

Rerating French Banks

Remain Bullish, Upgrade CASA to Buy

- **Why We're Still Bullish** — After a strong rerating in 2012 (+44%), French banks seem stuck in a value trap YTD. In our opinion, this is partly due to key catalysts being biased towards 2H. French banks continue to be well positioned on the 3Rs in European banking: regulation (reduction of the cost of equity), restructuring and capital return. We are now more confident that Credit Agricole SA (CASA) will further reduce its CIB, with significant upside potential and upgrade CASA to Buy and raise its target price to €8.
- **Upgrading CASA to Buy: Small(er) is Beautiful** — The IB 'regulatory rollercoaster' is pushing consolidation (Figure 3) and, whilst we don't forecast any UBS-like scenario, we see more indicators that Credit Agricole's CIB refocusing could go further than targets. This could free up at least €2bn capital (10% market cap), improve RoE (Figure 12) but also lower the cost of equity. With robust core businesses (French retail, insurance, asset management) and almost 10% RoTE expected this year for 0.7x TBV, we believe the time is ripe to start valuing CASA more like a retail and less like a wholesale bank. Watch for the investor day in late autumn. TP raised to €8 from €7.3.
- **3 Rerating Catalysts** — Our analysis suggests French banks are cheap, not so much because of geography (many peripheral banks are pricier) but because they trade as wholesale banks – suffering from (a) a high implied cost of equity, and (b) weak and volatile earnings. Rerating catalysts: (1) **Cost of equity normalisation** via greater clarity on meeting leverage requirements (Figure 17); (2) Relative **stabilisation in earnings** following a downgrade cycle impacted by changes in the business model; and (3) **Capital return**: increasing scope to raise payout ratios, notably at BNP Paribas (Figure 22).
- **2Q13 Preview: 'Normalisation'** — We expect limited changes in trends from Q1. In Retail, with revenue under pressure, focus is expected on the progress of the banks' cost cutting plans (Figure 24). In CIB, normal seasonality (-10-15%) should follow a relatively weak Q1. Nevertheless, with less 'one-offs' after two years of restructuring, we believe French banks should be able to deliver near-10% RoTEs this quarter, showing the resilience of their core businesses.
- **Remain Overweight French Banks** — We marginally update our earnings forecasts for French banks and reiterate our target prices and remain Buyers of BNP Paribas, SocGen and Natixis while upgrading CASA to Buy. We expect the rerating of French banks from current 0.6-0.8x PTBV for c10% 2014E ROTE to occur later in the year, as rerating catalysts boost confidence in balance sheet & earnings potential.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
BNP Paribas	BNPP.PA	1	1	€60.00	€60.00	€4.69	€4.42
Credit Agricole	CAGR.PA	2	1	€7.30	€8.00	€0.96	€1.00
Natixis	CNAT.PA	1	1	€4.00	€4.00	€0.35	€0.34
Societe Generale	SOGN.PA	1	1	€40.00	€40.00	€2.94	€2.92

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

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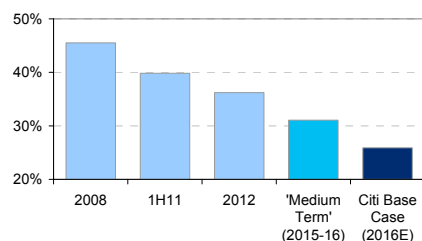
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CIB ambition revised three times since crisis: from 'first-class' to 'focused'/'medium-sized CIB'

Current humble ambition is right, but room to increase targets

Figure 1. CA CIB RWAs % Group B3 RWAs



Source: Company Reports & Citi Research Estimates

Note: Based on 10% B3 RWA allocation and excluding the impact of switch

I) CASA: Small(er) is Beautiful

In 2005, Credit Agricole defined itself as a 'first-class European' player in CIB, with 68% of revenue coming from outside of France. At the time, the ambition was simple: growth in all products and in all geographies. Post Lehman, however, IB ambitions have been rescaled even deeper than peers, under the pressure of two forces: unease of core shareholders with volatile activities and a lack of competitiveness in attractive capital-market operations (e.g. equity derivatives).

But, as Figure 2 illustrates, the CIB environment has become ever tougher for Credit Agricole, leading to several revisions in ambitions – a trend we see continuing. CA CIB's current 'third tier' strategy, placing the bank alongside Unicredit, BBVA, Natixis and Nordea, is the right one in our opinion. However, we believe the targets set by the bank can go further – with considerable upside for the bank. As illustrated in Figure 12, our non-radical scenario would allow the bank to free close to €2bn capital (c10% market cap), improve leverage and liquidity, while lifting group RoTEs (+c30bp). And, perhaps more importantly, over time it would reduce the 'wholesale bank discount' in CASA's cost of equity.

Figure 2. A History of Scaling Back CIB Ambitions

Strategic plan	2005	2008	1H11	2H11-2013 "Medium Term Target"	Our 'Further Focus' Strategy
Environment	Leveraging & rapid growth of capital markets	Post Lehman	Recovery	Bank liquidity & sovereign crisis	Regulatory pressure driving consolidation
Ambition	First class European CIB	Focus on core activities and development	Local corporate bank, with confirmed sector expertise on a global scale	Medium-sized financing CIB (debt house)	French debt house
Strategy	Higher Return on RWA, including through more capital markets and IB, more international	Exit volatile activities	Selective growth on core clients	Leader in 'core' activities and clients in areas of expertise (financing, DCM)	Focus on core French customers
Share of France	32%	25%		↑	↑↑
Growth	All	Structured finance Non-exotic FICC (DCM, FX, rates) and equities	Structured finance, FICC (DCM, bonds and securitisation, rates, FX, commodities), financial institutions, ECM & M&A	'Distribute-to-originate': DCM and low VaR FICC for core clients (rates, FX, IB, credit and treasury)	DCM for large SMEs and core French clients and financing related deals
Shrink/Exit		Exotic fixed income and equity derivatives	Defocus corporate banking for customers ex top 700, re-profile equity derivatives & cash equities	Exit commodities, equity derivatives & cash, 10 countries,	Further focus FICC: reduce operations, white-labelling, etc.
Capital consumption* (€bn)		>20	19	15.5 end-2012 12 medium-term	<10

Source: Company Reports and Citi Research ; Note: * Based on 10% B3 RWAs

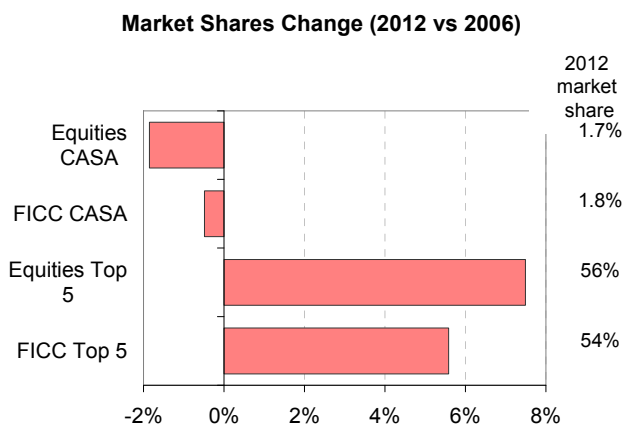
More Pressure on CIB to Come

We see more pressure on CIB from more regulation, ongoing low returns, the weight of CIB on group returns, leverage and CoE

As highlighted in Figure 2, changes in the environment have typically led in more refocusing of CIB operations. We believe the CIB environment will continue to be less attractive for CASA and with more consolidation at the top (Figure 3):

- **Regulatory rollercoaster continues:** Figure 4 lists non-exhaustively a number of regulatory rules still to be fully implemented and whose full impact often remains unclear. As we argued in *The Regulatory "Tunnel" Getting Longer, but a Bit Brighter*, 4 March, we are seeing some forbearance but still great uncertainty. Consequently, IB trends remain unchanged: higher compliance costs & complexity typically impacting more players with lower scale.
- **Returns remain too low:** Underlying RoEs of CA CIB are close to peers (Figure 5), but this relies on CASA's strength in financing operations. The cost of this business has increased since Summer 2011 and the full cost of liquidity still needs to be reallocated from the corporate centre in the coming years. As for returns in capital markets, these remain at c5% and we struggle to see much upside given the regulatory environment. We continue to allocate 10% equity B3 RWAs as this is in line with the group's own B3 target.
- **CIB drags group on returns, capital and leverage:** As highlighted in Figure 12, our estimated further €20bn cut in RWAs could lead to an estimated 70bp increase in the B3 CET1 ratio, higher returns (c30bp in our forecasts). Also, with c30% of regulatory exposures in derivatives, repos and off-balance sheet commitments (Figure 19), CASA could further boost its regulatory leverage ratios by reducing this activity.
- **CIB inflates CASA's Cost of Equity:** As Figure 14 shows, wholesale banks continue to attract implied high double digit CoE levels. CIB's share of capital allocation (on Basel 3) has already declined to almost half in 2008 to about 35% in 2012. Bringing capital consumption closer to our 2016E forecast would bring this ratio closer to 25%, i.e. similar to a bank like Unicredit – allowing for rerating, in our opinion.

Figure 3. Consolidation Continues...



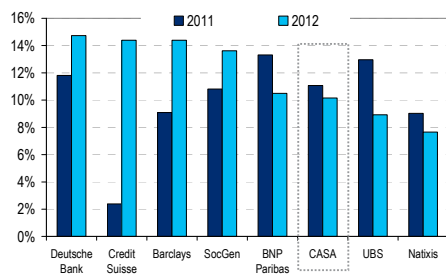
Source: Company Reports, Citi Research

Figure 4. ...and Regulatory Rollercoaster not Over



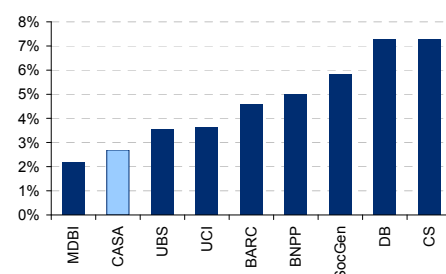
Source: Citi Research

Figure 5. Underlying CIB RoEs Comparable to Peers...



