

GRUPPO SANPAOLO IMI

GOLDMAN SACHS EUROPEAN BANKING CONFERENCE
"U-Turn on Capital: from less is more to more is more"

Rainer Masera

Chairman

Rome – 19 June, 2003

AGENDA

- ✓ From Capital Management
 - To Business Management
 - Conclusions

TRACK RECORD IN CAPITAL MANAGEMENT

	Tier 1 ratio	Total capital ratio	ROE	Pay-out ratio	Notes
1997	9.9%	11.6%	4.7%	57%	+ IMI extraord. dividend
1998	9.7%	11.1%	11.3%	72%	
1999	9.6%	10.3%	14.0%	69%	Real estate spinoff
2000	7.1%	9.2%	18.1%	61%	Tier 1 pref. issue
2001	7.2%	9.5%	12.9%	76%	BdN full accounted
2002	7.3%	10.7%	8.3%	62%	Cardine merger
2005E	>7%	>10%	15.0%		High pay-out policy and capital ratios in line with the status of a US financial holding company

1998-2000 SANPAOLO – IMI MERGER PLAN

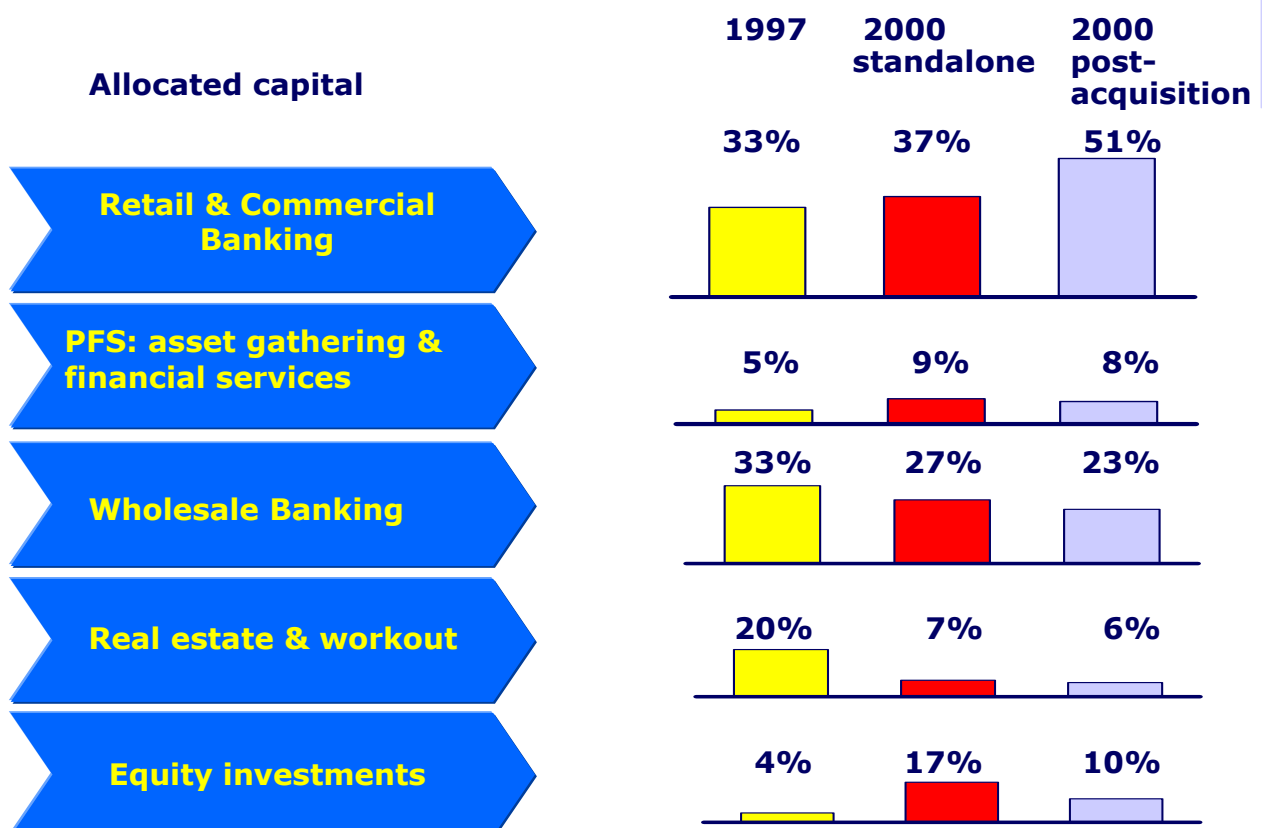
Summary of profitability targets and equity allocation

Aggregate data 1997 (Sanpaolo + IMI)				New Group 2000 Targets			
ITL bn, per cent							
Business Areas	Net Income	Equity	ROE	Net Income	Equity	ROE	
Retail & Middle Market							
- Families, self employed, SME	339	2221	15,3%	853	2317	36,8%	
- Mid Corporate	256	2537	10,1%				
Large Corporate	289	3130	9,3%	669	5714	11,7%	
Personal Financial Services	211	641	32,9%	344	996	34,5%	
Investment Banking	201	1853	10,8%	272	1696	16,0%	
Public Sector Finance	105	749	14,0%	128	821	15,5%	
Merchant Banking	100	1089	9,2%	176	1115	15,8%	
Total principal areas of business	1501	12220	12,3%	2442	12659	19,3%	
Other:							
NPLs, real estates and other assets	-594	5033	n.m.	22	3622	n.m.	
Sanpaolo - IMI	907	17253	5,3%	2464	16281	15,1%	
Real estate spin-off				40	2200	1,8%	

