

SANPAOLO IMI

SANPAOLO IMI: 1999 FINANCIAL RESULTS APPROVED

- **Consolidated net income €1,050 million, proposed dividend of 1,000 lire**
- **Positive performance in the first two months of 2000 and profitable growth prospects**
- **Substantial investments to support businesses with best growth potential**

Turin, 28 March 2000 - The Board of Directors of SANPAOLO IMI SpA today approved the financial statements for 1999 in line with those communicated on 8 February.

Consolidated net income of €1,050 million, which shows an **annual growth of 15.5%**, and a **Group ROE of 14%**, compared to 11.3% of 1998, summarise the profitability of the Group in 1999.

In particular, ordinary income amounted to **€1,504 million**, marking an increase of 9.5% compared to the previous year: this was mostly due to higher net commissions (+18.5%), containment of administrative costs (unchanged compared to 1998) and reduced provisions and adjustments (-31.1%), which more than compensated for the reduction in net interest income (-15.5%) and revenue from financial transactions (-20.6%). **Extraordinary income of €294 million**, compared to 120 million of the 1998, came from the sale, effected in the first months of 1999, of the shareholdings in Crediop and Telecom.

Net income for 1999 includes the accounting result of the insurance companies Sanpaolo Vita and Life, in total €26 million; it should also be noted that the embedded value of the insurance business in the course of the year showed an increase estimated at approximately €200 million.

The **Parent Bank financial statements** for the period showed instead net income of €1,018 million, with a growth of 37.4%. The Shareholders' Meeting, proposed for next 26, 27 and 28 April respectively in first, second and third call, will decide upon the distribution of a **dividend per share of L. 1,000** (approximately €0.516). Ex-dividend and payment will, respectively, be next 22 May and 25 May.

The consolidated and Parent Bank financial statements will be accompanied by the related reports of the Board of Statutory Auditors and the independent auditors and deposited as legally required.

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In the first two months of 2000 the progress of the Group was positive. The favourable trend in revenues in fact produced an increase in net interest and other banking income and in operating income.

The growth of commissions has been significant, thanks to the contribution of asset management: assets managed for customers in fact exceeded €116,000 million (+32% on an annual basis and +6% from the beginning of the year) at the end of February.

Net interest income, although still presenting a negative trend, showed a net recovery compared to the end of the year thanks to the positive performance in spreads and customer volumes.

The improvement of asset quality has also made possible a reduction in provisions and adjustments to loans and financial fixed assets. The non-recourse sale of non-performing loans of a nominal value of 3,100 billion lire to Morgan Stanley Dean Witter and Goldman Sachs currently in course of closing will make a further positive contribution to asset quality.

The **prospects for the Group in 2000** are also positive: a growth in income is expected compared to 1999, thanks to progress in commissions, the improvement in net interest income and the further reduction in provisions and adjustments to loans. This performance will be achieved despite the substantial investments

planned for those areas of business with the greatest potential for development which will generate their effects in coming years. The profitability targets are ambitious: on an equal consolidated basis, the Group expects to achieve **in 2002 a ROE of more than 17%**, thanks to average annual growth in earnings per share of more than 10% over the next three years.

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The Group has planned considerable investments directed towards the development of those areas of greater profitability and growth potential for the next three years.

Actions to develop innovative distribution channels have also been established. The **Commercial Bank** has put in place a project ("Branch 2000") which envisages the technological development of the branch environment, through a distribution system which allows customers to operate seamlessly through branch counters, the internet, telephone banking, remote banking and ATM-POS. **Banca Fideuram** and **Sanpaolo Invest** will also use the internet and telephone banking to support the financial sales network. Furthermore, a strategic agreement with Tiscali, the Internet Provider, has been established to strengthen @IMIWEB, the on-line trading company created by the Sanpaolo IMI Group at the end of 1999; @IMIWEB will obtain its banking licence, will be quoted on the stock exchange and will become a global provider of financial services, through a broader range of all major banking and insurance products, including third party services. In total, through various initiatives **in Internet Banking, investments of €250 million have been set**, with a view to achieve more than 500,000 internet clients in 2002.

