

U.S. Large Cap Bank and Broker Preview

Upgrading BAC to Buy and Continue to See Value in JPM

- **Upgrading BAC to Buy and continue to see good value in JPM...** – We are upgrading BAC to a buy with a target price of \$19 (23% expected total return), which reflects a cost of equity more in line with history and no longer impacted by legacy issues. We believe BAC has built-in earnings drivers on the cost side which puts us slightly ahead of consensus. Also, if US economy continues to improve, we believe investors will look to BAC (as well as JPM) as a play on the US economy due to an asset sensitive balance sheet and exposure to the US consumer. We see similar value in JPM, and are raising the target price to \$72 with an expected total return of 27%. We expect JPM to beat modestly in 4Q13 and BAC to report in-line results for 4Q.
- **...And see roughly 10% total return potential in GS and MS...** – With GS and MS trading at 1.2x TBV, we believe the market is mostly pricing in management's ability to drive returns above cost of capital even though it will take several years to get there. We see GS as having the most 4Q13 upside vs cons (\$4.37 vs \$4.16 cons) and raise target price to \$195 (12% expected total return). While investors were encouraged by a reduction in GS comp accrual in 3Q, we expect the comp accrual to be flat on full year basis, which may limit near term upside as the path to getting above cost of capital remains uncertain. We see MS reporting in-line with consensus with continued improve trends in GWM (see pretax margin increasing 100 bp to 20%), and we are raising target price to \$35 implying 12% total return.
- **...And least value in LAZ** – We raise LAZ's target price to \$46, implying 4% expected total return, the lowest within our coverage for capital markets names. We believe 4Q13 consensus estimates are too high (\$0.50 vs cons \$0.58) due to weaker than expected M&A activity and incentive fees, but will still be able to reach mgmt's year-end operating margin target of 21%-22%.
- **4Q Trends – seasonal trading weakness and strong ECM** – October budget uncertainty and the holiday slowdown means lower client activity among market businesses while tapering in December helped offset some seasonal weakness, but not enough to significantly move estimates. Overall, we see FICC revenue down 9% vs 4Q12 roughly in-line with our prior expectations, and equity trading up 3% y/y (vs prior est -1%) a little better than our previous expectations. We see a robust 4Q for equity capital markets led by record IPO issuance and strong follow-on activity. We have ECM underwriting up 67% y/y on average for the group, led by BAC and JPM.

Keith Horowitz, CFA

+1-212-816-3033

keith.horowitz@citi.com

Michael J Cronin, CFA

michael.cronin@citi.com

Christopher Larmoyeux

christopher.larmoyeux@citi.com

Harvey Lei, CFA

harvey.lei@citi.com

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Bank of America	BAC	2	1	US\$16.00	US\$19.00	US\$0.87	US\$0.87
Goldman Sachs	GS	2	2	US\$150.00	US\$195.00	US\$15.15	US\$15.24
JP Morgan Chase	JPM	1	1	US\$66.00	US\$72.00	US\$4.40	US\$4.41
Lazard	LAZ	2	2	US\$37.78	US\$46.00	US\$1.65	US\$1.70
Morgan Stanley	MS	2	2	US\$30.00	US\$35.00	US\$1.85	US\$1.82

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Key Takeaways

Figure 1. We see upside potential in 4Q13 earnings est for GS and JPM, but downside in LAZ

	Citi	Cons	Citi Vs.
BAC	\$0.26	\$0.27	(\$0.01)
GS	\$4.37	\$4.16	\$0.21
JPM	\$1.38	\$1.33	\$0.05
LAZ	\$0.50	\$0.58	(\$0.07)
MS	\$0.47	\$0.46	\$0.01

Source: Citi Research, Factset

Figure 2. Capital Markets names continue to outperform from the end of 3Q13 reporting season

	10/21 to 12/30
LAZ	17.8%
GS	10.8%
JPM	7.4%
BAC	7.3%
MS	6.6%
Average	10.0%
S&P 500	5.9%
BKX	5.8%

Source: Citi Research, Factset as of 12/19/2013

Figure 3. JPM's and BAC's implied betas still have room to come down ...

	Market Implied	
	Cost of Equity	Beta
BAC	11.7%	1.29
JPM	11.5%	1.27
GS	11.0%	1.20
MS	10.8%	1.18
BBT	10.4%	1.13
WFC	10.3%	1.12
LAZ	10.3%	1.12
PNC	10.0%	1.08
FITB	9.9%	1.06
MTB	9.6%	1.03
USB	9.3%	1.00

Source: Citi Research, Factset, as of 12/30/13

1) Raising target prices for capital markets names – The capital markets names had good performance heading into a seasonally strong 1Q with the group up ~10% in 4Q13. LAZ was the top performer within our coverage as investors become more comfortable with a 2014 recovery in M&A activity. In Figure 4, we summarize our new target prices which reflect our new 2016 estimates as well as updated cost of equity assumptions which embed a 1.5% risk free rate, 7.5% equity risk premium, and betas more in line with precrisis levels (and not necessarily in line with one year historical betas which we believe are inflated). As a result, we still see JPM as best value in the group, and BAC has been upgraded to a Buy with over 20% expected total return potential. We made minor tweaks to estimates and long term normalized returns, but they did not significantly impact our target prices.

■ **Upgrading BAC to Buy with a target price of \$19** – We are upgrading BAC to a buy with a target price of \$19 implying a 23% expected total return. We believe BAC has built-in earnings drivers on the cost side which puts us slightly ahead of consensus. Also, if US economy continues to improve, we believe investors will look to BAC (as well as JPM) as a play on US economy due to asset sensitive balance sheet and exposure to US consumer. BAC currently trades at 9.5x our 2015 EPS estimate, which represents a 35% P/E discount to S&P 500. Similar to GS and MS, BAC trades at 1.2x tangible book but we see more value in BAC due to: 1) higher return potential near term and long term – we see 12% ROTE for BAC in 2015 without benefit of higher rates (vs 10% for MS and 12% for GS) and a clearer path to “normalized” mid teen returns once rates move higher and legacy issues are addressed, and 2) BAC’s business mix ultimately lends itself to a lower cost of equity (or higher P/E valuation) than capital markets names.

Our favorite way to look at valuation is by comparing the implied cost of equity (and beta) for each of the stocks which takes into account where the stocks are trading and factoring in our near and long term return estimates, and then simply solving for the discount factor. One can see that BAC has the most elevated cost of equity, which we believe can fuel outperformance in the stock as legacy issues are resolved.

– **We see BAC reporting 4Q EPS of \$0.26, roughly in line with consensus of \$0.27** –The 1c tweak in our number is due to higher legal costs from ongoing mortgage litigation, partly offset by stronger ECM revenues due to record IPO issuance.

■ **With litigation tailwind mostly behind JPM, stock has room to play catch up** – We raised our 4Q13 EPS by a penny to \$1.38 (vs cons \$1.33), and remain above consensus for the quarter. It is likely to be a messy quarter with various moving parts such as Visa stock sale gain, higher litigation reserves, and lower mortgage gain on sale, but we think underlying core results will continue to be strong. YTD JPM has lagged our capital markets names due to regulatory and headline overhangs despite posting solid earnings results. As these legal matters move behind them, we expect the stock to catch up to the rest of our names. JPM currently trades at slightly less than 9x our 2015 EPS estimate.

■ **Raising GS estimate due to higher equity trading and IB fees** – We raise our EPS by 8c to \$4.37 vs cons \$4.16 on stronger than expected primary and secondary equity activity. Our estimates for FICC are coming in as expected, up 30% q/q, but down 21% y/y on a strong 4Q12. We believe weaker mortgages and commodities has weighed on 4Q13 FICC results. We expect core Equity trading up 6% y/y and ECM up 30% y/y. We forecast a flat full year comp ratio of 38% even as revenues decline 3% in 2013. We view this beat as a slight positive

despite flat year-end comp ratio vs 2012, as GS will still produce an 11% ROE in 2013, significantly above competitors.

- **TBV dilution from Buffett warrants to be offset by estimated earnings growth** – On October 1, Warren Buffett exercised in full his warrants to purchase GS common stock. GS will deliver over ~13 mil shares of common stock. There will be no effect to the diluted share count (already included) and EPS, but will affect period end shares. This results in an estimated 3-4% hit to TBV, but this is offset by estimated 4Q13 earnings growth keeping TBV flat q/q at roughly \$144.

Figure 4 . . . and offer best expected total returns

	TP	Exp Total Return
JPM	\$72	27%
BAC	\$19	23%
MS	\$35	12%
GS	\$195	12%
LAZ	\$46	4%
Average		16%

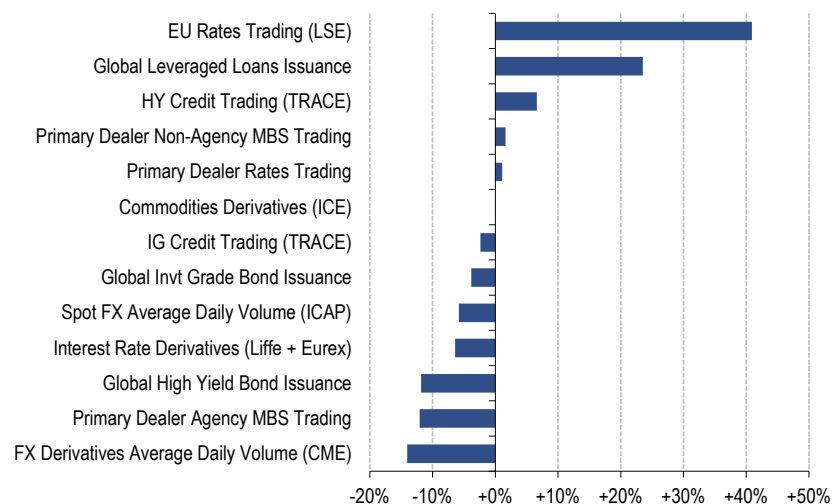
Source: Citi Research

- **We are lowering MS 4Q13 EPS on a lower than expected M&A activity, but focus is on continued execution in GWM** – We lower estimates by 5c to \$0.47 (vs cons \$0.46) due to weaker than expected Advisory revenue. We expect Advisory revenue to be down 35% y/y partially due to a tough 4Q12 comp, but also on weaker deal flow throughout the quarter. Better than expected ECM revenues, estimated up 65% y/y, will help offset an overall weaker IB quarter. We continue to be positive that their GWM business can produce a flat to slightly higher pretax margin in 4Q vs 19% in 3Q13.
 - Our estimate excludes DVA charges, which are typically excluded from consensus, and we estimate could have a negative \$335 mil/\$0.11 impact as MS's credit spreads have narrowed since the end of 3Q.
- **We raise LAZ estimate on better M&A, but not enough to meet consensus** – We raise our 4Q13 EPS estimate on better than expected M&A and Strategic Advisory to \$0.50 from \$0.47, but still way below consensus of \$0.58. Despite our lower than cons estimate, we still believe LAZ can get to the low end of mgmt's year-end operating margin target between 21%-22%. While 2014 M&A outlook has improved, we believe the embedded option in LAZ for better M&A is fully priced at this point and would wait for a better entry point.

