HSBC Banking conference

Opportunities in Italian regional banks

London, 19 January 2006

Banca Popolare di Milano

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This presentation includes accounts, which have been prepared utilizing IAS/IFRS standards for the first time. Readers are advised to refer to the Interim Report at 30 June 2005 and at 30 September 2005 for a full review of the IAS/IFRS principles adopted and their first-time application. Since IAS/IFRS principles are subject to future modifications, the form, but not the substance, of the information contained in this presentation is subject to modification in the future before it is published in the 2005 Annual Report of the BPM Group.

Agenda

BPM profile at a glance

Business profile

12th banking group in Italy

Strong local branches net : 731 retail, corporate and private points of sale

Wide customer base: around 1.35 m retail and SMEs and 12,000 corporates

Over 90% of products in Wealth Management and investment banking are home made products

Financial highlights at 30.09.05

Customer loans: €21.9 bn (up 9.5% vs. Dec. 2004)

Direct deposits: €24.1 bn (up 6.2% vs. Dec. 2004)

Indirect deposits: €37.3 bn (up 8.1% vs. Dec. 2004) of which AUMs € 20.2 bn (up 8.9%) with a market share of 2.31% in mutual funds

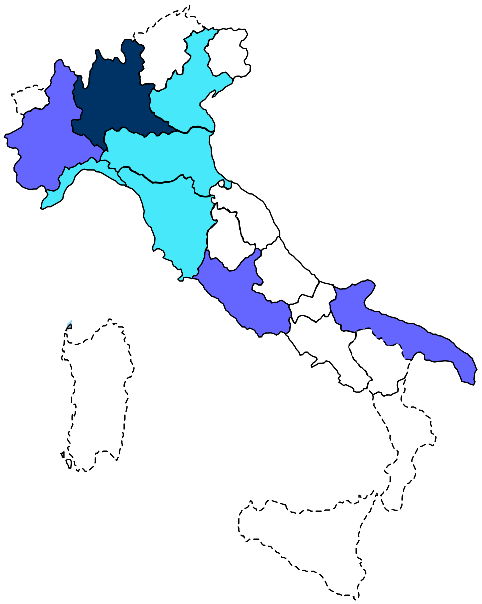
9M net profit: € 212.8 mln (up 86% YoY)

Strong focus on retail and SMEs...

Share of total revenues in 2004 (%)
(100% = € 1,444 m)

RETAIL BANKING	CORPORATE BANKING	INVESTMENT BANKING	WEALTH MANAGEMENT	OTHER
70%	17%	7%	5%	1%
BPM	BPM	BPM		BPM
BANCA DI LEGNANO	BPM LONDON BRANCH	BANCA AKROS	BPM GESTIONI SGR	BPM IMMOBILI
CR ALESSANDRIA	BPM NEW YORK BRANCH	AKROS SECURITIES	BPM VITA	WE@SERVICE
BPM PRIVATE BANKING SIM		BPM IRELAND	BPM FUND MANAG.	
			AKROS HFR ALT. INVEST. SGR	

... thanks to BPM deep penetration in the wealthiest areas of Italy



Branch market share

- > 4,5%
- 1- 4,5%
- 0,1- 0,9%
- Single branch

Retail Branches: 695*

Corporate and

Private branches: 36

731 branches (Sept. 2005)

Region	Branches	% Mkt Sh Branches	% GDP	% Wealth (**)	% Companies
Lombardy	**454**	**7.6%**	**20.1%**	**39.1%**	**15.6%**
Piedmont	**92**	**3.5%**	**8.4%**	**8.2%**	**7.7%**
Apulia	**37**	**2.7%**	**4.7%**	**2.2%**	**6.5%**
Latium	**58**	**2.2%**	**10.3%**	**11.6%**	**9.1%**
TOTAL	**641**	**4.9%**	**43.5%**	**61.1%**	**38.9%**
Other regions	54	0.4%	43.0%	32.1%	44.1%

Sources: system data, Bank of Italy, 2004 Statistical Bulletin; ISTAT, 8th general census of industry and services 2001

(*) No. branches: BPM (507), Banca of Legnano (104), CR Alessandria (82), Banca Akros (1), WE@bank (1)
(**) Direct and indirect funding

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9M 2004/2005 results IAS/IFRS – P&L

€ m	9M 05 IAS/IFRS	9m 04 (*)	%
Interest income	552.8	458.3	20.6
Net commissions	396.1	354.8	11.7
Other non interest revenues	139.3	74.6	86.8
Total income	**1,088.3**	**887.7**	**22.6**
Net adj. and provisions	(59.3)	(79.7)	(25.7)
Net income from financial operations	**1,029.1**	**807.9**	**27.4**
Net income from financial and insurance operations	**1,059.5**	**814.6**	**30.1**
Operating costs	(719.4)	(639.4)	12.5
Ordinary income	**340.7**	**175.4**	**94.3**
Tax on on-going operations	(131.7)	(67.5)	95.2
Profit from on-going operations	**209.0**	**107.9**	**93.7**
Net income	**212.8**	**114.4**	**86.1**

(*) excluding IAS 32/39 regarding financial instruments and IFRS4 regarding insurance operations. CR Alessandria not consolidated

