

# **Bipiemme Group Q3 2007 Results**

**Milan, 14 November 2007**



**Banca Popolare di Milano**

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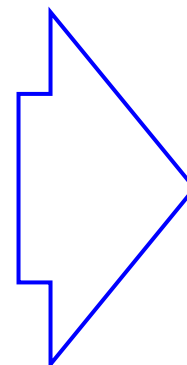
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***In line with the scope of consolidation as at 31 December 2006, the nine-month results for 2006 have been restated to include Bipiemme Vita and Ultramedias as equity consolidated rather than line-by-line, following the merger of Ultramedias into Bipiemme Vita and the subsequent sale of the latter to FondiariaSai.***

# Q3 2007 results: highlights

€ m	Sept. 07	Sept. 06	%
Loans	28,842	25,908	11.3
Funding	31,078	28,769	8.0
Assets in custody	20,761	18,587	11.7
Asset management	20,138	20,655	(2.5)
RWA	33,812	29,923	13.0
Total capital ratio	9.55%	10.67%	
Tier 1	7.24%	7.18%	

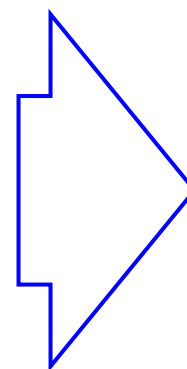


Strong increase of volumes continues

Positive contribution of new bond issues

High double-digit growth of mortgages confirmed

€ m	9M 07	9M 06	%
Interest income	762	666	14.3
Total income	1,368	1,279	6.9
Operating profit	562	513	9.5
Net income	302	345	(12.4)
Adj. net income	294	248	18.6
Cost/income ratio	58.9%	59.9%	
ROE adj. (annualised)	16.3%	13.9%	



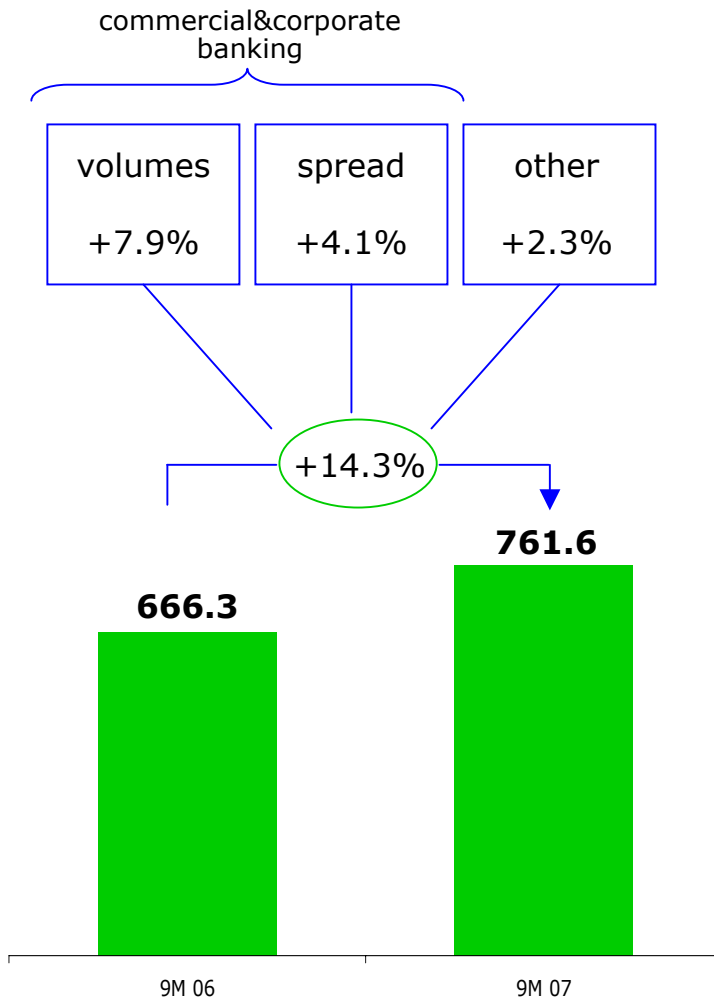
Volumes and spread improvement support interest income growth

Net income up 18.6% adjusting for non recurring items

# Interest income benefits from both volumes and spread improvement

9-month period

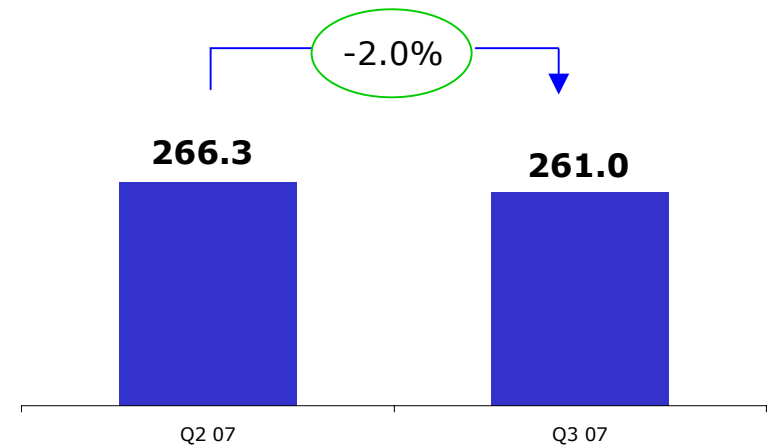
€ m



- Sustained expansion of volumes and favourable pricing trend boost interest income in the 9-month period
- Average volumes up 14.2% and 12.7% for loans and funding respectively in the nine-month period
- Decline in Q3 primarily due to the investment banking area with commercial banking up € 9m or 4%

