



# Banca Popolare di Vicenza

Date  
7 April 2016

## Initial Public Offering

Paola Sabbione  
Research Analyst  
(+39) 02 86379-704  
paola.sabbione@db.com



## (Re)building a simple commercial bank

### A restructuring story: new management, and strong geographical footprint

Banca Popolare di Vicenza (BPVi) is the 10th largest Italian bank by total assets, with a market share of c.1.3% on deposits, rooted in the North East regions. In the past two years, following a regulators' request, its Board and management have been renewed, with the aim of restoring the solidity of the bank. In our view, this goal may be achievable if BPVi is able to retain (or regain) the trust of its client base. Our forecasts envisage an 11.8% CET1 ratio with a still low profitability in 2018E (3.8% ROTE), but improving in 2020E (6.3% ROTE), thanks to a business plan that includes a normalization of provisions, a revenue revamp, and also cost cutting.

---

Deutsche Bank AG/London

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 124/04/2015.

**THIS DOCUMENT MAY NOT BE DISTRIBUTED TO ANY PERSON DIRECTLY OR INDIRECTLY IN OR INTO THE UNITED STATES, CANADA, JAPAN OR AUSTRALIA (OTHER THAN TO PERSONS IN AUSTRALIA IN ACCORDANCE WITH CHAPTER 6D OF THE CORPORATIONS ACT 2001 (CTH)).**

THIS DOCUMENT IS BEING FURNISHED TO YOU SOLELY FOR YOUR INFORMATION ON A CONFIDENTIAL BASIS AND MAY NOT BE REPRODUCED, REDISTRIBUTED OR PASSED ON, IN WHOLE OR IN PART, TO ANY OTHER PERSON. IN PARTICULAR, NEITHER THIS DOCUMENT NOR ANY COPY THEREOF MAY BE TAKEN OR TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, INTO CANADA OR JAPAN OR TO ANY RESIDENT THEREOF OR INTO THE UNITED STATES, ITS TERRITORIES OR POSSESSIONS. THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. SUBJECT TO THE LIMITED EXCEPTIONS SET OUT BELOW, NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR RETRANSMITTED IN OR INTO AUSTRALIA OR REDISTRIBUTED, DIRECTLY OR INDIRECTLY, IN AUSTRALIA. ANY FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY CONSTITUTE A VIOLATION OF THE LAWS OF THE UNITED STATES, CANADA, JAPAN, OR AUSTRALIA OR ANY SUCH OTHER JURISDICTION.

THIS DOCUMENT DOES NOT CONSTITUTE OR FORM PART OF, AND SHOULD NOT BE CONSTRUED AS, AN OFFER OR INVITATION TO SUBSCRIBE FOR OR PURCHASE ANY SECURITIES, AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF OR BE RELIED ON IN CONNECTION WITH OR ACT AS ANY INDUCEMENT TO ENTER INTO ANY CONTRACT OR COMMITMENT WHATSOEVER. THIS DOCUMENT HAS NOT BEEN PUBLISHED GENERALLY AND HAS ONLY BEEN MADE AVAILABLE TO INSTITUTIONAL INVESTORS. ANY DECISION TO PURCHASE OR SUBSCRIBE FOR SECURITIES IN ANY OFFERING MUST BE MADE SOLELY ON THE BASIS OF THE INFORMATION CONTAINED IN THE OFFERING DOCUMENTATION (AND ANY SUPPLEMENTS THERETO) ISSUED IN CONNECTION WITH SUCH OFFERING.

IN THE UNITED KINGDOM, THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT PERSONS WHO (A) ARE (I) PERSONS FALLING WITHIN ARTICLE 19 OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AND ONLY WHERE THE CONDITIONS CONTAINED IN THOSE ARTICLES HAVE BEEN, OR WILL AT THE RELEVANT TIME BE, SATISFIED) OR (II) ANY OTHER PERSONS TO WHOM IT MAY BE LAWFULLY COMMUNICATED; AND (B) ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC), (ALL SUCH PERSONS BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

THIS DOCUMENT IS FOR DISTRIBUTION IN ITALY ONLY TO QUALIFIED INVESTORS PURSUANT TO ARTICLE 100 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998, AS AMENDED, AND AS DEFINED IN ARTICLE 34-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS AMENDED. THIS DOCUMENT MAY NOT BE DISTRIBUTED TO (I) A MEMBER OF THE GENERAL PUBLIC; (II) DISTRIBUTION CHANNELS, THROUGH WHICH INFORMATION IS, OR IS LIKELY TO BECOME AVAILABLE TO A LARGE NUMBER OF PERSONS; OR (III) INDIVIDUALS OR ENTITIES FALLING OUTSIDE THE DEFINITIONS OF "QUALIFIED INVESTORS" AS SPECIFIED ABOVE.

IN AUSTRALIA, BY ACCEPTING THIS DOCUMENT YOU REPRESENT THAT YOU ARE A "SOPHISTICATED INVESTOR" OR A "PROFESSIONAL INVESTOR" AND A "WHOLESALE CLIENT" (WITHIN THE MEANING OF SECTIONS 708(10), 708(11) AND 761G OF THE CORPORATIONS ACT, RESPECTIVELY), BEING A PERSON TO WHOM AN OFFER OF SECURITIES CAN BE MADE WITHOUT DISCLOSURE UNDER CHAPTER 6D OF THE CORPORATIONS ACT. THIS DOCUMENT IS NOT SUPPLIED IN CONNECTION WITH ANY OFFERING OF SECURITIES IN BANCA POPOLARE DI VICENZA S.C.P.A. AND IS NOT A PROSPECTUS OR PRODUCT DISCLOSURE STATEMENT AND HAS NOT BEEN LODGED WITH OR BEEN THE SUBJECT OF NOTIFICATION TO THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION OR ANY OTHER REGULATORY AUTHORITY IN AUSTRALIA. THE PROVISION OF THIS DOCUMENT TO ANY PERSON DOES NOT CONSTITUTE AN OFFER OR AN INVITATION TO THAT PERSON TO APPLY FOR SECURITIES. ANY SUCH OFFER OR INVITATION WILL ONLY BE EXTENDED TO A PERSON IF THAT PERSON HAS FIRST SATISFIED THE JOINT GLOBAL COORDINATORS THAT THE PERSON IS A "SOPHISTICATED INVESTOR" OR A "PROFESSIONAL INVESTOR" FOR THE PURPOSES OF THE CORPORATIONS ACT. BY ACCEPTING THIS DOCUMENT, YOU AGREE TO BE BOUND BY THE FOREGOING LIMITATIONS.

THIS DOCUMENT HAS BEEN PRODUCED INDEPENDENTLY OF BANCA POPOLARE DI VICENZA S.C.P.A. (THE "**COMPANY**") AND ITS SHAREHOLDERS AND SUBSIDIARIES AND AFFILIATES, AND ANY FORECASTS, OPINIONS AND EXPECTATIONS CONTAINED HEREIN ARE ENTIRELY THOSE OF ITS AUTHOR AND ARE GIVEN AS PART OF ITS NORMAL RESEARCH ACTIVITY AND SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORISED OR APPROVED BY ANY OTHER PERSON. DEUTSCHE BANK AG HAS NO AUTHORITY WHATSOEVER TO MAKE ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY, ITS SHAREHOLDERS, ITS SUBSIDIARIES, ITS AFFILIATES, THEIR RESPECTIVE ADVISERS, OR ANY OTHER PERSON IN CONNECTION THEREWITH. WHILE ALL REASONABLE CARE HAS BEEN TAKEN TO ENSURE THAT THE FACTS STATED HEREIN ARE ACCURATE AND THAT THE FORECASTS, OPINIONS AND EXPECTATIONS CONTAINED HEREIN ARE FAIR AND REASONABLE, DEUTSCHE BANK AG HAS NOT VERIFIED THE CONTENTS HEREOF AND ACCORDINGLY NONE OF DEUTSCHE BANK AG, THE COMPANY, ITS SHAREHOLDERS, ITS SUBSIDIARIES, ITS AFFILIATES, THEIR RESPECTIVE ADVISERS OR ANY OTHER PERSON IN CONNECTION THEREWITH NOR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS OR EMPLOYEES, SHALL BE IN ANY WAY RESPONSIBLE FOR THE CONTENTS HEREOF AND NO RELIANCE SHOULD BE PLACED ON THE ACCURACY, FAIRNESS, OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS DOCUMENT. NO PERSON ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM THE USE OF THIS DOCUMENT OR OF ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH.

DEUTSCHE BANK AG IS OR MAY BE A MANAGER IN RESPECT OF A PROPOSED OFFERING OF SECURITIES BY THE COMPANY.

DEUTSCHE BANK AG (OR ITS OFFICERS, DIRECTORS OR EMPLOYEES) MAY, TO THE EXTENT PERMITTED BY LAW, HAVE A POSITION IN THE SECURITIES OF (OR OPTIONS, WARRANTS OR RIGHTS WITH RESPECT TO, OR INTEREST IN THE SHARES OR OTHER SECURITIES OF) THE COMPANY AND DEUTSCHE BANK AG MAY MAKE A MARKET OR ACT AS A PRINCIPAL IN ANY TRANSACTION IN SUCH SECURITIES.

THIS DOCUMENT MAY NOT BE DISTRIBUTED TO ANY PERSON DIRECTLY OR INDIRECTLY IN OR INTO THE UNITED STATES, CANADA, JAPAN OR AUSTRALIA (OTHER THAN TO PERSONS IN AUSTRALIA IN ACCORDANCE WITH CHAPTER 6D OF THE CORPORATIONS ACT 2001 (CTH)).



## Banca Popolare di Vicenza

Date  
7 April 2016

### Initial Public Offering

Paola Sabbione  
Research Analyst  
(+39) 02 86379-704  
paola.sabbione@db.com

## (Re)building a simple commercial bank

### A restructuring story: new management, and strong geographical footprint

Banca Popolare di Vicenza (BPVi) is the 10th largest Italian bank by total assets, with a market share of c.1.3% on deposits, rooted in the North East regions. In the past two years, following a regulators' request, its Board and management have been renewed, with the aim of restoring the solidity of the bank. In our view, this goal may be achievable if BPVi is able to retain (or regain) the trust of its client base. Our forecasts envisage an 11.8% CET1 ratio with a still low profitability in 2018E (3.8% ROTE), but improving in 2020E (6.3% ROTE), thanks to a business plan that includes a normalization of provisions, a revenue revamp, and also cost cutting.

### The two business plan pillars: clean-up and revamp

The new management has already launched an extensive **clean-up**: 1) asset quality (revision of the loan portfolio and NPL management practices, leading to significant reclassifications and a coverage increase in H2-15), 2) de-recognition of financed capital (decrease of CET1 ratio to 6.65%) and 3) impairments of AFS securities and goodwill. The clean-up is to be followed by a restoring of the bank's solidity via a capital increase (Euro 1.5bn) and efforts on liquidity. The **commercial revamp** is the second step. BPVi aims to become even more geared to the "distribution only" approach, with a focus on affluent and SME clients. Cost cutting and an LLP decline would support ROTE, but revenue generation via NII and fees is also required to deliver BPVi's profitability targets (5.6% / 8.2% ROTE in 2018 / 2020, respectively).

### Deutsche Bank forecasts – below BPVi's business plan

Starting from the Euro 1.4bn net loss of 2015, we forecast a (smaller) loss in 2016E, slightly more than a breakeven in 2017E and a Euro 162m net profit in 2018E. By 2018E: **1) NII** may be supported by volumes and margins (here BPVi differs from the rest of the sector, as its starting funding costs are higher). **2) Fees** could benefit from a re-focus on asset management. **3) Trading income** will likely contract, as in 2015 and previous years it was inflated by the capital gains on the disposals of government bonds. **4) Costs** could go down due to branch closures (-150) and staff exits (-575, mostly in 2016/17 but also in 2019) and further outsourcing of non-core activities and processes. **5) LLPs** should decline sharply after the clean-ups of 2014 and 2015.

### Legacies from the past are the key risks factors

Euro 1.1bn of BPVi capital has been financed via loans that the bank granted to its clients to underwrite new shares. This amount is currently fully deducted from solvency ratios – management booked a Euro 0.8bn provision for loans that may not be reimbursed and included a prudential filter in CET1 capital for the remaining Euro 0.3bn loans where a reimbursement is possible. Hence, the financed capital issue has been addressed, but could drive reputational risks for the bank. Reputational risks can affect liquidity, as already seen by BPVi, with two deposit runs in H2-15; actions around the capital raising may increase reputational risks. Any tensions on liquidity (also coming from other exogenous / unpredictable factors) can represent a severe downside risk for the profitability, but also for the bank's stability. And the lack of near-term profitability also poses risks, by reducing BPVi's resilience to any new shocks to the Italian banking system.

Deutsche Bank AG/London

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 124/04/2015.

**THIS DOCUMENT MAY NOT BE DISTRIBUTED TO ANY PERSON DIRECTLY OR INDIRECTLY IN OR INTO THE UNITED STATES, CANADA, JAPAN OR AUSTRALIA (OTHER THAN TO PERSONS IN AUSTRALIA IN ACCORDANCE WITH CHAPTER 6D OF THE CORPORATIONS ACT 2001 (CTH)).**



## Table Of Contents

<b>Executive summary</b> .....	<b>3</b>
The company in a table .....	3
Glossary .....	4
Business model and strategy overview .....	4
Key risk factors .....	7
<b>Financials and forecasts</b> .....	<b>11</b>
Historical financials .....	11
Forecasts and projections .....	18
Some considerations on the TLTRO2 .....	28
<b>Valuation</b> .....	<b>31</b>
Valuation methodology: summary .....	31
GGM .....	31
Market multiples .....	33
<b>Key risk factors</b> .....	<b>34</b>
Sector risks .....	34
BPVi specific risks .....	34
<b>Market positioning</b> .....	<b>40</b>
10- largest Italian bank, based in the Northeast Italy .....	40
A comparison with the closest peer, Veneto Banca .....	43
<b>Business plan actions</b> .....	<b>48</b>
A focus on BPVi's commercial strategy .....	48
<b>Appendix A</b> .....	<b>51</b>
Management team .....	51
<b>Appendix B</b> .....	<b>52</b>
BPVi group – history and current organization .....	52
<b>Appendix C</b> .....	<b>53</b>
Capital increase technicalities .....	53
<b>Appendix D</b> .....	<b>54</b>
Possible M&A scenarios .....	54



# Executive summary

## The company in a table

Figure 1: BPVi – The company in a table

	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
<b>P&amp;L (Euro m)</b>									
Net interests income	509	528	511	504	487	517	568	614	650
Net fees	271	276	301	322	331	354	380	407	431
Dividends	23	20	29	48	36	39	42	45	49
Trading income	181	207	187	163	79	81	82	82	86
Other	63	52	49	15	55	56	57	58	60
<b>Total revenues</b>	<b>1,047</b>	<b>1,083</b>	<b>1,077</b>	<b>1,052</b>	<b>987</b>	<b>1,047</b>	<b>1,130</b>	<b>1,207</b>	<b>1,275</b>
<b>Total costs</b>	<b>-672</b>	<b>-657</b>	<b>-669</b>	<b>-691</b>	<b>-671</b>	<b>-652</b>	<b>-628</b>	<b>-621</b>	<b>-611</b>
<b>Gross operating profit</b>	<b>374</b>	<b>426</b>	<b>408</b>	<b>361</b>	<b>316</b>	<b>395</b>	<b>501</b>	<b>586</b>	<b>664</b>
LLPs	-216	-432	-868	-1,333	-314	-299	-243	-237	-229
Provisions on risk and charges	-6	-12	-18	-513	-100	-25	-25	-25	-25
Other	-27	-22	-53	-159	0	0	0	0	0
<b>Net operating income</b>	<b>126</b>	<b>-41</b>	<b>-531</b>	<b>-1,644</b>	<b>-98</b>	<b>71</b>	<b>233</b>	<b>324</b>	<b>410</b>
<b>Pre-tax income</b>	<b>134</b>	<b>-34</b>	<b>-1,134</b>	<b>-1,893</b>	<b>-163</b>	<b>71</b>	<b>233</b>	<b>305</b>	<b>410</b>
Taxes	-36	3	377	486	49	-21	-70	-92	-123
<b>Net profit</b>	<b>100</b>	<b>-32</b>	<b>-759</b>	<b>-1,407</b>	<b>-115</b>	<b>49</b>	<b>162</b>	<b>213</b>	<b>286</b>
<b>Adjusted net profit</b>	<b>92</b>	<b>-40</b>	<b>-156</b>	<b>-1,159</b>	<b>-50</b>	<b>49</b>	<b>162</b>	<b>232</b>	<b>286</b>
<b>Volumes (Euro m)</b>									
Loans	30,713	30,893	28,111	25,178	25,430	26,320	27,636	28,603	29,604
Direct funding	32,388	31,663	30,373	21,943	24,686	25,920	26,697	27,498	28,323
AUA	12,944	14,117	14,910	14,550	15,567	16,720	18,024	19,130	19,934
o/w AUM	4,349	5,038	6,598	7,043	7,985	9,062	10,289	11,318	12,044
o/w AUC	8,595	9,079	8,312	7,507	7,582	7,658	7,734	7,812	7,890
RWAs	28,851	28,061	28,985	24,884	24,882	25,238	26,234	26,881	27,544
<b>Main KPIs (%)</b>									
ROTE	3.9%	-1.5%	-4.6%	-41.0%	-1.2%	1.1%	3.8%	5.2%	6.3%
ROE	2.8%	-1.1%	-4.2%	-40.8%	-1.2%	1.1%	3.7%	5.2%	6.2%
Cost / Income	64.2%	60.7%	62.1%	65.7%	68.0%	62.3%	55.6%	51.4%	47.9%
Tax rate	26.7%	9.7%	33.2%	25.7%	30.0%	30.0%	30.0%	30.0%	30.0%
CET 1 ratio (phased in)	8.2%	9.2%	10.4%	6.7%	12.1%	11.9%	11.8%	11.9%	12.1%
CET 1 ratio (fully loaded)				5.9%	11.6%	11.7%	11.6%	11.8%	12.1%
Cost of risk	0.70%	1.40%	3.09%	5.30%	1.23%	1.14%	0.88%	0.83%	0.78%
Texas ratio	125%	129%	114%	145%	118%	110%	106%	102%	101%
Total impaired loans / total loans (net)	10.5%	12.7%	14.9%	21.1%	21.0%	17.7%	16.3%	14.9%	14.7%
Coverage ratio impaired loans	24.4%	27.3%	35.1%	40.6%	43.3%	43.6%	44.3%	44.6%	44.9%
Branches (#)	640	640	654	579	500	500	500	500	500
Employees (#)	5,496	5,463	5,515	5,473	5,423	5,323	5,138	5,138	4,988

Source: Deutsche Bank estimates, company data. Notes: 1) 2015 costs are pro-forma, as we reclassify one-off items in a separate line. 2) ROE / ROTE are adjusted deducting from equity / tangible equity in the denominator the Euro 304m filter for financed capital, and using as numerator DB adjusted earnings



## Glossary

Figure 2: Glossary

Acronym	Definition	Acronym	Definition
BPVi	Banca Popolare di Vicenza	AUM	Assets under management
LLPs	Loan Loss Provisions	AUC	Assets under custody
Texas ratio	Gross impaired loans / (Tangible Equity + Writedowns)	AUA	Assets under administration (= AUM+AUC)
ROE / ROTE	Return on Equity / Return on Tangible Equity	CET1	Common Equity Tier 1
CCG	Cassa Compensazione e Garanzia	EoP	End of period

Source: Deutsche Bank

## Business model and strategy overview

### Who is BPVi?

**BPVi is the 10th largest Italian bank by total assets, with a market share of c.1.3% on deposits** (Figure 3). It is a multi-regional bank, but it is mainly rooted in the rich North East regions. Overall, Veneto, Tuscany and Lombardy (covering 50% of the Italian exports) represent 65% of BPVi's customer loans. BPVi is a pure commercial bank, with an almost exclusive focus on distribution. It has partnerships with Arca for asset management, with Cattolica for bancassurance and with Mediobanca (Compass) for consumer credit. It is also active in consumer credit (salary guaranteed loans) via its fully owned subsidiary PrestiNuova.

### The clean up and the revamp via the simple bank model

Following a regulators' request, BPVi's Board and management have been renewed. This came after the Bank of Italy identified the issue of financed capital (i.e. loans granted to clients to underwrite its own shares in the recent capital increases) and other criticalities in the governance of the bank.

The new management team has no relation with the previous management team (13 out of 16 first line managers have been newly appointed, over the past two years). A new business plan was presented in Sept-15 and updated in Feb-16. It has two pillars: 1) the clean-up (already partially implemented) and 2) the commercial revamp.

- The **clean-up** refers to the strengthening of the asset quality (with a comprehensive revision of the loan portfolio and NPL management practices, leading to reclassifications and a coverage increase already in H2-15), the de-recognition of financed capital (with a decrease of the CET1 ratio to 6.65%) and the impairments of AFS securities and goodwill.
- The clean-up has to be followed by a **restoring of the bank's solidity** via a capital increase (Euro 1.5bn) and **efforts on liquidity**. Until the liquidity and capital position is definitively restored and improved, we see the clean-up phase as incomplete and consider that risks (around reputation, possible deposit flight, impairment of the business plan) will remain in an elevated state.
- The **commercial revamp** refers to the need of rebuilding a pure and simple commercial bank. BPVi's model will be even more oriented to the "distribution only" approach, with a strong focus on the affluent and SME clients. Cost cutting and an LLPs decline will support ROTE, but revenue generation via NII and fees is also required to deliver BPVi's profitability targets.



While the clean-up has been mostly carried out already, putting the bank in a better position than before regarding asset quality and capital, the commercial revamp is still subject to several macro/reputational factors, not only to managerial skills; therefore, it can present higher execution risks.