ECB rate cut spurs trading activity in EU Rates; Primary issuance also continues to hold up better than expected despite rising rate uncertainty

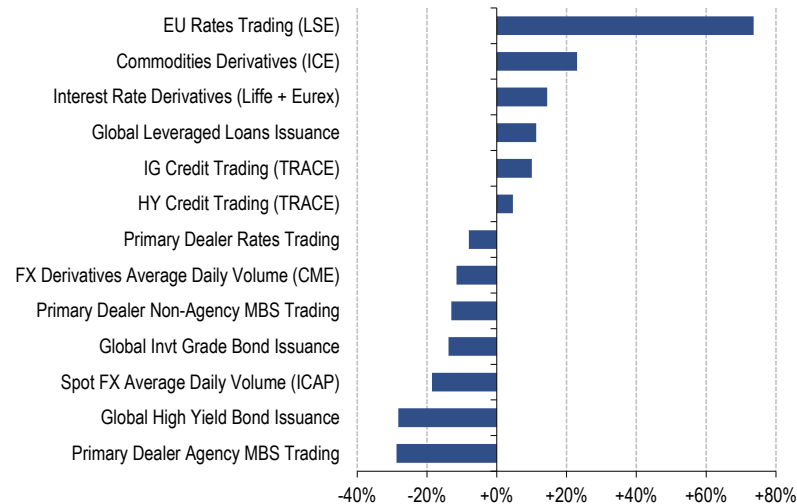
Record IPO issuance boosts ECM revenues; Cash equity trading better than expected

Figure 5. FICC Q/Q



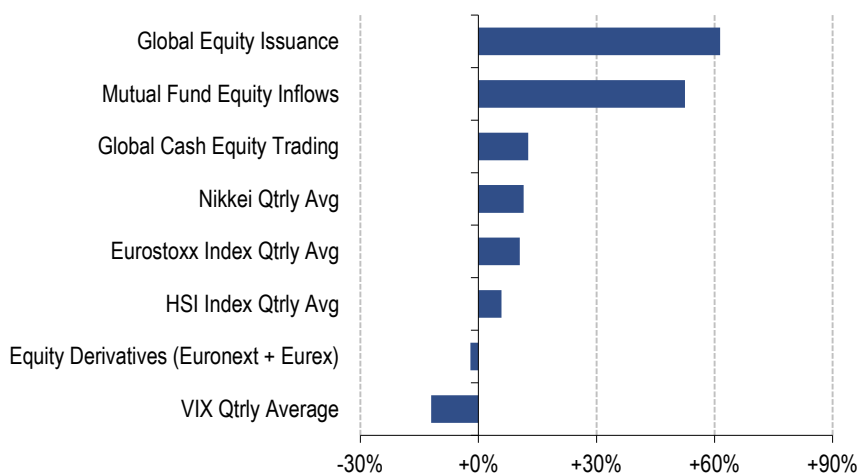
Source: Citi Research

FICC Y/Y



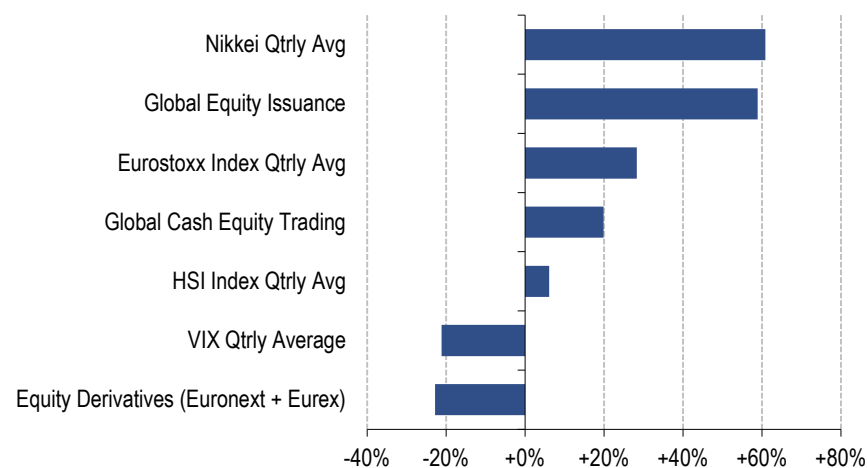
Source: Citi Research

Figure 6. Equities Q/Q



Source: Citi Research

Equities Y/Y



Source: Citi Research; Dealogic, Bloomberg as of 12/31/13. EUREX, ICE, LIFFE, CME, LSE, Federal Reserve, SIFMA, ICAP. Exchange data shows adjusted 4Q13

Figure 7. Core Investment Banking Comps

Core FICC

	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	4Q Est	
											Q/Q	Y/Y
JPM	2,799	2,626	5,016	3,493	3,726	3,177	4,752	4,078	3,439	2,923	-15%	-8%
GS	1,423	1,343	3,575	2,194	2,449	2,117	3,259	2,431	1,294	1,682	30%	-21%
BAC	533	1,531	4,130	2,555	2,534	1,788	3,001	2,259	2,033	1,728	-15%	-3%
MS	1,373	1,246	2,590	996	1,458	811	1,515	1,153	835	876	5%	8%
Total	6,128	6,746	15,311	9,238	10,167	7,893	12,527	9,921	7,601	7,209	-5%	-9%

Core Equities

	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	4Q Est	
											Q/Q	Y/Y
JPM	1,047	806	1,424	1,043	1,044	895	1,340	1,296	1,249	967	-23%	8%
GS	2,189	1,693	2,358	1,695	1,980	1,851	1,957	1,823	1,641	1,619	-1%	-13%
BAC	753	649	1,059	780	715	713	1,149	1,194	970	820	-15%	15%
MS	1,341	1,277	1,956	1,252	1,228	1,401	1,594	1,806	1,710	1,611	-6%	15%
Total	5,330	4,425	6,797	4,770	4,967	4,860	6,040	6,119	5,570	5,017	-10%	3%

Total U/W & M&A

	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	4Q Est	
											Q/Q	Y/Y
JPM	1,039	1,119	1,375	1,245	1,429	1,720	1,433	1,717	1,510	1,619	7%	-6%
GS	781	857	1,154	1,203	1,164	1,405	1,568	1,552	1,166	1,428	23%	2%
BAC	1,104	1,129	1,286	1,179	1,367	1,629	1,602	1,605	1,395	1,669	20%	2%
MS	864	883	851	884	969	1,226	945	1,078	992	1,142	15%	-7%
LAZ	199	167	193	195	171	234	121	218	176	210	19%	-10%
Total	3,987	4,155	4,859	4,706	5,100	6,214	5,669	6,170	5,239	6,068	16%	-2%

Total Core Trading & I-Banking

	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	4Q Est	
											Q/Q	Y/Y
JPM	4,885	4,551	7,815	5,781	6,199	5,792	7,525	7,091	6,198	5,509	-11%	-5%
GS	4,393	3,893	7,087	5,092	5,593	5,373	6,784	5,806	4,101	4,730	15%	-12%
BAC	2,390	3,309	6,475	4,514	4,616	4,130	5,752	5,058	4,398	4,217	-4%	2%
MS	3,578	3,406	5,397	3,132	3,655	3,438	4,054	4,037	3,537	3,629	3%	6%
Total	15,246	15,159	26,774	18,519	20,063	18,733	24,115	21,992	18,234	18,084	-1%	-3%

Source: Citi Research, Company Reports

“...In the market side, fixed income and equities tracking well versus client volumes, which are down slightly versus year to date, the same time year to date a year-ago quarter” – Michael Cavanagh, Co-CEO of JPM Corp & IB at the BAC Financials Conference

Figure 8. Muni spreads wide as investor confidence remains subdued



Source: Citi Research, MCDX

Figure 9. Commodities revenue continues to remain at cyclical lows

	CME Energy	Q/Q	Y/Y
4Q12	1,488,551	-6%	-13%
1Q13	1,730,004	16%	-11%
2Q13	1,796,174	4%	3%
3Q13	1,609,288	-10%	1%
4Q13	1,589,358	-1%	7%

	CME Metals	Q/Q	Y/Y
4Q12	323,780	-1%	3%
1Q13	396,418	22%	3%
2Q13	471,267	19%	27%
3Q13	360,047	-24%	10%
4Q13	320,853	-11%	-1%

Source: Citi Research, CME

2) Typical 4Q seasonality in trading businesses, but equity capital markets and equity trading stronger than expected

Budget negotiations in October slowed fixed income client activity particularly in US rates, but tapering at the end of December has helped offset some of this weakness. With the surprise ECB rate cut, EU rates desks saw outsized strength in trading activity as clients re-hedged and re-positioned. Credit volumes also performed better than expected as spreads continued to tighten into the quarter end. Commodity products continued to be weak as activity remains at cyclical lows and volatility continues to be depressed. Equities have continued to rally (S&P 500 up ~8% q/q) boosting Equity Capital markets activity. Strong primary markets have also boosted equity trading volumes. M&A pipelines remain robust, but have not seen this translate into above average completions.

Fixed Income revenues down 9% y/y on average for the group

■ **Rates activity remains muted as October budget slows volumes** – Investors remained on the sidelines as the October budget negotiations and taper timing uncertainty played out. Rate volatility came down ~21% q/q, but was range bound for most of the quarter. EU rates saw outsized activity levels (up ~75% y/y) for the quarter as the ECB surprised markets in early November and cut their refinancing rate by 25bps to 0.25%.

– **Continued weakness in munis may weigh on BAC FICC results** – Due to BAC’s strong market share position in the municipal finance space, we believe weakness in that market weighs on BAC’s FICC results more than competitors. The muni market remained weak as the after affects from the Detroit bankruptcy and the Puerto Rican bond scare continued to weigh on investor sentiment. Spreads remained elevated during the quarter as measured by the MCDX, curbing client activity.

■ **FX down on seasonal weakness** – Volumes remained lackluster as indicated by CME futures volumes down 9% q/q and down 7% y/y. FX volatility was down 3% q/q in 4Q13 causing less need to hedge from corporate clients.

■ **Credit better than expected** – Credit tends to have a lot of seasonal decline in the fourth quarter, but have held up okay and ahead of expectations. Per Figure 11, Investment grade debt trading volumes were flat q/q, but high yield trading volumes were up 12% q/q. While October and November were slow, December saw an uptick in activity as the Fed’s decision to taper caused strong activity to position ahead of the decision and into year end.

■ **Weaker quarter for mortgage** – 4Q13 should be a weaker quarter for non-agency mortgage desks as volumes were muted despite price appreciation. Non-agency volumes were helped by the Dutch State’s decisions to sell a legacy \$5.1 bil RMBS portfolio previously held by ING before its bailout in 2009, to a consortium of banks who bought on behalf of customers. GS, BAC, and MS were among the largest buyers.

■ **Commodities remains lackluster** – Another weak quarter for commodities due to low levels of volatility in oil products and a decline in precious metals. Using CME commodity futures as a proxy for overall activity, energy volumes were down 1% q/q while metals volumes were down 11% q/q. Deutsche Bank became the latest investment bank to announce the exit of a majority of their commodities businesses.

Equity Revenues up 3% y/y on average for the group

Figure 10. Nikkei rose ~12% QTD significantly contributing to equity derivs strength in 4Q13



Source: Citi Research, Bloomberg

“...But it’s a healthy quarter, might come in looking something similar to the third quarter for IB fees” – *Michael Cavanagh, Co-CEO of JPM Corp & IB at the BAC Financials Conference*

“We are starting to sense some optimism regarding the global economy from boardrooms and business leaders an encouraging sign for M&A” – *Ken Jacobs, CEO of LAZ at the GS Financials Conference*

“I feel very good about M&A activity in 2014, certainly with the tailwinds we’re getting through” *Colm Kelleher, President of Institutional Securities at MS at the GS Financials Conference*

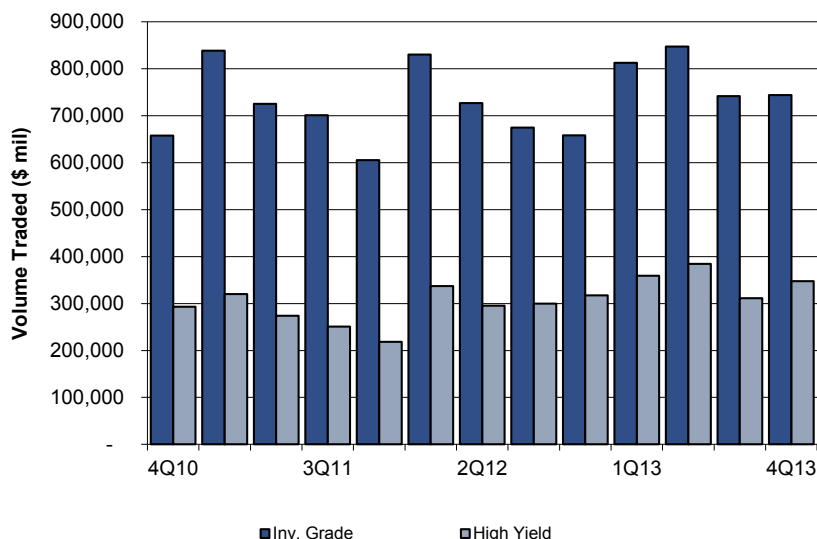
- **Cash equity volumes rebound off weak 3Q** – Strong volumes during the quarter led by gains in the overall equity market (S&P 500 up ~10% in 4Q13) and record primary issuance. Cash trading volumes are up 6% q/q and 4% y/y, and for the full year they are down 2.5% y/y. From speaking with various market participants, large situational trading activity kept market makers busy during seasonally slow fourth quarter.
- **Another strong quarter for equity derivatives businesses** – A reasonably good quarter for equity derivatives as volatility continued to remain range bound, low enough so desks were not taking losses and high enough to entice customer activity. Asian equity derivatives desks, particularly in Japan, had another strong quarter as the Nikkei rallied ~12%. Structured derivatives activity remained strong among corporate clients, as a pickup in M&A / takeover activity spurred activity, but flow trading desks saw muted activity this quarter especially as hedge funds continued to lag the S&P.