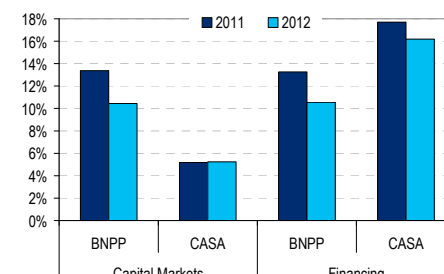
Source: Company Reports Citi Research Estimates;
Note: based on 10% allocation to B3 RWAs (ex non-core)

Figure 6. ...but with high Balance Sheet Usage – as indicated by Revenue/RWA



Source: Citi Research

Figure 7. While Capital Markets RoE remain Low (c5%)



Source: Company Reports Citi Research Estimates;
Note: based on 10% allocation to B3 RWAs

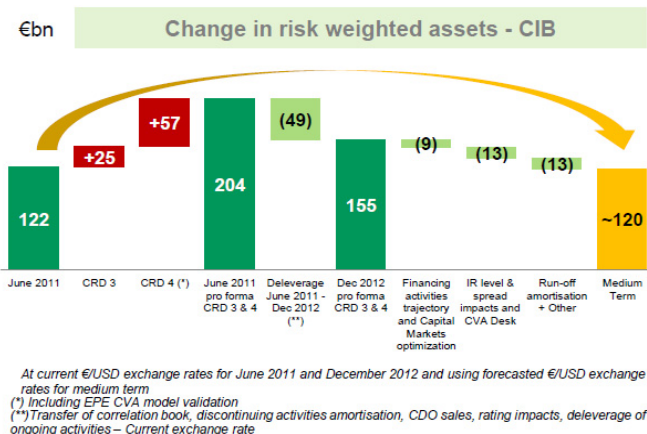
CA CIB Targets Can Go Further

CA CIB has already 'given up' on substantial market share: more than half in equities (and this will shrink further with the confirmed disposals of CLSA and Chevreux) but also in FICC, down 50bp to 1.8% between 2006 and 2012. The remaining FICC activity now concentrates on low VaR FICC for core clients (rates, FX, IB, credit and treasury).

Current targets include limited refocusing – but we see room for reduction

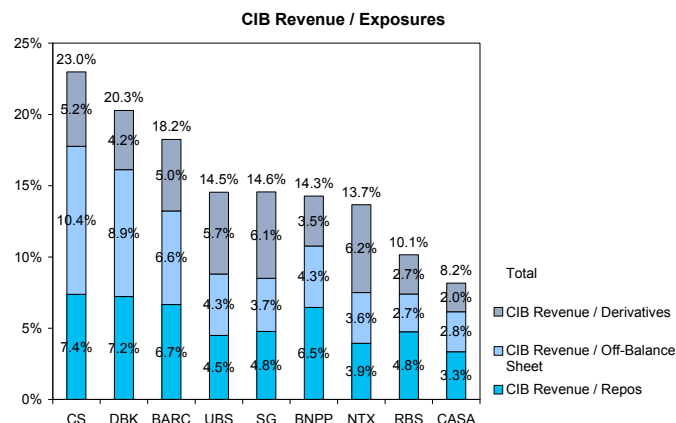
We believe, however, capital consumption can be further reduced. Figure 8 shows the c€35bn targeted reduction in RWAs primarily relies on the reduction of discontinued activities – indeed CIB liquidity consumption is only planned to fall c6% (from €90bn to €85bn). While we share expectations of further disintermediation of capital markets, we believe CASA can exploit this opportunity while shrinking its book. For example, Figure 9 shows that CIB related balance sheet items appear oversized if we compare to 2012 CIB revenue. We believe this could be because the unwinding of a number of positions (particularly derivatives) takes time (as illustrated in Figure 10), but with potential to further reduce regulatory leverage (Figure 16).

Figure 8. Current Plans Include Limited Reduction in Activity



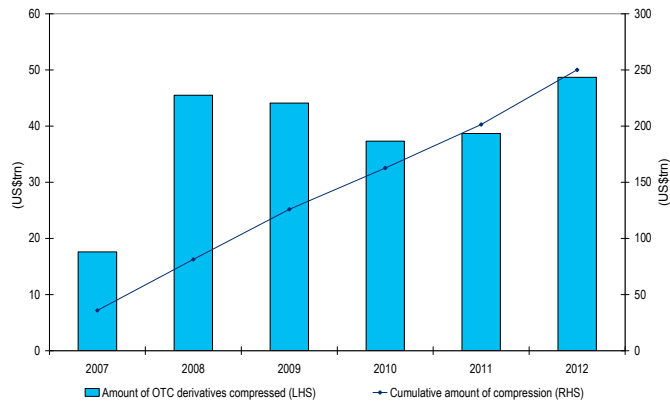
Source: Credit Agricole presentation

Figure 9. Low Balance Sheet Efficiency



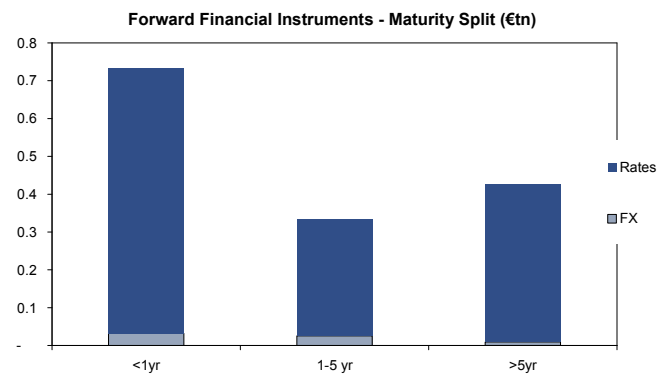
Source: Company reports & Citi Research; Note: More in *Leverage-in but Not Sweatin'*

Figure 10. Industry is Reducing Derivatives



Source: ISDA; Note: Global Derivatives Market Portfolio Compression, 2007-12

Figure 11. Impact on Balance Sheet to Take Time



Source: Credit Agricole 2012 company reports, Citi Research

Figure 12. Deeper CIB Refocusing Would Support Capital and Returns (but also liquidity and leverage)

(€bn)	2012 Underlying	Current Targets (Previous 2016E Forecasts)	Our 'Further Focus' Targets (New 2016E Forecasts)	Impact
CIB				
Revenue	4.4	3.5	2.9	-18%
Net Income	1.2	0.8	0.6	-23%
B3 RWAs	155	120	100	-18%
% Group B3 RWAs	36%	31%	27%	-4%
Group				
B3 CET1 Ratio	6.1%	11.5%	12.2%	+0.7%
RoTE (on 9.5% B3 CET1 ratio)	5.8%	13.9%	14.2%	+0.3%
Excess Capital (on 9.5% B3 CET1 ratio)		5.9	7.5	+1.6
Excess Capital % Current Mkt Cap		35%	44%	+10%

Source: Company Reports and Citi Research Estimates

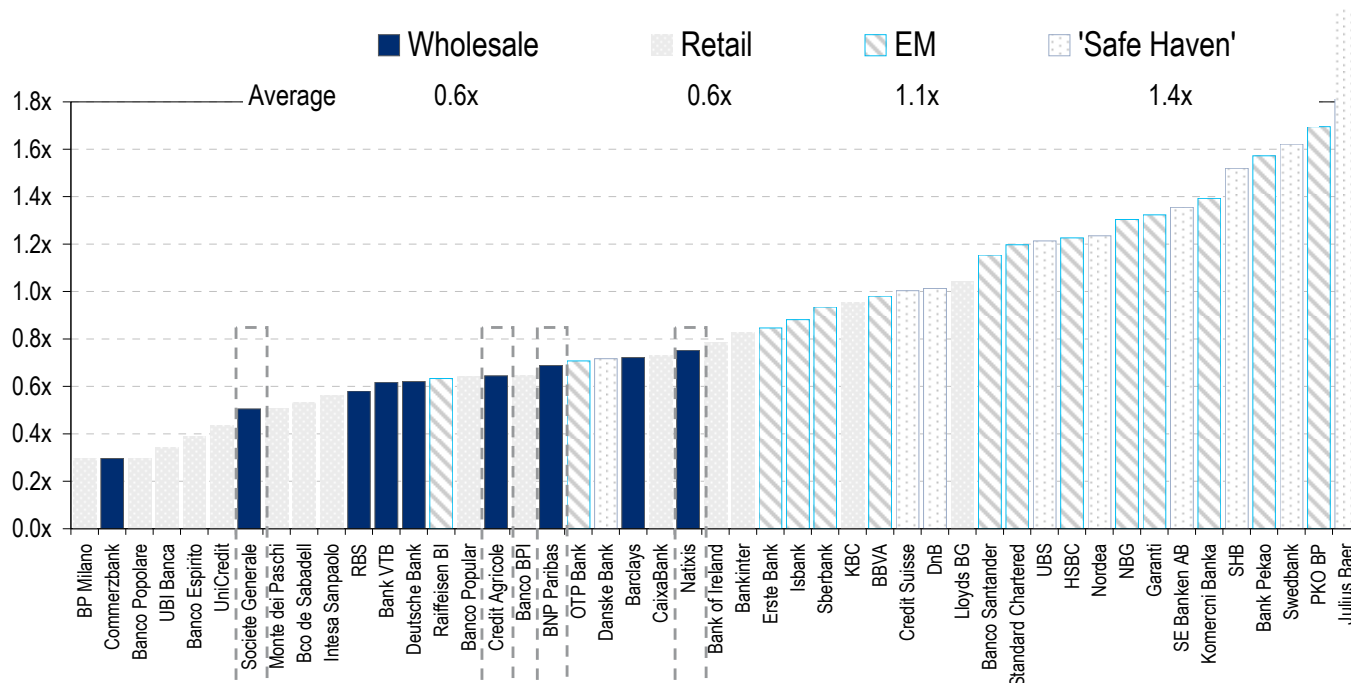
II) 3 Catalysts for Rerating

French banks suffer from the 'wholesale bank discount'. Three potential catalysts: (1) leverage clarity, (2) earnings momentum, (3) capital return

Despite last year's rally – when eurozone concerns receded and wholesale balance sheets were deleveraged smoother-than-expected – French and other continental European banks (ex-Nordics and Swiss) continue to trade meaningfully below book value. However, YTD performance has been disappointingly flat.

