

SANPAOLO IMI

NEW EUROPEAN AGREEMENTS:

- Strategic agreement and shareholding exchange with CDC
- Agreement with the BSCH Group in asset management

NEW GROUP ORGANISATIONAL STRUCTURE:

- Creation of Private Bank
- Focus of bank branch networks on Households and Companies in financial services, credit and payments
- Autonomous development of Wealth Management
- Macchina Operativa Integrata (Integrated Operating Vehicle or MOI) for the bank networks

GROUP RESULTS AT 30 JUNE 2001:

- Six month net income of 688 million Euro (- 5.6% on the first half of 2000)
- Second quarter income of 361 million Euro (+ 10.4% on the first quarter 2001)
- ordinary income in growth for end-2001

NEW EUROPEAN AGREEMENTS

Strategic agreement and shareholding exchange with CDC

Turin, 31 July 2001 – As announced in a joint communication, SANPAOLO IMI and the CDC Group (Caisse de Dépôts et Consignations) have reached a framework agreement laying out the general principles for their future strategic cooperation.

In order to cement the operational co-operation, the framework agreement contains provisions on the establishment of a cross-shareholding between SANPAOLO IMI and the CDC Group.

Upon the finalisation of these substantial co-operation agreements expected before the end of the year, the CDC Group intends to enter into the shareholder agreement of SANPAOLO IMI for 2% of its capital and SANPAOLO IMI agrees to acquire a stake in CDC Ixis in the order of around 5% and sign consequently a shareholder pact. At the current market prices the two stakes will be of essentially equal amounts.

Agreement with the BSCH Group in asset management

SANPAOLO IMI has reached an agreement with **All Funds Bank**, a bank of the Banco Santander Central Hispano (BSCH) Group specialising in on-line distribution of third party mutual funds, to share IT platforms and existing distribution agreements.

The agreement is part of the wider project of research and collaboration which the two Groups have had for a long time in asset management and allows them to put together their experience developed in procurement and distribution policies.

NEW GROUP ORGANISATIONAL STRUCTURE

The Board of Directors unveiled a Group profoundly renewed and directed at greater efficiency in addressing various customer types in its organisational structure. This is demonstrated by the logic behind the changes, designed to:

- optimise the capacity to serve private clients - households and private banking clients - through the strengthening of production and distribution of financial services;
- develop services for small- and medium-sized companies;
- rationalise and strengthen services to corporate customers, as well as investment banking, merchant banking and financing public works and infrastructure;
- strengthen further strategic direction, coordination and operational support of the Group;
- produce a modern and efficient governance.

In this context, the areas of responsibility of the two **Managing Directors** have been set out, focusing more strongly on their reference markets and directed particularly to the development of new businesses and operating growth.

The Managing Director Alfonso Iozzo will have direct responsibility for:

- the banking branch network (SANPAOLO IMI and Banco di Napoli);
- relationships with corporate customers and wholesale business (Banca IMI, NHS and Banca Opi);
- the Macchina Operativa Integrata.

The Managing Director Luigi Maranzana will have direct responsibility for:

- banks sales networks (Banca Fideuram and Banca Sanpaolo Invest);
- the Private Bank;
- other distribution in Italy and abroad;
- Wealth Management;
- Group Treasury.

The **Corporate Centre**, reporting to the Managing Directors, includes Accounting and Planning, Group Resources, Shareholdings, Internal Audit, Risk Management, Legal and Institutional Relationships, Communication and Strategic Marketing and the Credit Committee.

The main changes from the previous organisational structure are:

- the **creation of a specialist bank in Private Banking** with specific structures throughout Italy and independence to develop. The project, which starts from the current 16 Private branches already existing, aims to create a strong player, able to exploit to the best the

growth opportunities in this market combining the long experience of SANPAOLO IMI in this sector with a new innovative approach;

- focus and development of the “classic” bank networks (SANPAOLO IMI and Banco di Napoli) on the core business represented by **households and businesses** and the **distribution of financial services, credit and payments**;
- the **completion of the Wealth Management project**, detached in business terms from the SANPAOLO IMI distribution network, in order to strengthen the production skills and sale capacity to networks and markets outside the Group;
- the **Macchina Operativa Integrata** project, recently approved, which will provide systems, IT support and other administrative services to the bank networks (SANPAOLO IMI, Banco di Napoli, Corporate and Private Banking);
- the coordination of **specialist activities (mostly wholesale) in support and service to companies** - with strong emphasis - in order to maximise synergies and operational development.

