

Veneto Banca

Like a Phoenix

Veneto Banca- Key data					
Y/E December		2015A	2016E	2017E	2018E
Net interest income	EUR M	505	464	473	497
Total income	EUR M	947	795	824	874
Gross operating profit	EUR M	261	199	262	330
Pre-tax profit	EUR M	-997	-133	7	99
Net profit	EUR M	-882	-78	28	90
Tangible book value	EUR M	1,907	2,740	2,768	2,858

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- **A regional Italian banking group with a focus on Northern Italy.** Veneto Banca is the 13th Italian banking group with EUR 22.7Bn customer loans, EUR 33.3Bn total assets and 550 branches (487 in Italy), as of 31 December 2015. Veneto Banca has a market share of 1.6% in Italy in terms of branches, of which 1.9% in the north of the country and 5.2% in the Veneto region (as of December 2015). Veneto Banca is set to launch a EUR 1Bn capital increase and, at the same time, be listed on the Italian Stock Exchange.
- **Positives.** Among Veneto Banca's points of strength, we consider its geographical positioning and its scope to increase its profitability thanks to the weaker starting point versus peers in terms of cost of funding, penetration of fee-based business and cost base. Moreover, the bank's possible involvement in the consolidation process in the Italian banking sector is an option that supports the investment case. In detail, Veneto Banca is positioned in Northern Italy where it has 73% of loans and 64% of direct funding, with a strong market share in the Veneto region (among the top 3 regions by GDP in Italy). Compared to its peers, Veneto Banca has a cost of funding above the average, lower fee income on core revenues and a higher cost/income ratio. The Business Plan approved by the new management envisages a EUR 1Bn capital increase, the rebalancing of the funding mix, an increase in net fees at a 7.6% 2015-20T CAGR and the reduction in operating costs (we calculate -3.4% normalised 2015-20T CAGR), which together with the improvement in asset quality, should allow the company to achieve an ROTE of 5.1% in 2018T and 7.5% in 2020T, according to the company's business plan targets.
- **Key risks.** The company has a number of weak points, in our view, that management is seeking to address in the business plan, including: 1) the capital base below supervisory requirements: as of December 2015, Veneto Banca's CET1 FL was 6.8%, below the 10.25% SREP requirement to be maintained after June 2016. The company plans to raise EUR 1Bn new funds through a capital increase which, together with the implementation of the BP actions, should drive the CET1 to 14.5% in 2020, according to management's targets; 2) the net deposit outflows of EUR 4.5Bn (or 22.7% of direct funding from the commercial network) experienced in 4Q15 and 1Q16 and a high weighting of corporate deposits are factors of concern, in our view; and 3) asset quality worse than peers: Veneto Banca has a higher-than-peers' NPE ratio, forbore ratio and weighting of NPE on TBV; cash coverage ratios are also below the peers' average, although we highlight that considering collateral, coverage looks more in line with peers; and 4) regulatory and legal issues: the company has a number of outstanding regulatory and legal issues, including inspections by the Consob and ECB and litigations with shareholders over the value of shares, only partially provisioned for in 2015. The potential outcome of these issues is difficult to quantify.
- **Valuation methodology.** We think that the most appropriate methodologies to value Veneto Banca are: 1) absolute valuation methodologies, such as the Dividend Discount Model adjusted for the minimum capital requirement and the Excess Profit Model; and 2) a peer analysis, based on P/TBV, P/E and P/TBV crossed with ROTE.

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Italy
Banks

IPO Report

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Investment Summary

Veneto Banca is the 13th Italian banking group¹ with EUR 22.7Bn customer loans, EUR 33.3Bn total assets and 550 branches (487 in Italy), as of 31 December 2015. Veneto Banca has a market share of 1.6% in Italy, in terms of branches, of which 1.9% in the north of the country and 5.2% in the Veneto region (as of December 2015). The group also runs small banking activities in Romania, Moldova, Croatia and Albania.

Positives

Among Veneto Banca's points of strength, we consider its geographical positioning, as the bank has 73% of its loan book and 64% of its direct funding in Northern Italy, with a significant market share in Veneto (5.2% as of December 2015), among the top three Italian regions by GDP and the fifth region for GDP per capita. This geographical positioning should allow the group to benefit from the economic recovery which has started to materialise in Italy. Moreover, we believe that Veneto Banca could benefit from the possibility of closing its gap in terms of penetration in its core market as demonstrated by its lower market share on loans and deposits compared with its market share in branches.

Geographical mix skewed towards Northern Italy

Veneto Banca has a cost of funding above the peers' average², due to a higher than peers' cost of customer deposits which is penalised by a higher weighting of term deposits, in our view. We believe that the remix of the funding sources envisaged in the business plan and the possible better credit rating following the planned EUR 1Bn capital increase may reduce the gap with competitors, supporting the widening of Veneto Banca's customer spread, even in a low interest rate scenario.

Room to reduce the cost of funding

Veneto Banca has a low weighting of fee income on core revenues compared with competitors (35% vs. 42% of the main peers in 2015, according to our calculations), due to the underpenetration of the asset management business (AUM on indirect deposits of 34% vs. 50% of the main peers, according to our calculations), which translates into a limited contribution of fees from indirect funding on total fees and lower margins on indirect funding. The company's business plan envisages an increase in the penetration of the asset management business, through the hiring of new Financial Advisors and Private Bankers (+100% new Financial Advisors and +25% new private bankers) and through the switch from AUC to AUM. The business plan embeds an increase in fee and commission income at a 7.6% 2015-20 CAGR, also leveraging on the increase of traditional banking fees.

Room to increase fee income business

Veneto Banca shows some delays in terms of efficiency gains compared to the Italian banking sector. Excluding non-recurring items, we estimate that adjusted operating costs increased at a 2% 2013-15 CAGR at the Veneto Banca Group, in contrast with the main peers (-0.3% 2013-15 CAGR). According to our calculations, the number of staff has increased in the last five years, while the number of branches has only slightly reduced. At December 2015, we calculate that the group's adj. cost income at 68% (excluding the ordinary and extraordinary contribution to the resolution fund and deposit guarantee scheme and other non-recurring items) was notably above the peers' average of 61%. The company's business plan envisages operating costs declining at a -8.5% 2015-18 CAGR and a -5.6% 2015-20 CAGR (we calculate a -4.8% 2015-18T and -3.4% 2015-20T CAGR, on normalised terms), thanks to the reduction of personnel (-430 units, or 7.5% of 2015 headcount), the review of the distribution model (130 branch closures, of which 70 already in 2015 with no commercial impact) and the optimisation of central functions and of the group structure (foreign banks rationalisation).

Room to reduce operating costs

¹ After Unicredit, Intesa Sanpaolo, MPS, UBI, Banco Popolare, BNL, Banca Popolare dell'Emilia Romagna, Cariparma, Banca Popolare di Milano, Banca Popolare di Vicenza, Credito Emiliano, Banca Popolare di Sondrio, according to 2015 Financial Reports. We exclude from the sample Mediobanca and Banca Mediolanum, due to the different business models.

² In this report, we consider as Veneto Banca's peers (unless otherwise indicated): UBI Banca, Banco Popolare, Banca Popolare di Milano, Banca Popolare dell'Emilia Romagna, Credito Valtellinese, Banca Popolare di Sondrio, Banca Popolare di Vicenza, Banca Monte dei Paschi di Siena and Carige.

We believe that Veneto Banca could be involved in the consolidation process once the capital increase and IPO are completed. We think Veneto Banca would benefit from a possible consolidation with another banking group, by reducing the cost of funding that is currently penalising the bank's profitability, and by increasing the level of efficiency through the pooling of central functions and IT costs and by further rationalising the network, boosting the group's ROTE.

Role in the banks' sector consolidation process

Key risks/Negatives

At December 2015, the CET1 FL stood at 6.8%, showing an approximately 345bps deficit capital compared with the bank's SREP requirement as of June 2016 (10.25%). Moreover, the total capital ratio was below the regulatory requirements under Basel 3 at December 2015 (9.1% vs. 10.5% required). Veneto Banca has presented a capital plan aimed at restoring its capital ratios above the minimum requirements, which includes a EUR 1Bn capital increase. If the capital increase was not completed, the bank would not be able to comply with the supervisory capital requirements and could be subject to the resolution measures envisaged by the BRRD. However, two elements mitigate this risk, in our view: 1) on 23 December 2015, the bank announced that a consortium of guarantees for the capital increase and the IPO had been established; 2) on 28 April 2016, the Atlante fund was established with the aim of acting as a backstop facility in the capital increases of banks with regulatory capital below the SREP requirements (such as Veneto Banca). Should the capital increase not be entirely subscribed by the market, we believe the Atlante fund could cover the difference, as was recently the case in the Banca Popolare di Vicenza offering (where the Atlante Fund subscribed for more than 99% of the bank's capital increase).

Weak capital base

After the planned EUR 1Bn capital increase, we expect Veneto Banca to meet the minimum threshold required by the ECB, with a buffer compared with the SREP requirement, albeit still below the average of the Italian banks under the ECB's supervision. The business plan announced by the company envisages a 14.5% CET1 at December 2020, thanks to the capital increase, asset disposals and DTA recovery and self-financing. We consider this level as more than adequate for Veneto Banca: we would not exclude that the company may use the excess capital accumulated after the planned actions in order to accelerate the de-risking of the loans book, by increasing the total amount of NPLs disposals. Our estimate on 2020E CET1 is more conservative than the company's targets, as we do not include any asset disposals in our estimates (nor BIM or foreign banks; we only incorporate the disposal of NPLs) and we assume a lower internal capital generation.

We calculate that the company experienced deposit outflows from the commercial network of EUR 4.5Bn between September 2015 and March 2016 (or 22.7% of direct funding from the commercial network). While the LCR (liquidity coverage ratio) has been restored above the minimum requirement in March 2015 (78% from 52% as of December 2015³), and the company expects the LCR to surpass 90% after the planned EUR 1Bn capital increase, the liquidity profile is an element of weakness for the company, in our view. We also consider the funding structure as a point of concern: we calculate that, as of December 2015, approximately 34% of deposits collected through the network are from corporate clients that we consider to be less stable compared with funding from individuals.

Weak liquidity profile

Asset quality is another weakness, in our view. According to our calculations, at December 2015, Veneto Banca had: 1) a higher size of NPE compared with peers (net NPE ratio at 20.4% vs. a 15.9% average of competitors and a net NPE on tangible book value at 256% vs. 157% of the main competitors); 2) a worse performance of NPE in the recent period (gross NPE up by 24.5% yoy vs. 9.3% yoy of the main competitors); 3) a higher weighting of UTP in NPE that could move towards NPL, requiring additional provisions in the future, in our view; 4) a lower cash coverage ratio of NPE (35% vs. 40% average of main peers); and 5) a higher than average forbearance ratio. In its business plan, the company plans to de-risk the loan portfolio with EUR 1.9Bn NPLs disposal (1/4 of the gross NPE) and to strengthen the cash coverage ratio of NPE (up to 43.7%, before disposals).

Weak asset quality

³ 53% including BIM.

Veneto Banca has a number of regulatory and legal issues that could negatively impact the company's profitability and/or its capital base. These issues regard: 1) potential claims from Veneto Banca's shareholders regarding Veneto Banca shares: in 2015, Veneto Banca booked provisions for risks and charges related to litigations on the value of Veneto Banca shares, and additional provisions may be necessary in the future; 2) an inspection from the Consob, which resulted in sanctions related to violations of the investment services regulations; 3) an inspection by the ECB, the result of which has not yet been disclosed; and 4) an investigation by the Italian Financial Police related to suspected obstacles to the Bank of Italy's supervisory duties involving the previous management: to date the bank has not been subject to any measures. Claims with shareholders on the value of shares (we calculate that 12% of the commercial bank's customers are also shareholders of the bank) and ongoing investigations by several authorities may result in reputational damage, which could undermine the value of the brand, in our view.

As for the other Italian banks, Veneto Banca is subject to the risk of a downturn of the Italian economy and, as limited to its foreign subsidiaries, also to CEE economic trends.

Like the other European banks, Veneto Banca is subject to regulatory risks, should the metrics on the RWA be changed in relation to government bonds weighting and credit and counterparty risk as well as operating and market risk calculation. Moreover, the introduction of IFRS 9, expected in 2018, could have a potential impact on the results and/or on the company's capital base.

Regulatory and legal issues

Italian and CEE economic trends

Regulatory risk

Valuation Methodology

We think that the most appropriate methodologies to value Veneto Banca are:

- Absolute valuation methodologies, such as the Dividend Discount Model adjusted for the minimum capital requirement and the Excess Profit Model;
- Peer analysis, based on P/TBV, P/E and P/TBV crossed with ROTE.

Absolute Valuation methodologies

We believe that the most appropriate absolute methodologies to value Veneto Banca are the Dividend Discount Model and the Excess Profit Model:

- The **Dividend Discount Model** derives the value of the company on the basis of the dividend payable by the company. We assume as a dividend payable by the company the capital in excess compared with a CET1 target over the explicit estimates horizon, and thereafter, coherent with a pay-out that reflects the company's sustainable profitability. We assume at zero the dividend when the CET1 is lower than the CET1 target;
- The **Excess Profit Model** derives the value of the company on the basis of the sum of the current tangible book value and the profitability that the company is able to generate in excess when compared to its cost of capital. We define as invested capital, the CET1 target, gross of deductions and net of minorities.

In all the models, we would assume:

- A CET1 target at 11.75%, equal to the sum of the SREP requirement for Veneto Banca to be maintained after June 2016 of 10.25%, and a management buffer that we define at 1.5%;⁴.
- A cost of equity at 9.7%, on the basis of the CAPM: a risk-free rate of 1.75%, MRP of 5.5% and a Beta at 1.27x (in line with the 5Y adj. Beta of selected peers⁵) and an additional 1% due to the execution risk of the turnaround;
- A long-term profitability equal to our estimate at 2020E, adjusted for the excess capital compared with the target CET1 and the benefit related to the TLTRO II;
- A long-term growth of 0%, in line with our assumptions for the banks under our coverage.

The valuations would be sensitive to the COE used, the CET1 target, the long-term profitability and the long-term growth.

Relative Valuation methodologies

We consider the most appropriate groups of peers for Veneto Banca to be:

- **Popolari Banks peers:** this group includes listed Popolari banks (or Popolari banks already transformed into joint stock companies), including UBI, BP, BPM, BPER, CVAL and BPSO;
- **SREP peers:** this group includes Italian listed banks belonging to the same SREP basket: MPS and CRG.

We also consider as appropriate a valuation methodology based on P/TBV and ROTE expressed by the current market prices of a wider range of comparables (listed Italian banks) on the basis of their expected profitability.

⁴ 150bps is in line with the management buffer over the SREP requirement set by UBI Banca in the definition of the limits to the withdrawal rights on its own shares following the transformation into a joint stock company.

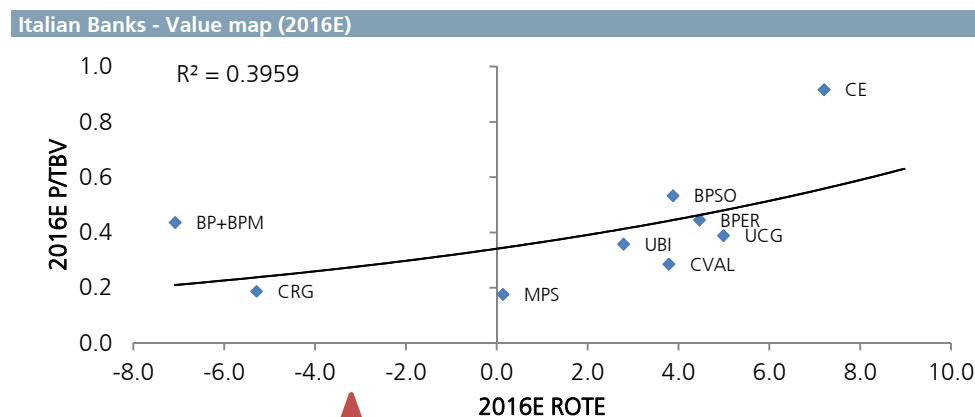
⁵ Selected Peers: UBI, BP, BPM, BPER, CVAL, BPSO, MPS, CRG.

In the table below, we show market consensus multiples (source: FactSet): we use our estimate for BP+BPM in order to embed in current multiples the announced capital increase and the effect of the announced integration plan (still not fully incorporated in the market consensus, in our opinion). The average 2016 and 2017 P/E of the SREP peers group only refers to MPS, as for Carige, 2016 and 2017 P/E are negative.

Peers multiples (2016-18E)										
Popolari Banks Peers	EUR M Mkt cap	P/E (x)			P/TBV (x)			ROTE (%)		
		2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
BPER	2072	11.1	7.6	5.9	0.45	0.42	0.40	4.5	6.2	7.2
BP+BPM*	4790	Neg	7.8	5.8	0.44	0.41	0.39	-7.1	5.5	6.9
UBI	2989	12.8	9.5	7.4	0.36	0.35	0.34	2.8	3.7	4.8
CVAL	605	13.6	7.8	5.5	0.29	0.28	0.27	3.8	3.7	5.0
BPSO	1317	13.9	11.9	8.9	0.53	0.52	0.50	3.9	4.5	5.7
Simple average Popolari Peers		12.9	8.9	6.7	0.41	0.40	0.38	1.6	4.7	5.9
Weighted average Popolari Peers		12.6	8.6	6.5	0.42	0.40	0.39	-0.8	4.9	6.2
SREP Cluster Peers	EUR M Mkt cap	P/E (x)			P/TBV (x)			ROTE (%)		
		2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
MPS	1627	48.1	5.6	3.9	0.18	0.17	0.16	0.1	2.3	4.2
CRG	433	Neg.	Neg.	26.1	0.19	0.19	0.19	-5.3	-0.6	0.7
Simple average SREP Cluster		48.1	5.6	15.0	0.18	0.18	0.18	-2.6	0.8	2.4
Weighted average SREP Cluster		48.1	5.6	8.5	0.18	0.18	0.17	-1.0	1.7	3.4
Popolari & SREP Cluster Peers		P/E (x)			P/TBV (x)			ROTE (x)		
		2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Total simple average		19.9	8.3	9.1	0.35	0.34	0.32	0.4	3.6	4.9
Total weighted average		19.3	8.3	6.8	0.38	0.37	0.35	-0.8	4.5	5.8

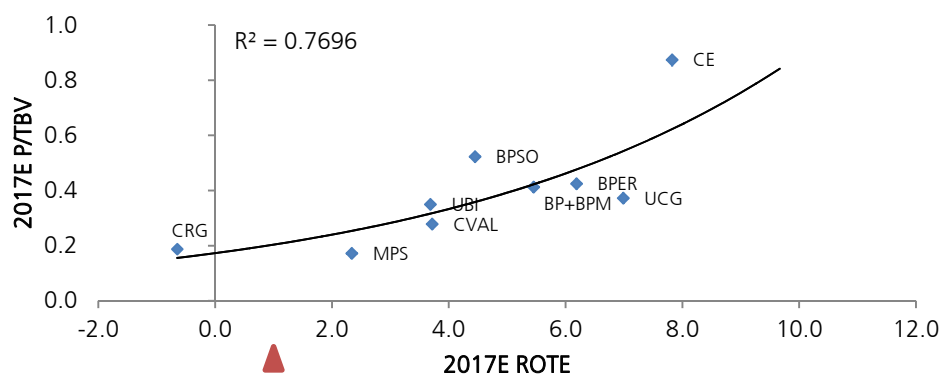
Priced on 17/05/2016 at market close; Note: * Combined entity, including EUR 1Bn announced rights issue; Neg.: Negative; Source: Intesa Sanpaolo research estimates and FactSet consensus

Below we show the positioning of the listed Italian banks on value maps that cross the P/TBV with the expected ROTE in 2016E, 2017E and 2018E. We also show an exponential trend line that explains the relation of P/TBV with ROTE, in the current market environment. Our expectations in terms of Veneto Banca's ROTE in 2016E, 2017E and 2018E (-3.3%, 1% and 3.2%, respectively) are marked with a red triangle; Veneto Banca's 2018T targeted ROTE (5.1%) is marked with a green triangle.



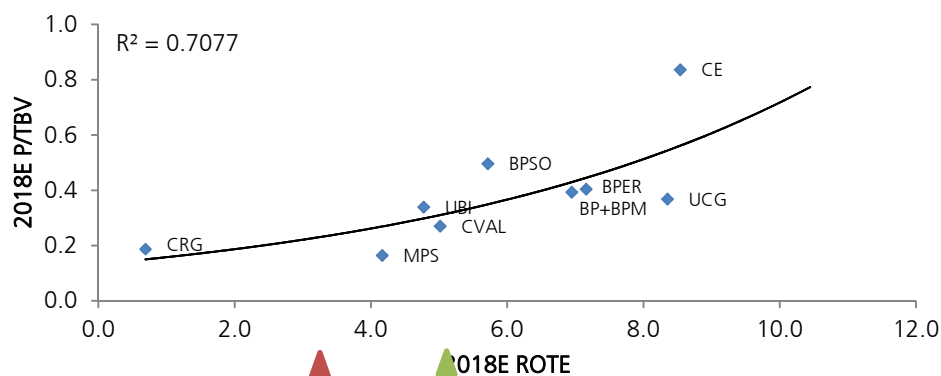
Note: Red triangle represents Veneto Banca expected ROTE, on the basis of our forecasts; Source: FactSet and Intesa Sanpaolo Research estimates and elaborations.

Italian Banks - Value map (2017E)



Note: Red triangle represents Veneto Banca expected ROTE, on the basis of our forecasts Source: FactSet and Intesa Sanpaolo Research estimates and elaborations

Italian Banks - Value map (2018E)



Note: Red triangle represents Veneto Banca expected ROTE, on the basis of our forecasts. Green triangle represents Veneto Banca's 2018 ROTE target; Source: FactSet and Intesa Sanpaolo Research estimates and elaborations

IPO Offering: Key Terms

Veneto Banca – Offering structure	
Issuer	▪ Veneto Banca S.p.A
Offer Shares	▪ 100% primary ordinary shares
Size of Offering	▪ EUR 1,000M
Listing Venue	▪ Borsa Italiana, Mercato Telematico Azionario (MTA)
Timing	▪ 2016
Syndicate Structure	▪ Banca IMI: Global Coordinator
	▪ Citi, Credit Suisse, Societe Generale, UBS: Co-Global Coordinators
	▪ Barclays, Commerzbank, Natixis, Nomura, UniCredit: Joint Book Runners
Sponsor	▪ Banca IMI
Financial Advisor	▪ Rothschild

Source: Company data

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ A strong market share in the North East of Italy, one of the wealthiest Italian areas; ▪ A new management team, committed to the implementation of the business plan. 	<ul style="list-style-type: none"> ▪ Capital base below the supervisory requirements; ▪ A weak liquidity profile; ▪ Asset quality worse than peers.
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Reducing the cost of funding, with a more balanced funding structure and the planned EUR 1Bn capital increase; ▪ Reducing operating costs, through the implementation of business plan actions (reduction in staff and branches, group reorganisation); ▪ Remove the capital deficit through the planned capital increase; ▪ Improving the asset quality through NPLs disposals; ▪ Potential disposal of assets: BIM and foreign banks, included in the BP; ARCA, product factories and real estate not included in the BP; ▪ The company could be involved in the consolidation process in the Italian banking sector; ▪ TLTRO II may provide a more efficient way to manage the deposit outflow experienced at the end of 2015 and beginning of 2016; ▪ The constitution of the Atlante Fund may help the company speed-up the disposal of the NPLs portfolio. 	<ul style="list-style-type: none"> ▪ The business plan embeds a significant execution risk, in our view, as it embeds challenging targets, implying revenues growth, costs decrease and a drop in loan loss provisions simultaneously; ▪ Regulatory and legal issues related to recent inspections, investigations and litigation with shareholders; ▪ Italian and CEE economic trends; ▪ Regulatory changes that may impact the bank's RWA calculation and/or its capital base;

Source: Intesa Sanpaolo Research elaborations

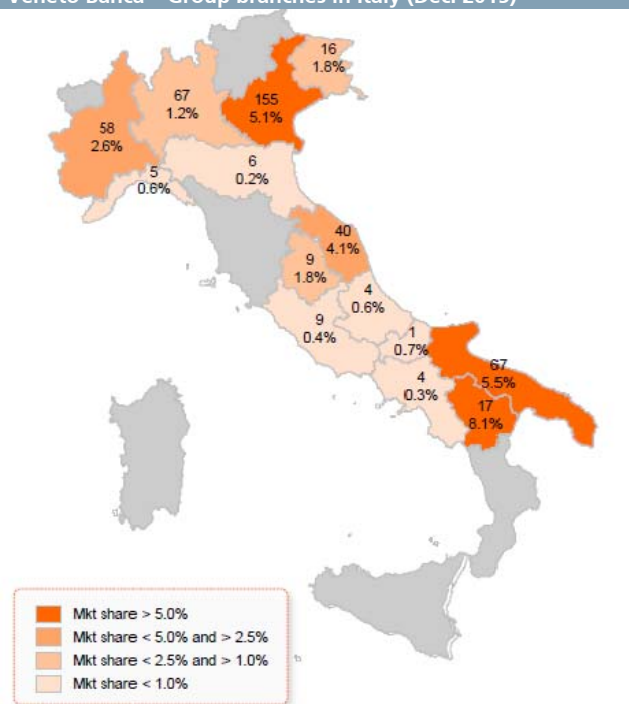
Group Profile

From a local bank to a regional player with an international presence

Veneto Banca is the 13th largest Italian banking group with EUR 22.7Bn customer loans, EUR 33.3Bn of total assets and 550 branches (487 in Italy), as of 31 December 2015. Veneto Banca has a market share of 1.6% in Italy, in terms of branches, of which 1.9% in the north of the country and 5.2% in the Veneto region (as of December 2015).

A leading banking group in Italy...

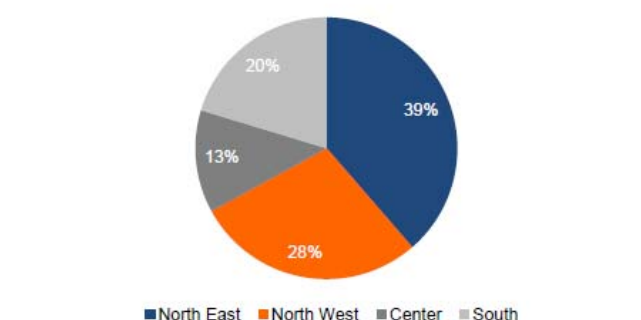
Veneto Banca – Group branches in Italy (Dec. 2015)



Source: Bank of Italy
Note: # Branches for the Italian perimeter excluding BIM as at 31 December 2015; Market share for the Italian perimeter excluding BIM as at 30 June 2015

Source: Company data

Veneto Banca – Branch network split by area in Italy (Dec. 2015)



Source: Data provided by Veneto Banca as at 31 December 2015. Data includes the Italian perimeter without BIM branches

Source: Company data

Veneto Banca has over 70% of its loan portfolio concentrated in the North of Italy, with a significant footprint in Veneto (among the top three Italian regions by GDP). The bank has a 2.3% market share by branch in the North-East, with a higher market share by loans in Veneto (6.6%).

... with a footprint in the North of the country

Direct funding is mainly concentrated in the North of Italy (64% of total funding) and in particular in the North-East, where the group has 36% of total direct funding.

Founded in 1877, Veneto Banca remained a purely local bank, based in Veneto, until the beginning of 2000. Thereafter, it started to expand both internationally (via acquisitions in Eastern Europe aimed at supporting the delocalisation process of North-Eastern Italian manufacturing firms) and in Italy (acquisition of local banks based in the North and South of Italy and the acquisition of a majority stake in Banca Intermobiliare di Investimenti e Gestioni in 2011).

External growth from 2000

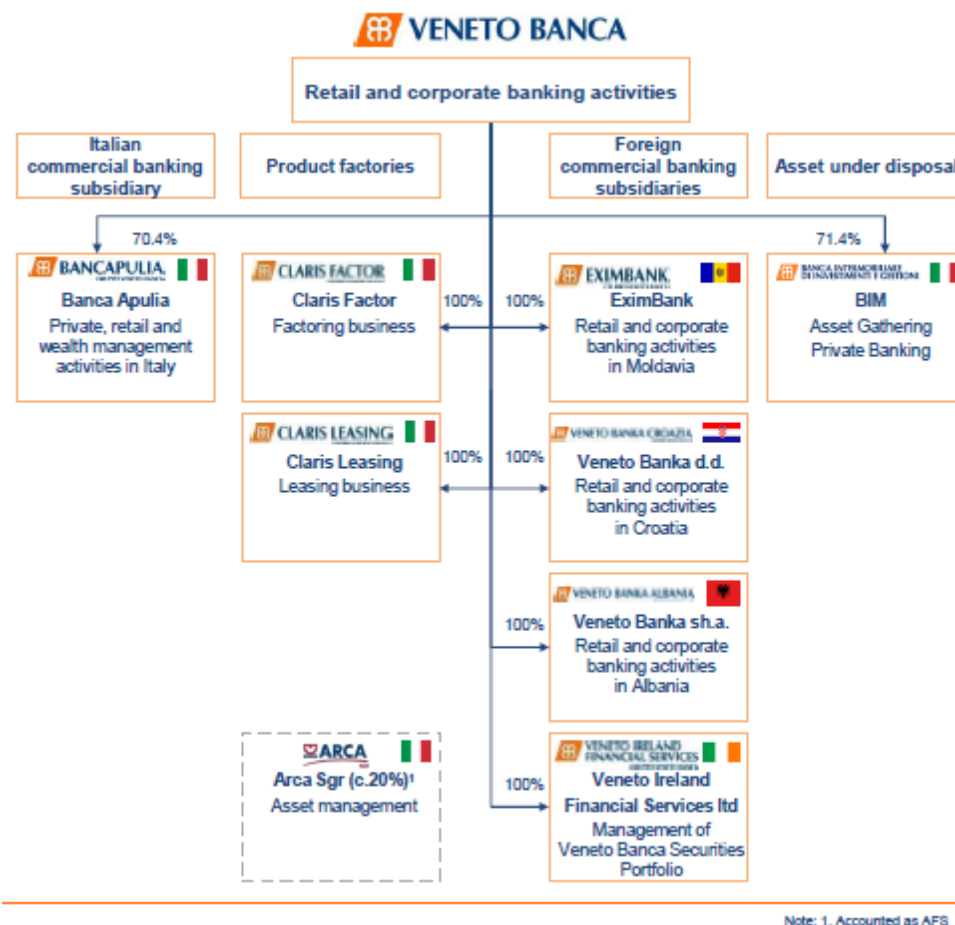
Organisational structure

Veneto Banca group operates in:

- Commercial banking, through Veneto Banca and Banca Apulia;
- Leasing and factoring, through Claris Leasing and Claris Factor;

- Asset management (20% stake in Arca SGR) and private banking, through Banca Intermobiliare (currently under disposal);
- Foreign banking activities in Romania, Albania, Croatia and Moldova.

Veneto Banca – Simplified group structure overview (December 2015)



Source: Company data

The group network consists of:

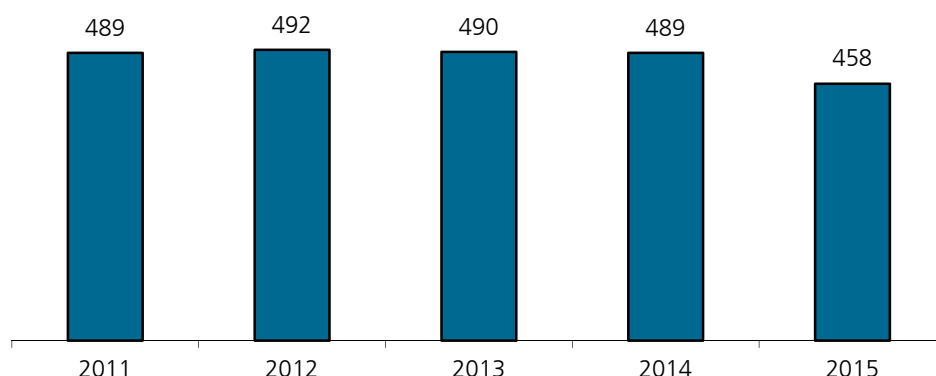
Group network

- 487 Italian branches (including BIM);
- 63 foreign branches;
- 1,836 retail relationship managers;
- 128 corporate relationship managers;
- 30 acquisition managers;
- 88 private bankers;
- 111 financial advisors working inside branches (15,000 clients and EUR 1Bn total assets);
- 11 private branches and 27 private centers within Veneto Banca branches;
- Digital channels (currently used by 227,000 customers).

Commercial Banking Division

The Veneto Banca parent company (VB) and BancApulia (BAP) are the two Commercial Banking arms of the group. Veneto Banca Group's Commercial Banking Division serves 668,000 customers (individuals, privates, small businesses and corporates), through 458 branches (83% of the total consolidated, 88% excluding BIM), as at 31 December 2015.

Veneto Banca – No. of Italian branches (2011-15)

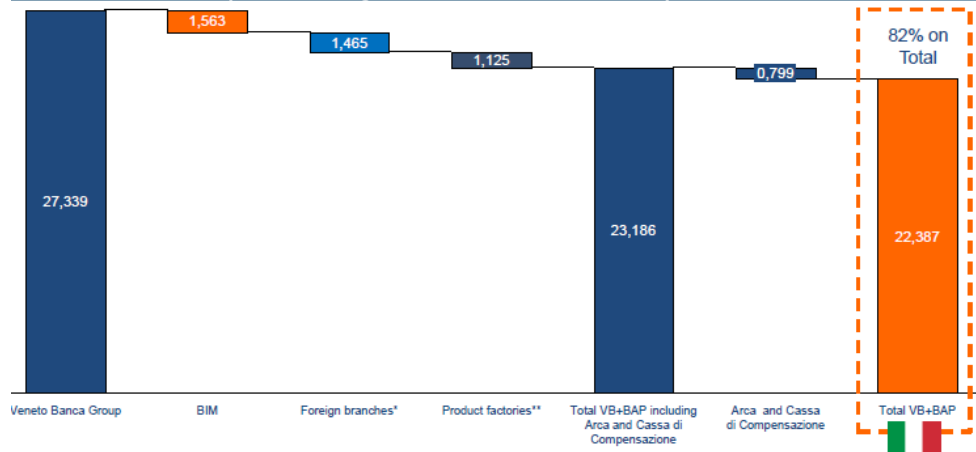


Note: Italian perimeter excluding BIM; Source: Company data

Veneto Banca and BancApulia are the core of the Commercial Banking Division and together account for EUR 22.4Bn gross customer loans at end-September 2015, out of EUR 25.8Bn consolidated (excluding BIM). Customer loans represent more than 70% of the group's total assets, due to the focus on traditional banking activities.

Veneto Banca and BAP: 82% of group's loan book

Veneto Banca – Group and Italian gross loan book (EUR M, 30 Sept. 2015)



Note: Veneto Banca Group Financials 30 September 2015
*Including Banca Italo Romana
**Including Apulia ProntoPrestito
BIM excluded

Source: Company data

Clarix Leasing is Veneto Banca group's leasing company. In 2015 it had an average number of 26 employees, vs. 24 in 2014. The company generated EUR 2.2M net income in FY15A (see Appendix 4).

Product factories: Clarix Leasing and ...

At 31 December 2015, the total value of the contracts stipulated with customers exceeded EUR 164M (EUR 132M at end-2014). The company improved its performance in terms of number of contracts (+13.5% yoy), mainly thanks to the expansion of activities carried out through the Veneto Banca network.

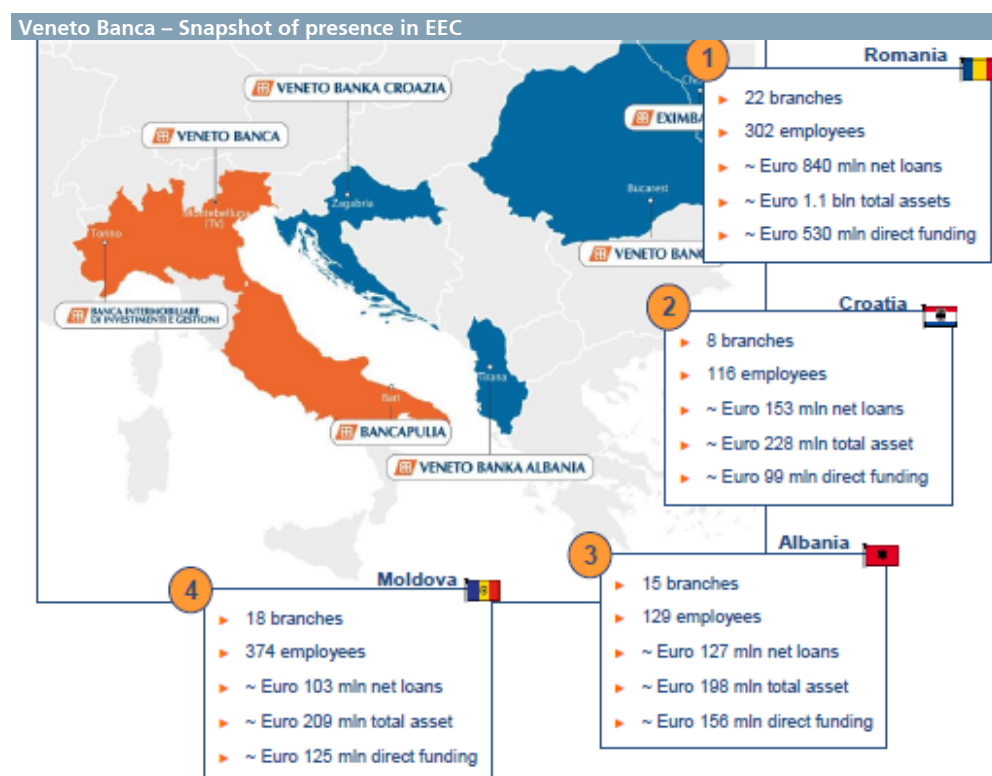
Clarifactor is Veneto Banca group's factoring company. In 2015 it had an average number of 22 employees vs. 18 in 2014. Differently from the sector average, most of the company's contracts (71% in 2015) are with recourse. The company generated EUR 0.9M net income in FY15A (see Appendix 4)

... Clarifactor

Foreign presence

Veneto Banca has a presence in four Eastern European countries (Romania, Croatia, Albania and Moldova), aimed at supporting the delocalisation process of North-Eastern Italian manufacturing firms.

Four countries outside of Italy



Source: Company data

The four countries had a network of 63 branches at 31 December 2015, with 925 employees (749 FTEs). Related total assets at 30 September were EUR 1.7Bn, with EUR 1.2Bn net loans and EUR 0.9Bn direct funding.

Veneto Banca's foreign activities gave an overall negative contribution (see Appendix 3) to the group's net result in 2015. The only profitable bank is the Moldavian subsidiary, with a 4% ROE in FY15.

Negative contribution to the P&L, with planned rationalisation

A rationalisation of the foreign banks' network is envisaged in the group's strategic guidelines.

The group also has a controlled financial company, based in Ireland. Veneto Ireland Financial Services, based in Dublin, manages part of the group's financial assets' portfolio, supporting Veneto Banca and its controlled companies in the implementation of financial strategies. The company recorded a net profit of EUR 35.5M in FY15, -34.8% yoy.

