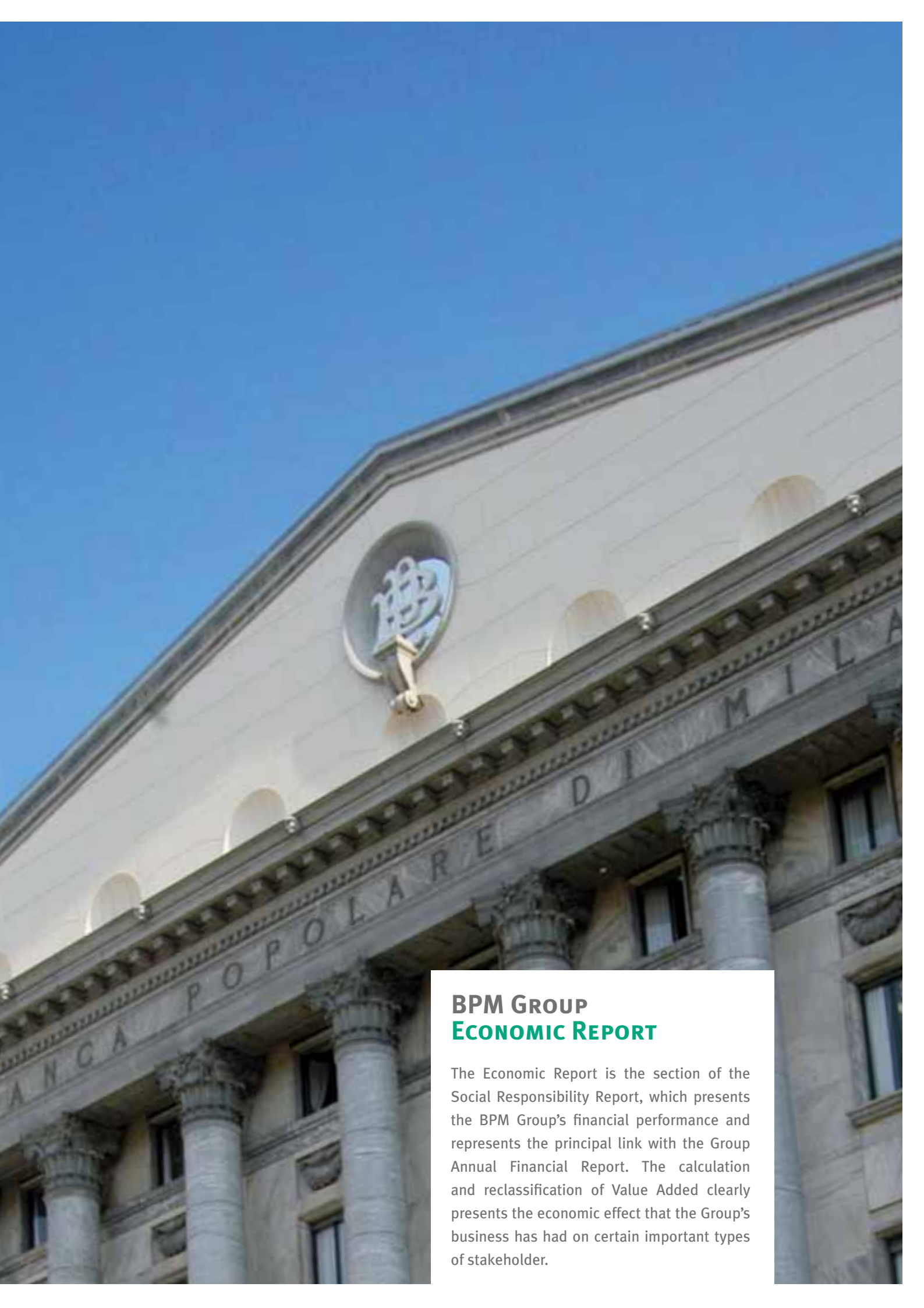


The value of working together. For economic, civil and social development.





## **BPM GROUP** **ECONOMIC REPORT**

The Economic Report is the section of the Social Responsibility Report, which presents the BPM Group's financial performance and represents the principal link with the Group Annual Financial Report. The calculation and reclassification of Value Added clearly presents the economic effect that the Group's business has had on certain important types of stakeholder.

## **BPM GROUP ECONOMIC REPORT**

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## KEY FINANCIAL HIGHLIGHTS

### VOLUME OF BUSINESS

**Direct deposits** (consisting of amounts due to Customers, debt securities in issue and financial liabilities designated at fair value through profit and loss) were Euro 29,354 million, 19.3% higher than at December 2005. Within this item, there was significant growth in terms of amounts due to Customers, which reached Euro 20,808 million, up by Euro 3,655 million (+21.3%), of which approximately Euro 2.0 billion referred to the issue of securities against securitisation of performing real estate mortgage loans entered into by institutional clients. The issue of new bond loans continued and in 2006 reached Euro 1.8 billion, of which Euro 1.3 billion formed part of the Euro Medium Term Notes (EMTN) programme. The growth in volumes was reflected in the development of the direct deposits market share, which rose to 2.04% in December 2006 from 1.98% in December 2005.

At the end of 2006 the overall aggregate of **indirect deposits** from Customers reached Euro 39,614 million (+6.8% over the end of 2005). Assets under administration rose significantly to Euro 18,884 million (+13.4%) as a combined result of the placement of bond loans issued by third parties and favourable market trends.

**Assets under management** stood at Euro 20,729 million, up by 1.4% over 2005, despite the negative net deposits, a phenomenon that affected the market as a whole, of Euro 521 million, of which Euro 390 million related to mutual funds. These latter dropped by 2.2% compared with 2005. The market share of funds managed by Bipiemme Gestioni SGR and Bipiemme Fund Management amounted to 2.12%. Insurance-sector reserves and asset management grew respectively by 5.0% and 14.5% over the end of the previous year.

The upward trend of **loans** continued and at 31 December 2006 reached Euro 26,313 million (+16.5% over the end of 2005) thanks to the growth of medium- and long-term technical forms, which showed a 26.5% increase in the mortgage sector. Also up from 2005 were mortgage loans, which rose to Euro 4 billion, with businesses, mostly those operating in the residential building sector, having a significant impact. The positive trend of loans pushed the relative market share in December 2006 to 1.95%, up from 1.89% in December 2005.

An analysis of **asset quality** shows a percentage of total net impaired assets at 1.9% of the total loan portfolio, a further improvement from December 2005 (2.4%). The ratio between net non-performing loans and loans reached an outstanding level (0.5%) even better than December 2005 (0.7%). The level of coverage of doubtful loans rose to 44.9% from 41.3% in December 2005, as did that of non-performing loans, up to 70.7% from 67.5% in the previous year, and among the highest in the Italian banking system.

**Net equity**, comprehensive of profits for the year, reached Euro 3,359 million, up by Euro 424 million over December 2005 (+14.4%). Tier 1 capital ratio reached 7.21% while total capital ratio amounted to 10.44%.

From an economic standpoint, BPM Group ended the year with an **operating profit** of Euro 695.1 million, up by 35.3% thanks in large part to a rise in operating income (+13.7% over the end of 2005), which more than compensated for the 3.0% increase in operating costs and resulted in a lower cost-income ratio, which at the end of 2006 amounted to 60.6%, significantly lower than the previous year (66.9%).

**Operating profits** reached Euro 1,764.7 million (+13.7%), within the aggregate:

- **net interest income** amounted to Euro 916.1 million (+20.9%) benefiting from the growth of Customer business (particularly in the medium- to long-term segment) and the improved spread with Customers;
- **net income from services**, including all revenue net of net interest income, amounted to Euro 848.6 million, up by 6.9% over the same period in the previous year. Net fee and commission income climbed by 10.8% to Euro 613.7 million, reflecting increases in “management, brokerage and advisory services” commissions, mostly due to the higher commissions on security placement and asset management. We point out that within net fee and commission income a positive effect derived from the de-consolidation of Bipiemme Vita equal to Euro 15.6 million.

**Operating costs** amounted to Euro 1,069.6 million, up by 3.0% compared with December 2005. In detail, we point out that:

- the growth in **personnel expenses** (+Euro 34.6 million, +5.3%) to Euro 687.9 million reflects the

Euro 18 million increase laid down by the National Collective Labour Agreement, increased provisions to funds (Euro 5.6 million), as well as the higher share of profit allocated to employees of the Parent Bank (Euro 5.1 million), which assimilates the changes introduced by the new wording of Article 47 of the articles of association. The total employees of the Group (including personnel with other types of contracts in force) as at 31 December 2006 amounted to 8,391, down by 54 employees compared with the same period in 2005;

- the decrease in **administrative expenses and amortisations** (-0.8%), together equalling Euro 381.7 million, reflects the positive effects of the rationalisation of the IT segment and the condition renegotiation with the main suppliers.

