

# GRUPPO SANPAOLO IMI

## Q4 Results and Strategic Guidelines 2003-2005

Milan - February 12, 2003

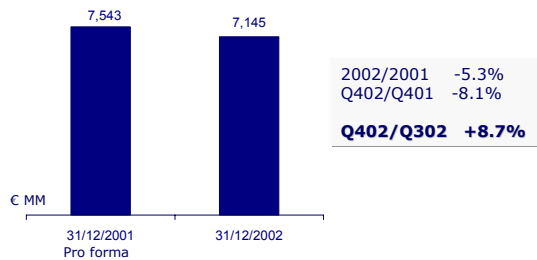
***Disclaimer:***

***As in most presentations, the following discussion contains forward looking statements, and our actual results may differ from those discussed here. Additional information concerning factors that could cause such a difference can be found in our annual report and other publicly disclosed financial reports.***

## AGENDA

- ✓ Q4 Results
  - Group Strategy
  - Focus on Retail Banking
  - Financial Targets

## NET INTEREST AND OTHER BANKING INCOME



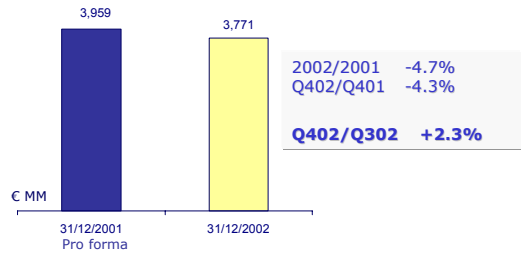
### **PRESSURE ON REVENUES FROM**

- Lower rates leading to reduction on mark down
- Market performance effect on equity related business and in particular fees from assets under management

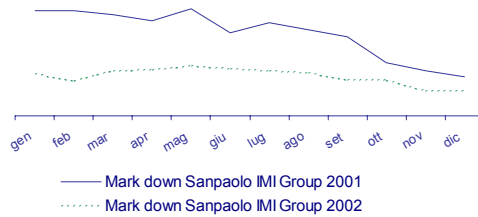
### **BUT...**

- Good loan growth in selected markets
- Strong customer relationship and resilience in asset gathering. Particularly strong growth of insurance assets

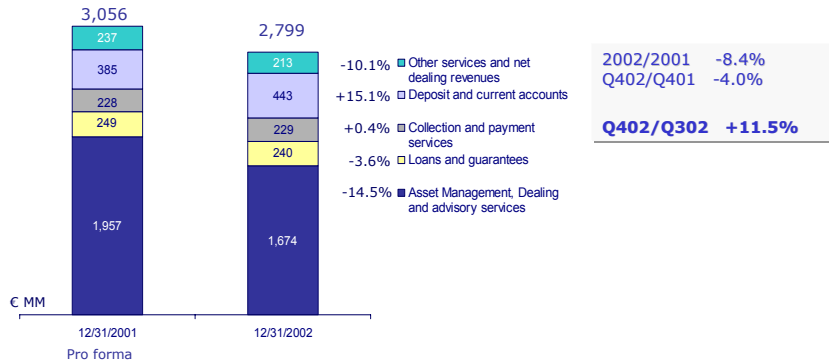
### NET INTEREST INCOME AFFECTED BY INTEREST RATES DYNAMICS



### Deposit Margin (mark down)



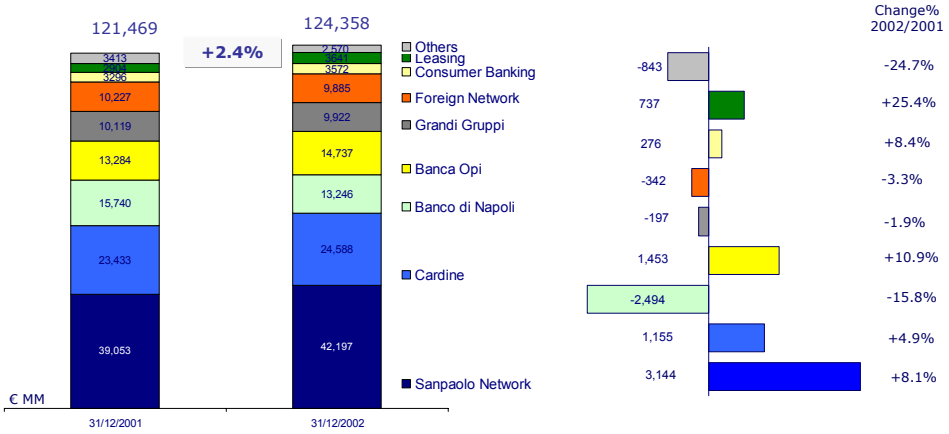
### FEE INCOME AFFECTED BY STOCK MARKETS