Veneto Ireland Financial Services

Private Banking: BIM

Banca Intermobiliare di Investimenti e Gestioni (BIM) was founded in Turin in 1981, becoming a bank in 1997, specialised in wealth management for Italian families. Listed on the Italian Stock Exchange since 1991, BIM became part of the Veneto Banca Group in January 2011. BIM has 29 branches in all the major Italian cities with approximately 200 private bankers. BIM is considered a non-strategic asset and it has been up for disposal since 2013.

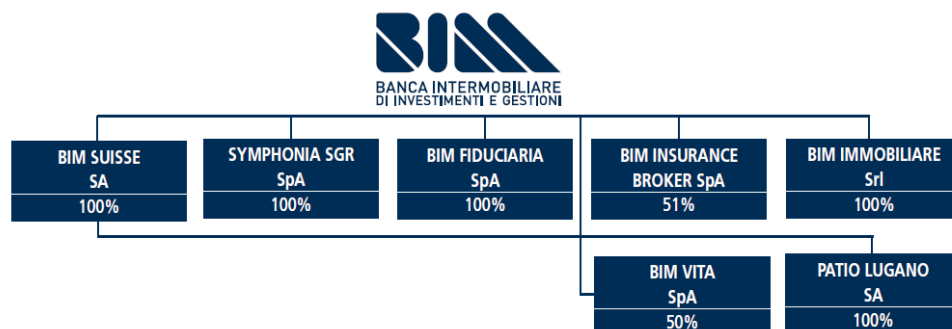
Non-strategic asset, currently under disposal

BIM had total customers' assets of EUR 12Bn at end-December 2015, of which approximately EUR 10.4Bn indirect deposits (AuM of approx. EUR 6.3Bn, + 4.5% yoy) and EUR 1.65Bn direct deposits (-20.2% yoy). We calculate that BIM had a book value adjusted for goodwill of EUR 285M at December 2015.

BIM offers a full range of products managed by the major international investment houses in addition to a vast range of mutual funds, and alternative investment instruments offered by Symphonia SGR (an asset management company controlled by BIM). BIM also offers insurance products through BIM Vita and has a Corporate Finance team, able to provide support to entrepreneurs in tax and estate planning and their growth plans.

BIM: profile and offering

Banca Intermobiliare di Investimenti e Gestioni – Group structure (31 December 2015)



Source: Company data

Despite being mainly active in the private banking business, BIM's asset quality is an issue: as of December 2015, net NPE represented 28% of net loans. In 2015, BIM recorded a 12.9% yoy increase in total NPE (EUR 339M at end-2015), essentially referred to bad loans. The total NPE coverage stood at 41.6% at end-2015 (up from 39% at end-2014), while the performing loans' coverage was 0.77% (down from 0.83%).

Credit quality

In FY15, the BIM group recorded a net loss of EUR 19.9M, significantly affected by loan loss provisions and write-downs, of which EUR 53.1M LLPs, EUR 6.8M of impairment on real estate assets from credit collection and EUR 3.6M of impairments on AFS securities. On the other hand, BIM recorded an EUR 5.9M net profit on assets held for sale, essentially related to the disposal of the controlled company Banca Ipi on 5 March 2015.

BIM: EUR 19.9M net loss in FY15

BIM – Main P&L and business indicators			
EUR M	2014A	2015A	yoy %
Net interest income*	27.8	26.2	-5.8
Net commissions*	77.3	83.6	8.1
Total income*	134.3	126.6	-5.7
Net profit	-9.7	-19.9	NM
Cost/income ratio (%)*	65.5	73.7	
Cost of risk (bps)	289	401	
Total deposits	12,266	12,001	-2.2
Indirect deposits	10,189	10,341	1.5
AuC	3,912	3,845	-1.7
AuM	5,943	6,212	4.5

*2014 restated as for IPIBI disposal; NM: not meaningful; A: actual; Source: BIM consolidated financial statements, Intesa Sanpaolo Research elaborations on company data

BIM – Main balance sheet and business indicators			
EUR M	2014A	2015A	yoy %
Total assets	4,125	3,175	-23.0
Total net loans	1,438	1,210	-15.9
Direct deposits	2,076	1,660	-20.0
Shareholders' Equity (incl. min.)	363	334	-7.9
Net bad loans (%)*	9.8	14.4	
Total net NPE (%)*	20.9	28.0	
Bad loans' coverage (%)*	52.4	53.9	
NPE coverage (%)*	39.0	41.6	
CET1 ratio (%)	11.66	14.04	
Total capital ratio (%)	12.62	14.23	

A: actual; Source: BIM consolidated financial statements

According to BIM's 2015 consolidated financial statement, operating profit came in at EUR 33.3M in 2015, a 28% yoy decline, due to both a 5.7% decrease in total income and a 6.0% growth in operating costs, also affected by the contributions paid to the banking resolution funds in 4Q15 (EUR 3.6M). The yoy decline in total income was mainly related to: (i) net interest income down 5.8% yoy, essentially due to the interest rate decline; and (ii) an overall lower net financial result (net trading income and dividends), which in 2014 benefited from significant capital gains on the banking book.

Corporate Governance

Shareholding structure

Until a few months ago, Veneto Banca was a cooperative bank, with a per capita vote. Following last year's approval of the Popolari banks' reform, on 19 December 2015, the bank's shareholders' meeting voted in favour (97.12% of 11,430 participating shareholders) of the transformation from a public cooperative company into a joint stock company and adopted new Articles of Association.

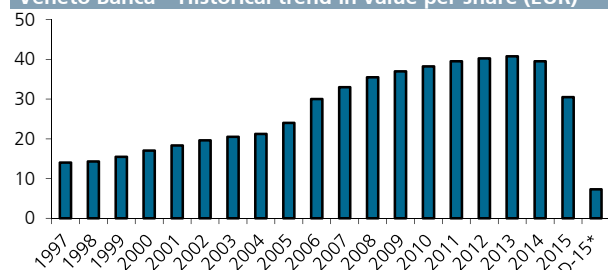
For the purposes of the right of withdrawal of those shareholders not agreeing with the transformation into a joint-stock company, the unit value for liquidation was set at EUR 7.3/share by the Board of Directors' meeting held on 2 December 2015. However, no payment has been made, as the bank would subsequently be unable to meet the prudential requirements applicable to it.

Veneto Banca's shareholders could trade their shares through an internal matching mechanism at a price set, on an annual basis, at the shareholders' meeting.

Transformation into a joint-stock company

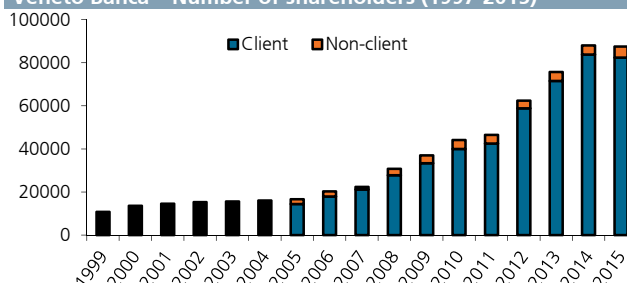
Withdrawal right set at EUR 7.3/share

Veneto Banca – Historical trend in value per share (EUR)



* withdrawal right; Source: Veneto Banca website

Veneto Banca – Number of shareholders (1997-2015)



Note: no breakdown between clients and non-client shareholders before 2005; Source: Veneto Banca 1999-2014 Financial Reports and company data

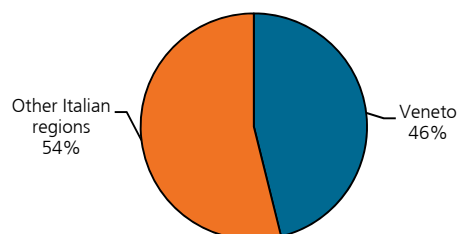
At December 2015, Veneto Banca had 87,504 shareholders, of which 94% were bank customers (approximately 12% of the Commercial Division's customer base). The number of shareholders has progressively increased year-by-year up to 2014 (8x from 1999 to 2014), stabilising thereafter (-485 units in 2015). We believe that this increase demonstrates the strong efforts of the network towards increasing the shareholders' base in the bank's recent history.

78,633 shareholders are individuals, while 8,871 shareholders are represented by corporates and institutionals. 46% of shareholders are located in Veneto and the remaining part in other Italian regions.

The largest part of shareholders (61%) have a membership of more than 3 years, but a significant portion of them became shareholders in the last few years (39% in the last 3 years).

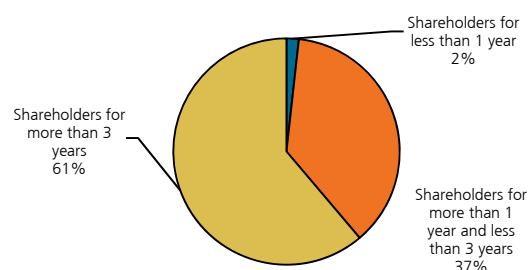
Shareholder base

Veneto Banca – Shareholders' geographical breakdown (Dec 2015)



Source: Veneto Banca 2015 Financial Statements

Veneto Banca – Shareholders' breakdown by length of membership (Dec 2015)



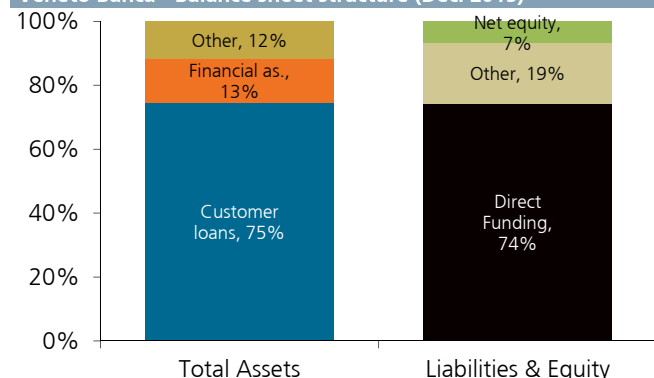
Source: Veneto Banca 2015 Financial Statements

Some of Veneto Banca shareholders created two associations: 1) "Associazione Azionisti Veneto Banca"; and 2) "Per Veneto Banca", which, according to the association's website, can count on approximately 7% of total shares, owned by entrepreneurs, managers and professionals.

Business Model Focused on Commercial Banking

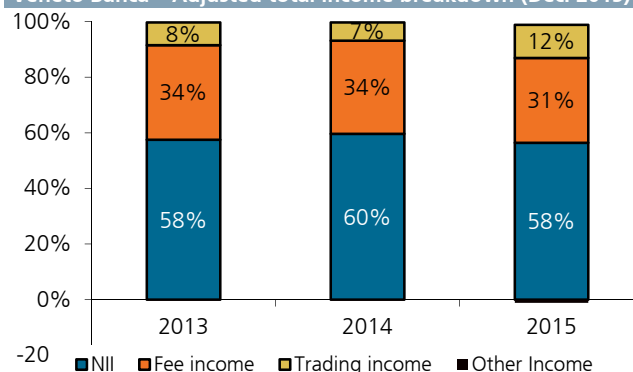
Veneto Banca's business model is focused on the Commercial Banking business: customer loans represent 75% of total assets, while financial assets are only 13% of total assets. This is also reflected in the revenues composition, which sees NII at 58% of total adjusted revenues in 2015.

Veneto Banca - Balance sheet structure (Dec. 2015)



Total assets excluding assets under disposal; Source: Intesa Sanpaolo Research elaboration on Company data

Veneto Banca - Adjusted total income breakdown (Dec. 2015)

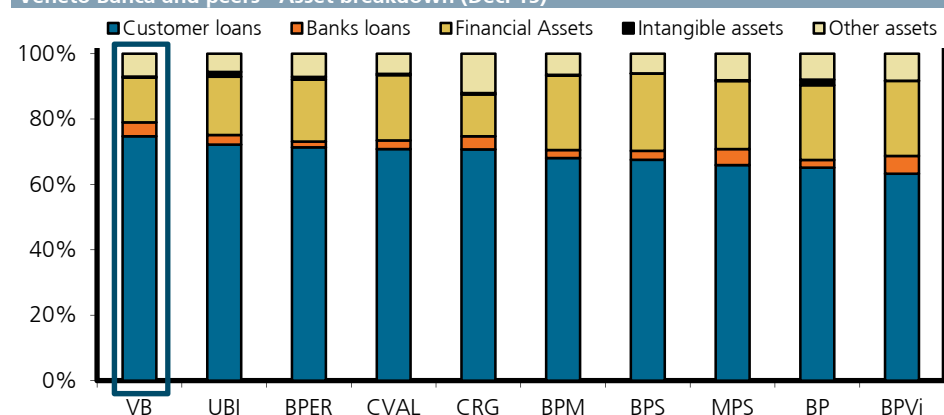


2015 data restated for non-recurring items; Source: Intesa Sanpaolo Research elaboration on Company data

Assets breakdown

Excluding assets under disposals (BIM, representing 9% of total assets), Veneto Banca's asset breakdown is similar to that of its main peers, but it shows a higher weighting of customer loans and a lower weighting of financial assets.

Veneto Banca and peers - Asset breakdown (Dec. 15)



Excluding assets under disposals; Source: Intesa Sanpaolo Research elaboration on Companies' data

Loans portfolio concentrated on SMEs and individuals in Northern Italy

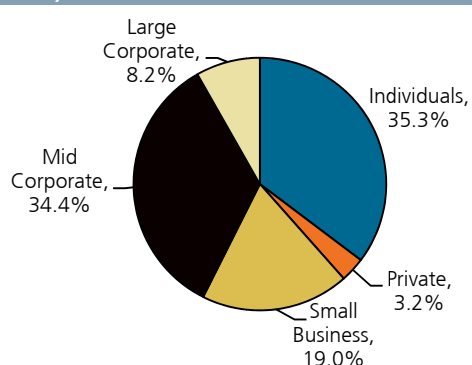
Looking at the loans portfolio of the two-largest commercial banks of the group (Veneto Banca and BancApulia), we highlight that:

- They are mainly concentrated on **SMEs and individuals**, which represent 92% of customer loans;
- They are concentrated in the **North of Italy** (73% of loan portfolio): 46% in the North East (mainly in the Veneto region, where the group has 42% of total loans) and 27% in the North West, while the Centre and Southern Italy represent only 26% of loans;

Loans portfolio main characteristics

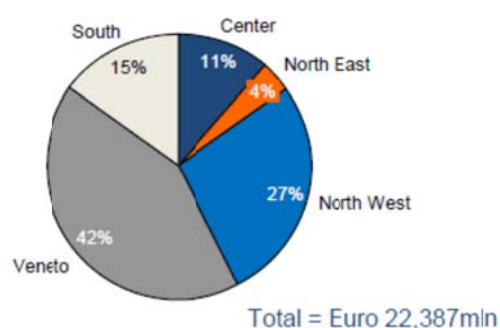
- They have a **larger than average exposure to the real estate and construction sectors** that have a weighting of 33% of corporate loans (excluding private and individual loans), compared with 30% at a sector level;
- They are mainly concentrated on **medium long-term maturities**, with a high weighting of mortgages that represent 62% of total loans;
- They are **not particularly concentrated** as the first 100 positions represent 11.7% of customer loans, as of December 2015: the NPE ratio associated to these positions is below the average of the group (18.2%);
- They are **largely assisted by guarantees**: 83% of performing loans and 77% of NPE;
- **They have a Loan to Value (LTV) of 37%** (including loans not assisted by collateral): performing loans have a LTV of 36% and non-performing loans of 40%; individuals have a LTV at 41% and Corporates at 33%. Mortgages Loan to Value is 51%.

Veneto Banca and BancApulia - Loan portfolio by client (Dec. 2015)



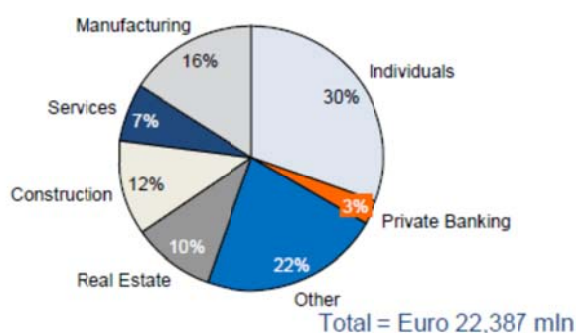
Note: Small Business: turnover EUR <5M; Small Corporate: turnover EUR 5-8M; Medium Corporate: turnover EUR 8-50M; Large corporate: turnover >50M; Source: Company data;

Veneto Banca and BancApulia - Gross loan portfolio by geographical area (Sept. 2015)



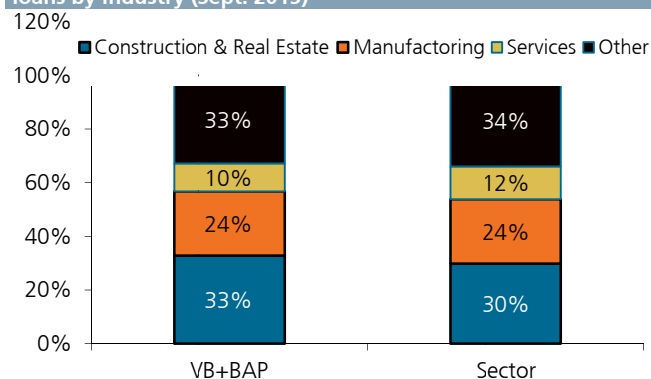
Source: Company data

Veneto Banca and BancApulia - Gross loans by industry (Sept. 2015)



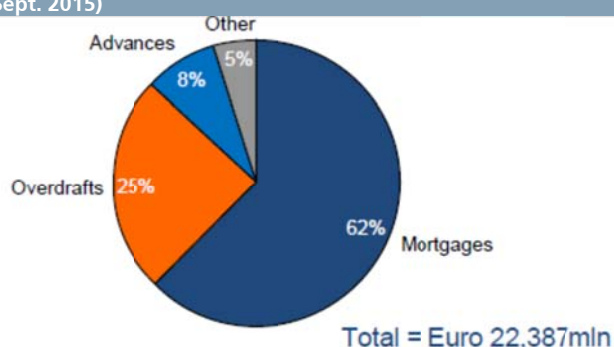
Source: Company data

Veneto Banca and BancApulia vs. Sector - Corporate customer loans by industry (Sept. 2015)



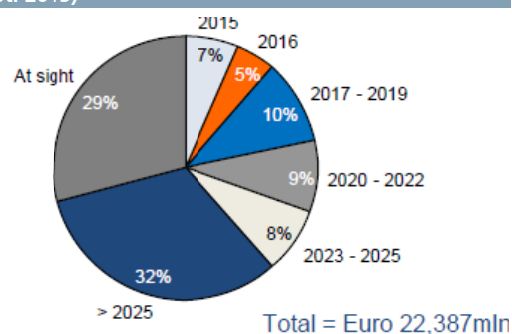
Source: Intesa Sanpaolo Research elaboration on Company data and Bank of Italy

Veneto Banca and BancApulia - Gross loans by product mix (Sept. 2015)



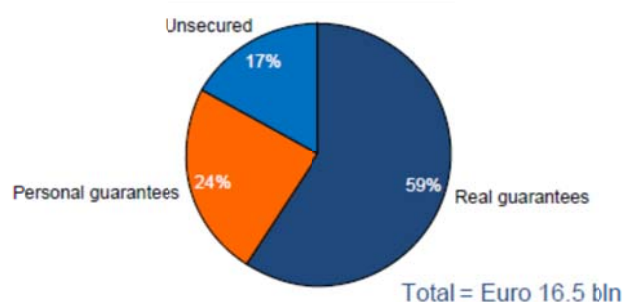
Source: Company data

Veneto Banca and BancApulia - Gross loans portfolio by maturity (Sept. 2015)



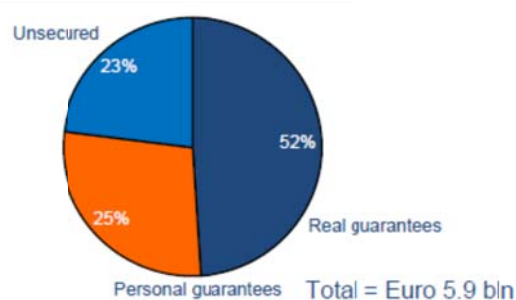
Source: Company data

Veneto Banca and BancApulia - Gross Performing Loans by guarantee type (Sept. 2015)



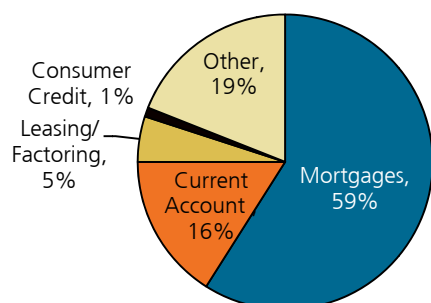
Source: Company data

Veneto Banca and BancApulia - Gross NPE by guarantee type (Sept. 2015)



Source: Company data

Veneto Banca Group - Net performing loans by type (Sept. 2015)



Source: Company data

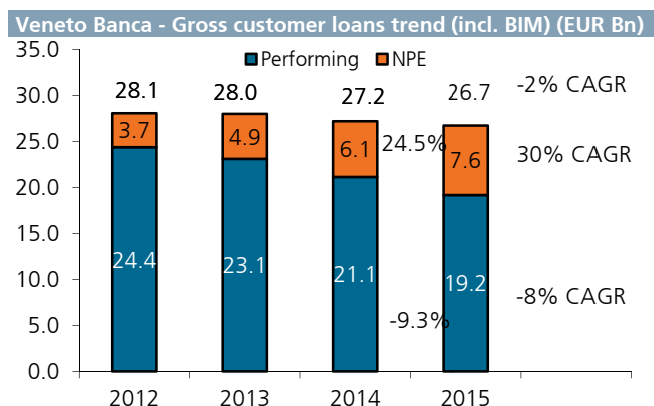
Veneto Banca and BancApulia - Gross loans portfolio concentration

	Gross exposure (EUR M)		Concentration (%)		NPE ratio (%)	
	Dec-14	Sep-15	Dec-14	Sep-15	Dec-14	Sep-15
Top 20	1,212	1,082	5.4	4.8	0.0	0.0
Top 50	1,936	1,837	8.7	8.2	7.4	11.0
Top 100	2,687	2,610	12.0	11.7	13.9	18.2

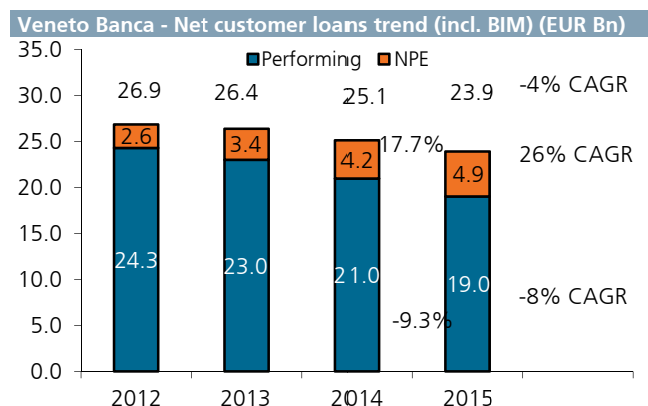
Source: Company data

Veneto Banca group's gross customer loans have slightly declined in the last few years (-1.8% 2012-15 CAGR), with a completely divergent trend between performing loans and non-performing exposure. Driven by a portfolio deterioration and regulatory changes (new definition of NPE from 2014), gross NPE increased at a 29.7% 2012-15 CAGR, while the performing component declined at an 8.4% 2012-15 CAGR. Net customer loans declined at a 4.1% 2012-15 CAGR (of which -8.5% 2012-15 CAGR in performing loans and 26.4% 2012-15 CAGR in NPE).

Loan portfolio recent trends



Different NPE definition from 2014 data; Source: Intesa Sanpaolo Research elaboration on Company data



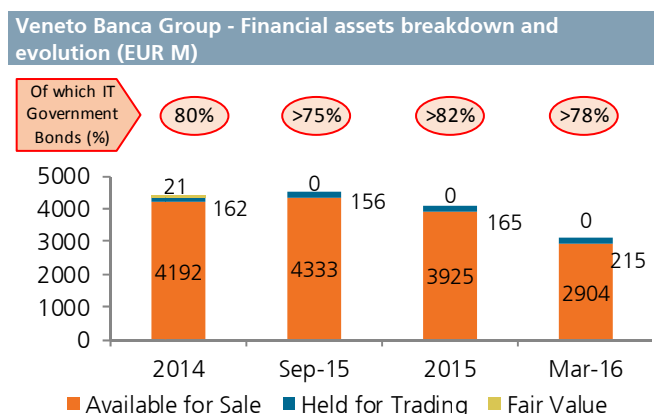
Different NPE definition from 2014 data; Source: Intesa Sanpaolo Research elaboration on Company data

Limited weighting of financial assets

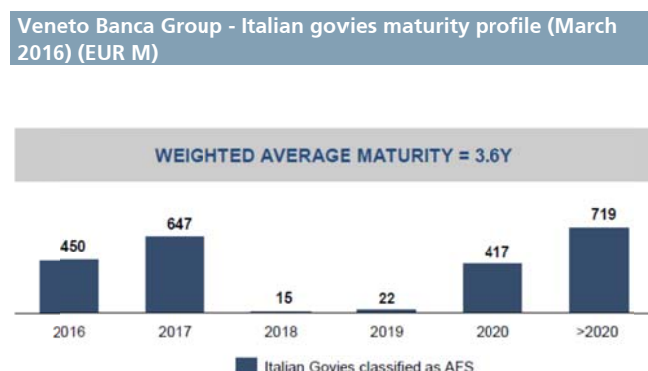
Financial assets of EUR 4.1Bn at December 2015 represented only 13% of consolidated assets (excluding assets under disposal), compared with an average of 20% of the main peers and are mainly concentrated in Italian government bonds (>82% as of December 2015), mostly classified as AFS. Almost 50% of the Italian government bond portfolio will mature in 2016 and 2017. At December 2015, the modified duration of the government bond portfolio was just 0.3 years, while the maturity is over 4 years. As of March 2016, financial assets declined to EUR 3.1Bn, of which EUR 2.4Bn Italian government, with a weighted average maturity of 3.6 years.

Financial assets mainly concentrated on Italian govies

Level 3 securities represent only 1% of total assets (< EUR 0.3Bn) at December 2015, mainly represented by equity shareholdings.



Source: Company data



Source: Company data

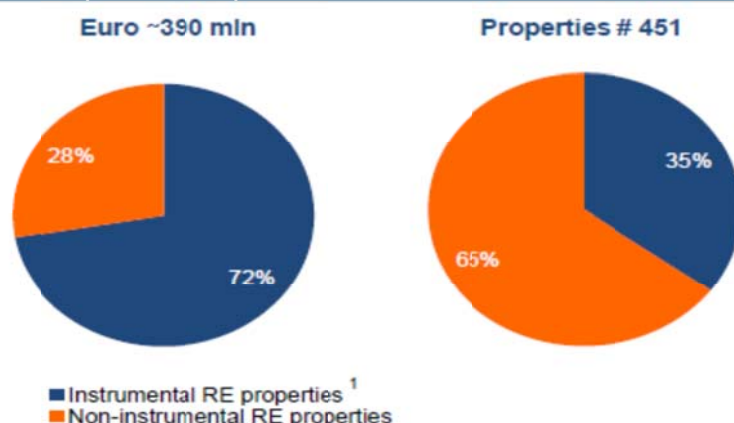
Real Estate portfolio

At December 2015, the Veneto Banca Group owns EUR 390M of real estate (i.e. 1% of total assets), of which EUR 276M for 243 properties in Italy (i.e. EUR 1.1M per property) and EUR 114M for 218 properties abroad (i.e. EUR 548k per property).

Real estate represents 1% of total assets

As of December 2015, 35% of properties are instrumental and represent 72% of the total value (we calculate a total value of EUR 281M, or a EUR 1.78M average per property); 65% are non-instrumental properties and represent 28% of the total value (we calculate a total value of EUR 109M, or a EUR 0.37M average per property).

Veneto Banca Group - Real Estate portfolio (Dec. 2015)



Source: Company data

New business model

The company has recently approved a new business model based on a different segmentation of the customer base and the use of diverse channels for various segments. The aim is to better exploit the potential of the network, by increasing the penetration of products and services among the current customer base and by developing new business.

For individual clients, Veneto Banca will change its current approach, based on two standard asset-based segments ("Mass" and "Affluent") served through a unique branch-based services model and standardised products offering. More than 30% of the current customer base is "online only", while around 43% are physical customers; more than 50% of individuals do not consider Veneto Banca as their reference bank. From June 2016, the new approach will envisage a new customer segmentation divided into six new clusters based on the present value, the potential value and the kind of relationship (digital, multichannel, physical), that will be served by different relationship managers, ranging from call centres for "Mass Clients", up to personal advisors serving a limited number of clients and travelling between different branches for "Self Direct" clients.

New approach to individual clients, based on a new customer and network segmentation

Veneto Banca - New Business Model: Individual clients - New clusters and relationship managers



Source: Company data, as of 31 December 2015

For Small Business clients, Veneto Banca plans to turn around the current standard segmentation based on customer turnover. Currently, the Small Business customer base looks underpenetrated, in our view, considering that only 25% of Small Business Customers make a significant use of credit lines: these clients represent around 75% of Small Business Operating Income and 85% of total loans of the segment. From June 2016, the new business model will incorporate a more accurate segmentation of the customer base (Smart and Top), a more tailor-made service on the basis of client needs (mainly transactional needs for Smart and more advanced needs for Top) and differentiated channels.

New approach for Small Business, based on clients' needs

Veneto Banca - New Business Model: Small Business Clients – New Segmentation and channels



Source: Company data

For Corporate clients, Veneto Banca plans to change the current standard segmentation based on customer turnover. Currently the Corporate customer base looks underpenetrated, in our view, considering that around 12% of Corporate customers have no lending facility with Veneto Banca (only deposits) and only 30% of customers using lending facilities show a working capital usage above EUR 100k. In late 2015, Veneto Banca rolled out a new multi-dimensional segmentation of Corporate clients based on different types of lending facilities (working capital vs. long-term loans), usage and total exposure of working capital facilities and total revenues. These clients are now served by three types of relationship managers.

New approach to Corporate clients, with the aim of improving the penetration

Veneto Banca - New Business Model: Corporate Clients – New segmentation and relationship managers



Source: Company data

Private Banking customers are currently served through 88 dedicated private bankers located in branches, using a similar customer approach as for Individual customers. While private customer loyalty is rather high (80% of private customers have a more than 6-year relationship with Veneto Banca), cross-selling is limited (around 16% of private customers have a cross selling below 2, as they consider Veneto Banca as their secondary bank). From late 2015, Veneto Banca implemented a new distribution model with 11 private specialised branches and 27 private centres (specialised corners inside selected branches). Veneto Banca also plans to strengthen the Private Banking network by hiring 20 new private bankers by 2017.

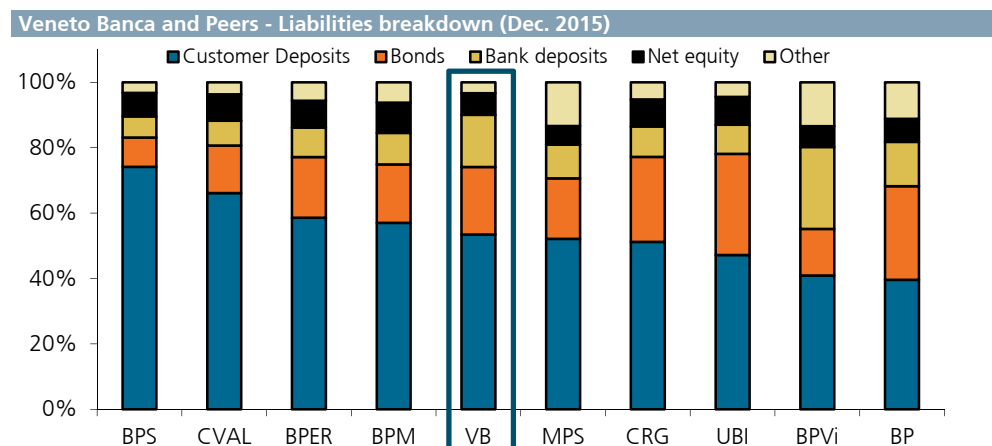
Private Bankers, with dedicated branches and corners

The Private Banking network operates alongside 111 financial promoters mainly located in North East Italy (82 North East, 17 North West, 12 Centre), paid on a commission basis. Financial promoters serve 15k customers, with total assets of EUR 1Bn (EUR 67k per client, or EUR 9M per financial promoter). Since 2015, the financial promoter network is fully integrated with the physical branches network, sharing economic and commercial budget and customer development policies with the branches; it also sells traditional banking products and services (cross selling). Veneto Banca plans to almost double its financial promoter network over its business plan horizon (100 financial promoter hirings).

Financial promoters' network integrated with branches

Direct Funding Penalised by Outflows

Coherent with its nature as a commercial bank, Veneto Banca's direct funding is mainly generated through the branch network.



Source: Intesa Sanpaolo Research elaborations on Companies' data

We consider the funding profile of the company as a weak point, considering the deposit outflows registered in 4Q15 and 1Q16, the higher than average weighting of wholesale funding, the significant exposure to corporate funding, and the maturity profile of funding that translates into a shortage of liquidity for the group as highlighted below:

- In 4Q15, due to the market turmoil over the rescue of four Italian banks and uncertainty around the EGM for the approval of the capital increase and the transformation into a joint stock company, Veneto Banca experienced a significant outflow of customer funding from the commercial network (EUR -3.0Bn, or 15% of direct funding from the network), that was partially replaced in the wholesale market (EUR 1.5Bn qoq, mainly through operations with central counterparties). The outflows were also evident in terms of number of clients: in 2015 Veneto Banca lost 16k clients (i.e. approx. 2% of the client base), which net of the 11k new clients, resulted in a net loss of 5k. The outflows continued in 1Q16, when Veneto Banca experienced an EUR 2.1Bn qoq decline in direct funding, of which EUR 1.5Bn from the commercial network (9% of direct funding of the commercial network). We calculate that, from September 2015 to March 2016, the outflow from direct funding from the network amounted to EUR 4.5Bn, or 22.7% of direct funding from the network;
- This situation is reflected in the liquidity position, which looks stretched: at December 2015, the LCR was 52% (or 53% including BIM), down from 89% at September 2015 and 79% at June 2015 and below the regulatory requirements⁶. At March 2016, the LCR was restored above the minimum requirement at 78%, thanks to a new securitisation of loans, the sale on the market of new securitisations and loan deleveraging. Management expects the LCR to surpass 90% after the EUR 1Bn planned capital increase. Also the NSFR declined at December 2015 to around 88% from 94.5% at September 2015, according to Veneto Banca Financial Reports;
- At December 2016, unencumbered eligible assets were reduced to EUR 1.6Bn (on EUR 5.9Bn eligible assets) from EUR 3.8Bn as of September 2015 (on EUR 6.6Bn eligible assets). Total unencumbered capacity at December 2015 represented only 7% of total funding compared with a 15% average of the main peers (BP, UBI, BPM, BPER).

Deposit outflow in 4Q15 and 1Q16

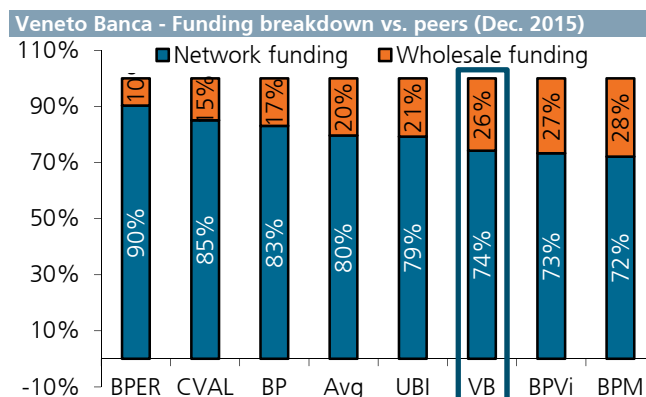
Volatile LCR, close to regulatory limits

Unencumbered eligible assets below peers

⁶ Minimum LCR at 60% from 1 October 2015, at 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018

Veneto Banca - Direct funding trend and composition					
EUR Bn	Dec-14	Sep-15	Dec-15	qoq %	yoy %
Network funding	18.9	19.7	16.7	-15.2	-11.4
Securities issued	4.6	4.0	2.2	-45.8	-52.6
Deposits	14.3	15.7	14.5	-7.5	1.7
Wholesale funding	5.8	4.2	5.8	37.6	0.5
EMTN and securities issued	2.7	2.2	2.4	8.2	-12.1
Securitisation	2.4	2.0	1.7	-14.6	-27.9
Central counterparty CCG	0.7	0.0	1.7	NM	150.7
Total Funding	24.6	23.9	22.5	-5.9	-8.6

NM: not meaningful; Source: Company data



Source: Companies' data and Intesa Sanpaolo Research elaboration

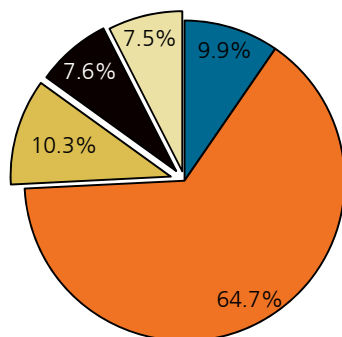
- The outflow from network funding registered in 4Q15 increased the weighting of wholesale funding above peers. Commercial network funding (deposits and securities issued) represented 74% of total group funding, and wholesale funding represented 26% of total funding, as of December 2015. The percentage of funding collected from the commercial network is below that of the main peers⁷ at December 2015;
- As of December 2015, corporate funding (Large Corporate, Mid Corporate and Small Business) represented 34% of direct funding from Network, while Retail and Private funding (the most stable component of funding, in our view) represented only 66% of the funding collected through the network. We assume that at least part of the outflows experienced in 1Q16 from the commercial network may have reduced the weighting of Corporate related funding, but we consider the substantial weighting of Corporate funding as a factor of weakness for the bank, as it tends to be more volatile than retail funding, thus exposing the bank to the risk of significant withdrawals;

Overall, lower than peers weighting of network funding

High weighting of corporate funding

Veneto Banca - Deposit breakdown (Dec. 2015)

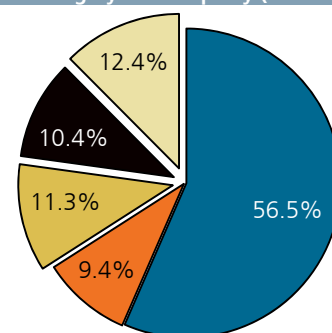
■ Securities issued
 ■ Deposits
 ■ EMTN and securities issued
 ■ Securitization
 ■ Central counterparty CCG



Source: Intesa Sanpaolo Research elaborations on Company data

Veneto Banca - Network funding by counterparty (Dec. 2015)

■ Individuals
 ■ Private
 ■ Small Business
 ■ Mid Corporate
 ■ Large Corporate



Source: Company data

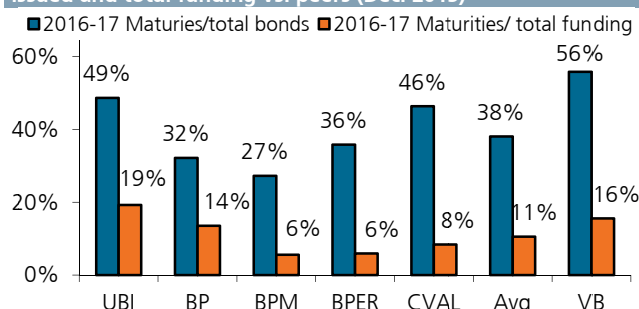
- The Veneto Banca maturities' profile also looks rather stretched: while the loan portfolio is mainly medium/long-term, in 2016 and 2017 EUR 3.5Bn securities issued will mature. Veneto Banca's 2016-17 maturities represent 56% of securities issued, compared with a 38% average of main peers⁸, and 16% of total funding, compared with 11% of main peers.

