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BANKS  
COMPANY UPDATE

# UBI Banca

## Rock solid

### ■ Reliable and defensive player at a reasonable price

We reiterate our 2/Outperform rating and raise our target price to EUR10.9 (from EUR9.5), as UBI offers: 1) the lowest leverage in both Italian and European banking; 2) the best core tier 1 ratio in Italian banking; 3) one of soundest asset qualities in Italy; and 4) a sustainable dividend yield.

### ■ No need for public bail-out: cost savings and flexibility

UBI has no plans to tap into government aid. Instead, it will issue a EUR640m convertible bond: 1) allowing the bank to save on interest payments (4% benefit on EPS09E); 2) easing the impact on tangible equity; and 3) permitting a more flexible lending policy, thereby preventing further asset quality deterioration. UBI's asset quality is also better than peers, adding higher visibility and stability to earnings.

### ■ Robust capital ratios, coupled with low leverage

In 2008, UBI was the only Italian bank to pay a significant dividend, and sustain a solid core tier 1 of 7.1% (without any public aid). Its robust capital ratios are coupled with a ratio of tangible equity to total assets that is well above the Italian and European average.

### ■ 2008 results revealed strong asset quality

In 2008, UBI introduced a clean-up policy focusing on LLPs and equity stake impairments, which raises visibility on 2009. With gross and net NPL ratios at 1.9% and 0.88% vs. 4%, and 1.5% on average, UBI's asset quality is now among the best in Italy.

### ■ EUR10.9 new TP (from EUR9.5) – 2/Outperform

We are raising our DPS09E-11E by ~40% and EPS09E-11E by 1% and are lifting our target price to EUR10.9 from EUR9.5 to reflect the lower cost of equity, due to higher visibility on UBI's capital management strategy, which mitigates the M&A risk, and the bank's higher DPS09E. The stock trades at a compelling 0.8x PTBV09E, at a >20% discount to the European average.

**Carlo TOMMASELLI**

Research Analyst  
[ctommaselli@cheuvreux.com](mailto:ctommaselli@cheuvreux.com)  
(39) 02 80 62 83 44

Rating **2/Outperform**

Target price (6 months) **+11.0% EUR10.9 (9.5)**

Price (21/04/2009) **EUR9.82**

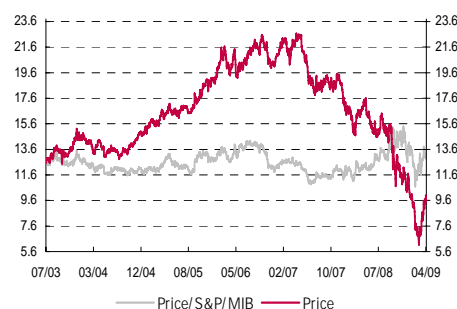
Reuters: **UBI.MI** Bloomberg: **UBI IM**

#### Stock data

Market capitalisation	EUR6273m
Free Float	EUR5840m
Enterprise value	EUR6273m
No. of shares, adjusted	639.1m
Daily volume	EUR23.81m

#### Performances

	1 month	3 months	12 months
Absolute perf.	34.9%	-0.4%	-41.2%
Relative perf.	14.0%	-0.4%	12.0%



#### Next event

Q1-09 results due on 13 May

#### Sector focus

Sector Top Picks	CS Group, Garanti Bank, Julius Baer, National Bank
Least favoured	Banco Sabadell, DNB NOR, Deutsche Postbank AG, Natixis, Unicredit

#### Shareholders

Free Float 93.1%, Carlo Tassara 2.3%, Fondazione Cr Cuneo 2.3%, Fond. Monte Di Lombardia 2.3%

To 31/12 (EUR)	2007	2008	2009E	2010E
Revenues (m)	4547.0	4167.0	4037.0	4160.0
Cost/Income ratio	54.9	60.7	61.2	58.9
Bad debt charge (%)	0.38	0.61	0.88	0.83
Op. profit (m)	1676.0	560.0	767.0	937.0
Net attrib. profit (m)	940.0	70.0	333.0	448.0
Net dividend	1.0	0.5	0.4	0.5
Payout ratio (%)	64.6	416.8	76.8	71.3

	2007	2008	2009E	2010E
Clean EPS	1.57	0.60	0.64	0.81
P/E (x)	12.0	17.1	15.4	12.1
Tangible BVPS	11.49	11.65	11.82	11.92
P/TBVPS (x)	1.6	0.9	0.8	0.8
Core ROE (%)	12.6	0.9	4.4	5.8
Core tier 1 ratio (%)	6.6	7.1	7.2	7.3
Yield (%)	5.1	4.4	4.1	5.1

## ■ Company profile

### ■ Large franchise in wealthy Lombardy

UBI Banca is a regional franchise with 1,964 branches throughout Italy. The bank features one of the highest market shares in Lombardy (15%), after Intesa-SPI, which is the market leader in the area. UBI is also in a strong position in Piedmont, Lazio and the Marche, which are all important industrial areas and strong contributors to Italian GDP (32%).

### ■ Robust core capital and low leverage

UBI is one of the soundest banks in Italy from a capital standpoint: it closed 2008 with the highest core tier 1 ratio, at 7.1%. UBI is, along with Credem, the only major Italian bank that did not apply for public assistance (i.e. via the "Tremonti bond"). UBI is also one of the least leveraged banks (i.e. 17.9x) in both the Italian (26x) and European (>40x) banking sectors.

### ■ Excellent asset quality

UBI's asset quality is also one of the best in class in terms of both the gross and net NPL ratios at 1.9% and 0.88% respectively, well below the Italian averages of 4% and 1.5%. NPL coverage stands at 54.6%, below average (63%). Funding appears to be well-balanced, with a loan-to-deposit ratio below 1 and it has modest exposure to the interbank market.

### ■ Low leverage to financial assets

The bank has limited exposure to financial assets, which represent only 8% of total assets. Despite that, UBI reported trading losses in 2008, due to a poor performance by the financial department. However, UBI was the only bank (along with BPM) that did not use the IFRS39 amendment.

## ■ SWOT analysis

### Strengths

- Good geographical positioning
- Soundest capital ratios
- Low leverage
- Good asset quality

### Weaknesses

- Financial result worse than peers
- Low NPL coverage
- Exposure to declining interest rates

### Opportunities

- Acquisition of a small group of branches in Tuscany (e.g. the branches that MPS plans to sell)

### Threats

- Potential tie-up with Banco Popolare
- Overhang risk due to the Zaleski stake, which might be sold

## ■ Valuation

We used a sum of the parts model to value UBI, which yields a fair value of EUR10.9/share, implying 11% upside to the current level.

- For the commercial banking division, we factored in 11% ROE, coupled with 9.4% cost of equity (COE). This implies a multiple to the tangible equity of 1.2x. Commercial banking represents 79% of the SOP.

- Investment banking was valued at the tangible equity, as we forecast an 11% ROE, equal to the COE. IB represents 7% of the SOP.

- The product companies are valued at a 0.9x multiple to the tangible equity; 9% ROE vs. 10.3% COE. The weight in the SOP is 17%.

- The corporate centre is worth roughly -EUR0.9bn, based on the average resulting P/E of the core operations applied to the net loss produced by the cost centre. The corporate centre reduces the valuation by 13%.

- We then added the capital in excess to 6.5% threshold, which in this case stands at EUR466m, or EUR0.71/share, or 7% of the SOP.

- Finally, we added the 2009 dividend, which we estimate at EUR0.4/share.

UBI trades at 0.8x PTBV09E, or at an 8% premium to Italian banks, which becomes a >20% discount to European banks.

## ■ Investment case

We confirm our positive stance on UBI, as it has: 1) the lowest leverage of all the European banks (18x vs. >40x); 2) the highest core tier 1 in Italian banking (>7% in 2008); 3) no need for public aid, allowing it to save on interest charges, easing the impact on tangible equity and providing the bank with greater flexibility in terms of both its lending and dividend policies; 4) sound asset quality; and 5) it can pay a decent dividend at attractive ratios.

UBI combines a defensive profile with attractive multiples. It has no exposure to "toxic assets" nor to CEE. Conversely, it has exposure to the wealthiest areas in Italy, which account for 32% of GDP. In our view, in this uncertain market climate, UBI offers the most reliable combination of limited risk, a sound business model and strong fundamentals and it is one of the best players from a bottom-up standpoint.

## Summary

### Reliable and defensive player at a reasonable price

In our view, UBI is one of the most defensive stocks in both Italian and European banking, as it offers: 1) the lowest leverage in European banking (18x vs. 40x); 2) the best core tier 1 in Italian banking (at 7.1% vs. 6.2% for peers); 3) one of soundest asset quality levels in Italy; and 4) a sustainable dividend yield(>4%) at still-attractive multiples: 0.8x PTBV09E or at a >20% discount to the European average.

### No need for rescue package, allowing cost savings and more flexible lending policy

UBI plans to issue a EUR640m convertible bond instead of using the Tremonti bond. This will allow it to: 1) save on interest charges, which we estimate could cost EUR22m/year (4% of EPS09 and 3% of core earnings); 2) ease the direct impact on tangible equity; and 3) permit a more flexible lending policy, preventing further asset quality deterioration. UBI also has better asset quality than peers, raising visibility and adding stability to earnings.

### Sound capital ratios and low leverage

UBI was the only Italian bank to pay a substantial dividend in 2008 (EUR0.45/share) and maintain a solid core tier 1 ratio (meaning it did not have to tap into the government bail-out package). In fact, its core tier 1 stood at 7.1% after DPS. The other banks were only able to reach this level by using public aid. Moreover, UBI's robust capital ratio is coupled with a high ratio of tangible equity to total assets (5.6% vs. 4% on average), implying that it is one of the least leveraged banks in both Italy and in Europe (18x vs. 26x).

### Good asset quality, despite low coverage

Asset quality is one of UBI's greatest strengths. Its NPL ratio is very low with gross and net at 1.9% and 0.88% , respectively (2008 data). The Italian average gross NPL ratio is 4%, while the average net NPL ratio is 1.5%. UBI has low NPL coverage, at 54.6%, below the 63% average.

