

# **UBS Banking conference**

**The Italian Financial Services Conference 2006**

**Milan, 2 - 3 February 2006**

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**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

## Profile at a glance

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**BPM Group profile**

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**Financial highlights**

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**Strategic plan: progress to date  
and 2006 outlook**

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**Focus on 2006 actions and projects**

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# BPM profile at a glance

## Business profile

12<sup>th</sup> 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)

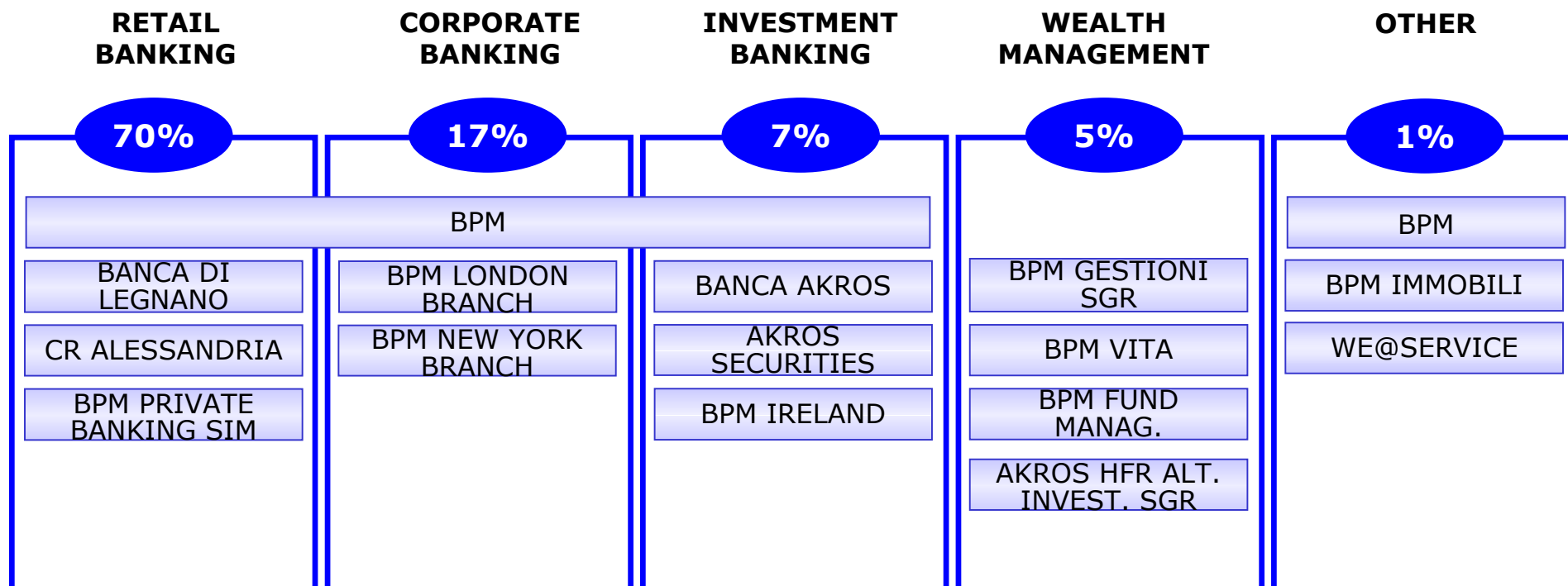
Direct deposits: €24.1 bn (up 6.2% vs. Dec. 2004)

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

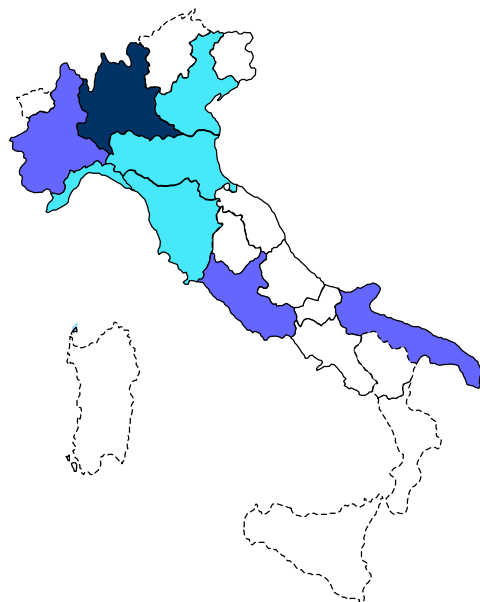
9M net profit: € 212.8 mln (up 86% YoY)

# Strong focus on retail and SMEs...

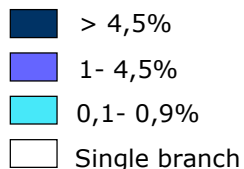
**Share of total revenues in 2004 (%)**  
 (100% = € 1,444 m)



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

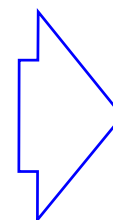


## Branch market share



Retail Branches: 695\*

Corporate and  
Private branches: 36



731 branches (Sept. 2005)