56% of securities issued maturing in the next two years

⁷ Peers: UBI, BP, BPM, BPER BPVi and CREVAL

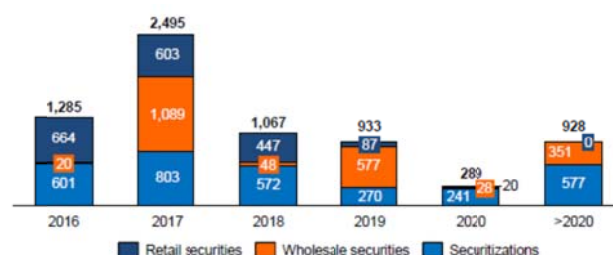
⁸ Peers: UBI, BP, BPM, BPER and CREVAL

Veneto Banca Group – Weighting of maturities in securities issued and total funding vs. peers (Dec. 2015)



Source: Intesa Sanpaolo Research elaboration on Companies' data

Veneto Banca Group - Securities issued maturity profile, Mar 2016 (EUR M)



Source: Company data

- The credit rating of Veneto Banca's parent company is sub investment grade: S&P, B/B Negative Outlook; DBRS, BB/R-4 Negative. On 2 March 2016, S&P downgraded the long-term counterparty credit rating of Veneto Banca from B+ to B, keeping a negative outlook, following the deposit outflows and the weak profitability that worsened the financial profile of the company. On the same date, S&P lowered the issue rating on EUR 145M Veneto Banca preferred securities issued to D (Default) from CCC-, after it missed the dividend payment (EUR 8.8M) on preferred securities on 21 December 2015;

S&P downgrade

Veneto Banca and Peers - Credit ratings

	UBI	BP	BPM	BPER	CVAL	PSO	MPS	CRG	BPVi	VB
S&P										
LT Rating	BBB-	NR	NR	BB-	NR	NR	NR	NR	NR	B
Outlook	Stable	NR	NR	Positive	NR	NR	NR	NR	NR	Neg.
Moody's										
Issuer Rating	Baa2	Ba3	Ba3	NR	Ba1	NR	B2	Caa1	NR	NR
Outlook	Stable	Stable	Stable	NR	Stable	NR	Neg.	Positive	NR	NR
Fitch										
Issuer Rating	BBB	BB	BB+	BB	BB	BBB	B-	B	B-	NR
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	UR-Neg.	NR
DBRS										
Issuer Rating	NR	NR	NR	NR	BBBL	NR	NR	NR	BBL	BB
Outlook	NR	NR	NR	NR	Negative	NR	NR	NR	UR-Neg	Neg.

NR: Not Rated; Source: Bloomberg, Company data, S&P

- The loan to deposit ratio stood at 101% at December 2015, from 97% at December 2014. At March 2016, the LTD increased to 102%.

Veneto Banca has EUR 145M preferred securities (coupon at 6.411% or 3M EURIBOR +275bps from Dec 2017) and EUR 503M of other subordinated bonds, of which EUR 200M issued in December 2015 with a coupon at 9.5%. Only EUR 1M subordinated bonds have been placed to customers through the branches network, according to management.

Interbank exposure mainly through TLTRO

At December 2015, total interbanking exposure was EUR 3.56Bn, or 11% of total assets. Interbanking exposure was mainly with the ECB, with EUR 2.3Bn TLTRO (due to expire in September 2018, at an average cost that we calculated at 0.10%) and EUR 0.7Bn of short-term funding with the ECB.

Veneto Banca Group - Interbanking exposure trend (2013-15)

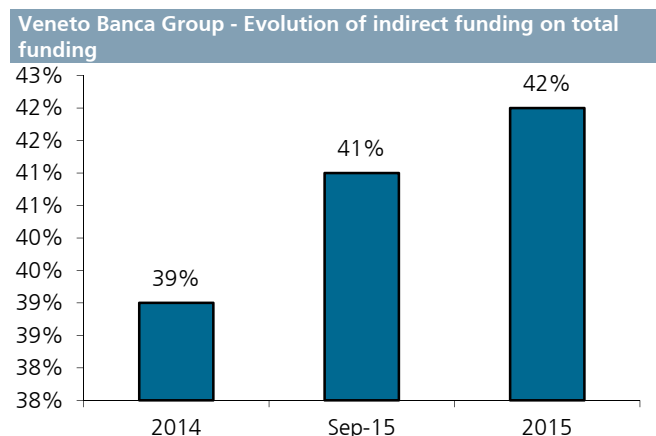
EUR M	2013	2014	2015
Bank loans	1,671	1,480	1,295
Bank deposits	-5,811	-3,735	-4,855
of which LTRO/TLTRO	-3,500	-1,900	-2,290
Interbanking position	-4,141	-2,256	-3,560
Interbanking on total assets (%)	-11	-6	-11

Source: Intesa Sanpaolo Research elaboration on Company data

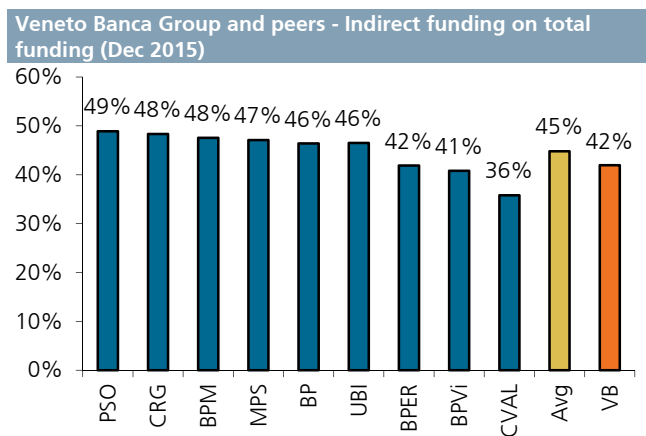
Indirect Funding: Room to Increase Penetration

Veneto Banca shows a delay compared with peers in terms of the evolution of indirect funding, offering it scope to increase the revenues generation from indirect funding and the asset management business, also leveraging on the partnerships in the asset management business, in our view:

- Indirect funding (AUM and AUC) at Veneto Banca Group represented 42% of total funding as of December 2015, increasing from 39% of December 2014, but still standing below the peers' average (45%);

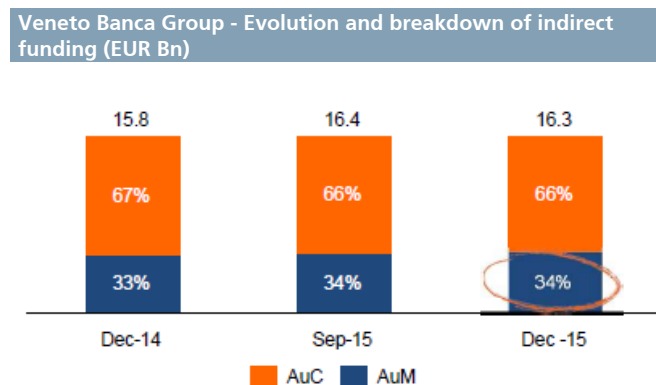


Source: Company data

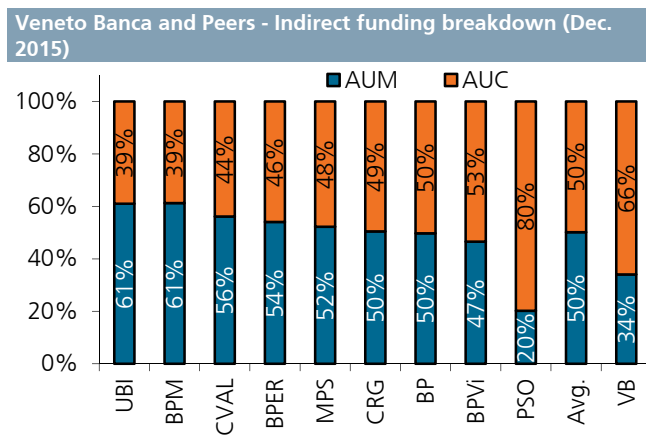


Source: Companies' data and Intesa Sanpaolo Research elaborations

- More importantly, AUM represents only 34% of total indirect funding (compared with 50% of peers), providing the bank with room to increase the penetration of AUM within the indirect funding segment, in our view.



Source: Companies' data and Intesa Sanpaolo Research elaborations

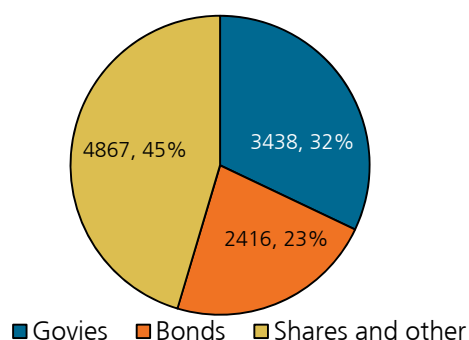


Source: Companies' data and Intesa Sanpaolo Research elaborations

While we see room to improve the stock of AUM, we highlight that the evolution of AUM could be penalised by:

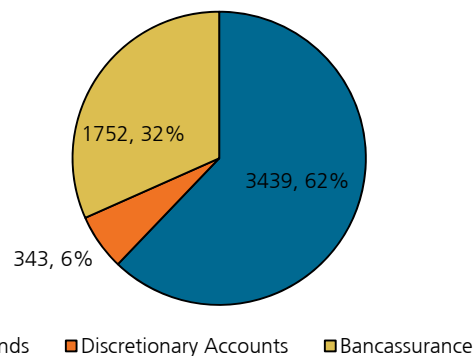
- The need to further improve direct deposits, preventing the strategy of switching from direct funding to AUM: Veneto Banca had a Loan to Deposit ratio at 101% at December 2015 (102% at March 2016), leaving no excess funding to be relocated to AUM, in our view;
- EUR 4.9Bn of AUC were invested in shares, of which EUR 1Bn in non-listed shares (EUR 0.7Bn in Veneto Banca shares), thus limiting the room to switch customer assets from AUC to AUM, in our view.

Veneto Banca Group - AUC breakdown (Dec. 2015) (EUR M)



Source: Company data

Veneto Banca Group - AUM breakdown (Dec. 2015) (EUR M)



Source: Company data

Veneto Banca offers an open architecture in the asset management business through Partnerships with Arca (20% owned by Veneto Banca group), JPM, Symphonia (Veneto Banca Group), Franklin Templeton, Carmignac, Morgan Stanley, BlackRock, Lombard Odier, Julius Baer and Pimco. In the insurance business, partnerships are with Uniqa (life insurance) and HDI (non-life insurance, 100% owned by Talanx).

Open architecture

Asset Quality

In the last couple of years, Veneto Banca has carried out a significant clean-up of the loan portfolio that resulted in reclassifications between loan categories, an increase in loan loss provisions and an improvement in cash coverage.

Veneto Banca Group - Asset quality evolution (2013A-15A)				
EUR M	2013A	2014A	2015A	yoy %
Gross bad loans	2705	2852	3484	22.2
Gross unlikely to pay*	1752	2356	3524	49.6
Gross past due	423	850	547	-35.6
Gross NPE	4880	6067	7555	24.5
Net bad loans	1494	1488	1644	10.5
Net unlikely to pay*	1487	1874	2745	46.5
Net Past due	405	791	497	-37.2
Net NPE	3387	4153	4886	17.6
Coverage bad loans (%)	44.7	47.8	52.8	500 bps
Coverage unlikely to pay* (%)	15.1	20.8	22.1	130 bps
Coverage past due (%)	4.2	6.9	9.3	240 bps
Coverage NPE	30.6	31.6	35.3	370bps
Coverage NPE incl. Write-offs (%)	NA	35.4	37.8	240 bps
Coverage performing loans (%)	0.5	0.8	0.8	-2 bps
Gross NPE/loans (%)	17.4	22.3	28.3	596bps
Net NPE/loans (%)	12.8	16.5	20.4	390bps
Net NPE/TBV (%)	210	184	256	7177bps
Texas ratio (%)	149	140	160	1963bps

Note: *Unlikely to pay are calculated as the sum of Watchlist and Restructured loans in 2013. Including BIM; NA: not available; A: actual; Source: Company data and Intesa Sanpaolo Research elaboration

Veneto Banca's asset quality looks worse than peers in terms of: 1) recent evolution; 2) size of the NPE portfolio; 3) cash coverage of NPE; 4) exposure to forborne; and 5) quality of performing loans. On the other hand, Veneto Banca's coverage of performing loans is above the average and coverage of NPE are broadly in line with peers, when collateral is taken into consideration.

We calculated that asset quality deteriorated in 2015 ahead of peers, both in terms of gross bad loans ("Sofferenze"), which increased by 22.2% yoy at Veneto Banca vs. the 12.7% peers' average, and gross NPE, which increased by 24.5% yoy at Veneto Banca vs. the 9.3% peers' average. This trend was also driven by the new regulatory framework introduced by the ECB, a stricter internal approach to credit that resulted in changes to the models following the results of the AQR in 2014, and the underlying deterioration of the loan book. All these factors impacted the evolution of the asset quality and thus it is not possible to extract the deterioration of the underlying portfolio.

Asset quality deteriorated ahead of peers

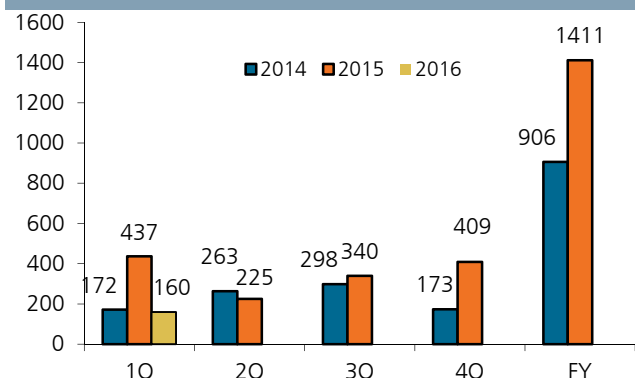
Veneto Banca Group - Gross NPE and bad loans evolution vs. peers (2015)				
%	NPE		Bad loans ("Sofferenze")	
	qoq	yoy	qoq	yoy
UBI	-1.6	3.0	1.0	6.7
BP	-4.0	-4.7	-4.6	-0.5
BPM	-2.3	2.5	-1.9	7.5
BPER	0.1	3.6	3.5	9.6
CVAL	3.7	10.6	2.4	12.3
PSO	5.3	21.5	4.3	27.1
BPVi	NA	38.4	NA	28.4
CRG	0.3	8.6	3.1	13.7
MPS	-1.3	3.4	1.2	9.4
Average	0.1	9.3	1.2	12.7
VB	5.8	24.5	4.4	22.2

Note: Including BIM Source: Intesa Sanpaolo Research elaboration on Companies data

In 2015, the two main commercial banks of the group experienced a net inflow of gross NPE of EUR 1.4Bn: the net flow from performing to NPE was particularly strong in 1Q15 and 4Q15.

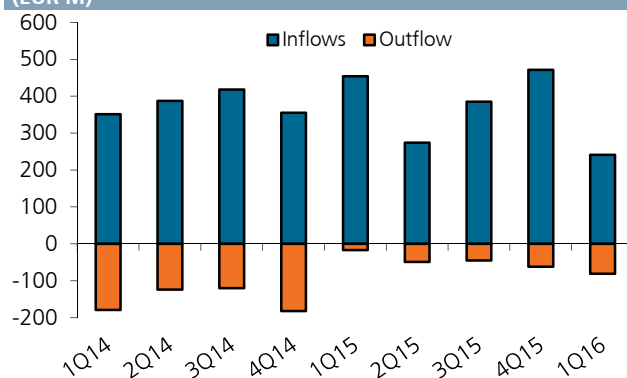
Asset quality has not yet stabilised, and according to management, NPE is expected to peak in 2016. However, recent trends show a decline in the inflow from performing loans to NPE (the inflow from performing to NPE in 1Q16 was the lowest since 1Q14) and a progressive increase of outflows from NPE to performing loans (since 2Q15).

Veneto Banca+ BancApulia – Total NPE Net inflow (EUR M)



Note: 1Q15 Normalised; Source: Company data

Veneto Banca + BancApulia – Total NPE flow from/to Performing (EUR M)



Note: 1Q15 Normalised; Source: Company data.

The weighting of net NPE in total loans and on TBV is higher vs. the average of competitors:

NPE weighting above peers

- Net NPE ratio was 20.4% at Veneto Banca, compared with a 15.9% average by peers;
- Gross NPE ratio was 28.3% vs. a 23.9% average by peers;
- The net NPE/TBV ratio was 256% at Veneto Banca compared with 157% by peers;
- The Texas ratio was 160% in December 2015, compared with a 123% average of peers.

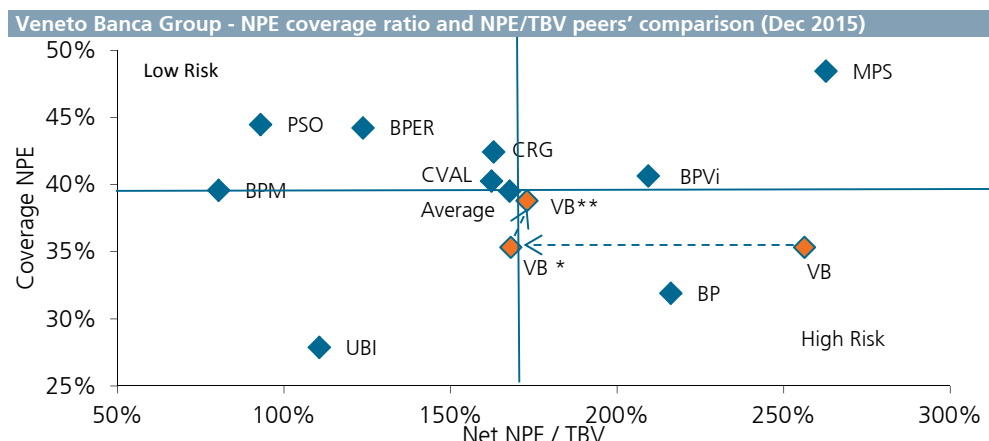
Veneto Banca Group vs. peers - Asset quality ratios (2015)

%	UBI	BP	BPM	BPER	CVAL	PSO	BPVi	MPS	CRG	Avg	VB
Net NPE ratio	11.5	17.9	10.6	14.5	17.6	9.8	21.1	21.7	18.3	15.9	20.4
Gross NPE ratio	15.1	24.2	16.3	23.3	26.5	16.3	30.9	34.8	27.8	23.9	28.3
NPE/TBV	111	216	80	124	161	90	209	263	163	157	256
Texas Ratio	107	158	87	112	129	94	145	147	129	123	160

Note: Texas ratio calculated as Gross NPE/(cash provisions on NPE + tangible book value + minorities); Source: Intesa Sanpaolo Research elaborations and estimates on companies' data.

We highlight that after the planned recapitalisation of EUR 1Bn, the NPE/TBV ratio would decline to 171% and the Texas Ratio to 133%, positioning Veneto Banca closer to its peers.

We believe that the planned EUR 1Bn rights issue coupled with an increase in coverage ratios towards the peers' average (at 38.8% as targeted in the company's business plan) would align the company's risk profile to the average of peers, as shown in the chart below.



Note: * Pro-forma post planned capital increase; ** Pro-forma post planned capital increase and coverage increase envisaged in the 2018 BP; Source: Intesa Sanpaolo Research elaboration on companies' data

Despite a gradual increase of cash coverage in the last few years, cash coverage of NPE remains lower compared with the main peers, as a result of two effects:

- A higher weighting of the unlikely-to-pay and the past due categories (which have lower coverage ratios compared with bad loans), which represents 54% of Veneto Banca's NPE, compared with 48% by peers. A higher than average weighting of UTP embeds a higher than average risk of deterioration of the asset quality, in our view, as UTP tends to migrate towards bad loans requiring additional provisions;

Higher weighting of unlikely-to-pay

Veneto Banca Group – Gross NPE breakdown (2015)											
%	UBI	BP	BPM	BPER	CVAL	PSO	BPVi	MPS	CRG	Avg.	VB
Bad loans	52	51	55	62	50	45	49	57	51	52	46
Unlikely to pay	46	48	44	35	44	43	50	37	44	43	47
Past due	2	1	2	2	6	11	2	6	4	4	7

Source: Intesa Sanpaolo Research elaboration on companies' data

- A lower cash coverage on all the NPE categories and mainly on unlikely-to-pay, at 22% vs. 25% average, and on past due, at 9% vs. 13% average.

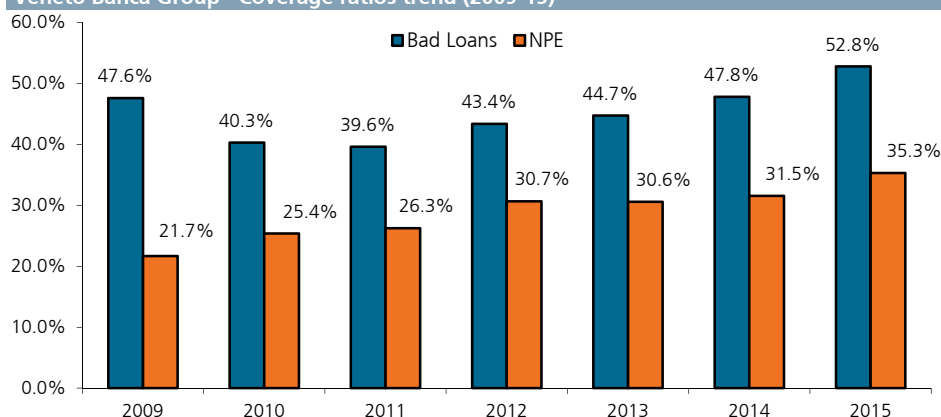
Cash coverage below peers...

Veneto Banca Group - Cash Coverage of NPE vs. peers (2015)											
%	UBI	BP	BPM	BPER	CVAL	PSO	BPVi	MPS	CRG	Average	VB
Bad loans	38.6	38.3	54.5	58.2	57.1	61.9	56.8	63.4	60.4	54.4	52.8
Unlikely to pay	16.7	25.4	22.1	21.9	25.5	34.3	25.8	29.2	24.2	25.0	22.1
Past due	4.9	20.5	9.2	10.0	9.0	14.0	12.2	26.0	14.8	13.4	9.3
NPE	27.9	31.9	39.6	44.2	40.3	44.5	40.6	48.5	42.4	40.0	35.3
Bad loans incl. Write-offs	52.5	56.3	60.8	64.4	59.3	NA	59.3	NA	62.6	59.3	56.4
NPE incl. Write-offs	37.4	43.7	44.5	49.7	41.3	NA	42.4	NA	44.2	43.3	37.8

Source: Intesa Sanpaolo Research elaboration on companies' data

Coverage on NPE progressively increased, mainly in the last couple of years, following the result of the AQR (2014) and the more stringent criteria of the classification adopted by the company (2015). NPE coverage increased from 21.7% in 2009 to 35.3% as of December 2015 (+13.6pp). Bad loans cash coverage started improving in 2012 and reached 52.8% in 2015 (+52bps since 2009).

Veneto Banca Group - Coverage ratios trend (2009-15)

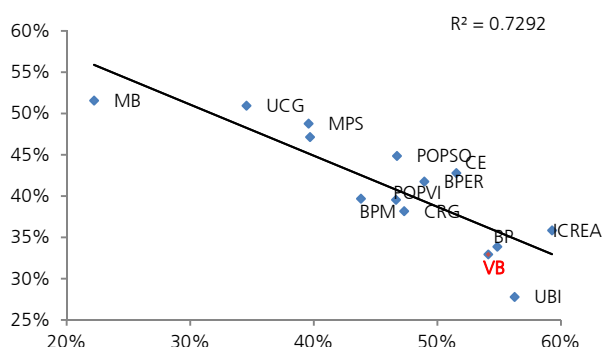


Source: Intesa Sanpaolo Research elaboration on companies' data

Although cash coverage is below the peers' average, including guarantees, Veneto Banca's total coverage of NPE seems more in line with other Italian banks when collateral is taken into consideration. Based on EBA data, as of June 2015, the sum of cash coverage and collaterals was in line with the average of Italian banks under ECB supervision.

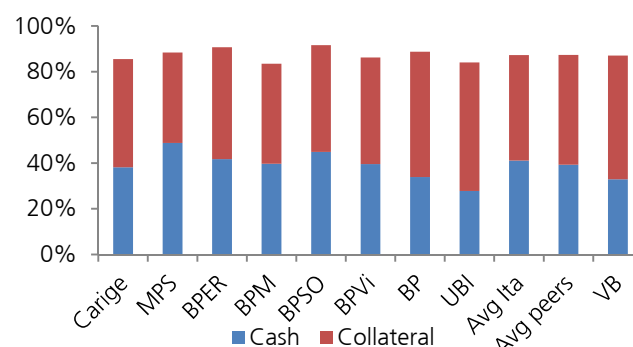
...but in line with peers
when collateral is taken
into account

Total Peers NPE - Cash coverage vs. guarantees (June 2015)



Source: Intesa Sanpaolo Research elaboration on companies' data; EBA Transparency Exercise. X= collateral coverage; Y= cash coverage;

Total Peers NPE - Cash coverage + guarantees (June 2015)



Source: Intesa Sanpaolo Research elaboration on companies' data; EBA Transparency Exercise

At December 2015, the fair value of collateral (including real and personal guarantees), amounted to 121% of NPE at Veneto Banca and 86% of bad loans; adding the value of collateral to the cash coverage, NPE would be covered at 156% and bad loans at 136%.

VB+BAP - Cash coverage and collateral value (Dec 2015)

%	Cash Coverage	Value of real guarantees capped at the value of the gross exposure	Cash coverage + value of real guarantees capped	Fair value of collateral	Cash coverage + fair value of collateral
NPE	35.3	52.4	87.7	121.2	156.5
Bad loans	50.7	42	92.7	85.5	136.2
UTP	20.4	60.4	80.8	148.2	168.6
Past due	9.8	61.9	71.7	155.8	165.6

Source: Company data

The level of cash coverage is coherent with the amount of collateral: considering Veneto Banca and BancApulia, the level of cash coverage increases with a decrease in collateralisation: unsecured NPE have a 63.4% cash coverage, while NPE with real guarantees as collateral have a cash coverage of 24%.

VB+BAP - Cash coverage on secured and unsecured positions			
%	NPE	Bad loans	UTP
Cash coverage	35.3	50.7	20.4
o/w cash coverage on loans assisted by real guarantees	24.0	41.4	16.8
o/w cash coverage on loans assisted by personal guarantees	44.7	54.5	30.7
o/w cash coverage on unsecured loans	63.4	64.5	29.3

Source: Company data

On the quality of collateral, we highlight that: 1) 61% of VB's and BAP's real estate collateral are located in the North Italy (of which 33% in Veneto); and 2) 34% of real estate collateral on NPE is represented by residential real estate.

Veneto Banca Group - NPE assisted by collateral: Type of real estate asset (Sept. 2015)	
	%
Luxury	5.7
Residential	34.1
Hotel	13.2
Commercial	18.2
Industrial	12.5
Other	16.3

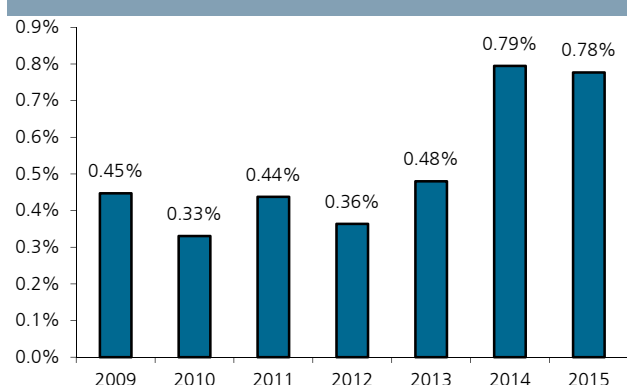
Source: Company data

The company monitors the value of guarantees through independent third parties (Nomisma), with impairments performed on an annual basis: real estate assets worth more than EUR 3M are physically appraised at least once every 3 years (60% has been appraised in the last 12 months, according to management); collateral with lower values are automatically revalued on the basis of statistical measures carried out by Nomisma. Out of a total value of EUR 32.3Bn of collateral, 98% has an appraisal or valuation age lower than 12 months.

While cash coverage of NPE is below peers' average, by contrast, cash coverage on performing loans is currently above the peers' average, after the significant increase reported in the last two years (from 0.45% in 2009 to 0.78% in 2015). The higher weighting of past due among performing loans discussed below could at least partially explain the higher coverage.

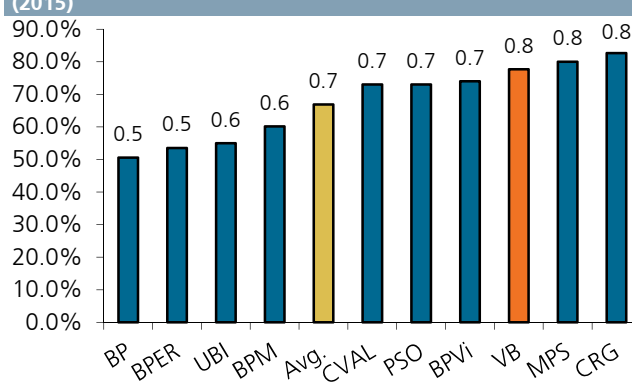
Coverage of performing loans above peers

Veneto Banca Group - Coverage of performing loans (2009-15)



Source: Intesa Sanpaolo Research elaboration on Company's Annual Reports and Company data

Veneto Banca Group - Coverage on performing loans vs. peers (2015)

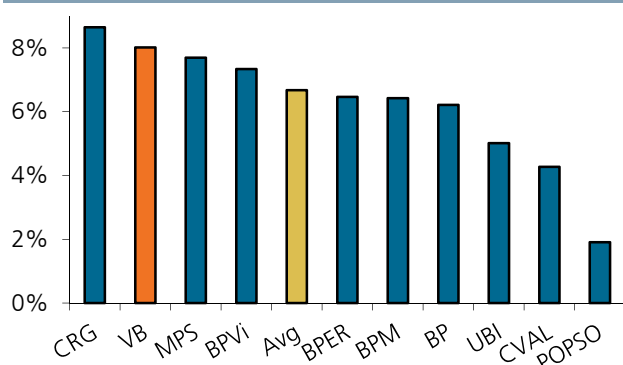


Source: Intesa Sanpaolo Research elaboration on Companies data

On the basis of 2015 Financial Statements, we calculate that Veneto Banca has higher than average forborne exposures: Veneto Banca's forbearance ratio (forborne credit exposures towards clients on total credit exposures) stood at 8.0% at December 2015, above the average of selected peers (6.7%); moreover, the coverage of forborne exposure was below the average of selected peers (13.8% compared with the 16.1% simple average of selected peers as of December 2015).

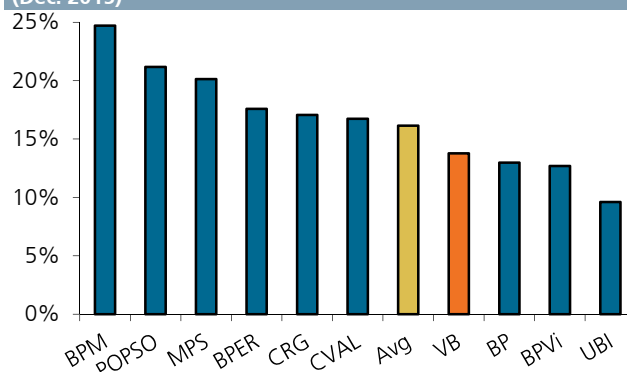
Higher than peers' exposure to forborne

Italian Banks: Forborne exposure on total credit exposure towards clients (Dec. 2015)



Source: Intesa Sanpaolo Research elaboration on Companies' data

Italian Banks - Coverage of forborne exposures towards clients (Dec. 2015)

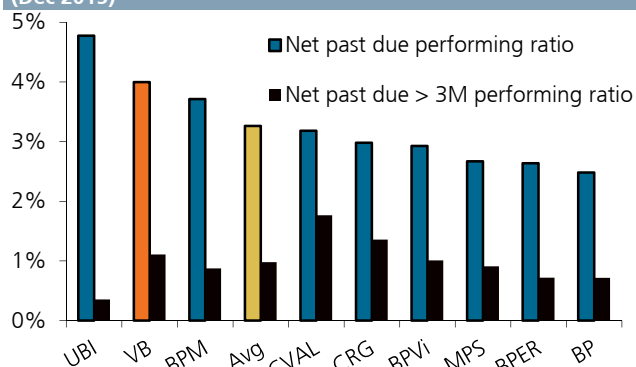


Source: Intesa Sanpaolo Research elaboration on Companies' data

Veneto Banca has a higher than peers' weighting of past due between performing credit exposures (4% vs 3.3% average); however past due over 3 months represent 1.1% of performing credit exposure, broadly in line with the average of peers. Coverage on past due performing exposure is below the average of selected peers 1.1% vs. 2% average). We calculated that the forbearance ratio of performing loans was slightly above peers (3% vs .2.8% of main peers).

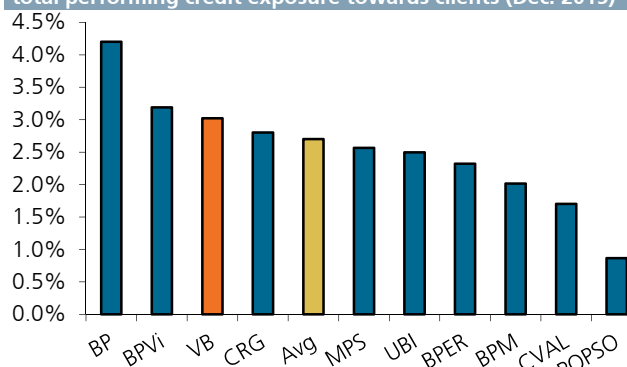
Higher than peers' weighting of past due in performing loans

Veneto Banca and Peers - Past due Performing exposures (Dec 2015)



Source: Intesa Sanpaolo Research elaboration on Companies' data

Veneto Banca and Peers - Performing Forborne exposure on total performing credit exposure towards clients (Dec. 2015)



Source: Intesa Sanpaolo Research elaboration on Companies' data

The NPE portfolio shows a lower than peers vintage, as only 63% of NPE has been in that position for more than one year, compared with the 73% average of peers. More specifically, only 88% of bad loans has been in that position for more than one year, compared with the 97% peers average, demonstrating that the clean-up process at Veneto Banca has started later than peers, and the recovery process may therefore be longer than peers. We also highlight that 42% of past due has been in that position for more than one year, compared with the 24% peers' average, signalling a higher than peers' risk profile of the past due category at Veneto Banca, in our view. We think these two characteristics of the vintage of the NPE portfolio may increase the risk of migration between the risk categories and the need to increase the coverage, in the next few years.

Vintage of NPE

Veneto Banca - Vintage of NPE portfolio (Dec. 2015)

%	Bad loans	UTP	Past Due	NPE
0-3 Months	0	37	15	19
3-6 Months	5	5	16	6
6-12 Months	7	15	27	12
More than 12 Months	88	43	42	63

Source: Intesa Sanpaolo Research elaboration on Company data

Peers - Vintage of NPE portfolio (Dec. 2015)

%	Bad loans	UTP	Past Due	NPE
0-3 Months	1	33	12	15
3-6 Months	1	4	23	3
6-12 Months	2	14	40	8
More than 12 Months	97	49	24	73

Source: Intesa Sanpaolo Research elaboration on Company data. Veneto Banca Peers: UBI, BP, BPM, BPER, CVAL, BPS, BPVi, MPS, CRG

Capital Base

The capital base is another key issue for the Veneto Banca Group.

At December 2015, the CET1 phased in of the Veneto Banca Group stood at 7.23%, down by approx. 220bps, compared with December 2014. At December 2015, the CET1 FL was 6.8%.

Veneto Banca - Capital ratios evolution (2014-15)				
EUR M	2014	Phased-in Sep-15	Dec-15	Fully Loaded Dec-15
CET1	2,313	1,728	1669	1575
TIER1	2,313	1,728	1670	1584
Total capital	2,503	1,974	2093	1978
RWA	24607	24281	23091	
o/w Credit Risk	22208	21872	20832	
o/w Market Risk	435	429	352	
o/w Operational Risk	1965	1980	1908	
CET1 ratio (%)	9.4	7.1	7.2	6.8
TIER1 ratio (%)	9.4	7.1	7.2	
Total capital ratio (%)	10.2	8.1	9.1	
Total RWA/ Tang. Assets (%)	69.0	68.6	69.5	
Credit Risk/Loans (%)	88.4	98.2	87.1	

Source: Company data and Intesa Sanpaolo Research elaboration

On 20 November 2015, the ECB set a SREP requirement of 10% for Veneto Banca that will increase to 10.25% from 30 June 2016. The SREP requirement set for Veneto Banca was among the highest requested of Italian banks under the ECB supervision, as shown in the table below; on the other hand, Veneto Banca's capital requirements are broadly in line with those of banks included in the same risk class number 4 (Veneto Banca, MPS, Carige and Banca Popolare di Vicenza).

ECB SREP requirement of 10.25% for Veneto Banca

Italian Banks - SREP requirements		
%	SREP requirements (%)	Note
Carige	11.25	
Credito Valtellinese	8.3	
Mediobanca	8.75	
Banco Popolare	9.55	
Banca Popolare di Milano	9.0	
UBI Banca	9.25	
Banca Popolare dell'Emilia Romagna	9.25	
Banca Monte Paschi di Siena	10.2	10.75% in 2017
Unicredit	10.0	9.75%+0.25% as G-SIB
Credito Emiliano	7.0	
Banca Popolare di Vicenza	10.25	
Average ex Veneto Banca	9.4	
Veneto Banca	10.0	10.25% from 30 June 16

Note: Average includes Intesa Sanpaolo; Source: Companies' data and Intesa Sanpaolo Research elaborations

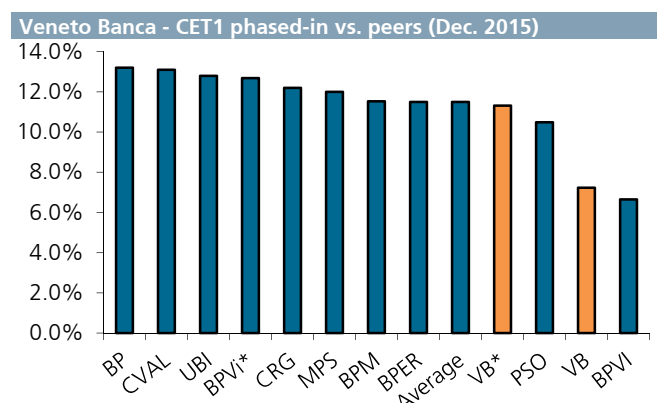
As of December 2015, Veneto Banca's capital embedded a 277bps deficit (or EUR 640M), compared with the SREP requirement of 10%, and 3pp or an approximately EUR 700M deficit compared with the 10.25% SREP requirement that Veneto Banca has to maintain from 30 June 2016. Compared with CET1 FL, the capital deficit versus the June 2016 SREP requirement was 345bps or approx. EUR 790M. Moreover, the total capital ratio was below the regulatory requirements under Basel 3 at December 2015 (9.1% vs. 10.5%).

