

# Veneto Banca

## Research Analysts

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## A potential restructuring story

Veneto Banca is one of the 14 Italian financial entities regulated by the European Central Bank. It is among the top 10 banking groups by loans in Italy (with a 1.2% market share), with its main market in the Veneto region (42% of the book; 6.6% market share). In July 2015, the new management team presented a capital strengthening plan to the ECB, which includes a €1bn capital increase (to be implemented by June 2016), the sale of non-core assets (a 71.4% stake in Banca Intermobiliare-BIM and international businesses in Romania, Croatia, Albania and Moldova), the transformation of the bank from a cooperative to a joint-stock corporation (completed in December 2015) and the proposed listing of the shares on the stock market.

- **A potential restructuring story:** With 73% of the loan portfolio located in the North of Italy (and with the Veneto region ranking sixth in the country in terms of GDP per capita and third in terms of GDP as of 2014), Veneto Banca is strategically positioned to implement the new business model and commercial strategy. We think there is significant untapped potential both in terms of revenues and costs, with the bank's pre-provision profitability levels below those of peers (0.76% of assets versus >1% for peers) due to product underpenetration (AuM, non-life insurance, debit and credit cards) and a costly former business model. Post the capital increase and the disposal of non-core assets, the bank is likely to benefit from a strong solvency position, which could be further improved by the implementation of Internal Ratings-Based models and the potential sale of the 20% stake in Arca.
- **Key risks:** (i) low profitability prospects within the European banking sector, with the bank's 5.1% RoTBV target for 2018 below the sector's 9% average, (ii) an asset quality overhang, (iii) an inability to deliver on fee targets, which represent 56% of the revenue improvement in our numbers by 2018E, (iv) the challenging funding position, with retail bond declines further exacerbated by the bank's c.€3.3bn deposit outflows since Q415, and (v) execution risks on disposals (c.95bps of capital generation by 2018E).
- **Valuation framework:** We consider two approaches—a multiples comparison using eight Italian peers and a standard Gordon growth model.

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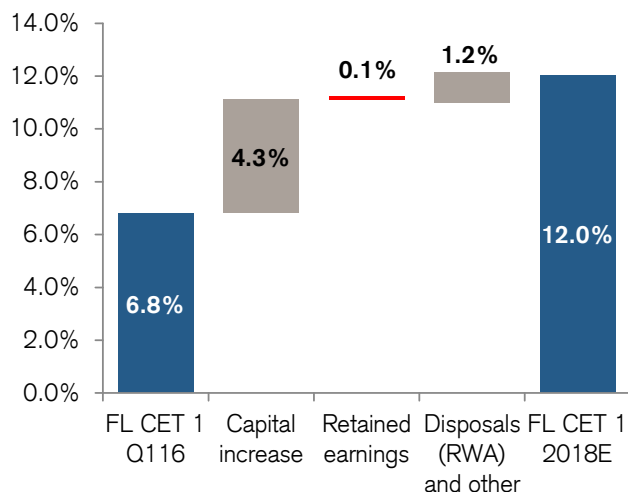
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Veneto Banca

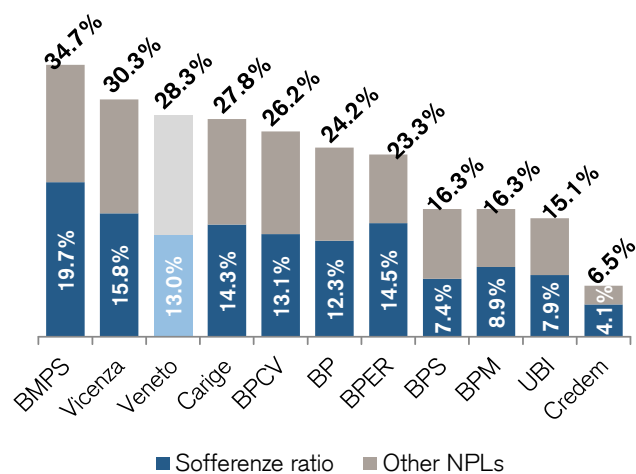
# Key charts

**Figure 1: Veneto Banca: Capital generation Q216-2018E**



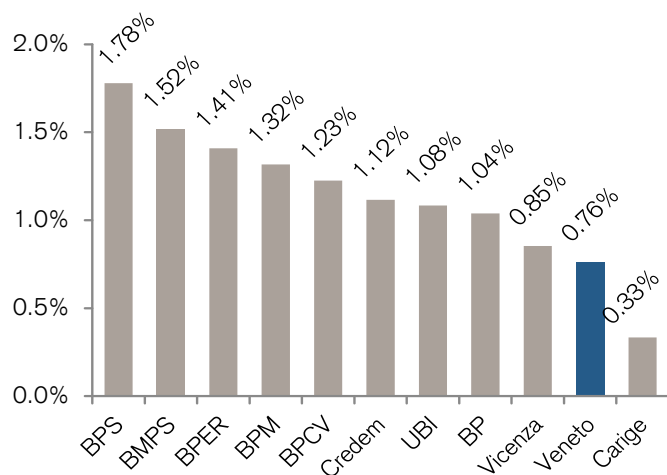
Source: Credit Suisse estimates

**Figure 3: Italian banks: Gross NPL ratio 2015**



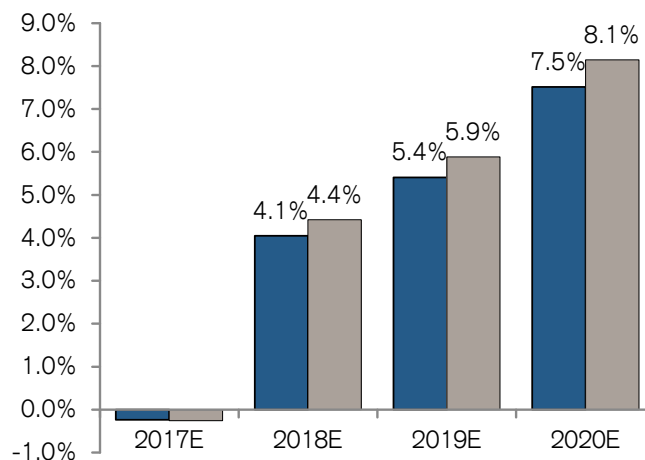
Source: Company data, Credit Suisse research

**Figure 5: Veneto Banca: 'Clean' PPP as a % of assets – 2015**



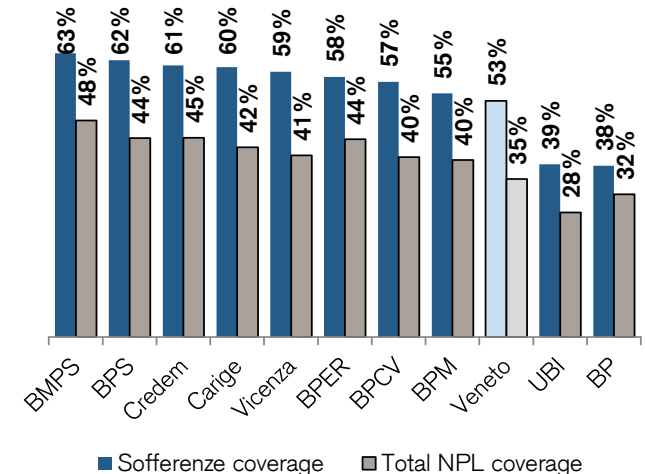
Source: Company data, Credit Suisse research

**Figure 2: Veneto Banca: RoTBV evolution 2017-2020E**



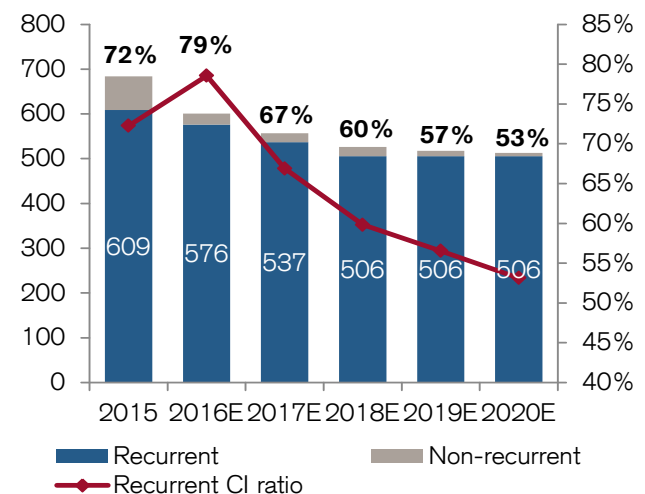
Source: Credit Suisse estimates

**Figure 4: Italian banks: Coverage ratio 2015**



Source: Company data, Credit Suisse research

**Figure 6: Veneto Banca: Cost evolution 2015-20E**



Source: Company data, Credit Suisse estimates

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# Executive summary

Veneto Banca is one of the 14 Italian entities regulated by the European Central Bank (ECB). Following the asset quality review (AQR) results, the ECB, through its Supervisory Review and Evaluation Process (Final SREP) in February 2015, set a specific capital requirement for Veneto Banca at 10.25% from 30<sup>th</sup> of June 2016. In July 2015, and with the introduction of the new management team, the bank presented a capital strengthening plan to the ECB, which includes a €1bn capital increase (to be implemented by June 2016), the sale of non-core assets (71.4% stake in Banca Intermobiliare-BIM and international businesses in Romania, Croatia, Albania and Moldova), the transformation of the bank from a cooperative to a joint-stock corporation (completed in December 2015) and the proposed listing of the shares on the stock market.

Veneto Banca's business plan targets €152mn profits (5.1% RoTBV) for 2018E and €249mn (7.5% RoTBV) for 2020E through revenue growth (3%CAGR), cost declines (-5% CAGR) and lower provisions (-35% CAGR). Our estimates stand c.€51-53mn (21-35%) below the bank's stated targets due to lower revenue expectations. Specifically, our NII estimates sit 10-12% below targets as a result of a more conservative stance on lending revenues (mostly due to lower pricing expectations) and funding cost declines (mostly related to higher wholesale financing cost expectations), and our fee estimates also stand 4-5% below target due to lower traditional banking fees estimates, giving management the full benefit of the doubt in what relates to indirect funding growth (4-5% CAGR). Our estimates incorporate the estimated impact of the optional regime introduced by article 11 of Law Decree 59/2016, under which the bank pays a 1.5% commission on the difference between convertible DTAs generated from 2008 onwards and the taxes paid in the same period.

In this report, we look at Veneto Banca's position relative to that of its Italian peers: the 13 other entities that are regulated by the ECB, excluding ISP, UCG and Mediobanca given their differences in size and business mix profiles. We also note that company disclosures and thus data availability vary significantly, which is why we exclude some companies from some metrics.

## Key positives

**Geographical footprint** – Veneto Banca has 73% of its loan portfolio located in the North of Italy. The Veneto region, its main market, ranks sixth in terms of GDP per capita and third in terms of GDP in Italy (as of 2014) and GDP growth is forecasted (by Prometeia, an independent consultancy firm) to be 60bps above the Italian average (1.6% in 2016E and 1.8% in 2017E vs. 1.0% and 1.2% for Italy). The company's market share by loans in the region stands at 6.6% (from 5.8% levels back in 2010).

**Significant untapped potential** – Relative to its Italian peers, Veneto Banca's pre-provision profitability levels compare poorly (0.76% of assets vs. >1% for peers). This is the result of cost and revenue inefficiencies – which have resulted from underpenetration in some products (non-life insurance, debit and credit cards), the relatively low market share on AuM (0.3% vs. 1.2% for loans) and a costly business model – all of which are being addressed by the new management in their business plan.

**Strong capital position post €1bn increase and RWA optimisation** – Post the capital increase and assuming the completion of the planned disposal of BIM (c.€1.5bn RWAs) and the foreign subsidiaries (c.€1.3bn RWAs), we estimate FL CET1 levels of 12.0% by 2018E, which suggests €0.2bn of excess capital vs. our 11% benchmark requirement. Our numbers do not incorporate any benefit from the potential implementation of Internal Ratings-Based (IRB) models, which we estimate could further improve solvency levels by 70bps in a scenario in which RWA density declines to levels of 60% from the current 64%. We note that peers which have already gone through this process have weightings of 35-50% (UBI, BP, BMPS).

## Key risks

**Low profitability prospects** – Within the context of the European banking sector, Veneto Banca's RoTBV targets (5.1% by 2018E) are at the lower end of the universe (sector average is c.9% by 2018E based on our estimates and Reuters consensus). Within Italy, medium-sized banks' (UBI, BP, BPER, BPM) average is 5.2% for 2018E (Reuters consensus), in line with Veneto Banca's target and slightly above our 4.1% estimate (4.4% on a capital-adjusted basis). In the absence of considerable interest rate increases, we struggle to see Veneto Banca's RoTBV superseding the bank's cost of capital before 2018E even if volume dynamics are better than expected, with our sensitivity analysis suggesting an 8% impact on earnings (30-35bps on RoTBV levels) resulting from every percentage change in loan CAGR (vs. the -0.5% 2015-18E embedded in estimates).

**Asset quality overhang** – Relative to its Italian peers, Veneto Banca's asset quality metrics look poorer, with its NPL ratios as of Q4 15 (28.3%) among the highest of our bank sample (average 24%) and coverage levels (35%) among the lowest (average 37%). Despite the bank having made the reclassifications suggested by the regulator at the time of the comprehensive assessment, and with coverage levels having increased by five percentage points over the past two years, we see a risk of additional adjustments, with increasing market concerns about a forced reduction of the non-performing portfolio for Italian banks (be it through provisions/write-offs or the transfer (via securitizations) of those assets to the bad bank mechanism (Special Purpose Vehicle) created by the government), with limited visibility on the potential implications of the more recent legislation changes. Our numbers do not account for any sort of transfer in the immediate term, but do suggest an overall increase in the levels of coverage from the current 35% to 55% by 2020E. We have run a sensitivity analysis which suggests a 17% impact on earnings (70bps on RoTBV levels) resulting from every 10bps change on LLP levels in 2018E.

**Fee and AuM growth could be more muted than targeted** – Whilst we have largely given the company the benefit of the doubt in terms of fee and AuM growth targets, we believe these are challenging. In a low interest rate environment, entities tend to focus on fee generation to partly offset the net interest income pressures – this highly competitive environment could prevent Veneto Banca from achieving its fee growth targets. Despite encouraging data in the levels of AuM inflow in the country, we see a risk of declines in customer appetite if there is a resurgence in lower-risk, better-yielding options (if yields of Italian government bonds increase again, for example). For Veneto in particular, we note AuM declined in Q116 by €264mn (5%). In addition, and in what relates to traditional banking fees, the bank implies c.20bps of fee increases (as percentage of loans) from Q1 levels (we include 15bps in our numbers) which we believe is ambitious considering current circumstances. Our sensitivity analysis suggests every percentage change in the annual average fee growth (vs. our base case of c.6.5% CAGR by 2018E) has a c.€7mn (7%) impact on earnings and c.27-33bps impact on RoTBV levels.

**A challenging funding position** – As retail bonds gradually decline (with customers moving into AuMs or mere deposits due to the potential bail-in-able nature of debt instruments), Italian banks' funding mix is deemed to change. Veneto Banca in particular, has also suffered from deposit volatility (€3.3bn outflows in the last two quarters), which together with the c.€2.16bn reduction in retail bonds reduced the weight of retail funds to 47% by Q116, and the bank was forced to reduce the asset base in Q116 to improve its liquidity position (LCR went from 89% in Q315 to 53% in Q415 and 78% by Q116). In line with targets, our estimates incorporate the gradual recovery of deposits (to which we see risks), and the incremental weight of securitization and unsecured wholesale instruments (also embedded in the business plan), with the bank only marginally increasing the TLTRO exposure (from current €2.3bn to €2.6bn) despite the c.€1.8bn of unencumbered assets.

**Execution risk on selling the assets for sale** – We have assumed Veneto Banca will be able to dispose of the assets it plans to sell (i.e. its 71.4% stake in Banca Intermobiliare-BIM and its international subsidiaries in Romania, Croatia, Albania and Moldova). In our calculations, c.95bps of the group's capital generation over 2016-2018E should result from these sales, with our numbers not incorporating any gain/loss on the potential disposals.



# Valuation framework

Our valuation framework includes: a peer comparison approach based on current multiples for eight Italian peers (the 13 other entities regulated by the ECB, minus ISP, UCG, Credem and Mediobanca, as well as Banca Popolare di Vicenza, which is not listed); and a standard Gordon growth model.

## Peer multiples

As our peer group, we have included the Italian entities that are listed and regulated by the ECB, except for ISP, UCG, Mediobanca and Credem, given their differences in size and business mix profiles. We have first calculated the current implied P/TBV and P/E multiples for 2017 and 2018 based on aggregated Reuters consensus estimates. In addition, we show the minimum and maximum levels within the group.

**Figure 7: Veneto Banca: Peer group valuation framework**

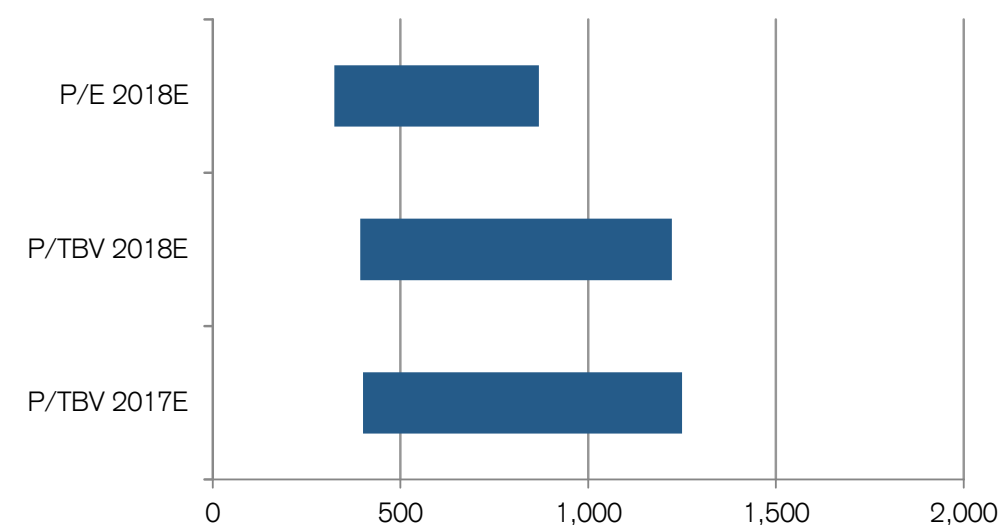
	BMPS	BP	UBI	BPER	BPM	BPS	Carige	BPCV	Agg.	Min	Max
Assets €bn	169	121	117	61	50	36	30	27			
Loans €bn	136	87	88	48	36	24	21	19			
P/TBV 17E	0.17x	0.23x	0.33x	0.36x	0.49x	0.52x	0.19x	0.28x	0.30x	0.17x	0.52x
P/TBV 18E	0.16x	0.23x	0.33x	0.40x	0.47x	0.49x	0.19x	0.26x	0.30x	0.16x	0.49x
P/E 17E	5.08x	4.63x	8.08x	6.78x	7.95x	10.54x	N/A	7.32x	6.81x	4.63x	10.54x
P/E 18E	3.14x	4.05x	6.71x	5.85x	7.19x	8.43x	N/A	5.34x	5.70x	3.14x	8.43x
RoTBV 17E	3.58%	5.11%	4.28%	5.42%	6.18%	4.84%	n.m.	3.71%	4.39%	3.6%	6.2%
RoTBV 18E	4.96%	5.75%	4.78%	6.79%	6.65%	5.84%	n.m.	4.63%	5.22%	4.6%	6.8%

Source: Thomson Reuters, Credit Suisse research

Applying these P/TBVs and P/Es to Veneto Banca, we look at valuation sensitivities on average, minimum and maximum multiples (see Figure 8).

**Figure 8: Veneto Banca: Implied valuation sensitivities**

in €mn, unless otherwise stated



Source: Credit Suisse estimates

## Gordon growth model – P/TBV vs. RoTBV

The other valuation approach we have used is based on a standard Gordon growth model. As highlighted in Figure 9, this approach indicates various valuation sensitivities using different levels of returns and Cost of Equity (CoE) assumptions.

- For RoTBV – we assume levels of 2-7% based on the sensitivity analysis performed on Veneto Banca's 2018E return levels (see pages 17 and 18).
- For CoE – we assume 9-12% based on a recently issued lower Tier 2 instrument by Veneto Banca, which bears a cost of 10% and the average 10.5% CoE used for other Italian peers.

Note that the implied value is based on the bank's 2018E TBV discounted back one year.

**Figure 9: Veneto Banca: Gordon growth model**

*in €mn, unless otherwise stated*

		CoE						
		9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
RoTBV	2.0%	503	474	448	425	404	385	367
	3.0%	754	711	673	638	606	577	551
	4.0%	1,006	948	897	850	808	769	734
	5.0%	1,257	1,185	1,121	1,063	1,010	962	918
	6.0%	1,508	1,423	1,345	1,275	1,212	1,154	1,101
	7.0%	1,760	1,660	1,570	1,488	1,414	1,346	1,285

Source: Credit Suisse estimates

Figure 10 highlights potential multiples implied by various market valuation sensitivities. These are based on our TBV and earnings estimates for Veneto Banca in 2016-2018E.

**Figure 10: Veneto Banca: Potential multiples based on various valuation sensitivities**

*in €mn, unless otherwise stated*

Potential market value	P/TBV 2016E	P/TBV 2017E	P/TBV 2018E	P/E 2018E
400	0.17x	0.17x	0.16x	4.1x
500	0.21x	0.21x	0.20x	5.1x
600	0.25x	0.25x	0.24x	6.1x
700	0.29x	0.29x	0.28x	7.1x
800	0.33x	0.33x	0.32x	8.1x
900	0.37x	0.38x	0.36x	9.1x
1,000	0.42x	0.42x	0.41x	10.1x
1,100	0.46x	0.46x	0.45x	11.2x
1,200	0.50x	0.50x	0.49x	12.2x
1,300	0.54x	0.54x	0.53x	13.2x
1,400	0.58x	0.58x	0.57x	14.2x

Source: Credit Suisse estimates



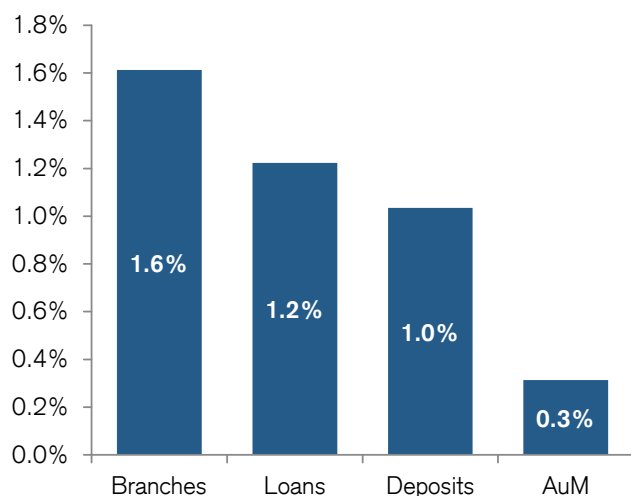
## Company description

Veneto Banca was formed in 1877 as Banca Popolare di Montebelluna and has expanded (mainly via acquisitions – see Appendix I) since then. It is currently present throughout Italy with a network of branches subdivided into eight regional offices. The bank offers retail and corporate banking activities, along with asset management services via the Arca Sgr unit (c. 20% stake) and Private Banking services mainly via Banca Intermobiliare di Investimenti e Gestioni (BIM) in which it has a 71.4% stake.

Within Italy, it is among the top 10 banking groups by loans and one of the 14 Italian banks that fall under the direct supervision of the ECB. As of September 2015, with loans of €23.4bn, deposits of €16.3bn, AuM of €5.6bn and 488 branches, Veneto had market shares of 1.2%, 1.0%, 0.3% and 1.6% in Italy, respectively.

Outside Italy, it has a footprint in Eastern Europe (Romania, Croatia, Albania and Moldova) with 63 branches and €1.2bn of loans (c. 5% of group). On 19 December 2015, the bank approved the transformation into a joint-stock company (c. 97% in favour); complying with the Popolari reform and with part of the plan presented to the ECB in July.

**Figure 11: Veneto Banca – Market shares in Italy – Sep 2015**



Source: Company data

**Figure 12: Veneto Banca – Geographical presence**



Source: Company data

**Figure 13: Veneto Banca: Detailed market share data – September 2015**

in €bn, unless otherwise stated

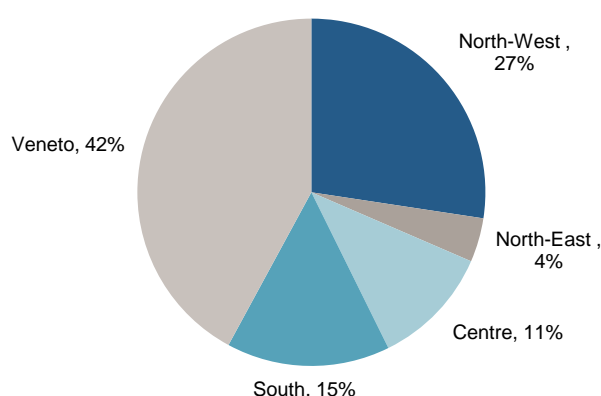
Loans €bn		Market share	Deposits €bn		Market share	Branches in Italy		Market share	AuM		Market share
ISP Italy	320	16.7%	ISP Italy	207	13.2%	ISP Italy	4,290	14.2%	ISP	321	18.1%
UCG Italy	249	13.0%	UCG Italy	180	11.5%	UCG Italy	3,891	12.9%	UCG	115	6.5%
BMPS	136	7.1%	BMPS	70	4.4%	BMPS	2,178	7.2%	BMPS	55	3.1%
UBI	88	4.6%	BP	54	3.4%	BP	1,813	6.0%	UBI	47	2.7%
BP	87	4.6%	UBI	51	3.2%	UBI	1,555	5.1%	BP	35	1.9%
BPER	48	2.5%	BPER	34	2.2%	BPER	1,244	4.1%	Credem	22	1.2%
MB	38	2.0%	BPM	29	1.8%	BPM	655	2.2%	BPM	20	1.1%
BPM	36	1.9%	BPS	26	1.7%	Vicenza	653	2.2%	MB	16	0.9%
Vicenza	27	1.4%	Vicenza	21	1.3%	Credem	636	2.1%	BPER	14	0.8%
BPS	24	1.3%	Carige	17	1.1%	Carige	626	2.1%	Carige	11	0.6%
<b>Veneto</b>	<b>23</b>	<b>1.2%</b>	BPCV	17	1.1%	BPCV	533	1.8%	BPCV	7	0.4%
Credem	21	1.1%	Credem	16	1.0%	<b>Veneto</b>	<b>488</b>	<b>1.6%</b>	<b>Veneto</b>	<b>6</b>	<b>0.3%</b>
Carige	21	1.1%	MB	16	1.0%	MB	442	1.5%	Vicenza	5	0.3%
BPCV	19	1.0%	<b>Veneto</b>	<b>16</b>	<b>1.0%</b>	BPS	350	1.2%	BPS	5	0.3%

Source: Company data, Credit Suisse research, Bank of Italy

Within Italy, the bank's presence is predominantly in the North, with 46% of group loans in the North-East (Veneto, Emilia-Romagna, Friuli-Venezia Giulia and Trentino-Alto Adige) and 28% in the North-West (Piedmont, Lombardy, Liguria and Aosta Valley). In these regions, the bank's respective market shares are 2.5% and 1.2% by loans and 2.3% and 1.5% by number of branches. Veneto is the bank's main market, accounting for 42% of its total loans (6.6% market share) and with a 5% market share by branches.

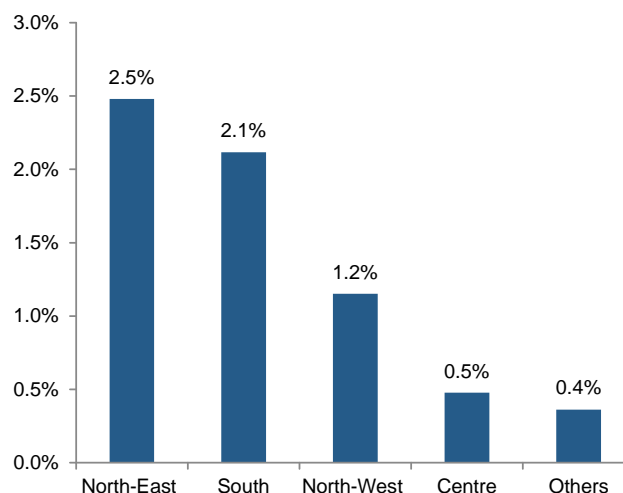
In addition, 15% of the group's loans are in the South (Apulia, Basilicata, Abruzzo, Campania and Molise), for a 2.1% and 1.5% market share by loans and branches, respectively – and 11% of the loans are in the Centre (Marche, Umbria and Lazio) for 0.5% and 1% market share by loans and branches.

**Figure 14: Veneto Banca: Loans – regional distribution, 2015**



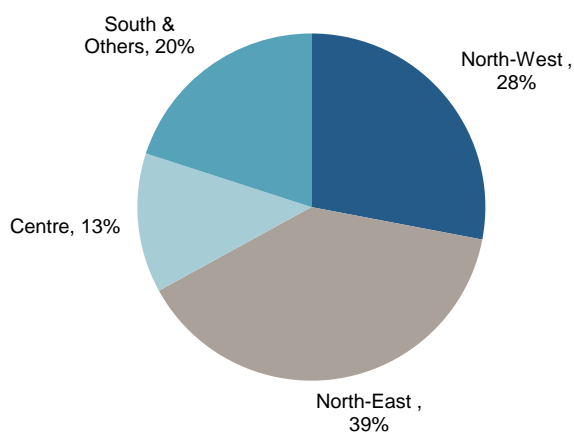
Source: Company data, Credit Suisse research

**Figure 15: Veneto Banca: Loans – regional market share, 2015**



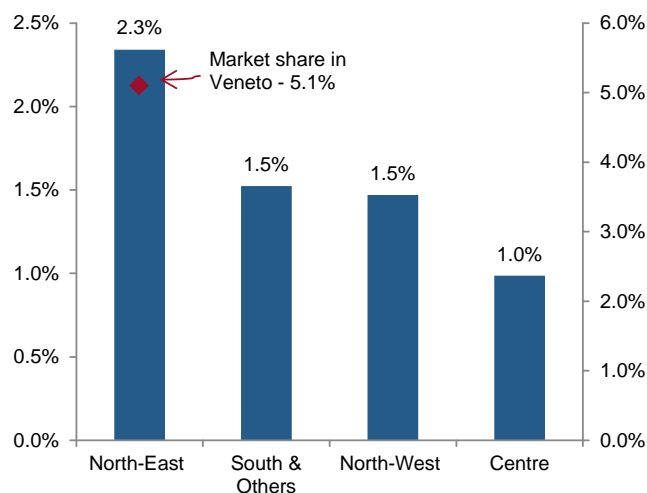
Source: Credit Suisse research

**Figure 16: Veneto Banca: Branches – regional distribution, 2015**



Source: Company data, Credit Suisse research

**Figure 17: Veneto Banca: Branches – regional market share, 2015**

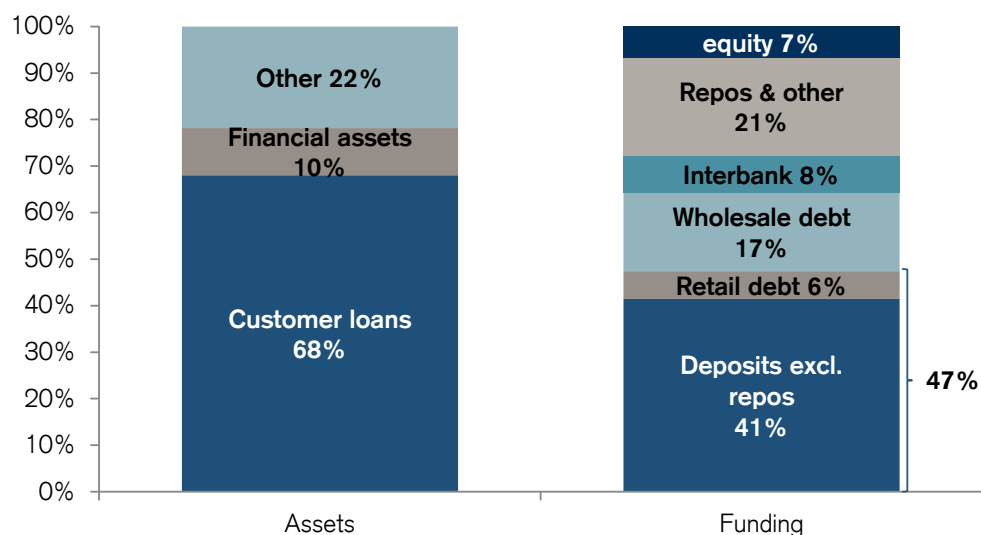


Source: Credit Suisse research

## Financial snapshot – position within the Italian banking sector

Veneto Banca has a very simple balance sheet, with customer loans accounting for 68% of the asset base and financial securities (mostly Italian sovereign bonds) accounting for 10% as of March 2016. These are largely funded by retail funds (47% of the total), debt securities (17%) and interbank borrowing (8% net of lending), with equity constituting another 7%.

