UBI

Price Objective Change NEUTRAL

Equity | Italy | Banks-Retail
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Bank of America Merrill Lynch

RESEARCH

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Bread and butter, prefer BPM

Q109 preview: €73m net profit

We forecast UBI Q109E at €73m net profit (results have been brought forward to this Friday, conference call on Monday at 2.30pm UK time). This stems from: 1) NII and fees under pressure from margins and slowing volumes; 2) stabilising LLP after the Q408 clean-up; 3) positive trading contribution; 4) €70m negative MTM on the ISP stake, to be reversed in Q209E.

De-levered, good capital base, cautious management

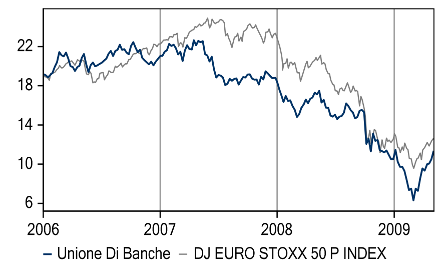
So far UBI has proven a defensive bank, maintaining sound liquidity and capital bases and remaining profitable through the crisis. The Q408 clean-up and the recent capital initiatives confirm management's cautiousness. The strengthened capital base implies UBI is one of the least levered EU banks, coupled with cost cutting from the M&A integration. Unfortunately, these provide ammo to investors fearing M&A risk at UBI, particularly regarding a potential link-up with Banco Popolare. We are not among them, but believe this factor will represent a performance cap for UBI in the short term.

Reiterate Neutral on valuation, raising P.O. to €11.3

We see UBI on 1x TBV, at 10% discount to the sector. We expect poor EPS momentum from UBI (and most Italian banks) in 2009E from negative NII growth from low deposit margins and LLP pickup from asset quality deterioration. By contrast, the lower leverage, the good capital buffer and the independence from government support (no Tremonti bonds) imply UBI's lower risk and higher BV visibility deserve a premium to the sector, in our view. The same arguments is true for BPM on 0.8x TBV, hence our preference for BPM (BPMLF; B-1-8; Eur4.69) over UBI. We confirm our Neutral on UBI and raise our P.O. to €11.3 from €10.9, implying c.1x TBV.

Stock Data

Price	EUR11.37
Price Objective	EUR9.80 to EUR11.30
Date Established	6-May-2009
Investment Opinion	A-2-8
Volatility Risk	LOW
52-Week Range	EUR5.68-EUR17.93
Mrkt Val / Shares Out (mn)	EUR7,267 / 639.1
Average Daily Volume	2,567,836
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	0.67x	0.66x	0.64x	0.64x	0.62x
Price / NAV	1.12x	1.08x	1.04x	1.05x	0.98x
Net Yield	8.36%	3.96%	3.75%	1.65%	3.92%
DPS Change (YoY)	18.8%	-52.6%	-5.33%	-56.0%	138%
Price / GOP	3.85x	4.92x	4.02x	4.19x	3.84x

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5.

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	0.6x

€73m net profit in Q109E

Table 1: UBI Q109E P&L preview

	Q109E	Q408	Q108	QoQ	YoY
Net interest income	708	779	731	-9.0%	-3.1%
Profit (loss) of equity investments valued using the equity method	0	-15	9	-100.0%	-100.0%
Net commissions	263	281	321	-6.5%	-18.3%
Trading	35	-193	-27	-118.2%	-229.2%
Insurance operations	2	-7	4	-128.9%	-51.4%
Other revenues	20	14	28	44.4%	-29.3%
Total revenues	1,029	861	1,068	19.6%	-3.6%
Total costs	-622	-683	-636	-8.9%	-2.2%
Personnel costs	-387	-393	-395	-1.5%	-2.0%
Other operating costs	-171	-212	-174	-19.2%	-1.5%
Depreciation	-63	-77	-67	-18.7%	-5.3%
Gross operating profit	408	178	432	129.1%	-5.7%
Provisions and write-offs	-260	-822	-68	-68.4%	281.5%
- Net impairment losses on loans	-185	-310	-60		
- Net impairment losses on other assets and liabilities	-70	-516	0		
- Net provisions for liabilities and charges	-5	5	-8		
Profit (loss) from disposal of equity and other investments	0	5	57		
Pre-tax profit	148	-640	422	-123.1%	-65.0%
Tax	-58	126	-161	-145.8%	-64.2%
Integration costs	-5	-22	-14	-77.1%	-65.3%
Profit (loss) of non-current assets held for sale and discontinued operations net of taxes	0	-5	0		
Net profit before minorities	85	-540	246	-115.7%	-65.5%
Minority interests	-12	-11	-27	13.7%	-55.8%
Net profit	73	-551	219	-113.2%	-66.7%
NIM		3.23%	3.15%		
C/I	60.4%	79.3%	59.5%		
LLP (bps)		129	26		
Tax rate	39.0%	19.6%	38.1%		