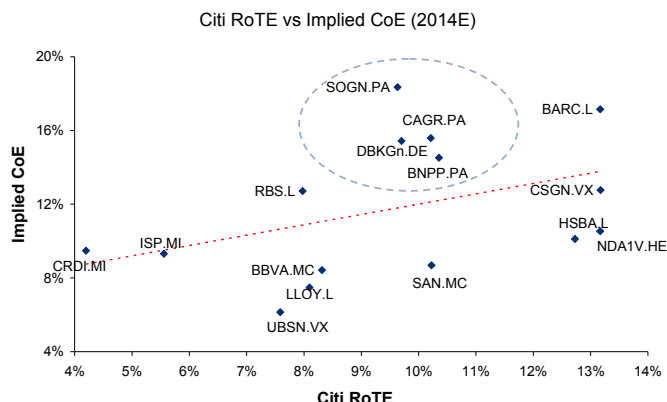
French banks' valuations place them closer to their wholesale peers than retail banks. Figure 1 shows markets' distrust of wholesale banks remains elevated and, in our view, the key obstacle to rerating. In the long list of concerns we include: volatility of earnings, asset and liquidity risks, and leverage. We outline below three key rerating catalysts which we believe should materialise over the coming six months: (1) lower cost of equity by addressing leverage; (2) more consistent earnings, and (3) capital return.

Figure 13. French Banks' Valuations Mainly Penalised for being Wholesale banks (2014E P/TBV)



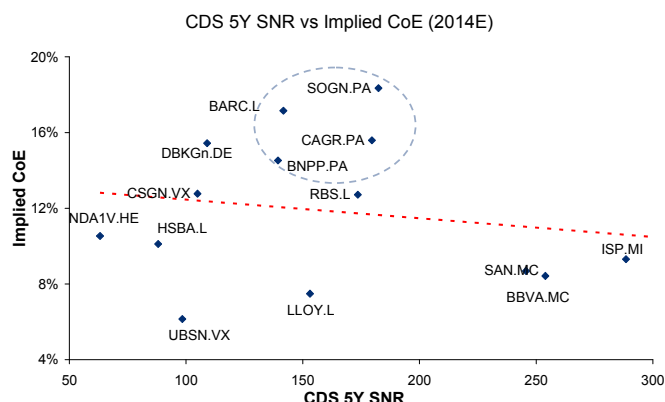
Source: Citi Research Estimates

Figure 14. Equity Markets Apply High CoE to Wholesale Banks...



Source: Citi Research Estimates; Note: prices as of 10 July

Figure 15. ...although Credit Markets are More Confident



Source: Bloomberg, Citi Research Estimates; Note: prices as of 10 July

Catalyst 1: Lower Cost of Equity by Addressing Leverage

Wholesale banks lately underperforming due to concerns on leverage

Underperformance of wholesale has recently largely been driven by concerns on leverage. However, as explained in our report [Leverage-in but Not Sweatin'](#), 15 July, we estimate French banks' leverage ratios will meet regulatory requirements by 2014E (disclosure starts in 2015 – Figure 17).

Regulatory leverage ≠ economic leverage. More disclosure to come in 1H

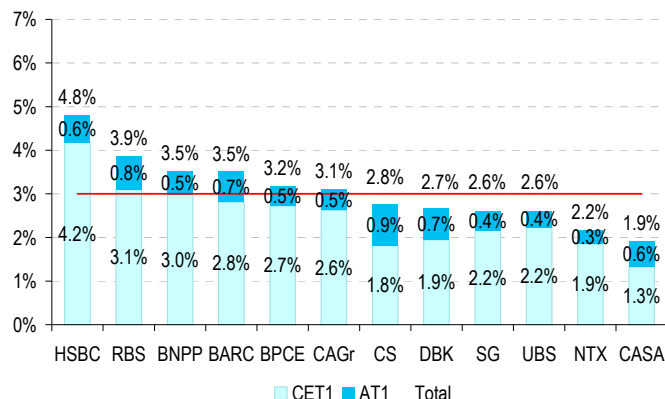
Our calculations focus primarily on the regulatory definition, as opposed to the economic definition. The debate on 'economic leverage' may never finish (e.g. treatment of insurance, collateralised operations, etc.), but additional disclosures on netting (which for French banks should come with 1H disclosures – see Figure 18 for wholesale banks reporting these in 1Q13) will improve clarity on intrinsic risks.

Communication of current leverage levels and plans should ease concerns on capital raise and dramatic deleveraging

As a regulatory tool, we view leverage as a supplementary measure – and would therefore be a minimum threshold, as opposed to B3 risk-weighted capital ratios where there has been a race to the top. Note that we include Additional Tier 1, not just common equity, which qualifies for grandfathering on the expectation that, to the extent required, it will be replaced with eligible capital under the new regulations and at a reasonable price. It is worth noting that regulators continue to look at CASA and Natixis at the parent company level – both CA Group and BPCE clearly meet requirements.

While SocGen is relatively less well favourably placed, we believe leverage will affect all banks' managements of assets, with more onus on measures like RoAs. This would imply further balance sheet 'optimisation' across derivatives, legacy/non-core and repo portfolios as well as more rationing of off-balance sheet commitments (Figure 19). We therefore expect banks to communicate their own estimates and plans to address potential gaps with manageable impact – which could support a rerating, given concerns on capital raise or dramatic deleveraging.

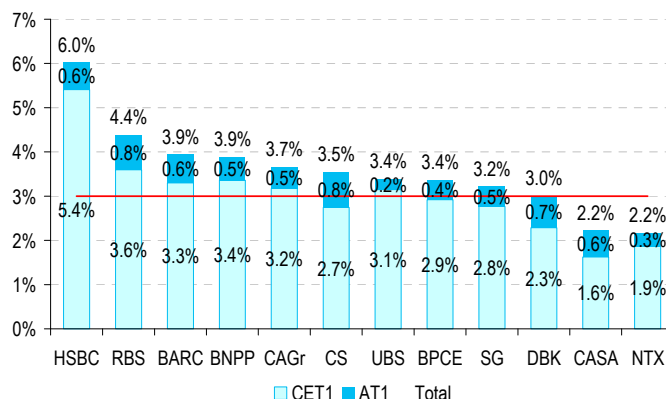
Figure 16. CRD4 Leverage Ratio, 2012



Source: Company reports, Citi Research Estimates

Note: Excluding intra-Group funding would add 40bps to CASA ratios; CA Group would remain unchanged. DBK proforma for c€3bn capital raise.

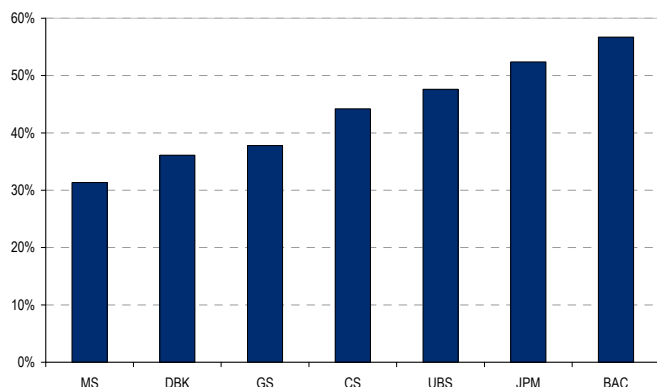
Figure 17. CRD4 Leverage Ratio, 2014E



Source: Company reports, Citi Research Estimates

Note: Excluding intra-Group funding would add 40bps to CASA ratios; CA Group would remain unchanged.

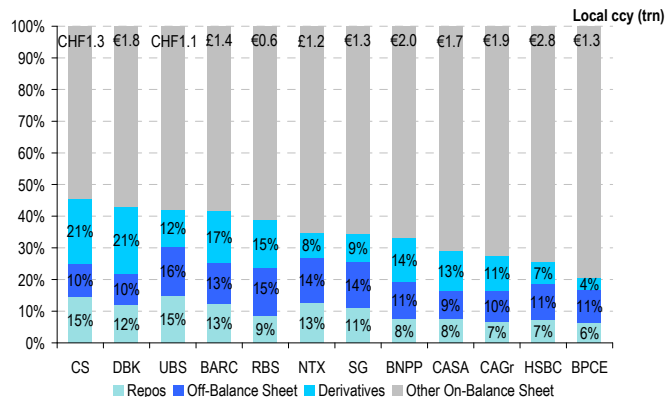
Figure 18. Net vs Gross Balance Sheets – After Offsetting



Source: Company Reports and Citi Research;

Note: more on netting in our report [US & European Wholesale Banks - First look at netting disclosure; favourable for Deutsche Bank](#) (3 June)

Figure 19. Composition of Total Exposure (2012)



Source: Company Reports and Citi Research Estimates

Catalyst 2: More Consistent Earnings

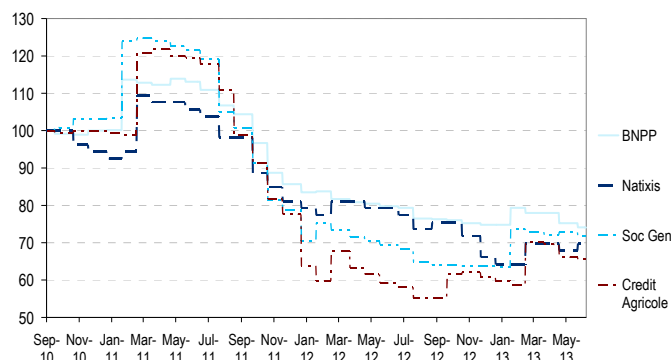
Business model revision, regulatory requirements and weak macro led to significant downgrades

Upturn in earnings unlikely in near-term – but 'one-off' costs are abating, allowing for RoTEs closer to double digits

French banks earnings have been severely dented in recent years. But while the macro slowdown has weighed, a more important driver, in our view, has been the revision of the business model and regulatory requirements: higher capital and liquidity buffers, and lower reliance on short-term funding.