A **strengthening of the distribution network** in Italy is also planned. The **Commercial Bank**, in fact, in the two years 2000/2001 intends to open more than 100 lean bank branches dedicated to retail customers. **Banca Fideuram** has planned to strengthen its network through 400 planners and 30 new branches and is studying plans to expand abroad. **Sanpaolo Invest**, finally, having recently obtained its banking licence, has initiated - also in view of its quotation on the stock market - the strengthening of its business through the launch of dedicated products, technological improvement and the arrival of 400 new planners.

In addition, growth will be effected through **alliances** and **externally**. Therefore, an agreement with the **Cassa di Risparmio di Firenze**, which has almost 400 branches in central Italy, has been established and the foundations for the aggregation with the **Banco di Napoli**, which represents the most important banking organisation in the south of Italy, have been put in place.

Finally, investments in certain important European banks have been targeted, in order to broaden the range of strategic options not least in view of possible future cross-border alliances: the stake in **Banco Santander Central Hispano**, in particular, 2% at the end of 1999, was increased to 2.8% in the first months of 2000.

Internal and external growth will be effected without recourse to increases of capital, but through the issue of subordinated debt, as well as the freeing of equity invested in non-strategic minority shareholdings and through securitisation and credit derivatives. This will permit the creation of a more efficient and balanced capital structure, with greater concentration on the core banking business.

This press release contains forward-looking statements which reflect management's current views with respect to certain future events and financial performance, such as statements that include the words or phrases "is expected to" or similar expressions. Actual results may differ materially from those projected or implied in the forward-looking statements. Furthermore, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. The following could cause actual results to differ materially from those projected or implied in any forward-looking statements: competitive conditions or unexpected changes in the markets served by Sanpaolo IMI, fiscal policy or plans in Italy or the European Union, unexpected turbulence in interest rates, foreign exchange rates or equity prices, regional or general changes in asset valuations, the business and financial condition of the company or its customers, Italian and foreign laws, regulations and taxes and the adequacy of loss reserves and general economic conditions in Italy and in other countries where Sanpaolo IMI conducts its business. The foregoing factors should not be considered as exhaustive. Because of such uncertainties and risks, readers should not place undue reliance on such forward-looking statements, which speak only as of the date of this press release. Sanpaolo IMI assumes no responsibility to update any such forward-looking statements.

Giorgio Spriano	+39 011 555 2822
Tom Lucassen	+39 011 555 2289
Elena Flor	+39 011 555 2639
Anna Monticelli	+39 011 555 2526
Damiano Accatoli	+39 011 555 3590
James Ball	+39 011 555 2546
Fax	+39 011 555 2989
e-mail	investor.relation@sanpaolo.com