- Significant volume growth (deposits +5,1%, loans +9.8%, namely for the medium-long term share)
- Increased AuM volumes and fees on bond placement
- Excellent results in investment banking and trading activities (mainly relative to Akros)
- Up 14,.6% incl. CR Ales.
- Up 5.4% on a like-for-like basis, mainly due to provisions for risks & charges and amortization
- Up 75.3% including CR Alessandria line-by line consolidation in 2004

Asset quality remains well above sector average

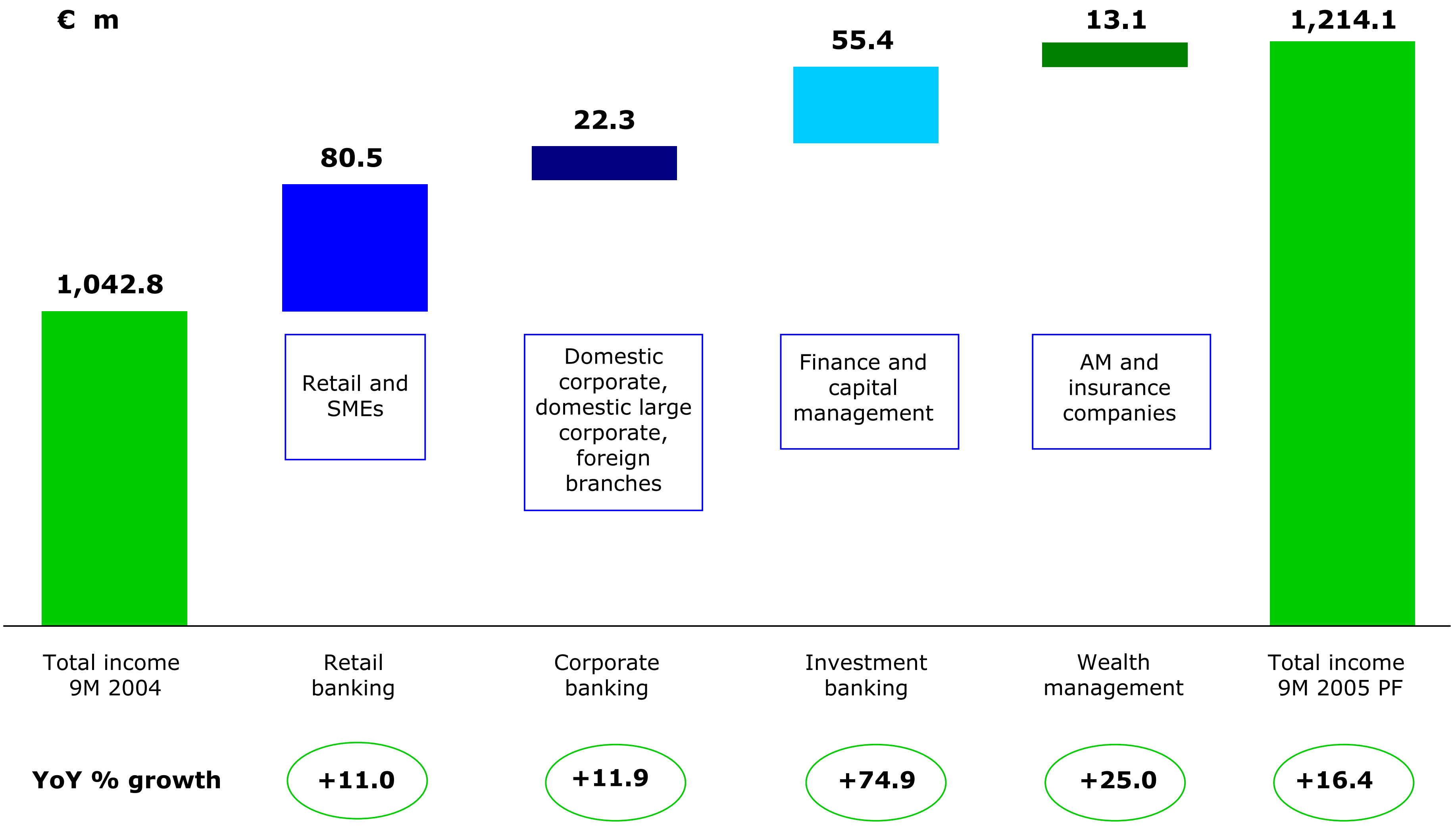
- Marginal impact of FTA on non-performing loans
- Outstanding asset quality, even strengthened after the adoption of IAS/IFRS standards

€ m	01.01.05	IAS/ISFR Ratio	Coverage
Net NPLs	118.5	0.6%	69.9%
Net watchlist and restructured	308.4	1.5%	20.1%
Total coverage			***45.2%***
Net performing loans	19,545.2	97.9%	0.84%

IAS/IFRS FTA: estimated impact on capital ratios

	30.6.05 Italian GAAP	Estimated IAS/IFRS impact on capital ratios	Estimated IAS/IFRS ratio at 31.12.05
Core Tier 1	6.94%	no impact	**6.60%**
Tier 1	7.56%	no impact	**7.20%**
Total Capital Ratio	11.62%	+60 bp	**10.70%**

