

2007-09 Business Plan

25 July 2006



Banca Popolare di Milano

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Executive summary

slide 4

BPM Group positioning

slide 7

2009 Group targets

slide 12

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2007-09: continuity in growth and value creation

Continuity

Consolidate the strategic rational and actions of the 2004-06 business plan

Efficiency

Fully implement the commercial and organisational projects launched in recent years

Growth

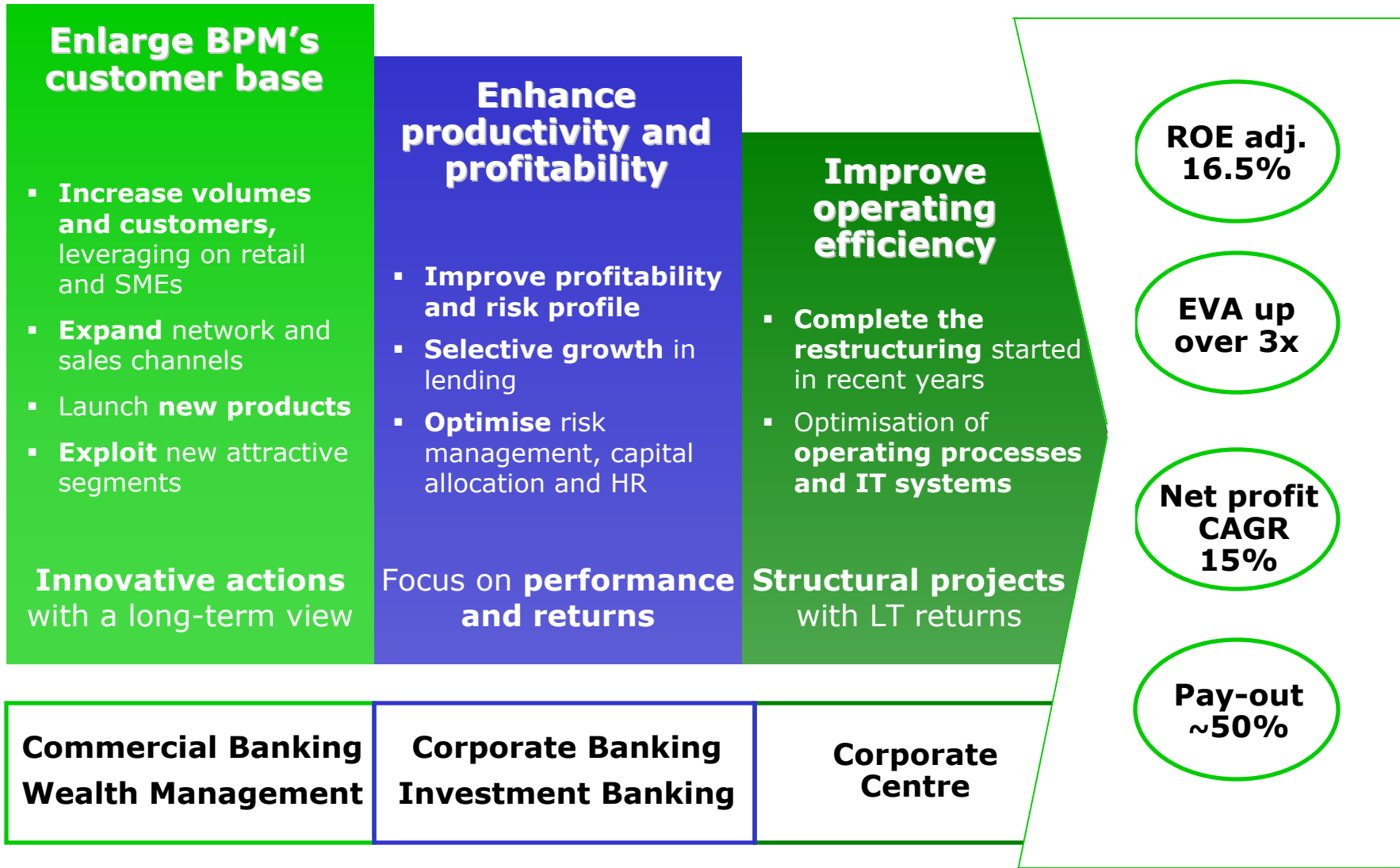
Develop new initiatives and investments to close the residual gap versus the market

Shareholders' return

Focus on:

- **EVA creation**
- **capital discipline**
- **pay-out**

BPM's 2007-09 strategic pillars



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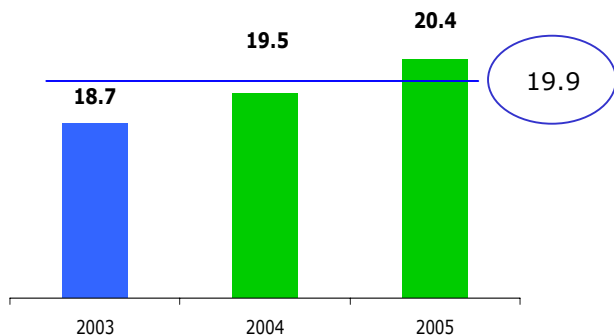
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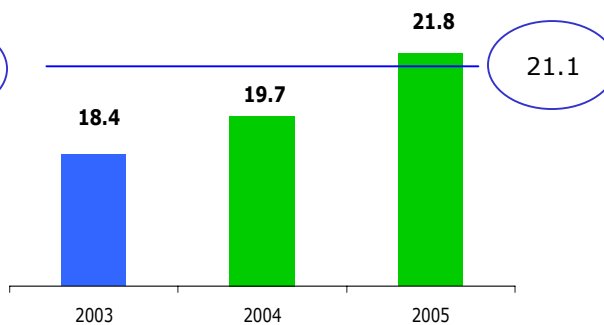
Exceeding our 2005 targets for volume growth, productivity...

€ bn

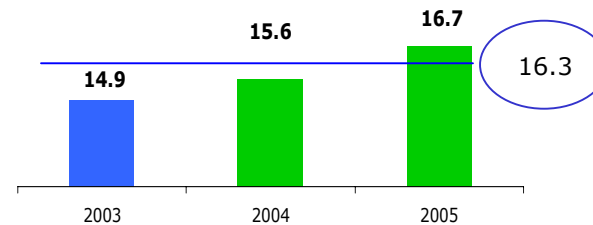
Funding



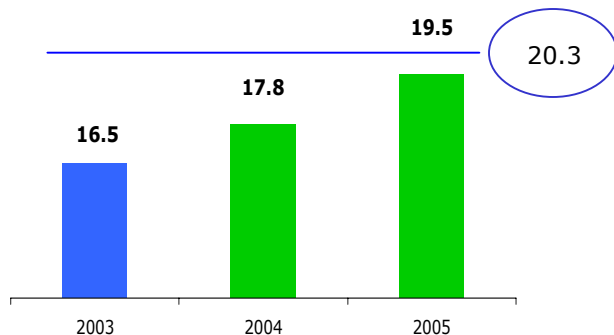
Customer loans



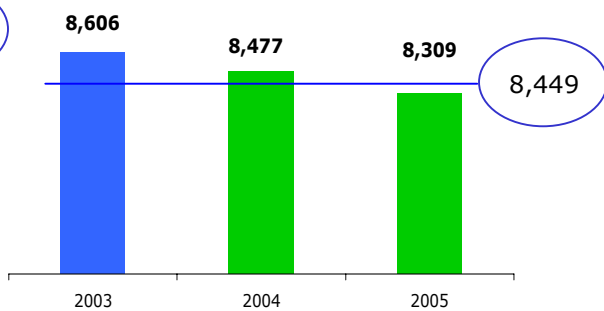
Assets in custody



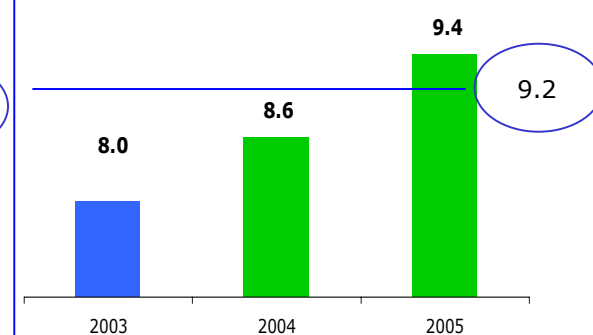
AUM



Employees (no.)



Tot. volumes/employee (€m)



