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BPM

Price Objective Change **BUY**

Equity | Italy | Banks-Retail
15 April 2009

Bank of America Merrill Lynch

RESEARCH

Booking a survival seat

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'Spring cleaning' to BPM's capital leads to >8% CT1 ratio

BPM announced a capital tidying-up plan: 1) temporary issuance of €500m Tremonti bonds (T-bonds); 2) €700m mandatory convertible bond at a premium to share price and repaying T-bonds in 2013, 3) buyout of all its Tier 1 (T1) bonds at discount to par. The rationale of this is: a) to provide the bank with enough capital – over 8% core tier 1 ratio (CT1) - to make it through the 'worst case recession'; b) give certainty on T-bonds repayment, while temporarily transferring risk to the government; c) increase visibility on DPS; d) turn hybrids into core equity. We take the most conservative approach and fully dilute share count by 175m new shares (€4 per share), for 15% dilution to the previous TBV per share. We calculate this dilution decreases by 1/3 for every €1 of higher conversion price.

High DPS visibility and the least levered retail bank

We believe BPM's capital tidying up is well-timed and strategically sensible. Post the operation, BPM is one of the least levered retail banks in Europe with TBV/Tot assets of 7.3% and core tier 1 (CT1) ratio >8% vs the sector on 2.6% and 7.5%, respectively. This could lead BPM to a more dynamic credit policy providing potential market share gains in the short term and growth from BS gearing in the mid-term. We also expect multiple re-rating for the lower risk profile at BPM.

Reiterate BUY: low leverage and visibility at 30% discount

We reiterate our BUY on BPM. The capital operation books BPM a seat among the survivors to the crisis, in our view. The bank is trading on 0.7x TBV on fully diluted basis, at a 30% discount to the sector, while we believe the lower risk profile, the higher DPS and capital visibility and the retail funding deserve a premium. We increase our SOP-based 2009E P.O. to €4.9 from €4.6 previously, after cutting estimates by 14% and 7% for 2009E and 2010E, respectively. We have adjusted our dividend rating from 9 (no cash div) to 8 (same or lower). The volatility risk rating has also changed from A (low) to B (medium).

Stock Data

Price	EUR3.93
Price Objective	EUR4.60 to EUR4.90
Date Established	15-Apr-2009
Investment Opinion	A-1-9 to B-1-8
Volatility Risk	MEDIUM
52-Week Range	EUR2.70-EUR8.45
Mrkt Val / Shares Out (mn)	EUR2,317 / 590.0
Average Daily Volume	2,786,197
ML Symbol / Exchange	BPMLF / MIL
Bloomberg / Reuters	PMI IM / PMII.MI
ROE (2009E)	2.5%
Total Dbt to Cap (Dec-2008A)	10.0%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	100.0%

Estimates (Dec)

(EUR)	2007A	2008A	2009E	2010E	2011E
Net Profit	324	75.3	88.9	112	285
EPS (Adjusted Diluted)	0.86	0.18	0.24	0.19	0.48
Dividend / Share	0.40	0.10	0.05	0.06	0.17
Adjusted NAV PS	7.06	6.24	5.53	5.60	5.95

Valuation (Dec)

	2007A	2008A	2009E	2010E	2011E
Adj. P/E	4.5x	21.7x	16.4x	20.6x	8.1x
EPS Change (YoY)	22.2%	-79.0%	31.7%	-20.2%	153%
Price / BV	0.47x	0.50x	0.58x	0.57x	0.54x
Price / NAV	0.56x	0.63x	0.71x	0.70x	0.66x
Net Yield	10.2%	2.55%	1.15%	1.46%	4.30%
DPS Change (YoY)	14.3%	-75.0%	-54.8%	26.5%	195%
Price / GOP	2.32x	3.28x	4.47x	3.79x	3.14x

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iQprofile SM BPM

Key Income Statement Data (Dec)	2007A	2008A	2009E	2010E	2011E
(EUR Millions)					
Net Interest Income	**1,028**	**1,068**	**998**	**1,038**	**1,110**
Net Fee Income	586	517	530	552	574
Securities Gains / (Losses)	122	(31.3)	80.0	84.8	89.9
Other Income	76.9	59.0	67.8	70.2	72.7
Total Non-Interest Income	**784**	**545**	**678**	**707**	**736**
Total Operating Income	**1,812**	**1,613**	**1,676**	**1,744**	**1,847**
Operating Expenses	(1,111)	(1,116)	(1,157)	(1,133)	(1,109)
Pre-Provision Profit	**701**	**497**	**519**	**611**	**738**
Provisions Expense	(123)	(239)	(302)	(415)	(254)
Operating Profit	**578**	**259**	**217**	**196**	**484**
Non-Operating Items	(22.8)	(45.5)	(60.0)	0	0
Pre-Tax Income	**556**	**213**	**157**	**196**	**484**
Net Income to sh/holders	324	75.3	88.9	112	285
Adjusted Cash Earnings	**359**	**75.3**	**141**	**112**	**285**
Key Balance Sheet Data					
Total Assets	43,627	45,039	44,588	45,480	47,299
Average Interest Earning Assets	31,942	35,112	36,872	37,621	38,993
Weighted Risk Assets	**34,848**	**34,367**	**34,353**	**34,676**	**36,410**
Total Gross Customer Loans	30,070	33,270	34,165	35,506	37,441
Total Customer Deposits	30,971	33,869	35,404	37,010	38,691
Tier 1 Capital	**2,386**	**2,612**	**2,912**	**2,954**	**3,102**
Tangible Equity	2,929	2,589	3,261	3,305	3,513
Common Shareholders' Equity	**3,475**	**3,248**	**4,005**	**4,049**	**4,257**
Key Metrics					
Net Interest Margin	3.22%	3.04%	2.71%	2.76%	2.85%
Tier 1 Ratio	**6.85%**	**7.60%**	**8.48%**	**8.52%**	**8.52%**
Effective Tax Rate	39.6%	61.1%	40.0%	40.0%	40.0%
Loan / Assets Ratio	68.2%	73.0%	75.3%	76.0%	76.7%
Loan / Deposit Ratio	**96.1%**	**97.1%**	**94.8%**	**93.4%**	**93.8%**
Oper Leverage (Inc Growth - Cost Growth)	2.45%	-11.4%	0.16%	6.16%	8.04%
Gearing (Assets / Equity)	12.6x	13.9x	11.1x	11.2x	11.1x
Tangible Equity / Assets	6.71%	5.75%	7.31%	7.27%	7.43%
Tangible Equity / WRAs	8.41%	7.53%	9.49%	9.53%	9.65%
Business Performance					
Revenue Growth	2.67%	-11.0%	3.92%	4.08%	5.86%
Operating Expense Growth	0.22%	0.44%	3.76%	-2.08%	-2.17%
Provisions Expense Growth	-1.06%	94.4%	26.5%	37.3%	-38.8%
Operating Revenue / Average Assets	1.38%	0.58%	0.48%	0.44%	1.04%
Operating Expenses / Average Assets	-2.65%	-2.52%	-2.58%	-2.52%	-2.39%
Pre-Provision ROA	**1.67%**	**1.12%**	**1.16%**	**1.36%**	**1.59%**
ROA	0.77%	0.17%	0.20%	0.25%	0.61%
Pre-Provision ROE	**20.5%**	**14.8%**	**14.3%**	**15.2%**	**17.8%**
ROE	9.48%	2.24%	2.45%	2.79%	6.86%
RoTE	12.5%	2.73%	4.82%	3.43%	8.35%
RoWRAs	1.08%	0.22%	0.41%	0.33%	0.80%
Dividend Payout Ratio	46.3%	55.1%	18.9%	30.0%	35.0%
Efficiency Ratio (Cost / Income Ratio)	**61.3%**	**69.2%**	**69.1%**	**65.0%**	**60.0%**
Quality of Earnings					
Total Non-Interest Inc / Operating Inc	**43.3%**	**33.8%**	**40.5%**	**40.5%**	**39.9%**
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	17.5%	48.0%	58.2%	67.9%	34.4%
NPLs plus Foreclosed Real Estate / Loans	1.50%	1.72%	2.70%	4.07%	4.73%
Loan Loss Reserves / NPLs	**68.0%**	**65.5%**	**67.0%**	**67.0%**	**67.0%**
Loan Loss Reserves / Total Loans	1.02%	1.13%	1.81%	2.73%	3.17%
Provisions Expense / Average Loans	**0.44%**	**0.76%**	**0.91%**	**1.22%**	**0.72%**