Total income growth by business unit at 30^{th} September 2005



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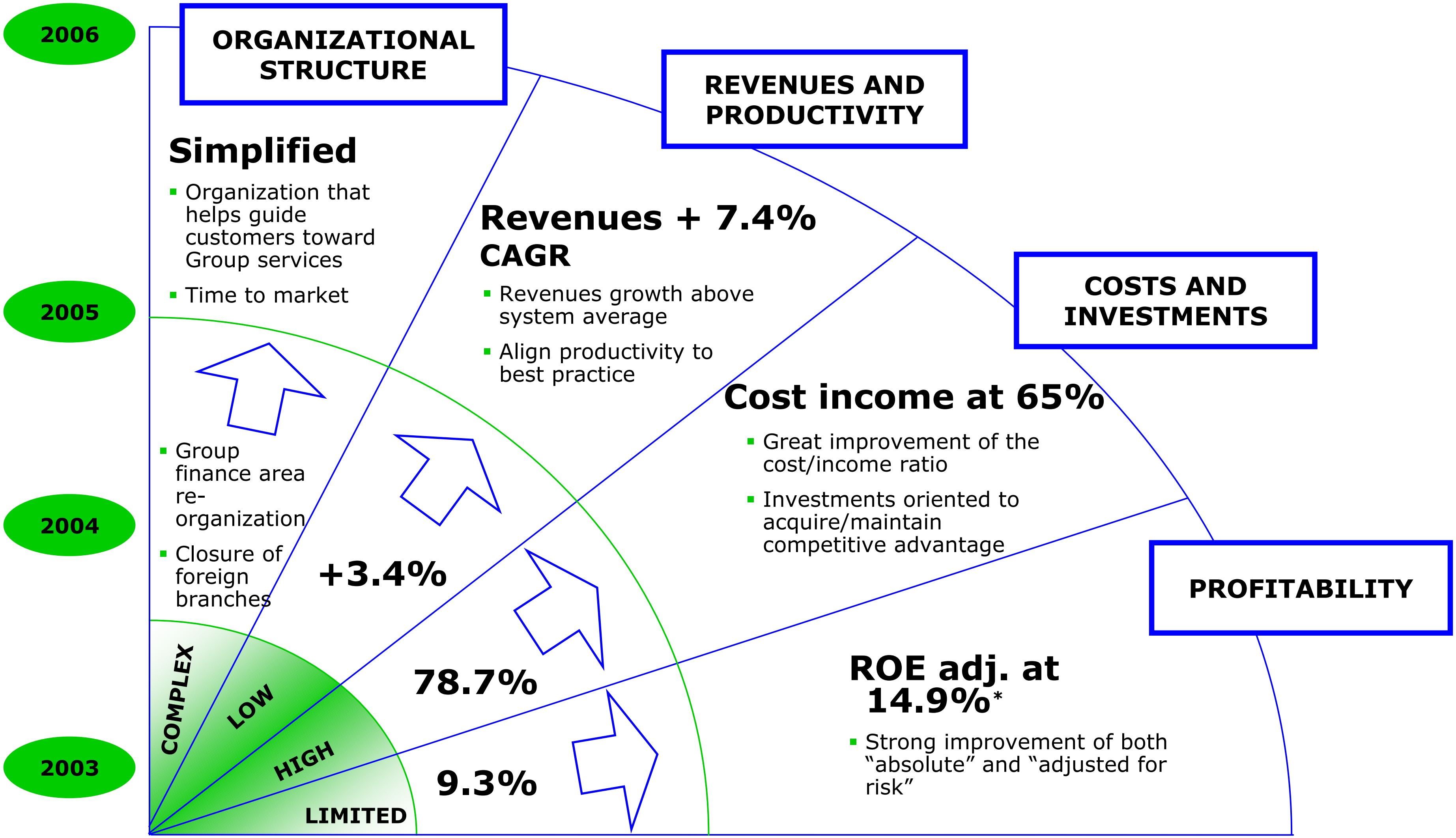
2004-06 Strategic Plan objectives



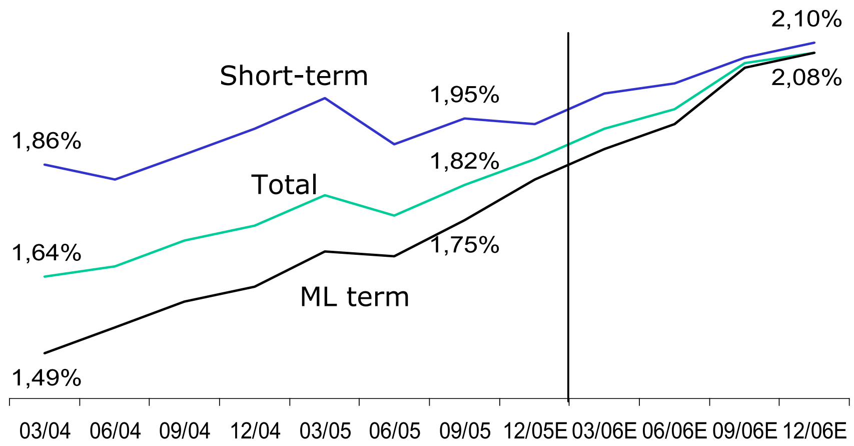
* Adjusted for goodwill amortisation and extraordinary income