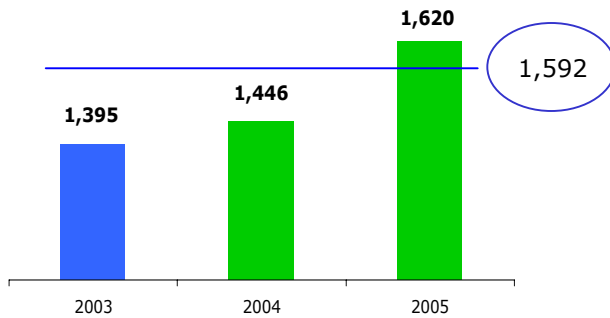
○ — 2005 Target

Management report data restated in compliance with 2004-06 Business Plan targets

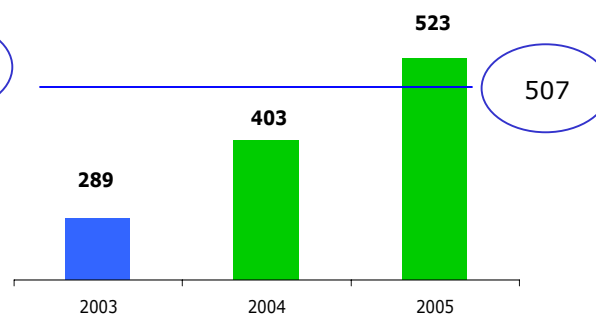
...and profitability

€ m

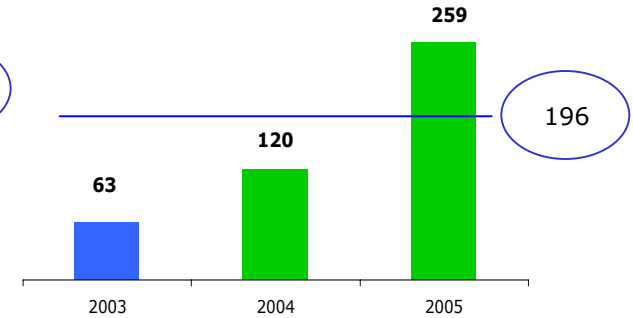
Total income



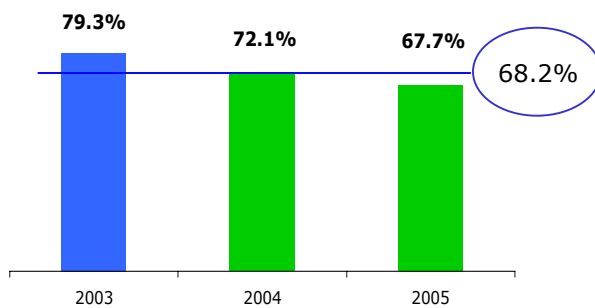
Operating income



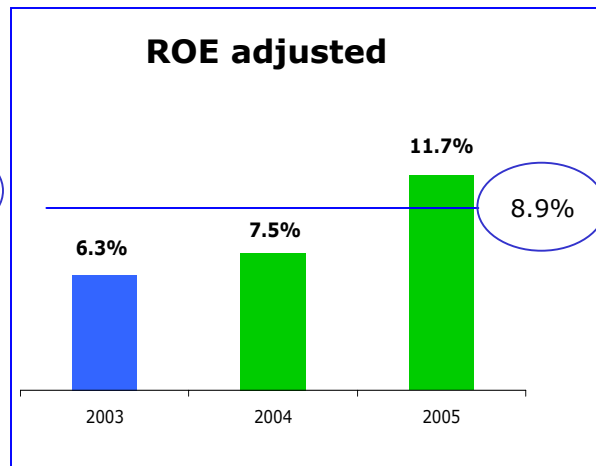
Net income



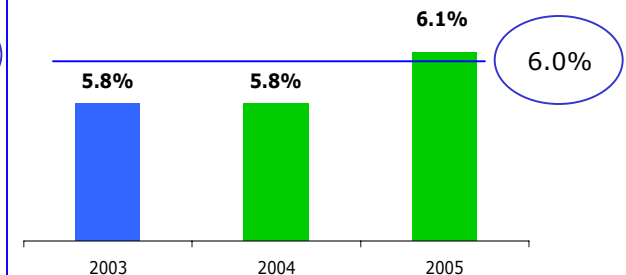
Cost income



ROE adjusted



Total income/RWA

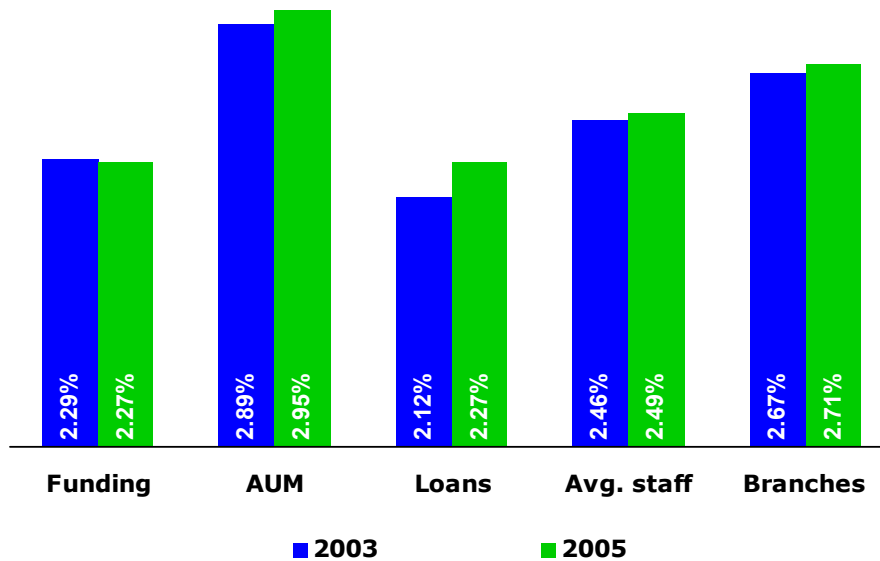


○ — 2005 Target

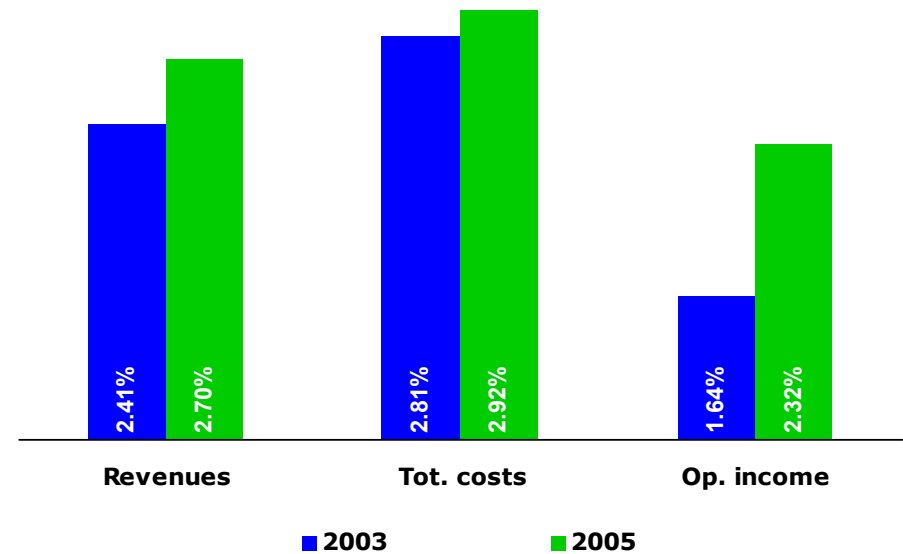
2003 pro-forma data (Italian GAAP)

BPM positioning: volumes and profitability

Volumes



Profitability

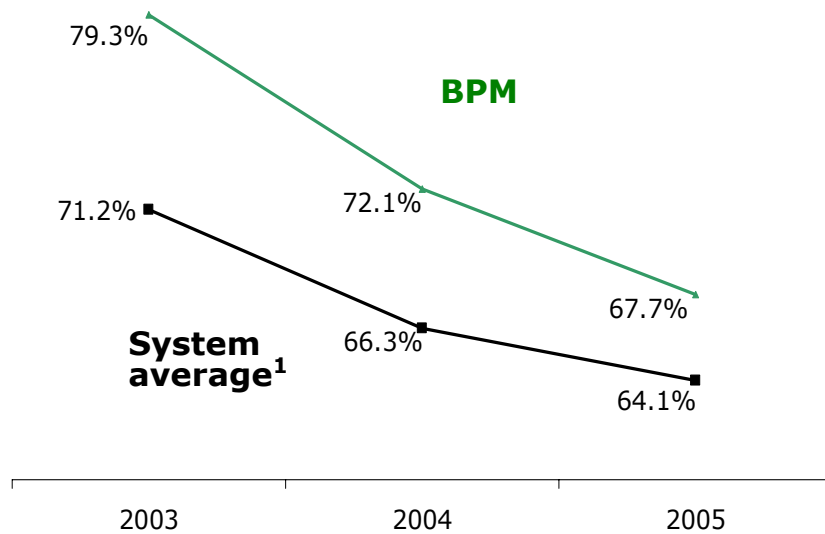


- Strong improvement of BPM's market share on customer loans and assets under management
- Slight decline of market share in funding due to closure of foreign branches
- Increase in revenue market share more than offsets cost expansion, mainly driven by higher business volumes

Note - The comparison sample includes Italy's 20 largest banking groups

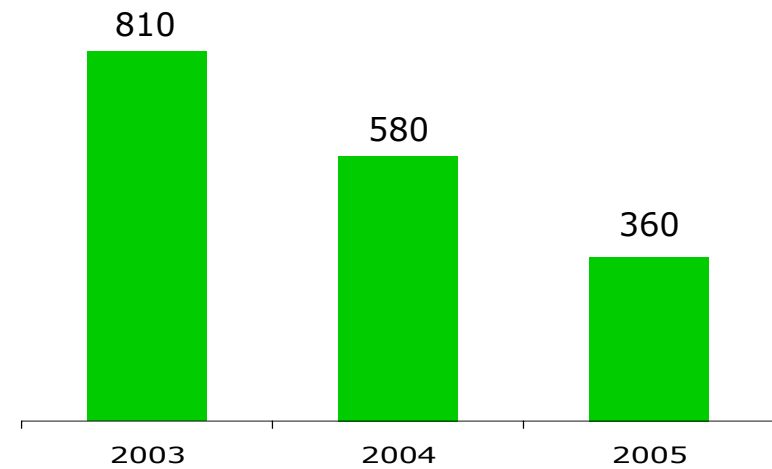
BPM positioning: cost income

Cost income ratio



Cost income gap

(bps)



- Streamlining of BPM's organisational structure and costs in 2004-06 led to significant efficiency improvements and to a progressive closure of the gap versus the peer group

(1) The comparison sample includes Italy's 20 largest banking groups

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2007-09 Business Plan key targets

	2005PF ¹	2009	CAGR 05-09
Total revenues (€m)	1,574	2,080	7.2%
Operating costs (€m)	(1,089)	(1,170)	1.8%
Operating income (€m)	484	910	17.1%
Net profit (€m)	259	455	15.1%
Cost/income	69.2%	56.2%	
ROE adj.²	11.7%	16.5%	
EVA (€m)	77	242	
Tier 1	7.2%	7.7%	
Funding (€ bn)	21.1	24.9	4.2%
Assets under management (€ bn)	19.7	25.8	7.0%
Assets in custody (€ bn)	16.7	19.5	3.9%
Customer loans (€ bn)	21.9	32.0	9.9%

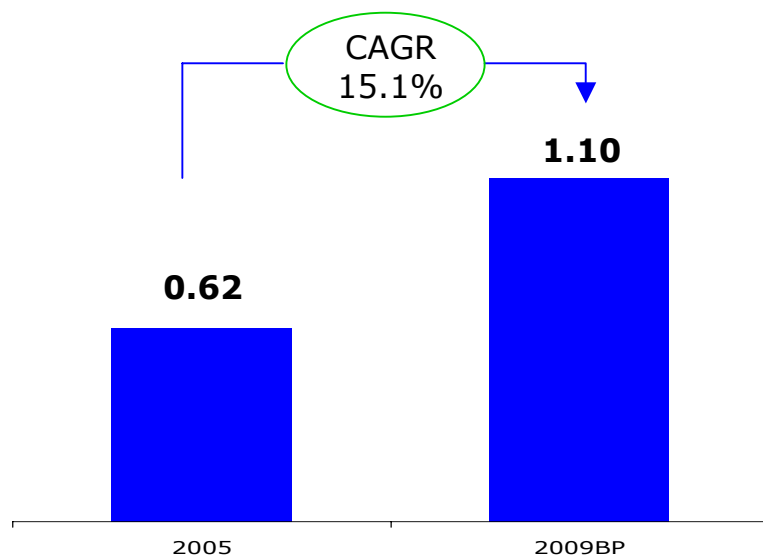
(1) 2005 data are pro-forma with BPM Vita equity consolidated rather than fully consolidated

(2) Computed on tangible shareholders' equity at beginning of period, net of goodwill

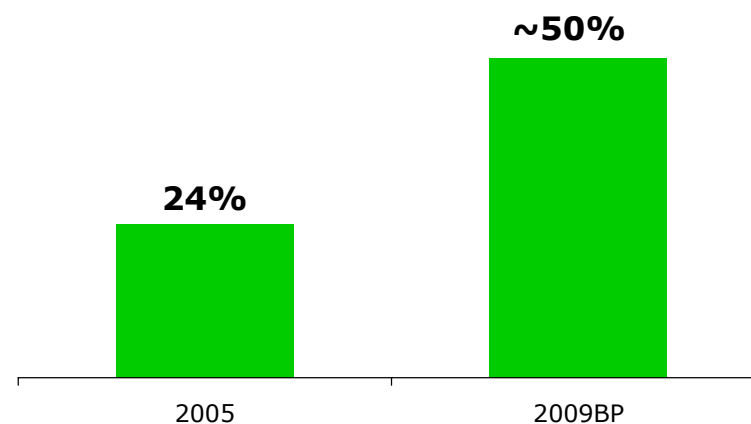
2007-09 Business Plan: focus on shareholders' return

- Expected improvement in profitability coupled with the Group's strong balance sheet allows a steady growth of dividend during the Plan timeframe
- Pay-out expansion from 24% in 2005 to around 50% in 2009

EPS¹ (€)



Pay-out ratio (€)



(1) excluding conversion of BPM/CIC 2004-09 bond

BP : business plan target

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2007-09 Business Plan

Commercial banking

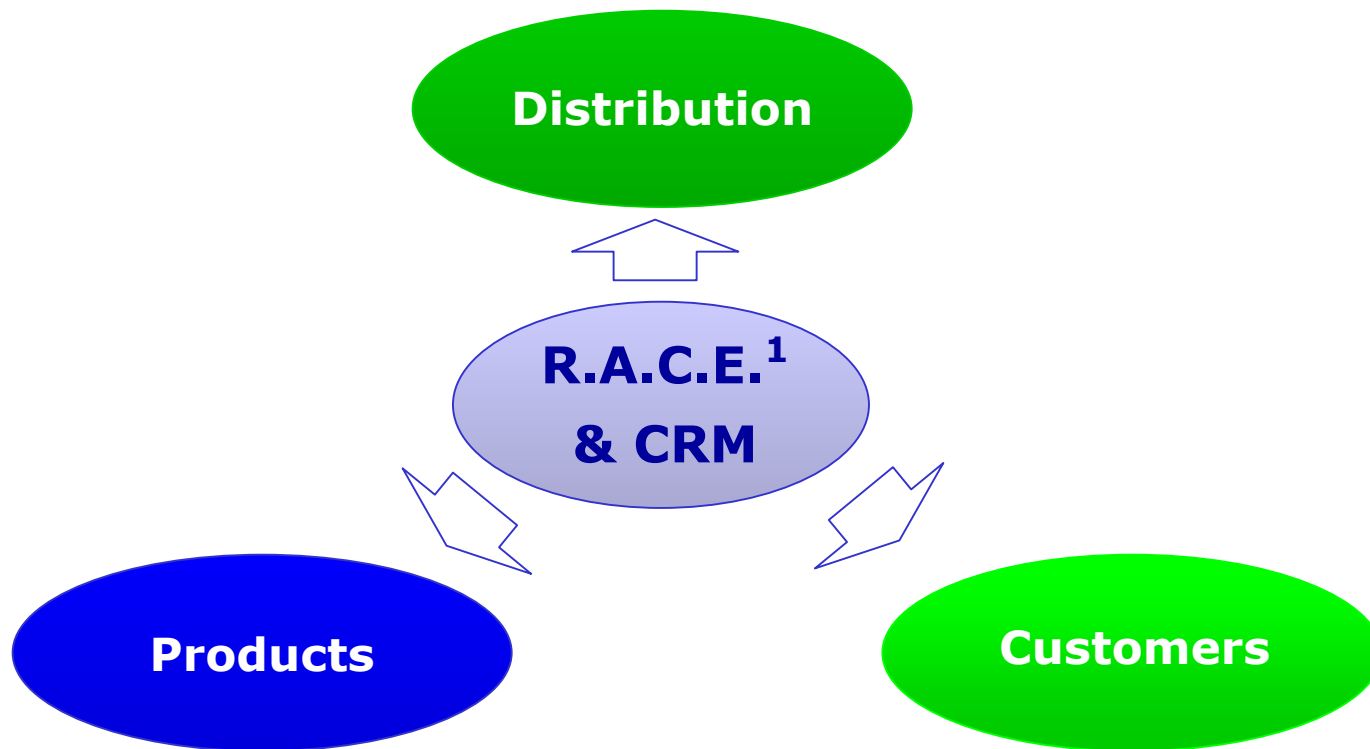
Wealth management

Corporate banking

Investment banking

Group

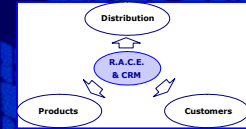
Commercial banking: key development lines



