



Letter to BPM Members

Ordinary general meeting
of members

27 April 2013
FieraMilanoCity

Padiglione MiCo
Via Gattamelata

Filippo Annunziata
Chairman of the
Supervisory Board
Banca Popolare di Milano

Dear Members,

By now, over a year has passed since the General Meeting of Members held in the autumn of 2011 that saw the transformation of Banca Popolare di Milano's governance.

The path mapped out at the time has almost come to an end and, along the way, has given rise to and has liberated new inner energies, in a climate of heightened awareness, responsibility and commitment to the common good of members, employees and shareholders.

2012 was a historic year for all. However, it was a year that should not be remembered for its great transformations that completed a phase that has come to an end, but as a year that marked the start of a new era, which was unthinkable until recently and which has come about notwithstanding the static economic and political scenario, marked by economic crisis and deep social uncertainties that could evoke anything other than change.

Banca Popolare di Milano, however, has been able to find inner strength to regenerate itself, to broaden its horizons and to start moving again. All of the business's resources, each in its own sphere of competence, have responded to the call and, if today we are no longer what we were yesterday, it is because we are already becoming what we are going to be tomorrow.

Notwithstanding the renewal and rationalisation that we have gone through, we find ourselves operating in a macroeconomic environment that is still difficult and delicate and which is common to the whole of the banking sector, where every day there is a multitude of challenges to be surmounted, but for which we have been able to find the tools to deal with them. The long economic crisis, which by now is global, has led to the impoverishment of families, the closure of many small and medium-sized enterprises and difficulties for larger businesses, rendering Italy's economic stability uncertain.

The need for liquidity has impacted and eroded personal deposits, even in a nation of savers like ours, in which the banking system, on the whole, has always responded positively to financial emergencies in recent years.

The first tentative signs of recovery are expected over the forthcoming months and we can only hope that the actions of sovereign and Community organisations will be able to reactivate economic mechanisms that are virtuous and wealth generating, capable of safeguarding the welfare state, the widespread prosperity and the employment of all Europeans.

We wish to look to the future without any illusions, but with the hope of finally coming out of the tunnel of recession. Precisely for this reason, our Bank, which is also your Bank, has made a winning choice not to entrench itself in an anachronistic and almost oligarchic defence, but has focused on change and, even now, continues to design its own future.



In 2015, Banca Popolare di Milano will celebrate its one hundred and fiftieth year. It will be an important date for all members and employees, as well as for the City of Milan, where we took our first steps - immediately after the unification of Italy - before embarking on commercial expansion in the most productive territories of this nation.

The road is still long and at times tortuous, with some tough times ahead of us, but we would like to reach our rendezvous with our house in order and not just hiding behind a mere facade. The cure being taken will go ahead and we trust that it will go hand in hand with that being taken by the entire nation that, now, more than ever, needs to find greater social cohesion, shared values and the tranquillity of sure economic progress.

We ask you, therefore, to experience in person the choices made, the results achieved and the objectives to be achieved in the near future that we all feel are very close.

Filippo Annunziata

Chairman of the Supervisory Board
Banca Popolare di Milano



Andrea C. Bonomi
Chairman of the
Management Board
Banca Popolare di Milano

Piero Luigi Montani
Managing Director
and CEO
Banca Popolare di Milano

Dear Members,

In October 2011 a project was presented to the General Meeting of Members for thorough renewal and together we took the helm of a BPM that, at the time, found itself in the middle of a storm.

It was a bank that had been shaken by the macroeconomic turbulence caused by the crisis that hit the entire banking system, which had been stunned by events that had presented a distorted image to those who had entrusted a part of their future: employees, shareholders, members and customers.

You gave us your trust, which we have tried to repay.

The Bank's accounts tell us that, in the last year and a half, BPM has changed its course: in 2012 we recorded a normalised operating profit that was up by 66.1% on the previous year and we closed the financial statements with a loss, essentially due to the write off of goodwill, to the set up of the Solidarity Fund and an increase in loan provisions, which also addressed the Bank of Italy's findings.

BPM's foundations are solid and its operations achieved an excellent performance that was also appreciated abroad. The opinion of the analysts has improved, the share price ended 2012 up by 48% and in January the market was reopened again for the Bank after years of "closure", with the placement with institutional investors of a senior three-year bond (that attracted a volume of orders that was more than twice the value of the issue).

How have we achieved these results? With the same courage that you had entrusting us with the running of the Bank.

We have reorganised the management structure and the branch network, reached important constructive agreements with the trade unions, implemented a cost control initiative and have invested in technology.

