Europe | Italy
Diversified Banks (GICS) | Banks (Citi)

## Company Focus

25 March 2008 | 15 pages

# Intesa Sanpaolo (ISP.MI)

Estimate change

## Spring Cleaning

- **Noisy Numbers** — ISP has taken a number of one-off charges on structured credit, bad debt provisions and taxes, which disrupted the 4Q numbers, and caused a sharp intra-day swing in the shares, but which we think should position the group's finances well for future periods.
- **Underlying Revenue Strength** — The group is showing impressive trends on net interest income (+11% YoY), benefiting from volume growth and margin expansion, and more than offsetting the softer commission trends. Trading has been affected by structured credit, but seems back on track already.
- **Improving Costs** — The group is already showing impressive trends on operating expenses (-4% YoY), and with most of the synergies still to come. Management also indicates further savings being identified.
- **More Capital Returns** — The FY07 dividends are flat on 2006's 38c, versus consensus hopes of an increase to 41c; but there may be bigger future returns, with the 2009 tier 1 target now lowered from 6.5% to 6.0%.
- **Buy the Shares** — ISP shares remain our pick of the Italian banks, with defensive attractions in its balance sheet strength and retail-oriented business mix, plus potential upside surprises on revenues and costs. We update estimates, and reiterate our €5.30 price target and our Buy recommendation.

| Buy/Low Risk | 1L |
|---|---|
| Price (20 Mar 08) | €4.34 |
| Target price | €5.30 |
| Expected share price return | 22.1% |
| Expected dividend yield | 6.7% |
| **Expected total return** | **28.8%** |
| Market Cap | €55,162M |
| | US$85,126M |

**Price Performance (RIC: ISP.MI, BB: ISP IM)**


**Intesa Sanpaolo (EUR)**

| Year to 31 Dec | 2006A | 2007A | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|
| Net Income (€M) | 4,477.2 | 4,007.4 | 5,889.3 | 6,787.5 | 7,406.2 |
| Diluted EPS (€) | 0.35 | 0.31 | 0.46 | 0.53 | 0.58 |
| Diluted EPS (Old) (€) | 0.35 | 0.34 | 0.47 | 0.53 | 0.58 |
| PE (x) | 12.4 | 13.8 | 9.4 | 8.2 | 7.5 |
| P/BV (x) | 1.7 | 1.1 | 1.0 | 0.9 | 0.9 |
| DPS (€) | 0.22 | 0.22 | 0.29 | 0.35 | 0.38 |
| Net Div Yield (%) | 5.1 | 5.2 | 6.8 | 8.1 | 8.9 |
| ROE (%) | 19.1 | 17.3 | 14.9 | 11.0 | 11.6 |