This situation was generated despite Veneto Banca completing a rights issue for EUR 499M and converting EUR 367M of outstanding convertible bonds in 2014.

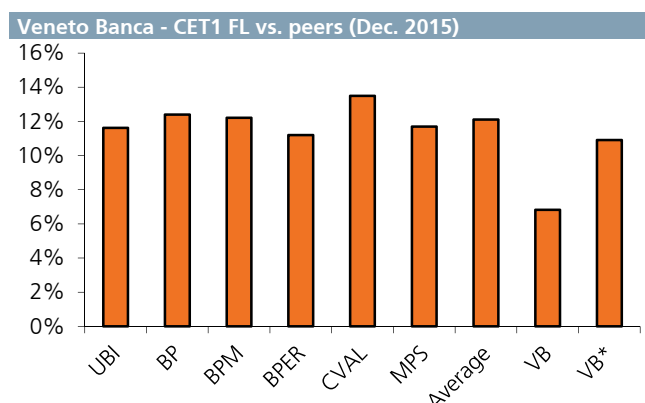
On 13 July 2015, Veneto Banca presented a capital strengthening plan to the ECB that envisages a share capital increase of EUR 1Bn (with a positive impact of approximately 410bps on December 2015 data).

If the capital increase is not completed, the bank would not be able to comply with the supervisory capital requirements, and could be subject to the resolution measures foreseen by the BRRD. However, two elements mitigate this risk, in our view: 1) on 23 December 2015, the bank announced that a consortium of guarantees for the capital increase and the IPO had been established; 2) on 28 April 2016, the Atlante fund was established with the aim of acting as a backstop facility in the capital increases of banks with regulatory capital below the SREP requirements (such as Veneto Banca). Should the capital increase not be entirely subscribed by the market, we believe Atlante fund could cover the difference, as has recently been the case in the Banca Popolare di Vicenza offering (where the Atlante Fund subscribed for in excess of 99% of the bank's capital increase).

Following the planned capital increase, the CET1 phased-in pro-forma as of December 2015 should increase to 11.3%, broadly in line with the average of competitors; on a FL basis, the CET1 would increase to 10.9%.



*Post planned capital increases; Source: Intesa Sanpaolo Research elaboration on Companies' data

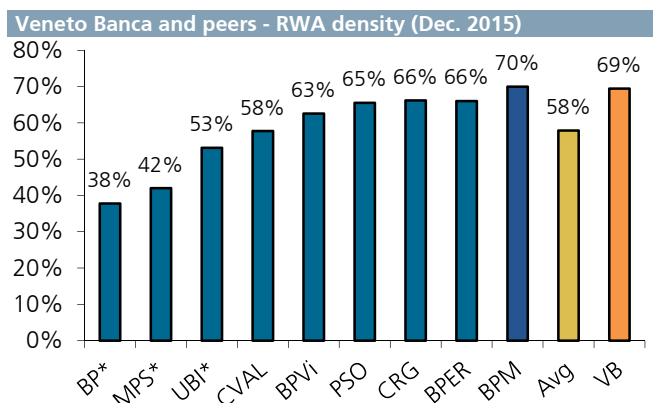


* Post planned capital increase; Source: Intesa Sanpaolo Research elaboration on companies' data; based on peers reporting the CET1 FL

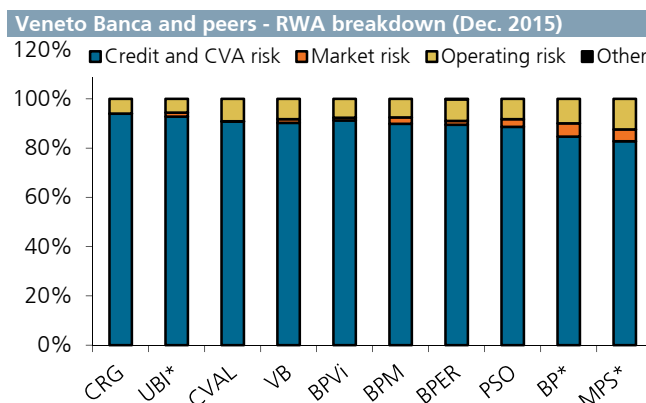
Although the CET1 is below the peers average, we highlight that: 1) Veneto Banca has an above-peers RWA density, embedding a RWA optimisation potential; 2) it has a leverage ratio in line with peers, improving after the planned capital increase; 3) the weighting of the Italian government bonds is below peers; and 4) it includes a filter required by the regulator on financed shares for EUR 297M (i.e. 129bps) that could be removed with the reimbursement of the underlying loans. Below we take a look at these factors in more detail:

- **RWA density above peers:** different to some competitors (UBI, BP, MPS), Veneto Banca calculates the RWA on the basis of the standardised models. This translates into a RWA density well above peers: 69% vs. the 58% average of peers, according to our calculations. This embeds a potential capital relief should Veneto Banca receive the validation of the advanced models. We understand that the bank is not working on these models and we therefore do not expect the validation of Veneto Banca's models any time soon.

RWA density above peers

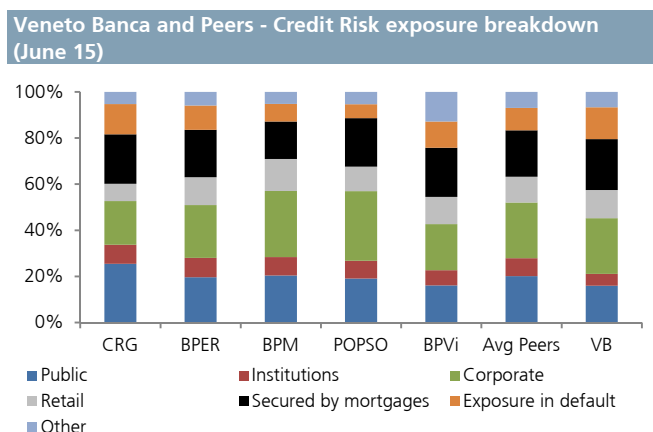


Note: * Companies with validated AIRB Models; Source: Intesa Sanpaolo Research elaboration on companies' data

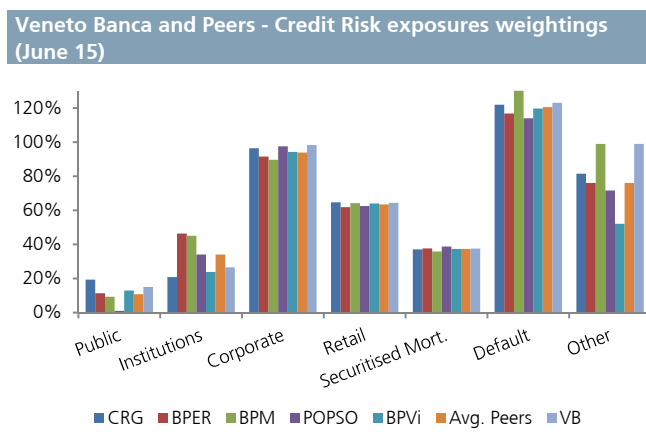


Note: * Companies with validated AIRB Models; Source: Intesa Sanpaolo Research elaboration on companies' data

We highlight that Veneto Banca's RWA density is also above that of banks that are still using the standardised models (69% vs. 64%). We believe that the higher RWA density compared with other banks that use the standardised models can be explained by the lower percentage of government bonds (zero weighting) on total assets as discussed below. Moreover, taking as a reference the outcome of the EBA transparency exercise, we highlight a higher than average exposure to corporate and defaulted and a higher than average Credit Risk weighting of defaulted exposures at Veneto Banca, leaving room for a potential RWA optimisation, in our view, before any potential validation of the advanced models;



Source: EBA Transparency Exercise



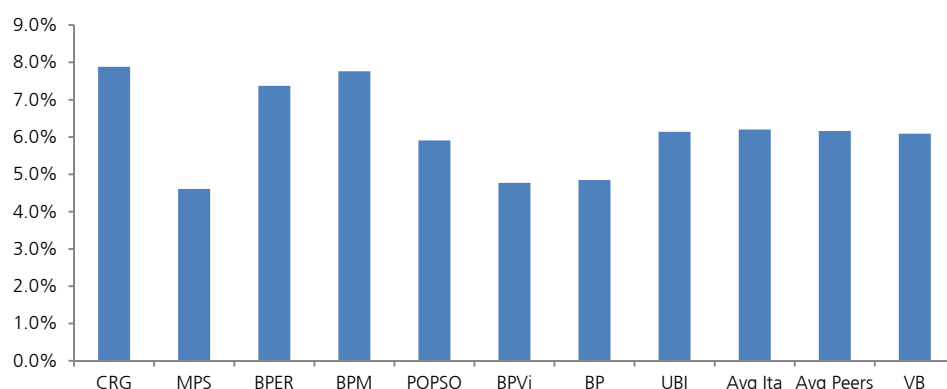
Source: EBA Transparency Exercise

- **The leverage ratio is in line with the average of Italian banks under ECB supervision:** at June 2015, Veneto Banca's leverage was in line with the average of peers and Italian banks under the ECB supervision⁹. As of December 2015, after incorporating the net loss reported in FY15, the leverage ratio declined to 5.2%, remaining above the 3% minimum required by the regulator from 2016; the leverage ratio should improve after the completion of the EUR 1Bn capital increase;

Leverage ratio in line with peers

⁹ Source: EBA Transparency exercise
http://www.eba.europa.eu/documents/10180/1280454/IT_549300W9STRUCJ2DLU64_TR_2015.pdf

Italian Banks - Leverage ratio (June 2015)

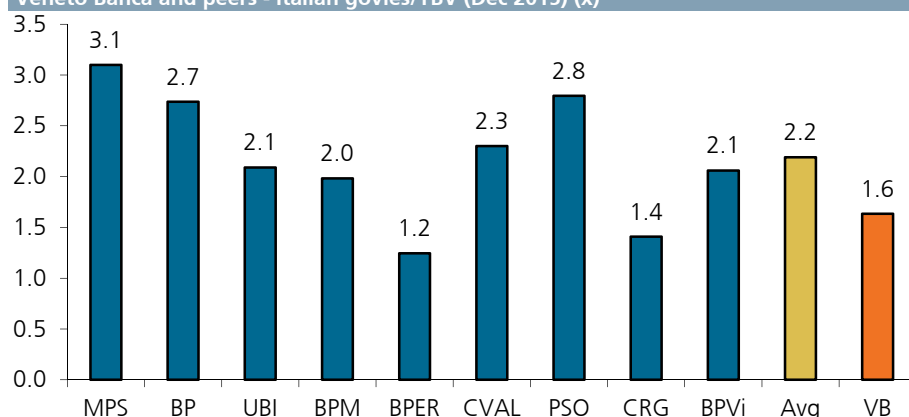


Source: EBA Transparency Exercise

- **Weighting of sovereign exposure to Italian govies is below the peers' average:** total sovereign exposure represents 1.6x the tangible book value at Veneto Banca (gross of minorities), compared with the 2.2x peers' average. This exposes Veneto Banca to lower than average risks should regulation on the weighting of sovereign exposure become more penalising for banks, in our view;

Lower weighting of Italian government bonds

Veneto Banca and peers - Italian govies/TBV (Dec 2015) (x)



Source: Intesa Sanpaolo Research elaboration on Companies' data

- **Veneto Banca's CET1 includes a negative filter for EUR 297M (i.e. 118bps) related to financed shares.** This negative filter was required by the regulator and sterilised the capital related to shares whose subscription was financed by the bank itself ("Financed shares"). The financed shares represent 6% of total shares and 1% of shareholders. This filter could be removed with the reimbursement of the underlying loan.

Financed shares

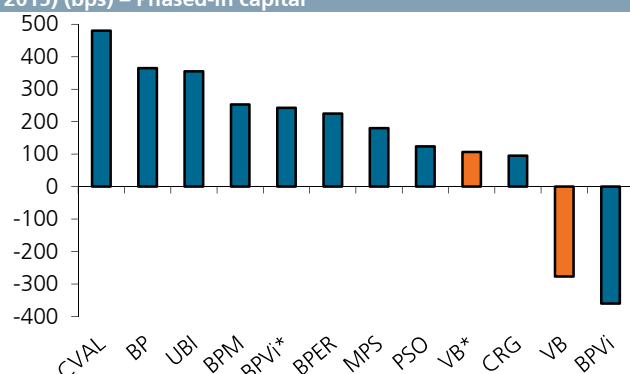
We also highlight that shares representing less than 3% of the outstanding shares could be potentially assigned to shareholders that subscribed to the 2014 rights issue and bondholders who subscribed to the convertible bond in 2013 (converted in 2014), provided they keep their shares up to 2017 ("Bonus Shares"). The planned EUR 1Bn capital increase would dilute the weighting of these bonus shares.

Bonus shares

Although the capital base would be in line with the average of Italian peers after the planned capital increase, we note that the buffer on the SREP requirement would remain below the average of peers (106bps vs. 258bps of selected peers).

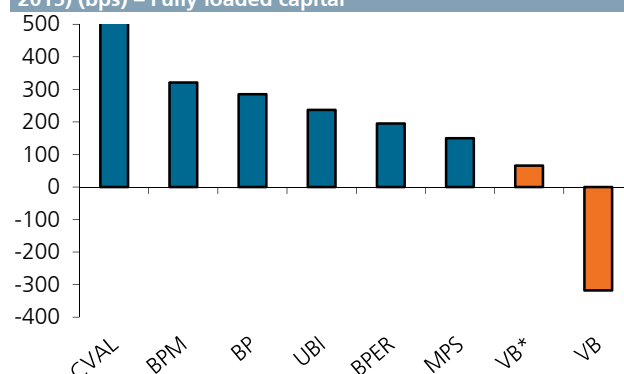
Buffer over SREP below peers

Veneto Banca and Peers - Buffer on SREP requirements (Dec. 2015) (bps) – Phased-in capital



Note: *Post planned capital increase; Source: Intesa Sanpaolo Research elaboration on Companies' data

Veneto Banca and Peers - Buffer on SREP requirements (Dec. 2015) (bps) – Fully loaded capital



Note: Based on peers announcing the CET1 FL; *Post planned capital increase; Source: Intesa Sanpaolo Research elaboration on Companies' data

We therefore believe that the company could take action to improve its capital base in order to build up a safety cushion on the regulatory requirements, similar to peers.

Actions to strengthen the capital base

In addition to the EUR 1Bn capital increase already planned, we see the most likely actions as being:

- A disposal of BIM (included in the business plan);
- A disposal of foreign branches/banks (included in the business plan);
- A disposal of real estate;
- A disposal of the product factories Arca, leasing and factoring.

BIM has been under disposal since 2013. On 7 August 2014, Veneto Banca agreed to dispose its 51.4% stake in BIM to a consortium of investors¹⁰ for EUR 289M (i.e. EUR 3.6/share, corresponding to a valuation of EUR 558M for 100%). In June 2015, the consortium failed to obtain authorisation from the ECB for the acquisition of the majority stake in BIM, and in September 2015 Veneto Banca announced the termination of negotiations with the consortium of investors. In October 2015, Veneto Banca started exclusive negotiations with BSI while on 27 November 2015, BSI formally advised Veneto Banca that it was unable to set a fixed timeframe for the continuation of the negotiations, due to internal problems at BSI; Veneto Banca thus decided to re-open negotiations with other potential national and international buyers. According to management, talks are currently underway with other investors.

BIM

The disposal of BIM is included in the company's business plan. As per management's comments, this disposal would produce a positive impact of approximately 50bps on the capital base, mainly thanks to the deconsolidation of EUR 1.4Bn of RWA, partially offset by the de-recognition of minorities, in our view.

Foreign banks are not considered as core by management: Foreign banks have aggregate total assets of EUR 1.7Bn and total loans for EUR 1.2Bn and RWA for EUR 1.3Bn. Assuming a disposal with no impact on the capital base, we estimate that the deconsolidation of the foreign banks' RWA could generate 65bps of additional capital; management guided for an overall positive impact of approx. 40bps, probably incorporating a negative impact on the capital base. The disposal of foreign banks is included in the company's business plan.

Foreign banks

¹⁰ Gestinter S.p.A., MA.VA. s.s., Duet Alternative Investments (UK) Ltd. in the name and on behalf of Duet BIM Ltd., MI.MO.SE. S.p.A., Romed S.p.A., Piovesana Holding S.p.A., Pietro S.p.A., Dad&Son S.r.l., Pietro Boffa, Castello s.s., Artex S.r.l., Mario Piantelli, Luca Cordero di Montezemolo, Valentina Nasi, Gianfranca Cullati, Marta Viani, Fabio Viani, Turati Investments S.r.l., Italvalv S.r.l., Serfin S.r.l. and Alessandro Federici

Veneto Banca holds product factories in leasing and factoring businesses. Claris Leasing and Claris Factor, fully owned by Veneto Banca, have total loans of EUR 0.9Bn (as of December 2015). We estimate that the deconsolidation of RWA of the product factories (that we estimate at EUR 0.8Bn) could generate 38bps of capital. The disposal of the product factories is not included in the company's business plan.

Leasing and factoring

Veneto Banca holds a 19.99% stake in Arca SGR. The press (Il Sole 24 Ore) recently reported that Arca's shareholders had given a mandate to Mediobanca and Rothschild in order to find the best solution for the valorisation of their investments in the asset management company (a combination with a financial or an industrial partner or a potential IPO). We believe that the final solution for Arca will also depend on the potential changes affecting its current shareholder basis in the context of the Popolari banks' possible M&A combinations.

Arca

In 2015 Banco Popolare disposed of its 19.9% stake at EUR 480M (value for 100% of Arca). Following Banco Popolare's exit, Arca's main shareholders are BPER (32.752%), BPS (21.137%), Banca Popolare di Vicenza and Veneto Banca (each holding a 19.99% stake).

In 4Q15 the Italian press (Il Sole 24 Ore and MF) reported that several players, including the private equity funds Atlas Merchant Capital, Centerbridge and Ardian, were interested in or had presented offers for Arca. In particular, Atlas Merchant Capital's non-binding offer would attribute an enterprise value of EUR 1Bn to Arca (source: MF), of which EUR 740M as a fixed amount to be paid immediately upon closing and EUR 260M as a variable amount to be settled in 24 months. On the other hand, asset management companies (among which Amundi, according to Il Sole 24 Ore) also expressed an interest. In the 3Q/9M15 results' conference call, Anima's management confirmed that it had presented an offer for Arca SGR (EUR 700-800M, plus an earn-out), which should be funded for at least 25% in shares and the remaining part in cash, with flexibility aimed at meeting the different needs expressed by the different shareholders of Arca.

The carrying value of Arca has not been disclosed. Assuming that the carrying value of Arca is in line with the disposal price of the stake of Banco Popolare (EUR 96M), we estimate that a disposal at EUR 480M (100% of Arca) would generate a positive impact on the capital base of just 11bps; in the case of a disposal at EUR 750M (value of 100% of Arca), we estimate that the impact would be 35bps. The effect of the disposal of Arca is not included in the business plan, although we believe that the company may be interested in its disposal.

Veneto Banca holds about EUR 100M of non-instrumental real estate subdivided into about 290 properties. The disposal of these properties at their book value would generate 5bps of capital, according to our calculations.

Non-instrumental real estate

Veneto Banca has some equity stakes that could potentially be disposed of, in our view, including Palladio, Ferak and Est Capital.

Equity stakes

We conclude that Veneto Banca has the possibility to raise its CET1 by approx. 145-169bps through asset disposals, only partially included in the business plan (100bps related to the disposal of BIM and foreign subsidiaries) and prudentially not included in our estimates (we do not include in our forecasts the disposal of BIM or of the foreign subsidiaries, product factories, Arca or real estate; we only include the NPLs disposal), as they are still not agreed or finalised.

Veneto Banca - Potential impact on CET1 FL from assets disposals (bps)	
Assets under disposal	Simulated Impact bps
BIM	50
Foreign Banks	40
Product Factories (leasing and factoring)	38
Arca	11-35
Real estate	5
Total impact	145-169

Source: Intesa Sanpaolo Research estimates

Regulatory and Legal Issues

Veneto Banca has a number of regulatory and legal issues that could negatively impact the profitability of the company and/or its capital base.

In the 2015 financial statements, Veneto Banca booked EUR 88M of provisions for risks and charges, including EUR 30M related to claims on Veneto Banca shares and EUR 37M for a put option from a single shareholder. Management stated that additional provisions for claims on company shares could be booked in 2016. Following the below-mentioned inspection, the ECB estimated a potential risk related to the management of Veneto Banca shares at a maximum of EUR 236M, of which: 1) a maximum EUR 156.4M potential legal risk for the mis-application of MIFID related to the rights issue and convertible bonds issued in 2014; and 2) a maximum EUR 80M potential risk for a compliance deficit in the execution of the orders on Veneto Banca shares. On 8 April 2016, Veneto Banca stated that it will try to find an agreement with the main consumer associations on the disputes related to Veneto Banca shares and convertible bonds. Additional provisions cannot be excluded, in our view.

Claims from shareholders

On 12 January 2015, Consob started an inspection into Veneto Banca as regards: i) the budgeting process and commercial policies' definition; ii) personnel incentivisation schemes and mechanisms supervising conflicts of interest management; iii) procedures for the valuation of the adequacy of client investments; and iv) orders from customers related to the sale of own shares. In April 2015, Consob extended its inspection to: i) mechanisms setting the value of own shares; and ii) the decisional processes backing the sale and purchase agreement with JP Morgan of a portfolio of reverse annuity mortgages. In June 2015, Consob also started to investigate the BIM disposal process and related press releases dated 7 August 2014, 21 October 2014 and 1 December 2014. The Consob inspection resulted in sanctions related to violations of the investment services' regulations.

Consob investigation

On 4 May 2015, the ECB started an inspection, which ended on 23 October 2015, on governance, remuneration policies and internal controls. As of today, the bank has not yet received the final report of this investigation.

ECB investigation

On 17 February 2015, the Italian Financial Police, acting on behalf of the Public Prosecutors office (Court of Rome), conducted an investigation into the bank's headquarters in Montebelluna, related to suspected obstacles to the Bank of Italy's supervisory duties, with reference to events and circumstances which originated from the Bank of Italy's inspection carried out in 2013 (under the old management team). The former chairman, Mr Flavio Trinca, and the former CEO, Mr Vincenzo Consoli, are currently under investigation. To date the bank has not been subject to any measures, even referring to the so-called supposed criminal activities, according to which the company could be held responsible for some crimes committed by its personnel.

Financial police investigation

Claims with shareholders on the value of shares (we calculate that 12% of the commercial bank's customers are also shareholders of the bank) and ongoing investigations by several authorities may result in reputational damage, which could undermine the value of the brand, in our view.

2013-15 Results

In the 2013-2015 period, the group embarked on a profound transformation process driven by internal and external factors, including: 1) the intervention of regulators following the asset quality review performed in 2014 and direct inspections; 2) changes in the management team; and 3) the transformation into a joint stock company approved by the Shareholders' Meeting in December 2015.

Profound transformation

We calculated that in the last three years, the group generated a cumulated net loss of EUR 1,946M, of which EUR 1,083M related to the complete impairment of goodwill (brought to zero at December 2015).

EUR 1.9Bn net loss in 2013-15 period

According to our elaborations, in 2013-15, total income slightly increased at a 2.4% 2013-15 CAGR, thanks to a higher contribution from trading income, while core revenues declined at a 3.2% 2013-15 CAGR.

Operating costs increased at a 8.5% CAGR, affected by non-recurring provisions (lay-off costs, contribution to the resolution fund and deposit guarantee scheme).

Loan loss provisions rose at a 31% CAGR as a result of the outcome of the AQR, more prudential classifications, asset quality deterioration and an enlarged coverage.

Veneto Banca Group - 2013-15A results				
EUR M	2013A	2014A	2015A	2013-15A CAGR%
Net interest income	522	513	505	-1.6
Net fees	309	288	273	-5.9
Dividends	9	7	5	-26.2
Net trading income	74	57	179	55.2
Other operating Income (expense)	-12	-10	-15	14.8
Total income	902	855	947	2.4
Payroll	-349	-367	-341	-1.2
Administrative expenses	-193	-205	-275	19.4
D&A (PPE & Int.)	-41	-45	-70	30.9
Operating costs	-583	-617	-685	8.5
Gross operating profit	320	238	261	-9.6
Net loan write-downs	-439	-717	-754	31.0
Net write-downs on other assets	-8	-14	-7	-9.4
Provisions for risks and charges	-6	-37	-88	298.3
Goodwill impairment	0	-671	-418	NM
Net income from investments	-3	-1	8	NM
Pre-tax profit	-136	-1,202	-997	NM
Income taxes	34	226	191	137.3
Net income from asset under disposal	3	-9	-101	NM
Minorities	-3	-16	-25	NM
Group net profit	-96	-968	-882	NM
Adj. net income	-95	-220	-338	NM

NM: not meaningful; A: actual; Source: Company data and Intesa Sanpaolo Research elaboration on company data

NII driving the revenue mix

Veneto Banca's revenue mix is skewed towards NII, which represents 58% of the group's adjusted total revenues as of December 2015, demonstrating the pure commercial nature of the group.

We calculated that NII declined at a 1.6% CAGR in the last three years. The recent downwards trend in NII (-1.4% yoy in 2015) was affected by lower lending volumes (customer loans -4.7% yoy) and the weaker contribution of the securities portfolio, partially offset by an increase in the customer spread.

NII down at a 1.6% 2013-15 CAGR

Lower funding costs due to a better funding mix allowed the customer spread on the commercial Italian perimeter to increase by 21bps yoy in 2015 (from 1.81% to 2.02%, according to company data), with an improvement in the mark-down of 26bps. On the other hand, the mark-up proved rather resilient at Veneto Banca (-5bps yoy in 2015), also benefiting from the floor at 0% for Euribor on floating rate new loans entered into after August/October 2015 (depending on the type of loan, i.e., when the "floor clause" was included in the contractual documentation). Floating rates loans represent 90% of loans at Veneto Banca.

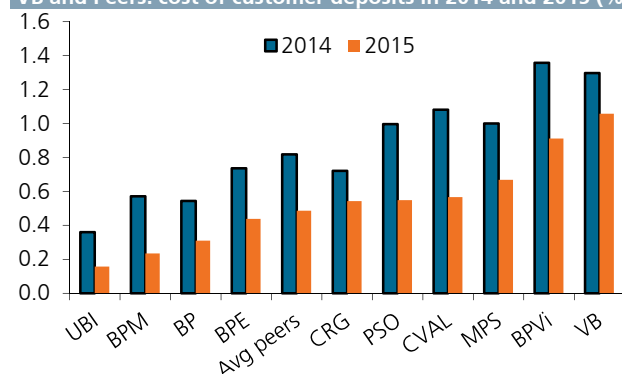
Veneto Banca - Spread evolution on commercial Italian perimeter (2014-15)						
%	1Q15A	2Q15A	3Q15A	4Q15A	2014A	2015A
Mark-up	3.35	3.30	3.24	3.24	3.33	3.28
Mark-down	-1.33	-1.21	-1.25	-1.26	-1.52	-1.26
Spread	2.02	2.09	1.99	1.98	1.81	2.02
EURIBOR	0.05	0.00	-0.03	-0.09	0.20	-0.02

Source: Company data

We estimate that in 2015 the company had a cost of core funding higher than the average of main peers. The gap can be explained, in our view, by the higher weighting of Time Deposits (18% vs. 5% average) and a higher cost of customer deposits.

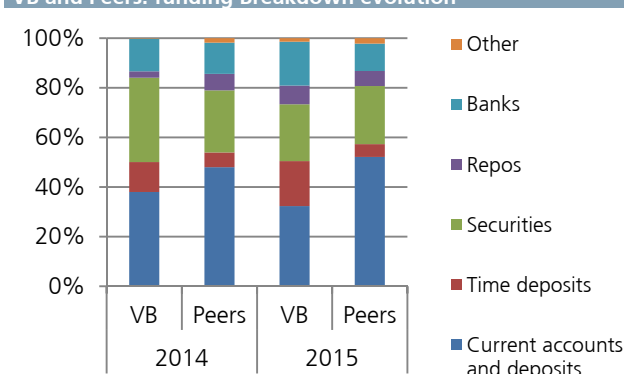
Higher than peer funding cost

VB and Peers: cost of customer deposits in 2014 and 2015 (%)



Source: Intesa Sanpaolo Research estimates and elaborations on Companies data. Customer deposits = current accounts, time deposits and Repos

VB and Peers: funding Breakdown evolution



Source: Intesa Sanpaolo Research elaboration on Companies' data. Peers: Simple average of UBI, BP, BPM, BPER, CVAL, PSO, MPS, CRG

In 2015 the breakdown of funding reported a decline in the weighting of the cheapest form of funding (current account and deposits) and an increase in the most expensive (time deposits) in counter-tendency compared with the main peers. On the other hand, Repos significantly increased their weighting (also in counter-tendency with peers) but mainly in the last quarter, with a limited impact of the FY15 cost of funding, in our view.

Italian banks - Funding breakdown (2015)												
%	CVA	PSO	UBI	BPM	BP	BPE	BPVi	MPS	CRG	Avg	VB	
Current accounts and deposits	57	75	47	52	41	55	36	40	50	50	32	
Time deposits	6	5	0	6	3	5	5	10	6	5	18	
Securities	17	10	36	21	29	22	18	23	30	23	23	
Repos	9	2	6	10	8	4	0	8	2	5	8	
Banks	9	7	10	11	17	10	31	13	11	13	18	
Other	2	0	1	0	2	5	10	6	1	3	1	

Source: Intesa Sanpaolo Research elaboration on companies' data

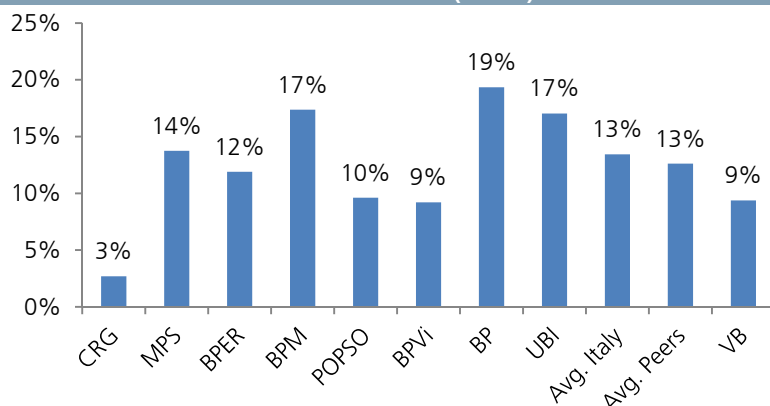
This gap vs. peers in terms of a higher cost of funding provides Veneto Banca with room to improve its overall margins by rebalancing the funding mix, one of the key priorities of the company's business plan, in our view.

The contribution of the securities portfolio to interest income was rather limited, as it represented only 11% of net interest income (EUR 56M in FY15).

Lower than peers' contribution of securities portfolio to interest income

The contribution of the debt securities portfolio to interest income at Veneto Banca is lower compared with the peers average. Based on the EBA's Transparency exercise, the contribution of debt securities portfolio to interest income at Veneto Banca stood at around 9.4% in 1H15, compared with 13.4% of Italian banks under the ECB's supervision and 12.6% of selected peers. We believe that the lower contribution of the securities portfolio to interest income provides Veneto Banca with a better resilience in a period of very low (and declining) interest rates.

Italian banks - Debt securities income/interest income (1H15A)



Source: EBA

Considering that gross unlikely to pay and past due represent 18% of gross loans (excluding bad loans), we estimate that a fairly high portion of interest income may be accrued on NPE. Thus, the potential deterioration of UTP and Past Due into bad loans could erode the NII in the near future, in our view, as interest due on bad loans are not accrued on NII.

High portion of interest income from NPE

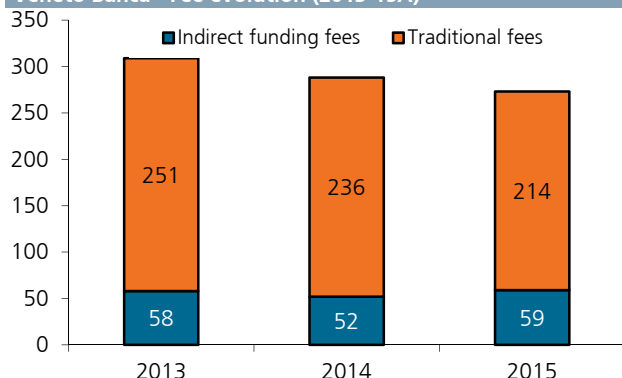
Commission income skewed towards traditional banking services

We estimated that commission income declined at a 5.9% 2013-15 CAGR, penalised by a reduction in traditional banking fees (-7.7% 2013-15 CAGR) while indirect funding fees remained broadly stable (0.9% 2013-15 CAGR).

Commission income down at a 5.9% 2013-15 CAGR

Veneto Banca's commission income represented only 31% of adj. total income and only 35% of core revenues (NII and commission income) in FY15. Traditional banking fees are the bulk of fees in Veneto Banca, while indirect funding fees account for just 22% of total fees (from 18% in 2013). Upfront fees represent 10% of total fees (EUR 27M) and no performances fees are accounted.

Veneto Banca - Fee evolution (2013-15A)



Source: Company data

Veneto Banca - Net fees evolution breakdown (2014-15A)

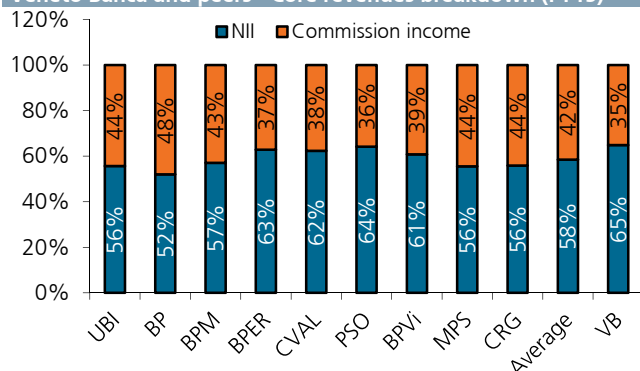
EUR M	2014A	2015A	yoy %
Indirect funding fees	52	59	13.8
Mutual Funds & DA	30	33	11.4
Life insurance	18	19	5.8
AUC	4	7	62.4
Traditional Fees	236	214	-9.2
Deposit facilities	68	65	-5
Total fees	288	273	-5

Source: Company data

Compared with its main peers, Veneto Banca shows a lower than peers contribution of commission income to core revenues (35% vs. 42% average of main peers) and, within fee income, a lower weighting of asset management fees on total fees (19% vs. 36% average of main peers¹¹). Total indirect funding fees represent 22% of Veneto Banca's fees.

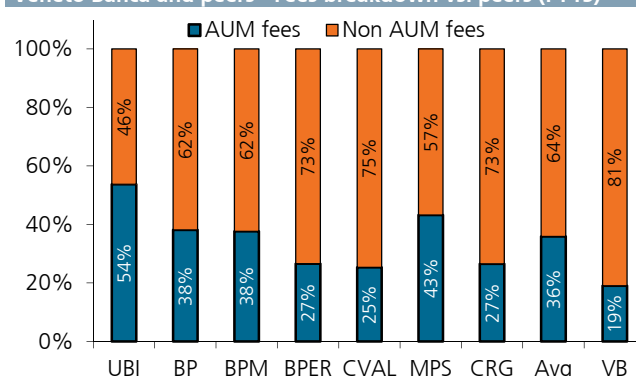
Underpenetration of AM business at Veneto Banca

Veneto Banca and peers - Core revenues breakdown (FY15)



Source: Intesa Sanpaolo Research elaboration on companies' data

Veneto Banca and peers - Fees breakdown vs. peers (FY15)



Source: Intesa Sanpaolo Research elaborations and companies' data

The lower weighting of fee income on core revenues and more specifically of asset management fees in total fees reflects an underpenetration of the asset management business at Veneto Banca (low ratio between AUM and total indirect funding and low ratio of indirect funding to total funding, as described previously): we believe that this also reflects a commercial policy that has been less focused than peers on the fee generating business. We therefore believe that Veneto Banca has room to increase the penetration of fee generating products in its customer base, offering scope for future growth on fee income.

Trading income benefited from asset disposals

We calculated that in the 2013-15 period, Veneto Banca reported trading income for over EUR 100M per year, on average. Trading income was mainly sustained by the disposal of financial assets: in particular, in 2015, trading income benefited from the disposal of the stake in ICBPI (EUR 155M), which more than offset the impairment of AFS securities (EUR -83M, mainly on equity stakes), making the level reached in 2015 not fully recurrent, in our view.

FY15 trading income not completely repeatable

Operating costs on the rise due to non-recurring items

We calculated that operating costs increased by 8.5% in the 2013-15 period, mainly due to non-recurring items that affected 2015, and the contribution to the resolution fund and deposit guarantee scheme introduced in 2015. The cost income ratio increased to 72.4% in FY15 from 72.2% in 2014 and 64.6% in FY13; excluding one-off items, the cost income ratio stood at 69.5% in 2015 compared with 67.1% in 2014 and 64.6% in 2013.

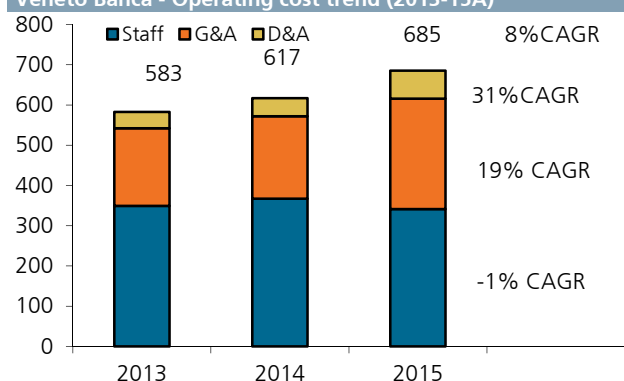
Operating costs up at a 8.5% 2013-15 CAGR due to non-recurring items

In detail, in 2015, Veneto Banca booked: 1) a EUR 31M extraordinary contribution to the resolution funds for the rescue of four Italian banks, in addition to the ordinary contribution of EUR 13M (not due in 2014 and 2013); 2) a EUR 27M write-down on real estate properties; 3) EUR 20M non-recurrent costs related to extraordinary events, such as the EGM, IPO and branch closures; 4) EUR -5M related to 34 staff exits in 2016, offset by EUR 6M related to previous provisions on a variable part of salaries.

