

2000 Annual Report

SANPAOLO IMI
SOCIETÀ PER AZIONI

REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

SECONDARY REGISTERED OFFICE: VIALE DELL'ARTE 25, ROME, ITALY

COMPANY REGISTER OF TURIN 06210280019

EQUITY CAPITAL EURO 3,931,250,954.4 FULLY PAID

PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

SANPAOLO IMI

Board of Directors

Luigi Arcuti (*)	<i>Chairman</i>
Luigi Maranzana (*)	<i>Managing Director</i>
Rainer Stefano Masera (*)	<i>Managing Director</i>
Carlo Albani Castelbarco Visconti	<i>Director</i>
Emilio Botin	<i>Director</i>
Alberto Carmi	<i>Director</i>
Giuseppe Fontana	<i>Director</i>
Gabriele Galateri di Genola e Suniglia (*)	<i>Director</i>
Juan Rodriguez Inciarte (*)	<i>Director</i>
Virgilio Marrone	<i>Director</i>
Mario Masini (*)	<i>Director</i>
Iti Mihalich (*)	<i>Director</i>
Emilio Ottolenghi	<i>Director</i>
Enrico Salza (*)	<i>Director</i>
Antonio Scavi (*)	<i>Director</i>
Alessandro Vercelli	<i>Director</i>
Remi François Vermeiren	<i>Director</i>
<i>(*) Member of the Executive Committee</i>	

Board of Statutory Auditors

Mario Paolillo	<i>Chairman</i>
Aureliano Benedetti	<i>Auditor</i>
Maurizio Dallochio	<i>Auditor</i>
Angelo Miglietta	<i>Auditor</i>
Ruggero Ragazzoni	<i>Auditor</i>
Carlo Pasteris	<i>Supplementary Auditor</i>
Alessandro Rayneri	<i>Supplementary Auditor</i>

General Management

Luigi Maranzana	<i>General Manager</i>
Rainer Stefano Masera	<i>General Manager</i>
Enrico Fioravanti	<i>Deputy General Manager</i> <i>Legal and Corporate Affairs</i>
Bruno Picca	<i>Deputy General Manager</i> <i>Accounting and Planning</i>
Vittorio Serafino	<i>Deputy General Manager</i> <i>Commercial Banking</i>

Independent Auditors

Arthur Andersen S.p.A.

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Agenda of the Shareholders' Meeting

TURIN

- 1st calling for the ordinary and extraordinary meetings: 27 April 2001
- 2nd calling for the extraordinary meeting: 28 April 2001
- 2nd calling for the ordinary meeting and 3rd calling for the extraordinary meeting:
30 April 2001

Extraordinary part:

1. Amendment of Article 19 of the Articles of Association (Board of Statutory Auditors).
2. Amendment of Article 12 of the Articles of Association (Shareholders' Meeting).

Ordinary part:

1. Financial statements at 31 December 2000, reports of the Board of Directors and Board of Statutory Auditors, allocation of income for the year; consolidated financial statements at 31 December 2000.
2. Authorization for the purchase and sale of own shares.
3. Number and nomination of the members of the Board of Directors and the Chairman; determination of their remuneration.
4. Approval of the Regulation of the Shareholders' Meeting.

Letter to the Shareholders

Shareholders,

The SANPAOLO IMI Group closed 2000 with better results than last year. The profitability targets set in the 1998 business plan drawn up at the time of the merger between San Paolo and IMI have been met and exceeded: RoE in 2000, which had a target figure of 15%, came to more than 18%. Net income came to 1,292 million Euro, up 23% year-on-year. Earnings per share, 0.75 Euro in 1999, have grown to 0.93 Euro in 2000. It is proposed to distribute a dividend of approximately 0.57 Euro per share, for a total of 798 million Euro, 10% more than last year.

These results were achieved by pursuing a strategy that includes, on the one hand, expansion in the fields of Retail Banking, Wealth Management and Personal Financial Services, which are the areas with the most potential in terms of value creation and, on the other, setting targets for profitability and optimum capital consumption in Wholesale-type operations.

In Retail Banking and Personal Financial Services, the expansion strategy was primarily implemented internally by reinforcing the distribution structure, which entailed strengthening the Commercial Banking, Banca Fideuram and Banca Sanpaolo Invest networks. The creation of a multichannel structure, which now permits SANPAOLO IMI's customers to access the Bank's services either through a branch, or by means of direct banking, was also completed. Initiatives have been taken in the direction of network specialization and customer segmentation. IMIWeb, the Group's Internet bank, has been launched. At the same time, investments have been made in the production of asset management services: a new Business Area devoted to Wealth Management is being established which will handle all of the Bank's active savings management activities: mutual funds, portfolio management, private banking and life insurance.

The action taken to reinforce the Group by means of external growth has been no less significant. In Retail, the most important operation was the acquisition of Banco di Napoli, which gave the Group 731 additional branches located mainly in Southern Italy, a banking market that is expected to grow considerably over the coming years, especially in the field of asset management. The coverage of the territory was boosted in various ways, including by means of agreements with important local entities: this was the case with the alliance set up with Cassa di Risparmio di Firenze, which has more than 400 branches in Central Italy. In the area of Personal Financial Services, the acquisition of Banque Privée Wargny represented the first step in a project that involves exporting the distribution model successfully adopted by Banca Fideuram.

The objective in Wholesale is to enhance the value of the Group's specialist activities. This led to the creation of Banca OPI, which specializes in the financing of

public works and infrastructure. This same objective has led to an enlargement of the types of customers handled by the Corporate Area to include medium-sized companies. In 1999, the need to enhance the value of the Group's specialist skills led to the creation of NHS, a merchant bank, and to the concentration of all financial market trading activities within Banca IMI.

The initiatives geared to improve the Group's market position in sectors with a higher growth potential have required to make investments, which have mainly concerned the distribution networks and the new sales channels. The increase in costs connected to these new projects was accompanied by action to control other expenses.

In all the Group's Business Areas, constant attention was paid to asset quality, an aspect defined as strategic in the merger business plan. SANPAOLO IMI has taken strong action in this area, including the adoption of a strict Group credit policy, the refinement of risk control tools in line with international best practice, taking incisive steps to recover critical positions, and non-recourse sales of non-performing loans. The results have confirmed that this was the right approach, as it allowed the Group to lower its net non-performing loans/total loans ratio at the end of 2000 to less than 1%, one of the lowest figures of all competitors both in Italy and abroad.

The three-year plan for the period 2001-03, which was approved by the Board of Directors at the start of the year, reiterates and reinforces the policy guidelines that SANPAOLO IMI has followed up to now. Indeed, the plan provides for both internal growth and external expansion, when the right conditions arise.

Particular attention will continue to be paid to Retail Banking. Commercial Banking will have to improve its ability to service higher value-added counterparties, completing the integration of the distribution channels, further differentiating sales policies by customer segment, specializing and reinforcing the network. Banco Napoli will have to offer itself as a point of reference for households and small- and medium-sized enterprises in Southern Italy, bringing its levels of efficiency, productivity and credit control into line with those of the Group. The policy of alliances and distribution agreements with banking entities operating in areas where SANPAOLO IMI's presence is considered insufficient will also continue: the shareholding in Banca Cardine and the expected interest in Cassa dei Risparmi di Forlì are to be seen in this context.

In the field of Personal Financial Services, Banca Fideuram will continue to pursue its objective of expanding its private banking activity in the European market; Banca Sanpaolo Invest, which is expected to be quoted, will focus on affluent customers, reinforcing its offer of products that are both internal and external to the Group with its multichannel approach; IMIWeb will have to widen its customer base,

completing the process of transformation into a bank. The Wealth Management Area, in addition to providing products and services to the Group's distribution structures, will have to expand what it offers to external networks and institutional investors, developing above all its international private banking operations. The Wholesale side of the business will continue to concentrate on achieving its objectives of profitability, credit quality and optimum capital consumption.

There are also plans for targeted initiatives in foreign markets, notably in Eastern Europe and in the Mediterranean area, as well as joint projects with Banco Santander Central Hispano, with which there already are strong links in the form of cross-shareholdings; joint projects have already been defined with the Spanish group in the Corporate sector.

The three-year plan brings together all of the above initiatives in a target RoE for 2003 of 22%, four percentage points higher than the 18% in 2000.

The ongoing slowdown that is characterizing the main world economies, the deterioration in the climate of confidence and the consequent volatility in financial markets could put a brake on the SANPAOLO IMI Group's growth in profitability in the year 2001. However, expectations are such that no need to adjust our medium-term earnings objective is envisaged. When the current phase of instability is over, the business model adopted and the actions planned, both to increase revenues and contain costs, will enable to further reinforce the process of value creation successfully implemented in recent years.

Achievement of the Group's profitability and growth targets has been possible thus far and into the future – thanks to the professionalism and commitment of both our staff and our networks of financial planners.

Turin, 27 March 2001

Key figures

	2000 (1)	2000 restated (2)	1999	Change 2000 restated / 1999 (%)
CONSOLIDATED STATEMENT OF INCOME (€/mil)				
Net interest income	2,572	2,168	2,022	+7.2
Net commissions and other dealing revenues	2,641	2,469	2,066	+19.5
Administrative costs	-3,076	-2,652	-2,466	+7.5
Operating income	2,460	2,349	2,069	+13.5
Provisions and net adjustments to loans and financial fixed assets	-581	-454	-481	-5.6
Income before extraordinary items	1,789	1,806	1,504	+20.1
Net extraordinary income	396	369	294	+25.5
Group net income	1,292	1,292	1,050	+23.0
CONSOLIDATED BALANCE SHEET (€/mil)				
Total assets	172,101	139,280	139,887	-0.4
Loans to customers	98,706	80,025	73,174	+9.4
Securities	25,000	18,366	18,401	-0.2
Equity investments	3,573	4,674	3,347	+39.6
Customer deposits and securities issued	104,144	79,562	78,957	+0.8
Subordinated liabilities	5,158	4,834	1,524	n.s.
Group shareholders' equity	7,353	7,353	8,036	-8.5
FINANCIAL ASSETS OF CUSTOMERS (€/mil)				
Total financial assets	304,141	265,468	260,026	+2.1
- Direct deposits	104,144	79,562	78,957	+0.8
- Indirect deposits	199,997	185,906	181,069	+2.7
- Asset administration	71,084	63,549	69,316	-8.3
- Asset management	128,913	122,357	111,753	+9.5
- Group products	124,907	118,917	108,505	+9.6
- Other products	4,006	3,440	3,248	+5.9
PROFITABILITY RATIOS (%)				
RoE (3)	18.1	18.1	14.0	
Cost / Income ratio (4)	56.2	53.5	54.7	
Net commissions / Administrative costs	85.9	93.1	83.8	
CREDIT RISK RATIOS (%)				
Net non-performing loans / Net customer loans	1.0	0.9	2.3	
Net problem and loans in restructuring / Net customer loans	1.0	0.9	1.6	
CAPITAL ADEQUACY RATIOS (%) (5)				
Tier 1 capital / Weighted assets	7.1	n.s.	9.6	
Total capital / Weighted assets	9.2	n.s.	10.3	
SANPAOLO IMI SHARES				
Number of shares (millions)	1,404	1,404	1,402	+0.1
- number of shares in circulation	1,365	1,365	1,375	-0.8
- number of own shares held by the Parent Bank	39	39	27	+45.7
Quoted price per share (€)				
- average	16.617	16.617	13.191	+26.0
- low	11.658	11.658	11.102	+5.0
- high	20.870	20.870	16.035	+30.2
Earnings per average number of shares in circulation (€)	0.93	0.93	0.75	+24.0
Dividend per share (€)	0.57	0.57	0.52	+10.0
Dividend / average annual price (%)	3.42	3.42	3.92	-12.7
Shareholders' equity per share in circulation (€)	5.39	5.39	5.84	-7.7
OPERATING STRUCTURE				
Employees	35,729	25,088	24,133	+4.0
Domestic branches	2,137	1,406	1,355	+3.8
Foreign branches and representative offices	91	86	76	+13.2
Financial planners	5,495	5,270	4,865	+8.3

(1) The Financial Statements for 2000 reflect the line by line consolidation of the Banco di Napoli group from the second half of the year, according to the criteria reported in the Explanatory Notes.

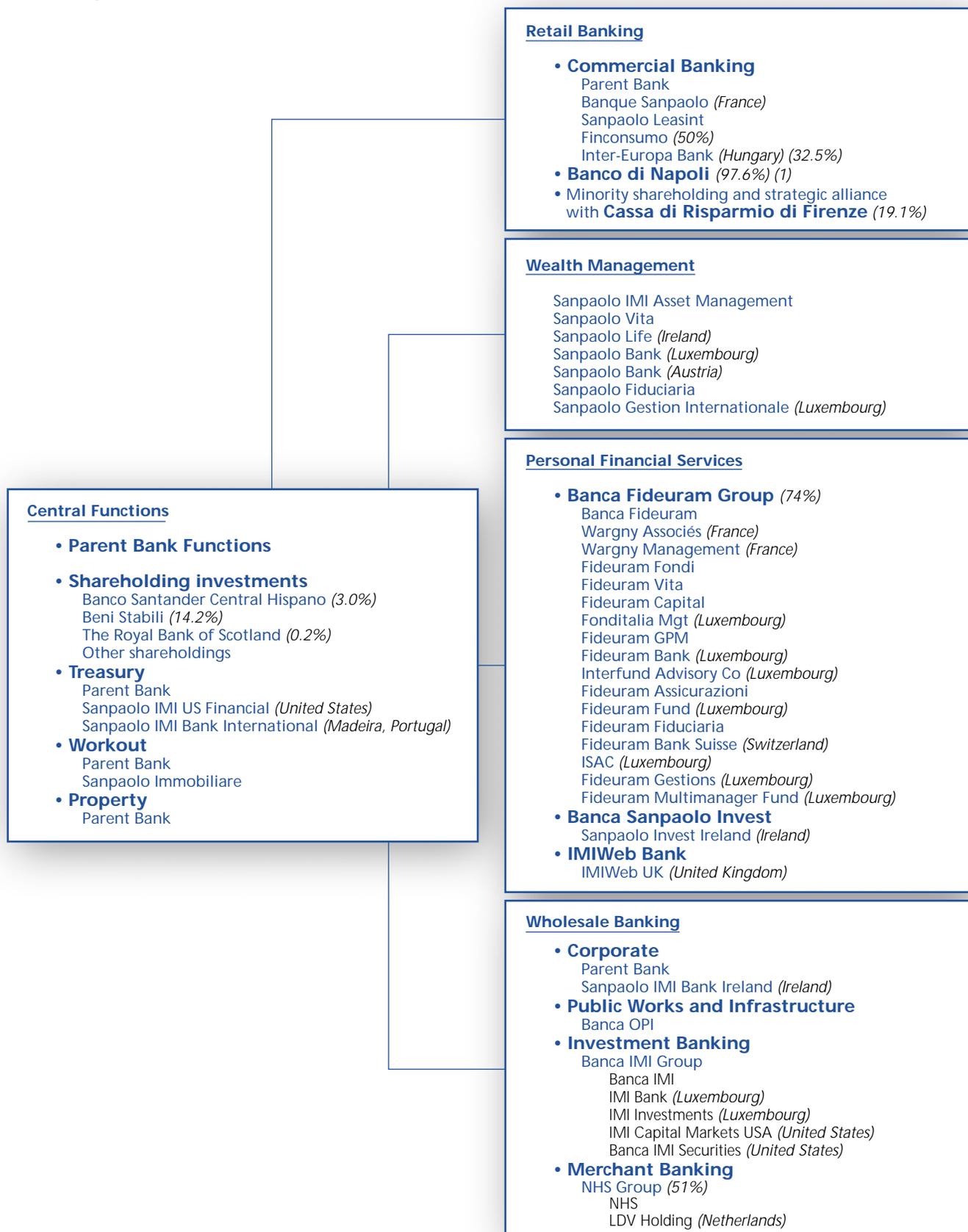
(2) The "restated" Financial Statements for 2000 have been prepared so as to allow the most consistent comparison with 1999. They reflect the consolidation of the Banco di Napoli group at net equity, according to the criteria explained in detail in the Explanatory Notes. The "restated" Financial Statements for 2000 are not audited.

(3) Net income / Average net shareholders' equity excluding income for the year.

(4) Administrative costs (net of recoveries) and amortization (excluding value adjustments on goodwill, merger differences and consolidation) / Net interest and other banking income.

(5) It should be noted that, taking account of the effects of the use of own shares for the acquisition of a shareholding of 10.9% in the Cardine Group, concluded in January 2001, the total capital adequacy ratio would be more than 9%, while the Tier 1 ratio ought to increase to 7.7%.

Group structure



(1) Shareholding in ordinary capital.

Consolidated Financial Statements and Reports

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

ANALYSIS OF QUARTERLY CONSOLIDATED STATEMENT OF INCOME

RECLASSIFIED CONSOLIDATED BALANCE SHEET

ANALYSIS OF QUARTERLY CONSOLIDATED BALANCE SHEET

REPORT ON OPERATIONS

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

ATTACHMENTS

Reclassified consolidated statement of income

	2000 (1) (€/mil)	2000 restated (2) (€/mil)	1999 (€/mil)	Change 2000 restated / 1999 (%)
NET INTEREST INCOME	2,572	2,168	2,022	+7.2
Net commissions and other dealing revenues	2,641	2,469	2,066	+19.5
Profits and losses from financial transactions and dividends on shares	263	255	276	-7.6
Profits from companies carried at equity and dividends from shareholdings	146	159	205	-22.4
NET INTEREST AND OTHER BANKING INCOME	5,622	5,051	4,569	+10.5
Administrative costs	-3,076	-2,652	-2,466	+7.5
- <i>personnel</i>	-1,929	-1,620	-1,534	+5.6
- <i>other administrative costs</i>	-958	-859	-763	+12.6
- <i>indirect duties and taxes</i>	-189	-173	-169	+2.4
Other operating income, net	213	187	175	+6.9
Adjustments to tangible and intangible fixed assets	-299	-237	-209	+13.4
OPERATING INCOME	2,460	2,349	2,069	+13.5
Value adjustments on goodwill, merger differences and consolidation	-90	-89	-84	+6.0
Provisions and net adjustments to loans and financial fixed assets	-581	-454	-481	-5.6
INCOME BEFORE EXTRAORDINARY ITEMS	1,789	1,806	1,504	+20.1
Net extraordinary income	396	369	294	+25.5
INCOME BEFORE TAXES	2,185	2,175	1,798	+21.0
Income taxes for the year	-785	-795	-685	+16.1
Change in reserves for general banking risks	2	2	-1	n.s.
Income attributable to minority interests	-94	-90	-62	+45.2
Reversal of second half income Banco di Napoli group (3)	-16	-	-	n.s.
NET INCOME	1,292	1,292	1,050	+23.0

(1) The Group statement of income for 2000 reflects the line by line consolidation of the Banco di Napoli group from the second half of the year, according to the criteria reported in the Explanatory Notes.

(2) The "restated" statement of income for 2000 has been prepared so as to allow the most consistent comparison with 1999. It reflects the consolidation of the Banco di Napoli group at net equity, according to the criteria reported in the Explanatory Notes. The "restated" statement of income for 2000 is not audited.

(3) According to the criteria reported in the Explanatory Notes.

Analysis of quarterly consolidated statement of income

	2000 (1)				1999 (2)			
	4th quarter restated (€/mil)	3rd quarter restated (€/mil)	2nd quarter (€/mil)	1st quarter (€/mil)	4th quarter (€/mil)	3rd quarter (€/mil)	2nd quarter (€/mil)	1st quarter pro forma (€/mil)
NET INTEREST INCOME	564	542	541	521	513	489	503	517
Net commissions and other dealing revenues	628	593	601	647	579	522	491	474
Profits and losses from financial transactions and dividends on shares	73	49	41	92	83	37	70	86
Profits from companies carried at equity and dividends from shareholdings	50	35	39	35	84	52	36	33
NET INTEREST AND OTHER BANKING INCOME	1,315	1,219	1,222	1,295	1,259	1,100	1,100	1,110
Administrative costs	-723	-650	-660	-619	-645	-610	-617	-594
- <i>personnel</i>	-443	-399	-392	-386	-387	-382	-386	-379
- <i>other administrative costs</i>	-233	-210	-226	-190	-217	-183	-189	-174
- <i>indirect duties and taxes</i>	-47	-41	-42	-43	-41	-45	-42	-41
Other operating income, net	51	48	48	40	50	40	43	42
Adjustments to tangible and intangible fixed assets	-83	-58	-50	-46	-67	-50	-43	-49
OPERATING INCOME	560	559	560	670	597	480	483	509
Value adjustments on goodwill, merger differences and consolidation	-30	-19	-21	-19	-21	-21	-21	-21
Provisions and net adjustments to loans and financial fixed assets	-159	-81	-123	-91	-155	-99	-123	-104
INCOME BEFORE EXTRAORDINARY ITEMS	371	459	416	560	421	360	339	384
Net extraordinary income	24	41	195	109	-5	-2	297	4
INCOME BEFORE TAXES	395	500	611	669	416	358	636	388
Income taxes for the year	-136	-171	-220	-268	-159	-128	-248	-150
Change in reserves for general banking risks	-1	-	3	-	-1	-	-	-
Income attributable to minority interests	-19	-22	-27	-22	-18	-23	-11	-10
NET INCOME	239	307	367	379	238	207	377	228

(1) The analysis of the 2000 quarterly consolidated statement of income has been made using the "restated" statements of income for the third and fourth quarters, according to the criteria reported in the Explanatory Notes. The quarterly statements of income for 2000 are not audited.

(2) The statement of income for the first quarter of 1999 has been restated consistently with those of following quarters. The quarterly statements of income for 1999 are not audited.

