BPM approves measures to achieve a higher and sustainable capital position

Today, Banca Popolare di Milano’s (“BPM” or the “Bank”) Board of Directors approved a series of initiatives, which will strengthen BPM’s capital position and increase its Core Tier I ratio above 7.5%.

The overall proposal envisages the following capital-strengthening actions (together the “Transaction”):

- Issuance of €500m hybrid convertible bonds qualifying as Core Tier I capital to the Italian Ministry of Economy and Finance in accordance with article 12 of the decree of 29 November 2008, n. 185, converted into law with amendments on 28 January 2009, n. 2, which will form part of the Core Tier I capital of the Bank (“MEF Instrument”)

- Issuance of up to €700m senior mandatory convertible notes (the “Mandatory”) coupled with up to €500m free warrants (the “Warrants”) offered with pre-emptive rights to all existing shareholders. The Board of Directors has included in the agenda of its next shareholders’ meeting - already planned to be convened, as an OGM, on 24 April 2009, with a second meeting to be convened (if required) on the following day, 25 April - to submit to the shareholders, in an EGM, the proposal to assign power to the Board of Directors to issue the Mandatory and the Warrants, such power to be exercised by 31 December 2009

- Tender offer on all outstanding Hybrid Tier I securities issued by the BPM Group for a total nominal value of €460m (the “Hybrids Tender Offer”).

Strong Strategic Rationale

The key objective of the Transaction is to improve the overall amount and quality of BPM’s capital base. In particular, the Transaction is aimed at strengthening BPM’s Core Tier I, allowing the Group to operate in an increasingly uncertain economic environment relying on a stable and high quality capital base.
The Mandatory will be converted into new BPM shares at the conversion price (which will be at a premium to the market price of the BPM shares at the time of launch of the Mandatory) on the last date on which the MEF Instrument can be redeemed.

BPM is to date the first Italian bank which has created the conditions to replace the MEF Instrument with core capital, hence benefiting from improved levels of capital ratios in the long term. Through the issuance of the Mandatory, BPM will be able to repay the MEF Instrument within 4 years from its issuance, avoiding the expensive redemption premium that would be applied on the MEF Instrument, if redeemed at a later date.

In addition, in order to further strengthen and improve BPM’s capital mix, a portion of the cash proceeds deriving from the Mandatory will be used to finance a tender offer on all outstanding Hybrid Tier I securities issued by the BPM Group. This will allow BPM to take advantage of the significant correction in the market price of Hybrids and Subordinated securities and to capitalise the current discount versus the nominal value of the instruments.

The issuance of the MEF Instrument and the Hybrids Tender Offer will have a positive impact on BPM’s Core Tier I ratio of ~145bps and up to ~55bps respectively, assuming that all outstanding Hybrid Tier I securities are tendered at a price in the region of 50% of par value.

**Issuance of MEF Instruments**

BPM has started the procedures laid out by the Italian Ministry of Economy and Finance and the Bank of Italy for the issuance of €500m MEF Instrument.

The MEF Instrument features chosen by BPM are consistent with its intention to redeem such instrument within 4 years while minimizing the redemption cost.

Such features are:

- for the first four years, 8.5% annual cost of coupon, paid out of distributable net income or, where higher, dividend relating to the relevant financial year x 105% for 2009, x 110% for 2010 and x 115% for 2011-2013, capped at 15% of principal;
  - where higher, for the payments made starting from 2012, average yield at issue of 30y BTP + a spread of 3% for 2011 and 2012 payments;
- redeemable at any time at par where redemption occurs by 30 June 2013.

The subscription by the Italian Ministry for Economy and Finance is subject to the conditions provided for by art. 2 of the Ministry Decree issued on 25 February 2009, which include a favorable preliminary assessment by the Bank of Italy.

**Mandatory and Warrants**
The Mandatory will be structured as a senior mandatory convertible bond, convertible into BPM ordinary shares on 30 June 2013.

The price of the conversion, to be determined at a later date, will be at a premium to the market price of the BPM shares at the time of launch. In accordance with the limits provided by law, the conversion price will not be lower than €4 (nominal value of BPM’s shares), resulting in the issuance of up to a maximum of 175m ordinary shares.

The free Warrants, issued together with the Mandatory, will give the right to subscribe BPM shares at maturity (30 June 2013) at a strike price deeply out of the money, and in any case, not lower than €4 (nominal value of BPM’s shares), in accordance with the limits provided by law, resulting in the issuance of up to a maximum of 125m ordinary shares.

The minimum denomination of each Mandatory bond will be set at €100, in order to facilitate the exercise of the rights.

The issuance of the Mandatory and the Warrants is conditional upon, amongst other things, Shareholders’ and relevant regulatory approvals.

**Hybrids Tender Offer**

In order to rebalance its Tier I capital between the Hybrid and the core component in favor of the latter, BPM intends to exploit the significant correction in the Hybrids and Subordinated markets by launching a Tender Offer at a price in the region of 50% of par value on all Tier I Hybrids issued by the BPM Group ("€ 300,000,000 9% Perpetual Subordinated Fixed/Floating Rate Notes" and "€ 160,000,000 8.393% Noncumulative Perpetual Trust Preferred Securities"). The Hybrid Tender Offer, which is consistent with what has been announced similarly by other European banks, will also result in an improvement of BPM’s Core Tier I capital.

The Hybrid Tender Offer is conditional upon a satisfactory placement of the Mandatory and to regulatory approval.

**Indicative Timetable of Proposed Capital Interventions**

The following timetable is indicative and subject to the receipt of the required regulatory approvals:

- **25-Mar-2009**: application to the Italian Ministry of Economy and Finance and to the Bank of Italy for the issuance of the MEF Instrument;

- **25-Apr-2009**: BPM EGM to give power to the Board of Directors for the issuance of the Mandatory and the Warrants and to approve the necessary capital increases;

- **12-May-2009**: Board of Directors approves 1Q 2009 results;
By Sep-2009: subscription period for Mandatory cum Warrant and sale of any unexercised rights by Borsa Italiana;

By Sep-2009: tender offer period for outstanding hybrids.

With reference to the convening of the EGM and to the related proposed power to the Board of Directors, it should be noted that the required explanatory documentation will be made available to the public in accordance to the conditions and terms provided by law.

BPM has been advised by Goldman Sachs International as sole structuring and financial advisor. Studio Legale e Tributario Biscozzi Nobili and Clifford Chance acted as legal advisers.

Tomorrow, Wednesday March 25, BPM will hold a conference call at 9.15 (CET). The dial-in details for the conference call are as follows:

Italia: + 39 02 805 88 11

UK: + 44 203 147 47 96

USA: + 1 866 63 203 28

Password: BPM 9

The analyst presentation will be made available tonight on BPM’s website in the investor relations’ section.

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