

# **Bipiemme Group H1 2010 Results**

**Milan, 27 August 2010**



**BANCA POPOLARE DI MILANO**

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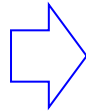
*Mr Roberto Frigerio, as the manager responsible for preparing the bank's accounts, hereby states, pursuant to Article 154 bis, paragraph 2 of the Testo Unico della Finanza (the Finance Act), that the accounting information contained in this report corresponds to the documentary evidence, corporate books and accounting records.*

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*The acquisition of one hundred percent of Bipiemme Vita means the company has been fully consolidated into Bipiemme Group's balance sheets, the effects being: on the asset side, an increase of €3,836 million in "financial assets" and, on the liabilities side, an increase of €925 million in "due to customers" and €3,063 million in "technical reserves".*

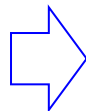
# H1 2010 results: main trend

## Focus on customers



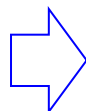
- ❑ In H1 10 total customers increased by ~11,000 units vs Dec. 09 o/w around 9,500 retail, thanks also to the contribution from Webank, linked to the online banking initiatives included in the 2010-12 Business Plan
- ❑ The constant and usual focus on our customers led BPM to define a solution for the holders of insurance policies with underlying Icelandic bonds placed by BPM Vita. The total cost for this operation (€55mIn) was booked under "provisions for risks & charges"

## Cost base



- ❑ Cost base affected by change in scope of consolidation (WeTrade €6.4mIn) and BP 2010-12 new initiatives ( ProFamily €5.7mIn and WeBank €8.8mIn). Net of these effects, total operating costs would have decreased by 2.5% YoY

## Credit quality



- ❑ Strong improvement in cost of credit, down from 130bp in June '09 to 60bp in June '10, including the loss recorded on a credit position disposal (€8mIn) which was booked under "profit & loss from financial transactions and dividends"

# H1 2010 results: non recurrent & ongoing operations

## Capital position

- ❑ Solid capital position confirmed: Core Tier1 7.7%, Tier1 8.4%, Total Capital Ratio 12.3%

## Non recurrent operations

- ❑ Sale of **Custodian Bank**: +€55mln gross capital gain booked in Q2 2010
- ❑ **Bancassurance**: acquisition of BPM Vita (100%) in June '10
- ❑ Total impact from the operation on **Iceland Insurance policies** around €60mln (o/w €55mln posted in provision for risks & charges)

## On-going operations

- ❑ **Bancassurance**: sale of the majority stake in BPM Vita expected by end 2011
- ❑ **AuM**: strategic alliance between Anima SGR and Prima SGR; closing expected in 2010

# H1 2010 results: highlights

€ mln	H1 10	H1 09	%
Loans	33,412	32,041	4.3
Funding	36,485	35,085	4.0
Assets under custody	20,139	19,968	0.9
Asset management	24,988	23,050	8.4
Core Tier 1	7.7	6.5	1.2pp
Tier1	8.4	7.7	0.7pp
TCR	12.3	12.0	0.3pp

**Loans:** up 4.3% YoY thanks to good trend in new mortgages (~€2bn in H1 10 vs. €1,8bn in H1 09). Market share at 1.98% in May '10\* vs 1.95% in the previous year

**Funding:** increasing in volume YoY, mainly thanks to retail segment (core sight deposits 6.8% YoY), which weigh for 81% of the total. Market share increased from 2.28% in May '09 to 2.35% in May '10\*

**AUM:** +8.4% YoY thanks to the net inflows in the last 12 months (€773mln), notwithstanding the net outflows recorded YTD and negative trend in financial markets

€ mln	H1 10	H1 09	%
Interest income	360.8	490.3	(26.4)
Total income	779.8	1,000.2	(22.0)
Operating profit	205.5	432.7	(52.5)
Net income	70.2	124.1	(43.4)
Cost/income ratio%	73.7	56.7	17pp
ROE %	3.7	7.8	

**Net interest income:** still suffering from the current low interest rates. Avg. Eur3M Q2 10 at 0.7 vs 1.37 in Q2 09. H1 09 figure included €39mln of overdraft fees.

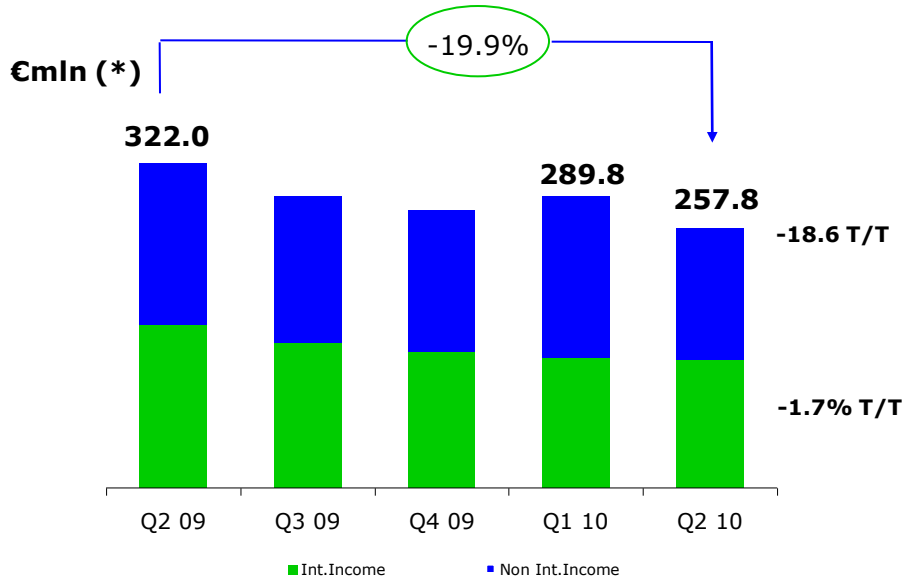
**Total income:** down 22% YoY mainly explained by lower trading and dividend income which was penalised by worsening market conditions (widening in credit spread) and less contribution from ALM activity (€19mln in H1 10 vs €82mln in June 09)

