

## Italy: Banks

Equity Research

### 3Q12: Top-line pressure and lower coverage ratios, but reduced liquidity gap

#### Continued, albeit slower, NPL formation ...

Central bank data released on November 8 shows that NPLs continued to grow in 3Q12 at Italian banks, albeit at a slower pace. The NPL ratio rose to 5.81% from 5.66% in June and 5.35% in December 2011. Gross NPLs rose by 15.3% yoy as of September vs. 15.8% in 2Q12. Therefore, annualized NPL formation was still at a relatively high level of 0.88% in 3Q12, but marked a slowdown from the 1.11% seen in 2Q12.

#### ... coupled with pre-provision profit pressure from declining rates ...

The rate environment continued to deteriorate in 3Q12. The quarterly average 3 and 6 month Euribor fell by 34 bp and 36 bp respectively from 2Q12 to 3Q12. In addition, loans to non-financial corporate & households fell by 1% in 3Q12. With declining new loan production, banks were less able to offset the negative effect of rate resets on the back book with higher margin new loans, in our view. We believe that this will lead to further pressure on net interest margins. We therefore reduce our NII estimates by 1% for 2012 on average, leading to 2% net income downgrades.

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#### ... leads to further pressure on coverage ratios for Italian banks

Rising NPLs and continued pre-provision profit pressure in 3Q12 led to a lower industry coverage ratio, which stood at 42.8% in 3Q12, down from 43.6% in 2Q12 and 44.6% as of year-end 2011. We continue to see this trend as a key pressure point for the industry, and more so for domestic names: in aggregate, the coverage ratio of the six Italian banks under our coverage slipped from 42% in 2011 to 40% in 1H12. But within the group, large banks (ISP and UCI) show coverage at 43% vs. 32% at domestic banks.

#### Liquidity gap reduction encouraging

In 3Q12, loans declined by 1% while deposits grew by 2.3% sequentially, led by interest bearing deposits. As a result the banks funding gap narrowed by €26 bn and the loan/deposit ratio fell by 3 pp to 120%. In addition, 3Q12 saw renewed bond issuance in the public markets, including unsecured debt. Central bank usage consequently started to fall. This progressive normalization of funding conditions is welcome, in our view.

#### 3Q12 RESULTS CALENDAR

BMPS, November 12

Intesa, November 13

UniCredit, November 13

UBI Banca, November 13

Banco Popolare, November 13

Banca Popolare di Milano, November 13

See also [Post 2Q12, reducing coverage remains a key pressure point](#) published on September 28, 2012

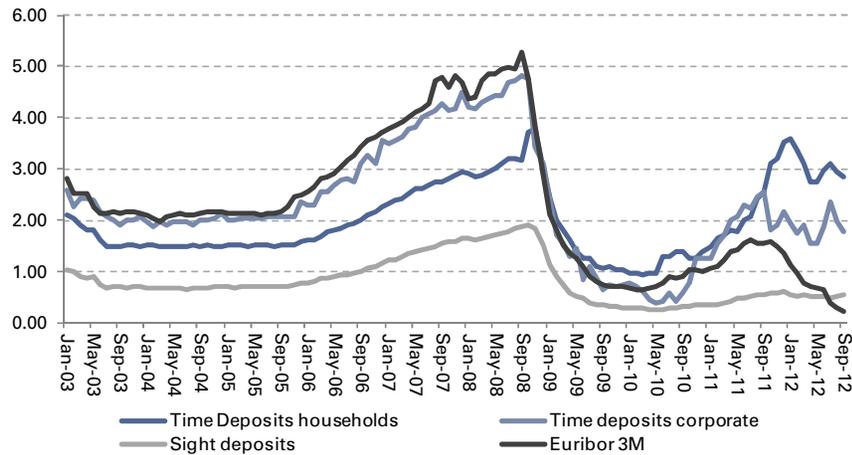
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# Italian banks: Key system data

