Banca Popolare di Vicenza

MEDIOBANCA SECURITIES

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Rebirth

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Banca Popolare di Vicenza (BPVI): €1.1-1.6bn valuation range

We apply four valuation methodologies based on peer group multiples and a discounted dividend model, leading to €1.1-1.6bn on 2018E. This partly reflects the current turbulent markets and the still subdued profitability we estimate for 2018E. We see potential pending legal and liquidity risks as unquantifiable at this stage and excluded from our valuation. Liquidity should benefit from the latest ECB moves on TLTRO2.

SME and affluent client focus in the North East of Italy

BPVI is a multi-regional bank, rooted in the Veneto region. It recently converted into joint stock, yet inheriting the 90% retail shareholder base of the previous cooperative status. Business/affluent clients are BPVI's core: 57% and 71% of loans and revenues.

Benchmarking: sub-par margins, AQ and funding; in-line costs; oversized network

We benchmark BPVI's H115 to peers. On the P&L front BPVI shows below peer margins and in-line costs. BPVI's branch network appears oversized vs peers. Asset quality (AQ) is below peer average due to the large NPE stock and the lower R.E. collateral. Funding is below average, reflecting the difficulties incurred in 2015 and the loan leverage nature of banks in the NE of the country.

Three structural breaks mandating change at BPVI

Three structural breaks have broken BPVI's legacy, bringing to the current re-foundation: 1) the governments' 2015 Popolare reform, mandating the conversion into joint stock, 2) the €3bn 2014-15 pretax losses coupled with the €1.1bn capital deduction from clients' capital financing, 3) the coming into force of bail-in regulation. Together, these put pressure on deposits, time, capital and governance which have destabilised the old BPVI.

Refoundation: new management, new capital, new strategy. €0.2bn 2018 profits

BPVI's refoundation is based on three pillars: new management, new capital, new strategy. The €1.5bn capital increase is aimed at re-establishing compliance with regulatory ratios, to ease short term liquidity tensions and to provide the fuel to return the bank to growth. BPVI is adopting a strategy aimed at regaining the trust of its clients and, through this, returning to grow. The recipe describes a mix of margin and volume growth on NII, a switch from AUC to AUM on fees, the downsizing of staff and branches on costs and a progressive normalization of credit losses and €1bn NPL sales on LLPs. 2018 targets predicate €0.2bn profits and 12% CET1.

MB estimates 17% below 2018E profit targets on more conservative assumptions

We benchmark the Plan to those of peers and conclude that BPVI's one is more optimistic than average on revenue growth and in line on asset quality and capital ratios. Our net profit estimates position 17% below BPVI's 2018E targets, largely on less supportive evolution in NII and fees and lower cost cutting. We see the evolution of asset quality and LLPs compatible with flows in NPE experienced in the past and with the initiatives planned by BPVI to improve the work-out of deteriorated exposures. Our estimates do not factor in additional material charges deriving from pending or future legal claims related to alleged legacy misconduct. Finally, defending a 12% fully-loaded CET1 ratio looks feasible to us and we see 165bps potential uplift in CET1 from the disposal of ARCA Sgr (+25bps) and from the validation of IRB models (+140bps). Furthermore, we see room for a 12 p.p. hike in cash coverage ratio on total impaired loans to 53% (75% on NPLs after migration into NPL of 30% of non-NPLs) before breaching the 10.25% SREP ratio.

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Outperform	Neutral	Underperform	Not Rated
52.61%	34.00%	11.41%	1.99%

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Outperform	Neutral	Underperform	Not Rated
11.11%	13.21%	5.88%	16.67%

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Executive Summary

€1.1-1.6bn valuation range

We value BPVI according to four methodologies reliant on peer group valuation multiples and a discounted dividend model leading to a range of €1.1-1.6bn on 2018E. This partly reflects the current turbulent markets for domestic Italian banks and the still subdued profitability we estimate for 2018E. We see potential pending legal and liquidity risks as unquantifiable at this stage and excluded from our valuation range.

BP Vicenza – Valuation Range, 2018E

€m	TEx	Peers' TEx	Peers' PEx	DDM
Adj. Net Profit	168	168	168	168
TE	4,080	4,080	4,080	4,080
Adj. RoTE	4.1%			
CoE	10.3%			
Equity Value	**1,636**	**1,247**	**1,189**	**1,079**
TEx	**0.40x**	**0.31x**	**0.29x**	**0.26x**
PEx	9.7x	7.4x	7.1x	6.4x

Source: Mediobanca Securities estimates

SME and Affluent client focus in the North East of Italy

BPVI is a multi-regional bank, rooted in the Veneto region. On 5 March 2016 the EGM approved the conversion into joint stock from cooperative status. Yet, the latter implies a shareholder base 90% skewed towards retail investors. The bank operates a commercial banking business model through its branches, its multichannel arms and the partnerships in Bancassurance, AM, Consumer finance and Monetics. SME, small business and Affluent are BPVI's core clients, attracting 57% of loans and generating 71% of revenues.

Benchmarking: sub-par margins, AQ and funding; in-line costs; oversized network

We benchmark BPVI's H115 to peers to pinpoint positioning vs peers. On the P&L front, we conclude that BPVI shows below peer margins and in-line costs. BPVI's branch network appears oversized vs peers. Asset quality (AQ) is below peer average due to the large NPE stock and the lower R.E. collateral. Funding is below average, reflecting the difficulties incurred in 2015 and the loan leverage nature of banks in the NE of the country.

Three structural breaks mandating change at BPVI

Three structural breaks have broken the BPVI legacy, bringing to the current BPVI's refoundation: 1) the governments' 2015 Popolare reform, mandating the conversion of the subsector into joint stock, 2) the €3bn losses of 2014-15, coupled with the €1.1bn capital deduction from a clients' capital financing practice implemented by the previous management, 3) the coming into force of bail-in regulation. Together, these items have formed a cocktail of pressure on deposits, time, capital and governance which have destabilised the old BPVI.

Refoundation - New management, new capital, new strategy: €0.2bn profits in 2018

BPVI's refoundation is based on three pillars: new management, new capital, new strategy. €1.5bn capital increase is aimed at re-establishing compliance with regulatory ratios, to ease short term liquidity tensions and to provide the fuel to return the bank to growth. BPVI is adopting a strategy aimed at regaining the trust of its clients and, through this, returning to grow. The recipe describes a mix of margin and volume growth on NII, a switch from AUC to AUM on fees, the downsizing of staff and branches on costs and a progressive normalization of credit losses and €1bn NPL sales on LLPs. 2018 targets predicate €0.2bn profits and 12% CET1.

BPVI – Business Plan Main Profit and Loss Targets, 2018-2020

Income statement (€m)	2015	2018	2020	CAGR15 - 18	CAGR 15 - 20
Net Interest Income	504	579	669	4.8%	5.8%
Net commissions	322	401	453	7.6%	7.1%
Net result of the proprietary portfolio	163(1)	84	85	-19.9%	-12.2%
Net Operating Income	**1,053**	**1,143**	**1,289**	**2.8%**	**4.1%**
Net Operating Expenses	(754)(2)	(622)	(613)	-6.2%	-4.0%
Net Profit from operating activities	**298**	**522**	**676**	**20.5%**	**17.8%**
Net Impairment adj. on loans and advance	(1,333)(3)	(220)	(214)	-45.2%	-30.7%
Net Income	**(1,407)**	**202**	**309**	**n.m.**	**n.m.**

Source: Company Data (1) Including €37 mn related to the disposal of Save, Agripower, 21 Investimenti, Consorzio Triveneto and Pittarosso; (2) Including the extraordinary contribution to the National Resolution Fund (€41 mn) and extraordinary expenses for transformation into Joint Stock Company (€11 mn) and top management turnaround (€10 mn); (3) Including €460 mn related to the effect of the financed capital;

MB estimates 17% below 2018E profit targets on more conservative assumptions

We benchmark the Plan to those of peers and conclude that BPVI's one is more optimistic than average on revenue growth and in line on asset quality and capital ratios. Our net profit estimates position 17% below BPVI's 2018E targets, largely on less supportive evolution in NII and fees and lower cost cutting. We see the evolution of asset quality and credit losses as compatible with flows in NPE experienced in the past and with the initiatives planned by BPVI to improve the work-out of deteriorated exposures. Our estimates do not factor in additional material charges deriving from pending or future legal claims related to alleged legacy misconduct. Finally, defending a 12% fully-loaded CET1 ratio looks feasible to us and we see 165bps potential uplift in CET1 from the disposal of ARCA Sgr (+25bps) and from the validation of IRB models (+140bps).

BPVI – Comparison between Business Plan Projections and MB Estimates

Income statement (€m)	2015	2018 (E)	2018MBE	diff%	2020 (E)	2020MBE	diff%
Net Interest Income	504	579	566	-2%	669	607	-9%
Net commissions	322	401	379	-5%	453	407	-10%
Net result of the proprietary portfolio	163	84	81	-4%	85	74	-13%
Net Operating Income	1,053	1,143	1,096	-4%	1,289	1,164	-10%
Net Operating Expenses	(754)	-622	-641	+3%	-613	-649	+6%
Net Profit from operating activities	298	522	455	-13%	676	515	-24%
Net Impairment adj. on loans and advance	(1,333)	-220	-202	-8%	-214	-197	-8%
Net Income	-1,407	202	168	-17%	309	218	-29%
Loans & Deposits (€bn)	**2015**	**2018 (E)**	**2018MBE**	**diff%**	**2020 (E)**	**2020MBE**	**diff%**
Net Loans(4)	25.1	28.2	26.8	-5%	30.1	28.7	-5%
Direct Funding(4)	21.9	26.4	24.6	-7%	28.2	25.9	-8%
Indirect Funding(5)	14.6	18.6	17.5	-6%	20.6	19.3	-6%
of which AUM	7	10.8	10.8	0%	12.5	12.5	0%
Total Funding	36.5	45.1	42.2	-7%	48.8	45.2	-7%
RWA	24.9	26.8	26.0	-3%	28.2	27.2	-4%
Main KPIs	**2015**	**2018 (E)**	**2018MBE**	**diff(bps)**	**2020 (E)**	**2020MBE**	**diff(bps)**
Rote Adjusted	-36.2%	5.6%	4.7%	-94bps	8.2%	5.2%	-304bps
Cost/Income	71.6%	54.4%	60.43%	603bps	47.6%	57.7%	1012bps
CET1	6.70%	12.0%	12.9%	90bps	12.9%	13.31%	41bps
Total Capital Ratio	8.10%	12.9%	14.3%	140bps	13.7%	14.7%	98bps
Cost of Risk	529	77	77	0bps	70	70	0bps
Texas Ratio	210.9%	110.7%	106.2%	-448bps	95.3%	90.7%	-459bps
Coverage Ratio NPE	42.4%	45.0%	43.5%	-151bps	46.7%	45.3%	-137bps

Source: Company data, Mediobanca Securities estimates

Capital adequacy could withstand further revision of the loan book

Including the planned €1.5bn capital increase, our simulation shows that BPVI's CET1 Ratio could withstand an increase of 12 percentage points in the cash coverage ratio of total Non-Performing Exposures (NPEs) to 53% before falling below the 10.25% minimum threshold set by the ECB. Looking at NPLs only but adding the migration of Unlikely-to-Pay loans into NPLs, we calculate BPVI's CET1 ratio could withstand a coverage ratio of c.75% before falling below the 10.25% SREP threshold.

BPVI – Sensitivity of CET1 Ratio to NPL Coverage Ratio (Including Migration of Unlikely-to-Pay Loans into NPLs), 2016E

NPL Coverage	57%	59%	62%	64%	67%	69%	72%	74%
CET1 Impact	-40bps	-65bps	-95bps	-120bps	-145bps	-175bps	-200bps	-230bps
CET1 Ratio	12.2%	12.0%	11.7%	11.4%	11.2%	10.9%	10.6%	10.3%
ECB SREP Ratio	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Buffer on SREP Ratio	**200bps**	**170bps**	**145bps**	**120bps**	**90bps**	**65bps**	**35bps**	**10bps**

Source: Mediobanca Securities estimates

BPVI – Sensitivity of CET1 Ratio to NPEs Coverage Ratio, 2016E

NPE Coverage Incr.	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%
CET1 Impact	-20bps	-35bps	-55bps	-75bps	-95bps	-115bps	-130bps	-150bps	-170bps	-190bps	-210bps	-230bps
CET1 Ratio	12.4%	12.3%	12.1%	11.9%	11.7%	11.5%	11.3%	11.1%	10.9%	10.7%	10.5%	10.3%
ECB SREP Ratio	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Buffer on SREP Ratio	**220bps**	**200bps**	**185bps**	**165bps**	**145bps**	**125bps**	**105bps**	**85bps**	**65bps**	**45bps**	**25bps**	**5bps**

Source: Mediobanca Securities estimates

Company Overview

BPVI is a multi-regional bank, rooted in the Veneto region. On 5 March 2016 the Extraordinary General Meeting (EGM) approved the conversion into joint stock from cooperative status. Yet, the latter implies a shareholder base 90% skewed towards retail investors. The bank operates a commercial banking business model through its branches, its multichannel arms and the partnerships in Bancassurance, AM, Consumer finance and Monetics. SME, Small business and Affluent are BPVI's core clients, attracting 57% of loans and generating 71% of revenues.

Historical Roots in the North-East of Italy

Banca Popolare di Vicenza (BPVI) was established in 1866 and it was first bank in the Veneto region, according to BPVI's website. During the 1980-2000's BPVI expanded in North-East of Italy through several acquisitions:

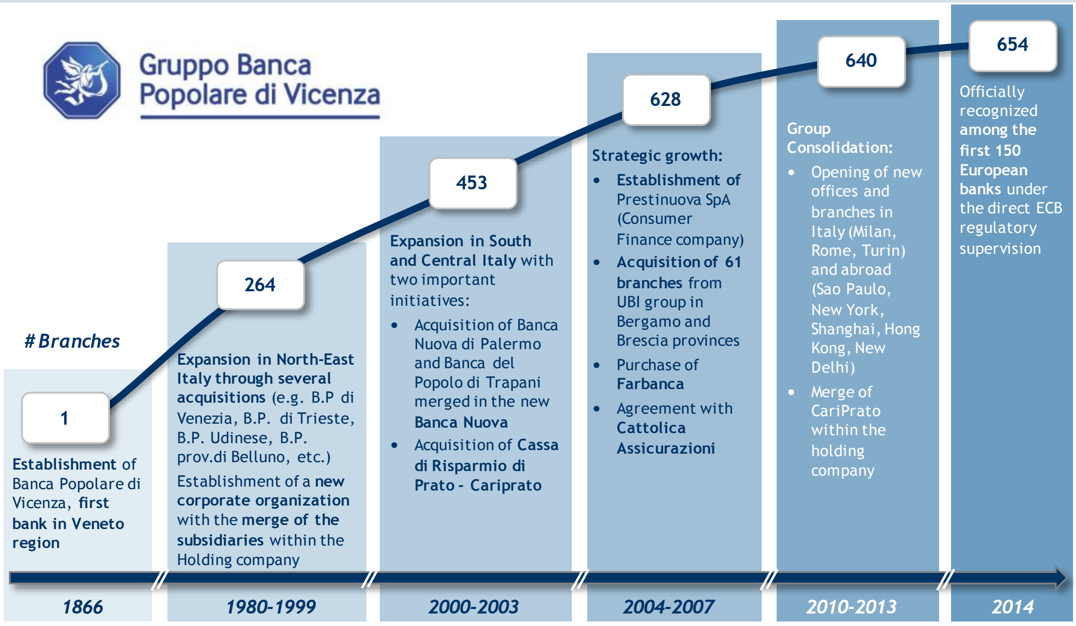
- Banca Popolare Agricola di Lonigo (1985),
- Banca Popolare di Thiene (1988),
- Banca Popolare dei Sette Comuni-Asiago (1991),
- Banca Popolare di Venezia (1994),
- a majority stake in Banca Popolare di Castelfranco Veneto and in Banca Popolare di Trieste (1996),
- a majority stake in Banca Popolare della provincia di Belluno (1997),
- Banca Popolare "C. Piva" di Valdobbiadene and Banca Popolare Udinese (1998).

In 1999 a new corporate organization was introduced entailing the merger of the subsidiaries in the Holding company. In the early 2000 BPVI extended its network to 453 branches with two acquisitions in the South and in Central Italy, i.e. Banca Nuova di Palermo and Banca del Popolo di Trapani (the new Banca Nuova) and Cassa di Risparmio di Prato (Cariprato). In the period 2004-07 BPVI launched a strategy plan incorporating:

- The establishment of Prestinuova SpA (Consumer Finance company),
- The acquisition of 61 branches from UBI,
- The purchase of Farbanca,
- The agreement with Cattolica Assicurazioni.

At the end of 2007 the growth plan led to a network of 628 branches. In the period 2010-13 BPVI opened new offices and branches in Italy (Milan, Rome, Turin) and abroad (Sao Paulo, Moscow, New York, Shanghai, Hong Kong, New Delhi) and merged CariPrato in the holding company. BPVI provides its customers a multi-channel banking experience in which, in addition to its branch network, it distributes its services through agents and the online platform 'BPVIGO!'.

Chart 1: BPVI – Historical Timeline



Source: Mediobanca Securities, company presentation

Governance and Shareholders' base

From Popolare bank to joint stock company

BPVI has been a Popolare bank since 1866 and was aimed at facilitating access to credit and allowing local communities to efficiently allocate resources. One of the main features of a Popolare bank is that shareholders and customers and employees often fulfilled more than one role simultaneously. The mixed status of stakeholders usually led to the offer of banking services at more convenient conditions for shareholders/members of the cooperative. As some tensions arose from the different needs of stakeholders, the 'one-man, one-vote' rule was introduced as the best solution in that context. Other main peculiarities of Popolari banks are the ownership limit, the acceptance clause, the defined profit distribution and the qualified majority voting for sensitive decisions.

After the reform decree the Italian government approved in 2015 BPVI - along with all the Popolari banks with total assets exceeding €8bn - is mandated to transform into a joint stock company and to drop the per capita vote at AGM/EGM by December 2016. On 5th March 2016 the EGM of BPVI approved the transformation into joint stock company and the capital increase of €1.5bn, with €150m "brownshoe option", €38m instruments or rights to be assigned to shareholders for a loyalty-building purpose and €75m instruments or rights to be assigned to shareholders for an incentive purpose.

Shareholders' Structure; c90% are retail investors

According to BPVI's website the number of shareholders in BPVI is c119,000. In the FY14 report BPVI unveiled that 88.7% of the shareholders are retail investors and 11.2% institutional and corporate investors. In addition, the bank disclosed that c50% of the shareholders' base owns the shares for more than 3 years.

Table 1: Number of Shareholders by seniority, 2014

	('000)	Comp. %
From less than 2 years	60.0	51%
From 3 to 5 years	14.4	12%
From 6 to 10 years	14.3	12%
From more than 10 years	28.1	24%
Total	**116.8**	**100%**

Source: Mediobanca Securities, Company FY14 annual report

The majority of the shareholders are located in the core business areas of the bank, i.e. Veneto (56%), Friuli Venezia Giulia (11%) and Lombardy (9%).

Table 2: Number of Shareholders by geography, 2014

	('000)	Comp. %
Veneto	65.6	56%
Friuli Venezia Giulia	13.0	11%
Lombardy	10.7	9%
Emilia Romagna	2.8	2%
Sicily	6.9	6%
Lazio	2.3	2%
Tuscany	11.2	10%
Other Italian Region	4.1	4%
Outside Italy	0.2	0%
Total	**116.8**	**100%**

Source: Mediobanca Securities, Company FY14 annual report

Overlap between customers, depositors and shareholders

The intrinsic nature of BPVI, as Popolare bank, aimed at granting access to credit to the community and involving it in the governance lead to a shareholders' base well rooted in the territory and made by BPVI's own customers, bond and deposit holders as well as employees. BPVI incentivized customers to become shareholders with a wide offer range of favourable conditions on banking and insurance services. We believe that this mutualistic relationship could lead to some deterioration in BPVI's customer base going forward, after the scandal on the "financed capital" and the recent share devaluation. Shareholders hold €1.8bn direct deposits, but those that can be correlated to them are €3.2bn in 2015 (€4.8bn in 2014), meaning c15% of direct deposits.

Shareholders linked to the "financed" capital

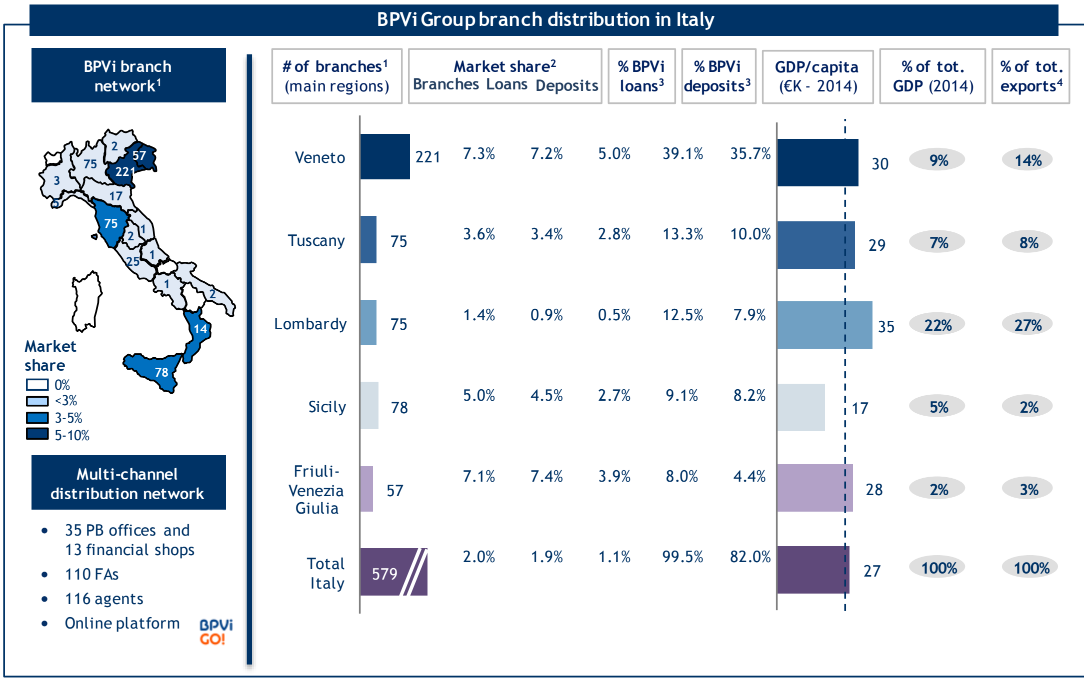
In the press release presenting the FY15 results BPVI disclosed that €1.1bn capital would be derecognised as it is linked to the financing of clients aimed at the purchase of BPVI's shares during the two recent capital increases and into the secondary market. The practice was discovered by the ECB in 2015 during an investigation on market risk RWA calculations. At the analysts' presentation BPVI disclosed that 1,300 shareholders have been involved in such operations, i.e. 1.1% of the shareholders base and 0.1% of clients. BPVI unveiled that the deposits of those shareholders are worth only €59m.