- Full implementation of R.A.C.E. and CRM will free up time for commercial actions
- Focus on exploiting untapped potential of existing customer base and reducing defection rate

(1): *Re-engineering and commercial excellence*

R.A.C.E. and CRM: implementation state



R.A.C.E. implementation		H1 06	YE09E
1	New segmentation and portfolio		
2	New organisational structure		
3	New planning system for marketing		
4	Generate time for commercial activities		
5	New commercial tools <ul style="list-style-type: none"> → Training → Commercial reporting 		
6	New lay-out <ul style="list-style-type: none"> → Outside → Inside 		
CRM implementation		H1 06	YE09E
1	Development and roll-out of technology platform		
2	Clustering and business intelligence		
3	Percentage of customers contacted for product sales (2009 target: 75%)		

Re-focusing of distribution channels in commercial banking



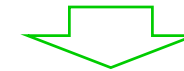
Network re-focusing per product or customer segment

- Improvement of cost-to-serve
- Brand consolidation
- Strengthening of local presence
- Development of high-potential areas



Existing customers

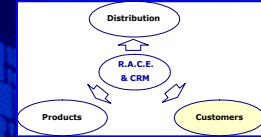
- Rationalisation of **existing branches** (lay-out update and few relocations): 120 branches involved, investments €55m in 3 years
- Increased use of **automised processes**
 - telesales (140,000 customers contacted)
 - self-service areas (160 new ATMs and 280 Cash-in Cash-out machines)
 - internet banking (new on-line products, revised access path...)



New customers

- 50 **new branches** in areas with strong positioning: expected break-even in 2-3 years
- **BPM Credit Point**: 60 low-cost POS focused on lending and services to households. Target: over €500m of loans by 2009
- Strengthening of BPM's **financial advisors** network with 40 new recruits
- New structure of 44 **developers** devoted to SMEs and small businesses
- Rationalisation of agreements with **credit brokers** (real estate networks)

Exploiting attractive customer segments



Actions

Loyalty

- Incentive plan for customers based on volumes / no. of operations

Young couples

- Low-covered, high-potential niche
- Entry-level products, mortgages

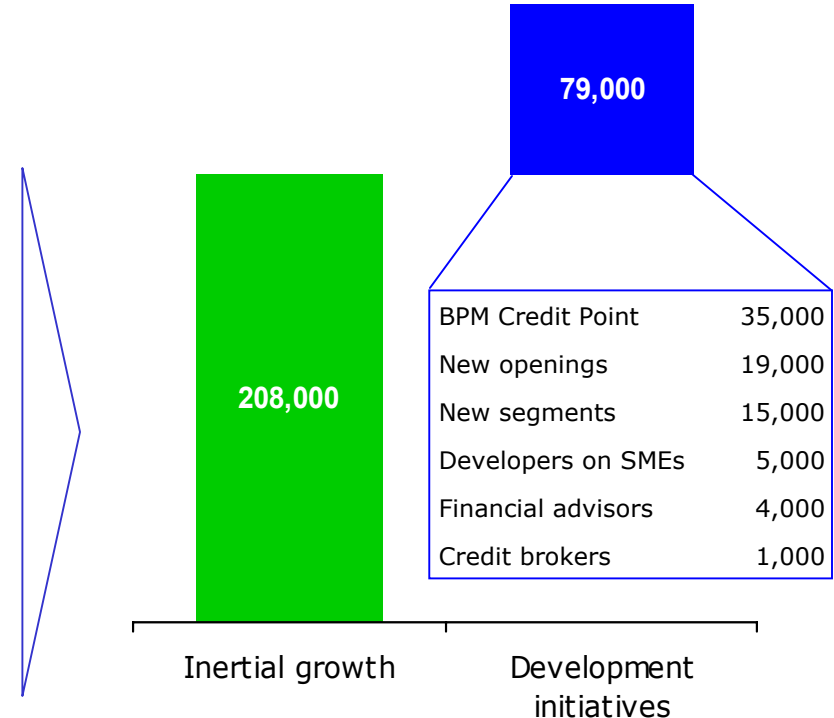
Non-EU people

- Further development of a specific product ('Extra-ordinario')

Private banking

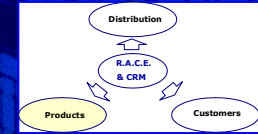
- Expand Private Banking SIM's services to customers of BPM, BdL, CrA
- Strengthen private banking network through recruiting and new Banca Akros POS

2006-09 customer acquisition



- Constant attention to new customer acquisitions in targeted segments
- Total expected acquisitions over the Plan period: 287,000 units

New products to complete BPM range

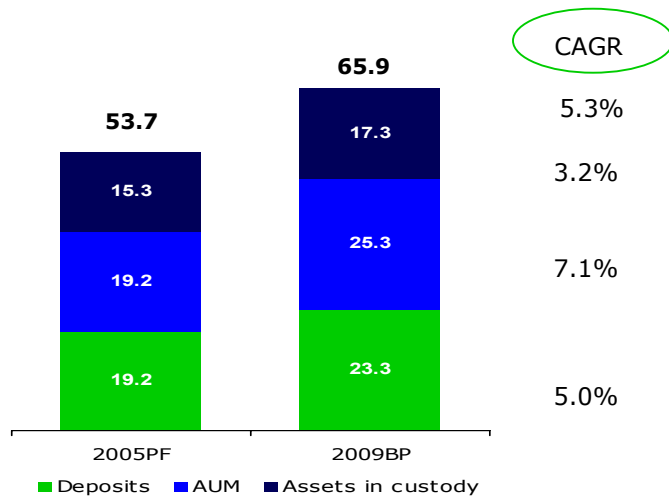


	Actions	Goals	Targets
BancaAss. (Property & casualty)	<ul style="list-style-type: none"> Entry into the P&C segment in partnership with FONSAI 	<ul style="list-style-type: none"> Complete the product range 	<ul style="list-style-type: none"> Premiums collected: €56m by 2009
BancaAss. (Life)	<ul style="list-style-type: none"> Partnership with FONSAI to enlarge and upgrade offer 	<ul style="list-style-type: none"> Align productivity to peers 	<ul style="list-style-type: none"> Additional premiums: €200m by 2009
Employee financing	<ul style="list-style-type: none"> Enlarge offer in co-operation with Pitagora¹ Offer BPM products through Pitagora 	<ul style="list-style-type: none"> Exploit commercial opportunities in employee financing through loans backed by salary (<i>cessione del quinto</i>) 	<ul style="list-style-type: none"> Granted loans: €150m by 2009
Leasing	<ul style="list-style-type: none"> Develop new customer segments 	<ul style="list-style-type: none"> Align penetration into BPM customer base to market average 	<ul style="list-style-type: none"> Additional volumes: €250m by 2009

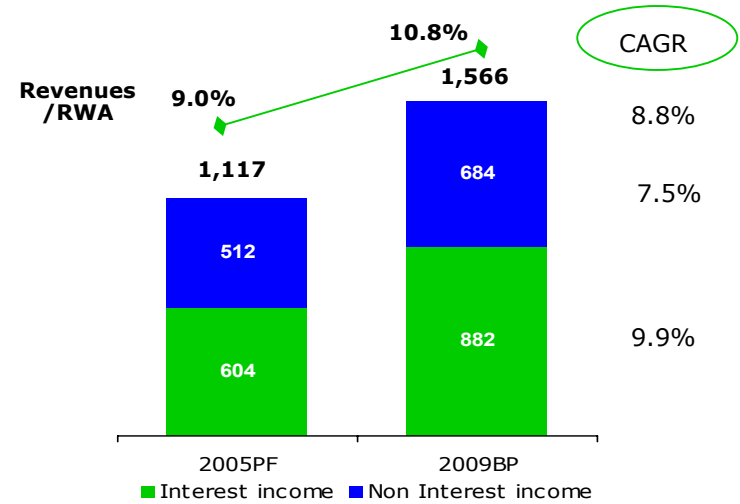
(1): company operating in consumer credit, in which BPM has a 24% stake

Commercial banking: key operating targets

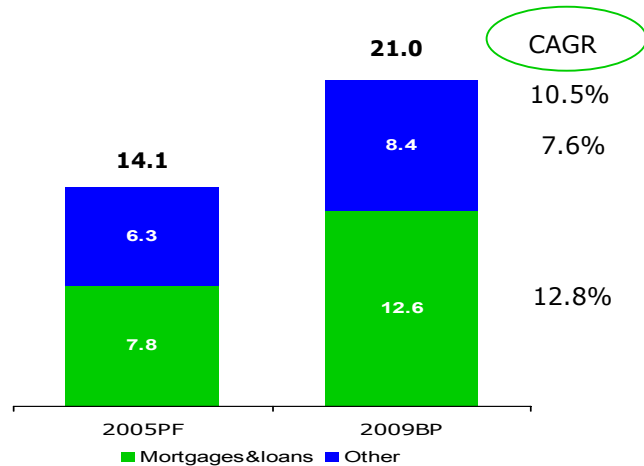
Funding € bn



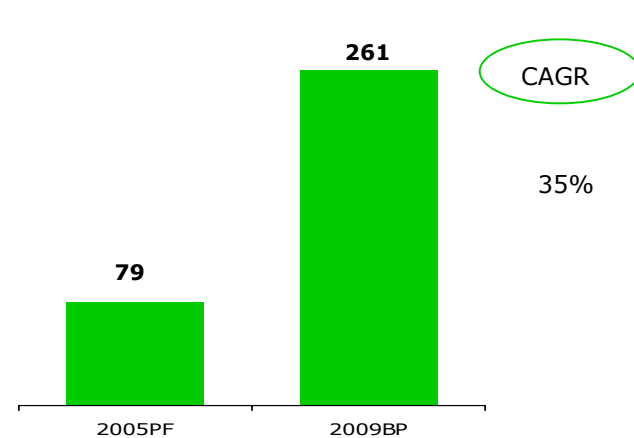
Revenues € m



Customer loans € bn



EVA € m



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2007-09 Business Plan

Commercial banking

Wealth management

Corporate banking

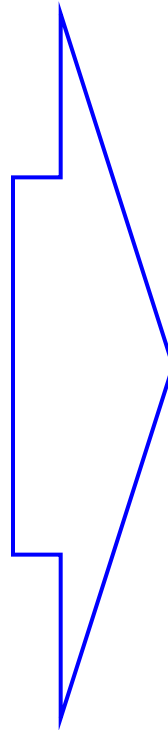
Investment banking

Group

Wealth management: 2007-09 priorities

A good starting point

- **Good mix of customers' funds** - high weight of managed wealth on indirect total (54% in 2005)
- Competitive offering of **BPM Gestioni SGR** (good performance and competitive prices)...
- ...and of **BPM Vita** products (range well-positioned in the market and strengthened by partnership with Fondiaria-SAI)

