



# BPM GROUP ECONOMIC REPORT





c. 1900 – “Naviglio Conchetta”, *Arturo Ferrari*. Owned by Banca Popolare di Milano

# ECONOMIC REPORT

The Economic Report is the section of the Social Responsibility Report which acts as the link with the Group Annual Report: it shows the main income statement figures of the BPM Group, highlighting the production and distribution of the wealth created among the stakeholders. In this sense, the “social accounting system” is not an alternative to the financial statements, but rather provides a complementary way of interpreting them.

## KEY FINANCIAL HIGHLIGHTS

Even though the crisis has continued to have a negative influence on the banking system, especially on interest spreads and asset quality, the results achieved by the Group in 2009 were particularly satisfying from both a balance sheet and an income statement point of view.

1914 sees the introduction of new personnel regulations which improve collaboration between the Bank and its employees.

*The first two decades of the 20<sup>th</sup> Century see the development of Expressionism, which exasperates form, uses violent, unnatural colours and hard, broken lines.*

In the balance sheet:

- direct deposits went up by 2.1%, mainly thanks to the trend in current and savings accounts (+3.3 million euro, +18.3%), reflecting households' preference for liquidity;
- the aggregate loans and advances to customers is more or less stable (−0.1% compared with 2008), within which there has been growth in mortgage loans (+8%) brought about by new disbursements offset by a decrease (−10%) in transactions such as advances on bills, documents and similar instruments subject to collection. Asset quality is feeling the effects of the deterioration in the macroeconomic context; however, the ratio of net non-performing loans to total loans of 1.1%, is still well below the average figure for the system of 2.02%;
- The considerable increase in assets under management (+59.5%) has benefited above all from the consolidation of Anima SGR, but also from positive net funding, against the trend of the asset management system as a whole which has suffered from continuous outflows, and the recovery in financial markets;
- the increase in assets under administration (+3.4%) is also attributable to the recovery in stock market prices.

PRINCIPAL BALANCE SHEET AGGREGATES		(in millions of Euro)		
	2009	2008	Change (+/-)	% change
Direct deposits	35,803	35,064	739	2.1
Loans to customers	32,852	32,899	(46)	−0.1
Assets under management	25,487	15,979	9,508	59.5
Assets under administration	20,245	19,488	757	3.9

Turning to the income statement:

- net interest income is down (–17.4%), partly because of the substantial decline in interest spreads, not offset by the increase in capital volumes handled on behalf of customers, and partly because maximum overdraft fees earned in the second half of the year were reclassified to commission income;
- despite the decrease in net interest income, total operating income is up by 15.5% thanks to the reclassification mentioned above and to commission for management, dealing and advisory services, driven by the positive trend in assets under management;
- the increase in operating costs (+17%) is due to widening the scope of consolidation and the non-recurring charge for the Solidarity Fund (132 million euro). Without these charges, total costs would have been slightly down (–0.3%);
- despite the hefty increase in net impairment adjustments to loans and financial assets as a result of the general deterioration in the economic context, Group net profit comes to 104 million euro, +37.6% on 2008.

PRINCIPAL COST AND REVENUE ITEMS		(in millions of Euro)		
	2009	2008	Change (+/-)	% change
Net interest income	885	1,071	(186)	–17.4
Operating income (a)	1,860	1,610	250	15.5
Operating costs (b)	(1,261)	(1,078)	183	17.0
Operating profit (= a – b)	599	532	67	12.6
Net profit for the year	104	75	29	37.6

The continuous growth and constant expansion of BPM, BL and CRA up to the first decade of the 20<sup>th</sup> Century come to an abrupt stop for the first time because of World War I.

*In 1909, Marinetti's "Manifest of Futurism" sets out the principles of movement, including the abolition of traditional perspective in favour of a simultaneous vision.*

The ratios shown in the following table reflect the above trend in costs and revenues and balance sheet aggregates. In particular, we would point out:

- the cost to income ratio has gone up by 0.8 percentage points; net of the non-recurring charge for the Solidarity Fund, it would have come to 60.7%, down by more than 7 p.p. on 2008;
- the ratio of net non-performing loans to total loans (1.05%) is worse than in 2008, but it is still low and at an acceptable level compared with the system average (2.02% – Source: ABI);
- both capital ratios (Total Capital Ratio and Tier 1) have gone up thanks to the measures adopted by the Group to strengthen its capital (see the chapter on “Members and Shareholders”, page 146);
- productivity per employee has increased both in terms of total assets under management (+17.3%), above all because of the substantial increase in indirect deposits, and in terms of loans (+1.3%).

SOME INDICATORS			
	2009	2008	% change
ROE <sup>1</sup>	2.7%	2.4%	+ 0.3 p.p.
Cost to Income Ratio	67.8%	67.0%	+ 0.8 p.p.
Net non-performing loans/Loans and advances to customers, net	1.05%	0.6%	+ 0.45 p.p.
Total Capital Ratio <sup>2</sup>	12.6%	11.9%	+ 0.7 p.p.
Tier 1 <sup>3</sup>	8.6%	7.7%	+ 0.9 p.p.
Total assets under management/Employees <sup>4</sup>	9,414 mn	8,028 mn	+17.3%
Loans and advances to customers/Employees	3,793 mn	3,744 mn	+1.3%

<sup>1</sup> Net profit/Shareholders' equity at end of period net of goodwill and net profit.

<sup>2</sup> Regulatory capital/Total risk-weighted assets.

<sup>3</sup> Tier 1 capital/Total risk-weighted assets.

<sup>4</sup> Direct deposits + assets under management + assets under administration/Total number of employees at end of period.

More detailed information is available in the consolidated financial statements of the BPM Group, in the press release on approval of the 2009 annual report, in the presentation of the 2009 results to the financial community ([www.bpm.it](http://www.bpm.it) in the Investor Relations section) and in the Letter to the Members.



**1933**  
*"Oracle",*  
Mario Sironi.  
Owned by  
Banca Popolare  
di Milano



**1939** – “Mother and Daughter”, *Carlo Carrà*.  
Owned by Fondazione Cassa di Risparmio di Alessandria

# CALCULATION OF VALUE ADDED

Just reading the financial statements is not sufficient to understand the economic benefits generated by the Bank for its stakeholders.

This is why the Social Report looks at Value Added, which allows us to:

- measure the wealth created during the year;
- show how it is distributed among the various stakeholders.

In 2009 the Group generated total value added of 1,552 million euro, which is around 9% up on the previous year, mainly thanks to the contribution made by the financial side of the business.

The ongoing difficulties in the economic and financial context have in fact had a negative impact on interest spreads and asset quality, while “net trading income” and the “net gain (loss) from financial instruments designated at fair value” have gone from a negative balance in 2008 to a positive one of 37 million euro and 49 million euro, respectively, in 2009. These have benefited, on the one hand, from the recovery in security prices and from the narrowing of credit spreads and, on the other, from the profits generated by interest rate derivative transactions carried out when the scenario was one of declining rates in order to mitigate the Group’s exposure to interest risk.

During World War I, BPM set aside special funds for the families of employees as a source of support to cope with the high cost of living.

*Starting in 1917 Carlo Carrà, together with other artists, defines the theoretical principles of the Metaphysical movement, to which the author’s works do not always remain faithful.*

Generally speaking, in 2009 stakeholders received a higher slice of value added compared with the prior year, except for the portion distributed to the communities and for the environment as less profit was assigned to the charity fund, this being calculated on the basis of the previous year's earnings.

In particular, there has been an increase in:

- the portion allocated to the employees (+22%), mainly because of the non-recurring charge of 132 million euro to the "Solidarity Fund for Income Support" set up for Banca Popolare di Milano, Banca di Legnano and Cassa di Risparmio di Alessandria. Without this charge, the increase would have been around 3%;
- the portion distributed to the shareholders, including the interest attributed to the Tremonti Bonds, which are considered a special category as their characteristics make them similar to equity.

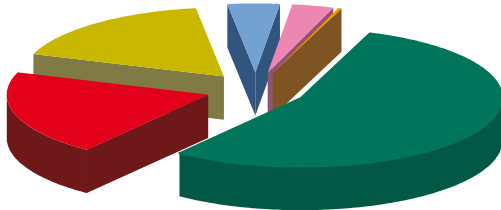
Even though the percentage distributed has changed, the amount involved is much the same as for 2008: as is the case in most banks, the largest portion of value added goes to the personnel (54.8%), followed by suppliers (19.9%), public bodies and institutions (17.6%), members and shareholders (4.2%), retained earnings (3.3%) and the community (0.2%).

CALCULATION OF VALUE ADDED		(in thousands of Euro)		
Line item in the financial statements	2009	2008	% change	
10 Interest and similar income	1,478,803	2,317,899	-36.2%	
20 Interest expense and similar charges (-)	-593,992	-1,246,639	-52.4%	
40 Fee and commission income	767,340	609,898	25.8%	
50 Fee and commission expense, excluding expenses for external networks (-)	-118,343	-73,670	60.6%	
70 Dividend and similar income	166,928	178,686	6.6%	
80 Net trading income	37,308	-76,833	n.s.	
90 Net hedging gains (losses)	-805	781	n.s.	
100 Gains (losses) on disposal or repurchase of:	41,043	11,453	258.4%	
- <i>receivables</i>	11,965	-2,459	n.s.	
- <i>financial assets available for sale</i>	8,173	4,140	97.4%	
- <i>financial liabilities</i>	20,905	9,772	113.9%	
110 Net gain (loss) from financial instruments designated at fair value	49,344	-145,389	n.s.	
130 Net impairment charges:	-364,792	-238,755	52.8%	
- <i>receivables</i>	-336,878	-204,995	64.3%	
- <i>financial assets available for sale</i>	-20,540	-28,378	-27.6%	
- <i>other financial transactions</i>	-7,374	-5,382	37.0%	
220 Other operating income (costs)	88,780	87,547	1.4%	
270 Gains (losses) on disposal of investments	200	-612	n.s.	
<b>A. Total economic value generated</b>	<b>1,551,814</b>	<b>1,424,366</b>	<b>8.9%</b>	
180 b) Other administrative expenses, net of indirect taxes, donations and gifts (-)	-309,053	-301,184		
<b>Economic value distributed to suppliers</b>	<b>-309,053</b>	<b>-301,184</b>	<b>2.6%</b>	
180 a) Personnel, including expenses for external networks (-)	-849,992	-694,263		
<b>Economic value distributed to employees</b>	<b>-849,992</b>	<b>-694,263</b>	<b>22.4%</b>	
330 Minority interests	628	-7,657		
Profit allocated to the shareholders	-41,504	-41,503		
Profit allocated to interest on financial instruments issued under Art. 12 of Decree 185/2008	-24,219	0		
<b>Economic value distributed to shareholders</b>	<b>-65,095</b>	<b>-49,160</b>	<b>32.4%</b>	
180 b) Other administrative expenses: indirect taxes and duties (-)	-74,695	-66,415		
290 Income taxes for the year (for the portion relating to current taxes, changes in prior year current taxes and the reduction in taxes)	-198,451	-162,458		
<b>Economic value distributed to central and local government</b>	<b>-273,146</b>	<b>-228,873</b>	<b>19.3%</b>	
180 b) Other administrative expenses: donations and gifts (-)	-2,006	-1,743		
Profit allocated to the charity fund	-1,577	-2,297		
<b>Economic value distributed to communities</b>	<b>-3,583</b>	<b>-4,040</b>	<b>-11.3%</b>	
<b>B. Total economic value distributed</b>	<b>-1,500,869</b>	<b>-1,277,520</b>	<b>17.5%</b>	
190 Net charges to provisions for risks and charges	16,885	34,527		
200 Net adjustments to property, plant and equipment	40,865	41,281		
210 Net adjustments to intangible assets	38,336	26,960		
240 Share of profit (loss) of equity investments	1,058	33,595		
260 Adjustments to goodwill (-)	0	9,032		
290 Income taxes for the year (for the portion relating to changes in deferred tax assets and liabilities)	-84,029	-32,315		
Profit allocated to reserves	37,830	33,766		
<b>C. Total economic value retained (C = A - B)</b>	<b>50,945</b>	<b>146,846</b>	<b>-65.3%</b>	

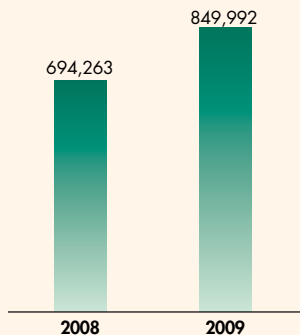
# DISTRIBUTION OF VALUE ADDED TO STAKEHOLDERS

ECONOMIC VALUE GENERATED		(thousands of euro)	
	2009	2008	
<b>Economic value generated</b>	<b>1,551,814</b>	<b>1,424,366</b>	
Divided amongst:			
Personnel	54.8%	48.7%	
Suppliers	19.9%	21.1%	
Public bodies and institutions	17.6%	16.1%	
Members and shareholders	4.2%	3.5%	
Value added retained	3.3%	10.3%	
Community	0.2%	0.3%	

- Personnel 54.8%
- Suppliers 19.9%
- Public bodies and institutions 17.6%
- Members and shareholders 4.2%
- Value added retained 3.3%
- Community 0.2%

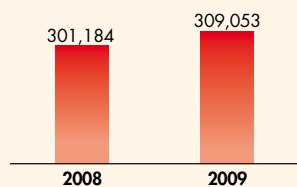


### PERSONNEL



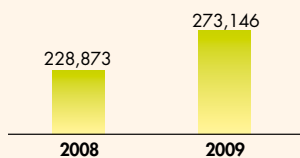
Portion allocated to employees, directors and other personnel in the form of salaries, social security charges, severance indemnities and other remuneration.

### SUPPLIERS



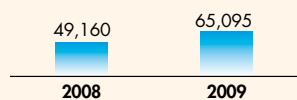
Portion allocated to suppliers for the payment of administrative expenses.

### PUBLIC BODIES/INSTITUTIONS



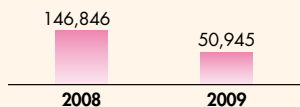
Portion paid over to the State and local authorities in the form of income taxes and indirect taxes.

### MEMBERS AND SHAREHOLDERS



Portion distributed to the members and shareholders in the form of dividends.

### VALUE ADDED RETAINED



Portion reinvested in the Group in terms of retained earnings and in the form of depreciation and amortisation.

### COMMUNITY



Portion allocated to the community in the form of donations and gifts.