

# **DB Italian Bank conference**

**Top of the Pop**

**London, 24th May 2006**



**Banca Popolare di Milano**

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***This presentation includes accounts, which have been prepared utilizing IAS/IFRS standards as in force at 31 March 2005 and compliant with the principle adopted in the 2005 Annual Report of the BPM Group at 31 December 2005. Readers are advised to refer to the 2005 Annual Report for a full review of the IAS/IFRS principles adopted.***

***All figures at 31 March 2005 have been restated utilising the IAS/IFRS principles.***

# Agenda

## Profile at a glance

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**BPM Group profile**

**slide 4**

**Q1 06 financial highlights**

**slide 10**

**Outlook**

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**slide 25**

# BPM profile at a glance

## Business profile

12<sup>th</sup> banking group in Italy

### **Strong local branches net :**

736 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 31.3.06

Customer loans: €23.0 bn (up 12.1% vs. March 2005)

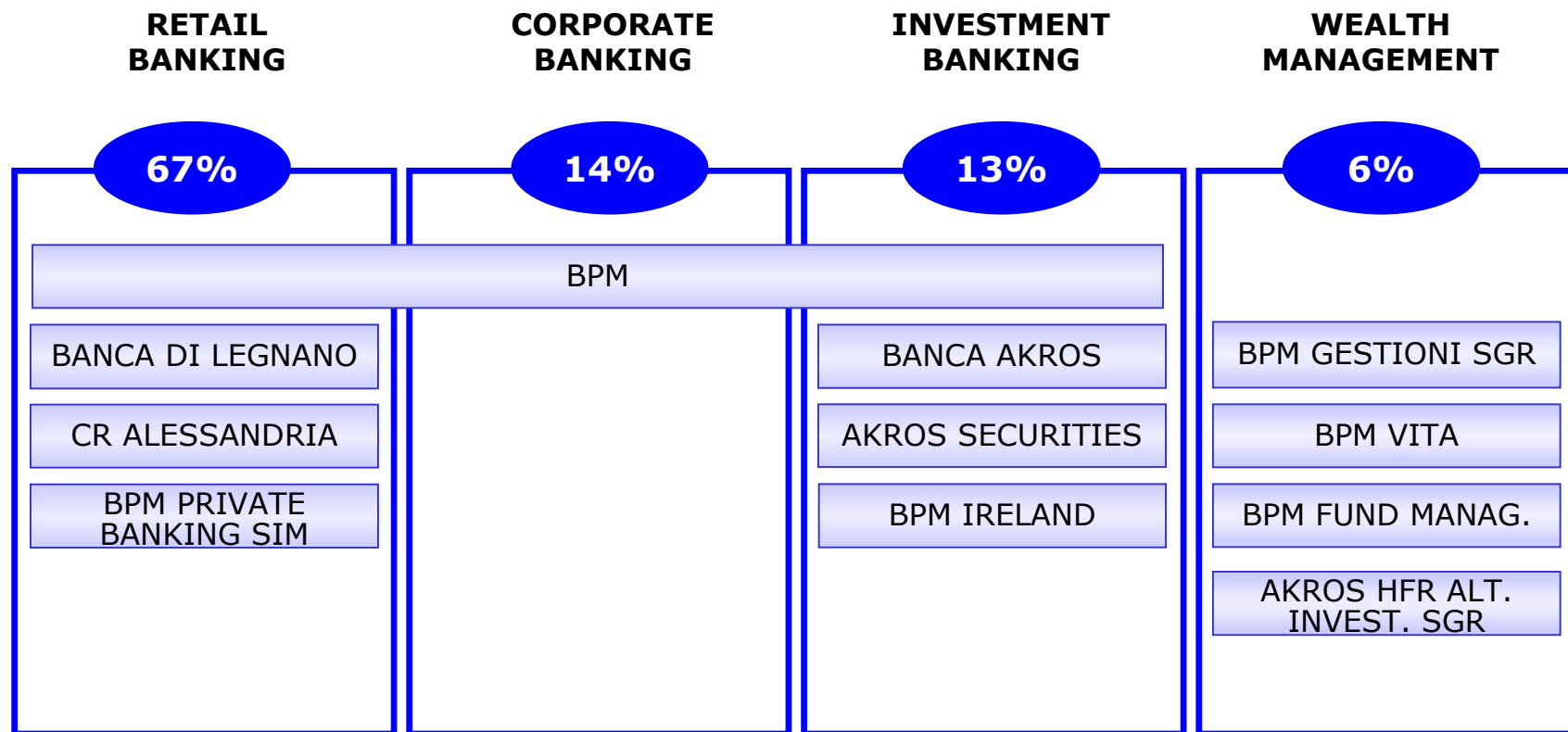
Funding: €27.8 bn (up 12.7% vs. March 2005)

Indirect deposits: € 38.5 bn (up 8.1% vs. March 2005) of which AUMs € 20.6 bn (up 8.4%) with a market share of 2.21% in mutual funds

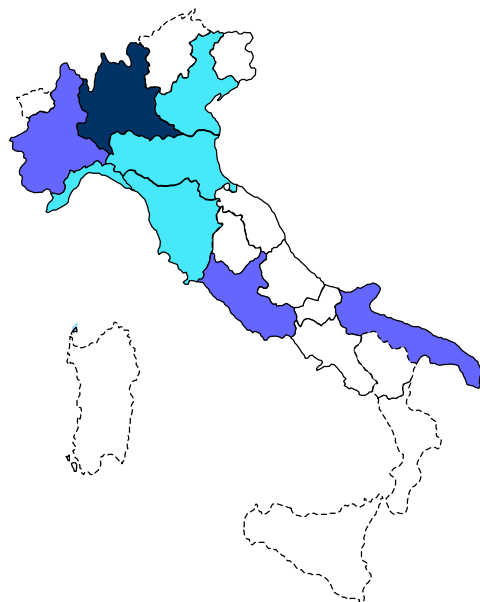
Net profit: € 96 mln (up 25.7% YoY)