## SELECTIVE GROWTH IN CUSTOMER LENDING

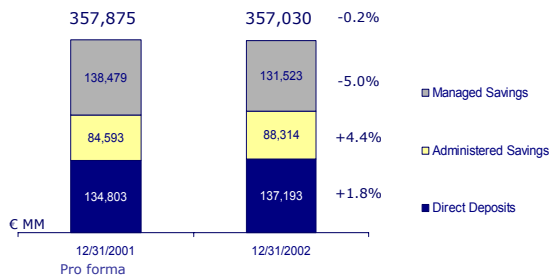
### Net customer loans by business area

### Loan growth by business area (y-o-y)



## STABLE CUSTOMER FINANCIAL ASSETS BASED ON SOLID CUSTOMER RELATIONSHIPS

### TFA STOCK BREAKDOWN



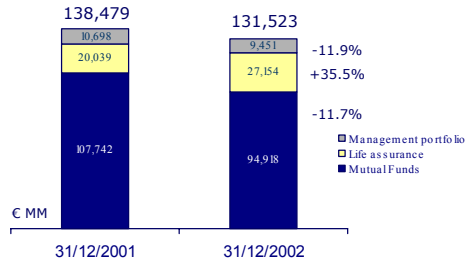
### INFLOW OF TFA

9,305 € MM

as of 31/12/2002

## DETAIL ON ASSETS UNDER MANAGEMENT

### Assets Under Management

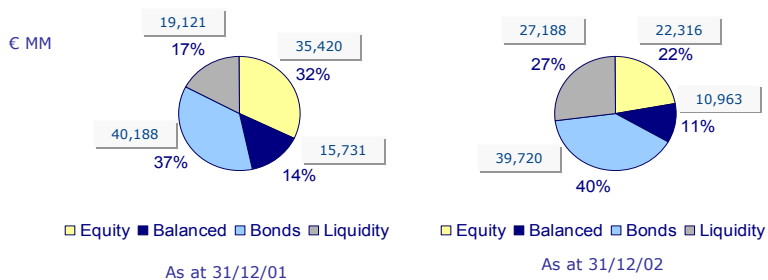


| as of 31/12/2002 | Life assurance | Mutual funds | NET           |
|------------------|----------------|--------------|---------------|
| Sanpaolo Network | 3,807          | -3,254       | 553           |
| Cardine          | 373            | 1,025        | 1,398         |
| Banco di Napoli  | 472            | 1,538        | 2,010         |
| Fideuram         | 2,494          | -3,355       | -861          |
|                  |                |              | <u>3,100*</u> |

\*This figure not includes 94 € MM GPM

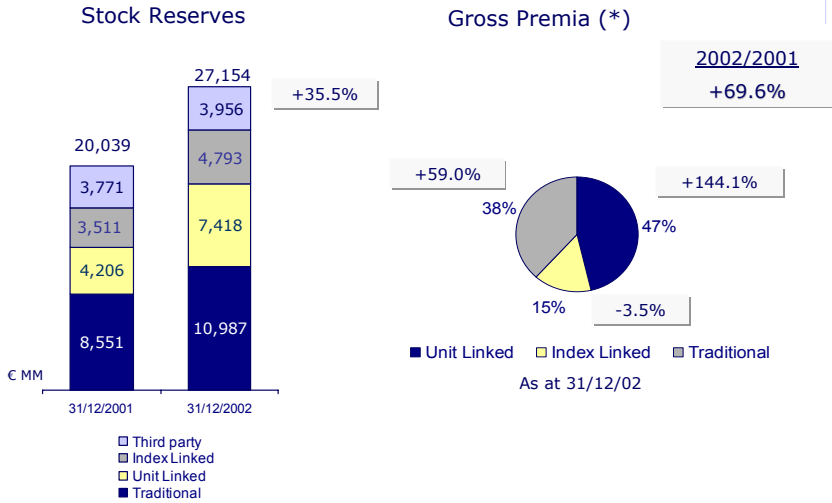
## DETAIL ON MUTUAL FUNDS

### Portfolio Mix



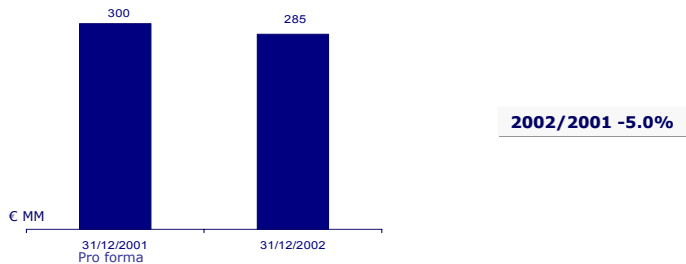
Mutual funds market share: **21.35%**  
 (as of January 2003, with Eptaconsors)