Third quarter

€ m

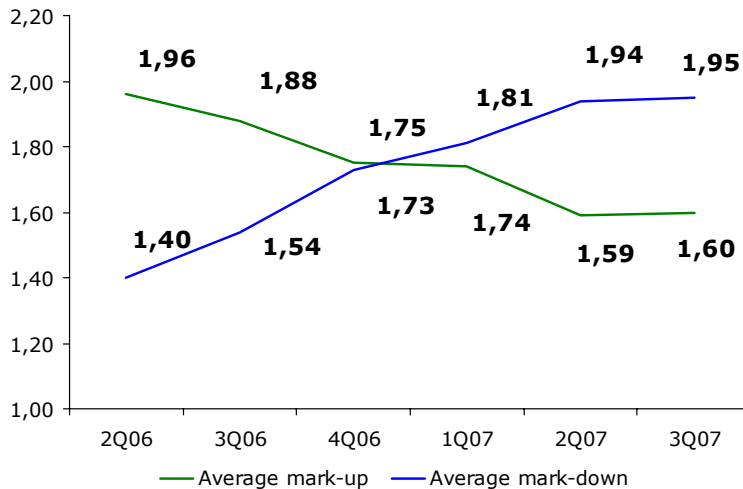


# Favourable pricing context supports spreads

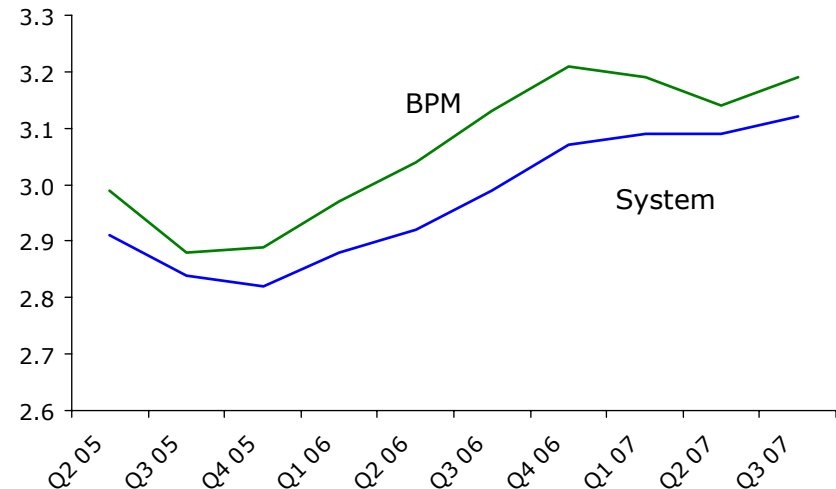
- Improving price environment in Q3
- Average mark-up flat in the quarter after a long-lasting decling trend

- BPM average spread up 13 bps in the 9-month period versus 2006 and up 6 bps QoQ
- Market position confirmed: BPM spread still 7 bps above the system average in Q3

**BPM mark-up/mark-down %**



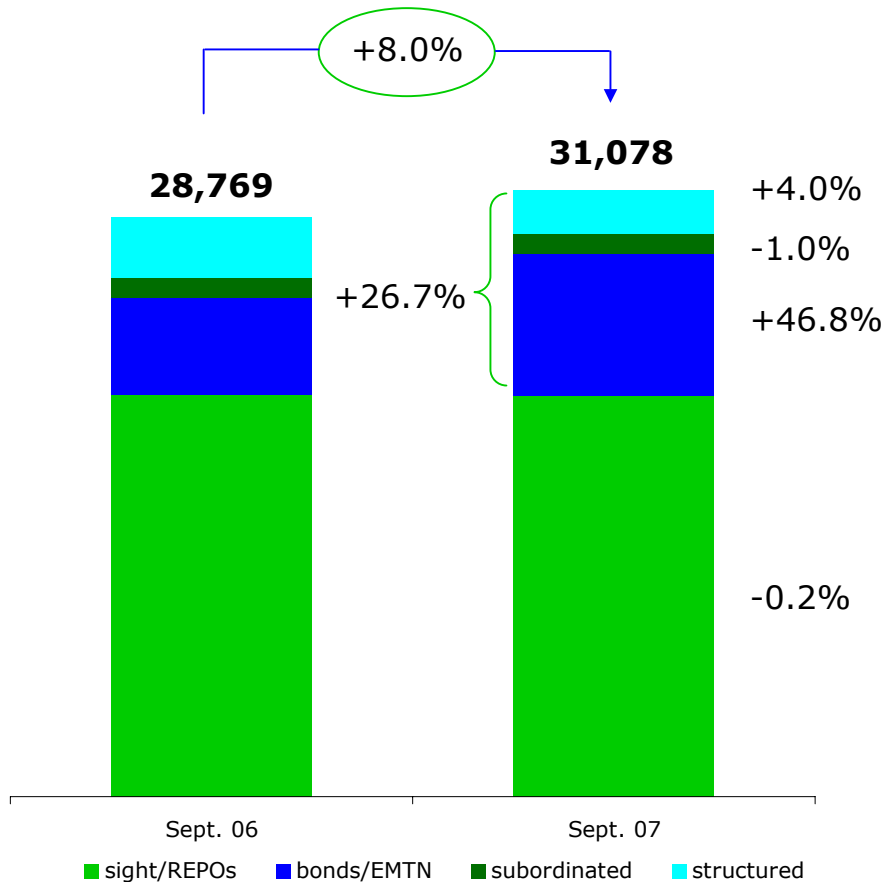
**Spread BPM vs system (quarterly avg) %**



