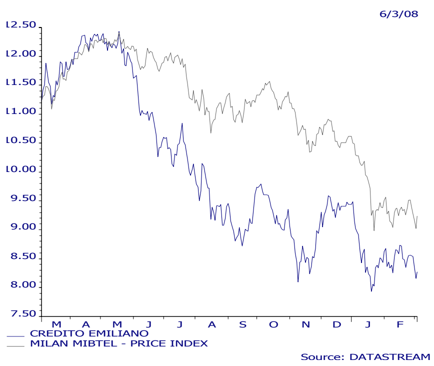
MEDIOBANCA SECURITIES

Credem

Price: € 8.27 **Target price: €9.20**

Outperform



	2006	2007E	2008E	2009E
EPS Adj. (€)	0.82	0.71	0.85	0.91
DPS (€)	0.35	0.40	0.46	0.49
BVPS (€)	4.90	5.38	5.84	6.29
ROE (%)	18.1	16.5	16.1	15.6
P/E adj (x)	12.9	12.1	10.0	9.4
Div.Yield(%)	3.3	4.7	5.4	5.7
P/BV (x)	2.2	1.6	1.5	1.4

Per share data calculated on average outstanding number of shares

Source: Mediobanca Securities

The Italian defensive play

Market Data	
Market Cap (€ m)	2,403
Shares Out. (m)	281
Main Shareholder	CE Hold. (73%)
Free Float (%)	27%
52 week range (€)	12.43-7.93
Rel Perf vs Mibtel	
-1m	1.7%
-3m	6.5%
-12m	-7.4%
21dd Avg. Vol. ('000)	342
Reuters/Bloomberg	EMBI.MI / CE IM

Key Financial Data - 2006 (€m)	
Total Income	1,067
Net Oper. Income	423
Net Profit	232
Shareholders' Funds	1,380
Customer Loans	14,386
Total Net Assets	24,251
Tier I ratio	7.9%

Outperform - Target price €9.20

We maintain our Outperform rating because: A) it is the most defensive Italian bank with the best asset quality and consistent above-average RoE; B) it has rapidly re-invested the excess capital from its last sales (Eurosim) to enhance EPS through cash acquisitions (the minority in its insurance business and Citi's Italian Private Banking arm); C) cash acquisition strategy could continue, as Credem could purchase some of the branches sold by competitors involved in mergers, without overly strecthing regulatory capital (press speculates Credem could be interested in buying 30 branches from UCI); D) management is committed to reducing the high cost income, buying distribution network and adding capacity for the Group product factories. Averaging a Gordon value of €9.4 with a sector value of €7.0 and a SOP value of €11.3, we get a target price of €9.2.

Revision of 2008-10E EPS

We are increasing adjusted 2008-10E EPS by an average of 2%, taking into account: A) the full consolidation of the insurance business (bought out from France's Azur Group); B) the acquisition of Citi's Italian private banking business and; C) the new macroeconomic scenario. We acknowledge that a macroeconomic downturn could have an average impact (-16% on EPS), according to our sensitivity analysis.

Investment risks

The major risk we see in an overweight stance on Credem is the acquisition of regional franchises through mergers at an expensive price. The major risk we see in an underweight stance on Credem is a persistent negative market condition, which could lead the share price to outperform less defensive players.

Acquisitions strengthen earnings visibility

After the divestment of the brokerage business for about €110m (Euromobiliare SIM), Credem rapidly invested the corresponding cash-in, through:

A. the buy-out of its "dormant" bancassurance joint-venture (50%, for a consideration of around €50m, implied trailing P/E around 12 times), bringing in an additional net income of €6m (2% of 2008E EPS);
B. the acquisition[12] of Citi's Italian private banking operations, with assets under management of €1.2bn (paid price would be 3.4% of AUM, in line with similar M&A transactions), bringing in additional 3% of EPS (not included in our forecasts);

Apart from the EPS accretion effect, we are positive on both acquisitions, as the excess capital position has been re-deployed in acquisitions with decent ROI (in excess of 12%), reducing the reinvestment risk/discount investors could apply[13], and reducing the operating leverage in the asset management arm (Banca Euromobiliare).

Reinvestment risk on excess capital fading

According to the press, Credem could acquire some 30 branches from UCI, as part of a consortium (constituted of BPM, BP Emilia Romagna and CRG among others). Considering an average price of €5m per branch, we estimate the acquisition could absorb 100bp, reducing Core T1 ratio to around 6.5% (positive EPS effect of around 2% starting from 2009E). On the other hand, we believe Credem could dispose of the majority stake of the P&C arm in favour of specialized companies, as the P&C business is small but with a significant impact on regulatory capital[14],

Average impact from deteriorating macroeconomic situation

We calculate that Credem earnings could be hit by 16% in the event of a macroeconomic downturn. In particular, this would occur if capital markets further deteriorated (as Credem has consistently reported good trading income) and its AuM volumes fell in line with the market average As for the latter, we do not emphasise this effect, as unlike its peers, Credem started to restructure its asset management platform in 2006, gradually opening its architecture. On the other hand, we remind investors that Credem has further support to 2008E EPS, stemming from €7m in IT cost savings, thanks to full outsourcing.