DETAIL ON LIFE ASSURANCE

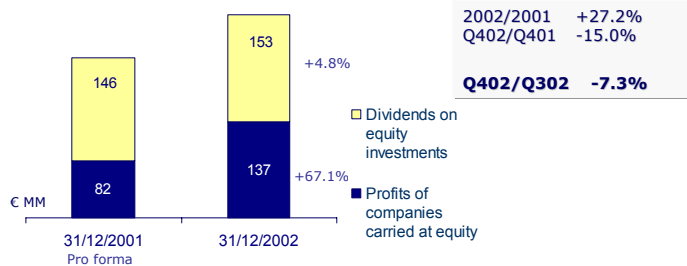


(\*) Includes Sanpaolo Vita, Sanpaolo Life and Fideuram Vita

PROFITS ON FINANCIAL TRANSACTIONS AND DIVIDENDS ON SHARES

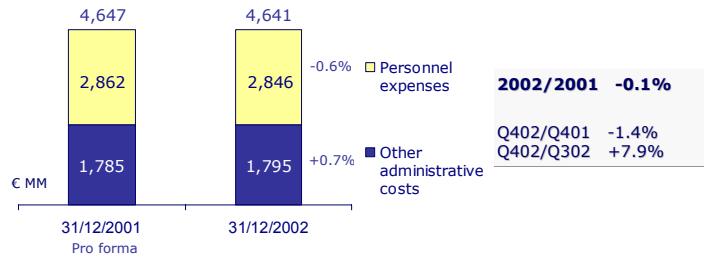


PROFITS OF COMPANIES CARRIED AT EQUITY AND DIVIDENDS ON EQUITY INVESTMENTS

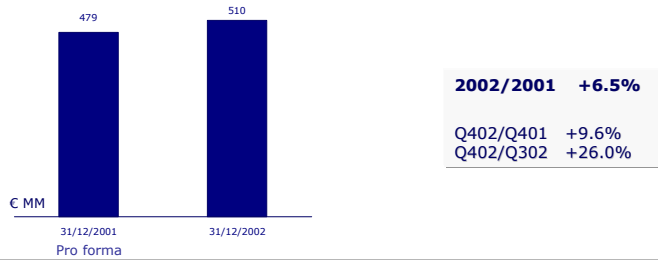


## GOOD COST CONTROL

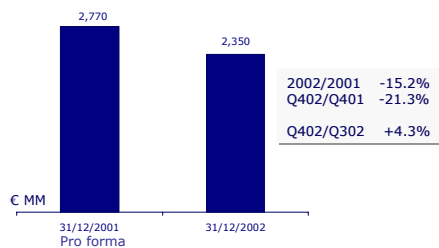
## Administrative costs



## Depreciation and amortisation

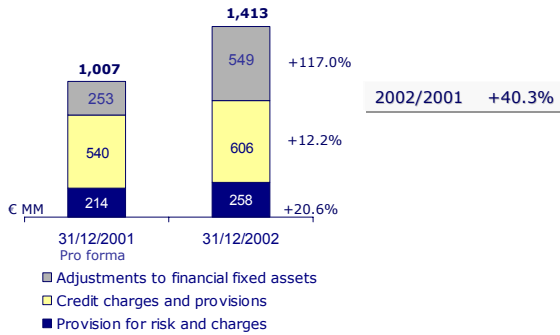


## SEASONALLY HIGHER COSTS OFFSET BY BETTER REVENUE DYNAMICS IN Q4

Operating income<sup>(1)</sup>

(1) Before amortisation of goodwill

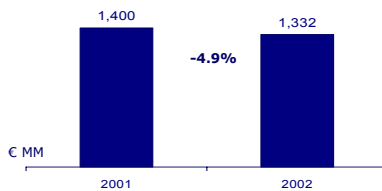
## NET PROVISIONS IMPACTED BY ONE OFF ADJUSTMENTS



|                         | Adjustment | Book value p.s.<br>(as of 31/12/02) |
|-------------------------|------------|-------------------------------------|
| <b>Financial assets</b> |            |                                     |
| FIAT                    | 82 € MMm   | 8.7 euro                            |
| SCH                     | 399 € MMm  | 6.5 euro                            |

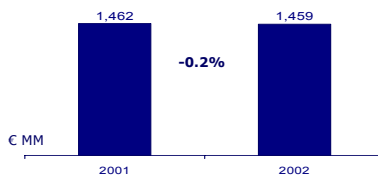
## MAINTENANCE OF GOOD ASSET QUALITY

## Net NPLs



NPL ratio as at 31/12/02: **1.0%**  
NPL coverage ratio: **68.8%**

## Net Watchlist (1)



Net Watchlist ratio as at 31/12/02: **1.1%**  
Watchlist coverage ratio: **28.4%**

(1) Incagliati, ristrutturati e in corso di ristrutturazione



## FORWARD LOOKING PROVISIONING POLICY

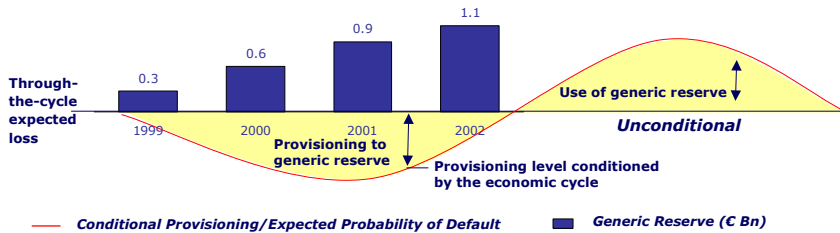
## Guidelines

- Since the merger the Group has adopted a forward looking provisioning policy in line with best international practice
- Enabling fair distribution of the cost of risk and not penalising shareholders in a more challenging economic scenario

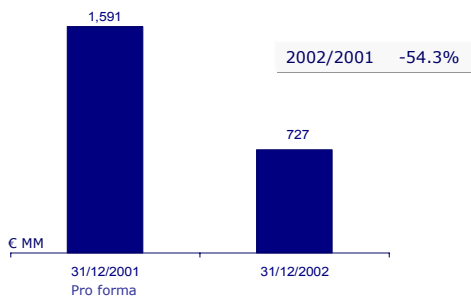
## Key Data

- Generic reserve is now over €1.1 Bn which represents around 90 bps of the performing loan portfolio
- Increase in credit provisioning (+12%), around 35% in generic reserve, including generic reserve to bring Cardine into the Group model