### From top-down to a bottom-up approach – EUR10.9 target price – 2/Outperform

We are raising our DPS09E-11E forecasts by ~40% and EPS09E-11E by 1% on average and are lifting our target price from EUR9.5 to EUR10.9, based on the lower cost of equity, due to higher visibility on UBI's capital management strategy, which mitigates the M&A risk, the higher DPS09E and greater visibility on earnings following the 2008 clean-up. In our view, in this uncertain market climate and based on a bottom-up approach, UBI offers the most reliable combination of low risk, a sound business model (no exposure to CEE nor to toxic assets) and solid fundamentals. The recent outperformance of financial stocks was mainly due to government intervention (e.g. TARP plan in US and IMF intervention in CEE, agreed at the recent G20 summit), which boosted the banks with the most toxic assets and risky exposure (CEE). As a result, the market neglected fundamentals, focusing on pure top-down calls. In our view, based on a bottom-up approach, UBI seems like a solid, defensive play in an uncertain market environment.

### ITALIAN BANKS: MULTIPLES

(x, %)	PE09	PE10	PTBV09	PTBV10	ROE09	ROE10	Y09	Y10
Unicredito	14.60	6.90	0.70	0.66	4.70	9.20	0.00	5.17
Intesa-SPI	16.20	11.40	0.99	0.93	4.30	6.60	0.00	4.46
Banca MPS	10.33	8.39	0.92	0.84	8.60	9.57	3.36	5.05
UBI Banca	15.40	12.10	0.83	0.82	4.40	5.80	4.10	5.10
Banco Popolare	11.30	8.40	0.54	0.55	2.10	3.80	0.00	2.16
BPM	14.80	10.60	0.65	0.64	4.40	6.10	2.00	3.80
Credem	22.50	16.43	0.89	0.86	4.00	4.30	1.10	2.13
<b>ITALY</b>	<b>15.02</b>	<b>10.60</b>	<b>0.79</b>	<b>0.76</b>	<b>4.64</b>	<b>6.48</b>	<b>1.51</b>	<b>3.98</b>
<b>EUROPE</b>	<b>12.50</b>	<b>10.40</b>	<b>1.10</b>	<b>1.00</b>	<b>13.50</b>	<b>14.00</b>	<b>5.00</b>	<b>5.90</b>

Source: CA Cheuvreux

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### ■ CHEUVREUX'S BANKS TEAM

**Joachim Müller** (coord.) Germany (49)-69-47 89 79 60 ( Direct ) [jmueller@cheuvreux.com](mailto:jmueller@cheuvreux.com)  
**Rodney Alfvén** Nordic (46)-8-723 51 72 ( Direct ) [ralfven@cheuvreux.com](mailto:ralfven@cheuvreux.com)  
**Ryan Ayache** Middle East (971)-4-42 83 607 ( Direct ) [rayache@cheuvreux.com](mailto:rayache@cheuvreux.com)  
**Jean-baptiste Bellon** France (33)-1-41 89 75 78 ( Direct ) [jbesson@cheuvreux.com](mailto:jbesson@cheuvreux.com)  
**Christoph Blieffert** Germany (49)-69-47 897 541 ( Direct ) [cblieffert@cheuvreux.com](mailto:cblieffert@cheuvreux.com)  
**Alexandros Boulougouris** Greece (30)-210-373 4005 ( Direct ) [aboulougouris@cheuvreux.com](mailto:aboulougouris@cheuvreux.com)  
**Alain Chirlias** France (33)-1-41 89 76 11 ( Direct ) [achirlias@cheuvreux.com](mailto:achirlias@cheuvreux.com)  
**Fredrik Gutenbrant** Nordic (46)-8-723 51 73 ( Direct ) [fgutenbrant@cheuvreux.com](mailto:fgutenbrant@cheuvreux.com)  
**Hans Pluijgers** Benelux (31)-20-5730634 ( Direct ) [hpluijgers@cheuvreux.com](mailto:hpluijgers@cheuvreux.com)  
**Francisco Riquel** Spain (34)-91-495 16 30 ( Direct ) [friquel@cheuvreux.com](mailto:friquel@cheuvreux.com)  
**Christian Stark** Switzerland (41)-44-218 17 02 ( Direct ) [cstark@cheuvreux.com](mailto:cstark@cheuvreux.com)  
**Marion Swoboda-Brachvogel** Austria (43)-1-22712 7015 ( Direct ) [mwobodabrachvogel@cheuvreux.com](mailto:mwobodabrachvogel@cheuvreux.com)  
**Carlo Tommaselli** Italy (39)-02-80 62 83 44 ( Direct ) [ctommaselli@cheuvreux.com](mailto:ctommaselli@cheuvreux.com)  
**Can Yurtcan** Turkey (90)-212-3711903 ( Direct ) [cyurtcan@cheuvreux.com](mailto:cyurtcan@cheuvreux.com)

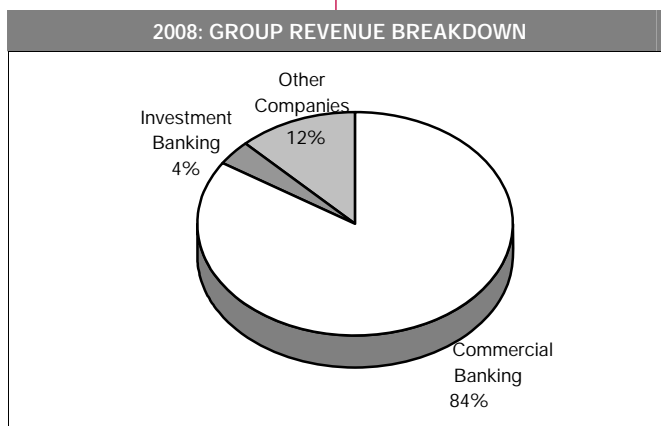
## I—Valuation

*Our sum-of-the-parts model delivers a new target price of EUR10.9/share (from EUR9.5 previously), based on our more optimistic DPS09E forecasts and the lower cost of equity. The stock trades at 0.8x PTBV09E or at a >20% discount to European peers. If the planned buyback of preferred securities and the subordinated bond issue are successful, it could add from EUR0.1 to EUR0.5/share of accretion to our target price.*

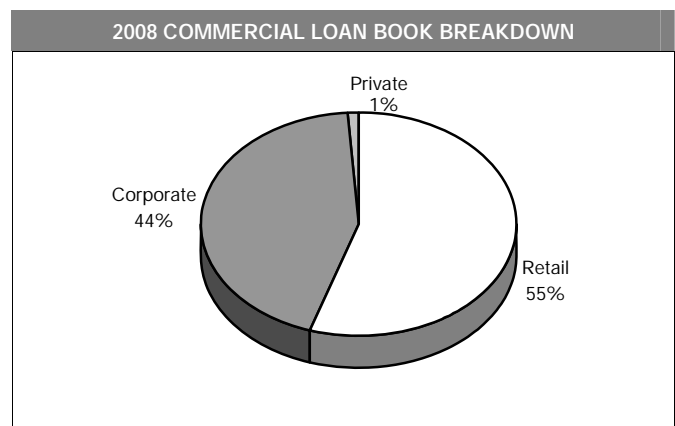
### ■ SOP valuation: EUR10.9 share target price

We derive a fair value of EUR10.9/ share based on our sum-of-the-parts valuation for UBI Banca, implying 11% upside. UBI's divisions include: 1) commercial banking, for which retail and private weigh for 56% and corporate banking for 44% based on loan segmentation; 2) investment banking (Centrobanca); 3) the product companies (i.e. leasing, factoring, consumer credit and asset management); and 4) the corporate centre. In terms of the revenue breakdown, based on 2008 data, commercial banking accounted for 84% of total income and 81% in terms of pre-provision profit.

The value is in commercial banking



Source: CA Cheuvreux



Source: CA Cheuvreux

■ For the commercial banking network, we foresee an 11% sustainable return on capital allocated (ROCA or ROE) and a 9.4% cost of equity (COE). With 2% long term growth, the implied valuation, according to the Warrant Equity Valuation (i.e.  $(ROE-g)/(COE-g)$ ) is 1.2x price to equity. Commercial banking has a significant impact on our SOP, representing 79% of the total value.

■ Investment banking accounts for 4% of total income. We value the capital allocated to the division at the tangible equity, as the ROE is equal to the COE (both at -11%). In the SOP, the investment banking unit represents 7% of our fair value.

■ We valued the product companies (leasing, factoring consumer credit and asset management) at 0.9x price to tangible equity, as the ROE is below the COE (9% vs. 10.3%). Based on ~EUR40bn of assets under management and 0.7% P/AuM, consistent with a multiple applicable to the "production", we estimate that this unit is worth ~EUR280m. UBI Leasing and UBI are worth EUR340m and EUR160m respectively, valued at the average PE of the core operations of 7x. The consumer credit business adds EUR390m to the valuation, or 1.25x PTBV. The "other companies" account for EUR1.17bn or 17% of the total fair value.

■ The corporate centre generates a loss of EUR158m: we valued the corporate centre at the average P/E of the core operations applied to the earnings/loss produced. We then deducted the negative value of the corporate centre, equal to EUR0.9bn, or EUR1.4/share (-13% of the SOP).

■ We added back the capital in excess of the 6.5% threshold, which in this case is EUR450m or EUR0.7/share (6% of the SOP). Finally, we added the 2009 dividend (settlement in 2010), which we estimate at EUR0.4/share.

As a result, we set a new target price of EUR10.9/share (from EUR9.5) based on the lower cost of equity (due to rising visibility on UBI's capital management strategy, which also mitigates the M&A risk) and higher DPS09E (from EUR0.28 to EUR0.4).

If the buy-back of preferred securities and subordinated bond issue are successful (depending on the price and acceptance level), capital could top 6.5%, implying further accretion to our target price of between EUR0.11 and EUR0.53 in a blue sky scenario.

### UBI: SUM-OF-THE-PARTS VALUATION

(EUR m, EUR, x, %)	PTBV	EUR m	EUR/Share	%
Commercial banking & network	1.2x	5 543	8.67	79%
Investment banking	1.0x	488	0.76	7%
Other companies	0.9x	1 169	1.83	17%
<b>CORE OPERATIONS</b>	<b>1.1x</b>	<b>7 200</b>	<b>11.26</b>	<b>103%</b>
Corporate centre		-914	-1.43	-13%
Excess/Deficit capital		449	0.70	6%
Dividend		237	0.37	3%
<b>TOTAL</b>	<b>0.98x</b>	<b>6 972</b>	<b>10.91</b>	<b>100%</b>

Source: CA Cheuvreux

>20% discount to  
European peers on  
PTBV09E

### ■ Peer multiples

UBI trades at 0.8x PTBV09E or at an 8% premium to Italian peers, justified by its defensive profile, backed by one of the lowest leverage levels in Europe (17.9x, or 5.6% tangible equity to total assets); 2) higher capital adequacy; 3) good asset quality; 4) excellent geographical fit (15% market share in Lombardy, ranked second after Intesa-SPI); 5) sustainable dividend level (>4% yield), which other banks cannot afford. Enlarging the universe to European peers, we calculate that UBI trades at a >20% discount to the PTBV09E. In our view, UBI is a defensive investment, with limited downside. The recent market performance, especially of financial stocks, was driven by a top-down approach based on the relief provided by US intervention (i.e. TARP, or Troubled Asset Relief Program) and the measures approved at the G20 for the CEE regions, which gave a boost to the most troubled banks in Europe (like Unicredito and Banco Popolare). In the Q1-09 reporting period, we believe that the attention could shift back to fundamentals, with banks' balance sheets showing the first signs of macro-economic deterioration, eroding asset quality. In this scenario, we would prefer to stay on the safe side by playing UBI.

### ITALIAN BANKS: MULTIPLES

(x, %)	PE09	PE10	PTBV09	PTBV10	ROE09	ROE10	Y09	Y10
Unicredito	14.60	6.90	0.70	0.66	4.70	9.20	0.00	5.17
Intesa-SPI	16.20	11.40	0.99	0.93	4.30	6.60	0.00	4.46
Banca MPS	10.33	8.39	0.92	0.84	8.60	9.57	3.36	5.05
UBI Banca	15.40	12.10	0.83	0.82	4.40	5.80	4.10	5.10
Banco Popolare	11.30	8.40	0.54	0.55	2.10	3.80	0.00	2.16
BPM	14.80	10.60	0.65	0.64	4.40	6.10	2.00	3.80
Credem	22.50	16.43	0.89	0.86	4.00	4.30	1.10	2.13
<b>ITALY</b>	<b>15.02</b>	<b>10.60</b>	<b>0.79</b>	<b>0.76</b>	<b>4.64</b>	<b>6.48</b>	<b>1.51</b>	<b>3.98</b>
<b>EUROPE</b>	<b>12.50</b>	<b>10.40</b>	<b>1.10</b>	<b>1.00</b>	<b>13.50</b>	<b>14.00</b>	<b>5.00</b>	<b>5.90</b>

Source: CA Cheuvreux

## II— Leverage, financial assets and funding

*UBI is one of the most defensive European banks, with 17.9x leverage (vs. 25.8x for Italian peers and >40x for European peers). Combined with a core tier 1 of over 7%, it is one of the most attractive banks in our universe from this standpoint. UBI also uses a more cautious accounting policy than its peers.*

### ■ High tangible equity to total assets ratio

17.9x leverage

UBI boasts one of the lowest leverage levels in Italian banking, at 17.9x in 2008, vs. 25.8x on average (while the European average is above 40x). BPM has the lowest leverage at 16.5x. This low leverage implies one of the highest tangible equity (TE) to total assets ratios (TA) in the sector, at 5.6% vs. 3.9% on average for Italian peers and ~2.2% for European peers.

#### ITALIAN BANKS: 2008 LEVERAGE

(EUR m, %, x)	UCG	ISP	BMPS	UBI	BAPO	BPM	Credem	Total
RWA	512 532	383 072	132 408	89 892	73 907	34 317	19 209	1 245 337
Loans/RWA	1.20	1.03	1.10	1.07	1.10	0.96	0.92	1.11
Tangible Equity	33 702	27 604	8 115	6 802	5 374	2 730	1 423	85 749
Total Assets	1 045 612	636 133	213 796	121 956	121 375	45 039	30 488	2 214 398
<b>Tangible Equity/Total Assets (TE/TA)</b>	<b>3.2%</b>	<b>4.3%</b>	<b>3.8%</b>	<b>5.6%</b>	<b>4.4%</b>	<b>6.1%</b>	<b>4.7%</b>	<b>3.9%</b>
<b>Total assets/Tangible Equity (Leverage)</b>	<b>31.0</b>	<b>23.0</b>	<b>26.3</b>	<b>17.9</b>	<b>22.6</b>	<b>16.5</b>	<b>21.4</b>	<b>25.8</b>
RWA/Tangible Equity	15.2	13.9	16.3	13.2	13.8	12.6	13.5	14.5
RWA/Total Assets	49.0%	60.2%	61.9%	73.7%	60.9%	76.2%	63.0%	56.2%

Source: CA Cheuvreux

Italian banks present a high TE/TA ratio combined with the low 6.19% core tier 1 ratio posted at the end of 2008 (before government intervention). This implies that the business model commonly used by Italian banks, focused on traditional commercial banking, tends to feature higher RWA than European peers, which generally have a low TE/TA, with a higher core tier 1 ratio. As a result, for Italian banks, the weight of RWA to total assets tends to be higher than European peers, i.e. 56% vs. ~35%, implying that the capital ratio is calculated based on more RWA, which better reflects the on-balance sheet risk for Italian banks. In other words, Italian banks' core capital is lower than European peers, but more reliable. In addition, this lower leverage compared to European peers, makes Italian banks more defensive. UBI not only has a high and reliable core tier 1 ratio, it also boasts low leverage, which is the best possible combination in our view.

Limited leverage to financial assets

More cautious accounting policy

## ■ Weak on financial results, despite limited exposure

In 2008, UBI posted a EUR242m trading loss, on the back of the negative valuation of hedge funds of EUR87m, including EUR58m for Madoff exposure. This loss includes a EUR53m negative mark-to-market on debt securities and related instruments (including a EUR10m impairment on Lehman bonds). While we must point out that UBI's financial assets performed poorly in 2008, (worse than peers), it was the only bank to avoid using the IFRS39 amendment. The IAS39 amendment provides for the reclassification of financial assets to loans and receivable and the freezing of the valuation of the assets involved at a certain date. At the end of 2008, the portfolio consisted of: 60% government bonds, 26% corporate bonds, 7% hedge funds, with the remaining 7% in funds, shares and other assets (EUR216m ABS). The amount of financial assets held for trading is lower than peers (24% vs. 67% on average), while the amount of AFS assets is higher than peers (44% vs. 16%). This means that UBI does not report the entire size of the potential loss/profit on its P&L, implying that it engages in some "window dressing". The good news is that UBI has limited exposure to financial assets, which represent only 8% of total assets; the lowest level in both Italian and European banking.

### ITALIAN BANKS: 2008 FINANCIAL ASSETS BREAKDOWN

(EUR m, %, x)	UCG	ISP	BMPS	UBI	BAPO	BPM	Credem	Total
Financial assets for TRADING	204 890	61 080	21 798	2 327	10 033	2 348	4 812	307 288
Financial assets @ fair value	15 636	19 727	180	460	311	866	1 403	38 583
Financial assets AFS	28 700	29 083	4 996	4 352	1 625	1 995	2 025	72 776
Financial assets HTM	16 882	5 572	3	1 631	530	0	0	24 618
Hedging derivatives	7 051	5 389	99	792	93	153	302	13 879
Value adjustments hedged FA	1 660	66	31	335	9	0	27	2 128
Total financial assets	274 819	120 917	27 107	9 897	12 602	5 362	8 568	459 273
<b>Total assets</b>	<b>1 045 612</b>	<b>636 133</b>	<b>213 796</b>	<b>121 956</b>	<b>121 375</b>	<b>45 039</b>	<b>30 126</b>	<b>2 214 036</b>
FA for TRADING/Total FA	74.6%	50.5%	80.4%	23.5%	79.6%	43.8%	56.2%	66.9%
FA @ FV/Total FA	5.7%	16.3%	0.7%	4.6%	2.5%	16.1%	16.4%	8.4%
FA AFS/Total FA	10.4%	24.1%	18.4%	44.0%	12.9%	37.2%	23.6%	15.8%
FA HTM/ Total FA	6.1%	4.6%	0.0%	16.5%	4.2%	0.0%	0.0%	5.4%
Hedging derivatives/FA	2.6%	4.5%	0.4%	8.0%	0.7%	2.9%	3.5%	3.0%
Value adjustments hedged FA/FA	0.6%	0.1%	0.1%	3.4%	0.1%	0.0%	0.3%	0.5%
<b>Total FA/Total Assets</b>	<b>26.3%</b>	<b>19.0%</b>	<b>12.7%</b>	<b>8.1%</b>	<b>10.4%</b>	<b>11.9%</b>	<b>28.4%</b>	<b>20.7%</b>

Source: CA Cheuvreux

## ■ Well-balanced 2008 funding structure

UBI's loan-to-deposit ratio is slightly below average (0.99x vs. 1x). Total core deposits represent 55.5% of funding (vs. 65% of peers), however going into deeper detail, we noted that bonds placed with retail customers amounted to EUR20.3bn at the end of 2008, meaning that retail funding is above average. Bonds placed with institutional clients totalled EUR14.2bn, of which EUR12.3bn are EMTN (o/w EUR2bn subordinated bonds) and EUR608m preferred shares. UBI has just launched a buy-back program on preferred securities with a face value of EUR570m and EUR1,550m of subordinated bonds in exchange for a new senior bond of EUR1,570m, which should stabilise the funding structure and replace the tier 1 with core tier 1, if it is successful. The net interbank position is firmly under control, with a EUR927m negative balance at the end of 2008, or 0.9% of total funding vs. 6.8% on average.