2015 normalised cost income ratio at 70%

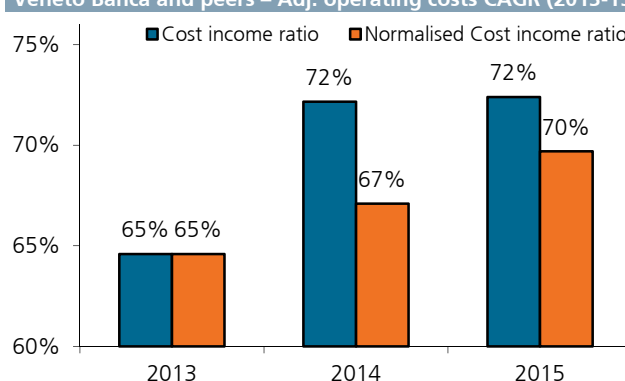
¹¹ Simple average of UBI, BP, BPM, BPER, CVAL, MPS CRG; Source: Intesa Sanpaolo Research estimates and elaboration on companies' data

Veneto Banca - Operating cost trend (2013-15A)



Source: Intesa Sanpaolo Research elaboration on Company data and Company data

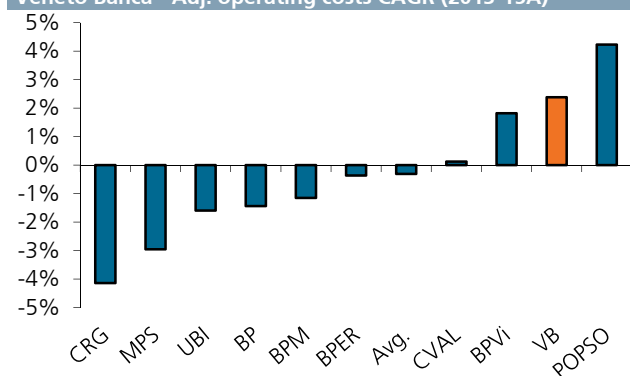
Veneto Banca and peers – Adj. operating costs CAGR (2013-15A)



Source: Intesa Sanpaolo Research elaboration on company data

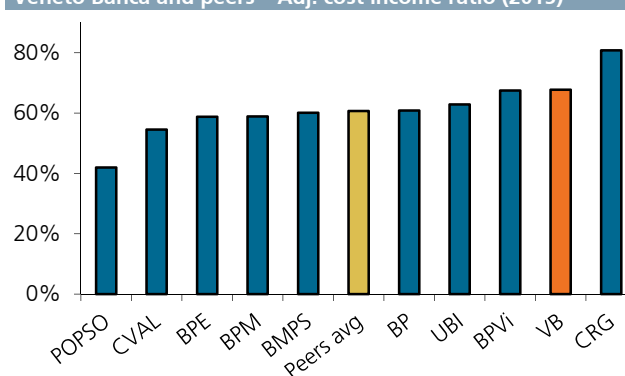
On adjusted terms (excluding non-recurring costs and the ordinary and extraordinary contribution to the Resolution Fund and Deposit Guarantee Scheme, not due in 2013 and 2014), we calculated that: 1) operating costs increased at a 2% 2013-15 CAGR in Veneto Banca Group, in contrast with the main peers (-0.3% normalised 2013-15 CAGR); and 2) the adj. cost income in 2015 was 68% at Veneto Banca, compared with 61% of the main peers.

Veneto Banca - Adj. operating costs CAGR (2013-15A)



Source: Intesa Sanpaolo Research estimates and elaboration on companies' data

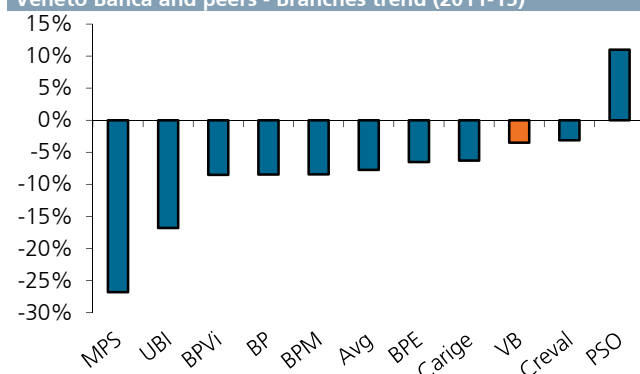
Veneto Banca and peers – Adj. cost income ratio (2015)



Note: Cost income ratio adjusted for main non-recurring items and ordinary and extraordinary contribution to the Resolution Fund and Deposit Guarantee Scheme
Source: Intesa Sanpaolo Research elaboration on companies' data

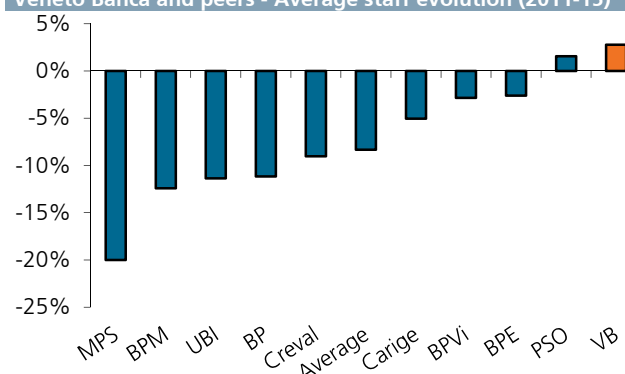
We calculated that the Veneto Banca network shrunk by less than peers since 2011, while staff increased at Veneto Banca, in contrast with peers.

Veneto Banca and peers - Branches trend (2011-15)



VB excluding BIM; Source: Intesa Sanpaolo Research elaboration on companies' data

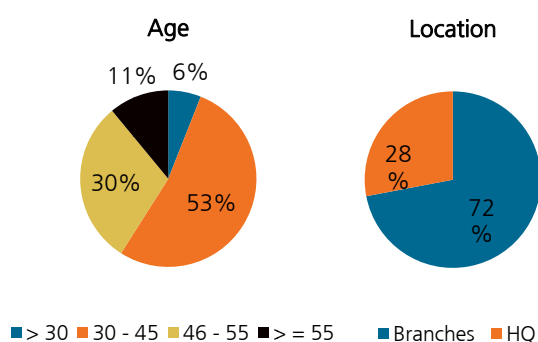
Veneto Banca and peers - Average staff evolution (2011-15)



VB excluding BIM; Source: Intesa Sanpaolo Research elaboration on companies' data

As of December 2015, Italian perimeter staff average age was 43 years old, with 11% (i.e. 515 FTE) with more than 55 years. The aging profile of staff should facilitate the reduction of headcount at Veneto Banca, in our view. 28% of FTE has a role at the headquarters.

Veneto Banca - staff breakdown by age and location (2015)



Italian perimeter excluding BIM; Source: Company data

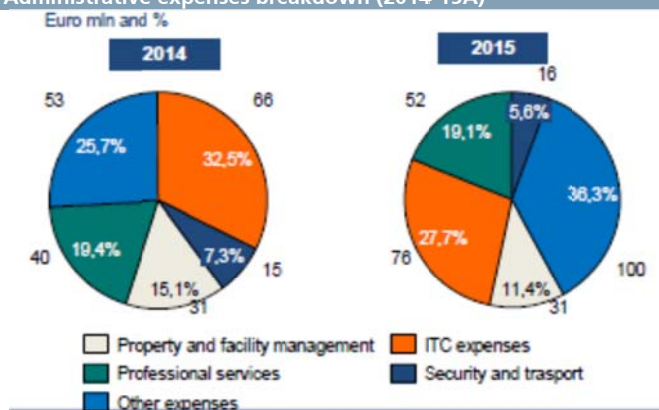
Veneto Banca and peers - staff breakdown by seniority (2015)

%	Managers	Middle managers	Other employees	Other
CREVAL	1	38	60	0
POPSO	1	23	73	3
UBI	2	42	54	1
BPM	2	37	60	0
BP	2	41	56	1
BPE	2	30	66	2
MPS	1	40	59	0
CRG	1	26	71	1
BPVi	2	43	55	0
VB	2	36	61	0
Avg	2	36	62	1

Source: Intesa Sanpaolo Research elaborations on companies' 2015 financial statements

The composition of administrative expenses also leaves room for optimisation, considering that in 2015 the group paid EUR 52M for professional services, corresponding to 23% of total administrative expenses excluding the ordinary and extraordinary contribution to the resolution fund and deposit guarantee scheme. In 2014, professional services costs were also significant (EUR 40M or 19% of total administrative expenses).

Veneto Banca - Administrative expenses breakdown (2014-15A)



Source: Company data

Comparing Veneto Banca's cost structure with peers, Veneto Banca shows a higher than average employee per branch (10.6 vs. 9.3 average), but a similar operating cost per branch (EUR 1.14M vs. EUR 1.18M average) and a lower average salary (EUR 60k vs. EUR 74k average of peers), also probably impacted by the lower staff costs of foreign branches.

Veneto Banca's cost structure looks worse than peers in terms of costs per banking product (operating costs on customer loans, deposits and AUM), and intermediated assets per employee, once again demonstrating the company's weak position in the indirect funding business, in our view.

Veneto Banca - Cost metrics comparison with peers (2015A)

		BP	UBI	BPE	BPM	CVAL	BPVi	PSO	CRG	MPS	Avg	VB
Average salary	EUR k	78.3	76.4	66.9	84.0	74.2	75.9	74.2	66.9	66.2	73.7	60.0
Employees per branch	x	9.3	10.5	9.2	10.2	7.5	8.2	9.6	7.9	11.7	9.3	10.6
Operating cost per branch	EUR M	1.17	1.33	1.02	1.34	0.98	1.08	1.40	0.94	1.31	1.18	1.14
Operating cost per employee	EUR k	128	122	108	132	130	128	147	118	111	125	104
Oper. costs on loans and deposits	%	1.35	1.17	1.37	1.32	1.27	1.43	0.87	1.31	1.21	1.26	1.32
Oper. costs on loan-deposits-AUM	%	1.11	0.92	1.18	1.02	1.09	1.25	0.79	1.05	0.97	1.04	1.17
Intermediated assets per employee	EUR M	13.6	15.1	10.6	14.7	13.3	12.5	25.7	13.4	13.4	14.7	10.8

Data reclassified to improve comparability; Source: Intesa Sanpaolo Research elaborations on companies' data

Veneto Banca is characterised by a lower market share on loans, deposits and mutual funds compared with its market share in branches, highlighting the current network's oversizing,

offering scope to increase the assets intermediated by the current network, or by contrast, to downsize the network, in our view.

Veneto Banca - Market shares in Italy (June 2015)				
%	Branches	Loans	Deposits	Mutual Funds
Market share	1.6	1.2	0.9	0.3

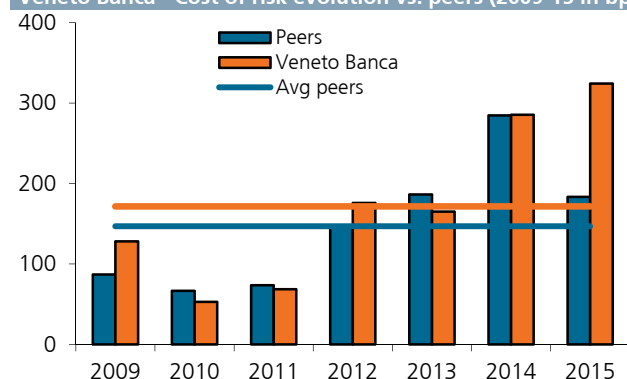
Source: Company data

Significant loan loss provisions in the last three years

Loan loss provisions have significantly penalised the company's profitability in the last three years. Following the asset quality deterioration, driven by the economic downturn, the result of the AQR¹² that impacted FY14 results and the new prudential credit policy applied following the recommendations from the regulator in FY15, Veneto Banca booked EUR 1.9Bn of loan loss provisions in the last three years, for an average cost of risk that we calculate at 258bps per year.

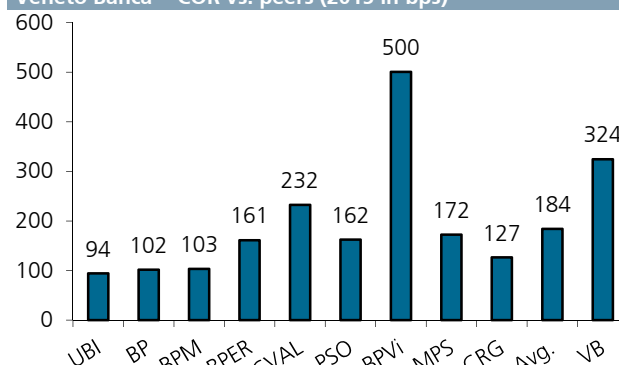
We estimate that, in the 2009-15 period, Veneto Banca's cost of risk was 27bps above the peers' average. The difference compared with peers was particularly strong in 2015, when the company underwent a significant clean-up of the loans book, reporting a cost of credit of 332bps (or 324bps calculated on average loans).

Veneto Banca - Cost of risk evolution vs. peers (2009-15 in bps)



Source: FactSet and Intesa Sanpaolo Research elaboration on companies' data

Veneto Banca - COR vs. peers (2015 in bps)



Cost of risk calculated on average loans; Source: Intesa Sanpaolo Research elaboration on Companies' data

These actions allowed it to significantly improve the coverage ratios on all the NPE categories. Following this significant clean-up, we calculate that the company managed to improve the coverage of NPE by 475bps, from 30.6% at December 2013¹³ to 35.3% at December 2015, a level that however positions Veneto Banca below the peers' average. In particular, cash coverage ratios in 2015 rose by 378bps yoy to 35.3%, or by 240bps yoy to 37.8% including write-offs. On performing loans, the coverage was significantly increased in 2014, following the result of the Asset Quality Review, positioning Veneto Banca above the peers' average.

Veneto Banca - Coverage trend (2013-15A)				
%	2013A	2014A	2015A	yoy chg bps
Coverage Bad loans	44.7	47.8	52.8	499
Coverage Unlikely to Pay*	15.1	20.8	22.1	165
Coverage Past due	4.2	6.9	9.3	240
Coverage NPE	30.6	31.6	35.3	378
Coverage NPE incl. Write-offs	NA	35.4	37.8	240
Coverage performing loans	0.5	0.8	0.8	-2

NA: not available; A: actual; Source: Company data, Intesa Sanpaolo Research elaboration on Veneto Banca 2013 company data

¹² In particular, in the 2014 AQR process, the regulator analysed 50% of the credit portfolio, with a reclassification of EUR 1Bn of performing loans into NPE. Following the results of the AQR, Veneto Banca booked EUR 565M loan loss provisions, i.e. 99% of requested provisions.

¹³ Source: Veneto Banca 2013 Financial Report

Other provisions and write-offs

The last few years were also characterised by significant provisions and write-offs that penalised the bottom line. In detail:

- In 2014 and 2015, Veneto Banca recorded EUR 1.2Bn of **goodwill impairments** (of which EUR 501M in FY15, including the BIM Group goodwill impairment), completely writing-off the group's goodwill;
- In 2014 and 2015, the company booked a cumulated EUR 125M **provisions for risks and charges**. In detail, in 2015 the company posted EUR 88M provisions for risk and charges, on the basis of a revised policy on claims, that resulted in additional provisions of EUR 30M related to claims on Veneto Banca shares, in addition to EUR 37M provisions on a single position. The company expects further provisions for potential claims on Veneto Banca shares litigations in the next few years.

1Q16 Results

In 1Q16, Veneto Banca reported a net loss of EUR 34M, compared with a net profit of EUR 51M in 1Q15A. The company reported a EUR 11M net loss, net of non-recurring items, including: a EUR 11M write-down on financial assets, EUR 9M related to early retirement incentives, a EUR 10M annual contribution to the resolution fund, EUR 3M impairments on real estate, EUR 1M related to advisory costs and EUR 8M extraordinary provisions on securities classified as L&R.

Net loss of EUR 34M in 1Q16A

Veneto Banca Group - 1Q16 results								
EUR M	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	1Q16A Norm.	1Q16A % qoq	1Q16A % yoy
Net Interest Income	125	126	135	118	108	108	-8.2	-13.5
Net fees	77	66	62	67	59	59	-11.3	-23.3
Dividends	2	3	0	0	0	0	NM	-82.9
Net trading Income	62	-64	6	175	7	18	-96.0	-88.6
Other operating Income	-3	-5	-6	-1	3	3	NM	-176.3
Total income	263	126	198	360	178	188	-50.7	-32.4
Payroll	-85	-84	-80	-92	-95	-86	2.9	11.4
Administrative expenses	-48	-56	-64	-106	-58	-57	-45.5	19.3
D&A	9	-35	-13	-12	-13	-11	10.7	43.8
Operating costs	-143	-175	-157	-210	-166	-153	-21.1	16.2
Gross operating profit	120	-49	41	150	12	35	-92.1	-90.1
Net loan write-downs	-62	-234	-234	-224	-59	-50	-73.8	-4.9
Net write-downs on other assets	1	-4	3	-6	1	1	NM	1.9
Provisions for risks and expenses	-4	-13	-23	-48	1	1	-101.1	NM
Goodwill impairment	0	-49	-369	0	0	0	NM	NM
Net income from investments	0	8	3	-3	0	0	-100.0	-100.0
Pre-tax profit	55	-341	-580	-132	-45	-14	NM	NM
Income taxes	-12	66	62	75	9	1	-88.6	NM
Income of asset under disposal	9	1	-46	-64	0	0	NM	NM
Minorities)	2	-9	-7	-10	3	3	NM	76.1
Group net profit	51	-264	-556	-112	-34	-11	NM	NM

NM: not meaningful; A: actual; Source: Company data

Net interest income declined by 8.2% qoq and by 13.5% yoy, penalised by the deleveraging process on customer loans, which declined by 8.0% qoq (-10.4% performing loans and +1.7% qoq performing loans). On the other hand, the customer spread slightly increased in the quarter (+4bps), thanks to a significant increase in the mark-up (+10bps) which more than offset the decline in the mark-down (-6bps). The deleveraging was concentrated on high rating customers on commercial overdrafts, characterised by a low yield, allowing Veneto Banca to improve the asset spread: the company expects to recover these loans, at least partially, and subsequently reduce the mark-up in the next few quarters.

NII down by 8.2% qoq due to the loans deleveraging process...

The decline in customer loans was accompanied by a reduction in total direct funding, which declined by 9.1% qoq (or by EUR 2.1Bn) to EUR 20.5Bn: the bulk of the decline was explained by the reduction in direct funding from the commercial network, which fell by 8.9% qoq, or by EUR 1.5Bn, following the previously-mentioned deposit outflows reported at the beginning of the quarter. On the other hand, the funding through securitisations (+EUR 1.4Bn qoq) almost offset the decline in repos with CCG (that was almost zeroed, from EUR 1.7Bn at December 2015), allowing the company to restore the LCR above the regulatory limits, at 78% as of March 2016 (from 53% at December 2015).

...LCR restored above the regulatory requirement despite EUR 1.5Bn customer deposits outflow

Veneto Banca Commercial Perimeter - Customer spread quarterly evolution					
%	1Q15	2Q15	3Q15	4Q15	1Q16
Mark-up	3.35	3.30	3.24	3.24	3.34
Mark-down	-1.33	-1.21	-1.25	-1.26	-1.32
Spread	2.02	2.09	1.99	1.98	2.02
EURIBOR	0.05	0.00	-0.03	-0.09	-0.18

Source: Company data

Veneto Banca - Direct funding breakdown and customer loans			
EUR M	Dec-15	Mar-16	qoq
Funding from commercial network	16,702	15,218	-8.9
Securities issued	2,157	1,820	-15.6
Deposits	14,545	13,397	-7.9
Wholesale funding	5,804	5,238	-9.8
EMTN and securities issued	2,415	2,114	-12.5
Securitisation	1,697	3,063	80.5
Central counterparty CCG	1,692	61	-96.4
Total Direct Funding	22,507	20,456	-9.1
Customer loans	22,703	20,872	-8.1
LTD (%)	101	102	

Source: Company data

Fee and commission income declined by 11.9% qoq and by 23.3% yoy, penalised by the reduction in both asset management and traditional banking fees. In detail:

- Indirect funding fees more than halved compared with 1Q15, penalised by the reduction of fees in mutual funds and managed assets (-65% yoy). We believe that in 1Q16 the focus of the network was concentrated on direct funding, in order to limit the deposit outflow, hampering the placement of asset management products. In 1Q16, assets under management declined by 4.8% qoq and by 9.7% yoy to EUR 5.3Bn;
- Traditional banking fees also declined by 11.1% qoq and 9.4% yoy, affected by lower business volumes.

Fee income down by 11.9% qoq, with commissions from AUM halved

Veneto Banca - Fees and Indirect funding quarterly evolution							
EUR M	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	qoq %	yoy %
Net Fee income	77	66	63	67	59	-11.9	-23.3
o/w Traditional Banking Fees	53	54	53	54	48	-11.1	-9.8
o/w Indirect Funding Fees	24	12	10	13	11	-15.4	-53.8
AUM (EUR Bn)	5.84	5.79	5.58	5.53	5.27	-4.8	-9.7
AUC (EUR Bn)	11.9	107	10.9	10.7	10.1	-5.8	-15.1
Indirect funding (EUR Bn)	17.7	16.5	16.5	16.3	15.4	-5.4	-13.3

A: actual; Source: Company data and Intesa Sanpaolo elaborations

Operating costs were affected by several one-off items, including retirement incentives (EUR 9M), extraordinary costs related to the IPO (EUR 1M), real estate property write-downs (EUR 3M) and the annual contribution to the resolution fund (EUR 10M). Net of non-recurring items, we estimate that adj. operating costs declined by 8.7% qoq and by 5.8% yoy.

Declining operating costs net of non-recurring items

Veneto Banca - Operating costs quarterly trend					
EUR M	1Q15	4Q15	1Q16	Qoq%	Yoy%
Operating costs	143	210	166	-21.1	16.2
One-offs	0	-62.4	-31	-50.3	NM
Adj. operating costs	143	148	135	-8.7	-5.8

NM: not meaningful; Source: Intesa Sanpaolo Research elaboration on Company data

In 1Q16, Veneto Banca reported a declining level of loan loss provisions for a cost of risk of 112bps, compared with 332bps reported in FY15, thanks to the clean-up carried out in 2015 and a positive seasonality effect, in our view. Excluding extraordinary provisions on securities classified as L&R we calculated that the cost of risk would have stood at 96bps in 1Q16.

Veneto Banca - Loan loss provisions and cost of risk quarterly evolution							
	1Q15	2Q15	3Q15	4Q15	1Q16	qoq %	yoy %
LLP (EUR M)	62	234	234	224	59	-73.8	-4.9
COR (bps)	NA	387	399	395	112	-71.5	NA

Note: NA: not available; Source: Intesa Sanpaolo Research elaboration on Company data.

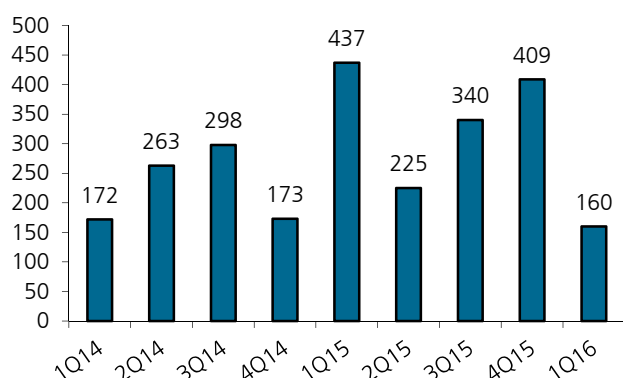
The asset quality deteriorated in the quarter, but at a slower rate compared with the previous quarters. Coverage ratios remained broadly stable:

**Asset quality deteriorated
at a lower speed**

- Gross NPE increased by 1.7% qoq, with gross bad loans increasing by 4.6% qoq;
- The coverage of the different NPE categories remained broadly stable, while the cash coverage of total NPE improved by 30bps to 35.6%, due to the higher weighting of bad loans. The Texas ratio deteriorated by 3pp to 163%.

In the quarter, NPE net flow from performing declined by 39% qoq and by 63% yoy, thanks to both a decline in inflow from performing and an increase in outflow to performing. The level of quarterly net inflow of NPE experienced in 1Q16 was the lowest since 2014.

VB+BAP - Total NPE net flows from performing loans (EUR M)



Note: 1Q15 normalised; Source: Company data

Veneto Banca - Asset quality in 1Q16

EUR M	Dec-15	Mar-16	% qoq
Gross Bad loans	3484	3646	4.6
Gross UTP	3524	3471	-1.5
Gross Past Due	547	569	4.0
Gross NPE	7555	7686	1.7
Net Bad loans	1644	1722	4.7
Net UTP	2745	2710	-1.3
Net Past Due	497	516	3.8
Net NPE	4886	4948	1.3
Coverage Bad loans	52.8	52.8	0 bps
Coverage BL incl. Write-offs	56.4	56.3	-10 bps
Coverage UTP	22.1	21.9	-20 bps
Coverage Past Due	9.3	9.3	0 bps
Coverage NPE	35.3	35.6	30 bps
Coverage NPE incl. Write-offs	37.8	38	20 bps
Gross NPE ratio	28.3	30.9	283 bps
Net NPE ratio	20.4	22.5	202 bps
Texas ratio	160	163	282 bps

Source: Intesa Sanpaolo Research elaboration on Company data

The CET1 phased-in declined to 6.9% as of March 2016, from 7.2% at December 2015, also due to a deduction of losses absorbed by Tier1 instruments up to December 2015 (already deducted from the CET1 FL). The CET1 FL at 6.8% as of March 2016 and the Total Capital Ratio (phased in) at 9.1% remained stable vs. December levels despite the lower RWA (EUR 22Bn from EUR 23.1Bn at December 2015), due to the losses and higher DTA deductions.

Strategy

Group targets and strategic guidelines

Veneto Banca Group's BP targets a net profit of EUR 152M in 2018, up to EUR 249M in 2020, at the same time envisaging a capital strengthening process (including a EUR 1Bn capital increase) leading to a Common Equity Tier 1 ratio of 12.4% at end-2018 and 14.5% at end-2020. The company expects to reach a ROTE at 5.1% in 2018T and 7.5% in 2020T. The plan's key targets are summarised in the table below.

Veneto Banca – Business plan key targets					
	2015A	2018T	2020T	2015-18 CAGR %	2015-20 CAGR %
P&L (EUR M)					
Net interest income	505	544	596	2.5	3.4
Net fees	273	346	394	8.2	7.6
Total Income*	874	950	1,055	2.8	3.8
Operating costs	-685	-526	-513	-8.5	-5.6
Net result	-882	152	249	NM	NM
Balance sheet (EUR Bn)					
Net loans	22.7	22.4	23.4	-0.4	0.6
Direct funding	22.5	20.7	21.3	-2.8	-1.0
Indirect funding	16.3	18.2	20.4	3.9	4.6
RWA	23.1	19.7	19.8	-5.1	-3.0
KPIs					
Cost/income (%)*	69.5	55.3	48.6		
Cost of credit (bps)	332	93.0	76.0		
ROTE (%)	-29.5	5.1	7.5		
CET1 ratio (fully loaded, %)	6.8	12.4	14.5		

* normalised for one-off components. NM: not meaningful; A: actual; T: Target; Source: Company data

The main strategic guidelines of Veneto Banca Group's 2016-20 business plan can be summarised as follows:

- Efforts to enhance revenue growth:
 - A new service model to capture existing untapped potential;
 - Increase in exposure to high-margin SME clients;
 - Increase in penetration of commission-generating products/services;
 - Development of multichannel and digital platforms;
- Cost optimisation actions:
 - Branch network rationalisation (Hub & Spoke);
 - Review of the organisational structure;
 - Outsourcing of the back-office activity;
 - Headcount reduction;
- Actions aimed at credit risk management improvement:
 - Proactive management of credit anomalies;
 - Creation of a "non-core unit" dedicated to NPL management;
- Focus on the capital position and funding structure:
 - EUR 1Bn capital increase;
 - Disposal of a control stake in BIM and assessment of other minority stakes (e.g. Arca);
 - Foreign banks' network rationalisation or disposal;
 - Lower concentration of funding and allocation of liquidity to more collateralised sources.

EUR 152M net profit targeted in 2018T (up to EUR 249M in 2020T); CET1 up to 12.4% (14.5% end-2020T)

Strategic guidelines:

Revenue growth

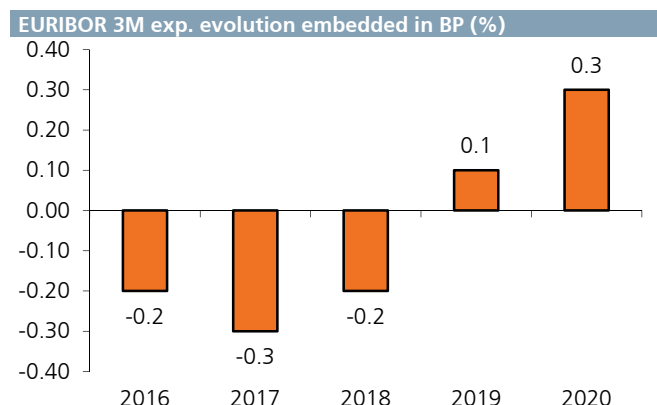
Operating efficiency

Credit risk structural improvement

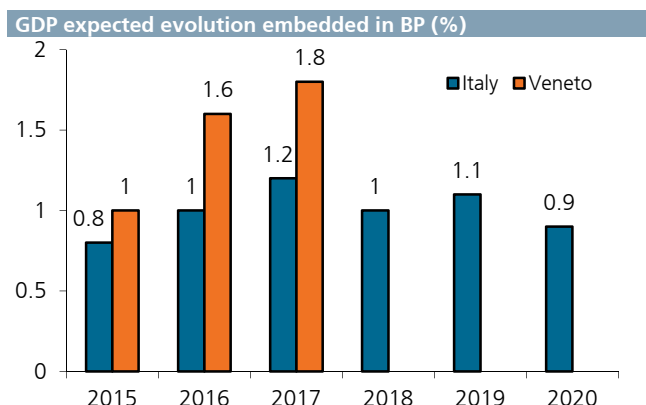
Capital strengthening and funding structure improvement

Veneto Banca's BP is based on the following assumptions: negative EURIBOR 3M up to 2018, to then start increasing in 2018, to reach 0.3% in 2020; Italian GDP is assumed to grow by 1-1.2% over the plan horizon.

BP macroeconomic assumptions



Source: Company data, Data Provider 31 March 2016



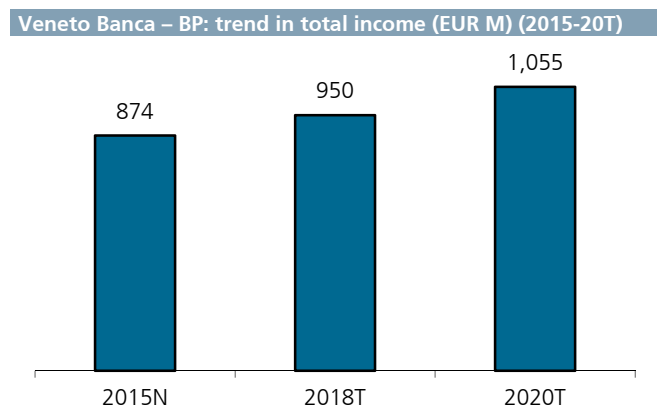
Source: IMF April 2016 for Italy, Prometeia December 2015

Revenue growth

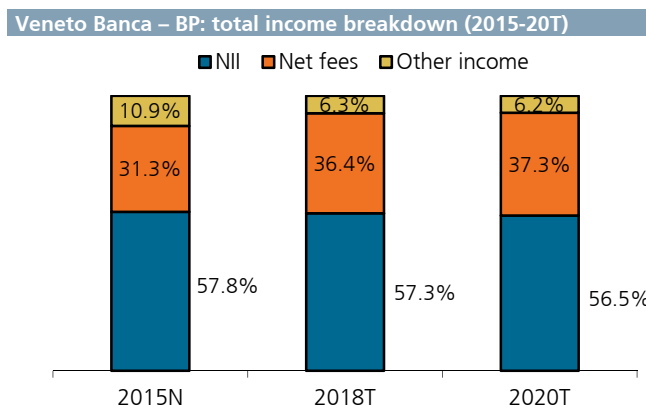
Veneto Banca's business plan envisages a 2015-18 CAGR of 2.8% (3.8% 2015-20) in total income, driven by both net interest income (NII) and net fees and commissions. Other income (including dividends, net trading income and other net operating income) should decline from EUR 95M normalised in 2015 to EUR 60M in 2018 and EUR 65M in 2020, due to conservative assumptions on net trading income evolution and, in our view, taking into account a smaller average portfolio over the plan.

NII and net fees driving revenue growth

In particular, we calculated that net fees are targeted to increase their weighting in total revenues from 31.3% in 2015 to 36.4% in 2018 and 37.3% in 2020, according to an 8.2% CAGR in 2015-18 and 7.6% in the five-year 2015-20 period.



N: normalised (adjusted for one-off components: EUR +155M capital gain on ICBPI stake disposal and EUR -83M net write-downs on AFS); T: target; Source: Company data

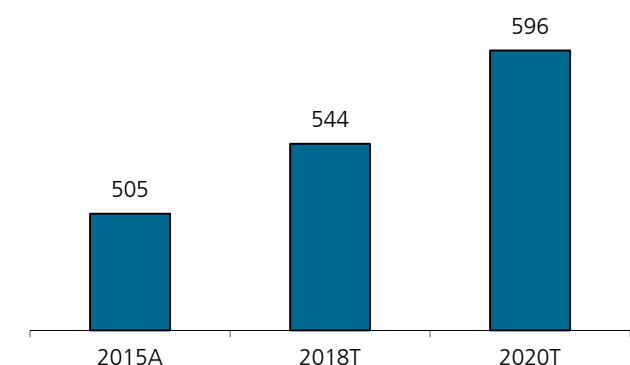


N: normalised; T: target; Source: Intesa Sanpaolo Research elaboration on Company data

Net interest income

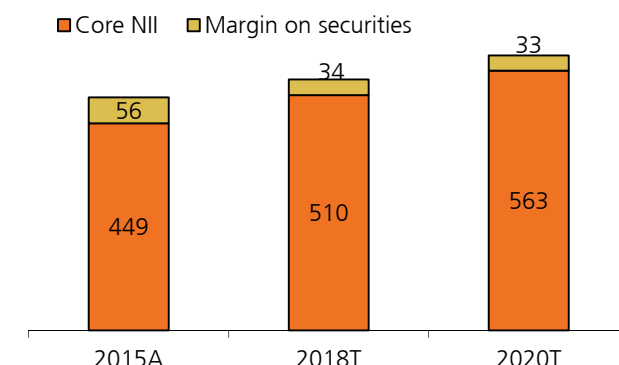
As regards net interest income, Veneto Banca's BP targets a 2015-18 CAGR of 2.5% (3.4% 2015-20), driven by core NII. Net interest income on securities is expected to reduce from EUR 56M to EUR 33M, while we calculate that the core NII is expected to grow at a 4.3% 2015-18 CAGR and at a 4.6% 2015-20 CAGR.

Veneto Banca – BP: NII trend (EUR M)



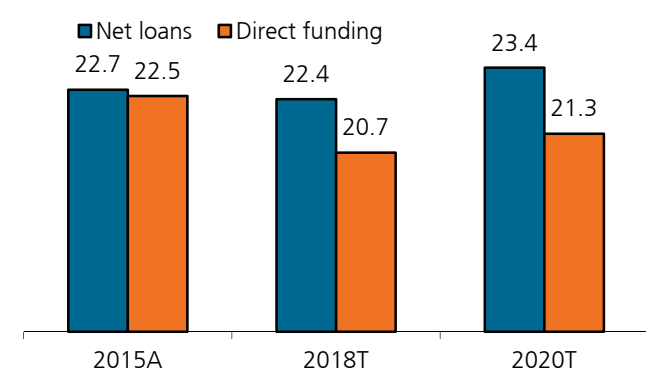
A: actual; T: target; Source: Company data

Veneto Banca – BP: core NII and margin on securities (EUR M)



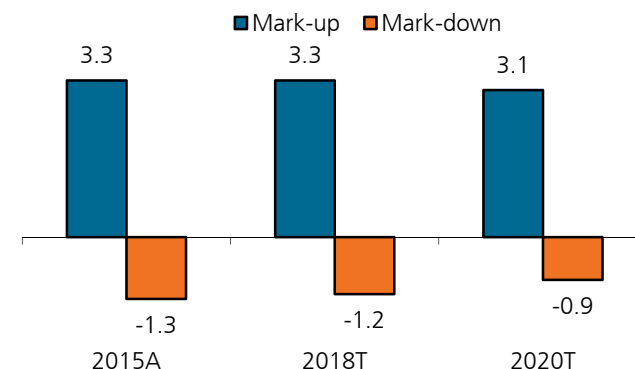
A: actual; T: target; Source: Company data

Veneto Banca – BP: net loans and direct funding (EUR Bn)



A: actual; T: Target; Source: Company data

Veneto Banca – BP: mark-up and mark-down trend (%)



A: actual; T: Target; Source: Company data

We believe that the group could leverage on the following facilitating elements to meet the NII targets:

- Higher cost of funding versus peers, which leaves room for optimisation;
- Increased weighting of SMEs (22% of total net loans in 2018, up to 24% in 2020, from 15% in 2015), which according to the company has a spread 170bps above the corporate clients;
- Improved risk profile post-capital increase supporting an improvement in the credit rating and the cost of funding;
- Better access to wholesale and securitisations after the planned capital increase;
- Mark-up benefiting from the floor at 0% for Euribor on floating rate new loans entered into after August/October 2015;
- Additional take-up with TLTRO2.

Facilitating elements

We identify the following challenges to be faced by the group, as regards NII targets:

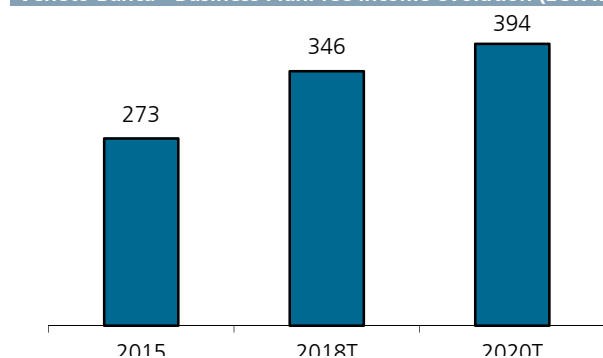
- A declining net interest margin on securities (from EUR 56M in 2015 to EUR 34M in 2018T and EUR 33M in 2020T);
- Deleveraging process under-way;
- A high weighting of the credit portfolio towards clients with a higher rating profile envisaged in the business plan, in order to reduce the cost of risk, but with a potential negative impact on interest margins;
- Outflows from deposits (direct funding from the commercial network at end-March 2016 suffered from a 22.7% decrease vs. September);
- NII target envisaging a worsening of the loan-to-deposit ratio in 2020 (110% vs. 101% in 2015 and 108% in 2018).

Challenges

Net fees

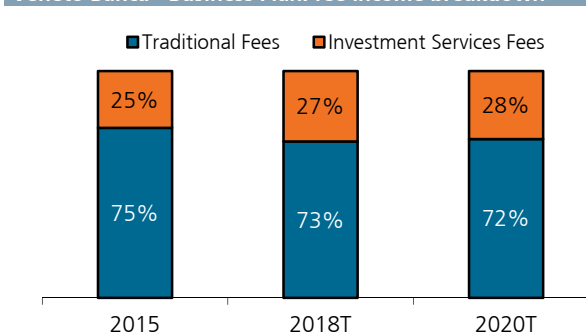
The significant growth targeted in net fees (8.2% 2015-18T CAGR, 7.6% 2015-20T) should derive from a double-digit CAGR in investment service fees (we calculate an implicit 11% 2015-18T CAGR and 10.1% 2015-20T CAGR) and a high single-digit growth in traditional banking fees (we calculate an implicit 7.2% 2015-18T CAGR and 6.7% 2015-20T CAGR).

