

Credit quality in Italy: myth or reality?

We remain cautious on 1H 13, but it is worth dispelling a few myths

November 26, 2012

Sector view
Remains

Neutral

We remain cautious given pressure on profitability

Despite balance sheet improvements and cost-cutting achievements, we remain cautious on Italian banks given pressure on NII/credit quality, which in turn pressure ROE. IntesaSP (Buy, TP EUR 1.3) and Mediobanca (Neutral, TP EUR 5) are still our favourite stocks. The main risk to our call remains a macro reversal, given the banks' P&L leverage to better economic conditions and positive sovereign trends, considering the strong relationship still in place between banks' share prices and the sovereign.

A euro banks comparison should factor in different NPL definitions

Investors remain cautious on the sub-sector given credit quality issues in a pan-European context (higher NPL stocks, lower coverage). Our analysis shows that European banks' classification of NPLs is heterogeneous and hence not comparable owing to the inclusion of watch-list/restructured loans in the Italian banks' definition of doubtful loans. Net of this, NPLs and coverage ratios would not be different. Speed of growth remains a differentiator, however, owing to the lengthy NPL recovery process.

Coverage no worse than European peers – better including collaterals

The Bank of Italy has made it clear that banks need to increase coverage given the declines of the past five years. There seems to be asymmetry between the levels of coverage and collateralisation in Italy (the lower the NPL coverage, the higher the level of collateralisation). Italian banks also provide sufficient detail on the level and value of collateral, as well as on the portion of the loan book that is securitised. The counter-argument is the real estate price resilience in Italy, on which we remain constructive given stable conditions and our recent discussions with specialised operators.

Need for action?

Italian banks would need extra-provisioning of EUR 32bn at a system level to realign coverage with that necessary to move off-balance sheet big NPLs, given current conditions in the NPL market. This is not our base-case scenario, however. We see more short-term negatives for such a scenario: 1) sector-wide actions prompted by the regulator would create a negative spiral for banks' share prices; 2) from our discussions with NPL operators we understand that the market is distorted by a number of factors; and 3) more importantly, this would not facilitate access to the funding market for the banks, as sovereign issues determine access.

LLPs higher for longer

Our base case is for the banks to increase their coverage levels gradually, although we expect that these will stay below pre-crisis levels for some years. Our LLP estimate for the sector remains high in 2013 and gradually falls in 2014 when recoveries/write-backs should help to reduce the P&L burden. We agree, however, that system action to reduce NPL stock is needed (increasing LLP fiscal deductibility, speeding up NPL recovery).

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Investment case

From our discussions with investors, credit quality concerns over Italian banks usually explain the cautious approach on the sub-sector. The recent acceleration in non-performing loan (NPL) growth, higher NPL stocks and lower coverage ratios than at international peers are the main reasons why investors believe that action is needed to improve the quality of banks' balance sheets in Italy. An intervention in this direction might also become more probable in a scenario with a single supervisor in Europe.

These themes were recently highlighted by the IMF in its recommendation on the country, urging the need for improving coverage ratios at a system level and the workout of NPL stock in order to free up capital resources for lending (see pages 54-55 in <http://www.imf.org/external/pubs/ft/scr/2012/cr12167.pdf>). In his recent official speech, Bank of Italy governor, Ignazio Visco, also highlighted the pace of credit quality deterioration in Italy and called for an increase in coverage ratios at Italian banks (see http://www.bancaditalia.it/interventi/integov/2012/gmr_2012/en_visco_311012.pdf). However, he also mentioned how an international comparison is distorted by different NPL classification rules, extended NPL holding periods on Italian banks' balance sheets and lengthy recovery procedures owing to Italy's slow justice system.

In this report, we look at: 1) NPL definitions as per the Italian regulator, recent NPL trends at a system level; 2) NPL coverage ratios of banks in Italy in the context of the different level of collateralisation of their NPL portfolios; 3) recent real estate developments in Italy; 4) an international comparison of NPL classifications for the major banking groups in different countries; and 5) sector provisioning needs assuming a systemic intervention (very unlikely, in our view) and assumptions underlying our loan-loss provisioning (LLP) estimates for the sub-sector.

Our finding is that on a European comparison, the level of doubtful loans in Italy appears higher in percentage terms than elsewhere. However, we flag that definitions vary between countries, as doubtful loans in Italy also include watch list/restructured loans that other countries seem not to recognise in their NPL classes. If we compare NPLs only (so called '*sofferenze*'), these are not far from the levels reported in other regions, although we believe that comparison is still affected by different criteria.

Coverage ratios in Italy include only specific provisions and exclude collaterals. At a system level, Italian banks' NPL coverage went down from 45.4% at the end of 2008, to 42.7% in September 2012, with declining trends across all banks under our coverage, particularly for the small banks (the Italian divisions of large banks also deteriorated faster than group level). Italian banks usually justify lower coverage ratios by pointing to the fact that the proportion of secured-loan portfolio has increased over the past five years, and the level of collateralisation of the NPL book has progressively risen (we found this is especially true for small banks), making coverage ratios only appear low. Our analysis of real estate in Italy and recent discussions we had with specialised operators in the NPL market all seem supportive of that fact that real-estate conditions in Italy are more resilient than in other countries in Europe. Furthermore, coverage of Italian banks would not differ from European counterparties looking at NPLs only (lower when considering total doubtful loans, although this is affected by different criteria). Overall, European banks do not disclose details of the level of collateralisation of their loan books, but Italian banks do. If we compare Italian banks with BNPP (one of the few major European groups that provides coverage net of collateral), the comparison would look favourable for the Italians.

We estimate that aligning NPL coverage with a level consistent with the price requested by potential buyers of NPL books – ie, specialised operators in the NPL market (on average around 70% of their face value), the sector would need extra-provisioning of some EUR 32bn (EUR 16bn of which is for the banks under our coverage). This, however, does not represent our base-case expectation. A one-off action prompted by the regulator would, in our view, create significant systemic risk, as it would affect investors' faith in the quality of bank balance sheets and trigger a second round of capital increases. According to our fixed income analyst, such action would improve bank balance sheet quality, but would not facilitate access to the funding market, as the

sovereign issue would remain regardless of the quality of the bank balance sheets. Hence, our base-case scenario is for banks to increase their coverage levels gradually, although these will stay below pre-crisis levels for some years. Our LLP estimates for the sector remain high in 2013 and gradually fall in 2014, when recoveries/write-backs should help to reduce the P&L burden.

We agree with investors that the stock of NPLs remains a key issue, but we see more immediate risks in case of one-off action in the short term, given that the functioning of the NPL disposal market is now distorted by the lack of liquidity and a number of conditions. We are also reassured by the fact that the current lack of transactions is caused by market-specific issues rather than asset/collateral valuation concerns. This would create divergence in terms of prices offered/requested by the acquirers/sellers. Banks would not include in their valuation models the cost of managing NPLs, while acquirers would tend to emphasise the time of recovery, which in Italy is admittedly slow because of the justice system.

Although we recognise positive recent developments in addressing funding gaps and cost cutting, and improving capital, we remain cautious on Italian banks given pressure on NII/deteriorating credit quality, which would in turn put pressure on sector profitability. Our main calls in the sub-sector are: IntesaSP (Buy, TP EUR 1.3) and Mediobanca (Neutral, TP EUR 5), while BPM (Neutral, TP EUR 0.45) remains our favourite pick among the small banks. The main risk to our calls would be a rapid improvement in the macro scenario, which would be beneficial for the Italian banks given their gearing via improved lending growth/NPL write-backs, and positive sovereign trends, given the strong relationship still in place between banks' share prices and the sovereign.

Credit quality issues in Italy

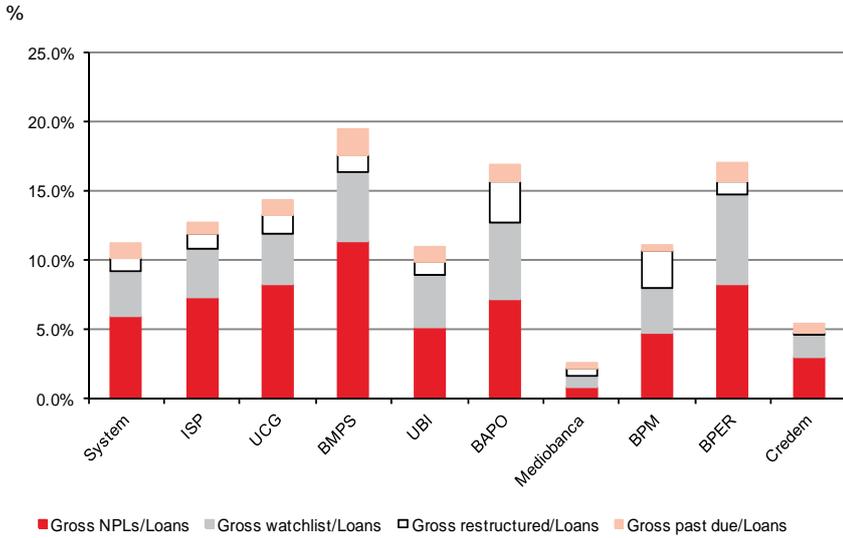
The Bank of Italy divides doubtful loans into four categories. In order of increasing severity these are: past-due, restructured, watch-list and NPLs. BMPS appears to be the bank with the highest ratio of doubtful loans, followed by BAPO/BPER and the two large banks (UCG and ISP). UBI, Mediobanca, BPM and Credem show doubtful loan ratios below system level, a characteristic that could be attributable to their geographical exposure (biased toward the 'safer' north of Italy). After adjusting numbers at a sector level, we found that average growth of NPLs over the past 10 years in Italy was almost double the average growth of loans. This is in contrast to the views of specialised NPL operators we recently met. They told us NPL trends in Italy have not followed loan growth, hence suggesting a more severe deterioration of the banks' loan portfolio. We found evidence that NPL trends tend to be correlated with the GDP trend, suggesting there is a lag of 3-4 quarters between a GDP trough and an NPL peak. LLP trends are correlated with GDP trends as well, but tend to be more reactive to an improvement in the economy, hence this would be consistent with the Italian banks/central bank's view that the NPL peak should be in mid-2013, after GDP troughs in 3Q/4Q 12. LLPs were on average higher at ISP and BMPS over the past five years, suggesting coverage has held up better, while recoveries were greater for ISP and UBI Banca. In our view, the pace of recoveries/write-backs is key for LLPs normalising in the event of a better macro cycle.

Definition of NPL in Italy, as per the regulator

According to the Bank of Italy definition, doubtful loans in Italy are divided into four categories. In this report, we look both at doubtful loans (the sum of all the categories) and NPLs (as a sub-category):

- 1) Past due loans: Loans past due or in arrears continuously for more than 90 days (if the bank utilises this definition according to a single transaction) and loans past due or in arrears, whose amount due is above the threshold of significance (5% of the total exposure).
- 2) Restructured loans: Occur when as a consequence of the deterioration in the financial and economic conditions of a debtor, a bank (or a pool) has allowed changes to be made to the original contracted terms and conditions (eg, rescheduling of the terms, reduction of the debt) for which a loss emerges. If an instalment is not paid after 30 days, restructuring loans have to be reclassified under the NPL line. Under the same conditions, watch-list loans can be reclassified as restructured loans when the aim is not to liquidate the company.
- 3) Watch list loans (so called '*incagli*'): Exposure to clients in temporary difficulty where this can be overcome in an appropriate period of time by the subjects themselves; the assessment of the situation of difficulty takes no account of the existence and/or magnitude of any personal or collateral security that may have been given to protect the loan. The Bank of Italy requires certain positions to be reclassified as 'objective watchlist' ('*incagli oggettivi*') when: 1) in the case of residential mortgages, a pledge is executed; 2) loans are past due or in arrears continuously for more than 150 days (for consumer credit), 180 days (consumer credit with original maturity of and more than 36 months), 270 days (for all the others), or when the amount due is above the threshold of 10% of the total exposure.
- 4) NPLs (so called '*sofferenze*'): Loans in a state of insolvency (even if not declared by a court) or in essential equivalent conditions, independently of guarantees and forecast of loss.

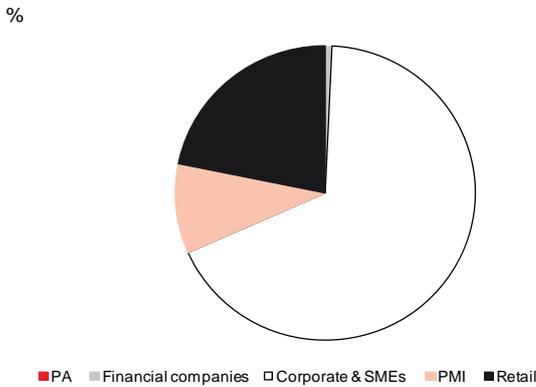
Fig. 1: Total doubtful loans at a system level, 3Q 2102



Total gross doubtful loans at a system level were EUR 216bn at end-June (latest available data at system level), of which EUR 114bn were gross NPLs (53% of the total), EUR 65bn watch-list (30%), EUR 16bn restructured (8%) and EUR 21bn past-due (10%). These represent some 11% of total loans in Italy. All the banks in our coverage universe show an above-system average gross doubtful loans ratio, except UBI, Mediobanca, BPM and Credem. This might reflect their geographical coverage given lower NPL ratios in northern Italy (see below).

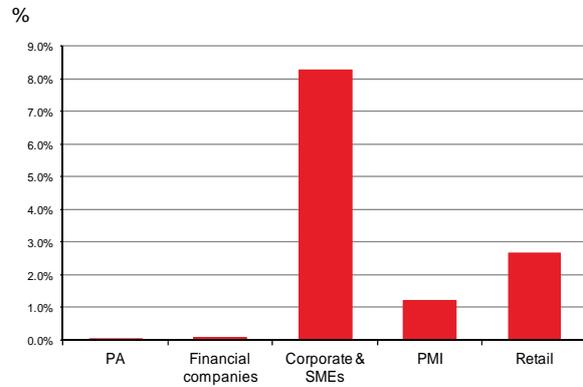
Note: data for System and Mediobanca are from 2Q 12 (latest available).
Source: Bank of Italy, Company data, Nomura research

Fig. 2: NPL breakdown by segment, 2Q 12



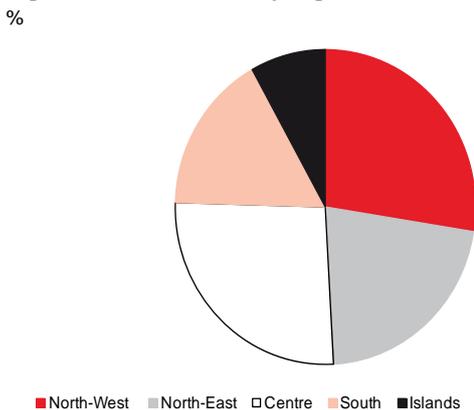
Source: Bank of Italy, Nomura research

Fig. 3: NPL ratio by segment, 2Q 12



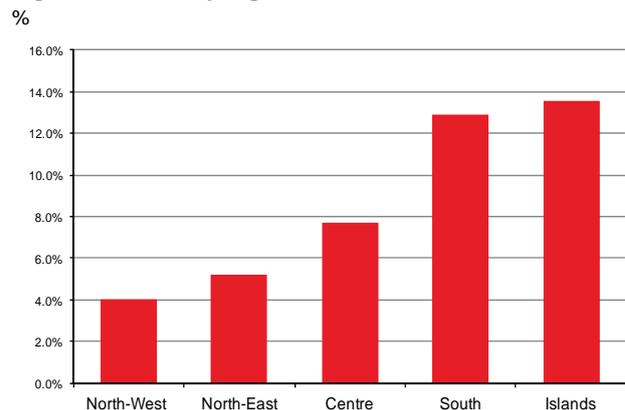
Source: Bank of Italy, Nomura research

Fig. 4: NPL breakdown by region, 2Q 12



Source: Bank of Italy, Nomura research

Fig. 5: NPL ratio by region, 2Q 12



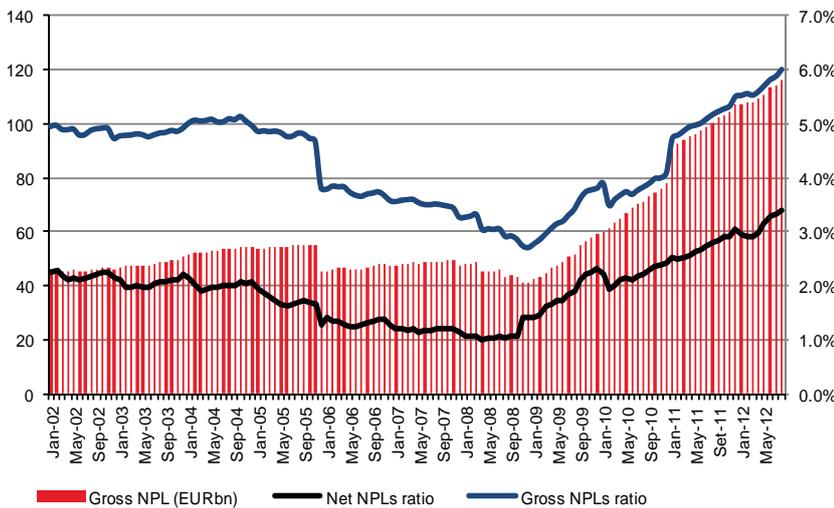
Source: Bank of Italy, Nomura research

NPL trends in Italy

Adjusting numbers for disposals and discontinuity in data, we found evidence that average NPL growth in the past 10 years was almost double the average loan growth. When considering the correlation between NPL trends and GDP growth, we note that the former follows economic growth with a lag of 3-4 quarters. This suggests that NPLs could peak in mid-2013 should GDP bottom in 3Q/4Q 2012; a view in line with that of most banks. Looking at how LLPs evolve versus GDP growth, provisions appear to react faster to improvements in the economy; this is related to the increasing positive impact of recoveries/write-backs.

Fig. 6: Gross NPL trends in Italy

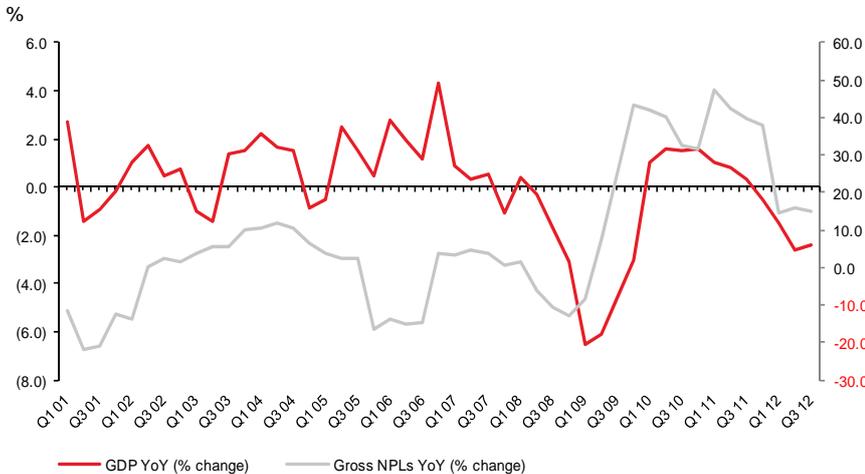
EURbn / %



Adjusting for discontinuity in the data presented by the Bank of Italy in terms of the total stock of both loans and NPLs (mainly a substantial disposal carried out by Intesa SP in 2005 regarding a portfolio of EUR 10bn gross NPLs), average growth of NPLs over the past 10 years in Italy was 10.6%, almost double the average growth of loans (6.2%). The gross NPL ratio has increased from 4.9% to 6% over the past 10 years, or 7.2% when adjusting for the disposal of NPLs.

Source: Bank of Italy, Nomura research

Fig. 7: Gross NPL growth vs GDP trends

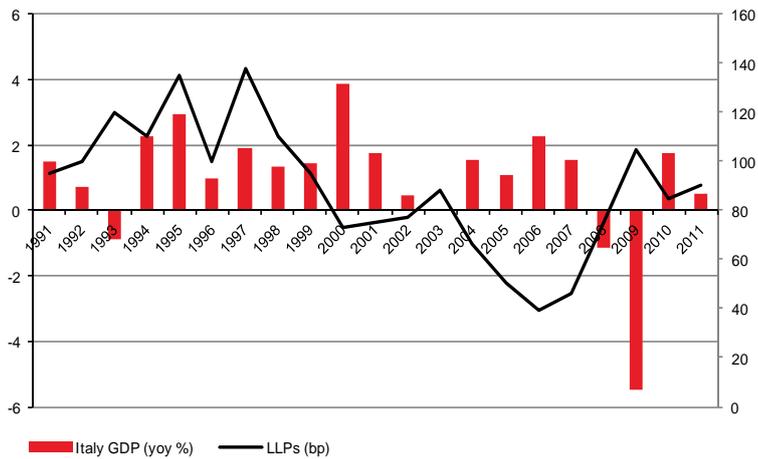


NPL trends tend to be correlated with GDP trends. This chart suggests that there is a lag of 3-4 quarters between GDP trough and NPL peak. This seems to be consistent with the Italian banks' message that NPLs would peak in mid-2013 if GDP were to trough in 3Q/4Q 2012. The improvement in NPLs tends to be slow in the case of economic recovery. After the GDP trough in 4Q 08, NPL growth peaked in 3Q 09 and partly normalised during 2010, although still remaining at a high level.

Source: Bank of Italy, Istat, ABI, Nomura research

Fig. 8: LLPs vs GDP trends

%/Bp



LLP trends tend to be correlated with GDP trends as well. However, unlike NPLs, for which there is normally a time lag with regard to GDP trends, LLPs tend to be more reactive to an improvement in the economy because write-backs on impaired loans help to reduce the P&L burden of provisions.

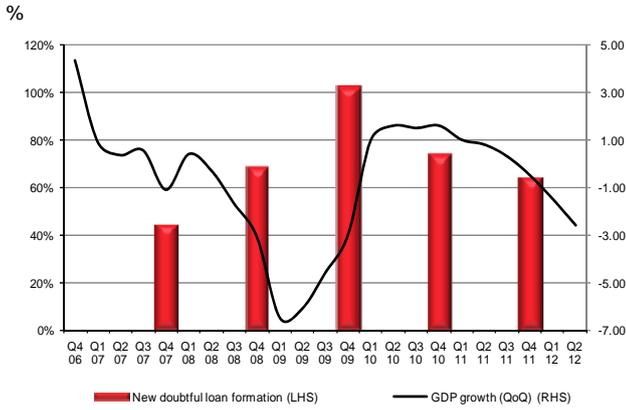
Source: Bank of Italy, Istat, ABI, Nomura research

Doubtful loans trends in Italy, by bank

Evidence from doubtful loans trends by bank confirms the strong correlation with GDP trends:

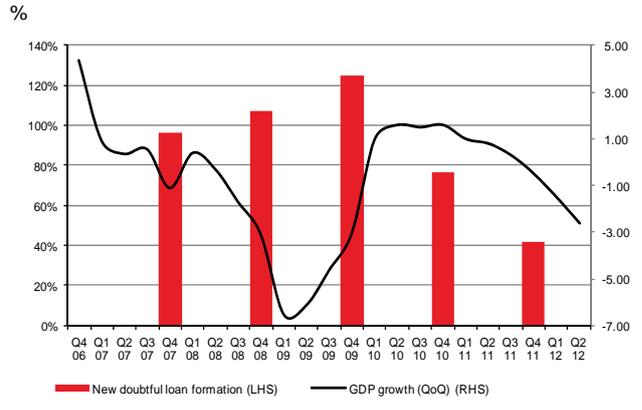
- 1) Adjusting for an increase in doubtful loans owing to consolidated banks (merger and acquisitions activity), the growth of doubtful loans for the Italian banks reflected the trend at sector level, showing a strong correlation with the GDP trend.
- 2) The growth of doubtful loans for large banks was higher than small banks, which, in our view, reflects CEE exposure, but also more discipline in the classification of impaired loans.
- 3) The increase in analytic provisions on impaired loans as a percentage of impaired loans was greater at BMPS and IntesaSP over the past five years, and lower at UBI and BAPO. As a result, total coverage for smaller banks fell faster vs large banks, and fell further over the past three years, while increasing for large banks and BMPS also. We flag, however, that BAPO, BMPS and BPM write off NPLs when these are totally covered, hence the coverage ratio might be distorted by accounting criteria.
- 4) Write-backs/recoveries (calculated as the sum of positions transferred to performing loans and write-backs) as a percentage of total impaired loans had been structurally higher at ISP, UBI and BAPO, and lower at UCG and BMPS (this might suggest a difference in the ability of NPLs to recover).

Fig. 9: ISP



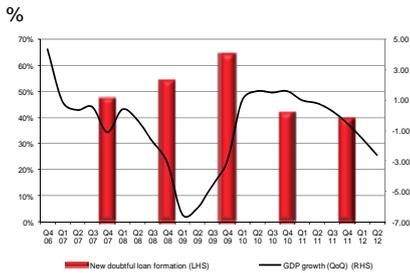
Source: Company data, Nomura estimates, Istat

Fig. 10: UCG



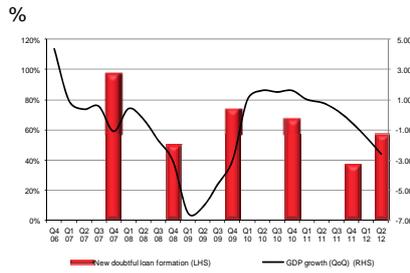
Source: Company data, Nomura estimates, Istat

Fig. 11: BMPS



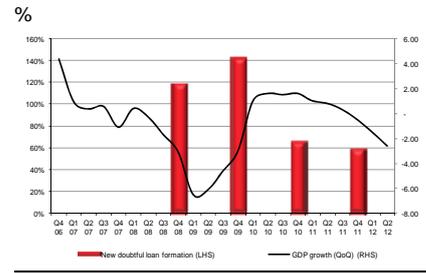
Source: Company data, Nomura estimates, Istat

Fig. 12: UBI



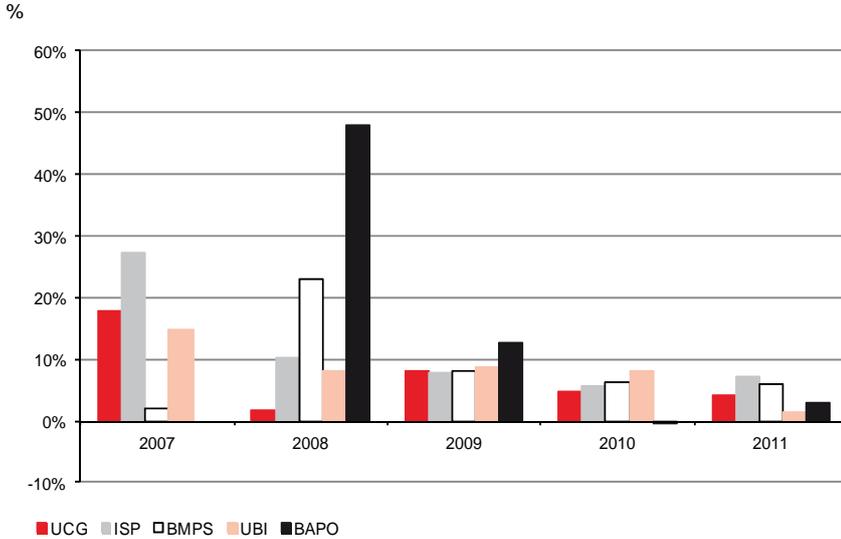
Source: Company data, Nomura estimates, Istat

Fig. 13: BAPO



Source: Company data, Nomura estimates, Istat

Fig. 14: Change in analytical provisions



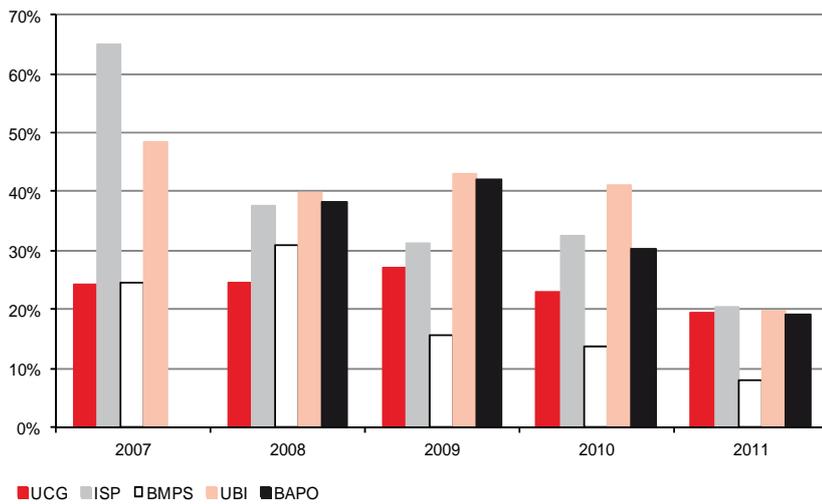
Analytical provisions as a percentage of total doubtful loans were on average higher at ISP and BMPS over the past five years and lower at UBI and BAPO. As a result, total coverage for smaller banks fell faster vs large banks, particularly over the past three years, while increasing for large banks and BMPS.

Calculated as (increase in write off – decrease in write-off) / doubtful loans at the beginning of the period.

Source: Nomura estimates

Fig. 15: Recoveries and write-backs

%



Total recoveries (calculated as a sum of positions transferred to performing loans and write-backs) as a percentage of total impaired loans have been structurally higher at ISP, UBI and BAPO, and lower at UCG and BMPS (this might suggest a difference in the ability of NPLs to recover). BAPO's indicators are, however, inflated, in our view, by the Italease portfolio (leasing business highly collateralised mainly by real estate), which has seen substantial disposal/reduction since the merger.

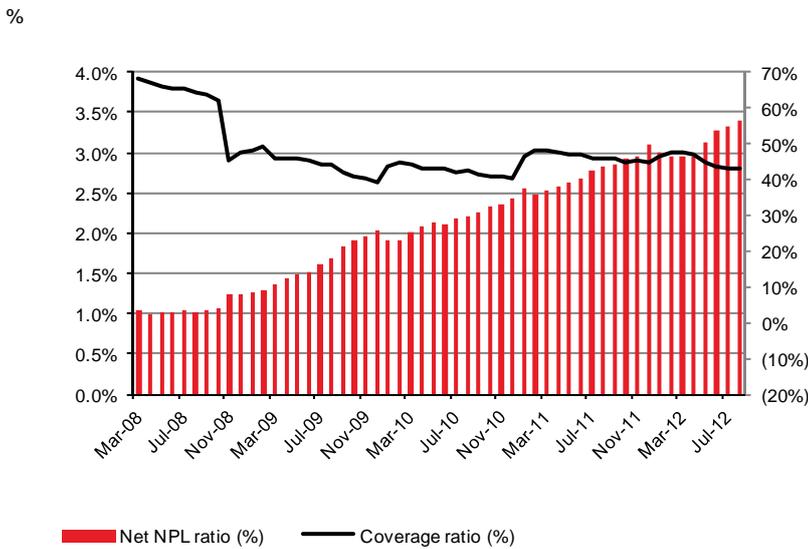
Calculated as (write backs + recoveries) / doubtful loans at the beginning of the period

Source: Nomura estimates

Coverage ratios in Italy

Coverage ratios in Italy include only specific provisions and exclude collaterals. At a system level, Italian banks' NPL coverage went down from 45.4% at the end of 2008, to 42.7% in September 2012, with declining trends across all banks under our coverage, particularly for the small banks. Looking at the doubtful loan coverage ratio, we find similar trends, with large banks showing better ratios, although the component related to their Italian divisions deteriorated at a faster pace than those at their international units. Among the banks with the largest fall in coverage we find BAPO and UBI, while they remained stable at BMPS. Besides strong growth in doubtful loans, there are a number of possible explanations: 1) large banks and BMPS have increased their analytical provisions more than smaller banks during the past five years; 2) smaller banks (BMPS, BAPO and BPM) exclude from their coverage calculation NPLs that have been entirely written off; 3) more importantly, for the small banks the level of collateralisation of the loan book has progressively increased during the past five years making coverage ratios only appear low.

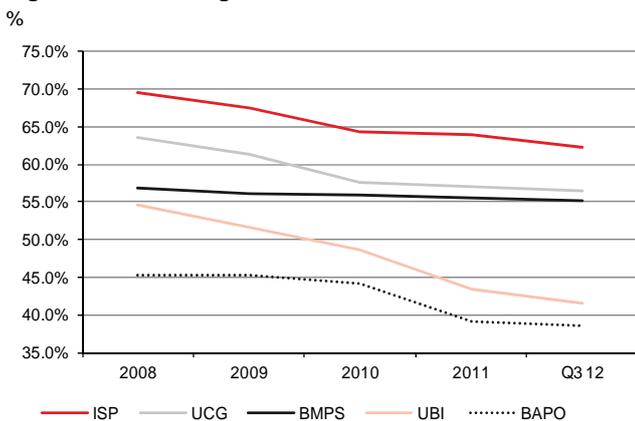
Fig. 16: Coverage ratios



After a change in methodology in October 2008 (driven by a change in accounting for NPLs owing to the different reporting of write-offs, as requested by the national regulator), NPL coverage has fallen from 45.4% at end-2008 to 42.7% in September 2012, with a peak of 49.2% in February 2009 and 48.1% in February 2011.

Source: Bank of Italy, Istat, ABI, Nomura research

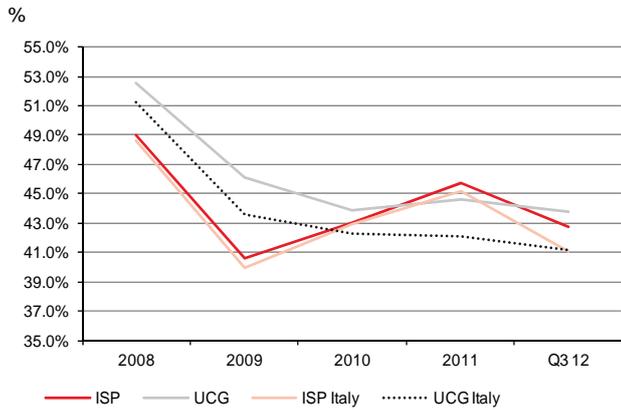
Fig. 17: NPL coverage



NPL coverage for Italian banks has fallen across the sector over the past five years, with BMPS the only exception. The reduction is more material for small banks. Looking at doubtful loans as a whole, trends were similar for the banks under our universe, with large banks holding up a bit better, mainly owing to a higher coverage of other impaired loans (mainly restructured and past due loans). Looking at the large banks' Italian divisions, however, it appears that these deteriorated faster than the rest of the group. As a counter-argument to decreasing coverage, the collateralised portions of loan portfolios increased quite materially for the smaller banks, while reducing for large banks.

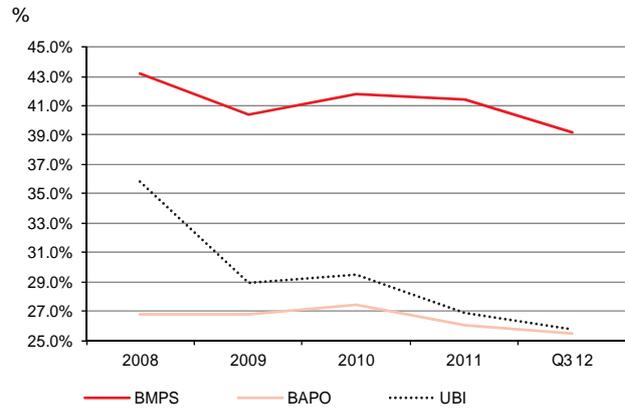
Source: Company data, Nomura estimates

Fig. 18: Doubtful loan coverage



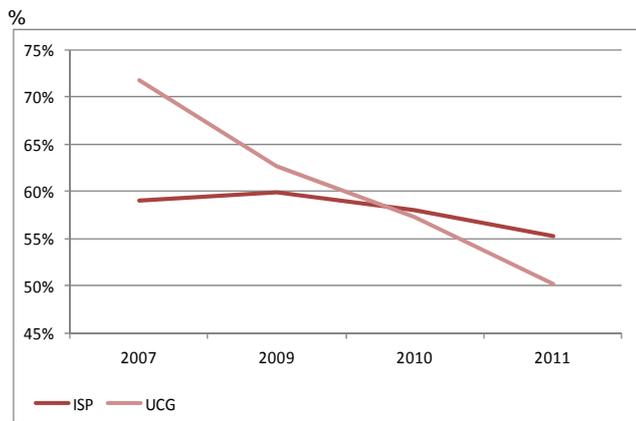
Source: Company data, Nomura estimates

Fig. 19: Doubtful loan coverage



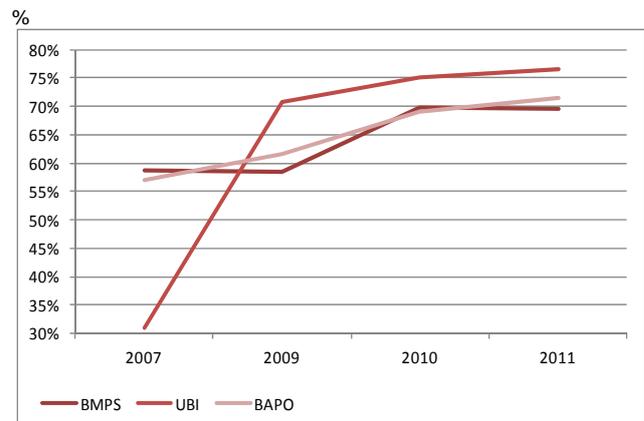
Source: Company data, Nomura estimates

Fig. 20: Share of collateralisation of loan book



Source: Company data, Nomura estimates

Fig. 21: Share of collateralisation of loan book



Source: Company data, Nomura estimates

Fig. 22: Doubtful loan ratio

As indicated

Loan quality: Ratio of performing loans and non-performing loans to total lending and coverage ratios (1) (per cent; June 2012)

	Top 5 groups		Large banks		Small banks		Minor banks		Financial companies not belonging to a banking group		Total system	
	Percentage composition	Coverage ratio	Percentage composition	Coverage ratio	Percentage composition	Coverage ratio						
Customer loans	100	5.7	100	3.8	100	5.0	100	3.6	100	7.9	100	5.2
of which:												
Performing	87.0	0.6	90.1	0.5	86.8	0.5	87.0	0.4	85.9	1.0	87.7	0.6
Non-performing	13.0	40.3	9.9	33.5	13.2	34.6	13.0	25.1	14.1	49.9	12.3	37.7
Bad debts	7.2	55.9	5.1	51.2	6.6	54.8	5.6	46.1	9.2	65.1	6.7	54.7
Substandard	3.5	23.3	3.0	18.4	4.3	18.2	5.4	11.3	3.1	26.4	3.6	20.6
Restructured	1.3	20.2	0.7	15.5	0.5	10.8	0.3	12.9	0.2	7.6	1.0	18.9
Past-due	0.9	10.2	1.2	5.9	1.8	5.6	1.8	3.1	1.5	11.7	1.1	7.9
Memorandum item:												
Customer loans (€ mn)	1,344,635		490,846		133,696		183,908		66,520		2,219,604	

Source: Supervisory statistical reports.

(1) The coverage ratio is the amount of loan loss provisions as a share of the corresponding gross exposure. In the case of performing loans, it is calculated as the ratio of generic provisions to performing loans. Excludes branches of foreign banks. The classification of banks is the same as in Figure 3.6.c.

