INTESA (HOLD) AND UNICREDIT (SELL): FAILING TO SHINE

The Q4 2009 results for the large cap Italian banks Intesa Sanpaolo and Unicredit reinforced our view that both banks will find it very difficult to increase their earnings in the near or medium-term. We see Intesa's results as providing the cleaner, and therefore more accurate, underlying picture of what is happening to the key earnings drivers: NII, NIM and trading profits have been deteriorating, and asset quality improving at a very slow pace. Unicredit's numbers, in comparison, were buoyed by one-off positives in NII and the absence of exceptional provisioning in Kazakhstan in Q3 2009, which offset the broad deterioration in asset quality in the CEE region. We believe the underlying picture for Unicredit is in fact very similar to that of Intesa. We are perplexed as to why some analysts have upgraded earnings estimates for Unicredit, particularly as we believe Q1 2010 results will be worse than Q4 2009.

The capital strength of both Intesa and Unicredit may make them more attractive versus some of their smaller domestic competitors, but compared to their large cap European peers, we find the Italian banks wanting in terms of growth prospects and normalisation of their asset quality. We see Intesa as modestly cheap against our target price of €3.10, and therefore maintain our HOLD rating. However, we view Unicredit as expensive on all valuation measures (including the 2010E P/TNAV of 1.0x, given that we estimate ROTNAV of only 4.3% and 8.9% in 2010 and 2011, respectively). We reiterate our target price for Unicredit of €2.00. We have greater conviction in our SELL rating in light of the 6% outperformance versus the banks sector since the publication of its Q4 2009 results.

- **Intesa's** Q4 2009 operating profit (before loan loss provisions) was 6% better than our estimate, although slightly lower than the consensus forecast. Total revenues were in line with our expectations, but within that, we observed weakness in NII (missing consensus slightly and down 4.5% QoQ) offset by strength in lower quality fees and commissions. As expected, operating costs were seasonally higher in the fourth quarter, but were in line with expectations.

  The weakness in NII was driven by contraction in the NIM to 2.36% from 2.42% in Q3 2009 (Matrix basis of calculation), which is consistent with the continued fall in the EURIBOR rate, but also by a 2% quarterly fall in interest-earning assets.

  Loan loss charges were 2% higher than the consensus estimate. There was some seasonality, which meant that the cost of credit in Q4 2009 was relatively high, but we nevertheless believe that, at best, there was only modest improvement. Loan loss reserves increased yet again (albeit at a slower quarterly pace), and the coverage ratio deteriorated to 40.6% from 42.5% in Q3 2009.

- **Unicredit's** Q4 2009 results were buoyed by one-off contributions to NII of some €160mn, as well as the absence of significant one-off provisioning that was booked for Kazakhstan in Q3 2009, which offset the increase in loan loss charges for a number of other CEE countries, particularly Turkey and Croatia.

  NII increased 2.3% in Q4 2009 from Q3 2009, with the NIM apparently increasing to 2.46% from 2.34% (Matrix basis of calculation) and interest-earning assets falling 3%. However, within the NII is some €160mn of positive one-offs, with about €100mn of that pertaining to one-offs within the Corporate Centre as a result of opportunistically taking advantage of cheap short-term funding. If one excludes €160mn from Q4 2009 NII, then there is a QoQ fall of 1.8%, and the adjusted NIM remains flat.

  Group loan losses were 2% better than we had expected and 4% lower than in Q3 2009. Within that, there were lower LLC in Core Retail banking (i.e. Italy, Germany and Austria), deterioration in CIB and flat LLC in the CEE division. Within CEE we are concerned by deterioration in a number of countries.

Research
Andrew Lim +44 20 3206 7347 andrew.lim@matrixgroup.co.uk

MATRIX

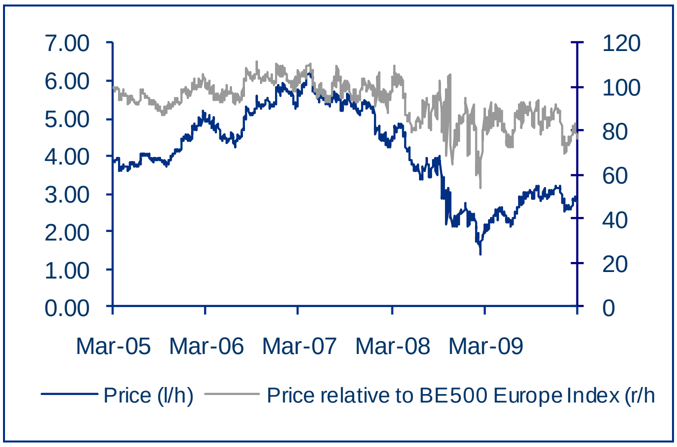
26 MARCH 2010

CORPORATE CAPITAL

INTESA SANPAOLO

Rating	HOLD
Target price (€)	**3.10**
Yesterday's closing price (€)	2.82
Upside / downside	10%
Market cap (€b)	35.3
Sector	Pan-European Banks

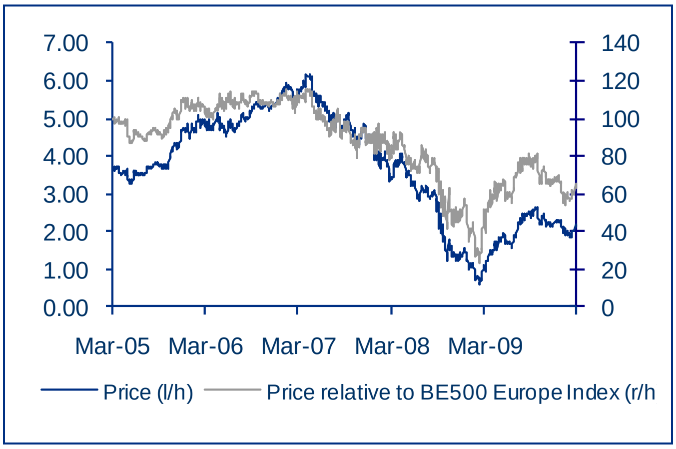
€/€mn	2009A	2010E	2011E
Net interest income	10,558	9,527	10,068
Net fees & commissions	5,455	5,987	6,287
Trading profits/losses	1,122	1,388	1,458
Other revenue	554	650	728
Total operating revenues	17,689	17,553	18,540
Operating costs	-9,528	-9,624	-9,940
Operating profit	8,161	7,929	8,600
Total provisions	-4,003	-3,708	-2,980
Pre-tax profit	4,468	4,271	5,695
ROA	0.44%	0.45%	0.52%
ROE	5.52%	5.28%	5.85%
ROTNAV	11.69%	10.30%	10.90%
Cost/Income	-53.86%	-54.83%	-53.62%
Net interest margin	2.43%	2.28%	2.35%
LLC % gross loans	-0.85%	-0.81%	-0.62%
NPL ratio	8.25%	9.50%	8.00%
NPL coverage ratio	40.58%	38.00%	46.00%
Loans % deposits	94%	94%	94%
Core tier 1 ratio (Basel II)	7.13%	7.92%	8.29%
Est. Core tier 1 ratio (Basel III)	5.94%	6.73%	7.10%
EPS	0.22	0.22	0.26
DPS	0.08	0.08	0.11
Payout ratio	33.80%	35.00%	40.00%
P/E	12.84	12.66	10.89
P/TNAV	1.28	1.15	1.06
Div Yield	2.84%	2.98%	3.96%