# EMTNs drive funding growth

Funding

€ m

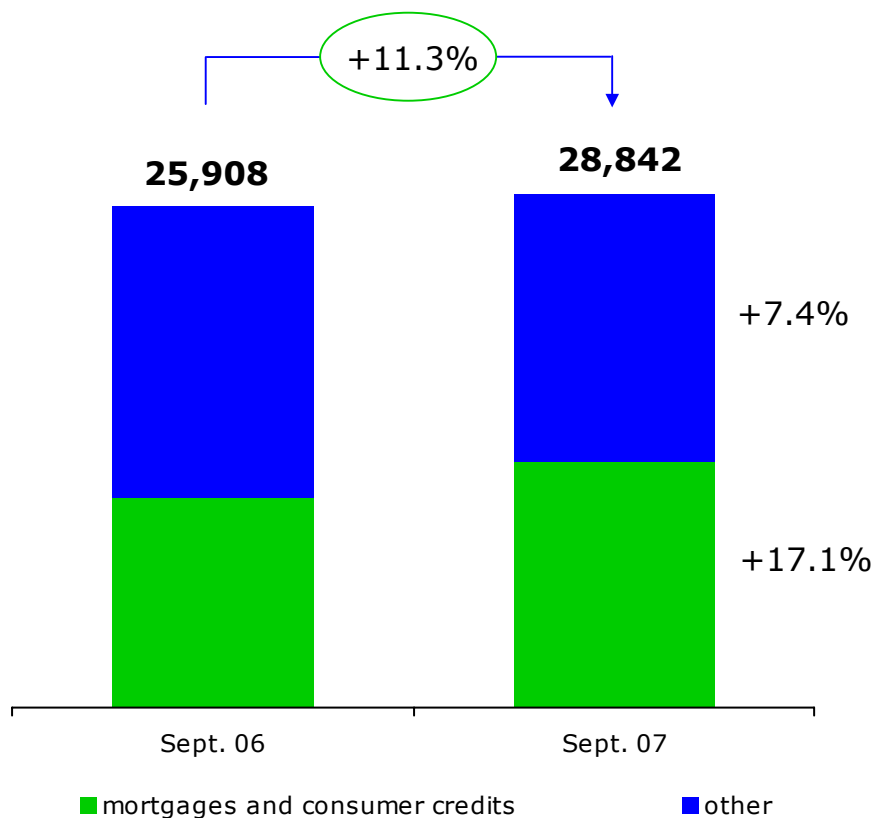


- Increase in funding mainly related to new EMTN issues (+ € 2.5bn)
- Structured notes at € 3.1bn, up 4% YoY with new issues totalling € 642m
- Relevant rise in outstanding securities (bonds, EMTN, subordinated and structured), up 26.7% YoY to € 11.2 bn
- On average volumes, funding grew by 12.7% YoY or 5% net of EMTN issues
- Strong performance of corporate banking (+29% on average volumes)
- Continuous increase of market share, at 2.12% in June 2007 vs. 2.05% in June 2006

# Sound growth of loan portfolio continues

## Customer loans

€ m

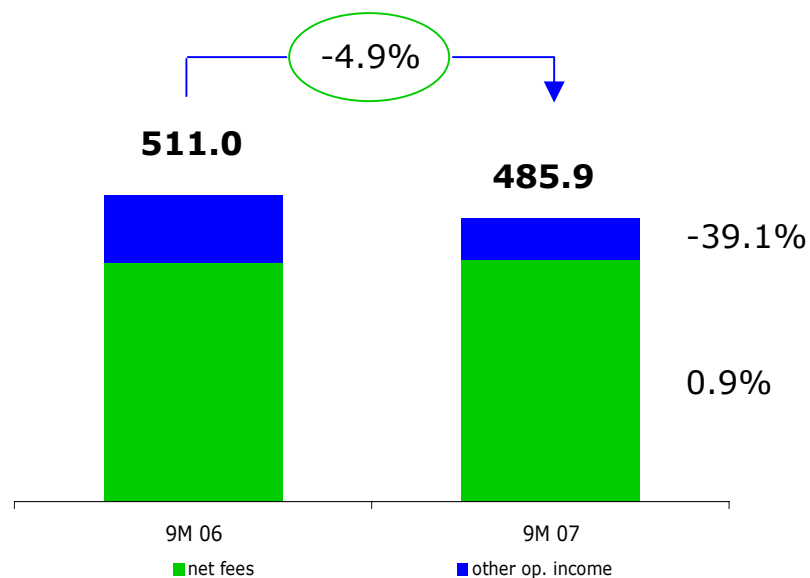


- No slow down in mortgage growth: new issues at € 3.3bn in the first nine months, up € 500m versus the same period of 2006
- Granted consumer credits: € 800m versus € 700m in 9M 06
- Stock of mortgages and consumer credits up 17.1% YoY and 2.4% QoQ to € 12.2bn at September 07
- Positive trend of short-term loans as well (up around 12% YoY on average volumes)
- Market share stable YoY at 1.86% (figure as at June)

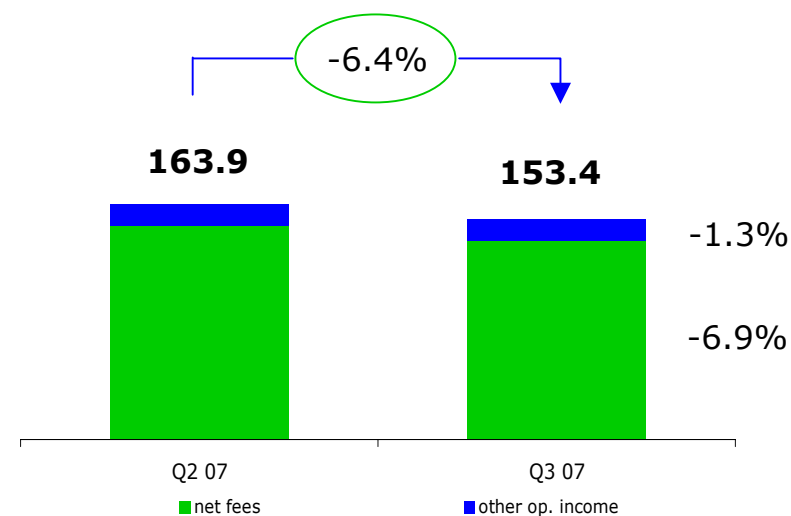
# Net fees and other revenues

- Net commissions up by € 4m YoY, reaching € 441m. Main components:
  - higher fees on bond placement (+ € 5.8m) and on sale of insurance products (+ € 7m)
  - declining commissions on payment services (- € 3.9m)
- Up-front fees on structured bonds up 9.9% to € 36.5m
- Other income included € 23.6m of one-off revenues in 2006, related to the closure of the 2001 securitisation
- Decline of net fees in Q3 mainly due to seasonality and to lower up-front fees

