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Oggetto : CREATION OF THE THIRD LARGEST
ITALIAN BANKING GROUP LEADER IN
THE WEALTHIEST AREAS OF ITALY

Testo del comunicato

Vedi allegato.

JOINT PRESS RELEASE

**CREATION OF THE THIRD LARGEST ITALIAN BANKING GROUP
LEADER IN THE WEALTHIEST AREAS OF ITALY**

- Merger between Banco Popolare and BPM through the incorporation of a new banking holding in the form of joint stock company (the “NewCo”).
- Third largest bank in Italy with a network of 2,500 branches (national market share above 8%) and a leading position in Lombardy (1st player with a market share above 15%), Veneto (3rd player with a market share above 9%) and Piedmont (3rd player with a market share above 12%).
- Access to more than 4 million clients with excellent positioning in high growth and profitable businesses such as Asset Management, Private Banking, Corporate & Investment Banking, Bancassurance and Consumer Finance.
- Significant value creation for both Banco Popolare and BPM shareholders (based on preliminary estimates):
 - €365 million fully phased pre-tax synergies by 2018, of which €290 million of cost synergies and €75 million of revenue synergies;
 - one-off integration costs equal to 150% of cost synergies, in line with comparable transactions.
- Present value of synergies net of tax and integration costs estimated in €1.9 billion.
- Relative contributions to the share capital of the NewCo as follows:
 - (i) 54% pertaining to the current shareholders of Banco Popolare;
 - (ii) 46% pertaining to the current shareholders of BPM.

The above mentioned relative contributions assume the completion of €1 billion capital increase by Banco Popolare, to be carried out ahead of the Extraordinary General Meetings for the approval of the Merger.

- Traditional corporate governance model, comprising a Board of Directors and a Board of Statutory Auditors.

- **Two headquarters, one in Verona and one in Milan. The Legal Headquarter will be located in Milan, whereas the Administrative Headquarter will be in Verona.**
- **Extraordinary General Meetings for the approval of the Merger expected by November 1st, 2016; Merger expected to become effective by December 2016.**

Verona – Milano, March 23rd, 2016 – Today, following approval by the respective boards, Banco Popolare – Società Cooperativa (“**Banco Popolare**”) and Banca Popolare di Milano S.c a r.l. (“**BPM**”) signed a memorandum of understanding (the “**MOU**”) for a merger to be carried out through the incorporation of a new banking holding in the form of joint stock company (the “**Merger**”).

In the context of the Merger, it is envisaged:

- that Banco Popolare approves and executes a capital increase for a total amount of euro 1.000.000.000 (the “**Capital Increase**”); and
- a spin-off of certain assets, including the branches of BPM and Banco Popolare located in some of the historical provinces of reference of BPM, in favour of a banking subsidiary which will be controlled by the NewCo.

The whole transaction is subject to the release of any regulatory approval.

The Supervisory Board of BPM which, as envisaged by the by-laws, will provide its opinion on the merger project ahead of the Extraordinary General Meeting for the approval of the Merger, has expressed preliminary support to the Merger.

KEY OPERATIONAL METRICS AND INDUSTRIAL PLAN

The New Group will be characterised by:

- combined market capitalisation, as of March 22nd, 2016, equal to €5.5bn (pre Capital Increase);
- 4 million clients and 2,500 branches;
- total assets in excess of euro 171 billion;
- direct funding of euro 120 billion and net loans to customers of euro 113 billion;
- indirect funding of euro 105 billion, of which euro 56 billion of assets under management;
- more than 25,000 employees;
- 3rd banking group in Italy, with national market share above 8% (in terms of branches):
 - focus on Northern Italy, where the New Group will be the 3rd player, with a 11% market share;
 - leading position in the Italian wealthiest regions: Lombardy (1st – 15.5% m.s.); Piedmont (3rd – 12.5% m.s.) and Veneto (3rd – 9.5% m.s.);
- solid capital and liquidity positions:

- strong pro-forma¹ capital ratios, with a CET1 ratio fully-loaded of 13.6% and phased-in of 13.7%, including the Capital Increase but without considering the benefits arising from BPM's adoption of A-IRB model and before any other capital optimization actions;
- sound liquidity position with a LCR significantly above 100%.