Investment Banking & Advisory down 2% y/y on average for the group

- **Record pipelines has not yet translated into Completed M&A** – Completed M&A volumes are down 11% y/y (see Figure 14). The M&A pipeline continues to grow, with many executives citing strong pent-up M&A deals, but this has yet to materialize into completed M&A.
- **Record quarter for ECM should drive investment banking revenues...** – Equity capital market volumes, up 49% y/y, have jumped considerably this quarter after record IPO issuance. Equity issuance is up 103% y/y and up 174% q/q. Convertible equity issuance has also added to overall strength, up 161% q/q and 110% y/y (see Figure 14). There may be some variability in ECM revenues as some firms are more skewed towards follow-on activity rather than IPO issuance which earns a higher fee.
 - **Goldman Sachs levered towards strong equity capital markets activity** – GS ranks #1 in Equity Capital Markets net revenue for 4Q13, according to Dealogic estimates, which should help to offset seasonal fourth quarter weakness.
- **...But tough comp vs 4Q12 leads to slowdown in DCM revenue growth** – After a record 4Q12 DCM revenue pool and the added uncertainty of tapering, 4Q13 DCM volume is only up 6% y/y. Investment grade and high yield issuance were weak this quarter down 12% and 18% respectively. Securitization and syndicated loan volume also remains weak, weighing on DCM results.

Capital Markets Chartbook

Figure 11. Investment Grade Debt Trading Volumes up 13% y/y and flat q/q; High Yield Debt Trading Volumes up 10% y/y and 12% q/q



Source: Citi Research, TRACE data as of 12/10/2013

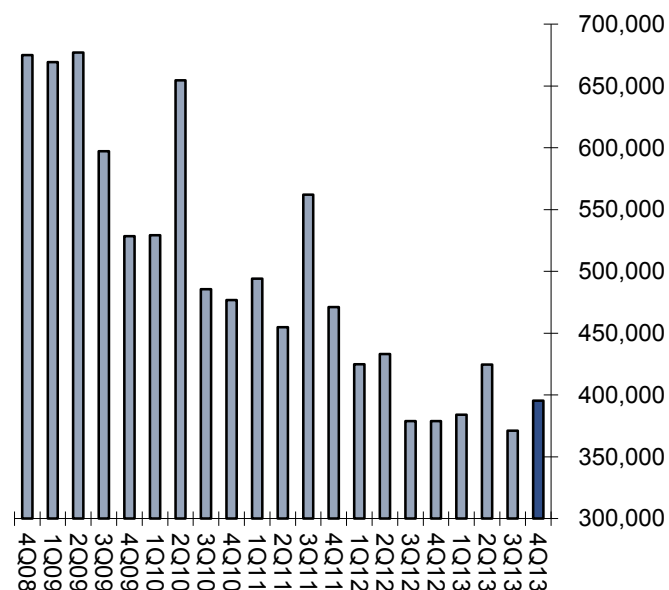
Figure 12. 4Q13 QTD consolidated US equity trading volumes up 6% q/q and 4% y/y

Volume	4Q12	1Q13	2Q13	3Q13	4Q13
NYSE	211,117	215,111	230,911	201,139	212,594
Arca/AMEX	60,182	59,667	79,841	65,684	63,995
NASDAQ	107,620	109,316	113,979	104,370	118,719
Total	378,919	384,095	424,730	371,193	395,308

Q/Q	4Q12	1Q13	2Q13	3Q13	4Q13
NYSE	-2%	2%	7%	-13%	6%
Arca/AMEX	2%	-1%	34%	-18%	-3%
NASDAQ	3%	2%	4%	-8%	14%
Total	0%	1%	11%	-13%	6%

Y/Y	4Q12	1Q13	2Q13	3Q13	4Q13
NYSE	-20%	-12%	-6%	-6%	1%
Arca/AMEX	-34%	-14%	7%	11%	6%
NASDAQ	-8%	-2%	0%	0%	10%
Total	-20%	-10%	-2%	-2%	4%

Figure 13. Equity trading volumes rebound after 3Q13



Source: Citi Research, NYSE & BATS. Data as of 11/30/2013 and adjusted for 4Q13

Source: Citi Research, NYSE & BATS. Data as of 11/30/2013 and adjusted for 4Q13

Figure 14. Global Investment banking fees were lifted by strong Equity Capital Markets performance led by record IPO issuance

Total	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	QoQ	YoY
Completed M&A	538,245	688,562	564,915	757,045	663,594	660,220	589,704	671,965	14%	-11%
Announced M&A	578,237	656,484	559,460	882,701	642,205	648,474	841,971	763,300	-9%	-14%
Equity Capital Markets	142,132	129,289	173,990	167,218	192,140	192,001	144,225	249,469	73%	49%
Common Equity	126,619	117,618	158,728	146,452	165,560	170,359	127,535	205,885	61%	41%
Follow On	109,081	74,659	131,045	110,382	140,463	122,390	100,773	132,485	31%	20%
IPO	17,537	42,959	27,684	36,070	25,097	47,969	26,762	73,400	174%	103%
Convertibles	15,514	11,671	15,262	20,767	26,580	21,642	16,690	43,584	161%	110%
Debt Capital Markets	1,867,146	1,741,412	1,774,474	1,959,755	2,083,736	2,071,275	1,925,493	2,067,967	7%	6%
Corporate Debt	884,245	579,012	800,667	843,946	889,936	764,827	724,134	730,536	1%	-13%
Investment Grade	757,566	506,968	674,271	707,362	727,959	628,550	608,332	619,012	2%	-12%
High-Yield	126,679	72,044	126,396	136,584	161,976	136,277	115,802	111,524	-4%	-18%
Asset-Backed Debt	57,178	76,156	68,942	67,352	73,687	66,315	61,930	66,627	8%	-1%
Mortgage-Backed Debt	124,934	122,576	128,462	113,482	152,894	143,377	114,140	120,836	6%	6%
Syndicated Loans	800,789	963,667	776,403	934,975	967,220	1,096,756	1,025,289	1,149,967	12%	23%
Investment Grade	505,922	612,124	476,579	499,457	503,742	538,164	642,492	675,574	5%	35%
High-Yield	294,867	351,543	299,824	435,518	463,478	558,592	382,797	474,393	24%	9%

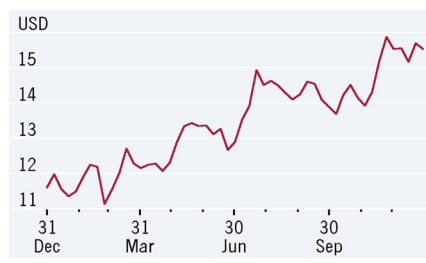
Source: Citi Research, Dealogic. Note: Figures shown are in \$ bil; 4Q13 is actual, unadjusted volume through 12/31/2013

Company Focus

- Estimate Change
- Target Price Change
- Rating Change

Buy	1
<i>from Neutral</i>	
Price (31 Dec 13)	US\$15.54
Target price	US\$19.00
<i>from US\$16.00</i>	
Expected share price return	22.2%
Expected dividend yield	0.8%
Expected total return	23.0%
Market Cap	US\$165,784M

Price Performance
(RIC: BAC.N, BB: BAC US)



Bank of America Corp (BAC) Upgrading to Buy On Lower Execution Risk

- **Target price to \$19; Upgrade to Buy** – We upgrade BAC to BUY with a \$19 price target. We expect BAC to continue to meet expense save targets going forward and the lower execution risk will result in potential upside to the valuation. We estimate the market implied cost of equity for BAC at 11.7%, which is a beta of 1.29 (based on a 1.5% risk-free rate and 7.5% cost of equity.) Assuming a decline in the Beta of 1.25 due to lower execution risk would result in a cost of equity of 10.9%, putting our target price at \$19.
- **4Q EPS lowered 1c to \$0.26; expect roughly in-line quarter** – We lower our 4Q EPS number 1c to \$0.26 and expect a roughly in-line result vs consensus \$0.27. We expect litigation costs will be higher than we previously anticipated, but will be offset by better I-Banking revenues on record equity IPO issuance. Note that our estimate does not include DVA on MER debt marks, which we estimate would be \$0.01 in 4Q13.
- **We see core PTPP growth of 20% y/y on strong I-Banking revenues** – We see core PTPP growth of 20% y/y in 4Q13 due largely to ~45% y/y improvement in Global Markets, which will benefit from October equity issuance reaching its highest monthly level since 2007. We also expect 11% y/y growth in Consumer & Business Banking, helped by better net interest revenue on improving card loan balances.
- **Core sales & trading revenues up 2% y/y on strong equity volumes** – We see core sales and trading revenues up 2% y/y, driven by strong equity volumes, which are up ~5% y/y. We see core equities revenues increasing 15% y/y, although it is vs a somewhat weak 4Q12 comp.
- **Core mortgage production revenues down 15% q/q** – We model core mortgage production revenues down 15% q/q, on a ~10% decline in gain-on-sale margins.
- **Total expenses down 5% q/q on additional expense saves and lower litigation costs vs 3Q13** – We see total expenses falling 5% q/q. Litigation expense will remain high given ongoing lawsuits (i.e. DOJ, FHA suits), but will come down somewhat from the elevated \$1.1 bil level in 3Q13. We also estimate an additional \$300 mil in LAS expense saves and \$100 mil of New BAC cost saves as management continues to meet cost save targets.
- **Maintain 2014, and 2015 estimates; introduce our 2016 estimate of \$1.95** – We maintain our 2014 estimate at \$1.30 and 2015 at \$1.65. We also introduce our 2016 estimate of \$1.95.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.03A	0.19A	0.00A	0.03A	0.25A	0.25A
2013E	0.10A	0.32A	0.20A	0.26E	0.87E	0.89E
Previous	0.10A	0.32A	0.20A	0.27E	0.87E	na
2014E	0.29E	0.34E	0.34E	0.33E	1.30E	1.32E
Previous	0.29E	0.34E	0.34E	0.32E	1.30E	na
2015E	na	na	na	na	1.65E	1.59E
Previous	na	na	na	na	1.65E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Figure 15. BAC Summary Model