# Strong focus on retail and SMEs...

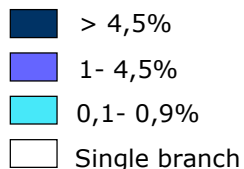
Share of total revenues in Q1 2006  
(100% = € 445,6 m)



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

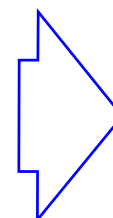


## Branch market share



Retail Branches: 703\*

Corporate and  
Private branches: 33



736 branches (at 31 Dec. 2005)

Region	Branches	% Mkt Sh Branches	% GDP	% Wealth (**)	% Companies
Lombardy	462	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	57	2.2%	10.3%	11.6%	9.1%
<b>TOTAL</b>	<b>648</b>	<b>4.9%</b>	<b>43.5%</b>	<b>61.1%</b>	<b>38.9%</b>
Other regions	55	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 (513), Banca of Legnano (106), CR Alessandria (82), Banca Akros (1), [WE@bank](#) (1)

(\*\*) Direct and indirect funding

# 2005 results in line with targets

€ m	2004		2005		2006
	BP	Actual	BP	Actual	BP
<b>Total income</b>	<b>1,438</b>	<b>1,446</b>	<b>1,592</b>	<b>1,620</b>	<b>1,757</b>
Total costs	(1,053)	(1,043)	(1,083)	(1,097)	(1,088)
<b>Operating income</b>	<b>385</b>	<b>403</b>	<b>507</b>	<b>523</b>	<b>669</b>
<b>Net income</b>	<b>97</b>	<b>120</b>	<b>196</b>	<b>259</b>	<b>300</b>
EPS	0.25	0.30	0.47	0.62	0.74
Cost income	73.2%	72.1%	68.0%	67.7%	61.9%
ROE adjusted	6.6%	7.5%	8.9%	11.7%	12.4%

*All data are IAS restated*

- 2004 and 2005 strategic plan targets fully delivered
- 2005 net income benefits – among others - from a favourable trend in the cost of credit
- Personnel costs affected by higher-than-expected one-off items, partially offset by lower administrative expenses and depreciation

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**Q1 06 financial highlights**

**slide 10**

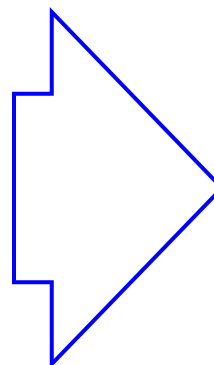
**Outlook**

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**slide 25**

# Q1 2006 results: highlights

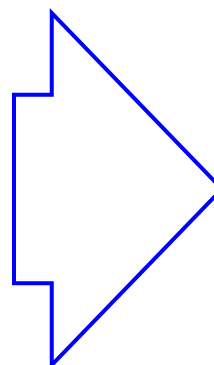
€ m	Mar. 06	Mar. 05	%
Loans	23,037	20,549	+12.1
Funding	27,808	24,667	+12.7
Assets in custody	17,808	16,543	+7.6
Asset management	20,666	19,060	+8.4



Robust growth of loans confirmed, mainly driven by mortgages

Funding benefits from new bond issues (EMTN program)

€ m	Q1 06	Q1 05	%
Interest income	200	193	+3.7
Total income	446	406	+9.9
Operating profit	185	145	+27.3
Net income	96	77	+25.7

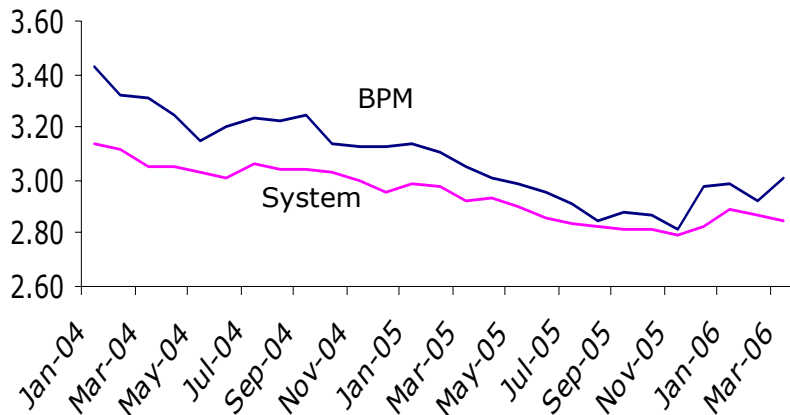


Volume increase and commission growth support bottom line results

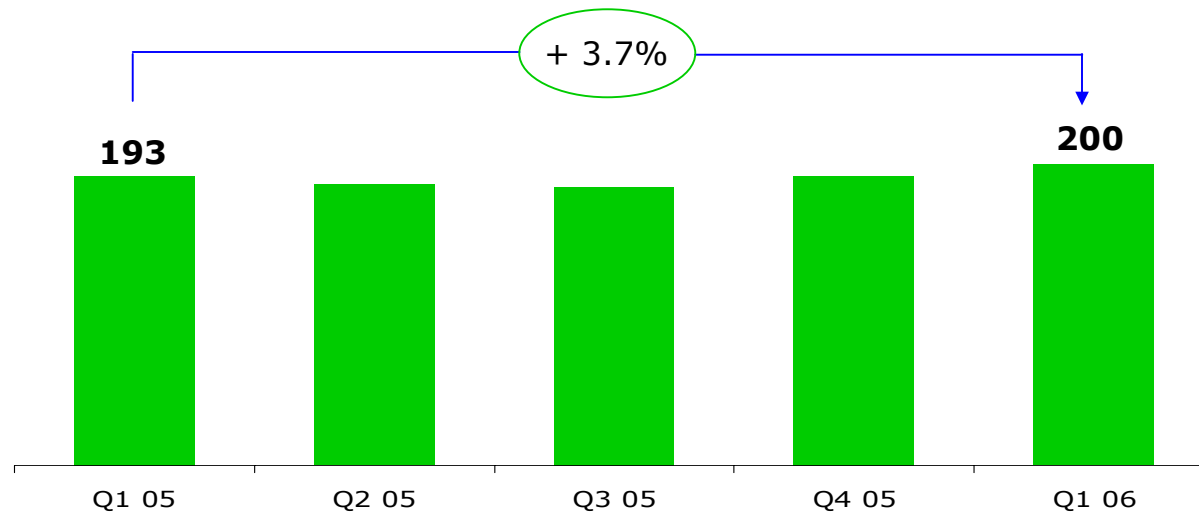
Positive contribution of financial transactions