## Protection from Forward Looking Provisioning Policy

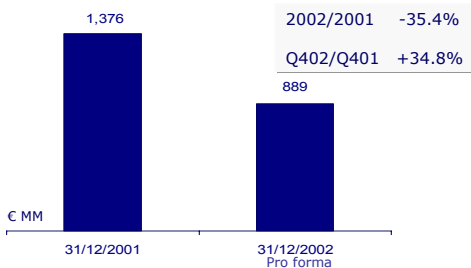


## ORDINARY INCOME



- Ordinary income hit by extraordinary write downs on financial assets
- Extraordinary income 28% lower
- Tax rate worsened both by higher incidence of IRAP and write down of SCH

## NET INCOME



- Reserve for general banking risks (364 € MM) used to offset extraordinary elements
- Capital ratios unchanged due to significant fiscal benefit to reserves from Banco di Napoli merger (250 € MM)

## DIVIDEND POLICY AND CAPITAL RATIOS

- Despite a difficult year, the Group is able to pay a very good dividend yield (4.75% using the average price over the last month)
- The Group maintains a strong capital base and a low risk profile
- Maintenance of high dividend pay-out ratio (62% equivalent to € 0.30 p.s.)
- Strong capital base
  - Core Capital: 6.3%
  - Tier 1: 7.1%
  - Total Capital: 10.4%

## AGENDA

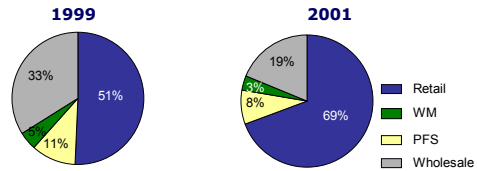
- Q4 Results
- ✓ Group Strategy
- Focus on Retail Banking
- Financial Targets

## 1999-2002: GROUP STRATEGY HAS BEEN FOCUSED ON BUILDING CORE RETAIL BANKING ASSETS

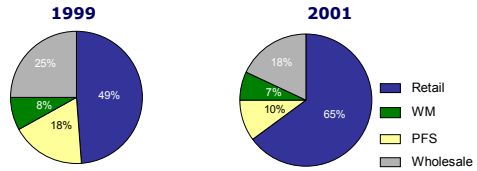
### Results

- An increase in capital allocated to the retail business
- An increase in the contribution from retail banking to the revenue mix
- An increase in the customer base and an improvement in its geographical distribution

### Capital Allocation



### Net Income



### Customer Base (# of customers)

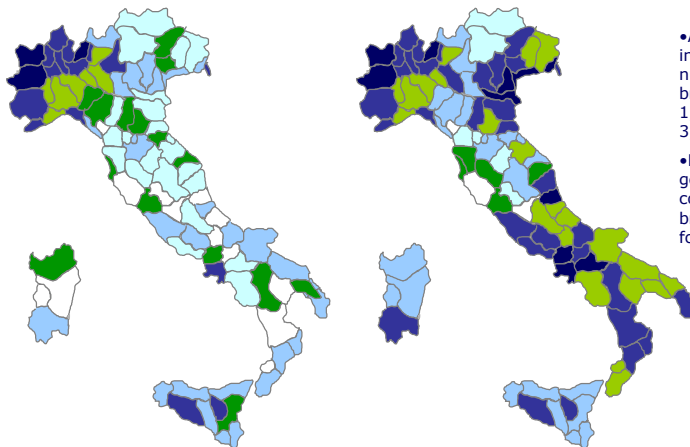
|       | 1999   | 2002    |
|-------|--------|---------|
| Total | 4.5MM  | 7.5MM   |
| SME   | 70,000 | 150,000 |

## 1999-2002: DEVELOPING THE DISTRIBUTION NETWORK

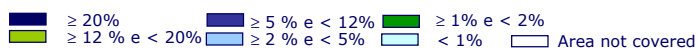
1999

2002

Results

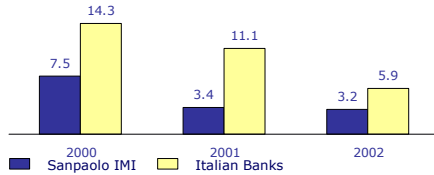


- A significant increase in the number of retail branches – from 1,355 in 1999 to 3,069 in 2002
- Excellent geographical coverage through its branch distribution footprint



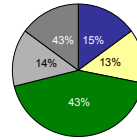
## 1999-2002: REFOCUSING OF THE LOAN BOOK

**Domestic Loans Growth (%)<sup>(1)</sup>**

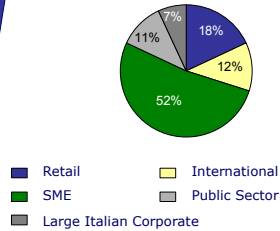


- Selective growth, but...
  - Focus on increasing risk adjusted profitability in SME lending
  - Refocusing of the loan book to increase capital allocation to SME and retail segments
  - Reduction of BdN large corporates exposures and disposal of BdN overseas activities
  - Rebalance of international exposure towards Europe
  - Reduction of concentration in the portfolio
    - Lending to first 5 borrowers down from 9.7% to 6.7%

