

Italian Banks

Asset Quality Weighing on ROTE

- **Consensus Looks High** — Following an in-depth analysis of the asset quality and based on our economists below consensus macro expectations for Italy, we forecast a prolonged period of high cost of risk for Italian banks. We cut 2012-15E EPS (c15%) and lower TPs to account mainly for deteriorating asset quality and NII (Figure 3). Our current estimates are c25% below consensus. We expect ROTE to marginally increase from 5% in 2011 to 7% in 2015E, remaining well below cost of equity.
- **NPLs Yet to Peak** — NPLs stock is up by 31% pa since 2008. NPLs ratio climbed significantly at c10%. This is still below late '90s level (c13%). We expect NPLs ratio to peak in 2014, following a recovery in both macro conditions and lending growth.
- **Longer Provisioning Cycle, But Slightly Milder** — Since 1980, there were 3 peak provisioning cycles: early '80s (6 years, peak at c200bp, average c145bp), mid '90s (5 years, peak at c140bp, average at 110bp) and the recent one (peak in 2009 at c120bp). We expect the average for the current 7 year period 2009-15E at 105bp.
- **New Flows and Coverage Rebuilding** — We expect still high NPLs inflows in 2012-2013. Coverage ratios decreased by 11pp in the last 4 year at 40% due to lower absolute coverage (c2/3 of decrease) and NPLs mix (c1/3). This is expected to increase to 47% by 2015. Real estate collateral represents c30% additional coverage.
- **Provisioning Peak Manageable on Capital** — Net NPLs are c70% of equity, but decrease to c35% including collateral. GOP looks enough to offset mid'90s peak level but smaller banks might need further action (existing provisions, deleveraging, disposals) to protect capital, if provisions were to reach early '80s peak level.
- **NPLs Also a Funding Issue** — The carrying cost of NPLs was c7% of NII in 2011 increasing to 10% in 2012. A +10% in NPLs and +50bp of funding cost vs our base case could be c-3% on NII. A sale is the easier way to reduce them, but seem still difficult.
- **Prefer UCI and BNP** — Sovereign perception and macro seems the key share price drivers, more than earnings momentum. However, we expect asset quality deterioration to negatively affect 2Q12 results and we are cautious on Italian banks overall. Our long-term top pick is UCI due to the restructuring potential. Indirectly, we view BNP as the best way to gain exposure to Italy.

■ Industry Overview

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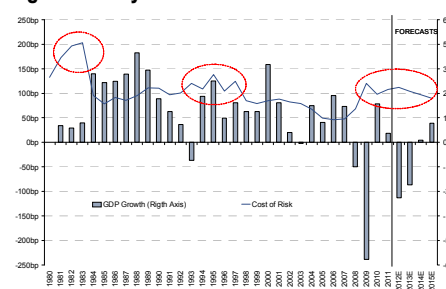
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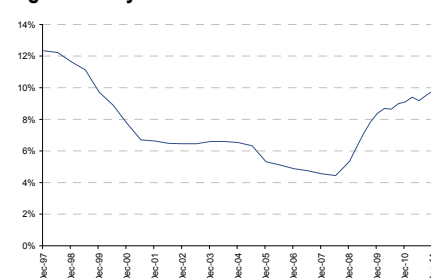
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Figure 1. Italy – Cost of Risk



Source: Company Data, Factset and Citi Research

Figure 2. Italy – Total Gross NPLs Ratio



Source: Banca d'Italia and Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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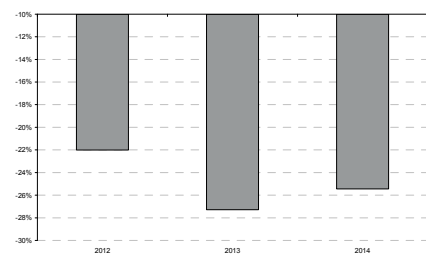
Figure 3. Italian Banks — Changes to Our Financial Forecasts

		Recommendation	ETR	Price	T Price		12E EPS		13E EPS		14E EPS	
					New	Old	New	Old	New	Old	New	Old
Unicredit	€	Buy - High Risk	39%	2.58	3.50	4.00	0.31	0.39	0.39	0.50	0.52	0.64
Intesa Sanpaolo	€	Neutral - High Risk	13%	0.98	1.05	1.15	0.11	0.14	0.13	0.16	0.15	0.18
Monte dei Paschi	€	Neutral - High Risk	8%	0.18	0.19	0.24	0.02	0.03	0.02	0.04	0.03	0.05
UBI	€	Neutral		2.21			0.19	0.23	0.22	0.26	0.28	0.31
Banco Popolare	€	Neutral		0.91			0.06	0.08	0.10	0.11	0.13	0.15
BPM	€	Neutral		0.33			0.02	0.02	0.03	0.03	0.04	0.05

Source: Citi Research. Note: Prices as of 17 July 2012.

Asset Quality Weighting on ROTE

Figure 4. Italian Banks – Citi vs Consensus



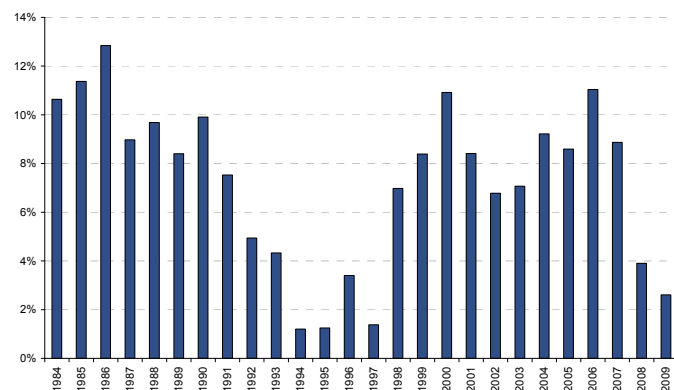
Source: Reuters/Bloomberg and Citi Research

Sovereign and macro seems the main drivers of share price, more than earnings and fundamental analysis. The main fundamental market concern seems asset quality and the high level of NPLs in Italy. Consensus earning estimates seem too high to us, and we are c25% below.

We are cautious on Italian banks given macro concern despite discounted valuation. We expect next reporting season to show pressure on asset quality and this could be a negative for investor coming into results with also NII under pressure. Potentially some positives could come from newsflow on further cost cutting to offset revenue weakness. On a longer-term view, we prefer UCI, given its strong group restructuring potential, a cheap valuation, a strong CEE franchise and a smaller than peers exposure to Italian sovereign. UCI's main risk is the high level of NPLs, especially for the Italian business, but this seems a widely discussed concern in the market. For investors looking at indirect Italian exposure, we like BNP Paribas (BNPP.PA; €29.85; 1). BNP trades at 0.5x P/TBV (11% ROTE in 2013) has a solid retail banking business, Italy represents c10% of revenues.

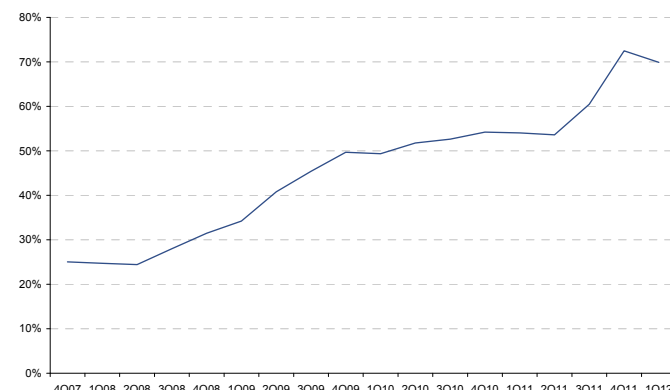
We expect asset quality to be more a P&L issue than a capital one. In the previous 3 cycles since 1980, Italian banks have always done NPLs workout via P&L provisions, with no significant capital hit due to NPLs. OECD data show no net loss at system level since 1984 with strong ROE decrease in the year of provisioning peaks (which instead materialised on some banks). We expect this to happen again and banks to show high level of provisions for longer resulting in lower ROTE more than a one off hit on capital to reduce the existing stock of NPLs.

Figure 5. Italy – ROE



Source: OECD

Figure 6. Italian Banks – Net NPLs on Equity



Source: Company data and Citi Research

Gross NPLs are €172bn for the 6 banks in our universe. They are up by c25% per annum since 2007 for our universe and have an average coverage level of c40% (down c11pp since 2007). Net NPLs (eg uncovered) were 25% of equity in 2007 and now represents c70% of equity including all NPLs category and post the recap exercise of all banks in the last 12 months. Excluding the restructured loans, net NPL are c60% of equity. Also, in addition to existing balance sheet provisions, banks also have collateral guarantees on NPLs. If we were to include also the potential protection from collateral (only real estate at historical value, c70% of total) the weight of total net NPLs on equity would decrease from 70% to c35%.

An organic reduction of NPLs seems unlikely in the medium term given expected future inflows and recovery timing. Disposing of NPLs seems the fastest way of reducing the existing stock of NPLs. A NPLs sale at book value (eg with no capital impact) seems limited, given current challenging market conditions, average coverage level. Also, the high level of NPLs represents a suboptimal usage of funding, given the high cost of it and its scarcity (excluding ECB LTRO).

We have increased the level of provisions based on market trends, our analyses on asset quality and our economists' views on Italy (more conservative than consensus). We focus our analysis on 4 main areas: a) existing stock of NPLs and historical level b) expected level of provisions based on flows analysis, coverage development and collateral level, c) simulation of peak level impact on equity and d) funding cost of the NPLs.

Italian banks trade at 0.3x P/TBV, a strong discount to the sector, reflecting low profitability and concerns over sovereign, macro and asset quality

Valuation – Are Banks Cheap?

The Italian banks valuation diverges significantly relatively to the sector, depending on the valuation metrics.

They trade at a deep discount to the European banks on price to tangible book metrics (0.3x for Italian banks vs 0.6x for European one), also reflecting lower profitability (c6% in 2014 for Italy vs c11% for Europe). On P/GOP metrics the discount is significant (Italy trades at 1.6x vs 3.2x for Europe).

On a P/E bases, Italian banks trade at premium to the sector. Our estimates are c25% below consensus. On 2013E P/E valuation, Italian banks trade at c9x on our estimates vs c7x for consensus, possible due our more conservative asset quality assumptions.

Figure 7. Valuation Summary

	Price	Adj P/E				PTBV			PGOP		ROTE		
		2012E	2013E	2014E		2012E	2013E	2014E	2012E	2013E	2012E	2013E	2014E
Unicredit	€ 2.54	8.1x	6.4x	4.9x		0.3x	0.3x	0.3x	1.4x	4.0%	4.8%	6.1%	
Intesa Sanpaolo	€ 0.97	8.7x	7.6x	6.4x		0.5x	0.5x	0.5x	2.0x	5.5%	6.2%	7.1%	
MPS	€ 0.17	7.0x	8.4x	6.3x		0.3x	0.3x	0.2x	1.0x	4.1%	3.4%	3.9%	
UBI	€ 2.21	11.5x	9.9x	7.9x		0.4x	0.4x	0.4x	2.1x	3.3%	3.7%	4.5%	
Banco Popolare	€ 0.89	15.3x	9.3x	7.0x		0.3x	0.3x	0.3x	2.0x	1.9%	3.4%	4.3%	
BPM	€ 0.32	18.5x	11.4x	7.8x		0.3x	0.3x	0.3x	2.2x	1.7%	2.7%	3.8%	
Italy		11.5x	8.8x	6.7x		0.4x	0.3x	0.3x	1.6x	4.5%	4.8%	5.8%	
Sector		8.9x	6.8x	5.7x		0.7x	0.7x	0.6x	3.2x	8.2%	10.3%	11.5%	

Source: Citi Research

Funding less of a issue due to ECB, but significant deleveraging potential is limited

Funding seems less of a problem now given high levels of broadly stable retail funding and the support from the ECB via the two LTRO liquidity injections and increasing reliance on ECB funding¹, albeit this is not sustainable in the long term. The capital position is stronger than in 2008 due to the capital increases completed in the last year, some deleveraging and retained earnings. We expect limited deleveraging for Italian banks given the high reliance on retail business.

In our view, this discounted valuation is explained manly by 3 area of market concern: risk perception on sovereign, weak macroeconomic expectations and concern on profitability, especially due to asset quality risk.

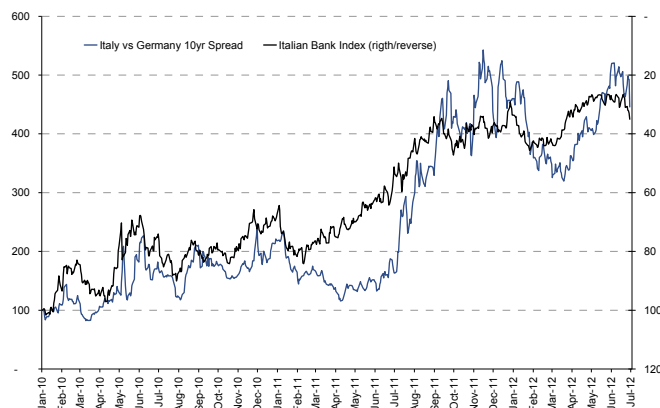
Sovereign Risk

Sovereign has been volatile, strongly affecting banks share price

The volatility in Italian sovereign conditions has been a major driver of Italian banks stocks since July 2011. There is a strong correlation between the level of the spread and the share price performance of banks, as shown in Figure 8. The correlation between the change of the 10Y Germany/Italy sovereign bond spread and the Italian bank index, is very strong at c75% (Figure 9), and can mostly be explained by the high sovereign exposure of the banks and the link between funding cost for government/ banks.

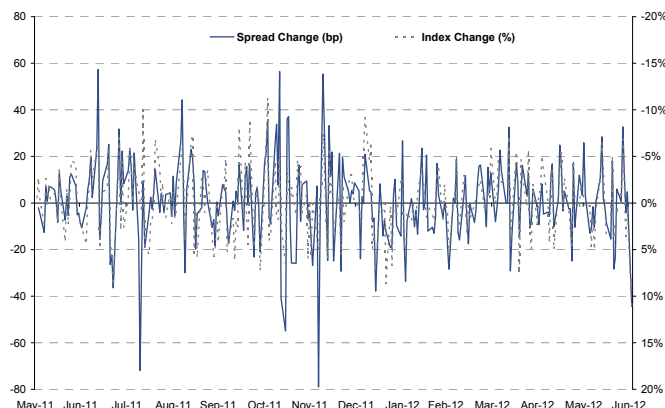
¹ As of June 2012, the Italian system has c€281bn of ECB borrowing, up from €151bn in Nov 2011.

Figure 8. Italy - Spread and Bank Index



Source: Bloomberg and Citi Research

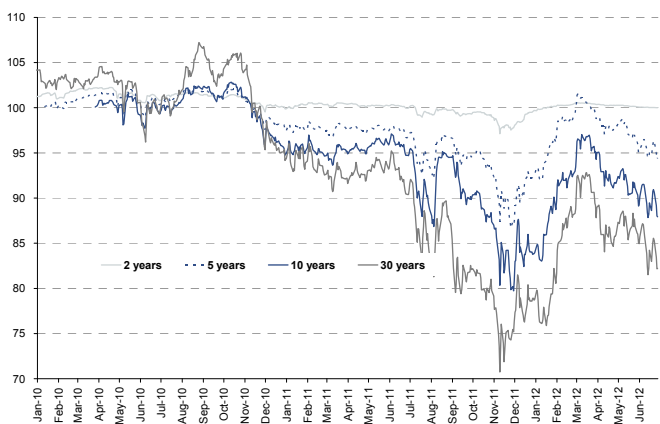
Figure 9. Italy – Spread and Bank Index, Chg



Source: Bloomberg and Citi Research

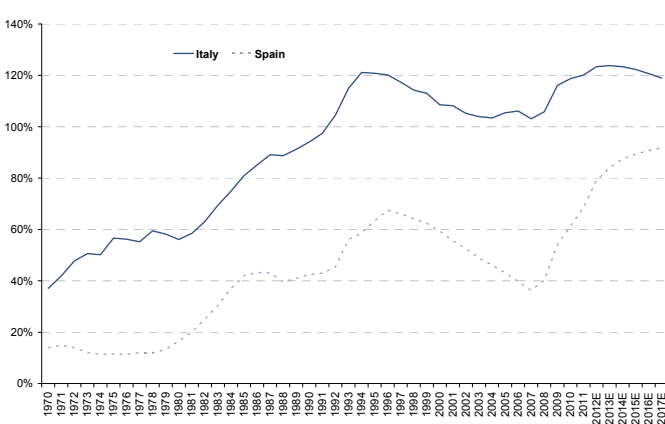
Although a step in the right direction (the banking union), the summit of 28 June still leaves several questions open (deposit protection scheme, available facilities for rescue) and it does not materially change the long term macroeconomic conditions of the country ([Global Economics View - Did Summit Avoid Nadir?](#)). Italian banks have received little support from the government during the recent crisis (more name specific than an industry-wide issue) and are not the origin of the high general debt-to-GDP ratio in Italy, as opposed to other periphery countries, where the effect of the bail out of the banking industry has weighted significantly on the national accounts. The high level of the debt-to-GDP ratio in Italy originated in the past, since 1970 onwards, because of high public expenditure and low fiscal income, and is more related to structural issues in the system than to the banking sector.

Figure 10. Italy – Sovereign Bond Price



Source: Bloomberg and Citi Research

Figure 11. Italy/Spain – Public Debt to GDP



Source: IMF

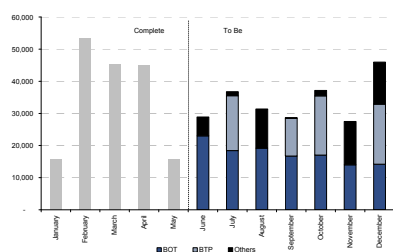
The sovereign risk perception is mostly accounted in banks valuation via cost of equity. The table below shows a sensitivity analysis of implied tangible book value multiple based on different level of cost of equity and ROTE. We forecast c5% ROTE in 2013E and c7% in 2015E, with a cost of equity around c14%.

Figure 12. Price to Tangible Book Value Multiple — Sensitivity Analysis

Cost of Equity/ROE	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	14.5%	15.0%
2.0%	0.13x	0.12x	0.11x	0.11x	0.10x	0.10x	0.09x	0.09x	0.08x	0.08x	0.08x	0.07x	0.07x
3.0%	0.25x	0.24x	0.22x	0.21x	0.20x	0.19x	0.18x	0.17x	0.17x	0.16x	0.15x	0.15x	0.14x
4.0%	0.38x	0.35x	0.33x	0.32x	0.30x	0.29x	0.27x	0.26x	0.25x	0.24x	0.23x	0.22x	0.21x
5.0%	0.50x	0.47x	0.44x	0.42x	0.40x	0.38x	0.36x	0.35x	0.33x	0.32x	0.31x	0.30x	0.29x
6.0%	0.63x	0.59x	0.56x	0.53x	0.50x	0.48x	0.45x	0.43x	0.42x	0.40x	0.38x	0.37x	0.36x
7.0%	0.75x	0.71x	0.67x	0.63x	0.60x	0.57x	0.55x	0.52x	0.50x	0.48x	0.46x	0.44x	0.43x
8.0%	0.88x	0.82x	0.78x	0.74x	0.70x	0.67x	0.64x	0.61x	0.58x	0.56x	0.54x	0.52x	0.50x
9.0%	1.00x	0.94x	0.89x	0.84x	0.80x	0.76x	0.73x	0.70x	0.67x	0.64x	0.62x	0.59x	0.57x
10.0%	1.13x	1.06x	1.00x	0.95x	0.90x	0.86x	0.82x	0.78x	0.75x	0.72x	0.69x	0.67x	0.64x
11.0%	1.25x	1.18x	1.11x	1.05x	1.00x	0.95x	0.91x	0.87x	0.83x	0.80x	0.77x	0.74x	0.71x
12.0%	1.38x	1.29x	1.22x	1.16x	1.10x	1.05x	1.00x	0.96x	0.92x	0.88x	0.85x	0.81x	0.79x
13.0%	1.50x	1.41x	1.33x	1.26x	1.20x	1.14x	1.09x	1.04x	1.00x	0.96x	0.92x	0.89x	0.86x

Source: Citi Research

Figure 13. Italy – 2012 Refinancing Need



Source: Italian Treasury

Italian banks have a significant exposure to Italian sovereign. On average for the 6 banks in our coverage the government bond exposure represent c160% of tangible equity, with MPS, UBI and Intesa showing the highest exposure and UCI the lowest. Based on the need of further details on the action from the ECB/single regulator, the ongoing uncertainty on Grexit (our economists forecast a 50-75% probability in the next 12 to 18 months) and the structural problem of the country ([Global Economics View - What's Next for Spain and Italy?](#); and [Euro Economics Weekly - Focus on Italy](#)) the uncertainty on the sustainability of a long-term recovery are still high, hence we remain fundamentally cautious on Italy. Our economists expect that some form of external support will be needed to support the Italian sovereign. According to the Italian Treasury, the refinancing needs of the Italian government accounts for c€207bn considering debt maturing in the 2H 2012, of which 65% in medium/long term maturity BTP, mostly concentrated in July, September, October and December.

Figure 14. Italian Banks – Exposure to Italian Sovereign

€ bn	Intesa Sanpaolo	Unicredit	MPS	BP	UBI	BP Milano	Average
Italy Gov Bonds	69.5	41.2	25.0	11.6	14.7	7.8	169.9
Exposure as % of:							
Total Assets	11%	4%	11%	9%	11%	15%	8%
Tangible Equity	203%	89%	269%	166%	238%	199%	158%
Shareholders Equity	141%	67%	204%	124%	154%	179%	116%

Source: Company data and Citi Research

Weak Macroeconomic Expectations

Our economists have a conservative view on Italy

Our economists forecasts GDP to contract by 2.6% in 2012 and by 2.0% in 2013, below consensus (-2.0% and -0.3%) and the Italian Government expectations (-1.2% in 2012 and +0.5% in 2013). Recent comments from the Bank of Italy indicate continuing pressure on the economy until beginning of 2013. Both consumer and business confidence have deteriorated and unemployment is expected to increase.

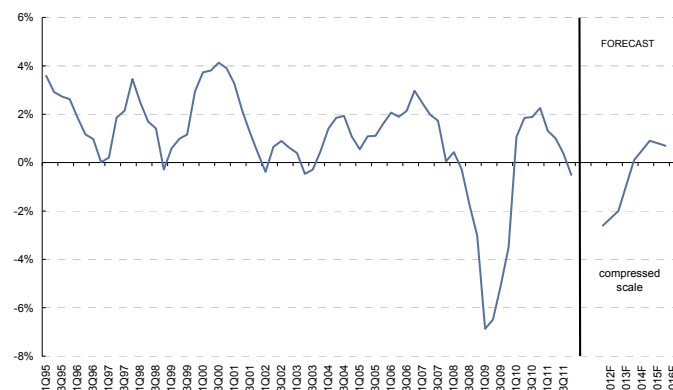
Figure 15. Italy – GDP YoY Growth Estimates

	Citi	Consensus	Italian Government
2012E	-2.60%	-2.00%	-1.20%
2013E	-2.00%	-0.30%	0.50%

Source: Citi Research and Italian Treasury

Our economists expect that: “Household consumption and investment will probably fall sharply in 2012-13, driven by rising unemployment, weak consumer confidence and heightened uncertainty from the EMU crisis. Despite the planned drop in public spending, we expect that Italy will fail to meet the 2012 deficit target. With the weak economy and overshooting deficit, we expect Italy to request external support before the end of this year or in early 2013 ([Global Economic Outlook and Strategy - June 2012](#)).

