UBI

Holding steady

Price Objective Change

NEUTRAL

Equity | Italy | Banks-Retail
22 April 2009

Bank of America Merrill Lynch

RESEARCH

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Tidying up an already neat capital position

UBI recently rationalised its funding and capital positions. First, it announced the payment of a cash DPS and the distribution of free warrants to shareholders. Second, it disclosed the issuance of a convertible bond and opted out of the government-sponsored capital plan (T-bonds). Finally, it revealed an offer to swap preference shares (T1) and subordinated bonds (T2) for newly issued senior bonds. We calculate that this operation will add 21bp to the 7.1% core tier 1 ratio (CT1) posted in Q4, with negligible impact on NII. We also cut our EPS estimates by 14-20% in 2009-10E post Q4 results from more cautious revenue expectations.

Low gearing and adequate capital vs M&A speculation

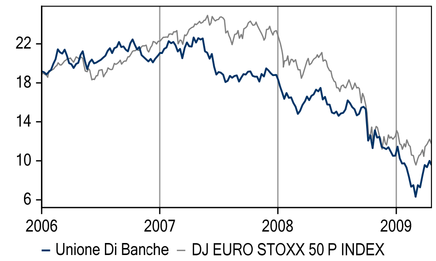
Even before the convertible bond, UBI is one of the least levered EU banks (TBV/Tot. assets of 5.5%). So why issue new shares? On one hand the warrants and the convertible bond reward clients/shareholders and strengthen their bond with the bank, adding further capital flexibility. On the other hand, they could be perceived as an 'unnecessary capital boost' that increases the M&A risk. We are in the former camp, but think that the latter may cap UBI's price performance. We believe the opportunistic acquisition of branches in the northeast of Italy could remove speculation of a UBI-BP merger, leaving UBI with a solid capital position.

Reiterate Neutral, increasing P.O. to €9.8 from €9.2

On 0.9x 09E TBV – at a discount to the sector's 1.1x multiple - we do not think UBI's solid business model is expensive. The capital position should enable it to make market share gains in volume terms at the expense of capital-constrained peers, while independence from government support deserves a premium, in our view. We believe BPM (BPMLF, EUR4.0, B-1-8) on 0.7x 09E TBV offers a similar investment at a 20% discount, hence our preference for the Milan-based Popolare bank.

Stock Data

Price	EUR9.58
Price Objective	EUR9.20 to EUR9.80
Date Established	22-Apr-2009
Investment Opinion	A-2-8
Volatility Risk	LOW
52-Week Range	EUR5.68-EUR17.93
Mrkt Val / Shares Out (mn)	EUR6,123 / 639.1
Average Daily Volume	2,772,029
ML Symbol / Exchange	BPPUF / MIL
Bloomberg / Reuters	UBI IM / UBI.MI
ROE (2009E)	4.7%
Total Dbt to Cap (Dec-2008A)	0%
Est. 5-Yr EPS / DPS Growth	14.0% / 10.0%
Free Float	93.2%



Estimates (Dec)

(EUR)	2007A	2008A	2009E	2010E	2011E
Net Profit	941	69.0	524	239	634
EPS (Adjusted Diluted)	1.30	0.21	0.64	0.48	1.10
Dividend / Share	0.95	0.45	0.43	0.19	0.45
Adjusted NAV PS	10.2	10.5	10.9	10.9	11.7

Valuation (Dec)

	2007A	2008A	2009E	2010E	2011E
EPS Change (YoY)	-48.4%	-84.1%	211%	-25.1%	128%
Price / BV	0.56x	0.55x	0.54x	0.54x	0.52x
Price / NAV	0.94x	0.91x	0.88x	0.88x	0.82x
Net Yield	9.92%	4.70%	4.45%	1.95%	4.66%
DPS Change (YoY)	18.8%	-52.6%	-5.33%	-56.0%	138%
Price / GOP	3.24x	4.14x	3.38x	3.53x	3.23x

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Refer to important disclosures on page 14 to 16. Analyst Certification on Page 12. Price Objective Basis/Risk on page 12.

*iQprofile*SM UBI

Key Income Statement Data (Dec)	2007A	2008A	2009E	2010E	2011E
(EUR Millions)					
Net Interest Income	2,686	2,982	2,774	2,944	3,107
Net Fee Income	1,349	1,188	1,116	1,157	1,219
Securities Gains / (Losses)	102	(242)	374	115	121
Other Income	303	162	115	120	126
Total Non-Interest Income	1,754	1,108	1,606	1,392	1,466
Total Operating Income	4,439	4,090	4,380	4,336	4,572
Operating Expenses	(2,550)	(2,611)	(2,570)	(2,601)	(2,679)
Pre-Provision Profit	1,890	1,478	1,810	1,735	1,893
Provisions Expense	(343)	(566)	(836)	(1,227)	(751)
Operating Profit	1,547	912	974	508	1,142
Non-Operating Items	(210)	(527)	(34.0)	(25.0)	(25.0)
Pre-Tax Income	1,336	385	940	483	1,117
Net Income to sh/holders	632	84.7	524	239	634
Adjusted Cash Earnings	1,141	116	411	307	701