Main achievements to date and 2006 priorities

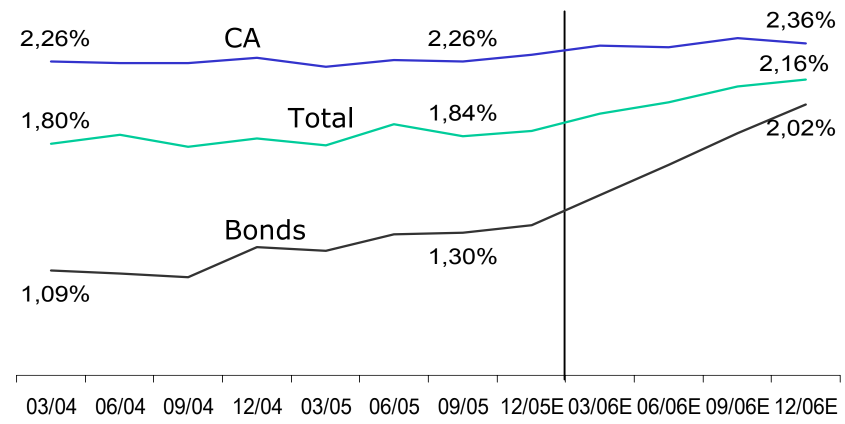
2004	2005	2006E
Start-up of plan implementation in H2	Commercial push: from temporary campaigns to steady focus on product / client	Focus on growth sustainability: coherent monitoring system of intermediate results
Organisational structure: • restructuring of finance area and foreing branches • development of the R.A.C.E. project (optimisation of network operating processes)	Implementation of the R.A.C.E. project	Launch of Star ("*Stella*") products
	Group structure rationalisation: • disposal of majority stake in BPM Private Equity • agreement with Aedes for real estate funds • bancassurance agreement with Fonsai	Progressive build-up of IT cost savings
	Organisational structure: • strenghtening of commercial network (new branches) • personnel shift from HQ to network • restructuring completion for finance area and foreing branches	Organisational structure: • CR Alessandria integration • back-office streamlining • Group real estate rationalisation