UNICREDIT

Rating	SELL
Target price (€)	**2.00**
Yesterday's closing price (€)	2.18
Upside / downside	-8%
Market cap (€b)	42.7
Sector	Pan-European Banks

€/€mn	2009A	2010E	2011E
Net interest income	17,304	15,538	16,051
Net fees & commissions	7,780	8,509	8,908
Trading profits/losses	1,803	870	913
Other revenue	685	481	474
Total operating revenues	27,572	25,399	26,345
Operating costs	-15,293	-14,825	-14,848
Operating profit	12,279	10,573	11,497
Total provisions	-8,922	-7,230	-4,725
Pre-tax profit	3,331	3,104	6,607
ROA	0.18%	0.17%	0.39%
ROE	3.02%	2.57%	5.56%
ROTNAV	5.55%	4.34%	8.92%
Cost/Income	-55.47%	-58.37%	-56.36%
Net interest margin	2.59%	2.41%	2.43%
LLC % gross loans	-1.41%	-1.22%	-0.76%
NPL ratio	10.20%	10.00%	7.50%
NPL coverage ratio	46.13%	43.00%	51.00%
Loans % deposits	95%	95%	95%
Core tier 1 ratio (Basel II)	8.47%	9.22%	9.70%
Est. Core tier 1 ratio (Basel III)	6.49%	7.24%	7.72%
EPS	0.10	0.08	0.19
DPS	0.03	0.03	0.08
Payout ratio	33.36%	35.00%	40.00%
P/E	21.14	26.28	11.36
P/TNAV	1.24	1.05	0.97
Div Yield	1.38%	1.33%	3.53%



FURTHER DETAIL

NII and NIM – Negative Pressures Remain

We believe the underlying trend in NII is modestly negative in the near term. There are two drivers for this. Firstly, the EURIBOR base rate continues to fall, albeit gradually. Secondly, demand for loans has been falling, consistent with the weak economic recovery in Italy.

Being largely deposit-funded means that deposit margins for Intesa and Unicredit have been squeezed with the decline in the EURIBOR rate

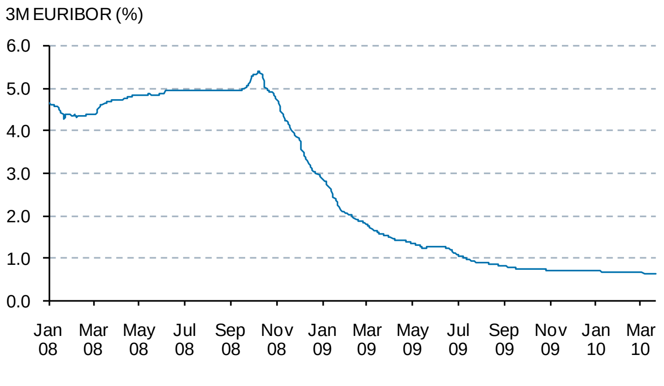
The fact that both Intesa and Unicredit are well funded with cheap customer deposits (with loan-to-deposit ratios of 94% and 95%, respectively), means that the fall in the EURIBOR rate has the effect of squeezing deposit margins. We believe that Unicredit has been more proactive than Intesa in hedging its NII against falls in the base rate, resulting in greater volatility in this line on a quarterly basis (see Figure 2 below). However, this would only serve to delay the inevitable fall in NII as those hedges mature, as indeed has been the case with Unicredit.

It is notable that the EURIBOR rate has continued to fall in Q1 2010, albeit by a modest amount compared to where the rate was before the credit crisis started. The important points to note here though, in our view, are that:

- The momentum is still negative and will put further pressure on the NIM for Intesa and Unicredit (notwithstanding any hedging programmes in place).
- The expectation by some market participants (and indeed by Unicredit's management) that the halting of extraordinary liquidity measures by the ECB would lead to increases in the EURIBOR rate has not materialised.

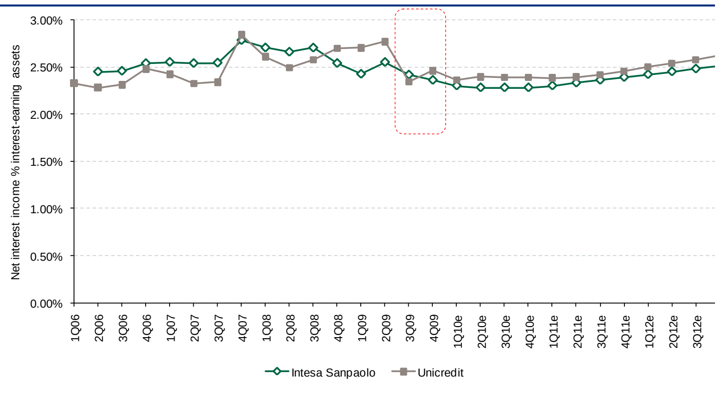
We are sceptical that the ECB will start raising interest rates in 2010 given the fragile nature of the economic recovery and the threat of inflation being minor. Extraordinary liquidity measures undertaken by the ECB (such as covered bond purchasing and the provision of term liquidity programmes) will eventually come to an end, but we do not expect this to have an impact on the EURIBOR rate until after year-end 2010 at the earliest.

Figure 1: 3 Month EURIBOR Rate Continues To Fall



Source: Matrix Research

Figure 2: Net Interest Margin For Intesa And Unicredit



Source: Matrix Research

The NII and NIM of Unicredit demands closer attention, in our view. Management disclosed to us that there was some €160mn of positive one-offs within Q4 2009 NII, of which some €100mn was within the Corporate Centre, where the bank opportunistically took advantage of cheap short-term funding (see Figure 3). The various dynamics affecting NII and NIM are difficult to analyse (by management's own admission), but we are of the opinion that these positive one-offs should not be expected again going forward. If the NII in Q4 2009 is adjusted for the €160mn of one-offs, then the quarterly change in NII is -1.8% rather than +2.3% and the adjusted NIM is flat QoQ. We have factored in a decrease in the NII and NIM for Q1 2010 to reflect the absence of positive one-offs.