**Exhibit 1: Euribor rates are falling faster than deposit rates ...**

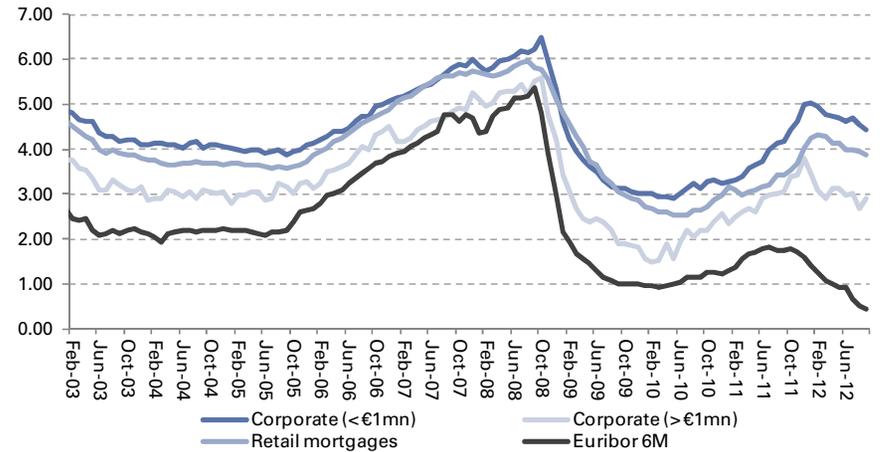
Deposit rates on outstanding amounts, %



Source: Datastream, Bank of Italy.

**Exhibit 2: ... and loan margins remain high**

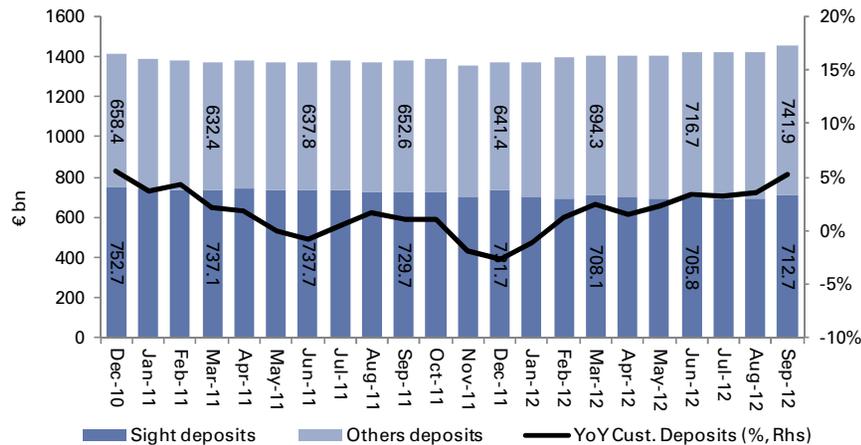
New business loan rates, %



Source: Datastream, Bank of Italy.

**Exhibit 3: Customer funding confirmed its resilience**

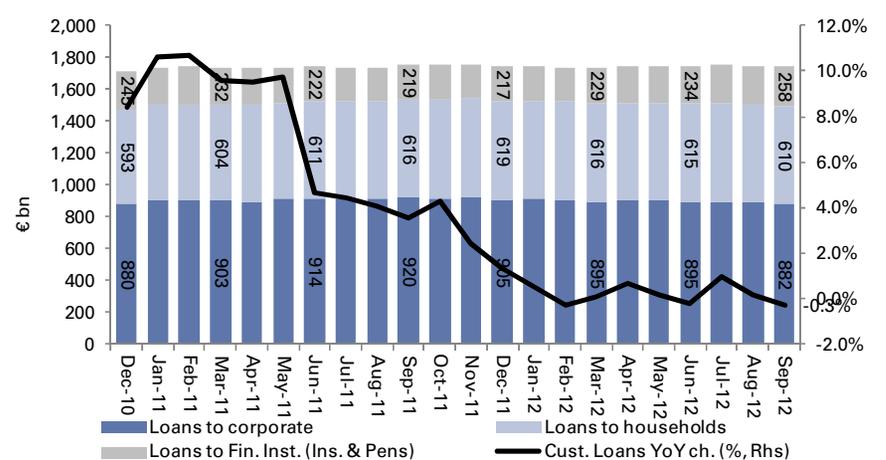
Deposits (private sector)



Source: Bank of Italy.