**Net Income:** €70.2mln (-43.4% YoY)

# H1 2010 results: P&L main details (YoY analysis)

€ mln	H1 09	H1 10	
<b>Interest income</b>	<b>490.3</b>	<b>360.8</b>	H1 09 figure included €39mln of overdraft fees; H1 10 was affected by low interest rates
<b>Net fees and commissions</b>	<b>291.9</b>	<b>353.5</b>	€49mln of third party bond placement fees in H1 10 vs €39mln in H1 09
Associates	-5.2	-1.5	
Dividends and profits from fin. trans.	205.4	47.4	H1 10 mainly affected by: 1) lower ALM contribution (€19mln vs €82mln in H1 09); 2) lower Akros contribution (€27mln vs €57mln); 3) €-8mln credit position disposal; 4) -€7mln specific assets related to the operation on Icelandic insurance policies
Other operating income	17.8	19.7	
<b>Non-interest income</b>	<b>509.9</b>	<b>419.0</b>	
<b>Total income</b>	<b>1,000.2</b>	<b>779.8</b>	
Staff costs	(367.5)	(362.0)	Positive effect from early retirement plan "Fondo Solidarietà" (€-12,9mln) partially offset by BP 2010-12 new initiatives
Administrative costs	(158.2)	(169.7)	
Depreciation & amortisation	(41.8)	(42.6)	Admin. costs under control +€11.5mln all related (€14mln) to 2010-12 Business Plan initiatives and WeTrade consolidation
<b>Operating costs</b>	<b>(567.5)</b>	<b>(574.3)</b>	
<b>Operating profit</b>	<b>432.7</b>	<b>205.5</b>	
Net adjustments to loans and fin. assets	(211.2)	(101.5)	Improvement in cost of credit: H1 10 at 60bps vs 130bps in June 09
Net provisions for risks and charges	(6.8)	(57.8)	
Profit and loss from investments	0	81.1	Provision for "Icelandic Insurance policies" (€55mln)
<b>Profit/loss from current op. before tax</b>	<b>214.7</b>	<b>127.2</b>	
Income tax	(90.2)	(53.5)	€55mln from custodian Bank disposal and €26mln from evaluation of 49% stake in BPM Vita after acquisition of full control
Minorities	(0.4)	(3.5)	
<b>Net profit</b>	<b>124.1</b>	<b>70.2</b>	

# Commercial Banking: total income



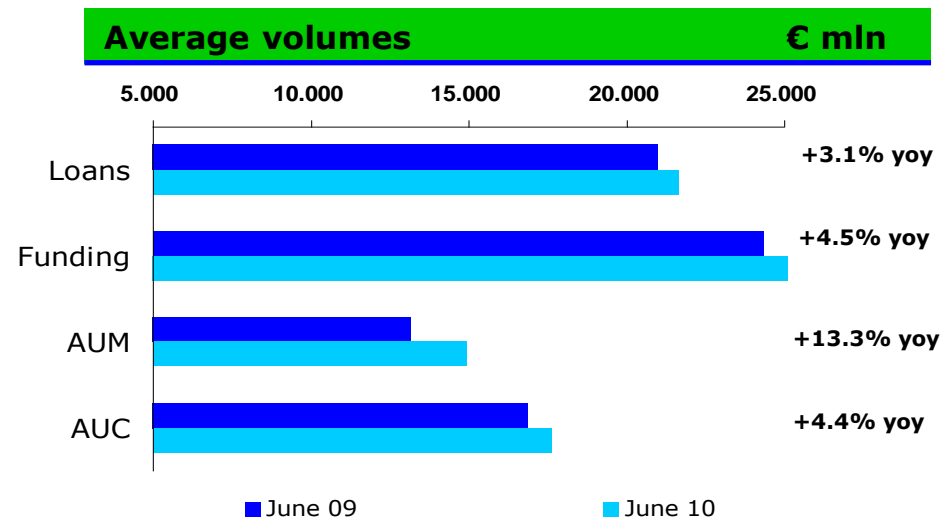
**Interest income:** -1.7% QoQ, mainly due to the persisting pressure on spreads, mark-down and mark-up -2bp and -4bp respectively