# Interest margin: volume growth offsets spread decline

## Spread BPM vs system

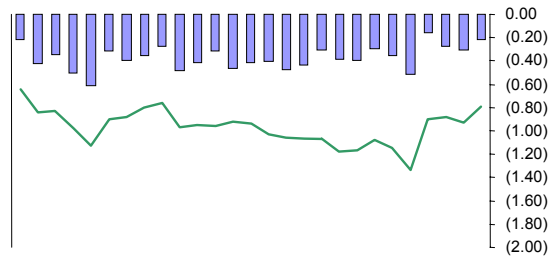


- Positive effect of volumes, particularly in the ML term segment
- Good performance YoY despite weakening spread
- Interest rate spread down 12 bps versus 2005 but improving QoQ (+12 bps)
- BPM spread still 11 bp above the system average during the quarter

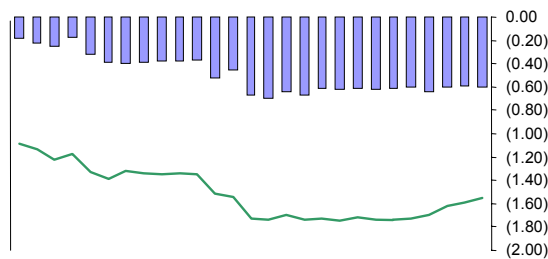


# BPM loan rate gap vs. system average

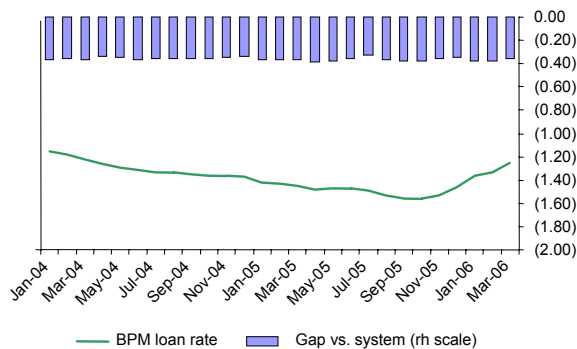
Short term loans



Medium term loans



Long term loans

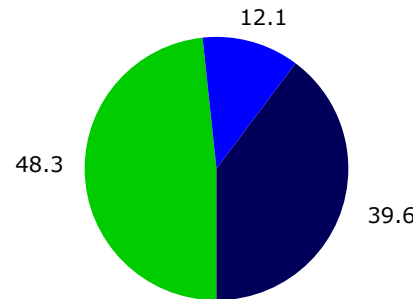


— BPM loan rate    ■ Gap vs. system (rh scale)

- Good resilience of BPM rate differential on LT loans despite the sharp increase in mortgage portfolio
- Negligible impact from differential worsening on medium-term loans (duration 1 to 5 years) due to modest weight on total (around 12%)
- Improving trend for all segments in the last quarter

Breakdown at Jan. 04

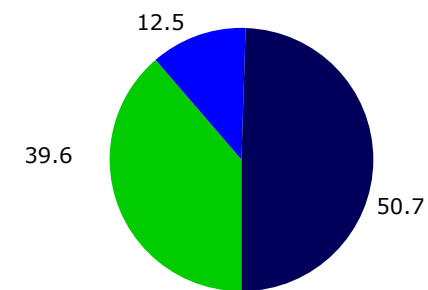
%



■ ST loans ■ MT loans ■ LT loans

Breakdown at Mar. 06

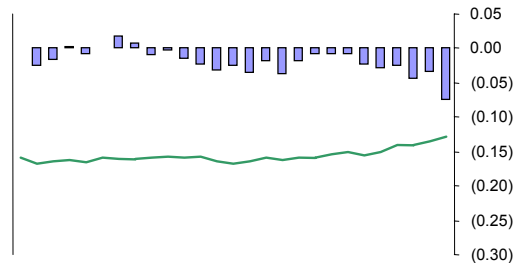
%



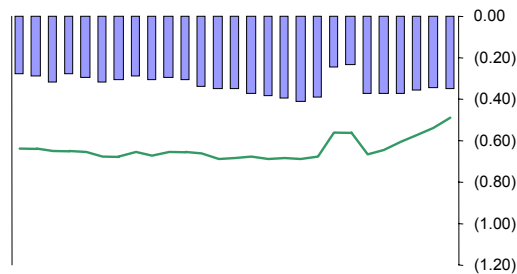
■ ST loans ■ MT loans ■ LT loans

# BPM deposit rate gap vs. system average

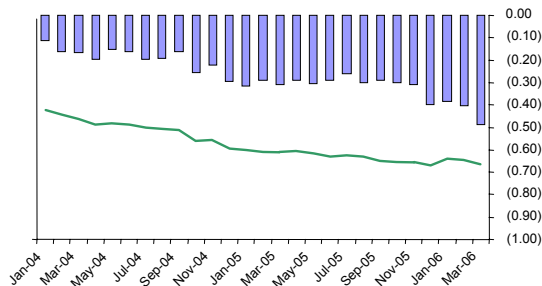
Sight deposits



Short term deposits



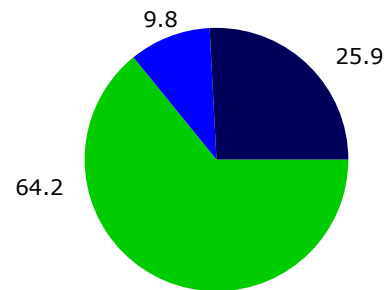
ML term deposits



— BPM deposit rate    ■ Gap vs. system (rh scale)

