



16 November 2009

# UBI Banca

Reuters: **UBI.MI** Bloomberg: **UBI IM** Exchange: **MIL** Ticker: **UBI**

## Q3-09 results review

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### Reiterate Hold; target price unchanged at Euro 10.3

After the Q3-09 results, we maintain Hold. Our estimates reflect our cautious stance on the evolution of UBI Banca's net revenues in a low-interest-rate environment, but we believe the current market price already embeds these expectations.

### Still prudent outlook for Q4-09E

For Q4-09E, UBI Banca expects: 1) continuity in Q3-09 revenue trends; 2) a QoQ increase in operating costs, but still YoY reduction (-5% in our FY-09E); and 3) a cost of credit stable at the 9M-09 level (~82bps). On net interest income, management stated that Q3-09 should be the bottom in terms of spreads and net interest income in Q4-09E could remain almost flat QoQ; however, commissions should continue to benefit from the inflows in the assets under management. In Q3-09, the weight of its equity funds on total mutual funds increased to 10% (from 9.1% at Q2-09), remaining below the system level (19.7%). The re-composition of the asset mix is in any case ongoing, and we expect further improvement in the coming quarters. UBI Banca's main strength remains its capital: the core Tier 1 ratio is 7.3%, including the pro-quota accrual of dividends.

### No big surprises from Q3-09 results

UBI Banca reported a Q3-09 net profit of Euro 61m, which is better than our forecasts (Euro 46m), mainly due to: 1) lower cost of credit and 2) higher proceeds from trading income and dividends. Looking at the recurring operating lines, on an adjusted basis (to exclude the effects of the cancellation of the fee on overdrafts), net interest income declined 8% QoQ and 19% YoY, mainly as a result of the reduction of margins. The evolution of costs (-1% versus Q3-09E) has been mostly driven by the seasonal reduction of administrative expenses. Provisions on loan losses reached 82bps, and asset quality showed the first signs of stabilization (with inflows of NPLs and watchlists materially reducing QoQ): net NPL and watchlists grew by 8% and 13% QoQ, respectively.

### Valuation and risks

We maintain our target price of Euro 10.3 for UBI Banca. We value this stock with a Gordon Growth model. Specific upside risks include a possible over-performance compared to the sector due to the stock's high defensiveness. Specific downside risks refer to the potentially worse-than-expected evolution of NII and asset quality. For further details, please see page 10.

### Forecasts and ratios

Year End Dec 31	2007A	2008A	2009E	2010E
EPS Adjusted (EUR)	1.40	0.95	<b>0.42</b>	0.81
DPS(EUR)	0.95	0.45	<b>0.20</b>	0.34
P/B Tangible (x)	1.6	1.0	<b>0.9</b>	0.9

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

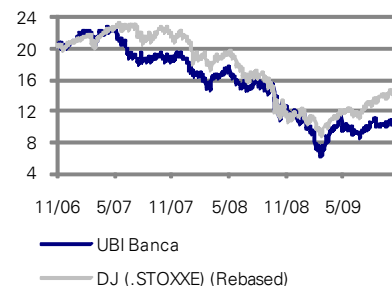
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## Results

### Hold

Price at 13 Nov 2009 (EUR)	<b>9.99</b>
Price Target (EUR)	<b>10.30</b>
52-week range (EUR)	<b>12.46 - 6.15</b>

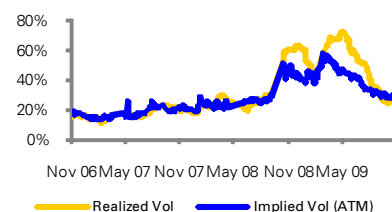
### Price/price relative



### Stock & option liquidity data

Price Target (EUR)	10.30
Market cap (EUR)	6,379
Shares outstanding (m)	639
Free float (%)	1
Option volume (und. shrs., 1M avg.)	102,207