Figure 16. Italy — GDP Growth



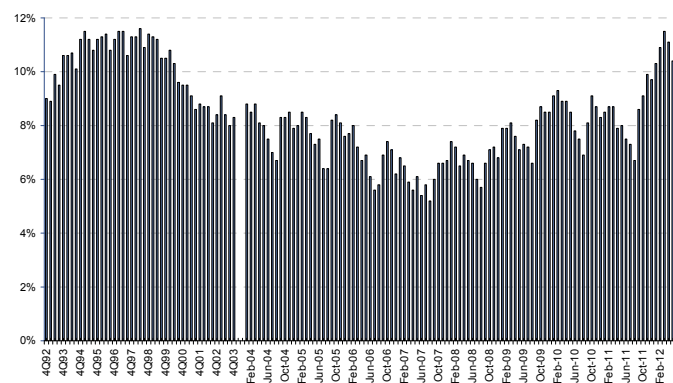
Source: Datastream and Citi Research

Figure 17. Italy — CPI Inflation



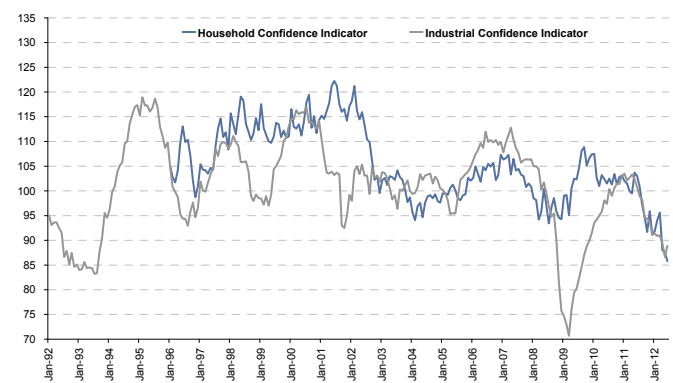
Source: Datastream and Citi Research

Figure 18. Italy - Unemployment



Source: Datastream and Citi Research

Figure 19. Italy – Confidence Index



Source: Datastream and Citi Research

Figure 20. Italy — Economic Forecasts, 2012E-13E

		2012E	2013E
Real GDP	YoY	-2.6%	-2.0%
Final Domestic Demand	YoY	-4.2	-3.2
Private Consumption	YoY	-3.3	-2.4
Fixed Investment	YoY	-10.6	-8.7
Exports	YoY	0.2	-0.5
Imports	YoY	-8.5	-4.8
CPI	YoY	3.1	1.0
Unemployment Rate	%	10.6	11.9
Current Account	€bn	-36.5	-27.3
	% of GDP	-2.3	-1.8
General Govt. Balance	€bn	-44.8	-44.2
	% of GDP	-2.9	-2.9
General Govt. Debt	% of GDP	129.5	135.1

Source: Citi Research Economist Estimates. YoY Year-to-year growth rate.

Low Profitability and Concerns On Asset Quality

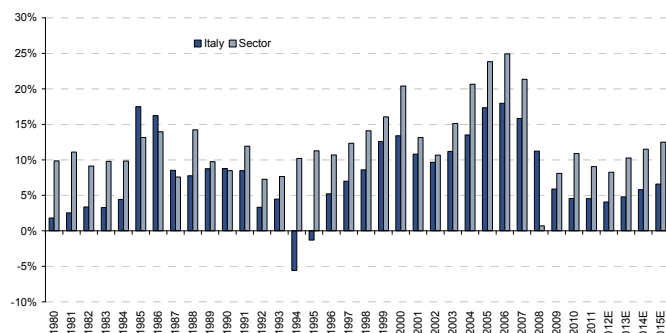
Asset quality is the main fundamental concern

In our forecasts we expect Italian banks to deliver a c5% average ROE in 2012E and then increase slightly by 2015E at c7%, lower than European banks. Expected ROTEs are lower than in the previous cycle due to lower profit and to higher capital requirements. Italian banks earnings are negatively correlated with weak macro, higher funding costs, lower market rates (Euribor is at all-time low) and higher bad debt charges. We expect that the bank ROTE will remain below the cost of equity until 2015.

ROTE has a strong correlation with cost of risk and asset quality conditions. Italian banks have seen a sharp increase in the NPLs ratio and the cost of risk since 2007 due to the macro deterioration. The market is concern about the high level of NPLs and the potential risk to book value and profitability from further increase of provisions (on both performing and NPLs book).

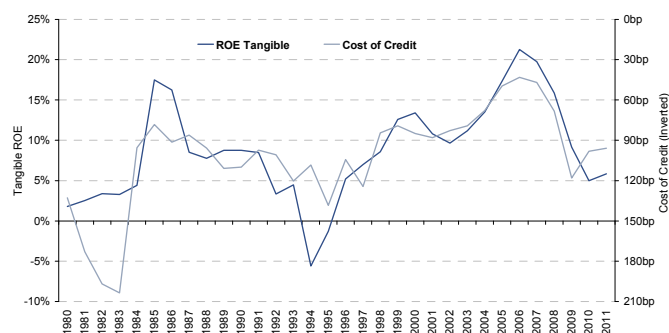
While we agree that the high stock of NPLs could constrain a ROTE recovery (we forecast cumulative 380bp of provisions in 2012-2015E), but we do not see material capital risks as banks could offset further increase with pre provision profit ("GOP"), existing level of balance sheet provisions, and further protection offered by collateral and potential further deleveraging/asset sale/dividends. The analysis in this note focuses on asset quality developments.

Figure 21. Italian and European Banks — Tangible ROE



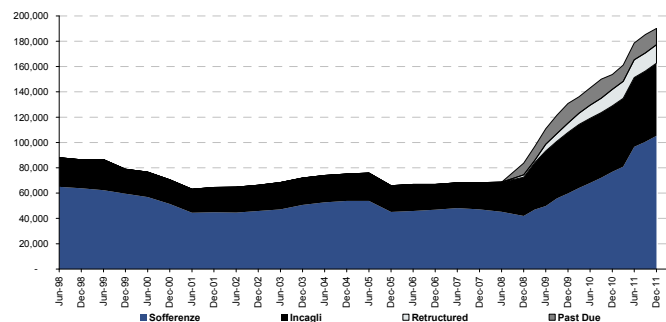
Source: Company data, Datastream and Citi Research. Calculated bottom up from banks in our coverage.

Figure 22. Italian Banks — Tangible ROE and Cost of Credit



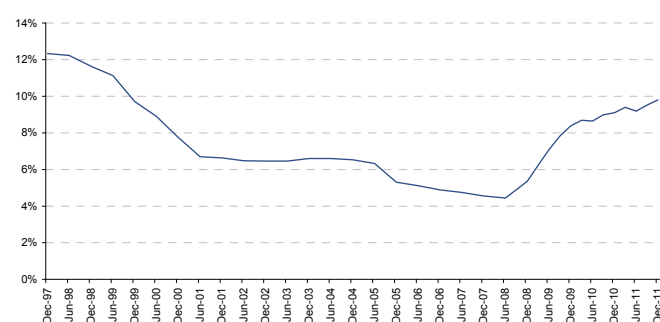
Source: Company data and Citi Research

Figure 23. Italy — Total Non Performing Loans (€m)



Source: Banca d'Italia

Figure 24. Italy — Total NPLs Ratio Overtime



Source: Banca d'Italia

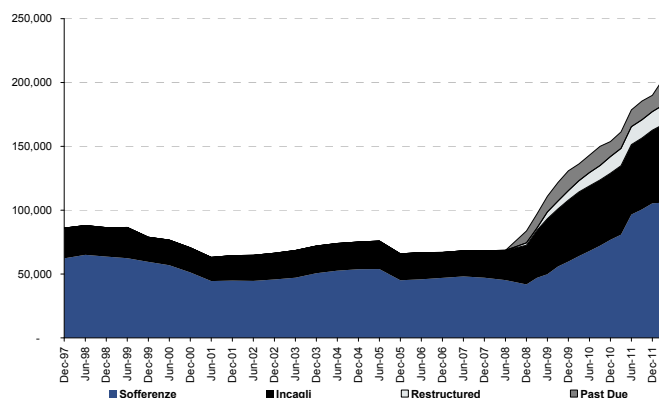
Focus on Asset Quality

Rising NPLs

NPLs are up c30% CAGR 2008-1Q 2012

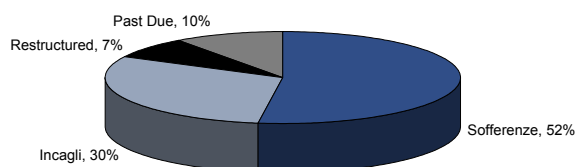
Total NPLs stock reached c€202bn in March 2012, showing the highest reading since the series is traceable, also a reflection of increasing loan book. In Italy there are four different categories of NPLs, with sofferenze being the riskier category and past due the least (which increased significantly in 1Q 2012 bases on new regulation). Restructured loans are performing loans that have renegotiated terms². Flows of sofferenze showed a peak level in 2Q 2011, and has shown inflows since 1998 (with only 2 single quarter exception).

Figure 25. Italy — Total Non Performing Loans (€m)



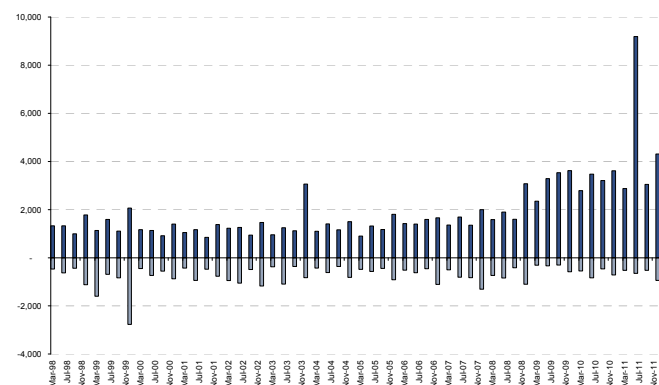
Source: Banca d'Italia

Figure 26. Italy — Total Non Performing Loans Breakdown, Dec 2011



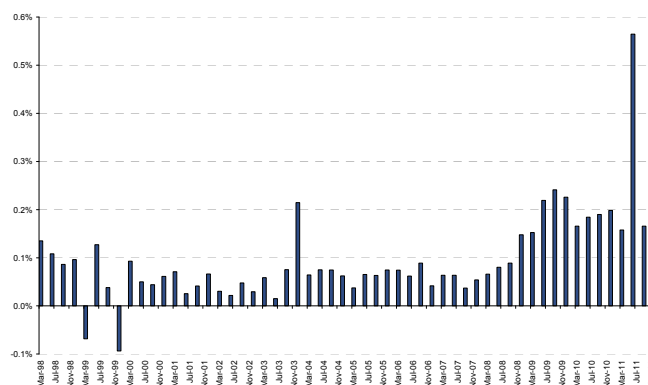
Source: Banca d'Italia

Figure 27. Italy — Sofferenze Flows



Source: Banca d'Italia

Figure 28. Italy — Sofferenze Flows as % of Loans



Source: Banca d'Italia

At system level, total NPLs have been increasing by 31% CAGR over the period 2008 -1Q 2012, with sharper increase in sofferenze and restructured loans. The 6 banks in our coverage universe show a more limited growth than at system level (+23% for our universe, vs +31% for the sector), especially in Sofferenze. This is possibly the result of better and more advanced risk management tools and lower lending growth.

² Please refer to the appendix of the note for a more detailed definition of the different NPLs categories.

Figure 29. Italy – NPLs Growth by Category

€m	Dec-08	March-12	System CAGR	Citi Coverage CAGR
Sofferenze	41,871	105,800	33%	18%
Incagli	30,678	61,225	24%	22%
Restructured	1,807	15,115	92%	63%
Past Due	9,305	20,358	27%	31%
Total	83,661	202,498	31%	23%

Source: Banca d'Italia and Citi Research

Figure 30. Italian Banks – NPLs Growth by Category, CAGR

	Sofferenze	Incagli	Other NPLs	Total NPLs
BP	40.9%	11.6%	73.9%	32.2%
UBI	31.9%	25.7%	59.0%	33.0%
BPM	31.7%	18.4%	70.1%	33.5%
Intesa Sanpaolo	21.0%	19.9%	32.7%	22.1%
MPS	19.9%	21.5%	43.1%	23.0%
Unicredit	13.3%	26.1%	43.3%	19.9%
All	18.5%	21.8%	44.5%	22.6%

Source: Company data and Citi Research

NPLs ratio almost double since 2008

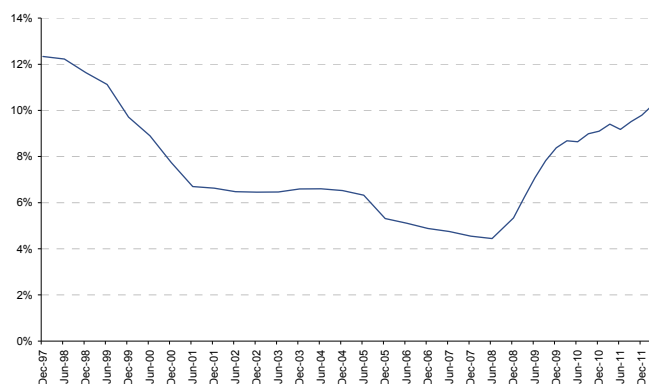
The NPLs ratio (NPLs over loans), has almost doubled from pre crisis level, also reflecting the limited loan growth (+4% CAGR 2008-2011). Despite this strong increase, the NPLs ratio is below the historical peak level of late'90s. Total NPLs ratio stands at 10.2% vs peak level of 12.3% (in 1997). This is mostly due to lower level of the NPLs ratio on Sofferenze (currently at 5.4% vs 9.0% peak in Jun 1998), while the difference in Incagli is minimal. The level of NPLs ratio for restructured loans in closed to the peak, may also be due to the more limited time series of these categories (since 2008). Past due loan underwent a reclassification, so ratio is not comparable.

Figure 31. Italy – NPLs Ratio by Category

	Dec-08	March-12	Chg	Peak Level	When
Sofferenze	2.7%	5.3%	2.7%	9.0%	Jun-98
Incagli	2.0%	3.1%	1.1%	3.4%	Dec-97
Restructured	0.1%	0.8%	0.6%	0.8%	Dec-10
Past Due	0.6%	1.0%	0.4%	1.0%	Mar-12
Total	5.3%	10.2%	4.9%	12.3%	Dec-97

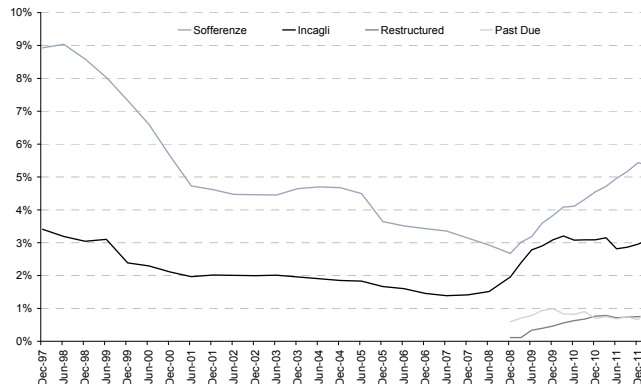
Source: Banca d'Italia and Citi Research

Figure 32. Italy – Total Gross NPLs Ratio Overtime



Source: Banca d'Italia and Citi Research

Figure 33. Italy – NPLs Ratio by Category Overtime



Source: Banca d'Italia and Citi Research

MPS, BP and UCI have the highest level of NPLs on the balance sheet. UCI Italian business has c17% gross NPLs ratio, but lower data in Germany and some CEE lower it at c14% for the Group

On average, the banks in our coverage have higher NPLs ratio than the sector, possibly due to earlier recognition of NPLs, stronger recent deleveraging effort on lending (given pressure on capital requirements), acquisition and also foreigner exposure. MPS has the highest.

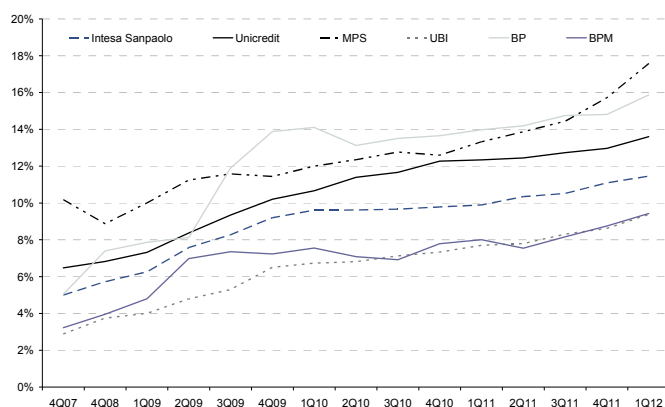
MPS has the highest level of NPLs on loans (mostly due to high sofferenze and past due loans), possibly due to its geographic positioning, its higher lending growth in the period pre crisis and less stringent risk management actions/lending criteria. BP has the second highest level of NPLs ratio, due to the consolidation of Italease and its NPLs portfolio (c€4.2bn or equal to 4.6% of NPLs ratio) and strong recent deleveraging. Third place is for UCI mainly due to its Italian activities. Italy accounts for 66% of total NPLs of the group vs 48% of loans, with an Italian NPLs ratio of c17% in March 2012, which at group level is less visible given the improvement in Germany and some CEE area. This high level in Italy was originated in both the old UCI franchise (high lending growth in riskier area such as SME and small corporate, and less cautious lending criteria) and the old Capitalia one (which has a legacy problem in asset quality).

Figure 34. Italian Banks – Gross NPLs Ratio, 1Q 2012

	Sofferenze	Incagli	Restructured	Past Due	Total NPLs
MPS	10.5%	4.3%	1.1%	1.6%	17.6%
BP	6.8%	5.0%	3.0%	1.1%	15.9%
UCI	7.8%	3.4%	1.4%	1.0%	13.6%
ISP	6.4%	3.3%	1.1%	0.6%	11.5%
UBI	4.7%	3.0%	1.0%	0.6%	9.4%
BPM	3.9%	2.8%	2.5%	0.2%	9.4%
All	7.3%	3.6%	1.4%	0.9%	13.2%

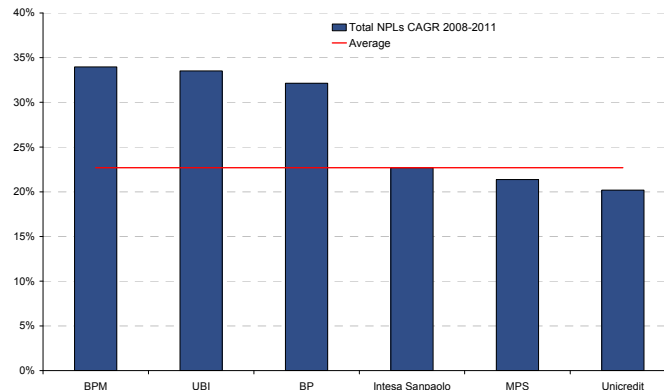
Source: Company data and Citi Research

Figure 35. Italian Banks – Total Gross NPLs Ratio



Source: Company data and Citi Research

Figure 36. Italian Banks – Total Gross NPLs Increase



Source: Company data and Citi Research

Further increase in NPLs could be expected given the challenging macro, and we expect the NPLs ratio to peak in 2014, when NPLs growth rate should start to slow and lending growth could start recovering, given more benign macro conditions. In our view, banks have put in place more sophisticated risk management tools to alert and prevent performing loans deterioration and have also increased the level of collateralized lending (both on performing and NPLs), this could result in more limited P&L losses in the future cycles.

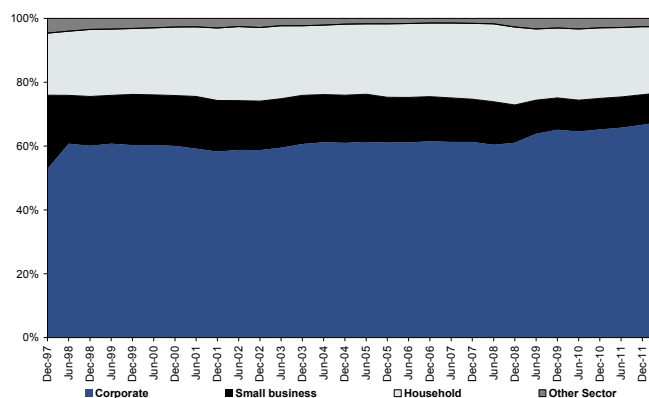
Mainly a Corporate Issue

75% of NPLs relates to the corporate sector. Small business and household sector NPLs ratio are below historical peak level

We have limited evidence from banks on the breakdown on NPLs. Based on system data for banks, corporate sector (including corporate and small business) accounts c75% of total NPLs (ex restructured loans, where no category split is available), and those have increased by c35% CAGR 2008-2011.

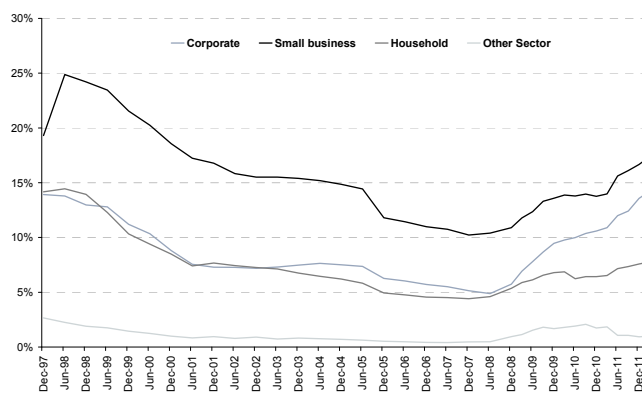
The NPLs ratio is higher in the small business and corporate sector vs the system average (respectively 17.4%, 14.2% and 10.2%). The corporate NPLs ratio has increased significantly since 2008, from c5.7% to the current 14.2%, almost reaching the peak level of late '90s. Both the small business and household sectors have increased significantly (+c60% increase), but are still below the peak level of late '90s. We see more risk in the SME and small business segment than in the household sector given the Italian stock of savings and also considering that c75% of retail lending is mortgage related with low loan to value and Italy had a lower decrease in house prices than other countries. If unemployment increases significantly and pressure on the economy continues, household could represent an additional risk.

Figure 37. Italy — Total NPLs Breakdown by Sector



Source: Banca d'Italia and Citi Research

Figure 38. Italy — NPLs Ratio Breakdown by Sector



Source: Banca d'Italia and Citi Research

Figure 39. Italy – NPLs Ratio by Sector

	Dec-08	March-12	Peak Level	When...
Corporate	5.7%	14.2%	13.9%	Dec-97
Small business	10.9%	17.4%	24.9%	Jun-98
Household	5.4%	7.8%	14.4%	Jun-98
Others	1.0%	1.0%	2.7%	Dec-97
Total	5.3%	10.2%	12.3%	Dec-97

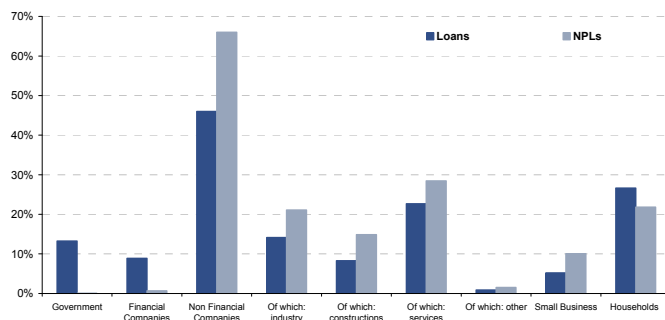
Source: Banca d'Italia and Citi Research

Deep Dive Into Sofferenza

Sofferenza are the riskier category of NPLs and account for c55% of total

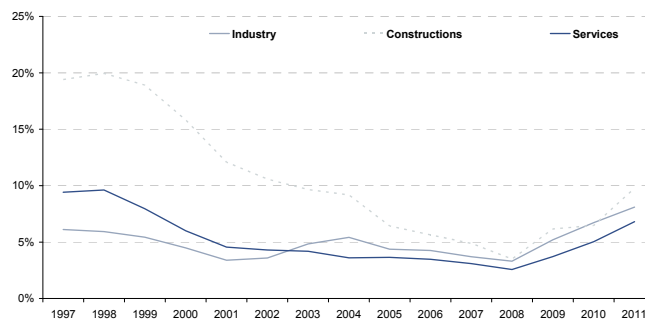
We now focus on Sofferenza, the riskier area of the NPLs, where the Bank of Italy provides more details. The riskier area of the sofferenze book is on the corporate sector. Corporate activity related to the industry sectors account for c20% of total Sofferenza, service related c30% and construction is c15%. The current Sofferenza ratios are below peak level in construction and services, while it is already above in the industry component.

