

Banco Popolare (BAPO.MI)

Rating	UNDERPERFORM* [V]
Price (25 Jan 10, Eu)	5.09
Target Price (Eu)	5.20 ¹
Market cap. (Eu m)	3,257

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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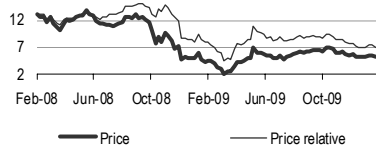
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COMMENT

Not an asymmetric trade

- **Maintaining our underperform rating (TP €5.20):** Many sell side analysts describe BP's investment case as an asymmetric trade with limited downside risks capped by cheap valuation and upside potential in the event of a successful restructuring. We disagree with consensus's positive stance as we believe uncertainties about solvency, long-term profitability potential and BIL are unlikely to vanish in 2010. We prefer BPM (OP, TP €6.3) and UBI (NT, TP €10.2).
- **Only delivery will lead to a re-rating:** Although BP is due to present a new business plan in Q2 10 which will likely reaffirm managements' commitment to capital rebuilding and to profitability improvement, new targets alone are in our view unlikely to change investors' stance on BP in the absence of concrete actions. 3 key pillars underpin our underperform rating:
 - a) **The risk of further dilution is material:** We estimate that BP's equity tier 1 ratio in 2011E will reach 6% (pro-forma for the €1bn convertible bond soon to be issued) and that new Basel III regulations may reduce solvency by 68bps. We calculate that the disposal of non-core assets and the utilisation Italease's DTA's could add only 53bps to BP's solvency by 2011.
 - b) **Our 2010-11E estimates are 8% and 9% below consensus:** Although we do not dispute that the productivity of BPL should over time converge towards the best practice of the group, a full realignment (we believe possible in 4 years) would increase BP's net income by only €120m which is already captured (pro-rata) in our estimates. BP benefits less than peers from rising interests rates (100bps adds €67m to net income).
 - c) **Italease remains a key risk:** We cannot rule out an additional clean up of BIL's loan book in Q4 09 (not in our estimates); furthermore the Italian tax authorities are currently seeking to recover ~€1bn in unpaid taxes (BIL believes the request is unfounded).
- **Not cheap enough:** Although BP trades on a 2009E P/TBV of 0.7x and a 2011E PE of 7.9x (respectively a 48% and 10% discount to the sector) the risks described above (and the lack of dividends over the next 3 years) don't make the stock on attractive investment proposition. Assuming a theoretical recapitalisation to an EQT1 ratio of 7.5% would increase the 2011E P/E to 9.4x.

Share price performance



The price relative chart measures performance against the Europe Dow Jones Stoxx index which closed at 264.34 on 25/01/10

On 25/01/10 the spot exchange rate was Eu .7 /US\$1

Performance Over	1M	3M	12M
Absolute (%)	-3.4	-23.4	19.9
Relative (%)	0.0	-21.6	-9.8

Financial and valuation metrics

Year	12/08A	12/09E	12/10E	12/11E
Net Income Reported (Eu m)	-333	204	267	459
Adjusted Net Income (Eu m)	408	412	229	411
EPS stated (Eu)	-0.52	0.31	0.42	0.72
CS adj. EPS (Eu)	0.64	0.64	0.36	0.64
Prev. EPS (Eu)	—	—	—	—
Tangible Book Value (Eu m)	4,198	4,624	4,757	5,083
CS adj. ROTC (%)	9.7	9.3	4.9	8.4
P/E (adj., x)	7.98	7.91	14.23	7.92
Price/T. book per share (x)	0.78	0.70	0.68	0.64
Dividend (2009E)	—	Tier 1 ratio (%) (12/09E, %)		7.7
Dividend yield (%)	—	Eq1 Tier 1 Ratio (%) (12/09E, %)		4.6
Free float (%)	100.0	Number of shares (m)		640.48

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates.