**See Appendix A-1 for Analyst Certification and important disclosures.**


**Jeremy Sigee**[1]
+44-20-7986-4203
jeremy.sigee@citi.com

**Azzurra Guelfi**[1]
+44-20-7986-4174
azzurra.guelfi@citi.com




[1]Citigroup Global Markets Ltd

| Fiscal year end 31-Dec | 2006 | 2007 | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 12.4 | 13.8 | 9.4 | 8.2 | 7.5 |
| P/E reported (x) | 11.8 | 7.7 | 6.9 | 8.7 | 7.9 |
| P/BV (x) | 1.7 | 1.1 | 1.0 | 0.9 | 0.9 |
| P/Adjusted BV diluted (x) | 1.7 | 1.1 | 1.0 | 0.9 | 0.9 |
| Dividend yield (%) | 5.1 | 5.2 | 6.8 | 8.1 | 8.9 |
| **Per Share Data (€)** | | | | | |
| EPS adjusted | 0.35 | 0.31 | 0.46 | 0.53 | 0.58 |
| EPS reported | 0.37 | 0.57 | 0.63 | 0.50 | 0.55 |
| BVPS | 2.54 | 4.03 | 4.44 | 4.65 | 4.84 |
| Tangible BVPS | 2.19 | 2.48 | 2.80 | 3.00 | 3.20 |
| Adjusted BVPS diluted | 2.54 | 4.03 | 4.44 | 4.65 | 4.84 |
| DPS | 0.22 | 0.22 | 0.29 | 0.35 | 0.38 |
| **Profit & Loss (€M)** | | | | | |
| Net interest income | 8,907 | 9,886 | 11,277 | 12,089 | 12,876 |
| Fees and commissions | 6,379 | 6,195 | 6,856 | 7,289 | 7,563 |
| Other operating Income | 2,629 | 1,927 | 2,197 | 2,286 | 2,375 |
| **Total operating income** | **17,915** | **18,008** | **20,329** | **21,664** | **22,814** |
| Total operating expenses | -9,313 | -8,976 | -9,329 | -9,216 | -9,307 |
| **Oper. profit bef. provisions** | **8,602** | **9,032** | **11,000** | **12,449** | **13,507** |
| Bad debt provisions | -1,306 | -1,372 | -1,595 | -1,767 | -1,890 |
| Non-operating/exceptionals | -1,056 | -1,419 | -1,083 | -1,034 | -990 |
| **Pre-tax profit** | **6,240** | **6,241** | **8,322** | **9,647** | **10,627** |
| Tax | -2,033 | -2,672 | -2,685 | -3,070 | -3,351 |
| Extraord./Min. Int./Pref. Div. | 500 | 3,681 | 2,450 | -209 | -230 |
| **Attributable profit** | **4,707** | **7,250** | **8,087** | **6,367** | **7,046** |
| Adjusted earnings | 4,477 | 4,007 | 5,889 | 6,787 | 7,406 |
| **Growth Rates (%)** | | | | | |
| EPS adjusted | -1.7 | -10.5 | 47.0 | 15.3 | 9.1 |
| Oper. profit bef. prov. | 88.4 | 5.0 | 21.8 | 13.2 | 8.5 |
| **Balance Sheet (€M)** | | | | | |
| **Total assets** | **574,650** | **572,902** | **644,515** | **676,740** | **710,578** |
| Avg interest earning assets | 494,896 | 776,791 | 806,232 | 836,489 | 870,102 |
| Customer loans | 326,750 | 335,273 | 383,556 | 413,047 | 442,663 |
| Gross NPLs | 9,666 | 10,267 | 10,883 | 11,427 | 11,770 |
| **Liab. & shar. funds** | **574,650** | **572,902** | **644,515** | **676,740** | **710,578** |
| Total customer deposits | 343,917 | 346,483 | 392,408 | 422,413 | 453,127 |
| Reserve for loan losses | 6,985 | 7,340 | 7,780 | 8,208 | 8,496 |
| Shareholders' equity | **35,308** | **53,908** | **59,127** | **61,727** | **64,253** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| ROE adjusted | 18.2 | 9.5 | 10.9 | 11.7 | 12.2 |
| Net interest margin | 1.80 | 1.27 | 1.40 | 1.45 | 1.48 |
| Cost/income ratio | 52.0 | 49.8 | 45.9 | 42.5 | 40.8 |
| Cash cost/average assets | 2.2 | 1.6 | 1.5 | 1.4 | 1.3 |
| NPLs/customer loans | 3.0 | 3.1 | 2.8 | 2.8 | 2.7 |
| Reserve for loan losses/NPLs | 72.3 | 71.5 | 71.5 | 71.8 | 72.2 |
| Bad debt prov./avg. cust. loans | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Loans/deposit ratio | 95.0 | 96.8 | 97.7 | 97.8 | 97.7 |
| Tier 1 capital ratio | 8.8 | 6.5 | 7.2 | 7.2 | 7.2 |
| Total capital ratio | 11.9 | 9.0 | 9.4 | 9.2 | 9.2 |

For further data queries on Citi's full coverage universe please contact CIR Data Services Europe at CIRDataServicesEMEA@citi.com or +44-207-986-4050

Powered by: dataCentral

# Spring Cleaning

**For a supposedly defensive stock, Intesa Sanpaolo shares have provided some unexpected drama with an 11% intra-day swing. Releasing a complex set of results into a live market, the company initially caused concern with bottom-line profits well below expectations, but subsequently managed to convince investors to look through some noisy one-off items, and to see solid underlying trends. In fact, some of the one-offs are arguably positive, representing a conservative spring-cleaning effort (on structured credit, bad debts) that should position the group's finances better for future periods. Meanwhile net interest income and costs continue to show impressive trends. We see more good things to come from here, with potential positives on revenues from a range of growth efforts, and on costs from better-than-expected progress on integration and restructuring. We reaffirm our €5.30 price target and our Buy recommendation on the shares, which are our top pick among the Italian banks.**

## Underlying Strength

ISP continues to grow underlying profitability (+5% YoY in 4Q07), although this was somewhat obscured in the most recent numbers by one-off items both within the operating lines (Figure 1), and also in the lower lines of the P&L.

**Figure 1. Intesa Sanpaolo – Underlying Versus Reported Results**

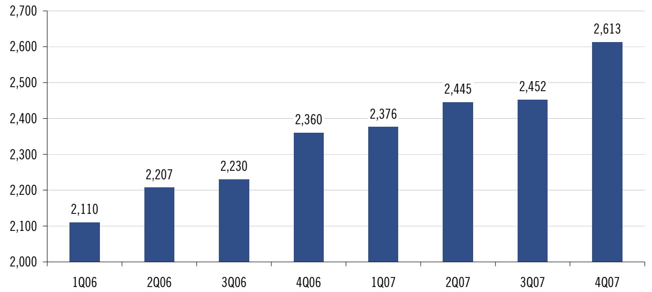
| €m | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 | 4Q07 |
|---|---|---|---|---|---|---|---|---|
| Pre-provision profit as reported | 2,110 | 2,019 | 1,965 | 2,193 | 2,291 | 2,589 | 2,177 | 1,683 |
| One-off items | 0 | -110 | -12 | -230 | 0 | -226 | -169 | 380 |
| Underlying pre-provision profits | 2,110 | 1,909 | 1,953 | 1,963 | 2,291 | 2,363 | 2,008 | 2,063 |
| YoY growth | - | - | - | - | 9% | 24% | 3% | **5%** |

