

# GRUPPO SANPAOLO IMI

**Morgan Stanley - European Banks Conference**

Pietro Modiano – General Manager

London, 6th April 2005

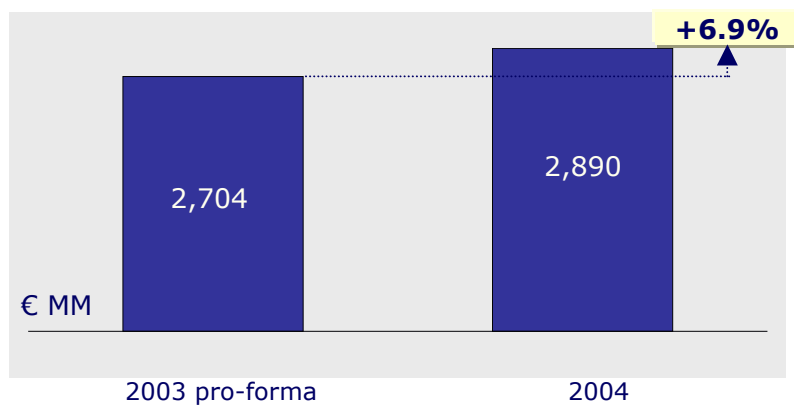
## **DISCLAIMER**

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.

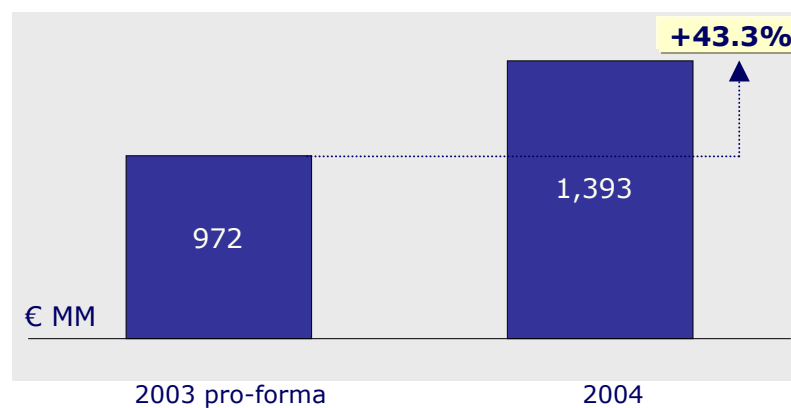
- 2004 Consolidated full year results
- Understanding the challenge
- Commercial Banking – Ahead of the Business plan