Reclassified consolidated balance sheet

	31/12/2000 (1) (€/mil)	31/12/2000 restated (2) (€/mil)	31/12/1999 (€/mil)	Change 31/12/00 restated - 31/12/99 (%)
ASSETS				
Cash and deposits with central banks and post offices	708	525	528	-0.6
Loans	117,825	96,627	95,318	+1.4
- due from banks	19,119	16,602	22,144	-25.0
- loans to customers	98,706	80,025	73,174	+9.4
Dealing securities	18,329	16,897	16,645	+1.5
Fixed assets	12,396	7,560	6,490	+16.5
- investment securities	6,671	1,469	1,756	-16.3
- equity investments	3,573	4,674	3,347	+39.6
- intangible fixed assets	359	291	267	+9.0
- tangible fixed assets	1,793	1,126	1,120	+0.5
Differences arising on consolidation and on application of the equity method	989	989	58	n.s.
Other assets	21,854	16,682	20,848	-20.0
Total assets	172,101	139,280	139,887	-0.4
LIABILITIES				
Payables	133,740	106,660	106,969	-0.3
- due to banks	29,596	27,098	28,012	-3.3
- due to customers and securities issued	104,144	79,562	78,957	+0.8
Provisions	4,601	2,299	1,950	+17.9
- for taxation	1,230	1,169	1,029	+13.6
- for termination indemnities	743	450	438	+2.7
- for risks and charges	1,500	637	437	+45.8
- for pensions and similar	1,128	43	46	-6.5
Other liabilities	20,534	17,552	20,869	-15.9
Subordinated liabilities	5,158	4,834	1,524	n.s.
Minority interests	715	582	539	+8.0
Shareholders' equity (3)	7,353	7,353	8,036	-8.5
- capital	3,931	3,931	3,926	+0.1
- reserves (4)	2,130	2,130	3,060	-30.4
- net income	1,292	1,292	1,050	+23.0
Total liabilities	172,101	139,280	139,887	-0.4
GUARANTEES AND COMMITMENTS				
Guarantees given	15,670	14,242	11,045	+28.9
Commitments	26,518	22,079	18,028	+22.5

(1) The Group balance sheet at 31/12/2000 reflects the line by line consolidation of the Banco di Napoli group, according to the criteria reported in the Explanatory Notes.

(2) The "restated" Group balance sheet at 31/12/2000 has been prepared so as to allow the most consistent comparison with 31/12/1999. It reflects the consolidation of the Banco di Napoli group at net equity, according to the criteria reported in the Explanatory Notes. The "restated" balance sheet is not audited.

(3) Changes in net equity in 2000 are detailed in the Report on Operations.

(4) Reserves are net of own shares held by the Parent Bank, 27,431,500 at a book value of 336 million Euro at 31 December 1999, and 39,345,982 at a book value of 697 million Euro at 31 December 2000.

Analysis of quarterly consolidated balance sheet

	2000 (1)				1999 (2)			
	31/12 restated (€/mil)	30/9 restated (€/mil)	30/6 (€/mil)	31/3 (€/mil)	31/12 (€/mil)	30/9 (€/mil)	30/6 (€/mil)	31/3 pro forma (€/mil)
ASSETS								
Cash and deposits with central banks and post offices	525	511	449	359	528	761	431	574
Loans	96,627	96,532	97,715	94,981	95,318	88,955	91,968	87,598
- due from banks	16,602	19,477	21,732	19,956	22,144	18,752	20,005	18,009
- loans to customers	80,025	77,055	75,983	75,025	73,174	70,203	71,963	69,589
Dealing securities	16,897	16,873	18,909	16,383	16,645	18,125	23,665	23,369
Fixed assets	7,560	7,181	6,624	6,928	6,490	6,503	5,780	5,901
- investment securities	1,469	1,637	1,694	1,711	1,756	1,479	1,687	1,901
- equity investments	4,674	4,184	3,564	3,871	3,347	3,320	2,351	2,132
- intangible fixed assets	291	261	258	257	267	254	267	280
- tangible fixed assets	1,126	1,099	1,108	1,089	1,120	1,450	1,475	1,588
Differences arising on consolidation and on application of the equity method	989	81	93	47	58	43	45	51
Other assets	16,682	16,583	16,916	18,622	20,848	14,982	16,842	19,799
Total assets	139,280	137,761	140,706	137,320	139,887	129,369	138,731	137,292
LIABILITIES								
Payables	106,660	107,474	108,996	105,291	106,969	101,362	107,200	104,350
- due to banks	27,098	27,978	30,777	25,457	28,012	22,034	25,679	23,417
- due to customers and securities issued	79,562	79,496	78,219	79,834	78,957	79,328	81,521	80,933
Provisions	2,299	2,193	2,012	2,213	1,950	1,769	1,601	2,225
- for taxation	1,169	1,125	976	1,293	1,029	876	727	1,330
- for termination indemnities	450	448	447	448	438	440	434	442
- for risks and charges	637	576	545	427	437	406	392	405
- for pensions and similar	43	44	44	45	46	47	48	48
Other liabilities	17,552	16,327	18,738	19,303	20,869	15,736	19,788	20,305
Subordinated liabilities	4,834	3,239	2,207	1,494	1,524	1,301	1,346	1,362
Minority interests	582	610	588	560	539	550	170	153
Shareholders' equity (3)	7,353	7,918	8,165	8,459	8,036	8,651	8,626	8,897
- capital	3,931	3,930	3,930	3,926	3,926	4,345	4,345	4,345
- reserves (4)	2,130	2,935	3,489	4,154	3,060	3,494	3,676	4,324
- net income	1,292	1,053	746	379	1,050	812	605	228
Total liabilities	139,280	137,761	140,706	137,320	139,887	129,369	138,731	137,292

(1) The analysis of quarterly consolidated balance sheet for 2000 has been made using the "restated" balance sheets for 31/12 and 30/9, according to the criteria reported in the Explanatory Notes. The balance sheets at 31/3 and 30/9 are not audited.

(2) The pro forma balance sheet at 31/3 has been restated consistently with those of following quarters. The balance sheets at 31/3 and 30/9 are not audited.

(3) Changes in net equity in 2000 are detailed in the Report on Operations. In 1999, net equity was affected by the property spin-off concluded on 31/10/1999 which led to a reduction of 701 million Euro in total of which 413 million Euro was attributable to equity capital.

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

Report on Operations

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Economic background

The international economy

After the first six months of 2000, when the international economy gained considerable momentum, it then began to slow down.

In the United States, the growth in GDP and falling unemployment led to fears that the economy might overheat. The Federal Reserve therefore continued to tighten its monetary policy as it had started to do in 1999 with a view to slowing down domestic demand and bringing expansion of the economy into line with the potential supply.

In the second half of the year, the macroeconomic indicators began to suggest a slowing. In the fourth quarter, in particular, the main leading indicators heralding a change in the cycle signaled a decline in manufacturing activity and a substantial deterioration in the climate of confidence on the part of households and businesses. Stock prices dropped heavily, especially in the high-tech sector.

In Japan, after a modest recovery in the initial part of the year, the real economy began to turn down again. In addition to persistent weakness in consumer spending, insensitive to the government's attempts at fiscal stimulus, there was a slowdown in public sector and household investment, as well as a deceleration in export growth. The effects on the Tokyo Stock Exchange were particularly dire, while the banking system's problems deteriorated.

Emerging nations' economies also showed differing trends in the two halves of the year. The first part continued to see them recover from the financial crises of 1997-98. Then, in the second part, growth showed signs of slowing down, especially in Latin America and South-East Asia.

Finally, towards the end of the year, fears among market operators about the ability of certain emerging nations, Argentina and Turkey in particular, to meet their commitments and complete their processes of reform as announced, gave rise to substantial increases in spreads on the eurobond markets. Agreements with the IMF then allowed prices to recover rapidly, limiting the risk of contagion.

The Euro-zone and the Italian economy

In the Euro-zone, the first half of the year saw a strengthening in the recovery that was already underway at the end of 1999 thanks to the recovery in internal demand. Headline growth in GDP at that stage was 3.6%.

During the second half of the year, the real economy decelerated slightly, lowering the annual rate of growth to 3.4%. This slowdown was mainly due to less rapid growth in internal demand, weakened by the upward trend in oil prices. Exports, which increased by 11.7% during the year, continued to benefit from the long period of depreciation on the part of the Euro, still managing to grow healthily at the end of 2000.

The increase in oil prices and the weakness of the Euro began to push up the rate of inflation. During 2000, the producer price index showed increases of 5.4%, compared with a decline of 0.4% in 1999, while consumer prices went up by 2.4%. Given this situation, and to bring inflation back down to the target rate, the ECB made various increases in its policy rates, raising the minimum refinancing rate from 3.25% at the beginning of 2000 to 4.75% in October.

A reduction in divergence between the two cycles and in the differentials on short and long interest rates between the United States and Europe was of benefit to the Euro, which started to appreciate against the dollar again in the latter part of the year.

Within the Euro-zone, the most dynamic of the larger economies proved to be France, helped by a stronger contribution from domestic demand; the least dynamic were Italy and Germany, which were more affected by the fall in world demand.

In Italy, GDP went up in 2000 by 2.9%, driven by strong growth in gross capital investments (+6.1%), the recovery in consumer spending (+2.9%) and net exports (exports of goods and services went up during the year by 10.2%, imports by 8.3%). Inflation was 2.5%, substantially in line with the European figure. The process of consolidating the public accounts continued, helped by the recovery of the economy: the deficit came to 1.5%, while the ratio between the public debt and GDP fell to 110.3%.

The banking industry

Bank lending in Italy was able to benefit from the positive trend in capital investments and from many companies'

extraordinary financing operations. Total loans for the year went up by more than 14%.

There was a move in lending maturities towards short-term loans (+18.6%), reflecting higher working capital requirements on the part of companies, as well as financing needs that arose from mergers and acquisitions. There was still strong demand for long-term loans however (approximately +10%), bolstered by a recovery in gross fixed investment. Households also had significant recourse to bank borrowing in the form of mortgages and consumer credit, helped by historically low real interest rates.

There was a net improvement in credit quality. At the end of 2000, the amount of non-performing loans in the banking system, net of writedowns, decreased by around 20% on 1999, thanks in part to the use of securitization.

Bank funding statistics showed modest growth in deposits at the end of 2000, up 2.7% on 1999. The bond component went up by 7.3%, while certificates of deposit and time deposits remained stable (+0.3%). Having accelerated during the first few months of 2000, current account deposits then gradually slowed down, turning in a rate of growth of 5.4% by the end of the year.

Securities brokerage

After reaching a record high at the beginning of March 2000, the stockmarket indices subsequently showed a great deal of volatility. Since the end of November, following a sharp drop in the NASDAQ and fears of declining corporate profits, share prices began a downward trend. This change of climate on the stock exchange

then affected underwriting activities, which had been particularly dynamic during the early part of the year.

In total, since the beginning of 2000, the MIBTEL and MIB30 have risen by 4.6% and 1.7% respectively. At the end of the year, total capitalization of companies listed on the Italian Stock Exchange came to 818.4 billion Euro, around 70% of GDP, an increase of 12.6% on the previous year, thanks to the admission to quotation of 43 new companies, a record high for the Italian Bourse.

Investor participation in IPOs during 2000 was remarkable. Oversubscriptions was more than 12 times for retail offerings and around 7 times for institutional offerings. A total of 3.8 billion Euro in 31 transactions was raised during the year through increases in capital and 13 billion Euro through 48 public sale and subscription offerings. There were also 30 public offers for a total of 12.2 billion Euro.

Asset management

After a first half that featured continuing growth in mutual funds, and equity funds in particular, during the latter part of the year the increase in the volatility of financial markets and growing uncertainty about the future trend in share prices began to have a negative effect on subscriptions.

Total assets at the end of the year belonging to Italian and foreign mutual funds managed by Italian intermediaries came to 548 billion Euro, up 2% on December 1999. The average monthly inflow of net subscriptions came to around 2.5 billion Euro.

Of the other forms of asset management, 2000 saw good growth in insurance policies, with an increase of more than 20% in life insurance technical reserves.

Action points and initiatives in 2000

During 2000, the SANPAOLO IMI Group continued to operate according to its business strategy, which entails:

- expansion in the fields of Retail Banking, Wealth Management and Personal Financial Services, which are the areas with the most potential in terms of value creation;
- priority to profitability and optimum consumption of capital in Wholesale business.

The acquisition of Banco di Napoli

The structures devoted to servicing households and small- and medium-sized enterprises were reinforced primarily by external growth through the acquisition of Banco di Napoli. This added 731 branches to the Group, most of them located in the regions of Southern Italy and therefore highly complementary with respect to the SANPAOLO IMI branch network.

The acquisition of Banco di Napoli was carried out in three successive stages:

- in July, SANPAOLO IMI bought for 874 million Euro the 49% stake held by Banca Nazionale del Lavoro in Banco Napoli Holding, the controlling company of Banco di Napoli with a 56.1% interest in the ordinary share capital;
- in the middle of October, the non-proportional spin-off of INA was completed, which entailed SANPAOLO IMI's acquisition of the other 51% of Banco Napoli Holding, thereby acquiring control of Banco di Napoli. The shares involved in the transaction, valued at 945 million Euro, were taken against the cancellation of the 9.14% residual shareholding held by SANPAOLO IMI in INA, valued at 903 million Euro, and the assignment of 3.6 million own shares of SANPAOLO IMI to the shareholders of INA other than Generali, the majority shareholder, valued at 57 million Euro. SANPAOLO IMI also obtained from Generali a cash consideration of 15 million Euro;
- in November, the public offer for the other 43.9% of the ordinary shares in Banco di Napoli held by minority interests was carried out as required by Consob. The offer was accepted by investors representing 41.5% of Banco di Napoli's share capital, at a price of 1.533 Euro

per share for a total outlay of 1,187 million Euro. As a result of the public offer, SANPAOLO IMI raised its stake in the Neapolitan bank to 97.6%.

The total amount invested to acquire Banco di Napoli came to 3 billion Euro. At present, SANPAOLO IMI is completing the formalities for a residual public offer to achieve 100% control of the ordinary shares.

At the end of 2000, Banco di Napoli had total assets of 34.6 billion Euro, customer financial assets of 38.8 billion Euro and loans to customers, excluding a 2.7 billion Euro exposure to SGA, the company established to recover doubtful loans, for 15.9 billion Euro. In profitability, operating income for the year came to 251 million Euro, up 26.4% on the previous year. Substantial provisions were needed to cover the restructuring costs required to relaunch the company and to bring its accounting principles into line with those of the SANPAOLO IMI Group, and these reduced net income for the year by 29.8% to 91.7 million Euro.

The alliance with Cassa di Risparmio di Firenze

Further projects to strengthen Group operations in the domestic market took the form of a strategic alliance with Cassa di Risparmio di Firenze. The alliance was formalized in early 2000 by SANPAOLO IMI's taking a 15% stake in Cassa di Risparmio di Firenze for 387 million Euro; this was in addition to the 4.1% interest already held, bringing the total holding in this Tuscan savings bank to 19.1%. At the same time, Ente Cassa di Risparmio di Firenze, the foundation that controls the savings bank, took a 2% interest in SANPAOLO IMI.

The agreements provide for a joint commitment to expand operations in the regions of Central Italy, where the Tuscan bank has a network of more than 400 branches, with SANPAOLO IMI to act as the main point of reference in the field of asset management and for any initiatives in the corporate segment. This was the reason behind the establishment in Luxembourg, in October 2000, of CR Firenze Gestion Internationale, a mutual fund management company held 20% by SANPAOLO IMI and 80% by Cassa di Risparmio di Firenze. This company will distribute CR Firenze trademarked products through Cassa di Risparmio di Firenze's branch network, while companies belonging to the SANPAOLO IMI Group will perform various support services, such as financial management consultancy services, administrative management and as depositary bank.

Cassa di Risparmio di Firenze had a positive trend in profitability in 2000, posting consolidated net income of 94.5 million Euro, up 45% on 1999. The volumes handled on behalf of customers were also up: loans came to more than 9 billion Euro at the end of the year, an increase of 18% on the end of 1999, while customer financial assets came to 25 billion Euro, up 7.5% on an annual basis.

Other steps taken to reinforce the Group's presence in the domestic market

SANPAOLO IMI stipulated a contract that was formalized in January 2001 for the acquisition from Fondazione Cassa di Risparmio di Venezia of a 10.9% stake in the share capital of Banca Cardine. The Cardine Group, which was created from the merger of Casse Venete and Cassa di Risparmio di Bologna, is an important banking entity in the regions of North-East Italy, where it has a network of around 800 branches. SANPAOLO IMI acquired this 10.9% stake in Cardine and sold for 27.5 million of its own shares, worth 516 million Euro, to Fondazione Carive. This allowed Fondazione Carive to take a 1.96% interest in SANPAOLO IMI. The agreement also provides for an earn-out mechanism, related both to the performance of Cardine's share price following its envisaged quotation and to any further acquisitions of shares in Cardine by SANPAOLO IMI.

Agreement was also reached with Fondazione Cassa dei Risparmi di Forlì for the purchase of an interest in the bank that it controls, which has around 60 branches in Emilia Romagna. This deal will initially concern 20% of the bank's share capital, which will be split between SANPAOLO IMI (15%) and Cassa di Risparmio di Firenze (5%), for a total outlay of 163 million Euro. SANPAOLO IMI and Cassa di Risparmio di Firenze also took a commitment to buy another 8% in the company by means of a public offer, for some 62 million Euro.

The acquisition of the Wargny Group

Abroad, the end of the year saw completion of Banca Fideuram's acquisition of Wargny Associés (France), the holding company of the Wargny Group, which has not only a pre-eminent position in the French market in traditional and on line securities brokerage, but also a niche presence in private banking. The total price of the acquisition was set at 103.2 million Euro. At the same time as the

shares were purchased, Banca Fideuram sold a 5% stake in Wargny Associés to Banca Finnat Euramerica at a price of 5.4 million Euro.

This operation forms part of Banca Fideuram's European expansion strategy, which includes strengthening international private banking services in Luxembourg and Switzerland, and developing domestic private banking services in selected countries within the EU. The priority given to the French market was dictated by the presence in that country of a sizeable segment of affluent customers, making it possible to export the business model that Fideuram developed successfully in Italy. In fact, alongside its traditional brokerage activities, the Wargny Group will have to develop asset management services for high profile customers, using a network of financial planners and a series of on line services.

The Wargny Group closed 2000 with gross revenues of 70.5 million Euro and consolidated net income of 10 million Euro.

The alliance with Banco Santander Central Hispano

Finally, of the various initiatives carried out in 2000, was the strengthening of the shareholding relationship with Banco Santander Central Hispano: SANPAOLO IMI raised its stake in the Spanish group to 3%, while BSCH raised its stake in SANPAOLO IMI to 7%. New joint development projects were also launched during the year, the most important ones being:

- the initiative launched together with other leading European banking groups to create an internet platform to offer treasury and capital market products on line to companies and institutional investors;
- the signing of an agreement for the distribution of products to respective customers in the European and Latin American markets.

Issues of preferred shares and subordinated debt

SANPAOLO IMI did not have recourse to a capital increase to finance these various initiatives in 2000. To maintain the capital adequacy ratios above the minimum levels required for supervisory purposes, new subordinated issues for a total of 2.5 million Euro, together with an issue of preferred shares towards the end of the year for a value of 1 billion Euro, were made.

Initiatives within the Group

At the same time as this external expansion, there were also various actions taken to reinforce the Group internally.

The most important of these affected the Retail Banking, Wealth Management and Personal Financial Services areas and included:

- the strengthening of the distribution system: the number of financial planners working for Banca Fideuram and Banca Sanpaolo Invest at the end of the year came to 5,270, 400 more than at the start of the year; the Commercial Banking network in Italy grew by 40 during the year to reach a total of 1,332 branches;
- the conclusion of the first phase of the project for the creation within the ambit of Commercial Banking of a new multichannel distribution model, using the Internet as a supplementary vehicle to offer services to private individuals and as a platform on which to develop commercial relations with companies;
- the definition of a project to set up an autonomous Business Area devoted to Wealth Management, which will provide products and services both to the distribution structures within the Group (Commercial Banking, Banco di Napoli and Banca Sanpaolo Invest) and to external networks and institutional clients;
- the start of a reorganization of the branches which will gradually involve the entire Italian Commercial Banking network, with a view to making each outlet specialize according to its type of customers, making a distinction above all between retail branches and business centers;
- the transformation of Sanpaolo Invest into a bank in July 2000 and the steps towards the company's quotation on the Stock Exchange;
- the obtaining of a banking license in January 2001 by @IMIWeb, which has now taken on the name IMIWeb

Bank, extending its range of activities from e-trading to e-banking;

- the preparation to transform Finconsumo into a bank in the middle of 2001; amongst other things, this company securitized without recourse 350 million Euro in performing consumer loans in 2000.

In the Wholesale sector, the objective of optimizing the value of SANPAOLO IMI's specialist skills led to the redefinition of the Corporate Area's customer base, from 2001 onwards, with responsibility for all Italian groups and businesses with turnover of more than 500 billion Lire, as opposed to the previous limit of 1,000 billion Lire. This was done with a view to responding more effectively to the need for more sophisticated products and services now being expressed by medium-sized companies.

The same need to emphasize the Group's specialist skills also led to the spin-off of the public works lending activity: at the beginning of July, SANPAOLO IMI, the Parent Bank, transferred the whole of this business to a dedicated corporate structure, the subsidiary IMI Lease, which acquired a banking license and took on the new name of Banca OPI. This operation followed the sale to the Dexia Group of SANPAOLO IMI's residual 40% stake in Crediop in April.

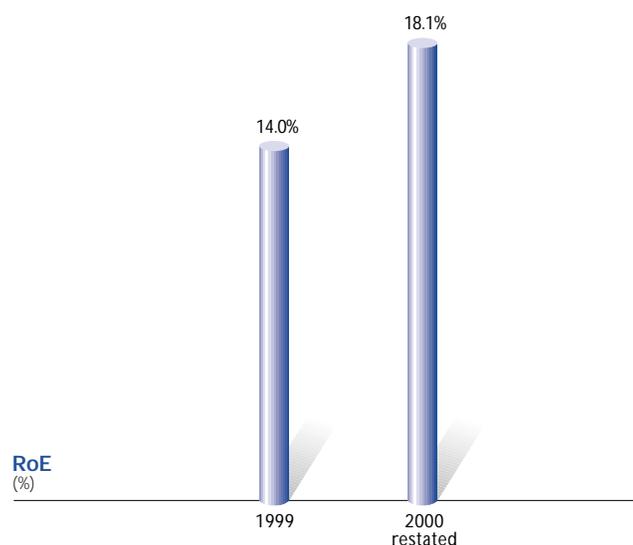
Finally, at Central Functions, SANPAOLO IMI carried out three important securitizations, selling off non-performing loans without recourse involving a total of 37,608 positions for a gross book value of 1,554 million Euro and a net book value of 756 million Euro, leading to writebacks to the income statement of 92 million Euro. These initiatives, together with intensive loan recovery, helped lower the ratio between net non-performing loans and total net loans to customers from 2.3% at the end of 1999 to 0.9% at the end of 2000, significantly reducing the amount of capital absorbed.

Overview of Group results

During 2000, the SANPAOLO IMI Group improved its profitability compared with the previous year. In particular:

- net income came to 1,292 million Euro, an increase of 23% on 1999;
- RoE rose from 14% to 18.1%;
- all operating margins improved, as discussed below using the “restated” statement of income, which includes Banco di Napoli at net equity so as to permit a consistent comparison with the 1999 results.