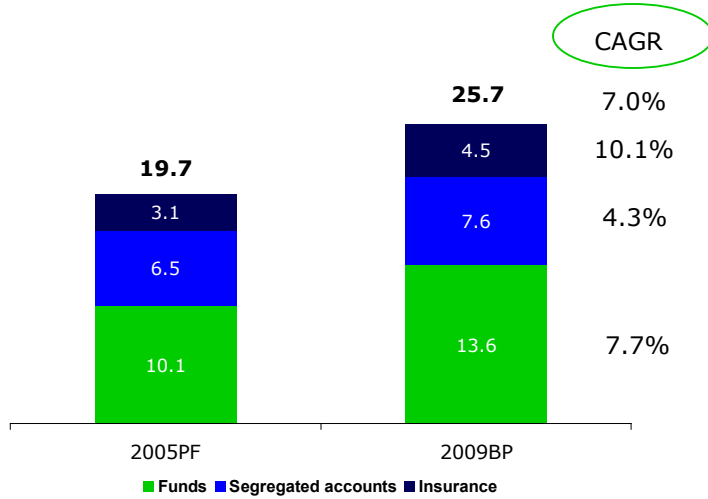


Development guidelines

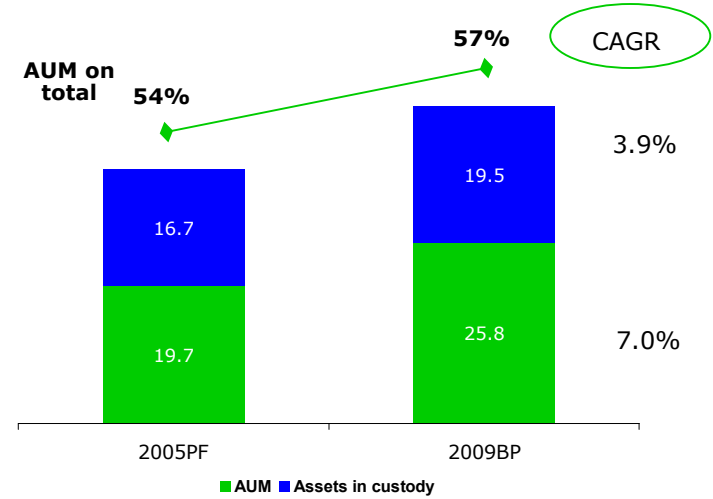
- **Group banks:**
 - enlarge offer for **corporate customers**
 - **align mix** AUM/assets in custody to Group best practice
- **Third-party networks:**
 - increase **market share**
 - better coverage of **institutionals**
- **New products:**
 - **new-generation** products (total return funds, CPPI segregated accounts)
 - **hedge funds** for private banking and institutionals

Wealth management: key targets

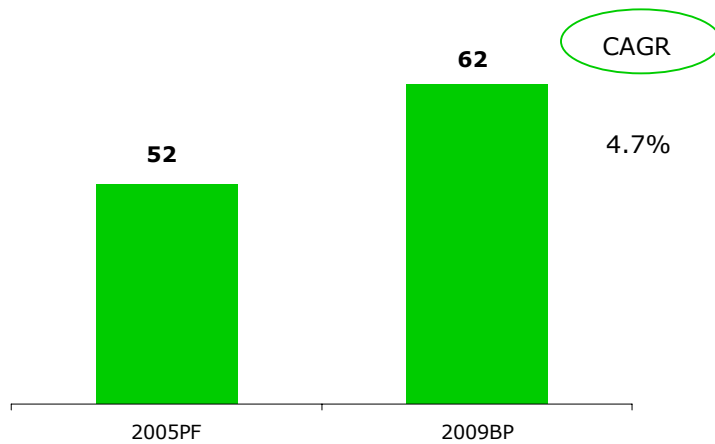
AUM volumes € bn



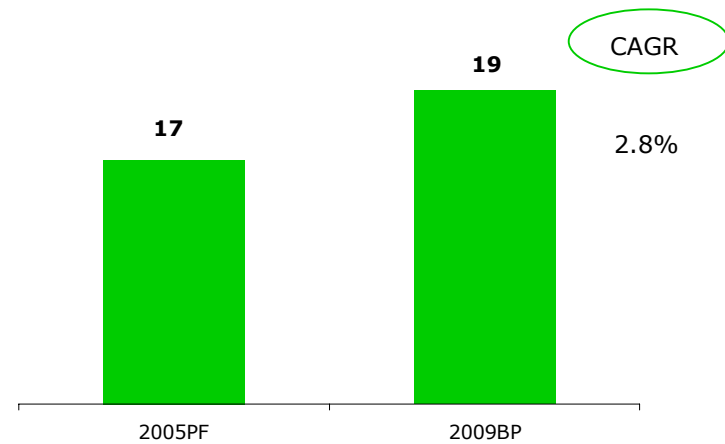
Indirect funding € bn



Revenues € m



EVA € m



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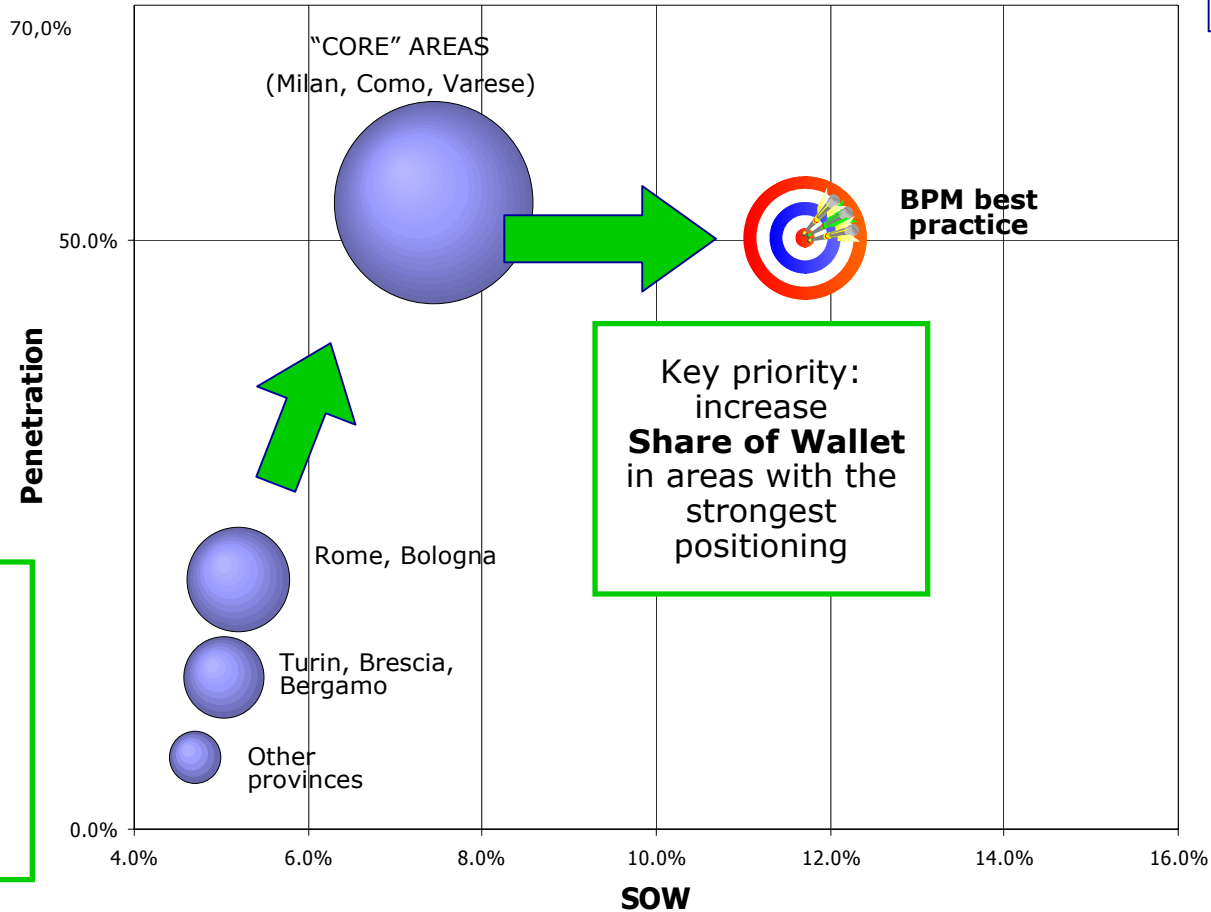
Investment banking

Group

Corporate banking: development lines

Data refer to SMEs, corporate and large

○ = 1% branch market share



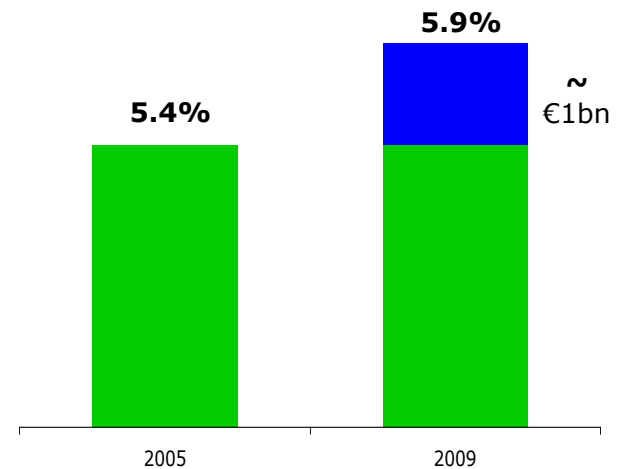
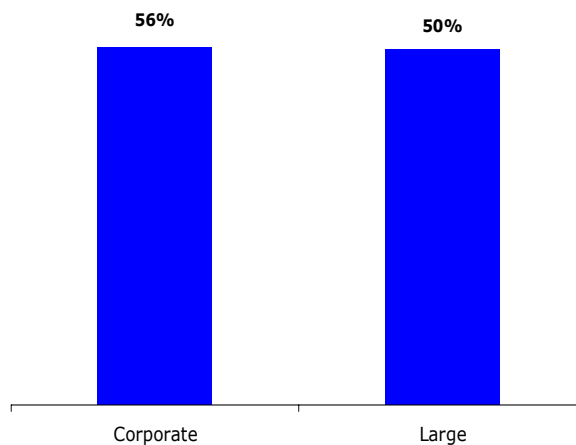
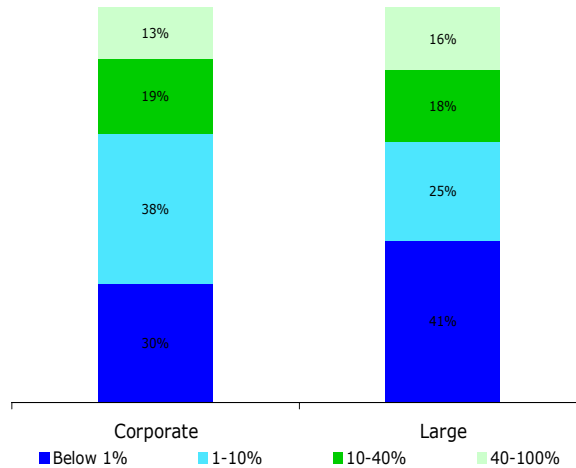
Untapped growth potential on existing customers

2006 share of wallet

Customers breakdown per used/granted ratio*

Percentage of customers below theoretical market share

2009E share of wallet (Corporate and Large)



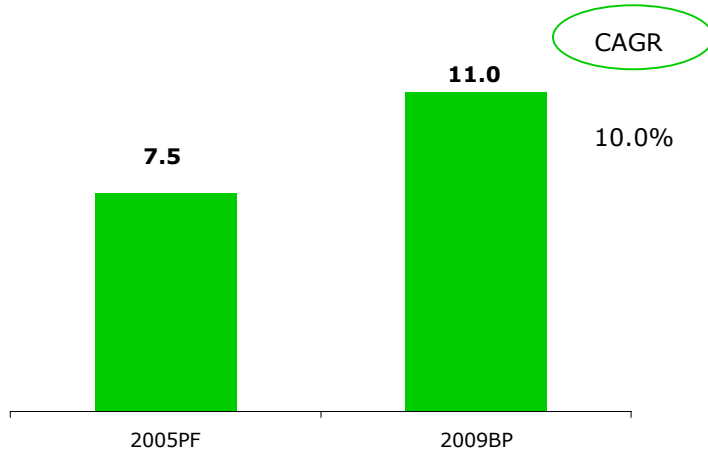
- Increase share of wallet of existing customers in the Corporate and Large segments: expected additional volumes of around €1bn
- Credit policies consistent with Basel 2 rating systems