**9-month period** **€ m**



**Third quarter** **€ m**

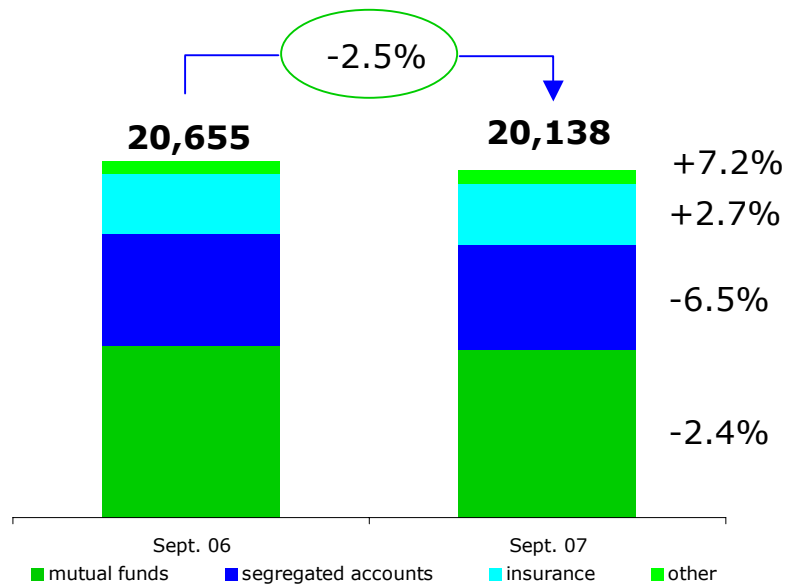


# Growth of insurance products support AUM performance

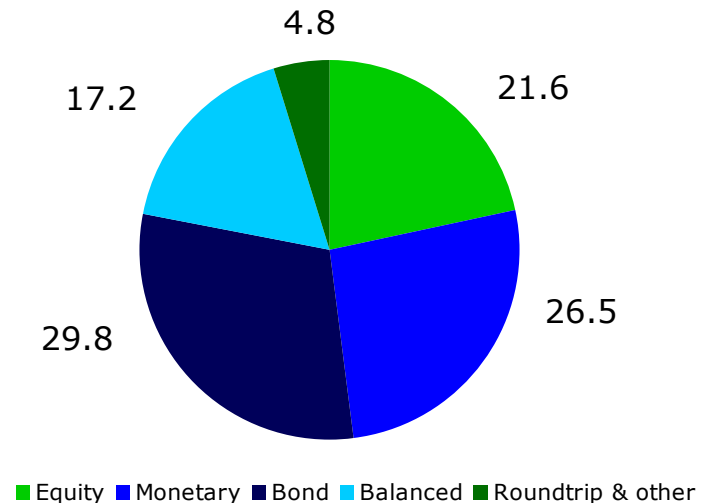
- Assets under management impacted by weak market conditions
- Total outflows at € 780m year-to-date, partially offset by increase in BPM bonds and third-party securities
- Net inflow for insurance products positive for € 40m with reserves up 2.7% YoY

- Market share of SGR funds at 2.05% in September 2007 versus 2.15% in September 2006
- Slight increase of monetary and bond products at 56% of total in September 07 versus 55% in June 07

## Assets under management € m



## Fund breakdown %

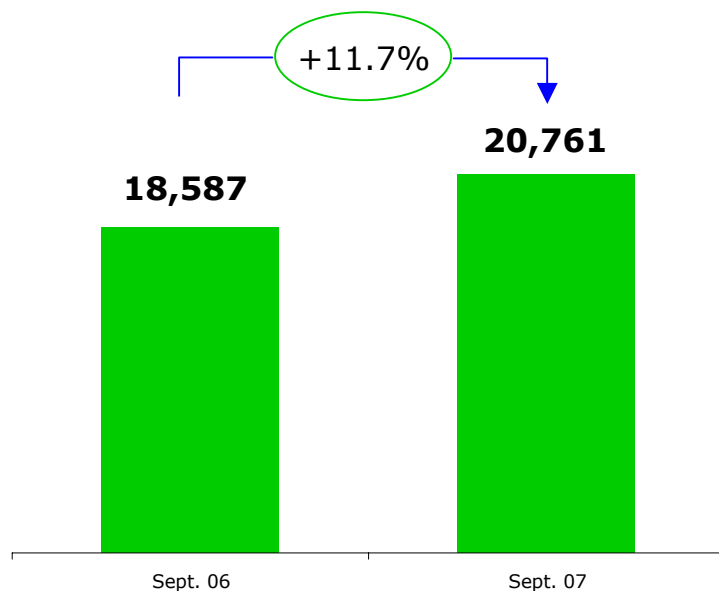


# Strong growth of assets in custody

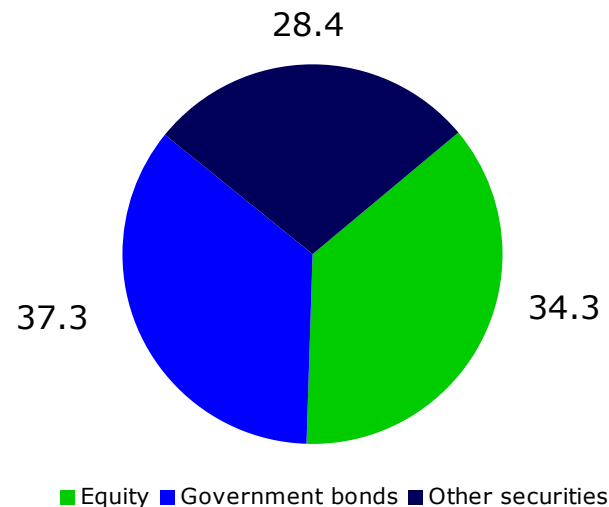
■ Significant increase of assets in custody, driven by temporary allocation of AUM disinvestments and placement of several third-party bonds in the first part of the year

■ Steady high profitability of assets in custody at 42 bps (excluding fees as custodian bank)

**Assets in custody\*** € m



**AuC breakdown** %

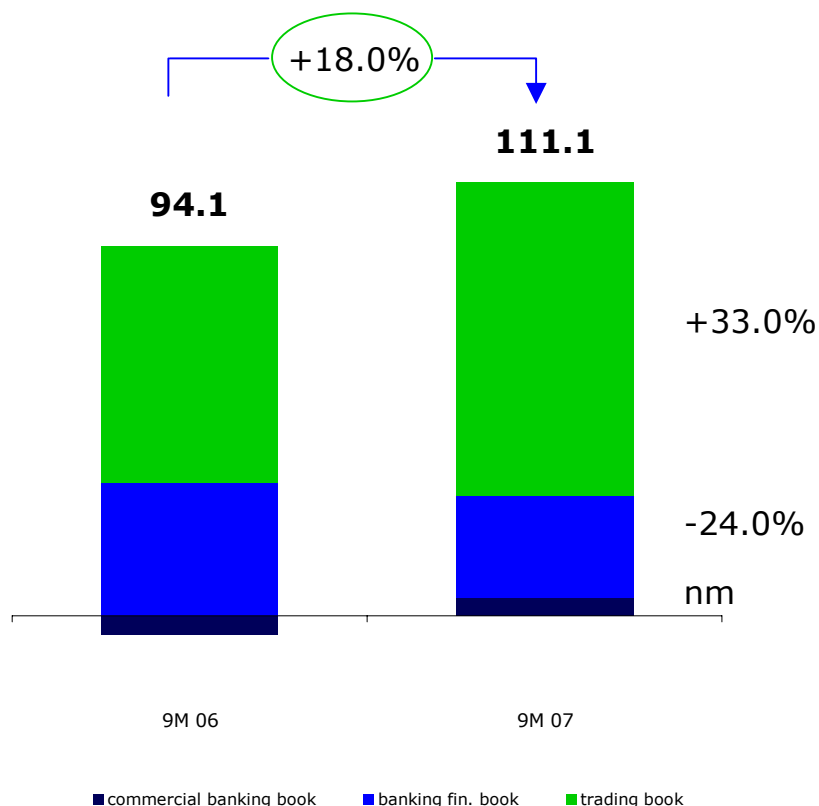


(\*) : customers only, excluding institutionals

# Profit from financial operations

9-month period

€ m



■ Dividends and profits from financial operations at € 111m in 9M 2007, up 18% YOY