---

[12] Completion expected at the end of April 2008.

[13] During the last auction (Intesasanpaolo branches), Credem stopped bidding at €12m per branch.

[14] The investment is fully deducted from regulatory capital.

Credem – Consolidated Profit and Loss Account, 2005-10E (Bank of Italy Reporting)

€m	2005	2006	2007E	Chg	2008E	Chg	2009E	Chg	2010E	Chg
Net Interest Income (NII)	366	419	488	+16%	571	+17%	596	+4%	639	+7%
Dividends and Other Income	202	279	312	+12%	315	+1%	315	+0%	315	+0%
Net Fee Income	406	414	353	-15%	367	+4%	380	+4%	398	+5%
Gain (Loss) on Financial Transactions	(82)	(116)	(164)	+41%	(176)	+7%	(172)	-2%	(192)	+12%
Other Net Operating Income	55	69	70	+1%	72	+3%	75	+4%	77	+4%
Income (Loss) from Equity Investm.	1	2	7	-	3	-55%	4	+11%	4	+11%
Insurance Result	0	0	0	-	(1)	-	(1)	+10%	(1)	+10%
Revenues	**948**	**1,067**	**1,066**	**-0%**	**1,151**	**+8%**	**1,196**	**+4%**	**1,240**	**+4%**
Personnel Costs	(370)	(388)	(400)	+3%	(429)	+7%	(434)	+1%	(433)	-0%
Other Operating Expenses	(216)	(230)	(250)	+9%	(253)	+1%	(260)	+3%	(267)	+3%
Tang. Intang. Assets Depreciation	(26)	(26)	(28)	+8%	(28)	+2%	(28)	-2%	(27)	-2%
Operating Costs	**(612)**	**(645)**	**(678)**	**+5%**	**(710)**	**+5%**	**(721)**	**+2%**	**(728)**	**+1%**
Net Operating Profit	**336**	**423**	**388**	**-8%**	**441**	**+14%**	**475**	**+8%**	**512**	**+8%**
Goodwill Impairment	0	0	0	-	0	-	0	-	0	-
Provisions for Risks and Charges	4	(9)	(5)	-40%	(8)	+50%	(9)	+12%	(8)	-7%
Net Value Adjustments to Loans	(23)	(27)	(43)	+61%	(48)	+10%	(54)	+13%	(67)	+23%
Net Value Adjustments to Fin. Assets	(0)	1	(2)	-	(2)	-28%	(2)	+27%	(2)	+11%
Gain (Loss) from Investments Sale	1	1	21	-	5	-76%	0	-	0	-
PBT from Continuing Operat.	**318**	**390**	**358**	**-8%**	**389**	**+9%**	**410**	**+5%**	**435**	**+6%**
Taxes from Continuing Operations	(63)	(148)	(138)	-7%	(143)	+4%	(154)	+7%	(161)	+5%
Profit (Loss) from Discont. Operat.	14	0	13	-	0	-	0	-	0	-
Minorities	(19)	(10)	(1)	-90%	(1)	+0%	(1)	+0%	(1)	+0%
Net Earnings	**250**	**232**	**232**	**-0%**	**245**	**+6%**	**255**	**+4%**	**273**	**+7%**
Adjusted Net Earnings	**234**	**231**	**199**	**-14%**	**240**	**+20%**	**255**	**+6%**	**273**	**+7%**

Source: Company data and Mediobanca Securities estimates.

Credem – Consolidated Per Share Data, 2005-10E

€	2005	2006	2007E	2008E	2009E	2010E
Fully Diluted Adjusted EPS	0.84	0.82	0.71	0.85	0.91	0.97
Fully Diluted Stated EPS	0.90	0.82	0.82	0.87	0.91	0.97
Fully Diluted BVPS (pre Div.)	4.54	4.90	5.38	5.84	6.29	6.77
Fully Diluted BVPS (post Div.)	4.04	4.55	4.97	5.38	5.80	6.23
Dividend Per Share - Ordinary	0.50	0.35	0.40	0.46	0.49	0.53
Dividend Per Share - Saving / Pref.	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data and Mediobanca Securities estimates.

Credem – Consolidated Regulatory Capital, 2005-10E

€m	2005	2006	2007E	2008E	2009E	2010E
Tier I	1,056	1,175	1,312	1,330	1,445	1,565
Hybrid Instruments in Tier I	0	0	0	0	0	0
Total Regulatory Capital	1,356	1,433	1,570	1,556	1,671	1,792
Risk Weighted Assets (RWA)	13,634	14,960	16,645	17,935	19,185	20,535
Risk Weighting	65%	62%	61%	58%	59%	59%
Tier I Ratio	7.7%	7.9%	7.9%	7.4%	7.5%	7.6%
Core Tier I Ratio	7.7%	7.9%	7.9%	7.4%	7.5%	7.6%
Total Tier Capital Ratio	9.9%	9.6%	9.4%	8.7%	8.7%	8.7%

Source: Company data and Mediobanca Securities estimates.

Credem – Consolidated Balance Sheet, 2005-10E (Bank of Italy reporting)

€m	2005	2006	2007E	Chg	2008E	Chg	2009E	Chg	2010E	Chg
Assets	**21,129**	**24,251**	**27,511**	**+13%**	**31,029**	**+13%**	**32,773**	**+6%**	**34,645**	**+6%**
Cash and Central Bank Accounts	117	127	111	-12%	110	-1%	109	-1%	108	-1%
Held for Trading Securities (HFT)	3,613	4,902	5,293	+8%	5,378	+2%	5,596	+4%	5,823	+4%
Financial Instruments at Fair Value	0	0	475	-	2,432	-	2,505	+3%	2,580	+3%
Available for Sale Securities (AFS)	73	84	68	-19%	66	-3%	70	+5%	73	+5%
Held to Maturity Securities (HTM)	0	0	0	-	0	-	0	-	0	-
Loans Due from Banks	3,546	3,576	4,434	+24%	4,656	+5%	4,726	+1%	4,797	+1%
Customer Loans	12,718	14,386	15,962	+11%	17,174	+8%	18,541	+8%	20,021	+8%
Derivatives	8	10	10	+4%	11	+4%	11	+4%	11	+4%
Shareholdings	39	37	39	+5%	8	-79%	8	+0%	8	+0%
Tangible Assets	343	337	332	-1%	319	-4%	307	-4%	294	-4%
Intangible Assets	19	23	24	+2%	25	+4%	26	+5%	27	+5%
Goodwill / Merger Differences	31	31	31	+0%	95	-	95	+0%	95	+0%
Tax Assets	174	168	126	-25%	129	+2%	131	+2%	134	+2%
Discontinued Operations	0	0	0	-	0	-	0	-	0	-
Other Assets	449	570	604	+6%	625	+4%	648	+4%	671	+4%
Liabilities	**21,129**	**24,251**	**27,511**	**+13%**	**31,029**	**+13%**	**32,773**	**+6%**	**34,645**	**+6%**
Deposits Due to Banks	4,116	4,494	5,741	+28%	6,152	+7%	6,321	+3%	6,448	+2%
Deposits Due to Customers	9,521	10,917	11,381	+4%	11,837	+4%	12,310	+4%	12,802	+4%
Securities Issued	2,549	3,248	4,864	+50%	5,363	+10%	5,886	+10%	6,577	+12%
HFT Liabilities	1,092	1,558	1,645	+6%	1,697	+3%	1,751	+3%	1,807	+3%
Financial Liabilities at Fair Value	1,527	1,364	1,054	-23%	2,983	-	3,333	+12%	3,658	+10%
Derivatives	6	6	6	+4%	7	+4%	7	+4%	7	+4%
Tax Liabilities	223	282	265	-6%	270	+2%	275	+2%	281	+2%
Discontinued Operations	1	0	0	-	0	-	0	-	0	-
Minority Interests	35	21	2	-92%	3	+57%	4	+36%	5	+27%
Shareholders' Equity	1,266	1,380	1,513	+10%	1,644	+9%	1,769	+8%	1,905	+8%
Other Liabilities	792	981	1,040	+6%	1,075	+3%	1,117	+4%	1,155	+3%

Source: Company data and Mediobanca Securities estimates.

Credem – Consolidated Ratios Analysis, 2005-10E

	2005	2006	2007E	2008E	2009E	2010E
Total Spread	2.07%	2.19%	2.30%	2.30%	2.25%	2.26%
Revenues / Avg RWA	7.17%	7.46%	6.75%	6.66%	6.44%	6.24%
Cost to Income Ratio	65%	60%	64%	62%	60%	59%
Operating Costs / Avg Assets	3.01%	2.84%	2.62%	2.43%	2.26%	2.16%
Cost of Risk	0.19%	0.20%	0.29%	0.29%	0.30%	0.35%
Adjustments to Loans / Op. Profit	6.80%	6.38%	11.20%	10.88%	11.43%	13.02%
Tax Rate	19.8%	38.0%	38.6%	36.8%	37.6%	37.1%
Adj. Net Earn./Equity (Adj. RoE)	20.8%	18.0%	14.2%	15.8%	15.6%	15.5%
Net Earnings / Avg RWA (RoRWA)	1.89%	1.62%	1.47%	1.41%	1.37%	1.37%
Loan to Deposits Ratio	105%	102%	98%	100%	102%	103%
Equity / Assets	6.0%	5.7%	5.5%	5.3%	5.4%	5.5%
Net Problem Loans / Loans	0.8%	0.8%	0.8%	0.9%	1.0%	1.0%
Net Problem Loans / Tier I	9.2%	9.5%	10.3%	11.7%	12.5%	13.2%
Payout Ratio	56%	42%	49%	53%	54%	55%

Source: Company data and Mediobanca Securities estimates.

Credem

Profit & Loss account (€ m)	2006	2007E	2008E	2009E
Net Interest income	419	488	571	596
Growth (%)	14.5	16.4	17.0	4.3
Non interest income	648	578	580	600
Growth (%)	11.4	-10.8	0.4	3.4
of which Fee Income	414	353	367	380
of which Financial Income	-116	-164	-176	-172
Total Income	1,067	1,066	1,151	1,196
Growth (%)	12.6	-0.1	8.0	3.9
Total costs	-645	-678	-710	-721
Growth (%)	5.3	5.1	4.7	1.6
of which Personnel Costs	-388	-400	-429	-434
Net Operating Income	423	388	441	475
Growth (%)	26.0	-8.1	13.6	7.6
Provisions&Write-downs	-34	-51	-57	-65
Extraordinary Items	1	34	5	0
Pre-tax profit	390	358	389	410
Tax	-148	-138	-143	-154
Tax rate(%)	38.0	38.6	36.8	37.6
Minorities and others	-10	-1	-1	-1
Net profit	232	232	245	255
Growth (%)	-7.0	-0.2	5.6	4.2
Adjusted net profit	231	199	240	255
Growth (%)	-1.5	-13.7	20.2	6.3

Multiples	2006	2007E	2008E	2009E
P/E	12.8	10.4	9.8	9.4
P/E Adj	12.9	12.1	10.0	9.4
P/Net Op. Income	7.1	6.2	5.4	5.1
P/Revenues	2.8	2.3	2.1	2.0
P/BV	2.2	1.6	1.5	1.4
P/Total Deposits (%)	5.5	4.5	4.4	4.3
P/AUM (%)	17.8	14.0	13.6	12.9
Yield (%)	3.3	4.7	5.4	5.7

Per Share Data (€)	2006	2007E	2008E	2009E
EPS	0.829	0.823	0.869	0.905
EPS growth (%)	-8.0	-0.7	5.6	4.2
EPS Adj.	0.825	0.708	0.851	0.905
EPS Adj. growth (%)	-2.6	-14.1	20.2	6.3
BVPS	4.9	5.4	5.8	6.3
DPS	0.350	0.403	0.460	0.489

Balance Sheet (€ m)	2006	2007E	2008E	2009E
Customer Loans	14,386	15,962	17,174	18,541
Growth(%)	13.1	11.0	7.6	8.0
Customer Deposits	10,917	11,381	11,837	12,310
Growth(%)	14.7	4.3	4.0	4.0
Shareholders' Funds	1,380	1,513	1,644	1,769
Minorities	21	2	3	4
Total Net Assets	24,251	27,511	31,029	32,773

Key Figures & Ratios	2006	2007E	2008E	2009E
Avg. N° of Shares (m)	280	281	281	281
EoP N° of Shares (m)	281	281	281	281
Avg. Market Cap. (€ m)	2,986	2,402	2,402	2,402
Market cap adj for minorities				
Interest Income/Tot.Income	39%	46%	50%	50%
Fee Income/Total Income	39%	33%	32%	32%
Financial Income/Total Income	-11%	-15%	-15%	-14%
Cost Income ratio	60%	64%	62%	60%
Personnel costs/Total costs	60%	59%	60%	60%
NPLs ratio	0.2%	0.3%	0.3%	0.3%
Provisions/Loans	0.2%	0.3%	0.3%	0.3%
ROE	18.1%	16.5%	16.1%	15.6%
ROA	1.0%	0.8%	0.8%	0.8%
Tier I ratio	7.9%	7.9%	7.4%	7.5%
Total capital ratio	9.6%	9.4%	8.7%	8.7%

Customer funds (€ m)	2006	2007E	2008E	2009E
Tot. Customer Funds	54,103	53,704	55,005	56,342
Growth(%)	3%	-1%	2%	0
Indirect Deposits	43,186	42,322	43,169	44,032
Growth(%)	1%	-2%	2%	2%
Asset Under Management	16,796	17,193	17,618	18,665
Growth(%)	-4.5	2.4	2.5	5.9
AUM/Indirect Deposits	39%	41%	41%	42%