2006 market-share targets

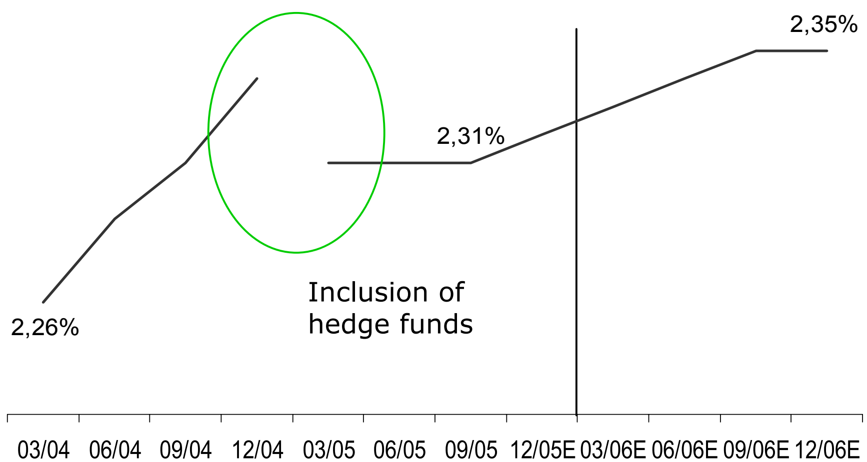
Domestic loans



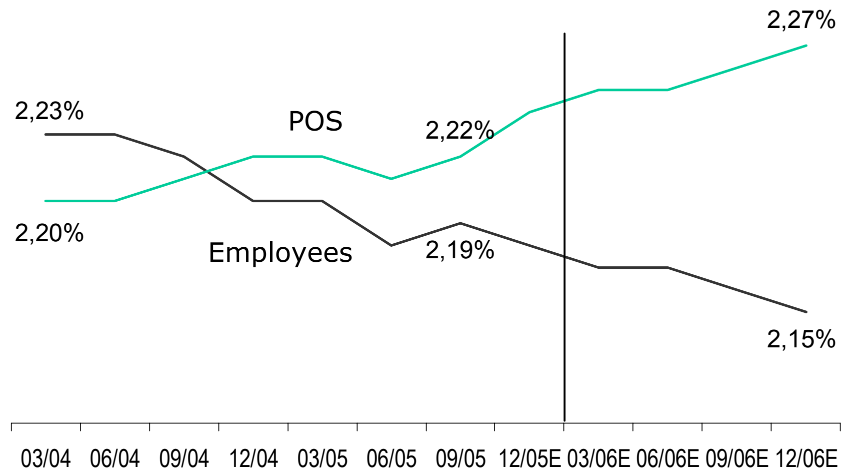
Domestic customer deposits



Mutual funds

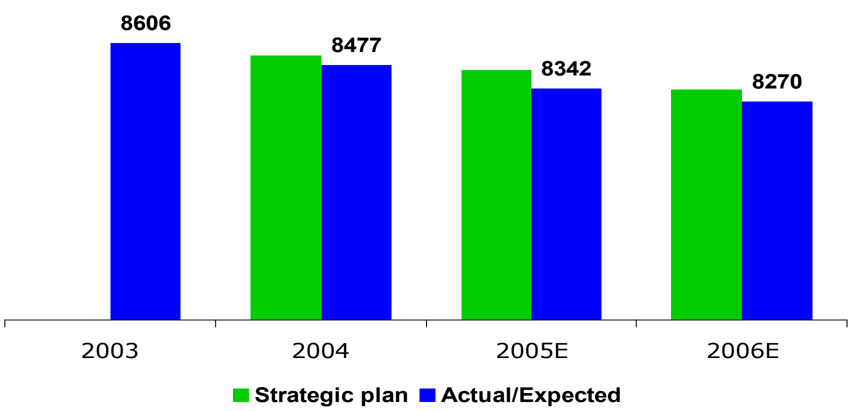


Employees and points of sale

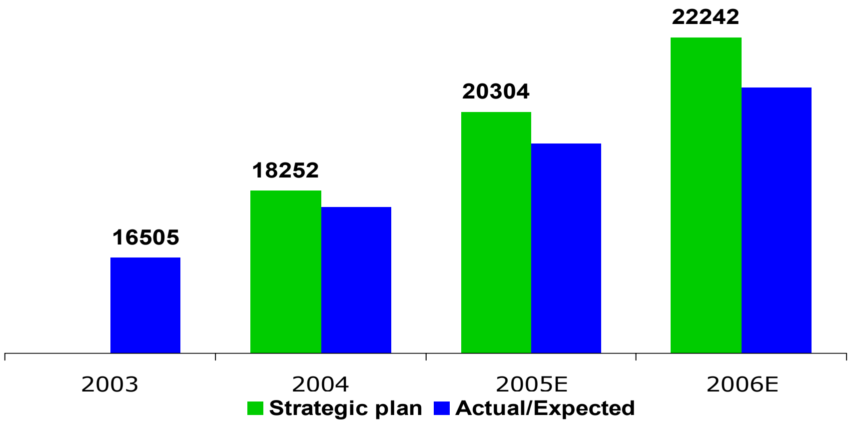


Strategic plan targets and achievements

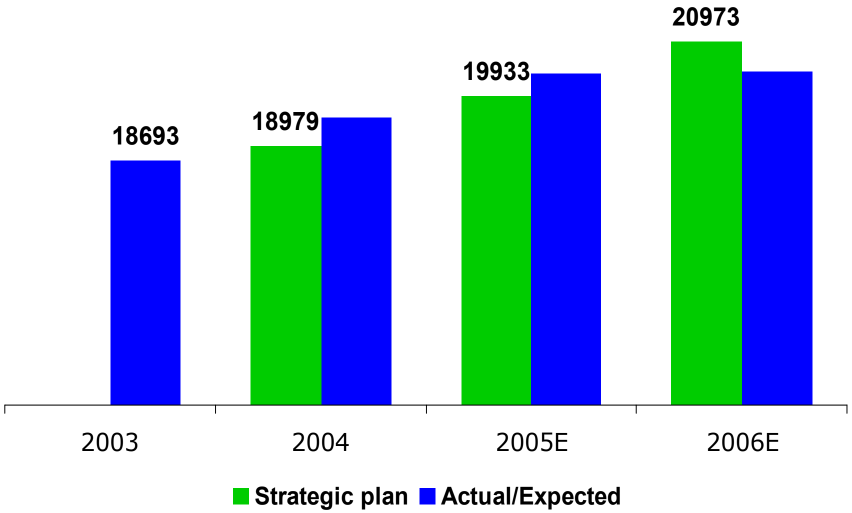
Employees



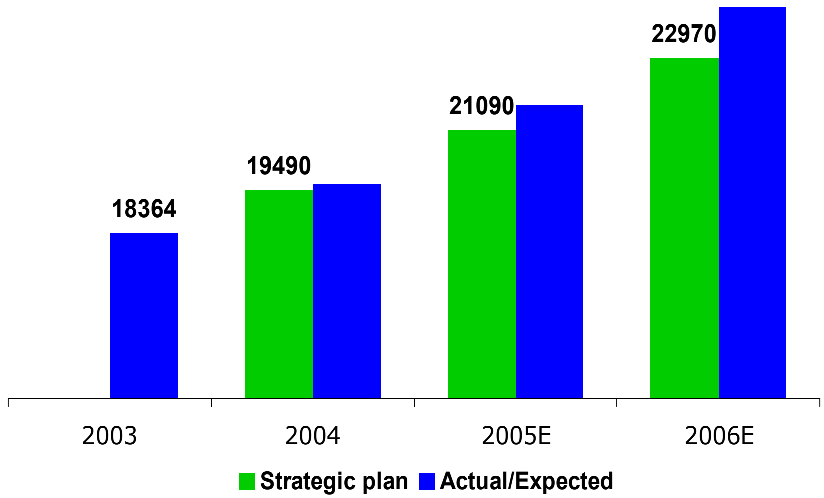