Key Balance Sheet Data					
Total Assets	118,601	121,956	126,834	133,176	139,834
Average Interest Earning Assets	92,854	98,762	101,185	104,127	108,661
Weighted Risk Assets	97,912	89,892	89,856	91,581	96,160
Total Gross Customer Loans	93,294	96,664	98,600	102,541	107,662
Total Customer Deposits	49,475	54,151	57,129	60,271	63,586
Tier 1 Capital	7,289	6,945	6,626	6,746	7,094
Tangible Equity	6,497	6,733	6,969	6,936	7,450
Common Shareholders' Equity	10,849	11,071	11,307	11,274	11,788

Key Metrics					
Net Interest Margin	2.89%	3.02%	2.74%	2.83%	2.86%
Tier 1 Ratio	7.44%	7.73%	7.37%	7.37%	7.38%
Effective Tax Rate	44.7%	57.6%	37.6%	39.4%	39.2%
Loan / Assets Ratio	78.4%	79.0%	77.5%	76.8%	76.8%
Loan / Deposit Ratio	188%	178%	172%	170%	169%
Oper Leverage (Inc Growth - Cost Growth)	2.69%	-10.3%	8.68%	-2.22%	2.44%
Gearing (Assets / Equity)	10.9x	11.0x	11.2x	11.8x	11.9x
Tangible Equity / Assets	5.48%	5.52%	5.49%	5.21%	5.33%
Tangible Equity / WRAs	6.64%	7.49%	7.76%	7.57%	7.75%

Business Performance					
Revenue Growth	3.77%	-7.87%	7.09%	-0.99%	5.44%
Operating Expense Growth	1.08%	2.41%	-1.59%	1.23%	3.00%
Provisions Expense Growth	43.7%	65.1%	47.6%	46.8%	-38.8%
Operating Revenue / Average Assets	1.31%	0.76%	0.78%	0.39%	0.84%
Operating Expenses / Average Assets	-2.15%	-2.17%	-2.07%	-2.00%	-1.96%
Pre-Provision ROA	1.60%	1.23%	1.45%	1.33%	1.39%
ROA	0.79%	0.06%	0.42%	0.18%	0.46%
Pre-Provision ROE	17.6%	13.5%	16.2%	15.4%	16.4%
ROE	8.75%	0.63%	4.68%	2.12%	5.50%
RoTE	17.9%	1.76%	5.99%	4.42%	9.74%
RoWRAs	1.21%	0.12%	0.46%	0.34%	0.75%
Dividend Payout Ratio	53.2%	247%	66.3%	38.9%	40.7%
Efficiency Ratio (Cost / Income Ratio)	57.4%	63.9%	58.7%	60.0%	58.6%

Quality of Earnings					
Total Non-Interest Inc / Operating Inc	39.5%	27.1%	36.7%	32.1%	32.1%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	18.1%	38.3%	46.2%	70.7%	39.7%
NPLs plus Foreclosed Real Estate / Loans	0.75%	0.88%	1.11%	1.71%	1.95%
Loan Loss Reserves / NPLs	46.0%	34.8%	27.9%	18.0%	15.4%
Loan Loss Reserves / Total Loans	0.35%	0.31%	0.31%	0.31%	0.30%
Provisions Expense / Average Loans	0.39%	0.60%	0.86%	1.22%	0.72%

Company Description

UBI is the 4th largest Italian bank by market cap and the 5th by branches. It is a Popolare bank operating on a pure retail and SME lending business model. The stock leverages on strong capital and funding fundamentals and on the arising of the M&A synergies from BL to protect future EPS growth. Low hybrids in tier 1 capital and high loan/assets ratio make UBI a relatively isolated play from the develeraging epidemy.

Investment Thesis

UBI is the 4th largest Italian bank by market cap and the 5th by branches. It is a Popolare bank operating on a pure retail and SME lending business model. The stock leverages on strong capital and funding fundamentals and on the arising of the M&A synergies from BL to protect future EPS growth. Low hybrids in tier 1 capital and high loan/asset ratio make of UBI a relatively isolated play from the de-leveraging epidemy.

Stock Data

Price to Book Value	0.5x

Tidying up an already neat situation

UBI underperforming from a position of capital strength

From outperformance from balance sheet defensiveness to underperformance from M&A risk

Despite the good capital position, so far UBI shares have underperformed the index in 2009 by 9%, see Chart 1. We believe this is the result of four phases:

1. **Outperformance from defensiveness –** UBI marked a peak of 20% outperformance to sector on 20th January, following a strong sell-off in European banks, thanks to the relative defensiveness of the bank's balance sheet and business model.