Figure 40. Italy – Sofferenza and Loans by Industry as % of Total



Source: Banca d'Italia and Citi Research

Figure 41. Italy – Sofferenza Ratio by Industry



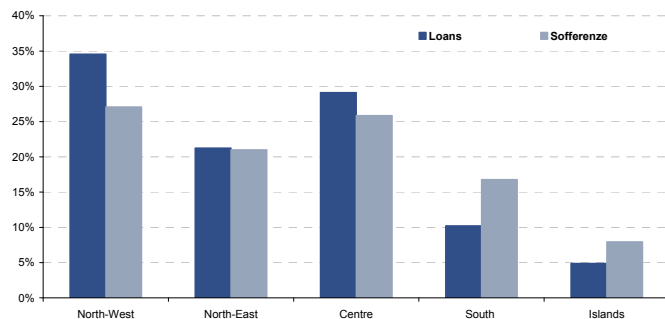
Source: Banca d'Italia and Citi Research

30% of sofferenze relates to real estate, vs 75% in Spain

Within corporate, if we add to the construction sector the component of real estate in the service industry, the total real estate related Sofferenza are c30% of total. This level is significantly lower for example than Spain, where it represent c75% of corporate NPLs.

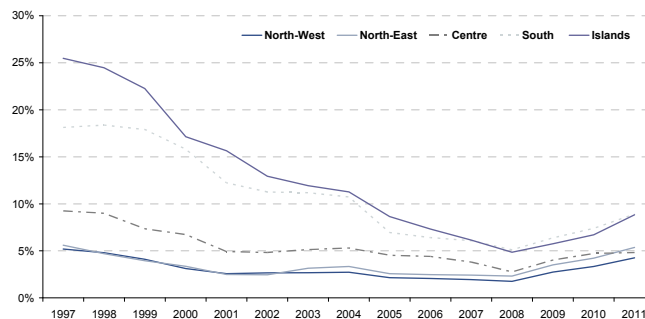
Sofferenza are mostly concentrated in the North West and Centre of the country, while the Sofferenza ratios are higher in the South and Island vs the North East of the country, given the relative stronger economic positioning, but the relative gap has narrowed overtime.

Figure 42. Italy – Loans and Sofferenza Breakdown by Region



Source: Banca d'Italia and Citi Research

Figure 43. Italy – Sofferenza Ratio by Region



Source: Banca d'Italia and Citi Research

Given the high exposure to corporate the NPLs are strongly correlated with macroeconomic cycle

The main takeaway from this analysis is that being NPLs mostly related to corporate, those are more sensitive to economic cycle, and any recovery in economic and liquidity conditions of the corporate sector (via better macroeconomic reading or higher liquidity injected in the sector via higher bank lending or public administration actions) could results in a faster NPLs recovery (especially in the less risky areas) that in other country where NPLs relate more to the Real estate sector (eg Spain).

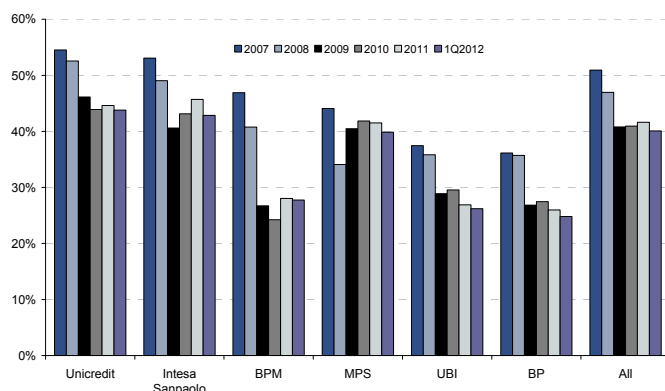
Coverage Ratio Falling Sharply, But Banks Have Collateral

Coverage ratio has decreased by 11pp in 4 years. BPM has the largest decrease, MPS the smallest

Within our universe, since 2007 the level of NPLs coverage has decreased markedly, with total coverage level down by 11pp over the last 4 years to c40%, with BPM showing the highest decrease and MPS the lowest.

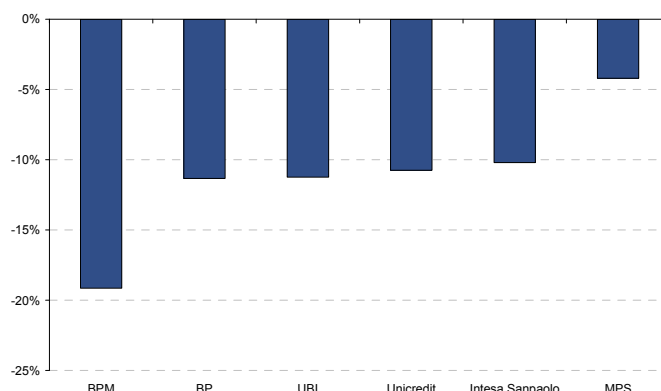
The absolute level of coverage differs significantly among banks due also to the different accounting of the write off. Popolari banks tend to have a lower absolute coverage as they do not include the written-off NPLs (mostly the sofferenze) in their ratio and how account for them (eg "stralci"). For example BP total coverage would increase from the reported c25% in 1Q 2012 to c35% including write off (with sofferenze up from 40% to 54%), explaining some of the gap vs the larger banks, similarly to UBI and BPM. Using the write off approach, banks exclude from the gross NPLs and from the level of provisions a portion of the NPLs that have been written off (eg stralciate), and while leaving the absolute level of net NPLs the same, this result in lower coverage. Our analysis focuses more on the relative move of the coverage ratio of each bank in the last 5 years.

Figure 44. Italian Banks – Total Coverage Ratio



Source: Company data and Citi Research

Figure 45. Italian Banks – Total Coverage Ratio Change 2007-1Q2012



Source: Company data and Citi Research

Coverage decrease driven by lower coverage of single category, mix effect and increase collateral level

We believe that this decrease in coverage is explained by 2 main reasons: a) absolute decrease in coverage level of single NPLs category, we calculate that this accounts for c2/3 of total decrease, b) change in the mix of NPLs due to different growth rate during the crisis, which seems to account for c1/3 of the decrease. Also banks have a high level of collateral (both on performing and NPLs positions), which should provide further support in the potential recovery phase.

Figure 46. Italian Banks – Decomposition of the Coverage Decrease

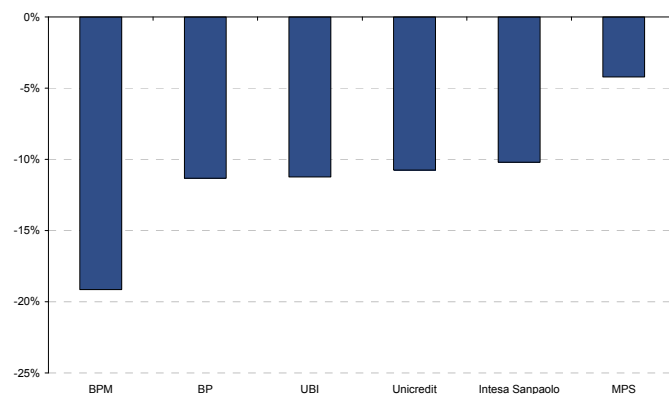
	2007	Coverage Decrease	1Q 2012	Lower Coverage	Mix Effect	Mix effect % of total
UCI	55%	-11%	44%	-5.4%	-5.3%	50%
ISP	53%	-10%	43%	-7.6%	-2.6%	26%
MPS	44%	-4%	40%	-3.2%	-1.0%	24%
BPM	47%	-19%	28%	-17.0%	-2.2%	11%
UBI	37%	-11%	26%	-9.0%	-2.2%	20%
BP	36%	-11%	25%	-10.2%	-1.1%	10%
All	51%	-11%	40%	-6.6%	-4.3%	39%

Source: Company data and Citi Research

Coverage will start rebuilding, but should not come back to pre crisis levels due to increased collateral value

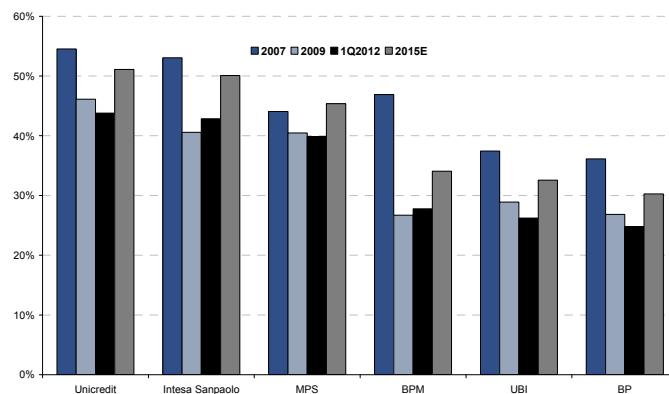
In order to protect the bank capital, and also reassure investors, we expect banks to start rebuilding the coverage ratio in coming years. The end results of this coverage rebuild is expected to be below the starting level of 2007 (c50% coverage), given the significant increase of collateralized lending. We forecast that coverage ratio would reach 47% in 2015E, from 40% in 2011. Our provisions estimates account for both coverage rebuilding and still high level of NPLs in flows in 2012-2013E, which will start decreasing in 2014.

Figure 47. Italian Banks — Coverage Ratio Decrease, 1Q 2012 vs 2007



Source: Company data and Citi Research

Figure 48. Italian Banks — Coverage Ratio



Source: Company data and Citi Research

A - Absolute Decrease in Coverage Level

Decreasing single category coverage explains c2/3 of the total decrease

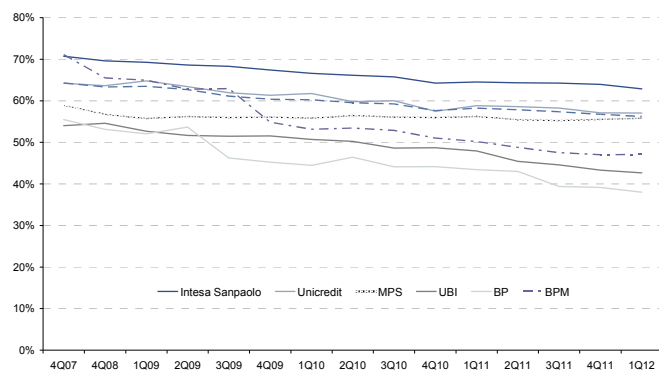
The stock of NPLs has increased significantly in the last 4 years, with smaller banks showing a stronger increase than larger one. This increase has been reflected in rising provisions, but the level of coverage ratio has decreased in absolute term in all the different NPLs category, for example sofferenze coverage decreased by 8pp in the last 4 years. We calculate that this absolute decrease explains c2/3 of total decrease in coverage ratios (Figure 49). BPM, BP and UBI showed the strongest decrease in sofferenze coverage (partly also due to the write off policy), while ISP had the strongest decrease in incagli and restructured. Overall MPS has decreased the total coverage ratio less than peers, showing increasing coverage of incagli and restructured loans, but the largest decrease in past due coverage.

Figure 49. Italian Banks – Coverage Deterioration, 2007-1Q 2012

	Sofferenze	Incagli	Restructured	Past Due	Total
BPM	-24%	-6%	nm	5%	-19%
BP	-17%	-6%	-1%	4%	-11%
UBI	-11%	-6%	-6%	-5%	-11%
Unicredit	-7%	-1%	-2%	3%	-11%
Intesa Sanpaolo	-8%	-8%	-15%	-2%	-10%
MPS	-3%	3%	3%	-9%	-4%
All	-8%	-3%	-8%	-2%	-11%

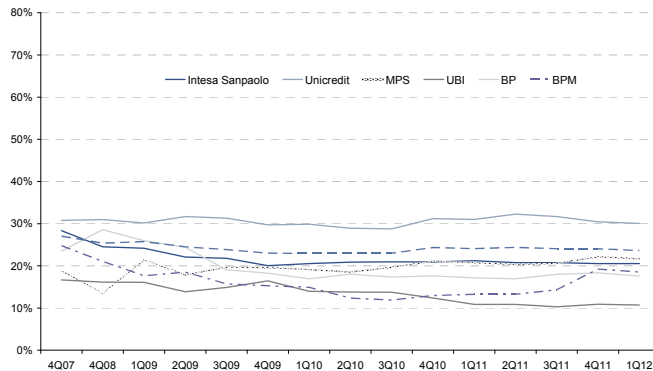
Source: Company data and Citi Research

Figure 50. Italian Banks – Sofferenze Coverage, 2007-1Q 2012



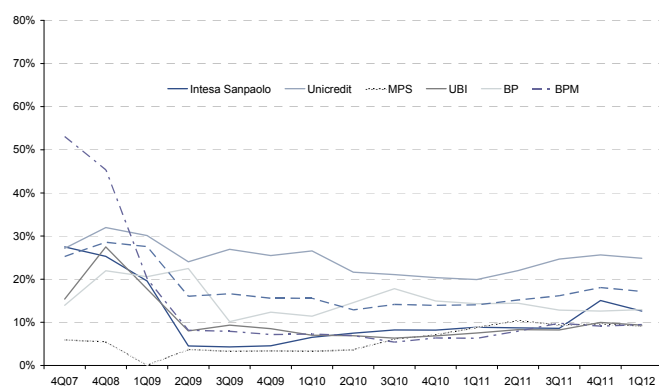
Source: Company data and Citi Research

Figure 51. Italian Banks – Incagli Coverage, 2007-1Q 2012



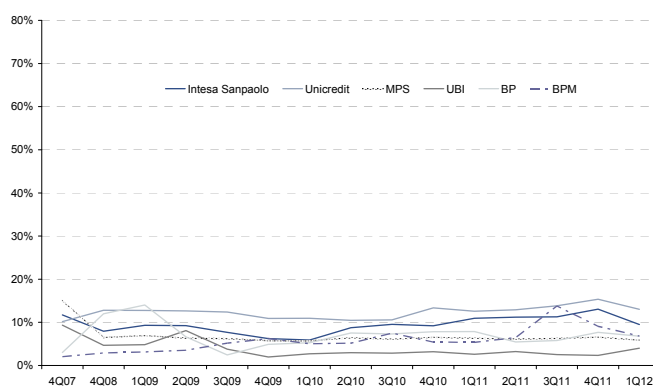
Source: Company data and Citi Research

Figure 52. Italian Banks – Restructured Coverage, 2007-1Q 2012



Source: Company data and Citi Research

Figure 53. Italian Banks – Past Due Coverage, 2007-1Q 2012



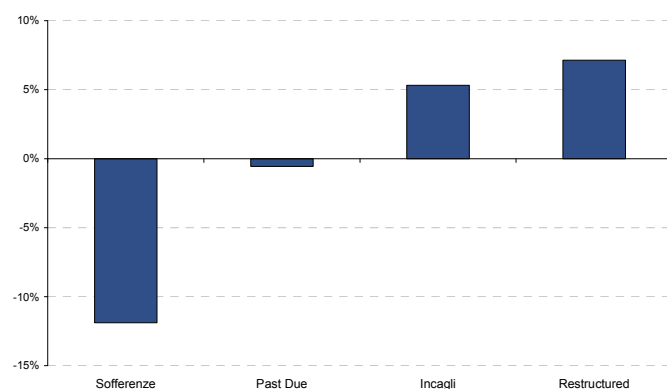
Source: Company data and Citi Research

B - Different NPLs Mix

The mix effect accounts 1/3 of the decline on average

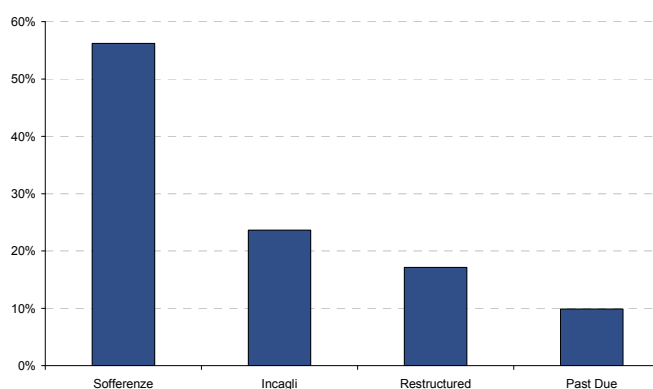
Stock of total NPLs has increased by 185% in the period 4Q 2007-1Q 2012, while Sofferenze has increased by “only” 136%. This has a negative effect on the coverage ratio as Sofferenze have increased less than the total (eg decreasing weight on total) and have the highest coverage, while the relative weight of lower coverage NPLs (incagli/restructured) has increased in the same period (Figure 54).

Figure 54. Italian Bank – NPLs Mix Change, 2007-1Q2012



Source: Company data and Citi Research

Figure 55. Italian Bank – NPLs Coverage, 1Q 2012



Source: Company data and Citi Research

Figure 56. Italian Banks – NPLs Breakdown by Category, Weight on Total

	ISP			UCI			MPS			UBI			BP			BPM		
	4Q07	1Q12	Chg	4Q07	1Q12	Chg	4Q07	1Q12	Chg	4Q07	1Q12	Chg	4Q07	1Q12	Chg	4Q07	1Q12	Chg
Sofferenze	61%	56%	-5%	75%	57%	-17%	65%	60%	-5%	57%	50%	-6%	47%	43%	-4%	47%	42%	-5%
Incagli	31%	29%	-2%	16%	25%	9%	15%	25%	9%	34%	32%	-2%	40%	31%	-9%	35%	29%	-6%
Other	8%	15%	7%	9%	17%	8%	19%	16%	-4%	9%	18%	8%	13%	26%	12%	18%	29%	11%
Total	100%	100%		100%	100%		100%	100%		100%	100%		100%	100%		100%	100%	

Source: Company data and Citi Research

We calculate that c4pp out of the 11pp of decrease is due to the mix effect. In our analysis, we used the 1Q 2012 stock of gross NPLs and we have kept the same mix as in Dec 2007, to then apply the 1Q 2012 coverage. The resulting coverage ratio would have been 44% vs the current 40%, or 4pp difference equal to c1/3 of total decrease.

Figure 57. Italian Banks – Simulated Coverage Level Assuming Stable NPLs Mix from 2007

	Dec-07	1Q 212	Decrease	Simulated	Diff
Gross Sofferenze	49,355	94,959		115,309	
Write-Downs	-31,732	-53,383		-64,823	
Net Sofferenze	17,623	41,576		50,485	
Coverage Ratio - Sofferenze	64.3%	56.2%	-8.1%	56.2%	
Gross Incagli	15,968	46,416		37,307	
Write-Downs	-4,318	-10,968		-8,815	
Net Incagli	11,650	35,448		28,491	
Coverage Ratio - Incagli	27.0%	23.6%	-3.4%	23.6%	
Gross Restructured	2,432	17,887		5,681	
Write-Downs	-614	-3,069		-975	
Net Restructured	1,818	14,817		4,707	
Coverage Ratio - Restructured	25.2%	17.2%	-8.1%	17.2%	
Gross Past Due	5,514	11,919		12,883	
Write-Downs	-635	-1,178		-1,273	
Net Past Due	4,879	10,741		11,611	
Coverage Ratio - Past Due	11.5%	9.9%	-1.6%	9.9%	
Total Gross NPLs	73,270	171,180		171,180	
Write-Downs	-37,299	-68,598		-75,886	
Total Net NPLs	35,971	102,583		95,294	
Coverage Ratio - Total NPLs	50.9%	40.1%	-10.8%	44.3%	-4.3%
NPLs Mix					
	Dec-07	1Q 212		Simulated	
Sofferenze	67.4%	55.5%		67.4%	
Incagli	21.8%	27.1%		21.8%	
Restructured	3.3%	10.4%		3.3%	
Past Due	7.5%	7.0%		7.5%	
Total	100.0%	100.0%		100.0%	

Source: Company data and Citi Research

For UCI the mix effect explains c50% of the decrease, above the sample average

Replicating the same analysis for the single banks in our universe we see that for UCI c50% of the deterioration in coverage is coming from a mix effect, while it is only 10% in the case of BPM (strong absolute decrease of coverage ratios in different categories) and BP (where the absolute decrease in coverage ratio is mostly in sofferenze, possibly following the Italease acquisition which has also increased the level of collateralized lending).

Figure 58. Italian Banks – Decomposition of the Coverage Decrease

	Mix	Lower Coverage	Total Decrease	Mix Effect % of Total
UCI	-5.3%	-5.4%	-10.8%	50%
ISP	-2.6%	-7.6%	-10.2%	26%
MPS	-1.0%	-3.2%	-4.2%	24%
UBI	-2.2%	-9.0%	-11.2%	20%
BPM	-2.2%	-17.0%	-19.1%	11%
BP	-1.1%	-10.2%	-11.3%	10%
All	-4.3%	-6.6%	-10.8%	39%

Source: Company data and Citi Research

C - Collateralized Lending

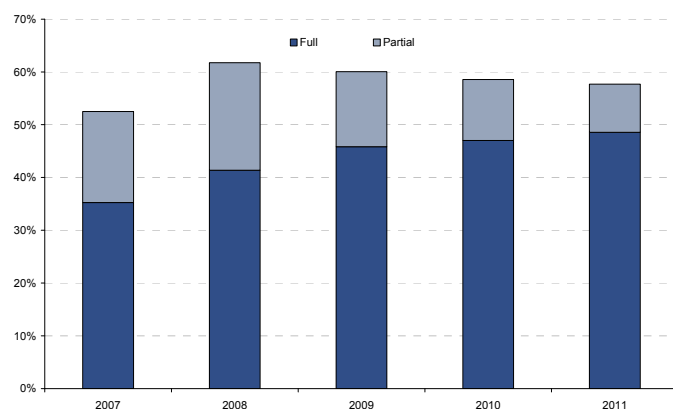
Collateralised lending has increased from c50% to c60% of loans and from c60% to 70% of NPLs, also NPLS collateralization increased significantly. c70% of collaterals are real estate

Collateralised loans have increased from 52% of total in 2007 to 58% in 2011³ and NPLs with collateral are up from 62% of total in 2009 to 71% in 2011⁴, accounting for both positions fully guaranteed and partially guaranteed. On average, the values of the NPLs with some forms of collateral have increased by 18% CAGR 2009-11.

Collateral can be for the full amount of the loan/NPLs or for a part of it and can be represented by two main types of guarantees: asset guarantees (such as real estate or securities or other assets) or personal guarantees. Collateral mostly related to residential mortgages or corporate lending, typically to SME and smaller business. Most of the collaterals are from real estate guarantees, c70% of NPLs and loans.