**NNII** -18.6% QoQ in detail: AuM commissions performed well QoQ (+9.5%) but the AuC commission decreased by €23mln affected by third party bond placement fees lower than the high level recorded in Q1. Traditional banking fees stable

**Loans:** +3.1%, the growth was supported by positive trend in mortgages and personal loans. In Q2 new mortgages were over €1bn and new instalment loans around €400mln

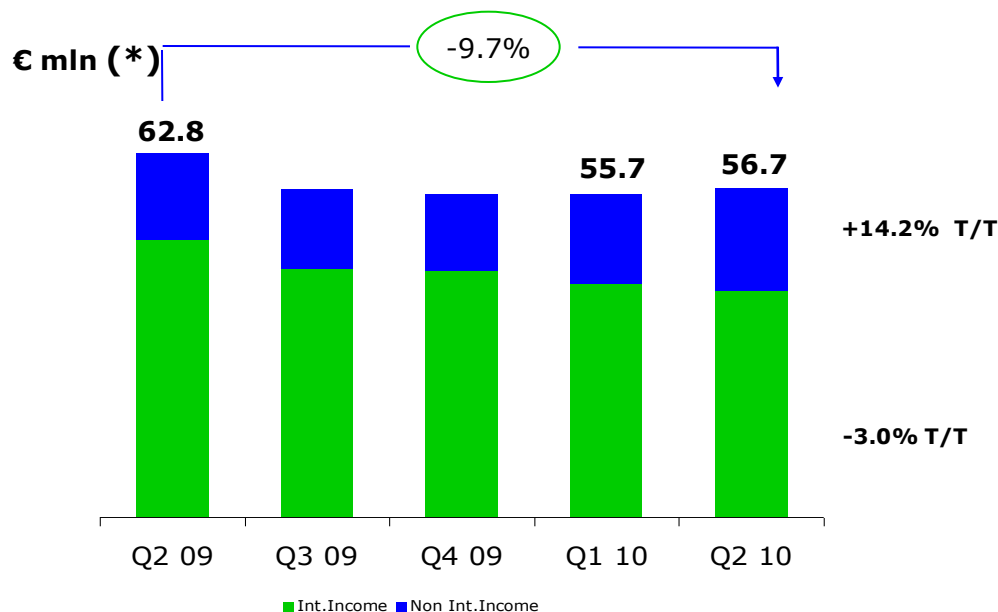
**Funding:** +4.5% mainly thanks to core sight deposits contribution (+15.5% YoY)

**AUM + AUC:** +8.1% vs June '09)



7 Source: Internal Management Report (\*) Quarterly data reclassified taking into consideration the new accounting method for overdraft fees (CMS) for a like-for-like comparison

# Corporate Banking: total income



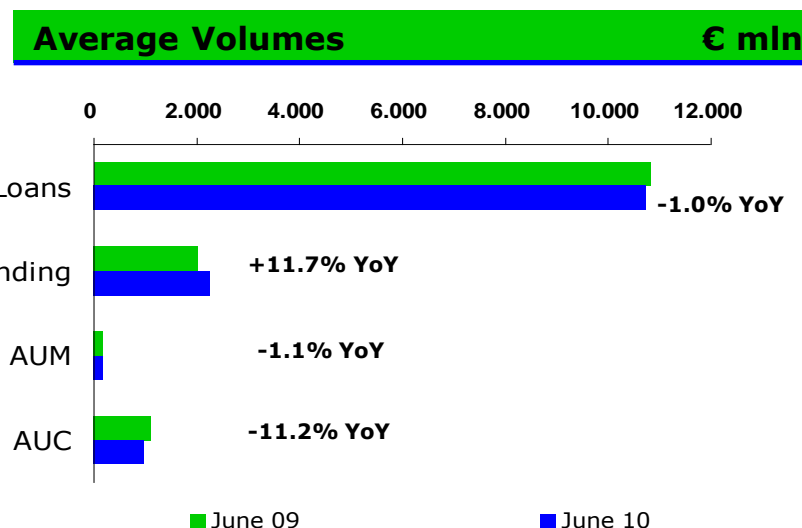
■ Total income up 1.8% QoQ, in detail:

- **NII** -3.0% QoQ due to decrease on both mark-up (-3bps) and mark-down (-8bps)

- **NNII** +14.2% QoQ thanks to the recovery in traditional banking fees

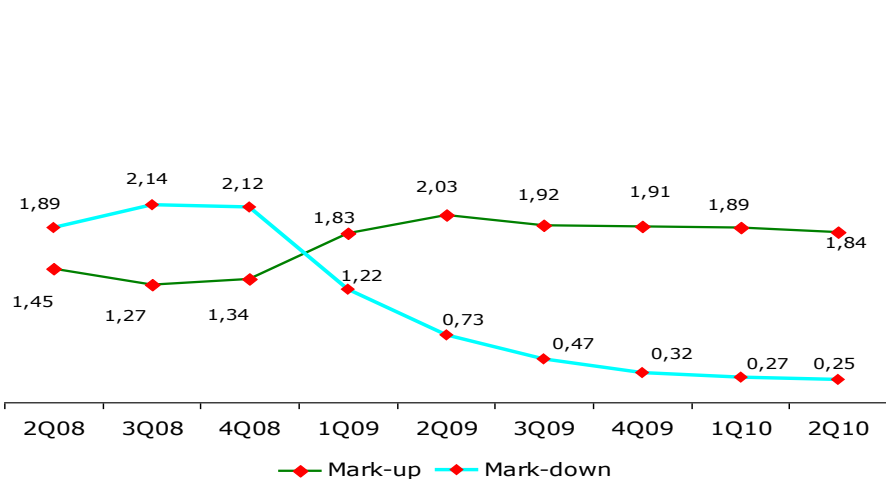
- **Loans:** slight decrease, -1%, still affected by negative macro economic scenario. Good trend in terms of new mortgages and installment loans in Q2 10 (€167mln, +35% QoQ)