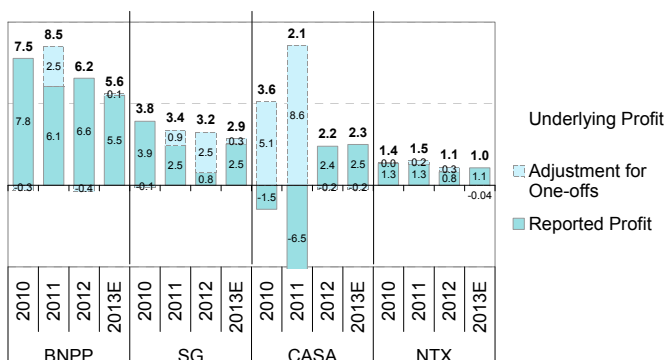
So are downgrades over? The speed of downgrade has slowed, with an end to deleveraging and a more stable macro outlook. Any substantial upturn could be driven by: (1) a swing in the macro outlook, (2) an increase in medium and longer-term rates, which would support retail margins but would require solid macro ground to avoid provisioning deterioration, or (3) a strong uplift in capital markets. As we are unlikely to see this materialise in the near term, we believe a stabilisation in EPS expectations and delivery of reported earnings closer to 'underlying' earnings should still be supportive as RoTE come closer to double-digit figures.

Figure 20. Earnings Momentum Not Turning Positive



Source: Company reports Citi Research Estimates; Note: one-offs as calculated by Citi Research

Figure 21. But Reduction of 'One-offs' could Help



Source: Citi Research

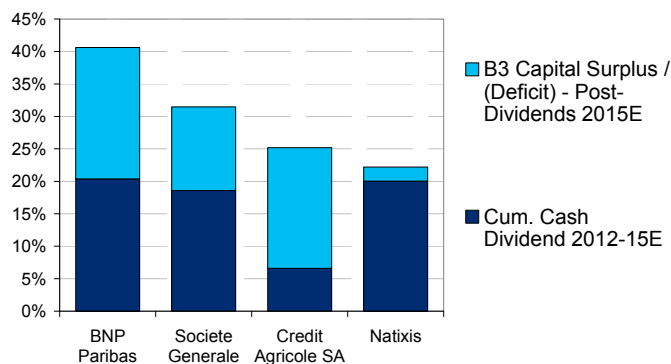
Catalyst 3: Return Capital

Excess capital of 20-40% market cap by 2015E – with already potential to double dividends this year

We maintain our 2013 outlook (see our report [Banking on Europe - The Road Ahead – From Capital Build to Capital Return](#), 4 January): we believe French banks offer among the best potential to return capital in the coming years, especially if measured against market cap (Figure 22). Already for this year, we forecast dividends paid should double vs 2012 (Figure 23) – which could help French banks reappear on income investors' radars.

- **BNP Paribas** remains best placed in our view, with 2013E capital surplus already reaching c12% of market cap. We believe announced investment plans (e.g. in Asia) will largely self-fund (more in [French Banks – Management Feedback - Focus on Corporate & Investment Banking](#), 31 May) and forecast a 45% payout ratio this year.
- **Société Générale's** 10% RoE target in 2015 implies, we calculate, the return of the excess capital from our c11% B3 CET1 ratio estimate to 9.5%.
- **Credit Agricole SA's** estimated capital return potential relies on the following assumptions (1) reduction of RWAs allocated to CIB to €110bn in 2015E and €100bn in 2016E (vs current €120bn target) – more in the following section; (2) favourable regulation to remain on switch mechanisms (transfer of RWAs to group) and a Danish compromise (treatment of insurance) – the risk of revision of this regulation is very low in the near term in our view.
- **Natixis** management aims to pay a special dividend of €0.65 per share (€2bn = c20% of market cap) in August. We identify a further €2bn non-core assets which could be divested by end-2014 allowing for further capital return and of which €1bn is not included in our forecast capital ratios.

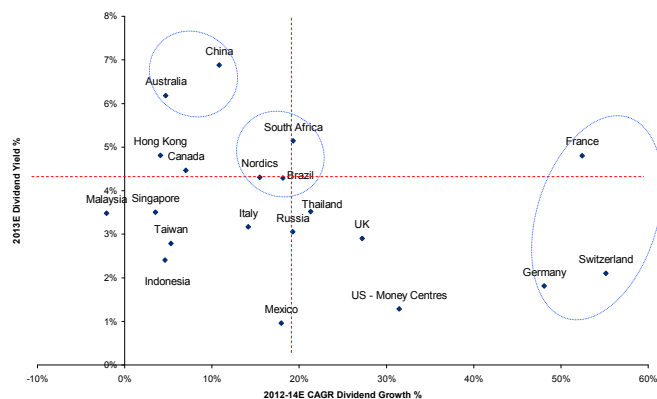
Figure 22. Capital Return Potential by 2015E of 20-40% Market Cap



Source: Citi Research Estimates

Note: Assume targeted B3 CET1 ratios of 9.5% using RWAs stressed for (1) mortgages floored at 15% and (2) doubling market RWAs relying on internal models; this analysis the facto excludes Natixis' €2bn special dividend

Figure 23. Top 20 Markets on 2012-14E CAGR Dividend Growth vs Dividend Yield



Source: Bloomberg, Company Reports, Citi Research; Note: Based on Citi Research banks coverage average. For this analysis, we only include stocks with Market Cap >\$5bn; Note: Priced on 21st June 2013

III) 2Q13 Preview: 'Normalisation'

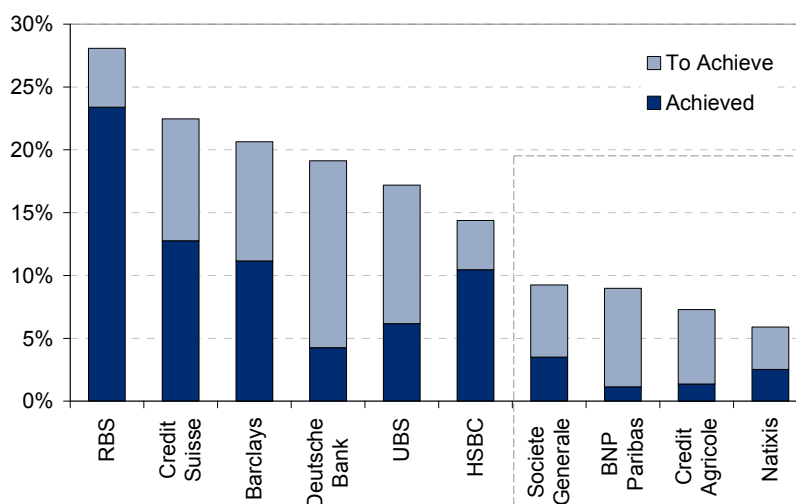
Q2 similar to Q1: revenue pressure especially in retail & cost cutting. Nevertheless near-10% RoTEs

We expect limited changes in trends from Q1. In Retail, with revenue under pressure, focus is expected on the progress of the banks' cost cutting plans. In CIB, normal seasonality (-10-15%) should follow a relatively weak Q1. Nevertheless, with less 'one-offs' after two years of restructuring, we believe French banks should be able to deliver near-10% RoTEs this quarter, showing the resilience of their core businesses.

Cost Cutting: Progress on Plans Expected

We expect banks to offer more details on their cost cutting plans

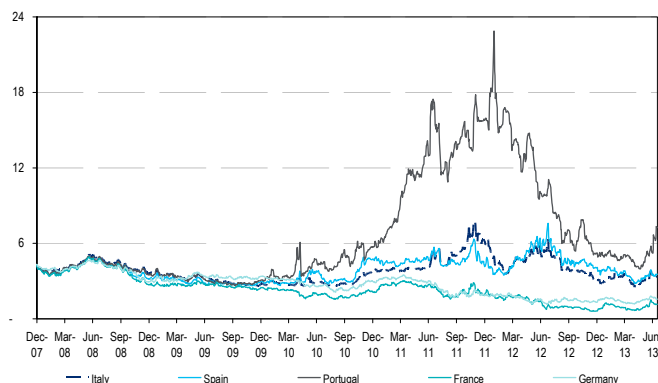
Figure 24. French Banks' Cost Savings Plans Reasonable (% 2013E Costs)



Source: Company Reports and Citi Research Estimates

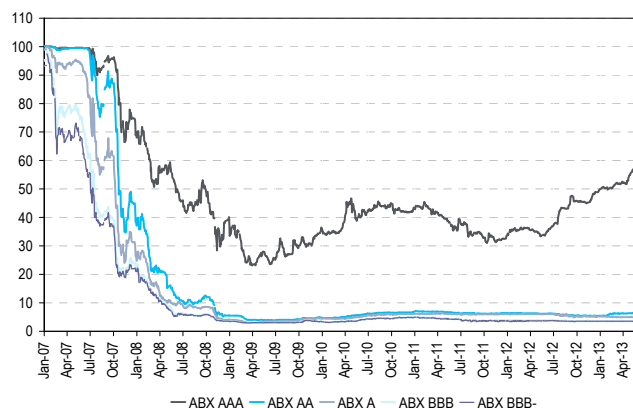
Capital Trends: Stable

Figure 25. Moves in Rates to Impact Somewhat Book Values & B3 Ratios



Source: 5Y sovereign yields on Bloomberg;
Note: Comparing end-June vs end-March yields on 5Y sovereign bonds show an increase of c45bp in France to 1.3%, but no dramatic move in the periphery