**Figure 18: Veneto Banca: Balance sheet structure – Q1 2016**



Source: Company data, Credit Suisse research

The bank's asset base reached €40bn in 2012 and declined to €33bn by December 2015 and €30.7bn by Q116. Within that, net customer loans constituted for 68% of total in December 2015 (€22.7bn) and into Q116 (€20.9bn). Financial assets account for 10% of the total as of Q116 (€3.1bn), down from €4bn (12%) in December 2015. Part of the mix changes could be attributed to the restatement of the c.€1.2bn foreign loan portfolio which is now accounted as "non-current assets and disposal groups held for sale".

On the liability side, retail funds constituted 47% (€14.5bn) of the total in Q116 (from 48% or €16bn in December 2015 and 49% or €16.2bn back in 2010). The decrease is partly related to the recent decline in retail bonds (from €6.8bn in 2013 to €2.2bn in 2015 and €1.8bn by Q116), with the customer deposit base having also shown volatility following the tax investigation of the entity in February 2015 (Reuters, 17 February 2015) and the rescue of the four small entities that were placed under administration by Italy's regulator in November 2015. Management states the situation has normalized since February 2016.

**Figure 19: Veneto Banca: Asset structure 2010-2015**

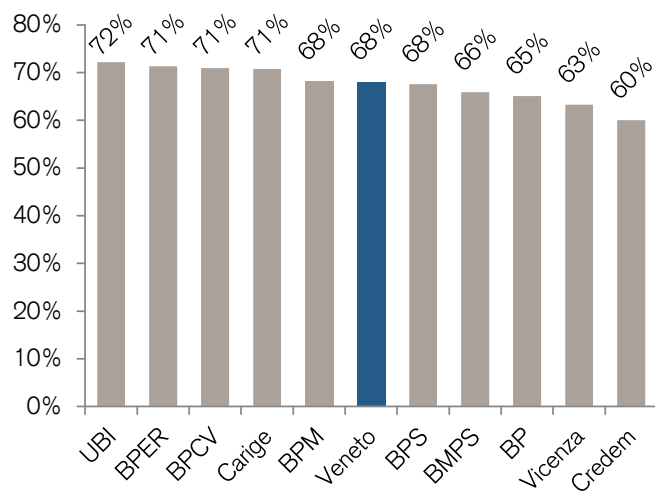
in €mn, unless otherwise stated

	2010	2011	2012	2013	2014	2015	Q1-16	CAGR	2010	2011	2012	2013	2014	2015	Q1-16
Customer loans	25,736	27,046	26,858	26,392	23,832	22,703	20,872	-2%	78%	71%	67%	71%	66%	68%	68%
Financial assets	2,660	5,111	7,208	5,395	4,375	4,090	3,119	9%	8%	13%	18%	14%	12%	12%	10%
Other assets	4,681	5,812	6,099	5,519	7,960	6,556	6,689	7%	14%	15%	15%	15%	22%	20%	22%
<b>Total assets</b>	<b>33,077</b>	<b>37,969</b>	<b>40,165</b>	<b>37,307</b>	<b>36,167</b>	<b>33,349</b>	<b>30,680</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Net interbank	1,920	5,182	3,964	4,141	2,256	3,560	2,471	13%	6%	14%	10%	11%	6%	11%	8%
Retail funds	16,227	15,671	16,994	16,967	16,356	15,962	14,536	0%	49%	41%	42%	45%	45%	48%	47%
Wholesale debt	2,786	5,334	1,845	1,979	5,100	4,112	5,177	8%	8%	14%	5%	5%	14%	12%	17%
Equity	3,468	2,918	3,086	3,166	2,930	2,153	2,081	-9%	10%	8%	8%	8%	8%	6%	7%
Other	8,677	8,864	14,276	11,054	9,524	7,562	6,415	0%	26%	23%	36%	30%	26%	23%	21%
<b>Total</b>	<b>33,077</b>	<b>37,969</b>	<b>40,165</b>	<b>37,307</b>	<b>36,167</b>	<b>33,349</b>	<b>30,680</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company data, Credit Suisse research

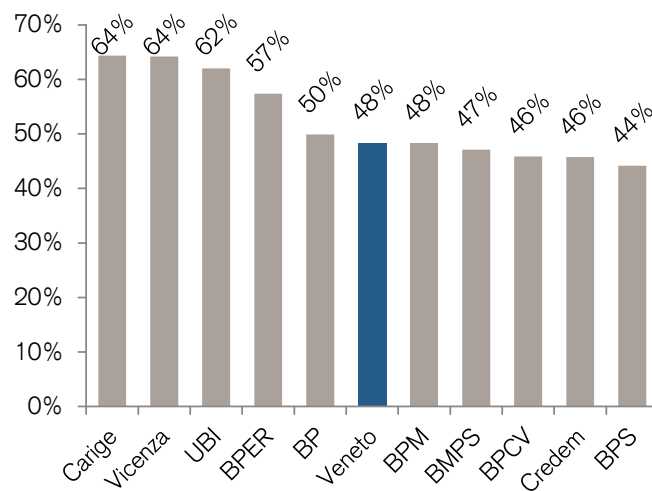
In its structure, Veneto Banca's asset base is broadly similar to that of its peers (BMPS, UBI, BP, BPM, BPER, Credem, Carige, BPCV, Vicenza and BPS) with customer loans accounting for the bulk of the asset base and with roughly 48% of the total loan book having a real estate collateral (this compares with 62-64% for UBI, Carige and Vicenza and 44-46% for BPCV, Credem and BPS).

**Figure 20: Italian banks: Net loans as a % of total assets net of due to banks 2015**



Source: Credit Suisse research

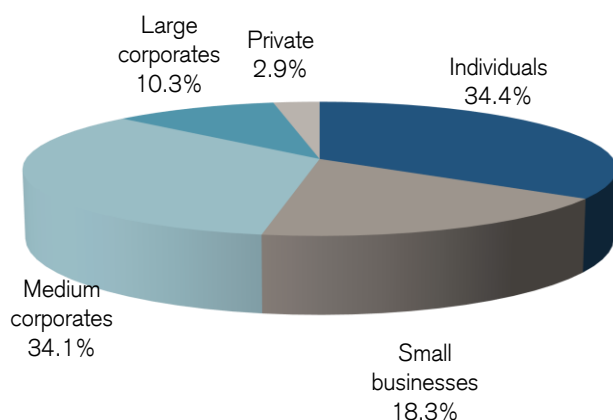
**Figure 21: Italian banks: Mortgages as a % of loans 2015**



Source: Credit Suisse research

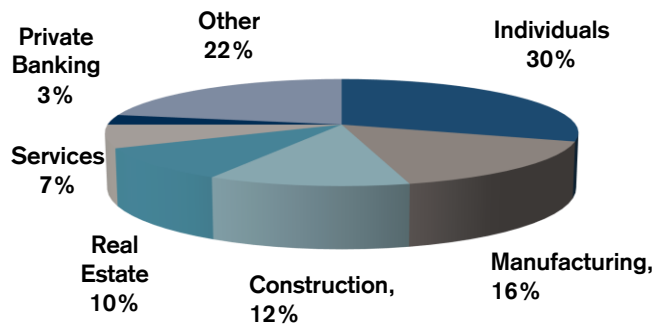
Veneto Banca's Italian loan book is comprised primarily of loans to individuals (34.4% of the total) and SMEs (52.4%), with 22% of the total book relating to the construction/real estate sectors, 16% to manufacturing and 7% to services.

**Figure 22: Veneto Banca: Loan breakdown by segment – Q415**



Source: Company data, Credit Suisse research

**Figure 23: Veneto Banca: Loan breakdown by industry – Q315**



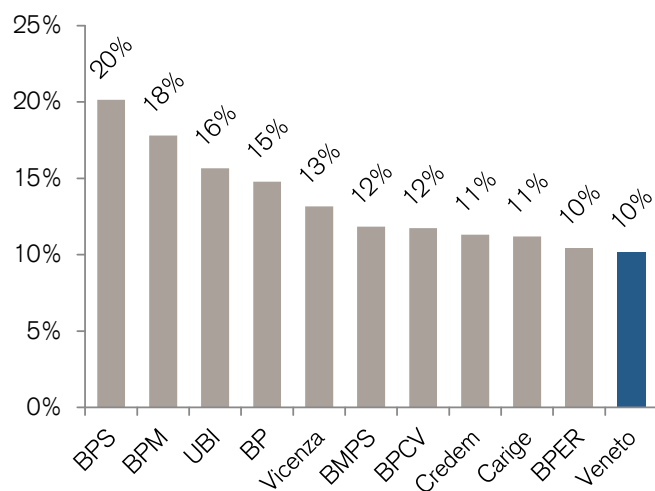
Source: Company data, Credit Suisse research

The bank's securities portfolio is smaller than that of peers, constituting 12% of the asset base (vs. 20% on average for peers) and it is composed mostly of Italian government bonds – which constitute 10% of the asset base (vs. a 13% average for peers).

The portfolio is mostly accounted as Available for Sale, and in addition to the debt securities portfolio, the bank has equity investments (the majority of which is the 20% stake in Arca). The Italian government bond portfolio as of Q116 amounted to €2.3bn, and

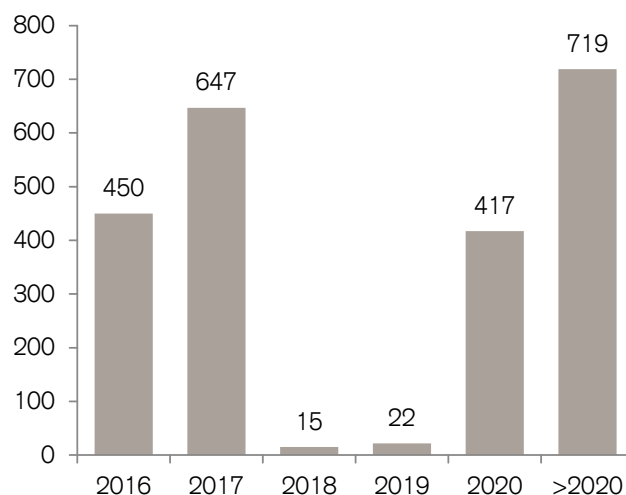
32% of the portfolio has a maturity beyond 2020 (>5years) with another €1.1bn maturing within 2016-17.

**Figure 24: Italian banks: Italian bonds as a % of assets 2015**



Source: Credit Suisse research

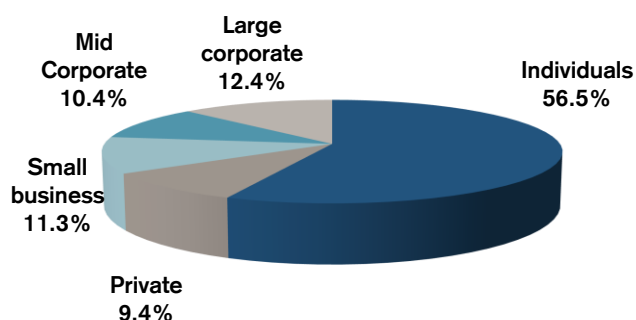
**Figure 25 Veneto Banca: Italian government bond maturities €mn**



Source: Credit Suisse research

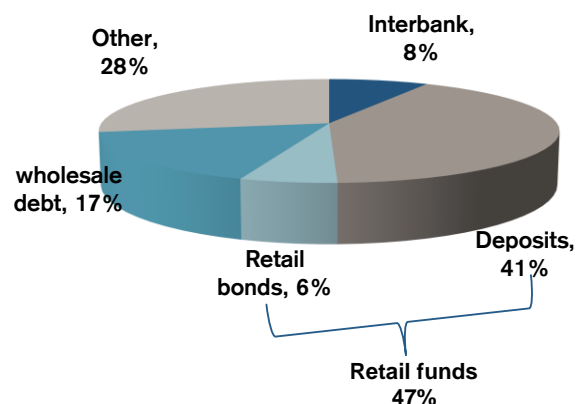
In terms of funding, Veneto captures the majority from individuals (56.5%), with small medium and large corporates accounting for 11.3%, 10.4% and 12.4% of the funds respectively. Retail funding represents 47% of the total, with deposits (41%) and more specifically current accounts (64% of total) being the main sources. Debt securities (excluding bonds allocated to retail customers) fund c.17% of the asset base, with EMTNs making up c.41% of the instruments and securitisations the rest. Net interbank funding represents 8% of the total with the bank having c.€2.3bn of targeted longer-term refinancing operations (TLTRO) funds as of Q116. We note that during Q415-Q116, there were c.€3.3bn of deposit outflows, and the company was forced to reduce assets to improve the liquidity position (LCR was 89% in Q315, dropped to 53% by December 2015 and improved to 78% as of Q116).

**Figure 26: Veneto Banca: Funding breakdown by segment – Q415**



Source: Company data, Credit Suisse research

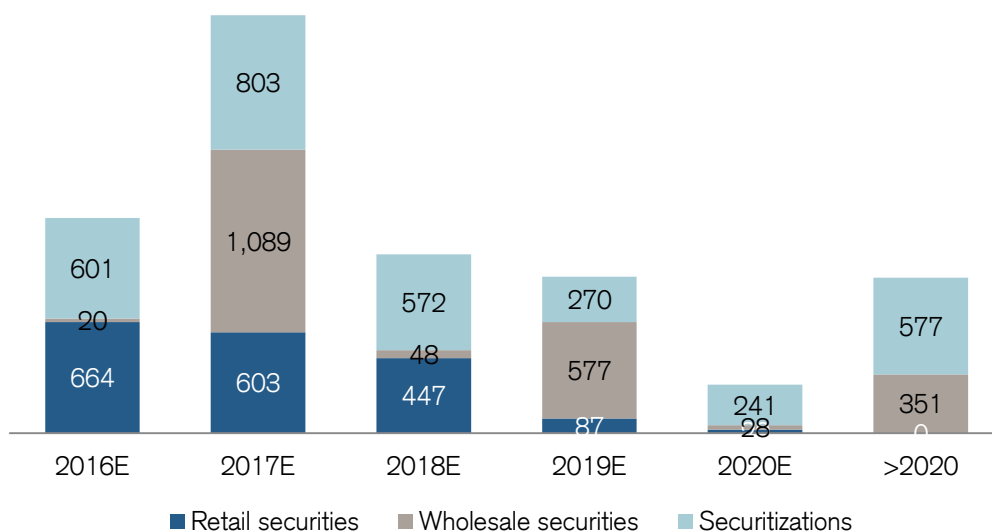
**Figure 27: Veneto Banca: Funding sources – Q116**



Source: Company data, Credit Suisse research

The maturity profile of the bank's debt instruments is quite short-dated, with 54% of the debt instruments maturing in 2016-2017 (49% if retail bonds are excluded) and another 29% maturing in 2018-2019.

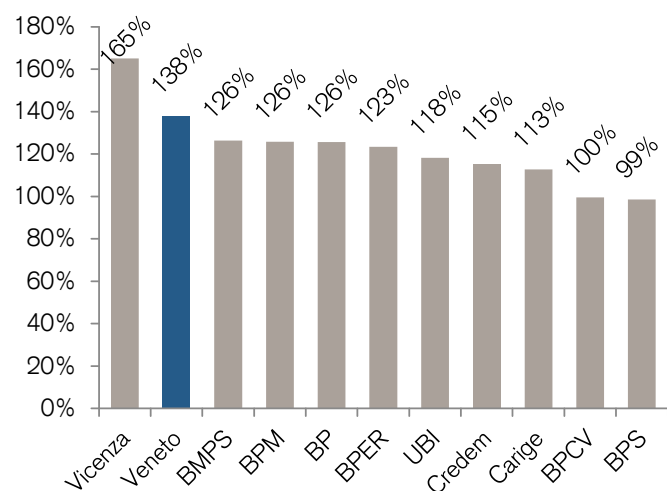
**Figure 28: Veneto Banca: Maturity profile of wholesale funding and retail bonds 2016E-20E €mn**



Source: Credit Suisse estimates

Following the recent deposit outflows, and as of Q415, Veneto's loan-to-retail fund ratio stood at 138% (vs. 123% average) with the bank's 11% dependence on interbank funds (vs. an average of 6%). As of Q116, LDR was 144%. The company has €2.3bn of TLTRO funds and has expressed its intention to get to €2.6bn levels (in line with our estimates), but unencumbered assets amount to €1.8bn, suggesting a higher take-up could be possible.

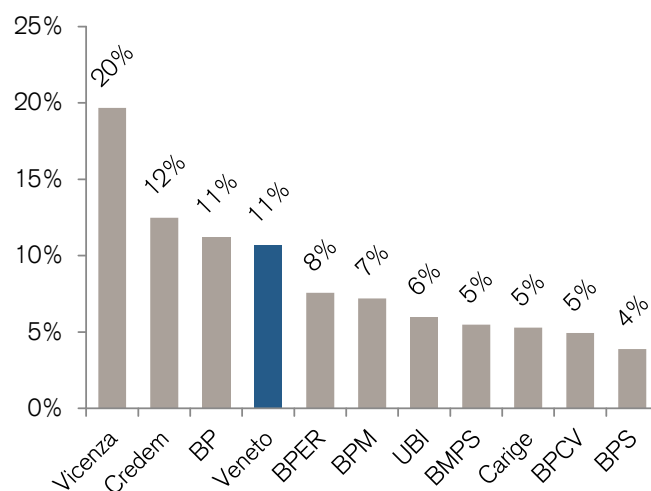
**Figure 29: Italian banks: Loans to retail funds 2015**



Source: Credit Suisse research

Indirect funding amounted to €16.3bn in December 2015 (up from €14.8bn in 2013) and fell slightly to €15.4bn as of Q116. Within that, AuM constitute €5.3bn (up from €4.8bn in 2013 and down from €5.5bn in Q415) and AuC €10.1bn (up from €9.95bn in 2013 and down from €10.7bn in Q415) – see page 25 for more details.

**Figure 30: Italian banks: Net interbank dependence 2015**



Source: Credit Suisse research



# Earnings outlook

We expect Veneto Banca to lose €124mn in 2016E, €6mn in 2017E and generate net attributable profits of €99mn by 2018E, with core revenues declining by an average 2% p.a., costs declining by an average 8% p.a. and with provisioning levels improving from 134bps in 2016E to 91bps by 2018E. By 2020E, we see the bank generating profits of c.€198mn, with our numbers incorporating the aggregate 50bps increases in interest rates (assuming the Euribor 3M going from -20bps in 2018 to +10bps in 2019 and +30bps by 2020). Our estimates incorporate the estimated impact of the optional regime introduced by article 11 of Law Decree 59/2016 (through the non-recurrent items line), under which the bank pays a 1.5% commission on the difference between convertible DTAs generated from 2008 onwards and the taxes paid in the same period. All in all, we come up with RoTBV levels of 4.1% in 2018E and 7.5% by 2020E.

**Figure 31: Veneto Banca: Credit Suisse P&L estimates 2014-2020E**

*in €mn, unless otherwise stated*

	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR 2015-18E	CAGR 2015-20E
Net interest income	513	505	439	477	489	504	524	-1%	1%
Net commission income	288	273	266	296	330	340	376	6%	7%
<b>Core revenues</b>	<b>801</b>	<b>778</b>	<b>704</b>	<b>773</b>	<b>819</b>	<b>844</b>	<b>900</b>	<b>2%</b>	<b>3%</b>
Non-core revenues	54	169	60	60	60	65	65	-29%	-17%
<b>Total revenue</b>	<b>855</b>	<b>947</b>	<b>764</b>	<b>833</b>	<b>879</b>	<b>909</b>	<b>965</b>	<b>-2%</b>	<b>0%</b>
Staff costs	-367	-341	-334	-312	-294	-286	-285	-5%	-4%
Other admin costs	-205	-274	-223	-206	-192	-191	-188	-11%	-7%
D&A	-45	-69	-44	-40	-40	-40	-40	-17%	-10%
<b>Operating costs</b>	<b>-617</b>	<b>-684</b>	<b>-600</b>	<b>-557</b>	<b>-526</b>	<b>-517</b>	<b>-513</b>	<b>-8%</b>	<b>-6%</b>
<b>Gross operating profit</b>	<b>238</b>	<b>262</b>	<b>164</b>	<b>276</b>	<b>353</b>	<b>392</b>	<b>452</b>	<b>10%</b>	<b>12%</b>
Loan loss provisions	-716	-754	-297	-260	-204	-194	-175	-35%	-25%
Other provisions and charges	-724	-505	-35	-35	-35	-35	-35	-59%	-41%
<b>Profit before tax</b>	<b>-1,202</b>	<b>-997</b>	<b>-168</b>	<b>-19</b>	<b>114</b>	<b>162</b>	<b>242</b>	<b>N/A</b>	<b>N/A</b>
Taxes	227	191	39	4	-26	-37	-56	N/A	N/A
Non recurrent items	-9	-101	-10	-6	-5	-4	-4	N/A	N/A
<b>Net profit</b>	<b>-984</b>	<b>-907</b>	<b>-139</b>	<b>-21</b>	<b>84</b>	<b>121</b>	<b>183</b>	<b>N/A</b>	<b>N/A</b>
Minorities	16	25	15	15	15	15	15	-16%	-10%
<b>Net attributable profit</b>	<b>-968</b>	<b>-882</b>	<b>-124</b>	<b>-6</b>	<b>99</b>	<b>136</b>	<b>198</b>	<b>N/A</b>	<b>N/A</b>
Net loans	23,832	22,703	22,121	22,114	22,395	22,768	23,353	0%	1%
Total assets	36,167	33,349	31,804	31,798	30,879	31,252	31,837	-3%	-1%
Deposits	14,982	16,237	14,132	14,691	15,070	15,211	15,497	-2%	-1%
Direct funding	24,635	22,507	20,956	20,369	20,681	20,638	21,285	-3%	-1%
Indirect funding	15,849	16,300	16,294	17,058	18,223	19,322	20,377	4%	5%
RWAs	24,607	23,091	21,856	20,677	19,639	19,808	19,733	-5%	-3%
<b>Value drivers</b>									
Net Interest Margin (%)	1.40%	1.45%	1.35%	1.50%	1.56%	1.62%	1.66%		
Cost/Income (%)	72%	72%	79%	67%	60%	57%	53%		
Provisions/net loans (bps)	300	332	134	118	91	85	75		
Tax rate (%)	19%	19%	23%	23%	23%	23%	23%		
RoE (%)					3.48%	4.67%	6.53%		
<b>RoTBV (%)</b>					<b>4.1%</b>	<b>5.4%</b>	<b>7.5%</b>		
RoA (%)					0.31%	0.44%	0.63%		
RoRWAs (%)					0.49%	0.69%	1.00%		

Source: Company data, Credit Suisse estimates

Relative to the business plan, our estimates stand €51-53mn (21-35%) below the bank's stated targets – with a lower NII explaining most of the difference. This is because of our more conservative estimates in terms of lending revenues (mostly related to different pricing assumptions) and more importantly, funding cost declines (with management's targets assuming a decline in wholesale debt costs). On fees, our estimates fall 4-5% below targets, due to our more conservative stance on fee charges both for traditional banking transactions and investment services, with our estimates standing in line with targets in what relates to volumes (both on loans and indirect funding). In terms of costs, we give management the full benefit of the doubt and are in line with targets. On provisions, our forecasts are in line with targets (€3-4mn difference) and are calculated on

the basis of an expected loss analysis, which indicates PD levels of 27% (68% on NPLs, 10.8% on performing loans), LGD levels of 55% (vs. current sofferenze coverage of 53%) and overall losses of 15% for the portfolio (vs. the 10.5% provisioned for as of Q415 and 11.5% as of Q116).

Our volume assumptions are in line with management expectations and we have incorporated the disposal of BIM and Veneto's foreign subsidiaries, which generate a combined 95bps impact on capital through RWAs reductions net of the minority impact in the case of BIM. Note our numbers do not incorporate any assumption in terms of the gains and losses that could result from these disposals.

Our capital calculations indicate FL CET1 levels of 12.0% by 2018E and 13.2% by 2020E, falling below management's 12.4% and 14.5% target for 2018E and 2020E respectively. We note that our tangible equity estimates stand 17-19% below those implied by management in the business plan (which explains similar RoTBV levels with lower earnings).

**Figure 32: Veneto Banca's 2018-20 targets vs. Credit Suisse's estimates**  
in €mn, unless otherwise stated

	Veneto Banca's targets					CSe		difference		
	2015	2018E	2020E	CAGR 15-18	CAGR 15-20	2018E	2020E	2018E	2020E	
Net interest income	505	544	596	3%	3%	489	524	-10%	-12%	
Net fees	273	346	394	8%	8%	330	376	-5%	-4%	
Other revenues	96	60	65	-15%	-8%	60	65	0%	0%	
Operating income	<b>874</b>	<b>950</b>	<b>1,055</b>	<b>3%</b>	<b>4%</b>	<b>879</b>	<b>965</b>	<b>-7%</b>	<b>-9%</b>	
Operating costs	-609	-526	-513	-5%	-3%	-526	-513	0%	0%	
Operating profit	<b>265</b>	<b>424</b>	<b>542</b>	<b>17%</b>	<b>15%</b>	<b>353</b>	<b>452</b>	<b>-17%</b>	<b>-17%</b>	
Loan loss provisions (+ disposals)	-754	-208	-178	-35%	-25%	-204	-175	-2%	-1%	
Taxes and other		-64	-115			-51	-79	-20%	-31%	
<b>Net income</b>		<b>152</b>	<b>249</b>			<b>99</b>	<b>198</b>	<b>-35%</b>	<b>-21%</b>	
Net loans	22,703	22,400	23,400	0%	1%	22,395	23,353	0%	0%	
Direct funding	22,507	20,700	21,300	-3%	-1%	20,681	21,285	0%	0%	
Indirect funding	16,255	18,200	20,400	4%	5%	18,223	20,377	0%	0%	
RWAs	23,091	19,700	19,800	-5%	-3%	19,639	19,733	0%	0%	
CI	70%	55%	49%			60%	53%			
CoR	332	93	76			91	75			
RoTE	NM	5.1%	7.5%			4.1%	7.5%			
CET1 (FL)	6.82%	12.4%	14.5%			12.0%	13.2%			
Implied Tangible Equity	1,610	2,980	3,320			2,466	2,700	-17%	-19%	
Implied CET 1 capital	1,575	2,443	2,871			2,364	2,598	-3%	-10%	

Source: Company data, Credit Suisse estimates

On the basis of the ECB's SREP requirement of 10.25% and adding a discretionary 75bps buffer, we assign a solvency requirement of 11% for Veneto Banca by 2018E. This implies an excess capital of c.€220mn. To get a better grasp of the bank's profitability relative to that of peers, we calculate the capital-adjusted RoTBV levels that would result where the bank holds less capital (i.e. on a smaller TBV base) and derive RoTBV levels of 4.4% in 2018E (vs. 4.1%) and 8.1% in 2020E (vs. 7.5%). That said, we note the excess capital implied would almost fully disappear in a scenario where the disposals of BIM and the foreign subsidiaries did not happen.

**Figure 33: Veneto Banca: Credit Suisse's capital-adjusted RoTBV calculations**  
in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
FL CET 1	1,575	2,301	2,295	2,364	2,459	2,598
RWAs	23,091	21,856	20,677	19,639	19,808	19,733
<b>FL CET 1 ratio</b>	<b>6.8%</b>	<b>10.5%</b>	<b>11.1%</b>	<b>12.0%</b>	<b>12.4%</b>	<b>13.2%</b>
Benchmark				11.0%		
<b>Excess capital</b>				<b>204</b>		
Net income	-882	-124	-6	99	136	198
TBV (adjusted for financed shares)	1,610	2,403	2,397	2,466	2,562	2,700
Excess capital			-204	-204	-204	-204
<b>Capital adjusted TBV</b>			<b>2,194</b>	<b>2,263</b>	<b>2,358</b>	<b>2,496</b>
<b>RoTBV</b>				<b>4.1%</b>	<b>5.4%</b>	<b>7.5%</b>
<b>Capital adjusted RoTBV</b>				<b>4.4%</b>	<b>5.9%</b>	<b>8.1%</b>

Source: Company data, Credit Suisse estimates

## Sensitivity analysis

- **We see potential for changes on loan growth levels** – In line with management guidance, our estimates incorporate a relatively stable loan portfolio throughout the 2015-18E period (though suggest the forced €1.8bn deleveraging of Q116 is recovered by 2017). This assumption may appear challenging to those with a cautious view on the macro-economic outlook for Italy and/or Veneto Banca in particular, but it could also seem conservative in the context of the more positive macro-economic profile of the Veneto region (vs. Italy in aggregate). Based on our estimates, we estimate every percentage point differential on the average loan growth level until 2018E (-0.5% CAGR in our numbers) to result in a c. 8% impact on earnings and a 30-35bps impact on RoTBV levels.