Therefore, **operating income** of BPM Group amounted to Euro 695.1 million, with a 35.3% increase over December 2005, thanks to excellent revenue performance.

Total **provisions came** to Euro 162.8 million (+43.1%), with net adjustments to loans and other financial asset-side items equalling Euro 124.2 million, the Euro 26.3 million rise of which was mainly due to higher adjustments on loans to Customers, to which Euro 38.6 million in provisions to risks and charges were added, Euro 18.9 million of which was affected by the closing of the Parmalat recovery procedures.

After **reporting non-recurring profits**, included in the item profits from equity and other investments equal to Euro 105.1 million – of which Euro 71.9 million were attributable to profits deriving from the transfer of 50% of Bipiemme Vita to Fondiaria–Sai Group and Euro 34.7 million of which were attributable to the capital gains deriving from the sale of the “Galfa” property – the **gross profit from current operations** climbed to Euro 637.4 million, up by 54.6% over December 2005.

After recording **income tax** for Euro 233.5 million (levied at a 36.6% tax rate) and net of Euro 5.2 million in profits from minority interests, the **net profit** in 2006 amounted to Euro 398.7 million, up 53.9% over 2005.

The Group’s net profit came to Euro 301.5 million, net of the aforementioned extraordinary operations.

(in thousands of Euros)

Balance sheet and income statement highlights		
	2006	2005 Pro-forma
<b>Balance sheet highlights</b>		
Total assets	40,181,057	34,896,491
Total financial loans		
(Customers and banks)	30,088,874	24,826,223
Loans	26,312,649	22,585,310
Total Customer deposits:	68,968,072	61,707,283
- direct *	29,354,399	24,612,848
- indirect (assets under management and securities in custody)	39,613,673	37,094,436
Equity	3,358,992	2,935,416
<b>Income statement highlights</b>		
Net interest income	916,055	757,779
Net interest and other banking income	1,764,675	1,551,657
Net income from services	848,620	793,878
Operating costs	1,069,555	1,037,937
Profit from current operations before tax	637,402	412,376
Profit for the period pertaining to the Parent Bank	398,680	258,980

\* Includes amounts due to Customers, debt securities in issue and financial liabilities designated at fair value through profit and loss.

(in thousands of Euros)

Reclassified consolidated balance sheet		
	2006	2005 Pro-forma
Cash and balances with central banks	199,757	177,626
Loans	30,088,874	24,826,223
Financial assets designated at fair value through profit and loss and hedging derivatives	7,068,503	7,080,027
Fixed assets	1,479,917	1,531,915
Other assets	1,344,006	1,280,700
<b>Total assets</b>	<b>40,181,057</b>	<b>34,896,491</b>
Due to banks and due to Customers	25,448,119	21,862,251
Debt securities in issue	5,624,722	4,749,751
Financial liabilities held for trading and hedging derivatives	3,984,195	3,906,596
Other liabilities	1,643,525	1,404,301
Minority interests	121,504	38,176
Capital and reserves	2,960,312	2,676,436
Net profit for the year	398,680	258,980
<b>Total equity and liabilities</b>	<b>40,181,057</b>	<b>34,896,491</b>

Employee efficiency ratios		
	2006	2005 Pro-forma
Number of employees*	3,136	2,674
Total Customer deposits/ indirect) / Number of employees *	8,219	7,306
Direct deposits / Number of employees *	3,498	2,914
Payroll/ Operating income	38.98%	42.10%
Operating income/ Number of employees *	210	184
Profit from current operations before tax/Number of employees*	76	49

\* Including other personnel (114 employees at 31/12/2006 and 109 employees at 31/12/2005)

## EMPLOYEE EFFICIENCY RATIOS

**Loans / Number of employees****Total Customer deposits/Number of employees \*\*****Direct deposits/Number of employees**

These three ratios reflect the bank's productivity: they show that for every employee there is an average of Euro 3,136 thousand in loans to Customers and Euro 8,219 thousand in total deposits, of which Euro 3,498 million relating to direct deposits. The higher these ratios the greater the bank's efficiency in the sense of its ability to generate funding and hence loans per employee.

**Payroll/Operating income**

This ratio expresses the proportion of net income from the core business that is absorbed by payroll costs.

**Operating income/ Number of employees**

This ratio expresses the net income from the bank's core business per employee.

**Profit from current operations before tax/Number of employees**

This ratio expresses the profit from the bank's current operations per employee.

## Balance sheet ratios

	2006	2005 Pro-forma
Equity*/ Loans	11.25%	11.85%
Equity*/ Direct deposits	10.08%	10.87%

\* Equity at the end of year, excluding net profit for the year just ended

## BALANCE SHEET RATIOS

**Equity/ Loans**

This ratio indicates the percentage of gross loans to Customers, which is covered by equity and expresses the degree of the bank's solvency.

**Equity/Direct deposits**

This ratio expresses the degree of the bank's independence from third-party sources of funding. The higher the ratio, the greater the bank's level of independence from outside sources of funding.

## Profitability ratios

	2006	2005 Pro-forma
ROE (Return On Equity)	13.5%	9.7%
ROA (Return On Asset)	1.0%	0.7%
Net income from services/ Net interest income	92.6%	104.8%
Net income from services / Operating income	48.1%	51.2%
Administrative expenses Net interest income	106.4%	124.0%
Administrative expenses Operating income	55.3%	60.6%
Operating costs/ Operating income	60.6%	66.9%

## PROFITABILITY RATIOS

**ROE (Return On Equity)**

This is the ratio between net profit and equity. It represents the return on the investment of the bank's own capital.

**ROA (Return On Assets)**

This is the ratio between operating profit and total assets; it is very important for assessing the efficiency with which a bank generates its earnings; it specifically reflects the ability of its assets to generate income.

**Net income from services/Net interest income**

Represents the amount of net interest income derived from net income from services.

**Net income from services/Operating income**

This ratio reports the amount of net interest income (net income from the bank's core business) derived from net income from services.

**Administrative expenses/Operating income**

Represents the amount of operating income absorbed by administrative expenses.

**Operating costs/Operating income**

Represents the amount of operating income that is absorbed by its operating costs.

## VALUE ADDED

The calculation of Value Added (defined as the difference between gross revenue and the costs of consumption incurred for its production) is based on reclassifying the annual consolidated income statement. It presents the accounting data in a different format in order to underline

the relationship with stakeholders. In fact, the calculation of Value Added makes it possible to represent the Group's ability to create wealth and distribute it to the various stakeholders who interact with it in their different ways.

(in thousands of Euros)

	Calculation of Value Added	
	2006	2005*
Interest and similar income	1,583,274	1,462,447
Fee and commission income	688,483	626,968
- dividend and similar income	54,410	62,931
- net trading income	54,595	37,330
- net hedging gains (losses)	297	-2,385
Profit (loss) from transfer or repurchase of:	3,862	27,017
a) loans	-3,329	24,856
b) financial assets available for sale	6,189	1,674
c) financial assets held to maturity	0	0
d) financial liabilities	1,002	487
- net gain (loss) from financial assets and liabilities designated at fair value through profit and loss	17,044	9,357
Other operating income (charges)	142,731	128,642
Profit (loss) from equity investments	82,345	30,931
<b>TOTAL NET INCOME</b>	<b>2,627,041</b>	<b>2,383,238</b>
Interest expense and similar charges	-667,219	-704,668
Fee and commission expense	-74,739	-73,278
Other administrative expenses (net of indirect taxes and donations and gifts)	-275,597	-274,757
Net impairment charges:	-124,154	-97,875
a) loans	-120,918	-88,198
b) financial assets available for sale	-2,356	-4,017
c) financial assets held to maturity	0	0
d) other financial transactions	-880	-5,660
Net charges to provisions for risks and charges	-38,622	-15,867
<b>TOTAL CONSUMPTION</b>	<b>-1,180,331</b>	<b>-1,166,445</b>
<b>GROSS CORE VALUE ADDED</b>	<b>1,446,710</b>	<b>1,216,793</b>
Gains/Losses on disposal of investments	36,392	11,112
<b>TOTAL GROSS VALUE ADDED</b>	<b>1,483,102</b>	<b>1,227,905</b>
Net adjustments to property, plant and equipment	-44,620	-44,166
Net adjustments to intangible assets	-43,732	-47,525
<b>TOTAL NET VALUE ADDED</b>	<b>1,394,750</b>	<b>1,136,214</b>