AUM €m



Deposits €m



Loans €m



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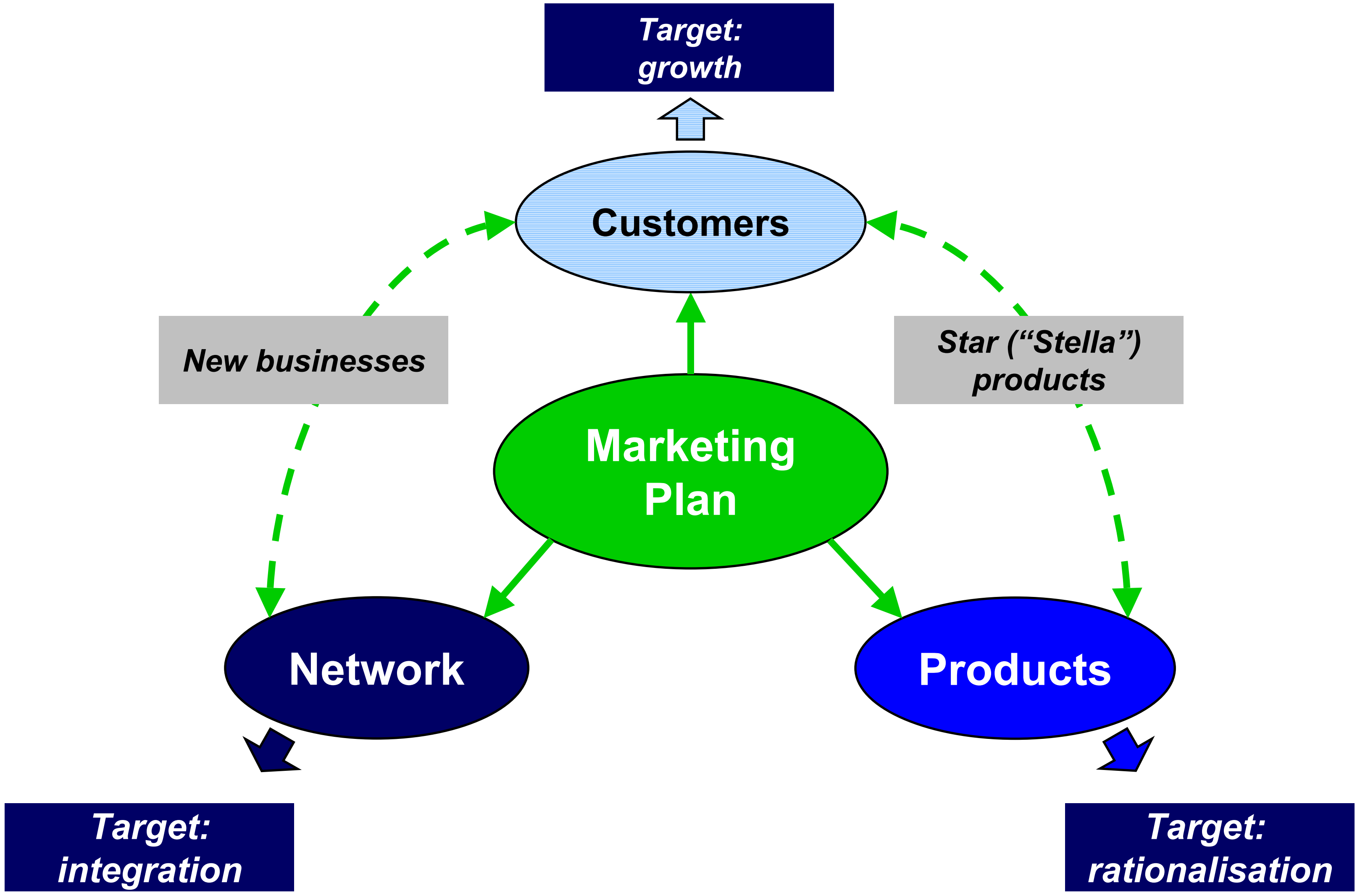
2006 marketing plan at a glance



Our priorities: Stella products and new businesses

Star ("Stella") products

- Development strategy already defined in 2005
- Selection criteria:

  strategic relevance, i.e. high-value products for our customers with a target of long-term fidelisation

