

**Bipiemme Group**

**Merrill Lynch Banking conference**

**London 7-9 October 2008**



**BANCA POPOLARE DI MILANO**

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# Agenda

**Profile at a glance**

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**Governance: By-law changes**

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**AuM rationalization: Anima tender offer**

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**H1 08 results**

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# BPM Group highlights

## Business profile

- BPM Group ("BPM") is a cooperative bank established in Milan in 1865
- #8 banking group and #4 Popolare bank in Italy in terms of total assets (€45.7bn)
- Listing: Italian Stock Exchange in 1994
- Strong local franchise: 755 point of sales (+ 39 ex-Unicredito + 9 Bp Mantova\*) (~2.2% market share in Italy)
- Leading position in Lombardy (~7.3% market share)
- Cooperative bank with about 94,000 shareholders, of which about 47,000 registered shareholders with voting rights
- Crédit Industriel et Commercial (CIC), BPM's strategic and commercial partner, holds 4.99% stake and €180m of convertible bond

## Financial highlights

- Customer loans: €32.0bn (+13.5% vs June 07)
- Funding: €34.0bn (+6.2% vs June 07) of which €18.2bn in sight customer deposits
- RWA\*\*: €38.5bn
- Indirect customer funds: €38.2bn (of which: AUM €18.0bn)
- Cost to Income ratio: 63.2% (56.6% June 07)
- ROE: 7.9% (annualized figure) (10.3% FY07)
- Tier 1 Capital Ratio\*\*: 7.5% (Tier 1 Capital €2,879m)
- Total Capital Ratio\*\*: 10.2% (Total Capital €3,940m)
- Ratings: A1 stable Moody's / A- stable S&P's / A stable Fitch
- Market capitalisation: about €2.5bn

\* Preliminary agreement has been signed on 16th May 2008 and 1<sup>st</sup> July 2008 respectively

\*\* RWA based on Basel 2 standard method; BPM estimate

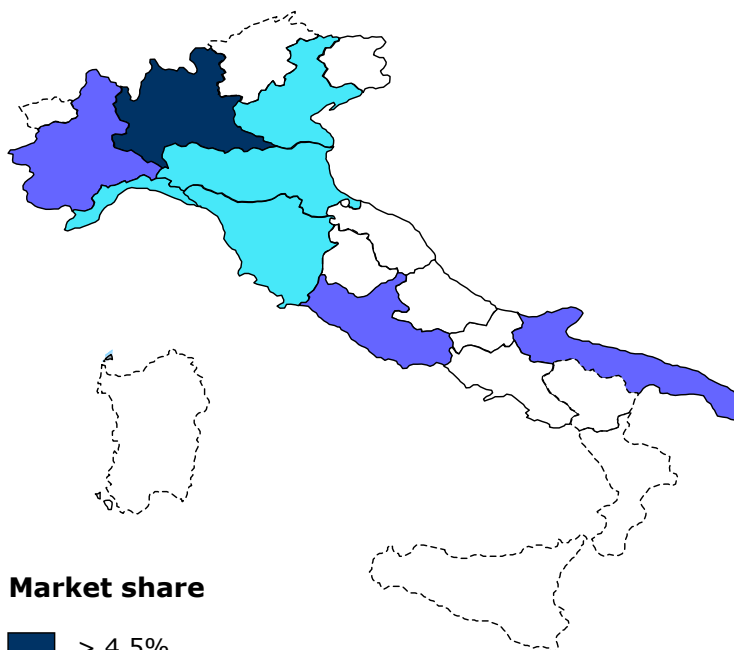
Source: BPM H1 2008 Report

# Deep penetration in Italy's wealthiest areas

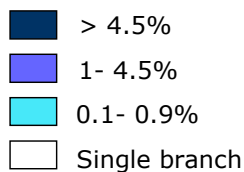


BANCA POPOLARE DI MILANO

8th Italian banking group



Market share



**Point of sales: 755** (by YE +39 ex Unicredit + 9 BP Mantova)  
 - **726 (\*) retail**  
 - **4 corporate centres and 10 SMEs centres**  
 - **15 Private banking centres**

	Retail branches	Market share (**)	GDP (***)
<b>Lombardy</b>	<b>474</b>	<b>7.3%</b>	<b>20.7%</b>
o/w Milan	320	12.5%	
Varese	60	12.5%	
Lecco	30	13.2%	
<b>Piedmont</b>	<b>94</b>	<b>3.5%</b>	<b>8.0%</b>
o/w Alessandria	64	21.3%	
<b>Apulia</b>	<b>38</b>	<b>2.7%</b>	<b>4.5%</b>
<b>Latium</b>	<b>58</b>	<b>2.2%</b>	<b>10.9%</b>
Other regions	62	3,65%	
<b>TOTAL</b>	<b>726</b>	<b>2.2%</b>	<b>44.1%</b>

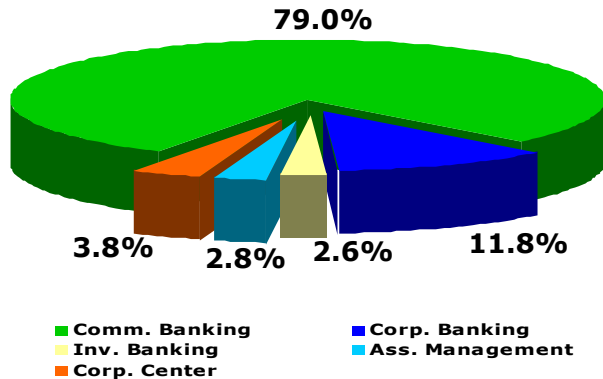
(\*) BPM (526), B. Legnano (111), CR Alessandria (87), Banca Akros (1), We@bank (1)