**Figure 34: Veneto Banca: Sensitivity to volume growth – 2018E**  
in €mn, unless otherwise stated

Loan CAGR 15-18E	Loans	Assets	NIM	NII	vs. base	post tax	Net income	Earnings impact	RoTBV
-5.5%	19,187	28,130	1.56%	439	-50	-39	60	-39%	2.5%
-4.5%	19,802	28,746	1.56%	449	-40	-31	67	-32%	2.8%
-3.5%	20,430	29,374	1.56%	459	-31	-24	75	-24%	3.1%
-2.5%	21,072	30,016	1.56%	469	-21	-16	83	-16%	3.4%
-1.5%	21,727	30,670	1.56%	479	-10	-8	90	-8%	3.7%
<b>Base case (-0.5%CAGR15-18)</b>	<b>22,395</b>	<b>31,338</b>	<b>1.56%</b>	<b>489</b>			<b>99</b>		<b>4.1%</b>
0.5%	23,076	32,020	1.56%	500	11	8	107	8%	4.4%
1.5%	23,772	32,716	1.56%	511	22	17	115	17%	4.7%
2.5%	24,481	33,425	1.56%	522	33	25	124	25%	5.1%
3.5%	25,204	34,148	1.56%	533	44	34	132	34%	5.4%
4.5%	25,942	34,885	1.56%	545	55	43	141	43%	5.8%

Source: Credit Suisse estimates

- **We believe management's targets in terms of fees are ambitious** – with most entities focusing on fee generation businesses to offset some of the pressures on NII (due to low interest rates). Whilst we give management the full benefit of the doubt in terms of lending and AuM growth, our fee estimates stand 4-5% below targets, mainly due to a more conservative stance on both traditional banking and investment services products (the bank includes c.20bps increases from Q1 levels (we include 15bps in our numbers) in what relates to traditional banking fees (as percentage of loans) and we maintain Q116 investment services fee levels (as percentage of AuM) going forward, where management seems to be suggesting increases). We thus run a sensitivity analysis to determine the impact of a lower (or higher) fee environment on earnings and RoTBV levels for 2018E. In our calculations, every percentage point differential in terms of the annual average fee growth (vs. our base case of c.6.5% CAGR by 2018E) suggests a c.€7mn (7%) impact on earnings and c.27-32bps impact on RoTBV levels.

**Figure 35: Veneto Banca: Sensitivity to fee growth levels – 2018E**

in €mn, unless otherwise stated

Fee CAGR15-18E	Fee income	Revenues	Costs	PPP	vs. base	post tax	Net income	Earnings impact	RoTBV
1.5%	285	835	-526	309	-44	-34	64	-35%	2.6%
2.5%	294	843	-526	317	-36	-28	71	-28%	2.9%
3.5%	302	852	-526	326	-27	-21	78	-21%	3.2%
4.5%	311	861	-526	335	-18	-14	84	-14%	3.5%
5.5%	320	870	-526	344	-9	-7	91	-7%	3.8%
<b>Base case (6.5% CAGR15-18)</b>	<b>330</b>	<b>879</b>	<b>-526</b>	<b>353</b>			<b>99</b>		<b>4.1%</b>
7.5%	339	888	-526	362	9	7	106	7%	4.3%
8.5%	348	898	-526	372	19	15	113	15%	4.7%
9.5%	358	908	-526	381	29	22	121	22%	5.0%
10.5%	368	917	-526	391	39	30	128	30%	5.3%
11.5%	378	928	-526	401	49	37	136	38%	5.6%

Source: Credit Suisse estimates

- **Asset quality uncertainties stand as the main market concern** when it comes to Italian banks, in our view, with no evident regulatory pressures for banks to increase coverage levels further, but with a generally consensual agreement about the size of Italian NPLs being unsustainably large. To date, visibility on how the recent announcements (eg, the mechanisms through which banks will be able to securitize and sell their NPLs via the creation of a Special Purpose Vehicle, with the State guarantee on senior tranches in return for a fee; the Atlante fund and the most recent law decrees to speed up the recovery process) will play out and the gap between the value of NPLs on banks' balance sheets (coverage levels) and the perceived market value of NPLs remains a concern. Our numbers (and management's business plan) suggest the reinforcement of provisioning levels during the period, with only gradual LLP declines into 2018E (from 134bps in 2016E to 91bps in 2018E). A better or worse trend in terms of provisions would have a significant impact on the bank's RoTBV levels, with our sensitivity analysis suggesting a 17% impact on earnings (70bps on RoTBV levels) resulting from every 10bps change on LLP levels in 2018E.

**Figure 36: Veneto Banca: Sensitivity to loan loss provisions 2018E**

in €mn, unless otherwise stated

LLPs (bps)	PPP	LLPs	PBT	Net income	Earnings impact	RoTBV
41	353	-92	226	185	88%	7.6%
51	353	-114	204	168	70%	6.9%
61	353	-136	182	150	53%	6.2%
71	353	-159	159	133	35%	5.5%
81	353	-181	137	116	18%	4.8%
<b>Base case - 91bps</b>	<b>353</b>	<b>-204</b>	<b>114</b>	<b>99</b>		<b>4.1%</b>
101	353	-226	92	81	-18%	3.3%
111	353	-248	70	64	-35%	2.6%
121	353	-271	47	47	-53%	1.9%
131	353	-293	25	30	-70%	1.2%
141	353	-315	2	12	-88%	0.5%

Source: Credit Suisse estimates

# Pre-provision profits

Veneto Banca's pre-provision profitability levels have been reduced by 9% over the past five years, mainly as a result of the low interest rate environment and insufficient cost management actions. PPP as a percentage of assets declined from 0.88% in 2010 to levels of 0.76% by 2015 – with revenues down from 2.95% to 2.51% and costs from 2.07% to 1.75%.

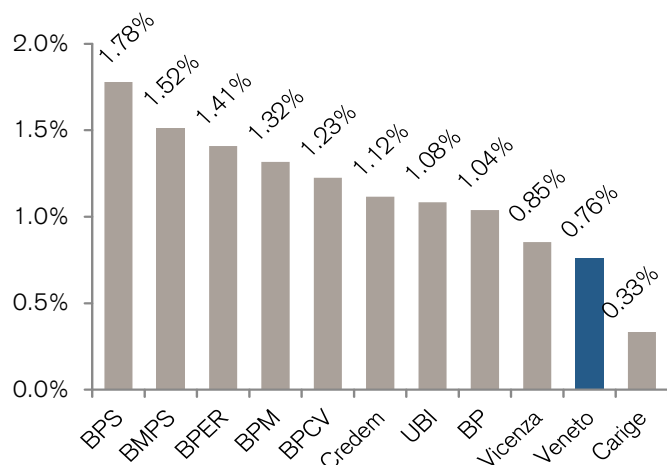
**Figure 37: Veneto Banca: Evolution of pre-provision profitability levels 2010-2015**

	€mn						As % of assets					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
NII	568	587	632	542	523	505	1.72%	1.65%	1.62%	1.40%	1.42%	1.45%
Fees	315	332	334	255	288	273	0.95%	0.93%	0.86%	0.66%	0.78%	0.79%
Non-core revenues	94	59	92	54	68	96	0.28%	0.17%	0.24%	0.14%	0.19%	0.28%
<b>Total revenues</b>	<b>977</b>	<b>978</b>	<b>1,097</b>	<b>851</b>	<b>879</b>	<b>874</b>	<b>2.95%</b>	<b>2.75%</b>	<b>2.81%</b>	<b>2.20%</b>	<b>2.39%</b>	<b>2.51%</b>
Costs	-686	-739	-712	-616	-598	-609	-2.07%	-2.08%	-1.82%	-1.59%	-1.63%	-1.75%
<b>PPP</b>	<b>291</b>	<b>238</b>	<b>385</b>	<b>235</b>	<b>281</b>	<b>265</b>	<b>0.88%</b>	<b>0.67%</b>	<b>0.99%</b>	<b>0.61%</b>	<b>0.76%</b>	<b>0.76%</b>

Source: Company data. \*Note numbers have been adjusted for one-off transactions

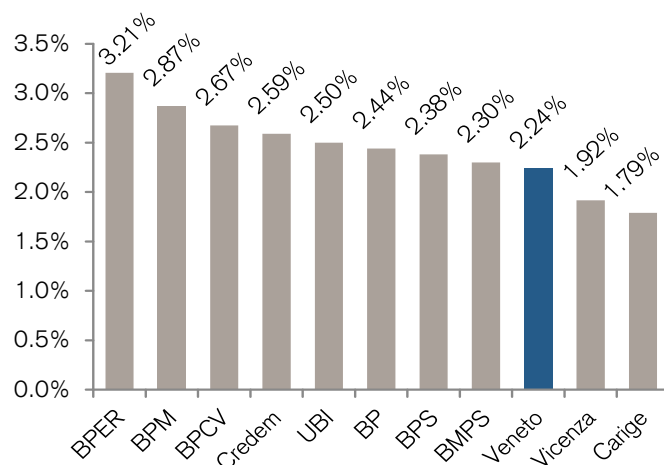
Relative to its main peers, Veneto falls near the lower end of the average, with its 0.76% pre-provision profitability levels comparing with >1% for most peers. As highlighted in Figure 38 to Figure 41, Veneto's disadvantage vs. peers relates to core revenues and to a lesser extent costs (although admittedly the peer group also appears relatively inefficient vs. the European average (costs as % of assets at 1.5%)).

**Figure 38: Italian banks: 'Clean' PPP as % of assets, 2015**



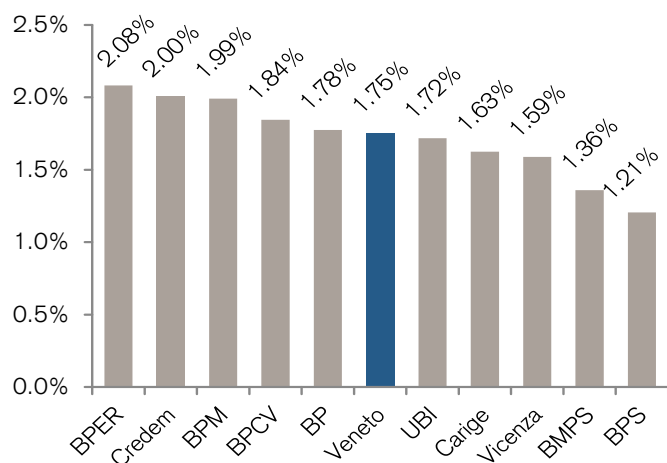
Source: Credit Suisse research

**Figure 39: Italian banks: Core revenues/ avg. assets, 2015**



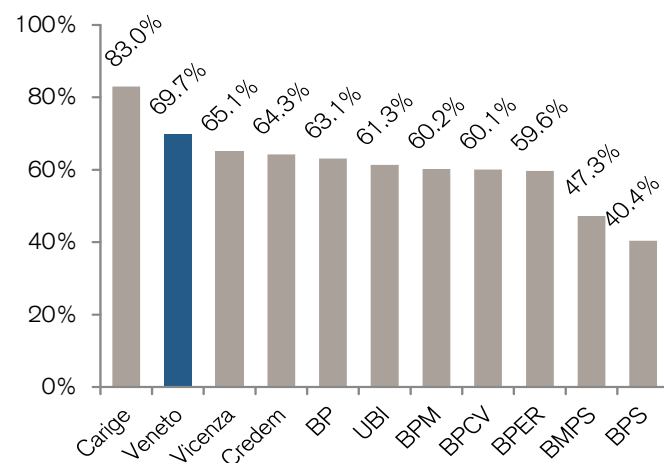
Source: Company data, Credit Suisse research

**Figure 40: Italian banks: Costs as a % of assets, 2015**



Source: Company data, Credit Suisse research

**Figure 41: Italian banks: 'Clean' cost-income ratio, 2015**



Source: Company data, Credit Suisse research

As part of its 2016-2020 Business Plan, the new management team is addressing both issues through the implementation of a new service model and greater operating efficiency. The model seeks to increase the exposure to high-margin clients, with a new customer segmentation and more "tailor-made" services to key customers. The aim is to also increase the penetration levels in fee-generating products, and for that Veneto Banca is developing multichannel and digital platforms (see Appendix IV).

In terms of costs, the plan targets a 12% reduction of the cost base by 2018 (15% by 2020) through the rationalisation of branches (130 closures by 2017) and employees (net reduction of 430 employees – 9% of the total), the review of the organisational structure and the outsourcing of the back-office activities.

Our estimates indicate that Veneto Banca's pre-provision profitability deteriorates further into 2016E (from 0.76% in 2015 to 0.58%) and improves from 2017E onwards (to 0.93% in 2017E and 1.19% by 2018E). Note that our numbers have been adjusted to exclude non-recurrent items over the period.

**Figure 42: Veneto Banca: PPP as a % of assets 2015-2020E**  
in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E	as % of assets					
							2015	2016E	2017E	2018E	2019E	2020E
NII	505	439	477	489	504	524	1.45%	1.35%	1.50%	1.56%	1.62%	1.66%
Fees	273	266	296	330	340	376	0.79%	0.82%	0.93%	1.05%	1.09%	1.19%
Non-core revenues	96	60	60	60	65	65	0.28%	0.18%	0.19%	0.19%	0.21%	0.21%
<b>Total revenues</b>	<b>874</b>	<b>764</b>	<b>833</b>	<b>879</b>	<b>909</b>	<b>965</b>	<b>2.51%</b>	<b>2.35%</b>	<b>2.62%</b>	<b>2.80%</b>	<b>2.93%</b>	<b>3.06%</b>
Costs - clean	-609	-576	-537	-506	-506	-506	-1.75%	-1.77%	-1.69%	-1.61%	-1.63%	-1.60%
<b>PPP</b>	<b>265</b>	<b>188</b>	<b>296</b>	<b>373</b>	<b>403</b>	<b>459</b>	<b>0.76%</b>	<b>0.58%</b>	<b>0.93%</b>	<b>1.19%</b>	<b>1.30%</b>	<b>1.46%</b>

Source: Company data, Credit Suisse estimates

Our estimates are 17% below management's targets: we give the bank the full benefit of the doubt in what relates to costs, but we stand 7-9% below management's targets in what relates to revenues – with NII 10-12% below due to more conservative lending revenue and funding cost assumptions and with fees also 4-5% below targets.

**Figure 43: Veneto Banca: PPP – CSe vs. Business plan targets**  
in €mn, unless otherwise stated

	2015	Credit Suisse estimates					Company targets		CSe vs. targets	
		2016E	2017E	2018E	2019E	2020E	2018E	2020E	2018E	2020E
NII	505	439	477	489	504	524	544	596	-10%	-12%
Fees	273	266	296	330	340	376	346	394	-5%	-4%
Non-core revenues	96	60	60	60	65	65	60	65	0%	0%
<b>Total revenues</b>	<b>874</b>	<b>764</b>	<b>833</b>	<b>879</b>	<b>909</b>	<b>965</b>	<b>950</b>	<b>1,055</b>	<b>-7%</b>	<b>-9%</b>
Costs - total	-609	-600	-557	-526	-517	-513	-526	-513	0%	0%
<b>PPP</b>	<b>265</b>	<b>164</b>	<b>276</b>	<b>353</b>	<b>392</b>	<b>452</b>	<b>424</b>	<b>542</b>	<b>-17%</b>	<b>-17%</b>

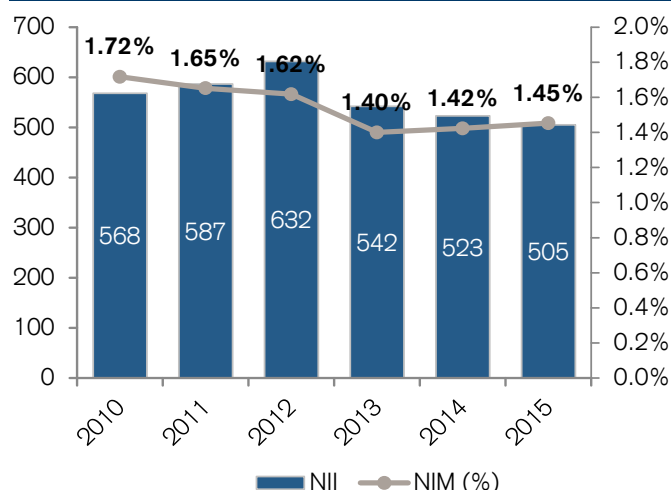
Source: Company data, Credit Suisse estimates



## Net Interest Income

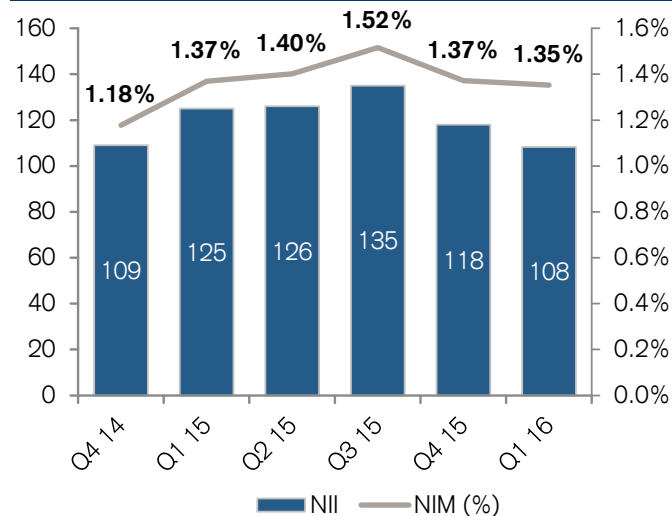
In line with the rest of the sector and heavily impacted by interest rate declines, Veneto Banca's NII has been declining for the past four years in absolute terms, with a 26bps NIM compression since 2010. The progression over recent quarters suggests a certain degree of stabilisation, with the line impacted by a 13% reduction in the asset base over the past year, a declining contribution of the securities portfolio, the stabilisation of lending spreads (due to the 0% floor for the Euribor on floating rate loans on new production loans) and declining funding costs.

**Figure 44: Veneto Banca: NII & NIM progression, 2010-15 €mn**



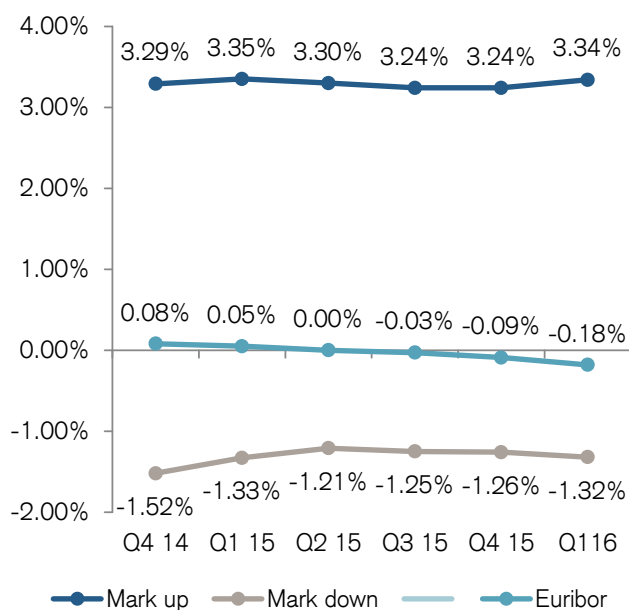
Source: Company data, Credit Suisse research

**Figure 45: Veneto Banca: NII & NIM progression, Q4 14- Q1 16 €mn**



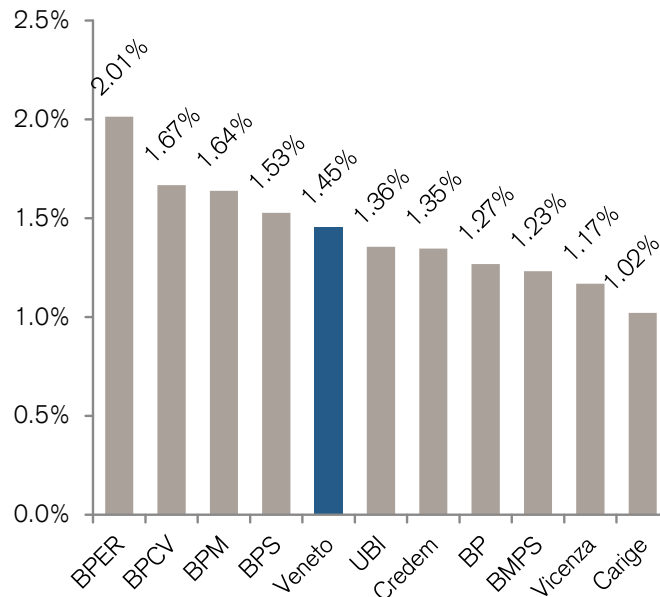
Source: Company data, Credit Suisse research

**Figure 46: Italian banks: NIM ratio (Q4 14 – Q1 16)**



Source: Company data, Credit Suisse research

**Figure 47: Italian banks: NIM ratio, 2015**



Source: Company data, Credit Suisse research

Into 2016E we forecast a 13% YoY decline of NII (which implies fairly stable quarterly NII estimates relative to Q116), which then increases into 2017E, as a result of declining funding costs, and stabilizes into 2018-2020E.

**Figure 48: Veneto Banca: NII progression 2015-20E**

*in €mn, unless otherwise stated*

	2015	2016E	2017E	2018E	2019E	2020E
NII	505	439	477	489	504	524
%YoY growth		-13%	9%	3%	3%	4%
Average assets	34,758	32,577	31,801	31,338	31,065	31,544
%YoY growth		-6%	-2%	-1%	-1%	2%
NIM (%)	1.45%	1.35%	1.50%	1.56%	1.62%	1.66%

*Source: Company data, Credit Suisse estimates*

Specifically, we forecast:

- **A declining contribution of income from securities** – On the basis of the €3.2bn Veneto Banca held on the balance sheet as of December 2015 (€2.3bn as of Q116) and the c.€97mn interest income contribution over the year (€11mn in Q116), we calculate an average yield of 3.0% as of Q415 (1.94% as of Q116). Assuming a stable book from Q116 levels (i.e. the bank replaces the same amount of securities maturing) and based on the maturity profile of these government bonds, we calculate the income impact of replacing these instruments with more normalised sovereign bond yields (using a 0.4% average yield, on the basis of 5yr Italian bond yields, which stand at 0.37% vs. 7.57% in November 2011).

**Figure 49: Veneto Banca: Interest income from Italian government bonds 2015-20E**

*in €mn, unless otherwise stated*

	2015	2016E	2017E	2018E	2019E	2020E
<b>Initial Balance</b>		2,270	2,270	2,270	2,270	2,270
maturing instruments		-450	-647	-15	-22	-417
Accruing instruments		1,820	1,623	2,255	2,248	1,853
Interest accrued at last yield		35	27	29	29	23
New issuances		450	647	15	22	417
New yield		0.40%	0.40%	0.40%	0.40%	0.40%
Interest on new instruments		2	3	0	0	2
<b>Ending Balance</b>	<b>3,217</b>	<b>2,270</b>	<b>2,270</b>	<b>2,270</b>	<b>2,270</b>	<b>2,270</b>
Total interest accrued	<b>97</b>	<b>37</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>25</b>
Yield	<b>3.02%</b>	<b>1.63%</b>	<b>1.28%</b>	<b>1.28%</b>	<b>1.27%</b>	<b>1.11%</b>

*Source: Company data, Credit Suisse estimates*

- **Declining lending revenues** – Our numbers incorporate a 3% YoY decline of the loan book in 2016E (but 6% increases vs. Q116 numbers), stabilization into 2017E and 1-3% growth levels in 2019-2020E. By category, we see corporate lending continuing to be under pressure both in terms of volumes (-2% in 2016E) and pricing (the front book spreads having declined by 48bps over the past year – see sector data on pages 38 - 40). For loans to individuals, we assume 3% declines into 2016E and 2% into 2017E, with stabilization in 2018E and 2% growth levels into 2019-20E and a generally stable lending spread – with increasing trends in consumer lending offsetting slightly the declining spreads on residential mortgages. On this basis, we estimate 16% declines of lending revenues in 2016E, stabilization in 2017E, and 2% growth levels into 2018E, with the 5-9% increases embedded in our 2019-2020E estimates resulting from the aggregate 50bps increase in interest rates (in line with targets). Note that our forecasts factor in the 0% floor for Euribor that Veneto Banca is applying on its new production loans.

**Figure 50: Veneto Banca: Interest income from loans 2015-20E**

in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
<b>Loans to individuals</b>	<b>7,817</b>	<b>7,582</b>	<b>7,431</b>	<b>7,431</b>	<b>7,505</b>	<b>7,655</b>
As % of loan book	34.4%	34.3%	33.6%	33.2%	33.0%	32.8%
avg. yield	2.53%	2.40%	2.40%	2.40%	2.50%	2.70%
Spread	2.53%	2.40%	2.40%	2.40%	2.40%	2.40%
<b>SME &amp; Corporate loans</b>	<b>14,235</b>	<b>13,880</b>	<b>14,019</b>	<b>14,299</b>	<b>14,585</b>	<b>14,999</b>
As % of loan book	62.7%	62.7%	63.4%	63.9%	64.1%	64.2%
avg. yield	3.13%	3.05%	3.05%	3.10%	3.20%	3.40%
Spread	3.13%	3.05%	3.05%	3.10%	3.10%	3.10%
<b>Other loans</b>	<b>652</b>	<b>658</b>	<b>665</b>	<b>665</b>	<b>678</b>	<b>699</b>
Cost (%)	28.06%	13.10%	13.10%	13.10%	13.20%	13.40%
Spread	28.06%	13.10%	13.10%	13.10%	13.10%	13.10%
<b>Initial Balance</b>	<b>23,832</b>	<b>22,703</b>	<b>22,121</b>	<b>22,114</b>	<b>22,395</b>	<b>22,768</b>
(-) maturing loans	-8,341	-7,946	-7,742	-7,740	-7,838	-7,969
Book accruing interest	15,491	14,757	14,378	14,374	14,557	14,799
(+) new loan production	7,212	7,364	7,736	8,020	8,212	8,554
<b>Ending balance loan book</b>	<b>22,703</b>	<b>22,121</b>	<b>22,114</b>	<b>22,395</b>	<b>22,768</b>	<b>23,353</b>
YoY growth		-3%	0%	1%	2%	3%
<b>Income</b>	<b>826</b>	<b>692</b>	<b>693</b>	<b>709</b>	<b>744</b>	<b>810</b>
YoY growth	-9%	-16%	0%	2%	5%	9%
Yield	3.28%	3.09%	3.13%	3.18%	3.29%	3.51%
Spread (mark-up)	3.28%	3.09%	3.13%	3.18%	3.19%	3.21%

Source: Company data, Credit Suisse estimates

- **Declining funding costs** stand as the main support for the bank's NII, with retail funds' markdown declining from 100bps in 2015 to 73bps in 2018E and the spread on wholesale funds declining from 331bps in 2015 to 248bps by 2018E.

- For retail funds, our estimates incorporate no cost on current accounts, with time deposits stable at 150bps spread and assuming no replacement of retail bonds.

**Figure 51: Veneto Banca: Retail funding costs 2015-20E**

in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
<b>Current accounts</b>	<b>8,838</b>	<b>8,484</b>	<b>8,824</b>	<b>9,089</b>	<b>9,179</b>	<b>9,363</b>
Total costs	2	2	2	2	9	28
yield (%)	0.02%	0.02%	0.02%	0.02%	0.10%	0.30%
spread (%)		-0.22%	-0.32%	-0.22%	0.00%	0.00%
<b>Time deposits and other</b>	<b>5,707</b>	<b>5,479</b>	<b>5,698</b>	<b>5,812</b>	<b>5,862</b>	<b>5,965</b>
Total costs	84	71	68	76	94	107
yield (%)	1.70%	1.30%	1.20%	1.30%	1.60%	1.80%
spread (%)	-1.72%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%
Retail bonds - beginning balance		2,157	1,157	554	107	20
(-) maturing bonds		-1,000	-603	-447	-87	-20
(+) issued bonds		0	0	0	0	0
<b>Retail bonds - ending balance</b>	<b>2,157</b>	<b>1,157</b>	<b>554</b>	<b>107</b>	<b>20</b>	<b>0</b>
Average yield	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%
<b>Cost on retail bonds</b>	<b>79</b>	<b>27</b>	<b>13</b>	<b>3</b>	<b>0</b>	<b>0</b>
<b>Total funds from retail network</b>	<b>16,702</b>	<b>15,120</b>	<b>15,076</b>	<b>15,007</b>	<b>15,062</b>	<b>15,328</b>
yield (%)	0.99%	0.63%	0.55%	0.53%	0.69%	0.89%
spread	-1.01%	-0.83%	-0.85%	-0.73%	-0.59%	-0.59%
<b>Total costs (€ mn)</b>	<b>165</b>	<b>100</b>	<b>83</b>	<b>80</b>	<b>103</b>	<b>135</b>

Source: Company data, Credit Suisse estimates

- For wholesale funds, and on the basis of 2015 numbers we have differentiated between Euro Medium Term Notes (EMTN), securitizations and other instruments. According to the company, EMTNs are currently costing an average 4.7%, the recent c.€200mn lower Tier 2 issuance (at 10% yield) included in the average. For 2016-2017E, we assume the bank replaces the €1.4bn of maturing instruments with c.€1.45bn issuances at 250bps spread (on the basis of recent issuances). For securitizations our numbers incorporate an average spread of 170bps with issuances amounting to €1.9bn (vs. €0.6bn maturities), as we incorporate the c.€1.4bn issued in Q116. All in all, our numbers imply the cost of wholesale funding declines from 331bps to levels of 248bps by 2018E.