Figure 3: Large Positive One-Offs In NII Within The Corporate Centre at Unicredit

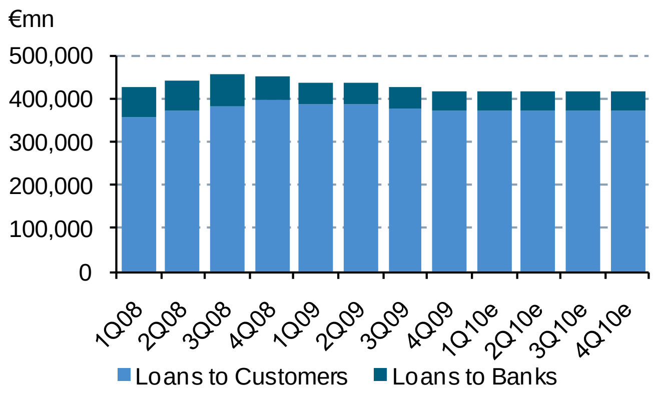
€mn	Q1 2009A	Q2 2009A	Q3 2009A	Q4 2009A	Q1 2010E
Retail banking - Italy	1,311	1,267	980	919	907
Retail banking - Germany	257	244	234	227	213
Retail banking - Austria	187	176	183	166	172
CIB	2,175	2,018	1,771	1,627	1,560
Private Banking	88	71	58	59	61
Asset management	4	2	1	1	5
Poland	202	213	231	233	239
CEE	751	735	738	763	768
Corporate Centre	-317	2	-240	22	-125
TOTAL	4,657	4,727	3,956	4,017	3,800

Source: Matrix Research

Loan books for Intesa and Unicredit continue to contract due to decreasing customer demand

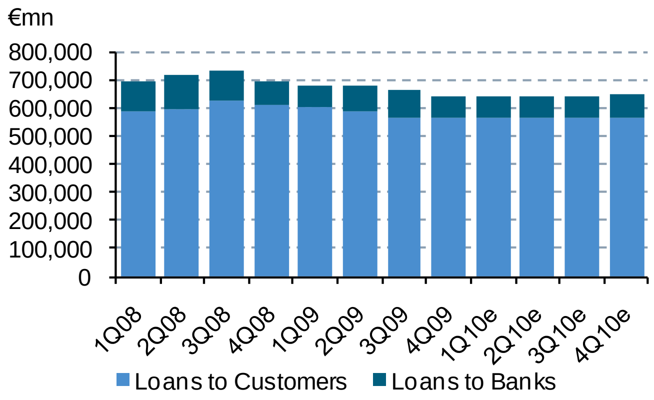
The continued contraction in the loan books of both Intesa and Unicredit is another important driver of the decrease in NII. Anecdotally, this has been driven by a decrease in customer demand rather than the banks themselves withdrawing credit, which is consistent with our view (shared by consensus) that Italy should have the weakest GDP growth in developed Europe in 2010, after Spain. We believe that modest contraction in group loans for Intesa and Unicredit is likely for the next few quarters, with a return to positive growth likely towards the end of 2010 at the earliest, and even then only at a low rate.

Figure 4: Total Gross Loans At Intesa



Source: Matrix Research, Company data

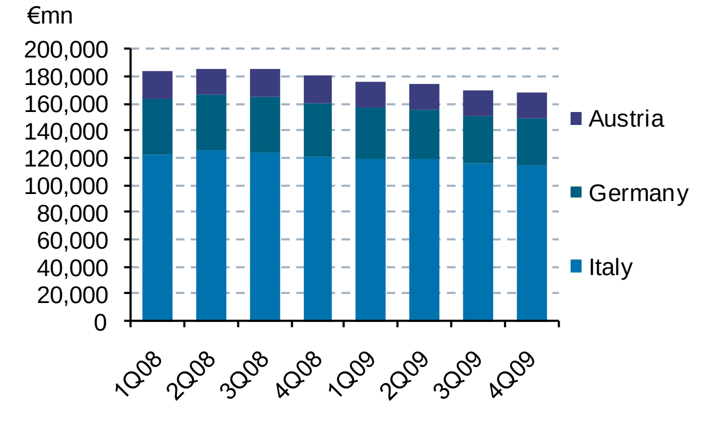
Figure 5: Total Gross Loans At Unicredit



Source: Matrix Research, Company data

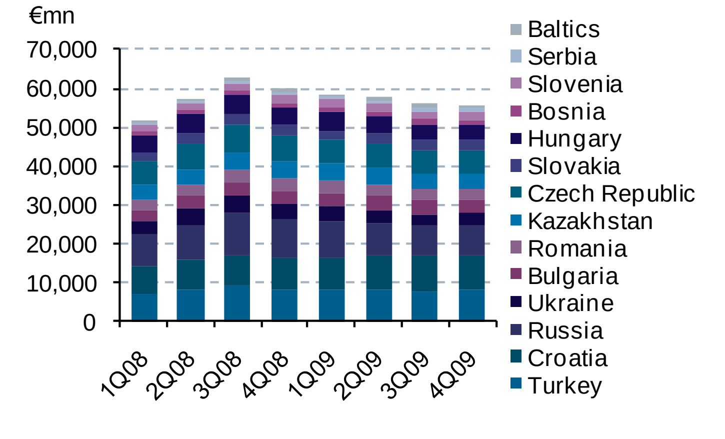
The impact of loan growth at the group level from non-domestic subsidiary operations (comprising mainly CEE exposures) is mitigated by the fact that they account for only 8% of total loans at Intesa and 15% of total loans at Unicredit. In any case, even in the perceived faster growth countries within Unicredit's CEE division, there continues to be contraction in the size of the loan books.