Corporate banking: key actions and targets

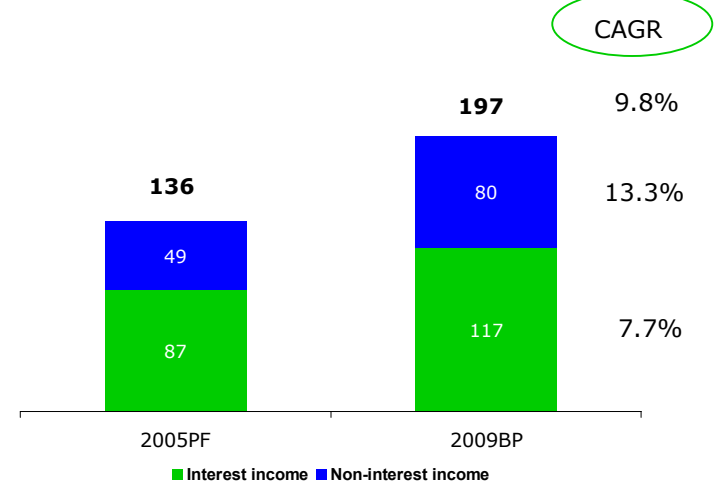
	Actions	Goals	Targets
Human resources and structure	<ul style="list-style-type: none"> ▪ New organisational structure implemented as of Apr. 06 ▪ Introduction of 14 new units fully devoted to commercial development (+70%) ▪ Exploit existing staff through enlargement and upgrade of career paths, sharing of best practice 	<ul style="list-style-type: none"> ▪ Volume increase in Turin, Bergamo and Brescia ▪ Improve share of wallet in Milan, Rome, Bologna 	<ul style="list-style-type: none"> ▪ €320m of additional loans ▪ €420m of additional loans
Operational tools	<ul style="list-style-type: none"> ▪ R.A.C.E. platform for corporate ▪ Clustering to identify high-potential targets ▪ Priority planning and commercial monitoring ▪ Alerts on customers 	<ul style="list-style-type: none"> ▪ Maximise effectiveness of commercial actions 	<ul style="list-style-type: none"> ▪ €500m of additional loans
Products	<ul style="list-style-type: none"> ▪ Enlarge product range (forex and rate derivatives) ▪ Preferred pooled shares (Preps) with SMEs ▪ Co-operation with Investment banking 	<ul style="list-style-type: none"> ▪ Improve profitability per customer ▪ Increase cross-selling 	<ul style="list-style-type: none"> ▪ Additional margin: €7m

Corporate banking: operating targets

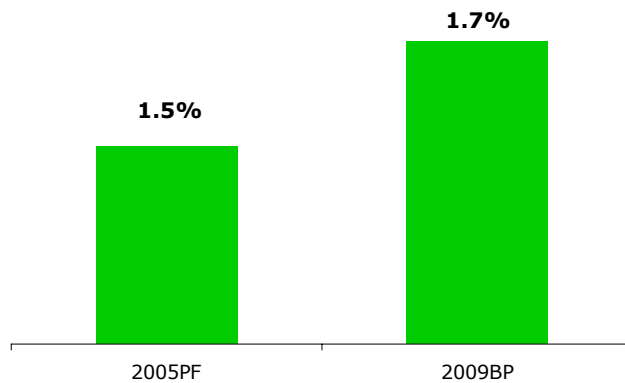
Customer loans € bn



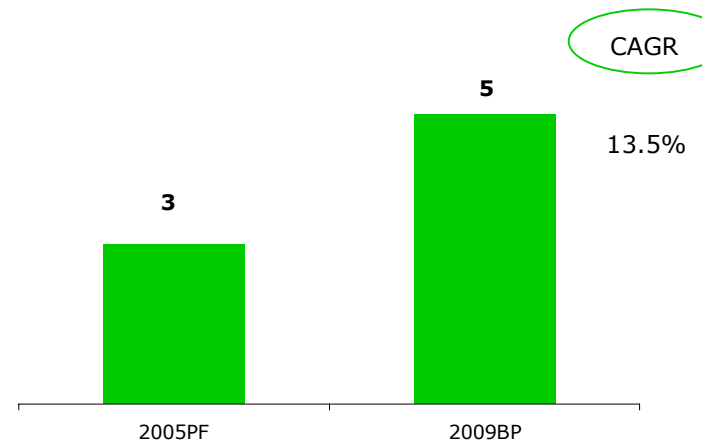
Revenues € m



Revenues/RWA



EVA € m



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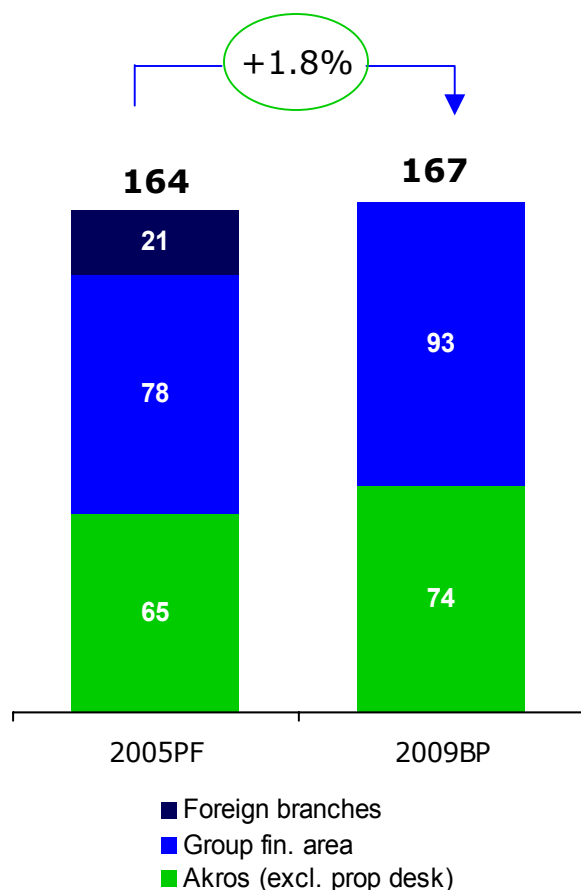
Investment banking

Group

Investment banking: revenue growth

Revenues

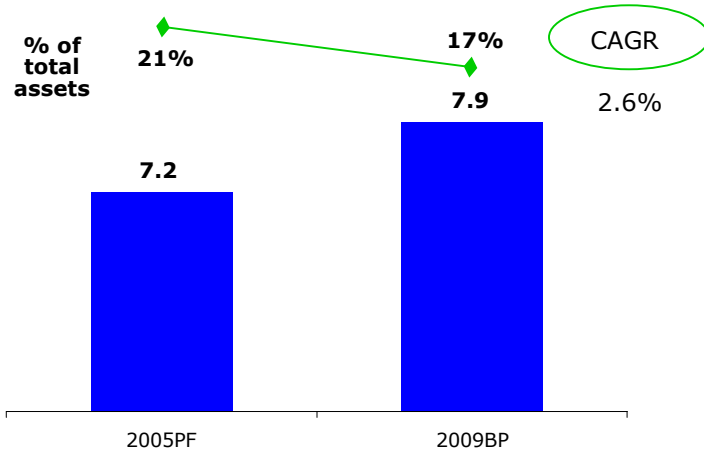
€ m



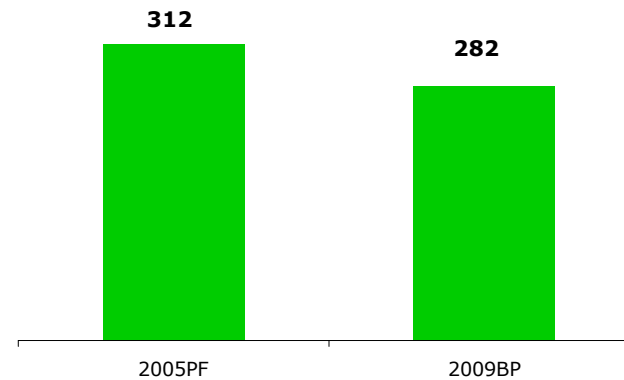
- Good revenue mix with high weight of brokerage operations with modest capital allocation
- Revenue increase in the Plan timeframe fully offsets closure of foreign branches (€21m in 2005)
- Akros' growth mainly driven by expansion of trading and advisory services
- Stable revenues from proprietary trading under conservative spread assumptions (1.4% flat over the Plan)
- Development of banking book hedging (sight deposits and loans with upto 12-month maturity)

Investment banking: good profitability confirmed to 2009

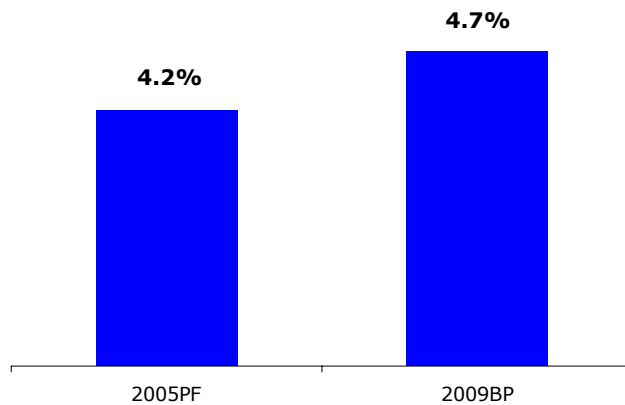
Financial assets € bn



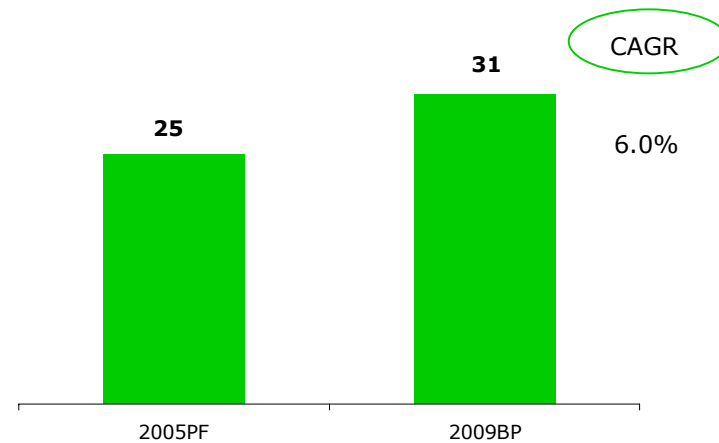
Allocated capital € m



Revenues/RWA



EVA € m



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Wealth management

Corporate banking

Investment banking

Group

Complete rationalisation initiatives launched in past years

Actions

Organisational structure

- Improve efficiency of corporate structures
- Increase productivity and cost effectiveness of commercial network
- Optimise property management

IT platform

- Completion and consolidation of IT cost savings
- Investment rationalisation

Administrative costs

- Centralised procurement process extended to the whole Group
- Consolidation of operating procedures introduced in recent years