- **Funding** increased mainly thanks to core sight deposits (+13.5% vs H1 09)

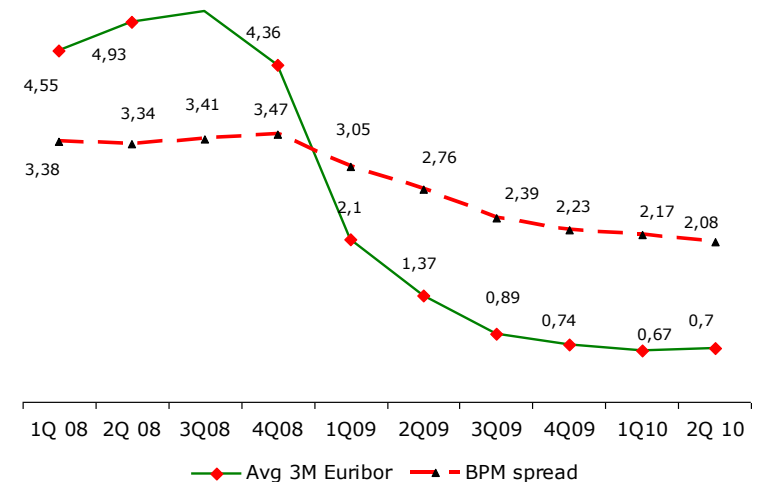


# Customer spreads

## Mark-up (net of overdraft fees) and mark-down



## Group spread Vs 3M Euribor

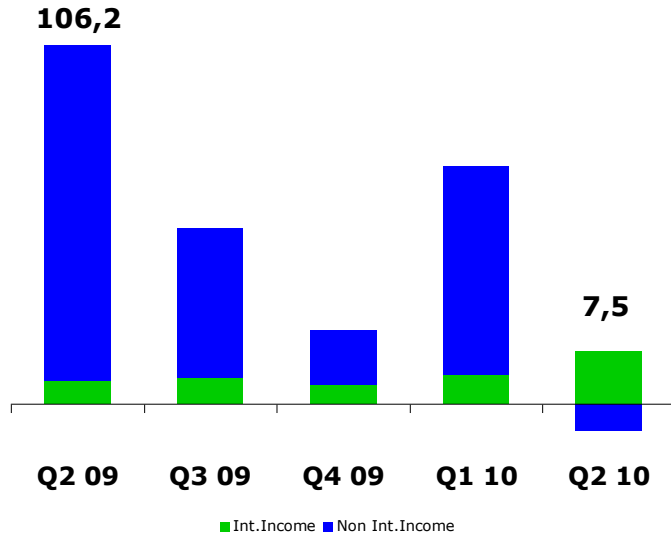


- BPM Group spread (-68bps YoY) is suffering from the pressure on mark-down\* (-48bps) and on mark-up\* (-19bps)
- The QoQ decrease in mark-up (-5bps) is mainly due to high competition in the areas where BPM Group is historically present

Mark-up (no overdraft fees) and mark-down calculated vs TIF average 3M euribor – Source: Internal Management Report

# Treasury & Investment Banking: total income

€mln

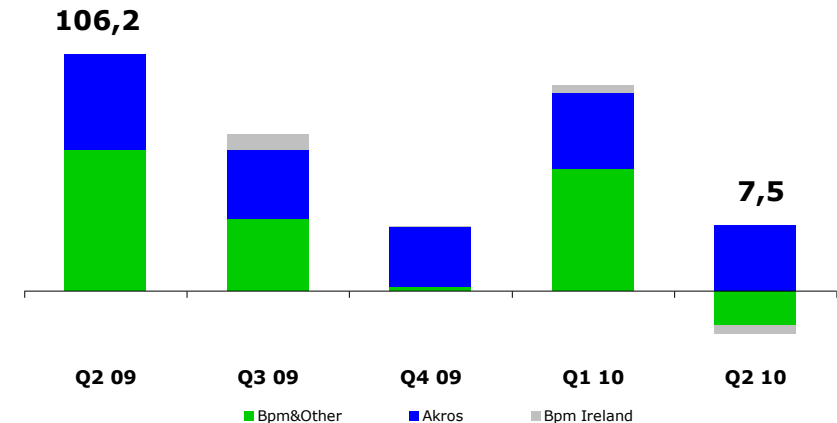


- Net interest income at €15.6mln thanks to higher trading on fixed income products by Banca Akros
- Non-interest income was -8.1mln, comprising, on one side, positive contribution from Akros (€14.3mln) and, on other side, negative contribution of €-18.8mln from BPM (o/w UCITS €-5.8mln, bonds €-13mln) and from BPM Ireland (€-4mln)