Geographical Presence

64% BPVI's network is located in Veneto, Tuscany and Lombardy

BPVI's branches are highly concentrated in high-GDP and export-driven regions. Almost 66% of BPVI branches are located in Italy's wealthy and growing northern regions. In particular, the Veneto, Tuscany and Lombardy regions account for 64% of total branches and 65% of BPVI's loans and deposits. These three regions generate the highest GDP/capita (2014) on average of €30,000, representing 38% of total GDP and 49% of total exports.

Chart 2: Geographic footprint



Source: Mediobanca Securities, Company presentation, "Banca d'Italia, Segnalazioni di vigilanza, data di riferimento 30/09/2015", ISTAT ("Conti nazionali (edizione di novembre 2015)"), ISTAT-Coeweb ("Statistiche del commercio estero (aggiornamento di dicembre 2015)")

BPVI detains 7% market share in Veneto

BPVI is one of the most present banks in Veneto, after ISP, UCG and MPS and BP, with 7% market share. In Friuli Venezia Giulia is one of the leading banks behind UCG, ISP and Cariparma.

At present, 50% of the branches generate >80% of group revenue. In terms of full-time employees (FTEs), 49% of the branches employ between 3-6 FTEs, while another 40% of the branches operates with >6 FTEs. On average, BPVI's branches have c. 6 FTEs/branch. Clients per branch average at c. 2,300.

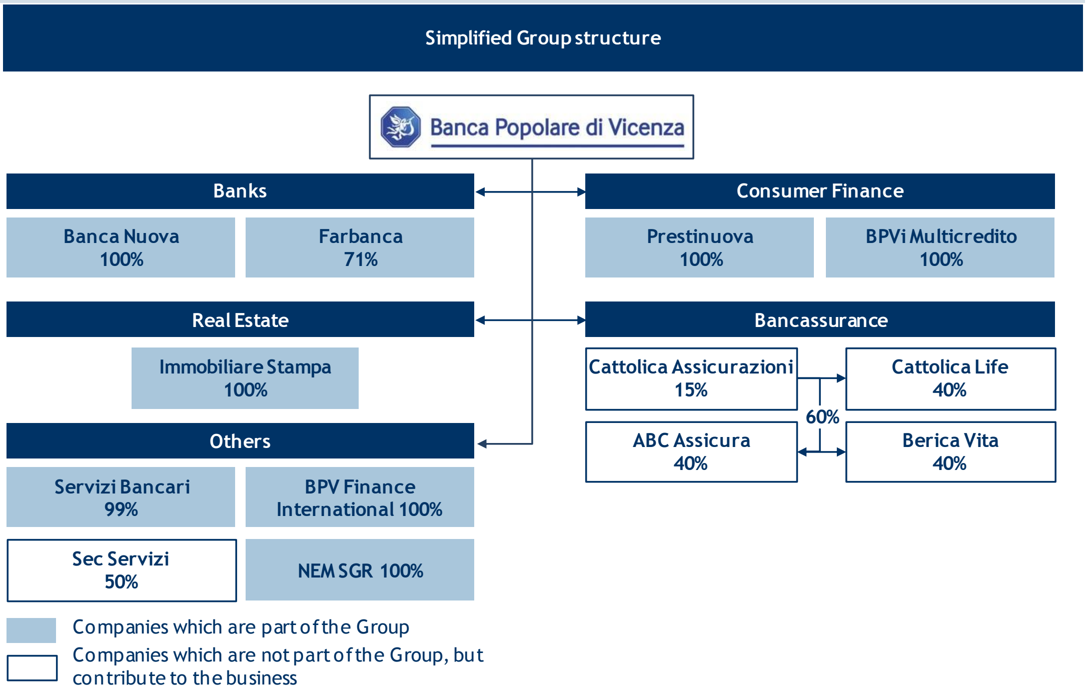
Group structure

A business model focused on commercial banking

BPVI operates as a distribution-oriented group inclusive of third-party product platforms. Aside from commercial banking, BPVI's main line of business, it engages in other businesses such as bancassurance, asset management, consumer credit, monetics, private equity, and proprietary trading. We highlights that:

- **Commercial banking:** the parent company, Banca Popolare di Vicenza and Banca Nuova operate in the business with 578 branches and c€25bn net loans issued in 2015;
- **Online banking:** FarBanca is the online bank of the group with a clear focus on providing banking services to pharmacists;
- **Bancassurance:** BPVI established a partnership with Cattolica Assicurazioni that will expire in 2022. In addition, BPVI owns 15% stake in Cattolica Assicurazioni, 40% stake in Cattolica Life, 40% ABC Assicura and 40% Berica Vita;
- **Real Estate:** BPVI owns 100% stake in Immobiliare Stampa;
- **Asset Management:** BPVI signed 20 commercial agreements and owns 20% stake in ARCA, in which 51% of the €4.9bn AuM is invested. ARCA is one of Italy's largest non-listed asset managers in Italy;
- **Consumer Credit:** the subsidiary active in this business are PrestiNuova, BPVI Multicredito and Compass. The former two are 100% owned by BPVI while the latter is a partnership. PrestiNuova issued €89m in 2015 whereas Compass €156m personal loans. The core business of PrestiNuova consists in salary-secured loans (cession del quinto) to public sector employees;
- **Monetics:** BPVI sealed agreements with CartsSí expiring in 2020 and with Consorzio Triveneto expiring in 2018;
- **Private Equity:** NEM Sgr was established in 2004 to promote, establish, and manage private equity funds with NAV worth €99m in 2015;
- **Proprietary Trading:** BPV Finance International plc manages €652m total assets.

Chart 3: Group Structure

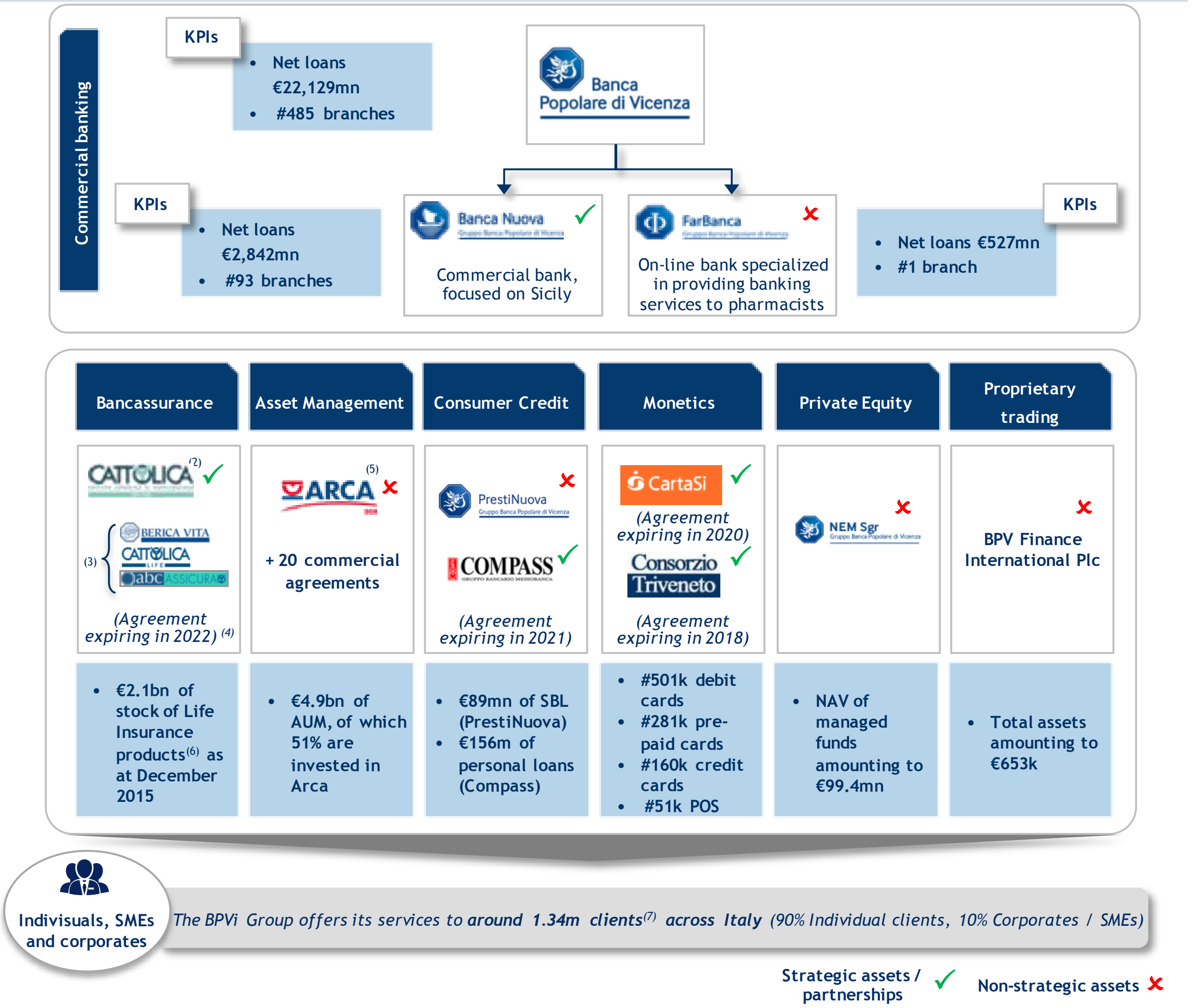


Source: Mediobanca Securities, Company presentation

Core Business: Commercial and Consumer Finance, Monetics and Bancassurance

According to its strategic plan BPVI will focus on commercial banking through Banca Nuova and Banca Popolare di Vicenza and on bancassurance thanks to the agreement sealed with Cattolica. In addition one of the activities at the heart of BPVI's strategy is consumer finance on the back of the mid-term agreement with Compass. Monetics is also one of the core-businesses of the group thanks to the partnership with CartaSí and Consorzio Triveneto.

Chart 4: BPVI's main business activities



Sources: Mediobanca Securities, Company presentation Notes: (1) Net of FVH; (2) Equity stake of 15.1% as at 31 Dec 2015; (3) Equity stake of 40% as at 31 Dec 2015; (4) 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; (5) Equity stake of 20.0% as at 31 Dec 2015; (6) stock of policies collected through the BPVi network; (7) Commercial segments only, excluding employees and financial counterparties, # clients based on segmentation criteria for 2016

Non-Core businesses potentially up for sale are worth over €600m

BPVI pointed out some areas could lead to capital relief, if sold. These involve assets like: ARCA (asset management), PrestiNuova (consumer finance), Farbanca (specialized online banking), NEM sgr (private equity), Immobiliare Stampa (real estate) and BPV Finance International Plc (proprietary trading). Hence, we expect BPVI not to invest in the development of these activities.

Table 3: Non-Strategic Assets, 2015

Business description	Book value (€m)	Stake
Arca	38.7	19.99%
PrestiNuova	35.0	100.00%
FarBanca	43.9	70.77%
NEM Sgr	2.4	100.00%
Immobiliare Stampa	497.0[1]	100.00%

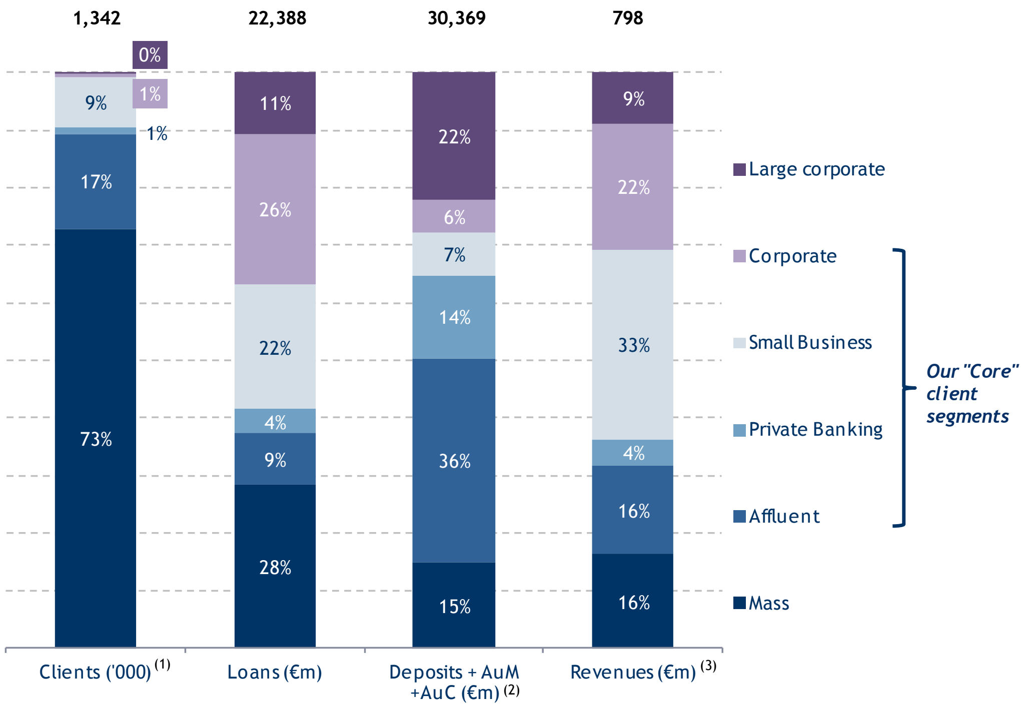
Source: Mediobanca Securities, Company presentation, (1) Book value of real estate properties at Group level

Client franchise and product range

Focus on Affluent clients, private banking and SME/Corporate

BPVI's core client segments generate c.75% of group revenues with only 28% of the total clients. SMEs and corporates together generate 55% of revenues, followed by affluent (16%) and mass-market segments (16%). The mass-market, corporate, and SME segments account for >20% each of the loan portfolio, while deposits+AuM+AuC primarily stem from affluent (36%) and large corporate (22%).

Chart 5: Client base distribution (Segmentation 2016 (1))

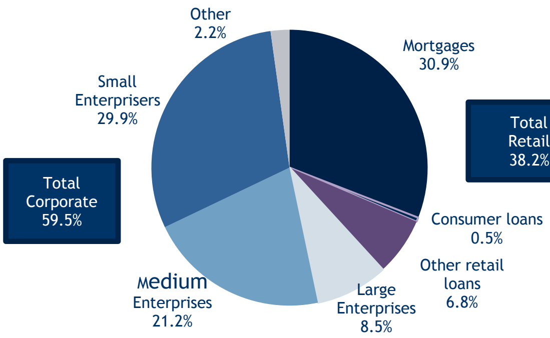


Source: Mediobanca Securities, Company presentation Notes: (1). Commercial segments only, excluding employees and other financial counterparties (i.e. SPV); Current client segmentation based on the following criteria: Affluent (total customer assets managed > €75k), Private (total customer's assets managed > €1mn), SME (Business Clients with annual revenues > €10mn), Large Corporate (Business Clients with annual revenues > €250mn) including financial corporate (i.e. Cattolica Assicurazioni); (2). Not including BPVI shares; data as of Dec 2015 pro-forma for 2016 segmentation criteria; (3) Revenues based on internal managerial accounting including: interests on customer loans and customer deposits, commissions from AUM and other services; data as of Dec 2015 pro-forma on 2016 segmentation criteria

Corporate exposures represent 60% of the gross loan book

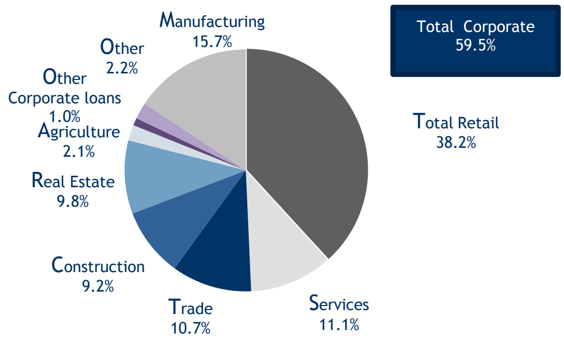
Corporate loans account for 59.5%, retail loans 38.2%, and other loans 2.2%. SME loans are the bulk of corporate loans (85% of gross corporate loan book), while mortgages form the bulk of retail loans (c80% of the gross retail loan book). By sector, real estate & construction accounts for 19%, followed by manufacturing at 15.7%, services at 11.1%, and trade at 10.7%.

Chart 6: Gross Loan Book by Customer, 2015



Source: Mediobanca Securities, Company presentation

Chart 7: Gross Loan Book by Sector, 2015



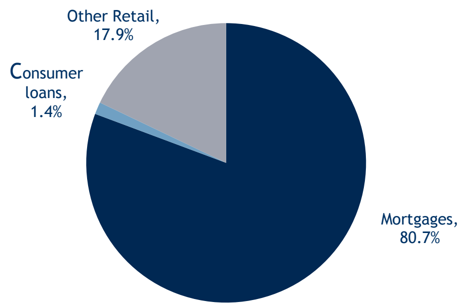
Source: Mediobanca Securities, Company presentation

Individual clients: 38% of the total loan book

Retail loan book covered at >130% with collateral and provisions

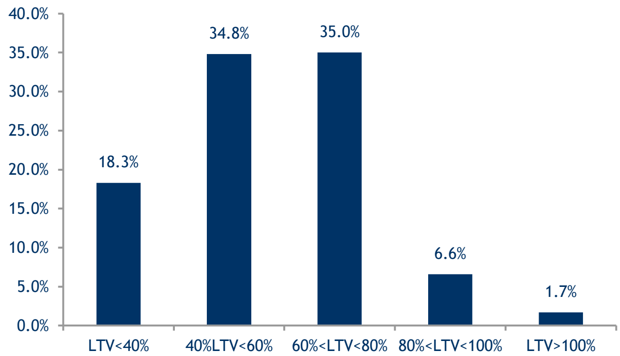
Mortgages account for 80.7% of total loans. NPLs relating to mortgages and other retail loans totalled 8.6% in 2015 (2014: 6.6%). Nearly 70% of the portfolio has loan-to-value (LTV) equally split between 40-60% LTV category and 60-80% LTV category. In 2015, the NPE provision for mortgages and other retail loans totalled 40.4% with an associated collateral coverage ratio of 96.2%. Hence the cash and collateral coverage hovers around 136.6% in 2015.

Chart 8: Retail Loan Book by product, 2015



Source: Mediobanca Securities, Company presentation

Chart 9: Mortgage LTV, 2015



Source: Mediobanca Securities, Company presentation

Individual clients: BPVI aims at increasing the affluent client base

Affluent clients generate 43% of revenues (18% of clients), almost equal to the 45% revenues generated by mass-market clients (81% of clients). In line with expectations, private banking generates the highest revenue/client at €2,562, followed by affluent (€561) and mass (€132). BPVI intends to expand its commercial coverage in the affluent client segment (currently 24% of clients without dedicated RMs) given the higher number of clients (AuM >€75k). In mass, BPVI believes that there is penetration potential for investment products, life insurance, and mortgages, given the higher rate of customer acquisition (145k acquired within the past three years) and the fact that only 46% of customers currently own three or fewer of BPVI's products.

Individual clients: product range

BPVI has a diverse product portfolio that caters to the demands of both private customers and business customers. We highlight the products range for retail customers in Table 4.

Table 4: Retail product offerings

Product	KPIs (as of Dec-15)
Current accounts – to suit a variety of customer profiles via a multi-channel banking experience	€655k
Mortgage products – at fixed/floating rates based on Euribor 3m/ECB rates with a LTV up to 80%	New loans: €805m; LTV 56%
Consumer credit – salary-backed loans and personal loans (max €30k) via Compass	Salary backed loans (new lending) €89m; Personal loans (new lending) €156m
Monetics – debit and pre-paid cards and credit cards distributed in partnership with CartaSì	Debit cards (501k); pre-paid cards (281k) and credit cards (160k)
Asset management – distributes Arca SGR products and open architecture allowing the distribution of investment products of >20 asset management companies. management services	AuM €4.9bn
Insurance products – Bancassurance agreement with Cattolica to distribute their products and offer other life and non-life insurance products	Stock of life insurance products €2.1bn

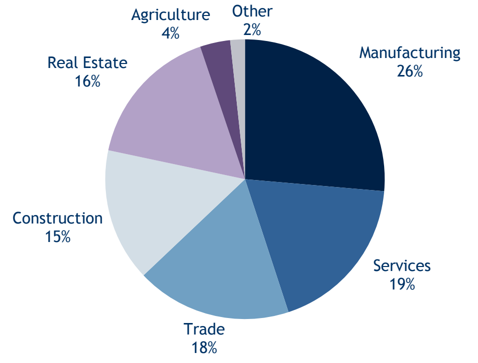
Source: Mediobanca Securities, Company presentation

Corporate clients: 60% of total loan book

Corporate loan portfolio focused on SMEs

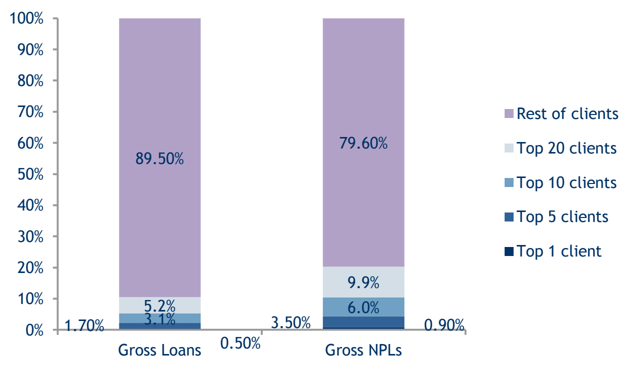
SME customers constitute 85.8% of the portfolio. Sector-wise, exposure to real estate and construction forms 31.9%, followed by manufacturing at 26.4%, services at 18.6% and trade at 18.0%. 40.6% of the loans are collateralised by real estate, while another 40.2% of the loans remain unsecured. In terms of asset quality, SME non-performing loans (NPLs) accounted for 19.4% of total loans in 2015 (2014:14.0%). In 2015, the non-performing exposure provision for SME loans totaled 40.6%, with an associated collateral coverage ratio of 94.2% for a total coverage worth 134.9%.

Chart 10: Corporate Loan Book, 2015



Source: Mediobanca Securities, Company presentation

Chart 11: Loan Corporate Concentration, 2015



Source: Mediobanca Securities, Company presentation

Business clients contribute to 55% of group's revenues

SMEs generate 52% of revenue (92% of clients), followed by corporates (34%; 7% of clients). Large corporates generate the highest revenue/client at €42,275, followed by corporates (€19,819) and

SMEs (€2,243). In corporate and SME, BPVI aims at expanding its commercial coverage by focusing on untapped geographies. According to BPVI in small business there is scope to expand both commercial coverage (45% of clients with no dedicated RMs) and revenues from fee-based services (trade finance, leasing, factoring, insurance), which currently generate only 7.0% of revenue.

Business clients: product range

We highlight the products range for corporate customers in Table 5.