Veneto Banca - Business Plan: fee income evolution (EUR M)



Source: Company data

Veneto Banca - Business Plan: fee income breakdown

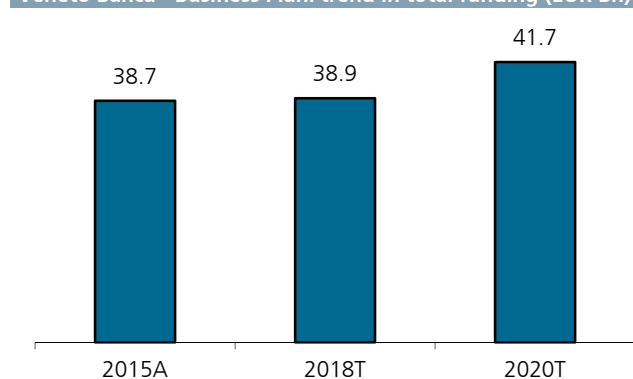


Source: Company data

The company expects this growth to be basically driven by:

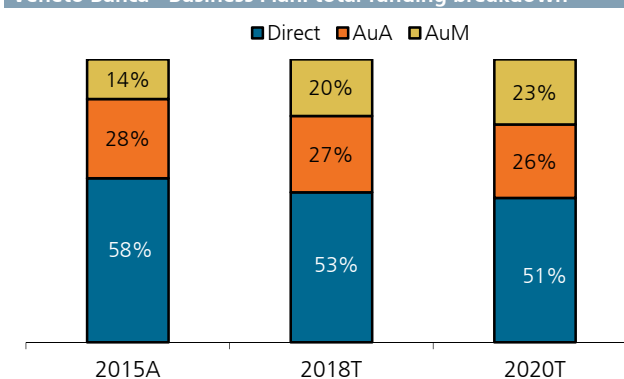
- An increase in the AuM weighting to 20% on total funding in 2018T, up to 23% in 2020T, from 14% in 2015A, leading the contribution to total indirect funding to 43% in 2018 and 47% in 2020 from 34% in 2015;
- An increase in AUM and AUC: we calculate that the plan embeds a significant increase in AUM, while maintaining AUC stable in absolute terms. In detail, we calculate that AUM should increase at a 13% 2015-18T CAGR (to EUR 7.8Bn) and at a 12% 2015-20T CAGR (to EUR 9.6Bn) from EUR 5.4Bn in 2015. These increases should leverage on the planned recruitment of 100 new personal financial advisors (average portfolio of EUR 10M) and 20 new private bankers (EUR 30M average portfolio) by 2018;

Veneto Banca - Business Plan: trend in total funding (EUR Bn)



A: actual; T: Target; Source: Company data

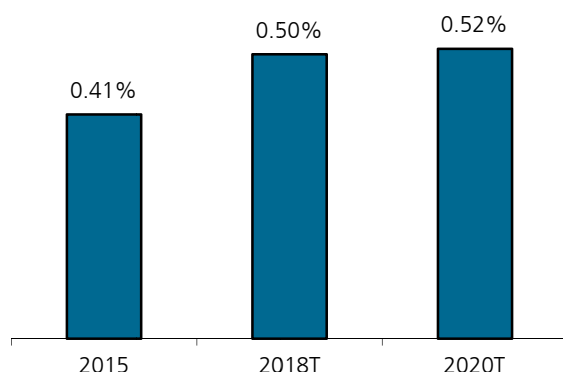
Veneto Banca - Business Plan: total funding breakdown



A: actual; T: Target; Source: Company data

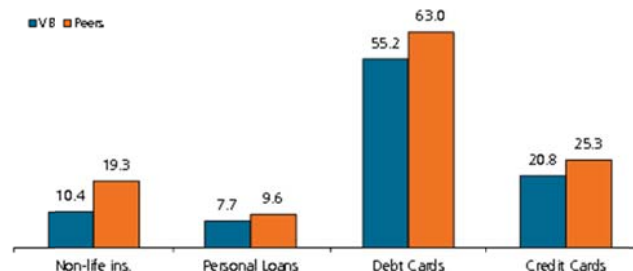
- A more profitable AuM mix with: i) an enhancement of tailor-made advisory services for top individual clients; and ii) the expansion of the life insurance offering (focus on products dedicated to private clients);
- Increasing product penetration, mainly non-life insurance products, leveraging on new mortgage generation.

Veneto Banca Business Plan - Indirect funding profitability



Source: Company data

Veneto Banca - Product penetration (%)



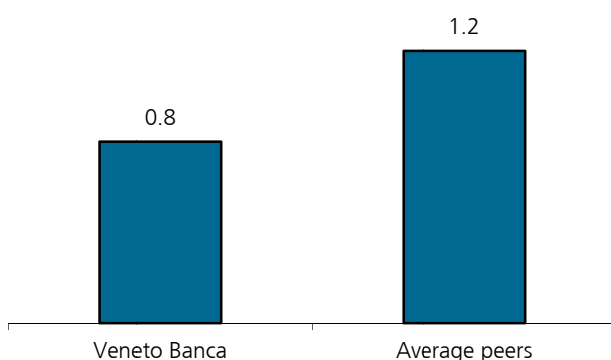
Source: Veneto Banca and Italian Banking Association, "Retention Comportamenti di Acquisto Privati" as at 31 August 2015

As regards net fee targets, we identify the following facilitating elements:

Facilitating elements

- Lower than peers' AuM weighting on indirect funding (34% vs. 50% for selected peers in 2015);
- Lower than peers' fee profitability of indirect funding;
- Lower than peers' penetration of higher-margin products;
- Strong commercial partnerships with leading players.

Veneto Banca – Net fees on total assets (%) (Dec. 2015)



Notes: 1) peers: MPS, UBI, BAPO, BPM, BPER, CREVAL, CARIGE, CREDM, BPVI; Source: Company data

Veneto Banca – Commercial partnerships



Source: Company data

On the other hand, we identify the following challenges:

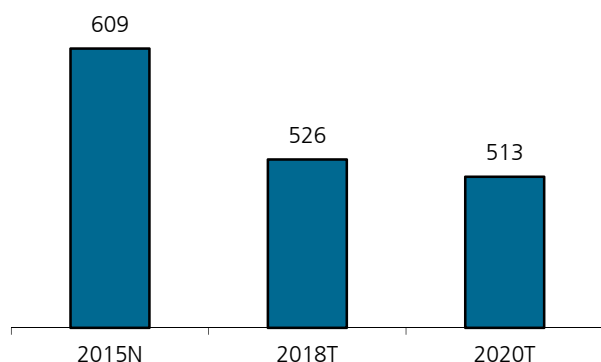
Challenges

- Decreasing lending volumes between 2015 and 2018, combined with increasing traditional fees (+7.2% 2015-18T CAGR and +6.7% 2015-20T CAGR);
- The need to keep direct deposits as stable, holding back the strategy of switching from direct funding to AuM: Veneto Banca had a Loan to Deposit ratio at 101% at December 2015 and 102% at end-March 2016;
- EUR 4.9Bn of AuC (i.e. 45% of AuC) were invested in shares, of which EUR 1Bn in non-listed shares (EUR 0.7Bn in Veneto Banca shares), thus limiting the room to switch customer assets from AuC to AuM, in our view;
- Potential difficulties in the recruiting process of financial advisors and private bankers, due to the current highly competitive environment in this respect.

Greater operating efficiency

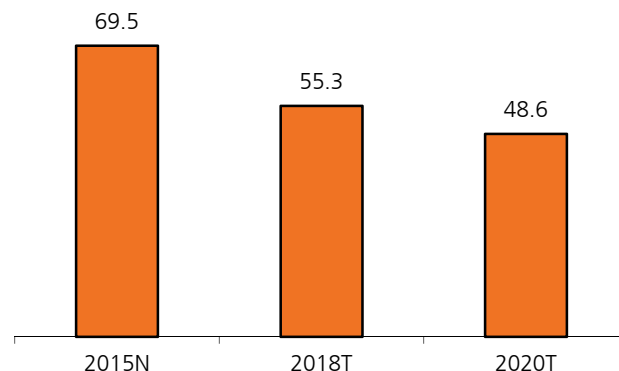
Veneto Banca's BP targets a decline in the cost/income ratio to 48.6% in 2020 (55.3% in 2018) **2020 C/I target at 48.6%** from 69.5% (normalised for one-off costs and financial results) in 2015.

Veneto Banca – BP operating costs targets (EUR M)



N: normalised (adjusted for one-off component: revenues EUR +155M capital gain on ICBPI stake disposal and EUR -83M net write-downs on AFS; operating costs for contributions to resolution funds, charges related to EGM; IPO and branch closures, real estate property write-downs); T: target; Source: Company data

Veneto Banca – Cost/income ratio trend (%)



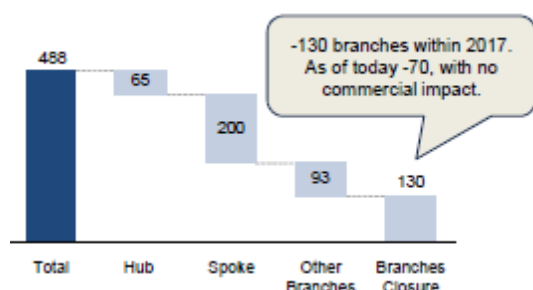
N: normalised; T: target; Source: Company data

The targeted significant reduction of the cost/income ratio should come from the following initiatives (combined with the progress in revenues, see above):

Cost-savings actions

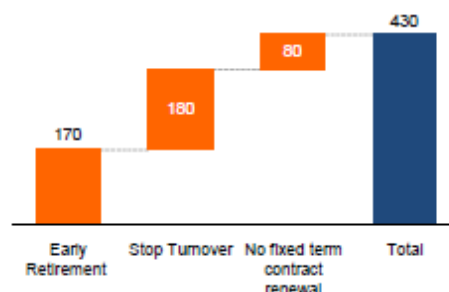
- Distribution model review, with the introduction of the Hub & Spoke model and closure of the least productive branches (130 branches, of which 70 already closed);
- An optimisation of central functions, through cost cutting on some projects and ordinary expenses, including initiatives aimed at back-office reorganisation (outsourcing) and reducing the workforce. On 23 April 2016, Veneto Banca signed an agreement with trade unions. As reported by the press (Il Sole 24 Ore on 26 April 2016), the agreement regards 730 redundancies, of which: i) 300 to be requalified and reallocated in the existing branches; ii) early retirement for more than 100 people (incentivised and volunteer exits), leveraging on the Solidarity Fund; iii) remaining redundancies to be absorbed through an increase of part-time work and "giornate di solidarietà" (non-paid working days).
- Group structure optimisation, including foreign banks' rationalisation and further group streamlining (Bancapulia, Apulia Previdenza, Apulia Pronto Prestito).

Veneto Banca – Italian branch network split by type



Notes: (1) On the basis of the business plan as of 12/02/2016; (2) Italian perimeter including BIM; Source: Company data

Veneto Banca – Staff rationalisation (2016-2020)



Note: On the basis of the business plan as of 12/02/2016. Source: Company data

The Business Plan also envisages EUR 53M of investments (95% incurred in the first three years), of which:

Investments

- EUR 38M related to: i) commercial network development, supporting the new Hub & Spoke model and asset management development for affluent clients (including headcount training); and ii) IT expenses related to the development of Internet banking and mobile platforms;
- EUR 15M aimed at strengthening IT control systems.

We believe that cost-savings actions could leverage on the following facilitating elements:

Facilitating elements

- Higher starting adj. cost/income ratio vs. average of selected peers (68% vs 61% of peers);
- Advanced branch closure plan (70, out of 130 planned by 2017, already closed and a further 40 to follow in April this year);
- Room for personnel reduction, given a group headcount (Italian perimeter excluding BIM) up to 4,684 in 2015 from 4,615 in 2013 vs. a -1.9% 2011-14 CAGR (source: Bank of Italy) for the Italian banking system;
- Room for group and organisational structure streamlining.
- Agreement with Unions reached on 23 April 2016 which allows the immediate implementation of the reorganisation set out in the Business Plan.

On the other hand, we identify the following challenges:

Challenges

- Lower average cost of employees (EUR 60k in 2015 vs. EUR 74k average for peers);
- Reducing other administrative expenses despite the externalisation of activities;
- Potential higher IT investments needed to update platforms and support new commercial actions;
- Potential difficulties in finding an agreement regarding the activities (back-office) to be outsourced.

Credit risk structural improvement

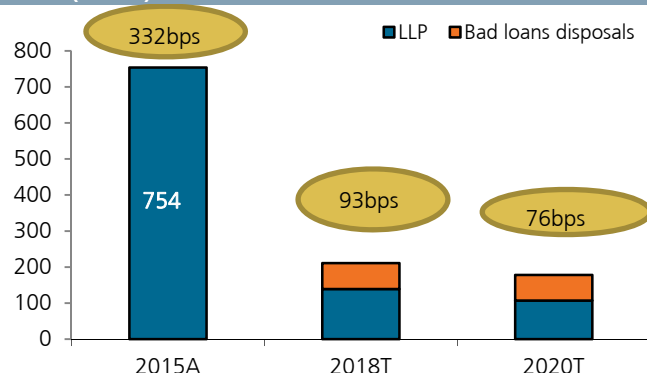
As regards credit quality, Veneto Banca's BP targets:

NPE reduction and loan loss provisions

- A reduction of net NPE (excluding BIM) to EUR 3.2Bn in 2020T (of which EUR 1.1Bn bad loans) from EUR 4.6Bn in 2015 (EUR 1.5Bn bad loans);
- A decline in the cost of credit to 93bps in 2018T (from 332bps in 2015), down to 76bps in 2020T;
- Gross bad loans' disposal of EUR 1.9Bn, of which EUR 450M in 2018 and EUR 600M in 2020;
- An increase in the coverage of NPE from 34.7% (excluding BIM) to 43.2% in 2020 or 38.8% including the effect of bad loans disposals¹⁴.

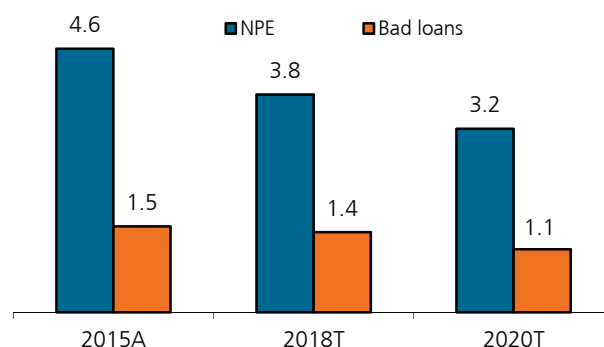
¹⁴ On the basis of the business plan as of 12/02/2016.

Veneto Banca – BP trend in loan loss provisions and cost of credit (EUR M)



A: actual; T: target; Source: Company data

Veneto Banca – BP NPE and bad loans (EUR Bn)



Note: On the basis of the business plan as of 12/02/2016; A: actual; T: target; Source: Company data

Veneto Banca – BP NPE ratios and coverage

%	2015A	2018T	2020T
Gross NPE ratio	27.6	25.0	20.3
Net NPE ratio	20.1	17.2	13.6
Gross bad loan ratio	12.3	11.9	9.6
Net bad loan ratio	6.5	6.2	4.7
NPE coverage pre-disposal	34.7	40.1	43.2
NPE coverage post-disposal	34.7	38.1	38.8

Note: loans excluding BIM; On the basis of the business plan as of 12/02/2016; A: actual; T: target; Source: Company data

We believe that the improvement in asset quality can count on the following facilitating elements:

Facilitating elements

- A severe portfolio clean-up in 2014 and 2015 (see 2013-15 Results Section of the report);
- A more efficient credit management process, potentially limiting new NPE flows (early warnings and delinquency model to promptly monitor the transition of loans to riskier categories);
- Enhanced NPE management and collection process also through the outsourcing of small exposures;
- Set-up of a non-core unit, dedicated to NPE management.

We see as potential challenges:

Challenges

- A higher portion of gross unlikely-to-pay exposures (47% of Veneto Banca NPE) vs. peers (average 43%) at 31 December 2015;
- A higher portion of forborne exposures (8% on Veneto Banca NPE) vs. peers (6.7%) as of December 2015;
- The disposal price of bad loans that will depend on market conditions;
- Low cost of credit targets in 2018T and 2020T excluding bad loans' disposals envisaged in the two years: we calculate an implicit targeted cost of credit of 61bps in 2018 and 46bps in 2020, excluding bad loans disposals envisaged over the two years.

Capital position strengthening and funding structure improvement

Veneto Banca business plan targets a CET1 ratio of 12.4% in 2018 and 14.5% in 2020, from 6.8% (fully-loaded) in 2015.

CET1 ratio up to 14.5% in 2020

The main drivers of the improvement in the capital base should be:

- The planned EUR 1Bn capital increase;
- Self-financing, including the earnings retention and RWA reduction;
- Asset disposals, including BIM and foreign subsidiaries and DTA recovery.

The CET1 ratio evolution includes the negative filter related to “financed shares” (approx. EUR 300M) over the plan period.

The planned capital evolution does not include:

Potential upside

- Any benefits deriving from potential additional asset disposals (e.g. Arca): the business plan only incorporates the disposal of BIM and foreign subsidiaries;
- Any potential benefits deriving from the AIRB models adoption, although not foreseen in the short term.

We consider a 14.5 % CET1 as more than adequate for Veneto Banca: we would not exclude that the company may use the excess capital accumulated after the planned actions in order to accelerate the de-risking of the loans book, by increasing the total amount of NPLs disposals

Liquidity and funding

Veneto Banca's BP targets an LCR ratio up to 105% from 52% at end-2015 (78% at end-March 2016). The planned actions aimed at improving the group's funding mix and liquidity position envisage:

LCR ratio

- A switch from non-collateralised to collateralised funding;
- Increased access to wholesale funding and securitisation;
- Switch to less volatile customers, like SMEs.

We calculate that the business plan targets embed a worsening of the loan-to-deposit ratio in 2020 (110% vs. 101% in 2015 and 108% in 2018).

LTD ratio

Consolidation: A Possible Option

Although the company's business plan has been defined on a stand-alone basis, we believe that the involvement in a consolidation process could be an option for Veneto Banca, after the planned EUR 1Bn capital increase and the IPO.

Consolidation is an option after the capital increase and the IPO

In 2015, the Italian government approved the reform of the Popolari banking sector, requiring Popolari banks with assets above EUR 8Bn to transform into joint stock companies by December 2016. The reform involved 10 popolari banks: UBI, BP, BPM, BPER, CVAL, POPSO, Veneto Banca, Popolare di Vicenza, Banca Popolare di Bari and Banca Etruria. To date, only UBI Banca, Veneto Banca and Banca Popolare di Vicenza have completed the demutualisation process.

We believe that demutualisation could be the driver for the start of the consolidation process within the Italian Popolari sector (or former Popolari banks). BPM and BP have recently announced a merger between the two companies.

We believe that Veneto Banca could be a potential candidate to take part in the consolidation process, thanks to its strong presence in some attractive regions, and the potential scope for synergies, from the pooling of central functions and IT, branches' rationalisation and a reduction in the cost of funding.

Taking as a reference point the last (albeit dated) mergers between Popolari banks (BPV-BPN in 2002, BPB-BPCI in 2003, BPU-BL in 2006 and BPVN-BPI in 2006), we highlight that the announced cost synergies amounted to 10% of the aggregate cost base. Also in the recently announced BP-BPM merger plan, annual cost synergies have been estimated at 10.5% of the combined cost base.

We believe that in a larger group Veneto Banca could benefit from a reduction in the cost of funding, which is currently above the average of the main competitors.

Moreover, the capital base could potentially be enhanced through M&A, with a possible acceleration of the process towards the validation of the AIRB models, currently not envisaged by the bank in the short term.

We ran a sensitivity analysis (shown below) in order to assess the potential enhancement of 2020E ROTE for Veneto Banca, considering a potential reduction in operating costs (on top of actions already envisaged in the company's business plan) and the cost of funding. The result of our analysis is shown in the table below.

Veneto Banca - Simulation on 2020E ROTE enhancement deriving from a reduction in operating costs and cost of funding												
		Cost synergies as a % of cost base										
		0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
% of saving in the cost of funding	0.0%	0.0	0.2	0.5	0.7	0.9	1.2	1.4	1.6	1.9	2.1	2.3
	0.1%	0.5	0.8	1.0	1.2	1.5	1.7	1.9	2.2	2.4	2.6	2.9
	0.2%	1.0	1.3	1.5	1.7	2.0	2.2	2.5	2.7	2.9	3.2	3.4
	0.3%	1.6	1.8	2.0	2.3	2.5	2.7	3.0	3.2	3.4	3.7	3.9
	0.4%	2.1	2.3	2.6	2.8	3.0	3.3	3.5	3.7	4.0	4.2	4.4
	0.5%	2.6	2.8	3.1	3.3	3.5	3.8	4.0	4.3	4.5	4.7	5.0
	0.6%	3.1	3.4	3.6	3.8	4.1	4.3	4.5	4.8	5.0	5.2	5.5

Source: Intesa Sanpaolo Research estimates

The market shares of branches by geographic are shown in the table below.

Italian Banks – Market shares by geographic area (Dec. 2015)													
%	VB	BPE	BPM	UBI	BP	BPVi	CVALI	BPS	BPBari	UCG	CRG	BMPs	Credem
Emilia-Romagna	0.3	9.6	0.9	1.4	6.9	0.5	0.2	0.2	0.1	15.3	0.9	4.7	4.0
Friuli-Venezia Giulia	2.0	0.1	0.1	1.0	2.0	6.6	0.0	0.0	0.0	15.4	0.0	6.7	0.8
Trentino-Alto Adige	0.0	0.3	0.0	0.1	1.7	0.2	1.2	0.7	0.0	8.1	0.0	0.3	0.5
Veneto	5.2	1.1	0.2	0.9	9.5	7.0	0.5	0.2	0.1	15.1	1.4	8.8	0.9
North East	2.4	4.2	0.4	1.0	6.8	3.7	0.4	0.2	0.1	14.5	0.9	6.1	2.1
Liguria	0.8	0.5	1.3	4.4	13.7	0.6	0.0	0.8	0.0	8.7	26.1	3.6	1.0
Lombardia	1.2	0.7	7.0	12.9	8.9	1.3	3.9	4.4	0.1	8.2	1.2	5.0	1.3
Piemonte	2.6	1.1	3.6	6.9	9.2	0.1	1.1	0.6	0.0	17.0	2.1	1.9	0.8
Valle d'Aosta	0.0	0.0	0.0	1.1	6.5	0.0	1.1	1.1	0.0	20.7	1.1	4.3	0.0
North West	1.5	0.8	5.5	10.4	9.4	0.9	2.8	3.0	0.1	10.7	3.7	4.1	1.1
Lazio	0.4	2.6	2.6	4.2	2.8	1.0	1.9	1.7	0.9	20.1	1.5	7.2	1.0
Marche	3.8	0.8	0.1	7.5	0.5	0.1	3.5	0.0	1.5	7.9	0.5	6.4	0.7
Toscana	0.0	0.5	0.2	0.3	9.7	3.3	0.6	0.0	0.2	7.3	3.8	19.0	1.7
Umbria	1.8	0.4	0.0	3.5	2.3	0.4	0.6	0.0	6.3	16.2	0.4	9.8	1.0
Center	1.0	1.4	1.1	3.3	4.8	1.6	1.6	0.7	1.2	13.2	2.1	11.5	1.2
Abruzzo	0.6	15.3	0.2	2.7	0.3	0.2	0.0	0.0	11.6	6.5	0.0	7.5	0.5
Basilicata	7.7	15.4	0.0	8.6	2.3	0.0	0.0	0.0	14.9	5.0	0.0	4.5	0.9
Calabria	0.0	9.2	0.0	18.3	1.7	3.1	0.0	0.0	1.7	5.9	0.0	11.8	7.2
Campania	0.3	6.4	0.1	5.3	4.5	0.1	0.0	0.0	3.5	12.9	0.0	8.0	3.1
Puglia	5.2	2.7	2.8	7.3	1.4	0.2	0.0	0.0	6.2	10.8	0.7	9.7	4.2
South	2.2	7.4	1.0	7.1	2.6	0.4	0.0	0.0	5.9	10.5	0.2	8.7	3.3
Sardegna	0.0	65.9	0.0	0.2	1.9	0.0	0.0	0.0	0.0	8.7	1.7	2.5	0.8
Sicilia	0.0	1.1	0.0	0.0	6.9	4.9	8.4	0.0	0.0	25.0	3.8	9.9	4.2
Islands	0.0	19.8	0.0	0.0	5.4	3.5	6.0	0.0	0.0	20.3	3.2	7.8	3.2
Total	1.6	4.0	2.2	5.2	6.0	1.9	1.7	1.1	1.1	12.9	2.1	7.1	1.8

Source: Intesa Sanpaolo Research elaborations on Bank of Italy and companies data (Dec 2015)

Earnings Outlook

Our estimates incorporate the planned EUR 1Bn capital increase and, differently from the company's business plan, do not incorporate the disposal of BIM and foreign subsidiaries as the deals have not yet been agreed or finalised.

We expect 2016E to be another year of transition for the bank, still characterised by a significant cost of risk, with the progressive reduction in the cost of funding and enhancement of the fee-based business slowed down by the deposit outflow experienced at the end of 2015 and beginning of 2016.

On the other hand, we expect the company to kick-off the efficiency actions, with a positive impact on the cost structure, the effects of which should already be visible in 2016E. Moreover, on the asset quality side, we expect the significant clean-up completed by the bank in the last couple of years to translate into a reduction in the cost of risk, which should nevertheless remain at a fairly high level in the next few years, in our view.

We expect Veneto Banca to report a net loss of EUR 78M in 2016E and a net income of EUR 90M in 2018E, for a ROTE of 3.2%, and EUR 184M in 2020E, for a ROTE of 6.0%.

2016: another transitional year

Veneto Banca – Estimates (2015A-20E)								
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-18 CAGR%	2015-20 CAGR%
Net interest income	505	464	473	497	523	557	-0.5	2.0
Net fees	273	265	285	311	333	355	4.4	5.4
Dividends	5	3	3	3	3	3	-15.3	-9.0
Net trading income	179	60	60	60	60	60	-30.5	-19.6
Other operating Income (expense)	-15	3	3	3	3	3	NM	NM
Total income	947	795	824	874	922	979	-2.6	0.7
Payroll	-341	-341	-314	-296	-291	-287	-4.6	-3.4
Administrative expenses	-275	-208	-205	-204	-204	-204	-9.5	-5.8
D&A (PPE & Int.)	-70	-47	-44	-44	-42	-37	-14.4	-11.9
Operating costs	-685	-596	-562	-543	-537	-528	-7.5	-5.1
Gross operating profit	261	199	262	330	385	451	8.1	11.5
Loan loss provisions	-754	-303	-245	-221	-203	-211	-33.5	-22.5
Net write-downs on other assets	-7	0	0	0	0	0	NM	NM
Provisions for risks and charges	-88	-30	-10	-10	-10	-10	-51.6	-35.3
Extraordinary income (expenses)	8	0	0	0	0	0	NM	NM
Pre-tax profit	-997	-133	7	99	172	230	NM	NM
Income taxes	191	51	18	-11	-34	-51	NM	NM
Minorities and assets under disposal	-75	5	2	2	4	5	NM	NM
Group net profit	-882	-78	28	90	142	184	NM	NM
Adj. net income	-338	-43	30	90	142	184	NM	NM
Cost income (%)	72	75	68	62	58	54	-4.9	-5.7
Cost of risk (%)	332	140	112	100	89	90	-33.1	-22.9
ROTE (%)	-42.4	-3.3	1.0	3.2	4.9	6.0	NM	NM

A: actual; E: estimates; NM: not-meaningful; Source: Company data and Intesa Sanpaolo Research

P&L forecasts

Revenues driven by fee income growth

We expect the main drivers of revenue to be fee income, as the company needs to fill the gap compared with peers in terms of fee generating products' penetration.

We also expect a positive contribution from the NII evolution over the plan horizon: we expect NII to decline by 8.1% yoy in 2016E and to develop afterwards at a -0.5% 2015-18E CAGR and at a 2.0% 2015-20E CAGR.

NII growth driven by the reduction in the cost of funding

We expect loans to slightly decrease in the 2015-18E period (-0.7% CAGR), due to the deleveraging process in 2016 and the rationalisation of the foreign banks' portfolio (-EUR 1.1Bn loans), which should offset the expected growth related to the economic recovery. We embed in our estimate a recovery of customer loans in the 2018-20E period (+2.5% CAGR).

Slightly declining loans

On margins we see different factors impacting the profitability of the loans' book: on the one hand, the remix of the loans portfolio towards SME (which, according to the business plan, should increase their weighting from 15% to 24% in 2020) should sustain margins; on the other hand, the remix towards high rating profile clients should put pressure on margins. Moreover, pressure from competitors and short-term negative interest rates up to 2019 (we take the yield curve implicit in futures as a reference) should not be supportive of a margin expansion, although the floor at 0% for Euribor on floating rate new loans entered into after August/October 2015 should partially safeguard the margins from a further decline in short-term interest rates. Overall, we assume an asset spread progressively declining over our estimates horizon, from 3.3% in 2015 to 3.1% in 2020E.

Declining asset spread

In line with the business plan expectations, we forecast a progressive reduction of the contribution of the financial portfolio, that we assume is rolled-over in the horizon plan at lower interest rates. We assume the contribution of the financial portfolio to decline from EUR 56M in 2015A to EUR 32M in 2018E and EUR 25M in 2020E, slightly below the business plan targets.

Declining contribution from securities portfolio

With slightly declining loans and asset spread and a lower contribution from the financial portfolio, we expect the reduction of the cost of funding to be the main driver of NII growth over our estimates horizon. Our estimates incorporate a progressive normalisation of the cost of deposits, which is currently above the average of competitors, following the reinforcement of the capital base.

Reduction in cost of funding

In 2016E we believe that the reduction in the cost of funding may be limited by several factors: 1) outflows of deposits in December 2015 and 1Q16 may slow down the reduction in the cost of funding (the company is still offering tied deposits at a 2% interest rate on new money: "Tornaconto"); 2) the issue of a EUR 200M LT2 in November 2015 with a coupon of 9.5% (included in the company's business plan), whose cost should impact 2016 for 12 months; 3) the increase in CDS of Italian banks potentially makes new issues on the wholesale market more expensive; 4) S&P's recent downgrade; 5) we expect Veneto Banca to return to paying the coupon on the preference shares (nominal value of EUR 137M), which had been suspended in 2015, with a negative impact of around EUR 9M in 2016E; and 6) a lower recourse to Repos with CCG, in order to reinforce the funding position.

On the other hand, the planned capital increase and the maturity of wholesale and retail bonds could at least partially offset the above-mentioned factors. For these reasons, we expect the liability spread to materially improve only from 2017E.

Moreover, the company could take advantage of the TLTRO II: on 10 March 2016, the ECB announced four TLTRO II operations that will be conducted in June, September and December 2016 and in March 2017. TLTRO II will have a maturity of four years from the settlement of each operation without any mandatory early repayment. Banks will be able to borrow up to 30% of eligible loans as of January 2016 (loans to Euro area non-financial corporations and households, excluding loans to households for house purchase), less any amount which was previously borrowed under the TLTRO I. The interest rate applied to TLTRO II will be fixed for each operation at the main refinancing rate (MRO, currently set at 0%) at the time of allotment; in addition, banks whose eligible net lending in the period between 1 February 2016 and 31 January 2018 exceeds their benchmark¹⁵ will be charged a lower rate for the entire term of the

Potential benefits from TLTRO II

¹⁵ Counterparties will receive the maximum rate reduction equal to the difference between the MRO rate and the rate on the deposit facility applicable at the time of take-up if they exceed their benchmark stock of eligible loans by 2.5% in total as at 31 January 2018. Up to this limit, the size of the decrease in the interest rate will be graduated linearly depending on the percentage by which a counterparty exceeds its benchmark stock of eligible loans. For counterparties that exhibited positive eligible net lending in the 12-month period to 31 January 2016, the benchmark net lending is set at zero. For

operation linked to the interest rate on the deposit facility prevailing at the time of the allotment of each operation (currently set at -0.4%). Banks can roll over amounts borrowed under the TLTRO I into TLTRO II.

We do not believe that the TLTRO II would change the long-term funding plan of the company, but we think that it could allow Veneto Banca to better manage the outflow of deposits experienced in the last part of 2015 and beginning of 2016, to gain time to rebalance its customer funding.

Veneto Banca borrowed EUR 2290M under the TLTRO I. In our estimates, we assume that the company may rollover its TLTRO I into TLTRO II at the first opportunity, increasing the total take-up to EUR 2.6Bn in order to benefit from the lower cost (maximum 0% vs. 0.10% of the current TLTRO) and the longer maturity profile (4 years vs. 2 years remaining for TLTRO I).

Veneto Banca - NII expected evolution (2015A-20E)							
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-18 2015-20 CAGR% CAGR%
NII on Securities	56	42	33	32	31	25	-16.8 -15.2
Commercial NII	449	422	440	465	493	533	1.2 3.5
NII	505	464	473	497	523	557	-0.5 2.0
Yield on lending (%)	3.3	3.1	3.0	3.0	3.1	3.2	
Yield on interest bearing assets (%)	3.1	2.9	2.8	2.9	2.9	3.0	
Yield on interest bearing liabilities (%)	-1.3	-1.2	-1.1	-1.0	-1.0	-1.0	
Mark-up (%)	3.3	3.4	3.3	3.3	3.2	3.1	
Mark-down (%)	-1.3	-1.5	-1.4	-1.3	-1.1	-0.9	
Spread (%)	2.0	1.9	1.9	2.0	2.1	2.2	

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research estimates

We expect fee income to increase at a 4.4% 2015-18E CAGR and a 5.4% 2015-20E CAGR, increasing the weighting of fee income in core revenues from 35% in 2015A to 38% in 2018E and 39% in 2020E, still maintaining a gap compared with the average of the main competitors (42%).

Fee income growth driven by asset management fees

We assume an increase of indirect deposits at a 1.1% 2015-20E CAGR, of which a decline in AUC at a 4.1% 2015-20E CAGR and an increase in AUM at a 9% 2015-20E CAGR. Considering that we do not see room to switch direct funding into assets under management, given the stretched liquidity position of the bank, we assume that the increase in AUM is driven by:

Among fee income, we expect the largest increase in AM fees

- A EUR 0.8Bn net inflow (including new hirings of Financial Advisors and Private Bankers);
- A EUR 1.5Bn switch between assets under custody and assets under management, assuming that the company may switch around 25% of AUC not invested in equity into AUM over our estimates horizon;
- A EUR 0.2Bn performance effect (negative in 2016E and between 1% and 2% afterwards);

In 2020E, we estimate that the weighting of AUM in indirect deposits increases from 34% to 49%, broadly in line with the current weighting of AUM in main peers (50%).

The evolution of indirect deposits incorporated in our estimates is more conservative compared with the company's business plan: we expect total indirect funding at EUR 15.9Bn in 2018E and EUR 17.2Bn in 2020E compared with EUR 18.2Bn in 2018T and EUR 20.4Bn in 2020T (i.e. 4.6% 2015-20 CAGR) envisaged in the company's business plan. We expect AUM at EUR 7.0Bn in 2018E and EUR 8.5Bn in 2020E compared with EUR 7.8Bn in 2018T and EUR 9.6Bn envisaged in the company's business plan.

Our estimates are more conservative on indirect deposits

counterparties that exhibited negative eligible net lending in the 12-month period to 31 January 2016, the benchmark net lending is equal to the eligible net lending in that period.

Veneto Banca - Indirect deposits expected trend (2015A-20E)							
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-20E CAGR (%)
AUC BoP	10,641	10,721	9,375	9,244	8,965	8,830	
Net Inflow		-500	68	68	68	68	
Switch from AUC to AUM		-146	-293	-439	-293	-293	
Performance effect		-700	94	92	90	88	
AUC EoP	10,721	9,375	9,244	8,965	8,830	8,694	-4.1
AUM Bop		5,534	5,330	6,066	6,962	7,730	
Net Inflow		-350	336	336	336	336	
Switch from AUC to AUM		146	293	439	293	293	
Performance effect		0	107	121	139	155	
AUM EoP	5,534	5,330	6,066	6,962	7,730	8,513	9.0
o/w funds	3,439	3,267	3,819	4,480	5,057	5,645	
o/w Discretionary accounts	343	313	319	326	332	339	
o/w life insurance	1,752	1,751	1,927	2,156	2,341	2,529	
Total Indirect Funding	16,255	14,705	15,309	15,927	16,560	17,207	1.1
AUM/Indirect Deposits (%)	34	36	40	44	47	49	

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

While the main growth is expected in AUM fees, we expect the bulk of fee income to remain driven by the traditional banking business. We assume traditional banking fees to start improving in 2017E, with an acceleration thereafter thanks to the success of the commercial actions aimed at increasing the products currently underpenetrated at Veneto Banca (non-life insurance, debt cards, credit cards and personal loans).

Fee income also driven by traditional banking

Veneto Banca - Fee income expected trend (2015A-20E)							
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-20E CAGR %
Fee income	273	265	285	311	333	355	5.4
o/w Banking Fees	214	203	218	232	241	251	3.2
o/w Indirect Deposits Fees	59	62	67	79	92	105	12.1
o/w Mutual funds and DA	33	34	38	46	55	65	14.4
o/w Life insurance	19	21	23	27	30	34	12.5
o/w AUC	7	7	6	6	6	6	-3.9
Indirect deposit margin (%)	0.37	0.40	0.45	0.51	0.56	0.62	11.0

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

We expect fee income to increase at a 4.4% 2015-18E CAGR and a 5.4% 2015-20E CAGR. Our estimates on fee income are more prudent compared with the company's business plan that envisages fee income increasing at an 8.2% 2015-18T CAGR and at a 7.2% 2015-20T CAGR, embedding a 6.7% 2015-20T CAGR in traditional banking income (vs. 3.2% embedded in our estimates).

We highlight that the fee generation in the last few years has been penalised by the need to place own shares and, more recently, by pressure on funding that defocused the network from the fee generating business. In 1Q15, after the completion of the capital increase in 2014 (EUR 499M) and despite the start of the investigation into the former managers the group generated EUR 77M of fee income in one quarter (admittedly, in a positive environment for the asset management industry), compared with the EUR 65M quarterly average in the remaining three quarters of the year and a EUR 72M quarterly average in 2014. A higher focus on the commercial activity envisaged in the company's business plan, after the planned capital increase and the solution of the issues on funding, could help to revamp the fee income, in our view.

Veneto Banca - Fee income quarterly trend (2014-15A)			
EUR M	2014A	2015A	2016A
1Q	71	77	59
2Q	75	66	
3Q	66	62	
4Q	76	67	
Quarterly average	72	68	

A: actual; Source: Company data

We expect trading income to significantly reduce its contribution to the top line in the next few years: in 2015, trading income benefited from the disposal of the stake in ICBPI that contributed positively for EUR 155M, more than offsetting the write-down of AFS securities for EUR 83M. Net of these non-recurring items, trading income in 2015 stood at EUR 106M, mainly thanks to the disposal of government bonds. Considering that the capital gains embedded in the government bond portfolio at December 2015 were EUR 26M and the limited scope for a further improvement in the spread since then, we maintain a more prudent approach to trading profit in our estimates horizon by assuming EUR 60M trading income per year, with an overall contribution of trading, dividends and other operating income broadly in line with the business plan indications.

Expected lower trading income

Operating costs

We substantially align our expectations to the company's business plan in terms of staff costs, with the only difference being that we are not incorporating the disposal of the foreign subsidiaries, as disposals have not yet been agreed nor finalised.

The plan envisages staff costs to benefit from: 1) 430 staff exits in the 2016-20 period, including FTE reduction thanks to early retirements, turnover, and no renewal of fixed-term contracts; 2) the exit of 300 staff following the outsourcing of activities envisaged in the business plan; and 3) a reduction in overall wages.

Staff costs

In our estimates, we assume EUR 47M cost savings from FTE reduction (based on an average cost per employee of EUR 67k), with the bulk of savings in the first three years.

Veneto Banca - Staff and staff costs expected trend (2015A-20E) (EUR M)						
Staff evolution	2015A	2016E	2017E	2018E	2019E	2020E
FTE EoP (x)	5712	5519	5171	5110	5074	5038
Chg	102	-193	-348	-61	-36	-36
Staff reduction		-203	-58	-61	-36	-36
o/w Early retirement	-36	-87	-22	-25	0	0
o/w no fixed term renewal		-80	0	0	0	0
o/w Stop turnover		-36	-36	-36	-36	-36
Back office outsourcing		0	-300	0	0	0
Private Bankers hirings		10	10	0	0	0
Staff cost evolution	2015A	2016E	2017E	2018E	2019E	2020E
Average FTE (x)	5661	5616	5345	5141	5092	5056
Adj staff costs	342	332	312	296	291	287
Average Salary (k)	60	59.2	58.3	57.6	57.2	56.8
Non-recurring items	-1	9	2	0	0	0
Savings on exits		-8	-19	-14	-3	-2
Salary inflation		-2	-2	-2	-1	-1
Staff costs	341	341	314	296	291	287

Note: Excluding BIM; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

We expect other administrative expenses to decline at a 9.5% 2015-18E CAGR and a 5.8% 2015-20E CAGR, benefiting from:

Admin expenses

- Lower non-recurring G&A that penalised 2015A for EUR 51M: we only include EUR 5M of costs for branch closures split over 2016E and 2017E (60 branches assumed to be closed in 2016E and 60 in 2017E);
- Benefits from branch closures of EUR 10M split over 2016E and 2017E;

- Net benefits from business plan actions that we estimate at EUR 42M over the plan horizon (i.e. 20% of the 2015 operating administrative cost base), which we phased at 50% in 2016E, 15% in 2017E and 2018E and 10% in 2019E and 2020E;
- Higher costs related to the outsourcing of activities that we assume at around EUR 15M, on the basis of the company's guidance;
- Higher contribution to the Deposit Guarantee Scheme from 2016E (booked for six months in 2015);
- Costs for implementing the new commercial actions that we estimate at EUR 15M, mainly concentrated in 2016E and 2017E.

Veneto Banca - G&A expected trend (2015A-20E)						
EUR M	2015A	2016E	2017E	2018E	2019E	2020E
Operating G&A BoP		211	190	188	189	188
Outsourcing project		0	8	8	0	0
Savings per branches closure		-5	-5	0	0	0
Other Business plan actions		-21	-8	-8	-2	-2
New Commercial actions		5	4	2	2	2
Operating G&A EoP	211	190	188	189	188	188
SRF	10	10	10	10	10	10
DGS	2	5	5	5	5	5
Extraordinary G&A	51	3	2	0	0	0
Non Operating G&A	64	18	17	15	15	15
G&A	275	208	205	204	204	204
yoy chg (%)	34	-24	-1	-1	0	0

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

We include in our estimate the EUR 53M investments as envisaged in the company's business plan, splitting them between staff costs and other administrative expenses and D&A.

We expect the cost income ratio to improve from 72.4% in 2015A to 62.2% in 2018E and 53.9% in 2020E.

Cost income ratio to improve

Veneto Banca - Operating costs trend (2015A-20E)						
EUR M	2015A	2016E	2017E	2018E	2019E	2020E
Payroll	-341	-341	-314	-296	-291	-287
Administrative expenses	-275	-208	-205	-204	-204	-204
D&A	-70	-47	-44	-44	-42	-37
Operating Costs	-685	-596	-562	-543	-537	-528
C/I ratio (%)	72.4	74.9	68.2	62.2	58.2	53.9
Adj C/I ratio (%)	69.5	73.4	67.7	62.2	58.2	53.9

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Loan loss provisions

We expect loan loss provisions to remain high over our estimates horizon, albeit declining from the level reached in 2014 and 2015 (that were penalised by the outcome of the AQR and the clean-up in 2015), for several reasons:

Loan loss provisions to remain high over our forecast period

- Veneto Banca's NPE is characterised by a higher than average percentage of UTP (Unlikely to Pay), that we expect to partially move towards bad loans, requiring additional coverage (bad loans coverage at Veneto Banca was 53% vs. 22% of UTP at December 2015);
- Forborne exposure may require additional provisions, considering the lower coverage ratio of forborne non-performing exposure and the higher percentage of performing forborne exposure;
- The bank plans to dispose of EUR 1.9Bn bad loans between 2017 and 2020, requiring additional provisions on the disposed portfolio. In our estimates, we assume the disposal of EUR 425M in 2017E, EUR 450M in 2018E, EUR 425M in 2019E and EUR 600M in 2020E.

Veneto Banca – Loan loss provisions (2015A-20E)							15-18E	15-20E
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	CAGR %	CAGR%
Gross Bad loans	3484	4221	4206	4006	3791	3368	4.8	-1.1
Gross Unlikely to Pay	3524	3155	2782	2618	2528	2495	-9.4	-10.9
Gross Past due	547	495	421	358	286	215	-13.2	-26.8
Gross NPE	7555	7871	7408	6982	6605	6078	-2.6	-7.0
Net Bad loans	1644	1992	1965	1842	1719	1514	3.9	-2.7
Net Unlikely to Pay	2745	2457	2143	1993	1900	1852	-10.1	-12.3
Net Past due	497	450	379	319	253	186	-13.7	-27.9
Net NPE	4886	4899	4487	4155	3871	3552	-5.3	-10.1
Coverage NPE (%)	35.3	37.8	39.4	40.5	41.4	41.6	4.7	5.6
Coverage performing (%)	0.8	0.8	0.8	0.8	0.7	0.7	0.3	-2.6
Gross NPE/loans (%)	28.3	30.9	28.9	26.8	24.9	22.6	-1.7	-7.1
Net NPE/loans (%)	20.4	21.9	19.9	18.0	16.4	14.7	-4.1	-10.4
Net NPE/TBV (%)	256	178	161	145	129	113	-17.4	-23.8
Texas ratio (%)	160	134	127	119	112	105	-9.3	-13.2

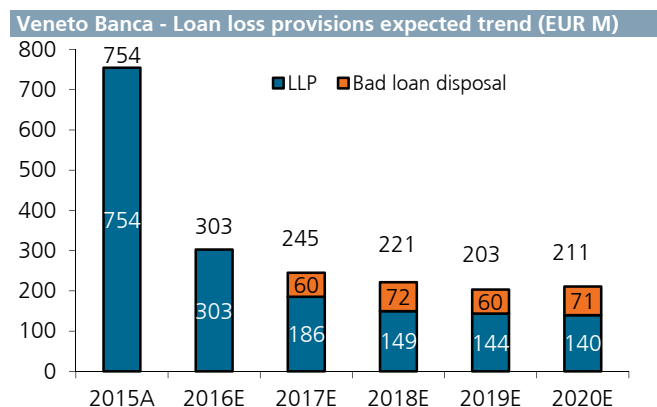
A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

We expect the cost of risk to decline from 332bps in 2015A to 140bps in 2016E, 100bps in 2018E, and 90bps in 2020E, taking a more conservative view compared with the company's business plan.

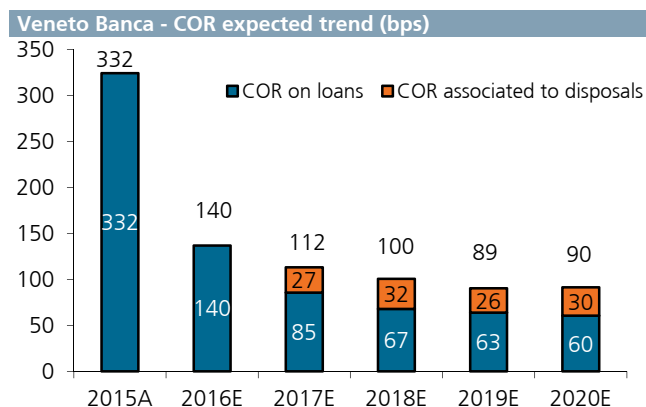
Cost of risk

We assume that the bad loans portfolio under disposal may be disposed at 30% of the book value generating loan loss provisions of EUR 60-72M per year in the 2017-20E period (we reclassify these losses in loan loss provisions instead of trading income, coherent with the criteria used in the business plan). We believe that the Atlante Fund (which plans to invest at least 30% of its funds into NPLs, i.e. EUR 1.3Bn) could have a role in facilitating the disposal of NPLs envisaged in Veneto Banca's business plan.

Excluding the provisions related to the portfolios under disposal, we assume that the cost of risk could range between 140bps in 2016E to 60bps in 2020E, mainly due to the switch from UTP into bad loans, additional net inflow from performing loans in 2016E (EUR 0.3Bn from EUR 754Bn in 2015) and the further increase in coverage (at 40.5% in 2018E and 41.6% in 2020E, from 35.3% in 2015A).



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Our estimates are more prudent compared with the company's business plan, as:

- Net of EUR 1.9Bn bad loans disposals, we assume gross NPE to increase at a 1% 2015-20E CAGR, while we estimate that the company's business plan embeds a flat NPE (excluding BIM) in the 2015-20 period;
- Our estimates embed an increase in NPE coverage to 40.5% in 2018E and 41.6% in 2020E, compared with the 38.1% and 38.8% envisaged in the business plan for 2018 and 2020, respectively.

Provisions for risk and charges and taxes

In our model, we incorporate EUR 30M of provisions for risk and charges in 2016E and EUR 10M thereafter. We highlight that the visibility on such an item is low, considering the potential outcome from the litigations with the shareholders on the value of the shares and the potential outcome from the inspections. We would not exclude that the required provisions could be higher than our forecasts.

Low visibility on risk and charges and taxes

We assume that the new annual commission of DTA¹⁶ introduced by the Law Decree 59/2016 on 3 May 2016 in order to avoid the transformable DTA could be considered in breach of State Aid rules may impact Veneto Banca's bottom line by EUR 9.5M in 2016E, and by EUR 4-5M in the following years.

Our estimates on taxes incorporate a positive effect for ACE related to the capital increase completed before 2015 and planned in 2016. Excluding the ACE effect, the tax rate incorporated in our 2018-20E estimates is 36-37%.

Asset and Liabilities forecasts

We expect the size of the balance sheet to remain broadly stable over our estimates horizon, with an expected deleveraging process in 2016E and a mild growth thereafter.

Deleveraging in 2016E

Veneto Banca - Assets and Liabilities expected trend (2015A-20E)								
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-18E CAGR %	2015-20E CAGR%
Cash and cash equivalents	274	275	275	275	275	275	0.2	0.1
Financial assets	4,090	3,067	3,067	3,067	3,067	3,067	-9.1	-5.6
Due from banks	1,295	1,603	1,603	1,603	1,603	1,603	7.4	4.4
Loans to customers	22,703	21,568	21,784	22,219	22,775	23,344	-0.7	0.6
Tangible assets	436	442	442	442	442	442	0.4	0.3
Intangible assets	101	99	99	99	99	99	-0.8	-0.5
Other assets	4,724	4,407	4,411	4,403	4,415	4,349	-2.3	-1.6
Total assets	33,349	31,186	31,406	31,834	32,400	32,904	-1.5	-0.3
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-18E CAGR%	2015-20E CAGR%
Due to banks	4,855	3,995	4,324	3,972	3,962	3,738	-6.5	-5.1
Due to customers	16,237	14,188	14,394	14,978	15,194	15,430	-2.7	-1.0
Outstanding securities*	6,269	5,944	5,591	5,683	5,914	6,248	-3.2	-0.1
Other liabilities	3,834	4,078	4,088	4,099	4,111	4,123	2.3	1.5
Minority interests (+/-)	145	141	142	144	147	152	-0.4	0.8
Shareholders' equity	2,008	2,839	2,867	2,957	3,072	3,213	13.8	9.9
Tangible book value	1,907	2,740	2,768	2,858	2,973	3,114	14.4	10.3

Note: * including financial liabilities at FVTPL; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research reclassifications;

On the asset side, we expect a mild evolution of customer loans (-0.7% in the 2015-18E period and +0.6% in 2015-20E). In 2016E, we expect declining loans (-5% yoy) and financial assets (-25%), as we believe the company needs to deleverage in order to reinforce the liquidity profile.

Mild evolution of customer loans

¹⁶ According to the European Commission, the conversion of DTAs related to credit write-downs and write-offs, as well as to goodwill and intangible assets, into tax credits could be considered as a breach of State Aid rules to the extent that the convertible DTAs do not correspond to an actual advance payment of taxes. In order to comply with the European Commission's remarks on the matter, an optional regime was introduced by Article 11 of Law Decree 59/2016. Under such regime, the conversion rule is still applicable also to DTAs not corresponding to an actual advance payment of taxes, only to the extent the company opts for the payment of an annual commission (1.5%, tax deductible) computed on the difference between convertible DTAs generated from 2008 onwards and taxes paid in the same period. For Veneto Banca Group, convertible DTAs amounted to EUR 689M as of 31 December, 2015 and convertible DTAs exceeding taxes paid (that will cease to be converted and therefore will be deducted by regulatory capital should the option not be exercised) amounted to EUR 479M as of 31 December, 2015.

On the liabilities side, we assume broadly stable customer deposits, with a remix of securities issued towards the wholesale market, in line with the company's strategy.

Stable customer deposits

Veneto Banca - Funding trend (2015A-20E)								
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	15-18E CAGR%	15-20E CAGR%
Direct funding from commercial network	16,702	15,592	15,195	15,421	15,568	15,788	-2.6	-1.1
Securities issued	2,157	1,404	801	443	374	358	-41.0	-30.2
Deposits	14,545	14,188	14,394	14,978	15,194	15,430	1.0	1.2
Wholesale funding	5,804	4,540	4,790	5,240	5,540	5,890	-3.4	0.3
EMTN and securities issued	2,415	2,113	2,113	2,313	2,613	2,963	-1.4	4.2
Securitization	1,697	2,427	2,677	2,927	2,927	2,927	19.9	11.5
Central counterparty CCG	1,692	0	0	0	0	0	-100.0	-100.0
Total Funding	22,507	20,132	19,985	20,661	21,108	21,678	-2.8	-0.7

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Capital base

We assume that the planned EUR 1Bn capital increase is finalised in 2016E, with a positive impact on shareholders' equity and tangible book value.

Thanks to the capital increase and the earnings retention (we incorporate in our estimate a 30% dividend payout from 2018E), we expect the TBV to increase from EUR 1.9Bn in 2015 to EUR 3.1Bn in 2020E.

We estimate the CET1 FL to increase by 5.5pp from 6.8% in 2015 to 12.3% in 2020E thanks to:

- 409bps from the planned EUR 1Bn capital increase in 2016;
- 104bps from earnings retention;
- 21bps from the recovery of DTA;
- 14bps from RWA reduction, including deleveraging and the disposal of bad loans, considering that the non-performing exposures have a higher risk weighting compared to performing loans.

Our 2020E CET1 FL estimate is below the business plan targets (CET1 at 14.5% in 2020), as we do not incorporate any asset disposals (that should positively impact the CET1 for approx. 100bps in the business plan, including the disposal of BIM and foreign subsidiaries) and we assume a lower internal capital generation over our estimates horizon.

Lower 2020E CET1 FL estimate vs. BP target

Veneto Banca - CET1 FL expected evolution (2015A-20E)						
EUR M	2015A	2016E	2017E	2018E	2019E	2020E
CET1 FL capital	1,575	2,399	2,426	2,489	2,589	2,754
RWA	23,091	22,141	21,967	21,946	22,175	22,441
Credit risk	20,832	19,962	19,859	19,935	20,112	20,278
Market risk	352	352	352	352	352	352
Operational risk	1,908	1,827	1,756	1,659	1,711	1,812
CET1 FL ratio (%)	6.8	10.8	11.0	11.3	11.7	12.3
RWA/TA (%)	69	71	70	69	69	68

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

We expect the main step forward in the CET1 FL to occur in 2016E, when we forecast an improvement of 4pp from 6.8% to 10.8%, mainly thanks to the capital increase.

The improvement in CET1 phased-in is expected to be more limited in 2016E (from 7.2% to 10.9%) as the temporary loss-absorbing capacity of the AT1 on the CET1 phased-in (for a total of EUR 113M in 2015) will no longer be available in 2016.

Comparison between BP targets and our estimates

Our estimates are more prudent compared with the business plan targets as:

- We assume a weaker evolution of NII;
- We assume a weaker evolution of fee income, both in terms of AM fees (lower indirect funding at the end of the business plan) and traditional banking fees;
- We assume higher loan loss provisions in order to increase the coverage above 40% already in 2018E;
- We do not incorporate the disposal of BIM and foreign branches, with a negative impact on the capital base and operating costs, compared with the BP projections.

Veneto Banca - Comparison between BP targets and our estimates (2018-20)									
	Veneto Banca Business Plan					Our estimates			
	2015N	2018T	2020T	2015-18 CAGR %	2015-20 CAGR %	2018E	2020E	2015N-18E CAGR %	2015N-20E CAGR %
P&L (EUR M)									
Net interest income	505	544	596	2.5	3.4	497	557	-0.5	2.0
Net fees	273	346	394	8.2	7.6	311	355	4.4	5.4
Total income	874	950	1,055	2.8	3.8	874	979	0.0	2.3
Operating costs	-609	-526	-513	-8.5	-5.6	-543	-528	-3.7	-2.8
Net result	NM	152	249	NM	NM	90	184	NM	NM
Balance sheet (EUR Bn)									
Net loans	22.7	22.4	23.4	-0.4	0.6	22.2	23.3	-0.7	0.6
Direct funding	22.5	20.7	21.3	-2.8	-1	20.7	21.7	-2.8	-0.7
Indirect funding	16.3	18.2	20.4	3.9	4.6	15.9	17.2	-0.8	1.1
RWA	23.1	19.7	19.8	-5.1	-3	21.9	22.4	-1.7	-0.6
KPIs									
Cost/income (%)	69.5	55.3	48.6			62.2	53.9		
Cost of credit (bps)	332	93	76			100	90		
ROTE (%)	NM	5.1	7.5			3.2	6.0		
CET1 ratio (fully loaded, %)	6.8	12.4	14.5			11.3	12.3		

E: estimates; N: normalised; T: Targets; NM: not-meaningful; Source: Company data and Intesa Sanpaolo Research

Financials

Veneto Banca – P&L estimates (2015A-20E)								
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-18E CAGR %	2015-20E CAGR %
Net interest income	505	464	473	497	523	557	-0.5	2.0
Net fees	273	265	285	311	333	355	4.4	5.4
Dividends	5	3	3	3	3	3	-15.3	-9.0
Net trading income	179	60	60	60	60	60	-30.5	-19.6
Other operating Income (expense)	-15	3	3	3	3	3	NM	NM
Total income	947	795	824	874	922	979	-2.6	0.7
Payroll	-341	-341	-314	-296	-291	-287	-4.6	-3.4
Administrative expenses	-275	-208	-205	-204	-204	-204	-9.5	-5.8
D&A (PPE & Int.)	-70	-47	-44	-44	-42	-37	-14.4	-11.9
Operating costs	-685	-596	-562	-543	-537	-528	-7.5	-5.1
Gross operating profit	261	199	262	330	385	451	8.1	11.5
Loan loss provisions	-754	-303	-245	-221	-203	-211	-33.5	-22.5
Net write-downs on other assets	-7	0	0	0	0	0	NM	NM
Provisions for risks and charges	-88	-30	-10	-10	-10	-10	-51.6	-35.3
Extraordinary income (expenses)	8	0	0	0	0	0	NM	NM
Pre-tax profit	-997	-133	7	99	172	230	NM	NM
Income taxes	191	51	18	-11	-34	-51	NM	NM
Minorities and assets under disposal	-75	5	2	2	4	5	NM	NM
Group net profit	-882	-78	28	90	142	184	NM	NM
Adj net income	-338	-43	30	90	142	184	NM	NM

A: actual; E: estimates; NM: non-meaningful; Source: Company data and Intesa Sanpaolo Research

Veneto Banca – Balance sheet estimates (2015A-20E)								
EUR M	2015A	2016E	2017E	2018E	2019E	2020E	2015-18E CAGR%	2015-20E CAGR%
Cash and cash equivalents	274	275	275	275	275	275	0.2	0.1
Financial assets	4,090	3,067	3,067	3,067	3,067	3,067	-9.1	-5.6
Due from banks	1,295	1,603	1,603	1,603	1,603	1,603	7.4	4.4
Loans to customers	22,703	21,568	21,784	22,219	22,775	23,344	-0.7	0.6
Tangible assets	436	442	442	442	442	442	0.4	0.3
Intangible assets	101	99	99	99	99	99	-0.8	-0.5
Other assets	4,724	4,407	4,411	4,403	4,415	4,349	-2.3	-1.6
Total assets	33,349	31,186	31,406	31,834	32,400	32,904	-1.5	-0.3
	2015A	2016E	2017E	2018E	2019E	2020E	2015-18 CAGR%	2015-20 CAGR%
Due to banks	4,855	3,995	4,324	3,972	3,962	3,738	-6.5	-5.1
Due to customers	16,237	14,188	14,394	14,978	15,194	15,430	-2.7	-1.0
Outstanding securities	6,269	5,944	5,591	5,683	5,914	6,248	-3.2	-0.1
Other liabilities	3,834	4,078	4,088	4,099	4,111	4,123	2.3	1.5
Minority interests	145	141	142	144	147	152	-0.4	0.8
Shareholders' equity	2,008	2,839	2,867	2,957	3,072	3,213	13.8	9.9
Tangible book value	1,907	2,740	2,768	2,858	2,973	3,114	14.4	10.3

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research reclassifications; * including financial liabilities at FVTPL

Veneto Banca – Ratios (2015A-20E)								
%	2015A	2016E	2017E	2018E	2019E	2020E	2015-18 CAGR	2015-20 CAGR
Cost Income ratio	72.4	74.9	68.2	62.2	58.2	53.9	-4.9	-5.7
Cost of Risk	332	140	112	100	89	90	-32.5	-22.6
ROE	-36.9	-3.2	1.0	3.1	4.7	5.9	NM	NM
ROE adj.	-14.1	-1.8	1.1	3.1	4.7	5.9	NM	NM
ROTE	-42.4	-3.3	1.0	3.2	4.9	6.0	NM	NM
ROTE adj.	-16.3	-1.8	1.1	3.2	4.9	6.0	NM	NM
ROA	-0.97	-0.13	0.10	0.29	0.44	0.56	NM	NM
RORWA	-3.70	-0.34	0.13	0.41	0.64	0.82	NM	NM
Revenues on RWA	3.66	3.52	3.74	3.98	4.18	4.39	2.8	3.7

A: actual; E: estimates; NM: non-meaningful; Source: Intesa Sanpaolo Research estimates and elaborations on Company data

Appendix 1: Market Analysis and Competitive Positioning

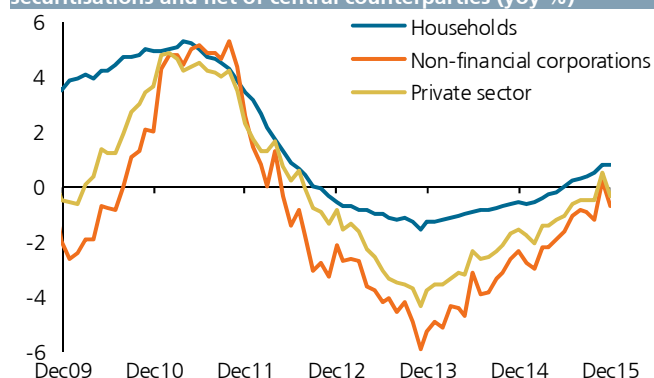
Market Analysis

Lending

Total lending volumes to the private sector recorded a 0.3% yoy decline to EUR 1,553.1Bn at end-2015 (-0.9% yoy in terms of annual average). The negative variation was due to non-financial corporations (-0.7% yoy to EUR 793.5Bn, -1.5% looking at the annual average), while households were up to EUR 620Bn (+0.8% yoy), boosted by mortgages' recovery. Non-financial corporations recorded a 6.6% yoy decline of up-to-1-year loans in December, partially offset by a 2.3% yoy increase in over-1-year loans.

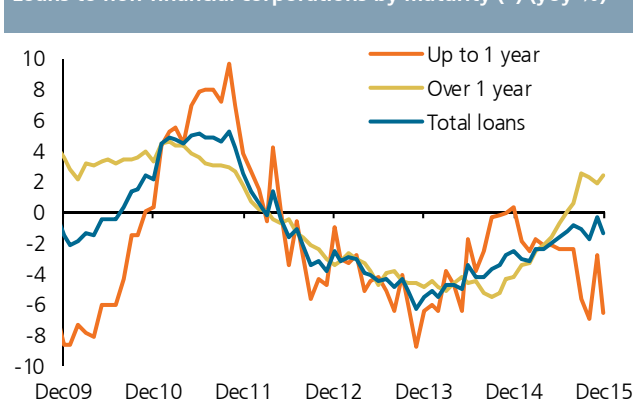
Lending volumes: recovery starting from households

Loans to the private sector resident in Italy, data adjusted for securitisations and net of central counterparties (yoy %)



Source: Bank of Italy

Loans to non-financial corporations by maturity (*) (yoy %)

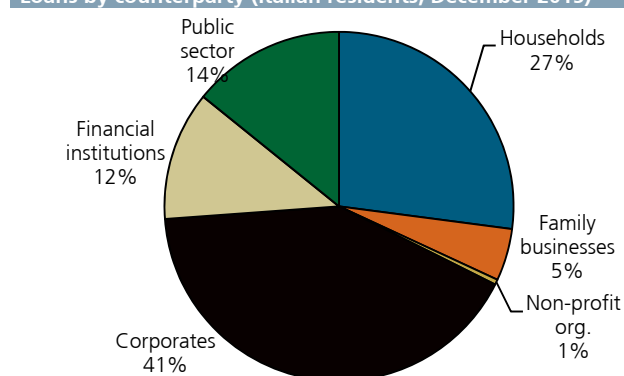


Note: (*) Data referred to Italian bank customers residing in the Euro zone;
Source: ECB and Intesa Sanpaolo Research calculations

Some 41% of the system's loans at end-December 2015 were to corporates (46% including family businesses), followed by households (27%), public sector (14%) and financial institutions (12%). As regards sectors, manufacturing (24%), construction (17%) and commerce (16%) represented more than 50% of the system's corporate loans at end-2015.

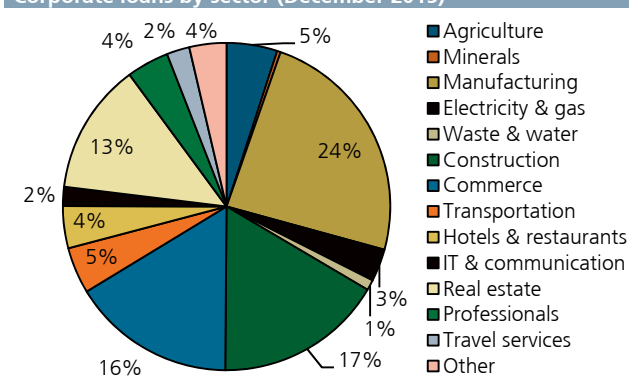
46% of loans to corporates, 27% to households

Loans by counterparty (Italian residents, December 2015)



Source: Intesa Sanpaolo Research elaborations on Bank of Italy data

Corporate loans by sector (December 2015)



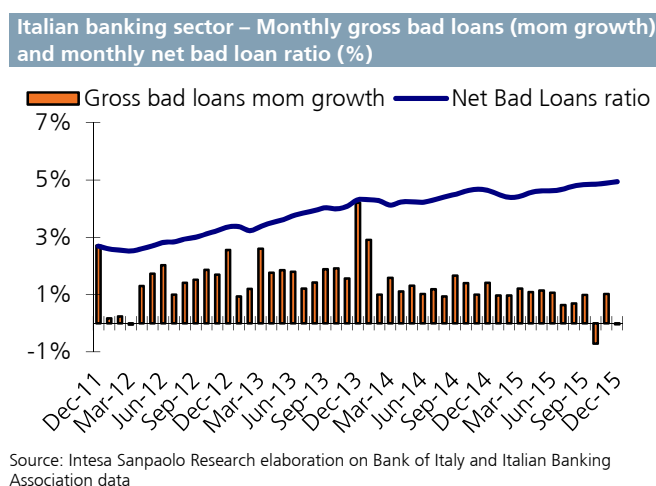
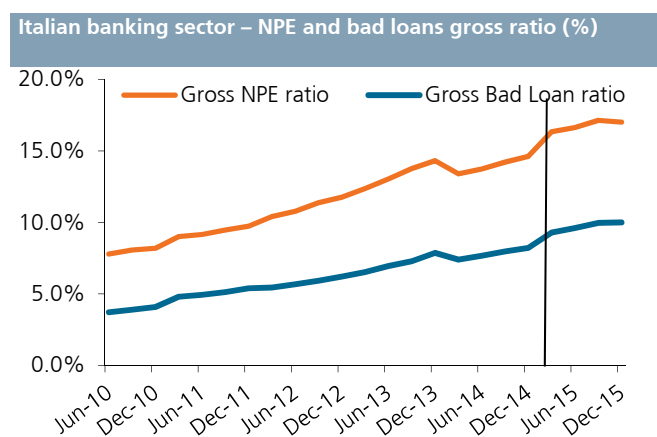
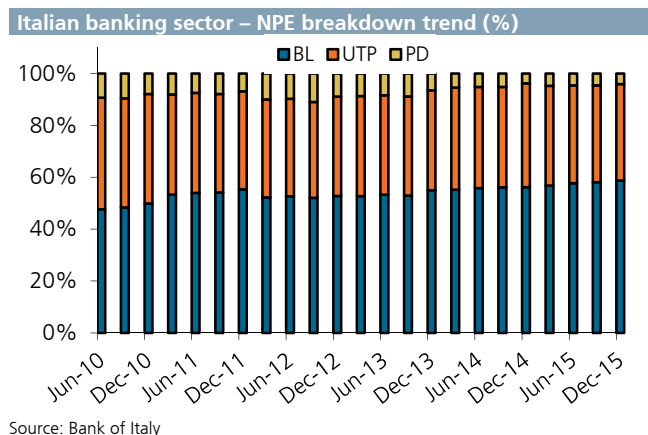
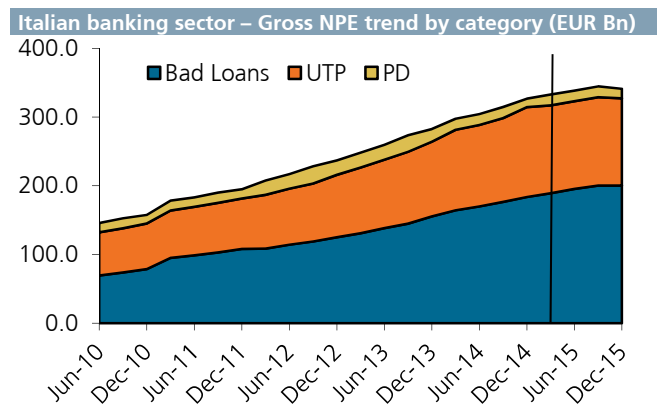
Note: Corporates and family businesses, Italian residents only. Source: Intesa Sanpaolo Research elaborations on Bank of Italy data

According to the Bank of Italy, in December 2015 bad loans increased by 9.4% yoy to EUR 200.9Bn, with a deceleration in the growth compared with the previous month (+11% yoy), December 2014 (+17.8% yoy) and December 2013 (+24.7% yoy). Net bad loans were up to EUR 89Bn at end-December 2015, from EUR 88.8Bn at end-November (EUR 84.5Bn at end-December 2014).

Bad loans: growth deceleration

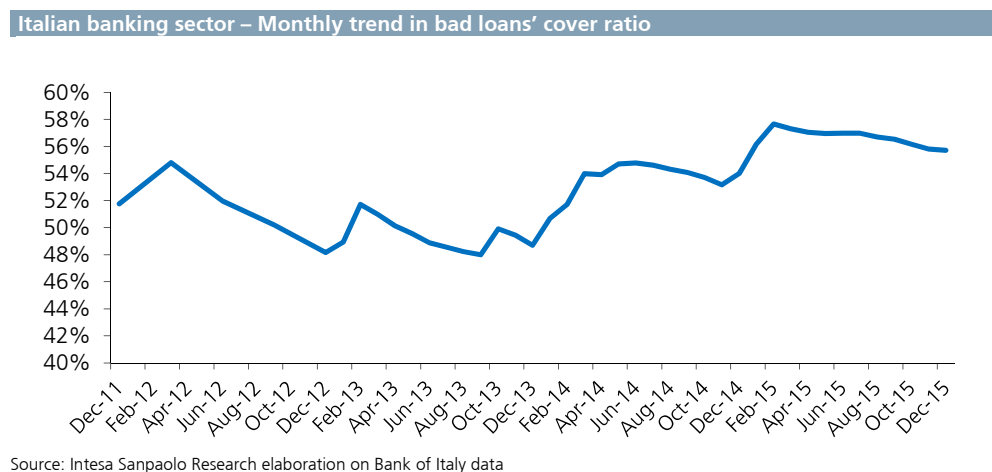
Bad loans represented approximately 58% of total gross NPEs at end-September (from 55% at end-2013 and 56% at end-2014).

At September 2015, NPE were EUR 344.6Bn, up by 10% yoy.



At December 2015, the net bad loans ratio was 4.94% (4.89% November 2015 and 4.64% at December 2014). The cover ratio was 55.7% at end-December 2015 (54% at December 2014).

Net bad loans ratio at 4.94% at YE15; 55.7% cover ratio

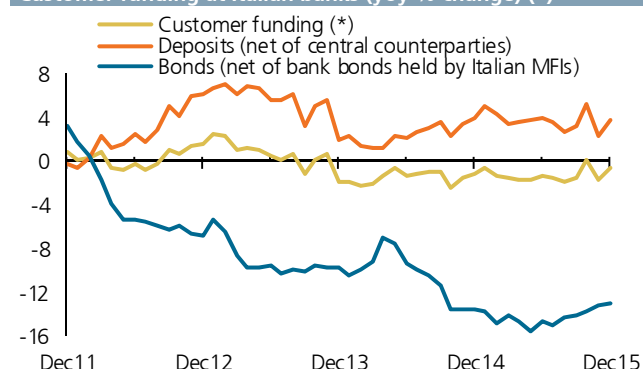


Deposits

Total customer funding was down 0.5% yoy to EUR 1,698.3Bn at end-2015, due to the strong decline recorded by bonds (EUR 386.1Bn, -15.1% yoy). Direct deposits (excluding bonds) were up 4% yoy (in line with the average of FY15) to EUR 1,312.2Bn at end-December 2015, boosted by current accounts, up 8.5% yoy in December (EUR 877Bn).

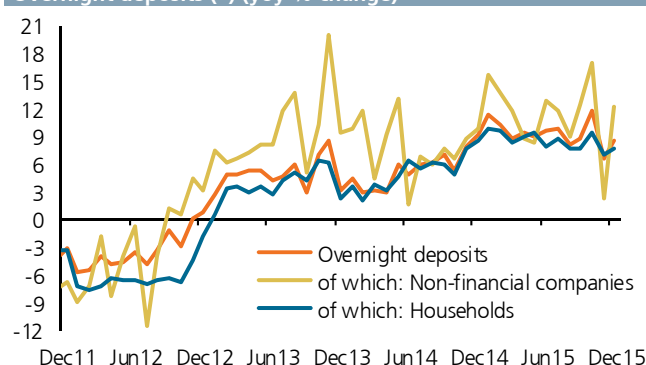
Current accounts almost offsetting bonds' decline

Customer funding at Italian banks (yoy % change) (*)



(*) Excluding deposits with central counterparties and bonds purchased by Italian MFIs. Deposits and funding exclude liabilities related to loans sold and not cancelled
 Source: Bank of Italy and Intesa Sanpaolo Research calculations

Overnight deposits (*) (yoy % change)

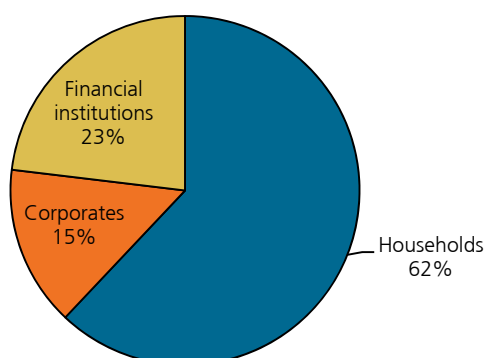


(*) Data referred to the liabilities of Italian MFIs towards Euro zone residents. Note: overnight deposits = current accounts; Source: ECB

Households contributed 62% of total system funding at end-2015, followed by financial institutions (23%) and corporates (15%). Current accounts (overnight) represented 39% of total direct deposits, followed by bonds (27%).

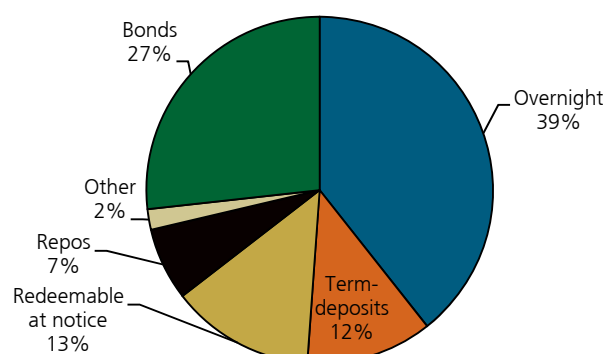
Households contributing more than 60% of total funding

Total funding breakdown by counterparty (December 2015)



Source: Intesa Sanpaolo Research elaborations on Bank of Italy data

Total funding breakdown by type (December 2015)



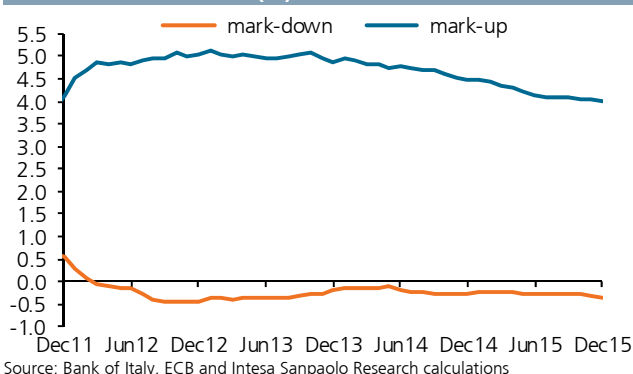
Source: Intesa Sanpaolo Research elaborations on Bank of Italy data

Margins

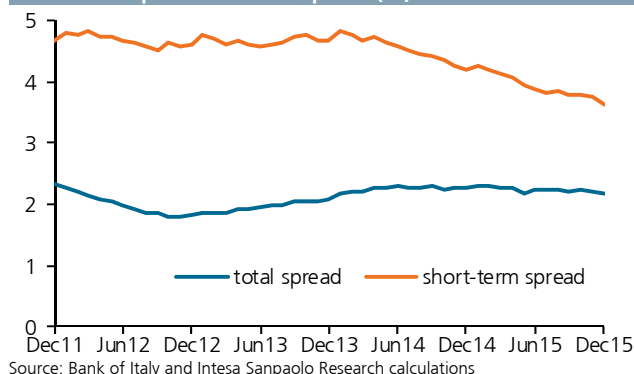
Despite the declining cost of funding, the average spread only slightly improved to 2.12% in 2015, from 2.10% in 2014 (source: ABI), due to the wide decrease in interest rates on loans. Looking at the short-term spread, December data highlights a mark-up (on 1-month Euribor) of 3.99%, with a mark-down at -0.35%.