Region	Branches	% Mkt Sh Branches	% GDP	% Wealth (**)	% Companies
<b>Lombardy</b>	<b>454</b>	<b>7.6%</b>	<b>20.1%</b>	<b>39.1%</b>	<b>15.6%</b>
<b>Piedmont</b>	<b>92</b>	<b>3.5%</b>	<b>8.4%</b>	<b>8.2%</b>	<b>7.7%</b>
<b>Apulia</b>	<b>37</b>	<b>2.7%</b>	<b>4.7%</b>	<b>2.2%</b>	<b>6.5%</b>
<b>Latium</b>	<b>58</b>	<b>2.2%</b>	<b>10.3%</b>	<b>11.6%</b>	<b>9.1%</b>
<b>TOTAL</b>	<b>641</b>	<b>4.9%</b>	<b>43.5%</b>	<b>61.1%</b>	<b>38.9%</b>
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	<ul style="list-style-type: none"> <li>• Significant volume growth (deposits +5,1%, loans +9.8%, namely for the medium-long term share)</li> </ul>
Net commissions	396.1	354.8	11.7	
Other non interest revenues	139.3	74.6	86.8	<ul style="list-style-type: none"> <li>• Increased AuM volumes and fees on bond placement</li> </ul>
<b>Total income</b>	<b>1,088.3</b>	<b>887.7</b>	<b>22.6</b>	
Net adj. and provisions	(59.3)	(79.7)	(25.7)	<ul style="list-style-type: none"> <li>• Excellent results in investment banking and trading activities (mainly relative to Akros)</li> </ul>
<b>Net income from financial operations</b>	<b>1,029.1</b>	<b>807.9</b>	<b>27.4</b>	
<b>Net income from financial and insurance operations</b>	<b>1,059.5</b>	<b>814.6</b>	<b>30.1</b>	<ul style="list-style-type: none"> <li>• Up 14,.6% incl. CR Ales.</li> </ul>
Operating costs	(719.4)	(639.4)	12.5	
<b>Ordinary income</b>	<b>340.7</b>	<b>175.4</b>	<b>94.3</b>	<ul style="list-style-type: none"> <li>• Up 5.4% on a like-for-like basis, mainly due to provisions for risks &amp; charges and amortization</li> </ul>
Tax on on-going operations	(131.7)	(67.5)	95.2	
<b>Profit from on-going operations</b>	<b>209.0</b>	<b>107.9</b>	<b>93.7</b>	<ul style="list-style-type: none"> <li>• Up 75.3% including CR Alessandria line-by line consolidation in 2004</li> </ul>
<b>Net income</b>	<b>212.8</b>	<b>114.4</b>	<b>86.1</b>	

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

# Asset quality remains well above sector average

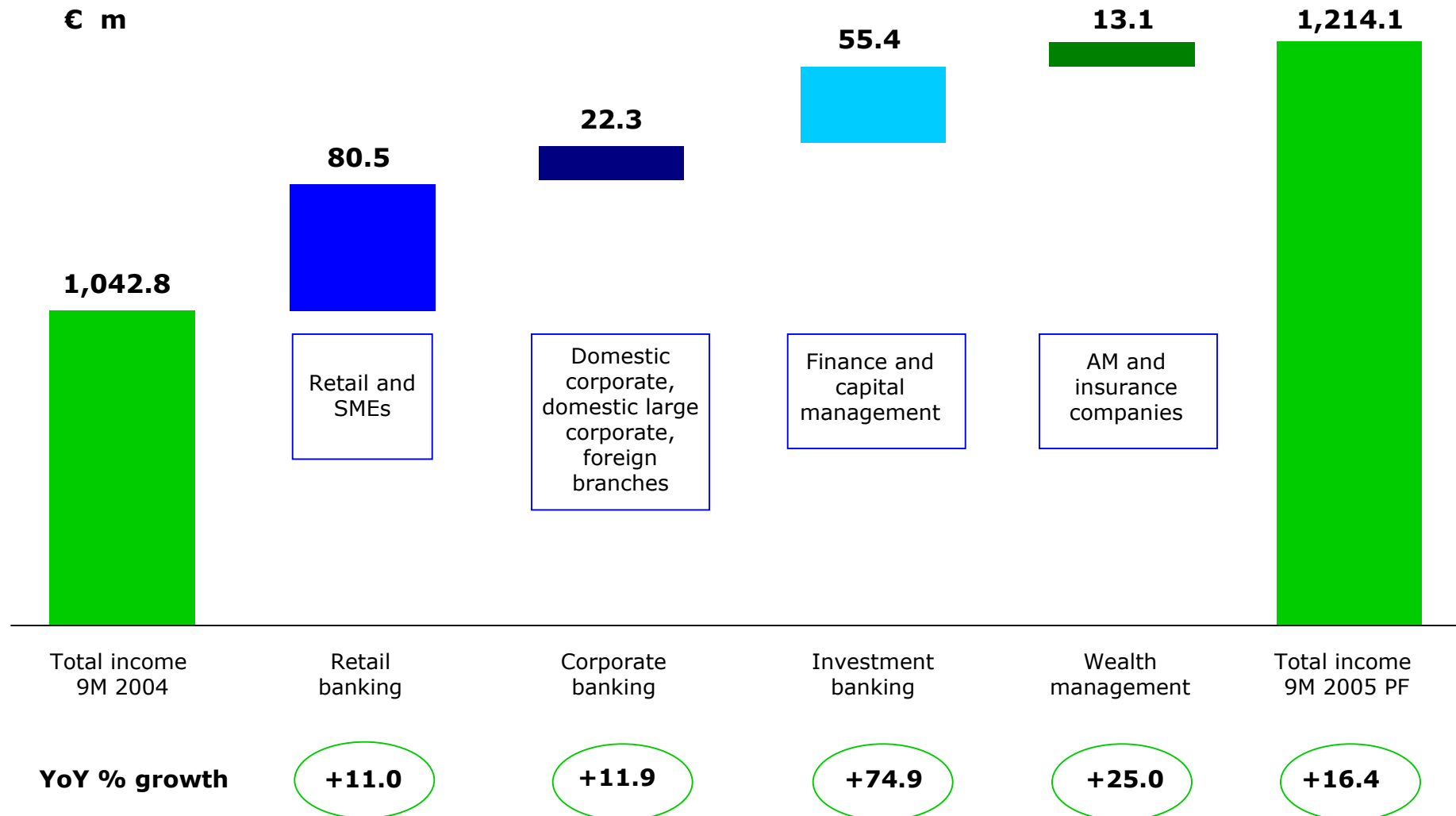
- Marginal impact of FTA on non-performing loans
- Outstanding asset quality, even strengthened after the adoption of IAS/IFRS standards

