Games will be returning to Italy for the third time, after the 1956 Winter Games in Cortina and the Rome Olympics in 1960. This is the first time that they will be held in Turin. This is an important opportunity for the whole country and especially for Turin and the surrounding area. This is why Sanpaolo IMI, which had already contributed to

the promotional activity for the candidacy of the city, has decided to take the role of Principal Sponsor of the Games. The sponsorship is at Group level and is consistent with the decision, which has always characterized Sanpaolo IMI, to support projects and initiatives capable of generating new growth. Furthermore, it highlights our full agreement with the universal values associated with the Olympics. The role of sponsor of the XX Torino 2006 Winter Olympic Games includes that of official sponsor of the Paralympics, which will be held a few days after Olympics (March 2006) and that of official sponsor of the Italian Olympic teams at the Athens Olympics in 2004 and the Turin Winter Olympics in 2006. Moreover, in virtue of a Joint Marketing Agreement between the Toroc (The Torino Games Organizing Committee) and the Italian Winter and Ice Sports Federations, the role of Principal Sponsor also extends to cover the latter. The Bank is also already one of the sponsors of the FIS (Italian Winter Sports Federation). Part of the sponsorship is aimed at the sector of art and culture.

- In this context, during 2002, Sanpaolo, as it had already done in the past, confirmed its support of the activities

of the FAI (Italian Environmental Fund). The FAI is a non profit organization dedicated to the recovery and protection of the country's artistic-cultural and environmental heritage and its exploitation. Sanpaolo has contributed to numerous FAI initiatives and events, in terms of exhibitions and the promotion of events and visits to sites with a high artistic-landscape value which have been recovered and are managed by the Fund.

- *Fondazione Teatro San Carlo di Napoli.* The San Carlo is the oldest existing theatre in Europe. Built in 1737 to a commission by King Carlo di Borbone, over the centuries it has won a prominent place in the history of music thanks to its contribution to the formation of Italian opera, ranging from serious eighteenth century opera to nineteenth century romantic drama. At the same time, the Theatre developed a "Neapolitan" school of dance, an important reference point in Italy. Like Banco di Napoli before it, Sanpaolo now participates as a supporting associate, in the activities of Fondazione Teatro di San Carlo, the finalities of which include the dissemination of musical art and the formation of artistic scenes.







"La cacciata degli Angeli ribelli," Antonio Maria Viani

### Our historical archive

Both Sanpaolo and IMI, already prior to the merger (1998), had created structures dedicated to archiving historical documentation and producing publications regarding the origin and the evolution of the two Institutes. All the material that documents the history and the evolution of Sanpaolo from its origins through to the privatization of the Bank (1992) is now part of the Compagnia di San Paolo Historical Archive. The archived section of Sanpaolo post-privatization and the IMI Historical Archive, situated in Acilia near Rome, are run by a single Bank department named *Sanpaolo IMI Historical Archives*, responsible for conserving, inventorying and exploiting the materials in its possession, an activity which is of the utmost importance in terms of comprehending and developing a corporate culture within our company. The validity of the directions followed in the performance of this activity - which will also be applied for other Group components in the future - is confirmed by the attention with which the competent archiving Superintendents monitor the evolution of the projects underway. With this in mind, it is worth remembering that the IMI Archive has been declared to be "of considerable historical interest" and that the Turin archive has for some time now been the object of a constant and profitable cooperation. Moreover, the Bank actively participates in the work of the Group set up specially in agreement with the Ministry of Cultural Assets, the Bank of Italy and the Italian Banking Association, for a study on the guidelines for the selection and rejection of the documents in the archives of credit institutes, a project which aims to publish a guide to the exploitation of the historical-archive heritage for use by the whole Italian banking system. Also with a view to expanding and developing historical-archiving knowledge, Sanpaolo IMI monitors, in its capacity as member, the initiatives of the ANAI - Italian National Archiving Association, especially with regard to the legal aspects of business archiving.

### Our artistic heritage

Special attention should be paid to the Sanpaolo's artistic and historical assets, which have gradually been enriched over the years also thanks to the incorporation of other banks. The heritage can be divided into two main categories: works which provide furnishing complements in the Bank's operating points, and goods of major value, located mainly in head offices and representative offices. The collection of paintings includes works from the Sixteenth century to the present day. The variety of the collection encompasses the work of many sixteenth century schools: an example is the small but exquisite masterpiece

by the Flemish artist Denys Calvaert, "Tobiolo with the Archangel Raphael". The passage from the sixteenth to the seventeenth centuries is represented by works such as "The Trinity with four Saints" by the Venetian artists Jacopo Negretti, known as Palma il Giovane. The collections of the Seventeenth and Eighteenth centuries appear to be rather rich, with a conspicuous nucleus of Nordic paintings, mainly from Flanders and Holland, and an extensive section of works from Piedmont, comprising the grand paintings that decorated the old Oratory of the historical Compagnia di San Paolo, founded in 1563.

The Nordic paintings feature a valuable painting attributable to the German artist, Hans von Aachen: "Scenes from a banquet". Proceeding in chronological order we come to a lively and animated "Roman market" by the Flemish artist, Peeter van Bredael. The paintings of major prestige from the period include the four magnificent canvases dated 1698, and signed by Isaac de Moucheron. The various aspects of eighteenth century decorative Piedmontese painting are represented with a series of landscapes, marine scenes and still life paintings from the workshop of Vittorio Amedeo Cignaroli, Michele Antonio Rapous, Francesco Antoniani. Highly significant is the collection of nineteenth century paintings and sketches, which includes real works of art, some of which have never been exhibited.

Of particular interest to the history of the bank is the series of portraits of the Chairmen of San Paolo, 17 canvases that embrace more than a century, from the mid-nineteenth century to the mid-twentieth century. Three of these are by Giacomo Grosso.

The selection of the twentieth century and contemporary



Virile head of the Roman period, bronze





"Taverna a Posillipo", Vincenzo Migliaro

masters, which is also well nourished and comprises works of considerable quality, offers an extensive view of some of the century's main Italian and European artistic movements: the futurist movement, for example, is represented by two of its leaders, Umberto Boccioni and Giacomo Balla, while the metaphysical period is represented by an important painting by Giorgio De Chirico, "Mannequins on the sea shore", dated 1926.

The twentieth century Turin school is also duly celebrated with valuable works by Felice Casorati and his English pupil, Jessie Boswell, a sensitive and cultured protagonist of the famous group known as the "Turin Six". The most recent twentieth century currents are present in our collections, with canvases often of considerable worth, including works by Lucio Fontana, Wilfredo Lam, Alberto Burri, Max Ernst and Pablo Picasso, amongst others.

The Group's artistic heritage includes the Banco di Napoli collections of particular value and beauty, which are housed on the premises of Public Entities:

- *The collection of the Museum of Villa Pignatelli.* The Museum of Villa Pignatelli houses a permanent section

of works belonging to Banco di Napoli. The collection is clearly Neapolitan and includes a group of very high level seventeenth-eighteenth century works. Some of the masterpieces come from the old "public banks" and some come from private collections which were bought in the early years of the twentieth century. The collection opens with works from the sixteenth century and arrives at the twentieth century, with one of Giacomo Balla's masterpieces, "Magnolias reflected", dated 1938. Banco di Napoli has also taken care of the organization of the Villa Pignatelli art gallery, which houses the collection;

- *The Nativity.* Situated in the prestigious Palatine Chapel of the Royal Palace of Naples, it comprises 210 figurines and 144 accessories from private collections. Some significant examples were modeled by great sculptors operating in Naples between the mid 18th and early 19th centuries. The Nativity was created according to traditional eighteenth century Neapolitan style;
- *The Library and Newspaper Library.* Set up in the 1700's, the Library and Newspaper Library continues to grow,

with 400 volumes purchased every year. It currently comprises more than 31,000 volumes and more than 700 different newspapers, for a total of about 60,000 Italian and foreign "pieces". Most of the works are on the subject of economic and banking sciences, but there is also a section dedicated to cultural, artistic and figurative sciences. The library is open to the public once a week for consultation in real time of its specialist sources, thanks to the technologies available.

- *The Chapel of the Monte di Pietà.* The Chapel and the building of the Monte di Pietà in Via San Biagio dei Librai is one of the most important examples of Neapolitan architectural, plastic and pictorial production between the 16th and 17th centuries. In recent years, Banco di Napoli has promoted the recovery of several rooms on the ground floor of the building, using them to house a museum in which religious objects and paintings from the Chapel and from the Banco di Napoli art collections are exhibited.

The Sanpaolo artistic heritage has recently been subject to in-depth systematic cataloguing, which included a complete historical-artistic card indexing system. A similar initiative is planned for the heritage of Banco di

Napoli, to integrate it into the cataloguing system using consistent criteria.

In 2002, Sanpaolo and Banco di Napoli, like the Cardine banks, joined the "Invito a Palazzo" initiative promoted by the Italian Banking Association: on Saturday 21 September the main offices of the banks - characterized both by artistic prestige and the artistic level of the furnishings and the works housed - were opened to the public for guided tours. The high attendance and great appreciation of the initiative led the Italian Banking Association to present it once again in 2003, and the Group's banks have confirmed their presence. In the context of the bank's activities in the artistic and cultural field, a reference, however slight, to art publications is a must. Since 1952, Sanpaolo has produced an annual monograph of high level in terms of contents and publishing quality. The volumes are used as year-end gifts to the public and to bank personnel. The monographs focus largely on the various themes of the history of art. The last two volumes published regarded the Places of Art, a selection of the main Italian (2001) and European (2002) museums. The new series of artistic monographs will be dedicated to the Sanpaolo IMI Group's artistic heritage, with the first volume due to be published for the end of 2003.

"The Nativity", Royal Palace of Naples





## Relations with the media

A particular form of communication, with greater scope than the information to investors and analysts, is that aimed at the mass-media, to the combined bodies appointed to inform the general public. Following in the footsteps of the British and American media, which, in the most evolved financial systems have been handling economic and financial themes in a more attentive and critical way for some time, the Italian media has gradually begun to handle news in an increasingly aggressive manner over the last decade, in a climate which has become more and more competitive and therefore more open to the rumors which circulate in financial circles. This situation, taking into consideration the great, often conflicting, interests of the leaders in the domestic and international economic-financial world in the context of an increasingly globalized system, has made the everyday risk of leaks of news, disinformation and speculation tangible, capable of reflecting at all levels, especially damaging small investors.

With a view to preventing the risk of speculation, the activity of Media Relations has always been performed in full compliance with the instructions of the market supervisory bodies, offering them active support in initiatives aimed at creating transparency and absolute correctness of information. For example, since the beginning of June 1999, Sanpaolo IMI, acting as “pilot company”, has worked with Borsa Italiana (the Italian Stock Exchange) on preparing and testing the Network Information System (NIS), the telematic circuit for distributing information to the public, the use of which has become compulsory for all listed companies since April 2002. It is worth remembering that the function of NIS is to transmit price sensitive communications - on the basis of the regulations in force - to Consob, Borsa Italiana and the press agencies that have voluntarily joined the system.

The activity of Media relations aimed at the outside is performed mainly through the instruments of the official press release, the official declaration, press conferences and interviews granted individually by members of top management to individual newspapers or magazines. This activity is naturally supported by daily monitoring of the news published in order to check - and where necessary restore - its correctness, and cooperate with the various newspapers and magazines to provide adequate

documentation and support in preparing journalistic articles.

The object of distribution through the instruments described are information regarding:

- the events that involve the equity, organizational and administration models of Sanpaolo IMI and the Group companies;
- the strategies pursued by the Group during development or rationalization phases;
- the most ample company policies not concerning commercial aspects (the divulgence of which is handled by the sector that sees to the Corporate Image);
- the annual or periodic results of Sanpaolo IMI at civil and consolidated level, as well as, generally, those of the same kind pertaining to Group companies;
- other financial information that the Company, in constant observance of the procedures dictated for companies listed in Italy and abroad, sees fit to distribute through the media.

During 2002 the Media Relations official communication activity was expressed through the following operations:

<b>Press releases</b>	<b>51</b>
of which related to periodic results	6
<b>Declarations</b>	<b>31</b>
<b>Interviews</b>	<b>13</b>
<b>Press conferences</b>	<b>2</b>



As regards the recipients of the press releases, Media Relations, as well as channeling information through the NIS, as explained above, sends notes to all the main Italian and foreign press agencies (in Italy), to all the national trade and general daily newspapers, to the main foreign financial daily newspapers, to the main Italian periodical magazines, privileging those of economic-financial nature, to the most popular regional daily newspapers and to the most well known on line news bulletins, thus favoring the greatest possible dissemination of information.





## Relations with the State

The State is the highest form of organization of a collectivity that is recognized as such and therefore constitutes the stakeholder *par excellence* of every sector in the life of a country. In performing its activity, a bank serves and supports the State to which it belongs both translating its dictates, in the form of standards, regulations and indications, into conforming, punctual and prompt operating conducts, and offering its availability to perform services aimed at facilitating its characteristic activity in its multiple forms.