Figure 3: BPVi – Benchmarking (2015)

%	BPVi	MPS	Banco	UBI Banca	BPM	Credem	CreVal	Carige	BPER	BP Sondrio	Veneto banca
Market share on deposits	1.3%	6.7%	4.1%	4.2%	2.2%	1.4%	1.4%	1.2%	2.7%	2.0%	1.2%
Market share on loans	1.6%	7.2%	5.0%	5.4%	2.2%	1.5%	1.2%	1.4%	2.8%	1.5%	1.5%
Market share on branches (*)	1.9%	7.1%	6.0%	5.1%	2.2%	2.1%	1.7%	2.1%	4.0%	1.2%	1.6%
Market share on NPLs (**)	2.1%	12.9%	5.1%	3.4%	1.6%	0.4%	1.4%	1.7%	3.4%	0.9%	1.7%
ROTE (***)	-41.0%	6.0%	6.3%	2.9%	5.1%	8.6%	6.0%	-4.3%	5.1%	5.1%	-46.3%
ROE (***)	-40.8%	5.5%	4.8%	2.3%	4.9%	7.2%	5.4%	-4.1%	4.6%	5.0%	-43.9%
Cost / Income ratio	71.6%	50.4%	65.7%	64.5%	62.5%	60.6%	59.0%	81.4%	57.7%	44.1%	70.0%
CET 1 ratio (phased in)	6.7%	12.0%	13.2%	12.1%	11.5%	13.8%	13.1%	12.2%	11.5%	10.5%	7.2%
CET 1 ratio (fully loaded)	5.9%	11.7%	12.4%	11.6%	12.2%	13.3%	13.5%	n.a.	11.2%	n.a.	6.8%
2016 SREP ratio	10.3%	10.2%	9.6%	9.3%	9.0%	7.0%	8.3%	11.3%	9.3%	9.3%	10.3%
Buffer CET1 ratio / SREP	-3.6%	1.8%	3.7%	2.8%	2.5%	6.8%	4.8%	0.9%	2.3%	1.2%	-3.0%
Dividend payout	0%	0%	13%	85%	41%	30%	28%	0%	22%	25%	0%
RWAs / Total assets (****)	63%	42%	37%	52%	70%	35%	58%	66%	65%	67%	69%
Cost of risk (bps)	529	179	94	95	100	52	231	134	162	163	332
Texas ratio	145%	147%	158%	112%	87%	52%	133%	129%	119%	96%	165%
Total imp. loans / total loans (net)	21.1%	21.7%	17.9%	11.5%	10.6%	3.4%	17.6%	18.3%	14.5%	9.8%	20.4%
Coverage ratio impaired loans	40.6%	48.5%	31.9%	27.9%	39.6%	44.6%	40.3%	42.4%	44.2%	44.5%	35.3%
Branches (#)	579	2,173	1,813	1,560	655	636	526	625	1,216	350	550
Employees (#)	5,473	25,731	16,731	17,718	7,747	5,899	4,123	5,034	11,447	3,115	6,254
Geographical focus	Veneto	Tuscany	Veneto / Lombardy	Lombardy	Lombardy	Emilia Romagna	Lombardy	Liguria	Emilia Romagna	Lombardy	Veneto
Governance	Joint stock	Joint stock	Cooperative	Joint stock	Cooperative	Joint stock	Cooperative	Joint stock	Cooperative	Cooperative	Joint stock
Expected data for governance change			By end of 2016		By end of June 2016		Oct-16		Q4-16	Early autumn 2016	

Source: Deutsche Bank, company data, Bank of Italy. Notes: 9M-15 data for: employees and branches for BPM, branches for BP Sondrio; (\*) Computed on 9M-15 branches; (\*\*) Calculated on H1-15 system data (Bank of Italy); (\*\*\*) ROTE and ROE for BPVi, MPS, Banco, UBI, BPM and Credem are calculated on DB adjusted net profit; (\*\*\*\*) H1-15 data of RWAs for BP Sondrio. Legend: BPVi = Banca Popolare di Vicenza, Banco = Banco Popolare, UBI Banca, BPM = Banca Popolare di Milano, Credem = Credito Emiliano, CreVal = Credito Valtellinese, Carige = Cassa di risparmio di Genova, BPER = Banca Popolare Emilia Romagna, BP Sondrio = Banca Popolare di Sondrio, Veneto Banca







## Key risk factors

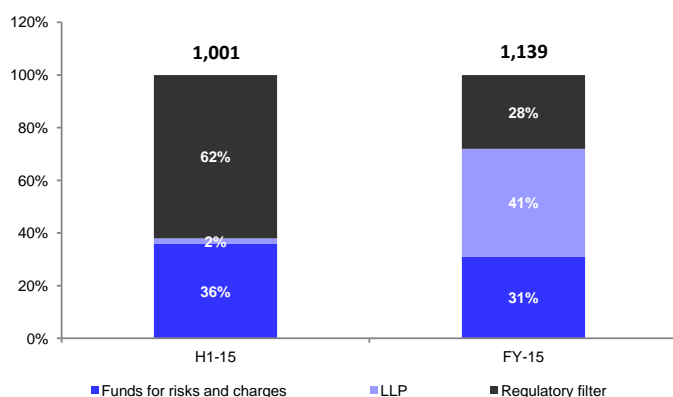
### 1) Capital increase execution

- The execution of the capital increase is fundamental for BPVi, given that its CET1 ratio is below the minimum capital requirement (7%) and below the SREP ratio (10.25%). Any delay or obstacle in the process could represent a downside risk to our forecasts. In particular, the full underwriting agreement signed by Unicredit to guarantee the capital increase lasts until the 10-May-16. *For details, please refer to Appendix C.*

### 2) The financed capital

- BPVi financed some of the previous capital increases, offering loans to its clients to underwrite the new shares.
- From an inspection carried out by the ECB and the new management resulted that Euro 1.1bn of BPVi's capital was financed with loans (Figure 4) granted to about 1,300 shareholders.
- Euro 0.8bn of those underlining loans may not be reimbursed due to credit or legal risks (Figure 5 and Figure 7). Therefore, a provision has been made to entirely cover the potential Euro 0.8bn loss.
- On the remaining Euro 0.3bn underlining loans, management considers a reimbursement possible; therefore, no provision has been booked, but an equivalent filter has been deducted from the CET1 ratio. In other words, from a P&L point of view, BPVi could book additional provisions, but they would not impact the solvency ratios.
- In the presence of some loan reimbursement, BPVi's CET1 ratio would improve by the same amount. This is an upside risk, which we do not include in our projections (and the company does not include in its business plan).

Figure 4: BPVi – Total non-eligible capital (Euro m)



Source: Deutsche Bank, company data

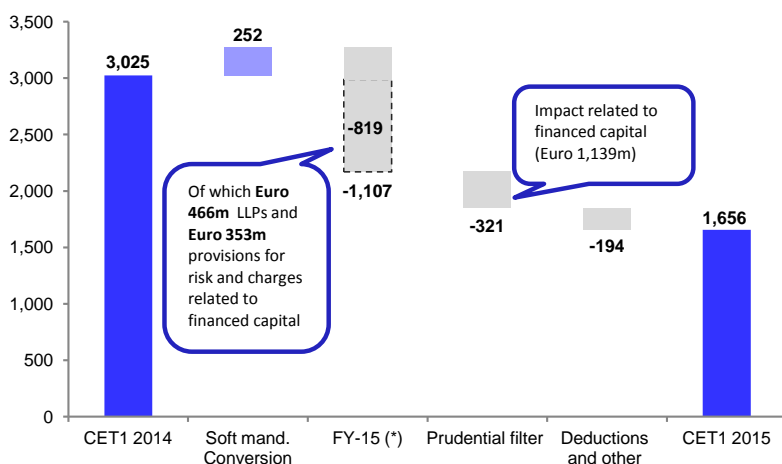


Figure 5: BPVi – Breakdown non-eligible capital

Euro m	Exposure	LLP	Prov. For risk and charges	Total	Coverage	Regulatory filter
Gross performing exp.	508	10	272	282	55.5%	226
Gross NPE	578	456	45	501	86.6%	77
Commitment letters	52	0	36	36	68.8%	16
<b>Total as of FY-15 (*)</b>	<b>1,139</b>	<b>466</b>	<b>353</b>	<b>819</b>	<b>71.9%</b>	<b>321</b>

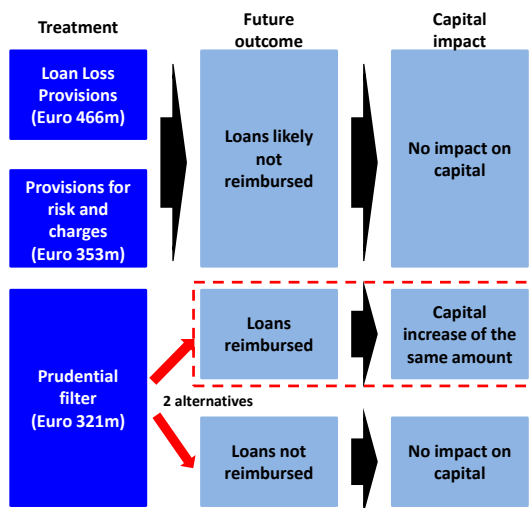
Source: Deutsche Bank, company data. Notes: (\*) Total value of regulatory filter includes Euro 0.7m of filter related to customers with financed capital but without exposure as of FY-15

Figure 6: BPVi – CET1 ratio as of FY-15 (Euro m)



Source: Deutsche Bank, company data. Notes: (\*) Net of goodwill impairment impact

Figure 7: BPVi – Financed capital treatment



Source: Deutsche Bank, company data

- A downside risk can be represented by the identification of a larger amount of financed capital. However, it is worth mentioning that BPVi has received “only” Euro c.620m in claims from clients, of which Euro 400m are related to financed capital (fully covered by LLPs) and Euro 220m are related to other risks (covered by Euro 136m in risk and charges provisions).

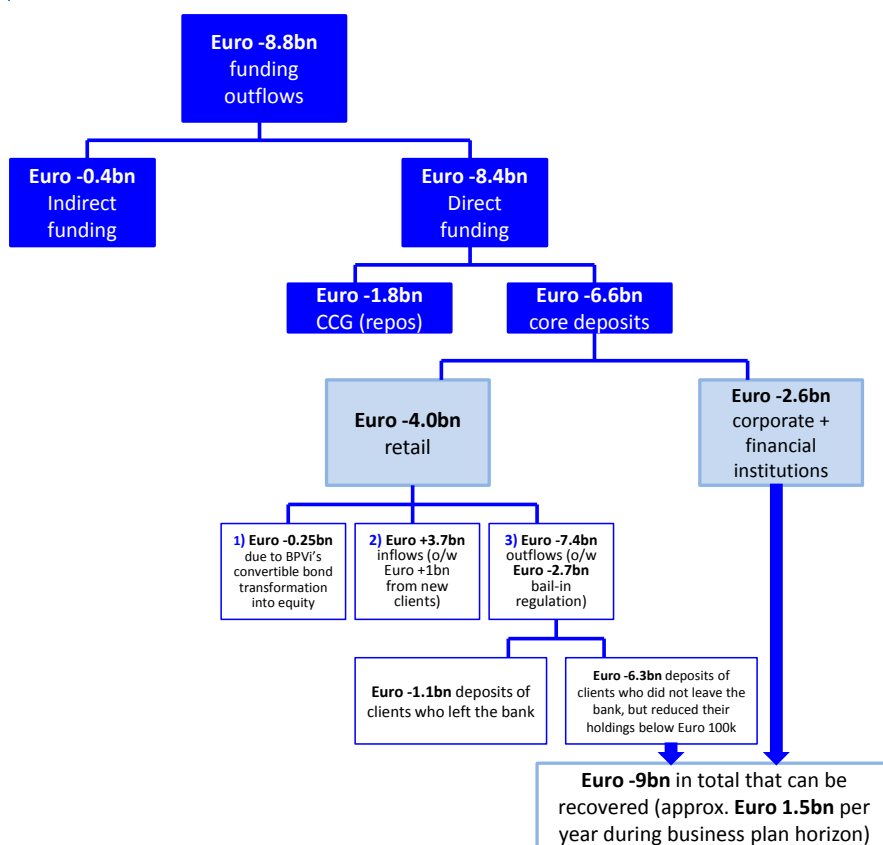


### 3) Liquidity risk – Deposit runs during 2015

BPVi experienced two deposit runs in 2015. The first one was related to the Italian Fiscal Authority inspection in September 2015. The second one was caused by rescue of four small banks and by the concerns around the introduction of the bail-in (BRRD<sup>1</sup>) rules in Italy in December 2015. Overall, funding outflows reached Euro 8.8bn in 2015.

Figure 8 shows that BPVi could recover these outflows working on corporate / financial institutions and on retail clients who have simply reduced the amount of deposits held by the bank below the “non-bail-in-able” threshold of Euro 100k, but have not fully left the bank. Through regaining 40-50% of these deposits by 2018 (approximately Euro 1.5bn per year), BPVi could achieve the target of total deposits growth envisaged by the plan. Should clients not return to the bank, this could represent a downside risk to the business plan of BPVi. As of Q1-16, overall deposits appear substantially stable QoQ.

Figure 8: BPVi – 2015 funding outflows (Euro bn)



Source: Deutsche Bank, company data

In addition to the above, there was a small deposit run before March AGM.

Additional deposit runs (also due to exogenous / unpredictable factors, as happened in Dec-15) could compromise BPVi's liquidity. In the presence of the current ECB monetary policy, if BPVi's free eligible assets (Euro 510m at year

<sup>1</sup> The Bank Recovery and Resolution Directive (BRRD) has been approved by the Italian government at the end of 2015.



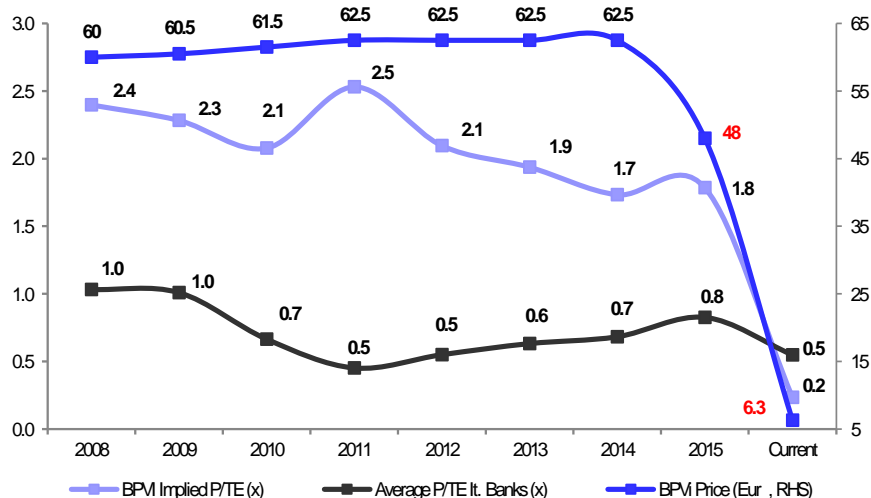
end 2015, and up to Euro 1bn in Q1-16) are a sufficient drag on the required liquidity in the short term, another deposit run could mainly represent a P&L risk (with an increase of the funding costs; for example, after campaigns to gather new deposits at a higher-than-market-average rate from both corporate and retail clients).

However, ultimately, a new deposit run could compromise the stability of the bank.

#### 4) Reputation risk

The abovementioned issue regarding financed capital and the consequent recapitalization process, together with the sharp revision of its share price from Euro 48/s to Euro 6.3/s<sup>2</sup> (Figure 9) could represent reputational risks for BPVi, not only for the relationship with the clients who have been directly affected by one of those issues, but also by other existing or potential clients.

Figure 9: BPVi – Auditor’s price in annual reports and P/TE evolution



Source: Deutsche Bank estimates, company data, Bloomberg Finance LP

We note that BPVi’s shareholders are about 119,000, and more than 90% of them are customers. Direct funding held by BPVi’s shareholders reaches Euro 1.8bn (of which Euro 59m by financed shareholders) and includes Euro 1bn deposits and Euro 0.8bn between bonds and other forms, according to the company disclosure. Furthermore, shareholders also own Euro 3.7bn of indirect funding.

This means that equity-related “reputational” issues could have meaningful impacts on the deposit base. Additional deposit base impacts are not included in our forecasts, and so represent a meaningful downside risk.

#### 5.) Financial Market Risk

The start of 2016 has seen severe financial market volatility and a trend of declining share prices and valuations for Italian financial services companies. BPVi has a number of AFS investments and also equity-accounted stakes, including in financial services companies. We see risks that current values for these stakes and investments could be below the end-2015 accounted levels.

<sup>2</sup> Euro 6.3/s is the price of the withdrawal right for shareholders not present or voting against the transformation into joint stock on the 5 March 2016. For further details, please refer to Appendix C.



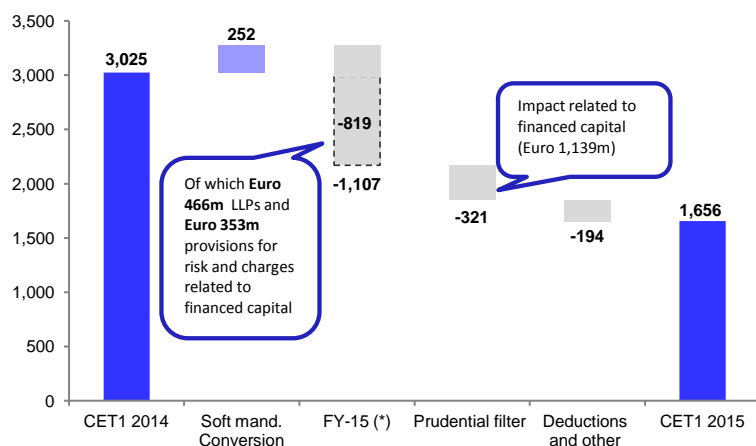
# Financials and forecasts

## Historical financials

### Focus on capital: CET1 ratio of 6.65% at the end of 2015

BPVi closed 2015 with a CET1 ratio of 6.65%, below the 7% minimum capital requirement and its SREP ratio of 10.25%.

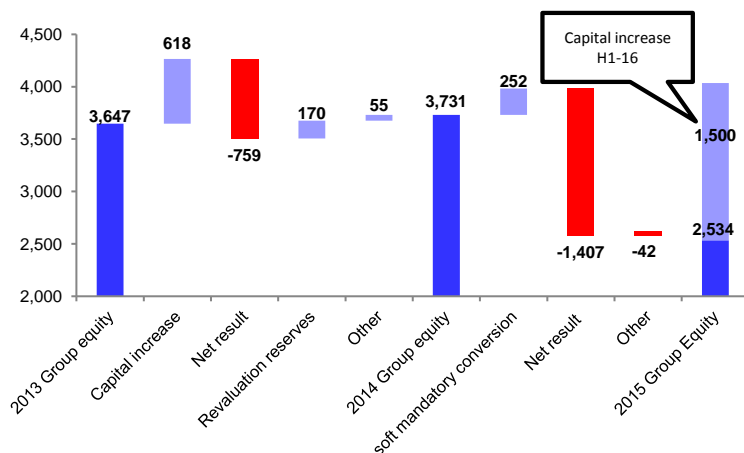
Figure 10: BPVi – CET1 ratio evolution (Euro m)



Source: Deutsche Bank, company data. Notes: (\*) Net of goodwill impairment impact, as this is not affecting CET1 capital

Analyzing how the CET1 ratio evolved in 2015, we notice that most of its decline has been caused by the LLPs for the “unrecoverable part” of the financed capital, and by the introduction of the filter for the “recoverable part” of the financed capital.

Figure 11: BPVi – Total equity evolution (Euro m)



Source: Deutsche Bank, company data

With the Euro 1.5bn capital increase that the EGM approved on 5-Mar, BPVi’s CET1 ratio improves to 12.7% (2015 pro-forma).



Figure 12: BPVi – Capital ratios

Euro m	2014	2015	2015 PF
CET1 capital	3,025	1,656	3,156
RWAs	28,985	24,884	24,884
CET1 ratio	10.4%	6.7%	12.7%
Total capital ratio	11.55%	8.13%	14.2%

Source: Deutsche Bank estimates, company data (We do not include Euro 150m related to the brownshoe)

### Asset quality: 2014 and 2015 clean-up

Since FY-13, BPVi's impaired loans rose by Euro 3.6bn (+67%) after the AQR in 2014, and above all after the new management clean-up in 2015. At the same time, cash coverage increased by 13ppt, to 41% from 27%.

Figure 13: BPVi – Asset quality details

Euro m	2007	2008	2009	2010	2011	2012	2013	2014	H1-15	2015
<b>NPLs</b>										
Gross	568	679	938	1,299	1,623	2,126	2,756	3,402	4,112	4,369
Write-downs	253	335	403	528	665	855	1,189	1,705	2,334	2,480
Net	316	344	534	771	959	1,271	1,567	1,696	1,778	1,889
Coverage	44.5%	49.4%	43.0%	40.6%	40.9%	40.2%	43.1%	50.1%	56.8%	56.8%
<b>Unlikely to pay</b>										
Gross									3,345	4,439
Write-downs									661	1,143
Net									2,684	3,296
Coverage									19.8%	25.8%
<b>Watchlists</b>										
Gross	358	452	668	767	922	1,191	1,594	2,238		
Write-downs	86	101	71	65	109	159	240	495		
Net	272	351	598	702	813	1,032	1,354	1,743		
Coverage	24.0%	22.3%	10.6%	8.5%	11.8%	13.3%	15.1%	22.1%		
<b>Restructured Loans</b>										
Gross	42	28	163	273	242	315	525	466		
Write-downs	1	0	3	10	13	7	18	33		
Net	40	27	160	264	229	308	507	433		
Coverage	2.8%	1.6%	1.7%	3.6%	5.6%	2.2%	3.5%	7.1%		
<b>90 past due</b>										
Gross	93	126	278	247	373	632	505	368	157	154
Write-downs	5	5	12	11	20	22	19	38	18	19
Net	88	122	266	236	353	611	485	329	139	135
Coverage	5.1%	3.6%	4.5%	4.3%	5.4%	3.4%	3.8%	10.5%	11.6%	12.2%
<b>TOTAL</b>										
Gross	1,061	1,285	2,047	2,586	3,161	4,264	5,379	6,474	7,615	8,963
Write-downs	345	441	489	613	807	1,042	1,467	2,272	3,014	3,642
Net	716	844	1,558	1,973	2,354	3,222	3,912	4,201	4,601	5,320
Coverage	32.5%	34.3%	23.9%	23.7%	25.5%	24.4%	27.3%	35.1%	39.6%	40.6%

Source: Deutsche Bank, company data

In line with most of the Italian banks, especially mid-sized Italian banks, BPVi's total coverage, including real estate collateral and personal guarantees, was > 100% until 2014. This was due to the fact that BPVi reported an uncapped value of the collateral (i.e. not capped to the loan exposure), according to the Bank of Italy rules. These rules applied from 2012 to 2014 (both included); in contrast, in 2015 annual reports the collateral value was again capped to the loan exposure, and this resulted in a total coverage of 85%, with the cash



component representing slightly less than half of the total. This coverage level is in line with the past; however, from 2007 to 2011, it was reached mostly via collateral and less via cash provisions.

Figure 14: BPVi – Asset quality trends and details on cash coverage and collateral

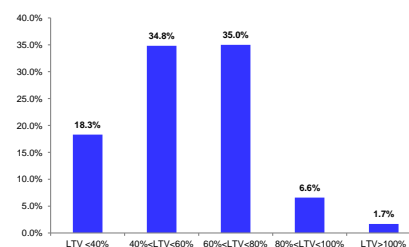
Euro m	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross NPL	568	679	938	1,299	1,623	2,126	2,756	3,402	4,369
Gross watchlists (*)	358	452	668	767	922	1,191	1,594	2,238	4,439
Gross restructured	42	28	163	273	242	315	525	466	
Gross past due	93	126	278	247	373	632	505	368	154
<b>Total gross bad loans</b>	<b>1,061</b>	<b>1,285</b>	<b>2,047</b>	<b>2,586</b>	<b>3,161</b>	<b>4,264</b>	<b>5,379</b>	<b>6,474</b>	<b>8,963</b>
Total write-downs	345	441	489	613	807	1,042	1,467	2,272	3,642
<b>Balance sheet coverage</b>	<b>33%</b>	<b>34%</b>	<b>24%</b>	<b>24%</b>	<b>26%</b>	<b>24%</b>	<b>27%</b>	<b>35%</b>	<b>41%</b>
Real estate guarantee	361	399	890	1,033	1,337	3,935	5,080	6,102	3,192
Shareholdings	19	5	31	29	15	58	84	142	46
Other real guarantee	3	13	22	24	27	33	46	52	30
<b>Total real guarantee</b>	<b>383</b>	<b>416</b>	<b>943</b>	<b>1,086</b>	<b>1,379</b>	<b>4,026</b>	<b>5,210</b>	<b>6,296</b>	<b>3,268</b>
Personal guarantee	274	166	270	386	431	888	658	680	722
<b>Total coverage</b>	<b>94.5%</b>	<b>79.6%</b>	<b>83.2%</b>	<b>80.6%</b>	<b>82.8%</b>	<b>139.7%</b>	<b>136.4%</b>	<b>142.9%</b>	<b>85.2%</b>
o/w balance sheet coverage	32.5%	34.3%	23.9%	23.7%	25.5%	24.4%	27.3%	35.1%	40.6%
o/w real guarantee	36.1%	32.4%	46.1%	42.0%	43.6%	94.4%	96.9%	97.3%	36.5%
o/w personal guarantee	25.9%	12.9%	13.2%	14.9%	13.6%	20.8%	12.2%	10.5%	8.1%

Source: Deutsche Bank, company data. Notes: (\*) Unlikely to pay in 2015

Also referring to the LTV data (Figure 15, for example, for mortgages), we believe that an 85% total coverage level is sound, considering:

- 1) both the AQR and the new management clean-up reduced collateral value (via an update of the appraisals and/or more prudent assumptions),
- 2) both the AQR and the new management clean-up led to more prudent impaired loan classification (i.e. coverage per se does not tell the full story; the definition of impaired loans and classification criteria are also relevant),
- 3) c.50% of BPVi's collateral is residential, and
- 4) the cash component of the total coverage figure is in line or slightly above the industry average, and above the Popolari banks' average.