Figure 6: Gross Loans For Core Retail Banking Division At Unicredit



Source: Matrix Research, Company data

Figure 7: Gross Loans For CEE Division At Unicredit



Source: Matrix Research, Company data

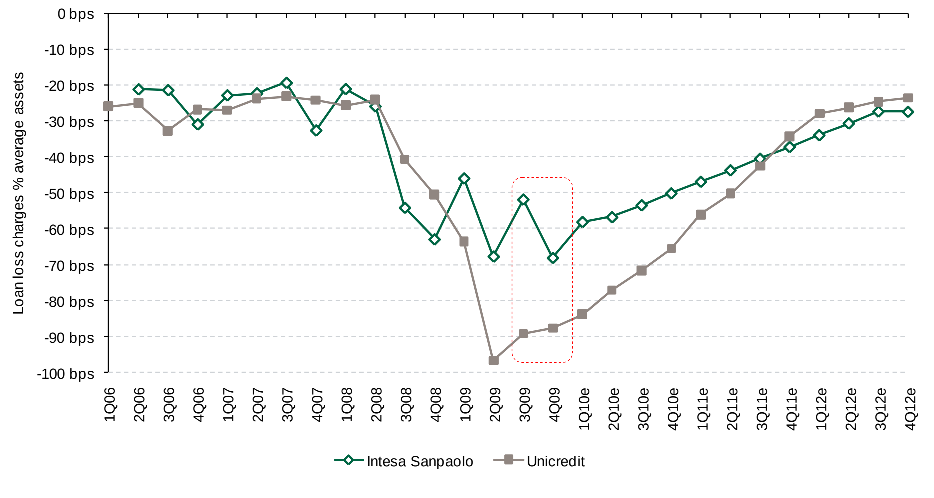
Loan Loss Provisions Are Barely Improving

A slower U-shaped recovery in loan losses is expected for Intesa and Unicredit, based mainly on the expectation of challenging credit conditions in Italy in the near term

Loan losses are recovering at a very slow pace on a quarterly basis for both Intesa and Unicredit, by our analysis. In our opinion, they are unlikely to experience the rapid improvements seen at banks with a Nordic or Asian footprint. We believe that both banks are more likely to experience a U-shaped recovery, with reversion to a normalised level of loan losses not expected until early 2012. This is in keeping with the slower rate of economic recovery expected for Italy compared to other developed European countries.

The rate of recovery at Unicredit should, we believe, be higher than at Intesa, but mainly because it is starting from a position of much worse overall credit quality due to large loan losses in its CEE division (in particular Kazakhstan). It should be noted, however, that having taking into account the normalisation of Unicredit's loan losses, we still see the bank as having expensive P/E ratios in 2010 (26x) and 2011 (11x). Only in 2012, with a P/E ratio of 7.5x, do we see Unicredit as being in line with the peer group average.

Figure 8: Loan Loss Charges % Total Assets For Intesa And Unicredit



Source: Matrix Research

Commentary On Q4 2009 And Q1 2010 Loan Losses

In Q4 2009, Intesa reported seasonally higher loan losses, as guided by management, but still some 2% greater than the consensus forecast. We nevertheless believe that Intesa's Q1 2010 results will show an improvement in loan losses in the absence of the fourth quarter seasonal impact.

Unicredit's loan loss charges in Q4 2009 are particularly interesting, in our view. LLC improved QoQ in the Core Retail banking division (comprising Italy, Germany and Austria), offset by deterioration in CIB, with LLC in the CEE division roughly unchanged. Having attended Unicredit's recent presentation on the CIB division, we have greater clarity that the increase in CIB LLC was mainly due to high default rates in Italian SME and export-related businesses. We have factored in roughly unchanged LLC for the division in Q1 2010, on the basis of the credit environment in Italy remaining challenging.

Figure 9: Loan Loss Charges By Division At Unicredit

€mn	Q1 2009A	Q2 2009A	Q3 2009A	Q4 2009A	Q1 2010E
Retail banking - Italy	-391	-435	-316	-253	-198
Retail banking - Germany	-36	-6	-13	-8	-6
Retail banking - Austria	-55	-72	-63	-53	-53
CIB	-786	-1,360	-1,142	-1,177	-1,114
Private Banking	-4	-1	0	-5	-1
Asset management	0	0	0	0	0
Poland	-20	-34	-36	-33	-34
CEE	-332	-380	-509	-496	-492
Corporate Centre	-26	-140	-84	-44	-50
TOTAL	**-1,651**	**-2,428**	**-2,163**	**-2,068**	**-1,949**

Source: Matrix Research, Company data

More detailed analysis of LLC by geography within the CEE division (see Figure 10 below) shows that the absence of one-off provisioning for Kazakhstan that occurred in Q3 2009, was offset by broad deterioration in most of the other territories, in particular Turkey and Croatia (which incidentally are the two largest operations within the division). In our opinion, the likelihood of further, albeit more modest, increases in LLC for these geographies in Q1 2010 means that LLC for the CEE region as a whole are unlikely to improve much in the near term. We have therefore modelled a flat development of LLC for the CEE division in Q1 2010 (as per Figure 9).

Figure 10: Loan Loss Charges For CEE Division At Unicredit

(€mn)	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Turkey	30	-32	-27	-62	-52	-89	-60	-98
Croatia	-3	-4	6	2	-8	-23	-4	-43
Russia	-14	-24	-23	-16	-51	-70	-37	-49
Ukraine	-15	-8	-18	-49	-57	-64	-56	-51
Bulgaria	-3	-7	-8	-7	-14	-4	-24	-22
Romania	-7	-8	-10	-14	-9	-14	-17	-21
Kazakhstan	-34	-28	-24	-39	-53	-57	-249	-140
Czech Republic	-9	-6	-8	-6	-29	-14	-13	-27
Slovakia	-2	-1	-1	-1	-2	-2	-2	-5
Hungary	-5	-6	-5	-11	-17	-22	-25	-23
Bosnia	-3	-2	0	-4	-3	-5	-1	-5
Slovenia	-1	-2	-2	-2	-4	-6	-3	-3
Serbia	-1	-1	-2	-2	-2	-2	-2	-2
Baltics	-1	-1	-1	-9	-2	-1	-3	-1
TOTAL CEE	**-68**	**-129**	**-122**	**-219**	**-302**	**-374**	**-495**	**-490**

Source: Matrix Research, Company data

Figure 11: Annualised Cost Of Credit For CEE Division At Unicredit

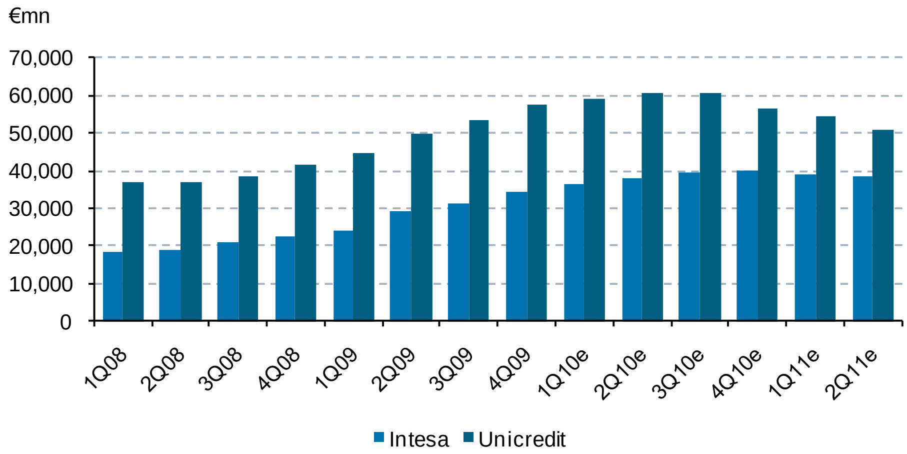
(€mn)	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Turkey	-1.68%	-1.27%	-2.88%	-2.59%	-4.50%	-3.07%	-4.97%
Croatia	-0.20%	0.29%	0.10%	-0.37%	-1.05%	-0.18%	-1.92%
Russia	-1.12%	-0.94%	-0.64%	-2.20%	-3.25%	-1.84%	-2.53%
Ukraine	-0.87%	-1.70%	-4.63%	-5.88%	-7.02%	-6.69%	-6.55%
Bulgaria	-0.96%	-0.88%	-0.81%	-1.55%	-0.40%	-2.50%	-2.36%
Romania	-1.29%	-1.34%	-1.82%	-1.22%	-2.03%	-2.48%	-3.05%
Kazakhstan	-2.66%	-2.11%	-3.28%	-4.54%	-5.27%	-25.17%	-15.15%
Czech Republic	-0.38%	-0.49%	-0.36%	-1.85%	-0.91%	-0.80%	-1.66%
Slovakia	-0.22%	-0.13%	-0.17%	-0.32%	-0.36%	-0.33%	-0.80%
Hungary	-0.51%	-0.41%	-0.93%	-1.47%	-1.95%	-2.30%	-2.26%
Bosnia	-0.53%	-0.09%	-1.13%	-0.77%	-1.53%	-0.36%	-1.56%
Slovenia	-0.38%	-0.32%	-0.40%	-0.76%	-1.15%	-0.59%	-0.60%
Serbia	-1.28%	-1.68%	-1.39%	-1.56%	-1.32%	-1.26%	-0.97%
Baltics	-0.32%	-0.42%	-4.01%	-0.83%	-0.37%	-1.35%	-0.64%

Source: Matrix Research, Company data

Impaired Loans Still Increasing, Coverage Ratios Still Deteriorating

Impaired loans at both Intesa and Unicredit are increasing, albeit at a slower rate. We expect the absolute level of impaired loans to reach a peak towards the end of 2010.

Figure 12: Impaired Loans Still Increasing At Intesa and Unicredit

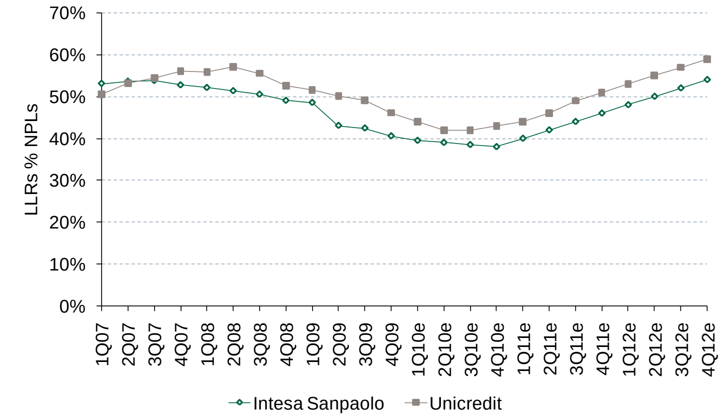


Source: Matrix Research, Company data

More importantly, in our opinion, these two Italian banks have run down their coverage ratios as asset quality has deteriorated, which obviously helps to support their earnings. We believe coverage ratios at both Intesa and Unicredit will continue to fall for the next few quarters, in keeping with their less attractive Italian geographic footprint. This is important as, in our view, it reflects poorer quality earnings power compared to banks that are already simultaneously building up coverage ratios and reporting robust earnings. The better quality competitors in this regard (within the peer group of large cap lending banks) include the Nordic banks DNBNOR, Handelsbanken and Nordea, as well as Standard Chartered. We compare the coverage ratios of the Nordic banks and the Italian banks below.

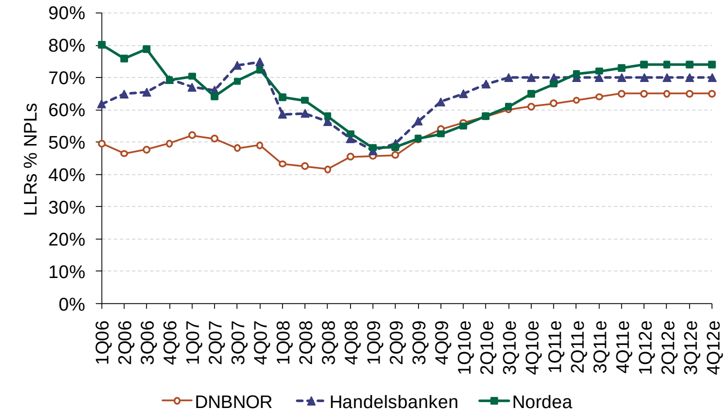
For Intesa and Unicredit, we have used all categories of impaired loans within the denominator of the coverage ratio calculation i.e. including doubtful (or *Sofferenze)* loans, and substandard (or *Incagli*) loans, and not just the worst quality non-performing loans. We believe this provides a more accurate picture of provisioning history over time. (Looking at the coverage ratio just for Unicredit's non-performing loans, for example, would give the misleading impression that management has maintained consistent levels of provisioning through the credit crisis).

Figure 13: Coverage Ratios For Intesa And Unicredit Are Still Deteriorating. We Expect This To Continue To Year-end 2010



Source: Matrix Research

Figure 14: Coverage Ratios For The Nordic Banks Have Been Improving For The Past Few Quarters



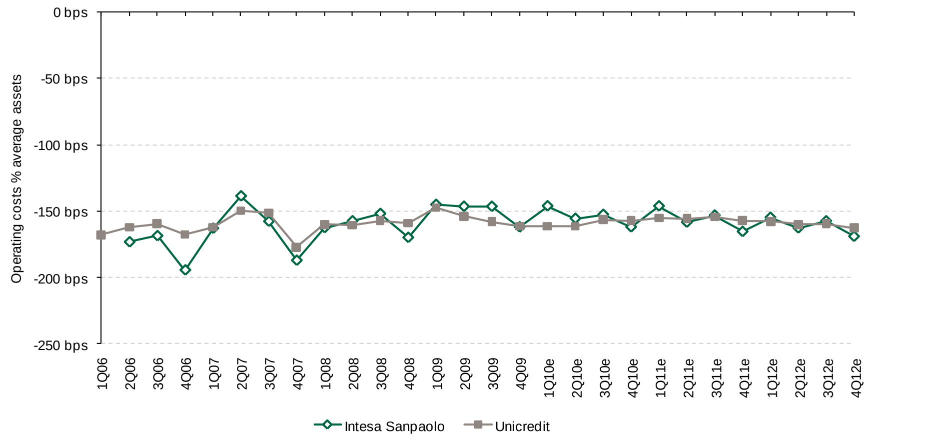
Source: Matrix Research

Cost Management Is Impressive

Reduction in absolute costs is impressive, but merely matching the contraction in the balance sheet

For us, the main genuine positive surprise for both Intesa and Unicredit in Q4 2009 was lower than expected operating costs. Unicredit in particular was able to report flat costs QoQ rather than suffering the usual fourth quarter seasonality (there was still some element of this at Intesa). We believe that Unicredit and, to a lesser extent Intesa, can continue to reduce costs in absolute terms over the next few quarters as they derive further cost efficiencies from their acquisitions of HVB/Capitalia and Sanpaolo IMI, respectively. However, we do not anticipate improvements in their cost/income ratios over the course of 2010, given our expectation of declining revenues as their loan books contract over the year. In our opinion, the reduction in the cost bases should merely match the contraction in the balance sheet, as has been shown to be the case since the beginning of 2008 (and longer than that in Unicredit's case). We show the stability in the ratio of operating costs to average total assets below. Cost/income ratios should only start to improve, in our view, once the Italian banks can yield greater revenues from their balance sheets, which should mainly be when NII improves as the EURIBOR rate increases.

Figure 15: Operating Costs As Percentage Of Average Total Assets For Intesa And Unicredit



Source: Matrix Research

Capital Ratios

Intesa

The Core Tier 1 ratio for Intesa at year-end 2009 was 7.1% (net of the dividend of €1,033bn that was declared for 2009). This is actually the lowest in the peer group of large cap pan-European lending banks. However, this excludes improvements from recently undertaken capital management actions, such as:

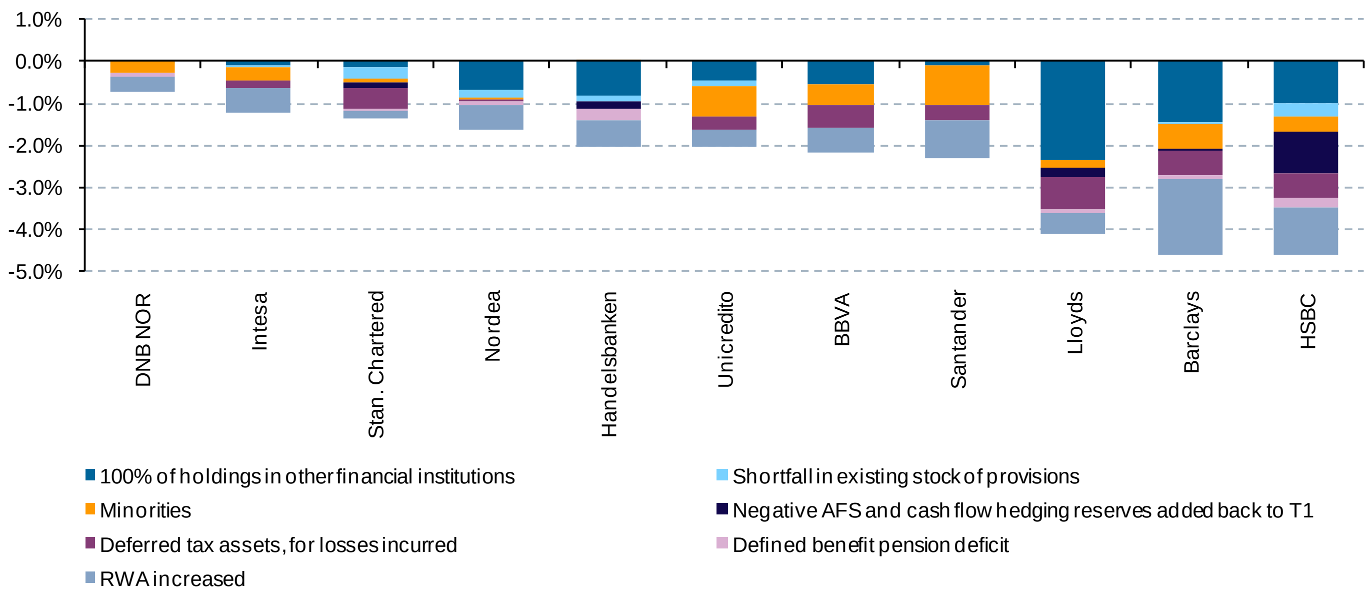
- The 37bps uplift expected in Q2 2010 from the sale of the custody business to State Street.
- The benefit expected from the gain on sale of 150-200 branches to Credit Agricole, which we estimate as +13bps.
- And the full execution of the Advanced IRB model for expected loan losses, which should yield a benefit of ~25bps, according to management.

Importantly, the conservativeness of the Italian banking regulator with regards to the calculation of capital adequacy under Basel II means that the transition to Basel III for the Italian banks is relatively favourable. We anticipate that Intesa's Core Tier 1 ratio will fall substantially less as a result of implementation of Basel III, as shown below. Taking organic capital generation into consideration as well, we estimate that the bank's Core Tier 1 ratio at year-end 2012 will be about 7.6%. This is below the peer group average of 8.3% but sufficiently above an expected regulatory minimum of 6.0%.

Unicredit

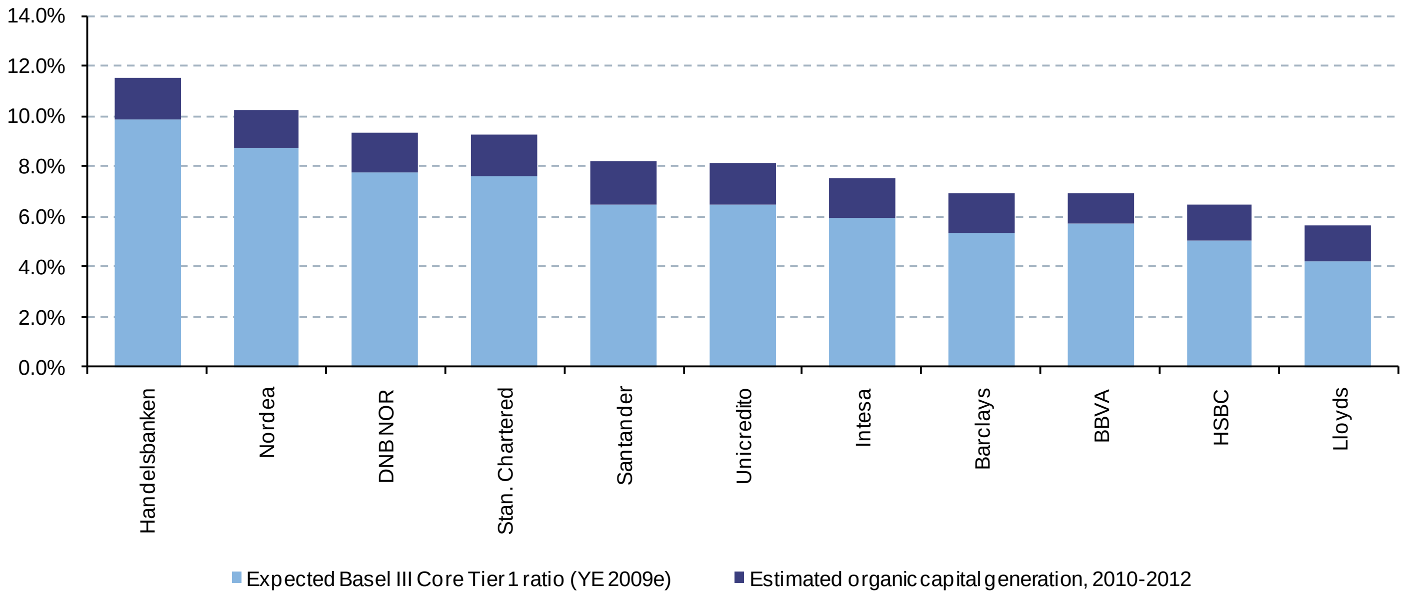
Including the €4bn rights issue undertaken in September 2009, Unicredit's Core Tier ratio at year-end 2009 was 8.5%, slightly above the peer group average. Unicredit's Core Tier 1 ratio suffers more than Intesa's when transitioning to Basel III, in our view, due to its larger minority interests in its CEE operations. However, we nevertheless regard it as adequately capitalised under the new proposed regime, with an estimated Core Tier 1 ratio at year-end 2012 of 8.1%.

Figure 16: Expected Impact On Core Tier 1 Ratios Arising From Transition To Proposed Basel III Regulations



Source: Matrix Research

Figure 17: Banks Ranked By Expected Basel III Core Tier 1 Ratio



Source: Matrix Research

Figure 18: Intesa Sanpaolo Earnings Table

INTESA SANPAOLO	FY2008A	4Q09E	4Q09A	FY2009E	FY2009A	FY2010E	FY2011E	FY2012E
INCOME STATEMENT (€mn)								
Net interest income	11,630	2,547	2,487	10,618	10,558	9,527	10,068	11,082
Net fees & commissions	5,872	1,299	1,497	5,257	5,455	5,987	6,287	6,601
Trading profits/losses	-53	266	129	1,259	1,122	1,388	1,458	1,531
Other revenue	708	190	160	584	554	650	728	806
Total operating revenues	18,157	4,301	4,273	17,717	17,689	17,553	18,540	20,019
Operating costs	-9,936	-2,670	-2,546	-9,652	-9,528	-9,624	-9,940	-10,615
Operating profit	8,221	1,631	1,727	8,065	8,161	7,929	8,600	9,405
Total provisions	-2,884	-1,074	-1,168	-3,909	-4,003	-3,708	-2,980	-2,264
Investment income	266	310	517	338	545	150	150	150
Impairments on other assets	-949	-100	-160	-175	-235	-100	-75	-50
Goodwill impairment	-1,065	0	0	0	0	0	0	0
Pre-tax profit	3,589	767	916	4,319	4,468	4,271	5,695	7,240
Taxes	-180	-245	-169	-1,079	-1,003	-1,367	-1,822	-2,317
Minorities	-147	-16	-57	-92	-133	-87	-116	-148
Other non-operating items	-709	-130	-147	-510	-527	28	-450	-450
Net profit	2,553	376	543	2,638	2,805	2,845	3,306	4,326
ASSETS (€mn)	**FY2008A**	**4Q09E**	**4Q09A**	**FY2009E**	**FY2009**	**FY2010E**	**FY2011E**	**FY2012E**
Loans to customers	395,189	364,597	374,033	364,597	374,033	374,024	389,211	405,014
Interbank loans	56,371	55,000	43,242	55,000	43,242	45,404	49,945	54,939
Total securities	115,462	140,809	132,246	140,809	132,246	134,316	137,982	141,831
Intangible assets	27,151	26,540	26,500	26,540	26,500	25,960	26,500	26,500
Total assets	636,133	625,184	624,844	625,184	624,844	627,155	648,108	669,677
Net interest-earning assets	451,560	539,406	417,275	539,406	417,275	419,428	439,155	459,953
LIABILITIES (€mn)	**FY2008A**	**4Q09E**	**4Q09A**	**FY2009E**	**FY2009A**	**FY2010E**	**FY2011E**	**FY2012E**
Interbank borrowings	51,745	42,952	43,369	42,952	43,369	43,368	45,129	46,961
Customer deposits	405,778	387,411	396,057	387,411	396,057	396,047	412,128	428,862
Total shareholders' equity	48,954	52,966	52,681	52,966	52,681	55,003	58,114	61,117
Tangible net asset value	21,803	26,426	26,181	26,426	26,181	29,043	31,614	34,617
IMPORTANT FINANCIAL RATIOS	**FY2008A**	**4Q09E**	**4Q09A**	**FY2009E**	**FY2009A**	**FY2010E**	**FY2011E**	**FY2012E**
ROA	0.42%	0.24%	0.35%	0.42%	0.44%	0.45%	0.52%	0.66%
ROE	5.08%	2.87%	4.15%	5.18%	5.52%	5.28%	5.85%	7.26%
ROTNAV	10.73%	5.80%	8.42%	10.94%	11.69%	10.30%	10.90%	13.06%
Cost/income	-54.72%	-62.07%	-59.58%	-54.48%	-53.86%	-54.83%	-53.62%	-53.02%
Tax rate	-5.02%	-32.00%	-18.45%	-24.99%	-22.45%	-32.00%	-32.00%	-32.00%
Payout ratio	0.00%	0.00%	0.00%	0.00%	33.80%	35.00%	40.00%	40.00%
Net interest margin	2.74%	2.11%	2.36%	2.18%	2.43%	2.28%	2.35%	2.47%
LLC % gross loans	-0.60%	-1.05%	-1.01%	-0.94%	-0.85%	-0.81%	-0.62%	-0.44%
Non-performing loans % gross loans	5.01%	5.00%	8.25%	5.00%	8.25%	9.50%	8.00%	3.00%
NPL coverage ratio	49.04%	41.00%	40.58%	41.00%	40.58%	38.00%	46.00%	54.00%
Loans % deposits	97.39%	94.11%	94.44%	94.11%	94.44%	94.44%	94.44%	94.44%
Tier 1 ratio	7.07%	8.35%	8.37%	8.35%	8.37%	9.16%	9.49%	9.88%
Core tier 1 ratio (Basel II)	6.28%	7.53%	7.13%	7.53%	7.13%	7.92%	8.29%	8.74%
Est. Core tier 1 ratio (Basel III)	5.10%	#N/A	5.94%	6.30%	5.94%	6.73%	7.10%	7.55%
RWA % total assets	60.22%	58.47%	57.88%	58.47%	57.88%	57.66%	58.06%	58.48%

Source: Matrix Research

Figure 19: Unicredit Earnings Table

UNICREDIT SPA	FY2008A	4Q09E	4Q09A	FY2009E	FY2009A	FY2010E	FY2011E	FY2012E
INCOME STATEMENT (€mn)								
Net interest income	18,373	3,819	4,017	17,106	17,304	15,538	16,051	17,715
Net fees & commissions	9,093	1,881	2,114	7,546	7,780	8,509	8,908	9,328
Trading profits/losses	-1,968	496	152	2,147	1,803	870	913	957
Other revenue	1,379	165	160	690	685	481	474	478
Total operating revenues	26,877	6,360	6,443	27,489	27,572	25,399	26,345	28,478
Operating costs	-16,692	-3,881	-3,803	-15,402	-15,293	-14,825	-14,848	-15,868
Operating profit	10,185	2,479	2,640	12,087	12,279	10,573	11,497	12,611
Total provisions	-4,043	-2,263	-2,300	-8,885	-8,922	-7,230	-4,725	-2,879
Investment income	207	50	217	65	232	-40	35	35
Goodwill impairment	-750	0	0	0	0	0	0	0
Other income	-140	-10	63	-331	-258	-200	-200	-200
Pre-tax profit	5,458	256	620	2,936	3,331	3,104	6,607	9,567
Taxes	-627	-82	-124	-968	-1,010	-999	-2,115	-3,061
Minorities	-518	-17	-63	-287	-332	-255	-539	-781
Other non-operating items	-301	-65	-62	-259	-256	-250	-250	-250
Net profit	4,012	92	371	1,423	1,733	1,600	3,703	5,475
ASSETS (€mn)	**FY2008A**	**4Q09E**	**4Q09A**	**FY2009E**	**FY2009A**	**FY2010E**	**FY2011E**	**FY2012E**
Loans to customers	612,480	553,836	564,986	553,836	564,986	567,811	590,866	614,858
Interbank loans	80,827	100,000	78,269	100,000	78,269	78,269	82,182	86,292
Total securities	270,112	213,429	198,167	213,429	198,167	205,589	212,618	219,999
Intangible assets	5,593	5,100	5,332	5,100	5,332	5,132	4,932	4,732
Total assets	1,045,612	948,866	928,760	948,866	928,760	936,231	972,942	1,011,243
Net interest-earning assets	693,307	653,836	643,255	653,836	643,255	646,080	673,049	701,149
LIABILITIES (€mn)	**FY2008A**	**4Q09E**	**4Q09A**	**FY2009E**	**FY2009A**	**FY2010E**	**FY2011E**	**FY2012E**
Interbank borrowings	177,677	117,906	106,800	117,906	106,800	108,798	116,612	126,225
Customer deposits	591,290	584,654	596,396	584,654	596,396	599,378	623,715	649,040
Total shareholders' equity	54,999	63,874	59,689	63,874	59,689	64,995	68,138	72,132
Tangible net asset value	28,517	38,774	33,866	38,774	33,866	39,863	43,206	47,400
IMPORTANT FINANCIAL RATIOS	**FY2008A**	**4Q09E**	**4Q09A**	**FY2009E**	**FY2009A**	**FY2010E**	**FY2011E**	**FY2012E**
ROA	0.39%	0.04%	0.16%	0.14%	0.18%	0.17%	0.39%	0.55%
ROE	7.12%	0.59%	2.49%	2.37%	3.02%	2.57%	5.56%	7.81%
ROTNAV	13.07%	1.00%	4.40%	4.17%	5.55%	4.34%	8.92%	12.09%
Cost/income	-62.11%	-61.02%	-59.03%	-56.03%	-55.47%	-58.37%	-56.36%	-55.72%
Tax rate	-11.50%	-32.00%	-20.00%	-32.95%	-30.31%	-32.18%	-32.00%	-32.00%
Payout ratio	0.00%	0.00%	155.81%	0.00%	33.36%	35.00%	40.00%	40.00%
Net interest margin	2.69%	1.74%	2.46%	1.85%	2.59%	2.41%	2.43%	2.58%
LLC % gross loans	-0.62%	-1.45%	-1.46%	-1.37%	-1.41%	-1.22%	-0.76%	-0.42%
Non-performing loans % gross loans	6.82%	5.75%	10.20%	5.70%	10.20%	10.00%	7.50%	4.50%
NPL coverage ratio	52.54%	62.00%	46.13%	61.30%	46.13%	43.00%	51.00%	59.00%
Loans % deposits	103.58%	94.73%	94.73%	94.73%	94.73%	94.73%	94.73%	94.73%
Tier 1 ratio	6.80%	9.64%	9.49%	9.64%	9.49%	10.28%	10.59%	10.92%
Core tier 1 ratio (Basel II)	6.00%	8.78%	8.47%	8.78%	8.47%	9.22%	9.70%	10.07%
Est. Core tier 1 ratio (Basel III)	4.02%	7.11%	6.49%	7.11%	6.49%	7.24%	7.72%	8.09%
RWA % total assets	49.02%	47.92%	48.70%	47.92%	48.70%	46.64%	46.24%	46.99%

Source: Matrix Research

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Matrix Corporate Capital LLP
One Vine Street
London, W1J 0AH
+44 (0) 20 3206 7000