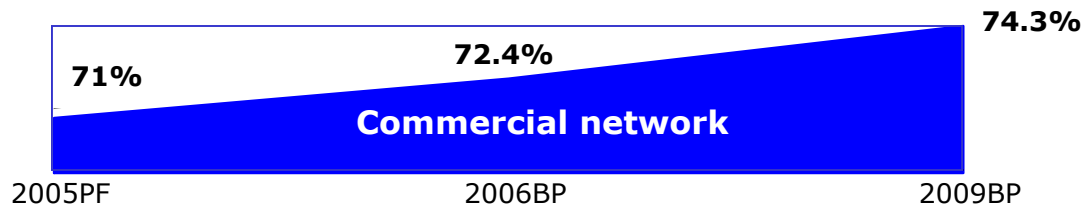
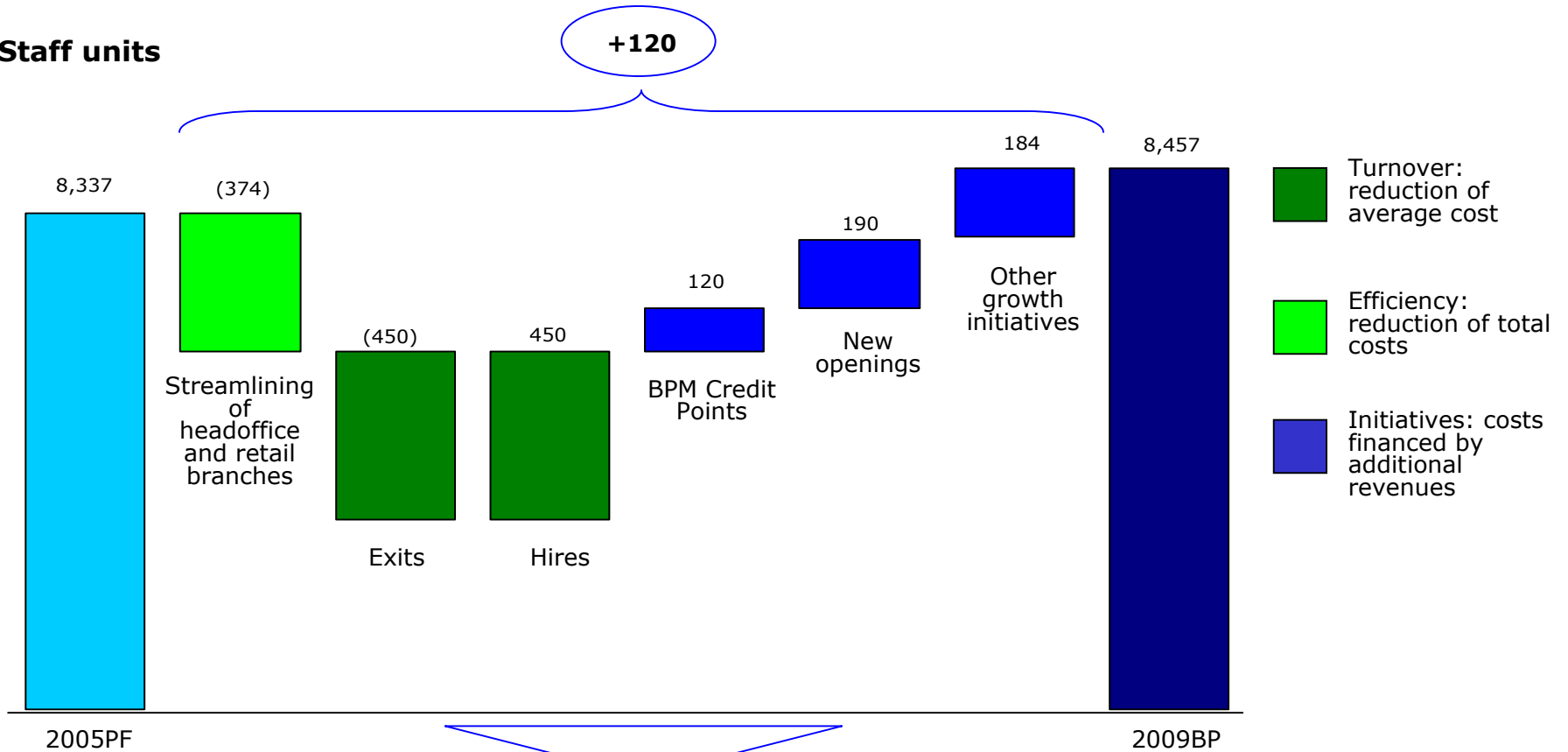
Investments

- Rebalancing of the investment policy from support of the operating platform to development of commercial relations

Strict cost control to free up funds for investment into high-growth areas

Group staff right-sizing

Staff units



Evolution of Group operating costs

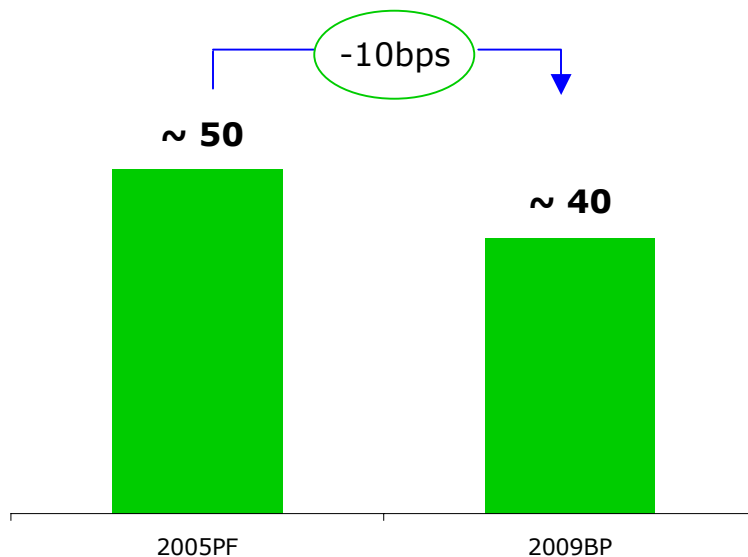
€ m	Staff costs	Other costs
2005 PF	653	436
Labour contract increase and business growth	36	58
Corporate centre and network rationalisation / IT restructuring	(34)	(33)
Staff turnover / cost management	(20)	(25)
Growth initiatives	25	38
Employee incentives	36	-
2009 BP	696	474
2005-09 CAGR	1.6%	2.1%

■ Total operating costs at €1,170m in 2009 with a 2005-09 CAGR of 1.8% well below expected revenue average growth of 7.2%

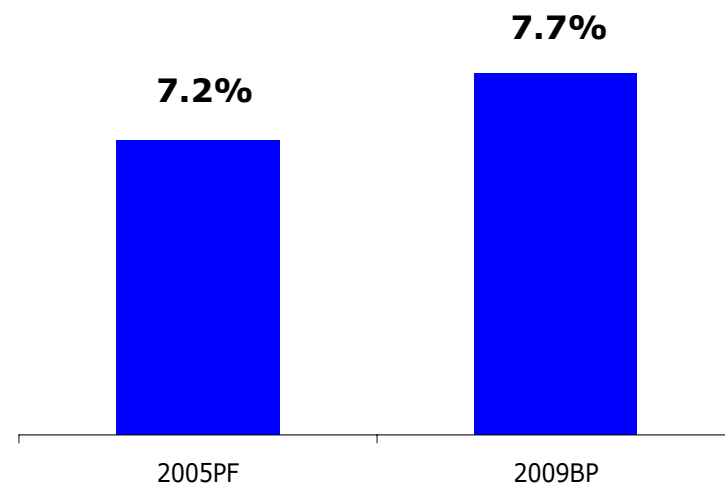
Risk and capital management

- **Credit policy:** optimise portfolio concentration through strict monitoring and disciplined application of Group criteria
- **Basel 2:** full implementation of proprietary model for capital requirements by 2009 with expected RWA 5-10% lower than current regulation requirements
- Optimize **capital management** to reduce gap between total capital and capital allocated to business units

