PRESS RELEASE

Standard & Poor’s revises outlook of Banca Popolare di Milano S.C.a.r.l. and Banca Akros S.p.A. from negative to stable

The international rating agency Standard & Poor’s has today revised the outlook of Banca Popolare di Milano S.C.a r.l. and Banca Akros S.p.A. from negative to stable. At the same time, the Long-term rating “A-“ and Short-term rating “A-2” are affirmed.

Please find attached the Standard & Poor’s agency’s release.

Milan, 6 May 2011

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Research Update:
Italy-Based Banca Popolare di Milano
And Core Subsidiary Akros Outlooks Revised To Stable;
'A-/A-2' Ratings Affirmed

Overview
- We believe that the financial profile of Italy-based Banca Popolare di Milano (BPM) will benefit substantially from the bank's recently announced capital increase of up to €1.2 billion.
- We are revising our outlook on BPM and its core subsidiary Akros to stable from negative.
- We are also affirming our 'A-/A-2' ratings on BPM and Akros.
- The stable outlook reflects our opinion that BPM's high capital ratio after the capital increase will provide a good buffer against the low coverage of its stock of nonperforming assets and will compensate for the bank's currently weak profitability.

Rating Action
On May 6, 2011, Standard & Poor's Ratings Services revised its outlook on Italy-based Banca Popolare di Milano SCRL (BPM) and its core subsidiary Banca Akros to stable from negative. At the same time, Standard & Poor's affirmed its'A-/A-2' long- and short-term counterparty credit ratings on both entities.

Rationale
The outlook revision to stable reflects our opinion that BPM's financial profile is likely to benefit significantly from the bank's recently announced capital increase of up to €1.2 billion. We estimate that, pro forma for the completion of the capital increase, BPM's total adjusted capital will account for about 9.5% of the bank's year-end 2010 risk-weighted assets before diversification. In our view, BPM's enhanced solvency position mitigates the low coverage of its nonperforming assets by provisions.
Our current ratings on BPM are also supported by our view of the bank's sound local franchise in Italy's wealthy Lombardy region and stable customer funding.
base. Constraining factors are, in our opinion, BPM's complex governance structure, which we believe makes strategic changes difficult; a fairly heavy cost base, which constrains operating profitability; higher credit risk than that of international peers; and high single-name and geographic concentration. We believe that BPM will likely report higher operating returns in 2011 than in 2010. In our opinion, the gradual repricing of the bank's loan book at higher spreads, coupled with rising average corporate loan volumes following the spike in corporate credit growth in the fourth quarter of 2010, should boost BPM's revenues in 2011. We think, however, that the recent rise in the cost of funding, at a time when interest rates are set to remain fairly low, will continue to constrain BPM's operating performance at still moderate levels. We believe that the pace of BPM's asset quality deterioration will gradually slow in 2011, and that the total level of problematic loans accumulated by the bank will be manageable relative to its risk profile. Loan loss reserves, however, accounted for only 31% of BPM's total nonperforming loans at year-end 2010, and we view this coverage, even if somewhat understated by the bank's write-offs in the past couple of years, as modest compared with that of domestic and international peers. We consider BPM to have moderate systemic importance within the Italian banking sector. We view the Italian authorities to be supportive, and, consequently, our ratings on BPM include the soft benefits derived from being a bank in a regulated environment with access to extraordinary liquidity.

Outlook
The stable outlook reflects our opinion that BPM's high capital ratio after the capital increase will provide a good buffer against the low coverage of its stock of nonperforming assets and will compensate for the bank's currently weak profitability. We incorporate into our ratings a rise in gross nonperforming loans to about 8.5% of total loans at year-end 2011. We also anticipate that BPM's loss...
absorption capacity will modestly improve from the level of 120 basis points in 2010.

We view a positive rating action as unlikely over the two-year outlook horizon, since it would require a substantial improvement in asset quality and profitability to a level comparable with that of 'A' rated peers. We could lower our ratings on BPM over the next two years if the rise in nonperforming assets materially deviates from the Italian banking system average or if profitability unexpectedly worsens compared with the 2010 level.

We factor into our ratings on BPM our belief that the bank will preserve its enhanced capital near the post-capital increase level. A material decline in capital as a result of aggressive capital management would likely put negative pressure on the ratings.

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Research Update: Italy-Based Banca Popolare di Milano And Core Subsidiary Akros Outlooks Revised To Stable; ‘A-/A-2’ Ratings Affirmed

Related Criteria And Research
All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Italian Banks Are Facing A Tricky Recovery, April 14, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Understanding Standard & Poor's Ratings Definitions, June 3, 2009
- FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings List
Ratings Affirmed; CreditWatch/Outlook Action
To From
Banca Popolare di Milano SCRL/Banca Akros SpA
Counterparty Credit Rating A-/Stable/A-2 A-/Negative/A-2
Ratings Affirmed
Banca Popolare di Milano SCRL/Banca Akros SpA
Certificates Of Deposit A-/A-2
Banca Popolare di Milano SCRL
Senior Unsecured A/Subordinated
BBB+
Junior Subordinated BBBPBM
Capital I LLC
Preference Stock BBBBPM
Capital Trust I
Preference Stock BBBBPM
Ireland Plc
Commercial Paper A-2

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