The profit targets underlying the business plan drawn up in 1998 at the time of the merger between San Paolo and IMI, namely an RoE of 15% in 2000, have been met and exceeded.

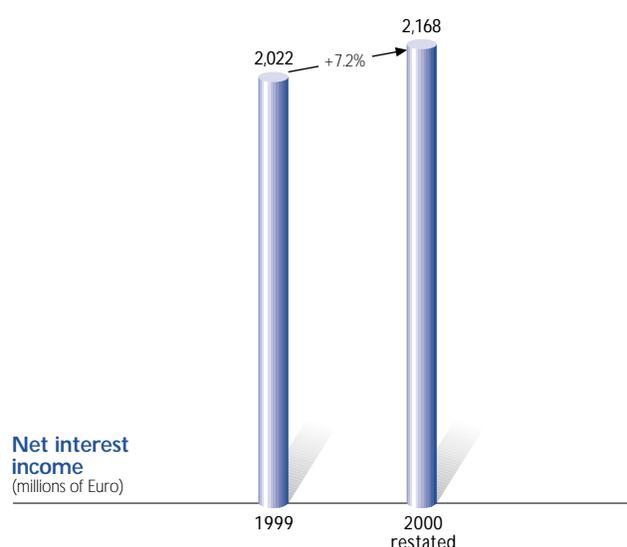


Net interest income

The growth in total revenues was made possible first of all by the positive trend in net interest income, which from early 2000 showed clear signs of recovery, reversing the downward trend which characterized the previous year. This positive note continued throughout the year, which closed with net interest income of 2,168 million Euro, up 7.2% on 1999.

Contributions to this growth came from the growth in volumes handled on behalf of customers and, to a lesser extent, the wider spread between interest income and expense.

In operating volumes, the Group recorded growth of 1.3% in interest-earning assets, calculated in terms of average



Net interest income

	2000	2000 restated	1999	Change 2000 restated / 1999 (%)
	(€/mil)	(€/mil)	(€/mil)	
Interest income and similar revenues	7,622	6,679	5,966	+12.0
Interest expense and similar charges	-5,119	-4,580	-3,919	+16.9
Reclassification (1)	69	69	-25	n.s.
Net interest income	2,572	2,168	2,022	+7.2

(1) The reclassification refers to the net interest income of the Banca IMI Group which, in the interests of better management disclosure of Group results, has been reclassified under “Profits and losses from financial transactions and dividends on shares” as it is more closely related to securities dealing.

deposits, in the year; in particular, loans to customers, excluding non-performing loans and repurchase agreements, increased by 4.7%. The growth in average interest-

bearing liabilities was 2.3%; in particular, customer deposits, made up of due to customers and securities issued, net of repurchase agreements, rose by 1.2%. This increase was

Analysis of average amounts, interest and rates

	2000 restated			1999		
	Average level (€/mil)	Interest (€/mil)	Average rate (%)	Average level (€/mil)	Interest (€/mil)	Average rate (%)
Interest-earning assets	103,817	6,230	6.00	102,441	5,608	5.47
- <i>loans to customers</i>	72,314	4,719	6.53	69,098	4,202	6.08
- in €	64,527	4,257	6.60	62,599	3,881	6.20
- in foreign currency	7,787	462	5.93	6,499	321	4.94
- <i>due from banks</i>	18,733	841	4.49	16,479	614	3.73
- in €	14,410	632	4.39	12,528	456	3.64
- in foreign currency	4,323	209	4.83	3,951	158	4.00
- <i>securities</i>	8,735	487	5.58	12,541	641	5.11
- in €	6,756	371	5.49	10,761	538	5.00
- in foreign currency	1,979	116	5.86	1,780	103	5.79
- <i>repurchase agreements</i>	4,036	183	4.53	4,323	151	3.49
- in €	3,451	144	4.17	3,844	140	3.64
- in foreign currency	585	39	6.67	479	11	2.30
Non interest-earning assets (1)	35,770			32,663		
Total assets	139,587	6,230		135,104	5,608	
Interest-bearing liabilities	99,284	4,062	4.09	97,024	3,586	3.70
- <i>due to customers</i>	39,825	1,009	2.53	36,392	597	1.64
- in €	34,314	701	2.04	35,326	556	1.57
- in foreign currency	5,511	308	5.59	1,066	41	3.85
- <i>securities issued</i>	31,340	1,715	5.47	33,897	1,802	5.32
- in €	28,913	1,541	5.33	28,763	1,552	5.40
- in foreign currency	2,427	174	7.17	5,134	250	4.87
- <i>due to banks</i>	21,007	1,017	4.84	18,007	834	4.63
- in €	13,794	603	4.37	12,805	597	4.66
- in foreign currency	7,213	414	5.74	5,202	237	4.56
- <i>repurchase agreements</i>	4,394	172	3.91	6,114	195	3.19
- in €	4,352	170	3.91	5,816	181	3.11
- in foreign currency	42	2	4.76	298	14	4.70
- <i>subordinated liabilities</i>	2,718	149	5.48	2,614	158	6.04
- in €	2,207	116	5.26	1,697	100	5.89
- in foreign currency	511	33	6.46	917	58	6.32
Non interest-bearing liabilities (1)	33,146			30,574		
Shareholders' equity	7,157			7,506		
Total liabilities and shareholders' equity	139,587	4,062		135,104	3,586	
Net interest income		2,168			2,022	

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

brought about by a 9.4% increase in the short-term portion against a 7.5% contraction in certificates of deposits and bonds. The higher growth in loans with respect to customer deposits was financed by sales of securities in portfolio and by greater recourse to the interbank market.

As regards interest rates, 2000 featured a significant rise in both short-term and medium- and long-term rates: on a yearly average basis, 3-month Euribor went from 3% in 1999 to 4.4% in 2000, while the 10-year BTP went from 4.7% in 1999 to 5.6% in 2000.

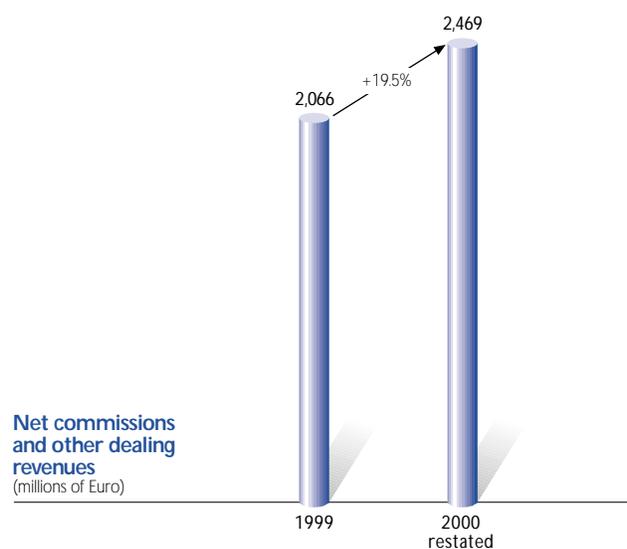
The average annual yield on the Group's interest-earning assets went up by half a percentage point in 2000 to 6%; in particular, loans to customers yielded more than 6.5%, compared with 6.1% in the previous year, while the yield on the securities portfolio rose from 5.1% in 1999 to 5.6% in 2000. The increase in the average cost of interest-bearing liabilities was lower than that on interest-earning assets, going from 3.7% in 1999 to 4.1% in 2000.

The total spread of 1.9% showed an increase of more than one tenth of a point. In particular, the spread relating to the volumes of operations with customers rose slightly compared with the previous year, at 2.7%. The reopening of the interest rate differential was sustained by the increase in the margin contributed by customer deposits, while aggressive lending policies on the part of the competition were reflected in the fact that interest rates on loans rose by less than market rates.

Net interest and other banking income

Group net interest and other banking income in 2000 came to 5,051 million Euro, a 10.5% increase on the previous year.

The main contribution to this growth came from a considerable increase in commissions on services and other dealing revenues, which rose by 19.5% compared to the previous year. Within this item, there was a further increase, from 73.7% to 77.6%, in the commissions earned by management, dealing and advisory, which grew by 25.8%. This was thanks to the positive trend in asset management vol-



Net interest and other banking income

	2000 (€/mil)	2000 restated (€/mil)	1999 (€/mil)	Change 2000 restated / 1999 (%)
Net interest income	2,572	2,168	2,022	+7.2
Net commissions and other dealing revenues	2,641	2,469	2,066	+19.5
- <i>management, dealing and advisory services</i>	1,976	1,916	1,523	+25.8
- <i>loans and guarantees</i>	173	160	174	-8.0
- <i>collection and payment services</i>	187	151	127	+18.9
- <i>deposit and current accounts</i>	238	200	169	+18.3
- <i>other services</i>	67	42	73	-42.5
Profits and losses from financial transactions and dividends on shares	263	255	276	-7.6
Profits from companies carried at equity and dividends from shareholdings	146	159	205	-22.4
Net interest and other banking income	5,622	5,051	4,569	+10.5

umes, as well as a higher propensity on the part of customers to subscribe to equity funds, balanced funds, and unit and index linked policies.

The positive trend in commissions from collection and payment services should also be noted, as well as those referring to deposit and current accounts, up by 18.9% and 18.3% respectively; other commissions and net dealing income, on the other hand, fell from 73 to 42 million Euro: the fall was due to the reduction in income from merchant banking operations, although this was more than offset by higher gains realized in that area on the disposal of equity investments.

In total, in 2000, Group commissions accounted for 93.1% of administrative costs, well up on the 1999 figure of 83.8%. In particular, they were more than sufficient to cover personnel costs, at 152% of such costs compared with 135% in 1999.

Profits on financial transactions were 255 million Euro, down 7.6% on the previous year. This trend was affected by the Group's policy of reducing its risk profile at a time when the market was featuring a rising level of volatility.

Profits of companies carried at equity and dividends on non-consolidated equity investments fell by 22.4%, because of the fact that the 1999 accounts included extraordinary dividends received from INA and the contribution to Group net income from the valuation at equity

of the 40% interest in Crediop, which was sold to the Dexia Group in April 2000.

Of the companies valued at equity, the contribution of 72 million Euro made by the Group's life insurance companies should be noted. In the "restated" statement of income, this item also includes the effect of valuing Banco di Napoli at equity, the Group's share of which amounted to 17 million Euro.

Dividends from shareholdings, gross of the tax credit, amounted to 59 million Euro; they include the dividends paid by BSCH (24 million Euro) and Beni Stabili (11 million Euro).

Operating income

In 2000 operating income went up by 13.5% on 1999, amounting to 2,349 million Euro.

This result was achieved despite the significant financial resources allocated to investments to improve the Group's market position, reinforcing the sales network and the new electronic channels. The increase in operating costs came to 8.1%.

The growth in expenses related to projects was accompanied by continuing efforts to contain functioning costs: those of the Parent Bank, where the bulk of the rationalization was concentrated, showed an increase of 2.6%,

Operating income

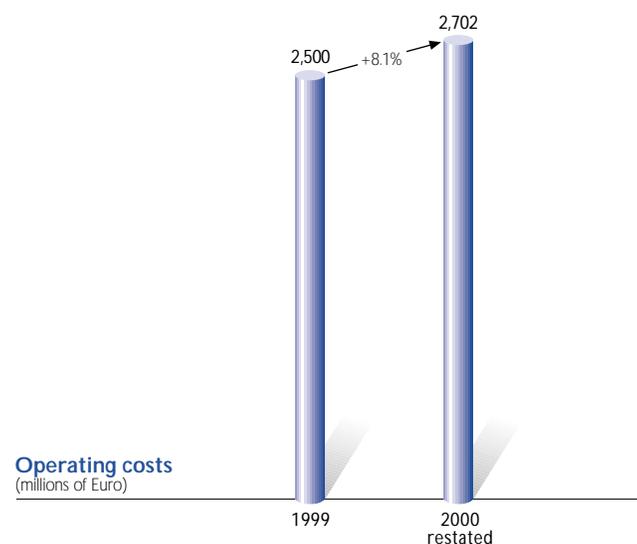
	2000	2000 restated	1999	Change 2000 restated / 1999 (%)
	(€/mil)	(€/mil)	(€/mil)	
Net interest and other banking income	5,622	5,051	4,569	+10.5
Operating costs	-3,162	-2,702	-2,500	+8.1
- administrative costs	-3,076	-2,652	-2,466	+7.5
- <i>personnel</i>	-1,929	-1,620	-1,534	+5.6
- <i>other administrative costs</i>	-958	-859	-763	+12.6
- <i>indirect duties and taxes</i>	-189	-173	-169	+2.4
- other operating income, net	213	187	175	+6.9
- adjustments to tangible fixed assets	-167	-134	-133	+0.8
- adjustments to intangible fixed assets	-132	-103	-76	+35.5
Operating income	2,460	2,349	2,069	+13.5

almost entirely attributable to the projects to strengthen the distribution channels.

Despite the investments, the process of reducing the cost to income ratio continued. In 2000 the ratio was 53.5%, compared with 54.7% in 1999.

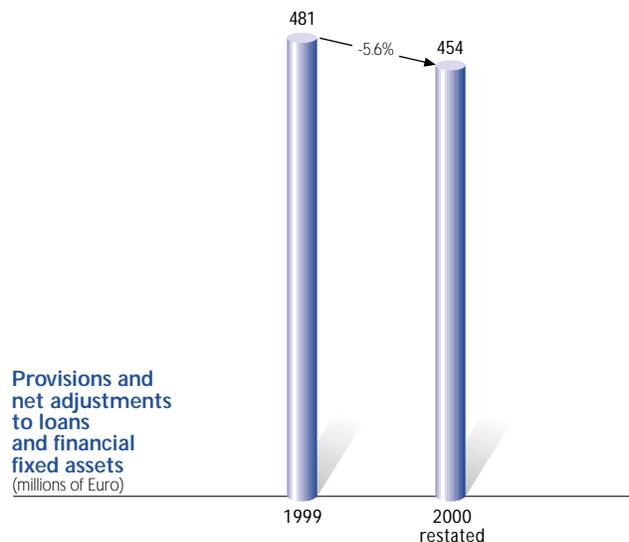
Income before extraordinary items

Group income before extraordinary items amounted to 1,806 million Euro, an increase during the year of 20.1%.



The positive trend in this item of the statement of income was affected by the considerable improvement in asset quality achieved by the Group. This made it possible to reduce further the provisions and net adjustments to loans and financial fixed assets, at 454 million Euro, 5.6% lower than in 1999.

This reduction is particularly important given the provisions and adjustments made during the year for 287 million Euro to raise the general writedowns made against performing loans, as well as to cover possible costs that may arise from renegotiating mortgage loans. It should also be noted that



Income before extraordinary items

	2000 (€/mil)	2000 restated (€/mil)	1999 (€/mil)	Change 2000 restated / 1999 (%)
Operating income	2,460	2,349	2,069	+13.5
Value adjustments on goodwill, merger differences and consolidation	-90	-89	-84	+6.0
Provisions and net adjustments to loans and financial fixed assets	-581	-454	-481	-5.6
- provisions for risks and charges	-323	-249	-81	n.s.
- adjustments to loans and provisions for guarantees and commitments	-237	-185	-313	-40.9
- net writedowns and losses	-534	-468	-537	-12.8
- net provisions for guarantees and commitments	-11	-11	-	n.s.
- recoveries	308	294	224	+31.3
- net adjustments to financial fixed assets	-21	-20	-87	-77.0
- net writedowns of equity investments	-5	-4	-73	-94.5
- net writedowns of investment securities	-16	-16	-14	+14.3
Income before extraordinary items	1,789	1,806	1,504	+20.1

the Group booked net recoveries of principal and interest of 293 million Euro, of which 92 million Euro on the non-recourse sales of non-performing loans.

Net income

Net income for the year of 1,292 million Euro includes 369 million Euro of extraordinary income, of which:

- 134 million Euro connected to the sale of the residual 40% stake in Crediop to Dexia; the capital gain, initially quantified at 150 million Euro, was subsequently recalculated in accordance with the sale contract to take account of the legislative changes that had taken place in the meantime to the tax rules governing disposals of significant equity investments;
- 83 million Euro from the sale of own shares by the Parent Bank;
- 77 million Euro from the disposal of minority interests by NHS;
- 15 million Euro from the sale of a 4% interest in Beni Stabili;

- 12 million Euro from reducing the stake in The Royal Bank of Scotland from 0.29% to 0.20%.

Income taxes have been calculated along the usual principles, as explained in the Explanatory Notes. As regards application of the Ciampi Law, it should be noted that in reply to the EU's opening of a formal investigation into the possibility of the law being considered as State aid, the Bank, in consultation with the Italian Government and other leading banks in the same situation, filed a statement of defense with the European Commission in February 2001. This was based on the conviction that the law concerned was issued in full compliance with EC regulations. In line with this approach, on allocation of the net income for 2000, it is proposed to transfer 381 million Euro to the special Ciampi Reserve, which is the amount of income benefiting from the terms of the law during the year based on the merger between San Paolo and IMI and the acquisition of Banco di Napoli. In terms of income taxes, this provision will permit a tax saving of 93 million Euro. However, given the uncertainty caused by the EU's intervention, it has been thought best to set aside this amount in the taxation reserve to cover any future liabilities that might arise in this connection.

Net income

	2000	2000 restated	1999	Change 2000 restated / 1999 (%)
	(€/mil)	(€/mil)	(€/mil)	
Income before extraordinary items	1,789	1,806	1,504	+20.1
Net extraordinary income	396	369	294	+25.5
- net gains on disposal of equity investments	257	257	323	-20.4
- other net extraordinary items	139	112	-29	n.s.
Income before taxes	2,185	2,175	1,798	+21.0
Income taxes for the year	-785	-795	-685	+16.1
Change in reserves for general banking risks	2	2	-1	n.s.
Income attributable to minority interests	-94	-90	-62	+45.2
Reversal of second half income Banco di Napoli group	-16	-	-	n.s.
Net income	1,292	1,292	1,050	+23.0

Embedded value of the life portfolio

The embedded value of the life Companies

Group net income includes the results of the Group's life Companies, namely:

- Sanpaolo Vita, together with its subsidiary Sanpaolo Life, with net income of 27 million Euro;
- Fideuram Vita, with net income of 45 million Euro.

To understand fully the meaning of these results, it should be remembered that one of the most significant indicators of an insurance company's performance is the increase over the period in its embedded value. Embedded value is in fact an estimate made by actuarial methods of the economic value of a company with a closed portfolio, in other words disregarding whatever value can be given to future business. This is understood as being the sum of two elements:

- the company's net equity adjusted to market values at the valuation date;
- the value of the portfolio of policies outstanding at the valuation date, calculated as the net present value of the after-tax earnings that the existing portfolio will generate, based on actuarial probabilities, over the years up to its natural expiry, adjusted for the opportunity cost linked to the restriction created by the solvency margin.

The estimated increase in embedded value during 2000 for the Group's insurance Companies is 111 million Euro for Sanpaolo Vita and its subsidiary Sanpaolo Life and 51 million Euro for Fideuram Vita. The value added for the year, taking into account the dividends distributed by the insurance Companies to other members of the Group, comes to 134 million Euro for Sanpaolo Vita and Sanpaolo Life and 93 million Euro for Fideuram Vita. In detail:

Embedded value of the life Companies

	Sanpaolo Vita/ Sanpaolo Life (€/mil)	Fideuram Vita (€/mil)
Embedded value as of 31/12/99	410	725
Embedded value as of 31/12/00	521	776
Estimated increase in the embedded value during 2000	111	51
<i>of which: Increase in value attributable to 2000</i>	122	37
Dividends distributed	23	42
Value added during the year	134	93

It should be pointed out that the embedded value as of 31 December 2000 of Sanpaolo Vita, Sanpaolo Life and Fideuram Vita was calculated with the help of the actuarial divisions of leading auditing companies, according to the following criteria:

- before valuing the current portfolio, an actuarial examination was carried out on the Companies' contract portfolios, and the expected future operating scenarios were defined. Key elements in the definition of such scenarios are the assumptions made about future asset yields, mortality trends, management costs of the portfolios in question, the trend in early abandonment of policies for anomalous reasons and in options exercised by customers, as well as the tax burden;
- subsequently, a comparison was made, based on generally accepted actuarial procedures, between the operating scenarios used to calculate premiums for the current portfolio, normally more prudent, and the expected scenarios, as formulated above. This gave rise to a series of estimated values of the profits that the portfolio will generate in each of the years of its residual life, net of tax charges and the opportunity cost connected with maintaining the solvency margin;
- this series of values was then discounted at a rate equal to the current rate of interest on a risk-free investment, raised by a certain amount to take account of the uncertainties in the flow of profits outlined above, largely because of the uncertainty of whether the underlying assumptions will come true in fact.

The assumptions used in defining the expected future operating scenarios were chosen with extreme prudence to reflect the underlying characteristics of the various Companies' portfolios. As regards the yield rates of the assets, for Sanpaolo Vita an average rate curve of 5.1% was assumed, for Sanpaolo Life a rate of 6.25% and for Fideuram Vita a rate of 5.5%. As for the discounting rates used, in the case of Sanpaolo Vita an annual rate 2.25% higher than the yield rate curve mentioned above was applied, while for Sanpaolo Life and Fideuram Vita, constant discounting rates of 7.85% and 8% respectively were used. Similar levels of prudence were used when choosing demographic and actuarial assumptions.

Embedded value of the insurance business at a Group level

In order to provide a complete picture of the results, the following is an estimate of the increase in the embedded value of the life insurance business at Group level that took place during 2000. This takes into account not only the embedded value of the insurance Companies as shown above, but also that part of the insurance busi-

ness's value allocated to other companies of the Group to which the insurance Companies pay sales, management or maintenance commissions. The results of this estimate are as follows:

Embedded value of the life business

	Life business Sanpaolo Vita/ Sanpaolo Life (€/mil)	Life business Fideuram Vita (€/mil)
Embedded value as of 31/12/99	506	744
Embedded value as of 31/12/00	646	861
Estimated increase in the embedded value during 2000	140	117
<i>of which: Increase in value attributable to 2000</i>	165	94
Dividends distributed	23	42
Value added during the year	163	159

Note that the embedded value of the life insurance business at Group Companies that earn sales, management or maintenance commissions from the Group's life Companies is estimated as the net present value of the specific profits, net of costs and after taxes, that such Companies will earn on the policy portfolio up to the end of their contractual commitment.