Source: Banc of America Securities - Merrill Lynch research

UBI on 1x TBV

Table 2: Summary of key valuation metrics

	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, %	6.8%	7.2%	8.6%	4.1%	3.8%	1.7%	4.0%
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	5.5x	4.4x	8.5x	54.1x	17.3x	23.1x	10.1x
P/Tang. BV, x	.56x	.61x	1.09x	1.05x	1.02x	1.02x	.95x
ROE, %		13.3%	9.2%	2.0%	6.0%	4.4%	9.7%

Source: Banc of America Securities - Merrill Lynch research

Raising P.O. to €11.3 from €10.9 => UBI on 1x NAV

We reiterate our Neutral and increase our P.O. to €11.3 from €10.9. This stems from mildly higher multiples following the market's more constructive view on through the cycle banks' profitability. Our new P.O. implies UBI on 1.1x TBV which we do not consider demanding.

Table 3: UBI 2009 SOP

2009	Retail	Centrobanca	Banca 24-7	AM	Free capital	C. Centre	Group profit
Net income, € m	350	22	11	13	58	(43)	411
Equity allocated, € m	3,740	784	526	13	1,936	1,157	6,626
RWA, € m	53,428	9,803	6,896	nm	1,936	17,793	89,856
Valuation							
Adjusted profit, € m	364	23	11	13			411
P/E, x	1.3x PTBV	1.1x PTBV	1x PTBV	11.0x			
Fair value, € m	5,012	894	526	144	1,936		8,512
Per share, €	7.8	1.4	0.8	0.2	3.0		13.3
EU Banks 15% visibility discount							2.0
Price target, €							11.3

Source: Banc of America Securities - Merrill Lynch research

Price objective basis & risk

UBI (BPPUF)

Our EUR11.3 P.O. is based on 2009E SOP, applying the following multiples: 1.3x TBV for retail, at premium to peers given higher visibility of results and higher quality of capital, 1x TBV for consumer finance, 1.1x TBV for corporate and investment banking, 11x 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 and price objective are a serious asset quality deterioration and execution risk on 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
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
	Nordea AB	NRDDF	NDA1V FH	Johan Ekblom
	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

EMEA - Banks Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	Eurobank	EGFEF	EUROB GA	Johan Ekblom
	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

iQmethod [SM] Measures Definitions

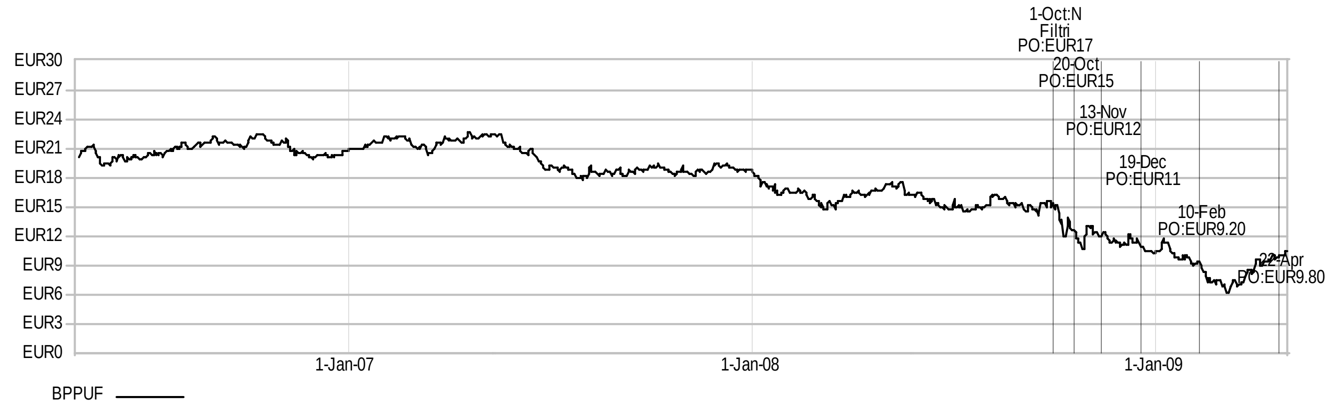
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating 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

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 April 30, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of April 30, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

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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