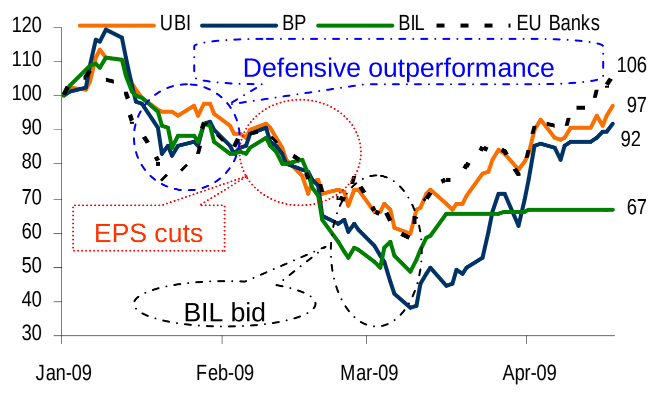
2. **Underperformance from EPS downgrades –** UBI more than lost its outperformance vs EU banks during February, when consensus estimates were revised down c.20% vs the expectations in Jan-09 for UBI (see Chart 2). This was a larger move than at peers, as the market had previously refrained from applying recession-like assumptions to UBI.

3. **BP's bid on BIL burdening UBI –** From the end of February the Italian press started reporting the possibility of a de-listing of Banca Italease (BIL) by Banco Popolare (BP), on the back of the significant deterioration of asset quality at the leasing company. The tender offer was announced on March 16th, with BIL NPLs up 6.4x YoY and the leasing bank halving BV from impairments. BP's price quickly reflected this risk, underperforming the sector by 30% from the beginning of the month. Over this period, UBI's shares moved in line with the sector for the most part, but started to underperform as investors questioned if UBI may need to rescue BP, post the BIL takeover.

4. **Post BIL's bid, UBI underperforms and BP outperforms on M&A spec** Since the start of the press speculation on the BP takeover of BIL, UBI underperformed the sector by 11%, while BP outperformed by c.10%. We believe that a large portion of underperformance stems from the market's fear of a potential rescue deal of UBI on BP post the BIL takeover. The latter may put BP's capital independence at risk given BP's reliance on government-sponsored capital and the exposure to deterioration of asset quality in CRE loans post the BIL takeout (see Banco Popolare, 30 March 2009).

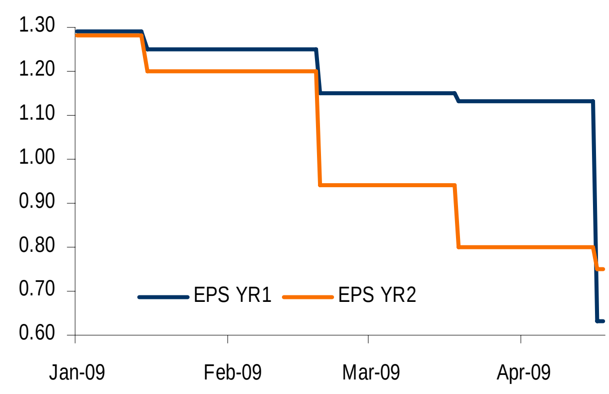
Over the period, therefore, UBI moved from the outperformance driven by the bank's solid capital position to the underperformance justified first by EPS downgrades, and later by fears of bold M&A moves on competition.

Chart 1: UBI, BP, BIL and banks sector prices, rebased to Jan-09



Source: Banc of America Securities - Merrill Lynch research, Datastream

Chart 2: IBES consensus EPS estimates for UBI, €



Source: IBES

Warrants and convertible issuance…

DPS payment, capital flexibility and no government support

On Q4 results, UBI management announced the following capital initiatives:

- The payment of €0.45 DPS of which ¾ is paid from the bank's reserves;
- No issuance of Tremonti bonds;
- Issuance of a convertible bond to shareholders for €640m;
- Distribution of free warrants to shareholders.

On the latter two, so far we know that:

- The convertible bond will have a four year maturity and will pay a fixed coupon. Owners are able to convert before maturity at a defined price. UBI will be entitled to activate conversion at the lower between the defined price and the market price, paying a premium to the underwriter. At maturity, UBI will be able to repay the bond in cash or in shares, converted at market price and at a minimum of the nominal value of the bond. The strike price and the coupon will be defined by UBI's AGM.
- Jointly to the DPS payments, UBI shareholders will receive one warrant for each UBI share. These will have a two year life at the end of which these may be converted into one UBI share for each twenty warrants owned. The price of the warrant will be defined by UBI's AGM.

Highlighting capital strength and reinforcing the bond with clients

We believe UBI's capital initiatives follow two objectives:

1. Confirming the bank's capital and liquidity strengths and independence;
2. Reinforcing the bond with shareholder-clients, a key pillar of the Popolare's model.