	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	1Q14E	2Q14E		2012	2013E	2014E	2015E	2016E	Year over Year Change				
															2012	2013E	2014E	2015E	2016E
Avg. Earning Assets -- managed	1,303,341	1,306,570	1,303,056	1,281,991	1,264,473	1,261,771	1,266,300	1,272,787		1,320,428	1,277,823	1,276,118	1,302,734	1,331,661	-5%	-3%	0%	2%	2%
Net Interest Margin -- reported	2.32%	2.35%	2.43%	2.44%	2.44%	2.45%	2.51%	2.47%		2.35%	2.44%	2.48%	2.54%	2.63%	-0.13%	0.09%	0.04%	0.07%	0.09%
Net Interest Margin -- managed	2.85%	2.91%	3.05%	3.08%	3.02%	3.03%	3.09%	3.05%		2.90%	3.05%	3.06%	3.12%	3.21%	-0.13%	0.15%	0.01%	0.07%	0.09%
Net Int. Rev (TE) -- Managed	9,320	9,543	9,865	9,852	9,591	9,632	9,661	9,664		38,249	38,940	39,018	40,695	42,750	-9%	2%	0%	4%	5%
Fees																			
Service charges	1,934	1,820	1,799	1,837	1,884	1,786	1,726	1,764		7,600	7,306	7,112	7,226	7,342	-6%	-4%	-3%	2%	2%
Investment and brokerage	2,781	2,889	3,027	3,143	2,995	2,927	2,961	2,995		11,393	12,092	12,053	12,628	13,234	-4%	6%	0%	5%	5%
Mortgage banking revenue	1,766	1,503	1,201	1,160	741	818	844	908		6,829	3,920	3,237	3,316	3,525	12%	-43%	-17%	2%	6%
Investment banking income	1,336	1,600	1,535	1,556	1,297	1,669	1,579	1,585		5,299	6,057	6,325	6,614	6,916	2%	14%	4%	5%	5%
Equity investment gains	238	299	563	680	431	50	50	50		1,670	1,724	200	200	200	33%	3%	-88%	0%	0%
Card income	1,538	1,548	1,410	1,469	1,444	1,287	1,214	1,289		6,121	5,610	5,091	5,186	5,284	-15%	-8%	-9%	2%	2%
Trading account profits	2,668	2,080	4,054	2,819	2,445	2,242	3,892	3,187		11,626	11,560	12,038	12,450	12,874	22%	-1%	4%	3%	3%
Insurance premiums	129	101	-	-	-	-	-	-		297	-	-	-	-	-78%	-	-	-	-
Other income	349	34	(22)	(86)	478	549	668	729		1,705	919	2,655	2,787	2,925	-27%	-46%	189%	5%	5%
Total Fee Rev (operating)	12,739	11,874	13,567	12,578	11,715	11,328	12,933	12,508		52,540	49,188	48,712	50,408	52,300	-1%	-6%	-1%	3%	4%
Securities gains	339	171	68	457	356	50	50	50		1,662	931	200	-	-					
Other one-time items	(1,741)	(2,697)	(92)	62	81	(50)	(50)	(50)		(8,216)	1	(300)	(300)	-					
Total Revenue (TE)	20,657	18,891	23,408	22,949	21,743	20,960	22,594	22,172		84,235	89,060	87,630	90,803	95,050	-11%	6%	-2%	4%	5%
Loan Loss Provision																			
Net charge-offs	4,122	2,204	1,713	1,211	296	669	842	1,136		8,169	3,889	4,321	4,764	5,612	-39%	-52%	11%	10%	18%
LLR build	(2,348)	(900)	(804)	(900)	(1,391)	(969)	(727)	(417)		14,908	7,954	6,174	6,159	6,228	-28%	-47%	-22%	0%	1%
LLP Ratio	0.81%	0.99%	0.76%	0.53%	0.13%	0.29%	0.36%	0.48%		(6,739)	(4,064)	(1,853)	(1,395)	(616)	-9%	-40%	-54%	-25%	-56%
	0.81%	0.99%	0.76%	0.53%	0.13%	0.29%	0.36%	0.48%		0.91%	0.42%	0.46%	0.49%	0.57%	-0.52%	-0.49%	0.03%	0.04%	0.07%
Total Expenses (operating)	15,944	16,344	16,384	15,518	15,289	14,885	15,073	14,529		65,720	62,076	57,505	55,805	56,487	-3%	-6%	-7%	-3%	1%
Total expense specials	1,600	2,016	3,116	500	1,100	750	1,450	500		6,373	5,466	2,700	2,100	2,100	-49%	-14%	-51%	-22%	0%
Total Expenses	17,544	18,360	19,500	16,018	16,389	15,635	16,523	15,029		72,093	67,542	60,205	57,905	58,587	-10%	-6%	-11%	-4%	1%
Taxable Equivalent Adj.	229	231	211	222	213	213	213	213		901	859	852	852	852	-7%	-5%	-1%	0%	0%
Pretax Income	1,110	(1,904)	1,984	5,498	4,845	4,443	5,016	5,794		3,072	16,770	22,252	27,282	29,999	NM	NM	33%	23%	10%
Tax	770	(2,636)	501	1,486	2,348	1,222	1,505	1,738		(1,116)	5,557	6,676	8,184	9,000	NM	NM	20%	23%	10%
Tax rate	69%	138%	25%	27%	48%	28%	30%	30%		-36%	33%	30%	30%	30%					
Preferred dividend	373	365	373	441	279	260	260	260		1,428	1,353	1,040	1,040	1,040	5%	-5%	-23%	0%	0%
Net Income (operating)	(33)	367	1,110	3,571	2,218	2,961	3,251	3,796		2,760	9,860	14,536	18,057	19,959	NM	NM	47%	24%	11%
EPS (operating)	(0.00)	0.03	0.10	0.32	0.19	0.26	0.29	0.34		0.25	0.87	1.30	1.65	1.95	NM	NM	49%	27%	18%
Avg. Fully Diluted Shares	10,776	10,885	11,155	11,525	11,482	11,409	11,347	11,272		10,997	11,393	11,216	10,816	10,228	7%	4%	-2%	-4%	-5%
Reported PTPP Earnings	3,113	531	3,908	6,931	5,354	5,326	6,071	7,143		12,142	21,519	27,424	32,898	36,463	-14%	NM	27%	20%	11%
Core PTPP Earnings	6,115	5,073	7,048	6,912	6,017	6,076	7,521	7,643		25,069	26,053	30,224	35,298	38,563	-7%	4%	16%	17%	9%
Book value per share	20.40	20.24	20.19	20.18	20.50	20.80	21.12	21.48		20.24	20.80	22.20	23.94	26.32	1%	3%	7%	8%	10%
Tangible book value per share	13.48	13.46	13.36	13.32	13.62	13.90	14.21	14.52		13.36	13.90	15.16	16.67	18.71	3%	4%	9%	10%	12%
ROE	-0.1%	0.7%	2.0%	6.6%	4.1%	5.4%	5.9%	6.8%		1.3%	4.5%	6.5%	7.8%	8.2%	1.2%	3.2%	2.0%	1.3%	0.4%
ROTE	0.2%	0.7%	3.6%	10.5%	6.7%	8.6%	9.2%	10.5%		2.3%	7.4%	10.0%	12.2%	11.9%	1.4%	5.0%	2.7%	2.1%	-0.2%

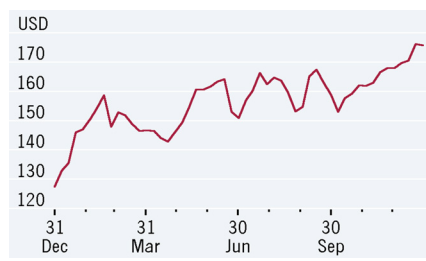
Source: Citi Research

Company Focus

- Estimate Change
- Target Price Change

Neutral	2
Price (31 Dec 13)	US\$176.90
Target price	US\$195.00
from US\$150.00	
Expected share price return	10.2%
Expected dividend yield	1.2%
Expected total return	11.5%
Market Cap	US\$80,177M

Price Performance
(RIC: GS.N, BB: GS US)



Goldman Sachs Group, Inc. (GS)

Slight Positive on 4Q13 Beat, But Flat '13 Comp Ratio A Concern

- **Raising our 4Q13 estimate to \$4.37** – We are raising our 4Q13 EPS estimate to \$4.37 from \$4.29 (vs consensus of \$4.16). Our higher 4Q estimate reflects better than expected primary and secondary equity activity.
- **FICC seasonally slow, but rebound off of 3Q13 weakness** – We see core FICC down ~21% y/y driven by less client activity in October due to budget negotiations and a tough 4Q12 comp. Core equities (ex-Reinsurance rev) are up 6% y/y on higher client volumes and hedge fund activity.
- **I-banking better y/y on strong ECM; I&L weaker vs strong 4Q12** – Overall, we see IB fees of ~\$1.4 billion up 2% y/y. I-banking boosted by strong Financial Advisory (up 10% y/y) and ECM activity (up 30% y/y). DCM dragged on results, down 20% y/y. Separately, we see weaker I&L revenues of ~\$1.4 billion due to positive global equity markets and credit spreads tightening.
- **Expenses** – We expect a comp rate of 28% in 4Q13, which means 2013's full year comp rate is flat y/y at 38%. We expect non-comp expenses at ~\$2.1 bil.
- **Update 2013, 2014, 2015 EPS; Raise Target Price to \$195** – By raising our 4Q13 EPS, we have increased our full year 2013 estimate to \$15.24 (vs consensus of \$14.98). We raise our 2014 EPS to \$15.35 from \$15 (vs cons \$15.26) and 2015 EPS to \$16.50 from \$15.85 (vs cons \$16.07) due to a pick-up in M&A and ECM activity. We introduce a 2016 estimate of \$18.10. We raise our target price to \$195 implying a ~12% expected upside.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	3.92A	1.78A	2.85A	5.60A	14.13A	14.13A
2013E	4.29A	3.70A	2.88A	4.37E	15.24E	15.09E
Previous	4.29A	3.70A	2.88A	4.29E	15.15E	na
2014E	4.04E	3.26E	2.58E	5.49E	15.35E	15.38E
Previous	na	na	na	na	15.00E	na
2015E	na	na	na	na	16.50E	16.08E
Previous	na	na	na	na	15.85E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Figure 16. GS Summary Model

									Year-over-Year Change				
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	2012	2013	2014	2015	2016
Financial Advisory	509	508	484	486	423	559	518	520	1,975	1,952	2,167	2,340	2,528
Equity Underwriting	189	304	390	371	276	395	410	390	987	1,432	1,504	1,579	1,658
Debt Underwriting	466	593	694	695	467	474	416	556	1,964	2,330	1,726	1,777	1,831
Investment Banking	1,164	1,405	1,568	1,552	1,166	1,428	1,344	1,466	4,926	5,714	5,396	5,697	6,016
Equity	824	789	1,103	462	938	600	587	587	2,392	3,103	2,346	2,346	2,346
Debt	558	485	566	658	300	484	488	493	1,850	2,008	1,983	2,064	2,147
Other	323	365	375	295	237	295	295	295	1,241	1,202	1,180	1,180	1,180
Investing & Lending	1,804	1,973	2,068	1,415	1,475	1,379	1,370	1,375	5,891	6,337	5,509	5,590	5,674
Core FICC	2,449	2,117	3,259	2,431	1,294	1,682	3,259	2,188	10,335	8,666	8,747	8,922	9,278
Core Equities	1,980	1,851	1,957	1,823	1,641	1,619	1,785	1,803	7,884	7,040	6,965	7,239	7,525
Other	(245)	374	(77)	59	(72)	-	-	-	(95)	(90)	-	-	-
Institutional Client Services	4,184	4,342	5,139	4,313	2,863	3,302	5,044	3,991	18,124	15,617	15,712	16,161	16,804
Management & Other Fees	1,016	1,067	1,060	1,098	1,085	1,111	1,118	1,126	4,105	4,354	4,519	4,649	4,792
Incentive Fees	82	344	140	118	71	350	140	118	701	679	529	529	529
Transaction Revenues	101	105	115	116	62	105	110	110	416	398	440	460	460
Investment management	1,199	1,516	1,315	1,332	1,218	1,566	1,368	1,354	5,222	5,431	5,488	5,638	5,781
TOTAL REVENUES	8,351	9,236	10,090	8,612	6,722	7,675	9,127	8,185	34,163	33,099	32,106	33,085	34,274
Compensation Expense	3,675	1,976	4,339	3,703	2,382	2,149	3,924	3,519	12,944	12,573	12,050	12,415	12,698
<i>Comp Exp as % of Revenue</i>	44%	21%	43%	43%	35%	28%	43%	43%	38%	38%	38%	38%	37%
Non-Comp Expense	2,378	2,430	2,268	2,115	2,031	2,106	2,120	2,146	9,253	8,520	8,441	8,574	8,753
One Time Expenses	-	517	110	149	142	200	50	50	759	601	200	200	200
TOTAL EXPENSES	6,053	4,923	6,717	5,967	4,555	4,455	6,094	5,716	22,956	21,694	20,691	21,189	21,651
Pretax Income	2,298	4,313	3,373	2,645	2,167	3,220	3,033	2,469	11,207	11,405	11,415	11,896	12,624
Taxes	786	1,421	1,113	714	650	998	970	790	3,732	3,475	3,653	3,807	4,040
<i>Tax Rate</i>	34%	33%	33%	27%	30%	31%	32%	32%	33%	30%	32%	32%	32%
Preferred dividends	54	59	72	70	88	88	88	88	183	318	352	352	352
NET INCOME	1,458	2,833	2,188	1,861	1,429	2,134	1,974	1,591	7,292	7,612	7,410	7,737	8,232
EPS	\$ 2.85	\$ 5.60	\$ 4.29	\$ 3.70	\$ 2.88	\$ 4.37	\$ 4.04	\$ 3.26	\$14.13	\$15.24	\$15.35	\$16.50	\$18.10
Shares Diluted	511	506	510	504	496	488	488	489	516	499	483	469	455
Book Value per Share	141	145	148	151	154	153	159	162	145	153	161	169	178
Tangible Book Value per Share	130	134	139	142	144	144	150	152	134	144	151	159	159
ROE	8.6%	16.4%	12.5%	10.5%	8.1%	12.1%	11.1%	8.9%	10.7%	10.8%	10.4%	10.7%	11.4%
ROTE	9.3%	17.8%	13.4%	11.2%	8.6%	12.9%	11.8%	9.5%	11.6%	11.5%	11.1%	11.4%	12.1%