Table 5: Corporate /SME product offerings

Product	KPIs (as of Dec-15)
SME platform and mini-bonds – support companies in their plans to grow and assist at all stages of evaluating, issuing, and placing of mini-bonds. Market leader in ECM/DCM for SMEs, with clear leadership in the mini-bond segment (33.5% market share as of Dec-15)	Fees €2.3m
Corporate finance ECM and DCM – assist entrepreneurs in organising structured debt, corporate finance, and M&A transactions. In addition, offers share placements and stock market listings	Fees €3.0m
Trade finance/supporting tools for international business – six representative offices issuing of letters of credit, loans to international banks, international guarantees, forex trading, credit insurance, assistance for legal, tax, and accounting issues, support in project...	Fees €19.9m
Third-party securitisation – structures third-party securitisations of receivables and as an investor takes exposures in asset-backed securities derived from third-party securitisations (€608m in Dec-15, of which €432 was reimbursed)	Fees €1.7m
Commodities (gold and silver) – leader in commodities trading and brokerage in gold/silver for industrial production. Executes sales of credit in gold and loans for use in gold, inclusive of structuring instruments to hedge gold/gold finance loans	Loans €91.1m

Source: Mediobanca Securities, Company presentation

Benchmarking analysis

We benchmark BPVI's H115 to peers to pinpoint positioning vs peers. On the P&L front, we conclude that BPVI shows below peer margins and in-line costs. BPVI's branch network appears oversized vs peers. Asset quality is below peer average due to the large NPE stock and the lower R.E. collateral. Funding is below average, reflecting the difficulties incurred in 2015 and the loan leverage nature of banks in the NE of the country.

We compare BPVI efficiency ratios with those of peers we cover, namely Banca Popolare Emilia Romagna (BPER), Banca Popolare Milano (BPM), Banco Popolare (BP), Credito Emiliano (CREDEM), Credito Valtellinese (CREVAL), Monte dei Paschi di Siena (MPS), Banca Popolare Sondrio (POPSO), and Unione Banche Italiane (UBI).

To make the comparison of efficiency and productivity ratios homogeneous we use data as disclosed by the Bank of Italy reporting as at 1H2015, i.e. ahead of the severe deposit outflows suffered by BPVI in 2H2015 due to the deterioration of its franchise. In our view, using data as at 2015 could distort the analysis when looking at efficiency and productivity ratios.

With regard to liquidity and asset quality ratios, we use data as at 2015 as those better illustrate the status quo.

We highlight the following points:

- **Lower than peers' average credit margins due to higher cost of funding –** In general we notice that all ratios involving NII (such as NII / Average Interest Earning Assets or NII / Assets) are lower than peers' average. In our view, on one hand those ratios could be somehow distorted by the sharp deleverage carried-out by BPVI in 1H15 (5% reduction in customer loans in 1H15), while peers started seeing a stabilisation in the loan book or mild growth in 1H15 (BPM, Credem). On the other hand, BPVI suffers from cost of funding above the peers' average. In particular, in 1H15 we calculate both cost of deposits and cost of securities issued were well above the peers' average (c.+30bps and c.+100bps higher than peers' average respectively). In our view, a worsening of funding cost conditions might have been prompted by the deterioration of the franchise and of the confidence of the customer base.

- **Lower margins on Fee and Commission Income across the board** – We start from the assumption that the majority of fee and commission income is produced by the loan book (loans and guarantees, factoring, current accounts and overdrafts), by the deposits base (collection and payments) and by indirect deposits (AUM, consulting, distribution of third party products, placement of securities et cetera..). Measuring Fee income as percent of loans, direct deposits and indirect deposits, we notice lower margins for BPVI. Breaking down between asset management and credit business, we notice that BPVI's average margin is around 25% lower than that of peers' average. What looks certainly below peers' average is the penetration of AUM products at BPVI, as Indirect Deposits accounted for less than 70% of Direct Funding in 1H15 versus 94% for peers' average and AUM accounted for only 35% of Direct Funding versus 52% for peers' average.

- **Core revenues well lower than peers' average –** As a consequence of the above, the contribution from Core revenues is weaker at BPVI that of peers.

- **BPVI does not look burdened by a heavier cost structure than peers –** As a general comment, BPVI cost structure does not look heavier than that of peers and the above average Cost to Income Ratio looks to be attributable to the weaker generation of core revenues (NII and Fee Income). The most common efficiency ratios (i.e. Operating Costs per Branch, Operating Costs per Employee, Operating Costs as % of Assets) all point to better efficiency at BPVI than the peers' average. Also the weighted average cost per employee looks aligned to the domestic average of c75k per employee.

- **Productivity ratios per branch differ markedly from those per employee -** Efficiency and productivity ratios differ markedly if calculated by branch or by employees, with BPVI underperforming peers when measured by branch and generally outperforming peers when measured by employees. In other words, BPVI's branch network looks oversized vs peers, likely deriving from the 2007 expansion plan.

- **Loan to deposits ratio deteriorated significantly in 2H2015 –** Using Bank of Italy data, we calculate BPVI's Loan to Deposits (129%) was positioned around the peers' average (127%) in 1H15. The situation changed completely in 2H15, as the Loan to Deposits ratio worsened significantly to 155% due to the decline in customer deposits in 2H15 while the peers' average remained unchanged at 127%;

- **Funding conditions have weakened in 2H2015 and look more fragile than peers' one –** We calculate that the deposit outflow suffered in 2H15 was compensated by a large increase in interbank liabilities, which soared to almost €10bn in 2015 from €4.4bn in 1H15. This resulted in around €7.8bn negative interbank balance in 2015 (€2.4bn in 1H15), accounting for 20% of total assets in 2015 (6% in 1H15). In other words, the portion of assets financed by a negative balance of interbank exposure is 3x larger than that of peers.

- **AFS assets account for c.70% of negative interbank balance** – Sovereign bonds are the main assets that can be used to access the liquidity provided by the ECB. In Italy, the majority of the sovereign exposure is accounted as Available-for-Sale (AfS). Hence we measure what portion of the negative interbank balance is covered by the AfS assets, assuming no haircut for the sake of simplicity. We calculate that AfS assets accounted for >200% of the negative interbank balance in 1H15, a ratio collapsed to c.70% in 2015. Best-in-class domestic peers (POPSO) show a ratio hovering over 500% in 2015. In other words, we think BPVI might not have enough eligible assets to ask for further liquidity to the ECB.

- **Asset quality weaker than the peers' one due to a relatively larger stock of NPEs** – After the reclassification into deteriorated exposures carried-out in 2015, BPVI presents a net NPEs to Loans of 21% versus 12% average for domestic peers (including almost 22% at MPS, 11% excluding MPS). Also the weight of Unlikely-to-Pay on total NPEs stands at 10 percentage points above the 40% of peers' average.

- **Coverage ratio aligned to peers' average, with mildly lower protection from real estate collaterals** – We calculate NPEs coverage ratio at BPVI in 2015, exactly in line with peers' average, while the coverage ratio of NPLs (sofferenze) is 2 percentage points above the sector average. On the other hand, based on 2014 disclosure (to make comparison homogeneous), we calculate the value of real estate collaterals account for 95% of Gross NPEs versus 115% for the peers' sample average.

Table 6: Selected Italian Banks – Margin Analysis, Efficiency Ratios and Productivity Ratios

	BPVI	UBI	BP	BPER	BPM	CREVAL	POPSO	CREDEM	MPS	Avg ex BPVI
NII / Avg Interest Earning Assets - 1H15	148bps	154bps	152bps	225bps	185bps	185bps	172bps	143bps	156bps	171bps
NII / Avg Loans - 1H15	188bps	198bps	197bps	285bps	246bps	253bps	227bps	219bps	195bps	227bps
Avg Cost of Deposits - 1H15 (Isp 2014, Bp 2015)	76bps	18bps	30bps	47bps	27bps	64bps	63bps	37bps	61bps	43bps
Avg Cost of Securities Issued - 1H15 (Isp 2014, Bp 2015)	359bps	200bps	310bps	229bps	322bps	252bps	258bps	176bps	370bps	265bps
NII / Avg Assets - 1H15	118bps	140bps	127bps	205bps	165bps	170bps	153bps	134bps	128bps	153bps
NII / Revenues - 1H15	44%	47%	40%	54%	44%	49%	45%	36%	43%	45%
Net Fee Income / (Direct Indirect Dep.+Loans) - 1H15	25bps	31bps	38bps	33bps	32bps	30bps	19bps	29bps	29bps	30bps
Net Aum Consulting Fees / Indirect Deposits - 2014	53bps	81bps	97bps	58bps	76bps	60bps	29bps	62bps	70bps	67bps
Other Fees / Direct deposits+Loans - 2014	34bps	33bps	44bps	56bps	43bps	49bps	40bps	38bps	39bps	43bps
Net Fee Income / Revenues - 1H15	29%	37%	39%	31%	34%	29%	24%	34%	34%	33%
Core Revenues / Avg Loans - 1H15	341bps	399bps	447bps	492bps	484bps	456bps	392bps	438bps	394bps	438bps
Core Revenues / Avg Assets - 1H15	213bps	283bps	288bps	354bps	325bps	307bps	264bps	268bps	259bps	294bps
Core Cost to Income Ratio - 1H15	79%	68%	66%	64%	66%	65%	54%	87%	64%	67%
Staff Cost as % of Op. Costs - 1H15	56%	57%	57%	57%	58%	52%	46%	58%	55%	55%
Operating Costs / Avg Loans - 1H15	268bps	271bps	296bps	316bps	320bps	296bps	210bps	382bps	254bps	293bps
Admin. Expenses / Avg Loans - 1H15	107bps	100bps	110bps	119bps	116bps	125bps	101bps	144bps	94bps	114bps
Operating Costs / Branches (€m) - 1H15	1.13	1.43	1.31	1.08	1.60	1.03	1.47	1.52	1.38	1.35
Operating Costs / Employees (€m) - 1H15	0.13	0.13	0.14	0.12	0.14	0.13	0.16	0.14	0.12	0.13
Average Cost per Employee (€000) - 1H15	75.1	73.1	78.4	68.5	78.1	69.0	74.2	82.4	64.6	73.5
Loans / Branches (€m) - 1H15	42.0	52.9	44.2	34.3	50.1	34.9	69.8	39.8	54.3	47.5
Loans / Employees (€m) - 1H15	5.0	4.8	4.6	3.8	4.2	4.5	7.7	3.7	4.6	4.7
Deposits / Branches (€m) - 1H15	32.8	33.1	30.2	26.9	43.2	30.4	76.0	30.7	43.0	39.2
Deposits / Employees (€m) - 1H15	3.9	3.0	3.2	3.0	3.6	3.9	8.4	2.9	3.6	3.9
Indirect Deposits / Branches (€m) - 1H15	30.8	47.9	37.9	25.0	51.1	22.5	84.7	69.8	49.1	48.5
Indirect Deposits / Employees (€m) - 1H15	3.7	4.3	4.0	2.8	4.3	2.9	9.3	6.6	4.1	4.8
Core Revenues / Branches (€m) - 1H15	0.72	1.05	0.99	0.84	1.21	0.80	1.37	0.87	1.07	1.03
Core Revenues / Employees (€m) - 1H15	0.08	0.09	0.10	0.09	0.10	0.10	0.15	0.08	0.09	0.10

Source: Company data, Mediobanca Securities analysis

Table 7: Selected Italian Banks – Liquidity, Funding and Asset Quality Ratios

	BPVI	UBI	BP	BPER	BPM	CREVAL	POPSO	CREDEM	MPS	Avg ex BPVI
Loan to Deposits Ratio - 1H15	129%	154%	146%	125%	116%	108%	93%	130%	124%	125%
Loan to Deposits Ratio - 2015	155%	153%	147%	122%	119%	117%	91%	129%	127%	126%
Loan to Direct Deposits Ratio - 1H15	97%	90%	96%	94%	91%	85%	82%	93%	93%	91%
Loan to Direct Deposits Ratio - 2015	115%	92%	95%	92%	91%	88%	81%	94%	93%	91%
Interbank Balance / Assets - 1H15	-6%	-5%	-11%	-8%	-7%	-4%	-5%	-14%	-6%	-7%
Interbank Balance / Assets - 2015	-20%	-6%	-11%	-7%	-7%	-5%	-4%	-14%	-5%	-7%
Interbank Balance / Direct Deposits - 1H 15	-9%	-6%	-16%	-10%	-9%	-5%	-6%	-21%	-8%	-10%
Interbank Balance / Direct Deposits - 2015	-36%	-8%	-16%	-9%	-10%	-6%	-4%	-21%	-8%	-10%
AFS Assets / Interbank Balance - 1H15	-208%	-287%	-107%	-180%	-289%	-526%	-400%	-202%	-190%	-273%
AFS Assets / Interbank Balance - 2015	-73%	-221%	-96%	-181%	-263%	-401%	-478%	-184%	-186%	-251%
Indirect Deposits / Direct Funding	69%	83%	81%	69%	91%	57%	99%	165%	85%	91%
AUM / Indirect Deposits	35%	59%	49%	53%	57%	51%	15%	68%	50%	50%
Assets / Tangible Equity - 2015	15.8X	14.3X	18.7X	13.6X	11.1X	13.5X	14.0X	17.9X	18.4X	15.2X
Net NPL / Net Loans - 2015	7.5%	5.1%	8.2%	6.8%	4.4%	6.3%	3.1%	1.5%	8.7%	5.5%
Net NPE / Net Loans - 2015	21.1%	11.5%	17.9%	14.5%	10.6%	17.6%	3.1%	3.4%	21.7%	12.5%
Gross NPL / Gross NPEs	49%	52%	51%	62%	55%	50%	100%	64%	57%	61%
Gross Unlikely-to-Pay / Gross NPEs	50%	46%	48%	35%	44%	44%	n.a.	32%	37%	41%
Net NPL / CET1 - 2015	114%	58%	110%	66%	37%	59%	n.a.	19%	114%	66%
Net NPEs / CET1 - 2015	321%	130%	240%	140%	90%	165%	n.a.	45%	285%	156%
NPL Coverage Ratio - 2015	57%	39%	38%	58%	55%	57%	62%	61%	63%	54%
NPE Coverage Ratio - 2015	41%	28%	32%	44%	40%	40%	n.a.	45%	48%	40%
Collaterals / Gross NPEs - 2014 (rounded to 5%)	110%	200%	170%	140%	125%	145%	195%	190%	130%	162%
Real Estate Collaterals/Gross NPEs - 2014 (rounded to 5%)	95%	115%	95%	125%	120%	135%	135%	125%	80%	116%
Real Estate Collaterals/Collaterals - 2014 (rounded to 5%)	85%	55%	55%	90%	95%	95%	70%	65%	60%	73%
Real Estate Collaterals / CET1 - 2014 (rounded to 5%)	340%	195%	340%	290%	175%	355%	205%	85%	440%	261%
Total Collaterals / CET1 - 2014 (rounded to 5%)	390%	340%	625%	325%	185%	385%	290%	135%	705%	374%

Source: Company data, Mediobanca Securities analysis

Three structural breaks mandating change at BPVI

Three structural breaks have broken the BPVI legacy, bringing to the current BPVI's refoundation: 1) the governments' 2015 Popolare reform, mandating the conversion of the subsector into joint stock, 2) the €3bn pre-tax losses of 2014-15, coupled with the €1.1bn capital deduction from a clients' capital financing practice implemented by the previous management, 3) the coming into force of bail-in regulation. Together, these items have formed a cocktail of pressure on deposits, time, capital and governance which have destabilised the old BPVI.

1st break: Popolare reform forcing conversion into LTD

Popolare governance: bid proof and hostility to chance from per capita vote

The Popolare model arose in the 1800s along the lines of the German cooperative banking model to facilitate access to credit and to allow local communities to efficiently allocate resources. As well as carrying out their credit function, Popolari banks also effectively served as mutual insurance funds for local inhabitants. The 'one-man, one-vote' rule was introduced as the best solution in that context, to manage the tension arising from the different needs of stakeholders – customers, employees and shareholders – who often fulfilled more than one role simultaneously. The Popolari business model remained faithful to its original characteristics for 150 years until the early 1990s. Since then the subsector has undergone significant consolidation, leading to the creation of national and/or multiregional groups.

The by-laws of Popolari banks are characterised by the following common features:

- **Per capita vote at Annual General Meeting/Extraordinary General Meeting** – regardless of the number of shares owned, each member holds one vote at the AGM/EGM.
- **Ownership limit** – with the exception of OICR funds, there is an ownership limit of 0.5% of the capital.
- **Membership versus other stakeholders** – Popolari banks have many stakeholders, namely clients, employees and shareholders. The way they exercise their influence on the bank is by voting at the AGM, by becoming a member of the cooperative. Members are shareholders (who may also be clients and/or employees of the bank at the same time) who have received approval from the bank's BOD after having fulfilled the necessary membership requirements (minimum number of shares owned, no criminal record, etc).
- **Clausola di gradimento (acceptance clause) -** hence, new shareholders need approval from the BoDs before getting voting rights.
- **Redistribution of profits** – by-laws often have a defined order of seniority in the redistribution of profits, which reflects the interests of the local communities to which the original banks belonged. A fixed proportion of net profit (0-20% depending from each bank's by-laws) is distributed to shareholder employees.
- **Qualified majority voting for sensitive decisions** – to protect the 'democratic' decision-making process of Popolari banks, all by-laws require high quorums for members to call an AGM, add items to the AGM's agenda, present a list for election of the BOD, or approve the modification of sensitive articles determining the company's legal status, headquarter town, merger, etc.

Despite having a common nature, Popolari banks' by-laws exhibit differences in the requirements of the articles of association, which often aim at defending the status quo and the interests of the local community. Also, we can identify clear patterns when looking at the articles of recently formed, large popolari groups and smaller and more locally-based ones.

2015 Popolari Reform to reform the Italian banking system

On 20 January 2015 Italy's government approved a decree to favour Foreign Direct Investments, including the abolishment of the per capita vote over the following 18 months for Popolari banks with over €8bn assets (BP, UBI, BPE, PMI, BPVI, Creval, VenBan, BPSO, BPBARI, PEL), which will turn large Popolari banks into joint stock companies. We believe that the 18 months to convert into joint stock companies allow Popolari to consider M&A options within their own sub space, hence avoiding to become hostile takeover targets. Alternatively, embarking in the required governance changes could allow Popolari to consider M&A options with troubled limited banks.

2nd break: large fall in profitability in 2014-15

2006 the year of peak profitability...

The table below compares BPVI's peak (2006), through (2014-15) and average profitability (2004-13) metrics for the period 2004-15. We note the following:

- **8% highest RoTE...** - BPVI reached its peak ROTE at 8% in 2006.
- **...with peak NII, trough C/I and LLPs...** - the 2006 8% RoTE reflected peak NIM (3%), trough C/I ratio (60%) and trough LLPs (59bp).
- **...on the pre-UBI branch expansion -** the 2006 8% RoTE was also achieved before the acquisition of UBI branches in 2007 which materially expanded the balance sheet of the bank (+15%) and diluted profitability.
- **Stretched liquidity ratios** – BPVI reported 165% loan to deposit ratio (L/D), reflecting €7bn funding gap (29% of assets) and net interbank borrowing at 0% of assets.

Table 8: BPVI main profitability and balance sheet metrics 2006, 2014, 2015 and avg. 2004-13

€m	2006	2014	2015	2004-13 avg
NII	521	511	504	523
Revenues	881	1,077	1,053	908
Costs	-526	-669	-754	-598
Operating profit	356	408	299	311
Provisions	-117	-1,505	-1,839	-185
LLPs	-102	-869	-1,333	-166
PBT	242	-1,134	-1,893	148
Profits	145	-759	-1,407	97
NIM	3.0%	1.8%	2.0%	2.3%
C/I	59.7%	62.1%	71.6%	65.8%
LLP on loans	59	309	529	71
ROTE	8%	-22%	-55%	5%
Equity/Assets	10.1%	8.1%	6.4%	8.9%
L/D	165.2%	126.9%	154.7%	163.8%
Net deteriorated loan ratio	3.5%	14.9%	21.1%	7.5%
Total assets	23,787	46,475	39,783	31,911
Customer loans	17,185	28,111	25,178	23,170
BV	2,398	3,750	2,552	2,838
Customer deposits	10,404	22,158	16,272	14,144
Funding gap	6,781	5,953	8,906	9,026
Net interbank	81	-2,503	-7,823	-2,157

Source: Mediobanca Securities, company annual reports, company presentation

…but not too far from the average profitability pre-2014-15

Yet, over the 2004-13 period, BPVI delivered an average 5% RoTE, not distant from the 2006 peak, on account of:

- 2.3% average NIM;
- 66% average C/I ratio;
- 71bp average LLPs, not a very distant deviation considering the harsh macro economic crisis of the 2008-13 period vis-à-vis the 59bp trough of 2006;
- On liquidity, the funding gap stood at 28% of assets and net interbank borrowing at 7%.

Therefore, we conclude that over the period pre-AQR, BPVI delivered pretty stable results of 5-6% RoTE, with relatively high CI/I and LLPs reflecting the small scale and the SME-gearing and stable but geared liquidity reflecting again the high potential for lending of the BPVI territory.

Clean-up and deterioration of asset quality

Deteriorated loans covered at c33% in 2006-08

Asset quality has been deteriorating since 2007, with 20% increase in deteriorated loans in 2007-08, flows from doubtful loans to NPLs worth c50-65% of total doubtful loans and a stable coverage ratio at c33%.

Table 9: BPVI – Assets Quality Trend, 2006-15

€m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Gross NPL	471	568	679	938	1,299	1,623	2,126	2,756	3,402	4,369
Net NPL	272	316	344	534	771	959	1,271	1,567	1,696	1,889
NPL Coverage Ratio	**42%**	**44%**	**49%**	**43%**	**41%**	**41%**	**40%**	**43%**	**50%**	**57%**
Gross Doubtful Loans	298	358	452	668	767	922	1,191	1,594	2,238	4,439
Net Doubtful Loans	219	272	351	598	702	813	1,032	1,354	1,743	3,296
Doubtful Loans Coverage Ratio	**27%**	**24%**	**22%**	**11%**	**9%**	**12%**	**13%**	**15%**	**22%**	**26%**
Gross Restructured	9	42	28	163	273	242	315	525	466	0
Net Restructured	9	40	27	160	264	229	308	507	433	0
Restructured Coverage Ratio	**2%**	**3%**	**2%**	**2%**	**4%**	**6%**	**2%**	**3%**	**7%**	**n.a.**
Gross Past Due	111	93	126	278	247	373	632	504	368	154
Net Past Due	106	88	122	266	236	353	611	485	329	135
Past Due Coverage Ratio	**5%**	**5%**	**4%**	**4%**	**4%**	**5%**	**3%**	**4%**	**10%**	**12%**
Total Gross Problem Loans	890	1,061	1,285	2,047	2,586	3,161	4,264	5,379	6,474	8,963
Total Net Problem Loans	605	716	844	1,558	1,973	2,354	3,222	3,912	4,201	5,320
Deteriorated Loans Coverage Ratio	**32%**	**33%**	**34%**	**24%**	**24%**	**26%**	**24%**	**27%**	**35%**	**41%**

Source: Mediobanca Securities, Company FY2008-2015 Annual Report

**2015 the doubtful loans definition changed. We refer to Unlikely to pay loans*

The scar from asset quality deterioration came in 2009…

In 2009 the sizeable negative effects of the crisis hit the asset quality of BPVI without impacting the P&L. Deteriorated loans grew by c60% yoy (with NPLs up c40%), the gross deteriorated loans ratio went from 6% to 8% and Texas ratio increased from 54% to 95%. In spite of this deterioration BPVI reported €147m value adjustment to loans in 2009 vs. €152m in 2008, implying a marked drop in coverage ratio on deteriorated loans from 34% in 2008 to 24% in 2009.