Figure 26. Legacy Asset Drivers Slightly Less Supportive: ABX AAA - 3% qoq

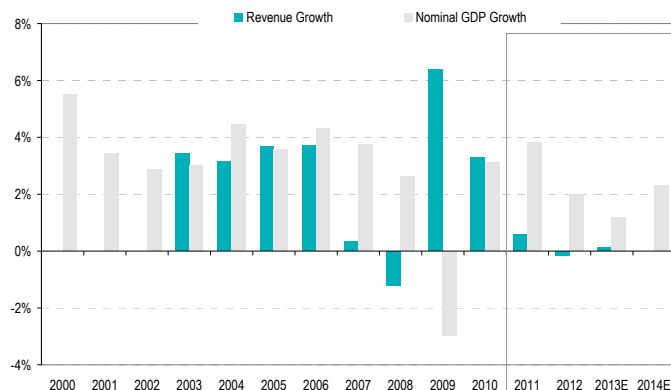


Source: Markit

French Retail: Livret A Cuts to Support Margins

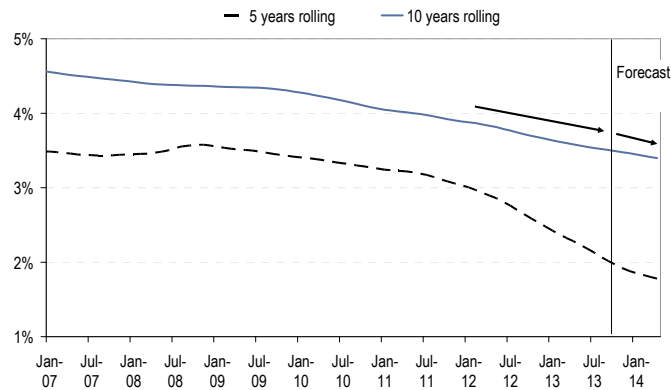
French retail banking trends remain stable: revenue pressure partly offset by deposit margin relief from Livret A rates cuts and cost control while provision charges remain under control. More on French retail trends in our accompanying document 'French Big Picture – Summer 2013'.

Figure 27. French Retail Revenue Growth Under Trend (Nominal GDP)...



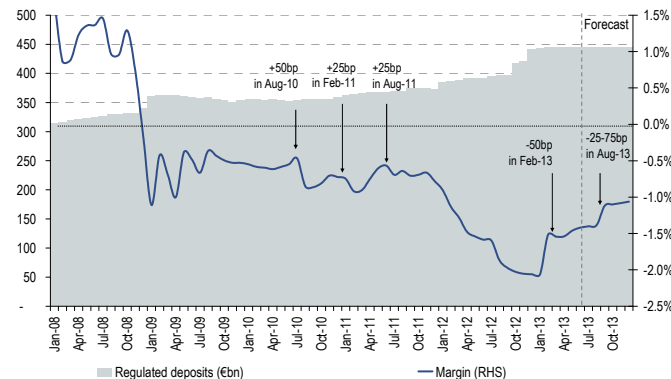
Source: Company Reports, Citi Research Estimates; French Retail Revenue based on Core Banks

Figure 28. ...mainly Driven by Low Rates Environment



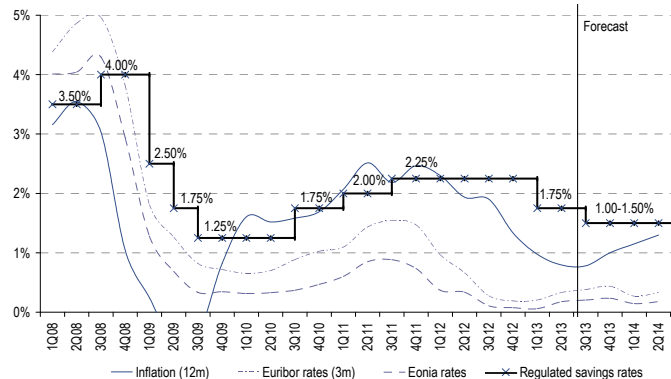
Source: Datastream & Citi Research; Note: Rolling average for sovereign bond yields

Figure 29. But: Deposit Margins Helped by Livret A Rates Cuts



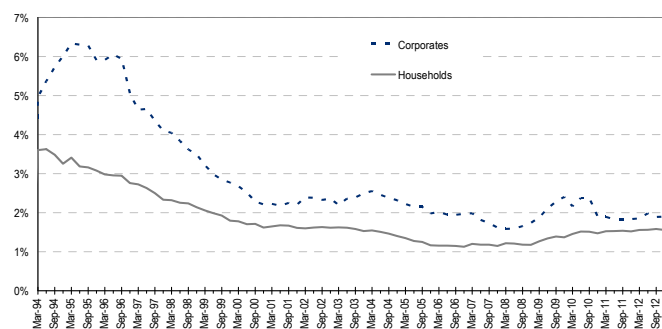
Source: Banque de France, Citi Research Estimates

Figure 30. Low Inflation Could Mean 25-75bp extra Cut on 1 August



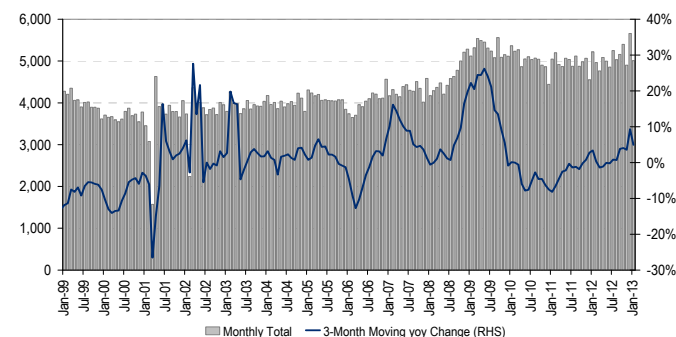
Source: Bloomberg, Banque de France, Citi Research Estimates

Figure 31. Mild Pressure on Corporate NPLs



Source: Banque de France, Citi Research; Note: NPL over loans

Figure 32. ...but Corporate Bankruptcies Still Increasing



Source: INSEE

CIB and Markets: 'Normal' Trading and Insurance

Q2 to show 'normal' seasonality of 10-15% as trends remain relatively unfavourable

For Q2, we expect 'normal' seasonality (-10-15% with US banks reporting to date a 16% decline) for the industry as the two phases (solid April-May vs tough June) broadly offset each other for the industry, in our view.

FICC: The qoq trend may be relatively better for French banks, given a relatively weaker 1Q13, given French banks' bias to Europe, Corporates and Rates (Figure 34) and, for BNP Paribas, lower risk appetite. In Q2, Rates and FX are likely to have been supported by stronger volatility and customer flow, while the sharp recoil of credit and emerging market spreads is likely to have made for tough trading conditions in the second part of the quarter. In Q2, US banks reported c25% qoq decline in FICC.

Equities: Strong issuance and customer flows should have supported Equities markets. For BNPP and SocGen, trading conditions in equity derivatives were relatively benign (Figure 35). In Q2, US banks reported flattish qoq EQ revenue.

Insurance: Life insurance flows have turned positive in the first four months of the year as its relative attractiveness improved compared to products such as regulated deposits. Poor performance in markets (in particular bonds) could have dented some French life insurers' AuM and revenue, however.

Figure 33. Industry Trends in Volumes & Spreads in 2Q13 vs 1Q13

	Trends versus 1Q13				Market Trend	=	Industry Revenue Impact
	Industry Volume (\$)	x	Industry Margin (%)	x			
Fixed Income							
Global Rates	⇔		⇔		Volatility ↑ Yields ↑		⇔
Foreign exchange	↓		⇔		Volatility ↑		↓
Credit trading	↑		⇔		Credit Spreads ↑		↓
Equity							
Cash equities	↑		⇔		Prices ↓		↑
Equity Derivatives	↑		⇔		Volatility ↑ Correlation ↑ Dividends ↓ Skew ↑		⇔
Prime services	⇔		⇔		HF performance ↑		⇔
Primary							
Completed M&A	↓		⇔		Pipeline ⇔		↓
Investment grade debt underwriting	↓		⇔		Sovereign bond yields ↑		↓
High yield underwriting	↑		⇔		Credit Spreads ↓ ↑		↑
Equity underwriting	↑		⇔		Market volatility ↓ ↑		↑

Source: Bloomberg, CME, Datastream, Dealogic, Eurex, Euronext.Liffe, Federal Reserve, ICAP, ICE, LSE, and Citi Research

Figure 34. FICC – Relative Product Strength

Product	BARC	DB	CS	UBS	RBS	BNP	CASA	SG
FX - G10	●	●	○	●	●	○	○	○
FX – EM	○	●	○	●	○	●	○	○
Rates - G10	●	●	○	○	●	●	○	○
Rates – EM	○	●	●	○	○	○	○	○
Credit - IG & HY	●	●	○	○	○	○	○	○
Mortgages	●	○	●	○	●	○	○	○
Commodities	●	○	○	○	○	○	○	○

Source: Citi Research

Figure 35. Equity Derivative Market Metrics Suggest No Significant Trading Losses in 2Q13