**Figure 52: Veneto Banca: Wholesale funding costs 2015-20E***in €mn, unless otherwise stated*

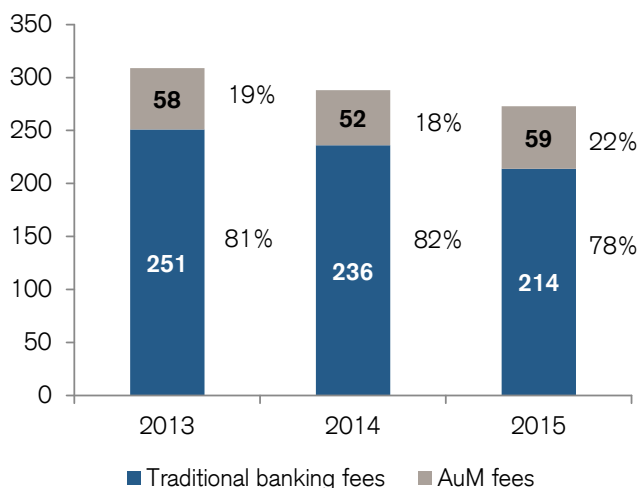
	2015	2016E	2017E	2018E	2019E	2020E
EMTN - beginning balance	2,746	2,415	2,694	2,455	2,907	2,830
(-) maturing bonds		-321	-1,089	-48	-577	-28
as % of beginning balance		13%	40%	2%	20%	1%
Cost of maturing instruments		-13	-41	-2	-17	-1
(+) issued bonds		600	850	500	500	400
as % of maturities		187%	78%	1042%	87%	1429%
Cost of new issuance		14	19	12	13	11
<b>EMTN - ending balance</b>	<b>2,415</b>	<b>2,694</b>	<b>2,455</b>	<b>2,907</b>	<b>2,830</b>	<b>3,202</b>
Average yield	4.68%	4.21%	3.72%	3.48%	3.43%	3.35%
Spread over new issuances		-2.50%	-2.50%	-2.50%	-2.50%	-2.50%
Yield over new issuances		2.30%	2.20%	2.30%	2.60%	2.80%
<b>Cost on EMTN</b>	<b>113</b>	<b>113</b>	<b>91</b>	<b>101</b>	<b>97</b>	<b>107</b>
Securitization - Beginning balance	2,354	1,697	2,996	2,693	2,621	2,601
(-) maturing bonds		-601	-803	-572	-270	-241
as % of beginning balance		35%	27%	21%	10%	9%
Cost of maturing instruments		-11	-15	-10	-5	-4
(+) issued bonds		1,900	500	500	250	250
as % of maturities		316%	62%	87%	93%	104%
Cost of new issuance		29	7	8	5	5
<b>Ending balance</b>	<b>1,697</b>	<b>2,996</b>	<b>2,693</b>	<b>2,621</b>	<b>2,601</b>	<b>2,610</b>
Average yield	1.90%	1.85%	1.77%	1.72%	1.73%	1.75%
Spread over new issuances		-1.70%	-1.70%	-1.70%	-1.70%	-1.70%
Yield over new issuances		1.50%	1.40%	1.50%	1.80%	2.00%
<b>Cost on securitization</b>	<b>38</b>	<b>56</b>	<b>48</b>	<b>45</b>	<b>45</b>	<b>46</b>
<b>Total funding</b>	<b>4,112</b>	<b>6,546</b>	<b>6,032</b>	<b>6,427</b>	<b>6,330</b>	<b>6,711</b>
yield (%)	3.29%	2.58%	2.31%	2.28%	2.24%	2.28%
spread	-3.31%	-2.78%	-2.61%	-2.48%	-2.14%	-1.98%
<b>Total costs (€ mn)</b>	<b>152</b>	<b>169</b>	<b>139</b>	<b>146</b>	<b>142</b>	<b>153</b>

Source: Company data, Credit Suisse estimates

## Fees and commissions

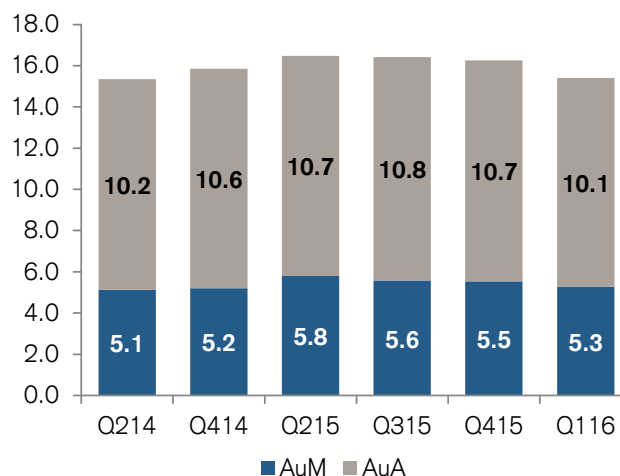
Over the past three years, fees have constituted c.30% of Veneto Banca's revenues – with traditional banking fees constituting c.80% of the total and fees from indirect funding (AuM and AuA) accounting for c.20%. As of Q116, and following some volatility after the "Guardia di Finanza" investigations into the bank (due to allegations of obstructing regulators, with the former CEO and former Chairman also being investigated in the magistrate's probe (Reuters, 17 February 2015), indirect funds stood at €15.4bn, with €10.1bn of Assets under Custody and €5.3bn of Assets under Management. We note that Veneto Banca has an agreement with Arca Sgr, in which it holds a 20% stake.

**Figure 53: Veneto Banca: Fee progression 2013-15 €mn**



Source: Company data, Credit Suisse research

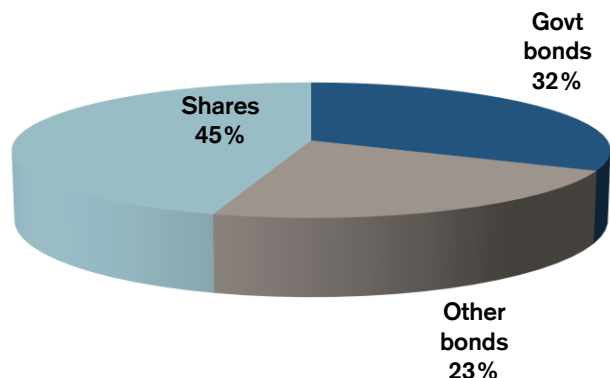
**Figure 54: Veneto Banca: Indirect funding Q214-Q116 €bn**



Source: Company data, Credit Suisse research

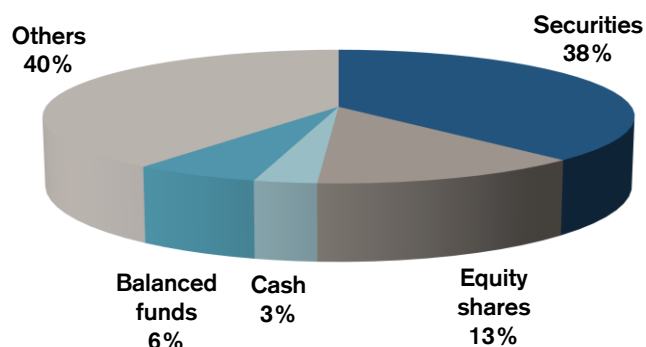
As of Q415, within the €10.7bn of Assets under Custody, 32% are government bonds, 22.5% are other bonds and 45% are shares. Assets under Management, on the other hand, were mostly comprised of mutual funds (€3.5bn, 62%) and life insurance products (€1.75bn 32%). Within that, mutual funds are split between securities (38%), equity shares (13%), balanced funds (6%), cash (3%) and others (40%), suggesting there is room for shifts into higher fee yielding products.

**Figure 55: Veneto Banca: Assets under Custody split - €10.7bn as of Q415**



Source: Company data, Credit Suisse estimates

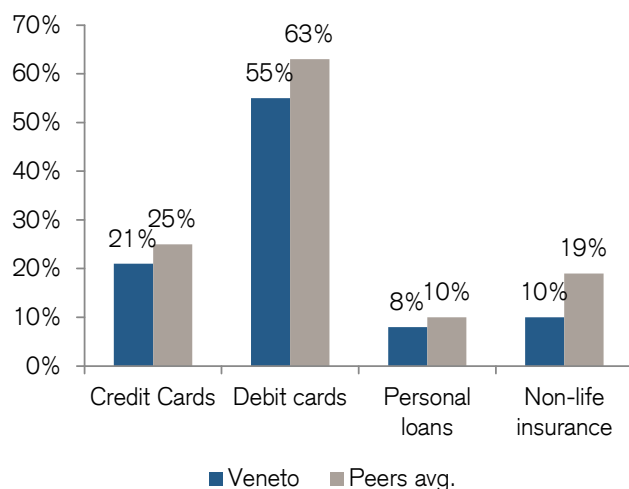
**Figure 56: Veneto Banca: Mutual Fund split - €3.5bn Q415**



Source: Company data, Credit Suisse estimates

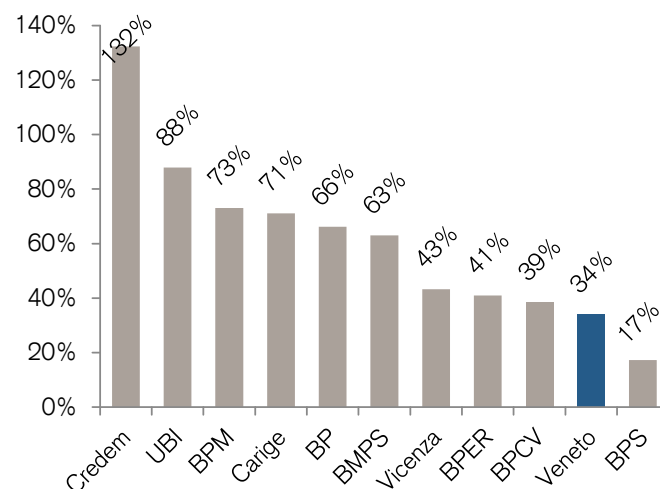
Relative to its Italian peers, Veneto Banca has lower penetration on credit, debit and personal loans (all of which generate fees) and a more marked disadvantage on non-life insurance products. In addition, and as reflected by its 0.3% market share in AUM (vs. 0.9% on deposits) the bank compares poorly relative to peers in terms of the percentage of AuM relative to deposits.

**Figure 57: Veneto Banca: Fee product penetration**



Source: Company data, Credit Suisse research

**Figure 58: Italian banks: AuM as a % of deposits Q4 15**



Source: Company data, Credit Suisse research

Fees are a key focus of the new management team, with lower pressures on the commercial network (thanks to the capital increase) expected to allow the bank to shift some of its assets under administration into AuM and with specific actions of the business plan targeted to address the under-penetration in some segments, both in traditional banking and in AuM.

We believe management's targets are ambitious – with most entities focusing on fee generation businesses to offset some of the pressures on NII (due to low interest rates). That said, given the geographical location of the bank and the fact that retail bonds may be less attractive savings instruments for investors, we give management full benefit of the doubt in what relates to volumes (10-13% YoY increases in AuM during 2016E-18E (11-12% in 2019E-20E). Nonetheless, our fee estimates stand 4-5% below management's targets mainly due to a more conservative stance on both traditional banking and investment services products (the bank includes c.20bps increases from Q1 levels (we include 15bps in our numbers) in what relates to traditional banking fees (as percentage of loans) and we maintain Q116 investment services fee levels (as percentage of AuM) going forward, where management seems to be suggesting increases).

**Figure 59: Veneto Banca: Credit Suisse fee estimates 2013-20E**

in €mn, unless otherwise stated

Commissions income breakdown	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Traditional banking fees	251	236	214	210	221	241	245	269
as % of total loans	1.0%	1.0%	0.9%	1.0%	1.0%	1.1%	1.1%	1.2%
Indirect funding fees	58	52	59	56	74	89	95	108
o.w. Mutual funds and Managed assets		30	33	31	34	39	43	48
as % of AuM		0.58%	0.60%	0.5%	0.5%	0.5%	0.5%	0.5%
o.w. Life insurance		18	19	20	30	40	40	45
o.w. Assets under Administration		4	7	5	10	10	12	15
<b>Total fees</b>	<b>255</b>	<b>288</b>	<b>273</b>	<b>266</b>	<b>296</b>	<b>330</b>	<b>340</b>	<b>376</b>
YoY growth		13%	-5%	-3%	11%	12%	3%	11%
as % of revenues	28%	34%	27%	35%	35%	37%	37%	39%
Assets under Management	4,864	5,209	5,534	6,110	6,873	7,732	8,622	9,570
Assets under Administration	9,948	10,640	10,766	10,185	10,185	10,490	10,700	10,807

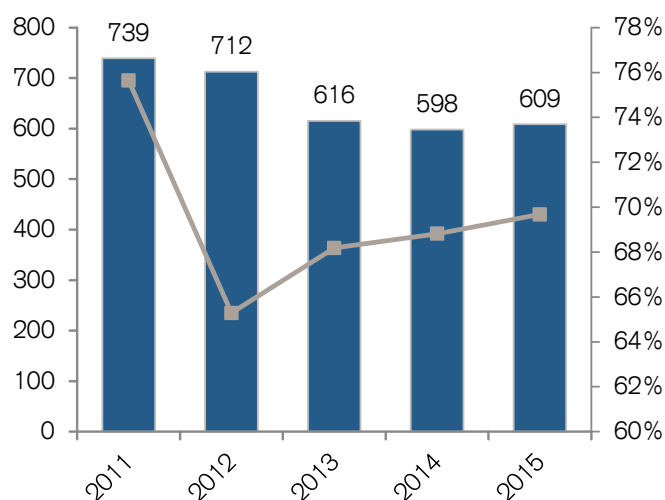
Source: Company data, Credit Suisse estimates



## Costs

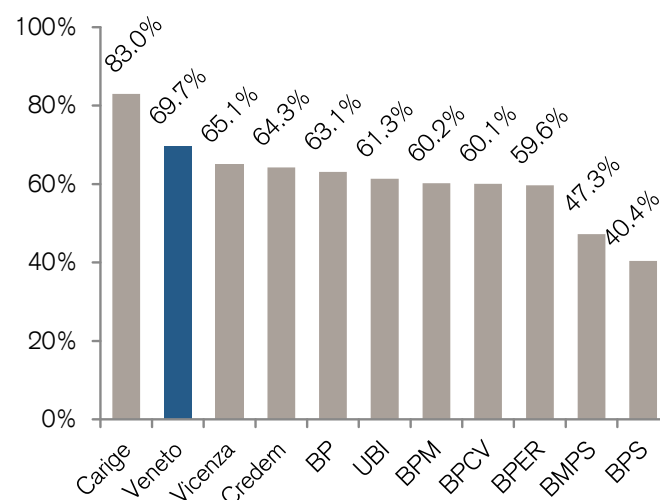
For the past three years, Veneto Banca has managed to reduce the cost base marginally (on a clean basis), but due to the low revenue environment and inefficiencies that have been building from the time of its acquisitions – the group's cost-to-income ratio stands at 70%, at the upper end of the Italian banks' average (60-65%). Costs represent 1.75% of total assets, which fall within the average of Veneto's main peers, but this compares poorly vs. more efficient entities such as ISP (1.24% for Italy) or the average of the Spanish banks (1.22%).

**Figure 60: Veneto Banca: Cost evolution since 2010 - €mn**



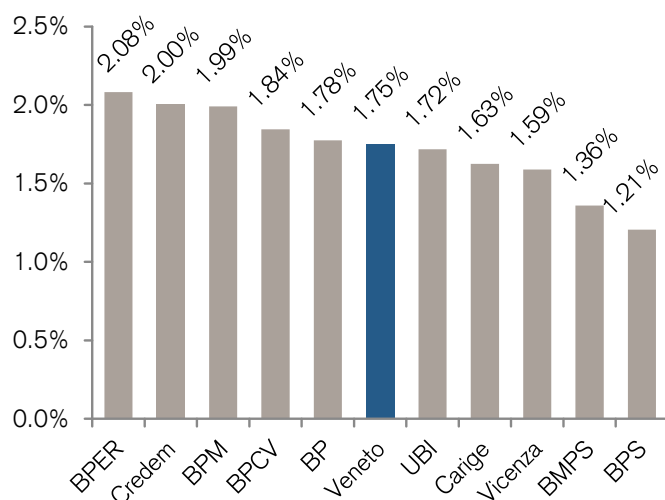
Source: Company data, Credit Suisse research

**Figure 61: Italian banks: 'Clean' cost-income ratio - 2015**



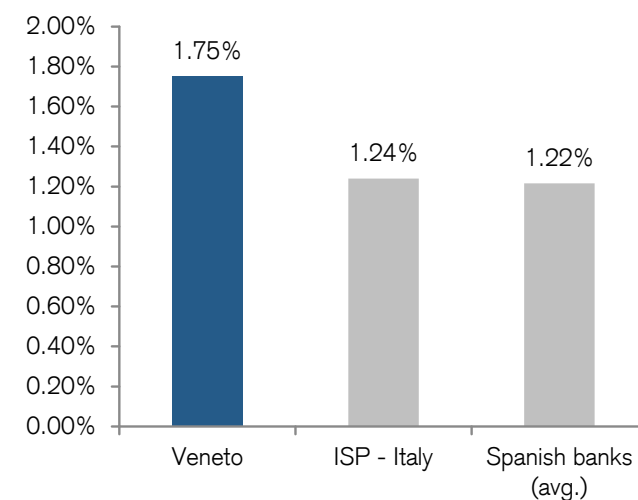
Source: Company data, Credit Suisse research

**Figure 62: Italian banks: 'Clean' costs as a % of assets – 2015**



Source: Company data, Credit Suisse research

**Figure 63: Veneto Banca: Costs as a % of assets vs. more efficient peers**

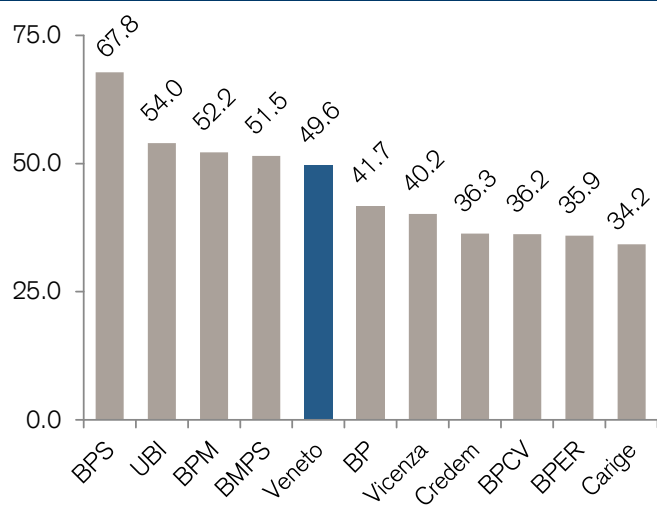


Source: Company data, Credit Suisse research

As of December 2015, excluding BIM and the foreign subsidiaries, Veneto Banca had 4,685 employees (vs. 4,615 in 2013) and 458 branches (from 490 in 2013) across the country. The average age of its employees is 43 years, with 6% and 11% of the total number of employees being younger than 30 years and older than 55 years, respectively. We calculate the bank manages c.€50mn of loans per branch and that there are c. €4.8mn of loans per employee – this falls within the Italian banks average in terms of branches and at the higher end of the range in terms of employees – but again compares poorly vs. more efficient entities (ISP at €5mn per employee and €78mn per branch or Spanish banks at €6.4mn per employee and €46.1mn per branch). Veneto Banca has on average 10 employees per branch vs. 8 to 12 for Italian peers.

**Figure 64: Italian banks: Loans per branch – 2015**

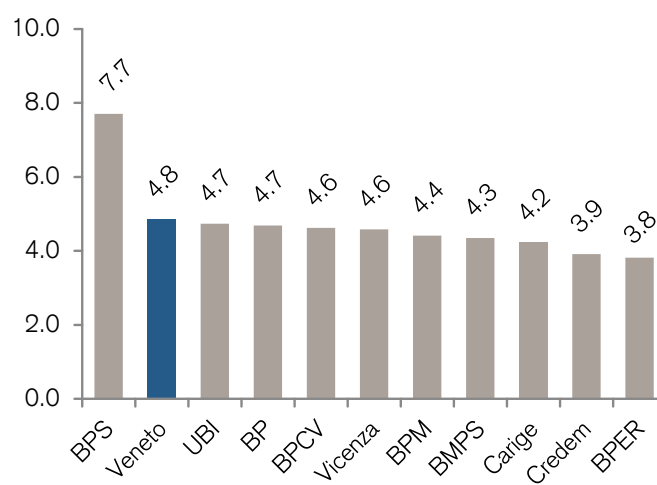
*in €mn, unless otherwise stated*



Source: Company data, Credit Suisse research

**Figure 65: Italian banks: Loans per employee - 2015**

*in €mn, unless otherwise stated*



Source: Company data, Credit Suisse research

**Figure 66: Veneto Banca's efficiency ratios vs. benchmark Q4 15**

*in €mn, unless otherwise stated*

	Loans per employee	Loans per branch	Employee per branch
Veneto – Italy	4.8	49.6	10.2
ISP – Italy	5.0	78.2	15.6
Spanish banks	6.4	46.1	7.2

Source: Company data, Credit Suisse research

Improved operating efficiency is another key target of Veneto Banca's business plan, with management aiming to rationalise the branch network through the closure of 130 branches (the least productive), outsource back office activities and reduce the headcount (by c.430 employees). On 23 April, the bank announced it had signed an agreement with trade unions which, sets out, among other things, a series of measures which define a containment of personnel costs based on the adoption of a solidarity framework (reduction/suspension of working hours for all employees for the next three years), greater use of early retirement and part-time employment. The plan targets c.€100mn of savings though also c.€22mn of new expenses on commercial actions and c.€53mn of investments. This implies a c.15% reduction of the cost base by 2018E.

We give management the full benefit of the doubt on this front, given the company's starting point, the branch density levels and the incentives Italy has in place to promote consolidation in the sector. The bulk of the savings is expected for 2016E (12% YoY decline of the cost base, 5% declines of recurrent base). Our estimates imply an improvement in the cost to assets ratio (to levels of 1.68% by 2018E) and the CI ratio to 60% in 2018E and 53% by 2020E, with the levels of loans managed by branch and employee improving to €70.4mn and €5.3mn, respectively in 2018E (€73.4mn and €5.5mn in 2020E).

**Figure 67: Veneto Banca: Credit Suisse's cost estimates 2016-2020E**
*in €mn, unless otherwise stated*

	2014	2015	2016E	2017E	2018E	2019E	2020E
<b>Staff costs</b>	<b>367</b>	<b>341</b>	<b>334</b>	<b>312</b>	<b>294</b>	<b>286</b>	<b>285</b>
o.w. non recurrent	20	-1	9	9	9	1	0
o.w. recurrent	347	342	339	335	332	332	332
o.w. savings			-14	-33	-47	-47	-47
<b>Other admin costs</b>	<b>205</b>	<b>274</b>	<b>223</b>	<b>206</b>	<b>192</b>	<b>191</b>	<b>188</b>
o.w. non recurrent	0	51	11	11	11	10	7
o.w. recurrent	205	223	221	216	212	212	212
o.w. savings			-9	-22	-31	-31	-31
<b>D&amp;A</b>	<b>45</b>	<b>69</b>	<b>44</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
o.w. non recurrent	0	25	4	0	0	0	0
o.w. recurrent	45	44	40	40	40	40	40
<b>Total costs</b>	<b>617</b>	<b>684</b>	<b>600</b>	<b>557</b>	<b>526</b>	<b>517</b>	<b>513</b>
<b>YoY growth</b>		<b>11%</b>	<b>-12%</b>	<b>-7%</b>	<b>-6%</b>	<b>-2%</b>	<b>-1%</b>
o.w. non recurrent	20	75	25	20	20	11	7
o.w. recurrent	597	609	576	537	506	506	506
<b>YoY growth</b>		<b>2%</b>	<b>-5%</b>	<b>-7%</b>	<b>-6%</b>	<b>0%</b>	<b>0%</b>

Source: Company data, Credit Suisse estimates

**Figure 68: Veneto Banca: Credit Suisse's cost estimates**
*in €mn, unless otherwise stated*

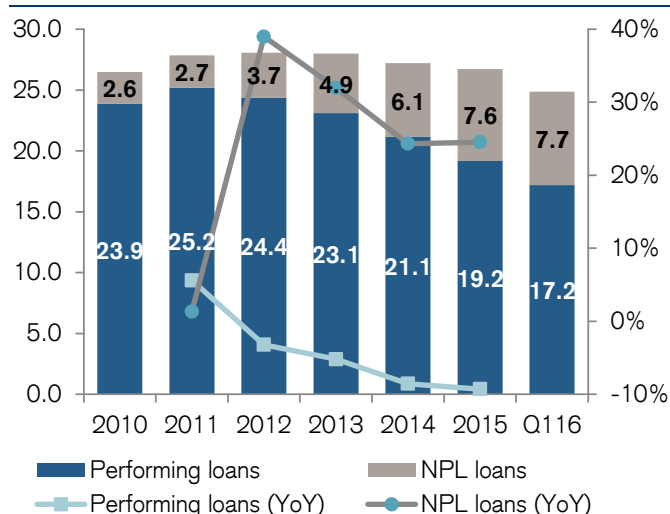
	2015	2016E	2017E	2018E	2019E	2020E
Clean CI ratio	69.7%	79%	67%	60%	57%	53%
Cost to assets	1.75%	1.80%	1.75%	1.68%	1.67%	1.63%
Loans per branch	46.5			70.4		73.4
Loans per employee	4.8			5.3		5.5

Source: Company data, Credit Suisse estimates

# Asset quality

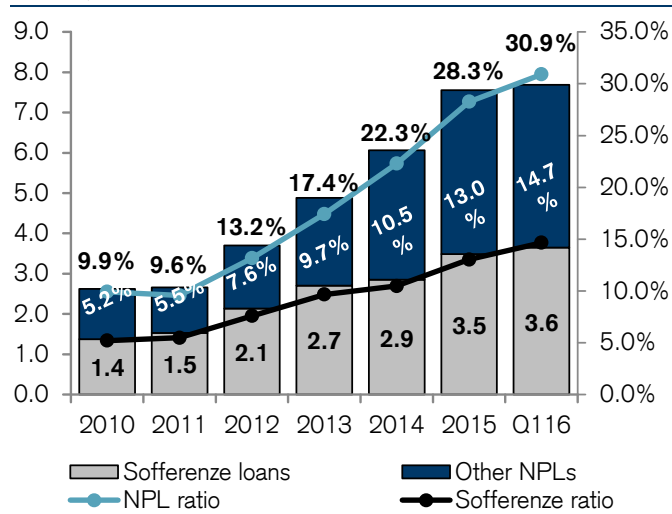
Having maintained a relatively stable €25-27bn loan portfolio, Veneto Banca's NPL book has more than doubled over the past five years (from €2.6bn in 2010 to €7.7bn by Q116) with the gross NPL ratio having increased from 9.9% in 2010 to levels of 30.9% by Q116. Within that, 'sofferenze' loans (the worst category of NPLs) increased from €1.4bn in 2010 to €3.6bn by Q116 (5.2% ratio to 14.7%).

**Figure 69: Veneto Banca: Loan book/NPL evolution, 2010-Q116 €bn**



Source: Company data, Credit Suisse research

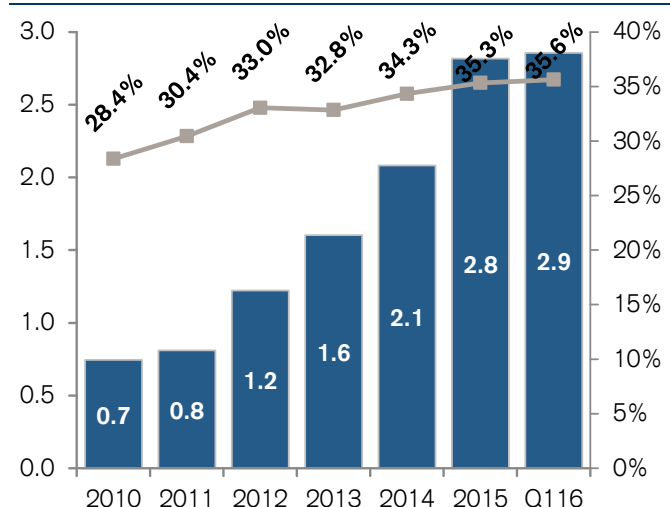
**Figure 70: Veneto Banca: NPL evolution by category, 2010-Q116 €bn**



Source: Company data, Credit Suisse research

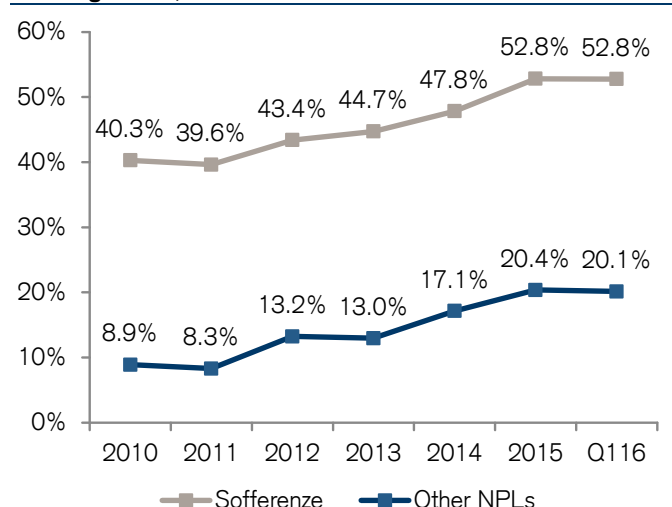
During the same period, balance sheet provisions increased from €745mn in 2010 to €2.9bn by Q116, with coverage levels having improved by c.10p.p. in the same period (from 28.4% to 37.2%).

**Figure 71: Italian banks: Provisions and coverage ratio, 2010-Q116**



Source: Company data, Credit Suisse research

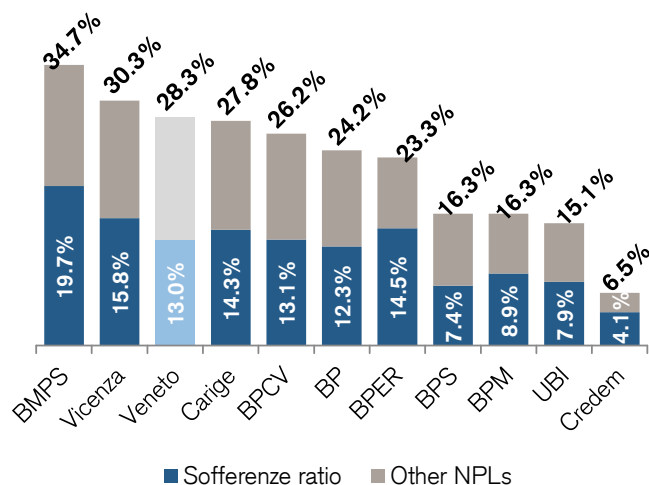
**Figure 72: Italian banks: Sofferenze and Other NPLs coverage ratio, 2010-Q116**



Source: Company data, Credit Suisse research

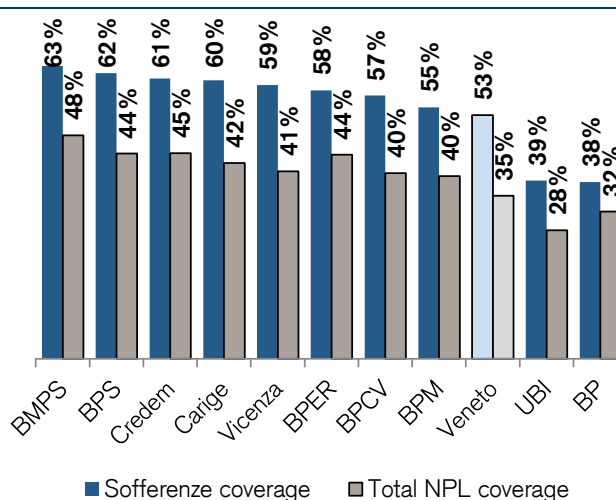
Within its peer group, Veneto Banca is at the higher end of the range with an NPL ratio of 28.3% compared to 15-16% for UBI and BPM and 30-35% for Vicenza and BMPS as of Q415. The sofferenze ratio stood at 13% vs. 8-9% for UBI/BPM and 20% for BMPS. Coverage-wise, Veneto sits at the lower end, with total coverage of 35% compared to levels of 40-45% for most peers. Sofferenze coverage stands at 53% vs. 55-60% for most peers.

**Figure 73: Italian banks: Gross NPL and sofferenze ratio 2015**



Source: Company data, Credit Suisse research

**Figure 74: Italian banks: Coverage ratio - 2015**

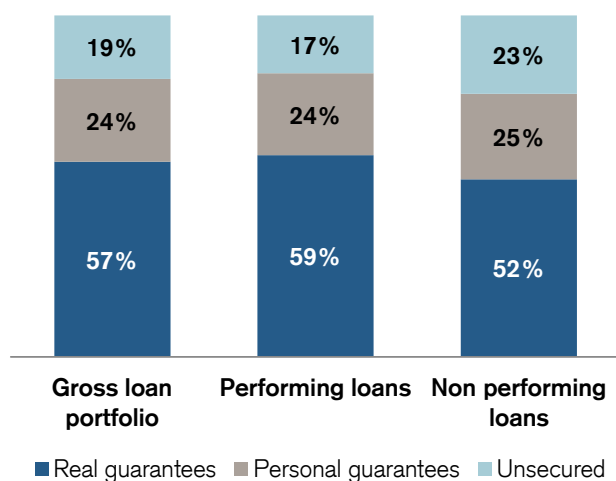


Source: Company data, Credit Suisse research

As highlighted in Figure 75, and on the basis of the Italian loan book (which excludes the c.€1.5bn of foreign loans, c.€1.6bn of BIM loans and c.€1.1bn of product factories loans), 57% of Veneto's book has a real estate guarantee, with an additional 24% of the portfolio having a personal guarantee. From the NPL portfolio, 52% of the total has a real guarantee and an additional 25% has a personal guarantee.