Figure 15: BPVi, mortgages LTV



Source: Deutsche Bank, company data



Figure 16: BPVi – Gross and net customer loans break-down by type and performing status (Euro bn)

2015	Total	o/w performing	o/w impaired
<b>Group gross loans</b>	<b>28.8</b>	<b>19.9</b>	<b>9.0</b>
o/w corporate	17.1	10.4	6.7
o/w retail	10.6	8.3	2.3
o/w repos	1.1	1.1	0.0
<b>Group net loans</b>	<b>25.1</b>	<b>19.9</b>	<b>5.3</b>
o/w corporate	14.4	10.5	3.9
o/w retail	9.5	8.3	1.4
o/w repos	1.1	1.1	0.0

Source: Deutsche Bank, company data

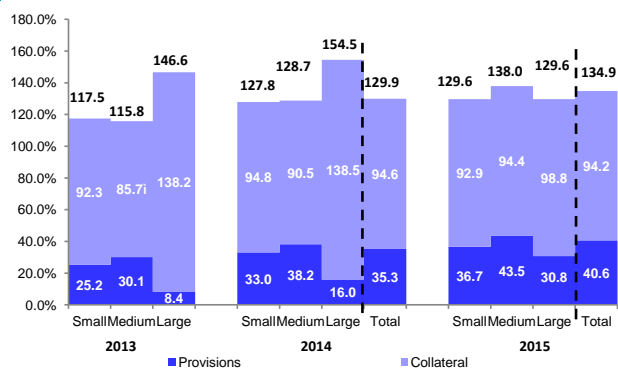
Figure 17: BPVi – Gross and net customer loans break-down by type and performing status (% , Euro bn)

2015	Total	o/w performing	o/w impaired
<b>Group gross loans</b>	<b>28.8</b>	<b>19.9</b>	<b>9.0</b>
o/w corporate	59%	52%	75%
o/w retail	37%	42%	25%
o/w repos	4%	6%	0%
<b>Group net loans</b>	<b>25.1</b>	<b>19.9</b>	<b>5.3</b>
o/w corporate	57%	53%	74%
o/w retail	38%	42%	26%
o/w repos	5%	6%	0%

Source: Deutsche Bank, company data

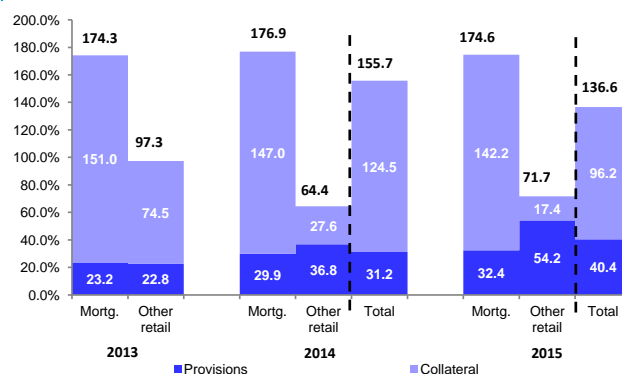
The retail loans coverage seems prudent (Figure 19), considering that 81% of the total Euro 10.6bn gross retail loans are residential mortgages.

Figure 18: BPVi – Gross corporate impaired loans provision and collateral (\*) coverage (%)



Source: Deutsche Bank, company data. (\*) Real guarantees and working capital (not capped)

Figure 19: BPVi – Gross retail impaired loans provision and collateral (\*) coverage (%)



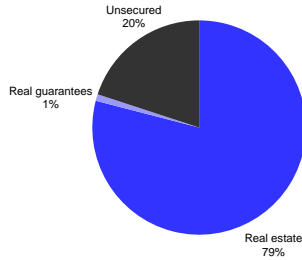
Source: Deutsche Bank, company data. (\*) Real guarantees (not capped)

It is worth noting that both the cash coverage of the retail and the corporate loans increased significantly in 2015 and are similar (40.6% for the corporate, and 40.4% for the retail, as reported in Figure 18 and Figure 19). This is surprising, as Figure 20 and Figure 21 show that the corporate book includes a higher percentage of unsecured exposures, but it is due to the fact that retail exposures includes loans related to the financed capital, which have been severely provisioned.



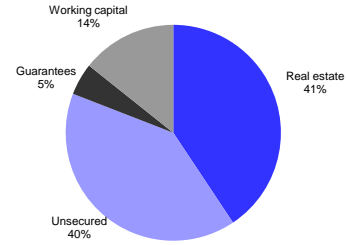


Figure 20: BPVi – Loans by collateral type (\*) (Euro 10.6bn, 2015) – Retail



Source: Deutsche Bank, company data. Notes: (\*) excludes other not classified exposures for c. Euro 0.6bn and c. Euro 1.0bn of loans and receivables

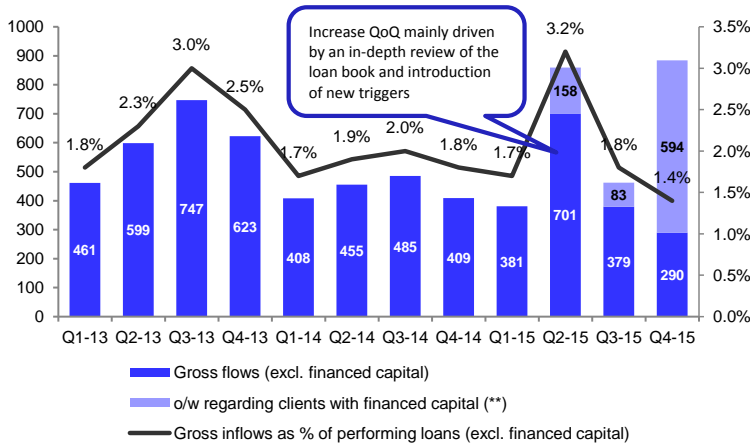
Figure 21: BPVi – Loans by collateral type (\*) (Euro 16.5bn, 2015) – Corporate



Source: Deutsche Bank, company data. Notes: (\*) excludes other not classified exposures for c. Euro 0.6bn and c. Euro 1.0bn of loans and receivables

Additionally, on top of the focus on coverage, the new management introduced stricter criteria for impaired loans classification (Figure 22), leading to a spike in NPE formation in Q2; especially in Q4, but also in Q2 and Q3, some loans linked to the financed capital were classified as NPLs and this further inflated NPE formation. It is interesting to note that the AQR (mostly Q4-14) led to some coverage increase, but this was less impactful than the new management action on loan classification.

Figure 22: BPVi – Gross NPE quarterly formation dynamics (\*) (Euro m, %)



Source: Deutsche Bank, company data. Notes: (\*) quarterly NPE flows may differ from previous page as figures are based on the exposure to clients at the date / quarter of classification; (\*\*) includes total credit exposures to clients with financed capital



**Key P&L trends in 2015: clean-up and effects of the reputation issues**

BPVi's 2015 P&L has been characterized by several one-off elements, concentrated in H2, when the new management came in. The new management's decision to provision for the pending risks inherited by the previous management and the reputation issues around the bank (leading to deposit outflows) affected the balance sheet and consequently revenues, costs and LLPs.

**Figure 23: BPVi – Net interbank position**

Euro m	2013	2014	2015
Exposure vs. Central Banks	-2,916	-1,544	-6,543
<i>o/w LTRO/TLTRO</i>	-3,300	-1,249	-1,849
Repo exposure	-738	-594	-851
Other secured exposure	-374	-340	-675
Debt securities and cash collateral	704	494	909
Unsecured exposure	-935	-519	-664
<b>Net interbank position</b>	<b>-4,259</b>	<b>-2,503</b>	<b>-7,823</b>

Source: Deutsche Bank, company data

**Figure 24: BPVi – Counterbalancing capacity**

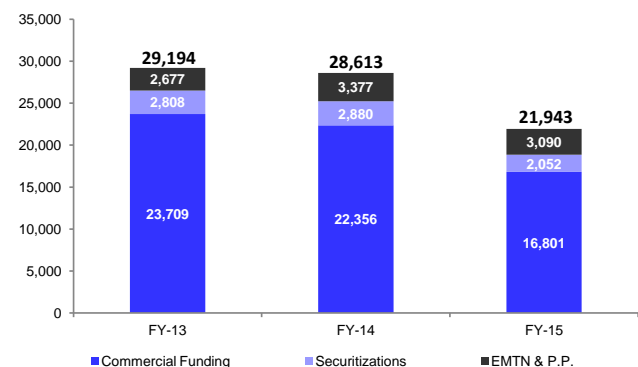
Euro m	2013	2014	2015
Unencumbered assets	3,015	3,963	<b>510</b>
Encumbered assets	6,893	4,578	7,843
<b>Total</b>	<b>9,908</b>	<b>8,541</b>	<b>8,354</b>

Source: Deutsche Bank, company data

As we commented earlier, BPVi saw two deposit runs during H2-15, and this required an increase in its exposure in ECB (via MRO, Figure 23). For this reason, its free eligible assets declined to Euro 510m at the end of 2015 (Figure 24, up again to Euro c.1bn in Q1-16). Over the horizon of the plan, the funding gap should decline and BPVi targets to reduce its exposure in ECB accordingly.

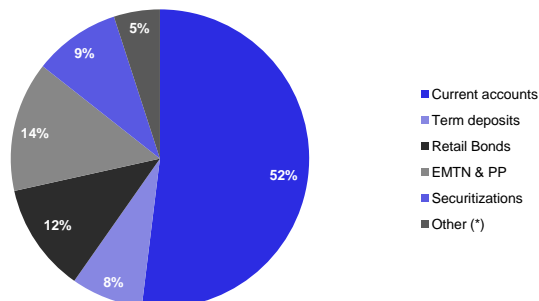
The resulting impact on NII was limited (-1% YoY, Figure 27), we think likely for these reasons: 1) the ECB funding cost is even lower than the retail funding costs, 2) the deleveraging helped to keep asset spread almost stable (in contrast to peers, which saw strong compression), and 3) the liquidity tension was concentrated at the end of the year. This may mean that asset pricing compression could increase in 2016 and onwards.

**Figure 25: BPVi – Direct funding evolution**



Source: Deutsche Bank, company data

**Figure 26: BPVi – Direct funding breakdown (2015)**



Source: Deutsche Bank, company data. Notes: (\*) Certified checks, third party funds, cash collateral



The delta between EoP direct funding in 2015 and 2014 was Euro 6.7bn (Figure 25); however, in the risk section of this report we refer to Euro 8.8bn funding outflows, as this included repos (Euro 1.8bn) and indirect deposits (Euro 0.4bn).

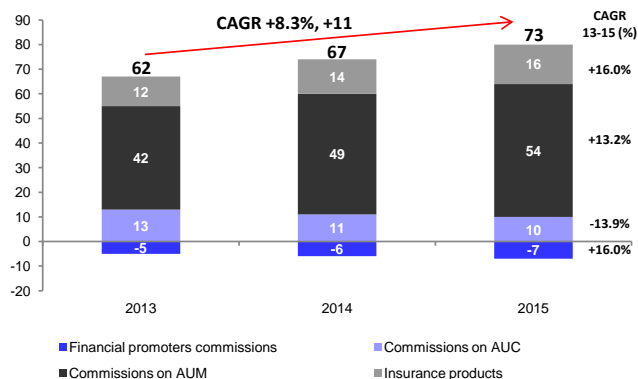
Figure 27: BPVi – Revenues trends in 2015

	2012	2013	2014	2015	YoY
Net interests income	509	528	511	504	-1%
Net fees	271	276	301	322	7%
Dividends	23	20	29	48	63%
Trading income	181	207	187	163	-13%
Other	63	52	49	15	-69%
<b>Total revenues</b>	<b>1,047</b>	<b>1,083</b>	<b>1,077</b>	<b>1,052</b>	<b>-2%</b>

Source: Deutsche Bank, company data

In 2015, fees grew 7% YoY. Their dynamics have been less solid than the industry average. Indeed, looking at the fee breakdown in the 2015 annual report, we note that most of their YoY growth is linked to the reimbursement of the state guarantee on bonds<sup>3</sup>; otherwise, the improvement in asset management fees (Figure 28) was offset by the decline in traditional banking services fees (for example, fees on current accounts were sharply down YoY).

Figure 28: BPVi – Focus on asset management fees (Euro m)



Source: Deutsche Bank, company data

Moving to provisions, Figure 29 summarizes the effects on P&L of the asset quality clean-up we described in the previous pages.

Figure 29: BPVi – Provisions trends in 2015

Euro m	2012	2013	2014	2015	YoY
LLPs	-216	-432	-868	-1,333	54%
Provisions on risk and charges	-6	-12	-18	-513	
Other	-27	-22	-53	-159	
<b>Total provisions</b>	<b>-249</b>	<b>-467</b>	<b>-940</b>	<b>-2,005</b>	<b>113%</b>

Source: Deutsche Bank, company data

<sup>3</sup> The Italian banks issued and retained their own bonds, paying the Italian government to receive a guarantee to make them eligible as collateral for ECB funding.



## Forecasts and projections

### Business plan targets and our forecasts

The pillars of BPVi's business plan are simple on paper: the bank has to reach and maintain solid capital and liquidity ratios, simplify its organization, and transform its operating model (i.e. evolution into the "distribution-only" approach). The cost savings and improvement in asset quality that this process brings, coupled with revamped commercial activity after the conclusion of the capital increase, could support all P&L lines.

Figure 30: BPVi – 2015-2020 business plan

	2015	2018	2020	CAGR 18/15 (%)	CAGR 20/15 (%)
<b>Balance sheet - Key items (Euro bn)</b>					
Net loans (*)	25.1	28.2	30.1	4.0%	3.7%
Direct funding (*)	21.9	26.4	28.2	6.4%	5.2%
Indirect funding (**)	14.6	18.6	20.6	8.6%	7.2%
<i>of which, managed</i>	<i>7.0</i>	<i>10.8</i>	<i>12.5</i>	<i>15.2%</i>	<i>12.1%</i>
Total funding	36.5	45.1	48.8	7.3%	6.0%
RWA (***)	24.9	26.8	28.2	2.5%	2.6%
<b>Income statement - Key items (Euro m)</b>					
Net interest income	504	579	669	4.8%	5.8%
Net fee and commission income	322	401	453	7.6%	7.1%
Trading	163	84	85	-19.9%	-12.2%
Operating income	1,053	1,143	1,289	2.8%	4.1%
Net operating costs	-754	-622	-613	-6.2%	-4.0%
Net profit from operating activities	298	522	676	20.5%	17.8%
Adjustments to loans	-1,333	-220	-214	-45.2%	-30.7%
Net profit (loss)	-1,407	202	309	n.m.	n.m.
<b>KPIs (%)</b>					
CET1	6.7%	12.0%	12.9%	+5.3 p.p.	+6.2 p.p.
Total Capital Ratio	8.1%	12.9%	13.7%	+4.8 p.p.	+5.6 p.p.
Leverage ratio	4.40%	7.70%	8.50%	+3.3 p.p.	+4.1 p.p.
LCR	47.5%	115.4%	122.0%	+67.9 p.p.	+74.5 p.p.
Cost Income	71.6%	54.4%	47.6%	-17.2 p.p.	-24 p.p.
Rote adjusted (****)	-36.2%	5.6%	8.2%	+41.8 p.p.	+44.4 p.p.
Cost of Credit (bps)	529	77	70	-452bps	-459bps
Coverage of impaired loans (*****)	42.4%	45.0%	46.7%	+2.6 p.p.	+4.3 p.p.
Texas ratio (*****)	210.9%	110.7%	95.3%	-100.1 p.p.	-115.6 p.p.

Source: Deutsche Bank, company data. Notes: Delta instead of CAGR for KPIs. (\*) Net of REPOs with CCG; (\*\*) excluding BPVi shares; (\*\*\*) calculated with standardized approach; (\*\*\*\*) ROTE adjusted calculated on Tangible Equity net of non-distributable equity reserve related to financed capital (Euro 304m); (\*\*\*\*\*) including write-off; (\*\*\*\*\* in this figure Texas Ratio calculated as net NPE/Tangible Equity (2015=239.8% if tangible equity adjusted deducting capital filter)

We compare our forecasts for 2018 (Figure 31) and for 2020 (Figure 32) to BPVi's business plan targets. Directionally, our forecasts reflect BPVi's expectations, in term of NII recovery from 2017 onwards, strict cost control, and reduction of provisions on loan losses. But we additionally forecast some more pressure on NII margins, smaller growth of fees and slower recovery of the cost of credit, and this essentially explains the difference between the targeted bottom line and our projection.



Figure 31: BPVi – DBe versus BPVi targets 2018

	2018 targets	2018 DBe	DBe/ targets	Targets CAGR 2018/2015 (%)	DBe CAGR 2018/2015 (%)
<b>Balance sheet - Key items (Euro bn)</b>					
Net loans (*)	28.2	27.6	-2.0%	4.0%	3.3%
Direct funding (*)	26.4	26.7	1.1%	6.4%	6.8%
Indirect funding (**)	18.6	18.0	-3.1%	8.6%	7.3%
<i>of which, managed</i>	<i>10.8</i>	<i>10.3</i>	<i>-4.7%</i>	<i>15.2%</i>	<i>13.7%</i>
Total funding	45.1	44.7	-0.8%	7.3%	7.0%
RWA (***)	26.8	26.2	-2.1%	2.5%	1.8%
<b>Income statement - Key items (Euro m)</b>					
Net interest income	579	568	-1.9%	4.8%	4.1%
Net fee and commission income	401	380	-5.1%	7.6%	5.7%
Trading	84	82	-2.1%	-19.9%	-20.4%
Operating income	1,143	1,130	-1.2%	2.8%	2.4%
Net operating costs	-622	-628	1.0%	-6.2%	-5.9%
Net profit from operating activities	522	501	-3.9%	20.5%	18.9%
Adjustments to loans	-220	-243	10.7%	-45.2%	-43.3%
Net profit (loss)	202	162	-19.7%	n.m.	n.m.
<b>KPIs (%)</b>					
CET1	12.0%	11.8%	-0.2 p.p.	+5.3 p.p.	+5.1 p.p.
Total Capital Ratio	12.9%	12.5%	-0.4 p.p.	+4.8 p.p.	+4.4 p.p.
Cost Income	54.4%	55.6%	+1.2 p.p.	-17.2 p.p.	-16.0 p.p.
Rote adjusted (****)	5.6%	3.8%	-1.8 p.p.	+41.8 p.p.	+40.0 p.p.
Cost of Credit (bps)	77	88	+11bps	-452bps	-441bps
Coverage of impaired loans (*****)	45.0%	44.3%	-0.7 p.p.	+2.6 p.p.	+1.9 p.p.
Texas ratio (*****)	110.7%	112.1%	+1.4 p.p.	-100.1 p.p.	-98.8 p.p.

Source: Deutsche Bank estimates, company data. Notes: Delta instead of CAGR for KPIs. (\*) Net of REPOs with CCG; (\*\*) excluding BPVi shares; (\*\*\*) calculated with standardized approach; (\*\*\*\*) ROTE adjusted calculated on Tangible Equity net of non-distributable equity reserve related to financed capital (Euro 304m); (\*\*\*\*\* including write-off; (\*\*\*\*\* in this figure Texas Ratio calculated as net NPE/Tangible Equity (2015=239.8% if tangible equity adjusted deducting capital filter)

- **NII** will be supported by volumes and margins (here BPVi differs from the rest of the sector, as its starting funding costs are higher, which may leave scope for deposit pricing to fall). The investment in government bonds will be increased (average maturity five years).
- **Fees** would benefit from a re-focus on asset management (which the bank has not had for some years) and boosted by the network staff re-training.
- **Trading income** will likely contract, as in 2015 and in previous years it benefited from the capital gains on the disposals of government bonds, which will decrease to Euro 30-35m per year during the business plan horizon.
- **Costs** will likely reduce due to branch closures and staff exits mostly in 2016/17 but also in 2019; costs should also decrease due to further efforts in the outsourcing of non-core activities and processes.
- **LLPs** will likely decline sharply after the clean-ups of 2014 and 2015. Equally, we expect provisions for risk and charges to reduce significantly, after 2015 spike. BPVi's normalized level of risk and charges provisions is in the range of Euro 8m per year, according to the company (we include Euro 25m per year, to prudentially factor in unpredictable legal costs, in connection with MIFID related or financed capital related issues).



- **Tax rate** should reach c. 30% on average. We do not include ACE<sup>4</sup> benefits (Euro 8.9m in 2016 and Euro 14.6m per year from 2017 on, according to the company) in our projections, in line with BPVi's business plan.

Figure 32: BPVi – DBe versus BPVi targets 2020

	2020 targets	2020 DBe	DBe/ targets	Targets CAGR 2020/2015 (%)	DBe CAGR 2020/2015 (%)
<b>Balance sheet - Key items (Euro bn)</b>					
Net loans (*)	30.1	29.6	-1.6%	3.7%	3.4%
Direct funding (*)	28.2	28.3	0.4%	5.2%	5.3%
Indirect funding (**)	20.6	19.9	-3.2%	7.2%	6.4%
<i>of which, managed</i>	<i>12.5</i>	<i>12.0</i>	<i>-3.6%</i>	<i>12.1%</i>	<i>11.5%</i>
Total funding	48.8	48.3	-1.1%	6.0%	5.7%
RWA (***)	28.2	27.5	-2.3%	2.6%	2.0%
<b>Income statement - Key items (Euro m)</b>					
Net interest income	669	650	-2.8%	5.8%	5.2%
Net fee and commission income	453	431	-4.9%	7.1%	6.0%
Trading	85	86	0.7%	-12.2%	-12.1%
Operating income	1,289	1,275	-1.1%	4.1%	3.9%
Net operating costs	-613	-611	-0.3%	-4.0%	-4.1%
Net profit from operating activities	676	664	-1.8%	17.8%	17.4%
Adjustments to loans	-214	-229	7.2%	-30.7%	-29.7%
Net profit (loss)	309	286	-7.5%	n.m.	n.m.
<b>KPIs (%)</b>					
CET1	12.9%	12.1%	-0.8 p.p.	+6.2 p.p.	+5.4 p.p.
Total Capital Ratio	13.7%	12.8%	-0.9 p.p.	+5.6 p.p.	+4.7 p.p.
Cost Income	47.6%	47.9%	+0.3 p.p.	-24 p.p.	-23.7 p.p.
Rote adjusted (****)	8.2%	6.3%	-1.9 p.p.	+44.4 p.p.	+42.5 p.p.
Cost of Credit (bps)	70	78	+8bps	-459bps	-451 bps
Coverage of impaired loans (*****)	46.7%	44.9%	-1.8 p.p.	+4.3 p.p.	+2.5 p.p.
Texas ratio (*****)	95.3%	101.9%	+6.6 p.p.	-115.6 p.p.	-109.0 p.p.

Source: Deutsche Bank, company data. Notes: Delta instead of CAGR for KPIs. (\*) Net of REPOs with CCG; (\*\*) excluding BPVi shares; (\*\*\*) calculated with standardized approach; (\*\*\*\*) ROTE adjusted calculated on Tangible Equity net of non-distributable equity reserve related to financed capital (Euro 304m); (\*\*\*\*\* including write-off; (\*\*\*\*\* in this figure Texas Ratio calculated as net NPE/Tangible Equity (2015=239.8% if tangible equity adjusted deducting capital filter)

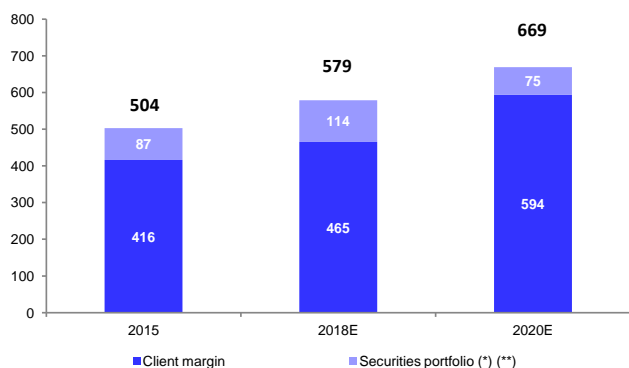
### Revenues: strong revamp from a weak starting point

Although our forecasts are below BPVi's projections, they still embed strong revenue growth over the next three years, compared to the rest of the Italian banks under Deutsche Bank coverage. Especially for NII, this depends on BPVi's 2015 starting point.

<sup>4</sup> ACE is a tax discount recognized by the Italian government to give incentive to equity injections.

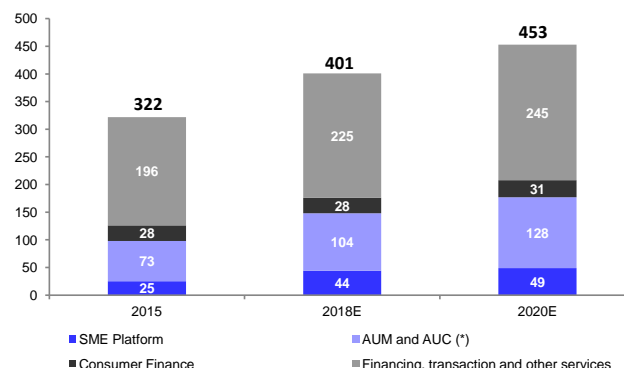


Figure 33: BPVi – Targeted NII evolution



Source: Deutsche Bank, company data. Notes: (\*) including minibond and ABS; (\*\*) Securities portfolio assumed funded at 3M Euribor, average spreads calculated over 3M Euribor

Figure 34: BPVi – Targeted fees evolution



Source: Deutsche Bank, company data. Notes: (\*) Includes placement and management fees from AUM & AUC

BPVi's **NII** will be supported by volumes and margins in our forecasts.