(\*\*) Market share as at March 2008

(\*\*\*) 2006 figures from Italian Statistical Bulletin

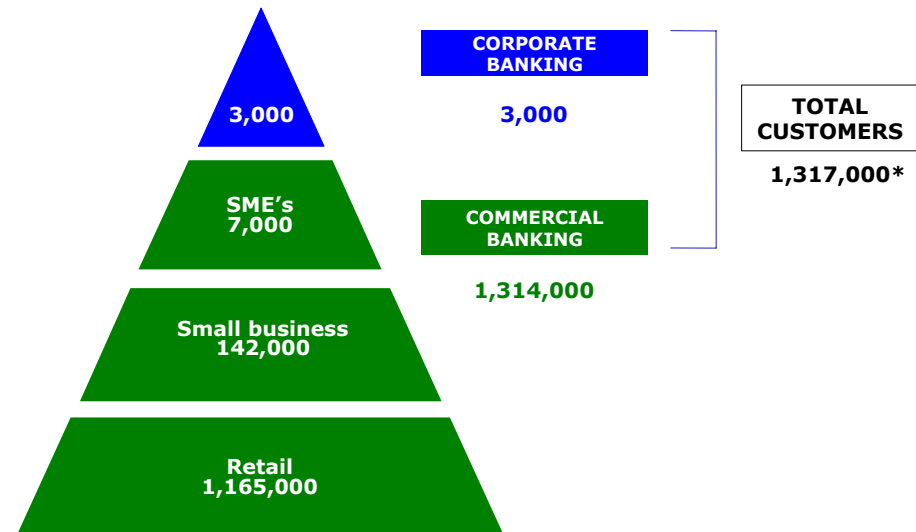
# Company profile

## Total revenue breakdown (%)



Comm. Banking	Corp. Banking	Inv. Banking	Asset Mgmt	Corp. Centre
Bpm	Bpm	Bpm	Bpm Sgr	We Service
BL		Akros	Bpm Fund Manag.	Ge.se.so
CrAI		Bpm Ireland	Akros Alt. Inv. Sgr	Other
Bpm Private Banking				

## Customer base



- Corporate → Turnover > €50m
  - Commercial → Turnover €5-50m
  - Small Business → Turnover €0-5m
- } **Commercial Banking**

\*Company data as at December 2007

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# BPM By-laws amendments: highlights

BPM BoD approved on the 9<sup>th</sup> of September 2008 the following amendments on the bank By-laws. The Extraordinary Shareholders' Meeting for the final approval will be held after Bank of Italy authorization.

## Actual BPM By-laws

- **N. Directors:** 20  
*. split as follow*  
Majority list: 16  
Minority lists: 4
- **N. independent Directors\*:** 2
- **Art. 45 of By-laws:** General Manager power/roles are not listed
- **Art. 31 of By-laws:** (1) resolutions of shareholders' meetings related to absorptions or mergers: 3/4 of shareholders voting (at least 500)



## New BPM By-laws

- **N. Directors:** 18  
*. split as follow*  
Majority list: half + 1 (now 10)  
Minority lists: 6  
Strategic partners' representatives: 2
- **N. independent Directors\*:** 4
- **Art. 45 of By-laws:** General Manager power/roles are listed
- **Art. 31 of By-laws:** (1) resolutions of shareholders' meetings related to absorptions or mergers: 2/3 of shareholders voting (at least 500)

## Additions to the existing By-laws articles

- **Art. 31 of By-laws:** the meeting quorum required for Ordinary Shareholders Meetings is required in case of resolutions to be passed to comply with the instructions of the Supervisory Authority issued to establish or assimilate regulatory provisions
- **Art. 41 of By-laws:** attribute an acting member of the Board of Auditors to a list presented by UCITS\*\* on the condition that has obtained at least 5% of the total votes cast

8 (\*) Art. 147-ter TUF ratifies that BoD with at least 7 members must have minimum 2 independent Directors

(\*\*) "Undertaking for Collective Investment in Transferable Securities"



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## Main operation features

- BPM announced a voluntary public tender offer for all shares in Anima SGR at the price of €1.45 per share
- Main offer conditions :
  - 1) approval from the Authorities
  - 2) achievement by BPM of a stake at least equal to 2/3 of the fully diluted share capital; if tenders do not permit BPM to achieve a quota equal to at least 1/3 of fully diluted share capital plus one share, BPM will not launch the offer
- Following the offer and performance of any obligations and/or exercise of the right of squeeze out, BPM intends to proceed, in compliance with the regulatory provisions, to merge Anima with Bipiemme Gestioni and possibly with other companies in the BPM Group
- The maximum financial commitment by BPM, in case of 100% tender offer acceptance, is equal to €113,5m

## Scenario

### Current situation

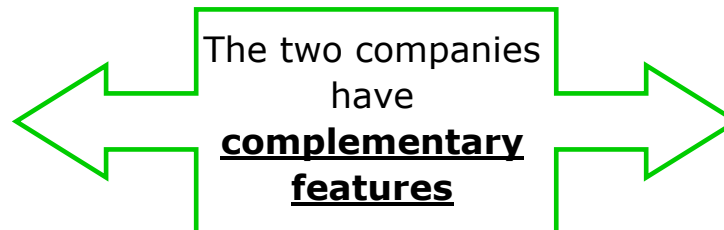
- ❑ Presence consolidated but still limited
- ❑ Complex company's structure
- ❑ High quality level but still not excellent
- ❑ Efficiency level suitable for the dimension
- ❑ High "captive"