**Exhibit 4: Customer loans trend and breakdown**

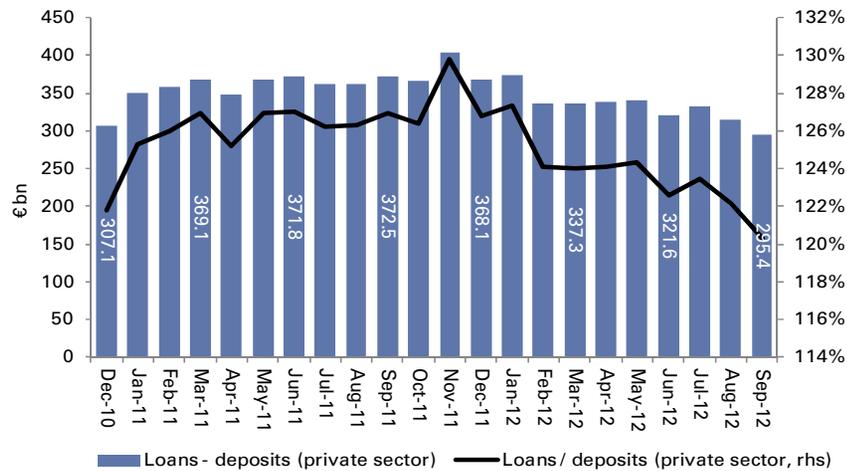
€ bn



Source: Bank of Italy.

**Exhibit 5: Liquidity gap continued to decline in 3Q12**

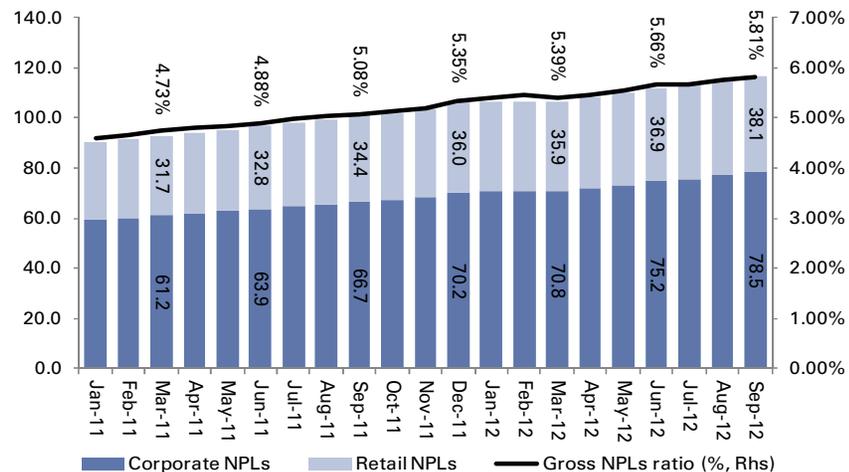
Loans – deposits, € bn



Source: Bank of Italy.

**Exhibit 7: NPL evolution: continued but slower increase ...**

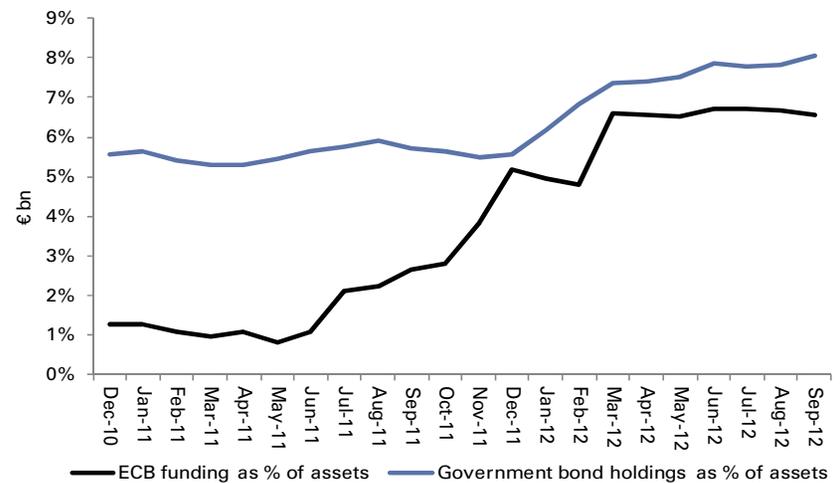
€ bn, and % of loans



Source: Bank of Italy.