Operating volumes and organization

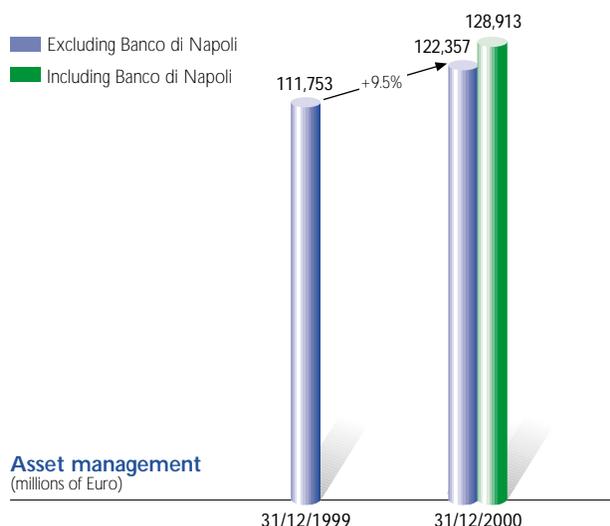
Assets managed on behalf of customers

The financial assets of customers of the SANPAOLO IMI Group at the end of 2000, prior to the consolidation of Banco di Napoli, came to 265.5 billion Euro, for a net inflow during the year of 5.4 billion Euro (+2.1%). The addition of Banco di Napoli raises this total to 304.1 billion Euro.

The importance given to asset management is reflected in the fact that it has risen further as a proportion of total customers' financial assets. Prior to the consolidation of Banco di Napoli, it had risen to 46.1% compared with 43% at the end of 1999. The difference is practically all in asset administration, which slipped from 26.6% to 23.9%, while the proportion of direct customer deposits remained more or less stable at around 30%.

Asset management and administration

The Group's asset management business grew even faster than the market average in 2000. Volumes expanded by



Total financial assets

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Asset management	128,913	42.4	122,357	46.1	111,753	43.0	+9.5
Asset administration	71,084	23.4	63,549	23.9	69,316	26.6	-8.3
Direct deposits	104,144	34.2	79,562	30.0	78,957	30.4	+0.8
Total financial assets	304,141	100.0	265,468	100.0	260,026	100.0	+2.1

Asset management

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Group products	124,907	96.9	118,917	97.2	108,505	97.1	+9.6
- Mutual funds and fund-based portfolio management	105,629	82.0	100,910	82.5	93,565	83.7	+7.9
- Portfolio management	6,860	5.3	5,589	4.6	5,009	4.5	+11.6
- Life insurance technical reserves	12,418	9.6	12,418	10.1	9,931	8.9	+25.0
Other products	4,006	3.1	3,440	2.8	3,248	2.9	+5.9
Asset management	128,913	100.0	122,357	100.0	111,753	100.0	+9.5

Net asset management flows

	2000	2000 restated	1999
	(€/mil)	(€/mil)	(€/mil)
Group products	14,846	15,896	16,205
Other products	267	190	642
Net asset management flows	15,113	16,086	16,847

9.5% over the year, reaching more than 122 billion Euro by the end of 2000, a figure that rises to 128.9 billion Euro after consolidating Banco di Napoli. The flow for the year was 10.6 billion Euro, which was generated by net inflow of 16 billion Euro, partially offset by a negative performance effect of 5.4 billion Euro caused by the downward trend in share prices. In 1999, net inflow had been 16.8 billion Euro with a positive performance effect of 10.2 billion Euro. Market share based on the stock under management came to around 13.4% at the end of 2000, compared with 12.9% at the end of 1999, and should come to 14.2% with the consolidation of Banco di Napoli.

The increase in the Group's asset management business affected all types of customer investments. Mutual funds and fund-based portfolio management came to 100.9 billion Euro, up 7.9% on the December 1999 figure of 93.6 billion Euro; net inflows for the year amounted to 12.6 billion Euro, which accounted for more than a third of the inflow for the entire Italian market. This allowed SANPAOLO IMI to raise its market share from 17.5% at the end of 1999 to 18.1% at the end of 2000, rising even further to 18.9% after the inclusion of Banco di Napoli. This increase affected the equity and balanced funds, to the detriment of the bond funds. At a Group level, equity funds at the end of 2000 represented 39.4% of the total, compared

with 36% at the end of 1999; balanced funds rose during the year from 14.7% to 19.1%.

The results achieved in the insurance sector were also positive: the technical reserves of the Group's insurance Companies show an annual increase of 25%, amounting to 12.4 billion Euro at the end of the year with a market share of around 7.1%; net inflows came to 2.7 billion Euro. There was particular growth in unit linked and index linked policies, which represented 72% of net premiums.

Assets under administration came to 63.5 billion Euro, down 8.3% since the start of the year; the reduction mainly concerned deposits administered on behalf of institutional customers. Including Banco di Napoli's volumes, the Group's asset administration at the end of the year amounted to 71 billion Euro.

The funds managed by the Group on behalf of insurance companies, banks, pension funds and other entities came close to 6.9 billion Euro at the end of the year, an increase of 4% on the start of the year. In the area of pension funds, the Group continued to operate with the open-ended funds distributed by the Parent Bank's branch network and by the financial planners of Banca Sanpaolo Invest and Banca Fideuram.

Market shares of asset management and direct customer deposits

	31/12/2000 (%)	31/12/2000 restated (%)	31/12/1999 (%)
Asset management	14.2	13.4	12.9
<i>of which:</i> - Mutual funds and fund-based portfolio management	18.9	18.1	17.5
- Portfolio management	9.6	9.1	7.9
- Life insurance	7.1	7.1	7.1
Direct customer deposits	8.6	6.0	6.6

Mutual funds by type

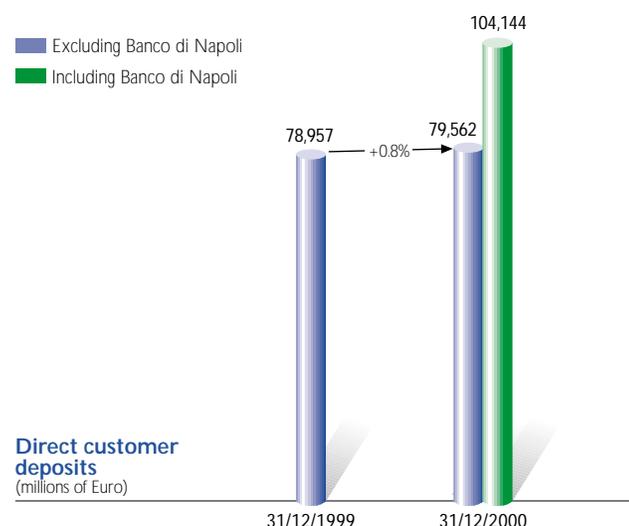
	31/12/2000 (%)	31/12/2000 restated (%)	31/12/1999 (%)
Equity	38.8	39.4	36.0
Balanced	19.0	19.1	14.7
Bond	42.2	41.5	49.3
Total Group mutual funds	100.0	100.0	100.0

Direct deposits

Direct customer deposits showed a slight increase at Group level during the year, at 79.6 billion Euro at the end of 2000. This figure rises to 104.1 billion Euro once Banco di Napoli is included, as it has a high proportion of direct deposits to total customers' financial assets (around 63%).

Considering the trends in the various types of deposits, it is clear that customers mainly preferred short-term deposits in 2000: current accounts and deposits went up over the year by 7.1%, rising as a proportion of the total from 45.7% in 1999 to 48.6%; while repurchase agreements were well up after the previous year's decline, increasing in 2000 by 1.8 billion Euro (+49.1%).

In medium- and long-term deposits, the process of transforming certificates of deposit into forms of asset management continued, and by the end of the year CDs were



Direct customer deposits

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Current accounts and deposits	53,396	51.3	38,642	48.6	36,096	45.7	+7.1
Certificates of deposit	8,888	8.5	6,173	7.8	9,090	11.5	-32.1
Bonds	26,589	25.5	22,136	27.8	23,643	29.9	-6.4
Commercial paper	3,107	3.0	3,106	3.9	2,584	3.3	+20.2
Repurchase agreements and securities lending	7,944	7.6	5,604	7.0	3,758	4.8	+49.1
Other deposits	4,220	4.1	3,901	4.9	3,786	4.8	+3.0
Direct customer deposits	104,144	100.0	79,562	100.0	78,957	100.0	+0.8

down 32.1%. Bonds also fell by 6.4% on the end of 1999. They were partly affected by the Group's funding policies, which in 2000 were more oriented towards hybrid instruments, subordinated debt and forms of medium/long-term funding from banks.

At the end of the year, the Group's share of the domestic market for customer deposits, based on those of the entire banking system as made available recently by the Bank of Italy, came to 6%, rising to 8.6% including Banco di Napoli.

Customer loans

Group net customer loans at the end of 2000, excluding non-performing loans and prior to the line-by-line consolidation of Banco di Napoli, amounted to 79.3 billion Euro; the increase for the year was 10.9%, a distinct recovery after the period in 1999 when the loan policy was being revised. The total rises to 97.7 billion Euro after the inclusion of Banco di Napoli's loans.

Within the loan book, the most dynamic element was the short-term portion, which grew during the year by 22.8%; this was helped both by rising demand from companies in relation to the recovery in the economy, and by loans made to large Italian groups to finance extraordinary operations.

In medium- and long-term loans, which rose by 3.8%, the performance of mortgage loans to households should be noted: during the course of 2000 new loans of this type made by the Parent Bank amounted to 1.6 billion Euro, with a total of 9.4 billion Euro at the end of the year, up 9.2% on the start of the year.

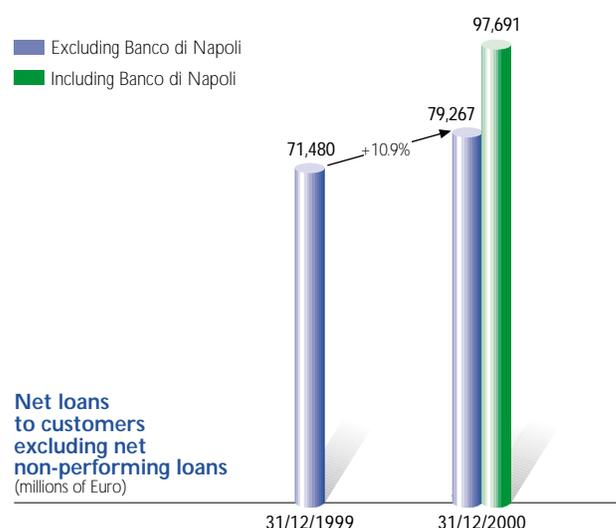
The part of Italy that showed the fastest growth for loans made by the Group, excluding Banco di Napoli, was the North-East, up 20.7%, followed by the North-West, up 10%. These figures are in line with those of the entire banking system, with North-East Italy featuring a combination of higher volumes and better credit quality.

From a geographical point of view, it should be noted that there was a significant increase in the amount of loans granted by the Group's international network, close to 40%, though to a certain extent this growth depended on devaluation of the Euro against the other main currencies.

Analyzing loans by customer sector, those to households grew by 3.2%, slower than in 1999, when they rose by more than 13%. This trend was also affected by the sale by the Parent Bank of non-performing loans without recourse involving mainly mortgage loans to private individuals, as well as the securitization exercised by Finconsumo, worth 350 million Euro, which led to a reduction in personal loans. The year saw an increase in the loans granted to financial companies, with the proportion of such loans on the total rising from 9.2% at the end of 1999 to 12.2% at the end of 2000; this growth appears to

be related mainly to the needs of large Italian groups to finance extraordinary operations. There was also a strong rise in lending to governments and public bodies, driven by the loans made by Banca OPI for a total of 3.1 billion Euro.

As regards the risks of concentration, the SANPAOLO IMI Group, including Banco di Napoli, as of 31 December 2000, had an exposure of 4.1 billion Euro to the telecom-



Loans to customers

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Short-term loans	41,438	42.0	32,790	41.0	26,701	36.5	+22.8
Medium/long-term loans	56,253	57.0	46,477	58.1	44,779	61.2	+3.8
Loans to customers excluding NPLs	97,691	99.0	79,267	99.1	71,480	97.7	+10.9
Non-performing loans	1,015	1.0	758	0.9	1,694	2.3	-55.3
Customer loan portfolio	98,706	100.0	80,025	100.0	73,174	100.0	+9.4

Loans to customers by counterparty

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Loans to households	14,736	14.9	12,761	15.9	12,361	16.9	+3.2
Loans to family businesses and non-financial companies	53,616	54.3	44,522	55.7	43,260	59.1	+2.9
Loans to financial companies	14,871	15.1	9,743	12.2	6,751	9.2	+44.3
Loans to governments and public bodies	14,929	15.1	12,603	15.7	9,940	13.6	+26.8
Other	554	0.6	396	0.5	862	1.2	-54.1
Customer loan portfolio	98,706	100.0	80,025	100.0	73,174	100.0	+9.4

munications industry, i.e. fixed and mobile telephone companies, Internet providers and producers of telecommunication infrastructure, equipment and components. The quality of this portfolio is extremely high: a breakdown by class of rating shows that 94% of the overall exposure is investment grade (from AAA to BBB); of this, 37% is high investment grade (from AAA to A). The remaining 6%

which is non investment grade is to companies belonging to important groups.

The Group's market share of total loans to customers in Italy at the end of 2000, vis-à-vis the whole of the banking system, was 7.3%, a figure that rises to 9.2% after the consolidation of Banco di Napoli.

Loans to customers by type of lending

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Loans to households	14,736	14.9	12,761	15.9	12,361	16.9	+3.2
- Domestic network	13,534	13.7	11,559	14.4	11,132	15.2	+3.8
- overdrafts	1,178	1.2	894	1.1	848	1.1	+5.4
- personal loans	900	0.9	884	1.1	966	1.3	-8.5
- mortgage loans	10,898	11.0	9,405	11.7	8,615	11.8	+9.2
- other	558	0.6	376	0.5	703	1.0	-46.5
- Foreign network	1,202	1.2	1,202	1.5	1,229	1.7	-2.2
Loans to family businesses, companies, governments, public bodies and others	83,970	85.1	67,264	84.1	60,813	83.1	+10.6
- Domestic network	70,434	71.4	54,959	68.7	52,333	71.5	+5.0
- overdrafts	9,981	10.1	7,723	9.6	7,996	10.9	-3.4
- repurchase agreements	2,193	2.2	1,673	2.1	1,245	1.7	+34.4
- import/export financing	2,234	2.3	1,897	2.4	1,290	1.7	+47.1
- leasing	1,753	1.8	1,753	2.2	1,580	2.2	+10.9
- mortgage loans	33,209	33.7	28,626	35.8	28,176	38.5	+1.6
- other	21,064	21.3	13,287	16.6	12,046	16.5	+10.3
- Foreign network	13,536	13.7	12,305	15.4	8,480	11.6	+45.1
Customer loan portfolio	98,706	100.0	80,025	100.0	73,174	100.0	+9.4

Market shares in customer loans

	31/12/2000 (%)	31/12/2000 restated (%)	31/12/1999 (%)
Short-term loans	7.0	5.4	5.5
Medium/long-term loans	11.4	9.2	10.1
Total loans	9.2	7.3	7.8

Doubtful loans

The Group made considerable progress in terms of credit quality in 2000. Various types of action were taken to this end: the use of rigorous loan granting criteria in accordance with the Group's new loan policy; dynamic loan recovery; and the sale of non-performing loans without recourse.

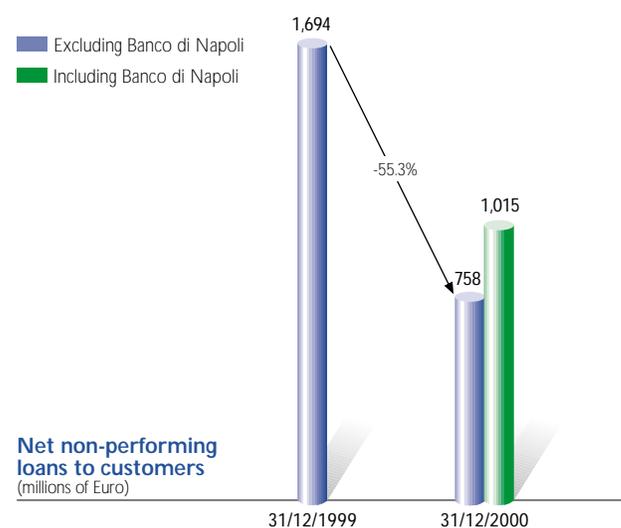
Three such sales were carried out during the year, involving 16,282 mortgage loans, 20,391 short-term loans and 935 industrial loans, with a gross book value of 1,554 million Euro and a net book value of 756 million Euro. These operations helped reduce the amount of capital absorbed and gave rise to recoveries of 92 million Euro which were booked to the statement of income.

These steps allowed the Group to reduce its net amount of non-performing loans by 936 million Euro during the year, bringing them to 758 million Euro at the end of 2000; as a proportion of total customer loans they therefore fell to 0.9%, compared with 2.3% at the end of 1999. After the consolidation of Banco di Napoli, net non-performing loans rise to 1,015 million Euro, 1% of total customer loans.

There has also been a considerable decline in other net doubtful loans, represented by problem and restructured loans and unsecured exposures to customers in countries at risk, which in total amounted to 829 million Euro at the end

of 2000, 31.5% less than at the end of the previous year. As a proportion of total net customer loans, they fell from 1.7% in December 1999 to 1%. After the inclusion of Banco di Napoli in the Group, other doubtful loans rose to 1,088 million Euro, 1.1% of total customer loans.

Coverage of non-performing loans, taking account of write-offs, reached 81.8%, while coverage of problem and restructured loans was 40%. Following the consolidation of Banco di Napoli, these figures come to 79.8% and 37.3% respectively.



Analysis of loan portfolio

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Non-performing loans	1,015	1.0	758	0.9	1,694	2.3	-55.3
Problem, restructured and loans in course of restructuring	982	1.0	733	0.9	1,162	1.6	-36.9
Loans to countries at risk - customers	106	0.1	96	0.1	48	0.1	+100.0
Performing loans	96,603	97.9	78,438	98.1	70,270	96.0	+11.6
Customer loan portfolio	98,706	100.0	80,025	100.0	73,174	100.0	+9.4
Non-performing and problem loans - banks	1		1		-		n.s.
Loans to countries at risk - banks	53		53		105		-49.5

Activities on financial markets

Brokerage

The Group's securities portfolio at the end of 2000, prior to the consolidation of Banco di Napoli, came to 18,366 million Euro, which is substantially in line with what it was at the end of 1999. Investment securities were down to 1,469 million Euro, 8% of the total, compared with 9.5% at the end of the previous year.

The dealing portfolio held by Banca IMI rose during the year to 9,704 million Euro (+28.2% on 1999); at the end of the year, this item was made up of government securities for around 50% and other types of bonds for around 30%. Brokerage activities were geared to strengthening the Group's operations on the main financial markets in Italy and abroad. Indeed, Banca IMI did manage to reinforce its role as primary dealer in the more important European government bond markets and consolidated its presence in the field of Eurobonds issued by primary issuers.

The Parent Bank's treasury securities portfolio at the end of the year amounted to 4,598 million Euro, with a decrease of 16% on the figure at December 1999. This portfolio was managed in such a way as to meet certain yield objectives and secondary liquidity requirements in connection with refinancing transactions with the

European Central Bank. The portfolio is made up for 60% of CCTs, while the remainder consists of securities with maturities of less than one year. The total volume of securities traded by the Parent Bank was 20.4 billion Euro. Transactions in repurchase agreements were essentially to meet the needs of retail and corporate customers, with total trades of 222 billion Euro, of which 112 billion Euro traded on the MTS/PCT platform.

Operations on the interbank market were carried out by the Parent Bank and by subsidiaries that specialize in raising funds on international markets. The Parent Bank, in particular, was a participant in the Euribor panel and took an active role in the initiatives carried out within the ambit of the Eurosystem, such as the launch of e-Mider, the new European electronic market for short-term derivatives. Total transactions on the interbank market by the Parent Bank amounted to 986 billion Euro, of which 399 billion Euro on the e-Mid circuit, with a market share of 3.6%.

As regards medium/long-term funding, the Group's activities featured important fund-raising operations which in terms of volumes and investor appreciation ranked SANPAOLO IMI as one of the leading issuers on the international market. In substitute capital instruments, as above mentioned, the Parent Bank made an issue of preferred shares (Tier 1) for 1 billion Euro and five issues of subordinated debt, three of which of secondary level (Lower Tier 2) for 1.9 billion Euro and two of

Securities, interbank position and derivatives

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Investment securities	6,671	26.7	1,469	8.0	1,756	9.5	-16.3
Dealing securities (1)	18,329	73.3	16,897	92.0	16,645	90.5	+1.5
Total portfolio	25,000	100.0	18,366	100.0	18,401	100.0	-0.2
Loans to banks	19,119		16,602		22,144		-25.0
Funding from institutional banking organizations	4,542		4,440		4,278		+3.8
Funding from other banks	25,054		22,658		23,734		-4.5
Derivatives and forward transactions in foreign currencies (at nominal value)	311,625		291,199		268,741		+8.4

(1) This item includes SANPAOLO IMI shares bought by subsidiaries as part of their securities dealing activities, for 42 million Euro as of 31/12/2000 and 21 million Euro as of 31/12/1999.

tertiary level (Tier 3) for 600 million Euro. In the categories of senior debt, 2,160 million Euro of bonds were placed on the domestic retail market. On the international market, two public issues to institutional customers were also made through Sanpaolo IMI Bank International of Madeira, for 750 and 500 million Euro respectively. There were also issues of Euro Medium Term Notes and non-securities funding operations amounting to a total of 650 million Euro.

Placement and advisory business

In 2000 Banca IMI consolidated its leadership position in the primary bond market, organizing and taking part in the placement of debt for corporate and banking issuers for a total value of 10.2 billion Euro: during the course of the year the company also acted as bookrunner for the placement of two issues of the Italian Republic for a total of 4.5 billion Euro, of which 3 billion Euro was offered through the IMI Direct Internet platform. Banca IMI was also active in the field of subordinated debt, acting as Lead Manager and Joint Lead Manager in the organization of operations amounting to a total of 2.7 billion Euro.

In equities, Banca IMI played a role in promoting the Nuovo Mercato, in which it operated as Global Coordinator and Sponsor in the BB Biotech, CDC, Mondo TV, Inferentia, TXT, Biosearch Italia, Novuspharma and Engineering placements; the company also acted in these roles in the placements of

AS Roma, AEM Torino, Aeroporto di Firenze and Cassa di Risparmio di Firenze. With foreign companies, Banca IMI participated as Lead Manager in the placement in Italy of the second tranche of Deutsche Telekom, as Co-Lead Manager in the Italian offering of shares in Banco Santander Central Hispano, as well as taking part in the placement syndicates for AT&T Wireless, Metlife, Eads and Goldman Sachs.