**1999 Loan Book Breakdown (%)**



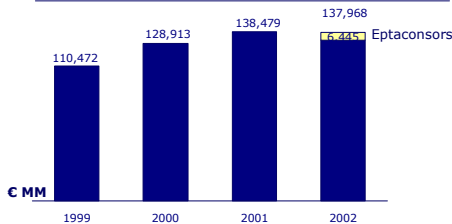
**1H 2002 Loan Book Breakdown (%)**



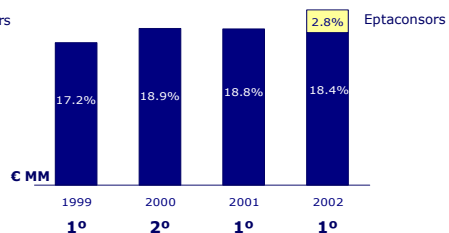
(1) Average growth rate except for 2000 (year end)

## 1999-2002: SUCCESSFUL DEVELOPMENT OF ASSET GATHERING

**AUM**

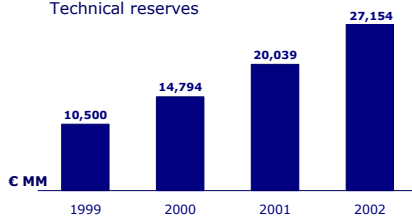


**Mutual funds market share**



### Life Business

Technical reserves



|      | New production | Market share |
|------|----------------|--------------|
| 1999 | 2,3 C Bn       | 8.9%         |
| 2002 | 7,7 C Bn       | 17.2%        |

Embedded value (30/06/2002) : 1,641 Euro/mil

## STRATEGIC DECISIONS IN 2002

|                                      | •Business Area           | •Actions Taken  |
|--------------------------------------|--------------------------|---|
| Strengthen distribution capacity     | Domestic Networks        | <ul style="list-style-type: none"> <li>October 2002 - BdN and Sanpaolo merger</li> <li>Spin-off the "Direzione Territoriale" (South) into the new BdN</li> <li>Acceleration of integration with Cardine Finanziaria</li> </ul>  |
|                                      | PFS                      | <ul style="list-style-type: none"> <li>May 2002 - Sanpaolo IMI transfers Banca Sanpaolo Invest to Banca Fideuram</li> </ul>   |
| Product factory rationalization      | Wealth Management        | <ul style="list-style-type: none"> <li>October 2002 - Sanpaolo IMI acquires an additional 20.24% of Eptanconsors obtaining the control of the company</li> </ul>  |
|                                      | Infrastructure Finance   | <ul style="list-style-type: none"> <li>October 2002 - Merger of BdN asset management in Sanpaolo wealth management</li> </ul>   |
|                                      | Consumer Finance/Leasing | <ul style="list-style-type: none"> <li>October 2002 - Rationalization and concentration of activity in Banca OPI</li> </ul>   |
| Management of the business portfolio | Internet                 | <ul style="list-style-type: none"> <li>July 2002 - Approval of the merger between Cardine Leasing and Sanpaolo Leasint</li> </ul>   |
|                                      | Private Equity           | <ul style="list-style-type: none"> <li>December 2002 - Sanpaolo IMI sells 80% of Imiweb Bank to Centrobanca</li> <li>October 2002 - Centralization of all the private equity initiatives in NHS (Cardine Investments sold to NHS and merger between NHS and Sanpaolo IMI private equity)</li> </ul> |
| Efficiency                           | Corporate Centre         | <ul style="list-style-type: none"> <li>April 2002 - Full integration of Cardine's treasury department</li> </ul>  |

## ECONOMIC OUTLOOK AND MARKET ASSUMPTIONS (2003-2005)

| 2003-2005 Scenario  | Key Indicators                    | Growth Rate (%) |      |      |      |
|---|-----------------------------------|-----------------|------|------|------|
|   |                                   | 2002            | 2003 | 2004 | 2005 |
| <ul style="list-style-type: none"> <li>➤ Uncertain outlook for the year ahead</li> <li>➤ But favorable resolution of the IRAQ crisis could result in a recovery of business confidence</li> <li>➤ Mid case scenario selected for the business plan</li> <li>➤ Modest deposits and customer loans growth</li> <li>➤ Spread stable with a slight improvement from 2004</li> <li>➤ Expected deterioration of credit quality in the system</li> </ul> | GDP (Italy)                       | 0.4             | 1.5  | 2.2  | 2.5  |
|   | CPI                               | 2.5             | 2.2  | 2.1  | 2.3  |
|   | Market Performance (Global Comit) | -23.8           | 8.0  | 10.0 | 10.0 |
|   | Loans                             | 5.4             | 5.5  | 6.2  | 6.4  |
|   | Deposits                          | 6.1             | 4.5  | 4.9  | 5.0  |
|   | AUM                               | 0.9             | 7.8  | 8.7  | 9.5  |
|   | Spread                            |                 |      |      |      |
|   | Short Term                        | 4.3             | 4.2  | 4.4  | 4.6  |
|   | Long Term                         | 1.4             | 1.4  | 1.6  | 1.7  |