€ 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%
<b>Total coverage</b>			<b>45.2%</b>
Net performing loans	19,545.2	97.9%	0.84%

# IAS/IFRS FTA: estimated impact on capital ratios

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

# Total income growth by business unit at 30<sup>th</sup> September 2005



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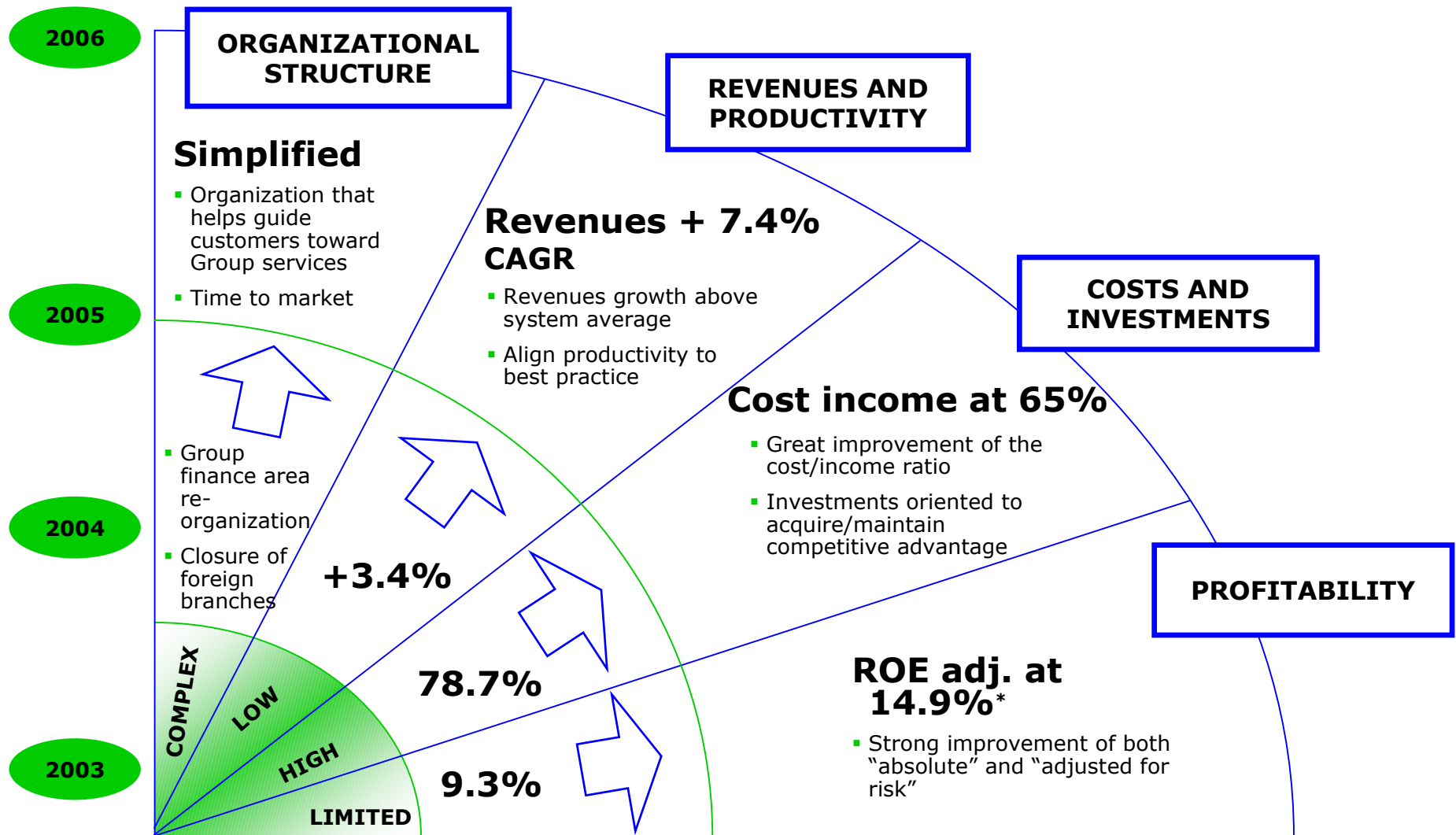
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# 2004-06 Strategic Plan objectives