The establishment of a **Central Management** has also been improved, reporting to the Managing Directors, composed of Executives responsible for the main areas of business of the Bank and the Group:

- Vittorio Serafino (Coordination Banco di Napoli);
- Bruno Picca (SANPAOLO network);
- Carlo Corradini (Banca IMI);
- Ugo Ruffolo (Banca Fideuram);
- Marco Mazzucchelli (Wealth Management).

Three **Technical Consultative Committees** - Audit, Remuneration and Personnel Policies and Group Risks - have been redefined to assist the relationship between the Board of Directors and the respective subjects.

GROUP RESULTS AT 30 JUNE 2001

In an external environment in marked deterioration against the first half of 2000, the SANPAOLO IMI Group **net six-month income** at June 2001 was 688 million Euro, down by 5.6% on the pro forma first half of 2000. **Second quarter net income**, 361 million Euro, is in line with that of the same quarter in the previous year and shows a growth of 10.4% against the first three months of 2001.

Notwithstanding the difficult market environment, the Group revenues in the first half of 2001 were substantially at the same level as in the same period of last year: **net interest and other banking income** was 3,034 million Euro, against 3,075 million Euro a year ago.

The strong investments made last year and in the first half of this year to strengthen distribution were reflected in an increase in Group costs, in particular in amortisation. The **operating income** fell 8.8% a 1,200 million Euro, while **ordinary income** was 883 million Euro, against 959 in the first half of 2000.

The programme of rationalisation and structural cost reduction launched by the Group in June, although aimed at showing effect from 2002, will allow a reduction in the rate of growth in administrative costs in coming months, which ought to be at the levels recorded in 2000. This will contribute to the achievement of the target for **ordinary income in 2001 up on 2000**.

In detail:

- Group **net interest income** was 1,426 million Euro (+2,1% on the same period in 2000). The progress was possible thanks to the growth, against the first half average for 2000, in both customer volumes and spreads;

Group **net loans**, excluding NPLs and to SGA (the company to which Banco di Napoli's doubtful loans were transferred), were 94.6 billion Euro, up 4.2% on an annual basis and substantially in line with the end of 2000;

direct deposits from customers were 104.9 billion Euro, up by 1.7% on the end of June 2000 and 0.7% from the beginning of the year;

- **NET commissions** in the first half of 2001 were 1,330 million Euro (-7.5% on the first six months of 2000). The instability which is marking stock markets has in fact led to a reduction in commissions from asset management and trading compared to the high values which were achieved, in a very positive market context, in the first half of 2000;

notwithstanding the markets, the Group managed a positive net flow in **asset management**, at 2.6 billion Euro, in the first six months. The fall in the markets however counterposed a devaluation of 3.9 billion Euro in the total stock of Group asset management, which amounted to 127.6 billion Euro in June, down by 1% against 2000 and 0.7% on an annual basis;

Group performance was particularly positive in **insurance**: the amount of life policies rose to 13,9 billion Euro, up by 11.7% from the beginning of the year and 25% from June 2000;

- significant growth in income from **companies valued at net equity** as well as **dividends from minority shareholdings** at 145 million Euro (+90.8% against the first half of 2000), thanks to greater dividends banked from new shareholding investments and strong growth in income from Group insurance companies;
- the increase in **costs** (+1.8% in administrative expenses, +36.2% in amortisation), in line with expectations, is to be placed in relation to the acceleration, from the second half of 2000, of the initiatives designed to strengthen distribution channels. The increase in amortisation from the first half of 2000 follows from the higher percentages adopted by Banco di Napoli. Group costs decelerated in the second half of the year as a result of both a more consistent basis of comparison and the first results of the recent actions to contain costs;

- **provisions and net adjustments to loans and financial fixed assets** fell in the first half of 2001 to 248 million Euro, down by 8.5% against 271 million Euro in the same period of 2000. The fall was made possible by a significant improvement in asset quality;

doubtful loans were 1,877 million Euro at the end of June, a fall of 32% on an annual basis. In particular, net non-performing loans to customers fell to 830 million Euro, down 29.8% on the 12 months and 185 million Euro on December. The ratio to net customer loans fell to 0.8% against 1% at the end of 2000 and 1.2% at 30 June 2000. The NPL coverage ratio at the end of June, also taking account of tax write-offs, was 76%;