**Exhibit 6: Usage of Central Bank lending facilities vs. govt bond holdings**

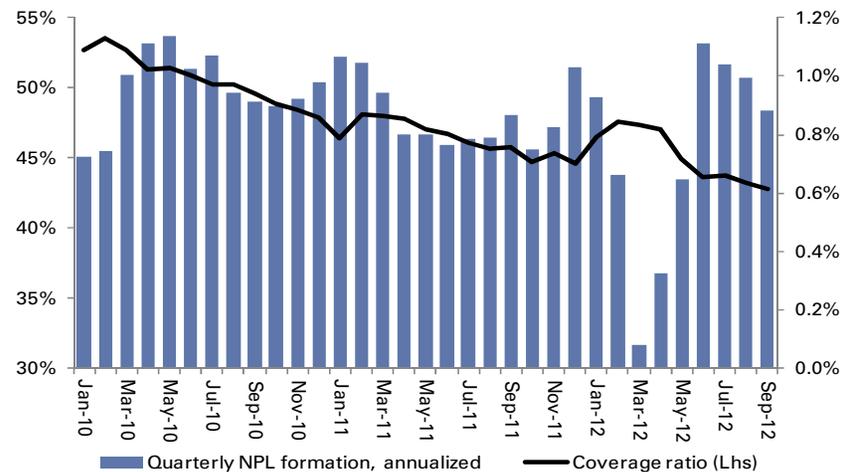
As % of assets € bn



Source: Bank of Italy.

**Exhibit 8: ... and coverage ratios fell in 3Q12**

Coverage ratio (lhs) of gross NPLs, annualized NPL formation as % of loans



Source: Bank of Italy.

## Italian banks: Ratings and valuation summary

### We reduce our GS EPS estimates by 5% for 2012, 2% for 2013 and 3% for 2014

We reduce our GS EPS forecasts by 5% for 2012 mainly to reflect the challenging market conditions faced by Italian banks in 3Q12: the main driver is lower margins (owing to declining base rates).

#### Exhibit 9: We reduce our GS EPS estimates by 5% for 2012 , 2% for 2013 and 3% for 2014

GS EPS and 12-month price target changes (€)

	GS EPS (new)			GS EPS (old)			% change		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
UniCredit	0.26	0.41	0.58	0.27	0.43	0.60	-4%	-3%	-4%
Intesa	0.11	0.16	0.19	0.11	0.16	0.19	-2%	-1%	-1%
BMPS	-0.01	0.01	0.04	-0.02	0.01	0.04	-21%	-1%	-3%
BP Milano	0.04	0.04	0.05	0.04	0.04	0.05	-4%	-3%	-4%
BaPo	0.09	0.08	0.17	0.09	0.09	0.18	4%	-5%	-5%
UBI	0.24	0.26	0.42	0.24	0.27	0.44	-2%	-2%	-4%
Italian banks							-5%	-2%	-3%

Source: Company data, GS Research Estimates

**Exhibit 10: Italian banks valuation summary**

All price targets have a 12-month time horizon

	Rating	Price	Price target		Potential upside	GS P/E			GS v consensus		
			New	Old		2012E	2013E	2014E	2012E	2013E	2014E
UniCredit	N	3.42	3.80	3.90	11%	13.4x	8.3x	5.9x	2%	22%	16%
Intesa San Paolo	N	1.22	1.50	1.50	23%	11.1x	7.8x	6.5x	-9%	12%	5%
Banca Monte dei Paschi di Siena	N	0.21	0.21	0.21	-1%	nm	36.5x	5.7x	nm	-71%	24%
Banca Popolare di Milano	N	0.40	0.38	0.40	-5%	10.5x	10.7x	8.0x	27%	-6%	0%
Banco Popolare	N	1.18	1.27	1.30	8%	13.1x	14.0x	6.7x	0%	-40%	-8%
UBI Banca	N	2.86	3.00	3.10	5%	11.9x	10.9x	6.9x	9%	-3%	7%
Italian banks			-	-	14%	11.6x	10.0x	6.3x	-1%	8%	10%

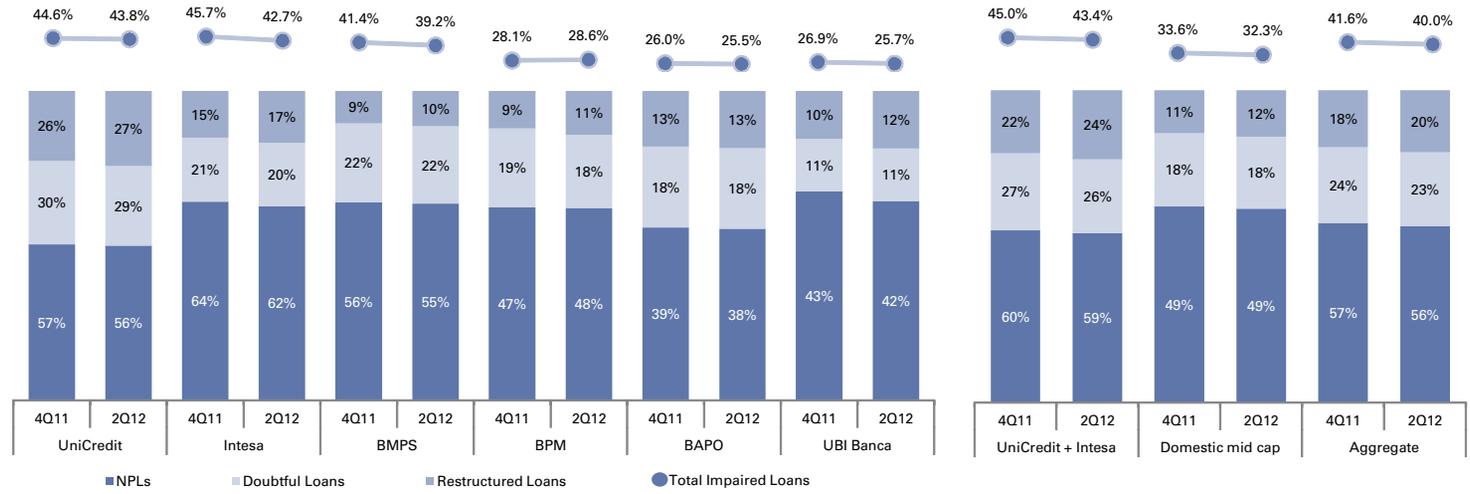
	TVBPS			P/TBV			ROTE		
	2011	2012E	2013E	2011	2012E	2013E	2012E	2013E	2014E
UniCredit	6.18	7.94	8.17	0.6x	0.4x	0.4x	4%	5%	7%
Intesa San Paolo	1.99	2.13	2.22	0.6x	0.6x	0.5x	5%	7%	8%
Banca Monte dei Paschi di Siena	0.67	0.55	0.58	0.3x	0.4x	0.4x	nm	1%	6%
Banca Popolare di Milano	1.08	1.07	1.11	0.4x	0.4x	0.4x	4%	3%	4%
Banco Popolare	3.78	3.84	3.91	0.3x	0.3x	0.3x	2%	2%	4%
UBI Banca	6.60	7.41	7.59	0.4x	0.4x	0.4x	3%	3%	5%
Italian banks	-	-	-	0.5x	0.5x	0.5x	4%	5%	7%

	Price target		
	Method	Horizon	Risks
UniCredit	ROE/COE	12m	Sovereign crisis, credit quality, funding costs
Intesa San Paolo	ROE/COE	12m	Sovereign crisis, credit quality, funding costs
Banca Monte dei Paschi di Siena	ROE/COE	12m	Sovereign crisis, credit quality, funding costs
Banca Popolare di Milano	ROE/COE	12m	Sovereign crisis, credit quality, funding costs
Banco Popolare	ROE/COE	12m	Sovereign crisis, credit quality, funding costs
UBI Banca	ROE/COE	12m	Sovereign crisis, credit quality, funding costs

Source: Company data, Goldman Sachs Research estimates.

# Asset quality: Coverage continued to fall in 1H12, as it has since the start of the crisis

**Exhibit 11: Coverage ratio continued to fall in 1H12 – domestic banks on lower levels than ISP & UCI**



Source: Company data, Goldman Sachs Research estimates.