Today, Banca Popolare di Milano is different from what it was a year and a half ago. We have laid the foundations for a modern Bank and we want it to become the best bank in Italy.

The new BPM must be the bank of all of its Members: of the employees who work in the Bank, of the former employees who contributed to build it and of all the shareholders who, from outside the Bank, believed in the business plan that we have implemented and which is leading us to navigate in calmer waters. In summary, today BPM belongs to all those who believe in a Banca Popolare capable of looking to the future and of maintaining the principles of mutuality that have characterised our Bank in its 150 years of existence.

The path we set off on a year and a half ago has not yet ended, but a more serene period lies ahead of us: we have to render it stable. For this reason we proposed a new system of governance and a strengthening of the Bank's capital; regarding these objectives, after an intense year, we will hold a dialogue with all of you and we will listen to your input.



We are constructing a more transparent Bank and, accordingly, we will adopt, already at the next General Meeting of Members, all the rules that will help to make BPM a glass house; this will be done starting with the voting at the General Meeting of Members, which, if not open, will have to be traceable. We wish to involve a larger number of members in decisions concerning BPM.

This will create an example of a civil participatory business, capable of involving all those who represent the fabric that renders the Bank fertile and makes it grow. These consist of colleagues, former colleagues and even customers, small entrepreneurs and self-employed professionals; persons who choose us because we have formed a bond with their local region: we need to strengthen this bond by encouraging their participation as much as possible.

We ask you to continue to have faith in the role which this Bank will continue to have locally, once it has been relaunched, and within view of the large banking groups at national level. We ask you to unite with us, without turning back.

In June we will return to a General Meeting of Members to vote on the proposal for new governance, which will relaunch - in a transparent and balanced manner - the actions of the Bank. The security of those who work will be guaranteed by the strength of a solid, efficient and profitable business, which is able to meet the challenges of the market: a healthy bank must not fear opening up to change. The employment relationship will continue to be regulated by law and by collective labour agreements, regardless of the corporate form.

BPM is composed of honest and serious people who want a bank that is civil and competitive; to meet this objective, we feel obliged to carry out the task assigned to us, continuing, in any case, along our path of essential modernisation. We will therefore remain at the helm of our Bank: we promised you change and to meet this goal we will continue working without hesitation.

Andrea C. Bonomi

Chairman of the Management Board
Banca Popolare di Milano

Piero Luigi Montani

Managing Director and CEO
Banca Popolare di Milano



2012: a year of significant change.

In 2012 the Group achieved an excellent operating result (normalised operating profit¹ +66.1% compared with the end of 2011) even though the recession was more severe than expected, with GDP down by 2.2% (Source: ISTAT) and interest rates remained low (3-month Euribor 2012 4th quarter average: 0.20%).

Despite the existence of this unfavourable scenario, the trend of the core business is still robust. In particular, the following should be noted:

- with respect to balance sheet:
 - growth of direct deposits that are up 9.7% compared with the end of 2011;
 - loans to customers are down slightly (-2.5% y/y), but have remained substantially stable compared with the previous quarter;
 - good performance of assets under management (+5.3% y/y);
 - complete write-off of goodwill recorded in the financial statements;
- with respect to the profit and loss:
 - increase in revenues, helped by
 - interest income +4.2% y/y;
 - non net interest income +31% y/y;
 - fall in normalised operating expenses² (-7.1% y/y);
 - growth in normalised operating profit (+66.1% y/y);

- increase in loan loss provisions: in consideration of the difficult economic environment, the Group deemed it important to adopt a prudent approach in the measurement of loans, which also took account of the findings arising from the Bank of Italy's inspection and which led to a significant increase in the coverage of doubtful loans;

- confirmation of the strong liquidity position, evidenced by a significant amount of "free" eligible assets of more than Euro 4 billion;

- maintenance of an adequate level of capital position even after prudent provisions and writedowns: Core Tier 1 ratio of 8.38% (which rises to 10.1% on a pro-forma basis³) compared with 8.02% at the end of 2011.

For further details, please see the attached balance sheet, income statement and reclassified and normalised income statement.

¹ Net of non-recurring items.

² Net of non-recurring expenses of Euro 213.4 million relating to the Solidarity Fund.

³ Net of add-ons required by the Bank of Italy based on its instructions of June 2011 and of the so-called Tremonti Bond of Euro 500 million, the redemption of which is subject to approval by the competent authorities, having taken account of the proposed rights issue of up to a maximum of Euro 500 million.



Consolidated reclassified balance sheet

(euro/000)

Assets	31.12.2012	30.09.2012	31.12.2011	Change A-B		Change A-C	
	A	B	C	amount	%	amount	%
Cash and cash equivalents	285,892	208,682	241,315	77,210	37.0	44,577	18.5
Financial assets designated at fair value and hedging derivatives:	11,901,399	12,095,768	10,860,878	-194,369	-1.6	1,040,521	9.6
– Financial assets held for trading	1,821,675	2,119,184	2,040,312	-297,509	-14.0	-218,637	-10.7
– Financial assets designated at fair value through profit and loss	259,321	288,827	529,750	-29,506	-10.2	-270,429	-51.0
– Financial assets available for sale	9,539,376	9,369,042	8,100,279	170,334	1.8	1,439,097	17.8
– Hedging derivatives	256,320	290,658	168,244	-34,338	-11.8	88,076	52.4
– Fair value change of financial assets in hedged portfolios (+/-)	24,707	28,057	22,293	-3,350	-11.9	2,414	10.8
Due from banks	2,718,371	2,586,078	2,104,004	132,293	5.1	614,367	29.2
Loans to customers	34,790,891	34,938,188	35,685,563	-147,297	-0.4	-894,672	-2.5
Fixed assets	1,174,152	1,148,316	1,483,622	25,836	2.2	-309,470	-20.9
Other assets	1,604,300	1,462,114	1,555,645	142,186	9.7	48,655	3.1
Total assets	52,475,005	52,439,146	51,931,027	35,859	0.1	543,978	1.0

Liabilities and shareholders' equity	31.12.2012	30.09.2012	31.12.2011	Change A-B		Change A-C	
	A	B	C	amount	%	amount	%
Due to banks	6,292,005	7,840,081	9,465,678	-1,548,076	-19.7	-3,173,673	-33.5
Due to customers	26,297,613	24,548,918	21,398,576	1,748,695	7.1	4,899,037	22.9
Securities issued	11,223,349	11,121,085	12,632,270	102,264	0.9	-1,408,921	-11.2
Financial liabilities and hedging derivatives:	2,671,336	2,989,849	2,835,245	-318,513	-10.7	-163,909	-5.8
– Financial liabilities held for trading	1,585,447	1,852,760	1,677,642	-267,313	-14.4	-92,195	-5.5
– Financial liabilities designated at fair value through profit and loss	1,009,898	1,056,942	1,086,922	-47,044	-4.5	-77,024	-7.1
– Hedging derivatives	45,049	47,230	31,883	-2,181	-4.6	13,166	41.3
– Fair value change of financial liabilities in hedged portfolios (+/-)	30,942	32,917	38,798	-1,975	-6.0	-7,856	-20.2
Other liabilities	1,271,219	1,220,044	1,059,850	51,175	4.2	211,369	19.9
Provisions for specific use	662,766	448,931	476,797	213,835	47.6	185,969	39.0
Capital and reserves	4,444,780	4,332,663	4,628,822	112,117	2.6	-184,042	-4.0
Minority interests (+/-)	41,631	43,489	48,122	-1,858	-4.3	-6,491	-13.5
Net income (loss +/-)	-429,694	-105,914	-614,333	-323,780	n.s.	184,639	-30.1
Total liabilities and shareholders' equity	52,475,005	52,439,146	51,931,027	35,859	0.1	543,978	1.0



Consolidated reclassified income statement

(euro/000)

Line items	Year 2012	Year 2011	Change	
			Amount	%
Interest margin	859,058	824,771	34,287	4.2
Non-interest margin:	690,656	527,079	163,577	31.0
– Net fee and commission income	496,492	523,207	(26,715)	–5.1
– Other income:	194,164	3,872	190,292	n,s,
– Profits (losses) on investments carried at equity	21,677	(4,113)	25,790	n,s,
– Net income from financial activities	128,526	(27,026)	155,552	n,s,
– Other operating charges/income	43,961	35,011	8,950	25.6
Operating income	1,549,714	1,351,850	197,864	14.6
Administrative expenses:	(1,110,555)	(958,629)	(151,926)	–15.8
a) personnel expenses	(811,681)	(650,625)	(161,056)	–24.8
b) other administrative expenses	(298,874)	(308,004)	9,130	3.0
Net adjustments to property and equipment and intangible assets	(72,310)	(86,319)	14,009	16.2
Operating expenses	(1,182,865)	(1,044,948)	(137,917)	–13.2
Operating profit	366,849	306,902	59,947	19.5
Net adjustments for impairment of loans and other activities	(566,254)	(483,431)	(82,823)	–17.1
Net provisions for risks and charges	(31,999)	(111,628)	79,629	71.3
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	(366,820)	(419,219)	52,399	12.5
Income (loss) before tax from continuing operations	(598,224)	(707,376)	109,152	15.4
Taxes on income from continuing operations	163,374	66,697	96,677	144.9
Income (loss) after tax from continuing operations	(434,850)	(640,679)	205,829	32.1
Income (loss) after tax from discontinued operations	0	19,475	(19,475)	–100.0
Net income (loss)	(434,850)	(621,204)	186,354	30.0
Net income (loss) pertaining to minority interests	5,156	6,871	(1,715)	–25.0
Net result	(429,694)	(614,333)	184,639	30.1