Company Description

BPM is the fourth largest Italian cooperative bank. It holds a strong retail franchise in northern Italy, centred in Lombardy, with around 700 retail branches.

Investment Thesis

BPM is a cooperative bank with solid fundamentals: 1) clean asset quality (0.4 per cent NPL ratio, 71 per cent coverage), 2) strong liquidity position with loan/deposits below 100 per cent, and a wide retail deposit base, 3) cost cutting potential (60 per cent C/I), 4) geographical focus with 2/3 of its 750 branches in Lombardy, providing access to 20 per cent of Italian GDP, 5) potential for governance improvement paving the way for M&A.

Stock Data

Price to Book Value	0.6x

Capital 'Spring cleaning' at BPM

BPM capital operations in bullets

On March 24, BPM announced the tidying up of its capital components:

- Issuance of €500m Tremonti bonds (T-bonds);
- €700m rights issue through a mandatory convertible bond;
- The repurchase of €460m hybrid tier 1 instruments outstanding.

We believe these joint actions are aimed at:

- Strengthening the capital position to weather any unexpected losses;
- Providing certainty over the repayment of T-bonds to ensure the Italian government will not be a long term shareholder;
- Tidying up the capital instruments by converting all hybrids into core equity.

In our view, the consequences of these actions are:

- **Share price re-rating – we see** BPM as a clear candidate to survive the current crisis. We believe it is adequately equipped (capital) to face the uncertainty generated by the macroeconomic recession and by the imbalances of the banking business model (leverage, liquidity, toxic assets). We think this should prompt a re-rating of share price;
- **Dividend visibility -** Increased visibility on the future dividend payout;
- **No impact to P&L -** the savings from funding costs through the buyout of hybrid capital instruments offset the cost of the new issues;
- **Strengthened position on the leverage map -** BPM is one of the least levered banks in Europe. This could open up opportunities for market share growth against capital-constrained banks in the short term; and secular top line growth from balance sheet gearing at higher margins while other players are likely to be delevering, in the medium run.

Tremonti Bonds: €500mn notional for €43m annual cost

BPM confirmed it will apply for €0.5bn government-sponsored capital, the so-called Tremonti bonds (T-bonds), named after the current finance minister. Table 1 summarises the characteristics of the T-bonds:

- **Nature of the security.** Perpetual, convertible bonds, with the conversion option in the hands of the bank, available from the third year from the issuance.
- **Core tier 1.** Eligible for full computation in core tier 1 capital by the regulator.
- **Loss absorption.** *Pari passu* on loss absorption in the case of liquidation and for losses bringing total capital <8%. First loss borne by shareholders.
- **Cost.** Annual net cost of 8.5% for the first 4 years and growing over time up to 15%. The coupon is paid from retained earnings, is non-cumulative and subordinated to the dividend payment. Repurchase can happen in cash at par for the first four years, subject to Bank of Italy's approval. Afterwards, the penalty for cash-repurchase increases up to 160% of the initial nominal amount, making conversion more likely.
- **Limitations.** The bank cannot reduce its equity unless from losses. Dividend payment is forbidden if total capital falls below 8% and the coupon payment is linked to the total dividend payment to constrain cash back actions.

Table 1: Summary of the Tremonti bonds term sheet

Tremonti bonds	Repurchase at par by 30/6/2013
Security	**Convertible bonds**, call it T-bond
Capital type	**Core tier 1**
Subordination	Liquidation: *Pari passu* with equity In normal situations: Pari passu with equity if 1) losses which reduce total capital ratio to 8% are absorbed entirely by equity 2) losses which reduce the total capital ratio below 8% are absorbed proportionately by equity and T-bond (*pari passu*) 3) the nominal value of the security reduces proportionately to how far below 8% the total capital ratio gets and will then increase proportionately to equity as the company posts future profits, till reaching the initial nominal value
Maturity	Perpetual or at liquidation of the issuer
Conversion ratio	ratio b/w the nominal initial value of T-bond and the **average price of ordinary shares of the issuer the 10 days before the issuance of T-bond**. Underlying shares are the # of shares necessary to equate the nominal value of the security at the time of issuance
Coupon	the larger of: 1) **8.5% for 2009 to 2012** and growing by 0.5% each year for the next 4 years and by 0.5% every two years, till reaching 15% in 2039 and afterwards 2) 105% in 09E, 110% in 10E, 115% in 11E-17E, 125% in 18E onwards of the annual dividend pool paid to ordinary shares 3) from 2011E onwards a % of the nominal value of T-bond equal to the average yield of 30yr BPT issued in Q1 each year + 300bp for 2011-2012 and 350bp for 2013 onwards. **Unpaid interest is non-cumulative** **Interest is paid only with profits generated in the year** **No interest and dividends are allowed if total capital falls below 8% from losses**
Constraints	**The issuer cannot reduce its capital while T-bond is in place.** If it does, it pays a penalty the larger of: 10% of the nominal value or the size of the capital reduction
Repurchase	The issuer has **the right to repurchase all or part of T-bond at 100% of the initial nominal value by 30 June 2013**, 110% between 1/7/13 - 30/6/15. Later repurchase comes at the larger of: 1) 110% of the initial nominal value 2) the average market value of the underlying shares in the 30 days preceding the repurchase but no larger than: 130% of the initial nominal value by 30/6/16, 140% by 30/6/19, 150% by 30/6/22, 160% from 1/7/22 onwards **Repurchase is subject to Bank of Italy's approval**
Conversion	**From the 3rd year of the issuance** of T-bond the **issuer has the right to convert T-bond into equity if the total value of the underlying shares ≥10% above the initial nominal value** based on the avg price of the shares in the 10 days preceding the conversion

Source: Banc of America Securities - Merrill Lynch research on Gazzetta Ufficiale

Put option for pessimists, call option for optimists

Looking at the T-bonds, we look at the implications in the following 3 scenarios:

- **Liquidation: protection for fixed income investors –** T-bonds are like equity, shareholders and the government are likely to lose their investment, and bondholders have a wider buffer to recover their credit. This implies T-bonds should favour bond issuance to credit investors.

