

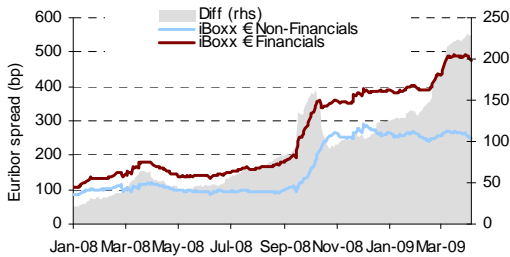
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Q209 Update

Cash: iBoxx Financials vs Corporates

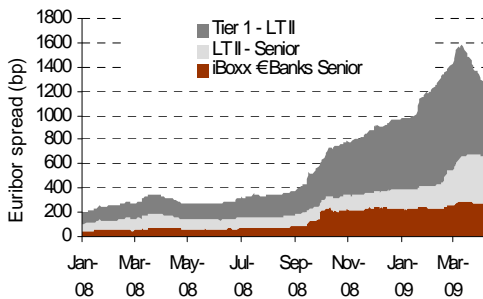


Transient relief

■ Better Q109, but not out of the woods yet

In line with our *Financials 2009 Outlook*, European banks are starting to be hurt by the credit cycle, both in their domestic markets and in emerging markets. Following the clean-up undertaken in Q408 helped by the amendments to IAS 39, CIB businesses are likely to recover some colour, especially those exposed to the fixed-income market. Focus has shifted from MtM to loan portfolios. Boosting Core Tier 1 ratios in order to build enough of a buffer to absorb the uncertain amount of losses remains one of the key risk drivers.

Cash: senior, LT2 and Tier 1



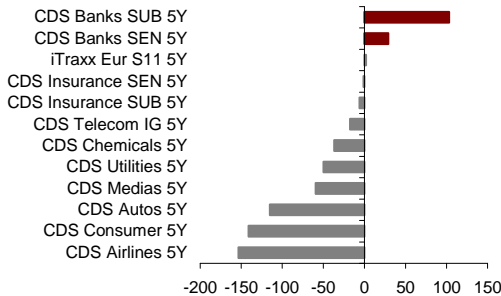
■ No European bank is immune to the wave of rating downgrades

2009 marked the start of the absorption of losses by hybrid debts. This risk led rating agencies to increase massively the rating uplift between senior and hybrid debts. All these elements and the deterioration in sovereign fundamentals have been the triggers behind the sharp wave of senior bank downgrades in Q109. This trend is likely to continue, but to a lesser extent on the largest banks key to their domestic economy.

■ Primary market: bargain prices still required in senior unsecured debts

Despite sovereign support, it is still difficult for banks to refinance, especially for Tier 2 banks. The latter will continue to be the losers since any 'window' expected between the Q109 and Q209 results on senior unsecured debts will initially be open to the largest and highest-rated banks. Increasing concerns on sovereign quality, important refinancing needs, fragile market confidence with the deterioration in the credit cycle are all elements which will lead to discrimination among banks and bargain premiums. As such, and taking into account the lack of liquidity in the secondary market, we keep our **Outperform recommendation through new senior unsecured issues**. On the **CDS** side, where we maintain our **Sectorperform** recommendation, we would play specific credit stories and relative value trade ideas.

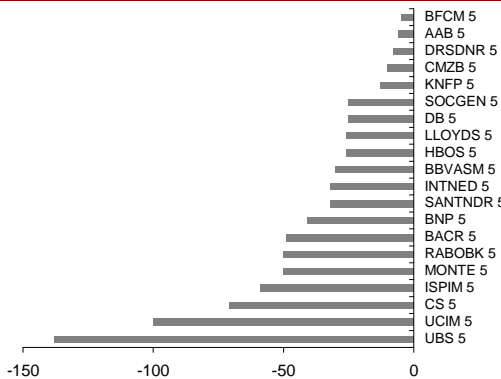
Sector CDS YTD performance



■ Subordinated and hybrid debts: a prudent approach remains

As for LT2, we continue to think that the likelihood of another Bradford & Bingley in Europe – barring the UK, Ireland, Denmark – is rather isolated. The non-payment of coupon triggering a default plus the coming publication of European Q109 results leads us to **remain Sectorperform on LT2**, which has suffered greatly since January.

Bnks senior 5Y CDS performance



Equity correlation, technical factors, illiquidity and irrational markets are likely to remain the main ingredients in Tier 1 issues. Even after including expected better Q109 results, credit metrics remain very negative. As such, we maintain our **Underperform on Tier 1 issues**.

Sources: Bloomberg, Calyon, as of 17 March

In this issue:

Sector recommendations.....	Page 2
Issuer recommendations	7
Primary activity and outlook.....	11
Credit trend.....	14
Issuer snapshot	21

EUROMONEY CREDIT RESEARCH SURVEY 2009

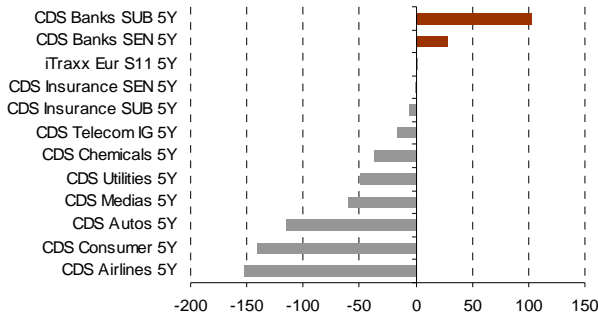
Euromoney's annual survey of the world's Fixed Income Investors/Credit Research & Primary Debt Polls is now underway and closes 24 April 2009.

<http://www.euromoney.com/FixedIncome2009>

www.calyon.com

Sector recommendations

Sector CDS YTD performance



Recommendation performance

1. The sector in its environment: highly sensitive

Q109 newsflow, notably the guidance for 2009, confirmed that European banks – structurally sensitive to the economic cycle – are far from out of the woods. After a dramatic Q408, Q109 could be considered a relative recovery, notably on CIB. The massive state intervention continued to be the trend in Q109 with injections to boost Core tier 1 ratio and measures to clean-up balance sheets. The list of troubled banks to be rescued by the state has increased with the first bailout in Spain and the current nationalisation of HRE in Germany. Highly reliant on emerging markets – especially Central & Eastern Europe, which is likely to benefit from support from the IMF agreed during the G20 meeting – management has been keen to provide more information. Thus, focus has shifted from financial assets/securities (MtM) to loan book (NPL/cost of risk).

In addition, banks are still facing stringent barriers to the capital markets. A few of the largest banks have succeeded in launching in senior unsecured debts. For others, there is no real choice but to use the guarantee from the state, shifting the risk to the quality of the sovereign.

2. Banks CDS: illiquidity and de-correlation

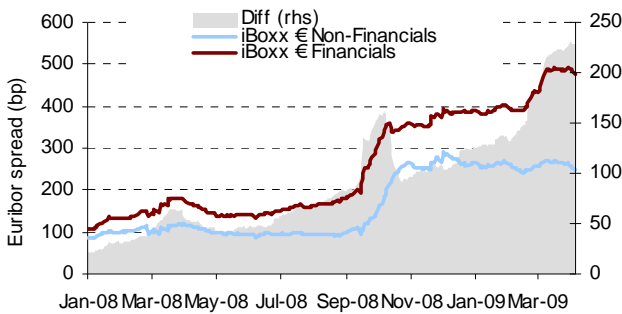
In CDS, market activity on financials has been more limited than on the cash side. In such an illiquid market, where traditional players have disappeared, CDS continue to be driven by technical reasons – banking loan mechanisms hedging – rather than fundamentals. On **senior CDS**, French names – excluding Natixis – have been the main winners rather than UK or Spanish names.

The gap between CDS senior and CDS subordinated has sharply widened since January, highlighting growing fears on loss absorption by the hybrid debts. Benefiting from the rally on the equity market since mid-March, the CDS sub has tightened – a trend which may continue to some extent with the coming Q109 results. However, volatility, illiquidity and technical factors will in our view remain the main criteria in the segment. **We maintain our Sector perform on senior CDS.**

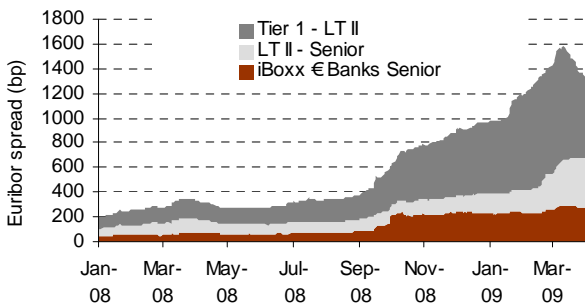
3. Senior unsecured debt: bargain premium in the primary market

As expected, the secondary market on senior unsecured debt appears relatively expensive versus the primary market, and illiquid. While the latter has remained limited at the beginning of 2009, issuers that still face strong refinancing needs may benefit from a potential open window between Q1 and Q209, especially since demand on the guaranteed senior debt could be more limited with greater discrimination. In a context where confidence is still fragile toward banks, a bargain premium is still requested with potential issues on longer maturity (from 5Y to 10Y). We will continue to stock-pick and require a bargain premium correlated to fundamentals/business model/size/importance for sustaining the domestic economy as well as the importance of the domestic investor base. We maintain our **Outperform on senior debt.**

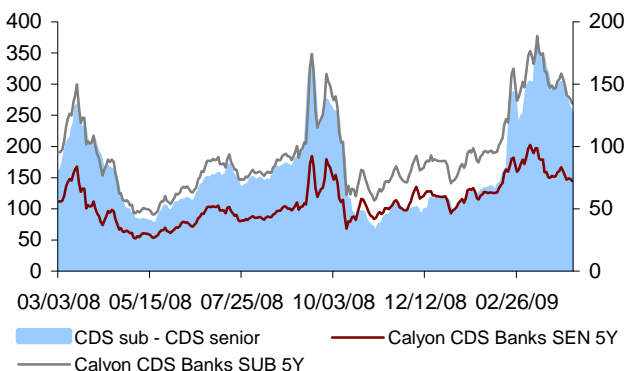
Cash: iBxxx Financial vs Corporates



Cash: senior, LT2 and Tier 1

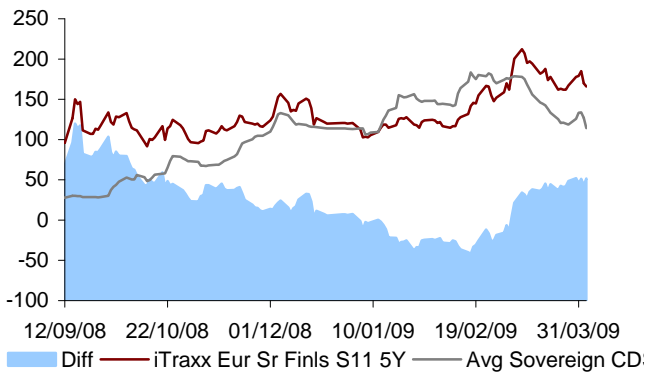


CDS senior versus CDS sub



Source all charts: Bloomberg

iTraxx senior financial versus CDS sovereign



Recommendation performance

4. LT2: risk of a new Bradford & Bingley type case with recent Moody's downgrades

This segment has continued to be severely hit since the beginning of 2009 with growing concerns over the non-exercise of callable options (DB, Sabadell) plus the decision from the British government to review the prospectus on B&B.

On callable, while there is no expectation on Tier 2 banks, large banks reliant on the fixed income markets are likely to remain reluctant to follow DB's decision given the anger of credit investors, some of whom have cut their lines on DB. The reluctance could to some extent be minimised should DB succeed in launching senior unsecured debt after a relatively good Q109 (fixed income revenues offsetting further write-downs on monolines).

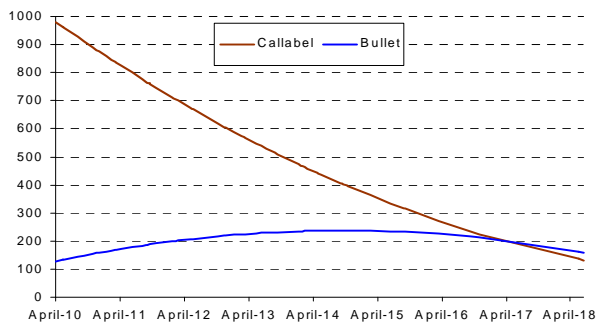
Following B&B, which finally paid its coupon, **Moody's downgraded RBS, Lloyds and HBOS LT2 issues** on the basis that they may no longer benefit from the state support expected on the senior bondholders. Concerns have increased since the new UK banking act. Rather than changing the prospectus in the current situation, which in our view would affect market confidence dramatically – in contrast to measures undertaken by different states so far – and as such could sharply hurt the refinancing needs of the whole UK economy, nationalisation of the largest UK banks should be the first step. In that case, a division of those banks with the setting up of a 'bad bank' – in which subordinated and hybrid bondholders would be correlated – would not be ruled out. Similar to the Danish Fiona Bank, the UK government could establish a new bank to which it will transfer all of the assets and liabilities except subordinated and hybrid debts. The latter would be correlated to the state's decision.

Whereas new rating actions from Moody's on European banks may be possible, a B&B-type case in Europe, which benefits from greater leeway than the UK and Denmark, would be rather isolated in our view. One exception would be Ireland, which has just announced new fiscal policies.

So far, few banks have followed UBS's decision to buy back LT2 (EUR500m bought back vs up to EUR1bn expected by the bank). We do not see this, on the whole, as a good opportunity for investors to play these LT2 buyback programmes.

All these elements, the non-payment of coupons triggering default lead us to **remain Sectorperform on LT2**, which has strongly suffered.