Source: Company data and Citi Investment Research

## Core Revenues Strong, Trading Impacted

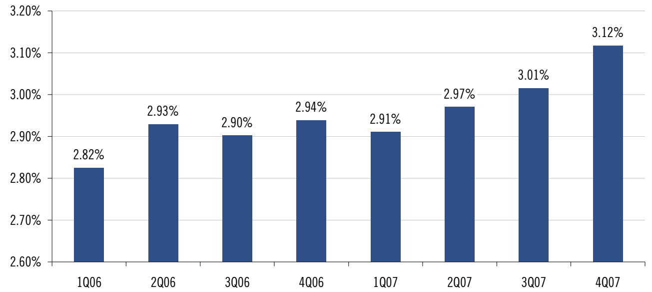
ISP is delivering healthy net interest income growth (+7% QoQ, +11% YoY). Loan volumes have started to pick up again (+3% QoQ), and margins are widening further (+10bps QoQ, +18bps YoY, Figure 4).

**Figure 2. Intesa Sanpaolo – Net Interest Income (€m)**




Source: Company data

**Figure 3. Intesa Sanpaolo – Net Interest Margin (NII/Loans)**




Source: Company data

**Figure 4. Intesa Sanpaolo – Loans, Margins & Net Interest Income**

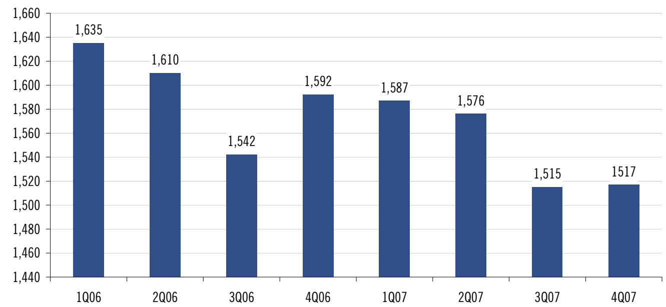
| €m | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 | 4Q07 | QoQ | YoY |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2,110 | 2,207 | 2,230 | 2,360 | 2,376 | 2,445 | 2,452 | 2,613 | +7% | +11% |
| Customer loans | 298,846 | 301,428 | 307,362 | 321,271 | 326,582 | 329,292 | 325,314 | 335,273 | +3% | +4% |
| **NII / loans** | **2.82%** | **2.93%** | **2.90%** | **2.94%** | **2.91%** | **2.97%** | **3.01%** | **3.12%** | **+0.10%** | **+0.18%** |

Source: Company data

Commissions appear at least to have stabilised, after softening in recent quarters (Figure 5). Year-on-year, the group has seen a 2.9% decline, within which are lower current account fees (-€93m) and securities dealing / portfolio management (-10%/-€250m). Meanwhile it has seen growth elsewhere, including payments/cards (+4%/+€32m), insurance products (+5%/+€36m) and guarantees (+15%/+€30m).

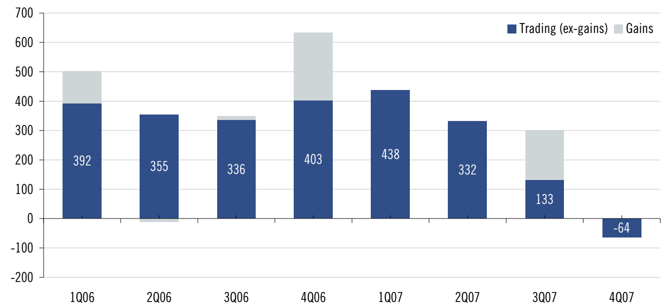
Trading profits have also been weakening, and were a particular disappointment in the 4Q figures (a loss of -€64m, Figure 6). This was mainly driven by a €380m markdown on a range of structured credit products (Figure 7). This is a c5% markdown on a c€7bn portfolio. The positive news is that management is guiding (on the 4Q07 conference call) that the 1Q08 markdown seen so far is just c€100m.

