

Italy: Banks

Equity Research

The local picture: asset quality keeps improving, but at a cost; UCG CL-Buy, BPER to Neutral

Key aggregates and points of differentiation

The Italian banks reported a large aggregate loss for 2016 driven by UCG's and BMPS' clean ups.

Asset quality improves, at a cost: the stock of NPEs fell for the fifth consecutive quarter at Italian banks (down 7% qoq) but remains high for many. To accelerate future disposals or collections, the banks in our coverage incurred large loan losses in 4Q2016: UCG secured €18 bn through NPL sales and BMPS increased reserves in anticipation of similarly large transactions. The NPE coverage ratio increased by 2.0% in aggregate in 4Q16, to 49.7%, despite the sale of largely unsecured (and therefore more highly covered) NPLs.

Core profitability under pressure: core revenues fell by 5% yoy in aggregate, driven by weak NII (-9%). While underlying costs fell by 4%, core pre-provision income decreased by 5%. Intesa and BBPM bucked the trend, thanks to strong fees, and outperformed peers. In terms of outlook, with loans now growing, interest rates bottoming and 2016 providing a low base for fees, banks generally guide for a better 2017.

Key views, estimate changes and stock calls

In aggregate, we reduce our 2017-20 GS EPS estimates by 11% (ex-BMPS & BBPM) post the 4Q16 results, mainly as a result of higher LLP assumptions. Our latest research on NPE collection rates suggests that the length of NPE work out has lengthened, and that collection values fall when work out lasts longer. As a consequence, we remove BPER from the CL and downgrade to Neutral: our original thesis was predicated on a constructive backdrop for consolidation and strong capital resources to absorb LLPs. However, BPER's operational performance, like that of peers, has fallen short of our expectations, while its underlying NPL formation has not fallen as fast as peers, delaying the recovery of profitability. This underlies our earnings revisions and rating downgrade.

We retain a CL-Buy on UCG: it is attractively valued on its new targets, which offer significant P&L upside and credibly address balance sheet risk through NPL sales and increased coverage. We move to Rating Suspended on BMPS given its ongoing share suspension.

RATINGS AND PRICE TARGET CHANGES

	Rating		Last close	12m PT		Potential upside
	Old	New		Old	New	
UCG	Buy*	Buy*	€ 14.00	€ 16.79	€ 19.00	36%
ISP	Neutral	Neutral	€ 2.34	€ 2.90	€ 2.70	16%
BMPS	Neutral	Rating Suspended	€ 15.08	€ 29.00	--	--
UBI	Neutral	Neutral	€ 3.28	€ 3.60	€ 3.40	4%
BBPM	Buy	Buy	€ 2.51	€ 2.70	€ 3.10	24%
BPER	Buy*	Neutral	€ 4.70	€ 6.70	€ 5.00	6%

RELATED RESEARCH

Italy: Banks: Bank of Italy publishes NPL recovery rates, January 30, 2017

Italy: Banks: Press reports that Intesa may approach Generali, January 24, 2017

Italy: BPER: Bank of Italy now focused on talks to sell, January 19, 2017

Italy: Banks: Italian rating downgrade a small negative amid ongoing market repair, January 17, 2017

Italy: Banks: Government measures have scope to ensure financial stability, December 23, 2016

Unicredit: Business plan: a better-safe-than-sorry approach, take 2 – CL-Buy, December 14, 2016

Prices as of March 3, 2017.

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Italy 4Q16: The local picture

Exhibit 1: Italian banks: 4Q16 earnings snapshot

Aggregate P&L and balance sheet; € mn, unless otherwise indicated; sample includes GS coverage

€ mn	Quarterly Review					Overview		Annual Review			Growth (yoy)		
	Reported					q/q	y/y	Forecasts			2017E, 2018E, 2019E		
	4Q15	1Q16	2Q16	3Q16	4Q16			2017E	2018E	2019E	2017E	2018E	2019E
NII	6,509	6,282	6,201	6,109	5,824	-5%	-11%	24,068	25,214	26,549	-1%	5%	5%
Fees (net)	4,714	4,533	4,719	4,486	4,798	7%	2%	19,209	20,310	20,910	4%	6%	3%
Core revenues	11,223	10,815	10,920	10,595	10,622	0%	-5%	43,276	45,525	47,459	1%	5%	4%
Trading & other	1,195	1,675	2,532	1,655	1,055	-36%	-12%	6,129	6,167	6,306	-11%	1%	2%
Total Income	12,418	12,490	13,451	12,250	11,677	-5%	-6%	49,405	51,692	53,765	-1%	5%	4%
Operating Costs	(7,897)	(7,319)	(7,402)	(7,305)	(8,164)	12%	3%	(29,106)	(28,819)	(28,704)	-4%	-1%	0%
Pre-Provision Profit	4,521	5,171	6,049	4,945	3,513	-29%	-22%	20,299	22,873	25,061	3%	13%	10%
Provisions	(4,885)	(3,466)	(4,591)	(4,795)	(16,380)	--	--	(12,716)	(10,043)	(9,320)	-56%	-21%	-7%
Operating Result	(364)	1,705	1,459	150	(12,867)	--	--	7,583	12,829	15,741	--	69%	23%
Other	(201)	(240)	(143)	(176)	(3,704)	--	--	(621)	(10)	(10)	-85%	--	0%
Result Before Tax	(565)	1,465	1,316	(26)	(16,571)	--	--	6,962	12,820	15,731	--	84%	23%
Net Attributable Result ⁽²⁾	241	1,113	1,273	(409)	(16,459)	--	--	4,735	8,692	10,885	--	84%	25%
NIM ⁽¹⁾	2.27%	2.15%	2.12%	2.11%	2.02%	-9bp	-25bp	2.07%	2.12%	2.17%	-4bp	5bp	5bp
Cost / Income	64%	59%	55%	60%	70%	10pp	6pp	59%	56%	53%	-2pp	-3pp	-2pp
Cost of risk ⁽¹⁾	170 bp	118 bp	157 bp	165 bp	568 bp	403bp	398bp	109 bp	84 bp	76 bp	-144bp	-25bp	-8bp
ROTE	0.8%	3.7%	4.4%	-1.4%	-62.4%	-61pp	-63pp	3.8%	6.7%	8.0%	17pp	3pp	1pp
ROTA	5 bp	21 bp	24 bp	-8 bp	-318 bp	-310bp	-323bp	23 bp	41 bp	51 bp	93bp	18bp	9bp
Net loans	1.1 tn	1.2 tn	1.2 tn	1.2 tn	1.2 tn	-0.6%	0.6%	1.2 tn	1.2 tn	1.2 tn	0.6%	2.5%	2.9%
Deposits	1.0 tn	1.0 tn	1.0 tn	1.0 tn	1.0 tn	2.4%	4.7%	1.0 tn	1.1 tn	1.1 tn	2.2%	2.7%	2.7%
Loans/deposits	119%	120%	118%	118%	114%	-3pp	-5pp	113%	113%	113%	-2pp	-0pp	0pp
Total assets	2.1 tn	2.1 tn	2.1 tn	2.1 tn	2.1 tn	-0.7%	1.4%	2.1 tn	2.1 tn	2.2 tn	0.5%	1.5%	1.8%
CET1%	11.8%	11.7%	11.5%	11.7%	9.9%	-184bp	-191bp	12.3%	12.2%	12.5%	240bp	-5bp	30bp
CET1	110 bn	109 bn	107 bn	107 bn	89 bn	-16.8%	-18.4%	111 bn	115 bn	121 bn	24.2%	3.2%	5.6%
RWAs	927 bn	929 bn	930 bn	914 bn	902 bn	-1.3%	-2.7%	904 bn	937 bn	1.0 tn	-0.1%	3.6%	3.1%
Tangible Equity	116 bn	120 bn	116 bn	118 bn	106 bn	-10.3%	-9.2%	126 bn	129 bn	135 bn	19.6%	2.6%	4.6%
Equity	131 bn	135 bn	132 bn	132 bn	119 bn	-9.6%	-8.9%	140 bn	143 bn	149 bn	17.3%	2.3%	4.2%
Intangibles	14.6 bn	14.6 bn	15.5 bn	14.4 bn	13.8 bn	-4.3%	-5.8%	13.8 bn	13.8 bn	13.8 bn	0.0%	0.0%	0.0%
Tangible Equity / Assets	5.7%	5.7%	5.5%	5.6%	5.1%	-0.5bp	-0.6bp	6.1%	6.1%	6.3%	1.0bp	0.1bp	0.2bp

Source: Company data, Goldman Sachs Global Investment Research. Notes: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

Summary of changes to our forecasts

Changes to our estimates

We incorporate 4Q16 results and recent trends in our forecasts for the Italian banks. In aggregate, we reduce our 2017-20E GS EPS by 11% (ex-BMPS and BBPM) post 4Q16 results mainly as a result of higher LLP assumptions. Our latest research on NPE collection rates suggests that the length of NPE work out has lengthened and that collection values fall when work outs last longer.