The first point unfolds in the following actions:

- Paying a cash DPS > reported EPS delivered in the year (€0.11) signals capital and liquidity strengths in a year when many competitors have cut/cancelled their dividends and/or have undergone rights issues;
- Opting out of the government-sponsored capital-strengthening plan reinforces the message of capital strength and avoids the debate on the likelihood of repayment of government funds, increasing the overall relative visibility of the story versus peers;
- The issuance of the convertible bond provides both for a further capital cushion to weather the current financial storm and for higher capital flexibility to retain the positive capital gap versus peers, without recurring to the government.

In our view, the following actions embody the second point:

- The payment of a cash dividend - in a year when several competitors either did not pay one or have paid it in shares - shows the client/shareholders the bank's commitments to provide them with a constant cash flow from their UBI stakes that they can count on, even in the bad times.
- The free warrants and the convertible bond offer to the bank's shareholders - which in most cases are also clients of the bank – a reward for their loyalty and aim at further strengthening this bond with the bank. In fact, we believe these provide shareholder/clients with:
    a. a levered exposure to the future potential upside of the bank's share price (warrants);
    b. a fixed yield with a simile capital-guarantee, plus further gearing into UBI's share price re-rating (convertible).

…followed by T1 and T2 swap into senior bonds

Exploiting the market's aversion to bank-related risk

On April 15th, UBI disclosed its intention to swap all outstanding Preferred Securities (T1 bonds) and five subordinated bonds (T2 bonds), with new €1.57bn (€820m for the repurchase of the T1 bonds and the Jun-09 T2; max €750m for the other four T2 bonds) senior bonds. The rationale of the operation is to provide investors with instruments higher into the capital structure and for the bank to exploit the market's sub par valuation of the bank's securities to boost core tier 1 (CT1) capital. So far UBI has not provided any details on the swap ratios and the offer is subject to a minimum adherence of €100m.

UBI's bonds rebounding post BPM's T1 buyout and bank's rally

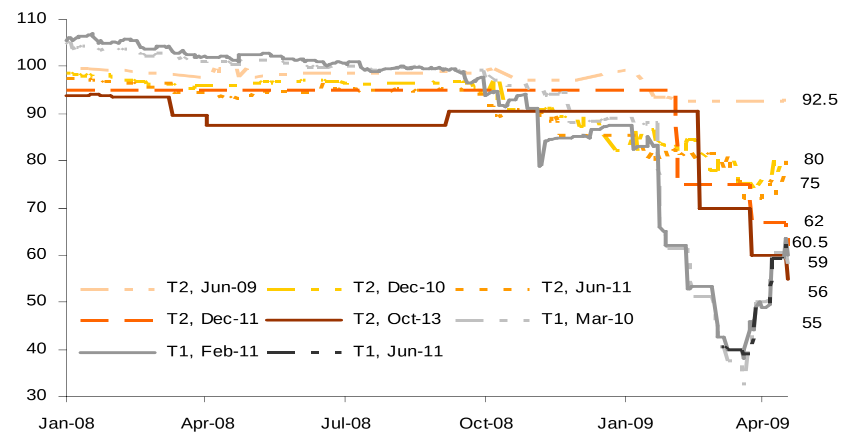
Chart 3 shows the performance of the price of the bonds UBI is swapping with senior bonds. We note that:

- on average, current prices stand 26% above the minimum prices marked over the period;
- this difference stems mainly from T1 bonds, currently 63% above the minimum price, on average, while T2 bonds are only 5% above their minimum prices, on average;

- UBI's T1 bond prices started their rally post BPM disclosed the bid on all its outstanding T1 bonds at a price of c.50%.

This shows in our opinion that the market already anticipated a move by UBI on its outstanding hybrid and subordinated bonds, in line to what announced by other EU banks.

Chart 3: UBI T2 and T1 bond price evolution, Jan-08 to date



Source: Bloomberg

Bond swap: 21bp boost to CT1, negligible impact to NII

Table 1 shows securities bid for by UBI, their notional amount outstanding, their maturity, their price on the 14th of April (day before the announcement of the bid), and their current coupon payment. We estimate €186m net gains from the operation, according to the assumed repurchase prices indicated in the table, to the repurchase limits in the notional fixed by UBI and to a 32% tax rate. We estimate a current cost of servicing the securities of €82m, or c.1% of the bank's NII. We conclude that the operation aims mainly at making relatively simple gains to boost capital and has no significant benefits to funding cost *per se.*

Table 1: Summary of securities to be swapped by UBI and estimated benefits to capital and P&L