- **If the world deteriorates –** T-bonds behave like equity, with a first loss borne by shareholders. Banks are likely to be loss-making, hence paying no dividends and therefore the cost of the T-bond is zero. Dilution is likely, either from the conversion of T-bonds or from the issuance of fresh new equity. The positive fact is that T-bonds have a fixed conversion price, providing visibility on the maximum dilution that can derive from them.

- **If the world improves –** Pre-provision profits can absorb the provisioning pickup. BPM can pay dividends up to 7-8%% yield without increasing the coupon to T-bonds, for €43m net cost of the T-bond per annum. In this environment BPM will repurchase T-bonds in 4 years through the conversion of the mandatory convertible bond.

Hence, if things deteriorate, the T-bond works like a put option, where the downside (dilution) is limited and shared with the government, while the premium is zero. If things improve, for the first four years T-bond work like a call option with expiry in 4 years, €43m annual premium, retaining the share price appreciation (and avoiding dilution) for shareholders.

€700m rights issue => certainty over T-bonds repayment…

Rights issue at premium to share price

Together with the T-bond issuance, BPM announced the issuance of €700m rights issue through a mandatory convertible maturing in 2013 (see Table 2). This security has the following characteristics:

- Senior bond until the conversion date. This implies the payment of a coupon > regular senior bond but < hybrid capital instrument;

- The conversion date will match the date of repurchase of T-bonds (Jun-13), in order to avoid step-ups in the cost of the T-bond and to provide certainty over the repurchase of the government-sponsored capital;

- The bond will convert into BPM shares at the market price at the time of conversion (Jun-13), but at a minimum of €4.0, hence at a premium to the share price at the time of the announcement. This implies a maximum issuance of 175m new shares;

- Will be offered to existing shareholders but has been conceived for a placement to the retail network of BPM, shown by the minimum subscription of €100;

- Will be coupled with free warrants for maximum €500m and with a strike 'deeply out of the money'. These are to lower the coupon of the convertible and to increase the appeal of the bundle to retail investors. The warrants come with BPM's option to repay them in cash in Jun-13.

Table 2: BPM rights issue

Total amount, € m	700
Subordination	Senior
Conversion date	Jun-13
Conversion price, €	Market price at Jun-13, min €4.0
Minimum subscription, €	100
New shares, #	Max 175m
Free warrants, € m	Max 500m
…cash settlement option	for BPM at Jun-13
…strike price	deeply out of the money

Source: company data

...and financing the buyout of preference shares

All hybrid capital into core + capital gains from bid on T1 below par

Jointly to the T-bond issuance and the placing of the mandatory convertible, BPM announced the upcoming tender offer on the outstanding €460m hybrid capital instruments (T1 bonds) as per Table 3. This tender offer is subject to the completion of the capital increase and should therefore be completed by this summer at a price ~50c. The rationale of this operation is to:

- Rationalise the capital structure by converting all hybrids into core equity;
- Saving €40m negative NII per annum;
- Exploiting the extreme aversion of credit markets towards bank capital instruments by incorporating capital gains arising from the repurchase of hybrids below par, hence creating tangible book value (TBV).

Table 3: BPM hybrid capital instruments

ISIN	Maturity	Nominal value	Issue date	Price at issue	Coupon	Early redemption
XS0131749623	Perpetual	160	02/07/2001	100	8.393% until 2/7/11, floating 3M Euribor + 4.7% from 2/7/11	2/7/11 at the option of BPM, subordinated to BOI approval
XS0372300227	Perpetual	300	25/06/2008	99	9% until 25/6/18, floating 3M Euribor + 6.18% from 25/6/18	25/6/18 at the option of BPM, subordinated to BOI approval

Source: company data

Risk of failure of the tender offer on hybrids?

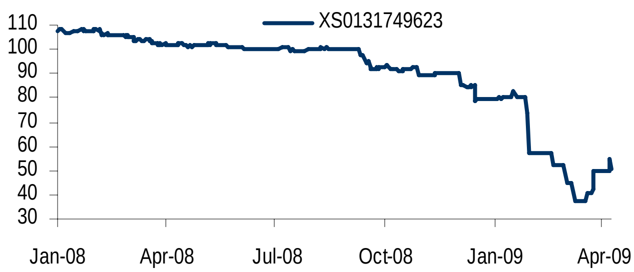
As per Chart 1 and 2, BPM's T1 bonds were trading at around 42c at the time of the bid and have quickly re-rated post the bid announcement, after having touched a minimum of 37c in March-09. Hence investors have raised doubts on the probability of success of the tender offer. In our view, BPM's offer differs from the other operations announced around Europe as BPM is repurchasing T1 bonds in cash at a premium. We see the following scenarios:

- **Tender & repurchase of other T1 bonds –** owners of BPM's T1 bonds could tender their bonds, take the cash and repurchase T1 bonds of other, similar banks such as UBI or BP as the T1 market is in no shortage of outstanding bonds.
- **Play ball and face the potential risks –** investors could retain their BPM T1 bonds in the hope of receiving lumpy coupons and retrieve par value from BPM at the early call date. The risks embedded in this strategy are the following:

  1. **T1 are loss absorbing and coupons non cumulative -** there is low visibility on where credit provisions may go to and how long the current crisis could last for. In the case of losses, the value of T1 bonds could be impaired *pari passu* with equity. Also, BPM would likely pay no DPS, potentially skipping the coupon payment to T1 bonds.
  2. **T1 bonds are perpetual –** T1 bonds are perpetual to be granted semi-capital status. In case of a negative evolution of the environment BOI may not authorise early call of T1 bonds from BPM. Alternatively BPM may willingly decide to consider these instruments perpetual, hence impairing their value.

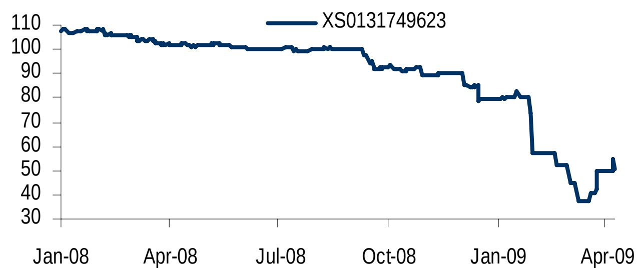
We are not credit analysts and hence have little insight over the valuation of T1 instruments and the perspective for credit instruments; we therefore abstain from expressing our view on the likelihood of the two scenarios described above (for details please read R. Thomas, Banca Popolare di Milano, 25 March 2009). We do not see downside for investors in the first scenario, while we struggle to evaluate the risk-return proposition of the second scenario.