Source: Citi Research

Company Focus

- Estimate Change
- Target Price Change

Buy	1
Price (31 Dec 13)	US\$58.20
Target price	US\$72.00
from US\$66.00	
Expected share price return	23.7%
Expected dividend yield	2.7%
Expected total return	26.5%
Market Cap	US\$218,785M

Price Performance

(RIC: JPM.N, BB: JPM US)



JP Morgan Chase & Co (JPM)

Slight Positive on 4Q Beat; Remains most preferred name

- **Raising 4Q13 EPS 1c** – We are nudging up our 4Q13 EPS estimate to \$1.38 vs \$1.37 previously and consensus of \$1.33). Tweaks to our model include modestly higher trading revenues and expected gains from a Visa stock sale, partially offset by lower I-Bank revenues, higher addition to litigation reserves, and tweaks to expected mortgage gain on sale margin. Our estimate is 4c above consensus largely due to higher revenues, though we caveat that there is a wide dispersion among analyst estimates.
- **Trading likely down ~4% y/y** – We see core FICC and Equities trading revenues of ~\$3.9 bil (ex DVA), down ~4% y/y as modest growth in Equities is offset by weakness in FICC. At an analyst conference in mid-November, Corp & I-Bank CEO Michael Cavanagh noted that trading at the time was trending down slightly y/y.
- **We see investment banking fees down ~6% y/y** – We see Advisory, ECM, and DCM revenues down ~6% y/y as strength in ECM is more than offset by weakness in DCM and Advisory. Corp & I-Bank CEO Michael Cavanagh noted strength in ECM, but debt likely to be down from 4Q12 when JPM posted record debt underwriting fees.
- **NII flattish q/q** – Our NII forecast was tweaked downward modestly to ~\$11 bil which is flattish and in-line with guidance.
- **Core expenses up slightly q/q** – We see total core expenses of ~\$14.3 bil, up ~2% LQ mainly on slightly higher comp expenses to reflect a better quarter for the Corp & I-Bank segment.
- **Maintain 2013 EPS, but reducing 2014 and 2015 EPS on tweaks to NIM and expenses; introducing 2016 EPS and raising TP to \$72** – We are maintaining 2013 EPS at \$4.41 (vs \$4.47 consensus), but trimming 2014 EPS to \$6.00 from \$6.10 (vs \$5.99 consensus) and 2015 EPS to \$6.50 from \$6.70 (vs \$6.30 consensus). We are also introducing 2016 EPS of \$6.70 (vs \$6.90 consensus). Target price raised to \$72 to better reflect a cost of equity more in line with history.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.19A	1.21A	1.40A	1.39A	5.20A	5.20A
2013E	1.59A	1.60A	-0.17A	1.38E	4.41E	4.41E
Previous	1.59A	1.60A	-0.17A	1.37E	4.40E	na
2014E	1.56E	1.54E	1.46E	1.44E	6.00E	6.00E
Previous	1.58E	1.58E	1.48E	1.46E	6.10E	na
2015E	na	na	na	na	6.50E	6.37E
Previous	na	na	na	na	6.70E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Figure 17. JPM Summary Model

	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	1Q14E	2Q14E	Year over Year Change				
									2012	2013E	2014E	2015E	2016E
Avg. Managed Earning Assets	1,829,780	1,874,533	1,896,084	1,980,466	1,997,413	2,007,801	2,017,968	2,028,621	1,842,406	1,970,441	2,034,038	2,078,619	2,127,450
Net Interest Margin -- managed	2.43%	2.40%	2.37%	2.20%	2.18%	2.18%	2.24%	2.23%	2.48%	2.23%	2.23%	2.28%	2.31%
Net Interest Revenue (operating basi	11,176	11,299	11,095	10,869	10,956	11,058	11,167	11,299	45,653	43,978	45,383	47,311	49,056
Fees													
Investment banking fees	1,443	1,727	1,445	1,717	1,507	1,619	1,379	1,670	5,808	6,288	6,080	6,503	6,734
Principal transactions	2,696	1,992	4,200	3,293	2,988	2,163	4,371	3,743	10,930	12,644	13,240	13,264	13,188
Lending and deposit fees	1,562	1,571	1,368	1,489	1,519	1,539	1,473	1,485	6,196	5,915	6,087	6,250	6,419
Asset management	3,336	3,679	3,599	3,865	3,667	4,019	3,912	4,000	13,868	15,150	16,199	17,162	18,198
Mortgage banking revenue	2,240	1,940	1,675	1,729	846	873	921	1,042	8,343	5,123	3,667	3,926	4,090
Credit card Income- operating	1,428	1,502	1,419	1,503	1,518	1,520	1,430	1,517	5,658	5,960	6,077	6,381	6,700
Other -- operating (managed)	1,597	1,269	1,100	1,058	1,184	1,314	1,326	1,338	4,809	4,656	5,374	5,568	5,770
Total fee revenue (operating)	14,302	13,680	14,806	14,654	13,229	13,048	14,812	14,795	55,612	55,737	56,724	59,055	61,097
Securities gains (losses)	458	102	509	124	26	-	-	-	2,110	659	-	-	-
Other one-time items	(73)	(703)	(562)	311	(331)	1,050	25	25	(3,485)	468	50	-	-
Total Revenue (managed basis)	25,863	24,378	25,848	25,958	23,880	25,156	26,004	26,119	99,890	100,842	102,157	106,366	110,154
Loan Loss Provision (operating basi	1,789	656	617	47	(543)	563	918	906	3,385	684	3,706	4,470	5,237
Net charge-offs	2,770	1,628	1,725	1,403	1,346	1,324	1,247	1,233	9,063	5,798	4,916	5,067	5,720
Reserve build	(981)	(972)	(1,108)	(1,356)	(1,889)	(761)	(329)	(328)	(5,678)	(5,114)	(1,209)	(596)	(483)
LLP to managed loans	0.99%	0.36%	0.34%	0.03%	-0.30%	0.31%	0.50%	0.49%	0.47%	0.09%	0.50%	0.59%	0.67%
Total expenses (operating basis)	13,968	14,120	14,726	14,813	13,953	14,311	14,801	15,029	57,190	57,803	58,814	60,420	62,440
Total expenses (specials)	1,403	1,927	697	1,053	9,673	1,775	500	500	7,539	13,198	1,900	1,000	1,000
Total expenses -- reported	15,371	16,047	15,423	15,866	23,626	16,086	15,301	15,529	64,729	71,001	60,714	61,420	63,440
Pretax Income (operating basis)	8,703	7,675	9,808	10,045	797	8,506	9,785	9,685	31,776	29,156	37,736	40,475	41,477
Taxable Equivalent Adj.	717	725	726	747	763	763	763	763	2,859	2,999	3,052	3,052	3,052
Tax (reported)	2,278	1,258	2,553	2,802	414	2,168	2,706	2,676	7,633	7,937	10,405	11,414	11,912
Tax rate	29%	18%	28%	30%	1218%	28%	30%	30%	26%	30%	30%	31%	31%
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred stock dividend	163	175	182	204	229	190	190	190	653	805	761	761	761
Divs and undistrib earnings	199	195	216	191	41	215	245	242	754	663	941	1,010	1,030
Net Income (reported)	5,346	5,322	6,131	6,101	(650)	5,170	5,880	5,813	19,877	16,752	22,577	24,238	24,723
EPS (reported)	1.40	1.39	1.59	1.60	(0.17)	1.38	1.56	1.54	5.20	4.41	6.00	6.50	6.70
Avg. Fully Diluted Shares	3,814	3,821	3,847	3,814	3,767	3,757	3,765	3,773	3,822	3,796	3,762	3,742	3,693
Reported PTPP	10,492	8,331	10,425	10,092	254	9,069	10,703	10,590	35,161	29,840	41,442	44,946	46,714
Core PTPP	11,510	10,859	11,175	10,710	10,232	9,794	11,178	11,065	44,075	41,912	43,292	45,946	47,714
Book value per share	50.17	51.26	52.02	52.48	52.01	53.04	54.02	55.21	\$ 51.26	\$ 53.04	\$ 57.41	\$ 61.40	\$ 65.03
Tangible book value per share	37.53	38.75	39.54	39.97	39.51	40.54	41.63	42.79	\$ 38.75	\$ 40.54	\$ 44.95	\$ 48.86	\$ 52.37
ROE	11.4%	11.0%	12.5%	12.4%	-1.3%	10.5%	11.7%	11.3%	10.7%	8.5%	10.9%	10.9%	10.7%
ROTE	15.4%	14.7%	16.5%	16.2%	-1.7%	13.8%	15.2%	14.6%	14.5%	11.2%	14.1%	13.8%	13.4%

Source: Citi Research

Company Focus

- Estimate Change
- Target Price Change

Neutral	2
Price (31 Dec 13)	US\$45.15
Target price	US\$46.00
from US\$37.78	
Expected share price return	1.9%
Expected dividend yield	2.3%
Expected total return	4.2%
Market Cap	US\$5,827M

Price Performance

(RIC: LAZ.N, BB: LAZ US)



Lazard Ltd (LAZ)

Raising Estimates, but Still Below Consensus

- **Raise 4Q13 EPS estimates but 8c below consensus** – We raise of 4Q13 EPS to \$0.50 from \$0.47 (vs cons of \$0.58) on better than expected M&A and Strategic Advisory, as LAZ was able to gain share in an otherwise in-line quarter.
- **Despite weaker industry volume, LAZ was able to fight the trend** – We see a 10% y/y decline in M&A and Strategic Advisory to \$210 mil vs a 32% drop y/y in industry completed M&A volumes. Based on Dealogic's M&A volumes, LAZ gained market share during the quarter which offset declining volume trends. We expect Restructuring revenues down 38% y/y vs a tough comp and continued cyclical weakness. We see Capital Markets & Other Advisory down 28% y/y vs a very strong 4Q12.
- **Asset management continues to grow as equity markets rally** – We see management fees up 10% y/y to \$230 mil, benefitting from higher AUM. US equity indices have rallied while global / EM indices have stabilized which should benefit AUM and incentive fees. We expect incentive fees to come in slightly weaker y/y due to some fund anniversary fees already realized in 2Q13. We expect Other Income to grow by 5%.
- **Expenses** –We see comp as a percentage of revenue holding steady at 60% and the full year ratio close to 60%. On non-comp we are looking for costs around \$105 in 4Q13.
- **Repurchase & Shares** – We see modest share repurchases in 4Q13 offsetting a small amount of RSU's issued (260k). Accordingly, we expect average diluted shares at ~135 mil.
- **Raising target price to \$46** – We are raising our target price to \$46 to better reflect a cost of equity more in-line with historical data.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.33A	0.25A	0.26A	0.61A	1.44A	1.44A
2013E	0.28A	0.45A	0.46A	0.50E	1.70E	1.77E
Previous	0.28A	0.45A	0.46A	0.47E	1.65E	na
2014E	0.46E	0.60E	0.58E	0.67E	2.30E	2.44E
Previous	0.39E	0.58E	0.55E	0.61E	2.15E	na
2015E	na	na	na	na	2.85E	2.91E
Previous	na	na	na	na	2.65E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Figure 18. LAZ Summary Model