Equity investments

The Group's investments in companies not consolidated on a line by line basis amounted to 3,573 million Euro at year end, after the consolidation of Banco di Napoli, a net increase of 226 million Euro compared with the start of the year. The main operations, which have already been commented on, concerned:

- in Italy, the increase from 4.1% to 19.1% in the interest held in Cassa di Risparmio di Firenze, involving an outlay of 387 million Euro. Moreover, at the beginning of 2001, SANPAOLO IMI acquired a 10.9% holding in Banca Cardine, granting Fondazione Cassa di Risparmio di Venezia own shares worth 516 million Euro, and defined an agreement for the acquisition of a significant investment in Cassa dei Risparmi di Forlì;
- abroad, the increase from 2% to 3% in the stake held in Banco Santander Central Hispano with a total investment of 700 million Euro.

Non-consolidated equity investments

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
	Amount (€/mil)	%	Amount (€/mil)	%	Amount (€/mil)	%	
Investments	3,573	100.0	4,674	100.0	3,347	100.0	+39.6
- carried at equity	811	22.7	2,073	44.4	843	25.2	+145.9
- carried at cost	2,762	77.3	2,601	55.6	2,504	74.8	+3.9
- in listed companies	2,234	62.5	2,233	47.8	2,258	67.5	-1.1
- in other companies	528	14.8	368	7.8	246	7.3	+49.6

SANPAOLO IMI's equity investment portfolio also rose as a result of NHS, the Group's merchant bank, acquiring a 2.2% interest in the ordinary share capital of FIAT from Compagnia di San Paolo for 220 million Euro at market price. This acquisition meant that NHS entered the FIAT shareholder syndicate agreement with IFI/IFIL, Generali and Deutsche Bank.

Disposals during the year amounted to 841 million Euro, which led to a total pre-tax gain of 270 million Euro. These included:

- sale of the residual 40% interest in Crediop to the Dexia Group, at a price of 400 million Euro, with a pre-tax gain of 134 million Euro;
- sale of a 4% interest in Beni Stabili, with a pre-tax gain of 15 million Euro;
- the reduction from 0.29% to 0.20% of the investment in The Royal Bank of Scotland, with a positive impact on the statement of income, gross, of 12 million Euro.

Operating structure

The distribution network

During the course of 2000, the Group allocated significant investments to strengthen the distribution system, based on the following guidelines:

- development of innovative channels;
- reinforcement of the networks of financial planners;
- growth in the branch network, with branches specializing by local market segment.

In innovative channels, following the launch of the on line trading service distributed through IMIWeb at the end of 1999, an important development project involving all of the Group's Business Areas was initiated.

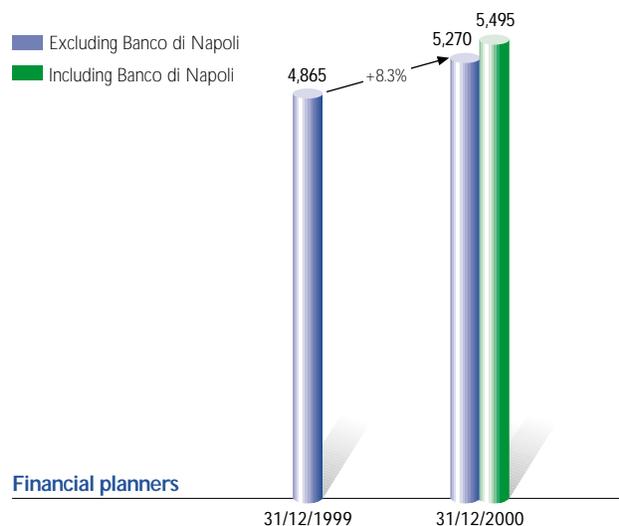
The initiatives carried out by Commercial Banking form part of this project. The purpose was to create a multi-channel distribution model using the Internet as a supplementary vehicle for the offer of services to private customers and as a development platform in commercial relations with companies; on completion of the first stage of the project, Internet and Mobile Banking tools and services were made available to customers in early 2001. The Phone Banking service was also upgraded with additional functions and a higher level of efficiency, bringing the number of contracts with customers to more than 100,000.

Group companies operating in Personal Financial Services also equipped themselves with electronic banking tools, allowing the financial planners to concentrate on higher value-added activities. At the same time, they reinforced the consultancy networks: at the end of the year Banca Fideuram and Banca Sanpaolo Invest had a total of 5,270 consultants, an increase of 405 since the end of December 1999.

In the branch network, the objective of reinforcing the Group's position in the domestic market was met above all thanks to the acquisition of Banco di Napoli, whose 731 outlets brought the total number of the Group's Italian branches to 2,137 at the end of 2000; of these, 46% are in the North-West, 37% in the South and Islands, 12% in the Centre and 5% in the North-East.

In the Parent Bank's network, a policy of selective growth has led to an increase of 40 outlets, raising the total number of branches in the domestic market to 1,332. At the same time, the entire network has been involved in a process of specialization by customer segment, differentiating between retail branches and business centers.

The most important initiatives abroad were carried out in the French market, where Banque Sanpaolo increased the number of its branches to 61, partly by acquiring seven branches from Banque Générale du Commerce; in total, including Banco di Napoli, the Group's international network at the end of 2000 was made up of 91 branches and representative offices.



Retail customers were also served through the Parent Bank's widespread network of ATMs and POS terminals, which was further reinforced during 2000. There are 1,836 Bancomat (ATM) terminals, up 50 on last year, while there were 22,500 active POS terminals at the end

of 2000, an increase of some 1,500. For corporate customers, the number of Remote Banking links rose by 18%, amounting to more than 30,000 at the end of the year. Banco di Napoli's automated structures include approximately 900 Bancomat and 10,000 POS terminals.

Distribution network

	31/12/2000	31/12/2000 restated	31/12/1999	Change 31/12/00 restated - 31/12/99 (%)
Banking branches and area offices	2,213	1,478	1,419	+4.2
- Italy	2,137	1,406	1,355	+3.8
- Parent Bank	1,332	1,332	1,292	+3.1
- Abroad	76	72	64	+12.5
- Banque Sanpaolo	61	61	52	+17.3
Representative offices	15	14	12	+16.7
Financial planners	5,495	5,270	4,865	+8.3
- Banca Fideuram	3,782	3,782	3,509	+7.8
- Banca Sanpaolo Invest	1,488	1,488	1,356	+9.7

Distribution network in Italy as of 31/12/00

	Parent Bank		Banco di Napoli		Banca Fideuram		TOTAL	
		%		%		%		%
North-West (Piedmont, Val d'Aosta, Lombardy, Liguria)	943	70.8	4	0.5	29	39.2	976	45.7
North-East (Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Emilia Romagna)	98	7.4	1	0.1	19	25.7	118	5.5
Centre (Tuscany, Marches, Umbria, Lazio, Abruzzo, Molise)	124	9.3	107	14.7	17	23.0	248	11.6
South and Islands (Campania, Puglia, Basilicata, Calabria, Sicily, Sardinia)	167	12.5	619	84.7	9	12.1	795	37.2
Banking branches and area offices in Italy	1,332	100.0	731	100.0	74	100.0	2,137	100.0

Personnel

Group personnel at the end of the year comprised 25,088 employees, 955 more than in the previous year. Of these, 214 came from the acquisition of the Wargny Group. Including personnel of the Banco di Napoli group, the total number of employees of the SANPAOLO IMI Group comes to 35,729.

This increase in personnel is attributable to the Parent Bank for 271 people, net of 957 new employees and 686 departures, excluding those transferred to Banca OPI with the public works business, while 470 are attributable to other companies in the Group. The growth is largely due to the commercial development plans launched during the

year in the sectors of higher potential in terms of value creation: Retail Banking, Wealth Management and Personal Financial Services.

This trend comes after two years of rationalization, during which the Parent Bank's personnel was reduced by around 1,300. This also entails a generation change, hiring younger people and specialist professional skills. Given this policy, the incentive plan to encourage voluntary severance continued, being accepted by a total of 243 people working at the Parent Bank.

As an incentive to achieve Group objectives, remuneration policies have been introduced with a greater use of variable, results-based components.

Personnel

	31/12/2000		31/12/2000 restated		31/12/1999		Change 31/12/00 restated - 31/12/99 (%)
		%		%		%	
Year-end headcount	35,729	100.0	25,088	100.0	24,133	100.0	+4.0
- Executives	542	1.5	370	1.5	345	1.4	+7.2
- Managers	5,691	15.9	4,574	18.2	4,416	18.3	+3.6
- Other employees	29,496	82.6	20,144	80.3	19,372	80.3	+4.0

Equity Capital

Net shareholders' equity

Group shareholders' equity at 31 December 2000 amounted to 7,353 million Euro, net of own shares held by the Parent Bank. Movements during the year were as follows:

<i>Movements in Group shareholders' equity</i>	<i>€/mil</i>
Net shareholders' equity at 1 January 2000	8,036
Decreases	-2,112
- Dividends	-724
- Compensation for consolidation differences	-1,027
- Increase in own shares of the Parent Bank	-361
Increases	1,429
- Capital	5
- Share premium reserve	18
- Exchange differences and other adjustments	102
- Fixed asset revaluation	12
- Net income for the year	1,292
Net shareholders' equity at 31 December 2000	7,353

The increase in capital and share premium reserve is the result of Group executives subscription of 1,833,250 shares at a price of 12.396 Euro each, as part of a stock option plan described in the next section.

The compensation for consolidation differences is explained in the Explanatory Notes.

Own shares

At 31 December 2000 41,783,382 SANPAOLO IMI shares were held by the Group. This is 3% of the share capital shown at a value of 739 million Euro.

Transactions in SANPAOLO IMI shares during the year were as follows:

- at the end of 1999 the Parent Bank held 27,431,500 of its own shares (with a total nominal value of 76.8 million Euro and a carrying value of 335.6 million Euro). During 2000 it bought 54,195,250 shares (total nominal value of 151.7 million Euro for an outlay of 891.4 million Euro) and sold 42,280,768 shares (total nominal value of 118.4 million Euro and proceeds of 612 million Euro). At the end of 2000 the Parent Bank held 39,345,982 shares (with a total nominal value of 110 million Euro and a carrying value of 697 million Euro);
- at the end of 1999 Banca IMI held 1,556,657 SANPAOLO IMI shares (total nominal value 4.4 million Euro and carrying value 20.9 million Euro). During the year, as part of its institutional brokerage activities, it bought 23,285,982 shares (total nominal value 65.2 million Euro for an outlay of 372.5 million Euro) and sold 22,405,239 shares (total nominal value 62.7 million Euro with proceeds of 356.9 million Euro). At the end of 2000 Banca IMI held 2,437,400 shares (total nominal value 6.8 million Euro and a carrying value of 42.1 million Euro).

The Parent Bank held and dealt in its own shares in connection with strategic operations involving the exchange of large shareholdings. To this end, at the beginning of 2000, 28 million shares (2% of capital) were passed to Ente Cassa di Risparmio di Firenze in connection with the alliance with Cassa di Risparmio di Firenze. In January 2001, 27.5 million shares were passed to Fondazione Cassa di Risparmio di Venezia as part of the acquisition of a 10.9% stake in the Cardine Group. As of 15 March 2001, 19,358,700 own shares (1.38% of the capital) were held by the Parent Bank, carried at a value of 334.2 million Euro.

Regulatory capital and capital adequacy

At the end of 2000, the ratio between the Group's regulatory capital and its total assets weighted for lending and market risk gave a total solvency ratio of 9.2%, after consolidating Banco di Napoli; the ratio of the Group's Tier 1 capital to total risk-weighted assets was 7.1%.

Tier 3 subordinated debt issued in 2000 amounted to a total of 601 million Euro. These cover almost all of the market risks of the Parent Bank and the other members of the Group, for a total of 8.1 billion Euro. Moreover, with the new equity investments acquired during the year, the Group raised its regulatory capital by issuing 1.9 billion Euro of Tier 2 subordinated debt. An issue of preferred shares of 1 billion Euro was then added at the end of the year.

Given that own shares were used to acquire the 10.9% stake in the Cardine Group in January 2001, the overall

solvency ratio should still be the same as at the end of December, while the Tier 1 ratio ought to rise to 7.7%.

Regulatory capital and capital adequacy

	31/12/2000	31/12/1999
Regulatory capital (€/mil)		
Tier 1 capital	6,868	7,505
Tier 2 capital	3,257	1,255
less: prescribed deductions	-1,259	-737
Total capital	8,866	8,023
Weighted assets (€/mil)		
Lending risk	95,050	70,838
Market risk	587	6,637
Other requirements	513	500
Total assets	96,150	77,975
Capital adequacy ratios (%)		
Tier 1 ratio	7.1	9.6
Total capital ratio	9.2	10.3

Risk management

The basic principles

The SANPAOLO IMI Group lays substantial emphasis on risk management and control, based on three principles:

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

The policies relating to the acceptance of lending and financial risks are defined by the Parent Bank's Board of Directors and Executive Committee with input from specific Committees (the Financial Risk Committee, the Loans Committee, the Financial Institution Lending Risk Committee and the Country Risk Committee).

The Parent Bank also carries on general functions of risk management and control and takes risk-acceptance decisions in the case of particularly large loans. It has the support of the Risk Management unit and of a Risk Control unit.

The Business Areas that generate lending and/or financial risks operate within assigned limits of autonomy and each has its own control structure.

Financial risk management and control

The organizational arrangement

The main body that is responsible for the management and control of financial risks is the Parent Bank's Board of Directors. It defines the lines of strategy and general approach to the acceptance of market risk, allocates capital on the basis of the expected risk/return profile, and approves the operating limits for the Parent Bank and guidelines for subsidiaries.

The Financial Risk Committee is responsible for defining the criteria and methods by which risks are measured, as well as the structure of the operating limits to be followed by the Parent Company and its Business Areas, and for monitoring the risk profile of Group companies. The Committee consists of the Managing Directors, the heads

of the Business Areas that take on and control risks, and by the Risk Management unit.

The Risk Management unit, assisted by the Financial Analysis Development department, is responsible for developing ways of monitoring corporate risk and for making proposals regarding the system of operating limits for the various Business Areas of the Bank and the Group.

The Risk Control unit is responsible for measuring outstanding risks in the various operating units and for checking that they comply with the limits laid down by the Board of Directors and by the Financial Risk Committee.

The single Business Areas measure financial risk, applying a system of limits in line with the Parent Bank's general plan.

The measurement methods used

The methods used by the Group to measure financial risks mainly consist of the following:

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

VaR, as calculated, reflects that maximum loss that the portfolio can incur in the next ten working days with a 99% confidence level, based on historical volatility and correlations (of the last 250 working days) between the individual risk factors, for each currency made up of short- and long-term interest rates, exchange rates and equity prices.

Sensitivity Analysis quantifies the change in value of a financial portfolio following adverse movements in risk factors. For interest rate risk, an adverse movement is defined as a parallel, uniform shift of 100 basis points in the interest rate curve.

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

Lending

The financial risks generated by the Group's lending activity (Asset and Liability Management) are monitored by means of Sensitivity Analysis, together with VaR measurement.

During 2000, the potential loss on the fair value of the Bank's loan book, measured according to the Sensitivity Analysis methodology, showed an average of 62 million Euro, with a minimum of 47 and a maximum of 126 million Euro; the decline in the average value and the higher degree of fluctuation around it compared with the prior year reflect the Bank's policies during the year of maximizing the fair value of the portfolio based on expected interest rate scenarios.

The VaR of the lending business showed an average of 172.6 million Euro.

The exchange risk generated by the lending business during the year was extremely limited.

Sensitivity Analysis – lending

	2000 (€/mil)	1999 (€/mil)
Average	61.9	105.4
Low	46.8	92.8
High	125.6	120.8
31 December	88.8	94.4

Equity investments in non-Group listed companies

The market value as of 31 December 2000 of the equity investments held by the Parent Bank and by Sanpaolo IMI International in listed companies that are not consolidated

on a line by line basis or at net equity, including the own shares held by the Parent Bank, amounted to 2,816 million Euro. The portfolio included unrealized capital gains over book value of 298 million Euro, which refer essentially to the investments in Banco Santander Central Hispano, Beni Stabili and The Royal Bank of Scotland. The market value of the listed equity investments held by NHS, the merchant bank controlled 51% by SANPAOLO IMI, was 560 million Euro; potential capital gain, with respect to book value, was 148 million Euro, which refers mainly to the investment in Montedison.

The monitoring of market risk of the shareholding portfolio (whose values do not have a direct impact on the Group's income statement because of the cost accounting used) is measured through VaR.

The VaR of quoted non-Group investments held by the Parent Bank and Sanpaolo IMI International during the course of 2000 averaged 224 million Euro, with a low of 176.4 million Euro. A high of 294.7 million Euro was reached at the end of the year, which was justified both by the higher volume of investments made in the latter part of the year and by the general increase in share prices volatility. The average level of VaR recorded by NHS, for the portion relating to SANPAOLO IMI, was 19.3 million Euro. The overall average value, taking account of the diversification effect, was 228 million Euro.

VaR of listed shareholding portfolio

	2000 (€/mil)	1999 (€/mil)
Average	228	192
Low	189	93
High	312	263
31 December	312	252

The following graph shows the trend in VaR of the Group's equity investments during the course of 2000.

Trading activities

Measured here are trading activities, mainly in securities (fixed income and equities), exchange rate and derivative contracts.

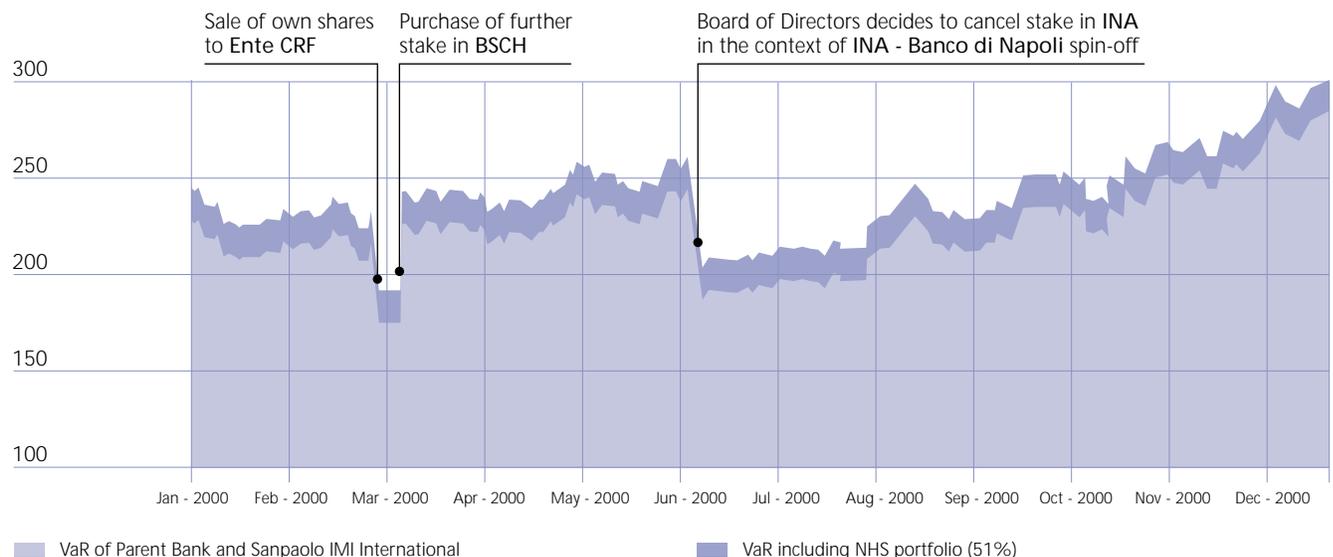
The VaR of the trading activities, concentrated in Banca IMI and its subsidiaries, oscillated during 2000 between a low

of 6.5 million Euro and a high of 19.5 million Euro, showing an average of 13.7 million Euro, in line with the previous year.

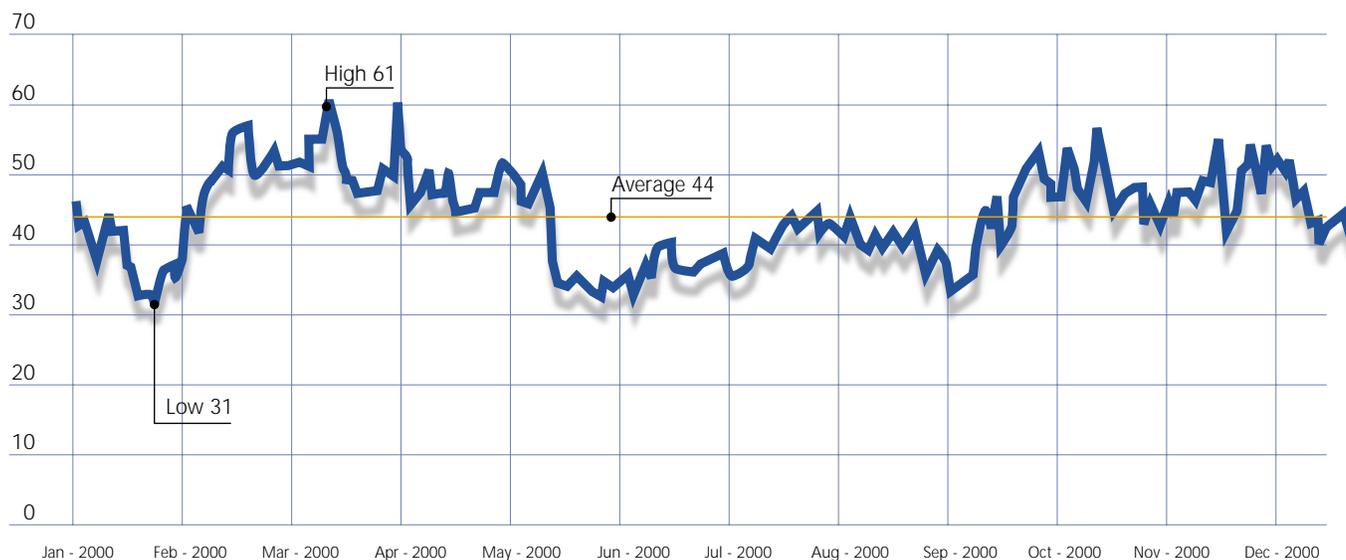
In addition to VaR, the Worst Case Scenario methodology is also used to monitor the impact of potential losses that might arise in extreme circumstances. The evolution in the maximum potential daily loss shows an increase in potential risks during the first part of the year, reaching at the end of March a high of 61 million Euro, then to fall gradually to around the yearly average of 43.8 million Euro.