Table 10: BPVI – Assets Quality key Indicators, 2006-15

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross NPL Ratio	3%	3%	3%	4%	5%	5%	7%	8%	11%	15%
Gross Deteriorated Loans Ratio	5%	5%	6%	8%	9%	10%	13%	17%	21%	31%
Net NPL Ratio	2%	2%	2%	2%	3%	3%	4%	5%	6%	8%
Net Deteriorated Loans Ratio	4%	3%	4%	6%	7%	8%	10%	13%	15%	21%
Texas Ratio	38%	47%	54%	95%	91%	102%	136%	151%	139%	321%
NPL Growth yoy		+21%	+19%	+38%	+39%	+25%	+31%	+30%	+23%	+28%
Deteriorated Loans Growth yoy		**+19%**	**+21%**	**+59%**	**+26%**	**+22%**	**+35%**	**+26%**	**+20%**	**+38%**
Doubtful Flows to NPLs		50%	65%	76%	53%	+32%	+40%	+38%	+31%	+33%
Cost of Risk	59bps	65bps	67bps	60bps	57bps	53bps	70bps	140bps	309bps	530bps

Source: Mediobanca Securities, Company FY2008-2015 Annual Report

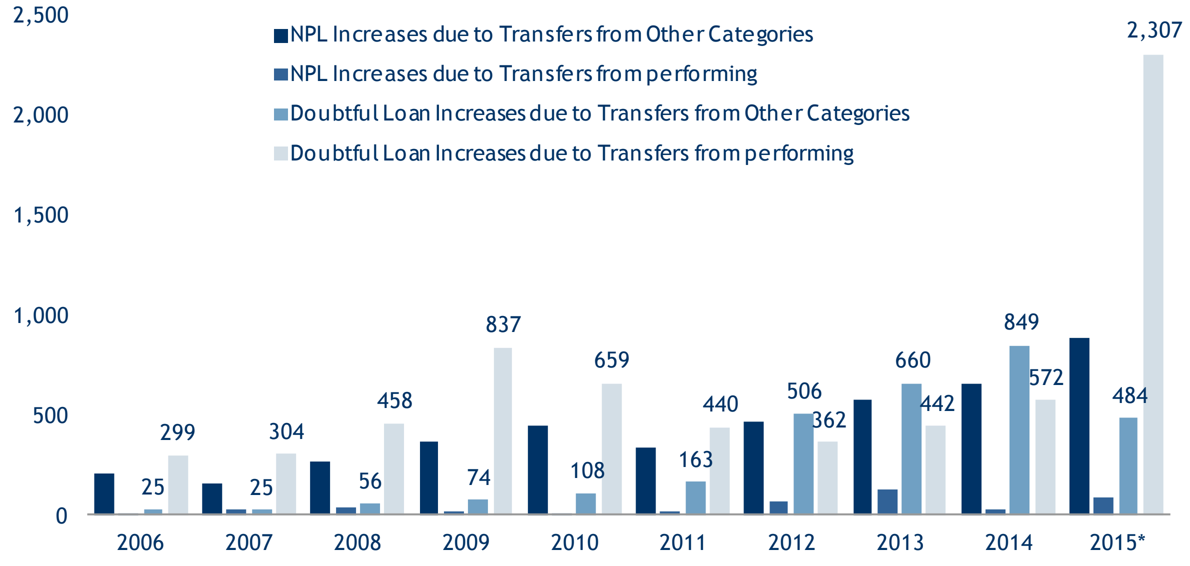
...and was maintained throughout 2010-12

The coverage ratio remained low at c25% in the period 2010-12 despite the restless asset quality erosion, e.g. deteriorated loans up by 22-35% yoy, NPLs up by 25-39% yoy, Texas ratio from 91% in 2010 to 136% in 2012, gross deteriorated loans ratio from 9% in 2010 to 13% in 2012. Despite this trend, the cost of risk remained anchored to 60-70bps in the period.

In 2013-15 asset quality decay combined with heavy clean-up

In 2013, before the AQR, BPVI showed cost of risk at 140bps, doubling from 70bps in 2012. LLPs increased by €216m in 2013 vs. 2012. We believe that more than half of the pick-up is due to higher coverage (at 27% in 2013 vs. 24% in 2012), while the remaining part is linked to the upward trend of NPLs (+30% yoy) and of doubtful loans (+34% yoy).

Chart 12: BPVI – Inflows into NPL and doubtful loans from other categories and performing, 2006-15



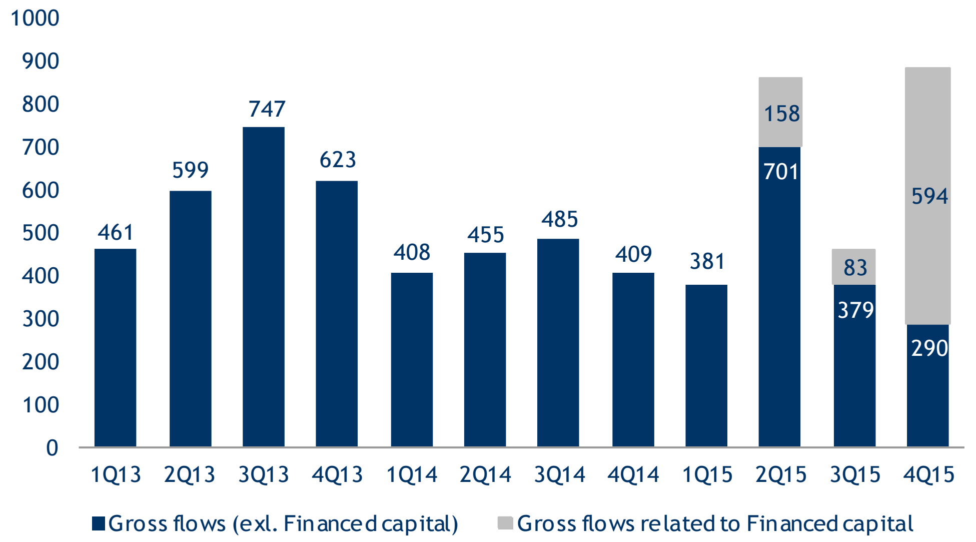
Source: Mediobanca Securities, Company FY06-15 Annual report

**2015 the doubtful loans definition changed. We refer to Unlikely to pay laons*

In 2014 BPVI reported €868m loan loss provisions (LLPs), meaning >300bps cost of risk (LLPs / net customer loans). According to FY14 annual report, €240m LLPs are linked to the AQR, i.e. c35% of the LLPs pointed out by the ECB, in particular €160m for the CFR (vs. €126m estimated by the ECB) and €80m for collective provisioning review (vs. €343 estimated by the ECB). €160m explain 3 p.p. increase in the total deteriorated loans coverage ratio jump in 2014 (from 27% in 2013 to 35% in 2014). The remaining 5 p.p. jump, i.e. €646m specific provisions, could be related to the revision of the entire portfolio of non-performing loans and the revision key parameters (such as LGD) along with re-classification of performing loans and other than NPL deteriorated loans into NPLs (€684) and of performing loans and restructured and past due loans into doubtful loans (€1.4bn).

In 2015 BPVI reported €1.3bn loan losses, of which €466m related to €1.1bn “financed” capital. The remaining €0.9bn correspond to >330bps adjusted cost of risk vs. 309bps in 2014. In 2015 the deteriorated loans coverage ratio grew by 6 p.p. from 35% in 2014 to 41%. 2 p.p. out of 6 p.p. increase in coverage ratio could be related to the transfer of more than €578m exposures related to the “financed capital” and the related €456m specific loan losses. The remaining 4 p.p. are linked to the re-classification and the increase of the deteriorated loans stock, which went up by €1.6bn excluding €835m linked to “financed” capital. The gross flows to deteriorated loans excluding those related to “financed capital” improved in 3Q15 and in 4Q15 after the clean-up in 1H15, as the gross flows are lower than the quarterly average in 2013-1Q15. However, we struggle to see a clear improvement in the underlying asset quality trends from the last two quarters of 2015.

Chart 13: Gross flows to deteriorated loans, 2013-15

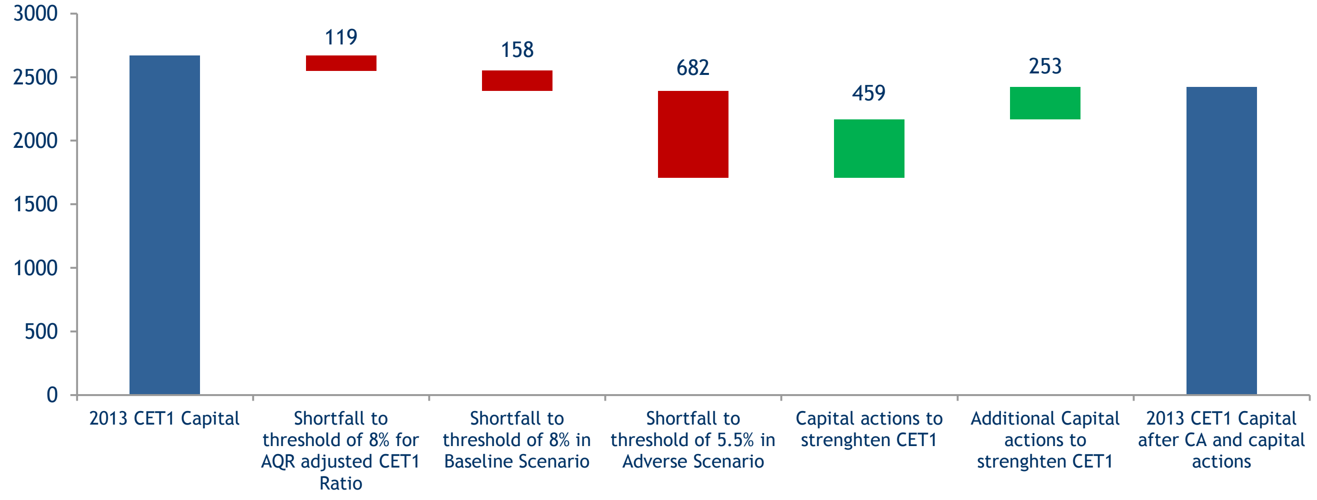


Source: Mediobanca Securities, Company presentation

Under ECB supervision from 2014

From 2014 BPVI is one of the European banks under the direct regulatory supervision of the ECB, given total assets of over €30bn. BPVI participated in the AQR and the stress test led by the ECB in 2014. According to the ECB the AQR pointed at €714m differences in the valuation of deteriorated loans, of which €126m related to CFR (Credit File Review), €246m to projections of findings and €343m to collective provisioning review. The AQR additional provisions would bring up the coverage ratio by c750bps. Overall, the results showed up to €682m capital shortfall to the threshold of 5.5% CET1 ratio in the adverse scenario, which would have brought BPVI’s CET1 ratio down to 3.17%. Such capital shortfall was offset by capital measures put in place by BPVI after Dec-13 and recognised by the Bank of Italy, consisting of €459m capital increase and €253m conversion of an outstanding convertible bond. Hence, BPVI was not required to raise capital after the CA in 2014.

Chart 14: BPVI - Results of ECB's Comprehensive Assessment, 2014



Source: Mediobanca Securities, Bank of Italy presentation (26/10/2014)

2014-15: €3bn PBT losses and €1.1bn CET1 hit from financed capital…

2014-15 has been a difficult biennium for BPVI: profitability and capital collapsed.

On the former, BPVI cumulated €3bn pretax losses from a heavy asset quality review, leading to 67% increase in total gross problem loans and 59% increase in NPLs from a reclassification exercise generating €2.1bn cumulative credit provisions and €3.4bn cumulative total provisions.

This eroded 1/3 of group equity or €1.1bn in absolute terms. In fact, following the AQR, BPVI went through several investigations from the ECB. During such investigations the ECB found out the bank had been financing customers to purchase BPVI shares in previous rights issues, an illegal practice. This lead to €1.1bn hit to regulatory capital deriving from an analysis conducted from 2010 accounts onwards:

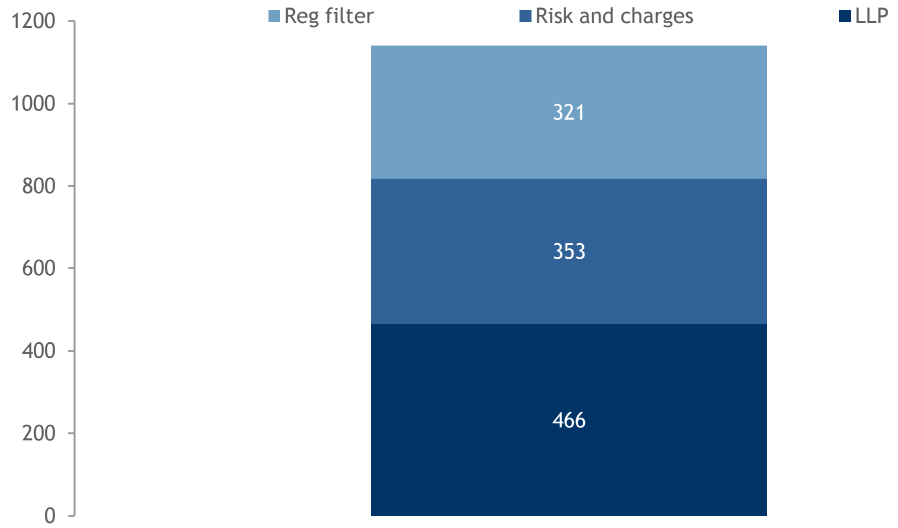
- €466m relating to LLPs;
- €353m allocated to provisions for risks and charges;
- €321m regulatory filter linked to €0.7bn.

BPVI claim the latter item derives from a prudential filter but a part of these could be recovered from clients.

At the beginning of March, the press reported that the judges conducting the investigations on the previous management enlarged the potential accusations to accounting fraud. Over 500 clients are ported to have sued the company for fraud.

Also, the Italian Antitrust authority has opened an investigation on the potential misconduct committed by the bank with clients in its commercial practice. The bank would have allegedly influenced the granting of loans to clients aimed at the purchase of shares or convertible bonds of BPVI.

2015 CET1 hit from financed capital investigation



Source: Mediobanca Securities, company presentation

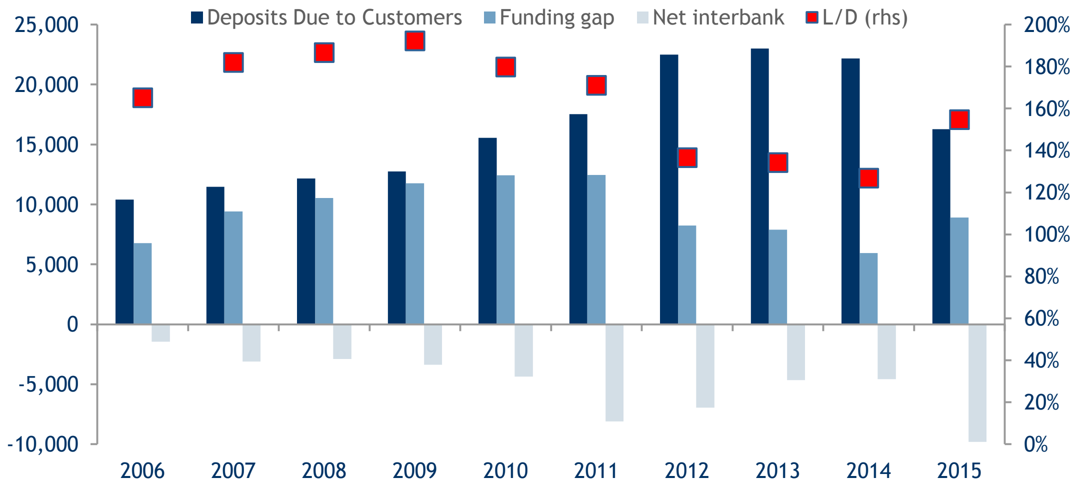
…leaving BPVI on 6.7% CET1 ratio…

Hence, out of a total of €1.6bn hit to capital, c.70% is due to the capital financing. This put BPVI on 6.7% CET1 ratio in 2015 (5.9%n fully loaded), well below regulatory requirements. In fact, in 2015 the ECB set a capital requirement (SREP ratio) of 10.25% for BPVI for 2016.

Deposit franchise shaken up by the 2015 investigations

2015 was a difficult year for BPVI's liquidity. The bank lost €5.9bn customer deposits, ¾ of which in H215, potentially related to the investigations over the wrongdoings of the previous management and the fears of bail-in following the resolution of four small, non-listed banks in November. This represented a 27% reduction YoY, a material step back in BPVI's liquidity, taking loan/deposit ratio to 155% from 127% in 2014. As a result, the funding gap (loans minus deposits) jumped to €9bn from €6bn the year before, requiring a surge in net interbank borrowing to c€7.8bn from €2.5bn in 2014. This implies the bank is currently funding a part of the loans through interbank funds.

Chart 15: Deposits, funding gap (loans-deposits) and loan/deposit, 2006-2015, %



Source: Mediobanca Securities, annual reports

3rd break: bail-in regulation

Bail-in regulation — a quick recap

European bail-in measures are aimed at avoiding taxpayers' involvement in a bank's resolution, but rather to have losses imposed on shareholders, and subordinated and unsecured creditors. Regulating the steps and procedures are the Single Resolution Mechanism and each national Resolution Authority that apply to the failing bank. The main points of the new regulation are as follows:

- The wipe-out of up to 8% of liabilities with the exception of insured deposits, those <€100k, covered bonds and interbank liabilities with less than one-week maturity;
- The authority can force the sale of assets or business without the shareholders' consent;
- The constitution of a 'bridge bank', where the authority can transfer part or all the assets and liabilities, in order to carry on with the operations of the banks;
- The constitution of a 'bad bank' to which to transfer and manage the 'bad' assets;
- National authorities are entitled to activate the national resolution funds or government resources to absorb losses and shield eligible investors for an amount capped at 5% of liabilities;
- Governments could apply for exemptions or exceptions to the Mechanism, subject to the approval of the European Commission;
- The government can intervene only in circumstances where the failing of an institution implies high risk to the financial system as a whole. A temporary nationalisation would require first that creditors take a loss of at least 8% of total liabilities.

EU countries are required to create resolution funds amounting to at least 1% of total covered deposits in the country within 10 years (Single Resolution Fund). Furthermore, the banks will have to make an annual contribution of 0.8% to be added to the deposit guarantee funds.

Nov-15 bail-in of Four local, troubled banks likely destabilized BPVI's deposit base

Exploiting the 40 days between the approval of BRRD in Italy and the enforcement of the bail-in in January 2016, on 22 November Italy approved the rescue of four local banks (PopEtruria, CariChieti, CariFerrara, Banca Marche) with the consent of EU Authorities. As the local banks are to be rescued by the Resolution Fund, restored stability comes without the bail-in of depositors and holders of senior debt. The cost of the rescue will rather be borne by shareholders, subordinated debt holders (€0.7bn) and domestic banks. The decree foresees the creation of four bridge-banks – recapitalised and owned by the Fund – and the transfer of €8.5bn gross NPLs to a bad bank from the four rescued banks. The Resolution Fund will administrate the bridge-banks and the NPLs with the eventual goal of selling them. Out of €3.6bn injected by the Fund, €1.8bn will be used to recapitalise the bridge-banks (€0.19bn CariFerrara, €1.0bn Banca Marche, €0.44bn PopEtruria, €0.14bn CariChieti), €0.14bn to provide enough capital to the bad bank, and €1.7bn to cover the losses from the write-downs of the NPLs. As the amounts raised with contributions are not sufficient and not immediately available to meet the Fund's obligations, €4bn of financial arrangements has been contracted by the Fund with Italian banks (€2.35bn short-term credit line, €1.6bn credit line with 18 months' maturity). We understand that €2.35bn credit line will be reimbursed by the ordinary and extraordinary contributions. In aditionb, we highlight that €8.5bn of Gross NPLs have been transferred to a bad bank for an amount equal to €1.5bn, meaning that the nominal value has been written down by >80%. Such NPLs are expected to be sold to players specialised in credit recovery or managed in a way to extract value from their work-out. We could consider 18% of the nominal value as a liquidation value.

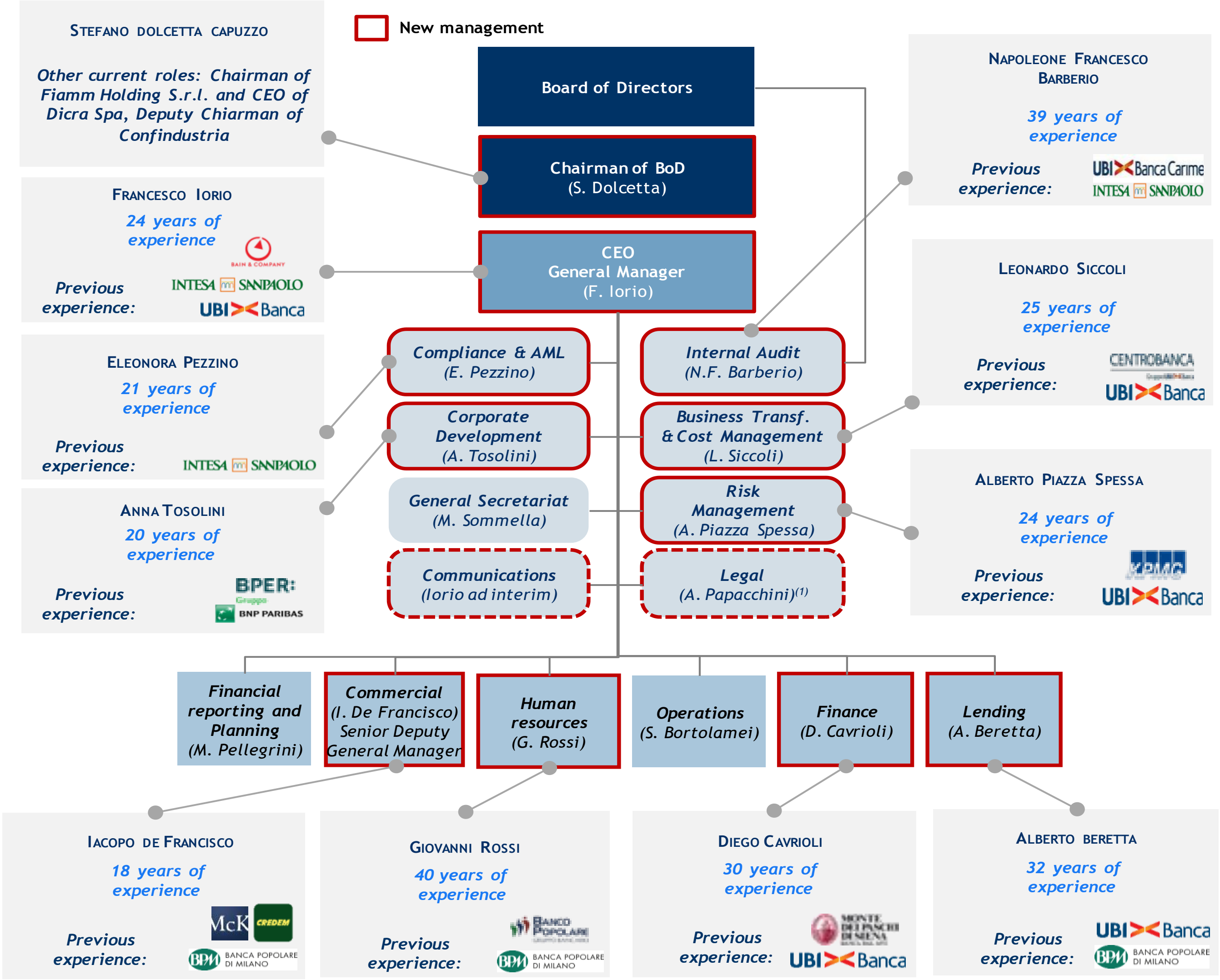
BPVI refoundation: management, capital, strategy

BPVI's refoundation is based on three pillars: new management, new capital, new strategy. €1.5bn capital increase is aimed at re-establishing compliance with regulatory ratios, to ease short term liquidity tensions and to provide the fuel to return the bank to growth. BPVI is adopting a strategy aimed at regaining the trust of its clients and, through this, returning to grow. The recipe describes a mix of margin and volume growth on NII, a switch from AUC to AUM on fees, the downsizing of staff and branches on costs and a progressive normalization of credit losses and €1bn NPL sales on LLPs. 2018 targets predicate €0.2bn profits and 12% CET1. We benchmark the Plan to those of peers and conclude that BPVI's one is more optimistic than average on revenue growth and in line on asset quality and capital ratios.