### Implied & Realized Volatility (3M)



### Implied Volatility (3M, ATM) vs. Peers

RIBH.VI	47.9%
SWEDa.ST	46.3%
BTO.MC	37.9%
*STOXX 600	29.0%
UBI.MI	28.3%

\*Weighted-avg. of index components  
Data as of 12-Nov-09

Model updated: 14 November 2009

**Running the numbers****Europe****Italy****Banks****UBI Banca**

Reuters: UBI.MI

Bloomberg: UBI IM

**Hold**

Price (13 Nov 09) EUR 9.99

Target price EUR 10.30

52-week Range EUR 6.15 - 12.46

Market Cap (m) EURm 6,379  
USDm 9,497**Company Profile**

UBI Banca is the second-largest Italian Popolare Bank, having arisen from the merger of BPU Banca and Banca Lombarda (April 2007). It has some 1970 branches, mainly based in northwestern Italy (Lombardy, Piedmont). As of Q1-09, it has more than Euro 96bn in customer loans, Euro 96m in customer deposits and Euro 39bn in assets under management.

Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
<b>Data Per Share</b>						
EPS (stated)(EUR)	1.94	1.47	0.11	0.28	0.67	0.96
EPS (DB) (EUR)	1.54	1.40	0.95	0.42	0.81	1.07
Growth Rate - EPS (DB) (%)	-35.2	-8.9	-32.1	-55.4	91.8	31.6
DPS (EUR)	0.80	0.95	0.45	0.20	0.34	0.48
BVPS (stated) (EUR)	15.89	18.53	17.56	17.63	17.97	18.45
Tang. NAV p. sh. (EUR)	13.07	11.76	10.81	10.72	11.05	11.53
Market Capitalisation	13,295	12,011	6,571	6,379	6,379	6,379
Shares in issue	491	639	639	639	639	639

**Valuation Ratios & Profitability Measures**

P/E (stated)	10.8	12.8	95.3	36.2	14.9	10.4
P/E (DB)	13.5	13.4	10.8	23.6	12.3	9.3
P/B (stated)	1.3	1.0	0.6	0.6	0.6	0.5
P/Tangible equity (DB)	1.6	1.6	1.0	0.9	0.9	0.9
ROE(stated)(%)	8.8	8.6	0.6	1.6	3.7	5.2
ROTE (tangible equity) (%)	9.2	11.3	8.4	3.9	7.5	9.5
ROIC (invested capital) (%)	7.0	8.1	5.3	2.4	4.5	5.8
Dividend yield(%)	3.9	4.7	3.0	2.0	3.4	4.8
Dividend cover(x)	2.4	1.5	0.2	1.4	2.0	2.0

**Profit & Loss (EURm)**

Net interest revenue	2,599	2,881	3,074	2,612	2,698	2,845
Non interest income	1,780	1,820	1,237	1,455	1,568	1,613
Commissions	1,316	1,335	1,188	1,102	1,183	1,216
Trading Revenue	114	101	-249	68	45	46
Other revenue	349	383	298	285	340	351
Total revenue	4,379	4,701	4,310	4,067	4,266	4,458
Total Operating Costs	2,617	2,738	2,809	2,679	2,722	2,762
Employee Costs	1,530	1,592	1,632	1,543	1,562	1,581
Other costs	1,088	1,146	1,177	1,136	1,160	1,180
Pre-Provision profit/(loss)	1,774	2,001	1,536	1,423	1,584	1,737
Bad debt expense	248	374	553	829	646	551
Operating Profit	1,514	1,589	949	559	898	1,145
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	1,514	1,589	949	559	898	1,145
Tax	670	577	244	244	335	417
Other post tax items	107	-72	-636	-138	-134	-115
Stated net profit	951	940	69	176	429	612
Goodwill	0	81	88	80	78	62
Extraordinary & Other items	-196	-127	450	14	11	9
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	755	894	607	270	519	683

**Key Balance Sheet Items (EURm) & Capital Ratios**

Risk-weighted assets	90,086	97,912	89,892	85,612	89,615	93,825
Interest-earning assets	101,154	105,501	105,932	112,995	120,375	128,263
Customer Loans	83,063	92,729	96,368	96,611	102,149	108,029
Total Deposits	48,376	49,696	54,151	47,090	50,387	53,914
Stated Shareholder Equity	10,150	11,834	11,211	11,260	11,475	11,781
Equals: Tangible Equity	8,344	7,509	6,904	6,844	7,059	7,365
Tier 1 capital	5,884	7,289	6,945	6,910	7,125	7,431
Tier 1 ratio (%)	7	7	8	8	8	8
o/w core tier 1 capital ratio (%)	6.0	6.9	7.1	7.5	7.4	7.4