VaR - trading by type of risk

	2000				1999	
	31 December (€/mil)	Average (€/mil)	Low (€/mil)	High (€/mil)	31 December (€/mil)	Average (€/mil)
Interest rate risk	2.1	4.2	0.5	13.8	11.9	5.3
Exchange rate risk	0.1	0.2	0.0	0.7	0.0	0.5
Share price risk	15.7	12.7	4.6	19.5	8.7	9.7
Diversification effect	-2.2	-3.4	n.s.	n.s.	-6.0	-3.6
Total	15.7	13.7	6.5	19.5	14.5	11.9



VaR of Group shareholding portfolio (€/mil)



Maximum potential daily loss in trading (€/mil)

Backtesting has demonstrated that these measurement techniques are prudent. In no case was the *ex ante* potential daily exposure, in terms of VaR and maximum potential loss, exceeded by the losses actually incurred.

Credit risk management and control

The organizational arrangement

The Group is organized so as to maximize the efficiency of lending risk management and control process by means of:

- the allocation of precise responsibilities for the management of lending risk to the individual Business Areas;
- a distinct separation between lending risk management and control;
- a specific Loan Recovery Department, so as to handle non-performing loans as efficiently as possible.

The Business Areas that grant credit to customers have a certain level of approval power as defined by the Board of Directors. In particular, for loans granted by Commercial Banking, the lending process is split into precise lines of responsibility for the granting and management of loans, with rising approval levels by branch, geographic area and

division. This process was revised during 1999, with the definition of a loan policy and a system of loan classification, as well as a new credit line proposal procedure. Proposals in excess of the approval limit of the Heads of the Business Areas have to be approved by the Managing Directors, the Credit Committee, the Executive Committee and the Board of Directors, according to the amount.

For lending risks to financial institutions, a special Committee was set up – consisting of the Managing Directors, the heads of the units taking on and controlling risks and by the Risk Management unit – which has responsibility to decide on the maximum credit lines to be granted by the Group to individual counterparties and to divide these limits into sublimits to be assigned to individual Group companies. The Financial Institution Credit unit has the task of doing preliminary investigations and monitoring the risks taken on versus financial counterparties by the various Business Areas of the Bank and of the Group.

For country risk, a specific Committee was formed in 2000, made up of the Managing Directors and managers of the Business Areas that normally operate in markets considered to be at risk, with the task of deciding on credit limits for each country and to allocate the related sublimits to the Group's Business Areas.

The risk management and control structures are made up as follows:

- Risk Management is responsible for the definition, updating and verification of the measuring techniques used by the Parent Bank and by the Group as a whole, ensuring that they are constantly in line with industry best practice. It is also responsible for analyzing the risk profile of the Parent Bank and Group and for proposing any corrective action;
- the control structures operating within the individual Business Areas are responsible for measuring and monitoring their portion of the loan book. Given the size of its loan book, the Credit Control department of Commercial Banking is particularly important;
- finally, Risk Control is responsible for measuring the exposure of larger borrowers, checking the measurements carried out by the risk control structures in the various Business Areas for consistency and accuracy, and ending the Parent Bank's top management summary reports on changes in loan quality and on the use of economic capital by the individual Business Areas.

Measurement techniques

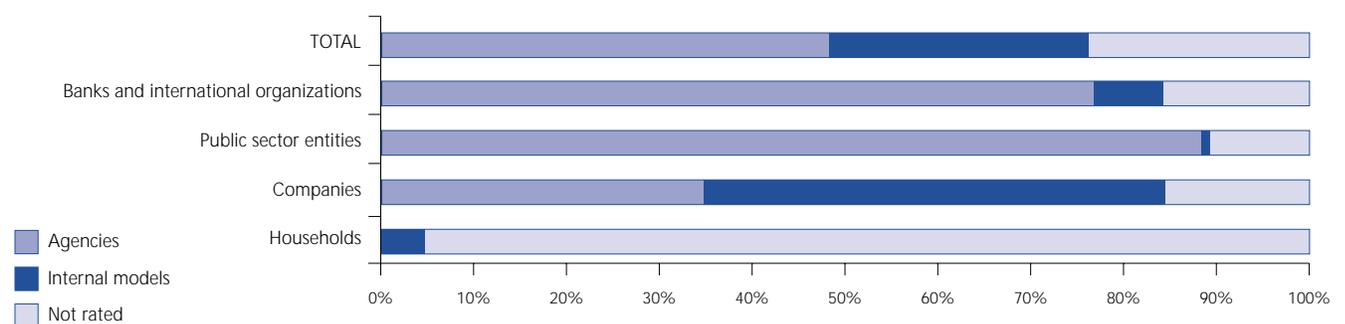
A series of instruments has been developed to ensure analytic control over the quality of loans to customers and financial institutions, as well as of exposures to country risk.

For loans to customers, various grading models have been developed. These differ according to the counterparty's size and industry sector. These models make it possible to

summarize the counterparty's credit quality in a single rating measurement which reflects the risk of insolvency in the successive 12 months. By means of statistical calibrations, these ratings are fully comparable with the rankings made by the official rating agencies, forming a global scale of reference. Backtesting analyses carried out to date, comparing insolvency forecasts with actual defaults, have confirmed that the models used are reliable.

For the Commercial Banking loan book, households, small businesses and SMEs, credit quality management uses a system of classifying customers into categories, based on an evaluation by the loan supervisors, who are specifically responsible for certain matters (frequency of credit reviews and returns measures). Control over credit quality uses a scoring system, based as the grading system on financial and experience indicators, although it is geared not so much to estimating the risk of insolvency, but to giving early warning of any anomalous situations.

For banking and financial counterparties, a scoring system has been devised to classify financial institutions with credit lines on a scale consistent with those used by the specialized rating agencies. The risk class constitutes the basic level of information, which is integrated by the type and duration of the transaction, as well as by any guarantees that are given. All of this leads to the setting of maximum credit limits for each counterparty. In the case of transactions covered by bank guarantees, the credit quality of the guaranteed counterparty is considered in weighting the maximum exposure.



Drawn down loan portfolio by rating source (%)

Finally, for country risk, a rating is assigned on the basis of the ratings and scores provided by specialized institutions, market information and internal evaluations.

The ratings are not just a direct instrument to monitor the credit risk portfolio, but also a primary element for the credit risk portfolio model, which summarizes the information on asset quality in risk indicators, including the expected loss and capital at risk. The latter is defined as the maximum unexpected loss that the Bank could incur with a confidence level of 99.95%.

SANPAOLO IMI also pays considerable attention to the important changes in matters of credit risks contained in the Basle Committee's proposal for the reform of the Accord on Capital. Among other things, this provides for the possibility of using internal ratings to calculate the requisite amount of capital. The measurement techniques used by the Group are in line with the situation outlined in this proposal.

Credit risks

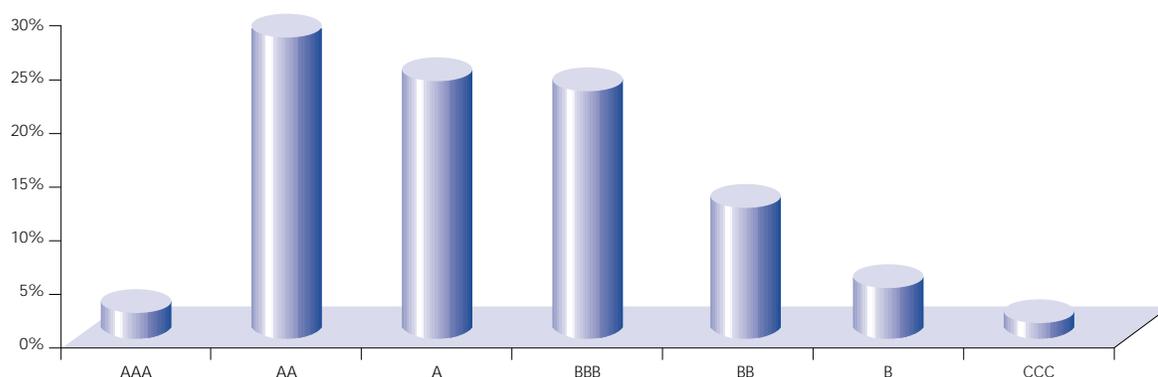
All of the lending exposures on and off balance sheet are subject to monitoring. The analysis, initially developed on the basis of the Parent Bank's loan portfolio, was gradually extended to the main subsidiaries as well. At present, in addition to the Parent Bank's loans, the portfolio includes those of Banca OPI, Sanpaolo IMI

Bank Ireland and almost all of the exposures of Banco di Napoli.

Analytical ratings are available for more than three quarters of the counterparties contained in the Bank's loan portfolio, in terms of exposure. About a third of the analytical ratings are internal, while the others are the work of specialized rating agencies. The non-rated portfolio is essentially represented by households and particularly housing mortgage loans.

Customer loans assigned an individual rating, which represent the main reference population for the credit risk management model, show a high level of asset quality: the total portion of investment grade loans (from AAA to BBB) is around 80% of the total and is almost one percentage point higher than a year ago.

For customer loans, measurement of economic capital, including country risk, was 3,450 million Euro at the end of the year, around 3.66% of the drawn down portion of credit lines. This figure has been calculated on a comparable basis, excluding Banco di Napoli, and shows a decrease of 22 basis points on the figure at December 1999, reflecting an improvement in credit quality. Around half of total capital is allocated to Commercial Banking, a quarter to Banco Napoli, while the rest is split between Corporate and Banca OPI, which have lower risk profiles because of their type of business.



Drawn down loan portfolio by level of rating (%)

Management and control of other risks

SANPAOLO IMI takes into consideration two other kinds of risk in its models: operational risk and business risk.

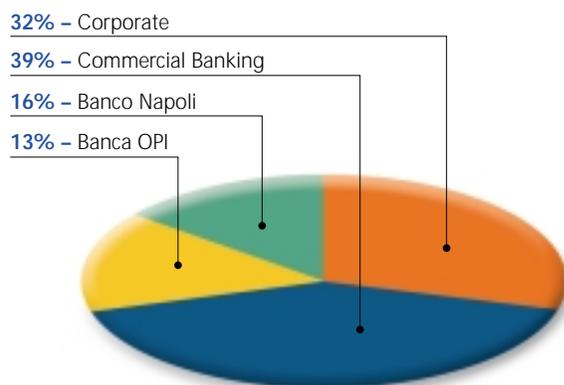
Operational risk is defined as the risk of incurring loss as a result of four macro categories of event: fraud, legal risks (including non-performance of contractual liabilities), weaknesses in internal control or in information systems and natural calamities. A database of significant events that took place in the past 10 years has been used for each category, from which it is possible to identify the impact in terms of loss from public sources of information. The empirical distributions of losses calculated in this way are estimated by means of theoretical distributions according to the extreme value theory. The capital at risk is identified as the minimum measurement, net of insurance coverage, needed to cope with the maximum potential loss with a confidence level of 99.95%; the methodology also provides for the application of a correction factor to take account of the effectiveness of internal controls in the operating areas.

It should be pointed out that this methodology has been developed to allocate an adequate amount of capital to the Business Areas and to the Group as a whole. Operating risks are controlled by defining internal rules and procedures and the Internal Audit Department checks compliance.

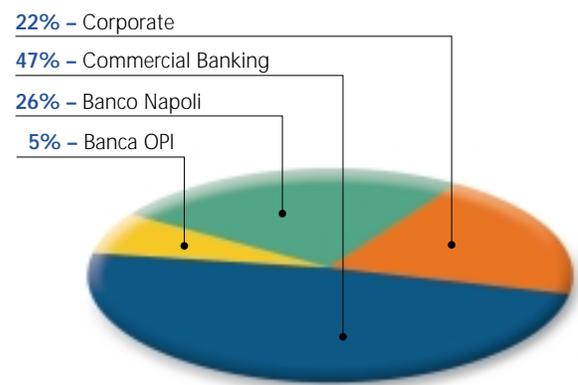
Various refinements to the system are currently being worked on. They mainly concern extending external databases, constructing internal databases, improving statistical models, using exposure indicators and the economic effect linked to the effectiveness and frequency of internal controls. These developments are in line with the best practices emerging from international taskforces that are working on such matters, with SANPAOLO IMI's active participation; they are also in line with the recommendations of the Basle Committee which in its proposed reform of the Accord on Capital, provides for the introduction of a specific capital charge for operational risks.

Business risk (also called strategic risk) is the risk of incurring losses as the result of changes in the macro or microeconomic scenario that can jeopardize the company's ability to generate revenue, typically by reduced operating volumes or spread compression.

It is evaluated by breaking down the activity of the Business Areas, on the basis of the respective cost and revenue structures, into fundamental "industrial" business sectors (e.g. EDP, consulting, mass retailing, etc.). The Business Areas are then allocated a level of capitalization in line with the norm for companies operating in the same type of activity.



Loans and guarantees by Business Area



Capital against credit risk by Business Area

Supplementary information

Performance of the SANPAOLO IMI share price

The SANPAOLO IMI share price started the year at 13.42 Euro. It then appreciated strongly during the initial part of the year, reaching a record high of 20.87 Euro at the beginning of September. The turbulence that then hit financial markets towards the end of the year reduced the price rise, coming in at 17.78 Euro at the end of the year.

The decline continued in early 2001 and at 26 March 2001 the price stood at 15.2 Euro.

The share price performance was better than that of the MIB Bancario: in 2000 the shares went up by 32.4%, compared with 13.9% in the sector; as of 26 March 2001 the price was up 12.9% since the beginning of 2000, compared with a decline of 2.2% in the banking index.

SANPAOLO IMI's stock was admitted to the Eurostoxx 50 index from 18 September 2000.

Comparison with the market

	26/3/01	29/12/00	30/12/99	Change 29/12/00-30/12/99 (%)
SANPAOLO IMI share price (€)	15.156	17.780	13.424	+32.4
Banking index (current MIB Bancario, base 30/12/99 = 1,000)	978	1,139	1,000	+13.9

SANPAOLO IMI share price

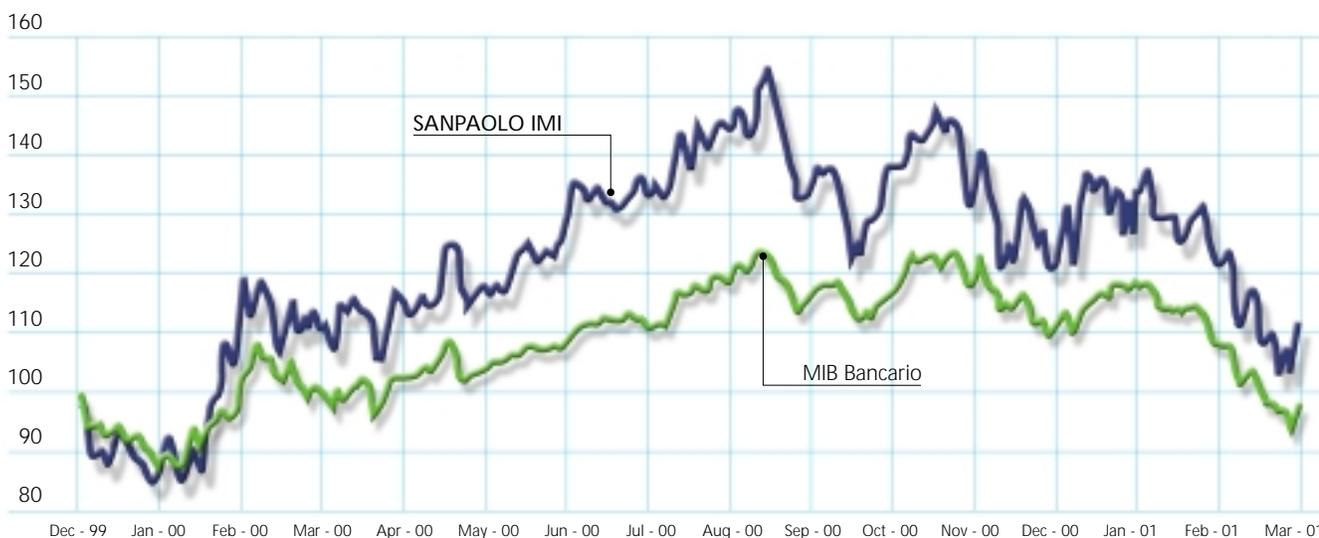
Year	High (€) (*)	Low (€) (*)	Average (€) (*)
1995	5.110	4.030	4.573
1996	5.287	4.210	4.758
1997	8.833	4.583	6.263
1998	16.102	8.654	12.427
1999	16.035	11.102	13.191
2000	20.870	11.658	16.617
2001 (to 26/3/2001)	18.627	14.070	16.828

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

SANPAOLO IMI market indices

	29/12/2000	30/12/1999
Price/Book value	3.0	2.4
Price/Earnings on consensus earnings (*)	17.3	16.2

(*) Calculated on consensus earnings 2001 for 29/12/2000 and on consensus earnings 2000 for 30/12/1999.



SANPAOLO IMI share price and MIB Bancario (30/12/99=100)

Shareholders of SANPAOLO IMI

Based on available information, the shareholder structure of SANPAOLO IMI as of 31 December 2000 was as follows:

<i>Shareholders of SANPAOLO IMI</i>	%
Compagnia di San Paolo	16.13
Banco Santander Central Hispano	7.02
Monte dei Paschi di Siena	6.17
IFI / IFIL	4.99
Fondazione Cariplo	2.77
Ente Cassa di Risparmio di Firenze	2.57
Società Reale Mutua di Assicurazioni	2.06
KBC Bank	1.16
Other shareholders (*)	57.13
Total	100.00

(*) Includes own shares held by the Group.

SANPAOLO IMI debt ratings

Rating agency	Type of rating	Rating
Fitch	• Short-term debt	F1+
	• Medium/long-term debt (senior)	AA-
Rating and Investment Information (Japan)	• Medium/long-term debt (senior)	AA
Moody's Investors Service	• Short-term debt	P-1
	• Medium/long-term debt (senior)	Aa3
Standard & Poor's	• Short-term debt	A-1
	• Medium/long-term debt (senior)	A+ with outlook positive
Thomson BankWatch	• Short-term debt	TBW-1
	• Medium/long-term debt (senior)	AA-

Ratings of subsidiary company debt

Group company	Rating agency	Short-term rating	Medium/long-term (senior) rating
Banco di Napoli	Fitch	F1	A+
	Rating and Investment Information (Japan)	-	A+
	Moody's Investors Service	P-1	A1
	Standard & Poor's	A-1	A
Banque Sanpaolo	Fitch	F1	A+
	Moody's Investors Service	P-1	A2
Banca Fideuram	Standard & Poor's	A-1	A+
Sanpaolo IMI Bank International	Moody's Investors Service	P-1	A1
	Standard & Poor's	A-1	A+
	Thomson BankWatch	TBW-1	AA-
Sanpaolo US Financial	Moody's Investors Service	P-1	-
	Standard & Poor's	A-1	-
	Thomson BankWatch	TBW-1	-

Other SANPAOLO IMI ratings

Type of rating	Rating agency	Rating
Bank Financial Strength	Moody's Investors Service	B
Individual	Fitch	B/C
Legal	Fitch	2
Issuer	Thomson BankWatch	B

In January 2001 Fondazione Cassa di Risparmio di Venezia took a 1.96% interest in the share capital of SANPAOLO IMI.

Ratings

In April 2000 Moody's upgraded the SANPAOLO IMI Group's rating, as follows:

- SANPAOLO IMI's medium/long-term debt rating from A1 with positive creditwatch to Aa3 with outlook stable;
- SANPAOLO IMI's Bank Financial Strength Rating from C+ to B;
- Banque Sanpaolo's short-term and medium/long-term debt ratings from P-2 to P-1 and from A3 to A2 respectively.

In October 2000, Standard & Poor's upgraded SANPAOLO IMI and Banca Fideuram's outlook from stable to positive.

In February 2001, Fitch raised Banco di Napoli's medium/long-term rating from A to A+.

Intercompany transactions and transactions with related parties

Transactions between the Parent Bank, subsidiary companies and associated companies take place in accordance with current legislation and are arranged on a mutually equitable basis. Details of intercompany transactions during the period are provided in the Explanatory

Notes to the Parent Bank's Financial Statements.

Transactions with related parties as defined in the Consob Communications dated 20 February 1997 and 27 February 1998 - including those with personnel and officers of the SANPAOLO IMI Group and any companies they control - similarly comply with current legislation and are conducted on an arm's-length basis. Investments in the Parent Bank and in the companies it controls held by the Directors, Statutory Auditors and Managing Directors of the Parent Bank and by other persons as per Article 79 of Consob Resolution no. 11971 of 14/5/99 are as follows:

Shares held by persons as per Article 79 of Consob Resolution no. 11971 of 14/5/99

Name	Company	How held	Title to shares	Shares held on 31/12/99	Shares bought during 2000	Shares sold during 2000	Shares held on 31/12/00
Luigi Arcuti	SANPAOLO IMI	Direct	Full	19,857	27,000	-	46,857
		Spouse	Full	3,657	-	-	3,657
Alberto Carmi	SANPAOLO IMI	Spouse	Full	10,000	-	-	10,000
Giuseppe Fontana	SANPAOLO IMI	Direct	Full	-	20,000	20,000	-
Rainer Masera	SANPAOLO IMI	Direct	Full	5,827	123,250	99,077	30,000
Emilio Ottolenghi	SANPAOLO IMI	Direct	Full	310,000	10,000	10,000	310,000
		Subsidiary	Full	4,110,000	5,000	5,000	4,110,000
		Spouse	Full	-	4,000	-	4,000
Carlo Pasteris	SANPAOLO IMI	Direct	Joint	-	2,500	1,000	1,500
Stefano Preda	SANPAOLO IMI	Direct	Full	-	37	37	-
	Banca Fideuram	Direct	Full	7,000	3,500	10,500	-
Alessandro Rayneri	SANPAOLO IMI	Subsidiary	Full	10,045	955	-	11,000
Enrico Salza	SANPAOLO IMI	Direct	Full	500	-	-	500
Antonio Sclavi	SANPAOLO IMI	Direct	Full	-	750	-	750

Stock option plans

On 31 July 1998, the Shareholders passed a resolution authorizing the Board of Directors to introduce stock option plans for Group managers, making use of paid increases in capital for up to 40 million Euro, as subsequently defined, equal to 14,285,714 shares.