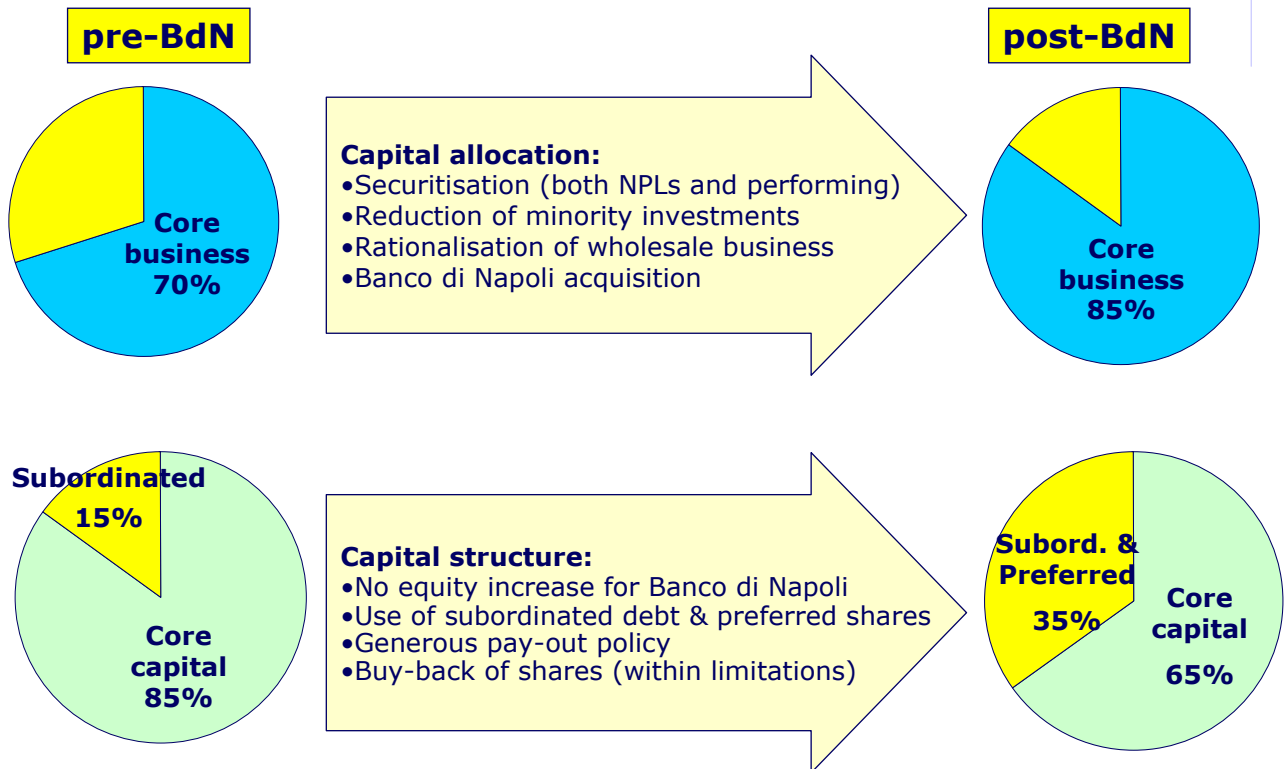
1999 BU CONTRIBUTION TO THE GROUP PROFITABILITY

Area	Contribution as of Dec. 1999		
	Net income (€MM)	Average allocated capital (€MM)	Annualised RORAC (%)
• Commercial Banking	468	2,607	18.0%
• Large Corporate	59	706	8.4%
• Public Sector	41	205	20.1%
• Personal Financial Services	150	542	27.6%
• Investment Banking	76	362	20.6%
• Merchant Banking	36	374	9.6%
• Corporate Centre & Workout	220	2,710	n.s.
SANPAOLO IMI GROUP	1,050	7,506	14.0%
Real estate spin-off (Beni Stabili)	2	701	

