

GRUPPO SANPAOLO IMI

Morgan Stanley

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DISCLAIMER

This presentation has been prepared by Sanpaolo IMI and provides information on the management's business plans and strategies. As such, the presentation contains forward-looking information which reflects management's current views with respect to certain future events and the financial performance of the Group. These views are based upon assumptions of future events which may not prove to be accurate and actual results may differ materially from those projected or implied in the forward-looking statements. Undue reliance should not, therefore, be placed on such forward-looking information and Sanpaolo IMI assumes no responsibility to update any such forward-looking information.

▶ Q4 2003 results

▶ Group strategy

▶ Outlook for 2004

▶ Conclusions

SOLID OPERATIONAL PERFORMANCE & POSITIVE OPERATING TRENDS

4

| € MM | 2003 | 2002 pro forma | % Y/Y change | % Q/Q change |
|------------------------------------------|---------|-------------------|-----------------|-----------------|
| Net interest income | 3,716 | 3,653 | +1.7 | -0.5 |
| Net commissions | 3,036 | 2,795 | +8.6 | +13.8 |
| Net interest and other banking income | 7,482 | 7,066 | +5.9 | +7.9 |
| Administrative costs | (4,610) | (4,578) | +0.7 | +0.7 |
| Operating income | 2,717 | 2,334 | +16.4 | +25.8 |

CHALLENGING SCENARIO

- ▶ H103 negative economic growth
- ▶ FY03 weak GDP growth (+0.4% vs +1.5% budget estimates)
- ▶ Average Euribor rate –99 bps Y/Y
- ▶ Salary inflation of 3.8% following introduction of new labor contract
- ▶ One off integration costs
 - Indirect personnel costs up 23%
 - IT costs 22 €MM

POSITIVE OPERATING TRENDS

- ▶ Selective loan growth of 0.6%
 - residential mortgages
 - consumer banking
 - Banca OPI
- ▶ Average spread on customer business up 10 bps
- ▶ Confirmation of asset gathering strength (11 € BN)
- ▶ Good cost discipline and headcount reduction of 1,752 people

PRUDENT ACCOUNTING POLICY IN PROVISIONING AND EXTRAORDINARIES

| € MM | 2003 | 2002 pro forma | % Y/Y change | % Q/Q change |
|-----------------------------------|-------|-------------------|-----------------|-----------------|
| Net adjustments and provisions | -859 | -1,412 | -39.2 | -28.0 |
| Income before extraordinary items | 1,700 | 704 | +141.5 | n.s. |
| Net extraordinary losses | -32 | 320 | n.s. | +19.3 |
| Net income | 972 | 901 | +7.9 | -42.9 |

- ▶ Increase in credit provisioning due to coverage of Parmalat exposure in Q403. Ex Parmalat credit provisioning level reflects good asset quality and dynamic provisioning approach

Credit provisions

- ▶ Generic provisions 58 € MM (5 bps: total generic provision: 1.1 € BN)
- ▶ Specific provisions 667 € MM
 - of which PARMALAT 273 € MM (90 % of the total exposure)
 - 32 bps ex-Parmalat

- ▶ Prudential accounting of financial assets

| | Adjustment | Book value p.s. (as of 31/12/03) |
|-------------------------|-------------------|---------------------------------------------|
| <i>Financial assets</i> | | |
| FIAT | -12 € MM | 6.4 € |
| H3G | -105 € MM | not quoted |
| SCH | +215 € MM | 8.1 € |

- ▶ Extraordinary expense to fund early retirements for the business plan fully charged in 2003 mostly offset by capital gains

Principal contributions

| | |
|-------------------------------------------------------|-----------|
| Fund early retirements | -475 € MM |
| Release of excess provisions for subsidised mortgages | +84 € MM |
| Sale of 60% stake in Banque Sanpaolo | +240 € MM |
| Sale of 20% stake in Finconsumo | +44 € MM |

GOOD ASSET QUALITY AND ADEQUATE COVERAGE RATIOS

- ▶ Net NPLs and net problem loans down 6.2% and 9.7% respectively
- ▶ Net loans to countries at risk down to 22 million euro
- ▶ NPL and net watchlist coverage levels up to 73.2% and 33.8% respectively
- ▶ NPL and watchlist ratios down to 0.9 and 1.1% respectively
- ▶ Level of general reserve maintained

