



BANCA POPOLARE DI MILANO

Milan, 20 May 2010

PRESS RELEASE

FitchRatings revised its ratings on Banca Popolare di Milano

FitchRatings revised Long- term Issuer Default Rating (IDR) from 'A' to 'A-', the Short-term IDR from 'F1' to 'F2', and affirmed the Individual B/C, Support '3' and Support Rating Floor 'BB+' with Outlook stable on Banca Popolare di Milano.

Find attached the release of the rating agency

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BANCA POPOLARE DI MILANO



FITCH DOWNGRADES BANCA POPOLARE DI MILANO TO 'A-'; OUTLOOK STABLE

Fitch Ratings-London/Milan-20 May 2010: Fitch Ratings has downgraded Banca Popolare di Milano's (BPM) Long-term Issuer Default Ratings (IDR) to 'A-' from 'A' and Short-term IDR to 'F2' from 'F1'. The Outlook on the Long-term IDR is Stable. All its other ratings have been affirmed at Individual 'B/C', Support '3' and Support Rating Floor 'BB+'.

The agency has also downgraded BPM's senior unsecured debt to 'A-' from 'A', its subordinated debt to 'BBB+' from 'A-' and its hybrid capital instruments and preferred securities to 'BBB' from 'BBB+'.

The downgrade reflects deterioration in BPM's underlying asset quality over the past 18 months. This was largely driven by a higher-than-average exposure to the real estate and construction sectors, where a significant number of new impaired positions have originated. The downgrade also reflects pressure on its operating profitability, which is, however, in line with sector trends.

During 2009, operating profit was depressed by higher loan impairment charges (LICs) despite good revenue generation. As a result BPM's operating return on average equity was low at 4.58% in 2009. In Q110 the bank's operating revenue was affected by declining net interest income as well as lower trading income. At the same time, loan impairment charges continued to absorb a large proportion of pre-impairment operating profit. Fitch expects the bank's operating profitability to remain under pressure until interest rates start rising again and as pressure on asset quality persists.

Since 2008, BPM's asset quality has deteriorated significantly, with gross impaired loans representing 6.4% of total gross loans at end-March 2010. The level of coverage of impaired loans is lower than at many peers, but impaired loans are generally supported by guarantees and good quality security. For 2010, Fitch expects BPM's asset quality to deteriorate further, albeit at a slower pace than in 2009.

Funding is stable and diversified, with customers providing nearly 71% of total funding. Liquidity is acceptable and supported by EUR1.9bn of unencumbered securities.

The bank's eligible capital/total risk-weighted assets ratio at end-2009 was 9.6%, which Fitch views as adequate. At end-2009, BPM's regulatory ratios were supported by the Italian government's EUR500m hybrid capital injection. The bank plans to reimburse this hybrid in 2013 and maintain adequate capitalisation. The reimbursement is currently supported by EUR406m outstanding mandatory convertible securities.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 29 December 2009, are available on www.fitchratings.com