# UniCredit 3Q12 preview

## Exhibit 12: UniCredit

€ mn; \* company compiled consensus

Financial summary EUR mn	Actuals				Forecasts		GS vs		
	3Q11	4Q11	1Q12	2Q12	3Q12E	Cons*	q / q	y/y	Cons
<b>NII</b>	3,831	3,816	3,790	3,690	3,593	3,639	-3%	-6%	-1%
Dividends	91	47	54	169	82	80	-51%	-9%	3%
Net Fees	1,948	1,989	1,997	1,946	1,935	1,926	-1%	-1%	0%
Net Trading	-229	255	1,232	407	448	376	10%	--	19%
Other	85	-13	30	35	57	58	61%	-33%	-2%
<b>Non Interest Income</b>	1,894	2,277	3,314	2,557	2,522	2,440	-1%	33%	3%
<b>Operating Income</b>	5,725	6,092	7,104	6,247	6,115	6,085	-2%	7%	0%
Personnel expenses	-2,357	-2,177	-2,309	-2,271	-2,248	-2,257	-1%	-5%	0%
Other administrative expenses	-1,391	-1,488	-1,376	-1,349	-1,348	-1,339	0%	-3%	1%
Recovery of expenses	143	164	109	135	130	129	-4%	-10%	0%
Depreciation and amortization	-275	-298	-263	-260	-257	-259	-1%	-7%	-1%
<b>Operating costs</b>	-3,879	-3,799	-3,839	-3,745	-3,723	-3,733	-1%	-4%	0%
<b>Gross operating profit</b>	1,846	2,293	3,265	2,502	2,393	2,352	-4%	30%	2%
Provisions for risks and charges	-266	-48	-16	-61	-65	-88	6%	-76%	-27%
Net adjustment to loans & other assets	-1,848	-1,492	-1,398	-1,910	-1,790	-1,750	-6%	-3%	2%
<b>Total provisions</b>	-2,114	-1,540	-1,414	-1,971	-1,854	-1,838	-6%	-12%	1%
<b>Net operating profit</b>	-267	754	1,851	531	539	603	1%	--	-11%
Integration Costs	-174	-90	-5	-15	0	-22			
Net income from investments	-612	-123	29	81	0	15			
<b>PBT</b>	-1,054	541	1,875	598	539	518	-10%	-151%	4%
Tax	-149	-248	-746	-252	-234	-213			10%
<b>PAT</b>	-1,202	292	1,129	346	304	305	-12%	-125%	0%
Net profit from discontinued operations	0	0	0	0	0	0			
Minorities	-81	-78	-98	-68	-90	-75			
PPA	-687	-92	-117	-106	-80	-98			
Goodwill impairment	-8,669	-8	0	-2		0			
<b>Net Profit Attributable to the Group</b>	-10,641	114	914	169	135	135	-20%	-101%	0%
<b>GS Net Income</b>	-542	405	594	278	265		-5%	-149%	--

Source: Company data, Goldman Sachs Research estimates.

## Intesa 3Q12 preview

**Exhibit 13: Intesa**  
€ mn, \* Bloomberg consensus

Financial summary EUR mn	Historical financials				Forecasts		GS vs		
	3Q11	4Q11	1Q12	2Q12	3Q12E	Cons*	q / q	y/y	Cons
Net interest income	2,479	2,541	2,501	2,431	2,375	2,363	-2%	-4%	0%
Dividends & inc. from equity inv.	26	5	26	29	20				
Net Fees	1,322	1,339	1,317	1,322	1,325		0%	0%	
Net Trading	-74	173	716	161	150		-7%	--	
Insurance income	50	205	258	195	175		-10%	--	
Other	-3	2	-5	-7	10				
Non Interest Income	1,321	1,724	2,312	1,700	1,680		-1%	27%	
Operating Income	3,800	4,265	4,813	4,131	4,055	4,141	-2%	7%	2%
Personnel expenses	-1,324	-1,348	-1,356	-1,353	-1,347		0%	2%	
Other administrative expenses	-752	-841	-694	-735	-740		1%	-2%	
Depreciation and amortization	-159	-177	-157	-155	-155		0%	-3%	
Operating costs	-2,235	-2,366	-2,207	-2,243	-2,242		0%	0%	
Gross operating profit	1,565	1,899	2,606	1,888	1,813	1,900	-4%	16%	5%
Provisions for risks and charges	-18	-106	-37	-34	-50		47%	--	
Net adjustment to loans	-695	-2,043	-973	-1,082	-1,089	-1,088	1%	57%	0%
Net impairment / losses on other assets	-635	-360	-59	-39	0		--	--	--
Total provisions	-1,348	-2,509	-1,069	-1,155	-1,139		-1%	-16%	
Net operating profit	217	-610	1,537	733	674		-8%	--	
Goodwill impairment	0	-10,233	0	0	0				
Net income from investments	7	-139	-6	-2	330				
PBT	224	-10,982	1,531	731	1,004	826	37%	--	-18%
Tax	894	976	-626	-152	-397				
Integration and restructuring charges	-483	-53	-14	-10	0				
Net profit	635	-10,059	891	569	607		7%	-4%	
PPA	-83	-67	-73	-76	-75				
Net profit from discontinued operations	0	0	0	0	0				
Minorities	-25	7	-14	-23	-15				
Net Profit Attributable to the Group	527	-10,119	804	470	517	430	10%	-2%	-17%
GS Net Income	417	-299	735	274	372		36%	-11%	