Source: Bank of Italy, Nomura research

Our analysis is confirmed by the Bank of Italy's Financial Stability Report of November 2012: "The non-performing-loan coverage ratio is 38% for the system in June 2012, compared with 49% in 2007. Four percentage points of the decline are due to the change in the composition (non-performing loans other than bad debts, typically characterised by lower coverage ratios). In turn, the differences between coverage ratios reflect differences between loss ratios (for bad debts they are generally more than double those for sub-standard loans). Moreover, the coverage ratio differs markedly among banks: it is relatively high for the five largest banking groups, while it is lower for minor banks, which have higher capital ratios"

Level of collateralisation

In terms of coverage ratios, Italian banks believe that the level of collateral should be taken into account, and hence in reality these ratios would only appear to be low. We have written extensively on this issue (see our 14 June 2012 [note](#)). In addition, when looking at the decline of coverage ratios over time, the fact that collateralisation of the portfolio has increased over the past four years should be considered. This argument seems valid as long as the real estate market remains resilient in Italy. Our recent analysis on coverage ratios for Italian banks found that: 1) the weight of secured loans has increased from 58% to 65% of total loans on average over the past five years (UBI has the highest level of collateralisation); 2) accounting also for collateral, doubtful loan coverage would increase from 35% to 73% (UBI and ISP are the best covered); 3) the fair value of properties as reported on balance sheets totally cover the un-provisioned portion of doubtful loans. In this regard, however, different accounting standards prevent a unified comparison among Italian banks. Following a Bank of Italy circular in 2010, Italian banks now have the option to value collateral (both properties and securities) based on a 'fair value' approach (and when this is not possible at the nominal value of the collateral, which cannot exceed the secured net exposure). These were previously booked in the balance sheet according to the nominal value of the collateral, but not higher than the net secured exposure of the customer. The fair value approach has been used by all Italian banks, except BPER, Credem and BPM (in fact for these banks the collateral values do not cover the un-provisioned portion of doubtful loans, given that they do not fair-value collaterals, but still book them up to the value of the net exposure).

Fig. 23: Coverage including collaterals

EURm

	ISP 2007	ISP 2009	ISP 2010	ISP 2011	UCG 2007	UCG 2009	UCG 2010	UCG 2011
Gross Doubtful loans	17,637	34,408	37,253	41,797	37,206	57,634	68,215	72,531
Net Doubtful loans	8,338	20,445	21,208	22,696	15,925	31,049	38,264	40,184
Coverage ratio (%)	52.7%	40.6%	43.1%	45.7%	57.2%	46.1%	43.9%	44.6%
Secured net loans:	197,762	223,982	220,211	208,435	412,775	354,144	318,100	280,878
As % of total loans	59%	60%	58%	55%	72%	63%	57%	50%
Of which totally secured	153,841	200,251	203,190	192,675	227,906	213,028	208,138	207,571
of which impaired	3,993	11,795	12,188	14,142	4,789	14,579	16,824	19,186
% of the total	3%	6%	6%	7%	2%	7%	8%	9%
of which partially secured	43,921	23,731	17,021	15,760	184,870	141,116	109,962	73,307
of which impaired	1,452	2,208	2,301	2,137	7,752	5,443	7,240	8,097
% of the total	3%	9%	14%	14%	4%	4%	7%	11%
Net doubtful loans	8,338	20,445	21,208	22,696	15,925	31,049	38,264	40,184
as % of Net doubtful loans	65%	68%	68%	72%	79%	64%	63%	68%
Total collaterals	139,432	163,461	298,108	351,153	425,614	292,188	278,668	392,042
of which impaired	4,480	10,373	20,759	27,822	23,012	24,850	24,601	33,644
Property	123,144	139,627	265,870	319,678	366,763	226,017	212,556	322,101
of which impaired	4,129	8,724	18,418	25,473	21,614	20,755	19,134	27,384
Other (Securities & others)	16,288	23,834	32,238	31,475	58,851	66,171	66,112	69,941
of which impaired	351	1,649	2,341	2,349	1,398	4,096	5,466	6,260
Property collaterals as % of Net Doubtful loans	50%	43%	87%	112%	136%	67%	50%	68%
Total collaterals as % of Net Doubtful loans	54%	51%	98%	123%	145%	80%	64%	84%
Total provisions	9,299	13,963	16,045	19,101	21,281	26,585	29,951	32,347
Total impaired loans gross	17,637	34,408	37,253	41,797	37,206	57,634	68,215	72,531
(Provisions+Total impaired collateral) / Gross doubtful loans	78%	71%	99%	112%	119%	89%	80%	91%
(Provisions+Property impaired collateral) / Gross doubtful loans	76%	66%	93%	112%	115%	82%	72%	91%
Coverage	52.7%	40.6%	43.1%	45.7%	57.2%	46.1%	43.9%	44.6%
Coverage incl. guarantees	78.1%	70.7%	98.8%	112.3%	119.0%	89.2%	80.0%	91.0%

Source: Company data, Nomura research

Fig. 24: Coverage including collaterals

EURm

	MPS 2007	MPS 2009	MPS 2010	MPS 2011	UBI 2007	UBI 2009	UBI 2010	UBI 2011	BaPo 2007	BaPo 2009	BaPo 2010	BaPo 2011
Gross Doubtful loans	6,476	17,153	19,564	23,013	2,673	6,374	7,465	8,589	4,233	13,307	12,895	13,829
Net Doubtful loans	3,918	10,221	11,381	13,480	1,672	4,532	5,261	6,280	2,665	9,744	9,354	10,237
Coverage ratio (%)	39.5%	40.4%	41.8%	41.4%	37.4%	28.9%	29.5%	26.9%	37.0%	26.8%	27.5%	26.0%
Secured net loans:	62,447	87,644	109,185	101,979	28,791	69,423	76,528	76,459	48,281	58,673	65,138	66,673
As % of total loans	59%	58%	70%	70%	31%	71%	75%	76%	57%	62%	69%	71%
Of which totally secured	58,400	83,875	97,957	96,638	28,141	55,935	60,698	61,654	40,759	53,926	60,004	58,302
of which impaired	2,109	5,857	7,224	8,751	607	2,058	2,855	3,701	1,335	6,013	5,620	6,315
% of the total	4%	7%	7%	9%	2%	4%	5%	6%	3%	11%	9%	11%
of which partially secured	4,047	3,769	11,228	5,341	650	13,488	15,830	14,806	7,521	4,747	5,135	8,371
of which impaired	1,675	412	851	757	253	801	1,190	1,417	1,258	971	1,564	1,791
% of the total	41%	11%	8%	14%	39%	6%	8%	10%	17%	20%	30%	21%
Net doubtful loans	3,918	10,221	11,381	13,480	1,672	4,532	5,261	6,280	2,665	9,744	9,354	10,237
as % of Net doubtful loans	97%	61%	71%	71%	51%	63%	77%	82%	97%	72%	77%	79%
Total collaterals	100,798	66,745	85,888	173,970	51,919	45,398	50,139	134,340	68,412	42,744	51,167	104,839
of which impaired	6,736	4,722	5,828	14,397	1,558	1,636	2,081	9,002	3,452	5,489	5,763	12,830
Property	96,544	63,009	73,080	162,841	47,239	40,356	44,999	124,225	63,177	39,896	47,116	98,248
of which impaired	6,649	4,422	5,498	13,986	1,446	1,467	1,916	8,576	3,383	5,339	5,574	12,518
Other (Securities & others)	4,253	3,736	12,808	11,130	4,679	5,042	5,141	10,115	5,235	2,848	4,051	6,591
of which impaired	87	300	330	410.9	111.9	169.0	164.9	426.9	69.3	150.0	189.7	311.9
Property collaterals as % of Net Doubtful loans	170%	43%	48%	104%	86%	32%	36%	137%	127%	55%	60%	122%
Total collaterals as % of Net Doubtful loans	172%	46%	51%	107%	93%	36%	40%	143%	130%	56%	62%	125%
Total provisions	2,558	6,932	8,183	9,533	1,001	1,841	2,204	2,310	1,568	3,562	3,541	3,592
Total impaired loans gross	6,476	17,153	19,564	23,013	2,673	6,374	7,465	8,589	4,233	13,307	12,895	13,829
(Provisions+Total impaired collateral) / Gross doubtful loans	144%	68%	72%	104%	96%	55%	57%	132%	119%	68%	72%	119%
(Provisions+Property impaired collateral) / Gross doubtful loans	142%	66%	70%	102%	92%	52%	55%	127%	117%	67%	71%	116%
Coverage	39.5%	40.4%	41.8%	41.4%	37.4%	28.9%	29.5%	26.9%	37.0%	26.8%	27.5%	26.0%
Coverage incl. guarantees	143.5%	67.9%	71.6%	104.0%	95.7%	54.6%	57.4%	131.7%	118.6%	68.0%	72.2%	118.7%

Source: Company data, Nomura research

Fig. 25: Coverage including collaterals

EURm

	BPER 2007	BPER 2009	BPER 2010	BPER 2011	BPM 2007	BPM 2009	BPM 2010	BPM 2011	Credem 2007	Credem 2009	Credem 2010	Credem 2011
Gross Doubtful loans	2,484	5,108	5,576	6,546	959	2,376	2,766	3,124	274	724	822	931
Net Doubtful loans	1,341	3,226	3,535	4,330	509	1,741	2,096	2,249	167	466	523	598
Coverage ratio (%)	46.0%	36.8%	36.6%	33.9%	46.9%	26.7%	24.2%	28.0%	39.0%	35.6%	36.3%	35.8%
Secured net loans:	25,073	27,585	32,166	32,177	15,614	15,180	19,826	22,002	10,486	12,022	12,882	13,838
As % of total loans	71%	61%	67%	67%	52%	46%	56%	62%	67%	69%	68%	69%
Of which totally secured	21,275	23,479	27,114	28,028	13,531	13,282	17,521	20,290	7,795	9,781	10,616	11,582
of which impaired	658	1,314	1,774	2,828	215	758	1,047	1,231	84	249	291	329
% of the total	3%	6%	7%	10%	2%	6%	6%	6%	1%	3%	3%	3%
of which partially secured	3,797	4,106	5,051	4,149	2,083	1,898	2,306	1,712	2,691	2,241	2,266	2,256
of which impaired	104	382	491	562	104	141	204	198	11	60	84	103
% of the total	3%	9%	9%	14%	5%	7%	9%	12%	0%	3%	4%	5%
Net doubtful loans	1,341	3,226	3,535	4,330	509	1,741	2,096	2,249	167	466	523	598
as % of Net doubtful loans	57%	53%	64%	78%	63%	52%	60%	64%	57%	66%	72%	72%
Total collaterals	15,664	13,193	20,690	21,586	10,996	11,352	15,386	17,700	8,702	10,232	11,066	11,920
of which impaired	526	462	1,270	2,223	203	703	998	1,182	80	265	321	369
Property	14,569	11,658	19,292	20,388	9,979	10,676	14,433	17,075	7,471	8,772	9,349	9,949
of which impaired	490	375	1,159	2,094	169	692	978	1,164	66	245	303	336
Other (Securities & others)	1,095	1,535	1,399	1,198	1,017	676	953	624	1,231	1,461	1,717	1,971
of which impaired	35.7	87.1	110.7	129.1	34.4	11.6	19.5	18	13.8	19.1	18.1	33
Property collaterals as % of Net Doubtful loans	37%	12%	33%	48%	33%	40%	47%	52%	40%	53%	58%	56%
Total collaterals as % of Net Doubtful loans	39%	14%	36%	51%	40%	40%	48%	53%	48%	57%	61%	62%
Total provisions	1,142	1,882	2,041	2,216	450	635	670	875	107	258	299	333
Total impaired loans gross	2,484	5,108	5,576	6,546	959	2,376	2,766	3,124	274	724	822	931
(Provisions+Total impaired collateral) / Gross doubtful loans	67%	46%	59%	68%	68%	56%	60%	66%	68%	72%	75%	75%
(Provisions+Property impaired collateral) / Gross doubtful loans	66%	44%	57%	66%	64%	56%	60%	65%	63%	69%	73%	72%
Coverage	46.0%	36.8%	36.6%	33.9%	46.9%	26.7%	24.2%	28.0%	39.0%	35.6%	36.3%	35.8%
Coverage incl. guarantees	67.2%	45.9%	59.4%	67.8%	68.1%	56.3%	60.3%	65.8%	68.3%	72.1%	75.4%	75.4%

Source: Company data, Nomura research

A comparison in Europe

In a European comparison, the level of doubtful loans in Italy appears higher in percentage terms than elsewhere. However, we flag that definitions vary between countries, as doubtful loans in Italy also include watch-list/restructured loans that other countries seem not to classify in their NPL categories (such as watch-list loans for the UK and Spanish banks, Nordea; and restructured loans for Spanish banks, Nordea). If we compare NPLs only ('sofferenze'), these are not far from levels reported in other regions, although we believe the comparison is still affected by differences in criteria. Coverage ratios for the Italian banks do not differ significantly from other countries when looking at NPLs only, while they are lower when looking at doubtful loans. However, we would not consider the latter a proxy for comparison with other euro banks given the Italian banks' broader definition of doubtful loans. Overall European banks do not disclose details about the level of collateralisation of their loan book, whereas Italian banks do. If we compare the Italian banks with BNPP (one of the few major European groups providing coverage net of collateral), the comparison would look favourable for the Italians. Coverage in Italy does not include generic provisions, which banks in Europe tend to include in their coverage.

The lack of homogeneous provisioning criteria at the international level makes a comparison between European lenders difficult, in our view. While the level of disclosures of Italian banks allows some detail on the total doubtful loans portfolio, there is much variance across European banks' definitions. In particular, it is difficult to understand whether other European banks include restructured loans and watch-lists in their reporting and, if so, in what form (eg, including or excluding collateralisation when calculating coverage). This issue is relevant not only for comparative purposes, but also for estimating future NPL trajectory. We calculate that in Italy 33% per annum of watch-list/restructured/past-due loans on average deteriorate to NPLs.

We have looked at different European banks (the most representative per region) and compared doubtful loan classifications, coverage ratios and coverage including collaterals, and also looked at central bank definitions when possible.

French banks. Restructured and watch-list categories seem to be included in the NPL definition of French banks, although a comparison is still affected by reclassification criteria. No details are given regarding the level of collateralisation of the portfolio. Below, we look specifically at BNPP's disclosures.

BNP Paribas: *"An impairment loss is recognised against loans and held-to-maturity financial assets where: (1) there is objective evidence of a decrease in value as a result of an event occurring after inception of the loan or acquisition of the asset; (2) the event affects the amount or timing of future cash flows; and (3) the consequences of the event can be reliably measured. Loans are initially assessed for evidence of impairment on an individual basis, and subsequently on a portfolio basis. At an individual level, objective evidence that a financial asset is impaired includes observable data regarding the following events: 1) the existence of accounts that are more than three months past due (six months past due for real estate loans and loans to local authorities); 2) knowledge or indications that the borrower meets significant financial difficulty, such that a risk can be considered to have arisen regardless of whether the borrower has missed any payments; 3) concessions with respect to the credit terms granted to the borrower that the lender would not have considered had the borrower not been meeting financial difficulty".* The coverage ratio currently stands at 82%; it is net of collateral and includes generic provisions.

UK banks: According to the regulator's definition *"impaired loans are past due and in non-accrual status, restructured loans which are considered impaired and other loans for which an impairment allowance has been raised"*. This seems to be a broad definition and looking at bank balance sheets, they classify their doubtful loans according to the following categories: impaired, 3-months past due, and forbearance. Not all banks disclose details on each category, and no details around coverage including collateral are provided. Below, we give disclosures for Lloyds and RBS:

Lloyds Banking Group. Doubtful loans are categorised as follows: (1) *Past due but not impaired exposures*: an exposure is past due when a counterparty has failed to make a payment when contractually due. (2) *Impaired exposures*: an exposure when the group does not expect to collect all the contractual cash flows or to collect them when they are contractually due. The coverage ratio stands at 48%, without including collaterals and does include generic provisions.

RBS. *Risk elements in lending (REIL)* are impaired loans and accruing loans that are contractually overdue 90 days or more as to principal or interest. The coverage ratio currently stands at 51%, without including collaterals and includes generic provisions.

Spanish banks. “*The Bank of Spain identifies five types of risk: standard (performing loans), substandard, doubtful due to customer arrears, doubtful for reasons other than customer arrears and write-offs. In order to calculate the NPL ratio, the Spanish banks include as NPL balance categories 3 and 4. (1) Standard: This comprises all debt instruments and contingent exposures that do not meet the requirements for classification in other categories. Within this category it will be necessary to identify the transactions that call for special monitoring, these being understood as those evidencing minor weaknesses which, while not requiring a greater allowance or provision than that established for standard exposures, advise special monitoring by the entity. Among the transactions identified as meriting special monitoring are: until their extinguishment, restructured loans (extended, rearranged or held by customers declared subject to a creditors’ agreement and that have been reclassified out of one of the doubtful categories due to meeting the requirements therein); and the transactions classified as standard of customers who have one or more transactions classified as doubtful due to arrears; (2) Substandard: includes all debt instruments and contingent exposures which show weaknesses that may entail the entity assuming losses higher than the allowances and provisions for impairment of exposures under special monitoring; (3) Doubtful due to customer arrears: includes the total amount of debt instruments, whoever the obligor and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is past-due more than three months, unless such instruments should be classified as write-off. This category will also include the amounts of all the transactions of a customer if the balances classified as doubtful due to arrears exceed 25% of the outstanding.*

The time extension or rearrangement of transactions does not interrupt their arrears and nor will it give rise to their reclassification to one of the foregoing categories unless there is reasonable certainty that the customer can make payment on schedule, or unless new effective guarantees or collateral are provided and, in both cases, unless at least the current interest receivable, disregarding interest for late payment, is paid. The amount of these guarantees or collateral must fully cover the exposure they are guaranteeing. (4) Doubtful for reasons other than customer arrears: This includes debt instruments for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms. (5) Write-off: This category shall include the amount of the debt instruments for which the entity, after analysing them individually, considers the possibility of recovery to be remote and proceeds to derecognise them. Unless there is evidence to the contrary, this category shall include all the debits, except amounts covered by sufficient effective guarantees or collateral, of customers that are declared subject to bankruptcy proceedings”.

As far as coverage, BBVA stands at 69%, while Banco Popular is at 43.7% (or 100% including guarantees), but on this issue, the Spanish regulator has mandated that coverage ratios including guarantees should be 100% within 12 months of a loan becoming non-performing.

Nordic banks. We have looked specifically at Nordea’s disclosures.

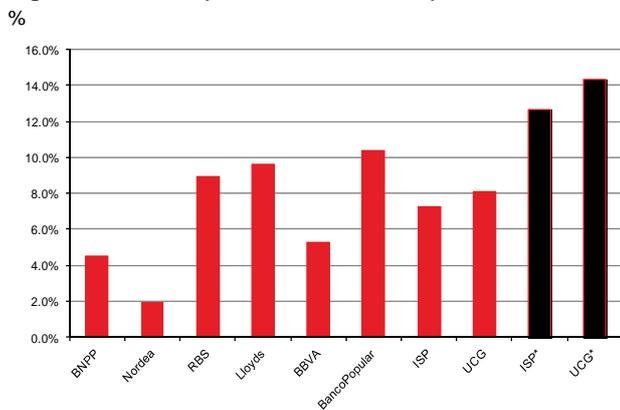
Nordea. “*Weak and impaired exposure is closely and continuously monitored and reviewed at least quarterly in terms of current performance, business outlook, future debt service capacity and the possible need for provisions. A need for provision is recognised if there is objective evidence, based on loss events or observable data, that there is an impact on the customer’s future cash flow to the extent that full repayment is unlikely, collateral included. Exposures with provision are considered as impaired. The size of the*

provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the future cash flow, including the value of pledged collateral. Impaired exposure can be either performing or non-performing. Impaired exposure is treated as in default when determining default probability.

Exposure that is past due more than 90 days is automatically regarded as in default, and reported as non-performing and impaired, or not impaired depending on the deemed loss potential. In addition to individual impairment testing of all individually significant customers, collective impairment testing is performed for groups of customers not identified individually as impaired. Collective impairment is based on the migration of rated and scored customers in the credit portfolio. The assessment of collective impairment relates to both up- and downgrades of customers, as well as new customers entering and those leaving the portfolio. Moreover, customers going to and from default affect the calculation. Collective impairment is assessed quarterly for each legal unit. The rationale for this two-step procedure with both individual and collective assessment is to ensure that all incurred losses are accounted for up to and including each balance sheet day. Impairment losses recognised for a group of loans represent an interim step pending the identification of impairment losses for an individual customer.”

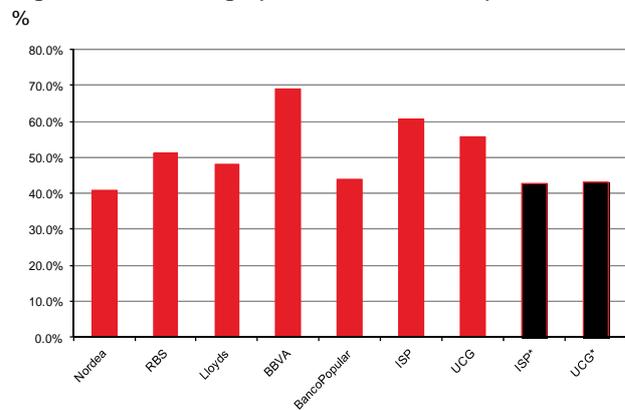
The coverage ratio stands at around 41% including generic provisions. No details are given on coverage including collateral.

Fig. 26: NPL ratio (latest available data)



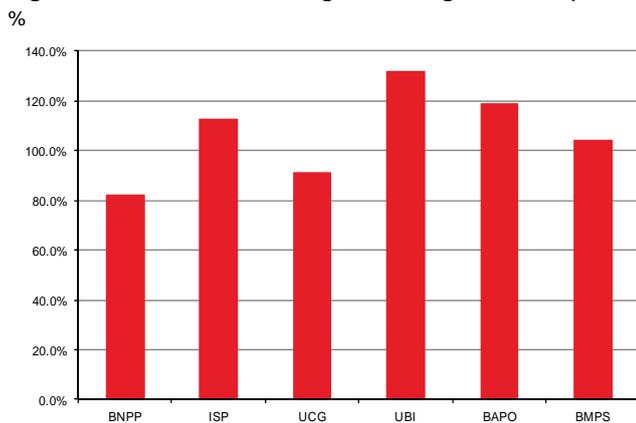
*Includes all the categories
Source: Company data, Nomura estimates

Fig. 27: NPL coverage (latest available data)



*Includes all the categories
Source: Company data, Nomura estimates

Fig. 28: Doubtful loan coverage including collateral (latest available data)



In a European comparison, the level of doubtful loans in Italy appears higher in percentage terms than elsewhere. However, definitions vary between countries, as doubtful loans in Italy also include watch-list/restructured positions that other countries do not seem to classify in their NPL types, or to a lesser extent (such as watch-list loans for the UK, Spain and Nordea; and restructured loans for Spain and Nordea). If we compare NPLs only ('sofferenze'), these are not far from the levels reported in other regions, although we believe the comparison is still affected by different criteria. The NPL coverage ratios for Italian banks do not differ significantly from other countries. Overall, European banks do not disclose details regarding the level of collateralisation of their loan book. If we compare Italian banks with BNPP (one of the few major groups providing coverage net of collateral), the comparison would look favourable for the Italian banks.

*For Italian banks coverage includes all the categories but does not take into account generic provisions
Source: Company data, Nomura estimates

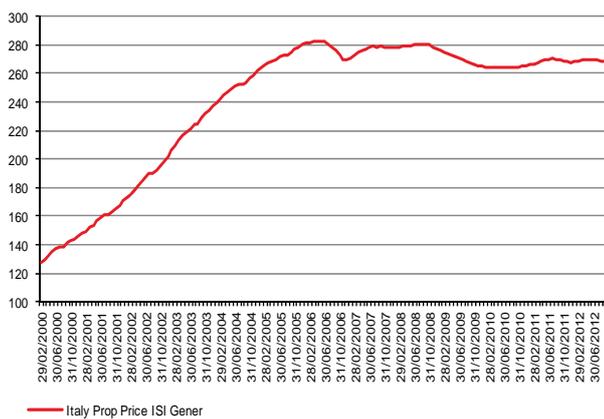
Real estate in Italy

The housing market in Italy has seen a sizeable decline (5-10%) since the peak reached in 2008, but has proven relatively resilient when compared with other European markets. Affordability levels are not far off the long-term average, while prices appear to be broadly in line with fundamentals. According to official surveys from specialised operators, a further decline in prices is expected in the coming quarters, although a significant structural adjustment in the short term does not seem to be the consensus base-case scenario. Most indicators point to difficult market conditions, in both the residential and non-residential sectors, with falling market prices (although only marginally so), and the number of transactions significantly declining. Leading indicators also point towards further deterioration, although relatively limited in size with the mid-term outlook partly easing in 3Q. Meanwhile, access to credit continues to be difficult, with negative repercussions on the housing market, while housing supply has re-adjusted to diminished demand.

House price declines, although not dramatic. House prices in Italy fell 10% since the peak in 1Q 2008, equivalent to a 2.7% decline per annum (or 4.7% net of inflation), according to data from Confindustria. The ISI Property Price Residential Index compiled by Scenari Immobiliari shows a decline of 5% from 1Q 08, with a y-o-y growth dynamic that is currently flat, and relatively stable after a recovery from the bottom reached in 4Q 09 (-4.6% y-o-y).

Fig. 29: House Price Index (Italy)

Index, 1996= 100



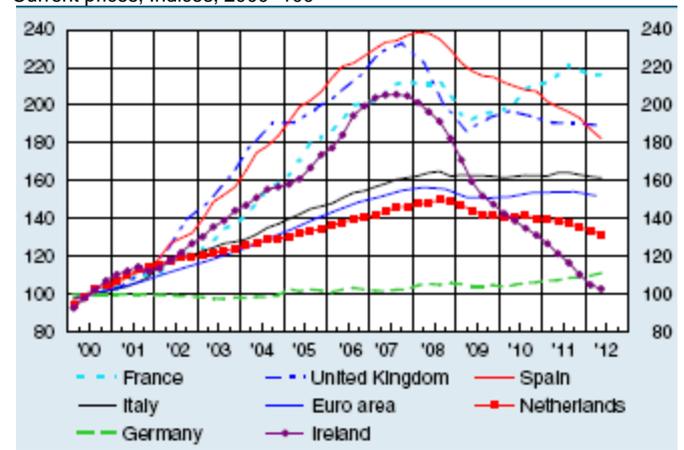
Source: Bloomberg, Scenari Immobiliari, Nomura research

In contrast, the number of house transactions has declined significantly in 2012, after a partial recovery in the last few quarters of 2011. Latest data show transactions down 25.8% y-o-y in 3Q 12, or -26.8% in the residential sector only, which represents 45% of RE market transactions. However, transactions, being recorded at the date of the exchange, lag one or two quarters behind the decision to purchase/sell a house. The 3Q 12 decline is therefore reflective of economic conditions in 1Q-2Q 12, and could indicate a partial stabilisation during coming quarters.

Other indicators of the deteriorating housing trends are the time needed to close a transaction, which rose from 6.4 months in 2Q 09 to 8.2 in 2Q 12, and the average discount applied to the asking price, at 15.4% in 2Q 12 from 12.2% in 2Q 09, although both indicators have stabilised in 3Q 12 (at 8.2 months and 15.4% discount, respectively).

Fig. 30: House prices in Europe

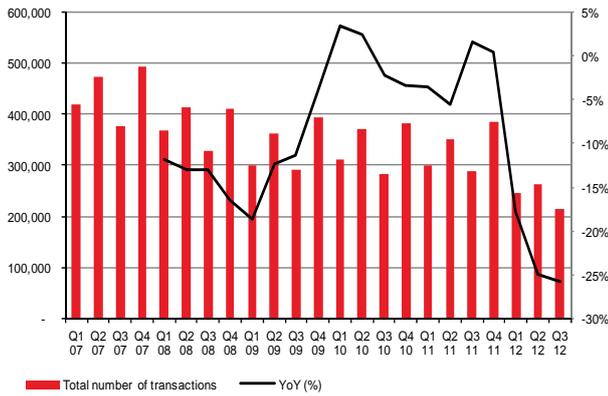
Current prices, Indices, 2000=100



Source: Bank of Italy (Financial Stability Report, November 2012)

Fig. 31: Number of real estate transactions in Italy

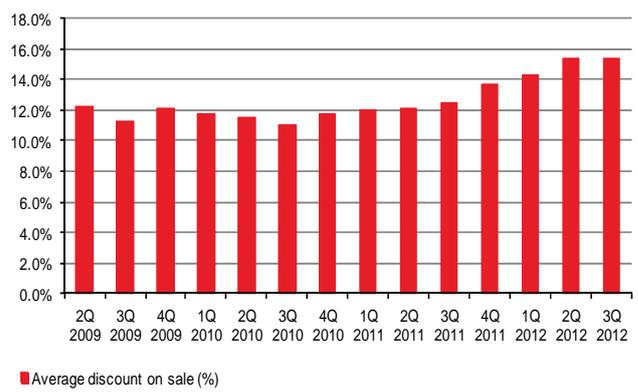
Number of transactions / y-o-y %



Source: Agenzia del Territorio, Nomura research

Fig. 32: Average discount applied on sales

% of asking price



Source: Bank of Italy, Nomura research

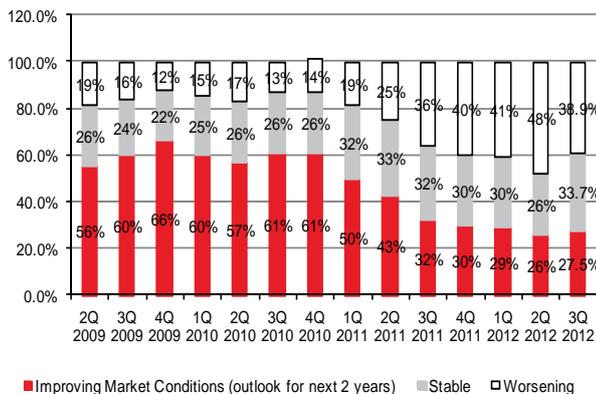
Market outlook remains negative, but prices are not far off fundamental

determinants. Looking at leading indicators, the market outlook in the short and mid term (as assessed by a Bank of Italy survey of real estate agents) points at further deterioration, although with some attenuation from previous quarters. In 3Q 12, 49% of agents expected a decline in the housing market for the following quarter (vs 59% in 2Q 12 and 37% in 3Q 11), with a worsening outlook concentrated in central Italy. The outlook for the mid term (next two years) was negative for 39% of agents, vs 48% in 2Q 12 and 36% in 3Q 11.

When considering affordability (the ratio of debt service on new mortgage loans to household disposable income), Confindustria estimates that a further 7% adjustment to house prices by 2013 is necessary, as this would bring the ratio prices/disposable income in line with its long-term average, assuming limited income growth during the coming quarters. This view partly contrasts with more recent data from the Bank of Italy, which sees affordability levels still above the long-term average, although progressively deteriorating owing to the erosion of disposable income. In addition, the Bank of Italy estimates that for the past 10 years and up to mid-2012 house prices in Italy have moved in line with their fundamental determinants (including household disposable income, housing floor area per resident, monetary policy reference rate, inflation expectations), thus corroborating the view of limited downside risk from an adjustment to fair value. Even in the event of a downward correction, and despite the negative outlook, the situation in Italy appears less severe than in other European countries (eg, Spain, Netherlands, France), where the housing market experienced much more rapid growth in the years before the crisis, and where levels of personal indebtedness are higher than in Italy.

Fig. 33: Outlook for next two years (BoI RE agents survey)

% of respondents



Source: Bank of Italy, Nomura research

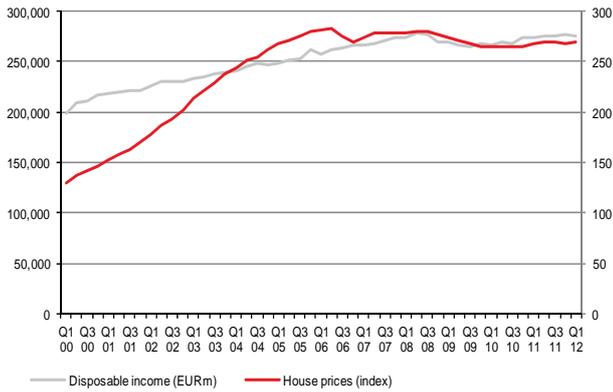
Fig. 34: Affordability of housing ratio and ratio of house prices to rents in Italy

Semi-annual data; indices, 1992-2010 average = 100



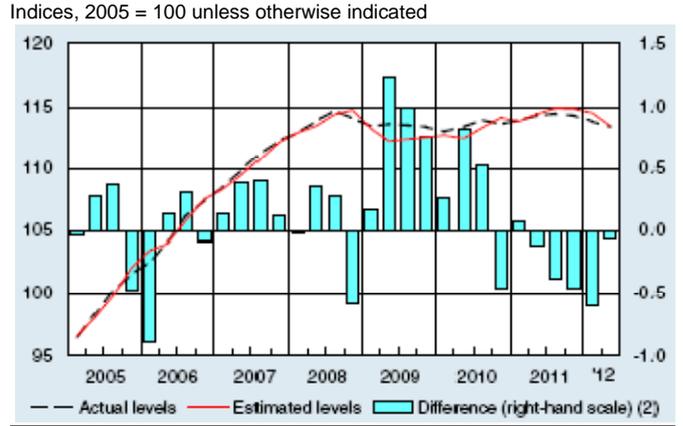
Source: Bank of Italy (Financial Stability Report, November 2012), Nomura research

Fig. 35: Disposable income vs Housing Index
 EURm disposable income (LHS) / Housing Index (RHS)



Source: ISTAT, Bloomberg, Nomura research

Fig. 36: House price trends (1) and difference between actual and estimated levels (2)

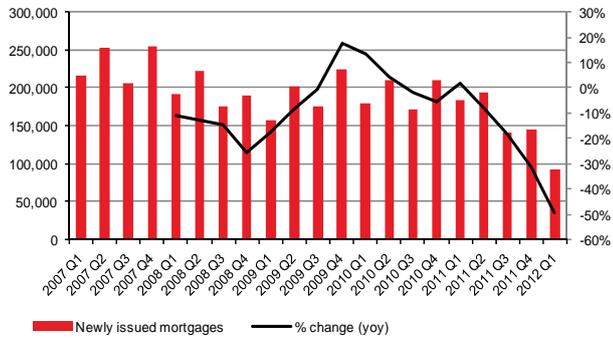


(1) Bol estimates based on econometrics analysis. (2) Difference between actual and estimated prices as percentage of actual prices

Source: Bank of Italy (Financial Stability Report, Nov 12), Nomura research

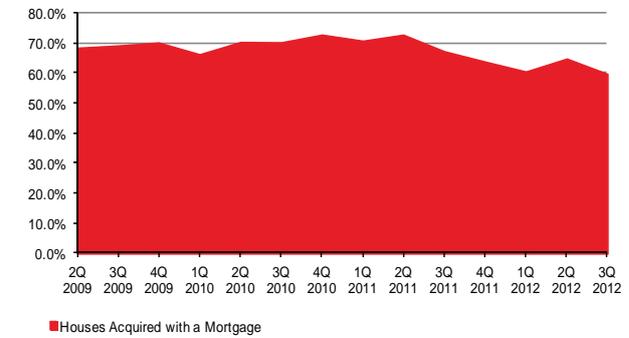
Reduced access to credit. Meanwhile, access to credit in Italy has fallen, as a result of both lenders tightening credit and falling demand. The number of new mortgages issued fell sharply at the end of 2011, down 50% y-o-y in 1Q 2012, and the percentage of new houses acquired with a mortgage declined to 65% in 2Q 12, from 73% the year before. Of the total number of new mortgages issued, the portion not secured by a real-estate asset fell from 40% in 2Q 10 to 31% in 1Q 12, while the loan-to-value ratio (LTV) fell from 73% in 2Q 10 to 63% in 2Q 12, indicating the mortgage lenders' reduced risk appetite. In relation to the mortgage amounts issued by banks, the latest data from an online database (www.mutui.it) show that in November, a newly issued mortgage averaged EUR 116,000, down 4% compared to six months ago (EUR 121,000 in May), while the difference between the amount requested on application and the amount actually issued stood at 11% in October, up from 6% in April.

Fig. 37: Total number of newly-issued mortgages
 Number of mortgages agreed



Source: Bank of Italy, Nomura research

Fig. 38: % of houses acquired with mortgage
 %



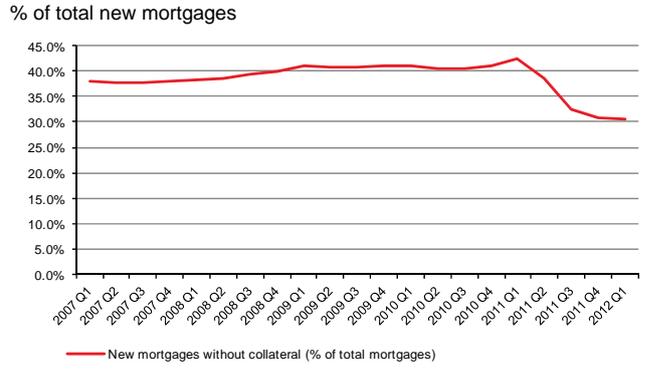
Source: Bank of Italy, Nomura research

Fig. 39: Ratio of mortgage to house price (LTV)



Source: ISTAT, Nomura research

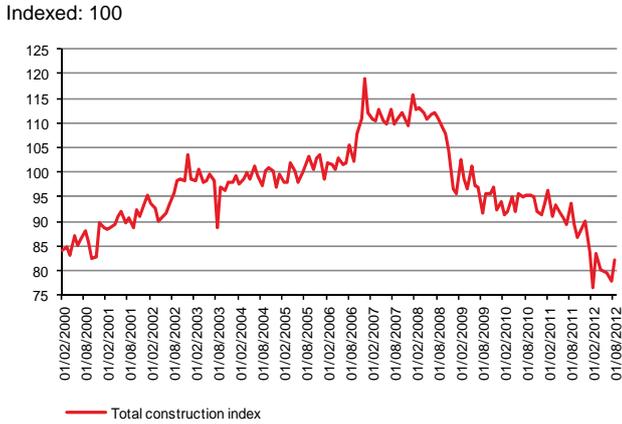
Fig. 40: New mortgages issued without collateral



Source: ISTAT, Nomura research

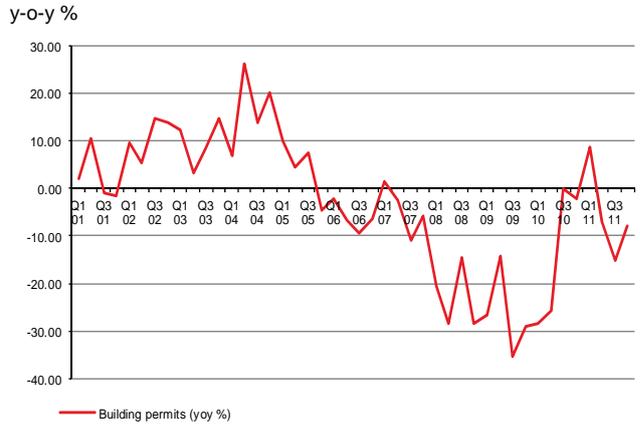
Housing supply correction. On the supply side, housing production grew steadily until 2007, generating a housing stock in excess of the underlying fundamental demand. As price growth halted, production started to decline, falling 7.5% CAGR per annum during 2007-12. In August 2012 (latest available data), the y-o-y decline stood at 12.3%, with a slight improvement q-o-q. Meanwhile, the number of permits issued for the construction of new buildings was also on a downward trend, with y-o-y growth at the end of 2011 (latest data available) at -15.2% and -7.8% in 3Q and 4Q 11, respectively.

Fig. 41: Construction Production Index



Source: Bloomberg, ISTAT, Nomura research

Fig. 42: New building permits



Source: ISTAT, Nomura research

Recent Bank of Italy speech

The Bank of Italy recently made clear that an increase in banking coverage levels is needed, while action on capital should continue in order to protect banks from worsening credit quality and more stringent regulation. Inspections are underway at Italian banks in order to gauge whether reclassification among categories is appropriate. Although still far from the early 1990s peaks, doubtful loan/ NPL ratios have deteriorated significantly recently, an issue which together with falling coverage ratios represents cause for concern, particularly when compared with international peers. However, Ignazio Visco (the Bank of Italy governor) also pointed out at some peculiarities of the Italian system, which, in our view, still generate a certain degree of misperception among investors. These would include different NPL classification rules, stricter prudential supervision by the regulator, extended NPL holding periods and lengthy recovery procedures owing to a slow justice system (an issue confirmed by NPL specialised operators). We have tried to quantify the impact of a hypothetical intervention from the regulator via a sensitivity on capital at increasing levels of coverage (50%, 60% and 70%, respectively). Mediobanca, Credem, BPM and IntesaSP appear to be the banks least affected, with other regional banks and UCG more affected (considering their low level of coverage), although we have previously seen how BAPO and UBI have a higher proportion of their loan book collateralised.

