

# **2004-06 Strategic Plan Analyst presentation**

**Milan, 19 May 2004**



**Banca Popolare di Milano**

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# Agenda

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**BPM strategy and figures**

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**2004-06 Strategic Plan**

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**Key targets**

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**Annex**

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# BPM profile at a glance

## Business profile

12 banking Group in Italy

### **Strong local branches network:**

703 retail, corporate and private point of sales

**Wide customer base** : around 1.350.000 retail and Smes and 14.750 corporates

**90% of products** in Wealth Management and investment banking are home made products

## Financial highlights at 31.03.04

Customer loans: 17,1 bn €, + 6,1% YoY

Direct deposits: 18,4 bn €, + 3,3% YoY

Indirect deposits: 31,2 bn €, + 8,9% YoY

- of which AUM : 17,1 bn € + 12,6% YoY with a market share of 2,26% in mutual funds

IQ net profit: 33,0 mln €, + 30,1% YoY

# BPM Group structure and governance

- BPM Group organisation: based on a **federative model**
- BPM parent company ensures **the unitary strategic direction and** conducts its **governance and control** activity by:
  - defining the **objectives of individual subsidiaries**, whose respective **Boards and Management** become **fully accountable for their achievement**
  - providing **Group operational support** and continuous **qualitative-quantitative expansion of products**
- Subsidiaries fully exploit the **value of their brand** enhancing their potential within the Group

# Strong focus on retail and SMEs...

**Share of total revenues in 2003 (%)**  
(100% = € 1,395 mln)

## RETAIL BANKING

67 %

BANCA DI LEGNANO

CR ALESSANDRIA

BPM PRIVATE BANKING SIM

BANCA AKROS

WE@SERVICE

## CORPORATE BANKING

18 %

BPM

BPM LONDON BRANCH

BPM NEW YORK BRANCH

## INVESTMENT BANKING

11 %

BPM IRELAND

BANCA AKROS

AKROS SECURITIES

TIRVING

## WEALTH MANAGEMENT

4 %

BPM GESTIONI SGR

BPM VITA

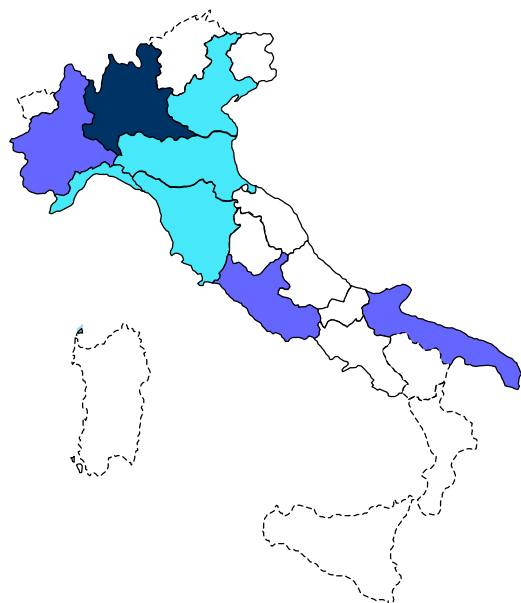
BPM REAL ESTATE SGR

BPM FUND MANAG.

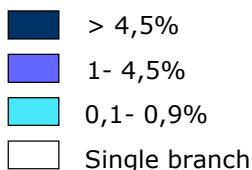
AKROS HFR ALT. INVEST. SGR

BPM PRIVATE EQUITY SGR

# ... thanks to BPM deep penetration in the wealthiest areas of Italy

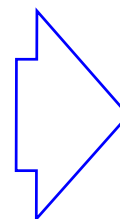


## Branch market share



**Retail Branches: 668**

**Corporate and  
Private branches: 35**



**703 branches**

Region	Branches	% MSh Branches	% GDP	% Wealth (**)	% Companies
<b>Lombardy</b>	<b>443</b>	<b>7,4%</b>	<b>20,3%</b>	<b>38,5%</b>	<b>17,4%</b>
<b>Piedmont</b>	<b>85</b>	<b>3,4%</b>	<b>8,5%</b>	<b>8,8%</b>	<b>8,2%</b>
<b>Apulia</b>	<b>36</b>	<b>2,6%</b>	<b>4,7%</b>	<b>2,3%</b>	<b>5,8%</b>
<b>Latium</b>	<b>54</b>	<b>2,0%</b>	<b>10,1%</b>	<b>11,6%</b>	<b>8,4%</b>
<b>TOTAL</b>	<b>618</b>	<b>4,9%</b>	<b>43,6%</b>	<b>61,2%</b>	<b>39,8%</b>
Other Regions	49	0,4%	41,5%	32,1%	44,1%

Sources: system data, Bank of Italy, 2003 Statistical Bulletin; ISTAT, 8th general census of industry and services 2001

(\*) No. branches: BPM (494), Banca of Legnano (100), CR Alessandria (74)  
(\*\*) Direct and indirect funding

# The base of the new strategic plan

## ■ Changes in corporate governance

## ■ Change in risk profile and RWA mix (%)

	dec-00	dec-03	Δ
Retail	23,8	28,9	+21,4
SMEs	23,8	37,4	+57,2
Large corporate	43,3	22,3	-48,6
- o.w. foreign branches	28,1	7,1	-74,7
Other	9,1	11,4	+25,3

## ■ Maintaining strong capital ratios (%)

	dec-00	dec-01	dec-03
Tier 1 ratio	6,87	6,09	6,99

## ■ Internal and external growth

Banca di Legnano integration

Acquisition of CR Alessandria

# Agenda

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**BPM strategy and figures**

**2004-06 Strategic Plan**

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**Key targets**

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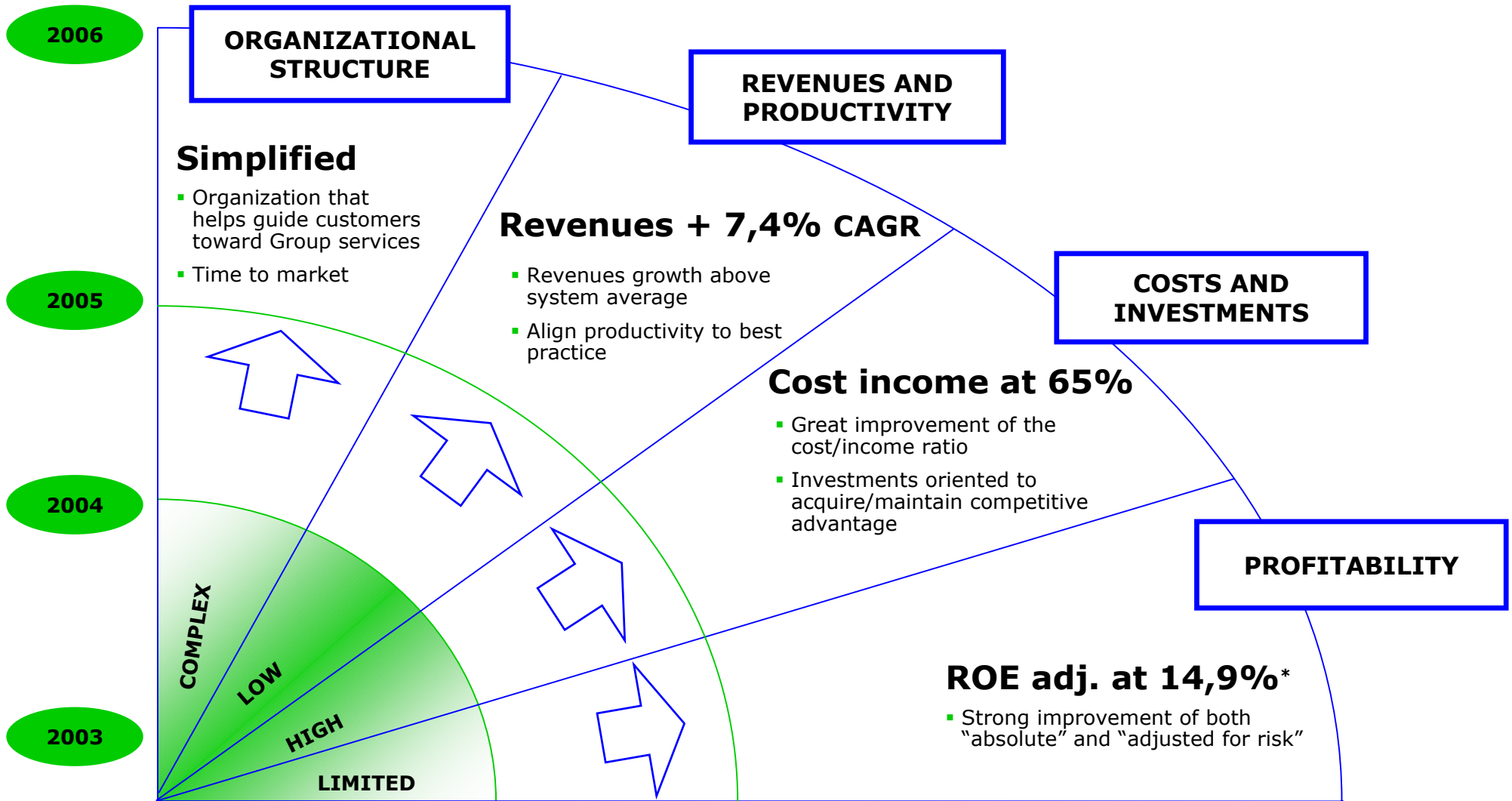
**Annex**

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# BPM Strategic Plan rational

- Rationalise organisation and distribution structures**
- Activate BPM's revenue and productivity potential**
- Act on costs and improve BPM's efficiency**
- Enhance profitability to meet shareholders' expectations**

# 2004-06 Strategic Plan objectives



# 2004-06 Strategic Plan key targets

Key Targets	2003 (3)	2006	CAGR '03-'06
Total revenues (mln €)	1.395	<b>1.728</b>	+7,4%
Administrative costs (mln €)	1.106	<b>1.127</b>	+0,6%
Net profit (1) (mln €)	63	<b>279</b>	+64,3%
EPS	0,18	<b>0,65</b>	54,9%
Cost/income (%)	79,3%	<b>65,2%</b>	-6,3%
ROE (1) (%)	2,8%	<b>11,2%</b>	59,5%
ADJ. ROE (2) (%)	6,3%	<b>14,9%</b>	33,1%
EVA® (mln €)	-116	<b>27</b>	nm
RARORAC	3,1%	<b>10,4%</b>	49,8%
Tier 1 (%)	7,0%	<b>7,0%</b>	

(1) Gross of minorities

(2) Adjusted for goodwill amortisation and extraordinary income

(3) Pro-forma figures

## 2004-06 Strategic Plan

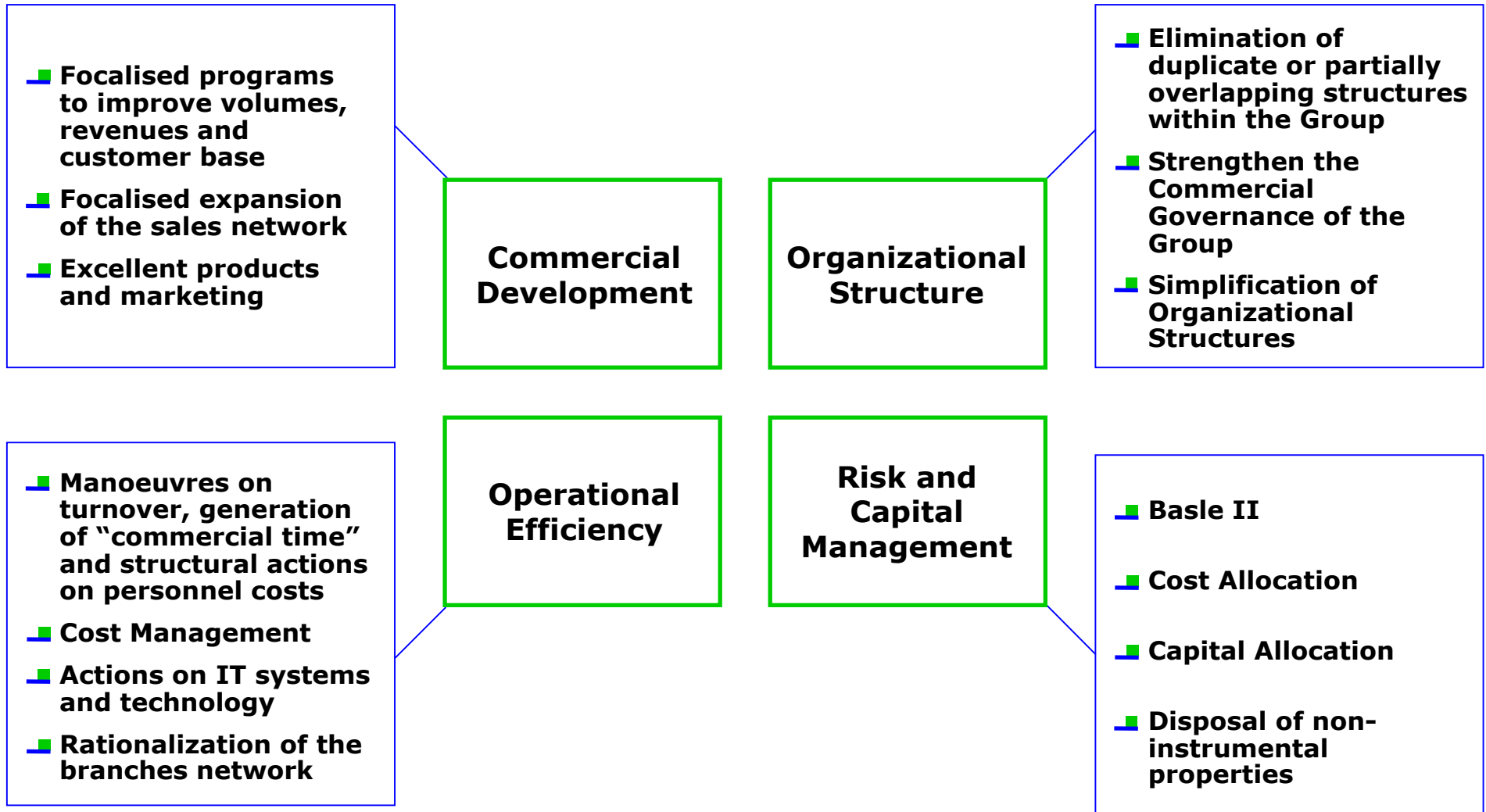
Organizational structure

Commercial development

Operational efficiency

Risks and capital management

# From the cost income project to the new Strategic Plan



# Implementation priorities

	Commercial development		Organizational Structure	Operational efficiency	Risk and Capital Management
	Existing customers	New customers			
<b>RETAIL BANKING</b>					
<b>CORPORATE BANKING</b>					
<b>INVESTMENT BANKING</b>					
<b>WEALTH MANAGEMENT</b>					

● High priority

○ Limited priority

## 2004-06 Strategic Plan

Organizational structure

Commercial development

Operational efficiency

Risks and capital management

# Organizational structure: key actions

**Eliminate duplicate or partially overlapping structures within the Group**

- **Centralize** activities in the **Group Finance area**
- Concentrate **Internet services** within the parent company
- **Centralize governance of expenditure** at the Group level
- **Centralize Group administrative and human resources** activities, to manage people, skills and infra-Group allocation more efficiently

**Strengthen the Commercial Governance of the Group**

- **Integrate Group commercial governance** with a particular focus on:
  - geographical expansion policies
  - marketing and offering

**Rationalize Organizational Structures**

- **Revise** and **simplify** the **organizational structure** of the parent company with the objective of
  - shortening the Network Centre "chain of command"
  - simplify and eliminate rigidities in human resource management

## 2004-06 Strategic Plan

Organizational structure

**Commercial development**

Operational efficiency

Risks and capital management

# Commercial development: key actions and objectives

- **Focalised programs to improve volumes, revenues and customer base**
  - Generate “commercial time”
  - Incentive plan for the sales force
  - “Sales force transformation” through continuous and focused training and coaching
  - New branch model: processes re-engineering, upgrade commercial instruments, layout
- **Focalised expansion of the sales network**
- **Excellent products and marketing**
  - **Strengthen CRM tools**, enriching customer insight and interaction instruments in use to the sales force (Next product, Corporate CRM)
  - Keep **innovation and quality** on products at high standard

Align **profitability per client** to best practice

**Total revenues**  
**CAGR '03-'06: 7,4%**  
vs 5,4% expected Industry average

Align **productivity** and **efficiency** of the sales force to best practice

# Retail area: leveraging on BPM strengths...

## BPM starting point

- Geographical positioning not enough exploited
- **Products:** wide range and competitive pricing in the mass market
- High customer satisfaction
- High customer loyalty

key  
commercial  
actions

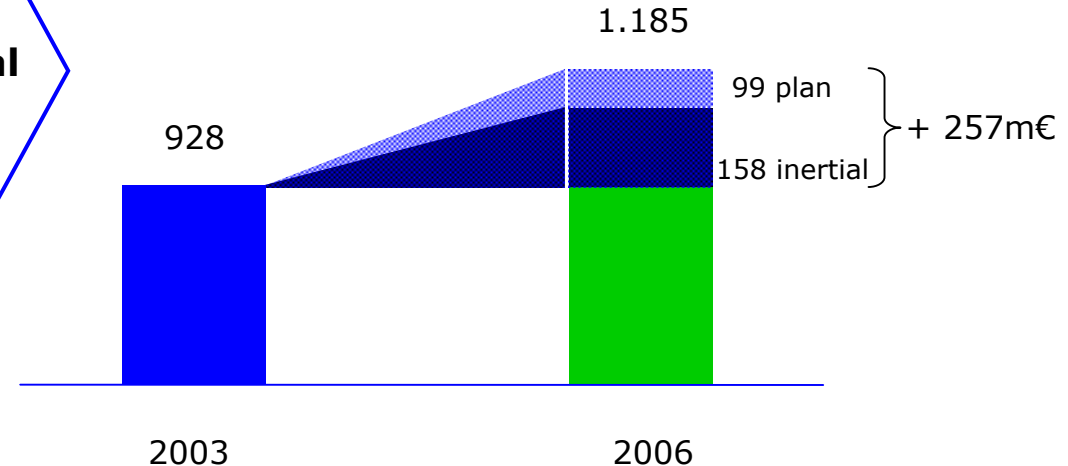
## Main financial targets 2006 (bln €)

**Loans:** 11,6 bln € CAGR 8,8%

**Direct deposits:** 17,9 bln € CAGR 5,3%

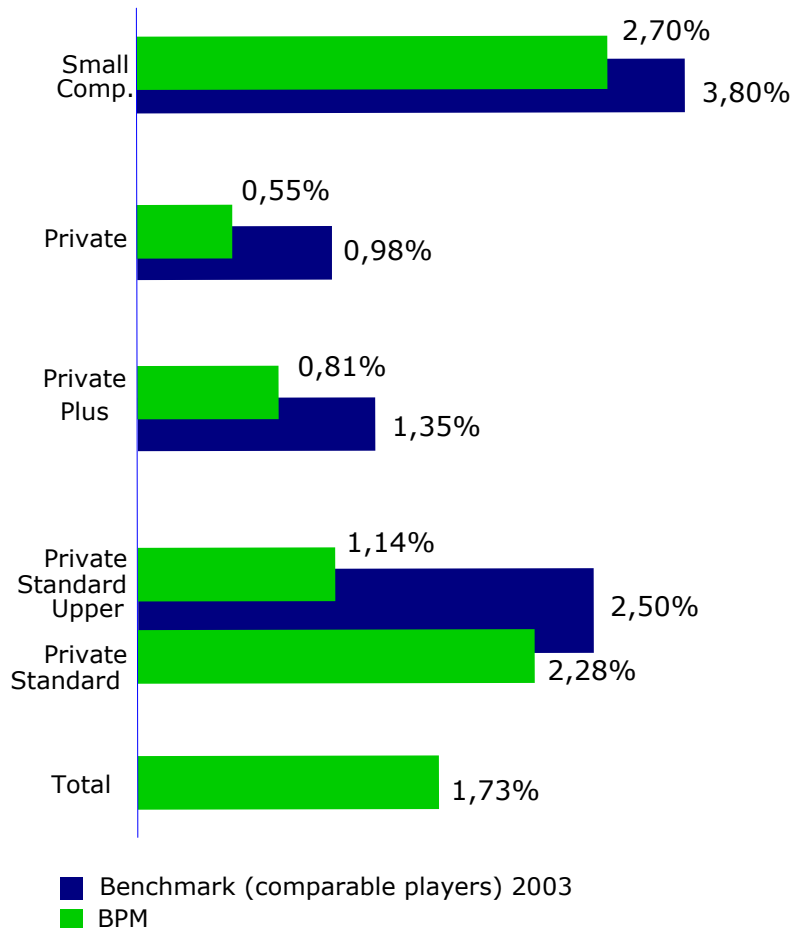
**Indirect deposits:** 37,2 bln € CAGR 7,4%

**Total revenues:** 1,2 bln € CAGR 8,5%



# ...to unlock **BPM** unexploited potential

## Total revenues/intermediated assets



## Major actions to improve profitability:

- Align profitability in the **AUM business** leveraging on superior performances and overall product quality
- Align profitability in **private segment** acting on **deposits and assets under custody**
- Act on **loans** to increase penetration
- Develop **Consumer Credit** business through alliances with specialised partners

# The commercial development plan for the Retail Area

Objectives	Key commercial actions	Revenues generation 2006 vs 2003
<b>Develop the customer base:</b> align <b>acquisition</b> rates to the Industry average (from 6% to 9% in 3 years)	<b>Client segmentation</b> , ad hoc advertising <b>campaigns</b> , investments in <b>communication</b> , <b>incentive plans</b> for the sales force	+ 45,3 mln €
<b>Develop volumes and revenues</b> with <b>existing customers</b>	<b>Wealth management:</b>	+ 32,2 mln €
	<b>Mass and affluent:</b> remix managed portfolio to improve AM profitability by 20 bp	
	<b>Private:</b> improve profitability by 13 bp with a focus on "distinctive" AM products	
	<b>Lending:</b>	+ 5 mln €
	<b>Mass and affluent:</b> growth in mortgages and personal loans acting on innovative products	
	<b>Small business:</b> increase the amounts loaned by developing marginal customers with high potential	+ 16,1 mln €
		<b>+ 98,6 mln € Total</b>

# Corporate area: focusing on medium corporate...

## BPM starting point

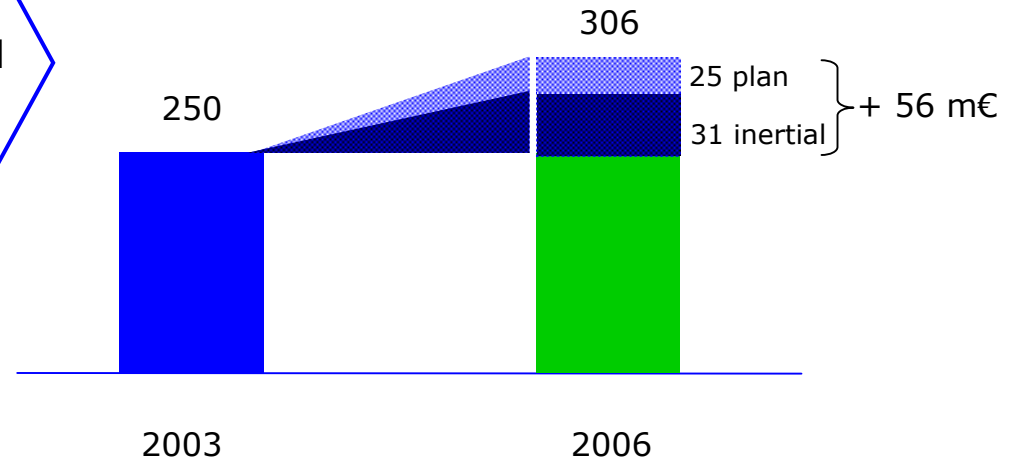
- Geographical positioning not enough exploited
- Wide range of **traditional** products
- Competitive and flexible **pricing**
- High degree of **client coverage**

key  
commercial  
actions

## Main financial targets 2006

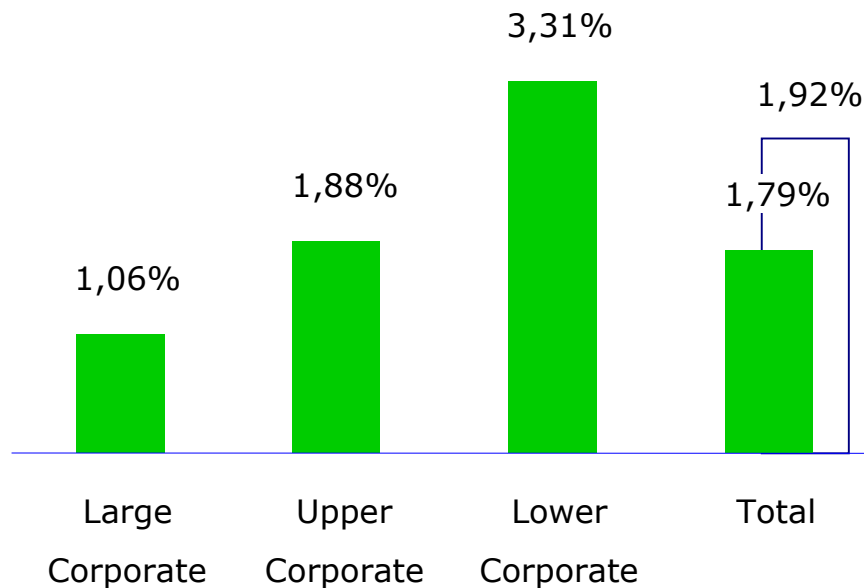
**Loans Corporate:** 11,4 bln € CAGR 7,4%

**Total revenues:** 306 mln € CAGR 7,0%

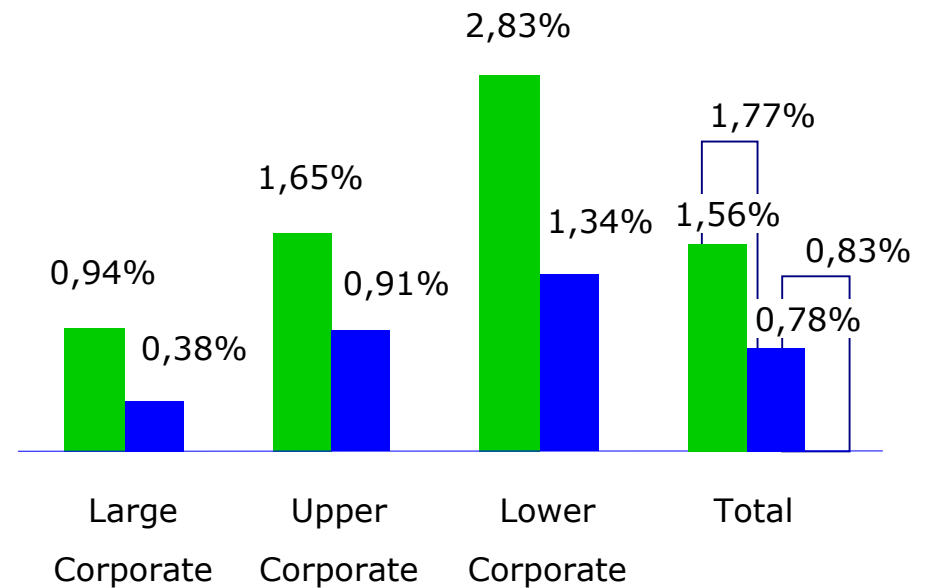


# ...to improve overall profitability

## Total revenues/intermediated assets



## Loans and deposits profitability



■ BPM  
□ Benchmark

■ Loans  
■ Deposits  
□ Benchmark



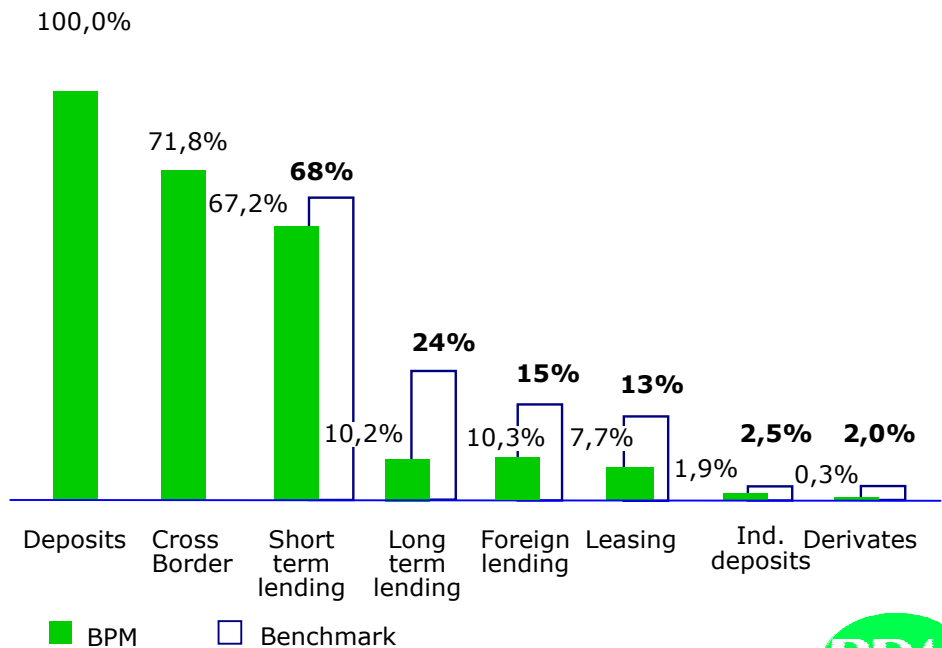
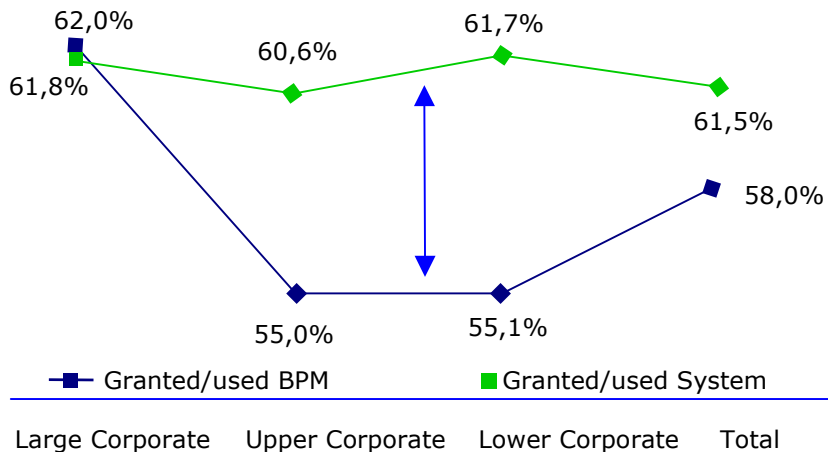
# Strong potential leveraging on existing customers

Granted/used ratio below system average for upper and lower customers in particular in short term facilities

About 20% of corporate clients give a low return (marginal customers)

## Granted/used ratio vs System (%)

## Products: BPM vs market



# The commercial development plan for the Corporate Area

Objectives	Key commercial actions	Revenues generation 2006 vs 2003
Develop <b>mid corporate customer base</b> : improve <b>acquisition</b> rates by 3%, decrease <b>defection</b> rates by 2%	Geomarketing analysis and improve target methodologies, analysis of <b>marginal customers</b> and <b>dedicated</b> commercial efforts	+ 5,7 mln €
Develop <b>share of wallet</b> in the <b>Midsize and Small Corporate</b> segments	Strong <b>growth</b> in <b>penetration of the medium and long term products</b> on the customer portfolio and <b>Corporate Finance</b>	+ 6,6 mln €
	Develop <b>marginal customers</b> and generally increase the <b>granted/used ratio</b>	+ 5,6 mln €
Develop <b>margins from services to Large Customer</b>	Develop non interest income through active <b>client planning</b> , and wide <b>non traditional lending offer</b> (Advisory, corporate finance ...).	+ 7,1 mln €
		<b>+ 25,0 mln € Total</b>

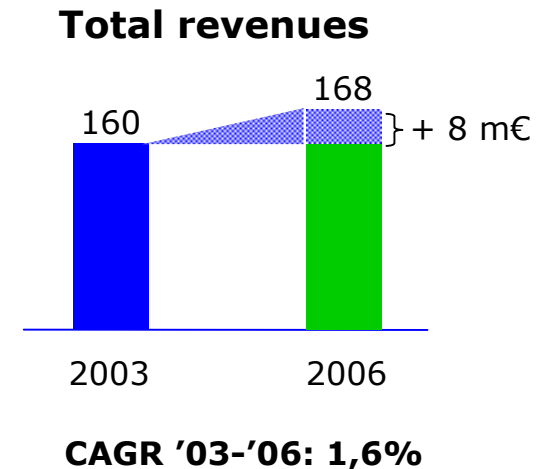
# The commercial development plan for the Investment Banking

## Main financial targets 2006:

- **Stable revenues despite increased competitive** pressure generated by European directive I.S.D. (direct access to markets and end of the obligation to concentrate trading)

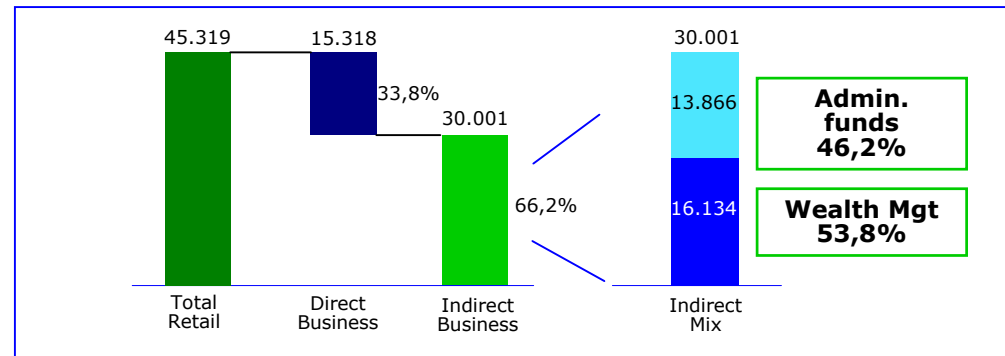
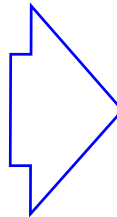
## Key actions:

- **Develop services to support corporate and mid-cap customers** of the **Group banks**: hedging interest and exchange rates, derivatives, structured finance
- **Beef up** presence in the **primary/corporate finance** markets with advisory, IPO, bond issue services

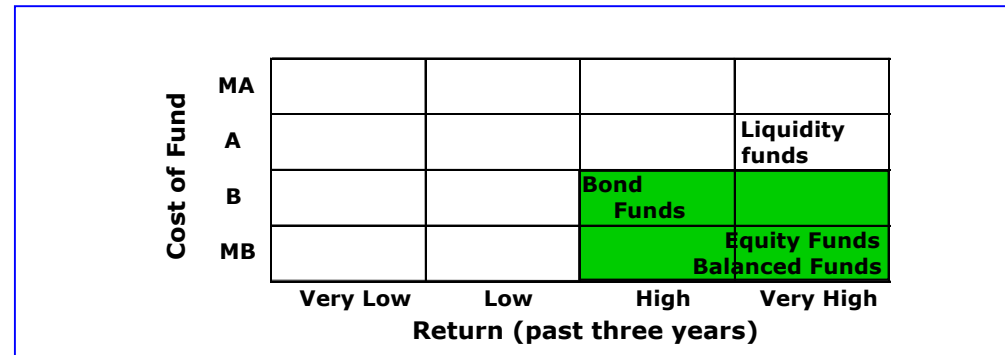
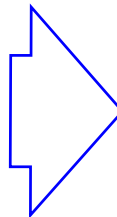


# Wealth management: a good starting level

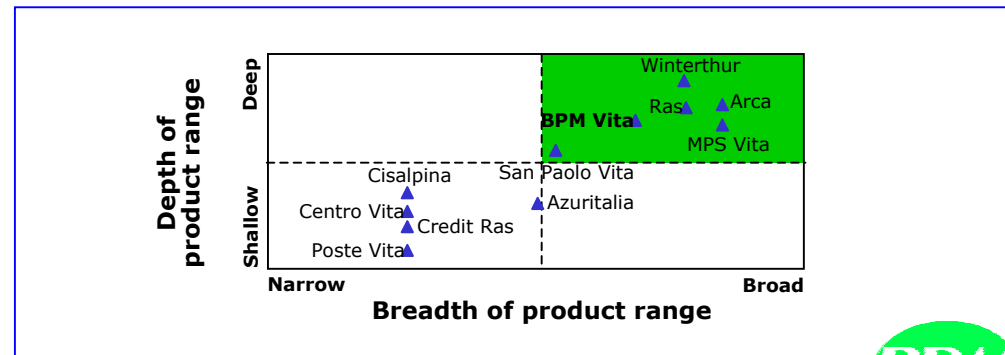
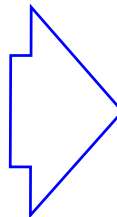
■ **Good mix of customers' funds** - high weight of managed wealth on indirect total



■ Competitive offering of **BPM Gestioni SGR** (good performance and retained prices)...



■ ...and of **BPM Vita** products (range well-position in the market)



# The commercial development plan for Wealth Management

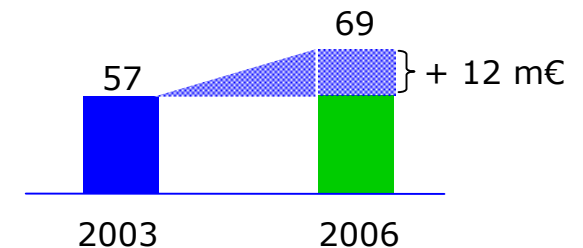
## Main financial targets 2006:

- **Bipiemme Gestioni SGR:** Average indirect funds, +27% vs 2003;
- **Bipiemme Vita:** Premiums collected, +55% vs 2003

## Key actions:

- **Maintain attractive pricing through further increases in efficiency with** economies of scale on operating costs
- **Rapidly adjust the product range to** new demands of customers and upgrade excellence of **"alternative investment"**
- **Acquire new funds** to manage from **"federated" banks**

## Total Revenues



CAGR '03-'06: 6,3%

## 2004-06 Strategic Plan

Organizational structure

Commercial development

**Operational efficiency**

Risks and capital management

# Operational efficiency: key actions

**The three years objective is to keep costs strictly under control versus a consistent growth of business activity**

## ■ Personnel area:

- **Group personnel reduction** and structural actions on **personnel costs**
- Re-engineering and rationalisation of operating processes in the headquarter to support the **shift of resources from centre to network**
- Optimisation of operating processes in the branches network to **generate "commercial time"**

## ■ **Cost Management** plan to keep operating expenses under control

## ■ **Actions on IT system and technology** to keep spending under control and to better exploit investments made

## ■ **Rationalisation** of branches' network

# Costs strict under control

## Personnel area

- **Group headcount cut of total 270 resources in three years**
- **Reduction of around 400 employees in central structures**, through:
  - shift of 90 resources from Centre to Network
  - freeze of physiological and incentive turnover, around 310 resources
  - Network /Centre ratio from **70/30 to 75/25**
- **Reinforcement of network sales force** with around 120 resources
- **Optimisation of operating processes in the branches network to generate commercial time:**
  - shift of 250 employees, around 12% of back office network resources, from back to front office

## Operating expenses

- Group **operating expenses down 2% per year** through:
  - centralisation and optimisation of Group procurement process
  - structural analysis and actions on main costs areas (Zero Base Budget criteria)

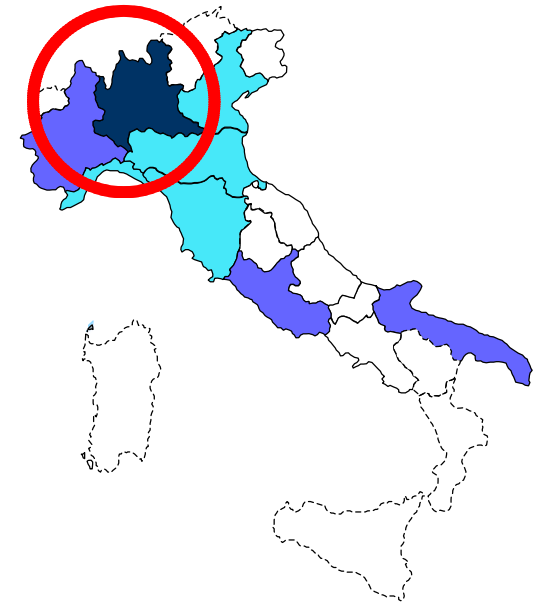
# Rationalisation of the branches network

**Branch network expansion plan:** focused opening of new branches to build up in areas where market share is already strong

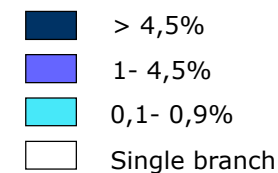
- 60 new branches concentrated in Lombardy, Piedmont and Latium

**Bolster high-profit branches as appropriate**

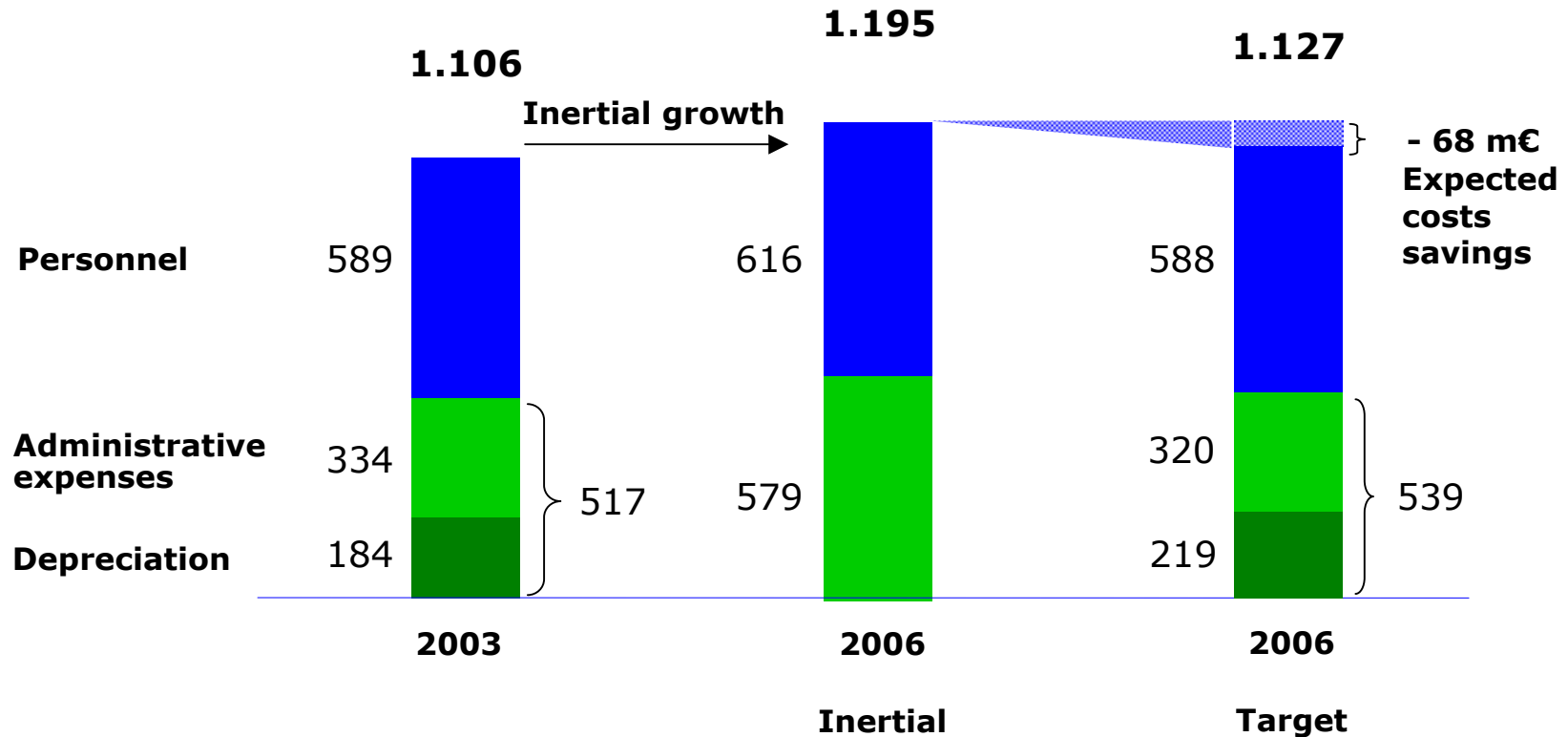
**Possibly close and transfer branches** from markets with **sub-optimal positioning/development opportunities**



**Branch Market Share**



# Costs savings at 68 mln €



## 2004-06 Strategic Plan

Organizational structure

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Operational efficiency

**Risks and capital management**

# Risk and Capital Management: key actions

**The three-year objective is to optimise risk management and capital allocation**

- **Centralize Group risk management** consistently with the **centralization of the Finance Area** and realization of the **Basilea 2 Project**
- Systematically review the **optimal capital allocation** to the **business areas/entities of the Group**
- **Sell off non-instrumental properties** within the next three years (expected net capital gains of around € 40 mln)
- Assign **priority to investments** that permit the acquisition of competitive advantages (**adopt stringent grading criteria**)
- Enrich **management information systems** to support the **governance of cost responsibilities**

# Agenda

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**BPM strategy and figures**

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**2004-06 Strategic Plan**

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**Key targets**

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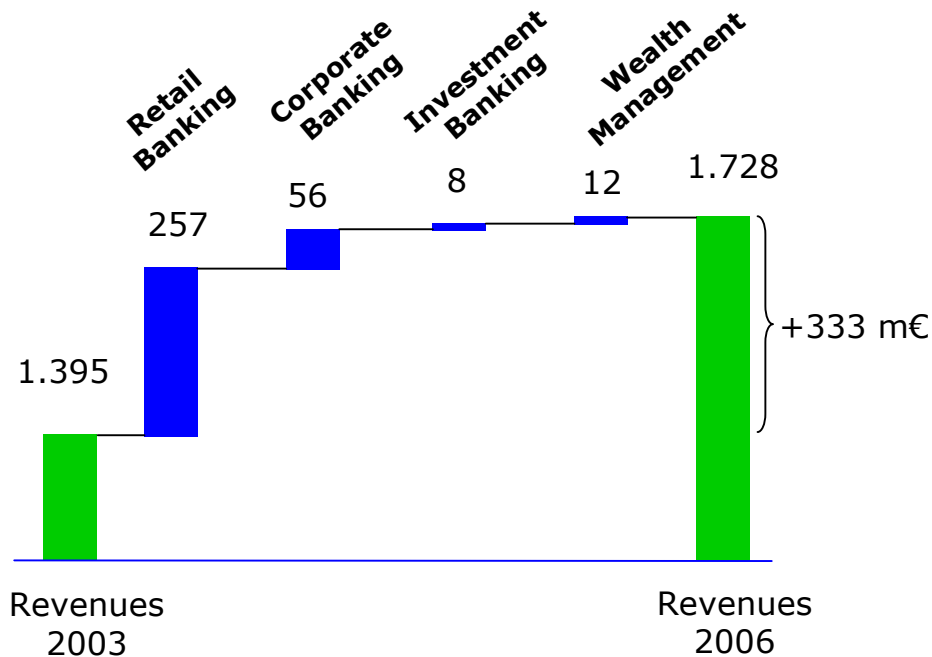
**Annex**

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# 2004-06 Strategic Plan: impact on revenues and costs