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

## BMPS 3Q12 preview

### Exhibit 14: BMPS

€ mn, \* Bloomberg consensus

Financial summary EUR mn					Forecasts		GS vs		
	3Q11	4Q11	1Q12	2Q12	3Q12E	Cons*	q / q	y/y	vs Cons
Net interest income	854	910	874	780	753	751	-3%	-12%	0%
Net Fees	450	400	424	413	415		1%	-8%	
Dividends & inc. from equity inv.	15	9	11	29	30		5%	95%	
Net Trading	-4	-52	161	111	150		35%	--	
Insurance income	0	0	0	0	0		--	--	
Other	-1	-31	3	2	0				
Non Interest Income	460	327	599	554	595		7%	29%	
Operating Income	1,314	1,238	1,473	1,334	1,348	1,373	1%	3%	-2%
Personnel expenses	-514	-597	-519	-504	-498		-1%	-3%	
Other administrative expenses	-266	-288	-264	-255	-250		-2%	-6%	
Depreciation and amortization	-40	-73	-45	-46	-41		-10%	2%	
Operating costs	-820	-958	-828	-804	-789		-2%	-4%	
Gross operating profit	494	279	645	530	558		5%	13%	
Provisions for risks and charges	-66	-200	-28	-100	-30		-70%	-54%	
Net adjustment to loans	-269	-464	-430	-409	-415		1%	54%	
Net impairment / losses on other assets	-72	-57	-6	-110	-20		-82%	-72%	
Total provisions	-406	-722	-464	-618	-465		-25%	14%	
Integration and restructuring charges	-16	-10	-1	-20	-5		-75%	-68%	
Goodwill impairment	0	-4,274	0	-1,574	0				
Net income from investments	26	-9	4	-42	0				
PBT	98	-4,735	184	-1,725	89	108	-105%	-9%	-18%
Tax	-42	-11	-117	63	-40		--	-5%	
Net profit	56	-4,746	67	-1,662	49		-103%	-13%	
Net profit from discontinued operations	6	-236	4	7	0				
Minorities	-1	7	-2	-3	-1		-54%	25%	
PPA	-19	-14	-14	-13	-13		-2%	-31%	
Net Profit Attributable to the Group	42	-4,989	55	-1,672	34	73	-102%	-18%	-53%
GS Net Income	50	-408	22	-77	-20		-74%	-140%	

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

## UBI Banca 3Q12 preview

**Exhibit 15: UBI Banca**  
€ mn, \* Bloomberg consensus

Financial summary EUR mn	Historical financials				Forecasts		GS vs		
	3Q11	4Q11	1Q12	2Q12	3Q12E	Cons*	q / q	y / y	vs Cons
Net interest income	546	557	527	517	506	506	-2%	-7%	0%
Dividends	1	0	0	12	1				
Income from equity inv.	3	-3	11	15	5		-66%	43%	
Net Fees	292	315	299	287	285		-1%	-2%	
Net Trading	-24	24	94	11	18		58%	-175%	
Insurance income	0	0	0	0	0				
Other	21	24	12	27	12		-56%	-43%	
Non Interest Income	294	360	417	352	321		-9%	9%	
Operating Income	840	917	943	870	827	845	-5%	-1%	-2%
Operating costs	-544	-595	-584	-564	-555		-2%	2%	
Gross operating profit	296	322	360	306	273		-11%	-8%	
Net adjustment to loans	-135	-208	-131	-203	-166	-172	-18%	23%	-4%
Net impairment / losses on other assets	-6	4	-2	-48	0				
Provisions for risks and charges	-5	-12	-4	-17	-5		-70%	-4%	
Total provisions	-147	-217	-137	-268	-171		-36%	16%	
Net operating profit	149	105	222	38	102		166%	-32%	
Net income from investments	-113	6	0	17	-8				
Goodwill impairment	0	-2,047	0	0	0				
PBT	36	-1,936	222	55	94	111	70%	159%	-15%
Tax	-80	-58	-100	15	-52				
Integration and restructuring charges	0	0	0	0	0				
Net profit	-43	-1,995	122	71	42		-41%	-196%	
Net profit from discontinued operations	0	0	0	0	0				
Minorities	-8	-12	-8	-8	-8				
PPA	-17	-18	-9	-9	-10				
Net Profit Attributable to the Group	-69	-2,024	105	54	24	44	-55%	-135%	-45%
GS Net Income	61	36	114	46	44		-5%	-29%	

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

## Banca Popolare di Milano 3Q12 preview

### Exhibit 16: BP Milano

€ mn, \* Bloomberg consensus

Financial summary EUR mn	Historical				Forecasts		GS vs		
	3Q11	4Q11	1Q12	2Q12	3Q12E	Cons*	q / q	y / y	vs Cons
Net interest income	203	205	227	229	198		-14%	-3%	
Net Fees	125	121	119	124	119		-4%	-5%	
Income from equity inv.	0	-7	3	4	2		--	--	
Dividends	0	0	0	0	0		--	--	
Net Trading	-27	-34	79	-3	30		--	--	
Div. and trading income	-28	-41	82	1	32		--	--	
Insurance income	0	0	0	0	0		--	--	
Other income	9	12	6	7	6		-15%	-33%	
Non Interest Income	106	91	207	132	157		19%	48%	
Operating Income	309	296	434	360	355	364	-2%	15%	-2%
Personnel expenses	-164	-140	-169	-145	-158		9%	-4%	
Other administrative expenses	-65	-82	-74	-72	-72		0%	10%	
Depreciation and amortization	-20	-26	-18	-19	-18		-4%	-11%	
Operating costs	-250	-249	-262	-236	-248		5%	-1%	
Gross operating profit	60	47	172	124	107		-14%	79%	
Provisions for risks and charges	1	-110	-4	-3	-3		8%	--	
Net adjustment to loans	-67	-304	-52	-83	-69		-16%	4%	
Net impairment / losses on other assets	0	-420	0	0	0				
Total provisions	-66	-834	-56	-86	-72		-15%	10%	
Net operating profit	-6	-787	116	38	34		-11%	--	
Goodwill impairment	0	0	0	-360	0				
Exceptionals	0	0	0	0	0				
PBT	-6	-787	116	-322	34	36	-111%	--	-5%
Tax	-15	117	-52	123	-15				
Net profit	-21	-670	64	-199	19		-109%	--	
Net profit from discontinued operations	26	0	0	0	0				
Minorities	-1	9	0	3	-1				
Net Profit Attributable to the Group	4	-661	64	-196	18	19	-73%	--	-5%
GS Net income	-22	-661	64	43	18				

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

## Banco Popolare 3Q12 preview

**Exhibit 17: Banco Popolare**  
€ mn\* Bloomberg consensus

P&L summary EUR mn	Historical				Forecasts		GS vs		
	3Q11	4Q11	1Q12	2Q12	3Q12E	Cons*	q / q	y / y	vs Cons
Net interest income	493	486	487	457	435		-5%	-12%	
Dividends & Inc. from equity inv.	5	-35	7	-66	0				
Net Fees	314	305	337	342	300		-11%	-6%	
Net Trading	268	144	-34	156	95		-380%	-57%	
Other	17	13	18	22	20		11%	-42%	
Non Interest Income	604	426	328	454	415		27%	-30%	
Operating Income	1,097	912	814	910	850	821	4%	-20%	4%
Personnel expenses	-372	-382	-366	-367	-368		1%	-3%	
Other administrative expenses	-197	-170	-188	-183	-185		-1%	-3%	
Depreciation and amortization	-32	-45	-35	-30	-34		-3%	-9%	
Operating costs	-600	-597	-588	-580	-587		0%	-3%	
Gross operating profit	497	315	226	331	264		16%	-43%	
Net adjustment to loans	-192	-168	-212	-187	-205		-3%	6%	
Net impairment / losses on other assets	-11	-54	-2	-15	-15				
Provisions for risks and charges	-7	-55	-73	60	-5				
Total provisions	-210	-277	-286	-141	-225		-21%	0%	
Net operating profit	287	38	-59	189	39		-166%	-84%	
Goodwill impairment	0	-2,832	0	-10	0				
Net income from investments	2	3	0	5	0				
PBT	289	-2,791	-59	185	39	12	-166%	-85%	--
Tax	-121	250	-29	-28	-17				
Integration and restructuring charges	0	0	0	0	0				
Net profit	167	-2,541	-88	157	21		-124%	-86%	
Net profit from discontinued operations	-2	-3	0	1	0				
Minorities	-5	-7	-5	-6	-4				
PPA	-28	-31	-16	-14	-12				
Net Profit Attributable to the Group	133	-2,582	-109	138	5	-40	-105%	-96%	--
GS Net Income	-21	-11	39	94	17				

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

## Disclosure Appendix

### Reg AC

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

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