We expect **3% loan growth** on average (2016E-18E), which is above GDP growth and consistent with the Italian banking sector's historical track record. BPVi's lending could expand more than the sector average, as it is based in one of the most vital regions of Italy (and Europe) in terms of its SME presence (Veneto, Figure 35), and also because it was deleveraging until last year.

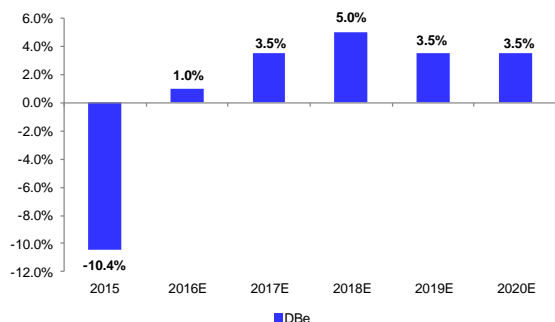
Figure 35: BPVi – Gross loan book distribution by location (\*) (%), 2015

Region	%
<b>Veneto</b>	<b>39.1%</b>
<b>Tuscany</b>	<b>13.3%</b>
<b>Lombardy</b>	<b>12.5%</b>
Sicily	9.1%
Friuli-Venezia Giulia	8.0%
Lazio	6.0%
Emilia-Romagna	4.6%
Calabria	1.7%
Piedmont	1.4%
Campania	0.9%
Liguria	0.9%
Apulia	0.6%
Trentino-South Tyrol	0.6%
Umbria	0.3%
Sardinia	0.2%
Abruzzo	0.1%
Basilicata	0.1%
Marche	0.1%
Aosta Valley	0.0%
Molise	0.0%

Source: Deutsche Bank, company data, regulatory reporting. Notes: (\*) Gross loan book of the banking entities, net of repos



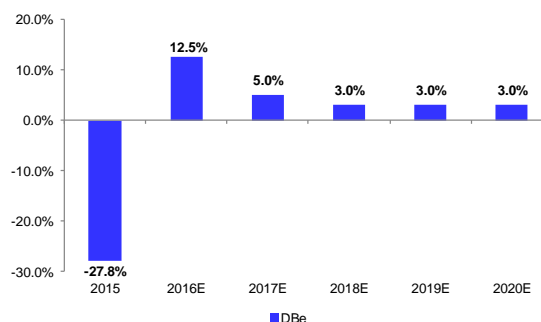
Figure 36: BPVi – Net loans to customers (YoY % change)



BPVi and DBe CAGR targets - details	CAGR 15-18	CAGR 15-20
<b>BPVi</b>	4.0%	3.7%
<b>DBe</b>	3.3%	3.4%

Source: Deutsche Bank estimates, company data.

Figure 37: BPVi – Direct funding (YoY % change)



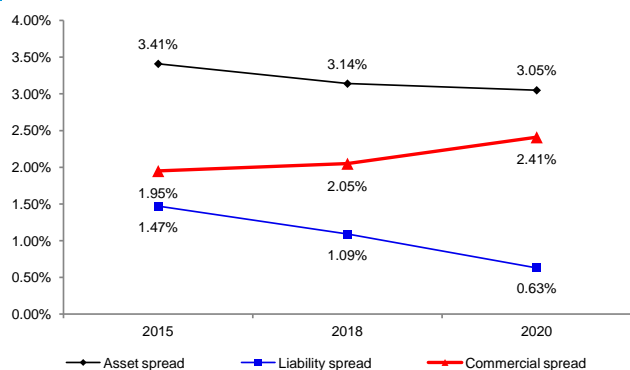
BPVi and DBe CAGR targets - details	CAGR 15-18	CAGR 15-20
<b>BPVi</b>	6.4%	5.2%
<b>DBe</b>	6.8%	5.3%

Source: Deutsche Bank estimates, company data.

We forecast an improvement in margins, mostly due to lower funding costs. This is different from what we embed in other Italian banks' estimates, simply because BPVi's 2015 funding costs were materially above the sector average. The conclusion of the recapitalization program, the listing and the progressive removal of the tail of the 2014/2015 reputational issues could lead to more normalized funding costs from 2016/7 onwards. But whether this happens will depend greatly on the customer reaction to recapitalization efforts and the new management team. We believe that trust and credibility in banking are hard-earned assets that are not easily regained, once they have been lost.

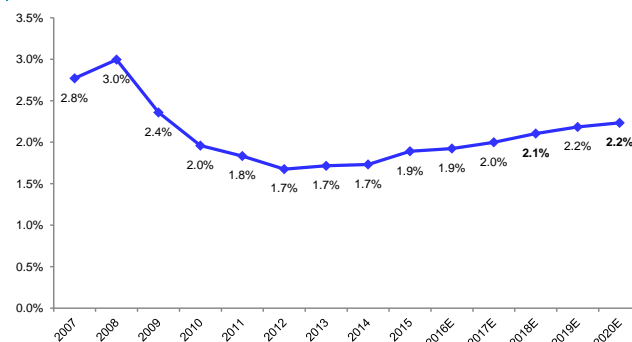
Moreover, maturities offer re-pricing opportunities: 1) Euro 1.7bn term deposits (i.e. the entire stock) have an average maturity lower than 1 year, 2) over the plan horizon Euro 2.3bn wholesale funding (EMTN) and Euro 2.3bn of retail bonds will also expire.

Figure 38: BPVi – Company targets for commercial spread (managerial data)



Source: Company data

Figure 39: BPVi – Deutsche Bank estimates for NIM (NII / average customer loans)



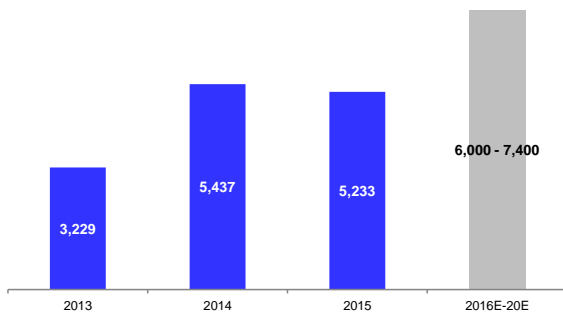
Source: Deutsche Bank estimates, company data

The investment in government bonds will be increased to Euro 6-7.4bn (Figure 40), from Euro 5.2bn in 2015, with an average maturity of five years. This represents a slight decline versus 5.8 years in 2015 despite the fact that the carry trades contribution to NII will be lower.



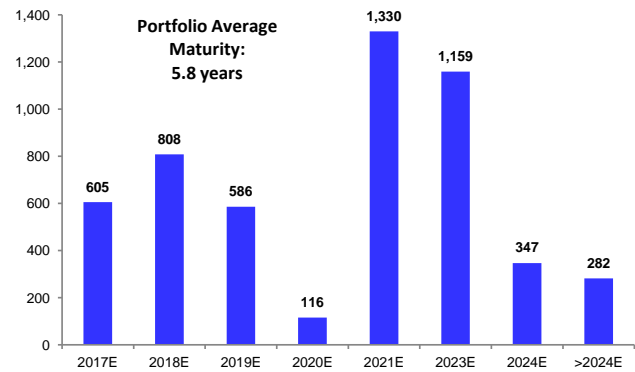


Figure 40: BPVi – Government bonds portfolio evolution (Euro m)



Source: Deutsche Bank, company data

Figure 41: BPVi – Government bonds portfolio, maturities (Euro m)

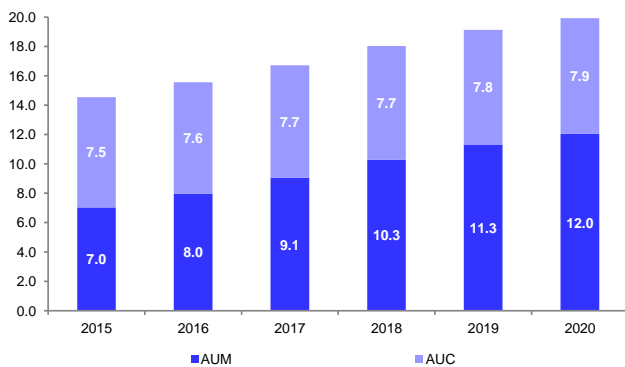


Source: Deutsche Bank, company data

**Fees** would benefit from a re-focus on asset management and be boosted by the network staff re-training. Before the new management came in, branch activity has been addressed at supporting the bank's liquidity (and capital needs) more than fee income generation; therefore the implementation of the new business plan requires some adjustment to the commercial policies and incentives.

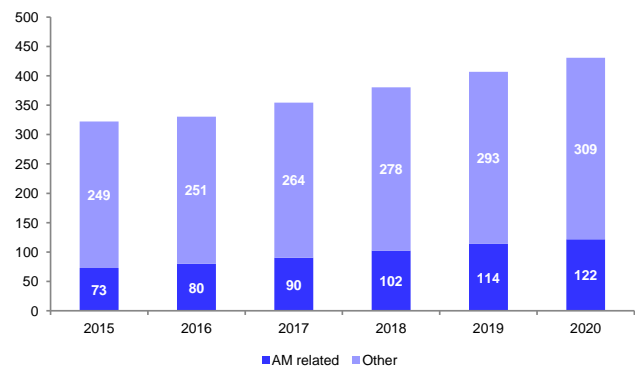
On top of new money, AUC represent first driver to support inflows into AUM: out of Euro 7.5bn AUC at the end of 2015, Euro 1.3bn were shares (excluding BPVi shares), and Euro 6.2bn other securities (of which 70% Italian Government bonds, and the remaining 30% corporate or other sovereign bonds). BPVi also includes in its projections a positive market effect of c. 2% per year positively contributing to AUA expansion. Any market effect is necessarily subject to upside and downside risks, as stock market performance is inherently variable.

Figure 42: BPVi – AUM and AUC trends in DB forecasts



Source: Deutsche Bank, company data

Figure 43: BPVi – Fees break-down in DB forecasts



Source: Deutsche Bank, company data

**Trading income** would decline, as in 2015 and in previous years it benefited from the capital gains on the disposals of government bonds, which would go down to Euro c.30-35m per year during the business plan horizon (from Euro 149.8m in 2013, Euro 109.4m in 2014m and Euro 101.8m in 2015).



**Dividends from equity investments and other revenues** should normalize versus the 2015 level. In 2015, dividends (Euro 47.9m) were boosted by the disposals of the stakes in some companies, which cannot be repeated in the coming years; they should range around Euro 35-45m on a recurring base. On the contrary, in 2015 other revenues (Euro 15.3m) were depressed by one-off effects and should return to Euro 55-60m in the coming years.

**Costs: a simple action plan for staff and administrative expenses**

In our view, BPVi has room to optimize costs, especially administrative costs, but we would not identify a lack of efficiency as the main issue of the bank. For instance, its network size is already overall balanced versus the corporate center (70% / 30% staff allocation is the sector standard and BPVi aims at 75% / 25% starting already from a good point, as reported in Figure 44).

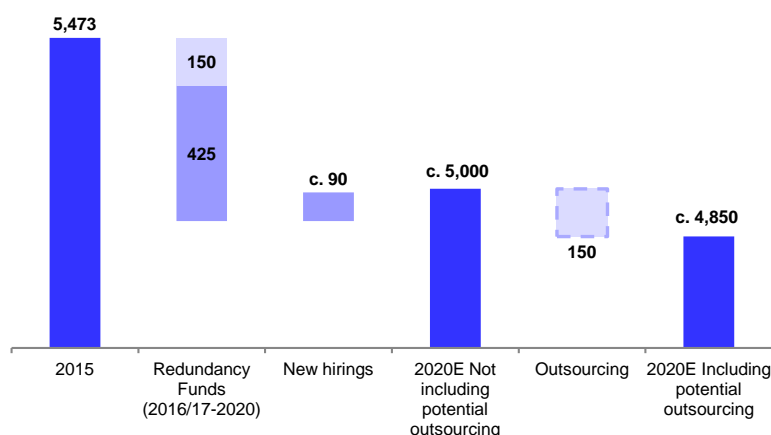
Figure 44: BPVi – Headcount 2015 (#)

<b>Total staff</b>	<b>5,473</b>	
o/w network	4,014	73%
o/w Operating machine (back office, real estate)	291	5%
o/w headquarter	911	17%
o/w other and subsidiaries	257	5%

Source: Deutsche Bank, company data

The staff layoff (-575 is the company goal, Figure 45) over two redundancy plans includes employees who will mature the right to retire by 2018 or by 2020; actually BPVi prudentially included only 425 exits by 2018, versus 485 total employees that could retire by the same year. Our forecasts are overall in line with the company’s targets, which we consider realistic (Figure 46, Figure 47, and Figure 48).

Figure 45: BPVi – Targeted staff reduction (#)



Source: Deutsche Bank, company data

The closure of some branches and the reorganization of the network (which BPVi includes among the actions needed to reduce administrative expenses) have also had impacts in term of productivity / commercial effectiveness as they support the adoption of the **hub and spoke model**.



Figure 46: BPVi – Evolution of staff expenses

Euro m	BPVi target	DBe
2015 staff costs	410	
2015 adjusted staff costs	400	
1 redundancy plan (-425)	-38	
labor cost reduction (managers salary, lower working hour, etc)	-7	
90 hirings	8	
SEC project (outsourcing)	-17	
Bonuses	6	
New national labor contract	12	
2018 staff costs	364	376
2 redundancy plan (-150)	-12	
New national labor contract	9	
2020 staff costs	361	367

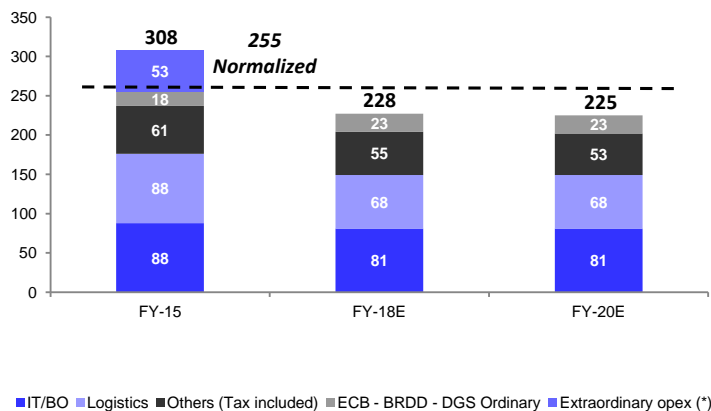
Source: Deutsche Bank estimates, company data

Figure 47: BPVi – Evolution of administrative expenses

Euro m	BPVi target	DBe
2015 administrative expenses	308	
2015 adjusted administrative expenses	255	
SEC project (ICT outsourcing)	-8	
Logistics (-150 branches, rentals, legal entities rationalization)	-20	
Other (marketing, foreign offices)	-8	
DGS (full ordinary contribution, as only 50% was booked in 2015)	5	
2020 administrative expenses	225	222

Source: Deutsche Bank estimates, company data

Figure 48: BPVi – Targeted evolution of administrative expenses (Euro m)



Source: Deutsche Bank, company data. Notes: (\*) Non recurring expenses mainly due to ECB-BRRD-DGS one-off contributions "Salvabanche" (c. Euro 41m), and advisory costs related to IPO (c. Euro 11m)

It is worth mentioning that BPVi aims to adopt a **distribution-only approach**. At the moment, BPVi still owns a stake in Arca (asset management) and fully controls Prestinuova (consumer credit) and NEM Sgr (private equity); the disposal of these stakes / subsidiaries is not included in BPVi's business plan projections, and could lead to additional cost savings (losing some revenues).

#### Capital ratios: maintaining a buffer on the 2016 SREP requirement

**BPVi's SREP ratio is 10.25%**. This will reduce after the execution of the capital increase in our view, and also after the implementation of the other



organizational / operational changes introduced by the new business plan. In any case, in our projections BPVi maintains a phased-in CET1 ratio of c.12%, and this allows it to work with a good buffer, even towards the current SREP.

Figure 49: BPVi – Capital ratios evolution

Euro m	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
RWAs	28,851	28,061	28,985	24,884	24,882	25,238	26,234	26,881	27,544
CET1 ratio	8.2%	9.2%	10.4%	6.7%	12.1%	11.9%	11.8%	11.9%	12.1%
Tier 1 ratio	8.2%	9.2%	10.4%	6.7%	12.1%	11.9%	11.8%	11.9%	12.1%
Total capital ratio	11.3%	11.8%	11.6%	8.1%	12.9%	12.7%	12.5%	12.6%	12.8%
CET1 ratio FL				5.9%	11.6%	11.7%	11.6%	11.8%	12.1%
Dividend payout	39%	0%	0%	0%	0%	50%	50%	50%	50%

Source: Deutsche Bank estimates, company data

BPVi could free up additional capital from a potential disposal of its stake in Arca, or its subsidiaries PrestiNuova, FarBanca and NEM Sgr. These disposals are mentioned by BPVi as buffers or potential strategic options, but not included in the business plan projections. We do not know if FarBanca or NEM Sgr could be appealing for other players or competitors; we consider it easier to find possible buyers for Arca and PrestiNuova (and they would bring BPVi up to c.70bps of the CET1 ratio): in the case of Arca, other shareholders could be willing to take the full control of the company, and in the case of PrestiNuova the salary guaranteed loan business could be attractive for several players already active in the Italian consumer credit market.

Figure 50: BPVi – Further potential capital release from non-strategic asset disposals (Euro m)

Entity	Description	Book value (*)	Stake (%)	Contribution to 2015 net profit
Arca	Asset management company established by the Popolari banks	38.7	19.99%	1.6
PrestiNuova	Active in consumer finance, i.e. salary secured loans, particularly to public sector employees	35.0	100%	10.4
FarBanca	On-line bank specialized in banking services to pharmacies	43.9	70.77%	2.1
NEM Sgr	Established in September 2004 to promote, establish and manage private equity funds (**)	2.4	100%	1.1
Real Estate	Real estate company (Immobiliare Stampa) (***)	497.0	100%	-10.6

Source: Deutsche Bank, company data. Notes: (\*) Book value in BPVi 2015 annual report; (\*\*) Book value of the funds managed by NEM SGR owned by BPVi; (\*\*\*) Book value of real estate properties at Group level

- A possible disposal of Arca could generate a capital gain of Euro 55m – 60m (20bps – 25bps on current RWAs), affecting earnings only marginally. Indeed the 20% stake in Arca contributed almost zero to 2014 earnings, and Euro 1.6m to 2015 earnings; Euro 23m asset management fees in 2015 have been generated on Arca products, but these could be either maintained (in case a distribution agreement is signed) or replaced with fees on products of other third party.



Figure 51: BPVi – Potential capital gain on the Arca disposal (Euro m)

Priced paid by BPER for a 12.75% stake	61
Implied value for a 100% stake	480
Arca AUM (end of 2015)	28,351
P/AUM paid by BPER (%)	1.7%
BPVi's stake (%)	20%
BPVi's carry value (2015)	39
BPVi's stake implied price (applied BPER transaction values)	96
Capital gain	57
in bps on 2015 RWAs	23

Source: Deutsche Bank estimates, BPER / Arca data, Assogestioni

- A possible disposal of PrestiNuova could free up Euro 250m RWAs and generate a capital gain of Euro 69m – 89m (overall leading to 35bps – 45bps benefit on CET1 ratio). The earnings reduction would be approximately c.5-6% (on 2018 earnings) in our estimates<sup>5</sup>.

Figure 52: BPVi – Potential capital gain on the disposal of PrestiNuova – consumer credit subsidiary (Euro m)

Carrying value for BPVi	35
2015 RWAs	246
2015 net profit	10
2015 ROTe (%)	30%
P/E x (min)	10
P/E x (max)	12
Value min	104
Value max	125
Capital gain (min)	69
in bps on 2015 RWAs	35
Capital gain (max)	89
in bps on 2015 RWAs	43

Source: Deutsche Bank, company data

- We would not expect significant capital gains / earnings reduction from any disposal of FarBanca and NEM.

Figure 53: FarBanca, KPIs

Euro m	2014	2015
Customer loans	473	527
Total assets	500	548
Customer deposits	141	140
Total funding	328	326
Net profit	3.17	2.90

Source: Deutsche Bank, company data

<sup>5</sup> PrestiNuova net profit reached Euro 10.4m in 2015 and Euro 3.3m in 2014, with NII, and particularly cost of funding representing the main driver of the 2015 YoY improvement. The main effect of PrestiNuova disposal would be a loss of NII (which could be partially offset by commissions in presence of a new distribution agreement with third party) and lower costs (Euro 4m in 2015, when cost income reached 22%). PrestiNuova LLPs are negligible consistently with the risk embedded in Secured Salary Loans (the cost of credit was -18bps in 2015, i.e. PrestiNuova recorded a right back) and 14bps in 2014.



Figure 54: NEM Sgr, KPIs

Euro m	2014	2015
Customer loans	2.9	3.0
Total assets	4.3	4.4
Net profit	1.1	1.1

Source: Deutsche Bank, company data

## Some considerations on the TLTRO2<sup>6</sup>

### Helpful for funding costs

Our forecasts (and the company's business plan) do not include the impact of the possible use of the TLTRO2 facility, which has been introduced on the 10-Mar-16 by the ECB. However, it can be supportive for BPVi as: 1) thanks to its unconditional component, it reduces pending liquidity risks (i.e. if banks do not beat the undemanding lending benchmark, they do not have to reimburse the TLTRO2 in advance, but they pay a higher yield on it); 2) it allows reducing funding costs.

Figure 55: BPVi – Potential TLTRO2 take-up

Euro bn		2015
Customer loans		25.2
ECB-eligible		16.8
30% of ECB-eligible	A	5.1
Outstanding TLTRO	B	1.8
o/w TLTRO 1 (1st/2nd)	C	1.2
<b>Maximum TLTRO2 take-up before switch</b>	<b>D = A - C</b>	<b>3.8</b>
<b>Switch</b>	<b>E</b>	<b>1.8</b>
<b>Max TLTRO2 after full switch</b>	<b>F = A</b>	<b>5.1</b>
Additional TLTRO2 on top of full switch	G = F - E	3.2
Total max ECB exposure (*)	H = A + B - C	5.7

Collateral (Q1-16)	1.0
<b>Maximum TLTRO2 take-up before switch</b>	<b>1.0</b>
<b>Switch</b>	<b>1.8</b>
<b>Max TLTRO2 after full switch</b>	<b>2.8</b>
<b>Total max ECB exposure (*)</b>	<b>2.8</b>

Source: Deutsche Bank estimates, company data (\*) excluding MRO

For BPVi, Figure 55 shows the maximum TLTRO2 take-up, both considering the possibility to reimburse MRO and restore collateral, and the current situation, where the take-up is actually capped by the collateral availability (BPVi can take up an additional Euro 1bn of TLTRO2, and switch all the existing Euro 1.8bn TLTRO1 into TLTRO2, ending up with Euro 2.8bn TLTRO2).

We consider it unlikely that BPVi uses its entire collateral to ask for additional TLTRO2; however, BPVi could switch its entire TLTRO1 exposure into TLTRO2 and could significantly reduce its MRO exposure (Euro c.4.7bn as of 2015), converting part of it too into TLTRO2.

<sup>6</sup> For details on the TLTRO2 technicalities, please refer to Paola Sabbione's note published on 17-Mar-16.  
 Link: <https://ger.gm.cib.intranet.db.com/ger/document/pdf/0900b8c08ae3cace.pdf>



Figure 56: BPVi – ECB exposure (2015)

ECB exposure	6.543
o/w TLTRO1	1.849

Source: Deutsche Bank, company data

The TLTRO switch could bring c.2% boost to 2017E NII (Figure 57).

The switch of the outstanding MRO into TLTRO2 can only be partial (see case A in Figure 57), as the maximum exposure to TLTRO2 could be 30% of BPVi's eligible loans, i.e. Euro 5.1bn in our estimates (so, assuming Euro 1.8bn are used for the TLTRO1, only Euro 3.2bn MRO can be converted into TLTRO2). It would bring an additional c.3% support to NII.

If BPVi does not convert MRO into TLTRO1, and does not reimburse it, it could only draw an additional Euro 1bn of TLTRO2 for new lending. We consider this scenario (B in Figure 57) unlikely.

