



New plan: no EPS growth ahead

Slowdown on branch openings going forward

Credem's business plan 2008-2010 focuses on seeking to increase the profitability of 72 recently acquired branches and more than 70 new branches opened in the past three years. New branch opening will diminish significantly going forward, as the bank plans to open just 13 until 2010. However, the bank also plans to implement a strong programme of recruitment of financial advisors, which are expected to increase from 760 to 1,142.

Reasonable expectations on revenue growth but high expected growth in operating costs. Tier 1 expected to slightly decline.

Credem expects to earn net income of €229 million in 2010 (which includes the earnings contribution from the 72 branches recently acquired). Revenues and operating costs are expected to grow by ca. 8% and 7% per year respectively. We consider that the expected growth in revenues is achievable while we perceive the lack of management action to contain growth in operating costs as a disappointment. Tier 1 capital ratio is forecast at 7.1% at the end of 2010, lower than the 7.3% June 2008 level.

Reducing 2008E and 2009E "pre-equity issue" EPS estimates

We have reduced our adjusted "pre-equity issue" 2008E and 2009E net profit (which does not include the earnings contribution from the 67 branches acquired from UniCredit and Banco Popolare) from €197 million and €214 million to €185 million and €168 million respectively reflecting higher operating costs and provision charges.

Our 2010E earnings estimates are in line with management's guidance, which implies no EPS growth.

We introduced our estimated 2010E adjusted net profit of €226 million, which is slightly below management's guidance and which incorporates the earnings contribution from branches recently acquired. Assuming Credem implements its €250 million equity issue at a price of €5.1 per share (25% discount from current levels), we arrive at an adjusted 2010E EPS of €0.68, which is marginally higher than the adjusted EPS of €0.67 that Credem reported in 2007.

Maintaining Sell rating and target price

We maintain our Sell rating due to i) lack of EPS growth momentum ahead ii) unattractive valuation relative to peers (we estimate that on a P/E 2008 basis Credem trades at a 20% premium relative to comparables) iii) we are concerned about potential EPS dilution from additional acquisitions (Credem's management mentioned that they may bid for some of the branches that Monte Paschi Siena is selling for antitrust reasons).

Conference call today at 4PM CET

Credem will be presenting the plan during a conference call today. Call in numbers are 02 36048063 (calling from Italy) or 0 808 2389072 (calling from UK).

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Stock Performance



	3mth	6mth	12mth
Absolute (%)	6.0	-15.3	-23.3
Relative (%)	16.4	-3.5	3.6
Avg. Trading Volumes:			507(000s)

Source: FactSet, rebased to 100

Stock Data

Sector	Banking
Market Segment	Blue Chip
Reuters Code	EMBI.MI
Bloomberg Code	CE IM
Market Cap (€m)	1,906
No. of shares (m)	282
Free-float	28.1%

Key data (€m)	2006	2007	2008E	2009E
Revenues	1,061	1,054	1,022	1,073
Net Operating Profit	382	311	273	266
Net Profit	232	249	214	168
Adjusted Net Profit	227	190	185	168
EPS (€)	0.83	0.88	0.76	0.59
Adj. EPS (€)	0.81	0.67	0.65	0.59
Ordinary DPS (€)	0.35	0.36	0.36	0.37
Total DPS (€)	0.35	0.36	0.36	0.37
Shareholders' Equity	1,380	1,542	1,660	1,732
BVPS	4.9	5.5	5.9	6.1

Source: Co data, C.Lombarda est. 2008-09 est are pre Oct08 equity issue

Market multiples (x)	2006	2007	2008E	2009E
P/E	8.2	7.6	8.9	11.4
Adj. PE	8.3	10.0	10.3	11.4
Adj. EPS Growth (%)	-6.0%	-17.0%	-2.8%	-9.6%
P/BVPS	1.4	1.2	1.2	1.1
Ord. Dividend Yield (%)	5.2%	5.3%	5.3%	5.5%
Total Dividend Yield (%)	5.2%	5.3%	5.3%	5.5%
Adj. ROE (%)	17.1%	13.1%	11.6%	9.9%
Tier 1 Ratio (%)	7.9%	8.1%	7.5%	7.2%
Net NPL/Loans (%)	0.2%	0.3%	0.3%	0.3%
Cost/Income (%)	60.8%	63.5%	67.0%	67.4%

Source: Co data, C.Lombarda est. 2008-09 est are pre Oct08 equity issue

Figure 1. Credem – Key Data (€m)