Implementing this resolution, the Board of Directors launched on 9 February 1999 an initial stock option plan, structured as follows:

- *Beneficiaries:* the Managing Directors, as General Managers, and 56 top managers.
- *Rights decided by the Board of Directors:* 7,000,000 rights to buy 7,000,000 SANPAOLO IMI ordinary shares.
- *Rights assigned:* 6,772,000, of which 370,000 to each of the Managing Directors and 6,032,000 to the other 56 managers.
- *Exercizing rights:* a third of the rights may be exercised after the shares become ex-dividend for the financial year 1999, another third when they go ex-dividend for the financial year 2000 and the final third when they become

ex-dividend for the financial year 2001. Rights not exercised will expire by 31 March 2003. Rights may be exercised during four periods during the year of 25 days each, following the approval of the Group's quarterly results.

- *Subscription price:* initially set at 12.7746 Euro, which was the average market price of SANPAOLO IMI shares in the final quarter of 1998; subsequently adjusted to 12.396 Euro to take account of the real estate spin-off to Beni Stabili in October 1999.
- *Restrictions:* exercising rights is subject to restrictions and cancellations, which are detailed in the stock option plan regulations; such restrictions relate to the transferability of the rights and the role of the beneficiaries in the organization.

Based on the same mandate from the Shareholders, on 27 June 2000 the Board of Directors authorized a second stock option plan, structured as follows:

- *Beneficiaries:* the Managing Directors, as General Managers, and 122 top managers.
- *Rights decided by the Board of Directors:* up to 3,750,000 rights to buy 3,750,000 SANPAOLO IMI ordi-

Development of stock option plans in 2000

	Number of shares	Average exercise price (€)	Market price (€)
(1) Rights existing at 1 January 2000	6,772,000	12.396	13.424 (a)
(2) New rights assigned in 2000	3,378,270	16.45573	16.989 (b)
(3) Rights exercised in 2000	-1,833,250	12.396	17.151 (c)
(4) Rights lapsed in 2000 (d)	-90,000	-	-
(5) Rights existing at 31 December 2000	8,227,020	14.16795	17.780 (e)
(6) Of which: exercizable at 31 December 2000 (f)	-	-	-

(a) Official market price at 30/12/1999.

(b) Market price on the date of the resolution of the Board of Directors (27/6/2000).

(c) Average market price weighted for amounts exercised during market days during the "2000 exercising periods".

(d) Rights no longer exercizable because holders no longer work for the Bank.

(e) Official market price at 29/12/2000.

(f) No rights were exercizable at 31/12/2000 in that the date is not included in the infra-annual periods when rights may be exercised. At 31/12/2000, 394,083 residual rights for exercise (at a price of 12.396 Euro) in 2000 existed; these rights will again be exercizable from 2001.

Detail of rights by exercise price and remaining validity

Exercise price (€)	Rights assigned at 31/12/2000				of which: exercizable at 31/12/2000	
	Minimum remaining contractual validity			Total	Total	Average remaining contractual validity
	1/1/2001 - 31/12/2001	1/1/2002 - 31/3/2003	1/4/2003 - 31/3/2005			
12.396	2,621,416	2,227,334	-	4,848,750	-	-
16.45573	-	-	3,378,270	3,378,270	-	-
Total	2,621,416	2,227,334	3,378,270	8,227,020	-	-

nary shares; part of the rights depends on achieving the 2000 budget objectives.

- *Rights assigned:* 3,378,270, of which 188,285 to each of the Managing Directors and 3,001,700 to 122 managers.
- *Exercising rights:* after the shares the financial year ex-dividend for 2002. Rights not exercised will expire by 31 March 2005. Rights may be exercised during four periods during the year of 25 days each, following the approval of the Group's quarterly results.
- *Subscription price:* 16.45573 Euro, equal to the average market price of SANPAOLO IMI's stock during the month prior to approval of the plan.
- *Restrictions:* exercising rights is subject to restrictions and cancellations, which are detailed in the stock option plan regulations; such restrictions relate to the transferability of the rights and the role of the beneficiaries in the organization.

The rights exercised up to 31 December 2000 entailed an increase in capital of 5 million Euro, equal to 0.1% of the share capital, and the booking of a share premium reserve of 18 million Euro. If the rights assigned but not yet exercised were to be exercised, this would entail further increases in capital of 23 million Euro, equal to 0.6% of the share capital and the booking of a share premium reserve of 93 million Euro.

In accordance with Consob Resolution no. 11971 of 14 May 1999, it should also be pointed out that under the 1999-2001 stock option plan, one of the Managing Directors, Rainer Stefano Masera, exercised 123,250 rights on shares of the Bank during the year at a price of 12.396 Euro.

The Euro

The working groups specifically set up to form part of the Euro Project contributed during the year towards the definition of a reference framework for the key topics for the Bank in the third and final stage of the change-over to the new currency.

The planned interventions are principally of an IT nature, the purpose being to complete the introduction of the

single currency in all applications related to operations, as well as to prepare for the change-over from a dual currency system to a single one with the Euro alone from 1 January 2002. In aspects relating to the replacement of coins and banknotes, the interventions principally concern the planning of flows for the branches and the organizational adaptations needed to ensure that cash operations can continue normally.

Staff training is fundamental to ensure that customers are assisted properly. To this end, a detailed plan has been prepared to ensure that all members of staff receive adequate understanding on the practical aspects of using the Euro. This will be the final step in the training plan that started during the first stage, which was designed to make all of the Bank's personnel aware of the basic aspects of the new currency.

A particular effort has been made to ensure that private and corporate customers are also ready for the change. Various initiatives are in hand, their main purpose being to provide information and advice to ensure an orderly switch, however complex it may be, both for book assets and for cash in hand, given that the impact will be very widespread and concentrated in a short period of time. The information plan includes a series of brochures for companies and private customers, as well as fliers to be sent to customers in coordination with the campaigns run by the government and by the banking system.

Total costs for the implementation of this project amount to 67 million Euro, of which 53 million Euro were booked in previous years. The residual charges to be amortized over the coming years amount to 14 million Euro.

Code of Self Regulation of Quoted Companies

The Board of Directors of SANPAOLO IMI has announced that it will adhere to the Code of Self Regulation of Quoted Companies. SANPAOLO IMI has a system of corporate governance that complies with the requirements of the Code, whose purpose is to guarantee an adequate division of responsibilities and powers, with a proper balance between management and control, in line with best practice in the world's most developed financial markets.

Business Areas

Organization by Business Area

The Group operates through a structure organized into Business Areas in the following sectors:

- **Retail Banking:** the operations geared to households and small- and medium-sized enterprises are handled by the Commercial Banking Business Area and also, from 2001, by Banco di Napoli, now controlled by SANPAOLO IMI. The activities of Cassa di Risparmio di Firenze (in which SANPAOLO IMI has a 19.1% interest) also form part of the Retail Banking sector;
- **Wealth Management:** a specific Business Area is currently being set up to provide asset management products and services both to the Group's own distribution structures (Commercial Banking, Banco di Napoli and Banca Sanpaolo Invest) and to external networks and institutional investors;
- **Personal Financial Services:** the distribution through consultants of financial services to households and small businesses with a medium-high savings potential is carried out by the networks of Banca Fideuram and Banca Sanpaolo Invest; the e-banking operations organized by IMIWeb Bank are also included in this sector;
- **Wholesale Banking:** this sector includes the activities carried on by Corporate, Public Works and Infrastructure, Investment Banking and Merchant Banking.

The Group also has Central Functions to carry on holding activities, treasury, credit recovery, real estate and share-holding management.

Criteria to calculate the profitability of the Business Areas

The statement of income of the various Business Areas is prepared as follows:

- for those Areas in which operations are carried out both by the Parent Bank and by subsidiaries, the Parent Bank's figures for the Area in question are consolidated with those of the subsidiaries operating in the same Area. The Parent Bank's figures are allocated to the Areas on the following bases:
 - net interest income has been calculated using appropriate internal transfer rates;
 - in addition to commissions in effect, notional commissions for services rendered by one Area to another have also been quantified;

- the direct costs of each Area are calculated and, on the basis of certain parameters, the operating costs of the central structures other than those attributable to holding company functions, have been allocated to the Areas;

- for those Areas whose activities are carried out entirely by subsidiaries, the statements of income of the companies concerned are shown. The contribution made to consolidated net income is also shown, net of minority interests and after consolidation adjustments applicable to the Area. Amortization of the goodwill rising from investments made by the Parent Bank in the Areas is also allocated to Central Functions.

The capital allocated to each Area has been quantified according to the following bases:

- for those Areas whose business is carried out both by the Parent Bank and by subsidiaries, the average amount of capital absorbed by the Parent Bank is consolidated with that absorbed by the subsidiaries. The amount of economic capital absorbed is measured using a VaR approach, distinguishing among various types of risk: credit risk, market risk and operational risk;
- for those Areas whose activities are carried out exclusively by subsidiaries, the company's average book net equity (excluding net income for the year) is taken into consideration.

Particularly prudent methods are used when allocating the Parent Bank's capital to the Business Areas:

- the risks of the Areas are calculated with a confidence interval of 99.95%, in line with the rating attributed to the Group;
- the risks of the Areas are covered entirely by Tier 1 capital.

Finally, the profitability of each Area is calculated, as follows:

- for Areas whose activities are carried out both by the Parent Bank and by subsidiaries, profitability is expressed in terms of RORAC (Return On Risk Adjusted Capital), calculating the Area's contribution to Group net income as a percentage of the economic capital that it absorbs, quantified according to a VaR approach;
- for Areas whose activities are carried out exclusively by subsidiaries, profitability is expressed in terms of RoE (Return on Equity), calculating the Area's contribution to Group net income as a percentage of its average book net equity (excluding net income for the year), in accordance with Group accounting criteria.

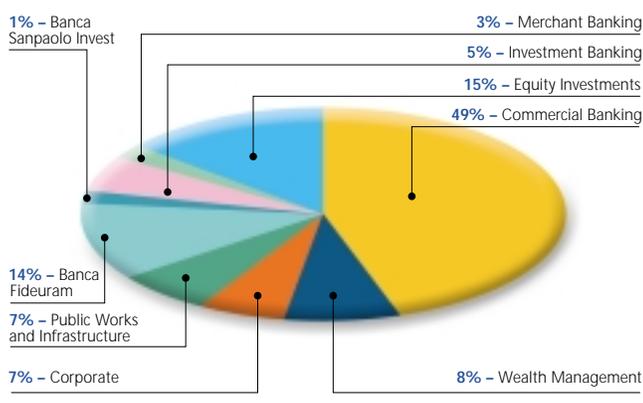
The results of the Business Areas in 2000 have been compared with those of the previous year. The changes from

1999 of the Areas whose activities are carried on by the Parent Bank are affected to a certain extent by changes in the methods of divisionalizing the various elements of cost and revenue.

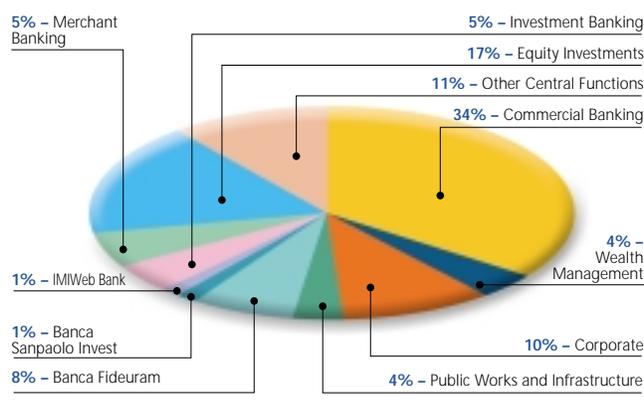
Results by Business Area

The results of the Group's Business Areas are summarized in the following table:

Business Area	Contribution to Group net income			Average capital		Profitability	
	2000 restated (€/mil)	1999 (€/mil)	Change 2000 restated / 1999 (%)	2000 restated (€/mil)	1999 (€/mil)	2000 restated (%)	1999 (%)
RETAIL BANKING							
Commercial Banking	635	403	+57.6	2,473	2,464	25.7	16.4
WEALTH MANAGEMENT							
	106	65	+63.1	266	233	39.8	27.9
PERSONAL FINANCIAL SERVICES							
Banca Fideuram	177	129	+37.2	544	496	32.5	26.0
Banca Sanpaolo Invest	16	21	-23.8	89	46	18.0	45.7
IMIWeb Bank	-28	n.s.	n.s.	41	n.s.	n.s.	n.s.
WHOLESALE BANKING							
Corporate	84	59	+42.4	750	706	11.2	8.4
Public Works and Infrastructure	89	41	+117.1	256	205	34.8	20.0
Investment Banking	60	76	-21.1	356	362	16.9	21.0
Merchant Banking	33	36	-8.3	382	374	8.6	9.6
CENTRAL FUNCTIONS							
Equity Investments	197	240	-17.9	1,229	1,370	n.s.	n.s.
Other Central Functions	-77	-20	n.s.	771	1,250	n.s.	n.s.
GROUP TOTAL	1,292	1,050	+23.0	7,157	7,506	18.1	14.0



Net income 2000 by Business Area (in %)



Allocated capital 2000 by Business Area (in %)

Commercial Banking

Commercial Banking operates, in Italy, through the Parent Bank's network of 1,332 branches; abroad, the Area operates through the French subsidiary Banque Sanpaolo, which has 61 branches, and the Hungarian company Inter-Europa Bank, in which the Group has a 32.5% interest. The various specialist companies operating in the consumer credit sector

(Finconsumo, jointly controlled together with Banco Santander Central Hispano) and in leasing (Sanpaolo Leasint) also report to Commercial Banking.

The decision to set up a separate Business Area devoted to Wealth Management will involve spinning off the asset management companies from Commercial Banking in April 2001. In order to reflect this new situation, the fig-

	Commercial Banking		of which: Domestic branch network		of which: Banque Sanpaolo (*)	
	2000	Change % 2000/1999	2000	Change % 2000/1999	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)						
Net interest and other banking income	3,321	+13.5	3,000	+13.0	210	+26.1
Operating costs	-1,908	+3.3	-1,720	+2.3	-129	+14.4
Operating income	1,413	+30.8	1,280	+31.7	81	+50.5
Provisions and net adjustments to loans and financial fixed assets	-230	-20.8	-202	-20.9	-11	-35.1
Income before extraordinary items	1,184	+49.4	1,078	+50.4	70	+89.0
Net extraordinary income	13	n.s.	2	n.s.	9	+189.3
Income before taxes	1,197	+51.3	1,080	+50.6	79	+96.3
Income taxes for the year	-562	+44.7	-514	+44.6	-31	n.s.
Net income	635	+57.6	566	+56.4	48	+41.2
ALLOCATED CAPITAL (€/mil)	2,473	+0.4	2,062	-2.2	284	+10.5
	2000	1999	2000	1999	2000	1999
RATIOS (%)						
RORAC	25.7	16.4	27.4	17.2	16.9	13.2
Cost / Income ratio	57.5	63.1	57.3	63.4	61.3	67.6
	31/12/00	Change % 2000/1999	31/12/00	Change % 2000/1999	31/12/00	Change % 2000/1999
OPERATING DATA (€/mil)						
Total financial assets	161,036	+0.3	147,805	+3.6	13,066	-25.5
- Direct deposits	34,598	+6.4	29,795	+3.7	4,638	+36.5
- Asset management	71,125	+6.8	65,424	+4.6	5,701	+38.9
of which: Group products	69,396	+7.3	65,424	+4.6	3,972	+85.9
- <i>Mutual funds and fund-based portfolio management</i>	58,610	+4.8	55,237	+2.2	3,373	+80.0
- <i>Portfolio management</i>	4,848	+15.5	4,249	+8.0	599	+127.7
- <i>Life insurance</i>	5,938	+30.9	5,938	+30.9	-	-
of which: Other products	1,729	-12.1	-	-	1,729	-12.1
- Asset administration	55,313	-9.9	52,586	+2.3	2,727	-72.8
Net asset management flows	7,674		6,204		1,470	
Net loans to customers excluding NPLs	39,975	+7.5	36,102	+7.4	3,565	+18.6
STRUCTURE						
Employees	17,571	+0.6	16,046	+0.1	1,221	+5.0
Branches	1,393	+3.6	1,332	+3.1	61	+17.3

(*) Banque Sanpaolo figures show the contribution to Group results.

ures for Commercial Banking in 2000 and 1999 are restated without the contribution of these companies.

Action taken by this Area on the domestic market in 2000 was geared principally to reinforcing competitive positioning. They concerned the following in particular:

- the creation of a distribution model allowing customers to operate with the Bank in an integrated way through branches, Internet, the call center and mobile banking: the last quarter of the year saw the release of information services on the Internet, which were then followed in early 2001 by the related statement and order transmission applications. The call center, which has reached 100,000 customers, was strengthened and projects were started up involving the use of the Internet as a platform for developing commercial relations with companies;
- reinforcement of the branch network in both quantitative and qualitative terms: the number of branches increased by 40; particular attention was paid to those branches involved in private banking, with an increase of eight during the year; the entire network is now involved in a reorganization which will lead to the specialization of each outlet according to its principal type of customer, differentiating between retail branches and business centers;
- strengthening of the commercial capacity, giving priority to higher value-added customers and better cross-selling: to improve services to private individuals, customer portfolio managers have been identified and given more sophisticated IT support. Sales and marketing initiatives have also been implemented with the creation of new products and services;
- improvement in asset quality, with the acquisition of distinctive skills in the field of lending risk management. Personnel in this Area have been given greater support through new workstations and more modern systems of scoring and of monitoring critical positions;
- reinforcement of incentive plans with a greater focus on the commercial results and profitability achieved.

In consumer credit, Finconsumo, which has a market share of 4.3% and comes eighth in the ranking of Italian companies operating in this field, completed the formalities for it to be transformed into a bank. This is expected to take place by

the middle of 2001. It also carried out the securitisation of performing loans for 350 million Euro and prepared a plan for the development of a credit card operation.

In the French market, Banque Sanpaolo strengthened its distribution structure, buying seven branches from Banque Générale du Commerce during the year to bring its network up to a total of 61 outlets. It also completed a project to upgrade its electronic channels, with the activation of a new Internet banking facility.

In total, the Commercial Banking Area has seen a substantial increase in its profit margins: net income went up by 57.6%, RORAC came in at 25.7% compared with 16.4% in 1999; the cost to income ratio fell to 57.5% versus 63.1% in 1999. These results were made possible, on the one hand, by the positive trend in net interest income and, above all, commissions, and on the other, by the efforts made to contain operating costs and improve asset quality. This last aspect is reflected in the lower writedowns and in a lower increase in absorbed capital compared with the growth in loans.

There has also been significant growth in asset management volumes, coming in at 71.1 billion Euro at the end of the year, thanks to a net inflow of 7.7 billion Euro, of which 1.6 billion Euro was in the insurance sector, as follows:

- the Italian network achieved a net inflow of 6.2 billion Euro, bringing total funds under management to 65.4 billion Euro. The market share in mutual funds and fund-based portfolio management at the end of the year came to 10.6%. The most significant increase was in equity and balanced funds, whose proportion of the total rose from 23.8% to 28% and from 23.1% to 31% respectively;
- Banque Sanpaolo, with net inflow of 1.5 billion Euro, brought its stock of assets under management to 5.7 billion Euro.

The Area maintained a positive trend in net loans to customers, with an increase during the year of 7.5%. The main contributions to this result came from mortgage loans granted to private individuals by the Italian network, for a total of 1.6 billion Euro, and from Banque Sanpaolo, whose mortgage loans went up by approximately 23% on the previous year.

Wealth Management

	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)		
Net interest and other banking income	261	+48.4
Operating costs	-62	+15.9
Operating income	199	+62.6
Provisions and net adjustments to loans and financial fixed assets	-44	n.s.
Income before extraordinary items	156	+32.1
Income before taxes	156	+32.7
Income taxes for the year	-26	-7.2
Change in reserves for general banking risks	3	n.s.
Net income	133	+49.5
Contribution to Group net income (*)	106	+63.1
ALLOCATED CAPITAL (€/mil)	266	+14.4
	2000	1999
RATIOS (%)		
RoE	39.8	27.9
Cost / Income ratio	23.8	30.4
	31/12/00	Change % 2000/1999
OPERATING DATA (€/mil)		
Asset management	74,331	+5.8
STRUCTURE		
Employees	343	+31.4

(*) After the posting of consolidation attributable to the Area.

The know-how acquired by the SANPAOLO IMI Group in the field of asset management and the market opportunities associated with the growing use of open architecture distribution methods led to the definition of a project to create a separate Business Area devoted to Wealth Management.

This new Area, for which pro forma figures are provided for 2000 and 1999, will be operational from April 2001. It will provide products and services both to the Bank's own dis-

tribution structures (Commercial Banking, Banco di Napoli and Banca Sanpaolo Invest) and to external networks.

Wealth Management will include the companies operating in mutual funds and portfolio management (Sanpaolo IMI Asset Management, Sanpaolo Gestion Internationale, Sanpaolo Fiduciaria and Sanpaolo Services Luxembourg), private banking (Sanpaolo Bank Luxembourg and Sanpaolo Bank Austria) and life insurance (Sanpaolo Vita and Sanpaolo Life).

During the course of 2000, the companies in Wealth Management started up initiatives geared to expand the range of products and services, namely:

- in asset management, 15 new funds were created and portfolio managements were upgraded;
- in insurance, an Index Linked Multimanager policy was launched and new products dedicated to higher value-added customers were introduced;
- in private banking, the formation of a bank in Switzerland was initiated with a view to expanding international operations.

The Wealth Management companies also took steps to extend their distribution channels, defining agreements for:

- the creation of insurance products to be distributed by the Italian Post Office;
- the management of mutual funds to be distributed by Cassa di Risparmio di Firenze through a new company set up jointly by Cassa di Risparmio di Firenze and SANPAOLO IMI.

Operations in Wealth Management grew rapidly during 2000. The positive trend in volumes under management gave a strong boost to commissions, which more than offset the higher costs incurred to strengthen the Area. Its contribution to Group net income increased by 63.1%, raising its profitability to around 40%.