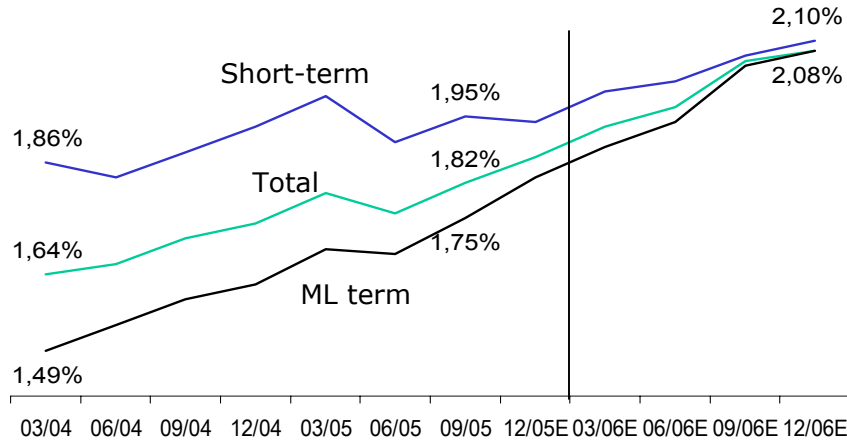
\* Adjusted for goodwill amortisation and extraordinary income

# Main achievements to date and 2006 priorities

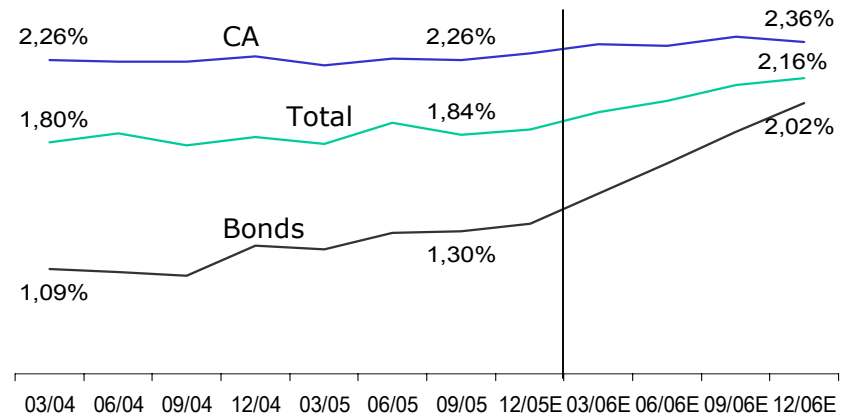
2004	2005	2006E
<p>Start-up of plan implementation in H2</p>	<p>Commercial push: from temporary campaigns to steady focus on product / client</p>	<p>Focus on growth sustainability: coherent monitoring system of intermediate results</p>
<p>Organisational structure:</p> <ul style="list-style-type: none"> <li>restructuring of finance area and foreign branches</li> <li>development of the R.A.C.E. project (optimisation of network operating processes)</li> </ul>	<p>Implementation of the R.A.C.E. project</p>	<p>Launch of Star ("<i>Stella</i>") products</p>
	<p>Group structure rationalisation:</p> <ul style="list-style-type: none"> <li>disposal of majority stake in BPM Private Equity</li> <li>agreement with Aedes for real estate funds</li> <li>bancassurance agreement with Fonsai</li> </ul>	<p>Progressive build-up of IT cost savings</p>
	<p>Organisational structure:</p> <ul style="list-style-type: none"> <li>strengthening of commercial network (new branches)</li> <li>personnel shift from HQ to network</li> <li>restructuring completion for finance area and foreign branches</li> </ul>	<p>Organisational structure:</p> <ul style="list-style-type: none"> <li>CR Alessandria integration</li> <li>back-office streamlining</li> <li>Group real estate rationalisation</li> </ul>