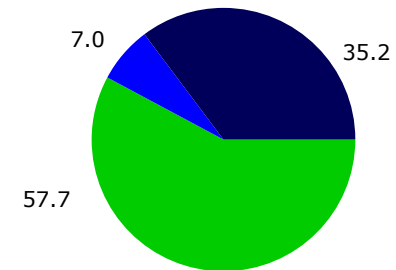
- Improvement in BPM rate differential on medium-long term funding benefits from the issue of structured bonds
- Good trend in the last few months, particularly in sight and medium-long term deposits
- Resilience of gap on sight deposits and short-term funding keeps BPM overall spread above the system average

Breakdown at Jan. 04    %



■ sight deposits    ■ ST funding    ■ MLT funding

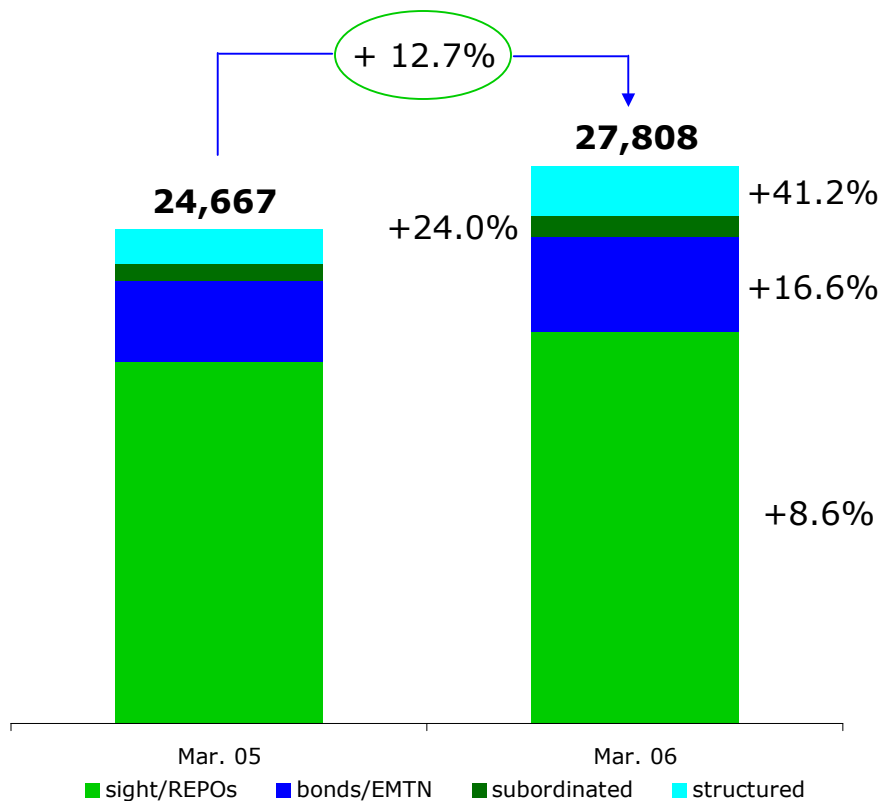
Breakdown at Mar. 06    %



■ sight deposits    ■ ST funding    ■ MLT funding

# Significant upsurge of ML term component of funding

## Customer deposits € m

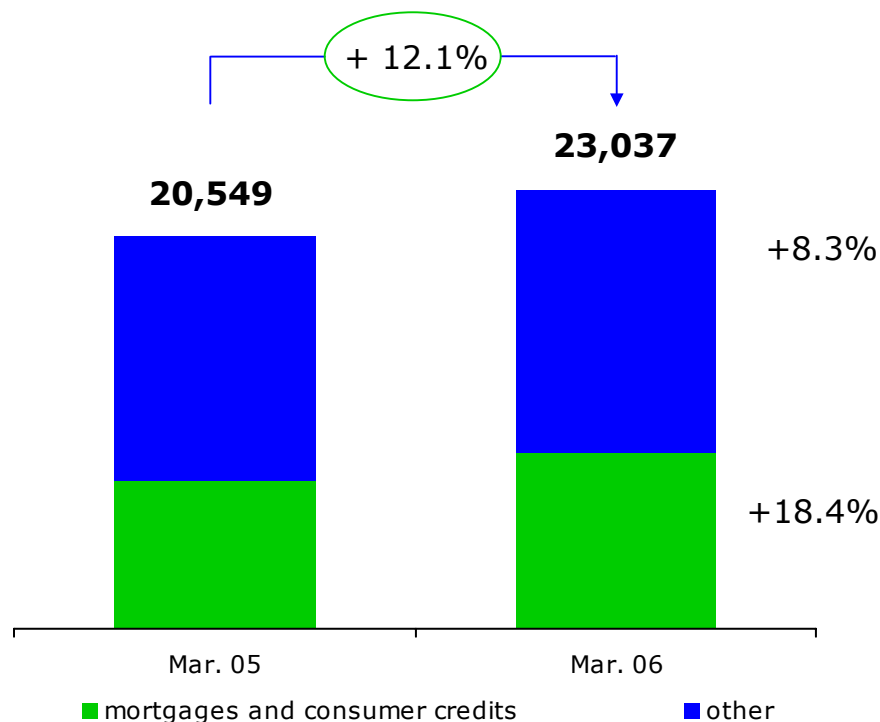


According to IFRS4, funding includes unit linked and index linked products

- Customer funding (net of EMTNs, insurance products and foreign branches) up 7.1% YoY
- YoY positive trend confirmed in the quarter as well (+4.0% vs. December 2005)
- Relevant rise in the ML term component of deposits (+24% to € 8.3 bn)
- New issues amounting to € 1.4 bn in Q1, of which € 1.2 bn under EMTN programme
- Market share: 2.09% vs 1.83% (February figures)
- Foreign branches' funding at 31 March 2005: € 548 m