# OVERVIEW OF RESULTS

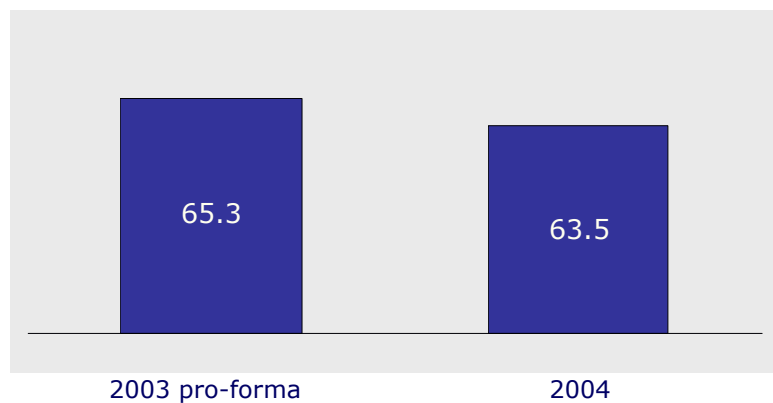
## Gross Operating Profit



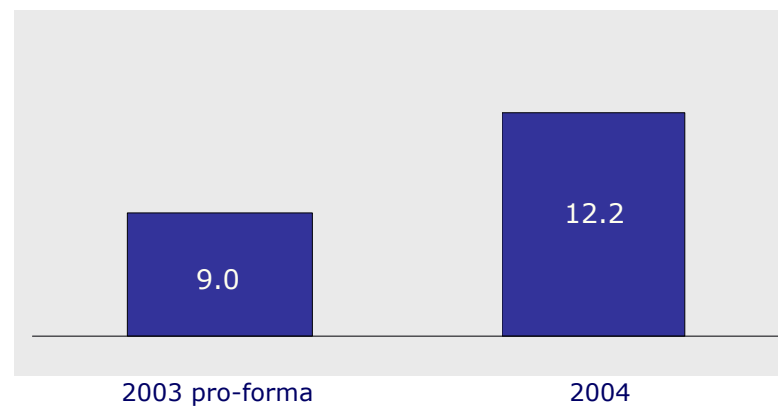
## Net Income



## Cost/Income (%)<sup>1</sup>



## ROE (%)

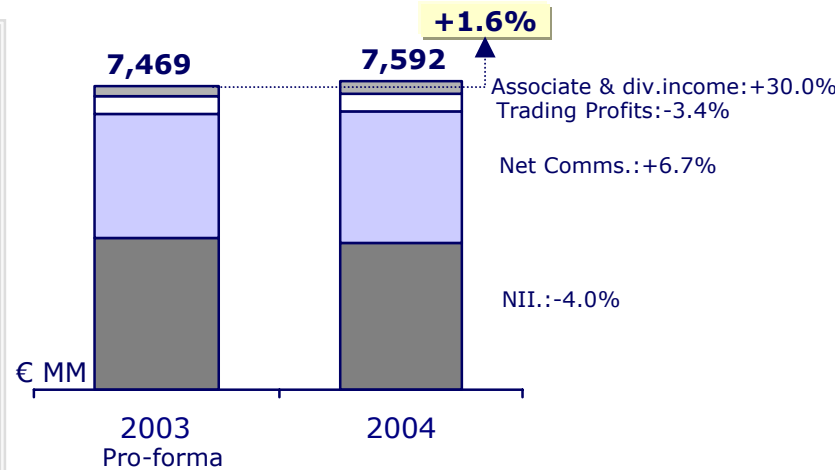


<sup>1</sup> Total administrative expenses and amortization (excluding value adjustments on goodwill and merger and consolidation differences)/total income (including other net operating income)

# GOOD OPERATING PERFORMANCE

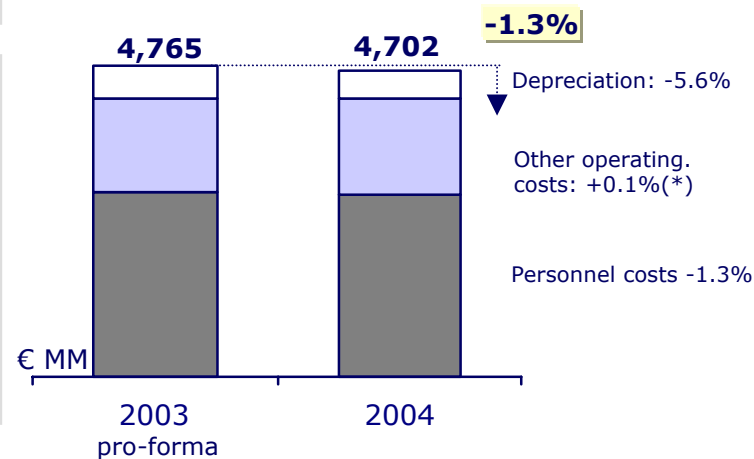
## Total Income

- Revenues driven by good net commission income growth as well as a significant increase in the contribution made by the life insurance business, up 76%
- Net Interest Income penalized by lower average interest rates

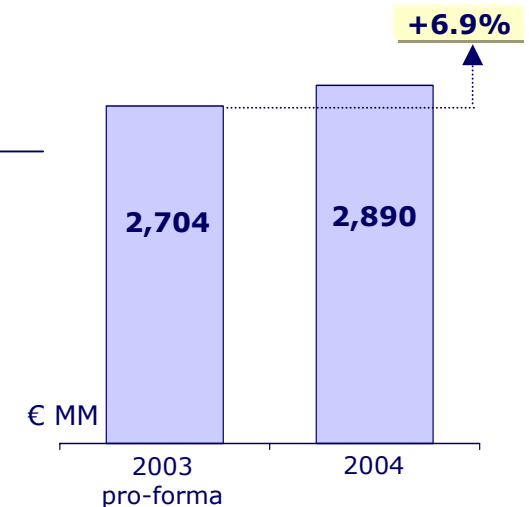


## Operating Costs

- Personnel costs are down 1.3% despite underlying salary inflation of 1.9%
- Other operating costs flat in nominal terms thanks to benefits from integration