**Credit Quality**

Gross NPLs/Total Loans(%)	2.31	2.88	3.74	3.74	4.58	4.18
Risk Provisions/NPLs(%)	47	50	33	45	47	50
Bad debt / Avg loans (%)	0.28	0.43	0.58	0.86	0.63	0.51
Bad debt/Pre-Provision Profit(%)	14.0	18.7	36.0	58.3	40.8	31.7

**Growth Rates & Key Ratios**

Growth in revenues (%)	-1	7	-8	-6	5	4
Growth in costs (%)	0	5	3	-5	2	1
Growth in bad debts (%)	-22	51	48	50	-22	-15
Growth in RWA (%)	73	9	-8	-5	5	5
Net int. margin (%)	2.47	2.79	2.91	2.31	2.24	2.22
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	172	187	178	205	203	200

**ROTE Decomposition**

Revenue % ARWAs	4.86	4.80	4.79	4.63	4.87	4.86
Net interest revenue % ARWA	2.89	2.94	3.42	2.98	3.08	3.10
Non interest revenue % ARWA	1.98	1.86	1.38	1.66	1.79	1.76
Costs/income ratio (%)	59.5	57.4	64.4	65.0	62.9	61.0
Bad debts % ARWAs	0.27	0.38	0.61	0.94	0.74	0.60
Tax rate (%)	44.3	36.3	25.7	43.7	37.3	36.4
Adj. Attr. earnings % ARWA	0.84	0.91	0.68	0.31	0.59	0.74
Capital leverage (ARWA/Equity)	11.0	12.4	12.5	12.8	12.6	12.7
ROTE (Adj. earnings/Ave. equity)	9.2	11.3	8.4	3.9	7.5	9.5

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Source: Company data, Deutsche Bank estimates

# Q3-09 results review

## In the expected direction

On 12 November, UBI Banca disclosed its Q3-09 results, and management commented on them in a conference call.

UBI Banca reported a Q3-09 net profit of Euro 61m (after a PPA effect of Euro 17m), which is better than our forecasts (Euro 46m), mainly due to: (1) lower cost of credit and (2) higher proceeds from trading income and dividends.

**Figure 1: UBI Banca: quarterly trends**

Consolidated data - Euro mi	Q1-08	Q2-08	Q3-08	Q4-08	Q1-09	Q2-09	Q3-08	% QoQ	% YoY	Q3-09E	A/E
Net interest income	765	767	759	790	715	688	601	-13	-21	620	-3
Dividends & associates	7	72	2	-13	6	8	15			5	224
Trading income	-27	38	-61	-193	31	0	26			9	196
Net commissions & other income	386	367	338	335	312	321	358	12	6	345	4
Total net income	1131	1244	1038	920	1064	1017	1000	-2	-4	978	2
Total costs	659	703	634	696	643	648	630	-3	-1	639	-1
Gross operating result	472	541	404	223	421	368	370	0	-8	340	9
Total net provisions	69	108	114	306	169	253	200	-21	76	226	-11
Goodwill amortization	21	24	19	25	18	19	17	-10	-7	22	-20
Net operating result	382	409	271	-108	233	96	153	59	-44	93	65
Extraordinary items	43	-3	-16	-538	-84	82	-5			0	
Pre-tax profit	425	406	256	-646	149	179	148	-17	-42	93	60
Taxes	174	80	131	-111	113	61	78	27	-40	40	97
Minorities	31	26	24	17	12	16	9	-45	-63	7	32
Net Profit	219	300	101	-551	24	102	61	-40	-39	46	32

Source: Deutsche Bank Estimates, Company data

Looking at the recurring operating lines on a stated basis, net interest income (-4% versus Q3-09E) declined 13% QoQ and 21% YoY, mainly as a result of spread contraction. Commissions (Euro 297m, 4% better than Q3-09E) increased 16% QoQ. The evolution of costs (-1% versus Q3-09E) has been mostly driven by the reduction of administrative expenses. Provisions on loan losses reached 82bps and asset quality showed the first signs of stabilization (with inflows of NPLs and watchlists materially reducing QoQ); net NPL and watchlists grew by 8% and 13% QoQ, respectively.