# Loans: mortgages expansion continues

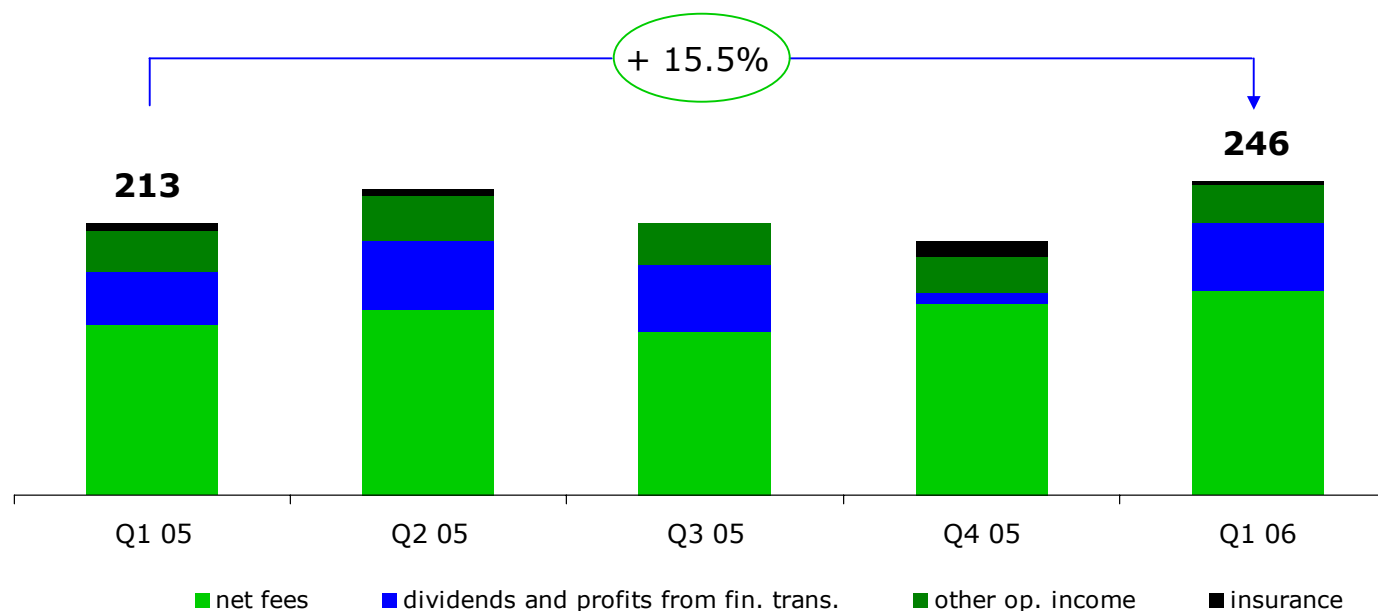
## Customer loans € m



- Strong loan growth thanks to mortgages and consumer credits (+18.4% to € 9.2 bn)
- Positive trend in mortgage portfolio confirmed QoQ as well (+6.6%)
- Granted new mortgages: over € 900m in the quarter
- Market share at 1.86% from 1.80% (February figures)
- Foreign branches' loans at 31 March 2005: € 1.096 bn