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13*
Equity Rev.	1.3	2.4	1.5	-3.2	0.7	1.8	1.7	1.2	1.6	0.6	1.2	1.3	1.6	1.3	0.8	0.8	1.1	0.8	1.0	0.7	1.1	
o/w BNPP	0.5	1.2	0.7	-2.5	0.0	0.8	0.6	0.5	0.8	0.3	0.5	0.6	0.7	0.7	0.3	0.4	0.5	0.4	0.4	0.3	0.4	
o/w SocGen	0.8	1.2	0.8	-0.7	0.6	1.0	1.1	0.7	0.8	0.4	0.6	0.7	0.9	0.6	0.5	0.4	0.7	0.5	0.6	0.4	0.7	
% qoq	-25%	86%	-38%	-313%	-121%	165%	-7%	-31%	40%	-62%	86%	9%	24%	-18%	-41%	7%	41%	-27%	21%	-20%	44%	
Market Metric																						
Volatility	↑↑	↓	↑↑	↑↑	↔	↓↓	↓	↓	↓	↑↑	↓	↓	↓↑	↑	↑↑	↓	↓↓	↑	↓	↓	↑	↑
Skew	↑↑	↓	↑↑	↑↑	↓↓	↓↓	↓	↔	↓↓	↑↑	↓	↓	↔	↔	↑↑	↓↓	↓	↑	↓	↓	↑	↑
Correlation	↑↑	↓↑	↑↑	↔	↓↓	↑↑	↑	↑↑	↓	↑↑	↔	↑	↓	↑	↑↑	↔	↓↓	↑↑	↓	↔	↑	↑
Dividend	↓↓	↔	↓	↓↓	↓↓	↑↑	↑↑	↑	↔	↓↓	↔	↑	↑	↑	↓↓	↔	↑	↓	↑	↑	↑	↔

Figure 36. Volatility

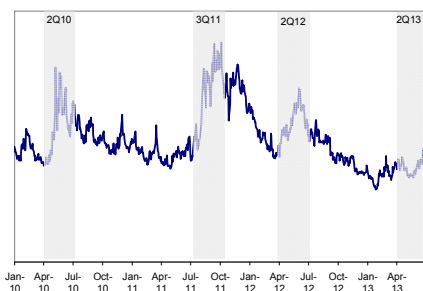


Figure 37. Skew

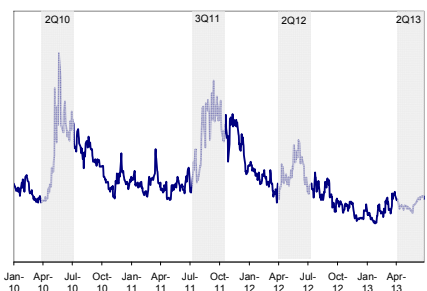
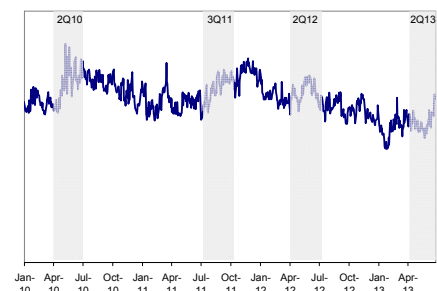
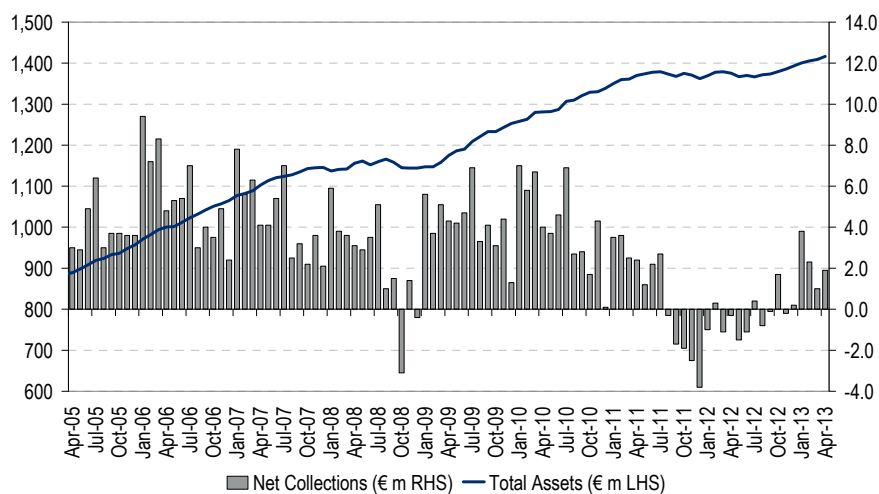


Figure 38. Correlation



Note: Volatility = 3m implied volatility on SX5E; Skew = 3m normalised index skew on SX5E; Correlation = realised correlation on SX5E; Dividend = 2-year rolling dividend swap ask on SX5E; When volatility, skew & correlation rise, dealers tend to suffer derivatives losses. * To be reported. Source: Company Reports, Bloomberg and Citi Research

Figure 39. Life Insurance Flows Positive YTD



Source: FFSA; Life Insurance Total Assets and Net Inflows, 2005-13

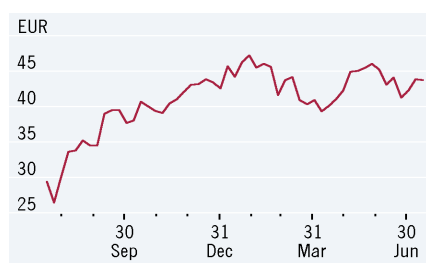
Company Focus

■ Estimate Change

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Buy	1
Price (17 Jul 13)	€44.22
Target price	€60.00
Expected share price return	35.7%
Expected dividend yield	4.5%
Expected total return	40.2%
Market Cap	€55,024M US\$72,422M

Price Performance (RIC: BNPP.PA, BB: BNP FP)



BNP Paribas SA (BNPP.PA) Managing Headwinds, Capital & Cost Cutting Potential

- **Buy BNP Paribas, Most Preferred, €60 PT** — We continue to view BNP Paribas as best placed on our 3 key themes for European banks: Return of Capital, Restructuring and Regulation. The bank which offers a combination of growth potential (via Asian investments), restructuring benefits, progressive capital return as well as an attractive valuation trading at 0.7x 2014E P/TBV for a c10% RoTE. BNPP is one of our Most Preferred European banks and is on our European focus list.
- **2Q13 Preview: No Short Term Catalyst** — We expect Q2 to show similar trends as in Q1: cost control to offset revenue pressure and confirmation regulatory requirements are met (capital, liquidity leverage). However, clearer catalysts in particular with regards to capital return should wait until later this year.
- **Surplus Capital: No News, Yet:** According to the press, BNPP could provide more details on its growth plans in Germany & the US. As for Asia, we expect these plans to prove to not be highly consumptive of capital, reassuring on the use of BNPP's capital surplus above its 9.5% B3 CET1 ratio target. Nevertheless, we believe management will delay major announcements on this front for the year end.
- **Retail: Comparable to Q1:** Provisions to remain elevated in Italy (c150bp) and Personal Finance (c175bp), but moderate in France, Belgium & US (c20-30bp). Q1 showed considerable cost control in domestic markets, with costs down 1.5% yoy vs revenue down 1% yoy. Costs could suffer, however, from marketing costs of the new mobile bank (c€20m in Q2, c€80m in 2013E).
- **CIB: Remain Sluggish:** As highlighted in [French Banks – Management Feedback - Focus on Corporate & Investment Banking](#) (31 May), a rebound of revenue will take time: relatively low risk appetite and an unfavourable mix should translate into sluggish FICC compared to peers (more on p. 14). Investments in Asia & US should also weigh on costs.
- **One-offs & Scope:** Key one-offs in the corporate centre: restructuring costs (-€110m), loss on own debt (-€200m) and gain on bad bank sale (+€200m). Scope effects: PBT loss in WAM (sale of fund-of-fund) and Euromed (sale of Egypt: €100m one-off gain but c€5-10m PBT loss per quarter).
- **What to Look for in the Balance Sheet:** Liquidity optimization could continue, easing negative revenue in the corporate centre. BNPP will also disclose, for the first time, details on its gross & net balance sheet, allowing for better global comparisons of leverage (more details in [First look at netting disclosure; favourable for Deutsche Bank](#), 3 June)

BNP Paribas SA (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	5,760.0	6,286.0	5,503.3	6,752.1	8,218.3
Diluted EPS (€)	4.78	5.13	4.42	5.42	6.60
Diluted EPS (Old) (€)	4.78	5.13	4.69	5.38	6.57
PE (x)	9.2	8.6	10.0	8.2	6.7
P/BV (x)	0.8	0.7	0.7	0.6	0.6
DPS (€)	1.20	1.50	1.99	2.44	2.97
Net Div Yield (%)	2.7	3.4	4.5	5.5	6.7
ROE (%)	8.6	8.6	6.8	8.0	9.1

BNP Paribas – Earnings Forecasts

We revise our forecasts for BNP Paribas (EPS -6%, +1%, 0% in 2013-15E) in light of expectations of a later recovery in CIB revenue as well as to include scope changes & investments. We maintain our TP (€60) and Buy recommendation.