### Anti-laundering

As regards the first field of cooperation, for example, we consider the observance of the anti-laundering standard, an essential condition for the correct performance of the Bank, and we attribute particular importance to an in-depth knowledge of our customers. For this purpose the Bank has constantly dedicated attention, resources and financial means to the creation of IT instruments to gather all the



information concerning the complex of relationships with customers and the operations performed.

From the organizational point of view, the supervision of the anti-laundering activity is split into several contexts. The legal aspects - in particular regarding the interpretation of standards - and fulfillments related to the indication of suspicious operations ex. Art 3 Law 197/91 are

handled by the Department for Anti-laundering and Relations with the Legal Authorities, set up within the General Secretariat Direction. The fulfillments related to the procedure and the management of the Sole IT Archive, are carried out by the competent Functions within the MOI. In particular, further to rationalize the tasks and responsibilities regarding anti-laundering (also following the concentration operations within the Sanpaolo IMI Group) a special structure known as the Department for the Coordination of Supervision and Anti-laundering, has recently been set up to supervise and coordinate the entire matter. This Department is responsible for guaranteeing the complete and correct nature of the details of the Sole IT Archive, preparing indications for the Supervisory Bodies and handling the procedures in support of the fulfillments provided for in Art. 3 of Law 197/91, as well as coordinating the other company structures with regard to all the procedural themes attributable to the matter. To strengthen the control system even more, the aforementioned Department has been attributed the responsibility of systematically checking the correct execution of the fulfillments linked with observing standards, including those delegated to the operating points.

On the theme of Anti-laundering, great attention has obviously been devoted to the training aspect. In particular, the Bank has regularly issued and updated internal provisions on the matter, making available, at the time of the latest update in June 2001, a "sole text" of the standards, concerning both strictly legal aspects and those of a more procedural nature, and this document was personally given to each employee and made available for consultation on the website. Special training modules have been developed on the matter, preparing and disseminating to all the operating points and head office service a specific informative document, also given personally to each employee, including an audiovisual support, aimed at creating awareness of the theme in question throughout the Bank's whole structure. In 2002 personnel benefited from the Italian Banking Association training course entitled "Anti-laundering: the new operating instructions", which has become an integrated part of the basic training of all new staff.

### The Patriot Act

After the terrorist attacks on 11 September 2001, the United States Congress promoted a law aimed at supplying the Federal Agencies with legal support and the investigative and standardizing instruments to combat international terrorism. In the context of this situation, in October 2001 the law on *Uniting and Strengthening America by providing appropriate tools to intercept and obstruct terrorism*, the so-called Patriot Act, was approved. The Patriot Act comprises, among other things, a series of regulations aimed at controlling the area of financing and especially money laundering through foreign banks. Sanpaolo IMI, being a federally supervised company, has issued a written declaration of its observance of the American regulation on 2 December 2002.

### The tax collection activity

The Sanpaolo IMI Group operates in the tax collection sector, both at treasury level and for Local Entities, through four 100% held tax collection companies, Sanpaolo Riscossioni Genova, Sanpaolo Riscossioni Prato, GE.RI.CO., licensee for the provinces of Bologna, Venice, Padua, Rovigo and Gorizia and Esaban SpA (Government Commissary for the provinces of Naples and Caserta). About 1,600 resources were dedicated exclusively to this activity at the end of 2002. With a view to achieving the economies of scale and scope necessary to sustain the profitability of this sector, in October 2002 the Sanpaolo IMI Group approved the concentration of all the collection activities in a single company. The operation will be accomplished through the merger by incorporation of the other three subsidiaries into Esaban SpA, with registered offices in Naples, due to the relevant weight carried by the tax collection activity in the Neapolitan market place (803 employees at the end of 2002).

Besides searching for an improvement in operating efficiency and the effectiveness of the collection activity, the concentration operation aims to search for the diversification of business areas which lead to an increase in revenues, by defining new commercial development policies. It also intends to guarantee the capacity to operate in the new sectors permitted by current regulations, such as the credit recovery sector.

# Environment

## VALUES

### Creation of value

We think it is indispensable to consider environmental protection as an opportunity for the bank and its customers, especially those belonging to the corporate segment.

### Customer orientation

We have to look to the future with the knowledge that environmental quality can also depend on the methods of disbursement of our products and services to customers.

### Integrity

We are aware of the direct or indirect consequences of the operations that we promote or finance: when we enter into these operations we have to fully consider the environmental petitions of future generations, who have no say in our decision making processes today.

### Commitment to excellence

We want to adapt our aims to the international best practices.

### Growth in observance of specific qualities

We intend to exercise with responsibility and sensitivity our role as economic actor at national level, taking care to respect the environmental heritage of the individual areas in which we operate.

### Responsibility in the use of resources

We intend to avoid all forms of wastefulness and actively promote - in relation to all available technologies and in a positive context of costs/benefits - initiatives which aim at saving energy and natural resources.

### Towards a "green report"

During 2002 we adhered to the UNEP Declaration of the financial institutes on the environment and sustainable development, openly declaring our commitment "to consider environmental needs in all our activities, in equity management and in other business decisions on all markets". The commitment also regards the adoption of the best environmental management methods, the promotion of internal surveillance concerning the respect of environmental objectives and the development of products and services in line with environmental protection criteria.

### Organizational supervision

Some time ago the Bank adopted an organizational structure that guarantees, in the context of its technical-logistic-acquisition functions, supervision of environmental performance. In particular, the energy management activities (for which an Energy Manager is responsible, as established by law 10/91) and the specific accomplishment and acquisition standards of the bank obey instructions on

the matter. Indications related to operating instructions and evaluations of the choices made are supplied inside the Bank. Periodical monitoring activities on the results achieved are also envisaged, to improve quality levels in the company context.

### The impact of the activities on the environment

The Bank's activities generate two types of impact on the environment:

- direct effects: linked with the activities exercised by the Bank's various operating units and identifiable in consumption of energy (electricity and heat) and resources (paper and water), in waste and in emissions into the atmosphere;
- indirect effects: linked with the consequences that the Bank's activity - especially through the issue of services and products, has on the behavior of some of its stakeholders towards the environment.



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## Direct environmental impacts

Compared with industrial companies, because of the type of activity it performs, the Bank generates limited impacts on the environment, although its dimensions mean that the total effect cannot be ignored.

The most obvious consequences concern the consumption of energy and paper, while the production of waste following the use of consumables, emissions into the atmosphere related to the consumption of energy and the consumption of water produce lesser effects. It is also possible to see environmental effects in the arrangement of work places, especially with regard to buildings and systems, the creation of internal telematic networks, the use of office equipment and computers, etc. When carrying out these operations, company addresses on the matter provide for the adoption of standardized solutions throughout the country, resulting from project surveys and years of management experience, also suitable for guaranteeing the consideration of environmental aspects. To restrict the use of the analyses represented here, the following information refers jointly or, where indicated, separately, to Sanpaolo, with its 19,658 employees and a net floor surface of 965,733 m<sup>2</sup>, and to the former Banco di Napoli, with its 7,842 employees and an occupied surface of 350,870 m<sup>2</sup> (figures for 2002). The performance ratios illustrated here therefore depend on the above elements.

## Energy consumption

Energy consumption can be classed in two types:

- combustible fuels (mainly gas and oil), used mainly for heating purposes;
- electricity, used to power machines (computers, office

equipment, etc.), air-conditioning and cooling systems and, where the winter climate permits, pumped heat heating systems in alternative to traditional fuel systems.

Energy consumption varies greatly depending on the type of operating unit used by the bank: naturally the use of electricity in head office buildings, especially in centers which house central elaborating departments (CED), is much higher than in the branches. To give a complete and as detailed as possible picture of the bank's consumption, it was considered useful to examine the details for each type of operating unit. For this purpose we individuated identified three macro typologies of production units:

- properties with big calculation centers, characterized by operating rooms used partially for computers, with annexed offices and IT/telematic structures;
- big office buildings, mainly related to head office operating structures, characterized by rooms dedicated to use as offices with high density use and a considerable presence of office equipment and IT networks;
- operating points and other offices/rooms: branches, other offices and rooms for accessory use (archives and stores).

For Banco di Napoli no details are available with regard to the breakdown of consumption between the big office buildings and the operating points, so the figures that follow referred to Sanpaolo are split by typology, while for Banco di Napoli the total consumption is indicated. The Sanpaolo operating structure, in numeric terms, can be summarized as follows:

### SANPAOLO OPERATING STRUCTURE

	N° of operating points	Surface (m <sup>2</sup> )	N° of employees	N° of work stations*
Calculation centers	2	54,537	807	1,510
Big office buildings	5	135,174	2,672	2,925
Other offices and operating points	1,390	776,022	16,179	16,179
<b>Total</b>	<b>1,397</b>	<b>965,733</b>	<b>19,658</b>	<b>20,614</b>

\* The number of workstations includes, in addition to employees, also those workers who work in the company premises, but are not Bank's employees.



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Besides having different connotations in terms of energy consumption, the different environments within the Bank are also differentiated with regard to the variations of consumptions in time. In particular, energy consumption in calculation centers varies in time mainly because of the evolution of technological solutions regarding the power and capacity of the computers, and the quality and type of banking services developed.

The calculation centers are equipped with refrigerator units that reduce electric absorption, without effect on performance levels, when the outside air temperature falls (use of indirect free-cooling): this energetic effect is particularly significant for systems

that operate all year round (therefore not only during the summer, when the air temperature is high). The consumptions of other environments depend largely on the number and type of machines used in the work stations, the technological characteristics of the machines and, lastly, the density of work stations, also considering the amount of space reserved for the public/customers. With regard to lighting, unified lighting systems are used. These are lighting systems with control through optic grids and with fluorescent bulbs characterised by high energy performance and quality of the light. The related energy consumptions vary exclusively according to the type and power of the bulb used and related accessory elements.

CONSUMPTION	Sanpaolo				Banco di Napoli	TOTAL
	Calculation centers	Big office buildings	Other offices and operating points	Total		
Heat *(kWh/year)	4,427,315	7,327,132	74,668,552	86,422,999	19,416,909	<b>105,839,908</b>
- Gas (m <sup>3</sup> /year)	104,571	379,342	7,006,469	7,490,382	1,581,813	<b>9,072,195</b>
- Oil (l/year)	353,433	365,701	738,181	1,457,315	420,482	<b>1,877,797</b>
Electricity (kWh/year)	22,377,000	15,535,300	99,919,000	137,831,300	53,302,590	<b>191,133,890</b>

#### PERFORMANCE RATIOS

Heat by surface (kWh/year)	81	54	96	89	55	<b>80</b>
- gas by surface (m <sup>3</sup> /year)	1.92	2.81	9.03	7.76	n.a.	<b>n.a.</b>
- oil by surface (l/year)	6.48	2.71	0.95	1.51	n.a.	<b>n.a.</b>
Electricity						
- per work station (kWh/n°)	14,819	5,311	6,176	6,686	6,797	<b>6,717</b>
- by surface (kWh/m <sup>2</sup> )	410	115	129	143	152	<b>145</b>

\* Also includes consumption for operating points with heating systems connected to condominium systems, based on the pertinent costs.

The current level of consumption is the result of the efficiency policies we have adopted, among which the programmed maintenance work, mainly on all the systems (heating, cooling and air-conditioning), ensuring, observance of the laws in force, the maintenance of maximum efficiency and therefore guaranteeing high operating performances of these systems.

However, we pursue a continuous improvement process by monitoring consumption and progressively installing electric equipment - especially lighting equipment and coolers - with higher energy efficiency. The figures presented also show differences in the use of electricity depending on the

various types of operating units considered: emphasis should be placed on the fact that the calculation centers use the most electricity. Today they are largely independent from the energy viewpoint as regards heating, thanks to heat pumping systems that recover the heat produced by computers. As of 2003 they will be powered exclusively by gas.