### Possible solution

- Dimensional growth and presence strengthening in more profitable segments
- Structure simplification
- Dimensional growth in order to strenght the management *know-how*
- Dimensional growth in order to increase efficiency trough scale economies
- Increase in volumes on *extra-captive* market

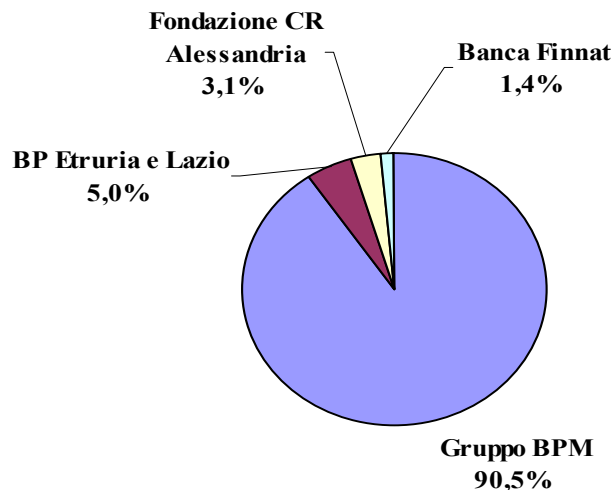


- diversified range of products
- performances
- operating efficiency

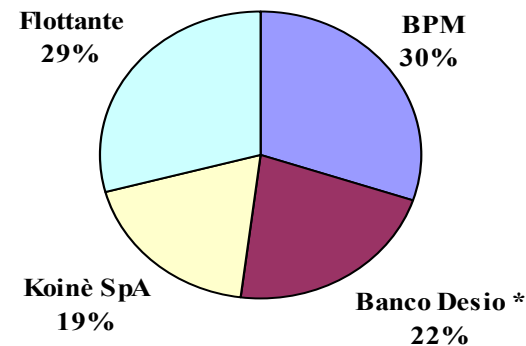


well known trademark  
diversified franchise network

## BPM Gestioni: Shareholders Equity



## Anima: Shareholders Equity



\* Includes the stake owned by Brianza Unione of Luigi Gavazzi & C. SAPA

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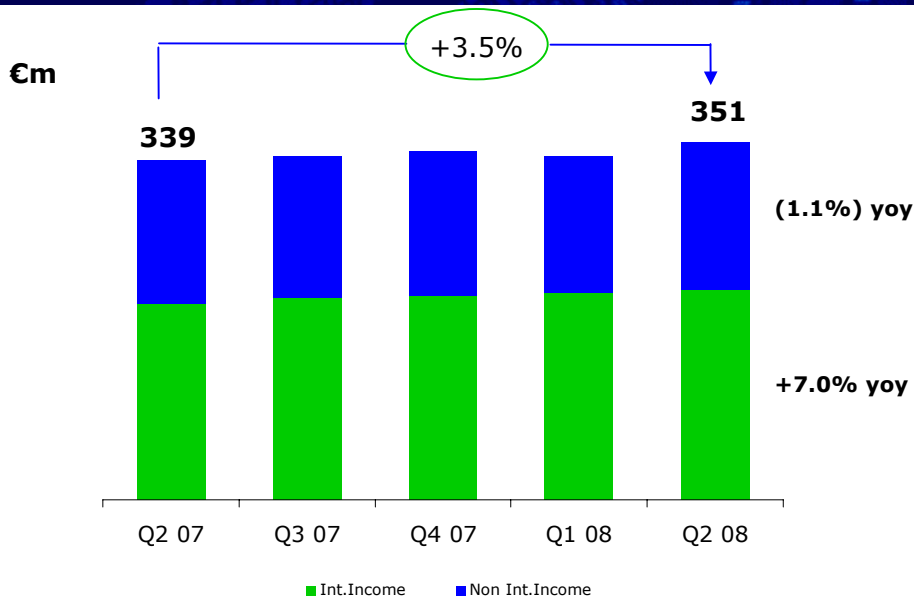
**AuM rationalization: Anima tender offer** **slide 10**

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**H1 08 results** **slide 13**

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# Commercial Banking income



Interest income growth (+7.0% YoY) sustained by volumes:

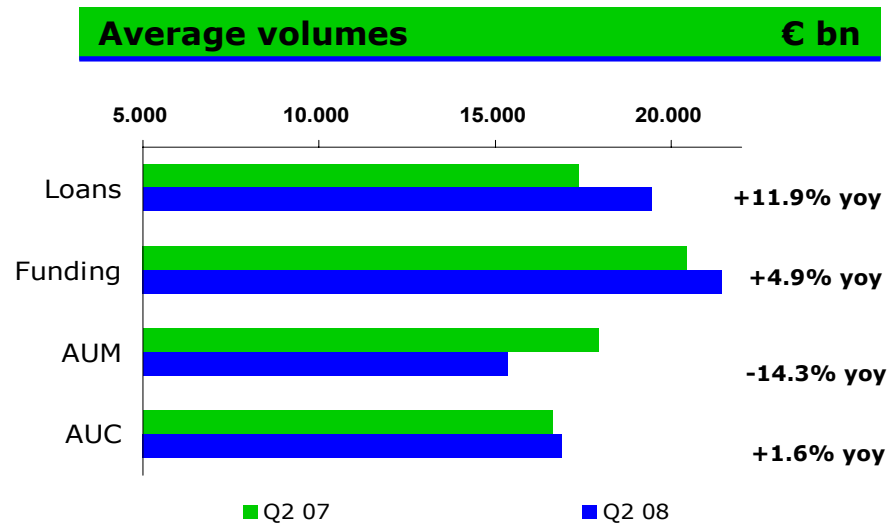
- volume effect +8.1%
- margin effect -1.2%
- other +0.2%

Net fees are stable YoY due to the increase in AUC commissions. QoQ commission recovery, in particular from third party bond placement.