**ITALIAN BANKS: 2008 FUNDING STRUCTURE**

(EUR m, %, x)	UCG	ISP	BMPS	UBI	BAPO	BPM	Credem	Total
Core deposits	388 831	282 618	81 596	54 151	51 351	20 518	13 719	892 784
Bonds to retail and institutional	202 459	148 279	47 158	43 441	24 253	12 009	7 064	484 662
Total deposits	591 290	430 897	128 754	97 591	75 604	32 527	20 783	1 377 446
Core deposits (%)	65.8%	65.6%	63.4%	55.5%	67.9%	63.1%	66.0%	64.8%
Borrowing from banks	177 677	51 745	27 209	3 981	8 345	3 474	2 837	275 267
Loans to banks	80 827	56 371	17 616	3 054	12 480	3 476	1 473	175 297
Net inter-bank position	-96 850	4 626	-9 593	-927	4 135	3	-1 364	-99 970
Loans to customers	612 480	395 189	145 353	96 368	81 026	32 899	17 621	1 380 937
Customer Loans/Core Deposits	1.58	1.40	1.78	1.78	1.58	1.60	1.28	1.55
Bonds/Total debt	34.2%	34.4%	36.6%	44.5%	32.1%	36.9%	34.0%	35.2%
Core retail deposits funding	65.8%	65.6%	63.4%	55.5%	67.9%	63.1%	66.0%	64.8%
<b>Loans to deposit ratio</b>	<b>1.04</b>	<b>0.92</b>	<b>1.13</b>	<b>0.99</b>	<b>1.07</b>	<b>1.01</b>	<b>0.85</b>	<b>1.00</b>
Bonds/Total debt incl. Inter-bank	43.5%	33.7%	41.0%	45.0%	28.1%	36.9%	38.1%	39.6%
Inter-bank/Total debt	14.1%	-1.1%	6.9%	0.9%	-5.8%	0.0%	6.2%	6.8%

Source: CA Cheuvreux

### III— Robust core capital

*UBI has the most robust core capital position in Italian banking. In 2008, it was able to pay out a DPS of EUR0.45, implying a >4% yield. No other bank in Italy was able to pay a comparable dividend and keep a sound capital position. In addition, issuing a convertible bond, instead of using public aid, should pave the way for cost savings, ease the direct impact on tangible equity and allow UBI to maintain a more flexible lending policy, while the buyback of preferred stock and subordinated bonds, if successful, should stabilise UBI's funding structure and improve the core tier 1.*

#### ■ Capital management as an alternative to public bail-out

UBI has the best capital position in the Italian banking sector, closing 2008 with a 7.1% core tier 1. While the other banks were unable to distribute dividends and were forced to apply for public assistance, UBI announced a dividend pay-out of EUR0.45/share and a core tier 1 in line with the Italian banks who applied for the government bond.

7.1% core tier 1 after dividend

#### ITALIAN BANKS: 2008 CAPITAL ADEQUACY AND PUBLIC AID

(EUR m, %, x)	UCG	ISP	BMPS	UBI	BAPO	BPM	Credem	Total
Core tier 1 capital	33 075	24 134	6 303	6 373	3 740	2 093	1 339	77 057
RWA	512 532	383 072	132 408	89 892	73 907	34 317	19 129	1 245 257
<b>Core tier 1</b>	<b>6.45%</b>	<b>6.30%</b>	<b>4.76%</b>	<b>7.09%</b>	<b>5.06%</b>	<b>6.10%</b>	<b>7.00%</b>	<b>6.19%</b>
Tier 1 capital	37 157	27 074	6 832	6 945	4 722	2 628	1 339	86 697
Hybrid capital	4 458	2 940	530	571	983	534	0	10 016
Tier 1	7.25%	7.07%	5.16%	7.73%	6.39%	7.66%	7.00%	6.96%
Core tier 1 with public help	7.20%	7.10%	6.70%	7.09%	6.40%	7.60%	7.00%	7.01%
Total Public help	4 000	4 000	1 900	0	1 450	500	0	11 850
Public help form Italy	1 500	4 000	1 900	0	1 450	500	0	9 350

Source: CA Cheuvreux

#### Capital management

To strengthen its capital position, UBI is launching a ~EUR640m senior convertible bond, rather than relying on public aid. The bond should mature in 4 years, with a fixed coupon of 5% at least, with additional terms to be defined shortly. Before maturity, the bond will be convertible at the discretion of the bondholder at a price to be set soon, while it will be convertible at the discretion of the issuer at the lowest price between the predefined price and the market price discounted by a premium. At maturity, the bond should be convertible at the discretion of the issuer: with a cash reimbursement of bonds or conversion into UBI Banca shares based on market price of the share and at a counter-value that is no lower than the nominal value of the bond.

#### POTENTIAL CONDITIONS OF THE CONVERTIBLE BOND

(EUR m, EUR, %, #)	
Amount	640
Conversion premium	20%
Conversion price	11.2
New shares	57

Source: CA Cheuvreux

Assuming that the convertible bond will be priced at a 20% premium to the current market price, 57m new shares would be issued, implying ~8% EPS dilution, with a 71 bps impact on the core tier 1. UBI also announced that 1 free warrant would be assigned to shareholders for each share owned. This warrant will mature in two years, after which the holder could subscribe one new UBI share for every 20 warrants. On 10 April, the supervisory board approved the subscription price for the new shares: it is equal to a 20% premium on the average market price, calculated during the period 14 April and the day before the AGM to approve 2008 results (first call scheduled for 29 April with the second call on 9 May) and the issue. The supervisory board approved a floor price of EUR10.5/share.

### THE WARRANT

(EUR m, EUR, %, #)	
# warrants (1 per share)	639
Share per warrant	0.05
<i>New shares</i>	32
Average share price	9.34
Conversion premium	20%
Conversion price	11.2
Minimum conversion price	10.5
<b>Max. capital raised</b>	<b>358</b>
<b>Min. capital raised</b>	<b>335</b>

Source: CA Cheuvreux

The warrant could have a benefit of at least 37 bps on the core tier 1 (or EUR335m), with roughly 5% EPS dilution.

These two initiatives are the result of UBI's cautious approach to the medium term outlook and its refusal to resort to public aid. This should permit a more flexible lending and capital policy compared to the banking peers that accepted the bail-out offer. In fact, the government imposed some conditions on the Tremonti bond package, meaning that in their lending policy the banks' will be forced to be somewhat less selective about asset quality in order to provide support to the economy. Of course, there are other strings attached to the government offer, including direct and indirect government control, which UBI will completely avoid. The convertible bond will also allow UBI to secure funding at a fixed rate (5%), that could be transformed into equity in the medium term, thereby adding flexibility to the bank's capital management policy.

**No strings attached  
and savings on  
interest charges**

### PUBLIC AID VS. CONVERTIBLE BOND: INTEREST SAVINGS

(EUR m, %)	
Convertible bond size	640
<i>Minimum coupon</i>	5%
Annual interest paid	32
<i>Tremonti bond yield</i>	8.5%
Annual interest paid	54
Annual saving	22
Total interest paid (4 years) on CB	128
Total interest paid (4 years) on TB	218

Source: CA Cheuvreux

The alternative to the convertible bond would have been the issue of a Tremonti bond, with an 8.5% coupon for the first 4 years. The maturity is the same for the convertible bond, but the minimum coupon is 5%. Clearly, there is a cost advantage in the convertible bond (dilution being equal), as it would save an estimated ~EUR22m on interest paid annually compared to the Tremonti bond, with a 4% benefit on EPS09E. Note that the interest charges paid are not reported on the P&L, but are directly deducted from equity.

### ■ Buy-back of preferred stocks and subordinated bonds

#### Jumbo buy-back

On 15 April, UBI approved the buy-back of EUR570m of preferred securities and subordinated bonds with a face value of EUR1,550m, in exchange for EUR1,570m of senior debt to be issued as part of the ETMN programme. The buy-back of the subordinated bonds will be divided into 5 issuances: 1) EUR250m, maturing in June 2014 (call option Jun. 2009), 2) EUR500m (in Dec. 2015 – Call option Dec. 2010), 3) EUR300m (in Jun. 2016 – Call option Jun. 2011), 4) EUR200m (in Dec. 2016 – Call option Dec. 2011) and 5) EUR300m (in Oct. 2018 – Call option Oct. 2013). While for the first maturity (EUR250m – with an anticipated cash reimbursement option for the holder) and the hybrids (EUR570m), UBI is launching an offer of EUR820m, equal to the face value. The other subordinated bonds (EUR1,300m) will be swapped for EUR750m of new senior bonds.

#### Swapping tier 1 with core tier 1

This offer should start at the end of May. If successful, this measure should allow UBI to: 1) swap funds from the tier 1 to the core tier 1 of the bank, on the back of the capital gain posted on the buy-back; 2) improve its funding profile, reducing the size of its outstanding subordinated bonds (EUR1.3bn), replaced partly by new senior debt (EUR0.75bn) and partly by the convertible announced recently (EUR0.64bn).

#### Price and acceptance are key

The benefit on the core tier 1 depends on: 1) the offer price; and 2) the acceptance of the offer, which could actually be quite limited. Investors could argue that the market might bounce, making the offer meaningless. Assuming 100% acceptance, the impact on the core tier 1 could be between 38 bps and 8 bps depending on the discount to the nominal value at which the subordinated would be withdrawn. The success of the offer will depend on the level of acceptance. For example, investors might be more positive than UBI on the general outlook and could take a more confident stance on recovery of the subordinated bonds and therefore they could reject the offer.

#### BUY-BACK OF SUBORDINATED BONDS: POTENTIAL IMPACT ON CT1

(EUR m, %)					
<b>Nominal value</b>	<b>2 120</b>				
<i>Discount</i>	25%	20%	15%	10%	5%
	1 590	1 696	1 802	1 908	2 014
Gross capital gain	530	424	318	212	106
Net capital gain	339	271	204	136	68
<i>Impact to core tier 1</i>	0.38%	0.30%	0.23%	0.15%	0.08%

Source: CA Cheuvreux

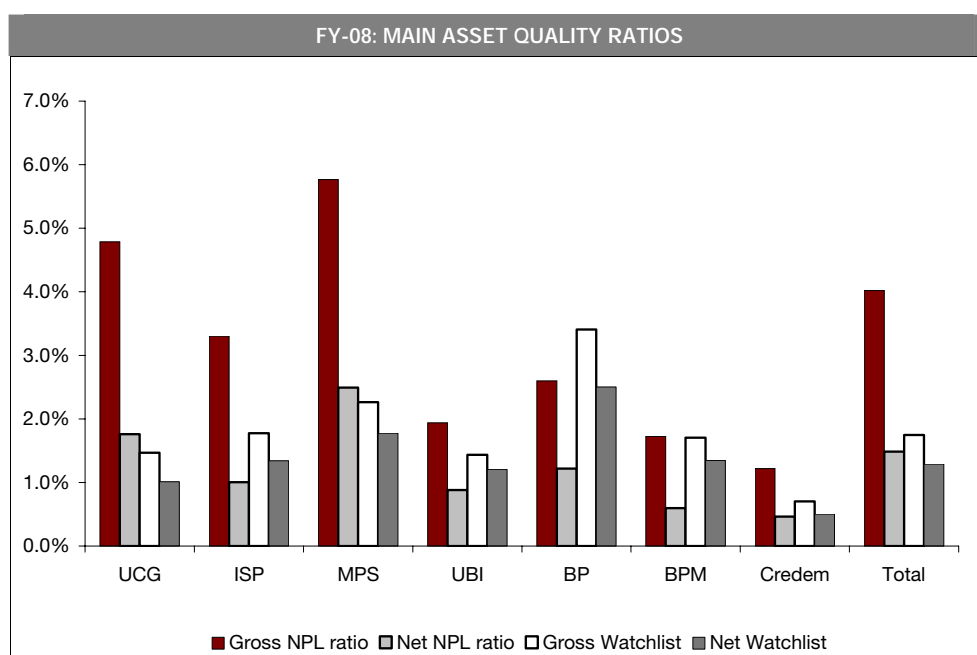
## IV— Solid asset quality trend

UBI's net NPL ratio stands at 0.88%, well below the 1.5% Italian average (1.9% gross NPL ratio vs. 4% on average). Coverage is below peers at 54.6% (vs. 62.8% on average).

### ■ Asset quality under control

Despite the indisputable deterioration of lending throughout the industry, UBI has reported very resilient asset quality compared to Italian peers. Specifically, its asset quality ratios (NPL and watch-list) are among the best in Italy. UBI boasts a net NPL ratio of 0.88% (1.9% gross NPL ratio) vs. 1.5% on average (4% gross). The gross watch-list ratio stood at 1.4% vs. 1.7% on average.

0.88% net NPL ratio  
vs. average at 1.5%



Source: CA Cheuvreux

Trend is ok, coverage  
is low

A comparison with Italian peers reveals that UBI posted one of the most resilient gross and net watch-list loan trends, both on a quarterly and an annual basis.

### ITALIAN BANKS: RECENT WATCH-LIST TRENDS

(EUR m, %)	UCG	ISP	MPS	UBI	BP	BPM	Credem	Total
Gross Watch-list 31/12/08	8 993	7 018	3 288	1 383	2 759	561	124	24 126
Gross Watch-list 30/09/08	7 072	6 853	2 741	1 270	2 045	460	148	20 589
Gross Watch-list 31/12/07	5 937	5 538	1 570	906	1 687	338	77	16 053
% Chg. q-o-q	27.2%	2.4%	20.0%	8.9%	34.9%	21.9%	-16.4%	17.2%
% Chg. y-o-y	51.5%	26.7%	109.5%	52.6%	63.6%	65.8%	60.4%	50.3%
Net Watch-list 31/12/08	6 215	5 306	2 578	1 160	2 029	443	89	17 819
Net Watch-list 30/09/08	4 761	5 101	2 108	1 081	1 658	368	99	15 176
Net Watch-list 31/12/07	4 110	3 972	1 203	755	1 281	255	51	11 627
% Chg. q-o-q	30.5%	4.0%	22.3%	7.3%	22.4%	20.3%	-10.1%	17.4%
% Chg. y-o-y	51.2%	33.6%	114.3%	53.7%	58.3%	73.9%	74.3%	53.3%

Source: CA Cheuvreux

Despite the excellent ratios and trends, we point out that UBI's NPL coverage is below peers: 54.6% (vs. 62.8%).

This coverage is justified by the very low gross NPL ratio, at 1.9% vs. 4% for peers. Intesa-SPI boasts the highest coverage rate among Italian banks at 69.5%.

#### ASSET QUALITY TRENDS FROM Q4-07 TO Q4-08

(EUR m, %)	FY-07	Q1-08	Q2-08	Q3-08	FY-08
Gross doubtful loans	2 673	2 771	2 901	3 216	3 608
Net doubtful loans	1 672	1 738	1 815	2 095	2 316
Coverage	37.4%	37.3%	37.4%	34.9%	35.8%
Gross NPL	1 520	1 585	1 630	1 671	1 869
Net NPL	699	734	740	771	849
Coverage	54.0%	53.7%	54.6%	53.9%	54.6%
Gross watch-list	906	957	1 029	1 270	1 383
Net watch-list	755	803	862	1 081	1 160
Coverage	16.7%	16.1%	16.2%	14.9%	16.1%
Gross restructured loans	98	109	110	112	142
Net restructured loans	82	88	89	90	103
Coverage	16.3%	19.3%	19.1%	19.6%	27.5%
Gross past dues	150	120	131	163	214
Net past dues	136	113	123	153	204
Coverage	9.3%	5.8%	6.1%	6.1%	4.7%
Gross performing loans	91 626	91 717	95 022	96 264	94 487
Net performing loans	91 301	91 388	94 691	95 925	94 053
Gross total loans	94 299	94 488	97 923	99 481	98 094
Net total loans	92 972	93 126	96 506	98 020	96 368
<b>Net watch-list/Net performing loans</b>	<b>0.81%</b>	<b>0.86%</b>	<b>0.89%</b>	<b>1.10%</b>	<b>1.20%</b>
<b>Net NPL/Net performing loans</b>	<b>0.75%</b>	<b>0.79%</b>	<b>0.77%</b>	<b>0.79%</b>	<b>0.88%</b>
<b>Net watch-list + NPL/Net performing loans</b>	<b>1.56%</b>	<b>1.65%</b>	<b>1.66%</b>	<b>1.89%</b>	<b>2.08%</b>

Source: UBI Banca

#### Consumer credit hit by credit loss in 2008

#### Consumer credit business contributed to asset quality worsening

Banca 24/7 is UBI's consumer credit subsidiary. It posted a net loss of EUR18.7m in 2008 vs. net income of EUR12.3m in 2007, despite excellent pre-provision profit (+141% y-o-y). This loss was partly due to one-off provisions for the alignment of the credit policy of Silf, the consumer credit subsidiary of Banca Lombarda. Silf was merged into Banca 24/7 on 1 January 2008. Deteriorating macroeconomic conditions also contributed to the dramatic rise in loan loss provisions for personal loans and finalised loans. Doubtful loans doubled to EUR93m, while net NPL loans jumped EUR19m to EUR34m. Despite the sharp increase in doubtful loans, the net NPL ratio for the consumer credit business stood at 0.39% in 2008, well below the group average (0.88%). Banca 24/7 has a loan book amounting to EUR8.7bn, of which mortgage loans account for EUR4bn, personal loans for EUR2bn; finalised loans for EUR1bn and salary-granted loans for EUR1.4bn. Despite the macro-economic turmoil, Banca 24/7 should start to report positive results again in 2009.

## V— Cheuvreux estimates and outlook

*UBI management provided a very cautious, but realistic guidance: the expected pressure on the top line should be partly offset by cost savings.*

### ■ Cheuvreux estimates and 2009 company guidance

The CEO, Mr. Victor Massiah, announced the following guidance for 2009:

- **Interest income** is expected to decline at a high single digit pace. We expect the NII to be down by 8.7% y-o-y on the back of margin pressure, specifically on the liability spread, which will not be sufficiently offset by the higher asset spread.
- **Net fees** should be under pressure, due to the negative outlook for the asset management industry. We expect net fees to be down by 8% vs. 2008.
- Despite the challenging market scenario, which could lead to high volatility, UBI forecasts "positive results" from the finance unit (i.e. **trading income**). We are cautiously projecting a net trading result at EUR20m.
- **Operating costs** are expected to improve, on the back of additional cost saving initiatives. We expect operating costs to be down 2.3% y-o-y.
- According to UBI, in 2009 the **cost of credit** should be below the level of H2-08 (or 86 bps). We forecast 83 bps on total loans.

In 2009, we expect total income to decline by -3% y-o-y, with a 4% decrease in pre-provision profit. Pre-tax profit should be up by 22% as we do not expect additional impairments on the equity stakes in the AFS portfolio. As soon as the macro-economic scenario stabilises, UBI will update its business plan. The review process should not be completed in H2-09.

Business plan update  
in H2-09

### UBI: CHEUVREUX ESTIMATES

(EUR m, %, bps)	2008A	2009E	2010E	2011E
Interest income	3 059	2 792	2 837	2 960
Net fees	1 188	1 094	1 112	1 143
<b>Total income</b>	<b>4 167</b>	<b>4 037</b>	<b>4 161</b>	<b>4 364</b>
Operating cost	(2 530)	(2 471)	(2 451)	(2 451)
<b>Pre-provision profit</b>	<b>1 637</b>	<b>1 565</b>	<b>1 709</b>	<b>1 913</b>
Loan loss provision	(566)	(799)	(772)	(835)
Other provisions	(545)	(24)	(24)	(19)
<b>Pre-tax profit</b>	<b>611</b>	<b>742</b>	<b>913</b>	<b>1 059</b>
Tax	(273)	(290)	(356)	(413)
<b>Net income</b>	<b>69</b>	<b>333</b>	<b>448</b>	<b>531</b>
<i>CIR ratio</i>	60.7%	61.2%	58.9%	56.2%
LLP (bps)	58.8	82.9	78.6	82.5
Loans	96 368	96 368	98 296	101 245

Source: CA Cheuvreux

We are adjusting our estimates slightly to reflect the changes in the revenue break-down, with lower dividends, partly offset by modest trading income. We are also reducing the amount of negative items from assets to be sold. As a result, we are only fine-tuning our EPS09E-11E by 1.14% on average. On the other hand, we are raising DPS09E-11E by 39.7%.

## UBI: ESTIMATES FINE-TUNING

(EUR, EUR, %)	2009E			2010E			2011E		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
Net interest income	2 792	2 792	0.00	2 837	2 837	0.00	2 960	2 960	0.00
Net fees	1 094	1 094	0.00	1 112	1 112	0.00	1 143	1 143	0.00
Total income	4 048	4 037	-0.28	4 171	4 161	-0.26	4 377	4 364	-0.28
OpEx	-2 471	-2 471	0.00	-2 451	-2 451	0.00	-2 451	-2 451	0.00
GOP	1 577	1 565	-0.71	1 720	1 709	-0.62	1 925	1 913	-0.64
LLP	-799	-799	0.00	-772	-772	0.00	-835	-835	0.00
PBT	750	742	-1.03	898	913	1.65	1 048	1 059	1.03
Net income	324	333	2.51	433	448	3.47	519	531	2.28
EPS core	0.64	0.64	-0.13	0.79	0.81	2.07	0.92	0.94	1.47
DPS	0.28	0.40	42.86	0.35	0.50	42.86	0.45	0.60	33.33

Source: CA Cheuvreux

We expect limited trading profit

Higher level of LLP

### ■ Q1-09 results preview

UBI will report Q1-09 results on 13 May. We expect a interest income to fall sharply, down 6.7% y-o-y and 12% q-o-q, with net fees down 2% q-o-q and 14% y-o-y. We do not factor in any trading losses, which was one of the key reasons for the net loss in Q4, but EUR3m profit. As a result, total income should be up 14% q-o-q, still 7.8% below the level of Q1-08.

Operating costs should be under control, flat on annual basis and down ~6% q-o-q. We expect the loan loss provisions to rise to a normalised level of 20 bps per quarter, vs. 6 bps in Q1-08 and 32 bps in Q4. We forecast a total annual charge of 83 bps vs. 59 bps in 2008. We expect net profit to come in at EUR66m, after a 44% tax rate and EUR18m PPA, down 71% y-o-y (from a EUR551m net loss in Q4-08, due to the impairment of Intesa-SPI, A2A and LSE equity stakes).

## UBI: Q1-08 RESULTS PREVIEW

(EUR m, %)	Q1-09E	% Chg.	Q1-08A	Q4-08A	% Chg.
Net interest income	700	-6.7%	750	797	-12.2%
Net commissions	275	-14.4%	321	281	-2.1%
Other net income	28	78.7%	16	(199)	-114.1%
Total income	1 003	-7.8%	1 087	879	14.1%
Operating expenses	(617)	-0.1%	(617)	(656)	-5.9%
Operating profit	386	-17.8%	470	223	72.9%
LLP	(195)	226.9%	(60)	(310)	-37.2%
Other provisions	(7)		(8)	(512)	
Realised gains	0		57	5	
Pre-tax profit	184	-59.9%	459	(594)	
Net income	66	-69.9%	219	(551)	

Source: CA Cheuvreux



## Environmental. Social. Governance Issues

### ■ CORPORATE GOVERNANCE HIGHLIGHTS

1. Does the company disclose its corporate governance policies or guidelines?	Yes
2. Does the company have a combined chair/CEO?	No
3. Percent Independent Directors	100.00%
4. Do all executive board members own shares after excluding options held?	Yes
5. Do all common or ordinary equity shares have one-share, one-vote, with no restrictions?	Yes
6. Is there a single shareholder or shareholder group which controls a majority of the voting power of the company?	No
7. Do shareowners have a right to act in concert through written communication?	No
8. Do shareholders have a right to convene an EGM with 10% or less of the shares requesting one?	Yes
9. Is the company currently under investigation for accounting irregularities?	No
10. Has the company adopted a shareholder rights plan ("poison pill")?	No
11. Potential Dilution from Stock Options Outstanding + Not Yet Granted Under Old or New Plans	0.00%
12. Disclosure on CEO remuneration details (amount detailed if disclosed)	

The information contained in this table is written and presented under the sole responsibility of GMI. CA Cheuvreux does not accept any responsibility for any loss which may arise from reliance on information contained in this table

Source: GMI

### ■ CORPORATE GOVERNANCE ANALYSIS

In terms of its legal status, UBI is a "mutual bank", meaning it follows the Italian "Popolare" model. This means it is subject to very specific rules under Italian law: 1) the "one man, one vote" system (in other words, each shareholder has one vote no matter the size of his/her stake); and 2) the ownership limit is 0.5%. Clearly, both rules are a form of "poison pill" to discourage a takeover. UBI also has a dual governance structure, under the direction of two boards: 1) the supervisory board (focused on strategic decisions); and 2) the management board (dealing with "business as usual"). UBI's dual model was effective for managing company operations in both good times and during crises, given the bank's solid fundamentals. In March 2009, top management approved the reduction of their compensation packages by 20%.

### ■ E&S ISSUES FOR THE BANKS SECTOR

- 1 Labour and Human resources issues: Has the company plan or already implemented lay-offs in the context of the crisis (is there any conditions given to governmental rescue plan)? How is the company managing human capital and specifically ageing population issue (skill transmission, etc)?

#### Analysis for UBI Banca

UBI was founded in 2007 via the merger of two local banks, Banche Popolari Unite and Banca Lombarda. The 2007-10 business plan targeted an additional 1,700 headcount reduction compared to the former stand-alone plan (400 units), representing a total 8% of the group's workforce. The charge planned for voluntary redundancy was EUR260m. This downsizing did not create any social tension among company staff. The bank has planned no other actions on personnel so far, after the recent market downturn. However, the bank should release a new plan in H2-09, which could feature more personnel cuts to improve the operational gearing.

- 2 Product responsibility: risk mitigation in the distribution of financial products (complex one) through transparency is key – Pricing of services and products can also lead to cartel position? Customer satisfaction and loyalty depend on quality customer relation policy, such as claims processing and other issue that makes the company a target for class action lawsuits. Position of the company on this issue?

#### Analysis for UBI Banca

UBI complies with transparency rules for the products it sells to retail customers. It obeys the "Clear Pact" ("Patti Chiari") rules, which are supported by independent consumer associations. UBI also observes clear customer satisfaction rules, which are part of the bank's social responsibility code. The bank has an internal method for auditing customer satisfaction called "Project Listen" ("Progetto Ascolto"). The bank does not have an aggressive pricing strategy. UBI's mission is to keep the asset quality level as high as possible.

- 3 Environmental and social risks : Has the company signed the Equator Principles and the Principles for Responsible Investment (PRI) for managing environmental risks in project finance and and Asset Management activities ? What is the company's exposure to project finance and in part. infrastructures? Access to credit : does the company has activities in microfinance?

#### Analysis for UBI Banca

UBI is ethically committed, with a clear code of conduct for both environmental and armament issues. It has some exposure to "micro-finance", as its client base includes both household companies and small businesses. Specifically, the small business segment is classified at between EUR0.3m and EUR5m. UBI's exposure to small business totals EUR16.9bn out of a EUR96.4bn loan book. It has negligible exposure to project finance.

<b>UBI Banca</b>									
FY to 31/12 (Euro m)	2002	2003	2004	2005	2006	2007	2008	2009E	2010E
<b>P&amp;L and cash flow statement</b>									
Net interest income	1 444	1 486	1 499	2 334	2 510	2 778	3 059	2 792	2 837
Fees & Commissions	687	748	764	1 256	1 316	1 335	1 188	1 094	1 112
Trading income	25	112	104	186	292	186	(171)	60	98
Realised capital gains	0	0	0	0	0	0	0	0	0
Net insurance contribution	0	0	64	67	68	85	10	10	30
Other revenues	91	122	51	127	161	144	81	81	83
<b>Total income</b>	<b>2 247</b>	<b>2 468</b>	<b>2 482</b>	<b>3 970</b>	<b>4 364</b>	<b>4 547</b>	<b>4 167</b>	<b>4 037</b>	<b>4 160</b>
<b>% Change</b>	<b>-5.0</b>	<b>9.8</b>	<b>0.6</b>	<b>60.0</b>	<b>9.9</b>	<b>4.2</b>	<b>-8.4</b>	<b>-3.1</b>	<b>3.0</b>
Staff costs	(938)	(996)	(1 095)	(1 494)	(1 529)	(1 539)	(1 584)	(1 552)	(1 537)
Other operating costs	(448)	(449)	(456)	(688)	(742)	(773)	(749)	(742)	(738)
Depreciation	(153)	(201)	(123)	(185)	(184)	(184)	(197)	(177)	(176)
<b>Operating costs</b>	<b>(1 539)</b>	<b>(1 646)</b>	<b>(1 674)</b>	<b>(2 367)</b>	<b>(2 455)</b>	<b>(2 496)</b>	<b>(2 530)</b>	<b>(2 471)</b>	<b>(2 451)</b>
<b>% Change</b>	<b>-0.9</b>	<b>-7.0</b>	<b>-1.7</b>	<b>-41.4</b>	<b>-3.7</b>	<b>-1.7</b>	<b>-1.4</b>	<b>2.3</b>	<b>0.8</b>
<b>Pre provision operating profit</b>	<b>708</b>	<b>822</b>	<b>808</b>	<b>1 603</b>	<b>1 909</b>	<b>2 051</b>	<b>1 637</b>	<b>1 566</b>	<b>1 709</b>
<b>% Change</b>	<b>(16)</b>	<b>16</b>	<b>(2)</b>	<b>98</b>	<b>19</b>	<b>7</b>	<b>(20)</b>	<b>(4)</b>	<b>9</b>
Bad debt charge	69	49	(253)	(297)	(245)	(346)	(566)	(799)	(772)
<b>Profit bef tax, exceptionals and GW [B]</b>	<b>777</b>	<b>871</b>	<b>555</b>	<b>1 297</b>	<b>1 666</b>	<b>1 676</b>	<b>560</b>	<b>767</b>	<b>937</b>
<b>% Change</b>	<b>27.4</b>	<b>12.1</b>	<b>-36.3</b>	<b>133.7</b>	<b>28.5</b>	<b>0.6</b>	<b>-66.6</b>	<b>37.0</b>	<b>22.2</b>
Associates [contribution]	0	0	0	(9)	2	(29)	(511)	0	0
Other exceptional items	25	161	70	(8)	44	(23)	(120)	(99)	(94)
<b>Pre-Tax Profit</b>	<b>802</b>	<b>1 032</b>	<b>625</b>	<b>1 280</b>	<b>1 712</b>	<b>1 624</b>	<b>(71)</b>	<b>668</b>	<b>843</b>
<b>% Change</b>	<b>17.9</b>	<b>28.7</b>	<b>-39.4</b>	<b>104.8</b>	<b>33.8</b>	<b>-5.1</b>	<b>-</b>	<b>-</b>	<b>26.2</b>
Tax	(235)	(141)	(254)	(561)	(670)	(606)	(273)	(290)	(356)
Goodwill amortisation	(92)	(103)	0	0	0	0	0	0	0
Minorities	(11)	(4)	(33)	(84)	(89)	(107)	(97)	(45)	(39)
<b>Net attributable profit [loss] [B]</b>	<b>464</b>	<b>784</b>	<b>338</b>	<b>644</b>	<b>951</b>	<b>940</b>	<b>70</b>	<b>333</b>	<b>448</b>
<b>% Change</b>	<b>86.3</b>	<b>69.0</b>	<b>-56.9</b>	<b>90.5</b>	<b>47.7</b>	<b>-1.2</b>	<b>-92.6</b>	<b>-</b>	<b>34.5</b>
Adjust.: Op Profit [after tax]	0	0	0	0	0	0	0	0	0
Adj. for exceptional items	(16)	(103)	(45)	0	12	63	316	75	70
Adj. for GW [group share]	0	0	0	0	0	0	0	0	0
<b>NAP [Loss], restated after goodwill</b>	<b>448</b>	<b>681</b>	<b>292</b>	<b>644</b>	<b>963</b>	<b>1 003</b>	<b>385</b>	<b>408</b>	<b>518</b>
<b>% Change</b>	<b>119.6</b>	<b>52.0</b>	<b>-57.1</b>	<b>120.5</b>	<b>49.5</b>	<b>4.2</b>	<b>-61.6</b>	<b>6.0</b>	<b>27.0</b>
<b>Financial Ratios</b>									
ROE [%]	13.0	23.2	8.9	6.2	9.0	8.6	0.6	3.0	4.0
Core ROE [%]	22.1	30.0	12.7	8.7	13.3	12.6	0.9	4.4	5.8
Pre tax ROA [%]	1.25	1.38	0.87	2.00	1.50	1.47	0.46	0.60	0.68
Pre tax RoRWA [%]	1.70	1.81	1.09	1.53	1.85	1.77	0.62	0.84	0.99
Cost income ratio [%]	68.5	66.7	67.4	59.6	56.3	54.9	60.7	61.2	58.9
Bad debt charge [% av. RWA]	0.15	0.10	(0.51)	(0.44)	(0.28)	(0.38)	(0.61)	(0.88)	(0.83)
Provision charge [% avg customer credits]	(0.18)	(0.12)	0.58	0.50	0.31	0.40	0.60	0.78	0.68
<b>Revenue Breakdown</b>									
Net interest income [% NBI]	64	60	62	60	59	63	74	69	69
Trading income [% NBI]	1	4	4	4	6	2	(6)	0	1
Commissions [% NBI]	31	30	32	32	31	30	29	27	27
Other income [% NBI]	4	5	2	3	4	3	2	2	2
<b>P/L as a % of RWA (avg)</b>									
NBI [% av. RWA]	5.00	5.26	5.00	5.83	4.99	4.93	4.52	4.45	4.47
Net interest income [% av. RWA]	3.21	3.17	3.02	3.43	2.87	3.01	3.32	3.08	3.05
Overheads [% av. RWA]	3.43	3.51	3.37	3.48	2.81	2.71	2.74	2.72	2.63
<b>Gross operating profit [% av. RWA]</b>	<b>1.58</b>	<b>1.75</b>	<b>1.63</b>	<b>2.36</b>	<b>2.18</b>	<b>2.22</b>	<b>1.78</b>	<b>1.73</b>	<b>1.84</b>
Bad debt charge [% av. RWA]	0.15	0.10	(0.51)	(0.44)	(0.28)	(0.38)	(0.61)	(0.88)	(0.83)
<b>Net attrib. profit, restated [% av. RWA]</b>	<b>1.00</b>	<b>1.45</b>	<b>0.59</b>	<b>0.95</b>	<b>1.10</b>	<b>1.09</b>	<b>0.42</b>	<b>0.45</b>	<b>0.56</b>

**UBI Banca**

FY to 31/12 (Euro m)	2002	2003	2004	2005	2006	2007	2008	2009E	2010E
<b>Per Share Data</b>									
EPS, reported	1.46	2.47	0.98	1.01	1.49	1.47	0.11	0.52	0.70
<b>% Change</b>	<b>86.4</b>	<b>69.0</b>	<b>-60.4</b>	<b>3.1</b>	<b>47.6</b>	<b>-1.1</b>	<b>-92.7</b>	<b>-</b>	<b>34.5</b>
EPS before goodwill	1.70	2.47	0.85	1.01	1.51	1.57	0.60	0.64	0.81
<b>% Change</b>	<b>81.2</b>	<b>45.1</b>	<b>-65.7</b>	<b>19.0</b>	<b>49.5</b>	<b>4.1</b>	<b>-61.6</b>	<b>6.0</b>	<b>27.1</b>
Dividend per share	0.43	0.67	0.66	0.75	0.80	0.95	0.45	0.40	0.50
Book value per share	11.5	11.2	10.8	16.1	16.6	16.9	17.1	17.3	17.4
Tangible book value per share	8.4	10.0	7.6	11.3	11.1	11.5	11.6	11.8	11.9
Restated NAV per share	8.4	10.0	8.2	11.3	11.1	11.2	12.1	11.9	11.8
Latest price	0.00	14.36	14.95	18.52	20.82	18.81	10.29	9.82	9.82
High	0.00	15.38	15.04	19.19	22.68	22.68	18.85	11.74	0.00
Low	0.00	12.45	12.80	14.77	18.49	17.78	10.29	5.68	0.00
Average price	0.00	13.47	13.92	16.76	20.62	20.13	15.04	8.81	0.00
Market capitalisation (Euro m)	3 877	4 560	5 153	6 382	7 163	12 022	6 577	6 273	6 273
Detailed N° of shares (m)	317.533	317.533	344.606	639.146	639.146	639.146	639.146	639.146	639.146
Av. number of shares, adjusted (m)	317.500	317.500	344.600	639.100	639.100	639.100	639.100	639.100	639.100
<b>Valuation multiples and ratios</b>									
P/E	NS	6.7	17.6	18.4	13.8	12.0	17.1	15.4	12.1
P/E before goodwill	NS	5.8	17.6	18.4	13.8	12.0	17.1	15.4	12.1
Yield [%]	0.0	4.7	4.4	4.1	3.8	5.1	4.4	4.1	5.1
Payout ratio [%]	29.4	27.1	67.5	74.4	53.8	64.6	416.8	76.8	71.3
P/BV	NS	1.28	1.39	1.15	1.26	1.11	0.60	0.57	0.57
P/BV [excl GBFR]	NS	1.29	1.39	1.15	1.26	1.11	0.60	0.57	0.57
<b>Balance sheet</b>									
Due from banks [incl repos]	6 859	3 032	4 153	7 680	4 816	5 003	5 066	5 132	5 199
Customer credits & leases	40 719	43 045	44 570	75 737	83 508	90 162	98 245	108 032	118 798
Fixed income securities	9 029	9 952	11 312	0	0	0	0	0	0
Trading securities	0	0	0	14 947	16 248	16 133	16 180	16 389	16 602
Variable income securities	363	335	57	96	143	146	148	152	157
Financial investments & associates	0	0	0	1 083	1 257	1 257	1 244	1 257	1 257
Goodwill	1 010	374	1 111	3 079	3 483	3 483	3 483	3 483	3 483
Other assets	3 824	5 092	2 177	7 232	7 044	7 177	7 280	7 035	7 171
<b>Total assets [B]</b>	<b>59 794</b>	<b>62 994</b>	<b>64 867</b>	<b>110 905</b>	<b>117 312</b>	<b>124 236</b>	<b>132 598</b>	<b>142 353</b>	<b>153 604</b>
Due to banks [incl repos]	5 971	5 158	5 691	9 692	9 421	9 421	9 326	9 420	9 514
Customer deposits [excl repos]	25 637	26 941	29 294	45 162	48 376	51 279	53 843	57 073	60 498
Debt evidenced by securities	20 659	19 610	21 492	34 043	38 117	38 879	40 046	42 448	44 995
Other liabilities	3 014	3 393	1 706	10 372	9 441	12 402	17 380	21 292	26 306
Minority interests	298	537	258	861	857	822	789	829	870
Pref shares and hybrid capital	415	415	415	0	0	0	0	0	0
Shareholders' equity [group share]	3 800	3 772	3 943	10 776	11 101	11 433	11 215	11 292	11 420
<b>Total liabilities and shareholders' funds</b>	<b>59 794</b>	<b>62 994</b>	<b>64 867</b>	<b>110 905</b>	<b>117 312</b>	<b>124 236</b>	<b>132 598</b>	<b>142 353</b>	<b>153 604</b>
<b>Solvency and liquidity</b>									
Customer deposits/Customer loans	63.0	62.6	65.7	59.9	58.2	57.2	55.1	53.1	51.1
Risk weighted assets [end of period]	45 807	48 068	51 162	85 000	90 000	94 500	89 892	91 690	94 440
<b>% Change</b>	<b>4.0</b>	<b>4.9</b>	<b>6.4</b>	<b>66.1</b>	<b>5.9</b>	<b>5.0</b>	<b>-4.9</b>	<b>2.0</b>	<b>3.0</b>
Total Tier 1 capital	3 126	3 356	3 717	5 930	6 252	7 082	7 177	7 464	7 755
Tier 1 ratio [%]	6.5	6.5	6.8	7.7	6.7	6.7	7.4	7.6	7.6
Core eco capital, group share	1 403	2 030	3 044	1 990	1 912	2 777	2 905	3 152	3 402
<b>Asset quality</b>									
Gross non performing loans	1 320	1 511	1 450	1 058	1 074	1 106	1 156	2 364	1 387
Non performing loans [% Total loans]	3.2	3.5	3.3	1.4	1.3	1.2	1.2	2.2	1.2
Non performing loans [% RWA]	2.9	3.1	2.8	1.2	1.2	1.2	1.3	2.6	1.5
Net non performing loans [% Net equity]	36.2	40.4	36.8	9.8	9.7	9.7	10.3	20.9	12.1
NPL coverage [prov. bal. as a % of NPLs]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

## Important Disclosures

### APPLICABLE DISCLOSURE CLAUSES

Company	Closing Price	Rating	Disclosures
UBI Banca	EUR9.82	2/Outperform	E

- A - One or more companies in the Crédit Agricole S.A. group owned more than 1% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- B - One or more companies in the Crédit Agricole S.A. group owned more than 5% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- C - The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.
- D - One or more companies in the Crédit Agricole S.A. group held, as of the end of the second most recent trading day, a net sales position higher than 1% of the total issued share capital of the Company.
- E - The trading portfolio of one or more companies in the Crédit Agricole S.A. group contained shares of the Company as of the end of the second most recent trading day.
- F - Crédit Agricole Cheuvreux and/or a company in the Crédit Agricole S.A. group is a market maker or a liquidity provider for the financial instruments of the Company.
- G - Calyon and/or a company in the Crédit Agricole S.A. group has been involved within the last three years in a publicly disclosed offer of or on financial instruments of the Company.
- H - Calyon and/or a company in the Crédit Agricole S.A. group has concluded or is party to a non confidential agreement relating to the provision of investment banking services (except publicly disclosed offers mentioned under G) to the Company during the past 12 months or that has given rise during the same period to the payment of compensation or to the promise to get a compensation paid.
- I - This research has been communicated to the Company and following this communication, its conclusions have been amended before its dissemination.
- J - A director or a board member of the Crédit Agricole S.A. group is an officer, director, or board member of the Company.

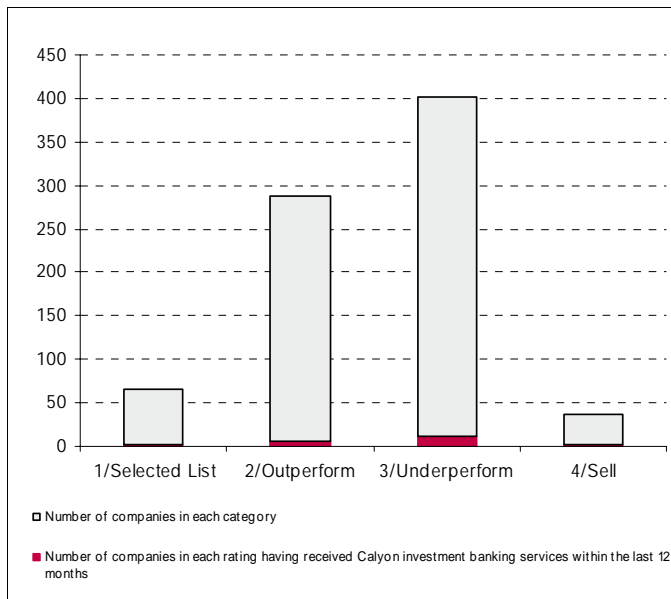
### SPECIFIC DISCLOSURE CLAUSES

None

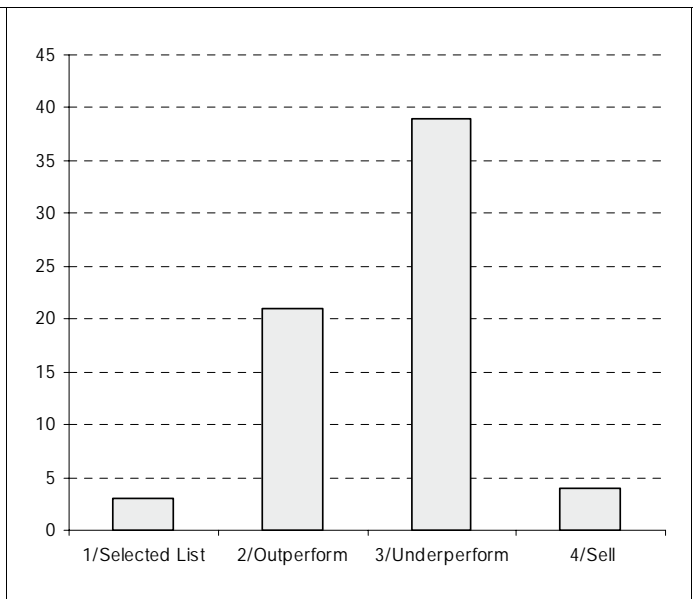
### CHEUVREUX'S RATING AND TARGET PRICE SYSTEM

Ratings are built for a 6 to 12 month time horizon.	
1/Selected List	Expected to outperform the market and is in our country selected list
2/Outperform	Expected to outperform the market
3/Underperform	Expected to perform at best in line with the market
4/Sell	Expected to underperform the market substantially
No Rating or Suspended	The investment rating and target price have been suspended. Such suspension is pursuant to Cheuvreux's policy in circumstances when Cheuvreux's parent company, Calyon, is acting in an advisory capacity in a merger or strategic transaction involving this company or when Calyon or Crédit Agricole has a beneficial interest in this company and in certain other circumstances.
Target price methodology	Cheuvreux's target prices are derived from one or more of the following methodologies: DCF, SOP, peer comparison and EVA.
Quote definitions	Unless specified, all quotes that appear on Institutional research reports are closing prices the last business day.

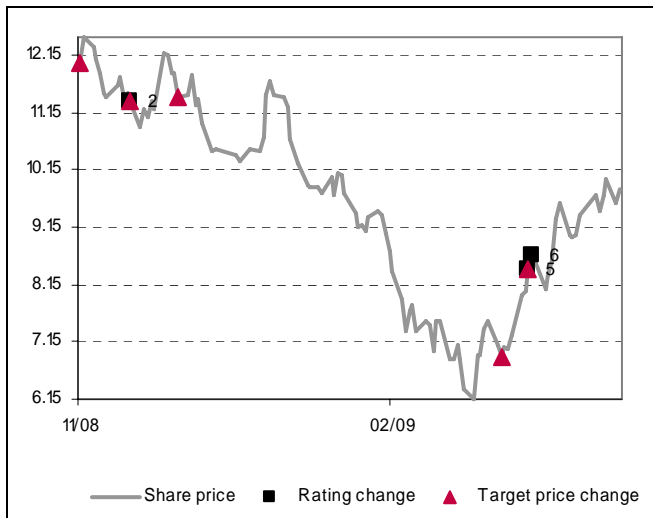
OVERALL RATING BREAKDOWN (AS AT 31/12/2008)



RATING BREAKDOWN IN THE SECTOR (AS AT 31/12/2008)



### SHARE PRICE TREND AND DATES OF CHANGES IN RATING AND/OR TARGET PRICE



### DATES OF CHANGES IN TARGET PRICE AND/OR RATING

	Date	Rating	Target price
1	13/11/2008		EUR15.50
2	28/11/2008	3/Underperform	EUR10.00
3	12/12/2008		EUR9.50
4	17/03/2009		EUR7.00
5	25/03/2009	2/Outperform	EUR9.50
6	26/03/2009	2/Outperform	

### LOCAL REGULATORY AUTHORITIES

Country	Cheuvreux legal entity	Regulatory authority
Austria	Crédit Agricole Cheuvreux – Vienna Branch	Finanzmarktaufsicht (FMA)
France	Crédit Agricole Cheuvreux SA	Autorité des Marchés Financiers (AMF)
Germany	Crédit Agricole Cheuvreux Niederlassung - Frankfurter Branch	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
Greece	Credit Agricole Cheuvreux - Athens branch	Hellenic Capital Market Commission
Italy	Crédit Agricole Cheuvreux Italia SIM SpA	Commissione Nazionale per le Società e la Borsa (Consob)
Netherlands	Crédit Agricole Cheuvreux - Amsterdam Branch	Autoriteit Financiële Markten (AFM)
Spain	Crédit Agricole Cheuvreux Espana SV SA	Comisión Nacional del Mercado de Valores (CNMV)
Sweden	Crédit Agricole Cheuvreux Nordic AB	Finansinspektionen
Switzerland	Crédit Agricole Cheuvreux - Zurich Branch	Swiss Federal Banking Commission (SFBC)
Turkey	Credit Agricole Cheuvreux Menkul Degerler A.S.	Capital Markets Board of Turkey (CMB)
UAE	Crédit Agricole Cheuvreux - Middle East Branch	Dubai Financial Services Authority (DFSA)
UK	Crédit Agricole Cheuvreux International Ltd	Financial Services Authority (FSA)

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## RESEARCH & DISTRIBUTION CENTRES

### AUSTRIA

CRÉDIT AGRICOLE CHEUVREUX – VIENNA BRANCH OFFICE  
5TH FLOOR, OPERNRING 3-5  
1010 VIENNA  
TEL: +43 1 22 712 70 00  
FAX: +43 1 22 712 70 01

### BENELUX

CRÉDIT AGRICOLE CHEUVREUX – AMSTERDAM BRANCH  
HONTHORSTSTRAAT 9  
1071 DC AMSTERDAM  
TEL: +31 20 573 06 66  
FAX: +31 20 672 40 41

### FRANCE

CRÉDIT AGRICOLE CHEUVREUX S.A.  
9, QUAI PAUL DOUMER  
92400 COURBEVOIE  
TEL: +33 1 41 89 70 00  
FAX: +33 1 41 89 70 05

### GERMANY

CRÉDIT AGRICOLE CHEUVREUX – FRANKFURT BRANCH  
TAUNUSANLAGE 14  
D-60325 FRANKFURT AM MAIN  
TEL: +49 69 47 897 100  
FAX: +49 69 47 897 530

### GREECE

CRÉDIT AGRICOLE CHEUVREUX - ATHENS BRANCH  
1 KORAI STREET (3RD FLOOR)  
10564 ATHENS  
TEL: +30 210 373 4000  
FAX: +30 210 373 4001

### ITALY

CRÉDIT AGRICOLE CHEUVREUX ITALIA SIM S.P.A.  
VIA BRERA 21  
20121 MILAN  
TEL: +39 02 80 62 83 00  
FAX: +39 02 86 46 15 70

### SPAIN

CRÉDIT AGRICOLE CHEUVREUX ESPAÑA S.V. S.A.  
PASEO DE LA CASTELLANA 1  
28046 MADRID  
TEL: +34 91 495 16 48  
FAX: +34 91 495 16 60

### SWEDEN

CRÉDIT AGRICOLE CHEUVREUX NORDIC AB  
REGERINGSGATAN 38  
10393 STOCKHOLM  
TEL: +468 723 5100  
FAX: +468 723 5101

### SWITZERLAND

CRÉDIT AGRICOLE CHEUVREUX – ZURICH BRANCH  
BAHNHOFSTRASSE 18  
8001 ZURICH  
TEL: +41 44 218 17 17  
FAX: +41 44 212 25 50

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CRÉDIT AGRICOLE CHEUVREUX MENKUL DEGERLER A.S.  
BUYUKDERE CAD. YAPI KREDI PLAZA C BLOK KAT:15  
LEVENT 80620 - ISTANBUL  
TEL: +90 212 371 19 00  
FAX: +90 212 371 19 01

### UNITED ARAB EMIRATES

CRÉDIT AGRICOLE CHEUVREUX – MIDDLE EAST BRANCH  
702, 7TH FLOOR, PRECINCT BUILDING #2, THE GATE DISTRICT  
DUBAI INTERNATIONAL FINANCIAL CENTRE  
P.O. BOX 506611  
DUBAI, UAE  
TEL: +971 4 428 3600  
FAX: +971 4 428 3644

### UNITED KINGDOM

CRÉDIT AGRICOLE CHEUVREUX INTERNATIONAL LIMITED  
12TH FLOOR  
MOORHOUSE - 120 LONDON WALL  
LONDON EC2Y 5ET  
TEL: +44 207 621 5100  
FAX: +44 207 621 5101

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MINATO-KU  
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TEL: +81 3 4580 8522  
FAX: +81 3 4580 5534

### UNITED STATES

CRÉDIT AGRICOLE CHEUVREUX NORTH AMERICA, INC.

#### NEW YORK

1301 AVENUE OF THE AMERICAS 15TH FLOOR  
NEW YORK, NY 10019  
TEL: +1 (212) 492 8800  
FAX: +1 (212) 492 8801

#### SAN FRANCISCO

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