



24 July 2009

UBI Banca

Reuters: **UBI.MI** Bloomberg: **UBI IM** Exchange: **MIL** Ticker: **UBI**

Q2-09 results preview; upgrade to Hold

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Upgrade to Hold – Target price at Euro 9.6

Ahead of Q2-09 results, we adjust our estimates and upgrade UBI Banca to Hold (from Sell), maintaining our target price unchanged. We remain conscious of the future evolution of net interest income and of asset quality, which should deteriorate in accordance with the prevailing trends in the sector. However, we think the current market price already reflects these expectations. On the positive side, UBI Banca has a Core Tier 1 ratio above 7% without any government help.

Q2-09 results due on August 28th, 2009

We believe UBI Banca should report a net profit of Euro 80m in Q2-09E, boosted by two one-off items: (1) a Euro 63.4m (in our calculation) pre-tax capital gain from the exchange offer on its subordinated securities into senior bonds and (2) a Euro ~38m "write-back" from the valuation of its stake in IntesaSanpaolo at the prices as of June 30th, 2009 (Euro 2.29, increased from Euro 2.00 as of March 31st, 2009).

Operating trends: still affected by the weakness of net interest income

We expect UBI Banca's Q2-09 net interest income (NII) to decline some 4% QoQ and 11% YoY due to the worsening of the liability spread and the still partial offsetting effect of the re-pricing on the lending side. Is this the bottom? We estimate that from Q3-09 NII should show some QoQ improvement based on two conditions: (1) commercial spreads should remain almost stable in H2-09; and (2) customer loans should expand more than in H1-09, in order to match our expected growth of ~3% YoY. For UBI Banca (exactly as for its peers), this might not be realistic, due to the further decline of the Euribor after the last injection of liquidity in the system by the ECB (June 24th, 2009, Euro 442bn) and to a certain lack of demand of credit from corporate clients. So, we could have to lower our expectations for FY-09 NII (currently, for UBI Banca, -9% YoY). In Q2-09E, we expect fees and other income to be down 14% YoY due to the AUM outflows, but to moderately improve QoQ (+1%) and the provisions on loan losses to be more than 2x higher than in Q2-08 (cost of credit of 86bps); the flow of bad loans (and their coverage) should be similar to the ones seen in Q1-09.

Valuation and risks

We maintain our target price of Euro 9.6. We value this stock with a Gordon Growth Model. Specific upside risks include a possible over-performance compared with the sector due to the stock's high defensiveness. Specific downside risks refer to potentially worse-than-expected evolution of NII and/or asset quality. *For further details on valuation and risks, please see page 8.*

Forecasts and ratios

Year End Dec 31	2007A	2008A	2009E	2010E
EPS Adjusted (EUR)	1.40	0.95	0.30	0.85
Dividend Yield (%)	4.7	3.0	1.1	3.6
ROE Adjusted (%)	11.3	8.4	2.8	7.7
P/B Tangible (x)	1.6	1.0	0.9	0.9

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

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Forecast Change

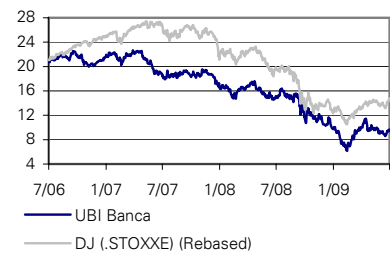
Hold

Price at 23 Jul 2009 (EUR)	9.67
Price Target (EUR)	9.60
52-week range (EUR)	16.39 - 6.15

Key changes

Rating Sell to Hold ↑

Price/price relative

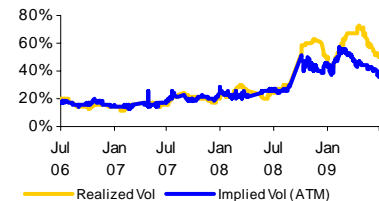


Performance (%)	1m	3m	12m
Absolute	4.6	-4.1	-36.2
DJ (.STOXXE)	9.6	13.1	-25.6

Stock & option liquidity data

Price Target (EUR)	9.60
Market cap (EUR)	6,175
Shares outstanding (m)	639
Free float (%)	1
Option volume (und. shrs., 1M avg.)	113,473

Implied & Realized Volatility (3M)



Model updated: 24 July 2009

Running the numbers**Europe****Italy****Banks****UBI Banca**

Reuters: UBI.MI

Bloomberg: UBI IM

Hold

Price (23 Jul 09)	EUR 9.67
Target price	EUR 9.60
52-week Range	EUR 6.15 - 16.39
Market Cap (m)	EURm 6,175 USDm 8,798

Company Profile

UBI Banca is the second-largest Italian Popolare Bank, having arisen from the merger of BPU Banca and Banca Lombarda (April 2007). It has some 1970 branches, mainly based in northwestern Italy (Lombardy, Piedmont). As of Q1-09, it has more than Euro 96bn in customer loans, Euro 96m in customer deposits and Euro 39bn in assets under management.

Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Data Per Share						
EPS (stated)(EUR)	1.94	1.47	0.11	0.15	0.70	0.94
EPS (DB) (EUR)	1.54	1.40	0.95	0.30	0.85	1.05
Growth Rate - EPS (DB) (%)	-35.2	-8.9	-32.1	-68.0	178.2	24.6
DPS (EUR)	0.80	0.95	0.45	0.11	0.35	0.47
BVPS (stated) (EUR)	15.89	18.53	17.56	17.60	17.95	18.42
Tang. NAV p. sh. (EUR)	13.07	11.76	10.81	10.85	11.20	11.67
Market Capitalisation	13,295	12,011	6,571	6,175	6,175	6,175
Shares in issue	491	639	639	639	639	639

Valuation Ratios & Profitability Measures

P/E (stated)	10.8	12.8	95.3	65.8	13.9	10.3
P/E (DB)	13.5	13.4	10.8	31.8	11.4	9.2
P/B (stated)	1.3	1.0	0.6	0.5	0.5	0.5
P/Tangible equity (DB)	1.6	1.6	1.0	0.9	0.9	0.8
ROE(stated)(%)	8.8	8.6	0.6	0.8	3.9	5.1
ROTE (tangible equity) (%)	9.2	11.3	8.4	2.8	7.7	9.2
ROIC (invested capital) (%)	7.0	8.1	5.3	1.7	4.7	5.7
Dividend yield(%)	3.9	4.7	3.0	1.1	3.6	4.9
Dividend cover(x)	2.4	1.5	0.2	1.4	2.0	2.0

Profit & Loss (EURm)

Net interest revenue	2,599	2,881	3,074	2,797	2,928	3,068
Non interest income	1,780	1,820	1,237	1,308	1,399	1,447
Commissions	1,316	1,335	1,188	1,009	1,045	1,082
Trading Revenue	114	101	-249	45	45	46
Other revenue	349	383	298	255	309	319
Total revenue	4,379	4,701	4,310	4,105	4,328	4,515
Total Operating Costs	2,617	2,738	2,809	2,741	2,780	2,820
Employee Costs	1,530	1,592	1,632	1,575	1,594	1,614
Other costs	1,088	1,146	1,177	1,166	1,185	1,206
Pre-Provision profit/(loss)	1,774	2,001	1,536	1,409	1,593	1,741
Bad debt expense	248	374	553	957	619	565
Operating Profit	1,514	1,589	949	407	929	1,129
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	1,514	1,589	949	407	929	1,129
Tax	670	577	244	170	345	412
Other post tax items	107	-72	-636	-144	-139	-115
Stated net profit	951	940	69	94	445	602
Goodwill	0	81	88	86	84	62
Extraordinary & Other items	-196	-127	450	14	11	9
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	755	894	607	194	540	672

Key Balance Sheet Items (EURm) & Capital Ratios

Risk-weighted assets	90,086	97,912	89,892	91,316	95,617	100,142
Interest-earning assets	101,154	105,501	105,932	113,103	120,483	128,372
Customer Loans	83,063	92,729	96,368	99,893	105,655	111,773
Total Deposits	48,376	49,696	54,151	47,090	50,387	53,914
Stated Shareholder Equity	10,150	11,834	11,211	11,237	11,459	11,760
Equals: Tangible Equity	8,344	7,509	6,904	6,930	7,152	7,453
Tier 1 capital	5,884	7,289	6,945	6,887	7,109	7,410
Tier 1 ratio (%)	7	7	8	8	7	7
o/w core tier 1 capital ratio (%)	6.0	6.9	7.1	7.0	7.0	6.9

Credit Quality

Gross NPLs/Total Loans(%)	2.31	2.88	3.74	3.62	4.45	4.10
Risk Provisions/NPLs(%)	47	50	33	45	47	50
Bad debt / Avg loans (%)	0.28	0.43	0.58	0.96	0.59	0.51
Bad debt/Pre-Provision Profit(%)	14.0	18.7	36.0	67.9	38.9	32.5

Growth Rates & Key Ratios

Growth in revenues (%)	-1	7	-8	-5	5	4
Growth in costs (%)	0	5	3	-2	1	1
Growth in bad debts (%)	-22	51	48	73	-35	-9
Growth in RWA (%)	73	9	-8	2	5	5
Net int. margin (%)	2.47	2.79	2.91	2.47	2.43	2.39
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	172	187	178	212	210	207

ROTE Decomposition

Revenue % ARWAs	4.86	4.80	4.79	4.53	4.63	4.61
Net interest revenue % ARWA	2.89	2.94	3.42	3.09	3.13	3.13
Non interest revenue % ARWA	1.98	1.86	1.38	1.44	1.50	1.48
Costs/income ratio (%)	59.5	57.4	64.4	65.7	63.2	61.4
Bad debts % ARWAs	0.27	0.38	0.61	1.06	0.66	0.58
Tax rate (%)	44.3	36.3	25.7	41.6	37.1	36.5
Adj. Attr. earnings % ARWA	0.84	0.91	0.68	0.21	0.58	0.69
Capital leverage (ARWA/Equity)	11.0	12.4	12.5	13.1	13.3	13.4
ROTE (Adj. earnings/Ave. equity)	9.2	11.3	8.4	2.8	7.7	9.2

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Source: Company data, Deutsche Bank estimates

Q2-09 results preview

Results due on August 28th, 2009

We expect UBI Banca to report a Q2-09 net profit of Euro 80m, which should be boosted by a Euro ~63m capital gain related to the exchange offer on existing subordinated securities and a Euro ~38m "write-back" on the value of the IntesaSanPaolo stake.

Figure 1: UBI Banca: quarterly trends

Consolidated data	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08	Q2-08	Q3-08	Q4-08	Q1-09	Q2-09E	% QoQ	% YoY
(Euro million)	PF	PF	PF	PF								
Net interest income	675	692	700	750	765	767	759	790	715	684	-4	-11
Dividends & associates	14	82	9	12	7	72	2	-13	6	5	-23	-94
Trading income	50	24	6	22	-27	38	-61	-193	18	-9	-149	-123
Net commissions & other income	411	425	398	420	386	367	338	335	312	315	1	-14
Total net income	1150	1223	1112	1205	1131	1244	1038	920	1051	995	-5	-20
Total costs	659	685	646	709	659	703	634	696	643	674	5	-4
Gross operating result	491	538	467	495	472	541	404	223	408	321	-21	-41
Total net provisions	75	59	75	202	69	108	114	306	169	221	31	105
PPA&Goodwill	20	23	19	18	21	24	19	25	18	20	10	-16
Net operating result	395	456	372	275	382	409	271	-108	221	80	-64	-81
Extraordinary items	0	-108	0	279	43	-3	-16	-538	-71	78	-210	-2434
Pre-tax profit	395	348	372	554	425	406	256	-646	149	158	6	-61
Taxes	182	212	177	83	174	80	131	-111	113	68	-40	-15
Minorities	20	19	25	54	31	26	24	17	12	11	-14	-59
Net profit	193	117	170	416	219	300	101	-551	24	80	227	-73

Source: Deutsche Bank Estimates

Net interest income

We expect net interest income (NII) to decline 4% QoQ and 11% YoY. These trends should depend on the contraction of margins: the liability spread has been negatively impacted by the decline of interest rates and a potential improvement of the asset spread should not have offset it completely. In addition, customer loans should not have particularly supported net interest income, growing 2% YoY and 1% QoQ, on our expectations.

Our forecasts (-9% YoY on FY-09) still hold that NII should reach its bottom in Q2-09, improving QoQ starting from Q3-09. For UBI Banca (exactly as for its peers), this might not be realistic, due to the further decline of the Euribor after the last injection of liquidity in the system by the ECB (June 24th, 2009, Euro 442bn). So, these two conditions:

- commercial spreads should remain stable in H2-09 (because the deterioration of the liability spread should be offset by the improvement of asset spread)
- customer loans should expand more than in H1-09, in order to match our expected growth of ~3% YoY

might not be matched. We will review our FY-09E NII following management guidance at Q2-09 results.

Commissions and other income

We expect commissions and other income to increase 1% QoQ and decline 14% YoY. Their poor performance has to be attributed to the weakness of asset management, as we expect

AUM to decline -18% YoY. Indeed, the pace of this decline should be lower than the one seen in Q1-09 (-21% YoY), but the inflows recorded in Q2-09 should have been related to low-margin products and should not have impacted the flow of commissions to that extent.

Trading income and dividends

In Q2-09, we expect UBI Banca to record some Euro 5m of dividends and Euro -9m of trading income which should worsen from Q1-09, when it was at Euro 18m and had recovered from the low levels reached in Q4-08.

Figure 2: UBI Banca: trading income

Net result from trading activities	Q2-09E	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Mark to market of securities held for trading (*)	-5	6	-141	11	23	-35
Net result from hedging activities	10	28	-10	-23	0	14
Profit from disposal of financial assets/liabilities	1	1	25	2	8	2
Net result from financial assets/liabilities at fair value	-15	-17	-65	-51	5	-7
Total	-9	18	-191	-61	38	-27
(*) o/w						
Valuation of hedge funds	3	-0.3	-64	-7	-1	-15
Valuation of equity investments	3	-3	-4	-3	13	-22
Valuation of debt securities	-10	11	-78	20	-3	8
Currencies and others	-1	-1.9	5	1	15	-6
Total	-5	6	-141	11	23	-35

Source: Deutsche Bank Estimate. Company data

In Q2-09, we expect the dividend-related component of trading results to have been limited due to the small number of companies that could pay off their earnings to shareholders. Moreover, there should not have been any contribution from the dividends of IntesaSanpaolo.

Operating costs

We expect operating costs to increase 5% QoQ, due to seasonality and decline 4% YoY. In particular, personnel expenses should continue to benefit from the exits of some temporary employees, whose costs have veiled the effects of staff optimization after the merger of BPU Banca and Banca Lombarda, until Q4-08. Furthermore, with the migration of the two existing IT systems into a unique platform, UBI Banca does not only have the mentioned savings in personnel expenses, but also a stable reduction of depreciation (in Q1-09, it was Euro -8m compared with Q4-08). Partially, the new law regarding the intra-group tax on value-added (VAT) should hide this positive impact (VAT increase should be maintained over the course of 2009, with a potential change of the legal framework in 2010).

Provisions on loan losses and on risk and charges

We expect UBI Banca to post Euro 210m of provisions on loan losses, implying a provisioning level of 21bps (or 86bps annualized, versus 66bps in Q1-09).

We expect the evolution of NPLs and watchlists to remain almost in line with Q1-09 trends. Indeed, as for its peers, we think that UBI Banca should also experience the worst deterioration of asset quality in H2-09.

Figure 3: UBI Banca: asset quality up to Q1-09

Gross Exposure					
	31/03/2009	31/12/2008	31/03/2008	QoQ %	YoY %
NPLs	2007	1869	1585	7%	27%
Watchlist	1503	1383	957	9%	57%
Restructured loans	141	142	109	-1%	29%
180 past due	229	214	120	7%	91%
Net exposure					
	31/03/2009	31/12/2008	31/03/2008	QoQ %	YoY %
NPLs	950	849	734	12%	29%
Watchlist	1261	1160	803	9%	57%
Restructured loans	116	103	88	13%	32%
180 past due	218	204	113	7%	93%
Total loans	96892	96368	92872	1%	4%
Net NPLs/total loans	0.98%	0.88%	0.79%		
Coverage ratio	52.7%	54.6%	53.7%		

Source: Deutsche Bank Estimates, Company data

Provisions on risk and charges should be Euro 11m (Euro 10m in Q1-09).

Extraordinary items

In Q2-09, we expect UBI Banca to book a capital gain of Euro 63.4m (pre-tax), coming from the exchange offer on some of its existing subordinated securities (replaced, for investors accepting the offer, with senior bonds).

Figure 4: Capital gain from the OPS on hybrids

	Series	Amount exchanged	Price paid as % nominal	Capital gain
1.	XS0108805564	30.4	80%	6.1
2.	XS0123998394	72.6	80%	14.5
3.	XS0131512450	13.6	80%	2.7
4.	XS0237670319	150.3	94%	9.0
5.	XS0259653292	145.1	92%	11.6
6.	XS0278107999	61.7	90%	6.2
7.	XS0272418590	88.3	85%	13
Total				63.4

Source: Deutsche Bank Estimates

Recall that this action also had an impact on capital ratios. Indeed, the nominal amount of the securities 1., 2. and 3. is included in Tier 1 capital and has to be deducted from it in order to calculate Core Tier 1 capital; the total deduction was previously Euro 570m, while now it has moved down to Euro 453m. On the other hand, a positive impact on both Tier 1 and Core 1 Tier ratios is, of course, due to the capital gain from the additional earning generation coming from the exchange offer. In our estimates, Tier 1 ratio should be 7.6% and our Core Tier 1 ratio should reach 7.1% at 2009 year-end.

In Q2-09E, UBI Banca should post another non-recurring item, related to the correction of the carrying value of its stake in IntesaSanpaolo. Indeed, in Q1-09, UBI Banca recorded a write-down of Euro 74.7m of the value of that stake because its market valuation as of March 31st, 2009 (Euro 2.003/s) was materially below UBI Banca's carrying value (based on the price as of December 31st, 2008 - Euro 2.537/s). Now, the final adjustment has to be referred to the prices as of June 30th, 2009 (Euro 2.290/s). So, we calculate that Euro ~38m has to be written back in Q2-09.

Taxes

We expect the Q2-09 tax rate to come out at 43%. Recall that it was 75% in Q1-09, not only because of a one-off effect, as the write-downs on the AFS portfolio, which accounted for some Euro ~75m in Q1-09 figures, are not tax deductible, but also because of two elements which should persist in 2009: the increase in provisions on loan losses (which cannot be deducted from the regional taxes according to the current fiscal rules) and the increase in the level of non-deductible passive interests (from 3% in 2008 to 4% in 2009).

Estimates revision

Fine-tuning: forecasts decreased for NII and costs

We slightly revise our estimates for 2009E, 2010E and 2011E, reflecting more pessimistic forecasts for net interest income (whose trends should then be -9% YoY in 2009E and +5% YoY in 2010E and 2011E) and more optimistic trends for operating costs (which should decline 3% YoY in 2009E and grow 1% YoY in 2010E and 2011E).

Also, we now have a more conservative stance on the 2009E cost of credit, increasing it to 96bps (from 86bps), because we expect UBI Banca to reach some 80bps of provisions on loan losses already in Q2-09 and we think that H2-09 could only show further deterioration.

Figure 5: UBI Banca: estimates revision

Consolidated data (Euro million)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
	old	old	old	Estimates revision %			new	new	new
Net interest income	2,877	3,013	3,158	-3	-3	-3	2,797	2,928	3,068
Dividends & associates	23	73	78	0	0	0	23	73	78
Trading income	45	45	46	0	0	0	45	45	46
Net commissions & other income	1,240	1,281	1,323	0	0	0	1,240	1,281	1,323
Total net income	4,185	4,412	4,605	-2	-2	-2	4,105	4,328	4,515
Total costs	2,760	2,800	2,840	-2	-2	-2	2,696	2,735	2,774
Gross operating result	1,425	1,613	1,765	-1	-1	-1	1,409	1,593	1,741
Total net provisions	903	650	603	11	2	1	1,002	664	611
PPA total effect	86	84	62				86	84	62
Net operating result	435	878	1,100	-26	-4	-3	321	845	1,068
Extraordinary items	-90	-11	-9				-14	-11	-9
Pre-tax profit	345	867	1,091	-11	-4	-3	307	834	1,059
Taxes	204	355	422	-17	-3	-2	170	345	412
Minorities	63	64	65	-31	-31	-31	44	44	45
Net Profit	78	448	604	20	-1	0	94	445	602

Source: Deutsche Bank Estimates

The increase in the stated 2009E net profit comes mainly from the inclusion of non-recurring items that we described in the section "Q2-09 results preview".

Valuation

Target price

We maintain our target price at Euro 9.6, and upgrade our rating to Hold from Sell, on valuation grounds as the stock now trades at close to our 12-month target price.

Figure 6: UBI Banca – valuation

	2010E	2011E
Equity	11459	11760
Goodwill	4338	4338
Tangible equity	7121	7422
Average tangible equity		7271
Adjusted net profit	540	672
Average ROTE (%)		9.2
Shares (#)		641
Average tangible equity per share		11.4
Risk-free rate		4.5
Beta		1.18
Market premium		4.0
Discount factor		9.2
g		2.5
Per share valuation (2010)		11.4
Target price		9.6

Source: Deutsche Bank Estimates

We do not yet account for the dilution coming from the issue of warrants (639m, implying the potential creation of 32m new shares – exercise price Euro 12.3 per share) and of the Euro 640m convertible bonds that have been recently fully placed with investors.

Risks

As far as the generic risks are concerned, we believe that UBI Banca, like its peers, remains exposed to a potential downturn in the economic environment, which could affect our revenues and loan loss provision assumptions. Moreover, the new and constant attention that a number of authorities (such as consumer associations, the Bank of Italy, antitrust authorities, and the European Union) are paying to the cost of banking services in Italy (in comparison to the lower European average) could be another reason for increasing competition and for margin pressure on the whole system.

For UBI Banca, specific upside risks include a potential over-performance compared with the sector, due to the stock's high defensiveness and specific downside risks refer to worse-than-expected performance in net interest income and asset quality.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
UBI Banca	UBI.MI	9.67 (EUR) 23 Jul 09	6,7,8,14

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

Important Disclosures Required by U.S. Regulators

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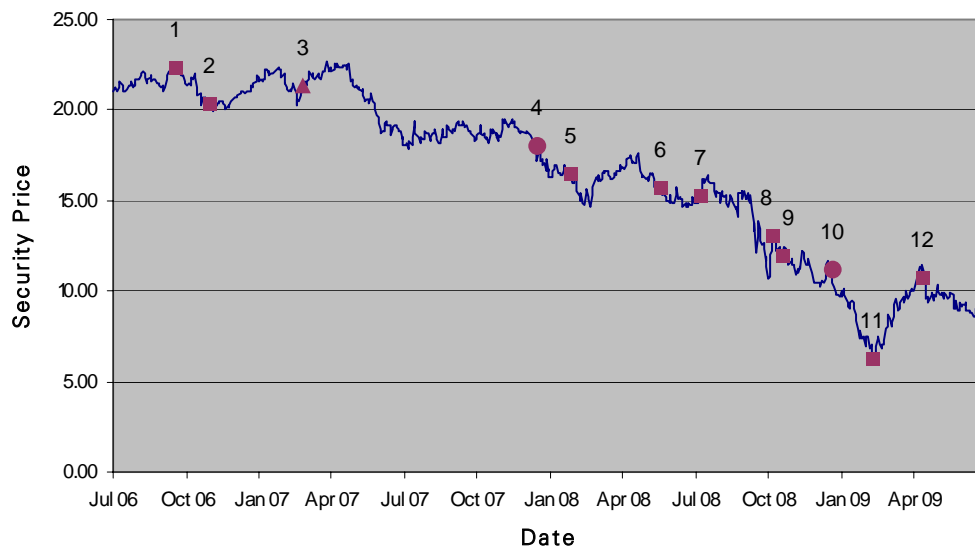
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Historical recommendations and target price: UBI Banca (UBI.MI)

(as of 23/07/2009)



Previous Recommendations

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

Current Recommendations

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

*New Recommendation Structure as of September 9, 2002

1.	11/10/2006:	Hold, Target Price Change EUR22.40	7.	1/8/2008:	Hold, Target Price Change EUR15.70
2.	24/11/2006:	Hold, Target Price Change EUR22.00	8.	31/10/2008:	Hold, Target Price Change EUR13.70
3.	22/3/2007:	Upgrade to Buy, Target Price Change EUR24.60	9.	13/11/2008:	Hold, Target Price Change EUR12.60
4.	8/1/2008:	Downgrade to Hold, Target Price Change EUR20.60	10.	13/1/2009:	Downgrade to Sell, Target Price Change EUR9.00
5.	20/2/2008:	Hold, Target Price Change EUR19.70	11.	6/3/2009:	Sell, Target Price Change EUR6.40
6.	13/6/2008:	Hold, Target Price Change EUR19.10	12.	7/5/2009:	Sell, Target Price Change EUR9.60

Equity rating key Equity rating dispersion and banking relationships

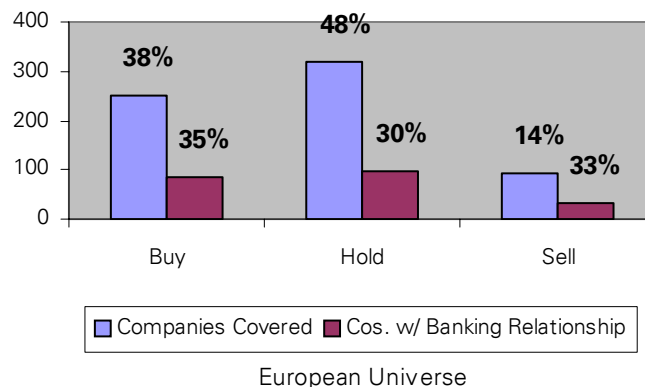
Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
 - Buy: Expected total return (including dividends) of 10% or more over a 12-month period
 - Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
 - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



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