

# GRUPPO SANPAOLO IMI

## EXANE BNP PARIBAS European Financial Services Conference

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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.

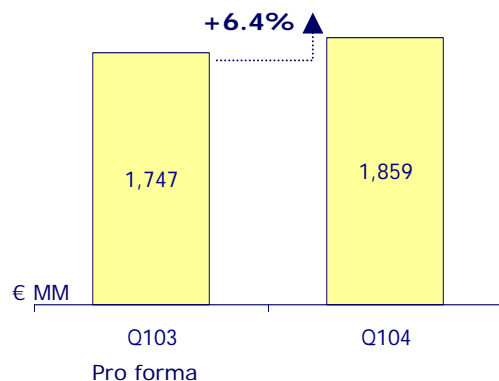
# AGENDA

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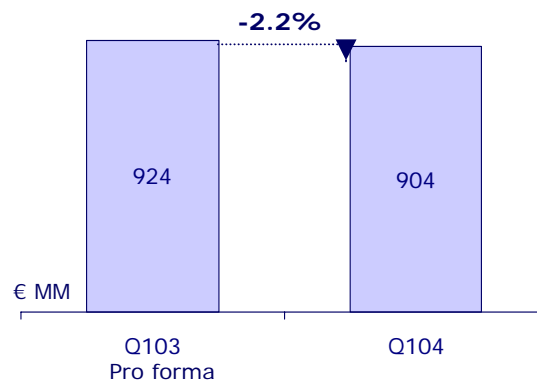
- Q1 2004 results
- Group strategy
- Conclusions

# GOOD REVENUE GROWTH

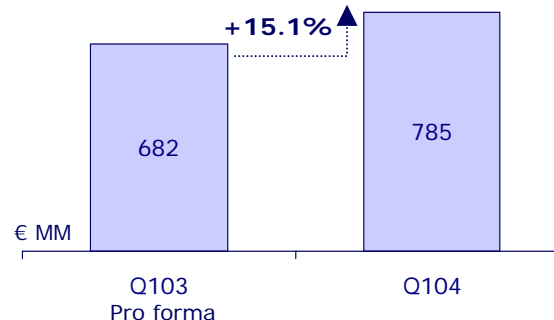
## Total revenues



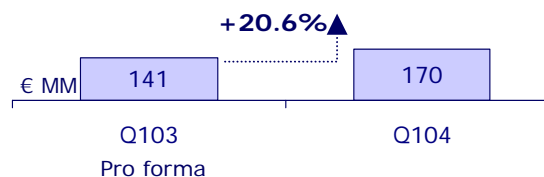
## Net Interest Income



## Net commissions



## Other income



## OPERATING TRENDS

### Selective loan growth:

- Mortgages (new lending 0.9 € billion YTD, +9.6%)
- Consumer credit +12.4% Y/Y
- Public authorities +2.1% Y/Y
- Large Corporate -31% Y/Y

### Customer spread defended in falling interest rate environment

- Average spread -5 bsp
- Mark up +5 bsp
- Mark down -10 bsp
- 3 months Euribor -62 bsp

### Positive growth in traditional banking fees

- Collection and payment services +8.8%
- Deposit and current accounts +7.2%

### Strong asset management trends

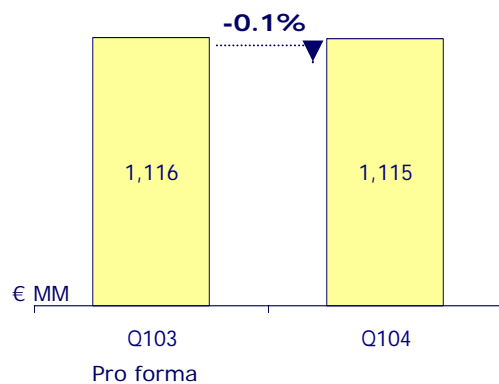
- New customer financial assets 2.7 €BN YTD understated by outflows of 725 €MM from the non captive businesses of Adria Vita and Eptaconsors in managed assets
- Positive market performance impacted positively on AUM 3.3 € BN YTD and on mutual fund asset mix up 5% Y/Y
- 69 € MM contribution form life companies reflecting strength of insurance business

# COSTS UNDER CONTROL

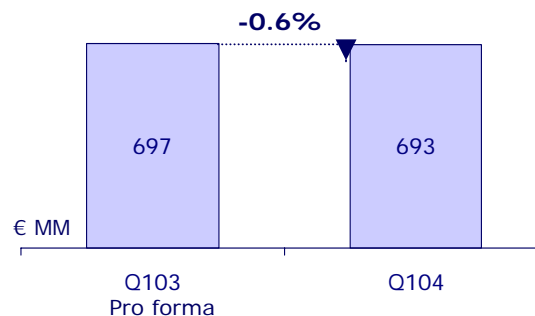
## OPERATING TRENDS

- Fall in personnel expenses driven by average net headcount reduction of 3.7% Y/Y offset national banking contract increases
- Administrative costs up in line with inflation driven by integration expenses
  - IT costs (+2.0%)
  - Indirect personnel costs (+21.1%)