# 2006 market-share targets

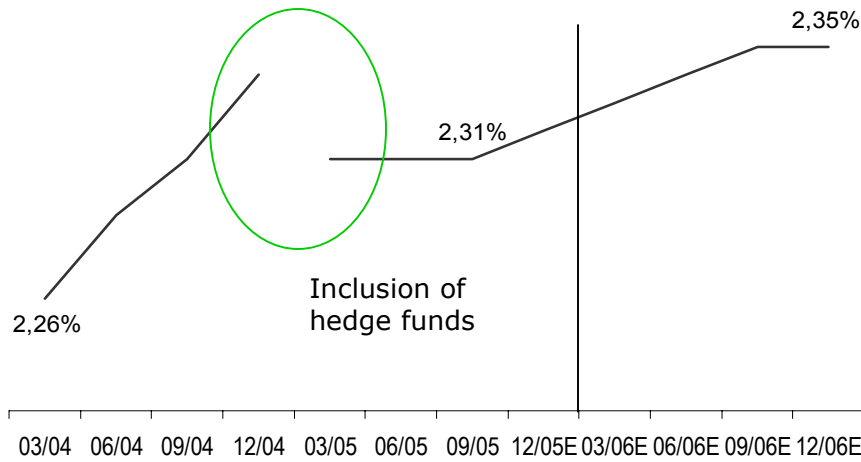
## Domestic loans



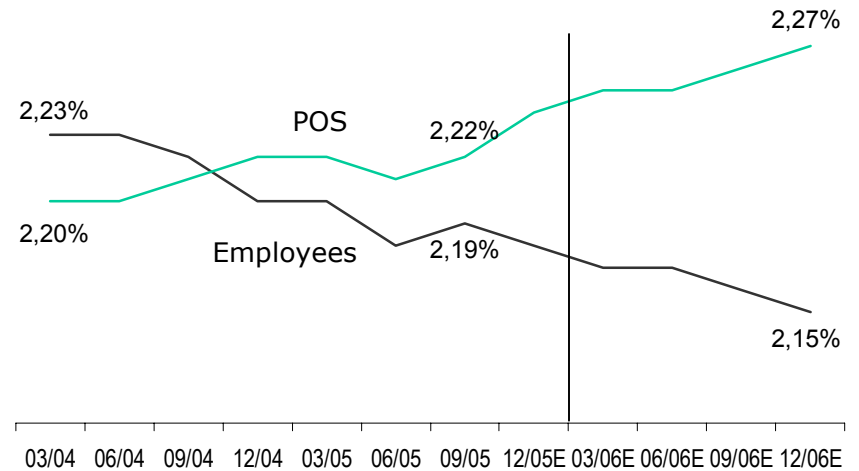
## Domestic customer deposits



## Mutual funds

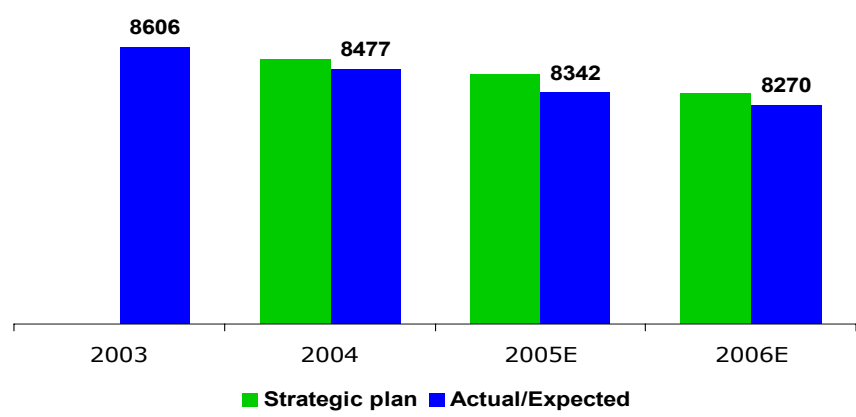