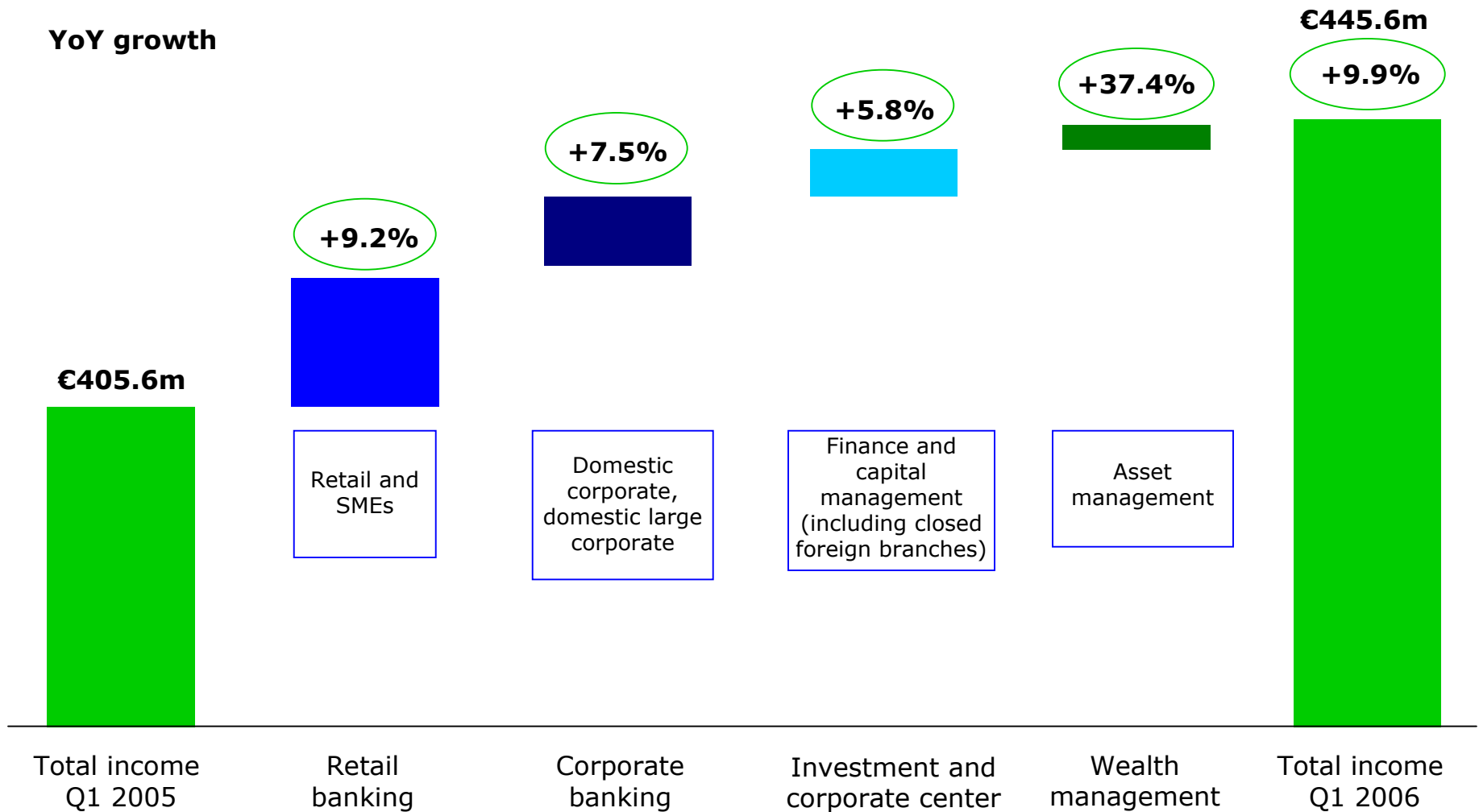
# Non-interest income and insurance

- Net commissions pushed by growth in assets under management, higher volumes of operations and trading activity, as well as the positive impact of unit price increase (as of 1 January 2006)
- Good contribution from up-front fees on third-party bond placement (up € 4.5 m YoY or 48.9%)
- Financial performance grows to € 53 m (+28.8%), mainly as an effect of fair-value adjustments to financial assets and positive trend in investment banking activities



# Total income growth by business unit

YoY growth

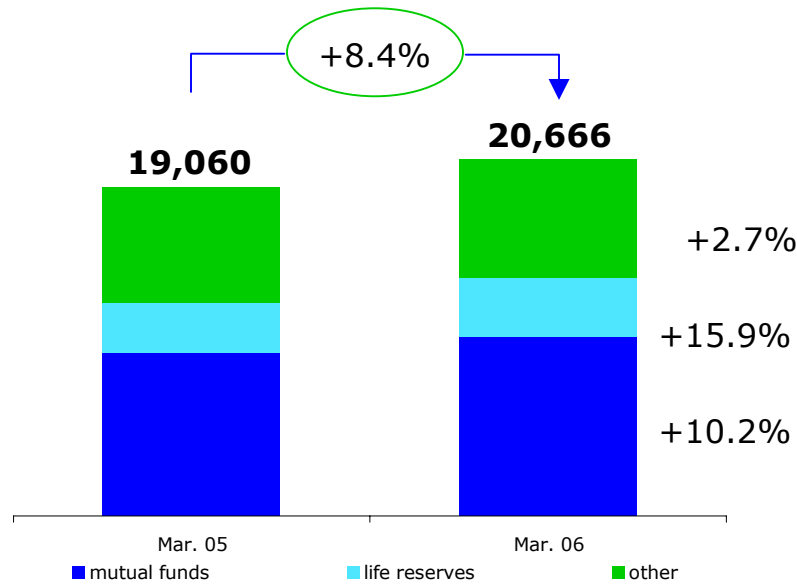


# Total AUMs still on the rise

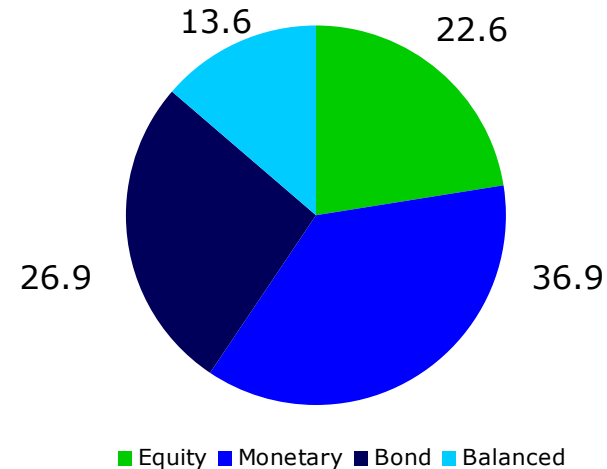
- Positive trend of mutual funds (+10.2% YoY, +1.1% QoQ)
- Quarterly net inflow for € 141 mln
- Significant growth of insurance reserves reiterated: up 15.9% at € 3.4 bln

- Market share of SGR funds at 2.21%, declining from 2.31 YoY due a change in reference basis of market data
- Switch to more profitable segments continues: equity and balanced funds over 36% of total vs. 29% in March 2005