Figure 57: BPVi – Potential impacts from TLTRO2

Euro bn	2015
<b>TLTRO1 Switch</b>	<b>1.8</b>
Old TLTRO1 yield	0.05%
New TLTRO2 yield	-0.40%
Impact on NII (2017E)	1.6%
Impact on net profit (2017E)	10.0%
<b>A) MRO switch</b>	<b>3.2</b>
Old funding cost	0.05%
New TLTRO2 yield	-0.40%
Impact on NII (2017E)	2.8%
Impact on net profit (2017E)	17.3%
<b>B) Other lending</b>	<b>1.0</b>
Old funding cost (DBe)	2.50%
New TLTRO2 yield	-0.40%
Impact on NII (2017E)	5.6%
Impact on net profit (2017E)	34.9%

Source: Deutsche Bank estimates, company data

We use 0.4% as TLTRO2 cost in the tables above, as BPVi can beat its lending benchmark. Figure 58 is just a proxy of the possible benchmark as we do not have the precise 31-Jan-15 / 31-Jan-16 eligible loans to compare, rather, we use 2014 and 2015 yearend data; moreover we do not have a precise loan breakdown, but we use the company's divisional data which we note could differ from the ECB classification.

Figure 58: BPVi – Lending benchmark for TLTRO

Euro bn	
Eligible loans (2015)	16.8
Eligible loans (2014)	18.8
Delta	-2.0
Benchmark	14.9
DBe 2016E/17E loan growth	4.5%

Source: Deutsche Bank estimates, company data



In order to pay the TLTRO2 -0.4%, BPVi has expand its eligible loans that represent the benchmark (Euro 14.9bn in our estimates) by 2.5% or more by 31-Jan-18. We expect a customer loan growth (for the total loans, not for eligible loans only) of 1% in 2016E and 3.5% in 2017E, starting from 2015 loans, which themselves are even above the benchmark. Therefore, we believe it is probable to see BPVi beat the benchmark.





# Valuation

## Valuation methodology: summary

- Typically, the Gordon Growth Model is used for BPVi's Italian peers under Deutsche Bank coverage, adjusted for the excess capital (over a minimum threshold, which is represented by the minimum capital requirement). For BPVi, we apply the GGM multiple (ROTE-g/CoE-g) to our 2018 estimate of average tangible equity and then discount back using our CoE assumptions; to this, we add the excess capital NPV.
- We refer to market multiples to highlight the current peers' valuations. Not all peers are perfectly comparable; therefore we suggest that readers analyze their valuations on the basis of their key KPIs, which we present in the "Market positioning" section and in Figure 3.
- We use 2018 figures to capture at least the first milestones of BPVi's business plan implementation (2015 – 2018/2020).

## GGM

We present below three sensitivity analyses of the GGM valuation, referring to the main drivers affecting P&L (Euribor level, lending growth) and balance sheet (minimum level of capital requirement). We base our GGM on 2018 forecasts of ROTE and tangible equity. We refer to 2018 figures to capture at least the first milestones of BPVi's business plan implementation.

- Interest rates and cost of equity.** We look at the changes in the GGM valuation based on the Euribor (as this is the main reference rate for the Italian banks' assets and liability pricing, and affects their NIM evolution). In our model we assume BPVi, as with all Italian banks, is positively exposed to an increase of the Euribor which boosts our NIM and NII projections<sup>7</sup>. So the GGM valuation tends to increase in the presence of a higher Euribor and a lower cost of equity.

Figure 59: BPVi – GGM sensitivity to 2016E Euribor (and cost of equity)

	Equity Value		2016E Euribor							
	-0.60%	-0.50%	-0.40%	-0.30%	-0.20%	-0.10%	0.00%	0.10%	0.20%	
6.5%	1,799	1,858	1,917	1,976	2,036	2,095	2,154	2,213	2,273	
7.0%	1,631	1,684	1,737	1,791	1,844	1,897	1,950	2,003	2,057	
7.5%	1,493	1,542	1,590	1,638	1,687	1,735	1,783	1,831	1,880	
8.0%	1,378	1,423	1,467	1,511	1,555	1,599	1,644	1,688	1,732	
8.5%	1,281	1,322	1,363	1,403	1,444	1,485	1,525	1,566	1,607	
9.0%	1,198	1,235	1,273	1,311	1,349	1,386	1,424	1,462	1,500	
9.5%	1,125	1,160	1,195	1,230	1,266	1,301	1,336	1,371	1,406	
10.0%	1,061	1,094	1,127	1,160	1,193	1,226	1,259	1,292	1,325	
10.5%	1,005	1,036	1,067	1,098	1,129	1,160	1,191	1,221	1,252	
11.0%	955	984	1,013	1,042	1,071	1,101	1,130	1,159	1,188	
11.5%	910	937	965	993	1,020	1,048	1,075	1,103	1,130	

Source: Deutsche Bank estimates (base case: 2016E Euribor of -0.2%)

<sup>7</sup> 2015 sensitivity to Euribor was Euro +20m in NII, for every +50bps in Euribor. The business plan of BPVi assumes to adjust ALM overtime (also due to government bonds purchases) and reduce this sensitivity to almost zero; however, we assume that, should interest rates expand, ALM will be modified further to benefit from the rate move.



- **Customer loans growth and cost of equity.** We look at the changes in the GGM valuation based on the different potential levels of lending growth in 2016E. Higher lending volumes imply a higher NII in our forecasts; hence the GGM valuation tends to increase in the presence of higher lending growth and a lower cost of equity.

Figure 60: BPVi – GGM sensitivity to 2016E customer loans YoY growth (and cost of equity)

Equity Value	2016E customer loans YoY growth								
	-1.00%	-0.50%	0.00%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%
6.5%	1,866	1,909	1,951	1,993	2,036	2,078	2,120	2,163	2,205
7.0%	1,696	1,733	1,770	1,807	1,844	1,881	1,918	1,955	1,992
7.5%	1,556	1,589	1,621	1,654	1,687	1,719	1,752	1,784	1,817
8.0%	1,440	1,469	1,497	1,526	1,555	1,584	1,613	1,642	1,671
8.5%	1,341	1,367	1,392	1,418	1,444	1,470	1,496	1,521	1,547
9.0%	1,256	1,279	1,302	1,325	1,349	1,372	1,395	1,418	1,441
9.5%	1,182	1,203	1,224	1,245	1,266	1,287	1,307	1,328	1,349
10.0%	1,117	1,136	1,155	1,174	1,193	1,212	1,231	1,250	1,269
10.5%	1,060	1,077	1,094	1,111	1,129	1,146	1,163	1,180	1,198
11.0%	1,009	1,024	1,040	1,056	1,071	1,087	1,103	1,118	1,134
11.5%	963	977	992	1,006	1,020	1,034	1,049	1,063	1,077

Source: Deutsche Bank estimates (base case: 2016E lending growth of +1%)

- **Minimum capital requirement and cost of equity.** We look at the changes in the GGM valuation based on different potential capital requirement levels BPVi has to keep. A larger buffer between our forecasts of the CET1 ratio (fully loaded) and the minimum capital requirements leads to a higher valuation. Currently, the minimum capital requirement for BPVi is 10.5% (10.25% SREP + 0.25% management buffer).

Figure 61: BPVi – GGM sensitivity to minimum capital requirement (and cost of equity)

Equity Value	Minimum capital requirement										
	9.50%	9.75%	10.00%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%
6.5%	2,271	2,212	2,153	2,095	2,036	1,977	1,918	1,859	1,801	1,742	1,683
7.0%	2,077	2,019	1,960	1,902	1,844	1,785	1,727	1,669	1,610	1,552	1,494
7.5%	1,918	1,860	1,802	1,744	1,687	1,629	1,571	1,513	1,455	1,397	1,339
8.0%	1,785	1,727	1,670	1,613	1,555	1,498	1,440	1,383	1,326	1,268	1,211
8.5%	1,672	1,615	1,558	1,501	1,444	1,387	1,330	1,273	1,216	1,159	1,102
9.0%	1,574	1,518	1,462	1,405	1,349	1,292	1,236	1,179	1,123	1,066	1,010
9.5%	1,490	1,434	1,378	1,322	1,266	1,210	1,154	1,098	1,041	985	929
10.0%	1,415	1,360	1,304	1,249	1,193	1,137	1,082	1,026	971	915	859
10.5%	1,349	1,294	1,239	1,184	1,129	1,074	1,018	963	908	853	798
11.0%	1,290	1,236	1,181	1,126	1,071	1,017	962	907	853	798	743
11.5%	1,237	1,183	1,129	1,074	1,020	966	912	857	803	749	694

Source: Deutsche Bank estimates (base case: 10.50% which corresponds to 10.25% SREP + 0.25% management buffer)



## Market multiples

We report below the current market valuation of BPVi's peers. We normally use P/TE or P/E multiples for peers, but we also included the dividend yield and ROTE in Figure 62 to support the comparison.

Figure 62: BPVi – Popolari banks' trading multiples

		2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
	Market Cap (Euro m)	P/E (x)	P/E (x)	P/E (x)	P/TE (x)	P/TE (x)	P/TE (x)	Div Yield (%)	Div Yield (%)	Div Yield (%)	ROTE (%)	ROTE (%)	ROTE (%)
Banco	1,778	5.5	4.3	3.5	0.28	0.27	0.26	7.1	9.1	11.4	5.0	6.4	7.7
UBI	2,738	9.2	6.7	5.3	0.32	0.31	0.30	5.0	7.1	9.1	3.6	4.8	5.8
BPM	2,376	9.9	7.8	7.1	0.51	0.50	0.48	5.5	7.0	7.7	5.2	6.5	6.9
BP Sondrio	1,352	10.5	9.0	7.3	0.51	0.49	0.47	2.3	2.3	3.0	4.9	5.4	6.4
BPER	1,934	9.2	6.3	5.3	0.42	0.40	0.38	4.0	6.2	7.8	4.5	6.4	7.3
Creval	601	10.5	7.1	5.6	0.30	0.29	0.29	5.2	6.5	8.1	2.8	4.2	5.1
<b>Average</b>		<b>9.1</b>	<b>6.9</b>	<b>5.7</b>	<b>0.39</b>	<b>0.38</b>	<b>0.36</b>	<b>4.9</b>	<b>6.4</b>	<b>7.8</b>	<b>4.3</b>	<b>5.6</b>	<b>6.5</b>

Source: Deutsche Bank estimate, Bloomberg, company data. Prices as of 05/04/2016

Figure 63: BPVi – P/E and P/TE multiples valuation

	2018
<b>P/E (x)</b>	
Average P/E Italian Popolari banks (x)	5.7
BP Vicenza value (Euro m) using average P/E	921
Minimum P/E Italian Popolari banks (x)	3.5
BP Vicenza value (Euro m) using minimum P/E	564
Maximum P/E Italian Popolari banks (x)	7.3
BP Vicenza value (Euro m) using maximum P/E	1,189
<b>P/TE (x)</b>	
Average P/TE Italian Popolari banks (x)	0.36
BP Vicenza value (Euro m) using average P/TE	1,351
Minimum P/TE Italian Popolari banks (x)	0.26
BP Vicenza value (Euro m) using minimum P/TE	975
Maximum P/TE Italian Popolari banks (x)	0.48
BP Vicenza value (Euro m) using maximum P/TE	1,795

Source: Deutsche Bank estimates, Bloomberg, company data. Prices as of 05/04/2016



# Key risk factors

## Sector risks

BPVi is exposed to the main risk factors that also affect other Italian banks.

- Worsening concerns over the sovereign debt of peripheral countries in Europe, in particular Italy, could negatively affect not only the share price performance of the Italian banks, but also their fundamentals.
- More broadly, any significant deterioration in market sentiment would lead to a decline in the sector's valuation multiples.
- Regulatory and/or accounting changes (i.e. RWA inflation linked to Basel 4, the adoption of the IFRS 9, and the potential revision of the treatment of sovereign bond holdings) represent other key risks for the sector.

## BPVi specific risks

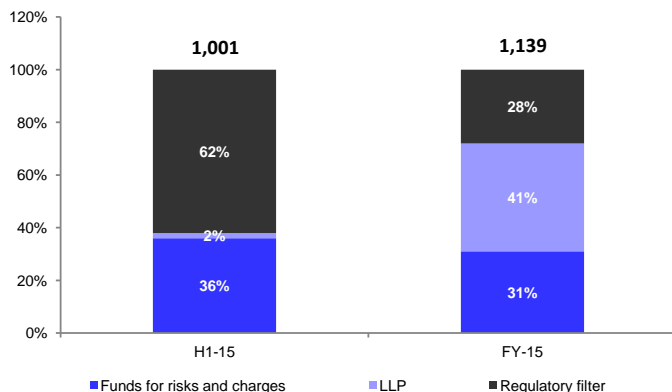
### 1) Capital increase execution

- The execution of the capital increase is fundamental for BPVi, given that its CET1 ratio is below the minimum capital requirement (7%) and below the SREP ratio (10.25%). Any delay or obstacle in the process could represent a downside risk to our forecasts. In particular, the full underwriting agreement signed by Unicredit to guarantee the capital increase lasts until the 10-May-16. For details, please refer to Appendix C.

### 2) The financed capital

- BPVi financed some of the previous capital increases by offering loans to its clients to underwrite the new shares.

Figure 64: BPVi – Total non-eligible capital (Euro m)



Source: Deutsche Bank, company data



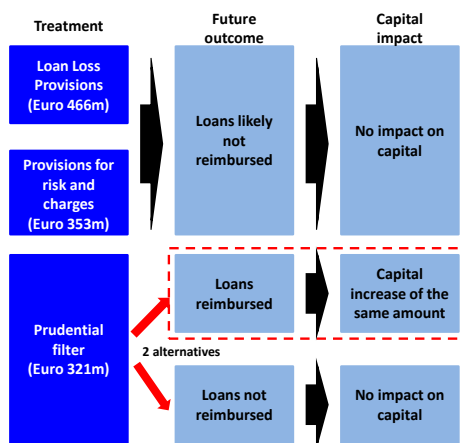
Figure 65: BPVi – Breakdown of non-eligible capital

Euro m	Exposure	LLP	Prov. for risk and charges	Total	Coverage	Regulatory filter
Gross performing exp.	508	10	272	282	55.5%	226
Gross NPE	578	456	45	501	86.6%	77
Commitment letters	52	0	36	36	68.8%	16
<b>Total as of FY-15 (*)</b>	<b>1,139</b>	<b>466</b>	<b>353</b>	<b>819</b>	<b>71.9%</b>	<b>321</b>

Source: Deutsche Bank, company data. Notes: (\*) Total value of regulatory filter includes Euro 0.7m of filter related to customers with financed capital but without exposure as of FY-15

- From an inspection carried out by the ECB and the new management resulted that Euro 1.1bn of BPVi’s capital was financed with loans (Figure 64) granted to c.1,300 shareholders in the period starting from 2010 till H1-15 (or from 2008 for a few loans of Euro >10m).
- Euro 0.8bn of those underlining loans will not be reimbursed, due to credit or legal risks (Figure 65 and Figure 66). Therefore a provision has been made to entirely cover the potential Euro 0.8bn loss.
- On the remaining Euro 0.3bn underlining loans, management considers a reimbursement possible; therefore no provision has been booked, but an equivalent filter has been deducted from CET1 ratio. In other words, from a P&L point of view, BPVi could book additional provisions, but they would not affect solvency ratios.
- In the presence of some loan reimbursement, BPVi’s CET1 ratio would improve by the same amount. This is an upside risk which we do not include in our projections (and which the company does not include in its business plan).

Figure 66: BPVi – Financed capital treatment

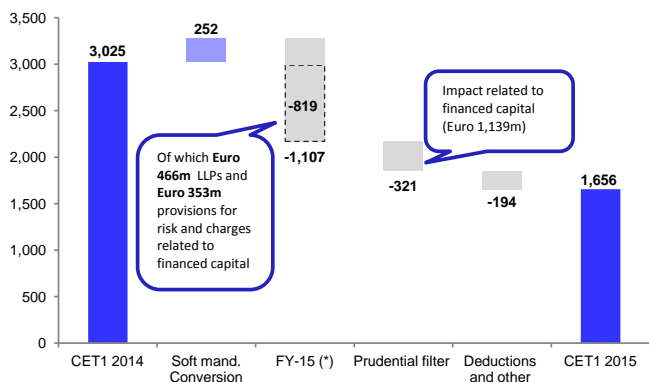


Source: Deutsche Bank, company data

- The identification of a larger amount of financed capital is a downside risk. However, it is worth mentioning that BPVi has received “only” Euro c.620m claims from clients, of which Euro 400m is related to financed capital (fully covered by LLPs), and Euro 220m is related to other risks (covered by Euro 136m risk and charges provisions).



Figure 67: BPVi – CET1 ratio as of FY-15 (Euro m)

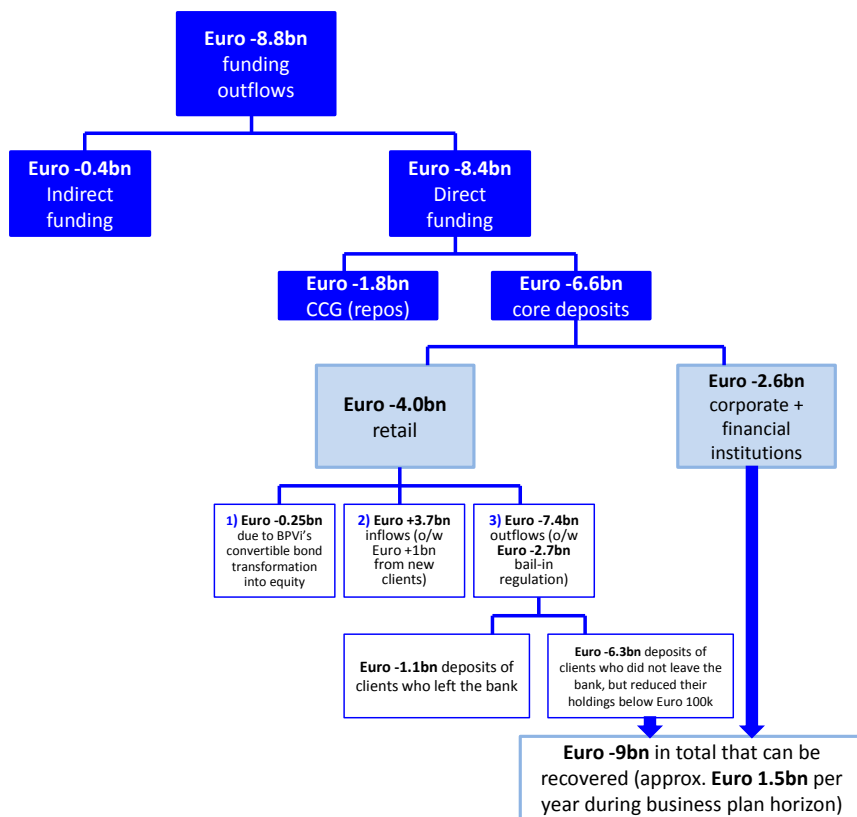


Source: Deutsche Bank, company data. Notes: (\*) Net of goodwill impairment impact

### 3) Liquidity risk – Deposit runs during 2015

BPVi experienced two deposit runs in 2015. The first one was related to the Italian Fiscal Authority inspection in Sept-15; the second was caused by concerns around the introduction of the BRRD rules in Italy and their application in the rescue of four small banks in Dec-15. Overall, funding outflows reached Euro 8.8bn in 2015.

Figure 68: BPVi – 2015 funding outflows (Euro bn)



Source: Deutsche Bank, company data

Figure 68 shows that BPVi could recover this from corporate / financial institutions, and from retail clients who have simply reduced the amount of



deposits held in the bank below the non-bail-in-able threshold of Euro 100k, but which have not left the bank in full; only with 40-50% of these deposits recovered by 2018 (approximately Euro 1.5bn per year), BPVi would achieve the target of total deposits growth envisaged by the plan. As of Q1-16, overall deposits are substantially stable QoQ.

In addition to the above, there was a small deposit run before March AGM.

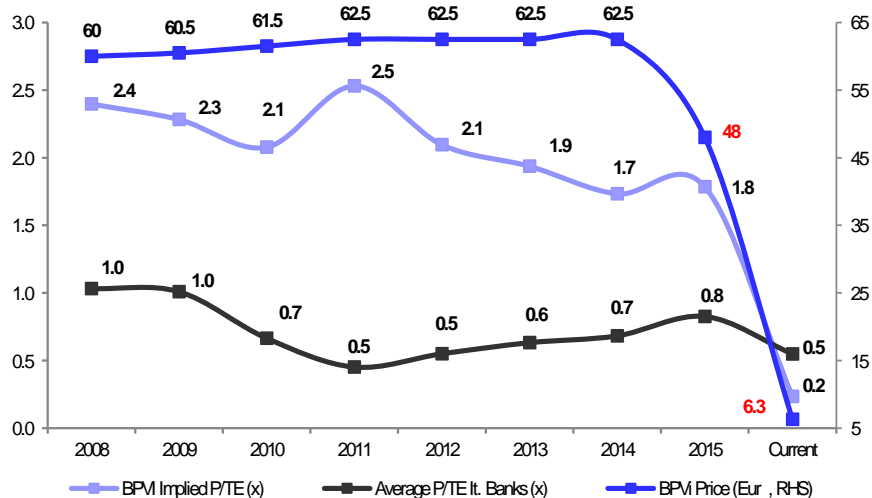
Additional deposit runs (due to exogenous / unpredictable factors as happened in Dec-15) could compromise BPVi's liquidity. Especially given the current monetary policy, assuming BPVi's free eligible assets (Euro 510m at the end of 2015, and up to Euro 1bn in Q1-16) would be sufficient to drag the required liquidity in the short term, another deposit run would represent a P&L risk (with an increase of the funding costs, for example, after campaigns to gather new deposits at a higher-than-market-average rate from both corporate and retail clients).

However, a new deposit run could ultimately compromise the stability of the bank.

#### 4) Reputation risk

The abovementioned issue of the financed capital, the recapitalization process following the ECB requests and the sharp revision of its share price from Euro 48/s to Euro 6.3/s<sup>8</sup> (Figure 69) could represent reputational risks for BPVi, not only for affecting the relationships with clients who have been directly affected by one of those issues, but also other existing or potential clients.

Figure 69: BPVi – Price and P/TE evolution



Source: Deutsche Bank estimates, company data, Bloomberg Finance LP

We note that BPVi's shareholders are about 119,000, and more than 90% of them are customers. Direct funding held by BPVi's shareholders reaches Euro 1.8bn (of which Euro 59m by financed shareholders) and includes Euro 1bn deposits and Euro 0.8bn between bonds and other forms, according to the

<sup>8</sup> Euro 6.3/s is the price of the withdrawal right for shareholders not present or voting against the transformation into joint stock on the 5 March 2016. For further details, please refer to Appendix C.



company disclosure. Furthermore, shareholders also own Euro 3.7bn of indirect funding. This means that equity-related “reputational” issues could have meaningful impacts on the deposit base.

Moreover, the Prosecutor Office of Vicenza has started a preliminary investigation which is still ongoing (its maximum length being 18 months from the moment of the case filing, presumably in summer 2015) and several consumer groups are likely to file civil joinders in the perspective of a criminal trial (if any), or (less likely) to sue BPVi and/or its former management in a civil court; while BPVi as already booked risk and charges provisions to cover for these potential events, when updates will be reported by the press, they can represent additional reputational issues.

#### 5) Corporate activity: After the strengthening, BPVi could potentially be engaged in M&A

After the strengthening of its balance sheet and P&L, we believe that BPVi could be engaged in M&A activity (as reported by the Italian press<sup>9</sup>), perhaps with another Italian bank or even a foreign bank seeking to invest in the Italian market. This could present both an upside or downside risk factor, depending on the risk / reward profile of the transaction, which are clearly unpredictable.

Key factors that could be attractive to other institutions include BPVi’s relatively small size, its concentration in the richest areas of Italy and the deep clean-up already executed by the new management which could arguably lower the overall execution risk of such a transaction. We believe domestic M&A would likely involve mergers of equals (as it would involve similar peers), and we would not expect a premium paid on BPVi’s market price at the time of the announcement. Conversely, a foreign bank could opt for other approaches, like a take-over (as this typically characterizes cross border transactions).