Figure 40. BNPP – Changes to our Financial Forecasts (2013E-2015E)

€ m	2013E Old	2013E New	Change	2014E Old	2014E New	Change	2015E Old	2015E New	Change
Revenues	39,400	38,917	-1%	40,283	40,176	0%	41,727	41,576	0%
Costs	-25,790	-25,813	0%	-26,022	-25,926	0%	-25,797	-25,693	0%
Profit Before Loan Losses	13,610	13,104	-4%	14,262	14,250	0%	15,930	15,883	0%
Loan Losses	-4,285	-4,375	2%	-3,688	-3,719	1%	-3,263	-3,294	1%
Profit before tax	9,325	8,729	-6%	10,573	10,531	0%	12,667	12,589	-1%
Non Operating Income	585	685	17%	509	613	20%	565	673	19%
Tax	-3,010	-2,861	-5%	-3,325	-3,343	1%	-3,970	-3,979	0%
Minorities	-780	-770	-1%	-819	-809	-1%	-876	-865	-1%
Net profit (attributable)	6,121	5,783	-6%	6,939	6,992	1%	8,386	8,418	0%
EPS basic (attributable, inc hybrid funding €)	4.70	4.43	-6%	5.38	5.43	1%	6.58	6.61	0%
EPS diluted (attributable, €)	4.69	4.42	-6%	5.38	5.42	1%	6.57	6.60	0%
EPS underlying (€)	4.88	4.49	-8%	5.98	5.82	-3%	6.81	6.76	-1%

Source: Citi Research

Figure 41. BNPP – Quarterly Profit & Loss Account, 1Q11-4Q13E

€ m	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	3Q13E	4Q13E
Total operating income	11,685	10,981	10,032	9,686	9,886	10,098	9,693	9,395	10,055	9,703	9,606	9,553
Total operating expenses	-6,726	-6,602	-6,106	-6,677	-6,845	-6,335	-6,562	-6,801	-6,514	-6,333	-6,334	-6,632
Operating profit pre provisions	4,959	4,379	3,926	3,009	3,041	3,763	3,131	2,594	3,541	3,371	3,272	2,920
Credit loss expense	-919	-1,350	-3,010	-1,518	-945	-853	-944	-1,199	-978	-1,133	-1,092	-1,172
Profit before tax	4,040	3,029	916	1,491	2,096	2,910	2,187	1,395	2,563	2,238	2,180	1,749
Associate income	71	239	34	-164	1,844	77	119	-249	52	274	183	176
Tax	-1,175	-956	-240	-386	-927	-914	-736	-482	-821	-753	-709	-577
Minorities & Hybrids	-318	-184	-167	-175	-143	-222	-243	-146	-210	-190	-190	-180
Net profit (reported)	2,618	2,128	543	766	2,870	1,851	1,327	518	1,584	1,568	1,464	1,167

Source: Company Reports and Citi Research Estimates

Figure 42. BNPP — Group Profit and Loss Account by Year

€ m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
Net interest income	21,021	24,060	23,981	-0%	23,262	-3%	23,494	+1%	23,964	+2%	24,683	+3%
Net fee & commission income	7,467	8,486	8,419	-1%	8,166	-3%	8,330	+2%	8,496	+2%	8,751	+3%
Net trading income	5,649	4,657	3,453	-26%	3,626	+5%	3,734	+3%	3,884	+4%	4,039	+4%
Net insurance income	1,282	1,553	1,626	+5%	1,970	+21%	2,111	+7%	2,247	+6%	2,349	+5%
Other income	4,772	5,113	4,905	-4%	2,048	-58%	1,248	-39%	1,584	+27%	1,754	+11%
Total operating income	40,191	43,869	42,384	-3%	39,072	-8%	38,917	-0%	40,176	+3%	41,576	+3%
Total operating expenses	-23,340	-26,517	-26,111	-2%	-26,543	+2%	-25,813	-3%	-25,926	+0%	-25,693	-1%
Operating profit pre provisions	16,851	17,352	16,273	-6%	12,529	-23%	13,104	+5%	14,250	+9%	15,883	+11%
Credit loss expense	-8,369	-4,802	-6,797	+42%	-3,941	-42%	-4,375	+11%	-3,719	-15%	-3,294	-11%
Profit before tax	8,482	12,550	9,476	-24%	8,588	-9%	8,729	+2%	10,531	+21%	12,589	+20%
Associate income	340	191	180	-6%	1,791	+895%	685	-62%	613	-11%	673	+10%
Tax	-2,526	-3,856	-2,757	-29%	-3,059	+11%	-2,861	-6%	-3,343	+17%	-3,979	+19%
Minorities & Hybrids	-642	-1,321	-844	-36%	-754	-11%	-770	+2%	-809	+5%	-865	+7%
Net profit (reported)	5,832	7,832	6,055	-23%	6,566	+8%	5,783	-12%	6,992	+21%	8,418	+20%
Underlying Profit (Citi Calculations)		6,853	8,211	+20%	5,475	-33%	5,592	+2%	7,247	+30%	8,416	+16%
PER SHARE FIGURES												
EPS - incl hybrid funding (€)	5.51	6.01	4.79	-20%	5.13	+7%	4.43	-14%	5.43	+23%	6.61	+22%
EPS - excl hybrid funding (€)	5.39	6.41	5.03	-22%	5.36	+7%	4.65	-13%	5.62	+21%	6.77	+20%
EPS underlying (€)		5.74	6.82	+19%	4.47	-34%	4.49	+1%	5.82	+0%	6.76	+16%
Dividend per share	1.50	2.10	1.20	-43%	1.50	+25%	1.99	+33%	2.44	+23%	2.97	+22%
Payout Ratio	27%	35%	25%	nm	29%	nm	45%	nm	45%	nm	45%	nm
Book value per share	51.85	55.56	56.40	+1%	63.32	+12%	66.41	+5%	70.04	+5%	74.37	+6%
Tangible Book Value per share	40.73	44.03	44.90	+0%	52.71	+0%	55.82	+0%	59.45	+0%	63.78	+0%
Diluted (period avg, m)	1,059	1,193	1,204	+1%	1,226	+2%	1,244	+1%	1,245	+0%	1,245	+0%
OPERATING RATIOS												
Cost / income ratio	58%	60%	62%		68%		66%		65%		62%	
Provision charge / customer loans	1.33%	0.75%	1.07%		0.65%		0.72%		0.60%		0.52%	
NPL ratio	5.0%	5.5%	5.2%		5.5%		5.5%		5.6%		5.5%	
Coverage ratio	81.1%	74.9%	84.5%		83.1%		88.7%		91.5%		95.3%	
Return on Tangible Equity	14.9%	15.5%	11.3%		11.0%		8.6%		9.8%		11.0%	
RoTE underlying (Citi Estimates)		13.6%	15.3%		9.1%		8.3%		10.1%		11.0%	
RoTE underlying for B3 CET1R 9.5%		10.1%	12.5%		9.5%		9.2%		11.6%		13.2%	
BALANCE SHEET ITEMS												
Total Assets	2,057,698	1,998,158	1,965,283	-2%	1,907,290	-3%	1,933,433	+1%	1,914,099	-1%	1,894,958	-1%
Gross customer loans	652,900	668,163	664,413	-1%	630,520	-5%	637,509	+1%	650,259	+2%	663,264	+2%
Customer deposits	604,903	580,913	546,284	-6%	539,513	-1%	561,469	+4%	578,313	+3%	589,879	+2%
Loan / deposit ratio	108%	115%	122%	0%	117%	0%	114%	0%	112%	0%	112%	0%
Shareholders equity excl minorities	69,501	74,632	75,370	+1%	85,886	+14%	89,860	+5%	94,376	+5%	99,759	+6%
REGULATORY CAPITAL												
Risk-Weighted Assets	620,714	600,424	614,000	+2%	552,000	-10%	604,147	+9%	615,541	+2%	627,620	+2%
RWA - B3 Pro forma (Estimates)		682,424	669,000	+0%	602,000	+0%	604,147	+0%	615,541	+0%	627,620	+0%
Core Tier 1	49,600	55,239	58,900	+7%	65,100	+11%	63,801	-2%	67,646	+6%	72,276	+7%
CET1 - B3 Pro forma (Estimates)		47,739	51,400	+0%	59,300	+0%	63,801	+0%	67,646	+0%	72,276	+0%
Core Tier 1 ratio	8.0%	9.2%	9.6%		11.8%		10.6%		11.0%		11.5%	
CET1 ratio - Basel 2		9.2%	10.0%		12.4%		13.5%		13.9%		14.5%	
CET1 ratio - B3 Pro-forma (Estimates)		7.0%	7.7%		9.9%		10.6%		11.0%		11.5%	