## Employees and points of sale

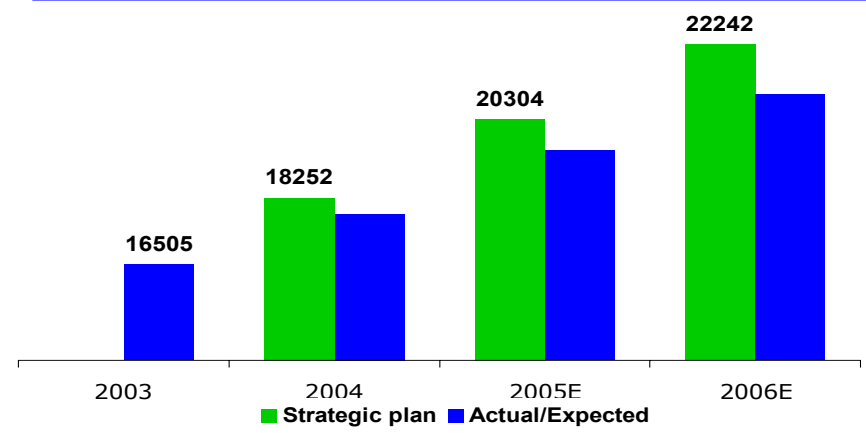


# Strategic plan targets and achievements

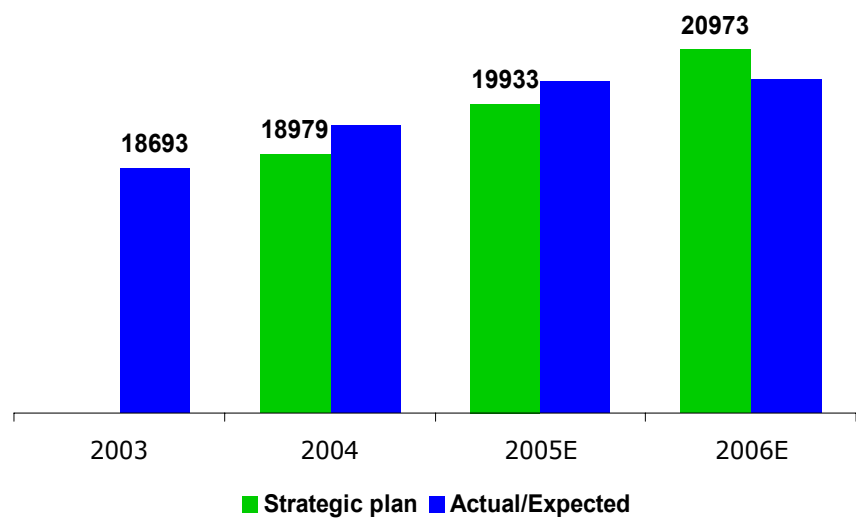
## Employees



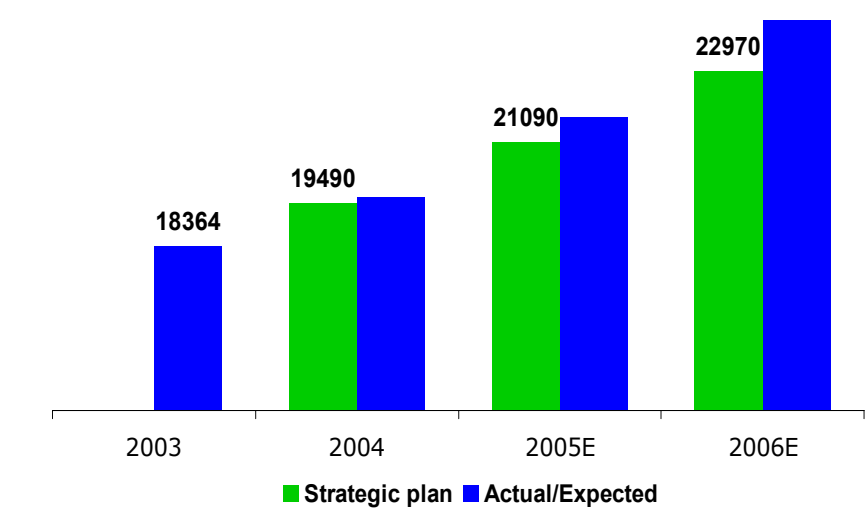
## AUM €m



## Deposits €m



## Loans €m