### Net interest income

Net interest income was almost 3% worse than our forecast, at Euro 601m. In order to isolate the effects of the cancellation of the overdraft fee, we presented the adjustments of the previous 2008 and 2009 quarters, when the overdraft fee was reallocated to commissions (instead of being booked in net interest income).

**Figure 2: Adjusted net interest income and commissions**

Consolidated data	Q1-08	Q2-08	Q3-08	Q4-08	Q1-09	Q2-09	Q3-09	% QoQ	% YoY
(Euro m)	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted		
Stated net interest income	765	767	759	790	715	688	601	-13	-21
Adjusted net interest income	734	723	717	748	674	651	597	-8	-19
Stated net commissions	316	302	277	281	250	257	293	14	6
Adjusted net commissions	366	349	322	324	291	294	297	1	-19
Overdrafts fee	50	46	45	43	41	37	4		

Source: Deutsche Bank, Company data

On an adjusted basis, net interest income declined 8% QoQ and 19% YoY, mainly as a result of the reduction of margins (liability spread has been negative, affected by the contraction of interest rates. This was not offset by the asset spread, as it has declined on a QoQ basis).

Also, the composition of direct funding (84.6% retail and 15.4% institutional funding) and the evolution of customer loans (-0.3% QoQ and -1.5% YoY) did not support net interest income.

Management stated that it is sensible to assume that Q3-09 represents the bottom in terms of spreads evolution and, in Q4-09E, there should be some QoQ stability in net interest income.

#### Commissions and other income

Still on an adjusted basis (Figure 2), commissions increased 1% QoQ and declined 19% YoY.

The QoQ trend is mainly due to the good trends of the AUM, which partially offset the seasonality and the QoQ increase in upfront fees.

However, from a YoY perspective, the reduction is due to the fact that:

- AUM remained below the Q3-08 level;
- the commissions from traditional banking services were lower due to the reduced activities of clients.

**Figure 3: UBI Banca: asset management**

	Q3-08	Q4-09	Q1-09	Q2-09	Q3-09	QoQ	YoY
Discretionary fund	9,714	8,951	8,683	8,769	9,047	3%	-7%
Mutual funds	21,532	18,973	18,594	19,745	20,925	6%	-3%
Insurance reserves	11,497	11,282	11,395	11,727	12,024	3%	5%
Assets under management	42,743	39,207	38,672	40,241	41,997	4%	-2%
Assets under custody	37,181	34,857	34,857	35,238	36,654	4%	-1%
Assets under administration	78,959	74,064	73,529	75,478	78,651	4%	0%

Source: Deutsche Bank estimates, company data

In Q3-09, the weight of UBI Banca's equity funds on total mutual funds increased to 10% (from 9.1% at Q2-09), remaining below the system level (19.7%). The re-composition of the asset mix is in any case continuing, and we expect some further improvements in the coming quarters.

#### Trading income

The sum of dividends and associates (Euro 15m) and trading income (Euro 26m) reached Euro 41m (Euro 14m in Q3-09E) versus Euro 8m in Q2-09, when trading did not contribute at all.

