2012-2015 Business Plan
The power of change:
a plan that combines tradition and future
for the re-launch of BPM Group

Guidelines

- A NEW WAY TO WORK: simplicity, efficiency, merit;
- IT and organisational INNOVATION to return to being “THE LEADING LOCAL BANK” for “OUR CUSTOMERS” in “OUR TERRITORIES”;
- GREAT ATTENTION TO RISKS, CAPITAL AND LIQUIDITY to achieve sustainable long-term growth.

The main management actions

- Streamlined company structure: A SINGLE COMMERCIAL BANK;

- Simpler and revolutionary ORGANISATION:
  - About 70% reduction in headquarter structure,
  - Cut from 5 to 3 network organisation layers,
  - 25% fewer executives;
  - About 80% fewer directors in the subsidiaries;
  - 3,000 employees involved in the reorganisation/reallocation

- Tight COST control:
  - Headcount cut: about 700 fewer staff
  - 12% cut in administrative costs;
  - Cost to income ratio: 56% in 2015

- GREAT INNOVATION on the territory control model:
  - 130 micro-markets to serve our core markets and our core customers in a “distinctive” way;
• INNOVATIVE PROJECTS on digital and technologic side to become the best multichannel bank.

The main targets of the Business Plan:

• ATTENTION to costs: operating costs -6% by 2015 (CAGR 2011-2015: -1.6%)
• INCREASE IN INCOME from value added services: net commissions +18 % (CAGR 2011 – 2015: +4.1%)
• REBALANCE THE LOAN BOOK: total loans (CAGR 2011 – 2015: +1%); corporate loans: +10%; large corporate loans: -30% to 2015
• STRENGTHEN LIQUIDITY POSITION: loan-to-deposit ratio from 102% to 97% (-5 pp)
• STRENGTHEN CAPITAL POSITION: Core Tier 1 ratio from 8% to over 9% (+100bps)
• Cost of credit: about 90 bps in 2015
• GROUP NET INCOME: about €270million in 2015
• ROTE: about 8% in 2015;

Goodwill impairment test

• The impairment test on goodwill is underway and could lead to a goodwill write-down in the balance sheet. The test results will be disclosed along with the First Half 2012 results.

Settlement procedure for the so-called “Convertendo”

• The Management Board has examined and approved a proposal of a settlement protocol and has instructed that it be signed and that the settlement process be started.

24 July 2012 - In today’s meeting, the Board of Directors of Banca Popolare di Milano (“BPM”) examined and approved BPM Group’s Business Plan for the three years 2012-2015 (the “Business Plan”), which is aimed at significantly increasing group efficiency and strengthening the bank’s role as a Local Bank, thereby bringing it closer to households and SMEs.
The Business Plan is based on an extremely uncertain scenario when the economy will recover, by low interest rates and an expected high BTP/Bund spread. Specifically:

- **negative economic growth** in 2012 (-2.2% Italian GDP) and hardly any improvement starting from 2013 (Italian GDP expected to be between 0.1% and 1.4%);
- **substantially stable interest rates** until 2014 (3m-Euribor about 1%) and slight growth in 2015 (1.3%);
- **expected BTP yield over 5%** by 2015;
- **increase in the unemployment rate**, peaking in 2013 (11.5%)

Given this picture, the banking industry is going through a particularly very difficult situation, owing to:

- **the expected high cost of credit** until 2015;
- **the pressure on operating income**, due both to expected weak economic growth and to ever stricter regulations;
- **the capital requirements and the tighter regulations on liquidity**.

Despite the weak macro-economic scenario, Bipiemme Group has excellent potential starting from its geographic position with 90% of the branches being concentrated in areas with the highest GDP per capita in the country. In addition, the bank boasts an important customer base of **1.4 million customers** and there is significant growth potential. In particular, the plan provides for actions on the retail segment aimed at offering private and affluent customers better commercial coverage, which will lead to an increase in the return from volumes and cross-selling. As for the corporate segment, the actions will be aimed at further reducing the exposure towards Large Corporate and, within the segment, at developing the high recovery potential of the generated value (EVA®). On the other hand, profitability from the Corporate and Small Business sector is expected to grow owing to the increase in commission income from high value-added products.

By 2015, the bank will also **tap the expertise in the product companies**, Webank, ProFamily, Anima and Bipiemme Vita, to serve the group’s customer base, also by making better use of the specialised skills of Banca Akros.

The Business Plan fits into a process to change that has **already started** and that has led to some important measures, notably:

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1 Source: Prometeia June-July 2012 estimates
- **governance**: the group has adopted a new dual management system and appointed a Managing Director;

- **organisation and human resources**: the management team has been bolstered and a process to change the organisation has started;

- **better risk, costs and intra-group synergy controls**: the group has started to reduce its exposure on the Large Corporate and the Real Estate sectors, along with actions to centralise operating management and optimise cost control;

- **liquidity and capital**: the capital base has been increased and the already strong liquidity position has been improved.

Proof of the **management’s strong will to change** is given in the guidelines of the Business Plan. The guidelines summarise the management’s commitment to create an efficient bank, a “byword” for its customers, in those areas of the country where it has its strongest footprint.

The **Business Plan’s guidelines** can be broken down into 10 management actions:

1) **streamlined group structure**: the creation of a single commercial, modern and multichannel bank where great value is put on each brand and where the expertise in the product companies will be made available to all the group companies;

2) **simpler organisation**: the headquarters and network organisations will be streamlined by reducing the number of middle layers and by establishing clearer functional responsibilities. The group expects to make a significant cut in the number of executives (-25%) and reduce costs by realigning executive compensation with the position/responsibility held and by market benchmarking;

3) **tight cost control**: by 2015, headcount will be cut by about 700 and staff costs will be reduced by 10% compared to the expected inertial growth. This part of the plan will involve around 3,000 people, 2,300 of whom will be part of job reallocation and training plans, and will be carried out to socially responsible criteria. All eligible staff will be encouraged to retire and/or join the Early Retirement Plan, while the remaining staff will be reallocated. A reduction in personnel costs will also be achieved by reviewing the Supplementary Corporate Labour Agreement. The tight cost control will also lead to a 12% reduction in administrative costs and a 23% reduction in amortisation by 2015.
These measures will allow the group to save some €65 million by 2015 vs 2011 and over €130 million on the expected inertial growth;

4) **tapping expertise and bringing in a merit-based career path system:** the expertise and professional skills of the staff in the headquarters and in the networks will be sharpened through specific training programmes, a merit-based career path system, equal opportunities and professional growth for the younger staff;

5) **radical innovation in the way the territory is controlled:** the effort and innovation of the commercial actions will be bolstered by first focusing on the group’s core areas and core customers - affluent retail, Corporate and Small Business –, by implementing specific commercial policies in the 130 micro-markets and by further developing the “digital territories”. In this case the group’s footprint will be based on a “hub and spoke” system, a model that will be implemented by decentralising decision making and by bringing in an integrated multichannel support system;

6) **innovative technological projects to enhance the multichannel model:** a series of innovative projects will be carried out (B2B, B2C, “APPs”) to establish and launch some new products for our customers;

7) **significant growth in profit in the core segments despite the difficult market:** the group’s priority objectives are to ensure excellence and a distinctive service in managing our retail customer’s savings (CAGR 2011-2012 retail segment revenues +4.3%). As far as the Corporate segment is concerned, the growth in revenues will be driven mainly by the increase in commission income on Small Business customers, while for Corporate the focus will be on optimising the remuneration on RWA via pricing using the EVA®-based model (CAGR 2011-2015 corporate segment revenues, excluding Large Corporate, +7.4%). The innovative services the group intends to offer corporate will be achieved by re-organising the way the market is covered and products are offered. This, in turn, will be done by establishing corporate centres and teams of product specialists, and by investing in technology to bolster the multichannel service and simplify procedures;

8) **risk control:** this will be carried out by reallocating the portfolio and capital on the basis of sector assessments and risk/return profiles as well as by reviewing the group’s credit policies. To this aim the bank will strengthen the procedures and tools to monitor and manage risk.
Loans are expected to grow by 1% (CAGR 2011-2015) while large corporate will decrease (-8.5% CAGR 2011-2015) and the weight of the real estate sector will be reduced from 24% to 21% by 2015;

9) **capital strengthening**: the group will pay constant attention to the capital ratios and will carry out specific actions, such as measures to resolve the critical issues raised by the Bank of Italy in order to totally or partially eliminate the add-ons, optimisation of RWA and the goal to move to internal models to calculate capital absorption. By the end of the Business Plan the group intends to evaluate both the disposal of non-strategic assets and liability management measures;

10) **liquidity strengthening**: BPM’s strong liquidity position will be further increased by reducing the loan-to-deposit ratio (from 102% to 97% by 2015) and by optimising the ECB eligible assets.

The management actions will ensure the Business Plan targets are reached even though they are highly affected by interest rate and cost of credit. In a scenario where the 3m Euribor interest rate is expected to be 1.3% in 2015 and the cost of credit around 90 bps, the group’s main targets are as follows:

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<thead>
<tr>
<th>€Bn</th>
<th>2011</th>
<th>BP 2015</th>
<th>CAGR</th>
</tr>
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<tbody>
<tr>
<td>Funding</td>
<td>35.1</td>
<td>38.2</td>
<td>+2.1</td>
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<tr>
<td>Loans</td>
<td>35.7</td>
<td>37.1</td>
<td>+1%</td>
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<tr>
<td>AUC</td>
<td>19.0</td>
<td>21.3</td>
<td>+2.9%</td>
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<tr>
<td>AUM</td>
<td>13.1</td>
<td>15.7</td>
<td>+4.6%</td>
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<tr>
<th>€M</th>
<th>2011</th>
<th>BP 2015</th>
<th>CAGR</th>
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<tbody>
<tr>
<td>Operating income</td>
<td>1,352</td>
<td>1,760</td>
<td>+6.9%</td>
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<tr>
<td>Operating costs</td>
<td>-1,045</td>
<td>-980</td>
<td>-1.6%</td>
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<tr>
<td>Operating profit</td>
<td>307</td>
<td>780</td>
<td>+26.4%</td>
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<tr>
<td>Net income</td>
<td>-614</td>
<td>270</td>
<td>n.s.</td>
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<thead>
<tr>
<th></th>
<th>2011</th>
<th>PS 2015</th>
<th>VAR.</th>
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<tbody>
<tr>
<td>Cost/Income</td>
<td>77%</td>
<td>56%</td>
<td>-21 pp</td>
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<tr>
<td>ROTE</td>
<td>n.s.</td>
<td>8%</td>
<td>n.s.</td>
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<tr>
<td>Cost of risk</td>
<td>135</td>
<td>90</td>
<td>-45 bps</td>
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<tr>
<td>loan/deposit ratio</td>
<td>102%</td>
<td>97%</td>
<td>-5 pp</td>
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<tr>
<td>Core Tier 1</td>
<td>8%</td>
<td>over 9%</td>
<td>+100 bps</td>
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<tr>
<td>Total staff</td>
<td>8,467</td>
<td>around 7,800</td>
<td>around 700</td>
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The management will go over the Business Plan during a conference call with the financial community at 9.30am (CET) tomorrow, Wednesday 25th July 2012. All the details to connect to the conference call are in the home page of our website (www.bpm.it).

**Impairment test**

The worsening macro-economic scenario in the last few months and the worse outlook for the banking industry over the 2012–2015 period are at the base of the impairment tests on goodwill as at 30 June 2012. The test results, which may lead to a write-down on the goodwill posted in the balance sheet, will be disclosed along with the approval of the first half 2012 results.

**Settlement of the “Convertendo”**

The Management Board has examined and approved a proposal of a settlement protocol (the “Protocol”) to settle the dispute over the so-called “Convertendo BPM 2009/2013” (the “Convertendo”) drawn up after numerous meetings between representatives of the bank and the most representative consumer associations and has instructed the Managing Director to finalise the last aspects and, thus, prepare it for signing.

Given the above, if the Protocol is signed the Bank, along with the signing associations, will provide all the information on the terms and conditions of the Protocol and how to sign up to it and will take actions to allow the widest possible participation by other associations.

The settlement may be a cost for the bank – though the final cost will only actually be known at the end of the settlement process – but at the moment it seems to be basically in line with the amount posted in the Financial Statement as at 31 December 2011.

Milan, 24 July 2012
Please note that the original version of this press release is in Italian.
In case of any misunderstandings the Italian version shall prevail

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