LT2: callable versus bullet



Next calls by issuer – LT2 and Tier 1

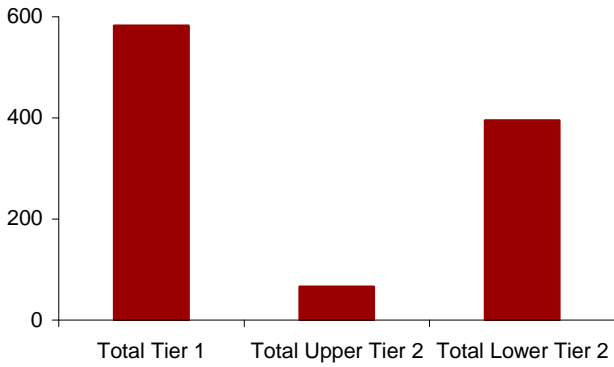
Next calls by issuer (EURm)	First call date	Tranche Value	Coupon / step up clause: 3mthEurib + (x bp)
LTII calls			
Sampo Oyj	21-Apr-09	600	4.625% (297)
IntesaBci SpA	8-May-09	500	5.85% (125)
MPS	1-Jun-09	250	3-mth Euribor +45bp (105)
Banco Popolare	4-Jun-09	150	3-mth Euribor +45bp (105)
Anglo Irish Bank	25-Jun-09	750	3-mth Euribor +45bp (95)
DLR Kredit A/S	30-Jun-09	400	3-mth Euribor +60bp (210)
EFG Hellas plc	30-Jun-09	1000	3-mth Euribor +50bp (180)
T1 calls			
Coupon			
Fortis Capital	26-Apr-09	400	3-mth Euribor+130bp
Fortis Capital	26-Apr-09	200	5.50%
RZB Finance	15-Jun-09	200	10-yr EUSA10 + 10bp
Caja Duero Capital	29-Jun-09	100	3-mth Euribor+185bp
Fortis Capital	29-Jun-09	450	6.25%
Fortis Capital	30-Jun-09	50	6.25%
Popular Capital	30-Jun-09	250	10 yr Euribor + 12.5bp
Resparcos Funding LP II	30-Jun-09	500	7.50%

Moody's negative actions on LT2

As of 4/15/2009	Moody's			
	Senior	LTII	T1	Notches Senior- T2 ; T1
RBS	A1	Baa1 *-	Ba3 *-	n-3 ; n-8
Lloyds	A1	Baa1	Baa2 *-	n-3 ; n-4
HBOS	A1	Baa1 *-	Baa1 *-	n-3
Bradford & Bingley	Baa3 *+	Ca	Ca	n-11
Danske Bank	Aa3	A3	Baa1	n-3 ; n-4
Jyske Bank	Aa3	A2	A3	n-2 ; n-3
Sydbank	Aa3	A3	Baa1	n-3
Spar Nord Bank	A1	Baa1	-	n-3
FIH	Baa3 *-	Ba3	-	n-3

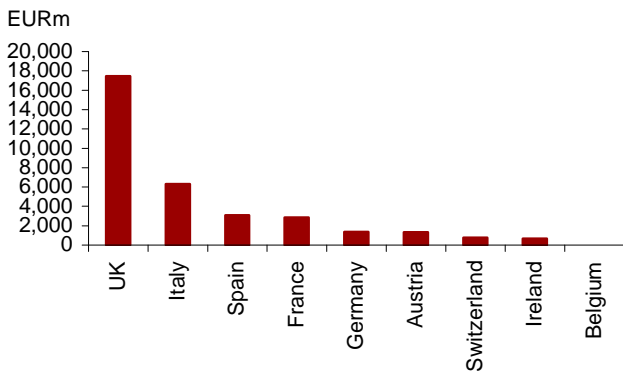
Source Moody's, Bloomberg, Calyon Hybrid team

Total subordinated and hybrid debts (EURbn)



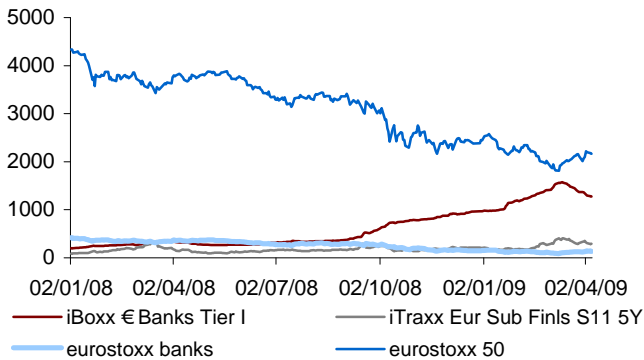
Source Bloomberg, Dealogic, Calyon Hybrid team

UT2 breakdown by countries



Source Bloomberg, Dealogic, Calyon Hybrid team

Hybrid debt vs equity



Source: iBoxx, Calyon

Impact of European government bailouts

Covered bonds	☹
Senior	☺
LT2	☹
UT2	☹☹
Tier 1	☹☹
Equity	☹☹

Source: Calyon

Recommendation performance

5. UT2 & Tier 1: buyback programme, equity correlation and illiquidity, downgrades

For further details, please refer to our *Credit Focus – Still a future for Tier 1: the ‘Mizuho’ hope?*, published 25 February 2009. Concerns on Tier 1 issues – (1) non-exercise of the call, (2) deferral of coupon, (3) nominal to be written down, (4) widening of notches between senior and hybrid debts – are rising, particularly for troubled banks rescued by the state. Having been severely hit since the beginning of 2009, Tier 1 and UT2 – highly correlated to the equity market – have tightened since mid-March. Mainly driven by technical factors, this trend could continue to benefit with the publication of banks’ Q109 results, in both the US and Europe.

European banks like RBS, HBOS/Lloyds, Standard Chartered, Credit Agricole and Banco Pastor have offered to buy back UT2 and Tier 1 issues. Considering the discount to the original issuance prices to be ridiculous, banks have decided to use their cash to buy back their own issues and as such provide liquidity to investors. This has also helped banks to shore up to some extent their Core Tier 1 issues – one of the key issues for European banks (HSBC capital increase) since uncertainties on asset quality and the severity of the economic recession remain. Unsurprisingly, investors have welcomed this decision, given they are: (1) facing MtM and/or (2) having to sell the issues/ (3) willing to reduce the risk (RBS) and (4) benefiting from premiums offered by the bank (Crédit Agricole). Other European banks could make similar decisions, notably on UT2. The consequence of the wave of buyback programmes is even less liquidity – already scarce – in the UT2 & Tier 1 segments, encouraging investors to play them.

Equity correlation, technical factors, illiquidity, the question of a future for hybrid debt (no primary market, buyback programme) and irrational markets are likely to remain the main ingredients of Tier 1 issues. Credit metrics remain very negative for the European banking system, even after taking into account that Q109 is expected to be better than Q408 and Q108. As such, caution remains on Tier 1 issues (especially after the recent rally).

We maintain our **Underperform on Tier 1 issues.**

Recent buyback programme/Exchange transactions

Announcement Date	Issuer	Transaction Type	Securities Tendered/ Exchanged	Amount Tendered/ Exchanged	Consideration offered	Success Rate	Observations
15-Apr-09	UBI Banca	Exchange Offer (Preferred securities and LT2 into new senior)	EUR570m of preferred securities; EUR1550m of 5 LT2 bonds	Entire amount for the preferred securities and for the EUR250m LT2 bond maturing on 30 June ; EUR750m for the 4 other LT2 bonds	EUR1570m of New senior debt securities	tbd	<ul style="list-style-type: none"> • UBI Banca reserves the right to decide in due course whether or not to exercise the call option
02-Apr-09	Banco Pastor	Fixed Price Tender Offer	EUR300m FRN Perp nc 2014 (UT2)	EUR150m	Cash	tbd	<ul style="list-style-type: none"> • Pastor will pay 40% of the nominal value (this could change depending on the holders reaction buying back or not) • Would generate a EUR90m gain
Apr-09	Credit Agricole	Tender Offer	GBP 1.05bn 5% Perp nc 2018 (UT2)	GBP 545.211m	Cash	52%	<ul style="list-style-type: none"> • CASA's T2 bonds are trading at a significant discount to par so the buyback will create core Tier 1 capital, thereby improving the overall quality of capital and T1 capital ratio. • Secondary markets remain illiquid and the trade also offers the option for investors to exit their position for cash.
Mar-09	Sampo Bank	Exchange Offer (LT2 into new Senior)	EUR 600m 4.625% 2014 nc 2009 (LT2)	tbd	New 3Y Senior Bond (min new issue spread: ms+400)	tbd	<ul style="list-style-type: none"> • Sampo announced its intention to exchange an LT2 issue (callable 21 April 2009) into a new senior issue, while also announcing that it will not exercise the call on the LT2.
Mar-09 (closing max 7-Apr)	HBOS/ Lloyds	Exchange Offer (UT2 into new Senior)	<ul style="list-style-type: none"> • 13 GBP Lloyds TSB and HBOS UT2 notes • 5 EUR UT2 notes (equivalent to GBP 7.5bn in total) 	tbd	<ul style="list-style-type: none"> • New 5Y GBP Fixed Rate Senior Bond • New 15Y GBP Fixed Rate Senior Bond • New 5Y EUR Fixed Rate Senior Bond • New 5Y EUR Floating Rate Senior Bond 	tbd	<ul style="list-style-type: none"> • The purpose of the exchange offer is to create additional Tier 1 capital in the capital structure to improve and strengthen the issuer's capital base.
Mar-09 (closing 22-Apr)	RBS	Tender Offer and Exchange Offer (UT2 and T1 into new Senior)	<ul style="list-style-type: none"> • 15 EUR and USD UT2 and T1 securities (Tender Offer) • 14 GBP UT2 and T1 securities (Exchange Offer) (approx equivalent to GBP14bn) 	tbd	<ul style="list-style-type: none"> • Exchange Offer: New 5Y and 15Y GBP Senior Bonds; • Tender Offer: Cash 	tbd	<ul style="list-style-type: none"> • The transaction will enable RBS to increase levels of core capital of the group, and also to build out a new senior unguaranteed credit curve in GBP.
Mar-09	Banca Popolare di Milano	Tender Offer	<ul style="list-style-type: none"> • EUR160m 8.393% Perp nc 2011 (T1) • EUR300m 9% Perp nc 2018 (T1) 	Maximum EUR 460m targeted	Cash	Maximum 100%	<ul style="list-style-type: none"> • The buyback will rebalance the T1 capital of the issuer between Core and Hybrid T1. • Bonds are also trading at a significant discount in the secondary market. Potential for approx. EUR230m (pre-tax) gain (based on max. EUR 460m bought back at a tender price of 50).

Source: Banks, Calyon hybrid team

Recent buy-back programme/Exchange transactions (cont'd)

Announcement Date	Issuer	Transaction Type	Securities Tendered/ Exchanged	Amount Tendered/ Exchanged	Consideration offered	Success Rate	Observations
01/03/09 (closing 21-Apr)	Banco Sabadell	Tender Offer	<ul style="list-style-type: none"> • EUR500m 5.234% Perp nc 2016 (T1) 	Maximum EUR250m targeted	Cash	Maximum 50%	<ul style="list-style-type: none"> • The bonds were trading at a significant discount in the secondary market (cash price of 20 pre-announcement). • Potential for approx. EUR 145m (pre-tax) gain (based on max EUR 250m bought back at a tender price of 42.5).
Mar-09	UBS	Tender Offer	<ul style="list-style-type: none"> • EUR1.25bn FRN 2015 nc 2010 (LT2) • USD1.835bn FRN 2016 nc 2011 (LT2) • EUR1bn 4.5% 2019 nc 2014 (LT2) • EUR750m 4.125% 2018 nc 2013 (LT2) 	EUR 557m	Cash	8-23%	<ul style="list-style-type: none"> • The bonds were trading at a significant discount in the secondary market. • Positive effect on Tier 1 ratio - approx EUR 223m (pre-tax) gain / T1 capital (based on max. EUR 557m equivalent bought back). • Signal of strength to the market – CDS/spread levels improved as a result (by approx. 60bp after the announcement, T1 by 5bp).
Jan-09	Lloyds TSB	Exchange Offer (UT2 into new Innovative T1)	<ul style="list-style-type: none"> • 16 GBP Lloyds TSB and HBOS UT2 notes • 7 EUR Lloyds TSB and HBOS UT2 notes (equivalent to GBP8.5bn in total) 	GBP6.4bn in total (approx)	New Tier 1 Bonds (GBP1.96bn in total)	76%	<ul style="list-style-type: none"> • Additional higher-quality regulatory capital (Innovative Tier 1) created, without the need to source new investors. • The exchange also succeeded in replacing smaller illiquid securities with fewer, larger, more liquid securities. • The exchange also generated profits as the UT2 issues were bought back at a discount.
Nov-08	QBE Insurance Group	Exchange Offer (T1 into new Senior)	<ul style="list-style-type: none"> • USD550m 6.797% Perp nc 2017 (T1) • GBP300m 6.857% Perp nc 2016 (T1) 	USD 210.77m / GBP 190.69m	New USD210.77m Mar-2014 Senior Bond / New GBP190.69m Mar-2014 Senior Bond	<ul style="list-style-type: none"> • over 50% (USD tranche) • over 90% (GBP tranche) 	<ul style="list-style-type: none"> • Tier 1 securities bought back at a significant discount.
Nov-08	Standard Chartered	Tender Offer	<ul style="list-style-type: none"> • USD400m FRN Perp nc Jun-2009 (UT2) • USD400m FRN Perp nc Jul-09 (UT2) • USD300m FRN Perp nc 2009 (UT2) • USD200m FRN Perp nc 2009 (UT2) 	Over USD1bn in total	Cash	75-80%	<ul style="list-style-type: none"> • Residual UT2 securities in the capital structure bought back. • Issuer benefited from an accounting gain with this gain then monetised as core Tier 1 capital.

Source: Banks, Calyon hybrid team

Issuer recommendations

CDS recommendation

With fairly limited liquidity on the CDS market (mostly activity among traders), we have played specific credit stories like state bailouts, rating downgrades and relative value trade ideas. In that context, our strategic trades have generated a profit of some EUR391,000.

Summary of our closed CDS trades YTD

Closed Strategies	Entry Date	P&L (EUR)	Selling Leg	Amount	Entry Spread	Last Spread	Buying Leg	Amount	Entry Spread	Last Spread	Closing Date
Sell UBS CDS EUR SR 5Y - Buy CRDSUI CDS EUR SR 5Y	11/02/2009	188,210	UBS	8M	262	233	CRDSUI	12M	162	189	13/03/2009
Sell SNRFIN CDSI S10 5Y - Buy CMZB CDS EUR SR 5Y	19/02/2009	142,905	SNRF	8M	142	185	CMZB	12M	93	135	20/03/2009
Sell CRDIT CDS EUR SR 5Y - Buy ISPIM SPA CDS EUR SR	20/02/2009	59,727	CRDIT	8M	220	154	ISPIM SPA	10M	167	122	01/04/2009

Source: Calyon

Changes to issuer recommendations

Unicredit: In a more bullish market, Unicredit has shown a recovery trend versus the senior index. Although we welcome the announcement of the IMF's potential support for Central & Eastern Europe, Unicredit will remain a name highly sensitive to the credit cycle. In addition to exposure to CEE, its exposure to Italy, Austria and Germany (corporate segment) is not negligible. In addition, exposure to leveraged buyout is also a source of concern. Reflecting the bank's exposure to emerging markets in Europe, this week Fitch downgraded Unicredit's long-term rating to A from A+ and the individual rating to C from B/C. The outlook remains negative. Given that banks exposed to the fixed income market (DB, Soc Gen, BNPP, HSBC, Barclays...) are likely to be the main winners in Q109, we change our recommendation on Unicredit to Underperform from Sectorperform.

Summary of our recommendations on CDS

Issuer	S&P/Moody's/Fitch	Calyon	Spot CDS	Variation			Expected Trend	Spot vs Index			CDS Recommendation		
				1 Week	1 Month	YTD		Ratio	Fair Value	Spot - FV	Previous	Since	New
Santander	AA neg/Aa1/AA CW neg	Low-AA	134	-14	-50	30	→	93%	131	3	Underperform	15/12/08	Underperform
HBOS	A/A1/AA-	NR	190	-15	-30	77	↓	131%	175	15	NR	18/12/08	NR
Intesa Sanpaolo	AA- neg/Aa2/AA-	High-A	123	-27	-72	13	→	85%	124	-1	Sectorperform	18/12/08	Sectorperform
Commerzbank	A/Aa3 neg/A+	Low-A	125	-5	5	39	→	86%	103	22	Underperform	18/12/08	Underperform
BNP Paribas	AA neg/Aa1 neg/AA neg	Low-AA	93	-15	-34	23	→	64%	87	6	Sectorperform	18/12/08	Sectorperform
RBS	A /A1/AA-	NR	192	-17	-32	56	↓	133%	168	24	NR	18/12/08	NR
Deutsche Bank	A+ /Aa1 neg/AA- CW neg	High-A	118	-7	-50	-11	→	82%	136	-18	Underperform	18/12/08	Underperform
Bco Spirito Santo	A neg/A3/A+	NR	151	-9	-76	54	→	104%	144	7	NR	18/12/08	NR
Credit Suisse Group	A/Aa2 neg/AA- CW neg	High-A	168	-17	-93	-13	→	116%	180	-12	Sectorperform	20/01/09	Sectorperform
Societe Generale	AA- neg/Aa2 neg/AA- neg	High-A	106	-13	-33	0	→	73%	120	-14	Underperform	19/02/08	Underperform
Montepaschi di Siena	A neg/Aa3/A	Low-A	115	-30	-55	5	→	80%	126	-11	Underperform	18/12/08	Underperform
UBS	A+/Aa2/A+	Mid-A	202	-23	-155	-10	↗	140%	240	-38	Underperform	15/04/09	Underperform
Barclays	A+ neg/A1/AA-	NR	194	-18	-58	32	→	134%	188	6	NR	18/12/08	NR
BBVA	AA neg/Aa1/AA- pos	Low-AA	140	-10	-43	42	→	97%	126	14	Sectorperform	18/12/08	Sectorperform
Unicredit	A/Aa3/A neg	Mid-A	154	-27	-124	30	↗	107%	113	41	Sectorperform	18/12/08	Underperform
Banks Senior			145	-16	-58	25	→						

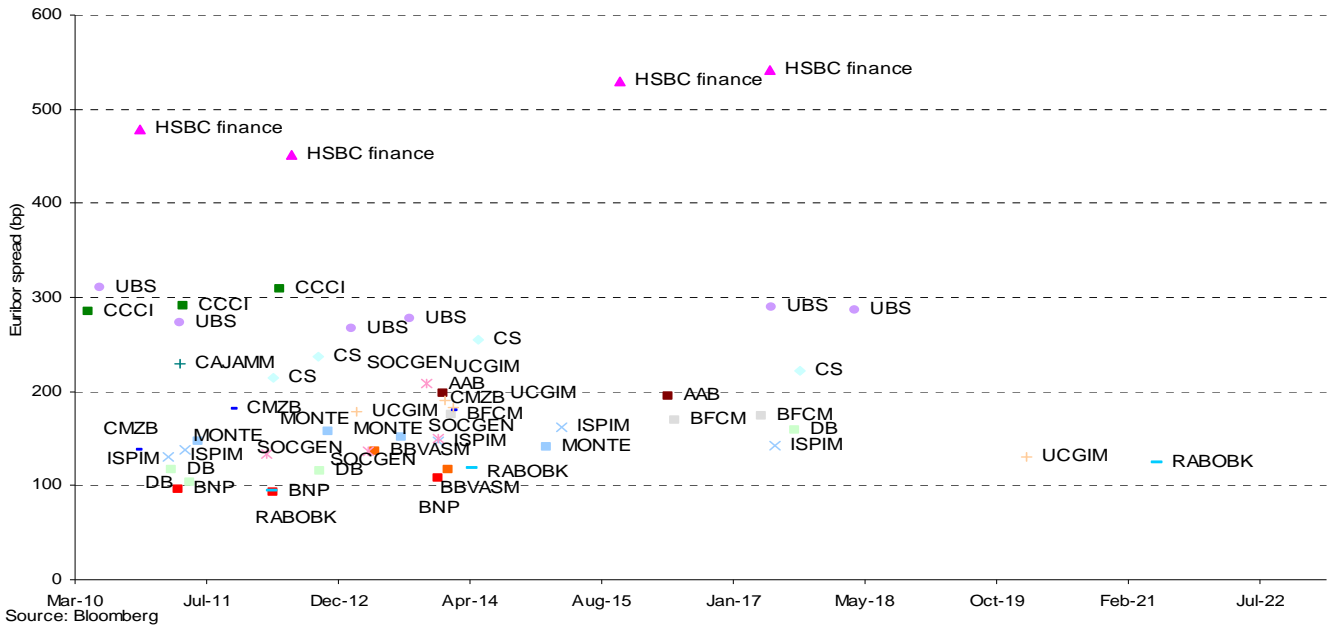
Key: ↓ Outperformance expected; → No trend reversal is expected; ↗ Underperformance expected

Source: Bloomberg, Calyon

Cash recommendation

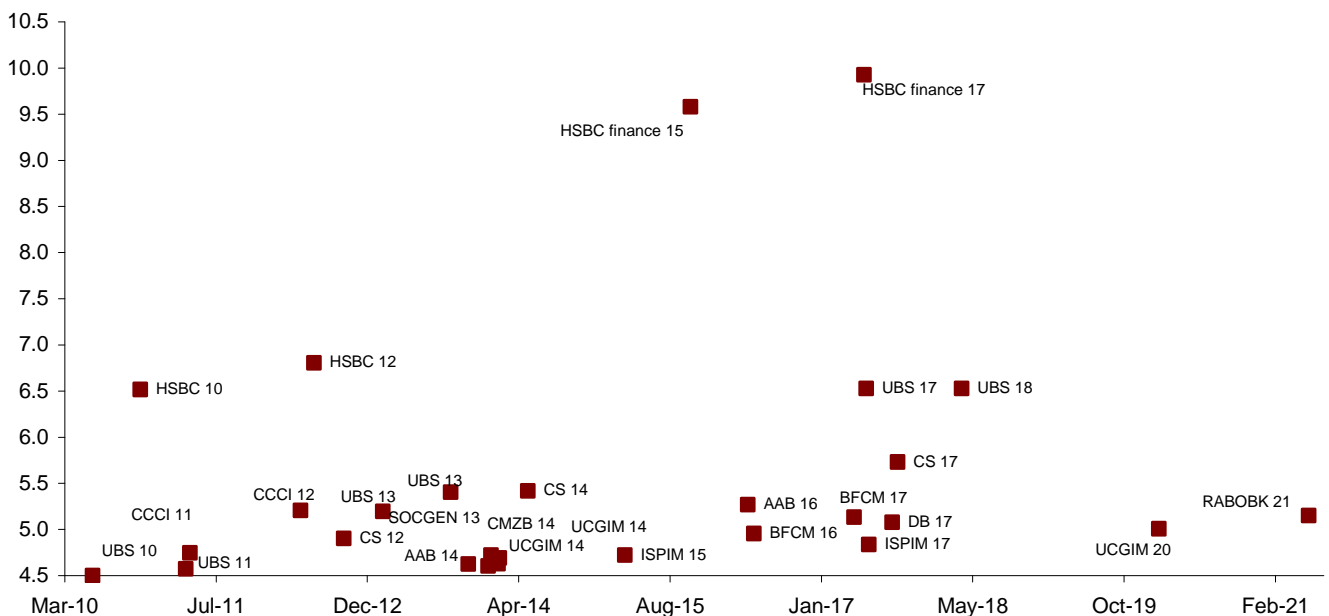
In line with Q109, the senior unsecured market is likely to cope with the lack of liquidity. In addition to the better premium offered in the primary market, the secondary market is not as a whole a good opportunity, as the YTD mapping can illustrate. Only banks like CCCI (too small to come to the primary market) can be considered a buying opportunity, waiting for a potential merger with larger French banks.

Senior banks Mapping ASW



Source: Bloomberg

Senior banks mapping YTD >=4.5%

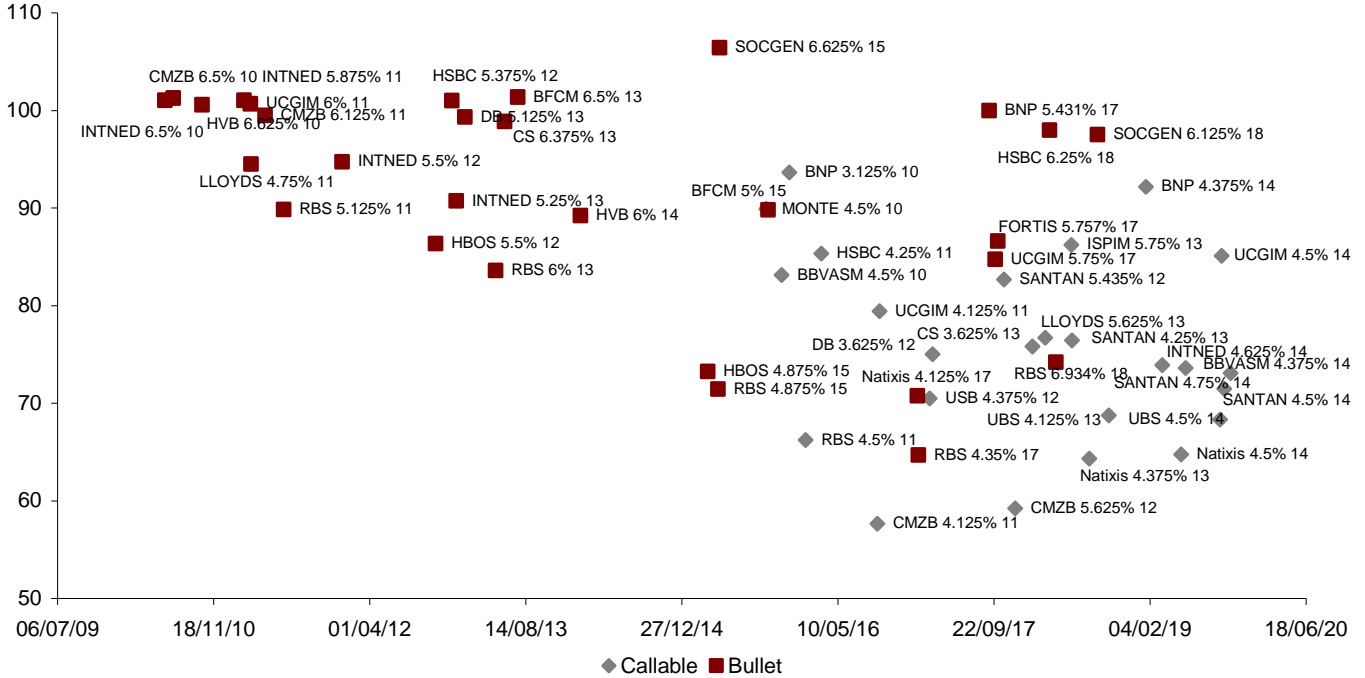


Source: Bloomberg

Since it is rather illiquid, **LT2** has suffered mainly because of the UK banks. While the business model of Natixis remains more than uncertain, we consider it a buying opportunity given its parent company GBP and CNCEE are in a merger process – the partnership agreed between the latter during the Natixis merger – and the fact that this group was the first to be rescued by the French state. We

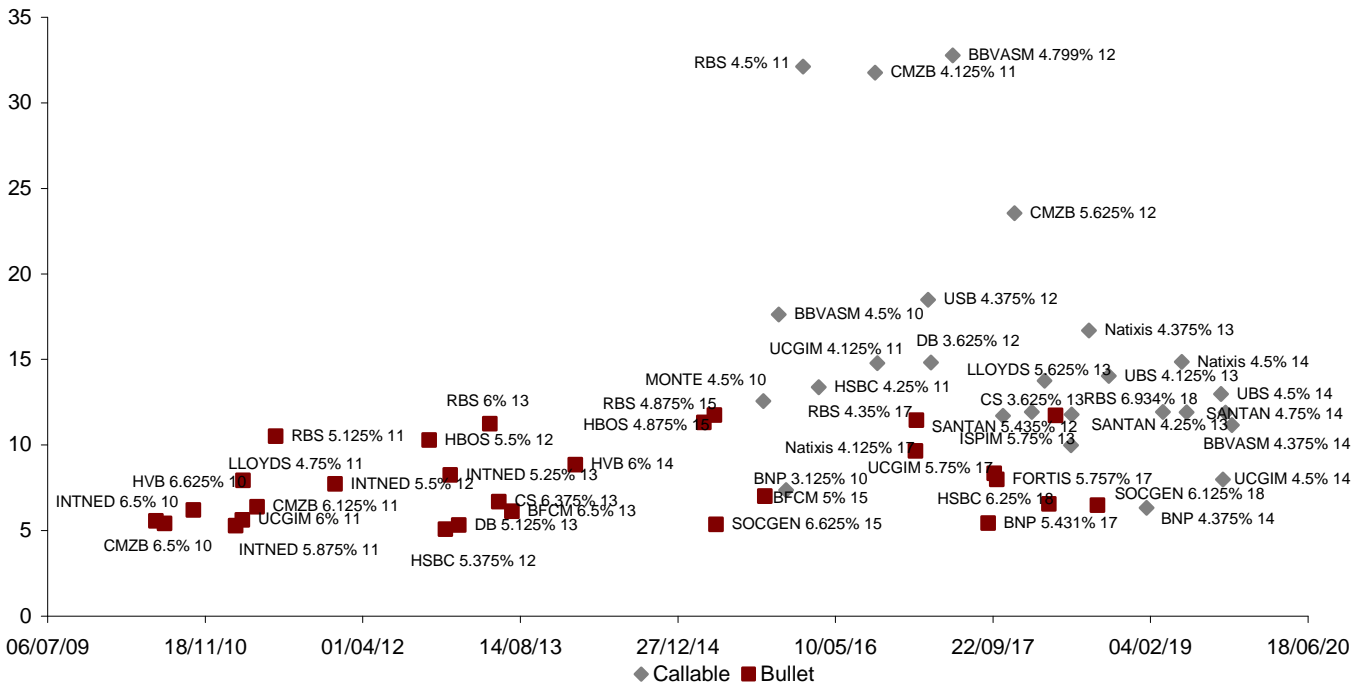
prefer this name to UBS. On Commerzbank, the real risk for us is the split between 'good bank' and 'bad bank'. We will wait for further details on this subject before playing the LT2 CMZB callable 11 and callable 12 – in which the exercise of the non-callable is already priced – which appear rather cheap. We will wait for further details on the future on the largest UK names – RBS, Lloyds, HBOS – (impact of nationalisation) before coming back.

LT2 mapping – price



Source: Bloomberg, Calyon

LT2 mapping – YTM >= 4.5%



Source: Bloomberg, Calyon

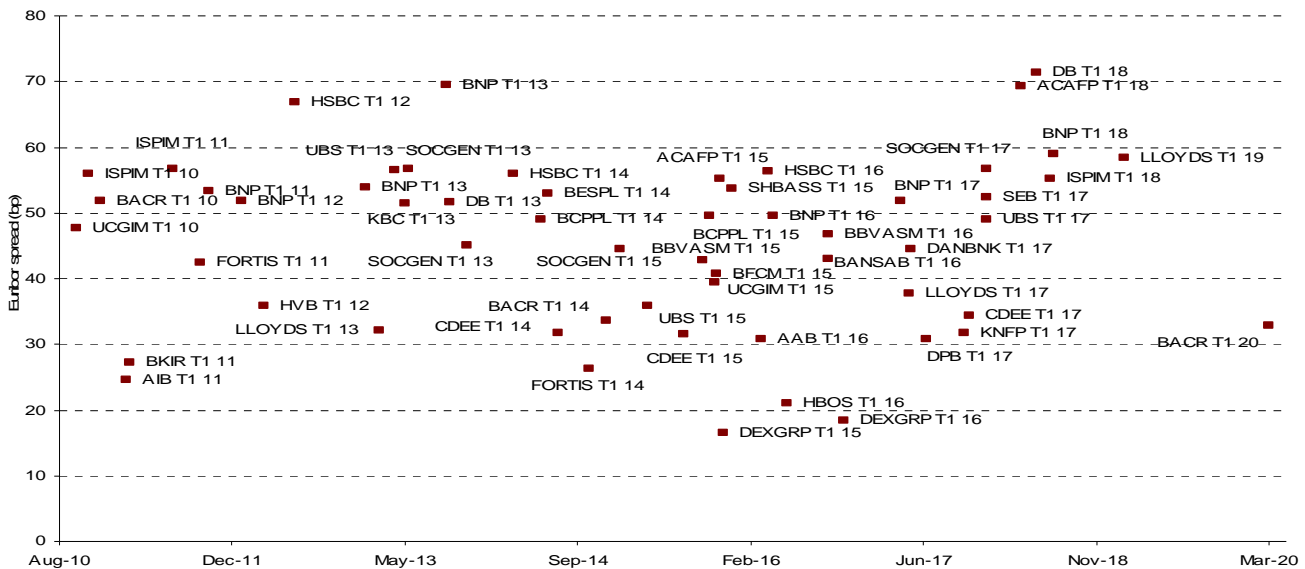
Shareholders' leeway

	FY08 dividends	State capital dilution
France		
BNPP	Yes	No
SocGen	Yes	No
Credit Agricole	Yes	No
Germany		
Deutsche Bank	Yes	No
Italy		
Banco Popolare	No	No
Montepaschi	Yes	No
IntesaSP	No	No
UniCredit	yes	No
Netherlands		
Rabobank	Yes	No
ING	No	No
Portugal		
CGD	Yes	No
BCP	Yes	No
BES	Yes	No
Spain		
Santander	Yes	No
BBVA	Yes	No
Sabadell	Yes	No
Bankinter	Yes	No
Switzerland		
Credit Suisse	Yes	No
UK		
Barclays	Yes	No
HSBC	Yes	No

Source: banks, Bloomberg, Calyon

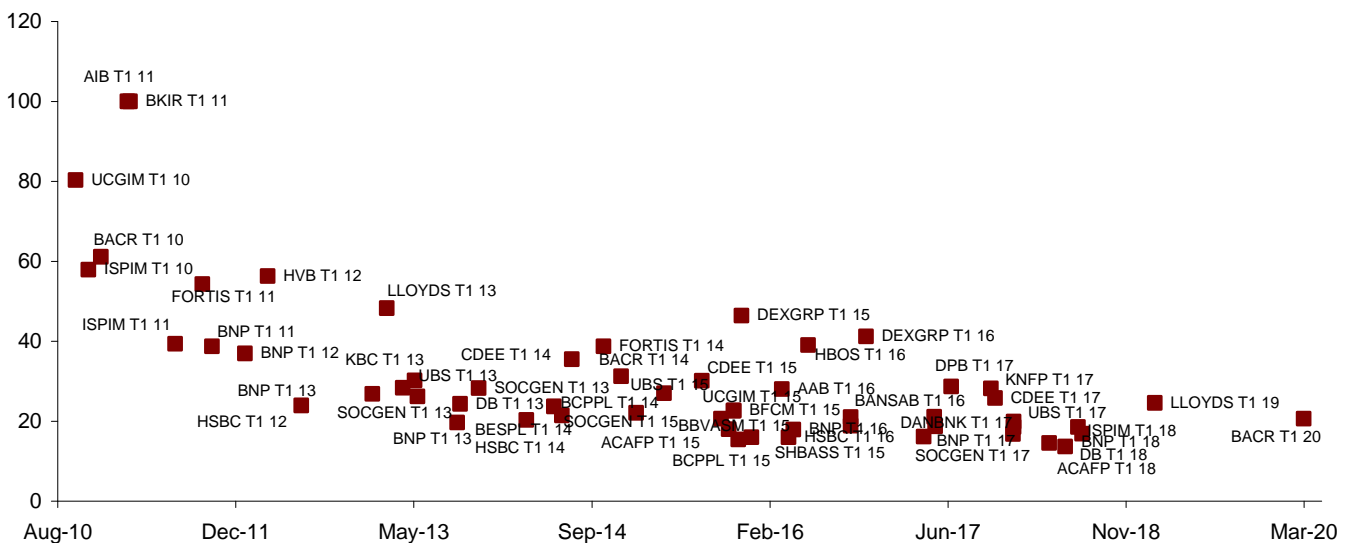
Benefiting from a more bullish market, Tier 1 issues from banks like BNPP, Soc Gen, HSBC, Barclays, Deutsche Bank, Intesa Sanpaolo (with no dilution of capital by the state) could be considered a good opportunity. While tightening in those Tier 1 issues has not been totally ruled out, it should be driven primarily by technical factors rather than fundamentals. Indeed, balance sheets have not been cleaned up, credit metrics remain negative given the macroeconomic deterioration, and the impact of state programmes ('bad banks' in the US) has to be assessed. Holding such Tier 1 issues in a portfolio (benchmark portfolio) could be viewed as a good opportunity over a very short period; however, we maintain a conservative approach as we do not have any real signs of recovery in terms of fundamentals. Alternatively, investors highly exposed to hybrid debts should benefit from this environment by selling some issues (usually the most liquid) before it starts to worsen again. Confidence remains fragile and the lack of liquidity means there is a strong risk in being overweight those Tier 1 issues. Over a very long period (distressed funds, total return portfolio, equity investor), Tier 1 issues – notably on troubled banks key to sustaining their domestic economy – could be viewed as offering a potentially interesting yield return. Taking into account the recent rally, however, we will wait for any new widening trend to play this strategy.

Tier 1 Mapping – price



Source: Bloomberg

Tier 1 Mapping – YTD

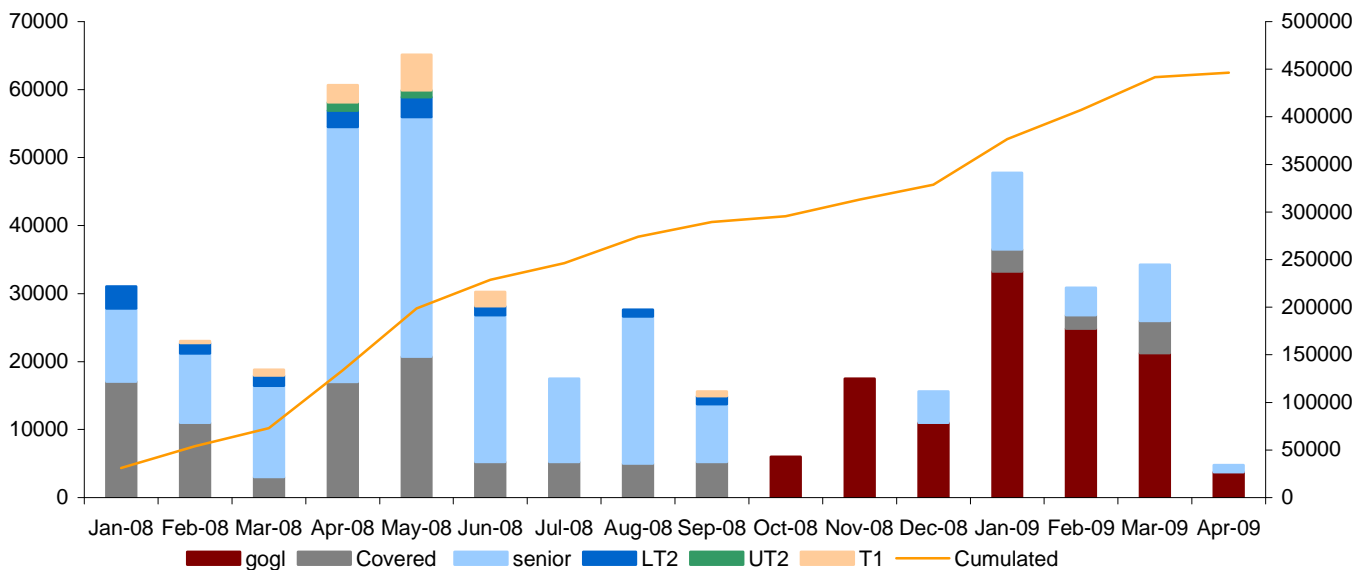


Source: Bloomberg

Primary activity and outlook

As expected, since the beginning of 2009 the primary market on Financials has been driven by senior debt guaranteed by the state (EUR110bn). However, access to the primary market differs among banks highlighting the quality of the sovereign (Germany vs Spain or Ireland) and to a lesser extent the size of the bank. Italy has not yet announced a guaranteed senior programme. Both covered (not the target of the state bailout) and senior unsecured banks have been open only to the largest banks (BBVA, BNP Paribas, Intesa Sanpaolo), mostly those benefiting from good ratings such as the French banks or Rabobank – the last bank to be rated AAA in Europe.

Issues launched by Financials – EUR-denominated



Source: Calyon. As at 08/04/09

As expected, the spring marked a newly open window for the senior unsecured debt. While a few banks are benefiting from this opportunity to launch new senior unsecured debt (Santander, CSG, Zurich Finance), the market is still closed for the time being to: (1) the most troubled banks such as the UK banks, UBS, Fortis – unlike CSG, (2) Deutsche Bank, and (3) Tier 2 banks. Note that most issues have been pre-placed in the market. Although investors have appetite for the primary market, their approach has been selective, based on the largest names which benefit from a business model that offers better visibility and/or that are key to sustain the domestic economy (Commerzbank, CFCM, BFCM). However, concerns are increasing on the issue of duration – for both investors and banks – since the primary market has concentrated on 3Y maturities for guaranteed debts and 5Y for the senior unsecured issues, raising questions regarding extending the maturities in the coming weeks. In addition to the support from the strong domestic investor base (Germany, France unlike Italy, Spain, Portugal), the primary activity has led to increased discrimination among banks.

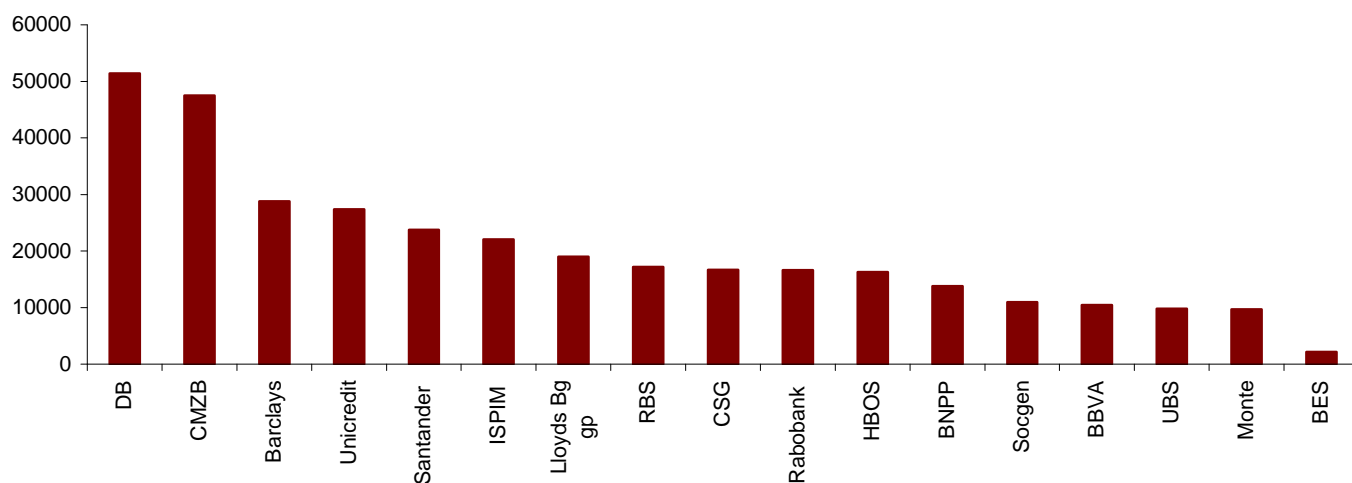
While guaranteed senior debts are not sufficient to cover refinancing needs, retail networks (Italian, Spanish names), private placements (DB, Swiss banks) as well as assets eligible for the ECB have been other alternatives. Although the primary market appears relatively active compared with previous months when it was closed, refinancing needs remain important in contrast to potential refinancing tools (covered, securitisation, subordinated, senior unsecured...). There is no choice but for states to extend the guarantees provided to banks and the maturity to 5Y (UK, US and expecting Germany).

What to expect?

Covered bond: DB, CSG UBS, CMZB as well as French names are planning to issue covered bonds. Supply will remain very limited given the fierce competition from guaranteed senior debt as well as the expected downgrade of covered bonds (Caja Madrid by S&P).

Guaranteed senior debt: While discrimination is likely to increase, especially following the downgrade of some European sovereigns (Spain, Greece, Ireland), guaranteed senior debt is likely to remain the lion's share of the primary market. After the massive primary market in Q109, this segment is likely to suffer from the fact that investors' limits have been reached. As such, issuers are likely to play the USD market in order to attract new base investors (SFEF). Our Calyon interest rate strategists are expecting around EUR285bn new issues after taking into account the EUR150bn debt launched since October 2008.