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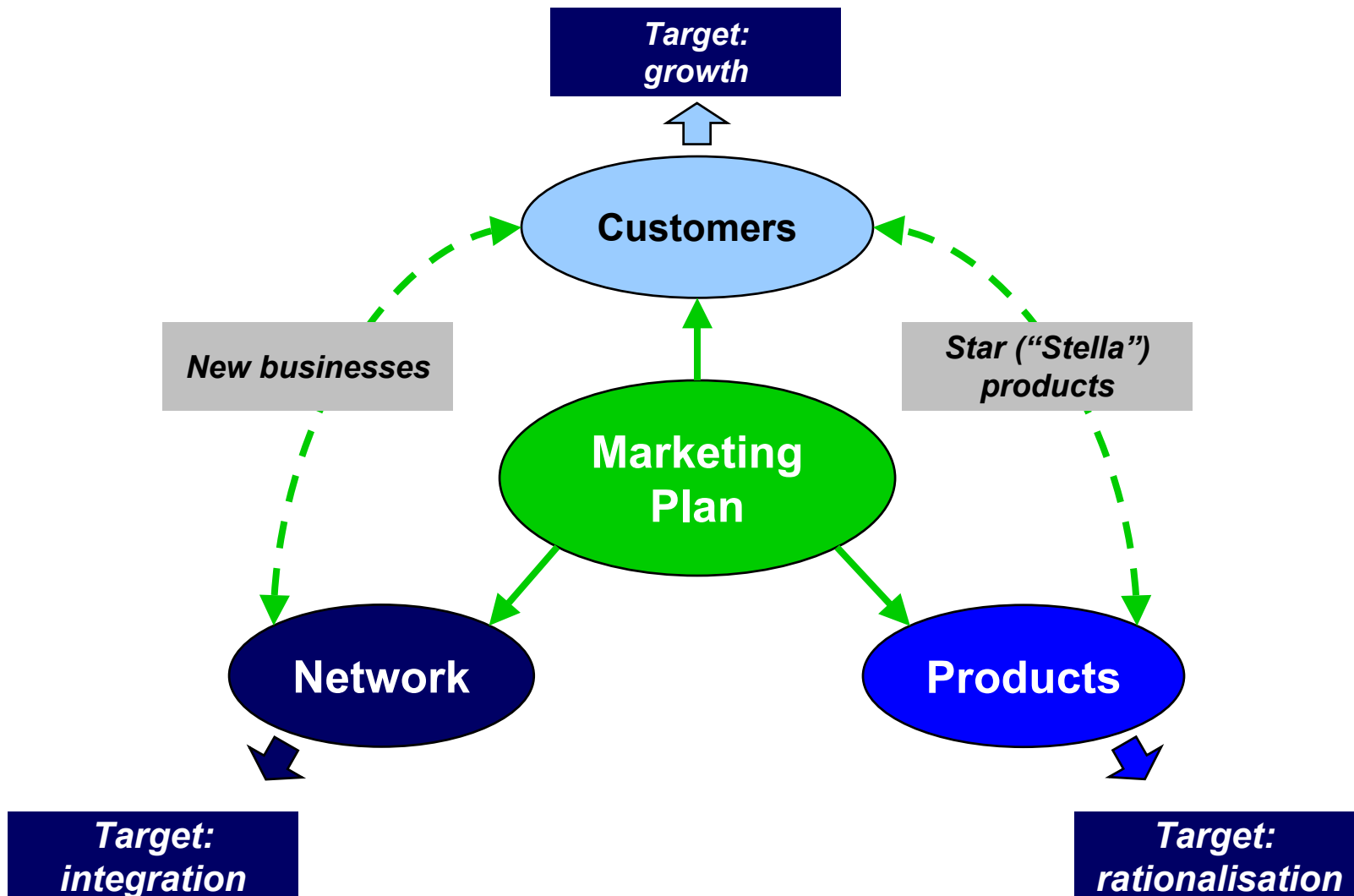
**Strategic plan: progress to date  
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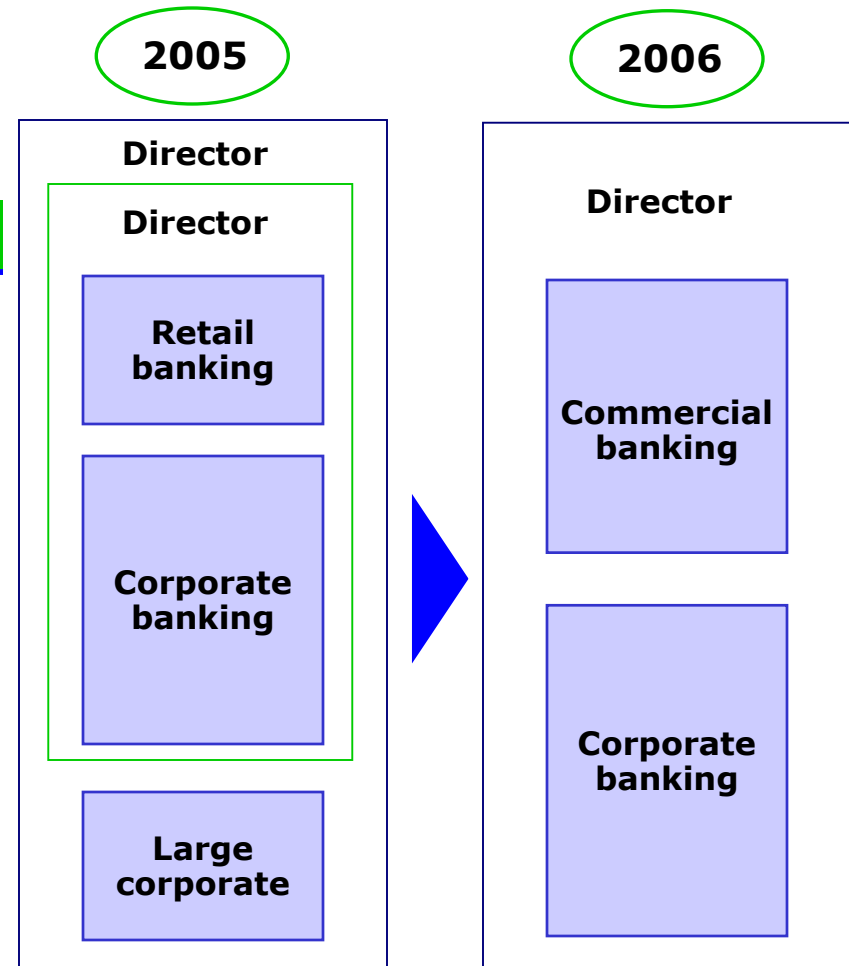
# 2006 marketing plan at a glance