■ Main components:

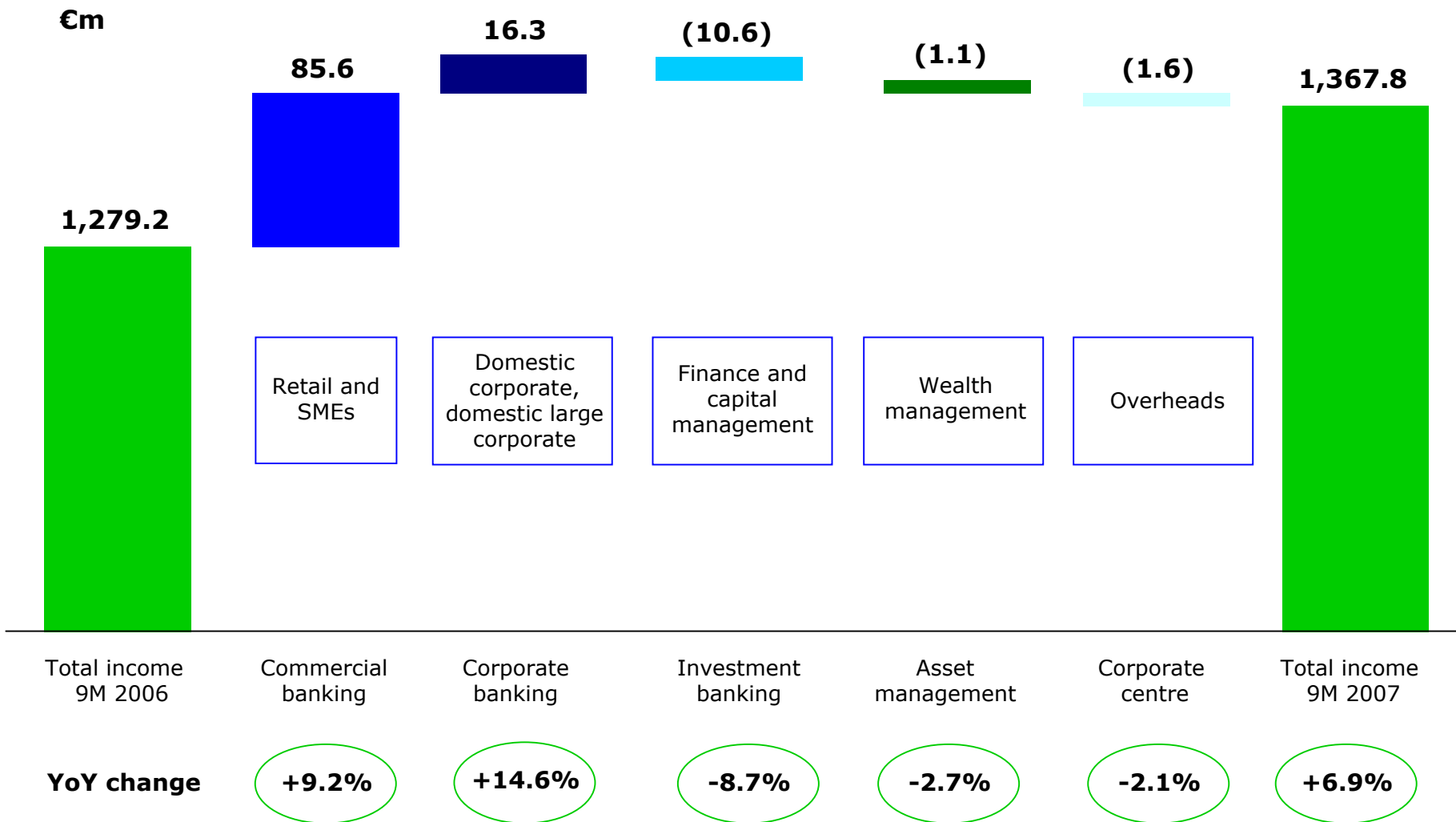
- **trading book** (€ 82.5m, + € 21m YoY) - positive performance supported by Banca Akros activity with customers, up € 21.7m. This result has been partially offset by a related decline in interest income
- **banking financial book** (€ 26.5m, - € 8.4m YoY) - suffer from € 5m of negative fair-value adjustments on subprime-related notes
- **commercial banking book** (€ 2 m, + € 4.8m YoY)

# Trading book

€ m	Sept. 07	Sept. 06	%
Financial assets held for trading	3,742	3,224	16.1
Financial assets at fair value	1,221	1,740	(29.8)
Financial assets available for sales	1,967	1,967	0.0
Hedging derivatives	11	23	(50.9)
less: Financial liabilities	(1,214)	(1,178)	3.0
<b>Total</b>	<b>5,727</b>	<b>5,776</b>	<b>(0.8)</b>
as % of total assets	13.6%	14.7%	
as % of tot. assets (excl. Akros)	9.2%	11.8%	

- Stock of financial assets stable YoY at around € 5.7bn
- Assets held for trading increase due to higher trading volumes at Banca Akros
- Assets at fair value decline due to maturity of some investments
- Exposure on subprime-related notes unchanged versus June 07 (nominal value around € 19m) with potential losses at € 5m in September