ISIN	Currency	Notional, € m	Type	Early call	Maturity	Price before bid, %	Assumed bid price, %	Gross gain on swap, € m	Coupon	Float/fixed rate	Servicing cost, € m
xs0195722003	EUR	250	subord.	Jun-09	Jun-14	93	100	0	1.98%	3m Euribor + 0.45%	5
xs0237670319	EUR	500	subord.	Dec-10	Dec-15	81	91	47	2.16%	3m Euribor + 0.40%	11
xs0259653292	EUR	300	subord.	Jun-11	Jun-16	75	85	45	2.04%	3m Euribor + 0.50%	6
xs0278107999	EUR	200	subord.	Dec-11	Dec-16	67	77	46	2.01%	3m Euribor + 0.40%	4
xs0272418590	EUR	300	subord.	Oct-13	Oct-18	60	70	90	2.62%	3m Euribor + 0.50%	8
xs0108805564	EUR	155	pref shares	Mar-10	perpetual	61	75	39	8.17%	8.17% fixed till Mar-10, then 3m Libor + 3.375%	13
xs0123998394	EUR	300	pref shares	Feb-11	perpetual	60	75	75	8.36%	8.36% fixed till Feb-11, then 3m Libor + 4.6%	25
xs0131512450	EUR	115	pref shares	Jun-11	perpetual	60	75	29	9.00%	9.00% fixed till Jun-11, then 3m Libor + 5.4%	10
Total								274			82
Tax charge at 32.3% tax rate								89			
Total net gains								186			
Impact to CT1 2008, bp								21			
As % of 2009E NII assuming 100% completion of T2 bids (€750m)											1%

Source: Banc of America Securities - Merrill Lynch research

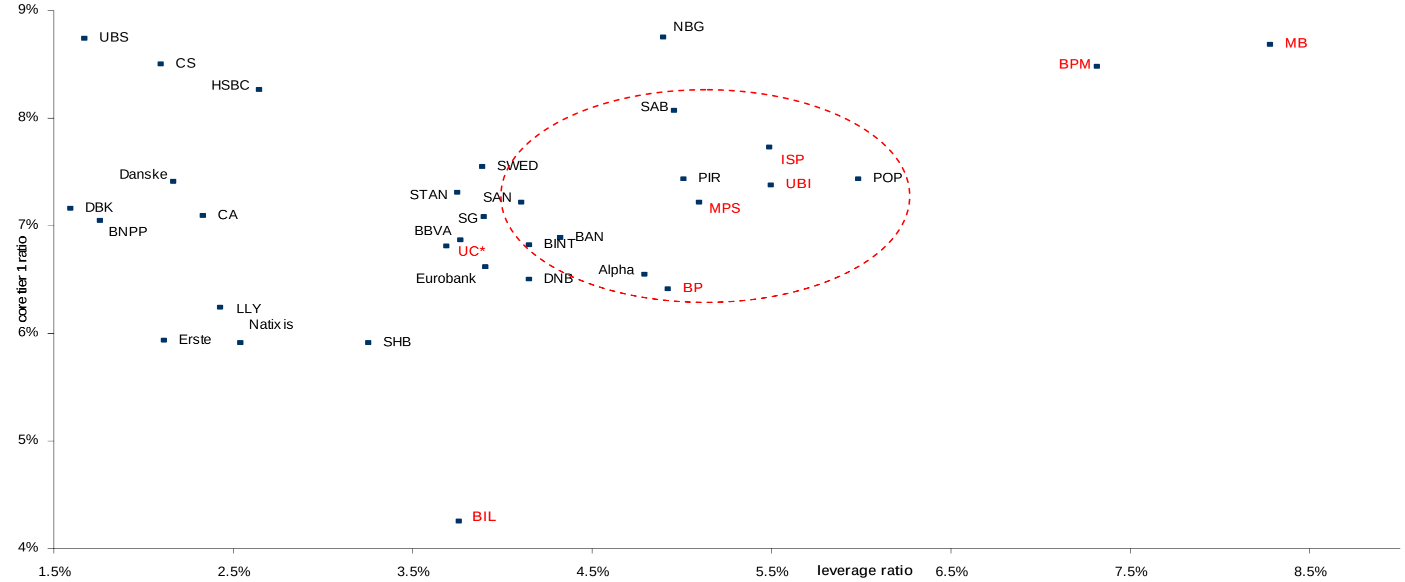
UBI: low-geared retail bank without government support

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 in Europe. 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;
- UBI stands out as one of the least levered retail banks in Europe with TBV/Total assets of 5.5% (>2x higher than the sector), and CT1 of 7.4%, in line to the sector but excluding any government support and the contribution from the convertible bond to be issued shortly.

Therefore, we see that UBI scores among the least levered balance sheets with an independently-generated and more transparent CT1 ratio, before the benefits from the potential conversion of the €640m convertible bond. Including these the bank would sit on 8.1% CT1 ratio, with a leverage ratio of 6.0%.