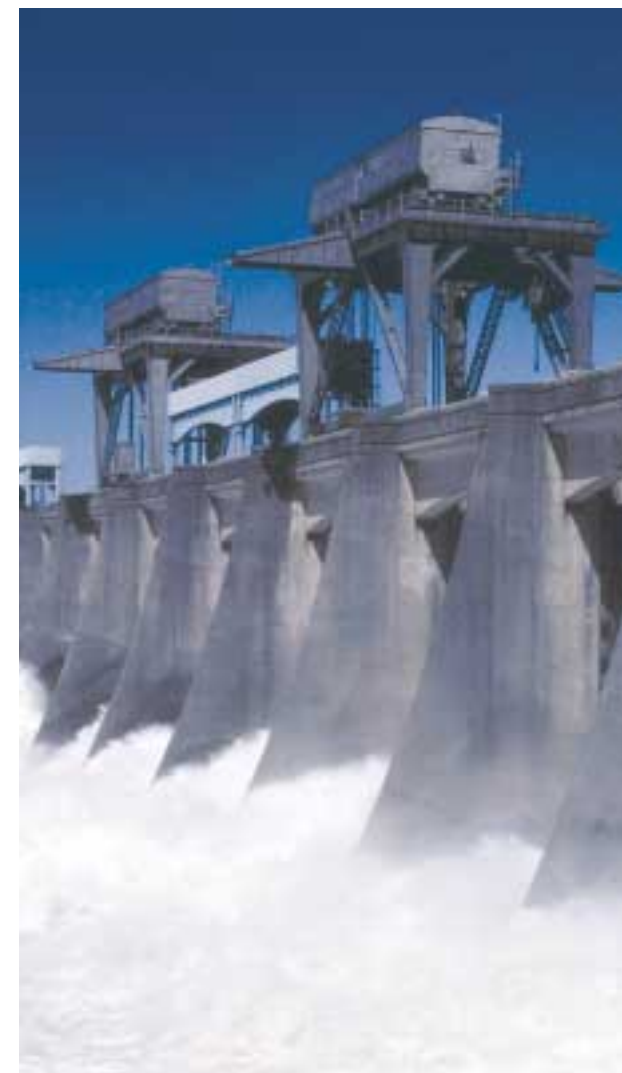
#### Hydroelectric energy

In 2002 the Bank became part of a leading consortium co-producing energy generated by hydroelectric stations. Consequently all the calculation centers, big office buildings and, gradually, some of the operating points, are being powered with electricity produced by a renewable source (in this particular case, hydroelectric energy), without producing emissions into the atmosphere. The supply of electricity from a renewable source amounted to 23.7 million kWh in 2002, corresponding to 17% of Sanpaolo's total consumption of electricity. Banco di Napoli, which did not use hydroelectric energy in 2002, has also begun a program of progressive extension. Compatibly with the availability of suppliers and/or the use of renewable types of energy, in the years ahead further use of hydroelectric energy is envisaged.

#### Liquid crystal screens

On the basis of analyses and measurements recently carried out, an experimental program has been set up, providing for the replacement of traditional cathode tube screens with liquid crystal screens: in 2003 about 800 screens are due to be replaced. This last type makes it possible to obtain various benefits: firstly, higher purchase costs are offset by relevant energy savings, equal to about 46% of every screen, for the Network's operating points.

Moreover, the heat generated by traditional monitors, which forms a significant part of the heat in the working environment, will be reduced, therefore reducing the energy consumption for cooling the working environment in the summer. The two previous considerations will reduce electricity consumptions by an estimated 52% for every work station in the Network's operating points. This action will also make it possible to reduce the amount of dangerous waste generated by the Bank.





## Paper consumption

The use of paper is linked with operating needs, informative documents for customers, for the part supplied on paper, and communication flows within the company. For these reasons the bank uses normal paper (e.g.: UNI A4 type B format). For operating purposes the Bank consumes significant amounts of paper. However two initiatives are underway which, despite guaranteeing full respect of the law and thorough communications between the Bank and its main stakeholders, aim at containing such consumption. These initiatives are related to the use of telematic supports and Internet and to the introduction of recycled paper. In internal communications within the company, where possible, the progressive passage from the use of paper to the use of telematic instruments and alternative informative instruments is pursued, thanks to the development of Intranet. Also towards customers, the availability of the Internet channel for information and provisional purposes enables rapid consultation of financial positions, encouraging limited use of paper.

As regards the amount of paper used for our purposes but by independent printers, and therefore not included in the tables that follow, it is necessary to remember that the extensive availability of press releases, quarterly reports, annual reports and other documentation on the website provides a strong incentive to reduce the amount of paper used for issuing usual information to the market.

### Recycled paper

Experimental analyses are underway to evaluate the possibility of using recycled paper in some areas of the Bank: the exam will evaluate the possible dysfunctions of machines deriving from the use of regenerated paper. These dysfunctions could generate maintenance operations with major energy consumption for the transfer of maintenance operators, so much so as to cancel the environmental benefits deriving from the use of this type of paper.



Corbis

## CONSUMPTION

Type of paper	t /year	%
Reels for large printouts	1,073	30.5
Paper for photocopies, letters	2,131	60.5
Other	315	9.0
Total	3,519	100
- of which A3 and A4 sheets	3,135	89.1

Forms are excluded.  
\*Referred to 250 working days/year

## PERFORMANCE RATIOS

Consumption of paper per employee (kg/year)	128
Consumption of paper per customer (kg/year)	0.7
Consumption of A3 and A4 sheets per employee	
- kg/year	114
- n°/day*	81

## Waste

In the context of a complete evaluation of the environmental impacts of the Bank, waste is less important than other categories described earlier. Specialized companies are appointed to collect and transport waste to authorized collection points to be treated, recuperated and/or disposed of. Differentiated waste collection, which favors the recovery of waste products, is developed

through cooperation with the companies appointed, who also have the obligation to create awareness on the matter in the operating points. The entire process is managed through an integrated system at national level. On the basis of the census documents and annual reports provided for by the regulations in force, waste products are broken down as follows.

## WASTE PRODUCTION

	Kg/year	%recuperated
Total waste	3,474,791	
- paper destined for recuperation	2,695,124	99%
- paper and boxes	226,180	0%
- packing	293,566	60%
- cartridges, tapes and films	27,672	Toner 50%, films 0%
- dangerous waste	11,072	0%
- office machinery	145,832	16%
- miscellaneous (including electrical materials)	75,345	0%

## PERFORMANCE RATIO

Waste per employee (kg/year)	126
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Dangerous waste is produced in negligible amounts related mainly to cathode tube monitors and to small amounts of solvents and cadmium-nickel batteries. In this sense the current project to replace cathode tube monitors with liquid crystal versions will permit further reductions.

In the head office buildings in Turin, the differentiated collection of paper and cardboard is assigned to cooperatives and voluntary associations (such as the Cartesio project) following an agreement between Azienda Multiservizi Igiene Ambientale Torino, the Council Department for the Environment and Turin Council Employment Department.

## Atmospheric emissions

Atmospheric emissions attributable largely to the energy consumption linked to our activities can be broken down into two main categories:

- **direct:** generated specifically by heating systems (including condominiums) at the service of the Bank and comprising the products of combust gas, oil and other combustible fuels. Moreover, combustible fuel energy sources are not normally used for air conditioning purposes.
- **indirect:** consequent to the use of electricity produced by thermoelectric stations. In this case the emissions are generated outside the buildings which house the Bank's operating points.

In greater detail, we can confirm that, as regards direct emissions, the territorial operating units, considering their size, each generate rather contained emissions into the atmosphere. However, altogether they reach a total amount of emissions which cannot be ignored.

On this matter, part of these emissions are generated by condominium heating systems, attributable to the Bank only in a minimal part.

The small number of big head office buildings generate major amounts of emissions, while the calculation centers (being largely independent in terms of heating) considerably limit emissions compared with those buildings of equal size used as offices but lacking in heat recovery systems. Anyway, the extensive use of gas as a fuel and the use of heat pumps in central and southern Italy significantly limit emissions.

The combination of the bank's electricity consumption takes on a relevant dimension, to which part of the emissions of electricity production stations contribute: this is part of the indirect effects.

The above-mentioned passage of the calculation centers, head office buildings and major operating points to the use of electricity produced by hydroelectric stations, eliminates the related emissions.



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### ESTIMATED EMISSIONS

	Sanpaolo				Banco di Napoli	TOTAL
	Calculation centers	Big office buildings	Operating points and other	Total		
Heat (kg/year of CO <sub>2</sub> )						
- Gas	209,142	758,684	14,012,938	14,980,764	3,163,626	<b>18,144,390</b>
- Oil	1,272,359	1,316,524	2,657,452	5,246,335	1,513,735	<b>6,760,070</b>
Electricity (kg/year of CO <sub>2</sub> )	6,504,454	4,000,178	57,974,149	68,478,781	31,981,554	<b>100,460,335</b>

### PERFORMANCE RATIO

Heat by surface (kg/year of CO <sub>2</sub> per mq)	27	15	21	21	13	<b>19</b>
Electricity by surface (kg/year of CO <sub>2</sub> per mq)	119	30	75	71	91	<b>76</b>

As regards other potential types of emissions, the bank's cooling systems do not use R11 and R12 cooling fluids, excluding isolated cases of buildings with old systems which use R11: their replacement is programmed for the next system modernization operation. In recent years, the cooling units installed in the bank have been equipped with R407C (rather than R22 adopted from 1970 onwards), which has a reduced pollutant potential compared with the other fluids mentioned.

The high number of employees which, to reach work, or during service, use highly differentiated means of transport, makes it impossible to ignore the environmental impact of emissions connected with the mobility of employees and suppliers. For obvious reasons it is also very difficult for the bank to quantify. However we have implemented policies to encourage the use of public transport and the Bank itself has activated collective transport systems for employees, as in the case of Naples and of the Accounting Center in Moncalieri (Turin).

## Water consumption

Requiring no water for the company processes, the Bank's water consumption is quite limited and refers almost exclusively to use for hygiene purposes. The water used is supplied exclusively by aqueducts, guaranteeing the necessary hygiene. In some large operating units water is used to reintegrate the water evaporated during the treatments in the technological cooling systems. In some rare cases, water is taken from underground sources for use as energy in heat pumping systems serving heating and cooling/air-conditioning systems.

This already limited consumption of water can be reduced even further and we intend to promote major awareness among employees, and install toilet cisterns with divided flushing systems in the bathrooms of new operating points.





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## Indirect impacts

During its activities and also through the services and products offered, the Bank can influence the behavior of its stakeholders in terms of respect for the environment. As regards financing, in particular, the consideration of environmental risks when assessing creditworthiness can become a strong incentive for companies to improve their environmental performance.

### Methane gas in public transport

Banca OPI is dedicating particular attention to a project that envisages the adoption of ecological vehicles by the companies operating in the public urban road transport sector. It is a well known fact that public urban transport is responsible for a relevant amount of the noxious gases present in Italian cities (for some gases up to 90%): the urban environmental benefits of the introduction of vehicles that use ecological fuels - especially methane gas - in harmony with the regulatory policies implemented in the EU, would therefore be significant. Also significant would be the effects in terms of investments: the renewal of 25% of urban buses in the next five years, equivalent to about 4,000 new units, as well as the adaptation of the related supporting infrastructures, such as methane gas stations, would require investments for several billion Euro.

### The environmental criteria of ethical reserves

Ethical funds (produced by Sanpaolo IMI Wealth Management<sup>14</sup>) can also constitute an important stimulation for companies: positive criteria (for the introduction of a company within the fund) include sensitivity towards protecting the environment. Negative criteria (which are a source of exclusion of shares) include the direct production or creation of systems for producing nuclear energy (this criteria is valid not only for companies but for States).

<sup>14</sup> For more details on ethical reserves, see page 48.

## THE EVALUATION OF THE ENVIRONMENTAL RISK WHEN ISSUING LOANS

Nowadays the risk factors inherent in banking activity can also significantly emerge from elements which are not always attributable to traditional areas and cannot be individuated directly in the performance of real and financial activities which are expressed in accounting data: an example of these are risks regarding legal issues, reputation, environmental impact and those of ethical and social nature.

In particular, environmental factors can represent sources of risk capable of influencing the banking activity through two main channels:

1. on the one side, they can have a direct impact on the repayment ability of the counterparties assigned: for instance, scarce attention to the ecological content of the product and the eco-compatibility of the production processes by the company can represent a direct source of risk of failure and economic loss that the bank might find itself having to sustain;
2. on the other side, environmental factors might reflect more indirectly on the evaluation of the creditworthiness of a company and on its reputation: for instance, scarce attention to the environmental problems directly generated by company production processes can be considered as a real symptom of entrepreneurial omission with possible negative consequences on the prospects of growth and financial sustainability of the company and of its investments. This could endanger future relations of activity and reciprocal cooperation between the bank and the company.

Several years ago, the Bank began considering and evaluating the relevance of these problems. In December 2002, for the first time, an indicator related to the percentage of loans issued to companies operating in production sectors with a high and dangerous impact upon the environment was monitored. Activities considered as having a high and dangerous environmental impact represent 10.2% of the joint credit portfolio of Sanpaolo IMI and Banco di Napoli. This ratio has been constructed on the basis of the indications on the production activities supplied by the Bank for Reconstruction and Development (BERS) in its environmental risk management manual.

The environmental policies of companies are also

subject to evaluation in the Bank's financing decisions. Attention to environmental problems by companies represents one of the areas of investigation taken into consideration by the credit review, especially for medium- and long-term loans.

The Bank's attention to environmental problems can also be seen in the activities for structuring project financing transactions for infrastructure operations, including those in sectors which do not present high environmental risks.

A positive evaluation of the impact on the environment of the creation of the infrastructure under examination is one of the fundamental prerequisites for the financing of the initiative. This evaluation is carried out by independent consultants - for reasons concerning autonomy and legal transparency - involved by the Bank during the project structuring phase, and must be confirmed by the official evaluation carried out by the national or regional bodies responsible for this task.