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Investment summary

The bulls' case – an asymmetric trade

We believe consensus's positive view on Banco Popolare (sell side ratings 41% BUY, 23% HOLD, 36% SELL according to Bloomberg) is based on the belief that at current valuation levels (BP trades on a 2009E P/TBV of 0.7x, a 48% discount vs. the sector) the risks of being invested in the stock are somewhat asymmetric with limited downside risks and large upside potential should the restructuring of the group prove successful.

In essence the bulls' case on BP is based on an attractive mix of cheap valuation, restructuring potential and a near term catalysts (a new business plan is likely to be presented in Q2 2010 and asset disposals are still in managements' agenda) which could trigger a rerating of the stock.

Credit Suisse's view – not yet out of the woods

We maintain our underperform rating on the stock (TP €5.20) as we believe managements' strategy of balance sheet rebuilding/improvement in the company's "core" profitability has a high degree of execution risk. Our cautious stance on BP continues to be based on the following:

- **BP's capital ratios are too low with a material risk of further dilution down the line (in addition to the forthcoming "soft" convertible):** BP capital ratios remain very stretched even factoring in the €1bn convertible bond to be placed in February/March 2010 (2011E equity tier 1 ratio of ~6% pro-forma for the €1bn convertible bond and assuming no dividends in the forecast period); although we believe management may be able to improve the equity tier 1 ratio to 6.50% with the disposal of some non-core assets and the utilisation of part of Italease's deferred tax assets (Figure 2), new Basel III regulations may reduce the ratio by 68bps (assuming the current proposed deduction of minorities interests from equity tier 1 will not be implemented and assuming that for Italian banks the proposed deduction of DTA from equity T1 will only apply to DTA's related to previous losses - Figure 3) making an equity raising to repay the €1,450m Tremonti bonds in 2013 very likely, in our view.
- **Italease remains a key risk factor:** As BP gained control of Italease only in July 2009 we cannot rule out an additional clean up of its loan book in Q4 09 which will have a further negative impact on solvency; furthermore the recent prospectus published in relation to Italease's capital increase highlighted additional risks which may lead to additional provisions (e.g. the Italian tax authorities are seeking the payment of €1bn in relation to unpaid taxes and related fines, Italease considers the request unfounded). Although Italease is not yet factored in our P&L estimates, we continue to believe that it will contribute negatively to BP's P&L for a number of years.
- **Consensus is too high:** Our 2010E and 2011E net income estimates are respectively 8% and 9% below Reuters consensus and we see risks of possible downgrades throughout 2010. Whilst we do not dispute that overtime the productivity of the underperforming BPL network will converge towards the best practice of the group (BPV), the BPN experience highlights that it may take up to four years for this to be achieved. Our calculations highlight that a full realignment of BPL's revenues per employee to BP's best practice in 4 years would add €120m to BP's bottom line (€90m in 2011 - Figure 5). Furthermore we believe that BP is less sensitive to rising interest rates than some of its peers, we estimate that an increase in euribor rates of 100bps would increase BP's net income by €67m (Figure 6).
- **Valuation is not attractive:** Although BP trades on a 2009E P/TBV of 0.7x and a 2011E PE of 7.9x (respectively a 48% and 10% discount to the sector), considering the uncertainties surrounding the company asset disposal plan, the low visibility on

Italease, the low profitability of the bank for the foreseeable future (2011E ROTE of 8.4% on our estimates) and the lack of dividends over the next 3 years (on our estimates) we do not believe the current valuation of BP is particularly attractive. Furthermore assuming a theoretical recapitalisation to an equity tier 1 ratio of 7.5% (including the benefits from asset disposals of 53bps and deductions relating to Basel III of 68bps) would increase the 2011E P/E to 9.4x and lower the company's ROTE to 7.6% (Figure 7).

BP's capital ratios remain low

We estimate a 2009E equity tier 1 ratio of 4.56% pro-forma post consolidation of Italease with an improvement of just 36bps by 2011E as, despite no dividends being embedded in our forecasts, €294m (31bps) will have to be paid as coupons on the already issued Tremonti bonds. Our estimates are 12bps below management targets which have recently been reiterated (core T1 ratio of ~6.3% assuming no dividend distribution).