Chart 4: Leverage vs regulatory ratios, 2009E



Source: Banc of America Securities - Merrill Lynch research
* excluding the €4bn government capital

Adequate capital position, before the convertible bond

7.4% CT1 ratio for the next three years…

Table 2 shows UBI's regulatory capital ratios. We see the bank on 7.4% CT1 ratio in 2009E, c.30bp above 2008 thanks to the following:

- 28bp of retained earnings, 36% of which from the gains on bond swaps;
- 52% payout ratio, implying 4.4% yield;

- 2% further one-off contraction in RWAs from the optimisation of collateral on SME lending.

We expect UBI to remain at around 7.4% CT1 ratio in the 2010-11E period as the high payout and the lower earnings offset for the mild RWAs growth. This is before the capital boost from the €640m convertible bond, which adds 72bp to CT1 ratio, lifting it to 8.1% in 2009E. Our estimates assumed the completion of the successful conversion of preference shares into senior bonds.

Table 2: UBI regulatory ratios, 2006-11E

	2006	2007	2008	2009E	2010E	2011E
Core tier 1 capital	5,676	6,719	6,375	6,626	6,746	7,094
Pref shares	570	570	570	0	0	0
Tier 1 capital	6,246	7,289	6,945	6,626	6,746	7,094
Total supervisory capital	9,071	9,869	9,961	9,642	9,762	10,110
Risk weighted assets	90,418	97,912	89,892	89,856	91,581	96,160
Core tier 1 ratio	6.28%	6.86%	7.09%	7.37%	7.37%	7.38%
Tier 1 ratio	6.91%	7.44%	7.73%	7.37%	7.37%	7.38%
Total capital ratio	10.31%	10.22%	11.08%	10.73%	10.66%	10.51%

Source: Banc of America Securities - Merrill Lynch estimates

…and of high quality

We highlight the high quality of these ratios as they are clear of:

- Government capital-strengthening measures;
- Reclassification of IAS 39 to postpone losses from MTM of financial assets;
- Extraordinary sales.

We also highlight that this position follows the cleanup undergone in Q4 results.

Why issue shares at <TBV when it is not strictly necessary?

Given UBI's low leverage and stable CT1 ratio, we believe UBI can rely on a stable and adequate capital base and on a cash flow generation sufficient to bridge it across the current storm. So why are management issuing new shares (warrants + convertible bond) below the bank's tangible book value (TBV) of €10.9 when this is not strictly necessary to do so either for the stability of the bank or to finance the growth of the balance sheet? We approach the issue from three standpoints: the supportive case, the speculative view and our thoughts on this.

The supportive case…

UBI's rationale for the capital-boosting operations is to provide higher flexibility over the bank's capital ratios, providing clients with exposure to the potential re-rating of share price to strengthen their bond with the bank, as we argued on pages 4-5.

…vs the speculative view

Those investors always looking for "behind the scenes" motives and for the M&A angle on UBI will argue that raising CT1 to 8.1% without any specific risks to the bank's TBV (no toxic assets, no structural need to de-lever, no strong growth to be financed, no expectation of LLP > pre-provision profit) signals the potential interest of UBI to take on weaker balance sheets in need of capital.

A small cash deal in N-E Italy to resolve the BP saga

Our conclusion is a mix of the two arguments above. We believe that the issuance of warrants is a reward to shareholders and has no real impact on the bank's capital base. We also see how the issuance of the convertible bond is a win-win solution for UBI. In fact this provides clients with the yield they cannot find any longer through government bonds, while giving them exposure to the potential upside of the stock, with an implicit capital guarantee embedded. At the same time, for UBI this means maintaining the positive capital gap versus peers without compromising on government-sponsored capital, confirming the bank's low risk profile. At the same time we understand that people worried about UBI potentially embarking on acquisitions (especially BP) may be fuelled by this capital strengthening. We do not belong to this group, but we believe this factor may cap UBI's performance every now and then. In case of trouble at regional banks, we believe that the opportunistic acquisition of branches in the north-east of Italy (Banco Popolare's historical area) through a fire sale could help remove the speculation of the UBI-BP merger, still leaving UBI on a solid capital position.

UBI on 0.9x TBV at discount to the sector

Table 3 shows UBI's key valuation metrics. We see the bank on 0.9x TBV, at discount to the sector's 1.1x multiple and in line to ISP and MPS. We expect UBI to pay dividends in the following years, with 4% yield in 2009E. Our estimates do not yet include the warrants and the impact of the €640m convertible bond as we await the details of the pricing of these instruments.