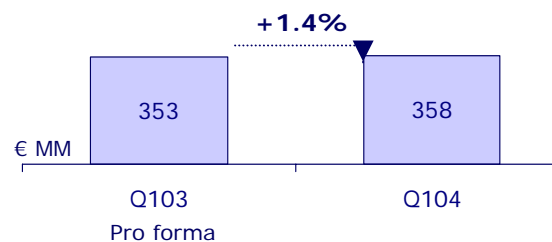
### Operating costs



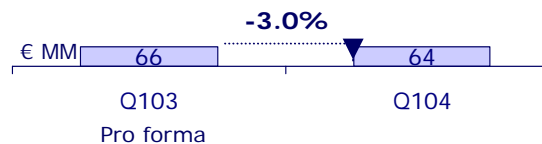
### Personnel costs



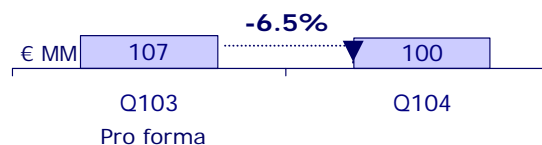
### Other administrative costs



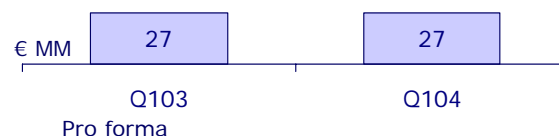
### Indirect duties and taxes



### Depreciation



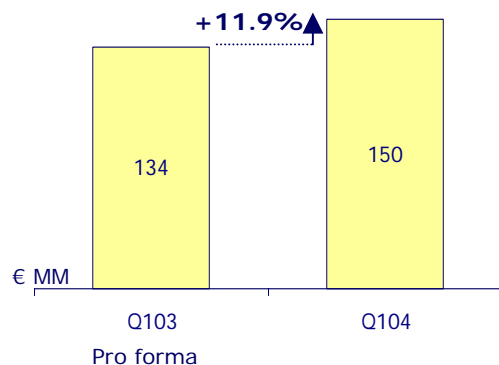
## Provisions for risks and charges



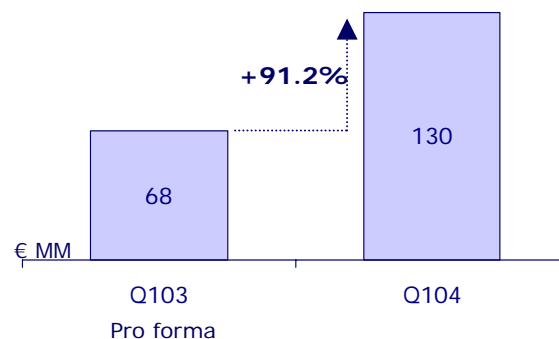
## OPERATING TRENDS

- Credit provisioning in line with average annual cost of risk and includes 38 € million generic charge
- Total doubtful loans down 1% Y/Y
  - Net NPL -5.6% (ratio 1.0%)
  - Net watchlist +2.7% (ratio 1.2%)
- Adequate coverage level of 73% and 32% on NPL and watchlist loans respectively. Levels are analytically calculate and include NPV of expected recoveries.
- Good asset quality confirmed in performing loan portfolio
- Generic reserve of 1.1 €BN represents nearly twice the expected through the cycle cost of risk

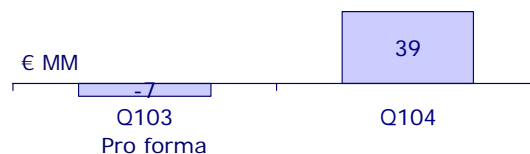
## Provisions



## Adj. to loans and provisions for guarantees and commitments

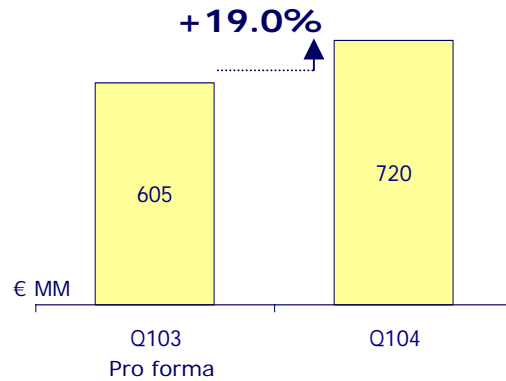


## Adj. to financial fixed assets

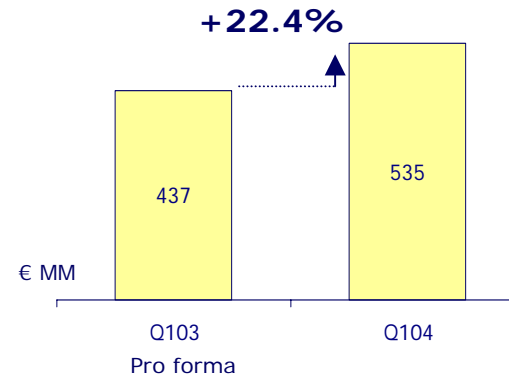


# POSITIVE OPERATING AND BOTTOM LINE TRENDS

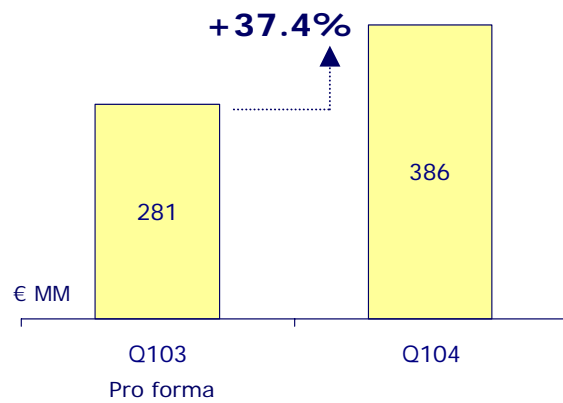
## Operating income



## Ordinary income



## Net income



	Q104
<b>Annualised ROE:</b>	<b>13.8%</b>
<b>Annualised COST/INCOME:</b>	<b>59.5%</b>

# AGENDA

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- Q1 2004 results

- **Group strategy**

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

- Conclusions



# INTEGRATION OF THE BRANCH BANKING NETWORK ON TRACK

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## 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 IT platform (March 04)

Migration of Cassa di Risparmio di Bologna onto SPIMI IT 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

## 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

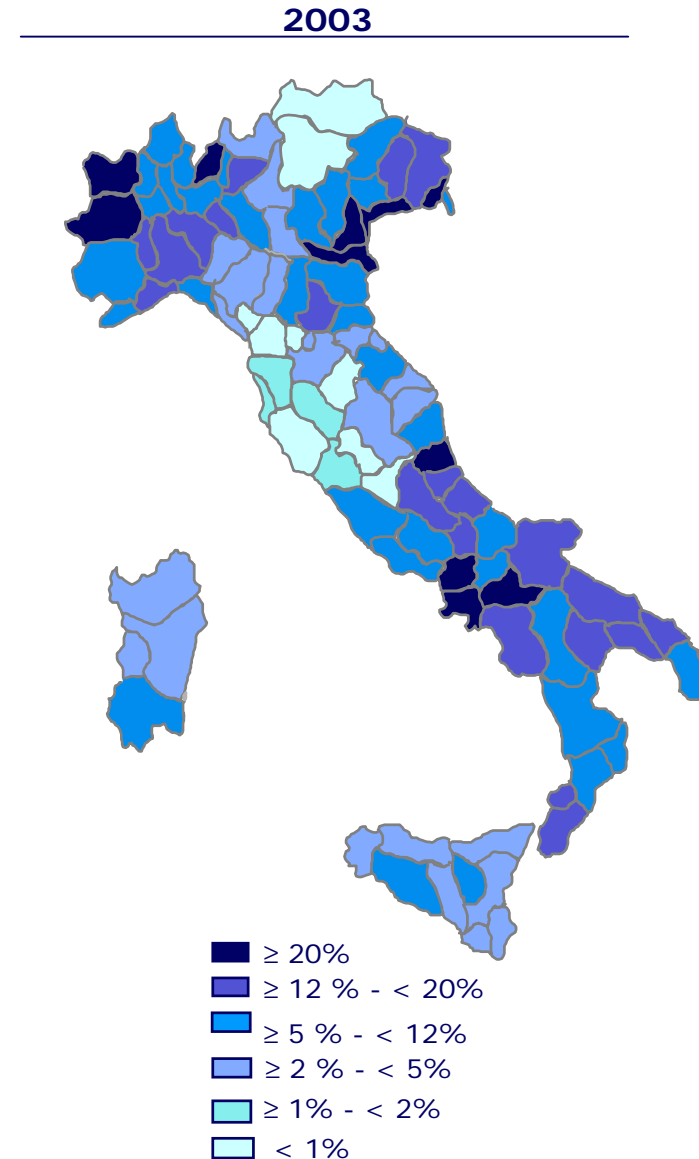
- Local character maintained through brand and legal entity
- Empowers area management structure to manage and coordinate different local market and customer needs