Exhibit 2: Italian banks: 4Q16 earnings snapshot

All figures are in pricing currency, unless otherwise indicated; prices as at the market close of March 3, 2017

Stock	Rating (old)	Rating (new)	Ccy	Last close	EPS (New)			EPS (Chg. %)			TBVPS (New)			TBVPS (Chg. %)			Price target (12m)			U/D %
					2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	Old	New	%	
CRDI.MI	Buy*	Buy*	€	14.00	1.19	1.61	1.99	2%	0%	-2%	23.9	24.3	25.7	7%	7%	6%	16.8	19.0	13%	36%
ISP.MI	Neutral	Neutral	€	2.34	0.18	0.22	0.25	-10%	-4%	-4%	2.5	2.6	2.6	-1%	-1%	-1%	2.9	2.7	-7%	16%
BMPS.MI	Neutral	Rating Suspended	€	15.08	-1.92	0.19	0.77	--	-93%	-79%	14.0	14.1	14.9	-64%	-66%	-67%	29.0	--	--	--
BAMI.MI	Buy	Buy	€	2.51	0.10	0.25	0.41	--	--	--	6.5	6.8	7.1	--	--	--	2.7	3.1	15%	24%
UBI.MI	Neutral	Neutral	€	3.28	0.10	0.32	0.43	-63%	-24%	-18%	6.8	7.4	7.7	-17%	-11%	-9%	3.6	3.4	-6%	4%
EMII.MI	Buy*	Neutral	€	4.70	0.22	0.45	0.60	-53%	-23%	-9%	10.3	10.4	10.8	-4%	-5%	-4%	6.7	5.0	-25%	6%

Source: Company data, Goldman Sachs Global Investment Research. Notes: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders *Conviction List member. Unicredit price target is adjusted for the reverse stock split which took place in January 2017.

BMPS: Rating Suspended (from Neutral)

We have suspended our investment rating and price target for BMPS: since December 23, 2016, trading in its shares has been suspended while the bank applied for a “precautionary recapitalisation” measure. The terms of any recap, in particular the share count and the associated dilution, remain unclear. Our previous investment rating and price target are no longer in effect and should not be relied upon. We will continue to evaluate BMPS’s fundamentals and to monitor the situation leading to Rating Suspended.

Valuation methodology and risks

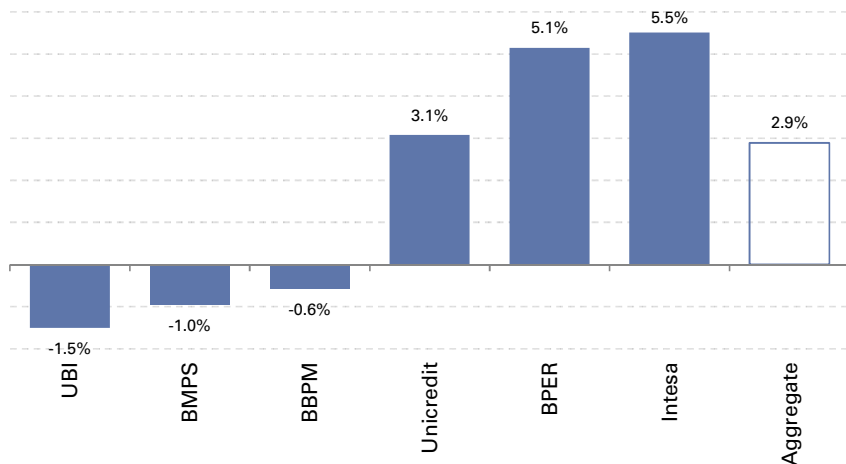
We value all the Italian banks in our coverage using a capital-adjusted ROTE/COE methodology. We calculate a P/TBV multiple that is then applied to our TBVPS forecast, with both ROTE and TBVPS adjusted for capital in excess of our capital hurdle, which stands at 12% for all banks. We then add/subtract excess/deficit capital per share. Our 12-month price targets are derived by equally weighting our 2017-20 ‘fair value’ estimates and discounting them back by an appropriate factor. (Our 12-month price target for EMII falls by 25% to €5 as a result of higher cost of risk assumptions; see page 16 for details). We note that our estimates and price target for BAMI reflect the BAPO/BPM merger.

Key risks to our forecasts, price targets and investment views are better/worse than expected NIM, loan growth, credit quality, M&A or cost control. Unforeseen changes to the sovereign, macroeconomic, asset quality and regulatory environment (in either direction for Neutral stocks, larger than expected for Buy-rated stocks) are also risks.

With this note, we remove BPER from the Directors of Research Focus List.

Exhibit 3: Lending growth was mixed yoy; aggregate positive

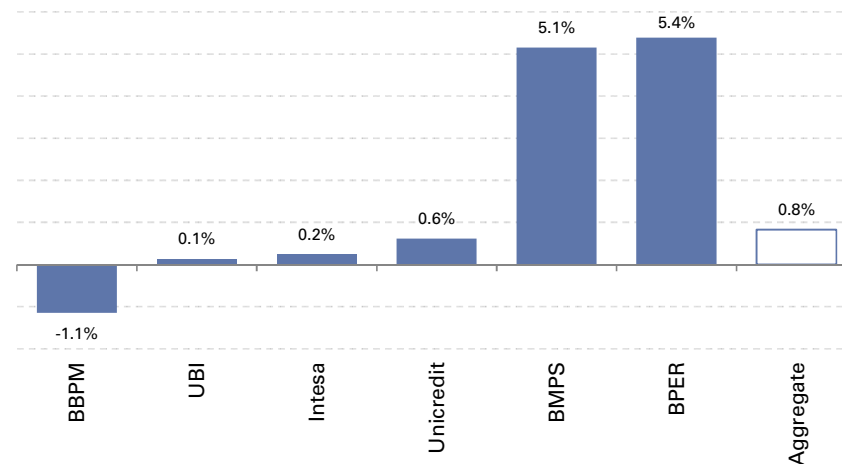
4Q16 performing loan growth, yoy



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 4: Quarterly loan growth reflects NPL disposals

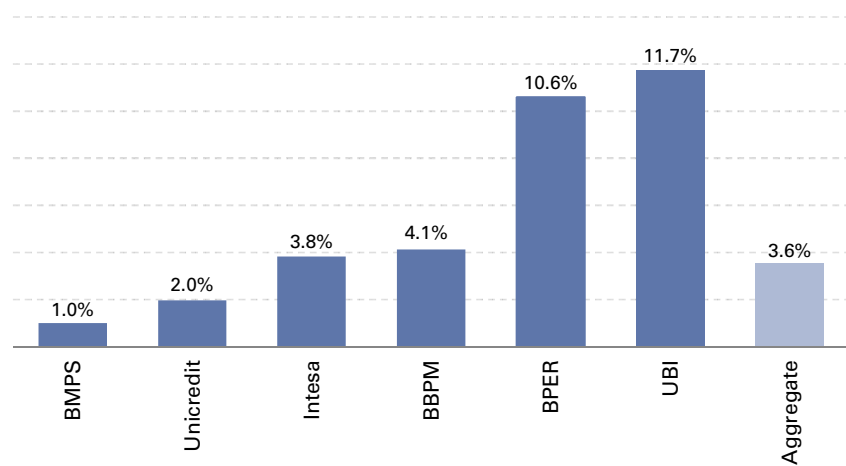
4Q16 performing loan growth, qoq, non-annualized



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 5: Strong yoy AUM growth across the board, UBI strongest...

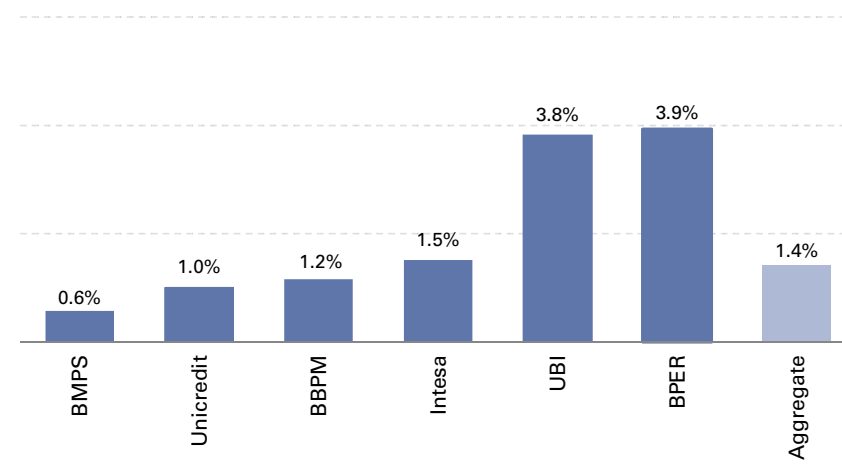
4Q16 AUM, yoy change; ex-CR Saluzzo for BPER



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 6: ...helped by a good end to the year

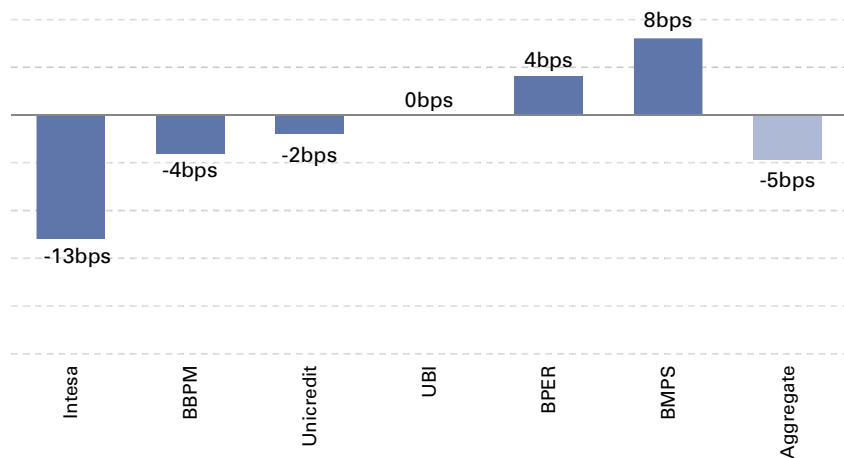
4Q16 AUM, qoq change; ex-CR Saluzzo for BPER



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 7: Margin pressure continues overall