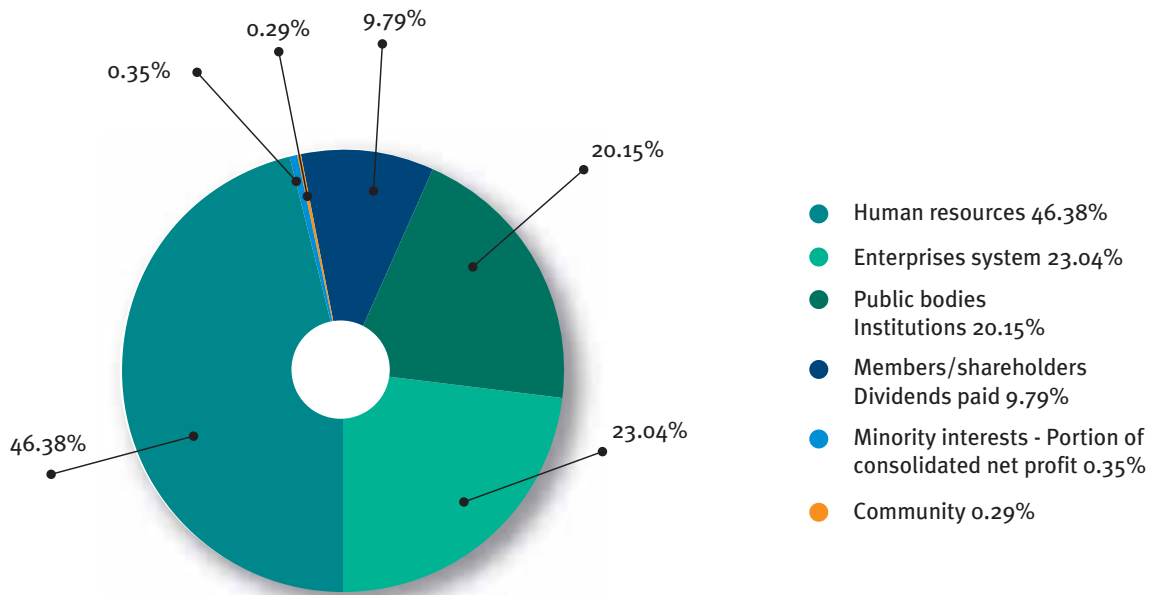
\* For the purposes of consistent comparison, 2005 data have been reposted considering Bipiemme Vita and using the equity method instead of the line-by-line method. Furthermore, modifications were made following the new interpretation of accounting principles and clarifications on the instructions issued by the Bank of Italy for drawing up financial statements.

(in thousands of Euros)

Analytical distribution of total gross value added		
	2006	2005*
<b>TOTAL GROSS VALUE ADDED</b>	<b>1,483,102</b>	<b>1,227,905</b>
<b>Distributed between:</b>		
<b>MEMBERS - Dividends paid</b>	<b>145,262</b>	<b>62,255</b>
<b>MINORITY INTERESTS - Profit (loss) attributable to minority shareholders</b>	<b>5,187</b>	<b>5,850</b>
<b>HUMAN RESOURCES</b>	<b>687,882</b>	<b>653,321</b>
Payroll:	687,882	653,321
- direct	441,855	420,253
- Indirect	219,413	211,828
- Costs associated with equity-based payments	26,614	21,240
<b>PUBLIC BODIES/INSTITUTIONS (Central and local government)</b>	<b>298,773</b>	<b>213,836</b>
Indirect and capital taxes	65,238	66,290
<i>of which:</i>		
- Central government	60,279	61,244
- Local authorities	4,959	4,515
- Non-resident central governments	0	531
Income taxes for the year	233,535	147,546
<i>of which:</i>		
- Central government	162,881	103,471
- Local authorities	68,865	39,305
- Non-resident central governments	1,789	4,770
<b>COMMUNITY</b>	<b>4,228</b>	<b>4,227</b>
Donations and gifts	4,228	4,227
<b>ENTERPRISE SYSTEM</b>	<b>341,770</b>	<b>288,416</b>
Unallocated earnings	253,418	196,725
Net adjustments to property, plant and equipment	44,620	44,166
Net adjustments to intangible assets	43,732	47,525