Particularly attentive to the environmental effects of any infrastructure operation suitable for financing, also in sectors which do not usually have an environmental value, is Banca OPI<sup>15</sup>, the Group company specialized in loans for public works and infrastructure. A positive evaluation, carried out by independent consultants and confirmed by the official evaluation of the regional or national bodies responsible, of the impact of the environment deriving from the creation of each individual infrastructure considered, is one of the fundamental prerequisites for its financing.

The models used by Sanpaolo IMI to evaluate creditworthiness take account of the environmental risk profiles in the context of the review process for the evaluation of the counterparty and in any procedures for preparing the rating and assigning the risk premium. In particular, the assignment of the rating may be subject to downgrade; in other words, downward reviews, if the counterparty considered operates in specific production activities with a high environmental impact (e.g.: energy, chemicals, plastics) and does not supply sufficient guarantees regarding observance of the best practices of management and control of its environmental responsibility.

<sup>15</sup> For more details on Banca OPI, see page 101.



# Suppliers

## VALUES

### Creation of value

We want to establish with our commercial partners and independent cooperators an efficient system of relations capable of translating into a common prospective of growth and economic benefit.

### Customer orientation

We choose our partners on the basis of the level of quality that they are able to guarantee, privileging those that can ensure to us and our customers most effectiveness and reliability.

### Integrity

We base relations with our suppliers on principles of reciprocal transparency and correctness, ensuring that the work of our independent cooperators observes the same criteria and honesty as adopted by us.

### Commitment to excellence

We choose our suppliers on the basis of the level of performance and the guarantees supplied, searching, with their cooperation, the most innovative and reciprocally profitable solutions.

### Growth in observance of specific qualities

We have supply relations all over the country, exploiting the social and cultural context of each regional reality as much as possible and respecting the negotiation requirements of each stakeholder.

### Responsibility in the use of resources

We contribute to the bank's total results by activating initiatives dedicated to reducing costs and waste.

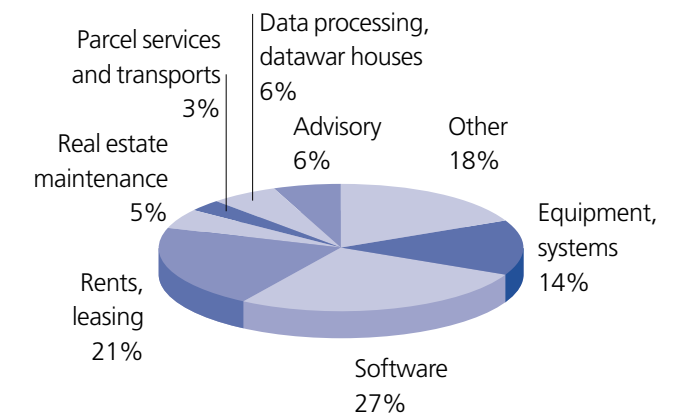


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## The profile of suppliers

In 2002 we had commercial relations with about 9,800 suppliers (of which 469 destined to payments of over 155,000 euro) for a total turnover of about 826.6 million euro.

### DISTRIBUTION OF BIG SUPPLIERS BY SECTOR (singlepayments above 155,000 €)



- Through the Purchases Function<sup>16</sup>, our priority intention is to:
- obtain levels of efficiency and excellent results in stocking transactions, with the purchase of products and services with the best price/quality ratio and in observance of the requirements of "internal customers", in order to maximize the result for the end customer both in terms of costs and in terms of issuing times;
  - contribute to the bank's total results by activating initiatives dedicated to reducing costs and waste;
  - stipulate, when possible, Group commercial agreements, in order to obtain better stocking conditions.

We work in conjunction with all the bank's functions, so that the real needs of each user can be securely determined in the search for the specific solution to satisfying individual requirements.

<sup>16</sup> The Purchase Function's job to "define the Group's purchasing policies, to supervise, monitor and manage the Group's purchases in terms of supplied linked with "information and communication technology", and every other asset or service which has significant potential of scale and economy obtainable through management in a centralized form, in accordance with a logic of access to the best conditions practiced in the various reference markets".



### Shared principles

Relations with our suppliers are based on principles of reciprocal transparency and correctness. To this end, we ensure that the work of our independent cooperators observes the same criteria of integrity adopted by the purchase function.

### The selection of suppliers

To individuate the suppliers in possession of the standing, capacity and competitive requisites required in the individual merchandising areas of operation we adopt the instruments made available by the purchase marketing techniques and carefully analyze the individual markets.

Special care is dedicated to the selection phase, which is implemented through a dual passage:

1. During the first phase, a series of companies are selected on the basis of consistent criteria.

The number varies in relation to the relevance of the individual contract. During this phase we pay particular attention to the fact that the companies possess the objective requisites of reliability and competence, including their effective capacity to satisfy the demand for the product or service.

The companies individuated as possible interlocutors for the purchase procedure are then invited to present a bid for tender. The bids are presented in sealed envelopes and are evaluated according to transparent and objective criteria.

At the end of this phase, a group of companies gains access to the final selection.

2. The second contracting phase is aimed at selecting the best bid and optimizing the final results of the purchase operation.

### Safety of products and energy saving

When choosing products and services, we also try to focus on products and services which offer the best results in terms of energy savings.

For special supplies (compatible toner, security envelopes for carrying valuables), we thought it best to exercise a form of preventive security in order to reduce the risk of defective products as much as possible. Therefore we ask for certification of conformity to UNI-EN ISO 9000 by the manufacturer. As regards security, when the bid is presented for any kind of consumable product, the suppliers sign a statement that the materials, if any, supplied will comply with the accident prevention and security

regulations in force. In a subsequent phase the suppliers declare, in the form of special labeling, the presence of symbols of danger, where necessary, or the classification, following exhaustion of the product, as special or dangerous waste, so that it can be correctly disposed of in accordance with the regulations in force.

For supplies of equipment and instruments destined for use by employees, the companies must declare the ergonomic and safety specifications required by the national and international regulations in force, and by the special quality certifications.



## Objectives for 2003





Having mentioned the actions undertaken and our future plans in the part dedicated to our stakeholder, now we would like to describe the main objectives that we intend to pursue in the coming future. Before discussing the merits of every single stakeholder, we would like to remind you how important it is for each one of them to adopt an Ethical Code, approved by the Board of Directors in March 2003. For the near future we foresee the timely dissemination of the Code, its implementation in the relations with our partners, as well as training activities for the employees.

## Retail Customers

- Development of commercial policies based on customer needs. Implementation of the *Client Financial Planning* project through a vast training plan intended for consultants and network agents, predisposing the IT tools concerned.
- Setting up of branch organizational models specialized in customer segments: creation of differentiated areas within the same branch, based on specific modules combining distributive efficiency with a personalized commercial approach (personal consultants).
- Growing use of direct channels for repetitive operations which do not require any interaction with the Bank staff. On the one hand this allows customers to use basic banking services independently and without time constraints and, on the other hand, this gives the bank staff the opportunity to chiefly focus on the analysis of customer needs and relational aspects.



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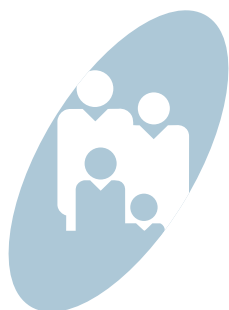


## Customers Companies

- We intend to dedicate growing attention to the SME sector and to the financing of specific local realities, while continuing to ensure support to the entire national economy.
- Further widening of the knowledge of local production situations with the aim of understanding the different financing and support needs in an even more articulated and precise manner.
- Development of the training and specialization activities for the professional figures dedicated to company branches. This activity shall mainly concern the resources operating in the area of competence of the former Banco di Napoli, also to achieve an improvement in logistics and an adjustment in the products portfolio with the aim of putting the pre-existing structures completely in line with the qualitative standards followed by similar Sanpaolo structures.
- Further widening of the range of telecom services to companies, in particular granting access to the customers of the former Banco di Napoli.



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## People

- Continuation of the people development and exploitation policy, with special consideration of promising resources within the Group.
- Development of new systems and tools for the management of human resources:
  - 1) managerial control of staff and Group personnel cost;
  - 2) Human Capital assessment system for the creation of company value;
  - 3) decision support instruments with Enterprise Business Intelligence IT solutions.
- Implementation of actions to increase efficiency and foster future growth consistently with the indications of the industrial plan.
- Continuation of the retributive flexibility policy.
- Application of a meritocratic award-granting system based on three factors determining the value of a person: “know-how”, “performance”, “potentials for development”.
- Confirmation of the transparent industrial relations policy open to social profiles.
- Creation of an internal communication plan.
- Strengthening and extension of the activities concerning safety and security through actions such as:
  - 1) the extension of Sanpaolo procedures to the Banco di Napoli for security and risk assessment, in particular in terms of indirect risks deriving from the work environment;
  - 2) a monitoring campaign for Radon gas and its possible quantification;
  - 3) the use of on-line training tools on safety for employees.

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## Shareholders

- Increase of company profitability by aiming at ambitious objectives, taking particular care on controlling costs and maintaining a contained risk profile and a solid asset base. Some of the planned actions include:
  - 1) three-year plan, with the planned network integration process and the adoption of a new distributive model;
  - 2) initiatives focusing on improving the profitability of the main business lines and the active management of the investment portfolio.
- Priority to the pursuit of a corporate governance model in line with the highest international standards, also complying with the strict American regulations recently amended.
- Further improvement of communication with investors. Actions include:
  - 1) Intensify business activities towards the international market place and with SRI (Socially Responsible Investments) investors;
  - 2) timely update of the Investor Relations site and setting up of the new Group site.

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## Collectivity

- Give priority to territory financing activities as well as to those activities supporting the productive structure, also through research and study initiatives. Actions include:
  - 1) intensification of Banca OPI activities;
  - 2) incentives to the economic cooperation between the public and private sector;
  - 3) the launch of a Study and Research Association for the South of Italy;
  - 4) the launch of closed-end funds for the territory.
- Management of the territorial reorganization of the Group so as to guarantee proximity to the territory, with particular focus on the consolidation of the dialogue with local communities with a view to their growing involvement. Planned initiatives:
  - 1) organization of Consultative Committees on the local economy;
  - 2) activation of decentralization and specialization actions set by the strategic plan 2003-2005.
- Study and launch of initiatives focusing on specific categories:
  - 1) micro-credit project;
  - 2) social banking;
  - 3) initiative for the elderly.

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## Environment

- Constant development of the financing of environmental investments through Banca OPI. The planned actions also include the initiative in favor of a growing use of methane gas.
- Further improvement of our environmental performance, saving energy and natural resource. Some of the actions concern:
  - 1) a greater use of hydroelectric energy;
  - 2) the starting up of a feasibility study for a pilot project concerning recycled paper;
  - 3) implementation of the initiative involving the replacement of traditional PC screens with liquid crystal video screens.
- Extension of the illustrated procedures to the Banco di Napoli, with special attention to those initiatives focusing on energy management and natural resource savings already adopted by Sanpaolo, also through the integration of IT systems.

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## Suppliers

- Improvement of co-ordination with the functions that currently monitor environmental and social problems inside the bank as well as with those functions which will do so in the future.
- Careful analysis of the activities with the suppliers with a view to the tools that will allow to:
  - 1) systematically identify the environmental effects deriving from different products and services;
  - 2) introduce environmental considerations in the procedures for the purchase of goods and services of greater impact.

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## Allocation of added value

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## The calculation and allocation of added value

The added value of a company represents the wealth produced by the company in the year, identifiable as the difference between the gross production and the consumption of goods and services.

The calculation of this value acquires importance as it represents the accounting reconciliation between the annual report and the social report. Indeed, it is calculated through a classification of the items of the annual statement of income with the aim of highlighting both the process for the formation of the company added value and its distribution, expressing in monetary terms the relation between the company and the social-economic system with which it interacts, with special reference to some of the main stakeholders considered:

- Shareholders
- Human resources
- State, Entities and institutions
- Corporate Sector

From a methodological standpoint, of all the different configurations that the Added Value may have, depending on the level of aggregation of the income components, the Global Added Value-G.A.V. configuration, adopted in the ABI model for the preparation of the Social Report for the credit sector, was selected. The ABI model takes into account the specific nature of the banking world.

The data used are extracted from the accounts and the annual report.

The following pages report the two main reclassified statements making up the Annual Report, the Balance Sheet and the Statement of Income, with the most important ratio for the bank being highlighted.

The statements concerning the calculation and allocation of the gross global added value on the basis of its destination highlight the share due to each stakeholder. These statements are created by analytically re-processing the income statement data following a different methodology.