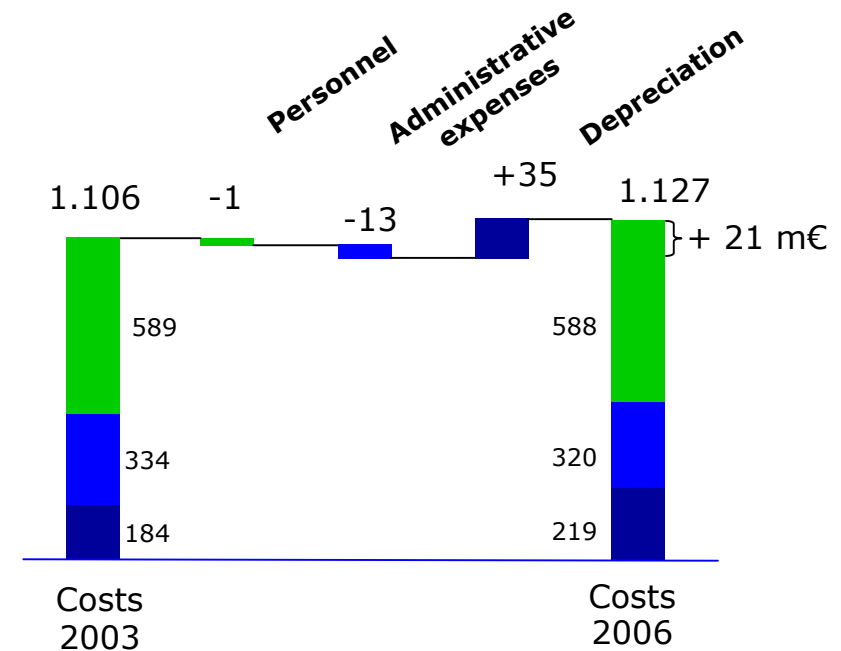
## Focus on Retail and SMEs

**Revenues 2006: CAGR + 7,4%**



## Focus on Cost Management

**Costs 2006: CAGR + 0,6%**



■ Personnel   ■ Administrative expenses   ■ Depreciation

**Key targets**

# 2004-06 impact on profitability

Profit and Loss in mln €	2003	2006	CAGR '03-'06
Total Revenues	1.395	1.728	+7,4%
Administrative costs	(1.106)	(1.127)	+0,6%
<b>OPERATING INCOME</b>	<b>289</b>	<b>601</b>	<b>+27,6%</b>
Net adj. and provisions	(176)	(160)	-3,2%
Extraordinary income (1)	1	31	nm
<b>PRE TAX PROFIT</b>	<b>114</b>	<b>472</b>	<b>+60,7%</b>
Taxes	(51)	(193)	nm
<b>NET INCOME (2)</b>	<b>63</b>	<b>279</b>	<b>+64,3%</b>
Cost income	79,3%	65,2%	
Cost income adjusted	73,0%	59,9%	
<b>ROE (2)</b>	<b>2,8%</b>	<b>11,2%</b>	
<b>ROE Adjusted (3)</b>	<b>6,3%</b>	<b>14,9%</b>	
NPL/loans	0,75%	0,6-0,7%	
NPL coverage ratio	66%	60-70%	

- 1) Capital gains from disposal of non instrumental properties  
 2) Gross of minorities  
 3) Adjusted for goodwill amortisation and extraordinary income

## Key targets

# 2004-06 Strategic Plan: volumes growth

	2003	2006	CAGR '03-'06
Deposits (bln €)	18,5	21,0	+4,3 %
Assets management (bln €)	16,5	22,2	+10,3 %
Assets in custody (bln €)	15,2	16,8	+3,6 %
Customer loans (bln €)	18,2	23,0	+8,1 %
<b>TOTAL</b>	<b>68,4</b>	<b>83,0</b>	<b>+6,7 %</b>

# 2004-06 Strategic Plan: key targets

	2003 (3)	2006	CAGR '03-'06
<b>Total revenues (mln €)</b>	1.395	<b>1.728</b>	+7,4%
<b>Administrative costs (mln €)</b>	1.106	<b>1.127</b>	+0,6%
<b>Net profit (1) (mln €)</b>	63	<b>279</b>	+64,3%
<b>EPS</b>	0,18	<b>0,65</b>	54,9%
<b>Cost/income (%)</b>	79,3%	<b>65,2%</b>	-6,3%
<b>ROE (1) (%)</b>	2,8%	<b>11,2%</b>	59,5%
<b>ADJ. ROE (2) (%)</b>	6,3%	<b>14,9%</b>	33,1%
<b>EVA® (mln €)</b>	-116	<b>27</b>	nm
<b>RARORAC</b>	3,1%	<b>10,4%</b>	49,8%
<b>Tier 1 (%)</b>	7,0%	<b>7,0%</b>	

1) Gross of minorities

2) Adjusted for goodwill amortisation and extraordinary income

3) Pro-forma figures

# Agenda

**BPM strategy and figures**

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**2004-06 strategic plan**

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**Key targets**

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**Annex**

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# The European economies are showing signs of gradual recovery, though growth rates are limited

	2003	2006	CAGR '03-'06
EU GDP (y/y, %)	0,5 %	2,3 %	2,1 %
Italian GDP (y/y, %)	0,4 %	2,1 %	2,0%
EU consumer prices (y/y, %)	2,1 %	1,9 %	1,7 %
Italian consumer prices (y/y, %)	2,7 %	1,9 %	1,9 %
3-month EURIBOR rate (%)	2,3 %	2,7 %	2,4 %
EU investment market (y/y, %)	-0,4 %	3,1 %	2,9 %

■ **Timid recovery of the economies** in 2004, with a forecast for more sustained growth in the next few years

■ **Declining inflation rates**, both European and Italian

■ Expectations of a **slight reduction in interest rates** in 2004, returning upward in 2005-06

■ **Recovery of the investment cycle**, thanks in part to generally low interest rates

# The results of the banking system are expected to improve

Italian Banking System	2003	2006	CAGR '03-'06
<b>Direct funding</b> (bln €)	<b>1.074</b>	<b>1.226</b>	<b>4,5 %</b>
<b>Loans</b> (bln €)	<b>1.039</b>	<b>1.237</b>	<b>6,0 %</b>
<b>Asset Management</b> (bln €)	<b>431</b>	<b>509</b>	<b>5,7 %</b>
<b>Total revenues</b> (bln €)	<b>70</b>	<b>82</b>	<b>5,4 %</b>
<b>Interest</b>	<b>39</b>	<b>43</b>	<b>4,0 %</b>
<b>Other revenues</b>	<b>31</b>	<b>38</b>	<b>7,2 %</b>
<b>Operating costs</b> (bln €)	<b>41</b>	<b>45</b>	<b>2,6 %</b>
<b>Operating result</b> (bln €)	<b>28</b>	<b>37</b>	<b>9,3 %</b>

■ Growth in **funding** driven by **deposits and bonds**

■ Growth in **lending** sustained by **medium/long-term**

■ **Spreads** virtually constant in **coming years** (projected 3% in 2005), after the decrease registered in 2002-03

■ Growth **strong in asset mgt**, particularly in the Life and Mutual Funds areas

■ Growth of **revenues** at **higher rates** than **operating costs**