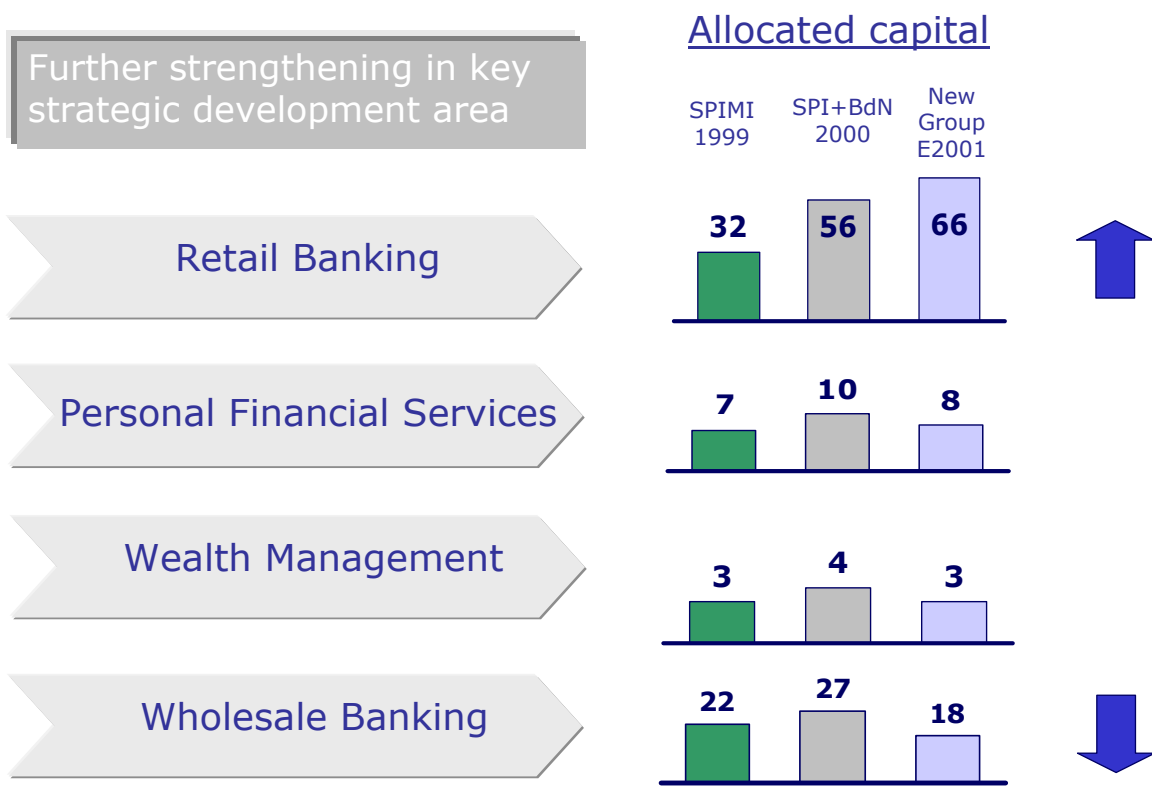
BANCO DI NAPOLI ACQUISITION: CAPITAL RE-ALLOCATION



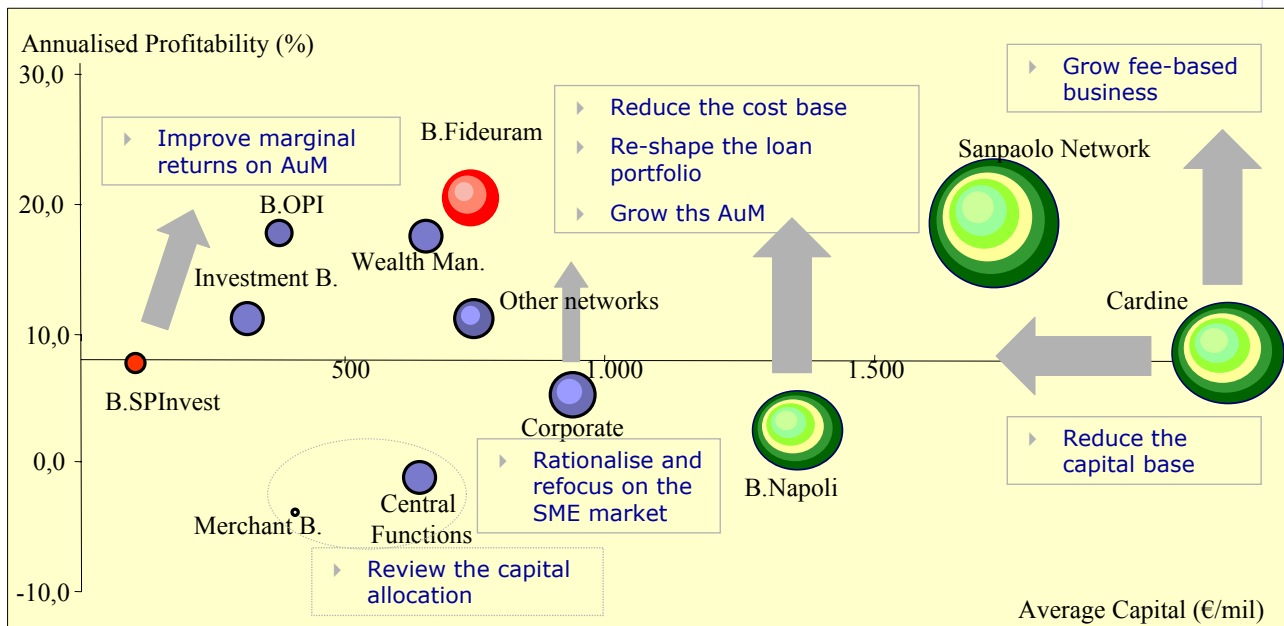
BANCO DI NAPOLI ACQUISITION: CAPITAL ALLOCATION AND CAPITAL STRUCTURE



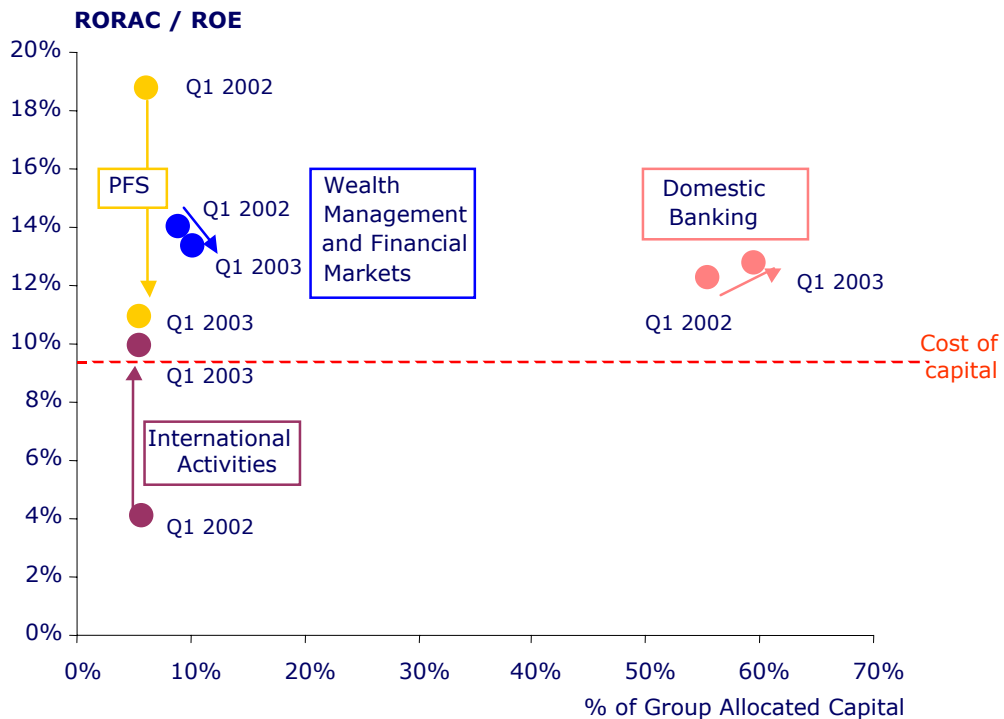
CAPITAL ALLOCATION AFTER CARDINE MERGER



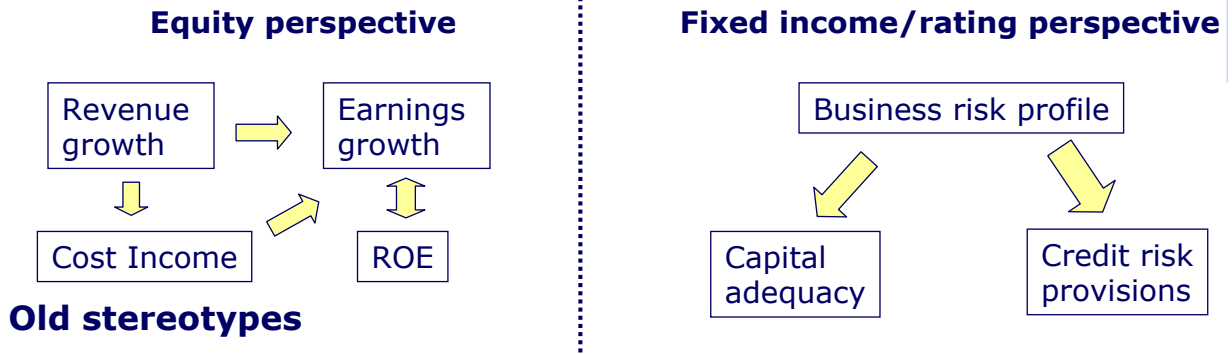
ACTIVE CAPITAL MANAGEMENT TO CREATE VALUE BASED ON Q1 RESULTS 2002 (2002 GS Conference -Venice)



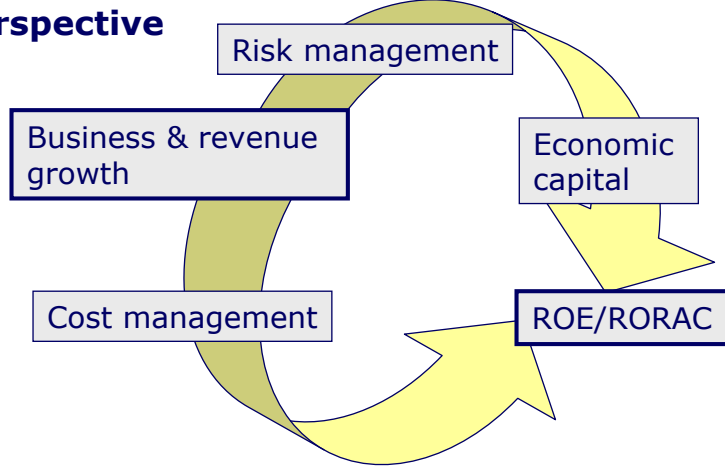
CAPITAL MANAGEMENT MAP Q103/Q102



FROM CAPITAL MANAGEMENT TO BUSINESS MANAGEMENT

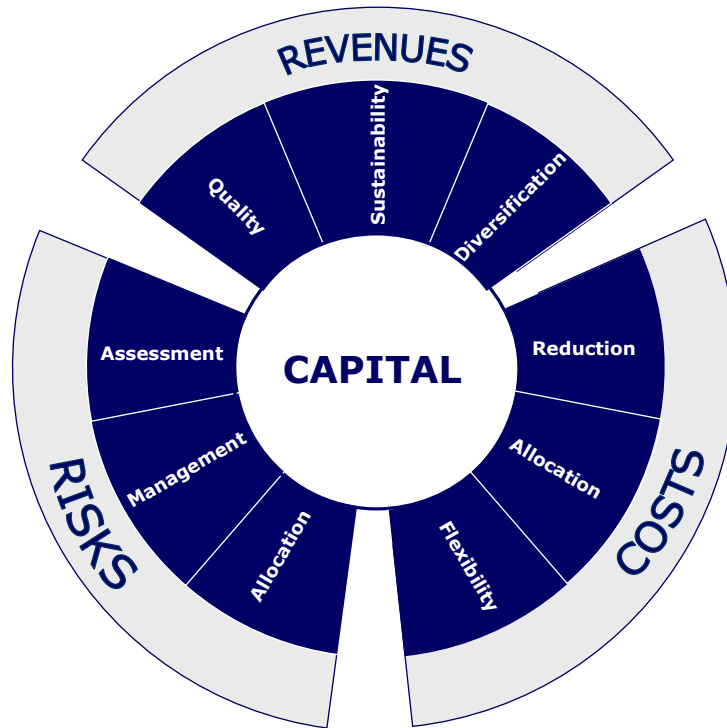


New unified perspective



AGENDA

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- ✓ To Business Management
- Conclusions