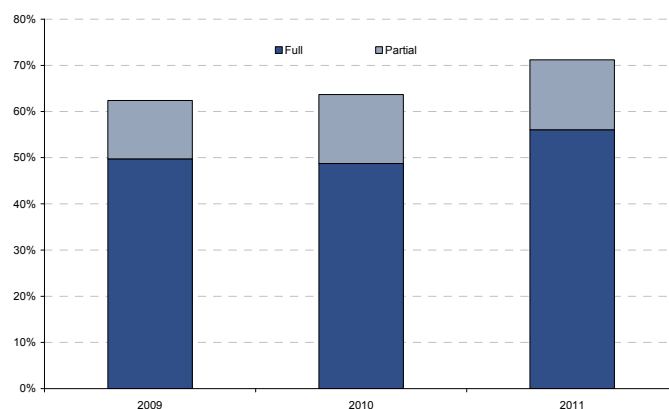
UBI, despite having a low coverage of NPLs has a high level of collateralised NPLs (c80% of total net NPLs), followed by BP (possibly due to Italease consolidation). UBI has the highest level of partially guaranteed loans and NPLs.

Figure 59. Italian Banks – Loans, Collateralised Lending



Source: Company data and Citi Research

Figure 60. Italian Banks - NPLs, Collateralised Lending

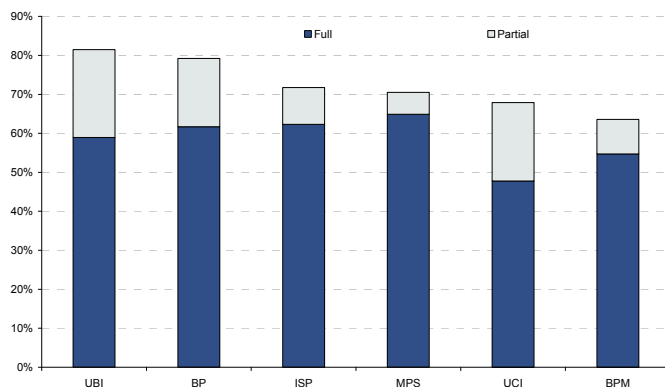


Source: Company data and Citi Research. Data before 2009 not available.

³ Calculated as value of the loans with guarantee over total net loans. For individual data by bank Figure 70

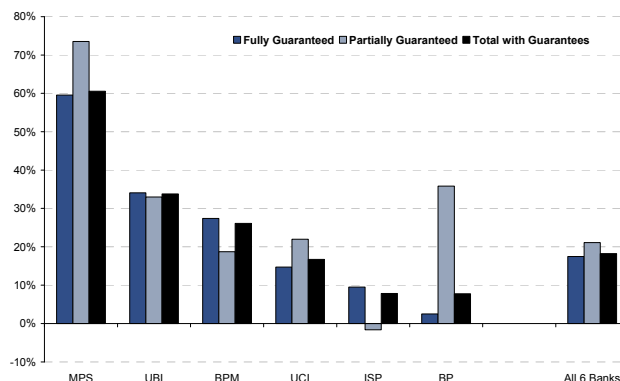
⁴ *Calculated as value of the NPLs with guarantee over total NPLs. For individual data by bank Figure 70

Figure 61. Italian Banks – NPLs Collateral Split



Source: Company data and Citi Research

Figure 62. Italian Banks - NPLs with Collaterals, 2009-2011 CAGR



Source: Company data and Citi Research.

Figure 63. Italian Banks – Guarantees Value as % of Partially Guaranteed Loans

	2007	2008	2009	2010	2011
Loans	46%	44%	55%	60%	81%
NPLs	na	na	72%	76%	74%

Source: Company data and Citi Research

Real estate asset accounts for c230% of net NPLs exposure

The value of the guarantees was reported based on the contractual value up to the net loan exposure of the credit which it related to, since 2009-2010. From 2011 the value of the collateral is accounted at fair value where possible. This explains the significant increase in collateral value as % of net loan exposure, with the only exception of BPM, as the bank has continued to use the old methodology and not the fair value accounting.

The data in Figure 64 shows that the average value of the collateral for fully guaranteed NPLs represent c232% of the value of the NPLs which these refer to. There are difference among banks depending on the period of the acquired guarantees, the type of the guarantees and the underlying assets, but on average banks have collateral with a value that is more than double the level of the NPLs. This implies that in case of pressure on real estate market, banks would still have a buffer in the value of the guarantees. Similar trends are showed in the loans (Figure 65) and could support better recovery/coverage for performing loans in case of deterioration.

Figure 64. Italian Banks – Collateral Value Over NPLs, Fully Guaranteed

	2007	2008	2009	2010	2011
ISP	na	na	103%	188%	215%
UCI	na	na	201%	181%	185%
MPS	na	na	100%	100%	265%
UBI	na	na	103%	96%	392%
BP	na	na	103%	100%	301%
BPM	na	na	100%	100%	100%
All 6 Banks	na	na	140%	157%	232%

Source: Company data and Citi Research

Figure 65. Italian Banks – Collateral Value Over Loans, Fully Guaranteed

	2007	2008	2009	2010	2011
ISP	100%	105%	102%	168%	200%
UCI	215%	124%	145%	145%	192%
MPS	276%	100%	100%	99%	257%
UBI	185%	80%	98%	104%	298%
BP	245%	100%	100%	101%	255%
BPM	100%	100%	100%	100%	100%
All 6 Banks	198%	111%	116%	138%	217%

Source: Company data and Citi Research

Collateral on NPLs could represent additional c30% coverage of NPLs. For example, ISP has a c149% recovery rate of the net sofferenze based also on collateralisation

This level of collaterals on NPLs provides an additional buffer to the accounting coverage of provisions booked in the balance sheet and the increase in collateral level could possibly partially explain some of the reduction in the banks accounting coverage level. For example Intesa shows that, only relative to Sofferenze, the recovery rate is on average c149% of the net position in 2009-2011, following the recovery of the collateral.

We calculate that banks could have some c30% additional coverage to the accounting coverage coming from the potential value of only the real collateral. Given the change in the definition, we calculated 2011 value of guarantees applying the same growth rate of the underlining loans to the 2010 level. Using reported data this additional coverage would increase to c55%, or more if we extend our analysis to other collateral (like securities, etc). We believe that access to collateral and recovery time as well as movement in real estate price are key in assessing collateral value.

Figure 66. Italian Banks – NPLs Coverage Uplift from Collateral

	2007	2008	2009	2010	2011*
Value of the Guarantees					
Real Estate - Full	na	na	36,559	34,825	42,860
Real Estate - Partial	na	na	2,609	4,541	5,048
Total Real Estate Guarantees	na	na	39,169	39,366	47,908
Accounting Coverage					
	51%	48%	41%	41%	42%
-- Collateral Coverage - Full	na	na	28%	24%	26%
-- Collateral Coverage - Partial	na	na	2%	3%	3%
Total Collateral Coverage	na	na	30%	27%	29%
Total Coverage			71%	68%	71%

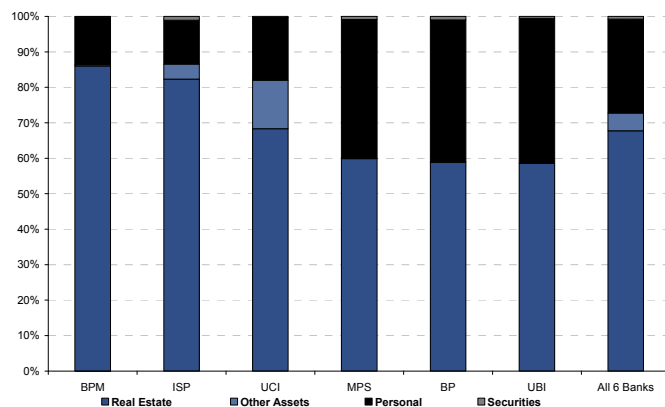
Source: Company data and Citi Research. *Citi Research simulation for calculation.

Popolari banks have stronger potential collateral coverage

BP is among the banks with higher potential coverage from real estate collaterals, while MPS seem the one with smaller potential coverage. For UCI, we believe that the collateral data are getting diluted at group level, given the group geographical positioning and business mix in the various countries. Italy is c50% of total loans and it has a stronger concentration of SME which usually have more collateralised lending vs large corporate, while Germany accounts for c25% of group loans and are mostly larger corporate, hence with possible less collateral.

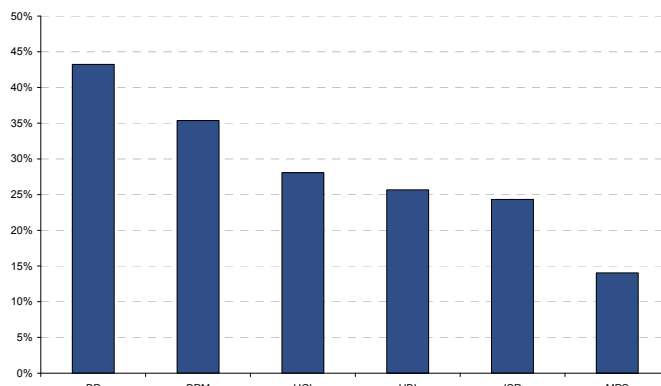
Partial guarantees in most cases are security and personal guarantees, with only UCI, BP and BPM having some contribution from real estate collateral in this category; this explains why UBI in this analysis shows a lower uplift than expected, given the group high level of personal guarantees in the partially guaranteed loans (possible related to the high SME weight on loan book).

Figure 67. Italian Banks – NPLs Collateral Breakdown, Full, 2011



Source: Citi Research

Figure 68. Italian Banks – Additional Real Estate Collateral Coverage, 2010*

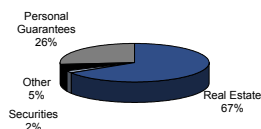


Source: Company data and Citi Research. *ISP adjusted for different criteria.

The main risks are the value of real estate and recovery time

In our view there are the two major risks for evaluation of the recovery value from the collateral: the potential value of the collateral (which relates mostly to house/real estate price development) and the time to recover it (which related to the speed of Italian court system). In our analysis we account for the first risk as we consider the guarantees not at fair value but on the previous methodology, which is more conservative, if we would use the fair value the coverage would increase from c30% to c55%, showing a significant buffer on the potential house price decrease (fair value valuation are on average more than double the value of the underlying NPLs, Figure 64). We do not account for any discount for the time lag in the recovery, as this varies significantly from the area of the country and the type of procedure, but this could affect the NPV of the recovery value.

Figure 69. Italian Banks – NPLs Guarantees



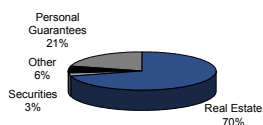
Source: Company data and Citi Research

Figure 70. Italian Banks - NPLs, Collateralised Lending*

	2007	2008	2009	2010	2011
Fully Guarantees as % of Total					
ISP	na	na	58%	58%	62%
UCI	na	na	47%	44%	48%
MPS	na	na	34%	36%	65%
UBI	na	na	45%	54%	59%
BP	na	na	62%	60%	62%
BPM	na	na	44%	50%	55%
All 6 Banks	na	na	50%	49%	56%
Partially Guarantees as % of Total					
ISP	na	na	11%	11%	9%
UCI	na	na	18%	19%	20%
MPS	na	na	2%	5%	6%
UBI	na	na	18%	23%	23%
BP	na	na	10%	17%	17%
BPM	na	na	8%	10%	9%
All 6 Banks	na	na	13%	15%	15%
Loans With a Form of Guarantees as % of Total					
ISP	na	na	68%	69%	72%
UCI	na	na	64%	63%	68%
MPS	na	na	36%	41%	70%
UBI	na	na	63%	77%	82%
BP	na	na	72%	77%	79%
BPM	na	na	52%	60%	64%
All 6 Banks	na	na	62%	64%	71%

Source: Company data and Citi Research. *Calculated as value of the loans with guarantee over total net loans

Figure 71. Italian Banks – Loan Guarantees



Source: Company data and Citi Research

Figure 72. Italian Banks - Loans, Collateralised Lending

	2007	2008	2009	2010	2011
Fully Guarantees as % of Total					
ISP	26%	48%	54%	54%	51%
UCI	40%	38%	38%	37%	37%
MPS	55%	56%	44%	46%	66%
UBI	4%	5%	57%	60%	62%
BP	51%	52%	57%	64%	62%
BPM	45%	44%	40%	49%	57%
All 6 Banks	35%	41%	46%	47%	49%
Partially Guarantees as % of Total					
ISP	4%	8%	6%	4%	4%
UCI	32%	38%	25%	20%	13%
MPS	4%	3%	1%	1%	4%
UBI	2%	1%	14%	16%	15%
BP	9%	8%	5%	5%	9%
BPM	7%	8%	6%	6%	5%
All 6 Banks	17%	20%	14%	12%	9%
Loans With a Form of Guarantees as % of Total					
ISP	29%	56%	60%	58%	55%
UCI	72%	76%	63%	57%	50%
MPS	59%	59%	45%	48%	70%
UBI	6%	6%	71%	75%	77%
BP	61%	60%	62%	69%	71%
BPM	52%	52%	46%	56%	62%
All 6 Banks	52%	62%	60%	59%	58%

Source: Company data and Citi Research. *Calculated as value of the NPLs with guarantee over total net NPLs

3 peak period in the last 30 years. Peak level decrease at each crisis

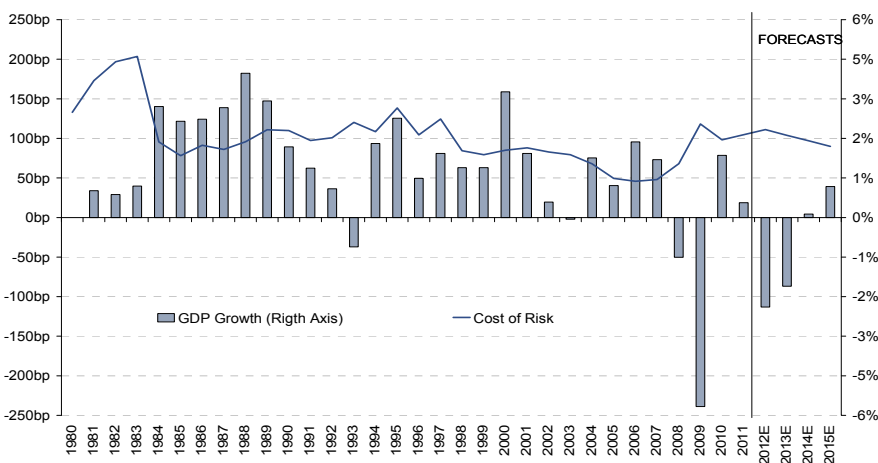
400bp of Provisions Still to Come in 2012-15E

In the last 31 years we can identify 3 peak periods for loan loss provisions. Italian banks' cost of risk reached the highest peak in early '80s at c200bp, the following one was in mid '90s at c140bp (but provisions were higher for longer) and the last one was the recent peak level in 2009 at c120bp.

Not all these periods of peaks in provisions have the same backdrop from a macro point of view: Italy was not in recession in the early '80s, while it was in the '90s and in recent years (2008-2009, expected by our economist for 2012). The peak in the early '80s seems more a banking crisis following slowing economic activities as the bank sector was very immature and mostly corporate driven, with very few listed banks and possible lower coverage level. The crisis in mid '90s with the peak level in provisions in 1993 seems driven by economic recession but this was a shorter and milder on the economic side than the recent one, and also Italy had its own currency and devalued. In the last crisis and peak, the correlation between GDP and bank provisioning level has been less strong. We believe that in the earlier crisis banks were less sophisticated in risk management, loan books were more concentrated, with lower coverage ratio/collateral protection and focused almost completely on corporate business, hence the effect of a milder slowdown of economic conditions had a bigger effect on banks balance sheet/provisioning vs today.

We notice that after every crisis banks restructure their loan book, improve asset quality metric (eg lending criteria, credit scoring, collateral), in order to be better prepared for the next cycle. This seems to be proved also in the decreasing value of the peak level of the crises (from c200bp to c120bp in latest crisis, despite also problems in the CEE operations).

Figure 73. Italy – Cost of Risk and GDP



Source: Company Data, Factset and Citi Research

Asset quality conditions are challenging given macro, we forecast c400bp of cumulative provision in the next 4 years

We expect still a challenging asset quality conditions in coming years as the banks have to face a deteriorating macroeconomic environment. We forecast a cost of risk on average higher in 2012 vs 2011, showing a small decrease in 2013-14 and then to decrease more from 2015 onwards. The average level of cost of risk in 2015 is expected still well above the last 20-year average (c90bp in 2015 vs c75bp long-term average), continuing to weight on banks profitability. Cumulative provisions in the next 4 years are expected at c400bp. Our estimates for future provisions are based on NPLs flows assumptions in the different categories, looking at historical trend and considering macroeconomic conditions, and also accounts for some coverage rebuilding (from c40% in 2011 to c47% in 2015).

UCI and MPS has the highest level of expected provisions

UCI and MPS will have the highest level of cost of risk, due to their higher existing level of NPLs, high lending growth in the pre crisis period, relatively higher exposure to SME and centre/south of Italy.

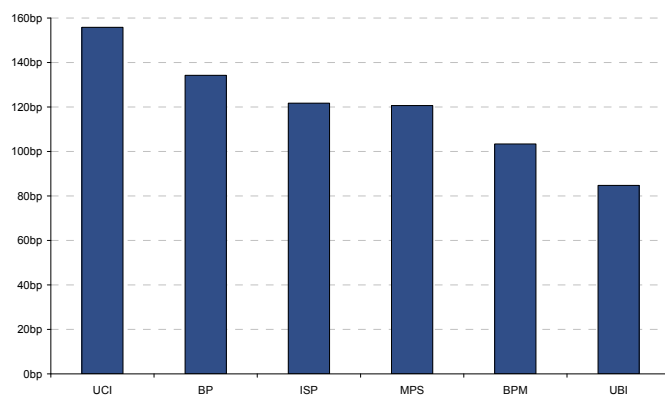
Figure 74. Italian Banks – Cumulated Provisioning Level

	Benign 2001-2006	Crisis 2007-2011	Forecasts 2012-2015E
Unicredito	401bp	482bp	417bp
Intesa	394bp	403bp	391bp
MPS	412bp	417bp	370bp
BP	250bp	460bp	334bp
UBI	302bp	315bp	272bp
BPM	422bp	419bp	289bp
Total	391bp	436bp	403bp

Source: Company Data, Factset and Citi Research

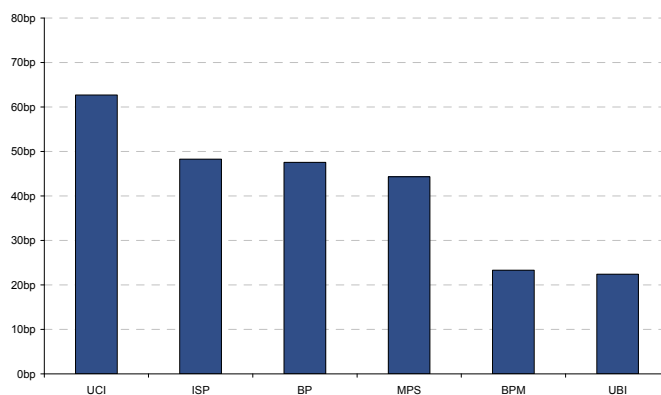
On average banks had c165bp of gross loan losses, partly offset by c65bp of recovery on previously provisioned positions. UCI has the highest level of gross provisions, but also the highest recovery rate, while UBI has the lowest in both. The level of recovery on loans shows that UCI has a strong track record.

Figure 75. Italian Banks – Gross Provisions on Loans (Av 2007-2011)



Source: Company data and Citi Research

Figure 76. Italian Banks – Recovery Level on Loans (Av 2007-2011)



Source: Company data and Citi Research

Figure 77. Italian Banks – Gross Provisioning Level on Loans

	2007	2008	2009	2010	2011
ISP	66bp	100bp	140bp	129bp	173bp
UCI	92bp	108bp	193bp	202bp	183bp
MPS	90bp	113bp	138bp	122bp	140bp
UBI	56bp	73bp	106bp	96bp	93bp
BP	78bp	174bp	142bp	135bp	142bp
BPM	66bp	68bp	126bp	99bp	157bp
All 6 Banks	80bp	107bp	160bp	156bp	165bp

Source: Company data and Citi Research

Figure 78. Italian Banks – Recovery Level on Loans

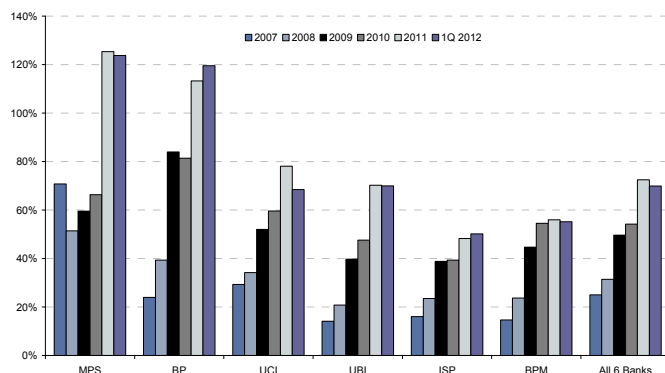
	2007	2008	2009	2010	2011
ISP	37bp	41bp	48bp	55bp	60bp
UCI	55bp	50bp	49bp	82bp	78bp
MPS	32bp	45bp	41bp	53bp	51bp
UBI	21bp	15bp	17bp	27bp	32bp
BP	35bp	34bp	56bp	53bp	60bp
BPM	23bp	16bp	24bp	32bp	22bp
All 6 Banks	43bp	43bp	45bp	63bp	64bp

Source: Company data and Citi Research

Net NPLs are c70% of equity, with net sofferenze c30% of equity, this a market concern, but collateral are an indirect coverage

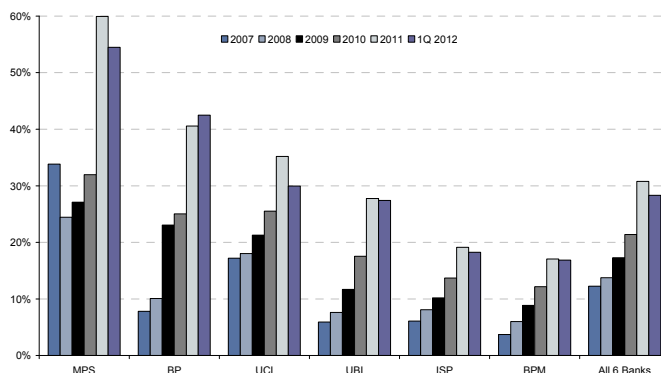
One of the main market concerns on asset quality, in addition to new flows of NPLs that could be generated, relates also to the level of uncovered NPLs (eg non provisioned). The coverage for the existing stock has decreased (page 15) and despite higher collateral protection, the uncovered total NPLs still represents c70% of equity. Only considering net sofferenze, those account to c30% of equity, while incagli are c24% of equity. Restructured loans (which are included in NPLs in Italy) are c13% of total net NPLs for Italian banks and represent c9% of equity. Excluding those, the net NPLs on equity would be c60% in 1Q 2012. As previously discussed, also collateral represents a potential source of recovery in the case of NPLs and including the value of only real estate collateral (at historical value, not at fair value) the ratio would decrease to c35% from 70%. MPS, BP and UCI show the highest level, while ISP and BPM have the lowest. The relative increase since 2007 is more marked for BP (due to the Italease acquisition).

Figure 79. Italian Banks – Net Total NPLs on Equity



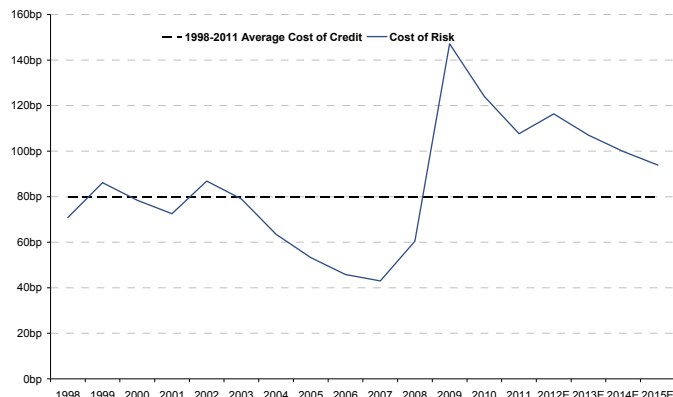
Source: Company data and Citi Research

Figure 80. Italian Banks – Net Sofferenze on Equity



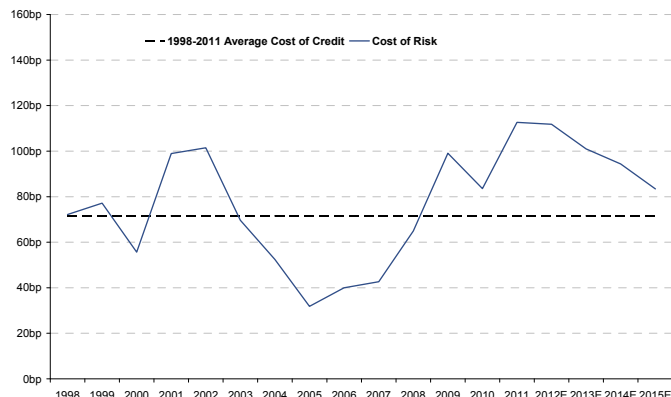
Source: Company data and Citi Research

Figure 81. Unicredit – Cost of Risk



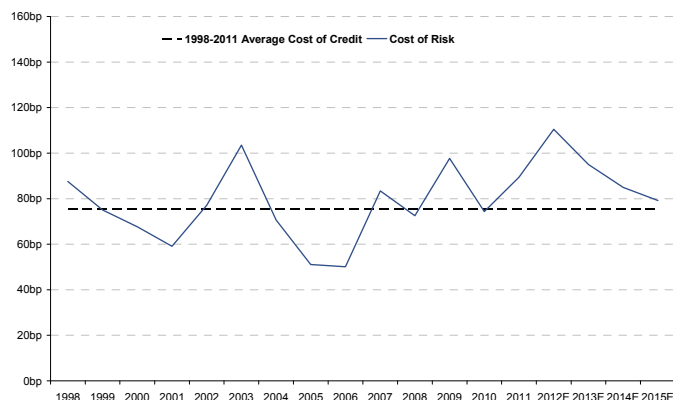
Source: Company data and Citi Research Estimates

Figure 82. Intesa Sanpaolo – Cost of Risk



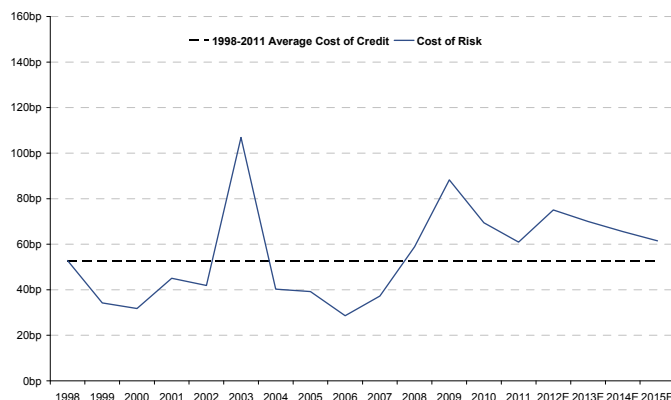
Source: Company data and Citi Research Estimates

Figure 83. MPS – Cost of Risk



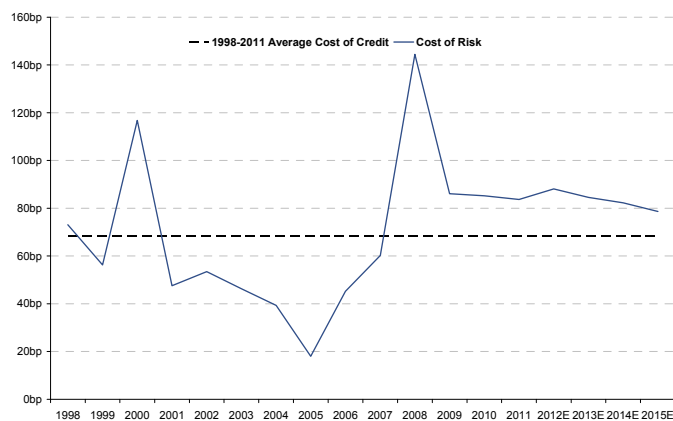
Source: Company data and Citi Research Estimates

Figure 84. UBI – Cost of Risk



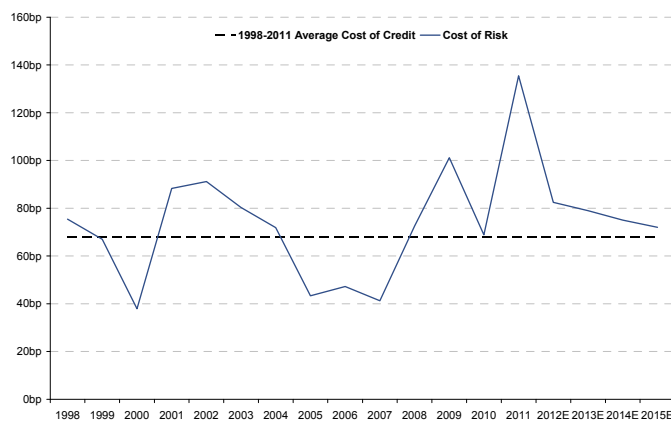
Source: Company data and Citi Research Estimates

Figure 85. BP – Cost of Risk



Source: Company data and Citi Research Estimates

Figure 86. BPM – Cost of Risk



Source: Company data and Citi Research Estimates

Inflows from performing loans are the main source of increase of NPLs stock. Outflows always lower than inflows

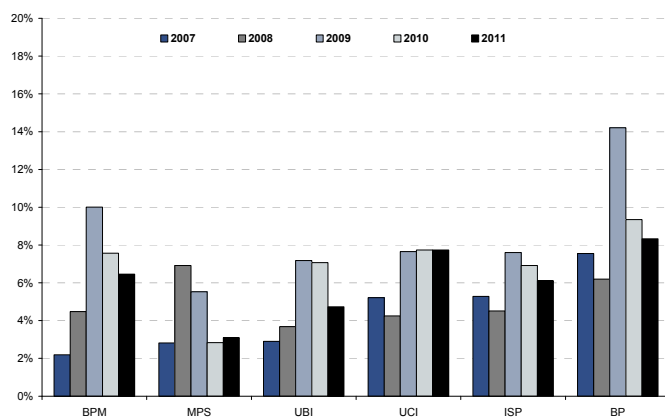
NPLs increase mostly due to inflows from performing loans. We expect total NPLs inflow to increase in 2012 vs 2011, showing also outflows as results of write off. On average NPLs flow are expected to decrease in 2014-2015 due to slower inflows and higher outflows, once economic conditions should start to normalise.

Figure 87. Italian Banks – NPLs Flow Breakdown

	2007	2008	2009	2010	2011
Inflows from Performing	30%	52%	62%	51%	46%
Transfer Rate from Other NPLs	17%	20%	24%	34%	34%
Other Inflow Rate	54%	28%	15%	14%	20%
Total Inflows	60,941	64,031	103,836	92,510	85,641
Outflows to Performing	18%	20%	21%	25%	18%
Write-Offs	16%	11%	9%	8%	10%
Cash-in	26%	27%	22%	19%	20%
Sale Proceeds	-1%	4%	1%	1%	1%
Transfer to Other NPLs	27%	29%	41%	41%	42%
Other Outflows	14%	9%	7%	6%	10%
Total Outflows	(37,649)	(44,234)	(60,253)	(77,454)	(70,364)
Flows in NPLs	23,293	19,796	43,583	15,056	15,278

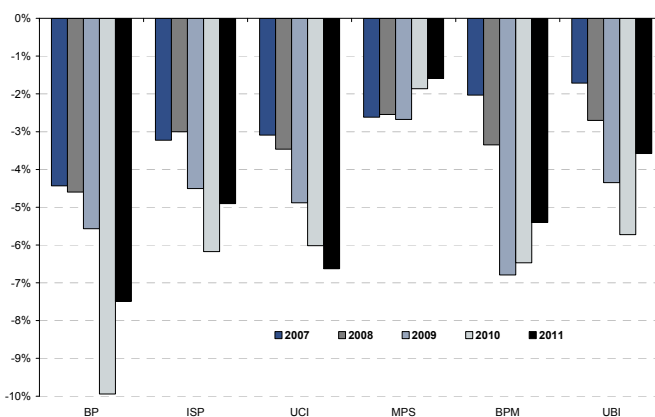
Source: Citi Research

Figure 88. Italian Banks — Total NPLs Inflows as % of Loans



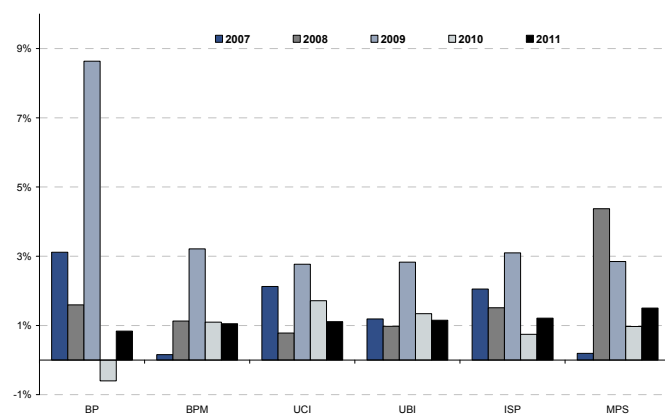
Source: Company data and Citi Research

Figure 89. Italian Banks — Total NPLs Outflows as % of Loans



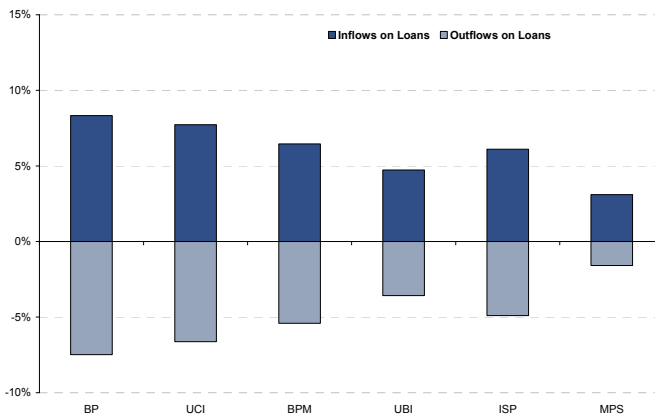
Source: Company data and Citi Research

Figure 90. Italian Banks — Total NPLs Flows as % of Loans



Source: Company data and Citi Research

Figure 91. Italian Banks — Total NPLs Flows as % of Loans, 2011



Source: Company data and Citi Research

Provisioning Peaks Seems Manageable on Capital

Recent peak can be offset with pre provision profit

We have run a scenario analysis looking at banks ability to offset with pre provision profit an increase of the level of provisions simulating recent peak level (in most cases 2009 level) as well as historical peak (early '80s), leaving unchanged all the other conditions (lending growth, revenues and cost estimates).

Figure 92. Italian Banks – Loss Absorption Capabilities

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Intesa Sanpaolo	2.62%	2.02%	2.18%	1.91%	2.03%	2.09%	2.01%	2.07%	2.05%
Unicredit	2.32%	1.66%	2.17%	1.93%	1.74%	1.91%	1.94%	2.09%	2.19%
MPS	2.41%	1.38%	1.31%	1.38%	1.37%	1.49%	1.47%	1.47%	1.59%
UBI	2.20%	1.70%	1.59%	1.14%	1.17%	1.22%	1.23%	1.29%	1.26%
BP	1.82%	1.74%	1.29%	1.31%	1.51%	1.25%	1.39%	1.48%	1.42%
BPM	2.45%	1.62%	1.73%	1.03%	0.86%	1.30%	1.31%	1.47%	1.48%
Average	2.38%	1.74%	1.95%	1.73%	1.70%	1.80%	1.81%	1.90%	1.95%

Source: Company data and Citi Research

The Italian banks in our coverage have a pre provision loss absorption capacity of c180bp on average in 2013E (rising in the future), with Intesa and Unicredit showing the highest.

Figure 93. Italian Banks – Cost of Risk Simulation

	2011 Provisioning Level	Recent Peak	Italy Historical Peak	2013E Max GOP Absorption
Intesa Sanpaolo	113bp	113bp		201bp
Unicredit	108bp	147bp		194bp
MPS	89bp	104bp		147bp
BP	81bp	144bp		139bp
UBI	61bp	107bp		123bp
BPM	135bp	135bp		131bp
All	105bp	118bp	201bp	181bp

Source: Company data and Citi Research

In the case of the recent peak, our simulation show that banks can manage a recent provisioning peak level with GOP without any big hit to tangible book value. BPM and BP screen as those with a small negative effect. For BP the peak relates to the time of the Italease acquisition (a one off on macro driven effect).

Figure 94. Italian Banks – Recent Peak Simulation on Cost of Risk

	2013E GOP	Recent Provisioning Peak	Simulated Operating Profit
Intesa Sanpaolo	7,742	-4,331	3,410
Unicredit	10,651	-8,061	2,590
MPS	1,849	-1,302	547
BP	1,267	-1,317	-51
UBI	1,259	-1,063	196
BPM	477	-495	-18
All	23,244	-16,570	6,675

Source: Company data and Citi Research

Historical peak of c200bp are still manageable for larger banks, but smaller banks would need further action as GOP is not enough

In the case of historical peak, our simulation (based on GOP and cancellation of 2012 dividend) shows that larger banks would have a no effect (better for ISP), while smaller banks would not be able to fully offset it. The simulated loss at operating level (GOP minus simulated loan loss provisions and no dividend payment for 2012) would represent c10% of tangible equity for smaller banks. This amount seems manageable and it is before we take into account any deleveraging and the potentially higher release of the existing balance sheet provisions and the use of potential benefit the increased collateral protection (but this has a timing issue, given also the Italian juridical system).

Figure 95. Italian Banks – Historical Peak Simulation Impact on Tangible Book Value

	as % of Tangible Equity
Intesa Sanpaolo	-
Unicredit	-
BPM	-6%
BP	-7%
MPS	-9%
UBI	-10%
Source: Company data and Citi Research	

The Funding Cost of NPLs

Italian banks have a significant exposure to NPLs. Gross total NPLs represents c13% of total loans and 8% of total assets. Net total NPLs are on average c70% of equity. MPS and BP are the banks with the highest level of NPLs within our coverage.

Figure 96. Italian Banks – NPLs weight on Balance Sheet

	ISP	UCI	MPS	UBI	BP	BPM	Total
Gross Total NPLs on Loans	11.5%	13.6%	17.6%	9.4%	15.9%	9.4%	13.2%
Gross Total NPLs on Assets	6.6%	8.1%	10.9%	6.9%	11.0%	6.3%	8.0%
Net Total NPLs on Equity	50.2%	68.4%	123.7%	70.0%	119.5%	55.2%	69.9%

Source: Company data and Citi Research

Funding cost represented 7% of NII in 2011, we expected it to increase to 10% in 2012

While the market is obviously worried about the potential effect of deteriorating asset quality on provisions, we believe that it is underestimating one more effect of the high level of existing stock of NPLs for banks: their funding costs.

Based on 2011 funding costs, we calculate that banks have a carrying cost of NPLs equal to c7% of NII. This is likely to remain a constraint on bank profitability in coming years due to new flows on NPLs and still high cost of funding (despite the LTRO injections). This simulation excludes the opportunity cost of better use of the funding in performing loans that could actually generate interest income, which is only generated by restructured loans.

Figure 97. Italian Banks – Average Lending and Funding Costs

	ISP	UCI	MPS	UBI	BP	BPM
2011 Av. Lending Rate on Earning Assets	3.7%	4.0%	3.7%	3.5%	3.7%	3.4%
2011 Av. Funding Cost Bearing Liabilities	1.7%	2.0%	2.0%	1.7%	2.1%	1.6%

Source: Company data and Citi Research

Figure 98. Italian Banks – 2011 Cost of Carrying NPLs

	ISP	UCI	MPS	UBI	BP	BPM	Total
Interest Income	148	294	59	33	14	28	575
Funding Costs	-707	-1,442	-454	-146	-287	-51	-3,088
Cost of Carrying NPLs	-559	-1,148	-395	-114	-273	-24	-2,513
As% of NII	-6%	-7%	-11%	-5%	-15%	-3%	-7%

Source: Company data and Citi Research

Similarly, we calculate that in 2012, based on our estimates, the carrying cost of NPLs would be c10% of NII.

Figure 99. Italian Banks – 2012 Cost of Carrying NPLs

	ISP	UCI	MPS	UBI	BP	BPM	Total
Total NPLs	51,432	89,445	29,995	10,343	16,724	3,933	201,872
Cost of Carrying NPLs	-787	-1,580	-576	-157	-336	-36	-3,472
As% of NII	-8%	-11%	-16%	-7%	-18%	-4%	-10%

Source: Citi Research

A 10% increase vs our estimates in NPLs and 50bp of higher funding cost, there would be an addition 3% impact on NII

Assuming further increase vs our estimates in NPLs flows from existing performing loans, the banks will have not have additional asset to fund, but would miss on the interest income generated by the performing loans becoming NPLs positions and could suffer any increase in marginal funding costs. Assuming a further 10% increase in NPLs stock from existing performing loans vs our current estimates, and 50bp marginal increase in funding costs, we calculate that banks could have an additional c2% negative effect on NII.

Figure 100. Italian Banks – Simulated Increase of The Cost of Carrying NPLs

	ISP	UCI	MPS	UBI	BP	BPM	Total
Cost of increase NPLs	-206	-387	-125	-39	-69	-12	-839
As % of NII	-2%	-3%	-4%	-2%	-4%	-1%	-3%

Source: Company data and Citi Research

How to Reduce NPLs?

How to reduce NPLs?

Banks could try to reduce the stock of existing NPLs in order to benefit from lower provisioning level (eg due to the increase coverage on existing stocks), lower funding costs (from the funding on NPLs existing stock), and reassure the market on balance sheet risk on existing NPLs.

Reducing the stock of NPLs is challenging for banks, especially in times of ongoing macroeconomic deterioration. In the last 5 years the inflow in NPLs has always been higher than the outflows.

Figure 101. Italian Banks – NPLs Flows Cumulated For The 6 Banks in our Universe

	2007	2008	2009	2010	2011
Total Inflows	60,941	64,031	103,836	92,510	85,641
Total Outflows	(37,649)	(44,234)	(60,253)	(77,454)	(70,364)
Flows in NPLs	23,293	19,796	43,583	15,056	15,278
As % of Loans	4.9%	4.7%	7.9%	7.0%	6.5%

Source: Company data and Citi Research

Disposal of NPLs is the quickest, but depends on market condition and agreement over the price

The quickest and most effective way to reduce NPLs is via NPLs sale (typically disposing sofferenze). The success of this depends not only on bank willingness to dispose NPLs but also the ability to reach an agreement with the potential buyer on the price. Given focus on capital, banks would not be willing to sell NPLs below book value (eg posting a loss on disposal), and given the current level of coverage ratio, this might be the main obstacle on large scale disposals. Recently, only Intesa Sanpaolo has sold a small portfolio of sofferenze (c6% of total existing gross sofferenze), but those had a significantly higher coverage than the rest of the sofferenze stock (c85% coverage of the sold portfolio vs c65% coverage of ISP sofferenze). Alternative banks could consider securitisation of NPLs, if/when the market is ready to look again at this instrument.

Figure 102. Italian Banks – NPLs Disposal Flows

	2007	2008	2009	2010	2011
Sale Proceeds	-2,332	-1,924	-648	-945	-894
% of total outflows	6%	4%	1%	1%	1%
% of NPLs	-3%	-2%	0%	-1%	-1%

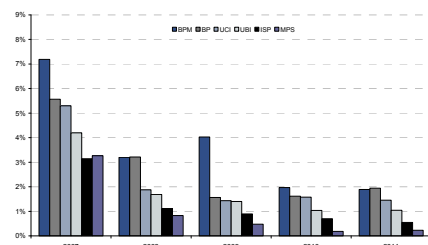
Source: Company data and Citi Research

Historically, the level of NPLs sales have been low in Italy, mostly due to the coverage ratio, the legislation surrounding transfer of asset and liability and bank preference to work out the portfolio in order to extract value from the recovery procedure. ISP for example shows that on average recovers some 149% of the net value of sofferenze after the full recovery procedure is closed; and for example UCI recovery rate are the highest among Italian banks.

We calculate that assuming the disposal of 10% of the existing sofferenze at book value (the one with the highest relative coverage), banks could on average improve the NPLs ratio by c1% and increase net profit by c5%.

Other options include write off, outflows to performing and cash in

Figure 103. Italian Banks – Write off



Source: Company data and Citi Research

Other ways to reduce NPLs are:

- **Write Off** - Write-off of existing NPLs is possible via increasing coverage up to 100% of the specific position. Banks have showed increase level of write off in recent quarters, but this need P&L workout via higher provisions, hence affecting short term profitability. BPM and BP seems the more active on this, possible also reflecting their write off policy (mostly on sofferenze) that effect their coverage ratio.

Figure 104. Italian Banks – Write offs Flows of NPLs

	2007	2008	2009	2010	2011
Write off	-5,940	-4,819	-5,177	-6,417	-6,728
As% of NPLs	9%	7%	6%	5%	5%

Source: Company data and Citi Research

- **NPLs Becoming Again Performing** - While this could happen especially for the less risky classes (eg past due), it seem challenging to materialize in the short term, given the current macroeconomic backdrop. The level of outflows to performing loans seems higher when the macroeconomic conditions are improving (eg 2010 vs 2009).

Figure 105. Italian Banks – Outflows from NPLs

	2007	2008	2009	2010	2011
Outflow vs Inflows	38.2%	27.0%	19.9%	40.0%	32.2%
Outflows to Performing as % total	18.3%	20.3%	21.1%	24.6%	17.9%
Outflow Rate on Performing	0.6%	0.7%	1.0%	1.5%	1.0%
Outflows as % of NPLs	10.0%	10.3%	9.7%	12.9%	7.7%

Source: Company data and Citi Research

- **Cash In** – The successful closure of a NPLs procedure with a cash-in is the function of the timing of the court or the implementation of the agreement and the recovery rate. The lengthy process of the Italian judiciary system seems the main obstacle of a fast solution of cash in procedures in order to decrease significantly the stock of NPLs.

Figure 106. Italian Banks – Cash In Flows of NPLs

	2007	2008	2009	2010	2011
Cash in as % of NPLs	14%	13%	10%	10%	9%
Cash in as % of Loans	0.8%	0.9%	1.1%	1.2%	1.2%

Source: Company data and Citi Research

Models and IVR

Estimate Revisions

We reduce our estimates on average by c15% mainly to account for higher level of bad debt provisions for 2012-15E, lower NII given the decrease in Euribor rate, still sluggish volume growth and also to account for recent industry and macroeconomic developments. Our MPS estimates have been reduced more than other banks to account for the recently presented business plan which assumes asset disposals and a longer time horizon for Tremonti bond (whose interest payment will affect profitability more in 2013/2014 vs our previous estimates) and other capital actions. UBI estimates also account for better cost cutting than previously expected following recent announcement.

Figure 107. Italian Banks – Change in Adjusted EPS

	2012E	2013E	2014E	2015E
Unicredit	-19%	-22%	-19%	-18%
Intesa Sanpaolo	-21%	-19%	-17%	-13%
MPS	-12%	-46%	-40%	-21%
UBI	-16%	-14%	-11%	-12%
BP	-25%	-13%	-14%	-17%
BPM	-27%	-18%	-17%	-11%

Source: Citi Research

We reduce our target price for MPS to €0.19 from €0.24, mainly to account for estimate revisions, the new capital structure effect, but partly mitigated by lower cost of equity due to capital management actions. We also lower our target prices for UCI and ISP as detailed below to reflect revised long term profitability estimates.

Figure 108. Italian Banks – Target Price Revisions

	Old	New
Unicredit	4.00	3.50
Intesa Sanpaolo	1.15	1.05
MPS	0.24	0.19

Source: Citi Research

Figure 109. Unicredit — Group Data by Year

€ m	2007	2008	2009	2010	2011	2012E	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
GROUP P&L													
Net Interest Income	16,199	18,373	17,429	15,721	15,433	15,021	-3%	15,370	+1%	15,786	+2%	16,044	+1%
Dividends and other income	920	1,012	312	407	380	348	-8%	354	+2%	362	+2%	370	+2%
Net fees and commissions	10,694	9,093	7,655	8,455	8,097	8,142	+1%	8,448	+4%	8,775	+4%	9,160	+3%
Net trading income	1,280	-1,980	1,803	1,053	1,119	1,978	nm	1,285	nm	1,362	+3%	1,451	+3%
Net other expenses/income	409	368	373	438	171	127	nm	131	+3%	136	+3%	140	+3%
Total revenues	29,502	26,866	27,572	26,074	25,200	25,616	+2%	25,589	-0%	26,420	+3%	27,165	+3%
Staff expenses	-9,670	-9,918	-9,098	-9,205	-9,209	-9,082	-1%	-8,974	-1%	-8,911	-1%	-8,893	-0%
Other expenses	-5,197	-5,462	-4,945	-4,995	-5,116	-4,996	-2%	-4,882	-2%	-4,835	-1%	-4,816	-0%
Depreciation	-1,289	-1,312	-1,281	-1,124	-1,136	-1,084	-5%	-1,081	-0%	-1,092	+1%	-1,109	+2%
Total operating expenses	-16,156	-16,692	-15,324	-15,324	-15,460	-15,162	-2%	-14,937	-1%	-14,837	-1%	-14,818	-0%
Operating profit	13,346	10,174	12,248	10,750	9,740	10,454	+7%	10,651	+2%	11,583	+9%	12,347	+7%
Goodwill	-1	-750	0	-362	-8,677	0	nm	0	nm	0	nm	0	nm
Provisions for risks and charges	-753	-344	-609	-766	-718	-506	-30%	-503	-1%	-491	-3%	-479	-2%
Loan Loss Provisions	-2,468	-3,700	-8,313	-6,892	-6,025	-6,255	+4%	-5,865	-6%	-5,533	-6%	-5,280	-5%
Net results on investments & securities	1,694	218	232	-36	-666	29	nm	0	nm	0	nm	0	nm
Integration costs	-1,308	-140	-258	-282	-270	-325	+20%	0	nm	0	nm	0	nm
Profit before tax	10,510	5,458	3,300	2,414	-6,617	3,397	nm	4,283	+26%	5,560	+30%	6,588	+18%
Taxes	-3,164	-627	-1,009	-595	-1,415	-1,347	-5%	-1,670	+24%	-2,141	+28%	-2,503	+17%
Profit (Loss) from Disc. Operations	0	0	0	0	0	0	nm	0	nm	0	nm	0	nm
Net Profit	7,346	4,831	2,291	1,819	-8,033	2,050	nm	2,613	+27%	3,419	+31%	4,085	+19%
Minority interests	-718	-518	-332	-321	-365	-360	-1%	-327	+15%	-410	+26%	-470	+14%
Net profit ex PPA	6,628	4,313	1,959	1,498	-8,398	1,689	nm	2,286	+35%	3,009	+32%	3,615	+20%
PPA	-62	-301	-257	-175	-809	-457	-43%	-450	-2%	-430	-4%	-410	-5%
Attributable profit	6,566	4,012	1,702	1,323	-9,206	1,232	nm	1,836	nm	2,579	+40%	3,205	+24%
Adjusted attributable profit	6,103	4,396	1,977	1,110	1,643	1,816	nm	2,286	nm	3,009	+32%	3,615	+20%
PER SHARE FIGURES													
EPS - basic (reported/reported)	2.74	1.58	0.67	0.45	-3.14	0.21	nm	0.32	nm	0.45	+40%	0.55	+24%
EPS - adjusted	2.55	1.73	0.78	0.38	0.56	0.31	nm	0.39	nm	0.52	+32%	0.62	+20%
Dividend per share (ordinary)	0.17	0.00	0.03	0.03	0.00	0.08	nm	0.09	+15%	0.11	+15%	0.13	+20%
Book value per share (reported)	24.07	22.78	23.44	21.93	17.58	10.62	nm	10.87	+2%	11.24	+3%	11.68	+4%
Tangible book value per share	16.10	14.57	15.39	14.95	13.63	8.61	nm	8.85	+3%	9.22	+4%	9.67	+5%
Tangible BV (all Int) per share	13.71	12.38	13.30	13.19	12.23	7.90	nm	8.15	+3%	8.52	+5%	8.97	+5%
OPERATING RATIOS													
Revenues on avg RWAs	5.28%	5.02%	5.71%	5.75%	5.51%	5.60%		5.61%		5.71%		5.75%	
Costs to assets ratio	1.58%	1.60%	1.65%	1.65%	1.67%	1.63%		1.59%		1.55%		1.51%	
Cost / income ratio	55%	62%	56%	59%	61%	59%		58%		56%		55%	
Provision charge / customer loans	0.43%	0.60%	1.47%	1.24%	1.08%	1.14%		1.07%		1.00%		0.95%	
Tax rate	30%	11%	31%	25%	-21%	40%		39%		39%		38%	
ROT Equity (adj / tangible all)	18.6%	15.4%	5.8%	2.9%	4.6%	4.0%		4.8%		6.1%		7.0%	
SHARES OUTSTANDING													
Fully diluted total n of shares (mn)	2,398	2,546	2,546	2,929	2,927	5,789	+98%	5,789	+0%	5,789	+0%	5,789	+0%
BALANCE SHEET ITEMS													
Total Assets	1,021,504	1,045,612	928,760	929,488	926,769	933,063	+1%	937,728	+1%	956,483	+2%	980,395	+3%
Net customer loans	574,206	612,480	564,986	555,653	559,553	546,807	-2%	547,888	+0%	553,957	+1%	562,528	+2%
Total customer deposits	630,533	591,290	596,396	583,239	561,370	578,245	+3%	594,979	+3%	613,422	+3%	632,636	+3%
Loan / deposit ratio	91%	104%	95%	95%	100%	95%		92%		90%		89%	
Shareholders Equity	57,724	54,999	59,689	64,224	51,479	61,483	+19%	62,924	+2%	65,049	+3%	67,629	+4%
REGULATORY CAPITAL													
Risk-Weighted Assets	558,639	512,532	452,388	454,850	460,395	454,514	-1%	458,386	+1%	466,211	+2%	477,970	+3%
Tier 1 ratio	6.5%	7.2%	8.6%	9.5%	9.3%	10.6%		10.8%		11.1%		11.4%	
'Core' Tier 1 ratio	5.8%	6.5%	7.6%	8.6%	8.4%	10.0%		10.3%		10.5%		10.8%	
'Core' Tier 1 ratio (B3)					7.6%	9.2%		9.4%		9.6%		9.9%	
Total ratio	10.1%	11.4%	12.0%	12.7%	12.4%	13.3%		13.4%		13.7%		13.9%	

Source: Company Reports and Citi Research Estimates

Figure 110. Intesa Sanpaolo — Group Data by Year

€ m	2007	2008	2009	2010	2011	2012E	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
GROUP P&L													
Net Interest Income	10,368	11,518	10,525	9,700	9,780	9,955	+2%	10,026	+1%	10,245	+2%	10,302	+1%
Dividends and income from equity	305	138	5	29	72	80	+11%	99	nm	101	nm	102	nm
Net Commission Income	6,654	5,698	5,364	5,652	5,466	5,169	-5%	5,312	+3%	5,463	+3%	5,588	+2%
Trading Gains (Losses)	1,241	-53	1,122	460	920	1,066	+16%	629	nm	644	+2%	655	+2%
Insurance Result	508	400	589	654	540	654	+21%	597	nm	619	+4%	641	+4%
Other Net Operating Income	170	140	54	34	7	1	nm	2	nm	3	nm	3	nm
Total revenues	19,246	17,841	17,659	16,529	16,785	16,925	+1%	16,666	-2%	17,074	+2%	17,292	+1%
Staff expenses	-5,792	-5,713	-5,618	-5,528	-5,419	-5,374	-1%	-5,323	-1%	-5,308	-0%	-5,295	-0%
Other expenses	-3,323	-3,333	-3,224	-3,174	-3,080	-2,997	-3%	-2,958	-1%	-2,964	+0%	-2,959	-0%
Depreciation	-881	-805	-681	-602	-638	-648	+2%	-643	-1%	-646	+1%	-650	+0%
Total operating expenses	-9,996	-9,851	-9,523	-9,304	-9,137	-9,019	-1%	-8,924	-1%	-8,918	-0%	-8,904	-0%
Operating profit pre provisions	9,250	7,990	8,136	7,225	7,648	7,906	+3%	7,742	-2%	8,156	+5%	8,388	+3%
Goodwill Amortisation	0	-1,065	0	0	-10,233	0	nm	0	nm	0	nm	0	nm
Provisions for Risks and Charges	-551	-318	-298	-366	-218	-251	+15%	-252	+1%	-249	-1%	-243	-2%
Net Bad Debt Charges	-1,506	-2,566	-3,706	-3,170	-4,243	-4,235	-0%	-3,884	-8%	-3,718	-4%	-3,407	-8%
Net Writedowns on Fin. Fixed Assets	-71	-949	-240	-95	-1,069	-134	nm	-35	nm	-35	nm	-35	nm
Gain (Loss) on HTM and Other	102	266	545	273	-99	14	nm	0	nm	0	nm	0	nm
Profit before tax	7,224	3,358	4,437	3,867	-8,214	3,300	nm	3,570	+8%	4,154	+16%	4,703	+13%
Taxes	-2,866	-108	-1,008	-1,372	910	-1,306	nm	-1,392	+7%	-1,595	+15%	-1,806	+13%
Restructuring Charges / PPA	-616	-1,745	-599	-469	-873	-337	-61%	-300	nm	-300	nm	-300	nm
Gains (Loss) on Assets Due to be Disp	3,844	1,195	169	694	0	0	nm	0	nm	0	nm	0	nm
Net Profit	7,586	2,700	2,999	2,720	-8,177	1,657	nm	1,878	+13%	2,259	+20%	2,597	+15%
Minority interests	-337	-147	-194	-16	-13	-47	+259%	-73	+56%	-78	+8%	-83	+6%
Attributable profit	7,249	2,553	2,805	2,703	-8,190	1,610	nm	1,805	+12%	2,181	+21%	2,514	+15%
Adjusted attributable profit	3,960	2,160	2,206	2,285	2,021	1,833	nm	2,105	+15%	2,481	+18%	2,814	+13%
PER SHARE FIGURES													
EPS - basic (reported/reported)	0.57	0.20	0.22	0.21	-0.50	0.10	nm	0.11	+12%	0.13	+21%	0.15	+15%
EPS - adjusted (adj earnings, dilution)	0.31	0.17	0.17	0.18	0.12	0.11	nm	0.13	+15%	0.15	+18%	0.17	+13%
Dividend per share (ordinary)	0.22	0.00	0.08	0.08	0.05	0.06	+10%	0.06	+15%	0.07	+15%	0.08	+15%
Dividend per share (saving)	0.23	0.00	0.09	0.09	0.05	0.06	+10%	0.06	+15%	0.07	+15%	0.08	+15%
Special Dividend	0.16	0.00	0.00	0.00	0.00	0.00	nm	0.00	nm	0.00	nm	0.00	nm
Book value per share (reported)	4.03	3.83	4.12	4.19	2.86	2.94	+3%	2.99	+2%	3.06	+2%	3.14	+3%
Tangible book value per share	2.70	2.29	2.65	2.69	2.33	2.41	+3%	2.46	+2%	2.53	+3%	2.61	+3%
Tangible book value (all Int) per share	2.07	1.70	2.10	2.15	1.94	2.02	+4%	2.07	+3%	2.14	+3%	2.22	+4%
OPERATING RATIOS													
Revenues on avg RWAs	5.32%	4.73%	4.74%	4.76%	5.11%	5.23%		5.14%		5.19%		5.13%	
Costs on asset ratio	1.65%	1.55%	1.52%	1.42%	1.43%	1.37%		1.34%		1.31%		1.27%	
Cost / income ratio	52%	55%	54%	56%	54%	53%		54%		52%		51%	
Provision charge / customer loans	0.43%	0.65%	0.99%	0.84%	1.13%	1.12%		1.01%		0.94%		0.83%	
Tax rate	40%	3%	23%	35%	11%	40%		39%		38%		38%	
Return on Equity (Adj / Tangible all)	15.0%	9.9%	8.2%	8.3%	6.3%	5.5%		6.2%		7.1%		7.7%	
SHARES OUTSTANDING													
Fully diluted total number of shares (mn)	12,782	12,782	12,782	12,782	16,427	16,427	+0%	16,427	+0%	16,427	+0%	16,427	+0%
BALANCE SHEET ITEMS													
Total Assets	605,401	636,133	624,844	657,025	639,221	658,519	+3%	668,396	+2%	678,422	+2%	698,775	+3%
Net customer loans	353,122	395,189	374,033	379,200	376,700	378,762	+1%	384,517	+2%	394,075	+2%	408,295	+4%
Total customer deposits	364,508	405,778	396,781	399,177	357,410	364,179	+2%	372,280	+2%	383,271	+3%	393,588	+3%
Loan / deposit ratio	97%	97%	94%	95%	105%	104%		103%		103%		104%	
Shareholders Equity	51,558	48,954	52,681	53,533	47,040	48,230	+3%	49,131	+2%	50,273	+2%	51,592	+3%
REGULATORY CAPITAL													
Risk-Weighted Assets	371,532	383,072	361,648	332,200	325,206	322,208	-1%	325,733	+2%	332,256	+2%	342,525	+2%
Tier 1 ratio	6.9%	7.1%	8.4%	9.4%	11.5%	11.9%		12.1%		12.2%		12.2%	
'Core' Tier 1 ratio	6.3%	6.3%	7.1%	7.9%	10.1%	10.9%		11.1%		11.2%		11.3%	
'Core' Tier 1 ratio PF Basel 3						9.6%		9.8%		9.9%		10.0%	
Total ratio	9.4%	10.2%	11.8%	13.2%	14.3%	14.5%		14.8%		15.0%		15.1%	

Source: Company Reports and Citi Research Estimates

Figure 111. Banca Monte dei Paschi di Siena — Group Data by Year

€ m	2007	2008	2009	2010	2011	2012E	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
GROUP P&L													
Net Interest Income (NII)	3,945	3,905	3,577	3,588	3,500	3,528	+1%	3,102	-12%	2,831	-9%	2,752	-4%
Net Commission Income	1,964	2,150	1,841	1,915	1,801	1,699	-6%	1,734	+1%	1,866	+8%	2,015	+8%
Dividends and Equity Investments Profits	151	15	110	92	72	61	-16%	62	+3%	65	+4%	68	+4%
Gain (Loss) from Financial Transactions	456	-113	66	-23	166	207	+25%	175	nm	180	+3%	186	+3%
Other Revenues	-1	-4	-2	-1	-32	4	nm	4	+2%	4	+2%	4	+2%
Insurance Result	0	0	0	0	0	0	+0%	0	+0%	0	+0%	0	+0%
Total revenues	6,516	5,952	5,593	5,571	5,507	5,498	-0%	5,078	-8%	4,945	-3%	5,024	+2%
Personnel Costs	-2,464	-2,449	-2,300	-2,211	-2,195	-2,141	-2%	-2,034	-5%	-1,953	-4%	-1,894	-3%
Other Operating Expenses	-1,336	-1,326	-1,158	-1,045	-1,112	-1,096	-1%	-1,030	-6%	-979	-5%	-928	-5%
Tang. and Intang. Assets Depreciation	-163	-157	-162	-175	-195	-171	-12%	-164	-4%	-155	-5%	-149	-4%
Total operating expenses	-3,963	-3,932	-3,620	-3,431	-3,502	-3,408	-3%	-3,228	-5%	-3,087	-4%	-2,971	-4%
Operating profit pre provisions	2,553	2,021	1,972	2,140	2,005	2,090	+4%	1,849	-12%	1,859	+1%	2,053	+10%
Goodwill Impairment	-58	-400	0	0	-4,514	-500	nm	0	nm	0	nm	0	nm
Provisions for Risks and Charges and Others	-198	-187	-220	-193	-375	-174	-54%	-163	-6%	-155	-5%	-147	-5%
Net Bad Debt Charges	-885	-1,065	-1,466	-1,156	-1,311	-1,547	+18%	-1,195	-11%	-1,075	-10%	-1,022	-5%
Net Impairment Losses on Assets	4	-137	-44	-39	-153	-6	nm	0	nm	0	nm	0	nm
Gain (Loss) from Disposal of Investments	28	204	40	734	10	231	nm	70	nm	10	nm	10	nm
Integration Costs	-114	-322	-87	-20	-26	-16	nm	-40	nm	0	nm	0	nm
Profit before tax	1,330	113	195	1,467	-4,364	80	nm	521	nm	638	+22%	894	+40%
Taxes	-713	845	-100	-393	-248	-206	nm	-192	nm	-264	+37%	-358	+36%
Profit (Loss) from Discontinued Operations	785	71	265	23	18	6	nm	0	nm	0	nm	0	nm
Net Profit	1,402	1,029	360	1,098	-4,595	-120	nm	329	nm	375	+14%	536	+43%
Minority interests	-29	-10	-5	-2	4	-5	nm	13	nm	15	+14%	21	+43%
PPA	0	-67	-134	-111	-94	-59	-37%	-56	-5%	-53	-5%	-50	-5%
Net Attributable profit	1,373	952	221	985	-4,685	-184	nm	286	nm	336	+17%	507	+51%
Adjusted Attributable Profit	685	794	119	468	246	301	+22%	252	nm	336	+33%	504	+50%
PER SHARE FIGURES													
EPS - basic (reported/reported)	0.36	0.14	0.03	0.14	-0.40	-0.01	nm	0.02	nm	0.03	+17%	0.03	+24%
EPS - adjusted (adj earnings, dilution)	0.18	0.12	0.02	0.07	0.02	0.02	nm	0.02	nm	0.03	+33%	0.04	+23%
Dividend per share (ordinary)	0.17	0.01	0.02	0.02	0.00	0.00	nm	0.01	nm	0.01	+15%	0.01	+15%
Dividend per share (saving)	0.17	0.01	0.03	0.03	0.00	0.00	nm	0.01	nm	0.02	+15%	0.02	+15%
Book value per share	2.23	2.15	2.49	2.49	0.92	1.06	+15%	0.91	-14%	0.96	+6%	0.78	-19%
Tangible book value per share	2.02	1.16	1.53	1.55	0.73	0.92	+26%	0.78	-16%	0.83	+7%	0.67	-19%
Tangible book value (all Intangible) per share	1.99	1.14	1.10	1.12	0.50	0.59	+17%	0.60	+2%	0.69	+15%	0.59	nm
OPERATING RATIOS													
Revenues on avg RWAs	6.26%	4.50%	4.42%	4.84%	5.14%	5.38%		5.07%		4.83%		4.80%	
Cost to Assets ratio	1.99%	1.83%	1.61%	1.43%	1.46%	1.49%		1.52%		1.44%		1.37%	
Cost / income ratio	61%	66%	65%	62%	64%	62%		64%		62%		59%	
Provision charge / customer loans	0.83%	0.73%	0.98%	0.74%	0.89%	1.10%		0.95%		0.85%		0.79%	
Tax rate	54%	nm	51%	27%	-6%	259%		37%		41%		40%	
Return on Tangible Equity (adj / tangible, all)	9.0%	10.1%	1.6%	6.1%	4.2%	4.1%		3.4%		3.9%		5.7%	
SHARES OUTSTANDING													
Fully diluted total number of shares (mn)	3,828	6,900	6,900	6,899	11,681	12,432	+6%	12,432	+0%	12,432	+0%	15,132	+22%
BALANCE SHEET ITEMS													
Total Assets	198,989	214,330	224,815	239,162	240,702	229,294	-5%	213,001	-7%	214,066	+1%	217,277	+2%
Net Customer Loans	106,027	146,824	150,109	155,329	146,608	140,003	-5%	125,758	-10%	126,513	+1%	129,043	+2%
Customer Deposits	100,253	128,754	131,488	132,124	123,825	114,524	-8%	116,326	+2%	118,044	+1%	120,207	+2%
Loan / deposit ratio	94%	103%	98%	99%	100%	102%		91%		90%		90%	
Shareholder Equity	8,533	14,824	17,175	17,156	10,765	13,183	+22%	11,352	-14%	11,994	+6%	11,836	-1%
REGULATORY CAPITAL													
Risk-Weighted Assets	108,000	132,408	120,899	109,238	105,189	99,239	-6%	101,224	+2%	103,451	+2%	106,037	+3%
Tier 1 ratio incl. Tremonti Bonds	7.1%	5.9%	7.5%	8.4%	11.1%	13.2%		11.2%		11.5%		11.1%	
'Core' Tier 1 ratio incl. Tremonti Bonds	6.8%	5.1%	7.0%	7.8%	9.5%	12.3%		10.4%		10.7%		10.3%	
'Core' Tier 1 ratio excl. Tremonti Bonds	6.8%	5.4%	5.4%	6.0%	7.7%	8.9%		8.9%		9.8%		9.9%	
Total ratio incl. Tremonti Bonds	10.2%	9.6%	11.9%	12.9%	15.7%	18.0%		15.9%		16.2%		15.8%	