## Gross Operating Profit



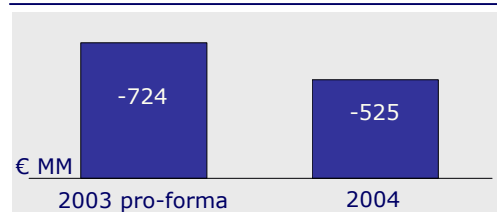
(\*) Other operating costs include:  
 - indirect duties and taxes  
 - Other net operating income

# STRONG BOTTOM LINE GROWTH

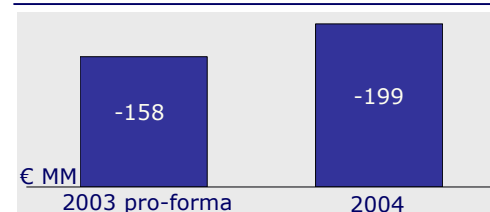
Var. FY04/FY03: -27.5%

- Cost of credit stable ex Parmalat at ~ 40bps

## Credit Provisions



## Goodwill



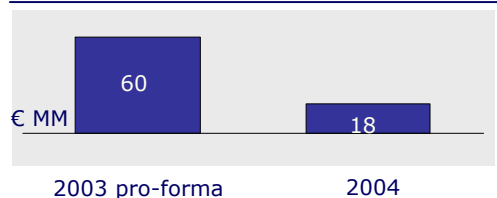
Var. FY04/FY03: +25.9%

- Higher goodwill due to writedowns on CariForli and Bank Wargny

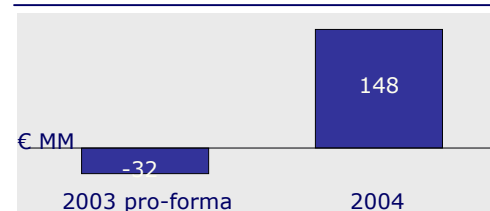
Var. FY04/FY03: -70%

- Consistent and rigorous provisioning policy leads to a positive write-back in the adjustments to financial assets, although lower than last year

## Adjustments to Financial Assets



## Extraordinary Income



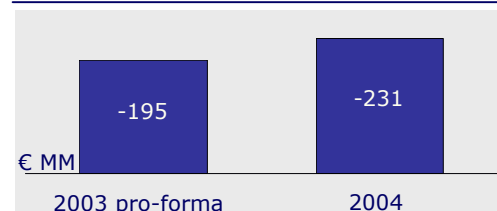
Var. FY04/FY03: n.s.

- Positive extraordinary income in 04 against extraordinary charge to fund retirements in 03

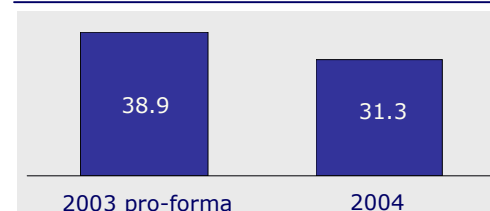
Var. FY04/FY03: +18.5%

- Prudent provisioning policy maintained for other risks and charges

## Other Risks and Charges



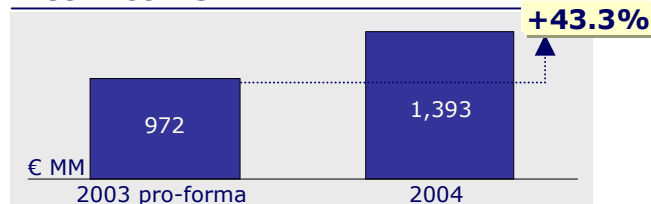
## Tax Rate (%)