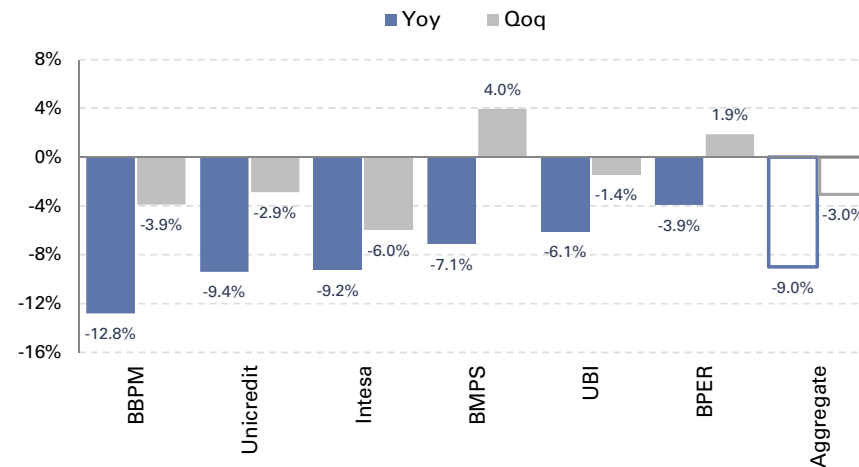
4Q16 net interest margin, qoq; 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 8: NII fell yoy across the board

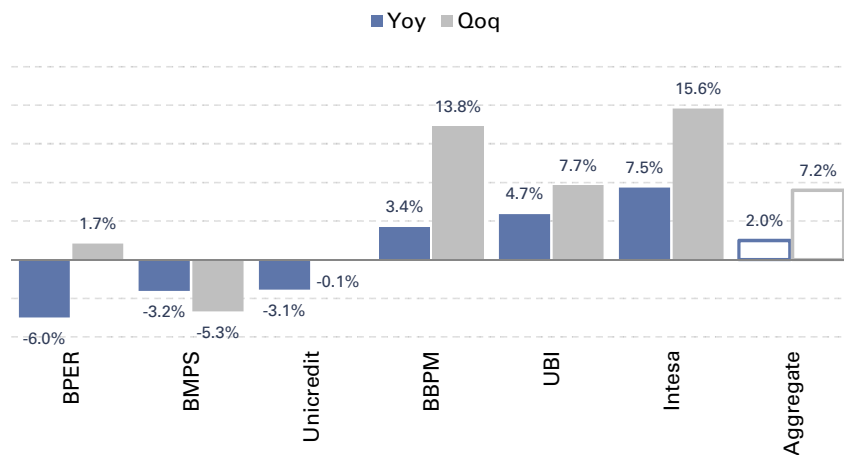
4Q16 net interest income growth; 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 9: In aggregate, fees were up 2% yoy...

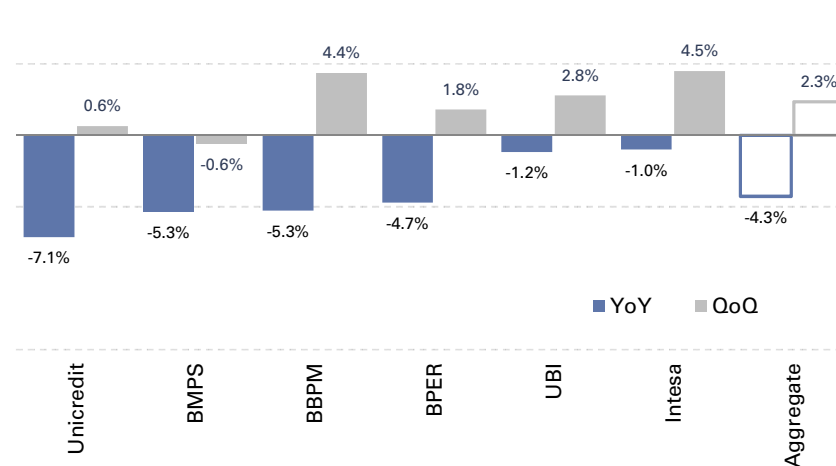
4Q16 fee income growth; 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



Source: Company data, Goldman Sachs Global Investment Research.

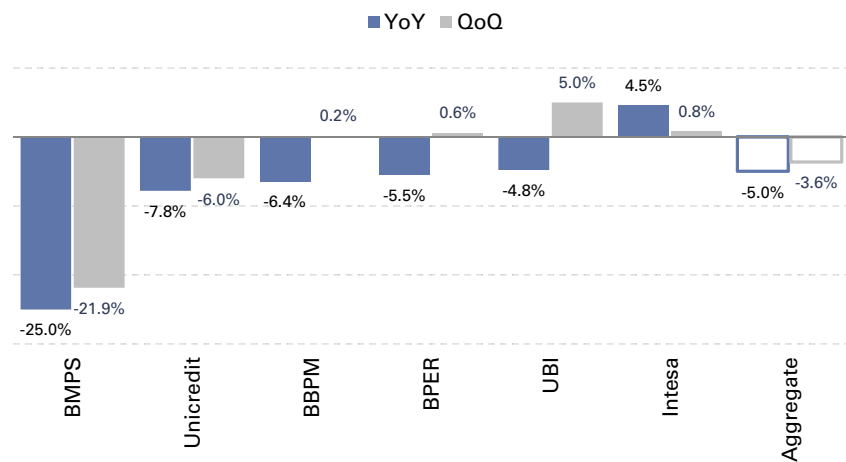
Exhibit 10: ...but not enough to offset weak NII: core revenues were down yoy

4Q16 core rev. (NII + fees) growth, 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



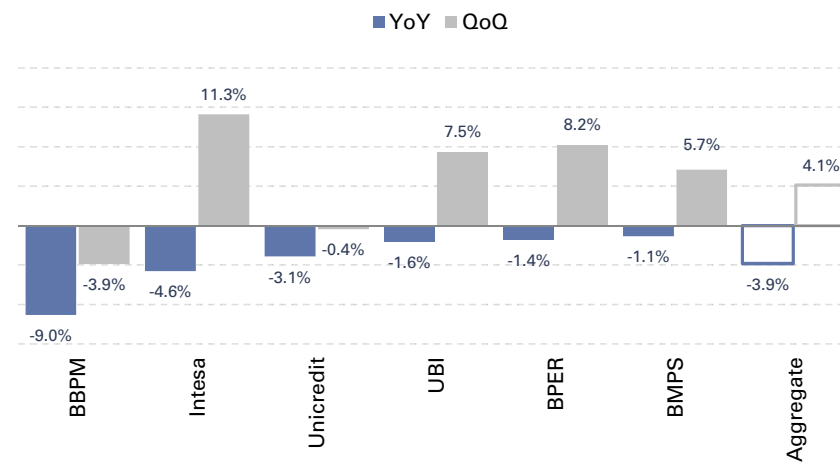
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 11: Total aggregate revenue down 5% yoy, BMPS weakest
4Q16 total revenue; 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



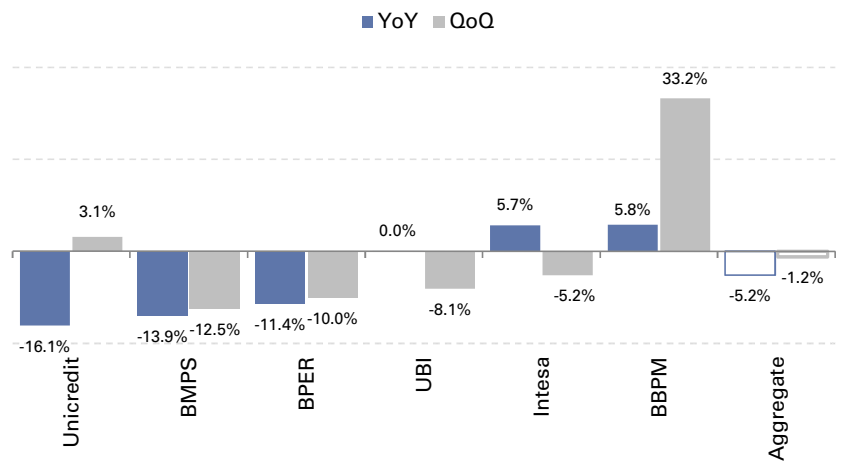
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 12: Underlying costs were down 4% yoy in aggregate ...
4Q16 total costs, ex-systemic charges; 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



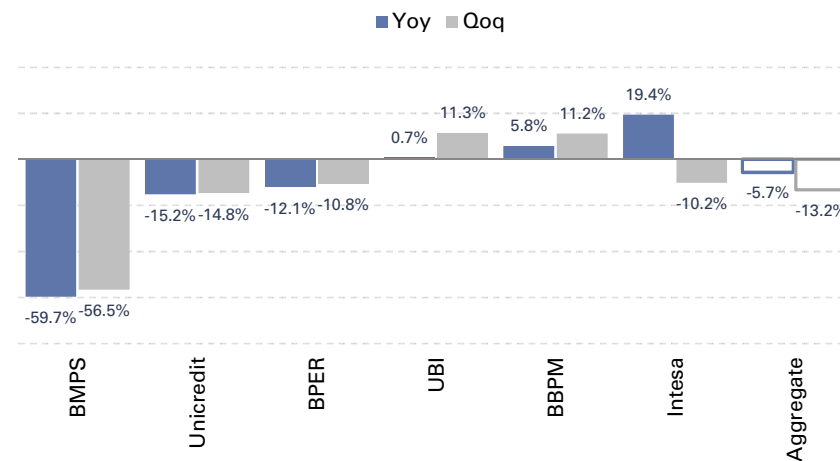
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 13: ...but core PPP fell yoy; ISP and BBPM bucked the trend
4Q16 core PPP growth; 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