Chart 1: BPM T1 bond price evolution



Source: Datastream

Chart 2: BPM T1 bond price evolution



Source: Datastream

A summary of how we see the capital tidying up at BPM

We would summarise the overall capital tidying up plan at BPM as:

- **8%+ CT1 ratio: all the cards to survive -** In previous notes on BPM we had highlighted the sustainability of the bank's business model consisting of low gearing, strong liquidity, entrenched positioning in the territory, strong client relationships and retail banking focus in northern Italy. We only highlighted a relatively low headline CT1 ratio. The mandatory convertible and T-bonds bring BPM above 8% CT1 ratio, at a premium to the sector's capital solidity, despite the lower risk profile of BPM. This suggests BPM has all the necessary cards to survive the crisis.

- **Prudence today, assessment of capital adequacy tomorrow, safe DPS** With capital strengthening, BPM management acknowledges the low visibility the current markets give to the future banking business model. Over the last two quarters we have seen the realisation of events which were thought to be highly unlikely previous to the crisis. Such low visibility requires a prudent approach. Taking T-bonds and issuing the mandatory convertible provides shareholders with the certainty that the government capital will be repaid and BPM will likely survive. We will have time to asses the new threshold for capital adequacy and excess capital once the situation will have stabilised and we will gain visibility on the banking business model post the crisis. Meanwhile the new capital base should increase visibility on BPM's ability to pay a dividend through the crisis.

- **Rights issue at premium –** The mandatory convertible is in effect a rights issue at a premium to share price (min €4 conversion price). This implies BPM is able to issue 200bp of higher CT1 at a premium to the market price, reducing the dilution to TBVPS, while many other rights issues have happened at c.40-50% discount.

- **Capital arbitrage and risk transfer to the government till 2013 –** taking T-bonds till 2013 allows BPM to exploit the cheapest form of capital. Also, the operation *de facto* provides shareholders with a government-sponsored capital cushion to share the risks from the unpredictability of the current economic crisis. In the case of losses, this implies the government will share the pain from the crisis, ahead of the conversion into equity of the mandatory convertible, hence protecting shareholders from the full negative impact of the crisis.

- **All hybrids turned into core tier one equity –** the operations result in the full conversion of hybrid capital into core equity. The current crisis has highlighted that in tough times the market differentiates between core equity and hybrids, with a clear willingness to pay a premium primarily on the former. Hence the BPM move makes sense, in our view.

- **Exploiting risk aversion means 45bp higher CT1 –** The tender offer on T1 instruments reflects management's timeliness on exploiting favourable market conditions. Bidding T1 bonds at 50c implies 35% premium from the minimum and 20% premium to the price the day before the announcement of the tender offer. If successful, this operation would generate c.150m net gains, or 45bp of higher CT1, 30% of the nominal value of the T1 bonds.

- **Neutral to P&L, max 15% dilution to TBV –** the repurchase of 'expensive' T1 bonds provides for NII savings able to compensate for the cost of the mandatory convertible, with neutral impact to P&L. It is more difficult to calculate the impact to TBV as we are not given a fixed conversion price. Taking a conservative view (€4.0 conversion price), and accounting for €43m annual cost of T-bonds and €156m net gains from T1 repurchase, we see TBVPS at €5.5 in 2009, 15% lower than our estimate pre-rights issue. This reduces by 1/3 for every €1 of higher conversion price (10% at €5, 5% at €6).

- **Leveraging on strong liquidity and customer loyalty –** we believe the overall operations on capital reflect BPM's strongholds: liquidity and customer loyalty. BPM is not converting T1 into senior bonds, it is buying it back, reducing its liquidity position and its capital base. We believe the regulator would not allow this operation without the capital and liquidity replacement provided by the mandatory convertible. This shows BPM's confidence in its strong client relationship.

- **No dilution from warrants –** Our estimates assume that warrants will not convert into shares. This stems from the following assumptions:

    1. the strike price will be so far out of the money that they will expire

    2. in the case that BPM's price will be through the strike, the world will be such a better place for banks, that BPM will repurchase warrants in cash, reducing the 'safety buffer' put in place by the rights issue.

Consequences: re-rating and more dynamic credit policy

We expect the capital measures to have the following consequences for BPM:

- **Re-rating of multiples –** certainty of government capital repayment, lower risk profile (premium CT1 ratio, high liquidity, low gearing) and higher quality of capital (from hybrids into core) deserve a re-rating of multiples, in our view.

- **More dynamic credit policy from capital flexibility –** a thicker capital buffer should provide BPM with higher flexibility to administrate credit policy. We are not bullish about loan growth in a recession, but new loans happen at higher spreads thanks to low rates and low available liquidity. BPM should be able to gain market share from capital-constrained banks in this environment.

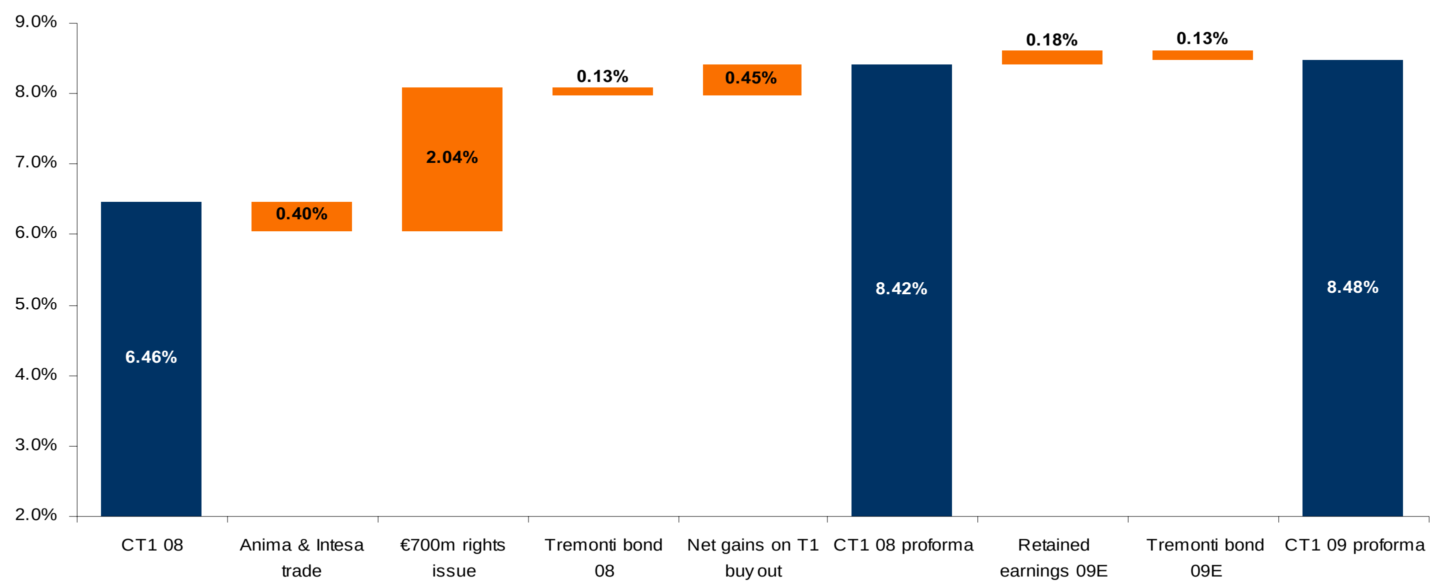
- **Outstanding CIC convertible to expire in Dec-09 –** BPM currently has €180m convertible bond with €7.04 strike outstanding and maturing this December. Given the strike price 72% premium to today's share price, we assume the underlying 25m shares never to be issued and the bond to be repaid.