Source: Company Reports and Citi Research Estimates

Figure 112. UBI Banca — Group Data by Year

€ m	2007	2008	2009	2010	2011	2012E	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
GROUP P&L													
Net Interest Income (NII)	2,778	2,888	2,463	2,204	2,170	2,098	-3%	2,130	+2%	2,180	+2%	2,085	-3%
Dividends and Other Income	84	71	11	24	20	14	-29%	15	+8%	17	+12%	19	+12%
Income (Loss) from Equity Investments	33	0	35	18	10	20	+99%	20	+3%	21	+3%	22	+4%
Net Commission Income	1,345	1,360	1,215	1,185	1,194	1,201	+1%	1,229	+2%	1,253	+2%	1,292	+3%
Gain (Loss) from Financial Transactions	102	-242	127	34	7	115	nm	50	nm	51	+2%	52	+2%
Insurance Result	40	10	31	0	0	0	nm	0	+0%	0	+0%	0	+0%
Other Net Operating Income	150	81	87	92	87	59	-32%	60	+1%	60	+1%	61	+1%
Total revenues	4,530	4,167	3,968	3,557	3,488	3,507	+1%	3,505	-0%	3,582	+2%	3,530	-1%
Staff costs	-1,537	-1,583	-1,466	-1,452	-1,423	-1,426	+0%	-1,379	-3%	-1,324	-4%	-1,311	-1%
Other expenses	-768	-751	-777	-770	-718	-710	-1%	-692	-3%	-682	-1%	-682	+0%
Depreciation	-183	-197	-171	-172	-179	-178	-0%	-175	-2%	-174	-0%	-175	+1%
Total operating expenses	-2,488	-2,530	-2,413	-2,394	-2,320	-2,314	-0%	-2,246	-3%	-2,180	-3%	-2,168	-1%
Operating profit pre provisions	2,042	1,637	1,555	1,164	1,168	1,192	+2%	1,259	+6%	1,402	+11%	1,362	-3%
Goodwill	0	0	0	0	-2,191	0		0	nm	0	nm	0	nm
Bad Debt Provisions	-346	-567	-865	-707	-607	-738	+22%	-696	-6%	-668	-4%	-645	-3%
Net Value Adj. to Fin. Assets	-29	-511	-49	-50	-135	-50		0	nm	0	nm	0	nm
Provisions for risks and charges	-38	-34	-37	-27	-32	-32	+2%	-32	+1%	-32	-2%	-31	-2%
Gain (Loss) from Sale of Investments	23	85	100	91	7	-152	nm	0	nm	0	nm	0	nm
Profit before tax	1,652	609	704	470	-1,789	220	nm	530	nm	702	+32%	686	-2%
Taxes	-654	-273	-296	-276	57	-165	nm	-270	nm	-348	+29%	-340	-2%
Integration Costs and PPA	-247	-156	-102	-82	-72	-41	-43%	-37	-10%	-33	-11%	-29	-12%
Profit (Loss) from Discontinued Operations	309	-16	5	83	0	0	nm	0	nm	0	nm	0	nm
Net Profit	1,059	165	311	196	-1,804	15	nm	223	nm	322	+44%	318	-1%
Minority interests	-118	-97	-41	-24	-38	-3	nm	-22	nm	-32	+44%	-30	-6%
Attributable profit	941	68	270	172	-1,842	12	nm	201	nm	290	+44%	288	-1%
Adjusted attributable profit	954	856	295	245	205	223	+9%	258	+16%	322	+25%	316	-2%
PER SHARE FIGURES													
EPS - basic	1.47	0.11	0.42	0.27	-2.04	0.01	nm	0.22	nm	0.32	+44%	0.32	-1%
EPS - adjusted FD	1.49	1.34	0.46	0.38	0.23	0.19	-15%	0.22	+16%	0.28	+25%	0.27	-2%
Dividend per share (ordinary)	0.95	0.45	0.30	0.15	0.05	0.05	nm	0.09	nm	0.14	+62%	0.16	+10%
Book value per share (reported FD)	18.45	17.43	17.85	17.31	9.91	8.44	-15%	8.61	+2%	8.79	+2%	8.93	+2%
Tangible book value per share FD	11.63	10.64	10.97	10.40	7.10	6.25	-12%	6.42	+3%	6.60	+3%	6.73	+2%
Tangible BV (all int) per share FD	9.65	8.78	9.21	8.74	6.60	5.87	-11%	6.04	+3%	6.22	+3%	6.35	+2%
OPERATING RATIOS													
Revenues on avg RWAs	4.81%	4.44%	4.52%	3.95%	3.76%	4.17%		4.60%		4.73%		4.58%	
Cost to asset ratio	2.05%	2.07%	1.97%	1.83%	1.79%	1.75%		1.68%		1.59%		1.53%	
Cost / income ratio	55%	61%	61%	67%	67%	66%		64%		61%		61%	
Provision charge / customer loans	0.37%	0.59%	0.88%	0.69%	0.61%	0.75%		0.70%		0.66%		0.63%	
Tax rate	40%	45%	42%	59%	nm	75%		51%		50%		50%	
Return on Equity (Adj / Tangible , All)	15.5%	15.3%	5.0%	4.4%	3.4%	3.3%		3.7%		4.5%		4.3%	
SHARES OUTSTANDING													
Fully diluted total number of shares (mn)	639	639	639	639	902	1,157	+28%	1,157	+0%	1,157	+0%	1,157	+0%
BALANCE SHEET ITEMS													
Total Assets	121,469	121,956	122,313	130,559	129,804	132,104	+2%	134,085	+2%	137,437	+3%	141,561	+3%
Net customer loans	92,729	96,368	98,007	101,815	99,690	97,968	-2%	99,437	+1%	101,824	+2%	104,879	+3%
Total Customer Deposits	90,514	97,591	97,214	106,760	102,809	99,572	-3%	102,095	+3%	104,921	+3%	107,826	+3%
Loan / deposit ratio	102%	99%	101%	95%	97%	98%		97%		97%		97%	
Shareholder Equity	11,790	11,140	11,411	11,061	8,939	9,768	+9%	9,966	+2%	10,175	+2%	10,333	+2%
REGULATORY CAPITAL													
Risk-Weighted Assets	97,912	89,892	85,677	94,307	91,000	77,287	-15%	74,968	-3%	76,468	+2%	77,615	+2%
Tier 1 ratio incl. Convertible	7.5%	7.9%	8.0%	7.5%	9.8%	11.2%		11.8%		11.8%		11.8%	
'Core' Tier 1 ratio incl. Convertible	6.9%	7.2%	7.4%	7.0%	9.3%	10.7%		11.3%		11.3%		11.4%	
Total ratio incl. Convertible	10.2%	11.2%	11.9%	11.2%	14.2%	16.1%		16.5%		16.5%		16.6%	

Source: Company Reports and Citi Research Estimates

Figure 113. Banco Popolare — Group Data by Year

€ m	2007	2008	2009	2010	2011	2012E	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
GROUP P&L													
Net Interest Income (NII)	2,165	2,244	1,953	1,807	1,810	1,861	+2%	1,896	+2%	1,938	+2%	1,845	-4%
Dividends and Equity Investments Profits	-126	-14	104	39	-8	20	nm	34	nm	36	+4%	37	+4%
Net Commission Income	1,210	1,061	1,211	1,264	1,273	1,283	+1%	1,316	+3%	1,348	+2%	1,420	+5%
Gain (Loss) from Financial Transactions	330	197	-84	539	697	269	-61%	294	nm	308	+5%	317	+3%
Other Operating Income	207	256	462	58	43	51	+16%	49	-2%	49	-1%	49	-0%
Insurance Result	0	0	0	0	0	0	nm	0	nm	0	nm	0	nm
Total revenues	3,786	3,744	3,646	3,707	3,817	3,483	-9%	3,590	+3%	3,679	+2%	3,667	-0%
Staff costs	-1,453	-1,487	-1,498	-1,535	-1,509	-1,471	-3%	-1,456	-1%	-1,452	-0%	-1,459	+0%
Other Operating Expenses	-716	-675	-761	-756	-748	-726	-3%	-715	-2%	-715	+0%	-718	+0%
Tang. and Intang. Assets Depreciation	-171	-171	-161	-147	-149	-154	+3%	-153	-0%	-153	-0%	-154	+1%
Total operating expenses	-2,341	-2,333	-2,419	-2,439	-2,407	-2,350	-2%	-2,323	-1%	-2,320	-0%	-2,330	+0%
Operating profit pre provisions	1,445	1,411	1,227	1,268	1,410	1,134	-20%	1,267	+12%	1,358	+7%	1,337	-2%
Goodwill Impairment	-171	-874	-9	-1	-2,833	0	nm	0	nm	0	nm	0	nm
Provisions for Risks and Charges	-138	-201	-56	-236	-64	-90	+41%	-16	nm	-15	-6%	-14	-7%
Net Bad Debt Charges	-479	-1,170	-740	-770	-759	-809	+7%	-791	-2%	-756	-4%	-739	-2%
Net Impairment Losses on Assets	-112	-199	-32	-96	-92	-7	nm	-5	nm	-5	nm	-5	nm
Gain (Loss) from Disposal of Investments	1,063	500	116	13	68	0	nm	0	nm	0	nm	0	nm
Profit Before Tax	1,608	-532	506	177	-2,271	228	nm	456	nm	583	+28%	579	-1%
Taxes	-710	140	-240	115	17	-163	nm	-209	nm	-253	+21%	-246	-3%
Profit (Loss) from Discontinued Operations	29	126	-8	38	16	0	nm	0	nm	0	nm	0	nm
Restructuring/Integration costs and PPA	-245	-36	0	0	0	0	nm	1	nm	1	+0%	1	+0%
Net Profit	682	-302	258	331	-2,238	64	nm	247	nm	331	+34%	335	+1%
Minority interests	-42	-31	9	-24	-20	-8	nm	-3	-64%	-3	+18%	-2	-29%
Net Attributable profit	639	-333	267	307	-2,257	56	nm	245	nm	328	+34%	332	+1%
Adjusted attributable profit	641	-50	184	-8	177	149	nm	243	nm	326	+34%	331	+1%
PER SHARE FIGURES													
EPS - basic	1.00	-0.52	0.42	0.17	-1.28	0.02	nm	0.10	nm	0.13	+34%	0.13	+1%
EPS - adjusted	1.00	-0.08	0.29	0.00	0.10	0.06	nm	0.10	nm	0.13	+34%	0.13	+1%
Dividend per share (ordinary)	0.60	0.00	0.08	0.05	0.00	0.00	nm	0.03	nm	0.04	+34%	0.04	+1%
Book value per share (reported)	16.66	15.28	18.01	6.52	5.12	4.06	nm	4.15	+2%	4.25	+2%	4.34	+2%
Tangible book value per share	8.15	8.30	11.02	4.02	4.21	3.43	nm	3.52	+3%	3.62	+3%	3.71	+2%
Tangible book value (all Int) per share	6.75	6.95	9.74	3.59	3.79	3.14	nm	3.23	+3%	3.33	+3%	3.42	+3%
OPERATING RATIOS													
Revenues on avg RWAs	5.25%	4.50%	4.38%	3.95%	4.13%	4.30%		4.96%		5.01%		4.90%	
Cost to Asset ratio	1.82%	1.92%	1.78%	1.80%	1.79%	1.74%		1.71%		1.66%		1.62%	
Cost / income ratio	62%	62%	66%	66%	63%	67%		65%		63%		64%	
Provision charge / customer loans	0.60%	1.44%	0.78%	0.80%	0.81%	0.89%		0.87%		0.82%		0.79%	
Tax rate	44%	26%	47%	-65%	1%	72%		44%		44%		44%	
Return on Equity (Adj / Tangible All)	14.8%	-1.1%	2.9%	-0.1%	2.7%	1.9%		3.4%		4.3%		4.3%	
SHARES OUTSTANDING													
Fully diluted total number of shares (mn)	640	640	640	1,763	1,763	2,554	+45%	2,554	+0%	2,554	+0%	2,554	+0%
BALANCE SHEET ITEMS													
Total Assets	128,393	121,375	135,709	135,872	134,127	134,663	+0%	136,010	+1%	139,410	+3%	143,592	+3%
Net Customer Loans	79,569	81,026	95,350	96,468	93,394	90,948	-3%	91,208	+0%	91,964	+1%	93,933	+2%
Customer Deposits + FV	80,248	85,603	105,183	120,111	100,200	102,777	+3%	104,801	+2%	107,922	+3%	111,403	+3%
Loan / deposit ratio	99%	95%	91%	80%	93%	88%		87%		85%		84%	
Shareholder Equity	10,672	9,784	11,533	11,499	9,037	10,378	+15%	10,604	+2%	10,854	+2%	11,081	+2%
REGULATORY CAPITAL													
Risk-Weighted Assets	92,538	73,907	92,623	94,878	90,000	71,986	-20%	72,706	+1%	74,160	+2%	75,643	+2%
Tier 1 ratio	5.2%	6.4%	6.2%	7.1%	8.3%	11.4%		11.6%		11.6%		11.7%	
"Core" Tier 1 ratio	4.0%	4.6%	4.7%	5.7%	7.1%	10.5%		10.7%		10.8%		10.8%	
Total ratio	8.7%	10.4%	9.2%	10.7%	11.7%	14.7%		14.7%		14.7%		14.7%	

Source: Company Reports and Citi Research Estimates

Figure 114. BP Milano — Group Data by Year

€ m	2007	2008	2009	2010	2011	2012E	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
GROUP P&L													
Net Interest Income (NII)	1,028	1,068	886	733	825	886	+7%	902	+2%	929	+3%	902	-3%
Net Commission Income	586	517	568	611	523	468	-11%	480	+2%	493	+3%	523	+6%
Income (Loss) from Equity Investments	14	2	-1	0	-4	7	nm	7	+3%	8	+3%	8	+3%
Dividend and Trading	122	-31	294	86	-27	106	nm	65	-39%	66	+2%	68	+2%
Other Net Operating Income	62	57	37	34	35	24	-31%	25	+3%	25	+3%	26	+3%
Insurance results	0	0	0	0	0	0	nm	0	nm	0	nm	0	nm
Total revenues	1,812	1,613	1,784	1,464	1,352	1,491	nm	1,479	-1%	1,521	+3%	1,527	+0%
Staff expenses	-702	-691	-831	-700	-651	-644	-1%	-633	-2%	-614	-3%	-601	-2%
Other expenses	-304	-317	-308	-320	-308	-299	-3%	-290	-3%	-283	-3%	-277	-2%
Depreciation	-77	-73	-77	-80	-86	-81	-6%	-79	-2%	-78	-1%	-79	+1%
Total operating expenses	-1,083	-1,081	-1,216	-1,100	-1,045	-1,024	-2%	-1,002	-2%	-975	-3%	-958	-2%
Operating profit pre provisions	729	532	568	364	307	467	nm	477	+2%	546	+15%	569	+4%
Goodwill	0	0	0	0	-336	0	nm	0	nm	0	nm	0	nm
Bad Debt Provisions	-123	-239	-332	-245	-483	-297	-39%	-288	-3%	-279	-3%	-250	-11%
Provisions for risks and charges	-28	-35	-17	-11	-112	-16	nm	-16	-1%	-16	+1%	-16	+1%
Net Value Adj. to Fin. Assets	-23	-45	0	55	-83	0	nm	0	nm	0	nm	0	nm
Gain (Loss) from Sale of Investments	0	0	0	-178	0	3	nm	0	nm	0	nm	0	nm
Profit before tax	556	213	219	-15	-707	158	nm	172	+9%	251	+46%	303	+21%
Taxes	-220	-130	-103	-87	67	-69	nm	-77	+13%	-113	+46%	-134	+19%
Profit (Loss) from Discontinued Operations	0	0	21	213	19	0	nm	0	nm	0	nm	0	nm
Net Profit	335	83	138	111	-621	89	nm	95	+7%	138	+46%	169	+22%
Minority interests	-12	-8	1	-5	7	0	nm	-4	-1064%	-6	+46%	-7	+22%
Attributable profit	324	75	138	106	-614	89	nm	91	+2%	132	+46%	162	+22%
Adjusted attributable profit	347	121	239	40	-122	56	nm	91	+63%	132	+46%	162	+22%
PER SHARE FIGURES													
EPS - basic	0.78	0.18	0.33	0.26	-0.19	0.03	-115%	0.03	+2%	0.04	+46%	0.05	+22%
EPS - adjusted	0.84	0.29	0.57	0.10	-0.04	0.02	-146%	0.03	+63%	0.04	+46%	0.05	+22%
Dividend per share (ordinary)	0.40	0.10	0.10	0.10	0.00	0.01	nm	0.02	+2%	0.02	+46%	0.02	+22%
Book value per share (reported)	8.37	7.84	9.38	9.26	1.24	1.32	+6%	1.17	-11%	1.20	+2%	1.23	+3%
Tangible book value per share	7.05	6.25	7.46	7.61	1.14	1.21	+6%	1.07	-12%	1.10	+2%	1.13	+3%
Tangible book value (all Int) per share	6.83	6.02	5.81	5.95	0.96	1.03	+8%	1.04	+1%	1.07	+2%	1.10	+3%
OPERATING RATIOS													
Revenues on avg RWAs	5.45%	4.65%	5.20%	4.11%	3.26%	3.39%		3.68%		3.93%		3.81%	
Cost to asset ratio	2.48%	2.40%	2.44%	2.04%	2.01%	1.90%		1.83%		1.74%		1.65%	
Cost / income ratio	60%	67%	68%	75%	77%	69%		68%		64%		63%	
Provision charge / customer loans	0.41%	0.73%	1.01%	0.69%	1.35%	0.82%		0.79%		0.75%		0.68%	
Tax rate	40%	61%	47%	-586%	9%	44%		45%		45%		44%	
Return on Equity (Adjusted / Tangible, all)	12.2%	4.8%	9.9%	1.6%	-4.0%	1.7%		2.7%		3.8%		4.6%	
SHARES OUTSTANDING													
Fully diluted total number of shares	415	415	415	415	3,230	3,230	+0%	3,230	+0%	3,230	+0%	3,230	+0%
BALANCE SHEET ITEMS													
Total Assets	43,627	45,039	44,281	53,957	51,931	53,808	+4%	54,642	+2%	56,063	+3%	57,969	+3%
Net customer loans	29,767	32,899	32,852	35,537	35,686	35,971	+1%	36,511	+1%	37,241	+2%	38,433	+3%
Total customer deposits	29,681	32,527	34,174	35,888	34,031	35,879	+5%	37,193	+4%	38,680	+4%	40,473	+5%
Loan / deposit ratio	100%	101%	96%	99%	105%	100%		98%		96%		95%	
Shareholder Equity	3,475	3,253	3,892	3,843	4,014	4,247	+6%	3,793	-11%	3,876	+2%	3,978	+3%
REGULATORY CAPITAL													
Risk-Weighted Assets	35,011	34,317	34,238	37,034	45,800	42,236	-8%	38,081	-10%	39,376	+3%	40,754	+4%
Tier 1 ratio incl. Tremonti Bonds	7.2%	7.5%	8.6%	7.5%	8.6%	9.0%		8.8%		8.7%		8.8%	
Total ratio incl. Tremonti Bonds	9.4%	11.7%	12.6%	10.6%	11.8%	12.4%		12.6%		12.5%		12.5%	

Source: Company Reports and Citi Research Estimates

UniCredit Group

(CRDI.MI; €2.56; 1H)

Investment strategy

We have a Buy/ High Risk rating on Unicredit. UCI has above average risk on balance sheet and business mix, but solid funding and upside potential from restructuring, and a cheap valuation. Group profitability is low and could significantly benefit from a strong restructuring of the operation retail (both efficiency and cost of risk) and corporate (mostly on revenues and cost of risk), more cost cutting and further actions aiming to improve the asset quality. CEE is the main engine for growth and could further benefit from refocusing of the activities. We expect profitability to increase from c4.4% in 2011 to c7.0% in 2015E. Execution risk of the restructuring is high, and management will have to show evidence of the improvement regularly. Post the completed capital increase, the core tier 1 fully loaded Basel 3 would stand above 9% in 2012. In addition also we would monitor the development of macroeconomic, liquidity, regulatory and sovereign conditions as well as market trends in funding and trading, as any deterioration could negatively impact profitability.

Valuation

We have a €3.50 target price for UCI. In valuing UCI, we focus primarily on a DDM valuation, using a c14% cost of equity and a c8% sustainable tangible ROE, we also take into account the group's capital position and business mix. We cross-check this with a price-to-book methodology. At our target price, the stock would trade at c0.5x price to tangible book valuation, reflecting UCI's above-average risk profile.

Risks

We have a High Risk rating on UCI. Asset quality development seems the main risk for group capital and profitability: Several other key risks need to be considered as deteriorating macroeconomic conditions and sovereign volatility, credit rating agency action, liquidity risk and execution risk in the restructuring plan all could weigh on group profitability (lower revenue growth and higher cost of risk) and share price performance. We still expect volatility to remain high given macro-sovereign-political concerns on Italy, the bank sector and Europe. UCI has a large exposure to CEE, which still leaves a risk of incurring sizeable credit or other losses in this downturn. The group also has significant capital market activities (more than other Italian banks), which have caused sizeable losses in the past. The group is exposed to credit risk (provisions are higher than peers) as well as market rate risk. These risks could prevent the shares from achieving our target price.

Intesa Sanpaolo

(ISP.MI; €1.00; 2H)

Investment strategy

We have a Neutral/High Risk rating on ISP. The group benefits from strong market shares, better asset quality than peers, and cost cutting potential. ISP has a solid balance sheet and mainly retail business mix, offering defensive attractions. The group capital position is solid and stronger than peers. ISP has had a new CEO since December 2011 and management's first presentation delivered a clear

message: the bank will focus on improving profitability, leveraging on its key strengths and conservative strategy, while also delivering shareholder remuneration. The group has significant exposure to Italian sovereign debt, and this could add volatility to the market's perception of the stock, based on Italian political-macro developments. Possibly in coming months, ISP could revise its targets (given macroeconomic deterioration), our estimates and consensus are already well below these levels. The potential restructuring of the Banca dei Territori division could result in further cost cutting.

Valuation

We have a €1.05 price target on ISP. We focus primarily on a DDM valuation, using a c14% cost of equity and a c9% sustainable tangible ROE. We cross-check this with a price-to-book methodology. At our target price the stock would trade at c0.6x price to tangible book valuation, a premium to Italian banks given its stronger capital position and stronger profitability. ISP has the potential to improve profitability, defensive characteristics and cost-cutting potential, but the weak Italian economy and high sovereign exposure represents the company's main risk.

Risks

We have a High Risk rating on ISP. Among the potential risks for the stock that could prevent the achievement of our target price we would highlight: ECB interest rate moves; weakening Italian economy; higher deterioration of asset quality than expected, slowdown of dividend payment; deterioration in asset quality; rising provisions; increasing cost of funding, rating agency actions, exposure to CEE economy (c8% of loan book), liquidity rules, market fears over new capital requirement and key shareholders' positions and any speculation indicating ISP as a possible partner in case of a rescue merger of one of its peers. Also, any acquisition plan to diversify the group business mix (product/geography) could represent a risk. Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Banca Monte dei Paschi di Siena SpA

(BMPS.MI; €0.17; 2H)

Investment strategy

We have a Neutral/High Risk rating on MPS. The new plan recently presented is realistic for NII and asset quality measures. Cost cutting targets are ambitious, but the company has an excellent cost cutting track record and we believe management could exploit fully this opportunity to rebalance the difficult macro environment effect on profitability, albeit with high execution risk. The strategy on fee income, albeit sensible, seems challenging given macro backdrop, but MPS could leverage on one of the strongest franchises in Italy and its powerful joint venture (Axa, Prima). After addressing the EBA shortfall on capital with the new government sponsored instrument (new Tremonti bond), the group has still to focus on improving the quantity and quality of its capital in light of further regulatory steps with Basel 3, also supported by asset disposal and potentially dilutive actions (MPS EGM will vote on Eur1bn authorization to issue share/convertible bond in October). MPS pre-provision profitability seems thinner than peers, and the group has a high stock of NPLs. Also the deleveraging process could affect NII. The main risk remains on the macroeconomic conditions (GDP, market rates, funding markets) and the Italian sovereign, as well as capital regulatory framework and execution risk on the restructuring plan. Liquidity seems to have been addressed with ECB support in the

3Y LTRO, but the market will continue to carefully monitor bank liquidity developments.

Valuation

We have a €0.19 target price for MPS. In valuing MPS, we focus primarily on a DDM valuation using a c14.5% cost of equity and a c5.5% sustainable tangible ROE. We cross-check this with a price-to-book methodology. On P/tangible book, the stock at our target price would trade at c0.4x, reflecting the group lower level of profitability and capital position and execution risk in the restructuring process.