Banca Akros contributed €22.4mln in Q2, thanks, among other things, to market making on bonds, interest rate derivative trades and brokerage

BPM & Other commercial banks posted interest income of €6.8mln and capital losses for €15mln. The latter was caused by credit spread widening owing to worries about sovereign debts of peripheral EU countries

## Total revenue breakdown € m



# Financial Assets

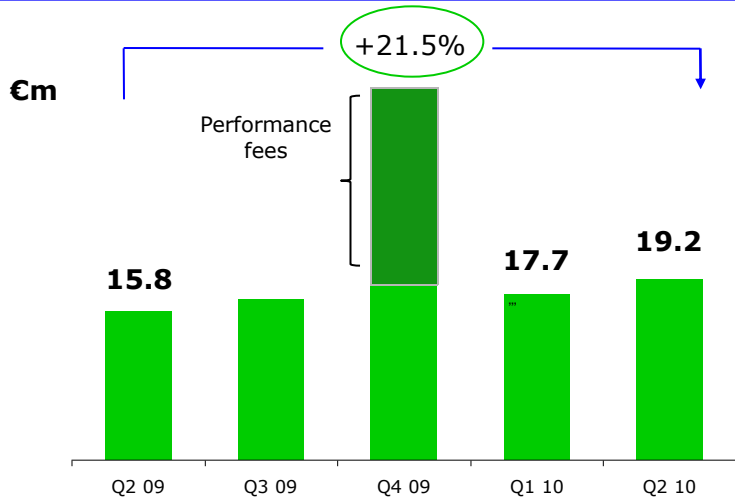
€ m	June 10	June 09
BPM & Others	3.136	2.002
BPM Ireland	562	794
Banca Akros	1.091	746
Bipiemme Vita (*)	3.954	0
<b>TOTAL FINANCIAL ASSETS</b>	<b>8,744</b>	<b>3,541</b>
<i>% on Tot. Assets (net of financial liabilities)</i>	<i>17.6%</i>	<i>8.2%</i>
<i>% on Tot. assets (exl. Akros &amp; BPM Vita)</i>	<i>7.5%</i>	<i>6.5%</i>

€ m	June 10	June 09
<b>BPM &amp; Other commercial banks</b>	<b>3,136</b>	<b>2,002</b>
o/w		
Government (o/w italian: 98% and 2% BEI)	2.033	916
Financial	306	322
Other (**)	797	764
<b>BPM Ireland</b>	<b>562</b>	<b>794</b>
o/w		
Government	-	-
Financial	557	776
Other	5	18

(\*\*) €486mln equity stake, €376,7mln open funds, €134,5mln private equity, €-200mln elision

# AUM: total income

## AuM total income

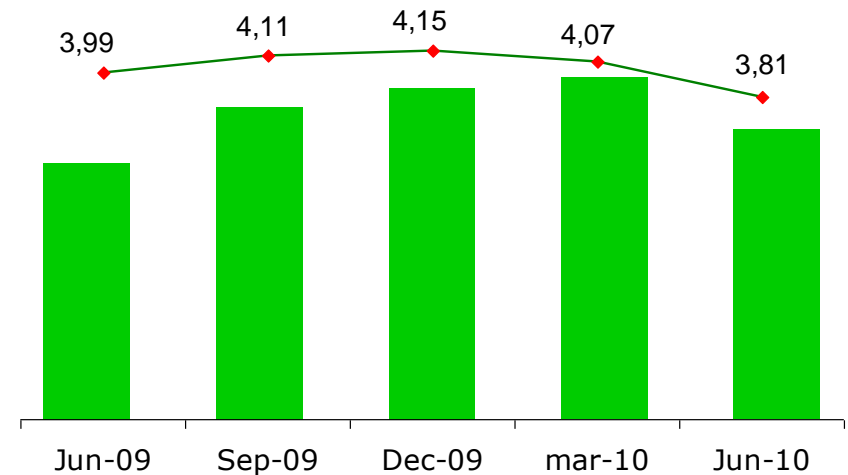


- AuM total revenue grew both on quarterly and yearly basis, driven by growth in volumes (+8.4% YoY), notwithstanding the outflows registered in the last few months, concentrated on liquidity products with low profitability

- Total AuM €25.bn, composed of:

Mutual funds	14.9bn	2.4% YoY
Segregated accounts	5.4bn	25.4% YoY
Insurance reserves	4.0bn	12.5% YoY
Other	0.7bn	6.6% YoY

## Market share & Mutual funds evolution %



- Last 6 month outflows affected the mutual fund market share, which decreased from 3.99% to 3.81% YoY

- Good volumes growth in insurance products (~€242mln net inflows vs €92mln in H1 09)

- Mutual funds breakdown: Equity at 19.4% (vs 17.6% in June 09) while Bonds and Monetary at 68.6% (70.6% in June 09)