BP has recently announced the issuance of a 4 year convertible bond for up to €1bn to be issued to shareholders in February/March 2010 (the issue is underwritten). Upon conversion BP's equity tier 1 ratio would increase by ~105bps to 5.97% in 2011E. Conversion can take place as following:

- **Before maturity:** After 18 months from the issuance bondholders will be able to convert at the strike price (not yet defined); BP will also be able to force the conversion with the payment of a premium above the nominal value of the bonds;
- **On maturity:** BP may chose to repay the bonds in shares on the basis of BP's share price at the time and in any case for a consideration not lower than the nominal value of the bonds.

Figure 1: Banco Popolare – Evolution of capital ratios (€ m)

	2008A	2009E	2010E	2011E	2011E post convertible	2009E Management	
						Pre Convertible	Post convertible
Core tier 1 capital	3,695	5,649	5,803	6,145	5,695	5,759	6,759
Tier 1 capital	4,723	7,049	7,203	7,545	7,095	7,159	8,159
RWA	73,907	92,015	93,214	95,373	95,373	92,031	92,031
Equity tier 1 ratio	5.00%	4.56%	4.67%	4.92%	5.97%	4.68%	5.77%
Core tier 1 ratio	5.00%	6.14%	6.23%	6.44%	5.97%	6.26%	7.34%
Tier 1 ratio	6.39%	7.66%	7.73%	7.91%	7.44%	7.78%	8.87%

Source: Company data, Credit Suisse estimates

Note: 2011E capital ratios post convertible calculated by adding the €1,000m convertible bond and subtracting the €1,450m Tremonti bonds

Possible asset disposals may improve solvency by 53bps

We believe capital management actions may increase BP's equity tier 1 ratio by up to 53bps (to 6.50% in 2011E), but the timing and size of such initiatives remains uncertain (Figure 2). Some additional benefits may also derive from a switch from Basel II standardised to Basel II IRB at some point, but these are impossible to quantify at this stage (no management guidance has been provided).

We also point out that our RWAs estimates already embed a 33% reduction of Italease's RWAs over the next 2 years (from €12bn currently to €8bn), which is roughly in line with management's disclosure (initiatives to reduce Newco 1's assets by €1.5-2bn have already been finalised and Italease's run-off portfolio is due to shrink by 30% by 2011).

Figure 2: Possible increase in BP's equity T1 ratio due to capital management

Utilisation of Italease's deferred tax assets (€250m out of a total of €379m)	0.26%
Disposal of CR Pescara (assuming a sale price in line with carrying value)	0.14%
Depositary bank (assuming a disposal price equivalent to 0.4% of assets under administration)	0.05%
Foreign branches (assuming a disposal price in line with carrying values)	0.05%
Factorit capital gain (assuming a disposal at 1.2x BV)	0.03%
Total	0.53%
Banco popolare's equity T1 ratio post asset disposal / utilisation of BIL's DTAs	6.50%

Source: Company data, Credit Suisse estimates

But new Basel III regulations may reduce it by 68bps

We estimate that the new Basel III regulations could reduce BP's solvency ratios by 68bps assuming, as we expect, that the deduction of minority interests will not be implemented and assuming that for Italian banks the proposed deduction of DTA from equity T1 will only apply to DTA's related to previous losses.

Although the impact of new regulations would actually be less severe for BP than for other Italian banks, BP's starting solvency position is much lower (~6% equity tier 1 ratio in 2011E or ~6.5% including the benefits of asset disposals) and any additional hit increases the likelihood of an additional equity raising to repay the €1,450m Tremonti bonds in 2013.