**Figure 5. Intesa Sanpaolo – Commission Income (€m)**




Source: Company data

**Figure 6. Intesa Sanpaolo – Trading Profits (€m)**




Source: Company data

**Figure 7. Intesa Sanpaolo – Losses/Marks on Structured Credit Products**

| | Realised gains (losses) | Mark to market | Total P&L impact | Total P&L impact |
|---|---|---|---|---|
| **€m** | **FY07** | **FY07** | **FY07** | **4Q07** |
| US subprime | -67 | -96 | -163 | **-113** |
| TruPS | 1 | -86 | -85 | **-72** |
| Unfunded CDOs & corp risk | -2 | -83 | -85 | **-68** |
| Funded ABS/CDO | -10 | -83 | -93 | **-49** |
| Multisector CDOs | 1 | -18 | -17 | **-29** |
| Monolines | 0 | -25 | -25 | **-25** |
| Alt-A | -12 | -8 | -20 | **-19** |
| Non-monoline packages | 0 | -5 | -5 | **-5** |
| Prime CMOs | 0 | -1 | -1 | **-1** |
| Total structured credit | -89 | -405 | -494 | **-380** |

Source: Company data

## Growth Drivers

Management continues to emphasise a range of growth projects that it seems confident will boost revenues, or at the very least provide some offset against a slowing economic outlook. In retail, these include a reorganised distribution network, simplified product range, product innovation, and enhanced sales support systems. Beyond that, the plans aim to grow private banking, medium/long-term lending, trade services & factoring, public & project finance, and services to not-for-profit organisations.

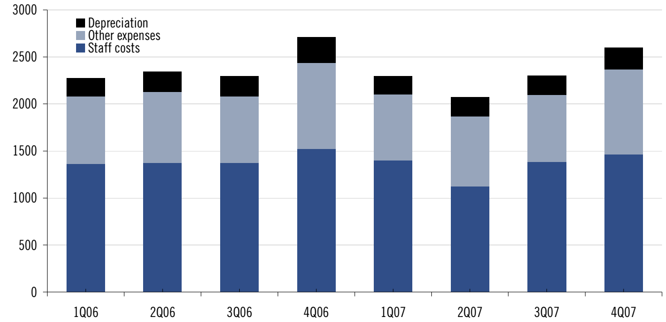
The company also highlights asset management as a growth area, and indeed this is something we have highlighted as a potential upside lever. It is topical, after several quarters of outflows across the industry. Also, it is an area that we think has been under-managed to date and has lacked a strong/clear strategy. There are now signs that this is being addressed, with some restructuring, product innovation, better linkage with the retail network and CEE subsidiaries, and development of external sales channels. These efforts may give scope to get more value out of what is a relative strength of this group.

## Costs Improving, More To Come

The cost picture at ISP is confused by some seasonality (with a 4Q spike as in previous years, Figure 8), and the cost/income ratio (Figure 9) is of course affected by the revenue swing in trading. However, the trends remain encouraging. In total, costs in 4Q07 came in 1% below consensus expectations, up 13% QoQ but down 4% YoY. For the full year, costs were reduced 4%.

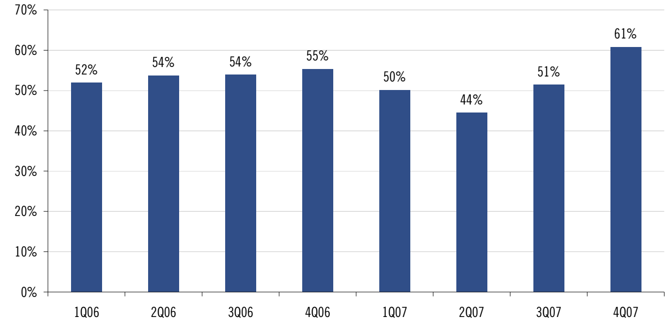
The cost improvement was driven in particular by staff costs down 5% over the year, and here there is quite a lot more to come. The 2007-09 plan envisaged 6,500 headcount cuts, and these have been agreed with the unions. Some 4,300 of these have already exited as of end-2007, which means that going forward the P&L benefits from the full-year effect of those plus the additional departures. Beyond that, in the presentation ISP indicates that c2,000 additional voluntary redundancy applications have been received over and above the 6,500 that have already been agreed with the unions, which could potentially give scope for further savings in due course.

**Figure 8. Intesa Sanpaolo – Operating Expenses (€m)**




Source: Company data

**Figure 9. Intesa Sanpaolo – Cost/Income Ratio**

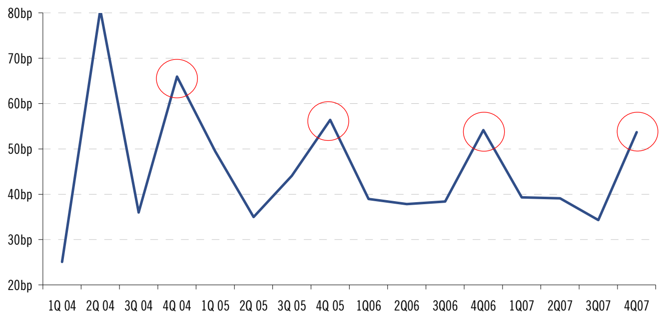



Source: Company data

# Asset Quality Stable

Bad debt provisions have jumped 61% QoQ, but this appears to be mainly just the usual seasonal pattern (Figure 10), while YoY the increase is just 3%. Underlying asset quality seems to remain very benign. Total net bad loans are up 0.7% QoQ, and the coverage ratio increased from 3Q's 53.8% to 54.1% in 4Q. Net NPLs increased by 2% QoQ, representing 0.95% of customer loans (stable on 2006) and with a coverage ratio of 71.5% (stable on 3Q).