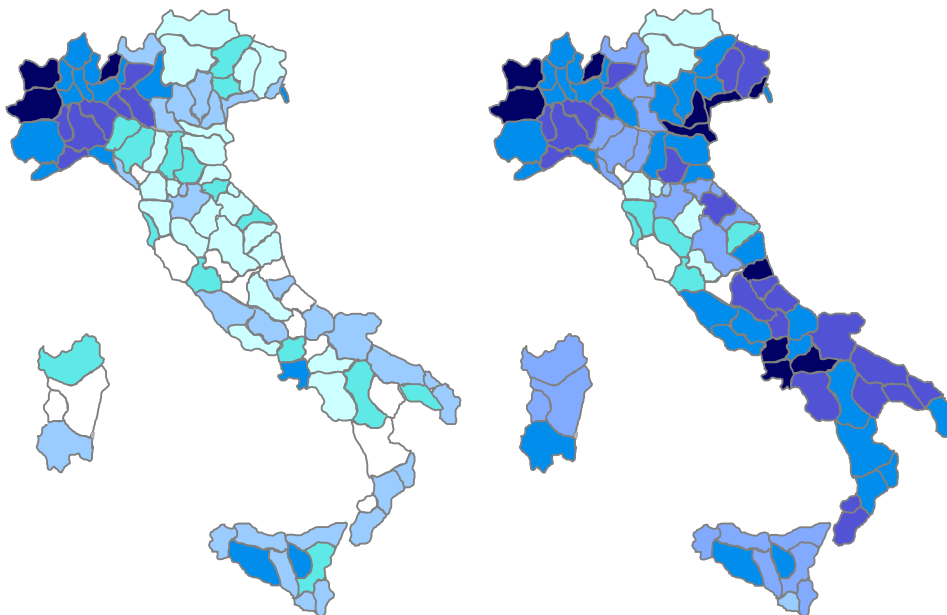
QUALITY REVENUES

The Group has built a national distribution network focused on its natural customer base



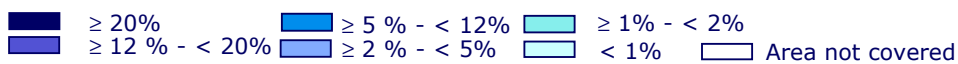
1999

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



QUALITY REVENUES

... and is extending its successful branch distribution model



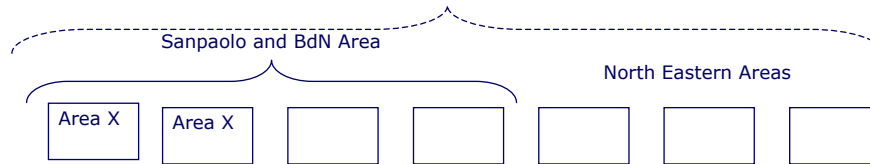
Retail Headquarters

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



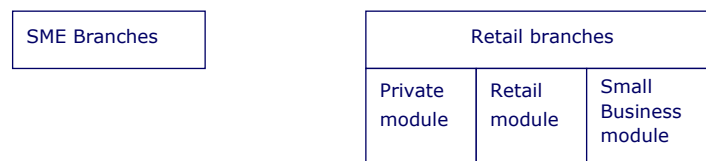
Area Management

- Local nature maintained through brand and legal entity
- Coordination of division at local area level



Branch network

- 3.000 branches with good coverage and high concentration
- Specialisation through dedicated branches and modular approach to branch business
- Multi-channel approach



QUALITY REVENUES

...and already well advanced and ahead of track on integration of domestic banking



1- INTEGRATION OF SANPAOLO AND BANCO DI NAPOLI BRANCHES

Structural drivers H103

- ✓ **Legal merger of Banco di Napoli**
- ✓ **Unification of Area management**
- ✓ **Migration of IT systems onto target platform (successful Big Bang on June 3)**



Commercial drivers H203

- Introduction of Sanpaolo business model and processes
- Specialization of business activity by customer segment
- Branch management reshuffle
- Single divisional reporting and management system
- Extension of professional roles and incentivisation schemes
- Launch of new brand strategy leveraging on the Sanpaolo name

QUALITY REVENUES

...and already well advanced and ahead of track on integration of domestic banking



2 - INTEGRATION OF SANPAOLO AND CARDINE

H202 Integration of Finance & Treasury, Risk Control and other HQ functions
Rationalisation of product factories

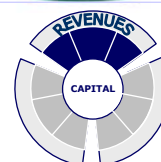
H203 Full acquisition of Banca Popolare dell'Adriatico
Integration of Cerea Bank in Cariparo
Elimination of Cardine Finanziaria

H104 Migration of remaining North Eastern Banks onto SPIMI IT platform
Fully integrated commercial platform for domestic banking
Fully integrated brand strategy leveraging on local brand strength and national Sanpaolo recognition



DIVERSIFICATION OF REVENUES

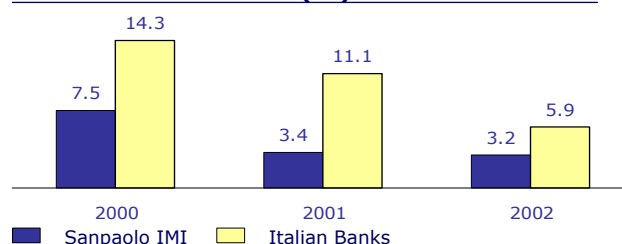
Reshaping the loan portfolio has enhanced diversification and focused on natural customer base



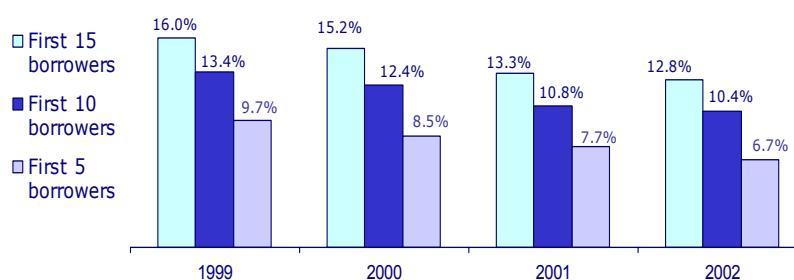
1999-2002 refocusing of the loan book

- 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
- Reduction of concentration in the portfolio

Domestic Loan Growth (%)⁽¹⁾



Concentration(*)

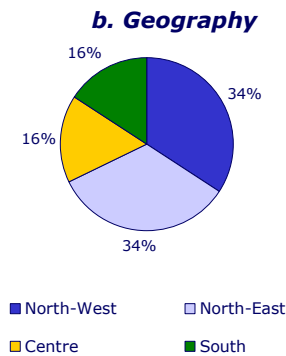
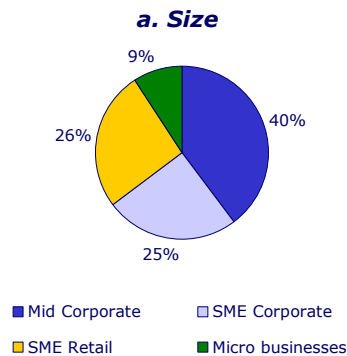