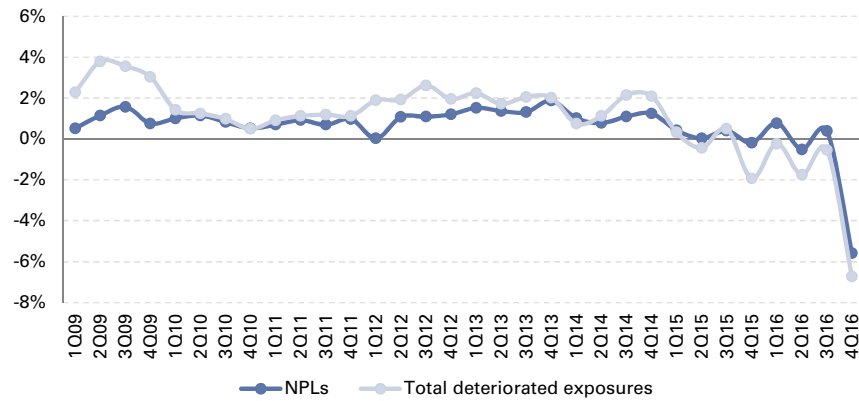
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 14: Headline PPP fared worse than core
4Q16 pre-provision profit; 4Q16: BPER ex-CR Saluzzo, UCG ex-one offs



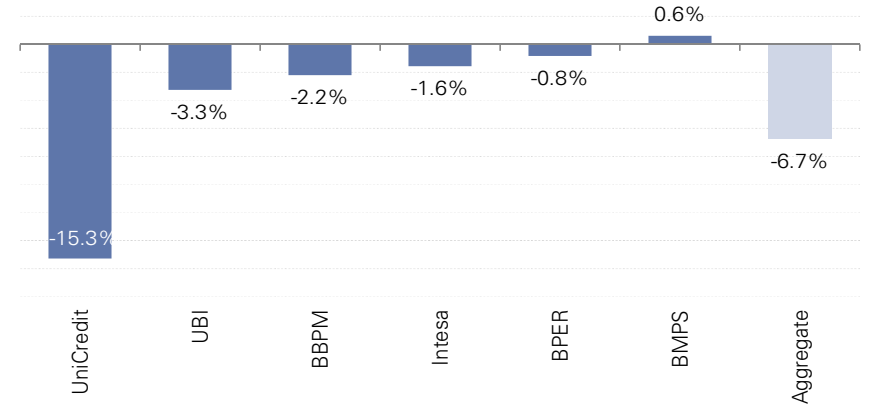
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 15: NPL disposals in 4Q16 led to material declines in NPEs...
 Impaired loan formation by category, % of gross loans



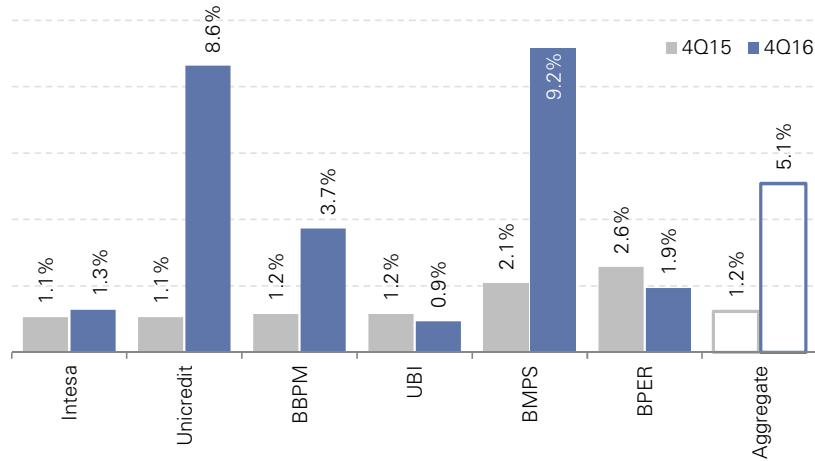
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 16: ... and this trend applies to almost all banks
 4Q16 impaired loan formation, qoq annualized, % of gross loans



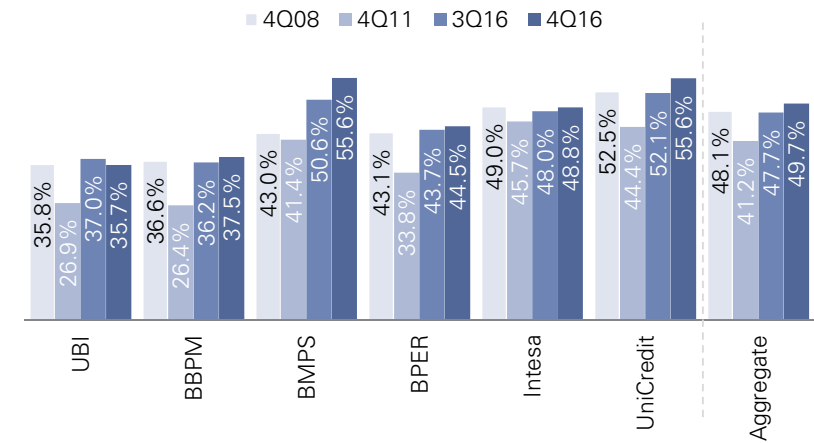
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 17: Cost of risk up at UCG/BBPM/BMPS due to clean-up charges
 LLPs/average loans, % of loans, include one-offs; ex-CR Saluzzo in 4Q16 for BPER



Source: Company data, Goldman Sachs Global Investment Research.

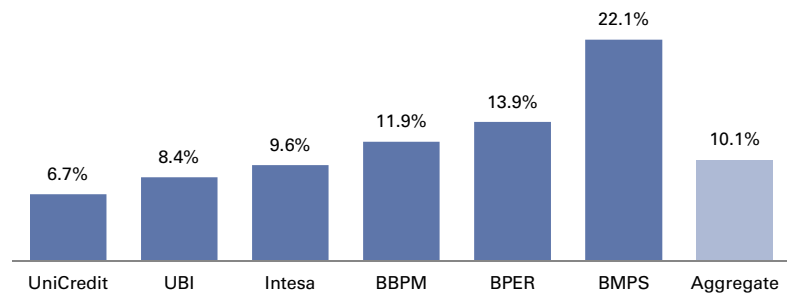
Exhibit 18: As a result coverage ratios improved materially qoq
 Coverage ratios of total impaired exposures



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 19: In aggregate, the NPL ratio is c.10% for Italian banks

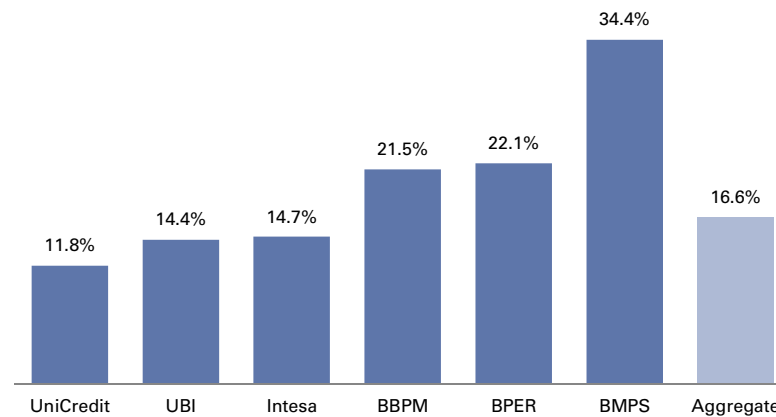
NPL ratio, 4Q16, %



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 20: ...with a c.17% total impaired loans ratio; UCG lowest vs. peers

Total impaired loans ratio, 4Q16, %



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 21: Company guidance and takeaways summary for 4Q16
As per 4Q16 results' press releases and related conference call transcripts