Pro-forma CT1 today >8%...

Chart 3 shows the reconstruction of the evolution of BPM CT1 ratio, inclusive of all the pending capital actions. We see the bank on a pro-forma CT1 of 8.4%, remaining practically flat in 2009E. In detail:

- We start with 6.46% CT1 ratio as at Dec-08;
- c.40bp negative impact to come from the completion of the Anima and Intesa Trade operations;
- c.200bp boost from the placing of the mandatory convertible;
- 13bp annual cost of T-bonds deducted from equity;
- 45bp net gains on the repurchase of T1 bonds at 50c;
- 18bp of retained earnings in 2009E.

Chart 3: BPM CT1 ratio evolution, 2008-09E



Source: Banc of America Securities - Merrill Lynch research, company data

... and further Basel II benefits to come

Table 4 shows our estimates for BPM's regulatory capital ratios. Our estimates include:

- €3bn RWAs reduction in Q408 BPM RWAs from the adoption of external ratings on a part of the SME loans, equivalent to 9% QoQ reduction. We assume this measure to anticipate a part of the benefits to come from the adoption of Foundation methodologies so that we reduce the remaining benefits from 5% to 2% RWAs reduction in 2009E and 2010E. This implies RWAs almost flat 2010E on 2008;
- the full impact of the capital measures described above (Rights issue, T1 repurchase, no CIC conversion, warrants out of the money). We disregard the issuance of T-bonds, already included in the capital increase, but we provide the evolution of regulatory capital ratios under the two regimes (T-bonds and rights issue);
- the completion of the Anima and Intesa Trade operations for 30bp total negative impact to CT1 ratio

We see BPM at c.8% CT1 ratio with T-bonds (8.5% from fully diluted impact of the rights issue) in 2009E, remaining stable until 2011E.

Table 4: BPM regulatory ratio evolution, 2006-11E including

	2006	2007	2008	2009E	2010E	2011E
Equity	3,214	3,309	3,207	3,979	4,015	4,158
Goodwill	546	546	659	744	744	744
Core Tier 1	2,112	2,227	2,220	2,912	2,954	3,102
Pref. Shares	159	159	392	0	0	0
Tier 1 capital (inc. pref)	2,271	2,386	2,612	2,912	2,954	3,102
Total capital	3,289	3,404	4,022	4,322	4,364	4,512
RWA - Basel II phasing	31,501	34,848	34,367	34,353	34,676	36,410
Core Tier1 - Tremonti				7.90%	7.94%	7.97%
Tier 1 - Tremonti				7.90%	7.94%	7.97%
Total capital ratio - Tremonti				11.13%	11.14%	11.02%
Core Tier1 - Convertible	6.71%	6.39%	6.46%	8.48%	8.52%	8.52%
Tier 1 - Convertible	7.21%	6.85%	7.60%	8.48%	8.52%	8.52%
Total capital ratio - Convertible	10.44%	9.77%	11.70%	12.58%	12.58%	12.39%

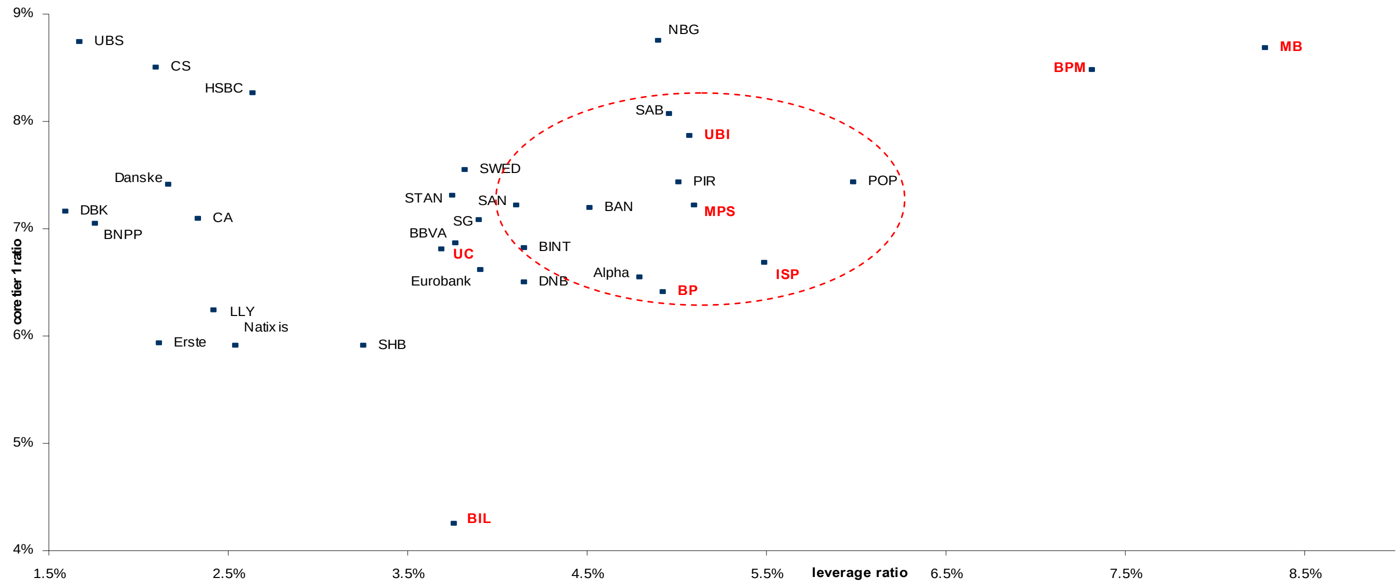
Source: Banc of America Securities - Merrill Lynch research

BPM: the least geared retail bank in Europe

Chart 4 maps capital adequacy as the conjunction between leverage and CT1 ratio for 2009E, hence including already the benefits from the recently announced capital increases and government capital injection plans. We note that:

- the weighted average TBV/Total assets of the sector stands at 2.6%;
- the weighted average CT1 ratio of the sector stands at 7.5%;
- retail banks generally have similar CT1 ratios but lower leverage than wholesale banks;
- On our analysis BPM stands out as one of the least levered banks in Europe with TBV/Total assets of 7.3% (3x higher than the sector), and CT1 of 8.5% at premium to the sector.