Banca Fideuram

	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)		
Net interest and other banking income	526	+32.6
Operating costs	-228	+22.0
Operating income	298	+42.0
Value adjustments on goodwill, merger differences and consolidation	-34	+13.5
Provisions and net adjustments to loans and financial fixed assets	-11	-18.8
Income before extraordinary items	253	+52.1
Net extraordinary income	1	-65.1
Income before taxes	254	+50.1
Income taxes for the year	-30	n.s.
Net income	224	+41.8
Contribution to Group net income (*)	177	+37.2
ALLOCATED CAPITAL (€/mil)	544	+9.7
	2000	1999
RATIOS (%)		
RoE	32.5	26.0
Cost / Income ratio	43.3	47.2
	31/12/00	Change % 2000/1999

OPERATING DATA (€/mil) ()**

Total financial assets	51,073	+14.2
- Direct deposits	2,725	+21.3
- Asset management	40,613	+12.5
- Mutual funds and fund-based portfolio management	34,923	+12.2
- Life insurance	5,690	+14.1
- Asset administration	7,735	+21.3
Net asset management flows	6,150	

STRUCTURE ()**

Employees	1,587	+22.3
Financial planners	3,782	+7.8
Branches	74	+17.5

(*) Relates to the 74% held by SANPAOLO IMI and after posting consolidation attributable to the Area.

(**) Operating data and structure figures reflect the full consolidation of Wagny Group.

Banca Fideuram, which has a network of 3,782 financial planners and 74 branches, operates through its own com-

panies that specialize in the provision of asset management services.

In 2000, Banca Fideuram took various steps to increase growth, which included the following:

- strengthening its distribution channels by adding 273 consultants, opening 11 new branches and developing on line operations;
- enriching the product range with a specific emphasis on those geared to the affluent segment, above all a new line of unit linked policies for wealthy clients;
- expanding into foreign markets in the international private banking sector; at the end of the year the acquisition of the Wagny Group was finalized; this group holds an important position in the French market in the field of traditional and on line securities brokerage, as well as a niche presence in private banking. With a view to expanding on the Swiss market as well, Banca Fideuram applied for authorization to transform its subsidiary Turis into a bank. In February 2001, this company changed its name to Fideuram Bank Suisse.

Banca Fideuram's margins rose rapidly in 2000, bringing its profitability to more than 30%. Net commissions in particular grew by 37%, despite booking commission provisions for consultants' incentive bonuses under the 1999-2001 plan for more than 100 million Euro. The increase in revenues permitted the bank to absorb the rise in operating costs related to the expansion initiatives taken during the year without penalizing the bottom line.

Asset management grew faster than the average for the Italian banking system, amounting to 40.6 billion Euro at the end of the year thanks to a net inflow of 6.2 billion Euro, of which 725 million Euro was in insurance. Banca Fideuram's share of the domestic market for mutual funds and fund-based portfolio management grew by around 60 basis points to reach 6.3% at the end of the year. The equity component had a particularly positive trend in this situation, representing 53.4% of the total at the end of December.

Banca Sanpaolo Invest

	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)		
Net interest and other banking income	69	+10.7
Operating costs	-49	+68.6
Operating income	20	-39.9
Income before extraordinary items	20	-23.3
Net extraordinary income	6	n.s.
Income before taxes	26	-4.5
Income taxes for the year	-10	+60.5
Net income	16	-23.8
ALLOCATED CAPITAL (€/mil)	89	+92.2
	2000	1999
RATIOS (%)		
RoE	18.0	45.7
Cost / Income ratio	71.0	46.6
	31/12/00	Change % 2000/1999
OPERATING DATA (€/mil)		
Total financial assets	10,178	+8.7
- Direct deposits	52	n.s.
- Asset management	9,180	+12.3
of which: Group products	7,469	+8.3
- <i>Mutual funds and fund-based portfolio management</i>	6,733	+8.2
- <i>Portfolio management</i>	270	-1.4
- <i>Life insurance</i>	466	+17.6
of which: Other products	1,711	+33.5
- Asset administration	946	-20.2
Net asset management flows	1,711	
STRUCTURE		
Employees	176	+60.0
Financial planners	1,488	+9.7

Sanpaolo Invest's main priority during the year was to strengthen its competitive positioning with a view to gaining a stockmarket quotation. The main initiatives concerned:

- the company's transformation into an autonomous bank, with respect to the Parent Bank;
- adoption of a multichannel distribution model by activating Internet and telephone banking services, allowing the network of financial planners to focus on higher value-added activities;
- expansion of the range by creating banking services and its own asset management products, as well as by adopting an open architecture approach. To this end, a specialist fund management company was set up under Irish law called Sanpaolo Invest Ireland Ltd. Distribution agreements were also reached with leading internation-

al operators, such as Credit Agricole, Indosuez, Credit Suisse, J.P. Morgan and Pictet, involving a total of 200 different types of funds.

The company's results were affected by the extraordinary charges incurred for the transformation into a bank and to prepare for its listing on the Stock Exchange. As a result, net income went down by 23.8% compared with 1999.

Operationally, Banca Sanpaolo Invest maintained a high rate of growth in 2000, raising its assets under management to 9.2 billion Euro thanks to a net inflow of 1.7 billion Euro. The company's market share in the field of mutual funds and fund-based portfolio management went up during the year to 1.3%. Placements were strongly focused on equity funds which at the end of the year came to 69% of the total.

IMIWeb Bank

	2000
STATEMENT OF INCOME (€/mil)	
Net interest and other banking income	6
Operating costs	-35
Loss before extraordinary items	-29
Net extraordinary income	1
Net loss	-28
	31/12/00
OPERATING DATA	
Number of active customers	12,000
Market share in on line trading	7%

IMIWeb, which was set up at the end of 1999 as the Group's on line trading company, established a reputation for itself during 2000, building up a clientele of around 12,000 active customers and a market share of around 7%. With a view to gradually extending its activities from e-trading to e-banking, the company applied for a banking license which was granted in January 2001.

Moreover, during 2000 Banca IMI transferred to IMIWeb all of its shareholding in IMIWeb UK, previously IMI Sigeco (UK), so that the subsidiary could launch an on line trading activity also in the United Kingdom.

IMIWeb closed its first full year of operations with a loss of 28 million Euro, mainly because of the substantial investments made.

Corporate

	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)		
Net interest and other banking income	272	+16.8
Operating costs	-99	-1.5
Operating income	173	+31.4
Provisions and net adjustments to loans and financial fixed assets	-31	-3.8
Income before extraordinary items	142	+41.7
Net extraordinary income	1	n.s.
Income before taxes	143	+43.5
Income taxes for the year	-59	+48.4
Net income	84	+42.4
ALLOCATED CAPITAL (€/mil)	750	+6.2
	2000	1999
RATIOS (%)		
RORAC	11.2	8.4
Cost / Income ratio	36.4	43.5
	31/12/00	Change % 2000/1999
OPERATING DATA (€/mil)		
Net loans to customers excluding NPLs	23,460	+13.4
Guarantees	6,832	+20.6
Total loans and guarantees	30,292	+14.9
STRUCTURE		
Employees	462	+5.5
Area offices in Italy	6	-
Foreign branches and representative offices	23	-

Corporate carries on lending activities and provides services to medium- and large-sized companies and groups. In Italy, it uses part of the Parent Bank's structure which includes central units and six area offices; abroad, it operates through branches and representative offices, as well as through Sanpaolo IMI Bank Ireland.

During 2000 the Corporate Area worked with Italian businesses with turnover of more than 1,000 billion Lire. Given the growing demand for specialist banking services on the part of medium-sized enterprises as well, it was decided to expand the Area's scope, giving it responsibility from 2001 for Italian groups and companies with turnover of more than 500 billion Lire.

In an extremely competitive market, the Area operated in 2000 with a view to reinforcing its profitability by improving its commission revenues, rationalizing its activities and optimizing the amount of capital absorbed. To this end:

- operations were focused on structured transactions and participation in syndicated loans, taking a leading role, as well as on project and export financing;
- the foreign network was widened and rationalized, splitting it into three macro areas: Europe, America and Asia, while the technology side of the European branches was centralized;
- a cooperation agreement was signed with Banca IMI to develop a common business for international corporate clients;
- an understanding agreement was signed with BSCH for the Italian corporates assistance and the connection of the two banks' business in Latin America.

Loans increased during the course of 2000 by 14.9%, amounting at the end of the year to 30.3 billion Euro, rising to 31.8 billion Euro taking account of the new customer scope.

The Area had positive results in 2000: the expansion in lending volumes, the rise in commissions and the action taken to keep down operating costs managed to offset the downward trend in spreads, allowing RORAC to come in at 11.2%.

Public Works and Infrastructure

	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)		
Net interest and other banking income	117	+30.0
Operating costs	-17	+34.4
Operating income	100	+29.3
Provisions and net adjustments to loans and financial fixed assets	-8	-24.4
Income before extraordinary items	92	+37.8
Net extraordinary income	2	n.s.
Income before taxes	94	+39.7
Income taxes for the year	-5	-81.0
Net income	89	+117.1
ALLOCATED CAPITAL (€/mil)		
	2000	1999
RATIOS (%)		
RoE	34.8	20.0
Cost / Income ratio	14.5	14.1
	31/12/00	Change % 2000/1999
OPERATING DATA (€/mil)		
Net loans to customers excluding NPLs	11,973	+11.6
Disbursements during the year	3,128	+18.0
STRUCTURE		
Employees	99	-10.0

Public Works and Infrastructure oversees the provision of financial services to the public sector, with particular reference to the financing of capital investments and major infrastructure works. In the first half of 2000 operations were carried on through the Parent Bank. On 1 July the Area's activities were transferred to a dedicated company, IMI Lease, which acquired a banking license and took on the name of Banca OPI.

During the course of 2000, the Area concentrated on reinforcing its market share and emphasizing its role as a specialist operator. This was also done by triggering synergies with the Group's Italian network which was given an origination role with local government entities. The Area's project financing and advisory operations were of particular importance.

The Public Works and Infrastructure Area closed the year with a significant improvement in its profitability. Net income was also boosted by booking deferred tax assets on the carry-forward tax losses of IMI Lease, and by applying the Dual Income Tax mechanism to the new organization. Loans to customers rose by 11.6%, thanks to new disbursements during the year amounting to a total of 3.1 billion Euro.

Investment Banking

	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)		
Net interest and other banking income	250	-4.5
Operating costs	-161	+15.5
Operating income	89	-27.3
Provisions and net adjustments to loans and financial fixed assets	1	n.s.
Income before extraordinary items	90	-21.5
Net extraordinary income	8	+72.1
Income before taxes	98	-17.9
Income taxes for the year	-31	-29.4
Net income	67	-11.1
Contribution to Group net income (*)	60	-21.1
ALLOCATED CAPITAL (€/mil)	356	-1.7
	2000	1999
RATIOS (%)		
RoE	16.9	21.0
Cost / Income ratio	64.4	53.3
	31/12/00	Change % 2000/1999
OPERATING DATA (€/mil)		
Banca IMI S.p.A. trading volumes		
- trading	474,918	-14
- sales	100,060	+179
- repurchase agreements	817,939	-23
- placements	19,537	+16
STRUCTURE		
Employees	683	+14.6
Branches	2	-

(*) After the posting of consolidation attributable to the Area.

Investment Banking handles all securities brokerage activities on own account and third-party account, funding operations for the raising of risk capital and debt for companies, and consulting in matters of corporate finance. Investment banking activity is carried out by Banca IMI and its subsidiaries, excluding IMIWeb Bank.

Banca IMI concentrated on reinforcing its operations and extending its range of products and services. During 2000, Banca IMI:

- consolidated its leadership position in placement and advisory: it organized and participated in the placement of bond loans for a total of 10.2 billion Euro; in equities, it acted as Global Coordinator and Sponsor in the AEM Torino, BB Biotech, AS Roma, CDC, Mondo TV, Inferentia, TXT, Biosearch Italia, Novuspharma, Engineering, Aeroporto di Firenze, Cassa di Risparmio di Firenze, and Vitaminic placements. Banca IMI also acted as Regional Retail Lead Manager in the placement in Italy of the second tranche of Deutsche Telekom, as well as Co-Lead Manager in the Italian offering of shares in Banco Santander Central Hispano;
- strengthened its role as primary dealer in the main European government security markets and strengthened its presence in the field of Eurobonds issued by primary issuers; in equities, Banca IMI dealt on the electronic market volumes on third-party account for 100 billion Euro, achieving a market share of 6.7%;
- increased its transactions in quoted covered warrants, also acquiring the possibility of operating directly in the German equity and derivatives market;
- applied for authorization to set up a hedge fund management company and to offer individual portfolio management services.

As part of a general rationalization of the Group's activities, at the end of the year Banca IMI transferred to NHS its 5% interest in Andala, one of the companies to be awarded a UMTS third-generation mobile telephone license, which changed its name in the new year to H3G.

The investments incurred to reinforce operations, combined with the lower inflow of revenues following the tensions that appeared on financial markets in the second part of the year, had an effect on the Area's results, which fell with respect to 1999. Net income came to 67 million Euro. Its contribution to Group net income was 60 million Euro, after reversing the intercompany capital gain on the sale of the 5% interest in Andala to NHS. The profitability of Banca IMI and its subsidiaries, excluding IMIWeb Bank, came to approximately 17%.

Merchant Banking

	2000	Change % 2000/1999
STATEMENT OF INCOME (€/mil)		
Net interest and other banking income	51	-41.9
Operating costs	-9	+24.5
Operating income	42	-47.9
Provisions and net adjustments to loans and financial fixed assets	-10	+34.6
Income before extraordinary items	32	-56.6
Net extraordinary income	93	n.s.
Income before taxes	125	+65.0
Income taxes for the year	-49	+113.9
Net income	76	+44.5
Contribution to Group net income (*)	33	-8.3
ALLOCATED CAPITAL (€/mil)		
	2000	1999
RATIOS (%)		
RoE	8.6	9.6
RoE mark to market	15.8	n.a.
Cost / Income ratio	17.6	8.2
	31/12/00	Net flow 2000
OPERATING DATA (€/mil)		
Merchant banking direct investments	479	+369
Other shareholdings	460	+152
	31/12/00	Change % 2000/1999
STRUCTURE		
Employees	52	+4.0

(*) Relates to the 51% held by SANPAOLO IMI and after posting consolidation attributable to the Area.

Merchant Banking has the task of acquiring and increasing the value of minority shareholdings with a view to realizing capital gains. This activity is carried on by NHS, held 51%, and its Dutch subsidiary LDV Holding.

During the course of 2000, NHS made new investments for 760 million Euro, the main ones being:

- the purchase of a 2.2% stake in FIAT from Compagnia di San Paolo at a market price of 220 million Euro; this

acquisition brought NHS into the FIAT shareholder syndicate agreement with IFI/IFIL, Generali and Deutsche Bank;

- the acquisition of 7% of Andala for 240 million Euro; as mentioned previously, part of this stake (5%) was transferred to NHS by Banca IMI;
- investments made in AEFEE, AMPS-Azienda Municipalizzata di Parma, Camuzzi, SAGAT and AEM di Torino.

NHS also promoted the closed-end Sanpaolo IMI Private Equity Fund I, of 120 million Euro, whose purpose is to acquire shareholdings in medium-sized companies, committing resources worth 35 million Euro. NHS is also planning to set up two new funds during 2001, the first to invest in small and medium-sized enterprises located in the South of Italy, and the second focusing on investments in quoted and unquoted stakes in Italian and European public utilities.

During the year, NHS sold investments for 307 million Euro on the market, realizing capital gains of around 100 million Euro. These included the complete disposal of the interests held in Countrywide Assured, Milano Assicurazioni and Efibanca, partial disposal of the interests held in Tecnost, Buzzi Unicem and Acea, as well as the transfer to the Parent Bank of the 4.1% stake held in Cassa di Risparmio di Firenze.

NHS's net income is up on the previous year thanks to a substantial contribution from the capital gains earned on the sale of investments which were booked as extraordinary income. The company's contribution to the Group's net income – 51%, given the Group's interest in the company – was down on 1999, partly because a higher share was attributable to minority interests following the reduction in SANPAOLO IMI's shareholding, and the reversal of the intercompany capital gain realized on the sale of the stake in Cassa di Risparmio di Firenze, net of the tax effect. The Area's profitability came to 8.6%, rising to 15.8% on adjusted earnings and net equity if the investment portfolio is valued mark to market.

Significant events after the year end

Economic background

Worries increased during the early months of 2001 concerning the future of the world economy, America's in particular, as there was a sharp deterioration in the indicators of the climate of confidence among households and companies and in the expectations of financial markets.

In the United States, the new expansive cycle launched by the Federal Reserve in January and the measures to reduce the tax burden announced for this year by the new Bush administration were designed to restabilize conditions of greater confidence among the business community and in equity markets, and to bring down the current risks of a recession.

In the Euro countries, the macroeconomic scenario looks less critical. In recent months, the downward trend in the climate of business confidence tended to signal expectations of a deterioration in the cyclical conditions, but to a lesser extent than in the United States. The European Commission estimates a GDP growth rate of around 2.9% in 2001.

Within the Euro-zone, the cyclical slowdown could be greater in those countries that are most exposed to the dynamics of international demand, Germany and Italy in particular. For 2001, the main international organizations have downgraded their estimates of Italian growth this year to 2.5%.

The decline in oil prices, wage moderation in the main countries in the Euro-zone and the recent slight appreciation in the European currency are all factors that limit the rise in inflation. Futures prices on the money market suggest expectations of a slight easing in the ECB's monetary policy by the end of the year.

This deterioration in the growth prospects of the world's main economies and in the climate of confidence among market operators gave rise in early 2001 to a sharp correction in the main international stock exchanges. The bear market hit high technology, media and financial stocks in particular, the sectors which had seen their prices rise substantially in early 2000. In the United States, the S&P500 and NASDAQ indices on 23 March 2001 were showing declines from the start of the year of 13.7% and 21.9% respectively. In the same period in Europe, the DJ Eurostoxx 50 index went down

by 16.1%, while in Italy the MIB 30 had fallen by 15.8%.

The asset management industry has been hit particularly hard by these trends. In the first two months of the year the net assets of mutual funds managed by Italian intermediaries went down by 3%. Net flows were negative, coming to a total of 2.3 billion Euro. Placements to equity and balanced funds were particularly reduced as against money funds.

This bearish phase in the market, and the performance of the asset management industry as a result, could continue for a number of months, taking into account that the cyclical outlook for the world economy is still not very positive. The trend should however reverse when it can be seen that the conditions for the main economies are recovering and this is currently being forecast by the end of the year by the principal research institutes and by the business community in general.

Group performance in the first two months of the current year

In a difficult market scenario, the SANPAOLO IMI Group has managed to protect its customer relations effectively during the first two months of 2001. Going against the general trend for the Italian banking system, in January and February the Group actually turned in positive net inflows to its asset management activities of 630 million Euro. The Group's mutual funds and fund-based portfolio management have posted positive net inflows of 350 million Euro compared with a general outflow for the system of 2.3 billion Euro. As a result, the Group's share of the mutual fund market has risen to more than 19%. Net inflow was particularly positive during these two months in the insurance sector, coming in at 300 million Euro including investments in funds made by unit linked policies.

The Group's asset management stock at the end of February of 126,600 million Euro has been heavily affected by the sharp decline in equity markets: while there was a net inflow of 630 million Euro during the first two months of the year, there was also a drop in value of around 3,000 million Euro since the start of the year. This contraction in the stock has led to a lower flow of net commissions compared with the pro forma figure for the same period of the previous year, restated on a comparable basis assuming that Banco di Napoli had been acquired as of 1 January 2000.

The first two months of the new year have confirmed the positive trend in net interest income, which is up on January

and February 2000. The cost trend is limited in line with forecast, while provisions and writedowns have fallen further.

Future prospects

The Group's accounts for the first three months of 2001 will also be conditioned by the comparison with the first quarter of 2000, which had the highest revenue flow of the

whole year. A drop in net commissions from services is envisaged, partly offset by higher net interest income and lower loan adjustments thanks to the continuing trend towards better asset quality.

Planned action lines, both to strengthen income through active management in different sectors and through cost containment, should allow a recovery in profit margins in subsequent quarters.



**Report of the Independent Auditors
on the consolidated financial statements
pursuant to art. 156 of Legislative Decree
no. 58 of February 24, 1998
(Translation from the Original Issued in Italian)**

Arthur Andersen SpA
Galleria San Federico 54
10121 Torino

To the Shareholders of
Sanpaolo IMI S.p.A.:

1. We have audited the consolidated financial statements of Sanpaolo IMI S.p.A. (the Company) and subsidiaries as of and for the year ended December 31, 2000. These consolidated financial statements are the responsibility of the Directors of Sanpaolo IMI S.p.A. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("CONSOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries and of certain enterprises subject to a significant influence, representing respectively 27.7% of the consolidated total assets and 25.5% of consolidated net interest and other banking income, have been examined by other auditing firms, who have provided us with their reports. Our opinion expressed in this report, insofar as it relates to the amounts included for such companies, is also based upon the audits of other auditing firms.

For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to the our auditors' report dated April 10, 2000.

3. In our opinion, the consolidated financial statements of Sanpaolo IMI S.p.A. and subsidiaries as of and for the year ended December 31, 2000, comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Company and subsidiaries.



4. For a better understanding of the consolidated financial statements, attention is drawn to the following information which is more fully described in the Report on Operations and in the explanatory notes:

- In the course of the year, Sanpaolo IMI S.p.A. acquired the Banco di Napoli Group and a significant investment in the Cassa di Risparmio di Firenze S.p.A.; the accounting treatment followed for the consolidation and the related effects on the consolidated statement of income and consolidated shareholders' equity are described in the explanatory notes. Moreover, in order to facilitate the comparison with the consolidated financial statements as of December 31, 1999, the consolidated financial statements as of December 31, 2000 have been restated by valuing the Banco di Napoli Group based on the equity method, and a "pro-forma" consolidated statement of income for the year 2000 has been prepared, assuming that the Banco di Napoli Group was acquired on January 1, 2000.

The main adjustments for the preparation of such restated and "pro-forma" consolidated financial statements, which are not subject to audit, are described in the accounting policies of the consolidated explanatory notes.

- Sanpaolo IMI S.p.A. has allocated a share of the net income for the years 1999 and 2000 to the reserve as provided for and in accordance to Law 461/98 and Legislative Decree 153/99 (the so-called "Ciampi reserve") in relation to the merger with IMI and acquisition of the Banco di Napoli Group. In the 2000 consolidated financial statements, following the request of suspension of the incentives and in line with the accounting treatment of the previous year, Sanpaolo IMI S.p.A. has, for reason of prudence, appropriated to the tax provision the whole amount of the benefit rising out of the application of these incentives. As required by the CONSOB Recommendation dated February 15, 2001, Sanpaolo IMI S.p.A. has disclosed in the consolidated explanatory notes the effects on the consolidated statement of income and consolidated shareholders' equity of such incentives.

Turin, Italy
April 2, 2001

Arthur Andersen SpA
s/Giulio Lubatti - Partner

s/Mario M. Busso - Partner