(*) In terms of loans, commitments and guarantees on net customer loans

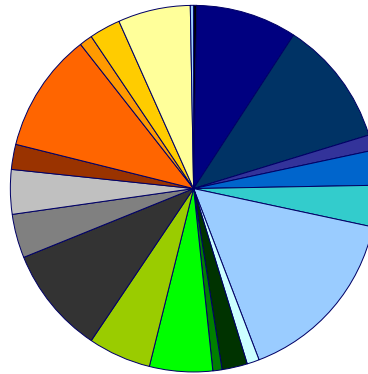
DIVERSIFICATION OF REVENUES

Beneficial diversification effect through strong SME customer base

Breakdown of Italian SME customer base by:



c. Sector



- Aerospace and Defence
- Agriculture and food industry
- Consumer goods
- Paper and glass
- Chemical and plastic
- Commercial services
- Public works
- Publishing
- Electronics
- Entertainment
- Mining industry
- Engineering
- Transport
- Oil
- Health
- Consumer services
- Business services
- Telecommunications
- Tourism
- Utilities
- Others



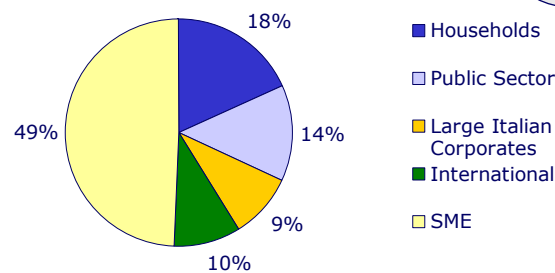
SUSTAINABILITY OF REVENUES

Well balanced portfolio and selective loan growth ensure sustainability

2003-2005 growing a refocusing loan book

- 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

2002 Loan Book Breakdown (%)



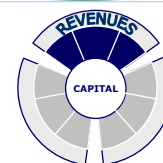
	Stock Q103	Var. Y/Y
GROUP:	126,371	+2.5%
PRINCIPLE BUSINESS UNIT NUMBERS:		
▶ Sanpaolo Network	53,737	+7.0%
▶ Cardine	25,086	+7.0%
▶ Large Domestic Groups	11,539	+0.5%
▶ Banca OPI	18,056	+14.2%
▶ Consumer Banking	3,725	+16.5%
▶ Foreign corporate	4,978	-33.8%

DIVERSIFICATION OF REVENUES

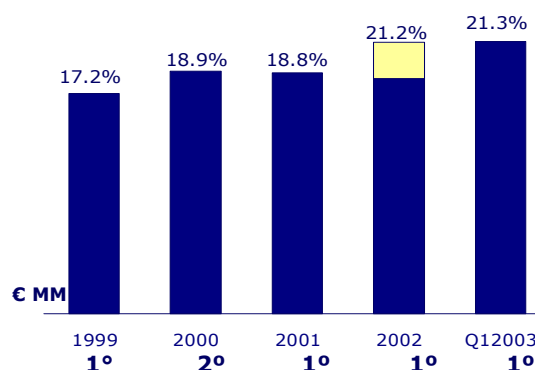
Successful strategic development of asset management business



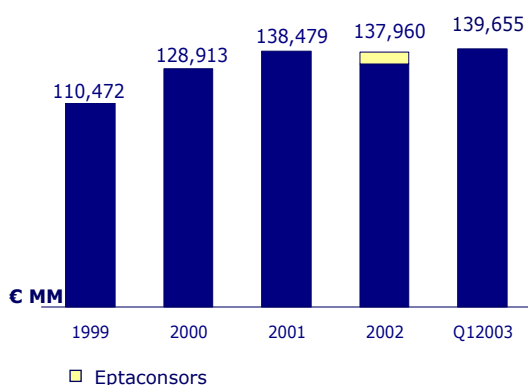
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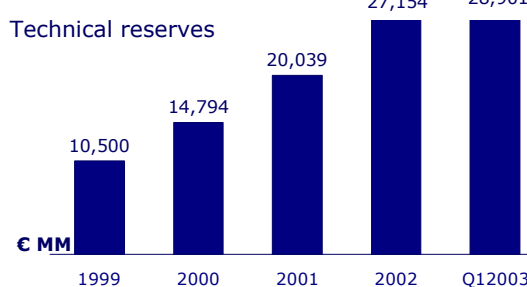
Mutual funds market share



AUM



Life Business

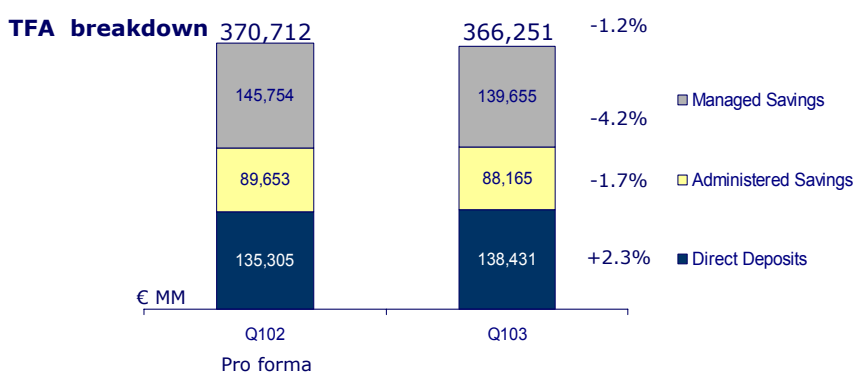
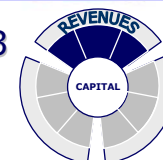


DIVERSIFICATION OF REVENUES

Strong asset gathering capacity of the Group confirmed in 2003 reflecting underlying strength in customer relationships



22



Net inflows April-May 2003

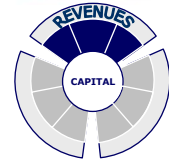
Mutual funds:	1,445
Life insurance:	675

€ MM

Aggregate	Q12003 stock	Q12003 inflows	Q12003 Performance	Net change year to date	
AFI	366,251	+6,952	-2,863	+4,089	+1.1%
AUM	139,655	+3,919	-2,224	+1,695	+1.2%
▶ Life assurance	28,901	+1,649	+98	+1,747	+6.4%
▶ Mutual funds	101,607	+2,448	-2,196	+252	+0.2%
Administered	88,165	+1,499	-639	+860	+1.0%
Direct deposits	138,431	+1,534	-	+1,534	+1.1%

SUSTAINABILITY OF REVENUES

Business approach drives sustainability of revenues



Strategic drivers to growth in AUM

- ✓ High savings ratios
- ✓ Developing pension gap
- ✓ Long term investment needs

Group distribution

- ✓ Branches: ~3,000
2° Ranking in Italy
- ✓ PFS: ~5,000
1° Ranking in Italy

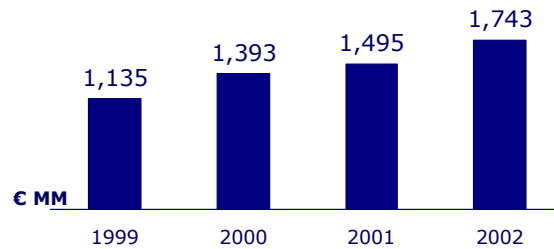
Group guidelines

- ✓ 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

Life Business

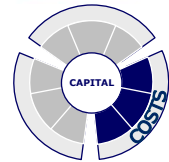
	Technical Reserves	% of AUM
31/12/1999	10.5 € Bn	9.5%
30/04/2003	29.4 € Bn	20.7%
	New production	Market share
1999	2.3 € Bn	8.9%
2002	7.3 € Bn	16.5%