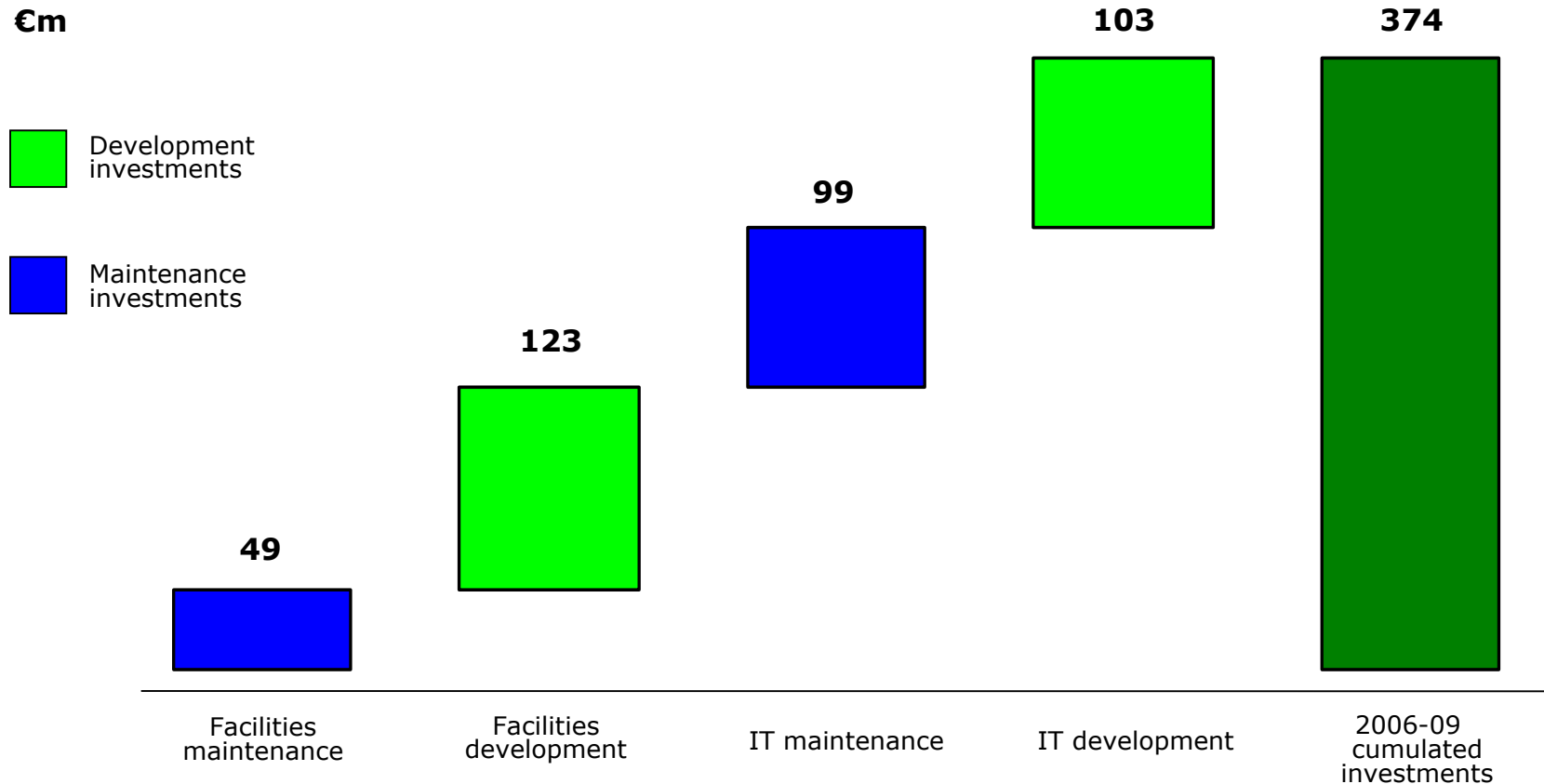
Cost of credit bps



Tier 1 ratio

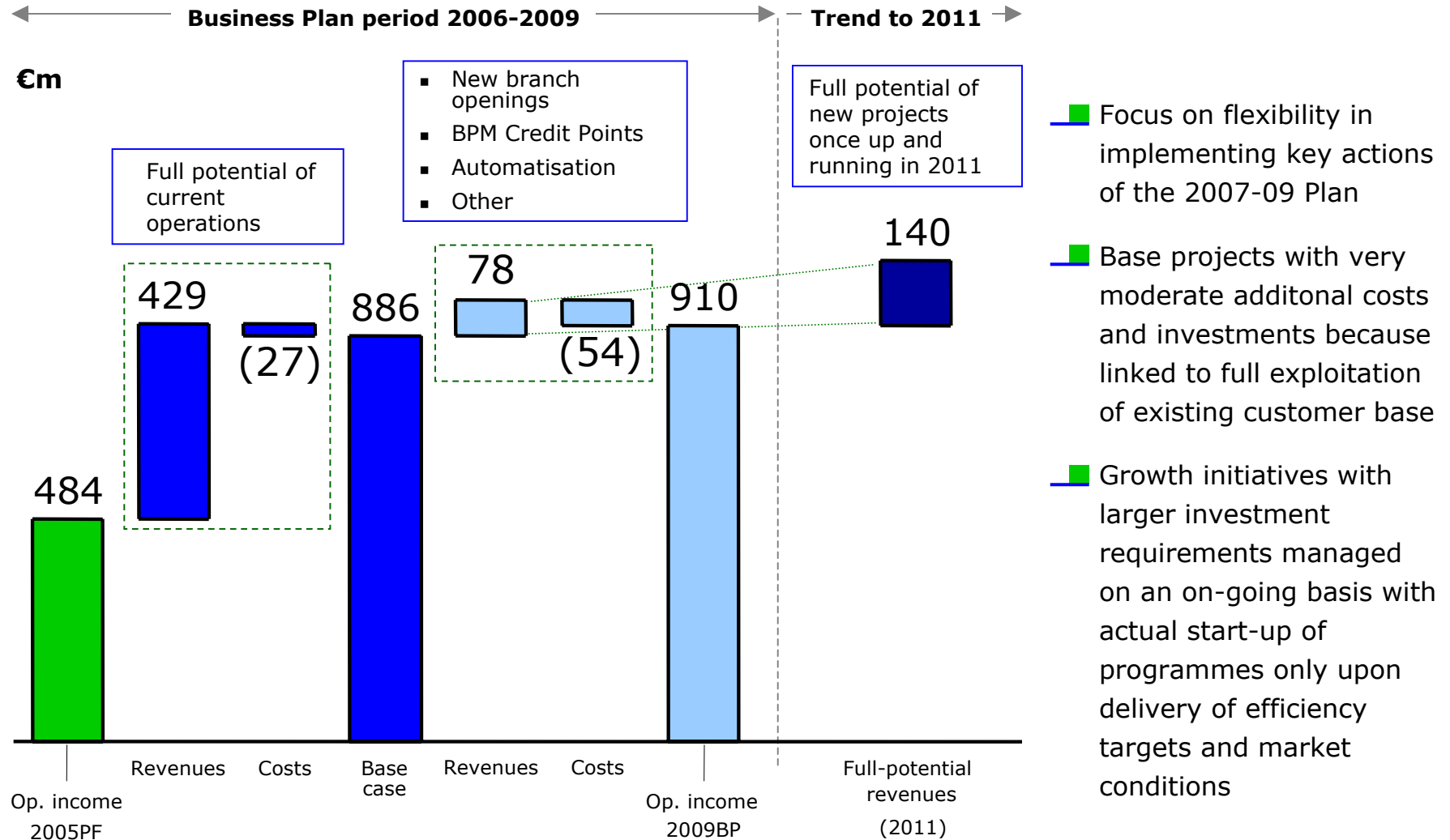


2006-09 investment plan



- 60% of total investments devoted to development
- Investment rationalisation confirmed: 2006-2009 annual average €94m vs. €114m in 2002-05 despite expected openings and growth of business volumes

Full potential of 2006-09 investments



Group P&L: 2005-09 evolution

	2005PF ¹	2009BP	CAGR 05-09
Interest income	758	1,065	8.9%
Non Interest income	816	1,015	5.6%
Total income	1,574	2,080	7.2%
Payroll	(653)	(696)	1.6%
Administrative expenses	(345)	(380)	2.5%
Depreciation	(91)	(94)	0.7%
Operating costs	(1,089)	(1,170)	1.8%
Operating profit	484	910	17.1%
Loan provisions	(98)	(118)	
Profit/loss before tax	401	791	18.5%
Income tax for the period	(145)	(325)	
Net profit/loss from current operations	256	466	16.2%
Profit/loss from activities to be disposed of	9	0	
Net profit/loss for the period	265	466	15.2%
Minority interests	(6)	(11)	
Group's net profit/loss	259	455	15.1%

(1) 2005 data are pro forma with BPM Vita equity consolidated (rather than fully consolidated)

2009 targets per business line

€ m	Commercial Banking	Wealth Management	Corporate Banking	Investment Banking	Corporate Center	BPM Group
Revenues	1,566	62	197	167	87	2,080
<i>05-09 change</i>	40.3%	20.0%	45.5%	1.7%	(17.2%)	32.2%
Operating costs	(926)	(29)	(48)	(78)	(89)	(1,170)
<i>05-09 change</i>	11.6%	23.8%	13.6%	-3%	(21.8%)	7.4%
Operating profit	640	33	149	89	(1)	910
<i>05-09 change</i>	123.1%	16.9%	60%	6.3%	<i>n.m.</i>	88.0%
Profit before tax	567	33	106	85	0	791
<i>05-09 change</i>	157.3%	16.6%	42.6%	14.9%	<i>n.m.</i>	97.0%
Cost Income	59.1%	46.8%	24.5%	46.8%	<i>n.m.</i>	56.2%
Revenues / RWA	10.8%	45.0%	1.7%	4.7%	3.0%	6.3%
EVA	261	19	5	31	(74)	242
Deposits (€bn)	23.3	n.m.	1.6	n.m.	n.m.	24.9
Loans (€bn)	21.0	n.m.	11.0	n.m.	n.m.	32.0

Agenda

Executive summary **slide 4**

BPM Group positioning **slide 7**

2009 Group targets **slide 12**

2007-09 Business Plan **slide 15**

Final remarks **slide 43**

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Final remarks

Continuity

Fully exploit BPM's customer base in Commercial Banking and increase Share of Wallet in Corporate Banking

Efficiency

**Subdued dynamic of operating costs despite significant increase of business volumes
Strict cost control to finance growth initiatives**

Growth

New development projects to leverage on strong local positioning and new high-growth segments

Shareholders' return

Strong capital base and improved profitability leave room for pay-out expansion while securing new investments

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Macroeconomic assumptions

YoY growth (%)	2005	2009E	06-09E average
EU GDP	1.4	1.9	2.0
Italian GDP	0.0	1.1	1.2
EU consumer prices	2.2	1.9	1.9
Italian consumer prices	2.0	1.9	1.9
Italian investment market	(0.6)	1.7	1.8
Italian industrial production	(0.8)	1.1	1.0
ECB re-financing rate (% , annual average)	2.02	3.25	3.06
3-month EURIBOR rate (% , annual average)	2.19	3.38	3.18

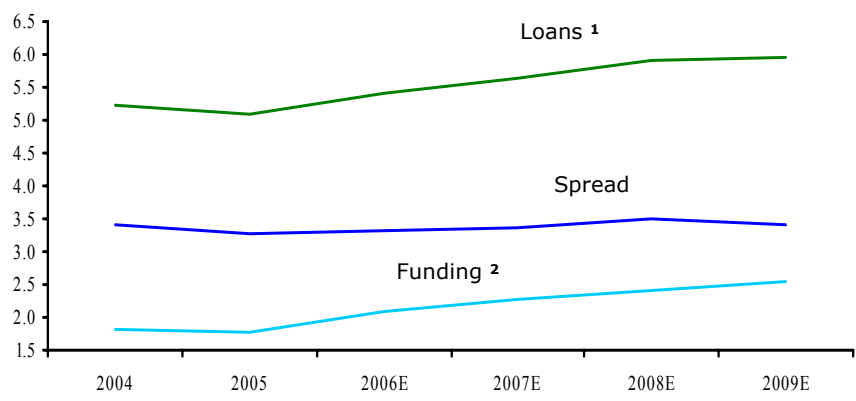
Source: BPM Research Department, Prometeia

Italian banking system: 2005-09 projections

YoY % change	2005	2009E	06-09E average
Domestic funding	7.6	4.1	4.8
Loans	8.4	5.0	6.4
Asset Management	9.0	8.5	6.2
Total revenues	4.7	3.6	6.3
Interest	5.0	3.1	7.5
Other revenues	4.4	4.4	4.8
Operating costs	2.5	4.0	4.0
Operating income	8.1	3.2	9.5

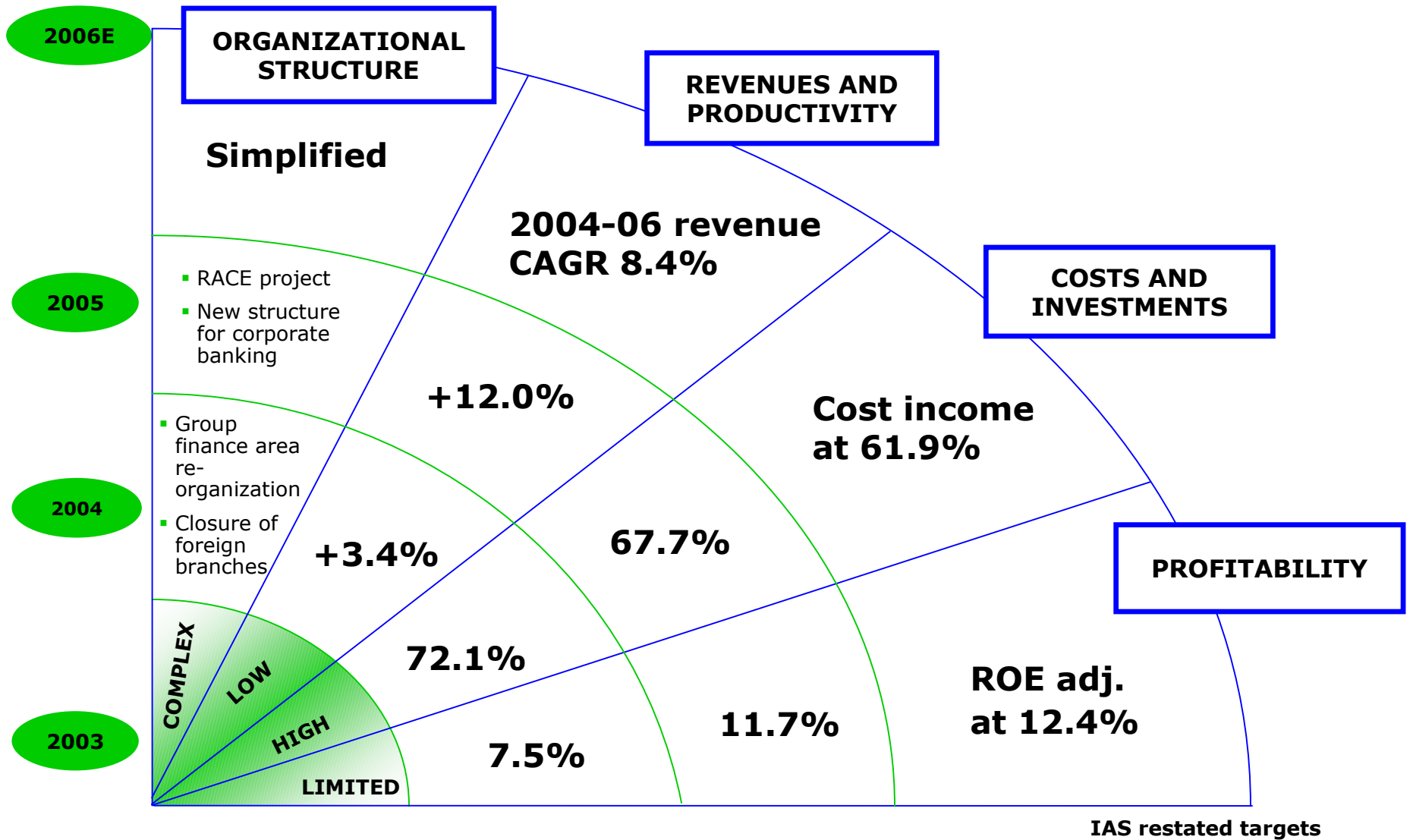
Average interest rates %

Source: BPM Research Department, Prometeia

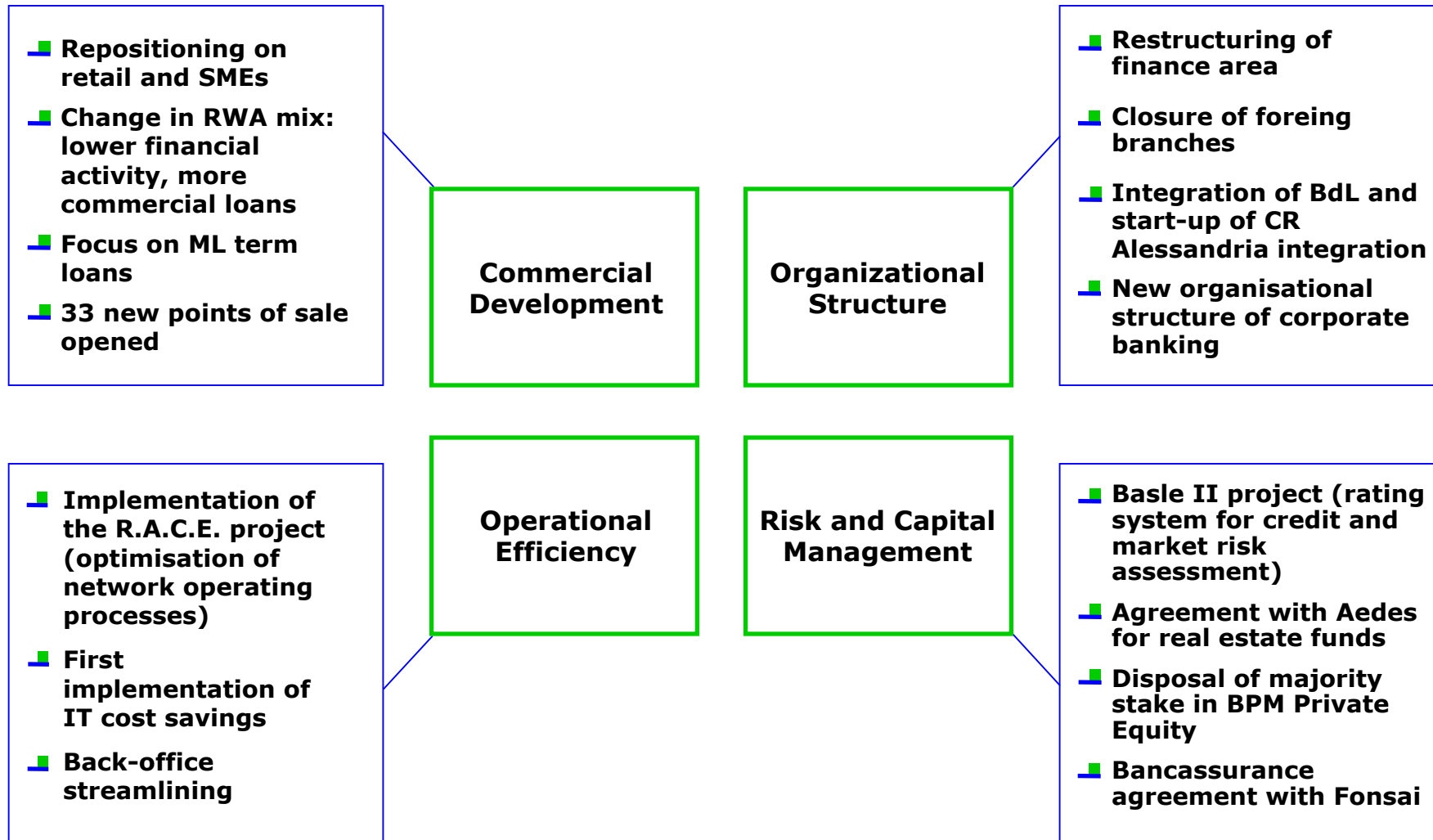


Notes:
 1 Domestic customer loans, including REPOs
 2 Deposits, bonds, subordinated, REPOs with customers

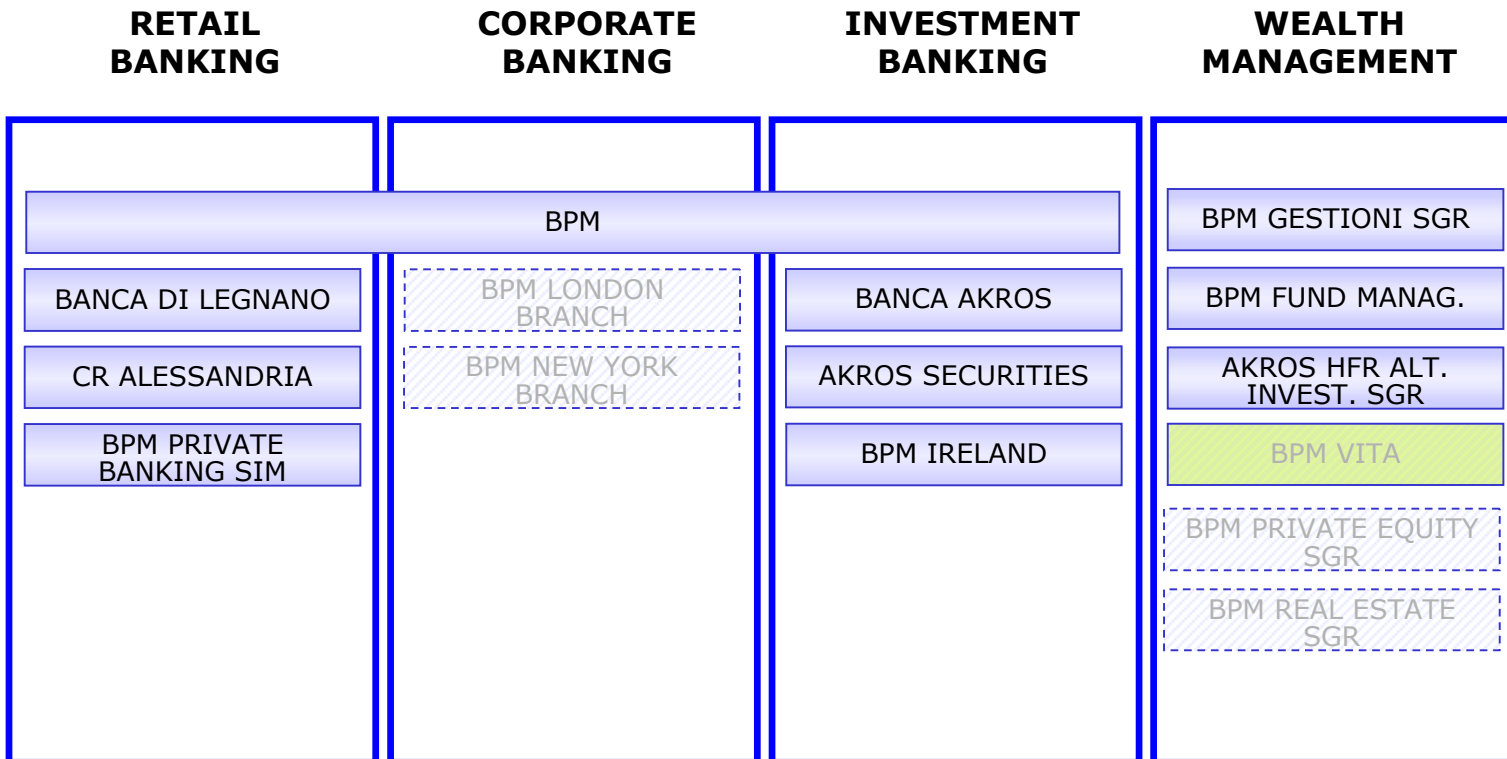
2004-06 performance: a solid starting base




2004-06 Strategic Plan: main actions implemented



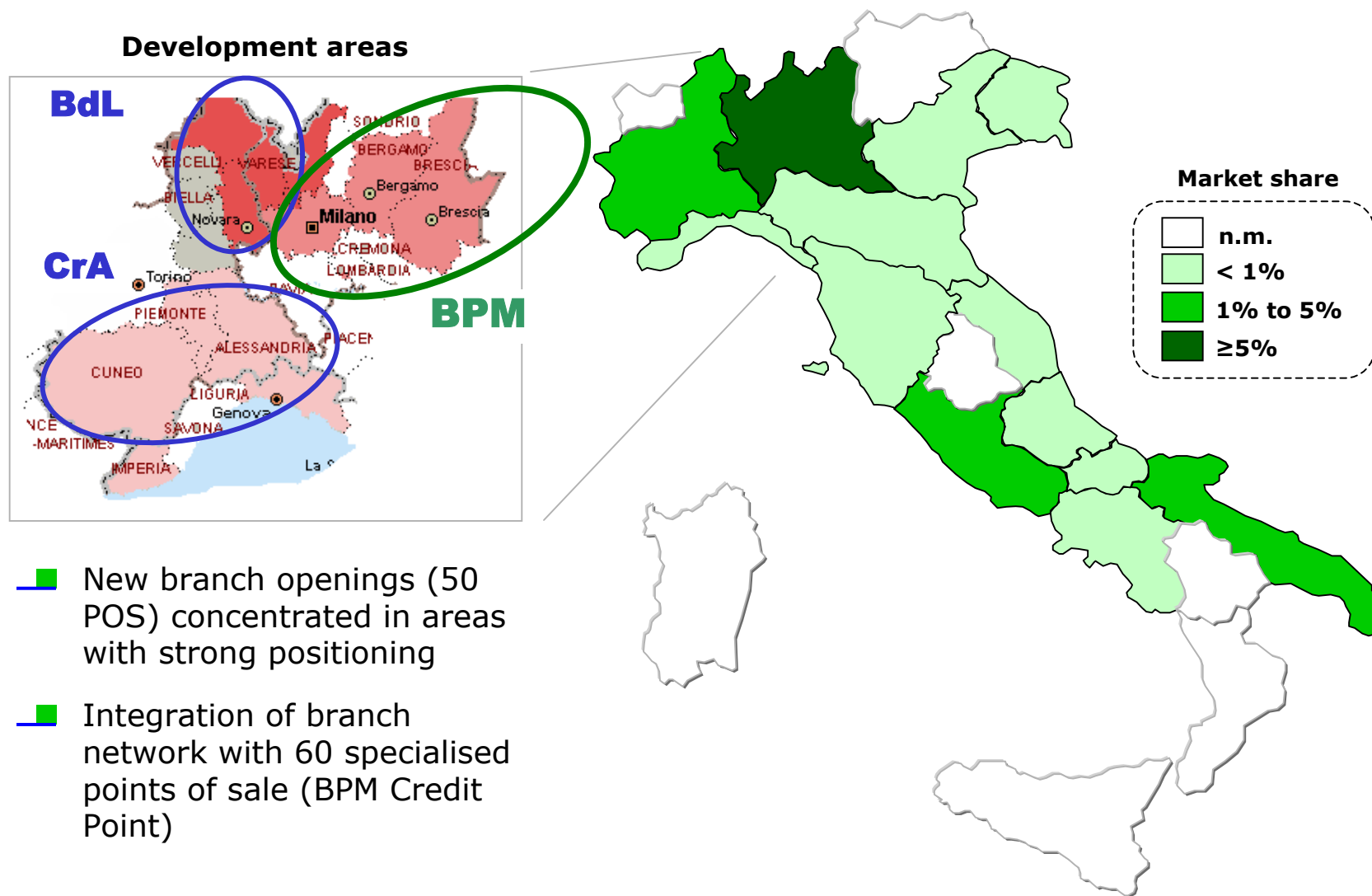
BPM Group structure: 2004-06 evolution



 Group subsidiaries in 2004, now closed or reduced to minority stakes

 Group subsidiaries in 2004, now partially disposed of

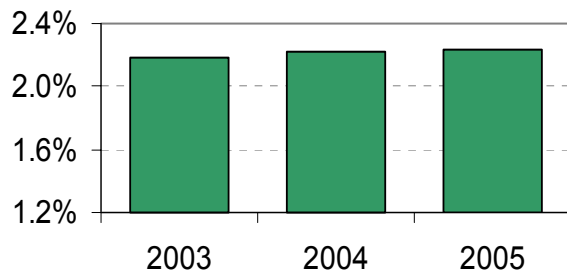
BPM market positioning and future development: strongly rooted in North-West



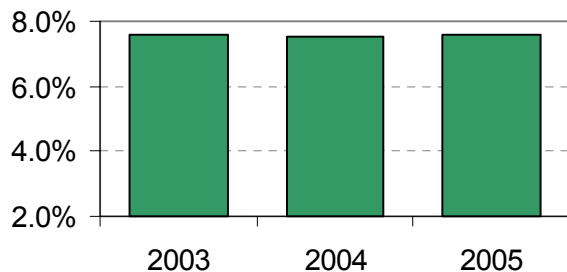
BPM market share in Lombardy

Branches

Italy



Lombardy



LOMBARDY
Economic indicators

	Lombardy	Italy	Lombardy vs. Italy
GDP (€m) with current prices	271,178	1,351,328	20.1%
Salaries (€m) (2004)	118,055	563,075	21.0%
Foreign population (in 2004)	594,279	2,402,157	24.7%
Operating registered companies (in 2005)	798,400	5,118,498	15.6%
Imports (€m in 2005)	110,325	305,686	36.1%
Exports (€m in 2005)	84,419	295,739	28.5%
Branches	6,068	31,498	19.3%