## 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 <sup>(1)</sup>					
SME Division		Private & Retail Division			
					
<b>Specialist branches and modules</b>	<b>151</b> +63 <sup>(2)</sup>	<b>69</b>	<b>2,000</b>		
<b>Professional roles<sup>(3)</sup></b>	<b>1,450</b>	<b>150</b>	<b>2,200</b>	<b>8,500</b>	<b>1,200</b>

1) Numbers do not include ex-Cardine banks  
 2) Additional teams  
 3) In addition to 2,000 branch managers



- Q1 2004 results

- **Group strategy**

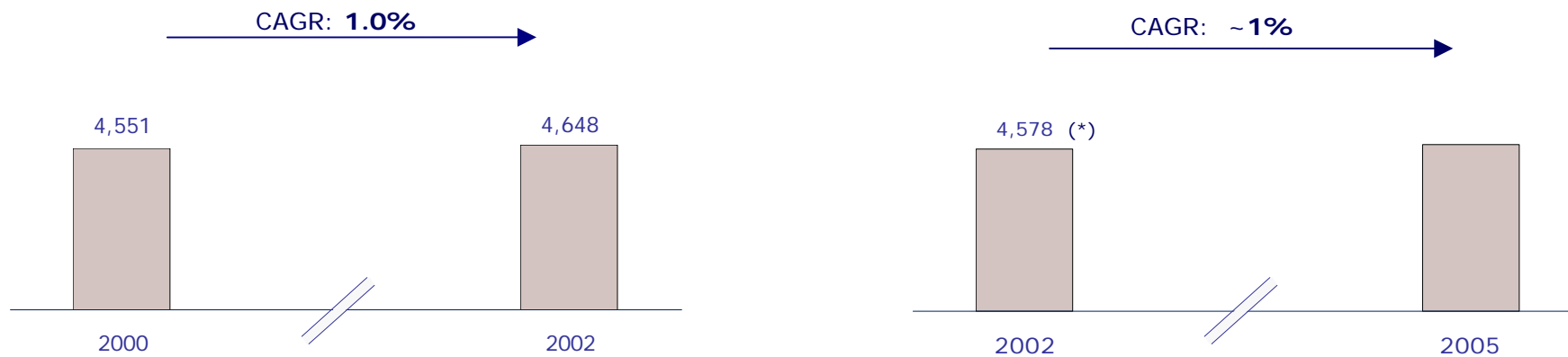
- Enhance performance in core banking business
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# RIGHT SIZING THE COST BASE

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

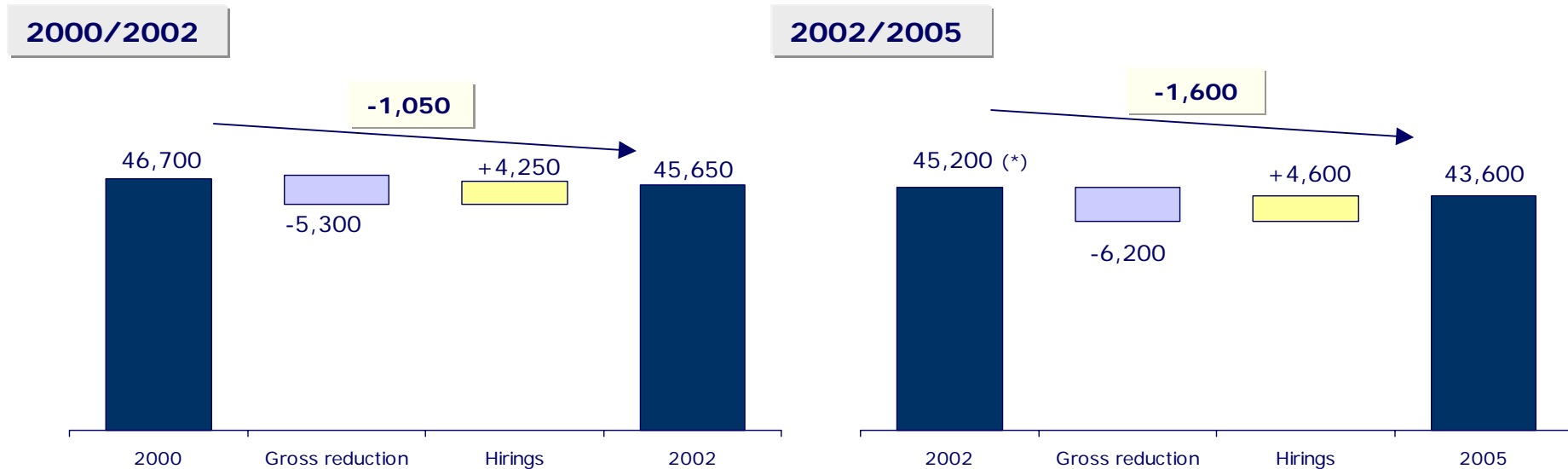
**Group administrative costs (€ MM)**



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

# EFFECTIVE HEADCOUNT REDUCTION

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## 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

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## ACTIONS TAKEN IN 2003

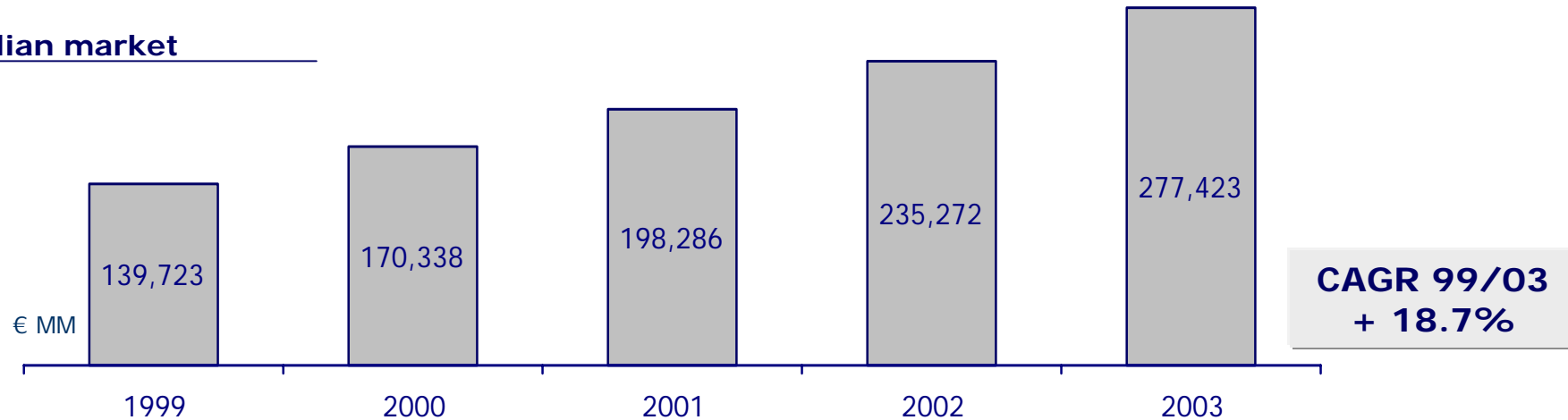
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BUSINESS AREA	FOCUS	RATIONALISATION
Consumer Banking	<ul style="list-style-type: none"> <li>Development of consumer banking in Finemiro</li> </ul>	<ul style="list-style-type: none"> <li>Sale of 50% stake in Finconsumo to SCH</li> </ul>
Retail Banking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