As regards the content of the single statements, we highlight that:

- The reclassified statement of income and balance sheet for the year 2002 are compared against the pro forma situations of the previous year, drawn up to acknowledge:
  - the Cardine Banca merger by incorporation (with accounting effects starting on 1 January 1 2002);
  - the conferral of the Cardine Banca company branch to Cardine Finanziaria (effective as of 1 June 2002);
  - the Banco di Napoli merger by incorporation (with accounting effects starting on 1 January 2002);
  - the change, in place since the 2001 report, in the accounting criteria for the calculation of the dividends from subsidiaries in the year in which the profit accrues rather than in the year in which it is collected.
- The important ratio concerning efficiency in terms of personnel, operative structure, financial structure, profitability and securities market performance have been extracted from the data of the financial statements (the data concerning the year 2001 was reported on a pro forma basis).
- The statements concerning the analytical calculation and the year 2001 allocation of the global added value used for comparison, having taken into account the different purposes of these statements as compared to the purpose they have in terms of comparisons in the economic and financial trends of the bank, have been calculated on a combined basis of Sanpaolo IMI and merged banks, rather than on a pro forma basis: the use of pro forma data would have resulted in an incorrect representation of the allocation of the produced added value among the different categories of stakeholders.

## Reclassified balance sheet

	31-12-2002	31-12-2001
	(€/mil)	pro-forma (€/mil)
<b>ASSETS</b>		
Cash and deposits with central banks and post offices	<b>986</b>	<b>779</b>
Loans	97,110	99,656
- <i>due from banks</i>	20,951	20,402
- <i>loans to customers</i>	76,159	79,254
Dealing securities	<b>12,658</b>	<b>15,444</b>
Fixed assets	<b>13,381</b>	<b>15,362</b>
- <i>investment securities</i>	2,039	3,256
- <i>equity investments</i>	8,313	8,646
- <i>intangible fixed assets</i>	1,613	1,903
- <i>tangible fixed assets</i>	1,416	1,557
Other assets	<b>10,872</b>	<b>14,480</b>
<b>Total assets</b>	<b>135,007</b>	<b>145,721</b>
<b>LIABILITIES</b>		
Payables	<b>106,233</b>	<b>116,606</b>
- <i>due to banks</i>	31,020	36,386
- <i>due to customers and securities issued</i>	75,213	80,220
Provisions	<b>3,115</b>	<b>2,927</b>
- <i>for taxation</i>	1,038	793
- <i>for termination indemnities</i>	687	687
- <i>for risks and charges</i>	1,349	1,404
- <i>for pensions and similar</i>	41	43
Other liabilities	<b>9,613</b>	<b>10,191</b>
Subordinated liabilities	<b>6,090</b>	<b>5,311</b>
Shareholders' equity	<b>9,956</b>	<b>10,686</b>
- <i>capital</i>	5,144	5,144
- <i>reserves</i>	4,048	3,943
- <i>net income</i>	764	1,065
- <i>adjustment for alignment with net income</i>		534
<b>Total liabilities</b>	<b>135,007</b>	<b>145,721</b>
<b>GUARANTEES AND COMMITMENTS</b>		
Guarantees given	<b>30,142</b>	<b>26,696</b>
Commitments	<b>14,181</b>	<b>16,575</b>



## Reclassified statement of income

	2002	2001
	(€/mil)	pro-forma (€/mil)
<b>NET INTEREST INCOME</b>	<b>2,103</b>	<b>2,346</b>
Net commissions and other net dealing revenues	1,512	1,573
Profits and losses from financial transactions and dividends on shares	62	86
Dividends from shareholdings	700	1,253
<b>NET INTEREST AND OTHER BANKING INCOME</b>	<b>4,377</b>	<b>5,258</b>
Administrative costs	-2,866	-2,889
- <i>personnel</i>	-1,823	-1,848
- <i>other administrative costs</i>	-885	-879
- <i>indirect duties and taxes</i>	-158	-162
Other operating income, net	252	254
Adjustments to tangible and intangible fixed assets	-330	-298
<b>OPERATING INCOME</b>	<b>1,433</b>	<b>2,325</b>
Adjustments to goodwill and merger differences	-185	-196
Provisions and net adjustments to loans and financial fixed assets	-748	-463
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>500</b>	<b>1,666</b>
Net extraordinary income	316	378
Use of reserve for general banking risks	358	-
Income taxes for the period	-410	-979
<b>NET INCOME</b>	<b>764</b>	<b>1,065</b>
	Adjustment for alignment with net income	534
	Aggregate net income (Sanpaolo Imi + Cardine Banca + Banco di Napoli)	<b>1,599</b>

The structure of the Company's statement of income is typical of an operative bank, parent company of a multispecialist reality. The main sources of revenue include the net interest income, commissions and dividends from subsidiaries.

The bank's economic performance in 2002 was conditioned by the difficult market context, which was characterized by:

- the fall in the net interest income (-10%) and in commissions (-4%);
- the loss of a significant amount of dividends from companies in the group (-582 million euro);
- the need to make significant adjustments to the equity portfolio (+256 million euro compared to the previous year);
- the increasingly heavy impact of fiscal policies essentially due to the decrease in taxable income (consequent to the drop in profitability and to the incorporation of the Banco di Napoli), which gave rise to both inefficiency in terms of tax credit recovery limited on dividends (entered for competence in the 2001 report and collected in 2002 with relative fiscal accountability), and a penalization in terms of IRAP taxation (Regional Tax on Productive Activities).

In order to face the effects of such factors, some of which are of extraordinary nature, bearing in mind the need to ensure shareholders an acceptable flow of dividends, it was considered appropriate to use the reserves for general banking risks for an amount of 358 million euro (inclusive of the allocation of the merger surplus concerning the incorporation of Cardine Banca).

After the use of this Reserve, which according to the regulations in force (instructions from the Bank of Italy) should occur by means of registration in the statement of income, the Parent company closed the year 2002 with a net profit of 764 million euro, equal to 406 million euro net of this Reserve; this value is to be compared with a net profit of 1,065 million euro (-29%), recalculated on a pro forma basis for the year 2001.

Due to the economic trend described above, the bank's RoE decreased on an homogeneous basis from 10% to 7.4%.

On the other hand, the gross global added value decreased by 36% compared to the combined data for the previous year (from 5,193 million euro to 3,315 million euro).

## Key ratios

	2002 (€/mil)	2001 pro-forma (€/mil)
<b>PERSONNEL EFFICIENCY RATIOS</b>		
Gross loans to customers (*) / Average number of banking employees	2.75	2.71
Customer financial assets (**) / Average number of banking employees	7.06	7.04
Personnel costs / Net interest and other banking income	41.6%	35.1%
Net interest and other banking income / Average number of total employees	0.15	0.17
Gross result / Average number of total employees	0.04	0.07
Direct customer deposits (**) / Average number of banking employees	2.42	2.53
Average number of total employees	29,137	30,166
Average number of banking employees (***)	28,522	29,324
<b>OPERATING STRUCTURE (****)</b>		
Branches and area offices		
- Italy	2,115	2,107
- Abroad	11	13
Representative offices	17	17
<b>CAPITAL RATIOS</b>		
Shareholders' equity / Net loans to customers	13.1%	13.5%
Shareholders' equity / Customer financial assets	4.8%	5.0%
<b>REGULATORY CAPITAL STRUCTURE (****)</b>		
Regulatory capital	12,191	9,776
Total ratio	12.9%	12.6%
Total 1 ratio	9.1%	10.0%
<b>PROFITABILITY RATIOS</b>		
ROE (Return on Equity)	7.4%	10.0%
Cost / Income ratio	65.6%	54.9%
Net commissions / Administrative costs	52.8%	54.5%
<b>SANPAOLO IMI SHARES</b>		
Quoted price per share		
- average	9,439	14,375
- low	5,231	8,764
- high	13,702	18,893
Net income / Number of shares in circulation	0.42	0.58
Dividend per share	0.30	0.57
Dividend per share/ Average annual price	3.2%	4.0%

(\*) Net of repurchase agreements and investment securities loaned.

(\*\*) Excluding repurchase agreements and deposit securities loaned

(\*\*\*) Excluding the average employees operating in the tax payments sector.

(\*\*\*\*) As of 31/12/02, the Sanpaolo IMI Group had 3,205 tellers and regional offices, of which 3,069 in Italy, 4,955 financial planners worked for the Group.

(\*\*\*\*\*) The data as of 31/12/01 refer only to Sanpaolo IMI.



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## Analytical added value statement

	2002	2001
	(€/mil)	combined (€/mil)
<b>REVENUES</b>		
Interest income and similar revenues	5,363	6,804
Commission income	1,630	1,680
Other:		
- dividends and other revenues	700	1,253
- profits (losses) on financial transactions	62	86
- other operating income	257	338
<b>TOTAL GROSS PRODUCTION</b>	<b>8,012</b>	<b>10,161</b>
<b>CONSUMPTION</b>		
Interest expense and similar charges	-3,260	-4,436
Commission expense	-118	-107
Other operating expense	-5	-11
Other administrative costs (1)	-883	-977
Net adjustments to loans and provisions for guarantees and commitments	-259	-315
Net adjustments to financial fixed assets	-338	-246
Provisions for risks and charges	-151	-108
<b>TOTAL CONSUMPTION</b>	<b>-5,014</b>	<b>-6,200</b>
<b>GROSS ADDED VALUE</b>	<b>2,998</b>	<b>3,961</b>
Extraordinary income	495	1,465
Extraordinary expense	-179	-233
<b>GROSS GLOBAL ADDED VALUE</b>	<b>3,314</b>	<b>5,193</b>
Net adjustments to intangible and tangible fixed assets and merger differences	-515	-347
<b>NET GLOBAL ADDED VALUE</b>	<b>2,799</b>	<b>4,846</b>
Labour cost		
- direct	-1,407	-1,456
- indirect	-416	-399
Gifts and donations (1)	-2	-1
Indirect and property taxation (1)	-158	-162
<b>INCOME BEFORE TAXES</b>	<b>816</b>	<b>2,828</b>
Change in reserve for general banking risks	358	
Income taxes for the period	-410	-1,229
<b>NET INCOME</b>	<b>764</b>	<b>1,599</b>

(1) Balance item 80 (b) was disaggregated, separating the part referred to:  
- Gifts and donations  
- Indirect and property taxation

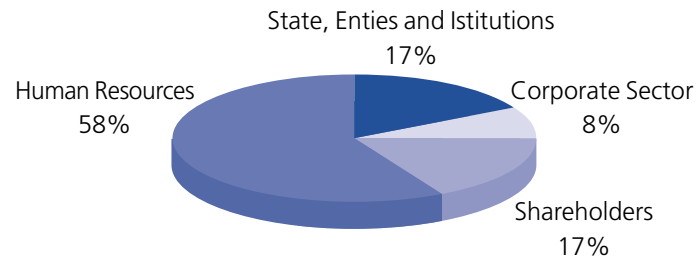
## Statement on the allocation of the gross global added value

	2002	2001
	(€/mil)	combined (€/mil)
<b>Revenues</b>	<b>8,012</b>	<b>10,161</b>
<b>Consumption</b>	<b>-5,014</b>	<b>-6,200</b>
<b>GROSS ADDED VALUE</b>	<b>2,998</b>	<b>3,961</b>
Net extraordinary components	316	1,232
<b>GROSS GLOBAL ADDED VALUE</b>	<b>3,314</b>	<b>5,193</b>
<b>Divided among:</b>		
<b>SHAREHOLDERS</b>		
Dividends distributed to shareholders (*)	551	1,066
<b>HUMAN RESOURCES AND SOCIAL INSTITUTIONS</b>		
Labour cost		
- direct	1,407	1,456
- indirect (social security charges)	416	399
Other personnel expenses (**)	96	93
<b>STATE, ENTITIES AND INSTITUTIONS</b>		
Indirect and property taxation	159	162
Income taxes for the period	410	1,229
<b>CORPORATE SECTOR</b>		
Net adjustments to tangible and intangible fixed assets	515	348
Reserves and earnings non distributed	118	440
Change in reserve for general banking risks	-358	
<b>GROSS GLOBAL ADDED VALUE</b>	<b>3,314</b>	<b>5,193</b>

(\*) The dividends distributed in 2001 were influenced by the mentioned change to the criteria for the calculation of dividends from subsidiaries in the year in which the profit accrues rather than in the year of collection of the dividends. This change resulted in an increase in the net profit of 584 million euro on a **combined** basis.

(\*\*) These are charges registered among the extraordinary items or covered using funds resulting from provisions of preceding years.