- the **extraordinary income** was 173 million Euro, against 310 million Euro in the first half of 2000. The 2000 result was affected by the sale of 40% of Crediop, while the revenues this year are attributable to positive surpluses from Banco di Napoli, capital gains from NHS's sale of Montedison shares prior to the Italenergia transaction (whose capital gain of 170 million Euro will be accounted for in the second half), capital gains from 10.7% of Beni Stabili, as well as the sale of own shares to Fondazione Cassa di Risparmio di Venezia in the course of the acquisition of a stake in Banca Cardine.

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Reclassified consolidated statement of income

	First half 2001	First half 2000 pro forma (1)	Change first half 2001 / First half 2000 pro forma	2000	
	(€mil)	(€mil)	(%)	Pro forma (1)	Financial Statement 2000
	(€mil)	(€mil)	(%)	(€mil)	(€mil)
NET INTEREST INCOME	1,426	1,396	+2.1	2,874	2,572
Net commissions and other dealing revenues	1,330	1,438	-7.5	2,852	2,641
Profits and losses from financial transactions and dividends on shares	133	165	-19.4	296	263
Profits from companies carried at equity and dividends from shareholdings	145	76	+90.8	147	146
NET INTEREST AND OTHER BANKING INCOME	3,034	3,075	-1.3	6,169	5,622
Administrative costs	-1,783	-1,752	+1.8	-3,572	-3,076
- <i>personnel</i>	-1,116	-1,094	+2.0	-2,256	-1,929
- <i>other administrative costs</i>	-562	-555	+1.3	-1,109	-958
- <i>indirect duties and taxes</i>	-105	-103	+1.9	-207	-189
Other operating income, net	122	120	+1.7	247	213
Adjustments to tangible and intangible fixed assets	-173	-127	+36.2	-330	-299
OPERATING INCOME	1,200	1,316	-8.8	2,514	2,460
Value adjustments on goodwill, merger differences and consolidation	-69	-86	-19.8	-176	-90
Provisions and net adjustments to loans and financial fixed assets	-248	-271	-8.5	-639	-581
INCOME BEFORE EXTRAORDINARY ITEMS	883	959	-7.9	1,699	1,789
Net extraordinary income	173	310	-44.2	402	396
INCOME BEFORE TAXES	1,056	1,269	-16.8	2,101	2,185
Income taxes for the period	-314	-489	-35.8	-770	-785
Change in reserves for general banking risks	4	3	+33.3	2	2
Income attributable to minority interests	-58	-54	+7.4	-102	-94
Reversal of second half income Banco di Napoli group (2)	-	-	n.s.	-	-16
NET INCOME	688	729	-5.6	1,231	1,292

(1) The pro forma statement of income for the first half of 2000 and that for the year 2000 have been prepared, according to the criteria detailed in the Explanatory Notes, on the basis of the acquisition of control of Banco di Napoli and Wargny from 1/1/2000. This allows a more consistent comparison with 2001.

(2) The caption refers to the share of the net result in the second half of 2000 of the Banco di Napoli group included in the price of the various tranches acquired by SANPAOLO IMI during 2000. As described in the Explanatory Notes to the consolidated financial statements at 31/12/2000, the reversal is made necessary in that the income statement contribution of the Neapolitan bank into the preceding year's consolidated financial statements was reflected line by line throughout the whole of the second half.

The pro forma income statements for the first half of 2000 and for the year 2000 as well as the income statement for the first half of 2001 are not audited.

Analysis of quarterly consolidated statement of income

	2001			2000 pro forma (1)				
	2nd quarter (€mil)	1st quarter (€mil)		Quarterly average (€mil)	4th quarter (€mil)	3rd quarter (€mil)	2nd quarter (€mil)	1st quarter (€mil)
NET INTEREST INCOME	700	726	-	719	759	719	709	687
Net commissions and other dealing revenues	677	653	-	713	735	679	692	746
Profits and losses from financial transactions and dividends on shares	68	65	-	74	76	55	49	116
Profits from companies carried at equity and dividends from shareholdings	86	59	-	37	41	30	41	35
NET INTEREST AND OTHER BANKING INCOME	1,531	1,503	-	1,543	1,611	1,483	1,491	1,584
Administrative costs	-910	-873	-	-893	-932	-888	-897	-855
- personnel	-561	-555	-	-564	-601	-561	-550	-544
- other administrative costs	-294	-268	-	-277	-278	-276	-296	-259
- indirect duties and taxes	-55	-50	-	-52	-53	-51	-51	-52
Other operating income, net	68	54	-	62	65	62	63	57
Adjustments to tangible and intangible fixed assets	-93	-80	-	-82	-127	-76	-66	-61
OPERATING INCOME	596	604	-	630	617	581	591	725
Value adjustments on goodwill, merger differences and consolidation	-36	-33	-	-44	-49	-41	-44	-42
Provisions and net adjustments to loans and financial fixed assets	-147	-101	-	-160	-263	-105	-159	-112
INCOME BEFORE EXTRAORDINARY ITEMS	413	470	-	426	305	435	388	571
Net extraordinary income	100	73	-	100	41	51	201	109
INCOME BEFORE TAXES	513	543	-	526	346	486	589	680
Income taxes for the period	-119	-195	-	-193	-97	-184	-200	-289
Change in reserves for general banking risks	2	2	-	1	-1	-	3	-
Income attributable to minority interests	-35	-23	-	-26	-22	-26	-29	-25
NET INCOME	361	327	-	308	226	276	363	366

(1) The pro forma quarterly statements of income for 2000 have been prepared, according to the criteria detailed in the Explanatory Notes, on the basis of the acquisition of control of Banco di Napoli and Wargny from 1/1/2000. This allows a more consistent comparison with 2001

The pro forma quarterly income statements for 2000 as well as the quarterly income statements for 2001 are not audited.

Reclassified consolidated balance sheet

ASSETS	30/6/2001	30/6/2000 pro forma (1)	Change 30/6/01- 30/6/00 pro forma	31/12/2000
	(€mil)	(€mil)	(%)	(€mil)
Cash and deposits with central banks and post offices	492	617	-20.3	708
Loans	116,761	121,247	-3.7	117,825
- due from banks	18,849	25,852	-27.1	19,119
- loans to customers	97,912	95,395	+2.6	98,706
Dealing securities	21,773	20,929	+4.0	18,329
Fixed assets	11,009	12,164	-9.5	12,396
- investment securities	4,624	7,120	-35.1	6,671
- equity investments	4,240	2,917	+45.4	3,573
- intangible fixed assets	368	335	+9.9	359
- tangible fixed assets	1,777	1,792	-0.8	1,793
Differences arising on consolidation and on application of the equity method	1,064	941	+13.1	989
Other assets	22,880	22,003	+4.0	21,854
Total assets	173,979	177,901	-2.2	172,101
LIABILITIES	30/6/2001	30/6/2000 pro forma (1)	Change 30/6/01- 30/6/00 pro forma	31/12/2000
	(€mil)	(€mil)	(%)	(€mil)
Payables	136,047	138,250	-1.6	133,740
- due to banks	31,128	35,115	-11.4	29,596
- customer deposits and securities issued	104,919	103,135	+1.7	104,144
Provisions	4,254	4,035	+5.4	4,601
- for taxation	880	999	-11.9	1,230
- for termination indemnities	758	740	+2.4	743
- for risks and charges	1,506	1,105	+36.3	1,500
- for pensions and similar	1,110	1,191	-6.8	1,128
Other liabilities	20,094	23,844	-15.7	20,534
Subordinated liabilities	5,179	3,760	+37.7	5,158
Minority interests	737	730	+1.0	715
Shareholders' equity (2)	7,668	7,282	+5.3	7,353
Total liabilities	173,979	177,901	-2.2	172,101

(1) The pro forma balance sheet data at 30/6/2000 have been prepared, according to the criteria detailed in the Explanatory Notes, on the basis of the acquisition of control of Banco di Napoli and Wargny l'1/1/2000.

(2) Reserves are net of own shares held by the Parent Bank, 3,709,000 at a book value of 47 million Euro at 30 June 2000, 39,345,982 at a book value of 697 million Euro at 31 December 2000 and 16,712,003 at a book value of 289 million Euro at 30 June 2001.

The pro forma balance sheet data at 30/6/2000 and those at 30/6/2001 are not audited.