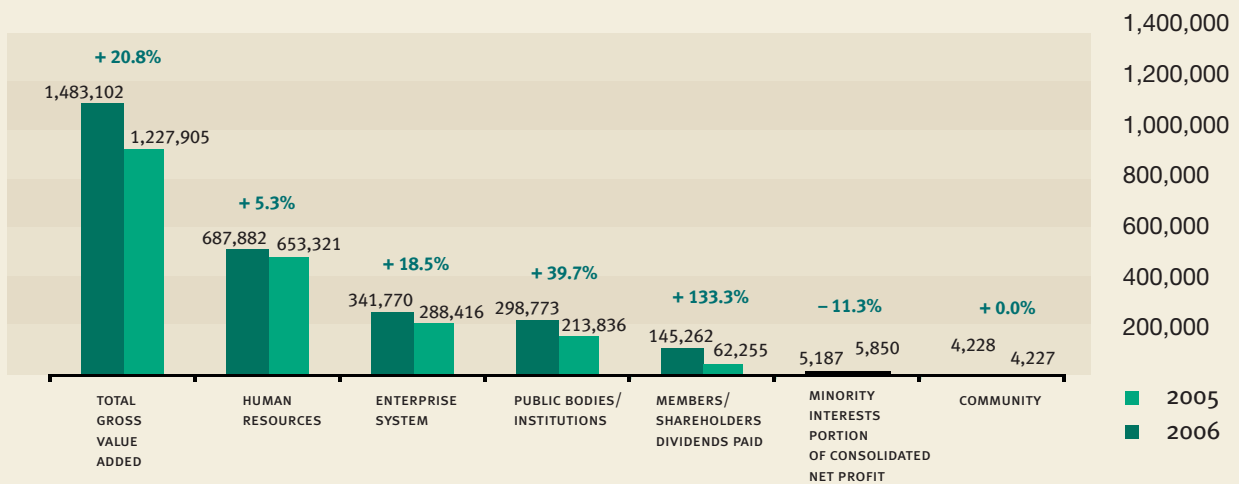
(\*) For the purposes of consistent comparison, 2005 data have been reposted considering Bipiemme Vita and using the equity method instead of the line-by-line method. Furthermore, modifications were made following the new interpretation of accounting principles and clarifications on the instructions issued by the Bank of Italy for drawing up financial statements.

## DISTRIBUTION OF TOTAL GROSS VALUE ADDED 2006



(in thousands of Euros)

## DISTRIBUTION OF TOTAL GROSS VALUE ADDED 2006-2005



### HUMAN RESOURCES

The portion of Value Added attributable to Personnel represents 46.38% of the total and includes direct costs, indirect costs (social security charges and non-wage related costs) and the share of earnings allocated to employees.

### ENTERPRISE SYSTEM

This represents the portion of Value Added (23.04%) reinvested in the Group in terms of unallocated earnings retained in reserves, and the depreciation and amortisation of property, plant and equipment and intangible assets.

### PUBLIC BODIES AND INSTITUTIONS

These are income taxes for the year and indirect and capital taxes paid by the Group to central and local government and represent 20.15% of Value Added.

### MEMBERS/SHAREHOLDERS (dividends paid)

These are the profits distributed to Shareholders of the Parent Bank and represent 9.79% of Value Added.

**MINORITY INTERESTS** (portion of consolidated net profit) These represent the portions of net profit earned by group companies that are attributable to their minority shareholders and amount to 0.35% of Value Added.

**COMMUNITY** - these refer to donations and gifts to local communities in which the Group operates (BPM allocates 3%\* of its annual net profit to good causes) and represent 0.29% of Value Added.

(\*Modified with the articles of association reform approved on 15/2/2007)

## DETAILS OF THE TAXES AND DUTIES PAID BY THE BPM PARENT BANK

During the course of 2006 the total cost to Banca Popolare di Milano for taxes and duties payable to central and local government was more than 243 million.

(in thousands of Euros)

Income taxes for the year		
	2006	2005
Central government:		
IRES	89,145	75,388
Local authorities:		
IRAP	52,855	29,317
Non-resident central governments :		
Local taxes of foreign branches	–	3,295
<b>Total</b>	<b>142,000</b>	<b>108,000</b>

(in thousands of Euros)

Indirect taxes and duties		
	2006	2005
Central government:		
Stamp duties	47,439	48,745
Stock transfer stamp duties	36,123	36,697
Flat-rate tax	328	391
Other taxes and duties	9,775	10,610
Local authorities:		
Local property tax	1,213	1,047
Other local taxes and duties	3,336	3,483
<b>Total</b>	<b>101,550</b>	<b>104,456</b>