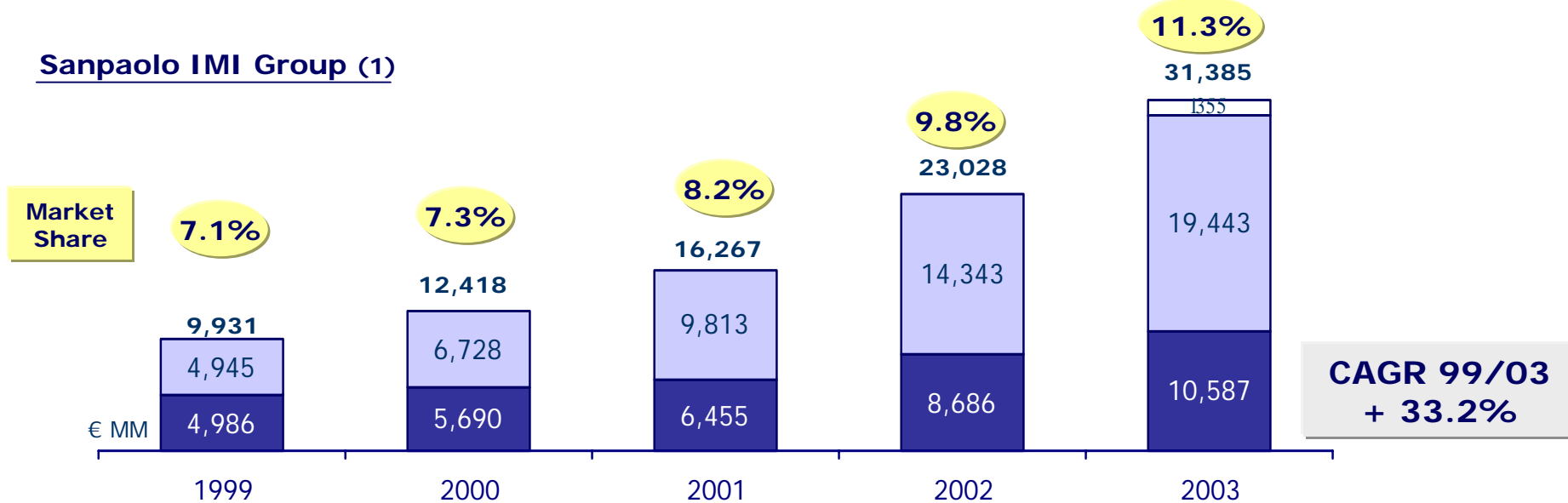
# SUCCESSFUL DEVELOPMENT OF THE LIFE BUSINESS

## TECHNICAL RESERVES

### Italian market



### Sanpaolo IMI Group (1)



(1) Domestic market

■ Fideuram Vita

□ SP Vita + Life

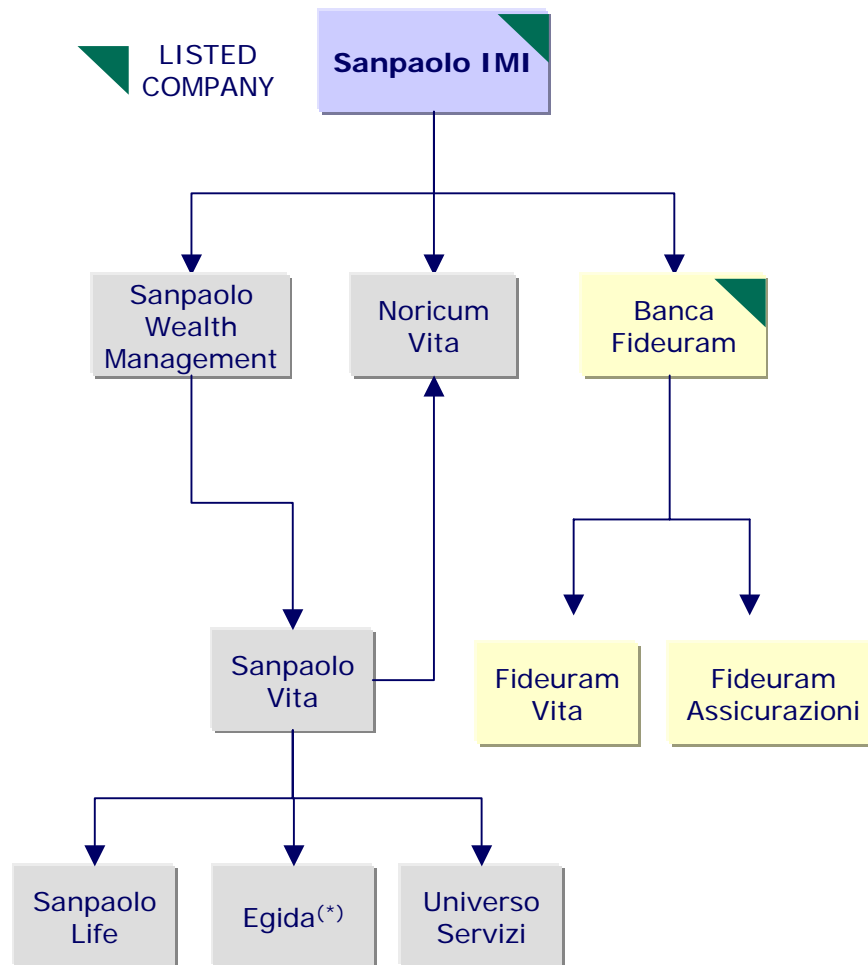
□ Noricum Vita (2)

(2) Noricum Vita control has been completed during 2003.



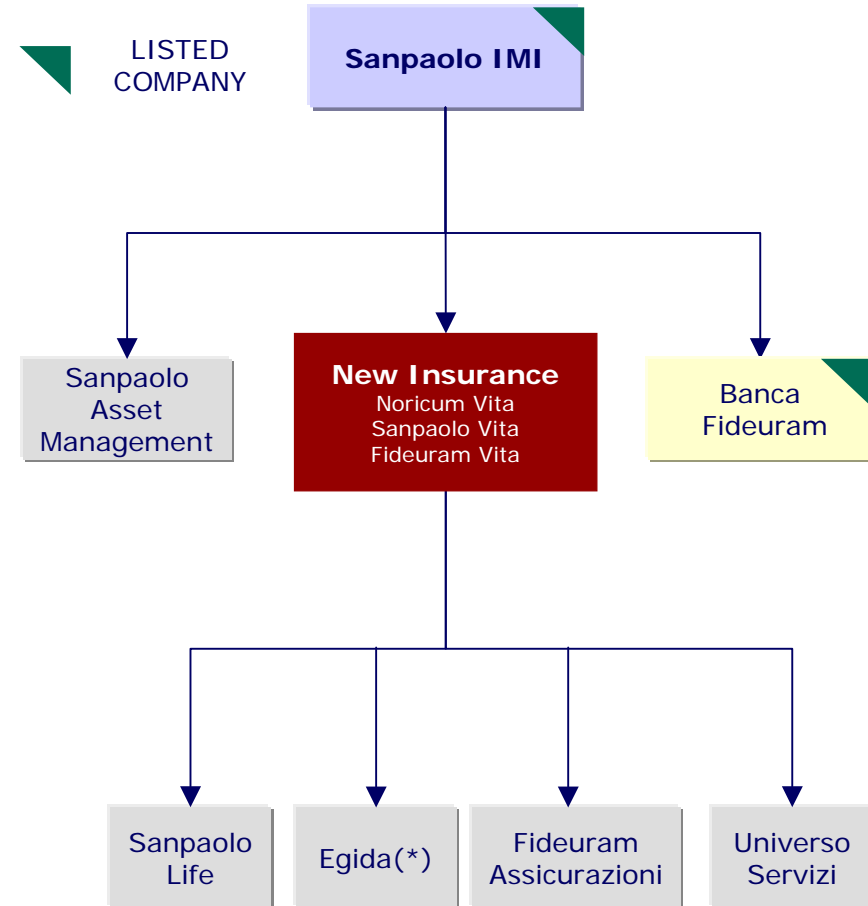
# 2004 INSURANCE POLE PROJECT

PRE



POST

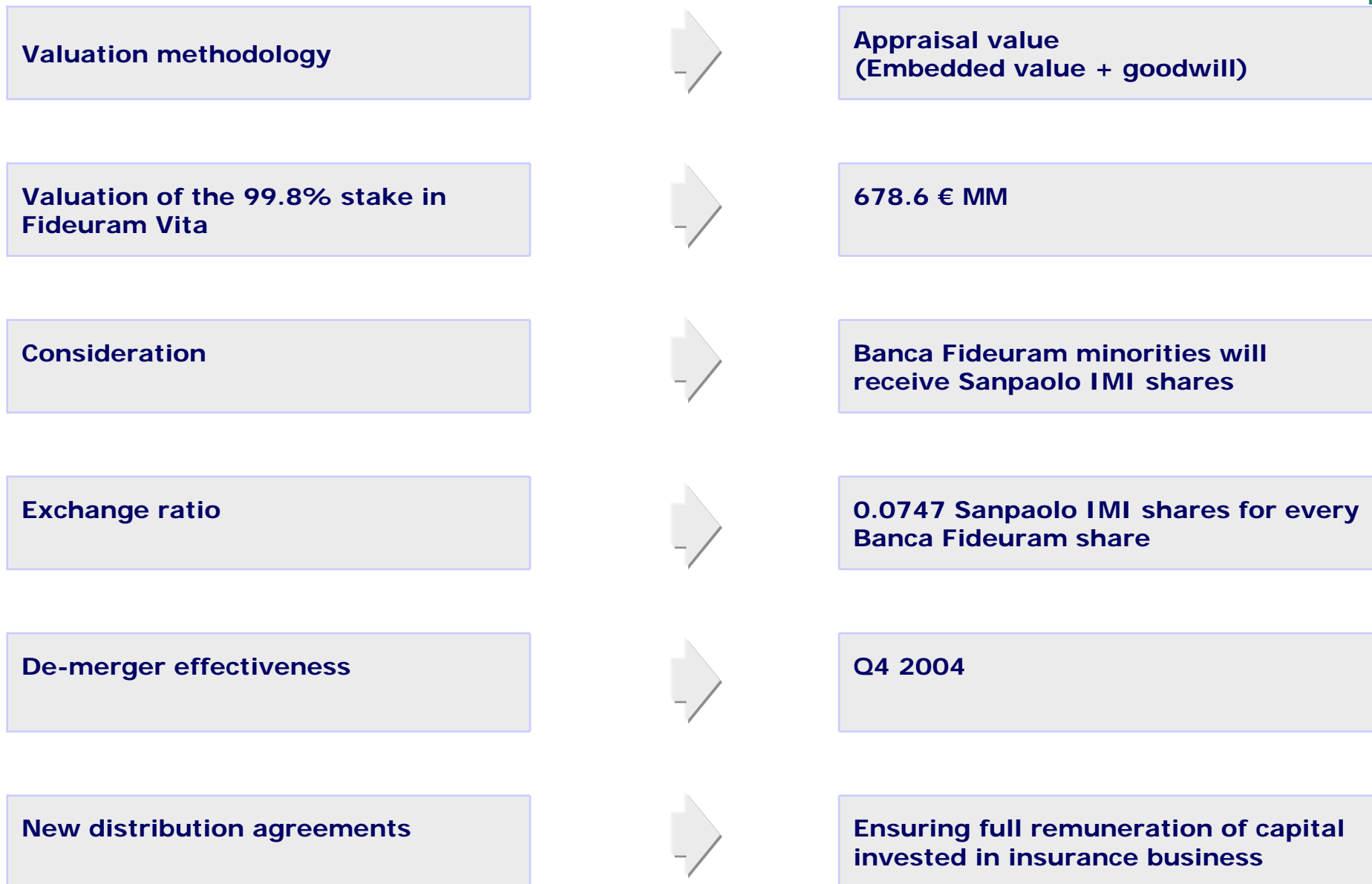
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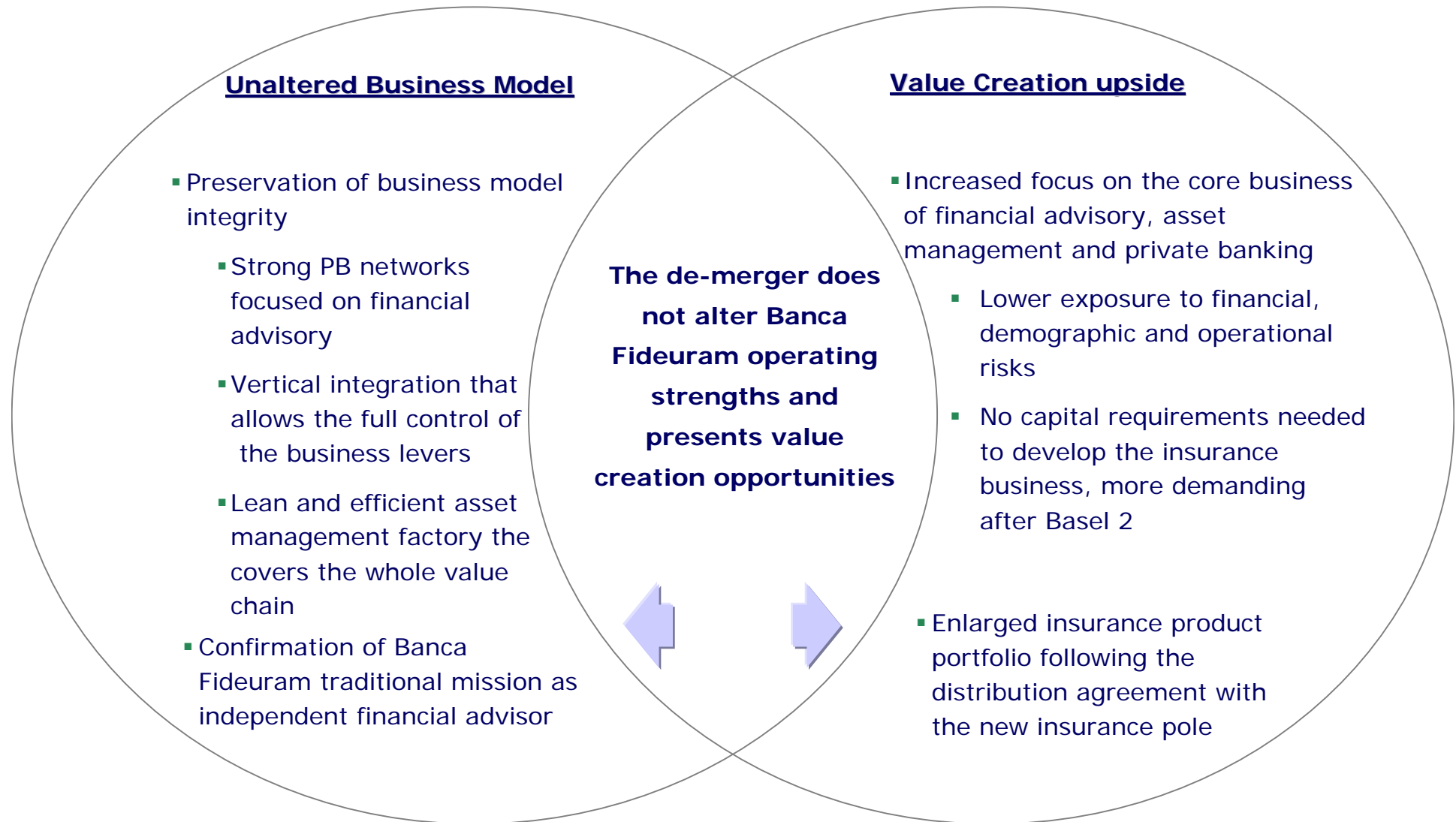


(\*) 50% owned by Sanpaolo Vita/Insurance Pole, remaining 50% owned by Reale Mutua Assicurazioni

# FIDEURAM VITA TRANSACTION

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## OBJECTIVES

### **Rationalise Insurance Production Platform**

- Efficiency & Product Focus -

### **Anticipate Market Needs in Non Life Insurance**

- Growth & Revenue Potential -

### **Create New Leading Insurance Player**

- Strategic Options -

## BENEFITS

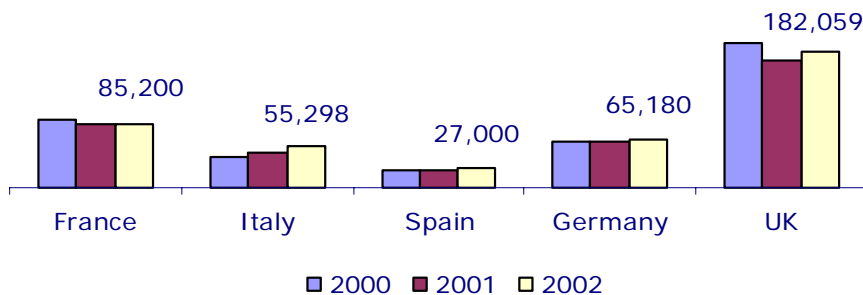
- Avoid duplications and concentrate business competencies to enhance efficiency
- Centralise and further improve risk management tools and techniques
- Improve product innovation and service level

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

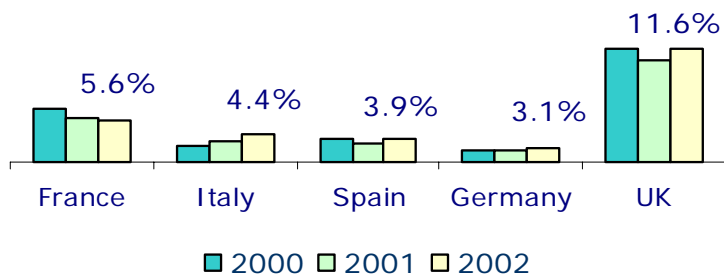
- Create a leading player in the Italian life insurance market
- High strategic flexibility

# FURTHER OPPORTUNITIES IN ITALIAN LIFE BUSINESS

## Life premia (€ MM)



## Life insurance penetration levels

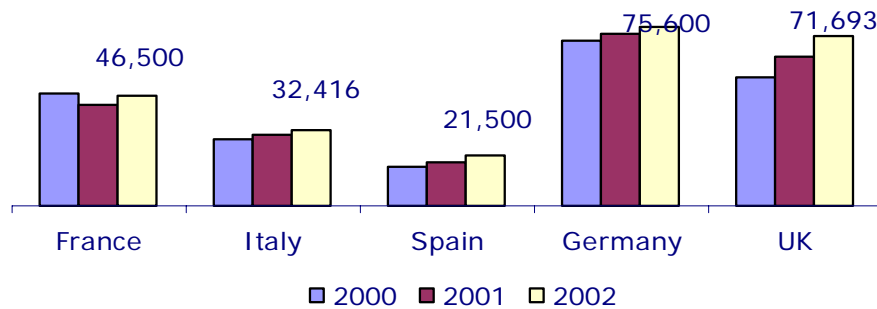


- Penetration of life products in line with European average
- Concentration of life in financial, Pillar III products
- Further opportunities for growth in life business through traditional and pension products
- Proven ability to develop insurance distribution potential

# SIGNIFICANT POTENTIAL IN ITALIAN NON LIFE BUSINESS

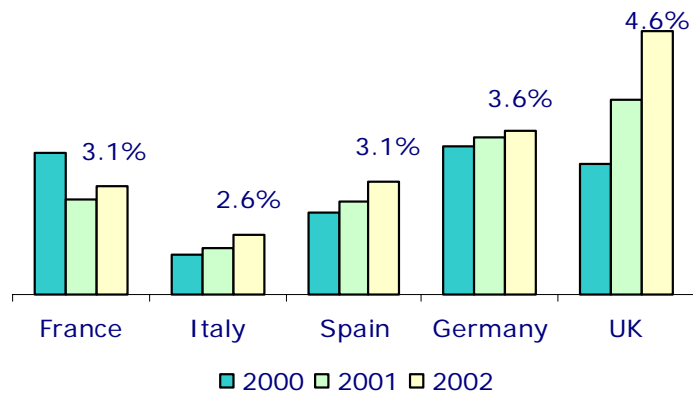
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## Non life premia (€MM)