Figure 70: BPVi and... – Hypothetical combined entity ratios (%)

2016, %	B3 FL CET1 ratio(*)	LDR	NPL Ratio	Texas ratio (*)
1) Banco – BPM	13.6%	97.9%	15.2%	118%
2) UBI Banca	11.9%	95.0%	12.5%	108%
3) BPER	11.3%	99.9%	16.6%	118%
4) CreVal	12.3%	98.3%	19.3%	123%
5) Veneto Banca	11.3%	107.3%	20.4%	125%

Source: Deutsche Bank estimates, company data. Notes: we assume a capital increase of Euro 1bn for Banco and Veneto Banca in 2016. (\*) 100% Badwill recognition and no premium/discount. Legend: BPVi = Banca Popolare di Vicenza; Banco = Banco Popolare; BPM = Banca Popolare di Milano; UBI Banca; BPER = Banca Popolare Emilia Romagna; CreVal = Credito Valtellinese; Veneto Banca

<sup>9</sup> Link: <http://www.ilsole24ore.com/art/notizie/2016-01-31/via-fusioni-si-parte-bpm-banco-081242.shtml?uuid=AC6R6tKC>





Figure 71: BPVi and... – 2018E Hypothetical combined entity profitability

Euro m	Banco – BPM	UBI Banca	BPER	CreVal	VB
Equity	18,712	14,340	9,289	6,165	6,937
Profits + synergies	1,099	717	563	314	380
Dividends	550	358	281	157	190
Equity - EoP	19,262	14,698	9,571	6,322	7,127
<b>RoE (%)</b>	<b>5.7%</b>	<b>4.9%</b>	<b>5.9%</b>	<b>5.0%</b>	<b>5.3%</b>
Tangible equity - EoP	17,118	13,034	9,047	6,105	7,017
<b>RoTE (%)</b>	<b>6.4%</b>	<b>5.5%</b>	<b>6.2%</b>	<b>5.1%</b>	<b>5.4%</b>

Source: Deutsche Bank estimates, company data. Notes: For net profit for BPVi and Veneto Banca we refer to 2018 data of companies business plans. We assume a capital increase of Euro 1bn for Banco and Veneto Banca in 2016

In Appendix D, we examine five case studies of possible domestic M&A, with: 1) Banco – BPM, 2) UBI Banca, 3) BPER, 4) CreVal and 5) Veneto Banca, which have also publically stated that they are looking at M&A options, and we think that could potentially be interested in BPVi.

## 6.) Financial Market Risk

The start of 2016 has seen severe financial market volatility and a trend of declining share prices and valuations for Italian financial services companies. BPVi has a number of AFS investments and also equity-accounted stakes, including in financial services companies. We see risks that current values for these stakes and investments could be below the end-2015 accounted levels.

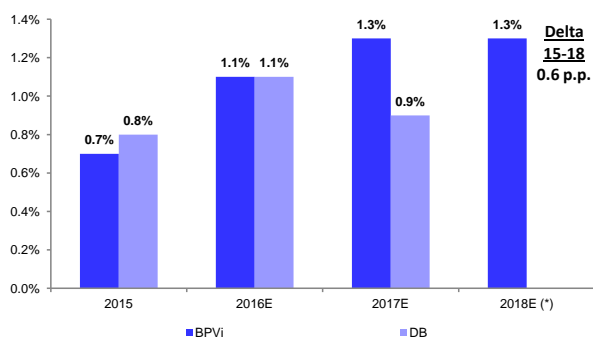
## 7) Business plan execution

Our projections assume the implementation of business plan actions that can be controlled by management (i.e. cost cutting, improvement of the credit risk management, and commercial refocus of the network). Any deviation from this trajectory could represent a downside risk to our forecasts.

## 8) Macroeconomic assumptions

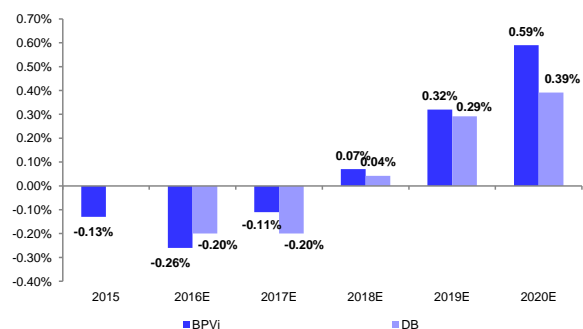
Figure 72 and Figure 73 report the macro assumptions embedded in BPVi's business plan and in our forecasts (Deutsche Bank macroeconomists' projections). Any significant deviation between actual data and our forecasts could affect our revenue / LLP estimates.

Figure 72: BPVi – GDP (YoY % change)



Source: Deutsche Bank estimates, company data, BPVi elaboration on Prometeia data ("Aggiornamento Rapporto di Previsione" February 2016 for GDP and Euribor). Notes: (\*) 2018 GDP figure taken from "Rapporto di Previsione" December 2015 as not showed in "Rapporto di Previsione" February 2016

Figure 73: BPVi – Euribor 3M



Source: Deutsche Bank, company data, BPVi elaboration on Prometeia data ("Aggiornamento Rapporto di Previsione" February 2016 for GDP and Euribor)

## 9) Credit risks

Our estimates assume that the new management has already addressed BPVi's main asset quality problems, and this should allow the cost of credit to decline in the coming years. Any unexpected worsening of macro conditions or any unexpected company-specific issue could affect our LLP forecasts.



# Market positioning

## 10<sup>th</sup> largest Italian bank, based in the Northeast Italy

### Market share on total assets, loans, branches and deposits

BPVi's branch productivity appears to be below average, as while its market share on branches is almost 2%, its market shares on loans and deposits are 1.6% and 1.3% respectively (Figure 74). This is not justified by the geographical presence as BPVi is actually based in the richest Italian regions (Figure 75).

Figure 74: Italian banks – BPVi ranks among the leading Italian banking groups (FY-15)

Euro bn	Total Deposits	Mkt share (%)	Customer Loans	Mkt share (%)	Tot. Branches (#) (*)	Italy mkt share (%) (**)
UCG (***)	165	12.6%	216	13.9%	6,934	12.9%
ISP (****)	193	14.7%	323	20.8%	5,386	13.8%
MPS	88	6.7%	111	7.2%	2,173	7.1%
Banco	53	4.1%	78	5.0%	1,813	6.0%
UBI	55	4.2%	85	5.4%	1,560	5.1%
BNL	34	2.6%	78	5.0%	812	2.7%
Cariparma	28	2.2%	37	2.4%	834	2.8%
BPER	36	2.7%	44	2.8%	1,216	4.0%
BPM	29	2.2%	34	2.2%	655	2.2%
<b>BP Vicenza</b>	<b>17</b>	<b>1.3%</b>	<b>25</b>	<b>1.6%</b>	<b>579</b>	<b>1.9%</b>
Credem	18	1.4%	23	1.5%	636	2.1%
BP Sondrio	26	2.0%	24	1.5%	350	1.2%
Veneto Banca	16	1.2%	23	1.5%	550	1.6%
Carige	16	1.2%	21	1.4%	625	2.1%
CreVal	18	1.4%	19	1.2%	526	1.7%
BP Bari (2014)	9	0.7%	10	0.7%	386	1.3%

Source: Deutsche Bank, company data, ECB, "Money and Banking" Bank of Italy. Notes: Unicredit Italy market share, BPM branches and Italy market share, BP Sondrio branches and Italy market share as of 9M-15. Cariparma branches and Italy market share as of H1-15. (\*) Includes foreign branches, (\*\*) Computed on 9M-15 total Italian branches. (\*\*\*) data for customer loans refers to Italy Core + Italy Non-Core (Divisional Database), (\*\*\*\*) Data for deposits refers to "deposits and current accounts" (key figure database), we net the customer loans and deposits consolidated data with data of international subsidiaries

Figure 75: BPVi – Distribution network (FY-15)

FY-15 %	Branches		Market shares (*)		Macro indicators		
	#	%	Branches	Loans	% of tot. GDP (**)	% of tot. Exports (**)	2016E GDP growth (***)
Northeast	297	51.3%	3.9%	3.9%			
Veneto	221	38.2%	7.3%	7.2%	9.1%	13.7%	1.3%
Friuli - Venezia Giulia	57	9.8%	7.1%	7.4%	2.1%	3.0%	1.3%
Northwest	83	14.3%	1.0%	0.8%			
Lombardy	75	13.0%	1.4%	0.9%	21.6%	27.5%	1.4%
Center	103	17.8%	1.7%	1.6%			
Tuscany	75	13.0%	3.6%	3.4%	6.7%	8.0%	1.4%
South and islands	96	16.6%	1.5%	1.4%			
Sicily	78	13.5%	5.0%	4.5%	5.4%	2.4%	0.7%
<b>Total Italy</b>	<b>579</b>	<b>100.0%</b>	<b>2.0%</b>	<b>1.9%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.1%</b>

Source: company data, Bank of Italy, ISTAT, Prometeia. Notes: (\*) as of 9M-15, data for loans referred to Family and Business clients; (\*\*) ISTAT, reference year 2014; (\*\*\*) Prometeia estimates as of January 2016 for Italian regions, as of February 2016 for Italy



**Cost benchmarking: we believe the planned staff redundancies and branch closures will support BPVi's efficiency**

Figure 76 shows that BPVi's cost per employee or per branch is generally lower or in line with peers. This means that savings should be driven by the reduction of the size of the network and / or the number of employees.

**Figure 76: Italian banks – Costs analysis (FY-15)**

Euro m	BP Vicenza	MPS	Banco	UBI Banca	BPM	Credem	CreVal	Carige	BPER	BP Sondrio	Veneto banca
<b>Total costs</b>	<b>691</b>	<b>2,629</b>	<b>2,165</b>	<b>2,258</b>	<b>1,040</b>	<b>826</b>	<b>532</b>	<b>693</b>	<b>1,451</b>	<b>522</b>	<b>696</b>
Personnel costs	400	1,653	1,434	1,392	612	472	295	354	825	236	341
Employees (#)	5,473	25,731	16,731	17,718	7,747	5,899	4,123	5,034	11,447	3,115	6,254
Branches (#)	579	2,173	1,813	1,560	655	636	526	625	1,216	350	550
Total costs / Employees	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Total costs / Branches	1.2	1.2	1.2	1.4	1.6	1.3	1.0	1.1	1.2	1.5	1.3
Personnel costs / Branches	0.7	0.8	0.8	0.9	0.9	0.7	0.6	0.6	0.7	0.7	0.6
BPVi versus peers (%)											
Total costs / Employees		24%	-2%	-1%	-6%	-10%	-2%	-8%	0%	-25%	13%
Total costs / Branches		-1%	0%	-18%	-25%	-8%	18%	8%	0%	-20%	-6%
Personnel costs / Branches		-9%	-13%	-22%	-26%	-7%	23%	22%	2%	3%	11%

Source: Deutsche Bank estimates, company data, Notes: 9M-15 data for: employees and branches for BPM, branches for BP Sondrio, Staff and administrative costs are pro-forma for BPVi

BPVi's plan to reduce staff comes after almost all other peers have already launched and / or executed similar actions (Figure 77), so other banks' efficiency is also likely to improve overtime. However, it is fair to say that most of them have been under a severe regime of cost-cutting since the crisis started in 2008, while for BPVi this is one of the first rationalizations.

**Figure 77: Italian banks – Examples of redundancy plans**

	BPVi	MPS	Banco	UBI Banca	CreVal	Carige	BPER	Veneto banca
Period	2016-2020	2014-2018	2016-2017	2015-2020	2014-2016	2014-2018	2015-2018	2015-2017
# exits	575	1600	400	500	250	600	600	430
% on total staff	11%	6%	2%	3%	6%	12%	5%	7%

Source: Deutsche Bank, Milano Finanza, company data

**Revenue benchmarking: productivity to improve**

Figure 78 shows that BPVi's revenues per employee and per branch are below peers', in most cases. This is due to both NII and fees (where the gap is generally larger).

Using 2015 revenues but the 2018E BPVi targets for branches and employee, we note that the gap reduces, but not completely. This tells us that the improved efficiency and the actions on costs that the new management decided to implement are supportive, but a focus on productivity enhancement (via lending growth, asset management and insurance business revamp, etc.) is also necessary.

The same conclusion on fees can be derived from Figure 79, which shows that the AUM penetration of BPVi is below average, with more prudent allocation (Figure 80 and Figure 81).



Figure 78: Italian banks – Revenue analysis (FY-15)

Euro m	BP Vicenza	MPS	Banco	UBI Banca	BPM	Credem	CreVal	Carige	BPER	BP Sondrio	Veneto banca
<b>Total revenues</b>	<b>1,052</b>	<b>5,346</b>	<b>3,446</b>	<b>3,477</b>	<b>1,664</b>	<b>1,215</b>	<b>855</b>	<b>686</b>	<b>2,318</b>	<b>1,062</b>	<b>1,020</b>
NII	504	2,259	1,545	1,658	807	435	465	334	1,228	543	507
Fees	322	1,810	1,425	1,300	606	449	281	264	727	303	250
Employees (#)	5,473	25,731	16,731	17,718	7,747	5,899	4,123	5,034	11,447	3,115	6,254
Branches (#)	579	2,173	1,813	1,560	655	636	526	625	1,216	350	550
Revenues / Employees	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.3	0.2
Revenues / Branches	1.8	2.5	1.9	2.2	2.5	1.9	1.6	1.1	1.9	3.0	1.9
NII / Employees	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
NII / Branches	0.9	1.0	0.9	1.1	1.2	0.7	0.9	0.5	1.0	1.6	0.9
Fees / Employees	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Fees / Branches	0.6	0.8	0.8	0.8	0.9	0.7	0.5	0.4	0.6	0.9	0.5
<b>BPVi versus peers (%)</b>											
Revenues / Employees		-7%	-7%	-2%	-10%	-7%	-7%	41%	-5%	-44%	18%
Revenues / Branches		-26%	-4%	-18%	-28%	-5%	12%	66%	-5%	-40%	-2%
NII / Employees		5%	0%	-2%	-12%	25%	-18%	39%	-14%	-47%	14%
NII / Branches		-16%	2%	-18%	-29%	27%	-1%	63%	-14%	-44%	-6%
Fees / Employees		-16%	-31%	-20%	-25%	-23%	-13%	12%	-7%	-40%	47%
Fees / Branches		-33%	-29%	-33%	-40%	-21%	4%	32%	-7%	-36%	22%

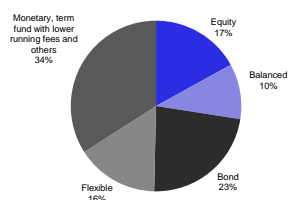
Source: Deutsche Bank estimates, company data. Notes: 9M-15 data for: employees and branches for BPM, branches for BP Sondrio

Figure 79: Italian banks – AUM penetration

Euro m	AUM	Branches (#)	Employees (#)	AUM / Branch	AUM / employee
MPS	55,516	2,173	25,731	25.5	2.2
Banco	35,372	1,813	16,731	19.5	2.1
UBI Banca	48,568	1,560	17,718	31.1	2.7
Credem	28,056	636	5,899	44.1	4.8
BPM	20,900	655	7,747	31.9	2.7
BPER	18,412	1,216	11,447	15.1	1.6
Carige	11,045	625	5,034	17.7	2.2
<b>BP Vicenza</b>	<b>7,043</b>	<b>579</b>	<b>5,473</b>	<b>12.2</b>	<b>1.3</b>
CreVal	6,793	526	4,123	12.9	1.6
Veneto Banca	5,533	550	6,254	10.1	0.9
BP Sondrio	4,561	350	3,115	13.0	1.5
<b>Average</b>				<b>21.2</b>	<b>2.1</b>

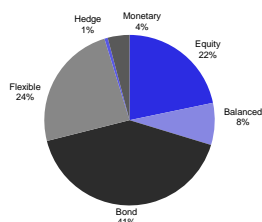
Source: Deutsche Bank estimates, company data. Notes: 9M-15 data for: employees and branches for BPM, branches and AUM for BP Sondrio

Figure 80: BPVi asset allocation



Source: Deutsche Bank, company data (2015)

Figure 81: Industry asset allocation

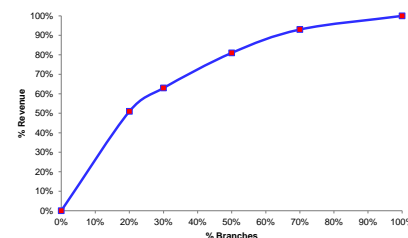


Source: Deutsche Bank, Assogestioni, Mutual funds only (2015)



The closure of some of its branches (to reach approx. 500 branches by the end of 2016, from the current 579) should not significantly compromise revenues. As reported in Figure 83, volumes and revenues are more consistent with the employee distribution, rather than with the number of branches. This means that too small branches, with no relationship manager, are less productive than larger branches, on average.

Figure 82: BPVi – Revenue concentration (FY-15)



Source: Deutsche Bank, company data

Figure 83: BPVi – Branches segmentation by number of FTEs per branch – the

FY-15	<3 FTE (**)	3-6 FTE	>6 FTE (***)	Total
Branches (#)(****)	68	282	229	<b>579</b>
On total (%)	11.7%	48.7%	39.6%	
Employees (#)(*****)	125	1,210	2,184	<b>3,519</b>
On total (%)	3.6%	34.4%	62.1%	
Clients (# '000)	8	451	882	<b>1,341</b>
Ave. employees/branch	1.9	4.3	9.5	<b>6.1</b>
Ave. clients/branch	c. 130	c. 1,600	c. 3,850	<b>c. 2,300</b>
% volumes distribution	1.6%	25.3%	73.1%	
% revenue distribution	1.4%	30.2%	68.4%	

Source: Deutsche Bank, company data. Notes: Commercial segments only, excluding employees, financial counterparties and other non commercial segments; clients distribution based on segmentation criteria for 2016, excluding clients non allocated in branches; revenues and volumes as of FY-15 PF on 2016 segmentation criteria; (\*\*) including "spoke" branches; (\*\*\*) including Farbanca (1 branch); (\*\*\*\*) including 3 operational offices (without clients and FTEs) not included in average size calculations; (\*\*\*\*\*) average headcount in FY-15 including Corporate and Private RMs

## A comparison with the closest peer, Veneto Banca

Below, we report a comparison between BPVi and Veneto Banca (VB) which is its closest peer. We look at:

- Financed capital** – VB also financed some of its previous capital increases granting loans to its clients to underwrite new shares. BPVi has taken a harsher approach in term of provisioning for the risk associated to the financed capital (Figure 84).
- Asset quality** – BPVi total gross impaired loans weight c.31% on its total gross loans (and this is worse than for VB); however, BPVi total net loan weight c.21% on its total net loans, almost in line with VB as BPVi's total impaired loans cash coverage is c.5ppt higher than VB at the end of 2015 (Figure 85). After the respective capital increases, BPVi ratio between their total impaired loans on tangible equity becomes lower than VB's.
- Funding** – The funding structure of the two banks is similar; the most recent trends have been different, and in 2015 BPVi's deposits declined more than VB's YoY, based on the end of period data from the annual reports (Figure 86).
- Lending mix** – The lending mix of the two banks is similar, with BPVi slightly less exposed to large corporate (Figure 87 through Figure 90).
- Geographical footprint** – BPVi and VB are mainly based in Veneto (North East of Italy), and have a market share slightly above 1% in Lombardy (Figure 91 though Figure 92).
- Business plan targets** – The business plans targets of the two banks are very similar, with VB forecasting higher capital ratios in 2018 / 2020, maybe also for the assumption of a lower dividend payout (50% for BPVi, Figure 93).



Figure 84: BPVi – Comparison of financed capital

Euro m		BPVi	Veneto Banca
Portion of shares of past capital increased covered by financed capital	<b>Financed cap (*)</b>	<b>1,139</b>	<b>333</b>
	<b>Cap increase since 2008 (**)</b>	<b>1,969</b>	<b>c. 1,035</b>
	<i>Financed capital / capital increase since 2008 (%)</i>	57.9%	32.2%
	<i>Financed capital determined by ECB / capital increase since 2008 (%)</i>	31.6%	27.5%
Financed capital over announced capital increase (%)	<b>Announced 2016 cap increase</b>	<b>c. 1,500</b>	<b>c. 1,000</b>
	Financed capital / announced capital increase (%)	76.0%	33.3%
Financed capital as a % of total net loans to customers	Financed capital / loans to customers (%)	4.5%	1.5%

Source: Deutsche Bank, company data. Notes: (\*) Financed capital as of FY-15 for BPVi and Veneto Banca; (\*\*) Including convertible bonds conversion for BPVi

Figure 85: BPVi – Asset quality comparison

FY-15, %	BPVi	Veneto Banca	Peers (**)
<b>Gross impaired loans (% on total gross loans)</b>			
NPLs	15.1%	13.0%	10.6%
Unlikely to pay	15.3%	13.2%	8.6%
Past due	0.5%	2.0%	0.8%
<b>Total impaired</b>	<b>30.9%</b>	<b>28.3%</b>	<b>20.1%</b>
Performing loans	69.1%	71.7%	79.9%
<b>Net impaired loans (% on total net loans)</b>			
NPLs	7.5%	6.9%	5.6%
Unlikely to pay	13.1%	11.5%	7.1%
Past due	0.5%	2.1%	0.8%
<b>Total impaired</b>	<b>21.1%</b>	<b>20.4%</b>	<b>13.5%</b>
Performing loans	78.9%	79.6%	86.5%
<b>NPLs (Euro m)</b>	<b>1,889</b>	<b>1,645</b>	
<b>NPLs as % TE (*)</b>	<b>47.0% (***)</b>	<b>56.6% (****)</b>	<b>56.9%</b>
<b>Total impaired (Euro m)</b>	<b>5,320</b>	<b>4,887</b>	
<b>Total impaired as % TE (*)</b>	<b>132.2% (***)</b>	<b>168.1% (****)</b>	<b>136.7%</b>
<b>Coverage (%)</b>			
NPLs	56.8%	52.8%	51.6%
Unlikely to pay	25.8%	22.1%	24.5%
Past due	12.2%	9.3%	11.3%
<b>Total impaired</b>	<b>40.6%</b>	<b>35.3%</b>	<b>38.2%</b>
<b>Total impaired including real guarantees (****)</b>	<b>77.1%</b>	<b>72.9%</b>	<b>n.a.</b>
Performing loans	0.7%	0.8%	0.6%
Total loans	13.1%	10.5%	8.2%

Source: Deutsche Bank, company data. Notes: (\*) Tangible Equity; (\*\*) Average of Banco, BPER, BPM, Creval and UBI (2015), BPSO (all data refer to Q3-15 (except of NPLs as a % of TE and Total impaired as a % of TE)); (\*\*\*) Computed on TE pro-forma for Euro 1.5bn announced capital increase; (\*\*\*\*) Computed on TE pro-forma for Euro 1.0bn announced capital increase; (\*\*\*\*\*) the values of real guarantees are capped to the values of backed exposures

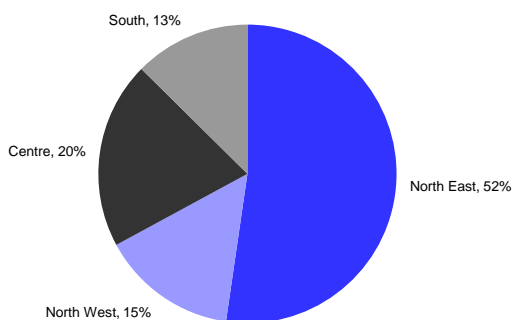


Figure 86: BPVi – Overview of funding

Euro m	BPVi			Veneto Banca		
	2014	2015	% 2014-15 (*)	2014	2015	% 2014-15 (*)
<b>Direct funding</b>	<b>30,373</b>	<b>21,943</b>	<b>-28%</b>	<b>24,635</b>	<b>22,507</b>	<b>-9%</b>
<b>Due to customer</b>	<b>22,158</b>	<b>16,272</b>	<b>-27%</b>	<b>14,982</b>	<b>16,237</b>	<b>8%</b>
Current accounts and deposits	13,963	11,415	-18%	10,778	8,838	-18%
Time deposits	2,578	1,710	-34%	3,421	4,967	45%
Loans	2,438	851	-65%	747	2,397	221%
Other debts	3,178	2,296	-28%	37	35	-4%
<b>Securities</b>	<b>6,668</b>	<b>5,199</b>	<b>-22%</b>	<b>9,625</b>	<b>6,245</b>	<b>-35%</b>
Bonds	6,533	5,067	-22%	9,322	6,080	-35%
Other debts	135	132	-3%	302	166	-45%
<b>Financial liabilities at fair value</b>	<b>1,547</b>	<b>472</b>	<b>-70%</b>	<b>27</b>	<b>24</b>	<b>-13%</b>
<b>Indirect funding (**)</b>	<b>14,910</b>	<b>14,550</b>	<b>-2%</b>	<b>15,849</b>	<b>16,254</b>	<b>3%</b>
AUM	6,598	7,043	7%	5,209	5,533	6%
AUC	8,312	7,507	-10%	10,640	10,721	1%
Loans/Deposits (%)	126.9%	154.7%	28%	159.1%	139.8%	-19%
Loans/Direct Funding (%)	92.6%	114.7%	22%	96.7%	100.9%	4%