Source: Assogestioni – Mutual Funds data

# H1 2010 divisional performance

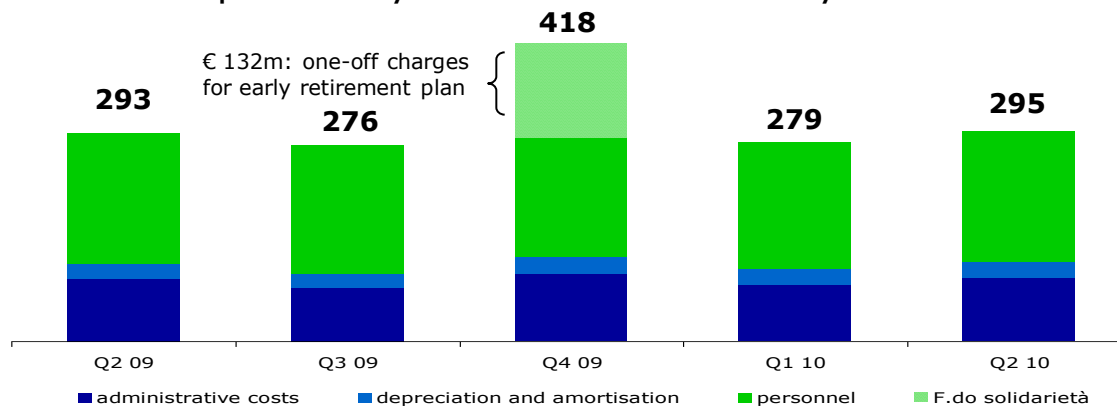
	€mln	Comm. Bk	Corp. Bk	Treasury & Inv.Bk	Wealth Mgt	Corp. Center (*)	BPM Group
<b>Interest income</b>	<b>Amount</b>	256.2	79.1	24.1	(0.1)	1.4	<b>360.8</b>
	<b>YoY %</b>	(25.0)	(12.7)	n.m.	n.m.	n.m.	<b>(26.4)</b>
<b>Non Int. income</b>	<b>Amount</b>	291.4	33.2	53.7	36.9	3.9	<b>419.0</b>
	<b>YoY %</b>	(5.1)	11.1	n.m.	20.9	n.m.	<b>(17.8)</b>
<b>Total income</b>	<b>Amount</b>	547.6	112.3	77.8	36.8	5.3	<b>779.8</b>
	<b>YoY %</b>	(15.6)	(6.8)	(63.2)	21.9	n.m.	<b>(22.0)</b>

For a like-for-like comparison, the overdraft fees were reclassified in NNII in 2009 figures.

<sup>13</sup> Source: Internal Management Report (\*) Corporate centre: only include the results from activities to support the Group business. Income from ALM activity were reclassified in the B.U. "Treasury & Investment Bank"

# Operating costs

- H1 2010 total operating cost slightly increased (+1.2% YoY). In detail:
  - Staff costs -€5.5m vs June 09 thanks to the initial positive effect of the early retirement plan (€12.9m), partially offset by the hirings related to the Business Plan initiatives (Profamily €3m, WeBank €1.9m) and by the change in scope of consolidation due to Wetrade acquisition (€1.8m). Total headcount in June 2010 was 8,852 (162 people less YoY), including 60 people from BPM Vita.
  - Administrative expenses grew by €11.5m vs H1 09 due to the consolidation of Wetrade (€4.6m), and to the investments in the Business Plan's main business measures: Banca Online ("Webank" +€6.9m) and Consumer Credit ("ProFamily" +€2.7m). On a like for like basis, the administrative expenses decrease by €2.6m.
  - At the end of June 2010, the Group network had 814 points of sale (-10 YoY). The reduction can be explained by rationalization activity on BPM commercial bank network.