Var. FY04/FY03: -760bps

- Lower tax rate driven by change to fiscal treatment on extraordinary items

## Net Income



# BALANCE SHEET STRENGTH ENABLES GOOD DIVIDEND PAYOUT

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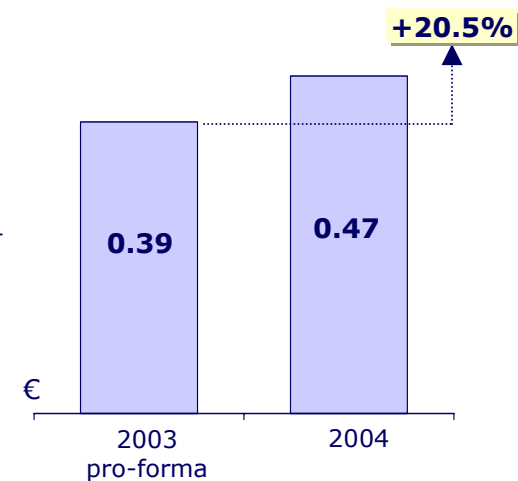
## Good asset quality

- stable and healthy performing loan portfolio profile with an average low cost of risk of approximately 40bps
- a proven track record in appropriate setting and provision for coverage
- Net NPLs and PPLs ratios currently at 1.0% and 1.1% respectively
- a prudent approach to statistical risk with a generic reserve of 1.1 billion which, importantly, represents 0.9% coverage of the performing loans or nearly x2 the annual expected loss of the portfolio
- consistent adjustments of financial assets to their fair value
- prudential approach repeatedly confirmed in the provisioning for other risks and charges

## A high quality capital base and strong ratios

- confirmation that there is no real impact on capital base from introduction of the new IFRS
- capital ratios have strengthened to 12.0% total capital, 8.1% tier 1 and 7.4% core capital

## Dividend

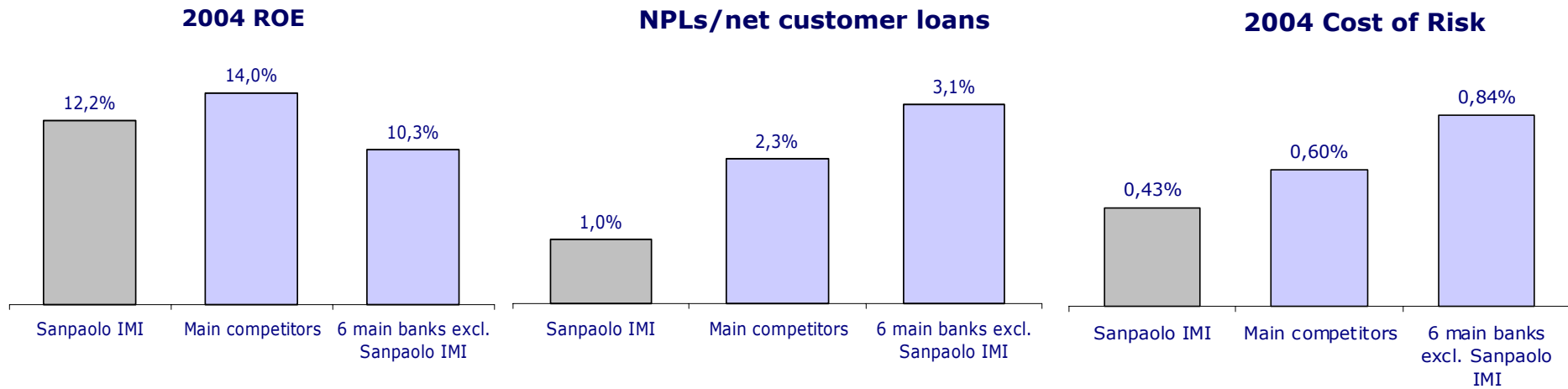


- 2004 Consolidated full year results
- **Understanding the challenge**
- Commercial Banking – Ahead of the Business plan