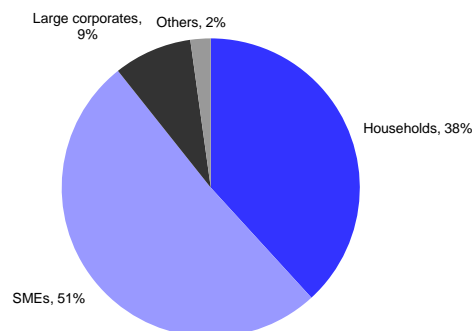
Source: Deutsche Bank, company data. Notes: (\*) Delta for ratios; (\*\*) for BPVi: excluding BPVi shares owned by its clients (Euro 5.6bn as of FY-14 and Euro 4.4bn as of FY-15)

Figure 87: BPVi – Net loans by region (FY-15)



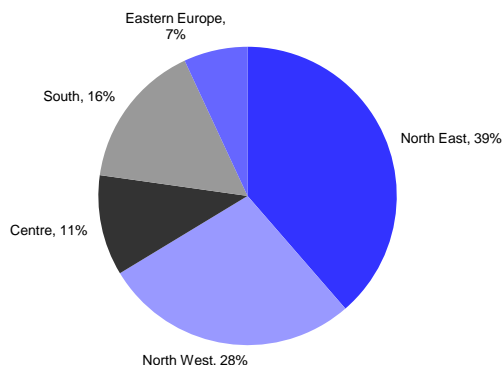
Source: Deutsche Bank, company data

Figure 88: BPVi – Net loans by customer (FY-15)



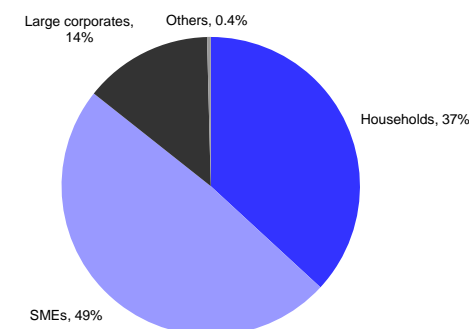
Source: Deutsche Bank, company data

Figure 89: VB – Net loans by region (FY-14)



Source: Deutsche Bank, company data

Figure 90: VB – Net loans by customer (FY-14)



Source: Deutsche Bank, company data



Figure 91: BPVi – Main regions of reference (FY-15)

#	Branches	Mkt share
Veneto	221	7.3%
Tuscany	75	3.6%
Lombardy	75	1.4%
<b>Italy</b>	<b>579</b>	<b>1.9%</b>

Source: Deutsche Bank, company data

Figure 92: VB – Main regions of reference (FY-15)

#	Branches	Mkt share
Veneto	163	5.1%
Lombardy	72	1.2%
Puglia	67	5.2%
<b>Italy</b>	<b>487</b>	<b>1.6%</b>

Source: Deutsche Bank, company data. Notes: In addition to Italian branches, VB operates through 63 foreign branches

Figure 93: BPVi – Comparison of key business plan targets

Euro m	2018		2020		CAGR 2015-2020 (****)	
	BPVi	VB	BPVi	VB	BPVi	VB
Customer loans (Euro bn)	28.2	n.a.	30.1	23.2	3.7%	0.4%
Total funding (Euro bn)	45.1 (***)	n.a.	48.8 (***)	44.6	6.0%	2.8%
Net income	202	160	309	235	n.m.	n.m.
<b>Ratios (%)</b>						
CET1 ratio	12.0%	13.0%	12.9%	14.9%	6.2% (**)	5.7% (**)
LCR	115.4%	105.0%	122.0%	105.0%	74.5%	n.m.
Cost/income ratio	54.4%	53.0%	47.6%	47.0%	-24.0%	-23.0%
Cost of risk (bps)	77	95	70	77	n.m.	n.m.
RoTE (*)	5.6%	5.5%	8.2%	7.7%	n.m.	n.m.
Dividend payout ratio	50.0%	n.a.	50.0%	n.a.	n.m.	n.m.

Source: Deutsche Bank, company data. Notes: (\*) BPVi RoTE computed on adjusted Tangible Equity (net of prudential filter); (\*\*) Delta computed on CET1 ratio phased-in as of FY-15; (\*\*\*) Excluding BPVi shares owned by its clients; (\*\*\*\*) Delta for ratios





Figure 94: BPVi – BPVi and VB at a glance

	BPVi		VB	
	2014	2015	2014	2015
<b>P&amp;L (Euro m)</b>				
Net interest income	511	504	512	505
Net commissions	301	322	288	273
<b>Total revenues</b>	<b>1,077</b>	<b>1,052</b>	<b>855</b>	<b>947</b>
<b>Operating costs</b>	<b>(669)</b>	<b>(691)</b>	<b>(617)</b>	<b>(685)</b>
LLPs	(868)	(1,333)	(717)	(754)
<b>Net income (reported)</b>	<b>(759)</b>	<b>(1,407)</b>	<b>(968)</b>	<b>(882)</b>
<b>Balance Sheet (Euro bn)</b>				
Customer loans	28.1	25.2	23.8	22.7
Total assets	46.5	39.8	36.2	33.3
Direct funding	30.4	21.9	24.6	22.5
Shareholders' equity	3.7	2.5	2.8	2.0
<b>Tangible equity</b>	<b>3.4</b>	<b>2.5</b>	<b>2.3</b>	<b>1.9</b>
<b>Key ratios &amp; other (%)</b>				
Cost/Income ratio	62%	66%	71%	70%
Cost of risk (bps)	309	530	301	332
Loans to cust. / Direct funding	92.6%	114.7%	96.7%	100.9%
<b>B3 CET 1 phased-in</b>	<b>10.4%</b>	<b>6.7%</b>	<b>9.4%</b>	<b>7.2%</b>
Risk weighted assets (Euro bn)	29.0	24.9	24.6	23.1
RWAs/Total assets	62%	63%	68%	69%
Branches in Italy (#)	654	579	521	487
Employees (#)	5,515	5,473	6,151	6,254
Clients (m)	1.4	1.3	0.8 (*)	n.a.

Source: Deutsche Bank, company data. Notes: (\*) as of FY-13



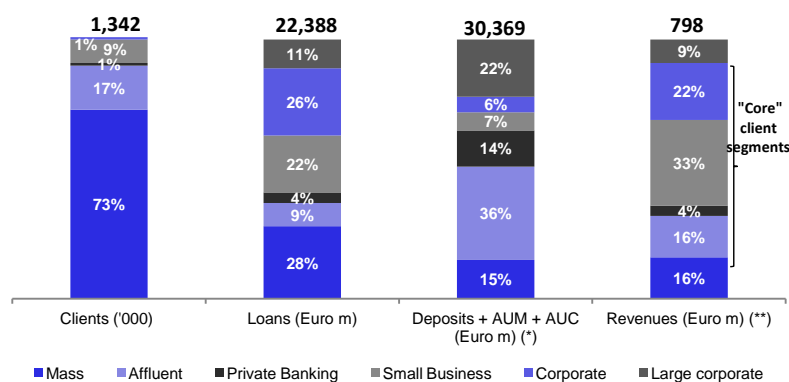
# Business plan actions

## A focus on BPVi's commercial strategy

### Core clients

BPVi's core market is represented by SMEs, small businesses and affluent customers. Especially in a region like Veneto, a single entrepreneur is both the decision maker in the firm (SME / small business) and in the family (affluent individual). For this reason, the bank cannot well cover affluent clients in its core market without offering good services for SMEs, and vice-versa.

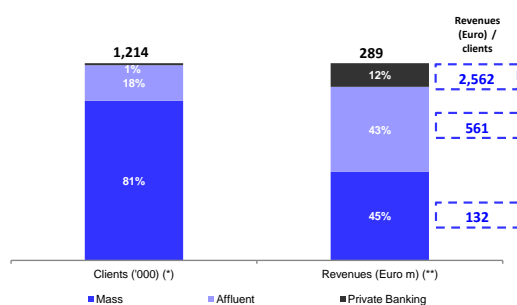
Figure 95: BPVi – Client base distribution, 2015<sup>10</sup>



Source: Deutsche Bank, company data. Notes: (\*) Not including BPVi shares. (\*\*) revenues based on internal managerial accounting including: interests on customer loans and customer deposits, commissions from AUM and other services. Data as of FY-15 PF on 2016 segmentation criteria

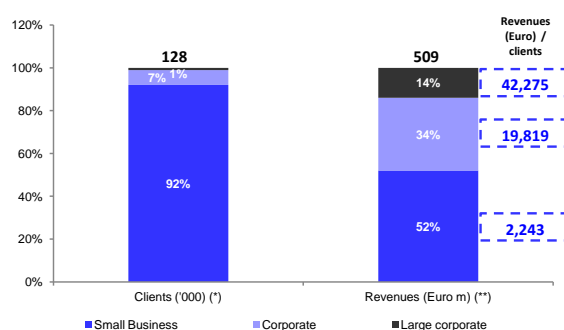
A small number of clients (individuals and firms) deliver the majority of revenues.

Figure 96: BPVi – Individual client distribution, 2015 (\*)



Source: Deutsche Bank, company data. Notes: (\*) 2016 client segmentation (\*\*) Revenues are based on internal 2015 managerial accounting

Figure 97: BPVi – Business client distribution, 2015 (\*)



Source: Deutsche Bank, company data. Notes: (\*) 2016 client segmentation (\*\*) Revenues are based on internal 2015 managerial accounting

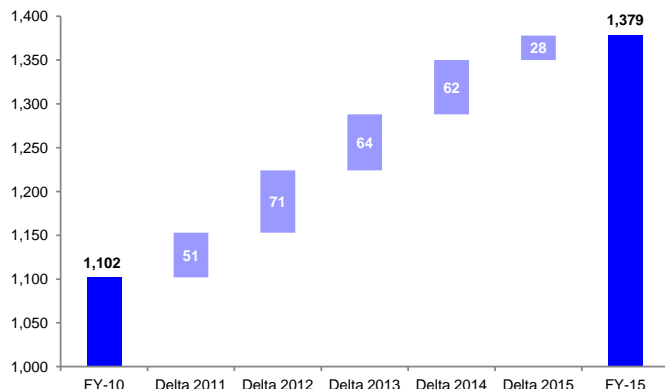
<sup>10</sup> Commercial segments only, excluding employees and other financial counterparties (i.e. SPV). Current client segmentation: see Figure 102.



From client acquisition and retention to value generation

One of the key strengths of BPVi has always been growth, not only in terms of branches but also clients (Figure 98).

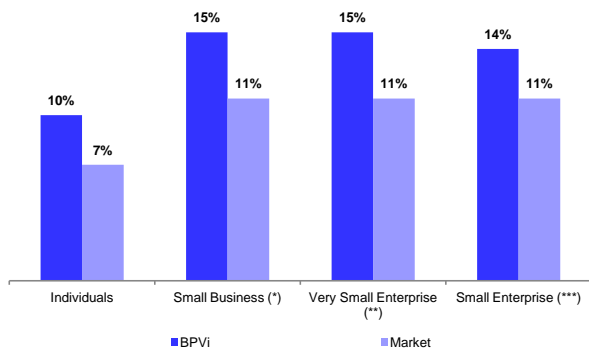
Figure 98: BPVi – New active clients evolution (#, k)



Source: Deutsche Bank, company data. Notes: Including commercial segments, employees and financial counterparties

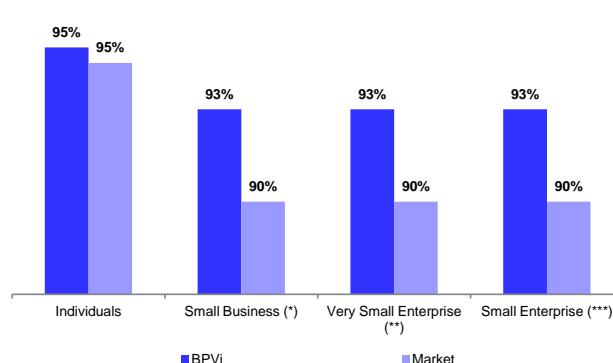
The superior ability to acquire new clients (Figure 99) is coupled with good retention rates (Figure 100).

Figure 99: BPVi – Client acquisition (2014, %)



Source: Deutsche Bank, company data, "Customer Retention and Commercial Performance 2014 – ABI and SDA Bocconi". Notes: (\*) Turnover up to Euro 1.5m; (\*\*) Turnover up to Euro 5m

Figure 100: BPVi – Client retention (2014, %)



Source: Deutsche Bank, company data, "Customer Retention and Commercial Performance 2014 – ABI and SDA Bocconi". Notes: (\*) Turnover up to Euro 1.5m; (\*\*) Turnover up to Euro 5m

However, this growth did not come with a consistent increase in productivity, and the goal of the new management is to extract more value from clients. Is this possible? As a non-listed entity, BPVi had to sell its own shares and also bonds / deposits to retail clients; this limited its ability to allocate clients' wealth to higher-value-added products such as asset management or insurance (see Figure 101 for details). For this reason, we believe a new commercial focus could drive good commercial results, with BPVi leveraging on the existing front office skills, but using them in a different direction. As we mentioned several times in the risk section of this report, the main factor that could compromise the effectiveness of this strategy is potential reputational issues.



Figure 101: BPVi – Individual and business clients: growth opportunities

Individual clients	
<b>Private Banking</b>	<ul style="list-style-type: none"> <li>-<b>Limited number of Private Bankers</b> with not complete Geographical coverage</li> <li>-<b>Lower % of AUM in asset mix</b> (*) (26% BPVi vs. 50% Market)</li> <li>- <b>Average Return on Assets</b> less than Market Average (48 bps (*) vs. 68bps)</li> </ul>
<b>Affluent</b>	<ul style="list-style-type: none"> <li>-<b>Low commercial coverage</b> (24% of clients without dedicated RMs)</li> <li>-<b>High number of clients</b> (c. 35,000) with less than Euro 75K of assets (Affluent threshold) but showing affluent behavior (**)</li> </ul>
<b>Mass</b>	<ul style="list-style-type: none"> <li>-<b>46%</b> of clients with 3 products or less</li> <li>-Huge amount of <b>new clients</b> (145,000) acquired in the last 3 years with: <b>1) lower cross-selling index than "old" clients</b> (3.0 vs. 4.3); <b>2) lower penetration of investments products</b> (Funds: 4% vs. 17%), <b>life insurance</b> (1% vs. 5%) and <b>mortgages</b> (8% vs. 18%)</li> </ul>
Business clients	
<b>Large Corporate</b>	<ul style="list-style-type: none"> <li>-<b>No dedicated RMs</b> and low effectiveness in client relationship development</li> <li>-<b>High potential in client's value improvement</b>, even through deleveraging initiatives</li> </ul>
<b>Corporate &amp; SME</b>	<ul style="list-style-type: none"> <li>-<b>Not focused commercial coverage</b>, with inefficient geographical extension</li> <li>-<b>Lower share of wallet</b> on low risk clients, in particular in ST loans (9.3% on low risk clients vs. 14.6% on high risk clients)</li> <li>-<b>"Loose" correlation between lending pricing and risk level to be "tightened"</b></li> <li>-<b>8.1%</b> of revenues from "value added" services (trade &amp; export finance, derivatives, DCM/ECM)</li> </ul>
<b>Small Business</b>	<ul style="list-style-type: none"> <li>-<b>Low commercial coverage</b> (45% of clients without dedicated RMs)</li> <li>-<b>7%</b> of revenues from fee-based services (payments, trade, &amp; export finance, leasing, factoring, insurance products)</li> </ul>

Source: Deutsche Bank, company data, Centrale rischi, AIPB ("Mercato Servizio del Private Banking in Italia – dati al 30/09/2015" and "Analisi della redditività del Private Banking in Italia al 31/12/2014"). Notes: (\*) Including BPVi share. (\*\*) Behavioral segmentation: average spending last 12 months > Euro 3,500, payment for mortgages > Euro 1,500, Net Income Euro 8,000, total tax payments > Euro 20,000

Figure 102: BPVi – New customer segmentation effective from January 2016

			<b>Total deposits (*)</b>	<b>Service Model</b>	<b>New segmentation</b>
Community banking	<b>Retail</b>	<b>Mass Affluent</b>	< Euro 75K < Euro 75k - Euro 1m	Branch Affluent RM	- The main changes will involve: 1) Increase in lower limit for <b>medium-sized corporate customers</b> to turnover of Euro 10m  2) Increase in lower limit for <b>Large corporate customers</b> to turnover of Euro 250m  3) New lower limit of Euro 300,000 deposits for clients accessing <b>Private Banking</b> on the basis of <b>behavioural rules</b> .
	<b>Small Business</b>	<b>Small businesses</b>	<b>Annual Turnover</b> < Euro 10m	<b>Service Model</b> SB RM	
Corporate & Private	<b>Private Banking</b>	<b>Private</b>	<b>Total deposits (*)</b> >= Euro 1m	<b>Service Model</b> Private Banking RM	
	<b>Corporate</b>	<b>Mid Corporate Large Corporate</b>	<b>Annual Turnover</b> Euro 10m - Euro 250m > Euro 250m	<b>Service Model</b> Corporate RM Large Corporate RM	

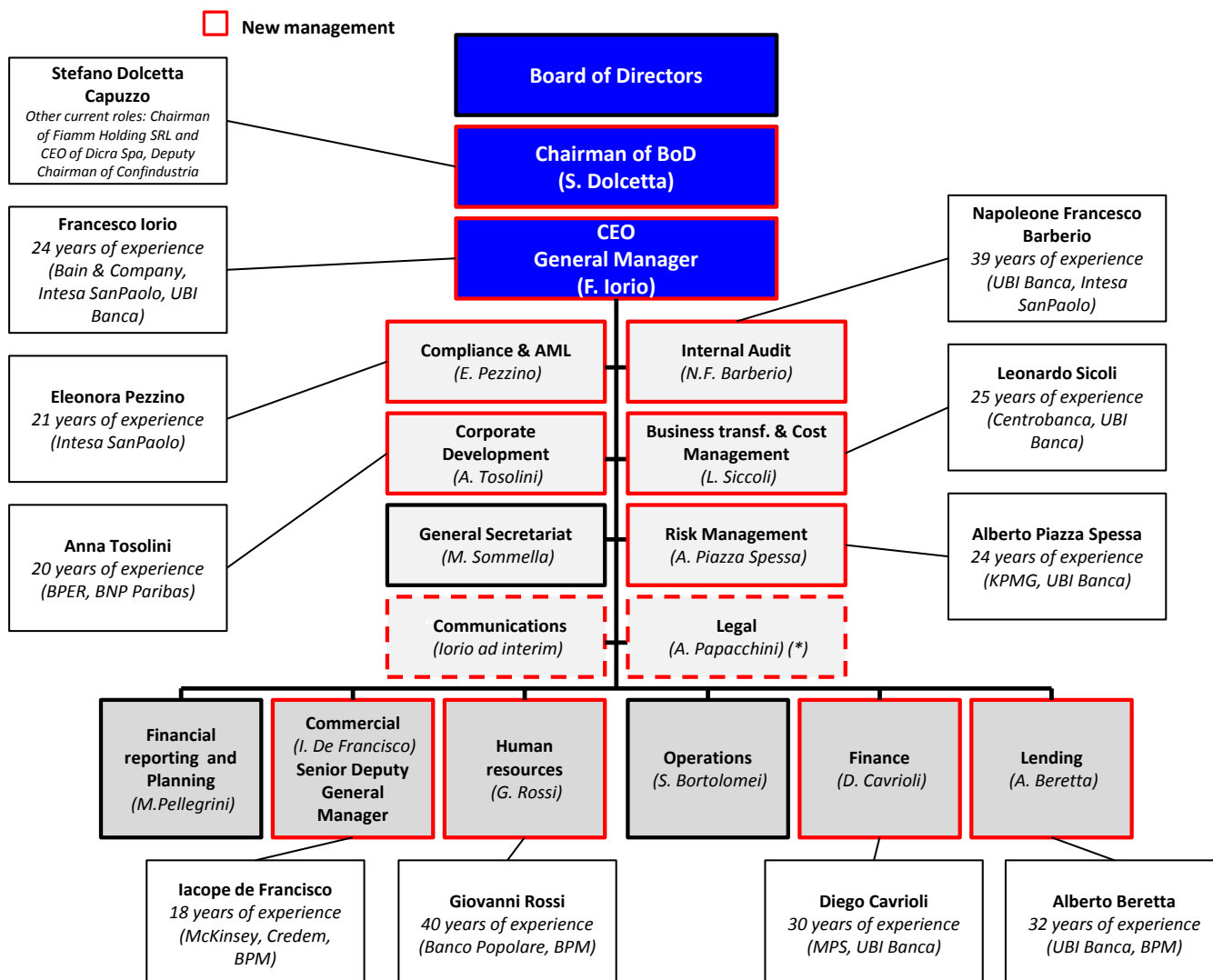
Source: Deutsche Bank, company data. Notes: (\*) direct funding and indirect funding; segmentation of individual customers is based on the amount of deposits and on behavioral rules (i.e. annual spending)



# Appendix A

## Management team

Figure 103: BPVi – Newly appointed management team with recognized track record in the financial sector



Source: Deutsche Bank, company data. Notes: (\*) to be replaced in March 2016. Years of experience refer to years of working experience in the financial sector

### Incentive scheme for the “more relevant personnel”

BPVi incentive scheme will be based on annual performance metrics. The variable compensation will be split: 50% in cash and 50% in shares. If the variable compensation ranges between Euro 75k and Euro 500k, the deferral period is three years for the 50% of its amount. If the variable component is Euro >500k the deferral period is five years for the 60% of its amount.

This incentive system does not apply to 2016 due to the current difficult economic situation.



# Appendix B

## BPVi group – history and current organization

Figure 104: BPVi – Current size historically triggered by both internal and external growth

Year	# Branches	
1866	1	<b>Establishment</b> of Banca Popolare di Vicenza, <b>first bank in Veneto Region</b>
1980-1999	264	<b>Expansion in North East Italy through several acquisitions</b> (e.g. B.P. Di Venezia, B.P. Di Trieste, B.P. Udinese, B.P. Prov. Di Belluno, etc.).  Establishment of a <b>new corporate organization</b> with the <b>merge of the subsidiaries</b> within the Holding companies
2000-2003	453	<b>Expansion in South and Central Italy</b> with two important initiatives: <b>1)</b> Acquisition of <b>Banca Nuova</b> di Palermo and Banca del Popolo di Trapani merged in the new Banca Nuova. <b>2)</b> Acquisition of <b>Cassa di Risparmio di Prato - Cariprato</b>
2004-2007	628	<b>Strategic growth: 1) Establishment</b> of Prestinuova SPA (Consumer Finance company). <b>2) Acquisition of 61 branches</b> from UBI group in Bergamo and Brescia provinces. <b>3) Purchase of Farbanca. 4) Agreement with Cattolica Assicurazioni.</b>
2010-2013	640	<b>Group Consolidation: 1)</b> Opening of new offices and branches in Italy (Milan, Rome, Turin) and abroad (Sao Paolo, New York, Shanghai, Hong Kong; New Delhi). <b>2) Merge</b> of CariPrato within the holding company.
2014	654	Officially recognized <b>among the first 150 European banks</b> under the direct ECB regulatory supervision

Source: Deutsche Bank, company data

Figure 105: BPVi – Distribution-oriented group, with third-party product platforms

Bank	KPIs
<b>Commercial banking</b>	
<b>Banca Popolare di Vicenza</b>	Net loans Euro 22.1bn, #485 branches
<b>Banca Nuova</b> (commercial bank, focuses on Sicily)	Net loans Euro 2.8bn, #93 branches
<b>Farbanca</b> (On-line bank specialized in providing banking services to pharmacist)	Net loans Euro 0.5bn, #1 branch
<b>Bancassurance</b>	
<b>Cattolica (*)</b> , <b>Berica Vita</b> , <b>Cattolica Life</b> , <b>ABC Assicura (**)</b> (Agreement expiring in 2022 (***))	Euro 2.1bn of stock of Life Insurance products (****) as at December 2015
<b>Asset management</b>	
<b>Arca (****)</b> , <b>+20 commercial agreements</b>	Euro 4.9bn of AUM, of which 51% are invested in Arca
<b>Consumer Credit</b>	
<b>Prestinuova</b> , <b>Compass</b> (Agreement in 2021)	Euro 89m of SBL (PrestiNuova), Euro 156m of personal loans
<b>Monetics</b>	
<b>CartaSi</b> (Agreement expiring in 2020), <b>Consorzio Triveneto</b> (Agreement expiring in 2018)	#501k debit cards, #281k pre-paid cards, #160k credit cards, 51k POS
<b>Private Equity</b>	
<b>Nem SGR</b>	NAV of managed funds amounting to Euro 99.4m
<b>Proprietary trading</b>	
<b>BPV Finance International PLC</b>	Total assets amounting to Euro 652m

Source: Deutsche Bank, company data. Notes: (\*) Equity stake of 15.1% as at FY-15; (\*\*) Equity stake of 40% as at FY-15; (\*\*\*) assuming the prosecution of the partnership after the change of bank's status (in Joint Stock Company) and after the first termination date (2017) pursuant to the general agreement of 2012; (\*\*\*\*) Equity stake of 20% as at FY-15; (\*\*\*\*\*) stock of policies collected through the BPVi network



# Appendix C

## Capital increase technicalities

BPVi's EGM approved a Euro 1.5bn capital increase on the 5 March 2016; the SSM had asked BPVi to complete this capital increase by the end of April. Unicredit signed with BPVi a full underwriting agreement, which will be valid until 10-May-16, to guarantee for the capital increase. The offer structure also envisages:

- Current shareholders have pre-emption rights up to 45% of the capital increase size.
- **Brown-shoe option** for a maximum amount of **Euro 150m**. It is a potential capital increase to be placed to institutional investors at the same conditions of the IPO, in case of excess of demand.
- **Loyalty-building purpose option** for a maximum nominal amount of **Euro 38m**. It is reserved for instruments or rights to subscribe additional shares at a maximum discount of 50% on the quotation price, under the condition to hold the shares for a certain period of time after the flotation. This option is available for current shareholders (i.e. retail).
- **An incentive purpose option** for a maximum amount of **Euro 75m**. It is reserved for instruments or rights to subscribe additional shares at a maximum discount of 50% on the quotation price, under the condition to subscribe the capital increase and to hold the shares for a certain period of time after the flotation. This option is available for current shareholders (retail).