	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	1Q14E	2Q14E	2012	2013E	2014E	2015E	2016E	Year over Year Change				
														2012	2013E	2014E	2015E	2016E
Financial Advisory	219,973	309,297	168,462	263,307	233,842	260,165	213,552	288,460	1,049,090	925,776	1,029,509	1,113,404	1,204,411	6%	-12%	11%	8%	8%
M&A and Strategic advisory	171,417	233,517	120,756	218,488	176,449	210,165	163,021	233,782	792,928	725,858	810,480	883,423	962,931	13%	-8%	12%	9%	9%
Restructuring	34,382	48,095	33,020	23,236	42,173	30,000	34,671	31,369	182,759	128,429	141,821	148,912	156,358	-8%	-30%	10%	5%	5%
Capital Markets & Other Advisory	14,174	27,685	14,686	21,583	15,220	20,000	15,861	23,310	73,403	71,489	77,208	81,069	85,122	-22%	-3%	8%	5%	5%
Asset Management	220,327	245,207	239,708	243,061	248,105	265,531	263,602	267,563	882,175	996,405	1,092,037	1,153,723	1,218,771	0%	13%	10%	6%	6%
Management Fees	202,324	208,637	219,992	217,700	228,272	230,226	242,460	245,934	806,044	896,190	990,620	1,047,236	1,106,960	-1%	11%	11%	6%	6%
Incentive Fees	10,606	26,755	8,794	15,849	10,061	25,000	9,673	11,641	43,661	59,704	58,879	61,823	64,914	66%	37%	-1%	5%	5%
Other Revenue	7,397	9,815	10,922	9,512	9,772	10,306	11,468	9,988	32,470	40,512	42,537	44,664	46,897	-16%	25%	5%	5%	5%
Corporate	2,911	19,143	5,534	4,993	6,789	5,000	5,250	5,250	39,551	22,316	21,000	21,000	21,000	343%	-44%	-6%	0%	0%
Total Operating Revenue	443,211	573,647	413,704	511,361	488,736	530,697	482,404	561,274	1,970,816	1,944,498	2,142,546	2,288,127	2,444,183	5%	-1%	10%	7%	7%
NCI & LAZ Fund Int related Revs	5,921	6,881	8,047	(1,019)	11,513	4,000	4,000	4,000	21,661	22,541	16,000	16,000	16,000	58%	4%	-29%	0%	0%
Other Interest Expense	(20,326)	(19,835)	(19,848)	(19,937)	(19,895)	(19,895)	(19,895)	(19,895)	(80,029)	(79,575)	(79,580)	(60,752)	(41,924)	18%	-1%	0%	-24%	-31%
Net Revenue - GAAP	428,806	560,693	401,903	490,405	480,354	514,802	466,509	545,379	1,912,448	1,887,464	2,078,966	2,243,375	2,418,258	5%	-1%	10%	8%	8%
Compensation (Operating)	278,070	341,766	248,222	306,817	293,178	318,418	279,794	325,539	1,217,790	1,166,635	1,242,677	1,304,232	1,393,184	4%	-4%	7%	5%	7%
Comp Ratio	62.7%	59.6%	60.0%	60.0%	60.0%	60.0%	58.0%	58.0%	61.8%	60.0%	58.0%	57.0%	57.0%	0%	-3%			
Non-Compensation Expense	98,262	117,699	100,916	106,683	97,427	104,627	103,206	110,001	431,940	409,653	418,984	430,089	445,316	4%	-5%	2%	3%	4%
Operating Expenses	382,080	463,314	353,984	411,086	399,236	424,045	384,000	436,539	1,661,328	1,588,351	1,665,660	1,738,321	1,842,500	5%	-4%	5%	4%	6%
One-time expenses	-	102,576	26,322	38,381	-	-	-	-	127,235	64,703	-	-	-					
Total Expenses	382,080	565,890	380,306	449,467	399,236	424,045	384,000	436,539	1,788,563	1,653,054	1,665,660	1,738,321	1,842,500	12%	-8%	1%	4%	6%
Pretax Income	46,726	(5,197)	21,597	40,938	81,118	90,757	82,509	108,839	123,885	234,410	413,306	505,053	575,759	-47%	89%	76%	22%	14%
Taxes	13,053	(1,091)	3,948	9,017	18,370	22,627	20,565	27,147	31,100	53,962	103,076	126,013	143,690	-31%	74%	91%	22%	14%
Tax Rate	26.7%	15.2%	18.9%	24.3%	21.9%	25.0%	25.0%	25.0%	21%	23%	25%	25%	25%					
Minority interest (ex LAZ-MD)	(1,615)	(239)	1,825	93	2,095	250	250	250	913	4,263	1,000	1,000	1,000	-72%	367%	-77%	0%	0%
Adjustments to Fully Exchange Diluted	96	85,494	21,339	28,039	1,094	-	-	-	103,035	50,472	-	-	-					
Net Inc Fully Exch (Operating)	35,384	81,627	37,163	59,867	61,747	67,880	61,694	81,442	194,907	226,657	309,229	378,040	431,069	8%	16%	36%	22%	14%
Operating EPS (Full Exch-Diluted)	\$ 0.26	\$ 0.61	\$ 0.28	\$ 0.45	\$ 0.46	\$ 0.50	\$ 0.46	\$ 0.60	\$ 1.44	\$ 1.70	\$ 2.30	\$ 2.85	\$ 3.45	10%	18%	35%	24%	21%
Avg Diluted Shares	135,380	133,856	132,816	132,464	134,242	135,032	135,099	134,838	135,117	133,639	134,221	132,959	125,404	-2%	-1%	0%	-1%	-6%

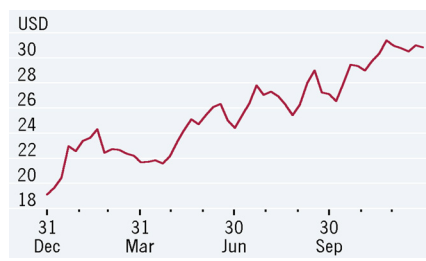
Source: Citi Research

Company Focus

- Estimate Change
- Target Price Change

Neutral	2
Price (31 Dec 13)	US\$31.36
Target price	US\$35.00
from US\$30.00	
Expected share price return	11.6%
Expected dividend yield	0.6%
Expected total return	12.2%
Market Cap	US\$61,194M

Price Performance
(RIC: MS.N, BB: MS US)



Morgan Stanley (MS)

Lowering EPS on Lower I-banking and Trading Revenue

- **Lowering 4Q EPS to \$0.47 on lower FICC and I-banking revenues** – We lower our 4Q EPS 5c to \$0.47 vs consensus of \$0.46 on lower I-banking revenues, particularly advisory, as well as lower FICC revenues. Our estimate excludes DVA charges, which are typically excluded from consensus, and we estimate could have a negative \$335 mil/\$0.11 impact as MS's credit spreads have narrowed since the end of 3Q.
- **We expect core sales & trading revenues up 12% y/y, but vs a weak comp** – We expect Equities up 15% y/y and FICC up 8% y/y (5% q/q), although the increase in FICC is mainly due to weak comps in prior periods, as Commodities, Rates, and FX all appear to be seeing weaker-than-normal volumes.
- **Expect GWM revenues up slightly vs 3Q13 and pre-tax margin of 20%** – We see GWM revenues up 4% q/q and 9% y/y on higher levels for equity markets (S&P 500 up 6% QTD), as well as benefits from better I-banking revenues given record levels of equity issuance in October and growth in NII as deposits continue to come in with the closing on the JV acquisition in 3Q13. We expect the pre-tax margin in the GWM segment to increase to 20% from 19% in 3Q13.
- **I-Banking revenues down 7% y/y on weaker advisory and DCM volumes** – We expect I-Banking revenues down 7% y/y driven by weaker advisory revenues, although it is vs a tough 4Q12 comp. We expect DCM down 15% y/y on lower volumes. We expect ECM (up 65% y/y) to offset some of this decline.
- **Expect operating expenses flat q/q due to lower revenue levels** – We expect expenses will be flat q/q due to lower revenues, which we expect will be down 1% q/q. We expect a comp ratio of 42% in ISG ex-DVA.
- **Increasing 2014 and 2015 EPS; Introducing 2016 EPS of \$3.45** – We increase our 2014 EPS estimate to \$2.55 and our 2015 estimate to \$3.00. Our target price goes to \$35 from \$30 on a lower cost of equity assumption. Maintain Neutral.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	-0.06A	0.29A	-0.55A	0.29A	-0.06A	0.13A
2013E	0.48A	0.41A	0.45A	0.47E	1.82E	2.03E
Previous	0.48A	0.41A	0.44A	0.52E	1.85E	na
2014E	0.63E	0.66E	0.61E	0.63E	2.55E	2.49E
Previous	0.65E	0.64E	0.56E	0.61E	2.45E	na
2015E	na	na	na	na	3.00E	2.95E
Previous	na	na	na	na	2.85E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Figure 19. MS Summary Model