**Figure 4: UBI Banca: trading income**

Net result from trading activities	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Mark to market of securities held for trading (*)	7	23	6	-141	11	23	-35
Net result from hedging activities	-2	-26	28	-10	-23	0	14
Profit from disposal of financial assets/liabilities	76	2	1	25	2	8	2
Net result from financial assets/liabilities at fair value	6	-11	-17	-65	-51	5	-7
<b>Total</b>	<b>26</b>	<b>-12</b>	<b>18</b>	<b>-191</b>	<b>-61</b>	<b>38</b>	<b>-27</b>
Total net of write-down in Hedge Funds	39	0	31				

(\*) o/w

Valuation of hedge funds	0	0	0	-64	-7	-1	-15
Valuation of equity investments	-2	6	-3	-4	-3	13	-22
Valuation of debt securities	-1	15	11	-78	20	-3	8
Currencies and others	10	2	-2	5	1	15	-6
<b>Total</b>	<b>7</b>	<b>23</b>	<b>6</b>	<b>-141</b>	<b>11</b>	<b>23</b>	<b>-35</b>

Source: Deutsche Bank Estimate, Company data

**Operating costs**

Operating costs were 1% lower than we estimated, declining 3% QoQ and 1% YoY (due to the normal seasonal effect). In particular, this trend benefited from the YoY of personnel expenses (-2% YoY). Administrative expenses were 5% lower than our forecast and increased 4% YoY as a result of the new law regarding the intra-group tax on value-added (VAT).

**Provisions on loan losses and on risk and charges**

In Q3-09, UBI Banca posted Euro 197m in provisions on loan losses, implying a provisioning level of 82bps (annualized). This figure is below our Q3-09E of 87bps.

Provisions on risk and charges were Euro 3m (Euro 11m in Q2-09E).

**Figure 5: UBI Banca: asset quality**

	Gross Exposure				
	30/09/2009	30/06/2009	30/09/2008	QoQ %	YoY %
NPLs	2451	2276	1671	8%	47%
Watchlist	1978	1735	1270	14%	56%
Restructured loans	418	346	112	21%	274%
180 past due	267	277	163	-4%	64%
	Net exposure				
	30/09/2009	30/06/2009	30/09/2008	QoQ %	YoY %
NPLs	1189	1099	771	8%	54%
Watchlist	1684	1494	1081	13%	56%
Restructured loans	379	318	90	19%	320%
180 past due	257	254	153	1%	68%
Total loans	96555	96830	98020	-0.3%	-1.5%
Net NPLs/total loans	1.23%	1.14%	0.79%		
NPLs coverage ratio	51.5%	51.7%	53.9%		

Source: Deutsche Bank estimates, Company data

Gross NPLs and watchlists grew by 8% and 14% QoQ, respectively (47% and 56% YoY, respectively), while net NPLs and watchlists grew by 8% and 13% QoQ, respectively (54% and 56% YoY, respectively).

NPLs represents 1.23% of UBI Banca's total loans (versus 1.14% in Q2-09 and 0.79% in Q3-08), and NPL coverage is almost stable, at 51.5% (51.7% in Q4-08).

In its 9M-09 report, UBI Banca commented that, in Q3-09:

- The QoQ increase in NPLs was mainly (80%) concentrated in the network banks, in contrast to H1-09, when Banca 24-7 (UBI Banca's consumer credit subsidiary) and UBI Leasing experienced the worst trends (due to two large real estate leasing contracts, related to the same clients).

**Figure 6: UBI Banca: NPLs/total loan per company**

	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08
BP Bergamo	1.06%	0.93%	0.79%	0.76%	0.68%	0.65%
BP Brescia	0.88%	0.82%	0.78%	0.75%	0.64%	0.62%
BPCI	2.34%	2.15%	1.88%	1.56%	1.32%	1.34%
BRE	1.47%	1.38%	1.28%	1.22%	1.17%	1.17%
BP Ancona	2.41%	2.19%	1.77%	1.61%	1.43%	1.44%
Carime	0.89%	0.86%	0.73%	0.69%	0.61%	0.57%
B valle camonica	0.91%	0.80%	0.71%	0.69%	0.65%	0.67%
B SanGiorgio	1.26%	1.18%	1.13%	1.20%	1.19%	0.99%
UBI Private	0.59%	0.50%	0.46%	0.41%	0.41%	0.39%
Banca 24-7	0.75%	0.75%	0.45%	0.39%	0.26%	0.29%
IW Bank	0.00%	0.00%				
B Depos Gestion	0.05%	0.06%	0.05%	0.05%	0.05%	0.05%
Centrobanca	0.93%	0.89%	0.77%	0.76%	0.49%	0.55%
UBI International	0.05%	0.05%	0.05%	0.06%		
CBI Factor	0.73%	0.55%	0.41%	0.24%	0.24%	0.10%
UBI Leasing	1.28%	1.20%	1.05%	0.61%	0.65%	0.57%

Source: Deutsche Bank estimates, Company data

- The QoQ increase in watchlists came equally from the network banks, from Centrobanca and from the product companies. In particular, for UBI Leasing, 52 new positions (mainly real estate exposures) have been moved to the watchlist category (the first seven represent 50% of the total gross increase of UBI Leasing's watchlists).