	2006	2007	2008E	2009E
Net interest income	440	533	569	606
yoy % change	17.0%	21.1%	6.8%	6.5%
Net commissions	421	396	304	318
yoy % change	1.4%	-6.0%	-23.0%	4.5%
Total revenues	1,061	1,054	1,022	1,073
yoy % change	12.1%	-0.7%	-3.0%	4.9%
Operating result	382	311	273	266
yoy % change	21.2%	-18.6%	-12.0%	-2.7%
Net profit	232	249	214	168
yoy % change	-7.3%	7.5%	-14.2%	-21.6%
Net profit comparable	227	190	185	168
yoy % change	-5.0%	-16.5%	-2.5%	-9.3%
Gross customer loans	14,434	15,839	16,797	18,247
yoy % change	13.2%	9.7%	6.1%	8.6%
Deposits from customers	10,917	11,240	11,592	12,647
Shareholders' equity	1,380	1,542	1,660	1,732
Asset Quality Ratios (%)				
NPL / Gross loans	0.5%	0.8%	1.0%	0.9%
Provisions / NPL	60.2%	63.6%	64.7%	64.9%
Net NPL / Gross loans	0.2%	0.3%	0.3%	0.3%
Capital Adequacy (%)				
Tier one ratio	7.9%	8.1%	7.5%	7.2%
Profitability (%)				
Reported ROE	17.5%	17.2%	13.5%	9.9%
Adjusted ROE	17.1%	13.1%	11.6%	9.9%
Efficiency (%)				
Cost / Income	60.8%	63.5%	67.0%	67.4%
Market Data				
Price (€)	10.61*	10.53*	6.75	6.75
Fully diluted No. of shares	281	282	283	284
Per Share Data (€)				
EPS	0.83	0.88	0.76	0.59
yoy % change	-8.3%	6.7%	-14.5%	-21.8%
Adj. EPS	0.81	0.67	0.65	0.59
yoy % change	-6.0%	-17.0%	-2.8%	-9.6%
BVPS	4.9	5.5	5.9	6.1
yoy % change	7.9%	11.4%	7.4%	4.0%
DPS Ord	0.35	0.36	0.36	0.37
yoy % change	16.6%	2.8%	0.0%	3.0%
Market Multiples (x)				
P/E	12.8	11.9	8.9	11.4
Adj. PE	13.1	15.7	10.3	11.4
P/BVPS	2.2	1.9	1.2	1.1
Dividend Yield ord (%)	3.3%	3.4%	5.3%	5.5%

Source: Company data, Cassa Lombarda estimates. All figures do not include effect of upcoming equity issue and acquisitions of 67 branches*Average yearly price



Figure 2. Credem – Income Statement (€m) (pre-equity issue)

	2006	2007	2008E	2009E	2010E
Net interest income	440	533	569	606	671
Net commissions	421	396	304	318	342
Trading income	131	62	83	80	85
Other income	69	63	66	68	72
Total revenues	1,061	1,054	1,022	1,073	1,170
Staff costs	389	399	408	431	450
Other costs	230	239	244	258	269
Depreciation	26	31	33	34	36
Total operating expenses	645	669	685	723	756
Gross operating profit	416	385	337	350	414
Provisions for loan losses	26	53	62	76	83
Other provisions/value adj.	9	21	2	8	11
Operating result	382	311	273	266	321
Extraordinary/non oper. results	8	26	-1	0	0
Pre-tax profit	389	336	272	266	321
Taxes	-148	-80	-59	-98	-119
Minorities	-10	-8	0	0	0
Net profit	232	249	214	168	202
Net profit comparable	227	190	185	168	202
Average No. Shares (m)	280	282	283	283	284
Adjusted EPS (€)	0.81	0.67	0.65	0.59	0.71

Source: Company data, Cassa Lombarda estimates. Earnings estimates do not include earnings contribution from 67 branches acquired to UniCredit and Banco Popolare.