Table 3: Summary of UBI's key valuation metrics, 2005-11E

	2005	2006	2007	2008	2009E	2010E	2011E
Net Profit, € m	920	852	941	69	524	239	634
Book Value, € m	9,856	10,651	10,849	11,071	11,307	11,274	11,788
Dividend expenses, € m	258	275	607	288	272	120	285
Shares FD, m	344	344	639	639	639	639	639
Dividend, €	0.75	0.80	0.95	0.45	0.43	0.19	0.45
Yield, %	7.7%	8.2%	9.7%	4.6%	4.3%	1.9%	4.6%
Payout, %	28%	32%	65%	417%	52%	50%	45%
Adj. net profit, € m	697	868	832	131	411	307	701
Tangible BV, € m	6,777	6,222	6,497	6,733	6,969	6,936	7,450
EPS adj., €	2.03	2.53	1.30	0.21	0.64	0.48	1.10
Tangible BVPS, €	19.73	18.11	10.17	10.53	10.90	10.85	11.66
P/E, x	4.8x	3.9x	7.5x	47.8x	15.2x	20.4x	8.9x
P/Tang. BV, x	.5x	.54x	.96x	.93x	.9x	.9x	.84x
ROE, %		13.3%	9.2%	2.0%	6.0%	4.4%	9.7%

Source: Banc of America Securities - Merrill Lynch estimates

€524m in 2009, including the gains from the bond swaps

Table 4 summarises our estimates on UBI, post Q4 results. We see the bank delivering €524m net profit in 2009E as a result of:

- 7% fall in NII as margin pressure more than offsets a 2% volume growth;
- 6% fee contraction from the lag effect of AUM falls on asset management fees;
- €374m trading profits, ¾ of which from the gains on the bond swaps, comparing with -€242m in 2008. Excluding the latter, total revenues would be flat on 2008 as the recovery in trading profits offsets the fall in NII and fees;

- 1.6% cost contraction;
- 85bp LLP, above company guidance;
- 39% tax rate on the ordinary business.

The above assumptions imply a 20% and 14% cut to 2009E and 2010E estimates, respectively, mainly due to lower revenue expectations.

Table 4: UBI P&L estimates, 2006-11E

Data in EUR m	2006	2007	2008	2009E	2010E	2011E	07/06	08/07	09/08	10/09	11/10
Net interest income	2,425	2,686	2,982	2,774	2,944	3,107	10.7%	11.0%	-7.0%	6.1%	5.5%
Dividend and similar income	51	84	71	21	22	22	64.9%	-14.8%	-70.2%	3.0%	3.0%
Net commissions	1,285	1,349	1,188	1,116	1,157	1,219	4.9%	-11.9%	-6.1%	3.6%	5.4%
Trading	243	102	-242	374	115	121	-58.0%	-337.7%	-254.5%	-69.3%	5.0%
Insurance operations	68	40	10	10	11	11	-41.1%	-75.8%	6.0%	5.0%	5.0%
Other revenues	148	147	81	84	88	92	-0.9%	-45.0%	3.5%	5.0%	5.0%
Total revenues	4,278	4,439	4,090	4,380	4,336	4,572	3.8%	-7.9%	7.1%	-1.0%	5.4%
Total costs	-2,523	-2,550	-2,611	-2,570	-2,601	-2,679	1.1%	2.4%	-1.6%	1.2%	3.0%
Personnel costs	-1,532	-1,537	-1,584	-1,568	-1,595	-1,643	0.3%	3.1%	-1.0%	1.7%	3.0%
Other operating costs	-745	-768	-749	-735	-739	-761	3.0%	-2.4%	-1.9%	0.5%	3.0%
Depreciation	-245	-245	-278	-267	-267	-275	-0.1%	13.5%	-4.0%	0.2%	3.0%
Gross operating profit	1,755	1,890	1,478	1,810	1,735	1,893	7.6%	-21.8%	22.4%	-4.1%	9.1%
Provisions and write-offs	-288	-409	-1,111	-856	-1,247	-771	42.2%	171.4%	-23.0%	45.7%	-38.1%
- Net impairment losses on loans	-239	-343	-566	-836	-1,227	-751	43.7%	65.1%	47.6%	46.8%	-38.8%
- Net impairment losses on other assets and liabilities	2	-29	-511	0	0	0	-2004.7%	1687.0%	-100.0%	-	-
- Net provisions for liabilities and charges	-51	-38	-34	-20	-20	-20	-25.2%	-9.1%	-42.0%	0.0%	0.0%
Profit (loss) from disposal of equity and other investments	63	23	85	0	0	0	-63.8%	272.8%	-100.0%	-	-
Other exceptional profit / (loss)	0	0	0	0	0	0	-	-	-	-	-
Pre-tax profit	1,530	1,503	452	954	488	1,122	-1.8%	-69.9%	111.1%	-48.8%	129.7%
Tax	-613	-597	-222	-354	-190	-437	-2.5%	-62.9%	59.7%	-46.2%	129.7%
Integration costs	0	-167	-67	-14	-5	-5	-	-59.7%	-79.2%	-64.3%	0.0%
Profit (loss) of non-current assets held for sale and discontinued operations net of taxes	12	309	-16	0	0	0	2575.8%	-105.1%	-100.0%	-	-
Net profit before minorities	929	1,047	148	586	293	679	12.7%	-85.9%	297.4%	-50.1%	131.9%
Minority interests	-77	-107	-79	-63	-53	-45	38.3%	-26.5%	-20.0%	-15.0%	-15.0%
Net profit	852	941	69	524	239	634	10.4%	-92.7%	658.9%	-54.3%	164.7%
Net profit excluding impact of PPA	933	1,021	157	614	330	724					
Total impact of PPA on Income Statement	-81	-81	-88	-64	-64	-64					
Ajdusted net profit	868	832	131	411	307	701	-4.1%	-84.2%	213.2%	-25.3%	128.6%
NIM	2.90%	2.89%	3.09%	2.82%	2.88%	2.89%					
C/I	59.0%	57.4%	63.9%	58.7%	60.0%	58.6%					
LLP (bps)	29	37	59	85	120	70					
Tax rate	40%	40%	49%	39%	39%	39%					

Source: Banc of America Securities - Merrill Lynch estimates

Retain Neutral, raising P.O. to €9.8 from €9.2

We reiterate our Neutral rating on UBI and raise the P.O. to €9.8 from €9.2 from an upward tweak to multiples and the higher excess capital (see Table 5). The former is justified by the increased visibility on the bank's BV from the clean-up actions undergone in Q4 and from the adequate regulatory ratios posted without the government's support. On 0.9x TBV, we do not think UBI's solid business model is expensive. Moreover, the solid capital position should enable UBI to gain market share on volumes at the expense of more capital-constrained peers. Yet, we believe BPM on 0.7x TBV offers a similar investment case at 20% discount, hence our preference falls on the latter.

Table 5: UBI 2009 sum of the parts valuation

2009	Retail	Centrobanca	Banca 24-7	AM	Free capital	C. Centre	Group profit
Net income, € m	350	22	11	13	55	(40)	411
Equity allocated, € m	3,740	784	526	13	1,840	1,252	6,626
RWA, € m	53,428	9,803	6,896	nm	1,840	17,889	89,856
Valuation							
Adjusted profit, € m	364	23	11	13			411
P/E, x	1.2x PTBV	1x PTBV	9.0x	10.0x			
Fair value, € m	4,488	784	98	131	1,840		7,342
Per share, €	7.0	1.2	0.2	0.2	2.9		11.5
EU Banks 15% visibility discount							1.7
Price target, €							9.8

Source: Banc of America Securities - Merrill Lynch estimates

Price objective basis & risk

UBI (BPPUF)

Our EUR9.8 P.O. is based on 2009E SOP, applying the following multiples: 1.2x TBV for retail, at premium to peers given higher visibility of results and higher quality of capital, 9x for consumer finance, 1x TBV for corporate and investment banking, 10x for asset management, 1x BV for capital in excess/deficit. 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 stand in a serious asset quality deterioration and in execution risk on the M&A integration.

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
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	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
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	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
RVW				
	Nordea AB	NRDEF	NDB GR	Johan Ekblom

iQ*method* 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

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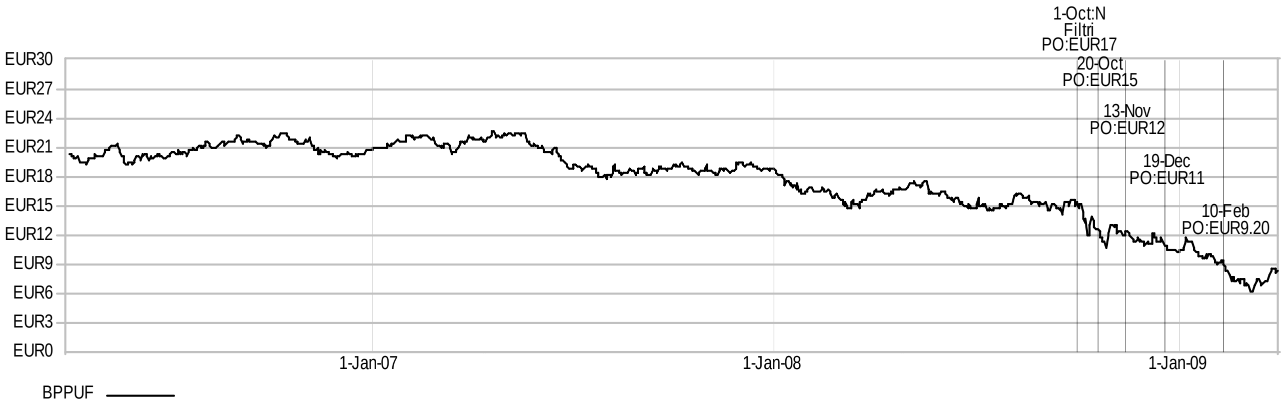
BPPUF Price Chart



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%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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