**Figure 7: UBI Banca: watchlists/total loan per company**

	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08
BP Bergamo	1.53%	1.33%	0.86%	0.80%	0.57%
B Brescia	1.14%	1.16%	0.73%	0.61%	0.55%
BPCI	1.86%	1.70%	1.70%	1.78%	1.23%
BRE	1.35%	1.24%	1.18%	1.20%	1.16%
BP Ancona	2.95%	2.56%	2.81%	2.60%	2.55%
Carime	1.48%	1.32%	1.29%	1.04%	1.02%
B valle camonica	1.54%	1.35%	0.94%	0.74%	0.73%
B SanGiorgio	1.31%	1.31%	1.15%	1.02%	1.07%
UBI Private	1.32%	1.21%	1.15%	0.88%	0.72%
Banca 24-7	0.57%	0.58%	0.72%	0.68%	1.10%
IW Bank	0.02%	0.09%	0.03%	0.04%	0.03%
B Depos Gestion	0.32%	0.44%	0.37%	0.34%	0.36%
Centrobanca	3.05%	2.62%	1.27%	0.87%	0.66%
UBI International	1.30%	1.31%	1.30%	1.38%	0.07%
CBI Factor	0.21%	0.26%	0.30%	0.35%	0.37%
UBI Leasing	3.37%	2.62%	2.61%	2.46%	1.25%

Source: Deutsche Bank estimates, company data

### Taxes

The tax rate was 53%, materially higher than in Q2-09 (34%).

# Estimates revision

## Management outlook for FY-09E

For Q4-09E, UBI Banca expects:

- a certain continuity in the trends of revenues seen in Q3-09;
- a QoQ increase in operating costs, but still YoY reduction (-5% in our FY-09E);
- a cost of credit stable at the 9M-09 level (~82bps).

## Lower net interest income, lower costs

We increase our estimates for UBI Banca's net profit by 5%, 5% and 1% in 2009E, 2010E and 2011E, respectively.

**Figure 8: UBI Banca: estimates revision**

Consolidated data (Euro million)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
	old	old	old	Estimates revision			new	new	new
Net interest income	2,651	2,730	2,878	-1	-1	-1	2,612	2,698	2,845
Dividends & associates	23	73	78	72	23	22	40	91	96
Trading income	45	45	46	53	0	0	68	45	46
Net commissions & other income	1,347	1,433	1,471	0	0	0	1,347	1,433	1,471
Total net income	4,066	4,282	4,472	0	0	0	4,067	4,266	4,458
Total costs	2,644	2,682	2,721	0	0	0	2,644	2,682	2,721
Gross operating result	1,422	1,599	1,751	0	-1	-1	1,423	1,584	1,737
Total net provisions	922	736	614	-6	-7	-4	864	686	592
PPA total effect	86	84	62				80	78	62
Net operating result	414	779	1,076	16	5	1	478	820	1,083
Extraordinary items	-14	-11	-9				-14	-11	-9
Pre-tax profit	400	768	1,067	16	5	1	464	809	1,074
Taxes	198	324	415	23	3	1	244	335	417
Minorities	44	44	45	0	0	0	44	44	45
Net Profit	158	400	607	12	7	1	176	429	612
Adjusted net Profit	258	495	678	5	5	1	270	519	683

Source: Deutsche Bank estimates, Company data

Following the release of the Q3-09 results, we slightly reduced our estimates for net interest income (-1% in 2009E, 2010E and 2011E), assuming that the level of net interest income reached in Q3-09 will largely be replicated in Q4-09E.

