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Credem

Reuters: **EMBI.MI** Bloomberg: **CE IM** Exchange: **MIL** Ticker: **EMBI**

A good place for free capital

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Retail branch network should be increased by more than 14% in 2008

Credem has already announced the purchase of 38 branches, which would become more than 70 if another ~35 are finally acquired from Unicredit. We assume a total investment in the range of Euro 345m, driving the Tier 1 ratio from 8.0% (year-end 2007) to 5.9%. However, considering ROI (10% in 2010E) should be higher than the cost of equity (9%), we believe the acquisition of the branches represents an interesting opportunity for Credem to invest its free capital. Thus, and given the upside implied by our target, we stick to our Buy rating on the stock.

What if... further investments are approved?

If, on top of the ~70 branches that Credem could acquire, other deals are finalized, we believe a capital injection is possible. Purely as an example, assuming the purchase of some 30 branches for a total investment of Euro 150m, a Euro 345m capital increase might be required to restore the Tier 1 ratio to a safer level of 7%. Accounting for the contribution to earnings of new branches and for a 20% discount versus the current Credem share price in the price of a rights issue, it would be still 9% dilutive on 2009 EPS, on our estimates.

The increased "risk appetite" appears in P&L

Credem's 2006/2008 business plan was based on volume growth, and one of the main drivers to reach this goal was increased "risk appetite" in lending. Accordingly, the level of provisioning was already moved upward in 2007, and this should continue in 2008, when it should reach 28bps, according to our forecasts. However, Credem remains one of the best Italian banks from an asset-quality point of view, with an NPL ratio of 0.28% as of year-end 2007 (0.22% in 2006).

Q1-08 results preview

We expect a Q1-08 net profit of Euro 47m. Net interest income should be almost in line with the high level reached in Q4-07. Again, commissions and trading income trends might be weak. We do not account for any impact coming from the acquired branches, because they should enter the group's perimeter in H2-08.

Valuation and risk

For Credem, we maintain our Euro 10.4 TP, which is based on a Gordon model (using DDM which is based on a cost of equity of 9% and on a perpetual growth rate of 2.5%). As for generic risks, we think that the bank, like its peers, remains exposed to a potential downturn in the economic environment, which could affect our revenue and loan loss provision assumptions. *For further details on valuation and risk, please refer to page 10.*

Forecasts and ratios

Year End Dec 31	2006A	2007A	2008E	2009E
EPS Stated (EUR)	0.84	0.89	0.76	0.84
P/E Adjusted (x)	13.3	10.3	11.5	10.0

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

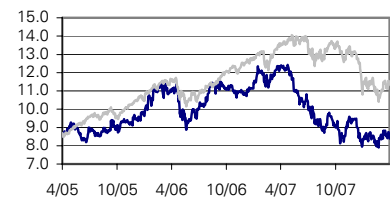
Results Preview

Upcoming events	Date
BoD on Q1-08 results	15 May 2008

Buy

Price at 22 Apr 2008 (EUR)	8.39
Price Target (EUR)	10.40
52-week range (EUR)	12.43 - 7.90

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.0	4.0	-32.0
DJ (.STOXXE)	7.0	1.0	-16.6

Stock & option liquidity data

Price Target (EUR)	10.40
Market cap (EUR)	2,338
Shares outstanding (m)	279

Model updated: 23 April 2008

Running the numbers**Europe****Italy****Banks****Credem**

Reuters: EMBI.MI

Bloomberg: CE IM

Buy

Price (22 Apr 08)	EUR 8.39
Target price	EUR 10.40
52-week Range	EUR 7.90 - 12.43
Market Cap (m)	EURm 2,338 USDm 3,735

Company Profile

Credem is a banking group, with some 20 subsidiaries. It is based in Emilia Romagna, a region in the Centre of Italy, but it operates through a nationwide retail network (more than 450 branches). It is also active in brokerage and in Investment banking.

Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Data Per Share						
EPS (stated)(EUR)	0.91	0.84	0.89	0.76	0.84	0.95
EPS (DB) (EUR)	0.86	0.81	0.92	0.73	0.84	0.95
Growth Rate - EPS (DB) (%)	68.1	-6.0	13.8	-20.8	15.2	13.5
DPS (EUR)	0.50	0.35	0.36	0.37	0.40	0.42
BVPS (stated) (EUR)	4.62	5.08	5.62	4.69	5.18	5.77
Tang. NAV p. sh. (EUR)	4.50	4.97	5.51	3.24	3.73	4.32
Market Capitalisation	2,586	2,991	2,630	2,338	2,338	2,338
Shares in issue	274	276	279	279	279	279

Valuation Ratios & Profitability Measures

P/E (stated)	10.4	12.8	10.5	11.1	10.0	8.8
P/E (DB)	11.0	13.3	10.3	11.5	10.0	8.8
P/B (stated)	2.0	2.1	1.7	1.8	1.6	1.5
P/Tangible equity (DB)	2.1	2.2	1.7	2.6	2.2	1.9
ROE(stated)(%)	19.3	17.3	16.7	14.7	17.0	17.4
ROTE (tangible equity) (%)	21.2	17.0	17.5	16.6	24.0	23.6
ROIC (invested capital) (%)	18.1	16.7	17.2	14.1	16.2	16.5
Dividend yield(%)	5.8	3.3	3.4	4.4	4.8	5.0
Dividend cover(x)	1.8	2.4	2.5	2.0	2.1	2.3

Profit & Loss (EURm)

Net interest revenue	366	419	491	532	572	612
Non interest income	582	640	579	515	530	549
Commissions	406	414	377	322	334	351
Trading Revenue	-80	-123	-171	-130	-133	-137
Other revenue	257	349	372	323	329	335
Total revenue	949	1,060	1,070	1,047	1,102	1,161
Total Operating Costs	608	653	682	682	689	695
Employee Costs	370	388	394	405	409	414
Other costs	238	265	288	278	279	281
Pre-Provision profit/(loss)	337	415	408	374	423	476
Bad debt expense	23	26	54	48	54	58
Operating Profit	318	381	334	316	359	408
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	318	381	334	316	359	408
Tax	63	148	78	113	126	143
Other post tax items	-5	-1	-7	8	0	0
Stated net profit	250	232	249	211	234	265
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	-14	-9	7	-8	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	236	223	256	203	234	265

Key Balance Sheet Items (EURm) & Capital Ratios

Risk-weighted assets	13,879	14,960	16,221	17,754	19,119	20,585
Interest-earning assets	17,957	20,795	22,611	22,611	24,253	25,770
Customer Loans	12,718	14,385	15,763	17,253	18,580	20,005
Total Deposits	9,521	10,917	11,240	12,252	13,354	14,556
Stated Shareholder Equity	1,266	1,415	1,567	1,306	1,442	1,607
Equals: Tangible Equity	1,235	1,384	1,535	904	1,040	1,205
Tier 1 capital	1,056	1,175	1,306	1,048	1,181	1,343
Tier 1 ratio (%)	8	8	8	6	6	7
o/w core tier 1 capital ratio (%)	7.6	7.9	8.0	5.9	6.2	6.5

Credit Quality

Gross NPLs/Total Loans(%)	1.30	1.29	1.74	1.62	1.54	1.46
Risk Provisions/NPLs(%)	60	58	58	59	60	60
Bad debt / Avg loans (%)	0.19	0.19	0.36	0.29	0.29	0.29
Bad debt/Pre-Provision Profit(%)	6.8	6.2	13.1	12.8	12.7	12.2

Growth Rates & Key Ratios

Growth in revenues (%)	14	12	1	-2	5	5
Growth in costs (%)	-2	7	4	0	1	1
Growth in bad debts (%)	184	12	109	-10	12	8
Growth in RWA (%)	8	8	8	9	8	8
Net int. margin (%)	2.13	2.16	2.26	2.35	2.36	2.37
Cap.-market rev. / Total revs (%)	21	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	134	132	140	141	139	137

ROTE Decomposition

Revenue % ARWAs	7.11	7.35	6.86	6.16	5.76	5.64
Net interest revenue % ARWA	2.75	2.91	3.15	3.13	2.99	2.97
Non interest revenue % ARWA	4.37	4.44	3.71	3.03	2.77	2.67
Costs/income ratio (%)	64.5	60.8	61.9	64.2	61.6	59.0
Bad debts % ARWAs	0.17	0.18	0.34	0.28	0.28	0.28
Tax rate (%)	19.8	38.8	23.3	35.9	35.0	35.0
Adj. Attr. earnings % ARWA	1.77	1.55	1.64	1.19	1.22	1.29
Capital leverage (ARWA/Equity)	12.0	11.0	10.7	13.9	19.7	18.3
ROTE (Adj. earnings/Ave. equity)	21.2	17.0	17.5	16.6	24.0	23.6

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Source: Company data, Deutsche Bank estimates

Changing soul?

Finally, free capital has been employed

We expect that Credem will use some Euro 345m of free capital to buy:

- 5 private banking branches from Citibank (already announced: Euro 45m, in the perimeter of the group starting from Q2-08)
- 33 branches from Banco Popolare (already announced: Euro 155m, in the perimeter of the group starting from Q3-08),
- 35 branches from Unicredit (our assumption: Euro 145m, in the perimeter of the group starting from Q4-08).

The best available option

Considering the price paid per branch in the deal with Banco Popolare (Euro 4.7m) and also given that the amount of Credem's free capital (Euro 250m, assuming 6.5% as a safe level of Tier 1 ratio) was large only relative to its own size and not in absolute terms, branch acquisitions are an optimal exploitation of current market opportunities for the bank, in our view.

Figure 1: Impact of branches acquisition (Euro m)

P&L (Euro m) assuming no branches acquisition	2007	2008E	2009E	2010E
Net Interest Income	491	513	541	579
Non-Interest Income	519	507	517	535
of which Fee Income	329	322	334	351
of which Financial Income	-171	-130	-133	-137
Total Income	1,009	1,020	1,058	1,114
Total Costs	-662	-658	-665	-671
Net operating income	348	362	393	443
Employees	5,246	5,346	5,496	5,621
Total branches (internal growth due to opening of new branches)	501	521	546	571
Employees per branch	10.5	10.3	10.1	9.8
Net Operating Profit x branch	0.69	0.69	0.72	0.78
Additional branches (external growth only)		73		
Additional operating profit:				
2008 - 30% Credem net operating income per branch (2007)		13		
2009 - 60% Credem net operating income per branch (2007)		30		
2010 - 65% Credem net operating income per branch (2007)		33		
DB estimates net operating income pre branches acquisition		362	393	443
Additional net operating income		13	30	33
Total		374	423	476
% additional from acquired branches on total		3.4%	7.2%	6.9%
Net Operating Profit x branch (post new branches)		0.63	0.68	0.74
Operating income dilution		-9%	-5%	-5%

Source: Deutsche Bank Estimates, company data

Some 70 branches would represent an increase in Credem's network of more than 14%. Looking at productivity per branch, we assume that the acquired branches are less productive than the existing ones and that, only progressively, they will partially close this gap (see Figure 1). In fact, the branches acquired from Banco and (prospectively) Unicredit

should have had some Euro 1bn and Euro 0.5bn of customer loans, respectively, as of December 2007. In order to derive our estimates on their contribution to earnings, we assume that only 75% of these loans will be effectively brought to Credem.

ROI > CoE

Obviously, these assumptions imply dilution in group productivity per branch, in the short to medium term. However, considering the ROI (9% in 2009E and 10% in 2010E) of these investments, we see that it should be higher than the cost of equity (9%) and, for this reason, we believe that the acquisition of the branches represents an interesting opportunity for Credem to invest its free capital.

It might be worth highlighting that in 2008 (according to its business plan), but very likely also in 2009 and 2010, Credem will continue to open some 20-25 branches per year, as part of its internal growth projects.

Likely effects on Core Tier 1 ratio

Core Tier 1 ratio down to 5.9%

Credem closed 2007 with a stated Core Tier 1 ratio of 8%. However, the bank announced a number of deals which should contribute to reduce its free capital.

Figure 2: Credem investments: impact on 2008E solvency capital

Acquisition of:	Goodwill (Euro m)
33 branches from Banco Popolare	-155
35 branches from Unicredit (our assumption)	-145
Credem Vita and Credem Assicurazioni (Euro 50m investment, 50% of the two acquired company of Euro 26m)	-24
Citibank Branches	-45
Disposal of:	
Credem Assicurazioni (50% stake)	8

Source: Deutsche Bank Estimates

We assume that Credem's total expenditure for the mentioned acquisition of 70 branches should be close to Euro 345m. This amount should be directly booked as goodwill and deducted by Core Tier 1 capital.

In addition to that, we consider also some other minor deals already disclosed by the bank, like the acquisition of 50% of Credem Vita and Credem Assicurazioni (Euro 24m of new goodwill generated) and the sale of 50% of Credem Assicurazioni (Euro 8m of capital gain generated) to Reale Mutua.

Figure 3: Credem: 2008E capital ratios

Euro m	2008E pre	2008E	2009E	2010E
Tier 1 capital	1443	1048	1181	1343
Tier 2 capital	184	184	207	235
Deductions	-34	-34	-34	-34
Total capital	1593	1198	1355	1545
RWAs	17254	17754	19119	20585
Tier 1 ratio	8.4%	5.9%	6.2%	6.5%
Tier 2 ratio	9.2%	6.7%	7.1%	7.5%

Source: Deutsche Bank Estimates, Company data

All in all, Credem should reach a 5.9% Tier 1 ratio by 2008 year-end, which would be in line with the figures that some other Italian banks presented in 2007, but which clearly stands below the safe level Credem had before.

**Further investments on top of the new already announced?
Capital position to be strengthened**

Further investments? Maybe... If yes, a likely capital increase

Credem might consider the acquisition of further branches coming to the market.

We remind readers that Monte dei Paschi di Siena is selling 125 branches, which are overlapping due to the acquisition of Antonveneta and potential buyers should not be many (looking at Core Tier 1 ratio, only UBI Banca presents a level definitely higher than 6%).

For Credem, we believe any further investment would require additional capital. Indeed, in our view, on one side the traditionally prudent management style of the bank, on the other side the strong support of the main shareholder, the Maramotti family, might make this move likely when Core Tier 1 ratio would reach uncomfortably low levels.

Also, hybrid capital might be a possibility, because Credem has no preference shares or other similar instruments in issue yet. However, they might be particularly expensive in the current market environment, so a capital increase might be a preferable option at the moment.

Let's take an example, purely for mathematical purposes. Assuming that Credem invests another Euro 150m to acquire some 30-40 branches, the Tier 1 ratio would fall to 5.1%. In this case, if Credem aims to restore a Tier 1 ratio of 7%, it would need a capital increase of Euro 345m. We assume that this liquidity might be invested in money market instruments (4% yield), generating some additional Euro 9m net profit in 2009. In addition, acquired branches might contribute to the group's net profit with a further Euro 10m in 2009. All in all, we calculate a dilution of 9% in 2009 earnings. On our estimates, the only way to have zero dilution after the capital increase would be adding ~Euro 45m earnings (instead of ~Euro 20m in total) to our 2009 net profit forecast, which we see as unlikely assuming the acquisition of "only" 150 branches.

Figure 4: Example: acquisition of further 30-40 branches for Euro 150m (Euro m)

Capital increase	2009E
Capital need	345
Current price	8.4
Discount for the capital increase	20%
Price for the capital increase	6.7
2009E adjusted net income	234
Earnings from additional liquidity	9
Earnings from additional branches	10
Total Earnings	252
Old number of shares	279
New shares from the capital increase	51
Total shares post capital increase	330
Old EPS (2009E)	0.84
New EPS (2009E)	0.77
Dilution	-9%

Source: Deutsche Bank Estimates

We are not yet including the effects of a potential capital increase in our forecasts, because in our view, it is subordinated to the acquisition of additional branches, on top of the 70 that we currently already expect will be acquired in 2008.

The new strategy in numbers

The increased “risk appetite” appears in P&L

Credem’s 2006/2008 business plan was strongly based on volum increases and, of course, in order to reach its targets the bank also had to enhance its “risk appetite”. Accordingly, the level of provisioning has been moved upwards: in order to support new client acquisition, to strengthen the relation with SMEs and to increase its market share in lending and funding, the bank had a higher tolerance of risk in 2007.

Stable increase in LLPs

Maybe 2007 was an exceptionally negative year from this point of view (Euro 18m of non-recurring provisions due to accounting changes related to the adoption of standard Basel II methodology), but the previous 20-25bps of credit provisioning (on average) should become more like 30-35bps in 2008-2010, we believe.

The focus on volumes should continue in 2008: this choice should be different from what most of the other Italian banks are declaring, due to capital and liquidity constraints. Therefore, Credem’s strategy might be even more successful and might not generate any material reduction of its asset spread. All in all, many elements might support sound growth in net interest income for 2008.

Still weakness in commissions

On the opposite side, commissions are likely to suffer again. Even stripping out the commissions related to Euromobiliare Sim (the disposed brokerage arm of the group), in 2007 commissions declined some 3.0% YoY and we expect a further YoY reduction of some 2.3% in 2008. The reasons behind this trend are outflows in AUM and difficulties in realising the benefits from the changed strategy in wealth management (increase in the weight of third-party products and decrease in the weight of in-house products).

On costs, Credem is not in a position to present specific improvements, given that it has not recently been involved in any M&A deal. So, we believe that the weakness that we could see on some revenue lines cannot be easily offset by costs reduction, at a net operating income level – at least in 2008.

Estimate revisions

We revise our estimates for Credem’s, cutting our bottom line by 3% in 2008E and 2009E and by 1% in 2010E.

Figure 5: Credem: estimate revisions

Consolidated data	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
(Euro m)	old	old	old	Estimates change %			new	new	new
Net interest income	526	573	624	1	0	-2	532	572	612
Dividends & associates	264	268	272	0	0	0	264	268	272
Trading income	-146	-152	-158	-11	-12	-13	-130	-133	-137
Net commissions & other income	423	442	461	-10	-10	-10	381	395	414
Total net income	1,066	1,131	1,200	-2	-3	-3	1,047	1,102	1,161
Total costs	678	697	716	-1	-3	-4	672	679	685
Gross operating result	388	434	484	-4	-2	-2	374	423	476
Total net provisions	48	51	56	22	25	21	58	64	68
Net operating result	340	383	428	-7	-6	-5	316	359	408
Extraordinary items	5	0	0				8	0	0
Pre-tax profit	345	383	428	-6	-6	-5	324	359	408
Taxes	128	142	158	-11	-11	-10	113	126	143
Minorities	1	1	1				0	0	0
Net Profit	217	241	269	-3	-3	-1	211	234	265

Source: Deutsche Bank Estimates

The main drivers of our estimate revisions are:

- a cut in the expected level of commissions;
- a cut in the expected level trading income and trading-related dividends;
- an increase in the assumed level of provisions.

They are partially offset by a reduction in the forecast tax rate to 35%.

Just to clarify the starting point of our new estimates, in the table below, we highlight which is the adjusted 2007 P&L of Credem. We deduct the contribution of Euromobiliare Sim (100% of its results until 9M-07) from stated accounts.

Figure 6: Credem: 2007 adjusted figures

Consolidated data	Euromobiliare	Credem	Credem
(Euro m)	9M-07	2007 stated	2007 adjusted
Net interest income	-5	491	496
Dividends & associates	0	315	315
Trading income	12	-171	-183
Net commissions & other income	48	435	387
Total net income	55	1070	1014
Total costs	23	662	639
Gross operating result	32	408	376
Total net provisions		74	74
Net operating result	32	334	301
Extraordinary items		-7	18
Pre-tax profit	32	327	319
Taxes	8	78	70
Minorities		0	0
Net Profit	25	249	249

Source: Deutsche Bank Estimates

A new business plan to come

What might we be missing in our current estimates? Credem should present a new business plan in summer 2008. We expect the bank to update its targets, having a better

understanding of the macro-environment by then. It could possibly give some more color on the expected strategy to strengthen productivity of the newly acquired branches, on the new approach to lending and funding and on the strategy it intends to implement on wealth management. We recognize this business plan as a catalyst, in relation to a useful reality check of our estimates, especially for 2009E and 2010E.

2008 trends

We expect 2008 net profit of Euro 211m, including a Euro 8m capital gain to be booked in Q1-08 for the disposal of a 50% stake in Credem Assicurazioni to Reale Mutua.

Figure 7: Credem: 2008/2009 trends

Consolidated data	2006	2007	2008E	2009E	2010E	07E/06E	08E/07E	09E/08E	10E/09E	09E/07E	10E/07E
(Euro m)						Ch. (%)	Ch. (%)	Ch. (%)	Ch. (%)	CAGR (%)	CAGR (%)
Net interest income	419	491	532	572	612	17%	8%	8%	7%	8%	8%
Dividends & associates	280	315	264	268	272	12%	-16%	2%	2%	-8%	-5%
Trading income	-123	-171	-130	-133	-137	38%	-24%	3%	3%	-12%	-7%
Net commissions & other income	484	435	381	395	414	-10%	-12%	4%	5%	-5%	-2%
Total net income	1060	1070	1047	1102	1161	1%	-2%	5%	5%	1%	3%
Total costs	645	662	672	679	685	3%	2%	1%	1%	1%	1%
Gross operating result	415	408	374	423	476	-2%	-8%	13%	12%	2%	5%
Total net provisions	34	74	58	64	68		-22%	10%	7%	-7%	-3%
Net operating result	381	334	316	359	408	-12%	-5%	14%	13%	4%	7%
Extraordinary items	9	-7	8	0	0						
Pre-tax profit	390	327	324	359	408	-16%	-1%	11%	13%	5%	8%
Taxes	148	78	113	126	143	-48%	46%	11%	13%	27%	23%
Minorities	10	0	0	0	0		-1%	11%	13%	5%	8%
Net Profit	232	249	211	234	265	7%	-15%	11%	13%	-3%	2%

Source: Deutsche Bank Estimates, company data

We believe that 2008 profitability will again be mainly driven by net interest income growth. Trading income and commissions should not be strong, due to the current macro environment.

In particular, the 12% YoY decline in commission and other income should be 1% on a pro-forma basis, excluding the contribution of Euromobiliare Sim from 2007 P&L (see Figure 6).

The other key element of 2008 should be provisions: we expect them to be slightly lower than in 2007, but materially higher than the historical level booked by Credem.

The contribution of newly acquired branches to Credem's operating income should be limited, also because Citibank branches should be included starting from Q2-08, Banco's branches starting from Q3-07 and Unicredit's branches starting from Q4-07 (due to pending Authorities approvals).

Q1-08 results preview

Again: strong net interest income, weak commissions

Credem will report Q1-08 results on May 15th, 2008.

We present our forecasts in the table below, where Q1-07, Q2-07 and Q3-07 figures have been adjusted to take into account the deconsolidation Euromobiale Sim, in order to make YoY comparisons meaningful.

Figure 8: Credem: Q1-08 result preview

Consolidated data	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08E	QoQ	YoY
(Euro m)	PF	PF	PF			% ch.	% ch.
Net interest income	116	115	128	135	137	2	18
Dividends & associates	2	277	1	36	9		
Trading income	46	-219	8	-39	6		
Net commissions & other income	94	105	95	99	90	-9	-4
Total net income	258	277	233	231	243	5	-6
Total costs	159	162	163	162	165	2	4
Gross operating result	99	115	70	69	78	12	-21
Total net provisions	6	11	8	49	13	-74	107
Net operating result	92	104	62	21	65	215	-30
Extraordinary items	0	0	0	43	8		
Pre-tax profit	92	104	61	63	73	15	-21
Taxes	37	40	22	-27	26		
Minorities	0	0	0	0	0		
Net Profit	55	64	40	90	47	-48	-14

Source: Deutsche Bank Estimates, company data

We expect a bottom line of Euro 47m in Q1-08.

Q1-08 net interest income should be close to Q4-07 level, still benefiting from a good trend in volumes and from an improving asset spread.

Net commissions and other income should decline 9% QoQ and 4% YoY, while operating costs should increase 2% QoQ and 4% YoY.

Loan loss provisions should totalize 6bps and the tax rate should come out at 35%.

Valuation

Target price

We maintain our target price of Euro 10.4 on Credem. This target is based on a Gordon model (using DDM which is based on a cost of equity of 9% and on a perpetual growth rate of 2.5%).

Figure 9: Valuation

	2009E	2010E
Equity	1442	1607
Goodwill	402	402
Tangible equity	1040	1205
Average Tangible equity		1122
Adjusted net profit	234	265
Average ROTe (%)		23.6
Shares (#)		279
Average Tangible equity per share		4.0
Free risk rate		4.3
Beta		1.18
Market premium		4.0
Discount factor		9.0
G		2.5
Fair valuation		13.0
Target price		10.4

Source: Deutsche Bank Estimates

The goodwill figure includes not only the stated 2007 goodwill of the bank, but also the goodwill arising from the branch acquisitions, which we have calculated previously in this note.

Risks

As far as generic risks are concerned, we think that Credem, like its peers, remains exposed to a potential downturn in the economic environment, which could affect our revenue and loan loss provision assumptions. Moreover, the new and constant attention that a number of Authorities (customer associations, Bank of Italy, Antitrust, European Union) are paying to the costs of banking services in Italy (in comparison with the lower European average) could be another reason for increasing competition and margin pressure, on the whole system.

As far as specific risks are concerned, we believe that, due to its exposure to asset management and brokerage businesses, Credem would be negatively affected by any unexpected worsening of trends in equity markets. Credem is also exposed to export oriented areas and industrial districts and could be negatively impacted by changes in the Euro-USD exchange rate. Finally, the lack of free float could represent another specific risk for the bank.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Credem	EMBI.MI	8.39 (EUR) 22 Apr 08	8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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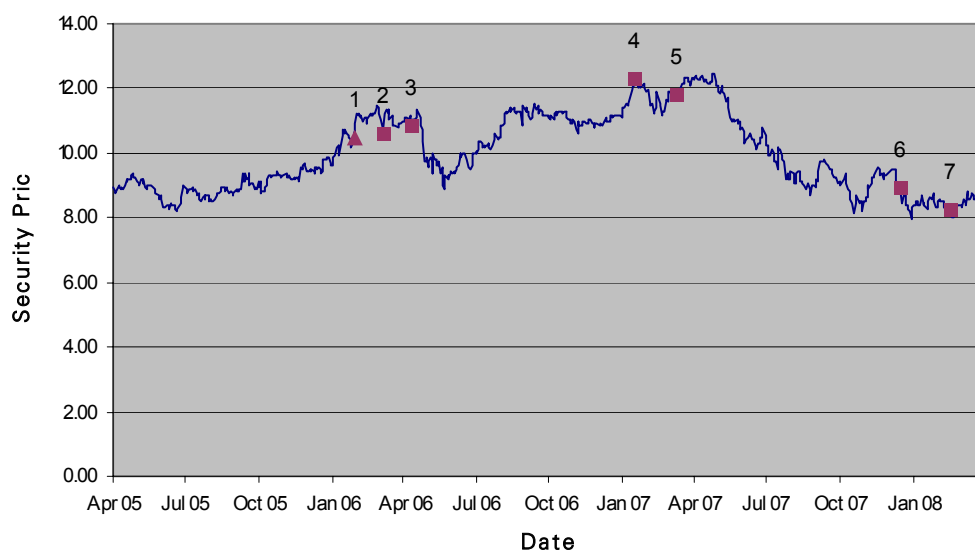
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Historical recommendations and target price: Credem (EMBI.MI)

(as of 4/22/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	22/2/2006:	Upgrade to Buy, Target Price Change EUR12.70	5.	3/4/2007:	Buy, Target Price Change EUR14.30
2.	30/3/2006:	Buy, Target Price Change EUR13.00	6.	8/1/2008:	Buy, Target Price Change EUR11.20
3.	4/5/2006:	Buy, Target Price Change EUR13.40	7.	12/3/2008:	Buy, Target Price Change EUR10.40
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Equity rating key

Equity rating dispersion and banking relationships

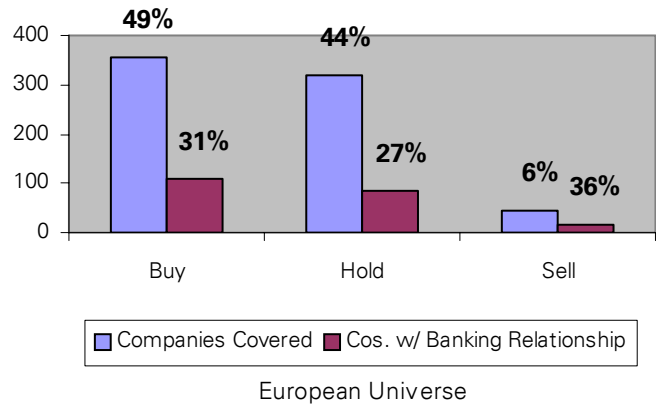
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