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PROJECT

EQUITY VALUATION OF A BANK IN A CHANGING FINANCIAL LANDSCAPE:

THE CASE OF THE WORLD'S OLDEST BANK

"BANCA MONTE DEI PASCHI DI SIENA"

MOLKA EZZEDINI

DECEMBER 2024

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MOLKA EZZEDINI

SUPERVISOR:

MARIYA GUBAREVA

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Abstract

This equity research report analyzes Banca Monte Dei Paschi di Siena (BMPS), one of the world's oldest banks and a key player in Italy's banking sector. The report evaluates BMPS's financial performance and investment potential. A BUY recommendation is issued with a projected share price of €8.98 by year-end 2025, reflecting a 71.69% upside from its current price of €5.23 as of October 1st, 2024. This implies a strong annualized return of 54.11%, though with a medium-to-high risk profile.

Key drivers of this recommendation include BMPS's improved cost structure, operational efficiency, strong capital adequacy, and strategic focus on digital banking and wealth management. The bank's ongoing restructuring has notably improved profitability and asset quality, strengthening its ability to withstand economic pressures. Positive financial performance, driven by cost-cutting measures and loan portfolio optimization, supports its growth potential in a competitive, regulated market.

The valuation approach for BMPS focused on the Residual Income model, with supplementary methods including Cash Flow to Equity and Multiples Valuation to ensure a thorough evaluation. However, risks such as regulatory pressures, economic volatility, and interest rate fluctuations could impact the bank's future performance.

This report adheres to CFA Institute guidelines.

JEL classification: G10; G21; G32; G34; G35

Keywords: Equity Research; Valuation; Mergers & Acquisitions; Banca Monte dei Paschi di Siena; Banking Industry

Resumo

Este relatório de pesquisa de ações analisa o Banca Monte dei Paschi di Siena (BMPS), um dos bancos mais antigos do mundo. Com base numa avaliação detalhada, é emitida uma recomendação de COMPRA, com um preço-alvo de €8.98 até o final de 2025, oferecendo uma valorização de 71.69% em relação ao preço atual de €5.23 (1 de outubro de 2024). Essa recomendação sugere um retorno anualizado elevado de 54.11%, apesar de um perfil de risco médio a alto.

Os principais impulsionadores desta recomendação incluem a melhoria da estrutura de custos, a eficiência operacional, a forte adequação de capital e o foco estratégico na banca digital e na gestão de património do BMPS. A reestruturação em curso do banco melhorou notavelmente a rendibilidade e a qualidade dos activos, reforçando a sua capacidade de resistir às pressões económicas. O desempenho financeiro positivo, impulsionado por medidas de redução de custos e de otimização da carteira de crédito, suporta o seu potencial de crescimento num mercado competitivo e regulamentado.

A abordagem de avaliação para o BMPS centrou-se no modelo de rendimento residual, com métodos complementares, incluindo o fluxo de caixa para o capital próprio e a avaliação múltipla para garantir uma avaliação completa. No entanto, riscos como pressões regulamentares, volatilidade económica e flutuações nas taxas de juro poderão ter impacto no desempenho futuro do banco.

Este relatório segue as orientações do CFA Institute.

Classificação JEL: G10; G21; G32; G34; G35

Palavras-chave: Equity Research; Avaliação; Fusões & Aquisições; Banca Monte dei Paschi di Siena; Banca.

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Above all, I thank God, the Almighty, for giving me the strength to carry out this project report well.

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Last but not least, I want to extend my gratefulness to Omar and Gofy. Thank you for your continuous support, genuine care, and understanding. Your presence in my life makes a difference.
To Idalio, Lina, Diana, and Kuan, thank you for making Portugal feel like home.

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Index

List of Figures

List of Tables

List of Appendices

List of Abbreviations

BMPS – Banca Monte dei Paschi di Siena

bps – Basis Points

CET1 – Common Equity Tier 1

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CI – Credit Institution

CR – Credit Risk

EAD – Exposure at Default

ECB – European Central Bank

ESG – Environmental, Social, and Governance

€ / EUR – Euro

FCFE – Free Cash Flow to Equity

FTE – Flow to Equity

GDP – Gross Domestic Product

HICP – Harmonized Index of Consumer Prices

IMF – International Monetary Fund

IT – Information Technology

LCR – Liquidity Coverage Ratio

LGD – Loss Given Default

LTD – Loan to Deposits

LRR – Loan Recovery Ratio

MPS – Monte dei Paschi di Siena

MBS – Mortgage-backed Securities

MEF – Ministry of Economy and Finance

MRP – Market Risk Premium

NIM – Net Interest Margin

NPE – Non-Performing Exposures

NPL – Non-performing Loans

NSFR – Net Stable Funding Ratio

OECD – Organization for Economic Co-operation and Development

OR – Operational Risk

PCR – Provision Coverage Ratio

PD – Probability of Default

ROA – Return on Assets

ROE – Return on Equity

ROTE – Return on Tangible Equity

RR – Recovery Rate

RRF – Recovery and Resilience Facility

RWA / RWAs – Risk-Weighted Assets

SREP – Supervisory Review and Evaluation Process

SWOT – Strengths, Weaknesses, Opportunities, and Threats

BMPS

Buy

Medium to High Risk

1st of October 2024

Italy

BMPS: A Timeless Transformation

YE2025 PT of € 8.98 (+71.69%); Recommendation is to Buy with Medium to High Risk.

Research Snapshot

The recommendation for Banca Monte Dei Paschi di Siena (BMPS) is **BUY**, with a target price of approximately €8.98 by year-end 2025. This represents an upside potential of 71.69% from the current price of €5.23 as of October 1st, 2024. After conducting a sensitivity analysis and additional scenario assessments, the stock has been determined to have a medium to high-risk profile (Table 1).

Table 1 – Risk Assessment

Risk Assessment
High
Medium to High
Medium
Low

***Source**: Author*

Key Statistics

Banca Monte Dei Paschi di Siena has 1.26 billion shares outstanding and a float of 73.25%. The stock has experienced volatility, with a 52-week high of €5.38 and a low of €2.27 (Table 2). The bank's current share price (October 1st, 2024) stands at €5.23, reflecting its position in the competitive banking sector. The large float and solid market presence provide liquidity, offering investors opportunities for potential growth. BMPS's performance is supported by its historical legacy and strategic efforts to improve capital efficiency and shareholder value.

Table 2 – BMPS' Key Information

Ticker	BMPS
Website	www.mps.it
Industry	Banking
Current price	€ 5.23
Market Cap (€)	6.22B
Shares outstanding	1.26B
Float %	73.25%
Beta (5Y Monthly)	1.1
52-Week High/Low	€ 2.27 - € 5.38

***Source**: Yahoo Finance*

Stock Performance

Figure 1 – BMPS' Stock Performance (Oct 2023- Oct 2024)

***Source**: Reuters; **Note:** Price in Euro.*

Highlights

- MPS Bank's primary valuation was conducted using the residual income model, which resulted in a buy recommendation, with further validation provided by the flow-to-equity and multiples valuation methods.
- We estimate BMPS's loan growth will surpass the market by 50 bps, using Net Domestic Credit Growth in Italy as the proxy. Stabilizing inflation, boosting household purchasing power, and structural improvements in the banking sector, such as digitalization and stronger balance sheets, support this outlook. BMPS's strategic initiatives, including digital expansion and branch optimization, further enhance its competitive edge in loan origination.
- **Growth in Loans and Deposits |** Loans are forecasted to grow from €79.9 billion in 2023 to €83.2 billion by 2028, while deposits rise by 10.6%, reflecting steady expansion in core banking activities.
- **Strong Capital Position |** BMPS will maintain robust capital levels, with the Tier 1 Capital Ratio improving to 18.79% and the Capital Ratio reaching 22.64% by 2028, ensuring resilience against economic uncertainties (Table 4).

Table 3 – Residual Income Valuation

Invested Equity	€ 8,433.06
PV of Equity Excess Return + Terminal Value	€ 2,882.80
Equity Value (in k)	€ 11,310,980.08
# Shares (in k)	1,259,689.71
Price Target	**€ 8.98**
Current Price	**€ 5.23**
Potential	71.69%

***Source**: Author estimation*

Table 4 – Financial Highlights

€ Million	2023	2024F	2028F
NII	2,292.10	2,215.53	1,883.84
Fees & Commissions	1,321.90	1,337.76	1,431.08
NI	2051.8	1885.94	1602.65
Loans	79,924.60	80,674.32	83201.82834
Assets	122,613.70	127,581.10	133,009.28
Deposits	105,137.80	110,971.93	116,226.88
Liabilities	112,634.50	119,117.66	124,439.61
Equity	9,979.20	8,463.44	8,569.67
%			
ROE	23.00%	20.45%	18.43%
Tier 1	18.14%	18.12%	18.79%
Capital Ratio	21.64%	21.84%	22.64%

***Source**: BMPS Annual Accounts 2023; Author's estimation*

Business Description

Founded in 1472, Banca Monte dei Paschi di Siena (BMPS) is the world's oldest bank. It remains a leading player in the Italian banking sector, holding significant market shares across its business areas.

Since 2020, BMPS has demonstrated a strong financial recovery. As illustrated in Figure 2, revenues have rebounded significantly, peaking at €3,796.80 million in 2023. Concurrently, operating expenses have been effectively managed, declining to €1,842.80 million. This combination has substantially improved net profits, reaching €2,051.80 million in 2023.

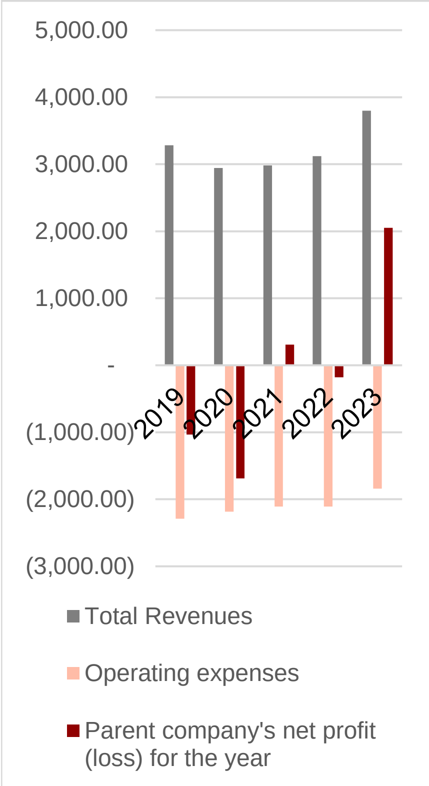
While the bank's balance sheet experienced fluctuations during this period (Figure 3), particularly in 2020, BMPS has demonstrated resilience. Total equity has recovered from a sharp drop in 2020 to reach a new high in 2023. This positive trend indicates the bank's ability to navigate challenging economic conditions.

Looking forward, BMPS's future financial performance will be influenced by various factors, including macroeconomic conditions, regulatory changes, and its ability to sustain revenue growth while maintaining cost control. The bank's ongoing efforts to enhance its digital capabilities and expand its product offerings will also be crucial for its long-term success.

Brief History

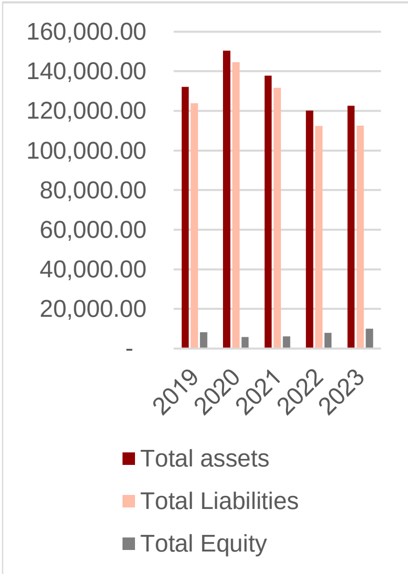
Nationalized in the 1930s, Banca Monte Dei Paschi di Siena steadily expanded its services. The 1990s and early 2000s saw aggressive modernization and expansion through mergers and acquisitions, notably the 2008 acquisition of Banca Anton Veneta. Despite a history of financial challenges, including a government bailout in 2017, BMPS has demonstrated resilience and a commitment to long-term sustainability. Challenges like non-performing loans and governance

Figure 2 – Profit and Loss (in Million €) (2019-2023)



***Source**: Company Income statement; Author presentation*

Figure 3 – Balance Sheet Size (in Million €) (2019-2023)

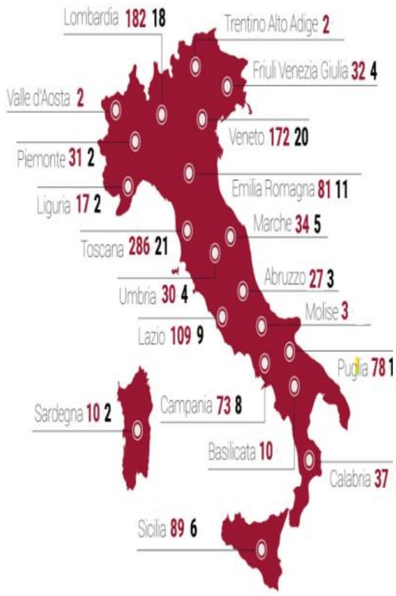


Source: Company Data; Author presentation issues played a role in the bank's troubles. Despite these setbacks, the bank's deep historical roots and focus on community support continue to make it a unique institution within the Italian financial landscape.

Geographic and Business Segments

Overview | Banca Monte dei Paschi di Siena (BMPS) is a major Italian bank serving approximately 5 million clients through a vast branch network. While primarily focused on the domestic market, BMPS maintains a limited international presence across Europe, North America, Asia, and North Africa. The bank's customer base is predominantly retail, concentrated in Italy's central and southern regions. BMPS operates under a unique structure combining public service and profit-oriented activities, with the Italian Ministry of Finance as its largest shareholder following a 2017 bailout.

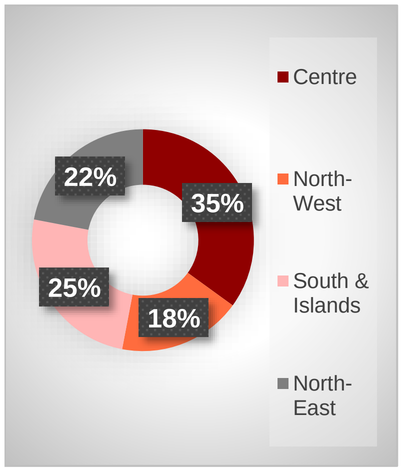
Figure 4 – BMPS Nationwide Branch Network (I)



Source: Company Website

Geographic Segments | Banca Monte Dei Paschi di Siena maintains a strong presence in Italy, with 1,305 branches and 126 specialist centers. BMPS branches offer general banking services such as savings accounts, loans, and daily transactions, catering to the public's everyday needs. In contrast, the specialist centers focus on wealth management and corporate banking, delivering tailored solutions and expert advice for high-net-worth individuals and businesses with complex financial needs. This separation between branches and specialist centers enables BMPS to provide personalized services, improve efficiency by concentrating staff on specialized areas, and optimize resources to meet diverse client demands, giving the bank a competitive edge.

Figure 5 – BMPS Nationwide Branch Network (II)



Source: Author, Company Website

Figure 4 illustrates the geographical distribution of these branches (in red) and specialist centers (in black). In turn, Figure 5 provides a breakdown of the branch network by region, revealing a concentration in the North-West (35%) and a more balanced presence in the Centre (22%), South & Islands (25%), and North-East (18%). This distribution aligns with Italy's wealthier regions, where BMPS holds a significant market share (18.4% in Tuscany, 8.3% in Veneto, and 4.5% in Lombardy). Moreover, 70% of the bank's retail customers are located in central and southern Italy, further reinforcing its market position.

Internationally, BMPS operates in different countries, including Algeria, China, Luxembourg, Egypt, France, India, Morocco, Russia, Tunisia, and Turkey. Table 5 illustrates the number of branches in each country.

Table 5 – BMPS International Branch Network by Country

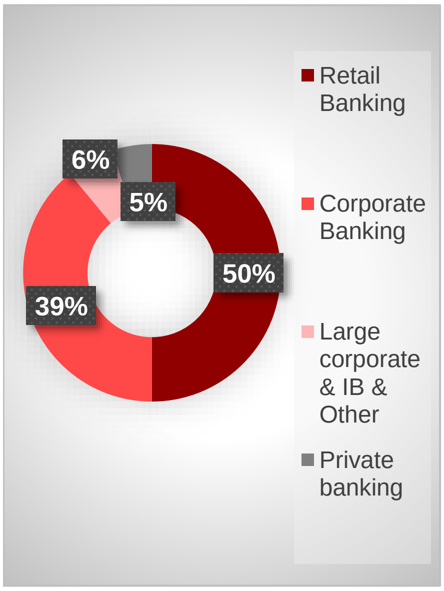
Country	Number of Branches
Algeria	1
China	1
Egypt	1
France	2
India	1
Luxembourg	1
Morocco	1
Russia	1
Tunisia	1
Turkey	1

Source: Author, Company Website

Business Segments | Banca Monte dei Paschi di Siena's (BMPS) total operating income during the first nine months of 2023 (9M23) was EUR 2.8 billion, and Figure 6 highlights the percentage of income generated by different banking segments:

- Retail Banking operations, 50% of the total operating income comes from retail banking, which consists of traditional retail banking products and services for individuals and small businesses. This segment includes Widiba, which operates as part of BMPS's broader retail and wealth management services, offering a comprehensive and customizable online platform for personal financial advisors.
- Corporate Banking: 39% of the income is generated from corporate banking, which serves larger businesses with financial products and services, including medium- and long-term credit facilities, and supports Italian businesses abroad.
- Large Corporate & Investment Banking (IB) & Other: 6% of the income comes from this segment, which likely includes specialized financial services such as investment banking.
- Private Banking: 5% of the income comes from private banking, which serves high-net-worth individuals and offers tailored financial services (BMPS, 2023).as

Figure 6 – Profitability per Segment



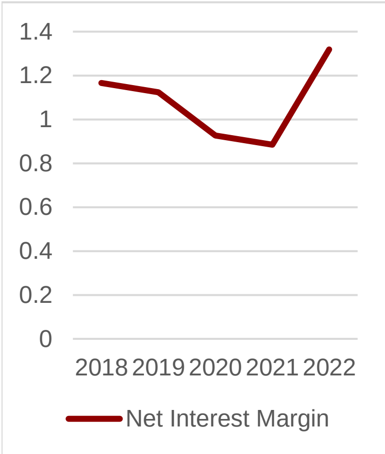
Source: Author, BMPS Kepler Italian Financial Conference

Company key drivers of profitability

The profitability of BMPS, like any other bank, is influenced by several key drivers, here are some of them:

Net Interest Margin (NIM) | NIM is crucial to a bank's profitability, representing the spread between interest earned and interest costs. Figure 7 shows a fluctuating NIM for MPS Bank, starting at 1.17% in 2018, dropping to 0.88% in 2021, and rebounding to 1.32% in 2022. The increase in NIM in 2022 can be attributed to rising interest rates, which significantly boosted interest income. This was further supported by BMPS's strategic actions, including securing improved funding through bond issuances and a credit rating upgrade, which helped manage interest-related costs. These measures, combined with operational streamlining and efficiency improvements, contributed to a more favorable spread, reflecting the bank's ability to capitalize on the shifting interest rate environment effectively.