Assuming a coverage level of 70% (the level at which we understand specialised operators would buy NPL portfolios), we estimate an extra-provisioning requirement of EUR 16bn for the banks in our universe, and EUR 32bn at the system level. This, however, does not represent our base-case expectation, given that we believe such an action on the sector would create significant systemic risk. In a more likely scenario, we expect banks to increase their coverage levels gradually, although these will stay below pre-crisis level for some years (excluding one-off actions). Our LLP estimates for the sector remain high in 2013 and gradually fall in 2014 when recoveries/write-backs should help to reduce the P&L burden. The key issue, however, remains the stock of NPLs, with NPL ratios starting to improve only in 2014, in our view, possibly supported by a partial recovery of the NPL disposal market, which is now distorted by the absence of liquidity.

Ignazio Visco, in a speech on 31 October reiterated the need for Italian banks to further increase their NPL coverage ratios in the context of continuing deteriorating credit quality, although he clarified a number of points where investor misperception still exists, in our view. We report the most important parts of the speech (see Bank of Italy website for the whole

text. http://www.bancaditalia.it/interventi/integov/2012/qmr_2012/en_visco_311012.pdf):

- 1) In the second quarter of this year, the ratio of adjusted new bad debts to loans outstanding rose to 2.1 percent, returning to around the end-2009 level. The deterioration involved loans to firms, the default rate on which reached 3.2 percent, with a high of over 6 percent for construction firms. Preliminary data indicate that the deterioration has not halted in the last few months. By contrast, the default rate on loans to households remained stable at 1.2 percent, relatively low by the standards of the past.
- 2) In June of this year gross impaired loans (bad debts, substandard and restructured loans and overdue positions), three quarters of which involved firms, amounted to 12.3 percent of total bank lending; in 2007 the figure had been 5.1 percent. Taking into account the write-downs already made, the ratio falls to 8.1 percent.
- 3) These numbers are still far below the peaks registered in the early 1990s, but they could cause concern if set against those of other advanced economies. But international comparisons are difficult. The accounting criteria used by banks in Italy to classify loans as impaired are dictated by particularly severe prudential rules. Added to this is strict prudential and on-site supervision by the Bank of Italy, which requires even more stringent assessments of loan quality. For example, on-site inspections in the first half of 2012 resulted in the reclassification of 20 percent of the loans examined. Furthermore, the extreme length of credit recovery proceedings, due to the slowness of the justice

system, obliges banks to keep impaired loans on their balance sheets longer than in other countries, which works to Italy's disadvantage in international comparisons.'

- 4) *Even if banks have increased their value adjustments, the ratio of these write-downs to the total amount of impaired exposures has fallen since 2007 from more than 49 percent to just over 37 percent. It is higher for banks belonging to the top five banking groups, lower for smaller banks. Focusing on bad debts alone, the coverage ratio is above 54 percent; for those not backed by collateral or personal guarantees it is naturally higher, at 68 percent.*
- 5) Coverage ratios need to be raised. The Bank of Italy regularly monitors their adequacy, bank by bank, in relation to the credit risks deriving from economic and financial market developments. We expect banks to devote the greatest care to taking this aspect into account in their balance sheets.
- 6) *Although the setting is unfavourable, the banks have strengthened their capital position very substantially. This action must continue, both in order to cope with the worsening of loan quality and to satisfy the new, higher capital ratios required by the Basel III rules. Supervision of capital adequacy is particularly stringent for banks whose impaired loan coverage ratios are low.*

Need for an action?

Although pointing out that different criteria do not allow for a direct comparison on an international base, we believe that the regulator was clearly vocal in asking banks to increase their coverage levels. We find it particularly interesting that the Bank of Italy also mentioned that the peculiarity of the legal system in Italy slows down the recovery action, hence banks have to keep NPLs on their balance sheet for longer. In this respect, we recently had a number of meetings with specialised operators in NPL recovery in Italy, to understand why NPL disposals have become so rare in the country even considering that the real estate market has not suffered so much there. We were reassured by these operators ruling out the possibility of severe corrections in the real estate market in the short term. We also understand that the lack of NPL deals in the system is related more to a number of factors rather than the intrinsic value of underlying collateral. This would create much divergence in terms of prices offered/requested by the acquirers/sellers. Banks would not include in their valuation models the cost of managing NPLs, while acquirers would tend to emphasise the time of recovery, which in Italy is admittedly slow because of the justice system.

In our view, the main issue lies in the large accumulated stock of NPLs at this point rather than its coverage level.

Apart from Intesa, which recently sold a portfolio of EUR 1.64bn unsecured NPLs, almost all covered, and UBI Banca (unsecured EUR 108m, fully provisioned), there were no other deals in Italy. At this point, we believe that a clean-up exercise might be more related to the need to downsize NPL stocks via sales rather than being driven by action from the regulator. In this sense, we provide a sensitivity of what could be the exact amount bank by bank if they had to increase coverage to 50%, 60% and 70% respectively. Mediobanca, Credem, BPM and IntesaSP would be the banks affected the least, while other regional banks and UCG would be more affected (considering their low level of coverage). This simulation does not consider, however, the quality and level of collateral, which might have an impact on any transactions. As we have seen before, BAPO and UBI have the higher portion of their loan book collateralised. Our understanding from our discussions with specialised operators is that buyers of NPLs might also accept a small amount of unsecured loans if the quality of the remaining underlying (secured) assets is relatively good.

Fig. 43: Sensitivity to varying levels of coverage

EURm / %	UCG	ISP	BMPS	BAPO	UBI	BPM	BPER	CE	MB
Gross NPL	45,639	27,087	16,366	6,682	4,883	1,634	3,978	588	606
Net NPL	20,199	10,689	7,358	4,250	2,855	835	1,924	258	206
Coverage	55.7%	60.5%	55.0%	36.4%	41.5%	48.9%	51.6%	56.1%	66.0%
CT1 capital	46,601	34,101	8,434	6,022	8,001	3,414	3,851	1,532	6,291
RWAs	436,751	307,215	95,300	57,900	76,274	43,927	46,456	16,338	54,725
CT1 ratio	10.7%	11.1%	8.9%	10.4%	10.5%	7.8%	8.3%	9.4%	11.5%

Sensitivity to level of coverage

	50%	50%	50%	50%	50%	50%	50%	50%	50%
Coverage @50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Impact on capital (EURm)	0	0	0	909	414	18	0	0	0
Impact on CT1 ratio (bp)	-	-	-	157	54	4	-	-	-
CT1 ratio	10.7%	11.1%	8.9%	8.8%	9.9%	7.7%	8.3%	9.4%	11.5%
Coverage @60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Impact on capital (EURm)	1,943	0	812	1,577	902	181	333	23	0
Impact on CT1 ratio (bp)	44	-	85	272	118	41	72	14	-
CT1 ratio	10.2%	11.1%	8.0%	7.7%	9.3%	7.4%	7.6%	9.2%	11.5%
Coverage @70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Impact on capital (EURm)	6,507	2,563	2,448	2,245	1,390	344	731	82	24
Impact on CT1 ratio (bp)	149	83	257	388	182	78	157	50	4
CT1 ratio	9.2%	10.3%	6.3%	6.5%	8.7%	7.0%	6.7%	8.9%	11.5%
CT1 B3 ratio	7.8%	9.0%	4.3%	5.5%	7.5%	6.7%	6.2%	8.9%	8.5%

Source: Company data, Nomura estimates

Despite the banks' arguments about the soundness of their NPL coverage ratios, we cannot exclude an intervention from the regulator aimed at increasing these levels, particularly in the event of a common European banking supervision. Such an increase would have a direct impact on capital, proportional to the gap between the banks' current levels of coverage and the hypothetical target. In theory, we rule out this scenario, which would require harmonisation of credit quality criteria first (also at the European level), but we believe this would be systemically risky. The above sensitivity gives an idea of the amount of provisions required in case of a systemic action to increase coverage. On an increase to 70% (this is the most likely level at which buyers would accept to buy big portfolio tickets), we believe the banks under our coverage would need some EUR 16bn, which would increase to EUR 32bn at a system level. This exercise is only theoretical, however, considering that banks might have different levels of collateralisation of their NPL portfolios.

Fig. 44: System-level sensitivity to varying coverage ratio

% / EURm	Optimal coverage	Coverage ratio in the system	Gross NPLs in the system (EURbn)	Additional provisions (EURbn)
	50%	42.7%	117.3	8.6
	60%	42.7%	117.3	20.3
	70%	42.7%	117.3	32.1

Source: Bank of Italy, Nomura estimates

How we built our LLP provisions

We have built our provisions on the assumption that the doubtful loans ratio will pick up in 2014, and the sector coverage will increase, although not at a pre-crisis level, which would require much longer to be reached without any one-off action in the system. Note that the growth of doubtful loans in 1Q 12 is inflated by different classification criteria (past due from 180 to 90 days). Our LLP estimates for the sector remain high in 2013 and gradually come down in 2014 when recoveries/write-backs should help to reduce the P&L burden, while coverage increases to a higher level (although remaining below the pre-crisis level).

Fig. 45: Credit quality estimates

%/ bp

Gross Doubtful Loan (growth y-o-y)																			
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12e	Q4 13e	Q4 14e
UCG	12%	22%	34%	39%	38%	34%	28%	22%	18%	15%	10%	10%	6%	9%	11%	12%	12%	8%	6%
ISP	29%	33%	53%	51%	52%	48%	23%	17%	8%	4%	7%	10%	12%	16%	19%	19%	22%	15%	10%
BMPS	100%	110%	45%	40%	33%	25%	15%	17%	14%	15%	15%	15%	18%	23%	21%	26%	24%	11%	7%
Bapo	37%	57%	57%	54%	54%	112%	89%	82%	53%	-1%	8%	6%	7%	10%	11%	15%	13%	6%	4%
UBI	35%	40%	60%	60%	77%	70%	47%	40%	17%	20%	19%	18%	15%	15%	16%	21%	19%	13%	9%
BPM	36%	52%	125%	103%	83%	66%	6%	1%	16%	12%	20%	23%	13%	18%	25%	31%	31%	22%	15%
Credem	63%	81%	66%	34%	62%	53%	46%	37%	14%	6%	8%	12%	13%	22%	23%	25%	26%	15%	10%
BPER	20%	46%	63%	67%	72%	38%	23%	20%	9%	12%	12%	15%	17%	25%	28%	26%	34%	15%	7%

Gross Doubtful Loan ratio (%)																			
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12e	Q4 13e	Q4 14e
UCG	7%	8%	8%	9%	10%	11%	11%	12%	12%	12%	12%	13%	13%	14%	14%	14%	15%	16%	17%
ISP	6%	6%	8%	8%	9%	10%	10%	10%	10%	10%	10%	11%	11%	11%	12%	13%	14%	16%	17%
BMPS	9%	10%	11%	11%	11%	12%	12%	13%	13%	13%	14%	14%	16%	17%	18%	19%	20%	22%	23%
Bapo	7%	8%	8%	8%	10%	14%	13%	14%	14%	14%	14%	15%	15%	16%	17%	17%	17%	18%	19%
UBI	4%	4%	5%	5%	7%	7%	7%	7%	7%	8%	8%	8%	9%	9%	10%	11%	11%	12%	13%
BPM	4%	5%	7%	7%	7%	8%	7%	7%	8%	8%	8%	8%	9%	9%	10%	11%	12%	14%	16%
Credem	3%	3%	3%	3%	4%	4%	4%	4%	4%	4%	4%	5%	5%	5%	5%	5%	6%	7%	7%

Gross Doubtful Loan coverage (%)																			
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12e	Q4 13e	Q4 14e
UCG	53%	52%	50%	49%	46%	47%	45%	45%	44%	45%	45%	45%	45%	44%	44%	43%	45%	47%	48%
ISP	49%	49%	43%	42%	41%	41%	42%	43%	43%	44%	45%	45%	46%	43%	43%	43%	43%	44%	45%
BMPS	43%	40%	40%	41%	40%	41%	40%	41%	42%	41%	41%	41%	41%	40%	39%	38%	39%	40%	40%
Bapo	35%	34%	34%	31%	29%	26%	27%	28%	27%	27%	27%	26%	26%	25%	25%	24%	27%	30%	33%
UBI	36%	34%	32%	32%	29%	29%	30%	28%	30%	29%	29%	27%	27%	26%	26%	25%	27%	30%	32%
BPM	41%	36%	31%	29%	27%	26%	26%	27%	24%	24%	25%	25%	28%	28%	29%	28%	29%	29%	30%
Credem	39%	40%	39%	39%	36%	34%	35%	36%	36%	37%	36%	36%	36%	35%	35%	34%	36%	36%	37%

LLPs (bp)																			
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12e	Q4 13e	Q4 14e
UCG	87	110	166	150	146	127	123	117	126	108	84	131	107	101	137	129	122	104	90
ISP	101	76	112	87	114	82	85	75	94	73	88	73	217	103	115	128	108	82	58
BMPS	117	79	110	96	112	81	74	74	73	71	75	70	127	117	113	127	115	91	75
Bapo	402	65	66	82	107	73	88	92	69	86	80	82	72	90	82	87	89	85	74
UBI	129	66	97	82	117	54	76	53	99	41	62	53	84	54	85	68	75	64	58
BPM	155	93	172	62	126	82	40	57	104	48	79	73	341	58	95	86	86	78	73
Credem	46	60	83	34	76	58	9	21	50	14	26	24	42	45	28	32	46	35	30

Source: Company data, Nomura estimates

Appendix 1 – Credit quality

Fig. 46: UCG – credit exposures to customers (changes in impaired exposures and impairments)

EURbn / %

Gross doubtful loans	2007					2008				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	17.7	4.8	4.4	1.0	28.0	28.0	6.0	1.7	1.9	37.6
B. Increases (% of A)	106%	137%	21%	346%	107%	35%	150%	76%	321%	69%
B.1 transfers from performing loans (% of B)	16%	38%	19%	51%	25%	46%	58%	61%	71%	56%
B.2 transfer from other impaired exposure (% of B)	20%	18%	17%	1%	17%	28%	21%	20%	2%	19%
B.3 other increases (% of B)	64%	44%	64%	47%	58%	26%	21%	19%	27%	24%
C. Reductions (% of A)	48%	114%	82%	262%	73%	30%	99%	68%	302%	56%
C.1 transfers to performing loans (% of C)	6%	9%	19%	43%	14%	12%	15%	20%	36%	20%
C.2 derecognised items (% of C)	41%	4%	2%	0%	18%	31%	2%	2%	0%	13%
C.3 recoveries (% of C)	27%	17%	11%	7%	19%	29%	33%	22%	7%	24%
C.4 sales (% of C)	15%	5%	10%	5%	10%	12%	1%	1%	13%	9%
C.5 transfer to other impaired exposure (% of C)	2%	43%	44%	37%	25%	5%	41%	32%	31%	24%
C.6 other reductions (% of C)	8%	21%	15%	8%	13%	11%	7%	23%	12%	11%
D. Closing balance-gross exposure (EURbn)	28.0	6.0	1.7	1.9	37.6	29.3	9.0	1.9	2.2	42.4

Impairments	2007					2008				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	10.9	1.3	1.4	0.1	13.7	18.9	1.9	0.5	0.2	21.4
B. Increases (% of A)	117%	161%	16%	157%	111%	30%	115%	81%	200%	40%
B.1 writedowns (% of B)	28%	52%	41%	65%	32%	69%	79%	86%	61%	72%
B.2 transfer from other impaired exposure (% of B)	10%	8%	20%	4%	10%	12%	7%	6%	6%	10%
B.3 other increases (% of B)	62%	41%	39%	31%	58%	19%	13%	8%	34%	18%
C. Reductions (% of A)	52%	115%	82%	129%	62%	32%	70%	58%	148%	37%
C.1 write-backs from assessments (% of C)	9%	12%	24%	25%	12%	8%	11%	6%	8%	9%
C.2 write-backs from recoveries (% of C)	21%	15%	5%	8%	18%	21%	17%	12%	9%	19%
C.3 write-offs (% of C)	61%	15%	5%	2%	44%	44%	10%	10%	0%	36%
C.4 transfer to other impaired exposure (% of C)	1%	50%	57%	35%	18%	1%	41%	36%	57%	11%
C.5 other reductions (% of C)	8%	8%	10%	30%	8%	25%	22%	36%	26%	25%
D. Final gross writedowns (EURbn)	17.9	1.8	0.5	0.2	20.4	18.5	2.8	0.6	0.3	22.2

Gross doubtful loans	2009					2010				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	29.0	9.0	1.9	2.2	42.1	32.9	16.5	4.4	3.9	57.8
B. Increases (% of A)	41%	196%	261%	399%	103%	43%	102%	67%	227%	74%
B.1 transfers from performing loans (% of B)	50%	62%	54%	93%	64%	31%	57%	36%	79%	52%
B.2 transfer from other impaired exposure (% of B)	42%	26%	13%	3%	24%	49%	30%	28%	14%	33%
B.3 other increases (% of B)	7%	12%	33%	4%	12%	20%	13%	36%	7%	15%
C. Reductions (% of A)	27%	113%	122%	323%	65%	26%	83%	50%	231%	58%
C.1 transfers to performing loans (% of C)	10%	16%	18%	42%	21%	12%	12%	15%	37%	19%
C.2 derecognised items (% of C)	31%	2%	4%	0%	10%	43%	2%	2%	0%	12%
C.3 recoveries (% of C)	24%	23%	40%	5%	20%	24%	23%	40%	9%	20%
C.4 sales (% of C)	3%	1%	2%	0%	1%	5%	0%	2%	1%	2%
C.5 transfer to other impaired exposure (% of C)	8%	54%	35%	49%	38%	6%	61%	26%	52%	42%
C.6 other reductions (% of C)	24%	3%	1%	4%	9%	9%	2%	15%	1%	4%
D. Closing balance-gross exposure (EURbn)	32.9	16.5	4.4	3.9	57.8	38.7	19.7	5.2	3.8	67.3

Impairments	2009					2010				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	18.4	2.8	0.6	0.3	22.0	20.3	4.9	1.1	0.4	26.7
B. Increases (% of A)	41%	149%	184%	195%	60%	43%	97%	53%	146%	55%
B.1 writedowns (% of B)	84%	77%	38%	60%	77%	68%	69%	70%	42%	67%
B.2 transfer from other impaired exposure (% of B)	15%	14%	12%	4%	14%	27%	14%	24%	28%	23%
B.3 other increases (% of B)	2%	8%	50%	36%	9%	5%	17%	5%	30%	10%
C. Reductions (% of A)	31%	73%	94%	144%	39%	32%	75%	51%	144%	43%
C.1 write-backs from assessments (% of C)	13%	17%	12%	11%	14%	18%	8%	25%	7%	14%
C.2 write-backs from recoveries (% of C)	14%	7%	19%	3%	12%	16%	13%	23%	8%	15%
C.3 write-offs (% of C)	44%	12%	15%	1%	32%	56%	6%	9%	0%	34%
C.4 transfer to other impaired exposure (% of C)	5%	53%	38%	67%	21%	4%	68%	28%	64%	29%
C.5 other reductions (% of C)	24%	10%	15%	18%	20%	7%	5%	14%	21%	7%
D. Final gross writedowns (EURbn)	20.3	4.9	1.1	0.4	26.7	22.4	5.9	1.1	0.4	30.0

Gross doubtful loans	2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	38.7	19.7	5.2	3.8	67.3
B. Increases (% of A)	35%	83%	105%	214%	64%
B.1 transfers from performing loans (% of B)	19%	46%	37%	74%	42%
B.2 transfer from other impaired exposure (% of B)	58%	28%	17%	12%	33%
B.3 other increases (% of B)	23%	26%	45%	14%	25%
C. Reductions (% of A)	25%	84%	65%	201%	55%
C.1 transfers to performing loans (% of C)	15%	12%	16%	30%	17%
C.2 derecognised items (% of C)	37%	2%	5%	0%	11%
C.3 recoveries (% of C)	25%	25%	11%	2%	19%
C.4 sales (% of C)	2%	1%	0%	0%	1%
C.5 transfer to other impaired exposure (% of C)	5%	52%	25%	57%	38%
C.6 other reductions (% of C)	16%	9%	43%	11%	14%
D. Closing balance-gross exposure (EURbn)	42.5	19.5	7.3	4.3	73.5

Impairments	2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	22.4	5.9	1.1	0.4	30.0
B. Increases (% of A)	37%	75%	127%	220%	51%
B.1 writedowns (% of B)	59%	71%	69%	46%	62%
B.2 transfer from other impaired exposure (% of B)	31%	13%	16%	15%	24%
B.3 other increases (% of B)	10%	16%	15%	39%	14%
C. Reductions (% of A)	29%	72%	65%	176%	41%
C.1 write-backs from assessments (% of C)	12%	9%	9%	7%	10%
C.2 write-backs from recoveries (% of C)	19%	12%	20%	8%	16%
C.3 write-offs (% of C)	55%	8%	24%	1%	33%
C.4 transfer to other impaired exposure (% of C)	3%	62%	43%	63%	29%
C.5 other reductions (% of C)	12%	10%	4%	21%	11%
D. Final gross writedowns (EURbn)	24.3	6.2	1.9	0.6	33.0

Source: Company data, Nomura research

Fig. 47: ISP – credit exposures to customers (changes in impaired exposures and impairments)

EURbn / %

Gross doubtful loans	2007					2008				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	5.1	3.8	0.1	0.5	9.4	10.3	5.0	0.3	1.1	16.7
B. Increases (% of A)	153%	173%	262%	886%	198%	45%	161%	184%	414%	107%
B.1 transfers from performing loans (% of B)	5%	44%	10%	65%	32%	17%	60%	52%	84%	55%
B.2 transfer from other impaired exposure (% of B)	24%	18%	22%	1%	17%	55%	21%	30%	2%	25%
B.3 other increases (% of B)	71%	38%	68%	34%	51%	28%	19%	17%	14%	20%
C. Reductions (% of A)	50%	140%	172%	739%	121%	18%	121%	80%	332%	71%
C.1 transfers to performing loans (% of C)	3%	21%	13%	42%	23%	6%	20%	5%	30%	21%
C.2 derecognised items (% of C)	36%	3%	2%	0%	9%	30%	3%	34%	0%	7%
C.3 recoveries (% of C)	33%	34%	41%	23%	31%	55%	31%	38%	22%	32%
C.4 sales (% of C)	8%	0%	5%	0%	2%	3%	0%	0%	0%	1%
C.5 transfer to other impaired exposure (% of C)	3%	37%	34%	32%	28%	4%	44%	22%	45%	38%
C.6 other reductions (% of C)	17%	6%	5%	3%	7%	1%	1%	0%	2%	2%
D. Closing balance-gross exposure (EURbn)	10.3	5.0	0.3	1.1	16.7	13.0	7.0	0.5	2.0	22.6

Impairments	2007					2008				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	3.4	1.0	0.0	0.0	4.5	7.3	1.4	0.1	0.1	9.0
B. Increases (% of A)	177%	149%	214%	1293%	174%	43%	122%	233%	207%	60%
B.1 writedowns (% of B)	21%	50%	34%	10%	27%	58%	77%	55%	77%	65%
B.2 transfer from other impaired exposure (% of B)	6%	5%	20%	3%	6%	19%	11%	38%	6%	16%
B.3 other increases (% of B)	73%	45%	46%	87%	67%	23%	12%	7%	17%	19%
C. Reductions (% of A)	60%	106%	119%	520%	73%	20%	104%	-146%	184%	34%
C.1 write-backs from assessments (% of C)	17%	22%	20%	62%	20%	28%	26%	-9%	11%	27%
C.2 write-backs from recoveries (% of C)	15%	12%	36%	3%	14%	21%	10%	-3%	7%	16%
C.3 write-offs (% of C)	44%	12%	14%	9%	32%	38%	12%	-69%	7%	27%
C.4 transfer to other impaired exposure (% of C)	2%	38%	20%	10%	14%	3%	46%	-20%	60%	29%
C.5 other reductions (% of C)	22%	16%	9%	17%	19%	9%	6%	0%	14%	8%
D. Final gross writedowns (EURbn)	7.3	1.4	0.1	0.1	9.0	9.1	1.7	0.1	0.2	11.1

Gross doubtful loans	2009					2010				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	13.2	7.0	0.5	2.0	22.8	16.5	13.0	2.4	2.6	34.4
B. Increases (% of A)	42%	196%	478%	323%	125%	44%	86%	85%	226%	76%
B.1 transfers from performing loans (% of B)	23%	62%	67%	94%	62%	11%	55%	15%	85%	46%
B.2 transfer from other impaired exposure (% of B)	61%	29%	28%	1%	28%	75%	30%	77%	1%	39%
B.3 other increases (% of B)	16%	10%	6%	6%	10%	14%	16%	8%	14%	14%
C. Reductions (% of A)	17%	112%	128%	296%	74%	19%	98%	33%	262%	68%
C.1 transfers to performing loans (% of C)	5%	20%	2%	28%	20%	6%	23%	41%	41%	26%
C.2 derecognised items (% of C)	31%	2%	13%	0%	6%	29%	1%	2%	0%	4%
C.3 recoveries (% of C)	47%	23%	19%	12%	22%	41%	20%	27%	13%	21%
C.4 sales (% of C)	2%	1%	0%	0%	0%	3%	1%	0%	0%	1%
C.5 transfer to other impaired exposure (% of C)	6%	50%	58%	59%	48%	10%	53%	29%	44%	44%
C.6 other reductions (% of C)	8%	4%	7%	0%	4%	11%	3%	1%	1%	3%
D. Closing balance-gross exposure (EURbn)	16.5	13.0	2.4	2.6	34.4	20.6	11.4	3.6	1.7	37.2

Impairments	2009					2010				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	9.2	1.7	0.1	0.2	11.3	11.1	2.6	0.1	0.2	14.0
B. Increases (% of A)	40%	152%	156%	178%	61%	40%	86%	247%	181%	52%
B.1 writedowns (% of B)	62%	80%	42%	90%	70%	56%	73%	21%	86%	61%
B.2 transfer from other impaired exposure (% of B)	22%	13%	56%	2%	19%	30%	14%	69%	4%	25%
B.3 other increases (% of B)	16%	7%	1%	8%	12%	14%	12%	10%	10%	13%
C. Reductions (% of A)	20%	103%	176%	181%	37%	21%	95%	74%	186%	37%
C.1 write-backs from assessments (% of C)	23%	25%	11%	17%	23%	23%	23%	41%	13%	23%
C.2 write-backs from recoveries (% of C)	17%	7%	1%	3%	11%	17%	7%	2%	3%	11%
C.3 write-offs (% of C)	39%	9%	39%	4%	24%	39%	4%	21%	1%	19%
C.4 transfer to other impaired exposure (% of C)	3%	52%	42%	68%	31%	5%	60%	36%	76%	36%
C.5 other reductions (% of C)	18%	7%	7%	8%	12%	17%	7%	0%	6%	11%
D. Final gross writedowns (EURbn)	11.1	2.6	0.1	0.2	14.0	13.2	2.4	0.3	0.2	16.0

Gross doubtful loans	2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	20.6	11.4	3.6	1.7	37.2
B. Increases (% of A)	36%	89%	28%	266%	62%
B.1 transfers from performing loans (% of B)	12%	56%	28%	87%	46%
B.2 transfer from other impaired exposure (% of B)	70%	28%	57%	2%	38%
B.3 other increases (% of B)	18%	16%	16%	11%	16%
C. Reductions (% of A)	15%	88%	17%	287%	50%
C.1 transfers to performing loans (% of C)	4%	20%	7%	35%	20%
C.2 derecognised items (% of C)	24%	0%	17%	0%	5%
C.3 recoveries (% of C)	42%	19%	14%	11%	21%
C.4 sales (% of C)	6%	0%	0%	0%	1%
C.5 transfer to other impaired exposure (% of C)	10%	56%	49%	53%	47%
C.6 other reductions (% of C)	14%	5%	14%	1%	6%
D. Closing balance-gross exposure (EURbn)	25.0	11.5	4.0	1.3	41.8

Impairments	2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	13.2	2.4	0.3	0.2	16.0
B. Increases (% of A)	40%	92%	183%	240%	53%
B.1 writedowns (% of B)	58%	69%	75%	70%	63%
B.2 transfer from other impaired exposure (% of B)	26%	16%	16%	5%	22%
B.3 other increases (% of B)	16%	15%	9%	25%	16%
C. Reductions (% of A)	20%	93%	79%	227%	34%
C.1 write-backs from assessments (% of C)	36%	21%	11%	16%	28%
C.2 write-backs from recoveries (% of C)	12%	5%	1%	1%	8%
C.3 write-offs (% of C)	28%	2%	44%	1%	16%
C.4 transfer to other impaired exposure (% of C)	4%	64%	26%	72%	34%
C.5 other reductions (% of C)	21%	8%	18%	9%	15%
D. Final gross writedowns (EURbn)	16.0	2.4	0.6	0.2	19.1

Source: Company data, Nomura research

Fig. 48: BMPS – credit exposures to customers (changes in impaired exposures and impairments)

EURbn / %

Gross doubtful loans	2007						2008					
	NPLs	Watchlist	Restructured	Past-due	TOTAL	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL	
A. Opening balance, gross exposure (EURbn)		3.7	1.4	0.1	1.1	6.3		4.1	1.6	0.1	0.6	6.5
B. Increases (% of A)		34%	76%	54%	58%	48%		135%	193%	195%	200%	157%
B.1 transfers from performing loans (% of B)		37%	58%	45%	68%	51%		13%	37%	16%	46%	25%
B.2 transfer from other impaired exposure (% of B)		43%	25%	13%	0%	27%		12%	10%	2%	0%	10%
B.3 other increases (% of B)		20%	17%	42%	32%	22%		74%	53%	82%	54%	65%
C. Reductions (% of A)		22%	60%	37%	102%	44%		33%	84%	144%	136%	58%
C.1 transfers to performing loans (% of C)		1%	7%	38%	42%	20%		2%	6%	5%	27%	9%
C.2 derecognised items (% of C)		46%	2%	0%	1%	14%		18%	3%	0%	0%	8%
C.3 recoveries (% of C)		48%	39%	28%	24%	35%		61%	40%	25%	28%	44%
C.4 sales (% of C)		5%	0%	0%	0%	1%		4%	0%	0%	0%	1%
C.5 transfer to other impaired exposure (% of C)		0%	50%	34%	34%	29%		0%	42%	49%	42%	27%
C.6 other reductions (% of C)		0%	2%	0%	0%	1%		15%	9%	21%	2%	10%
D. Closing balance-gross exposure (EURbn)		4.1	1.6	0.1	0.6	6.5		8.4	3.3	0.2	1.0	12.9

Impairments	2007						2008					
	NPLs	Watchlist	Restructured	Past-due	TOTAL	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL	
A. Total opening writedowns (EURbn)		2.0	0.3	0.0	0.1	2.4		2.1	0.4	0.0	0.0	2.6
B. Increases (% of A)		39%	75%	134%	44%	44%		163%	191%	355%	171%	168%
B.1 writedowns (% of B)		74%	84%	37%	83%	76%		34%	66%	21%	60%	40%
B.2 transfer from other impaired exposure (% of B)		14%	3%	1%	0%	11%		4%	1%	1%	0%	3%
B.3 other increases (% of B)		12%	13%	62%	17%	13%		62%	32%	78%	40%	57%
C. Reductions (% of A)		31%	67%	133%	91%	39%		41%	98%	298%	122%	51%
C.1 write-backs from assessments (% of C)		20%	27%	28%	69%	26%		21%	27%	62%	71%	25%
C.2 write-backs from recoveries (% of C)		11%	10%	4%	1%	10%		30%	15%	9%	5%	24%
C.3 write-offs (% of C)		59%	7%	0%	8%	41%		29%	11%	0%	3%	22%
C.4 transfer to other impaired exposure (% of C)		0%	47%	68%	4%	13%		0%	36%	26%	17%	11%
C.5 other reductions (% of C)		10%	9%	0%	18%	10%		20%	10%	3%	4%	17%
D. Final gross writedowns (EURbn)		2.1	0.4	0.0	0.0	2.6		4.8	0.7	0.0	0.1	5.5

Gross doubtful loans	2009						2010					
	NPLs	Watchlist	Restructured	Past-due	TOTAL	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL	
A. Opening balance, gross exposure (EURbn)		8.4	3.3	0.2	1.0	12.9		10.6	4.7	0.7	1.2	17.2
B. Increases (% of A)		36%	96%	339%	133%	64%		27%	61%	114%	55%	42%
B.1 transfers from performing loans (% of B)		46%	72%	87%	77%	65%		33%	69%	71%	84%	56%
B.2 transfer from other impaired exposure (% of B)		35%	15%	6%	1%	19%		44%	17%	20%	5%	27%
B.3 other increases (% of B)		19%	13%	7%	22%	16%		23%	13%	9%	11%	17%
C. Reductions (% of A)		10%	54%	90%	118%	31%		10%	52%	29%	97%	28%
C.1 transfers to performing loans (% of C)		3%	8%	3%	22%	11%		1%	22%	39%	30%	20%
C.2 derecognised items (% of C)		20%	6%	2%	0%	7%		15%	1%	1%	0%	4%
C.3 recoveries (% of C)		69%	35%	78%	19%	39%		62%	22%	28%	16%	29%
C.4 sales (% of C)		0%	0%	0%	0%	0%		19%	1%	0%	1%	5%
C.5 transfer to other impaired exposure (% of C)		1%	50%	17%	47%	37%		2%	53%	33%	52%	41%
C.6 other reductions (% of C)		7%	0%	0%	11%	5%		2%	0%	0%	0%	1%
D. Closing balance-gross exposure (EURbn)		10.6	4.7	0.7	1.2	17.2		12.5	5.1	1.3	0.7	19.6

Impairments	2009						2010					
	NPLs	Watchlist	Restructured	Past-due	TOTAL	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL	
A. Total opening writedowns (EURbn)		4.8	0.7	0.0	0.1	5.5		5.9	0.9	0.0	0.1	6.9
B. Increases (% of A)		38%	96%	225%	94%	46%		31%	68%	334%	70%	37%
B.1 writedowns (% of B)		75%	91%	97%	81%	79%		77%	95%	86%	84%	82%
B.2 transfer from other impaired exposure (% of B)		13%	1%	3%	16%	10%		12%	1%	8%	1%	9%
B.3 other increases (% of B)		12%	8%	0%	2%	11%		11%	4%	6%	15%	9%
C. Reductions (% of A)		13%	67%	107%	91%	21%		14%	50%	48%	106%	19%
C.1 write-backs from assessments (% of C)		56%	27%	65%	61%	44%		48%	36%	63%	62%	45%
C.2 write-backs from recoveries (% of C)		10%	5%	2%	2%	7%		11%	8%	5%	14%	10%
C.3 write-offs (% of C)		31%	22%	25%	8%	26%		19%	8%	10%	8%	15%
C.4 transfer to other impaired exposure (% of C)		0%	45%	8%	28%	20%		0%	47%	19%	12%	17%
C.5 other reductions (% of C)		3%	1%	0%	1%	2%		22%	2%	3%	3%	14%
D. Final gross writedowns (EURbn)		5.9	0.9	0.0	0.1	6.9		7.0	1.1	0.1	0.0	8.2

Gross doubtful loans	2011					
	NPLs	Watchlist	Restructured	Past-due	TOTAL	TOTAL
A. Opening balance, gross exposure (EURbn)		12.5	5.1	1.3	0.7	19.6
B. Increases (% of A)		24%	57%	38%	210%	40%
B.1 transfers from performing loans (% of B)		29%	67%	60%	93%	57%
B.2 transfer from other impaired exposure (% of B)		56%	22%	10%	1%	30%
B.3 other increases (% of B)		15%	11%	30%	6%	13%
C. Reductions (% of A)		7%	44%	20%	129%	22%
C.1 transfers to performing loans (% of C)		0%	9%	3%	14%	8%
C.2 derecognised items (% of C)		25%	1%	0%	0%	6%
C.3 recoveries (% of C)		62%	19%	39%	15%	29%
C.4 sales (% of C)		12%	0%	0%	0%	2%
C.5 transfer to other impaired exposure (% of C)		0%	70%	57%	71%	55%
C.6 other reductions (% of C)		1%	0%	0%	0%	0%
D. Closing balance-gross exposure (EURbn)		14.5	5.7	1.6	1.2	23.1

Impairments	2011					
	NPLs	Watchlist	Restructured	Past-due	TOTAL	TOTAL
A. Total opening writedowns (EURbn)		7.0	1.1	0.1	0.0	8.2
B. Increases (% of A)		27%	70%	84%	369%	35%
B.1 writedowns (% of B)		71%	84%	82%	38%	73%
B.2 transfer from other impaired exposure (% of B)		20%	15%	7%	0%	17%
B.3 other increases (% of B)		8%	1%	11%	62%	10%
C. Reductions (% of A)		12%	52%	32%	287%	19%
C.1 write-backs from assessments (% of C)		54%	21%	43%	16%	39%
C.2 write-backs from recoveries (% of C)		10%	4%	6%	3%	7%
C.3 write-offs (% of C)		27%	5%	0%	1%	17%
C.4 transfer to other impaired exposure (% of C)		0%	70%	51%	78%	32%
C.5 other reductions (% of C)		9%	0%	0%	2%	5%
D. Final gross writedowns (EURbn)		8.1	1.3	0.1	0.1	9.6

Source: Company data, Nomura research

Fig. 49: UBI – credit exposures to customers (changes in impaired exposures and impairments)

EURbn / %

Gross doubtful loans	2007					2008				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	0.8	0.6	0.0	0.1	1.6	1.5	0.9	0.1	0.1	2.7
B. Increases (% of A)	145%	191%	337%	188%	171%	51%	165%	238%	701%	133%
B.1 transfers from performing loans (% of B)	27%	50%	4%	83%	40%	41%	55%	35%	93%	62%
B.2 transfer from other impaired exposure (% of B)	26%	9%	14%	1%	16%	51%	35%	16%	3%	28%
B.3 other increases (% of B)	47%	40%	82%	16%	43%	8%	10%	50%	4%	10%
C. Reductions (% of A)	61%	129%	241%	179%	101%	27%	112%	192%	658%	97%
C.1 transfers to performing loans (% of C)	2%	20%	5%	33%	15%	0%	25%	40%	37%	27%
C.2 derecognised items (% of C)	42%	0%	0%	0%	13%	46%	1%	0%	0%	8%
C.3 recoveries (% of C)	42%	23%	90%	14%	33%	47%	11%	32%	1%	14%
C.4 sales (% of C)	9%	2%	0%	0%	4%	1%	0%	0%	0%	0%
C.5 transfer to other impaired exposure (% of C)	0%	43%	4%	48%	27%	2%	37%	21%	57%	38%
C.6 other reductions (% of C)	5%	12%	1%	5%	8%	4%	27%	7%	5%	13%
D. Closing balance-gross exposure (EURbn)	1.5	0.9	0.1	0.1	2.7	1.9	1.4	0.1	0.2	3.6

Impairments	2007					2008				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	0.5	0.1	0.0	0.0	0.6	0.8	0.2	0.0	0.0	1.0
B. Increases (% of A)	139%	137%	47%	246%	137%	61%	114%	174%	92%	71%
B.1 writedowns (% of B)	46%	55%	28%	59%	47%	82%	84%	86%	68%	82%
B.2 transfer from other impaired exposure (% of B)	9%	2%	15%	4%	7%	11%	4%	13%	7%	9%
B.3 other increases (% of B)	46%	43%	57%	36%	45%	7%	13%	1%	25%	8%
C. Reductions (% of A)	67%	97%	43%	107%	72%	36%	66%	23%	121%	42%
C.1 write-backs from assessments (% of C)	11%	5%	59%	10%	10%	9%	7%	4%	7%	8%
C.2 write-backs from recoveries (% of C)	15%	23%	16%	22%	17%	24%	29%	6%	12%	24%
C.3 write-offs (% of C)	65%	3%	0%	0%	48%	64%	9%	1%	0%	48%
C.4 transfer to other impaired exposure (% of C)	0%	56%	20%	36%	14%	0%	54%	89%	44%	16%
C.5 other reductions (% of C)	10%	13%	5%	32%	11%	2%	1%	0%	37%	3%
D. Final gross writedowns (EURbn)	0.0	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.0	1.3

Gross doubtful loans	2009					2010				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	1.9	1.4	0.1	0.2	3.6	2.8	2.2	0.5	0.9	6.4
B. Increases (% of A)	74%	205%	448%	1042%	196%	67%	113%	219%	193%	113%
B.1 transfers from performing loans (% of B)	33%	62%	47%	92%	64%	33%	51%	17%	89%	51%
B.2 transfer from other impaired exposure (% of B)	67%	28%	17%	6%	28%	60%	31%	36%	2%	32%
B.3 other increases (% of B)	0%	11%	35%	2%	8%	7%	18%	47%	9%	17%
C. Reductions (% of A)	27%	145%	211%	699%	119%	20%	108%	133%	242%	92%
C.1 transfers to performing loans (% of C)	0%	16%	14%	40%	23%	0%	12%	4%	54%	27%
C.2 derecognised items (% of C)	49%	0%	9%	0%	6%	51%	0%	0%	0%	5%
C.3 recoveries (% of C)	43%	8%	60%	2%	14%	41%	12%	79%	2%	18%
C.4 sales (% of C)	0%	0%	0%	0%	0%	5%	0%	0%	0%	1%
C.5 transfer to other impaired exposure (% of C)	2%	56%	0%	55%	45%	1%	58%	5%	39%	39%
C.6 other reductions (% of C)	6%	19%	17%	3%	12%	1%	17%	11%	5%	10%
D. Closing balance-gross exposure (EURbn)	2.8	2.2	0.5	0.9	6.4	4.1	2.3	0.9	0.5	7.7

Impairments	2009					2010				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	1.0	0.2	0.0	0.0	1.3	1.4	0.4	0.0	0.0	1.8
B. Increases (% of A)	79%	135%	77%	248%	90%	82%	64%	101%	54%	78%
B.1 writedowns (% of B)	86%	75%	63%	76%	82%	61%	72%	43%	65%	62%
B.2 transfer from other impaired exposure (% of B)	13%	1%	30%	7%	10%	15%	3%	30%	5%	13%
B.3 other increases (% of B)	1%	24%	7%	17%	8%	24%	25%	28%	30%	24%
C. Reductions (% of A)	40%	72%	74%	118%	47%	33%	85%	52%	86%	44%
C.1 write-backs from assessments (% of C)	13%	10%	2%	22%	12%	19%	6%	4%	33%	14%
C.2 write-backs from recoveries (% of C)	12%	19%	6%	13%	14%	16%	13%	46%	15%	16%
C.3 write-offs (% of C)	60%	1%	90%	0%	45%	61%	0%	7%	0%	35%
C.4 transfer to other impaired exposure (% of C)	0%	69%	0%	62%	20%	0%	60%	1%	45%	24%
C.5 other reductions (% of C)	14%	1%	1%	3%	10%	3%	21%	42%	7%	11%
D. Final gross writedowns (EURbn)	1.4	0.4	0.0	0.0	1.8	2.1	0.3	0.1	0.0	2.5

Gross doubtful loans	2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	4.1	2.3	0.9	0.5	7.7
B. Increases (% of A)	37%	94%	28%	166%	61%
B.1 transfers from performing loans (% of B)	28%	74%	14%	97%	60%
B.2 transfer from other impaired exposure (% of B)	58%	18%	54%	0%	30%
B.3 other increases (% of B)	14%	8%	32%	3%	10%
C. Reductions (% of A)	22%	71%	23%	174%	46%
C.1 transfers to performing loans (% of C)	3%	21%	0%	29%	17%
C.2 derecognised items (% of C)	37%	0%	1%	0%	9%
C.3 recoveries (% of C)	36%	22%	87%	7%	26%
C.4 sales (% of C)	20%	0%	0%	0%	5%
C.5 transfer to other impaired exposure (% of C)	0%	54%	9%	58%	39%
C.6 other reductions (% of C)	5%	2%	3%	6%	3%
D. Closing balance-gross exposure (EURbn)	4.7	2.8	0.9	0.4	8.9

Impairments	2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	2.1	0.3	0.1	0.0	2.5
B. Increases (% of A)	37%	65%	86%	52%	41%
B.1 writedowns (% of B)	81%	79%	74%	72%	80%
B.2 transfer from other impaired exposure (% of B)	14%	3%	25%	5%	12%
B.3 other increases (% of B)	5%	18%	1%	23%	8%
C. Reductions (% of A)	33%	57%	32%	83%	36%
C.1 write-backs from assessments (% of C)	15%	6%	3%	6%	13%
C.2 write-backs from recoveries (% of C)	14%	22%	62%	26%	17%
C.3 write-offs (% of C)	47%	1%	15%	0%	37%
C.4 transfer to other impaired exposure (% of C)	0%	71%	6%	67%	14%
C.5 other reductions (% of C)	24%	0%	13%	2%	19%
D. Final gross writedowns (EURbn)	2.2	0.3	0.1	0.0	2.6

Source: Company data, Nomura research

Fig. 50: BAPO – credit exposures to customers (changes in impaired exposures and impairments)

EURbn / %

Gross doubtful loans	2008					2009				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	2.0	1.7	0.1	0.4	4.2	2.1	2.8	0.2	0.5	5.5
B. Increases (% of A)	55%	148%	58%	341%	119%	174%	270%	703%	278%	245%
B.1 transfers from performing loans (% of B)	41%	67%	61%	68%	61%	24%	47%	62%	72%	44%
B.2 transfer from other impaired exposure (% of B)	52%	19%	8%	4%	22%	31%	4%	24%	12%	14%
B.3 other increases (% of B)	7%	14%	30%	27%	16%	44%	49%	14%	16%	42%
C. Reductions (% of A)	49%	85%	54%	318%	88%	43%	116%	231%	174%	96%
C.1 transfers to performing loans (% of C)	0%	18%	41%	51%	25%	0%	21%	17%	41%	20%
C.2 derecognised items (% of C)	57%	1%	0%	0%	15%	58%	1%	0%	0%	11%
C.3 recoveries (% of C)	24%	20%	31%	11%	18%	26%	21%	72%	13%	24%
C.4 sales (% of C)	2%	0%	0%	0%	1%	1%	0%	0%	0%	0%
C.5 transfer to other impaired exposure (% of C)	0%	43%	27%	38%	30%	0%	48%	7%	38%	35%
C.6 other reductions (% of C)	16%	17%	1%	0%	11%	16%	10%	3%	7%	10%
D. Closing balance-gross exposure (EURbn)	2.1	2.8	0.2	0.5	5.5	4.9	7.0	0.9	1.0	13.8

Impairments	2008					2009				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	1.1	0.4	0.0	0.0	1.6	1.1	0.7	0.0	0.1	2.0
B. Increases (% of A)	71%	158%	92%	456%	97%	166%	178%	380%	214%	176%
B.1 writedowns (% of B)	66%	89%	86%	94%	77%	37%	36%	47%	31%	37%
B.2 transfer from other impaired exposure (% of B)	23%	0%	14%	4%	13%	25%	2%	42%	10%	16%
B.3 other increases (% of B)	11%	10%	0%	3%	10%	38%	62%	11%	58%	47%
C. Reductions (% of A)	70%	78%	34%	61%	72%	69%	99%	149%	231%	86%
C.1 write-backs from assessments (% of C)	10%	6%	38%	87%	9%	17%	23%	32%	19%	0%
C.2 write-backs from recoveries (% of C)	8%	10%	21%	3%	9%	8%	3%	22%	1%	6%
C.3 write-offs (% of C)	69%	5%	2%	0%	50%	68%	5%	0%	1%	34%
C.4 transfer to other impaired exposure (% of C)	0%	60%	39%	6%	17%	0%	63%	8%	70%	33%
C.5 other reductions (% of C)	13%	19%	0%	4%	14%	7%	6%	38%	9%	7%
D. Final gross writedowns (EURbn)	1.1	0.7	0.0	0.1	2.0	2.3	1.3	0.1	0.0	3.7

Gross doubtful loans	2010					2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Opening balance, gross exposure (EURbn)	4.9	7.0	0.9	1.0	13.8	5.2	5.5	2.0	0.5	13.2
B. Increases (% of A)	42%	50%	205%	167%	65%	44%	61%	71%	160%	59%
B.1 transfers from performing loans (% of B)	26%	63%	71%	86%	60%	20%	59%	20%	88%	43%
B.2 transfer from other impaired exposure (% of B)	63%	29%	26%	4%	32%	65%	20%	64%	2%	39%
B.3 other increases (% of B)	11%	8%	3%	10%	8%	15%	21%	16%	10%	18%
C. Reductions (% of A)	37%	72%	72%	219%	70%	27%	74%	36%	177%	53%
C.1 transfers to performing loans (% of C)	34%	28%	56%	41%	34%	2%	21%	25%	16%	17%
C.2 derecognised items (% of C)	38%	3%	0%	0%	9%	62%	4%	1%	0%	15%
C.3 recoveries (% of C)	13%	9%	23%	4%	10%	22%	18%	30%	9%	19%
C.4 sales (% of C)	1%	0%	0%	0%	0%	6%	0%	0%	0%	1%
C.5 transfer to other impaired exposure (% of C)	0%	34%	7%	52%	30%	2%	-54%	37%	68%	-19%
C.6 other reductions (% of C)	15%	26%	14%	3%	18%	5%	3%	7%	8%	4%
D. Closing balance-gross exposure (EURbn)	5.2	5.5	2.0	0.5	13.2	6.1	4.8	2.7	0.4	14.0

Impairments	2010					2011				
	NPLs	Watchlist	Restructured	Past-due	TOTAL	NPLs	Watchlist	Restructured	Past-due	TOTAL
A. Total opening writedowns (EURbn)	2.3	1.3	0.1	0.0	3.7	2.3	1.0	0.3	0.0	3.6
B. Increases (% of A)	53%	41%	250%	166%	56%	56%	64%	77%	173%	61%
B.1 writedowns (% of B)	73%	87%	34%	92%	73%	57%	68%	41%	98%	60%
B.2 transfer from other impaired exposure (% of B)	18%	10%	39%	4%	18%	19%	16%	57%	3%	21%
B.3 other increases (% of B)	8%	3%	27%	5%	9%	24%	16%	2%	-1%	19%
C. Reductions (% of A)	51%	64%	68%	190%	58%	52%	71%	-63%	192%	49%
C.1 write-backs from assessments (% of C)	20%	34%	62%	24%	0%	16%	24%	59%	12%	15%
C.2 write-backs from recoveries (% of C)	7%	7%	6%	0%	7%	8%	3%	-6%	1%	7%
C.3 write-offs (% of C)	60%	18%	2%	1%	40%	73%	23%	-4%	1%	58%
C.4 transfer to other impaired exposure (% of C)	0%	36%	17%	72%	18%	1%	48%	-27%	82%	26%
C.5 other reductions (% of C)	13%	5%	14%	3%	10%	2%	2%	-4%	4%	3%
D. Final gross writedowns (EURbn)	2.3	1.0	0.3	0.0	3.6	2.4	0.9	0.3	0.0	3.7

Source: Company data, Nomura research

Appendix 2 – 3Q 12 banking trends

Revenues better on trading, while NII weaker

In 3Q 12 revenues were slightly up q-o-q (+0.6% on average for the banks under our coverage), although this was mainly as a result of strong trading, while NII continued to slip and fees were broadly stable. NII declined 3.6% q-o-q (-6.7% y-o-y), with slippage across most banks in our coverage (ex Mediobanca and BPER), owing to falling market rates (average 3M Euribor in 3Q was 0.7% and 0.3% in 2Q) and slightly retrenching volumes, despite repricing. Total exposure to Italian sovereign debt was stable q-o-q at 1.9x TBV (vs 2x in 2Q) while ECB usage came down 5% q-o-q. The latter represents 10% of total assets (4% for large banks, 11% for small banks), while unencumbered assets grew to EUR 222bn from EUR 177bn, comfortably covering total remaining wholesale maturities for 2012-13. Pressure on NII is likely to continue (the message from UCG was particularly cautious), although most banks expect NII to be broadly stable, with an increased contribution from repricing containing the impact of falling rates.

Fig. 51: Net interest income

q-o-q % as of 3Q 12

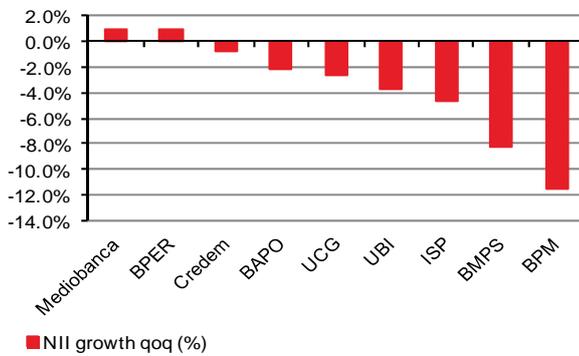
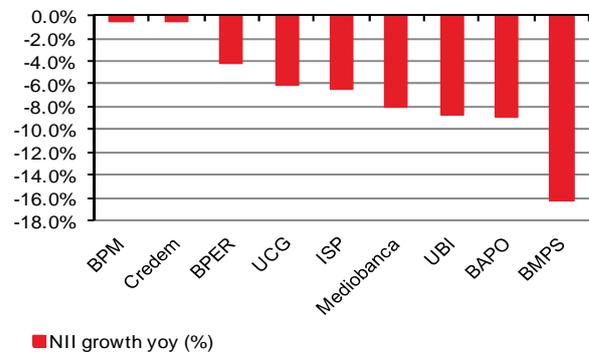


Fig. 52: Net interest income

y-o-y % as of 3Q 12



Source: Company data, Nomura research

Source: Company data, Nomura research

Fig. 53: Net interest margin*

Net Interest Margins	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Unicredit	2.02%	2.02%	1.93%	2.06%	2.04%	2.04%	1.92%	1.93%	1.95%	1.89%	1.81%
ISP	1.76%	1.74%	1.74%	1.75%	1.77%	1.76%	1.77%	1.87%	1.79%	1.71%	1.63%
BMPS	1.78%	1.73%	1.75%	1.70%	1.74%	1.54%	1.62%	1.80%	1.76%	1.59%	1.48%
Banco Popolare	1.92%	1.85%	1.76%	1.73%	1.69%	1.64%	1.74%	1.72%	1.69%	1.62%	1.53%
UBI	2.05%	1.85%	1.94%	1.96%	1.88%	1.84%	1.92%	2.01%	1.83%	1.78%	1.73%
BPM	1.89%	1.66%	1.64%	1.59%	1.71%	1.84%	1.73%	1.76%	1.92%	1.95%	1.72%
Credem	1.67%	1.81%	1.67%	1.55%	1.59%	1.68%	1.70%	1.62%	1.61%	1.74%	1.70%
BPER	2.56%	2.49%	2.49%	2.50%	2.44%	2.47%	2.51%	2.54%	2.49%	2.32%	2.32%

*Calculated as NII/Interest bearing assets

Source: Company data, Nomura research

Fig. 54: Exposure to Italian sovereign debt

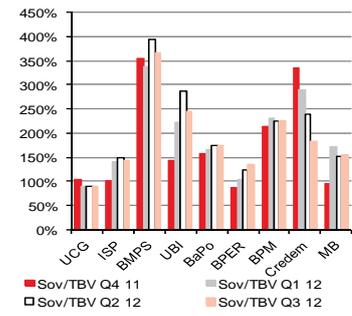
EURm / % of TBV

	UCG	ISP	BMPS	UBI	BaPo	BPER	BPM	Credem	MB
Sov exposure (Italy) Q4 11	37,000	31,713	20,901	8,512	10,275	3,137	6,575	4,300	5,400
Sov exposure (Italy) Q1 12	41,259	47,489	25,000	14,800	11,630	3,800	7,900	4,300	10,300
Sov exposure (Italy) Q2 12	41,000	49,668	25,000	17,900	11,922	4,400	7,800	3,400	9,200
Sov exposure (Italy) Q3 12	42,600	48,986	24,700	16,345	12,238	5,000	8,200	2,800	9,600
TBV Q4 11	35,794	31,484	5,885	5,951	6,509	3,555	3,086	1,283	5,682
TBV Q1 12	46,145	33,789	7,397	6,623	6,997	3,648	3,428	1,483	5,996
TBV Q2 12	45,284	33,168	6,342	6,263	6,872	3,598	3,466	1,418	6,072
TBV Q3 12	46,809	34,355	6,775	6,653	7,055	3,740	3,661	1,538	6,256
Sov/TBV Q4 11	103%	101%	355%	143%	158%	88%	213%	335%	95%
Sov/TBV Q1 12	89%	141%	338%	223%	166%	104%	230%	290%	172%
Sov/TBV Q2 12	91%	150%	394%	286%	173%	122%	225%	240%	152%
Sov/TBV Q3 12	91%	143%	365%	246%	173%	134%	224%	182%	153%

Source: Company data, Nomura research

Fig. 55: Exposure to Italian sovereign

% of TBV



Source: Company data, Nomura research

Fig. 56: ECB usage

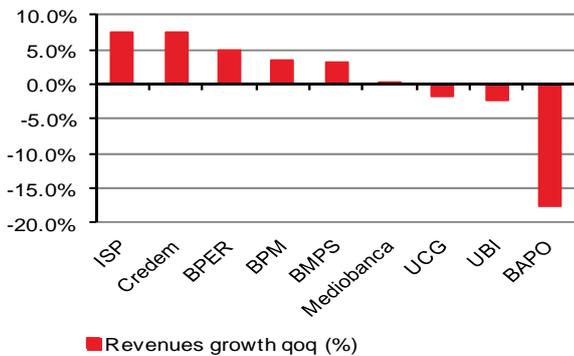
EURbn

	ECB funding (Q3 12)	ECB funding (Q3 12) as % of assets	Unencumbered eligible assets (Q3 12)	x of total wholesale maturities 2012-13
UCG	27.6	3%	89.3	4.9
IntesaSP	36.0	5%	61.0	5.1
BMPS	28.4	13%	16.6	2.2
BAPO	13.9	10%	13.8	3.6
UBI	12.0	9%	17.8	5.4
BPM	6.1	12%	4.2	3.2
BPER	4.4	7%	2.0	3.3
Credem*	5.0	16%	1.9	2.5
Mediobanca**	7.5	12%	16.0	3.7

* 2Q 12 data ** Total eligible assets as of 2Q 12 Source: Company data, Nomura estimates

Fig. 57: Revenues

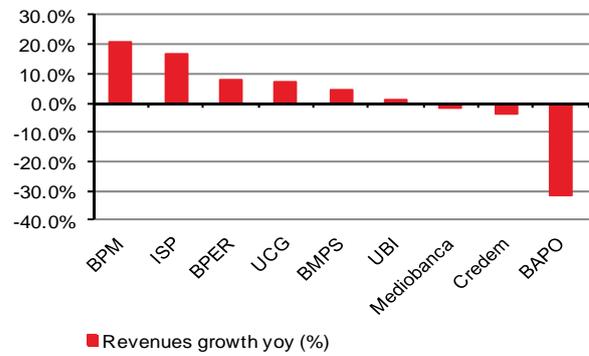
q-o-q % as of 3Q 12



Source: Company data, Nomura research

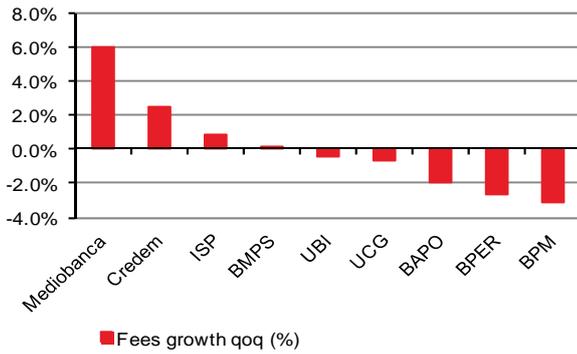
Fig. 58: Revenues

y-o-y % as of 3Q 12



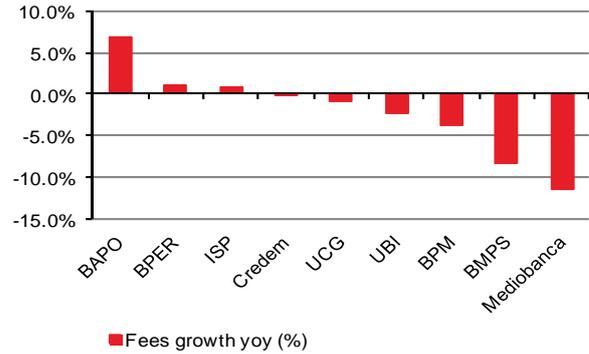
Source: Company data, Nomura research

Fig. 59: Net fees
q-o-q % as of 3Q 12



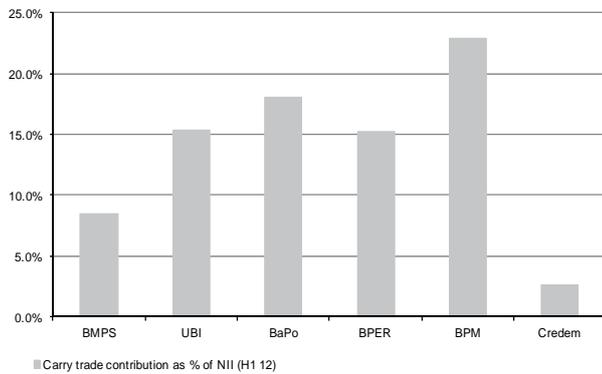
Source: Company data, Nomura research

Fig. 60: Net fees
y-o-y % as of 3Q 12



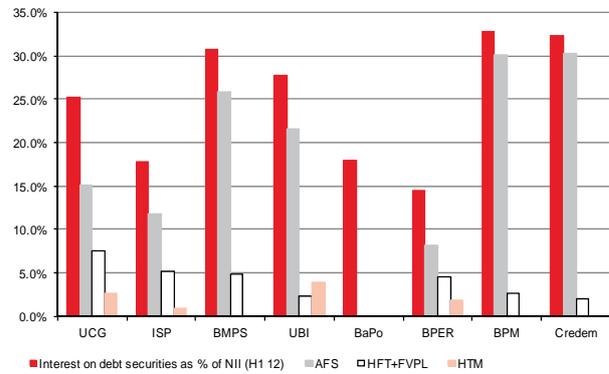
Source: Company data, Nomura research

Fig. 61: Carry trade contribution as % of NII (2Q 12)*
%



* Latest available data. Source: Company data, Nomura estimates

Fig. 62: Carry trade contribution as % of NII (2Q 12)*
%



* Latest available data. Source: Company data, Nomura estimates

Fig. 63: Funding maturity profile
EURm

	UCG	ISP	BMPS	UBI	BAPO	BPM	BPER	Credem
Maturities 2012 (outstanding at 3Q)	0	3,000	3,800	2,260	3,600	100	576	530
of which retail bonds	0	0	1,100	1,260	2,500	100	576	210
of which wholesale bonds	0	3,000	2,700	1,000	1,100	0	0	320
Maturities 2012 (full year)	31,000	22,000	12,200	9,990	14,200	1,100	2,200	1,644
as % of total securities	13%	11%	26%	50%	61%	9%	30%	23%
of which retail bonds	11,160	10,000	7,000	5,920	7,500	300	2,200	824
of which wholesale bonds	19,840	12,000	5,200	4,070	6,700	800	0	820
% of which retail bonds	36%	45%	57%	59%	53%	27%	100%	50%
% of which wholesale bonds	64%	55%	43%	41%	47%	73%	0%	50%
Maturities 2013	28,200	39,000	16,000	12,100	11,700	2,600	3,000	2,087
as % of total securities	12%	20%	34%	60%	51%	21%	41%	29%
of which retail bonds	10,152	30,000	11,300	9,830	9,000	1,300	2,400	1,648
of which wholesale bonds	18,048	9,000	4,700	2,270	2,700	1,300	600	439
% of which retail bonds	36%	77%	71%	81%	77%	50%	80%	79%
% of which wholesale bonds	64%	23%	29%	19%	23%	50%	20%	21%
Maturities 2014	24,900	34,000	15,900	10,290	10,300	1,500	3,000	1,273
as % of total securities	11%	17%	33%	51%	44%	12%	41%	18%
of which retail bonds	8,964	26,000	12,200	8,190	5,100	600	3,000	740
of which wholesale bonds	15,936	8,000	3,700	2,100	5,200	900	0	533
% of which retail bonds	36%	76%	77%	80%	50%	40%	100%	58%
% of which wholesale bonds	64%	24%	23%	20%	50%	60%	0%	42%

Source: Company data, Nomura research

Funding gap reduced on higher deposits

Deleveraging continued in 3Q, although at a decelerating pace from previous quarters (-1.8% y-o-y in 3Q vs -3% in 2Q), reflecting weaker demand and efforts to preserve credit quality. Weaker lending was visible at smaller banks, while more stable at large banks, with loans to large corporates and credit consumer/leasing being among the most affected sectors. We expect a further decline in lending during the coming quarters, as management remains focused on credit quality and efforts to reduce the funding gap continue (3Q showed a marginal gap reduction). Deposits continue to show resilient trends (up 1.4% y-o-y and 1.7% q-o-q), although banks are opportunistically reducing large corporate/institutional deposits owing to their higher cost and eased liquidity conditions.

Fig. 64: Lending volumes

EURm

Lending volumes	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	555,653	558,825	561,792	562,447	559,553	553,658	556,815	561,875	1%	0%
ISP	379,235	375,513	372,361	381,192	376,744	378,050	374,953	374,807	0%	-2%
BMPS	156,238	154,664	157,275	155,901	146,608	146,627	144,461	145,328	1%	-7%
Banco Popolare	94,462	96,454	96,366	93,452	93,394	93,685	91,028	93,779	3%	0%
UBI	101,815	102,702	102,774	102,765	99,690	97,106	95,333	94,843	-1%	-8%
BPM	35,586	35,375	35,848	36,368	35,686	35,263	34,948	34,938	0%	-4%
Credem	18,884	19,554	19,543	19,440	19,995	19,865	19,851	20,519	3%	6%
BPER	47,780	47,830	48,121	48,351	48,186	47,923	48,540	48,369	0%	0%

Source: Company data, Nomura research

Fig. 65: Total deposits

EURm

Total Deposits	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	583,238	582,369	585,936	559,231	561,369	570,472	580,428	585,695	1%	5%
ISP	401,047	392,705	387,377	369,459	357,410	368,657	365,639	373,443	2%	1%
BMPS	158,486	160,361	166,493	161,078	146,324	137,325	132,399	135,303	2%	-16%
Banco Popolare	104,524	104,768	107,661	106,173	100,200	96,574	95,194	96,575	1%	-9%
UBI	106,760	104,823	106,164	103,895	102,809	99,443	102,247	100,264	-2%	-3%
BPM	35,936	37,783	36,712	36,608	34,031	35,371	36,177	35,670	-1%	-3%
Credem	15,878	16,376	15,975	16,535	18,211	18,357	17,180	17,705	3%	7%
BPER	45,588	45,096	44,605	43,622	44,465	42,659	41,961	41,853	0%	-4%

Source: Company data, Nomura research

Fig. 66: Loan/deposits ratio

%

Loans to deposits ratio	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	95%	96%	96%	101%	100%	97%	96%	96%	0%	-5%
ISP	95%	96%	96%	103%	105%	103%	103%	100%	-2%	-3%
BMPS	99%	96%	94%	97%	100%	107%	109%	107%	-2%	11%
Banco Popolare	90%	92%	90%	88%	93%	97%	96%	97%	2%	10%
UBI	95%	98%	97%	99%	97%	98%	93%	95%	1%	-4%
BPM	99%	94%	98%	99%	105%	100%	97%	98%	1%	-1%
Credem	119%	119%	122%	118%	110%	108%	116%	116%	0%	-1%
BPER	105%	106%	108%	111%	108%	112%	116%	116%	0%	4%

Source: Company data, Nomura research

Fig. 67: Customer deposits

EURm

Customer deposits	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	402,248	401,923	406,713	392,517	398,379	406,232	417,641	420,370	1%	7%
ISP	236,548	223,733	225,655	208,672	199,024	209,042	207,829	214,936	3%	3%
BMPS	95,538	na	91,875	na	84,011	77,008	74,632	na	na	na
Banco Popolare	50,800	48,200	48,200	48,600	43,600	43,000	40,800	40,700	0%	-16%
UBI	58,666	56,145	56,200	56,393	54,431	52,358	57,075	56,356	-1%	0%
BPM	23,866	25,459	22,852	23,738	21,399	23,159	24,330	24,549	1%	3%
Credem	11,883	12,396	11,541	12,069	13,446	13,601	12,891	13,404	4%	11%
BPER	32,902	31,947	31,227	30,421	30,705	29,122	29,732	30,977	4%	2%

Source: Company data, Nomura research

Fig. 68: Debt represented by securities

EURm										
Debt represented by securities	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	180,990	180,446	179,223	166,714	162,990	164,240	162,787	165,325	2%	-1%
ISP	164,499	168,972	161,722	160,787	158,386	159,615	157,810	158,507	0%	-1%
BMPS	60,700	na	65,400	na	60,265	60,334	59,621	58,416	-2%	na
Banco Popolare	53,700	56,600	56,600	57,600	56,600	53,600	54,400	55,900	3%	-3%
UBI	48,094	48,679	49,964	47,503	48,377	47,085	45,172	43,908	-3%	-8%
BPM	12,070	12,324	13,860	12,870	12,632	12,212	11,847	11,121	-6%	-14%
Credem	3,995	3,980	4,434	4,466	4,765	4,756	4,288	4,301	0%	-4%
BPER	12,686	13,149	13,378	13,201	13,760	13,536	12,229	10,876	-11%	-18%

Source: Company data, Nomura research

Fig. 69: Inter-banking exposure

EURm										
Interbanking exposure	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	-41,520	-45,589	-44,144	-67,002	-75,442	-49,418	-61,659	-40,476	-34%	-40%
ISP	-10,123	-8,943	-6,471	-32,529	-42,779	-43,313	-47,791	-37,993	-21%	17%
BMPS	-18,624	-11,940	-12,426	-16,260	-26,098	-29,971	-29,543	-28,637	-3%	76%
Banco Popolare	-1,928	-916	-1,108	631	-5,743	-11,754	-10,785	-12,345	14%	-2057%
UBI	-2,264	-2,823	-582	-3,297	-3,588	-10,218	-9,865	-9,479	-4%	187%
BPM	-4,619	-3,245	-4,275	-5,365	-7,362	-6,231	-4,969	-5,254	6%	-2%
Credem	-6,780	-6,818	-7,330	-6,589	-5,627	-5,265	-5,333	-5,310	0%	-19%
BPER	-1,809	-263	-605	-2,377	-2,379	-3,867	-5,985	-6,232	4%	162%

Source: Company data, Nomura research

Fig. 70: Funding gap*

EURm											
Funding gap	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q3 12**	% of tot loans	
Unicredit	-153,405	-156,902	-155,079	-169,930	-161,174	-147,426	-139,174	-141,505	-76,505	14%	
ISP	-142,687	-151,780	-146,706	-172,520	-177,720	-169,008	-167,124	-159,871	-71,871	19%	
BMPS	-60,700	na	65,400	na	62,597	69,619	69,829	na	na	na	
Banco Popolare	-43,662	-48,254	-48,166	-44,852	-49,794	-50,685	-50,228	-53,079	-19,665	21%	
UBI	-43,149	-46,558	-46,575	-46,373	-45,258	-44,747	-38,258	-38,487	-14,987	16%	
BPM	-11,720	-9,916	-12,997	-12,630	-14,287	-12,104	-10,618	-10,389	-3,976	11%	
Credem	-7,001	-7,158	-8,002	-7,371	-6,549	-6,265	-6,959	-7,115	-4,782	23%	
BPER	-14,878	-15,883	-16,894	-17,930	-17,481	-18,801	-18,808	-17,393	-5,499	11%	

*Funding gap= Loans – Retail deposits **Funding gap = Loans –Retail deposits – Retail bonds

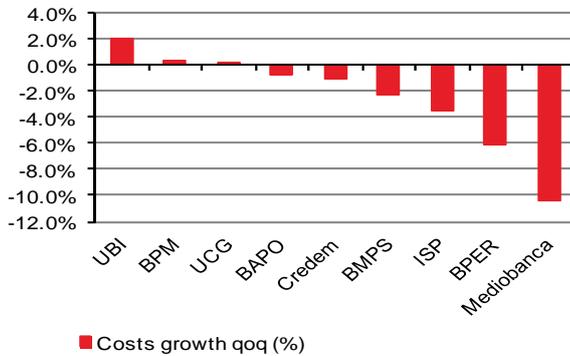
Source: Company data, Nomura research

Strong cost control continues

Following 2Q, cost control was the main bright spot also in this set of results. The average decline was 3.1% y-o-y and 2.4% q-o-q, with an improvement across most banks in our coverage. Execution of the restructuring plans are ongoing at all banks, with some good progress already shown, while negotiations with trade unions are taking place, the outcome of which will be fundamental in defining cost trends.

Fig. 71: Operating cost

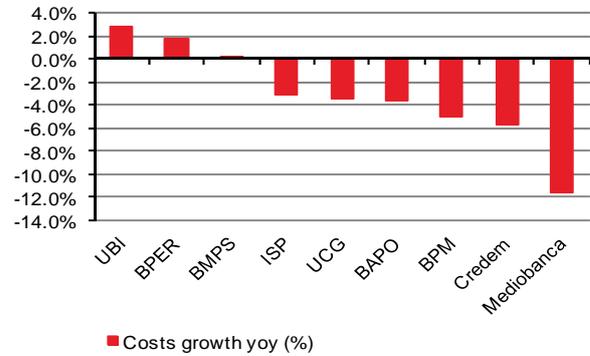
q-o-q % as of 3Q 12



Source: Company data, Nomura research

Fig. 72: Operating cost

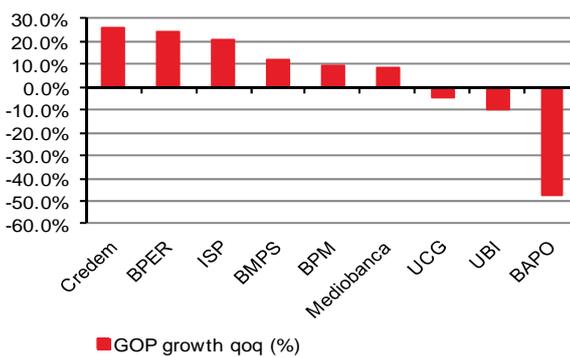
y-o-y % as of 3Q 12



Source: Company data, Nomura research

Fig. 73: Gross operating profit

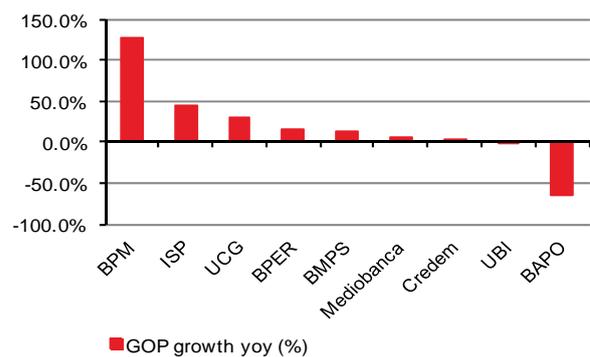
q-o-q % as of 3Q 12



Source: Company data, Nomura research

Fig. 74: Gross operating profit

y-o-y % as of 3Q 12



Source: Company data, Nomura research

Credit quality still the main negative

Credit quality remains in focus, with continued deterioration (although at a slightly decelerating pace) and slipping coverage. Gross NPL growth stood at 4.4% q-o-q (from 4.7% in 2Q), with the stock up 20% y-o-y on average for the banks under our coverage, while watch-list loans grew 8% q-o-q (vs 5.3% in 2Q). Total doubtful loans formation peaked in 3Q at 0.79% of total loans (from 0.55% in 2Q), approaching the 2009 run-rate (0.77%-1.09%). LLPs were down from 2Q, which admittedly was partly affected by seasonality (95bp on average vs. 102bp in 2Q). Coverage slipped slightly during the quarter, declining 70bp at the total doubtful loans level, and 60bp in the NPL category. Banks' management have mostly indicated for the LLP trend to stay flattish in the coming quarters and NPLs to peak in mid-2013, although this will largely depend on GDP trends and suasion from the regulator to increase coverage.

Fig. 75: LLPs

Bp	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Net provisions (bp)																
Unicredit	87	110	166	150	146	127	123	117	126	108	84	131	107	101	137	129
ISP	101	76	112	87	114	82	85	75	94	73	88	73	217	103	115	128
BMPS	117	79	110	96	112	81	74	74	73	71	75	70	127	117	113	127
Banco Popolare	402	65	66	82	107	73	88	92	69	86	80	82	72	90	82	87
UBI	129	66	97	82	117	54	76	53	99	41	62	53	84	54	85	68
BPM	155	93	172	62	126	82	40	57	104	48	79	73	341	58	95	86
Credem	46	60	83	34	76	58	9	21	50	14	26	24	42	45	28	32
BPER	79	98	198	90	146	92	82	62	106	63	84	70	70	82	157	108

Source: Company data, Nomura research

Fig. 76: NPL ratio

%	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
NPL/Net Loans ratio																
Unicredit	1.7%	1.7%	1.9%	2.1%	2.2%	2.3%	2.7%	2.7%	2.9%	2.9%	3.0%	3.1%	3.2%	3.3%	3.5%	3.6%
ISP	1.0%	1.1%	1.2%	1.3%	1.4%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.4%	2.4%	2.6%	2.9%
BMPS	2.5%	2.8%	2.8%	3.0%	3.1%	3.3%	3.3%	3.5%	3.5%	3.6%	3.8%	4.1%	4.4%	4.6%	4.8%	5.1%
Banco Popolare	1.2%	1.3%	1.4%	1.5%	1.7%	2.9%	2.6%	2.8%	3.0%	3.2%	3.4%	3.8%	3.9%	4.2%	4.5%	4.5%
UBI	0.9%	1.0%	1.1%	1.2%	1.4%	1.5%	1.6%	1.7%	1.9%	2.0%	2.1%	2.3%	2.5%	2.7%	2.9%	3.0%
BPM	0.6%	0.7%	0.8%	0.8%	1.1%	1.1%	1.2%	1.2%	1.3%	1.4%	1.5%	1.6%	1.9%	2.1%	2.3%	2.4%
Credem	0.5%	0.6%	0.7%	0.8%	0.8%	0.8%	0.9%	1.0%	1.0%	1.1%	1.1%	1.3%	1.3%	1.3%	1.5%	1.5%
BPER	1.4%	1.7%	1.8%	2.0%	2.0%	2.2%	2.3%	2.4%	2.5%	2.7%	2.9%	3.1%	3.2%	3.5%	3.7%	4.0%

Source: Company data, Nomura research

Fig. 77: Non-performing loans

EURm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Gross NPL										
Unicredit	38,538	39,335	40,414	42,070	42,245	43,206	44,831	45,639	2%	8%
ISP	20,577	21,140	22,377	23,295	24,961	24,234	25,462	27,087	6%	16%
BMPS	12,456	12,808	13,584	14,180	14,486	15,125	15,601	16,366	5%	15%
Banco Popolare	5,157	5,533	5,778	5,811	6,025	6,412	6,662	6,682	0%	15%
UBI	3,781	3,980	4,152	4,229	4,377	4,593	4,706	4,883	4%	15%
BPM	955	998	1,033	1,084	1,294	1,389	1,516	1,634	8%	51%
Credem	459	480	496	513	527	549	567	588	4%	15%
BPER	2,855	2,961	3,130	3,268	3,311	3,479	3,729	3,978	7%	22%
Net NPL (EURm)										
Unicredit	16,380	16,191	16,729	17,560	18,118	18,545	19,519	20,199	3%	15%
ISP	7,354	7,508	7,979	8,327	8,998	9,000	9,600	10,689	11%	28%
BMPS	5,485	5,605	6,055	6,348	6,442	6,688	6,991	7,358	5%	16%
Banco Popolare	2,879	3,130	3,294	3,523	3,663	3,975	4,098	4,250	4%	21%
UBI	1,940	2,072	2,195	2,343	2,481	2,633	2,751	2,855	4%	22%
BPM	468	497	528	569	685	735	790	835	6%	47%
Credem	196	208	226	232	232	240	245	258	5%	11%
BPER	1,215	1,277	1,393	1,487	1,561	1,663	1,782	1,924	8%	29%
Coverage NPLs										
Unicredit	57.5%	58.8%	58.6%	58.3%	57.1%	57.1%	56.5%	55.7%		
ISP	64.3%	64.5%	64.3%	64.3%	64.0%	62.9%	62.3%	60.5%		
BMPS	56.0%	56.2%	55.4%	55.2%	55.5%	55.8%	55.2%	55.0%		
Banco Popolare	44.2%	43.4%	43.0%	39.4%	39.2%	38.0%	38.5%	36.4%		
UBI	48.7%	47.9%	47.1%	44.6%	43.3%	42.7%	41.5%	41.5%		
BPM	51.0%	50.2%	48.9%	47.5%	47.0%	47.1%	47.9%	48.9%		
Credem	57.4%	56.6%	54.4%	54.8%	56.0%	56.3%	56.7%	56.1%		
BPER	57.5%	56.9%	55.5%	54.5%	52.9%	52.2%	52.2%	51.6%		

Source: Company data, Nomura research

Fig. 78: Watch-list loans

EURm										
Gross Watchlist	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	19,035	18,873	18,633	18,008	18,735	19,028	19,800	20,883	5%	16%
ISP	11,378	11,181	11,105	11,698	11,486	12,651	13,132	13,418	2%	15%
BMPS	5,088	5,176	5,229	5,375	5,729	6,196	6,372	7,247	14%	35%
Banco Popolare	5,265	5,451	5,074	5,007	4,704	4,663	4,729	5,192	10%	4%
UBI	2,320	2,505	2,697	2,919	2,844	2,907	3,151	3,499	11%	20%
BPM	1,022	989	943	964	988	971	1,036	1,134	9%	18%
Credem	254	255	261	280	300	299	322	349	8%	25%
BPER	2,156	2,302	2,365	2,555	2,611	2,762	2,967	3,097	4%	21%
Net watch list	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	13,098	13,018	12,624	12,300	13,031	13,307	14,033	14,769	5%	20%
ISP	9,006	8,808	8,806	9,269	9,126	10,056	10,460	10,586	1%	14%
BMPS	4,015	4,102	4,168	4,269	4,459	4,854	4,993	5,775	16%	35%
Banco Popolare	4,337	4,517	4,215	4,110	3,843	3,844	3,874	4,308	11%	5%
UBI	2,033	2,233	2,404	2,619	2,534	2,596	2,809	3,119	11%	19%
BPM	889	858	818	826	798	791	848	946	12%	15%
Credem	223	225	233	252	268	267	289	310	7%	23%
BPER	1,786	1,913	1,953	2,121	2,173	2,311	2,479	2,612	5%	23%
Coverage watchlist	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12		
Unicredit	31.2%	31.0%	32.2%	31.7%	30.4%	30.1%	29.1%	29.3%		
ISP	20.8%	21.2%	20.7%	20.8%	20.5%	20.5%	20.3%	21.1%		
BMPS	21.1%	20.7%	20.3%	20.6%	22.2%	21.7%	21.6%	20.3%		
Banco Popolare	17.6%	17.1%	16.9%	17.9%	18.3%	17.6%	18.1%	17.0%		
UBI	12.4%	10.9%	10.9%	10.3%	10.9%	10.7%	10.9%	10.9%		
BPM	13.0%	13.2%	13.3%	14.3%	19.2%	18.5%	18.2%	16.6%		
Credem	12.0%	11.8%	10.6%	9.9%	10.7%	10.8%	10.1%	11.1%		
BPER	17.2%	16.9%	17.4%	17.0%	16.8%	16.3%	16.5%	15.7%		

Source: Company data, Nomura research

Fig. 79: Doubtful loans

EURm										
Gross Doubtful	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	68,215	68,975	69,908	71,638	72,531	75,300	77,720	80,400	3%	12%
ISP	37,253	37,317	38,447	40,079	41,797	43,325	45,581	47,543	4%	19%
BMPS	19,564	20,473	21,689	22,396	23,013	25,253	26,332	28,277	7%	26%
Banco Popolare	12,895	13,478	13,673	13,780	13,829	14,868	15,135	15,809	4%	15%
UBI	7,465	7,905	8,139	8,534	8,589	9,107	9,454	10,343	9%	21%
BPM	2,766	2,823	2,852	2,955	3,124	3,326	3,579	3,876	8%	31%
Credem	822	827	841	881	931	1,012	1,038	1,101	6%	25%
BPER	5,576	5,838	6,100	6,527	6,547	7,315	7,811	8,224	5%	26%
Net Doubtful	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ	YoY
Unicredit	38,264	38,030	38,206	39,044	40,184	42,330	43,699	45,800	5%	17%
ISP	21,208	20,833	21,285	22,211	22,696	24,657	26,102	27,266	4%	23%
BMPS	11,381	12,002	12,853	13,231	13,480	15,191	16,016	17,425	9%	32%
Banco Popolare	9,354	9,813	9,972	10,242	10,234	11,183	11,280	12,052	7%	18%
UBI	5,261	5,644	5,801	6,259	6,280	6,710	7,020	7,770	11%	24%
BPM	2,096	2,135	2,153	2,211	2,249	2,402	2,554	2,773	9%	25%
Credem	523	521	539	567	598	661	675	723	7%	28%
BPER	3,535	3,728	3,918	4,274	4,331	4,996	5,319	5,626	6%	32%
Coverage doubtful loans	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12		
Unicredit	43.9%	44.9%	45.3%	45.5%	44.6%	43.8%	43.8%	43.1%		
ISP	43.1%	44.2%	44.6%	44.6%	45.7%	43.1%	42.7%	42.6%		
BMPS	41.8%	41.4%	40.7%	40.9%	41.4%	39.8%	39.2%	38.4%		
Banco Popolare	27.5%	27.2%	27.1%	25.7%	26.0%	24.8%	25.5%	23.8%		
UBI	29.5%	28.6%	28.7%	26.7%	26.9%	26.3%	25.7%	24.9%		
BPM	24.2%	24.4%	24.5%	25.2%	28.0%	27.8%	28.6%	28.4%		
Credem	36.3%	37.1%	36.0%	35.6%	35.8%	34.7%	35.0%	34.3%		
BPER	36.6%	36.1%	35.8%	34.5%	33.9%	31.7%	31.9%	31.6%		

Source: Company data, Nomura research

Fig. 80: Gross formation

EURm								
NPLs formation	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Unicredit	0.14%	0.14%	0.19%	0.29%	0.03%	0.17%	0.29%	0.14%
ISP	0.32%	0.15%	0.33%	0.24%	0.44%	-0.19%	0.33%	0.43%
BMPS	0.26%	0.23%	0.49%	0.38%	0.21%	0.44%	0.33%	0.53%
Banco Popolare	0.16%	0.39%	0.25%	0.04%	0.23%	0.41%	0.27%	0.02%
UBI	0.33%	0.19%	0.17%	0.07%	0.15%	0.22%	0.12%	0.19%
BPM	0.13%	0.12%	0.10%	0.14%	0.59%	0.27%	0.36%	0.34%
Credem	0.18%	0.11%	0.08%	0.09%	0.07%	0.11%	0.09%	0.10%
BPER	0.20%	0.22%	0.35%	0.28%	0.09%	0.35%	0.51%	0.51%
Watchlist formation	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Unicredit	0.1%	0.0%	0.0%	-0.1%	0.1%	0.1%	0.1%	0.2%
ISP	-0.2%	-0.1%	0.0%	0.2%	-0.1%	0.3%	0.1%	0.1%
BMPS	-0.1%	0.1%	0.0%	0.1%	0.2%	0.3%	0.1%	0.6%
Banco Popolare	-0.2%	0.2%	-0.4%	-0.1%	-0.3%	0.0%	0.1%	0.5%
UBI	0.1%	0.2%	0.2%	0.2%	-0.1%	0.1%	0.3%	0.4%
BPM	-0.5%	-0.1%	-0.1%	0.1%	0.1%	0.0%	0.2%	0.3%
Credem	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
BPER	-0.2%	0.3%	0.1%	0.4%	0.1%	0.3%	0.4%	0.3%
Gross doubtful loans formation	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Unicredit	0.5%	0.1%	0.2%	0.3%	0.2%	0.5%	0.4%	0.5%
ISP	0.2%	0.0%	0.3%	0.4%	0.5%	0.4%	0.6%	0.5%
BMPS	0.0%	0.6%	0.8%	0.5%	0.4%	1.5%	0.7%	1.3%
Banco Popolare	-0.1%	0.6%	0.2%	0.1%	0.1%	1.1%	0.3%	0.7%
UBI	0.2%	0.4%	0.2%	0.4%	0.1%	0.5%	0.4%	0.9%
BPM	1.0%	0.2%	0.1%	0.3%	0.5%	0.6%	0.7%	0.8%
Credem	0.2%	0.0%	0.1%	0.2%	0.3%	0.4%	0.1%	0.3%
BPER	-0.2%	0.5%	0.5%	0.9%	0.0%	1.6%	1.0%	0.9%

Source: Company data, Nomura research

Fig. 81: Doubtful loans, Unicredit – Intesa Sanpaolo (Italian business only)

EURbn / %						
EUR bn / %	Q3 12	Q2 12	Q3 11	QoQ (%)	YoY (%)	
ISP						
NPLs (EUR bn)	22.3	21.6	20.5	3.2%	8.8%	
Coverage	58.3%	60.2%	63.4%			
Other impaired loans (EUR bn)	16.9	17.6	14.6	-4.0%	15.8%	
Coverage	18.9%	17.6%	16.4%			
Total doubtful loans (EUR bn)	39.2	39.2	35.1	0.0%	11.7%	
Coverage	41.3%	41.1%	43.9%			
Net doubtful loans ratio	7.0%	6.9%	5.8%	1.5%	20.9%	
UCG						
NPLs (EUR bn)	30.1	29.4	26.8	2.4%	12.3%	
Coverage	53.7%	54.9%	57.2%			
Other impaired loans (EUR bn)	24.8	22.8	20.6	8.8%	20.4%	
Coverage	23.7%	23.6%	25.3%			
Total doubtful loans (EUR bn)	54.9	52.2	47.4	5.2%	15.8%	
Coverage	40.2%	41.2%	43.4%			
Net doubtful loans ratio	11.8%	11.3%	9.6%	4.4%	22.9%	

Source: Company data, Nomura research

Capital generation continues, although at a slower pace

Capital generation in 3Q was 20bp on average for the banks under our coverage, down from 30bp in 2Q (excluding the benefits from the IRB models validation at UBI and BAPO in the previous quarter), with the larger contributions coming from the large banks. The main driver to capital improvements was a decline in RWAs, down 1% q-o-q (-2.5% at UCG, -2.9% at ISP), with a more limited contribution from earnings retention. On BMPS, the discussions with the EC over details of the EUR 3.4bn state securities are ongoing. Management provided no updates over the timing of the negotiations and the terms of the new instrument, although issuance is likely to take place before year-end.

Fig. 82: Core tier 1 capital Basle II

%	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ
Core Tier 1 capital									
Unicredit	8.6%	9.1%	9.1%	8.7%	8.4%	10.3%	10.4%	10.7%	0.3%
ISP	7.9%	8.2%	10.2%	10.2%	10.1%	10.5%	10.7%	11.1%	0.4%
BMPS	7.8%	na	8.5%	8.7%	8.0%	8.6%	8.9%	8.9%	0.0%
Banco Popolare	5.7%	6.5%	6.5%	6.5%	7.1%	7.4%	10.2%	10.4%	0.2%
UBI	7.0%	6.9%	8.2%	8.3%	8.6%	9.0%	10.2%	10.5%	0.2%
BPM	7.1%	7.0%	5.7%	6.0%	8.0%	8.3%	9.0%	8.9%	-0.1%
Credem	8.6%	8.9%	8.8%	8.7%	8.7%	9.2%	9.2%	9.4%	0.2%
BPER	6.8%	7.1%	7.0%	6.8%	7.8%	7.9%	8.1%	8.3%	0.2%

Source: Company data, Nomura research

Fig. 83: RWAs

EURm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	QoQ
RWAs									
Unicredit	454,850	443,727	445,160	450,011	460,400	455,486	447,734	436,751	-2%
ISP	332,158	332,403	320,795	322,056	325,206	319,942	316,457	307,215	-3%
BMPS	109,238	109,020	105,000	107,400	105,189	102,594	96,157	95,300	-1%
Banco Popolare	94,878	95,900	95,700	93,200	90,000	90,700	58,700	57,900	-1%
UBI	94,307	na	95,761	93,703	91,010	88,342	76,600	76,274	0%
BPM	37,034	37,074	46,384	45,576	45,800	44,300	43,477	43,927	1%
Credem	16,721	16,419	16,770	16,752	16,768	16,557	16,472	16,338	-1%
BPER	47,080	48,163	48,623	48,562	47,100	47,078	46,679	46,456	0%

Source: Company data, Nomura research

Links to our recent results notes:

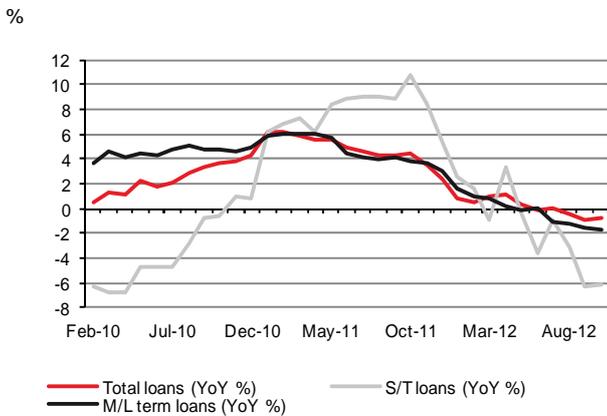
[ISP - 3Q 12 results main takeaways](#)

[UCG - 3Q results take-away](#)

Appendix 3 – Sector trends

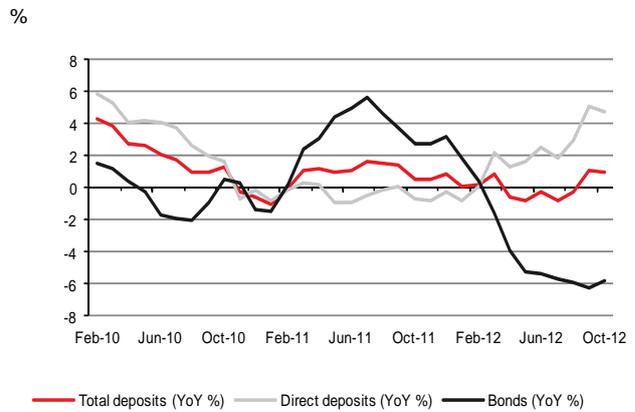
System-level data in Italy confirm the trends seen in previous quarters, with lending still under pressure, particularly at the corporate level, and resilient deposits. Meanwhile interest rates continue to fall, reflecting the negative Euribor trends, with rates on issued loans (outstanding and new) on a declining trend in both corporate and household sectors. Total loans to customers in October were down 0.8% y-o-y vs flat in July, with loans to the private sector falling 2.9% y-o-y and corporate loans contracting at an accelerated pace (at -3.2% y-o-y in September vs -1.5% in June), against broadly stable household lending (at +0.1% y-o-y in September). Total deposits from the private sector continue to show resilience, and were up 1% y-o-y, with a strong contribution from direct deposits (+4.8% y-o-y, up from +1.9% in July). The customer spread in October declined to 254bp from 267bp in July, with re-pricing also slowing down on the back of falling market rates. The stock of NPLs is further increasing, up 15.3% y-o-y (a touch down from 15.6% in August and 15.8% in June), while coverage ratios slipped to 42.8% from 43.2% in August and 43.6% in June. ECB gross exposure was down EUR 6.8bn from July, at EUR 276.5bn in October.

Fig. 84: Loans growth*



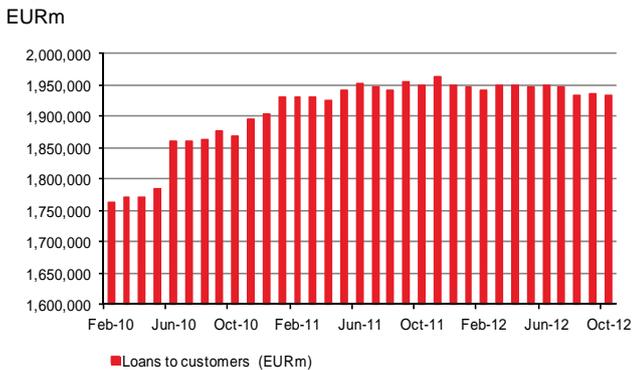
Source: ABI, Nomura research *Last data as of Oct 2012

Fig. 85: Deposits growth*



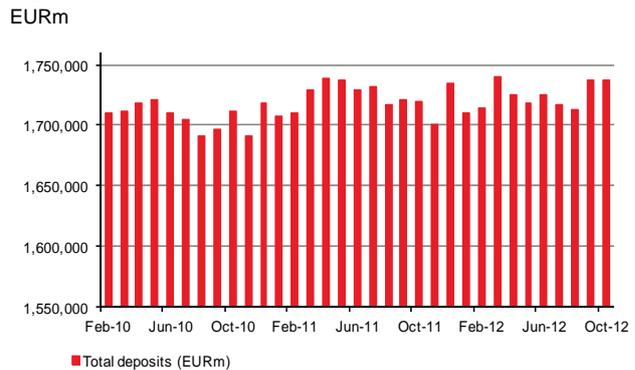
Source: ABI, Nomura research *Last data as of Oct 2012

Fig. 86: Total loans*



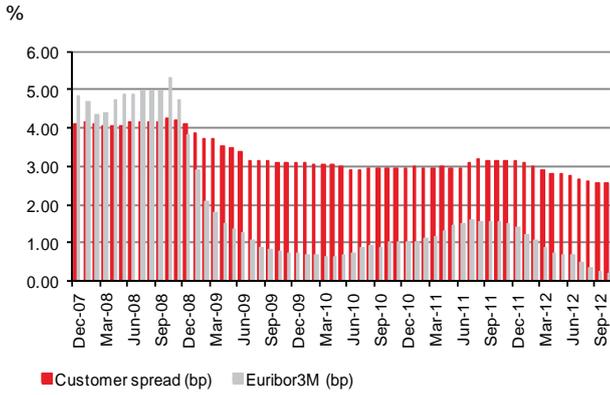
Source: ABI, Nomura research *Last data as of Oct 2012

Fig. 87: Total deposits*



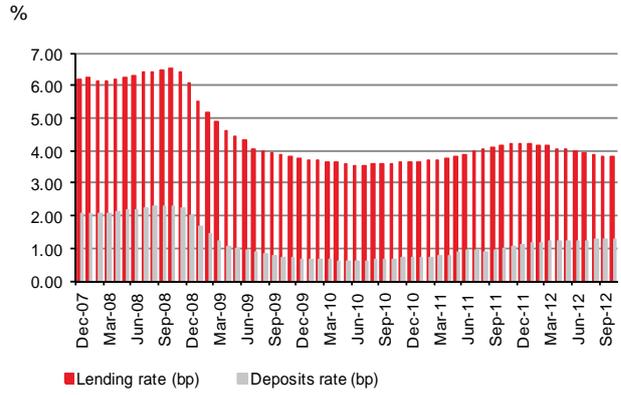
Source: ABI, Nomura research *Last data as of Oct 2012

Fig. 88: Customer spreads *



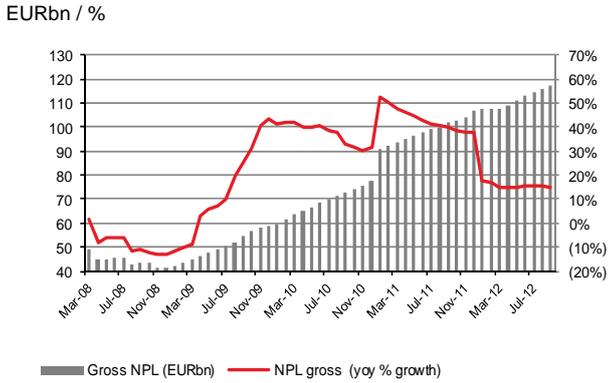
Source: ABI, Nomura research *Last data as of Oct 2012

Fig. 89: Lending and deposits rates*



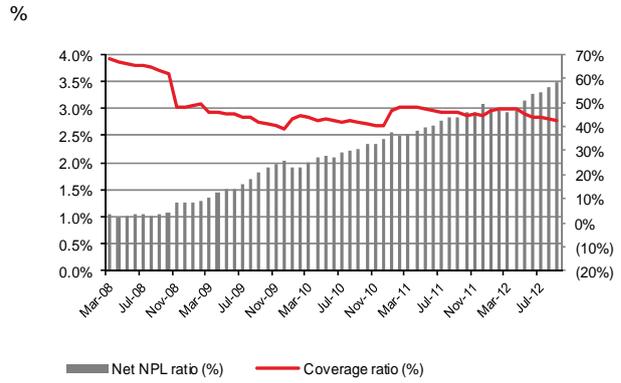
Source: ABI, Nomura research *Last data as of Oct 2012

Fig. 90: Gross NPLs*



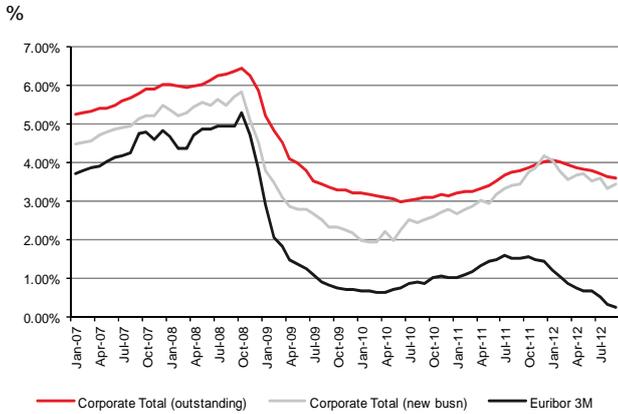
Source: ABI, Nomura research *Last data as of Sep 2012

Fig. 91: Net NPLs*



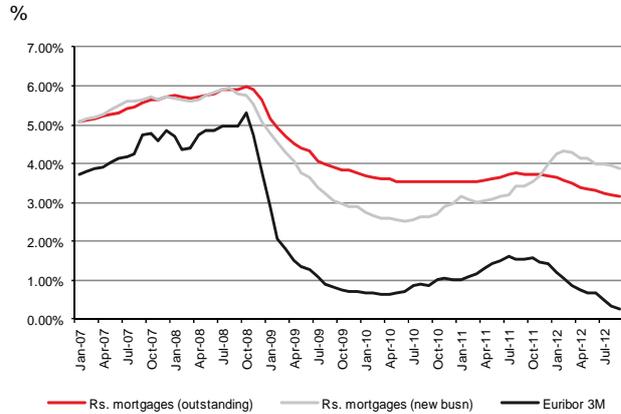
Source: ABI, Nomura research *Last data as of Sep 2012

Fig. 92: Corporate lending rates*



Source: Bank of Italy, Nomura research *Last data as of Sep 2012

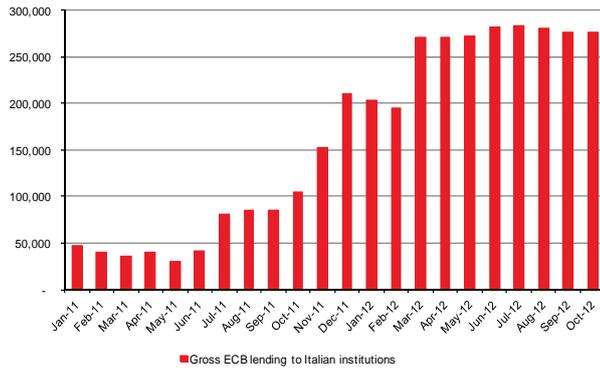
Fig. 93: Mortgages lending rates*



Source: Bank of Italy, Nomura research *Last data as of Sep 2012

Fig. 94: ECB usage*

EURm



Source: Bank of Italy, Nomura research *Last data as of Oct 2012

Fig. 95: ECB usage (by instrument)

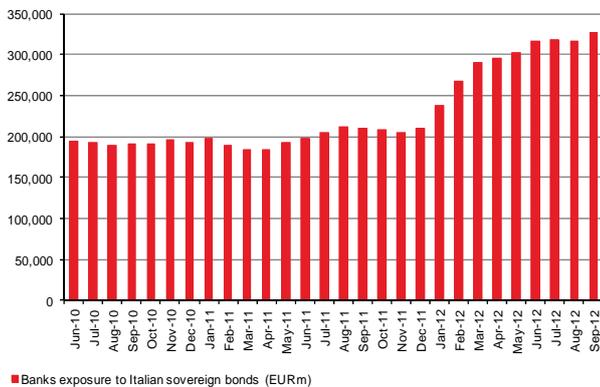
EURm

	Gross ECB lending to Italian institutions	Main re-financing operations	Long term re-financing operations	Other operations	Overnight deposits	Net ECB borrowing
Jan-11	47,413	16,816	30,597	-	241	47,172
Feb-11	40,236	8,993	31,244	-	400	39,836
Mar-11	36,063	6,103	29,960	-	338	35,725
Apr-11	40,734	11,015	29,720	-	312	40,422
May-11	30,826	3,754	27,073	-	337	30,489
Jun-11	41,315	10,599	30,716	-	263	41,052
Jul-11	80,487	35,874	44,613	-	380	80,107
Aug-11	85,087	20,536	64,551	-	591	84,496
Sep-11	85,087	20,536	64,551	-	792	84,295
Oct-11	104,683	46,177	58,506	-	1,247	103,436
Nov-11	153,203	83,381	68,418	1,404	566	152,637
Dec-11	209,995	49,389	160,606	-	12,336	197,659
Jan-12	202,590	52,419	150,104	67	6,142	196,448
Feb-12	194,775	7,784	140,063	46,928	1,513	193,262
Mar-12	270,052	2,413	267,603	37	9,949	260,103
Apr-12	270,973	2,592	268,381	-	12,806	258,167
May-12	272,703	4,012	268,691	-	7,651	265,052
Jun-12	281,440	11,703	269,737	-	12,235	269,205
Jul-12	283,271	13,774	269,496	-	2,632	280,639
Aug-12	280,711	8,440	272,271	-	609	280,102
Sep-12	276,734	4,155	272,579	-	1,802	274,932
Oct-12	276,469	3,712	272,757	-	1,448	275,021

Source: Bank of Italy, Nomura research *Last data as of Oct 2012

Fig. 96: Exposure to Italian sovereign debt*

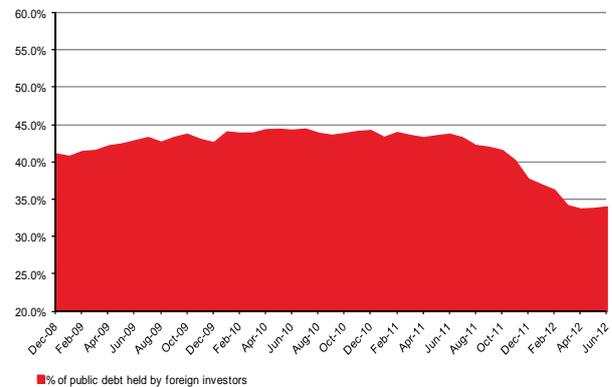
EURm



Source: Bank of Italy, Nomura research *Last data as of Sep 2012

Fig. 97: % of Italian sovereign debt held by foreigners*

%



Source: Bank of Italy, Nomura research *Last data as of Sep 2012

Fig. 98: AuM stocks by category

EURm

AuM stock (€m)	May-12	Jun-12	Jul-12	Aug-12	Sep-12	QoQ	YoY
Equity	91,444	94,820	96,831	95,122	96,632	2%	8%
Balanced	20,074	19,883	19,870	19,604	19,776	-1%	-5%
Bond	195,549	204,932	210,701	214,657	220,509	8%	18%
Liquidity	44,740	38,900	35,311	35,125	34,638	-11%	-35%
Flexible	60,303	60,367	63,015	64,037	66,004	9%	3%
Hedge	8,670	8,517	8,112	8,025	7,945	-7%	-25%
Non-classified	4,171	4,190	4,298	8,521	4,611	10%	-3%
Total	424,951	431,609	438,138	445,091	450,115	4%	5%

Source: Assogestioni, Nomura research

Fig. 99: Net inflows by category

EURm

EURm	Q4 11	Q1 12	Q2 12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
Equity	-1,362	-1,560	-3,080	-1,097	-767	-986	-276	-378
Balanced	-1,179	-339	-203	55	-140	-215	-175	-41
Bond	-6,421	4,569	2,927	851	498	3,164	1,620	1,827
Liquidity	-3,756	-1,650	-1,539	-777	-621	-3,263	-582	-1,122
Flexible	-2,712	-1,823	-1,336	92	-676	1,664	239	1,294
Hedge	-2,283	-1,863	-636	-147	-170	-333	-119	-136
Non-classified	-158	158	-19	9	2	21	198	-19
Total	-17,871	-2,508	-3,886	-1,014	-1,874	52	905	1,425

Source: Assogestioni, Nomura research

Appendix 4 – Banks' models and quarterly reporting

Fig. 100: UCG quarterly reporting

EURm	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12 a	Q3 12a
(mln Euro)											
Net interest income	3,891	3,956	3,892	3,982	3,884	3,903	3,831	3,816	3,790	3,690	3,594
Dividends	60	135	69	144	117	126	91	47	54	169	68
Net interest income	3,951	4,090	3,961	4,126	4,001	4,029	3,922	3,862	3,844	3,859	3,662
Net fees and commissions	2,136	2,171	1,993	2,155	2,118	2,042	1,948	1,989	1,997	1,946	1,932
Net trading, hedging and fair value income	560	58	381	53	750	344	-229	255	1,232	407	449
Net other expenses/income	99	114	86	139	59	39	85	-13	30	35	92
Net non-interest income	2,795	2,343	2,461	2,347	2,927	2,426	1,804	2,230	3,259	2,388	2,473
OPERATING INCOME	6,746	6,433	6,422	6,474	6,928	6,455	5,725	6,092	7,103	6,247	6,134
Payroll costs	-2,322	-2,331	-2,356	-2,196	-2,333	-2,342	-2,357	-2,177	-2,309	-2,271	-2,253
Other administrative expenses	-1,341	-1,401	-1,330	-1,407	-1,345	-1,418	-1,391	-1,488	-1,376	-1,349	-1,337
Recovery of expenses	101	108	111	164	104	113	143	164	109	135	109
G&A	-281	-278	-284	-281	-284	-279	-275	-298	-263	-260	-267
Operating costs	-3,842	-3,903	-3,859	-3,720	-3,858	-3,925	-3,879	-3,799	-3,839	-3,745	-3,748
OPERATING PROFIT	2,903	2,530	2,563	2,754	3,070	2,530	1,846	2,294	3,264	2,502	2,385
Goodwill impairment	0	-162	0	-199	0		-8,669	-8			
Provisions for risks and charges	-156	-106	-32	-472	-161	-244	-266	-48	-16	-61	-46
Integration costs	-6	-6	-16	-254		-3	-174	-90	-5	-15	-4
LLPs	-1,791	-1,716	-1,634	-1,751	-1,504	-1,181	-1,848	-1,492	-1,398	-1,910	-1,811
Net income from investments	68	47	4	-155	81	-15	-612	-123	29	81	232
PROFIT BEFORE TAX	1,019	588	885	-77	1,486	1,090	-9,723	533	1,874	597	756
Income tax for the period	-393	-331	-380	509	-555	-463	-149	-248	-746	-252	-190
NET PROFIT	626	257	505	432	931	627	-9,872	285	1,128	345	567
Minorities	-63	-56	-122	-80	-107	-99	-81	-78	-98	-68	-119
NET PROFIT BEFORE PPA	563	201	382	352	824	528	-9,953	207	1,030	277	447
PPA	-44	-52	-49	-30	-15	-14	-687	-92	-117	-108	-113
Net profit	520	148	334	321	810	511	-10,641	114	914	169	335
Interest margin	2.02%	2.02%	1.93%	2.06%	2.04%	2.04%	1.92%	1.93%	1.95%	1.89%	1.81%
Cost/Income ratio	57.0%	60.7%	60.1%	57.5%	55.7%	60.8%	67.7%	62.4%	54.0%	59.9%	61.1%
Provisioning policy (bp on loans annualised)	127	123	117	126	108	84	131	107	101	137	129
LLP on GOP	61.7%	67.8%	63.8%	64%	49%	47%	100%	65%	43%	76%	76%
Tax rate	38.6%	56.3%	43.0%	661.0%	37.4%	42.5%	-1.5%	46.6%	39.8%	42.2%	25.1%
Roe stated (annualised)	3.2%	0.9%	2.1%	2.0%	5.0%	3.2%	-81.4%	0.9%	5.9%	1.1%	2.1%
NPL / Net loans	2.3%	2.7%	2.7%	2.9%	2.9%	3.0%	3.1%	3.2%	3.3%	3.5%	3.6%
Watch-list / Net loans	2.2%	2.4%	2.4%	2.4%	2.3%	2.2%	2.2%	2.3%	2.4%	2.5%	2.6%
Doubtful loans / Net loans	5.7%	6.2%	6.4%	6.9%	6.8%	6.8%	6.9%	7.2%	7.6%	7.8%	8.2%
Gross NPL/Shareholders equity	52.4%	57.4%	58.6%	60.0%	60.8%	62.4%	80.5%	82.1%	69.8%	73.5%	73.0%
Net NPL/Shareholders equity	20.0%	23.1%	23.4%	25.5%	25.0%	25.8%	33.6%	35.2%	30.0%	32.0%	32.3%
Customer loans / Direct deposits	95.2%	96.8%	94.9%	138.1%	139.0%	138.1%	143.3%	140.5%	136.3%	133.3%	133.7%
NII/RWAs	3.4%	3.4%	3.4%	3.5%	3.5%	3.5%	3.4%	3.3%	3.3%	3.3%	3.3%
NonII/RWAs	2.5%	2.0%	2.2%	2.1%	2.6%	2.2%	1.6%	1.9%	2.9%	2.1%	2.3%
Revenues/RWAs	5.9%	5.6%	5.7%	5.7%	6.2%	5.8%	5.1%	5.3%	6.2%	5.6%	5.6%
LLPs/RWAs	1.6%	1.5%	1.4%	1.5%	1.4%	1.1%	1.6%	1.3%	1.2%	1.2%	1.7%
	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12 a	Q3 12a
Customer loans	563,894	558,770	558,836	555,653	558,825	561,792	562,447	559,553	553,658	556,815	561,875
Securities portfolio	205,535	224,961	246,269	218,699	202,773	204,375	236,894	230,269	222,446	225,725	231,119
Direct deposits	384,359	390,892	393,805	402,248	401,923	406,713	392,517	398,379	406,232	417,641	420,370
Debt represented by securities	208,180	186,454	194,765	180,990	180,446	179,223	166,714	162,990	164,240	162,787	165,325
Interbank position	-20,966	-35,068	-28,082	-41,520	-45,589	-44,144	-67,002	-75,442	-49,418	-61,659	-40,476
Gross NPL	34,220	36,979	37,784	38,538	39,335	40,414	42,070	42,245	43,206	44,831	45,639
Net NPL	13,090	14,873	15,107	16,380	16,191	16,729	17,560	18,118	18,545	19,519	20,199
Coverage	61.7%	59.8%	60.0%	57.5%	58.8%	58.6%	58.3%	57.1%	57.1%	56.5%	55.7%
Gross Watchlist	17,422	18,755	18,541	19,035	18,873	18,633	18,008	18,735	19,028	19,800	20,883
Net watchlist	12,217	13,334	13,208	13,098	13,018	12,624	12,300	13,031	13,307	14,033	14,769
Coverage	29.9%	28.9%	28.8%	31.2%	31.0%	32.2%	31.7%	30.4%	30.1%	29.1%	29.3%
Gross restructured loans	4,648	4,076	4,954	6,207	6,502	6,690	7,167	7,250	7,527	8,020	7,636
Net restructured loans	3,415	3,196	3,910	4,943	5,207	5,221	5,399	5,394	5,657	5,819	5,474
Coverage	26.5%	21.6%	21.1%	20.4%	19.9%	22.0%	24.7%	25.6%	24.8%	27.5%	28.3%
Gross past-due loans	3,849	3,882	3,888	4,434	4,265	4,170	4,393	4,301	5,542	5,070	6,254
Net past-due loans	3,429	3,477	3,476	3,843	3,729	3,632	3,785	3,641	4,821	4,328	5,323
Coverage	10.9%	10.4%	10.6%	13.3%	12.6%	12.9%	13.8%	15.3%	13.0%	14.6%	14.9%
Gross Doubtful loans	60,139	63,692	65,168	68,215	68,975	69,908	71,638	72,531	75,300	77,720	80,400
Net Doubtful loans	32,151	34,880	35,702	38,264	38,030	38,206	39,044	40,184	42,330	43,699	45,800
Coverage	46.5%	45.2%	45.2%	43.9%	44.9%	45.3%	45.5%	44.6%	43.8%	43.8%	43.1%
Rwa	455,955	459,047	453,478	454,850	443,727	445,160	450,011	460,400	455,486	447,734	436,751
Shareholders equity	65,288	64,428	64,487	64,224	64,686	64,726	52,292	51,479	61,865	61,031	62,557
TBV	39,185	38,407	38,835	38,632	39,332	39,475	36,607	35,794	46,145	45,284	46,809
TBVPS	2.03	1.99	2.01	2.00	2.04	2.04	1.89	1.87	7.97	7.83	8.09
Core Tier 1 capital	38,524	38,624	39,047	39,016	40,202	40,618	39,344	38,691	46,952	46,540	46,601
Core tier 1 %	8.4%	8.4%	8.6%	8.6%	9.1%	9.1%	8.74%	8.40%	10.31%	10.39%	10.67%
Tier 1 capital	42,854	43,071	43,848	43,047	44,249	44,168	43,539	42,917	49,429	48,975	49,178
Tier 1 %	9.4%	9.4%	9.7%	9.5%	10.0%	9.9%	9.68%	9.32%	10.85%	10.94%	11.26%

Source: Company data, Nomura research

Fig. 101: UCG model

EURm

P&L (EURm)	2008	2009	2010	2011A	2012E	2013E	2014E
Net Interest Income	18,373	17,304	15,721	15,433	14,639	14,920	15,378
Net fees	9,093	7,781	8,455	8,097	7,854	8,129	8,213
Trading Income	(1,969)	1,803	1,053	1,119	2,539	1,600	1,700
Other Income	1,379	684	845	551	522	591	659
Total Operating Revenues	26,877	27,572	26,074	25,200	25,555	25,240	25,951
Staff Costs	(9,918)	(9,098)	(9,205)	(9,209)	(8,955)	(8,831)	(8,964)
Other Costs	(6,774)	(6,227)	(6,119)	(6,252)	(6,079)	(5,945)	(6,012)
Total Operating expenses	(16,692)	(15,324)	(15,324)	(15,461)	(15,034)	(14,777)	(14,976)
Gross Operating Income	10,185	12,248	10,750	9,739	10,521	10,463	10,975
Loan Loss Charge	(3,700)	(8,313)	(6,892)	(6,025)	(7,029)	(5,964)	(5,163)
Generic provisions and adjustments to finan	(343)	(609)	(766)	(718)	(410)	(450)	(450)
Capital gain and other one off	(683)	(26)	(608)	(9,613)	400	-	-
Pre-tax Profit	5,458	3,300	2,484	(6,617)	3,481	4,050	5,362
Tax	(627)	(1,009)	(595)	(1,416)	(1,277)	(1,419)	(1,935)
Minorities	(518)	(332)	(321)	(365)	(365)	(420)	(475)
PPA	(301)	(257)	(247)	(808)	(440)	(440)	(440)
Net Attributable Profit	4,012	1,702	1,321	(9,206)	1,399	1,770	2,512
Adjusted Profit	4,415	1,930	1,852	1,215	935	2,306	2,952
P&L Measures							
Revenue Growth, y-o-y %	n/a	2.6%	-5.4%	-3.4%	1.4%	-1.2%	2.8%
Cost Growth, y-o-y %	n/a	-8.2%	0.0%	0.9%	-2.8%	-1.7%	1.3%
Operating Income Growth, y-o-y %	n/a	20.3%	-12.2%	-9.4%	8.0%	-0.5%	4.9%
Net Interest Margin / RWA (%)	n/a	3.6%	3.5%	3.4%	3.3%	3.4%	3.5%
Cost / Income (inc-deprn)	62%	56%	59%	61%	59%	59%	58%
Tax Rate (%)	11%	31%	24%	-21%	37%	35%	36%
Balance Sheet (EURm)							
Customer loans	612,480	564,986	555,653	559,553	565,149	570,800	576,508
Securities	274,819	208,087	228,449	230,349	230,349	240,349	250,349
Goodwill	20,889	20,491	20,428	11,567	11,567	11,567	11,567
Total Assets	1,045,612	928,760	929,488	926,769	972,710	989,327	1,006,005
Customer deposits	388,831	381,623	402,248	398,379	406,347	414,474	414,474
Bonds	202,459	214,773	180,990	162,990	164,620	166,266	166,266
Other non-equity liabilities	396,081	269,473	278,547	310,603	335,888	341,425	356,286
Stated Shareholders Equity Capital	54,999	59,689	64,224	51,479	62,538	63,845	65,662
Minorities	3,242	3,202	3,479	3,318	3,318	3,318	3,318
Total liabilities	1,045,612	928,760	929,488	926,769	972,710	989,327	1,006,005
Risk Weighted Assets	512,532	452,320	454,850	460,400	433,845	438,926	444,066
Customer Loans, % y-o-y	n/a	-7.8%	-1.7%	0.7%	1.0%	1.0%	1.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	8.5%	7.6%	-19.8%	21.5%	2.1%	2.8%
Risk Weighted Assets, % y-o-y change	n/a	-11.7%	0.6%	1.2%	-5.8%	1.2%	1.2%
Asset Quality							
Gross Doubtful Loans / Gross Customer loan	6.8%	10.2%	12.3%	13.0%	14.6%	15.8%	16.7%
Doubtful Loans Coverage	53%	46%	44%	45%	45%	47%	48%
LLC/Net Loans (bp)	60	147	124	108	122	104	90
Per share data (EUR)							
EPS (stated)	0.30	0.10	0.07	-4.77	0.24	0.31	0.43
EPS (adjusted)	0.33	0.11	0.10	0.63	0.16	0.40	0.51
DPS	0.00	0.03	0.03	0.00	0.08	0.12	0.17
BV/ Share (stated)	4.1	3.6	3.3	26.7	10.8	11.0	11.3
BV/ Share (adjusted)	2.1	2.0	2.0	18.55	8.1	8.3	8.6
No Shares at Yr End (m)	13,390	16,804	19,298	1,930	5,789	5,789	5,789
Stock market / Profitability ratios							
PE (stated)	11.6	34.4	50.8	-0.7	14.4	11.4	8.0
PE (adjusted)	10.6	30.3	36.3	5.5	21.6	8.7	6.8
Div Yield	0.0%	0.9%	0.9%	0.0%	2.3%	3.4%	4.9%
P/BV (stated)	0.8	1.0	1.0	0.1	0.3	0.3	0.3
P/BV (adj)	1.6	1.7	1.7	0.2	0.43	0.4	0.4
RORWA	n/a	0.4%	0.3%	-2.0%	0.3%	0.4%	0.6%
ROA	n/a	0.2%	0.1%	-1.0%	0.1%	0.2%	0.3%
ROE (stated)	n/a	3.2%	2.9%	2.4%	1.5%	3.6%	4.5%
ROE (adjusted)	n/a	5.7%	4.8%	3.4%	2.0%	4.8%	5.9%
Capital Ratios							
Tier 1 Ratio (%)	6.8%	8.6%	9.5%	9.3%	11.3%	11.4%	11.7%
Core Tier 1 Ratio (%)	6.0%	7.6%	8.6%	8.4%	10.7%	10.9%	11.1%
RWA/Assets (%)	49%	49%	49%	50%	45%	44%	44%

Source: Company data, Nomura estimates

Fig. 102: ISP quarterly reporting

EURm

<i>Eurm</i>	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Net interest income	2,397	2,442	2,453	2,408	2,392	2,368	2,479	2,541	2,501	2,431	2,317
Profit from insurance	204	151	173	120	120	165	50	205	258	195	216
Dividends	(3)	26	(5)	11	7	34	26	5	26	29	(27)
Trading profits	218	(3)	126	126	280	541	(74)	173	716	161	623
Net fees and commissions	1,403	1,404	1,328	1,517	1,395	1,410	1,322	1,339	1,317	1,322	1,333
Other recurring revenues	22	1	(4)	14	11	(3)	(3)	2	(5)	(7)	(19)
Net non-interest income	1,844	1,579	1,618	1,788	1,813	2,147	1,321	1,724	2,312	1,700	2,126
Total revenues	4,241	4,021	4,071	4,196	4,205	4,515	3,800	4,265	4,813	4,131	4,443
Staff	1,369	1,365	1,364	1,430	1,372	1,375	1,324	1,348	1,356	1,353	1,295
General administration	739	786	751	898	721	766	752	841	694	735	711
Depreciations	142	148	142	170	149	153	159	177	157	155	160
Total op. expenses	2,250	2,299	2,257	2,498	2,242	2,294	2,235	2,366	2,207	2,243	2,166
Operating income	1,991	1,722	1,814	1,698	1,963	2,221	1,565	1,899	2,606	1,888	2,277
Goodwill amortisation								10,233			
Risk provisions	86	100	32	148	14	80	18	106	37	34	69
Financial write off	(5)	37	(5)	(215)	3	38	635	499	59	41	43
Loans prov/ fin. write off	754	808	713	895	682	823	695	2,043	973	1,082	1,198
Profit before taxes	1,156	777	1,064	870	1,264	1,280	224	(10,982)	1,537	731	967
Tax	361	315	416	280	496	464	(894)	(976)	626	152	454
Minorities	27	(4)	25	(32)	17	(22)	25	(7)	14	23	12
Restructuring costs (net of taxes)	16	27	11	18	4	12	483	53	14	10	11
Profits from discontinuing operations	(28)	(663)	0	(3)	0	0	0	0	6	0	5
Purchase price adjustments	92	100	102	102	86	85	83	67	73	76	71
Net profit	688	1,002	510	505	661	741	527	(10,119)	804	470	414
	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Interest margin	1.75%	1.73%	1.73%	1.74%	1.77%	1.76%	1.77%	1.87%	1.79%	1.71%	1.63%
Cost/Income ratio	53.1%	57.2%	55.4%	59.5%	53.3%	50.8%	58.8%	55.5%	45.9%	54.3%	48.8%
LLPs	81	86	75	94	73	88	73	217	103	115	128
LLP on GOP	37.9%	46.9%	39.3%	52.7%	34.7%	37.1%	44.4%	107.6%	37.3%	57.3%	52.6%
Tax rate	31.2%	40.5%	39.1%	32.2%	39.2%	36.3%	-399.1%	8.9%	40.7%	20.8%	46.9%
Roe stated (annualised)	5.2%	7.6%	3.9%	3.8%	4.9%	5.0%	3.7%	-86.0%	6.5%	3.9%	3.4%
NPL / Net loans	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.4%	2.4%	2.6%	2.9%
Watch-list / Net loans	2.6%	2.6%	2.6%	2.4%	2.3%	2.4%	2.4%	2.4%	2.7%	2.8%	2.8%
Doubtful loans / Net loans	5.7%	5.6%	5.5%	5.6%	5.5%	5.7%	5.8%	6.0%	6.5%	7.0%	7.3%
Gross NPL/Shareholders equity	33.0%	35.3%	36.6%	38.4%	38.8%	38.0%	40.5%	53.1%	49.1%	53.0%	55.1%
Net NPL/Shareholders equity	11.0%	11.9%	12.5%	13.7%	13.8%	13.5%	14.5%	19.1%	18.2%	20.0%	21.7%
Customer loans / Direct deposits	91.6%	90.8%	92.7%	94.6%	95.6%	96.1%	103.2%	105.4%	102.5%	102.5%	100.4%
NI/II/RWAs	2.7%	2.7%	2.8%	2.9%	2.9%	3.0%	3.1%	3.1%	3.1%	3.1%	3.0%
NonII/RWAs	2.0%	1.8%	1.8%	2.2%	2.2%	2.7%	1.6%	2.1%	2.9%	2.1%	2.8%
Revenues/RWAs	4.7%	4.5%	4.6%	5.1%	5.1%	5.6%	4.7%	5.2%	6.0%	5.2%	5.8%
LLPs/RWAs	0.8%	0.9%	0.8%	1.1%	0.8%	1.0%	0.9%	2.5%	1.2%	1.4%	1.6%
Volumes	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Gross NPL	17,604	18,535	19,366	20,577	21,140	22,377	23,295	24,961	24,234	25,462	27,087
Net NPL	5,881	6,275	6,634	7,354	7,508	7,979	8,327	8,998	9,000	9,600	10,689
Coverage	66.6%	66.1%	65.7%	64.3%	64.5%	64.3%	64.3%	64.0%	62.9%	62.3%	60.5%
Gross Watchlist	12,274	12,243	12,222	11,378	11,181	11,105	11,698	11,486	12,651	13,132	13,418
Net watchlist	9,756	9,686	9,663	9,006	8,808	8,806	9,269	9,126	10,056	10,460	10,586
Coverage	20.5%	20.9%	20.9%	20.8%	21.2%	20.7%	20.8%	20.5%	20.5%	20.3%	21.1%
Gross restructured loans	3,349	3,866	3,637	3,631	3,665	3,619	3,791	4,032	4,081	3,982	3,831
Net restructured loans	3,131	3,577	3,339	3,334	3,340	3,306	3,466	3,425	3,466	3,319	3,107
Coverage	6.5%	7.5%	8.2%	8.2%	8.9%	8.6%	8.6%	15.1%	15.1%	16.6%	18.9%
Gross past-due loans	2,412	1,407	1,326	1,667	1,321	1,346	1,295	1,319	2,359	3,005	3,207
Net past-due loans	2,270	1,284	1,200	1,514	1,177	1,194	1,149	1,147	2,135	2,723	2,884
Coverage	5.9%	8.7%	9.5%	9.2%	10.9%	11.3%	11.3%	13.0%	9.5%	9.4%	10.1%
Gross Doubtful loans	35,639	36,051	36,551	37,253	37,317	38,447	40,079	41,797	43,325	45,581	47,543
Net Doubtful loans	21,038	20,822	20,836	21,208	20,833	21,285	22,211	22,696	24,657	26,102	27,266
Gross Doubtful loans	41.0%	42.2%	43.0%	43.1%	44.2%	44.6%	44.6%	45.7%	43.1%	42.7%	42.6%
AUM	234,413	233,338	240,134	233,553	233,712	232,476	224,495	221,889	226,901	222,469	227,335
Rwa	361,337	355,655	354,970	332,158	332,403	320,795	322,056	325,206	319,942	316,457	307,215
Shareholders equity	53,354	52,534	52,978	53,533	54,462	58,935	57,554	47,040	49,345	47,998	49,185
TBV	27,565	26,678	27,122	27,744	28,673	33,146	31,765	31,484	33,789	33,168	34,355
TBVPS	2.16	2.09	2.12	2.17	2.24	2.02	1.93	1.92	2.06	2.02	2.09
Core Tier 1 capital	26,016	27,210	27,333	26,240	27,257	32,721	32,850	32,846	33,594	33,861	34,101
Core tier 1 %	7.2%	7.7%	7.7%	7.9%	8.2%	10.2%	10.2%	10.1%	10.5%	10.7%	11.1%
Tier 1 capital	30,714	31,710	31,680	31,223	32,243	37,854	37,358	37,399	36,793	37,025	36,559
Tier 1 %	8.5%	8.9%	8.9%	9.4%	9.7%	11.8%	11.6%	11.5%	11.5%	11.7%	11.9%

Source: Company data, Nomura research

Fig. 103: ISP model

EURm

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Net Interest Income	11,518	10,486	9,768	9,780	9,576	9,878	10,250
Net fees	5,698	5,341	5,671	5,466	5,329	5,489	5,654
Trading Income	(53)	1,122	464	920	1,720	820	820
Other Income	678	531	722	619	814	809	869
Total Operating Revenues	17,841	17,480	16,625	16,785	17,439	16,997	17,593
Staff Costs	(5,713)	(5,587)	(5,571)	(5,419)	(5,338)	(5,418)	(5,526)
Other Costs	(4,138)	(3,872)	(3,783)	(3,718)	(3,602)	(3,480)	(3,550)
Total Operating expenses	(9,851)	(9,459)	(9,354)	(9,137)	(8,940)	(8,898)	(9,076)
Gross Operating Income	7,990	8,021	7,271	7,648	8,499	8,098	8,516
Loan Loss Charge	(2,566)	(3,706)	(3,108)	(4,243)	(4,434)	(3,578)	(2,691)
Generic provisions and adjustments to finan	(318)	(297)	(358)	(218)	(240)	(260)	(280)
Capital gain and other one off	(1,210)	265	800	(11,953)	(240)	-	-
Pre-tax Profit	3,896	4,283	4,605	(8,766)	3,585	4,260	5,545
Tax	(108)	(960)	(1,401)	910	(1,403)	(1,560)	(2,108)
Minorities	(147)	(133)	(101)	(13)	(63)	(93)	(123)
PPA	(1,088)	(385)	(398)	(321)	(300)	(300)	(300)
Net Attributable Profit	2,553	2,805	2,705	(8,190)	1,819	2,307	3,015
Adjusted Profit	3,926	3,046	2,755	265	2,259	2,607	3,315
P&L Measures							
Revenue Growth, y-o-y %	n/a	-2.0%	-4.9%	1.0%	3.9%	-2.5%	3.5%
Cost Growth, y-o-y %	n/a	-4.0%	-1.1%	-2.3%	-2.2%	-0.5%	2.0%
Operating Income Growth, y-o-y %	n/a	0.4%	-9.4%	5.2%	11.1%	-4.7%	5.2%
Net Interest Margin / RWA (%)	n/a	2.8%	2.8%	3.0%	3.0%	3.2%	3.3%
Cost / Income (inc-depn)	55%	54%	56%	54%	51%	52%	52%
Tax Rate (%)	3%	22%	30%	10%	39%	37%	38%
Balance Sheet (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Customer loans	395,189	374,033	379,235	376,744	374,860	382,357	397,652
Securities	120,897	139,323	172,899	165,614	190,000	197,600	205,504
Goodwill	19,694	18,838	18,838	8,609	8,609	8,609	8,609
Total Assets	636,113	624,844	658,757	639,221	663,291	679,440	704,255
Customer deposits	217,498	210,814	220,047	197,165	201,108	205,130	209,233
Bonds	188,280	185,243	181,000	160,245	163,450	166,719	170,053
Other non-equity liabilities	180,301	175,016	203,110	234,053	248,699	256,078	271,355
Stated Shareholders' Equity Capital	48,954	52,681	53,533	47,040	49,316	50,795	52,896
Minorities	1,100	1,090	1,067	718	718	718	718
Total liabilities	636,133	624,844	658,757	639,221	663,291	679,440	704,255
Risk Weighted Assets	383,072	361,648	332,158	325,206	306,237	310,153	319,254
Customer Loans, % y-o-y	n/a	-5.4%	1.4%	-0.7%	-0.5%	2.0%	4.0%
Stated Shareholders' Equity Capital, % y-o-y	n/a	7.6%	1.6%	-12.1%	4.8%	3.0%	4.1%
Risk Weighted Assets, % y-o-y change	n/a	-5.6%	-8.2%	-2.1%	-5.8%	1.3%	2.9%
Asset Quality							
Gross Doubtful Loans / Gross Customer loan	5.7%	9.2%	9.8%	11.1%	13.6%	15.7%	17.3%
Doubtful Loans Coverage	49%	41%	43%	46%	43%	44%	45%
LLC/Net Loans (bp)	65	99	82	113	108	82	58
Per share data (EUR)	2008	2009	2010	2011	2012E	2013E	2014E
EPS (stated)	0.20	0.22	0.21	-0.50	0.11	0.14	0.18
EPS (adjusted)	0.31	0.24	0.22	0.02	0.14	0.16	0.20
DPS	0.00	0.08	0.08	0.05	0.05	0.06	0.07
BV/ Share (stated)	3.8	4.1	4.2	2.9	3.0	3.1	3.2
BV/ Share (adjusted)	1.7	2.1	2.2	1.95	2.1	2.2	2.3
No Shares at Yr End (m)	12,782	12,782	12,782	16,434	16,434	16,434	16,434
Stock market / Profitability ratios	2008	2009	2010	2011	2012E	2013E	2014E
PE (stated)	6.3	5.7	5.9	-2.5	11.3	8.9	6.8
PE (adjusted)	4.1	5.2	5.8	77.5	9.1	7.9	6.2
Div Yield	0.0%	6.4%	6.4%	4.0%	4.0%	4.4%	5.5%
P/BV (stated)	0.3	0.3	0.3	0.4	0.4	0.4	0.4
P/BV (adj)	0.7	0.6	0.6	0.64	0.60	0.57	0.54
RORWA	n/a	0.8%	0.8%	-2.5%	0.6%	0.7%	1.0%
ROA	n/a	0.4%	0.4%	-1.3%	0.3%	0.3%	0.4%
ROE (stated)	n/a	5.3%	5.1%	-17.4%	3.7%	4.5%	5.7%
ROE (adjusted)	n/a	11.3%	9.9%	0.8%	6.6%	7.3%	8.8%
Capital Ratios	2008	2009	2010	2011	2012E	2013E	2014E
Tier 1 Ratio (%)	7.1%	8.4%	9.4%	11.5%	12.0%	12.3%	12.5%
Core Tier 1 Ratio (%)	6.3%	7.1%	7.9%	10.1%	11.2%	11.2%	11.5%
RWA/Assets (%)	60%	58%	50%	51%	46%	46%	45%

Source: Company data, Nomura estimates

Fig. 104: BMPS quarterly reporting

EURm

	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 11a
Net interest income	871.9	912.8	906.6	900.8	857.5	801	853.5	910.4	874	780	716
Commissions	484	485	461.2	489	463.3	448.8	450	400.3	424	413	413
Dividends and stake at equity	17.9	15.7	29.5	32.2	27.4	18.7	15.4	9.4	11	29	18
Trading	26.4	-47.1	12.8	-15.8	104.4	116.7	-5	-82.4	164	113	229
Non interest income	528.3	453.6	503.5	505.4	595.1	584.2	460.4	327.3	599	554	660
Total revenues	1,400	1,366	1,410	1,406	1,453	1,385	1,314	1,238	1,473	1,334	1,375
Staff Costs	549.5	510.1	528.6	597.4	530.9	506.6	513.8	596.7	519	541	487
Administrative	258.7	267.7	278.6	271.4	266.2	275.3	266.2	288.4	264	255	287
Depreciations/Amortizations	40.1	42.2	40.9	52.3	40.9	38.6	40.2	73.3	45	46	49
Total operating costs	848	820	848	921	838	821	820	958	828	841	822
Gross Operating profit	552	546	562	485	615	565	494	279	645	493	553
LLP	307	283	281.5	284.1	272.5	291.7	268.9	464.3	430	409	461
Risk provisions	41.4	92.2	32.9	26.7	37.7	70.1	65.6	200.1	28	100	47
Extraordinary	10.4	153.1	-23.8	556.6	-4.2	26.9	61.4	-4350.3	2	1,710	18
PBT	214	324	224	731	300	176	98	(4,735)	184	(1,725)	28
Tax	43	177	101	73	141	39	42	11	117	(63)	66
Minorities	0.5	-1.4	1.1	1.3	1.9	0.8	1	-7.2	2	3	1
Others	27.7	29.6	25.8	27.6	16.5	15.5	12.8	249.7	10	7	8
Net income	142	119	96	629	140	121	42	(4,989)	54	(1,672)	(47)
Interest margin	1.78%	1.73%	1.75%	1.70%	1.72%	1.52%	1.59%	1.80%	1.76%	1.59%	1.48%
Cost/Income ratio	60.6%	60.0%	60.1%	65.5%	57.7%	59.2%	62.4%	77.4%	56.2%	63.1%	59.8%
Provisioning policy (bp)	83	74	74	73	71	75	69	127	117	113	127
LLP on GOP	55.6%	51.8%	50.1%	58.6%	44.3%	51.7%	54.5%	166.2%	66.7%	83.0%	83.3%
Tax rate	20.3%	54.6%	45.2%	10.0%	47.1%	22.1%	42.7%	-0.2%	63.7%	3.7%	239.9%
Roe stated (annualised)	3.3%	2.9%	2.3%	14.7%	3.2%	2.8%	1.0%	-185.4%	1.8%	-69.4%	-1.9%
NPL / Net loans	3.1%	3.3%	3.5%	3.5%	3.6%	3.9%	4.1%	4.4%	4.6%	4.8%	5.1%
Watch-list / Net loans	2.7%	2.8%	2.7%	2.6%	2.7%	2.7%	2.8%	3.0%	3.3%	3.5%	4.0%
Doubtful loans / Net loans	7.0%	7.4%	7.6%	7.3%	7.8%	8.2%	8.5%	9.2%	10.4%	11.1%	12.0%
Gross NPL/Net equity	64.6%	70.6%	73.5%	72.6%	73.2%	80.0%	85.8%	134.6%	123.2%	162.0%	162.6%
Net NPL/Shareholders equity	27.1%	30.7%	32.3%	32.0%	32.0%	35.7%	38.4%	59.8%	54.5%	72.6%	73.1%
Customer loans / Direct deposits	95.8%	96.6%	98.7%	98.6%	96.4%	94.4%	96.8%	100.2%	106.8%	109.1%	107.4%
NI/RWAs	2.9%	3.0%	3.2%	3.3%	3.1%	3.1%	3.2%	3.5%	3.4%	3.2%	3.0%
NonII/RWAs	1.7%	1.5%	1.8%	1.9%	2.2%	2.2%	1.7%	1.2%	2.3%	2.3%	2.8%
Revenues/RWAs	4.6%	4.5%	5.0%	5.1%	5.3%	5.3%	4.9%	4.7%	5.7%	5.5%	5.8%
LLPs/RWAs	1.0%	0.9%	1.0%	1.0%	1.0%	1.1%	1.0%	1.8%	1.7%	1.7%	1.9%
	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 11a
Customer loans	148,489	152,881	152,737	156,238	153,633	156,394	155,061	146,608	146,627	144,461	145,328
Securities portfolio	47,855	58,752	54,691	55,873	45,307	54,295	59,464	55,482	52,341	51,565	47,704
Direct deposits	155,024	158,232	154,673	158,486	159,330	165,612	160,237	146,324	137,325	132,399	135,303
Debt represented by securities	na	37,433	na	na	na	na	na	na	na	na	na
Interbank position	- 15,154	- 14,931	- 17,020	- 18,624	- 11,940	- 12,426	- 17,259	- 26,098	- 29,971	- 29,543	- 28,637
Gross NPL	11,098	11,532	12,054	12,456	12,808	13,584	14,180	14,486	15,125	15,601	16,366
Net NPL	4,653	5,025	5,292	5,485	5,605	6,055	6,348	6,442	6,688	6,991	7,358
Coverage	58.1%	56.4%	56.1%	56.0%	56.2%	55.4%	55.2%	55.5%	55.8%	55.2%	55.0%
Gross Watchlist	4,952	5,263	5,177	5,088	5,176	5,229	5,375	5,729	6,196	6,372	7,247
Net watchlist	4,004	4,295	4,159	4,015	4,102	4,168	4,269	4,459	4,854	4,993	5,775
Coverage	19.1%	18.4%	19.7%	21.1%	20.7%	20.3%	20.6%	22.2%	21.7%	21.6%	20.3%
Gross restructured loans	820	1,278	1,261	1,344	1,502	1,643	1,592	1,574	1,622	1,749	1,777
Net restructured loans	793	1,232	1,181	1,249	1,370	1,472	1,443	1,435	1,474	1,575	1,581
Coverage ratio (%)	3.3%	3.6%	6.3%	7.1%	8.8%	10.4%	9.4%	8.8%	9.1%	9.9%	11.0%
Gross past due loans	946	811	1,005	676	987	1,233	1,249	1,224	2,310	2,610	2,887
Net past due loans	892	759	944	632	925	1,158	1,171	1,144	2,175	2,457	2,711
Coverage ratio (%)	5.7%	6.3%	6.1%	6.5%	6.3%	6.1%	6.2%	6.5%	5.8%	5.9%	6.1%
Gross Doubtful loans	17,816	18,883	19,497	19,564	20,473	21,689	22,396	23,013	25,253	26,332	28,277
Net Doubtful loans	10,342	11,311	11,576	11,381	12,002	12,853	13,231	13,480	15,191	16,016	17,425
Gross Doubtful loans	42.0%	40.1%	40.6%	41.8%	41.4%	40.7%	40.9%	41.4%	39.8%	39.2%	38.4%
Shareholders equity	17,167	16,345	16,397	17,156	17,497	16,979	16,527	10,765	12,277	9,630	10,063
RWAs	122,200	120,218	111,800	109,238	109,020	105,000	107,400	105,189	102,594	96,157	95,300
TBV (excluding Tremonti)	7,805	6,928	6,980	7,704	8,045	7,527	7,075	5,885	7,397	6,342	6,775
TBVps	1.2	1.0	1.0	1.1	1.2	0.6	0.6	0.5	0.6	0.5	0.6
Tier 1	7.5%	7.8%	8.4%	8.4%	9.1%	8.9%	11.1%	10.6%	11.3%	11.7%	11.4%
Core Tier 1	5.4%	5.6%	na	7.8%	na	8.5%	8.7%	8.0%	8.6%	8.85%	8.85%
Tier 1 capital	9,165	9,332	na	9,142	9,921	9,345	11,921	11,100	11,593	11,250	10,864
Core Tier 1 capital (ex Tremonti)	6,615	6,782	na	8,492	na	8,925	9,344	8,400	8,872	8,510	8,434

Source: Company data, Nomura research

Fig. 105: BMPS model

EURm

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Net Interest Income	3,905	3,573	3,592	3,500	3,161	3,175	3,113	3,038
Net fees	2,151	1,853	1,912	1,801	1,693	1,744	1,813	1,904
Trading Income	(4)	(2)	(1)	(32)	500	120	120	120
Other Income	(99)	177	69	238	85	105	120	135
Total Operating Revenues	5,953	5,600	5,571	5,507	5,439	5,144	5,167	5,197
Staff Costs	(2,449)	(2,269)	(2,211)	(2,195)	(2,140)	(2,090)	(2,115)	(2,140)
Other Costs	(1,482)	(1,361)	(1,220)	(1,308)	(1,269)	(1,175)	(1,132)	(1,088)
Total Operating expenses	(3,932)	(3,630)	(3,431)	(3,503)	(3,409)	(3,265)	(3,247)	(3,228)
Gross Operating Income	2,021	1,971	2,140	2,005	2,030	1,879	1,920	1,969
Loan Loss Charge	(1,060)	(1,466)	(1,156)	(1,311)	(1,640)	(1,280)	(1,056)	(1,056)
Generic provisions and adjustments to financial assets	(187)	(220)	(193)	(375)	(200)	(200)	(200)	(200)
Capital gain and other one off	(661)	176	699	(4,665)	(1,700)	-	-	-
Pre-tax Profit	114	460	1,491	(4,347)	(1,510)	398	664	713
Tax	845	(102)	(393)	(248)	(76)	(169)	(281)	(302)
Minorities	(67)	(5)	(2)	4	(7)	(9)	(11)	(13)
PPA	61	(134)	(111)	(94)	(54)	(54)	(54)	(54)
Net Attributable Profit	953	220	986	(4,685)	(1,647)	167	317	344
Adjusted Profit	1,261	306	197	74	(821)	(69)	82	109
P&L Measures								
Revenue Growth, y-o-y %	n/a	-5.9%	-0.5%	-1.2%	-1.2%	-5.4%	0.4%	0.6%
Cost Growth, y-o-y %	n/a	-7.7%	-5.5%	2.1%	-2.7%	-4.2%	-0.6%	-0.6%
Operating Income Growth, y-o-y %	n/a	-2.5%	8.6%	-6.3%	1.3%	-7.5%	2.2%	2.6%
Net Interest Margin / RWA (%)	n/a	2.8%	3.1%	3.3%	3.1%	3.3%	3.3%	3.2%
Cost / Income (inc-deprn)	66%	65%	62%	64%	63%	63%	63%	62%
Tax Rate (%)	-742%	22%	26%	-6%	-5%	42%	42%	42%
Balance Sheet (EURm)	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Customer loans	145,353	150,109	156,238	146,608	143,676	140,802	140,802	140,802
Securities	26,974	38,676	55,973	55,482	50,632	47,557	45,482	42,982
Goodwill	6,709	6,619	6,474	2,216	670	670	670	670
Total Assets	213,796	224,816	244,279	240,701	227,231	220,953	218,792	216,181
Customer deposits	81,597	91,133	97,770	84,011	75,000	75,000	75,000	75,000
Bonds	47,158	42,559	60,468	46,792	57,000	57,000	57,000	57,000
Other non-equity liabilities	69,939	73,667	68,615	98,916	88,755	82,599	80,410	77,744
Stated Shareholders Equity Capital	14,824	17,175	17,156	10,765	6,259	6,137	6,165	6,220
Minorities	279	281	270	217	217	217	217	217
Total liabilities	213,796	224,815	244,279	240,701	227,231	220,953	218,792	216,181
Risk Weighted Assets	132,408	120,899	109,238	105,000	95,915	94,956	94,956	95,906
Other Balance Sheet Measures								
Customer Loans, % y-o-y	n/a	3.3%	4.1%	-6.2%	-2.0%	-2.0%	0.0%	0.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	15.9%	-0.1%	-37.3%	-41.9%	-2.0%	0.5%	0.9%
Risk Weighted Assets, % y-o-y change	n/a	-8.7%	-9.6%	-3.9%	-8.7%	-1.0%	0.0%	1.0%
Asset Quality								
Gross Doubtful Loans / Gross Customer loans	8.9%	11.3%	12.5%	15.7%	19.7%	21.8%	23.2%	23.2%
Doubtful Loans Coverage	43%	40%	42%	41%	39%	40%	40%	40%
LLC/Net Loans (bp)	73	98	74	89	115	91	75	75
Per share data (EUR)	2008	2009	2010	2011	2012E	2013E	2014E	2015E
EPS (stated)	0.14	0.03	0.15	-0.40	-0.14	0.01	0.03	0.03
EPS (adjusted)	0.19	0.05	0.03	0.01	-0.07	-0.01	0.01	0.01
DPS	0.01	0.00	0.02	0.00	0.00	0.00	0.00	0.00
BV/ Share (stated)	2.2	2.3	2.6	0.9	0.5	0.5	0.5	0.5
BV/ Share (adjusted)	1.1	1.1	1.4	0.67	0.4	0.4	0.4	0.4
No Shares at Yr End (m)	6,697	6,720	6,720	11,682	11,682	11,682	11,682	11,682
Stock market / Profitability ratios	2008	2009	2010	2011	2012E	2013E	2014E	2015E
PE (stated)	1.4	6.1	1.4	-0.5	-1.4	14.0	7.4	6.8
PE (adjusted)	1.1	4.4	6.8	31.6	-2.8	-34.1	28.4	21.5
Div Yield	6.5%	0.0%	12.3%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BV (stated)	0.1	0.1	0.1	0.2	0.4	0.4	0.4	0.4
P/BV (adj)	0.2	0.2	0.1	0.3	0.5	0.5	0.5	0.5
RORWA	n/a	0.2%	0.9%	-4.4%	-1.6%	0.2%	0.3%	0.4%
ROA	n/a	0.1%	0.4%	-1.9%	-0.7%	0.1%	0.1%	0.2%
ROE (stated)	n/a	1.3%	5.7%	-43.5%	-26.3%	2.7%	5.1%	5.5%
ROE (adjusted)	n/a	3.2%	2.0%	1.0%	-17.0%	-1.5%	1.7%	2.3%
Capital Ratios	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Tier 1 Ratio (%)	5.1%	7.5%	8.4%	11.1%	11.7%	11.7%	11.7%	11.7%
Core Tier 1 Ratio (%)	3.2%	5.4%	6.0%	8.5%	8.8%	8.7%	8.8%	8.7%
RWA/Assets (%)	62%	54%	45%	44%	42%	43%	43%	44%

Source: Company data, Nomura estimates

Fig. 106: UBI quarterly reporting

EURm

	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Net interest income	549.9	533.4	557.3	563.2	541.4	525.6	545.8	557.1	526.9	517.3	498
Dividends and similar income	6.4	22.9	10.7	1.7	6.8	21.5	4.7	(3.1)	11.1	27.3	9
Net commission income	293.6	313.9	264.0	313.8	291.9	294.6	292.0	315.1	299.4	286.7	286
Net income from trading	(4.9)	(1.0)	19.4	20.6	14.6	(7.4)	(23.9)	24.0	94.0	11.4	43
Other operating income/(expense)	24.1	17.2	25.3	25.9	21.7	21.3	20.9	23.7	12.1	27.1	15
Total Revenue	869.1	886.4	876.6	925.1	876.4	856	840	917	943	870	850
Personnel expenses	(371.0)	(376.5)	(359.6)	(344.5)	(364.7)	(373.2)	(334.9)	(350.3)	(364.4)	(328.3)	-356
Other administrative expenses	(184.8)	(199.7)	(183.8)	(201.3)	(171.1)	(185.2)	(165.9)	(195.8)	(175.7)	(176.5)	-161
Net impairment losses on assets	(42.4)	(43.0)	(41.7)	(45.3)	(42.3)	(63.8)	(42.9)	(49.1)	(43.7)	(42.0)	-41
Operating costs	(598.2)	(619.2)	(585.1)	(591.1)	(578.1)	(622.3)	(543.8)	(595.2)	(583.9)	(546.8)	-558
Net operating income	270.8	267.2	291.5	334.0	298.3	233.4	295.8	321.6	359.6	322.9	292
Net impairment losses on loans	(131.9)	(189.8)	(134.0)	(251.2)	(105.4)	(158.1)	(135.1)	(208.4)	(131.2)	(203.2)	-160
Impairment losses on assets	0.6	(18.7)	(0.1)	(31.5)	(1.6)	(18.0)	(119.2)	3.7	(2.1)		-0.992
Net provisions for risks and charges	(2.2)	(4.4)	(5.4)	(15.2)	(10.4)	(4.1)	(5.2)	(11.8)	(4.1)	(16.8)	0
Extraordinary	0.1	(2.2)	80.5	12.3	0.2	(125.1)	0.2	(2,041.5)	0.0	(47.7)	9
Pre - tax	137.5	52.0	232.5	48.4	181.0	(72.0)	36.3	(1,936.4)	222.2	55.3	139
Taxes	(71.2)	(45.4)	(113.7)	(45.4)	(87.0)	283.7	(79.8)	(58.4)	(100.0)	15.3	-65
Minority interest	(7.1)	(4.8)	(3.3)	(8.5)	(10.5)	(7.2)	(8.2)	(11.6)	(8.0)	(7.9)	-2
Profit (loss) for the period	59.5	84.8	115.5	(5.5)	83.5	204.5	(51.6)	(2,006.2)	114.3	62.7	72
PPA	(21.4)	(20.9)	(19.8)	(20.1)	(18.9)	(17.4)	(17.4)	(17.9)	(8.9)	(8.6)	-9
Profit (loss) for the period	38.1	63.9	95.6	(25.6)	64.6	187.1	(69.0)	(2,024.2)	105.4	54.1	63
Interest margin	2.05%	1.85%	1.94%	1.96%	1.88%	1.84%	1.92%	2.01%	1.83%	1.78%	1.73%
Cost/Income ratio	68.8%	69.9%	66.7%	63.9%	66.0%	72.7%	64.8%	64.9%	61.9%	62.9%	65.7%
LLPs	54	76	53	99	41	62	53	84	54	85	68
LLP on GOP	48.7%	71.1%	46.0%	75.2%	35.3%	67.8%	45.7%	64.8%	36.5%	62.9%	54.9%
Tax rate	51.8%	87.3%	48.9%	93.9%	48.1%	394.0%	219.6%	-3.0%	45.0%	-27.6%	46.9%
Roe based (annualised)	1.34%	2.33%	3.45%	-0.93%	2.32%	6.20%	-2.45%	-90.58%	4.4%	2.3%	2.6%
NPL / Net loans	1.53%	1.62%	1.75%	1.91%	2.02%	2.14%	2.28%	2.49%	2.7%	2.9%	3.0%
Watch-list / Net loans	1.95%	1.93%	1.89%	2.00%	2.17%	2.34%	2.55%	2.54%	2.7%	2.9%	3.3%
Doubtful loans / Net loans	4.78%	4.80%	5.10%	5.17%	5.50%	5.64%	6.09%	6.30%	6.9%	7.4%	8.2%
Gross NPL/Shareholders equity	26.59%	29.77%	31.06%	34.44%	35.68%	34.39%	37.46%	48.97%	47.8%	51.0%	50.7%
Net NPL/Shareholders equity	13.11%	14.82%	15.96%	17.67%	18.57%	18.18%	20.76%	27.75%	27.4%	29.8%	29.7%
Customer loans / Direct deposits	99.4%	96.9%	97.4%	95.4%	98.0%	96.8%	98.9%	97.0%	97.6%	93.2%	94.6%
NII/RWAs	2.5%	2.5%	2.6%	2.4%	na	2.2%	2.3%	2.4%	2.4%	2.7%	2.6%
NonII/RWAs	1.5%	1.7%	1.5%	1.5%	na	1.4%	1.3%	1.6%	1.9%	1.8%	1.8%
Revenues/RWAs	4.0%	4.1%	4.0%	3.9%	na	3.6%	3.6%	4.0%	4.3%	4.5%	4.5%
LLPs/RWAs	0.6%	0.9%	0.6%	1.1%	na	0.7%	0.6%	0.9%	0.6%	1.1%	0.8%
Volumes	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Customer loans	97,806	100,158	101,195	101,815	102,702	102,774	102,765	99,690	97,106	95,333	94,843
Securities portfolio - trading	9,274	15,297	13,946	13,133	12,353	11,786	10,747	11,038	17,852	20,913	20,002
Direct deposits	52,754	58,534	57,413	58,666	56,145	56,200	56,393	54,431	52,358	57,075	56,356
Debt represented by securities	45,670	44,828	46,464	48,094	48,679	49,964	47,503	48,377	47,085	45,172	43,908
Interbank position	-1,615	-5,961	-3,698	-2,264	-2,823	-582	-3,297	-3,588	-10,218	-9,865	-9,479
Gross NPL	3,028.8	3,266.1	3,443.0	3,781.0	3,979.6	4,152.0	4,229.0	4,377.0	4,593.0	4,706.0	4,883.0
Net NPL	1,493.0	1,625.4	1,769.0	1,940.0	2,071.7	2,195.0	2,343.0	2,481.0	2,633.0	2,751.0	2,855.0
Coverage	50.7%	50.2%	48.6%	48.7%	47.9%	47.1%	44.6%	43.3%	42.7%	41.5%	41.5%
Gross Watchlist	2,213.5	2,245.6	2,215.0	2,320.0	2,504.8	2,697.0	2,919.0	2,844.0	2,907.0	3,151.0	3,499.0
Net watchlist	1,904.4	1,935.9	1,911.0	2,033.0	2,232.9	2,404.0	2,619.0	2,534.0	2,596.0	2,809.0	3,119.0
Coverage	14.0%	13.8%	13.7%	12.4%	10.9%	10.9%	10.3%	10.9%	10.7%	10.9%	10.9%
Gross restructured loans	536.5	667.4	853.0	889.0	897.7	917.0	950.0	934.0	978.0	922.0	975.0
Net restructured loans	499.0	621.1	799.0	828.0	830.4	841.0	872.0	841.0	877.0	811.0	844.0
Coverage	7.0%	6.9%	6.3%	6.9%	7.5%	8.3%	8.2%	10.0%	10.3%	12.0%	13.4%
Gross past-due loans	801.8	643.7	700.0	475.0	523.0	373.0	436.0	434.0	629.0	674.0	986.0
Net past-due loans	780.1	624.6	680.0	460.0	509.5	361.0	425.0	424.0	604.0	649.0	952.0
Coverage	2.7%	3.0%	2.9%	3.2%	2.6%	3.2%	2.5%	2.3%	4.0%	3.7%	3.4%
Gross Doubtful loans	6,580.6	6,822.8	7,211.0	7,465.0	7,905.0	8,139.0	8,534.0	8,589.0	9,107.0	9,454.0	10,343.0
Net Doubtful loans	4,676.5	4,806.9	5,159.0	5,261.0	5,644.5	5,801.0	6,259.0	6,280.0	6,710.0	7,020.0	7,770.0
Coverage	28.9%	29.5%	28.5%	29.5%	28.6%	28.7%	26.7%	26.9%	26.3%	25.7%	24.9%
AUM (bn)	43,454.1	42,544.7	43,348.2	41,900.0	41,900.0	41,100.0	38,700.0	36,800.0	37,600.0	36,500.0	38,000.0
Rwa	86,273	86,869	86,700	94,307	na	95,761	93,703	91,010	88,342	76,600	76,274
Shareholders equity	11,389	10,970	11,084	10,979	11,154	12,073	11,288	8,939	9,603	9,235	9,624
TBV	5,892	5,494	5,605	5,504	5,702	6,786	6,020	5,951	6,623	6,263	6,653
TBVPS	9.2	8.6	8.8	8.6	8.9	7.5	6.7	6.6	7.3	6.9	7.4
Core Tier 1 capital	na	na	na	6,278	na	7,852	7,740	7,790	7,960	7,844	8,001
Core tier 1 %	7.4%	7.3%	7.6%	7.0%	6.9%	8.2%	8.3%	8.6%	9.0%	10.2%	10.5%
Tier 1 capital	na	6,832	na	7,047	na	8,337	8,227	8,273	8,339	8,235	8,390
Tier 1 %	7.9%	7.9%	8.1%	7.5%	7.5%	8.7%	8.8%	9.1%	9.4%	10.8%	11.0%

Source: Company data, Nomura research

Fig. 107: UBI model

EURm

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Net Interest Income	2,888	2,463	2,204	2,170	2,072	2,093	2,156
Net fees	1,360	1,215	1,185	1,194	1,182	1,215	1,251
Trading Income	(242)	127	34	7	130	100	110
Other Income	162	164	134	117	127	135	143
Total Operating Revenues	4,167	3,969	3,557	3,488	3,511	3,543	3,660
Staff Costs	(1,585)	(1,466)	(1,452)	(1,423)	(1,395)	(1,358)	(1,340)
Other Costs	(945)	(948)	(942)	(897)	(875)	(846)	(846)
Total Operating expenses	(2,530)	(2,413)	(2,394)	(2,320)	(2,270)	(2,204)	(2,186)
Gross Operating Income	1,637	1,555	1,164	1,168	1,242	1,339	1,474
Loan Loss Charge	(566)	(865)	(707)	(607)	(716)	(627)	(570)
Generic provisions and adjustments to financial assets	(34)	(37)	(27)	(32)	(20)	(21)	(21)
Capital gain and other one off	(509)	41	124	(2,319)	(40)	(150)	-
Pre-tax Profit	528	694	554	(1,789)	466	541	882
Tax	(273)	(296)	(276)	57	(208)	(251)	(404)
Minorities	(97)	(41)	(24)	(37)	(35)	(38)	(41)
PPA	(88)	(86)	(82)	(72)	(40)	(40)	(40)
Net Attributable Profit	69	270	172	(1,841)	183	212	397
Adjusted Profit	350	336	80	197	162	327	437
P&L Measures							
Revenue Growth, y-o-y %	n/a	-4.8%	-10.4%	-1.9%	0.7%	0.9%	3.3%
Cost Growth, y-o-y %	n/a	-4.6%	-0.8%	-3.1%	-2.2%	-2.9%	-0.8%
Operating Income Growth, y-o-y %	n/a	-5.0%	-25.2%	0.4%	6.3%	7.8%	10.1%
Net Interest Margin / RWA (%)	n/a	2.8%	2.4%	2.3%	2.5%	2.7%	2.8%
Cost / Income (inc-depn)	61%	61%	67%	67%	65%	62%	60%
Tax Rate (%)	52%	43%	50%	3%	45%	46%	46%
Balance Sheet (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Customer loans	96,368	98,007	101,815	99,970	95,471	96,426	98,354
Securities	9,897	9,071	13,133	11,038	20,000	20,000	20,000
Goodwill	4,338	4,402	4,417	2,539	2,539	2,539	2,539
Total Assets	121,956	122,313	130,559	129,804	133,373	134,390	136,444
Customer deposits	54,151	52,865	58,666	54,431	57,153	58,296	59,462
Bonds	43,441	44,349	48,094	48,377	45,958	48,256	50,669
Other non-equity liabilities	12,101	12,749	11,857	17,157	20,128	17,536	15,687
Stated Shareholders Equity Capital	11,140	11,411	10,979	8,939	9,235	9,403	9,727
Minorities	1,124	938	963	899	899	899	899
Total liabilities	121,956	122,313	130,559	129,804	133,373	134,390	136,444
Risk Weighted Assets	89,892	85,677	94,307	91,010	76,870	77,572	78,990
Customer Loans, % y-o-y	n/a	1.7%	3.9%	-1.8%	-4.5%	1.0%	2.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	2.4%	-3.8%	-18.6%	3.3%	1.8%	3.5%
Risk Weighted Assets, % y-o-y change	n/a	-4.7%	10.1%	-3.5%	-15.5%	0.9%	1.8%
Asset Quality							
Gross Doubtful Loans / Gross Customer loans	3.7%	6.5%	7.3%	8.6%	10.8%	12.1%	13.2%
Doubtful Loans Coverage	36%	29%	30%	27%	27%	30%	32%
LLC/Net Loans (bp)	59	88	69	61	75	64	58
Per share data (EUR)	2008	2009	2010	2011	2012E	2013E	2014E
EPS (stated)	0.11	0.42	0.27	-2.04	0.20	0.24	0.44
EPS (adjusted)	0.55	0.53	0.13	0.22	0.18	0.36	0.48
DPS	0.45	0.30	0.15	0.05	0.05	0.08	0.11
BV/ Share (stated)	17.4	17.9	17.2	9.9	10.2	10.4	10.8
BV/ Share (adjusted)	8.8	9.2	8.6	6.60	6.9	7.1	7.5
No Shares at Yr End (m)	639	639	639	902	902	902	902
Stock market / Profitability ratios	2008	2009	2010	2011	2012E	2013E	2014E
PE (stated)	25.7	6.6	10.3	-1.4	13.7	11.8	6.3
PE (adjusted)	5.1	5.3	22.1	12.7	15.4	7.6	5.7
Div Yield	16.2%	10.8%	5.4%	1.8%	1.8%	2.9%	4.0%
P/BV (stated)	0.2	0.2	0.2	0.3	0.3	0.3	0.3
P/BV (adj)	0.3	0.3	0.3	0.4	0.4	0.4	0.4
RORWA	n/a	0.3%	0.2%	-2.0%	0.2%	0.3%	0.5%
ROA	n/a	0.2%	0.1%	-1.4%	0.1%	0.2%	0.3%
ROE (stated)	n/a	2.4%	1.6%	-20.6%	2.0%	2.3%	4.1%
ROE (adjusted)	n/a	5.7%	1.5%	3.3%	2.6%	5.1%	6.5%
Capital Ratios	2008	2009	2010	2011	2012E	2013E	2014E
Tier 1 Ratio (%)	7.7%	8.0%	7.5%	9.1%	10.7%	10.8%	11.1%
Core Tier 1 Ratio (%)	7.1%	7.5%	7.0%	8.6%	10.3%	10.4%	10.6%
RWA/Assets (%)	74%	70%	72%	70%	58%	58%	58%

Source: Company data, Nomura estimates

Fig. 108: BAPO quarterly reporting

EURm

	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Net interest	537	518	490	485	480	475	490	486	487	457	446
Profit (loss) on equity investments carried at equity	13	8	10	8	9	14	5	-35	7	-66	-33
Net interest income	550	526	500	493	489	489	495	450	494	391	413
Net commissions	317	326	313	310	334	320	313	305	337	342	335
Other revenues	3	48	27	26	18	35	17	13	18	22	28
Net financial income	117	162	125	147	73	222	268	144	-34	156	-25
Other operating income	438	537	465	483	425	577	599	461	321	520	337
Total income	988	1,062	965	976	914	1,066	1,093	912	814	910	750
Personnel expenses	-374	-373	-377	-420	-378	-379	-370	-382	-366	-367	-355
Other administrative expenses	-190	-199	-189	-182	-190	-189	-196	-170	-188	-183	-189
Amortization and depreciation	-37	-23	-33	-51	-31	-37	-32	-45	-35	-30	-32
Operating costs	-601	-595	-599	-653	-599	-604	-598	-597	-588	-580	-576
Profit from operations	387	467	366	323	315	462	496	315	226	331	174
LLPs	-176	-211	-222	-163	-207	-193	-192	-168	-211	-187	-204
Net provisions for risks and charges	2	-25	10	-224	5	-8	-7	-55	-73	60	-10
Impairment of goodwill and equity investments	-	-1	0	0	-	-	-	-2,831	0	-10	0
Profit (loss) on disposal of equity and other investmen	5	41	0	7	52	-10	-9	-51	-2	-10	-5
Income before tax from continuing operations	206	256	146	-117	165	252	288	-2,790	-59	185	-45
Tax on income from continuing operations	-81	165	-60	-9	-68	-100	-121	250	-29	-28	-29
Net profit before tax	125	421	86	-126	98	152	167	-2,540	-88	157	-73
Income (Loss) after tax from non-current assets for sal	10	15	15	26	7	16	-2	-3	0	1	0
PROFIT (LOSS) FOR THE PERIOD	135	436	101	-100	104	168	165	-2,543	-88	158	-73
Minority interests	-7	-5	-8	-11	-6	-2	-5	-7	-5	-6	-1
PPA	-52	-71	-63	-48	-38	-35	-28	-30	-16	-14	-9
Net profit	76	360	30	-159	60	131	133	-2,581	-109	138	-83
Margins (%)	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Interest margin	1.92%	1.85%	1.76%	1.73%	1.69%	1.64%	1.74%	1.72%	1.69%	1.62%	1.53%
Cost/Income ratio	60.8%	56.0%	62.1%	66.9%	65.5%	56.7%	54.7%	65.4%	72.2%	63.7%	76.8%
Provisioning policy (bp on loans annualised)	73	88	92	69	86	80	82	72	90	82	87
LLP on GOP	45.4%	45.2%	60.6%	50.4%	65.7%	41.7%	38.6%	53.3%	93.4%	56.4%	117.0%
Tax rate	39.5%	-64.6%	40.8%	-7.8%	40.9%	39.6%	42.1%	9.0%	-48.2%	14.9%	-64.3%
Roe stated (annualised)	2.6%	12.4%	1.0%	-5.5%	2.0%	4.3%	4.5%	-114.2%	-4.7%	6.0%	-3.5%
NPL / Net loans	2.9%	2.6%	2.9%	3.0%	3.2%	3.4%	3.8%	3.9%	4.2%	4.5%	4.5%
Watch-list / Net loans	6.0%	4.9%	4.7%	4.6%	4.7%	4.4%	4.4%	4.1%	4.1%	4.3%	4.6%
Doubtful loans / Net loans	10.5%	9.6%	9.8%	9.9%	10.2%	10.3%	11.0%	11.0%	11.9%	12.4%	12.9%
Gross NPL/Shareholders equity	42.8%	39.7%	42.8%	44.7%	45.8%	47.8%	49.2%	66.7%	68.5%	72.2%	71.0%
Net NPL/Shareholders equity	23.8%	21.3%	23.9%	25.0%	25.9%	27.2%	29.8%	40.5%	42.5%	44.4%	45.2%
Customer loans / Direct deposits	92.1%	92.9%	94.2%	90.4%	92.1%	89.5%	88.0%	93.2%	97.0%	95.6%	97.1%
NII/RWAs	2.3%	2.2%	2.1%	2.0%	2.0%	2.0%	2.1%	2.2%	2.1%	3.1%	3.1%
NonII/RWAs	1.9%	2.3%	2.0%	2.0%	1.8%	2.4%	2.6%	2.1%	1.4%	3.5%	2.3%
Revenues/RWAs	4.3%	4.6%	4.1%	4.1%	3.8%	4.5%	4.7%	4.1%	3.6%	6.2%	5.2%
LLPs/RWAs	0.8%	0.9%	0.9%	0.7%	0.9%	0.8%	0.8%	0.7%	0.9%	1.3%	1.4%
Volumes	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Customer loans	96,083	96,157	96,142	94,462	96,454	96,366	93,452	93,394	93,685	91,028	93,779
Securities portfolio - trading	15,946	15,791	15,145	17,726	16,924	19,537	19,473	19,425	21,759	21,928	23,154
Direct deposits	104,307	103,510	102,080	104,524	104,768	107,661	106,173	100,200	96,574	95,194	96,575
Interbank position	-1,179	-1,986	-1,889	-1,928	-916	-1,108	631	-5,743	-11,754	-10,785	-12,345
Gross NPL	4,995	4,608	5,001	5,157	5,533	5,778	5,811	6,025	6,412	6,662	6,682
Net NPL	2,773	2,468	2,794	2,879	3,130	3,294	3,523	3,663	3,975	4,098	4,250
Coverage	44.5%	46.4%	44.1%	44.2%	43.4%	43.0%	39.4%	39.2%	38.0%	38.5%	36.4%
Gross Watchlist	6,886	5,749	5,457	5,265	5,451	5,074	5,007	4,704	4,663	4,729	5,192
Net watchlist	5,720	4,715	4,511	4,337	4,517	4,215	4,110	3,843	3,844	3,874	4,308
Coverage	16.9%	18.0%	17.3%	17.6%	17.1%	16.9%	17.9%	18.3%	17.6%	18.1%	17.0%
Gross restructured loans	882	1,697	1,749	2,008	2,044	2,265	2,566	2,714	2,802	2,737	2,812
Net restructured loans	781	1,450	1,438	1,709	1,752	1,939	2,237	2,372	2,440	2,385	2,460
Coverage	11.4%	14.6%	17.8%	14.9%	14.3%	14.4%	12.8%	12.6%	12.9%	12.8%	12.5%
Gross past-due loans	852	645	778	465	451	555	396	386	991	1,007	1,123
Net past-due loans	807	597	721	429	415	525	373	356	924	923	1,035
Coverage	5.3%	7.5%	7.3%	7.8%	7.9%	5.5%	5.8%	7.7%	6.7%	8.4%	7.9%
Gross Doubtful loans	13,615	12,699	12,984	12,895	13,478	13,673	13,780	13,829	14,868	15,135	15,809
Net Doubtful loans	10,082	9,230	9,463	9,354	9,813	9,972	10,242	10,234	11,183	11,280	12,052
Coverage	26.0%	27.3%	27.1%	27.5%	27.2%	27.1%	25.7%	26.0%	24.8%	25.5%	23.8%
Rwa	92,638	92,654	93,766	94,878	95,900	95,700	93,200	90,000	90,700	58,700	57,900
Shareholders equity	11,663	11,610	11,689	11,527	12,068	12,100	11,803	9,037	9,356	9,232	9,409
TBV	6,380	6,327	6,515	6,356	6,902	6,928	6,631	6,683	6,997	6,872	7,055
TBVPS	3.6	3.6	3.7	3.6	3.9	3.9	3.8	3.8	4.0	3.9	4.0
Core Tier 1 capital	na	5,652	na	5,408	6,234	6,221	6,058	6,390	6,712	5,987	6,022
Core tier 1 %	na	6.1%	na	5.7%	6.5%	6.5%	6.5%	7.1%	7.4%	10.2%	10.4%
Tier 1 capital	na	7,033	na	6,793	7,576	7,465	7,270	7,470	7,347	6,633	6,659
Tier 1 %	na	7.6%	na	7.2%	7.9%	7.8%	7.8%	8.3%	8.1%	11.3%	11.5%

Source: Company data, Nomura research

Fig. 109: BAPO model

EURm

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Net Interest Income	2,240	2,206	2,027	1,931	1,844	1,877	1,933
Net fees	1,262	1,228	1,266	1,273	1,349	1,376	1,417
Trading Income	197	256	552	707	218	218	218
Other Income	42	138	141	75	104	110	117
Total Operating Revenues	3,740	3,827	3,986	3,985	3,515	3,581	3,685
Staff Costs	(1,485)	(1,523)	(1,544)	(1,509)	(1,464)	(1,456)	(1,485)
Other Costs	(843)	(938)	(904)	(889)	(867)	(865)	(882)
Total Operating expenses	(2,329)	(2,461)	(2,448)	(2,398)	(2,331)	(2,321)	(2,367)
Gross Operating Income	1,412	1,366	1,538	1,587	1,184	1,260	1,318
Loan Loss Charge	(1,170)	(749)	(771)	(759)	(814)	(782)	(700)
Generic provisions and adjustments to financial assets	(201)	(157)	(236)	(64)	(30)	(40)	(50)
Capital gain and other one off	(572)	88	26	(2,831)	-	1	1
Pre-tax Profit	(531)	548	557	(2,067)	340	439	569
Tax	140	(323)	17	(38)	(170)	(180)	(233)
Minorities	(31)	(2)	(31)	(20)	(20)	(22)	(24)
PPA	89	44	(234)	(132)	(65)	(28)	(28)
Net Attributable Profit	(333)	267	310	(2,257)	85	209	283
Adjusted Profit	(383)	242	310	162	23	237	311
P&L Measures							
Revenue Growth, y-o-y %	n/a	2.3%	4.2%	0.0%	-11.8%	1.9%	2.9%
Cost Growth, y-o-y %	n/a	5.7%	-0.5%	-2.1%	-2.8%	-0.4%	2.0%
Operating Income Growth, y-o-y %	n/a	-3.2%	12.6%	3.2%	-25.4%	6.4%	4.6%
Net Interest Margin / RWA (%)	n/a	2.6%	2.2%	2.1%	2.5%	3.2%	3.3%
Cost / Income (inc-depn)	62%	64%	61%	60%	66%	65%	64%
Tax Rate (%)	26%	59%	-3%	-2%	50%	41%	41%
Balance Sheet (EURm)							
2008	2009	2010	2011	2012E	2013E	2014E	
Customer loans	81,097	95,350	94,462	93,394	91,526	92,442	94,291
Securities	12,602	14,615	17,726	19,425	21,000	21,000	21,000
Goodwill	4,470	4,474	4,474	2,355	2,355	2,355	2,355
Total Assets	121,327	135,709	136,156	134,127	132,129	133,100	135,059
Customer deposits	51,352	53,192	79,296	79,296	55,000	57,750	60,638
Bonds	24,253	25,228	25,228	20,904	40,000	40,800	41,616
Other non-equity liabilities	35,534	45,177	19,692	24,503	27,453	24,678	22,697
Stated Shareholders Equity Capital	9,784	11,533	11,527	9,037	9,270	9,444	9,657
Minorities	404	579	413	386	406	428	452
Total liabilities	121,327	135,709	136,156	134,127	132,129	133,100	135,059
Risk Weighted Assets	73,907	92,623	94,900	90,034	58,522	58,522	60,278
Customer Loans, % y-o-y	n/a	17.6%	-0.9%	-1.1%	-2.0%	1.0%	2.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	17.9%	0.0%	-21.6%	2.6%	1.9%	2.3%
Risk Weighted Assets, % y-o-y change	n/a	25.3%	2.5%	-5.1%	-35.0%	0.0%	3.0%
Asset Quality							
Gross Doubtful Loans / Gross Customer loans	6.8%	9.8%	13.7%	14.8%	17.1%	18.2%	19.0%
Doubtful Loans Coverage	35%	29%	27%	26%	27%	30%	33%
LLC/Net Loans (bp)	144	79	82	81	89	85	74
Per share data (EUR)							
2008	2009	2010	2011	2012E	2013E	2014E	
EPS (stated)	-0.52	0.42	0.18	-1.28	0.05	0.12	0.16
EPS (adjusted)	-0.60	0.38	0.18	0.09	0.01	0.13	0.18
DPS	0.00	0.08	0.03	0.00	0.02	0.04	0.05
BV/ Share (stated)	15.3	18.0	6.5	5.1	5.3	5.4	5.5
BV/ Share (adjusted)	7.0	9.7	3.6	3.7	3.8	3.9	4.0
No Shares at Yr End (m)	640	640	1,764	1,764	1,764	1,764	1,764
Stock market / Profitability ratios							
2008	2009	2010	2011	2012E	2013E	2014E	
PE (stated)	-2.2	2.7	6.4	-0.9	23.2	9.4	7.0
PE (adjusted)	-1.9	3.0	6.4	12.2	86.9	8.3	6.3
Div Yield	0.0%	7.1%	2.7%	0.0%	1.8%	3.6%	4.3%
P/BV (stated)	0.1	0.1	0.2	0.2	0.2	0.2	0.2
P/BV (adj)	0.2	0.1	0.3	0.3	0.3	0.3	0.3
RORWA	n/a	0.3%	0.3%	-2.4%	0.1%	0.4%	0.5%
ROA	n/a	0.2%	0.2%	-1.7%	0.1%	0.2%	0.2%
ROE (stated)	n/a	2.3%	2.7%	-25.0%	0.9%	2.2%	2.9%
ROE (adjusted)	n/a	3.9%	4.9%	2.5%	0.3%	3.4%	4.4%
Capital Ratios							
2008	2009	2010	2011	2012E	2013E	2014E	
Tier 1 Ratio (%)	6.4%	7.7%	7.2%	8.3%	11.4%	11.6%	11.6%
Core Tier 1 Ratio (%)	4.5%	6.2%	5.7%	7.1%	10.4%	10.7%	10.7%
RWA/Assets (%)	61%	68%	70%	67%	44%	44%	45%

Source: Company data, Nomura estimates

Fig. 110: MB quarterly reporting

EURm

CIB	Q1 10/11	Q2 10/11	Q3 10/11	Q4 10/11	Q1 11/12	Q2 11/12	Q3 11/12	Q4 11/12	Q1 12/13
Net interest income	115.9	107.7	101.4	104.3	110.0	94.5	91.0	86.1	86.3
Net trading income	72.9	24.3	70.5	1.7	4.0	103.5	129.6	19.3	59.2
Net fee and commission income	63.5	100.2	86.2	65.2	64.8	61.1	99.4	50.3	56.5
Equity-accounted companies	(9.0)	1.8	3.6	2.4	5.9	4.4	8.1	1.3	4.4
Total income	243.3	234.0	261.7	173.6	184.7	263.5	328.1	157.0	206.4
Labour costs	(58.2)	(63.2)	(61.0)	(52.0)	(55.8)	(51.7)	(51.5)	(43.2)	(48.9)
Administrative expenses	(22.6)	(27.0)	(25.7)	(30.9)	(25.3)	(29.0)	(26.2)	(30.4)	(24.0)
Operating costs	(80.8)	(90.2)	(86.7)	(82.9)	(81.1)	(80.7)	(77.7)	(73.6)	(72.9)
Loan loss provisions	(25.0)	(24.5)	(23.4)	47.6	(23.2)	(30.8)	(37.0)	(43.2)	(25.2)
Provisions for other financial assets	(0.8)	(14.2)	0.0	(135.4)	(85.6)	(136.5)	(20.3)	(139.3)	(7.8)
Other income (losses)	0.0	0.1	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	136.7	105.2	151.5	2.9	(5.2)	15.5	193.1	(99.1)	100.5
Income tax for the period	(55.9)	(38.8)	(56.5)	2.1	(19.5)	(26.4)	(68.8)	29.6	(39.3)
Minority interest	(1.6)	(0.9)	(1.3)	(1.2)	(1.2)	(0.6)	1.6	0.7	0.5
Net profit	79.2	65.5	93.7	3.8	(25.9)	(11.5)	125.9	(68.8)	61.7
Treasury funds	14,060	12,791	10,915	9,470	9,156	10,594	9,750	10,642	11,250
AFS securities	6,526	6,243	6,313	6,551	6,042	5,658	10,829	9,210	9,639
Fixed assets (HTM & LR)	1,455	1,984	3,782	4,001	4,100	4,101	3,976	4,013	3,999
Equity investments	386	377	385	386	367	384	391	386	388
Loans and advances to customers of which to Group companies	25,206	26,515	26,683	27,624	28,489	29,183	27,836	30,520	29,034
Funding	3,488	4,294	4,611	5,144	5,223	5,607	4,969	8,493	8,348
RWAs	44,449	44,964	44,981	44,908	45,145	47,852	50,192	52,553	51,767
Cost / income ratio (%)	na	40,884	40,287	40,349	40,484	40,822	40,779	39,940	39,673
NPLs/Loans ratio (%)	33.2%	38.5%	33.1%	47.8%	43.9%	30.6%	23.7%	46.9%	35.3%
Effective tax rate	na	0.2	n.d.	0.2	0.2	0.2	1.2	0.3	nd
	40.9%	36.9%	37.3%	-72.4%	-375.0%	170.3%	35.6%	29.9%	39.1%
Retail and Private Banking	Q1 10/11	Q2 10/11	Q3 10/11	Q4 10/11	Q1 11/12	Q2 11/12	Q3 11/12	Q4 11/12	Q1 12/13
Net interest income	145.0	170.0	169.0	176.5	172.6	188.9	170.6	175.1	176.1
Net trading income	28.3	20.7	2.7	(2.1)	2.5	2.3	3.7	2.2	3.6
Net fee and commission income	58.6	63.6	63.8	59.5	61.4	66.6	62.5	55.9	56.7
Equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	231.9	254.3	235.5	233.9	236.5	257.8	236.8	233.2	236.4
Labour costs	(45.0)	(50.1)	(47.2)	(49.7)	(46.5)	(51.4)	(50.5)	(51.0)	(47.4)
Administrative expenses	(70.1)	(84.0)	(84.0)	(86.0)	(77.2)	(80.0)	(75.7)	(78.7)	(63.1)
Operating costs	(115.1)	(134.1)	(131.2)	(135.7)	(123.7)	(131.4)	(126.2)	(129.7)	(110.5)
Loan loss provisions	(87.3)	(82.6)	(78.0)	(75.6)	(79.6)	(77.9)	(77.5)	(98.3)	(86.2)
Provisions for other financial assets	(0.3)	(0.1)	0.0	(0.2)	(0.3)	(0.2)	0.0	1.1	1.7
Other income (losses)	0.0	0.0	0.0	0.0	0.0	45.5	1.4	0.4	0.2
Profit before tax	29.2	37.5	26.3	22.4	32.9	93.5	34.4	6.7	41.6
Income tax for the period	(14.2)	(14.5)	(14.6)	5.7	(13.1)	(17.5)	(9.8)	(5.9)	(14.4)
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	15.0	23.0	11.7	28.1	19.8	76.0	24.6	0.8	27.2
Treasury funds	4,590.6	4,212.6	4,454.6	4,000.7	3,108.3	3,738.0	5,840.0	8,816.5	8,555.4
AFS securities	2,421.3	2,065.6	2,125.7	1,762.0	1,528.2	1,443.2	1,660.0	1,694.6	1,773.0
Fixed assets (HTM & LR)	2,693.7	2,555.5	2,568.5	3,191.7	4,128.8	3,671.1	2,702.1	2,731.4	2,762.9
Loans and advances to customers	12,603.6	12,894.7	13,185.5	13,751.9	14,152.7	14,606.9	14,308.8	14,661.0	14,658.1
Funding	21,633.4	21,183.2	21,695.4	22,082.7	22,313.3	22,354.5	23,243.8	26,574.1	26,306.4
RWAs	na	10,768.4	10,958.0	11,498.5	11,567.5	11,757.7	11,869.6	12,103.7	12,088.5
Cost / income ratio (%)	50%	53%	56%	58%	52%	51%	53%	56%	47%
NPLs/Loans ratio (%)	na	1.0	n.d.	1.0	n.d.	1.0	n.d.	1.3	nd
Effective tax rate	48.6%	38.7%	55.5%	-25.4%	39.8%	18.7%	28.5%	88.1%	34.6%
Principal Investing	Q1 10/11	Q2 10/11	Q3 10/11	Q4 10/11	Q1 11/12	Q2 11/12	Q3 11/12	Q4 11/12	Q1 12/13
Net interest income	(2.1)	(1.8)	(1.7)	(1.9)	(1.9)	(2.0)	(2.5)	(2.4)	(2.1)
Net trading income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fee and commission income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity-accounted companies	52.9	63.8	49.6	37.3	67.6	(6.1)	11.6	74.7	23.0
Total income	50.8	62.0	47.9	35.4	65.7	(8.1)	9.1	72.3	20.9
Labour costs	(1.4)	(1.4)	(1.3)	(1.4)	(1.3)	(1.5)	(1.4)	(1.4)	(1.2)
Administrative expenses	(0.6)	(0.6)	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)	(0.9)
Operating costs	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.2)	(2.1)	(2.1)	(2.1)
Loan loss provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for other financial assets	0.0	(4.5)	0.0	(120.1)	(0.1)	(55.2)	(114.6)	(27.9)	0.0
Other income (losses)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	48.8	55.5	45.9	(86.7)	63.6	(65.5)	(107.6)	42.3	18.8
Income tax for the period	1.8	(0.8)	2.6	2.2	0.6	3.8	(2.1)	1.4	0.3
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	50.6	54.7	48.5	(84.5)	64.2	(61.7)	(109.7)	43.7	19.1
AFS securities	127.9	133.9	132.6	134.1	130.9	137.8	142.7	146.3	144.8
Equity investments (book value)	2,869.9	3,010.3	2,920.2	2,712.5	2,770.7	2,511.2	2,359.2	2,696.4	2,640.3
RWAs	na	3,381.2	3,293.5	3,162.3	3,217.7	3,032.6	2,671.4	3,093.7	2,934.2
RORWA gross (% annualised)	na	6.5%	5.9%	-10.7%	8.0%	-8.1%	-16.4%	5.7%	2.6%
RWA/Equity investment	na	112%	113%	117%	116%	121%	113%	115%	111%
ROE (annualised)	na	6.5%	5.9%	-10.7%	8.0%	-8.1%	-16.4%	5.7%	2.6%
Margins (annualised)	7.4%	8.5%	6.8%	5.5%	9.8%	-1.0%	2.0%	11.1%	3.5%
Reconciliation / Consolidated adjs	Q1 10/11	Q2 10/11	Q3 10/11	Q4 10/11	Q1 11/12	Q2 11/12	Q3 11/12	Q4 11/12	Q1 12/13
Net interest income	3.3	(6.5)	(0.4)	(8.4)	1.1	(8.6)	(0.4)	(2.3)	1.3
Net trading income	(21.5)	1.7	(2.1)	11.6	(18.5)	2.9	(0.2)	(0.3)	0.3
Net fee and commission income	(9.0)	(11.0)	(10.6)	(9.7)	(9.1)	(10.4)	(10.7)	(8.3)	9.4
Equity-accounted companies	(0.1)	0.8	0.2	(0.3)	(0.5)	0.5	1.4	0.6	(0.7)
Total income	(27.3)	(15.0)	(12.9)	(6.8)	(27.0)	(15.6)	(9.9)	(10.3)	10.3
Labour costs	3.3	4.6	2.7	2.5	2.8	4.1	3.8	3.2	(3.5)
Administrative expenses	6.6	2.5	11.3	7.3	7.4	7.6	6.3	8.3	(8.3)
Operating costs	9.9	7.1	14.0	9.8	10.2	11.7	10.1	11.5	(11.8)
Loan loss provisions	0.0	0.0	(0.1)	0.1	0.0	(0.8)	96.2	0.0	0.0
Provisions for other financial assets	(0.0)	0.0	(0.1)	0.2	15.8	9.0	20.4	24.6	0.4
Other income (losses)	0.0	0.0	0.1	0.0	0.0	(1.8)	(118.3)	88.1	0.2
Profit before tax	(17.4)	(7.9)	1.0	3.3	(1.0)	2.8	0.1	(0.6)	(0.9)
Income tax for the period	0.2	(0.0)	1.1	(1.0)	(0.3)	1.0	0.6	0.9	(0.1)
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	(17.2)	(7.9)	2.1	2.3	(1.3)	3.8	0.7	0.3	(1.0)

Source: Company data, Nomura research

Fig. 111: MB model

EURm						
P&L (EURm)	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13E	Jun-14E
Net Interest Income	861	917	1,070	1,070	1,018	1,018
Net fees	512	534	520	484	430	458
Trading Income	422	354	209	267	141	176
Other Income	(19)	214	203	170	291	328
Total Operating Revenues	1,776	2,018	2,002	1,990	1,880	1,980
Staff Costs	(360)	(380)	(419)	(393)	(384)	(399)
Other Costs	(370)	(393)	(405)	(396)	(371)	(388)
Total Operating expenses	(730)	(773)	(824)	(789)	(755)	(787)
Gross Operating Income	1,046	1,245	1,178	1,201	1,124	1,193
Loan Loss Charge	(504)	(517)	(349)	(468)	(481)	(439)
Generic provisions and adjustments to financial assets	(451)	(150)	(276)	(572)	-	-
Capital gain and other one off	(0)	5	0	45	-	1
Pre-tax Profit	91	583	554	206	643	755
Tax	(89)	(181)	(181)	(126)	(202)	(239)
Minorities	1	(1)	(5)	1	(2)	(2)
Net Attributable Profit	2	401	369	81	439	513
Adjusted Profit	2	401	369	81	439	513
P&L Measures						
Revenue Growth, y-o-y %	n/a	13.6%	-0.8%	-0.6%	-5.5%	5.3%
Cost Growth, y-o-y %	n/a	5.9%	6.6%	-4.2%	-4.3%	4.2%
Operating Income Growth, y-o-y %	n/a	19.0%	-5.3%	1.9%	-6.4%	6.1%
Net Interest Margin / RWA (%)	n/a	1.7%	2.0%	1.9%	1.9%	1.9%
Cost / Income (inc-depn)	41%	38%	41%	40%	40%	40%
Tax Rate (%)	98%	31%	33%	61%	31%	32%
Balance Sheet (EURm)						
Customer loans	42,390	33,702	36,226	36,310	34,494	33,114
Securities	22,110	8,281	10,058	12,880	12,880	12,880
Goodwill	366	0	0	0	0	0
Total Assets	73,890	62,257	60,182	63,759	61,894	60,476
Customer deposits	13,148	17,659	17,253	25,784	27,284	28,784
Bond	37,416	36,193	34,460	30,004	27,904	27,904
Other non-equity liabilities	17,517	1,571	1,442	1,362	-256	-3,557
Stated Shareholders Equity Capital	5,706	6,731	6,913	6,500	6,852	7,236
Minorities	103	103	115	109	109	109
Total liabilities	73,891	62,257	60,182	63,759	61,894	60,476
Risk Weighted Assets	52,737	53,426	55,026	55,164	53,785	52,440
Other Balance Sheet Measures						
Customer Loans, % y-o-y	n/a	-20.5%	7.5%	0.2%	-5.0%	-4.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	18.0%	2.7%	-6.0%	5.4%	5.6%
Risk Weighted Assets, % y-o-y change	n/a	1.3%	3.0%	0.3%	-2.5%	-2.5%
Asset Quality						
Gross NPLs / Gross Customer loans	1.2%	2.0%	2.1%	3.5%	3.5%	3.5%
NPL Coverage	74%	73%	66%	61%	61%	61%
LLC/Net Loans (bp)	119	153	96	129	139	132
Per share data (EUR)						
EPS (stated)	0.00	0.47	0.43	0.09	0.51	0.60
EPS (adjusted)	0.00	0.47	0.43	0.09	0.51	0.60
DPS	0.00	0.17	0.17	0.05	0.10	0.15
BV/ Share (stated)	6.7	7.8	8.0	7.5	8.0	8.4
BV/ Share (adjusted)	6.1	7.8	8.0	7.5	8.0	8.4
No Shares at Yr End (m)	855	858	861	861	861	861
Stock market / Profitability ratios						
PE (stated)	1550.3	9.3	10.2	46.3	8.5	7.3
PE (adjusted)	1550.3	9.3	10.2	46.3	8.5	7.3
Div Yield	0.0%	3.9%	3.9%	1.1%	2.3%	3.4%
P/BV (stated)	0.7	0.6	0.5	0.6	0.5	0.5
P/BV (adj)	0.7	0.6	0.5	0.6	0.5	0.5
RORWA	n/a	0.8%	0.7%	0.1%	0.8%	1.0%
ROA	n/a	0.6%	0.6%	0.1%	0.7%	0.8%
ROE (stated)	n/a	6.0%	5.3%	1.2%	6.4%	7.1%
ROE (adjusted)	n/a	6.0%	5.3%	1.2%	6.4%	7.1%
Capital Ratios						
Tier 1 Ratio (%)	10.3%	11.1%	11.2%	11.5%	12.4%	13.5%
Core Tier 1 Ratio (%)	10.3%	11.1%	11.2%	11.5%	12.4%	13.5%
RWA/Assets (%)	71%	86%	91%	87%	87%	87%

Source: Company data, Nomura estimates

Fig. 112: BPM quarterly reporting

EURm

	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Net interest income	180	181	183	189	207	209	203	205	227	229	202
Dividend income	0	-3	1	1	4	0	-0	-7	3	4	5
Trading income	56	-7	46	-9	17	18	-27	-34	79	-3	39
Net commissions	174	146	139	152	145	133	125	121	119	124	120
Other income	9	11	7	7	9	6	9	12	6	7	7
Total revenues	419	328	377	340	381	365	309	296	434	360	373
Personnel costs	175	181	182	162	171	176	164	140	169	145	157
Administrative expenses	75	84	74	87	74	85	65	82	74	72	63
Depreciation and amortisation	20	20	20	21	20	20	20	26	18	19	17
Total operating costs	270	285	275	270	266	281	250	249	262	236	237
Gross operating income	150	43	102	70	116	85	60	47	172	124	136
Net provisions	67	36	49	93	42	71	67	304	52	83	75
Risk Provisions	2	1	3	5	1	1	-1	110	4	3	3
Net operating income	81	7	49	-28	72	13	-6	-367	116	38	58
One-off and profits from assets for sale	4	47	12	27	2	-7	26	420	0	-360	0
Pre-tax profit	84	53	61	-1	74	5	20	-787	116	-322	58
Tax charges	33	31	22	0	31	4	15	-117	52	-123	32
Minorities	1	2	1	1	1	1	1	-9	-0	-3	0
Net profit	50	20	38	-2	42	0	4	-661	64	-196	25
Interest margin	1.89%	1.66%	1.63%	1.58%	1.71%	1.84%	1.73%	1.76%	1.92%	1.95%	1.72%
Cost/Income ratio	64.3%	86.8%	73.0%	79.5%	69.7%	76.9%	80.7%	84.1%	60.4%	65.5%	63.6%
Provisioning policy (bp on loans annualised)	80	43	57	104	48	79	73	341	58	95	86
LLP on GOP	44.7%	83.0%	48.4%	132.7%	36.7%	83.5%	111.6%	645.7%	30.0%	66.8%	55.2%
Tax rate	39.4%	57.8%	36.5%	-10.0%	41.8%	77.9%	76.3%	14.8%	45.1%	38.2%	55.9%
Roe stated (annualised)	5.1%	2.1%	3.8%	-0.2%	4.3%	0.0%	0.5%	-65.9%	5.9%	-19.4%	2.4%
NPL / Net loans	1.1%	1.2%	1.2%	1.3%	1.4%	1.5%	1.6%	1.9%	2.1%	2.3%	2.4%
Watch-list / Net loans	3.5%	3.1%	3.0%	2.5%	2.4%	2.3%	2.3%	2.2%	2.2%	2.4%	2.7%
Doubtful loans / Net loans	5.6%	5.2%	5.1%	5.9%	6.0%	6.0%	6.1%	6.3%	6.8%	7.3%	7.9%
Gross NPL/Shareholders equity	20.6%	22.0%	23.0%	24.8%	25.6%	27.2%	29.6%	32.2%	31.9%	37.6%	38.6%
Net NPL/Shareholders equity	9.7%	10.2%	10.9%	12.2%	12.7%	13.9%	15.5%	17.1%	16.9%	19.6%	19.7%
Customer loans / Direct deposits	100%	94%	99%	99%	94%	98%	99%	105%	100%	97%	98%
NII/RWAs	2.1%	2.1%	2.1%	2.0%	2.2%	1.8%	1.8%	1.8%	2.0%	2.1%	1.8%
NonII/RWAs	2.8%	1.7%	2.2%	1.6%	1.9%	1.4%	0.9%	0.2%	0.5%	0.3%	0.4%
Revenues/RWAs	4.9%	3.8%	4.3%	3.7%	4.1%	3.2%	2.7%	0.7%	0.7%	0.7%	0.6%
LLPs/RWAs	0.8%	0.4%	0.6%	1.0%	0.5%	0.6%	0.6%	2.7%	0.5%	0.8%	0.7%
Volumes											
Customer loans	33,363	33,412	34,701	35,586	35,375	35,848	36,368	35,686	35,263	34,948	34,938
Securities portfolio	4,666	10,286	10,296	12,295	13,155	9,584	10,751	10,861	11,831	11,835	12,096
Direct deposits	22,762	24,877	23,501	23,866	25,459	22,852	23,738	21,399	23,159	24,330	24,549
Debt represented by securities	10,595	10,755	11,402	12,070	12,324	13,860	12,870	12,632	12,212	11,847	11,121
Interbank position	421	-310	-1,694	-4,619	-3,245	-4,275	-5,365	-7,362	-6,231	-4,969	-5,254
Gross NPL	813	856	908	955	998	1,033	1,084	1,294	1,389	1,516	1,634
Net NPL	381	399	428	468	497	528	569	685	735	790	835
Coverage	53.1%	53.4%	52.9%	51.0%	50.2%	48.9%	47.5%	47.0%	47.1%	47.9%	48.9%
Gross Watchlist	1,378	1,200	1,188	1,022	989	943	964	988	971	1,036	1,134
Net watchlist	1,173	1,052	1,047	889	858	818	826	798	791	848	946
Coverage	14.9%	12.3%	11.9%	13.0%	13.2%	13.3%	14.3%	19.2%	18.5%	18.2%	16.6%
Gross Restructured	283	282	280	739	780	844	868	816	877	943	962
Net restructured	263	263	265	692	731	776	783	741	794	839	856
Coverage	7.1%	6.9%	5.4%	5.4%	6.3%	8.1%	9.8%	9.1%	9.5%	11.0%	11.0%
Gross Past due	45	31	26	50	56	31	39	27	88	83	146
Net past due	43	29	24	47	53	29	34	24	82	77	137
Coverage	4.4%	5.2%	7.7%	6.0%	5.4%	6.5%	13.8%	9.1%	7.0%	7.7%	6.4%
Gross Doubtful loans	2,519	2,369	2,402	2,766	2,823	2,852	2,955	3,124	3,326	3,579	3,876
Net Doubtful loans	1,860	1,743	1,764	2,096	2,135	2,153	2,211	2,249	2,402	2,554	2,773
Coverage	26.2%	26.4%	26.6%	24.2%	24.4%	24.5%	25.2%	28.0%	27.8%	28.6%	28.4%
AUM	26,117	24,998	24,500	23,956	23,285	15,180	14,129	13,076	13,335	13,000	13,400
Securities under custody	20,437	20,139	20,760	20,245	21,421	21,018	19,627	19,034	19,128	17,800	17,700
Shareholders equity	3,943	3,894	3,943	3,843	3,903	3,800	3,660	4,014	4,354	4,033	4,227
RWA's	34,306	34,471	35,083	37,034	37,074	46,384	45,576	45,800	44,300	43,477	43,927
TBV (ex Tremonti bond)	2,470	2,322	2,463	2,364	2,537	2,320	2,181	3,086	3,428	3,466	3,661
TBPS (ex Tremonti bond)	5.1	4.8	5.1	4.9	5.3	4.8	4.5	1.0	1.1	1.1	1.1
Core capital	2,713	2,647	2,640	2,643	2,595	2,636	2,735	3,664	3,677	3,913	3,914
Tier 1 capital	2,950	2,908	2,877	2,880	2,855	2,897	3,008	3,939	3,938	4,174	4,173
Core tier 1 (%)	7.9%	7.7%	7.3%	7.1%	7.0%	5.7%	6.0%	8.0%	8.3%	9.0%	8.9%
Tier 1 capital (%)	8.6%	8.5%	8.2%	7.8%	7.7%	6.2%	6.6%	8.6%	8.9%	9.6%	9.5%

Source: Company data, Nomura research

Fig. 113: BPM model

EURm

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Net Interest Income	1,071	885	736	825	870	893	920	961
Net fees	534	647	603	523	480	497	511	532
Trading Income	(210)	127	99	(27)	129	89	89	89
Other Income	214	201	(8)	31	42	43	44	46
Total Operating Revenues	1,610	1,860	1,431	1,352	1,521	1,521	1,564	1,628
Staff Costs	(692)	(848)	(703)	(651)	(631)	(637)	(637)	(637)
Other Costs	(386)	(413)	(407)	(394)	(388)	(374)	(356)	(335)
Total Operating expenses	(1,078)	(1,261)	(1,109)	(1,045)	(1,019)	(1,012)	(993)	(972)
Gross Operating Income	532	599	322	307	501	510	571	656
Loan Loss Charge	(239)	(365)	(245)	(483)	(290)	(274)	(268)	(266)
Generic provisions and adjustments to financial assets	(35)	(17)	(11)	(112)	(10)	(10)	(10)	(10)
Capital gain and other one off	(46)	0	123	(400)	(560)	-	-	-
Pre-tax Profit	213	217	189	(688)	(358)	226	293	380
Tax	(130)	(114)	(78)	67	151	(95)	(120)	(156)
Minorities	(8)	1	(5)	7	-	(1)	(2)	(3)
PPA	-	-	-	-	-	-	-	-
Net Attributable Profit	75	104	106	(614)	(208)	130	171	221
Adjusted Profit	75	163	43	(215)	74	87	129	179
P&L Measures								
Revenue Growth, y-o-y %	n/a	15.5%	-23.0%	-5.5%	12.5%	0.1%	2.8%	4.1%
Cost Growth, y-o-y %	n/a	17.0%	-12.0%	-5.8%	-2.4%	-0.8%	-1.8%	-2.1%
Operating Income Growth, y-o-y %	n/a	12.6%	-46.3%	-4.6%	63.3%	1.7%	12.0%	14.9%
Net Interest Margin / RWA (%)	n/a	2.6%	2.1%	2.0%	2.0%	2.2%	2.2%	2.3%
Cost / Income (inc-deprn)	67%	68%	78%	77%	67%	66%	64%	60%
Tax Rate (%)	61%	53%	41%	10%	42%	42%	41%	41%
Balance Sheet (EURm)								
Customer loans	32,899	32,852	35,586	35,686	34,972	35,322	36,028	36,749
Securities	5,362	4,358	12,220	10,670	11,800	11,800	11,800	11,800
Goodwill	659	797	797	335	0	0	0	0
Total Assets	45,039	44,281	54,053	51,931	52,642	53,424	54,677	56,059
Customer deposits	20,518	22,162	23,866	21,399	23,966	24,446	24,935	24,935
Bonds	12,009	12,012	12,070	12,632	11,369	11,937	12,534	12,534
Other non-equity liabilities	9,123	6,086	14,133	13,838	13,481	13,127	13,200	14,407
Stated Shareholders Equity Capital	3,253	3,892	3,843	4,014	3,778	3,865	3,957	4,129
Minorities	136	129	140	48	48	49	51	54
Total liabilities	45,039	44,281	54,053	51,931	52,642	53,424	54,677	56,059
Risk Weighted Assets	34,367	33,832	37,034	45,817	41,271	41,624	42,339	43,067
Other Balance Sheet Measures								
Customer Loans, % y-o-y	n/a	-0.1%	8.3%	0.3%	-2.0%	1.0%	2.0%	2.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	19.7%	-1.3%	4.5%	-5.9%	2.3%	2.4%	4.4%
Risk Weighted Assets, % y-o-y change	n/a	-1.6%	9.5%	23.7%	-9.9%	0.9%	1.7%	1.7%
Asset Quality								
Gross Doubtful Loans / Gross Customer loans	4.0%	7.2%	7.8%	8.8%	11.7%	14.2%	16.4%	16.4%
Doubtful Loans Coverage	41%	27%	24%	28%	29%	29%	30%	30%
LLC/Net Loans (bp)	73	111	69	135	86	78	73	72
Per share data (EUR)								
EPS (stated)	0.18	0.25	0.26	-0.19	-0.06	0.04	0.05	0.07
EPS (adjusted)	0.18	0.39	0.10	-0.07	0.02	0.03	0.04	0.06
DPS	0.10	0.10	0.10	0.00	0.00	0.01	0.02	0.02
BV/ Share (stated)	7.8	9.4	9.3	1.2	1.2	1.2	1.2	1.3
BV/ Share (adjusted)	6.2	7.5	7.3	1.1	1.2	1.2	1.2	1.3
No Shares at Yr End (m)	415	415	415	3,230	3,230	3,230	3,230	3,230
Stock market / Profitability ratios								
PE (stated)	2.1	1.5	1.5	-2.0	-5.9	9.4	7.2	5.5
PE (adjusted)	2.1	1.0	3.6	-5.7	16.5	14.0	9.5	6.9
Div Yield	26.3%	26.3%	26.3%	0.0%	0.0%	3.2%	4.2%	5.4%
P/BV (stated)	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3
P/BV (adj)	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3
RORWA	n/a	0.3%	0.3%	-1.5%	-0.5%	0.3%	0.4%	0.5%
ROA	n/a	0.2%	0.2%	-1.2%	-0.4%	0.2%	0.3%	0.4%
ROE (stated)	n/a	4.2%	1.1%	-5.3%	2.0%	2.3%	3.2%	4.3%
ROE (adjusted)	n/a	7.2%	1.5%	-6.0%	2.0%	2.3%	3.3%	4.4%
Capital Ratios								
Tier 1 Ratio (%)	7.7%	8.7%	7.8%	8.6%	9.9%	10.0%	10.0%	10.1%
Core Tier 1 Ratio (%)	6.4%	8.0%	7.1%	6.8%	7.9%	8.0%	8.0%	8.1%
RWA/Assets (%)	76%	76%	69%	88%	78%	78%	77%	77%

Source: Company data, Nomura estimates

Fig. 114: BPER quarterly reporting

EURm

	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Net interest income	318	316	326	330	323	328	338	342	337	321	324
Dividend income	2	3	0	0	1	4	1	2	1	3	0
Trading income	20	4	31	-7	18	26	-6	31	57	12	28
Net commissions	176	174	165	175	172	169	175	178	172	182	177
Other income	24	34	23	30	27	27	26	45	31	30	46
Total revenues	540	531	545	527	541	553	534	597	598	548	575
Personnel costs	190	206	178	204	198	209	181	198	198	205	197
Administrative expenses	119	131	119	128	120	128	125	128	123	128	115
Depreciation and amortisation	13	14	13	15	14	14	14	15	14	15	14
Total operating costs	322	350	310	347	332	352	321	341	335	348	327
Gross operating income	217	181	235	180	209	202	213	257	263	200	248
Net provisions	104	94	73	127	75	101	84	84	99	191	130
Risk Provisions	9	10	7	5	7	9	3	3	5	4	2
Net operating income	104	77	155	49	127	92	125	170	160	5	116
Extraordinary income	6	106	-1	12	-2	-22	-2	-83	-1	-1	2
Pre-tax profit	111	183	153	60	126	70	123	87	159	4	117
Tax charges	45	33	61	41	53	48	55	6	65	21	57
Minorities	8	14	14	-2	11	5	10	-3	6	-12	2
Net income from disposal company	0	0	0	0	0	1	1	-9	0	0	0
Net profit	58	135	78	22	62	19	59	75	87.7	-5.0	58.9
Margins (%)											
Interest margin	2.56%	2.49%	2.49%	2.50%	2.44%	2.47%	2.51%	2.54%	2.49%	2.32%	2.32%
Cost/Income ratio	59.7%	65.9%	56.9%	65.8%	61.3%	63.5%	60.1%	57.0%	56.0%	63.6%	56.8%
Provisioning policy (bp on loans annualised)	92	82	62	106	63	84	70	70	82	157	108
LLP on GOP	47.8%	52.0%	31.2%	70.3%	35.8%	49.9%	39.5%	32.8%	37.5%	95.7%	52.5%
Tax rate	40.5%	18.3%	39.5%	67.5%	42.4%	68.2%	44.9%	6.6%	40.8%	497.1%	48.6%
Roe stated (annualised)	7.5%	17.1%	9.7%	2.7%	7.5%	2.3%	7.2%	7.7%	8.5%	-0.5%	5.6%
NPL / Net loans	2.2%	2.3%	2.4%	2.5%	2.7%	2.9%	3.1%	3.2%	3.5%	3.7%	4.0%
Watch-list / Net loans	4.0%	4.0%	4.0%	3.7%	4.0%	4.1%	4.4%	4.5%	4.8%	5.1%	5.4%
Doubtful loans / Net loans	7.2%	7.6%	7.6%	7.4%	7.8%	8.1%	8.8%	9.0%	10.4%	11.0%	11.6%
Gross NPL/Shareholders equity	80.7%	81.5%	85.2%	87.9%	90.3%	95.3%	99.3%	84.2%	84.7%	91.9%	94.7%
Net NPL/Shareholders equity	32.1%	32.8%	34.7%	37.4%	39.0%	42.4%	45.2%	39.7%	40.5%	43.9%	45.8%
Customer loans / Direct deposits	102%	102%	105%	105%	106%	108%	111%	108%	112%	116%	116%
NII/RWAs	2.9%	3.0%	3.0%	2.8%	2.7%	2.7%	2.8%	2.8%	2.9%	2.7%	2.8%
NonII/RWAs	1.7%	1.9%	1.6%	1.7%	1.6%	1.7%	1.5%	1.7%	1.7%	1.8%	1.7%
Revenues/RWAs	1.1%	1.2%	1.1%	1.1%	1.0%	1.1%	1.0%	1.1%	1.0%	1.1%	1.0%
LLPs/RWAs	0.954%	0.880%	0.664%	1.075%	0.624%	0.828%	0.692%	0.716%	0.839%	1.636%	1.123%
Volumes	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Customer loans	45,161	45,801	47,211	47,780	47,830	48,121	48,351	48,186	47,923	48,540	48,369
Securities portfolio	4,585	5,062	5,038	5,030	4,943	4,963	5,554	5,638	6,214	6,859	7,350
Direct deposits	30,557	32,217	32,943	32,902	31,947	31,227	30,421	30,705	29,122	29,732	30,977
Debt represented by securities	13,683	12,833	11,893	12,686	13,149	13,378	13,201	13,760	13,536	12,229	10,876
Interbank position	-608	-280	-826	-1,809	-263	-605	-2,377	-2,379	-3,867	-5,985	-6,232
Gross NPL	2,483	2,574	2,761	2,855	2,961	3,130	3,268	3,311	3,479	3,729	3,978
Net NPL	988	1,036	1,124	1,215	1,277	1,393	1,487	1,561	1,663	1,782	1,924
Coverage	60.2%	59.8%	59.3%	57.5%	56.9%	55.5%	54.5%	52.9%	52.2%	52.2%	51.6%
Gross Watchlist	2,223	2,231	2,270	2,156	2,302	2,365	2,555	2,611	2,762	2,967	3,097
Net watchlist	1,819	1,825	1,879	1,786	1,913	1,953	2,121	2,173	2,311	2,479	2,612
Coverage	18.2%	18.2%	17.2%	17.2%	16.9%	17.4%	17.0%	16.8%	16.3%	16.5%	15.7%
Gross restructured loans	na	na	na	na	297	284	317	309	447	448	448
Net restructured loans	na	na	na	na	268	262	292	290	415	413	411
Coverage	na	na	na	na	9.7%	7.8%	8.0%	6.1%	7.2%	7.9%	8.2%
Gross Past due	na	na	na	na	279	319	386	318	626	666	702
Net past due	na	na	na	na	270	309	374	307	606	645	679
Coverage	na	na	na	na	3.2%	3.2%	3.2%	3.3%	3.1%	3.2%	3.3%
Gross Doubtful loans	5,194	5,444	5,669	5,576	5,838	6,100	6,527	6,547	7,315	7,811	8,224
Net Doubtful loans	3,267	3,465	3,608	3,535	3,728	3,918	4,274	4,331	4,996	5,319	5,626
Coverage	37.1%	36.4%	36.4%	36.6%	36.1%	35.8%	34.5%	33.9%	31.7%	31.9%	31.6%
Total (AUM +securities)	28,182	27,345	28,234	28,065	27,458	27,191	25,345	25,633	26,313	25,618	26,268
AUM	11,491	11,129	11,069	11,062	10,669	10,413	9,715	9,593	9,802	9,604	10,065
Securities under custody	16,691	16,216	17,165	17,003	16,789	16,778	15,629	16,040	16,511	16,014	16,203
Shareholders equity	3,077	3,157	3,239	3,250	3,278	3,283	3,293	3,931	4,107	4,057	4,199
RWA's	43,548	42,845	44,101	47,080	48,163	48,623	48,562	47,100	47,078	46,679	46,456
RWA's/Loans%	96%	94%	93%	99%	101%	101%	100%	98%	98%	96%	96%
TBV	2,578	2,661	2,736	2,739	2,768	2,773	2,783	3,473	3,648	3,598	3,740
TBVPS	10.16	10.49	10.78	10.80	8.33	8.35	8.38	10.46	10.98	10.83	11.26
Core Tier 1 capital	6.9%	7.3%	7.3%	6.8%	7.1%	7.0%	6.83%	7.83%	7.85%	8.07%	8.29%
Tier 1 capital	7.1%	7.5%	7.5%	7.1%	7.1%	7.1%	6.86%	7.86%	7.88%	8.10%	8.32%
Core Tier 1 capital	2,971	3,119	3,212	3,206	3,424	3,407	3,639	3,686	3,696	3,766	3,851
Tier 1 capital	3,100	3,219	3,312	3,343	3,440	3,438	3,669	3,701	3,710	3,780	3,864

Source: Company data, Nomura research

Fig. 115: BPER model

EURm

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Net Interest Income	1,508	1,340	1,290	1,330	1,306	1,302	1,326
Net fees	448	638	690	694	715	729	754
Trading Income	(193)	173	48	69	99	50	50
Other Income	206	104	115	132	127	130	134
Total Operating Revenues	1,970	2,255	2,143	2,225	2,247	2,211	2,265
Staff Costs	(718)	(766)	(778)	(786)	(800)	(793)	(799)
Other Costs	(510)	(564)	(552)	(559)	(565)	(562)	(558)
Total Operating expenses	(1,228)	(1,330)	(1,330)	(1,345)	(1,365)	(1,355)	(1,357)
Gross Operating Income	741	925	813	881	882	856	907
Loan Loss Charge	(204)	(581)	(398)	(344)	(542)	(477)	(388)
Generic provisions and adjustments to financial assets	(31)	(22)	(31)	(22)	(20)	(20)	(20)
Capital gain and other one off	(80)	(7)	86	(109)	20	-	-
Pre-tax Profit	426	315	471	406	339	360	499
Tax	(217)	(145)	(179)	(162)	(130)	(151)	(206)
Minorities	(75)	(54)	(34)	(23)	(15)	(20)	(25)
PPA	-	-	36	(5)	-	-	-
Net Attributable Profit	134	116	293	215	195	189	269
Adjusted Profit	132	111	185	237	177	189	269
P&L Measures							
Revenue Growth, y-o-y %	n/a	14.5%	-5.0%	3.8%	1.0%	-1.6%	2.4%
Cost Growth, y-o-y %	n/a	8.3%	0.0%	1.1%	1.5%	-0.8%	0.2%
Operating Income Growth, y-o-y %	n/a	24.8%	-12.1%	8.3%	0.1%	-2.9%	6.0%
Net Interest Margin / RWA (%)	n/a	3.1%	2.9%	2.8%	2.8%	2.7%	2.7%
Cost / Income (inc-depn)	62%	59%	62%	60%	61%	61%	60%
Tax Rate (%)	51%	46%	38%	40%	38%	42%	41%
Balance Sheet (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Customer loans	40,213	45,442	47,780	48,186	48,668	49,642	51,131
Securities	4,427	3,938	5,030	5,638	6,838	6,438	6,038
Goodwill	348	452	446	376	376	376	376
Total Assets	52,772	59,589	58,498	60,407	61,354	61,950	63,082
Customer deposits	28,029	30,906	32,902	30,705	32,547	34,175	35,884
Bonds	15,779	14,309	12,686	13,760	14,585	15,461	16,388
Other non-equity liabilities	5,005	10,154	8,566	11,295	9,341	7,276	5,531
Stated Shareholders Equity Capital	2,919	3,023	3,250	3,931	4,150	4,288	4,503
Minorities	1,040	1,198	1,094	716	731	751	776
Total liabilities	52,772	59,589	58,498	60,407	61,354	61,950	63,082
Risk Weighted Assets	43,285	42,939	47,080	47,100	46,692	48,395	50,613
Customer Loans, % y-o-y	n/a	13.0%	5.1%	0.9%	1.0%	2.0%	3.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	3.6%	7.5%	21.0%	5.6%	3.3%	5.0%
Risk Weighted Assets, % y-o-y change	n/a	-0.8%	9.6%	0.0%	-0.9%	3.6%	4.6%
Asset Quality							
Gross NPLs / Gross Customer loans	3.9%	4.9%	7.2%	7.8%	8.1%	8.2%	8.2%
NPL Coverage	65%	61%	56%	57%	57%	58%	58%
LLC/Net Loans (bp)	51	128	83	71	111	96	76
Per share data (EUR)	2008	2009	2010	2011	2012E	2013E	2014E
EPS (stated)	0.54	0.46	1.16	0.65	0.59	0.57	0.81
EPS (adjusted)	0.53	0.44	0.73	0.71	0.53	0.57	0.81
DPS	0.18	0.15	0.18	0.03	0.12	0.11	0.16
BV/ Share (stated)	11.7	11.9	12.8	11.8	12.5	12.9	13.6
BV/ Share (adjusted)	10.3	10.1	11.1	10.7	11.4	11.8	12.4
No Shares at Yr End (m)	249	254	254	332	332	332	332
Stock market / Profitability ratios	2008	2009	2010	2011	2012E	2013E	2014E
PE (stated)	8.1	9.5	3.7	6.7	7.4	7.6	5.4
PE (adjusted)	8.1	9.9	5.9	6.1	8.1	7.6	5.4
Div Yield	4.2%	3.5%	4.2%	0.7%	2.7%	2.6%	3.7%
P/BV (stated)	0.4	0.4	0.3	0.4	0.3	0.3	0.3
P/BV (adj)	0.4	0.4	0.4	0.4	0.4	0.4	0.3
RORWA	n/a	0.3%	0.7%	0.5%	0.4%	0.4%	0.5%
ROA	n/a	0.2%	0.5%	0.4%	0.3%	0.3%	0.4%
ROE (stated)	n/a	3.8%	9.0%	5.5%	4.7%	4.4%	6.0%
ROE (adjusted)	n/a	4.4%	6.8%	6.8%	4.8%	4.9%	6.6%
Capital Ratios	2008	2009	2010	2011	2012E	2013E	2014E
Tier 1 Ratio (%)	7.2%	7.2%	7.1%	7.9%	8.3%	8.3%	8.4%
Core Tier 1 Ratio (%)	6.9%	7.0%	6.8%	7.8%	8.3%	8.3%	8.3%
RWA/Assets (%)	82%	72%	80%	78%	76%	78%	80%

Source: Company data, Nomura estimates

Fig. 116: Credem quarterly reporting

EURm

	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Net interest	109.4	121.5	111.6	105.9	112.1	118.1	118.5	114.6	115.1	118.8	117.8
Fees	90.5	97.9	91.3	103.2	90.0	96.1	93.1	92.6	92.6	90.8	93.0
Insurance Fees	4.2	4.6	6.4	1.7	5.6	9.8	6.5	3.0	8.5	6.1	11.4
Trading Income	6.2	-6.2	17.8	42.3	14.1	12.7	20.2	-4.7	19.2	3.7	18.6
Other Income	19.6	13.3	9.1	12.2	14.2	13.7	14.6	23.3	3.3	7.9	3.3
Other operating income	120.5	109.6	124.6	159.4	123.9	132.3	134.4	114.2	123.6	108.5	126.3
Total income	229.9	231.1	236.2	265.3	236.0	250.4	252.9	228.8	238.7	227.3	244.1
Payroll	-101.8	-106.0	-106.1	-112.3	-108.4	-108.7	-101.0	-104.9	-105.5	-101.1	-101.4
Administrative expenses	-57.1	-55.6	-57.7	-46.6	-56.5	-54.4	-55.7	-57.7	-48.6	-47.6	-45.6
D&A	-6.8	-7.1	-7.6	-7.3	-7.2	-7.4	-8.0	-7.9	-7.7	-8.0	-8.2
Operating costs	-165.7	-168.7	-171.4	-166.2	-172.1	-170.5	-164.7	-170.5	-161.8	-156.7	-155.2
Profit from operations	64.2	62.4	64.8	99.1	63.9	79.9	88.2	58.3	76.9	70.6	88.9
Net loan writedowns	-25.4	-3.8	-9.5	-23.4	-6.8	-12.5	-11.7	-21.0	-22.5	-13.9	-16.4
Provisions for risks and charges	-0.4	-0.9	-0.1	-55.3	-2.2	4.7	-11.4	-6.5	-5.7	-9.3	-41.5
Extraordinary income	-0.7	-1.0	0.0	-1.7	-1.1	-5.1	-3.5	2.6	16.1	0.5	35.8
Income before tax	37.7	56.7	55.2	18.7	53.8	67.0	61.6	33.4	64.8	47.9	66.8
Tax on income from continuing operations	-17.6	-23.4	-21.9	-27.4	-23.1	-43.8	-29.9	-22.4	-23.2	-23.2	-42.9
Net income	20.1	33.3	33.3	-8.7	30.7	23.2	31.7	11.0	41.6	24.7	23.9
Interest margin	1.67%	1.81%	1.67%	1.55%	1.59%	1.68%	1.70%	1.62%	1.6%	1.74%	1.70%
Cost/Income ratio	72.1%	73.0%	72.6%	62.6%	72.9%	68.1%	65.1%	74.5%	67.8%	68.9%	63.6%
Provisioning policy (bp on loans annualise)	58	9	21	50	14	26	24	42	45	28	32
LLP on GOP	39.6%	6.1%	14.7%	23.6%	10.6%	15.6%	13.3%	36.0%	29.3%	19.7%	18.4%
Tax rate	47%	41%	40%	147%	43%	65%	49%	67%	35.8%	48%	64%
Roe stated (annualised)	4.4%	7.4%	7.2%	-1.9%	6.6%	5.0%	7.4%	2.7%	9.0%	5.5%	5.0%
NPL / Net loans	0.8%	0.9%	1.0%	1.0%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%
Watch-list / Net loans	1.4%	1.3%	1.3%	1.2%	1.1%	1.2%	1.3%	1.3%	1.3%	1.5%	1.5%
Doubtful loans / Net loans	2.9%	2.8%	2.8%	2.8%	2.7%	2.8%	2.9%	3.0%	3.3%	3.4%	3.5%
Gross NPL/Shareholders equity	20.2%	22.3%	23.1%	25.5%	25.7%	26.7%	29.9%	31.9%	29.7%	31.7%	30.9%
Net NPL/Shareholders equity	7.7%	9.1%	9.7%	10.8%	11.2%	12.2%	13.5%	14.0%	13.0%	13.7%	13.5%
Customer loans / Direct deposits	114.4%	113.4%	114.1%	118.9%	119.4%	122.3%	117.6%	109.8%	108.2%	115.5%	115.9%
NII/RWAs	2.6%	2.9%	2.7%	2.5%	2.7%	2.8%	2.8%	2.7%	2.8%	2.9%	2.9%
NonII/RWAs	2.9%	2.6%	3.0%	3.8%	3.0%	3.2%	3.2%	2.7%	3.0%	2.6%	3.1%
Revenues/RWAs	5.5%	5.5%	5.7%	6.3%	5.7%	6.0%	6.0%	5.5%	5.8%	5.5%	6.0%
LLPs/RWAs	0.6%	0.1%	0.2%	0.6%	0.2%	0.3%	0.3%	0.5%	0.5%	0.3%	0.4%
Volumes	Q1 10a	Q2 10a	Q3 10a	Q4 10a	Q1 11a	Q2 11a	Q3 11a	Q4 11a	Q1 12a	Q2 12a	Q3 12a
Customer loans	17,439	17,833	17,782	18,884	19,554	19,543	19,440	19,995	19,865	19,851	20,519
Securities portfolio - trading	8,808	9,051	8,912	8,436	8,582	8,606	8,455	8,376	8,733	7,534	7,135
Direct deposits	11,216	12,098	12,120	11,883	12,396	11,541	12,069	13,446	13,601	12,891	13,404
Debt represented by securities	4,034	3,627	3,462	3,995	3,980	4,434	4,466	4,765	4,756	4,288	4,301
Interbank position	-5,898	-5,891	-5,794	-6,780	-6,818	-7,330	-6,589	-5,627	-5,265	-5,333	-5,310
Gross NPL	371	400	425	459	480	496	513	527	549	567	588
Net NPL	142	164	179	196	208	226	232	232	240	245	258
Coverage	61.8%	59.0%	57.9%	57.4%	56.6%	54.4%	54.8%	56.0%	56.3%	56.7%	56.1%
Gross Watchlist	284	269	255	254	255	261	280	300	299	322	349
Net watchlist	252	239	226	223	225	233	252	268	267	289	310
Coverage	11.1%	11.3%	11.2%	12.0%	11.8%	10.6%	9.9%	10.7%	10.8%	10.1%	11.1%
Gross restructured loans	9	8	7	7	7	6	6	6	6	8	22
Net restructured loans	7	6	6	6	5	5	4	4	4	6	20
Coverage	17.8%	17.2%	18.9%	22.2%	24.2%	27.4%	29.0%	33.9%	29.0%	27.3%	10.1%
Gross past-due loans	113	100	97	103	86	78	82	98	158	142	144
Net past-due loans	110	96	94	99	82	75	79	95	150	135	136
Coverage	2.6%	3.2%	3.2%	3.3%	4.0%	3.9%	3.8%	3.8%	5.1%	5.1%	5.2%
Gross Doubtful loans	777	776	783	822	827	841	881	931	1,012	1,038	1,101
Net Doubtful loans	512	506	505	523	521	539	567	598	661	675	723
Coverage	34.2%	34.9%	35.6%	36.3%	37.1%	36.0%	35.6%	35.8%	34.7%	35.0%	34.3%
AUM (bn)	16.4	16.6	16.9	16.9	16.9	16.7	15.5	14.8	15.4	15.2	15.5
Rwa	16,829	16,862	16,545	16,721	16,419	16,770	16,752	16,768	16,557	16,472	16,338
Shareholders equity	1,838	1,797	1,842	1,803	1,866	1,859	1,719	1,651	1,850	1,786	1,903
TBV	1,480	1,439	1,484	1,437	1,542	1,496	1,356	1,283	1,483	1,418	1,538
TBVPS	4.45	4.33	4.46	4.32	4.64	4.50	4.08	3.86	4.46	4.26	4.63
Core Tier 1 capital	1,419	1,430	1,456	1,438	1,461	1,469	1,457	1,457	1,530	1,509	1,532
Core tier 1 %	8.4%	8.5%	8.8%	8.6%	8.9%	8.8%	8.7%	8.7%	9.2%	9.2%	9.4%
Tier 1 capital	1,419	1,430	1,456	1,438	1,461	1,469	1,457	1,457	1,530	1,509	1,532
Tier 1 %	8.4%	8.5%	8.8%	8.6%	8.9%	8.8%	8.7%	8.7%	9.2%	9.2%	9.4%

Source: Company data, Nomura research

Fig. 117: Credem model

EURm

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Net Interest Income	563	431	448	463	471	481	500
Net fees	299	339	383	373	364	374	386
Trading Income	(21)	109	60	42	45	50	50
Other Income	76	70	71	90	50	53	56
Total Operating Revenues	916	949	963	968	930	959	992
Staff Costs	(392)	(425)	(426)	(418)	(414)	(418)	(426)
Other Costs	(281)	(267)	(246)	(260)	(217)	(220)	(225)
Total Operating expenses	(673)	(691)	(672)	(678)	(631)	(638)	(651)
Gross Operating Income	244	257	291	290	299	321	341
Loan Loss Charge	(58)	(109)	(62)	(52)	(70)	(67)	(63)
Generic provisions and adjustments to financial assets	(4)	(0)	(57)	(15)	(15)	(5)	(5)
Capital gain and other one off	(0)	14	(3)	(7)	40	-	-
Pre-tax Profit	181	163	168	216	254	249	273
Tax	(25)	(74)	(90)	(119)	(122)	(119)	(131)
Minorities	-	(0)	-	(0)	-	-	-
PPA	-	-	-	-	-	-	-
Net Attributable Profit	156	89	78	96	132	129	142
Adjusted Profit	156	81	91	108	109	129	142
P&L Measures							
Revenue Growth, y-o-y %	n/a	3.5%	1.5%	0.6%	-3.9%	3.1%	3.5%
Cost Growth, y-o-y %	n/a	2.8%	-2.8%	0.8%	-6.8%	1.0%	2.0%
Operating Income Growth, y-o-y %	n/a	5.6%	12.9%	0.0%	2.8%	7.4%	6.4%
Net Interest Margin / RWA (%)	n/a	2.4%	2.6%	2.8%	2.8%	2.9%	2.9%
Cost / Income (inc-depn)	73%	73%	70%	70%	68%	67%	66%
Tax Rate (%)	14%	45%	54%	55%	48%	48%	48%
Balance Sheet (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Customer loans	17,621	17,536	18,883	19,995	19,995	20,595	21,419
Securities	8,267	6,170	7,605	8,376	7,544	6,695	5,829
Goodwill	291	286	287	287	287	287	287
Total Assets	30,136	26,439	29,998	31,097	30,157	29,934	29,920
Customer deposits	13,668	12,691	11,883	12,900	13,416	14,087	14,791
Bonds	6,808	5,000	3,995	4,000	4,080	4,162	4,245
Other non-equity liabilities	7,906	6,898	12,317	12,546	10,826	9,754	8,854
Stated Shareholders Equity Capital	1,753	1,850	1,803	1,651	1,835	1,931	2,029
Minorities	0	0	0	0	0	0	0
Total liabilities	30,136	26,439	29,998	31,097	30,157	29,934	29,920
Risk Weighted Assets	18,680	17,504	16,700	16,750	16,538	17,013	17,652
Customer Loans, % y-o-y	n/a	-0.5%	7.7%	5.9%	0.0%	3.0%	4.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	5.5%	-2.5%	-8.4%	11.1%	5.2%	5.0%
Risk Weighted Assets, % y-o-y change	n/a	-6.3%	-4.6%	0.3%	-1.3%	2.9%	3.8%
Asset Quality							
Gross Doubtful Loans / Gross Customer loans	2.5%	4.1%	4.4%	4.7%	5.9%	6.8%	7.4%
Doubtful Loans Coverage	39%	36%	36%	36%	36%	36%	37%
LLC/Net Loans (bp)	33	62	33	26	46	35	30
Per share data (EUR)	2008	2009	2010	2011	2012E	2013E	2014E
EPS (stated)	0.86	0.27	0.23	0.29	0.40	0.39	0.43
EPS (adjusted)	0.86	0.24	0.27	0.32	0.33	0.39	0.43
DPS	0.00	0.08	0.10	0.10	0.10	0.13	0.15
BV/ Share (stated)	5.3	5.6	5.4	5.0	5.5	5.8	6.1
BV/ Share (adjusted)	4.2	4.5	4.3	3.9	4.4	4.7	5.0
No Shares at Yr End (m)	332	332	332	332	332	332	332
Stock market / Profitability ratios	2008	2009	2010	2011	2012E	2013E	2014E
PE (stated)	3.9	12.4	14.1	11.4	8.3	8.5	7.7
PE (adjusted)	3.9	13.6	12.0	10.2	10.0	8.5	7.7
Div Yield	0.0%	2.4%	3.0%	3.0%	3.0%	4.1%	4.5%
P/BV (stated)	0.6	0.6	0.6	0.7	0.6	0.6	0.5
P/BV (adj)	0.8	0.7	0.8	0.9	0.7	0.7	0.7
RORWA	n/a	0.5%	0.5%	0.6%	0.8%	0.8%	0.8%
ROA	n/a	0.3%	0.3%	0.3%	0.4%	0.4%	0.5%
ROE (stated)	n/a	4.8%	4.3%	5.8%	7.2%	6.7%	7.0%
ROE (adjusted)	n/a	5.4%	6.3%	8.4%	7.4%	8.2%	8.5%
Capital Ratios	2008	2009	2010	2011	2012E	2013E	2014E
Tier 1 Ratio (%)	7.2%	8.1%	8.6%	8.7%	9.4%	9.6%	9.8%
Core Tier 1 Ratio (%)	7.2%	8.1%	8.6%	8.7%	9.4%	9.6%	9.8%
RWA/Assets (%)	62%	66%	56%	54%	55%	57%	59%

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

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Monte dei Paschi di Siena	BMPS IM	EUR 0.20	22-Nov-2012	Neutral	Neutral	A6,A13
Banco Popolare	BP IM	EUR 1.15	22-Nov-2012	Reduce	Neutral	A4,A5,A6,A13
Banca Popolare Emilia Romagna	BPE IM	EUR 4.34	22-Nov-2012	Reduce	Neutral	A6
Credem	CE IM	EUR 3.43	22-Nov-2012	Neutral	Neutral	
Intesa Sanpaolo	ISP IM	EUR 1.26	22-Nov-2012	Buy	Neutral	A13
Mediobanca	MB IM	EUR 4.25	22-Nov-2012	Neutral	Neutral	A4,A5
Banca Popolare di Milano	PMI IM	EUR 0.38	22-Nov-2012	Neutral	Neutral	A4,A5,A6,A7
UBI Banca	UBI IM	EUR 2.81	22-Nov-2012	Reduce	Neutral	A4,A5,A6,A13
Unicredit Group	UCG IM	EUR 3.54	22-Nov-2012	Neutral	Neutral	A4,A5,A6,A7,A11,A13

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Issuer name	Previous Rating	Date of change
Monte dei Paschi di Siena	Reduce	25-Feb-2011
Banco Popolare	Not Rated	27-Oct-2008
Banca Popolare Emilia Romagna	Neutral	03-Sep-2012
Credem	Buy	25-Feb-2011
Intesa Sanpaolo	Neutral	16-Mar-2012
Mediobanca	Buy	10-May-2012
Banca Popolare di Milano	Reduce	03-Sep-2012
UBI Banca	Neutral	29-Mar-2011
Unicredit Group	Buy	25-Nov-2011

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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