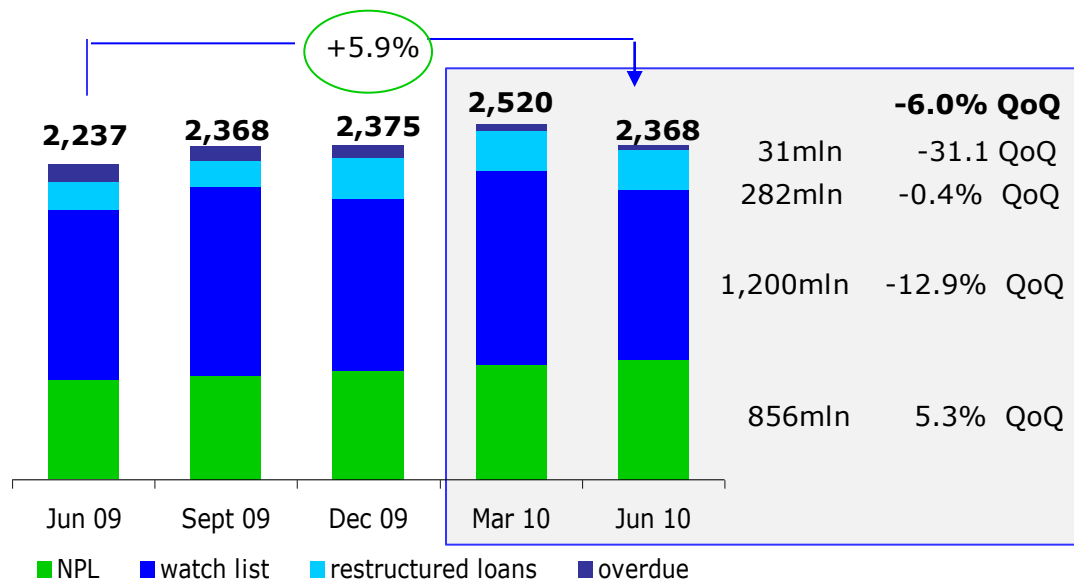
# Asset quality analysis

- Net NPL ratio was 1.2%, still below the banking average (2.1% source ABI as at May10\*)
- First signs of recovery in the macro economic scenario were reflected on gross watchlists, which decreased by €179mln
- The total coverage of impaired loans increased QoQ: 26.5% vs 26.2%.

## June 10 Ratio(\*\*) Coverage

	Ratio(**)	Coverage
<b>Tot. net doubtful loans</b>	<b>5.2%</b>	<b>26.5%</b>
Net NPL	1.2%	53.4%
Net Watchlist	3.1%	12.3%
Net Restructured	0.8%	6.9%
Net Past due	0.1%	5.2%
<b>Performing loans</b>	<b>94.8%</b>	<b>0.6%</b>

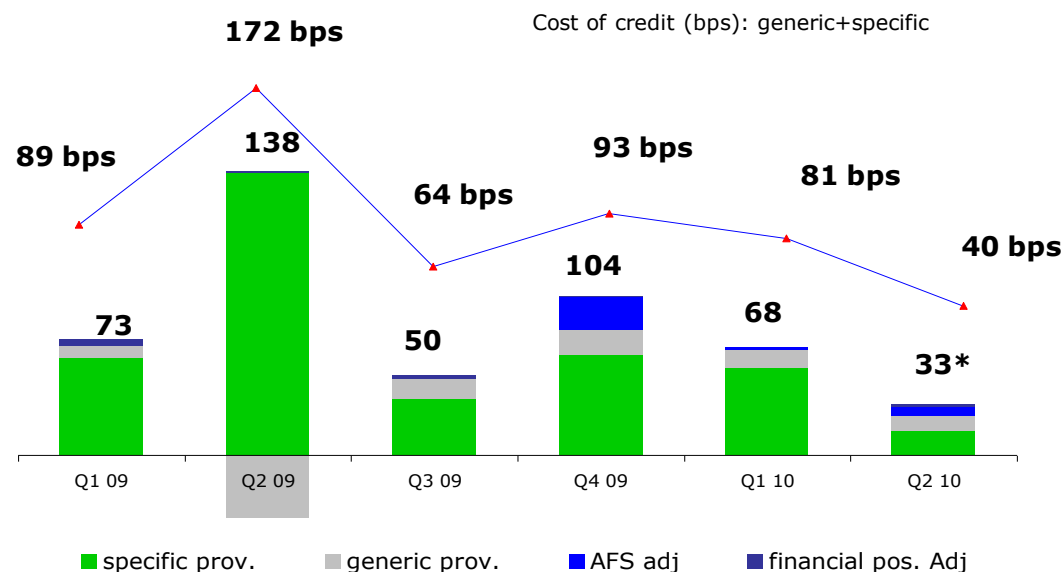
## Gross doubtful loans trend € mln



# Provisions and adjustments: breakdown

- In Q2 10 LLP and other adjustments were €33.4mln (-51% vs Q1 09)
- In H1 10 net adjustments on customer loans were €91.7mln (-56.2% YoY) which, including €8mln adjustment on a impaired position sold and booked under "profit & loss from financial transaction", equaled a cost of credit of 60bps (annualised) vs 130bps in June 09
- Provision for risk & charges at ~€58mln vs €6.8mln in June 09, mainly due to the provision made to transform the "Icelandic policies" placed by BPM Vita, thus allowing the original subscribers, if they agree, to subscribe to new products that would allow them to obtain reimbursement of the original premium they paid.

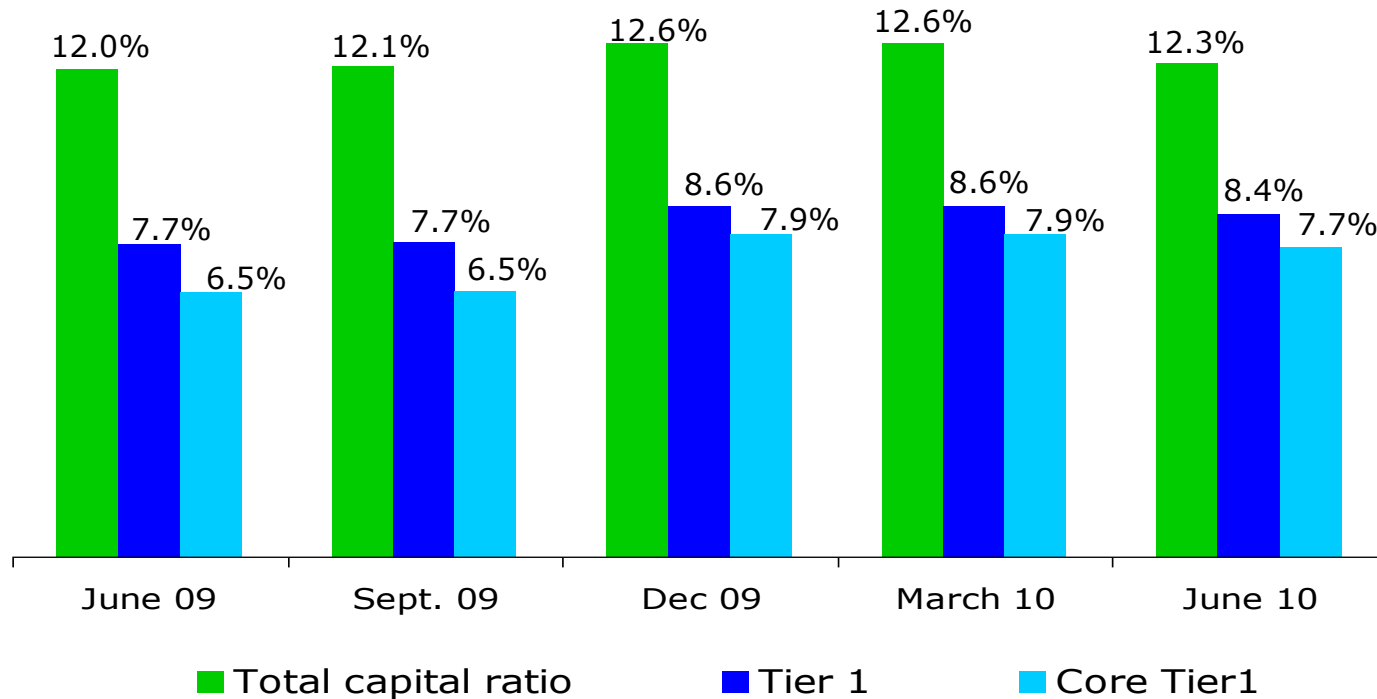
## Provisions and cost of credit € m



## Cost of credit bps

	June 10	June 09
<b>Cost of credit</b>	<b>60bps</b>	<b>130bps</b>
<b>Segment details</b>		
Retail	33 bps	50 bps
Small Business	95 bps	183 bps
SMEs	95 bps	248 bps
Corporate	44 bps	108 bps

# Capital ratios



- Core Tier1 and Tier1 include €500mln of so-called Tremonti Bond, issued last December
- The slight reduction in Core Tier 1 is mainly explained by the 51% acquisition of BPM Vita, now totally owned by BPM

The ratios have been calculated using the standard Basel 2 model

# Quarterly trend: reclassified Group P&L

€ mln	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
<b>Interest income</b>	<b>249.4</b>	<b>204.5</b>	<b>190.0</b>	<b>179.8</b>	<b>181.0</b>
<b>Net fees and commissions</b>	<b>154.5</b>	<b>163.1</b>	<b>191.9</b>	<b>190.0</b>	<b>163.5</b>
Associates	(1.7)	3.4	0.8	0.1	(1.6)
Dividends and profits from fin. trans.	102.6	42.8	45.7	57.0	(9.6)
Other operating income	6.7	9.1	8.5	9.0	10.7
<b>Non-interest income</b>	<b>262.2</b>	<b>218.3</b>	<b>246.9</b>	<b>256.1</b>	<b>162.9</b>
<b>Total income</b>	<b>511.6</b>	<b>422.8</b>	<b>436.8</b>	<b>436.0</b>	<b>343.8</b>
Staff costs	(183.6)	(179.6)	(300.8)	(178.2)	(183.8)
Administrative costs	(88.1)	(75.0)	(95.7)	(79.9)	(89.9)
Depreciation & amortisation	(21.2)	(21.1)	(21.3)	(21.3)	(21.3)
<b>Operating costs</b>	<b>(292.9)</b>	<b>(275.7)</b>	<b>(417.8)</b>	<b>(279.4)</b>	<b>(295.0)</b>
<b>Operating profit</b>	<b>218.7</b>	<b>147.1</b>	<b>19.0</b>	<b>156.6</b>	<b>48.9</b>
Net adjustments to loans and fin. assets	(138.1)	(50.1)	(103.5)	(68.1)	(33.4)
Net provisions for risks and charges	7.7	(4.1)	(6.0)	(2.0)	(55.7)
Profit and loss from investments	0	0	0.2	0	81.1
<b>Profit/loss from current operations before tax</b>	<b>88.3</b>	<b>92.9</b>	<b>(90.3)</b>	<b>86.4</b>	<b>40.8</b>
Income tax for the period	(36.7)	(34.0)	9.8	(35.3)	(18.2)
Minorities	0.8	(2.0)	3.1	(1.1)	(2.5)
<b>Group net profit/loss for the period</b>	<b>52.4</b>	<b>56.9</b>	<b>(77.4)</b>	<b>50.1</b>	<b>20.1</b>

**Q&A**



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