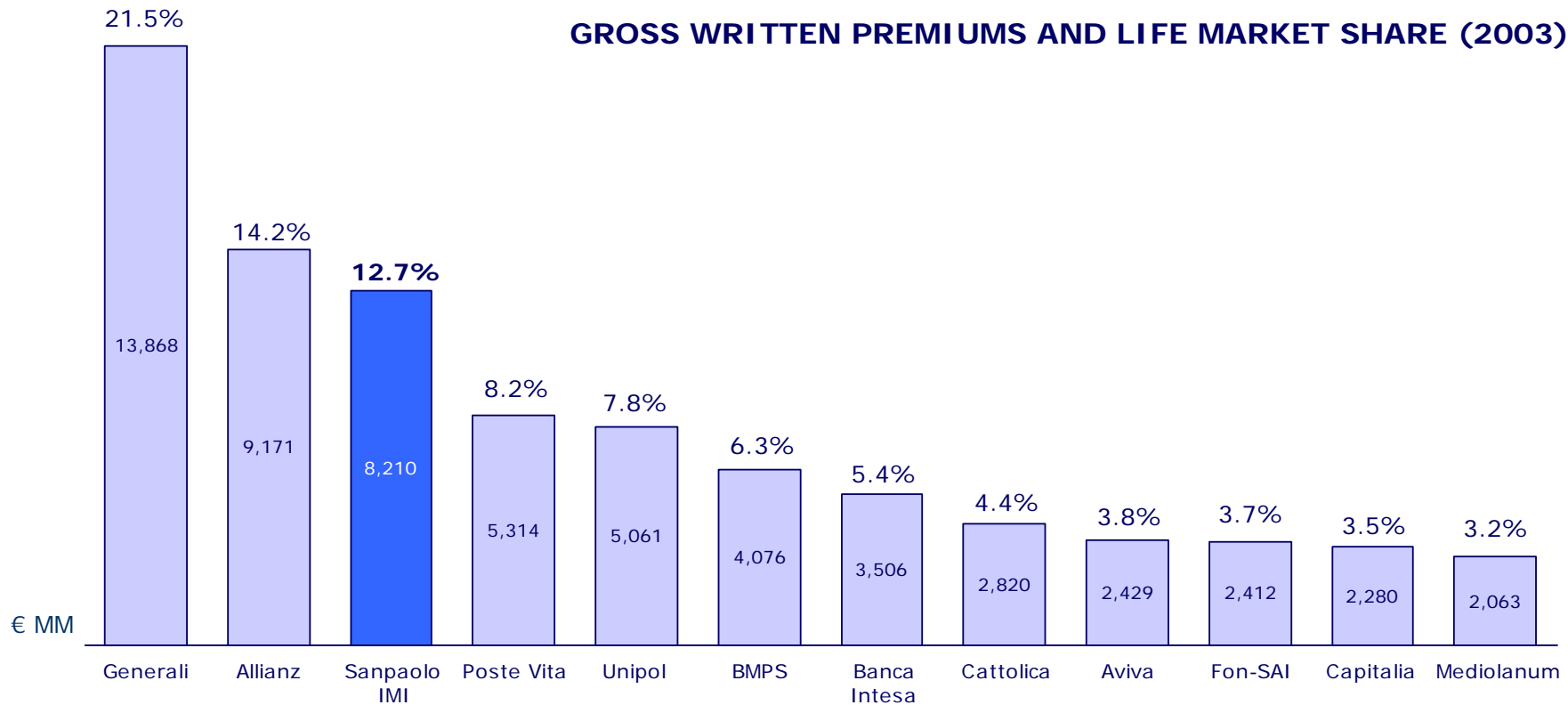
- Underpenetrated market in non life
- Market is particularly concentrated in car insurance
- Almost all distribution of non life through insurance agents

## Non life insurance penetration levels

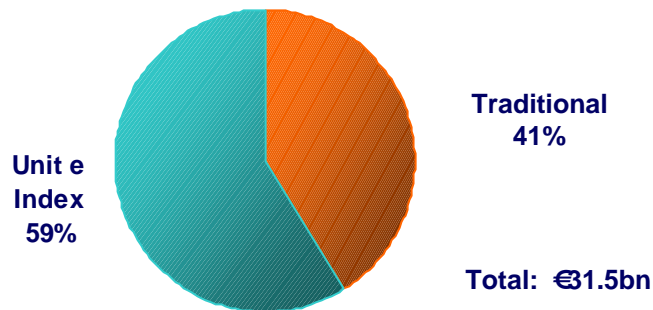


# CREATION OF LEADING PLAYER IN ITALIAN LIFE MARKET

## GROSS WRITTEN PREMIUMS AND LIFE MARKET SHARE (2003)



Source: Annual Reports and press releases; ANIA for the total market, included estimates of premia of the Italian Companies' foreign subsidiaries



## BALANCED PORTFOLIO (TECHNICAL RESERVES)

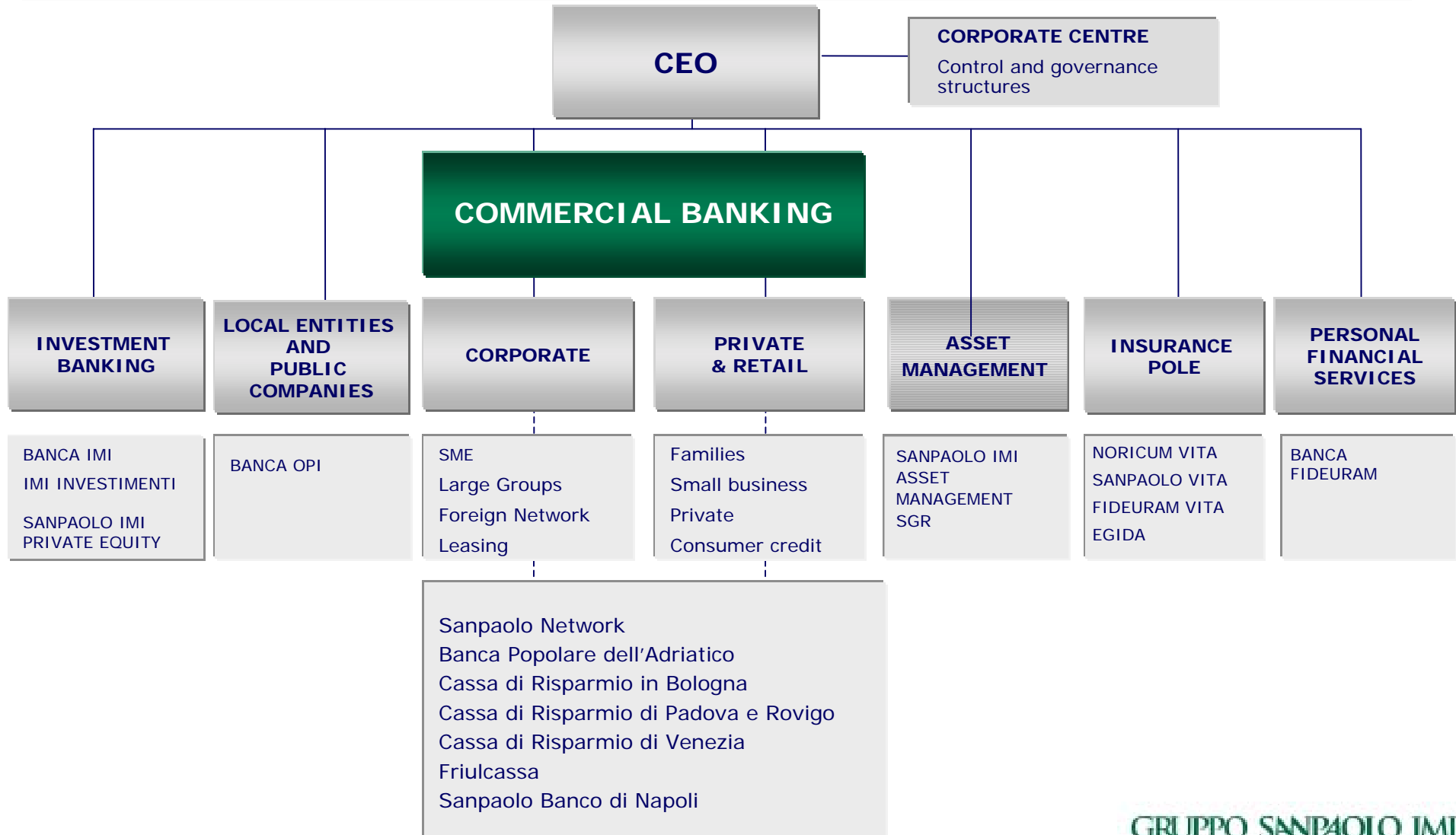
# NEW GROUP STRUCTURE REFLECTS RATIONALISED BUSINESS MODEL

## RATIONALE



- to unify the governance of the Commercial Banking Network
- to further strengthen the specialist customer service model
- to simplify the corporate centre structure