Embedded value



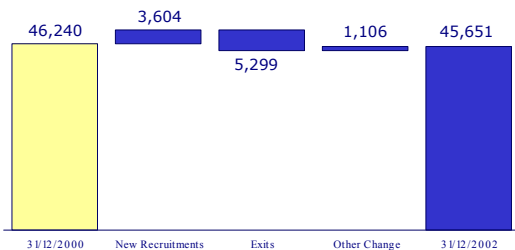
COST REDUCTION

Proven track record in headcount reduction



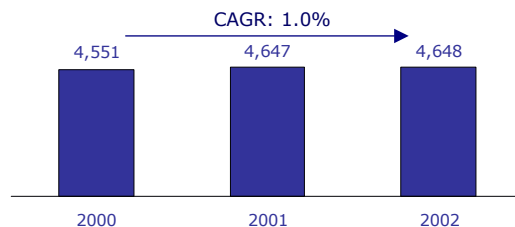
Group Headcount

of Employees



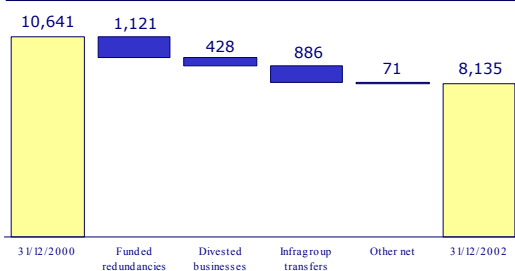
Impact on Cost Base

Group Administrative Costs (€ MM)

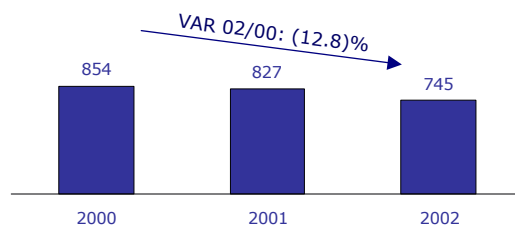


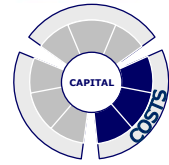
BdN Headcount (#)

Reduction in # Employees



BdN Administrative Costs (€ MM)

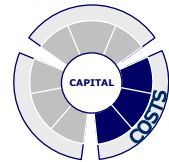




COST REDUCTION

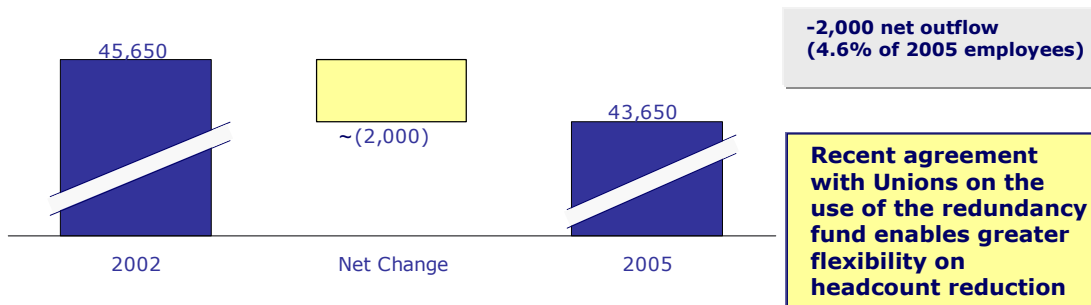
Active management of the business portfolio will enable further cost reduction and free capital resources

FOCUS	RATIONALISATION
<ul style="list-style-type: none"> ➤ Development of consumer banking in Finemiro ➤ Strengthening of Wealth Management with Eptaconsors and concentration of life business ➤ Acquisition of control of Inter-Europa Bank completing the selective presence in Eastern Europe 	<ul style="list-style-type: none"> ➤ Sale of 50% stake in Finconsumo to SCH ➤ Disposal of IMIWEB ➤ Rationalisation of EPTA Sim ➤ Rationalisation of life companies ➤ Partnership with CNCE – Eulia in Banque Sanpaolo for French Market ➤ Dismissal of non strategic shareholdings ➤ Dismissal of non operational property assets

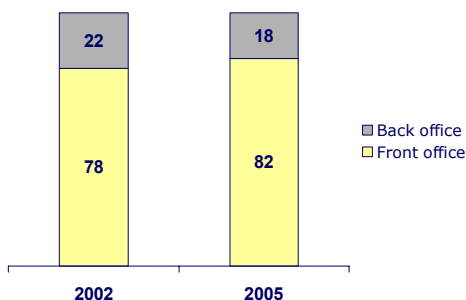


COST ALLOCATION & FLEXIBILITY

Reducing headcount facilitates efficient cost allocation and flexibility



Targets for enhancing efficiency in Retail Banking through better cost allocation and flexibility



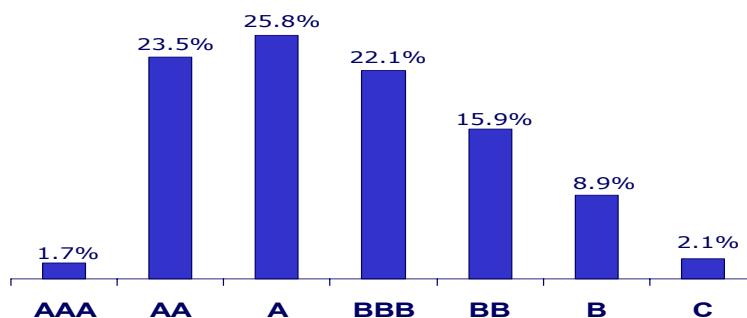
- ✓ +4% in front office branch personnel
- ✓ Reduction in workforce dedicated to transactional banking by ~ 5,000 staff
- ✓ Reduction in average age

RISK ASSESSMENT

The loan portfolio covers a high quality, balanced range of risk return lending activity



Group portfolio rating profile

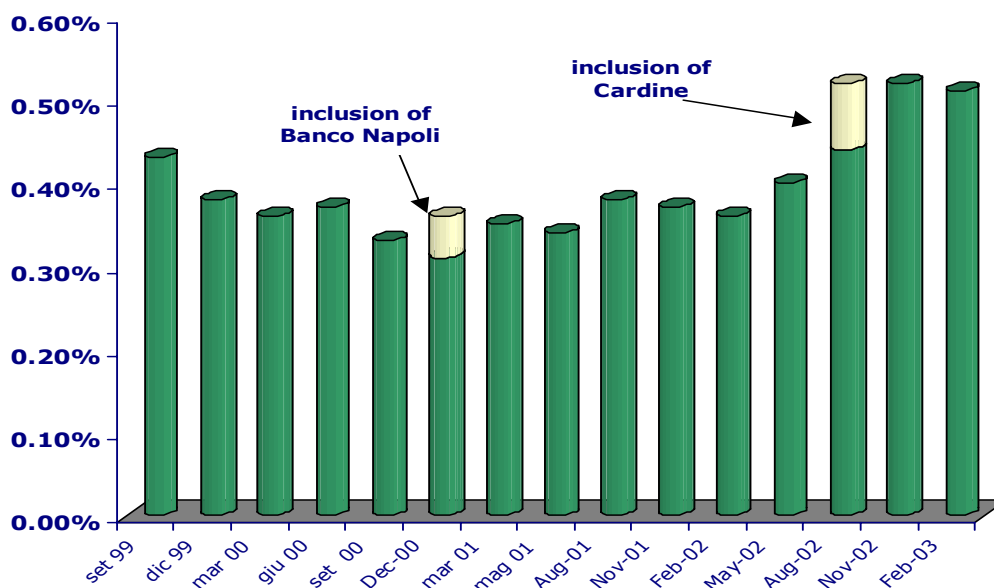


Projected capital release on current Basel 2 rules (including increment in capital for operational risks and equity deductions for life subsidiaries)