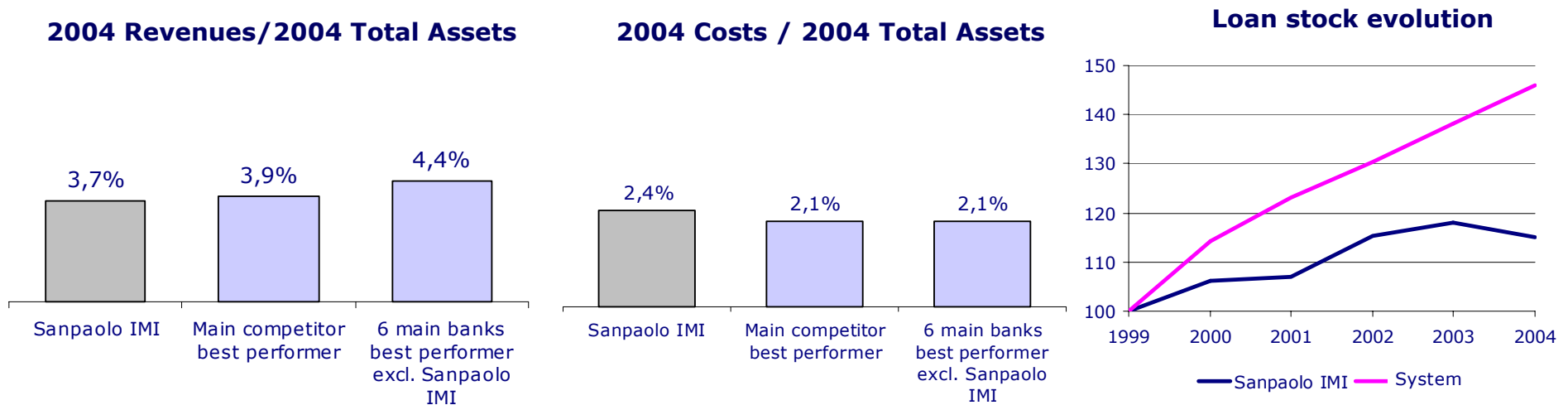


# INITIAL CONSIDERATIONS

- **The Group is clearly not a turnaround story**



- **however to achieve a level of excellence there are a number issues to address**



Source: Company Reports, Matrice dei conti

# BRANCH BANKING NETWORK NOW FULLY INTEGRATED

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2003	2004
<p>IT migration of Banco di Napoli (June)</p> <p>Full acquisition of <b>Banca Popolare dell'Adriatico</b> (June)</p> <p>Integration of Cerea Bank in <b>Cariparo</b> (June)</p>	<p>Migration of <b>Cassa di Risparmio di Venezia</b> onto SPIMI IT platform (March)</p> <p>Migration of <b>Cassa di Risparmio in Bologna</b> onto SPIMI IT platform (April)</p>
<p>Integration and rationalisation of <b>Banco di Napoli</b>: 624 Banco di Napoli branches conferred to Sanpaolo (July), 121 Sanpaolo branches conferred to new Sanpaolo Banco di Napoli (September)</p> <p>Merger of Crup and Carigo in <b>Friulcassa</b> (November)</p>	<p>Migration of <b>Friulcassa</b> onto SPIMI IT platform (June)</p> <p>Migration of <b>Cariparo</b> onto SPIMI IT platform (July)</p> <p>IT merger of <b>Banca Popolare dell'Adriatico</b> (October)</p> <p><b>Rationalisation of the branch network:</b></p>
<p>Advertising campaign following rebranding of all networks banks (November)</p> <p>Merger of <b>Cardine Finanziaria</b> (December)</p>	<p>113 Sanpaolo branches have been conferred to the North East banks</p> <p>30 Carisbo and Cariparo branches have been conferred to the Sanpaolo network (November 04-January 05)</p>

# ONE NETWORK BUT WITH LOCAL BRANDS

## Local brands national coverage

### 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
- Empowered area management structure to manage and coordinate different local market and customer needs

### Branch network

- 3,205 branches with good national foot print and high concentration coverage
- Specialisation through dedicated branches and modular approach to branch business
- Multi-channel approach

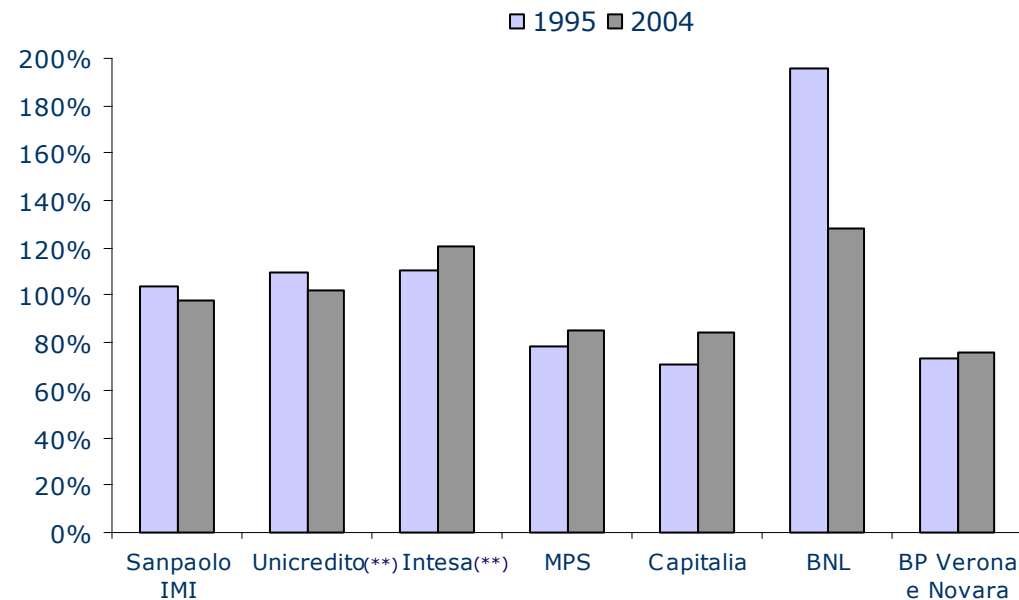


# FIRST IMPRESSIONS – STRONG AND DISTINCT CORPORATE CULTURE WITHIN THE GROUP

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- The Group has a strong corporate culture characterised by :
  - strong links to the local territory
  - attention to customer relationships
  - attention to credit quality
- These characteristics will be rewarded by the new scenario, characterised by:
  - the end of a period of growth in the sector without any real increase in competition
  - an increased demand for quality by both retail and SME customers

**TFA market share (\*)/ branch market share (\*)**

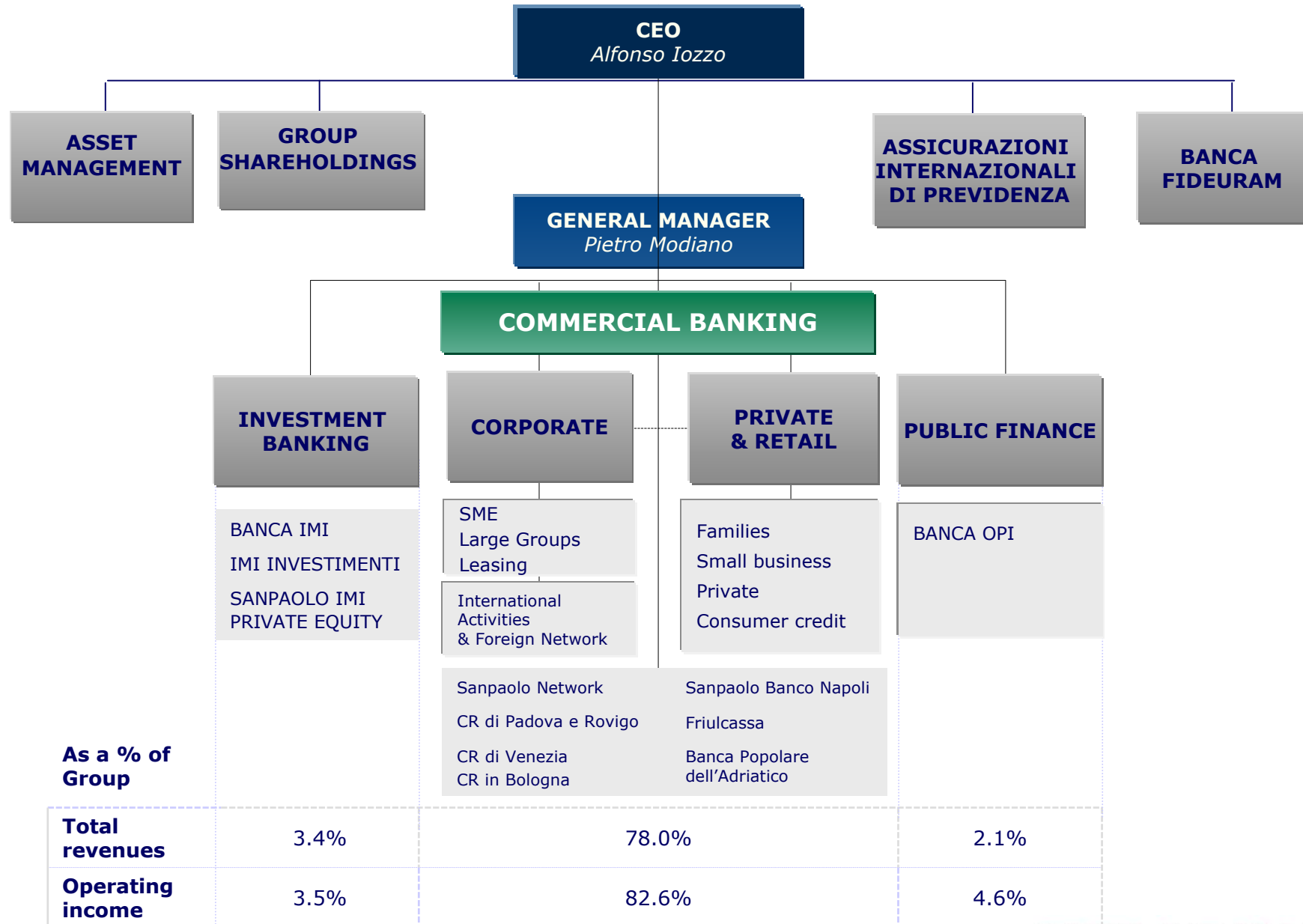


Source: Sanpaolo IMI analysis on company reports. Presentations, ABI, *Il Sole 24 Ore*

(\*) Market shares have been calculated using the above sample of banks

(\*\*)The data referring to controlled companies in Central-Eastern Europe have not been included

# GROUP STRUCTURE REFLECTS RATIONALISED BUSINESS MODEL



- 2004 Consolidated full year results
- Understanding the challenge
- Commercial Banking – Ahead of the Business plan

## Management initiatives

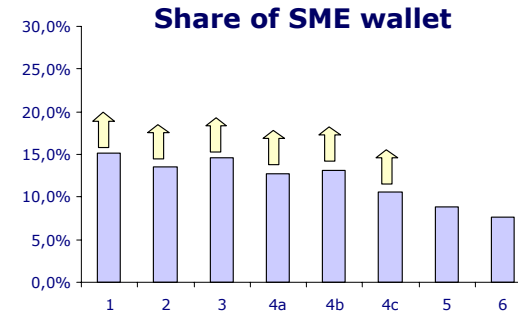
- Reduce the “distance” between the corporate centre and the front line
- Shorten the decision making chain
- Improve co-ordination between the Corporate SME division, Banca IMI and Banca OPI
- Use best practice risk management tools to identify commercial opportunities
  
- Cost discipline initiatives
- Attribute responsibility for cost management
  
- Introduce new incentive scheme across the Bank
- Revise budget upwards

## Target immediate commercial priorities

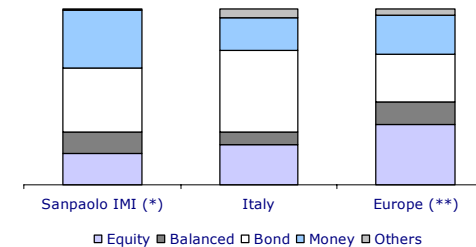
- Build market share in lending to SME division with a particular focus in increasing the share of wallet to the existing customer base ensuring no change to the risk profile

- Align retail customer investment portfolio to the appropriate risk profile

- Start to unlock the potential value from integration

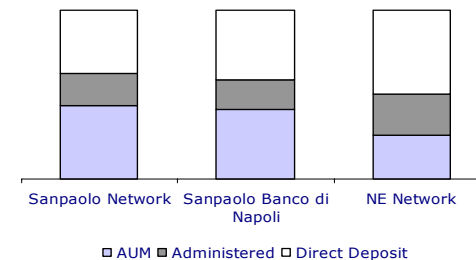


**Mutual fund stock composition**  
(% as at 31/12/2004)



Source: Assogestioni, FEFSI

**Commercial Banking financial asset composition**  
(% as at 31/12/2004)



(\*) Excluding Banca Fideuram (\*\*\*) Data as at 30/09/2004

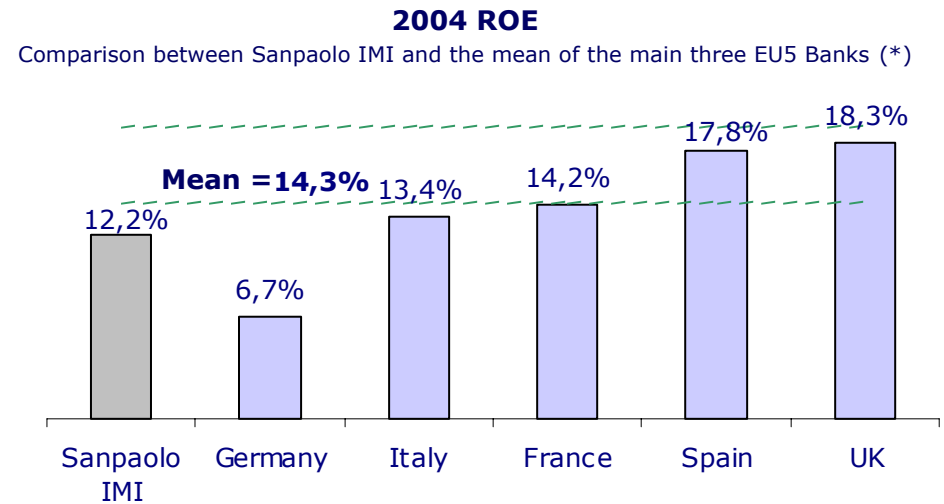
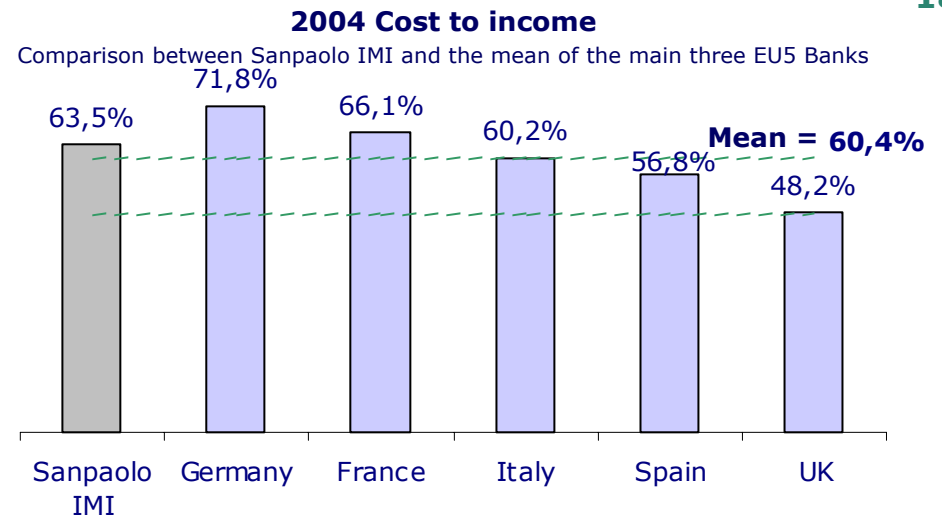


## **Launch of strategic project groups aimed at:**

- **Improving management tools**
  - Completion of homogeneous customer segmentation
  - Integration of management information systems
  
- **Strengthening commercial effectiveness**
  - Progetto Tutela Globale
  - Progetto finanziamenti alle famiglie
  - Progetto Crescita
  - Progetto Imprese
  - Progetto Enti e Aziende Pubbliche
  
- **Improving efficiency levels**
  - Progetto Lean Bank
  - Progetto Controllo ed Efficientamento Costi non di Personale

# INCREASING THE LEVEL OF AMBITION

- Unlock the intrinsic potential of the Bank
- Take advantage of structural changes in the relationship between bank and family and bank and enterprise to increase market share
- Confirm leadership in risk control
- Optimise the use of human and financial resources



(\*) The Roe has been calculated wherever possible using the Sanpaolo IMI method