Total spread down to 2.17%

Short-term contribution (%)



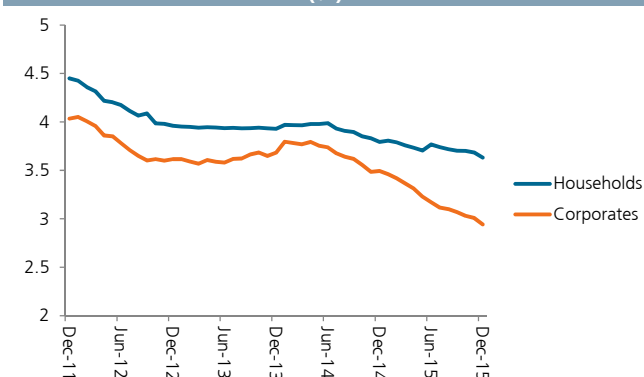
Short-term spread and total spread (%)



The interest rate on household loans was down to 3.63% at December 2015 (6bps lower than November) vs. 3.79% at end-2014 and 3.93% at end-2013. The interest rate on the stock of mortgages was 2.60% (2.49% on new loans in December). The interest rate on the stock of loans to corporates was 2.94% (1.74% on new loans) at December 2015 (7bps lower than November) vs. 3.49% at end-2014 and 3.68% at end-2013.

Yield on loans

Interest rates on loans' trend (%)



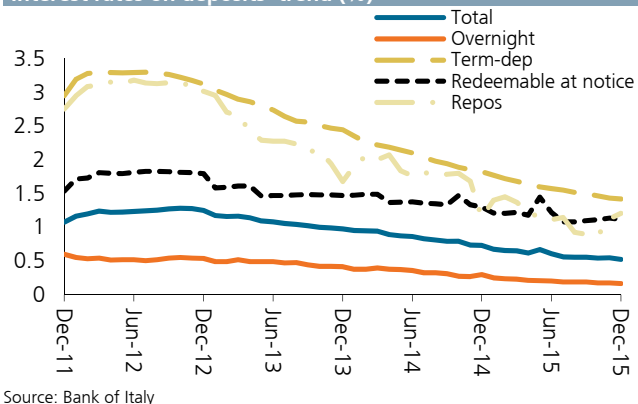
Interest rates on loans (new book and back book, Dec-15, %)



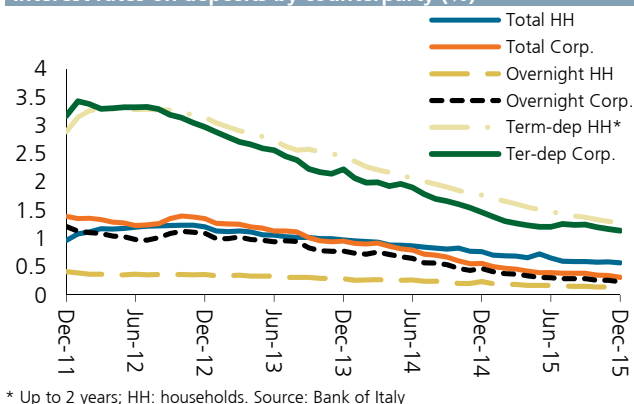
At end-2015, the interest rates on deposits were down again (-2bps mom to 0.52%, the minimum level since January 2003), after stabilising in November. Current accounts (overnight) were down to 0.16% from 0.29% in December 2014. The decline was mainly driven by lower rates on corporate deposits.

Yield on deposits

Interest rates on deposits' trend (%)



Interest rates on deposits by counterparty (%)

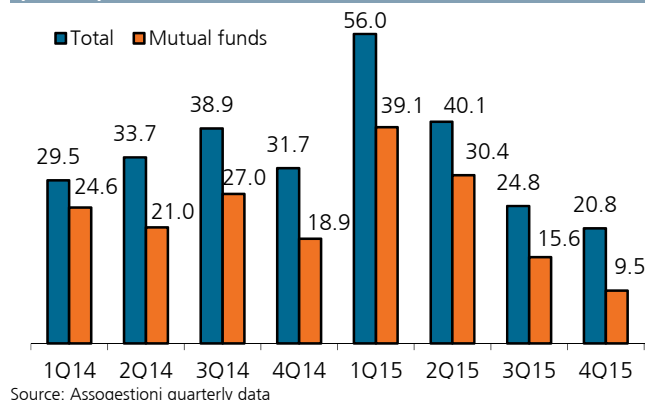


Asset Management

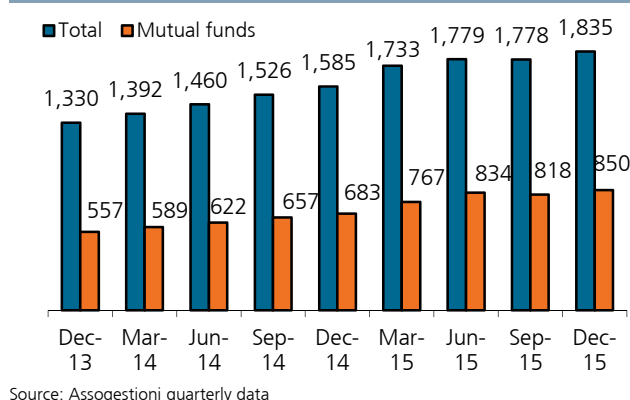
The Italian asset management industry entered a recovery phase in 2013, boosted by decreasing interest rates, leading investors to look for attractive yields from financial instruments as an alternative to government bonds. As shown by Assogestioni sector data, this positive trend accelerated in 2014 and 2015. After the EUR 62Bn gathered in 2013 (of which EUR 46Bn in mutual funds) and the EUR 134Bn in 2014 (almost EUR 92Bn in mutual funds), the system had a total net inflow of EUR 142Bn in 2015, of which almost EUR 95Bn in mutual funds (source: Assogestioni's quarterly data).

Strong net inflows in 2014-15, driven by mutual funds ...

Italian asset management – 2014-15 quarterly net inflows (EUR Bn)



Italian asset management – 2014-15 quarterly assets (EUR Bn)



Data related to household financial assets' flows show a significant increase in the contribution of mutual funds, pension funds and life products, mainly as a result of a switch from Italian government bonds and bank bonds.

Italian household financial assets – Flows (1999-3Q15)

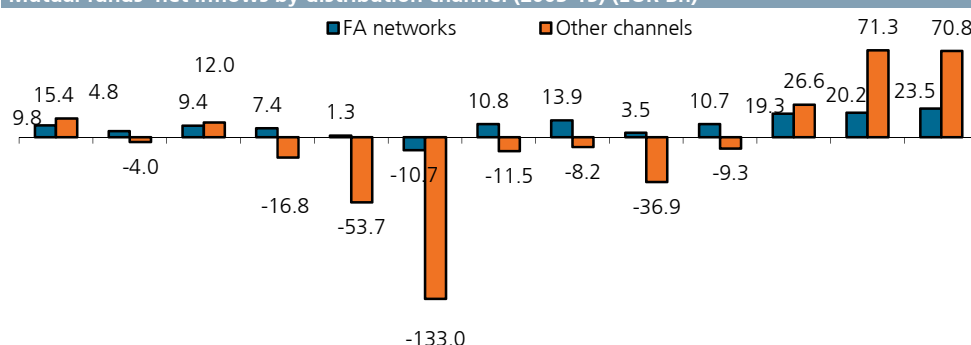


Source: Assogestioni on Bank of Italy data

On the offer side, mutual funds received a strong boost from banking distribution, which, after several years of outflows, returned to a positive trend and strong net inflows from 2013.

... and banks as distribution channel ...

Mutual funds' net inflows by distribution channel (2003-15) (EUR Bn)



2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Note: other channels mostly represented by banking branches; FA: financial advisors; Source: Assogestioni on Assogestioni and Assogestioni data

Despite the significant growth recorded in the past three years and the process already-in-place of switching from bonds to funds, the Italian mutual funds industry still offers growth potential, considering:

...but still untapped potential

- Growing Italian household financial assets (above EUR 3.9Trn at end-2014 vs. EUR 3.8Trn at end-2013, source: Bank of Italy);
- A significant portion of household financial assets (10.8% at September 2015) invested in bonds, with mutual funds representing 10.4% of Italian household financial wealth at the same date (close to the 2005 level but still far from the 17% recorded in 2000) vs. 12.9% in the US.

Households financial assets - Historical and across countries' breakdown (%)

	Total Asset	Currency & deposits	Bonds		Stocks		Investment funds	Pension funds & life pr
			Total	Issued by banks	Total	Listed		
Italy	€ bn	%	%	%	%	%	%	%
1995	1,799	38.2%	22.6%	1.9%	19.3%	2.8%	5.8%	8.7%
2000	3,041	22.9%	16.5%	6.4%	29.5%	5.4%	17.0%	10.0%
2005	3,864	23.6%	19.0%	7.1%	28.3%	2.4%	11.0%	14.2%
2010	3,633	30.7%	19.7%	10.3%	20.1%	2.0%	7.5%	17.6%
2012	3,732	31.6%	19.3%	10.0%	19.7%	1.6%	7.3%	17.8%
2014	3,951	31.4%	13.6%	6.2%	22.0%	1.6%	9.6%	19.4%
2015 Q3	4,014	30.9%	10.8%	5.0%	23.8%	1.7%	10.4%	20.1%
2015 Q3								
France	4,804	28.5%	1.4%	n.a.	20.1%	4.2%	6.8%	34.3%
Germany	5,373	39.3%	3.3%	n.a.	9.8%	4.6%	9.7%	31.2%
UK	8,126	24.2%	1.6%	n.a.	6.4%	2.4%	3.9%	59.6%
USA	61,523	13.7%	5.0%	n.a.	33.8%	n.a.	12.9%	32.7%

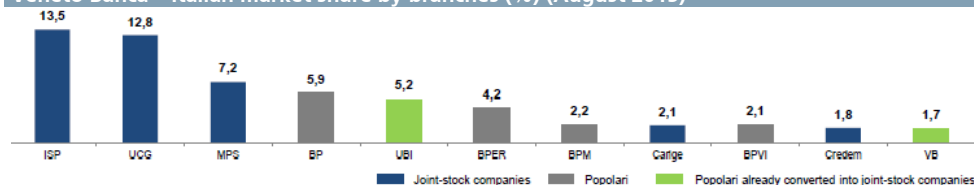
Source: Assogestioni on Eurostat, OECD, ECB, Deutsche Bundesbank

Competitive positioning

Veneto Banca had a 1.7% market share by branch, according to the Bank of Italy's data at August 2015 (1.6% at June 2015).

1.7% market share by branches

Veneto Banca – Italian market share by branches (%) (August 2015)

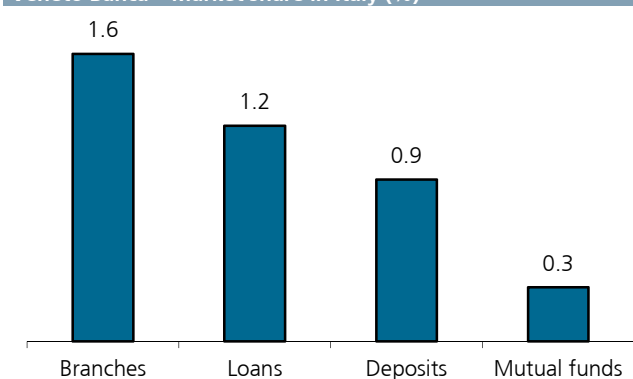


Source: Bank of Italy

At June 2015, Veneto Banca had market shares of 1.2% in loans (6.7% in Apulia, 6.6% in Veneto, 3.3% in Marche region, 2.1% in Piedmont, 0.8% in Lombardy), 0.9% in deposits and 0.3% in mutual funds, vs. 1.6% in branches.

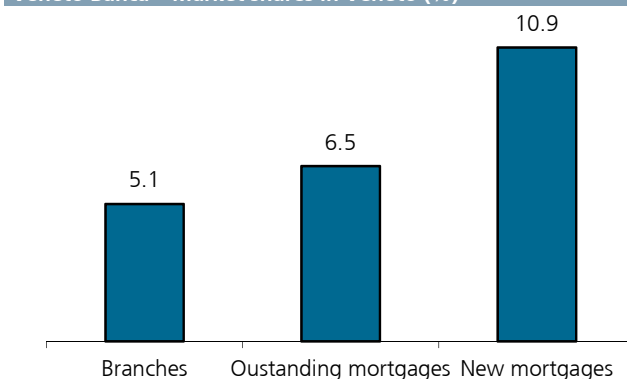
Lower market share levels in loans, deposits and mutual funds

Veneto Banca – Market share in Italy (%)



Source: Company data (30 June 2015)

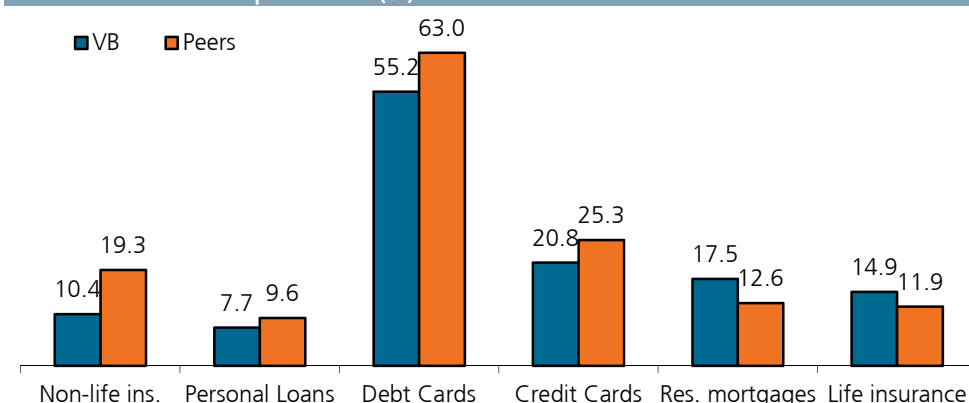
Veneto Banca – Market shares in Veneto (%)



Source: Assofin, FY14 for new mortgages. Market shares for branches and mortgage stock (30 June 2015).

We think the above shows significant room for improvement, with untapped potential, in particular in non-life insurance, personal loans, debt cards and credit cards. At the same time, the bank has a strong positioning in residential mortgages and life insurance. As regards mutual funds, the bank can leverage on the favourable momentum for banking branches in placing mutual funds.

Veneto Banca – Product penetration (%)



Source: Italian Banking Association; "Retention Comportamenti di Acquisto Privati" as at 31 August 2015

Appendix 2: History

1877: Banca Popolare di Montebelluna was established.

Origins

1966: Banca Popolare di Asolo e Montebelluna was created through the merger with Banca Popolare del Mandamento di Asolo.

2000-08: In 2000, the bank changed its name to Veneto Banca. Acquisitions in Eastern Europe (Romania, Moldova, Croatia and Albania) were completed to support the delocalisation process of manufacturing firms of Italy's North-Eastern regions. Acquisitions included Banca Italo Romena, in Romania, Eximbank, in Moldova, Gorskpodarsko Kreditna Banka, in Croatia, later renamed Veneto Banka d.d. and lastly, Banca Italiana di Sviluppo, in Albania, renamed Veneto Banka sh.a.

Expansion

2000-09: Acquisitions in North of Italy, including: Banca di Credito Cooperativo del Piave e del Livenza, Banca di Bergamo, Banca del Garda and Banca Popolare di Intra (operating in the Lombardy and Piedmont regions) and the controlled Banca Popolare di Monza e Brianza and Intra Private Bank. Veneto Banca created Banca Meridiana (active in the Puglia and Basilicata regions).

2010: Acquisitions in the South of Italy, including: Carifac - Cassa di Risparmio di Fabriano e Cupramontana, operating in the Marche and Umbria regions and in Rome; Banca Apulia, with branches in Puglia, Basilicata, Campania, Molise, Abruzzo, Marche and Rome.

2011: Acquisition of majority stake in Banca Intermobiliare di Investimenti e Gestioni (BIM).

2009-10: Incorporation of Banca di Bergamo, Banca Popolare di Monza e Brianza and, Banca Meridiana into Veneto Banca.

Simplification

2013: Cassa di Risparmio di Fabriano e Cupramontana is merged into Veneto Banca.

2015: Successful transformation into a joint-stock company in December 2015.

Joint-stock company

Appendix 3: BIM, Claris Leasing and Claris Factor

BIM – P&L			
EUR M	2014*	2015A	yoy (%)
Net interest income	27.8	26.2	-5.8
Net fees	77.3	83.6	8.1
Dividends	8.1	1.4	NM
Net trading income	21.0	15.5	-26.4
Total income	134.3	126.6	-5.7
Personnel expenses	-48.0	-49.6	3.4
Other administrative expenses	-37.5	-43.2	15.2
D&A	-4.1	-3.5	-15.3
Other net operating income	1.6	3.0	89.9
Operating costs	-88.0	-93.3	6.0
Gross operating profit	46.3	33.3	-28.0
Loan loss provisions	-45.1	-53.1	17.8
Net write-downs on other assets	-6.6	-10.4	58.1
Provisions for risks and charges	-4.4	-4.1	-6.0
Net income from investments	1.0	1.6	67.2
Profit (loss) before taxes	-8.8	-32.7	NM
Income taxes	0.4	7.0	NM
Net profit (loss) on assets held for sale	-1.6	5.9	NM
Minorities	0.4	-0.1	NM
Net profit (loss)	-9.7	-19.9	NM

* restated for IPIBI disposal. A: actual; NM: non-meaningful; Source: BIM data (reclassified income statement)

Claris Leasing – Historical KPIs (2013A-15A)					
EUR M	2013A	2014A	2015A	2014 yoy %	2015 yoy %
Net interest income	15.3	14.1	16.2	-8.3	15.2
Total income	17.0	15.3	17.2	-9.9	12.5
Net profit	2.5	1.9	2.2	-23.8	13.4
C/I ratio (%)	22.0	22.0	24.3		
Net equity	57	57	59	3.3	
Net loans	763	763	765	0.3	-
NPE/customer loans (net, %)	6.1	6.1	6.0		

A: actual; Source: Company data (consolidated financial statements)

Claris Factor – Historical KPIs (2013-15A)					
EUR M	2013A	2014A	2015A	2014 yoy (%)	9M15 yoy (%)
Net interest income	6.5	7.0	6.0	8.1	-15.7
Total income	11.0	11.0	10.1	0.1	-9.8
Net profit	3.8	2.0	0.9	-46.9	-29.7
C/I ratio (%)	30.7	32.5	39.7		
Net equity	20	22	23	9.8	4.1
Net loans	190	222	206	17.0	-7.1

A: actual; Source: Company data (consolidated financial statements)

Appendix 4: Foreign Banks Financials

Eximbank – Historical KPIs (2013A-15A)					
EUR M	2013A	2014A	2015A	2014 yoy %	2015 yoy %
Net interest income	9.3	6.5	6.9	-30.1	5.9
Total income	14.0	6.6	11.4	-52.9	73.4
Net profit	-16.0	-11.7	2.5	NM	NM
C/I ratio (%)	62.1	110.3	58.0		
Net equity	64	63	58	-2.4	-7.6
Loans	164	116	99	-29.3	-14.6
Direct Deposits	112	108	132	-3.7	22.3
Total Assets	254	204	213	-19.5	4.3
LTD ratio (%)	146.1	107.4	74.9		
NPE/ Customer Loans (net, %)	13.0	13.3	19.2		

NM: not meaningful; A: actual; Source: Company data (consolidated financial statements)

Veneto Banca D.D. – Historical KPIs (2013A-15A)					
EUR M	2013A	2014A	2015A	2014 yoy %	2015 yoy %
Net interest income	5.9	5.6	4.8	-4.0	-14.3
Total income	8.3	7.7	6.9	-7.4	-10.1
Net profit	0.7	-4.7	-8.1	NM	NM
C/I ratio (%)	70.4	80.8	97.6		
Net equity	35	35	34	0.3	-4.0
Loans	118	153	149	29.0	-2.6
Direct Deposits	69	84	119	20.5	42.4
Total Assets	214	216	223	0.8	3.4
LTD ratio (%)	170.8	182.8	125.0		
NPE/ Customer Loans (gross, %)	NA	NA	38.0		

NA: not available; NM: not meaningful; A: actual; Source: Company data (consolidated financial statements)

Veneto Banca Sh.A. – Historical KPIs (2013A-15A)					
EUR M	2013A	2014A	2015A	2014 yoy %	2015 yoy %
Net interest income	4.8	5.1	6.6	7.6	27.7
Total income	5.5	6.1	6.8	10.3	11.5
Net profit	0.5	-3.7	-7.4	NM	NM
C/I ratio (%)	75.7	84.4	84.6		
Net equity	33	29	22	-11.2	-23.9
Loans	100	123	116	23.6	-5.6
Direct Deposits	121	157	156	29.6	-0.5
Total Assets	160	192	190	20.0	-0.9
LTD ratio (%)	82.6	78.7	74.7		
NPE/ Customer Loans (net, %)	NA	10.0	28.5		

NA: not available; NM: not meaningful; A: actual; Source: Company data (consolidated financial statements)

Appendix 5: BoD, Management & Organisational Structure

Board of Directors

Board of Directors

Veneto Banca's Shareholders Meeting of 5 May 2016 appointed a new Board of Directors.

Veneto Banca's Board of Directors comprises 14 members: Stefano Ambrosini, Carlotta De Franceschi, Matteo Cavalcante, Giovanni Schiavon, Roberto Nevoni, Dino Crivellari, Maria Cristina Bertellini, Laura Dalla Vecchia, Aldo Locatelli, Debora Cremasco, Fabio Bassan Michele Padovani, Pierluigi Bolla and Cristiano Carrus.

The Board of Director appointed Mr Stefano Ambrosini as Chairman and Giovanni Schiavon as Deputy-Chairman.

Members of the Executive Committee are: Carlotta De Franceschi (Chairwoman), Matteo Cavalcante and Dino Crivellari.

On 16 May 2016, the new Board of Directors approved the 2016-20 business plan that had been drawn up by the previous Board of Directors.

Management team

New management team

The management team has undergone a significant renewal process in the past two years

Veneto Banca – Management team

Cristiano Carrus General Manager

Mr Carrus joined in October 2014. He previously had various top management roles within the Banco Popolare Group. Mr. Carrus served as Veneto Banca CEO from October 2015 to May 2016

Michele Barbisan Chief Commercial Officer and Deputy General Manager

Mr Barbisan joined Veneto Banca in 1996. He was formerly at Credito Italiano

Stefano Fasolo CFO

Mr Fasolo joined in March 2015. He was Governing and Planning Division Manager at Banca Carim and Strategy and Value Creation Department Manager at Banca Antonveneta-ABN Amro

Source: Company data

The top management compensation system is subject to remuneration policies approved by the shareholders' meeting and updated each year. Fixed remuneration is the most significant part of the compensation, for both top management and employees. Top management can also have a variable compensation, consisting in both:

- An annual system (MBO);
- A Long Term incentivisation plan (LTI).

Veneto Banca is still working on two projects to:

- Enhance the governance and the transmission mechanisms of the board's strategic guidelines to the entire banking group;
- Enhance the capacity of the Internal Control functions to identify and manage the business risks.

The first project (lasting 5 months) employs 15 Veneto Banca staff and 10 advisors, and is related to: i) the board committees' communication mechanisms; and ii) processes' review compared to qualitative standards.

Remuneration scheme: MBO and LTI

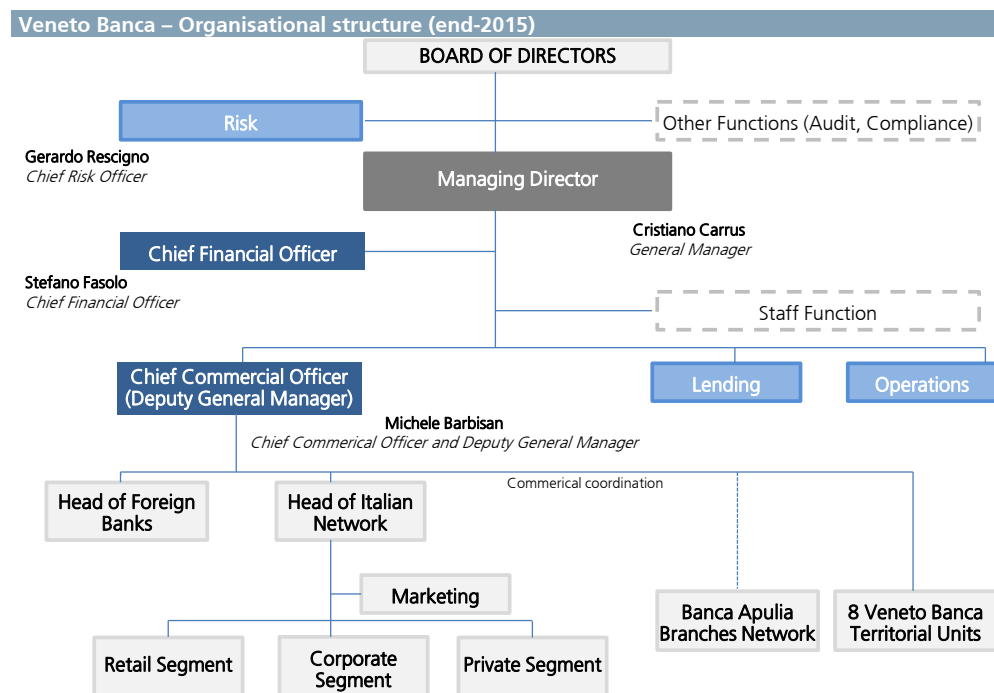
Governance framework enhancement

Intesa Sanpaolo Research Department

The second project (lasting 9 months and employing 25 Veneto Banca staff and 15 advisors), requiring investments for approximately EUR 0.8M, deals with: i) shared risks and processes terminology; ii) shared methodologies and risk assessment metrics; iii) planning and integrated reporting; and iv) Coordination Committee of the Control Functions.

Organisational structure

Veneto Banca's organisational structure has recently been streamlined, in order to enhance responsiveness to customers and efficiency.



Source: Company data

Appendix 6: Peers¹⁷

Banca Carige

Banca Carige – Business Description

The company was founded on 1 December, 1991 and is headquartered in Genoa, Italy. Banca Carige SpA engages in the provision of banking, financial, insurance, and social welfare solutions for families, self-employed professionals, and small-to-medium-sized firms. It operates through the following business segments: Liguria, Outside Liguria and Other. The Liguria segment focuses on the customers at branches of the parent bank. The Outside Liguria segment deals with customers at the subsidiary banks, namely Cassa di Risparmio di Carrara, Banca del Monte di Lucca, and Banca Cesare Ponti.

Banca Carige – Forecast figures (FY16-18)

EUR M	FY16	FY17	FY18
Net interest income	332.7	350.3	388.0
Sales (Total Revenue)	748.3	775.7	815.5
Operating expenses	630.7	627.3	626.0
Gross operating profit	117.7	148.3	189.5
Provision for credit losses	146.7	126.3	98.0
Net income	-133.0	-5.9	5.5
EPS	-0.08	-0.01	0.01
BVPS - Tangible	2.87	2.87	2.80

Banca Carige – Current Capitalisation

Price in EUR as of 5 May 2016	0.59
Number of shares outstanding	829.96
Market Capitalisation	491.34
Major Shareholders (%)	
Malacalza Family	17.6
Volpi Family	2.1

Banca Carige – EPS Growth



Banca Monte dei Paschi di Siena

Banca Monte dei Paschi di Siena - Business Description

The company was founded on 27 February, 1472 and is headquartered in Siena, Italy. Banca Monte dei Paschi di Siena SpA engages in the provision of banking and credit services. It operates through the following business segments: Retail Banking; Corporate and Investment Banking; Financial Advisory and Digital Banking; and Corporate Center. The Retail Banking segment provides financial and non-financial services, consumer lending, electronic payment services, and products and services for affluent customers such as wealth management, financial planning, consultancy on tax planning, real estate, art and legal advisory, and fiduciary and trust services. The Corporate and Investment Banking segment offers to businesses and public administrations lending and financial products and services; integrated leasing and factoring packages; medium to long-term credit facilities; corporate finance, capital markets, and structured finance; products and services issued by the bank's foreign branches to support business expansion and investments by Italian companies abroad; and custody and deposit services for dairy products on behalf of third parties. The Financial Advisory and Digital Banking segment, through its subsidiary WIDIBA, provides online banking services through a digital multi-channel approach and employs technological initiatives for its customers and advisors.

Banca Monte dei Paschi di Siena - Forecast figures (FY16-18)

EUR M	FY16	FY17	FY18
Net interest income	2,154	2,148	2,167
Sales	4,320	4,327	4,405
Operating expenses	2,606	2,553	2,511
Gross operating profit	1,715	1,774	1,894
Provision for credit losses	1,589	1,365	1,206
Net income	20	235	421
EPS	0.02	0.10	0.15
BVPS - Tangible	3.26	3.34	3.49

Banca Monte dei Paschi di Siena - Current Capitalisation

Price in EUR as of 5 May 2016	0.63
Number of shares outstanding	2,932.08
Market Capitalisation	1,856.01
Major Shareholders (%)	
Government Of Italy	4.0
The People's Bank Of China	1.9

Banca Monte dei Paschi di Siena - EPS Growth



¹⁷ Source: Factset data and estimates at 5 May 2016

Banco Popolare

Banco Popolare - Business Description

The company was founded on 1 July, 2007 and is headquartered in Verona, Italy. Banco Popolare Società Cooperativa SCRL engages in the provision of banking and financial services to individuals and businesses. It operates through the following business segments: Commercial Network; Investment and Private Banking, Asset Management; Leasing; and Corporate Centre and Other. The Commercial Network segment deals with traditional loan brokerage activities in Italy and the provision of related financial services targeting private individuals, small businesses, and corporate customers. The Investment and Private Banking, Asset Management segment involves trading and brokerage; capital markets; equity research; corporate and institutional sales; investment management; and asset management. The Leasing segment offers medium and long term loans.

Banco Popolare - Forecast figures (FY16-18)

EUR M	FY16	FY17	FY18
Net interest income	1,474	1,489	1,490
Sales (Total Revenue)	3,323	3,371	3,433
Operating expenses	2,189	2,190	2,183
Gross operating profit	1,133	1,181	1,251
Provision for credit losses	1,113	708	636
Net income	52	320	391
EPS	0.06	0.85	1.02
BVPS - Tangible	22.08	22.75	23.27

Banco Popolare - Current Capitalisation

Price in EUR as of 5 May 2016	5.25
Number of shares outstanding	362.09
Market Capitalisation	1,900.97
Major Shareholders (%)	
Fondazione Cassa Di Risparmio Di Lucca	2.9

Banco Popolare - EPS Growth



Banco Popolare dell'Emilia Romagna

Banco Popolare dell'Emilia Romagna - Business Description

The company was founded in 1994 and is headquartered in Modena, Italy. B.Pop dell'Emilia Romagna engages in the provision of banking services. It operates through: Retail, Private, Corporate, Large Corporate, Finance, Corporate Centre, and Other Activities. The Retail segment refers to individuals and joint accounts not regulated by the BperPrivate service; sole traders; and partnerships or limited companies. The Private segment deals with businesses conducted with individuals and from joint accounts regulated by the BperPrivate service. The Corporate segment transacts with public administrations, non-financial and non-resident companies, and non-financial partnerships and companies. The Large Corporate segment also conducts business with non-financial partnerships and companies with high turnovers. The Finance segment derives its operations from treasury activities, investment portfolio management, and access to financial markets and specialist operational support for the commercial network.

Banco Pop. dell'Emilia Romagna - Forecast figures (FY16-18)

EUR M	FY16	FY17	FY18
Net interest income	1,208	1,223	1,220
Sales (Total Revenue)	2,116	2,157	2,199
Operating expenses	1,265	1,258	1,274
Gross operating profit	850	899	926
Provision for credit losses	491	396	333
Net income	215	303	358
EPS	0.41	0.60	0.69
BVPS - Tangible	10.76	11.23	11.12

Banco Popolare dell'Emilia Romagna - Current Capitalisation

Price in EUR as of 5 May 2016	4.52
Number of shares outstanding	480.85
Market Capitalisation	2,173.4
Major Shareholders (%)	
Fondazione Banco Di Sardegna	2.1
Marri Alberto	0.6

Banco Popolare dell'Emilia Romagna - EPS Growth



Banca Popolare di Milano

Banca Popolare di Milano – Business Description

The company was founded by Luigi Luzzatti in 1865 and is headquartered in Milan, Italy. Banca Popolare di Milano SCRL engages in the provision of banking and financial services. It operates through the following business segments: Retail Banking, Corporate Banking, Treasury and Investment Banking, and Corporate Center. The Retail Banking segment caters to individual customers and to its private banking business. The Corporate Banking segment deals with middle, upper, and large corporate customers. The Treasury and Investment Banking engages in the bank's own securities portfolio, trading on its own account in securities, and foreign exchange and treasury activities. The Corporate Center segment covers the functions related to the group's operations, its role as the receptacle for the investments portfolio, the subordinated liabilities, and all the other assets and liabilities not allocated to the other business segments.

Banca Popolare di Milano – Forecast figures (FY16-18)

EUR M	FY16	FY17	FY18
Net interest income	805	832	851
Sales (Total Revenue)	1,645	1,697	1,746
Operating expenses	982	990	985
Gross operating profit	662	707	761
Provision for credit losses	322	263	258
Net income	220	280	309
EPS	0.05	0.07	0.07
BVPS - Tangible	1.07	1.09	1.13

Banca Popolare di Milano – Current Capitalisation

Price in EUR as of 5 May 2016	0.58
Number of shares outstanding	4,390.26
Market Capitalisation	2,559.52
Major Shareholders (%)	
Athena Capital Sarl	4.9
Assicurazioni Generali Spa	1.8

Banca Popolare di Milano – EPS Growth



Banca Popolare di Sondrio

Banca Popolare di Sondrio – Business Description

The company was founded on 4 March, 1871 and is headquartered in Sondrio, Italy. Banca Popolare di Sondrio engages in the provision of banking, financial, and insurance services. It operates through the following segments: Businesses; Individuals and Other Customers; Securities; and Central Functions. The Businesses segment comprises the credit and loans, deposits, leasing and payment services, and currency transactions with resident and non-resident customers of non-financial companies and families. The Individuals and Other Customers segment deals with the transactions of consumer households, public administrations, finance companies and non-profit organizations which include deposits, savings, long-term loans and consumer credits, collections and payments, credit and debit cards, and other ancillary functions. The Securities segment specialises in direct trading, placement of financial instruments, insurance and pension productions, and management of portfolios.

Banca Popolare di Sondrio – Forecast figures (FY16 -18)

	FY16	FY17	FY18
Net interest income	537.0	553.0	584.0
Sales (Total Revenue)	893.0	918.0	964.0
Operating expenses	454.0	463.0	472.0
Gross operating profit	439.0	455.0	492.0
Provision for credit losses	265.0	251.0	234.0
Net income	108.0	127.0	163.0
EPS	0.24	0.28	0.36
BVPS - Tangible	5.50	5.80	--

Banca Popolare di Sondrio – Current Capitalisation

Price in EUR as of 5 May 2016	3.0
Number of shares outstanding	449.74
Market Capitalisation	1,349.22
Major Shareholders (%)	
Fontana Giuseppe	0.1
Melazzini Piero	0.1

Banca Popolare di Sondrio – EPS Growth



Credito Valtellinese

Credito Valtellinese - Business Description

The company was founded on 12 July, 1908 and is headquartered in Sondrio, Italy. Credito Valtellinese provides cooperative banking services. It operates through the following segments: Market, Specialised Finance, and Production. The Market segment includes the production and sale of lending products and services, and investment and transfer services. The Specialized Finance segment deals with the distribution of bancassurance products, disbursement and management of receivables and medium and long-term lease financing, and disposal of problem loans and services. The Production segment oversees the management and development of information and communication technology and real estate assets.

Credito Valtellinese - Forecast figures (FY16-18)

EUR M	FY16	FY17	FY18
Net interest income	448.2	461.0	476.5
Sales	808.4	814.4	842.1
Operating expenses	517.7	518.9	523.0
Gross operating profit	290.7	295.5	319.1
Provision for credit losses	204.5	168.8	152.6
Net income	81.6	78.9	98.5
EPS	0.04	0.07	0.09
BVPS - Tangible	2.02	2.07	2.12

Credito Valtellinese - Current Capitalisation

Price in EUR as of 5 May 2016	0.60
Number di shares outstanding	1,108.81
Market Capitalisation	667.50
Major Shareholders (%)	
Lambriana Fondazione Per Attivita Religiose E Caritative	1.0
De Censi Giovanni	0.2

Credito Valtellinese - EPS Growth



UBI

UBI - Business Description

The company was founded on 1 April, 2007 and is headquartered in Bergamo, Italy. Unione di Banche Italiane SpA engages in the provision of banking services. It operates through the following business segments: Banking, Non-Banking Financial, and Corporate Center. The Banking segment comprises the network banks of the Group, IW Bank Spa, Banque de Depots et de Gestion Sa, and UBI International Sa. The Non-Banking Financial segment comprises UBI Leasing Spa, UBI Factor Spa, UBI Pramerica SGR Spa, Prestitalia Spa, UBI Fiduciaria Spa, and UBI Gestioni Fiduciarie SIM Spa. The Corporate Center segment comprises UBI Banca SpA, UBI Sistemi e Servizi Scpa, and all the remaining Group member companies.

UBI - Forecast figures (FY16-18)

EUR M	FY16	FY17	FY18
Net interest income	1,590	1,602	1,631
Sales	3,275	3,336	3,437
Operating expenses	2,116	2,104	2,104
Gross operating profit	1,159	1,232	1,333
Provision for credit losses	712	632	583
Net income	222	314	411
EPS	0.27	0.36	0.46
BVPS - Tangible	11.20	11.32	11.64

UBI - Current Capitalisation

Price in EUR as of 5 May 2016	3.26
Number di shares outstanding	900.32
Market Capitalisation	2,933.24
Major Shareholders (%)	
Fondazione Cassa Di Risparmio Di Cuneo	2.2
Fondazione Banca Del Monte Di Lombardia	1.6

UBI - EPS Growth



Notes

Notes

Disclaimer

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Valuation methodology (long-term horizon: 12M)

The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows:

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Equity rating key: (long-term horizon: 12M)

In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at May 2016)					
Number of companies considered: 103	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	37	30	32	1	0
of which Intesa Sanpaolo's Clients (%) (*)	74	58	64	100	0

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Modello di Organizzazione, Gestione e Controllo" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage http://www.group.intesasnpaolo.com/scripts/sir0/si09/governance/eng_wvp_governance.jsp, along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chisiamo/documentazione/normative>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

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At the Intesa Sanpaolo website, webpage http://www.group.intesasnpaolo.com/scripts/sir0/si09/studi/eng_archivio_conflitti.jsp you can find the archive of Intesa Sanpaolo Banking Group's conflicts of interest.

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- 1 Banca IMI S.p.A., belonging to the Intesa Sanpaolo Banking Group, acting as Global Coordinator in the Global Offering and Joint Bookrunner in the Institutional Offering and as Sponsor of Veneto Banca S.p.A. in connection with the listing of the ordinary shares on the MTA, is in conflict of interest as it will guarantee, along with other intermediaries, the placement of the shares being offered in the Global Offering and it will be engaged, along with other intermediaries, in the placement of the shares in the Institutional Offering, receiving commissions for the services rendered in the context of such Global Offering;
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