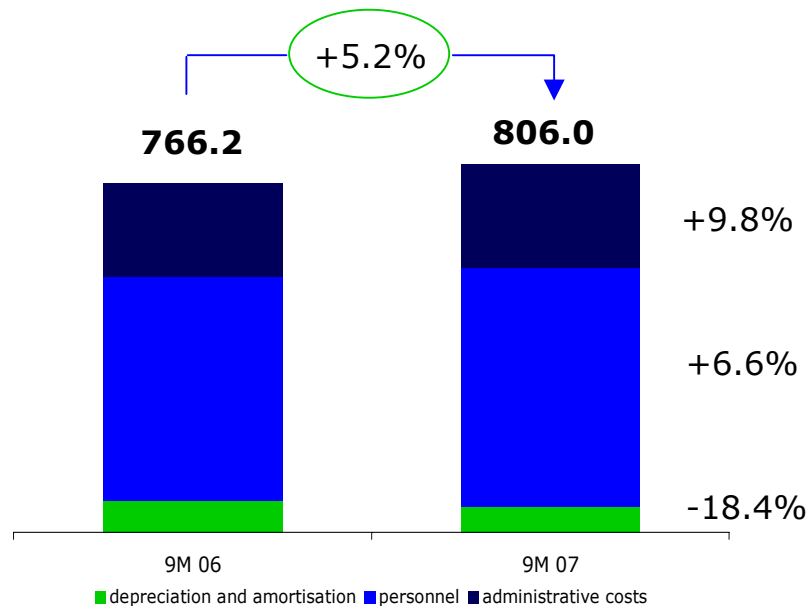
# Total income growth by business unit



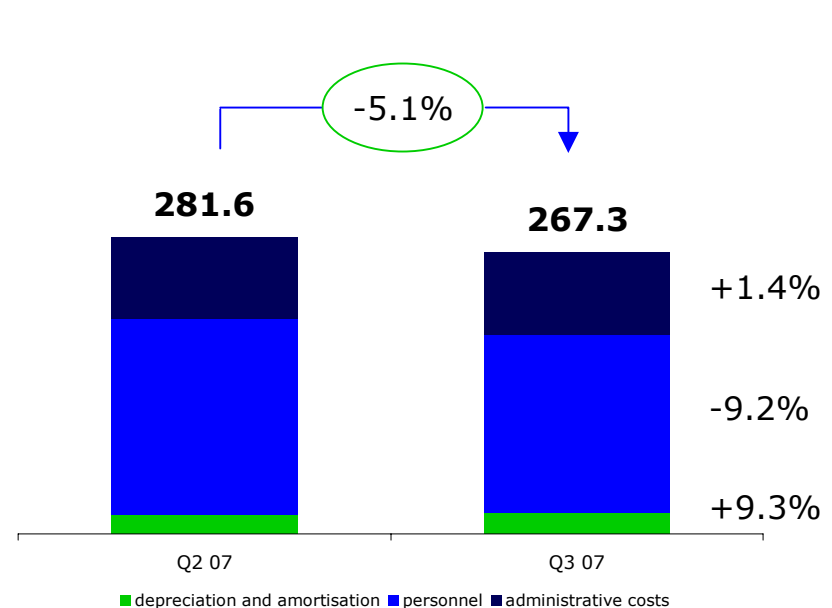
# Increase in costs mainly related to higher volumes

- Personnel costs grew by € 32.5m YoY primarily explained by impact of labour contract updates (€ 13.9m), changes in profit sharing (art. 47 of by-laws) for a total increase of € 18.3m, TFR adjustments due to revised regulation (positive effect for € 4.3m)
- Decline in personnel costs in Q3 mainly related to the lower impact of profit sharing vs. Q2
- Increase in administrative expenses (€ 20.1m) mainly attributable to higher business related costs and IT infrastructure outsourcing, largely offset by a decrease in depreciation (YoY net growth of the two items: +2.7%)

**9-month period** € m

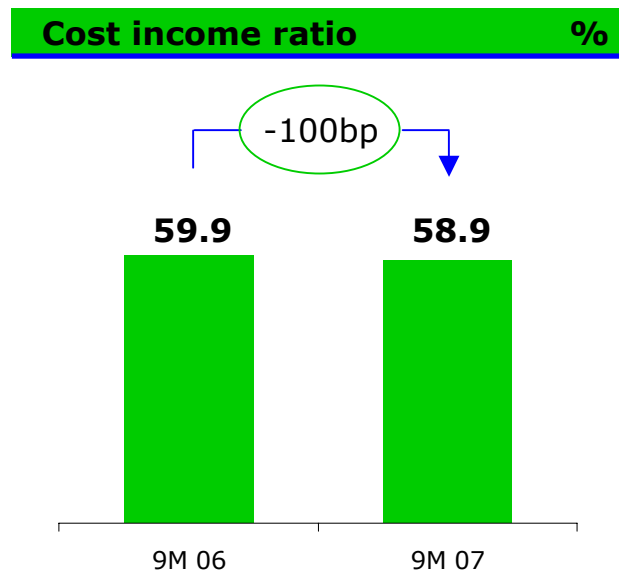


**Third quarter** € m



# Cost income ratio and staff

- Declining trend in cost income continues: down 1 percentage point YoY to 58.9%
- New hires in 9M 2007 mainly related to network expansion, strengthening of sales operations and IT integration of CR Alessandria, which partially anticipated the 2008 hiring program
- Expected exits in Q4: around 100 units

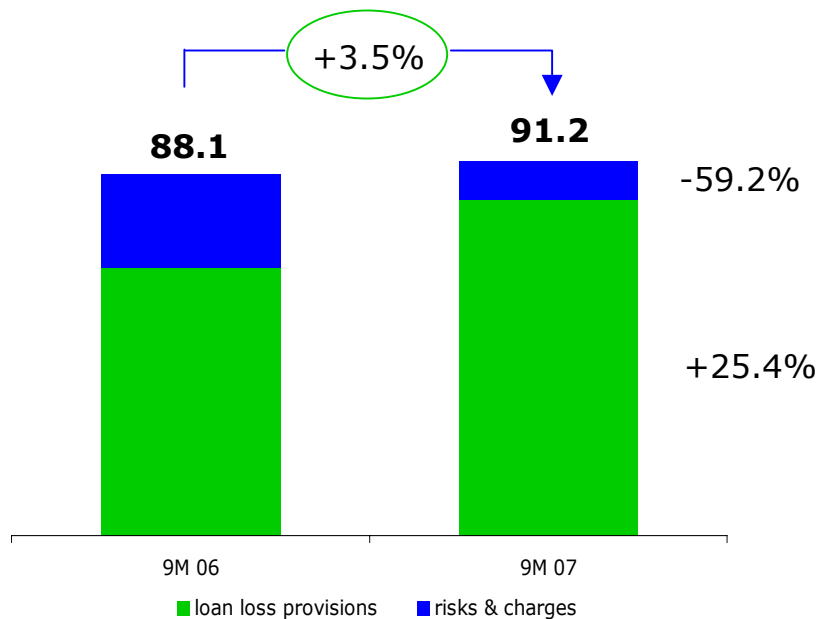


	Sept. 07	Sept. 06	Chg
<b>Employees</b>	8,656	8,495	+161
of which temporary workers	203	122	+81
<b>Points of sale</b>	741	734	+7