	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13E	1Q14E	2Q14E	2012	2013E	2014E	2015E	2016E	Growth Y/Y				
														2012	2013	2014	2015	2016
Institutional Securities	1,376	3,087	4,089	4,346	3,686	3,679	4,117	4,283	10,553	15,800	16,121	16,842	17,634	-39%	50%	2%	4%	5%
Investment banking	969	1,226	945	1,078	992	1,142	982	1,130	3,929	4,157	4,358	4,503	4,671	-7%	6%	5%	3%	4%
Advisory	339	454	251	333	275	295	289	383	1,369	1,154	1,357	1,492	1,642	-21%	-16%	18%	10%	10%
Equity underwriting	199	238	283	327	236	393	303	350	891	1,239	1,325	1,418	1,517	-21%	39%	7%	7%	7%
Fixed income underwriting	431	534	411	418	481	454	390	397	1,669	1,764	1,676	1,592	1,512	23%	6%	-5%	-5%	-5%
Sales and Trading	260	1,667	2,865	3,077	2,219	2,337	2,935	2,953	6,210	10,498	10,963	11,540	12,163	-52%	69%	4%	5%	5%
Equity	587	1,220	1,515	1,920	1,680	1,611	1,722	1,950	4,347	6,726	7,211	7,787	8,410	-36%	55%	7%	8%	8%
Core Equity	1,228	1,401	1,594	1,806	1,710	1,611	1,722	1,950	5,837	6,721	7,211	7,787	8,410	-5%	15%	7%	8%	8%
Specials	(641)	(181)	(79)	114	(30)	-	-	-	(1,490)	5	-	-	-					
Fixed income	(163)	481	1,277	1,214	694	876	1,364	1,153	2,358	4,061	4,353	4,353	4,353	-69%	72%	7%	0%	0%
Core FICC	1,458	811	1,515	1,153	835	876	1,364	1,153	5,855	4,379	4,353	4,353	4,353	-7%	-25%	-1%	0%	0%
Specials	(1,621)	(330)	(238)	61	(141)	-	-	-	(3,497)	(318)	-	-	-					
Other Sales & Trading	(164)	(34)	73	(57)	(155)	(150)	(150)	(150)	(495)	(289)	(600)	(600)	(600)					
Other Inst Securities	147	194	279	191	475	200	200	200	414	1,145	800	800	800					
GWM (Retail Brokerage)	3,336	3,325	3,470	3,531	3,481	3,609	3,772	3,834	13,516	14,091	15,334	16,287	17,633	2%	4%	9%	6%	8%
GWM PT Margin	7%	17%	17%	19%	19%	20%	21%	22%	12%	19%	22%	22%	26%					
Asset Management	631	599	645	673	828	681	678	680	2,219	2,827	2,724	2,758	2,794	18%	27%	-4%	1%	1%
Core AM	372	376	401	419	369	416	418	420	1,427	1,605	1,684	1,718	1,754	12%	12%	5%	2%	2%
Merchant Banking / Other	259	223	244	254	459	265	260	260	792	1,222	1,040	1,040	1,040	29%	54%	-15%	0%	0%
Intersegment Elimin.	(54)	(45)	(46)	(47)	(63)	(50)	(50)	(50)	(176)	(206)	(200)	(200)	(200)					
Total Revenue	5,289	6,966	8,158	8,503	7,932	7,918	8,517	8,747	26,112	32,511	33,979	35,688	37,861	-19%	25%	5%	5%	6%
Total Core Revenue	7,551	7,477	8,475	8,328	8,103	7,918	8,517	8,747	31,099	32,824	33,979	35,688	37,861	2%	6%	4%	5%	6%
Core Trading & IB Revs	3,655	3,438	4,054	4,037	3,537	3,629	4,067	4,233	15,621	15,257	15,921	16,642	17,434	-6%	-2%	4%	5%	5%
Comp expense	3,912	3,633	4,216	4,105	3,968	3,934	4,137	4,223	15,605	16,223	16,469	17,129	18,010	-4%	4%	2%	4%	5%
Comp ratio	74%	52%	52%	48%	50%	50%	49%	48%	60%	50%	48%	48%	48%					
Non-comp expense	2,344	2,444	2,360	2,483	2,350	2,366	2,347	2,407	9,157	9,559	9,471	9,486	9,634	-1%	4%	-1%	0%	2%
Specials	513	30	-	140	275	150	100	100	555	25	-	-	-					
Total Expenses w/ specials	6,489	6,107	6,576	6,588	6,343	6,301	6,484	6,630	25,597	26,348	26,241	26,616	27,644	-2%	3%	0%	1%	4%
PT Income	(1,200)	859	1,582	1,915	1,589	1,617	2,033	2,117	515	6,163	7,738	9,072	10,217	NM	NM	26%	17%	13%
Tax	(524)	8	332	555	339	404	541	565	(152)	1,630	2,167	2,631	2,963					
Minority interest - pfd divs & RSUs	(354)	(220)	(295)	(529)	(390)	(311)	(256)	(257)	(718)	(985)	(629)	(637)	(646)					
Net Income to common shareholders	(1,045)	568	936	802	878	903	1,236	1,295	(118)	3,519	4,943	5,804	6,608	NM	NM	40%	17%	14%
EPS (cont ops)	(\$0.55)	\$0.33	\$0.49	\$0.43	\$0.44	\$0.47	\$0.63	\$0.66	(\$0.03)	\$ 1.82	\$ 2.55	\$ 3.00	\$3.45	NM	NM	40%	18%	15%
Shares diluted	1,889	1,937	1,940	1,951	1,965	1,941	1,947	1,955	1,886	1,949	1,949	1,946	1,929	13%	3%	0%	0%	-1%
ROE (continuing ops)	-6.8%	4.2%	6.3%	5.4%	5.5%	5.7%	7.6%	7.8%	-0.1%	5.7%	7.4%	8.3%	9.0%					
ROTE	-7.8%	4.3%	7.0%	6.1%	6.7%	6.8%	9.0%	9.2%	-0.1%	6.7%	8.7%	9.6%	10.4%					
Book Value / Share	30.53	30.70	31.22	31.48	32.13	32.99	33.53	34.16	30.70	32.99	35.35	38.03	36.70	-2%	7%	7%	8%	-3%
Tangible Book Value / Share	26.65	26.86	27.38	26.27	26.96	27.81	28.39	29.00	26.86	27.81	30.13	32.72	31.28	-4%	4%	8%	9%	-4%

Source: Citi Research

Bank of America Corp

Company description

Bank of America (BAC) is a bank holding company based in Charlotte, North Carolina. As of June 30, 2013, the company had \$2.1 trillion in assets and \$230 billion in total shareholders' equity, with 5,330 banking centers in 30 states servicing approximately 57 million consumer and small business relationships. In a normalized environment, we estimate that the Deposits business line comprises about 15% of earnings, Global Card 20% of earnings, Home Loans and Insurance 5% of earnings, Global Banking 15% earnings, Global Markets 35% of earnings, and Wealth Management 10% of earnings.

Investment strategy

We rate the shares of Bank of America Buy (1).

We believe as BAC continues to execute on both its new BAC and Legacy Asset Servicing cost save programs going forward and as earnings growth continues, the risk perception around the stock will continue to come down and push the valuation higher.

Valuation

Our \$19 target price for Bank of America is derived from our discounted residual income model, which is an extension of a dividend discount model and values an enterprise based on its discounted excess returns over its cost of equity. We also consider a relative P/E analysis, which compares BAC's forward P/E multiple to that of a comparable bank group of large and mid-size bank stocks. Our residual income model incorporates our three-year forward earnings projection, a seven-year fade period, and a steady-state terminal value at year ten. The key inputs to the model assume nearly a 11% cost of equity, and also incorporate a modified long-term ROTE estimate of 14%, which reflects Bank of America's unique business mix. We assume a perpetual growth rate of about 3%.

Risks

Company-specific risks to the achievement of our target price include:

Positive Risks:

- *Better than expected earnings rebound* - Bank of America has several components to improved long-term earnings potential including reduced legacy mortgage asset servicing costs, expense initiatives, improved capital markets, and higher interest rates. Faster than expected progress on these items could lead to upside in earnings vs. our estimate.
- *Faster than expected increase in interest rates* - If the Fed were to increase rates faster than expected for 2H14, BAC would stand to benefit given large base of core deposits.

Negative Risks:

- *Legacy Mortgage Repurchase/Litigation Risk* - The mortgage repurchase/litigation risk mainly related to the Countrywide exposure still remains. While BAC has made progress with some settlements and increased reserves, headline risk remains since the legal process can be unpredictable and lengthy.
- *Slower than expected economic recovery* - Bank of America has relatively high consumer credit exposure in credit cards and residential real estate. A sluggish economic recovery could slow the pace of credit improvement and could put additional pressure on the housing market.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty achieving our target price. On the other hand, we may have overestimated these risk factors and the stock could increase more than we expect.

Goldman Sachs Group, Inc.

Company description

Goldman Sachs Group, Inc. (GS) is a global investment banking, trading, and asset management company, with leading market shares across its businesses. Founded in 1869, it is one of the world's oldest and largest investment banking firms. Headquartered in New York, the firm maintains offices in London, Frankfurt, Tokyo, Hong Kong, and other major financial centers around the globe. Over the past 3 years ending 2012, Equities Trading & Commissions, Equity Investing and M&A averaged 40% of net revenue; Fixed Income Trading, Lending, Debt Underwriting, and Commodity-related revenue comprised 45%, while Asset Management and Other Investments accounted for 15%.

Investment strategy

We rate the shares of Goldman Sachs Group Neutral (2).

We view Goldman Sachs as a well-managed franchise and believe view the firm as a leader in its investment banking, capital markets, trading, private equity and asset management businesses. Coming out of the crisis, management has bolstered liquidity, actively de-leveraged the balance sheet and significantly reduced high-risk legacy assets. At current valuations, however we feel risk and reward are relatively balanced relative to our base-line view that the broader capital markets environment is unlikely to see a sharp cyclical recovery near-term.

Valuation

Our \$195 target price is derived from our discounted residual income model, which values an enterprise based on its discounted excess returns over its cost of equity. The key inputs to the model are a CAPM-derived cost of equity of approximately 11%. We also incorporate an estimated long-term ROTE of about 14% (vs management's prior 20% over-the-cycle target and historical median of 21% since 1999). Our model assumes a 20% dividend payout ratio and a 3% long-term growth rate. Our \$195 target price for GS implies the stock should trade at roughly 1.3x our year-end 2014 TBV estimate of about \$150.

Risks

Key risks to GS are highlighted below.

Company-specific negative risks:

- *Severe slowdown in investment banking and capital markets* – A prolonged and deep economic recession could significantly impair Goldman's revenue streams. An environment with benign risk and relatively low levels of activity would also be a negative.
- *Significant investment losses* – Our estimates include private equity gains and assume equity market appreciation of 8% per year and stable fixed income markets. A severe decline in the equity, fixed income, real estate, or commodities markets, or ineffective hedging could produce larger-than-expected losses.
- *Regulatory risk* – GS operates several businesses including financial and physical commodity trading, private equity and derivatives that face greater regulation, and in some cases, may require Goldman to divest certain business units.

Company-specific positive risks:

- *Faster than expected economic growth and capital markets activity* – Our estimates assume continuation of a slow but steady global economic recovery.
- *Greater than expected capital return* – Capital return must be approved annually by regulators; however specific details historically have not been disclosed. A large strategic downsizing of risk assets or announcement of larger than expected capital return to shareholders represents a positive risk.

If the impact from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

JP Morgan Chase & Co

Company description

JP Morgan Chase (JPM) is a global financial services firm with assets of \$2.6 trillion (as of 3Q13) and operations in more than 50 countries. On a normalized basis, we view the firm's business mix as investment banking (35% of earnings mix), retail banking (20% of earnings), consumer lending (7% of earnings), commercial banking (8% of earnings), treasury and securities servicing (7% of earnings), asset and wealth management (10% of earnings), and Corporate/other (which includes private equity and treasury activities). A component of the Dow Jones Industrial Average, the company has its corporate headquarters in New York.

Investment strategy

We rate the shares of JP Morgan Chase Buy (1).

We view JP Morgan as a well-managed and strongly capitalized franchise. Despite the challenging economic environment, the company should benefit from its diversified business mix as well as an improving credit environment. At current valuation, we believe that JPM offers the best risk/reward among the large-cap banks.

Valuation

Our \$72 target price is derived from our discounted residual income model, which values an enterprise based on its discounted excess returns over its cost of equity. The key input to the model is a CAPM-derived cost of equity of 10.5%. We also incorporate an estimated long-term ROTE of 16%, which reflects normalized long-term returns on JPM's unique business mix. We assume a roughly 3% long-term growth rate.

Risks

Key risks to JP Morgan are largely due its exposure to the U.S. consumer and expectation of further consumer weakness, as well as its sizable exposure to high risk/high growth market-sensitive businesses, offset by a very strong capital position and excellent management team. These risks, however, are partially mitigated by a relatively diversified business model and a strong retail and commercial franchise. JP Morgan also has relatively large investment banking and consumer credit exposure. If economic growth is meaningfully below our expectations, volumes may be lower than we expect and credit costs may be higher. Other risks include a prolonged decline in U.S. capital markets activity and asset valuations.

Company-specific negative risks:

- *Severe slowdown in investment banking and capital markets.*
- *Significant credit costs due to a prolonged and deep economic recession.*
- *An expensive/poorly executed acquisition* — Although we view JP Morgan as a disciplined acquirer, possible pursuit of a new acquisition target at a rich price is also a risk.
- *Geopolitical risks given JP Morgan's international exposures.*

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Lazard Ltd

Company description

Lazard is a financial advisory and asset management firm focused on serving a diverse global client base operating offices in over 40 cities and 26 countries. In financial advisory, Lazard is the world's largest independent financial advisor, providing advice on M&A, restructuring and other strategic matters. Lazard's asset management division manages over \$163 billion in assets as of June 30, 2013, primarily on the behalf of institutional equity investors. 2012 Revenue mix was composed of approximately 53% in advisory fees and 45% asset management fees. After completing its IPO in May of 2005, Lazard emerged with a unique corporate structure where former and existing employees owned approximately 65% of the company via LAZ MD-Holdings – a stake that has steadily fallen to approximately 1% as of June 30, 2013. Given significant dilution from unvested outstanding deferred and restricted stock compensation, Lazard reports its results via both US GAAP and a fully-exchanged pro forma basis.