Given both the brown-shoe options and the incentives for current shareholders are unpredictable, BPVi includes in its projections only Euro 1.5bn capital increase. We also assume an overall recapitalization of Euro 1.5bn.

### Details on the withdrawal right

- BPVi's EGM voted in favor of the transformation of its governance status into joint stock from cooperative, on the 5 March 2016.
- The shareholders that voted against this or who did not attend the EGM could exercise the withdrawal right within 15 days since the EGM approval, and receive in cash Euro 6.3/s.
- However, BPVi decided to limit in full the withdrawal right; this has been allowed by the Bank of Italy: given all Popolari banks with assets of Euro >8bn have been obliged to change their governance, the regulator needed to protect their stability and capital level.
- So, BPVi's shares for which the withdrawal right has been exercised will be offered to other shareholders and to the market afterwards; shares that are not underwritten in these two passages will be given back to shareholders at the end of the process.



# Appendix D

## Possible M&A scenarios

Figure 106: BPVi – We analyze five M&A case studies, assuming a merger of equals, in paper only, between BPVi and 1) Banco – BPM, 2) UBI Banca, 3) BPER, 4) Creval and 5) Veneto Banca

2016E, Euro bn	BPVi	1) Banco – BPM	2) UBI	4) BPER	5) Creval	6) Veneto Banca
Total Assets	39.9	174.4	117.8	61.3	26.9	33.3
Customer Loans	25.4	115.9	87.1	45.0	19.6	24.6
Total Deposits	24.2	120.3	94.3	46.4	21.7	22.5
NPLs	5.3	16.2	8.7	6.4	3.4	4.9
B3 FL RWAs	24.9	80.9	61.9	41.3	16.0	23.8
B3 FL CET1	2.9	11.5	7.5	4.6	2.1	2.6
B3 FL CET1 ratio (%)	11.6%	14.2%	12.0%	11.1%	13.3%	10.9%
LDR (%)	105.3%	96.4%	92.4%	97.0%	90.4%	109.6%
NPL Ratio (%)	21.0%	14.0%	10.0%	14.1%	17.1%	19.8%
Gross Impaired	9.4	26.5	12.7	11.4	5.6	7.6
Equity	3.9	14.2	10.1	5.1	2.2	3.0
Intangible Assets	0.0	2.1	1.7	0.5	0.2	0.1
Texas ratio (%)	117.8%	118.5%	102.2%	118.0%	131.8%	135.3%

Source: Deutsche Bank estimates, company data. Notes: we assume a capital increase of Euro 1bn for Banco and Veneto Banca in 2016. Legend: BPVi = Banca Popolare di Vicenza; Banco = Banco Popolare; BPM = Banca Popolare di Milano; UBI Banca; BPER = Banca Popolare Emilia Romagna; CreVal = Credito Valtellinese; Veneto Banca;

Figure 107: BPVi and ... combined entity balance sheet in the five case studies we analyze

2016E, Euro bn	Total Assets	Loans	Deposits	NPLs	B3 FL RWAs	B3 FL CET1	Gross Imp	Equity	Int Assets
1) Banco – BPM	214.3	141.4	144.4	21.5	105.8	14.4	35.9	18.1	2.1
2) UBI Banca	157.7	112.5	118.4	14.1	86.8	10.3	22.1	14.0	1.7
3) BPER	101.1	70.4	70.5	11.7	66.2	7.5	20.8	9.1	0.5
4) Creval	66.8	45.1	45.9	8.7	40.8	5.0	15.0	6.1	0.2
5) Veneto Banca	73.2	50.1	46.6	10.2	48.7	5.5	17.0	6.9	0.1

Source: Deutsche Bank estimates, company data. Notes: we assume a capital increase of Euro 1bn for Banco and Veneto Banca in 2016

Figure 108: BPVi and... – Hypothetical combined entity ratios (%)

2016, %	B3 FL CET1 ratio(*)	LDR	NPL Ratio	Texas ratio (*)
1) Banco – BPM	13.6%	97.9%	15.2%	118%
2) UBI Banca	11.9%	95.0%	12.5%	108%
3) BPER	11.3%	99.9%	16.6%	118%
4) CreVal	12.3%	98.3%	19.3%	123%
5) Veneto Banca	11.3%	107.3%	20.4%	125%

Source: Deutsche Bank estimates, company data. Notes: we assume a capital increase of Euro 1bn for Banco and Veneto Banca in 2016. (\*) 100% Badwill recognition and no premium/discount





Figure 109: BP Vicenza – Combined entity CET1 phased in 2016E

Euro m	Banco – BPM	UBI Banca	BPER	CreVal	Veneto Banca	
CET1 phased in Bank 1	11,388	7,547	4,740	2,056	2,680	A
Capital increase from paper swap	1,349	1,349	1,349	1,349	1,349	B
Intangibles assets BPVi	-9	-9	-9	-9	-9	C
Badwill created (100% recognition)	2,570	2,570	2,570	2,570	2,570	D
Delta CET1 BPVi - TNAV BPVi	-894	-894	-894	-894	-894	E
<b>CET1 phased-in combined entity</b>	<b>14,404</b>	<b>10,563</b>	<b>7,756</b>	<b>5,072</b>	<b>5,695</b>	<b>A + B + C + D + E</b>
RWA combined entity	105,830	86,754	66,187	40,847	48,666	
<b>CET1 ratio phased-in combined entity (%)</b>	<b>13.6%</b>	<b>12.2%</b>	<b>11.7%</b>	<b>12.4%</b>	<b>11.7%</b>	
<b>Target CET1 ratio (%)</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	
<b>Required capital to reach the target</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Required capital to reach Bank 1 CET1 ratio</b>	<b>485</b>	<b>19</b>	<b>0</b>	<b>189</b>	<b>0</b>	

Source: Deutsche Bank estimates, company data. Notes: Bank 1 refers to the Banco + BPM, UBI Banca, BPER, CreVal, Veneto Banca. We assume a capital increase of Euro 1bn for Banco and Veneto Banca in 2016

Figure 110: Banco – BPM and BPVi – Badwill sensitivity

Badwill recognition	0%	25%	50%	75%	100%
Badwill created (Euro m)	0	642	1,285	1,927	2,570
CET1 ratio phased-in (%)	11.2%	11.8%	12.4%	13.0%	13.6%
Required capital (Euro m)	0	0	0	0	0

Source: Deutsche Bank estimates, company data. Notes: we assume a capital increase of Euro 1bn for Banco in 2016

Figure 111: UBI Banca and BPVi – Badwill sensitivity

Badwill recognition	0%	25%	50%	75%	100%
Badwill created (Euro m)	0	642	1,285	1,927	2,570
CET1 ratio phased-in (%)	9.2%	10.0%	10.7%	11.4%	12.2%
Required capital (Euro m)	1,550	908	265	0	0

Source: Deutsche Bank estimates, company data

Figure 112: BPER and BPVi – Badwill sensitivity

Badwill recognition	0%	25%	50%	75%	100%
Badwill created (Euro m)	0	642	1,285	1,927	2,570
CET1 ratio phased-in (%)	7.8%	8.8%	9.8%	10.7%	11.7%
Required capital (Euro m)	2,094	1,452	809	167	0

Source: Deutsche Bank estimates, company data

Figure 113: CreVal and BPVi – Badwill sensitivity

Badwill recognition	0%	25%	50%	75%	100%
Badwill created (Euro m)	0	642	1,285	1,927	2,570
CET1 ratio phased-in (%)	6.1%	7.7%	9.3%	10.8%	12.4%
Required capital (Euro m)	1,991	1,348	706	63	0

Source: Deutsche Bank estimates, company data

Figure 114: Veneto Banca and BPVi – Badwill sensitivity

Badwill recognition	0%	25%	50%	75%	100%
Badwill created (Euro m)	0	642	1,285	1,927	2,570
CET1 ratio phased-in (%)	6.4%	7.7%	9.1%	10.4%	11.7%
Required capital (Euro m)	2,228	1,585	943	300	0

Source: Deutsche Bank estimates, company data. Notes: we assume a capital increase of Euro 1bn for Veneto Banca in 2016



Figure 115: BP Vicenza – Combined entity NPL disposal

Euro m	Banco - BPM	UBI	BPER	CreVal	VB
Gross Impaired	35,871	22,114	20,804	15,034	16,964
Writedowns	14,359	8,047	9,114	6,342	6,743
Coverage (%)	40%	36%	44%	42%	40%
Gross NPL to be sold for 100% Texas ratio	9,250	2,662	5,623	4,810	5,634
Net NPL to be sold for 100% Texas ratio	5,547	1,693	3,160	2,781	3,395

Source: Deutsche Bank estimates, company data

Figure 116: BPVi and... – 2018E Hypothetical combined entity profitability

Euro m	Banco - BPM	UBI Banca	BPER	CreVal	VB
Equity	18,712	14,340	9,289	6,165	6,937
Profits + synergies	1,099	717	563	314	380
Dividends	550	358	281	157	190
Equity - EoP	19,262	14,698	9,571	6,322	7,127
<b>RoE (%)</b>	<b>5.7%</b>	<b>4.9%</b>	<b>5.9%</b>	<b>5.0%</b>	<b>5.3%</b>
Tangible equity - EoP	17,118	13,034	9,047	6,105	7,017
<b>RoTE (%)</b>	<b>6.4%</b>	<b>5.5%</b>	<b>6.2%</b>	<b>5.1%</b>	<b>5.4%</b>

Source: Deutsche Bank estimates, company data. Notes: For net profit for BPVi and Veneto Banca we refer to 2018 data of companies business plans. We assume a capital increase of Euro 1bn for Banco and Veneto Banca in 2016

Figure 117: BPVi - Branches to sell to cap market share to 20%

#	Banco - BPM	UBI Banca	BPER	CreVal	VB
Total	165	147	302	29	14
of which:					
North	129	129	0	23	10
Center	36	4	5	6	4
South	0	13	297	0	0
<b>% of Total Branches</b>	<b>5.4%</b>	<b>6.7%</b>	<b>16.6%</b>	<b>2.6%</b>	<b>1.3%</b>

Source: Deutsche Bank estimates, company data

Figure 118: Italian banks – Part of headquarters' costs could be cut in a potential M&A deal (FY-15)

Euro m	BP Vicenza	Banco	UBI Banca	BPM	CreVal	Veneto banca	BPER
<b>Total costs (*)</b>	<b>691</b>	<b>2,165</b>	<b>2,258</b>	<b>1,040</b>	<b>532</b>	<b>696</b>	<b>1,451</b>
Headquarter %	30%	30%	30%	30%	30%	30%	30%
Network %	70%	70%	70%	70%	70%	70%	70%
Headquarter	207	650	677	312	160	209	435
Network	484	1,516	1,581	728	372	487	1,016
Max cost cutting with M&A	207	650	677	312	160	209	435
Likely cost cutting with M&A (**)	104	325	339	156	80	104	218
As % of total costs	15%	15%	15%	15%	15%	15%	15%

Source: Deutsche Bank estimates, company data. Notes: (\*) Excluding the extraordinary contribution to the SRF; (\*\*) we have considered the 50% of headquarters' costs as likely to be cut



Figure 119: Italian banks – Details of administrative expenses (as a % of total administrative expenses)

FY-15, %	MPS	Banco	UBI	BPM	Credem	CreVal	Carige	BPER	BP Sondrio	BP Vicenza	Veneto banca
Indirect taxes and duties	25%	27%	7%	29%	31%	26%	24%	28%	23%	21%	17%
ITC	11%	15%	26%	19%	20%	17%	23%	16%	24%	28%	26%
Real estate	26%	20%	19%	12%	14%	19%	19%	20%	20%	19%	15%
Other functioning costs	15%	14%	20%	15%	13%	12%	7%	15%	10%	9%	16%
Professional and legal	14%	10%	14%	12%	7%	17%	15%	12%	16%	15%	17%
Advertising & marketing	2%	3%	4%	5%	6%	2%	2%	2%	2%	3%	2%
Indirect personnel costs	1%	0%	2%	0%	5%	2%	0%	3%	0%	0%	0%
Other	7%	11%	7%	7%	5%	6%	9%	4%	5%	5%	6%
<b>Total costs, Euro m</b>	<b>2,629</b>	<b>2,165</b>	<b>2,258</b>	<b>1,040</b>	<b>826</b>	<b>532</b>	<b>693</b>	<b>1,451</b>	<b>522</b>	<b>691</b>	<b>696</b>
<b>Total potential savings with M&amp;A, Euro m</b>	<b>175</b>	<b>166</b>	<b>181</b>	<b>80</b>	<b>75</b>	<b>44</b>	<b>66</b>	<b>93</b>	<b>58</b>	<b>87</b>	<b>72</b>
<b>% of adm. exp. to reduce with M&amp;A</b>	<b>15%</b>	<b>18%</b>	<b>27%</b>	<b>22%</b>	<b>24%</b>	<b>18%</b>	<b>23%</b>	<b>18%</b>	<b>24%</b>	<b>28%</b>	<b>25%</b>
<b>% of total costs to reduce with M&amp;A</b>	<b>7%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>9%</b>	<b>8%</b>	<b>9%</b>	<b>6%</b>	<b>11%</b>	<b>13%</b>	<b>10%</b>

Source: Deutsche Bank, company data. The details of administrative expenses are calculated on H1-15 data for Credem, BPER, BP Sondrio; on 9M-15 data for BPM



Figure 120: Italian banks – Analysis of product factories

	Consumer credit	Leasing	Factoring	Bancassurance	Asset Management	Private Banking
<b>BP Vicenza</b>	Prestinuova (100%) Agreements with: <i>Compass (Mediobanca)</i> Pitagora	Agreement with: <i>Palladio Leasing (Mediobanca)</i>	Agreement with: <i>Banca IFIS</i> <i>Factorit</i>	Berica Vita (40%) ABC Assicura (40%) Cattolica Life (40%) Cattolica Assicurazioni (15.1%)	Arca SGR (20%) NEM SGR (100%)	
<b>Creval</b>	Partnership with: <i>IBL Banca</i>	Alba Leasing (8%)		Global Assicurazioni (60%) Global Broker (51%)	Anima SGR (2.8%)	
<b>Veneto Banca</b>	Apulia Prontoprestito (100%)	Clariss Leasing (100%)	Clariss Factor (100%)	JV with: <i>UNIQA (10%) for life segment</i> Excl. agreement with: <i>HDI for non-life segment</i>	Symphonia SGR (100%) Distrib. agreement with: <i>Arca SGR (20%)</i>	BIM (71.4%)
<b>Banco</b>	Agos Ducato (39%)	Alba Leasing (30.15%) Banca Italease (100%) Release (80%)	Factorit (9.5% through Banca Italease)	Popolare Vita (50%) Avipop Assicurazioni (49.9%)	Aletti Gestielle SGR (100%)	Banca Aletti (100%)
<b>UBI</b>	Prestitalia (100%)	UBI Leasing (99.6%)	UBI Factor (100%)	Lombarda Vita (40%) AVIVA Assicurazioni VITA (20%) AVIVA Vita (20%)	UBI Pramerica SGR (65%)	
<b>BPM</b>	Pro Family (100%)	Selmabapiemme Leasing (40%) Alba Leasing (9%)	Factorit (30%)	Bipiemme Vita (19%)	Anima SGR (16.9%)	Banca Akros (96.9%)
<b>BPER</b>	Consumer division (Banca di Sassari) Distrib. Agreement with: <i>Compass (Mediobanca)</i>	Sardaleasing (98.4%) Alba Leasing (33.5%)	Emilia Romagna Factor (94.4%)	JV with Unipol Group: <i>Arca Vita (19.7%) for life segment</i> <i>Arca Assicurazioni (100%) for non-life segment</i>	Optima SIM (100%) Arca SGR (32.8%) Etica SGR (10%) Polis Fondi SGR (19.6%)	

Source: Deutsche Bank, company data



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price	Disclosure
Banca Popolare di Vicenza	NA	NA	8,16, SD11

- 8 Deutsche Bank and/or its affiliate(s) expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.
- 16 A draft of this report was previously shown to the issuer (for fact checking purposes) and changes were made to the report before publication.

## Special Disclosure

- 11 Deutsche Bank AG and/or affiliate(s) is acting as Joint Global Coordinator to Banca Popolare di Vicenza on the potential IPO of the company on the Milan stock exchange.

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>

## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Paola Sabbione

## Regulatory Disclosures

### 1.Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

### 2.Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at <http://gm.db.com>.



## Additional Information

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). Though the information herein is believed to be reliable and has been obtained from public sources believed to be reliable, Deutsche Bank makes no representation as to its accuracy or completeness.

If you use the services of Deutsche Bank in connection with a purchase or sale of a security that is discussed in this report, or is included or discussed in another communication (oral or written) from a Deutsche Bank analyst, Deutsche Bank may act as principal for its own account or as agent for another person.

Deutsche Bank may consider this report in deciding to trade as principal. It may also engage in transactions, for its own account or with customers, in a manner inconsistent with the views taken in this research report. Others within Deutsche Bank, including strategists, sales staff and other analysts, may take views that are inconsistent with those taken in this research report. Deutsche Bank issues a variety of research products, including fundamental analysis, equity-linked analysis, quantitative analysis and trade ideas. Recommendations contained in one type of communication may differ from recommendations contained in others, whether as a result of differing time horizons, methodologies or otherwise. Deutsche Bank and/or its affiliates may also be holding debt securities of the issuers it writes on.

Analysts are paid in part based on the profitability of Deutsche Bank AG and its affiliates, which includes investment banking revenues.

Opinions, estimates and projections constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof if any opinion, forecast or estimate contained herein changes or subsequently becomes inaccurate. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst's judgment. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Prices and availability of financial instruments are subject to change without notice and investment transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Unless otherwise indicated, prices are current as of the end of the previous trading session, and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank, subject companies, and in some cases, other parties.

Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may -- by construction -- lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.



Derivative transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. The appropriateness or otherwise of these products for use by investors is dependent on the investors' own circumstances including their tax position, their regulatory environment and the nature of their other assets and liabilities, and as such, investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. The risk of loss in futures trading and options, foreign or domestic, can be substantial. As a result of the high degree of leverage obtainable in futures and options trading, losses may be incurred that are greater than the amount of funds initially deposited. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option investors must review the "Characteristics and Risks of Standardized Options", at <http://www.optionsclearing.com/about/publications/character-risks.jsp>. If you are unable to access the website please contact your Deutsche Bank representative for a copy of this important document.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction.

**United States:** Approved and/or distributed by Deutsche Bank Securities Incorporated, a member of FINRA, NFA and SIPC. Analysts employed by non-US affiliates may not be associated persons of Deutsche Bank Securities Incorporated and therefore not subject to FINRA regulations concerning communications with subject companies, public appearances and securities held by analysts.

**Germany:** Approved and/or distributed by Deutsche Bank AG, a joint stock corporation with limited liability incorporated in the Federal Republic of Germany with its principal office in Frankfurt am Main. Deutsche Bank AG is authorized under German Banking Law and is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority.

**United Kingdom:** Approved and/or distributed by Deutsche Bank AG acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Bank AG in the United Kingdom is authorised by the Prudential Regulation Authority and is subject to limited regulation by the Prudential Regulation Authority and Financial Conduct Authority. Details about the extent of our authorisation and regulation are available on request.

**Hong Kong:** Distributed by Deutsche Bank AG, Hong Kong Branch.

**India:** Prepared by Deutsche Equities India Pvt Ltd, which is registered by the Securities and Exchange Board of India (SEBI) as a stock broker. Research Analyst SEBI Registration Number is INH000001741. DEIPL may have received administrative warnings from the SEBI for breaches of Indian regulations.

**Japan:** Approved and/or distributed by Deutsche Securities Inc.(DSI). Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, Type II Financial Instruments Firms Association and The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. We may also charge commissions and fees for certain categories of investment advice, products and services. Recommended investment strategies, products and services carry the risk of losses to principal and other losses as a result of changes in market and/or economic trends, and/or fluctuations in market value. Before deciding on the purchase of financial products and/or services, customers should carefully read the relevant disclosures, prospectuses and other documentation. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless Japan or "Nippon" is specifically designated in the name of the entity. Reports on Japanese listed companies not written by analysts of DSI are written by Deutsche Bank





Group's analysts with the coverage companies specified by DSI. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

**Korea:** Distributed by Deutsche Securities Korea Co.

**South Africa:** Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10).

**Singapore:** by Deutsche Bank AG, Singapore Branch or Deutsche Securities Asia Limited, Singapore Branch (One Raffles Quay #18-00 South Tower Singapore 048583, +65 6423 8001), which may be contacted in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), they accept legal responsibility to such person for its contents.

**Taiwan:** Information on securities/investments that trade in Taiwan is for your reference only. Readers should independently evaluate investment risks and are solely responsible for their investment decisions. Deutsche Bank research may not be distributed to the Taiwan public media or quoted or used by the Taiwan public media without written consent. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation to trade in such securities/instruments. Deutsche Securities Asia Limited, Taipei Branch may not execute transactions for clients in these securities/instruments.

**Qatar:** Deutsche Bank AG in the Qatar Financial Centre (registered no. 00032) is regulated by the Qatar Financial Centre Regulatory Authority. Deutsche Bank AG - QFC Branch may only undertake the financial services activities that fall within the scope of its existing QFCRA license. Principal place of business in the QFC: Qatar Financial Centre, Tower, West Bay, Level 5, PO Box 14928, Doha, Qatar. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Business Customers, as defined by the Qatar Financial Centre Regulatory Authority.

**Russia:** This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

**Kingdom of Saudi Arabia:** Deutsche Securities Saudi Arabia LLC Company, (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may only undertake the financial services activities that fall within the scope of its existing CMA license. Principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower - 17th Floor, 11372 Riyadh, Saudi Arabia.

**United Arab Emirates:** Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

**Australia:** Retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Please refer to Australian specific research disclosures and related information at <https://australia.db.com/australia/content/research-information.html>

**Australia and New Zealand:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act and New Zealand Financial Advisors Act respectively. Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published without Deutsche Bank's prior written consent. Copyright © 2016 Deutsche Bank AG









---

## David Folkerts-Landau

Chief Economist and Global Head of Research

Raj Hindocha  
Global Chief Operating Officer  
Research

Marcel Cassard  
Global Head  
FICC Research & Global Macro Economics

Steve Pollard  
Global Head  
Equity Research

Michael Spencer  
Regional Head  
Asia Pacific Research

Ralf Hoffmann  
Regional Head  
Deutsche Bank Research, Germany

Andreas Neubauer  
Regional Head  
Equity Research, Germany

---

### International locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Große Gallusstraße 10-14  
60272 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

---

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500