Risks

We have a High Risk rating on MPS shares. The share price could move on the back of newsflow on the development of regulatory views on capital and liquidity, as well as sovereign development and macroeconomic trends. The new restructuring plan represents a significant transformation for the banks and brings execution risk. Also, newsflow on deterioration of asset quality, development on asset disposal, cost cutting, funding, rating agency actions and liquidity is key for the stock. Among the fundamental risks that could cause the shares to deviate from our target price, key variables are credit quality, the sensitivity of net interest margins to base rates, and credit market rates and volumes. MPS activities are concentrated in Italy, so profitability could be affected by any deterioration in the Italian macro-economic environment. If the impact of these risk factors is more/less negative than we anticipate, then the share price might fail to reach/rise above our target price.

Unione Banche Italiane

(UBI.MI; €2.22; 2)

Investment strategy

We have a Neutral rating on UBI. UBI has a solid balance sheet structure, a retail-based business model, and management has a conservative and credible strategy. Also, the capital position would be strong after addressing the EBA stress test results, and success does not rely on asset disposals. We see more limited balance sheet risk for the bank in terms of asset quality vs peers, but it will remain under pressure for the next few years. Group profitability is expected to recover, but should still remain low due to rising funding cost, low level of interest rate and still-challenging asset quality conditions. The main positive could come from the successful implementation of the planned cost cutting measures.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

Any revenue slippage would affect UBI's profits. Net interest income is the major revenue generator; NII margin and profitability are at risk in the event of movement of the ECB rate and market rates, or of more pricing pressure in Italy both on the asset and liability side. Among the potential risks for the stock, we would highlight: a weaker-than-expected Italian economy, rating agency actions, slowdown in dividend payments or payment in script, deterioration in asset quality, rising provisions, any worries on Italian sovereign risk, rating agency downgrade and any speculation indicating UBI as a possible partner in case of a rescue merger of any of its peers.

Also, any development on the group outstanding convertible bond, represent an additional area of uncertainty for the market.

Banco Popolare

(BAPO.MI; €0.90; 2)

Investment strategy

We have a Neutral (2) rating on BP shares. BP has risks related to Italease, asset quality, profitability, and capital. The integration of Italease resulted in a worsening of the asset quality metric; which is a key market focus: Any slippage in the asset quality condition of both Italease on the commercial banks could be a negative for the market. The LTRO liquidity injection and related benefit will support profitability, as well as further cost cutting opportunities. Any reassurance on Italease asset quality, further disposal of Italease NPLs, disposals of non-core assets earlier than expected by the market and a recovery of the profitability of the old-BPI could help the stock. The market is also carefully monitoring the profitability recovery in the retail operation, mostly in the NII and commissions line, given the difficult macroeconomic outlook for Italy. Capital remains an area of interest of the market; but recent effect from Basel 2 advanced benefit is supportive and more could be originated in case of need for asset disposals and the potential conversion of the outstanding convertible bond.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

Company-specific risks relate mainly to the uncertainty concerning the transaction with Italease, the group asset quality and profitability and the group capital position. The stock also presents risks related to the integration and restructuring process at in the retail franchises. Among the main fundamental risks, we highlight: credit quality; sensitivity to ECB rates and credit market movements; rising cost of funding; the Italian macroeconomic environment; rating agency actions; margin pressure in lending; and developments in asset management. Also, any decision upon the conversion of the convertible bond would affect the share price movements

Banca Popolare di Milano

(PMIL.MI; €0.33; 2)

Investment strategy

We have a Neutral rating on BPM. The group has addressed the capital request and has also restructured its governance and management team. BPM has less operating leverage than peers to offset weakness in revenues given its cost structure. ROE is below peers and is expected to remain below the cost of capital until 2015E. The cost of credit is an area of concern given the weak macroeconomic conditions in Italy expected by our economists for 2012. Also BPM has had a strong growth of loans in the past years, and this could expose the group to worse deterioration in asset quality than peers. BPM could further exploit restructuring on its cost base, resulting in improving group profitability and show a more focused approach to cost management than in the past. The recent changes to address the

Bank of Italy remarks could represent an opportunity for positive development in the longer term for the bank, if addressed successfully. A new business plan is due and the market focus will likely be on cost cutting measures to be implemented and balance sheet derisking.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

Among the main fundamental risks, we highlight: development of the asset quality and cost of risk, cost of funding, sensitivity to ECB and market rate rises; group governance; the Italian macroeconomic environment; rating agency actions; sovereign risk and margin pressure due to competition. Given the still high level of the cost/income ratio, any changes in revenue would be amplified at the EPS level due to the higher P&L gearing. Also any changes in capital and liquidity regulation could affect the stock. Any significant newsflow on Popolari regulation could impact the group.

BNP Paribas SA

(BNPP.PA; €29.85; 1)

Investment strategy

We rate BNP Paribas as Buy. We believe management has been strategically bold and also sensible in capital management. In our view, the bank benefits from strong franchises in its three main activities: Retail Banking, CIB and Investment Solutions. The bank's domestic French retail network is focused on urban, affluent clients. The bank also has rapidly growing franchises in retail banking overseas. In wholesale banking, BNPP is a leader in European fixed income and has a strong global equity derivatives franchise. The bank is also now undertaking a refocus of its operations, by reducing reliance on short-term USD financing and by increasing its deposit base, which will allow it to be less exposed to wholesale financing.

Valuation

We use a two-stage dividend discount model (DDM) to value BNPP, including the present value of 2011-14E dividends and a terminal value assuming zero growth at the sustainable RoE. We use a Cost of Equity of 11.5% based on the company's business mix and funding stress risks. We cross-check this valuation using: (1) justified price-to-book valuation; (2) comparable P/E valuation relative to the bank sector; and (3) comparable P/E valuation relative to BNPP's historical trading range and growth prospects. Finally, we apply a discount factor to our fair value, which we derive on the basis of the bank's exposure to southern Europe. We set our target price at €43 on this basis.

Risks

The key risks to our investment thesis on BNPP are: (1) Credit risks are low, but BNPP financial performance would suffer if the credit risk cycle turned down again; and (2) Wholesale banking accounts for approximately one-third of the revenues and capital of BNP Paribas, and the bank may be exposed to positive or negative swings in several of its key market segments, as well as to funding stress risks.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

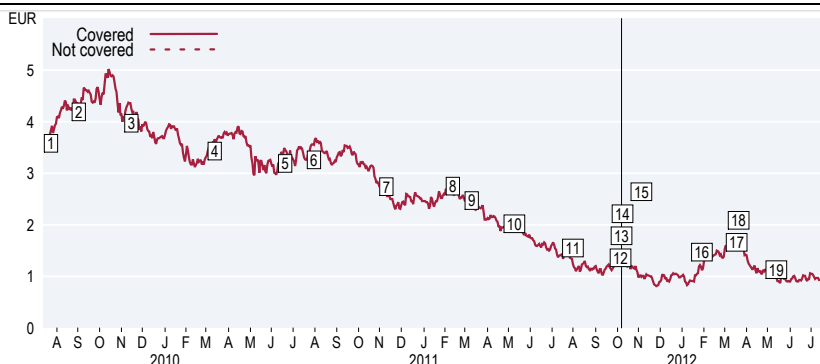
Banco Popolare (BAPO.MI)

Ratings and Target Price History

Fundamental Research

Analyst: Azzurra Guelfi

Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	2S	*3.84	3.84
2	2-Sep-09	2S	*4.26	4.22
3	15-Nov-09	2S	*4.40	4.36
4	12-Mar-10	2S	*4.06	3.66
5	20-Jun-10	2S	*3.62	3.49
6	30-Jul-10	2S	*3.77	3.55
7	10-Nov-10	*2H	*2.83	2.60

* Indicates change

	Date	Rating	Target Price	Closing Price
8	11-Feb-11	2H	*2.75	2.60
9	10-Mar-11	2H	*2.60	2.39
10	10-May-11	2H	*2.20	2.00
11	1-Aug-11	*2S	*1.45	1.24
12	6-Oct-11	2S	*1.35	1.29
13	7-Oct-11	Stock rating system changed		
14	8-Oct-11	*2H	1.35	1.27

	Date	Rating	Target Price	Closing Price
15	4-Nov-11	2H	*1.15	0.99
16	30-Jan-12	2H	*1.30	1.12
17	19-Mar-12	2H	*1.65	1.63
18	21-Mar-12	2H	*1.80	1.65
19	13-May-12	*2	-	1.00

Rating/target price changes above reflect Eastern Standard Time

Banco Popolare (BAPO.MI)

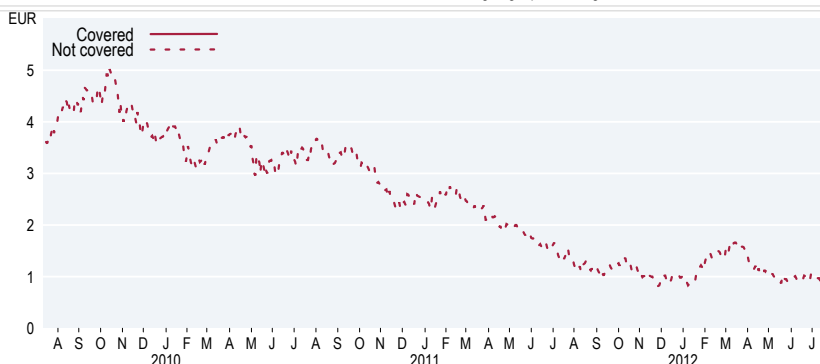
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Azzurra Guelfi

Covered since May 5 2010



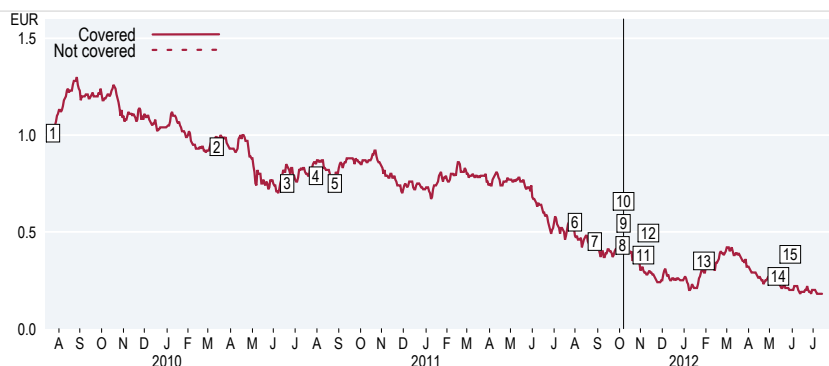
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Banca Monte dei Paschi di Siena SpA (BMPS.MI)

Ratings and Target Price History Fundamental Research

Analyst: Azzurra Guelfi
Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	*3H	*0.93	1.04
2	12-Mar-10	3H	*0.89	0.99
3	20-Jun-10	3H	*0.76	0.85
4	30-Jul-10	3H	*0.80	0.85
5	26-Aug-10	*2H	0.80	0.77

* Indicates change

	Date	Rating	Target Price	Closing Price
6	1-Aug-11	*2S	*0.60	0.48
7	29-Aug-11	2S	*0.54	0.43
8	6-Oct-11	2S	*0.45	0.42
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*2H	0.45	0.41

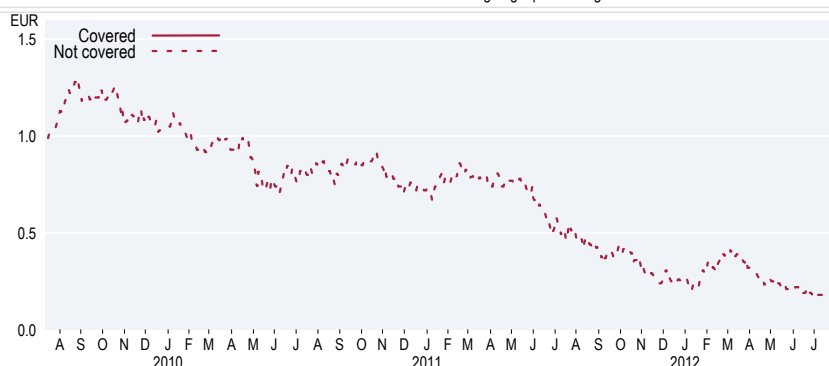
	Date	Rating	Target Price	Closing Price
11	4-Nov-11	2H	*0.35	0.30
12	11-Nov-11	2H	*0.33	0.29
13	30-Jan-12	2H	*0.35	0.29
14	13-May-12	2H	*0.28	0.24
15	30-May-12	2H	*0.24	0.20

Rating/target price changes above reflect Eastern Standard Time

Banca Monte dei Paschi di Siena SpA (BMPS.MI)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Azzurra Guelfi
Covered since May 5 2010



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UniCredit Group (CRDI.MI)

Ratings and Target Price History Fundamental Research

Analyst: Azzurra Guelfi
Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	2H	*13.21	12.51
2	6-Aug-09	2H	*15.09	14.62
3	2-Oct-09	2H	*17.61	15.97
4	12-Mar-10	2H	*15.15	13.39
5	20-Jun-10	2H	*14.49	12.78
6	29-Jul-10	2H	*15.15	14.19

* Indicates change

	Date	Rating	Target Price	Closing Price
7	8-Nov-10	2H	*13.50	11.85
8	11-Feb-11	2H	*13.17	12.27
9	10-May-11	2H	*12.51	10.93
10	1-Aug-11	*2S	*9.88	7.88
11	6-Oct-11	2S	*5.93	5.44
12	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
13	8-Oct-11	*2H	5.93	5.66
14	15-Nov-11	2H	*5.60	4.87
15	12-Jan-12	*1H	*4.00	2.90
16	30-Jan-12	1H	*4.65	3.56
17	28-Mar-12	1H	*4.85	3.99
18	8-May-12	1H	*4.00	2.79

Rating/target price changes above reflect Eastern Standard Time

UniCredit Group (CRDI.MI)

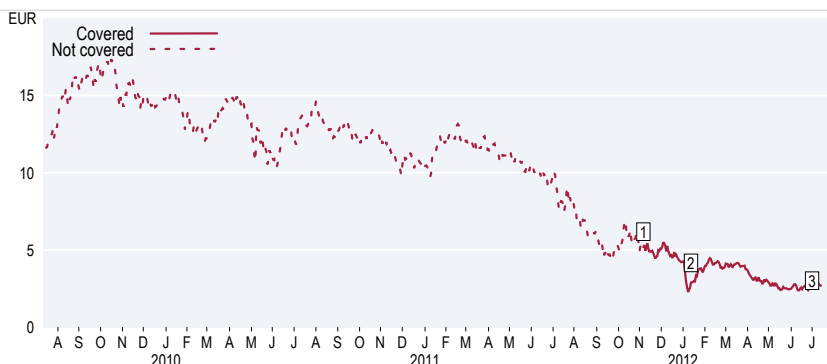
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Azzurra Guelfi

Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	7-Nov-11	*ADD LP	-	5.21

* Indicates change

	Date	Rating	Target Price	Closing Price
2	12-Jan-12	*REM LP	-	2.90

	Date	Rating	Target Price	Closing Price
3	2-Jul-12	*ADD MP	-	2.94

Rating/target price changes above reflect Eastern Standard Time

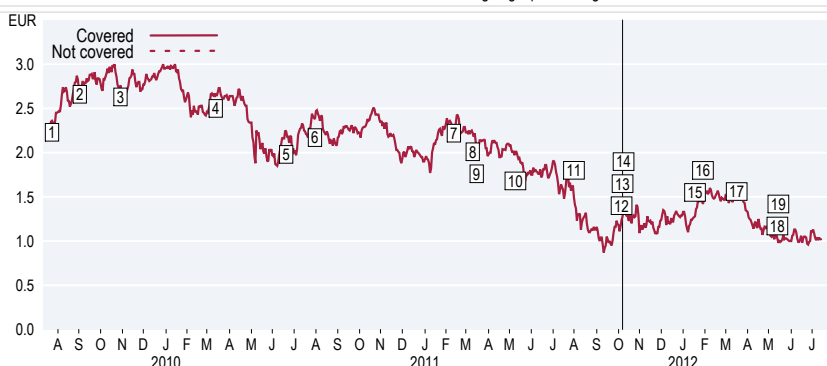
Intesa Sanpaolo (ISP.MI)

Ratings and Target Price History

Fundamental Research

Analyst: Azzurra Guelfi

Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	*2H	*2.72	2.36
2	2-Sep-09	2H	*2.91	2.67
3	29-Oct-09	*1M	*3.56	2.76
4	12-Mar-10	1M	*3.38	2.67
5	20-Jun-10	1M	*2.72	2.25
6	30-Jul-10	1M	*2.81	2.38
7	11-Feb-11	*2M	*2.58	2.30

* Indicates change

	Date	Rating	Target Price	Closing Price
8	10-Mar-11	2M	*2.49	2.22
9	16-Mar-11	2M	*2.34	2.01
10	10-May-11	2M	*2.16	2.01
11	1-Aug-11	*2S	*1.90	1.49
12	6-Oct-11	2S	*1.30	1.24
13	7-Oct-11	Stock rating system changed		
14	8-Oct-11	*2H	1.30	1.28

	Date	Rating	Target Price	Closing Price
15	18-Jan-12	2H	*1.45	1.28
16	30-Jan-12	2H	*1.60	1.42
17	16-Mar-12	2H	*1.70	1.56
18	13-May-12	2H	*1.30	1.07
19	15-May-12	2H	*1.15	0.98

Rating/target price changes above reflect Eastern Standard Time

Intesa Sanpaolo (ISP.MI)

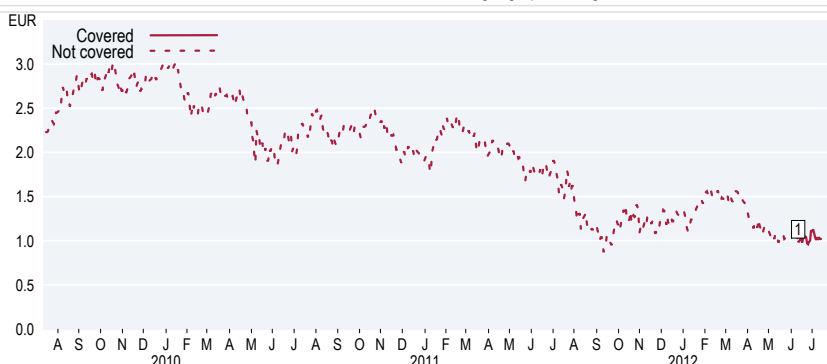
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Azzurra Guelfi

Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	12-Jun-12	*ADD LP	-	0.99

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

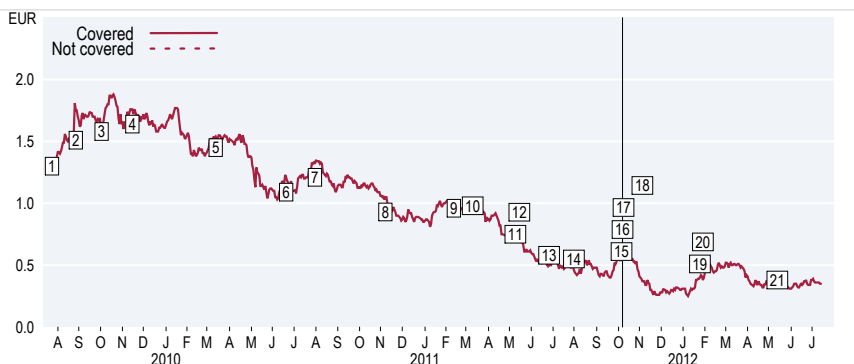
Banca Popolare di Milano (PMIL.MI)

Ratings and Target Price History

Fundamental Research

Analyst: Azzurra Guelfi

Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	*3H	*1.26	1.35
2	27-Aug-09	3H	*1.59	1.75
3	2-Oct-09	3H	*1.49	1.61
4	15-Nov-09	3H	*1.59	1.76
5	12-Mar-10	3H	*1.46	1.54
6	20-Jun-10	3H	*1.20	1.23
7	30-Jul-10	3H	*1.30	1.32

* Indicates change

	Date	Rating	Target Price	Closing Price
8	8-Nov-10	3H	*1.00	1.05
9	11-Feb-11	3H	*0.96	0.98
10	10-Mar-11	3H	*0.94	0.96
11	10-May-11	3H	*0.68	0.73
12	16-May-11	3H	*0.65	0.71
13	27-Jun-11	3H	*0.45	0.50
14	1-Aug-11	*3S	*0.42	0.46

	Date	Rating	Target Price	Closing Price
15	6-Oct-11	3S	*0.49	0.54
16	7-Oct-11	Stock rating system changed		
17	8-Oct-11	*3H	0.49	0.57
18	4-Nov-11	3H	*0.35	0.37
19	25-Jan-12	*2H	*0.40	0.40
20	30-Jan-12	2H	*0.45	0.38
21	13-May-12	*2	-	0.35

Rating/target price changes above reflect Eastern Standard Time

Banca Popolare di Milano (PMIL.MI)

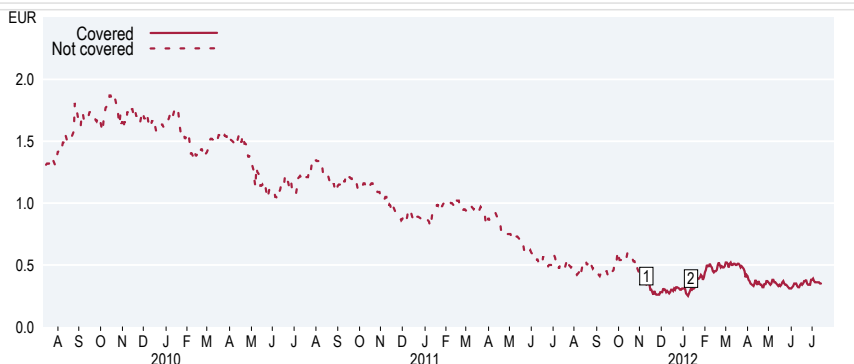
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Azzurra Guelfi

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	Date	Rating	Target Price	Closing Price
1	10-Nov-11	*ADD LP	-	0.34

* Indicates change

	Date	Rating	Target Price	Closing Price
2	12-Jan-12	*REM LP	-	0.31

Rating/target price changes above reflect Eastern Standard Time

Unione Banche Italiane (UBI.MI)

Ratings and Target Price History

Fundamental Research

Analyst: Azzurra Guelfi

Covered since May 5 2010



	Date	Rating	Target Price	Closing Price
1	24-Jul-09	*2H	*10.11	8.95
2	2-Sep-09	2H	*9.83	9.49
3	12-Mar-10	2H	*9.36	9.10
4	20-Jun-10	2H	*7.49	7.12
5	30-Jul-10	2H	*8.43	7.71
6	8-Nov-10	2H	*7.96	6.93
7	3-Dec-10	*1M	*8.24	6.41

* Indicates change

	Date	Rating	Target Price	Closing Price
8	11-Feb-11	*2M	*7.77	6.98
9	10-Mar-11	2M	*7.49	6.64
10	29-Mar-11	2M	*6.27	5.64
11	10-May-11	2M	*5.90	5.51
12	1-Aug-11	*2S	*3.80	3.09
13	6-Oct-11	2S	*3.00	2.99
14	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
15	8-Oct-11	*2H	3.00	2.96
16	4-Nov-11	2H	*2.85	2.66
17	18-Jan-12	2H	*3.20	2.99
18	30-Jan-12	2H	*3.70	3.51
19	13-May-12	*2	-	2.50

Rating/target price changes above reflect Eastern Standard Time

Unione Banche Italiane (UBI.MI)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Azzurra Guelfi

Covered since May 5 2010



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44%	43%	40%	48%	43%	45%

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