

**MASTERS IN
FINANCE**

**MASTERS FINAL WORK
PROJECT**

**EQUITY RESEARCH:
BANCO BPM**

GONALO FILIPE DE SOUSA DOS SANTOS FERREIRA

OCTOBER 2023

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**SUPERVISOR:
FLORENCE CARP PINTO BASTO**

OCTOBER 2023

Abstract

This research report offers a comprehensive analysis of Banco BPM S.p.A. ("Banco BPM" or the "bank"), a prominent banking institution in Italy. The study encompasses various dimensions of the bank's financial performance, market positioning, and strategic initiatives, aimed at evaluating its investment potential.

The report recommends a BUY rating for Banco BPM, setting a 2024 year-end price target of €5.79 per share, employing a Discounted Cash Flow (DCF) model. This projection indicates a potential upside of 29% (IRR 18.4%) within an 18-month horizon, relative to the closing share price of €4.49 as of July 31st, 2023. It is important to note that this recommendation comes with a medium-risk factor.

The rationale behind this recommendation primarily rests on three factors: i) anticipated synergies resulting from a recent merger; ii) ongoing acquisitions across various business segments; and iii) a strong credit quality track record. Nonetheless, the stock of Banco BPM is currently trading at a discount, primarily due to uncertainties surrounding global economic growth, driven by a significant rise in inflation and interest rates, as well as concerns within the banking system following the insolvency of major global credit institutions, as well as political uncertainty.

The valuation process involved the utilization of the Free Cash Flow to Equity model, complemented by other absolute methods, including the Residual Income, Dividend Discount Model, and Multiples Valuation.

It's crucial to acknowledge that the valuation of the bank is subject to substantial risks. Apart from its high sensitivity to regulatory changes, fluctuations in interest rates pose a significant threat to the bank's operations. Nevertheless, Banco BPM is actively bolstering its resilience through strategic investments in mergers and acquisitions, both within its core banking operations and in related sectors, thus diversifying its risk profile and enhancing profitability through vertical integration.

This research report follows the research report guidelines outlined by the CFA Institute.

JEL classification: G10; G21; G32; G34.

Keywords: Equity Research; Valuation; Mergers & Acquisitions; Banco BPM

Resumo

Este relatório oferece uma análise do Banco BPM S.p.A. ("Banco BPM" ou o "banco"), uma instituição bancária italiana. O estudo avalia diversos aspectos do desempenho financeiro do banco, a sua posição no mercado e as estratégias adotadas para avaliar o seu potencial de investimento.

O relatório recomenda a classificação COMPRA para as ações do Banco BPM, estabelecendo um preço-alvo de €5,79 por ação para o final de 2024, utilizando o modelo de Discounted Cash Flow (DCF). Esta projeção sugere um potencial de valorização de 29% (IRR 18.4%) num horizonte de 18 meses, em comparação com o preço de fecho de mercado de €4,49 em 31 de julho de 2023. No entanto, é importante salientar que esta recomendação vem com um nível de risco médio.

A justificação para esta recomendação baseia-se principalmente em três fatores: i) a expectativa de sinergias resultantes de uma fusão recente; ii) a continuação das aquisições em diversos segmentos de negócios; e iii) o histórico sólido de qualidade de crédito do banco. No entanto, as ações do Banco BPM estão atualmente a ser negociadas a desconto, principalmente devido a incertezas em relação ao crescimento económico global, impulsionadas por um aumento significativo na inflação e nas taxas de juro, bem como preocupações no sistema bancário após a insolvência de importantes instituições de crédito globais e incerteza política.

A avaliação foi realizada através da utilização do modelo de Fluxo de Caixa Livre para o Capital Próprio, complementado por outros métodos, incluindo o Modelo de Residual Income, o Modelo de Dividendos Descontados e a Avaliação por Múltiplos.

É importante reconhecer que a avaliação do banco está sujeita a riscos significativos. Para além da sensibilidade a mudanças regulatórias, as alterações nas taxas de juro representam uma ameaça significativa para as operações do banco. No entanto, o Banco BPM está a fortalecer ativamente a sua resiliência através de investimentos estratégicos, tanto nas suas operações bancárias base, como em setores relacionados, diversificando assim o seu perfil de risco e melhorando a sua rentabilidade através da integração vertical.

Este relatório de pesquisa segue as diretrizes de Equity Research estabelecidas pelo CFA Institute.

Classificação JEL: G10; G21; G32; G34.

Palavras-Chave: Equity Research; Avaliação de Empresas; Fusões e Aquisições; Banco BPM

Acknowledgements

I want to take a moment to acknowledge the significant role that various people have played in my academic journey and the successful completion of this thesis.

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To my close friends, you have been a vital source of support. The shared memories, and moments of laughter have made this journey enjoyable and meaningful.

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Index

Abstract	i
Resumo	ii
Acknowledgements	iii
Index	iv
List of Figures	v
1. Research Snapshot	1
2. Business Description	2
3. Management and ESG	4
4. Industry Overview and Competitive Positioning	6
5. Investment Summary	12
6. Valuation	13
7. Financial Analysis	16
8. Investment Risks	18
Appendices	22
Appendix 1: Statement of Financial Position	22
Appendix 2: Income Statement	22
Appendix 3: Key Financial Ratios	22
Appendix 4: Common-Size Statement of Financial Position	23
Appendix 5: Common-Size Income Statement	23
Appendix 6: Forecasting Assumptions	24
Appendix 7: FCFE	24
Appendix 8: FCFE	25
Appendix 9: Residual Income	25
Appendix 10: DDM	25
Appendix 11: Multiple Valuation	26
Appendix 12: Peers	26

List of Figures

Figure 1. Relative Price Performance	1
Figure 2. Financial Highlights	1
Figure 3. Valuation Summary	1
Figure 4. Risk Assessment	1
Figure 5. Map of Operations	2
Figure 6. Market Share per Region	2
Figure 7. Net Interest Income per Segment	3
Figure 8. Italy's Lending and Deposits Interest Rates	3
Figure 9. Business Model's Pillars	3
Figure 10. Top Shareholders	4
Figure 11. Peer's Dividend Payout Ratio	4
Figure 12. Directors per Area of Expertise	4
Figure 13. Board of Directors Composition	5
Figure 14. Board of Directors Composition	5
Figure 15. Real GDP	6
Figure 16. Inflation Rate	6
Figure 17. Italy's Inflation Rate	7
Figure 18. Italy's Real GDP	7
Figure 19. Domestic Credit Growth	8
Figure 20. Italy's NPL Ratio	8
Figure 21. Porter's Five Forces	10
Figure 22. Number of Fintech Startups Worldwide, by region	10
Figure 23. Penetration Rate of Online Banking in Italy	11
Figure 24. Scenarios' Assumptions	12
Figure 25. Investment's Methodologies	12
Figure 26. Loans and Deposits Forecast, in million Euros	13
Figure 27. Net Fee and Commission Income, in million Euros	14
Figure 28. Cost of Equity's Components	14
Figure 29. RWAs and CET1 Ratio's Forecast	14
Figure 30. Dividend and Payout Ratio's Forecast	15
Figure 31. Peer Group	16
Figure 32. Profitability Ratios	17

Figure 33. Solvency and Liquidity Ratios	18
Figure 34. Risk Matrix	18
Figure 35. Estimated Price per Share Sensitivity	20
Figure 36. Sensitivity Analysis	20
Figure 37. Monte Carlo Simulation	21

Banco BPM

YE2024 Price Target of €5.79 (+29%); recommendation is to Buy with Medium Risk.

1. Research Snapshot

We initiate a BUY recommendation for Banco BPM S.p.A., with a 2024YE price target of €5.79 using a DCF model, implying a 29% upside potential from the July 31st 2023 closing price of €4.49 (Figure 1), although with Medium Risk (Figure 4).

Key Statistics

Ticker	BAMI.MI	52-Week High	4.81	5Y Beta	1.09
Website	Banco BPM	52-Week Low	4.6	Float	96.7%
Industry	Financial Services	Current Price	4.49	Inst. Owned	37.5%

Source: Yahoo Finance

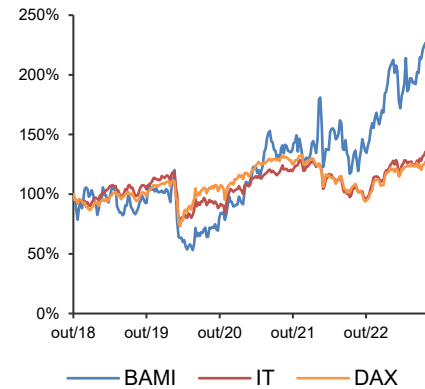
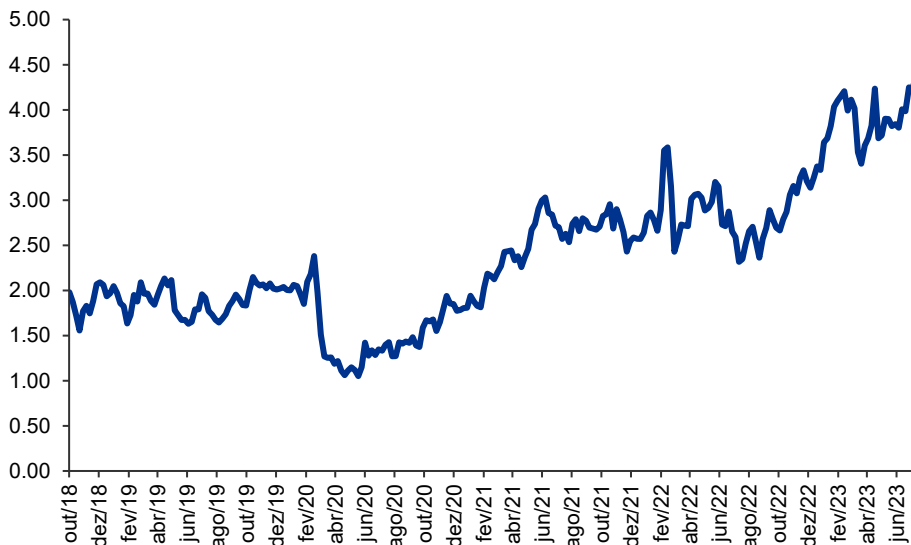


Figure 1. Relative Price Performance

Source: Reuters; Author's estimates

Stock Performance



Source: Reuters

€m	FY22	FY23F	FY28F
Cash and Cash Equivalents	13,131	14,319	18,010
Loans	139,140	142,871	147,268
Total Assets	189,686	199,214	209,417
Deposits	153,874	163,322	172,554
Equity	12,770	12,861	13,809
NII	2,341	2,574	2,836
Net Income	703	185	1,040
ROE	5.50%	1.44%	7.53%
CET1	14.3%	13.7%	14.2%
Solvency Ratio	20%	18%	18%

Figure 2. Financial Highlights

Source: Author's estimates

Highlights

- Both the Free Cash Flow to Equity model and Residual Income Model indicate Buy recommendations (Figure 3) even at Medium Risk.
- Profitability is expected to increase – ROE goes from 5.5% in 2022 to 7.53% in 2028 (Figure 2).
- The institution is actively embracing a digital-driven service model, setting the stage for enhanced customer experiences, and bolstering its core business growth.

Summary	Price Target	Upside
FCFE	5.79	29%
RI	5.80	29%
DDM	4.61	3%
MV - PBV	5.74	28%
MV - PE	4.57	2%

Figure 3. Valuation Summary

Source: Author's estimates

Low	Medium	High
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Figure 4. Risk Assessment

Source: Author's estimates

2. Business Description

Banco BPM S.p.A. is an Italian financial institution headquartered in Verona, Italy. It is publicly traded on the Milan Stock Exchange under the ticker symbol BAMI.MI and boasts a market capitalization of €4.6 billion. This banking entity came into existence in 2017 through the merger of Banco Popolare and Banca Popolare di Milano. As a result, it assumed the position of the third-largest conglomerate in Italy specializing in retail and corporate banking services.

Banco BPM's primary operational focus is within Italy, where it maintains a network of more than 1500 branches and 20,400 employees strategically located throughout the nation, with particular emphasis on the northern region, notably Lombardy (Figure 5). The bank serves a customer base of 3.7 million individuals and entities, with 86% comprising individual clients, 13% encompassing corporate entities and professionals, and 1% dedicated to nonprofit organizations. This cumulative clientele affords Banco BPM a market share totaling 6.9% (Figure 6).

Segments

Banco BPM offers a diverse portfolio of services that extends beyond traditional banking activities, which are managed through distinct subsidiary entities, catering to various customer segments (Figure 7). These segments include:

Retail Banking: Providing a range of banking and financial products and services primarily targeting private customers and small businesses. The majority of these activities are conducted through the Parent Company's Commercial Network.

Corporate Banking: Focused on serving the financial needs of medium and large-sized companies, offering a comprehensive suite of banking and financial products and services. Similar to Retail Banking, this segment's operations are predominantly carried out through the Parent Company's Commercial Network.

Institutional Banking: Specializing in banking and financial solutions aimed at institutions such as UCITs, SICAVs, insurance companies, pension funds, and banking foundations. These services are distributed both by the Commercial Network of the Parent Company and specialized branches.

Private Banking: Catering to private customers with significant assets, individually or within their businesses, exceeding a minimum threshold of 1 million euros. This segment is managed by the subsidiary Banca Aletti.

Investment Banking: Engaged in the structuring of financial products, access to regulated markets, and the development of specialized financial services. This segment's operations are conducted by Banca Akros and Oaklins Italy.

Insurance: Encompassing interests held in various insurance companies, including Vera Vita, Vera Assicurazioni, Banco BPM Vita, and Banco BPM Assicurazioni.

In 2023, Banco BPM exercised its purchase option as per agreements reached in 2021 with Cattolica Assicurazioni. This move involved acquiring a 65% stake in Vera Vita S.p.A., specializing in life insurance, and Vera Assicurazioni S.p.A., specializing in non-life insurance. Banco BPM had previously held a 35% stake in both companies. The acquisition's completion, signifying Banco BPM's control over Vera

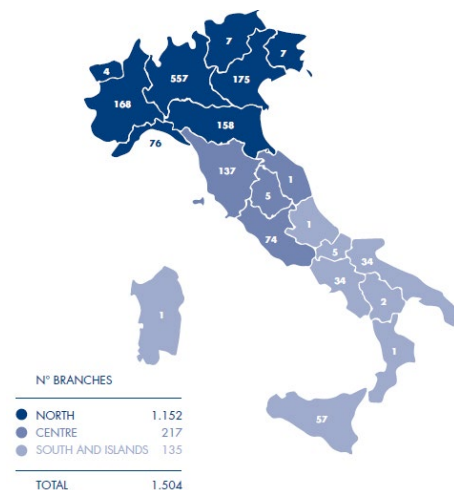


Figure 5. Map of Operations

Source: Annual Report

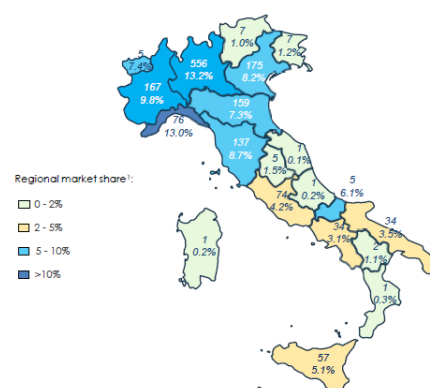


Figure 6. Market Share per Region

Source: Annual Report

Vita and Vera Assicurazioni, is anticipated for the last quarter of 2023, subject to the requisite regulatory approvals from competent authorities.

Strategic Partnerships: Involving interests held in strategic ventures such as Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Gardant Liberty Servicing, and Anima Holding.

Corporate Centre: Responsible for governance and support functions, management of owned securities, treasury functions, Asset and Liability Management, bond issues on institutional markets, leasing business activities, equity interests outside of "Strategic Partnerships," and real estate operations. All consolidation entries are consolidated within this segment.

Key Drivers of Profitability

The banking sector primarily revolves around the essential functions of lending to clients and receiving deposits. The financial success of a bank is closely tied to its capacity to generate profit by maintaining a favorable margin between the interest rates offered on deposits and those charged on loans (Figure 8).

In addition to these core operations, banks often derive significant income from commissions and fees associated with a wide array of financial services. These fees can encompass services such as account management and various specialized financial products. Furthermore, it's common for major banks to diversify their business activities, encompassing areas like investment banking and asset management. Banco BPM, for instance, is one of such institutions that has pursued diversification in its strategic approach.

In today's financial landscape, banks continually explore innovative avenues to bolster their revenue streams and adapt to evolving market dynamics. This adaptability is crucial for maintaining competitiveness and achieving sustained profitability in the face of the intricate and ever-changing financial landscape.

For Banco BPM specifically, the main sources of income were both the net interest income, totaling €2.3B in 2022 and the net fee and commissions charged to clients, which amounted to €1.9B in 2022.

Company Strategy

Banco BPM is committed to navigating the future with a forward-looking vision. The institution is actively embracing a digital-driven service model, setting the stage for enhanced customer experiences, and bolstering its core business growth. In this pursuit, Banco BPM is working on creating efficient product lines while keeping a strong focus on maintaining high-quality assets (Figure 9).

The bank has identified specific areas of focus within its strategy plan. For once, it aims to further develop its household client base through innovative digital approaches, solidifying its position in the Family Banking sector. Simultaneously, Banco BPM is directing its attention toward Small and Medium-sized Enterprises (SMEs), aiming to refine its service approach and venture into innovative distribution methods. This strategic shift is designed to facilitate expansion into currently under-penetrated areas and foster improved cross-selling opportunities.

Not only that, but Banco BPM is also aligning itself with Environmental, Social, and Governance (ESG) principles, underscoring its commitment to sustainability and responsible banking practices. In doing so, it aims to maintain its role as a significant player within Italy's financial landscape, emphasizing stability and progress as cornerstones of its strategic outlook. Additionally, the bank is strengthening its presence in the bancassurance sector, recognizing the growth potential it offers,

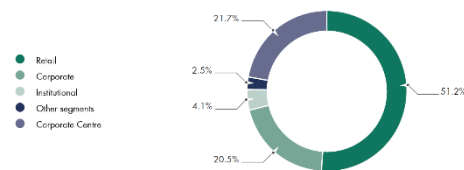


Figure 7. Net Interest Income per Segment

Source: Annual Report

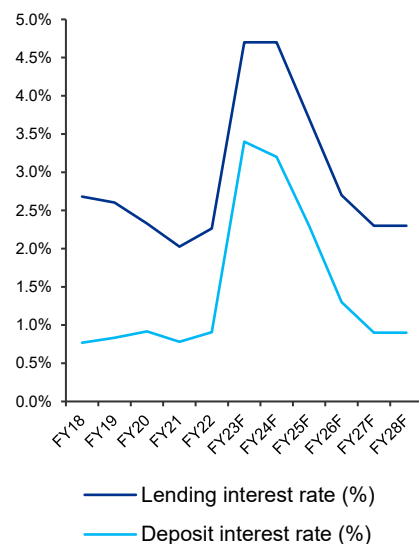


Figure 8. Italy's Lending and Deposits Interest Rates

Source: IMF



Figure 9. Business Model's Pillars

Source: Annual Report

particularly in the areas of Asset Management and Consumer Credit. These multifaceted strategies collectively form Banco BPM's roadmap for a dynamic and sustainable future in the financial industry.

Ownership Structure

The bank currently has 1.51 billion shares outstanding, with 1.4 billion shares in free float. Among these, approximately 35.34% are estimated to be owned by institutional investors.

Banco BPM's shareholder base is primarily composed of former shareholders of Banco Popolare and Banca Popolare di Milano, with a ratio of approximately 54% to 46%.

Notably, the bank has four major shareholders who, in accordance with CONSOB regulations for holding stakes exceeding 3% of a listed company's share capital, are required to disclose their holdings: Crédit Agricole SA holds a 9.18% stake, Capital Research and Management Company who holds a stake of 4.99%, Norges Bank and Fondazione ENASARCO who hold 3.05% and 3.01%, respectively (Figure 10).

Dividend Policy

Following the merger, Banco BPM initiated dividend payments, which were relatively insignificant until 2021 when they amounted to approximately 16% of their earnings. In 2022, the bank successfully achieved its target with a 40% payout ratio. Looking ahead to 2023, Banco BPM distributed 50% of its net income in the first half of the year (Figure 11) and plans on maintaining this ratio in the future.

Banco BPM S.p.A. initiated a program to purchase its own shares in February 2022, following approval from the Ordinary Shareholders' Meeting in April 2021. The program aimed to support existing staff incentive plans and was authorized by the European Central Bank. It ran from February 15 to February 28, 2022, with a maximum counter value of 16 million euros. The bank concluded the purchase of 4,582,640 ordinary shares by February 24, 2022. In February 2023, a new program was launched, also authorized by the European Central Bank, to buy shares worth a maximum of 10 million euros to support share-based compensation plans.

Crédit Agricole SA	9.18%
Capital Research and Management	4.99%
Norges Bank	3.05%
Fondazione ENASARCO	3.01%

Figure 10. Top Shareholders

Source: Annual Report

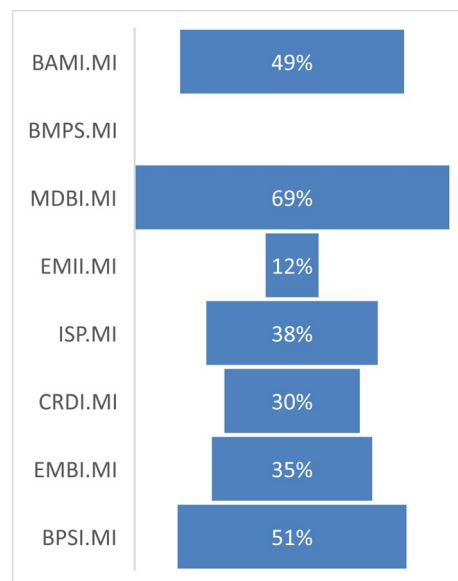


Figure 11. Peer's Dividend Payout Ratio

Source: Reuters

3. Management and ESG

Management

The Board of Directors

Massimo Tononi, the Chairperson of the Board of Directors, has held dual roles as a board member and Chairperson since 2020. He earned his Business Economics degree from Bocconi University in 1988 and began his career at Goldman Sachs. Throughout his professional journey, he has served as Chairperson for numerous financial services companies, primarily in Italy. Presently, he is a member of the Board of Directors of the Italian Banking Association and holds a position on the Strategic Advisory Board of Nextalia SGR S.p.A.

Giuseppe Castagna, the Chief Executive Officer, previously held the position of CEO and General Manager at Banca Popolare di Milano from 2014 to 2016. Prior to that, he held key management roles within the Intesa Sanpaolo banking group, where he was employed from 1981 to 2013. After the merger in 2017, he assumed the role of CEO at Banco BPM. He was also appointed Deputy Chairperson of the Executive

ESG/social and environmental sustainability	10
Financial and/or banking markets	15
Banking and financial activities and products	13
Domestic and international economic & financial system, trends and prospects of banking, financial and insurance sectors	15
Internal control systems and other operational mechanisms	11
Risk management	13
Accounting and financial reporting	15
Guidance and strategic planning	14
Information technology	5
Regulation in the banking, financial and insurance sector	15
Organisational and corporate governance structures	15
Human resources and remuneration systems and policies	9

Figure 12. Directors per Area of Expertise

Source: ESG Report

Committee and served as the Chairperson of the Executive Committee from July 2019 to April 2020.

The remaining 14 members of the Board of Directors (Figure 13) share similar backgrounds (Figure 12), with 93.3% holding college degrees and work experience in the financial sector. In terms of age distribution, 13.3% are under the age of 50, while 60% are over the age of 61, with the rest falling within the intermediate range. As for gender diversity, the board comprises 40% women and 60% men (Figure 14). Banco BPM also maintains a Board of Statutory Auditors and four internal board committees: the Appointments Committee, Remuneration Committee, Internal Audit, Sustainability and Risks Committee, and Related Parties Committee

Management Compensation

Banco BPM's remuneration policy emphasizes sustainability and gender equality, reflecting the bank's ESG ambitions outlined in its Strategic Plan. The policy's governance structure ensures that the Board of Directors receives a fixed annual fee, with the CEO being the only board member eligible for a variable component. The remuneration comprises both fixed and variable components, with the latter being performance related. The Short-Term Incentive Plan is central to the policy, with its payout contingent on meeting profitability and capital and liquidity levels. Notably, the Short-Term Incentive Plan for 2022 introduced the Maximum Distributable Amount buffer as a capital adequacy condition, aligning the bank's interests with investors. ESG factors, such as the percentage of new loans in green sectors and corporate bond ownership in ESG bonds, are also integrated into the Short-Term Incentive Plan's objectives. The Long-Term Incentive Plan, approved in April 2022, aims to support the 2021-2024 Strategic Plan, emphasizing long-term value creation. The Long-Term Incentive Plan payouts are entirely in Banco BPM ordinary shares, distributed over several years and subject to a retention period. The policy also incorporates mechanisms to reclaim incentives in cases of misconduct.

ESG

In the banking landscape, Environmental, Social, and Governance (ESG) considerations have emerged as pivotal elements, and Banco BPM stands as a testament to this shift. The bank's strategic framework is constructed with ESG considerations in mind, reflecting its commitment to a sustainable future. This commitment is further exemplified by the establishment of a dedicated ESG Committee, whose primary role is to embed sustainability principles into Banco BPM's strategic vision.

The bank's ESG journey, showcases a series of milestones that underscore its dedication to responsible banking. From laying the foundation for sustainability between 2018 and 2020 to achieving the distinction of being the #1 Green bond issuer among Italian banks in 2021, Banco BPM's trajectory is one of continuous growth and evolution in sustainability.

Banco BPM's business model is a reflection of its commitment to active stakeholder engagement. This engagement strategy ensures that the bank's operations and initiatives are in harmony with environmental, social, and governance objectives. These objectives, in turn, serve as the cornerstone of a growth strategy that is both responsible and forward-looking. The bank's approach is further segmented across five key pillars, each of which plays a crucial role in its ESG strategy: business operations, risk and credit management, human resources strategy, environmental stewardship, and community engagement.

To ensure that these pillars stand strong, Banco BPM has implemented specific guidelines that guide its operations. A notable aspect of these guidelines is the

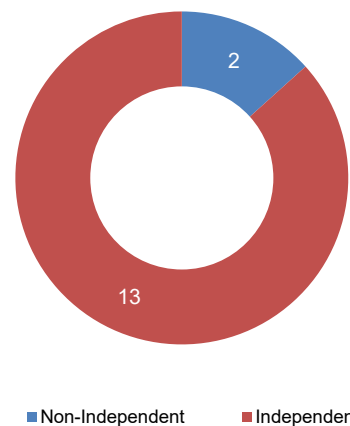


Figure 13. Board of Directors Composition

Source: ESG Report

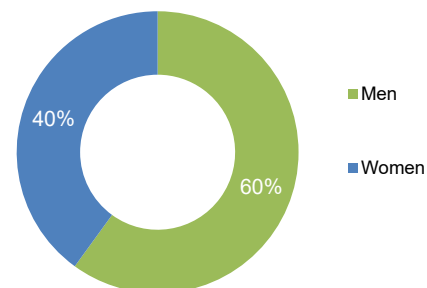


Figure 14. Board of Directors Composition

Source: ESG Report

bank's cautious approach to sectors associated with high environmental risks, which represent a mere 2% of their loan portfolio. This selective approach is complemented by proactive measures to support their customers' climate transition. By leveraging dedicated forecasting tools, Banco BPM is not only assessing but also actively encouraging the alignment of business plans with ESG principles.

The results of these efforts are evident in the bank's consolidated ESG rating. Evaluated by Reuters, Banco BPM boasts an A- rating, a significant achievement that represents its dedication to ESG principles. This rating is further broken down into A- ratings for both the Environmental and Social Pillars and a B+ for Governance. The journey to this rating has been transformative, especially when one considers that in 2019, post their merger, the bank's rating stood at C+.

4. Industry Overview and Competitive Positioning

Macroeconomic Overview

From 2020 onward, the world's economic landscape underwent profound disruptions and shifts. The onset of the COVID-19 pandemic in 2020 prompted global governments to enforce stringent lockdowns, deeply impacting nearly all facets of economic life. This led to a cascade of business shutdowns, employment setbacks, and interruptions in supply chains and global trade, culminating in a worldwide recession.

To counteract this economic plunge, central banks and governments worldwide rolled out extensive monetary and fiscal strategies. These included large-scale fiscal stimuli and quantitative easing initiatives, coupled with cutting interest rates to all-time lows. These measures aimed to offer financial support to individuals and enterprises, while also maintaining financial market stability and liquidity.

Post the 2020 "Great Lockdown," which saw a 3.4% dip in global GDP, 2021 observed a vigorous, though patchy, economic rebound, registering a record 6.0% growth in global GDP (Figure 15). This resurgence was buoyed by advancements in vaccination drives, leading to relaxed lockdown measures and a phased return to normality. However, the advent of new coronavirus strains, impacting vaccine effectiveness, led to sporadic outbreaks and occasional reinstatement of certain curbs. Additionally, the world grappled with escalating inflation (Figure 16), stemming from supply constraints against a backdrop of surging demand. This inflation was exacerbated by issues like supply chain hiccups, increased production costs due to raw material and semiconductor shortages, and shipping container scarcities.

The inflationary trend intensified in 2022, following Russia's incursion into Ukraine. This conflict not only disrupted supply chains further but also jolted the energy and food sectors, catapulting prices to unseen heights. Europe, in particular, felt the brunt of this conflict and the subsequent sanctions on Russia, given both nations' significant roles in global agricultural production, crucial for European food and fertilizer imports, and Russia's pivotal position in supplying oil and gas to Western Europe. While the European Union expressed intentions to let go off Russian energy, such a shift was feasible only over an extended period.

The inflationary pressures prompted a swift and coordinated tightening of monetary stances across all major global economies. Central banks worldwide shifted their focus towards re-establishing price stability. While the imperative to address the risk of runaway inflationary expectations was universally recognized—given its role in managing the widespread cost-of-living crisis—there were concerns. The potential misalignment of monetary and fiscal policies, especially when the global economy was still in a delicate state, posed a tangible threat of pushing the world into another

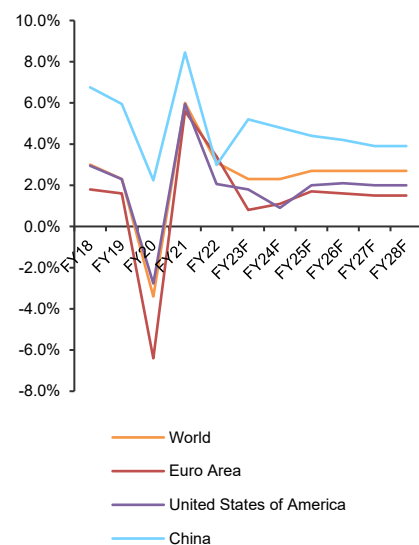


Figure 15. Real GDP

Source: EIU

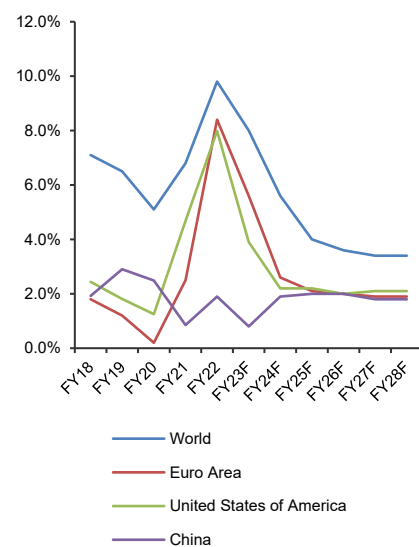


Figure 16. Inflation Rate

Source: EIU

recession. Despite the challenges to economic recovery in 2022, the global economy managed to grow by 3.1%, a figure that fell short of the IMF's earlier projection of 4.9% as stated in their World Economic Outlook from October 2021.

Forecasts from the EIU paint a sobering picture for 2023. Global economic growth is anticipated to decelerate to 2.2% in real terms, down from the 3.1% growth observed in 2022. This slowdown is attributed to the persistent challenges stemming from the ongoing Russia-Ukraine conflict, sustained inflationary pressures, and the contractionary monetary responses from central banks, which include escalating interest rates and further tightening of liquidity conditions.

The Eurozone, however, is projected to stave off a recession. This resilience can be attributed to milder temperatures during the winter of 2022/23, which led to reduced energy consumption, and a swifter-than-anticipated shift away from Russian energy sources. Yet, the European Central Bank's contractionary monetary posture, a response to enduring inflationary pressures, is anticipated to dampen the European economy's momentum, resulting in a modest economic growth rate of 0.8% in real terms.

The United States, grappling with the repercussions of sharp interest rate hikes in a high inflation scenario, is projected to witness its economic growth decelerate to 1.1% in 2023, a decline from the 2.1% in 2022. As per the EIU's projections, while inflation is likely to slow down over the span of 2023-24, prices are expected to hover above traditional levels. This is due to a resurgence in consumer demand and the ongoing Ukraine conflict, both of which are exerting upward pressure on commodity prices.

China, however, emerges as an outlier in this global narrative. The Chinese economy is expected to witness a robust 5.5% growth in 2023 in real terms, a significant leap from the 3.0% in 2022. The primary catalyst for this resurgence is China's departure from its zero-COVID policy. This shift is expected to unleash suppressed consumer demand for goods and services, further intensifying the upward pressure on global commodity prices.

Italian Macroeconomic Overview

In a rapidly evolving global economic landscape, Italy stands at a crossroads of opportunities and challenges. The nation's GDP is expecting a growth trajectory (Figure 18), with projections indicating a 1.2% increase in 2023, followed by 1.1% in 2024 and 1.2% in 2025. Inflation is anticipated to peak at 6.4% in 2023 before moderating to 2.4% in 2024 and further softening to 1.7% in 2025 (Figure 17).

The baseline macroeconomic assumptions hinge on the geopolitical stability arising from the Ukraine conflict. The prevailing sentiment is that further disruptions in energy supplies are unlikely, paving the way for energy commodity prices to stabilize over the forecasted three-year horizon, marking a significant retreat from the elevated levels witnessed in 2022. Nominal interest rates are on an upward trajectory for 2023, with a potential softening in the horizon. This tightening monetary stance is anticipated to ripple through the financial ecosystem, manifesting in elevated funding costs and a more restrictive credit environment.

Revisions in the economic projections offer a nuanced perspective. While the GDP growth forecast for 2023 has been revised upwards, the outlook for 2024 and 2025 has been tempered. The economic momentum, primarily fueled by domestic consumption in the early phases of 2023, witnessed a deceleration as the year progressed. This slowdown is attributed to a contraction in private investments, a trend expected to reverse in the latter half of 2023 and into 2024, spurred by the evolving interest rate environment and credit dynamics. However, the GDP impact is likely to be cushioned by easing inflationary pressures and an uptick in public investments, particularly under the National Recovery and Resilience Plan.

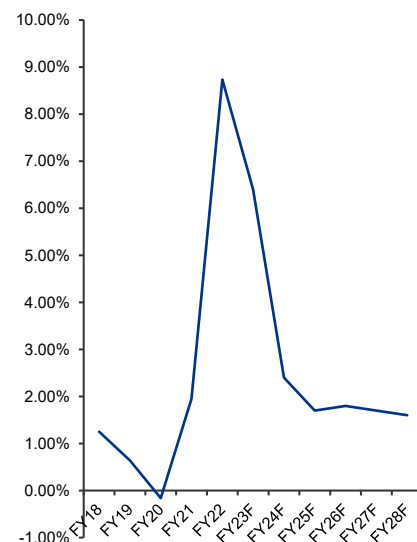


Figure 17. Italy's Inflation Rate

Source: EIU

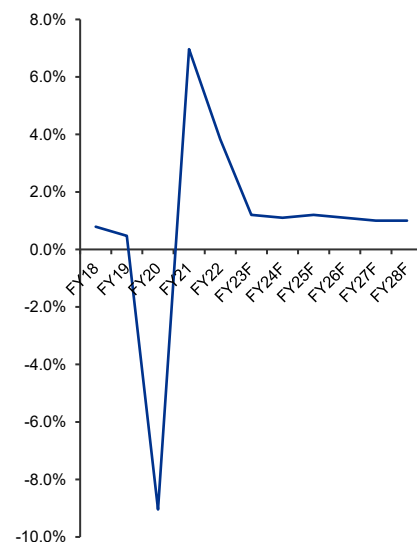


Figure 18. Italy's Real GDP

Source: EIU

The inflation narrative, as captured by the Harmonized Consumer Price Inflation, is set to average 6.4% in 2023, marking a decline from the 8.7% observed in 2022. The subsequent years are expected to witness a further softening, primarily driven by a contraction in import prices, with energy commodities playing a pivotal role.

Labor market dynamics present a cautiously optimistic picture. Continued growth in employment metrics is on the cards, albeit at a pace, lagging behind GDP growth. The unemployment rate is on a downward trajectory, influenced by an uptick in labor force participation.

On the consumer front, household consumption, rejuvenated in the first quarter of 2023, is set to maintain its momentum, buoyed by easing inflationary pressures and robust wage growth dynamics. However, the investment landscape presents a contrasting picture, with anticipated deceleration, primarily influenced by escalating funding costs and a tightening credit environment. The balance of payments is poised for a turnaround, with the current account projected to swing to a surplus in 2023, a development attributed to a recalibration in the energy balance, driven by moderating commodity prices.

Benchmarking against forecasts from other esteemed institutions, the Bank of Italy's growth projections for 2023 and 2024 resonate with those from the European Commission, IMF, and OECD. However, a divergence emerges when compared with projections from leading private forecasters, as surveyed by Consensus Economics, with the Bank of Italy showcasing a more optimistic stance.

Italian Banking Sector

The banking sector in Italy mirrored the broader economic trends. The improved macroeconomic environment in 2021, coupled with government support measures, bolstered Italian banks' balance sheets. While business loan demand tapered due to accumulated liquidity and improved cash flows, household lending saw an uptick, particularly for house purchases (Figure 19).

Asset quality remained robust, with the flow of new non-performing loans (NPLs) remaining low and significant disposals of NPLs. The net NPL ratio dropped to 3.1%, aligning with pre-global financial crisis levels and mirroring the average of major euro-area countries (Figure 20).

On the funding side, there was a growth in total funding, albeit at a slower pace than 2020, driven primarily by deposits. However, bonds continued their decline. Capital adequacy remained stable, with the common equity tier 1 (CET1) ratio at 15.3% by year-end. Profitability metrics improved, with the return on equity (ROE) rebounding to pre-pandemic levels, registering at 6.0%.

The Italian banking landscape continued its restructuring and consolidation trajectory in 2021. The industry saw a reduction in the number of active players, branch networks, and employees. This streamlining was complemented by a surge in digitalization, with 79% of customers accessing their accounts through digital channels, marking a significant increase over the past decade.

While the banking sector has shown resilience and adaptability, the future holds uncertainties. The phasing out of public support measures, rising inflation, potential economic slowdown, and geopolitical tensions, especially the conflict in Ukraine, pose challenges. However, the direct exposure of the Italian banking sector to the conflict regions remains limited.

In conclusion, the Italian banking sector, amid macroeconomic challenges, has demonstrated adaptability and resilience, underpinned by restructuring initiatives, digital transformation, and robust asset quality.

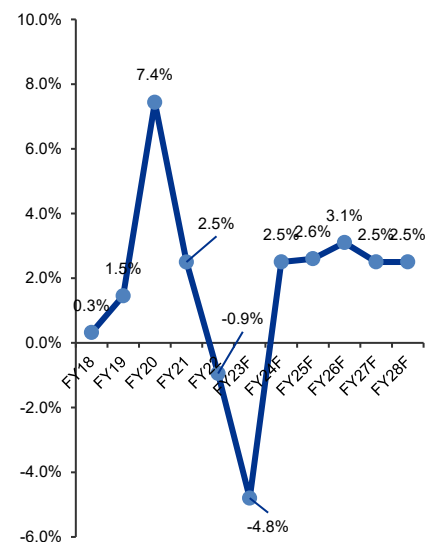


Figure 19. Domestic Credit Growth

Source: IMF

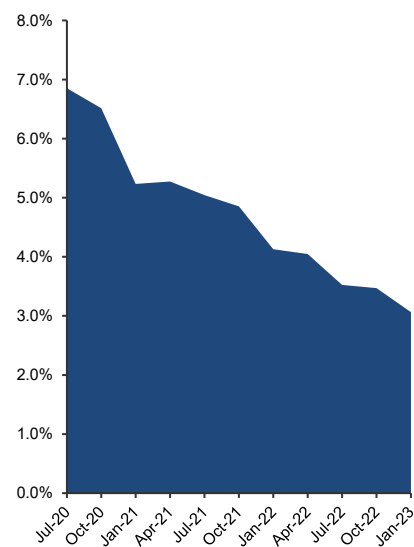


Figure 20. Italy's NPL Ratio

Source: CEIC

Regulatory Requirements

The Basel III framework, a critical evolution in banking regulation, was instituted to fortify the resilience and stability of the global banking system post the financial crisis. At its core, it sought to address vulnerabilities in the banking sector, ensuring that institutions are better equipped to absorb shocks, thereby reducing the risk of spillover to the broader financial system and economy.

A cornerstone of Basel III is the Liquidity Coverage Ratio (LCR). This metric mandates banks to maintain a robust portfolio of high-quality liquid assets, ensuring they can weather a 30-day severe liquidity stress scenario. This provision underscores the importance of short-term liquidity management, compelling banks to be prudent in their operational strategies.

Complementing the LCR is the Net Stable Funding Ratio (NSFR). This longer-term liquidity measure ensures that banks possess a stable funding profile, harmonizing the structure of their assets with their off-balance sheet activities. The NSFR promotes sustainable banking operations by discouraging excessive reliance on short-term wholesale funding.

Beyond liquidity, Basel III introduced the Leverage Ratio as a safeguard. This non-risk-based metric serves as a backstop to the risk-based capital ratios, ensuring that banks maintain a foundational level of equity relative to their total assets. It acts as a check against excessive leverage and potential balance sheet inflation.

The framework also ushered in a new era of Risk Management. Banks are now propelled to enhance their risk data aggregation capabilities and reporting practices. This push for transparency and accuracy ensures that institutions can make informed decisions, optimizing their risk-reward trade-offs.

Recognizing the cyclical nature of the financial sector, Basel III instituted Countercyclical Measures. These provisions mandate banks to accumulate capital buffers during economic upswings, which can then be utilized as a cushion during downturns. This cyclical buffer acts as a stabilizing force, moderating the boom-bust cycles inherent in financial markets.

Addressing the systemic importance of certain mammoth institutions, the framework introduced measures for Systemic Risk Management. Additional capital surcharges are levied on global systemically important banks (G-SIBs), directly confronting the "too big to fail" problem. This ensures that these institutions maintain higher resilience given their potential to impact global financial stability.

The Basel III framework brought in stricter guidelines, especially concerning elements considered as own funds. This led to various prudential modifications and deductions. To facilitate a smoother transition for existing banks, European regulators adopted a phased-in strategy for CRD IV enforcement. Consequently, from 2014 to 2019, some of the more stringent provisions were incrementally enforced. Beyond altering the own funds computation, CRD IV elevated the baseline capital thresholds and introduced supplementary capital buffers. These buffers, which complement the Pillar 1 mandates, include the conservation buffer, the countercyclical buffer, and the O-SII buffer. On top of the capital ratios and buffers stipulated by CRD IV, regulatory bodies, such as the ECB, have the discretion to mandate extra capital buffers under the Pillar 2 capital guidelines.

Lastly, Basel III placed a renewed emphasis on Governance and Culture. The framework underscores the role of bank boards in governance, advocating for a risk culture that aligns with the institution's risk appetite. Furthermore, it scrutinizes banks' compensation structures, ensuring they don't incentivize reckless risk-taking.

Porter's Five Forces

Threat of New Entrants (Barriers to Entry) – Extremely Low (1) (Figure 21)

- High Capital Requirements: Setting up a bank requires significant capital, acting as a barrier for many potential new entrants.
- Regulatory Environment: The banking sector is heavily regulated and obtaining necessary licenses can be challenging and time-consuming.
- Established Trust: Existing banks have built trust and customer relationships over years, making it difficult for new entrants to lure customers.

Bargaining Power of Suppliers – Low (2)

- Limited Power: In banking, suppliers can be considered as those providing technological infrastructure, office supplies, or even capital. Given the abundance of suppliers and the non-unique nature of these supplies, their bargaining power is relatively low.
- Capital as a Commodity: While capital can be considered a supply, it's largely commoditized, especially in interbank lending markets.

Bargaining Power of Buyers (Customers) – High (4)

- Increasing Power with Digital Options: With the rise of online banking and fintech solutions, customers have more choices and can easily switch between service providers.
- Price Sensitivity: Especially in areas like loans or savings accounts, even small differences in interest rates can lead customers to switch banks.

Threat of Substitute Products or Services – Extremely High (5)

- High Threat from Fintech (Figure 22): Digital payment platforms, online-only banks, and other fintech innovations offer services that can bypass traditional banking.
- Non-Banking Financial Services: Investment firms, credit unions, and other non-bank financial institutions can provide many of the services traditionally offered by banks.

Rivalry Among Existing Competitors – Medium (3)

- High Rivalry: The banking sector typically has intense competition, with many banks offering similar services.
- Competitive Pricing: Banks often compete aggressively on pricing, especially in areas like loan interest rates or credit card offers.
- Brand Loyalty: Established banks with strong brand loyalty can have a competitive edge, but this also means new product offerings or changes in service quality can lead to shifts in market share.

SWOT

Strengths:

- Merger Synergies: The merger of Banco Popolare and Banca Popolare di Milano created Banco BPM, which brought about operational efficiencies and a broader market presence.
- Diverse Offerings: Banco BPM offers a wide range of financial products and services, catering to both individuals and businesses.
- Strong Regional Presence: The bank has a significant presence in Northern Italy, one of the country's economically active regions.

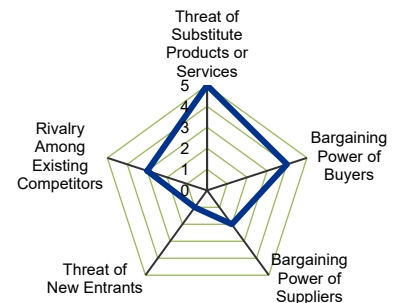


Figure 21. Porter's Five Forces

Source: Author's estimates

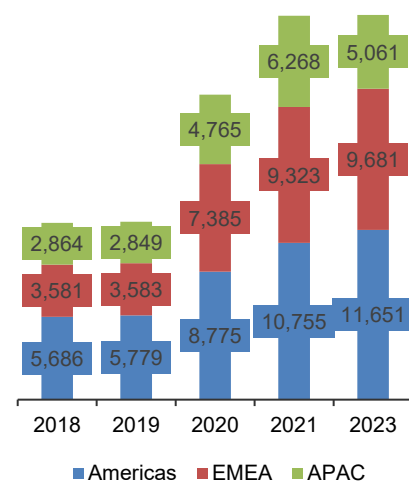


Figure 22. Number of Fintech Startups Worldwide, by region

Source: Statista

Weaknesses:

-Integration Challenges: Mergers often come with challenges related to integrating different corporate cultures, systems, and operational practices.

-Potential Legacy Issues: Like many European banks, Banco BPM might have legacy non-performing loans or assets that can impact its balance sheet and P&L.

Opportunities:

-Digital Transformation: Investing in digital banking solutions can attract a younger demographic and streamline operations (Figure 23).

-Expansion: There's potential for expansion in other regions of Italy or even internationally.

-Diversification: Exploring new financial products or services, especially in the areas of fintech or sustainable finance, an area they are very connected with.

Threats:

-Regulatory Changes: The banking sector is heavily regulated, and any changes in regulations can impact operations.

-Economic Uncertainty: Factors like political instability in Italy, economic downturns, or global financial crises can affect the bank's performance.

-Technological Disruption: Fintech startups and digital-only banks, with more agile operations and technological solutions, are rapidly attracting customers who seek convenience, lower fees, and personalized services. This poses a threat to traditional banks as they may struggle to keep pace with the technological advancements and customer expectations set by these new entrants. The inability to adapt quickly to this digital disruption could lead to a loss of market share and relevance in the evolving financial landscape.

-Competitive Market: Italy's banking sector is highly competitive, with several major players competing for market share.

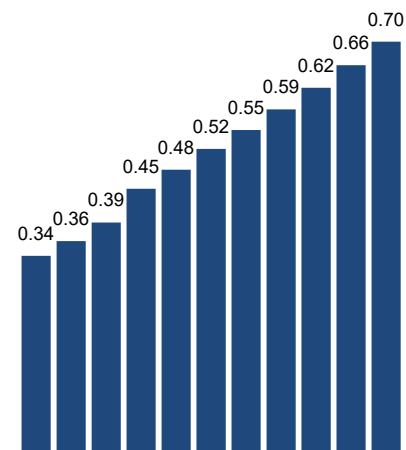


Figure 23. Penetration Rate of Online Banking in Italy

Source: Statista

5. Investment Summary

The base case recommendation for BAMI is to BUY, with a 2024YE price target of €5.79 per share representing an upside potential of 29% in 18 months, corresponding to an annualized return of 18.4%, against the closing price of €4.49 per share as of the 31st of July 2023, with Medium Risk.

Blue and Grey Scenarios were determined with a 2024YE price target of €6.91 and €4.68 per share, respectively, considering the assumptions in Figure 24.

Banco BPM's stock currently being traded at a discount can be attributed to several factors. Firstly, the recent election of a right-wing party in Italy has heightened concerns about the nation's political landscape, potentially introducing uncertainties in the regulatory and economic environment for financial institutions. Secondly, the recent bankruptcies of other significant banks, precipitated by bank runs, have raised alarms about a potential contagious effect that could ripple through the banking sector. Lastly, the prevailing macroeconomic outlook, characterized by anticipated hikes in interest rates and escalating inflation, further compounds the bearish sentiment surrounding Banco BPM.

Nevertheless, it is imperative to consider several key pillars that underpin this investment recommendation: **i) Merger Benefits:** The merger has enhanced operational efficiency and diversified the bank's offerings, strengthening its market position; **ii) Acquisition Focus:** Banco BPM's targeted acquisitions, specifically the vertical integration approach, particularly in its life insurance segment, exemplifies a deliberate strategy to harness synergistic benefits and fortify its market position; **iii) Credit Strength:** The bank's consistent credit quality underscores its effective risk management, bolstering its reputation and stakeholder trust; **iv) ESG Commitment:** In today's sustainability-focused landscape, Banco BPM's dedication to ESG aligns with modern governance while attracting investors.

Valuation Methods

Several methodologies were computed to determine BAMI's price target, with conclusions ranging from €4.57/share to €5.79/share. The Free Cash Flow to Equity method was used as the base model to support the conclusions reached with this model. Other methodologies were conducted to complement the base model, including Residual Income, Dividend Discount Model and Relative Valuation Methods (Figure 25).

Investment Risks

Banco BPM's stock price is intricately tied to relevant risks. A significant influencer are interest rate shifts, which can affect the bank's net interest margin, a crucial revenue component. The broader economic climate in Italy and Europe directly impacts loan demand and default rates for Banco BPM. Regulatory alterations, especially in the European banking sector, can introduce new compliance costs and operational challenges. Operational risks, from potential internal inefficiencies to cybersecurity threats in an increasingly digital banking environment, are ever-present. Liquidity concerns, ensuring the bank can meet withdrawal demands, remain predominant. Additionally, as Banco BPM navigates the European banking landscape, geopolitical events, currency exchange rate volatilities, and the potential for mergers or acquisitions add further layers of sensitivity.

	Grey	Basis	Blue
Cost of Risk	-0.6%	-0.5%	-0.4%
Credit Market Share	7.5%	7.6%	7.7%
Deposits Market Share	4.6%	4.5%	4.4%
Real GDP	0.90%	1.00%	1.10%

Figure 24. Scenarios' Assumptions

Source: Author's estimates

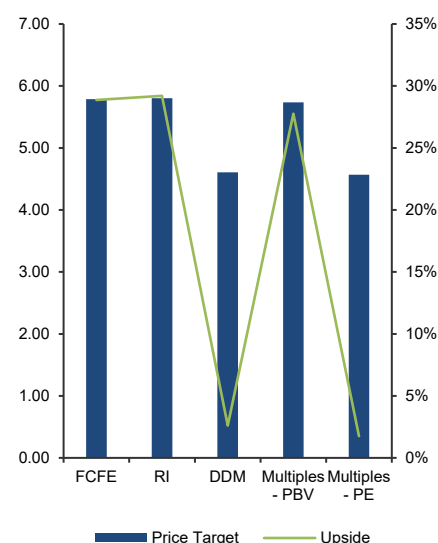


Figure 25. Investment's Methodologies

Source: Author's estimates

6. Valuation

Valuation of Financial Institutions

Valuing Financial Institutions (FIs) presents a challenge, as underscored by experts such as Koller (2010) and Damodaran (2009). These institutions operate within a distinct landscape that sets them apart from other businesses. One of the primary differentiators is the stringent regulatory framework under which FIs function. Damodaran (2009) pinpointed the constraints of capital ratios, investment controls, and industry controls as crucial. The current Basel III regulations have further complicated the landscape by introducing liquidity and leverage ratios, which have a profound impact on the operational dynamics of FIs.

Unique accounting practices further differentiate FIs. For them, the Net Interest Margin (NIM) is a cornerstone, rendering traditional metrics like EBITDA or EBIT less relevant. Moreover, with a significant portion of an FI's assets being financial and often marked to market, their accounting practices diverge from the norm. The manner in which they spread provisions for bad loans over time and the heavy reliance of their financial statements on management's decisions are also noteworthy.

The nature of debt and equity in FIs is another distinguishing factor. Both serve as foundational elements, used to invest in financial assets. The distinctions between deposits, issued debt, and bank loans often blur in this context, leading FIs to exhibit higher leverage ratios compared to other entities. This characteristic is further complicated by the fact that FIs' reinvestments are frequently channeled towards intangible assets, and the volatility in their working capital items can be significant. The need to adhere to regulatory compliance further nuances their cash flow dynamics.

These unique attributes play a pivotal role in the valuation of FIs. Changes in regulatory frameworks, especially concerning capital ratios, can have profound implications for growth and value. The inherently high leverage of FIs means that even minor fluctuations in assets can lead to significant shifts in equity value. In extreme scenarios, when FIs face challenges, they might be absorbed by larger entities to ensure the stability of the financial system, often at the cost of their equity value.

When it comes to valuation methodologies, a few stand out. Damodaran (2009) recommends the Dividend Discount Model (DDM), Free Cash Flow to Equity (FCFE) Model, and Excess Return Model.

Forecast

Financial Assets at Amortized Cost

Being credit granted to clients and banks is one of the major lines of revenue for a retail bank, its growth was one of the major assumptions taken during the forecast of the Balance Sheet (Figure 26). The market share of Banco BPM was assumed to remain constant. This being said, the growth of gross credit to clients relies solely on the expected macroeconomic growth in Italy. A contra assets account, impairments, was forecasted assuming the cost of risk is kept constant at 0.5% until 2028, as forecasted in the bank's Strategy Plan. On the income statement, the interest income related to this balance sheet account was calculated taking into assumption that the spread of the average rate charged by the bank historically and the expected lending interest rate in Italy is constant. Therefore, interest grows accordingly with the evolution in credit and the expected evolution of the lending interest rate in Italy.

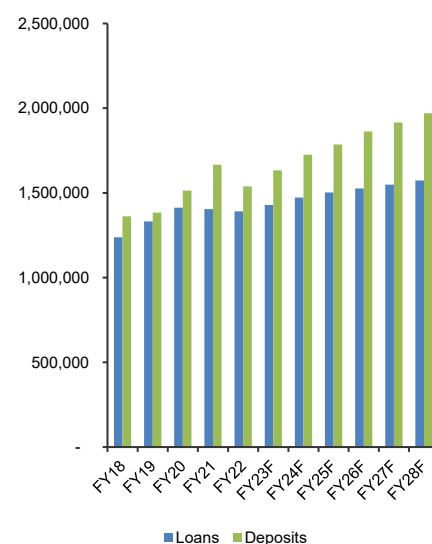


Figure 26. Loans and Deposits Forecast, in million Euros

Source: Author's estimates

Financial Liabilities at Amortized Cost

Deposits due to banks and due to customers are the main liability amount a bank has in its Balance Sheet, and accordingly with what was done in credit granted to clients, the market share was also kept constant (Figure 26). Nonetheless, some assumptions were made: deposits due to banks are kept as percentage of credit, deposits due to customers grow at the rate of growth expected for the Italian market, and the percentage of demand deposits and fixed term deposits remain fairly constant throughout the years. Then again, on the income statement, the interest expense related to this account was calculated in the same manner as interest income, where the spread of the average rate paid by the bank and the expected deposits interest rate in Italy is constant. Expense grows considering the evolution of deposits and the expected evolution of the deposits interest rate for Italy.

Fees and Commissions

Fees and commissions are another main source of revenue for the bank (Figure 27). For its forecast, it was assumed that both fee commissions income and expense evolve at the same rate as deposits. The reasoning behind this is that deposits, or activity related to them, have a considerable weight in the charging of fees and commissions (such as maintaining, or opening accounts).

Administrative Expenses

Other than operating expense, administrative expenses are the main expense for Banco BPM, as their business runs based on their employees. This being said, the personnel expenses were forecast accordingly with expected increase of labor price in Italy and other administrative expenses were considered constant, as it is mostly related to fixed costs.

Cost of Equity

The cost of equity was determined using the CAPM ($Ke = Rf + \beta \times (Rm - Rf)$). The model includes **i)** a 2.65% Rf , corresponding to the 10-year YTM of the German Treasury Bond; **ii)** a 3.33% Country Risk Premium, extracted from Damodaran's database; **iii)** Market Risk Premium of circa 5%, based on Damodaran's database once again; and, **iv)** the peer's average Beta 5 Year on monthly data (Figure 28). Not only that, a Terminal Value (g) of 1% was considered.

Free Cash Flow to the Equity

The use of Free Cash Flow to Equity (FCFE) as the primary model for Banco BPM's valuation, leading to a price target of €5.79 per share, is rooted in its effectiveness in equity valuation, especially for companies with clear cash flows. However, applying the FCFE model to financial service firms like banks presents unique challenges. In most sectors, traditional FCFE components such as net capital expenditures or changes in non-cash working capital are relatively straightforward. But for banks and similar institutions, these elements become complex due to the nature of their business. Banks operate differently from other businesses in how they handle capital and investments, making the standard FCFE calculation less applicable.

To adapt the FCFE model for financial service firms, it's essential to consider the particular constraints and operational realities they face. Banks, for instance, are subject to regulatory capital ratio constraints. This means they must maintain a certain level of capital compared to their assets to comply with regulatory standards. Consequently, a significant factor for banks is their need to increase their regulatory capital to support future lending activities.

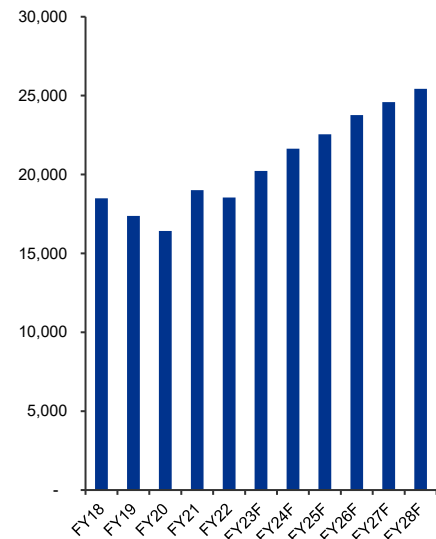


Figure 27. Net Fee and Commission Income, in million Euros

Source: Author's estimates

Cost of Equity - CAPM	12.59%
Risk Free Rate	2.65%
Country Risk Premium	3.33%
Beta	1.32
Market Risk Premium	5.00%

Figure 28. Cost of Equity's Components

Source: Author's estimates

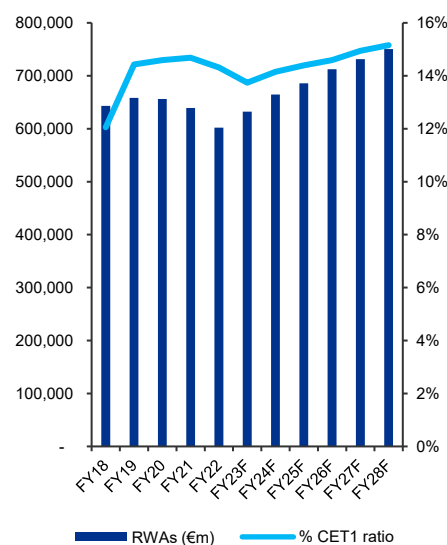


Figure 29. RWAs and CET1 Ratio's Forecast

Source: Author's estimates

Recognizing these specific challenges, Aswath Damodaran proposed a modified formula for calculating FCFE in the context of financial services. His formula is: $FCFE = \text{Net Income} - \text{Changes in Regulatory Capital}$. Here, the changes in regulatory capital are defined as the difference in Risk-Weighted Assets (RWAs) from one period to the next, multiplied by the minimum total capital ratio required by regulators. This adaptation of the FCFE model for banks and financial service firms allows for a more accurate and relevant assessment of their equity value. It takes into account the unique ways in which these institutions operate and are regulated, ensuring a more precise valuation.

Residual Income

The Residual Income valuation model served as a complementary approach to the FCFE in this business evaluation. Given the intricacies of the business and challenges in illustrating changes in Regulatory Capital, the Residual Income model offers an alternative way to calculate equity value. The formula for the Value of Equity is the sum of the current Equity Capital Invested and the Present Value of Expected Future Returns to Common Equity Investors. The concept of excess return is central to this model, representing the disparity between a company's actual return and the anticipated market return, measured by the cost of equity. Essentially, the Excess Return valuation zeroes in on the degree to which a company's returns surpass market expectations. Notably, the outcome from this model aligns consistently with those derived from the FCFE model, implying a price target of €5.80 per share.

Dividend Discount Model

The Dividend Discount Model (DDM) is a traditional approach to valuing firms based on expected future dividends. When applied to banks, however, its efficacy can be debated. Banks operate under strict regulatory environments, often necessitating them to maintain specific capital levels. Distributing dividends can consume this capital base, potentially jeopardizing a bank's ability to meet regulatory capital requirements. Furthermore, in uncertain economic climates or during financial stress, regulators might advocate for reduced dividend payouts to ensure financial stability. Given these dynamics, while DDM can provide insights, it might not always be the most optimal method for valuing banks, as it doesn't fully account for the unique regulatory and capital constraints they face. A recent exemplification of such regulatory interventions is the Italian government's imposition of a 40% windfall tax on the Net Interest Margin earlier this year, which considerably impacted the net income and subsequent disbursement of dividends for the year. However, for this analysis, the model was calibrated based on Banco BPM's strategic plan, which indicates a 50% payout ratio. This ratio is projected to align with the industry's average of 60% by 2028 (Figure 30). The bank's Cost of Equity was employed as the discount rate for the computation. The price target for the DDM was of €4.61 per share, but wasn't considered relevant.

Multiples Based Valuation

Multiples valuation is a widely recognized approach in the realm of equity valuation, offering a comparative lens to assess a company's value relative to its peers. By leveraging financial metrics and ratios, this method provides a quick snapshot of a firm's valuation in the context of the broader market or industry. Commonly used multiples for FIs include Price-to-Earnings (P/E) and Price-to-Book (P/B), as EBITDA related multiples are not applicable. The underlying principle is to ascertain how the market currently values similar companies and apply that valuation metric to the target firm. While the simplicity and comparative nature of the multiples approach make it a favored tool among analysts, it's essential to ensure that the chosen

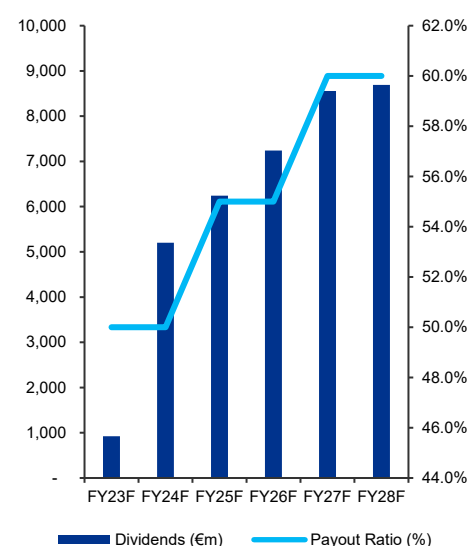


Figure 30. Dividend and Payout Ratio's Forecast

Source: Author's estimates

multiples are relevant, and that the comparison set is appropriate for the firm being evaluated.

Valuing banks using multiple valuation can be challenging, as highlighted by Damodaran (2013): a unique aspect of financial services firms is their practice of provisioning for anticipated expenses. For example, banks frequently allocate provisions for potential loan defaults. These provisions diminish the declared income, influencing the reported price-to-earnings ratio. As a result, more conservative banks, like Banco BPM, will declare reduced earnings, leading to elevated price-to-earnings ratios. In contrast, less conservative banks might report augmented earnings and exhibit reduced price-to-earnings ratios. Furthermore, the valuation complexity is amplified when financial institutions diversify across various financial sectors. The valuation multiple an investor assigns to earnings from commercial lending might differ substantially from that given to earnings from trading activities. When a financial firm operates in diverse sectors, pinpointing genuinely comparable entities becomes challenging.

The price targets for the MBV were of €5.74 and €4.57 per share, for the PBV and PE multiples, respectively. Despite being in line with the values of the main valuation methods, these were not considered relevant for the valuation for the reasons stated above.

Peer Group Selection

For the valuation of Banco BPM, a meticulous peer selection process was undertaken to ensure a relevant and representative comparison set. The primary criteria for this selection were Italian banks with a market capitalization ranging between €1.5 billion and €10 billion. This range was chosen to capture banks that operate within a similar market scale and face similar challenges and opportunities as Banco BPM. Additionally, despite their larger market capitalizations, Intesa and UniCredit were also incorporated into the peer group due to their significant influence and prominence in the Italian banking landscape. Their inclusion provides a broader perspective, capturing the dynamics of both mid-tier and leading players in the Italian banking sector (Figure 31).

Identifier (RIC)	Company Name
BAMI.MI	Banco BPM SpA
BMPS.MI	Banca Monte dei Paschi di Siena SpA
MDBI.MI	Mediobanca Banca di Credito Finanziario SpA
EMII.MI	Bper Banca SpA
ISP.MI	Intesa Sanpaolo SpA
CRDI.MI	UniCredit SpA
EMBI.MI	Credito Emiliano SpA
BPSI.MI	Banca Popolare Di Sondrio SpA

Figure 31. Peer Group

Source: Author's estimates

7. Financial Analysis

Overview Accounting Practices

Financial institutions (FIs), especially banks, operate under unique accounting standards that differ significantly from other sectors. One of the primary distinctions in a bank's Income Statement is the emphasis on the net interest margin (NIM). This metric, derived from the difference between interest income and interest expenses, serves as a vital indicator of a bank's financial health. While other industries might prioritize metrics like EBITDA or EBIT that exclude interest components, for banks, the NIM is indispensable for a comprehensive performance valuation.

Beyond the NIM, a bank's Income Statement also captures the complementary margin. This encompasses various elements such as commission income and expenses, gains and losses on financial instruments, and other operational revenues or expenses. When combined with the NIM, it offers a broader view of a bank's operational income. From this consolidated figure, one must deduct operating expenses, which include staff costs, depreciation, other administrative costs, and losses on loans and financial instruments, to achieve the bank's net operational performance.

In terms of the Balance Sheet, banks again deviate from the norm seen in other industries. There's no clear demarcation between current and non-current assets or liabilities. Interestingly, in the banking world, loans extended to customers are

categorized as assets, while deposits from those very customers are treated as liabilities. Another nuance in bank accounting is the treatment of potential loan defaults. Banks, recognizing the inherent risk of lending, don't immediately account for a loan default as a loss. Instead, they spread out these potential losses over the loan's lifespan, termed as impairment losses. This approach ensures that the net value of a bank's loan book is a realistic representation of the associated risks from its customer base.

Cash and Cash Equivalents

From 2018 to 2022, cash and cash equivalents exhibited fluctuations. Starting at €0.9b in 2018 and maintaining relatively stable in 2019. However, 2020 saw a significant surge to €9.4b, which further skyrocketed in 2021 to €29.2b. By 2022, the figure tapered off somewhat to €13.1b. The sharp increase in 2020 and 2021 might be indicative of liquidity management strategies or capital preservation in uncertain economic times.

Financial Assets at Amortized Cost

Loans have been the driving force behind the bank's asset growth. Starting at €123.8b in 2018, there was a steady climb to €133.1b in 2019 and €141.2b in 2020. 2021 saw a slight dip to €140.4b but the value remained relatively stable with €139.1b in 2022. The primary driver for this growth was customer loans, constituting approximately 93% of this figure and experiencing a 12% increase from 2018 to 2022. The consistent growth in loans to customers underscores Banco BPM's expanding customer base and its lending activities. The relative stability in loans to banks during this period indicates a consistent interbank lending strategy.

Total Assets

Total assets of Banco BPM grew consistently from 2018 to 2021. Peaking at €200.5b in 2021, 2022 witnessed a contraction to €189.7b. The growth trajectory from 2018 to 2021 can largely be attributed to the bank's aggressive lending activities, especially loans to customers. The slight decline in 2022, despite stable loans, is related to the decrease in Cash and Cash Equivalents mentioned previously.

In terms of asset quality, the bank reported a 4.2% gross NPE (Non-Performing Exposure) ratio as of year-end 2022, marking a notable decrease from the 5.6% ratio at year-end 2021. This reduction can be attributed to the ongoing disposal of NPL (Non-Performing Loan) portfolios. Furthermore, the bank has also disclosed plans for a single-name disposal of approximately €1.5 billion through a securitization in 2023.

Financial Liabilities at Amortized Cost

The financial liabilities at amortized cost saw a steady increase from €136.2b in 2018 to €166.7b in 2021, with a notable dip in 2022, stabilizing at €153.9b. This growth was primarily driven by the rise in deposits due to customers, which grew 20% in this 5-year span. Debt securities in issue saw a rise in 2019 but have been on a declining trend since then. This could indicate a reduced reliance on issuing debt securities as a financing mechanism or a strategic shift in the bank's financing structure.

Profitability

Banco BPM's profitability has exhibited fluctuations over the recent years (Figure 32). The Return on Equity (ROE), a key indicator of financial performance, showcased a negative value of -0.58% in the initial year, but rebounded significantly to 6.70% in the subsequent year, closely aligning with the industry average of 6.8%.

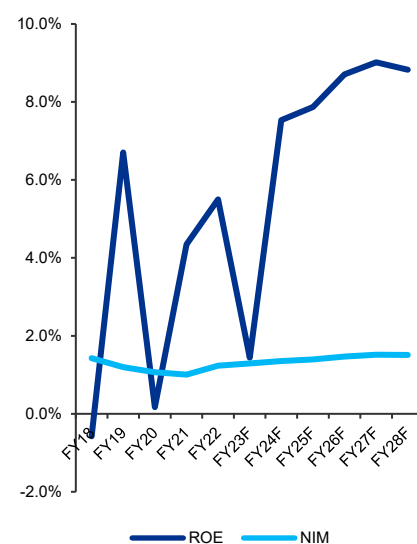


Figure 32. Profitability Ratios

Source: Author's estimates

However, it then dipped to a marginal 0.17% before recovering to 4.35% and further improving to 5.50% in the latest year. This trajectory indicates a volatile but generally upward trend in the bank's ability to generate profit from its equity. The Return on Assets (ROA), which measures the bank's efficiency in utilizing its assets to generate earnings, remained relatively stable, oscillating between 0.0% and 0.5%. This suggests a consistent asset management strategy, albeit with modest returns. The Net Interest Margin (NIM), a critical metric for banks that gauges the difference between interest income and interest expenses, has seen a slight contraction from 1.4% to 1.0% before rebounding to 1.2% in the most recent year. This movement in NIM underscores the bank's evolving interest income strategy and its response to broader market interest rate dynamics.

In terms of net income, Banco BPM faced a posted a net loss in 2018. However, the subsequent year marked a turnaround, with the bank registering a net income of €0.7b. The subsequent years witnessed a steady climb, with net incomes of €0.6b and €0.7b in 2021 and 2022, respectively. This upward trend underscores Banco BPM's ability to sustain its profitability momentum, reflecting its operational efficiency and strategic initiatives.

Solvency and Liquidity position

Banco BPM's liquidity and solvency metrics provide insights into its financial health and resilience (Figure 33). The Solvency ratio, which gauges the bank's ability to meet its long-term obligations, has demonstrated a consistent upward trend, moving from 15% to a stable 20% in the recent two years. This progression indicates an enhancement in the bank's overall financial stability and its capacity to absorb potential shocks. The CET1 ratio, a primary measure of a bank's core equity capital compared to its total risk-weighted assets, has seen a steady increase from 12.1% to 14.7%, before slightly retracting to 14.3% in the latest year. Notably, this current level is closely aligned with the targeted 14.4% set for 2024, suggesting that the bank is on track in maintaining its core capital buffer. The Loans to Deposits ratio, a key liquidity metric, fluctuated between 91% and 96% before dropping to 84% and then reverting to 90%. This ratio's movement reflects the bank's lending practices in relation to its deposit base, with a value below 100% indicating that the bank lends out less than it holds in deposits, a positive sign of liquidity management.

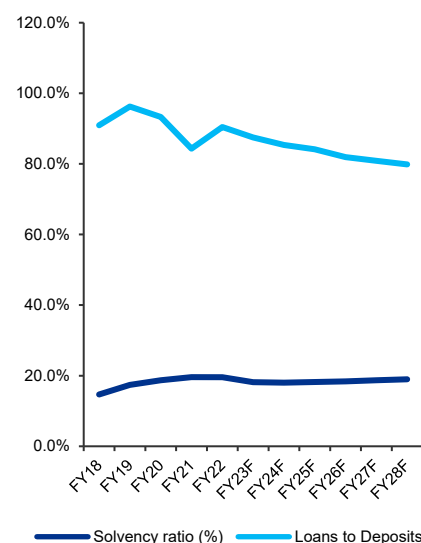


Figure 33. Solvency and Liquidity Ratios

Source: Author's estimates

8. Investment Risks

Credit Risk (Figure 34)

This is the risk that borrowers will default on their obligations, leading to financial losses for the bank. Given that Banco BPM, like all banks, lends money to individuals, businesses, and other entities, it's exposed to the possibility that some of its borrowers might not repay their loans. The bank's exposure to credit risk can be influenced by various factors, including economic downturns, industry-specific challenges, or even geopolitical events.

Interest Rate Risk

This risk arises from fluctuations in interest rates, which can impact the bank's net interest margin (the difference between interest earned on assets and interest paid on liabilities). Changes in the European Central Bank's monetary policy, inflation rates, or other macroeconomic factors can influence interest rates. If Banco BPM doesn't manage this risk effectively, it could see a squeeze in its margins, affecting profitability.

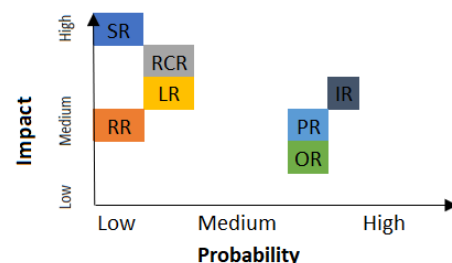


Figure 34. Risk Matrix

Source: Author's estimates

Operational Risk

This encompasses risks from system failures, fraud, human errors, or any external events that disrupt the bank's operations. As a large institution with multiple branches and a vast digital infrastructure, Banco BPM must ensure robust systems and processes to mitigate operational risks. Cyberattacks, system outages, or even natural disasters can disrupt operations and lead to financial losses.

Regulatory and Compliance Risk

Banks operate in a heavily regulated environment. Non-compliance with regulations can lead to penalties, sanctions, or reputational damage. Given the evolving regulatory landscape in the European banking sector, Banco BPM needs to stay abreast of all regulatory changes and ensure strict adherence. Non-compliance could not only lead to financial penalties but also damage the bank's reputation among stakeholders.

Liquidity Risk

This is the risk that the bank might not be able to meet its short-term financial obligations due to an inability to convert assets into cash without incurring significant losses. While banks typically have a mix of short-term and long-term assets and liabilities, sudden and unexpected withdrawals, or a lack of access to funding markets can strain liquidity. Effective asset-liability management is crucial for Banco BPM to manage this risk.

Reputation Risk

Negative publicity, whether true or not, can harm the bank's reputation, leading to a loss of customers, partners, or investors. In today's digital age, news spreads rapidly. Any negative event associated with the bank, such as a scandal, regulatory penalty, or even a significant operational failure, can erode trust and harm its brand value.

Macroeconomic Risk

Broader economic factors, such as recessions, inflation, political instability, or global events, can impact the bank's performance. Being based in Italy, Banco BPM is exposed to the economic and political dynamics of the region. Economic downturns or political uncertainties can influence borrowing, lending, and overall banking activities.

Political Risk

This risk arises from changes in government, legislative decisions, taxation policies, or political instability that can impact the operating environment for businesses. As an institution operating in Italy, Banco BPM is exposed to the political dynamics of the country. Changes in government, regulatory shifts, or even geopolitical tensions can influence the bank's operations. For instance, unexpected regulatory changes can lead to increased compliance costs, while political instability can affect consumer and investor confidence, potentially leading to reduced lending, borrowing, or investment activities.

Systemic Risk

This is the risk of a domino effect in the financial system, where the failure of one institution leads to a cascade of failures across the industry, potentially leading to a broader economic downturn. Banks are interconnected through various channels, including interbank lending, shared borrowers, and common asset holdings. If a significant bank or several smaller institutions face crises simultaneously, it can create a ripple effect, impacting even healthy banks like Banco BPM. Such scenarios can lead to tightened liquidity, reduced access to capital markets, and a loss of confidence among depositors and investors. Banco BPM, despite its individual

strengths, could face challenges in such a systemic event, underscoring the importance of robust risk management and contingency planning.

Scenario Analysis

In the valuation process, both optimistic (blue-sky) and pessimistic (grey-sky) scenarios were meticulously evaluated to account for potential future uncertainties. These scenarios were constructed by varying key parameters: i) real GDP growth rate, ii) cost of risk, iii) market share of deposits, and iv) credit market share.

For these variables, the baseline scenario sets a growth trajectory in line with the broader market. In contrast, the blue-sky scenario projects a growth rate that surpasses the base model by 10 basis points, while the grey sky scenario anticipates a growth rate lagging the base model by the same margin. The most influential variables in the valuation are the Real GDP growth and the Cost of Risk. Under the optimistic blue-sky scenario, the Real GDP growth rate is projected to reach 1.1% and the Cost of Risk -0.4% by 2028. On the other hand, the grey sky scenario takes a cautious approach, estimating a growth of 0.9% for the Real GDP and 0.6% as the Cost of Risk.

These varying growth projections lead to different valuation figures: the blue-sky scenario suggests a stock price of €6.91, while the grey sky scenario points to a more conservative price of €4.68.

Sensitivity Analysis

In assessing potential fluctuations in the target price due to shifts in pivotal variables, a sensitivity analysis was conducted using the Crystal Ball software. This analysis spanned 100,000 possible scenarios, each exploring into various variable combinations to identify those that significantly influenced the target price when deviating from foundational assumptions. The analysis pinpointed that the variables with the most substantial impact on the target price were Beta, Market Risk Premium, Cost of Risk, Risk-Free Rate, and Real GDP growth. Remarkably, the two most influential variables, Beta and Market Risk Premium, each accounted for -40.6% of the variations observed in the target price (Figure 35 and Figure 36).

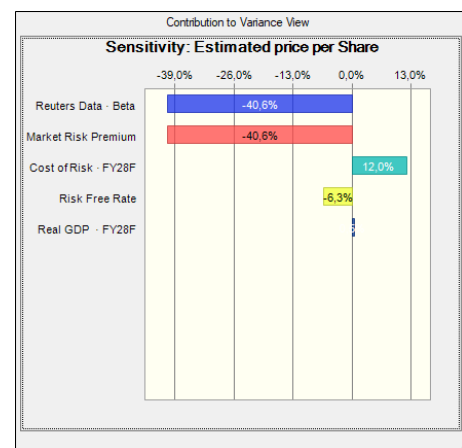


Figure 35. Estimated Price per Share Sensitivity

Source: Author's estimates; Crystal Ball Software

		Market Risk Premium					
		5.79	4.0%	4.5%	5.0%	5.5%	6.0%
Beta	1.10	7.21	6.80	6.80	6.09	5.79	
	1.20	6.91	6.49	6.49	5.79	5.49	
	1.32	6.91	6.49	6.49	5.79	5.49	
	1.40	6.36	5.95	5.95	5.26	4.98	
	1.50	6.12	5.71	5.71	5.04	4.75	

Figure 36. Sensitivity Analysis

Source: Author's estimates; Crystal Ball Software

Monte Carlo

To complement the sensitivity analysis, a Monte Carlo simulation was executed using the Crystal Ball software. This method, renowned for its ability to model the probability of different outcomes in a process that cannot easily be predicted due to the intervention of random variables, was applied to run 100,000 simulations. The results from this rigorous simulation process provided a compelling insight: with 95% confidence, the year-end 2024 target price for Banco BPM is projected to lie between €4.84 and €7.00 (Figure 37). This range offers a nuanced understanding of the potential valuation trajectories for the bank, underscoring the importance of considering probabilistic outcomes in equity valuation.

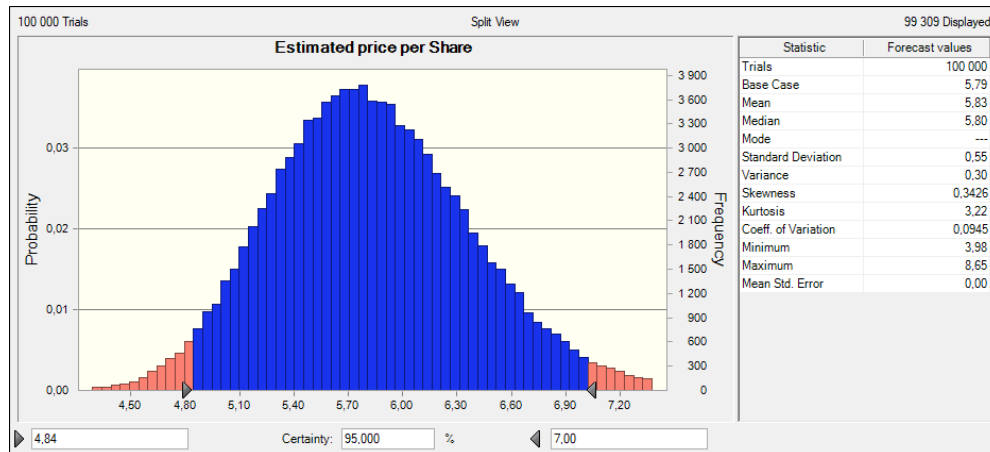


Figure 37. Monte Carlo Simulation

Source: Author's estimates; Crystal Ball Software

Appendices

Appendix 1: Statement of Financial Position

	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
Asset Items											
10. Cash and cash equivalents	922,017	912,742	9,410,687	29,153,316	13,130,815	14,318,784	15,316,706	15,969,236	16,811,979	17,420,998	18,009,936
20. Financial assets at fair value through profit and loss	5,788,599	7,211,477	9,041,225	6,337,110	8,935,495	9,743,966	10,422,989	10,867,025	11,454,130	11,946,152	12,255,717
a) financial assets held for trading	4,522,529	5,726,814	7,248,348	4,538,625	4,908,497	4,916,389	5,269,028	5,483,076	5,779,301	5,978,108	6,181,755
c) other financial assets mandatorily measured at fair value	1,266,066	1,484,663	1,792,877	1,798,485	4,026,998	4,827,577	5,143,958	5,383,949	5,674,830	5,970,044	6,073,973
30. Financial assets measured at fair value through other comprehensive income	15,393,561	12,526,772	10,712,796	10,679,079	12,826,051	13,971,446	14,946,954	15,999,371	16,442,132	17,027,741	17,929,806
40. Financial assets at amortised cost	128,842,007	133,147,117	141,249,123	140,448,388	139,139,766	142,870,869	147,268,424	150,238,718	152,576,856	154,922,200	157,304,142
a) loans to banks	4,377,526	10,884,518	10,884,518	11,427,214	12,773,900	5,492,238	5,228,611	5,399,326	5,499,668	5,669,127	5,810,855
b) loans to customers	119,462,481	122,212,599	129,877,109	127,474,398	133,647,528	137,642,258	141,290,188	144,740,050	146,907,739	149,211,345	151,348,615
50. Hedging derivatives	130,511	303,614	75,046	127,076	1,717,211	1,717,211	1,717,211	1,717,211	1,717,211	1,717,211	1,717,211
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	42,173	29,161	52,288	2,875	488,403	488,403	488,403	488,403	488,403	488,403	488,403
70. Equity investments	4,348,163	3,386,079	1,664,772	1,794,316	1,453,955	1,453,955	1,453,955	1,453,955	1,453,955	1,453,955	1,453,955
90. Property, plant and equipment	2,775,885	3,624,312	3,552,482	3,278,245	3,034,689	3,056,020	3,058,322	3,061,195	3,063,872	3,066,563	3,069,089
100. Intangible assets	1,277,941	1,269,360	1,218,632	1,213,722	1,286,734	1,354,393	1,392,177	1,393,177	1,394,801	1,397,109	1,397,109
110. Tax assets	5,013,477	4,619,636	4,704,196	4,540,229	4,632,827	4,632,827	4,632,827	4,632,827	4,632,827	4,632,827	4,632,827
a) current	330,436	159,845	283,993	246,601	265,552	246,601	246,601	246,601	246,601	246,601	246,601
b) deferred	4,683,041	4,459,791	4,420,203	4,293,628	4,367,275	4,386,226	4,386,226	4,386,226	4,386,226	4,386,226	4,386,226
120. Non-current assets and disposal groups held for sale	1,592,782	131,082	72,823	239,571	214,737	214,737	214,737	214,737	214,737	214,737	214,737
130. Other assets	3,346,679	2,106,849	1,930,612	2,689,089	3,808,291	3,808,291	3,808,291	3,808,291	3,808,291	3,808,291	3,808,291
Total assets	160,464,791	167,038,201	183,685,182	200,489,216	189,685,895	199,214,456	209,417,440	216,094,220	224,422,514	230,429,697	236,499,549
Liabilities and shareholders' equity items											
10. Financial liabilities at amortised cost	136,160,342	138,333,959	151,420,894	166,561,146	153,674,094	163,321,581	172,553,592	178,999,875	186,224,502	191,517,310	196,982,163
a) due to banks	32,628,941	28,523,335	33,944,944	46,691,578	32,826,526	32,285,252	32,286,095	33,993,104	34,408,553	34,975,431	35,500,063
b) due to customers	90,157,859	94,099,912	102,915,666	107,788,219	108,307,667	111,120,809	126,336,979	126,336,979	126,336,979	126,336,979	126,336,979
c) debt securities in issue	14,328,942	15,710,712	14,560,630	13,081,349	12,930,521	12,930,521	12,930,521	12,930,521	12,930,521	12,930,521	12,930,521
30. Financial liabilities held for trading	5,520,122	10,366,668	12,087,944	14,312,851	10,311,692	10,311,692	10,311,692	10,311,692	10,311,692	10,311,692	10,311,692
30. Financial liabilities designated at fair value	692,800	420,561	955,781	1,405,190	3,938,518	3,938,518	3,938,518	3,938,518	3,938,518	3,938,518	3,938,518
40. Hedging derivatives	728,307	552,761	585,680	227,572	948,424	948,424	948,424	948,424	948,424	948,424	948,424
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	49,756	629,269	130,912	47,812	1,173,078	1,173,078	1,173,078	1,173,078	1,173,078	1,173,078	1,173,078
60. Tax liabilities	500,420	619,269	464,570	302,816	279,983	279,983	279,983	279,983	279,983	279,983	279,983
a) current	11,181	5,235	5,672	8,894	1,610	1,610	1,610	1,610	1,610	1,610	1,610
b) deferred	489,239	614,034	458,898	293,922	278,373	278,373	278,373	278,373	278,373	278,373	278,373
70. Liabilities associated with asset disposal groups held for sale	3,043	5,086	-	-	-	-	-	-	-	-	-
80. Other liabilities	3,814,589	3,303,823	3,797,227	3,613,968	3,430,984	3,430,984	3,430,984	3,430,984	3,430,984	3,430,984	3,430,984
90. Provisions for employee severance pay	377,498	384,986	369,498	330,332	258,457	258,457	258,457	258,457	258,457	258,457	258,457
100. Provisions for risks and charges	1,327,308	1,101,797	1,045,975	876,643	730,395	752,227	775,546	791,017	802,863	814,906	827,130
110. Volutations reserves	346,438	364,836	310,412	341,360	624,011	624,011	624,011	624,011	624,011	624,011	624,011
140. Equity instruments	286,112	286,112	696,417	1,002,812	1,389,794	1,389,794	1,389,794	1,389,794	1,389,794	1,389,794	1,389,794
150. Reserves	3,577,955	3,512,575	4,112,500	3,999,850	4,219,445	4,828,071	5,440,601	5,940,601	6,443,643	6,943,643	7,443,643
170. Share capital	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000
180. Other shares (+/-)	12,610	11,548	14,002	8,519	18,266	18,266	18,266	18,266	18,266	18,266	18,266
190. Non-controlling interests (+/-)	45,599	26,076	1,894	720	720	720	720	720	720	720	720
200. Profit (loss) for the year (+/-)	59,432	797,001	20,880	569,068	702,589	184,936	1,040,123	1,135,087	1,316,118	1,426,136	1,448,493
Total liabilities and shareholders' equity	160,464,791	167,038,201	183,685,182	200,489,216	189,685,895	199,214,456	209,417,440	216,094,220	224,422,514	230,429,697	236,499,549

Appendix 2: Income Statement

	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
Consolidated Income Statement											
10. Interest and similar income	2,861,587	2,513,924	2,416,005	2,425,188	2,937,063	6,365,876	6,538,752	5,161,634	3,704,351	3,144,417	3,192,024
20. Interest and similar expense	(589,025)	(515,972)	(460,000)	(489,048)	(595,367)	(2,190,969)	(2,302,386)	(2,146,523)	(420,831)	(360,078)	(376,496)
30. Net interest income	2,272,562	1,997,952	1,956,005	2,016,140	2,341,696	4,174,907	4,236,366	3,015,111	3,283,520	2,784,339	2,815,528
40. Fee and commission income	1,948,563	1,870,979	1,765,869	2,018,001	1,998,389	2,179,187	2,331,061	2,430,370	2,561,672	2,649,793	2,740,546
50. Fee and commission expense	(103,003)	(118,875)	(121,996)	(117,506)	(143,886)	(169,915)	(175,001)	(174,001)	(184,458)	(193,893)	(197,465)
60. Net fee and commission income	1,845,560	1,752,104	1,643,873	1,900,495	1,854,503	2,009,272	2,156,060	2,256,369	2,377,214	2,455,900	2,543,081
70. Dividends and similar income	51,956	69,611	42,015	53,718	60,840	60,840	60,840	60,840	60,840	60,840	60,840
80. Net trading income	95,610	178,416	16,312	79,523	174,185	174,185	174,185	174,185	174,185	174,185	174,185
90. Fair value gain/(loss) on hedging derivatives	(1,657)	7,497	7,657	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402
100. Gains/(losses) on disposal or repurchase of:	111,830	337,551	149,126	129,080	165,927	-	-	-	-	-	-
a) financial assets at amortised cost	283,020	76,510	271,534	145,362	60,948	-	-	-	-	-	-
b) financial assets measured at fair value through other comprehensive income	(130,940)	(265,432)	(124,311)	(16,256)	(101,636)	-	-	-	-	-	-
c) financial liabilities	(4,508)	(4,391)	(1,903)	(74)	(3,943)	-	-	-	-	-	-
110. Net gains/(losses) from other financial assets and liabilities measured at fair value through profit and loss	17,152	109,668	133,247	16,342	9,146	9,146	9,146	9,146	9,146	9,146	9,146
120. Other financial assets and liabilities designated at fair value	29,620	2,965	14,235	7,894	163,348	7,894	7,894	7,894	7,894	7,894	7,894
130. Other financial assets and liabilities mandatorily measured at fair value	12,478	306,703	119,512	8,448	172,894	8,448	8,448	8,448	8,448	8,448	8,448
140. Operating income	8,966,229	4,080,967	3,634,364	3,996,490	4,257,233	4,832,380	5,236,780	5,496,081	5,920,938	6,179,689	6,377,322
150. Net credit impairment losses/recoveries relating to:	1,678,529	721,953	1,049,430	482,702	644,772	644,772	644,772	685,307	698,994	709,465	720,092
a) financial assets at amortised cost	1,674,775	724,741	1,049,211	482,997	648,574	648,574	648,574	684,350	698,037	708,508	719,135
b) financial assets measured at fair value through other comprehensive income	3,754	2,212	219	957	2,128	957	957	957	957	957	957
160. Gains/(losses) from contractual modification without derecognition	1,843	1,997	1,256	1,713	1,713	-	-	-	-	-	-
170. Net income from financial activities	2,285,857	3,357,017	2,583,768	3,297,015	3,776,244	4,178,608	4,562,050	4,813,774	5,208,944	5,470,224	5,617,120
180. Net income from financial and insurance activities	2,285,857	3,357,017	2,583,768	3,297,015	3,776,244	4,178,608	4,562,050	4,813,774	5,208,944	5,470,224	5,617,120
190. Administrative expenses:	2,974,742	2,739,685	2,497,178	2,771,573	2,758,642	2,984,842	3,184,415	3,312,637	3,561,041	3,676,465	3,746,605
a) personnel expenses	1,728,610	1,690,122	1,836,216	1,670,739	1,609,881	1,732,150	1,854,420	1,915,555	1,976,689	2,037,024	2,100,850
b) other administrative expenses	1,246,132	1,049,563	1,660,962	1,100,834	1,148,761	1,252,692	1,329,995	1,397,082	1,474,352	1,521,217	1,575,815

Appendix 4: Common-Size Statement of Financial Position

In thousands of Euro	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
Asset items											
10. Cash and cash equivalents	1%	1%	5%	15%	7%	7%	7%	7%	8%	8%	8%
20. Financial assets at fair value through profit and loss	4%	4%	5%	3%	5%	5%	5%	5%	5%	5%	5%
a) financial assets held for trading	3%	3%	4%	2%	2%	2%	3%	3%	3%	3%	3%
c) other financial assets mandatorily measured at fair value	1%	1%	1%	1%	2%	2%	2%	2%	3%	3%	3%
30. Financial assets measured at fair value through other comprehensive income	10%	7%	6%	5%	7%	7%	7%	7%	7%	7%	7%
40. Financial assets at amortised cost	77%	80%	77%	70%	73%	72%	70%	70%	68%	67%	67%
a) loans to banks	3%	6%	6%	6%	3%	3%	3%	3%	3%	3%	3%
b) loans to customers	74%	73%	71%	64%	70%	69%	68%	67%	65%	65%	64%
50. Hedging derivatives	0%	0%	0%	0%	1%	1%	1%	1%	1%	1%	1%
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
70. Equity investments	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
90. Property, plant and equipment	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
100. Intangible assets	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
110. Tax assets	3%	3%	3%	2%	2%	2%	2%	2%	2%	2%	2%
a) current	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
b) deferred	3%	3%	3%	2%	2%	2%	2%	2%	2%	2%	2%
120. Non-current assets and disposal groups held for sale	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
130. Other assets	1%	1%	1%	1%	2%	2%	2%	2%	2%	2%	2%
Total assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Liabilities and shareholders' equity items											
10. Financial liabilities at amortised cost	85%	83%	82%	83%	81%	82%	82%	83%	83%	83%	83%
a) due to banks	20%	17%	18%	23%	16%	16%	16%	16%	15%	15%	15%
b) due to customers	56%	56%	56%	54%	57%	59%	60%	61%	62%	62%	63%
c) debt securities in issue	9%	9%	8%	7%	7%	6%	6%	6%	6%	6%	5%
20. Financial liabilities held for trading	4%	6%	7%	7%	5%	5%	5%	5%	5%	4%	4%
30. Financial liabilities designated at fair value	0%	0%	1%	1%	2%	2%	2%	2%	2%	2%	2%
40. Hedging derivatives	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
60. Tax liabilities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
a) current	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
b) deferred	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
70. Liabilities associated with asset disposal groups held for sale	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
80. Other liabilities	2%	2%	2%	2%	2%	2%	2%	2%	2%	1%	1%
90. Provisions for employee severance pay	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
100. Provisions for risks and charges	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
120. Valuation reserves	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
140. Equity instruments	0%	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%
150. Reserves	2%	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%
170. Share capital	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
180. Own shares (-)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
190. Non-controlling interests (+/-)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
200. Profit (loss) for the year (+/-)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total liabilities and shareholders' equity	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Appendix 5: Common-Size Income Statement

Consolidated Income Statement	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
10. Interest and similar income	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
20. Interest and similar expense	-20%	-21%	-19%	-17%	-20%	-19%	-20%	-20%	-20%	-21%	-21%
30. Net interest income	80%	79%	81%	83%	80%	80%	80%	80%	80%	79%	79%
40. Fee and commission income	68%	74%	73%	83%	68%	34%	36%	47%	69%	84%	86%
50. Fee and commission expense	-4%	-5%	-5%	-5%	-5%	-2%	-3%	-3%	-3%	-6%	-6%
60. Net fee and commission income	64%	69%	68%	78%	63%	32%	33%	44%	66%	78%	80%
70. Dividends and similar income	2%	3%	2%	2%	2%	1%	1%	2%	2%	2%	2%
80. Net trading income	-3%	-7%	1%	3%	6%	3%	3%	3%	5%	6%	5%
90. Fair value gains/losses on hedging derivatives	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
100. Gains (losses) on disposal or repurchase of:	-4%	13%	-6%	-5%	-6%	0%	0%	0%	0%	0%	0%
a) financial assets at amortised cost	-8%	3%	-11%	-6%	-2%	0%	0%	0%	0%	0%	0%
b) financial assets measured at fair value through other comprehensive income	5%	11%	5%	1%	-3%	0%	0%	0%	0%	0%	0%
c) financial liabilities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	-1%	4%	6%	1%	0%	0%	0%	0%	0%	0%	0%
a) financial assets and liabilities designated at fair value	-1%	0%	1%	0%	6%	0%	0%	0%	0%	0%	0%
b) other financial assets mandatorily measured at fair value	0%	4%	5%	0%	-6%	0%	0%	0%	0%	0%	0%
120. Operating income	129%	162%	150%	162%	143%	76%	80%	107%	159%	197%	199%
130. Net credit impairment losses/recoveries relating to:	-59%	-29%	-43%	-26%	-16%	-10%	-13%	-13%	-19%	-23%	-23%
a) financial assets at amortised cost	-59%	-29%	-43%	-26%	-16%	-10%	-13%	-13%	-19%	-23%	-23%
b) financial assets measured at fair value through other comprehensive income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
140. Gains (losses) from contractual modification without derecognition	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
150. Net income from financial activities	80%	134%	107%	136%	129%	66%	70%	93%	140%	174%	176%
180. Net income from financial and insurance activities	80%	134%	107%	136%	129%	66%	70%	93%	141%	174%	176%
190. Administrative expenses:	-104%	-103%	-120%	-114%	-94%	-47%	-49%	-64%	-93%	-113%	-115%
a) personnel expenses	-60%	-67%	-76%	-69%	-55%	-27%	-28%	-37%	-53%	-65%	-66%
b) other administrative expenses	-44%	-42%	-44%	-45%	-39%	-20%	-21%	-27%	-40%	-48%	-49%
200. Net provisions for risks and charges	12%	-8%	-2%	-1%	-2%	-1%	-1%	-2%	-2%	-2%	-2%
a) commitments and guarantees given	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
b) other net provisions	-12%	-8%	-2%	-1%	-2%	-1%	-1%	-2%	-2%	-2%	-2%
210. Depreciation and impairment losses on property, plant and equipment	-5%	-8%	-7%	-7%	-6%	-3%	-3%	-3%	-5%	-5%	-5%
220. Amortisation and impairment losses on intangible assets	-4%	-4%	-5%	-5%	-4%	-1%	-1%	-2%	-2%	-2%	-2%
230. Other operating expenses/income	24%	13%	14%	15%	12%	5%	7%	9%	11%	11%	11%
240. Operating expenses	-101%	-112%	-120%	-112%	-95%	-46%	-48%	-63%	-92%	-112%	-114%
250. Gains (losses) of associates and joint ventures	12%	5%	5%	9%	5%	2%	2%	3%	4%	5%	5%
260. Fair value gains (losses) on property, plant and equipment and intangible assets	0%	-6%	-2%	-6%	-4%	-2%	-2%	-3%	-3%	-3%	-3%
270. Value adjustments to goodwill	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%
280. Gains (losses) on disposal of investments	-10%	34%	0%	0%	0%	0%	0%	0%	0%	0%	0%
290. Profit (loss) before tax from continuing operations	7%	-3%	-10%	27%	35%	4%	23%	31%	50%	64%	64%
300. Taxation charge related to profit or loss from continuing operations	-2%	31%	11%	11%	4%	-11%	1%	6%	14%	18%	18%
310. Profit (loss) after tax from continuing operations	0%	0%	1%	23%	24%	3%	16%	22%	36%	45%	45%
320. Profit (loss) for the year	-2%	31%	1%	23%	24%	3%	16%	22%	36%	45%	45%
340. Profit (loss) for the year attributable to non-controlling interests	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
350. Parent Company's profit (loss) for the year	-2%	32%	1%	23%	24%	3%	16%	22%	36%	45%	45%

Appendix 6: Forecasting Assumptions

Macroeconomic Assumptions	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F Source
Inflation (% avg)	1.25%	0.64%	-0.16%	1.95%	8.74%	6.40%	2.40%	1.70%	1.80%	1.70%	1.60% Derived from INDS
Inflation (% change, pa)	1.28%	0.49%	-0.29%	4.27%	12.28%	2.00%	2.10%	1.80%	1.70%	1.70%	1.60% EIU calculation
Index					1.00	1.02	1.04	1.06	1.08	1.10	1.11
Domestic Credit (% growth)	0.3%	1.5%	7.4%	2.5%	-0.9%	-4.8%	2.5%	2.6%	3.1%	2.5%	2.5% IMF, International Finar
M2 (% growth, avg period)	2.4%	5.9%	10.5%	7.1%	-0.3%	-1.7%	2.8%	2.7%	3.4%	2.7%	2.7% Derived from Banca d'It
Credit to Clients (gross) - €m Market (% growth)	1,835,374	1,826,663	1,901,723	1,985,008	1,762,917	1,922,867	2,057,248	2,145,099	2,261,325	2,339,317	2,420,907 Eurostat
Deposits from clients - €m Market (% growth)	2,234,673	2,300,462	2,547,998	2,682,814	2,433,596	2,653,768	2,838,717	2,959,654	3,119,550	3,226,862	3,337,866 Eurostat
Loans to Deposits Mercado	82.1%	79.4%	74.6%	74.0%	72.4%	72.5%	72.5%	72.5%	72.5%	72.5%	72.5%
Deposits / Nominal GDP	122.8%	128.1%	164.1%	144.7%	139.9%	137.9%	137.2%	136.7%	137.6%	137.2%	137.2% EIU calculation
Exchange Rate (USD/EUR)	1.15	1.12	1.22	1.14	1.1575	1.1575	1.1575	1.1575	1.1575	1.1575	1.1575 Actual exchange rate
Lending interest rate (%)	2.7%	2.6%	2.3%	2.0%	2.3%	4.7%	4.7%	3.7%	2.7%	2.3%	2.3% IMF, International Finar
Deposit interest rate (%)	0.8%	0.8%	0.9%	0.8%	0.9%	3.4%	3.2%	2.3%	1.3%	0.9%	0.9% IMF, International Finar
Long Term Bond Yield Italy	2.61%	1.95%	1.17%	0.81%	3.16%	4.30%	4.20%	3.70%	3.40%	3.40%	3.40% Banca d'Italia
Labour Price per hour	34.10	32.60	33.50	35.10	31.60	34.00	36.40	37.60	38.80	40.00	41.24 US Bureau of Labor Stat
Labour price increase %		-4.40%	2.76%	4.78%	-9.7%	7.59%	7.06%	3.30%	3.19%	3.09%	3.09%
Nominal GDP Change (%)	2,092,800	2,011,300	1,894,100	2,113,600	2,012,900	2,227,000	2,397,000	2,507,000	2,630,000	2,731,000	2,802,000 INDS, IMF, Internation
Real GDP (% change pa)	0.79%	0.48%	-0.04%	6.97%	3.83%	1.20%	1.10%	1.20%	1.10%	1.00%	1.00% EuroStat
Real GDP growth (%)				6.99%	3.68%	0.65%	0.78%	1.23%	1.10%	1.05%	0.88% IMF
Other assumptions											
Growth of credit to clients		3.0%	6.4%	-2.0%	3.1%	3.1%	3.1%	2.0%	1.5%	1.5%	1.5% Based on the Bank's Str
Cost of Risk		-0.6%	-0.9%	-0.5%	-0.4%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5% Based on the Bank's Str
Divident Payout Ratio				15.9%	12.9%	50.0%	50.0%	55.0%	55.0%	60.0%	60.0% Based on the Bank's Str
Credit Market Share						7.6%	7.6%	7.6%	7.6%	7.6%	7.6% Market share assumed
Deposits Market Share						4.5%	4.5%	4.5%	4.5%	4.5%	4.5% Market share assumed

Appendix 7: FCFE

in thousands €	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
RWAs	60,199,878	63,223,920	66,462,002	68,580,986	71,224,104	73,130,581	75,056,946
Min Regulatory Capital Ratio	18%	18%	18%	18%	18%	18%	18%
Min Regulatory Capital	10,787,818	11,329,727	11,909,991	12,289,713	12,763,359	13,105,000	13,450,205
Reinvestment in Regulatory Capital		541,908	580,264	379,722	473,647	341,641	345,205
Total Capital	11,789,316	11,471,450	11,991,512	12,502,301	13,094,554	13,665,032	14,244,430
Available Capital FY0		1,001,498					
Net Income	702,589	184,936	1,040,123	1,135,087	1,316,118	1,426,196	1,448,493
Free Cash Flow to Equity	702,589	644,525	459,859	755,366	842,471	1,084,556	1,103,289
Discount Factor	1.00	1.00	1.00	0.89	0.79	0.70	0.62
Discounted FCFE	702,589	644,525	459,859	670,917	664,627	759,952	686,649
							5,985,248
Ke	12.59%						
g	1.00%						
Valuation in €	8,767,392,402						
# Shares	1,515,182,126						
Estimated price per Share	5.79						
Current Share Price	4.49		jul/23				
Upside Potencial	29%						

Appendix 8: FCFE

in thousands €	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	Perpetuity
Net Income	702,589	184,936	1,040,123	1,135,087	1,316,118	1,426,196	1,448,493	
Equity Cost	1,432,470	1,443,921	1,563,203	1,640,617	1,727,697	1,816,100	1,890,713	
Excess Equity Return	-	729,881	523,080	505,530	411,579	389,904	442,220	3,854,653
Discount Factor	1.00	1.00	1.00	0.89	0.79	0.70	0.62	0.62
Discounted Residual Income			523,080	449,012	324,695	273,207	275,222	2,399,004
Beginning BV of Equity	11,380,477	11,471,450	12,419,105	13,034,131	13,725,951	14,428,282	15,021,058	
Ke	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	
Equity Cost	1,432,470	1,443,921	1,563,203	1,640,617	1,727,697	1,816,100	1,890,713	
Accumulated Present Value of Equity Excess Return	-4,244,221							
Equity Value	8,789,909,474							
# Shares	1,515,182,126							
Price Target	5.80							
Current Price	4.49							
Upside Potential	29.2%							
Ke	12.59%							
g	1.0%							

Appendix 9: Residual Income

in thousands €	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	Perpetuity
Net Income	702,589	184,936	1,040,123	1,135,087	1,316,118	1,426,196	1,448,493	
Equity Cost	1,432,470	1,443,921	1,563,203	1,640,617	1,727,697	1,816,100	1,890,713	
Excess Equity Return	-	729,881	523,080	505,530	411,579	389,904	442,220	3,854,653
Discount Factor	1.00	1.00	1.00	0.89	0.79	0.70	0.62	0.62
Discounted Residual Income			523,080	449,012	324,695	273,207	275,222	2,399,004
Beginning BV of Equity	11,380,477	11,471,450	12,419,105	13,034,131	13,725,951	14,428,282	15,021,058	
Ke	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	
Equity Cost	1,432,470	1,443,921	1,563,203	1,640,617	1,727,697	1,816,100	1,890,713	
Accumulated Present Value of Equity Excess Return	-4,244,221							
Equity Value	8,789,909,474							
# Shares	1,515,182,126							
Price Target	5.80							
Current Price	4.49							
Upside Potential	29.2%							
Ke	12.59%							
g	1.0%							

Appendix 10: DDM

in thousands €	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
Dividends	-	90,544	90,544	92,468	520,062	624,298	723,865	855,718	869,096		
Discount Factor		1.00	1.00	1.00	0.89	0.79	0.70	0.62	0.62		
Discounted Dividend				92,468	520,062	554,502	571,058	599,604	540,896		
										4,714,772	Terminal Value
Dividend	6,980,832,867										
Cost of Equity	12.59%										
g	1.00%										
# Shares	1,515,182,126										
Implied Price per Share	4.61										
Current Share Price	4.49										
Upside Potential	3%										

Appendix 11: Multiple Valuation

First Regression																																																																										
Identifier (RIC)	PBV	ROE	Beta	SUMMARY OUTPUT																																																																						
BAMI.MI	0.49	6.9%	1.22	<table border="1"> <thead> <tr> <th colspan="7">Regression Statistics</th> </tr> <tr> <th colspan="7">ANOVA</th> </tr> <tr> <th></th> <th>df</th> <th>SS</th> <th>MS</th> <th>F</th> <th colspan="2">Significance F</th> </tr> </thead> <tbody> <tr> <td>Regression</td> <td>2</td> <td>0.02988299</td> <td>0.014941493</td> <td>0.342027349</td> <td colspan="2">0.725737208</td> </tr> <tr> <td>Residual</td> <td>5</td> <td>0.21842541</td> <td>0.043685082</td> <td></td> <td colspan="2"></td> </tr> <tr> <td>Total</td> <td>7</td> <td>0.2483084</td> <td></td> <td></td> <td colspan="2"></td> </tr> <tr> <th></th> <th>Coefficients</th> <th>Standard Error</th> <th>t Stat</th> <th>P-value</th> <th>Lower 95%</th> <th>Upper 95%</th> </tr> <tr> <td>Intercept</td> <td>0.889943888</td> <td>0.55783917</td> <td>1.595341341</td> <td>0.171521484</td> <td>-0.544027347</td> <td>2.323915123</td> </tr> <tr> <td>ROE</td> <td>1.146981853</td> <td>1.46467161</td> <td>0.783098305</td> <td>0.469018927</td> <td>-2.618076376</td> <td>4.912040082</td> </tr> <tr> <td>Beta</td> <td>-0.279474585</td> <td>0.4496255</td> <td>-0.621571919</td> <td>0.561462731</td> <td>-1.435273727</td> <td>0.876324558</td> </tr> </tbody> </table>	Regression Statistics							ANOVA								df	SS	MS	F	Significance F		Regression	2	0.02988299	0.014941493	0.342027349	0.725737208		Residual	5	0.21842541	0.043685082				Total	7	0.2483084						Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Intercept	0.889943888	0.55783917	1.595341341	0.171521484	-0.544027347	2.323915123	ROE	1.146981853	1.46467161	0.783098305	0.469018927	-2.618076376	4.912040082	Beta	-0.279474585	0.4496255	-0.621571919	0.561462731	-1.435273727	0.876324558
Regression Statistics																																																																										
ANOVA																																																																										
	df	SS	MS		F	Significance F																																																																				
Regression	2	0.02988299	0.014941493		0.342027349	0.725737208																																																																				
Residual	5	0.21842541	0.043685082																																																																							
Total	7	0.2483084																																																																								
	Coefficients	Standard Error	t Stat		P-value	Lower 95%	Upper 95%																																																																			
Intercept	0.889943888	0.55783917	1.595341341		0.171521484	-0.544027347	2.323915123																																																																			
ROE	1.146981853	1.46467161	0.783098305		0.469018927	-2.618076376	4.912040082																																																																			
Beta	-0.279474585	0.4496255	-0.621571919	0.561462731	-1.435273727	0.876324558																																																																				
BMPS.MI	0.38	-2.9%	1.10																																																																							
MDBI.MI	1.03	9.3%	1.20																																																																							
EMII.MI	0.46	7.9%	1.48																																																																							
ISP.MI	0.69	6.9%	1.39																																																																							
CRDI.MI	0.64	10.3%	1.66																																																																							
EMBI.MI	0.72	7.9%	1.07																																																																							
BPSI.MI	0.54	7.7%	1.46																																																																							
P/BV	0.63																																																																									
Equity Value	8,691,640,976																																																																									
Estimated price	5.74																																																																									

Second Regression																																																																																	
Identifier (RIC) P/E	Earnings gro Payout	Beta	SUMMARY OUTPUT																																																																														
BAMI.MI	6.94	-0.05	0.49	<table border="1"> <thead> <tr> <th colspan="7">Regression Statistics</th> </tr> <tr> <th colspan="7">ANOVA</th> </tr> <tr> <th></th> <th>df</th> <th>SS</th> <th>MS</th> <th>F</th> <th colspan="2">Significance F</th> </tr> </thead> <tbody> <tr> <td>Regression</td> <td>3</td> <td>48.5800516</td> <td>16.19335054</td> <td>8.879028175</td> <td colspan="2">0.030534513</td> </tr> <tr> <td>Residual</td> <td>4</td> <td>7.29510042</td> <td>1.823775105</td> <td></td> <td colspan="2"></td> </tr> <tr> <td>Total</td> <td>7</td> <td>55.8751521</td> <td></td> <td></td> <td colspan="2"></td> </tr> <tr> <th></th> <th>Coefficients</th> <th>Standard Error</th> <th>t Stat</th> <th>P-value</th> <th>Lower 95%</th> <th>Upper 95%</th> </tr> <tr> <td>Intercept</td> <td>3.317007767</td> <td>4.21744709</td> <td>0.786496594</td> <td>0.47555908</td> <td>-8.392502553</td> <td>15.02651809</td> </tr> <tr> <td>EPS</td> <td>3.628451286</td> <td>2.36904131</td> <td>1.531611654</td> <td>0.200376902</td> <td>-2.949061876</td> <td>10.20596445</td> </tr> <tr> <td>Payout</td> <td>10.27965708</td> <td>2.40826298</td> <td>4.268494415</td> <td>0.01296565</td> <td>3.593247119</td> <td>16.96606705</td> </tr> <tr> <td>Beta</td> <td>-1.286924852</td> <td>0.39321304</td> <td>-0.416047921</td> <td>0.698727956</td> <td>-9.875061042</td> <td>7.301211339</td> </tr> </tbody> </table>	Regression Statistics							ANOVA								df	SS	MS	F	Significance F		Regression	3	48.5800516	16.19335054	8.879028175	0.030534513		Residual	4	7.29510042	1.823775105				Total	7	55.8751521						Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Intercept	3.317007767	4.21744709	0.786496594	0.47555908	-8.392502553	15.02651809	EPS	3.628451286	2.36904131	1.531611654	0.200376902	-2.949061876	10.20596445	Payout	10.27965708	2.40826298	4.268494415	0.01296565	3.593247119	16.96606705	Beta	-1.286924852	0.39321304	-0.416047921	0.698727956	-9.875061042	7.301211339
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EMII.MI	5.05	0.54	0.12																																																																														
ISP.MI	7.01	0.01	0.38																																																																														
CRDI.MI	5.07	0.24	0.30																																																																														
EMBI.MI	5.63	0.15	0.35																																																																														
BPSI.MI	5.44	0.21	0.51																																																																														
P/E	6.66																																																																																
Equity Value	6,922,771,079																																																																																
Estimated price	4.57																																																																																

Appendix 12: Peers

Identifier (RIC)	Company Name	Beta	PBV	ROE	EPS	Payout	Market Cap	PE	NIFY-3	NIFY-2	NIFY-1	NIFY-0
BAMI.MI	Banco BPM SpA	1.22	0.49	6.9%	0.62	49.4%	7,130,887,393	6.94	875,104,035	25,300,198	649,532,028	754,295,990
BMPS.MI	Banca Monte dei Paschi di Siena SpA	1.10	0.38	-2.9%	-1.04		3,491,511,206		-1,130,407,187	-2,046,404,556	353,262,110	-219,214,170
MDBI.MI	Mediobanca Banca di Credito Finanziario SpA	1.20	1.03	9.3%	1.34	69.4%	10,917,669,577	10.09	711,231,150	960,384,154	926,767,961	1,126,704,926
EMII.MI	Bper Banca SpA	1.48	0.46	7.9%	1.06	11.7%	4,216,061,596	5.05	417,426,925	295,614,816	599,373,374	1,533,014,875
ISP.MI	Intesa Sanpaolo SpA	1.39	0.69	6.9%	0.24	37.9%	48,672,448,158	7.01	4,546,245,162	3,946,148,381	4,790,138,153	4,699,254,207
CRDI.MI	UniCredit SpA	1.66	0.64	10.3%	2.72	29.9%	46,132,331,071	5.07	3,703,541,038	-3,374,326,043	1,716,030,398	7,014,685,436
EMBI.MI	Credito Emiliano SpA	1.07	0.72	7.9%	0.99	35.3%	2,820,368,148	5.63	221,026,626	242,882,616	403,248,395	339,001,176
BPSI.MI	Banca Popolare Di Sondrio SpA	1.46	0.54	7.7%	0.59	50.5%	2,084,600,122	5.44	150,394,494	128,363,619	306,617,815	269,492,907

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Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%

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- [Sustainability | Banco BPM Group](#)

Glossary

% - Percentage
€ - Euro
€ ...b - Billion Euros
€ ...k - Thousand Euros
€ ...m - Million Euros
bps - Basis Points
c. - Circa (Latin Word for Approximately)
CEO - Chief Executive Officer
CET1 - Common-Equity Tier 1
CONSOB - Commissione Nazionale per le Società e la Borsa
CRD IV – Capital Requirements Directive IV
CRP – Country Risk Premium
DDM - Dividend Discounted Model
ECB – European Central Bank
EIU – Economist Intelligence Unit
EU - European Union
FCFE Free Cash Flow to Equity
FIs – Financial Institutions
FY - Fiscal Year
g - Terminal Growth
G-SIB - Global Systemically Important Banks
IMF – International Monetary Fund
IPO - Initial Public Offering
LTD - Loans-to-Deposits
LCR – Liquidity Coverage Ratio
M&A - Mergers and Acquisitions
MRP - Market Risk Premium
NII - Net Interest Income
NIM – Net Interest Margin
NPE – Non-Performing Exposure
NPL - Non-Performing Loan
OECD - Organization for Economic Co-operation and Development
P/B - Price to Book
P/E - Price to Earnings
PV - Present Value
ROA - Return on Assets
ROE - Return on Equity
RWA – Risk Weighted Assets
SICAV - Société d'Investissement à Capital Variable
SMEs - Small and Medium Enterprises
UCITS – Undertakings for Collective Investment in Transferable Securities