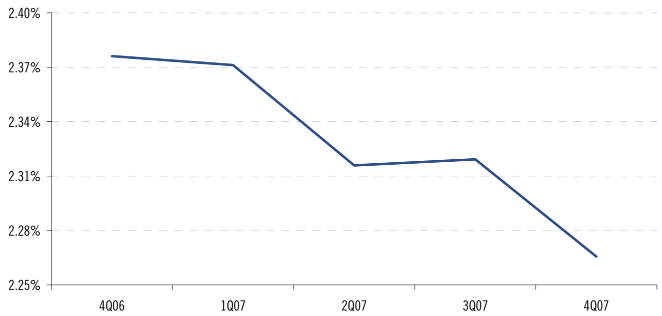
**Figure 10. Intesa Sanpaolo – Bad Debt Charges**




2004 and 2005 data are based on Banca Intesa standalone

Source: Company data and Citi Investment Research

**Figure 11. Intesa Sanpaolo – Net Total Bad Debt on Loans**




Source: Company data and Citi Investment Research

Management says it sees no evidence yet of any deterioration in its loan book. We prefer to remain more conservative, and forecast provisions at 42bp of loans in 2008 (above management's target of 40bp and 38bp underlying reported in 2007), as we expect a weakening of the Italian economy.

**Figure 12. Intesa Sanpaolo – Bad Debt Provision Estimates**

| €m | 2006 PF | 2007A | % chg | 2008E | % chg | 2009E | % chg | 2010E | % chg |
|---|---|---|---|---|---|---|---|---|---|
| Net Bad Debt Charges | -1,306 | -1,372 | +5% | -1,595 | +16% | -1,767 | +11% | -1,890 | +7% |
| Provision charge / customer loans | 0.40% | 0.41% | | 0.42% | | 0.43% | | 0.43% | |

Source: Company data and Citi Investment Research

## More Capital Return in the Future

The proposed dividend for 2007 is €0.38 for ordinary shares (€0.22 ordinary dividend and €0.16 extraordinary dividend), in line with the previous year, but below market expectations of €0.41.

On the positive side, management has lowered the 2009 core tier 1 target to 6.0% from the previous 6.5%, implying greater capital returns for shareholders in future years. This could seem a surprising move in an environment where investors and regulators are generally hoping for banks to strengthen their capital level. But then maybe this is the reward for ISP's lower risk profile – with a strong balance sheet, solid funding structure (loan/deposit ratio <100%), low gearing (tangible equity/asset ratio >5%) and defensive business mix (c80% of activities are linked to retail customers).

Core tier 1 reached 6.2% by end-2007 (proforma for disposal of branches to Credit Agricole), down from 3Q's 7.5%, impacted by the one-off items and partial impact of the Carifirenze acquisition (€2.2bn).

The current key targets for the group capital position are:

- **6% core tier 1** in 2009, which could be lower temporarily in case of an acquisition, but for a limited time.
- **At least €18bn of dividend** payment over the plan period. After the proposed dividend in 2007 (paid in 2008), the residual part is at least €8.2bn ordinary dividend. We estimate total dividend in 2008-09 could reach up to c€11bn, if no acquisitions are done and all the excess capital above 6% is returned to shareholders.

Recent press speculation (eg Reuters) about the possible acquisition of GAM was ruled out during the conference call by Intesa's CEO, Mr Passera. He stated that at the moment there are no transactions on the table, and the preference is for small acquisitions, and even these would be mostly financed through asset disposals in order not to impact the capital ratios or dividend payments.

## Estimate Revisions

We have reviewed our estimates after looking into all the non-recurrent items that have impacted 4Q07. We have changed the operating mix (lower revenues to account for weaker trading and slightly lower costs) and increased provisions. We have lowered the tax rate to consider the future benefit of the recent fiscal reform in Italy. Overall we have left our estimates broadly unchanged.

**Figure 13. Intesa Sanpaolo – Adjusted EPS Estimates**

| € | 2008E | 2009E | 2010E |
|---|---|---|---|
| Old EPS | 0.47 | 0.53 | 0.58 |
| New EPS | 0.46 | 0.53 | 0.58 |
| Chg | -1.3% | -0.4% | 0.4% |