Redemptions in 2009 (from 4/2009) (EURbn)



Source: Bloomberg, Calyon

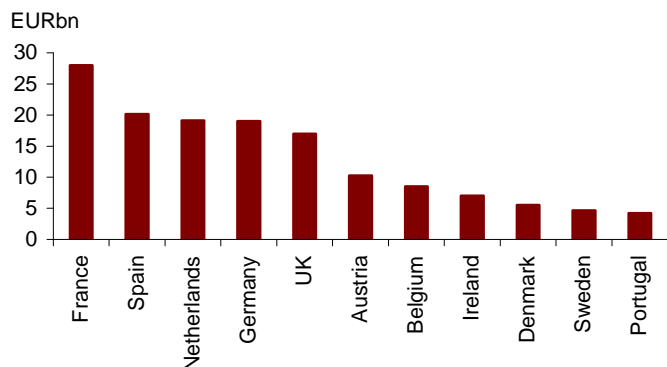
Senior unsecured debt: Some 'windows' are possible between Q109 and Q209 depending on newsflow – Europe, US – and volatility/overreaction in the market. While confidence remains very fragile, bargain prices are still being requested. Thus, the largest banks will remain the first to have access: BBVA, ISPIM, HSBC, BNPP, Soc Gen, Santander... Banks like Deutsche Bank and, even worse, Unicredit (ING Bank?) will have to provide impressive bargain prices to attract investors. We have doubts whether UBS will be able to come. Since the state is playing a growing role within the banking system – Commerzbank, RBS, HBOS, Dexia, etc. – convergence between sovereign, guaranteed and senior unsecured debt is likely to increase. In such a context, banks with lower fundamentals but with a business model key to sustain their domestic economy (like Commerzbank) could test the senior unsecured segment. In order to attract a new investor base, European banks could choose to launch issues in the USD market. All in all, the market is likely to remain very difficult to access for the Tier 2 banks.

LT2: Apart from the tap from CASA on its LT2 bullet, the LT2 segment has remained closed since the beginning of January. Following Bradford & Bingley, the risk of the non-exercise of the call plus the bargain prices that issuers have to offer to attract potential investors, the LT2 market is likely to remain closed.

Tier 1: Unsurprisingly, no primary market is expected.

Financials: Primary market monitor

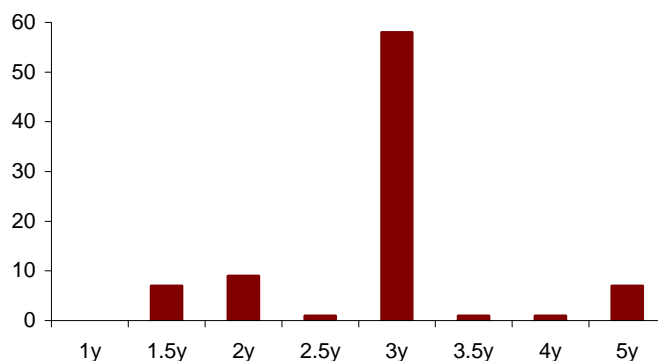
Government guaranteed senior debt issued since October 2008*



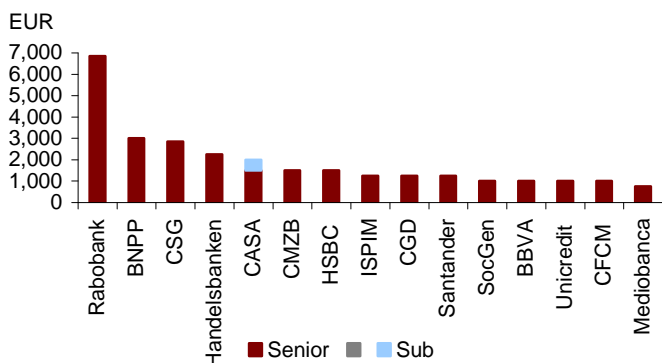
*Only EUR issues

Source: Bond Radar, Bond Rumours and Calyon

Number of new GOGL issues by maturity since October 2008

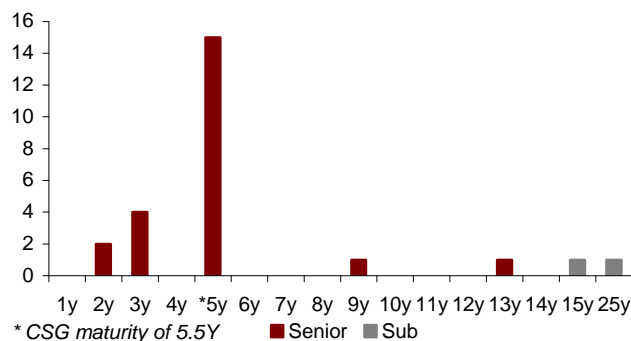


New issues since Q408 (including FRN)



Source: Calyon

Number of new issues by maturity since Q408



*CSG maturity of 5.5Y

Financials issuance since Q408 – Fixed EUR-denominated senior unsecured debt

Issue date	Issuer	Rating	Size (in EURm)	Maturity	Bond Yield	Issuance Spread (over MS)	Spread (over MS) as of 9/04/09	Perf. since issuance
08-Dec-08	BNP Paribas	Aa1/AA+/AA	1,500.00	16-Dec-13	3.80%	160	108	-52
10-Dec-08	Intesa SPA	a2/AA-/AA-	1,250.00	19-Dec-13	4.20%	195	147	-48
10-Dec-08	Societe Generale	Aa2/AA-/AA-	1,000.00	19-Dec-13	4.20%	185	150	-35
11-Dec-08	Credit Suisse	Aa1/AA-/AA-	850.00	16-May-14	5.40%	270	256	-15
07-Jan-09	Unicredit spa	Aa3/A+/A+	1,000.00	14-Jan-14	4.70%	210	191	-19
07-Jan-09	HSBC France	Aa3/AA/AA	1,500.00	15-Jan-14	4.40%	175	159	-16
09-Jan-09	BBVA	Aa1/AA/AA-	1,000.00	23-Jan-14	4.00%	180	117	-63
12-Jan-09	Mediobanca	nr/AA-	750.00	20-Jan-12	3.70%	180	149	-31
13-Jan-09	Rabobank	Aaa/AAA/AAA	5,000.00	22-Jan-14	4.00%	150	114	-36
30-Jan-09	Commerzbank	Aa3/A/A	1,500.00	06-Feb-14	4.60%	210	179	-31
10-Feb-09	Caixa Geral de Depositos	Aa1/A+/AA-	1,250.00	19-Feb-14	4.80%	225	198	-27
11-Feb-09	Rabobank	Aaa/AAA/AA+	1,500.00	15-Jan-18	4.90%	150	134	-16
16-Mar-09	Svenska Handelsbanken	Aa1/AA-/AA-	1,250.00	25-Mar-14	4.80%	210	186	-24
18-Mar-09	BNP Paribas	Aa1/AA/AA	1,500.00	27-Mar-12	3.30%	140	92	-48
20-Mar-09	Credit Suisse	Aa1/A+/AA-	2,000.00	30-Mar-12	4.50%	295	215	-80
25-Mar-09	JP Morgan	Aa3/A+/AA-	2,000.00	01-Apr-14	5.80%	345	296	-49
07-Apr-09	Banco Santander	Aa1/AA/AA	1,250.00	22-Apr-11		150		
07-Apr-09	Rabobank	Aaa/AAA/AAA	350.00	06-Jun-22		150		
08-Apr-09	Cie Financière du Crédit Mutuel	nr/A+	1,000.00	22-Apr-14		255		
09-Apr-09	Lloyds TSB	Aa3/A+/AA-	692.21	15-Apr-14		350		

Source: Bloomberg, Companies, Bond Radar, Bond Rumours and Calyon – As at 9 April 2009.

Credit trend

Q109: Transient relief

European banks have gone 'back to basics' for 2009

Along with the presentation of the 2008 annual results, Q109 headlines for European banks – retail, universal banks and investment banks – have focused on the de-risking process (RWA reduction, less complex business, stricter risk management policy) with prioritisation through client-driven policy, cost control and increasing capital buffers. In addition to expensive funding costs as well as a more adverse economic outlook – in Europe (ECB forecasts: -3.2% to -2.2% in 2009 for the Eurozone) and emerging markets – than previously anticipated by European banks, managements are very cautious for the coming quarters. Few guidelines with precise figures have been provided in such an uncertain context.

FY08 results released versus expectations

	Actual FY08 (EURm)		Actual vs Consensus		Management guidance
	NBI	Net attributable profit	NBI	Net attributable profit	
Royal Bank of Scotland PLC	22,817	-25,735	-11.9%	-3.2%	No forecast in 2009. Client-oriented strategy on core businesses, markets and less reliance on wholesale funding
BBVA	19,855	5,413	2.4%	-5.1%	Prudent risk management: no acquisitions, high provision level, cost base with 0% increase and measures to strengthen capital
Barclays Bank PLC	24,733	5,185	-7.0%	26.2%	Credit market losses to be lower than 2008 in contrast to impaired loans (UK, Spain, South Africa and US) despite confidence in the quality of its asset books
Banco Espirito Santo SA	1,908	402	-0.5%	-5.6%	Improve liquidity (increase assets eligible to ECB), risk diversification, reinforcement of provision, costs control
MPS	6,055	953	-1.0%	-3.2%	Fairly limited decline in margins, moderate lending growth in 2009, cost control (-3% vs 2008), rise in LLP
BNP Paribas	27,376	3,021	-3.0%	13.9%	Focus on western Europe, cost control, reducing market risk and RWA
Lloyds TSB	11,781	1,824	-4.9%	98.0%	Integration of HBOS, lower margins and high level of impairments (HBOS portfolio) in tough economy, cost control and more appropriate pricing of risk
Commerzbank	6,433	3	-8.8%	98.7%	Integration process, margins under pressure, rise in LLP, rise in net commissions, strict cost management, high funding costs
Credit Suisse	7,948	-5,506	-30.4%	-41.9%	More conservative business mix: client focus, reduce market risk, efficiency (cost to income ratio: 65%), strong capital base
Deutsche Bank	13,490	-3,835	-13.4%	8.4%	Business model remains valid, correctly positioned to weather these difficult conditions, no need to use German state support
Société Générale	21,866	2,010	1.8%	-9.0%	Deleveraging process, risk management, cost and higher capitalisation (Tier 1: 9.3%), consolidation of the network (international retail)
Intesa Sanpaolo	18,157	2,553	-2.7%	-39.4%	Percentage decline in NIR and operating margin to mid single digit, cost control, higher LLP with further impairments, attributable profit albeit lower than in 2008
Santander	31,041	8,876	3.7%	-4.2%	Cost control (integrations/synergies), active risk management, moderate increase in volumes
UBS	2,974	-13,994	-45.5%	-25.2%	Client focus, cost control, downsizing of or exit from certain businesses in CIB
Unicredit	26,866	4,012	0.3%	-4.7%	Priority on costs, tightening credit conditions in CEE with RWA optimisation, focus on core profitable corporate clients in core markets, Deleveraging CIB
Average			-8.05%	-8.11%	

Source: Bloomberg, banks, Cheuvreux, Calyon

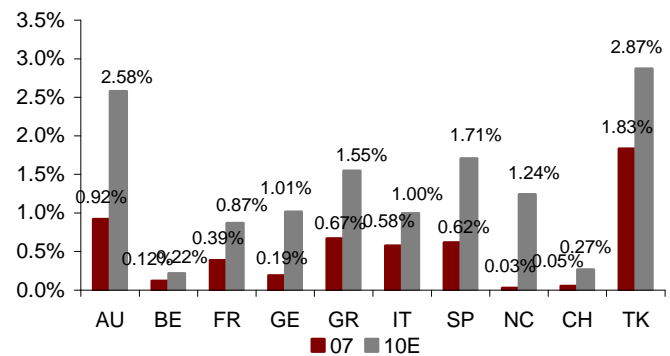
What to expect in Q109 by business

Real GDP forecast

Real GDP (YoY, %)	2008	2009e	2010e
Eurozone	0.7	-2.9	0.4
- Germany	1.0	-3.6	0.6
- France	0.7	-2.5	0.7
- Italy	-1.0	-3.3	0.4
- Spain	1.2	-2.5	-0.1
UK	0.6	-3.0	0.6

Source: Calyon. As at 30 March 2009

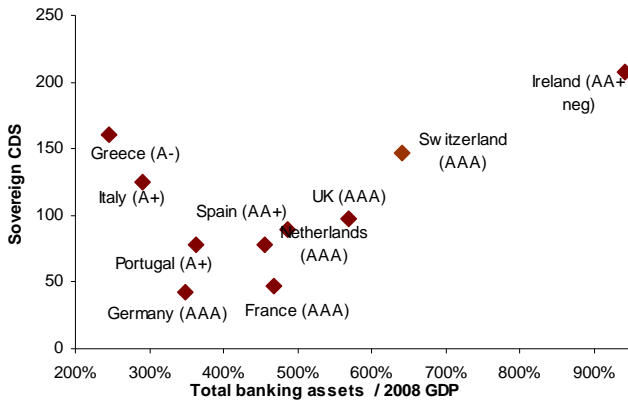
Loan loss ratios as a % RWA



Source: Cheuvreux, Calyon

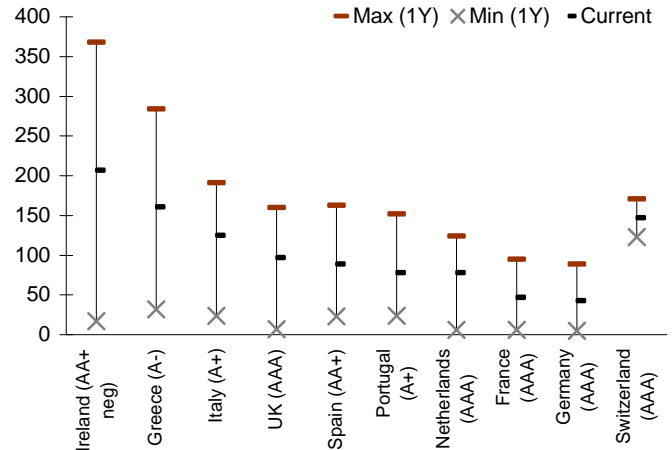
- **Retail has entered a tough period, given its sensitivity to the credit cycle:** In 2008, the plunge in investment banking and asset management was offset by good resilience in the retail business, both domestically and abroad. But, retail businesses have started to be hit by the contagion effect of the financial crisis to the credit cycle: (1) higher magnitude of rising loan loss provisions on a quarterly basis, (2) more sluggish growth in net interest revenues. While the deterioration has been modest in most European countries, a more adverse trend has been observed at Irish, UK and to a lesser extent Spanish banks due to their economies being hit by a real estate market downturn. Since economic recession is in the early stages in most European countries, progressive deterioration is expected with a potential acceleration in the summer given the lag between economic deterioration and the banking system. We reiterate our cautiousness on banks exposed to consumer lending and corporates (debt to GDP: 80%) – especially cyclical sectors (industrials, autos, commercial real estate...).
- **Investment banking businesses: good start to 2009.** After particularly dark Q408 results, it seems that CIB businesses have performed well since the beginning of 2009, as reported by most of the European banks exposed to financial markets. Fixed income business has notably been fuelled by a dynamic primary market (new EUR-denominated issues on non-financials: EUR111.6bn, five-fold increase YoY) combined with higher fees. This trend can primarily be explained by the weak primary market in H208 and tighter banking credit conditions (corporate loan growth in EUR area: 8.8% in January 2009 versus 15% in Q108). Although further issues are in the queue, the reverse trend is not ruled out given rising corporate default rates (Moody's speculative-grade default rate in Europe to rise 21.2% by end of this year), fragile market confidence and that only corporates rated above BBB have access so far. Based on less complex products, equity businesses have done better in a more stabilised market versus Q4. But visibility on CIB remains poor while markets remain volatile. After massive write-downs (Q408: USD111bn versus USD383bn since the crisis) and reclassification of assets related to amendments on IAS39 plus further relaxation of fair value from FASB likely to be followed by IAS, the magnitude of write-downs (monolines, commercial real estate, leverage loans, CLO, counterparty risks...) is likely to be lower in Q109.
- **Asset management: outflow and client conservative approach.** Although the performance of asset management has been less volatile than that of investment banking business, no recovery is expected on this business since it is highly correlated to the equity market. After being burnt, clients – especially retail – have adopted a more prudent approach hitting net new money but also fees given investment in lower-beta instruments. Reining in costs will not be sufficient to preserve better financial performance.
- **Massive state intervention has to continue.** For more details, please refer to our *Credit Focus – Global rescue package*, published 17 March 2009).

Size of banking system vs sovereign CDS



Source: Central banks, banks, IMF, Calyon

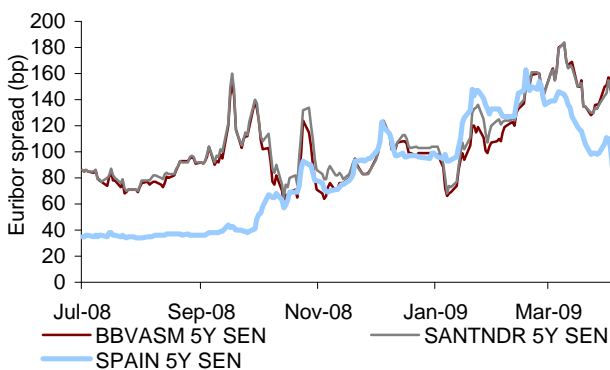
Widening of sovereign CDS



Source: Bloomberg, Calyon

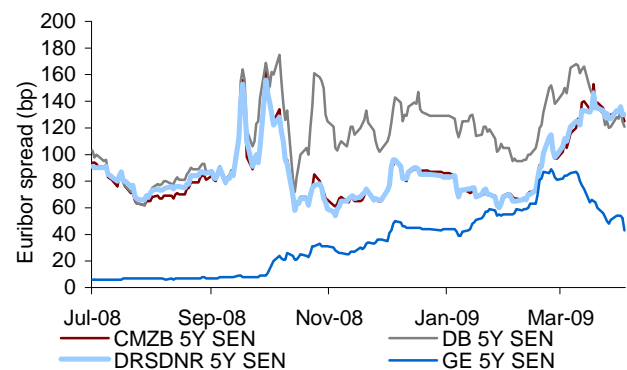
- **New wave of state capital injections to limit domestic tightening of credit conditions:** Given the uncertainties regarding asset quality, pressure from markets, rating agencies and regulators to boost capital buffers has pushed banks to deleverage and to undertake measures – eg, dividend cuts, capital gains on disposals – in order to increase the Core Tier 1 ratio. The latter has become a key discriminating factor among European banks. However, at a time when banks are facing losses/pressure on operating profit and it is impossible to raise capital through fixed income and equity markets, this approach limits banking capacity on new lending business. After providing liquidity and refinancing, the start of 2009 has been marked by state capital injections into banks in order to restore confidence and support domestic lending.
- **A necessary clean-up of banks' balance sheets:** Trying to clean up balance sheets via insurance schemes and 'bad banks' is in our view a necessary step in order to stabilise the banking system and help reduce pressure on capital. On top of uncertainties about the prices for buying back toxic assets and its complexity, how can we be sure that a balance sheet has been cleaned up when a bank is facing a tough economic recession (UK, US, RBS example)? This also raises the question of the necessary nationalisation of banks key to sustaining the domestic economy. Therefore, we are pushing for proactive action in European countries facing a rapid potential increase in toxic assets related to the economic downturn, like Spain, Ireland and Germany. Following a report from the European Union encouraging 'bad banks'/ insurance schemes in Europe, Q209 could be potentially marked by European measures on toxic assets.

Spain: largest banks vs sovereign



Source: Bloomberg, Calyon

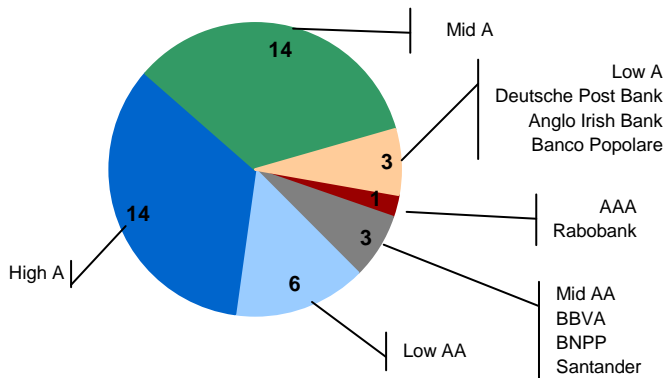
Germany: largest banks vs sovereign



Source: Bloomberg, Calyon

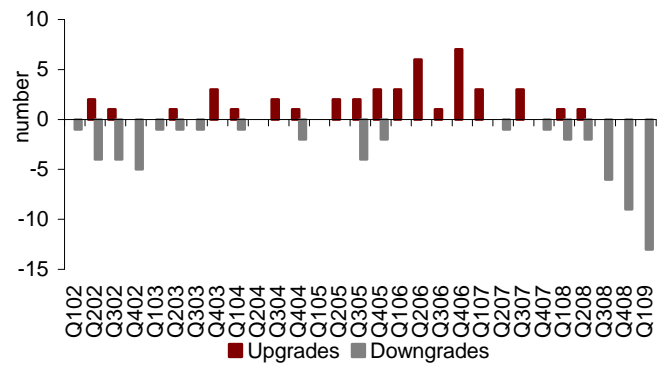
- **Capacity of state to support banks and the whole economy:** Since banks are the cornerstone of the crisis, states have no choice but to support banks as long as the crisis lasts. However, the capacity of the state to do so is more and more of a concern as the impressive widening of sovereign CDS since September as well as negative rating actions on Spain, Ireland, Greece or Portugal highlight. This creates distortion among banks requiring more co-operation between European countries, not only between Western countries but also CEE, given the high correlation between those economies and banking systems. Unicredit's presence in Italy, Austria, Germany and also most CEE countries illustrates this tricky issue well. But the past has demonstrated that protectionism tends to increase in a period of recession.
- **Massive wave of downgrades since the start of 2009: asset quality deterioration, structurally lower operating performance and insufficient capital ratios.**

Rating of largest Western European banks



Source: S&P, Calyon

Upgrades/Downgrades to major European banks



Source: S&P, Calyon

- **No European bank is immune from negative rating actions:** European banks have faced a new wave of downgrades and negative outlooks since the start of the year, affecting not only banks exposed to the financial crisis (BNPP, Deutsche Bank, Credit Suisse, Landesbanken, Natixis...) but also retail banks (Santander, BBVA, Cajas, Banca Popolari, ISPIM, Greek banks, Portuguese banks...). Since economic recession is only in the early stages in most European countries, where no improvement in credit metrics is expected, this trend is likely to continue, but with lesser magnitude.
- **Banking senior ratings: from private to public criteria:** The massive state intervention in banks has reduced the number of notches of downgrade to senior banking ratings. More than highlighting the quality of fundamentals, senior ratings tend to reflect more and more the support from the state and its quality. Having reached a floor, Commerzbank's ratings are primarily based on the capital injection from the state, which has become the largest shareholder of the bank. This also demonstrates the importance of the bank, with its leading franchise in Mittelstand sustaining the domestic economy. Banks' ratings may benefit from the transfer of toxic assets from banks to the public sector. After considering the limited potential capacity of the state and the impact of the strategy of having the State as a shareholder, ratings assigned to banks whose business model is key for their domestic/regional economy are likely to be more resilient.
- **Hybrid debts: loser of state support:** Unlike senior ratings, hybrid debts do not benefit from state support. As mentioned in our *Credit Focus – Still a future for Tier 1: the 'Mizuho' hope?*, published 25 February, 2009 marked the starting point of loss absorption by hybrid debts after the burden was shared by shareholders and taxpayers. This risk led ratings agencies to increase massively the rating uplift between senior and hybrid debts.

Downgrades of hybrid debts leading to a notch uplift with senior ratings

As of 4/7/2009	Moody's			S&P			Fitch		
	Senior	T1	Spread Senior-T1	Senior	T1	Spread Senior-T1	Senior	T1	Spread Senior-T1
Kommunalkredit	Aa3 *	Caa1 *	n-13	N/A	N/A	N/A	A+ *	CCC*	n-13
IKB	Baa3 *	Ca	n-11	N/A	N/A	N/A	BBB- *	CC	n-11
Nothern Rock	A2	Ca	n-15	A *	B *	n-9	A- *	BB-	n-6
Anglo Irish	A2	B3	n-10	A- *	N/A	N/A	A-	BB- *	n-6
Hypo Real Estate	A3	N/A	N/A	BBB *+	C	n-15	A-	CC	n-14
RBS	A1	Ba3 *	n-8	A	BB	n-6	AA-	BB- *	n-9
BayernLB	Aa2 *	A1 *	n-2	A	N/A	N/A	A+	B+ *	n-9
WestLB	A2	Caa1	n-11	A- *	N/A	N/A	A-	N/A	-
ABN Amro	Aa2 *	A1 *	n-2	A+	BB	n-7	AA-	BB- *	n-9
Fortis	A1	A3	n-2	A *+	BB+	n-5	A+ *+	BB- *+	n-8
Lloyds	A1	Baa2 *	n-4	A	BB	n-6	AA-	BB- *	n-9
Dexia	A1	B2	n-10	A	BB *	n-6	AA-	BB+ *	n-7
Caisse d'Epargne	Aa3	A2	n-4	A+	BBB+	n-3	A+ *	BB+ *	n-6
Natixis	Aa3	A3	n-3	A+	BBB	n-4	A+ *	BB+ *	n-6
DZ Bank	Aa3	Baa3	n-6	A+	BBB	n-4	A+	A-	n-2
Commerzbank	Aa3	Ba3	n-9	A	BB *	n-6	A	B+ *	n-8
Dresdner	Aa3	Ba2	n-8	A	C (1)	n-18	A	CC * (1)	n-15
ING	A1	A3	n-2	A+	BBB	n-4	A+	BBB- *	n-5
UBS	Aa2	A1	n-2	A+	BBB-	n-5	A+	BB *	n-7
AIB	Aa3	A2	n-2	A	BB+ *	n-5	A	BB *	n-6
Bank of Ireland	Aa3	A2	n-2	A	BB+ *	n-5	A	BB	n-6
Swedbank	A1	A3	n-2	A	BB+	n-5	A+	A	n-1
KBC Groep NV	A1	A2	n-1	A-	BB+	n-4	A+	A	n-1
Credit Agricole	Aa1	Aa3	n-2	AA-	A-	n-3	AA-	A+	n-1
BNPP	Aa1	Aa3	n-2	AA	A	n-3	AA	A+	n-2
Soc Gen	Aa2	A1	n-2	AA-	A-	n-3	AA-	A	n-2
Deutsche Postbank AG	Aa3 *	A2 *	n-2	A-	BB+	n-4	A-	BBB	n-2
HBOS	A1	Baa1 *	n-3	A	BB	n-6	AA-	BB+ *	n-7
SNS Real	Baa1	Baa3	n-2	A-	BB+	n-4	BBB+	N/A	N/A
Credit Suisse	Aa2	A1	n-2	A	BBB	n-3	AA- *	A+ *	n-1
Nordea	Aa1	Aa3	n-2	AA-	A-	n-3	AA-	A+	n-1
Danke Bank	Aa3	Baa1	n-4	A+	BBB	n-4	A+	A-	n-2
Erste Bank	Aa3	A2 *	n-2	A	N/A	N/A	A	N/A	N/A
MPS	Aa3	A2	n-2	A	BBB	n-3	A	A-	n-1
Unicredit	Aa3	Ba3 (2)	n-9	A	BBB	n-3	A+	A	n-1
Intesa	Aa2	A1	n-2	AA-	A-	n-3	AA-	A+	n-1

(1) HT1 funding GMBH perpetual bond; (2) ATF BV perpetual bond

Source: Rating agencies, Bloomberg, Calyon. As at 7 April 2009

Stricter banking regulation: enhancement of Basel II framework submitted by 17 April 2009

In contrast to a relaxation in terms of fair value, banks are now subject to a stricter regulation framework. In addition to pressure for national/European Union regulation like in Switzerland, banks are facing the impact of the reform of Basel II. In light of weaknesses revealed by the financial crisis, the proposed changes to capital requirements cover notably trading book exposures (complex and illiquid products), complex securitisations in the banking book, off-balance sheet vehicles. As a whole, Basel II is pushing for a boost to quality and capital buffers and promoting more rigorous supervision and risk management of risk concentrations. Proposed enhancements to the Basel II framework announced at the end of October 2008 should be submitted by 17 April 2009.

Q109: Transient relief leads us to remain very cautious

Massive write-downs on toxic assets, equity stakes and goodwill and equity portfolios, reclassification of assets, transfer of toxic assets, discontinuation of the most volatile businesses such as proprietary trading and a rise in loan loss provisions are some of the elements that marked Q408 results. Can it be considered a massive clean-up in order to start 2009 in better shape?

Unfortunately, Q109 is likely to be a blind test before coming back to darker periods (H209 in particular). Unlike the trend for corporates, Q109 will benefit from a very weak comparison basis: (1) Q408: the worst quarter since the beginning of the crisis and (2) Q108, the starting point for massive write-downs linked to toxic assets accounted on mark-to-market. As mentioned above, we expect additional writedowns on toxic assets – notably on monolines – will be more manageable. In addition to the better tone in the credit and equity markets versus Q408, CIB is likely to recover some colour in Q109. However, recall that this crisis is primarily a crisis of confidence, which remains fragile in such an

uncertain context marked by a wave of negative newsflow. Based on uncertainty regarding asset quality, the credit cycle is now hurting European banks. But the impact of the economic recession will take time to show up on banks' balance sheets and is more progressive in comparison with mark-to-market. In Q109, we will also watch the following items: (1) NIR, which has made up the lion's share of net banking income in 2008 with pressure on margins and slower volume, (2) rapidity of asset quality deterioration depending on segment and geographical exposure.

In addition to concerns on sovereign quality, in our view the key risk drivers in the coming months for the European banking sector remain the following (*Financials 2009 Outlook*, 18 December 2008): (1) recession in Europe, (2) emerging markets, which will benefit from IMF support agreed at the G20 summit, (3) sound core capital and (4) new business model. All in all, the Tier 2 banks will continue to be the first losers.

Winners/losers: key risk drivers in 2009

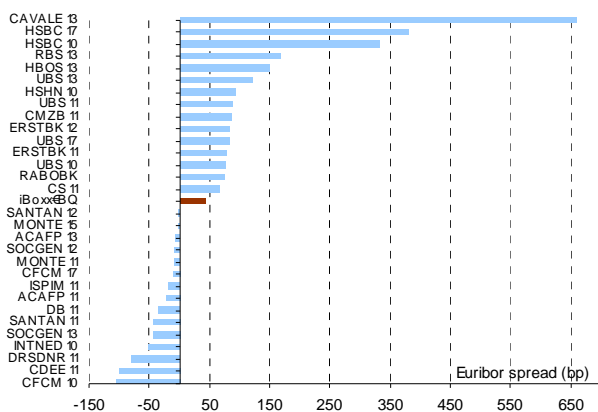
	Score*	Sovereign	Refinancing	Capital	Leverage	Emerging markets	Credit cycle
BBVA	-6	☹☹	☺☺	☹☹	☺☺	☹☹	☹☹
BNP Paribas	+3	☺☺	☺☺	☹☹	☹	☹	☹
Commerzbank	-8	☺☺	☹	☹☹	☹	☹☹	☹☹
Credit Suisse	-8	☹	☹	☺	☹	☹☹	☹☹
Deutsche Bank	-9	N/A	☹☹	☹☹	☹☹	☹	☹☹
Intesa Sanpaolo	+0	☹☹	☺☺	☹	☺☺	☹	☹
Montepaschi	-6	☹☹	☹	☹☹	☺	☺☺	☹☹
Santander	-7	☹☹	☺	☺	☺☺	☹☹	☹☹
Soc Générale	-5	☺☺	☺	☹	☹	☹☹	☹
UBS	-9	☹	☹☹	☹	☹☹	☹	☹☹
Unicredit	-7	☹☹	☺	☹☹	☺	☹☹	☹☹

* Lowest exposure: +10; Highest exposure: -10.

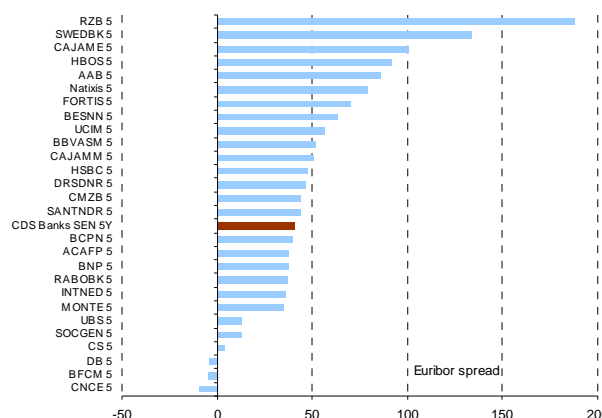
Source: Calyon

Winners/Losers

Banks senior Cash: YTD Top 15 winners/losers



Banks senior 5Y CDS: YTD winners/losers



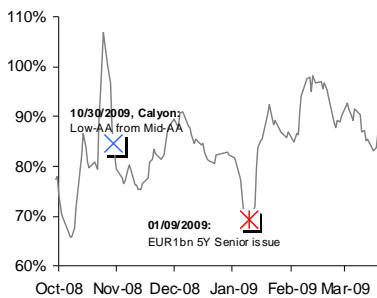
Sources: Calyon – As at 31 March 2009

- When looking at CDS performance, (1) state support and as a consequence CDS sovereign and (2) financial and economic newsflow in Europe as well as emerging markets (CEE, Latin America) have been the main spread drivers leading to increasing discrimination among players. The wave of rating downgrades has played a lesser role. In a market where most European banks have accessed the primary market thanks to their state guarantee (with more than EUR94bn raised through new issues versus EUR22bn on senior unsecured debt), technical factors are indeed still playing a key role in a CDS market that has been globally rather illiquid (limited flows; large bid-ask).

- Against such a backdrop, the big winners are French banks (except Natixis), Monte Paschi and Credit Suisse, Deutsche Bank and UBS. After being sharply hit in H208, the European investment banks have recovered some colour with more stable financial markets. Highlighting their universal business models, the plunge in CIB and AM of French banks – among the best rated European banks – has been offset by good resilience of retail businesses. On the other side, UK and Spanish names have been penalised by more adverse economic conditions pushing for state rescue. The underperformance of Unicredit and Swedbank reflects exposure to CEE. Forced to be bailed out by the state, visibility on Natixis, Dresdner/CMZB and Fortis remains poor.
- When looking at the cash performance, the same trend has been observed. The outperformance on Dresdner senior 11 reflects the merger with CMZB – benefiting from a capital injection from Soffin – leading to convergence with CMZB 2011.

Issuer snapshot

BBVA's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

➤ **BBVA (AA neg/Aa1/AA- pos): Mexico the key risk driver**

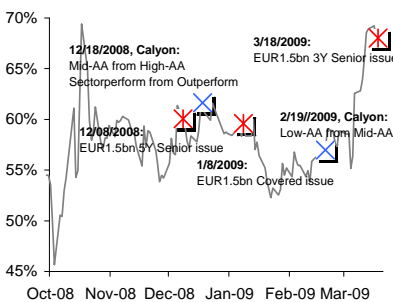
BBVA is facing a sharp economic deterioration (Spain, Mexico in recession), which will negatively impact volume growth (single-digit growth in 2009e) and asset quality (NPL: 2.12% for a coverage ratio of 91%). BBVA reiterated the soundness of its core Tier 1 ratios (6.2% at end-2008). A capital increase is still excluded since: (1) its high-quality franchises (retail, leading positions), (2) the non-reliance on buying assets from Spanish developers and loans being collateralised, (3) good cost control (0% nominal growth in 2009e), and (4) leeway to monitor its funding should mitigate a darker environment. Its 'white knight' positioning with support from Bank of Spain is not, in our view, ruled out. The bank remains among our top picks based on more defensive fundamentals than average. Exposure to Latin America remains the key risk driver. More than a deterioration in fundamentals, BBVA has suffered from negative newsflow from Spain and Latin America. We will mainly play the name on the primary market – new senior unsecured debt – based on an attractive premium and more limited issues available on the secondary market than Santander.

One year rating target: Low-AA (maintained)

Relative value: Sectorperform (maintained since 18/12/08)

See *Credit Alert – Q408, relatively resilient*, 28 January 2009

BNPP's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

➤ **BNP Paribas (AA neg/Aa1 neg/AA neg): Stop and go on Fortis**

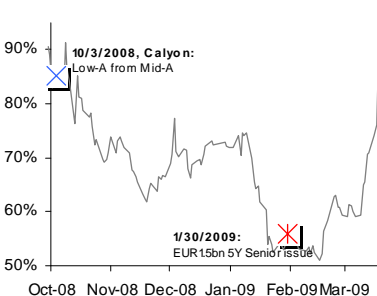
In line with other banks, the group has shifted its focus to cost control and risk. In CIB, where the bank has enjoyed a good start to 2009 – notably in fixed income markets – strategy is more client-oriented with less complex products. Being a leader in CIB, its exposure in consumer lending and its large lending portfolio (corporate, emerging market) plus more sluggish revenues from its French retail network are likely to hit its performance. Fortis – the vote on which has been postponed to 28-29 April – would strengthen its deposit base and is coherent with BNPP's strategy. BNPP has succeeded in dealing with its refinancing needs (covered bonds, senior unsecured ...). Its 6.5% Core Tier 1 ratio appears only adequate. BNPP is better equipped than most of its peers to cope with the more adverse financial and credit context. In the coming weeks, the market should continue to focus on the Fortis file rather than BNPP's fundamentals. We continue to prefer BNPP to Soc Gen.

One year rating target: Low-AA (maintained)

Relative value: Sectorperform (maintained since 18/12/08)

See *Morning Credit – 'Fortis general meeting postponed to 28/29 April'*, 2 April 2009

CMZB's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

➤ **Commerzbank (A/Aa3 neg/A): Correlated to the German state**

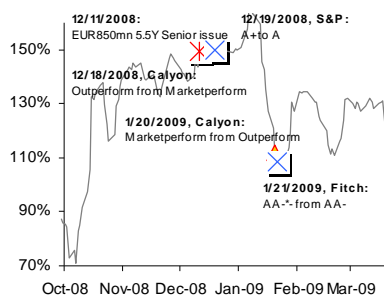
Visibility is poor on Commerzbank given the merger process with Dresdner. The latter posted losses in excess of EUR6bn for 2008, leading Commerzbank to inject EUR4bn into Dresdner in order to bring its Tier 1 ratio above 4%. The Tier 1 ratio of the new group is around 10%. Management does not rule out a third capital injection from the German government. EUR2bn in provisions is forecast for 2009 by the bank on a standalone basis, an amount considered optimistic given exposure to SMEs (EUR66bn, 70% in Germany), to CEE (around EUR30bn, German economy highly sensitive to CEE), real estate financing (EUR80bn), shipping and ABS portfolio (EUR11bn). Being a leader in Mittelstand, Commerzbank's business model is key for supporting the German economy. As such, the German government will provide additional support in case of need, limiting any rating downgrade. As for relative value, playing CMZB is a good opportunity, on both the guaranteed and unguaranteed senior debt, since it reflects first of all the German state. While the primary market is a good opportunity, caution remains on secondary.

One year rating target: Low-A (maintained)

Relative value: Underperform (maintained since 18/12/08)

See *Credit Alert – 2009 will be another very difficult year*, 18 February 2008

CSG's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

➤ **Credit Suisse Group (A/Aa2/AA- CW neg): Glimmer of light at the end of the tunnel?**

CSG has been sharply hit by the crisis, but is 2009 bringing some relief? Highly exposed to financial markets, the visibility on fundamentals is poor. CSG stated it had made a better start in 2009. Wealth management – which has demonstrated good resilience unlike at UBS – will be watched particularly, both for any outflows and reduction in margin. While the tunnel remains long, the following provide a glimmer of hope: (1) Tier 1 ratio at 13.3%, (2) strong efforts to de-risk (toxic assets: EUR14.8bn in Q408), without (3) reclassification of assets. An acceleration of de-risking on commercial mortgages (EUR8.8bn) is awaited. Further painful writedowns are not ruled out on corporate loans (CHF65bn, unfunded commitments: CHF47bn) and a EUR23bn exposure on emerging-market loans. Although prudent, CSG is more confident for 2009. Should the need arise, CSG is likely to receive support from the Swiss government, both in a capital injection and transfer of assets, and potentially from private investors. In terms of refinancing, the bank could use the covered bond market in addition to a private placement. In contrast to UBS, CSG has succeeded in launching senior unsecured.

One year rating target: High-A (maintained)

Relative value: Sectorperform (maintained since 20/01/09)

See *Credit Alert* – ‘Recommendation lowered to Sectorperform’, 20 January 2009

➤ **Deutsche Bank (A+ /Aa1 neg/AA- CW neg): Optimism in Q109 results**

DB suffered a net loss of EUR4.8bn in Q408. Losses were driven by adverse market conditions, which sharply hit CIB (equity derivatives, monolines, proprietary trading) and AM (EUR860m due to goodwill on Scudder and outflows). The bank benefited from the effects of the EUR35bn reclassification of assets. While we welcome the de-risking process, the Tier 1 ratio at 10.1% (below UBS and CSG) does not provide enough of a buffer to absorb potential losses on CIB (monolines) and an increase in impairment. Management has indicated that January and February have gone well. After taking into account its business model, we can understand why DB has refused German state support. We still have strong doubts about its capacity to continue to refuse support from the state. Note that DB plans to issue mortgage covered bonds. Given the low visibility on fundamentals, caution remains on this name, which should unveil relatively good Q109 results (versus dramatic Q408 results, due to exposure on fixed income). In the short run, we prefer DB over CSG and UBS.

One year rating target: High-A (maintained)

Relative value: Underperform (maintained since 18/12/08) given the overperformance versus senior index in the past few weeks.

See *Morning Credit* – ‘Deutsche Bank: no guidance for 2009’, 6 February 2009

➤ **Intesa Sanpaolo (AA-neg/Aa2/AA-): Clean-up to face tough period**

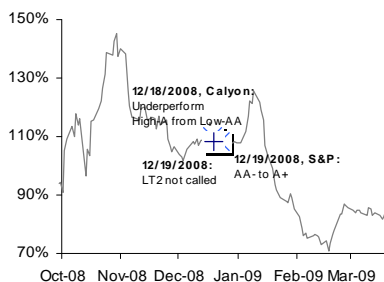
Q408 results have been marked by a massive write-down on equity stakes and goodwill, partly offset by the EUR1.6bn goodwill detaxation. The Italian bank has taken measures to boost its Core Tier 1 ratio to 7.4% (no dividend, EUR4bn Tremonti bonds). In addition to a low net NPL ratio, highlighting its rather conservative risk management policy, these measures should help the bank to cope with the gloomy outlook. Management appears very cautious for the coming quarters and does not expect any recovery in Italy before 2011. For 2009, (1) a mid-single-digit range decline is expected in NIR (volume and margin effect), (2) LLP is forecast to be in the range of 60-100bp, (3) costs should come in below 2008. We welcome this clean-up, which helps to improve transparency on the Italian retail bank (74% of loans in Italy), offering a rather defensive model. If required, the bank could benefit from Italian government support without dramatic changes to its business model. We prefer ISPIM to Unicredit and Montepaschi on both fundamentals and relative value.

One year rating target: High-A (maintained)

Relative value: Sectorperform (maintained since 18/12/08)

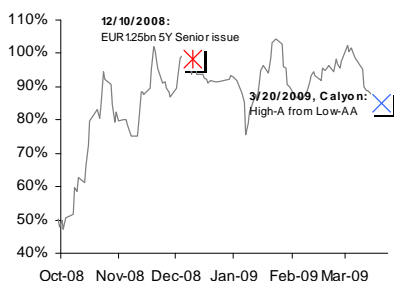
See *Credit Alert* – ‘ISPIM: measures to boost its Tier 1 ratio’, 23 March 2009

DB's CDS YTD performance



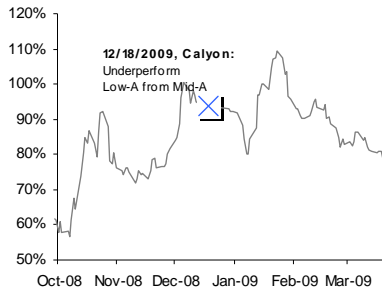
Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

ISPIM's CDS YTD performance



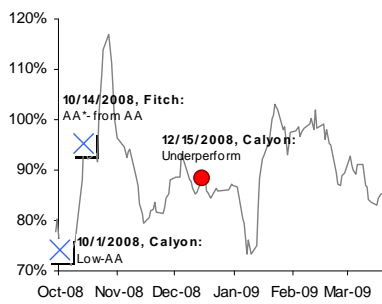
Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

MPS's CDS YTD performance



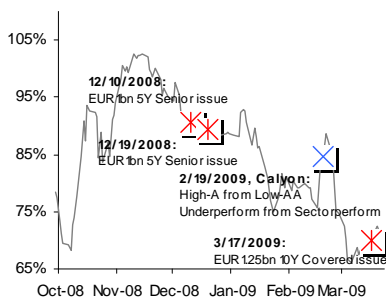
Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

Santander's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

Soc Gen's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

➤ Montepaschi (A neg/Aa3/A): The tough bit is still to come

The Italian bank posted mixed Q408 results. The priority will notably be costs (-3% in 2009e). Sensitive to the Italian economy, asset quality deterioration will be scrutinised. No surge in impairments has been observed in the first two months. Its Achilles' heel – the Tier 1 ratio – will be boosted to 7.1% after including EUR1.9bn Tremonti bonds. We consider this buffer just adequate given its business model (limited exposure to emerging markets, exposure to SMEs and corporates, 60% in southern and central Italian regions, better risk management than ISPIM). MPS CDS has outperformed the senior index over the first part of the year. While we prefer ISPIM on fundamentals, we note that CDS does not reflect this picture. We prefer MPS to Unicredit on relative value. Based on its business model – key for sustaining the domestic economy – and ownership component, MPS will be supported by the Italian State if needed without its business model being dramatically affected.

One year rating target: Low-A (maintained)

Relative value: Underperform (maintained 18/12/08)

See *Credit Alert – MPS: Tier 1, the Achilles' heel, to be boosted*, 30 March 2009

➤ Santander (AA neg/Aa1/AA CW neg): Highly sensitive to the credit cycle

Santander is operating in countries with the toughest outlook. This will put pressure on operating profit from the increase in LLP, the negative effect on exchange rates, lower business volumes/margin. We will scrutinise closely the exposure to Spanish property developers (EUR3.8bn domestic real estate bought in 2008 versus EUR0.6bn at BBVA). Loans to real estate developers make up 5% of total loans. The NPL ratio is expected to rise to 5% in 2009e in Spain and 2% in the UK, viewed as optimistic. The bank will focus efforts on cost control, in addition to exposure to consumer lending. It is targeting an adequate Core Tier 1 ratio above 7%. While we expect progressive deterioration in its fundamentals (in H109), Santander is facing strong negative newsflow. Despite recent acquisitions, we do not rule out the bank potentially playing 'white knight' with support from Bank of Spain. Volatility is likely to continue on relative value, particularly in CDS. Any negative newsflow on the Spanish banking system would hit the largest Spanish names. In comparison to BBVA, investors are less keen to increase their exposure to Santander, which has issued strongly.

One year rating target: Low-AA (maintained)

Relative value: Underperform (maintained 15/12/08)

See *Morning Credit – Good Q408, but high exposure to an economy sensitive to recession*, 6 February 2009

➤ Société Générale (AA- neg/Aa2neg/AA- neg): A fragile start to 2009

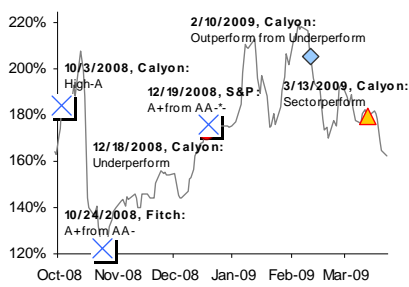
Soc Gen succeeded in offsetting the plunge in AM and CIB thanks to the resilience of its retail businesses both domestic and abroad (CEE exposure: 13% of loans), which, since the beginning of 2009, have faced signs of pressure. Financial services (13% of loans) posted only slightly positive income. Fixed income (primary market in corporate segment) started very well while the performance in equities was satisfactory. Soc Gen reiterated that its CIB business (25% of capital allocated) was strategic. The costs of risk have so far been manageable. For Q109, additional write-downs on toxic assets (monolines, indices and spreads) are expected but manageable. No further reclassified assets related to IAS 39 (EUR23.5bn in Q408) will be posted in Q109. Core Tier 1 ratios of 6.3-6.8% are forecast for end-2009, considered as just adequate. Sustainability of the fixed income business remains fragile in an environment of rising corporate defaults. Visibility on equity businesses (equity derivatives) remains poor. In the retail business, a progressive deterioration is expected with potential acceleration from the summer given the lag between economic deterioration and the bank's balance sheet. We still prefer BNPP to Soc Gen.

One year rating target: High-A (maintained)

Relative value: Underperform (maintained since 19/02/09)

See *Credit Alert – 'Darker times on the horizon'*, 19 February 2009

UBS's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

➤ UBS (A+/Aa2/A+): Still in the dark

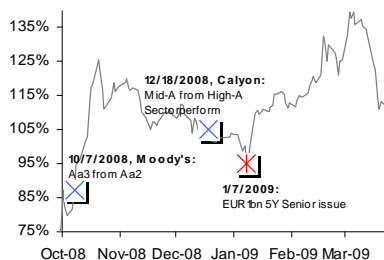
UBS has just announced a profit warning for Q109, in which a CHF2bn loss attributable to shareholders is forecast. This loss is mainly due to losses on previously disclosed illiquid risk positions, credit loss expenses and valuation adjustments on the last positions transferred to SNB (CHF3.9bn losses). Also negative, wealth management and Swiss banking posted a net outflow of around CHF23bn at end-March, notably due to settlements with US authorities. This new loss is likely to contrast sharply with the relatively good Q109 results expected for CSG and DB. Although the 10% Tier 1 ratio (-150bp versus Q408) provides something of a buffer, a further capital buffer is not excluded from potential losses. Shareholders have approved a potential capital increase of up to CHF29m by end-2011. Against this background, the bank has unveiled a new cost-cutting programme amounting to CHF3.5bn by end-2010 (-14% versus 2008), mainly new staff cuts (-11.5% by end-2010). While we view the recent appointment of Oswald Grubel (CEO) and the nomination of Kaspar Villiger as Chairman as positive, any strategic redirection will take some time to achieve. Restoring confidence in wealth and asset management – key businesses – is the main challenge. On top of litigation and ongoing reputational issues, potential profitability is also constrained by the de-leveraging and de-risking process in order to meet the Swiss Financial Market Supervisory Authority's (FINMA's) guidelines. While the Swiss state (and/or private investors) is likely to help the bank once again, given its franchise in the wealth management business, questions should be raised regarding its capacity for support (bank total assets/GDP: ca. 650%). Unlike CSG, UBS has not succeeded in issuing debt in the primary market. All in all, we still prefer CSG to UBS, in respect of both fundamentals and relative value.

One year rating target: Mid-A (maintained)

Relative value: Underperform (maintained since 15/04/09)

See *Morning Credit – 'UBS: profit-warning in Q109'*, 15 April 2009

Unicredit's CDS YTD performance



Source: Bloomberg, Bond Radar, Bond Rumours, Calyon

➤ Unicredit (A/Aa3/A neg): CEE exposure: from El Dorado to nightmare

While Unicredit succeeded in mitigating massive losses in CIB thanks to the resilience of commercial businesses, 2009 is likely to be a tough year with a more adverse economic environment in all the countries where it operates, and more specifically in CEE (16% of RWA, 26% of NBI in 2008). The deterioration in asset quality and pressure on operating performance – already observed in Q4 in Italy, Turkey, Ukraine and Kazakhstan – is likely to accelerate. Cheuvreux forecasts a cost of risk of 120bp for 2009 (vs 62bp in 2008). From now on, the priority is cost control and deleveraging (leveraged buyout). No detailed guidelines have been provided. Net borrowing from banks rose to EUR96bn. Although the willingness to shore up its Core Tier 1 to 7.2% with a EUR4bn capital increase from the Italian and Austrian governments and third parties will provide breathing space, this buffer remains only adequate given the low visibility on the assets and the risk of impairments. In addition, questions can be raised on the complex business model, since state intervention is meant to support the domestic economy.

One year rating target: Mid-A (maintained)

Relative value: downgraded to Underperform (previously Sectorperform since 18/12/08)

See *Credit Alert – Unicredit: cost control and new capital increase*, 18 March 2009

Financials earnings calendar

April

6 Monday	7 Tuesday	8 Wednesday	9 Thursday	10 Friday
13 Monday	14 Tuesday Goldman Sachs Q109 Results	15 Wednesday UBS AGM	16 Thursday JPMorgan Q109 Results	17 Friday Citigroup Q109 Results
20 Monday Bank of America Q109 Results (E)	21 Tuesday DnBNOR Citigroup AGM	22 Wednesday Wells Fargo Q109 Results	23 Thursday Credit Suisse Swedbank Q109 Results Barclays AGM	24 Friday Credit Suisse Swedbank AGM
27 Monday ING AGM	28 Tuesday BBVA Deutsche Bank Handelsbanken Q109 Results Intesa SP Fortis AGM	29 Wednesday Fortis Handelsbanken MPS UniCredit AGM Nordea Santander Q109 Results	30 Thursday KBC Natixis AGM Standard Life Q109 Results	1 Friday

May

4 Monday	5 Tuesday	6 Wednesday	7 Thursday	8 Friday
	Danske Bank UBS Q109 Results	BNPP DnBNOR Q109 Results	SocGen ZFS Q109 Results Barclays Q1 Interim Mgmt Statement	Commerzbank Q109 Results
11 Monday	12 Tuesday UniCredit Q109 Results	13 Wednesday Dexia ING Q109 Results BNPP Dexia AGM	14 Thursday CASA KBC Natixis Intesa SP MPS Fortis Q109 Results Banque Populaire AGM	15 Friday Commerzbank Standard Life AGM
18 Monday	19 Tuesday CASA SocGen AGM	20 Wednesday	21 Thursday	22 Friday HSBC AGM
25 Monday	26 Tuesday Deutsche Bank AGM	27 Wednesday	28 Thursday	29 Friday

June

1 Monday	2 Tuesday	3 Wednesday	4 Thursday	5 Friday
8 Monday	9 Tuesday	10 Wednesday	11 Thursday	12 Friday
15 Monday	16 Tuesday	17 Wednesday	18 Thursday	19 Friday
22 Monday	23 Tuesday	24 Wednesday DZ Bank AGM	25 Thursday	26 Friday
29 Monday	30 Tuesday	1 Wednesday	2 Thursday	3 Friday

www.calyon.com

Data releases as of 15 April 2009

Appendix – Summary of CDS recommendations

Issuer Issuer's Names	Ratings		Spot CDS	Variation			Expected		Spot vs Index			Perf. Expectation vs Sector Index		
	S&P/Moody's	Calyon		1 Week	1 Month	YTD	Trend	Ratio	Fair Value	Spot-FV	Previous	Since	New	
							(1)		(2)			(3)		

Expected trend

According to our quantitative model, this column indicates the expected trend for each single name (sector) relative to its sector index (the iTraxx Main):

↗ The single name (resp. sector) should underperform its sector (resp. iTraxx Main) in the month following. Indeed, the single name CDS over sector index ratio has tightened a lot in the past few days and so the model anticipates a trend reversal. This means that it is a good time to play the underperformance (but not necessarily the widening as we are in relative value)

→ No trend reversal is expected

↘ The single name (resp. sector) should outperform its sector (resp. iTraxx Main) in the month following. The ratio single names CDS/sector index has widened a lot in the past few days and so the model anticipates a trend reversal. This means that it is a good time to play the outperformance (but not necessarily the tightening as we are in relative value)

Fair value model

The **ratio** corresponds to the single name spread divided by its sector index (or sector index divided by iTraxx Main).

The historical fair value model has been developed to enhance our recommendation on every issuer of the coverage list. Its principle is based on a historical observation of the positioning of the 5Y CDS spread over the sector index. The average between the 3M, 6M and 12M ratios is considered to be the fair positioning of the 5Y CDS over the sector index. Therefore, with the spot value of the index, we can compute the historical fair value of the CDS.

The calculation of the historical fair value is achieved in several steps.

- **Step 1:** Using Calyon prices, we compute the ratio: '5Y CDS spread/index' for every trading day. It is worth noting that the computation of the index takes into consideration the PV01 weighting method (the wider the name, the less impact it has upon the fair value calculation for the index).
- **Step 2:** Once step 1 has been achieved, we compute the average value of the ratios over three months (3M), six months (6M) and one year (12M).
- **Step 3:** The average between the 3M, 6M and 12M ratios is considered to be the fair positioning of the 5Y CDS over the sector index. Therefore, with the spot value of the index, we can compute the historical fair value of the CDS. Comparing the spot price of the CDS and its fair value according to our model gives the analyst a quantitative tool to appreciate the potential future performance of an issuer vs the sector.

Performance expectation vs sector index

This represents the view of our analysts based on a fundamental analysis. It also indicates how long a particular recommendation has been held.

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The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report.

Gwenaëlle Lereste

Recommendation System:

Fundamental credit assessment: We evaluate the fundamental credit quality trend of an issuer for the next 12 months.

Calyon's Credit Research evaluates the potential changes of an issuer for the next 12 months and assigns a one year forward rating based on S&P's scale. This rating is to be compared with the average long-term rating assigned by S&P and Moody's.

Internal credit rating: We assign a rating to a company which reflects the assessment of the credit quality by the credit analyst. The timeframe for the rating is one year. As a rating scale we use a scale similar to the one of S&P and Fitch, however, we substitute the rating agencies plus or minus by high and low, ie. the Calyon scale uses AAA, High-AA, Mid-AA, Low-AA, High-A, Mid-A etc.

Performance of credit instruments: We express our expectation of how the 5 year CDS is going to perform vis-à-vis its sector. The timeframe of that recommendation is one month. When the analyst changes a recommendation he/she should indicate in the analysis when the last recommendation was made.

Outperform: CDS spreads should outperform the sector performance.

Sectorperform: CDS spreads should perform in line with the sector performance.

Underperform: CDS spreads should underperform the sector performance.

Credit products rating distribution table:

(as of 16th Jan 2009)

	All covered companies		Companies where Calyon provided Investment Banking Services in past 12 months	
	Count	Percentage	Count	Percentage
Outperform	21	20%	3	14%
Sectorperform	44	41%	5	11%
Underperform	42	39%	4	10%

Disclosures

Company Name	Disclosure	ING Bank	G
Bradford & Bingley	None	Intesa Sanpaolo	E
Banca Popolare di Milano		Landesbanken	None
Banca Popolari	None	Lloyds TSB	None
Banco Pastor	None	Mittelstand	None
Banco Sabadell	None	Mizuho	None
Barclays	None	Montepaschi	None
BBVA	None	Natixis	None
BNP Paribas	E	QBE Insurance Gp	None
Caja Madrid	None	Rabobank	None
Commerzbank	None	Royal Bank of Scotland	
Credit Agricole	None	Sabadell	None
Credit Suisse Group	F	Sampo Bank	None
Deutsche Bank	E	Santander	None
Dexia	G	Société Générale	E
Dresdner	None	Standard Chartered	None
Fiona Bank	None	Swedbank	None
Fortis	None	UBS	None
HBOS	None	Unicredit	None
HSBC	G	Zurich Finance	None

A	NOT IN USE
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