On the contrary, we increase our estimates for trading income and dividends for 2009E. In fact, in Q2-09 dividends did not include any proceeds coming from UBI Banca's stake in Intesa SanPaolo (which did not pay dividends on 2008 earnings), but we expect Intesa SanPaolo to pay dividends again from 2010E (on 2009 earnings). So, we base 2010E and 2011E forecasts on the 2009E level of dividends and add Intesa SanPaolo's dividends.

Finally, we slightly reduce our estimates for total provisions (-6% in 2009E, -7% 2010E and -4% 2011E).

**Figure 9: UBI Banca: main P&L trends**

<b>Consolidated data</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>% 2007/</b>	<b>% 2008E/</b>	<b>% 2009E</b>	<b>% 2010E</b>	<b>% 2011E</b>
<b>(Euro m)</b>							<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net interest income	2,599	2,881	3,074	2,612	2,698	2,845	11	7	-15	3	5
Dividends & associates	68	103	73	40	91	96	52	-29	-45	126	6
Trading income	114	101	-249	68	45	46	-11	-346	-127	-34	1
Net commissions & other income	1,598	1,615	1,413	1,347	1,433	1,471	1	-13	-5	6	3
Total net income	4,379	4,701	4,310	4,067	4,266	4,458	7	-8	-6	5	4
Total costs	2,605	2,700	2,774	2,644	2,682	2,721	4	3	-5	1	1
Gross operating result	1,774	2,001	1,536	1,423	1,584	1,737	13	-23	-7	11	10
Total net provisions	260	412	587	864	686	592	58	42	47	-21	-14
Goodwill amortization	0	81	88	80	78	62		10	-9		-21
Net operating result	1,514	1,508	860	478	820	1,083	0	-43	-44	71	32
Extraordinary items	196	127	-450	-14	-11	-9		-454	-97		-18
Pre-tax profit	1,710	1,635	411	464	809	1,074	-4	-75	13	74	33
Taxes	670	577	244	244	335	417	-14	-58	0	37	25
Minorities	89	118	97	44	44	45	33	-18	-55	1	1
Net Profit	951	940	69	176	429	612	-1	-93	155	144	43

Source: Deutsche Bank estimates, company data

# Valuation

## Target price

We maintain our target price at Euro 10.3.

**Figure 10: UBI Banca – valuation**

	2010E	2011E
Equity	11475	11781
Goodwill	4447	4447
Tangible equity	7028	7334
Average tangible equity		7181
Adjusted net profit	519	683
Average ROTe (%)		9.5
Shares (#)		641
Average tangible equity per share		11.2
Risk-free rate		4.5
Beta		1.18
Market premium		4.0
Discount factor		9.2
g		2.5
Per share valuation (2010)		11.7
Target price		10.3

Source: Deutsche Bank estimates

We value UBI Banca using a Gordon Growth model (RoE-g/CoE-g) to derive a target price/book value multiple. Our main assumptions for 2011E are: average return on total equity (ROTE) of 9.5%; 9.2% cost of equity (risk-free rate of 4.5%, equity risk premium of 4%, beta of 1.18); and a 2.5% perpetual growth rate (embedding our medium-term assumption on Italian GDP growth, which could be a good proxy for medium-term growth in a mature market such as banking). We apply the resulting 1.0x multiple to our 2011 estimate of average tangible equity per share of Euro 11.7 and then discount this figure back 9.2%.

We have not yet accounted for the dilution coming from the issue of warrants (639m, implying the potential creation of 32m new shares – exercise price Euro 12.3 per share) and the Euro 640m (maximum) convertible bonds.

## Risks

As far as generic risks are concerned, we believe that UBI Banca, like its peers, remains exposed to a potential downturn in the economic environment, which could affect our revenues and loan loss provision assumptions. Moreover, the new and constant attention that a number of authorities (such as consumer associations, the Bank of Italy, antitrust authorities, and the European Union) are paying to the cost of banking services in Italy (in comparison to the lower European average) could be another reason for increasing competition and margin pressure on the system.

For UBI Banca, specific upside risks include a potential over-performance compared to the sector, due to the stock's high defensiveness.

# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
UBI Banca	UBI.MI	9.99 (EUR) 13 Nov 09	6,7,8,14

\*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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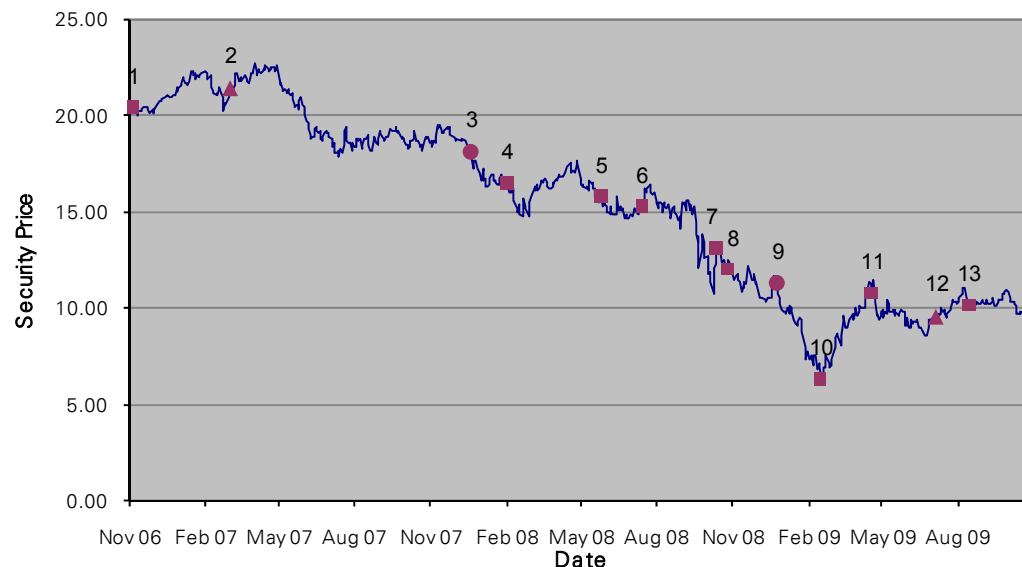
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**Historical recommendations and target price: UBI Banca (UBI.MI)**

(as of 11/13/2009)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	24/11/2006:	Hold, Target Price Change EUR22.00	8.	13/11/2008:	Hold, Target Price Change EUR12.60
2.	22/3/2007:	Upgrade to Buy, Target Price Change EUR24.60	9.	13/1/2009:	Downgrade to Sell, Target Price Change EUR9.00
3.	8/1/2008:	Downgrade to Hold, Target Price Change EUR20.60	10.	6/3/2009:	Sell, Target Price Change EUR6.40
4.	20/2/2008:	Hold, Target Price Change EUR19.70	11.	7/5/2009:	Sell, Target Price Change EUR9.60
5.	13/6/2008:	Hold, Target Price Change EUR19.10	12.	24/7/2009:	Upgrade to Hold, EUR9.60
6.	1/8/2008:	Hold, Target Price Change EUR15.70	13.	1/9/2009:	Hold, Target Price Change EUR10.30
7.	31/10/2008:	Hold, Target Price Change EUR13.70			

**Equity rating key** **Equity rating dispersion and banking relationships**

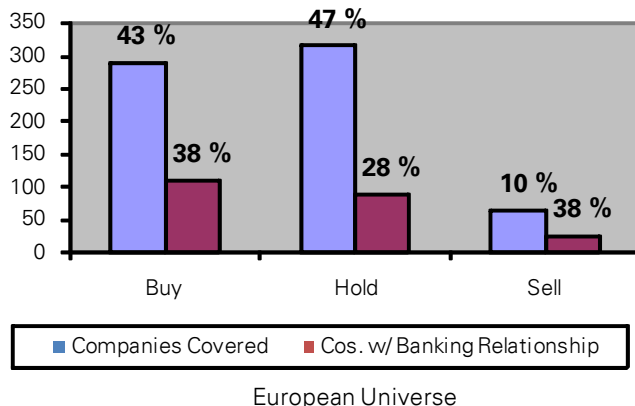
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