KEY STRATEGIC GUIDELINES

- Strengthening of product and service offering to customers, with a focus on SMEs and households;
- adoption of a streamlined and integrated organisational model;
- focus on the employees' professional development with the aim of enhancing the quality and commitment of human resources, a key factor for the success of the New Group;
- strengthening and improvement of efficiency in highly value-added businesses, leveraging the specialization and the strong positioning in Asset Management, Corporate & Investment Banking, Private Banking, Bancassurance and Consumer Finance;
- focus on developing and strengthening the multi-channel banking and the digitalisation of products/services;
- reinforcement of NPL management activities through the establishment of a dedicated business unit for the valorisation and the management of non-performing exposures, reporting directly to the CEO, in order to maximise efficiency and speed of recoveries as well as of disposals.

Fully phased pre-tax synergies preliminarily estimated in euro 365 million per year, of which euro 290 million of cost synergies and euro 75 million of revenue synergies. Synergies are expected to be fully phased by 2018.

One-off integration costs estimated at approximately 150% of cost synergies, in line with comparable transactions.

Estimated value creation of euro 1.9 billion, net of tax and integration costs.

TRANSACTION STRUCTURE

The transaction will be structured as a merger through the incorporation of a new banking holding. The NewCo, established in the form of joint stock company, will operate both as a bank and as a holding company with operating functions as well as responsibilities of coordination and management of all the companies being part of the New Group. Through the Merger, Banco Popolare and BPM will transform from cooperative banks into joint stock companies in line with the provisions envisaged in the reform of the cooperative banks (the "**Popolari Reform**").

The shares of the NewCo will be listed on the "Mercato Telematico Azionario" at Borsa Italiana stock exchange.

The Merger will be carried out according to the following relative contributions to the share capital of the NewCo (the "**Relative Contributions**"), which assume the execution of the entire Capital Increase by Banco Popolare:

- **54% pertaining to the current shareholders of Banco Popolare;**
- **46% pertaining to the current shareholders of BPM.**

¹ Including full recognition of the negative goodwill.

The Relative Contributions will be subject to a confirmatory reciprocal due diligence.

The Relative Contributions will be amended in order to take into account distribution, before the Merger, to the shareholders of Banco Popolare and BPM of ordinary dividends for the year ended December 31st, 2015.

The execution of the Merger, as it entails the transformation of each of the two banks into joint stock companies, will give the shareholders of Banco Popolare and BPM who have not participated to the approval of the Merger, the right to exercise the withdrawal right (“*diritto di recesso*”), pursuant to art. 2437, paragraph 1 of the Italian Civil Code.

Further information on the withdrawal right will be disclosed in the course of the transaction.

CORPORATE GOVERNANCE

The registered name of the NewCo will be identified by Banco Popolare and BPM at a later stage, and will be either a combination of the current registered names or a new name in discontinuity with the past.

The NewCo will have two headquarters, one located in Verona and one in Milan. The Legal Headquarter will be in Milan and the Administrative Headquarter will be in Verona.

The management of the local divisions will be located in Verona, Lodi, Novara and Bergamo while the management of the bank resulting from the Spin-off will be based in Milan.

The Corporate Governance of the NewCo will be based on a traditional management and control system, which entails the appointment of a Board of Directors and a Board of Statutory Auditors.

The first Board of Directors of the NewCo will expire after 3 years and will consist of 19 directors (of which at least 9 independent). Subsequently, the Board of Directors will consist of 15 directors (of which at least 7 independent).

The first Board of Directors will be composed as follows: (i) the CEO, Giuseppe Castagna, current CEO of BPM; (ii) 9 directors appointed by Banco Popolare, including the Chairman of the Board of Directors, Carlo Fratta Pasini, current Chairman of Banco Popolare, and 2 Vice-Chairmen; (iii) 7 directors appointed by BPM, including the Deputy Vice-Chairman; (iv) 2 independent directors jointly appointed by Banco Popolare and BPM.

The NewCo will appoint an Executive Committee. For the first mandate the Chairman of the Executive Committee will be Pier Francesco Saviotti, current CEO of Banco Popolare. In addition to the Chairman, the Executive Committee will include the CEO of the NewCo, the Deputy Vice-Chairman and the 2 Vice-Chairmen of the Board of Directors. The 6th member will be appointed by BPM.

The NewCo will appoint a General Manager, Maurizio Faroni, current General Manager of Banco Popolare, and two Co-General Managers, of which one proposed by Banco Popolare, Domenico De Angelis, and one proposed by BPM, Salvatore Poloni.

The Articles of Association of the NewCo will provide for a limitation on voting rights such that a single shareholder cannot be individually entitled to voting rights exceeding 5% of the share capital. This provision will expire on March 26th, 2017, according with the term envisaged by the Popolari Reform.