# 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



# 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

# Rationalisation of IT costs

## BPM starting point

- IT costs above peers' best practice
- Relevant IT capex in recent years

## Strategic plan program

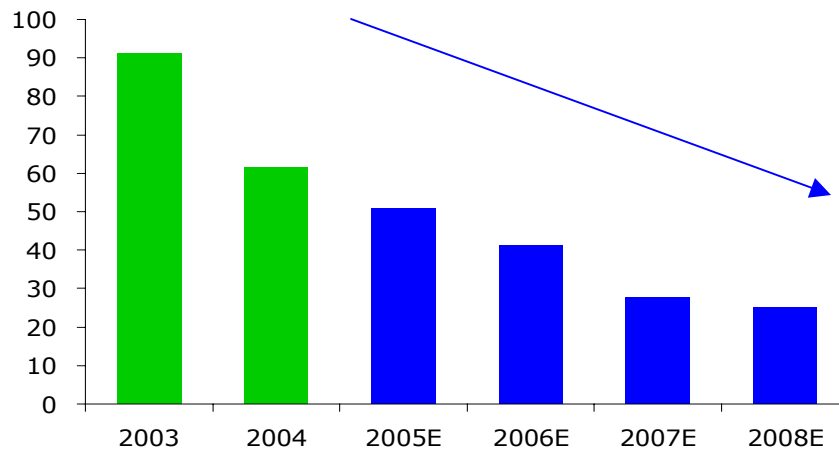
Reduction of IT costs through the assessment of alternative solutions

## Actions

1. Internal rationalisation
2. Maximization of investments made
3. Efficiency recovery

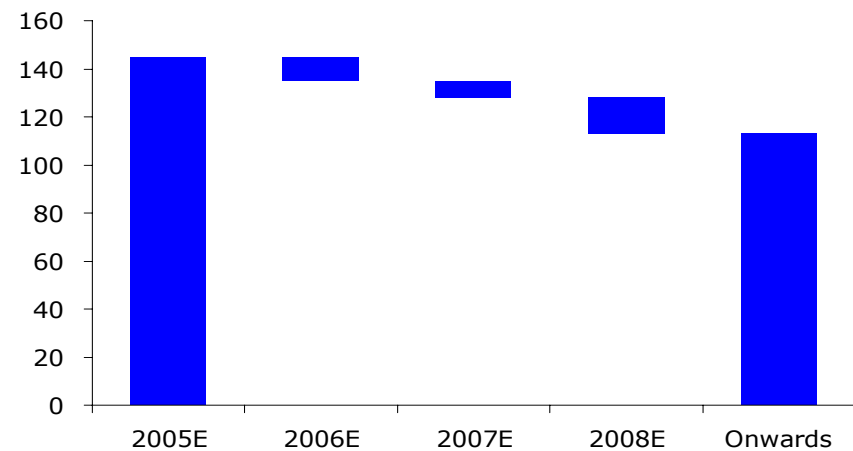
## IT capex

€m



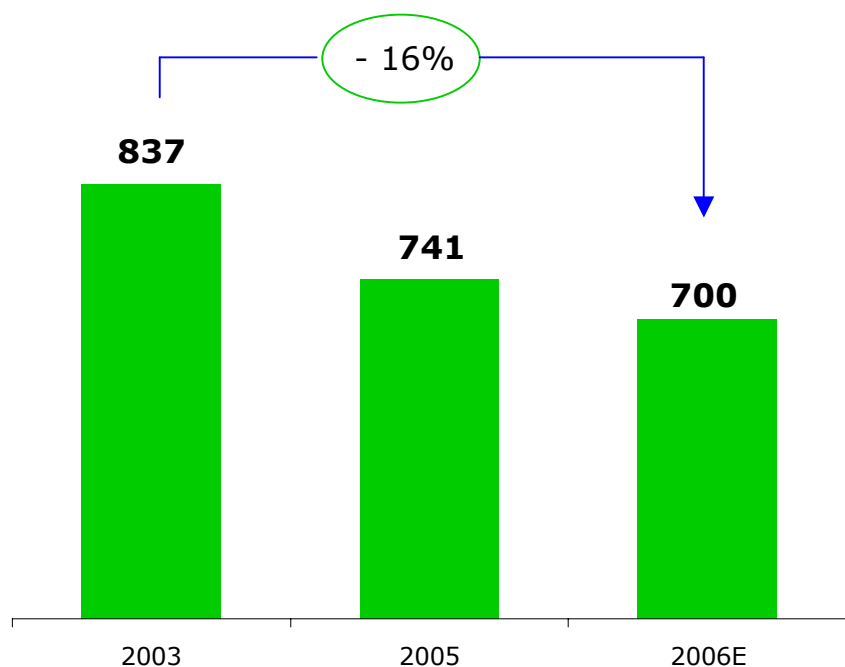
## IT spending reduction

€m



# Streamlining of back-office operations

## FTE back-office employees



- 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



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