	UCG	ISP	BMPS	BBPM	UBI	BPER
Lending	Loans down qoq due to Non Core higher LLP related to Transform 2019 and Fino classified to HFS from 4Q16; Targets +2.8% 2015-19 CAGR in loans	Expectation is to be in a position to continue to increase volume	Loans down 4.2% yoy mainly due to the decrease in commercial lending and in net NPEs	Trend of net customer loans (-2% yoy) reflects improvement in the credit risk profile : Net NPLs down by 8% y/y; Net performing loans stable y/y.	Recovery in volumes of lending expected in 2017	Net customer loans up 3% y/y on a like-for-like basis and excluding bad loans disposals in 2016
Net Interest Income	Expect NII to bottom out in 2017. Expect spreads to go marginally lower, but the effect to be offset by a pickup of loan volumes in the later part of the year, coupled with the effect of the liabilities repricing	Down 6% qoq affected by non-commercial components. Volume side will be the main driver of NII growth in 2017, but also in the next Business Plan	+4% qoq, positively impacted by decrease in more expensive commercial funding and interest rates	Down yoy due to a reduction in customer loans, pressure on spreads and a lower contribution from the securities portfolio, only partially offset by a reduction in the cost of funding	NII improvement expected in 2017 from customers (recovery in volumes of lending, further re-composition of direct funding towards less costly items & the positive impact of TLTR02)	Down by 5% still affected by the low/negative interest rates environment
Fees & commissions	Targets +2.0% 2015-19 CAGR in fees	Don't see any pricing pressures on fees and commission	Down 5% qoq driven by lower fees from placement of WM products (-22.9% qoq) due to the activities related to capital strengthening transaction	The strategic plan envisages room for cross-selling opportunities fostering the development of commission income	Continued growth in fee and commission income from indirect funding with a greater contribution from the "running" component	Net commissions down by 1.9% impacted by the reduction of fees income related to traditional commercial business
Expenses	Continued focus on cost reduction as per strategic plan Transform 2019	In 2017, expect continuous cost management.	Other Admin Expenses up 46.5% qoq mainly due to seasonality and €37mn extraordinary costs related to the capital strengthening transaction	Expected headcount reduction in the period 2017-2019: >2,100 thanks to natural turnover; Target of 335 branch closures during the Strategic Plan 2016-2019.	Recent trade union agreement & result for applications to "Solidarity Fund" make it possible to improve the target for the containment of recurring operating expenses	Operating costs up by 1% yoy pro-forma and on a like-for-like basis
Loan Loss Provisions	Confirmed the c.65bps guidance for cost of risk in 2017	In 2017, expect a reduction in the cost of risk.	--	Increase in coverage levels realised in 2016 and NPL reduction to allow progressive decline of the cost of credit in the next 3 years (63bps expected in 2019)	Low risk of perf. ptf, increase coverage in 1H16 and continuation of the reduction in inflows of new NPLs should confirm the substantial reduction in LLPs forecast in 2017 BP	Down by 12.2% yoy
NIM	Expect spreads to go marginally lower in 2017	--	Lending rate down due to reduced ST lending, run-off of ex-Consum.it & repricing on loans; Cost of funding down due to fewer expensive senior bonds & term deposits	A material reduction in the cost of funding is expected starting from 2017, thanks to significant bond maturities and to higher TLTRO financing	--	--
Other	NPLs: Material reduction of NPE in 4Q16 due to de-risking actions (lowest level since mid 2010); targets 8.4% NPE ratio in 2019	NPLs: Plan to reduce NPLs to pre-crisis levels by 2019 without resorting heavily to discounted sales Dvds: While confirming its €10 bn dividend target for 2014-17, ISP stepped away from the €4 bn dividend for 2017	NPLs: Net NPE stock at c€20.3bn, down c€4bn vs 2015, due to increase in coverage of UTP to 40.3% (29.2% in Dec-15) and bad loans to 64.8% (63.4% in Dec-15) and the decrease in past due stock	NPLs: completed 21% of the NPL reduction plan to be achieved by 2019 (€8bn) / Large buffer of selected NPL (>€11bn) to complete the remaining NPL disposals (€6.3bn) envisaged in the Strategic Plan 2016-2019	NPLs: expect continuation of the reduction in inflows of new nonperforming loans and in the stock of NPLs as a consequence	NPLs: commitment to reduce bad loans stock further and improve recoveries, while maintaining a high NPE coverage

Source: Company data.

Unicredit (Buy)

Exhibit 22: Unicredit: 4Q16 earnings snapshot

€ mn, unless otherwise indicated

€ mn	Quarterly Review									Annual Review								
	Reported					GSe	Overview			Forecasts			Growth (yoy)			New vs. Old		
	4Q15	1Q16	2Q16	3Q16	4Q16	4Q16E	q/q	y/y	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	
NII	2,778	2,631	2,670	2,591	2,415	2,781	-7%	-13%	10,183	10,595	11,118	-1%	4%	5%	-1%	0%	0%	
Fees (net)	1,370	1,417	1,401	1,334	1,306	1,904	-2%	-5%	6,034	6,603	6,769	11%	9%	3%	-9%	-2%	-2%	
Core revenues	4,148	4,048	4,071	3,925	3,720	4,685	-5%	-10%	16,216	17,198	17,886	3%	6%	4%	-4%	-1%	-1%	
Trading & other	576	626	1,191	717	502	588	-30%	-13%	2,414	2,486	2,574	-21%	3%	4%	13%	8%	8%	
Total Income	4,724	4,674	5,262	4,642	4,223	5,273	-9%	-11%	18,630	19,684	20,460	-1%	6%	4%	-2%	0%	0%	
Operating Costs	(3,024)	(2,976)	(2,982)	(2,940)	(3,555)	(3,337)	21%	18%	(11,179)	(10,788)	(10,585)	-10%	-3%	-2%	-2%	-2%	-1%	
Pre-Provision Profit	1,699	1,698	2,280	1,702	667	1,936	-61%	-61%	7,451	8,896	9,875	17%	19%	11%	-2%	3%	1%	
Provisions	(1,916)	(1,141)	(1,360)	(1,224)	(10,559)	(10,355)	--	--	(3,902)	(3,620)	(3,445)	-73%	-7%	-5%	-1%	4%	4%	
Operating Result	(217)	557	920	479	(9,892)	(8,419)	--	--	3,549	5,276	6,430	--	49%	22%	-4%	2%	0%	
Other	(427)	(269)	(83)	(34)	(2,916)	(5,206)	--	--	(21)	(10)	(10)	--	-53%	0%	5%	11%	11%	
Result Before Tax	(644)	288	837	445	(12,808)	(13,625)	--	--	3,529	5,266	6,420	--	49%	22%	-4%	2%	0%	
Net Attributable Result ⁽²⁾	153	406	916	447	(13,558)	(14,840)	--	--	2,757	3,763	4,634	--	36%	23%	2%	-1%	-2%	
NIM ⁽¹⁾	2.5%	2.3%	2.3%	2.3%	2.2%	2.3%	-12bp	-32bp	2.4%	2.4%	2.4%	6bp	3bp	4bp	13bp	14bp	13bp	
Cost / Income	64%	64%	57%	63%	84%	63%	21pp	20pp	60%	55%	52%	-6pp	-5pp	-3pp	0pp	-1pp	-0pp	
Cost of risk ⁽¹⁾	172 bp	100 bp	118 bp	108 bp	950 bp	862 bp	842bp	778bp	91 bp	82 bp	76 bp	-230bp	-9bp	-7bp	5bp	8bp	7bp	
ROTE	1.3%	3.5%	7.9%	3.8%	-143.1%	-171.4%	-147pp	-144pp	4.9%	6.5%	7.5%	36pp	2pp	1pp	-0pp	-0pp	-1pp	
ROTA	7 bp	18 bp	41 bp	21 bp	-633 bp	-683 bp	-654bp	-640bp	33 bp	44 bp	53 bp	171bp	11bp	9bp	1bp	-0bp	-1bp	
Net loans	0.4 tn	0.5 tn	0.5 tn	0.5 tn	0.4 tn	0.5 tn	-1.8%	-0.2%	0.4 tn	0.4 tn	0.5 tn	-3.8%	2.8%	3.4%	-6.3%	-5.7%	-5.2%	
Deposits	0.4 tn	0.5 tn	0.5 tn	0.5 tn	0.5 tn	0.5 tn	1.0%	7.1%	0.5 tn	0.5 tn	0.5 tn	-2.1%	3.0%	3.0%	0.0%	3.0%	6.1%	
Loans/deposits	99%	100%	98%	95%	92%	100%	-3pp	-7pp	91%	91%	91%	-2pp	-0pp	0pp	-6pp	-8pp	-11pp	
Total assets	860 bn	892 bn	891 bn	875 bn	860 bn	874 bn	-1.7%	-0.1%	843 bn	855 bn	870 bn	-2.0%	1.4%	1.8%	-0.8%	-0.5%	-0.4%	
CET1 %	10.9%	10.9%	10.3%	10.8%	7.5%	7.9%	-328bp	-340bp	12.3%	12.2%	12.8%	477bp	-10bp	58bp	-29bp	10bp	12bp	
CET1	42.7 bn	42.8 bn	41.2 bn	42.3 bn	29.1 bn	30.9 bn	-31.2%	-31.9%	45.6 bn	47.3 bn	51.0 bn	56.9%	3.7%	7.7%	-4.6%	-1.3%	-0.5%	
RWAs	391 bn	394 bn	399 bn	391 bn	386 bn	389 bn	-1.3%	-1.2%	371 bn	388 bn	399 bn	-3.9%	4.6%	2.8%	-2.4%	-2.1%	-1.4%	
Tangible Equity / Assets	5.4%	5.3%	5.2%	5.5%	4.4%	4.0%	-1.0bp	-1.0bp	6.7%	6.8%	7.1%	2.2bp	0.1bp	0.3bp	0.4bp	0.4bp	0.3bp	

Source: Company data, Goldman Sachs Global Investment Research. Notes: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

Intesa (Neutral)

Exhibit 23: Intesa: 4Q16 earnings snapshot

€ mn, unless otherwise indicated

€ mn	Quarterly Review									Annual Review								
	Reported					GSe	Overview			Forecasts			Growth (yoy)			New vs. Old		
	4Q15	1Q16	2Q16	3Q16	4Q16	4Q16E	q/q	y/y	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	
NII	1,926	1,855	1,831	1,859	1,748	1,862	-6%	-9%	7,204	7,561	8,047	-1%	5%	6%	-3%	-3%	-2%	
Fees (net)	1,878	1,676	1,848	1,745	2,018	1,911	16%	7%	7,259	7,509	7,757	0%	3%	3%	-3%	-3%	-4%	
Core revenues	3,804	3,531	3,679	3,604	3,766	3,774	4%	-1%	14,463	15,070	15,804	-1%	4%	5%	-3%	-3%	-3%	
Trading & other	187	635	773	535	406	360	-24%	--	2,329	2,301	2,354	-1%	-1%	2%	11%	7%	7%	
Total Income	3,991	4,166	4,452	4,139	4,172	4,133	1%	5%	16,792	17,371	18,158	-1%	3%	5%	-1%	-2%	-2%	
Operating Costs	(2,470)	(2,047)	(2,154)	(2,117)	(2,356)	(2,433)	11%	-5%	(8,617)	(8,755)	(8,912)	-1%	2%	2%	-3%	-2%	-2%	
Pre-Provision Profit	1,521	2,119	2,298	2,022	1,816	1,701	-10%	19%	8,175	8,615	9,246	-1%	5%	7%	1%	-1%	-1%	
Provisions	(1,374)	(842)	(1,128)	(1,063)	(1,656)	(1,508)	56%	21%	(3,381)	(2,777)	(2,708)	-28%	-18%	-2%	16%	3%	3%	
Operating Result	147	1,277	1,170	959	160	193	-83%	9%	4,794	5,838	6,539	34%	22%	12%	-8%	-3%	-3%	
Other	91	5	196	16	138	850	--	52%	0	0	-	--	33%	--	--	--	--	
Result Before Tax	238	1,282	1,366	975	298	1,043	-69%	25%	4,794	5,838	6,539	22%	22%	12%	-8%	-3%	-3%	
Net Attributable Result ⁽²⁾	13	806	901	628	776	1,003	24%	--	3,035	3,728	4,182	-2%	23%	12%	-10%	-4%	-4%	
NIM ⁽¹⁾	2.2%	2.1%	2.0%	2.0%	1.9%	2.0%	-12bp	-28bp	1.9%	2.0%	2.1%	-6bp	5bp	7bp	-4bp	-4bp	-3bp	
Cost / Income	62%	49%	48%	51%	56%	59%	5pp	-5pp	51%	50%	49%	0pp	-1pp	-1pp	-1pp	-0pp	-0pp	
Cost of risk ⁽¹⁾	157 bp	93 bp	125 bp	117 bp	182 bp	165 bp	65bp	25bp	91 bp	73 bp	69 bp	-38bp	-18bp	-4bp	13bp	2bp	2bp	
ROTE	0.1%	8.0%	9.9%	6.7%	8.3%	10.6%	2pp	8pp	8.0%	9.7%	10.7%	-0pp	2pp	1pp	-1pp	-0pp	-0pp	
ROTA	1 bp	46 bp	51 bp	35 bp	43 bp	57 bp	8bp	42bp	42 bp	50 bp	55 bp	-1bp	9bp	5bp	-5bp	-2bp	-2bp	
Net loans	0.4 tn	0.4 tn	0.4 tn	0.4 tn	0.4 tn	0.4 tn	0.0%	4.2%	0.4 tn	0.4 tn	0.4 tn	2.0%	2.4%	3.0%	-0.8%	-0.8%	-0.8%	
Deposits	0.3 tn	0.3 tn	0.3 tn	0.3 tn	0.3 tn	0.3 tn	5.5%	8.5%	0.3 tn	0.3 tn	0.3 tn	4.1%	3.0%	3.0%	5.6%	5.6%	5.6%	
Loans/deposits	139%	139%	136%	141%	134%	140%	-7pp	-5pp	131%	130%	130%	-3pp	-1pp	-0pp	-8pp	-8pp	-8pp	
Total assets	676 bn	700 bn	717 bn	714 bn	725 bn	716 bn	1.5%	7.2%	732 bn	746 bn	763 bn	1.0%	1.9%	2.3%	0.4%	0.3%	0.3%	
CET1%	13.1%	13.1%	12.9%	13.0%	12.9%	13.3%	-13bp	-23bp	12.7%	12.5%	12.4%	-16bp	-18bp	-13bp	11bp	9bp	7bp	
CET1	37.3 bn	36.9 bn	37.0 bn	37.3 bn	36.6 bn	37.6 bn	-1.7%	-1.7%	37.0 bn	37.8 bn	38.9 bn	0.9%	2.2%	3.0%	0.3%	0.2%	0.1%	
RWAs	284 bn	283 bn	288 bn	287 bn	285 bn	282 bn	-0.7%	0.1%	291 bn	301 bn	313 bn	2.1%	3.7%	4.0%	-0.6%	-0.5%	-0.5%	
Tangible Equity / Assets	5.7%	5.8%	5.1%	5.3%	5.2%	5.3%	-0.1bp	-0.4bp	5.2%	5.2%	5.1%	0.0bp	-0.1bp	-0.0bp	-0.0bp	-0.0bp	-0.0bp	

Source: Company data, Goldman Sachs Global Investment Research. **Notes:** (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

BMPS (Rating suspended)

Exhibit 24: Banca Monte dei Paschi di Siena: 4Q16 earnings snapshot

€ mn, unless otherwise indicated

€ mn	Quarterly Review									Annual Review								
	Reported					GSe	Overview			Forecasts			Growth (yoy)			New vs. Old		
	4Q15	1Q16	2Q16	3Q16	4Q16	4Q16E	q/q	y/y	vs. GS	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
NII	541	548	487	484	503	455	4%	-7%	10%	1,925	1,983	2,038	-5%	3%	3%	1%	1%	2%
Fees (net)	452	457	484	462	437	476	-5%	-3%	-8%	1,726	1,778	1,831	-6%	3%	3%	-8%	-8%	-8%
Core revenues	993	1,005	971	945	940	931	-1%	-5%	1%	3,651	3,761	3,870	-5%	3%	3%	-3%	-3%	-3%
Trading & other	125	180	188	128	(101)	105	--	--	--	344	350	355	-13%	2%	1%	0%	0%	0%
Total Income	1,118	1,185	1,159	1,073	838	1,036	-22%	-25%	-19%	3,995	4,111	4,225	-6%	3%	3%	-3%	-3%	-3%
Operating Costs	(662)	(645)	(634)	(650)	(655)	(637)	1%	-1%	3%	(2,594)	(2,531)	(2,497)	0%	-2%	-1%	3%	2%	1%
Pre-Provision Profit	456	541	525	423	184	399	-57%	-60%	-54%	1,401	1,581	1,728	-16%	13%	9%	-12%	-10%	-8%
Provisions	(775)	(426)	(447)	(1,376)	(2,592)	(2,885)	88%	--	-10%	(2,911)	(1,417)	(1,157)	-40%	-51%	-18%	--	38%	30%
Operating Result	(319)	115	78	(953)	(2,408)	(2,486)	--	--	-3%	(1,510)	163	570	-52%	--	--	--	-78%	-43%
Other	(21)	8	0	14	(131)	(1,600)	--	--	--	(600)	(0)	0	--	--	--	0%	--	--
Result Before Tax	(340)	122	78	(939)	(2,539)	(4,086)	--	--	-38%	(2,110)	163	570	-36%	--	--	--	-78%	-43%
Net Attributable Result ⁽²⁾	(197)	93	209	(1,151)	(2,531)	(4,063)	--	--	-38%	(2,018)	118	543	-40%	--	--	--	-82%	-34%
NIM ⁽¹⁾	1.9%	1.9%	1.8%	1.8%	1.9%	1.9%	4bp	-6bp	1bp	1.8%	1.8%	1.9%	-9bp	4bp	3bp	-15bp	-15bp	-14bp
Cost / Income	59%	54%	55%	61%	78%	62%	17pp	19pp	17pp	65%	62%	59%	4pp	-3pp	-2pp	4pp	3pp	2pp
Cost of risk ⁽¹⁾	278 bp	150 bp	166 bp	526 bp	972 bp	1,186 bp	446bp	693bp	-215bp	273 bp	132 bp	106 bp	-181bp	-141bp	-25bp	147bp	27bp	17bp
ROTE	-8.5%	4.0%	8.7%	-55.0%	-171.2%	-174.6%	-116pp	-163pp	3pp	-19.8%	1.1%	5.0%	37pp	21pp	4pp	-18pp	-5pp	-3pp
ROTA	-47 bp	22 bp	51 bp	-288 bp	-663 bp	-1,069 bp	-375bp	-616bp	406bp	-133 bp	8 bp	36 bp	88bp	141bp	28bp	-124bp	-35bp	-20bp
Net loans	0.1 tn	0.1 tn	0.1 tn	0.1 tn	0.1 tn	0.1 tn	2.0%	-4.2%	9.7%	0.1 tn	0.1 tn	0.1 tn	0.0%	1.0%	1.0%	9.7%	9.7%	9.7%
Deposits	87.8 bn	88.0 bn	83.1 bn	76.5 bn	75.7 bn	76.5 bn	-1.1%	-13.8%	-1.1%	77.2 bn	78.7 bn	80.3 bn	2.0%	2.0%	2.0%	-1.1%	-1.1%	-1.1%
Loans/deposits	127%	129%	129%	137%	141%	127%	4pp	14pp	14pp	138%	137%	136%	-3pp	-1pp	-1pp	14pp	13pp	13pp
Total assets	169 bn	170 bn	164 bn	160 bn	153 bn	152 bn	-4.4%	-9.4%	0.5%	152 bn	152 bn	152 bn	-0.8%	-0.1%	-0.1%	0.8%	1.2%	1.5%
CET1%	11.4%	11.4%	11.8%	10.7%	6.4%	13.6%	-430bp	-500bp	-717bp	11.6%	11.6%	12.3%	524bp	1bp	63bp	-16bp	-88bp	-120bp
CET1	8.1 bn	8.2 bn	8.4 bn	7.3 bn	4.2 bn	9.3 bn	-42.6%	-48.1%	-54.9%	7.6 bn	7.7 bn	8.3 bn	81.9%	1.6%	7.0%	-8.2%	-13.5%	-15.3%
RWAs	71 bn	72 bn	71 bn	68 bn	66 bn	69 bn	-4.1%	-7.5%	-4.4%	66 bn	66 bn	67 bn	0.0%	1.5%	1.5%	-7.0%	-7.0%	-6.9%
Tangible Equity / Assets	5.5%	5.5%	5.8%	5.2%	3.9%	6.1%	-1.4bp	-1.6bp	-2.3bp	6.7%	6.8%	7.2%	2.9bp	0.1bp	0.4bp	0.6bp	0.3bp	0.0bp

Source: Company data, Goldman Sachs Global Investment Research. **Notes:** (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

BBPM (Buy)

Exhibit 25: BBPM: 4Q16 earnings snapshot

€ mn, unless otherwise indicated; These numbers are calculated as the sum of the figures of former BAPO and BPM's historical numbers