Approach	Total Capital Ratio	Capital requirement (RWA*8%)	
		Amount € MM	Change % from current
Standardised	9.0%	12,306	+6.3%
IRB Foundation	10.3%	10,920	-5.7%
IRB Advanced	11.1%	10,282	-11.2%

RISK ASSESSMENT

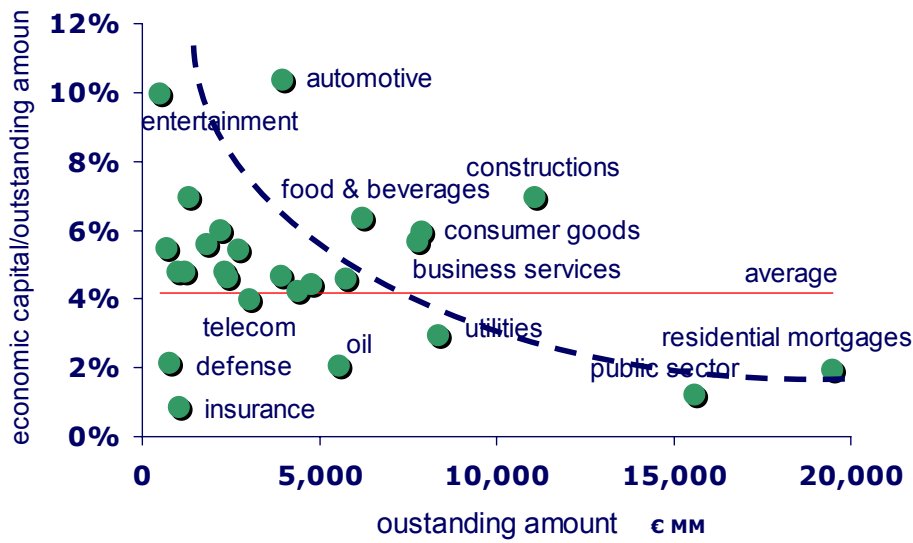
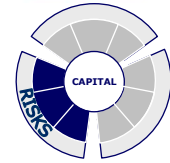
Despite the economic turndown, Sanpaolo IMI has managed to maintain a stable level of expected loss



N.B. The EL is the product of probability of default, exposure at default and loss given default; the latter is measured with reference to an economic, as opposed to accounting, concept of loss comprehensive of legal costs, calculated prudently on the recoveries from disputes on a discounted base.

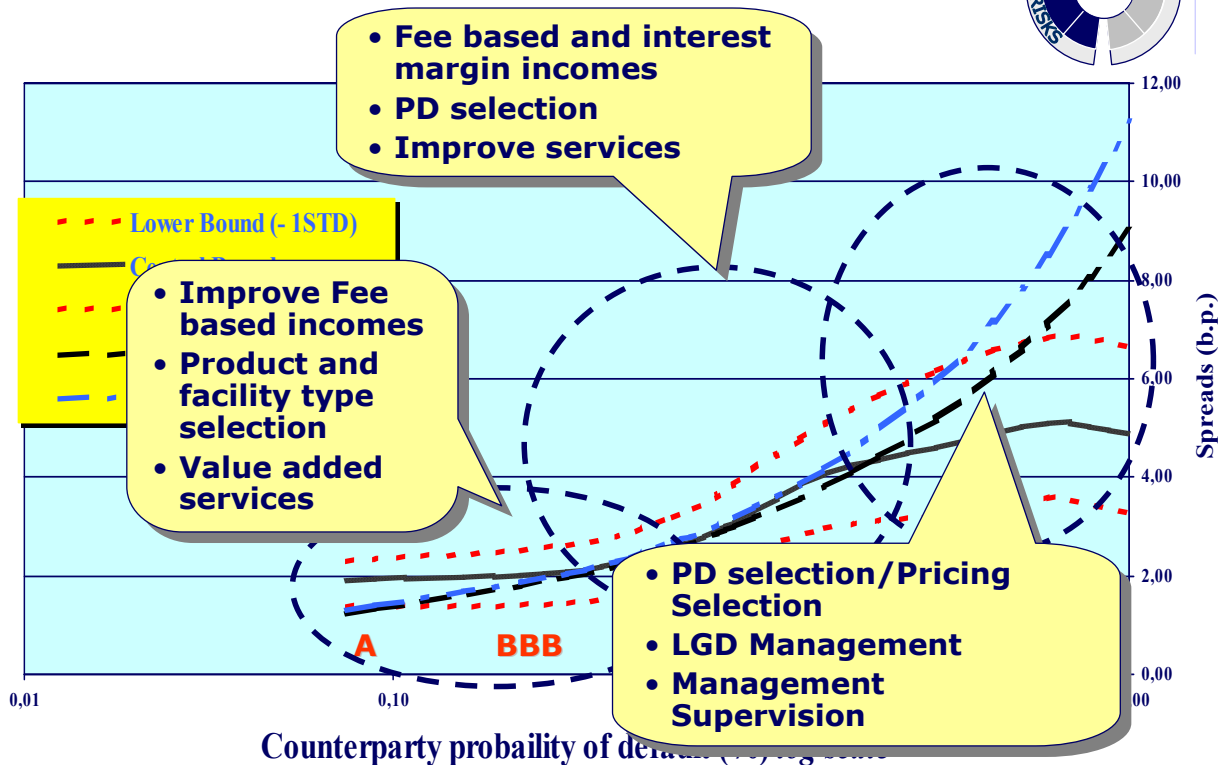
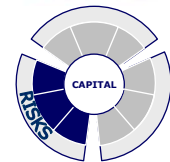
RISK ASSESSMENT

Sector analysis shows the portfolio to be conservative distributed



RISK MANAGEMENT

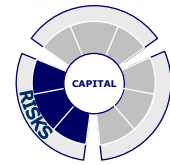
Risk adjusted pricing and policies are actively used to manage credit risk