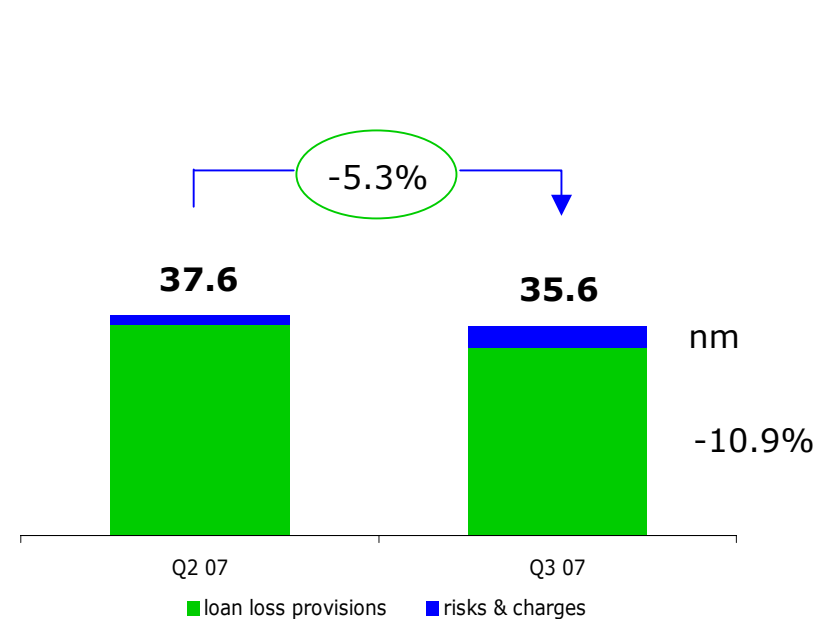
# Provisions and adjustments

- Total provisions up € 3.1 m YoY. Main components:
  - adjustments at € 81.9m (up € 16.6m YoY), fully attributable to an increase in provisions on performing loans linked to higher volumes
  - risk provisions at € 9.3m (down 13.5m YoY), mainly referring to claw-back actions or "revocatorie"
- Cost of credit at 42 bps versus 45 bps in September 2006 (annualised figures)

**9-month period** € m



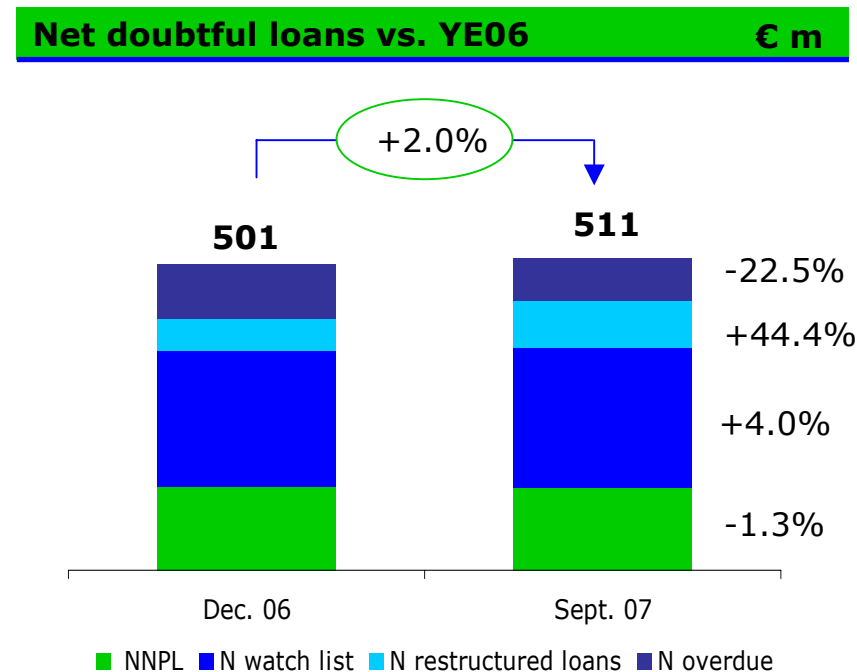
**Third quarter** € m



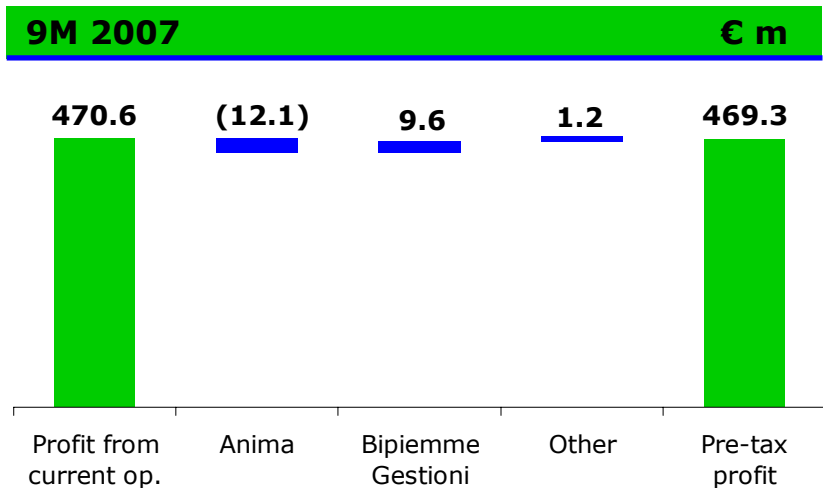
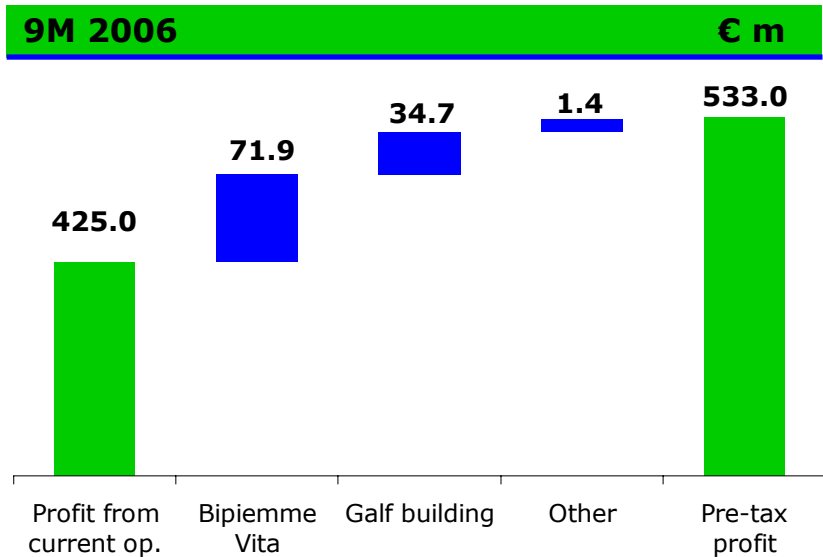
# Non performing loans still well below system average