New management

After 32 years in the board of the bank (19 as chairman) and after 2 months of investigations from magistrates, Gianni Zonin resigned as chairman of BPVI in Nov-15. Mr Dolcetta, succeeded him. Mr Iorio, from UBI Banca, was appointed new CEO. Of the 16-member management team, 13 have been newly appointed.

Chart 16: Management Structure



(1) To be replaced in March 2016

Source: Company presentation Note: Years of experience refer to years of working experience in the financial sector

Table 11: Main information on BPVI's management experience

Main information on management experience

Francesco Iorio
CEO and General Manager since Jun-15; has 24 years of experience

- General Manager UBI Banca Group since May 2012
- Deputy General Manager BPU Banca Group from 2003-2007
- Chief of Group Operational reporting and budget at Banca Intesa since 2000
- Planning and Operational Control Manager of Banca del Salento since 1999
- Bain & Company 1996-1998
- Holds an LLB from La Sapienza University, Rome (1991) and PED (Program for Executive Development for Executive Master in Business Administration)

Iacopo De Francisco
Chief Business Officer and Senior Deputy General Manager since Jun-15; has 18 yrs of experience

- Marketing Director Banca Popolare di Milano 2012-2015
- Partner McKinsey & Company 2001-2012
- Credem 2000-2001
- Holds a business administration degree from Bocconi University, Milan (1992)

Massimiliano Pellegrini
Chief Financial Officer; has >20 years of experience

- BPVI since 2004 – Head of Strategic Planning, Management Control and Risk Management (2004-2010)
- Manager Arthur Anderson 1992-1997
- Bocconi University, Milan (1990)

Stefano Bortolamei
Chief Operating Officer of BPVI; >18 years of experience

- BPVI since 2010 – Strategic and Organisation Development Manager (2006-2011)
- Senior Manager Bain & Company (1997-2006)
- Holds an MBA from SDA Bocconi School of Management (2006)

Alberto Piazza Spessa
Chief Risk Officer of BPVI since 2015; 24 years of experience

- Head of Risk Management UBI Banca 2010-2015
- Head of Capital Management UBI Banca 2007-2010
- Associate Partner, KPMG Italy 1997-2006

Source: Mediobanca Securities, company presentation, Bloomberg, linkedin

€1.5bn increase to restore capital ratios

Falling well below regulatory requirements, BPVI is required to raise €1.5bn new capital or up to €1.75bn including the brownshoe and incentives for shareholders to be completed by the end of April. Successful completion would grant for >12% CET1 ratio, a strong buffer over the SREP ratio. Unicredit (UCG) signed a pre-underwriting agreement for the entire €1.5bn amount, subject to customary market terms and conditions.

Four Pillars to the new Business Strategy

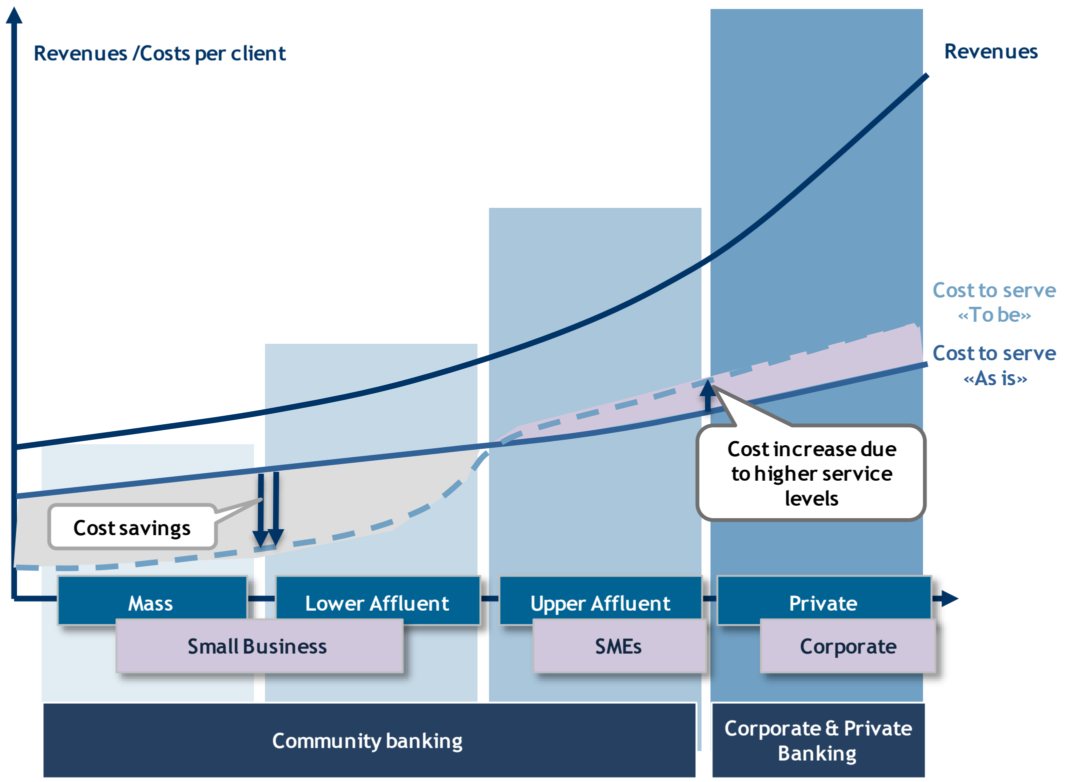
1. Distribution-focused business model rooted north-eastern regions

BPVI aims at maintain a simple distribution-oriented business model thanks to joint ventures and commercial agreements on most product areas without owning product factories. BPVI's distribution network is positioned in the northeast (one of the wealthiest areas in Italy, with the highest concentration of SMEs and mid-corporates), which enables BPVI to capture the Italian recovery predominantly expected

2. Service model innovation aims at optimising client 'Cost to serve'

The business strategy entails a different "cost to serve", i.e. allocation of costs to each client. BPVI intends to increase the costs allocated to upper affluent customers and to customers accessing to private banking with regard to the retail business and to SMEs and Corporate. While BPVI aims at decreasing costs allocated to mass retail customers, lower affluent clients and small businesses.

Chart 17: Client service model



Source: Mediobanca Securities, Company presentation

3. BPVI's new client-service strategy

The new service strategy focuses on community banking and corporate/SME & private banking:

- **Community banking** serves the mass, affluent and small business segments, and BPVI's new approach is to retail based on proximity, service and convenience. The bank focuses on strengthening its client-facing local presence through bigger branches and greater presence of client RMs per branch. Further, multi-channel platforms and dedicated sales engines would be used to enhance client services as well as client profitability. In fact, BPVI it launched the new online banking platform (BPVIGO!) in January 2015. Community banking under the new strategy will have six regional districts including the branches (which support all other client segments).
- **Corporate & Private Banking** will be served via BPVI's 'one-stop' service platform. The new strategy enables cross-segment client strategies, capabilities synergies, specialised coverage and unique locations to foster a cross-service model. Further, the new criterion on corporate banking client segmentation (turnover >EUR10m) and the large corporate segment (turnover >EUR250m) will enhance business focus.

4. Distribution model effective from 2016

The new business model will have the following characteristics:

a) dedicated business units,

b) a leaner distribution model with optimised span of control,

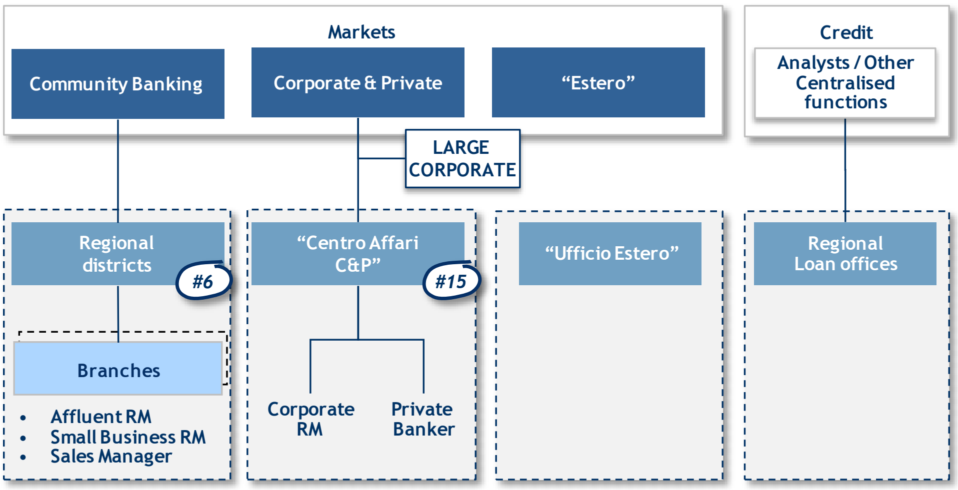
c) full alignment between network and client segmentation,

d) clear separation between commercial and credit policies resulting in effective risk management,

e) potential synergies from the consolidation of corporate RM and private banking functions,

f) maximisation of distinctive capabilities and services (Estero, SME Platform).

Chart 18: Distribution model effective from 2016



Source: Mediobanca Securities, company presentation

Business Plan: growth by regaining customers' trust

BPVI Plan is based on regaining the trust of the customer base. This should fuel deposit growth, which in turn should support loan and indirect deposit growth and prompt a lower funding cost. Growth in intermediated volumes should support NII, together with better spreads (driven by lower cost of funding and c.30bps rise in short-term rates by 2018), while fee income is expected to be supported by the switch into AUM too. Downsizing of the branch network, early retirement of eligible employees and various efficiency gains should reduce costs by 3.7% per year, excluding one-offs in 2015. €1bn NPL sale and better work-out reducing inflows should reduce the NPE's stock to €8.1bn by 2018, -€0.9bn versus 2015. BPVI sees 70bps as normalised pre-crisis levels cost of credit. €1.5bn capital infusion should bring CET1 ratio at 12% in 2018.

Table 12: BPVI – Business Plan Main Profit and Loss Targets, 2018-2020

Income statement (€m)	2015	2018	2020	CAGR15 - 18	CAGR 15 - 20
Net Interest Income	504	579	669	4.8%	5.8%
Net commissions	322	401	453	7.6%	7.1%
Net result of the proprietary portfolio	163(1)	84	85	-19.9%	-12.2%
Net Operating Income	**1,053**	**1,143**	**1,289**	**2.8%**	**4.1%**
Net Operating Expenses	(754)(2)	(622)	(613)	-6.2%	-4.0%
Net Profit from operating activities	**298**	**522**	**676**	**20.5%**	**17.8%**
Net Impairment adj. on loans and advance	(1,333)(3)	(220)	(214)	-45.2%	-30.7%
Net Income	**(1,407)**	**202**	**309**	**n.m.**	**n.m.**

Source: Company Data (1) Including €37 mn related to the disposal of Save, Agripower, 21 Investimenti, Consorzio Triveneto and Pittarosso; (2) Including the extraordinary contribution to the National Resolution Fund (€41 mn) and extraordinary expenses for transformation into Joint Stock Company (€11 mn) and top management turnaround (€10 mn); (3) Including €460 mn related to the effect of the financed capital;

Table 13: BPVI – Business Plan Main Balance Sheet Targets, 2018-2020

Loans & Deposits (€bn)	2015	2018	2020	CAGR 15 - 18	CAGR 15 - 20
Net Loans(4)	25.1	28.2	30.1	4.00%	3.70%
Direct Funding(4)	21.9	26.4	28.2	6.40%	5.20%
Indirect Funding(5)	14.6	18.6	20.6	8.60%	7.20%
of which AUM	7	10.8	12.5	15.20%	12.10%
Total Funding	36.5	45.1	48.8	7.30%	6.00%
RWA(6)	24.9	26.8	28.2	2.50%	2.60%

Source: Company Data (4) Net of REPOs with CCG; (5) Excluding BPVi shares; (6) Calculated with Standardized approach;

Table 14: BPVI – Business Plan Key Performance Indicators, 2018-2020

Main KPIs		2015	2018	2020	Delta 15 - 18	Delta 15 - 20
Profitability	Rote Adjusted(7)	-36.20%	5.60%	8.20%	41.8 p.p.	44.4 p.p.
Efficiency	Cost / Income	71.60%	54.40%	47.60%	(17.2 p.p.)	(24.0 p.p.)
Liquidity	LCR	47.50%	115.40%	122.00%	67.9 p.p.	74.5 p.p.
	CET1	6.70%	12.00%	12.90%	5.3 p.p.	6.2 p.p.
Capital	TCR	8.10%	12.90%	13.70%	4.8 p.p.	5.6 p.p.
	Leverage Ratio	4.40%	7.70%	8.50%	3.3 p.p.	4.1 p.p.
	Cost of Risk	529	77	70	(452 bps)	(459 bps)
Risk / Asset Quality	Texas Ratio(8)	210.90%	110.70%	95.30%	(100.1 p.p.)	(115.6 p.p.)
	Coverage Ratio NPE(9)	42.40%	45.00%	46.70%	2.6 p.p.	4.3 p.p.

Source: Company Data (7) ROTE Adjusted calculated on Tangible Equity net of non-distributable equity reserve related to financed capital (€304mn); (8) Texas Ratio calculated as Net NPE / Tangible Equity (2015 = 239.8% if Tangible Equity adjusted deducting capital filter); (9) Including write-off

Below we illustrate the main pillars underlying BPVI strategic plan:

- **Macroeconomic assumptions underlying BPVI Business Plan: 1.2% average GDP growth in 2016-18 and mild rise in rates from 2017 onward** – BPVI expects Italy's GDP growth to expand to 1.1% in 2016 and hitting 1.3% in 2017 and 2018 from 0.7% in 2015. Short-term rates (Euribor 3-Months) are expected to deteriorate to -0.26% from -0.13% in 2015. A partial recovery (-0.11%, i.e. +15bps rise) is expected in 2017 and a further +20bps rise in 2018 back in the positive territory (0.07%). Finally, 50bps increase is expected throughout 2019 and 2020 to +59bps;

Table 15: BPVI – Business Plan Economic and Market Outlook, 2015-202

	2015	2016E	2017E	2018E	2019E	2020E
GDP (YoY)	0.70%	1.10%	1.30%	1.30%		
Euribor 3M	-0.13%	-0.26%	-0.11%	0.07%	0.32%	0.59%
Gross loans to Customers (YoY)	0.00%	0.50%	1.20%	1.90%	1.90%	1.90%
Current Accounts (YoY)	8.30%	3.00%	1.40%	1.00%	1.00%	1.00%
Bonds (YoY)	12.80%	-9.50%	-3.70%	1.20%	1.20%	1.20%
Term deposits (YoY)	-6.70%	3.50%	4.10%	4.40%	4.40%	4.40%
Direct Funding (YoY)	1.10%	2.00%	2.80%	3.00%	3.00%	3.00%
ST (YoY)	-5.10%	0.90%	2.50%	2.70%	2.70%	2.70%
MLT (YoY)	3.60%	2.70%	3.30%	3.50%	3.50%	3.50%

Source: Company Data

- **Growth in direct funding (6.4% CAGR in 2015-18) to come from regaining trust from the clients base --** BPVI plans to grow its direct deposits by 6.4% CAGR 2015-18E, thanks to the re-gain of the confidence of the clients after the capital increase. The growth envisaged by BPVI is above the average 1.2% envisaged for Italy in 2015-18;
- **Loan growth (4% CAGR in 2015-18) expected to outpace the domestic one** – BPVI plans to grow its net loans by 4% CAGR 2015-18E, as result of the deposit growth. The growth envisaged by BPVI looks above the average 1.2% envisaged for Italy in 2015-18.
- **Loan to Deposits Ratio to reduce to 107% in 2018 from 115% in 2015** - As result of stronger growth in direct funding than in net loans, the loan-to-deposit ratio should re-balance to 107% in 2018 versus 115% in 2015. The Liquidity Coverage Ratio (LCR) is expected >115% in 2018 (>120% in 2020) from 47.5% in 2015.
- **AUM growth (15% CAGR in 2015-18) expected from better clients coverage and switch of AUC into AUM -** BPVI sees opportunities to enhance cross-selling to private clients. According to management, BPVI suffers from limited number of private bankers with incomplete geographical coverage, from low penetration of AUM as percent of indirect deposits, from not adequate coverage of affluent customers, from low penetration of investment products in mass-market clients. According to BPVI, addressing all this issues should allow an important growth in AUM, i.e. 15.2% CAGR in 2015-18E. On the other hand, custodian assets (AUC) are expected to grow modestly, i.e. by 1.6% CAGR in 2015-18E.
- **NII (4.8% CAGR in 2015-18) supported by loan growth and expansion of the carry-trade portfolio** – BPVI expects NII growth to be supported by €5bn increase in net lending volumes and by a larger contribution of the securities portfolio, reaching €114m in 2018 from €87m in 2015 and to reduce gradually in 2019-2020 (€75m in 2020). The debt securities portfolio is expected to grow from €5.4bn in 2015, of which €5.2bn in sovereign exposure.

- **NII (4.8% CAGR in 2015-18) to be supported by lower cost of funding –** BPVI expects a widening of the commercial spread to 205bps in 2018 from 195bps in 2015. Such improvement is entirely attributable to a decline in the retail cost of funding, while the institutional cost of funding is assumed as flat at 3%. The rise in short-term rates looks to have a more marked impact from 2018 onward (+c50bps in 2020 versus 2018)

Table 16: BPVI – Net Interest Income and Interest Margin Evolution, 2015-2020

€m unless otherwise stated	2015	2018E	2020E	Delta 15-20 (bps)
Client Margin	416	465	594	
Securities Portfolio	87	114	75	
TOTAL	**504**	**579**	**669**	
Commercial spread (%)	**1.95%**	**2.05%**	**2.41%**	**+47**
Average Loans Spread (%)	3.41%	3.14%	3.05%	-37
Average Deposits Spread (%)	1.47%	1.09%	0.63%	-83
Euribor 3M rate (%)	-0.13%	0.07%	0.59%	+72

Source: Company data

- **Fee income supported by AUM and loan growth -** Net Fee and Commission Income is expected to grow by 7.6% CAGR in 2015-18, as result of the re-modelling of client services. BPVI plans to exploit the cross-selling potential from the Community banking clients and enforce the services offer and delivery for Corporate/SME & Private Banking. The fee income growth is driven also by a significant increase expected of the AuM (11.9% CAGR 2015-20E) and the lending activity, expect to account for 28% of fee income in 2020 versus 23% in 2015. The other commission made up of distribution of third parties consumer finance products, expansion of the current bancassurance products and the commission related to loans will contribute also to the increase of fee income.

Table 17: BPVI – Evolution of Net Fee and Commission Income, 2015-2020

€m	2015	As % of Total	2018	As % of Total	2020	As % of Total
Financing, Transaction, Other Services	196	61%	225	56%	245	54%
Consumer Finance	28	9%	28	7%	31	7%
AUM and AUC	73	23%	104	26%	128	28%
SME	25	8%	44	11%	49	11%
TOTAL	322		401		453	

Source: Company Data, Mediobanca Securities analysis

- **Operating costs decline (-3.7% CAGR 2015-18) driven by rightsizing of headcount and distribution network –** BPVI expects -6.3% CAGR in operating costs, but excluding €62m one-off items charged in 2015, the estimated decline in operating costs reduced to -3.7%. The reduction of staff expenses (-3.9% CAGR in 2015-18) is due to 575 exits through Solidarity Fund (early retirement of employees with no more than 5 years to the retirement age, costing €65m restructuring charges), mitigated by 90 hiring. In total headcount reduction is expected to amount to c.9% of workforce. BPVI plans de-layering and rightsizing of the branch network (to c.500 from 579 in 2015, i.e. -14%), renegotiation of rents, externalization of volume driven activities and reduction of sponsorships. All these actions should lead to reduction in other administrative expenses of -9.6% CAGR in 2015-18.

Table 18: BPVI – Evolution of Staff and Other Administrative Expenses, 2015-2020

€m unless otherwise stated	2015	2018E	2020E	CAGR 15-18	CAGR 15-20
Other Administrative Expenses	-308	-228	-225	**-9.6%**	**-6.1%**
Staff Costs	-410	-364	-361	**-3.9%**	**-2.5%**
TOTAL	**-718**	**-592**	**-586**	**-6.3%**	**-4.0%**
Extraordinary Items	-62				
- Extraordinary Contribution to the Nat. Resolution Fund	-41				
- Transformation into Joint-Stock Company	-11				
- Management Turnaround	-10				
TOTAL ex Extraordinary Items	**-656**	**-592**	**-586**	**-3.7%**	**-2.2%**

Source: Company Data, Mediobanca Securities analysis

- **Asset quality: Gross NPEs expected down by c.€900m in 2018 thanks to €1bn NPL sale (further €0.5bn sale expected in 2019)** – After the extensive clean-up of the loan book carried-out in 2015, BPVI plans to reduce the stock of NPE to €8.06bn in 2018 from €8.96bn in 2015, thanks to €1.0bn disposal of NPL in 2017. As the planned disposal roughly matches the projected decline in the NPE stock, we infer that the new flows on NPEs are expected to be fairly limited in 2016-18E. BPVI expects relatively stable stock of NPEs (net of €1.0bn sale) also thanks to improved recovery rate also thanks to a long term strategic partnership with high standing operator on NPL portfolios and strengthened management of Unlikely-to-Pay loans to maximize the recovery and the outflows to performing. The stock of NPEs is expected to decrease between 2015-18E by -3.5 CAGR, leading a reduction in the Gross NPE/Total loans from 30.9% in 2015 to 25.0% in 2018. On the other hand, despite €1bn sale, the stock of NPLs is expected to grow by c.€0.3bn by 2018, meaning that BPVI expects migration into NPLs from Unlikely-to-Pay, expected to decline by €1.4bn by 2018. In particular, in 2015-18 the NPLs are assumed to grow slightly by 2.8% CAGR, while Unlikely to Pay loans should decrease markedly by -12.3% CAGR.