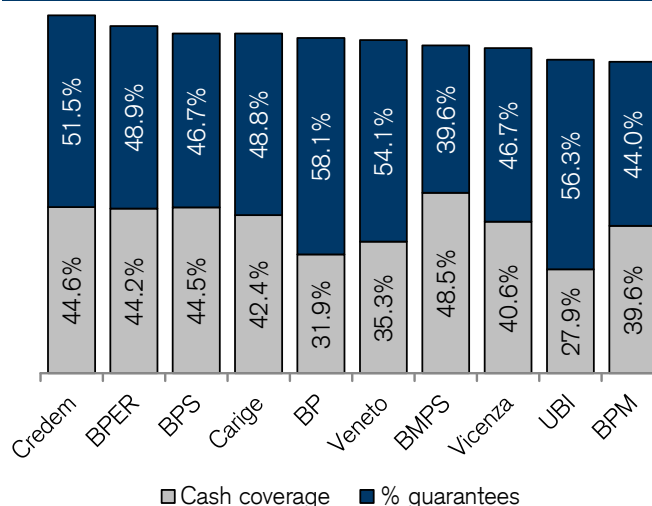
Lacking information on the guarantee levels of peers, we look at the "guarantee coverage" suggested by the European Banking Authority (EBA) data for Q215, which suggests Veneto's coverage levels are more in the middle range, with guarantee coverage standing at 54% of NPLs vs. an average of 50% for peers.

**Figure 75: Veneto Banca: Guarantee breakdown 2015**



Source: Company data, Credit Suisse research

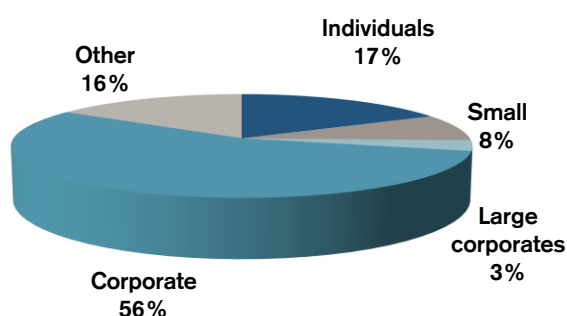
**Figure 76: Italian banks: Coverage ratio incl. guarantees**



Source: EBA, Credit Suisse research

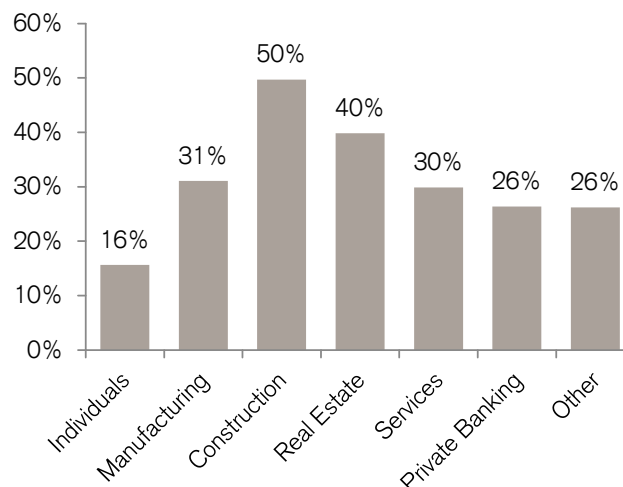
By segment, Veneto Banca's NPL book is mostly comprised of corporate loans (56% of total) with an additional 8% corresponding to small businesses and 17% of the total book represented by individuals. By industry, we calculate the NPL ratio of loans to individuals at c.16%, with the construction and real estate sectors reporting NPL ratios of 50% and 40% of the total and representing c.12% and 10% of the bank's overall portfolio, respectively.

**Figure 77: Veneto Banca: NPL breakdown by segment**



Source: Company data, Credit Suisse research

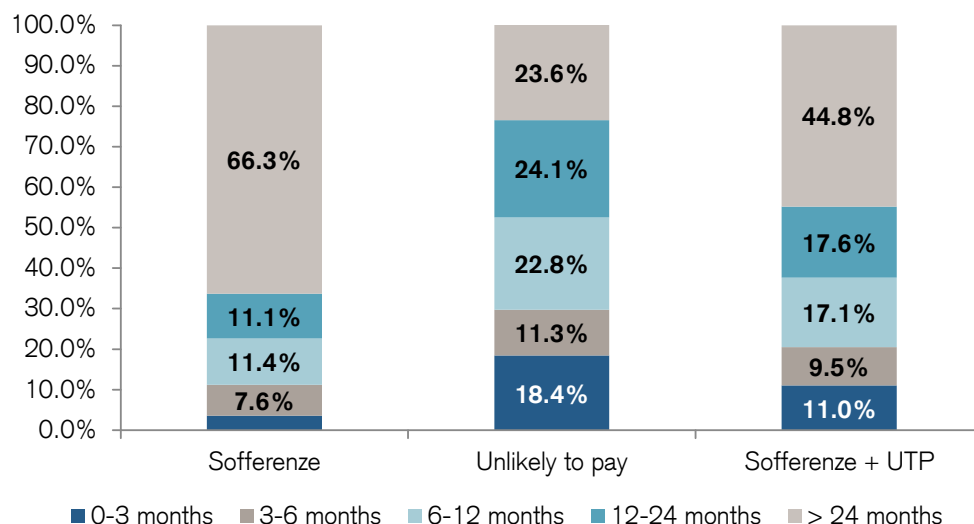
**Figure 78: Veneto Banca: NPL ratios by industry – Q415**



Source: Company data, Credit Suisse research

As a reference, in Figure 79 we highlight the vintage of NPLs by category, with 66.3% of total sofferenze loans (€3.48bn) having a >24-month vintage and an aggregate 23% having been converted into sofferenze over the past 12 months. For the unlikely to pay category (€3.52bn), the split differs, with 18.4% having been constituted over the last three months though with c.48% having a >12-month vintage. Together – this implies 62.4% of the NPL portfolio has a vintage of over 12 months and 20.5% of <6 months.

**Figure 79: Veneto Banca: NPL vintage by category**



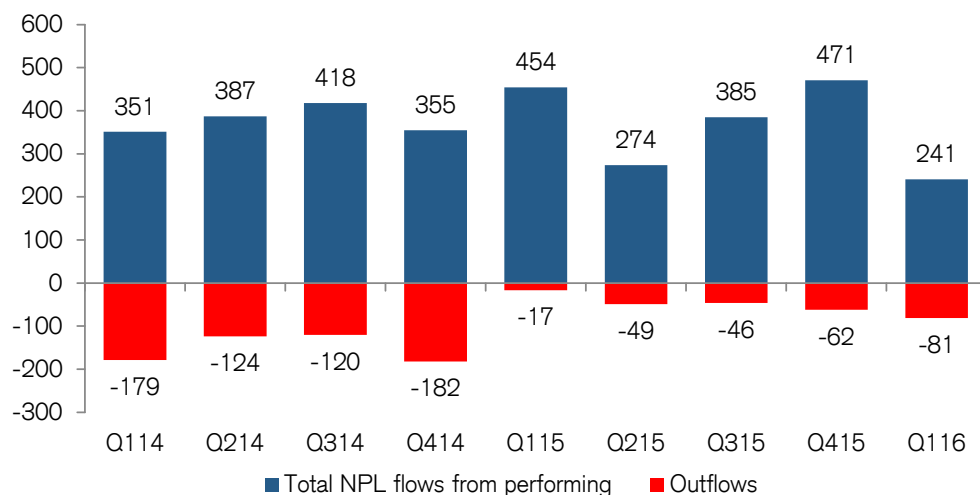
Source: Company data, Credit Suisse research



Given the application of stricter internal controls and the regulatory changes and suggestions (post AQR and Bank of Italy revisions), it is difficult to assess a real trend on the levels of NPL inflows and outflows for the period, with the company apparently having applied more rigorous policies ahead of the potential offering. Nonetheless, in Figure 80 to Figure 82 we highlight total NPL levels of inflows/outflows and the quarterly evolution of transfers from unlikely to pay to performing and from unlikely to pay to sofferenze over the Q114-Q415 period.

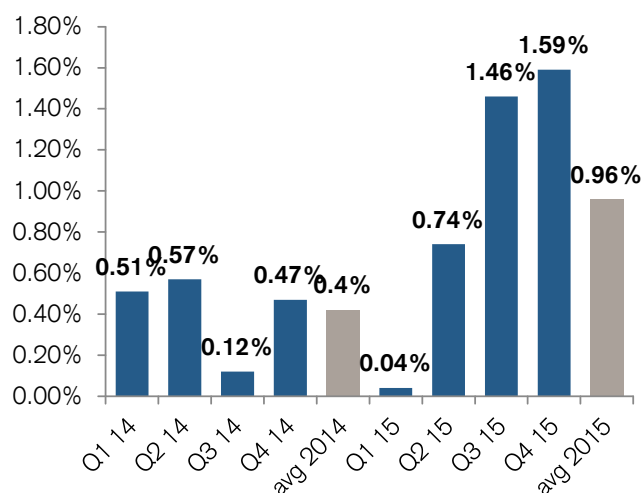
**Figure 80: Veneto Banca: Inflow vs. outflow levels Q114-Q116**

*in €mn, unless otherwise stated*



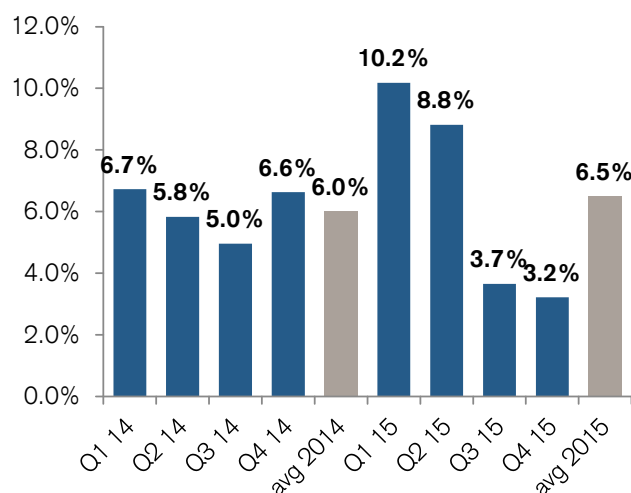
Source: Company data, Credit Suisse research

**Figure 81: Veneto Banca: Outflows from unlikely to pay to performing (as % of unlikely to pay)**



Source: Company data, Credit Suisse research

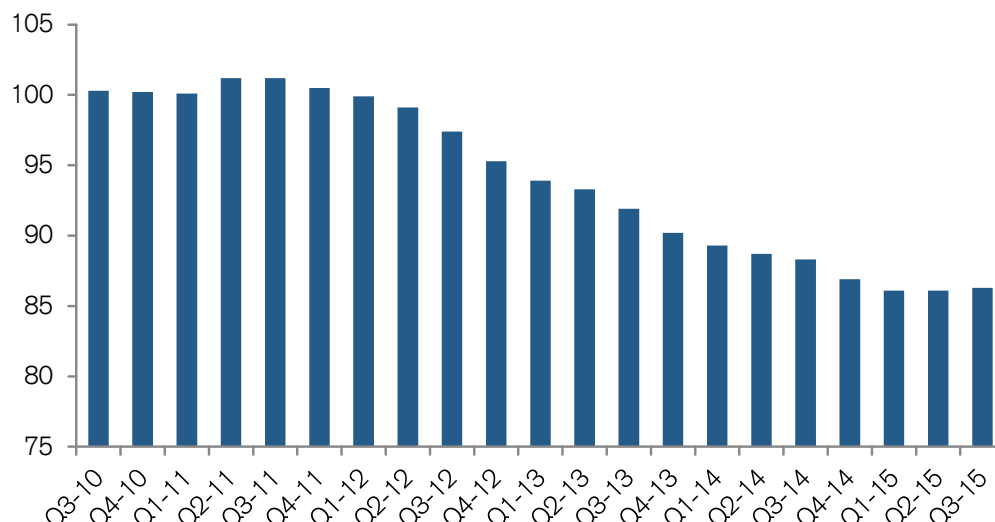
**Figure 82: Veneto Banca: Outflows from unlikely to pay to sofferenze (as % of unlikely to pay)**



Source: Company data, Credit Suisse research

In an attempt to determine the right level of provisions, we have done an expected loss analysis on the basis of Probability of Default (PD) and Loss Given Default (LGD) assumptions with a five-year horizon. This is based on the premise that the bulk of the reclassification (from performing to problematic loans) has already taken place (following the Bank of Italy revisions, the AQR and management's more rigorous policies) – and we do not make any assumption in terms of the transfer of NPLs to the SPV mechanism the government is putting in place nor on the direction of property (and thus collateral) values in Italy (with recent data suggesting a stabilization of property prices; see Figure 83).

**Figure 83: Italian house price index since Q3 2010**



Source: ISTAT

We have broken down the gross loan portfolio between performing and non-performing loans to assign PD estimates and used an aggregate LGD assumption for the book – based on the collateral and LTV data provided by the company. Specifically, we calculate:

- **LGD levels of 55% for the book** – which results from individual LGD assumptions of 100% for the unsecured portion of the NPL book (23% of total), 90% levels for NPLs with a personal guarantee (with Italian banks having recourse over the guarantor's assets) and 17% LGD levels on the NPLs with a collateral behind them. The latter is calculated on the basis of the discounted present value of a collateral over a period of eight years using a discount rate of 2.4%, assuming NPLs are funded 90% by funds (at an average 1.5% yield) and 10% by equity (using a 10.5% CoE assumption). We note that according to Veneto Banca, the level of LTVs of the non performing portfolio is 37% — so the implicit coverage on the collateralised NPL portfolio would be closer to 54%, on our calculations.

**Figure 84: Credit Suisse's LGD assumptions for Veneto Banca**

*In €mn, unless otherwise stated*

	Breakdown	LGD
Real guarantee	52%	17%
Personal guarantee	25%	90%
No guarantee	23%	100%
<b>TOTAL NPLs</b>	<b>100%</b>	<b>55%</b>
<b>Secured NPLs</b>		
Collateral value	100	
Time to recover	8	
Discount rate	2.4%	
NPV of collateral	83	
<b>Coverage on collateral value</b>	<b>17%</b>	
LTV	37%	
Implicit coverage on secured NPLs	54%	

Source: Company data, Credit Suisse estimates

- **PD levels of 27%** – which result from a 90% PD assumption for sofferenze loans and a PD assumption for other NPLs. In addition and for the currently performing portion of the portfolio, we incorporate a 10.8% PD assumption which results from the cumulative levels of inflows from performing loans into NPL during 2015 as a percentage of total performing loans.
- **Expected loss levels of 15%** – with our numbers implying losses of 49% on the sofferenze book, 27% on the other NPL book (for a total 37% on the non performing portfolio) with an additional 6% of the performing portfolio expected to be written down during the 2016-18E period. In absolute terms, expected losses amount to c.€3.95bn, which net of the existing provisions of €2.8bn would imply additional provisions of €1.13bn, on our numbers.

**Figure 85: Veneto Banca: Credit Suisse expected loss analysis by 2020E**

*in €mn, unless otherwise stated*

	2015	PD	Exposure* PD	LGD	EL	EL (%)
Sofferenze loans	3,484	90%	3,136	55%	1,710	49%
Other NPLs	4,071	50%	2,036	55%	1,110	27%
o.w. unlikely to pay	3,524	50%	1,762	55%	961	27%
o.w. past due	547	50%	274	55%	149	27%
<b>Total gross NPLs</b>	<b>7,555</b>	<b>68%</b>	<b>5,171</b>	<b>55%</b>	<b>2,821</b>	<b>37%</b>
Total performing loans	19,177	10.8%	2,068	55%	1,128	6%
<b>Total Gross loans</b>	<b>26,732</b>	<b>27%</b>	<b>7,239</b>	<b>55%</b>	<b>3,949</b>	<b>15%</b>
Existing provisions					-2,818	
<b>Provisions to do</b>					<b>1,131</b>	

*Source: Company data, Credit Suisse estimates*

On this basis, we forecast LLPs to stand at €297mn in 2016E (129bps), €260mn in 2017E (118bps) and €204mn by 2018E (91bps), with 2019-2020E levels standing at €194mn (86bps) and €175mn (76bps), respectively.

**Figure 86: Veneto Banca: Credit Suisse assumptions on provisions and NPLs**

*in €mn, unless otherwise stated*

	2014	2015	2016E	2017E	2018E	2019E	2020E
LLPs	716	754	297	260	204	194	175
as % of gross loans (bps)	278	308	129	118	91	86	76
Gross loans	27,207	26,732	25,386	25,640	26,124	26,692	27,452
NPLs (assuming no additional write offs)	6,067	7,555	7,706	7,706	7,552	7,401	7,239
Balance Sheet provisions	2,083	2,818	3,115	3,375	3,579	3,773	3,949
<b>NPL ratio</b>	<b>22.3%</b>	<b>28.3%</b>	<b>30.4%</b>	<b>30.1%</b>	<b>28.9%</b>	<b>27.7%</b>	<b>26.4%</b>
<b>Coverage levels</b>	<b>34.3%</b>	<b>37.3%</b>	<b>40.4%</b>	<b>43.8%</b>	<b>47.4%</b>	<b>51.0%</b>	<b>54.5%</b>

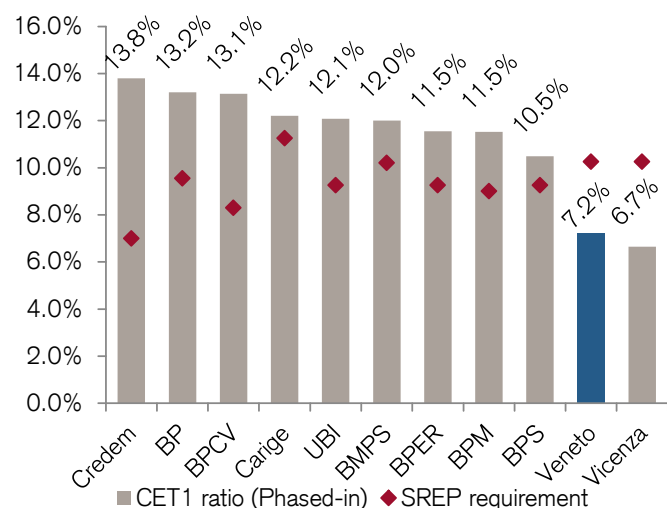
*Source: Company data, Credit Suisse estimates*

We note that as part of the business plan, Veneto Banca is incorporating the sale of €1.9bn of non-performing loans over the 2017-2020E period. Our estimates reflect the losses booked on those loans—but do not incorporate the release of NPLs (nor the impact on coverage) from the Balance Sheet. More importantly, our numbers do not reflect the release of unsecured loans provisioned at 100%—resulting in inflated NPL and coverage ratios.

# Capital

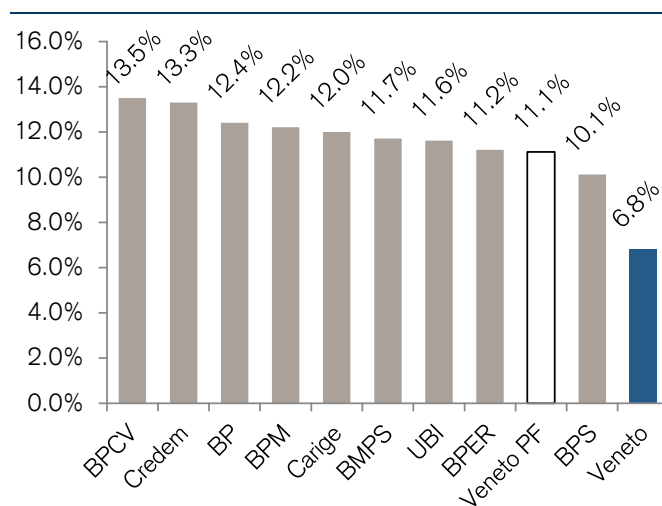
As of Q415, Veneto Banca reported a phased-in CET ratio of 7.2%, which stands below the company's 10.25% SREP and sits at the lower end of the Italian banks' average. On a fully loaded basis, the CET 1 ratio stood at 6.82% (vs. 11-13.5% for peers), with the capital calculations excluding the c.€297.6mn of financed shares (note financed shares could be reduced in subsequent years with the reimbursement of the related customer loans). Accounting for the €1bn of capital to be raised (net of the c.€50mn one-off costs), we calculate a pro-forma FL ratio of 11.1% (on Q116 RWAs) which continues to stand at the lower end of the range.

**Figure 87: Italian banks: B3 phased-in ratio vs. SREP req Q415**



Source: Company data, Credit Suisse research

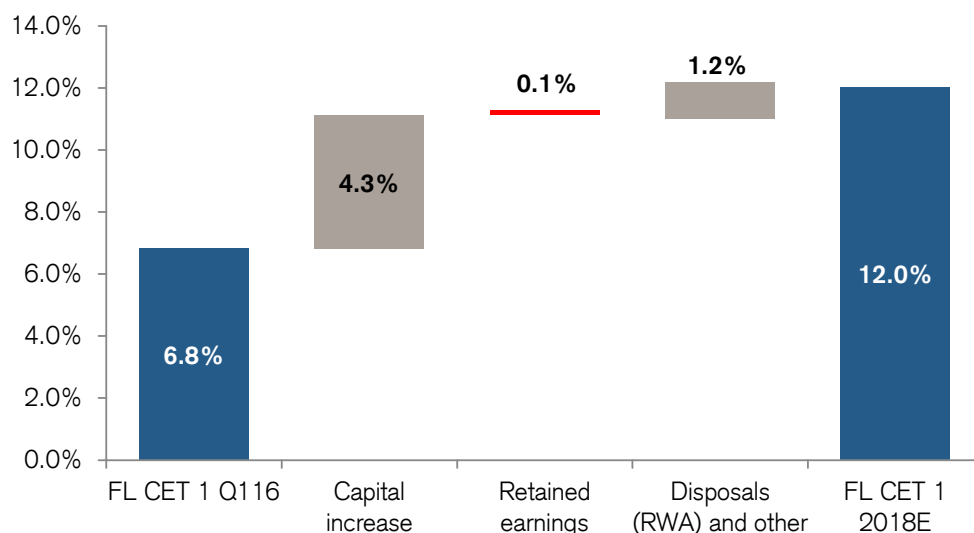
**Figure 88: Italian banks: B3 FL CET1 ratio Q415**



Source: Company data \*Q116 data for Veneto

Our estimates imply the bank generates c.100bps of additional capital throughout the period (to levels of 12.0% by 2018), with no organic earnings generation (as 2018E profits are offset by 2016E losses and our 30% dividend payout assumption for 2018E) and with the remaining 120bps mostly resulting from the disposals the bank expects to accomplish during the period and some RWA optimization.

**Figure 89: Veneto Banca: Credit Suisse earnings generation Q116-2018E**



Source: Company data, Credit Suisse estimates

Note that, in our numbers, c.20bps results from the disposal of BIM (€1.5bn of RWAs, €60mn reduction of minorities) and an additional 75bps from the disposal of foreign divisions (€1.3bn RWA deduction in 2018E) – with our numbers not incorporating any assumption in terms of gains/losses, with the group having already written off the goodwill attached and with the companies having lost c. €66mn during 2015E (€20mn loss for BIM and €46mn loss for foreign companies).

**Figure 90: Veneto Banca: Details on assets for sale**

*in €mn, unless otherwise stated*

	Stake	Mkt price	Book value	Branches	Employees	Assets	Loans	Direct Funding	RWAs	2015 net income
<b>BIM</b>	<b>71.40%</b>	<b>268.5</b>							<b>1,500</b>	<b>-20</b>
<b>Foreign business</b>		<b>n.a.</b>	<b>196</b>	<b>63</b>	<b>935</b>	<b>1,726</b>	<b>1,204</b>	<b>937</b>	<b>1,317</b>	<b>-46</b>
Veneto Banca Romania	100%		82	22	313	1,100	840	530	779	-33
Veneto Banka Croatia	100%		34	8	115	223	149	119	178	-8
Veneto Banka Albania	100%		22	15	132	190	116	156	196	-7
Eximbank - Moldova	100%		58	18	375	213	99	132	164	3

Source: Company data

It is also worth mentioning the bank has announced the disposal of its 19.9% stake in Arca Sgr and that is not included in our estimates (or the business plan targets).

Veneto Banca has not yet implemented Advanced Internal Ratings-Based (AIRB) models for the weighting of its assets and the implementation is not embedded in the company's business plan. We see implementation of IRB models as an additional tool the bank has to support capital levels, with its RWA density standing at 69% as of Q415 vs. 36% for BP, 42% for BMPS and 53% for UBI – all of which have AIRB models. In a simplistic exercise, we calculate the capital impact from a reduction in the RWA weighting from 64% in 2018E to levels of 60% and come up with a capital impact of 70bps (to 12.8% by 2018E vs. the 12.0% embedded in our numbers), mechanically implying the 'generation' of c.€122mn of additional capital.

**Figure 91: Veneto Banca: Credit Suisse estimate of potential impact from moving to IRB methodology**

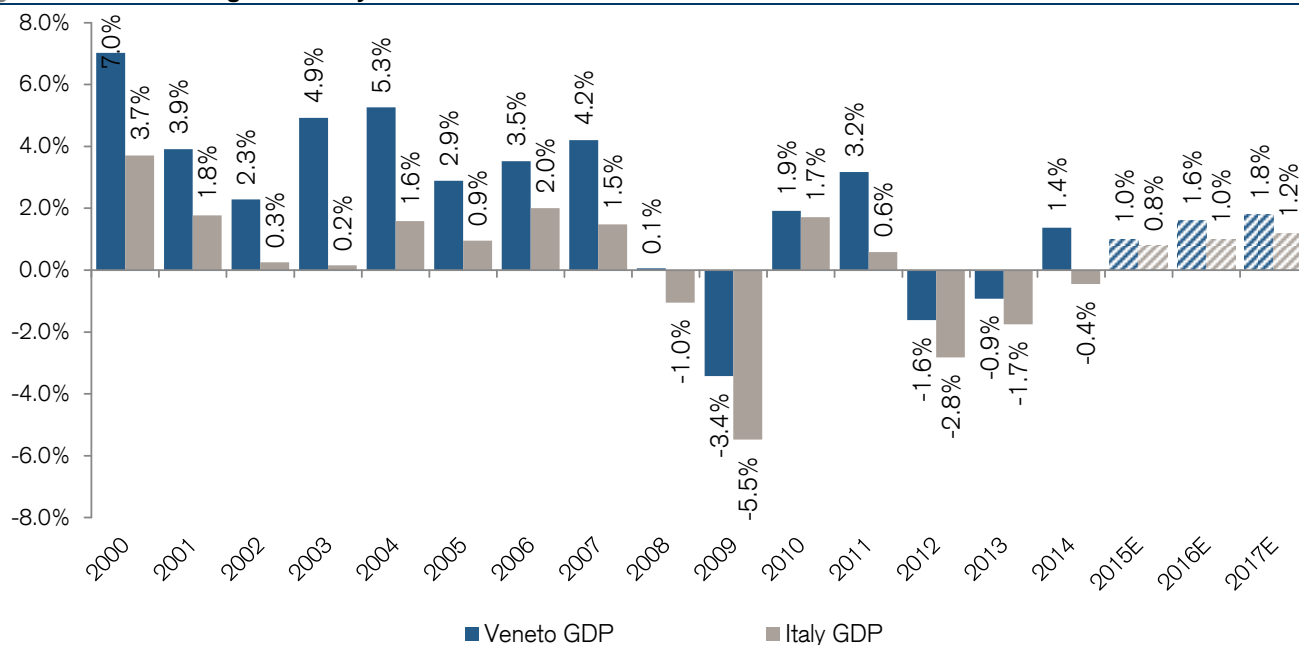
*in €mn, unless otherwise stated*

	Current estimates			Lower RWA density		
	2016E	2017E	2018E	2016E	2017E	2018E
CET 1 capital	2,301	2,295	2,364	2,301	2,295	2,364
RWAs	21,856	20,677	19,639	19,083	19,079	18,527
RWAs as % of assets	69%	65%	64%	60%	60%	60%
CET 1 ratio	<b>10.5%</b>	<b>11.1%</b>	<b>12.0%</b>	<b>12.1%</b>	<b>12.0%</b>	<b>12.8%</b>
Impact				1.5%	0.9%	0.7%
CS benchmark			11%			11%
Excess capital			204			326

Source: Credit Suisse estimates

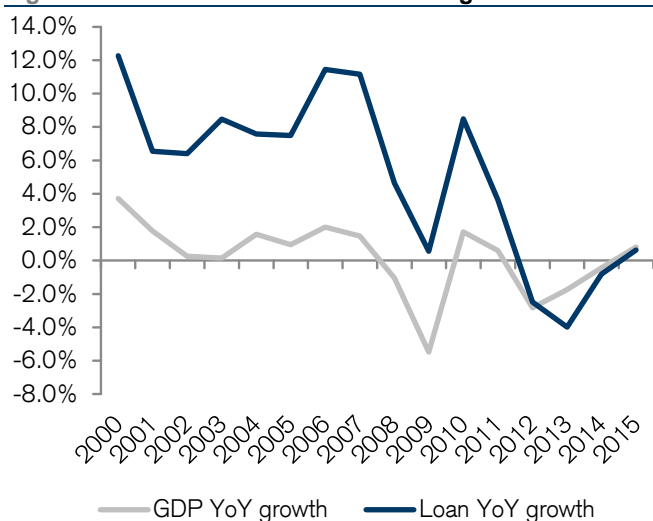
# Macro and sector data

**Figure 92: GDP YoY% growth: Italy vs. Veneto**



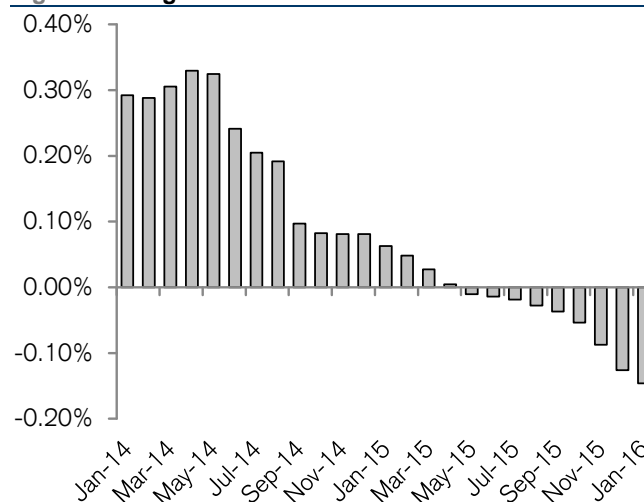
Source: Prometeia, ISTAT

**Figure 93: GDP vs. Italian loans - %YoY growth**



Source: ISTAT, Bank of Italy

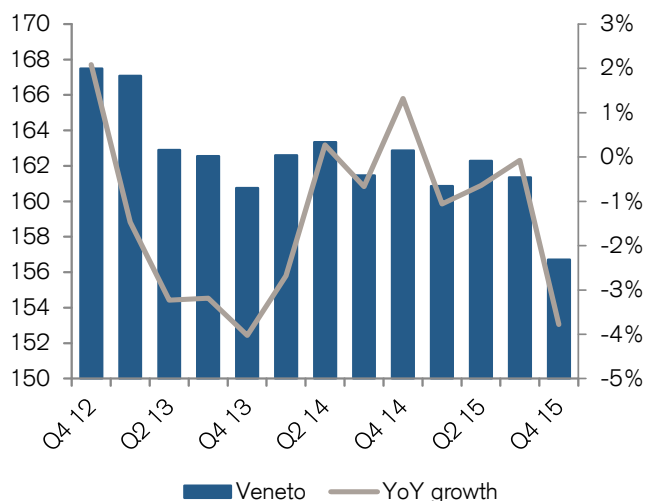
**Figure 94: Avg. Euribor 3M – Evolution since Jan 2014**



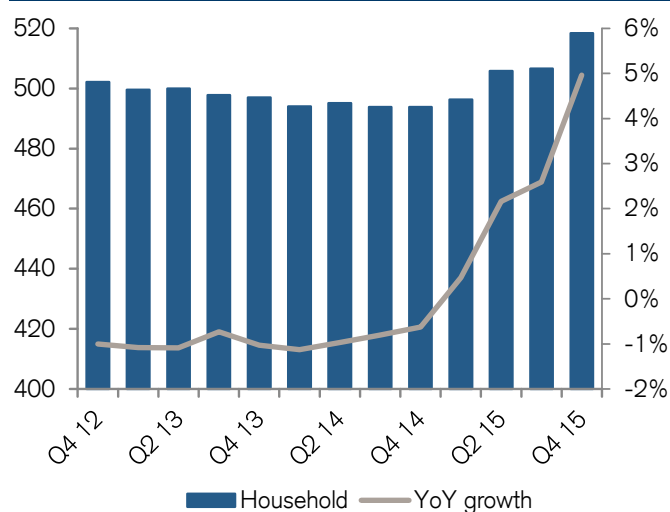
Source: the BLOOMBERG PROFESSIONAL™ service

**Figure 95: Italian banking sector: Total loans (€bn)**

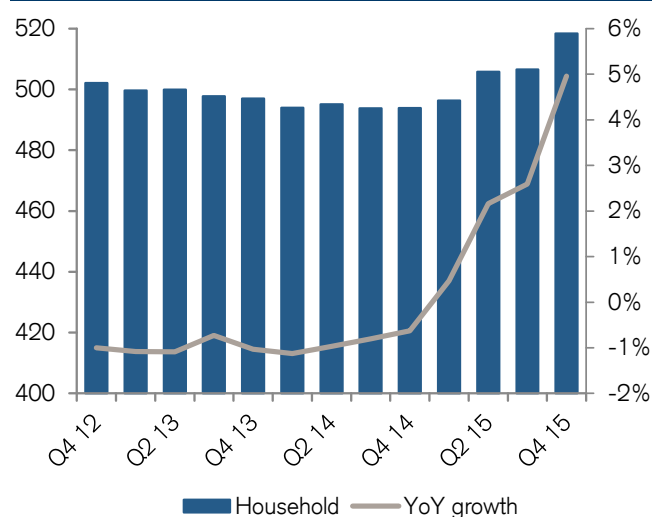
Source: Bank of Italy

**Figure 96: Veneto region: Total loans (€bn)**

Source: Bank of Italy

**Figure 97: Italian banking sector: Household loans (€bn)**

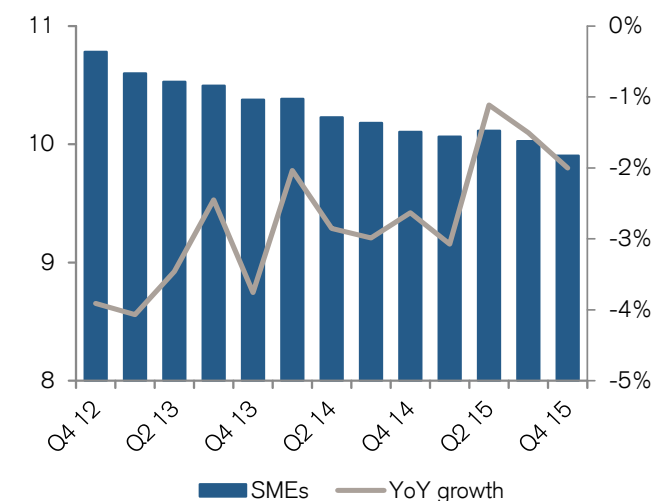
Source: Bank of Italy

**Figure 98: Veneto region: Household loans (€bn)**

Source: Bank of Italy

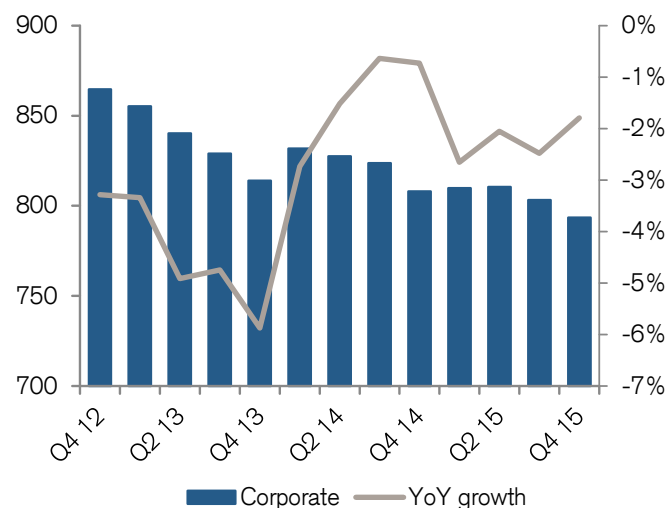
**Figure 99: Italian banking sector: SME loans (€bn)**

Source: Bank of Italy

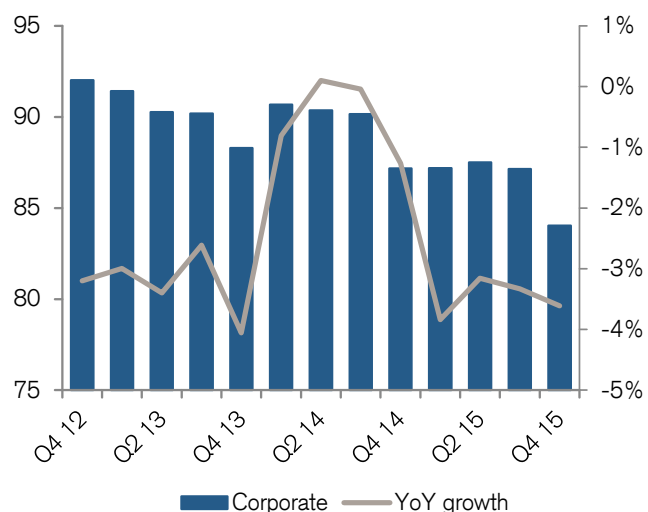
**Figure 100: Veneto region: SME loans (€bn)**

Source: Bank of Italy



**Figure 101: Italian banking sector: Corporate loans (€bn) vs. %YoY growth**

Source: Bank of Italy

**Figure 102: Veneto region: Corporate loans (€bn) vs. %YoY growth**

Source: Bank of Italy

**Figure 103: Italian banking sector data – Lending spreads**

	Mortgages		Consumer loans		Corporate loans	
	Front book	Back book	Front book	Back book	Front book	Back book
Jan-14	3.21%	2.75%	7.47%	4.87%	3.10%	3.51%
Feb-14	3.14%	2.75%	7.52%	4.85%	3.18%	3.49%
Mar-14	3.13%	2.73%	7.44%	4.84%	3.13%	3.46%
Apr-14	3.01%	2.72%	7.32%	4.84%	3.00%	3.46%
May-14	3.04%	2.74%	7.30%	4.86%	2.97%	3.43%
Jun-14	3.02%	2.81%	7.29%	4.97%	2.84%	3.50%
Jul-14	3.00%	2.80%	7.39%	4.97%	2.89%	3.47%
Aug-14	2.93%	2.80%	7.44%	4.96%	2.76%	3.45%
Sep-14	2.89%	2.87%	7.48%	5.05%	2.78%	3.52%
Oct-14	2.82%	2.84%	7.28%	5.03%	2.58%	3.48%
Nov-14	2.82%	2.84%	7.13%	5.01%	2.47%	3.40%
Dec-14	2.76%	2.80%	6.77%	5.09%	2.48%	3.45%
Jan-15	2.77%	2.81%	7.23%	5.14%	2.46%	3.43%
Feb-15	2.70%	2.80%	7.20%	5.14%	2.36%	3.40%
Mar-15	2.65%	2.80%	7.07%	5.06%	2.25%	3.33%
Apr-15	2.63%	2.80%	7.15%	5.06%	2.28%	3.31%
May-15	2.66%	2.79%	7.06%	5.05%	2.18%	3.24%
Jun-15	2.78%	2.76%	6.97%	5.19%	2.14%	3.18%
Jul-15	2.77%	2.75%	7.02%	5.17%	2.08%	3.14%
Aug-15	2.85%	2.75%	7.03%	5.16%	1.98%	3.13%
Sep-15	2.71%	2.73%	7.06%	5.14%	1.86%	3.11%
Oct-15	2.66%	2.72%	6.93%	5.17%	1.97%	3.08%
Nov-15	2.66%	2.73%	6.90%	5.18%	1.76%	3.10%
Dec-15	2.62%	2.73%	6.57%	5.18%	1.87%	3.07%
Jan-16	2.64%	2.73%	7.07%	5.17%	2.18%	3.10%
Feb-16	2.59%	2.73%	7.13%	5.17%	1.88%	3.09%

Source: Bank of Italy

# Path towards the consolidation of the banking sector in Italy

The Italian banking sector is very fragmented, with over 646 entities throughout the country. Its largest five banks hold 46% of the market share and the subsequent 10 entities hold another 14% share.

**Figure 104: Italian banking sector 2015**

	Assets €bn	Loans €bn	Market share
ISP Italy	603	320	16.7%
UCG Italy	397	249	13.0%
BMPS	170	136	7.1%
UBI	116	88	4.6%
BP	123	87	4.6%
BPER	61	48	2.5%
MB	70	38	2.0%
BPM	50	36	1.9%
Vicenza	41	27	1.4%
BPS	36	24	1.3%
Veneto	35	23	1.2%
Credem	36	21	1.1%
Carige	32	21	1.1%
BPCV	27	19	1.0%
Iccrea	49	12	0.6%

Source: Company data, Credit Suisse research

We think consolidation of the sector is long overdue – and the government has been implementing different measures with the ultimate aim of facilitating the process:

- **The Popolari reform** – forces the conversion of cooperative banks into joint stock companies, effectively abolishing the "one person one vote" rule. The reform encompasses an €8bn asset threshold (i.e. it is mandatory only if the bank's assets are higher than €8bn) which implies that only 10 out of 70 cooperative banks of the country are impacted. The initial draft came out in January 2015 (Article 1 of Decree Law No. 3) and was converted into Law No. 33 of 24 March 2015. It faced its first legal challenge in October, when a series of lawsuits were filed to have the legislation frozen, but a regional administrative court ruled against the request. To date, three entities (UBI Banca, Veneto Banca and Banca Popolare di Vicenza) have already completed the process.

Other than the transformation into a joint stock company, the reform allows impacted entities to either reduce the assets below the €8bn threshold or to go into voluntary liquidation (article 29 of the Consolidated Banking Act) within a 12-month period. In the event of failure to undertake the necessary initiatives designed to ensure compliance with this law, the Bank of Italy may enforce a ban on undertaking new operations and/or propose to the European Central Bank that the authorisation to carry on banking business be revoked and to the Ministry of the Economy and Finance that the bank be put into forced administrative liquidation.

- **Changes in bankruptcy and foreclosure procedures** – In June 2015, the Italian government approved measures to remove impediments to the liquidation of NPLs (Decree Law 83/2015), with the aim of increasing the efficiency and speed of credit recovery proceedings. Amongst the most important ones we note:
  - Efforts to reduce the lengthy process for insolvency (the administrator is now required to deliver the liquidity plan within 180 days from the date of the insolvency declaration, and to terminate the liquidation within two years) and foreclosure (the maximum length for an auction sale is now 195 days (down from 330 days), and the bank can now get immediate possession of the foreclosed asset).

- The full tax deductibility of write-downs and loan losses (vs. 30bps cap and five-year amortisation previously).
- The facilitation of out-of-court workouts and prompter agreements between creditors.
- The reduction in stamp duty of Real Estate assets (only recently approved) to a €200 flat tax instead of the previous 9% of the sale price. Note that this applies only to individuals – with corporates buying an asset still expected to pay the 9% stamp duty.

- **The new scheme for granting state guarantees on securitized NPLs** – Initial details emerged on 26 January 2016 and Law Decree No. 18 was approved on 14 February 2016 by the Italian government, coming into force two days later – to be converted into law within 60 days.

Through this scheme, Banks can set up a Special Purpose Vehicle (SPV) to transfer their bad loans off their balance sheets and securitise them into tranches. Banks can then approach the government to request a guarantee in exchange for a fee. Only senior tranches (which must be investment grade) can benefit from a state guarantee, but the guarantee indirectly covers interest payments on the mezzanine tranche. To avoid being perceived as state aid, the cost of the guarantee must be based on market pricing.

- **The Atlante fund** – Quaestio Capital Management Sgr (a privately owned Italian asset management company) launched an alternative €4.3bn fund called "Atlante" which closed on 29 April 2016. A total of 67 Italian and foreign investors, including banks, insurance companies, foundations and CDP (government-owned) participated in the fund. The fund has a duration of five years, but can be renewed for another three years, it has an 18-month investment period, extendable for a further six months to complete operations already underway. The purpose of the fund is twofold:

- Up to 70% of the fund is to be invested in banks with capital ratios that fall below the minimum SREP requirement, and thus realise, upon request of the Supervisory Board, interventions to strengthen capital through a capital increase.
- At least 30% of the fund will be invested in non-performing loans (NPLs) of a number of Italian banks, through junior (and occasionally mezzanine) tranches of NPL securitisations, Special Purpose Vehicles and/or other assets, real estate or rights for recovery operations of NPLs. After 30 June 2017, the whole share of the fund not invested in banks may be invested in NPLs.

- **Additional measures to improve bankruptcy and foreclosure procedures** – On 29 April, the Italian government approved a Decree that includes further measures aimed to shorten NPL recovery times. This still needs to be converted into law in 60 days. The main highlight of the law is related to the concept of "direct repossession", which aims to reduce the number of transactions that go into court proceedings, allowing banks and corporates to enter a voluntary agreement to sell the assets collateralising the loan (excluding, however, the entrepreneur's residence) within six months from when the borrower stops payments (this compares to an 18-month period for individuals). The agreements can be applied on existing NPLs (vs. only on new disbursements for individuals).

# Appendix I – Company timeline

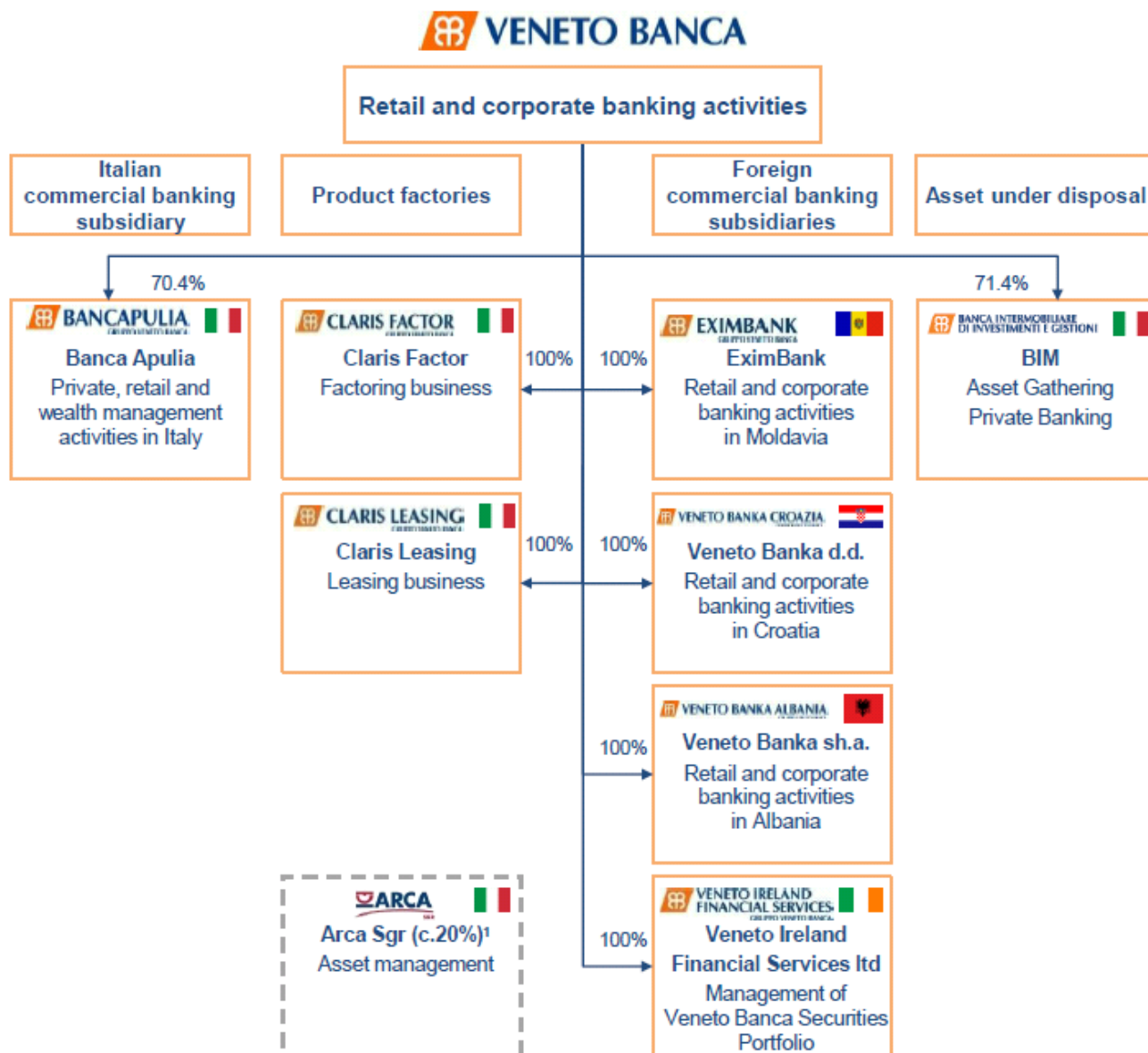
**Figure 105: Veneto Banca – Historical background**

<b>1877</b>	The Banca Popolare of Montebelluna was founded.
<b>1966</b>	The institution merged with Banca del Mandamento di Asolo, creating Banca Popolare di Asolo e Montebelluna.
<b>2000</b>	After acquiring Banca di Credito Cooperativo del Piave e del Livenza, the bank changed its name to Veneto Banca. It acquired Banca Italo Romena.
<b>2001</b>	It acquired a majority interest in Banca di Bergamo.
<b>2002</b>	It created Banca Meridiana by acquiring some branch offices of the former Banca Mediterranea in Puglia and Basilicata.
<b>2005</b>	It created the product company Italo Romena Leasing. It acquired a majority interest in Banca del Garda.
<b>2006</b>	It acquired B.C. Eximbank (Moldova). It acquired Gospodarsko Kreditna Banka (Croatia), now Veneto Banka Croatia.
<b>2007</b>	It acquired Banca Popolare di Intra and its subsidiaries Banca Popolare di Monza e Brianza and Intra Private Bank. Banca del Garda became part of the Veneto Banca commercial network.
<b>2008</b>	Veneto Banca became Veneto Banca Holding. It acquired Banca Italiana di Sviluppo (Albania), now Veneto Banka Albania. Agreement for progressive integration of Cassa di Risparmio di Fabriano e Cupramontana.
<b>2009</b>	Agreement with Banca Apulia to create a banking hub in southern Italy, merging by acquisition Banca Meridiana into Banca Apulia, then merging the new Banca Apulia into Veneto Banca Group. Banca di Bergamo and Banca Popolare di Monza e Brianza were absorbed into the Banca Popolare di Intra commercial network.
<b>2010</b>	In April 2010 Veneto Banca Holding disclosed the launch of a take-over bid to acquire the majority share, within the year, of subsidiary Co.fi.to. - holding of Gruppo Banca Intermobiliare (BIM). November 2010 merger by acquisition of Veneto Banca S.p.A. and Banca Popolare di Intra S.p.A. into Veneto Banca Holding s.c.p.a. This structural reorganisation brought the branches of Banca Popolare di Intra S.p.A. and Veneto Banca S.p.A. under the single name of Veneto Banca Holding s.c.p.a. The commercial network was reorganised into three Area Head Offices: Northeast Area Head Office headquartered in Montebelluna, Centre-North headquartered in Verona and Northwest headquartered in Verbania Intra.
<b>2011</b>	The corporate name of the parent company changed from "Veneto Banca Holding s.c.p.a." to "Veneto Banca s.c.p.a.". The merger of Co.fi.to. into Veneto Banca was completed and the bank consequently acquired control of Banca Intermobiliare.

Source: Company website

## Appendix II – Group structure

Figure 106: Veneto Banca - Group structure



Source: Company data

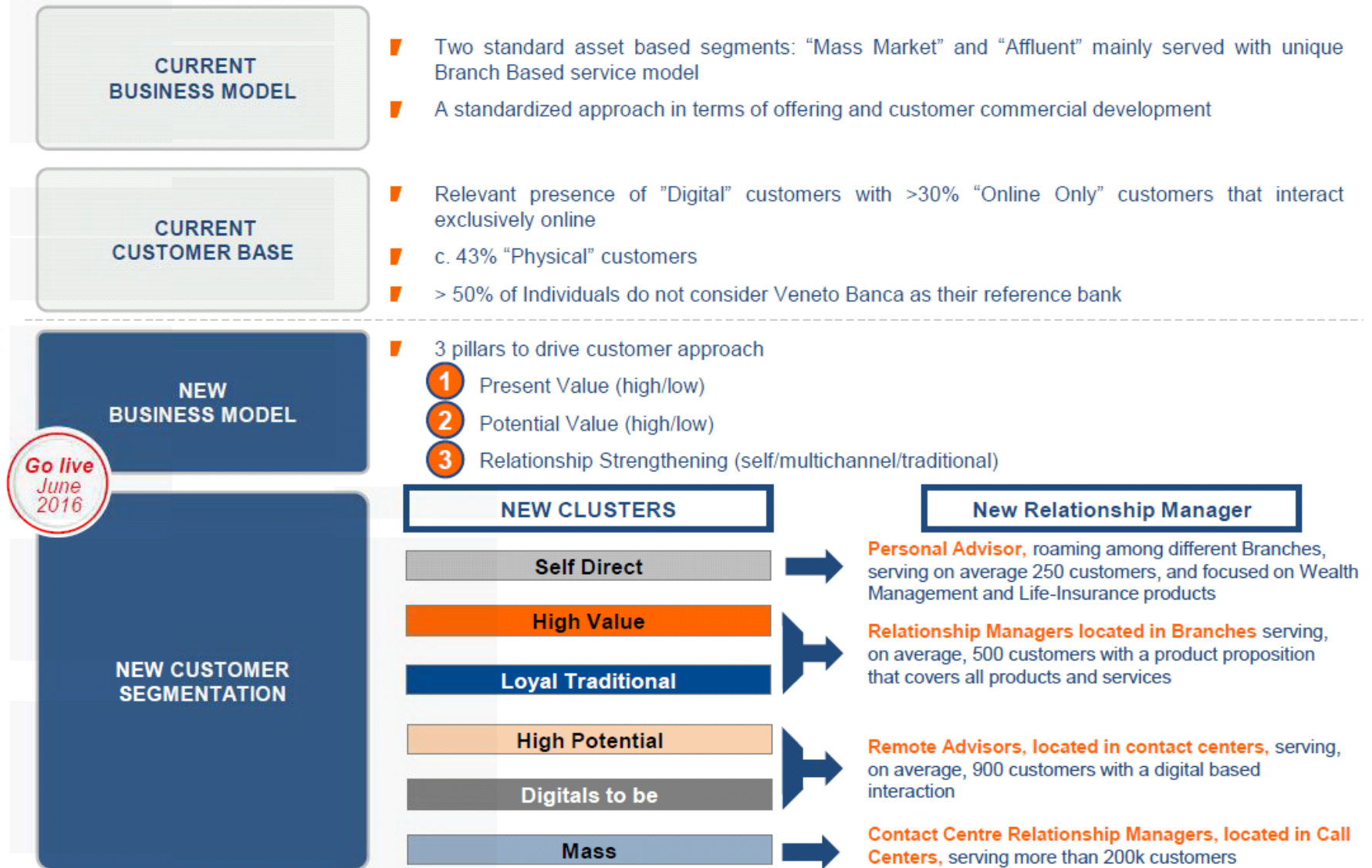
## Appendix III – Management team

- **Cristiano Carrus, General Manager** - He succeeded Vincenzo Consoli in June 2015, prior to which he was the CFO and Deputy General Manager at the bank. He joined the bank in October 2014, following a stint at Banco Popolare where he held some top management roles.
- **Stefano Fasolo, CFO** - He joined the bank in March 2015 and was promoted as CFO in October 2015 (from Head of the Planning & Control department). His earlier experience includes Governing and Planning Division Manager at Banca Carim and Strategy and Value Creation Department Manager at Banca Antonveneta-ABN Amro.
- **Michele Barbisan, Chief Commercial Officer and Deputy General Manager** - He has been with the Veneto Banca group since 1996 and has held multiple internal positions including Territorial Department Manager, General Manager of the subsidiary Banca Intermobiliare-BIM and Sales Manager (from January 2015). He was recently promoted to the role of Deputy General Manager (replacing Mr. Carrus) and will be directly assisting the CEO.
- **Gerardo Rescigno, CRO** - He joined the bank in January 2014 and is currently the CRO, responsible for governing the group's operational risks. Prior to this, he was the Value, Planning and Control Manager at Banca Monte dei Paschi di Siena, Risk Manager at Banca Sanpaolo IMI and spent some time as an External Auditor at CPA.

The current Board of Directors (BoD) is comprised of 11 members (6 independent, 3 executive and 2 non-independent) and is presided over by Pierluigi Bolla, Chairman of the banking group since October 2015. The BoD will be renewed following the AGM's FY15 results approval, expected after the completion of the potential offering.

# Appendix IV – New Business Model

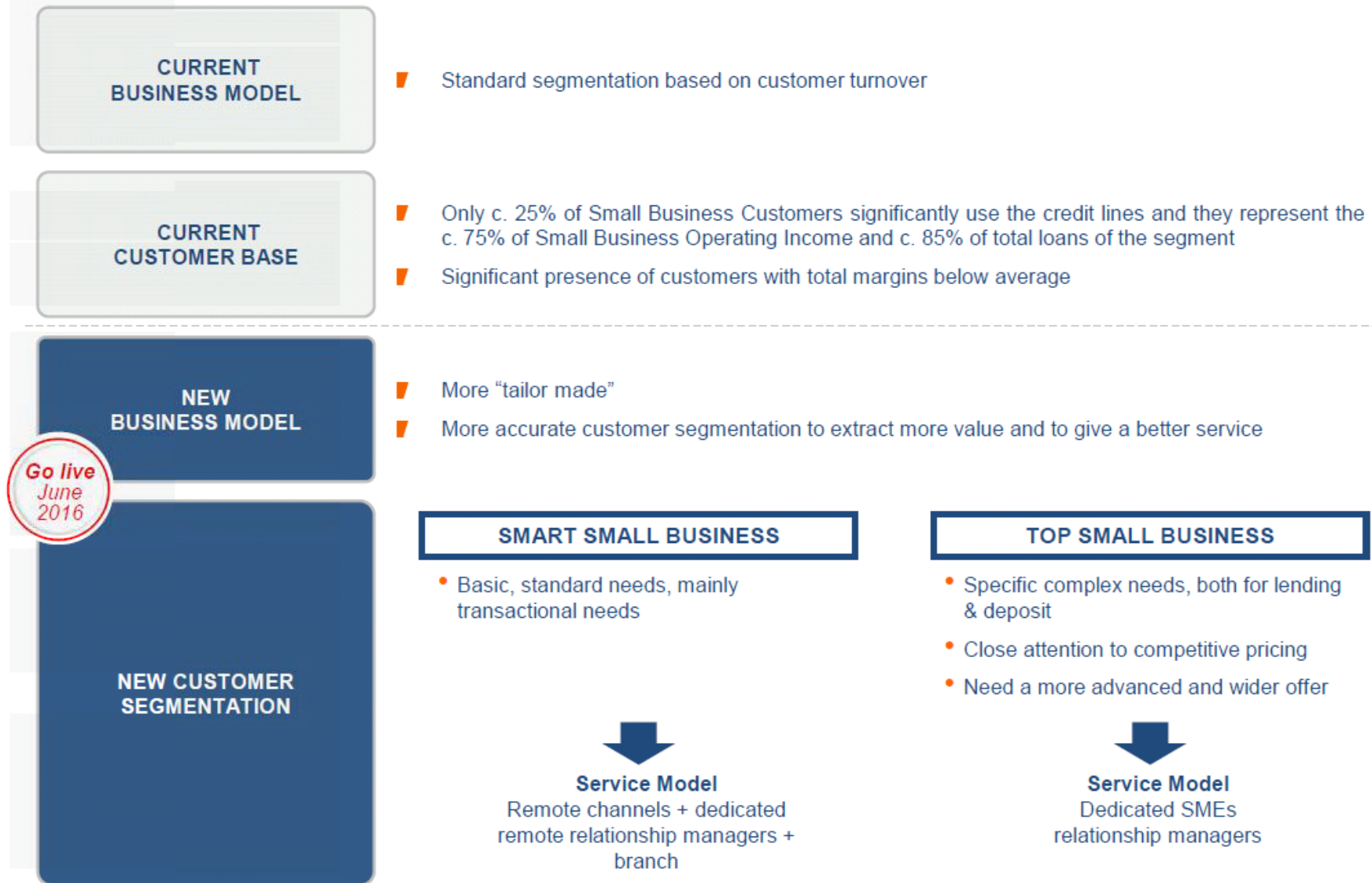
Figure 107: Veneto Banca – Individuals segment



Source: Company data

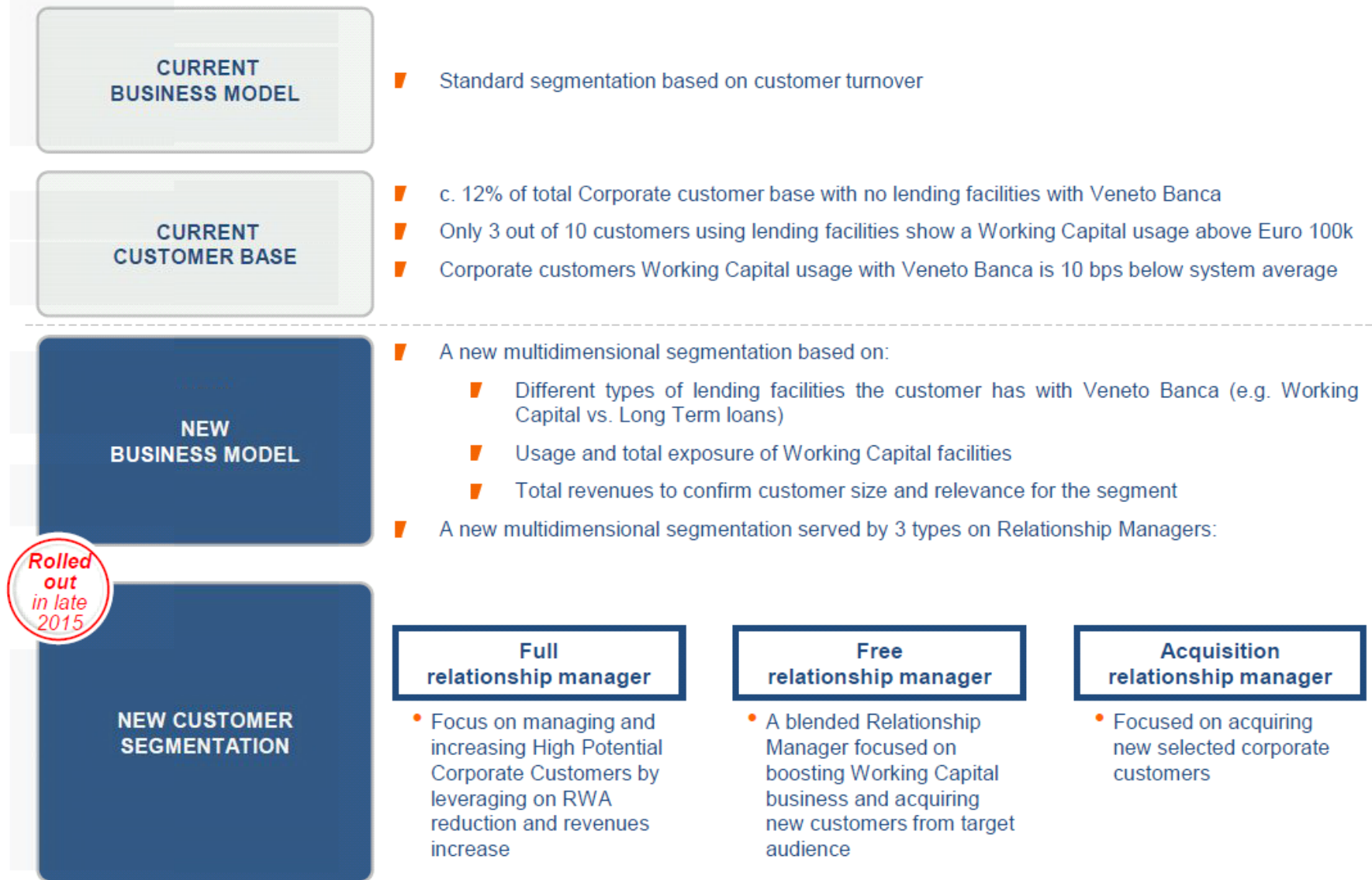


Figure 108: Veneto Banca – SME segment



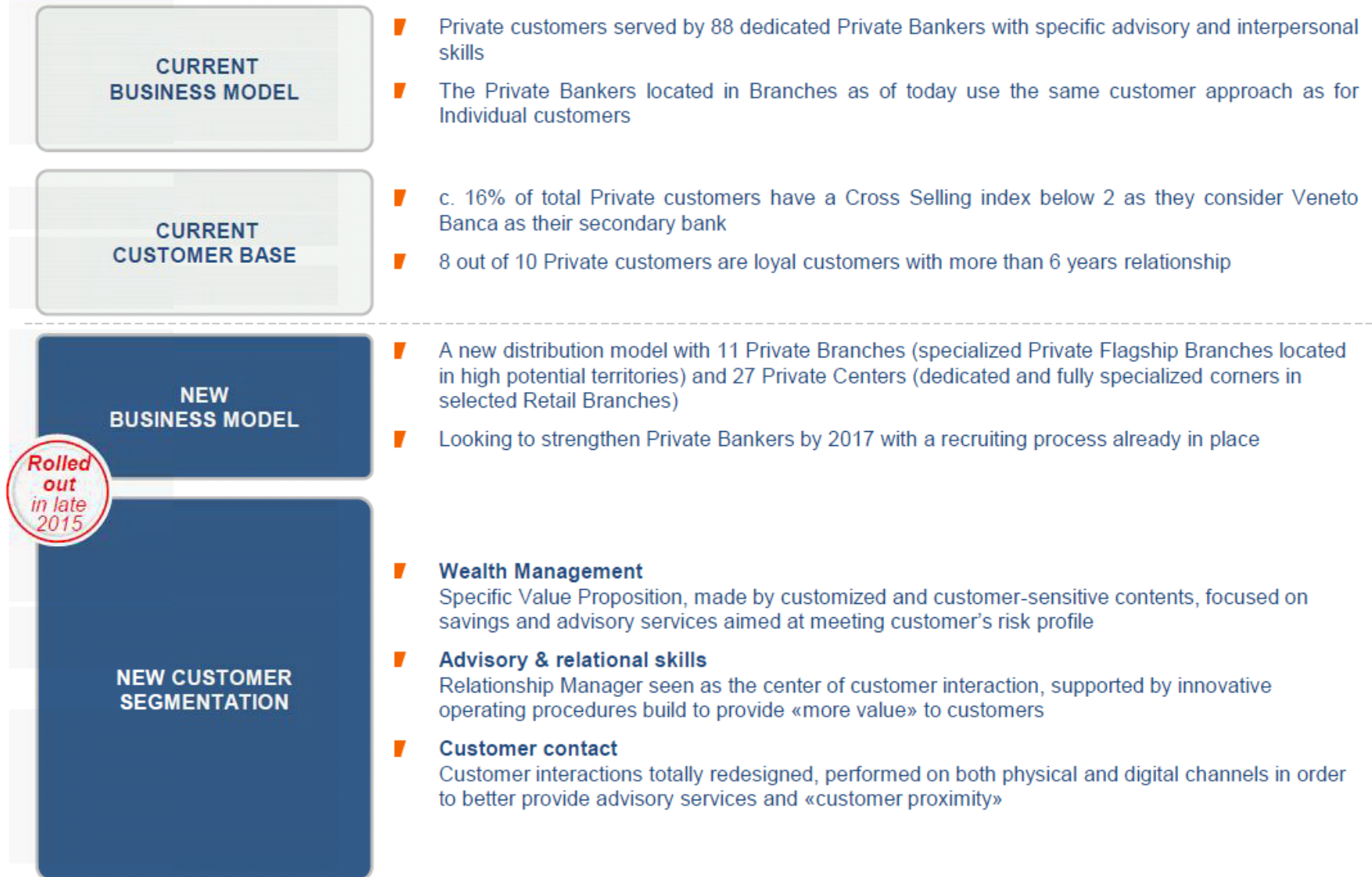
Source: Company data

Figure 109: Veneto Banca – Corporate segment



Source: Company data

Figure 110: Veneto Banca – Private Banking



Source: Company data



## Veneto Banca

### A potential restructuring story

May 2016

#### Research Analysts

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## Executive summary

### ■ Key positives

- **Geographic footprint** – 73% of loan book in the North, 42% in Veneto (6th region by GDP per capita)
- **Significant untapped potential** – Pre-provision profitability at 0.76% of assets (vs. peers at >1%), due to product under-penetration and costly former business model
- **Strong capital position post €1bn increase and potential for RWA optimisation** – 12.1% FL CET 1 as of 2018E, with upside from IRB migration (70bps if RWA density goes to 60% from 64%)

### ■ Key risks

- **Low profitability prospects** – RoTBV target (5.1% by 2018E) compares poorly vs. European sector at 9%, but is in line with Italian peers' average (5.2%). Unlikely that RoTBV > CoE due to low rates.
- **Asset quality overhang** – NPL ratio at 28.3%, coverage at 35% (peer avg. at 24% and 37%)
- **More muted than expected fee and AuM growth** – Ambitious targets (20bps increase in banking fees as % of loans, €2bn decline in loans recovered by 2018E, 12% AuM growth)
- **Challenging funding mix** – Retail funds constitute 47% of total – retail bonds to disappear, access/cost of wholesale funding a question mark
- **Inability to sell the assets for sale** – (95bps of capital over 2016-2018E, in our calculations)

## Valuation framework – Peer group comparison

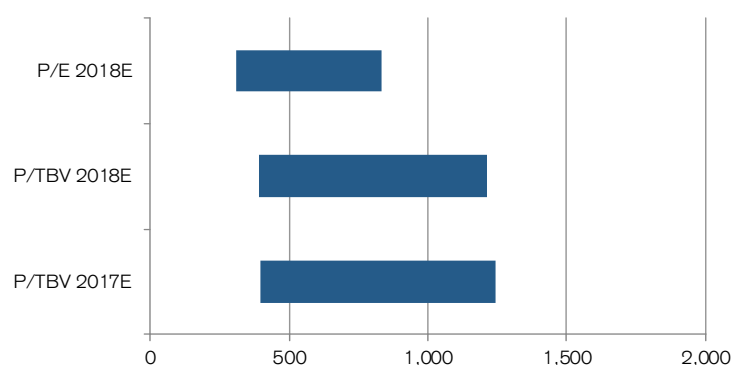
### Veneto Banca: Peer group valuation framework

in €mn, unless otherwise stated

	BMPS	BP	UBI	BPER	BPM	BPS	Carige	BPCV	Agg.	Min	Max
Assets €bn	169	121	117	61	50	36	30	27			
Loans €bn	136	87	88	48	36	24	21	19			
P/TBV 17E	0.17x	0.23x	0.33x	0.36x	0.49x	0.52x	0.19x	0.28x	0.30x	0.17x	0.52x
P/TBV 18E	0.16x	0.23x	0.33x	0.40x	0.47x	0.49x	0.19x	0.26x	0.30x	0.16x	0.49x
P/E 17E	5.08x	4.63x	8.08x	6.78x	7.95x	10.54x	N/A	7.32x	6.81x	4.63x	10.54x
P/E 18E	3.14x	4.05x	6.71x	5.85x	7.19x	8.43x	N/A	5.34x	5.70x	3.14x	8.43x
RoTBV 17E	3.58%	5.11%	4.28%	5.42%	6.18%	4.84%	n.m.	3.71%	4.39%	3.6%	6.2%
RoTBV 18E	4.96%	5.75%	4.78%	6.79%	6.65%	5.84%	n.m.	4.63%	5.22%	4.6%	6.8%

Source: Thomson Reuters, Credit Suisse research

### Veneto Banca: Implied valuation sensitivities



Source: Credit Suisse estimates

## Valuation framework – Gordon growth model

### Veneto Banca: Gordon growth model

in €mn, unless otherwise stated

		Cost of equity						
RoTBV	P/TBV	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
	2.0%	503	474	448	425	404	385	367
	3.0%	754	711	673	638	606	577	551
	4.0%	1,006	948	897	850	808	769	734
	5.0%	1,257	1,185	1,121	1,063	1,010	962	918
	6.0%	1,508	1,423	1,345	1,275	1,212	1,154	1,101
	7.0%	1,760	1,660	1,570	1,488	1,414	1,346	1,285

Source: Credit Suisse estimates

### Veneto Banca: Potential multiples based on various valuation sensitivities

in €mn, unless otherwise stated

Market value	P/TBV 2016E	P/TBV 2017E	P/TBV 2018E	P/E 2018E
400	0.17x	0.17x	0.16x	4.1x
500	0.21x	0.21x	0.20x	5.1x
600	0.25x	0.25x	0.24x	6.1x
700	0.29x	0.29x	0.28x	7.1x
800	0.33x	0.33x	0.32x	8.1x
900	0.37x	0.38x	0.36x	9.1x
1,000	0.42x	0.42x	0.41x	10.1x
1,100	0.46x	0.46x	0.45x	11.2x
1,200	0.50x	0.50x	0.49x	12.2x
1,300	0.54x	0.54x	0.53x	13.2x
1,400	0.58x	0.58x	0.57x	14.2x

Source: Credit Suisse estimates

# Earnings outlook

## Veneto Banca: Credit Suisse P&L estimates 2014-2020E

in €mn, unless otherwise stated

	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR 15-18E	CAGR 15-20E
Net interest income	513	505	439	477	489	504	524	-1%	1%
Net commission income	288	273	266	296	330	340	376	6%	7%
<b>Core revenues</b>	<b>801</b>	<b>778</b>	<b>704</b>	<b>773</b>	<b>819</b>	<b>844</b>	<b>900</b>	<b>2%</b>	<b>3%</b>
Non core revenues	54	169	60	60	60	65	65	-29%	-17%
<b>Total revenue</b>	<b>855</b>	<b>947</b>	<b>764</b>	<b>833</b>	<b>879</b>	<b>909</b>	<b>965</b>	<b>-2%</b>	<b>0%</b>
Staff costs	-367	-341	-334	-312	-294	-286	-285	-5%	-4%
Other admin costs	-205	-274	-223	-206	-192	-191	-188	-11%	-7%
D&A	-45	-69	-44	-40	-40	-40	-40	-17%	-10%
<b>Operating costs</b>	<b>-617</b>	<b>-684</b>	<b>-600</b>	<b>-557</b>	<b>-526</b>	<b>-517</b>	<b>-513</b>	<b>-8%</b>	<b>-6%</b>
<b>Gross operating profit</b>	<b>238</b>	<b>262</b>	<b>164</b>	<b>276</b>	<b>353</b>	<b>392</b>	<b>452</b>	<b>10%</b>	<b>12%</b>
Loan loss provisions	-716	-754	-297	-260	-204	-194	-175	-35%	-25%
Other provisions and charges	-724	-505	-35	-35	-35	-35	-35	-59%	-41%
<b>Profit before tax</b>	<b>-1,202</b>	<b>-997</b>	<b>-168</b>	<b>-19</b>	<b>114</b>	<b>162</b>	<b>242</b>	<b>N/A</b>	<b>N/A</b>
Taxes	227	191	39	4	-26	-37	-56	N/A	N/A
Non recurrent items	-9	-101	-10	-6	-5	-4	-4	N/A	N/A
<b>Net profit</b>	<b>-984</b>	<b>-907</b>	<b>-139</b>	<b>-21</b>	<b>84</b>	<b>121</b>	<b>183</b>	<b>N/A</b>	<b>N/A</b>
Minorities	16	25	15	15	15	15	15	-16%	-10%
<b>Net attributable profit</b>	<b>-968</b>	<b>-882</b>	<b>-124</b>	<b>-6</b>	<b>99</b>	<b>136</b>	<b>198</b>	<b>N/A</b>	<b>N/A</b>
Net loans	23,832	22,703	22,121	22,114	22,395	22,768	23,353	0%	1%
Total assets	36,167	33,349	31,804	31,798	30,879	31,252	31,837	-3%	-1%
Deposits	14,982	16,237	14,132	14,691	15,070	15,211	15,497	-2%	-1%
Direct funding	24,635	22,507	20,956	20,369	20,681	20,638	21,285	-3%	-1%
Indirect funding	15,849	16,255	16,294	17,058	18,223	19,322	20,377	4%	5%
RWAs	24,607	23,091	21,856	20,677	19,639	19,808	19,733	-5%	-3%
<b>Value drivers</b>									
Net Interest Margin (%)	1.40%	1.45%	1.35%	1.50%	1.56%	1.62%	1.66%		
Cost/Income (%)	72%	72%	79%	67%	60%	57%	53%		
Provisions/net loans (bps)	300	332	134	118	91	85	75		
Tax rate (%)	19%	19%	23%	23%	23%	23%	23%		
RoE (%)					3.48%	4.67%	6.53%		
<b>RoTBV (%)</b>					<b>4.1%</b>	<b>5.4%</b>	<b>7.5%</b>		
RoA (%)					0.31%	0.44%	0.63%		
RoRWAs (%)					0.49%	0.69%	1.00%		

Source: Company data, Credit Suisse estimates

# CSe vs. Business plan

## Veneto Banca's 2018-20 targets vs. Credit Suisse's estimates

in €mn, unless otherwise stated

	Veneto Banca's targets					CSe		Difference		
	2015	2018	2020	CAGR 15-18	CAGR 15-20	2018E	2020E	2018E	2020E	
Net interest income	505	544	596	3%	3%	489	524	-10%	-12%	
Net fees	273	346	394	8%	8%	330	376	-5%	-4%	
Other revenues	96	60	65	-15%	-8%	60	65	0%	0%	
<b>Operating income</b>	<b>874</b>	<b>950</b>	<b>1,055</b>	<b>3%</b>	<b>4%</b>	<b>879</b>	<b>965</b>	<b>-7%</b>	<b>-9%</b>	
Operating costs	-609	-526	-513	-5%	-3%	-526	-513	0%	0%	
<b>Operating profit</b>	<b>265</b>	<b>424</b>	<b>542</b>	<b>17%</b>	<b>15%</b>	<b>353</b>	<b>452</b>	<b>-17%</b>	<b>-17%</b>	
Loan loss provisions (+ disposals)	-754	-208	-178	-35%	-25%	-204	-175	-2%	-1%	
Taxes and other		-64	-115			-51	-79	-20%	-31%	
<b>Net income</b>		<b>152</b>	<b>249</b>			<b>99</b>	<b>198</b>	<b>-35%</b>	<b>-21%</b>	
Net loans	22,703	22,400	23,400	0%	1%	22,395	23,353	0%	0%	
Direct funding	22,507	20,700	21,300	-3%	-1%	20,681	21,285	0%	0%	
Indirect funding	16,255	18,200	20,400	4%	5%	18,223	20,377	0%	0%	
RWAs	23,091	19,700	19,800	-5%	-3%	19,639	19,733	0%	0%	
CI	70%	55%	49%			60%	53%			
CoR	332	93	76			91	75			
RoTE	NM	5.1%	7.5%			4.1%	7.5%			
CET1 (FL)	6.82%	12.4%	14.5%			12.0%	13.2%			
Implied Tangible Equity	1,610	2,980	3,320			2,466	2,700	-17%	-19%	
Implied CET 1 capital	1,575	2,443	2,871			2,364	2,598	-3%	-10%	

Source: Company data, Credit Suisse estimates

## Sensitivity analysis

### Veneto Banca: Sensitivity to volume growth – 2018E

in €mn, unless otherwise stated

Loan CAGR 15-18E	Loans 2018	average assets	NIM	NII	vs. base	post tax	Net income	Earnings impact	RoTBV
-5.5%	19,187	28,130	1.56%	439	-50	-39	60	-39%	2.5%
-4.5%	19,802	28,746	1.56%	449	-40	-31	67	-32%	2.8%
-3.5%	20,430	29,374	1.56%	459	-31	-24	75	-24%	3.1%
-2.5%	21,072	30,016	1.56%	469	-21	-16	83	-16%	3.4%
-1.5%	21,727	30,670	1.56%	479	-10	-8	90	-8%	3.7%
<b>Base case - (-0.5% CAGR15-18)</b>	<b>22,395</b>	<b>31,338</b>	<b>1.56%</b>	<b>489</b>			<b>99</b>		<b>4.1%</b>
0.5%	23,076	32,020	1.56%	500	11	8	107	8%	4.4%
1.5%	23,772	32,716	1.56%	511	22	17	115	17%	4.7%
2.5%	24,481	33,425	1.56%	522	33	25	124	25%	5.1%
3.5%	25,204	34,148	1.56%	533	44	34	132	34%	5.4%
4.5%	25,942	34,885	1.56%	545	55	43	141	43%	5.8%

Source: Credit Suisse estimates

### Veneto Banca: Sensitivity to fee growth levels – 2018E

in €mn, unless otherwise stated

Fee CAGR 15-18	Fee income 2018E	Revenues	Costs	PPP	vs. base	post tax	Net income	Earnings impact	RoTBV
1.5%	285	835	-526	309	-44	-34	64	-35%	2.6%
2.5%	294	843	-526	317	-36	-28	71	-28%	2.9%
3.5%	302	852	-526	326	-27	-21	78	-21%	3.2%
4.5%	311	861	-526	335	-18	-14	84	-14%	3.5%
5.5%	320	870	-526	344	-9	-7	91	-7%	3.8%
<b>Base case (6.5% CAGR15-18)</b>	<b>330</b>	<b>879</b>	<b>-526</b>	<b>353</b>			<b>99</b>		<b>4.1%</b>
7.5%	339	888	-526	362	9	7	106	7%	4.3%
8.5%	348	898	-526	372	19	15	113	15%	4.7%
9.5%	358	908	-526	381	29	22	121	22%	5.0%
10.5%	368	917	-526	391	39	30	128	30%	5.3%
11.5%	378	928	-526	401	49	37	136	38%	5.6%

Source: Credit Suisse estimates

## Sensitivity analysis (cont.)

### Veneto Banca: Sensitivity to loan loss provisions 2018E

in €mn, unless otherwise stated

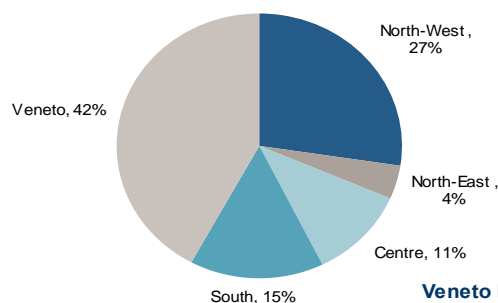
LLPs (bps)	PPP	LLPs	PBT	Net income	Earnings impact	RoTBV
41	353	-92	226	185	88%	7.6%
51	353	-114	204	168	70%	6.9%
61	353	-136	182	150	53%	6.2%
71	353	-159	159	133	35%	5.5%
81	353	-181	137	116	18%	4.8%
<b>Base case - 91bps</b>	<b>353</b>	<b>-204</b>	<b>114</b>	<b>99</b>		<b>4.1%</b>
101	353	-226	92	81	-18%	3.3%
111	353	-248	70	64	-35%	2.6%
121	353	-271	47	47	-53%	1.9%
131	353	-293	25	30	-70%	1.2%
141	353	-315	2	12	-88%	0.5%

Source: Credit Suisse estimates



# Veneto Banca - Geographic footprint and market share

## Veneto Banca: Loans – regional distribution - 2015



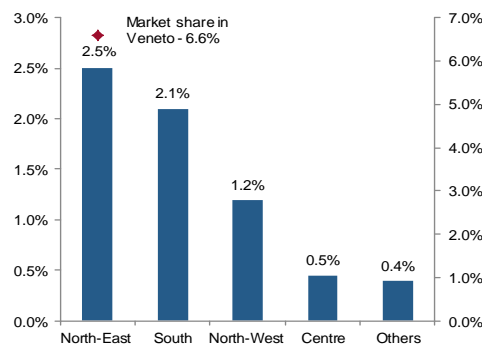
Source: Company data, Credit Suisse research

## Italian banks: Market shares by loans

	Loans €bn	Market share
ISP Italy	351	18.4%
UCG Italy	249	13.0%
BMPS	136	7.1%
UBI	88	4.6%
BP	87	4.6%
BPER	48	2.5%
MB	38	2.0%
BPM	36	1.9%
Vicenza	27	1.4%
BPS	24	1.3%
<b>Veneto</b>	<b>23</b>	<b>1.2%</b>
Credem	21	1.1%
Carige	21	1.1%
BPCV	19	1.0%

Source: Company data, Bank of Italy, Credit Suisse research

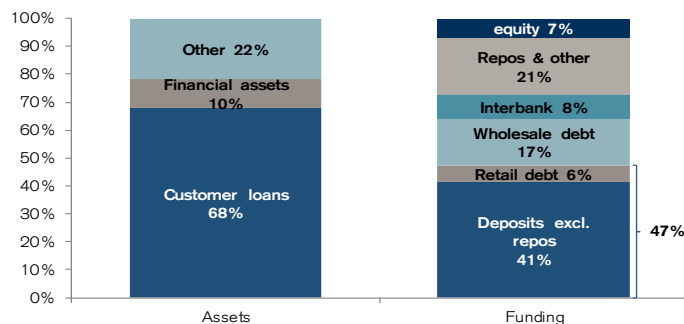
## Veneto Banca: Loans – regional market share – 2015



Source: Company data, Credit Suisse research

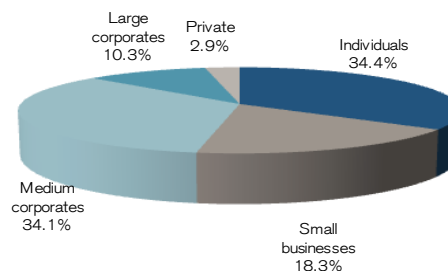
## Financial snapshot

### Veneto Banca: Balance sheet structure – Q1 2016



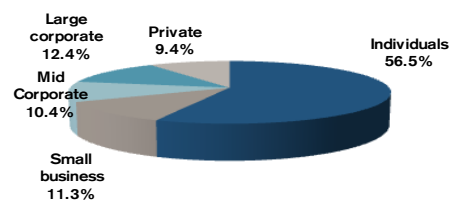
Source: Company data, Credit Suisse research

### Veneto Banca: Loan breakdown by segment – Q415



Source: Company data, Credit Suisse research

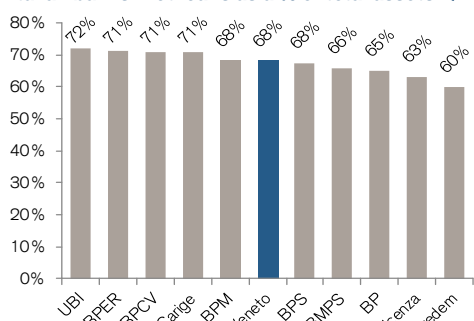
### Veneto Banca: Funding breakdown by segment Q415



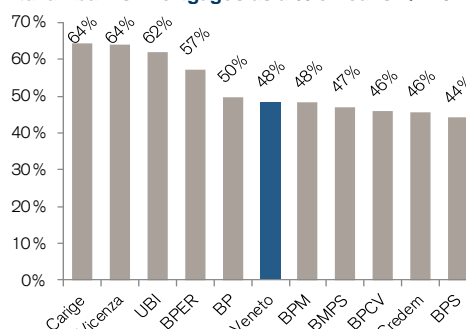
Source: Company data, Credit Suisse research

## Peer comparison

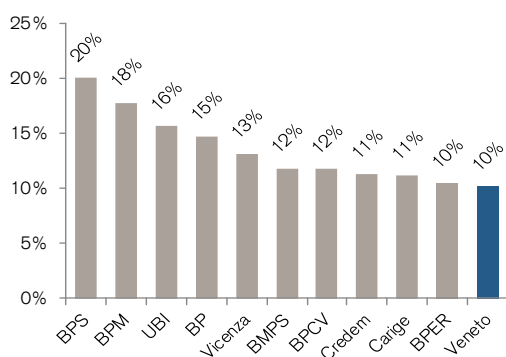
Italian banks: Net loans as a % of total assets Q415



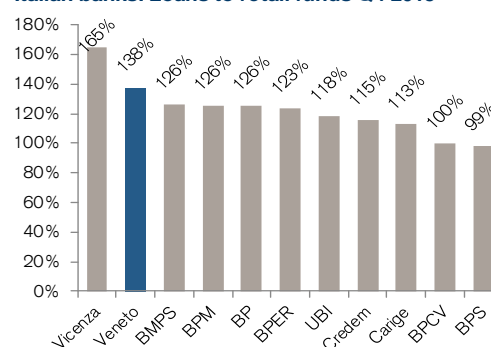
Italian banks: Mortgages as a % of loans Q4 2015



Italian banks: Italian bonds as % of total Q415



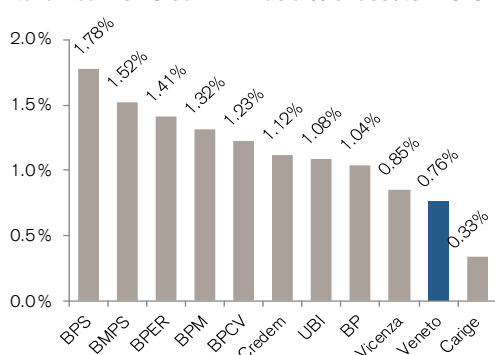
Italian banks: Loans to retail funds Q4 2015



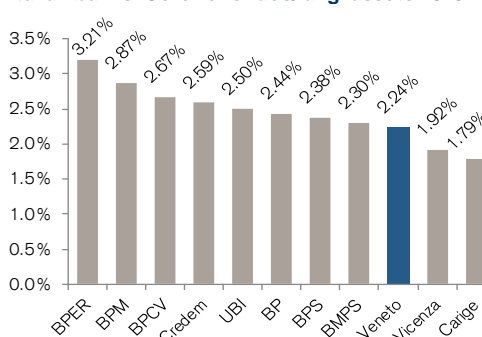
Source: Company data, Credit Suisse research

## Restructuring potential

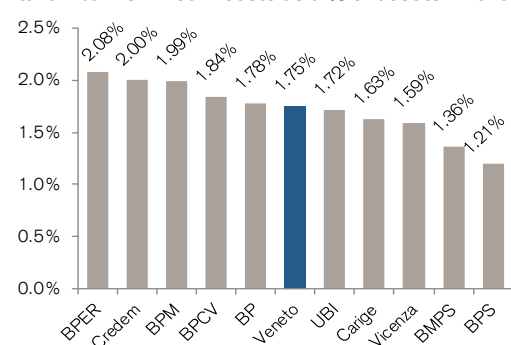
Italian banks: 'Clean' PPP as a % of assets - 2015



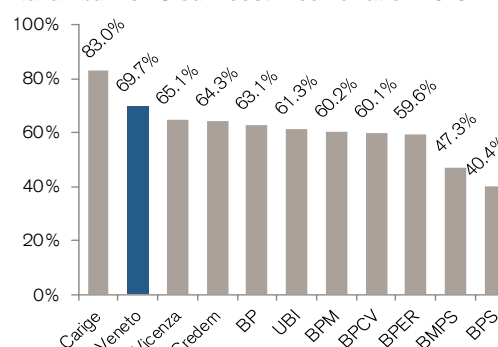
Italian banks: Core revenues/ avg. assets 2015



Italian banks: 'Clean' costs as a % of assets - 2015



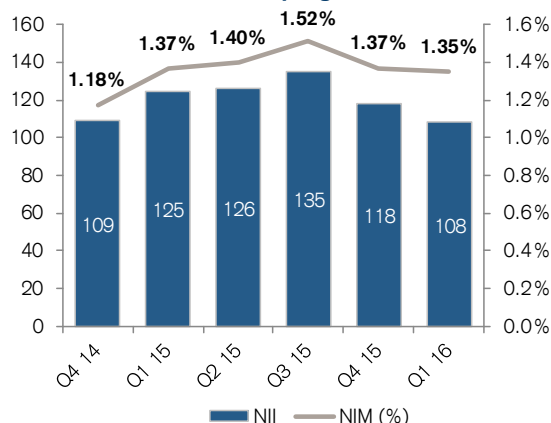
Italian banks: 'Clean' cost-income ratio - 2015



Source: Company data, Credit Suisse research

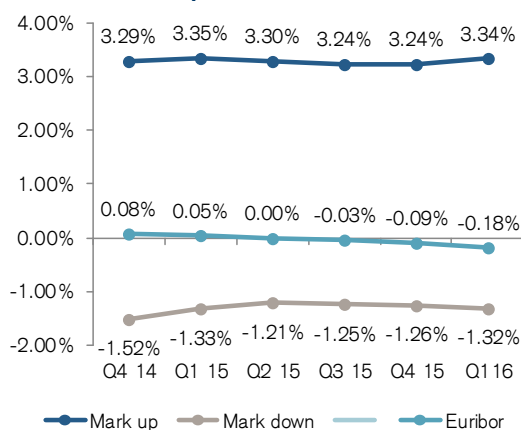
## Net interest income

**Veneto Banca: NII & NIM progression Q414-Q116**



Source: Company data, Credit Suisse research

**Veneto Banca: Spreads Q414-Q116**



Source: Company data, Credit Suisse research

**Veneto Banca: NII progression 2015-20E**

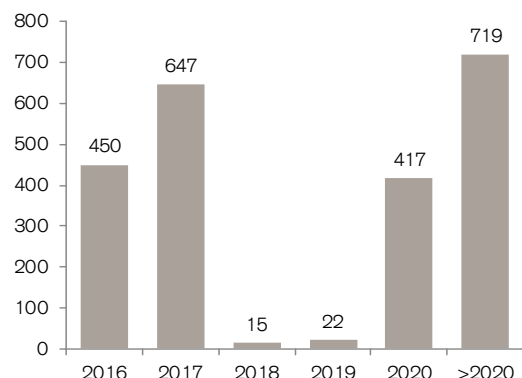
in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
NII	505	439	477	489	504	524
%YoY growth		-13%	9%	3%	3%	4%
Average assets	34,758	32,577	31,801	31,338	31,065	31,544
%YoY growth		-6%	-2%	-1%	-1%	2%
NIM (%)	1.45%	1.35%	1.50%	1.56%	1.62%	1.66%

Source: Company data, Credit Suisse estimates

## Net interest income – Income from securities

**Veneto Banca: Italian government bond maturities €mn**



Source: Company data

**Veneto Banca: Interest income from Italian government bonds 2015-20E**

in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
Initial Balance		2,270	2,270	2,270	2,270	2,270
maturing instruments		-450	-647	-15	-22	-417
Accruing instruments		1,820	1,623	2,255	2,248	1,853
Interest accrued at last yield		35	27	29	29	23
New issuances		450	647	15	22	417
New yield		0.40%	0.40%	0.40%	0.40%	0.40%
Interest on new instruments		2	3	0	0	2
Ending Balance	3,217	2,270	2,270	2,270	2,270	2,270
Total interest accrued	97	37	29	29	29	25
Yield	3.02%	1.63%	1.28%	1.28%	1.27%	1.11%

Source: Company data, Credit Suisse estimates

# Net interest income – Income from loans

## Italian banking sector data – Lending spreads

in €mn, unless otherwise stated

	Mortgages		Consumer loans		Corporate loans		Euribor 3M
	Front book	Back book	Front book	Back book	Front book	Back book	
Dec-14	2.76%	2.80%	6.77%	5.09%	2.48%	3.45%	0.08%
Jan-15	2.77%	2.81%	7.23%	5.14%	2.46%	3.43%	0.06%
Feb-15	2.70%	2.80%	7.20%	5.14%	2.36%	3.40%	0.05%
Mar-15	2.65%	2.80%	7.07%	5.06%	2.25%	3.33%	0.03%
Apr-15	2.63%	2.80%	7.15%	5.06%	2.28%	3.31%	0.00%
May-15	2.66%	2.79%	7.06%	5.05%	2.18%	3.24%	-0.01%
Jun-15	2.78%	2.76%	6.97%	5.19%	2.14%	3.18%	-0.01%
Jul-15	2.77%	2.75%	7.02%	5.17%	2.08%	3.14%	-0.02%
Aug-15	2.85%	2.75%	7.03%	5.16%	1.98%	3.13%	-0.03%
Sep-15	2.71%	2.73%	7.06%	5.14%	1.86%	3.11%	-0.04%
Oct-15	2.66%	2.72%	6.93%	5.17%	1.97%	3.08%	-0.05%
Nov-15	2.66%	2.73%	6.90%	5.18%	1.76%	3.10%	-0.09%
Dec-15	2.63%	2.74%	6.57%	5.19%	1.87%	3.07%	-0.13%
Jan-16	2.64%	2.73%	7.07%	5.17%	2.18%	3.10%	-0.15%

Source: Bank of Italy

## Veneto Banca: Interest income from loans 2015-20E

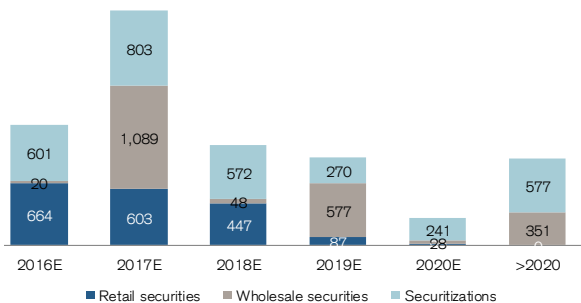
in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
Loans to individuals	7,817	7,582	7,431	7,431	7,505	7,655
Spread	2.53%	2.40%	2.40%	2.40%	2.40%	2.40%
SME & Corporate loans	14,235	13,880	14,019	14,299	14,585	14,999
Spread	3.13%	3.05%	3.05%	3.10%	3.10%	3.10%
Other loans	652	658	665	665	678	699
Spread	28.06%	13.10%	13.10%	13.10%	13.10%	13.10%
Initial Balance	23,832	22,703	22,121	22,114	22,395	22,768
(-) maturing loans	-8,341	-7,946	-7,742	-7,740	-7,838	-7,969
Book accruing interest	15,491	14,757	14,378	14,374	14,557	14,799
(+) new loan production	7,212	7,364	7,736	8,020	8,212	8,554
Ending balance	22,703	22,121	22,114	22,395	22,768	23,353
Income	826	692	693	709	744	810
Yield	3.28%	3.09%	3.13%	3.18%	3.29%	3.51%
Spread (mark up)	3.28%	3.09%	3.13%	3.18%	3.19%	3.21%

Source: Company data, Credit Suisse estimates

# Net interest income – Funding cost declines

## Veneto Banca: Maturity profile of wholesale funding and retail bonds 2016E-20E €mn



Source: Company data

## Veneto Banca: Retail funding costs 2015-20E

in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
Current accounts	8,838	8,484	8,824	9,089	9,179	9,363
Total costs	2	2	2	2	9	28
spread (%)	0.00%	-0.22%	-0.32%	-0.22%	0.00%	0.00%
Time deposits and other	5,707	5,479	5,698	5,812	5,862	5,965
Total costs	84	71	68	76	94	107
spread (%)	-1.72%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%
Retail bonds - beginning balance		2,157	1,157	554	107	20
(-) maturing bonds		-1,000	-603	-447	-87	-20
Cost of maturing instruments		-24	-14	-11	-2	0
(+) issued bonds		0	0	0	0	0
Cost of new issuance		0	0	0	0	0
Retail bonds - ending balance	2,157	1,157	554	107	20	0
Cost on retail bonds	79	27	13	3	0	0
Total funds from retail network	16,702	15,120	15,076	15,007	15,062	15,328
spread	-1.01%	-0.83%	-0.85%	-0.73%	-0.59%	-0.59%
Total costs (€ mn)	165	100	83	80	103	135

Source: Company data, Credit Suisse estimates

## Veneto Banca: Wholesale funding costs 2015-20E

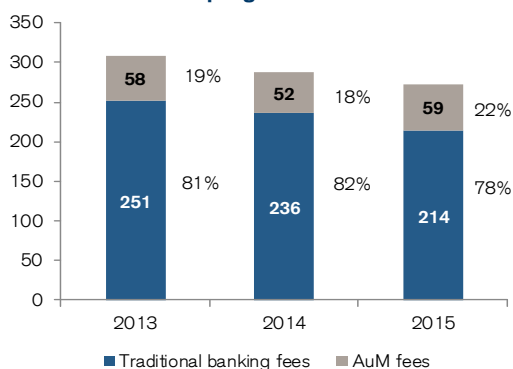
in €mn, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E
EMTN - beginning balance	2,746	2,415	2,694	2,455	2,907	2,830
(-) maturing bonds		-321	-1,089	-48	-577	-28
Cost of maturing instruments		-13	-41	-2	-17	-1
(+) issued bonds		600	850	500	500	400
Cost of new issuance		14	19	12	13	11
EMTN - ending balance	2,415	2,694	2,455	2,907	2,830	3,202
Spread over new issuances		-2.50%	-2.50%	-2.50%	-2.50%	-2.50%
Cost on EMTN	113	113	91	101	97	107
Securitization						
Beginning balance	2,354	1,697	2,996	2,693	2,621	2,601
(-) maturing bonds		-601	-803	-572	-270	-241
Cost of maturing instruments		-11	-15	-10	-5	-4
(+) issued bonds		1,900	500	500	250	250
Cost of new issuance		29	7	8	5	5
Ending balance	1,697	2,996	2,693	2,621	2,601	2,610
Spread over new issuances		-1.70%	-1.70%	-1.70%	-1.70%	-1.70%
Cost on EMTN	38	56	48	45	45	46
Total funding	4,112	6,546	6,032	6,427	6,330	6,711
spread	-3.31%	-2.78%	-2.61%	-2.48%	-2.14%	-1.98%
Total costs (€ mn)	152	169	139	146	142	153

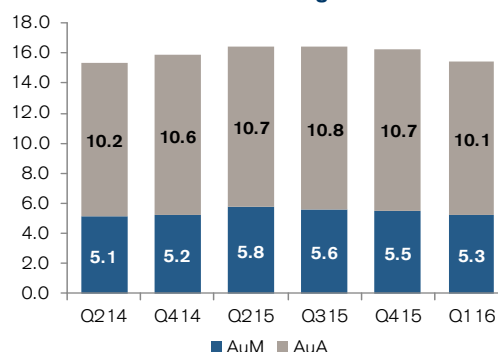
Source: Company data, Credit Suisse estimates

## Net fee income

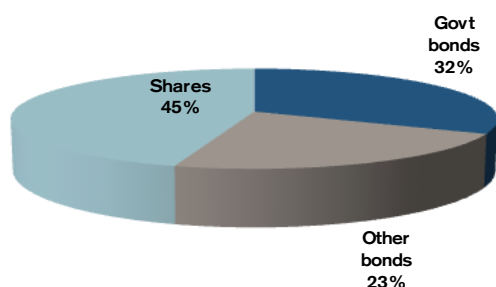
Veneto Banca: Fee progression 2013-15



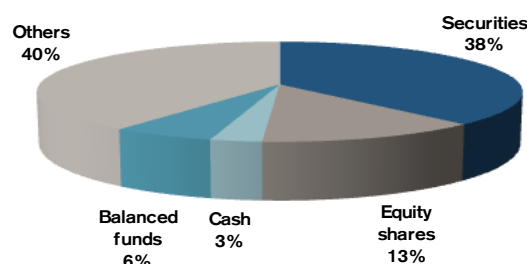
Veneto Banca: Indirect funding Q214-Q116 €bn



Veneto Banca: Assets under Custody split - €10.7bn as of Q415



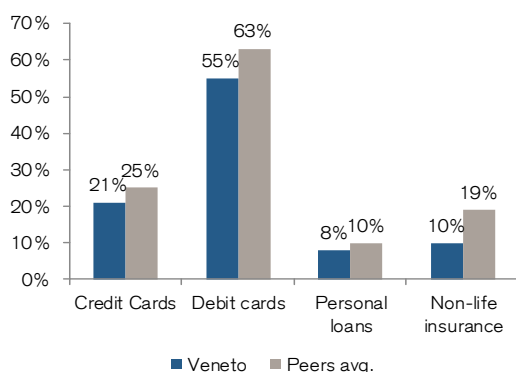
Veneto Banca: Mutual Fund split - €3.5bn Q415



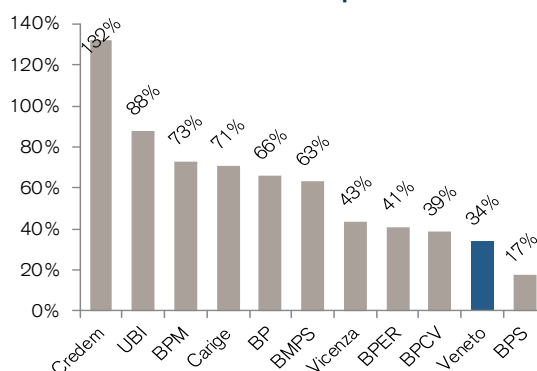
Source: Company data, Credit Suisse research and estimates

## Net fee income (cont.)

Veneto Banca: Fee product penetration



Italian banks: AuM as a % of deposits Q4 15



Source: Company data, Credit Suisse research

Source: Company data, Credit Suisse research

Veneto Banca: Credit Suisse fee estimates 2015-20E

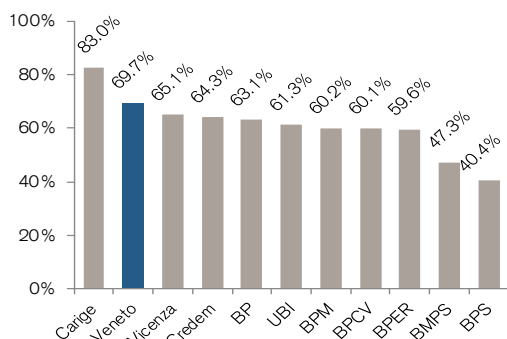
in €mn, unless otherwise stated

Commissions income breakdown	2015	2016E	2017E	2018E	2019E	2020E
Traditional banking fees	214	210	221	241	245	269
as % of total loans	0.9%	1.0%	1.0%	1.1%	1.1%	1.2%
Indirect funding fees	59	56	74	89	95	108
o.w. Mutual funds and Managed assets	33	31	34	39	43	48
as % of AuM	0.60%	0.50%	0.50%	0.50%	0.50%	0.50%
o.w. Life insurance	19	20	30	40	40	45
o.w. Assets under Administration	7	5	10	10	12	15
<b>Total fees</b>	<b>273</b>	<b>266</b>	<b>296</b>	<b>330</b>	<b>340</b>	<b>376</b>
YoY growth	-5%	-3%	11%	12%	3%	11%
as % of revenues	29%	35%	35%	37%	37%	39%
AuM	5,534	6,110	6,873	7,732	8,622	9,570
AuD	10,721	10,185	10,185	10,490	10,700	10,807

Source: Company data, Credit Suisse estimates

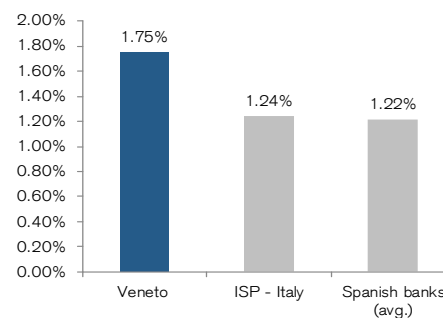
## Costs

Italian banks: 'Clean' cost-income ratio - 2015



Source: Company data, Credit Suisse research

Veneto Banca: Costs as a % of assets vs. more efficient peers



Source: Company data, Credit Suisse research

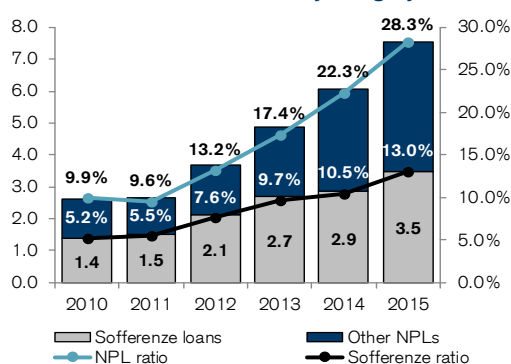
Veneto Banca: Credit Suisse's cost estimates 2015-2020E

	2015	2016E	2017E	2018E	2019E	2020E
<b>Staff costs</b>	<b>341</b>	<b>334</b>	<b>312</b>	<b>294</b>	<b>286</b>	<b>285</b>
o.w. non recurrent	-1	9	9	9	1	0
o.w. recurrent	342	339	335	332	332	332
o.w. savings	0	-14	-33	-47	-47	-47
<b>Other admin costs</b>	<b>274</b>	<b>223</b>	<b>206</b>	<b>192</b>	<b>191</b>	<b>188</b>
o.w. non recurrent	51	11	11	11	10	7
o.w. recurrent	223	221	216	212	212	212
o.w. savings	0	-9	-22	-31	-31	-31
<b>D&amp;A</b>	<b>69</b>	<b>44</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
o.w. non recurrent	25	4	0	0	0	0
o.w. recurrent	44	40	40	40	40	40
<b>Total costs</b>	<b>684</b>	<b>600</b>	<b>557</b>	<b>526</b>	<b>517</b>	<b>513</b>
YoY growth	11%	-12%	-7%	-6%	-2%	-1%
o.w. non recurrent	75	25	20	20	11	7
o.w. recurrent	609	576	537	506	506	506
YoY growth	2%	-5%	-7%	-6%	0%	0%

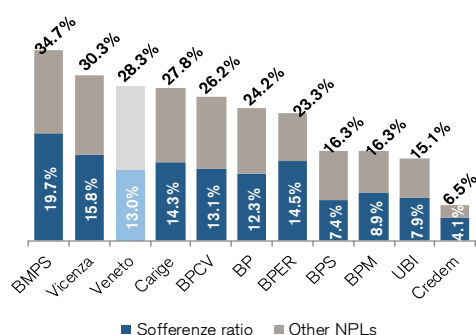
Source: Company data, Credit Suisse estimates

## Asset quality

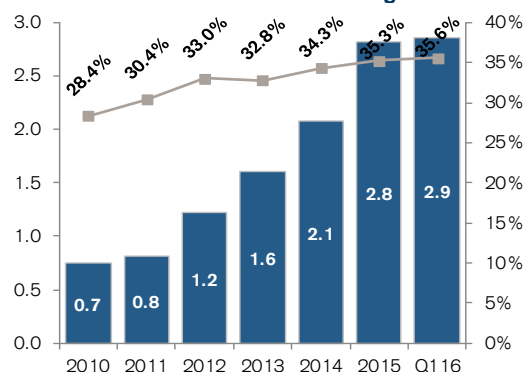
Veneto Banca: NPL evolution by category 2010-15



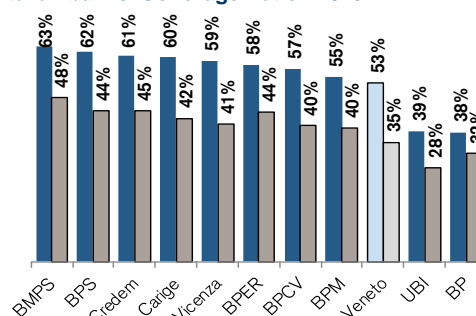
Italian banks: Gross NPL and sofferenze ratio 2015



Italian banks: Provisions and coverage ratio 2010-15



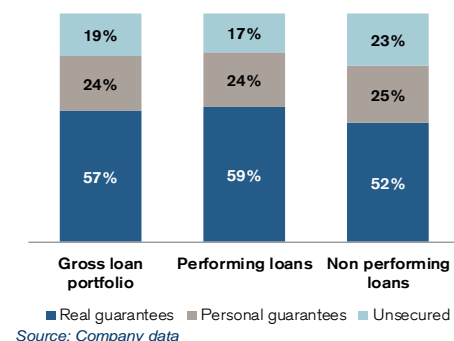
Italian banks: Coverage ratio - 2015



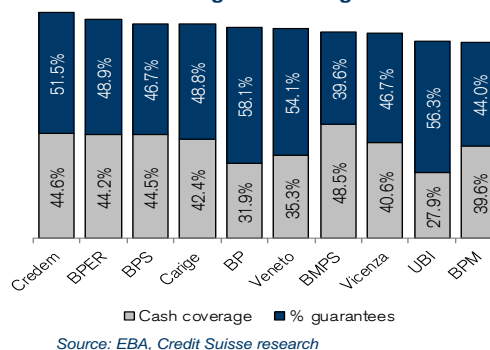
Source: Company data, Credit Suisse research

## Asset quality (cont.)

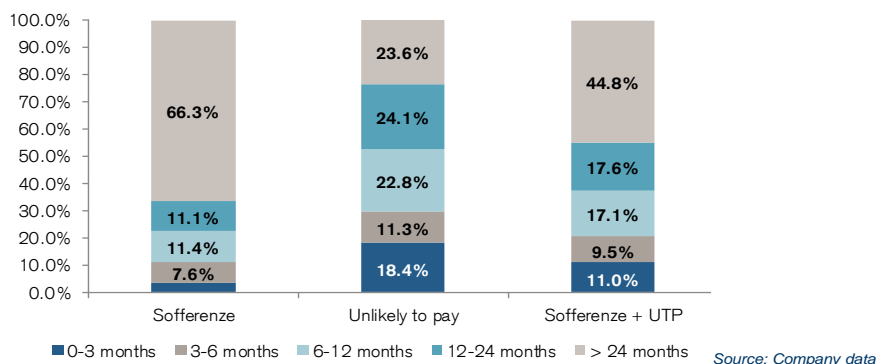
Veneto Banca: Guarantee breakdown 2015



Italian banks: Coverage ratio incl. guarantees

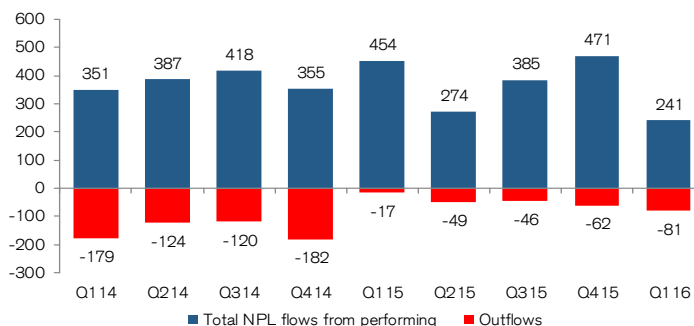


Veneto Banca: NPL vintage by category

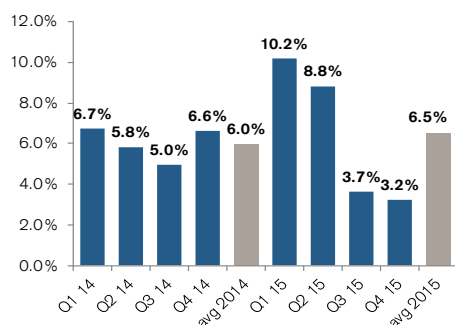


## Asset quality (cont.)

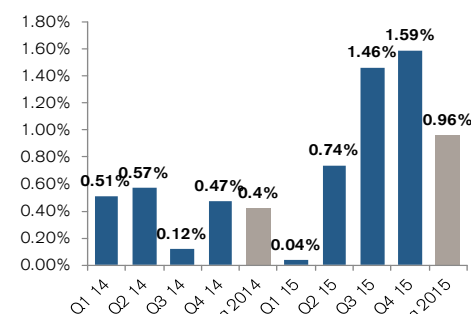
Veneto Banca: Inflow vs. outflow levels Q114-Q415



Veneto Banca: Outflows from Unlikely to pay to sofferenze (as % of Unlikely to pay)



Veneto Banca: Outflows from Unlikely to pay to performing (as % of Unlikely to pay)



Source: Company data, Credit Suisse research



## Asset quality (cont.)

### Credit Suisse's LGD assumptions for Veneto Banca

in €mn, unless otherwise stated

	Breakdown	LGD
Real guarantee	52%	17%
Personal guarantee	25%	90%
No guarantee	23%	100%
<b>TOTAL NPLs</b>	<b>100%</b>	<b>55%</b>
<b>Secured NPLs</b>		
Collateral value	100	
Time to recover	8	
Discount rate	2.4%	
NPV of collateral	83	
<b>Coverage on collateral value</b>	<b>17%</b>	
LTV	37%	
Implicit coverage on secured NPLs	54%	

Source: Company data, Credit Suisse estimates

### Veneto Banca: Credit Suisse expected loss analysis by 2020E

in €mn, unless otherwise stated

	2015	PD	PD	LGD	EL	EL (%)
Sofferenza loans	3,484	90%	3,136	55%	1,710	49%
Other NPLs	4,071	50%	2,036	55%	1,110	27%
o.w. unlikely to pay	3,524	50%	1,762	55%	961	27%
o.w. past due	547	50%	274	55%	149	27%
<b>Total gross NPLs</b>	<b>7,555</b>	<b>68%</b>	<b>5,171</b>	<b>55%</b>	<b>2,821</b>	<b>37%</b>
Total performing loans	19,177	10.8%	2,068	55%	1,128	6%
<b>Total Gross loans</b>	<b>26,732</b>	<b>27%</b>	<b>7,239</b>	<b>55%</b>	<b>3,949</b>	<b>15%</b>
Existing provisions					-2,818	
<b>Provisions to do</b>					<b>1,131</b>	

Source: Company data, Credit Suisse estimates

### Veneto Banca: Credit Suisse assumptions on provisions and NPLs

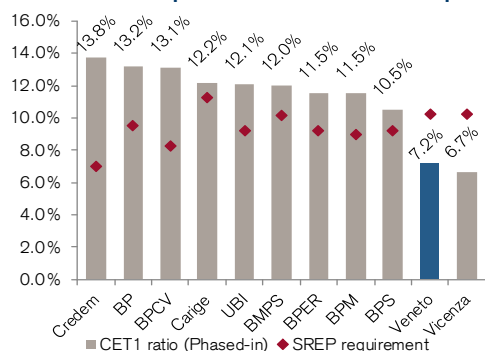
in €mn, unless otherwise stated

	2014	2015	2016E	2017E	2018E	2019E	2020E
LLPs	716	754	297	260	204	194	175
as % of gross loans (bps)	278	308	129	118	91	86	76
Gross loans	27,207	26,732	25,386	25,640	26,124	26,692	27,452
NPLs (assuming no additional write offs)	6,067	7,555	7,706	7,706	7,552	7,401	7,239
Balance Sheet provisions	2,083	2,818	3,115	3,375	3,579	3,773	3,949
NPL ratio	22.3%	28.3%	30.4%	30.1%	28.9%	27.7%	26.4%
Coverage levels	34.3%	37.3%	40.4%	43.8%	47.4%	51.0%	54.5%

Source: Company data, Credit Suisse estimates

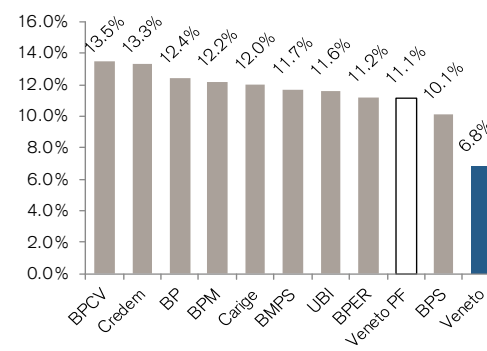
## Capital

### Italian banks: B3 phased-in ratio vs. SREP req



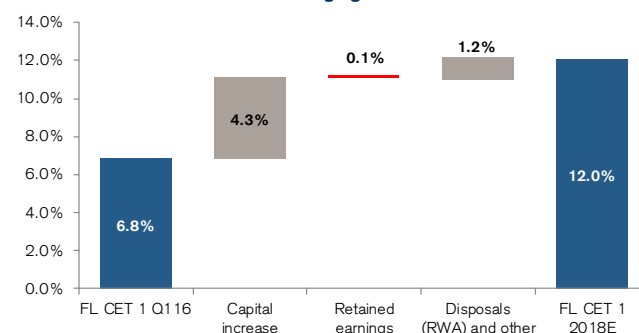
Source: Company data, Credit Suisse research

### Italian banks: B3 FL CET1 ratio



Source: Company data, Credit Suisse research

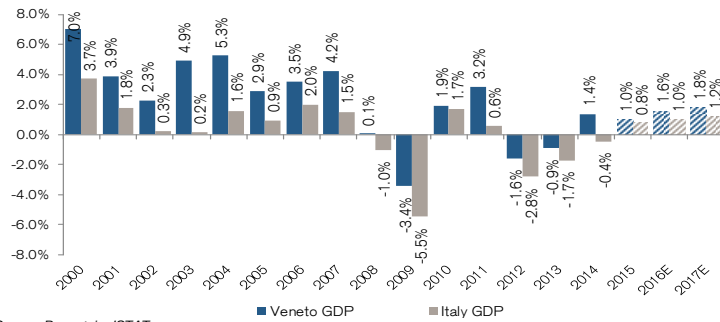
### Veneto Banca: Credit Suisse earnings generation 2015-2018E



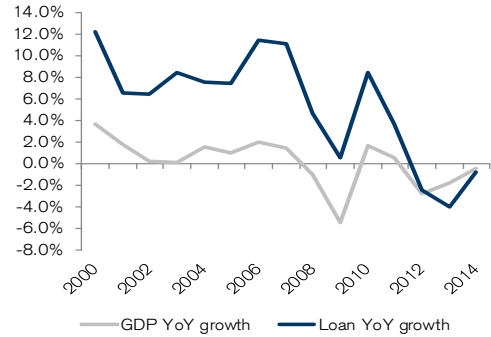
Source: Company data, Credit Suisse estimates

## Macro data

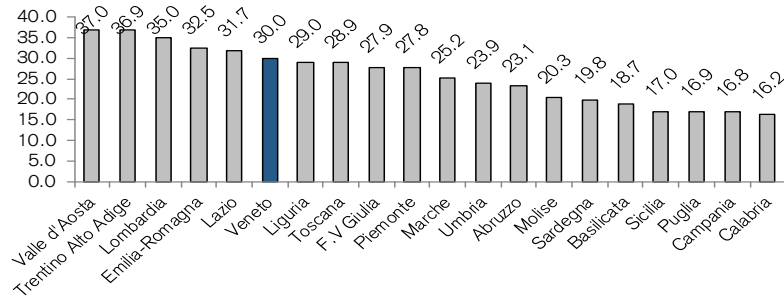
GDP YoY% growth: Italy vs. Veneto



GDP vs. Italian loans - %YoY growth



Italian regions: GDP per capita - 2014



**Companies Mentioned** (Price as of 12-May-2016)

**BBVA** (BBVA.MC, €5.48)  
**Banco Popular** (POP.MC, €2.06)  
**Banco Sabadell** (SABE.MC, €1.52)  
**Bankia** (BKIA.MC, €0.76)  
**CaixaBank** (CABK.MC, €2.39)  
**Credito Emiliano** (EMBI.MI, €5.86)  
**Intesa Sanpaolo** (ISP.MI, €2.23)  
**Monte dei Paschi di Siena** (BMPS.MI, €0.55)  
**Santander** (SAN.MC, €4.03)  
**UBI Banca** (UBI.MI, €3.17)  
**Unicredit** (CRDI.MI, €2.91)

## Disclosure Appendix

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**Important Global Disclosures**

I, Andrea Unzueta, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

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Rating	Versus universe (%)	Of which banking clients (%)
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