## Allocation of added value

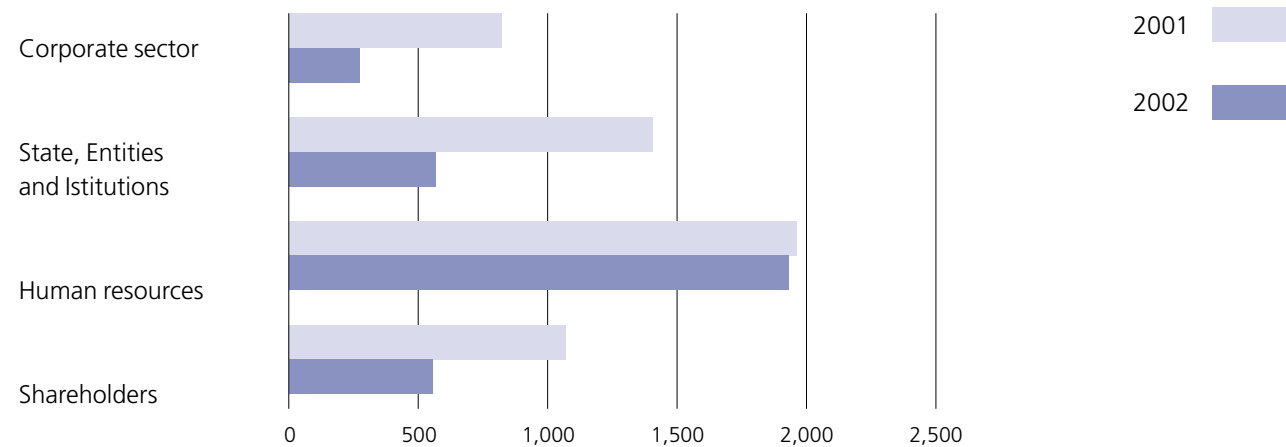


The pie chart illustrates in detail the allocation of the Added value among the different stakeholders:

- 58% to Human Resources in the form of salaries, social security charges, termination indemnities, pensions and similar commitments;
- 17% to the State, Local Entities and Institutions in the form direct and indirect duties;
- 17% to Shareholders in the form of dividends;
- 8% to the Corporate Sector.

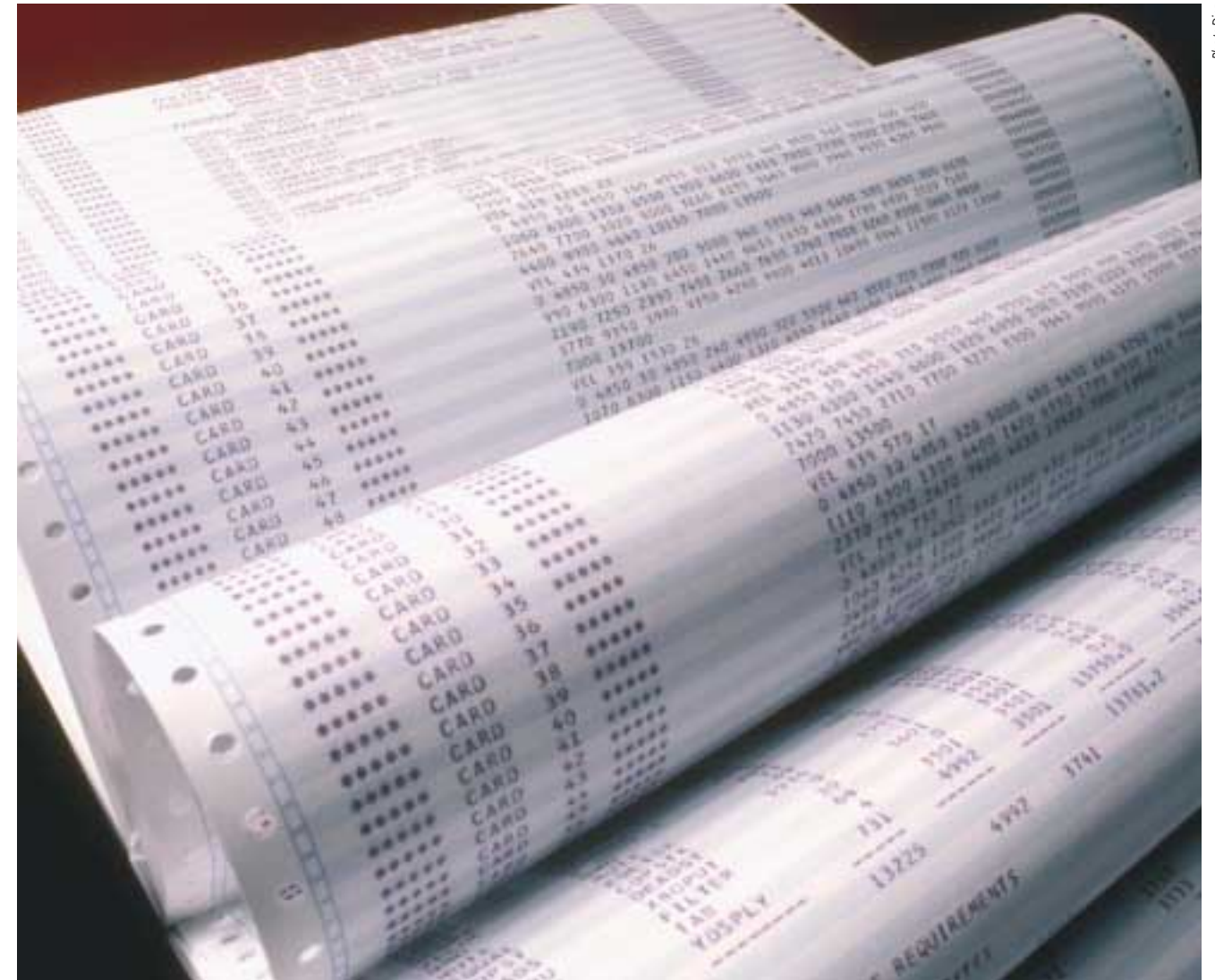
Notwithstanding the ABI principles, the added value attributed to the Shareholders includes (229 million euro in the period 2002 and 401 million euro in the period 2001) the dividends distributed by Sanpaolo IMI to Compagnia di San Paolo, Fondazione CR Padova e Rovigo, Fondazione CR Bologna, Fondazione Cariplo, Ente CR Firenze, Fondazione CR Venezia, Fondazione CR Udine e Pordenone, Fondazione CR Verona Vicenza Belluno e Ancona, Fondazione Monte dei Paschi di Siena, Fondazione CR Gorizia and Fondazione CR Carpi, whose mission is to perform actions in social, artistic and scientific contexts in favor of the community. Based on this allocation, the separate identification of the added value to the community was not considered significant.

## Comparison in added allocation



The comparison in the gross global added value allocation among the different categories of stakeholders in 2001 and 2002 highlights how the main variations are attributable to the economic trend of the bank in the last year, mainly as a result of the negative conjunctural situation. In particular, the decrease in the shares assigned to the

State, Enties and Institutions and to the shareholders is a direct consequence of the contraction in the added value produced. On this point, it is important to notice how, despite a decrease in the profits available for distribution, the bank continued its traditional policy of looking after the creation of value for Shareholders. This policy is pursued consistently and compatibly with the



objectives for the strengthening of the Corporate Sector System, as proved by the high level of adjustments and provisions and by the absolutely appropriate level of the Bank's capital ratios (the Group's objectives include 6% of *tier one ratio* net of the *preferred shares* and 10% of *total ratio*). This policy translates in the allocation to the shareholders of € 0.30 dividend per share, corresponding to a 4.7% dividend yield calculated on the average share price of the month preceding the resolution by the Board of Directors (middle of January - middle of February 2003). This parameter is about 4.3% compared to the current price. As already stated, the pay-out policy was possible also thanks to the use of Reserves for General Banking Risks, 358 million euro, affecting the share concerning the Statutory System. The share referring to Human Resources, although in slight decrease in absolute terms, has increased its

incidence in the period, always due to the decrease in the gross added value produced. The decrease in personnel costs is attributable to the continuation of actions of personnel reduction and in particular to the initiative of incentive to the voluntary transfer to the former Banco di Napoli; this reduction was obtained despite increases in contracts during the last year, following the renewal of the national labor contract. It is also pointed out that personnel costs include the charges of about 800 members of staff transferred to ESABAN in October 2002, which will centralize tax collection activities within the Group. The personnel structure of the Bank in the period, shows 1,546 terminations and 573 hires, with the application of a management strategy that, if on the one hand resorts to incentives to voluntary transfers, on the other hand also promotes development by hiring new resources to ensure a progressive generational cycle.



PricewaterhouseCoopers'  
opinion

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## REPORT ON THE "2002 SOCIAL REPORT"

To the Shareholders of  
Sanpaolo IMI SpA

We have performed the agreed-upon verification procedures in order to express an opinion on the 2002 Social Report of Sanpaolo IMI SpA (the "Social Report") with respect to:

- The reliability of the data reported therein.
- The completeness and clarity of expression of the data and the information disclosed therein.

Our engagement was carried out by performing the agreed-upon procedures summarized below:

1. Evaluation and analysis of internal procedures used to manage and collect the information and the data included in the Social Report.
2. Testing, on a sample basis, of the correspondence of the economic and financial data reported in the Social Report with the data disclosed in the financial statements approved in the Shareholders' Meeting and of the correspondence of other data and information with management reports or other supporting documentation.
3. Evaluation of the completeness and clarity of the Social Report compared to the information generally included in the social reports already published and to the stakeholders identified.

This report, therefore, refers to the results of the application of the aforementioned procedures and we cannot exclude that, had we performed additional procedures, other matters might have come to our attention that should have been disclosed in addition to those already reported in the following paragraph.

The results of the application of the agreed-upon verification procedures are:

1. The existing internal procedures to manage and collect the information and the data included in the Social Report are consistent with the objective of the Social Report itself.

Seel: legale: Milano 20124 Via Vittor Pisani 20 Tel. 02/67631 Fax 02/64881433 Cap. Soc. 1.754.400,00 Euro I.v., C.F. e F. IVA e Reg. Imp. Milano 13979000153 iscritta all'Albo Consulenti - Altri uffici: Ancona 60123 Via Corradini 2 Tel. 071/36881 - Bari 70125 Viale della Repubblica 110 Tel. 080/5429863 - Bologna 40122 Via delle Lanze 111 Tel. 051/326611 - Brescia 25124 Via Celastria 70 Tel. 030/2119811 - Firenze 50129 Viale Mellini 65 Tel. 055/4627100 - Genova 16121 Piazza Dante 7 Tel. 010/29041 - Milano 20122 Corso Europa 2 Tel. 02/77811 - Napoli 80121 Piazza dei Martiri 30 Tel. 081/7644441 - Padova 35127 Largo Europa 16 Tel. 049/8762677 - Palermo 90141 Via Martirini 119 Tel. 091/348137 - Roma 00100 Via Taranta 209A Tel. 06/21242948 - Roma 00154 Largo Fogliani 29 Tel. 06/570251 - Torino 10129 Corso Matteotti 37 Tel. 011/536771 - Trento 38100 Via Marzocci 56 Tel. 0461/217004 - Treviso 31100 Piazza Crispi B Tel. 0422/542726 - Trieste 34123 Via Cesare Battisti 16 Tel. 040/3481701 - Udine 33100 Via Martirini 12 Tel. 0432/23789 - Verona 37122 Corso Porta Nuova 125 Tel. 045/8002581

2. The economic and financial data included in the Social Report correspond to those included in the financial statements that were approved in the Shareholders' Meeting and that the other data and information disclosed in the Social Report are adequately documented by internal management reports or other supporting documentation.

Regarding the evaluation of the completeness and clarity of the Social Report, we base our professional opinion on our experience, on the benchmarking of national and international best practices and on PricewaterhouseCoopers guidelines developed on the basis of the information requirements deriving from:

- Sustainability Reporting Guidelines (Global Reporting Initiative).
- ABI Guidelines (Modello di redazione del Bilancio Sociale per il settore del credito).
- GBS Guidelines (Gruppo di studio per il Bilancio Sociale).

In this respect, the Social Report is complete and well-structured compared to the best social reports published to date and the data and the information are clearly stated. As a result of our analysis we report the following considerations:

1. this is the first Social Report prepared by the company and it represents the process for improvement undertaken by the company and it is an efficient instrument to develop the dialogue with stakeholders;
2. as to the targets reported in the third chapter of the Social Report, "Objectives for 2003", there is the opportunity to develop and complete the use of performance indicators by which performances trends could be measured and communicated;
3. there is the opportunity, as a result of the improvement process undertaken, to develop adequate processes to support the reporting activity and to allow the enlargement of the reporting area to include other Group companies.

Turin, 23 June 2003

PricewaterhouseCoopers SpA



Sergio Duca  
(Partner)

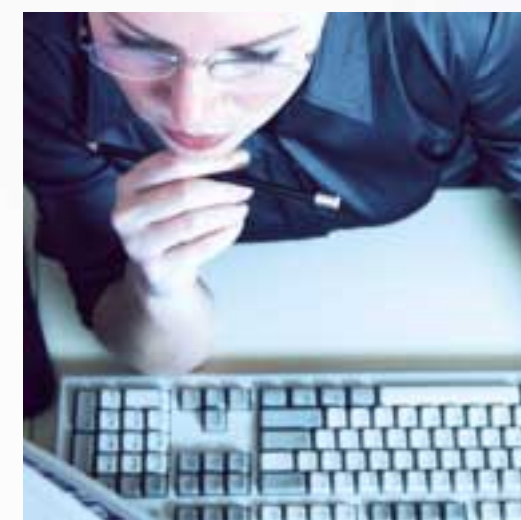
This report has been translated from the original, which was issued in Italian. We have not performed any control on the 2002 Social Report translation.