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# AGENDA

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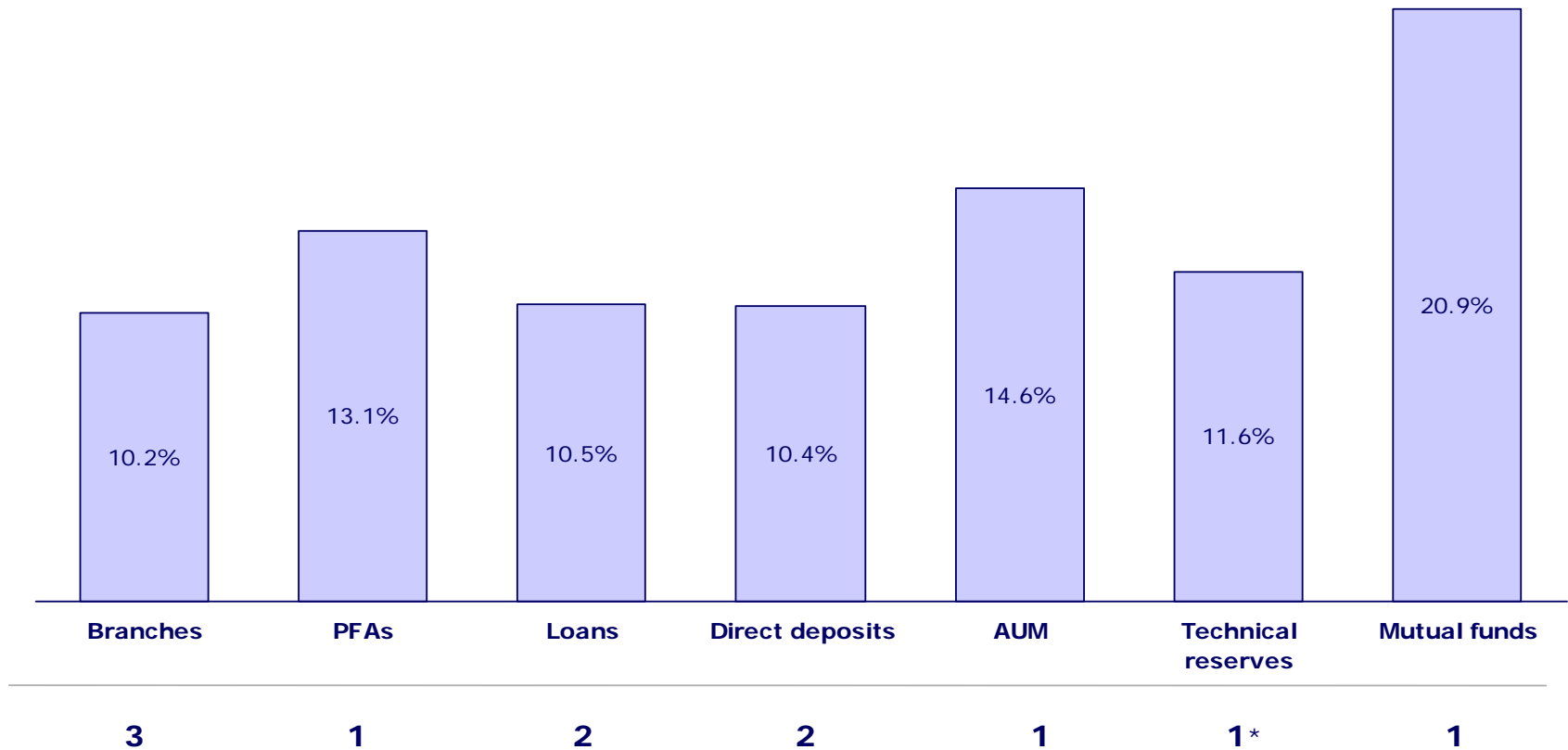
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# THE SCENARIO REMAINS CHALLENGING

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

# BUT THE GROUP IS WELL POSITIONED

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\* Classification referred to banking groups

As of 31/03/2004

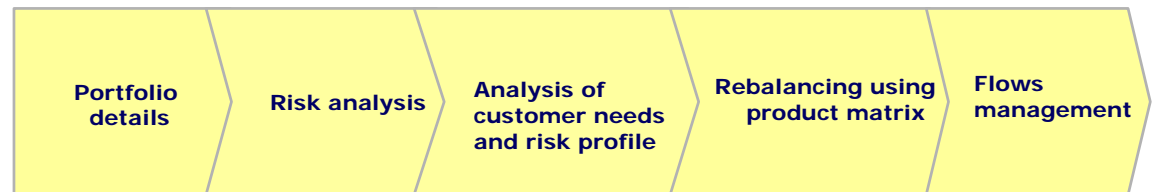
# WITH REAL ORGANIC GROWTH POTENTIAL

- Through the new franchises



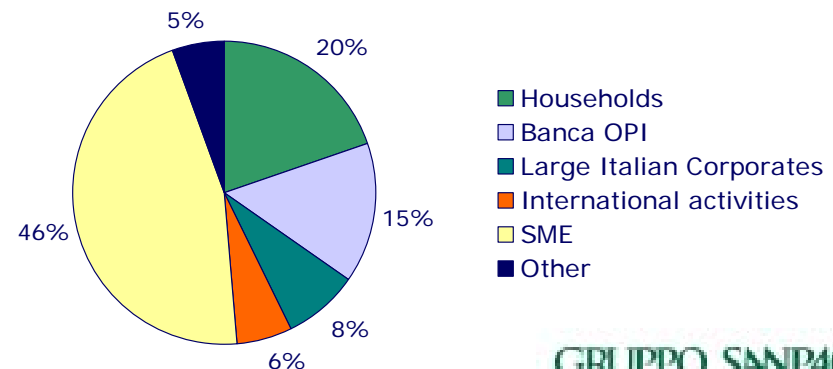
- By leveraging on specialist customer service models

Example: client financial planning business process



Key Figures as of 31/12/03	Sanpaolo (from April '03)	Sanpaolo Banco di Napoli (from end '03)	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

- Through a diversified loan portfolio



**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**