## Assets under management € m

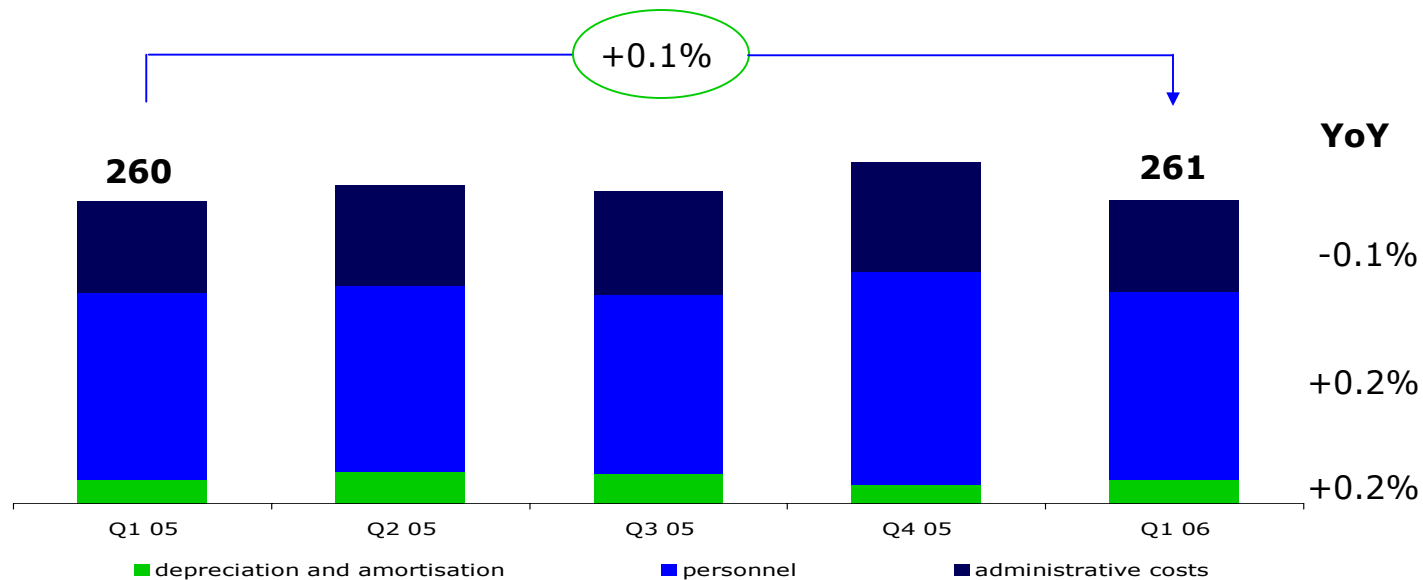


## Fund breakdown %

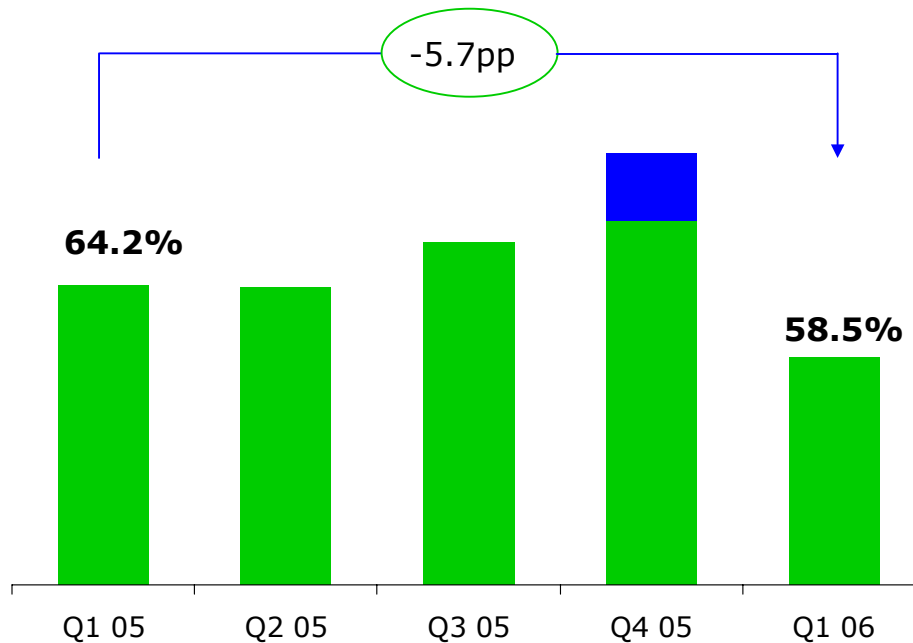


# Strict cost discipline

- Costs under control both in the quarter and year-on-year
- Personnel costs basically in line with the previous year at € 161 m, including € 4.2 m for by-laws earnings distribution to employees
- Slight decrease in administrative expenses (-0.1%) despite significant upsurge in volumes and continuing growth in the number of branches
- Positive effect of closure of foreign branches: operating costs at € 2.8 m in Q1 2005



# Sharp decline in the cost income ratio



Despite some volatility on a quarterly basis the cost income ratio shows a consistent declining trend, consistent with the Group strategic plan target

Q4 2005 hit by one-off operating costs (€ 21m)

	Mar. 06	Mar. 05	Chg	%
<b>Employees</b>	8,440	8,551	-111	-1.3
<b>Points of sale</b>	733	725	+8	+1.1

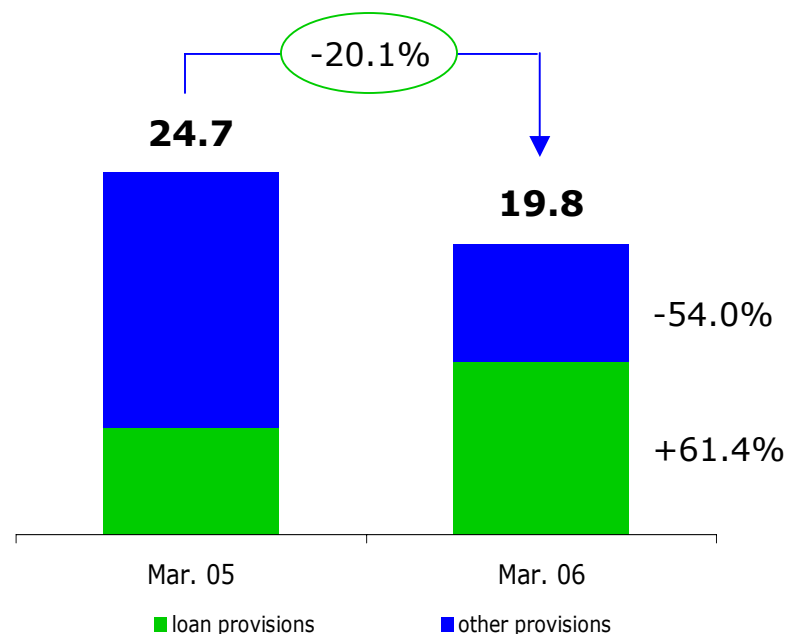
# Provisions and adjustments

- Outstanding asset quality with net NPL ratio at 0.5% and total net doubtful loan ratio at 2.4% (vs. 0.6% and 2.3% respectively at YE2005)
- Total annualised cost of credit at 34 bps vs.48 bps in Q1 2005 and 50 bps in FY2005