€ mn	Quarterly Review					Overview		Annual Review			Growth (yoy)		
	Reported					q/q	y/y	Forecasts			2017E		
	4Q15	1Q16	2Q16	3Q16	4Q16			2018E	2019E	2017E	2018E	2019E	
NII	569	558	536	516	496	-4%	-13%	2,010	2,112	2,229	-5%	5%	6%
Fees (net)	495	468	475	449	511	14%	3%	1,970	2,029	2,090	3%	3%	3%
Core revenues	1,063	1,026	1,011	965	1,007	4%	-5%	3,980	4,141	4,319	-1%	4%	4%
Trading & other	162	155	198	179	139	-22%	-14%	580	566	577	-14%	-2%	2%
Total Income	1,225	1,181	1,209	1,145	1,147	0%	-6%	4,560	4,707	4,896	-3%	3%	4%
Operating Costs	(848)	(812)	(800)	(786)	(748)	-5%	-12%	(3,135)	(3,090)	(3,073)	0%	-1%	-1%
Pre-Provision Profit	377	369	409	359	399	11%	6%	1,425	1,617	1,822	-7%	13%	13%
Provisions	(319)	(750)	(359)	(811)	(995)	23%	-	(1,177)	(1,058)	(910)	-60%	-10%	-14%
Operating Result	58	(381)	50	(452)	(596)	32%	-	248	560	912	-	-	63%
Other	18	13	(5)	(170)	(704)	-	-	0	(0)	(0)	-	-	35%
Result Before Tax	76	(368)	45	(622)	(1,300)	-	-	248	560	912	-	-	63%
Net Attributable Result ⁽²⁾	167	(265)	43	(402)	(983)	-	-	153	376	621	-	-	65%
NIM ⁽¹⁾	2.0%	2.0%	1.9%	1.8%	1.8%	-4bp	-23bp	1.8%	1.8%	1.9%	-12bp	5bp	4bp
Cost / Income	69%	69%	66%	69%	65%	-3pp	-4pp	69%	66%	63%	2pp	-3pp	-3pp
Cost of risk ⁽¹⁾	113 bp	267 bp	126 bp	288 bp	360 bp	72bp	247bp	104 bp	91 bp	76 bp	-159bp	-	-15bp
ROTE	6.5%	-9.8%	1.5%	-14.0%	-33.6%	-20pp	-40pp	1.5%	3.7%	5.8%	15pp	2pp	2pp
ROTA	40 bp	-62 bp	10 bp	-95 bp	-236 bp	-	-	9 bp	22 bp	36 bp	-	13bp	14bp
Net loans	112.5 bn	112.3 bn	114.0 bn	112.4 bn	110.6 bn	-1.7%	-1.8%	112.8 bn	115.6 bn	119.1 bn	2.0%	2.5%	3.0%
Deposits	82.1 bn	84.9 bn	84.1 bn	82.2 bn	82.5 bn	0.4%	0.5%	84.1 bn	84.5 bn	85.0 bn	2.0%	0.5%	0.5%
Loans/deposits	137%	132%	136%	137%	134%	-3pp	-3pp	134%	137%	140%	-0pp	3pp	3pp
Total assets	171 bn	174 bn	173 bn	172 bn	168 bn	-2.3%	-1.6%	171 bn	173 bn	177 bn	1.3%	1.1%	2.0%
CET1 %	12.3%	12.0%	11.6%	12.1%	11.4%	-68bp	-90bp	11.8%	11.9%	12.1%	43bp	-	17bp
CET1	9.8 bn	9.5 bn	9.2 bn	9.3 bn	8.5 bn	-8.7%	-	8.6 bn	8.9 bn	9.3 bn	1.8%	3.1%	4.2%
RWAs	80 bn	79 bn	79 bn	77 bn	74 bn	-3.3%	-7.1%	73 bn	74 bn	76 bn	-1.9%	2.2%	2.7%
Tangible Equity / Assets	6.1%	6.3%	6.7%	6.8%	7.0%	0.3bp	1.0bp	6.0%	6.0%	6.2%	-1.0bp	0.0bp	0.2bp

Source: Company data, Goldman Sachs Global Investment Research. **Notes:** (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

UBI Banca (Neutral)

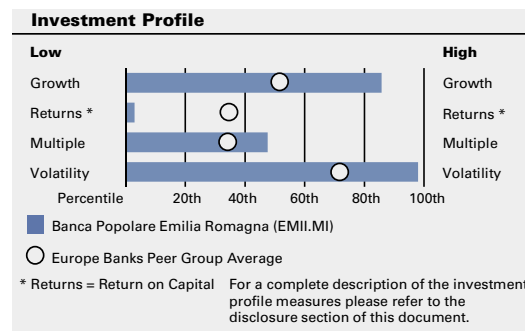
Exhibit 26: UBI Banca: 4Q16 earnings snapshot

€ mn, unless otherwise indicated

€ mn	Quarterly Review									Annual Review								
	Reported					GSe	Overview			Forecasts			Growth (yoy)			New vs. Old		
	4Q15	1Q16	2Q16	3Q16	4Q16	4Q16E	q/q	y/y	vs. GS	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
NII	392	393	383	373	368	369	-1%	-6%	0%	1,565	1,725	1,803	3%	10%	5%	5%	10%	10%
Fees (net)	331	337	330	321	346	347	8%	5%	0%	1,504	1,655	1,704	13%	10%	3%	9%	17%	17%
Core revenues	723	730	713	695	714	716	3%	-1%	0%	3,069	3,380	3,508	8%	10%	4%	7%	13%	13%
Trading & other	106	48	107	57	75	54	32%	-30%	38%	290	306	285	1%	6%	-7%	-1%	4%	4%
Total Income	829	779	820	751	789	770	5%	-5%	2%	3,359	3,686	3,792	7%	10%	3%	6%	12%	13%
Operating Costs	(565)	(524)	(507)	(513)	(523)	(525)	2%	-7%	0%	(2,323)	(2,393)	(2,351)	12%	3%	-2%	14%	19%	16%
Pre-Provision Profit	264	254	313	238	266	245	11%	1%	8%	1,036	1,293	1,441	-3%	25%	11%	-8%	2%	8%
Provisions	(211)	(161)	(1,122)	(171)	(284)	(200)	66%	35%	42%	(761)	(675)	(641)	-56%	-11%	-5%	14%	13%	22%
Operating Result	53	93	(809)	67	(18)	45	--	--	--	276	618	799	--	--	29%	-40%	-7%	-2%
Other	(48)	(0)	(247)	(4)	(65)	-	--	36%	--	0	0	(0)	--	--	--	--	--	--
Result Before Tax	5	93	(1,056)	63	(83)	45	--	--	--	276	618	799	--	--	29%	-40%	-7%	-2%
Net Attributable Result ⁽²⁾	(45)	42	(829)	32	(76)	3	--	67%	--	699	488	612	--	-30%	25%	--	36%	35%
NIM ⁽¹⁾	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	-2bp	-6bp	-0bp	1.6%	1.8%	1.8%	-22bp	12bp	3bp	-14bp	-6bp	-6bp
Cost / Income	68%	67%	62%	68%	66%	68%	-2pp	-2pp	-2pp	69%	65%	62%	3pp	-4pp	-3pp	5pp	3pp	2pp
Cost of risk ⁽¹⁾	100 bp	77 bp	535 bp	84 bp	139 bp	97 bp	55bp	39bp	41bp	79 bp	69 bp	64 bp	-133bp	-11bp	-5bp	-0bp	-1bp	4bp
ROTE	-2.2%	2.1%	-41.7%	1.6%	-3.7%	0.1%	-5pp	-1pp	-4pp	9.2%	5.9%	7.1%	19pp	-3pp	1pp	6pp	1pp	1pp
ROTA	-16 bp	15 bp	-288 bp	12 bp	-27 bp	1 bp	-39bp	-12bp	-28bp	54 bp	38 bp	47 bp	129bp	-17bp	9bp	34bp	6bp	7bp
Net loans	84.6 bn	84.1 bn	83.9 bn	82.0 bn	81.9 bn	82.0 bn	-0.2%	-3.2%	-0.2%	95.8 bn	98.2 bn	100.6 bn	17.0%	2.5%	2.5%	14.0%	14.0%	14.0%
Deposits	55.3 bn	56.5 bn	55.5 bn	53.8 bn	56.2 bn	54.2 bn	4.5%	1.7%	3.8%	72.4 bn	74.2 bn	76.1 bn	28.8%	2.5%	2.5%	30.4%	30.4%	30.4%
Loans/deposits	153%	149%	151%	152%	146%	151%	-7pp	-7pp	-6pp	132%	132%	132%	-13pp	-0pp	0pp	-19pp	-19pp	-19pp
Total assets	117 bn	117 bn	117 bn	113 bn	112 bn	113 bn	-0.9%	-4.1%	-0.9%	130 bn	131 bn	133 bn	16.0%	0.8%	1.0%	14.3%	14.4%	14.4%
CET1%	11.6%	11.7%	11.0%	11.3%	11.2%	11.3%	-6bp	-40bp	-11bp	10.9%	11.3%	11.8%	14bp	39bp	47bp	-38bp	-7bp	30bp
CET1	7.1 bn	7.1 bn	6.8 bn	6.8 bn	6.7 bn	7.0 bn	-2.0%	-6.4%	-4.6%	7.8 bn	8.2 bn	8.7 bn	16.3%	5.8%	6.3%	7.6%	10.4%	13.7%
RWAs	61 bn	61 bn	62 bn	60 bn	59 bn	62 bn	-1.5%	-3.0%	-3.6%	71 bn	73 bn	74 bn	14.8%	2.1%	2.1%	11.3%	11.1%	10.8%
Tangible Equity / Assets	7.0%	7.1%	6.9%	7.1%	7.3%	7.3%	0.2bp	0.3bp	0.1bp	5.9%	6.3%	6.5%	-1.4bp	0.4bp	0.2bp	-0.7bp	-0.3bp	-0.1bp