Figure 3: Impact of Basel III – 2011E

2011E (€ in millions)	UCG	ISP	BMPS	UBI	BP	BPM
Equity tier 1 ratio	41,650	29,911	8,219	6,741	5,695	3,081
RWAs	495,131	388,267	128,913	94,704	95,373	42,716
Proposed deductions from equity T1 (2009)						
DTA (related to past losses)	1,512	627	9	-	20	8
Minorities	3,108	1,126	280	1,053	372	133
Current T2 deductions	4,476	3,786	1,066	382	629	134
Total deductions	9,096	5,539	1,354	1,435	1,021	275
Equity T1 ratio						
2011E Current estimate	8.41%	7.70%	6.38%	7.12%	5.97%	7.21%
2011E Post Basel III	6.57%	6.28%	5.32%	5.60%	4.90%	6.57%
2011E Post Basel III (ex deduction for minorities)	7.20%	6.57%	5.54%	6.71%	5.29%	6.88%
Decline in equity T1						
Including all proposed deductions	1.84%	1.43%	1.05%	1.52%	1.07%	0.64%
Excluding deductions related to minorities	1.21%	1.14%	0.83%	0.40%	0.68%	0.33%

Source: Company data, Credit Suisse estimates

Note: UCG pro-forma for the recent €4bn rights issue, for BP we assume the conversion of the recently announced soft convertible

Italease remains a key risk

Italease remains in our view the biggest unquantifiable risk factor for Banco Popolare. As BP gained control of Italease only in July 2009 we cannot rule out that management may decide to book additional provisions Q4 09.

Furthermore, although we do not yet fully consolidate Italease in our P&L estimates for BP, we continue to believe that its contribution will be negative for a number of years.

Risk of addition provisions in Q4 09

Whilst we give the benefit of the doubt on the fact that management will be able to gradually dispose of the bulk of the NPLs/assets segregated in Italease's bad bank with no additional negative P&L impacts, we believe that further provisions may still be required on the €7.5bn currently performing loans mainly originated by agents which management is currently reviewing.

Furthermore the recent prospectus published in relation to Italease's €1.2bn capital increase highlighted additional risks which may, at least partially, lead to additional provisions:

- The Italian tax authority is seeking the payment of €1bn in relation to unpaid taxes, VAT and fines (although we believe the final burden is likely to be much less, no provisions have been made at this stage);
- Certain shareholders of Italease sued the company in 2008 for €121m in relation to their investment in the company (total provisions for other risks and litigation amounted to €40m in June 2009).

The consolidation of Italease is dilutive in our view

A fairness opinion issued in relation to ~65% of the assets (€3.1bn of loans) to be spun-off into Release (Italease's bad bank) highlights that such assets will be loss making until 2012 (-€0.6m in 2010 and 2011 and -€2.6m in 2012) with a positive contribution thereafter;

A fairness opinion issued in relation to Alba (Italease's good bank) highlights that the company (~€4.5bn of loans) will be loss making until 2012 (-€21.3m in 2010, -€14.9m in 2011 and -€7.2m in 2012 with 33% of such losses to be booked in BP's P&L, the company will be consolidated at equity), a profit of €53.3 is expected in 2017.

No projections were provided for the residual ~€9.3bn loan book, but we expect this to be loss making for a number of years as the legacy book was written with thin margins not consistent with current funding costs.

Management expects capital gains from Release

On the positive side we highlight that BP's management expects cumulative capital gains of €113m to be booked by 2016 on the disposal of Release's assets which would increase the company's equity tier 1 ratio by an additional ~10bps. These benefits are not included in our estimates due to the limited visibility on likelihood and timing.

Consensus is too high

Figure 4: CS estimates vs. consensus (€ m)

	2010E			2011E		
	Consensus	CS	Difference	Consensus	CS	Difference
Company compiled	296	267	-9.8%	479	459	-4.2%
Reuters stated earnings	289	267	-7.6%	505	459	-9.1%
Reuters adjusted EPS (€)	0.44	0.36	-18.7%	0.76	0.64	-16.3%

Source: Company data, Credit Suisse estimates, © 2008 Reuters Limited

Note: Company compiled consensus includes only 7 analysts providing estimates including Italease
Reuters stated earnings are an average of 18 estimates, Reuters adjusted EPS are an average of 20 estimates

As Figure 4 highlights our earnings estimates are below consensus for both 2010E and 2011E.

Although we cannot precisely identify the drivers of our lower than consensus estimates, we believe the main differences are likely to be commission and trading income. As we have written before we do not believe the level of trading income and fee income booked in 9m 09 to be entirely sustainable.

Whilst the placements of index linked policies resulting in upfronting may continue also in the coming quarters (as per management guidance), the current level of bancassurance fees (16.7% of total fees vs. 5-10% at competitors) is unsustainable over a long period of time and will have to be gradually reduced.

Equally trading income in 2009 was partially driven by one-off gains (€87m on the purchase of Italease bonds, €120m on hedging) and by the significant tightening of sovereign spread in 2009 vs. 2008 which is unlikely to recur in the same magnitude going forward.

Productivity realignment will take time

Whilst we do not dispute that the productivity of BPL (and BP Crema/Cremona) will over time converge towards the best practice of the group (BPV), the BPN experience highlights that it may take up to 4 years for this to be achieved.

Figure 5 highlights how the productivity gap between BPN and BPV was only closed 4 years after the merger of the 2 companies took place in 2001.

Although BPI and BPVN merged in June 2007, in 2008 the revenues per employees of the former BPL were still 28% below BPV (vs 24% below best practice for BPN at the time of its merger in 2001). Assuming a full realignment of revenues per employees by 2012 (with a marginal cost/income of 40%, zero cost of credit and a tax rate of 33%) would in any case increase BP's net income only €120m (€90m by 2011 assuming a linear progression) which we believe is already reflected in our estimates (2008-2012 net income ex Tremonti bonds increasing by of €126m).

Figure 5: Productivity realignment of BPL – the BP Novara pattern (€ m)

2008	BPL	Crema	Cremona	CARIPE	CRLPL	BPN	Creberg	BPV
Total revenues	662	69	89	86	436	773	548	1,088
Operating costs	-501	-36	-58	-49	-228	-432	-261	-580
Operating margin	161	33	30	36	208	342	287	508
Customer loans	14,340	na	na	na	8,527	13,158	11,227	23,782
Average employees	3,436	271	441	390	1,782	3,373	2,048	4,036
Average branches	518	45	74	55	236	426	250	547
Operating margin pro capita ('000)	47	121	69	93	117	101	140	126
Gap	-62.8%	-4.1%	-45.2%	-26.0%	-7.3%	-19.5%	11.3%	
Revenues per employee ('000)	193	255	201	220	244	229	268	270
Gap	-28.5%	-5.5%	-25.5%	-18.5%	-9.3%	-14.9%	-0.7%	

Note: revenues exclude gains on own debt. BPV revenues exclude the €127m capital gain on the disposal of branches to CREDEM

BPN	2001	2004	2005	2006	BPV	2001
Total revenues	886	600	622	702	Total revenues	1,256
Operating costs	611	402	414	390	Operating costs	728
Operating margin	275	198	208	312	Operating margin	528
Customer loans	12,830	7,318	8,268	10,694	Customer loans	19,419
Average employees	6,396	3,618	3,500	3,447	Average employees	6,879
Average branches	536	417	417	413	Average branches	536
Operating margin pro capita ('000)	43	55	59	90	Operating margin pro capita ('000)	77
Gap	-43.9%	-28.8%	-22.4%	17.9%		
Revenues per employee ('000)	139	166	178	204	Revenues per employee ('000)	183
Gap	-24.1%	-9.2%	-2.6%	11.6%		

Note: In november 2003 84 BPN branches were transferred to BPV, in december 2003 33 branches were transferred to Credito Bergamasco

Realignment potential of BPL, BP Cremona, BP Crema (revenues per employee)

BPL	264
BP Crema	4
BP Cremona	30
Total	299
Marginal Cost / Income	40%
Marginal operating costs	- 119
Operating margin	179
Marginal tax rate	33%
Taxes	- 59
Additional net income fully phased	120
Additional net income by 2011 (assuming linear distribution)	90

Source: Company data, Credit Suisse estimates

Sensitivity to rising interest rates

In light of slightly more expensive funding base (interest sensitive liabilities make up 50.4% of total assets – ex BIL) BP's sensitivity to changing interest rates is slightly lower than for the peer group.

Assuming an increase in interest rates of 100bps, a percentage of variable interest earnings assets and liabilities of 80% and assuming that 50bps are passed on to depositors, BP's NII would increase by 5.4% vs. Q3 09 annualised adding €67m to the company's bottom line.

Further rate increases would still have a positive impact on profitability, but the relation is not linear as the ability of banks to keep stable asset spreads progressively declines as interest rates rise.

Although there is still uncertainty about the timing of interest rate rises our economists expect ECB rates to start increasing in Q3 10 and to reach 2% by the end of 2010.

Figure 6: Sensitivity to rising interest rates (€ m)

H1 09	BPM	UBI	ISP	BP ex BIL	BMPS
Customer Deposits	22,276	53,613	222,537	51,095	81,803
<i>of which current accounts</i>	20,893	44,174	207,116	40,702	65,183
<i>other deposits</i>	1,383	9,439	15,421	10,393	16,620
Wholesale funding	15,673	48,596	267,216	50,713	96,454
Bonds	10,997	42,522	193,993	17,534	48,646
Liabilities at fair value/for trading	1,813		25,922	22,127	25,983
Due to banks	2,863	6,074	47,301	11,053	21,826
Interest sensitive liabilities	17,055	58,035	282,637	61,106	113,074
as % of total assets	38.5%	47.8%	45.8%	50.4%	53.3%
Total assets (ex technical reserves)	44,353	121,452	617,639	121,354	212,062
Interest earning assets	37,757	106,781	496,125	98,845	177,690
as % of total assets	85.1%	87.9%	80.3%	81.5%	83.8%
Assumptions					
Increase in interest rates	1.00%	1.00%	1.00%	1.00%	1.00%
% of variable interest earning assets/liabilities	80.0%	80.0%	80.0%	80.0%	80.0%
Increase in deposit costs	0.50%	0.50%	0.50%	0.50%	0.50%
Additional NII	61	169	672	98	191
Tax 32%	20	54	215	31	61
Additional net income	42	115	457	67	130
As % of Q309 NII annualised	7.5%	7.2%	6.5%	5.4%	5.2%

Source: Company data, Credit Suisse estimates

Valuation is not attractive

Although BP trades on a 2009E P/TBV of 0.64x (48% discount vs. the sector) and on a 2011E P/E of 7.9x (a 10% discount vs. the sector) we do not consider the current valuation as particularly attractive considering the uncertainties surrounding the company asset disposal plan, the low visibility on Italease, the low profitability of the bank for the foreseeable future (2011E ROTE of 8.4% on our estimates) and the lack of dividends over the next 3 years (on our estimates).

Furthermore as highlighted in Figure 7, assuming a theoretical recapitalisation of the bank to an equity tier 1 ratio of 7.5% in 2011 (including all benefits from capital management initiative and our estimated impact of new Basel III regulations) would increase the current 2011E P/E to 9.4x and lower the company's ROTE to just 7.6%.

Figure 7: Banco Popolare – key valuation datapoints

(€ in millions)	2010E	2011E
Current estimates (deducting Tremonti Bonds' coupons from net income)		
Adjusted net income	229	411
Tangible equity	4,757	5,083
Adjusted EPS (€)	0.36	0.64
TBV per share (€)	7.43	7.94
Equity tier 1 ratio		4.9%
Core tier 1 ratio		6.4%
ROTE		8.4%
Estimates post €1bn convertible (20% premium - strike price €6.11)		
Adjusted net income ex Tremonti bonds	352	534
Tangible equity	5,757	6,083
Adjusted EPS ex Tremonti bonds (€)	0.44	0.66
TBV per share (€)	7.16	7.56
Equity tier 1 ratio		6.0%
Core tier 1 ratio		6.0%
ROTE		9.0%
Fully recapitalised estimates		
Benefits from capital management		0.53%
Potential impact from Basel III (assuming no deduction of minorities)		-0.68%
Pro-forma equity tier 1 ratio in 2011		5.82%
Target equity T1 ratio		7.50%
Theoretical capital deficit (equity tier 1 ratio @ 7.5% in 2011)		
		1,601
Tangible equity	7,358	7,684
Theoretical net income (2.5% net yield on cash)		574
Fully recapitalised ROTE		7.6%
Additional number of shares (m) - issued at €6.11		262
Theoretical number of shares (m)		1,066
Theoretical EPS (€)		0.54
Theoretical TBV per share (€)		7.21
P/E		
Current (deduction coupons on TB)		7.9x
Fully diluted (not deducting coupons on TB)		7.7x
Fully recapitalised (assuming capital management and Basel III)		9.4x
P/TBV		
On current estimates		0.64x
Post €1bn convertible		0.67x
Fully recapitalised		0.71x

Source: Company data, Credit Suisse estimates

Figure 8: Banco Popolare – Summary forecasts

(€ in millions)	2007APF	2008A	2009E	2010E	2011E
Profit & loss account					
Net interest income	2,165	2,244	1,928	1,885	2,044
Net commissions	1,210	1,061	1,022	1,134	1,191
Dividends and equity investments	-126	-14	58	40	50
Trading income (losses)	611	197	399	308	317
Other income	207	256	154	180	185
Net banking income	4,067	3,744	3,560	3,546	3,786
Personnel costs	-1,453	-1,487	-1,469	-1,466	-1,477
Other administrative expenses	-716	-675	-773	-758	-765
D&A	-171	-171	-154	-152	-152
Operating expenses	-2,341	-2,333	-2,397	-2,375	-2,394
Operating margin	1,726	1,411	1,163	1,171	1,392
Goodwill write down		-874	-3		
Provisions for loan losses	-479	-1,170	-679	-664	-557
Provisions on financial assets	-112	-199	-27	-20	-20
Provisions for risks and charges	-310	-201	-55	-40	-40
Operating result	826	-1,034	400	447	775
Profit (losses) on sale of investments	782	501	119	30	30
Pre-tax profit	1,608	-532	518	477	805
Taxes	-710	140	-280	-196	-326
Net integration charge	-148	-36	0	0	0
Net purchase price allocation	-97	0	0	0	0
Profit (loss) from discontinued operations	24	126	-30	0	0
Minority interests	-42	-31	-7	-15	-20
Net income	635	-333	201	267	459
Adj. net income	716	408	412	229	411
Adj. net income ex Tremonti bonds		408	443	352	534
Balance sheet					
Loans & advances to customers	84,551	81,026	85,078	88,481	92,905
Total assets	128,393	121,375	125,271	129,325	134,202
Shareholders equity	10,672	9,784	9,970	10,103	10,429
Tangible equity	4,238	4,198	4,624	4,757	5,083
Core tier 1 capital	3,694	3,695	5,649	5,803	6,145
Risk weighted assets	92,346	73,907	92,015	93,214	95,373
Per share data (€)					
Reported EPS	0.99	-0.52	0.31	0.42	0.72
Adjusted EPS	1.12	0.64	0.64	0.36	0.64
DPS	0.60	0.00	0.00	0.00	0.00
Book value per share	16.66	15.28	15.57	15.77	16.28
Tangible equity per share	6.62	6.56	7.22	7.43	7.94
Ratios					
Net interest income/ Total income	53.2%	59.9%	54.1%	53.1%	54.0%
LLP as % net loans (year end)	0.57%	1.44%	0.80%	0.75%	0.60%
Tax rate	44.2%	26.4%	54.1%	41.0%	40.5%
ROE	5.7%	-3.3%	2.0%	2.7%	4.5%
Tangible adj. ROE	16.1%	9.7%	9.3%	4.9%	8.4%
Cost / Income	57.6%	62.3%	67.3%	67.0%	63.2%
Equity Tier 1 ratio	4.0%	5.0%	4.6%	4.7%	4.9%
Core Tier 1 ratio	4.0%	5.0%	6.1%	6.2%	6.4%
Tier 1 ratio	5.2%	6.4%	7.7%	7.7%	7.9%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 25 Jan 10)

Banca Popolare di Milano (PMII.MI, Eu4.85, OUTPERFORM [V], TP Eu6.30, MARKET WEIGHT)
 Banco Popolare (BAPO.MI, Eu5.08, UNDERPERFORM [V], TP Eu5.20, MARKET WEIGHT)
 Intesa Sanpaolo (ISP.MI, Eu2.88, OUTPERFORM, TP Eu3.50, MARKET WEIGHT)
 Monte dei Paschi di Siena (BMPS.MI, Eu1.21, NEUTRAL [V], TP Eu1.30, MARKET WEIGHT)
 UBI Banca (UBI.MI, Eu10.17, NEUTRAL, TP Eu10.20, MARKET WEIGHT)
 Unicredit (CRDI.MI, Eu2.13, RESTRICTED [V])

Disclosure Appendix

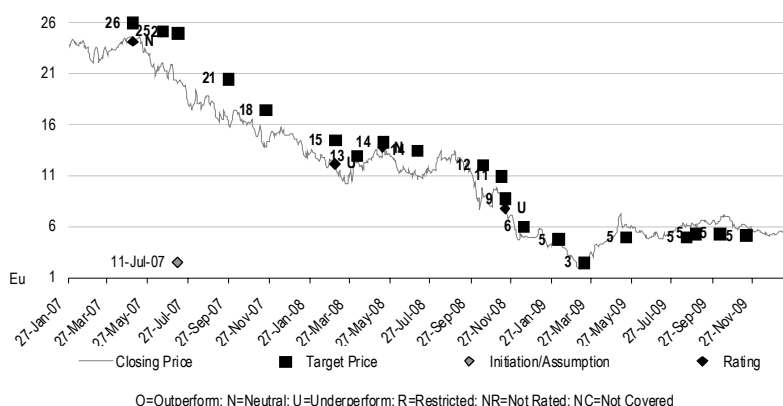
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3-Year Price, Target Price and Rating Change History Chart for BAPO.MI

BAPO.MI	Closing Price	Target Price	Initiation/ Rating	Assumption
Date	(Eu)	(Eu)		
04-May-07	24.14	26	N	
17-Jun-07	21.69	25.2		
11-Jul-07	19.96	25		X
26-Sep-07	16.42	20.5		
21-Nov-07	13.86	17.5		
05-Mar-08	12.17	14.5	U	
07-Apr-08	12.307	13		
16-May-08	13.788	14.3	N	
07-Jul-08	11	13.5		
14-Oct-08	9.8	12.1		
11-Nov-08	8.7	10.995		
17-Nov-08	7.825	8.8	U	
15-Dec-08	4.99	6.05		
05-Feb-09	4.24	4.8		
16-Mar-09	2.21	2.5		
18-May-09	6.265	5.		
18-Aug-09	6.205	4.998		
31-Aug-09	6.18	5.348		
07-Oct-09	6.48	5.345		
16-Nov-09	6.09	5.205		



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Price Target: (12 months) for (BAPO.MI)

Method: We value Banco Popolare by applying a multiple of 0.89x to our 2011E TBV including a Euro 1,450m recapitalisation and net of the deficit capital vs. a target equity T1 ratio of 7% in 2011. We then discounting the result by 1 year with a cost of equity of 9.5% and divide the resulting target market cap by a number of share obtained by adding to the current shares in issue the newly issued shares assuming a issuance price equal to our target price.

Risks: Risk of downwards EPS revisions should Euribor rates continue to fall. Asset quality could deteriorate further as a consequence of the deteriorating macro environment. Banco Popolare's solvency and earnings could be negatively impacted by the deterioration of the loan book of subsidiary Italease. On the upside, the company's solvency position could increase should the company manage to sell certain non-core assets

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