Source: Citi Investment Research

**Figure 14. Intesa Sanpaolo – Group P&L by Year**

| € millions | 2005 | 2006 PF | 2007A | % chg | 2008E | % chg | 2009E | % chg | 2010E | % chg |
|---|---|---|---|---|---|---|---|---|---|---|
| **GROUP P&L** | | | | | | | | | | |
| Net Interest Income | 5,112 | 8,907 | 9,886 | +11% | 11,277 | +14% | 12,089 | +7% | 12,876 | +7% |
| Dividends | 1,028 | 278 | 334 | +20% | 384 | +15% | 405 | +5% | 425 | +5% |
| Net Commission Income | 3,904 | 6,379 | 6,195 | -3% | 6,856 | +11% | 7,289 | +6% | 7,563 | +4% |
| Trading Gains (Losses) | 45 | 1,799 | 1,008 | -44% | 1,129 | +12% | 1,167 | +3% | 1,202 | +3% |
| Insurance Result | 226 | 452 | 441 | -2% | 520 | +18% | 538 | +3% | 554 | +3% |
| Other Net Operating Income | 0 | 100 | 144 | +44% | 163 | +13% | 176 | +7% | 193 | +10% |
| **Total revenues** | **10,315** | **17,915** | **18,008** | **+1%** | **20,329** | **+13%** | **21,664** | **+7%** | **22,814** | **+5%** |
| Staff expenses | -3,255 | -5,633 | -5,375 | -5% | -5,633 | +5% | -5,551 | -1% | -5,550 | -0% |
| Other expenses | -2,154 | -3,096 | -3,060 | -1% | -3,139 | +3% | -3,108 | -1% | -3,192 | +3% |
| Depreciation | -523 | -899 | -833 | -7% | -858 | +3% | -858 | -0% | -870 | +1% |
| **Total operating expenses** | **-5,932** | **-9,628** | **-9,268** | **-4%** | **-9,630** | **+4%** | **-9,516** | **-1%** | **-9,611** | **+1%** |
| **Operating profit pre provisions** | **4,383** | **8,287** | **8,740** | **+5%** | **10,700** | **+22%** | **12,148** | **+14%** | **13,202** | **+9%** |
| Goodwill Amortisation | -6 | 0 | 0 | - | 0 | nm | 0 | nm | 0 | nm |
| Provisions for Risks and Charges | -426 | -336 | -524 | +56% | -303 | -42% | -314 | +4% | -325 | +4% |
| Net Bad Debt Charges | -545 | -1,306 | -1,372 | +5% | -1,595 | +16% | -1,767 | +11% | -1,890 | +7% |
| Net Writedowns on Fin. Fixed Assets | 19 | -11 | -67 | +509% | 0 | nm | 0 | nm | 0 | nm |
| Gain (Loss) on HTM and Other Investments | 757 | 168 | 81 | -52% | 0 | nm | 0 | nm | 0 | nm |
| **Profit before tax** | **4,182** | **6,802** | **6,858** | **+1%** | **8,802** | **+28%** | **10,067** | **+14%** | **10,987** | **+9%** |
| Taxes | -1,082 | -2,033 | -2,672 | +31% | -2,685 | +0% | -3,070 | +14% | -3,351 | +9% |
| Restructuring Charges / Purchase Cost Allocation | 0 | -562 | -617 | +10% | -480 | nm | -420 | nm | -360 | nm |
| Gains (Loss) on Assets due to be Disposed | 32 | 674 | 3,790 | nm | 2,678 | nm | 0 | nm | 0 | nm |
| **Net Profit** | **3,132** | **4,881** | **7,359** | **+51%** | **8,315** | **+13%** | **6,576** | **-21%** | **7,276** | **+11%** |
| Minority interests | -107 | -174 | -109 | -37% | -228 | +109% | -209 | -8% | -230 | +10% |
| **Attributable profit** | **3,025** | **4,707** | **7,250** | **+54%** | **8,087** | **+12%** | **6,367** | **-21%** | **7,046** | **+11%** |
| **Adjusted attributable profit** | **2,464** | **4,477** | **4,007** | **-10%** | **5,889** | **+47%** | **6,787** | **+15%** | **7,406** | **+9%** |
| **PER SHARE FIGURES (€)** | | | | | | | | | | |
| EPS - basic (reported/reported) | 0.44 | 0.37 | 0.57 | +54% | 0.63 | +12% | 0.50 | -21% | 0.55 | +11% |
| **EPS - adjusted (adj earnings, dilution)** | **0.36** | **0.35** | **0.31** | **-10%** | **0.46** | **+47%** | **0.53** | **+15%** | **0.58** | **+9%** |
| Dividend per share (ordinary) | 0.22 | 0.22 | 0.22 | -10% | 0.29 | +32% | 0.35 | +20% | 0.38 | +9% |
| Dividend per share (saving) | 0.23 | 0.23 | 0.23 | +2% | 0.31 | +30% | 0.36 | +19% | 0.40 | +9% |
| Special Dividend | 0.00 | 0.16 | 0.16 | +0% | 0.00 | nm | 0.00 | nm | 0.00 | nm |
| Book value per share (reported) | 2.42 | 2.54 | 4.03 | nm | 4.44 | +10% | 4.65 | +5% | 4.84 | +4% |
| **OPERATING RATIOS** | | | | | | | | | | |
| Net interest margin (NII / avg loans) | 3.02% | 2.73% | 2.99% | | 3.05% | | 3.04% | | 3.01% | |
| Non-interest income as % of total | 38% | 46% | 40% | | 39% | | 39% | | 39% | |
| **Cost / income ratio** | **58%** | **54%** | **51%** | | **47%** | | **44%** | | **42%** | |
| Operating Profit / avg RWAs | 2.31% | 1.53% | 2.42% | | 2.70% | | 2.79% | | 2.86% | |
| Provision charge / customer loans | 0.32% | 0.40% | 0.41% | | 0.42% | | 0.43% | | 0.43% | |
| Tax rate | 26% | 30% | 39% | | 31% | | 31% | | 31% | |
| Return on assets (ROA) | 1.1% | 1.1% | 1.3% | | 1.3% | | 1.0% | | 1.0% | |
| Return on Equity (CIR/Reported) | 14.7% | 13.8% | 7.8% | | 10.4% | | 11.4% | | 12.0% | |
| **SHARES OUTSTANDING** | | | | | | | | | | |
| Fully diluted total number of shares | 6,916 | 12,782 | 12,782 | +0% | 12,782 | +0% | 12,782 | +0% | 12,782 | +0% |
| **BALANCE SHEET ITEMS** | | | | | | | | | | |
| Total Assets | 273,535 | 574,650 | 572,902 | -0% | 644,515 | +13% | 676,740 | +5% | 710,578 | +5% |
| **Net customer loans** | **169,478** | **326,750** | **335,273** | **+3%** | **383,556** | **+14%** | **413,047** | **+8%** | **442,663** | **+7%** |
| Customer deposits | 187,590 | 343,917 | 346,483 | +1% | 392,408 | +13% | 422,413 | +8% | 453,127 | +7% |
| Loan / deposit ratio | 90% | 95% | 97% | | 98% | | 98% | | 98% | |
| Shareholders Equity | 16,705 | 32,491 | 51,558 | +59% | 56,777 | +10% | 59,377 | +5% | 61,903 | +4% |
| **REGULATORY CAPITAL** | | | | | | | | | | |
| Risk-Weighted Assets | 190,038 | 352,101 | 371,500 | +6% | 421,851 | +14% | 448,608 | +6% | 474,560 | +6% |
| Tier 1 ratio | 7.9% | 8.8% | 6.5% | | 7.2% | | 7.2% | | 7.2% | |
| **'Core" Tier 1 ratio** | **8.8%** | **8.0%** | **5.9%** | | **6.6%** | | **6.6%** | | **6.7%** | |
| Total ratio | 10.3% | 11.9% | 9.0% | | 9.4% | | 9.2% | | 9.2% | |
| Excess Capital (based on Core Tier 1 @ 6.0%) | 5,289 | 7,042 | - 492 | | 2,639 | | 2,882 | | 3,440 | |
| ISP target Core Tier 1 | 6.0% | 6.0% | 6.0% | | 6.0% | | 6.0% | | 6.0% | |

Source: Company reports, Citi Investment Research

# Intesa Sanpaolo

## Company description

In 2006 Banca Intesa merged with Sanpaolo IMI to create the largest bank in Italy. Banca Intesa was formed from Cariplo and Banco Ambrosiano Veneto (1998), and Banca Commerciale Italiana (1999). Sanpaolo was created from Istituto Bancario San Paolo di Torino and Istituto Mobiliare Italiano (1997), Banco di Napoli (2000) and Cardine (2001). The group offers corporate and retail banking, investment banking, private banking, real estate, leasing, asset management and life insurance. Major shareholders include foundations (Compagnia di Sanpaolo 7.7%, Cariplo 4.7%, Padova & Rovigo 4.2%, Bologna 2.7%, Ente CR Firenze 3.4%), Credit Agricole 5.5%, Carlo Tassara 5.9% and Generali 5.1%.

## Investment strategy

We have a Buy/ Low Risk (1L) rating on ISP shares. The group benefits from strong market shares, scale economies and cost synergies. We view the targeted 15% EPS growth rate as achievable. Target cost savings look feasible given business overlaps, and could be beaten after the Carifirenze acquisition. We are more conservative on revenue synergies. The group has promised €18bn of dividends to be paid over the plan period, plus any surplus above 6.0% core tier 1 (we estimate around €2.8bn) in 2009. The bank has above-average profit growth (driven by synergies, under-penetration of domestic retail banking, CEE exposure) and a strong capital position. Given its strong capital position and mainly retail business mix, ISP could be considered as a defensive player in the European bank sector. The valuation may be helped if/when the higher-PE wealth management business becomes separately listed.

## Valuation

We have a €5.3 price target for ISP shares. In valuing ISP, we focus on market multiple and a price-to-book valuation. Our price-to-book valuation is based on an RoE of c10.5% and cost of equity of c9.5%, resulting in an implied P/BV of 1.1. On a price/earnings methodology, the stronger capital position and the superior earnings growth of the combined entity would suggest a premium valuation to the sector. On our target price, the stock would trade at c10x 2009E P/E.

## Risks

We have a Low Risk rating on ISP shares based on our assessment of industry and company-specific risk factors. In our view, the merger between Intesa and Sanpaolo is progressing well and earnings are growing in line with the business plan target with the not yet full benefit of the planned synergies. The stock also has a strong capital position with potential for excess capital distribution in addition to that already planned. Among the major risks for the stock that could impede the share price from reaching our target price we would highlight: merger execution risks; movements in the ECB interest rate and credit cycle; weak macroeconomic development in Italy; and surplus capital usage (acquisition risk).

# Appendix A-1

## Analyst Certification

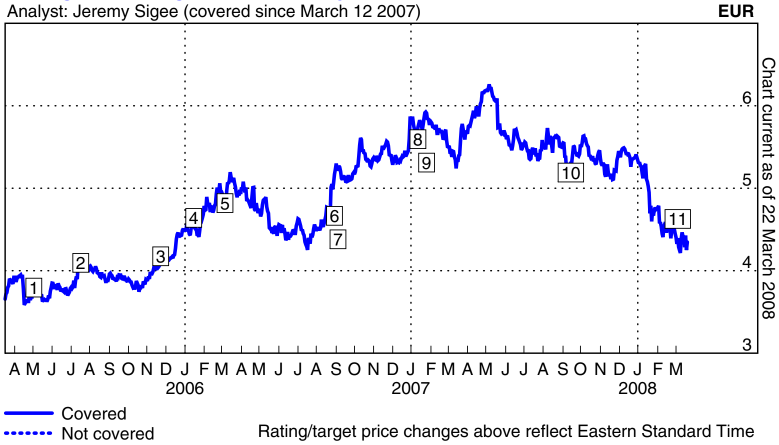
**Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.**

## IMPORTANT DISCLOSURES

### Intesa SanPaolo SpA (ISP.MI)

**Ratings and Target Price History - Fundamental Research**

Analyst: Jeremy Sigee (covered since March 12 2007)




| # | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1: | 3 May 05 | 1M | *4.30 | 3.76 |
| 2: | 18 Jul 05 | 1M | *4.60 | 4.05 |
| 3: | 23 Nov 05 | 1M | *4.70 | 4.10 |
| 4: | 16 Jan 06 | 1M | *5.10 | 4.58 |
| 5: | 7 Mar 06 | 1M | *5.40 | 4.85 |
| 6: | 30 Aug 06 | 1M | *5.60 | 5.17 |
| 7: | 5 Sep 06 | 1M | *5.70 | 5.23 |
| 8: | 11 Jan 07 | 1M | *6.40 | 5.74 |
| 9: | 25 Jan 07 | 1M | *6.50 | 5.91 |
| 10: | 14 Sep 07 | *1L | *6.00 | 5.29 |
| 11: | 5 Mar 08 | 1L | *5.30 | 4.40 |

*Indicates change.

Citigroup Global Markets is acting as financial adviser to Intesa Sanpaolo in the proposed acquisition of Banca CR Firenze SPA

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Intesa SanPaolo SpA.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Intesa SanPaolo SpA.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Intesa SanPaolo SpA in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): Intesa SanPaolo SpA.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Intesa SanPaolo SpA.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Intesa SanPaolo SpA.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research product ("the Product"), please contact Citi Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

**Citi Investment Research Ratings Distribution**

| ***Data current as of 31 December 2007*** | **Buy** | **Hold** | **Sell** |
|---|---|---|---|
| Citi Investment Research Global Fundamental Coverage (3421) | 50% | 37% | 12% |
| *% of companies in each rating category that are investment banking clients* | 52% | 53% | 40% |

**Guide to Fundamental Research Investment Ratings:**

Citi Investment Research's stock recommendations include a risk rating and an investment rating.

**Risk ratings**, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

**Investment ratings** are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15%

for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).
Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings: Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of, debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk -- Triple A to Low Double A; Low to Medium Risk -- High Single A through High Triple B; Medium to High Risk -- Mid Triple B through High Double B; High to Speculative Risk -- Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (relative to the performance of relevant Citi bond indices), and risk rating. These investment ratings are: Buy/Overweight -- the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market); Hold/Neutral Weight -- the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight -- the bond is expected to underperform the relevant Citigroup bond market sector index. Performance data for Citi bond indices are updated monthly, are available upon request and can also be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab.

## OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 20 March 2008 05:50 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Intesa SanPaolo SpA. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Smith Barney clients can ask their Financial Advisor for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared by NCL and distributed by Nikko Cordial Securities Inc. or Citigroup Global Markets Inc. it is being so distributed under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in U.A.E. by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. DIFC, Bldg 2, Level 7, PO Box 506560, Dubai, UAE. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST