

# GRUPPO SANPAOLO IMI

Merrill Lynch  
European Banking & Insurance Conference

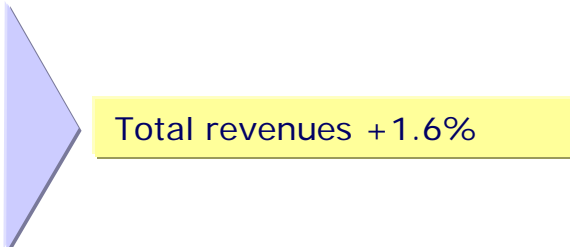
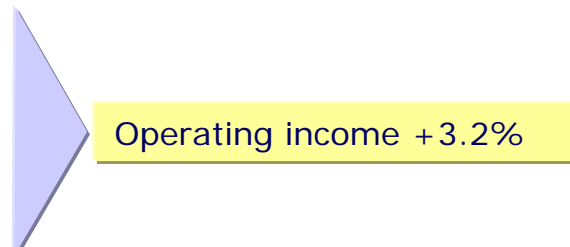
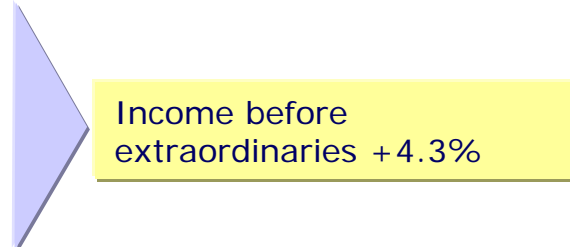
Alfonso Iozzo - CEO

London, 8 October 2003

# AGENDA

- ▶ H103 results
- ▶ Group strategy
  1. Focus on domestic banking
  2. Grow loan portfolio selectively
  3. Build on competitive positioning in asset management
  4. Rationalise business portfolio
- ▶ Group targets

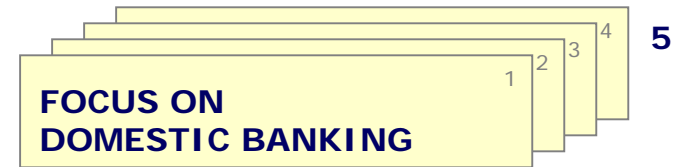
## SUMMARY OF INTERIM RESULTS

- ▶ Positive revenues in a difficult macro-environment
    - ▶ Net interest income +2.0% H103/H102
    - ▶ Commission income +0.8% H103/H102
    - ▶ Trading gains +24.8% H103/H102
    - ▶ Profits from life companies +51.4% H103/H102
- 
- Total revenues +1.6%
- ▶ Underpinned by excellent operating trends
    - ▶ Selective loan growth up 4.7% year on year and 1.8% YTD
    - ▶ Effective asset liability management
    - ▶ Further confirmation of asset gathering strength: 9 billion euro (10 billion at 31 August)
- 
- Operating income +3.2%
- ▶ Good cost control despite significant integration charges and salary inflation (+3.8%)
- ▶ Good asset quality confirmed and levels of coverage improved
    - ▶ NPL ratio down to 1.0%
    - ▶ NPL coverage 69.2%
    - ▶ Problem loans coverage 32.1%
- 
- Income before extraordinary +4.3%
- ▶ Planned extraordinary charge taken to fund redundancies but to be offset in H2 by extraordinary gains
- ▶ Business plan targets confirmed

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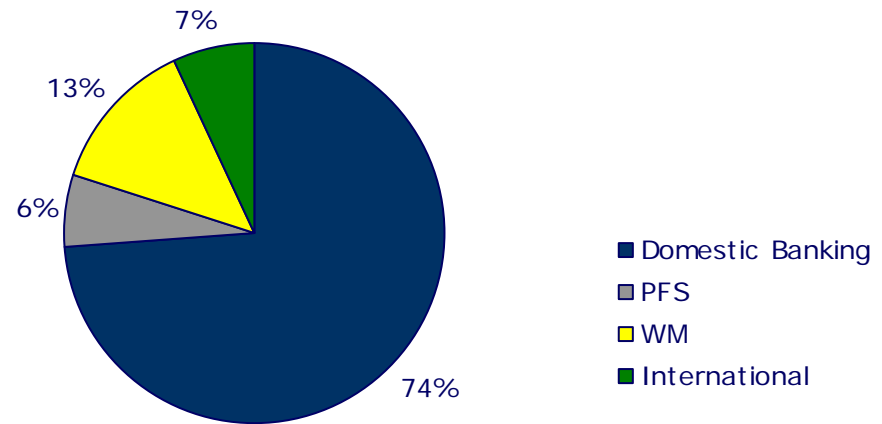
Group strategy has been focused on building core domestic banking assets



**Results**

- ▶ An increase in capital allocated to the retail business
- ▶ An increase in the contribution from retail banking to the revenue mix
- ▶ An increase in the customer base and an improvement in its geographical distribution

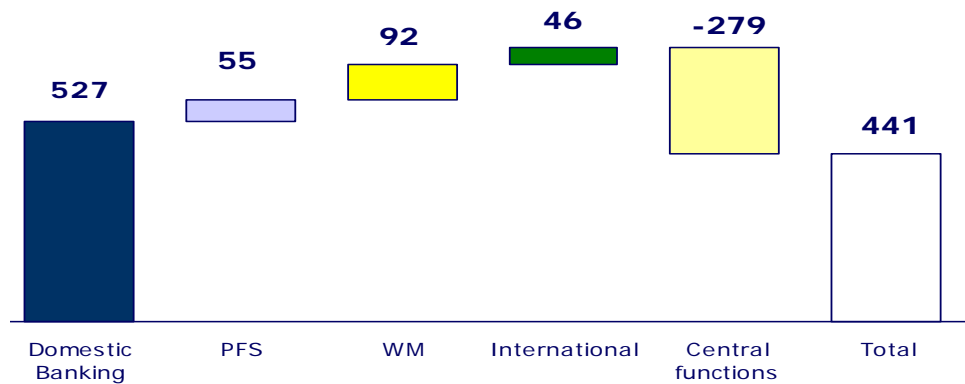
**Capital allocated to business areas (\*) 1H2003**



**Customer Base (# of customers)**

	1999	2002
Total	4.5MM	7.0MM
SME	70,000	150,000

**Net Income 1H2003**



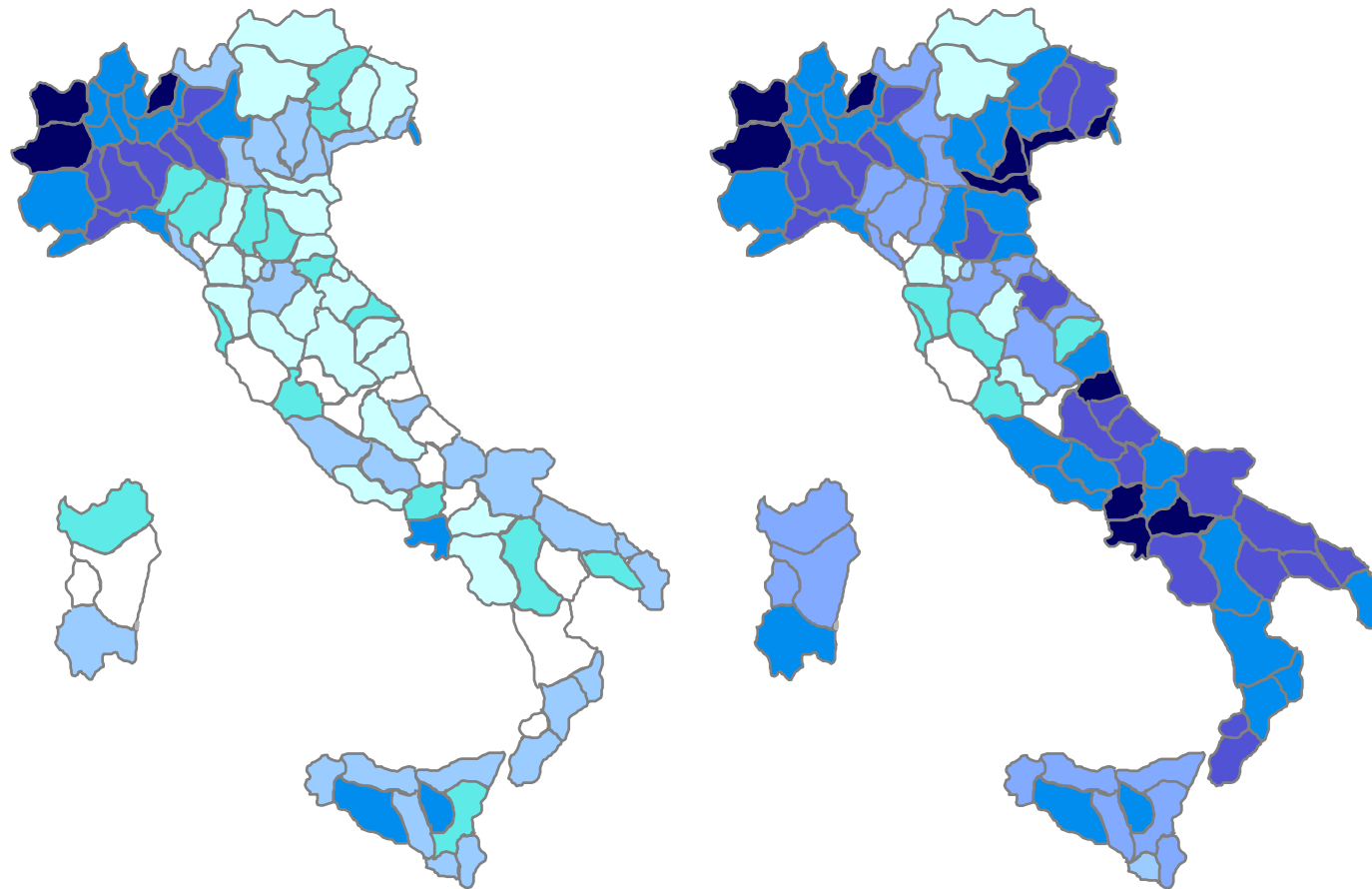
(\*) Excludes capital allocated to Central Functions

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

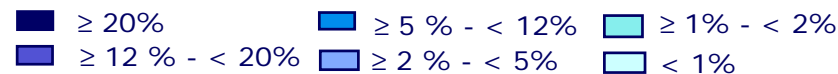
1999

2003

Results



- ▶ A significant increase in the number of retail branches – from 1,355 in 1999 to 3,126 in 2003
- ▶ Excellent geographical coverage through its branch distribution footprint

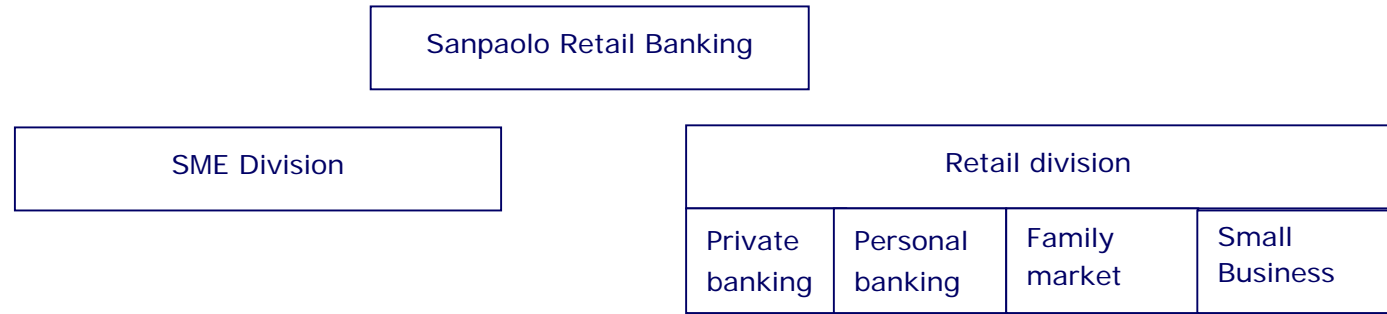


...and is extending its successful branch distribution model

**FOCUS ON DOMESTIC BANKING** 1 2 3 4 7

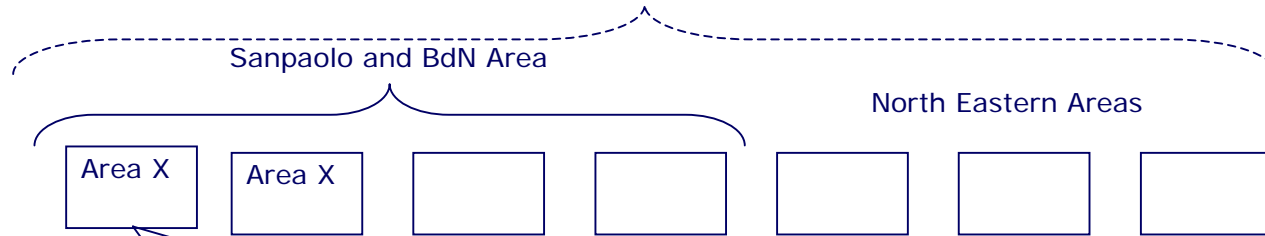
**Strong Group governance**

- ▶ Strategic guidelines
- ▶ Commercial policies
- ▶ Credit policies
- ▶ Control systems
- ▶ Human resources management



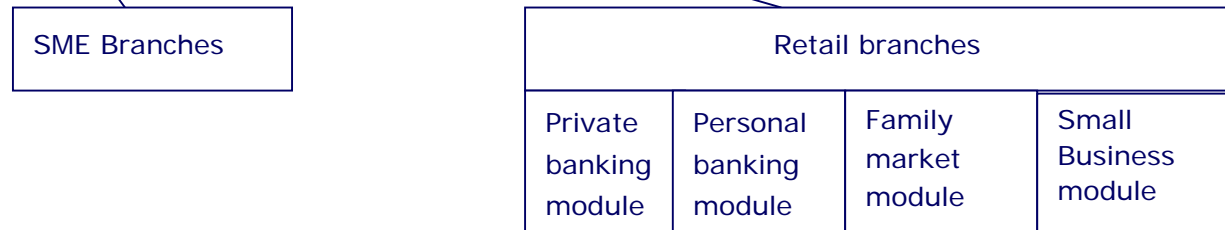
**Area Management**

- ▶ Coordination of customer segments
- ▶ Rapid operational decision making and market reaction times

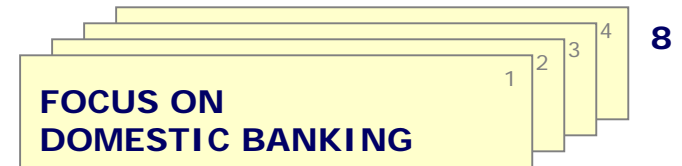


**Specialisation**

- ▶ 3.000 branches with good coverage and high concentration
- ▶ Specialisation
- ▶ Brand recognition
- ▶ Multi-channel approach



... which enables specialisation, efficiency and rationalisation



## Objective

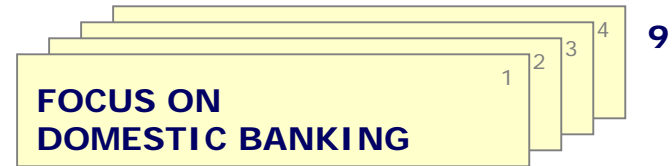
- ▶ To have an integrated national branch network that:
  - ▶ maintains strong local identities
  - ▶ empowers area management structure to manage and coordinate different local market and customer needs
  - ▶ adopts proven Sanpaolo model of specialisation through dedicated branches and modular branch structure
- ▶ But
  - ▶ leverages on a national brand strategy
  - ▶ operates on a single IT and back office platform
  - ▶ has a centrally managed commercial policy and reporting system

## Rationale

- ▶ To enhance customer service levels and optimise commercial effectiveness though:
  - ▶ Specialisation of professional role
  - ▶ Incentivisation of staff
  - ▶ Introduction of CRM tools
  - ▶ Reorganization of business processes
- ▶ To improve operating efficiency by:
  - ▶ Rationalisation of headquarter and area management structures
  - ▶ Achievement of economies of scale and scope in IT and back office functions



... and is well advanced in integrating Banco di Napoli



## 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)

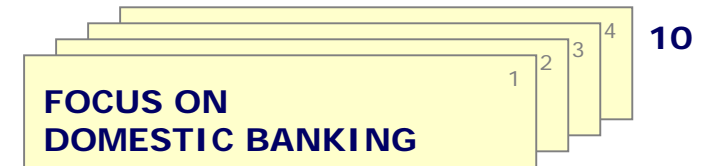


### Commercial drivers H203

- 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

**SANPAOLO  
BANCO DI NAPOLI**

... and on track in integrating Cardine



## 2 - INTEGRATION OF SANPAOLO AND CARDINE

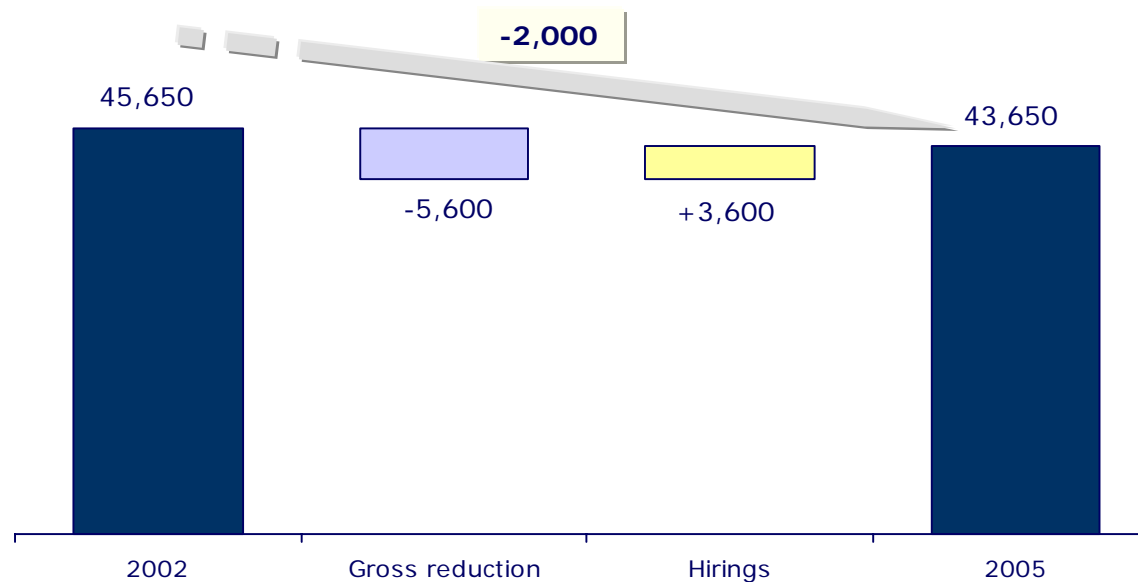
**H202** Integration of Finance & Treasury, Risk Control and other HQ functions  
Rationalisation of product factories

**H203** Full acquisition of Banca Popolare dell'Adriatico  
Integration of Cerea Bank in Cariparo  
Merger of Cardine Finanziaria  
Merger of Crup and Carigo

**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

## Full integration brings headcount reduction but investment in front office

**FOCUS ON DOMESTIC BANKING** 1 2 3 4 11



### Aim

- ▶ To reduce staffing levels in domestic banking to optimal levels, by reducing headcount by 2000, in a way that is:
  - ▶ financially efficient
  - ▶ operationally effective

### Incentivising early retirement enables:

- ▶ The reduction in overall headcount to be managed effectively by:
  - ▶ Geography
  - ▶ Business function
- ▶ An improvement in the demographics 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

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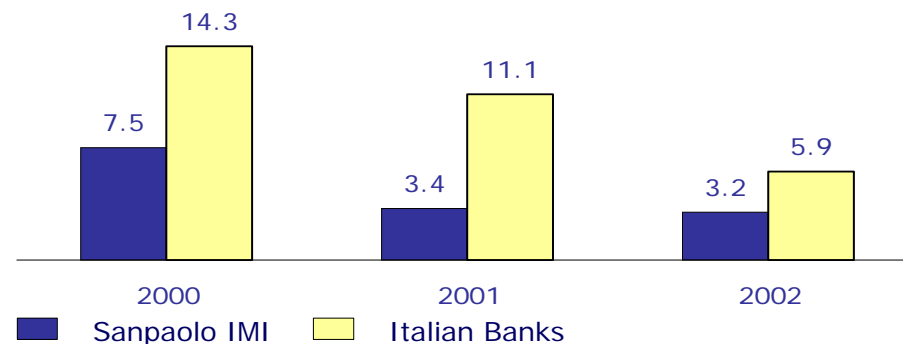
Reshaping the loan portfolio has enhanced diversification and focused on natural customer base

**GROW LOAN PORTFOLIO SELECTIVELY** 2 3 4 **13**

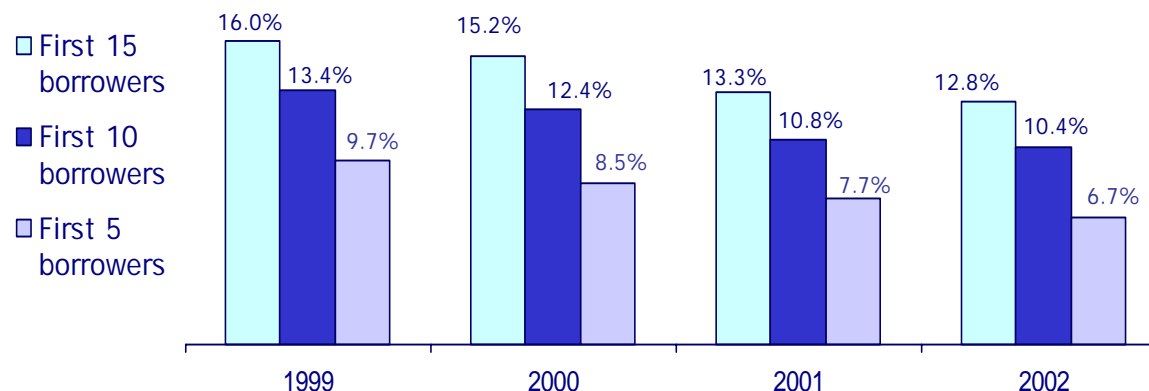
**1999–2002 refocusing of the loan book**

- ▶ 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 (%)<sup>(1)</sup>**



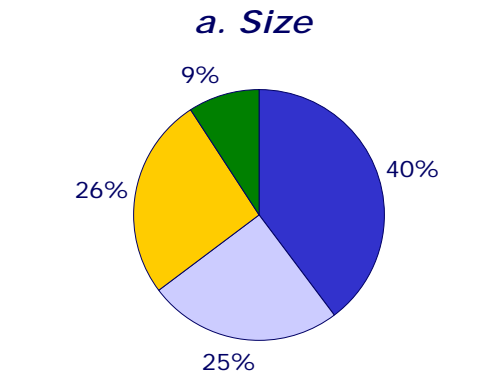
**Concentration(\*)**



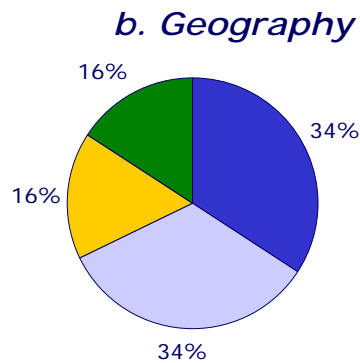
(\*) In terms of loans, commitments and guarantees on net customer loans

# Beneficial diversification effect through strong SME customer base

## Breakdown of Italian SME customer base by:

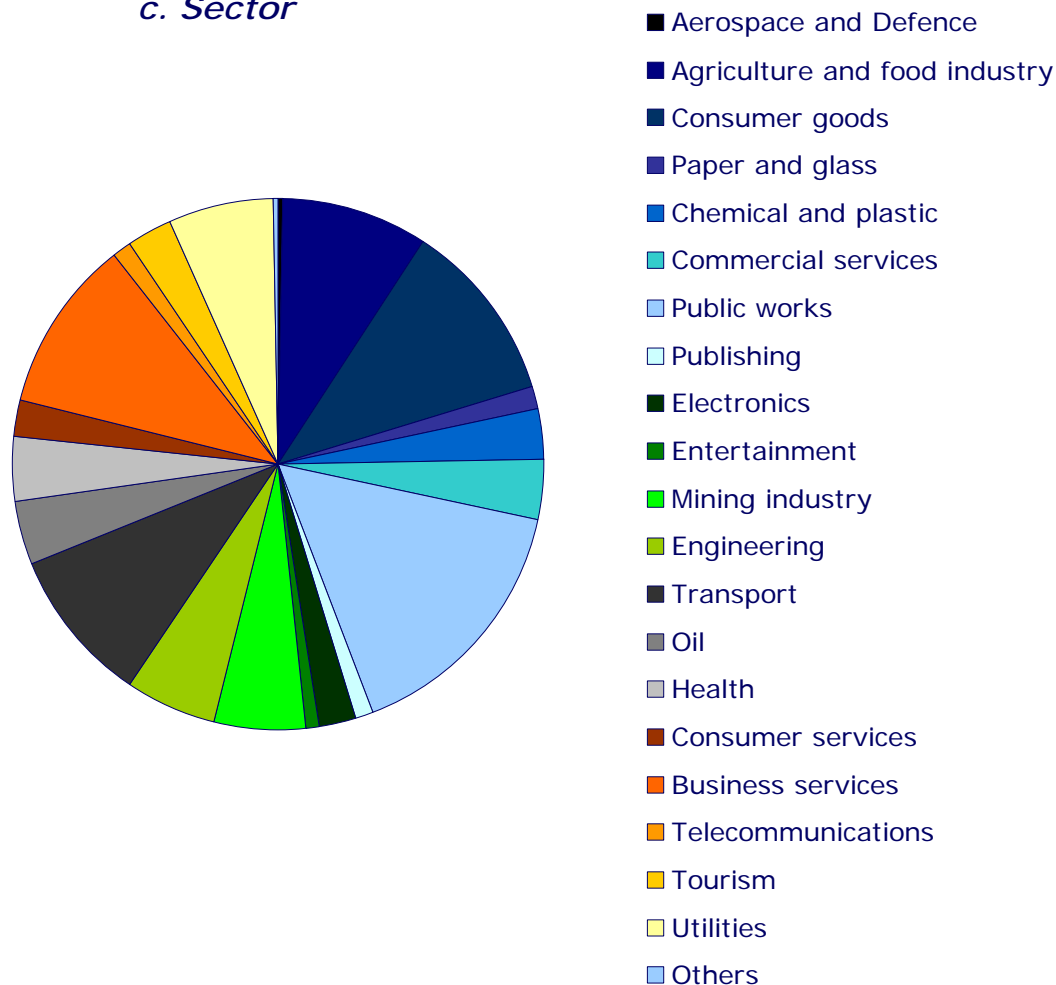


- Mid Corporate
- SME Corporate
- SME Retail
- Micro businesses



- North-West
- North-East
- Centre
- South

**c. Sector**

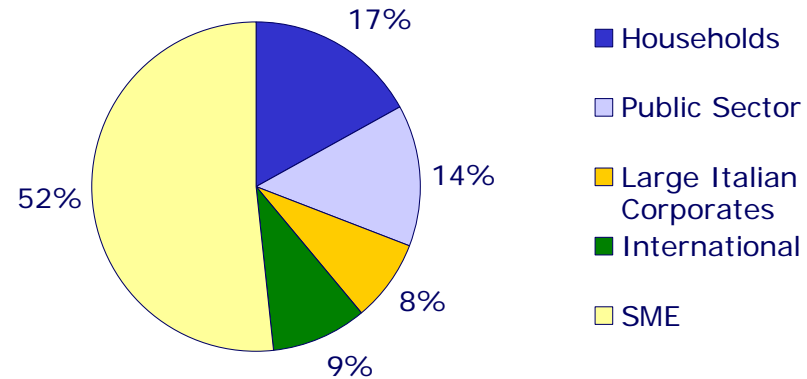


Well balanced portfolio and selective loan growth ensure sustainability

**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

**Loan Book Breakdown (%)**



	Stock H103	Var. Y/Y
<b>GROUP:</b>	<b>127,732</b>	<b>+4.8%</b>
<b>PRINCIPLE BUSINESS UNIT NUMBERS:</b>		
▶ Sanpaolo Network	53,322	+11%
▶ Cardine	25,621	+11%
▶ Large Domestic Groups	10,601	-7%
▶ Banca OPI	17,993	+11%
▶ Consumer Banking	3,215	+12%
▶ Foreign network	4,813	-29%

**GROW LOAN  
PORTFOLIO SELECTIVELY**

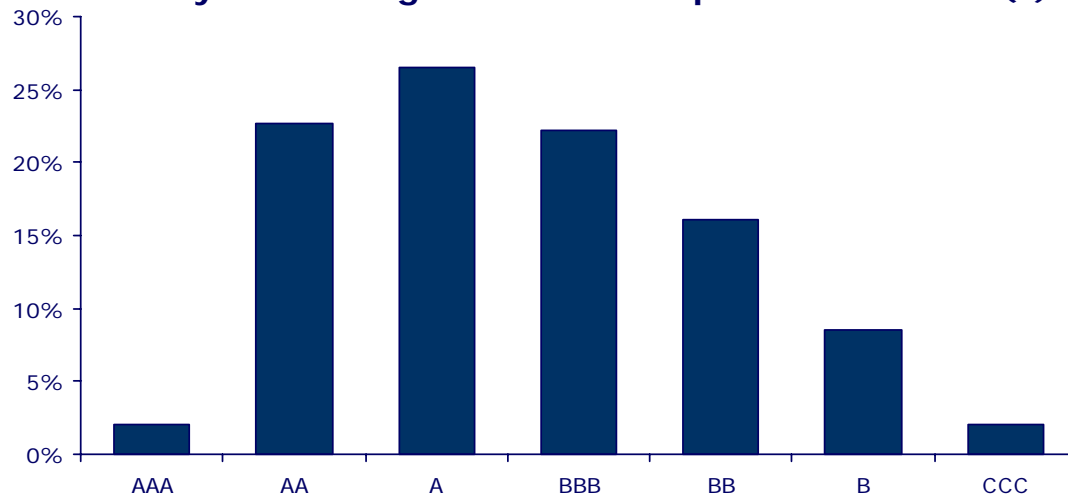
Without impacting negatively on either margins  
or asset quality

	Var. Y/Y	Var. Q/Q
Average spread	+47 bps	+10 bps
▶ Mark up	+74 bps	+19 bps
▶ Mark down	-27 bps	-9 bps
3 month Euribor (*)	-109 bps	-33 bps

(\*) Quarterly average

As of 30/06/2003

**Analytical Rating Profile of Group Credit Portfolio(\*)**



	<b>H103</b>
<b>NPL'S ratio</b>	<b>1.0%</b>
<b>Watchlist ratio</b>	<b>1.2%</b>
<b>NPL coverage</b>	<b>69.2%</b>
<b>Problem loans coverage</b>	<b>32.1%</b>

(\*)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.



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## Asset management remains strategic and the Group has powerfully placed distribution channels

**BUILD ON COMPETITIVE POSITIONING IN ASSET MANAGEMENT**

3 4

18

### *Strategic drivers to growth in AUM*

- ▶ High savings ratios
- ▶ Developing pension gap
- ▶ Long term investment needs
- ▶ Current cash rich asset mix

### *Group distribution*

- ▶ Branches: ~3,000  
3° 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

€ MM	H103 Flows				H103 Stock		
	Life assurance	Mutual funds	GPM	Total	Total	Var. Y/Y	Var. Q/Q
<b>Sanpaolo Network</b>	1,605	1,844	-612	2,837	75,071	5.3%	3.9%
<b>Cardine</b>	280	507	166	953	13,988	12.8%	4.8%
<b>Fideuram</b>	681	1,155	31	1,867	42,333	-0.2%	5.5%
<b>Other</b>	269	114	63	446	14,469		
<b>Total</b>	<b>2,835</b>	<b>3,620</b>	<b>-352</b>	<b>6,103</b>	<b>145,861</b>	<b>4.8%</b>	<b>4.3%</b>

## Asset gathering capacity confirmed reflecting underlying strength in customer relationships

**BUILD ON COMPETITIVE  
POSITIONING IN  
ASSET MANAGEMENT**

3 4

19

€ MM

Aggregate	H12003 stock	H12003 inflows	H12003 Performance	Net change year to date	
<b>AFI</b>	<b>376,042</b>	<b>+8,378</b>	<b>3,769</b>	<b>+12,146</b>	<b>+3.3%</b>
AUM	145,861	+6,103	+1,623	+7,726	+5.6%
▶ <i>Life assurance</i>	30,659	+2,835	+649	+3,484	+12.8%
▶ <i>Mutual funds</i>	106,030	+3,620	+901	+4,521	+4.5%
▶ <i>GPM</i>	9,172	-352	+73	-279	-2.9%
Administered	92,936	+ 2,914	+2,145	+5,059	+5.8%
Direct deposits	137,245	-639	-	-639	-0.5%

- ▶ Largest player in Italian mutual fund industry, with a market share of 21.1% as August 2003
- ▶ Leading bancassurance in Italy with a 10.3% market share in technical up 29.8% Y/Y
- ▶ Significant embedded value in life portfolio: 1,873 € MM (June 03)

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

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

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## CONCLUSIONS

### Resilience

- ▶ H103 results show good resilience to more challenging macro scenario.

### Potential

- ▶ Revenue growth potential evidenced by strong operating trends in lending, margins and asset gathering numbers.

### Sustainability

- ▶ Sustainability of asset management revenues highlighted by emphasis on fee income generation and associates' profits.

### Efficiency

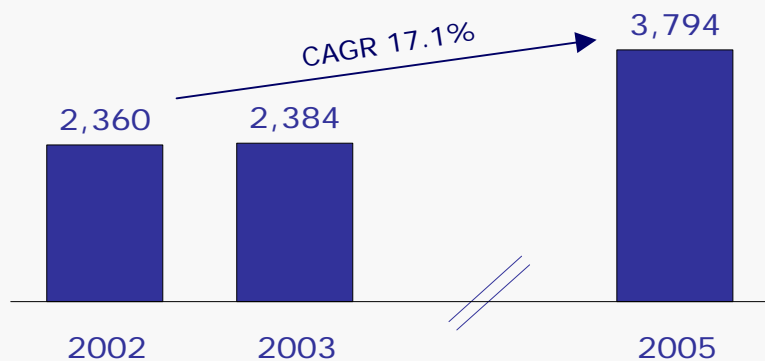
- ▶ Cost efficiency enabled by ongoing rationalisation and integration.

### Quality

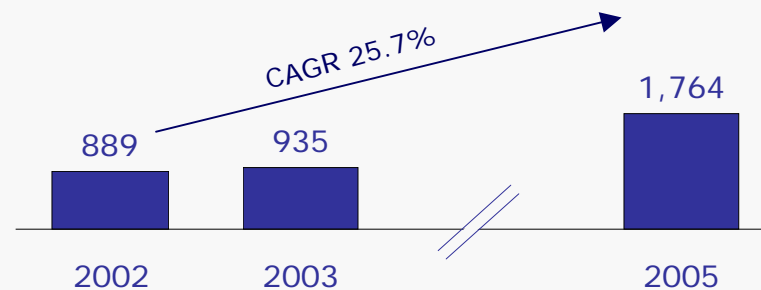
- ▶ Quality of assets remains a feature of the Group and a key management indicator

## 2005 GROUP TARGETS

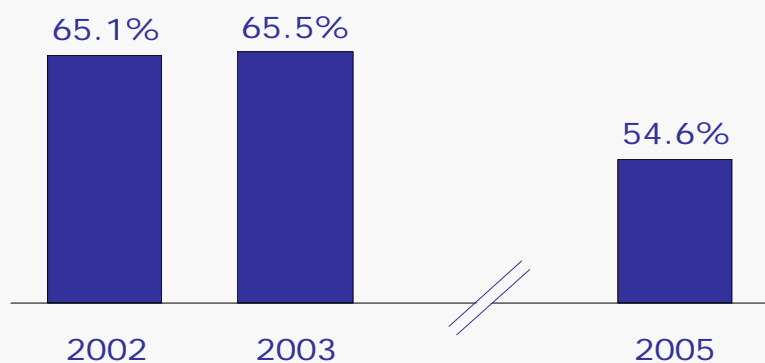
### Gross Operating Profit (€ MM)



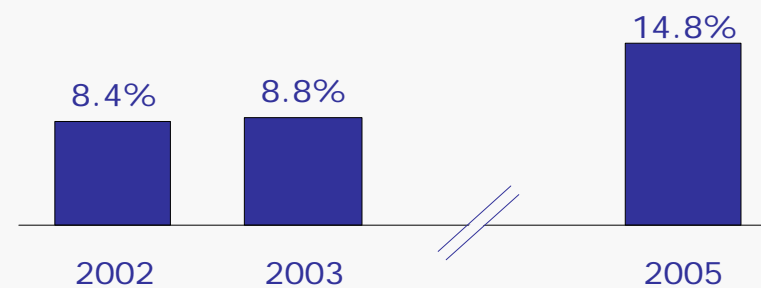
### Net Income (€ MM)



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



### ROE (%)



<sup>1</sup> 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)