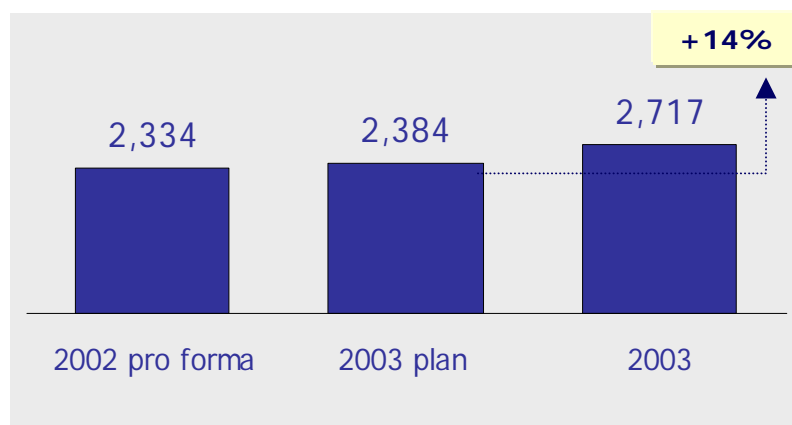
| € MM | 31/12/03 | | | | | |
|-------------------------------|----------------|-------------|-------------------|----------------|-------------|-------------|
| | Gross exposure | Var. Y/Y | Total adjustments | Net exposure | Var. Y/Y | Coverage |
| Doubtful loans | 6,433 | 3.0% | 3,892 | 2,541 | -8.2% | 60.5% |
| ▶ Non-performing loans | 4,364 | 7.1% | 3,193 | 1,171 | -6.2% | 73.2% |
| ▶ Problem loans | 2,069 | -4.6% | 699 | 1,370 | -9.7% | 33.8% |
| Performing loans | 123,069 | 0.6% | 1,011 | 122,058 | 0.5% | 0.90%(*) |
| Total loans | 129,502 | 0.7% | 4,903 | 124,599 | 0.3% | 3.8% |

| | 31/12/03 | 31/12/02 pro forma |
|------------------------|-------------|-----------------------|
| NPL'S ratio | 0.9% | 1.0% |
| Watchlist ratio | 1.1% | 1.2% |

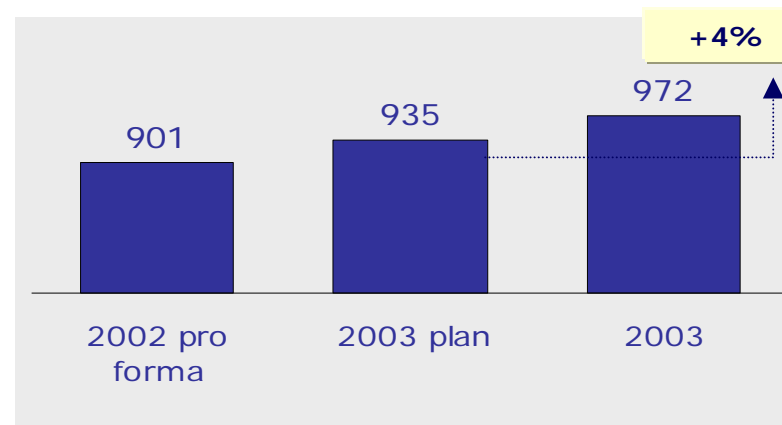
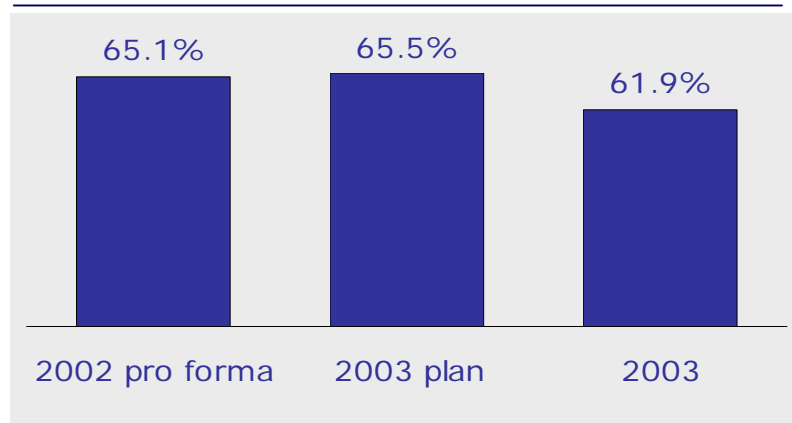
(*) Includes 91 € MM of reserve for credit risks

2003 GROUP TARGETS EXCEEDED

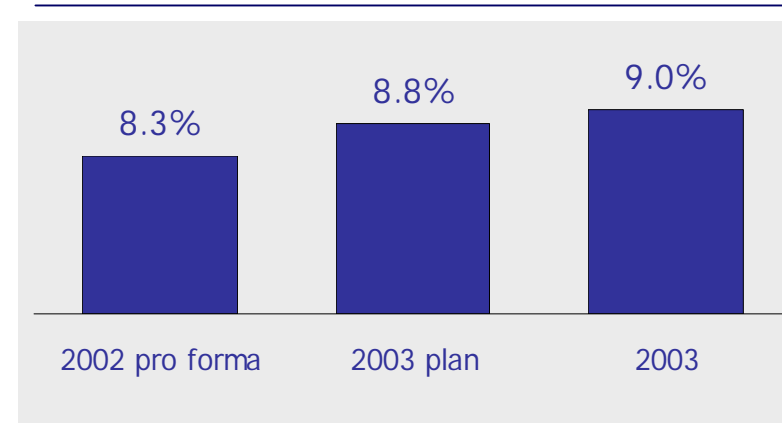
Gross Operating Profit (€ MM)



Net Income (€ MM)

Cost/Income (%)¹

ROE (%)



¹ 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)

- ▶ Q4 2003 results
- ▶ Group strategy
 - ▶ Enhance performance in core banking business
 - ▶ Cost control
 - ▶ Optimisation of business portfolio
- ▶ Outlook for 2004
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INTEGRATION OF THE BRANCH BANKING NETWORK ON TRACK

2003

Integration of Banco di Napoli

Full acquisition of Banca Popolare dell'Adriatico

Integration of Cerea Bank in Cariparo

Merger of Cardine Finanziaria

Merger of Crup and Carigo

Rebranding of all networks banks

2004

Migration of Cassa di Risparmio di Venezia onto SPIMI platform (March 04)

Migration of Cassa di Risparmio di Bologna onto SPIMI platform (April 04)

Migration of Friulcassa onto SPIMI IT platform (June 04)

Migration of Cariparo onto SPIMI IT platform (July 04)

IT Merger of Banca Popolare dell'Adriatico (September 04)

EXTENSION OF THE BRANCH DISTRIBUTION MODEL

10

Retail Headquarters





- ▶ Single head office on single operating and back office platform
- ▶ Divisional model to meet needs of customer segments and ensure necessary co-ordination

Area Management

- ▶ Local character maintained through brand and legal entity
- ▶ Empowers area management structure to manage and coordinate different local market and customer needs

Branch network

- ▶ 3,000 branches with good national foot print and high concentration coverage
- ▶ Specialisation through dedicated branches and modular approach to branch business
- ▶ Multi-channel approach

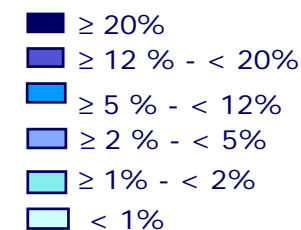
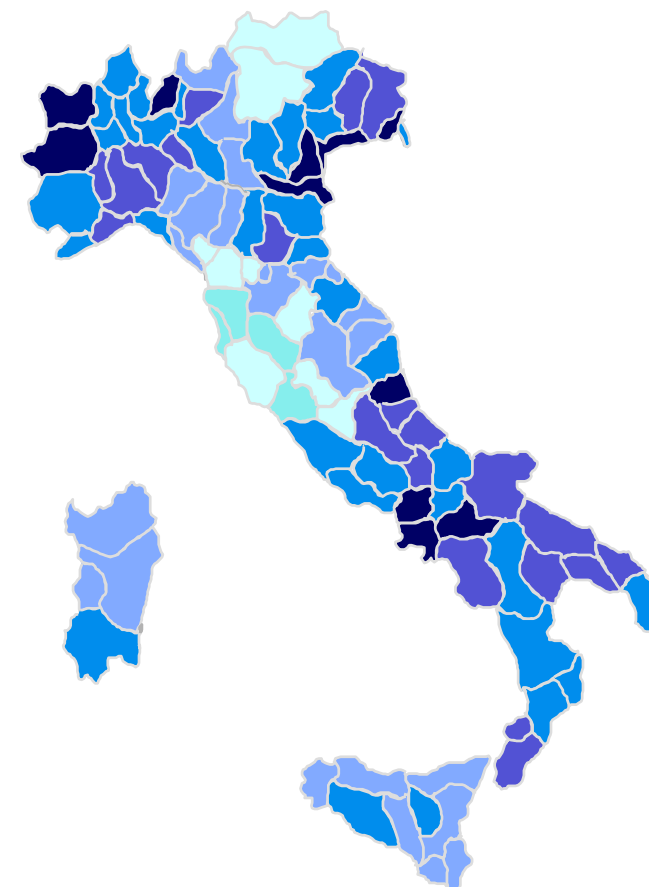
| BRANCH BANKING SPECIALISATION ⁽¹⁾ | | | | | |
|----------------------------------------------|----------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| SME Division | | Private & Retail Division | | | |
| | |  |  |  |  |
| Specialist branches and modules | 151 +63 ⁽²⁾ | 69 | 2,000 | | |
| Professional roles⁽³⁾ | 1,450 | 150 | 2,200 | 8,500 | 1,200 |

1) Numbers do not include ex-Cardine banks

2) Additional teams

3) In addition to 2,000 branch managers

2003



CONSOLIDATING LEADERSHIP IN RETAIL AND SME BANKING

- ▶ Strong asset gathering capacity 12 €BN
- ▶ Selective loan growth, +4.4%
 - new residential mortgage lending 3.9 € BN
- ▶ Successful development of corporate derivative business
- ▶ Significant potential still to be unlocked

| KEY AGGREGATES (*) | 2003 | 2002 pro forma | % |
|---------------------------|---------|-------------------|-------|
| € MM | | | |
| TFA | 255,031 | 239,287 | +6.6 |
| ▶ AUM | 91,411 | 83,997 | +8.8 |
| ▶ Administered | 86,684 | 78,849 | +9.9 |
| ▶ Direct deposits | 76,936 | 76,441 | +0.6 |
| TFA net inflow | 11,953 | - | - |
| ▶ AUM net inflow | 4,839 | 3,347 | +44.6 |
| Net customer loans | 79,725 | 76,330 | +4.4 |
| N° | | | |
| Employees | 30,316 | 31,485 | -3.7 |
| Branches | 2,981 | 2,956 | +0.8 |

(*) BRANCH BANKING NETWORK (Sanpaolo, SPBdN, ex-Cardine Banks)

- ▶ Q4 2003 results

- ▶ Group strategy
 - ▶ Enhance performance in core banking business
 - ▶ Cost control
 - ▶ Optimisation of business portfolio

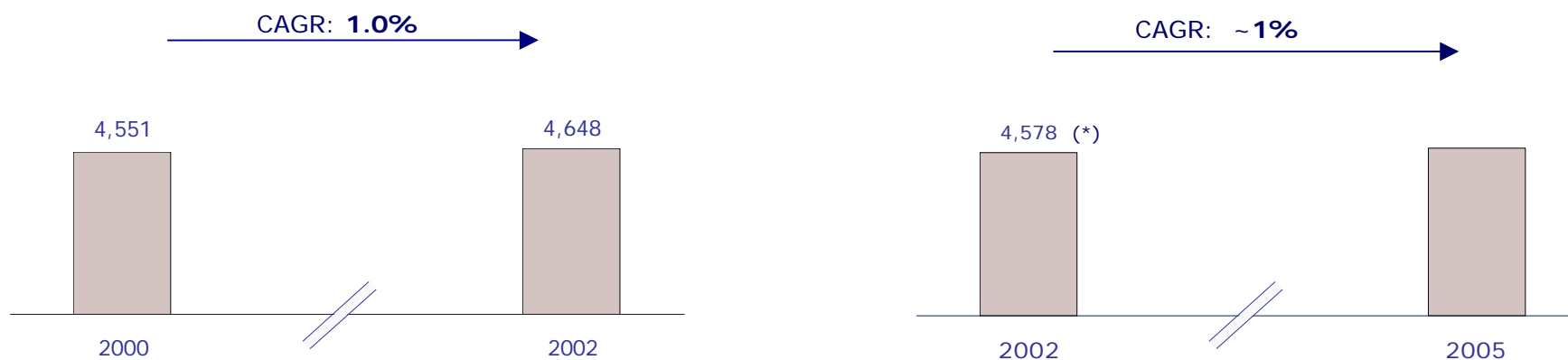
- ▶ Outlook for 2004

- ▶ Conclusions

RIGHT SIZING THE COST BASE

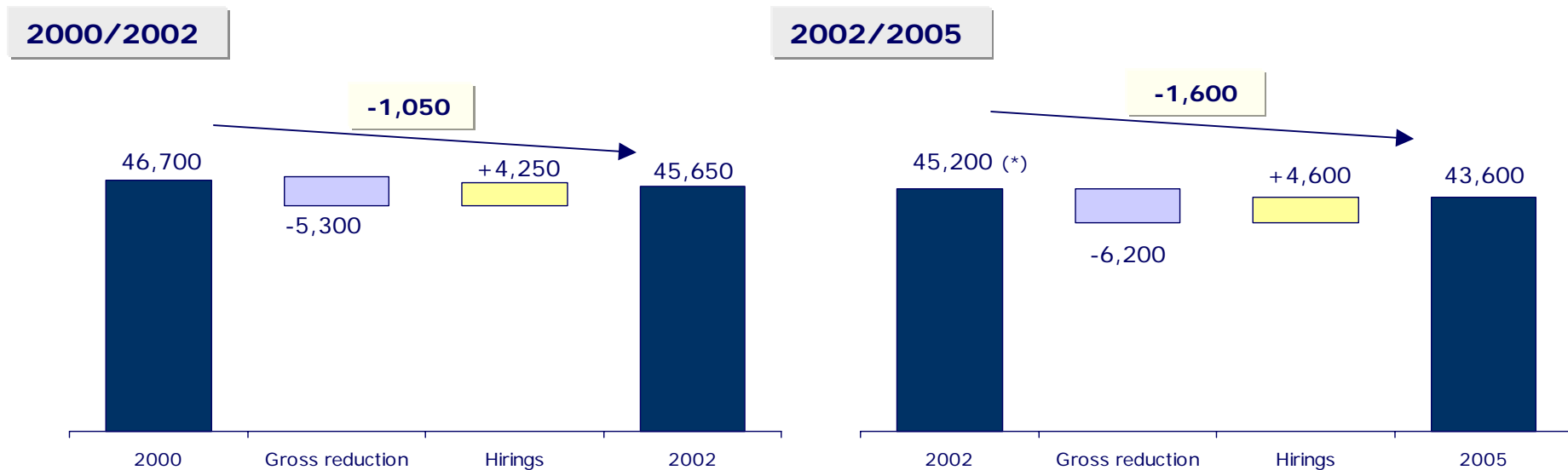
| AREA | ACTION |
|---------------------------|-------------------------------------------------------------------------------|
| Human resources | Optimising staffing levels in domestic banking, by reducing headcount by 2000 |
| MOI Implementation | Cost savings through adoption of Group target operating platform |
| Logistics | Efficiencies through concentration and centralisation |

Group administrative costs (€ MM)



(*) Proforma without Banque Sanpaolo, Finconsumo and IMIWeb, plus Epta, Cariforli and Intereuropa

EFFECTIVE HEADCOUNT REDUCTION

**Incentivising early retirement enables:**

- ▶ The reduction in overall headcount to be managed effectively by:
 - ▶ geography
 - ▶ business function
- ▶ An improvement in the age profile of the employee base
- ▶ An improvement in the front/back office ratio
- ▶ An improvement in the flexibility of contractual conditions
- ▶ An enhancement of front office competences and service level

(*) Proforma without Banque Sanpaolo, Finconsumo and IMIWeb, plus Epta, Cariforli and Intereuropa

- ▶ Q4 2003 results
- ▶ **Group strategy**
 - ▶ Enhance performance in core banking business
 - ▶ Cost control
 - ▶ **Optimisation of business portfolio**
- ▶ Outlook for 2004
- ▶ Conclusions

ACTIONS TAKEN IN 2003

| BUSINESS AREA | FOCUS | RATIONALISATION |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Consumer Banking | <ul style="list-style-type: none"> ▶ Development of consumer banking in Finemiro | <ul style="list-style-type: none"> ▶ Sale of 50% stake in Finconsumo to SCH |
| Retail Banking | <ul style="list-style-type: none"> ▶ Extension of Sanpaolo internet banking to all retail networks | <ul style="list-style-type: none"> ▶ Disposal of IMIWEB |
| Wealth Management | <ul style="list-style-type: none"> ▶ Strengthening of Wealth Management with Eptaconsors ▶ Acquisition of minorities in Noricum Vita | <ul style="list-style-type: none"> ▶ Rationalisation of Eptaconsors ▶ Sale of stake in Adria Vita |
| Foreign Network | <ul style="list-style-type: none"> ▶ Acquisition of control of Inter-Europa Bank completing the selective presence in Eastern Europe | <ul style="list-style-type: none"> ▶ Sale of Banque Sanpaolo to CNCE |
| Personal Financial Services | <ul style="list-style-type: none"> ▶ Operational integration of Sanpaolo Invest into Banca Fideuram | |

OBJECTIVES

BENEFITS

**Rationalise Insurance
Production Platform**

- Efficiency & Product Focus -

- ▶ Avoid duplications and concentrate business competencies to enhance efficiency
- ▶ Centralise and further improve risk management tools and techniques
- ▶ Improve product innovation and service level

**Anticipate Market Needs in
Non Life Insurance**

- Growth & Revenue Potential -

- ▶ Capture new market opportunities
- ▶ Develop an integrated product offering (wealth planning approach)
- ▶ Increase customer share of wallet
- ▶ Develop distinctive product and service expertise

**Create New Leading
Insurance Player**

- Strategic Options -

- ▶ Create Italy's second largest player in life insurance market
- ▶ High strategic flexibility











▶ Q4 2003 results

▶ Group strategy

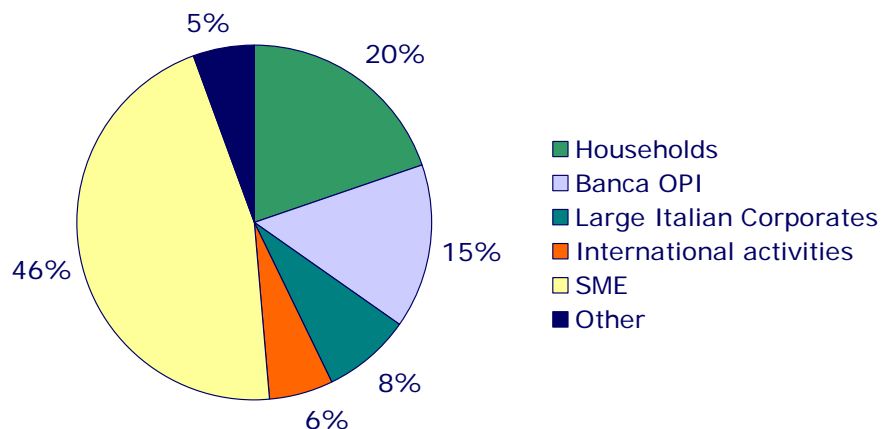
▶ Outlook for 2004

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A CHALLENGING SCENARIO

| BLACK | | WHITE |
|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Weakening consensus view for Italian GDP growth |  | Strong growth in retail and public sector lending |
| Average Euribor rates lower than 2003 with risk of further policy cut |  | Structural repricing of liabilities |
| Export driven business hit by strong euro |  | Development of new markets in emerging economies |
| High corporate leverage |  | Structurally lower level of corporate indebtedness to GDP than EU average |
| Low risk adjusted return in corporate lending |  | Development of premium pricing for brand quality and service levels |
| Uncompetitive businesses in mature sectors |  | Leading businesses in high value added sectors |
| Slow introduction of structural reform |  | Resilience in corporate sector to difficult macro scenario |
| Negative customer sentiment as a result of Italian corporate scandals |  | Opportunity to develop asset management business |
| Low levels of customer satisfaction |  | Higher customer turnover levels create opportunities |
| More demanding customers |  | Greater propensity to pay for quality services |

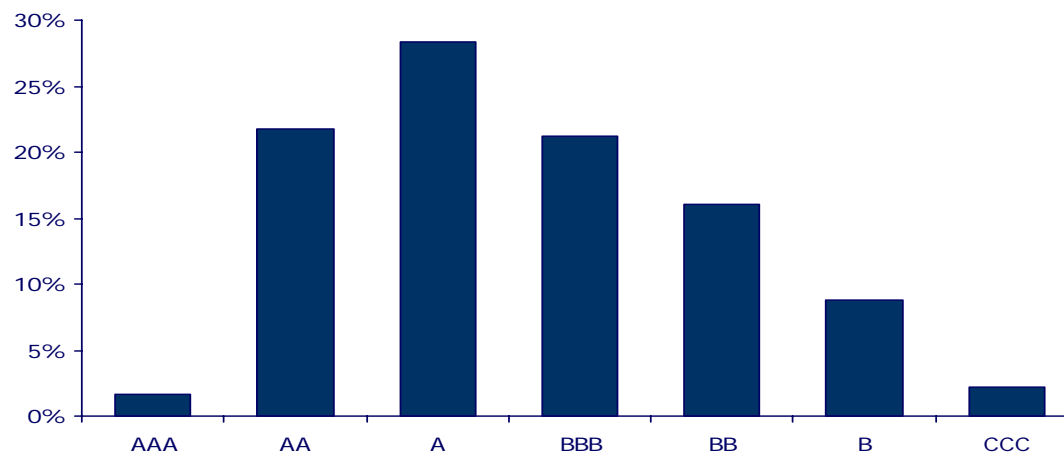
Loan Book Breakdown (%)



As of 31/12/2003

| CAPITAL RATIOS | |
|--------------------------|------------|
| | 31/12/2003 |
| Core Tier 1 ratio | 6.6% |
| Tier 1 ratio | 7.4% |
| Total ratio | 10.5% |

Analytical Rating Profile of Group Credit Portfolio(*)



As of 31/12/2003

(*)The portfolio includes analytically rated performing loans to customers on and off-balance sheet which represent approximately 75% of the total portfolio. The remaining portion of the portfolio is principally retail lending of which approximately 70% in residential mortgage lending.

A FOCUSED AND SELECTIVE LENDING STRATEGY

| | GROWTH | MARGINS | RISK |
|--------------------------|--------|---------|------|
| Mortgage lending | *** | ** | * |
| Consumer lending | *** | *** | *** |
| SME | ** | ** | ** |
| Large domestic corporate | * | * | ** |
| International corporate | * | * | * |
| Public sector | *** | * | * |

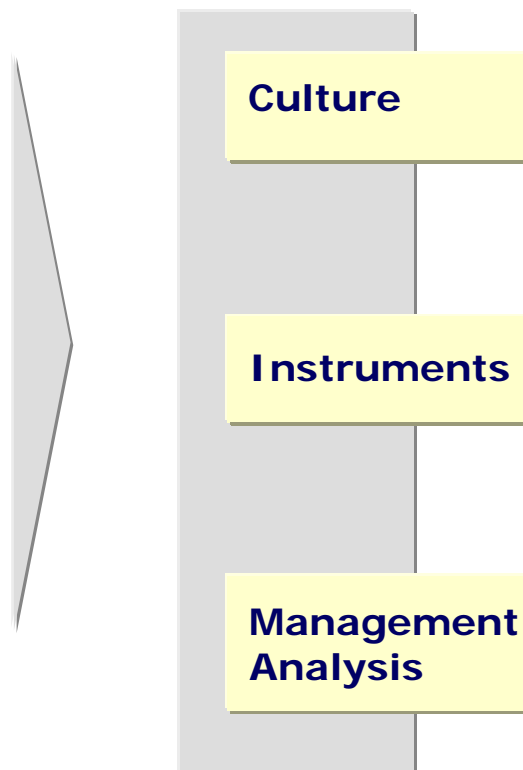
| | |
|-----|--------|
| *** | high |
| ** | medium |
| * | low |

LEVERAGING ON GROUP CUSTOMER SERVICE MODEL

Objectives

- ▶ To develop the relationship with customers
- ▶ To offer a higher quality service
- ▶ To improve profitability

Areas



Completed projects

- ▶ Investment Policy
- ▶ Communication events
- ▶ Training

- ▶ **CRM Workstation**
 - ▶ Market and product information

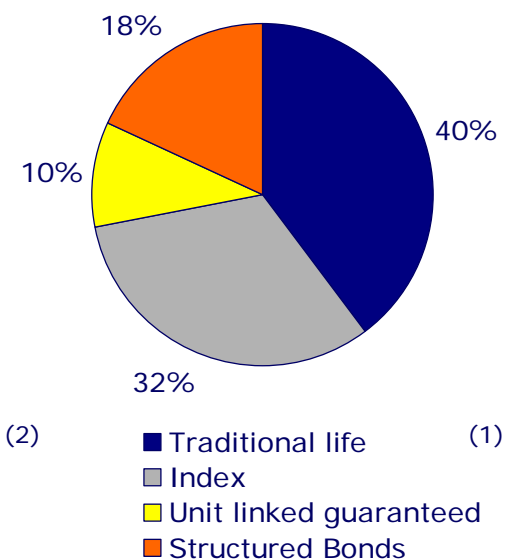
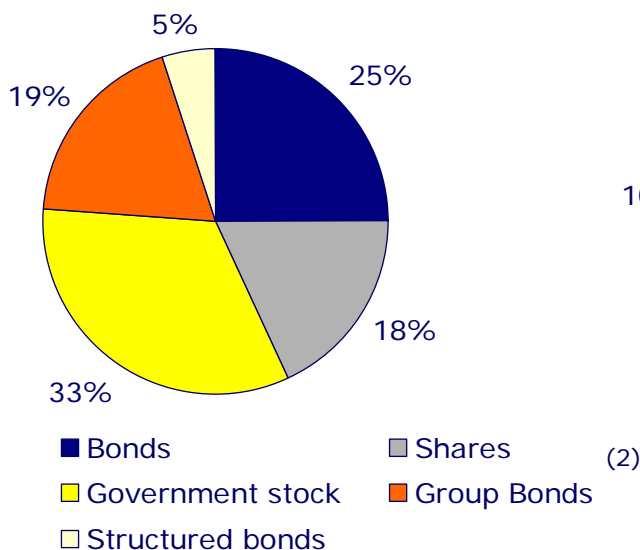
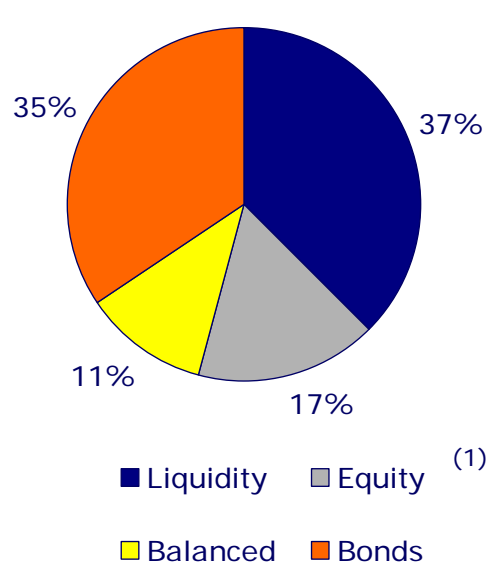
 - ▶ Customer portfolio analysis
 - Reporting
 - Asset allocation
 - Model portfolio simulation

 - ▶ Portfolio benchmarking
 - ▶ Commercial analysis

BUILDING RETURNS IN THE CUSTOMER PORTFOLIO

Diversified customer needs (indicative examples):

| | | | |
|----------------------------|---------------------------------------|----------------------------------------|-------------------------------|
| <u>Needs:</u> | Accumulation | Mixed: accumulation, income, liquidity | Protection, pension savings |
| <u>Time frame :</u> | Medium-long | Undefined | Long |
| <u>Answer:</u> | Asset allocation & accumulation plans | Better customer needs identification | Insurance & capital guarantee |



Actions:

AUM:

Increase long term equity & balanced investments

Custodian funds:

Reduce unperceived risk, diversify investments according to real needs, switch to asset management

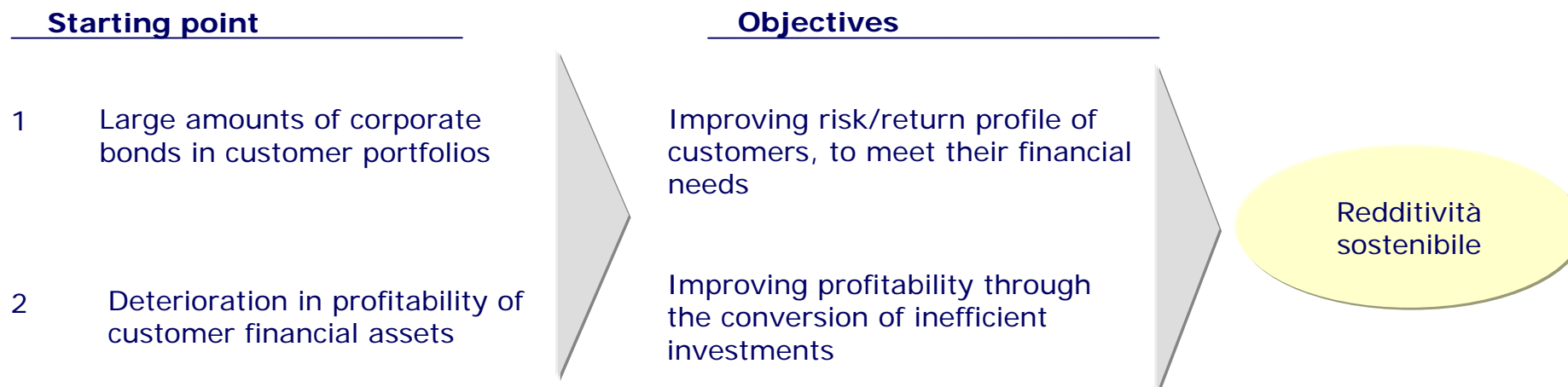
Insurance:

Develop pension schemes and long term traditional life products

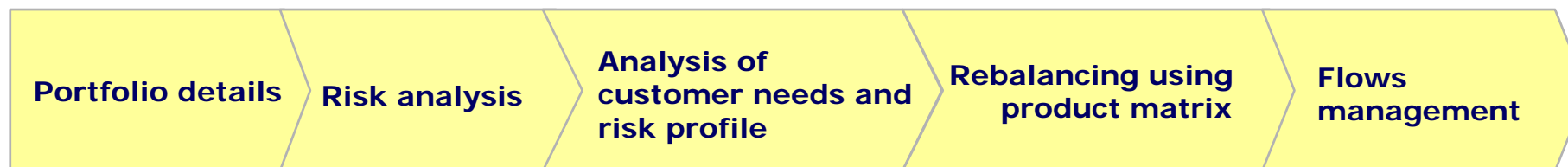
Develop insurance against personal and property risks

(1) Wealth Management and Financial Markets

(2) Sanpaolo Retail Division assets under custody



Business process



| Key Figures as of 31/12/03 | Sanpaolo (started in April 2003) | Sanpaolo Banco di Napoli (started end 2003) | P&R Division |
|----------------------------|--------------------------------------------|-------------------------------------------------------|-------------------------|
| ▶ assets involved | 41 BN € | 5.2 BN € | 46.2 BN € |
| ▶ assets rebalanced | 3.6 BN € | 328 MM € | 3.9 BN € |
| ▶ economic impact | 55 MM € | 4.9 MM € | 60 MM € |
| ▶ average profitability | +13.5 bsp | +9 bsp | +13 bsp |

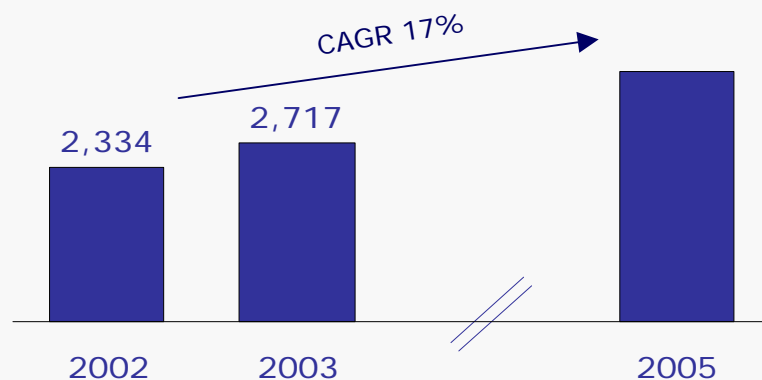
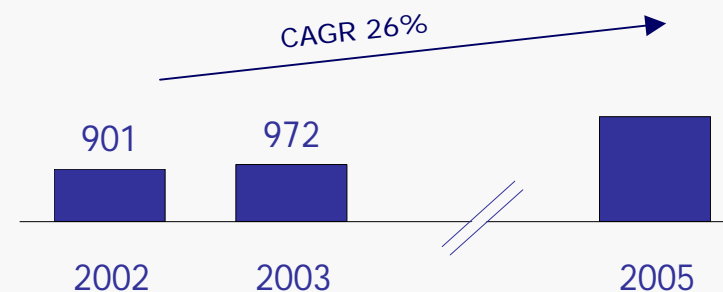
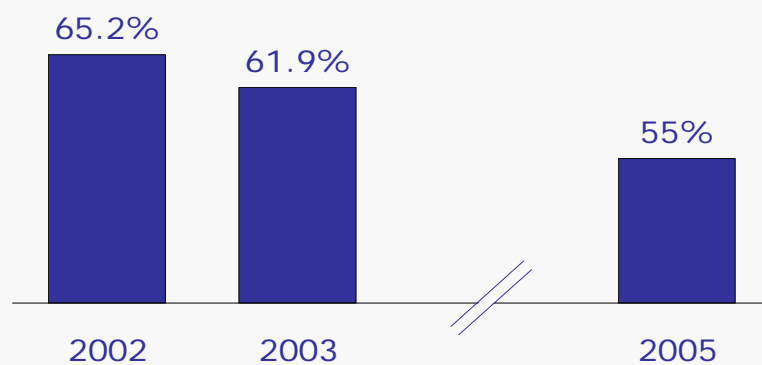
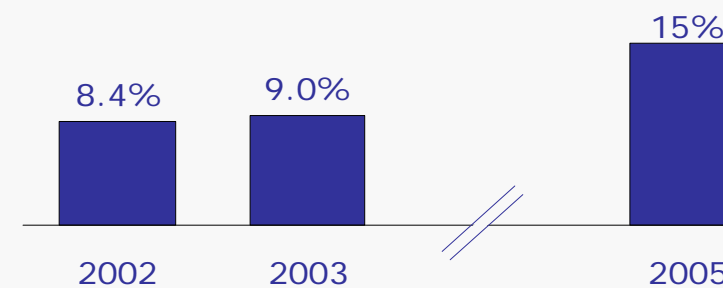
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CONCLUSIONS

The Group's improving performance and business objectives are based on:

- ▶ **A consistent and coherent business strategy**
- ▶ **A clear focus on risk adjusted return enabling the creation of shareholder value**
- ▶ **A commitment to high service levels and the asset quality of the Group and customer portfolios**
- ▶ **A strong competitive positioning in core businesses**
- ▶ **A sustainable approach to business growth**

2005 GROUP TARGETS

Gross Operating Profit (€ MM)**Net Income (€ MM)****Cost/Income (%)¹****ROE (%)**

¹ 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)