	31/12/1999	31/12/1998 pro forma	31/12/1998	Change '99-'98 pro forma	31/12/1999
	(Euro/mil)	(Euro/mil)	(Euro/mil)	(%)	(L/bln)
CONSOLIDATED STATEMENT OF INCOME					
Net interest income	2,047	2,423	2,651	-15.5	3,964
Net commissions and other dealing revenues	2,066	1,744	1,738	+18.5	4,000
Administrative costs	-2,466	-2,466	-2,495	-	-4,775
Provisions and net adjustments to loans and financial investments	-481	-698	-723	-31.1	-931
Income before extraordinary items	1,504	1,374	1,481	+9.5	2,912
Extraordinary income	294	120	159	+145.0	569
Group net income	1,050	909	909	+15.5	2,033
CONSOLIDATED BALANCE SHEET					
Total assets	139,887	141,524	158,289	-1.2	270,859
Loans to customers	73,174	72,968	86,889	+0.3	141,685
Securities	18,401	23,906	25,727	-23.0	35,629
Equity investments	3,347	1,672	1,321	+100.2	6,481
Customer deposits and securities issued	78,957	84,499	97,397	-6.6	152,882
Subordinated liabilities	1,524	1,382	1,511	+10.3	2,951
Group shareholders' equity	8,036	8,668	8,668	-7.3	15,560
FINANCIAL ASSETS OF CUSTOMERS					
Total customer assets	260,026	233,816	241,250	+11.2	503,481
- Direct deposits	78,957	84,499	97,397	-6.6	152,883
- Current accounts and deposits	36,096	31,167	30,037	+15.8	69,892
- Certificates of deposit	9,090	11,761	12,059	-22.7	17,601
- Bonds	23,643	25,897	38,437	-8.7	45,779
- Commercial paper	2,584	1,395	1,395	+85.2	5,003
- Repurchase agreements and securities lending	3,758	8,863	8,766	-57.6	7,277
- Other	3,786	5,416	6,703	-30.1	7,331
- Indirect deposits	181,069	149,317	143,853	+21.3	350,598
- Asset administration	70,597	65,700	60,545	+7.5	136,695
- Asset management	110,472	83,617	83,308	+32.1	213,903
- Mutual funds	76,019	59,412	59,359	+28.0	147,193
- Portfolio management in funds	17,836	10,467	10,467	+70.4	34,535
- Asset portfolio management	6,117	6,069	5,813	+0.8	11,844
- Life assurance	10,500	7,669	7,669	+36.9	20,331
PROFITABILITY RATIOS (%)					
RoE (Net inc./Shareholders' equity excl.current net inc.)	14.0	11.3	11.3		14.0
Cost/Income ratio	56.6	55.5	54.3		56.6
Net commissions/Administrative costs	83.8	70.7	69.6		83.8
LENDING RISK RATIOS (%)					
Net non-performing loans/Net customer loans	2.3	2.7	2.3		2.3
Net problem and restructured loans/Net customer loans	1.6	2.2	1.9		1.6
CAPITAL ADEQUACY RATIOS (%)					
Tier 1 capital/Weighted assets	9.6	n.d.	9.7		9.6
Total capital/Weighted assets	10.2	n.d.	11.1		10.2
SANPAOLO IMI SHARES					
Number of shares (millions)	1,402	1,402	1,402	-	1,402
- number of shares in circulation	1,375	1,402	1,402	-1.9	1,375
- number of own shares	27	-	-	n.s.	27
Price (euro; lire)					
- average	13.19	12.43	12.43	+6.2	25,541
- low	11.10	8.65	8.65	+28.3	21,496
- high	16.04	16.10	16.10	-0.4	31,049
Earnings per share in circulation (euro; lire)	0.75	0.65	0.65	+15.6	1,452
Dividend per share in circulation (euro; lire)	0.52	0.46	0.46	+11.1	1,000
Dividend/ average annual price (%)	3.92	3.60	3.60	+8.8	3.92
Net shareholders' equity per share in circulation (euro; lire)	5.84	6.18	6.18	-5.5	11,316
OPERATING STRUCTURE					
Employees	24,133	24,299	24,527	-0.7	24,133
Domestic branches	1,355	1,346	1,346	+0.7	1,355
Foreign branches and representative offices	76	75	75	+1.3	76
Financial planners	4,865	4,497	4,497	+8.2	4,865

ASSETS	31/12/1999	31/12/1998	31/12/1998	Change	31/12/1999
	(Euro/mil)	pro forma	pro forma	99/'98	(L/bln)
		(Euro/mil)	(Euro/mil)	pro forma	
				(%)	
Cash and deposits with central banks and post offices	528	421	421	+25.4	1,022
Loans	95,318	95,426	109,982	-0.1	184,562
- due from banks	22,144	22,458	23,093	-1.4	42,877
- loans to customers	73,174	72,968	86,889	+0.3	141,685
Dealing securities	16,645	21,565	23,385	-22.8	32,229
Fixed assets	6,490	5,915	5,634	+9.7	12,567
- investment securities	1,756	2,341	2,342	-25.0	3,400
- equity investments	3,347	1,672	1,321	+100.2	6,481
- intangible fixed assets	267	296	302	-9.8	517
- tangible fixed assets	1,120	1,606	1,669	-30.3	2,169
Differences arising on consolidation and on application of the equity method	58	59	59	-1.7	112
Other assets	20,848	18,138	18,808	+14.9	40,367
Total assets	139,887	141,524	158,289	-1.2	270,859

LIABILITIES	31/12/1999	31/12/1998	31/12/1998	Change	31/12/1999
	(Euro/mil)	pro forma	pro forma	99/'98	(L/bln)
		(Euro/mil)	(Euro/mil)	pro forma	
				(%)	
Payables	106,969	109,640	125,160	-2.4	207,121
- due to banks	28,012	25,141	27,763	+11.4	54,239
- due to customers and securities issued	78,957	84,499	97,397	-6.6	152,882
Reserves:	1,950	2,069	2,241	-5.8	3,776
- for taxation	1,029	1,178	1,320	-12.6	1,993
- for termination indemnities	438	431	436	+1.6	848
- for risks and charges	421	394	419	+6.9	815
- for pensions and similar	62	66	66	-6.1	120
Other liabilities	20,869	19,620	20,315	+6.4	40,408
Subordinated liabilities	1,524	1,382	1,511	+10.3	2,951
Minority interests	539	145	394	+271.7	1,043
Shareholders' equity	8,036	8,668	8,668	-7.3	15,560
- capital	3,926	4,345	4,345	-9.6	7,602
- reserves	3,060	3,414	3,414	-10.4	5,925
- net income	1,050	909	909	+15.5	2,033
Total liabilities	139,887	141,524	158,289	-1.2	270,859

	31/12/1999	31/12/1998	31/12/1998	Change	31/12/1999
	(Euro/mil)	pro-forma	pro-forma	99/'98	(L/bln)
		(Euro/mil)	(Euro/mil)	pro-forma	
				(%)	
Guarantees given	11,045	11,465	11,024	-3.7	21,386
Commitments	18,028	18,355	19,984	-1.8	34,907

	1999	1998	1998	Change	1999
	(Euro/mil)	pro forma	pro forma	'99/'98	
		(Euro/mil)	(Euro/mil)	pro forma	(L/bln)
				(%)	
NET INTEREST INCOME	2,047	2,423	2,651	-15.5	3,964
Net commissions and other dealing revenues	2,066	1,744	1,738	+18.5	4,000
Profits and losses from financial transactions and dividends	251	316	324	-20.6	486
Profits from companies carried at equity and dividends from shareholdings	205	173	108	+18.5	397
NET INTEREST AND OTHER BANKING INCOME	4,569	4,656	4,821	-1.9	8,847
Administrative costs	(2,466)	(2,466)	(2,495)	-	(4,775)
- <i>personnel</i>	(1,534)	(1,526)	(1,543)	+0.5	(2,970)
- <i>other administrative costs</i>	(763)	(769)	(780)	-0.8	(1,478)
- <i>indirect duties and taxes</i>	(169)	(171)	(172)	-1.2	(327)
Other operating income net	175	184	185	-4.9	338
Adjustments to tangible and intangible fixed assets	(293)	(302)	(307)	-3.0	(567)
OPERATING INCOME	1,985	2,072	2,204	-4.2	3,843
Provisions for risks and charges	(81)	(100)	(125)	-19.0	(157)
Net adjustments to loans and provisions for guarantees and commitments	(313)	(531)	(531)	-41.1	(606)
Net adjustments to financial fixed assets	(87)	(67)	(67)	+29.9	(168)
INCOME BEFORE EXTRAORDINARY ITEMS	1,504	1,374	1,481	+9.5	2,912
Net extraordinary income	294	120	159	n.s.	569
INCOME BEFORE TAXES	1,798	1,494	1,640	+20.3	3,481
Income taxes	(685)	(534)	(630)	+28.3	(1,326)
Change in reserve for general banking risks	(1)	(8)	(8)	n.s.	(2)
Income attributable to minority interests	(62)	(43)	(93)	+44.2	(120)
NET INCOME	1,050	909	909	+15.5	2,033