  unit margin, i.e. products with a direct, positive impact on our P&L

- Focus on the number of new contracts rather than on total volumes/margins

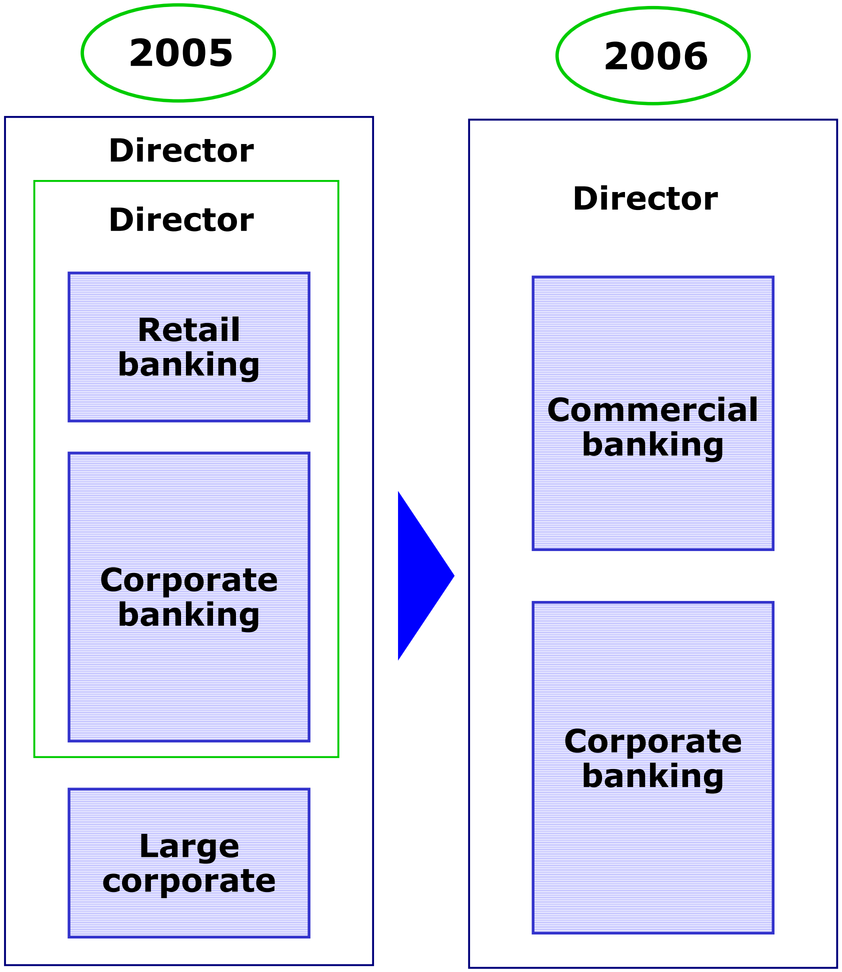
New businesses

- Launch of ***iExtraordinario!*** (services for non-EU people)
- Loans for ***'non-typical' employees***
- Development of new products devoted to ***young couples***
- Development of the ***ticket office*** service

A new organisational structure for corporate banking

Customer segmentation

€m	Turnover	No.	Loans € bln
Small businesses	0 – 5	86,000	5.3
Lower corporate	5–50	7,500	3.7
Upper corporate	50–250	3,500	2.8
Large corporate	> 250	1,000	5.7



Optimisation of operating processes in the branches network: the R.A.C.E. project

The starting point: a new customer segmentation

The R.A.C.E. project is based on a revised customer segmentation, aimed at an improved management of all customers

Main characteristics of marketing segmentation

- Segmentation based on the customer “value”: margin per customer is the most relevant variable
- Household as the main element for segmentation
- Exploitation of the Mass Market based on the customer’s potential value
- Over 850 new portfolios created in 2005

Targeted service levels and assignment to specialist account managers on the basis of customer effective future potential

Some examples of R.A.C.E. initiatives to free-up commercial time

Current accounts	▪ Launch of 'Nuova conti' project: time savings in the proposal and opening of a new CA ▪ Target: opening time more than halved
Printouts	▪ Printouts reduced by around 90 units through rationalisation and video availability ▪ 68% savings in back-office time and in the daily distribution of printouts
Current account closure	▪ Centralisation of process management ▪ Reduction of around 40 FTE employees in the network (under assessment)
Relationship management	▪ Standardisation of commercial actions and introduction of new marketing tools ▪ Automatisation of potential contact lists
Branch operating processes	▪ Reduction of cash management and time needed for cash balancing ▪ Overall time savings: 20-30%

Underperforming branches: approach and initiatives

BPM has identified the branches with returns below business targets in order to:
- increase efficiency
- improve commercial results

Actions:
- Continuous monitoring of operating results
- Full cost allocations to each unit
- Extraordinary initiatives

Timing	Initiatives	Results
As of November 2004	Identification of a first group of 88 POS: • commercial actions • strategic initiatives • space re-engineering • HR policies	After six months: • underperforming branches down 30% • positive impact on operating margin (about € 10m)
As of June 2005	Further 67 POS under monitoring	After four months: underpeforming branches down 20%

Bancassurance: agreement with Fonsai

By Mar. 2006

Sale of a 46% stake of Bipiemme Vita

By Dec. 2006

Sale of a further 4% stake

By Jun. 2007

Sale of a 1% (controlling) stake

Agreement highlights

5-YEAR BUSINESS PLAN

- 2006-10E premium CAGR: around 9%
- 2006-10E net profit CAGR: around 10%
- Fees for BPM commercial network: +60% (2006-2010)

NON-LIFE BUSINESS

- Co-operation agreement to be defined by YE2006
- Non-exclusive distribution agreement of Fonsai products

FINANCIAL PRODUCTS

- BPM Group becomes one of Fonsai's main partners for banking and financial products:

  asset management of technical reserves and property portfolio;

  BPM funds to be used for unit-linked products;

  trading, custodian and CA services under exclusive agreements

Private banking development

Bipiemme Private Banking SIM today

- 48 bankers
- € 3.5 bn of assets under management and custody (YE2005), up 11% vs. 2004
- € 23 m of total revenues, up 14.8% vs. 2004

Positive results in the first two years of operations, with strong value creation and customer fidelisation vs. BPM retail network