Chart 4: Leverage vs regulatory ratios, 2009E



Source: Banc of America Securities - Merrill Lynch research

BPM on 0.7x TBV post fully diluted share count

Table 5 shows BPM on 0.7x TBV on a fully diluted basis. This comes at a c.30% discount to the sector (1x TBV). We acknowledge the low expected RoNAV of BPM in the next two years; at the same time we believe BPM's lower risk would deserve a premium vs the sector. We note that:

- We include 175m new shares for a total of 590m vs the current 415m shares outstanding;
- We assume the CIC convertible bond not to convert at year end;
- We take account of the €43m annual cost of T-bonds, deducted from equity.

Table 5: Summary of BPM valuation metrics, 2006-2011E

	2006	2007	2008	2009E	2010E	2011E
Net Profit, € m	399	324	75	89	112	285
Net Profit adj	294	359	75	141	112	285
Dividend expenses, € m	145	166	42	27	34	100
Shares FD, m	415	415	415	590	590	590
Dividend, €	0.35	0.40	0.10	0.05	0.06	0.17
Tremonti Bonds yield, %				8.5%	8.5%	8.5%
DPS contrain from Tremonti bonds, %				105%	110%	115%
Net cost to retained earnings, € m				43	43	43
Yield, %	8.5%	9.8%	2.4%	1.1%	1.4%	4.1%
Payout, %	36%	51%	0%	30%	30%	35%
BVPS	8.1	8.4	7.8	6.8	6.9	7.2
Net Profit adj	294	359	75	141	112	285
EPS adj.	0.71	0.86	0.18	0.24	0.19	0.48
Tangible BVPS	6.8	7.1	6.2	5.5	5.6	6.0
P/E adj	5.8x	4.7x	22.6x	17.1x	21.5x	8.5x
P/Tangible BV	**.6x**	**.6x**	**.7x**	**.7x**	**.7x**	**.7x**
RoNAV	11.4%	12.5%	2.7%	4.1%	3.4%	8.4%

Source: Banc of America Securities - Merrill Lynch research

P/TBV from 0.7x to 0.6x from higher conversion

Negligible impact from higher T1 repurchase price

Table 6 provides the sensitivity of BPM's P/TBV to the conversion price of the mandatory convertible bond (rows) and to the repurchase price of T1 bonds (columns). We see the multiple dropping from 0.72x to 0.59x assuming the conversion price ranging from the floor at €4.0 to €10.0. We note that even a potential increase of the repurchase price of T1 bonds has a negligible impact to BPM's P/TBV.

Table 6: P/TBV sensitivity to mandatory convertible strike price and T1 bid price

	50c	60c	70c	80c
4.0	0.72x	0.73x	0.74x	0.74x
5.0	0.68x	0.69x	0.69x	0.7x
6.0	0.65x	0.66x	0.66x	0.67x
7.0	0.63x	0.64x	0.64x	0.65x
8.0	0.62x	0.62x	0.63x	0.63x
10.0	0.59x	0.6x	0.61x	0.6x

Source: Banc of America Securities - Merrill Lynch research

€89m profit in 2009E, €112m in 2010E, €285m in 2011E...

Table 7 shows our P&L estimates for BPM. We assume:

- 4% top line growth in 2009E and 2010E;
- 5% cost growth in 2009E and cost cutting thereafter;
- 90bp and 120bp LLP in 2009E and 2010E, respectively;
- €60m restructuring charges in 2009E for the headcount reduction plan (700 gross, 400 net reductions).

These follow from the following assumptions:

- 9% NII fall in 2009E, partially offset by €26m higher NII contribution from the acquisition of BP Mantova and the branches from Unicredit;
- 7% fee income fall in 2009E, offset by €49m higher fees from the contribution of Anima and the new branches;
- A return to positive contribution from trading operations and dividends;
- 0.5% total cost growth before the computation of €47m costs from the newly acquired companies;
- 40% tax rate on ordinary activities.

These estimates represent a 14% and 7% cut to our previous 2009E and 2010E estimates in absolute terms and a 36% and 31% cut to the previous 2009E and 2010E EPS estimates.

Table 7: BPM P&L estimates, 2009-11E

Data in EUR m	2004	2005	2006	2007	2008	2009E	2010E	2011E	05/04	06/05	07/06	08/07	09/08	10/09	11/10
Net interest income	**678**	**758**	**916**	**1,028**	**1,068**	**998**	**1,038**	**1,110**	**11.7%**	**20.9%**	**12.2%**	**3.9%**	**-6.5%**	**4.0%**	**7.0%**
Commissions	502	554	614	586	517	530	552	574	10.2%	10.8%	-4.6%	-11.6%	2.5%	4.0%	4.0%
Financial operations & dividends	146	134	130	122	-31	80	85	90	-8.3%	-3.0%	-6.6%	-125.7%	-355.9%	6.0%	6.0%
At equity investments	12	30	14	14	2	2	2	3	n.s.	-53.9%	5.8%	-84.3%	3.0%	5.0%	5.0%
Other revenues	106	76	91	62	57	65	68	70	-28.2%	19.3%	-31.4%	-9.2%	15.4%	3.5%	3.5%
Total revenues	**1,446**	**1,552**	**1,765**	**1,812**	**1,613**	**1,676**	**1,744**	**1,847**	**7.3%**	**13.7%**	**2.7%**	**-11.0%**	**3.9%**	**4.1%**	**5.9%**
Total costs	**-1,043**	**-1,038**	**-1,070**	**-1,083**	**-1,081**	**-1,132**	**-1,108**	**-1,084**	**-0.5%**	**3.0%**	**1.2%**	**-0.2%**	**4.8%**	**-2.1%**	**-2.2%**
Personnel costs	-626	-653	-688	-702	-692	-730	-713	-696	4.3%	5.3%	2.1%	-1.4%	5.4%	-2.3%	-2.4%
Other operating costs	-326	-287	-287	-304	-316	-327	-319	-310	-12.1%	0.2%	5.7%	4.1%	3.4%	-2.6%	-2.7%
Depreciation	-91	-98	-94	-77	-73	-76	-77	-78	7.6%	-3.7%	-18.3%	-5.7%	4.0%	1.5%	1.5%
Gross operating profit	**403**	**514**	**695**	**729**	**532**	**544**	**636**	**763**	**27.6%**	**35.3%**	**4.9%**	**-27.0%**	**2.2%**	**17.0%**	**20.0%**
Provisions and write-offs	-166	-114	-163	-151	-273	-327	-440	-279	**-31.4%**	**43.1%**	**-7.4%**	**81.4%**	**19.7%**	**34.5%**	**-36.5%**
- LLP	-130	-98	-124	-123	-239	-302	-415	-254	-24.9%	26.8%	-1.1%	94.4%	26.5%	37.3%	-38.8%
- Risk and charges and other revenues	-22	-16	-39	-28	-35	-25	-25	-25	-27.7%	143.4%	-27.9%	24.0%	-27.6%	0.0%	0.0%
- Other provisions	-14	0	0	0	0	0	0	0							
Net income from financial investments	2	0	0	-23	-46	0	0	0							
Other exceptional profit / (loss)	0	12	105	0	0	-60	0	0							
Goodwill impairment	-37	0	0	0	0	0	0	0							
Pre-tax profit	**201**	**412**	**637**	**556**	**213**	**157**	**196**	**484**	**105.0%**	**54.6%**	**-12.8%**	**-61.6%**	**-26.5%**	**25.3%**	**146.6%**
Tax	-78	-148	-234	-220	-130	-63	-78	-194	88.7%	58.3%	-5.7%	-40.9%	-51.9%	25.3%	146.6%
Net profit before minorities	123	265	404	335	83	94	118	290	n.s.	52.5%	-17.0%	-75.3%	13.3%	25.3%	146.6%
Minority interests	-4	-6	-5	-12	-8	-5	-5	-6	66.8%	-11.3%	122.8%	-33.8%	-34.7%	5.0%	5.0%
Net profit	**120**	**259**	**399**	**324**	**75**	**89**	**112**	**285**	**116.7%**	**53.9%**	**-18.8%**	**-76.8%**	**18.2%**	**26.5%**	**153.2%**
Ajdusted net profit	**157**	**247**	**294**	**359**	**75**	**141**	**112**	**285**	**57.4%**	**19.1%**	**22.2%**	**-79.0%**	**87.9%**	**-20.5%**	**153.2%**

