



BANCA POPOLARE DI MILANO

PRESS RELEASE

## **STANDARD & POOR'S REVISED BANCA POPOLARE DI MILANO OUTLOOK**

Milan, 20 March 2009

Standard & Poor's revised its outlook on Banca Popolare di Milano to negative from stable. Long-term rating "A-" and short-term rating "A-2" are affirmed.

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*Find attached the release of the rating agency.*

## Research

## Research Update:

## Banca Popolare di Milano SCRL Outlook Revised To Negative As Financial Profile Weakens; 'A-/A-2' Ratings Affirmed

20-Mar-2009

## Rationale

On March 20, 2009, Standard & Poor's Ratings Services revised its outlook on Banca Popolare di Milano SCRL (BPM) and subsidiary Banca Akros SpA to negative from stable, reflecting our expectations of increased pressures on earnings and asset quality at BPM for 2009. At the same time, we affirmed the 'A-/A-2' long- and short-term counterparty credit ratings on the banks.

Standard & Poor's expects GDP growth in Italy to be negative 2.8% in 2009, and that the European Central Bank will keep its key lending rate very low. The financial crisis is also likely to continue to hurt fee and trading income. We believe these trends will increase the pressure on the bank's earnings and asset quality metrics in 2009, beyond the deterioration in the first nine months of 2008 that was already significant.

The ratings affirmation reflects our expectation that BPM's good franchise in Italy's wealthy Region of Lombardy, strong liquidity, and adequate capitalization will allow the bank to withstand the worst effects of the economic crisis.

BPM's profitability suffered in the first nine months of 2008 from trading losses due to the widening of credit spreads on the bank's securities portfolio, as well as from a nonrecurring impairment charge on its equity stake in Anima SGR. An expense base that is higher than that of key domestic competitors also weighs on profitability.

Inflows of nonperforming loans (NPLs) rose in the first nine months of 2008 as the credit environment worsened. With the majority of the credit portfolio composed of loans to small businesses and corporations sensitive to macroeconomic trends, we expect an acceleration of NPL inflows in 2009. The bank's relatively high single-name loan concentration is also a potential weakness.

Resilient performance at specialized subsidiary Banca Akros and the reduction of securities portfolios in 2008 have reduced BPM's exposure to trading risk to modest levels.

Standard & Poor's views as adequate the bank's capitalization target of a core Tier 1 ratio and Tier 1 ratio (under the Basel II standardized approach) of more than 6% and 7% respectively.

The Italian government has announced that, upon request by individual banks, it would subscribe to hybrid instruments issued by Italian banks to strengthen their capital. Recourse to this would generate an additional buffer for BPM's regulatory core Tier 1 capital ratio.

We consider BPM to have moderate systemic importance within the Italian banking sector. We consider the Italian authorities to be supportive, and consequently our ratings on BPM include the soft benefits derived from being a bank in a regulated environment with access to extraordinary liquidity.

## Outlook

The negative outlook reflects the possibility that we could lower the ratings on BPM if, during 2009 or 2010, the negative trend in interest rates and the deterioration in the Italian economy lead to a severe decline in profitability and rise in credit risk costs at the bank.

We could revise the outlook on BPM back to stable if the group weathers the current economic turmoil without materially hurting its financial profile.

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
<b>Banca Popolare di Milano SCRL</b>		
Counterparty Credit Rating	A-/Negative/A-2	A-/Stable/A-2
Certificate Of Deposit	A-/A-2	A-/A-2
Senior Unsecured	A-	A-
Subordinated	BBB+	BBB+
Junior Subordinated	BBB	BBB
<b>Banca Akros SpA</b>		
Counterparty Credit Rating	A-/Negative/A-2	A-/Stable/A-2
Certificate Of Deposit	A-/A-2	A-/A-2

NB: This list does not include all ratings affected.

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