Figure 3. Credem – Balance Sheet (€m) (pre-equity issue)

	2006	2007	2008E	2009E	2010E
Cash	127	152	233	373	582
Bank loans	3,576	3,637	4,258	4,645	5,087
Gross performing loans	14,355	15,720	16,633	18,083	19,735
Non performing loans	79	119	164	164	164
Gross customer loans	14,434	15,839	16,797	18,247	19,899
Provisions	48	76	106	107	107
Net customer loans	14,386	15,763	16,691	18,140	19,792
Financial investments	4,995	5,456	7,907	8,067	8,229
Investment in companies	37	41	21	23	25
Fixed assets	337	332	339	396	450
Intangibles	55	57	100	88	78
Other	738	796	765	765	765
Total assets	24,251	26,233	30,314	32,497	35,008
Deposits from customers	10,917	11,240	11,592	12,647	13,851
Deposits from banks	4,494	4,736	4,442	4,846	5,308
Debt securities issued	3,248	5,182	7,101	7,747	8,485
Other liabilities	4,190	3,533	5,517	5,525	5,536
Minority interest	21	0	0	0	0
Total liabilities	22,871	24,690	28,653	30,765	33,179
Shareholders' equity	1,380	1,542	1,660	1,732	1,829

Source: Company data, Cassa Lombarda estimates. Estimates do not include assets and liabilities from 67 branches acquired to UniCredit and Banco Popolare.



Figure 4. Credem – Expected Earnings Contribution from 34 Branches Acquired to UCG (€m)

	2009E	2010E
Total revenues	27.3	30.0
Total operating expenses	14.0	14.6
Gross operating profit	13.3	15.5
Provisions for loan losses	1.9	2.0
Operating result	11.4	13.5
Pre-tax profit	11.4	13.5
Taxes	-4.0	-4.7
Net profit	7.4	8.8

Source: Cassa Lombarda estimates

Figure 5. Credem – Expected Earnings Contribution from 33 Branches Acquired to BP (€m)

	2009E	2010E
Total revenues	38.8	42.4
Total operating expenses	16.5	17.1
Gross operating profit	22.3	25.3
Provisions for loan losses	3.9	3.9
Operating result	18.4	21.4
Pre-tax profit	18.4	21.4
Taxes	-6.4	-7.5
Net profit	12.0	14.9

Source: Cassa Lombarda estimates

Figure 6. Credem – Potential EPS dilution from Equity Issue Under Different Scenarios

	Best case	Base case	Worst case
	2009	2009	2009
Adjusted net income before equity issue	168	168	168
Number shares	283	283	283
Adjusted EPS before equity issue	0.59	0.59	0.59
Price equity issue	5.7	5.1	4.4
Amount equity issue	250	250	250
Shares to be issued	44	49	57
New number of shares after equity issue	326	332	340
ROE assumed in new capital issued	7.7%	7.7%	7.7%
Earnings contribution from new capital	19	19	19
Adjusted net income after equity issue	187	187	187
Adjusted EPS after equity issue	0.57	0.56	0.55
EPS dilution	-3.0%	-4.7%	-6.8%

Best case: Credem issues equity with a 15% discount relative to market price

Base case: Credem issues equity with a 25% discount relative to market price

Worst case: Credem issues equity with a 35% discount relative to market price

Source: Cassa Lombarda estimates



Figure 7. Credem – Earnings Estimates Incorporating Equity Issue and Acquisition of 67 Branches (€m)

	2009E	2010E
Adj net income before equity issue and ex acq. 67 branches	168	202
Number shares	283	284
Adj EPS before equity issue/ acq 67 branches (€)	0.59	0.71
Earnings contribution from 67 branches	19	24
Adj net income after equity issue/acq 67 branches	187	226
New number of shares after equity issue	332	333
Adj EPS post equity issue/ acq 67 branches (€)	0.56	0.68

Source: Cassa Lombarda estimates

Figure 8. Credem – Business Plan targets versus CL Estimates (€m)

	2007	2010 Credem target	CAGR	2010 CL estimate	CAGR
Net interest income	535	707	9.8%	710	9.9%
Non interest income	471	556	5.7%	532	4.2%
Total revenues	1,006	1,264	7.9%	1,242	7.3%
Total operating expenses	649	791	6.8%	787	6.7%
Gross operating profit	357	473	9.9%	455	8.4%
Net profit	249	229	-2.8%	226	-3.2%
Net profit comparable	190	229	6.5%	226	6.0%
Average No. Shares (m)	282	333	5.7%	333	5.7%
Adjusted EPS (€)	0.67	0.69	0.7%	0.68	0.3%

Source: Company data, Cassa Lombarda estimates. 2007 figures are pro-forma excluding contribution Euromobiliare Sim and including Credem Vita total consolidation effects. 2010E number of shares outstanding assumes equity issue is implemented at a price of €5.1 per share.



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