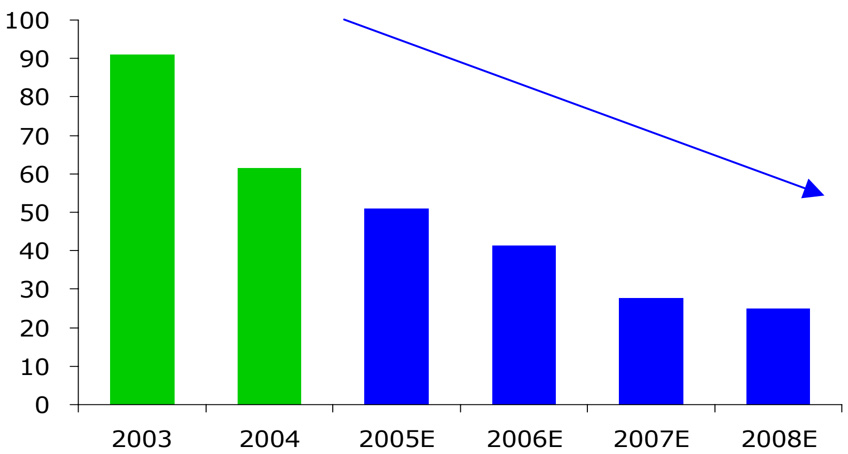
Key actions in 2006

- Assessment of further potential
- Analysis of upper retail customer for possible shift to private banking
- Fine tuning of pricing policy
- Valuation of potential spread and revenue increase

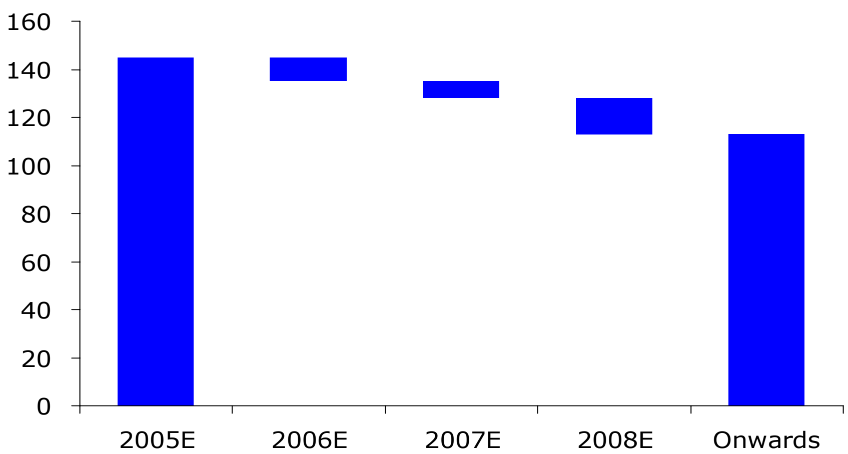
Rationalisation of IT costs

BPM starting point	Strategic plan program	Actions
▪ IT costs above peers' best practice ▪ Relevant IT capex in recent years	Reduction of IT costs through the assessment of alternative solutions	1. Internal rationalisation 2. Maximization of investments made 3. Efficiency recovery

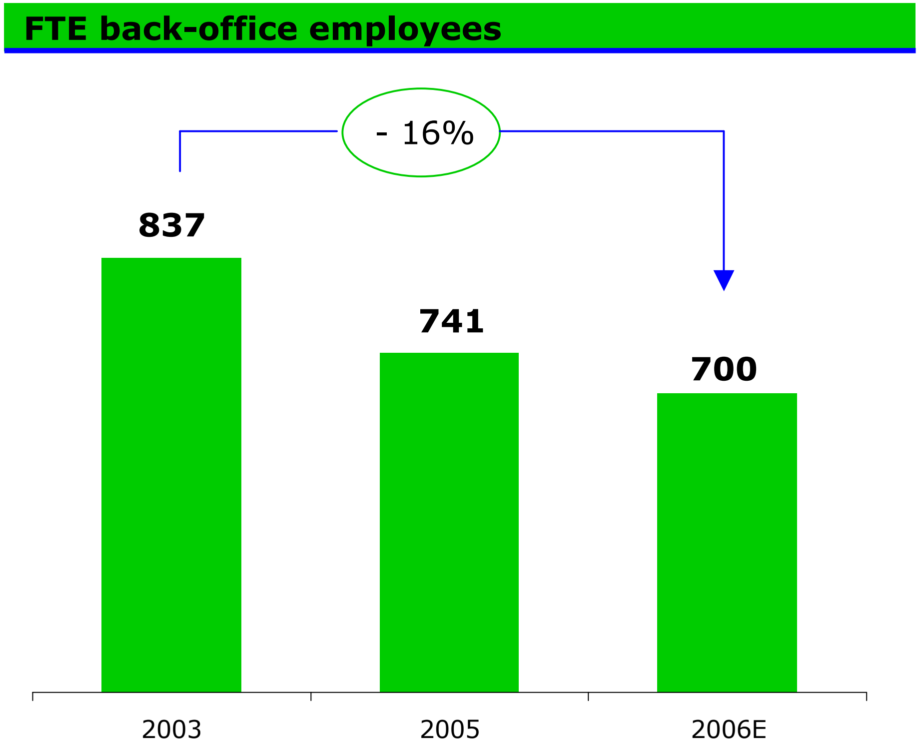
IT capex €m



IT spending reduction €m



Streamlining of back-office operations



- Back-office project target:
  re-engineering and rationalisation of operating processes in the headquarter to support the **shift of resources from centre to network**
- Initial focus on specific areas of back-office operations (i.e. securities, foreign activities etc.) with excellent results
- Further extension to the remaining areas with expected recovery of 20 more FTE units by YE2006
- 2006 key actions: centralisation of collateral administration; securities settlement moved to middle-office; optimisation of litigation management

Q&A session

BPM

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