The Articles of Association of the NewCo will also include a mechanism ensuring the representation of the employees in the Board of Directors.

SHARE CAPITAL INCREASE OF BANCO POPOLARE

In order to provide the New Group with an adequate capital base in light of its prospective role and relevance within the Italian and European banking sector, Banco Popolare will carry out a Capital Increase, for a total amount of euro 1,000,000,000 ahead of the approval of the Merger by the Extraordinary General Meetings.

Today the Board of Directors of Banco Popolare (i) approved a capital strengthening process (which may be carried out in one or more tranches, or in separate periods, also through the delegation of powers as per articles 2443 and/or 2420-ter of the Italian Civil Code), which will be executed through a capital increase (with structure to be defined, also through the exclusion in whole or in part, of the pre-emptive rights and/or through the issuance of mandatory convertible instruments or other securities the conversion of which to be at the issuer's election, in any case to be converted ahead of the approval of the Merger by the Extraordinary General Meetings) for the above mentioned amount, and reserving to convene the Extraordinary General Meeting to approve such measures within the applicable timeframe; and (ii) has entered into a pre-underwriting agreement with Mediobanca – Banca di Credito Finanziario S.p.A. (“**Mediobanca**”) and Bank of America Merrill Lynch (“**BAML**”), pursuant to which Mediobanca and BAML, acting as sole Global Coordinators, have undertaken to underwrite, on terms and conditions customary for this kind of transactions, the Capital Increase in the form of a pre-emptive offering to the shareholders, to the extent that any offered shares shall remain not fully subscribed at the end of the offering, for an amount up to euro 1,000,000,000.

SPIN-OFF OF THE NEW BPM SPA

Subject to the completion of the Merger and, in any case, with effectiveness starting from the moment immediately prior to the Merger, BPM will carry out a spin-off in favour of a banking subsidiary to be controlled by the NewCo of certain assets, including the branches of BPM located in the provinces of Milan, Monza e Brianza, Como, Lecco and Varese (the “**Spin-off**”).

The beneficiary company of the Spin-off will be headquartered in Milan. Such company will be a network-bank subject to the coordination and direction of the NewCo (where the administrative, planning, treasury and other central functions will be centralized) and will have a lean organizational structure coherent with the above mentioned nature of network-bank in order to avoid overlaps with the NewCo.

Banco Popolare and BPM have also envisaged that, as soon as possible following the Merger, the NewCo will spin-off the branch network previously part of Banco Popolare and located in the same provinces, in favour of the beneficiary company.

Within a reasonable period of time starting from the completion of the Spin-off and, in any event, with effect from the third year following the Merger, the beneficiary company of the Spin-off will be merged into the NewCo.

CONDITIONS FOR THE TRANSACTION

The completion of the transaction is subject, in addition to the approval of the Merger project by the respective Extraordinary General Meetings, to the release of any required authorizations and / or clearance from the relevant supervisory and regulatory authorities.

In the event that the conditions set out in the preceding paragraph have not been satisfied by the deadline of November 1st, 2016, and, in particular, within such date the process for the approval of the

transaction by the boards of each of the parties has not been completed, the MOU shall be deemed ineffective.

The failure to complete the Capital Increase (or to convert in full into ordinary shares of any mandatory convertible instruments) by the deadline of October 31, 2016 represents a termination clause of the MOU.

INDICATIVE TIMETABLE

- By May 2016: Extraordinary General Meeting of Banco Popolare will approve the capital increase;
- By May 2016 (following the above mentioned Extraordinary General Meeting): approval of the Merger project by the boards of Banco Popolare and BPM;
- By October 31st, 2016: completion of the capital increase by Banco Popolare;
- By November 1st, 2016: approval of the Merger by the Extraordinary General Meetings of Banco Popolare and BPM.

Mediobanca – Banca di Credito Finanziario, Bank of America Merrill Lynch and Colombo & Associati are acting as financial advisors to Banco Popolare, Gatti Pavesi Bianchi is acting as legal advisor to Banco Popolare. Citigroup and Lazard are acting as financial advisors to BPM, Studio Legale Lombardi Molinari Segni and Studio Marchetti are acting as legal advisors to BPM.

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The transaction will be presented to the financial community during a conference call scheduled on March, 24th 2016 at 10:30 AM (CET); details will be available on Banco Popolare and BPM websites.

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Please note that the original version of this press release is in Italian. In case of misunderstandings the Italian version shall prevail.

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