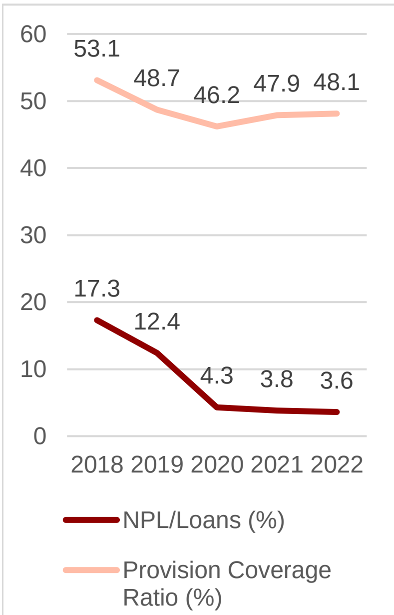
Figure 7 – BMPS' Net Interest Margin (%) (2018-2022)



Source: Author's analysis, Bloomberg Data.

Loan Portfolio Quality | A high-quality loan portfolio is critical for a bank's profitability as it minimizes risks, leading to lower costs, stable income, a stronger financial position, and an enhanced reputation. These elements are all essential for sustained growth and profitability. Figure 8 demonstrates MPS Bank's significant improvement in loan quality between 2018 and 2022. The non-performing loans (NPL) ratio, which indicates the percentage of loans in default, dropped from 17.3% to 3.6%, driven by strategic derisking efforts, including the disposal of non-performing exposures (NPEs) and enhanced credit management practices. Additionally, the provision coverage ratio (PCR), a measure of a bank's preparedness for potential loan losses, remained steady at around 50% throughout the period. This consistent PCR, alongside strengthened financial resilience from capital management and funding improvements, signals the bank's commitment to maintaining adequate provisions, reflecting positively on its overall financial stability.

Figure 8 – BMPS' Loan Portfolio Quality (2018-2022)

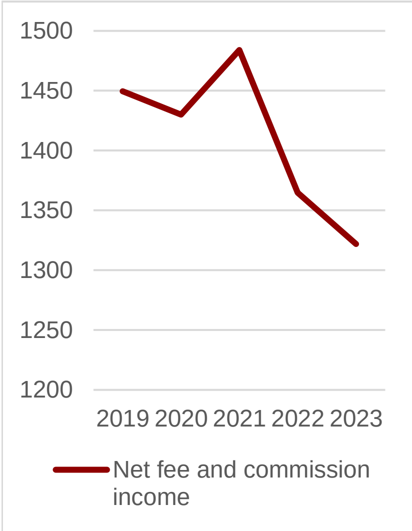


Source: Author, Bloomberg Data

Operating Efficiency | Effective cost control and operational efficiency are significant in profitability. Reducing operating expenses, streamlining processes, and optimizing resource utilization can improve BMPS's bottom line.

Fee and Commission Income | Fee and commission income play a key role in diversifying and stabilizing a bank's revenue streams. This income, generated by offering fee-based services, fosters client relationships, manages risk, and mitigates regulatory hurdles. However, figure 9 provided for MBS Bank shows a downward trend in net fee and commission income, dropping from €1,449.5 million, in 2019, to €1,321.9 million, in 2023. The downward trend suggests a potential decline in the bank's ability to generate income from these services over the specified period.

Figure 9 – BMPS` Net fee and commission income (in Million €)



Source: Author's analysis, Bloomberg Data.

MPS Bank's Strategies & Goals

BMPS Strategies | The Group's new strategy is centered around the following pillars: (i) Achieve business model sustainability, (ii) Build a solid and resilient balance sheet, and (iii) Tackle the legacy issues. (Banca Monte dei Paschi di Siena SpA, 2022)

The Plan's strategic objectives include major actions:

- Simplification of the Group structure**:** Through the merger into BMPS of selected subsidiaries (MPS Capital Services, MPS Leasing & Factoring, MPS Consorzio Operativo), to enable the streamlining of the Group and operating model.
- Optimization and redeployment of the workforce: This is thanks to a voluntary exit scheme that leverages the Solidarity Fund and a reduction of 150 branches within 2026. The agreement between the Parent Company and the Trade Unions has already led to the completion of a program of 4,125 voluntary departures starting December 1, 2022.

- Relaunch of the commercial platform and targeted development for specific high-potential business areas: This is thanks to several additional investments planned to support the growth of multi-channel digital offers, through CRM and data analytics tools, Wealth Management and Consumer Finance area, and the industrialization of the performing and non-performing credit platform.
- Highly rigorous and disciplined general and administrative cost management: That's based on the centralization of several cost owners under one single ad hoc unit.
- Strengthening of the digital strategy: It's to support the relaunch of the commercial platform, with investments planned to develop Plan initiatives concerning the IT and real estate sectors.
- Leveraging of Widiba: Doing it as a "challenger bank/best in class": the Plan calls for investments to reach a Bank's business model more oriented towards financial advisory services for customers
- Strengthening its distinctive market positioning concerning Environmental, Social, and Governance aspects: This is done through, among others, initiatives to progressively reduce direct emissions (-60% vs 2017) and to enhance the "Diversity & Inclusion" program with the objective of 40% of women in positions of responsibility.

BMPS Goals | The Plan envisages initiatives to sustain the growth, aiming for an immediate and tangible transformation that will lead to sustainable profitability and patrimonial benefits.

As shown in Table 6 the bank's goals for 2024 and 2026 focus on enhancing profitability, reducing risk, and strengthening its financial foundation. By 2026, it aims to increase pre-tax profit from €700 million to €900 million, improve Return on Tangible Equity (ROTE) from 8% to 8.7%, and raise its CET1 ratio from 14.2% to 15.4%. Additionally, BMPS plans to lower its cost/income ratio to 60% by 2024, maintain a low cost of risk below 0.5%, and significantly reduce non-performing exposures (NPE) from €2.8 billion to €1.5 billion, while increasing NPE coverage from 53% to 59%. These targets demonstrate the bank's commitment to operational efficiency, asset quality, and capital strength.

Table 6 – BMPS' Goals (2024-2026)

Metric	2024	2026
Cost/Income Ratio (%)	**60**	**-**
Cost of Risk (%)	**< 0.5**	**< 0.5**
Pre-tax Profit (€ million)	**700**	**900**
Return on Tangible Equity (ROTE) (%)	**8**	**8.7**
Non-Performing Exposures (NPE) Stock (€ million)	**2,8**	**1,5**
Net NPE Ratio (%)	**1.9**	**1.4**
NPE Coverage (%)	**53**	**59**
CET1 Fully Loaded Ratio (%)	**14.2**	**15.4**

Source: Author, Company Data

Management & ESG

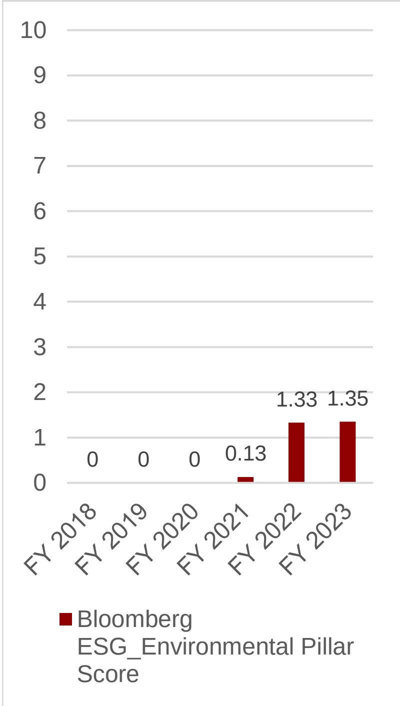
The Mont Paschi Group's sustainability governance has evolved over time in line with the development of a sustainable model aimed at gradually integrating sustainability into corporate strategies, not only in terms of creating economic value but also in terms of human, social, relational, and environmental capital.

Environment

The environment is a primary asset that the BMPS Group is committed to safeguarding, seeking a balance between economic initiatives and the essential needs of the ecosystem and considering the rights of future generations. The Group manages its impact on the environment in an organized and increasingly efficient manner, both concerning its day-to-day operations (attention to paper, water and energy consumption, waste production/management, etc.) and to the activities of its customers and vendors (environmental risk assessment for loans and investments, exclusion of polluting activities or products in relationships with vendors, etc.).

As Figure 10 shows, according to Bloomberg ESG Scoring, MPS Bank had 0 from 2018 to 2020, though the score increased to 0.13 in 2021, 1.33 in 2022, and 1.35 in 2023. One of the reasons behind the increase in the 2021 score is the reduction in Scope 1 emissions, with a 48% decrease achieved in 2021 compared to 2017. Despite this progress, the score remains low, given the range from 0 to 10, with 10 being the best[1]. It's necessary to keep in mind that Bloomberg's environmental and social scores primarily consider factors related to climate change and health and safety. (Bloomberg, 2020)

Figure 10 – BMPS' Environmental Score (2018-2023)



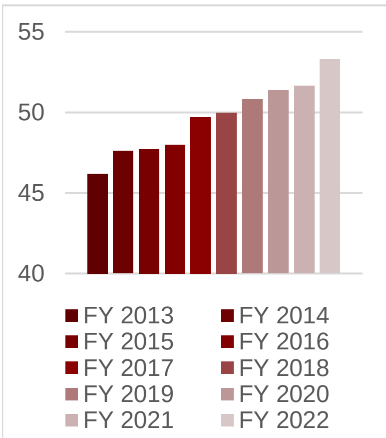
Source: Author, Bloomberg Data

Note: Values range from 0 to 10; 10 is the best.

Social

Diversity and Inclusion | BMPS has made efforts to promote diversity and inclusion within the organization. It has diversity and inclusion

Figure 11 – BMPS' Pct Women in Workforce (2013-2022)



Source: Author, Bloomberg Data

[1] A higher score indicates that the company is effectively addressing material ESG issues and demonstrating strong sustainability practices.

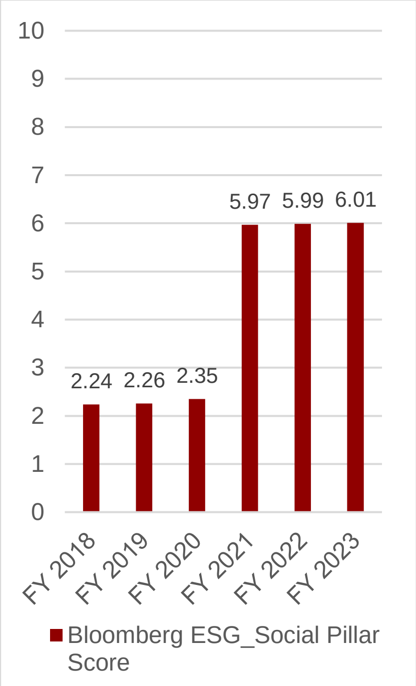
initiatives and has committed to fostering a workplace that values different perspectives. Figure 11 shows the percentage of Women in the Workforce at MPS Bank. As we can notice, it's been increasing since 2013 to reach 53.3% in 2022, which proves the inclusion of both genders (almost 50/50) in the workplace.

Community Engagement | The bank has been involved in various community engagement activities by (i) contributing towards cultural, scientific, social, and environmental programs; (ii) working orientation, and financial education activities; and (iii) cooperating with local institutions for the sustainable growth of production infrastructure. Also, they have been supporting local communities and charitable initiatives by providing products and services for the more vulnerable and needy members of society.

Customer Relations | MPS Group prioritizes customer satisfaction by operating with honesty, transparency, and innovation. The company focuses on meeting customer needs throughout the product lifecycle, emphasizing preparation, reliability, and a customer-centric business strategy.

However, while the company's stated commitment to social responsibility is evident, the Bloomberg ESG score indicates areas for improvement, as illustrated in Figure 12 for the fiscal years 2018 to 2023. Starting at a low of 2.24 in FY 2018, the score improved slightly in FY 2019 (2.26) and FY 2020 (2.35), indicating challenges in social factors. A significant rise to 5.97 in FY 2021 suggests substantial efforts to enhance social impact, driven in part by an increase in the representation of women in leadership roles, which reached 31% in 2021. Scores remained stable at 5.99 in FY 2022 and 6.01 in FY 2023. While the consistent scores above 5 reflect progress, they also highlight the need for ongoing commitment to improve social initiatives and meet stakeholder expectations.

Figure 12 – BMPS' Social Score (2018-2023)



Source*: Author, Bloomberg Data*

Note: Values range from 0 to 10; 10 is the best.

It's important to note that Bloomberg's ESG scores primarily focus on climate change and health and safety factors. (Bloomberg, 2020)

Management and Corporate Governance

Governance Model | The BMPS's governance model corresponds to the German model (Continental European Model). It is a two-level system of boards, consisting of an executive board and a supervisory board (Figure 13). This model places a strong emphasis on oversight and control, involving a range of committees and auditors to ensure compliance with legal and regulatory requirements.

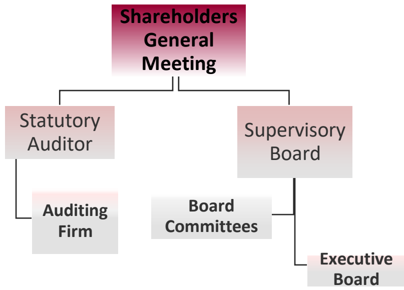
Shareholder structure | As of August 20, 2024, the shareholding structure of Monte Dei Paschi di Siena Bank is as follows:

- MEF (Ministry of Economy and Finance): MEF holds 26.732% of the bank's ordinary shares, indicating significant government ownership and influence.
- Other Shareholders: Other shareholders collectively hold 73.268% of the ordinary shares, reflecting a broad and diverse ownership base. (Figure 14).

Board of Directors | The current Board of Directors, appointed by the Shareholders' Meeting of 18 May 2020, comprises 15 members. The Board shall remain in office until the date of the Shareholders' Meeting called to approve the 2022 financial statements.
Table 7 shows the directors as of 2023.

All members of the Board in the office are non-executive directors, except for the Chief Executive Officer, and meet the eligibility requirements set out in the applicable regulations in force. The presence of eleven independent Directors pursuant. Article 15 of the By-Laws (Banca Monte dei Paschi di Siena SpA, 2022) (accounting for approximately 74% of the members) ensures effective monitoring of corporate operations.

Figure 13 – BMPS' Governance Model



Source: *Author, Company Website*

Table 7 – Board of Directors

Board Member	Office
Nicola MAIONE	Chairperson
Gianluca BRANCADORO	Deputy Chairperson
Luigi LOVAGLIO	CEO
Alessandra Giuseppina BARZAGHI	Director
Paola DE MARTINI	Director
Stefano DI STEFANO	Director
Paolo FABRIS DE FABRIS	Director
Lucia FOTI BELLIGAMBI	Director
Domenico LOMBADI	Director
Paola LUCANTONI	Director
Laura MARTINIELLO	Director
Annapaola NEGRI CLEMENTI	Director
Renato SALA	Director
Donatella VISCONTI	Director
Raffaela ORIANI	Director

Source: *Author, Company Website*

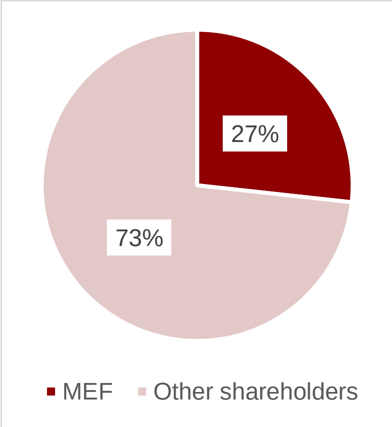
Management Team | As shown in Table 8, the management team of BMPS is led by CEO and General Manager Luigi Lovaglio. It features a diverse group of executives overseeing critical functions such as finance, compliance, operations, and various commercial segments. Key roles include the Deputy Commercial General Manager, CFO, Chief Compliance Executive, and Chief Operating Officer, highlighting a strong focus on financial integrity, operational efficiency, and risk management. The presence of multiple Chief Commercial Officers for different segments suggests a targeted approach to customer management, though it could also indicate potential overlaps in responsibilities.

Overall, the team's structure appears robust, but its effectiveness will depend on the cohesion and coordination among these leaders.