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## Attachments

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ETHICAL CODE OF SANPAOLO IMI S.P.A.

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GLOSSARY

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# Ethical Code of Sanpaolo IMI S.p.A.

## General Principles

### 1. RECIPIENTS AND FIELD

#### OF APPLICATION OF THE CODE

The principles of this Ethical Code inspire the strategic activities carried out by the Board of Directors, the directors as well as the activities for the coordination and implementation of the policies and the planned objectives of the SANPAOLO IMI management.

This Code contains an exemplification of the rules of conduct that each SANPAOLO IMI employee is obliged to observe and specifies the obligations to use diligence, fairness and loyalty characterizing the work performance; reference is also made to the provisions of art. 2104 and art. 2105 of the Civil Code.

The regulations contained in the Ethical Code are binding also for the SANPAOLO IMI external partners and co-workers, who are also obliged to respect the rules of legality, fairness and good-faith mentioned above.

### 2. OBSERVANCE OF THE LAWS AND REGULATIONS IN FORCE

By adopting every prevention and control measures deemed necessary, SANPAOLO IMI undertakes to guarantee the integral and unconditioned observance of the laws and regulations in force in every geographical and operative context, at all decisional and executive levels.

### 3. PRINCIPLES OF FAIRNESS, CONFIDENTIALITY AND IMPARTIALITY

In the performance of their professional activities, directors, employees and co-workers are required to behave in line with the principles of fairness and honesty and in observance of obligations of confidentiality in the management of information in their possession.

In its relations with the totality of subjects it may operate with, in any operative and organizational context inside and outside the Group, SANPAOLO IMI does not discriminate in terms of age, gender, health status, nationality, political opinions and religious faith of its interlocutors.

### 4. COMPANY'S ACTIVITY AND BUSINESS ETHICS

In performing its activity, SAN PAOLO IMI aims at maximizing profitability and reaching excellent levels in the services offered to its customers in order to maintain and increase the company's worth. These objectives are pursued through efficiency and market openness, in fair competition with the other operators, avoiding collusive or abusive practices/behavior to the detriment of the customers and of consumers in general.

Relations with suppliers of goods and services are established in observance of the efficiency, loyalty and impartiality practices, in accordance with internal procedures provided for this purpose. In any case, SANPAOLO IMI undertakes to follow impartial and transparent selection mechanisms, avoiding practices which may create situations of dependence and adequately documenting the phases concerning the establishment, management and termination of these relations. In every relation and activity, and in relations with institutions and the Public Administration in particular, SANPAOLO IMI undertakes to adopt all the caution necessary to avoid the pursuit, both on own and for its customers, of illegal objectives and interests, improper profits and/or benefits and conflicts of interest, which may potentially be detrimental to the concept of independence of both SANPAOLO IMI and its interlocutors.

### 5. INFORMATION TRANSPARENCY

SAN PAOLO IMI ensures full transparency for investors and the financial community, in compliance with the criteria of true, punctual and prompt dissemination of necessary information and every other communication about the company. The activity of external communication falls to the Chairman and/or Managing Directors, who for this end use the structures of Investor Relations and Company Secretariat. "Price-sensitive" information is treated and communicated following an internal procedure approved by the Board of Directors, in observance of the obligation to confidentiality, to which Directors and Auditors are bound in the company's interest.



### 6. RELATIONS WITH CONTROL AUTHORITIES

The relations with national, community and foreign Regulatory and Control Authorities inspire the observance of transparency principles and fair cooperation. In making periodical communications and announcements as well as in specific relations, SANPAOLO IMI guarantees the completeness and integrity of the news and the objectivity of the assessments, ensuring a timely fulfillment.

### 7. GUIDING PRINCIPLES IN AN INTERNATIONAL CONTEXT

Compliance with the regulations contained in this Ethical

Code is required also in the cases in which operations are performed in foreign markets, in relation to the geographical articulation of the activities carried out. The specific cultural, social and economic aspects of the different countries in which SANPAOLO IMI operates, both directly and indirectly, in no case justify conduct that is not in line with reference ethical principles. SANPAOLO IMI actively cooperates with the Authorities in charge of preventing and repressing money laundering activities, and, in every operating and geographical context, it observes strict internal rules of conduct issued to implement regulatory provisions and international best practice.



## Rules of conduct

### 1. TASKS AND DUTIES OF ADMINISTRATIVE AND CONTROL BODIES

#### 1.1 Role of the Board of Directors

In the performance of its functions and with the objective of keeping the company efficient and effective, the Board of Directors of SANPAOLO IMI carries out all the actions needed to ensure:

- central control of the strategic interests of the SANPAOLO IMI Group by defining the organizational structures suitable for the reference context and the objectives pursued and by determining competence and responsibility areas for each operating and control area, ensuring the necessary coordination mechanisms within the SANPAOLO IMI Group;
- adequacy of the control structures and procedures aimed at the constant monitoring and prevention of credit, financial and operating risks run by SANPAOLO IMI and the entire Group, in compliance with the guiding principles of separation between “originators” of the risk and “controllers” of the risk and of allocation of responsibility for the functions in charge of business control, in observance of the limits of exposure set both internally and by the Regulatory regulations.

#### 1.2 Directors and Management

In respect of the relationship of trust, the directors of SANPAOLO IMI shall provide their services in full and integral compliance with the laws and the regulations in force as well as in observance of the provisions of the Ethical Code and other Codes of Conduct adopted.

The directors and the management of SANPAOLO IMI have the duty to perform their functions, playing their role with consciousness and sense of responsibility, in particular striving to combine the pursuance of company objectives with the respect of the reference ethical principles to protect the interests of shareholders, customers and the community and safeguard the reputation of the Group and the principles of formal and essential legality.

Moreover, the directors of SANPAOLO IMI must try to avoid situations involving a conflict of interests between them and SANPAOLO IMI or the SANPAOLO IMI Group, and they are in any case obliged to communicate, as set by law, every conflict of interest, which they may have on their own account or on account of third parties. By way of example, it must be remembered that conflicts of interests may occur whenever personal interests interfere (or seem to interfere) with the interests of SANPAOLO IMI

or an entity of the SANPAOLO IMI Group, impeding the unbiased and effective fulfillment of their functions, to pursue improper personal gains by virtue of their position at SANPAOLO IMI or the SANPAOLO IMI Group.

#### 1.3 Internal Audit Function

Within the framework of the control system in force inside the SANPAOLO IMI Group, the Internal Audit Function, entrusted to a specific control structure, directly reporting to Managing Directors, has the main function of verifying operations and risk management performance. The Internal Audit Function, which in the performance of its activity has no constraints or limits of access to data, archives and company assets, has the responsibility of bringing to the attention of the Board of Directors and Top Management possible improvements in risk management policies, measuring instruments and procedures, providing periodic reports on the results of its activity and anomalies found.

### 2. TASKS AND DUTIES OF EMPLOYEES AND CO-WORKERS

#### 2.1 Tasks and duties of personnel

The personnel of the SANPAOLO IMI Group is obliged to carry out its functions with diligence, competence and fairness, adequately investing its resources and time in the performance of its activities, refraining from promoting or taking part in initiatives which may result in situations of conflict of interest on its own account or in the account of third parties. In particular, each employee is obliged to refrain from taking advantage from business and economic opportunities in general, for personal interest or in the interest of third parties, of which he/she may know as a result of his/her functions. In cases in which a conflict of interest arises, each employee has the duty to inform his/her Manager.

#### 2.2 Knowledge of the regulations

the knowledge and application of the disciplines specifically regulating their activity and the observance of the laws and regulations in force as well as of the provisions contained in the Ethical Code and other Codes of Conduct adopted. In particular, each employee is obliged to inform his/her Manager, or the Ethical Committee if necessary, about the cases of serious irregularity or violation of internal procedures, laws and regulation in force he/she may be aware of.

#### 2.3 Reporting and documenting duties

Each employee of SANPAOLO IMI is obliged to cooperate in order to ensure the correct reporting of each management event and to keep the documentation supporting the activity carried out, according to the criteria of easy trackability. This is done in order to keep the social communications of SANPAOLO IMI reliable, for a fair and true representation of economic, portfolio and financial results of the entire Group and to ensure that the total of the activities carried out is consistent with the organizational model and the internal delegation model and is compliant with laws, rules and Regulatory regulations. Employees are also obliged to inform timely their Managers and the Ethical Committee about their possible finding of omissions, serious negligence or falsification of accounts and/or documents on which accounting records are based.

#### 2.4 Relations with customers

In their relations with customers and in external relations established throughout their working activities, employees are obliged to follow a conduct based on politeness, cooperation and transparency, providing, whenever required or necessary, complete and appropriate information and avoiding, under any circumstances, the pursuance of elusive or unfair practices or practices that are aimed at undermining the interlocutor's independent judgment.

#### 2.5 Duties of external co-workers

The same principles of fairness, good-faith and observance of laws and regulations in force must be followed by all external co-workers of the SANPAOLO IMI Group, who may be required to sign the provisions of this Ethical Code by the Functions in charge, in relation to existing procedures and to the type and extent of activity required.

### 3. RELATIONS WITH PUBLIC INSTITUTIONS

#### 3.1 Relations with the Public Administration and the Judicial Authority

The relations with institutions and Public Authorities and Bodies aimed at representing and protecting the interests of SANPAOLO IMI are under the exclusive responsibility of the competent functions and must be exercised in a transparent, rigorous and coherent fashion, avoiding any conducts from which attempts to influence inappropriately and/or unduly the activity and opinions of these Authorities can be inferred.

#### 3.2 Relations with Regulatory Authorities

The relations with Regulatory Authorities are based on maximum cooperation, in any case avoiding any disruption, and are exercised through the creation of areas of mutual independence, avoiding any action or conduct which may be interpreted as an attempt to inappropriately influence decisions.

### 4. PRESENTS, GIFTS AND FAVORS

#### 4.1 Gifts

In ordinary business relations, the gifts offered are only aimed at promoting the image of SANPAOLO IMI and in no case can be interpreted as exceeding normal commercial or courtesy practices, which means that they are a way to obtain special favors in the performance of any practice and/or activity related to the SANPAOLO IMI Group.

#### 4.2 Institutional and commercial relations

In institutional and commercial relations, also at European and international level, and in relations with the European Union, the Public Administration and the Judicial Authority in particular, it is prohibited to unduly offer and/or promise gifts, presents or else to officials and public servants.

The same prohibition concerns the promises or offer made to third parties in executing the above-mentioned relations. In any case SANPAOLO IMI adopts promotional procedures controlled by the competent Functions and does not follow conducts or practices which are not allowed by law and by the commercial practices and the Ethical Codes, if known, of the companies and bodies, including public bodies, with whom relations exist.

#### 4.3 Specific personnel duties

Directors and employees of SANPAOLO IMI must refrain from accepting presents or gifts that are worth more than a reasonable value or go beyond normal courtesy standards and must refrain from accepting, for themselves or for others, any other offer of favor beyond ordinary commercial relations or in any case aimed at compromising independent judgment or operative fairness. Those directors or employees who receive gifts or favors that go beyond accepted standards are obliged to inform the Ethical Committee for adequate assessment and, if appropriate, to notify the sender on the policy of the SANPAOLO IMI Group on this subject.

#### 4.4 Insider trading, protection of confidential information and intellectual property, protection and correct use of company assets

The Directors, employees and consultants of SANPAOLO IMI are obliged to read carefully and observe the laws and procedures of SANPAOLO IMI on the subject of prevention of insider trading activities, protection of confidential data and information as well as intellectual property and the protection and correct use of SANPAOLO IMI assets.

#### IMPLEMENTATION AND FINAL POINTS

##### 5. COMPLIANCE WITH THE PROVISIONS OF THE CODE

Each employee of the SANPAOLO IMI Group must to be aware of the provisions of the Ethical Code by formal declaration. The same form of compliance can be required by the competent Functions to the Group's consultants and external co-workers.

##### 6. TRAINING ACTIVITIES

The provisions contained in this Ethical Code are made known to the entire personnel and are the subject of independent and periodic training initiatives, as a whole and/or by specific sections.

##### 7. INSTITUTIONAL COMMUNICATION ACTIVITIES

The ethical principles and values underlying every action and relation attributable to the SANPAOLO IMI Group are the subject of adequate forms of institutional communication, according to the means and procedures deemed most appropriate by the company's competent Functions.