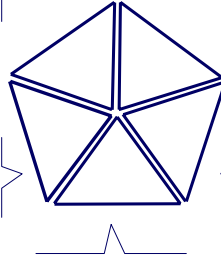
## GROUP STRATEGY

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

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

### 2. Cost Discipline

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



### 3. Focus on Profitability for other Activities

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

### 5. Commitment to Market Communication

- Update on strategic guidelines and achievements

### 4. Portfolio Management

- Active and efficient management of the portfolio of shareholdings

## AGENDA

- Q4 Results
- Group Strategy
- ✓ Focus on Retail Banking
- Financial Targets

## 2003-2005 EXTENDING THE SANPAOLO BRANCH DISTRIBUTION MODEL

**Retail Headquarters**

- Strategic Issues
- Commercial Policies
- Credit Policies
- Control Systems
- Personnel Control

Sanpaolo IMI Group

**Area Management**

- Strong regionally based management
- Coordination of customer segments

Sanpaolo IMI and BdN Area

Cardine Areas

Area X

**Front office**

- 3.000 branches "a maglia stretta"
- Specialisation
- Brand differentiation
- Multi-channel approach

Corporates

Retail

Private

## DISTRIBUTION MODEL IN THE SOUTH POST BDN MERGER

**Results**

- Single branch network
- Single operating system
- Creation key management role at area level
- Branch specialisation by customer segments
- Extension of Sanpaolo successful internet banking model to BdN
- Rationalisation of headquarters and area managers structures

**Key Advantages**

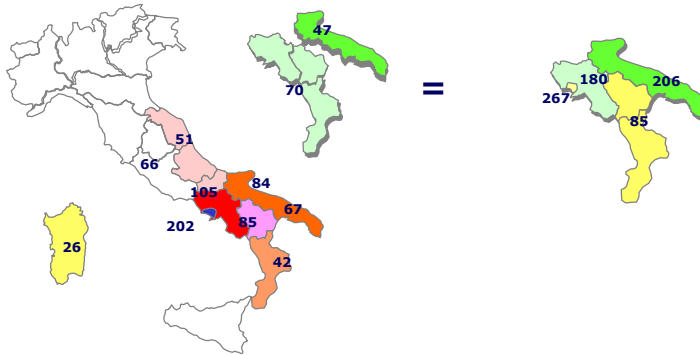
- Strong local coordination by area management structures
- Improvement of commercial effectiveness
  - Specialisation of professional role
  - Incentivisation of staff
  - Introduction of CRM tools
  - Reorganization of business processes
- Optimisation of operating efficiency by reducing operating organizational overlaps

## RATIONALIZATION OF AREA MANAGEMENT STRUCTURES

**Banco di Napoli**  
branch management areas:  
11 areas of which  
**8 in continental South**

**+** Sanpaolo  
2 areas

**Post merger**  
4 areas



## TIMING OF THE IMPLEMENTATION PROCESS

StepsDeadlines

- |  |                   |
|--|-------------------|
| • Banco di Napoli Merger   | <b>31/12/2002</b> |
| • Rationalisation of SP & BdN Areas  | <b>31/12/2002</b> |
| • Former BdN branches on SP system   | <b>03/06/2003</b> |
| • First Cardine Bank to move on Sanpaolo IT operating platform               | <b>30/09/2003</b> |
| • Integration of Cardine Finanziaria   | <b>31/12/2003</b> |
| • Completion of migration of Cardine banks on Sanpaolo IT operating platform | <b>01/07/2004</b> |

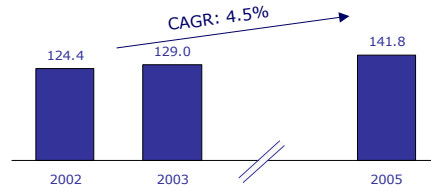


## 2003-2005: GROWING A REFOCUSED LOAN BOOK

### Guidelines

- Exploit the Group's strong market positioning in fast growing specialist markets
  - Retail mortgages
  - Public sector and Infrastructure financing
  - Consumer finance
- Develop our large and diversified SME customer base by
  - Leveraging risk management skills and introducing Basel II pricing models ahead of competitors enabling optimal risk pricing
- Improving the service role by offering a broader range of value added products

### Expected Group Net Loans Evolution (€ Bn)

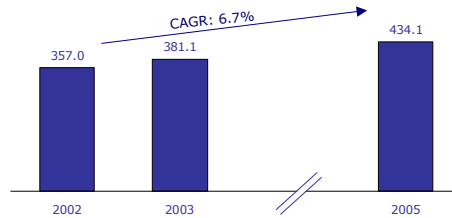


## GROWING ASSET GATHERING REVENUES IN A CHALLENGING ENVIRONMENT

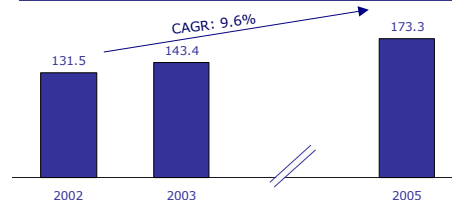
### Guidelines

- Increase the service level across all the franchises
- Increase the level of intermediation in customer asset management by introducing the role of financial advisors in the new networks
- Align asset allocation to meet customers' longer term savings needs through a comprehensive product range