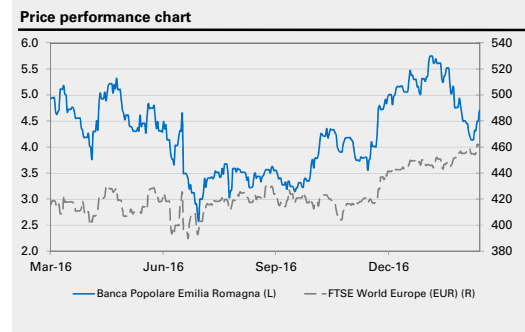
Source: Company data, Goldman Sachs Global Investment Research. **Notes:** (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

BPER (EMII.MI): Off CL and Down to Neutral



Key data	Current
Price (€)	4.70
12 month price target (€)	5.00
Upside/(downside) (%)	6
Market cap (€ mn)	2,262.1
Tier 1 ratio (%)	13.9

	12/16	12/17E	12/18E	12/19E
GS EPS (€) New	0.10	0.22	0.45	0.60
EPS (€) Old	0.31	0.47	0.58	0.67
DPS (€) New	0.06	0.06	0.11	0.15
DPS (€) Old	0.07	0.24	0.29	0.33
GS P/E (X)	43.2	21.2	10.5	7.8
Dividend yield (%)	1.4	1.2	2.4	3.2
GS ROE (%)	1.0	2.2	4.5	5.9
P/BV (X)	0.5	0.5	0.5	0.4



Share price performance (%)	3 month	6 month	12 month
Absolute	17.1	31.9	(4.6)
Rel. to FTSE World Europe (EUR)	5.9	22.9	(14.0)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/03/2017 close.

Source: Company data, Goldman Sachs Research estimates, FactSet.

What happened

We initiated on BPER with a Buy rating in March 2015, at the same time adding the shares to the Conviction List. Our original thesis was predicated on a constructive backdrop for consolidation and strong capital resources to absorb LLPs. However, BPER’s operational performance, like that of its peers, has been below our expectations, while the group’s underlying NPL formation has not fallen as fast as that of peers, thereby delaying the recovery of profitability. As a result of a weaker outlook, reflected in our revised estimates and price target, we now see limited upside for the shares (6% vs. 17% for our coverage). As a consequence, we remove BPER from the Conviction List and downgrade the shares to Neutral from Buy. We also remove BPER from the Directors of Research Focus List. Since being added to the Conviction List and Buy List on March 9, 2015, the shares are down -39% vs. European banks (SX7P) down 15% and the FTSE World Europe down 5%.

Current view

We downgrade BPER on the back of: (1) weaker-than-expected operational performance in recent results; and (2) slower asset quality normalisation: we believe that gross NPE formation remains at a high level at BPER – in 2016, NPE gross inflows were at 4.0% of total loans, vs. 4.5% in the previous year. Our latest research on NPE collection rates for all Italian banks suggests that the length of NPE work out has lengthened, and that collection values fall when work outs last longer (for more details see *Bank of Italy publishes NPL recovery rates*, January 30, 2017). We consider this level as high and increase our cost of risk estimates as a result to 94 bp from 82 bp on average for 2017-19E. We reduce our 2017-20E EPS estimates by 28% on average, driven by lower operational performance revenue growth and higher loan loss provisions.

We see better value in Unicredit, which we see as attractively valued on its new targets, which offer significant P&L upside and credibly address balance sheet risk through NPL sales and increased coverage.

Our 12-month ROE/COE-based price target for BPER decreases to €5.0 from €6.7 as a result of these changes.

Key risks to our forecasts, price target and investment view are better/worse than expected NIM, loan growth, credit quality, M&A or cost control. Unforeseen changes to the sovereign, macroeconomic, asset quality and regulatory environments are also risks.

BPER (Neutral)

Exhibit 27: Banca Popolare dell'Emilia Romagna: 4Q16 earnings snapshot

€ mn, unless otherwise indicated

€ mn	Quarterly Review									Annual Review								
	Reported					GSe	Overview			Forecasts			Growth (yoy)			New vs. Old		
	4Q15	1Q16	2Q16	3Q16	4Q16	4Q16E	q/q	y/y	vs. GS	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
NII	303	297	294	286	294	293	3%	-3%	0%	1,182	1,237	1,314	1%	5%	6%	1%	1%	3%
Fees (net)	189	177	181	175	180	189	3%	-5%	-5%	715	737	759	0%	3%	3%	-4%	-4%	-4%
Core revenues	492	474	475	461	474	482	3%	-4%	-2%	1,898	1,974	2,073	1%	4%	5%	-1%	-1%	1%
Trading & other	40	31	74	39	35	40	-12%	-14%	-14%	172	158	162	-4%	-8%	3%	1%	-3%	-2%
Total Income	532	505	549	500	509	522	2%	-4%	-3%	2,070	2,132	2,235	0%	3%	5%	-1%	-1%	0%
Operating Costs	(328)	(315)	(325)	(299)	(327)	(306)	9%	0%	7%	(1,258)	(1,261)	(1,286)	-1%	0%	2%	2%	1%	1%
Pre-Provision Profit	204	190	224	201	182	216	-10%	-11%	-16%	811	870	949	2%	7%	9%	-5%	-4%	-1%
Provisions	(290)	(146)	(174)	(150)	(295)	(127)	--	2%	--	(586)	(496)	(459)	-23%	-15%	-7%	35%	25%	20%
Operating Result	(87)	44	50	51	(113)	88	--	31%	--	225	374	490	--	66%	31%	-46%	-26%	-15%
Other	186	3	(4)	2	(26)	-	--	--	--	-	(0)	-	--	--	--	--	--	--
Result Before Tax	99	47	45	52	(140)	88	--	--	--	225	374	490	--	66%	31%	-46%	-26%	-15%
Net Attributable Result ⁽²⁾	149	31	34	36	(87)	46	--	--	--	108	219	294	--	--	35%	-53%	-23%	-9%
NIM ⁽¹⁾	2.8%	2.7%	2.7%	2.6%	2.6%	2.7%	-3bp	-19bp	-9bp	2.5%	2.6%	2.7%	-4bp	4bp	9bp	-9bp	-10bp	-5bp
Cost / Income	62%	62%	59%	60%	64%	59%	4pp	3pp	6pp	61%	59%	58%	-1pp	-2pp	-2pp	2pp	1pp	0pp
Cost of risk ⁽¹⁾	266 bp	133 bp	159 bp	137 bp	259 bp	116 bp	259bp	-6bp	143bp	126 bp	103 bp	93 bp	-43bp	-22bp	-10bp	29bp	16bp	12bp
ROTE	13.9%	2.7%	3.1%	3.3%	-8.0%	4.2%	-11pp	-22pp	-12pp	2.5%	5.0%	6.4%	2pp	2pp	1pp	-3pp	-1pp	0pp
ROTA	98 bp	20 bp	22 bp	23 bp	-54 bp	30 bp	-77bp	-152bp	-84bp	16 bp	33 bp	43 bp	14bp	16bp	11bp	-20bp	-12bp	-7bp
Net loans	43.7 bn	44.0 bn	44.0 bn	43.6 bn	45.5 bn	43.8 bn	4.3%	4.1%	3.8%	46.6 bn	48.0 bn	49.2 bn	2.5%	3.0%	2.5%	4.3%	5.3%	5.3%
Deposits	35.9 bn	36.0 bn	36.0 bn	36.3 bn	38.9 bn	36.7 bn	7.1%	8.4%	6.1%	40.5 bn	41.7 bn	43.0 bn	4.1%	3.0%	3.0%	7.2%	7.2%	7.2%
Loans/deposits	122%	122%	122%	120%	117%	120%	-3pp	-5pp	-3pp	115%	115%	115%	-2pp	0pp	-1pp	-3pp	-2pp	-2pp
Total assets	61 bn	61 bn	62 bn	63 bn	65 bn	63 bn	3.7%	6.0%	3.4%	66 bn	67 bn	69 bn	1.8%	2.1%	1.8%	3.7%	4.4%	4.5%
CET1%	11.2%	11.5%	14.1%	14.1%	13.3%	14.1%	-86bp	206bp	-84bp	13.2%	13.4%	13.5%	-3bp	15bp	7bp	-100bp	-104bp	-86bp
CET1	4.5 bn	4.6 bn	4.4 bn	4.5 bn	4.3 bn	4.5 bn	-3.4%	-3.8%	-3.7%	4.4 bn	4.6 bn	4.8 bn	1.9%	3.7%	4.8%	-4.3%	-3.7%	-2.4%
RWAs	40 bn	40 bn	31 bn	32 bn	33 bn	32 bn	3%	-19%	2%	33 bn	34 bn	36 bn		2.5%	4.3%	2.9%	3.8%	3.8%
Tangible Equity / Assets	7.1%	7.4%	7.1%	7.1%	6.7%	7.1%	-0.4bp	-0.3bp	-0.4bp	6.6%	6.6%	6.7%	-0.1bp	-0.0bp	0.1bp	-0.6bp	-0.7bp	-0.6bp

Source: Company data, Goldman Sachs Global Investment Research. **Notes:** (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

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Disclosure Appendix

Reg AC

We, Jean-Francois Neuez and Valentine Arditti, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

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Jean-Francois Neuez: Europe-Pan-Euro Banks.

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	Rating Distribution			Investment Banking Relationships		
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Global	32%	54%	14%	64%	60%	51%

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