##### 8. REPORTS

Every violation of the principles and provisions of this Ethical Code by directors, employees or co-workers shall be reported promptly to the Ethical Committee. Violations can also be reported anonymously and in writing, while bearing in mind that these reports can be taken into consideration only if they contain information sufficient to identify the terms of the violation and if they enable SANPAOLO IMI to carry out a relevant inquiry. If the reports received, in compliance with the regulations in force, require confidentiality (including anonymity), SANPAOLO IMI undertakes to protect this information in observance of laws, regulations or legal proceedings applicable to the case. SANPAOLO IMI encourages directors, employees and co-workers to report every violation promptly, with the commitment to investigate every violation they may detect. SANPAOLO IMI does not tolerate any form of retaliation for reports that have been made in good-faith, because the possibility of speaking openly and without any fear of

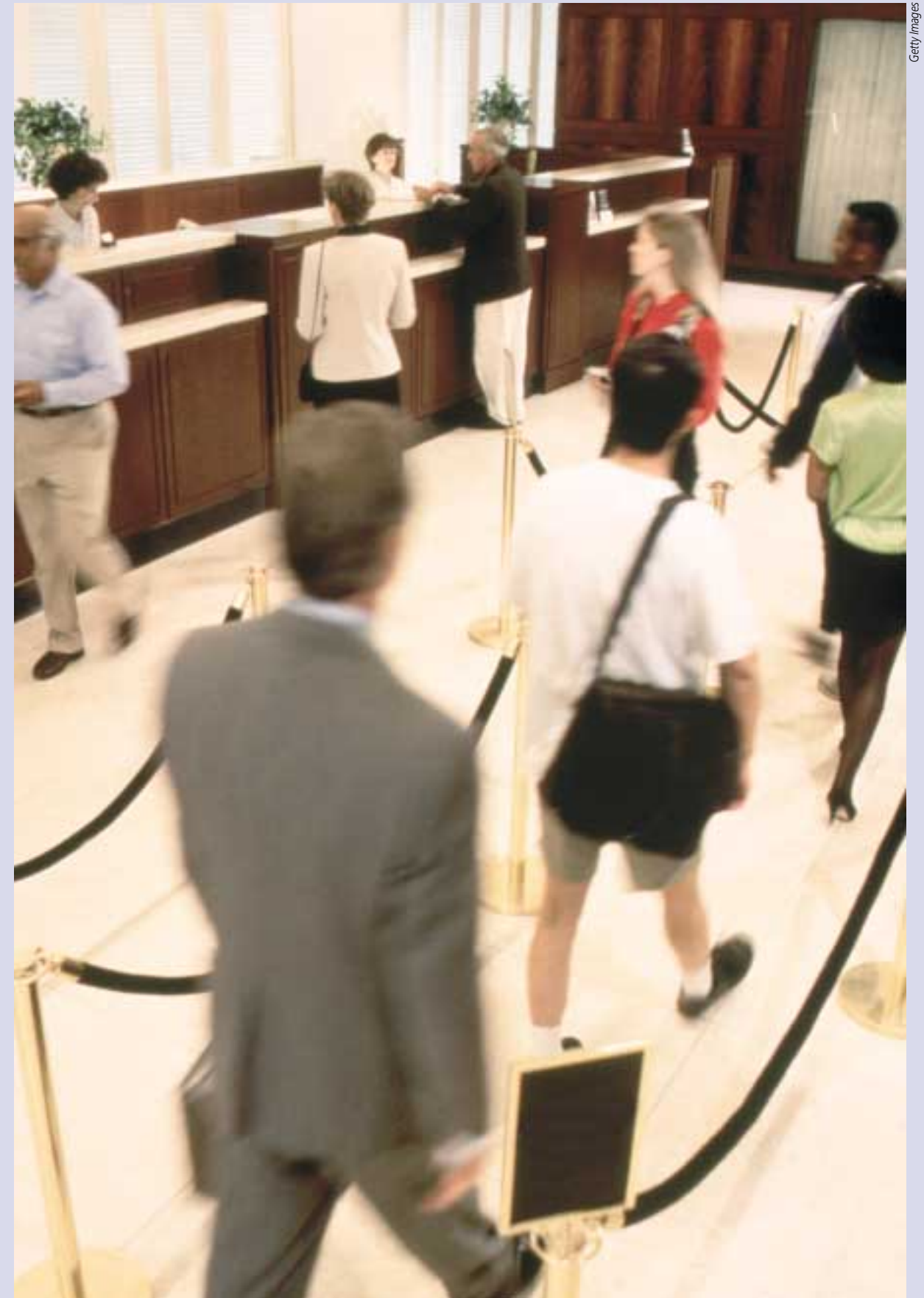
retaliation is a condition necessary for the implementation of the Ethical Code. All of those for whom this Ethical Code is intended are also kindly asked to cooperate with internal investigations concerning violations and conducts that are not in line with this Code.

##### 9. CONSEQUENCES OF THE VIOLATION OF THE CODE

The violation of the provisions of this Ethical Code is a disciplinary offence and a breach of the contract for external co-workers and, as such, it can sanctioned. The company's Functions periodically inform the Ethical Committee on the most meaningful violations and the consequent measures taken.

##### 10. CHANGES AND PERIODIC AMENDMENTS TO THE ETHICAL CODE

The Ethical Committee is in charge of changing and amending the provisions of this Ethical Code, submitting changes and amendments for the attention of the Board of Directors for the necessary approval. Every substantial change shall be notified to the market in the forms deemed most appropriate and in any case through the annual report on Form 20-F filed at the US Securities and Exchange Commission.





## Glossary

**ABI:** Associazione Bancaria Italiana (Italian Banking Association).

**Benchmark:** objective reference parameter for financial investments, which can also consist of the best known indexes (MIB30, Dow Jones etc..) or other indexes representing the risk profile/ investment performance and which can also become the object of financial investments whose performance is related to the trend of the selected parameter.

**BIC** (Bank Identification Code) international bank code for the univocal identification of the reference bank.

**CAGR:** Compound Annual Growth Rate.

**Company citizenship:** the constant commitment of a company to promote integration between market needs and social responsibilities.

**Corporate giving:** philanthropic activities carried out by companies, mainly through voluntary donations.

**Corporate governance:** the set of governance criteria and processes of a company.

**Corporate social responsibility:** extended form of governance according to which the decision-makers of a company have duties of trust towards all company stakeholders. The Green Book of the European Commission "Promoting a European framework for corporate social responsibility" defines the company's social responsibility as the "*voluntary integration of social and environmental concerns of companies in their commercial operations and in their relations with the parties concerned*. [...] *To be socially responsible* - the Green Book states - *does not only mean fully meeting applicable juridical obligations but also to go beyond this point by investing in human capital, in the environment and in relations with the other parties concerned*".

**Leg. Decree 626/'94:** legislative decree regulating the defense of the health and safety in the workplace. The compliance with the regulations in force is characterized by the fact of asking the employer for the introduction of a proper safety management system.

**Empowerment:** a process according to which human resources are given the opportunity to develop their own skills and improve their knowledge of possible professional development areas.

**Ethical Fund** (Social Responsible Fund): Investment fund investing in financial instruments issued by companies that comply with special environmental and social policies and are engaged in sustainable development.

**Forum for Sustainable Finance:** no profit association promoting sustainable development in the Italian financial community ([www.finanzasostenibile.it](http://www.finanzasostenibile.it)).

**Ftse4Good:** set of benchmark and commercial indexes for socially responsible investments. A financial index monitors the performance of a series of selected securities according to a certain criterion (capitalization, sector, geographical area...). Benchmark indexes are used to strengthen the financial performance of a fund, for example.

**Home banking:** banking service for private customers provided by means of a telecom connection between users and the bank; users can perform a number of transactions directly from home and receive information on their bank accounts.

**IBAN** (International Bank Account Number): Standard international bank number (series of alphanumeric characters) univocally identifying the account of a customer anywhere in the world.

**Environmental impact:** any environmental change, positive or negative, partly or fully deriving from the organizations' activities, products and services.

**Direct environmental impact:** environmental change partly or fully deriving from the organizations' products or services.

**Indirect environmental impact:** environmental change deriving from the activities of third organizations directly related to the main organization. For example, in case of a bank, reference is made to the impact of customer companies performing activities financed with resources lent by the bank.

**Internal dealing:** transactions of purchase and sale performed by the directors and other "relevant people", that is those people who, by virtue of their position, have access to privileged information concerning stocks (excluding non convertible bonds) of the same company.

**ISO** (International Organization for Standardization): World Federation of organizations setting national technical standards worldwide (ISO standards).

**ISO14000:** standard concerning environmental management systems issued by the International Organization for Standardization (ISO).

**ISO9000:** standard concerning environmental payment systems issued by the International Organization for Standardization (ISO).

**Mib bancario:** stock exchange index including the banks listed on the Borsa di Milano.

**Microcredit:** programs granting small loans to micro-entrepreneurs for self-investment projects producing income, thereby enabling them to support themselves and their families.

**Mobile banking:** Payments made partly or totally by using a cellular phone. These payments equate to electronic payments and are subject to the relevant directives by the European banking system microcredito.

**Multi-channelling:** offer of retail banking products and services through both physical traditional channels (tellers) and telecommunication channels. This definition refers both to the types of distribution channels through which these services are offered (closed networks or open networks like the Internet) and to the methods of access to these channels by the customers (Pos terminals, ATMs, telephones, personal computers and micro-circuit cards).

**Banking Ombudsman:** board founded in 1993 and promoted by the Italian Banking Association to settle controversies between banks and customers for values not exceeding 10,000 euro and for which no solution was found at the bank's office for complaints.

**Patriot Act:** law issued in the USA following the terrorist attacks of September 11 and including, among other things, a series of provisions meant at controlling the financing world and in particular money laundering operations through foreign banks.

**Pay out ratio:** percentage of income distributed to the shareholders by means of dividends.

**People management:** human resources management and enhancement system.

**Phone banking:** offer of banking products and services via call centers integrating telephone and information technologies and sometimes also human resources, for an efficient management of communications between the company and its customers; information is processed by specific technological devices which are often integrated with the company information system and enable contact optimization and widening.

**SMEs:** small and medium-sized enterprises.

**Private equity:** investments in the venture capital of non-listed companies, usually small and medium-sized.

**Project finance:** financing method in which the lender mainly examines the profitability of one single project both as a source of reimbursement and as a loan guarantee. This type of loan is usually destined to big complex and expensive infrastructural projects, for example in the energy, chemical, mining, transport, environmental and telecommunication sectors. It can take the form of a loan destined for the construction of new installation or for the refinancing of existing installations with or without restructuring.

**Rating:** assessment of the merit to credit of a counterparty to be made by quantifying the probability of insolvency of the same.

**Risk management:** organizational structure for the determination of methodologies, measurement and management criteria as well as control tools on the subject of credit, financial and operating risks in order to guarantee the governance of the exposure to these risks.

**Retail banking:** retail market mainly including private customers, small companies and households.

**Roadshow:** series of meetings with institutional investors taking place in intentional financial markets.

**ROE** (Return on equity): net income/average net equity.

**SEC:** Securities Exchange Commission, the American Regulatory Authority.

**SEPA** (Single European Payment Area): Single European Payment Area in which transactions can take place efficiently, eliminating the idea of cross-border payment.

**SRI:** asset management activity carried out according to environmental and social criteria. Usually, three different approaches exist: portfolio selection (securities are included or excluded depending on the environmental or social responsibility profile adopted by the issuing companies); active shareholding (the exercise of rights such as the right to vote at meetings, resulting from the ownership of shares to influence the company's social responsibility policies); community investment (the investment of capitals in marginal economies with objectives of local development).

**Stakeholder:** holder of interest. It is a subject, which may be public or private, individual or organized, establishing relations with the company, which may be direct or indirect, formal or informal.

**Stock granting:** free granting of stocks to the personnel with a holding period of n years.

**Stock option:** stock incentive in favor of the executives of the Group, with the option to exercise it after n time.

**Sustainable development:** a development meeting the needs of existing generation without jeopardizing the possibility of future generations to meet their needs (Brundtland Report - WCED World Commission for Economic Development - 1987).

**TAEG** (Global Actual Annual Rate): synthetic and conventional indicator of the cost of credit. It is the rate equaling, on a yearly basis, the sum of the current value of all the amounts which make up the loan granted by the creditor and the sum of the present value of all the reimbursement installments.

**UN Global Compact:** voluntary initiative for the promotion and spread of sustainable development practices launched and sponsored by the United Nations.

**UNEP** (United Nations Environmental Program): program for the promotion of sustainable development.

**Wealth management:** activity for the management and administration of customers' portfolio resources.

**Wholesale banking:** products and services destined to a "wholesale market" mainly including institutional operators or concerning transactions for significant amounts.

The 2002 Social Report is  
available (in Italian and English)  
on the website  
*[www.grupposanpaoloimi.com](http://www.grupposanpaoloimi.com)*

For any query, suggestion  
or advice  
please contact  
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The realization of this Social Report  
was followed by an internal working group  
with the assistance and advice  
of Avanzi - Idee ricerche e progetti per la sostenibilità.

Graphic project: Partners - Turin