	2004	2005	2006	2007	2008	2009E	2010E	2011E
NIM	3.39%	3.36%	3.48%	3.45%	3.25%	2.97%	3.00%	3.06%
C/I	72.2%	66.9%	60.6%	59.8%	67.0%	67.6%	63.5%	58.7%
LLP (bps)	65	43	47	41	73	**90**	**120**	**70**
Tax rate	39%	36%	37%	40%	61%	40%	40%	40%

Source: Banc of America Securities - Merrill Lynch research

…implies bad loans +54% and +45% in 09E-10E YoY

The above P&L estimates are the result of the following assumptions on the evolution of asset quality at BPM, as per Table 8:

- Total gross bad loans up 54% and 45% in 2009E and 2010E, following the 36% YoY increase in 2008;
- No compromise to coverage levels;

We believe that – given the grave situation of the real economy – such acceleration in the deterioration of BPM's asset quality assumption is not misplaced and will largely depend on the length of the current economic crisis.

Table 8: BPM asset quality evolution, 2004-2011E

Data in EUR m	2004	2005	2006	2007	2008	2009E	2010E	2011E	05/04	06/05	07/06	08/07	09/08	10/09	11/10
Gross NPLs	394	407	464	446	567	907	1406	1716	3.3%	13.9%	-3.9%	27.1%	60.0%	55.0%	22.0%
Specific provisions	276	275	316	303	371	608	942	1149	-0.4%	14.9%	-3.9%	22.5%	63.7%	55.0%	22.0%
Generic provisions	0	0	0	0	0	0	0	0	56.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net NPLs	**118**	**133**	**148**	**143**	**195**	**299**	**464**	**566**	**11.9%**	**11.9%**	**-3.9%**	**37.1%**	**53.1%**	**55.0%**	**22.0%**
NPLs coverage	70.0%	67.5%	68.0%	68.0%	65.5%	67.0%	67.0%	67.0%							
Gross incagli	256	234	257	338	561	889	1261	1456	-8.6%	9.9%	31.5%	66.0%	58.5%	41.8%	15.5%
Specific provisions	30	35	35	84	118	178	252	291	14.2%	1.0%	139.8%	41.2%	50.2%	41.8%	15.5%
Generic provisions	2	3	0	0	0	0	0	0	40.5%						
Net NPLs	**223**	**196**	**222**	**254**	**443**	**711**	**1009**	**1165**	**-12.2%**	**13.4%**	**14.5%**	**74.1%**	**60.7%**	**41.8%**	**15.5%**
Incagli coverage	12.8%	16.2%	13.6%	24.8%	21.1%	20.0%	20.0%	20.0%							
Gross restructured credit	133	121	95	88	83	95	100	105	-9.4%	-21.4%	-7.4%	-5.7%	15.0%	5.0%	5.0%
Specific provisions	48	30	43	47	38	43	48	55	-36.6%	40.5%	9.5%	-19.5%	14.2%	12.0%	13.8%
Generic provisions	0	0	0	0	0	0	0	0	124.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net NPLs	**85**	**90**	**52**	**41**	**45**	**52**	**52**	**50**	**5.5%**	**-42.4%**	**-21.3%**	**10.1%**	**15.8%**	**-0.7%**	**-3.1%**
Restructured coverage	36.0%	25.5%	44.9%	53.1%	45.3%	45.0%	48.0%	52.0%							
Gross past due	0	109	93	86	88	106	127	139		-14.5%	-7.5%	2.3%	20.0%	20.0%	10.0%
Specific provisions	0	0	2	2	3	3	4	4		#DIV/0!	-26.0%	48.4%	24.1%	20.0%	10.0%
Generic provisions	0	2	0	0	0	0	1	2							
Net NPLs	**0**	**107**	**91**	**84**	**85**	**102**	**122**	**133**		**-14.9%**	**-7.1%**	**1.4%**	**19.9%**	**19.0%**	**9.3%**
Past due coverage	#DIV/0!	2.0%	2.5%	2.0%	2.9%	3.0%	3.0%	3.0%							
Country risk	0	0	0	0	0	0	1	2							
Specific provisions	0	0	0	0	0	0	0	0							
Generic provisions	0	0	0	0	0	0	0	0							
Net NPLs	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**2**							
Country risk coverage	20.1%	#DIV/0!	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%							
TOTAL GROSS BAD LOANS	784	871	909	958	1,299	1,997	2,895	3,418	11.1%	4.4%	5.4%	35.6%	53.8%	44.9%	18.1%
Specific provisions	354	340	395	436	530	832	1,246	1,500	-4.1%	16.4%	10.1%	21.7%	57.0%	49.8%	20.3%
Generic provisions	3	6	1	1	1	1	2	3	124.9%	-90.2%	0.0%	0.0%	0.0%	167.5%	62.6%
TOTAL NET BAD LOANS	**427**	**525**	**513**	**522**	**768**	**1,165**	**1,647**	**1,916**	**23.0%**	**-2.3%**	**1.7%**	**47.3%**	**51.6%**	**41.4%**	**16.3%**
Bad loans coverage	45.5%	39.7%	43.6%	45.5%	40.8%	41.7%	43.1%	44.0%							

Source: Banc of America Securities - Merrill Lynch research, company data

BUY: upgrading P.O. to €4.9 from €4.6, post rights issue

We reiterate our BUY on BPM and increase our 2009E SOP-driven, fully diluted P.O. to €4.9 from €4.6 as per Table 9.