### Expected TFA Evolution (€ Bn)

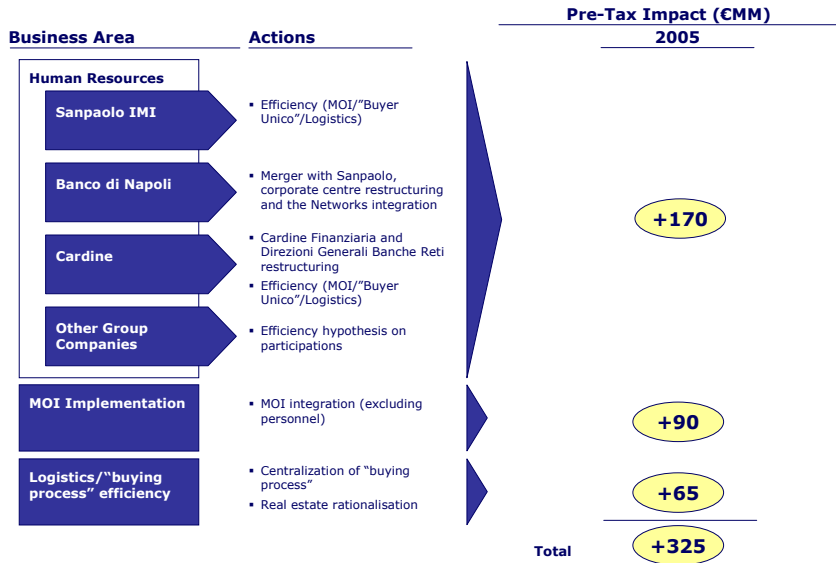


### Expected AUM Evolution (€ Bn)



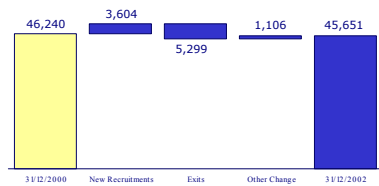
**TFA Penetration (%)**      37%                      38%                      40%

## COST DISCIPLINE Key Actions

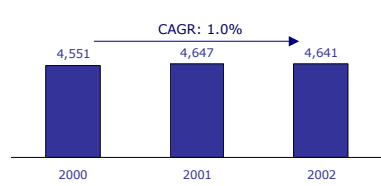


## 2000-2002: RATIONALIZATION OF THE COST BASE

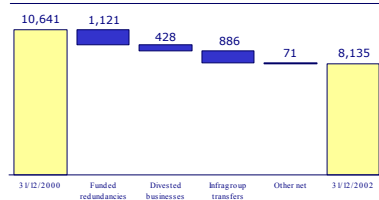
**Group Headcount**  
# of Employees



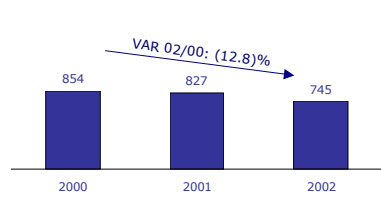
**Impact on Cost Base**  
Group Administrative Costs (€ MM)



**BdN Headcount (#)**  
Reduction in # Employees

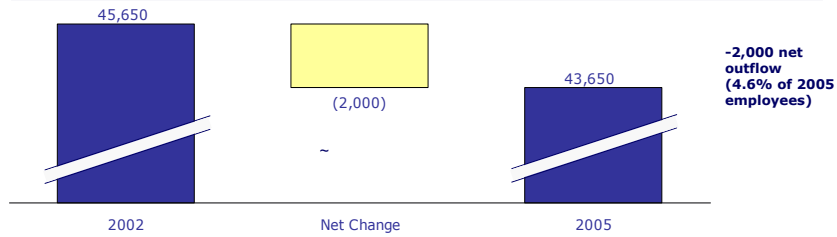


**BdN Administrative Costs (€ MM)**

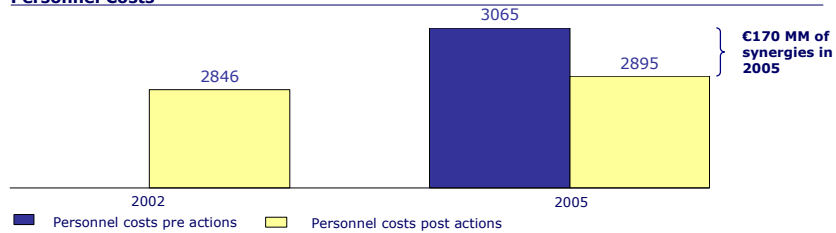


## EVOLUTION OF PERSONNEL

### Evolution of Employees (#)



### Personnel Costs



## GROUP OPERATING PLATFORM: BENEFITS FROM INTEGRATION

### Benefits

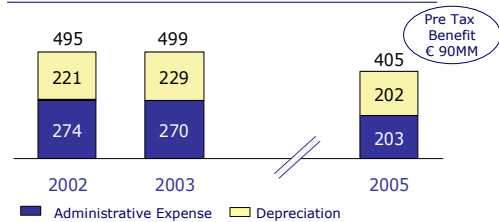
#### Efficiency

- Economies of scale for HW and SW investments
- Reduction in outsourcing expenses
- Reduction in maintenance costs due to integration of # of IT systems