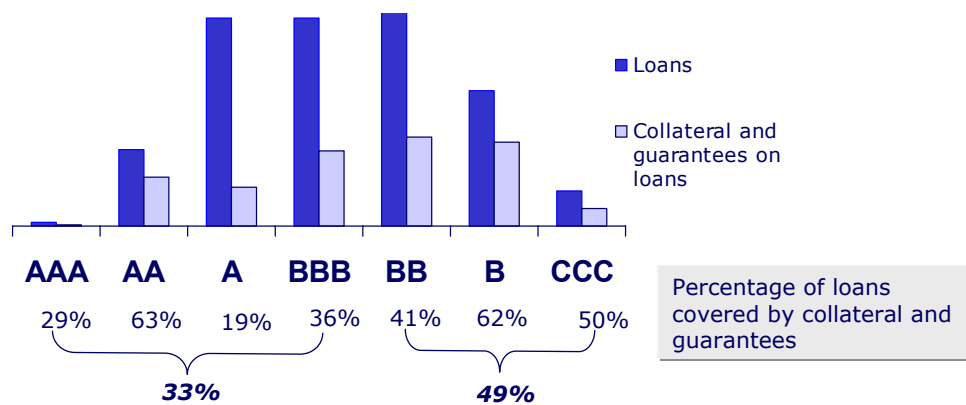
RISK MANAGEMENT

SME risk is offset by:

- ✓ Local presence and concentrated branch coverage
- ✓ Proven risk management tools
- ✓ Loss given default management

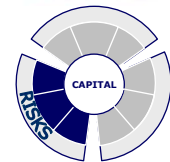


SME guarantees by rating

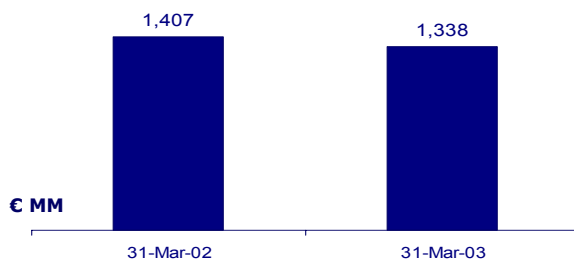


RISK MANAGEMENT

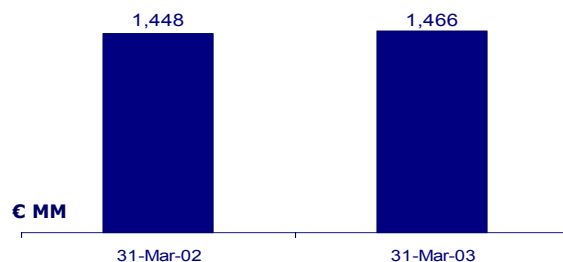
The Group maintains low ratios and prudent analytical coverage on all NPLs and PPLs



NET NPL'S



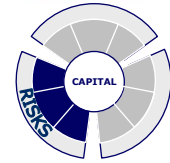
NET WATCHLIST (*)



	31/03/03
NPL ratio	1.0%
Net Watchlist ratio	1.1%
General Reserve:	90 b.p. (perf. Loans)
NPL coverage ratio:	68.7%
Watchlist coverage ratio:	30.2%

(*) Includes watchlist, restructured and in course of restructuring loans.

Forward looking provisioning policy enables a fair distribution of the cost of risk



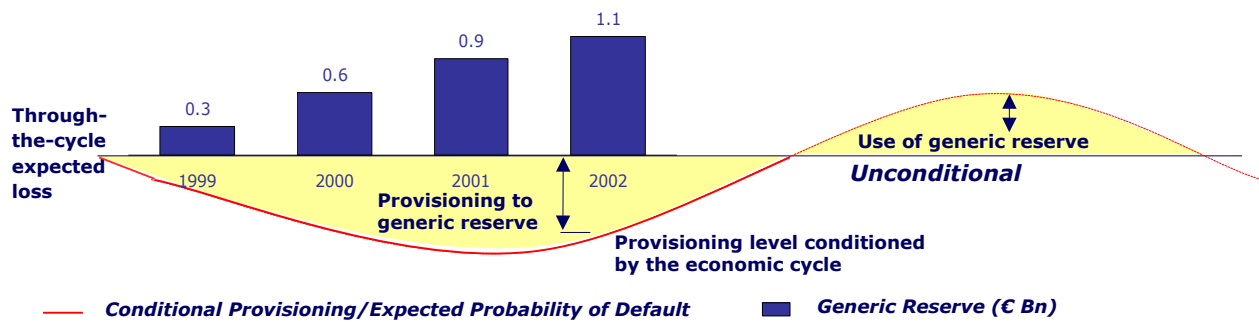
Guidelines

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

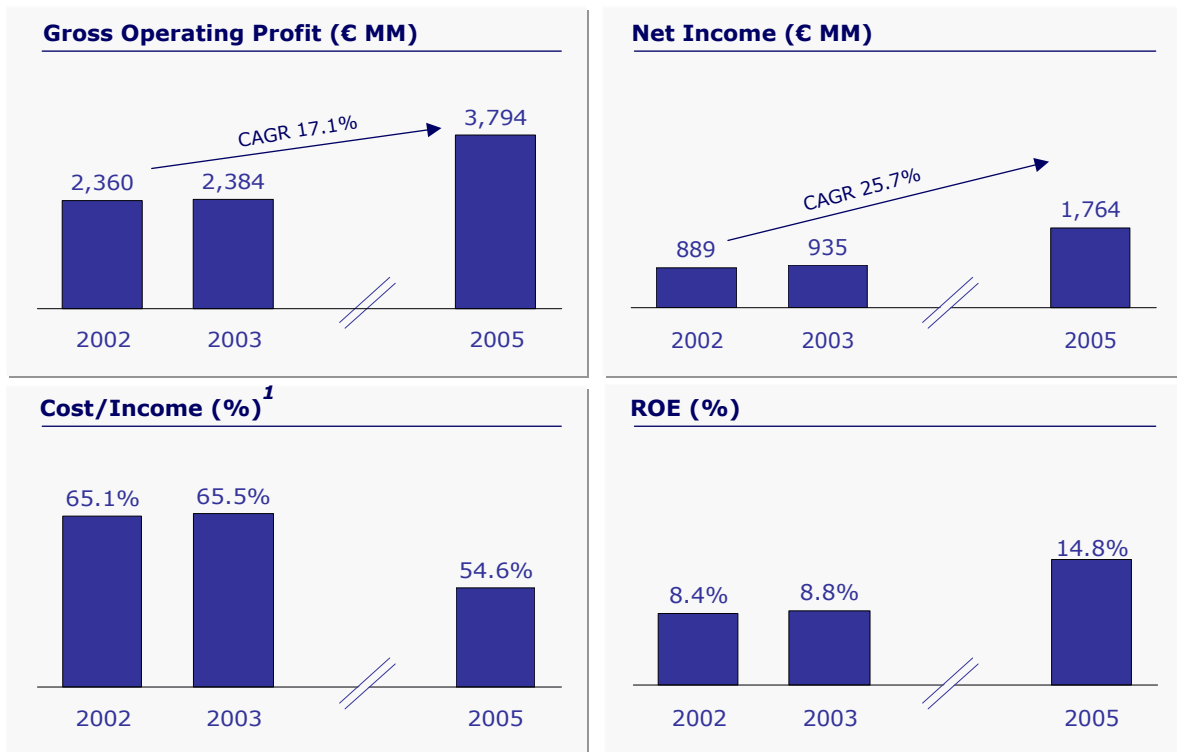
Protection from Forward Looking Provisioning Policy



AGENDA

- From Capital Management
- To Business Management
- ✓ Conclusions

2005 GROUP TARGETS



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)

Disclaimer:

As in most presentations, forward looking statements are made 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.