Remuneration Policy | MPS Bank has various types of remuneration, including fixed remuneration, variable remuneration, benefits, and other compensation. Fixed remuneration is stable and determined based on predefined criteria. It is not subject to unilateral reduction by the bank and does not depend on its performance. Variable remuneration is subject to restrictions and linked to achieving objectives. Benefits and other compensation include insurance coverage, company car, accommodation, and similar perks. The bank also provides a company control function allowance for managers in control roles.

Table 9 summarizes the amounts approved for the 2023-2025 three-year mandate for the board of directors and the board of statutory auditors. As shown, the Chairperson of the Board of Directors earns €110,000 annually, while other Directors receive €65,000. Similarly, the Chairperson of the Board of Statutory Auditors is compensated €80,000, with other Statutory Auditors earning €65,000. Notably, the remuneration for the Chief Executive Officer is not disclosed, raising

Figure 14 – Shareholder Structure



***Source**: Author, Company Website*

Table 8 – Management Team

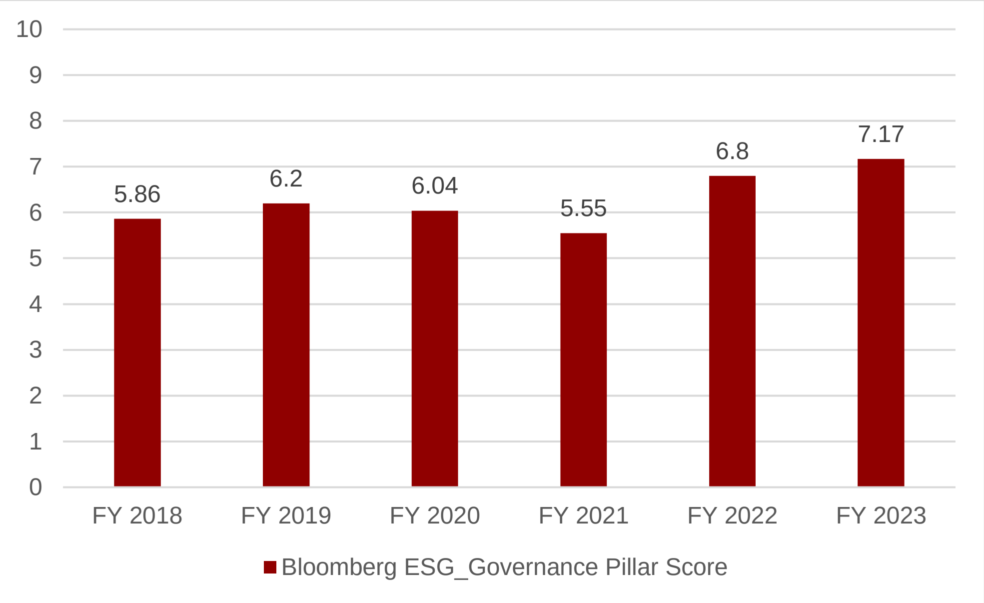
Name	Position
Luigi Lovaglio	CEO - General Manager
Maurizio Bai	Deputy Commercial General Manager
Massimiliano Bosio	Chief Audit Executive
Dimitri Bianchini	Chief Commercial Officer Corporate and Private
Vittorio Calvanico	Chief Safety Officer
Ettore Carneade	Chief Compliance Executive
Nicola Massimo Clarelli	Chief Financial Reporting Officer
Alessandro Giacometti	Chief Operating Officer
Fiorella Ferri	Chief Human Capital Officer
Fabrizio Leandri	Chief Lending Officer
Andrea Maffezzoni	Chief Financial Officer
Marco Tiezzi	Chief Commercial Officer Retail
Riccardo Quagliana	Group General Counsel
Emanuele Scarnati	Chief Commercial Officier Large Corporate & Investment Banking di Banca MPS

***Source**: Author, Company Data*

questions about transparency, which could be due to a different compensation model, such as performance-based incentives.

Overall, according to Bloomberg ESG Scoring, presented in Figure 15, MPS Bank had a governance score that varied between 5.55 and 7.17 during 2018-2023, and according to the Bloomberg scoring rate that ranges between 0 and 10, this interval is considered good.

Figure 15 – BMPS' Governance Score (2018-2023)



Source: *Author, Bloomberg Data*

Table 9 – Remuneration of the board of directors & the board of statutory auditors.

Role	Gross annual remuneration
Board of Directors	
Chairperson	110,000 €
Chief Executive Officer	- (*)
Other Directors (**)	65,000 €
Board of Statutory Auditors	
Chairperson	80,000 €
Statutory Auditors	65,000 €

Source: Author, Company Data

(*) The CEO's compensation is subject to the salary cap set by the European Commission for the 2022-2026 business plan period.

(**) Including the Deputy Chairperson

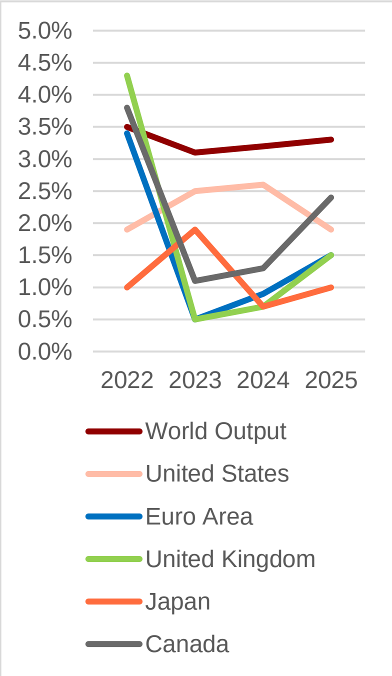
Industry Overview & Competitive Positioning

Macroeconomic Outlook

World

The global economy is expected to grow slightly faster than previously forecast, at 3.2% in 2024 and 3.3% in 2025, as presented in Figure 16 (IMF_International Monetary Fund, 2024). This is due to strong performances in the US and key emerging markets, with China's fiscal measures providing additional support. Additionally, the recent decision by the European Central Bank (ECB) and the Federal Reserve (FED) to lower interest rates is expected to make borrowing cheaper, which could encourage businesses and individuals to spend or invest more. However, despite these supportive measures, growth is still expected to remain below the historical average of 3.8% (2000-2019), as other factors, such as waning fiscal stimulus and challenges to productivity, continue to weigh on the global economy.

Figure 16 – Global Economic Growth Projections (2024-2025)

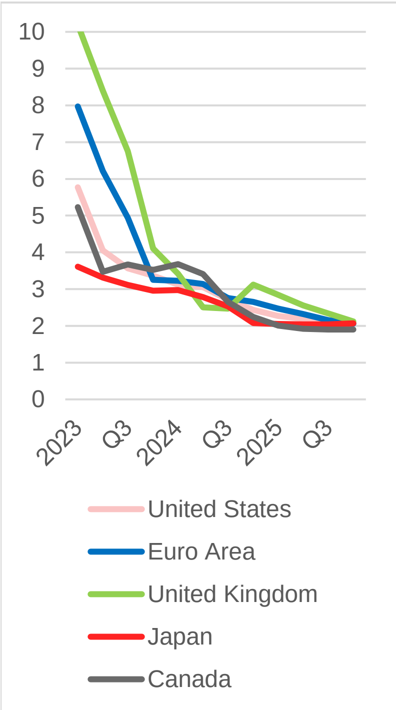


***Source**: Author, IMF*

Note: Percent change

The consensus among economists is that the global inflation rate is expected to decrease in the coming months. We can see this by looking at the inflation forecast in Figure 17 for the Euro Area, US, UK, Janan, and Canada. This predicted reduced inflation results from fewer sudden changes in relative prices, especially concerning energy, and their lesser. This drop also reflects a loosening grip on the job market, seen in fewer job openings, a slight uptick in unemployment, and more people entering the workforce, partly due to increased immigration. Wage increases have been modest overall, and there's no significant evidence of prices and wages rising together rapidly. Expectations for inflation in the short term have gone down in major economies, although long-term forecasts remain steady.

Figure 17 – Inflation Forecast (%, year-to-year) (2024-2025)



Source: Author, OECD Economic Outlook: Statistics and Projections

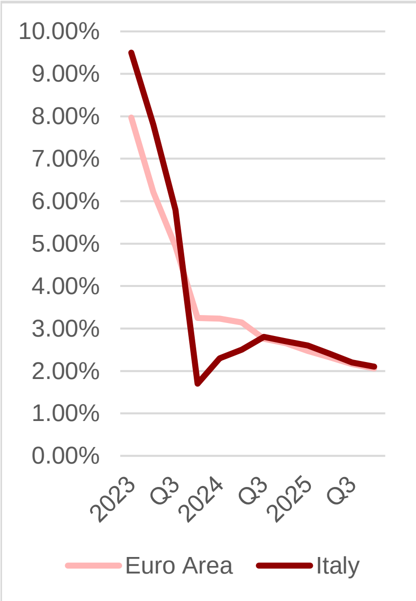
Italy

Italy boasts one of the world's largest and most diverse economies, recognized for its world-class manufacturing and iconic brands.

Tourism thrives thanks to Italy's rich cultural heritage. However, the country grapples with a high national debt and uneven economic development across its regions. Italy relies heavily on exports, especially within the European Union, and is actively working to boost innovation and competitiveness to navigate the ever-changing economic landscape of the EU.

In the past year, 2023, Italy's Harmonized Index of Consumer Prices inflation (HICP inflation) has shown a steady decline from its peak in 2022. This trend has been primarily fueled by a significant decrease in energy prices, which has gradually transmitted to other goods. Additionally, the limited rise in services inflation has contributed to this downward trajectory. By the fourth quarter of 2023, as shown in Figure 18, inflation had retreated to 1.7%. Projections indicate that HICP yearly inflation will reach 2.6% in 2024, down slightly from previous forecasts. This rise is expected to be driven by wage growth, particularly in the public sector. The projected inflation rate for 2025 remains unchanged at 2.3%.

Figure 18 – Italy Inflation Quarterly Forecast



Source: Author, OECD Economic Outlook: Statistics and Projections

Italy's Real GDP grew a bit slower than expected in 2023, at 0.6%, due to rising financing costs and the phasing out of housing renovation tax credits. However, as shown in Figure 18, the real GDP did pick up slightly in the third and fourth quarters of the year, setting a positive base for 2024.

The outlook for 2024 is for sure slow but steady growth. As inflation falls and wages rise, households' purchasing power is expected to increase. The job market is also expected to remain strong. Investment is set to recover, driven by government and the Recovery and Resilience Facility (RRF) funded infrastructure projects offsetting the drag from lower expenditure on housing construction.

Overall, Italy's economic outlook for 2024 appears positive, characterized by steady growth, declining inflation, and a resilient job market. While challenges remain, such as rising financing costs and the phasing out of housing renovation tax credits, the country's economic recovery is expected to continue, supported by factors like increased household purchasing power and government investment.

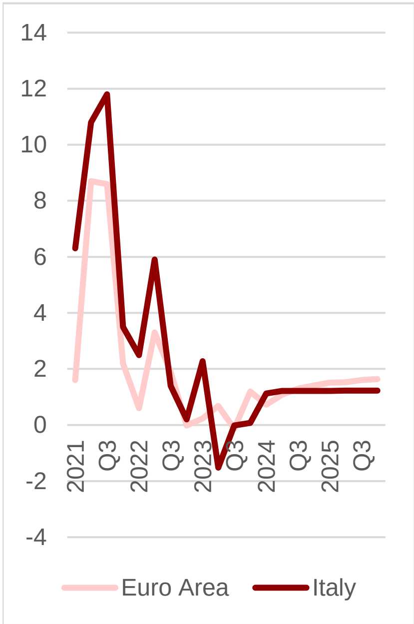
Market Analysis

The European banking sector is experiencing a moderate post-pandemic recovery. Profits are rising, fueled by a pickup in economic activity (Figure 19). The Euro Area's economic outlook projects a growth rate of 0.9% in 2024 and 1.7% in 2025, supporting this trend. However, high levels of non-performing loans and potential impacts from rising interest rates remain concerns.

On the other hand, digitalization presents opportunities for efficiency gains and new revenue streams for European banks. The European Central Bank (ECB) is exploring the issuance of a digital Euro, which could further transform the financial landscape. While the final decision and implementation process is ongoing, the digital Euro has the potential to enhance financial inclusion, provide quick and secure transactions, and preserve the ECB role.

Overall, the European banking sector shows signs of a promising recovery. Continued economic growth and advancements in digitalization, could further strengthen the sector's position in the future.

Figure 19 – Economic Growth Forecast for Italy & the Euro Area (Real GDP) (%)



Source: Author, OECD Economic Outlook: Statistics and Projections

Regulation

Banking regulations are vital in fostering a safe and sound banking environment, supporting economic growth and stability. In response to the 2023 Supervisory Review and Evaluation Process (SREP) findings and its supervisory priorities for 2024-2026, the European Central Bank (ECB) implemented new regulations to bolster the resilience of the European banking system. Notably, the ECB operates under Basel III, a set of international regulatory standards established after the global financial crisis. The SREP, which aligns with Basel III's Pillar 2 framework, assesses a bank's capital adequacy, liquidity, risk management practices, and business models. These assessments are used to assign scores that directly influence capital requirements.

While the eurozone banking system demonstrated a healthy position in 2023 with an average SREP score of 2.6 and strong capital and liquidity buffers, the ECB deemed further action necessary. This resulted in an increase in overall capital requirements (CET1) from 10.7% to 11.1%. Additionally, the Pillar 2 requirement for Common Equity Tier 1 (CET1) capital also saw a slight increase, rising on average from 1.1% to around 1.2% of risk-weighted assets (RWAs). The ECB further imposed quantitative liquidity measures on specific banks to address vulnerabilities and ensure sufficient liquidity buffers for various currencies.

These regulatory actions aim to strengthen internal governance, risk management practices, and the overall resilience of the eurozone banking sector, safeguarding its stability in the face of potential macro-financial and geopolitical shocks.
(Supervision, 2023)

The ECB's tightening of banking regulations, including increased capital requirements and enhanced liquidity measures, reflects a cautious approach to managing macroeconomic and geopolitical risks. While these actions strengthen the eurozone banking system's stability, they also raise operational costs. Banks that proactively improve governance and risk management will not only meet regulatory demands but also gain a competitive edge over peers struggling with these heightened requirements.

Demand & Supply Drivers

Demand for banking services in Europe hinges on a confluence of economic and demographic factors. Economic growth, measured by

Table 10 – Demand Drivers

Demand Drivers	Descroption
Economic Growth (GDP)	Increases demand for credit and investments.
Unemployment Rates	Lower unemployment boosts spending and borrowing.
Demographic Trends	Population growth and aging drive demand for savings, retirement plans, and insurance.
Technological Advancements	Spurs demand for digital banking platforms.
Trust and Confidence	Regulations foster trust, increasing banking service usage.
Financial Literacy	Higher literacy enhances engagement with financial products.

***Source**: Author's Estimation*

GDP, fuels demand for credit and investments. Similarly, lower unemployment rates lead to increased consumer spending and borrowing. Demographic trends, including population growth and aging, shape demand for products like savings plans, retirement solutions, and insurance. Additionally, technological advancements drive demand for digital banking platforms, reflecting evolving consumer preferences. Trust and confidence in the banking system, fostered by regulations like consumer protection and anti-money laundering measures, further influence demand. Finally, financial literacy levels among consumers impact their engagement with banking services and products (Table 10).

The supply of banking services within the European Union is also shaped by various economic and financial factors. Regulatory requirements, particularly those set by the ECB, dictate banks' operations and capital adequacy, impacting their ability to offer financial services. Technological innovation plays a crucial role as banks invest in digital infrastructure and fintech solutions to improve efficiency and customer experience. Market competition is another key driver, stimulating innovation and diversification of banking products. Capital availability, influenced by capital markets and liquidity management, affects banks' lending capacity and, consequently, their ability to supply loans and other financial products. Finally, economic conditions like GDP growth, unemployment rates, and inflation significantly influence supply by shaping banks' risk appetite, profitability, and lending practices (Table 11).

Table 11 – Supply Drivers

Supply Driver	Description
Regulatory Requirements	ECB regulations affect operations and capital adequacy.
Technological Innovation	Digital infrastructure and fintech enhance efficiency.
Market Competition	Drives innovation and product diversification.
Capital Availability	Influences lending capacity and product supply.
Economic Conditions	GDP, unemployment, and inflation shape risk appetite and lending practices.

***Source**: Author’s Estimation*

Porter’s Five Forces

Porter's Five Forces model is a valuable tool for assessing the competitive environment within the banking sector. BMPS's strategic position can be evaluated, along with possible risks and oppertunities, by looking at the degree of rivalry, the threat of new competitors, and the negotiating power of suppliers and consumers. Understanding these forces is crucial for determining the bank's profitability and market share, ultimately informing investment decisions.

Risk of New Entrants | Low to Moderate [2] (Figure 20)

- Regulatory barriers
- Substantial capital investments
- Long procedures for license applications
- Established reputation and credibility
- Rising fintech companies and digital banks

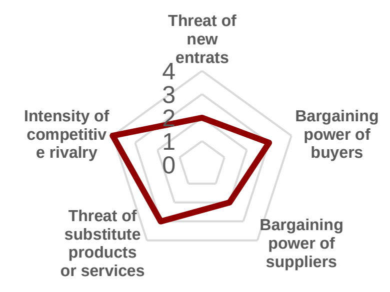
While the threat of entirely new entrants to the European banking sector is generally low, there are factors that could pose a moderate challenge for some. Restricted qualitative assessment from the Central Bank (Table 12) and stringent regulatory frameworks like Basel III and EBA guidelines, coupled with additional local regulations, create significant resource and expertise hurdles for newcomers. Building the substantial capital base required to meet these complex demands and navigate lengthy licensing procedures further deters new players. Established banks also benefit from a long history and strong reputation, making it difficult for newcomers to gain customer trust and market share – a challenge further amplified by the costs associated with attracting new clients. However, the landscape is not entirely static. The emergence of innovative fintech companies and digital banks presents a potential source of disruption, requiring established players to adapt and innovate to maintain their competitive edge.

Purchasers' Bargaining Power | Moderate [3]

- High Switching Costs
- Complexity of banking products
- Numerous alternatives and products

High switching costs and the complexity of comparing banking products, as illustrated in Table 13 (varying fees, interest rates, and

Figure 20 – BMPS_Porter's Five Forces



***Source**: Author's Estimation*

Table 12 – ECB Licensing Assessment

BANKING LICENSING
ANALYSIS OF THE ORIGIN AND COMPOSITION OF THE APPLICANT'S CAPITAL
PROGRAM OF ACTIVITIES AND BUSINESS PLAN
FIT AND PROPER ASSESSMENT OF THE MANAGEMENT
SUITABILITY ASSESSMENT OF DIRECT AND INDIRECT SHAREHOLDERS

***Source**: Author, ECB Website*

terms across checking, savings, mortgage, and loan accounts), limit customers' ability to negotiate effectively. Although market diversification and digitalization offer increased transparency and choice, the overall bargaining power still favors banks.

Suppliers' Bargaining Power | Low to Moderate [2]

- Workforce
- Moderate switch cost of technology providers
- Diversified suppliers

Suppliers in the European banking sector hold a low to moderate bargaining power. Attracting and retaining top talent in financial hubs is a challenge but mitigated by moderate switching costs for technology providers. The diverse pool of suppliers, from talent to technology, allows banks to negotiate and find alternatives.

Risk of Replacing Goods or Services | Moderate [3]

- Fintechs
- Digital Payment Platforms
- Loyalty and Reputation

The European banking industry faces increasing competition from fintech firms and digital payment platforms. As shown in Figure 21 fintech nonbanks have experienced rapid growth compared to traditional banks and non-bank financial institutions. These new entrants disrupt the market with innovative offerings such as digital banks, AI-powered advisors, and alternative lending. While established banks benefit from existing customer relationships and brand loyalty, the ease of use and feature-rich offerings of digital platforms pose a significant challenge.

Level of Competitive Rivalry | Moderate to high [4]

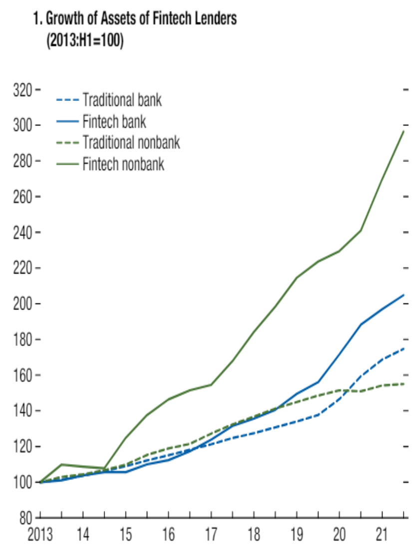
- Numerous diversified players

Table 13 – Complexity of Banking Products in Europe

Product Category	Features Contributing to Complexity
Checking Accounts	* Minimum balance requirements and associated fees * Monthly maintenance fees * Overdraft fees and grace period details
Savings Accounts	* Interest rate structures * Withdrawal limitations or penalties * Account maintenance fees
Mortgages	* Fixed vs adjustable interest rates * Loan-to-value (LTV) ratio requirements
Loans (Personal, Auto)	* Annual Percentage Rate (APR) calculation methods * Origination fees and processing times

Source: *Author*

Figure 21 – Development of Fintech Assets



Source: *IMF- Global Financial Stability Report April. 2022*

- Regulatory Compliance
- Emergence of tech companies

The European banking sector is a highly competitive landscape. Table 14 shows the Herfindahl Index for credit institutions (CI) based on assets in 2022 for four European countries. The Herfindahl Index, which is below 1,500 points, indicates a fragmented market structure where no single player dominates, reflecting moderate to high competition. Numerous players—including large multinationals, regional banks, and diversified institutions—vie for market share, with competition particularly fierce in retail, corporate, and investment banking within financial hubs like London and Frankfurt. This fragmented nature amplifies the intensity of rivalry, as banks must differentiate themselves to capture and retain clients. Strict regulations, while acting as a barrier to entry, fuel competition, as excelling in compliance becomes a strategic advantage. Adding to this competitive pressure is the emergence of tech companies, including those beyond fintech, like Apple with its Apple Pay service, all competing for a share of the financial services market.

Table 14 – Market Competitiveness

HERFINDAHL INDEX FOR CI (BASED ON ASSETS)	2022
Italy	760
Portugal	1,204
Germany	326
The Netherlands	2,194

Source*: Author, EU structural financial indicators: end of 2022 (ECB)*

SWOT Analysis

SWOT analysis is a valuable tool for evaluating the strategic position of a bank by examining its internal strengths and weaknesses, along with external opportunities and threats. We can gain insights into BMPS's competitive advantages, challenges, and potential growth areas by analyzing these four dimensions. Understanding the SWOT factors is essential for formulating strategies that leverage the bank's strengths, mitigate weaknesses, capitalize on opportunities, and defend against external threats, ultimately guiding informed investment decisions.

Table 15 presents a SWOT analysis for BMPS (Banca Monte dei Paschi di Siena). It highlights key strengths such as its loyal customer base, strong market presence, diverse product portfolio, and local expertise. However, the bank faces significant weaknesses, including high Non-Performing Loans (NPLs), profitability challenges, operational inefficiencies, and risk management concerns. Opportunities for BMPS include restructuring, digital transformation, strategic partnerships, and market expansion in wealth management. Conversely, the bank is threatened by economic uncertainty, increased competition, regulatory changes, and risks of fraud and cyberattacks.

Table 15 – SWOT Analysis

STRENGTHS	**WEAKNESSES**
• Due to its long history, BMPS enjoys a loyal customer base, especially among retail clients. • Market Presence • Diverse Product Portfolio • Local Expertise	• High Non-Performing Loans (NPLs) • Profitability Challenges • Operational Inefficiencies • Risk Management Concerns
OPPORTUNITIES	**THREATS**
• Restructuring and Recapitalization • Digital Transformation • Strategic Partnerships • Market Expansion: BMPS is growing in the wealth management sector.	• Economic Uncertainty • Increased Competition • Regulatory Changes • Fraud and cybercrime, which led to the revelation of private and delicate data.

***Source**: Author's Estimation*

Investment Summary

The recommendation for BMPS is a **BUY**, with a projected price target of €8.98 per share by the end of 2025, representing a 71.69% upside from the current price of €5.23 as of October 1st, 2024, which suggests an annualized return of 54.11%.

In alternative scenarios, the price targets for the end of 2025 vary based on key assumptions.
Under the optimistic blue-sky scenario, the price target is estimated at €9.06 per share, driven by a slower-than-expected decline in the Euribor 12M rate and credit growth exceeding the market average by 100 basis points. Conversely, the conservative grey sky scenario projects a price target of €8.89 per share, reflecting a faster-than-expected decline in the Euribor 12M rate and credit growth falling behind the market average by 100 basis points (Table 16).

Table 16 – Blue and Grey Scenario

Grey & Blue Scenarios	
Grey Sky	8.89 €
Basis	8.98 €
Blue Sky	9.06 €

Source: *Author's Estimation*

Valuation Methods

Several valuation approaches were employed to estimate BMPS's target price, with a range between €6.29 and €8.98 per share (Table 17).

The primary model was the residual income method, supported by both relative valuation and the flow-to-equity approach.
The reason behind this choice is that the residual income (RI) model is ideal for banks like BMPS due to its ability to account for complex capital structures and the challenges of estimating free cash flows in a regulated sector. Moreover, it provides a forward-looking perspective, capturing BMPS's expected improvements in profitability and economic profit during its turnaround phase.

Table 17 – Methods of Valuation

Method	
RESIDUAL INCOME	**€ 8.98**
UPSIDE POTENTIAL	71.69%
FLOW TO EQUITY	**€ 8.41**
UPSIDE POTENTIAL	60.83%
MULTIPLE VALUATION	**€ 6.29**
Market Valuation (P/E)	*€ 8.04*
Market Valuation (P/B)	*€ 4.55*
UPSIDE POTENTIAL	20.35%

Source: *Author's Estimation*

Residual Income (€8.98, 71.69% upside) | This method highlights BMPS’s ability to generate returns above its cost of equity, reflecting profitability improvements and recovery efforts. The high upside suggests the market may not fully account for these recovery expectations.

Flow to Equity (€8.41, 60.83% upside) | Like the residual income method, this model emphasizes future cash flows to equity holders. The slightly higher valuation reflects optimistic assumptions about leverage and cash flow generation.

Multiple Valuation (€6.29, 20.35% upside) | This lower valuation, based on market comparisons with peers, likely reflects more conservative market sentiment, given BMPS’s historical challenges.

The significant upside potential in the residual income and flow-to-equity models stems from forward-looking assumptions, while the multiple valuation appears conservative due to current market conditions. Each model reflects different aspects of BMPS's recovery, with further analysis provided throughout the report.

Key valuation drivers—profitability and earnings growth, macroeconomic conditions, and risk and capital adequacy—are integrated across all valuation methods. These drivers are explored in detail in sections like "Financial Analysis," "Industry Overview & Competitive Positioning," and "Investment Risk," underscoring their critical role in shaping BMPS's intrinsic value.

Investment Risks - Summary

BMPS faces key risks that investors should consider. Credit risk is substantial, as changes in the economy have an effect on loan repayments, particularly in the real estate and macro-sensitive industries. Interest rate risk also poses a threat, as changes in rates can affect asset values and cash flows.

Operational risks, including cybersecurity threats, could disrupt systems and lead to financial losses. Reputational risk is critical, as any breach of trust could harm customer relationships or even trigger bank runs.

Finally, regulatory risks remain challenging, with evolving laws potentially increasing compliance costs or affecting profitability. Managing these risks effectively is essential for the bank's long-term stability.

Valuation

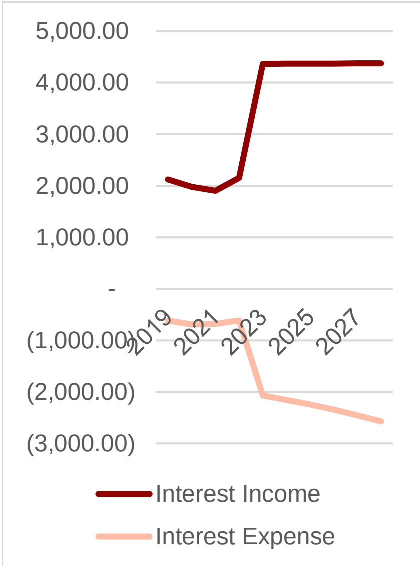
For the valuation purpose of Banca Monte Dei Paschi di Siena, appendices 1-10 are enclosed at the end of the report. These appendices include financial statements (Appendix 1, 2, 3, and 4), key ratios (Appendix 5), critical assumptions (Appendix 6 and 7), forecasted macroeconomic data (Appendix 8), and various valuation methodologies (Appendix 10, 11, and 12).

Revenue Forecast

The valuation methods rely on reasonable estimates of net profit, which is generated from revenue. Loans and deposits are the main sources of income that influence valuation.

Net Interest Income | NII represents the primary revenue source, derived from the spread between interest earned and interest paid.

Figure 22 – Annual growth of Interest Income & Interest Expense (M€) (2019 – 2027)



***Source**: Author's Estimation*

Figure 22 illustrates the historical and forecasted trends in interest income and expenses for BMPS from 2019 to 2028. Interest income fluctuated between 2019 and 2022, showing a substantial rise in 2022, and is expected to stabilize between M€4,364.30 and M€4,375.31 from 2024 to 2028. In contrast, interest expenses decreased slightly between 2019 and 2022 but are forecasted to rise steadily from M€2,072.20 in 2024 to M€2,571.68 in 2028. Despite the increase in interest expenses, they will remain significantly below interest income, suggesting BMPS will maintain a positive net interest margin.

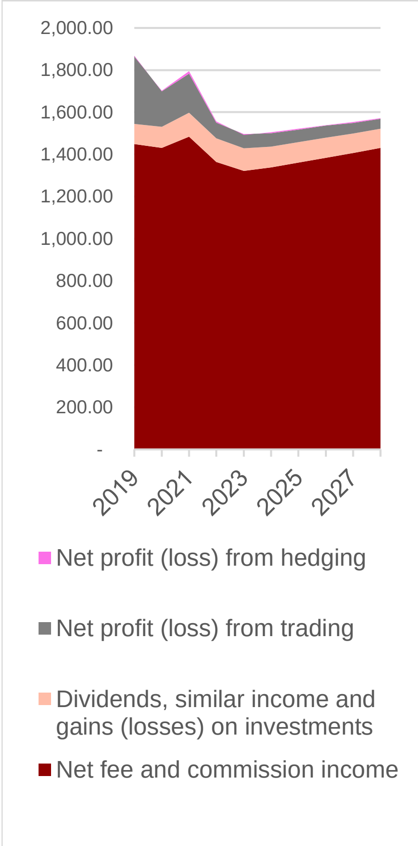
The formula for the interest earned is *average interest rate * total loans*. Given BMPS's deep roots in Tuscany and other regions of Italy, we anticipate the bank has a competitive advantage in certain segments within these areas. This advantage could translate into loan growth that outpaces the overall market. Loan growth is projected to exceed Italy's Net Domestic Credit Growth by 50 basis points, serving as a market-wide growth benchmark.

Interest expenses are assumed to rise at the inflation rate and customer deposit growth, which is projected to exceed the market proxy (Real GDP growth) by 50 basis points.

Non-Interest Income| It forms the second component of MPS bank's revenue, comprising: Net fee and commission income, Dividends, similar income and gains on investments, Net profit from trading, the fair value measurement of assets/liabilities, and Net gains on disposals/repurchases, Net profit from hedging, and other operating income.

As shown in Figure 23 which represents BMPS' non-interest income composition. A significant portion of the bank's non-interest income is derived from net fee and commission income, which is projected to grow alongside customer deposits.

Figure 23 – BMPS' Non-Interest Income Composition (M€)



***Source**: Author's Estimation*

Residual Income

The residual income valuation method offers a unique approach to evaluating a company's intrinsic worth by examining the surplus earnings generated above the required rate of return, providing valuable insights into potential investment opportunities. This method is the primary valuation methodology employed in this financial intuition evaluation.

Value of Equity is equal to: Equity Capital Invested Currently + PV of Expected Future Returns to Common Equity Investors. Excess return refers to the gap between a company's actual returns and the expected market return, measured by the cost of equity. This valuation method measures how much a company's returns surpass market expectations.

Cost of Equity | The cost of equity is calculated using the CAPM formula: ***Re = Rf + β x (Rm – Rf)*** and serves as the discount rate for the accumulated present value of equity excess returns; with:

- **Re:** Expected Return on Equity/Investment (Re)
- **Rf:** Risk-Free Rate (Rf)
- **β:** Beta (β)
- **Rm:** Market Return (Rm)

As shown in Table 18, the cost of equity is equal to 13.42%. It is calculated using the formula explained above:

Re = Rf + β x (Rm – Rf) = (2.65% +3.21%) + 1.22x (6.2%) = 13.42%

Table 18 – Cost of Equity

Risk-Free Rate	5.86%
German Bund 10Y (1 Jun 2024)	*2.65%*
Country Risk Premium (DAMODARAN 2024)	*3.21%*
Beta	1.22
MRP	6.20%
Cost of Equity	**13.42%**

Source: *Author's Estimation*

The risk-free rate (5.86%) is the German Bund 10Y (2.65%) (Trading Economics, 2024) added by Damodaran's Country Risk Premium for Italy (3.21%) (Aswath, 2024).

The beta (1.22) was taken from Damodaran's database for levered betas, Western Europe, banks section (Damodaran, 2024).

The used market risk premium is obtained from Fernandez's 2024 survey (6.2%) (Pablo Fernandez, 2024).

Persistence Factor| The persistence factor reflects the likelihood that a company's ability to generate excess profits will continue in the future. For BMPS, this factor is set at **0.8**, reflecting a balanced view of its potential and challenges. This value considers the bank's restructuring progress and profitability efforts, while also acknowledging industry uncertainties—such as regulatory changes, competition, and economic fluctuations—that introduce risks preventing the assumption of full continuity. Furthermore, it aligns with European banking trends characterized by moderate growth, strict regulations, and competitive pressures, making it a prudent and realistic choice for valuing BMPS in the current environment.

The residual income valuation method results in a target price of €8.98 per share by the end of 2025, offering an upside potential of approximately 71.69%, supporting the BUY recommendation.

Flow to Equity

The Flow to Equity (FTE) valuation method offers a distinctive perspective on assessing a bank's intrinsic value. FTE provides valuable insights into potential investment opportunities by focusing on the surplus cash generated beyond the required rate of return. This method is a cornerstone of financial intuition evaluation for banks, reflecting their unique financial structure and the influence of regulatory factors on cash flows.

Regulatory Capital | As presented in Figure 24 BMPS's historical and forecasted data for Risk-Weighted Assets (RWA) and the RWA/Assets ratio from 2022 to 2028 show a consistent upward trend.

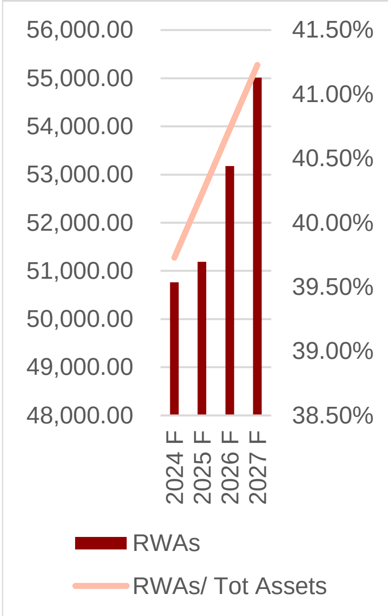
RWA increased from €45,686.20 million in 2022 to €48,099.10 million in 2023 and is projected to reach €55,953.14 million by 2028. The RWA/Assets ratio also rises, from 38.00% in 2022 to 41.73% in 2028.

The RWA projections assume an annual increase of 50 basis points in the RWA/Total Assets ratio, accounting for the growing risk in an uncertain banking environment.
The target capital ratio is forecasted to rise by 20 basis points between 2024 and 2028.

Terminal Growth | The terminal growth rate reflects the bank's projected long-term sustainable growth for free cash flow to equity (FCFE). A 2% rate was applied, aligned with the ECB's target interest rate. (ECB_European Central Bank, 2024)

The FTE valuation method results in a Target Price of € 8.41 per share by the end of FY25, offering an upside potential of 60.83%, supporting the Buy recommendation.

Figure 24 – BMPS' RWA (M€) and RWA/ Assets (%) (2022-2028)



***Source**: Author's Estimation*

Market Approach

The multiple valuation approach relies on comparing a company to similar firms. Therefore, a carefully chosen peer group is essential for the accuracy of this method.

Peers' Selection | Several factors make banks different from non-financial corporations, including specific regulations, diverse accounting standards, complex financial products, macroeconomic uncertainty, and a unique risk profile. Therefore, banks are best compared with similar institutions to ensure more accurate valuation.

For this relative valuation, key metrics such as market capitalization, EPS growth, ROE, loan-to-asset ratio, total deposits, and total loans as of year-end 2023 were considered. Based on the loan-to-asset ratio, four benchmark peers from a group of nine regional commercial banks were selected for MPS Bank.
The peer group was chosen to reflect institutions with similar total assets and operational scope (Table 19).

Table 19 – Peer Group

	Banks	Total loans	Total Assets	Total loans/ Total assets
BMPS	**Banca Monte dei Paschi di Siena SpA**	**79,924.60**	**122,613.70**	**65.18%**
BAMI	Banco BPM SPA	106,330.34	202,131.97	52.60%
UCG	Unicredit SPA	495,406.00	784,974.00	63.11%
BPE	Bper Banca SPA	90,054.20	142,128.35	63.36%
MB	Mediobanca SPA	58,116.58	91,639.01	63.42%
ISP	Intesa Sanpaolo	477,771.00	963,570.00	49.58%
CE	Credito Emiliano SPA	43,383.25	68,017.64	63.78%
BDB	Banco Desio E Della Brianza	14,333.43	18,555.25	77.25%
CDBOL	Cassa Di Risparmio Di Bolzan	14,422.17	17,191.83	83.89%
BASTI	Banca Di Asti SPA	9,615.10	12,714.08	75.63%

***Source**: Bloomberg*

Relative Valuation| The price multiples considered to compute the target price were the following (Figure 25):

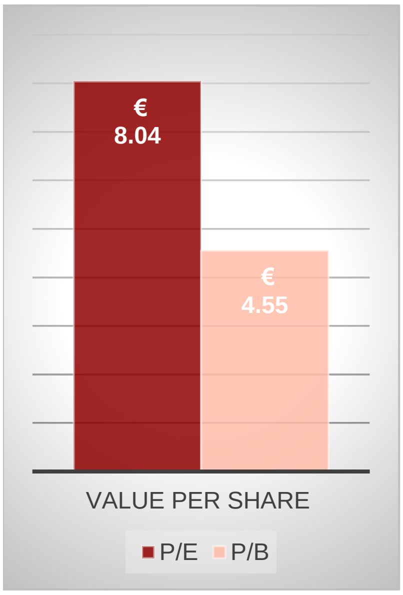
- P/E ratio, with a benchmark average of 5.37, resulting in a 2025YE PT of 8.04 €;
- P/B ratio, with a benchmark average of 0.68, resulting in a 2025YE PT of 4.55 €.

The final average between the two price multiples results in a 2025YE PT of 6.29 €.

By combining the P/E and P/B ratios, we aim to provide a more comprehensive valuation of BMPS. While the P/E ratio focuses on profitability, the P/B ratio assesses asset quality, both of which are crucial for a bank undergoing restructuring.

By averaging these ratios, we can mitigate the potential distortions caused by earnings volatility and incorporate a solid reflection of BMPS's capital base. This balanced approach aligns more closely with the bank's current financial status and provides a more accurate valuation.

Figure 25 – Value per share (P/B and P/E)



***Source**: Author's Estimation*

Financial Analysis

Profitability

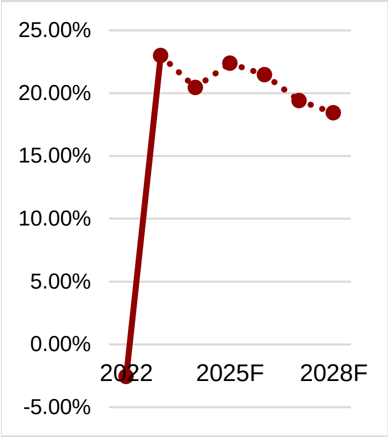
Banco Monte Dei Paschi di Siena has demonstrated a significant turnaround in profitability metrics, positioning it favorably among its peers. As shown in Figure 26, despite a challenging start in 2022 with an ROE of -2.54%, the bank's profitability surged to 23.00% in 2023 and is expected to remain robust, fluctuating between 18.97% and 23.00% through 2028, well above the industry median of 16.88%. This indicates effective utilization of shareholders' funds and strong financial management.

Similarly, as shown in Figure 27 the bank's ROA improved from -0.14% in 2022 to 1.69% in 2023 and, even though the forecast indicates that it is gradually declining to 1.28% by 2028, it remains above 1%, reflecting efficient asset utilization.

The net profit margin, also, highlights BMPS's strong profitability, rising sharply from -11.6% in 2022 to 89.5% in 2023, with stabilization expected around 85-89% through 2028 (Figure 28).
This significant margin improvement stems from increased net interest income from EUR 1,535.6 million in 2022 to EUR 2,292.10 million in 2023 (Figure 28), driven by favorable interest rates and controlled funding costs, which outweighed declines in fee and commission income, particularly in asset management. Fourth-quarter revenue gains of 2023 were further bolstered by a 5.9% increase in Net Fee and Commission Income and higher income from equity investments in insurance associates.

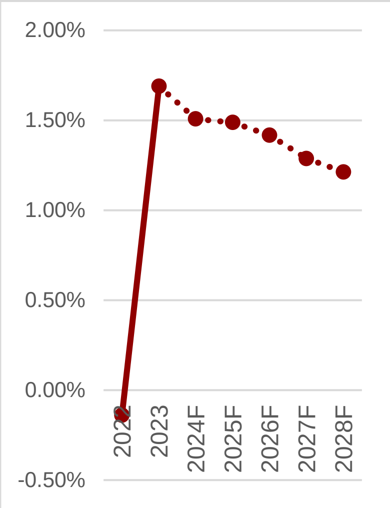
Overall, the growth in interest income led to a 21.7% revenue rise in 2023, which, in turn, resulted in to increase in Net income from EUR -178.40 million in 2022 to EUR 2,051.80 million in 2023 (Figure 29), which drove the impressive net profit margin expansion.

Figure 26 – BMPS' Return on Equity (ROE) (2022-2028)



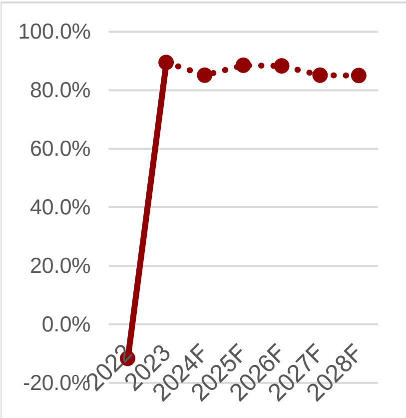
***Source**: Author's Estimation*

Figure 27 – BMPS' Return on Assets (2022-2028)



***Source**: Author's Estimation*

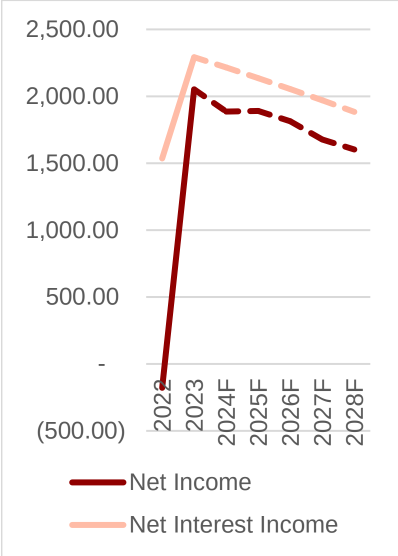
Figure 28 – BMPS' Net Profit Margin (2022-2028)



***Source**: Author's Estimation*

BMPS's significant improvement in profitability from 2022 to 2023 is primarily attributed to strategic actions aimed at bolstering capital, enhancing efficiency, and increasing revenue. A €2.5 billion capital increase and a workforce reduction of 4,000 employees contributed to stronger finances and reduced costs. The bank's focus on operational streamlining, IT investments, and securing improved funding through bond issuances and a credit rating upgrade further enhanced efficiency. Rising interest rates positively impacted revenue, offsetting the decline in fees. Additionally, favorable legal outcomes resulted in provision releases, substantially boosting profitability despite broader economic challenges.

Figure 29 – Net Income & Net Interest Income (M€) (2022-2028)



***Source**: Author's Estimation*

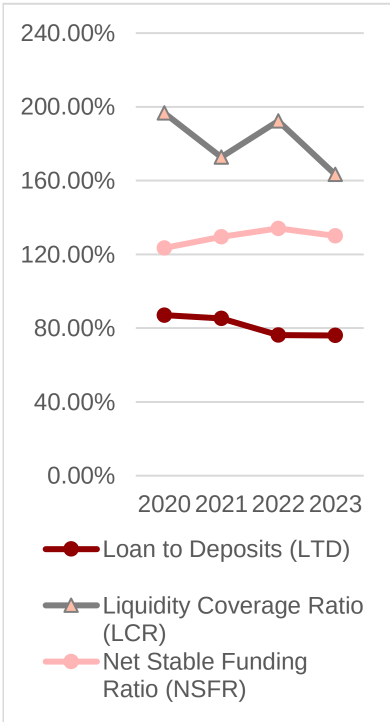
Liquidity

The bank's liquidity ratios indicate effective liquidity management and financial stability.

As shown in Figure 30, the Loan to Deposits (LTD) ratio decreased from 87.07% in 2020 to 76.02% in 2023, reflecting a more conservative lending approach than deposits. The Liquidity Coverage Ratio (LCR) shows some fluctuation, declining from 196.70% in 2020 to 163.30% in 2023, but remains well above regulatory requirements, indicating strong short-term liquidity.

The Net Stable Funding Ratio (NSFR) has improved from 123.48% in 2020 to 130.10% in 2023, highlighting the bank's strengthened long-term funding stability.

Figure 30 – Liquidity Ratios



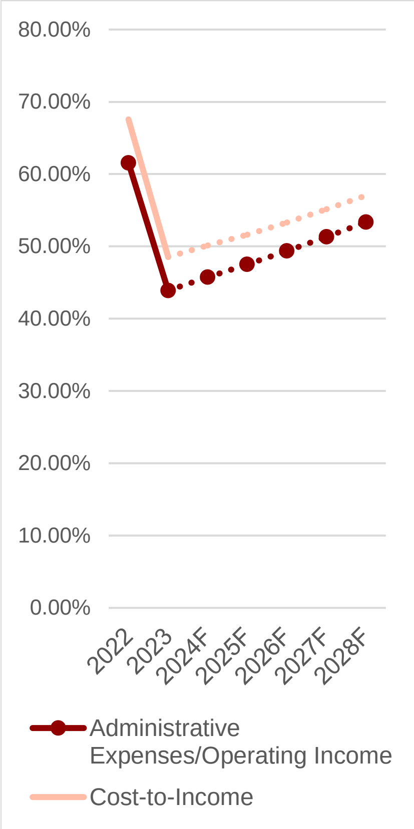
***Source**: Author, Annual Accounts.*

Overall, these trends suggest that the bank is well-prepared to meet both short-term and long-term obligations, enhancing its resilience and supporting growth prospects. Investments in managing performing and non-performing credit platforms are a key part of the bank's strategy, as they also stabilize liquidity by improving credit risk management and recovery rates. The bank's commitment to enhancing profitability, reducing risk, and strengthening its financial foundation positions it favorably for sustainable growth in the future.

Efficiency

BMPS' efficiency metrics show notable improvements from 2022 to 2028 as shown in Figure 31. The Administrative Expenses to Operating Income ratio decreases from 61.56% in 2022 to 43.91% in 2023, and then it is expected to rise gradually to 52.58% by 2028. This initial drop indicates better cost management, though the forecasted gradual increase suggests challenges in maintaining these efficiencies due to growing operating costs, competitive pressures, and diminishing returns from earlier cost-cutting. As the bank invests in technology, expands operations, and faces inflation, expenses are likely to grow. Additionally, rising regulatory and compliance costs may contribute to the gradual increase, reflecting potential difficulties in maintaining the same level of cost efficiency over time.

Figure 31 – Efficiency Indicators



***Source**: Author's Estimation*

Similarly, The Cost to Income ratio improves from 67.57% in 2022 to 48.54% in 2023, then it is expected to gradually increase to 56.19% by 2028 (Figure 31). The significant reduction in the early years reflects effective cost control, driven by BMPS's focus on streamlining operations, reducing branch networks, and managing administrative costs, as evidenced by the target to lower the cost-income ratio to 60% by 2024. The optimization of the workforce and investments in digital channels directly improve operational efficiency, contributing to this initial reduction. However, the forecasted subsequent rise indicates ongoing pressures from rising operating costs, inflation, competition, and increasing regulatory compliance expenses, challenging BMPS's ability to sustain early cost efficiencies.

Overall, the bank demonstrates initial success in improving efficiency but will need continuous efforts to sustain these gains.

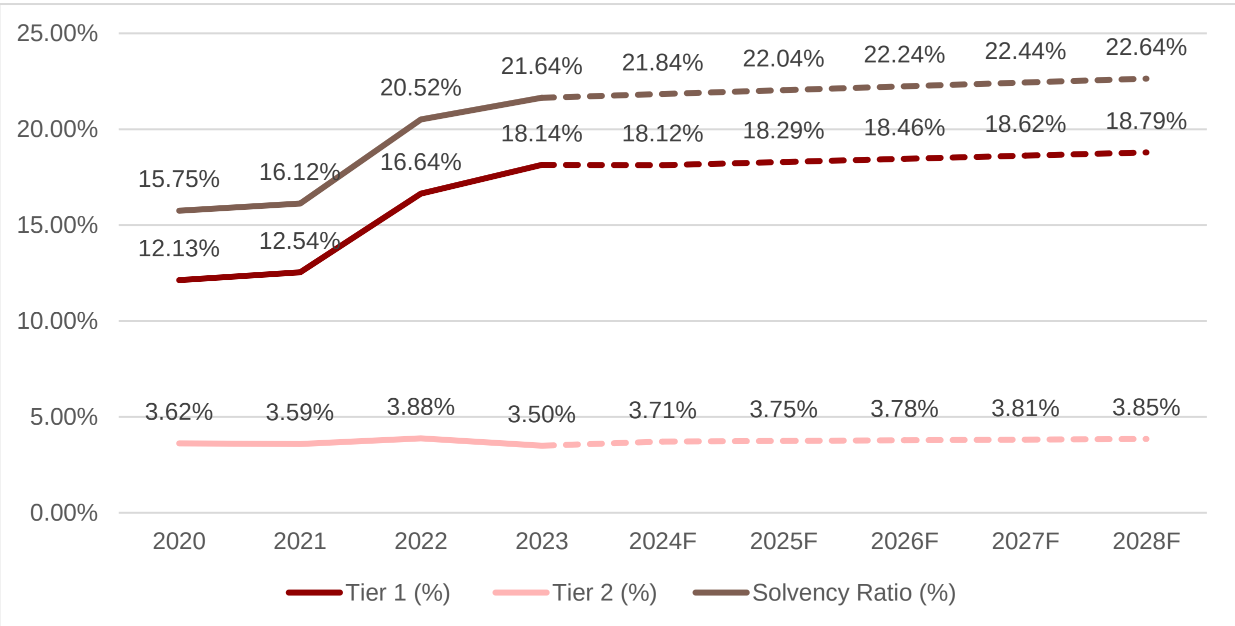
Solvency

Capital ratios are critical in assessing the overall performance of a bank. BMPS' Tier 1 capital ratio improved significantly from 12.13% in 2020 to 18.14% in 2023, indicating a strengthened core capital base relative to its risk-weighted assets. By raising its Tier 1 ratio and reducing non-performing exposures, BMPS is tackling its legacy issues and strengthening capital adequacy. This focus on enhancing capital ratios is key to its strategy of building a resilient balance sheet, ensuring long-term sustainability, and reducing risk.

The Tier 2 capital ratio remained relatively stable, slightly declining from 3.62% to 3.50% over the same period. The overall solvency ratio grew substantially, rising from 15.75% in 2020 to 21.64% in 2023.

These improvements reflect the bank's enhanced ability to absorb losses and meet regulatory requirements, ensuring it maintains a robust and stable capital structure (Figure 32).

Figure 32 – Capital Ratios



***Source**: Author's Estimation*

Investment Risks

Risk identification and characterization

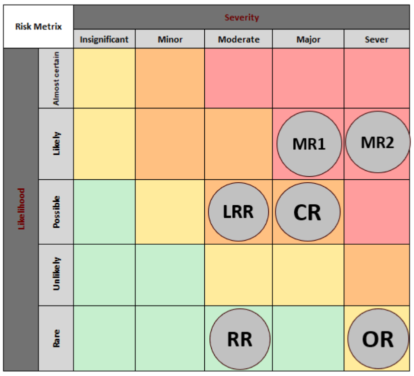
Credit Risk | Market Risk [MR1, Figure 33]: Credit risk is the probability of financial loss due to a borrower's inability to repay a loan or a decline in their creditworthiness. This risk is often influenced by fluctuations in the economic cycle. The essential metrics for evaluating credit risk are the probability of default (PD), loss-given default (LGD), and exposure at default (EAD).

Interest Rate Risk | Market Risk [MR2]: A change in interest rates can affect the value of a bank's assets and liabilities. Interest risk poses a significant threat to the value of marked-to-market assets like bonds, as their prices decline when interest rates rise, and can also hinder the ability of non-market-to-market assets like loans to generate cash flows.

Operational Risk | [OR]: This risk refers to the potential for financial losses or operational disruptions arising from internal deficiencies, such as flawed processes, systems, personnel, or external events beyond the bank's control. It encompasses a broad spectrum of risks that can arise from everyday banking operations and have severe consequences for the institution. This type of risk is difficult to anticipate and cannot be diversified, sold off, or hedged against. Insurance is the only viable method of mitigation, but it does not cover all sources of operational risk.

Cybersecurity Risk | [CR]: Cybersecurity risk includes the potential for financial losses, operational disruptions, and detrimental consequences to an institution arising from vulnerabilities in its digital systems and networks. It constitutes a different subcategory of operational risk that prioritizes the risks associated with the confidentiality, integrity, and availability of digital information and assets.

Figure 33 – Risk Matrix



***Source**: Author's Estimation*

Reputational Risk | [RR]: Reputational risk arises when a bank falls short of stakeholders' expectations, threatening its financial standing. Maintaining customer trust is crucial; any breach can lead to a bank run. To safeguard reputation, banks must cultivate strong relationships with stakeholders, uphold ethical standards, and educate staff on reputational matters.

Legal and Regulatory Risk | [LRR]: Legal risk refers to potential losses incurred by a bank due to non-compliance with relevant laws or regulations. European banks have faced numerous legal disputes leading to substantial fines and settlement agreements. Regulatory risk, on the other hand, occurs due to potential losses arising from changes in regulations. The escalating costs associated with meeting regulatory requirements in recent years have contributed to increased concentration within the banking system.

Scenario Analysis

Blue-sky and grey-sky scenarios were evaluated, considering adjustments in factors such as the real GDP growth rate, inflation rate, 12M Euribor, persistence factor, and the growth rate of deposits and loans above the market.

The key factors include the growth rates of deposits and loans exceeding the market, real GDP growth, and Euribor. In the base case, deposits and loans are expected to grow by 50 bps above the market rate, while the blue-sky and grey-sky scenarios predict 100 bps and -100 bps growth, respectively.

The optimal scenario projects a Euribor rate of 3.03% for 2028, the base scenario estimates a 2.8% rate, and the worst-case scenario forecasts 1.21%. With Euribor forecasts available only until 2023 (3.53%) (Euribor Rates, 2024) it is assumed that the rate will stabilize

Figure 34 – Share Price Scenario Analysis

***Source**: Author's Estimation*

to these values by 2028, based on market expectations, economic forecasts, and anticipated European Central Bank (ECB) monetary policies. These projections reflect current trends in inflation, growth, and interest rate adjustments.

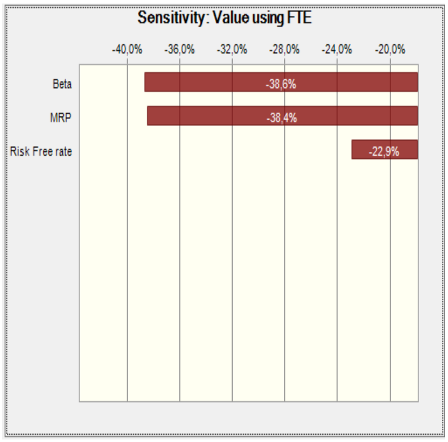
The blue-sky scenario resulted in a price of €9.06, 8 cents higher than the base, while the grey-sky scenario produced a price of €8.89, 9 cents lower (Figure 34).

Sensitivity Analysis

A sensitivity analysis was conducted using Crystal Ball software to assess the impact of key variables on the target price. By simulating 100,000 scenarios with varying combinations of these variables, we were able to identify their relative influence on the price under different conditions.

As shown in Figure 35 the most influential factors affecting the price target were Beta, the Market Risk Premium, and the Risk-Free Rate. Beta and the Market Risk Premium were the two most impactful variables, contributing -38.6% and -38.4%, respectively, to price changes. As a result, these metrics will be utilized for the sensitivity analysis (Table 20).

Figure 35 – PT Sensitivity



***Source**: Crystal Ball software; Author's estimations*

Table 20 – Sensitivity Analysis

		Market Risk Premium								
	€ 8,41	**4,40%**	**4,85%**	**5,30%**	**5,75%**	**6,20%**	**6,65%**	**7,10%**	**7,55%**	**8,00%**
Beta	**0,62**	€ 9,28	€ 9,23	€ 9,17	€ 9,12	€ 9,07	€ 9,01	€ 8,96	€ 8,91	€ 8,86
	0,77	€ 9,15	€ 9,09	€ 9,02	€ 8,96	€ 8,90	€ 8,83	€ 8,77	€ 8,71	€ 8,65
	0,92	€ 9,03	€ 8,95	€ 8,88	€ 8,80	€ 8,73	€ 8,66	€ 8,59	€ 8,51	€ 8,45
	1,07	€ 8,91	€ 8,82	€ 8,73	€ 8,65	€ 8,57	€ 8,49	€ 8,41	€ 8,33	€ 8,25
	1,22	€ 8,79	€ 8,69	€ 8,60	€ 8,50	**€ 8,41**	€ 8,32	€ 8,23	€ 8,15	€ 8,06
	1,37	€ 8,67	€ 8,57	€ 8,46	€ 8,36	€ 8,26	€ 8,16	€ 8,07	€ 7,97	€ 7,88
	1,52	€ 8,56	€ 8,44	€ 8,33	€ 8,22	€ 8,11	€ 8,01	€ 7,91	€ 7,81	€ 7,71
	1,67	€ 8,45	€ 8,32	€ 8,20	€ 8,09	€ 7,97	€ 7,86	€ 7,75	€ 7,64	€ 7,54
	1,82	€ 8,34	€ 8,21	€ 8,08	€ 7,95	€ 7,83	€ 7,72	€ 7,60	€ 7,49	€ 7,38

***Source**: Author's Estimation*

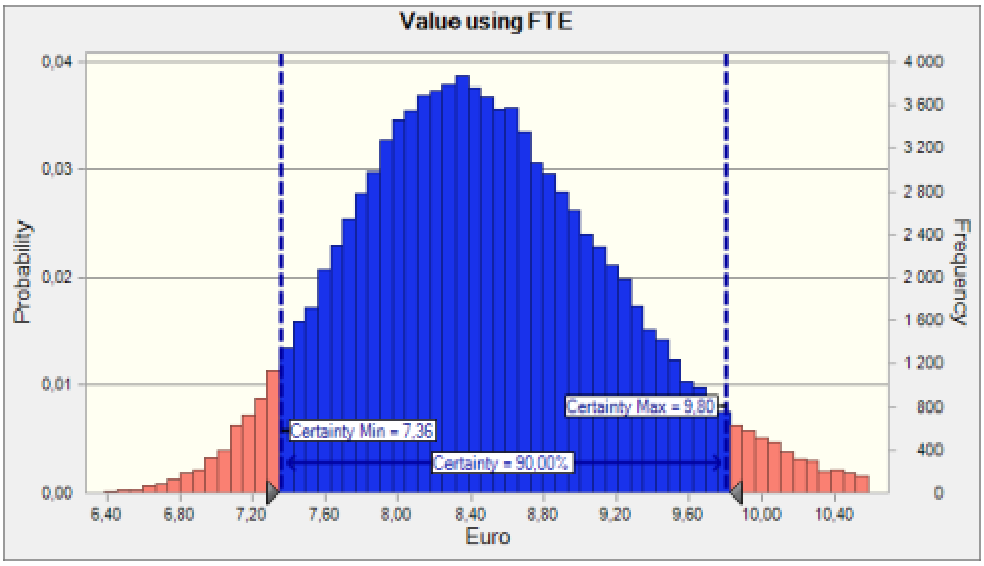
Table 21 – Upside Potential Sensitivity Analysis

	Market Risk Premium								
Beta	4,40%	4,85%	5,30%	5,75%	6,20%	6,65%	7,10%	7,55%	8,00%
0,67	77,45%	76,41%	75,39%	74,37%	73,36%	72,37%	71,38%	70,40%	69,43%
0,77	75,02%	73,76%	72,52%	71,29%	70,08%	68,88%	67,70%	66,53%	65,37%
0,92	72,63%	71,17%	69,72%	68,30%	66,90%	65,51%	64,15%	62,80%	61,48%
1,07	70,31%	68,64%	67,01%	65,40%	63,82%	62,26%	60,73%	59,22%	57,74%
1,22	68,04%	66,18%	64,37%	62,58%	60,83%	59,11%	57,42%	55,77%	54,14%
1,37	65,81%	63,78%	61,79%	59,85%	57,94%	56,07%	54,24%	52,44%	50,69%
1,52	63,64%	61,44%	59,29%	57,19%	55,13%	53,13%	51,16%	49,24%	47,37%
1,67	61,52%	59,15%	56,85%	54,61%	52,41%	50,28%	48,19%	46,16%	44,17%
1,82	59,44%	56,92%	54,48%	52,10%	49,78%	47,52%	45,32%	43,18%	41,10%

***Source**: Author's Estimation*

Monte Carlo Stimulation

Figure 36 – Monte Carlo Simulation



***Source**: Crystal Ball software; Author's estimations*

Table 22 – PT percentiles

Percentile	Forecast values	Upside potential
0%	5,93	13,38%
10%	7,57	44,74%
20%	7,85	50,10%
30%	8,06	54,11%
40%	8,25	57,74%
50%	8,43	61,19%
60%	8,62	64,82%
70%	8,83	68,83%
80%	9,09	73,80%
90%	9,47	81,07%
100%	13,52	158,51%

***Source**: Crystal Ball software; Author's estimations*

A Monte Carlo simulation was carried out using Crystal Ball Software to assess the sensitivity of key variables. Running 100,000 simulations yielded a mean target price of €8.49, a median of €8.44, and a standard deviation of 0.75, with a 95% confidence interval.

Table 22 shows the percentiles of the target price generated from the simulation. This illustrates the range of potential outcomes and helps to understand the distribution of target prices under different assumptions, which span from €5.93 to €13.52.

As demonstrated in Figure 36, there is a 95% likelihood that BMPS's year-end 2025 target price will be between €7.36 and €9.81.

To perform the simulation, we assumed a normal distribution for Beta and the Market Risk Premium. While Beta can be negative for certain stocks that move inversely to the market, it typically fluctuates around its expected value, making the normal distribution a reasonable approximation for its variability. The Market Risk Premium, generally positive, is also modeled with a normal distribution to account for potential fluctuations in market expectations.

For the Risk-Free Rate, we assumed a log-normal distribution since it is always positive and tends to grow multiplicatively over time. This ensures that the modeled values do not become negative, reflecting real-world interest rate behavior.

Table 23 outlines the mean and standard deviation for each assumption used in the analysis.

Table 23 – Monte Carlo Assumptions

Variable	Mean	ST
Beta	1.22	0.12
MRP	6.20%	0.62%
Risk-Free Rate	5.86%	0.59%

Source*: Author's estimations*

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Appendices

Appendix 1. Balance Sheet Statement

Reclassified Balance Sheet										
BMPS	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Assets										
Cash and cash equivalents	835.10	2,319.50	1,741.80	12,538.60	14,317.30	17,219.5	15,630.7	18,389.2	20,449.3	21,958.9
Loans	95,083.10	115,055.10	103,643.30	78,843.50	79,924.60	80,674.3	81,548.9	81,894.7	82,562.4	83,201.8
Securities assets	24,185.10	21,623.30	22,127.10	18,393.60	17,276.90	19,101.26	19,311.88	19,594.13	19,885.35	20,615.43
Derivatives	3,041.20	3,018.60	2,431.60	3,413.60	2,776.30	2,910.03	2,882.88	2,995.70	2,891.23	2,919.96
Equity investments	931.00	1,107.50	1,095.40	750.7	726.7	696.18	666.94	608.04	544.93	544.93
Property, plant and equipment/Intangible assets	2,885.20	2,522.70	2,743.50	2,604.00	2,482.70	2,588.23	2,604.61	2,569.88	2,561.35	2,581.02
a) goodwill	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90
Tax assets	2,763.00	1,986.20	1,774.00	2,216.40	2,150.90	2,205.04	2,222.93	2,209.27	2,244.65	2,251.22
Other assets	2,472.30	2,723.20	2,311.90	1,474.90	2,958.30	2,388.12	2,371.28	2,300.90	2,298.70	2,463.46
Total assets	**132,196.00**	**150,356.10**	**137,868.60**	**120,235.30**	**122,613.70**	**127,782.68**	**127,240.05**	**130,561.78**	**133,437.95**	**136,536.73**
Liabilities										
Deposits	114,395.40	132,137.40	121,580.20	103,380.40	105,137.80	111,170.80	110,817.50	113,863.19	116,481.69	119,716.67
Direct funding	94,217.30	103,719.30	90,300.30	81,997.60	90,639.00	92,029.87	93,278.09	95,096.94	97,589.99	100,068.15
a) Due to customers	*80,063.20*	*91,506.90*	*79,859.50*	*73,356.80*	*80,558.40*	*81,686.22*	*83,401.63*	*85,361.57*	*87,580.97*	*90,077.02*
b) Securities issued	*14,154.10*	*12,212.40*	*10,440.80*	*8,640.80*	*10,080.60*	*10,343.65*	*9,876.46*	*9,735.38*	*10,009.02*	*9,991.13*
Due to central banks	16,041.50	23,933.60	29,154.80	19,176.90	13,148.20	17,155.65	15,577.65	16,925.33	16,867.67	17,601.07
Due to banks	4,136.60	4,484.50	2,125.10	2,205.90	1,350.60	1,985.28	1,961.76	1,840.92	2,024.02	2,047.45
On-balance-sheet financial liabilities held for trading	2,436.00	4,545.50	3,104.10	2,567.20	1,823.20	2,351.02	2,215.95	2,329.56	2,323.27	2,429.62
Derivatives	2,762.50	3,253.50	2,686.10	1,722.90	1,361.70	1,542.30	1,452.00	1,497.15	1,474.58	1,485.86
Provisions for specific use	1,388.50	2,059.20	1,814.00	1,585.70	1,050.30	1,391.18	1,388.40	1,381.68	1,327.85	1,398.02
Tax liabilities	3.30	4.10	7.10	6.60	9.10	5.58	6.30	6.94	7.17	7.30
Other liabilities	2,929.40	2,572.40	2,503.10	3,111.50	3,252.40	2,859.85	2,931.71	3,038.87	3,020.71	2,962.78
Total Liabilities	**123,915.10**	**144,572.10**	**131,694.60**	**112,374.30**	**112,634.50**	**119,320.74**	**118,811.87**	**122,117.39**	**124,635.26**	**128,000.25**
Equity										
Group net equity	8,279.10	5,782.70	6,172.70	7,860.10	9,978.50	8,460.74	8,427.10	8,443.35	8,801.71	8,535.47
a) Valuation reserves	66.40	260.90	306.80	(26.90)	27.90	127.02	139.14	114.79	76.39	97.05
d) Reserves	(769.20)	(1,670.50)	(3,638.60)	611.90	445.30	(1,004.22)	(1,051.22)	(927.37)	(385.12)	(584.53)
f) Share capital	10,328.60	9,195.00	9,195.00	7,453.50	7,453.50	7,453.50	7,453.50	7,453.50	7,453.50	7,453.50
g) Treasury shares (-)	(313.70)	(313.70)	-	-	-	-	-	-	-	-
h) Net profit (loss) for the period	(1,033.00)	(1,689.00)	309.50	(178.40)	2,051.80	1,884.44	1,885.68	1,802.43	1,656.94	1,569.45
Non-controlling interests	1.80	1.30	1.30	0.90	0.70	1.20	1.08	1.04	0.98	1.00
Total Equity	**8,280.90**	**5,784.00**	**6,174.00**	**7,861.00**	**9,979.20**	**8,461.94**	**8,428.18**	**8,444.39**	**8,802.70**	**8,536.47**
Total Liabilities and Shareholders' Equity	**132,196.00**	**150,356.10**	**137,868.60**	**120,235.30**	**122,613.70**	**127,782.68**	**127,240.05**	**130,561.78**	**133,437.95**	**136,536.73**

Appendix 2. Income Statement

Reclassified Consolidated Income Statement										
	Actual					Prediction				
BMPS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Interest Income	2,120.70	1,980.70	1,901.80	2,150.10	4,364.30	4,366.68	4,369.61	4,370.78	4,373.08	4,375.31
Interest Expense	(619.40)	(690.10)	(680.30)	(614.50)	(2,072.20)	(2,155.30)	(2,247.11)	(2,344.86)	(2,452.72)	(2,571.68)
Net interest income	**1,501.30**	**1,290.60**	**1,221.50**	**1,535.60**	**2,292.10**	**2,211.39**	**2,122.50**	**2,025.92**	**1,920.36**	**1,803.63**
Net fee and commission income	1,449.50	1,430.10	1,484.00	1,364.65	1,321.90	1,340.41	1,368.56	1,400.72	1,437.13	1,478.09
Income from banking activities	**2,950.80**	**2,720.70**	**2,705.50**	**2,900.25**	**3,614.00**	**3,551.79**	**3,491.06**	**3,426.64**	**3,357.49**	**3,281.72**
Dividends, similar income and gains (losses) on investments	95.60	101.00	113.40	111.60	107.10	99.11	97.07	95.89	92.46	90.35
Net profit (loss) from trading	322.20	168.60	184.82	74.24	67.30	63.70	60.29	57.06	50.03	46.81
Net profit (loss) from hedging	(4.61)	2.60	12.57	6.18	(4.40)	4.24	4.64	2.66	3.85	3.72
Other operating income (expenses)	(80.20)	(50.50)	(36.55)	27.50	12.80	20.15	20.15	17.70	19.33	19.06
Total Revenues	**3,283.79**	**2,942.40**	**2,979.73**	**3,119.76**	**3,796.80**	**3,738.98**	**3,673.21**	**3,599.95**	**3,523.17**	**3,441.66**
Administrative expenses:	(2,034.40)	(1,978.40)	(1,926.05)	(1,920.64)	(1,667.10)	(1,710.61)	(1,747.56)	(1,782.51)	(1,818.16)	(1,854.53)
Net value adjustments to property, plant and equipment and intangible assets	(255.20)	(206.20)	(179.85)	(187.50)	(175.70)	(164.46)	(151.17)	(142.31)	(135.94)	(127.48)
Operating expenses	**(2,289.60)**	**(2,184.60)**	**(2,105.90)**	**(2,108.14)**	**(1,842.80)**	**(1,875.07)**	**(1,898.73)**	**(1,924.82)**	**(1,954.10)**	**(1,982.01)**
Pre-Provision Operating Profit	**994.19**	**757.80**	**873.84**	**1,011.62**	**1,954.10**	**1,863.91**	**1,774.48**	**1,675.13**	**1,569.06**	**1,459.65**
Cost of customer credit	(582.70)	(772.70)	(249.99)	(416.93)	(440.30)	(464.18)	(448.06)	(398.87)	(432.37)	(436.76)
Net impairment (losses)/reversals on securities and loans to banks	(5.30)	(5.40)	5.30	(1.10)	(3.20)	(2.88)	(2.60)	(2.35)	(2.15)	(2.15)
Net operating income	**406.19**	**(20.30)**	**629.14**	**593.58**	**1,510.60**	**1,396.85**	**1,323.82**	**1,273.91**	**1,134.54**	**1,020.74**
Net provisions for risks and charges	(155.90)	(984.00)	(99.00)	1.98	471.20	475.62	480.78	482.81	486.75	490.52
Other gains (losses) on equity investments	(5.60)	2.80	2.20	3.70	(3.00)	1.43	1.08	0.80	0.08	0.85
Restructuring costs / One-off costs	(0.30)	(153.70)	(7.32)	(931.44)	(22.90)	(23.50)	(24.01)	(24.49)	(24.98)	(25.47)
Risks and charges associated to the SRF, DGS and similar schemes	(123.40)	(140.30)	(169.32)	(179.70)	(133.70)	(149.28)	(154.46)	(157.29)	(154.89)	(149.92)
DTA Fee	(70.60)	(71.00)	(63.22)	(62.92)	(62.90)	(66.13)	(65.23)	(64.08)	(64.25)	(64.52)
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value /		(27.60)	(43.52)	(31.10)	(53.10)	(38.83)	(41.64)	(41.17)	(43.68)	(41.33)
Gains (losses) on disposal of investments	3.00	53.50	14.40	0.80	0.40	14.42	16.70	9.34	8.33	9.84
Profit (Loss) for the period before tax	**53.39**	**(1,340.60)**	**263.37**	**(605.09)**	**1,706.60**	**1,610.57**	**1,537.05**	**1,479.85**	**1,341.90**	**1,240.70**
Tax (expense)/(recovery) on income from continuing operations	(1,074.60)	(341.60)	49.45	426.60	345.10	273.72	348.47	322.43	314.87	328.59
Profit (Loss) after tax	**(1,021.21)**	**(1,682.20)**	**312.82**	**(178.49)**	**2,051.70**	**1,884.29**	**1,885.52**	**1,802.28**	**1,656.78**	**1,569.29**
Net profit (loss) for the period including non-controlling interests	**(1,021.20)**	**(1,682.30)**	**312.85**	**(178.50)**	**2,051.60**	**1,884.29**	**1,885.52**	**1,802.28**	**1,656.78**	**1,569.29**
Net profit (loss) attributable to non-controlling interests	(0.10)	(0.10)	(0.20)	(0.10)	(0.20)	(0.15)	(0.16)	(0.15)	(0.17)	(0.16)
Parent Company's Profit (loss) for the year before PPA	**(1,021.10)**	**(1,682.20)**	**313.05**	**(178.40)**	**2,051.80**	**1,884.44**	**1,885.68**	**1,802.43**	**1,656.94**	**1,569.45**
PPA (Purchase Price Allocation) *	(11.90)	(4.30)	(3.55)	-	-	-	-	-	-	-
Parent company's net profit (loss) for the year	**€ (1,033.00)**	**€ (1,686.50)**	**€ 309.50**	**€ (178.40)**	**€ 2,051.80**	**€ 1,884.44**	**€ 1,885.68**	**€ 1,802.43**	**€ 1,656.94**	**€ 1,569.45**

Appendix 3. Common Size Balance Sheet

Common Size Reclassified Balance Sheet										
BMPS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Assets										
Cash and cash equivalents	0.63%	1.54%	1.26%	10.43%	11.68%	13.48%	12.28%	14.08%	15.32%	16.08%
Loans	71.93%	76.52%	75.18%	65.57%	65.18%	63.13%	64.09%	62.72%	61.87%	60.94%
Securities assets	18.29%	14.38%	16.05%	15.30%	14.09%	14.95%	15.18%	15.01%	14.90%	15.10%
Derivatives	2.30%	2.01%	1.76%	2.84%	2.26%	2.28%	2.27%	2.29%	2.17%	2.14%
Equity investments	0.70%	0.74%	0.79%	0.62%	0.59%	0.54%	0.52%	0.47%	0.41%	0.40%
Property, plant and equipment/Intangible assets	2.18%	1.68%	1.99%	2.17%	2.02%	2.03%	2.05%	1.97%	1.92%	1.89%
Tax assets	2.09%	1.32%	1.29%	1.84%	1.75%	1.73%	1.75%	1.69%	1.68%	1.65%
Other assets	1.87%	1.81%	1.68%	1.23%	2.41%	1.87%	1.86%	1.76%	1.72%	1.80%
Total assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Deposits	86.53%	87.88%	88.19%	85.98%	85.75%	87.00%	87.09%	87.21%	87.29%	87.68%
On-balance-sheet financial liabilities held for trading	1.84%	3.02%	2.25%	2.14%	1.49%	1.84%	1.74%	1.78%	1.74%	1.78%
Derivatives	2.09%	2.16%	1.95%	1.43%	1.11%	1.21%	1.14%	1.15%	1.11%	1.09%
Provisions for specific use	1.05%	1.37%	1.32%	1.32%	0.86%	1.09%	1.09%	1.06%	1.00%	1.02%
Tax liabilities	0.00%	0.00%	0.01%	0.01%	0.01%	0.00%	0.00%	0.01%	0.01%	0.01%
Other liabilities	2.22%	1.71%	1.82%	2.59%	2.65%	2.24%	2.30%	2.33%	2.26%	2.17%
Total Liabilities	**93.74%**	**96.15%**	**95.52%**	**93.46%**	**91.86%**	**93.38%**	**93.38%**	**93.53%**	**93.40%**	**93.75%**
Equity										
Group net equity	6.26%	3.85%	4.48%	6.54%	8.14%	6.62%	6.62%	6.47%	6.60%	6.25%
Total Equity	**6.26%**	**3.85%**	**4.48%**	**6.54%**	**8.14%**	**6.62%**	**6.62%**	**6.47%**	**6.60%**	**6.25%**
Total Liabilities and Shareholders' Equity	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Appendix 4. Common Size Income Statement

Common Size Reclassified Consolidated Income Statement										
	Actual					Forecast				
BMPS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Interest Income	-205.30%	-117.44%	614.47%	-1205.21%	212.71%	231.72%	231.73%	242.49%	263.92%	278.78%
Interest Expense	59.96%	40.92%	-219.81%	344.45%	-100.99%	-114.37%	-119.17%	-130.09%	-148.03%	-163.86%
Net interest income	**-145.33%**	**-76.53%**	**394.67%**	**-860.76%**	**111.71%**	**117.35%**	**112.56%**	**112.40%**	**115.90%**	**114.92%**
Net fee and commission income	-140.32%	-84.80%	479.48%	-764.94%	64.43%	71.13%	72.58%	77.71%	86.73%	94.18%
Income from banking activities	**-285.65%**	**-161.32%**	**874.15%**	**-1625.70%**	**176.14%**	**188.48%**	**185.13%**	**190.11%**	**202.63%**	**209.10%**
Dividends, similar income and gains (losses) on investments	-9.25%	-5.99%	36.64%	-62.56%	5.22%	5.26%	5.15%	5.32%	5.58%	5.76%
Net profit (loss) from trading	-31.19%	-10.00%	59.71%	-41.61%	3.28%	3.38%	3.20%	3.17%	3.02%	2.98%
Net profit (loss) from hedging	0.45%	-0.15%	4.06%	-3.46%	-0.21%	0.22%	0.25%	0.15%	0.23%	0.24%
Other operating income (expenses)	7.76%	2.99%	-11.81%	-15.41%	0.62%	1.07%	1.07%	0.98%	1.17%	1.21%
Total Revenues	**-317.89%**	**-174.47%**	**962.76%**	**-1748.75%**	**185.05%**	**198.41%**	**194.79%**	**199.73%**	**212.63%**	**219.29%**
Administrative expenses:	196.94%	117.31%	-622.31%	1076.59%	-81.25%	-90.78%	-92.68%	-98.89%	-109.73%	-118.16%
Net value adjustments to property, plant and equipment and intangible assets	24.70%	12.23%	-58.11%	105.10%	-8.56%	-8.73%	-8.02%	-7.90%	-8.20%	-8.12%
Operating expenses	**221.65%**	**129.53%**	**-680.42%**	**1181.69%**	**-89.81%**	**-99.50%**	**-100.69%**	**-106.79%**	**-117.93%**	**-126.29%**
Pre-Provision Operating Profit	**-96.24%**	**-44.93%**	**282.34%**	**-567.05%**	**95.24%**	**98.91%**	**94.10%**	**92.94%**	**94.70%**	**93.00%**
Cost of customer credit	56.41%	45.82%	-80.77%	233.71%	-21.46%	-24.63%	-23.76%	-22.13%	-26.09%	-27.83%
Net impairment (losses)/reversals on securities and loans to banks	0.51%	0.32%	1.71%	0.62%	-0.16%	-0.15%	-0.14%	-0.13%	-0.13%	-0.14%
Net operating income	**-39.32%**	**1.20%**	**203.28%**	**-332.73%**	**73.62%**	**74.13%**	**70.20%**	**70.68%**	**68.47%**	**65.04%**
Net provisions for risks and charges	15.09%	58.35%	-31.99%	-1.11%	22.97%	25.24%	25.50%	26.79%	29.38%	31.25%
Other gains (losses) on equity investments	0.54%	-0.17%	0.71%	-2.07%	-0.15%	0.08%	0.06%	0.04%	0.00%	0.05%
Restructuring costs / One-off costs	0.03%	9.11%	-2.36%	522.11%	-1.12%	-1.25%	-1.27%	-1.36%	-1.51%	-1.62%
Risks and charges associated to the SRF, DGS and similar schemes	11.95%	8.32%	-54.71%	100.73%	-6.52%	-7.92%	-8.19%	-8.73%	-9.35%	-9.55%
DTA Fee	6.83%	4.21%	-20.43%	35.27%	-3.07%	-3.51%	-3.46%	-3.56%	-3.88%	-4.11%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value		1.64%	-14.06%	17.43%	-2.59%	-2.06%	-2.21%	-2.28%	-2.64%	-2.63%
Gains (losses) on disposal of investments	-0.29%	-3.17%	4.65%	-0.45%	0.02%	0.77%	0.89%	0.52%	0.50%	0.63%
Profit (Loss) for the period before tax	**-5.17%**	**79.49%**	**85.09%**	**339.17%**	**83.18%**	**85.47%**	**81.51%**	**82.10%**	**80.99%**	**79.05%**
Tax (expense)/(recovery) on income from continuing operations	104.03%	20.25%	15.98%	-239.13%	16.82%	14.53%	18.48%	17.89%	19.00%	20.94%
Profit (Loss) after tax	**98.86%**	**99.75%**	**101.07%**	**100.05%**	**100.00%**	**99.99%**	**99.99%**	**99.99%**	**99.99%**	**99.99%**
Net profit (loss) for the period including non-controlling interests	**98.86%**	**99.75%**	**101.08%**	**100.06%**	**99.99%**	**99.99%**	**99.99%**	**99.99%**	**99.99%**	**99.99%**
Net profit (loss) attributable to non-controlling interests	0.01%	0.01%	-0.06%	0.06%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%
Parent Company's Profit (loss) for the year before PPA	**98.85%**	**99.75%**	**101.15%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
PPA (Purchase Price Allocation) *	1.15%	0.25%	-1.15%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Parent company's net profit (loss) for the year	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Appendix 5. Key Ratios

	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Profitability Ratios										
Net Interest Income	*1,501.30*	*1,290.60*	*1,221.50*	*1,535.60*	*2,292.10*	*2,211.39*	*2,122.50*	*2,025.92*	*1,920.36*	*1,803.63*
Average Total Assets	*132,196.00*	*150,356.10*	*137,868.60*	*120,235.30*	*122,613.70*	*127,782.68*	*127,240.05*	*130,561.78*	*133,437.95*	*136,536.73*
Asset Turnover	**1.1%**	**0.9%**	**0.9%**	**1.3%**	**1.9%**	**1.7%**	**1.7%**	**1.6%**	**1.4%**	**1.3%**
Net Income	*(1,033.00)*	*(1,686.50)*	*309.50*	*(178.40)*	*2,051.80*	*1,884.44*	*1,885.68*	*1,802.43*	*1,656.94*	*1,569.45*
Net Interest Income	*1,501.30*	*1,290.60*	*1,221.50*	*1,535.60*	*2,292.10*	*2,211.39*	*2,122.50*	*2,025.92*	*1,920.36*	*1,803.63*
Net Profit Margin	**-68.8%**	**-130.7%**	**25.3%**	**-11.6%**	**89.5%**	**85.2%**	**88.8%**	**89.0%**	**86.3%**	**87.0%**
Average Total Assets	*132,196.00*	*150,356.10*	*137,868.60*	*120,235.30*	*122,613.70*	*127,782.68*	*127,240.05*	*130,561.78*	*133,437.95*	*136,536.73*
Average Total Equity	*8,279.10*	*5,782.70*	*6,172.70*	*7,860.10*	*9,978.50*	*8,460.74*	*8,427.10*	*8,443.35*	*8,801.71*	*8,535.47*
Equity Multiplier	**15.97**	**26.00**	**22.34**	**15.30**	**12.29**	**15.10**	**15.10**	**15.46**	**15.16**	**16.00**
Return on Equity (ROE)	**-11.96%**	**-23.98%**	**5.18%**	**-2.54%**	**23.00%**	**20.44%**	**22.33%**	**21.37%**	**19.21%**	**18.10%**
Return on Assets (ROA)	**-0.79%**	**-1.19%**	**0.21%**	**-0.14%**	**1.69%**	**1.51%**	**1.48%**	**1.40%**	**1.26%**	**1.16%**
Liquidity ratios										
Loan to Assets (LTA)	**71.93%**	**76.52%**	**75.18%**	**65.57%**	**65.18%**	**63.13%**	**64.09%**	**62.72%**	**61.87%**	**60.94%**
Loan to Deposits (LTD)	**83.12%**	**87.07%**	**85.25%**	**76.27%**	**76.02%**	**72.57%**	**73.59%**	**71.92%**	**70.88%**	**69.50%**
Liquidity Coverage Ratio (LCR)	**152.40%**	**196.70%**	**172.70%**	**192.30%**	**163.30%**	-	-	-	-	-
Net Stable Funding Ratio (NSFR)	**112.60%**	**123.48%**	**129.60%**	**134.10%**	**130.10%**	-	-	-	-	-
Efficiency Ratios										
Administrative Expenses	*2,034.40*	*1,978.40*	*1,926.05*	*1,920.64*	*1,667.10*	*1,710.61*	*1,747.56*	*1,782.51*	*1,818.16*	*1,854.53*
Operating Income	*3,283.79*	*2,942.40*	*2,979.73*	*3,119.76*	*3,796.80*	*3,738.98*	*3,673.21*	*3,599.95*	*3,523.17*	*3,441.66*
Administrative Expenses/Operating Income	**61.95%**	**67.24%**	**64.64%**	**61.56%**	**43.91%**	**45.75%**	**47.58%**	**49.51%**	**51.61%**	**53.88%**
Operating Expenses	*2,289.60*	*2,184.60*	*2,105.90*	*2,108.14*	*1,842.80*	*1,875.07*	*1,898.73*	*1,924.82*	*1,954.10*	*1,982.01*
Cost-to-Income	**69.72%**	**74.25%**	**70.67%**	**67.57%**	**48.54%**	**50.15%**	**51.69%**	**53.47%**	**55.46%**	**57.59%**
Cost to Assets	**1.73%**	**1.45%**	**1.53%**	**1.75%**	**1.50%**	**1.47%**	**1.49%**	**1.47%**	**1.46%**	**1.45%**
Capital Ratio										
Risk Weighted Assets (RWA)	**58,559.10**	**49,903.00**	**47,786.90**	**45,686.20**	**48,099.10**	**50,765.71**	**51,186.33**	**53,175.41**	**55,014.01**	**56,974.27**
Tier 1 capital (AT1 =0; TIER 1 = CET 1)	*8,620.30*	*6,053.30*	*5,991.80*	*7,601.20*	*8,725.17*	*9,201.05*	*9,362.25*	*9,814.34*	*10,245.00*	*10,704.63*
Tier 1 (%)	**14.72%**	**12.13%**	**12.54%**	**16.64%**	**18.14%**	**18.12%**	**18.29%**	**18.46%**	**18.62%**	**18.79%**
Tier 2 capital (TIER 2)	*1,154.30*	*1,806.60*	*1,713.30*	*1,772.20*	*1,681.93*	*1,884.55*	*1,917.57*	*2,010.17*	*2,098.37*	*2,192.51*
Tier 2 (%)	**1.97%**	**3.62%**	**3.59%**	**3.88%**	**3.50%**	**3.71%**	**3.75%**	**3.78%**	**3.81%**	**3.85%**
Total Capital (TIER 1 + TIER 2)	*9,774.60*	*7,859.90*	*7,705.10*	*9,373.40*	*10,407.10*	*11,085.60*	*11,279.82*	*11,824.50*	*12,343.38*	*12,897.14*
Solvency Ratio (%)	**16.69%**	**15.75%**	**16.12%**	**20.52%**	**21.64%**	**21.84%**	**22.04%**	**22.24%**	**22.44%**	**22.64%**

Appendix 6. Balance sheet forecasts (Forecasting Assumptions)

		2024	2025	2026	2027	2028	NOTES
Assets							
Loans	YoY	0.94%	1.08%	0.42%	0.82%	0.77%	We estimate that loans will grow 50 basis points above the market, using Net Domestic Credit Growth in Italy as the proxy for market growth.
Securities assets	€ mln	19,101.26	19,311.88	19,594.13	19,885.35	20,615.43	We asuumed % of Deposits on Liabilities Side
Derivatives	€ mln	2,910.03	2,882.88	2,995.70	2,891.23	2,919.96	We assumed the past 4 years average
Equity investments	€ mln	696.18	666.94	608.04	544.93	544.93	We assumed the average growth of the past 4 years
Property, plant and equipment/Intangible assets	€ mln	2,588.23	2,604.61	2,569.88	2,561.35	2,581.02	We assumed the past 4 years average
Tax assets	% of Assets	1.80%	1.74%	1.74%	1.72%	1.69%	We estimamte the two-year average of tax assets as a percentage of total assets.
Other Assets	€ mln	2,388.12	2,371.28	2,300.90	2,298.70	2,463.46	We assumed the past 5 years average
Liabilities							
Deposits	€ mln	111,170.80	110,817.50	113,863.19	116,481.69	119,716.67	The sum of the forecasted items that belongs to this part (Direct funding, Due to central banks , and Due to banks)
Direct funding	€ mln	92,029.87	93,278.09	95,096.94	97,589.99	100,068.15	The sum of forecasted "due to customers" and "securities issued:
a) Due to customers	YoY	1.40%	2.10%	2.35%	2.60%	2.85%	We estimate deposits to grow 50 basis points above the market, using Italy's Real GDP as a proxy for market growth.
b) Securities issued	€ mln	10,343.65	9,876.46	9,735.38	10,009.02	9,991.13	We assumed the past 4 years average
Due to central banks	% of Deposits	21.00%	18.68%	19.83%	19.26%	19.54%	We assume the average percent of deposits held in central banks relative to customer deposits
Due to banks	% of Deposits	2.43%	2.35%	2.16%	2.31%	2.27%	We expect the 4 years average percentage of deposits in banks to customer's deposits
Securities assets/ Deposits	YoY	17.18%	17.43%	17.21%	17.07%	17.22%	We assumed the past 4 years average.
Derivatives	€ mln	1,542.30	1,452.00	1,497.15	1,474.58	1,485.86	We assumed the past 3 years average.
Provisions for specific use	% of loans	1.72%	1.70%	1.69%	1.61%	1.68%	We expected the average provisions in % of loans
Tax liabilities	% of Assets	0.0046%	0.0049%	0.0055%	0.0055%	0.0055%	We assumed the four-year average of tax assets as a percentage of total assets.
Other liabilities	€ mln	2,859.85	2,931.71	3,038.87	3,020.71	2,962.78	We assumed the past 4 years average
Equity							
f) Share capital	YoY	0.00%	0.00%	0.00%	0.00%	0.00%	Constant

Appendix 7. Income Statement Forecasts (Forecasting Assumptions)

		2024	2025	2026	2027	2028	NOTES
Interest Income Growth	YoY	0.05%	0.07%	0.03%	0.05%	0.05%	Loans multiplied by Avrg Interest Rate
Average interest rate	%	5.82%	6.20%	6.32%	6.45%	6.57%	We assumed the same rate of growth as the Euribor in 2024-25, followed by growth in line with Italy's inflation rate
Interest expenses	YoY	4.01%	4.26%	4.35%	4.60%	4.85%	We assumed both the customer deposits' growth and with Italy inflation rate
Net interest income							
Net fee and commission income		1.40%	2.10%	2.35%	2.60%	2.85%	We assumed customer deposits' growth
Income from banking activities							
Dividends, similar income and gains (losses) on investments	€ mln	99.11	97.07	95.89	92.46	90.35	We assumed non-trading financial assets' growth
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	€ mln	63.70	60.29	57.06	50.03	46.81	We assumed financial assets held for trading's growth.
Net profit (loss) from hedging	%	4.24	4.64	2.66	3.85	3.72	We assumed the past 4 years average
Other operating income (expenses)	%	20.15	20.15	17.70	19.33	19.06	We assumed the past 2 years average
Total Revenues							
Administrative expenses	%	2.61%	2.16%	2.00%	2.00%	2.00%	Expected to grow at the inflation rate
Net value adjustments to property, plant and equipment and intangible assets	%	-6.40%	-8.08%	-5.86%	-4.48%	-6.22%	We assumed the average growth of the past 5 years
Pre-Provision Operating Profit							
Cost of customer credit	€ mln	(464.18)	(448.06)	(398.87)	(432.37)	(436.76)	We assumed it will grow at the same pace as the Cost of customers loans/Customers loans ratio
Net impairment (losses)/reversals on securities and loans to banks	€ mln	(2.88)	(2.60)	(2.35)	(2.15)	(2.15)	we assumed to average growth of loans to banks and average growth of security assets.
		-9.91%	-9.91%	-9.39%	-8.55%		average growth of loans to banks + average growth of security assets
Net operating income							
Net provisions for risks and charges	YOY	475.62	480.78	482.81	486.75	490.52	We assumed it's gonna grow at the same pace as total loans.
Other gains (losses) on equity investments		1.43	1.08	0.80	0.08	0.85	We assumed the past 4 years average
Restructuring costs / One-off costs	YoY	2.610%	2.160%	2.000%	2.000%	2.000%	We assumed administrative expenses growth
Risks and charges associated to the SRF, DGS and similar schemes	€ mln	(149.28)	(154.46)	(157.29)	(154.89)	(149.92)	We assumed the past 5 years average
DTA Fee	€ mln	(66.13)	(65.23)	(64.08)	(64.25)	(64.52)	We assumed the past 5 years average
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	€ mln	(38.83)	(41.64)	(41.17)	(43.68)	(41.33)	We assumed the past 4 years average
Gains (losses) on disposal of investments	€ mln	14.42	16.70	9.34	8.33	9.84	We assumed the past 5 years average
Profit (Loss) for the period before tax							
Net profit (loss) attributable to non-controlling interests		(0.15)	(0.16)	(0.15)	(0.17)	(0.16)	We assumed the past 4 years average, since it's almost stable.

Appendix 8. Forecasted Macroeconomic Data

					Forecast					
	FY 2020	FY 2021	FY 2022	FY 2023	2024	2025	2026	2027	2028	Source
Euribor 12M (1st day of the year)	-0.248%	-0.502%	-0.499%	3.316%	3.532%	3.091%	2.943%	2.796%	2.796%	Euribor Website
Italy										
Real GDP growth	-0.90%	8.30%	3.90%	0.70%	0.90%	1.60%	1.85%	2.10%	2.35%	2024-2025 from OCED, 2026-2028 is assumed to grow by 0.25% each year
Inflation, average consumer prices (% change)	-0.15%	1.94%	8.74%	5.99%	2.61%	2.16%	2.00%	2.00%	2.00%	IMF Estimations
Net Domestic Credit (1000M)	3,120.00	3,200.00	3,160.00	3,173.84	3,192.38	3,189.95	3,200.01	3,208.80	3,214.29	The world Bank
Net Domestic Credit Growth		2.56%	-1.25%	0.44%	0.58%	-0.08%	0.32%	0.27%	0.17%	ECB
The Euro Area										
Inflation		2.60%	8.40%	5.40%	2.40%	2.10%	2.00%	1.90%	1.90%	IMF Estimations

Appendix 9. Scenario Analysis

	2024	2025	2026	2027	2028
Euribor 12M (1st day of the year)					
Grey	1.5%	1.33%	1.27%	1.21%	1.21%
Basis	3.53%	3.09%	2.94%	2.80%	2.80%
Bleu	3.70%	3.36%	3.20%	3.03%	3.03%
Real GDP growth					
Grey	0.60%	1.30%	1.55%	1.80%	2.05%
Base	0.90%	1.60%	1.85%	2.10%	2.35%
Bleu	1.20%	1.90%	2.15%	2.40%	2.65%
Inflation					
Grey	2.60%	2.30%	2.20%	2.10%	2.10%
Basis	2.40%	2.10%	2.00%	1.90%	1.90%
Bleu	2.20%	2.00%	1.90%	1.80%	1.80%
Italy Inflation Rate					
Grey	2.91%	2.46%	2.30%	2.30%	2.30%
Basis	2.61%	2.16%	2.00%	2.00%	2.00%
Bleu	2.41%	1.96%	1.80%	1.80%	1.80%
Loan Growth abore Market					
Grey	-1%	-1%	-1%	-1%	-1%
Basis	0.50%	0.50%	0.50%	0.50%	0.50%
Bleu	1%	1%	1%	1%	1%
Deposit Growth above Market					
Grey	-1%	-1%	-1%	-1%	-1%
Basis	0.50%	0.50%	0.50%	0.50%	0.50%
Bleu	1%	1%	1%	1%	1%

Appendix 10. Valuation: Residual Income Method

	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F	2028F	TV
Net Income	**278.60**	**(1,033.00)**	**(1,686.50)**	**309.50**	**(178.40)**	**2,051.80**	**1,884.44**	**1,885.68**	**1,802.43**	**1,656.94**	**1,569.45**	
Equity Charge	1,207.38	1,111.63	776.44	828.80	1,055.26	1,339.61	1,135.93	1,131.40	1,133.57	1,181.67	1,145.94	
Excess Equity Return	(928.78)	(2,144.63)	(2,462.94)	(519.30)	(1,233.66)	712.19	748.51	754.28	668.85	475.27	423.52	1,267.10
Cumulated Cost of Equity								*1*	*1.132*	*1.281*	*1.449*	*1.449*
Present Value of Equity Excess Return								754.28	591.02	371.09	292.20	874.21
Accumulated Present Value of Equity Excess								754.28	1,345.30	1,716.39	2,008.59	2,882.80
BV Equity	**8,994.20**	**8,280.90**	**5,784.00**	**6,174.00**	**7,861.00**	**9,979.20**	**8,461.94**	**8,428.18**	**8,444.39**	**8,802.70**	**8,536.47**	
Cost of Equity	*13.42%*	*13.42%*	*13.42%*	*13.42%*	*13.42%*	*13.42%*	*13.42%*	*13.42%*	*13.42%*	*13.42%*	*13.42%*	
Equity Cost	**1,207.38**	**1,111.63**	**776.44**	**828.80**	**1,055.26**	**1,339.61**	**1,135.93**	**1,131.40**	**1,133.57**	**1,181.67**	**1,145.94**	

Price Target		
Equity Invested	€	8,428.18
PV of Equity Excess Return + Terminal Value	€	2,882.80
Equity Value (in k)	€	11,310,980.08
# Shares (in k)		1,259,689.71
Target Price	**€**	**8.98**
Current Price	**€**	**5.23**
Potential		71.69%

Persistence factor:	**0.8**

Appendix 11. Valuation: Flow To Equity Method

	2018	2019	2020	2021	2022	2023	2024 F	2025 F	2026 F	2027 F	2028 F	TV
RWAs	58,371.60	58,559.10	49,903.00	47,786.90	45,686.20	48,099.10	50,765.71	51,186.33	53,175.41	55,014.01	56,974.27	
Growth		*0.32%*	*-14.78%*	*-4.24%*	*-4.40%*	*5.28%*	*-4.53%*	*-4.53%*	*-1.97%*	*-2.05%*	*-1.44%*	
RWAs/ Tot Assets	44.74%	44.30%	33.19%	34.66%	38.00%	39.23%	39.73%	40.23%	40.73%	41.23%	41.73%	
Growth		*-0.98%*	*-25.07%*	*4.43%*	*9.62%*	*3.24%*	*-1.94%*	*-1.94%*	*2.68%*	*2.33%*	*0.87%*	
Regulatory Capital	8,878.00	9,774.60	7,859.90	7,705.10	9,373.40	10,407.10	11,085.60	11,279.82	11,824.50	12,343.38	12,897.14	
NI	**278.60**	**(1,033.00)**	**(1,686.50)**	**309.50**	**(178.40)**	**2,051.80**	**1,884.44**	**1,885.68**	**1,802.43**	**1,656.94**	**1,569.45**	
Target Capital Ratio	**15.21%**	**16.69%**	**15.75%**	**16.12%**	**20.52%**	**21.64%**	**21.84%**	**22.04%**	**22.24%**	**22.44%**	**22.64%**	
Changes in Regulatory Capital	-	896.60	(1,914.70)	(154.80)	1,668.30	1,033.70	678.50	194.22	544.68	518.87	553.77	
Free Cash Flow to Equity								**1,691.46**	**1,257.75**	**1,138.07**	**1,015.69**	**9,068.62**
Discount Factor								*1.00*	*0.88*	*0.78*	*0.69*	*0.69*
PV of CFE								1,691.46	1,108.89	884.62	696.06	6,214.79

Equity in YE23 (in K)	
€	**10,595,821.35**
Number of Shares (in k)	
	1,259,689.71
Value using FTE	
€	**8.41**
Current price	
€	**5.23**
upside potential	
	60.83%

Appendix 12. Valuation: Market Approach

Banks		Market Cap (in Billions)	EPS Growth	ROE	Total deposit	Total loans	Total Assets	Total loans/ Total assets	Selected	P/E	P/B
BMPS	**Banca Monte dei Paschi di Siena SpA**	**6.23**	**-**	**24.28%**		**79,924.60**	**122,613.70**	**65.18%**			
BAMI	Banco BPM SPA	9.42	86.67%	10.41%	101,862.14	106,330.34	202,131.97	52.60%		5.69	0.51
UCG	Unicredit SPA	59.97	65.57%	18.18%	476,040.00	495,406.00	784,974.00	63.11%	Y	4.81	0.74
BPE	Bper Banca SPA	7.36	4.68%	21.63%	102,767.08	90,054.20	142,128.35	63.36%	Y	2.82	0.46
MB	Mediobanca SPA	11.98	12.96%	8.44%	30,136.29	58,116.58	91,639.01	63.42%	Y	8.98	0.81
ISP	Intesa Sanpaolo	65.65	82.61%	15.62%	427,241.00	477,771.00	963,570.00	49.58%		6.29	0.86
CE	Credito Emiliano SPA	3.27	77.42%	16.88%	37,939.36	43,383.25	68,017.64	63.78%	Y	4.87	0.71
BDB	Banco Desio E Della Brianza	0.626	90.81%	1.07%	11,728.46	14,333.43	18,555.25	77.25%		3.44	0.36
CDBOL	Cassa Di Risparmio Di Bolzan	0.633	-55.55%	7.83%	11,180.39	14,422.17	17,191.83	83.89%		7.56	0.55
BASTI	Banca Di Asti SPA	0.504	125.87%	7.65%	9,166.75	9,615.10	12,714.08	75.63%		7.68	0.56
Average										**5.37**	**0.68**

P/E	
Peers' average	5.37
Net income	1,885.68
Equity value	10,126.11
Number of shares	1,259.69
Value Per Share	**8.04 €**

P/B	
Peers' average	0.68
Book value of equity	8,428.18
Equity value	5,731.16
Number of shares	1,259.69
Value Per Share	**4.55 €**

Current price	**5.23**
The final average between the two price multiples	6.29
Upside potential	20.35%

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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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I disclose that AI tools were employed during the development of this thesis as follows:

Generative AI tools were consulted for brainstorming and outlining purposes. However, all final writing, synthesis, and critical analysis are my own work. Instances where AI contributions were significant are cited and acknowledged.

Nonetheless, I have ensured that the use of AI tools did not compromise the originality and integrity of my work. All sources of information, whether traditional or AI-assisted, have been appropriately cited in accordance with academic standards. The ethical use of AI in research and writing has been a guiding principle throughout the preparation of this thesis. I understand the importance of maintaining academic integrity and take full responsibility for the content and originality of this work.

Molka Ezzedini, 13/12/2024