Table 19: BPVI – Evolution of the Stock of Non-Performing Exposures and Coverage Ratio, 2015-2020

€m unless otherwise stated	2015	As % of Total	2018E	As % of Total	2020E	As % of Total
Stock						
NPL	4,369	49%	4,747	59%	4,712	61%
Unlikely-to-Pay	4,439	50%	2,999	37%	2,680	35%
Past Due	154	2%	319	4%	353	5%
TOTAL	**8,962**	**100%**	**8,065**	**100%**	**7,745**	**100%**
Coverage Ratio						
NPL	56.8%		54.3%		55.5%	
Unlikely-to-Pay	25.8%		29.6%		32.0%	
Past Due	12.2%		11.9%		11.7%	
TOTAL	**40.6%**		**43.4%**		**45.4%**	
TOTAL incl. write-off	**42.4%**		**45.0%**		**46.7%**	

Source: Company Data, Mediobanca Securities analysis

- **NPEs' coverage ratio expected up 280bps to 43.6% in 2018E due to a different mix** – BPVI expects the NPE coverage ratio to increase from 42.4% in 2015 to 45% in 2018E, including write-offs. The NPL coverage ratio is expected to decrease slightly caused by the disposal of positions with high coverage ratio, while the one of Unlikely-to-Pay loans is expected to rise to 29.6% from 25.8%. In other words, the increase in coverage ratio is driven by a different mix in the stock of NPEs, meaning higher weight of exposures (NPL) with higher coverage ratio.

- **Credit losses expected at 77bps of loans in 2018E and 70bps in 2020E –** The extensive revision of the loan portfolio carried-out in 2015 and the movements illustrated above in the stock of NPEs and coverage ratios should lead to a sharp drop in risk cost versus c.530bps reported in 2015. BPVI sees 70bps as normalised risk cost, aligned to pre-crisis levels.
- **CET1 ratio at 12% in 2018E and 12.9% in 2020E including 50% pay-out ratio from 2017 onward -** After the freezing of the financed capital (€1.1bn) and the extensive revision of the loan portfolio carried-out in 2015, BPVI reported phased-in CET1 ratio of 6.7%. The capital increase of €1.5bn and 2.5% 2015-18 CAGR in RWA are expected to bring the CET1 ratio to 12% in 2018E. Subject to regulatory approval, BPVI expects a pay-out ratio of 50% from 2017 onward.

Table 20: BPVI – Evolution of CET1 Ratio and RWAs', 2015-2020

	2015	2018E	2020E	CAGR 2015-18	CAGR 2015-20
CET1	6.70%	12.00%	12.90%		
RWAs (€bn)	24.9	26.8	28.2	2.5%	2.6%

Source: Company Data, Mediobanca Securities analysis

- **Buffers on capital not included in the Business Plan –** BPVI envisages other areas of improvement in CET1 capital, not included in the 12% target by 2018. First of all, the sale of non strategic assets (Arca, Farbanca, Prestinuova, NEM Sgr, real estate assets). Second, BPVI sees the possibility of recovering some of the financed capital (€1.139bn, of which €819m charged through credit losses and provisions for risks and charges in 2015 and €321m frozen from regulatory capital through a prudential filter. Third, BPVI has enrolled for the validation of IRB models, whose potential benefits have not been included in the Business Plan targets.

Table 21: BPVI – Non-Strategic Assets not Included in Business Plan

Company	Description	Book Value (€m)	BPVI Stake (%)
Arca SGR	Asset Management	38.7	19.99%
Prestinuova	Consumer Finance	35.0	100.00%
FarBanca	Online-bank Specialized in Pharmacies	43.9	70.77%
NEM SGR	Asset Management	2.4	100.00%
Immobiliare Stampa S.c.p.a.	Real Estate(1)	497	100.00%

Source: Company Data (1) Book value of real estate properties at Group level

An ambitious Business Plan vs peers

A comparison of BPVI Business Plan with the ones unveiled by peers over the past couple of years shows a stronger growth in intermediated volumes (loans and direct deposits) embedded in BPVI expectations, despite a softening of the macroeconomic outlook over the past couple of years. NII growth is assumed to be stronger than peers' average despite a more challenging interest rates scenario. The growth in fee income is more ambitious than average peers' one, possibly due to a lower interest rates scenario favouring the switch into AUM. Risk cost is aligned to peers' expectations at 77bps (c.80bps for peers excluding MPS), but two years later. BPVI plans 12% CET1 ratio in 2018, aligned to the average target set by peers.

Higher than peer growth targets…

We compare BPVI Business Plan targets with the ones unveiled by some peers over the past couple of years, namely BP Emilia Romagna, BP Milano, Banco Popolare, Credito Valtellinese and Monte Paschi. Some of the peers' Business Plans (namely BPM, BP and CREVAL) were unveiled a couple of years ago (1H 2014) while the ones of BPER and the updated version of MPS's targets in 1H 2015. In other words, the comparison is affected by different macroeconomic conditions, which have changed remarkably over the past two years

- **Progressive reduction in the expected GDP growth in Italy in 2016-17** - Over the past couple of years, the IMF World Economic Outlook (WEO) projections on Italy's GDP growth have been revised downward for 2015-17 and onward. In example, for the year 2016 the Business Plan of BPVI envisages an Italian GDP growth some 40bps softer than the one incorporated in the peers' projections.
- **Interest rate scenario has become more challenging** – With regard to short-term rates, older estimates did not incorporate a negative interest scenario, as those predicted a steady improvement in Euribor 3-Months from 2013 onward, instead of a deterioration in the period 2015-16. BPVI expects Euribor 3-Months back in the positive territory only from 2018 onward.

Table 22: Italy – Change in Gross Domestic Product (constant prices) According to the IMF World Economic Outlook (WEO) Projections, 2013-15

		2015	2016	2017	2018	2019	2020
GDP	WEO Jan-16	0.8	1.3	1.2			
GDP	WEO Oct-15	0.8	1.3	1.2	1.1	1.1	1.0
GDP	WEO Oct-14	0.9	1.3	1.3	1.1	1.1	
GDP	WEO Oct-13	1.1	1.4	1.4	1.2		

Source: IMF, Mediobanca Securities

Table 23: Selected Italian Banks – Comparison of the Main Macroeconomic Assumptions Underlying Business Plans

YoY Change	BPVI (Feb-16)		BPM (Mar-14)		CREVAL (Mar-14)		BP (Feb-14)		MPS (May-15)		BPER (Feb-15)	
	2015	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Italy - GDP growth	0.70%	1.10%	1.40%	1.60%	1.00%	1.20%	1.40%	1.60%	0.70%	1.40%	0.70%	1.40%
EURIBOR 3-Months	-0.13%	-0.26%	0.36%	0.66%	0.30%	0.60%	0.34%	0.56%	0.02%	0.13%	0.05%	0.05%
Loan Growth - Italy	1.10%	2.00%	2.00%	2.60%	0.10%	1.70%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company Data, Mediobanca Securities analysis

- **Stronger loan growth incorporated in BPVI Business Plan than in peers' ones** - Despite a softening of the expectations about the macroeconomic growth over the past couple of years, the loan growth targeted by BPVI is more ambitious than the one set by peers.
- **Stronger deposits growth incorporated in BPVI Business Plan than in peers' ones** – On one hand, stronger deposit growth than the one envisaged by peers could look challenging considering the possible damage to the franchise suffered by BPVI in the recent months. On the other hand, stronger than peers' growth in deposits could be reasonable, should BPVI prove successful in gaining again the customers' trust.

- **CAGR in NII above the peers' average** – Despite an unfavorable evolution of the interest rates scenario over the past couple of years due to all the measures undertaken by the ECB, the growth in NII envisaged by BPVI remains above the one targeted by peers'.
- **CAGR in Fee and Commission Income above the peers' average** – Possibly supported by a favorable scenario (rates lower for longer), the growth in Fee and Commission Income envisaged by BPVI remains above the one targeted by peers'.
- **Decline in operating costs above the peers' average** – Excluding €62m one-off costs in 2015, BPVI plans 3.7% decline in operating costs, versus kind of flat progression in costs envisaged by peers (excluding MPS);
- **Risk cost broadly aligned to peers' guidance, but two years later –** BPVI plans 77bps risk cost in 2018 versus average 81bps for peers, excluding MPS from the sample.
- **CET1 target aligned to peers' aspirations**

Table 24: Selected Italian Banks – Comparison Between Main Business Plan Targets

	BPVI CAGR 2015-18	BP CAGR 2013-16	BPER CAGR 2014-17	BPM CAGR 2013-16	CREVAL CAGR 2013-16	MPS CAGR 2014-18
Loan Growth - CAGR	4.0%	2.5%*	2.4%	5.6%	1.3%	
Direct Funding	6.4%	2.2%	1.2%	4.5%**	2.3%	
Indirect Funding	8.6%		3.8%	5.4%***	4.3%	
RWA	2.5%		1.7%			
Revenues	2.8%	2.3%	1.3%	2.3%	2.8%	4.8%
- NII	4.8%		1.5%	4.4%	5.4%	1.0%
- Fee Income	7.6%		6.1%	6.3%	4.0%	7.3%
Operating Costs	-6.2%	-0.7%	-0.6%	0.9%	0.2%	-2.2%
Ratios						
C/I Ratio	54.4% - 2018	57.5% - 2016	54% - 2017	56% - 2016	56% - 2016	49% - 2018
Risk Cost	77bps - 2018	70bps - 2016	83bps - 2017	76bps - 2016	96bps - 2016	106bps - 2016
RoTE	5.6% - 2018	7.5% - 2016	9% - 2017	7% - 2016	5% - 2016	8% - 2018
CET1 Ratio	12% - 2018	11.5% - 2016	12% - 2017	>11% - 2016	13% - 2016	12% - 2018
Euribor 3-Months	7bps - 2018	56bps - 2017	13bps - 2017	66bps - 2016	60bps - 2016	50bps - 2018

Relates to Gross Loans, ** Deposits only, * Retail only*

Source: Company data, Mediobanca Securities analysis

A bold Business Plan in an unsupportive environment

We assess the feasibility of some projections included in BPVI's Business Plan that we see as controversial. BPVI's Plan is based on regaining the trust of the customer base and this should fuel deposit growth, which in turn should support loan and indirect deposit growth and prompt a lower funding cost. In this context we assume BPVI to recover 40% of the direct funding lost in 2015 (€2.6bn, i.e. 40% of €6.4bn excluding €1.8bn from Cassa Compensazione Garanzia), aligned to management aspirations. Aside this, we regard BPVI's Business Plan as ambitious. We see the projected growth in the loan book and indirect deposits as optimistic with an unsettled macroeconomic scenario. We see the assumption of growing the sovereign exposure as debatable in light of the potential regulatory risks from the interventions aiming at breaking the link between banks and sovereign risk. Finally, we think that competition in loans will likely push BPVI's average lending rate lower than the one projected by management. Thus, NII and Fee and Commission income are estimated lower than BPVI's targets. We regard the targeted operating costs as challenging, as we see a wide divergence between the headcount reduction (-6%) and the decline in staff costs (-9%). On the other hand, we see the evolution of asset quality and credit losses as compatible with flows in NPE experienced in the past and with the initiatives planned by BPVI to improve the work-out of deteriorated exposures. Reaching 12% fully-loaded CET1 ratio looks feasible and we see 165bps potential uplift in CET1 from the disposal of ARCA Sgr (+25bps) and the validation of IRB models (+140bps).

Table 25: BPVI – comparison between Business Plan projections and MB estimates

Income statement (€m)	2015	2018 (E)	2018MBE	diff%	2020 (E)	2020MBE	diff%
Net Interest Income	504	579	566	-2%	669	607	-9%
Net commissions	322	401	379	-5%	453	407	-10%
Net result of the proprietary portfolio	163	84	81	-4%	85	74	-13%
Net Operating Income	1,053	1,143	1,096	-4%	1,289	1,164	-10%
Net Operating Expenses	(754)	-622	-641	+3%	-613	-649	+6%
Net Profit from operating activities	298	522	455	-13%	676	515	-24%
Net Impairment adj. on loans and advance	(1,333)	-220	-202	-8%	-214	-197	-8%
Net Income	-1,407	202	168	-17%	309	218	-29%
Loans & Deposits (€bn)	**2015**	**2018 (E)**	**2018MBE**	**diff%**	**2020 (E)**	**2020MBE**	**diff%**
Net Loans(4)	25.1	28.2	26.8	-5%	30.1	28.7	-5%
Direct Funding(4)	21.9	26.4	24.6	-7%	28.2	25.9	-8%
Indirect Funding(5)	14.6	18.6	17.5	-6%	20.6	19.3	-6%
of which AUM	7	10.8	10.8	0%	12.5	12.5	0%
Total Funding	36.5	45.1	42.2	-7%	48.8	45.2	-7%
RWA	24.9	26.8	26.0	-3%	28.2	27.2	-4%
Main KPIs	**2015**	**2018 (E)**	**2018MBE**	**diff(bps)**	**2020 (E)**	**2020MBE**	**diff(bps)**
Rote Adjusted	-36.2%	5.6%	4.7%	-94bps	8.2%	5.2%	-304bps
Cost/Income	71.6%	54.4%	60.43%	603bps	47.6%	57.7%	1012bps
CET1	6.70%	12.0%	12.9%	90bps	12.9%	13.31%	41bps
Total Capital Ratio	8.10%	12.9%	14.3%	140bps	13.7%	14.7%	98bps
Cost of Risk	529	77	77	0bps	70	70	0bps
Texas Ratio	210.9%	110.7%	106.2%	-448bps	95.3%	90.7%	-459bps
Coverage Ratio NPE	42.4%	45.0%	43.5%	-151bps	46.7%	45.3%	-137bps

Source: Company data, Mediobanca Securities estimates

Deposits Growth – We assume the recovery of 40% of the outflows suffered in 2015

In 2015 BPVI suffered c. €8.4bn outflows from direct funding, of which €1.8bn from clearing house Cassa Compensazione Garanzia. Out of the residual €6.6bn, around €2.6bn are related to Large Corporate and around €4.0bn are related to retail (individuals and SMEs). Management expects to recover around 40%-50% of the €6.6bn thanks to regained trust from the customer base on the financial strength of the bank following the planned capital injection.

This is a crucial assumption, in absence of which the whole plan envisaged by BPVI would prove unfeasible (such recovery in deposits is supposed to finance loan growth, to finance the purchase of additional €2bn of sovereign bonds and to reduce the net interbank exposures by refunding the €1.8bn T-LTRO on balance sheet as at December 2015.

In our estimates we assume BPVI to recover €2.6bn (i.e. 40% of €6.6bn) over a period of three years, meaning that deposits are expected to move to €19bn in 2018E from €16.3bn in 2015, i.e. 5.3% CAGR. As a consequence, interbank liabilities are estimated to reduce by €1.6bn, roughly aligned to the €1.85 T-LTRO liquidity as at December 2015 (€1.25bn take-up in 2014 and €0.6bn in 2015). Securities issued (bonds to retail and institutional investors) and liabilities at FV (i.e. bonds issued by BPVI with hedging in interest rate risk attached) are assumed to remain stable in the period.

Table 26: BPVI – Estimated Evolution of Funding Items, 2015-18E

€bn	2015	2016E	Chg	2017E	Chg	2018E	Chg	CAGR 15-18
Deposits Due to Banks	9.97	9.15	-8%	8.77	-4%	8.35	-5%	**-5.7%**
Deposits Due to Customers	16.27	17.11	+5%	17.99	+5%	19.01	+6%	**+5.3%**
Securities Issued	5.20	5.19	-0%	5.17	-0%	5.17	-0%	**-0.2%**
HFT Liabilities	2.77	2.80	+1%	2.83	+1%	2.86	+1%	**+1.0%**
Financial Liabilities at FV	0.47	0.47	-0%	0.47	-0%	0.47	-0%	**-0.2%**

Source: Company data, Mediobanca Securities analysis

Loan growth – 4% CAGR look ambitious in the event of real GDP growth reaching 1.3%

BPVI plans to grow NII by 4.8% CAGR in 2015-18 (soaring to 5.8% in 2015-20) also thanks to a robust loan book expansion. BPVI plans to reach a net loan book of €28.2bn in 2018 starting from €25.1bn in 2015 (net of provisions and net of repo loans with Cassa Compensazione Garanzia, CCG).

We regard +4% CAGR in loans in 2015-18 (+3.7% in 2015-20) as ambitious for the following reasons:

- A correlation analysis between Italy's GDP and loan growth indicates loan growth matching the one of GDP over the past 20 years. In other words, our analysis shows that loans to residents (excluding Public Administration) grow by c.1% if nominal GDP grows by 1%. As the IMF expects Italy's real GDP growth to expand by c.1.2%-1.3% in 2016-17E (aligned to BPVI projections) and Italy's Ministry of Finance expects the budgeted inflation at 1% in 2016 and at 1.5% in 2017 (a robust improvement from 0.3% recorded in 2015), Italy's nominal loan growth should not exceed 2.5%-3% over the next couple of years;
- The mix of regions in which BPVI operates does not look to have remarkably exceeded the GDP growth of the whole country over the past 20 years. Using ISTAT data, we calculate that Veneto (accounting for 39% of BPVI loan book) accounted for c.9.1% of Italy's GDP in 1997 and for c.9.2% in 2014, basically unchanged in almost two decades. The same argument could be used for Friuli-Venezia-Giulia (2.2% of Italy's GDP in 1997 and 2.1% in 2014). Only Lombardy and Tuscany look to have increased their weight on Italy's GDP over the past two decades, but those regions account for 26% of BPVI loan book only and are mitigated by Sicily (9% of BPVI book) whose weight has reduced over time;

Table 27: BPVI – Geographical Loan Book Breakdown by Region, 2015

Region	As % of BPVI Gross Loan Book
Veneto	39.1%
Tuscany	13.3%
Lombardy	12.5%
Sicily	9.1%
Friuli-Venezia Giulia	8.0%
Lazio	6.0%
Emilia Romagna	4.6%
Other Regions	7.4%

Source: Company presentation, Mediobanca Securities analysis

Table 28: Italy – Regional GDP as % of National GDP, 1997-2014 (%)

Year	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14
Veneto	9.1	9.0	9.0	9.1	9.0	8.9	9.1	9.2	9.2	9.1	9.2	9.0	9.1	9.0	9.1	9.1	9.1	9.2
Tuscany	6.4	6.5	6.5	6.5	6.5	6.5	6.6	6.6	6.5	6.5	6.5	6.5	6.6	6.6	6.6	6.7	6.7	6.7
Lombardy	21.0	21.1	20.9	20.8	20.9	21.0	21.0	20.9	20.9	20.7	20.7	21.3	21.1	21.6	21.6	21.6	21.7	21.7
Sicily	5.7	5.7	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.7	5.6	5.6	5.6	5.5	5.4	5.4	5.4	5.4
Friuli-VG	2.2	2.2	2.2	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.2	2.2	2.1	2.1	2.1
Em. Rom.	8.4	8.4	8.5	8.6	8.6	8.6	8.5	8.5	8.6	8.7	8.8	8.8	8.6	8.7	8.8	8.9	9.0	9.0
Lazio	11.0	11.1	11.0	11.0	11.1	11.3	11.3	11.5	11.5	11.5	11.5	11.3	11.6	11.5	11.5	11.3	11.3	11.5
Others	36.1	36.0	36.2	36.0	36.0	35.8	35.7	35.6	35.5	35.6	35.5	35.3	35.2	34.9	34.8	34.9	34.6	34.4

Source: ISTAT, Mediobanca Securities analysis

In our estimates, we assume BPVI to be able to grow mildly above the industry average thanks its geographical footprint. In example, we calculate that – over the past five years - economic growth was mildly stronger than the national average in Veneto, Lombardy, Tuscany and Emilia Romagna, (accounting on aggregate for c.70% of BPVI Gross loan portfolio).

Table 29: BPVI – Comparison with Estimated Domestic Loan Growth, 2016-2020E

	2016E	2017E	2018E	2019E	2020E
BPVI	+0.7%	+2.3%	+3.2%	+3.6%	+3.6%
Italy	+1.0%	+2.0%	+2.8%	+3.0%	+3.1%

Source: Mediobanca Securities estimates

Sovereign exposure – Reliance on carry-trade portfolio could be risky

One of pillars behind the 4.8% CAGR in NII planned by BPVI is the increasing contribution from the securities portfolio in 2018, due to an increased exposure to Italian sovereign exposure. BPVI's financial portfolio amounted to €5.42bn in 2015, almost entirely constituted of Government bonds portfolio (€5.23bn in 2015). The maturity of the sovereign exposure is about 5.8 years. BPVI aims at purchasing around €2bn of Italian sovereign bonds in 2016 in order to maintain the average exposure between €7 and €7.5bn till 2018. BPVI plans a reduction only in 2019-2020. In 2015 BPVI recorded €87m of NII from the securities portfolio contribution, and BPVI expects this to increase to €114m in 2018 and then a progressive decline to €75m in 2020.

Table 30: BPVI – Composition of Debt Securities Portfolio and Sovereign Exposure, 2015

€bn	2015
Debt securities	5.419
Sovereign Exposure	5.233
Sovereign Exposure as % of	97%

Source: Company Presentation, Mediobanca Securities analysis

Table 31: BPVI – Maturity of Government Bonds Exposure (maturity 5.8 years)

€bn	2017E	2018E	2019E	2020E	2021E	2023E	2024E	>2024E	TOTAL
Gov. Bonds Expiry	0.61	0.81	0.59	0.12	1.33	1.16	0.35	0.28	5.23

Source: Company Presentation, Mediobanca Securities analysis

We regard the assumption of increasing further the sovereign exposure as risky, as the debate around the treatment of capital requirement for sovereign exposure is firmly back on the regulators' agenda. Italy boldly expressed its opposition to Germany that instead requires such a step as a pre-condition for a mutualisation in the Eurozone (namely the EU deposit insurance scheme). The goal remains that of breaking the link between banks and government bonds by forcing banks to reduce their over-exposure to domestic sovereign. One of the proposals on the regulators table aims at mitigating such risks at a 25% cap over equity on the holdings with exposure to a single country. Thereafter, banks would have to risk-weight such securities according to a country's risk that the regulator perceives or sell such securities. In our view, challenging the current capital requirement on sovereign exposure inevitably ends up challenging the business models of commercial banks especially in Italy, as banks use sovereign exposure as a means to both hedge their interest rate risk and to comply with their liquidity buffers. It is no mystery that Italian banks are the ones that have the most concentrated portfolios towards domestic government bonds.

Despite such threat, we acknowledge that the discussion in Europe is open and at the moment we do not know if and when this regulatory measure will be introduced and what kind of capital treatment could the regulator require. Hence, we incorporate the contribution from a larger sovereign bond portfolio and we assume the fixed-income AFS assets (the category where sovereign exposure is classified) to grow from €5.3bn in 2015 to €7.25bn in 2018E.

Table 32: BPVI – Estimated Evolution in AFS Fixed Income Securities Portfolio

€bn (99% Sovereign Exppsure)	2015	2016E	2017E	2018E	2019E	2020E
Fixed Income AFS Assets	5.31	7.24	7.25	7.25	6.78	6.34

Source: Company Data, Mediobanca Securities estimates

Evolution of the commercial banking margins projected by BPVI looks ambitious to us

Aside the increase in the loan and sovereign exposure portfolio, BPVI expects a widening of the commercial spread to 205bps in 2018 from 195bps in 2015. Such improvement is entirely attributable to a decline in the retail cost of funding, while the institutional cost of funding is assumed as flat at 3%. The rise in short-term rates looks to have a more marked impact from 2018 onward (+c50bps in 2020 versus 2018). sing the data provided by BPVI on expected evolution of rates and spreads on Euribor 3-months, we calculate BPVI expect the cost of deposits to lower by 18bps by the end of 2018, while the rate on loans to reduce by only 7bps.

Table 33: BPVI – Net Interest Income and Interest Margin Evolution, 2015-2020

€m unless otherwise stated	2015	2018E	2020E	Delta 15-18 (bps)	Delta 15-20 (bps)
Client Margin	416	465	594		
Securities Portfolio	87	114	75		
TOTAL	**504**	**579**	**669**		
Commercial spread (%)	**1.95%**	**2.05%**	**2.41%**		
Average Loans Spread (%, A)	3.41%	3.14%	3.05%		
Average Deposits Spread (%, B)	1.47%	1.09%	0.63%		
Euribor 3M rate (%, C)	-0.13%	0.07%	0.59%		
Deposit Rate (B+C)	1.34%	1.16%	1.22%	-18bps	-12bps
Loan Rate (A+C)	3.28%	3.21%	3.64%	-7bps	+36bps

Source: Company data

In our estimates we account for the following assumptions which result in fairly stable margins in commercial banking over the next three years.

- **Cost of deposit to decline by c20bps in three years time, aligned to BPVI projections** - With regard to the cost of deposits, we assume that – in a scenario in which BPVI regains the trust from its customer base - BPVI should be able to reduce its cost of deposits in line with the industry, i.e. c.20bps in three years time. In other words, the decline in the cost of deposits envisaged in BPVI projections is incorporated in our estimates;
- **Average rate of loans expected to decline more than BPVI's projections but to close the gap with the industry** – The data released by the Bank of Italy and the Italian Banking Association show a compression in Italy's average lending rate, as the new loan origination is written at lower rates than the expiring exposures (in particular corporate loans). In absence of movements in rates, we expect the average lending rate for the industry to reduce by 29bps by 2018E. As lending rates are governed by market forces (competition) and modestly by managerial levers, the 7bps decline projected by BPVI looks ambitious to us. Hence, we expect BPVI average lending rate to decline by more than 7bps, but we give BPVI the benefit of being able to close the gap versus the industry by 2018.

Table 34: BPVI – Comparison Between BPVI Loans Lending Rate and Italy's Estimated one

	2015	2018E	2020E
Euribor 3-Months (Average)	-0.03%	-0.02%	-0.02%
Rate on Loans (Average) - Italy	**3.42%**	**3.1%**	**3.1%**
Estimated Rate on Loans (Average) - BPVI	**3.36%**	**3.1%**	**3.1%**

Source: ABI, Company data, Mediobanca Securities estimates

The targeted growth in Fee Income looks overly optimistic to us

BPVI expects Net Fee and Commission Income to grow by 7.6% CAGR in 2015-18. BPVI plans to exploit the cross-selling potential from the Community Banking clients and enforce the services offer and delivery for Corporate/SME & Private Banking. The fee income growth is driven also by a significant increase expected of the AuM (11.9% CAGR 2015-20E) and the lending activity, expect to account for 28% of fee income in 2020 versus 23% in 2015. The other commission made up of distribution of third parties consumer finance products, expansion of the current bancassurance products and the commission related to loans will contribute also to the increase of fee income.

Table 35: BPVI – Evolution of Net Fee and Commission Income, 2015-2020

€m	2015	As % of Total	2018	As % of Total	2020	As % of Total
Financing, Transaction, Other Services	196	61%	225	56%	245	54%
Consumer Finance	28	9%	28	7%	31	7%
AUM and AUC	73	23%	104	26%	128	28%
SME	25	8%	44	11%	49	11%
TOTAL	**322**		**401**		**453**	

Source: Company Data, Mediobanca Securities analysis

Our estimates remain well below the target set by BPVI for the following reasons:

- **Lending activity assumed to be softer than what projected by BPVI** – Our estimates assume a softer loan growth than the one embedded in BPVI's projections (i.e. around e1.4bn lower net customer loans in 2018E). This reduces the fee income from the traditional banking business;
- **We regard 8.6% 2015-18 CAGR in Indirect Deposits as hardly feasible –** Given the market performance since the start of the year – which has certainly affected the stock of Indirect Deposits – we believe the implicit CAGR to achieve BPVI's target of €18.6bn in 2018 from €14.5bn in 2015 would need to be higher than 8.6%. In addition, such growth should be achieved in less than three years (we imagine 2.5 years), as the commercial effort in first half of 2016 is likely to be concentrated in protecting the franchise and maintain the assets within the bank rather than pushing growth;

The targeted reduction in operating expenses looks hardly feasible

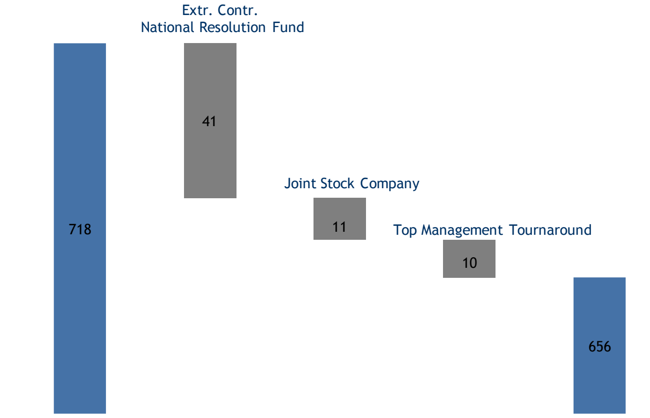
BPVI expects Staff cost to reduce by 9%in 2015-18, as the bank plans to reduce headcount by 425 thanks to the Redundancy Funds and hire 90 new resources in 2016-17. The reduction in staff costs is also caused by initiatives on labour cost reduction, such as renegotiation of manager's salary, working-hours reduction and legal entities rationalization/disposal.

BPVI expects other administrative expenses to cut by 3.7 CAGR in 2015-18. BPVI plans to put into practice some improvement in its structure. The related actions regard the Business Process reengineering, 150 branches closures and other savings in Advisory, marketing sponsorship.

Our estimates result below the target set by BPVI in both staff costs and other administrative expense for the following reasons:

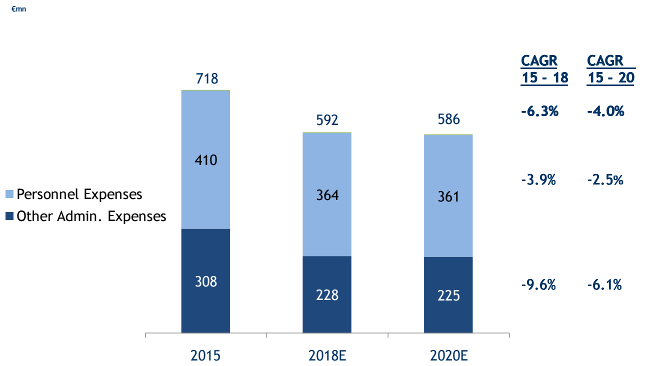
- **Headcount reduction does not look sufficient to achieve 9% reduction in staff costs planned by BPVI -** Net of €10m extraordinary costs related to the turnaround of management, we calculate BPVI embeds c.9% reduction in staff costs. On the other hand, accounting for 425 headcount reduction and the hiring of 90 employees, we calculate the headcount reduction to be in the region of 6%. Such divergence is even more striking considering around 2% wage inflation in Italy due to the national labour contract. Our estimates fully incorporate the planned headcount reduction and wage inflation cut to 1% versus around 2% at national level to account for BPVI specific initiatives (such as renegotiation of manager's salary, working-hours reduction), These assumptions bring staff costs at around €376m in 2018E, some 3% above what targeted by BPVI.
- **The targeted curtailment of other operating expenses looks slightly optimistic** – Net of the extraordinary items (€51m charged in 2015) we calculate 1% inflation per year would bring other administrative expenses in the region of €262m in 2081E. Adding 28 cost savings indicated by BPVI, we calculate other administrative expenses should land in the region of €235m in 2018E, 3% above what targeted by BPVI.

Chart 19: BPVI – Operating Costs Excluding One-off Items, 2015 (€m)



Source: Company Presentation

Chart 20: BPVI – Evolution of Operating Costs, 2015-2020 (€m)



Source: Company Presentation

The evolution of asset quality and cost of risk look reasonable

After the extensive clean-up of the loan book carried-out in 2015, BPVI plans to reduce the stock of NPE to €8.06bn in 2018 from €8.96bn in 2015, thanks to €1.0bn disposal of NPL in 2017. Net of €1.0bn sale, BPVI expects relatively stable stock of NPEs also thanks to improved recovery rate also thanks to a strengthened management of Unlikely-to-Pay loans to maximize the recovery and the outflows to performing. On the other hand, despite €1bn sale, the stock of NPLs is expected to grow by c.€0.3bn by 2018, meaning that BPVI expects migration into NPLs from Unlikely-to-Pay, expected to decline by €1.4bn by 2018.

Table 36: BPVI – Evolution of the Stock of Non-Performing Exposures and Coverage Ratio, 2015-2020

€m unless otherwise stated	2015	As % of Total	2018E	As % of Total	2020E	As % of Total
Stock						
NPL	4,369	49%	4,747	59%	4,712	61%
Unlikely-to-Pay	4,439	50%	2,999	37%	2,680	35%
Past Due	154	2%	319	4%	353	5%
TOTAL	**8,962**	**100%**	**8,065**	**100%**	**7,745**	**100%**
Coverage Ratio						
NPL	56.8%		54.3%		55.5%	
Unlikely-to-Pay	25.8%		29.6%		32.0%	
Past Due	12.2%		11.9%		11.7%	
TOTAL	**40.6%**		**43.4%**		**45.4%**	

Source: Company Data, Mediobanca Securities analysis

With regard to the evolution of the stock of NPL, we regard the scenario depicted by BPVI as reasonable, as long as BPVI improves its recovery rates and cure rate on Unlikely-to-Pay loans and as long as the economic growth in Italy remains anchored at around 1%. – As a result of the extensive revision of the loan portfolio carried-out in 2015 and the movements in the stock of NPEs, we regard credit losses expected at 77bps of loans in 2018E and 70bps in 2020E as reasonable too.

First of all, we highlight our estimates include €1bn sale of NPLs in 2017 (with €50m impact on NPLs, as expected by BPVI) and €500m NPL disposal in 2019 (€25m impact on profit and loss). We estimate a stock of Gross NPEs and NPLs aligned to the projections of BPVI in 2018E and the coverage ratio does not differ either. BPVI expects the NPE coverage ratio to increase from 42.4% in

2015 to 45% in 2018E. The NPL coverage ratio is expected to decrease slightly caused by the disposal of positions with high coverage ratio, while the one of Unlikely-to-Pay loans is expected to rise to 29.6% from 25.8%. In other words, the increase in coverage ratio is driven by a different mix in the stock of NPEs, meaning higher weight of exposures (NPL) with higher coverage ratio.

Our assessment of the fact that the asset quality evolution looks reasonable is based on the inflows and outflows experienced by BPVI in the past ten years, from which we exclude the movements in asset quality experienced in 2015, as the major clean-up carried-out last years would distort the picture. In this context we notice the following:

- **Flows into NPLs from other doubtful loans –** We calculate the migration of other doubtful loans into NPLs amounted to average c.€450m per year over the period 2008-14, reducing to c.€350m per year including the pre-crisis period (2005-07). In our estimates we account for an migration of average €550m per year, a number larger than the past due to a much larger stock of Unlikely-to-pay loans in 2015;
- **Recoveries-in of NPLs** - We calculate the outflows from NPLs due to the partial recovery of the exposure amounted to average c.€70m per year over the period 2008-14, increasing to c.€90m per year including the pre-crisis period (2005-07). In our estimates we account for an recovery of average €150m per year. On top of larger stock of NPL in 2015 than in the past, we give BPVI the benefit an improving recovery skills than in the past;
- **Flows into Unlikely-to-Pay from performing loans –** We calculate inflows of Unlikely-to-Pay loans from performing amounted to average c.€450m per year over the period 2005-14. In our estimates we account for inflows equal to average €350m per year, a lower number than in the past to reflect the introduction of early warning systems and pre-default management workflow;
- **Outflows of Unlikely-to-Pay to Performing and recovery of Unlikely-to-Pay loans –** We calculate outflows of Unlikely-to-Pay loans to performing amounted to average c.€75m per year over the period 2005-14. In our estimates we account for outflows equal to average €150m per year, a larger number than in the past to reflect the larger stock and BPVI's intention to strengthen the management of Unlikely-to-Pay loans. The same argument is valid also for the €300m average recoveries per year of Unlikely-to-Pay loans in 2016-18E versus €110m average reported over the past ten years.

Table 37: BPVI – Inflows and Outflows of NPLs (Sofferenze) Over the Past 10 Years and Embedded in MB Securities Estimates, 2005-18E

€m (rounded to €5m)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	AVG Past 10 Yrs, ex 2015)	AVG Ex. pre Crisis ex 2015)	Avg Flows 2016-18E
Inflows from Performing	15	10	25	35	15	5	20	60	125	30	90	35	40	50
Inflows from Other Categories	90	205	155	260	365	440	335	470	570	655	885	355	445	550
Other Inflows	20	30	35	45	55	15	70	80	130	115	155	60	70	65
Cash-in	(60)	(40)	(55)	(155)	(70)	(55)	(80)	(90)	(95)	(80)	(100)	(75)	(90)	(155)

Source: Company data, Mediobanca Securities analysiss and estimates

Table 38: BPVI – Inflows and Outflows of Unlikely -to-Pay (Substandard Loans till 2014) Over the Past 10 Years and Embedded in MB Securities Estimates, 2005-18E

€m (rounded to €5m)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	AVG Past 10 Yrs, ex 2014-15)	AVG Ex. pre Crisis ex 2014-15)	Avg Flows 2016-18E
Inflows from Performing	305	300	305	460	835	660	440	360	440	570	2,305	455	535	350
Outflows to Performing	(30)	(20)	(45)	(85)	(130)	(100)	(115)	(90)	(50)	(100)	(25)	(75)	(90)	(150)
Cash-in	(95)	(125)	(80)	(105)	(185)	(105)	(55)	(85)	(85)	(95)	(200)	(110)	(115)	(300)
Other Outflows	(90)	(230)	(165)	(240)	(450)	(475)	(360)	(495)	(635)	(700)	(860)	(425)	(525)	(480)

Source: Company data, Mediobanca Securities analysiss and estimates

The Business plan does not account for possible further provisions for legal claims

Our understanding is that BPVI does not incoprorate any particular burden from legal claims in its Business plan projections. BPVI has already charged around €350m related to the financed capital in 2015 (i.e. shareholders who were financed to subscribe to BPVI capital increases since 2010). With regard to possible claims from shareholders that were not financed to subscribe to capital increases or that invested in BPVI shares, the bank does not expect major damages as so far BPVI has received claims for an amount of €230m, of which €136m have been covered with provisions for risks and charges.

In this respect, we can only flag risks related to possible future claims, which, in our view, cannot be ruled out.

Tax burden to be smoothed by tax-loss carry-forwards and ACE

We project a relatively low tax burden for BPVI in 2017-18E (i.e. below the 33% tax rate that could be considered as normalized in Italy after straff costs and credit losses have been made fully deductible for fiscal purposes). We see two main reasons for this:

- **€220m tax-loss carry-forwards to lower BPVI tax burden from 2017E onward** - In 2015 BPVI reported c.€220m of tax-loss carry-forwards which have no time limit. We see €220m as an amount that could be recovered in a reasonable period of time. We expect BPVI to turn profitable in 2017E and taxable income to grow more over the course of 2018-20E. As in Italy tax-loss carryforwards can be used for an amount equal to maximum 80% of the IRES taxable income generated in the year, we calculate BPVI could lower its tax burden by an c€.25 to €30m in 2018E and 2019E increasing to c.€35 to €40m in 2020E;
- **€15m tax relief from ACE** - We calculate BPVI should benefit from around €15 to €20m tax relief from ACE, following the completion of the capital increase.

Fully loaded CET1 hovering over 12.6% in 2016-17E excluding IRB models (+140bps)

In our view, in absence of unforeseeable events (such as large legal claims related to the unproper behaviour of the previous management team), we believe meeting 12% CET1 ratio in 2018E as easily feasible after the completion of the capital increase. As a matter of facts, the Fully-Loaded CET1 ratio in 2015 would already be above 12% pro-forma for €1.5bn capital increase. Given the milder loan growth (and consequently softer RWA growth) embedded our estimates and the relative weak internal capital generation in 2016-18E, we estimate the Fully-Loaded CET1 ratio should hit 12.6% by 2018E, i.e. some 240bps above the minimum threshold set by the EXB in its SREP process (10.25%). Hence, we focus on the possible impact from buffers on capital not included in the 12% target. We explore two main options:

- **The sale of Arca could add c.25bps of CET1 ratio** - BPVI envisages the sale of non strategic assets, such as Arca, Farbanca, Prestinuova, NEM Sgr and real estate assets. In this context we only consider the sale of Arca SGR, as we struggle to see much interest in small operators specialised in consumer finance and on-line banking with pharmacies. With regard to NEM SGR, we regard the size of such asset manager as negligible in the context of BPVI Group. With regard to real estate assets, we have no elements to value those assets. With regard to ARCA, we see ANIMA SGR as the closest peer as both companies are essentially product factories with distribution agreements with banks. Valuing ARCA SGR in line with the current multiple on AUM of ANIMA SGR (2% of AUM), we calculate around €100m value for the c.20% stake owned by BPVI, resulting in a capital gain of €60m, i.e. c.25bps of CET1 ratio.
- **The adoption of IRB models could add some 140bps-** BPVI still uses the Standardised Approach to calculate credit risk capital requirement. The validation of Internal-Rating-Based models is a possibility over the next three years. Using risk-weights on residential mortgages and corporate exposures equal to the one of Italian Banks subject to the IRB

Approach (ISP, UBI, BP, CREDEM and equal to 15% and 53% respectively) and using a proxy of the generation of shortfall to expected loss equal to the one reported by UBI in 2015 (€1.06bn, equal to c.11% of the net stock of deteriorated loans), we calculate 140bps potential uplift to capital ratios over the Business Plan horizon, bringing BPVI's buffer versus the SREP ratio to 375bps.

Table 39: BPVI – Non-Strategic Assets not Included in Business Plan

Company	Description	Book Value (€m)	BPVI Stake (%)
Arca SGR	Asset Management	38.7	19.99%
Prestinuova	Consumer Finance	35.0	100.00%
FarBanca	Online-bank Specialized in Pharmacies	43.9	70.77%
NEM SGR	Asset Management	2.4	100.00%
Immobiliare Stampa S.c.p.a.	Real Estate	497	100.00%

Source: Company Data

Sensitivity of CET1 ratio to increasing coverage of deteriorated exposures

Over the past weeks the press has widely reported – in the context of a potential integration between BP and BPM – that the ECB might not allow much time to curb the stock of NPEs. We perform analyses to assess whether BPVI's capital adequacy could withstand a sudden increase in the coverage ratio of NPLs and NPEs. With regard to NPL coverage ratio, we see the 80% NPL coverage ratio applied in the rescue of four local banks as penalising. However, we believe this is the number the market has in mind for Italy.

In the absence of sales, the value of net NPLs should be reduced by increasing the coverage ratio. As BPVI still calculates credit risk capital requirement in accordance to the Standardised Approach, and hence NPL are captured in RWAs, we account for the fact that increasing the coverage ratio would reduce RWAs. In other words, RWA would reduce for a amount equal to the write-downs multiplied by 120% risk-weight. Exactly the same arguments can be used for NPEs.

Stressing capital to c.80% coverage ratio on the NPL existing on balance sheet as at 2015 (abnormally higher than 55% coverage ratio for a sample of EU peers with average risk profile such as ABN, CAIXA, CBK, EBS, KBC), we calculate BPVI's CET1 ratio would remain aligned to the minimum requirement set by the ECB. The Net NPL to Net Loans Ratio would reduce to 3.3%, in line with the average of domestic peers with the best asset quality (ISP, BPM, CREDEM, POPSO). Adding the migration of Unlikely-to-Pay loans into NPLs (we simulate 30% in line with the average shown by domestic peers over the past 10 years, i.e. €1.3bn then netted of €0.7bn already embedded in our forecasts in 2016E), we calculate BPVI could handle c.75% coverage ratio NPLs.

Stressing capital to higher coverage ratio on the NPEs existing on balance sheet as at 2015, we calculate BPVI's CET1 ratio would remain aligned to the minimum ECB requirement also increasing such coverage by 12 percentage points to 53%.

Table 40: BPVI – Sensitivity of Fully Loaded CET1 Ratio to Increase in NPL Coverage Ratio, 2016E

NPL Coverage Increase	+0.0%	+2.5%	+5.0%	+7.5%	+10.0%	+12.5%	+15.0%	+17.5%	+20.0%	+22.5%	+25.0%
CET1 Impact	0bps	-20bps	-45bps	-70bps	-90bps	-115bps	-140bps	-160bps	-185bps	-210bps	-235bps
CET1 Ratio	**12.6%**	**12.4%**	**12.2%**	**12.0%**	**11.7%**	**11.5%**	**11.3%**	**11.0%**	**10.8%**	**10.5%**	**10.3%**
ECB SREP Ratio	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Buffer on SREP Ratio	**240bps**	**215bps**	**195bps**	**170bps**	**145bps**	**125bps**	**100bps**	**75bps**	**50bps**	**30bps**	**5bps**
NPL Coverage	**57%**	**59%**	**62%**	**64%**	**67%**	**69%**	**72%**	**74%**	**77%**	**79%**	**82%**
Net NPL/Net Loans Ratio	**7.5%**	**7.1%**	**6.7%**	**6.3%**	**5.9%**	**5.5%**	**5.0%**	**4.6%**	**4.2%**	**3.7%**	**3.3%**

Source: Mediobanca Securities estimates

Table 41: BPVI – Sensitivity of CET1 Ratio to NPL Coverage Ratio (Including Migration of 30% of Unlikely-to-Pay Loans into NPLs), 2016E

NPL Coverage	57%	59%	62%	64%	67%	69%	72%	74%	77%	79%	82%
CET1 Impact	-40bps	-65bps	-95bps	-120bps	-145bps	-175bps	-200bps	-230bps	-260bps	-290bps	-315bps
CET1 Ratio	12.2%	12.0%	11.7%	11.4%	11.2%	10.9%	10.6%	10.3%	10.0%	9.8%	9.5%
ECB SREP Ratio	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Buffer on ECB SREP Ratio	**200bps**	**170bps**	**145bps**	**120bps**	**90bps**	**65bps**	**35bps**	**10bps**	**-20bps**	**-50bps**	**-80bps**

Source: Mediobanca Securities estimates

Table 42: BPVI – Sensitivity of Fully Loaded CET1 Ratio to Increase in NPE Coverage Ratio, 2016E

NPE Coverage Increase	+0.0%	+1.0%	+2.0%	+3.0%	+4.0%	+5.0%	+6.0%	+7.0%	+8.0%	+9.0%	+10.0%
CET1 Impact	0bps	-20bps	-35bps	-55bps	-75bps	-95bps	-115bps	-130bps	-150bps	-170bps	-190bps
CET1 Ratio	**12.6%**	**12.4%**	**12.3%**	**12.1%**	**11.9%**	**11.7%**	**11.5%**	**11.3%**	**11.1%**	**10.9%**	**10.7%**
ECB SREP Ratio	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Buffer on ECB SREP Ratio	**240bps**	**220bps**	**200bps**	**185bps**	**165bps**	**145bps**	**125bps**	**105bps**	**85bps**	**65bps**	**45bps**
NPE Coverage	**41%**	**42%**	**43%**	**44%**	**45%**	**46%**	**47%**	**48%**	**49%**	**50%**	**51%**
Net NPE/Net Loans Ratio	**21.1%**	**20.8%**	**20.6%**	**20.3%**	**20.0%**	**19.7%**	**19.4%**	**19.1%**	**18.8%**	**18.5%**	**18.2%**
Texas Ratio (Net NPEs/CET1)	166%	166%	167%	167%	167%	168%	168%	169%	169%	169%	170%

Source: Mediobanca Securities estimates

Table 43: Selected Italian Banks – Overview of Net NPL and Net NPEs Ratio, 2015

€bn	ISP	BPM	POPSO	CREDEM	Peers Average
Net Loans	350.0	34.2	24.0	23.1	
Net NPL	15.0	1.5	0.7	0.4	
Net NPL Ratio	**4.3%**	**4.4%**	**3.1%**	**1.5%**	**3.3%**
Net Loans	350.0	34	24	23	
Net NPEs	33.1	3.6	2.4	0.8	
Net NPEs Ratio	**9.5%**	**10.6%**	**9.8%**	**3.4%**	**8.3%**

Source: Company Data, Mediobanca Securities analysis

Table 44: Selected EU Banks – NPLs Coverage Ratio, 2015

Bank	NPL Coverage Ratio
KBC	60%
ABN	56%
EBS	57%
CBK (sum of Core and Non-Core Bank)	47%
CAIXA Bank	54%
Average	**55%**

Source: Company data, Mediobanca Securities analysis

Table 45: Selected IT banks – Gross Flows from Doubtful Loans* into NPLs as % of T-1 Doubtful Loans (Migration Rate), 2005-14

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	Avg 10Yrs
UCG	28%	30%	32%	31%	33%	46%	36%	41%	10%	n.a.	32%
ISP	27%	43%	42%	35%	35%	44%	48%	34%	32%	21%	36%
MPS	26%	34%	28%	26%	23%	31%	41%	37%	36%	29%	31%
BP	25%	31%	18%	20%	17%	40%	31%	23%	36%	47%	29%
UBI	**27%**	**27%**	**29%**	**27%**	**42%**	**60%**	**39%**	**32%**	**33%**	**23%**	**34%**
BPER	27%	34%	24%	24%	28%	34%	23%	28%	29%	24%	28%
BPM	24%	32%	37%	32%	26%	63%	54%	36%	43%	26%	37%
POPSO	27%	48%	26%	41%	42%	49%	25%	21%	24%	28%	33%
CREDEM	33%	40%	33%	36%	48%	70%	40%	40%	17%	25%	38%
CREVAL	42%	23%	26%	30%	39%	52%	62%	59%	44%	19%	40%
AVG	**27%**	**34%**	**32%**	**30%**	**31%**	**44%**	**39%**	**36%**	**19%**	**25%**	**32%**

**The aggregate of Substandard (Incagli) and Restructured Loans represent the best proxy of Unlikely-to-Pay Loans definition adopted since the start of 2015*

Source: Company Data, Mediobanca Securities analysis

Summary of MB P&L, balance sheet and capital estimates

Table 46: BPVI – Consolidated Profit and Loss Account, 2014-2020E (Company Reclassified Reporting)

€m	2014	2015	2016E	Chg	2017E	Chg	2018E	Chg	2019E	2020E
Net Interest Income (NII)	511	504	506	+0%	547	+8%	566	+3%	587	607
Dividends and Other Income	29	48	34	-29%	34	+0%	34	+0%	34	33
Net Commission Income	301	322	331	+3%	349	+5%	379	+9%	395	407
Result from Propr. Trading	187	163	89	-45%	85	-4%	81	-5%	80	74
Insurance Result	0	0	0	-	0	-	0	-	0	0
Other Net Operating Income	49	15	33	-	34	+5%	36	+5%	40	43
Revenues	**1,077**	**1,053**	**993**	**-6%**	**1,049**	**+6%**	**1,096**	**+4%**	**1,136**	**1,164**
Personnel Costs	(402)	(410)	(454)	+11%	(375)	-17%	(377)	+1%	(396)	(373)
Other Operating Expenses	(232)	(308)	(258)	-16%	(246)	-5%	(235)	-4%	(242)	(250)
Tang. and Int. Assets Deprec.	(36)	(36)	(33)	-8%	(30)	-8%	(29)	-4%	(28)	(26)
Operating Costs	**(669)**	**(754)**	**(745)**	**-1%**	**(651)**	**-13%**	**(641)**	**-2%**	**(666)**	**(649)**
Net Operating Profit	**408**	**298**	**248**	**-17%**	**398**	**+60%**	**455**	**+14%**	**470**	**515**
Goodwill Impairment	(600)	(335)	0	-	0	-	0	-	0	0
Net Value Adjustments to Loans	(868)	(1,333)	(285)	-79%	(282)	-1%	(202)	-28%	(198)	(197)
Net Value Adjust. to Fin. Assets	(53)	(159)	(21)	-87%	(20)	-5%	(20)	+0%	(20)	(20)
Provisions for Risks and Charges	(18)	(513)	(23)	-96%	(23)	+0%	(24)	+4%	(24)	(24)
Gain (Loss) from Inv. Sale	(3)	149	0	-	0	-	0	-	0	0
PBT from Cont. Operations	**(1,134)**	**(1,893)**	**(81)**	**-96%**	**73**	**-**	**209**	**-**	**228**	**274**
Taxes from Cont. Operations	377	486	30	-94%	(18)	-	(40)	-	(49)	(55)
Minorities	(1)	(1)	(1)	+25%	(1)	+0%	(1)	+0%	(1)	(1)
Net Earnings	**(759)**	**(1,407)**	**(52)**	**-96%**	**54**	**-**	**168**	**-**	**178**	**218**
Adjusted Net Earnings	**n.a.**	**n.a.**	**(8)**	**-**	**54**	**-**	**168**	**-**	**188**	**218**

Source: Company data, Mediobanca Securities estimates

Table 47: BPVI – Consolidated Regulatory Capital, 2014-2020E

€m	2014	2015	2016E		2017E		2018E		2019E	2020E
Calculation Methodology	**Basel III**	**Basel III**	**Basel III FL**		**Basel III FL**		**Basel III FL**		**Basel III FL**	**Basel III FL**
Tier I	3,025	1,656	3,204		3,214		3,350		3,467	3,622
Hybrid Instr. in Tier I	0%	0%	0%		0%		0%		0%	0%
Tier II and Tier III	324	367	366		365		365		368	372
Total Reg. Capital	3,349	2,022	3,570		3,579		3,714		3,835	3,994
Risk Weighted Assets	28,958	24,884	25,357		25,544		25,967		26,564	27,209
Risk Weighting	62%	63%	62%		61%		61%		62%	63%
Tier I Ratio	10.4%	6.7%	12.6%		12.6%		12.9%		13.1%	13.3%
CT 1 Ratio / CET1 Ratio	10.4%	6.7%	12.6%		12.6%		12.9%		13.1%	13.3%
Total Tier Cap. Ratio	11.6%	8.1%	14.1%		14.0%		14.3%		14.4%	14.7%

Source: Company data, Mediobanca Securities estimates

Table 48: BPVI – Consolidated Balance Sheet, 2014-2020E

€m	2014	2015	2016E	Chg	2017E	Chg	2018E	Chg	2019E	2020E
Assets	**46,475**	**39,783**	**41,103**	**+3%**	**41,670**	**+1%**	**42,346**	**+2%**	**42,819**	**43,315**
Cash and Central Bank Accounts	193	174	174	+0%	176	+1%	179	+2%	181	183
Held for Trading Securities (HFT)	7,579	3,409	3,411	+0%	3,415	+0%	3,419	+0%	3,453	3,488
Financial Instruments at Fair Value	4	8	8	+1%	8	+1%	8	+1%	8	8
Available for Sale Securities (AFS)	5,321	5,726	7,606	+33%	7,635	+0%	7,666	+0%	7,224	6,814
Held to Maturity Securities (HTM)	43	0	0	-	0	-	0	-	0	0
Loans Due from Banks	2,255	2,150	2,054	-4%	1,963	-4%	1,876	-4%	1,866	1,857
Customer Loans	28,111	25,178	25,348	+1%	25,936	+2%	26,771	+3%	27,726	28,719
Derivatives	185	79	80	+1%	81	+1%	82	+1%	82	83
Shareholdings	495	493	427	-13%	456	+7%	488	+7%	523	559
Tangible Assets	626	598	518	-13%	494	-5%	464	-6%	428	388
Intangible Assets	108	5	6	+29%	6	+6%	6	+1%	7	7
Goodwill	240	6	6	+0%	6	+0%	6	+0%	6	6
Tax Assets	949	1,457	960	-34%	987	+3%	871	-12%	802	688
Discontinued Operations	0	0	0	-	0	-	0	-	0	0
Other Assets	366	502	504	+0%	507	+0%	509	+0%	512	514
Liabilities	**46,475**	**39,783**	**41,103**	**+3%**	**41,670**	**+1%**	**42,346**	**+2%**	**42,819**	**43,315**
Deposits Due to Banks	4,758	9,973	9,090	-9%	8,686	-4%	8,188	-6%	7,909	7,610
Deposits Due to Customers	22,158	16,272	17,110	+5%	17,991	+5%	19,008	+6%	19,578	20,165
Securities Issued	6,668	5,199	5,185	-0%	5,171	-0%	5,166	-0%	5,218	5,270
HFT Liabilities	5,957	2,772	2,800	+1%	2,828	+1%	2,856	+1%	2,884	2,913
Financial Liabilities at FV	1,547	472	470	-0%	469	-0%	469	-0%	473	478
Derivatives	525	888	897	+1%	905	+1%	915	+1%	924	933
Tax Liabilities	182	317	209	-34%	215	+3%	190	-12%	174	150
Discontinued Operations	0	0	0	-	0	-	0	-	0	0
Minority Interests	18	18	19	+3%	19	+3%	20	+3%	20	21
Shareholders' Equity	3,731	2,534	3,979	+57%	4,034	+1%	4,176	+4%	4,272	4,403
Other Liabilities	930	1,338	1,345	+0%	1,352	+0%	1,359	+0%	1,365	1,372

Source: Company data, Mediobanca Securities estimates

€1.1-1.6bn from peer multiples and DDM model

We value BPVI according to four methodologies leading to a range of €1.1-1.6bn on 2018E based on four methodologies reliant on peer group valuation multiples and a discounted dividend model. This partly reflects the current turbulent markets for domestic Italian banks and the still subdued profitability we estimate for 2018E. We see potential pending legal and liquidity risks as unquantifiable at this stage and excluded from our valuation range.

Valuation based on TEx with 4% adj. RoTE leads to 0.40x, i.e. €1.6bn

We estimate the valuation of BPVI at year 2018, as we believe that it better mirrors the potential profitability of the bank, once the restructuring is complete and the burden from the "financed" capital is put to bed. We estimate the valuation of the bank based on its adj. RoTE at c4% in 2018 and its estimated cost of equity at 10.3%. We estimate the cost of equity through three key elements, i.e. risk free rate, beta and market risk premium by applying the following methodology:

- **Risk Free Rate at 1.46%:** We estimate the risk free rate as the 3-month average of the 10Y BTP yield with the data downloaded from Bloomberg from 6th January 2016 to 5th April 2016, i.e. 1.46%.
- **Beta at 1.26:** We estimate the beta of BPVI by using its peers' beta including 2Y observations and downloaded from Bloomberg. The banks we considered as peers are MPS, BP, UBI, BPER, BPM, POPSO, CRG and CREDEM. Bloomberg estimates the adjusted beta, meaning a forward-looking estimate of the correlation between the stock price and FTSE MIB index. We then estimate the beta of BPVI with the average of peers' adjusted beta, meaning 1.26.

Table 49: Selected Italian Banks - 2Y Raw and Adjusted Beta, 2016

	MPS	BP	UBI	BPER	BPM	POPSO	CVAL	CRG	CREDEM	Aggregate
Adjusted Beta	1.4	1.4	1.3	1.4	1.2	1.1	1.4	1.1	0.9	1.26

Source: Mediobanca Securities, Bloomberg

- **Market Risk premium at 7%:** We estimate the market risk premium, as the average of the market risk premia estimated for BPVI's peers within our coverage, i.e. 7%.

Table 50: Selected Italian Banks – MBe market risk premium, 2016E

	MPS	BP	UBI	BPER	BPM	POPSO	CVAL	CREDEM	Aggregate
Market risk premium	9.0%	Not Rated	7.1%	7.1%	Not Rated	7.2%	7.1%	6.6%	7.0%

Source: Mediobanca Securities

Our estimates point at 10.3% cost of risk with 1.46% risk free rate, 1.26 beta and 7% market risk premium.

Table 51: BPVI – Estimated Cost of Equity

Risk free	Beta	Market Risk	Cost of Equity
1.46%	1.26	7.0%	10.3%

Source: Mediobanca Securities

We estimate a valuation of 0.40x TEx, 9.7x PEx meaning €1.6bn equity value considering c4% adj. RoTE divided by 10.3% cost of equity.

Table 52: BPVI – Valuation based on BPVI's cost of equity and adj. RoTE, 2018E

Adj. Net Profit	TE	Adj. RoTE	CoE	Equity Value	TEx	PEx
168	4,080	4.1%	10.3%	1,636	0.40x	9.7x

Source: Mediobanca Securities

Valuation based on peers' TEx leads to 0.31x, i.e. €1.2bn

We estimate the valuation of BPVI considering peers' TEx in 2018. We use MB estimates for the sample within our coverage (MPS, BP, UBI, BPER, BPM, POPSO, CVAL and CREDEM), while for CRG we consider Bloomberg estimates. However, as Bloomberg consensus points at a loss in 2018 at CRG, we disregard CRG from our sample. The market capitalization downloaded from Bloomberg is the 3-month average market capitalization from 6th January 2016 to 5th April 2016 to smoothen market volatility.

Table 53: Selected Italian Banks - Adj. Net profit, TE, Adj. RoTE and TEx, 2018E

€m	MPS	BP	UBI	BPER	BPM	POPSO	CVAL	CRG	CREDEM	Aggregate	BPVI
Adj. Net profit	580	500	480	425	330	205	107	-	199	2,826	168
Market Capitalization	1,825	2,945	3,620	2,411	3,087	1,521	806	532	2,002	18,217	
Tangible Equity (TE)	10,165	7,292	9,001	5,086	4,852	2,869	2,194	-	2,412	43,871	4,080
Adj. RoTE	6%	7%	5%	8%	7%	7%	5%	-	8%	6%	4%
TEx	0.18x	0.40x	0.40x	0.47x	0.64x	0.53x	0.37x	-	0.83x	0.48x	

Source: Mediobanca Securities, Bloomberg

The average TEx at BPVI's peers is 0.48x for 6% RoTE. Hence, we estimate the valuation of BPVI at c€1.2bn by using a proportion between 6% Adj. RoTE for 0.48x TEx and BPVI's Adj. RoTE at 4%.

Table 54: BPVI – Valuation based on BPVI's peers' Tex and adj. RoTE, 2018E

Adj. Net Profit	TE	Adj. RoTE		Equity Value	TEx	PEx
168	4,080	4.1%		1,247	0.31x	7.4x

Source: Mediobanca Securities

Valuation based on peers' PEx leads to 0.29x, i.e. €1.2bn

We estimate the valuation of BPVI considering peers' adj. PEx in 2018. We use MB estimates for the sample within our coverage (MPS, BP, UBI, BPER, BPM, POPSO, CVAL and CREDEM), while for CRG we consider Bloomberg estimates. However, as Bloomberg consensus points at a loss in 2018 at CRG, we disregard CRG from our sample. The market capitalization downloaded from Bloomberg is the 3-month average market capitalization from 6th January 2016 to 5th April 2016 to smoothen market volatility.

Table 55: Selected Italian Banks - Adj. Net profit, TE, Adj. RoTE and PEx, 2018E

€m	MPS	BP	UBI	BPER	BPM	POPSO	CVAL	CRG	CREDEM	Aggregate	BPVI
Adj. Net profit	580	500	480	425	330	205	107	-	199	2,826	168
Market Capitalization	1,825	2,945	3,620	2,411	3,087	1,521	806	532	2,002	18,217	
Tangible Equity (TE)	10,165	7,292	9,001	5,086	4,852	2,869	2,194	-	2,412	43,871	4,080
Adj. RoTE	6%	7%	5%	8%	7%	7%	5%	-	8%	6%	4%
Adj. PEx	3.15x	5.89x	7.54x	5.67x	9.37x	7.42x	7.54x	n.a.	10.06x	7.08x	

Source: Mediobanca Securities, Bloomberg

The average adj. PEx at BPVI's peers is 7.08x. Hence, we estimate the valuation of BPVI at c€1.2bn by applying to BPVI's adjusted net profit 7.08x adj. PE multiple.

Table 56: BPVI – Valuation based on BPVI's peers' PEx, 2018E

Adj. Net Profit	TE			Equity Value	TEx	Adj. PEx
168	4,080			1,189	0.29x	7.08x

Source: Mediobanca Securities

Dividend Discount Model points at 0.26x, €1.1bn

We estimate the valuation of BPVI in 2018 considering the present value of the dividends in the strategic plan timeframe (2016-2020) and a terminal value related to the period beyond the plan. As inputs to calculate the terminal value we use c3% earnings growth rate and 2% asset growth rate beyond the forecast period, 50% payout ratio as of Business Plan, cost of equity at 10.3% and MB estimates for net profit (€218m) and RoTE (5%) in 2020E.

Table 57: BPVI – Input for the Dividend Discount Model, 2020E

	Symbol	2020E
Earnings Growth Rates (Beyond Forecast Period)	q	3%
Payout Ratio	p	50%
Asset Growth Rates (Beyond Forecast Period)	g	2%
Cost of Equity	CoE	10.3%
Net Income	NP	218
RoTE	RoTE	5%

Source: Mediobanca Securities

The valuation of BPVI consists in the present value of the cash flows related to the dividends within the plan (2016-2020E) and of the terminal value at 2020E, which is calculated as follows:

$$TV = \frac{\mathrm{NP} * \mathrm{p} * \left(1 - \frac{\mathrm{g}}{\mathrm{RoTE}}\right) * (1 + \mathrm{q})(CoE - q)}{CoE - q} = €966\mathrm{m}$$

We estimate a terminal value of c€1bn in 2020E and dividend within the plan worth €309m, which lead to €1.1bn valuation in 2018E, i.e. 0.27x, when discounted by the cost of equity in 2018E (10.3%).

Table 58: BPVI - Valuation based on Dividend Discount Model , 2018E

	2016E	2017E	2018E	2019E	2020E
Dividends	0.0	27	84	89	110
Terminal Value (not discounted)					966
PV Cash Flows and Terminal Value in 2016	0	24	69	66	727
Valuation of Equity			1,079		
TEx			0.26x		
PEx			6.4x		

Source: Mediobanca Securities

€1.1-1.6bn valuation range on 2018E

The table below summarises our approach to BPVI's valuation. Our four methodologies lead to a valuation range of €1.1-1.6bn. This is based on 2018E to incorporate the benefits from turnaround of the next three years. This reflects a multiple to the 2018E TE of 0.27-0.40x, comparing with a peer group's range of 0.18-0.83x including Credem and 0.18-0.64x excluding Credem, where multiples are calculated as 3-month average market capitalization from 6th January 2016 to 5th April 2016 to smoothen market volatility. In our view, these confirm the currently turbulent market for domestic Italian banks, whose share prices are down between 14-58% including Credem and 25-58% excluding Credem year to date.

Table 59: BPVI – Valuation Range, 2018E

	TEx	Peers' TEx	Peers' PEx	DDM
Adj. Net Profit	168	168	168	168
TE	4,080	4,080	4,080	4,080
Adj. RoTE	4.1%			
CoE	10.3%			
Equity Value	**1,636**	**1,247**	**1,189**	**1,079**
TEx	**0.40x**	**0.31x**	**0.29x**	**0.26x**
PEx	9.7x	7.4x	7.08x	6.4x

Source: Mediobanca Securities

Low visibility on potential, future legal risk

BPVI is facing a number of investigations regarding the potential practices of misconduct adopted by the previous management. On the positive side, regulatory capital related to financed capital has already been hit or filtered; on the other we cannot exclude additional potential damage could emerge from further claims from shareholders and/or clients.

Further deposit instability cannot be ruled out but TLTRO2 is a positive

The resolution of the four, troubled local banks last November has been a cause of destabilisation for domestic Italian banks' funding. Bond prices have widened materially over the last few months. BPVI's funding suffered as well from this event. We cannot rule out that the occurrence of a similar case or the potential further outflow of a part of the €3.5bn funding from BPVI shareholders could destabilise the bank's funding position. Against this hypothetical scenario, we would envisage the bank to utilise the current c€1bn of unencumbered assets, the €1.5bn cash raised from the rights issue and the sale of non strategic assets. Finally, the recent ECB measures on TLTRO2 should provide more liquidity oxygen and allow for more time to restore BPVI's liquidity profile, in our view.

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