

Announcement: Moody's reviews Banca Popolare di Milano's A1/P-1/C- ratings for downgrade (Italy)

Global Credit Research - 05 May 2011

Milan, May 05, 2011 -- Moody's Investors Service has today placed the A1 long-term deposit rating, Prime-1 short-term deposit rating and the Cstandalone bank financial strength rating (BFSR) of Banca Popolare di Milano (BPM) on review for possible downgrade.

RATINGS RATIONALE

Moody's says that the review for downgrade reflects corporate governance, organisational, IT, risk-management and control weaknesses and related increased capital requirements of BPM that became apparent during a recent inspection from the Italian financial regulator and which appear to be more significant than it had already factored into the current ratings.

BPM's ability to take decisive actions to increase efficiency, merge with other banks or to increase capital have been made difficult by its ownership and governance structure, where every shareholder has a single vote. In BPM's case, the employee-shareholder association, representing around 15% of registered shareholders, elects the majority of the board, which has effectively resulted in the above corporate governance weaknesses.

Following the results of the inspection, the Bank of Italy raised BPM's risk-weighted asset (RWA) requirements, reducing the stated 7.1% Core Tier 1 ratio by an estimated 130 bps from first half 2011, meaning that BPM requires more capital than previously anticipated. Moody's said that it will review the extent of actions being taken by BPM to address the observations of the Bank of Italy and BPM's and in particular:

- (1) Reduce the control of the employee association over the board.
- (2) Increase share capital by up to €1.2 billion, raising the Core Tier 1 ratio to 8.6% in 2011 and 9.8% in 2013. The latter assumes that the higher RWA requirements will be lifted following the necessary corrective actions.
- (3) Radical group restructuring and simplification to reduce costs. BPM's board is yet to approve initiatives such as merging subsidiaries and transferring employees from back office, to front office.
- (4) Enhance IT systems
- (5) Rebalance sector exposures, which currently show high real-estate concentrations
- (6) Amend remuneration and incentive policies, which are not best practice.

When the review process will be concluded, Moody's said that the bank's long-term and standalone ratings could be downgraded by several notches.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history. The principal methodologies used in rating Banca Popolare di Milano were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007, and Bank Liquidity Risk and Short-Term Bank Deposit Ratings published in January 2003. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

Banca Popolare di Milano is based in Milan and had total assets of EUR 54 bn, as of December 2010.

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