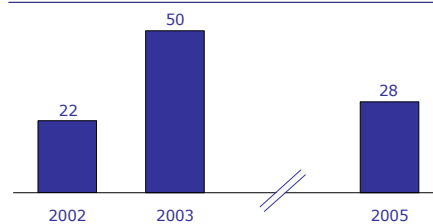
#### Effectiveness

- Enabling
  - Increase in managerial lever on the operating business
  - Extension of branch distribution model
  - Transference of best practice

### Total Operating Costs (€ MM)



### One Off Costs (€ MM)



## FOCUS ON PROFITABILITY OF OTHER ACTIVITIES

|                                       | Share of Gross Operating Profit* | Guidelines   |
|---------------------------------------|----------------------------------|--|
| Personal Financial Services           | 11%                              | <ul style="list-style-type: none"> <li>Banca Fideuram remains a pillar of our asset gathering strategy with scope to raise profitability on assets and win market share</li> </ul>   |
| Banca OPI                             | 4%                               | <ul style="list-style-type: none"> <li>Rationalisation and concentration in Banca OPI of all lending business for infrastructure and public sector</li> <li>Improvement of interaction with Sanpaolo IMI networks</li> <li>Fully exploit anti-cyclical profile of the business</li> </ul>  |
| Wealth Management & Financial Markets | 6%                               | <ul style="list-style-type: none"> <li>Ongoing rationalization/integration of product factories (Epta)</li> <li>Development of life business/ long term care</li> <li>Increase level of service and create value from Group SME customer base</li> </ul>   |
| Foreign & International Banking       | 5%                               | <ul style="list-style-type: none"> <li>Track record in relationship rather than asset driven strategy in overseas corporate business</li> <li>Exit from remaining <i>foreign to foreign</i> lending business</li> <li>Limited investments in Central/Eastern Europe countries with significant links with Italian customer base</li> </ul> |

\*As of 30/06/2002

## PORTFOLIO MANAGEMENT

Tackling the Shareholdings Issue

The Group currently has a significant number of shareholdings

| € Bn                    | 2002     |
|-------------------------|----------|
| # of shareholdings      | 452      |
| <b>Absorbed Capital</b> |          |
| Tier 1                  | € 448 MM |
| <b>Total capital</b>    | € 993 MM |

We recognize the potential benefit deriving from a rationalisation of our equity portfolio and we are committed to pursue a selective disposal of non strategic shareholdings, in order to optimise capital allocation on a **risk/return** basis

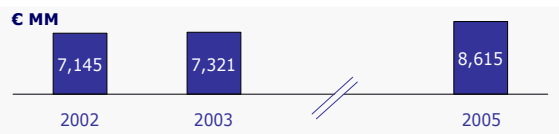
## AGENDA

- Q4 Results
- Group Strategy
- Focus on Retail Banking
- ✓ Financial Targets

## GROUP RESULTS: FORECASTS 2002-2005

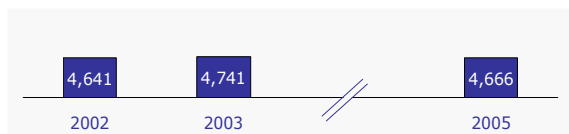
2002-2005  
CAGR (%)

Net Interest  
and Other  
Banking  
Income



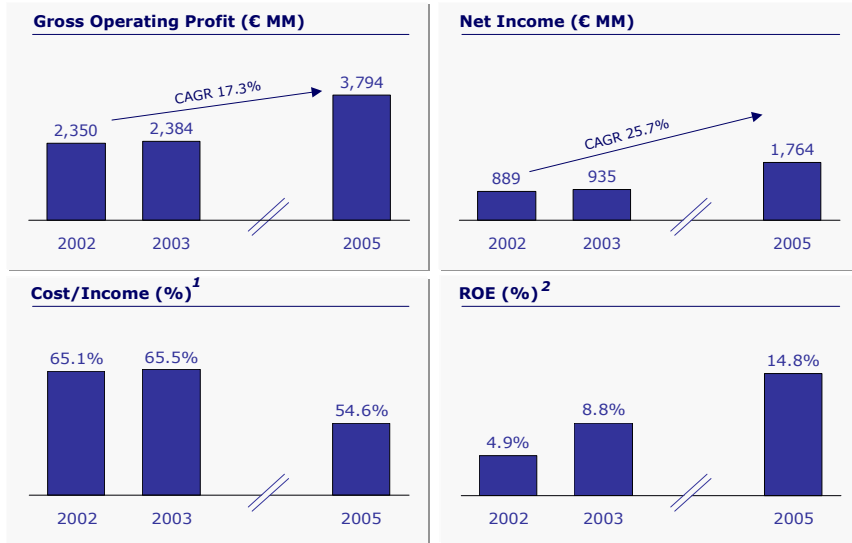
6.4

Administrative  
Costs



0.2

## GROUP GOALS: GROWTH AND PROFITABILITY



<sup>1</sup> Total administrative expenses (excluding direct and indirect taxes) and amortization (excluding value adjustments on goodwill and merger and consolidation differences)/total income (including other net operating income)

<sup>2</sup> Net income before use of fund for general banking risks/average net shareholders' equity