



## ***DBRS Comments on the Approval of Banco Popolare - BPM merger***

On October 15, 2016, the shareholders of Banco Popolare Societa' Cooperativa (rated BBB (low) / R-2 (middle)) and Banca Popolare di Milano (not rated) approved the merger of the two institutions with 99.5% and 71.8% of the votes, respectively. The approval follows the authorisation from the Italian Competition Authority, Bank of Italy and European Central Bank (ECB), as well as the completion of Banco Popolare's EUR 1 billion capital increase in line with the ECB request. The transaction is set to become effective on January 1, 2017 and the new legal entity, which will take the form of a joint stock company, will be renamed Banco BPM SpA.

Banco Popolare-BPM is the first merger between Popolari banks since the approval of the reform for the large mutual banks in March 2015. This is a positive development for the Italian banking system as it represents a step forward in the necessary reform of the system, and could pave the way for further consolidation in the sector. The approval of the merger has no immediate implications for Banco Popolare's ratings. DBRS rates Banco Popolare's Senior Long-Term Debt and Short Term Debt at BBB (low) / R-2 (middle) with a Stable trend. Progress on asset quality and post-merger integration could contribute to positive rating pressure in the medium term.

The combination of Banco Popolare (EUR 124 billion in total assets at June 2016) and Banca Popolare di Milano (EUR 50 billion) creates Italy's third largest banking group by total assets and number of branches, and provides upside potential for the enlarged franchise and earnings. The new Group will benefit from a strong market position across some of the wealthiest regions of Northern Italy, and is expected to generate total synergies of approximately EUR 460 million (pre-tax) per year from 2019. Cost savings are expected mainly from workforce reduction and rationalization of administrative costs, whereas revenue synergies should arise from the expansion of product offering and enhanced distribution capabilities especially across the Corporate segment.

Despite the future potential benefits, DBRS expects Banco BPM's performance to remain modest in 2017-2018 due to still high cost of credit and integration costs. The new Group targets to reduce its large stock of non-performing loans (NPLs) by roughly EUR 8 billion with nominal and net NPL ratios expected at 18% and 11%, respectively, in 2019. In addition, the merger will face circa EUR 483 million in integration costs (pre-tax), of which 20% is planned in 2016 and 60% in 2017.

### Notes:

All figures are in EUR unless otherwise noted.



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