- Net doubtful loans slightly increasing versus YE 2006 and declining at 1.8% of total loans versus 1.9% in December 2006
- Gross doubtful loans at 3.1% of total loans compared with 3.4% at December 2006
- Net non-performing loans at a modest 0.5% of loan portfolio with coverage stable at 70%
- Temporary increase in restructured loans due to a single position already wrote back in October

Sept. 07	Ratio	Coverage
<b>Tot. doubtful loans</b>	<b>1.8%</b>	<b>43.7%</b>
Net NPL	0.5%	70.1%
Watch list	0.8%	14.0%
Restructured loans	0.3%	35.8%
Overdue loans	0.2%	2.6%
<b>Performing loans</b>	<b>98.2%</b>	<b>0.7%</b>

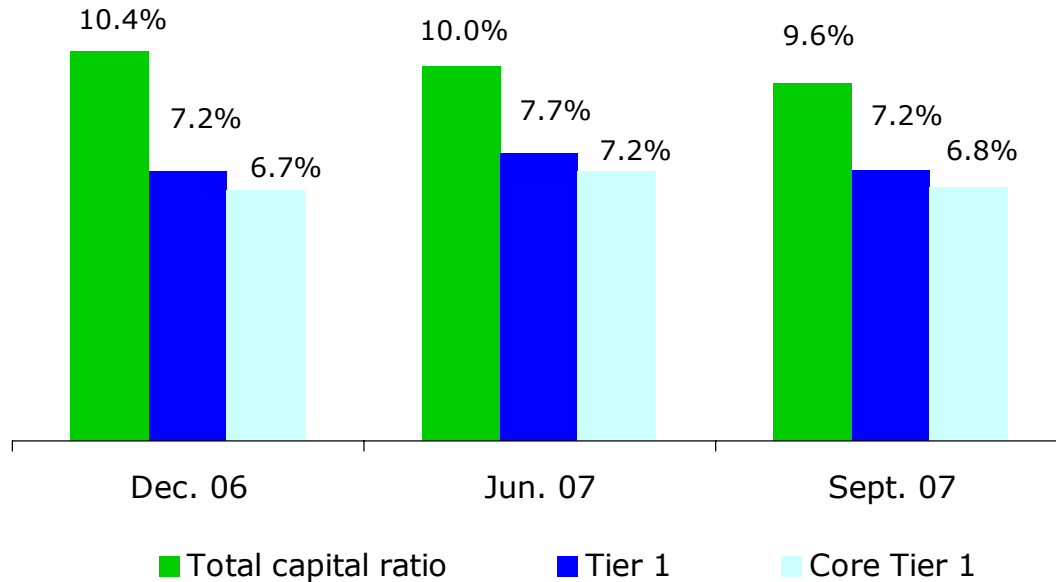


# Non recurring items



- 9M 2006 results benefited from gross capital gains totalling € 106.6m for the sale of a stake in Bipiemme Vita and a real estate asset
- 9M 2007 results include non-recurring items negative for € 1.3m. Main components:
  - gross capital gain of € 9.6m for the sale of a 4.995% stake of Bipiemme Gestioni SGR to BP Etruria Lazio
  - write-down of investment in Anima (€ 12.1m) following impairment test under revised assumptions for AUM and inflows evolution

# Capital ratios



- Tier 1 capital ratio declines to 7.2% because of increase in RWA (+7.3% in September 07 versus December 06) and the impact of Anima acquisition (42 bps)
- In June, Tier 1 and Core Tier 1 capital ratios benefited from the bonus capital increases of BPM, BdL and CRAL approved in H1 07 (totalling € 287 m)

# Q3 07 results: reclassified Group P&L

€ m	9M 07	9M 06	% Chg.	Q3 07	Q2 07	% Chg.
<b>Interest income</b>	<b>761.6</b>	<b>666.3</b>	<b>14.3</b>	<b>261.0</b>	<b>266.3</b>	<b>(2.0)</b>
<b>Net fees and commissions</b>	<b>440.7</b>	<b>436.6</b>	<b>0.9</b>	<b>138.5</b>	<b>148.8</b>	<b>(6.9)</b>
Associates, dividends and profits from fin. trans.	120.2	101.9	18.0	1.0	58.1	n.m.
Other operating income	45.3	74.4	(39.1)	14.9	15.1	(1.3)
<b>Non interest income</b>	<b>606.2</b>	<b>612.9</b>	<b>(1.1)</b>	<b>154.4</b>	<b>222.1</b>	<b>(30.5)</b>
<b>Total income</b>	<b>1,367.8</b>	<b>1,279.2</b>	<b>6.9</b>	<b>415.4</b>	<b>488.4</b>	<b>(14.9)</b>
Staff costs	(523.1)	(490.6)	6.6	(169.0)	(186.1)	(9.2)
Administrative costs	(226.5)	(206.3)	9.8	(78.4)	(77.3)	1.5
Depreciation & amortisation	(56.5)	(69.2)	(18.4)	(19.9)	(18.2)	9.3
<b>Operating costs</b>	<b>806.0</b>	<b>766.2</b>	<b>5.2</b>	<b>267.3</b>	<b>281.6</b>	<b>(5.1)</b>
<b>Operating profit</b>	<b>561.7</b>	<b>513.0</b>	<b>9.5</b>	<b>148.1</b>	<b>206.8</b>	<b>(28.4)</b>
Net adjustments to loans and fin. assets	(81.9)	(65.3)	25.4	(32.0)	(35.9)	(10.9)
Net provisions for risks and charges	(9.3)	(22.8)	(59.2)	(3.6)	(1.7)	n.m.
Profit and loss from investments	(1.3)	108.0	n.m.	(2.0)	0.7	n.m.
<b>Profit/loss from current operations before tax</b>	<b>469.3</b>	<b>533.0</b>	<b>(11.9)</b>	<b>110.5</b>	<b>169.9</b>	<b>(35.0)</b>
Income tax for the period	(158.1)	(184.0)	(14.1)	(40.3)	(44.6)	(9.7)
Minorities	(8.9)	(4.0)	121	(2.9)	(3.7)	(21.6)
<b>Group net profit/loss for the period</b>	<b>302.3</b>	<b>344.9</b>	<b>(12.4)</b>	<b>67.3</b>	<b>121.7</b>	<b>(44.7)</b>

# Q&A session



**Banca Popolare di Milano**