**31.03.06**      **%**      **Ratio**      **Coverage**

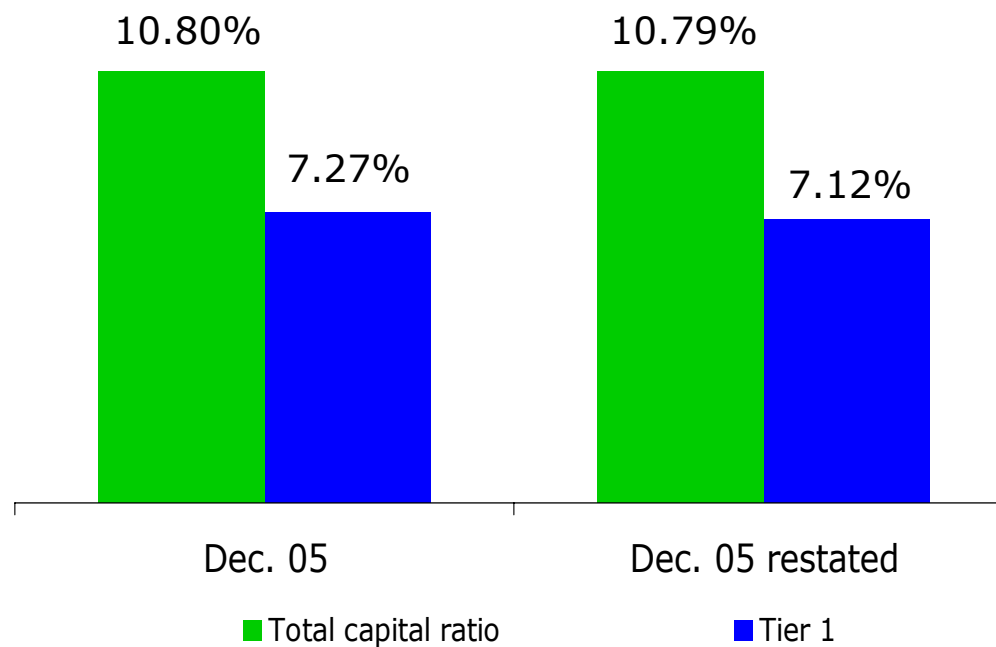
<b>Tot. doubtful loans</b>	2.4	38.6	
Net NPL	0.5	69.3	
Watch list	0.9	13.6	
Restructured loans	0.4	25.5	
Overdue loans	0.5	0.0	
<b>Performing loans</b>		<b>0.75</b>	

**Provisions and adjustments**      **€ m**



# Capital ratios

## Capital ratios



- Capital ratios at 31 December 2005 have been restated according to Bank of Italy revised rules issued in April 2006

# Q1 06 results: reclassified Group P&L

€ m	Q1 06	Q1 05	% chg.
<b>Interest income</b>	<b>199.8</b>	<b>192.7</b>	<b>3.7</b>
<b>Net fees and commissions</b>	<b>160.8</b>	<b>134.1</b>	<b>19.9</b>
Dividens and profits from financial transactions	52.7	40.9	29.0
Other operating income	29.8	32.7	(8.7)
<b>Banking income</b>	<b>443.2</b>	<b>400.4</b>	<b>10.7</b>
Income from insurance operations	2.4	5.3	(54.0)
<b>Total income</b>	<b>445.6</b>	<b>405.6</b>	<b>9.9</b>
Staff costs	(161.3)	(160.9)	0.2
Administrative costs	(78.7)	(78.8)	(0.1)
Depreciation & amortisation	(20.8)	(20.8)	0.2
<b>Operating profit</b>	<b>184.8</b>	<b>145.2</b>	<b>27.3</b>
Net adjustments to loans and fin. assets	(11.8)	(7.3)	61.4
Net provisions for risks and charges	(8.5)	(18.6)	(54.3)
Associates, investments and goodwill	0.6	1.3	(53.8)
<b>Profit/loss from current operations before tax</b>	<b>165.1</b>	<b>120.4</b>	<b>37.0</b>
Income tax for the period	(66.7)	(44.7)	49.1
<b>Net profit/loss for current operations</b>	<b>98.4</b>	<b>75.7</b>	<b>29.9</b>
Profit/loss from activities to be disposed of (net of tax)	0.1	2.4	(94.1)
<b>Net profit/loss for the period</b>	<b>98.5</b>	<b>78.1</b>	<b>26.1</b>
Minorities	(2.1)	(1.4)	51.3
<b>Group net profit/loss for the period</b>	<b>96.4</b>	<b>76.7</b>	<b>25.7</b>

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# 2006 key targets

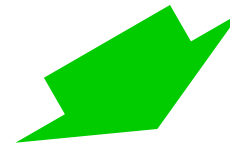
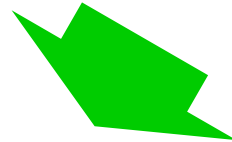
**Funding: growth of about 5% driven by medium to long term**

**Loan: growth around 12% focused on retail and SMEs**

**AUM: growth of over 6% vs 2005**

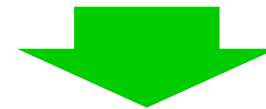
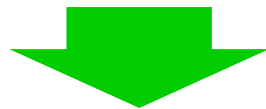


**Operating profit expected to growth in a range of 15%-20%**



**2006E cost of credit: 65bp  
(Strategic Plan assumption)**

**2006E cost of credit: 50bp  
(in line with 2005 trend)**



**2006E net profit up 20%-25%\***

**2006E net profit up around 30%\***

\* : including the non-recurring income already announced