Investment strategy

We rate Lazard Neutral (2).

Overall, we see Lazard as operating two attractive businesses that have strong competitive positions, but potential delays to the coming global M&A rebound keep us on the sidelines.

Valuation

Our \$46 target price for Lazard is derived from our dividend discount model. Our DDM incorporates our 3-year forward earnings projection followed by a 9-year fade period and finally a steady state terminal value at year 12. The key inputs to the model are a CAPM derived estimate for cost of equity of approximately 11.0%. We assume a 3% long-term growth rate. Our forward 12-month target price of \$46 implies a P/E multiple of roughly 20x our 2014 estimate, above its historical average of 16x given current earnings levels.

Risks

Overall, Lazard's two main businesses of M&A advisory and asset management are highly equity market sensitive and pro-cyclical, creating a business profile with the following risks:

- **Negative risks to our target price include:** 1) Slower-than-expected growth in global M&A volume reducing advisory revenue, 2) significant correction in global equity markets impacting asset management fees, 3) sharp downturn in European markets given the stock's tendency to react in sympathy to Euro-area issues, and 4) larger-than-expected cash or non-cash compensation payouts that either hurt operating margins or increase dilution to equity investors.
- **Positive risks to our target price include:** 1) Faster-than-expected global GDP growth and/or larger M&A cycle, 2) significant market share gains in advisory or organic asset growth in asset management, 3) significantly better-than-expected cost controls driving operating leverage, or 4) larger-than-expected capital optimization strategy including large share buyback program.

Morgan Stanley

Company description

Morgan Stanley (MS) is a diversified financial services company that operates in three main businesses, including Institutional Securities, serving institutional investors and investment banking clients; Asset Management; and Global Wealth Management, providing brokerage and financial services to individual investors. Founded in 1935 and headquartered in New York, Morgan Stanley's footprint spans 600 offices in 37 countries worldwide. At the end of 2013, post the MSSB buy-out, we expect retail brokerage will comprise 45% of net revenue, asset management-related revenue comprised 8%, fixed income accounted for 14%, equities 19%, and investment banking (underwriting and M&A) 15%.

Investment strategy

We rate the shares of Morgan Stanley as Neutral (2).

Morgan Stanley benefits from a balanced and diversified business model and we view the firm as a formidable competitor in each of the major businesses it competes. The firm is supported by a strong capital base, and management has made good progress bolstering liquidity, deleveraging the balance sheet, and cutting exposure to high risk legacy assets. While, long term, we view believe Morgan has the potential to realize significant gains in both its institutional and retail franchises, execution risks keep us on the sidelines.

Valuation

Our \$35 target price is derived from our discounted residual income model, which values an enterprise based on its discounted excess returns over its cost of equity. The model uses ROTEs derived from our three years of earnings estimates and a seven-year fade period to our long-term ROTE estimate. The key inputs to the model are a CAPM-derived cost of equity of approximately 10.5%. We also incorporate an estimated long-term ROTE of 12.5% (or roughly an 10.5% ROE vs management's 12-15% over-the-cycle ROE target). Our model assumes about a 3% long-term growth rate.

Risks

If economic growth and volatility are meaningfully below our expectations, MS earnings power is at risk. Other risks include a prolonged decline in U.S. capital markets activity and asset valuations

Company-specific positive risks:

- *Stronger/sooner than expected rebound in capital markets* - Currently the capital markets are enduring an ongoing period of slowdown and readjustment, particularly in fixed income and structured products. Should capital market conditions improve sooner than we expect, this could produce upside to our estimates and target.

Company-specific negative risks:

- *Severe slowdown in investment banking and capital markets* – A prolonged and deep economic recession could significantly impair Morgan's cyclical investment banking revenue streams, causing earnings to underperform our estimates.
- *Significant investment and principal losses* – A severe decline in the equity, fixed income, real estate or commodities markets, and/or ineffective hedging strategies given Morgan's significant financial inventories and principal investments could produce larger than expected losses.
- *Regulatory risk* – Morgan operates several businesses including commodity trading, private equity and derivatives that face greater regulation.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

JP Morgan Chase & Co (JPM)

Ratings and Target Price History Fundamental Research

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	18-Jan-11	1M	*\$4.00	44.75
2	11-Sep-11	1M	*\$8.00	32.08
3	6-Oct-11	1M	*\$4.00	32.38
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	44.00	30.70
6	13-Oct-11	1	*\$0.00	31.60

* Indicates change

	Date	Rating	Target Price	Closing Price
7	17-Jan-12	1	*\$2.00	34.91
8	29-Feb-12	1	*\$5.00	39.24
9	29-Mar-12	1	*\$2.00	45.67
10	11-May-12	1	*\$5.00	36.96
11	28-Jun-12	1	*\$3.00	35.88
12	14-Sep-12	1	*\$8.00	41.57

	Date	Rating	Target Price	Closing Price
13	19-Dec-12	1	*\$0.00	43.53
14	17-Jan-13	1	*\$3.00	46.44
15	15-Apr-13	1	*\$6.00	47.93
16	14-Jul-13	1	*\$2.00	54.97
17	14-Oct-13	1	*\$6.00	52.71

Rating/target price changes above reflect Eastern Standard Time

JP Morgan Chase & Co (JPM)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	1-May-12	*ADD MP	-	43.79

* Indicates change

	Date	Rating	Target Price	Closing Price
2	31-Jul-12	*REM MP	-	36.00

	Date	Rating	Target Price	Closing Price
3	30-Apr-13	*ADD MP	-	49.01

Rating/target price changes above reflect Eastern Standard Time

Lazard Ltd (LAZ)

Ratings and Target Price History Fundamental Research

Analyst: Keith Horowitz, CFA
Covered since February 14 2011



	Date	Rating	Target Price	Closing Price
1	14-Feb-11	*2M	*49.71	44.54
2	17-Mar-11	*2H	*46.73	39.48
3	22-Jun-11	2H	*41.76	37.22
4	3-Aug-11	*1H	41.76	32.13
5	11-Sep-11	1H	*37.78	24.34

* Indicates change

	Date	Rating	Target Price	Closing Price
6	6-Oct-11	1H	*31.81	23.03
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	31.81	22.34
9	10-Jan-12	*2	*29.83	28.03
10	10-Jun-12	2	*25.85	23.12

	Date	Rating	Target Price	Closing Price
11	29-Jul-12	2	*28.83	26.49
12	14-Sep-12	2	*33.80	30.80
13	7-Feb-13	2	*36.78	37.33
14	26-Apr-13	2	*34.80	33.11
15	25-Jul-13	2	*37.78	36.10

Rating/target price changes above reflect Eastern Standard Time

Lazard Ltd (LAZ)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Keith Horowitz, CFA
Covered since February 14 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Goldman Sachs Group, Inc. (GS)

Ratings and Target Price History Fundamental Research

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	19-Jun-11	1H	*180.00	137.23
2	11-Sep-11	1H	*140.00	102.25
3	6-Oct-11	1H	*125.00	97.93
4	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Oct-11	*1	125.00	92.69
6	18-Jan-12	1	*135.00	104.31
7	29-Mar-12	1	*145.00	123.76
8	28-Jun-12	1	*110.00	93.49

	Date	Rating	Target Price	Closing Price
9	17-Jul-12	1	*120.00	97.98
10	14-Sep-12	1	*140.00	121.36
11	24-Jan-13	*2	*150.00	144.96

Rating/target price changes above reflect Eastern Standard Time

Goldman Sachs Group, Inc. (GS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	165.69

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-May-12	*REM MP	-	115.33

	Date	Rating	Target Price	Closing Price
3	1-Aug-13	*ADD LP	-	167.49

Rating/target price changes above reflect Eastern Standard Time

Bank of America Corp (BAC)

Ratings and Target Price History

Fundamental Research

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	18-Apr-11	1H	*17.00	12.42
2	19-Jun-11	1H	*16.00	10.68
3	19-Jul-11	1H	*14.00	9.57
4	11-Sep-11	1H	*11.00	6.98
5	15-Sep-11	1H	*10.00	7.33
6	6-Oct-11	1H	*9.00	6.28

* Indicates change

	Date	Rating	Target Price	Closing Price
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	9.00	5.90
9	5-Jan-12	1	*8.00	6.31
10	14-Feb-12	*2	*8.50	7.98
11	20-Apr-12	2	*9.00	8.36
12	27-Jun-12	2	*8.00	7.77

	Date	Rating	Target Price	Closing Price
13	19-Jul-12	2	*8.50	7.26
14	14-Sep-12	2	*10.00	9.55
15	3-Jan-13	2	*12.00	11.97
16	1-Jul-13	2	*14.00	12.93
17	18-Jul-13	2	*16.00	14.76

Rating/target price changes above reflect Eastern Standard Time

Bank of America Corp (BAC)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	1-May-12	*ADD LP	-	8.31
2	31-Jul-12	*REM LP	-	7.34

* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Apr-13	*ADD LP	-	12.31
4	1-Aug-13	*REM LP	-	14.95

Rating/target price changes above reflect Eastern Standard Time

Morgan Stanley (MS)

Ratings and Target Price History

Fundamental Research

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	21-Jan-11	2H	*29.00	30.01
2	24-Apr-11	2H	*28.00	26.48
3	19-Jun-11	2H	*26.00	22.83
4	11-Sep-11	2H	*18.00	15.28
5	6-Oct-11	2H	*16.00	15.18

* Indicates change

	Date	Rating	Target Price	Closing Price
6	8-Oct-11	Stock rating system changed	16.00	14.24
7	8-Oct-11	*2	16.00	14.24
8	19-Jan-12	2	*18.00	18.28
9	19-Apr-12	2	*20.00	18.07
10	28-Jun-12	2	*16.00	13.87

	Date	Rating	Target Price	Closing Price
11	14-Sep-12	2	*18.00	18.24
12	19-Oct-12	2	*19.00	17.53
13	21-Dec-12	2	*20.00	18.92
14	18-Jan-13	2	*23.00	22.38
15	19-Jul-13	2	*30.00	27.60

Rating/target price changes above reflect Eastern Standard Time

Morgan Stanley (MS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	29.02

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-May-12	*REM LP	-	17.49

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of JPMorgan Chase & Co

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Goldman Sachs Group Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Bank of America Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Morgan Stanley

A member of the household of Keith Horowitz, CFA, Analyst, holds a long position in the securities of JP Morgan Chase & Co.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Lazard Ltd, Goldman Sachs Group, Inc., Bank of America Corp. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of JP Morgan Chase & Co, Lazard Ltd, Goldman Sachs Group, Inc., Bank of America Corp, Morgan Stanley.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from JP Morgan Chase & Co, Lazard Ltd, Goldman Sachs Group, Inc., Bank of America Corp, Morgan Stanley.

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

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from JP Morgan Chase & Co, Lazard Ltd, Goldman Sachs Group, Inc., Bank of America Corp, Morgan Stanley in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): JP Morgan Chase & Co, Lazard Ltd, Goldman Sachs Group, Inc., Bank of America Corp, Morgan Stanley.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: JP Morgan Chase & Co, Lazard Ltd, Goldman Sachs Group, Inc., Bank of America Corp, Morgan Stanley.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: JP Morgan Chase & Co, Lazard Ltd, Goldman Sachs Group, Inc., Bank of America Corp, Morgan Stanley.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Equity Ratings Distribution

Data current as of 31 Dec 2013

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	6%	88%	6%
% of companies in each rating category that are investment banking clients	55%	52%	44%	62%	52%	49%

Guide to Citi Research Fundamental Research Investment Ratings:

Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Inc

Keith Horowitz, CFA; Michael J Cronin, CFA; Christopher Larmoyeux; Harvey Lei, CFA

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 31 December 2013 01:04 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to JP Morgan Chase & Co, Goldman Sachs Group, Inc., Bank of America Corp, Morgan Stanley. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Goldman Sachs Group, Inc..

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

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

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

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA,

regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangkok, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This

material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Thomson Reuters.

© 2013 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST