BPM informs that Moody’s Investors Service (“Moody’s”) has decided to downgrade Banca Popolare di Milano’s long-term debt and deposit ratings to Baa3 from A3, and its short-term debt and deposit ratings to Prime-3 from Prime-2. Moody’s also downgraded the bank's standalone bank financial strength rating (BFSR) by one notch to D+, mapping to Ba1 on the long-term scale, from C- (which maps to Baa1). The outlook for all ratings is negative.

BPM represents that it entirely disagrees with Moody’s decision, which is made on the basis of contradictory arguments and does not adequately consider the implications of the recent changes in the corporate governance structure of the Bank, now based on a strict dualistic system.

Moody’s acknowledgement that (i) improvements have been made to the corporate governance structure of BPM in response to the Italian regulator’s demands, (ii) the Bank’s capital position is going to be improved due to the ongoing capital actions, and (iii) BPM’s liquidity is satisfactory, makes BPM comfortable that it is on the rights track. At the same time, this acknowledgement is a clear evidence of the contradictions on which the downgrading decision is grounded.

BPM will consider any action that may be undertaken to protect the rights of the Bank and of its shareholders.
Please find attached the Moody’s release.

Milan, 11 November 2011

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Moody’s INVESTORS SERVICE

Rating Action: Moody’s downgrades Banca Popolare di Milano (Italy) to Baa3/D+, negative outlook
Global Credit Research - 11 Nov 2011
Milan, November 11, 2011 -- Moody's Investors Service today downgraded Banca Popolare di Milano’s (BPM) long-term debt and deposit ratings to Baa3 from A3, and its short-term debt and deposit ratings to Prime-3 from Prime-2. Moody's also downgraded the bank's standalone bank financial strength rating (BFSR) by one notch to D+, mapping to Ba1 on the long-term scale, from C- (which maps to Baa1). The outlook for all ratings is negative.
This rating action concludes the review for possible downgrade initiated on 5 May 2011.

RATINGS RATIONALE
The decision to downgrade BPM's ratings primarily reflects Moody's concern that the bank will be structurally challenged by its specific governance structure to maintain a sufficient cost flexibility also compared to its domestic peers. Moody's believes that such cost flexibility will
be paramount for the bank’s management to be able to successfully navigate the bank through a very challenging operating environment which has already impacted the system’s funding costs and is likely to put further pressure on the Italian banking system's asset quality. Moody's notes that improvements have been made in response to the Italian regulator's demands, but remains concerned that the bank’s corporate governance structure will still make it challenging to improve or even maintain its low profitability, which will remain at levels more compatible with a standalone financial strength rating at the standalone Ba1/D+ level for some time. Moody's noted that in June 2011, BPM's annualised pre-provision income was a modest 1.14% of risk-weighted assets. Growth prospects for Italy have been cut and cost of funding has increased in recent months, which are likely to make the 9% annual growth rate of revenues envisaged by the business plan until 2013 uncertain and difficult to achieve. Moody's also pointed out the bank's difficulty to cut costs, with the business plan envisaging an 1.3% compounded annual growth rate of costs until 2013. The rating agency notes that, owing to its low profitability, the bank will be challenged to generate substantial capital from retained earnings. Nevertheless the bank will improve capital adequacy, with a Core Tier 1 ratio expected at 8.3% at the year end, assuming the completion of the ongoing share issue (fully underwritten by a pool of banks) and the conversion of a mandatorily convertible bond. It is also worth noting that BPM's liquidity is satisfactory, which has allowed the bank to cope with the current difficult market funding conditions all the more so since its funding is largely retail-deposit based. The negative outlook is driven by the difficult operating environment and the bank's resistance to change. WHAT COULD CHANGE THE RATINGS UP The outlook could return to stable in the event of a significant improvement in profitability (net income above 1% of risk-weighted assets on a sustainable basis). WHAT COULD CHANGE THE RATINGS DOWN Failure to strengthen the group's profitability, capital adequacy or corporate governance could put negative pressure on the ratings. The following ratings were downgraded: - standalone bank financial strength rating (BFSR) to D+ from C-; - long-term deposit and senior debt ratings to Baa3 from A3; - short-term ratings to Prime-3 from Prime-2; - senior unsecured MTN rating to (P)Baa3 from (P)A3; - subordinated debt rating to Ba1 from Baa1; - subordinate MTN rating to (P)Ba1 from (P)Baa1; - Tier III MTN rating to (P)Baa1 from (P)Baa1; - junior subordinate MTN rating to (P)Ba2 from (P)Baa2; - preferred stock rating to B1(hyb) from Ba1(hyb). The methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies. The bank is headquartered in Milan, Italy. At June 30th 2011 it had total assets of EUR56 billion.
The rating has been disclosed to the rated entity or its designated agent(s) and issued with amendment resulting from that disclosure.

Information sources used to prepare the rating are the following: parties involved in the ratings, and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

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