Table 9: BPM sum of the parts valuation, 2009E

2009	Retail	Corporate	IBK	AM	Investments	Free capital	Corporate Center	Norm group profit
Net income	81	51	20	17	6		(33)	**141**
Equity allocated	1,190	1047	137	15	19	995		2,408
RWA	17,001	14,953	1,956	367	191	nm	(115)	34,353
Loans	22,668	10,681	208		nm	nm	0	33,557
Valuation								
Net income Adj	68	42	17	14				**141**
Multiples	1x NAV	0.85x PNAV	8x	10x	nm	nm		
Fair value	1,190	890	134	144	19	995		3,372
Per share	2.0	1.5	0.2	0.2	0.0	1.7		5.7
15% visibility discount, €								0.9
Price target, €								**4.9**

Source: Banc of America Securities - Merrill Lynch research

Price objective basis & risk

BPM (BPMLF)

Our EUR 4.9 P.O. for BPM is based on our 2009 SOP estimate. Our valuation applies the following multiples: 1x NAV for retail, 0.85x NAV for corporate, 8x earnings for investment banking, 10x earnings for asset management 1x BV for excess capital. Our SoP valuation is adjusted by a 15 per cent discount for lack of earnings visibility in line with the whole European banks coverage.
The risks to our valuation and price objective are the lack of delivery on cost cutting, stronger than expected negative hit from the low rate environment and further deterioration of the macroeconomic growth.

Analyst Certification

I, Andrea Filtri, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Banks Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	BPM	BPMLF	PMI IM	Andrea Filtri
	CS Group	CS	CS US	Derek De Vries, CFA
	CS Group	CSGKF	CSGN VX	Derek De Vries, CFA
	Intesa Sanpaolo	IITSF	ISP IM	Andrea Filtri
	Mediobanca	MDIBF	MB IM	Andrea Filtri
	SocGen	SCGLF	GLE FP	Derek De Vries, CFA
	SocGen	SCGLY	SCGLY US	Derek De Vries, CFA
NEUTRAL				
	Banesto	BNSTF	BTO SM	Sergio Gamez
	BNP Paribas	BNPQF	BNP FP	Derek De Vries, CFA
	BNP Paribas	BNPQY	BNPQY US	Derek De Vries, CFA
	Credit Agricole	CRARF	ACA FP	Derek De Vries, CFA
	DnB NOR	DNBHF	DNBNOR NO	Johan Ekblom
	Julius Baer	JBHGF	BAER VX	Derek De Vries, CFA
	Natl Bank Greece	NBG	NBG US	Johan Ekblom
	Natl Bank Greece	NBGIF	ETE GA	Johan Ekblom
	Santander	BCDRF	SAN SM	Sergio Gamez
	SCH	STD	STD US	Sergio Gamez
	StanChart	SCBFF	STAN LN	Alistair Scarff
	UBI	BPPUF	UBI IM	Andrea Filtri
	UBS	UBS	UBS US	Derek De Vries, CFA
	UBS	UBSRF	UBSN VX	Derek De Vries, CFA
	Unicredit	UNCFF	UCG IM	Andrea Filtri
UNDERPERFORM				
	Alpha Bank	ALBKF	ALPHA GA	Johan Ekblom
	Banco Popolare	BPSAF	BP IM	Andrea Filtri
	Banco Popular	BPESF	POP SM	Sergio Gamez
	Bankinter	BKIMF	BKT SM	Sergio Gamez
	Bankinter	BKNIY	BKNIY US	Sergio Gamez
	BBV	BBV	BBV US	Sergio Gamez
	BBVA	BBVXF	BBVA SM	Sergio Gamez
	BCP	BPCGF	BCP PL	Sergio Gamez
	Danske Bank	DNSKF	DANSKE DC	Johan Ekblom
	Deutsche Bank	DB	DB US	Derek De Vries, CFA
	Deutsche Bank	XDUSF	DBK GR	Derek De Vries, CFA
	EFG Intl	EFGIF	EFGN SW	Derek De Vries, CFA
	Eurobank	EGFEF	EUROB GA	Johan Ekblom

EMEA - Banks Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	HSBC	HBCYF	HSBA LN	Alistair Scarff
	Monte Dei Paschi	BMDPF	BMPS IM	Andrea Filtri
	Piraeus Bank	BPIRF	TPEIR GA	Johan Ekblom
	S E B	SVKEF	SEBA SS	Johan Ekblom
	Sab	BNDSF	SAB SM	Sergio Gamez
	Svenska Hbank	SVNLF	SHBA SS	Johan Ekblom
	Swedbank	SWDBF	SWEDA SS	Johan Ekblom
RSTR				
	Nordea AB	NRDEF	NDB GR	Johan Ekblom

iQmethod SM Measures Definitions

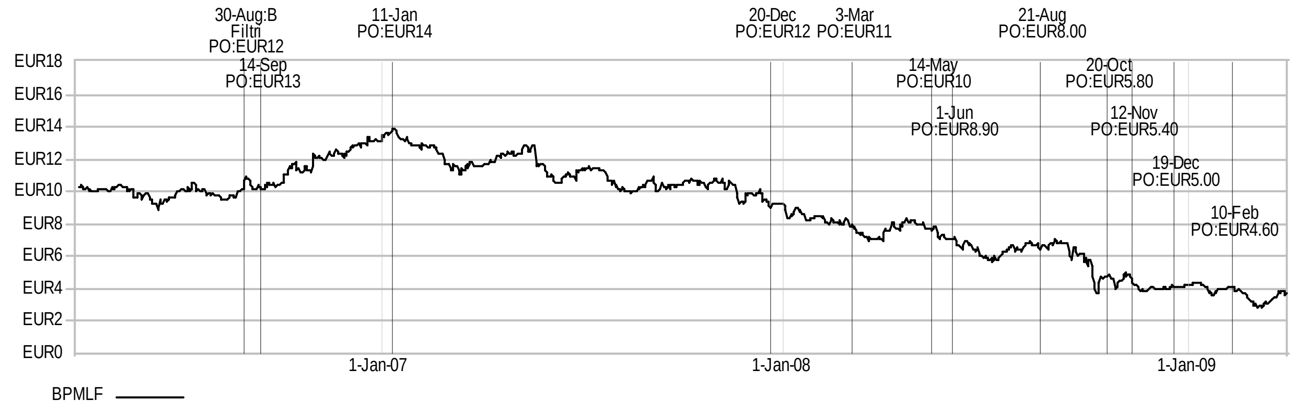
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of Banc of America Securities-Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Banc of America Securities-Merrill Lynch.

Important Disclosures

BPMLF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of March 31, 2009 or such later date as indicated.

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Investment Rating Distribution: Banks Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	66	26.83%	Buy	27	49.09%
Neutral	61	24.80%	Neutral	31	57.41%
Sell	119	48.37%	Sell	63	60.58%

Investment Rating Distribution: Global Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1243	38.21%	Buy	520	46.39%
Neutral	841	25.85%	Neutral	349	47.04%
Sell	1169	35.94%	Sell	388	36.30%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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