



BANCA POPOLARE DI MILANO

COMUNICATO STAMPA

Standard & Poor's rivede il rating di lungo termine e l'outlook di Banca Popolare di Milano S.C.a.r.l. e di Banca Akros S.p.A.

In data odierna l'agenzia internazionale Standard & Poor's ha abbassato di un notch il rating di lungo termine di Banca Popolare di Milano S.C.a r.l. e di Banca Akros S.p.A. da A- a BBB+, in linea con quanto effettuato recentemente sul debito sovrano della Repubblica Italiana, ha confermato il rating di breve a A-2 e rivisto l'outlook da stabile a negativo.

Si allega di seguito comunicato dell'agenzia Standard & Poor's.

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Research Update:

Banca Popolare di Milano Long-Term Rating Lowered To 'BBB+' On Weaker Italian Banking Sector; Outlook To Negative

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Overview

- In our view, the domestic environment for Italian banks has worsened since July 2011, owing to weaker economic prospects and the higher cost of funding resulting from increasing yields on Italy's sovereign debt.
- As a result, we have revised down our Banking Industry Country Risk Assessment on the Republic of Italy to Group 3 from Group 2 on a scale of 1 to 10 (where 1 is the highest).
- We believe that Banca Popolare di Milano SCRL's (BPM) financial profile, including its capitalization, has been weakened by the deterioration in Italy's domestic operating environment and heightened economic risk.

- We are therefore lowering our long-term counterparty credit ratings on BPM and its core subsidiary Banca Akros SpA to 'BBB+' from 'A-' and affirming the 'A-2' short-term rating. The outlook is negative.
- The negative outlook reflects our view that BPM's weak corporate governance could constrain its operating performance, and that future capitalization could be lower than we previously expected.

Rating Action

On Oct. 18, 2011, Standard & Poor's Ratings Services lowered its long-term counterparty credit ratings on Italy-based Banca Popolare di Milano SCRL (BPM) and its core subsidiary Banca Akros SpA to 'BBB+' from 'A-' and affirmed its 'A-2' short-term counterparty credit ratings on the banks. The outlook is negative.

Rationale

The lowering of BPM's long-term counterparty credit rating reflects our view that weaker Italian economic prospects and the higher cost of funding resulting from increasing yields on Italian sovereign debt since July 2011 should continue to constrain BPM's financial profile. These factors mitigate the positive effect of BPM's upcoming capital increase. We believe that the worsening of the domestic environment for Italian banks will result in weaker demand for banking products and a higher cost of funding for BPM, which in turn will reduce BPM's profitability over the next two years (see "Italian Banks' Recovery Shifts Into Reverse As Italy's Sovereign Risk Escalates," published today). We anticipate that BPM's preprovision operating income could suffer a mid-single-digit percentage decline in both 2011 and

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2012, and that its ratio of operating costs to income will deteriorate from the 2010 level of 73.4%. In our opinion, the 2012 slowdown in domestic economic growth could impede the stabilization in BPM's asset quality that we previously expected (see "Italian Banks Are Facing A Tricky Recovery," published April 14, 2011). While BPM's gross nonperforming assets (NPA) ratio was mostly stable at 7.8% in the first half of 2011, compared with 7.6% at year-end 2010, this ratio could in our view deteriorate at year-end 2011 and in 2012, based on our estimate of net

inflows of NPA for the Italian banking system of 1.6% annually in 2011 and 2012.

Our ratings on BPM are supported by what we view as its adequate business position covering the wealthy Region of Lombardy, a stable customer funding base, and our expectation of satisfactory capitalization.

Constraining factors

are what we view as its weaker corporate governance than its domestic peers, a high cost base that constrains profitability, and relatively high single-name concentration.

BPM's weaker-than-peers governance was evidenced in 2011 by disagreements within its board of directors, its differences of opinion on capital and

governance with the Bank of Italy (not rated), Italy's banking sector

regulator. Continuation of BPM's governance issues could in our view distract

its senior management from focusing on operations and could negatively affect

BPM's performance. We understand that management expects governance to improve

with the change of the board to a two-tier system, which we understand will be

voted on at an BPM's extraordinary general meeting on Oct. 22, 2011. Our opinion of BPM's satisfactory capital position takes into

account the

anticipated completion of the €800 million share capital increase, announced

in September 2011, which we understand is due to be launched by Oct. 31, 2011.

We understand that a consortium of banks, led by Mediobanca SpA, has committed

to underwrite the shares. When consummated, the share capital increase,

combined with a conversion in equity of a €400 million mandatory convertible

bond, would likely have a positive 240 basis-point (bp) effect on our estimate

of BPM's risk-adjusted capital (RAC) ratio.

We have revised our estimate of BPM's RAC ratio to be about 7.3% before

adjustments at year-end 2012, less than we expected when the share capital

increase was first announced in May 2011. The downward revision reflects our

view of the increased economic risk of Italy, the reduction in the amount of

the capital increase from €1.2 billion to €800 million, the negative effect

caused by the minority shareholder buyout in BPM's subsidiaries in October

2011, as well as the possible reimbursement of a €500 million government

hybrid security (Tremonti bond) in 2012. Our revised estimate of BPM's RAC ratio exceeds the 7% that we consider to be adequate based on peer comparisons.

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Outlook

The negative outlook reflects our view that BPM's weak corporate governance could constrain its operating performance. In addition, the downsizing of BPM's capital increase announced in September 2011 and the costs of group restructuring could lead to a lower future capitalization than we previously expected. We could lower the ratings on BPM if we believe that its RAC ratio before adjustments will remain below 7%. This would occur if BPM is unexpectedly unable to launch its €800 million capital increase by Oct. 31, 2011. In addition, if we believe that the new governance that will emerge from the next extraordinary assembly on Oct. 22, 2011, will not reduce BPM's internal disagreements and differences of opinion with the Italian banking regulator, this would likely lead us to take a negative rating action on BPM. Conversely, we could revise the outlook to stable if we believe that BPM's RAC before adjustments remains comfortably above 7%, and if profitability and asset quality metrics unexpectedly improve.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Bank Rating Analysis Methodology Profile, March 18, 2004
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Standard & Poor's Ratings Definitions, April 27, 2011
- Italian Banks' Recovery Shifts Into Reverse As Italy's Sovereign Risk Escalates, Oct. 18, 2011
- Group Methodology, April 22, 2009

Ratings List

Downgraded

To From

Banca Popolare di Milano SCRL

Certificate Of Deposit

Local Currency BBB+/A-2 A-/A-2

Banca Akros SpA

Certificate Of Deposit BBB+/A-2 A-/A-2

Banca Popolare di Milano SCRL

Senior Unsecured BBB+ ASubordinated
BBB BBB+

Junior Subordinated BB+ BBBStandard

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BPM Capital I LLC

Preference Stock* BB+ BBBBPM

Capital Trust I

Preference Stock* BB+ BBBDowngraded;

CreditWatch/Outlook Action; Ratings Affirmed

To From

Banca Popolare di Milano SCRL

Banca Akros SpA

Counterparty Credit Rating BBB+/Negative/A-2 A-/Stable/A-2

Ratings Affirmed

BPM Ireland Plc

Commercial Paper* A-2

*Guaranteed by Banca Popolare di Milano SCRL

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the Global Credit Portal at www.globalcreditportal.com. All ratings affected

by this rating action can be found on Standard & Poor's public Web site at

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