Consolidated reclassified income statement, net of non-recurring transactions

As required by CONSOB communication DEM/6064293 of 28 July 2006, the table below shows the impact of the following non-recurring transactions on the consolidated result.

(euro/000)

Line items	Year 2012			Year 2011			Change		Change	
	A = B + C	B	C	D = E + F	E	F	A – D		C – F	
	Net income (loss)	Net income (loss) from non-recurring items	Net income (loss) from recurring items	Net income (loss)	Net income (loss) from non-recurring items	Net income (loss) from recurring items	amount	%	amount	%
Interest margin	859,058	0	859,058	824,771	0	824,771	34,287	4.2	34,287	4.2
Non-interest margin:	690,656	4,643	686,013	527,079	(38,400)	565,479	163,577	31.0	120,534	21.3
– Net fee and commission income	496,492	0	496,492	523,207	0	523,207	(26,715)	–5.1	(26,715)	–5.1
– Other income:	194,164	4,643	189,521	3,872	(38,400)	42,272	190,292	n.s.	147,249	n.s.
– Profits (losses) on investments carried at equity	21,677	0	21,677	(4,113)	0	(4,113)	25,790	n.s.	25,790	n.s.
– Net income from financial activities	128,526	4,643	123,883	(27,026)	(38,400)	11,374	155,552	n.s.	112,509	n.s.
– Other operating charges/income	43,961	0	43,961	35,011	0	35,011	8,950	25.6	8,950	25.6
Operating income	1,549,714	4,643	1,545,071	1,351,850	(38,400)	1,390,250	197,864	14.6	154,821	11.1
Administrative expenses:	(1,110,555)	(213,394)	(897,161)	(958,629)	(1,214)	(957,415)	(151,926)	–15.8	60,254	6.3
a) personnel expenses	(811,681)	(213,394)	(598,287)	(650,625)	(1,214)	(649,411)	(161,056)	–24.8	51,124	7.9
b) other administrative expenses	(298,874)	0	(298,874)	(308,004)	0	(308,004)	9,130	3.0	9,130	3.0
Net adjustments to property and equipment and intangible assets	(72,310)	0	(72,310)	(86,319)	0	(86,319)	14,009	16.2	14,009	16.2
Operating expenses	(1,182,865)	(213,394)	(969,471)	(1,044,948)	(1,214)	(1,043,734)	(137,917)	–13.2	74,263	7.1
Operating profit	366,849	(208,751)	575,600	306,902	(39,614)	346,516	59,947	19.5	229,084	66.1
Net adjustments for impairment of loans and other activities	(566,254)	(255)	(565,999)	(483,431)	0	(483,431)	(82,823)	–17.1	(82,568)	–17.1
Net provisions for risks and charges	(31,999)	(14,464)	(17,535)	(111,628)	(87,500)	(24,128)	79,629	71.3	6,593	27.3
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	(366,820)	(367,102)	282	(419,219)	(419,822)	603	52,399	12.5	(321)	–53.2
Income (loss) before tax from continuing operations	(598,224)	(590,572)	(7,652)	(707,376)	(546,936)	(160,440)	109,152	15.4	152,788	–95.2
Taxes on income from continuing operations	163,374	218,542	(55,168)	66,697	89,632	(22,935)	96,677	144.9	(32,233)	–140.5
Income (loss) after tax from continuing operations	(434,850)	(372,030)	(62,820)	(640,679)	(457,304)	(183,375)	205,829	32.1	120,555	65.7
Income (loss) after tax from discontinued operations	0	0	0	19,475	19,475	0	(19,475)	–100.0	0	n.a.
Net income (loss)	(434,850)	(372,030)	(62,820)	(621,204)	(437,829)	(183,375)	186,354	30.0	120,555	65.7
Net income (loss) pertaining to minority interests	5,156	4,234	922	6,871	(48)	6,919	(1,715)	–25.0	(5,997)	–86.7
Net income (loss)	(429,694)	(367,796)	(61,898)	(614,333)	(437,877)	(176,456)	184,639	30.1	114,558	64.9