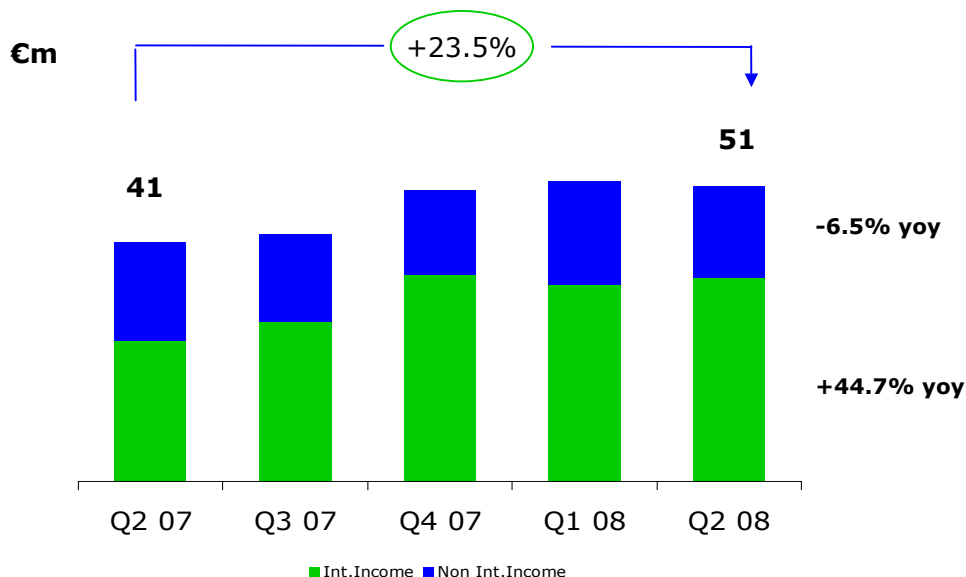
Loans (+11.9% YoY) over €19bn driven by mortgages and consumer credit (+11.8% YoY). €2.3bn of new mortgages in H1 08 (+25.4% YoY). Good performance also in SB loans related to commercial business (+10.6% YoY)

Funding above €21bn (+4.9% YoY) driven by CoD/bond (+13.4%)

Drop in AUM volumes (-14.3% YoY) tied to sector difficulties and market performance. AUC grew by +1.6% YoY



# Corporate Banking income



■ Strong interest income growth (+44.7% YoY) explained by increased volumes and improved mark up (+32 bps):

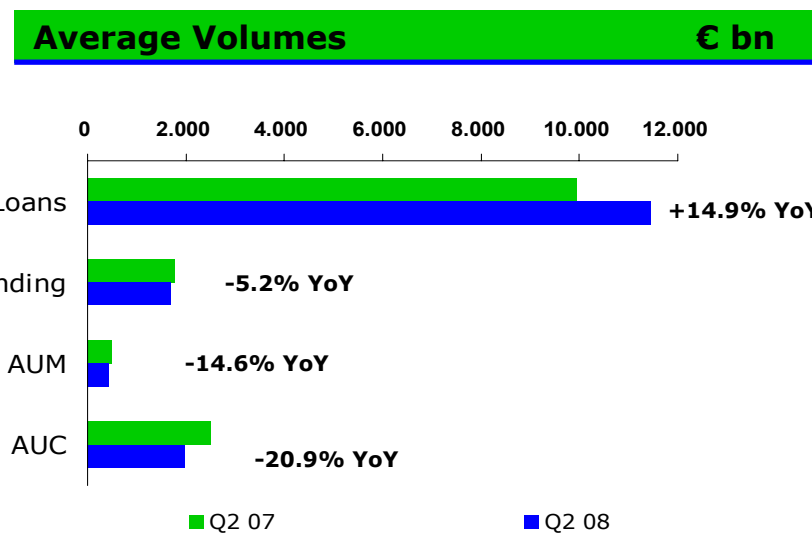
- volume effect +24.0%
- margin effect +13.8%
- other +6.9%

■ NNII slightly decreased (from €16.9m to €15.8m) due to the trend in credit and FX net commissions

■ Total loans (+14.9% YoY) driven by strong increase in loans related to commercial business (+16.4%)

■ New mortgages in H1 08 dropped to €0.2bn in comparison to €0.5bn in H1 07

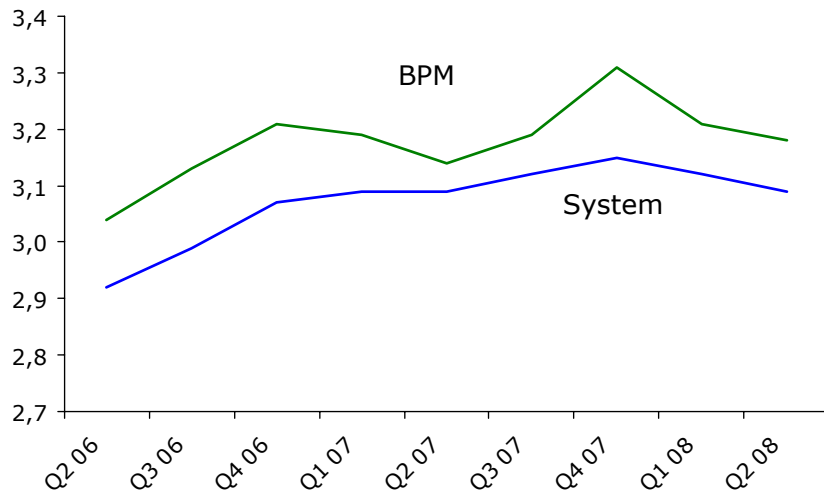
■ Decrease in funding due to fewer large companies depositing with marginal rates



# Spread still positive vs system

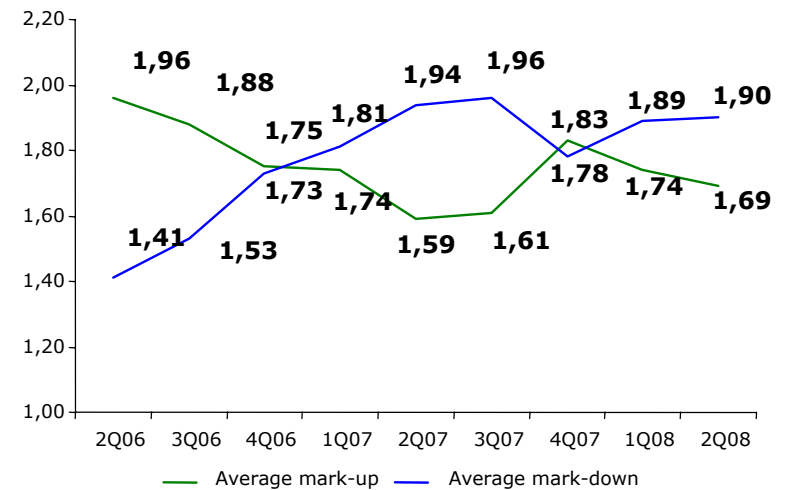
- Slight decrease in spread (-3bps) QoQ but up YoY (+4 bps)
- BPM spread vs system QoQ maintains 9bps positive gap

**BPM spread vs. system %**

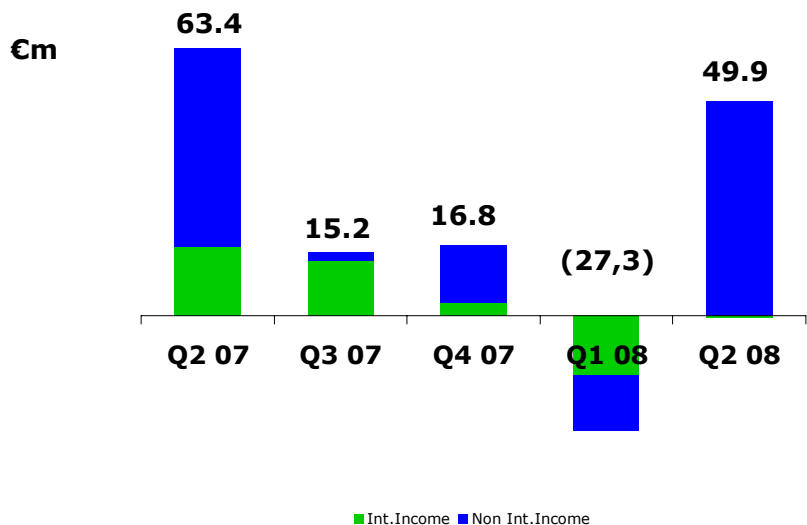


- Comm. and corp. bk mark-up/mark-down: stable mark down QoQ (+1 bps); mark up slightly lower (-5 bps) QoQ, due to the change in the interest rate curve
- Group sensitivity: +100bps in interest rates affect interest margin positively (around +€ 21m) in 12 months

**Comm. and corp. bk mark-up/mark-down %**



# Investment Banking income

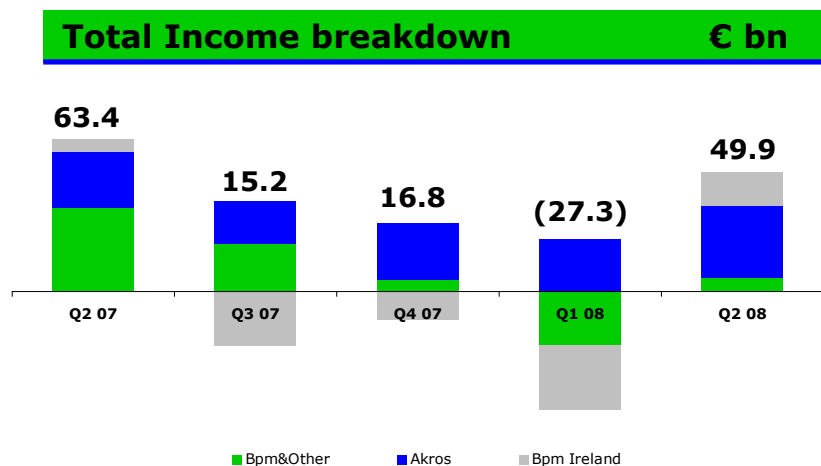


■ Quarterly IB trend:

- Net interest income (€-1.5m): drop in positive contribution from short - term investments YoY but recovers in QoQ
- Non interest income (€ 51.4m): strong recover QoQ lead by Banca Akros steady positive contribution. BPM Ireland and Bank's finance department partially recovered unrealised losses and FV adjustment of 1Q

■ Investment banking income result (€49.9m) is mainly due to:

- Banca Akros contribution (€30m), still positive +€8.1m vs Q1 08
- BPM Ireland contribution, which recovered in Q2 08 (€14.1m vs €-26.8m in Q1 08) after the negative performance in the last three quarters - penalised by financial market trend, liquidity crisis and widening credit spread
- Bank's finance department contribution improved in Q2 (€5.8m vs -€23m QoQ)





# Financial Assets

€ m	Dec 07 total	June 08 total	o/w	BPM Ireland	BPM & Other	Banca Akros
Financial assets held for trading	3,813	3,090		11	713	2,367
Financial assets at fair value	1,237	1,086		662	425	
Financial assets available for sales	2,122	2,018		476	1,296	246
Hedging derivatives	17	(5)			(5)	
less: Financial liabilities	(1,362)	(1,252)		(36)	(137)	(1,079)
<b>Total Financial assets</b>	<b>5,826</b>	<b>4,937</b>		<b>1,113</b>	<b>2,291</b>	<b>1,533</b>
<b>Total f.a. on total assets</b>	<b>13.8%</b>	<b>11.1%</b>				
<b>Total f.a. on tot. assets (excl. Akros)</b>	<b>9.1%</b>	<b>7.6%</b>				

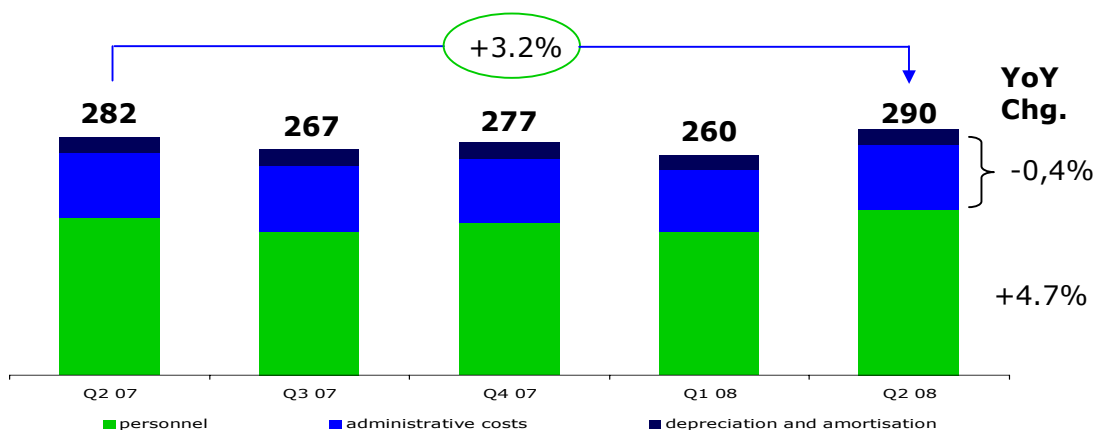
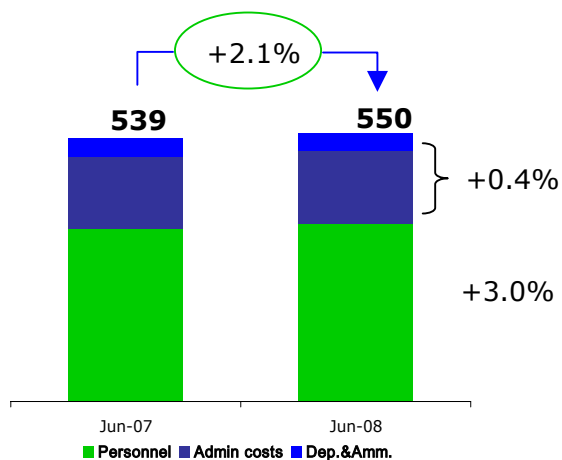
- €430m reduction in Fin. Assets held for trading explained by decrease in equity portfolio trading
- Banca Akros V.a.R. still low in H1 08, slightly higher than FY07 at €1.3m due to increase in market volatility
- BPM Ireland portfolio decreased by around €230m vs FY07 due to bond/securities expiring and to selling
- In Q2, BPM partially hedged BPM Ireland credit spread portfolio sensitivity by purchasing credit protection through an CDS index against widening credit spread and credit default. As a result, BPM Ireland portfolio sensitivity to +25 bps credit widening spread declines from around €-10m to around €-7m.

Lehman Brothers exposure	€m
Bonds (mtm value)	3
Derivatives	3.4
<b>Total</b>	<b>6.4</b>

This amount does not include positive mark to market derivatives position of €4.1m. If considered the net exposure would be €2.3m

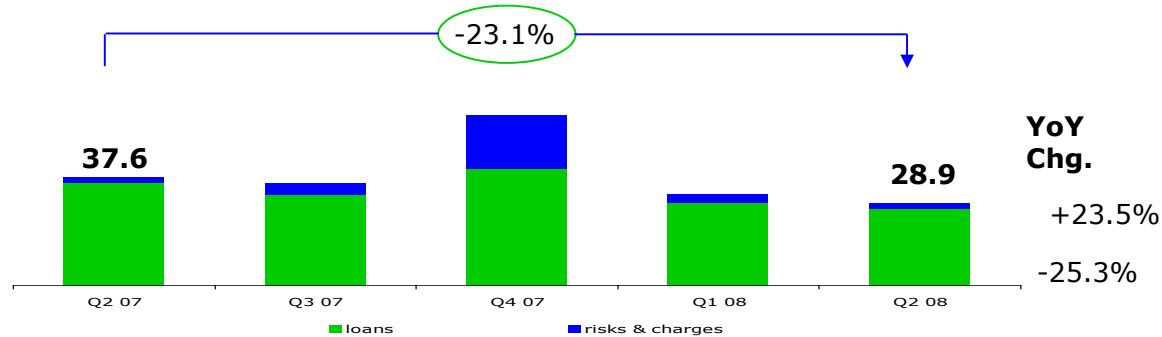
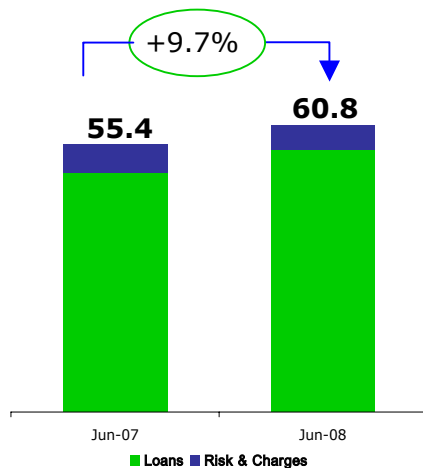
# Costs remain under control

- Total costs grew by 2.1% YoY. In detail:
  - Personnel costs +3.0% YoY mainly due to adjustment of the provisions for managers indemnities, increase in employees and renewed labour contract, partially offset by reduction in profit sharing and positive turnover effects
  - Administrative expenses and depreciations were flat (+0,4% YoY) despite an increase in business related activity and bank expansion (+14 branches YoY, equal to 2% of total branches)
- Cost income ratio at 63.2% (+6.6pp YoY) owing to drop in income contribution



# Provisions and adjustments

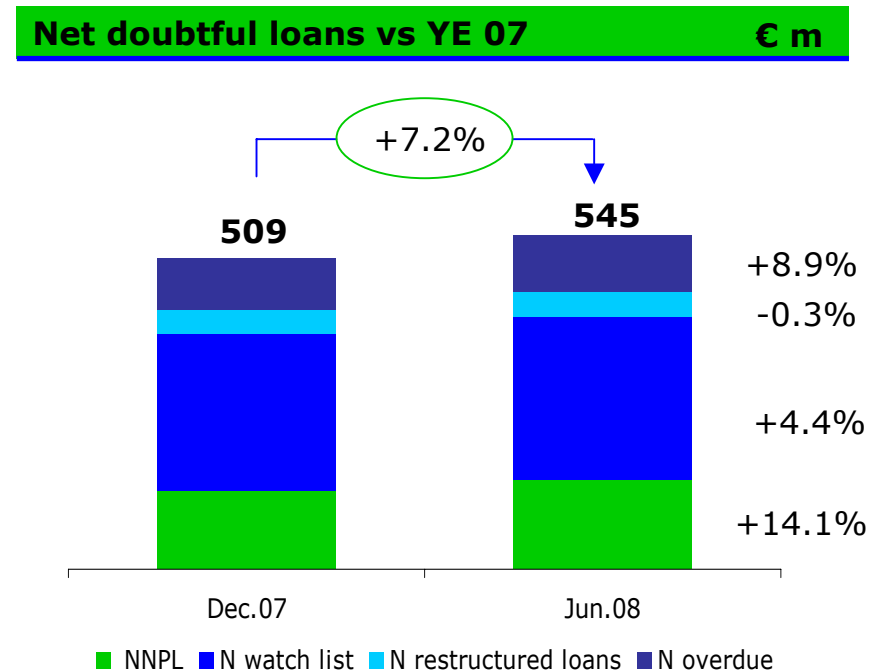
- Total provisions increased by €5.4m vs H1 07, but decreased QoQ (€-8.7m). Main components:
  - LLP at €55.3m, equally distributed among retail, SB and SME segments
  - risk provisions at €5.5m, flat YoY, mainly referring to claw-back actions or "revocatorie"
- Total provisions on loans at 35 bps in H1 2008 (annualised figure), slightly lower than the target (40 bps)
- Provisions and adjustments are in line with previous years, even after Bank of Italy's recent general audit



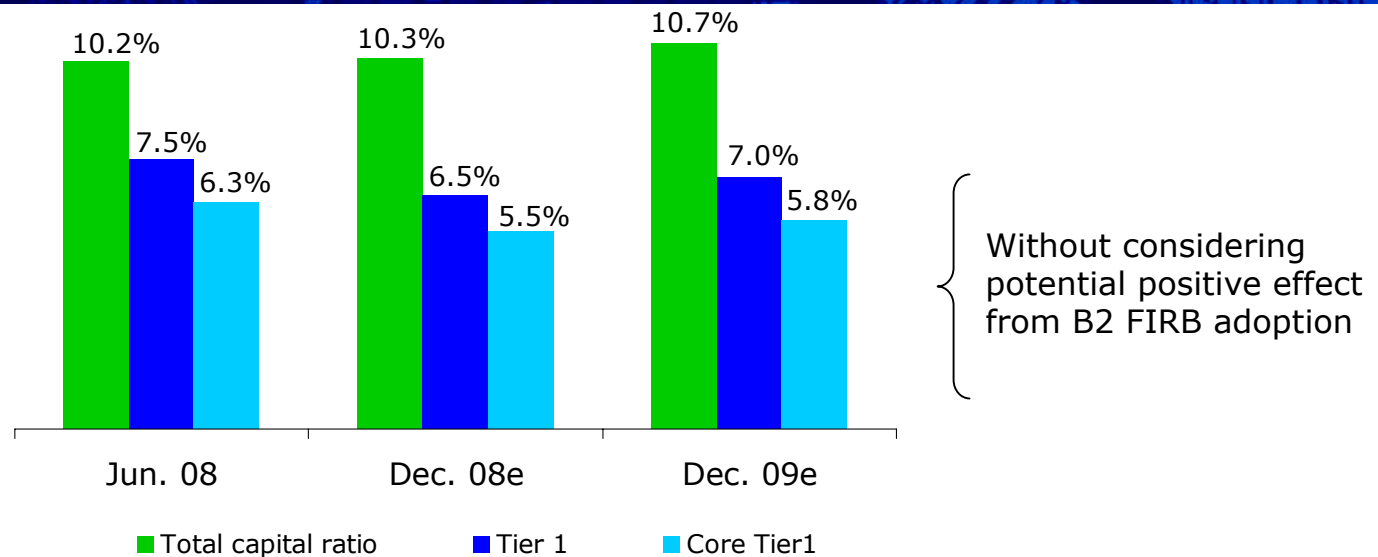
# Non-performing loans still well below system average

- Net doubtful loans on total loans stable at 1.7% vs YE07
- Net non-performing loans on total loans still at a sound level of 0.5% below the Italian system average
- Gross and net doubtful loans increase below loan book growth
- Watch list on loan portfolio at 0.8%, down from 0.9% at YE07

June 08	Ratio	Coverage
<b>Tot. doubtful loans</b>	<b>1.7%</b>	<b>45.3%</b>
Net NPL	0.5%	68.5%
Watch list	0.8%	23.7%
Restructured loans	0.1%	52.6%
Overdue loans	0.3%	2.9%
<b>Performing loans</b>	<b>98.3%</b>	<b>0.5%</b>



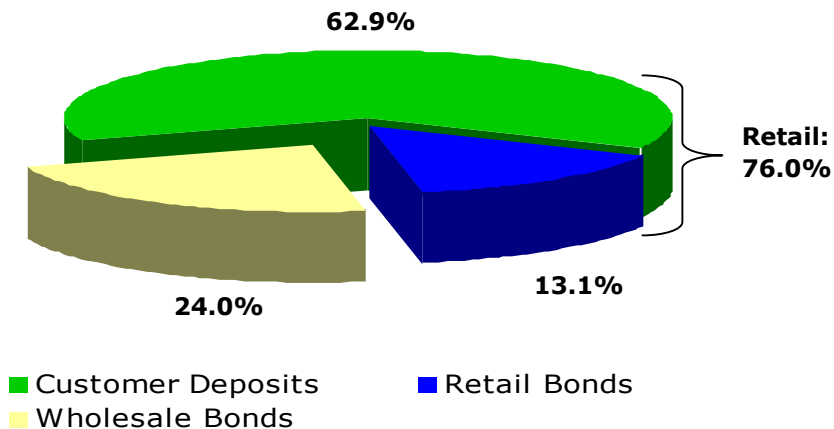
# Capital ratio: impact of Basel 2



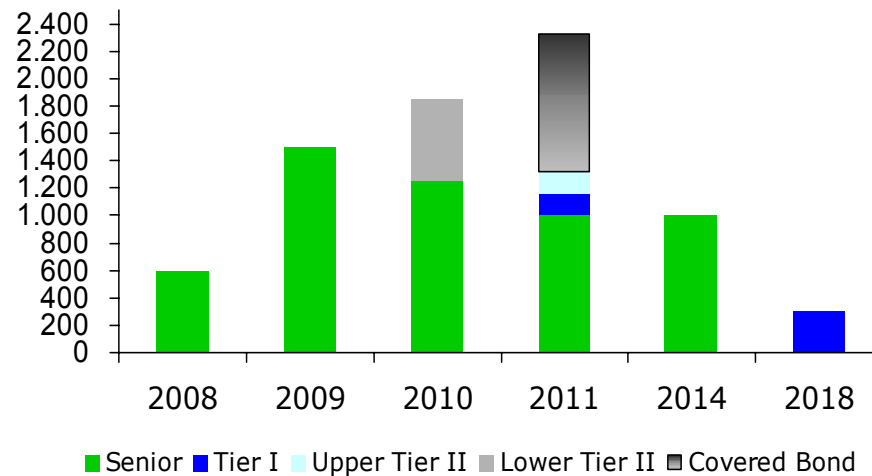
- In June 08, Tier1 benefitted from a €300m perpetual bond issue and TCR from €270m subordinated issue
- In 2008, BPM is using the standard Basel 2 model while waiting for Bank of Italy to recognize the BPM internal rating models next year. The effect of the new method (B2 standard) vs Basel1 is around +5% RWA, and with -35bps on Tier1
- The forecasts for Tier1 were confirmed at around 7% and TCR at 10% at YE09
- 2008 estimates include the impact of Anima, BP Mantova majority stake acquisition, 39 branches ex Unicredit Group, and issue of subordinated bond (Lower Tier2) for a maximum amount of €600m
- 2009 estimates include the conversion of BPM/CIC 2004-09 bond and not the impact deriving from the adoption of Basel2 FIRB method

# BPM Funding

Tot. funding breakdown by type



BPM Wholesale Debt maturity



- BPM liquidity strategy is based on diversified funding sources with the aim of maintaining a good balance between retail and institutional customer funding
- Eligible assets for ECB Repos at €1,5bn
- Net liquidity balance as of 30 September 2008 is positive and expected still positive at YE08

Source: BPM Annual Reports

# Q&A section



BANCA POPOLARE DI MILANO