Source: Company Reports and Citi Research Estimates

Figure 43. BNPP — Divisional Profit and Loss Account by Year

€ m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
TOTAL RETAIL BANKING												
Total operating income	20,702	23,339	24,361	+4%	24,521	+1%	24,035	-2%	24,365	+1%	24,923	+2%
Total operating expenses	-12,642	-14,183	-14,878	+5%	-14,978	+1%	-14,754	-1%	-14,542	-1%	-14,566	+0%
Operating profit pre provisions	8,060	9,156	9,483	+4%	9,543	+1%	9,280	-3%	9,823	+6%	10,358	+5%
Provisions	-5,847	-4,499	-3,565	-21%	-3,505	-2%	-3,752	+7%	-3,371	-10%	-3,146	-7%
Operating pre-tax Profit	2,213	4,657	5,918	+27%	6,038	+2%	5,529	-8%	6,453	+17%	7,212	+12%
Cost/income ratio	61%	61%	61%		61%		61%		60%		58%	
-- FRENCH RETAIL BANKING												
Total operating income	6,247	6,600	6,786	+2%	6,797	-0%	6,665	-2%	6,756	+1%	6,870	+2%
Total operating expenses	-4,249	-4,406	-4,462	+1%	-4,424	-1%	-4,321	-2%	-4,305	+1%	-4,296	+1%
Operating profit pre provisions	1,998	2,194	2,324	+6%	2,373	+2%	2,344	-1%	2,451	+5%	2,574	+5%
Provisions	-515	-481	-315	-35%	-315	+0%	-364	+16%	-329	-10%	-292	-11%
Pre-tax Profit	1,484	1,716	2,011	+17%	2,061	+2%	1,982	-4%	2,122	+7%	2,282	+8%
Cost/income ratio	68%	67%	66%		65%		65%		64%		63%	
-- BNL bc												
Total operating income	2,975	3,026	3,163	5%	3,230	2%	3,222	0%	3,222	0%	3,287	2%
Total operating expenses	-1,780	-1,776	-1,806	2%	-1,793	-1%	-1,760	-2%	-1,728	-1%	-1,724	1%
Operating profit pre provisions	1,195	1,250	1,357	9%	1,437	6%	1,462	2%	1,494	2%	1,563	5%
Provisions	-671	-817	-793	-3%	-961	21%	-1,150	20%	-977	-15%	-833	-15%
Operating pre-tax Profit	524	433	564	30%	476	-16%	312	-35%	518	66%	729	41%
Non Operating Items	0	-1	0	0%	1	0%	0	0%	0	0%	0	0%
Pre-tax Profit	524	432	564	31%	477	-15%	312	-35%	518	66%	729	41%
Cost/income ratio	60%	59%	57%		56%		55%		54%		52%	
- INTERNATIONAL RETAIL BANKING & FINANCIAL SERVICES												
Total operating income	8,349	8,987	9,011	0%	9,130	1%	8,777	-4%	8,984	2%	9,245	3%
Total operating expenses	-4,429	-4,864	-4,938	2%	-5,114	4%	-4,849	-5%	-4,829	0%	-4,871	1%
Operating profit pre provisions	3,920	4,123	4,073	-1%	4,016	-1%	3,927	-2%	4,154	6%	4,374	5%
Provisions	-4,002	-2,724	-2,163	-21%	-1,932	-11%	-1,924	0%	-1,769	-8%	-1,727	-2%
Operating pre-tax Profit	-82	1,399	1,910	NM	2,084	NM	2,003	-4%	2,385	+19%	2,647	+11%
Non Operating Items	107	168	231	+38%	251	+9%	289	+15%	217	-25%	256	+18%
Pre-tax Profit	25	1,567	2,141	NM	2,335	NM	2,292	-2%	2,602	+14%	2,903	+12%
Cost/income ratio	53%	54%	55%		56%		55%		54%		53%	
INVESTMENT SOLUTIONS												
Total operating income	5,363	6,096	5,922	-3%	6,204	5%	6,311	2%	6,594	4%	7,032	7%
Total operating expenses	-3,835	-4,297	-4,253	-1%	-4,328	2%	-4,272	-1%	-4,324	1%	-4,513	4%
Operating profit pre provisions	1,528	1,799	1,669	-7%	1,876	12%	2,039	9%	2,270	11%	2,519	11%
Provisions	-41	21	-64		54		-7		0		0	
Operating pre-tax Profit	1,487	1,820	1,605	-12%	1,930	20%	2,032	5%	2,270	12%	2,519	11%
Non Operating Items	-24	162	-76	-147%	159	-309%	126	-21%	118	-6%	118	0%
Pre-tax Profit	1,463	1,982	1,529	-23%	2,089	37%	2,158	3%	2,388	11%	2,637	10%
Cost/income ratio	72%	70%	72%		70%		68%		66%		64%	
CORPORATE AND INVESTMENT BANKING												
Total operating income	13,497	12,125	9,897	-18%	9,715	-2%	9,075	-7%	9,717	7%	10,071	4%
Total operating expenses	-6,174	-6,500	-6,126	-6%	-6,309	3%	-5,872	-7%	-5,861	0%	-5,887	0%
Operating profit pre provisions	7,323	5,625	3,771	-33%	3,406	-10%	3,203	-6%	3,856	20%	4,183	8%
Provisions	-2,473	-350	-75	-79%	-493	557%	-620	26%	-349	-44%	-149	-57%
Operating pre-tax Profit	4,850	5,275	3,696	-30%	2,913	-21%	2,583	-11%	3,508	36%	4,035	15%
Non Operating Items	16	94	80	-15%	36	-55%	42	17%	33	-21%	33	0%
Pre-tax Profit	4,866	5,369	3,776	-30%	2,949	-22%	2,625	-11%	3,541	35%	4,068	15%
Cost/income ratio	46%	54%	62%		65%		65%		60%		58%	
CORPORATE CENTRE												
Total operating income	629	2,309	2,204	-5%	-1,368	-162%	-503	-63%	-500	0%	-450	0%
Total operating expenses	-689	-1,537	-854	-44%	-928	9%	-916	-1%	-1,199	31%	-727	-39%
Operating profit pre provisions	-60	772	1,350	75%	-2,296	NM	-1,419	NM	-1,699	NM	-1,177	NM
Provisions	-8	26	-3,093	NM	3	NM	4	NM	0	NM	0	NM
Operating pre-tax Profit	-68	798	-1,743	-318%	-2,293	NM	-1,415	NM	-1,699	NM	-1,177	NM
Non Operating Items	427	76	-86	-213%	1,307	-1620%	184	-86%	202	10%	223	10%
Pre-tax Profit	359	874	-1,829	-309%	-986	-46%	-1,231	NM	-1,497	NM	-954	NM
Cost/income ratio	110%	67%	39%		-68%		NM		NM		NM	

Source: Company Reports and Citi Research Estimates

Company Focus

■ Estimate Change

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Buy	1
Price (17 Jul 13)	€28.02
Target price	€40.00
Expected share price return	42.8%
Expected dividend yield	4.1%
Expected total return	46.9%
Market Cap	€22,374M US\$29,449M

Price Performance (RIC: SOGN.PA, BB: GLE FP)



Societe Generale (SOGN.PA) From Capital to Cost Management

- **Buy SocGen, Discount too High** — SocGen now offers a clearer path on cost control, capital & returns. We believe challenges are manageable on leverage (more on p.8) and from the risks on its core businesses (cost of risk in France, EM exposure, capital markets). Trading at 0.6x PTBV for sustainable RoTE of 9-10% and potential capital return from next year – concerns are overpriced in our view.
- **10% RoE & Capital Return** — In 2012, SocGen delivered a 9% underlying RoTE in a relatively challenging environment. Although we forecast a c9% RoE in 2015E, bringing down our end-2015 B3 T1 ratio forecast from c11% to 9.5%, results in a c10% RoE, consistent with the company's target.
- **2Q13 Preview: Focus on Capital, Retail & CIB**
 - **Capital:** We forecast B3 CET1 ratio of 9%. Legacy assets deleveraging could continue despite a slowdown in the repricing of underlying assets (Figure 26); the recently-announced settlement with MBIA should allow SocGen to accelerate B3 capital tied-up in legacy monoline-insured transactions, or c50% of total legacy exposure (representing €2.5bn of B3 capital or c70bps).
 - **Retail: Comparable to Q1:** Provisions should continue to come down in Romania (<c€100m – more on Romania in [Romanian Banking – Tone of Meetings Cautiously Optimistic](#), 17 June). Recent management statements about Russia also suggest operational improvements continue. However, we expect revenue pressure to continue in the Czech Republic, while French provisions should remain at moderate levels (c65bp vs 20-40bp for peers).
 - **CIB: Normalisation after strong Q1:** As highlighted in [French Banks – Management Feedback - Focus on Corporate & Investment Banking](#) (31 May), Q1 showed a number of favourable tailwinds for SocGen in FICC & equity derivatives (more on p. 14). For Q2, we expect 'normal seasonality', supported by strong volatility & customer flows but partly offset by tougher market conditions in June.
- **One-offs & Scope:** The main one-off should be restructuring costs (c€100m) while we expect a small loss on own debt.

Societe Generale (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	2,130.0	485.0	2,217.5	3,516.9	4,381.4
Diluted EPS (€)	2.88	0.64	2.92	4.62	5.75
Diluted EPS (Old) (€)	2.88	0.64	2.94	4.65	5.78
PE (x)	9.7	43.5	9.6	6.1	4.9
P/BV (x)	0.5	0.5	0.5	0.4	0.4
DPS (€)	0.00	0.45	1.15	1.75	2.25
Net Div Yield (%)	0.0	1.6	4.1	6.2	8.0
ROE (%)	5.3	1.2	5.1	7.3	8.5

Société Générale – Earnings Forecasts

We marginally revise our forecasts for SocGen (EPS -1% in 2013E, unchanged in other years) driven expectations of weaker market performance in 2Q13. We maintain our TP (€40) and Buy recommendation.

Figure 44. Societe Generale – Changes to our Financial Forecasts (2013E-2015E)

€m	2013E Old	2013E New	Change	2014 Old	2014E New	Change	2015 Old	2015E New	Change
Revenues	22,711	22,655	0%	24,700	24,636	0%	25,450	25,383	0%
Costs	-15,903	-15,869	0%	-15,964	-15,923	0%	-15,763	-15,720	0%
Profit before loan losses	6,808	6,786	0%	8,735	8,712	0%	9,687	9,663	0%
Loan Losses	-3,355	-3,355	0%	-2,931	-2,931	0%	-2,575	-2,575	0%
Operating profit before tax	3,452	3,431	-1%	5,805	5,782	0%	7,112	7,088	0%
Net profit (attributable)	2,549	2,534	-1%	3,849	3,833	0%	4,714	4,697	0%
EPS diluted (incl. Hybrids)	2.94	2.92	-1%	4.65	4.62	0%	5.78	5.75	0%

Source: Citi Research

Figure 45. Societe Generale – Quarterly Profit and Loss Account, 1Q11-4Q13E

€m	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13E	2Q13E	3Q13E	4Q13E
Total operating income	6,619	6,504	6,504	6,010	6,311	6,272	5,398	5,131	5,088	5,865	5,910	5,793
Total operating expenses	-4,376	-4,241	-4,018	-4,401	-4,333	-3,986	-3,981	-4,138	-4,067	-3,903	-3,840	-4,058
Operating profit pre provisions	2,243	2,263	2,486	1,609	1,978	2,286	1,417	993	1,021	1,961	2,070	1,734
Credit loss expense	-878	-1,185	-1,192	-1,075	-902	-822	-897	-1,321	-927	-811	-790	-827
Profit before tax	1,365	1,078	1,294	534	1,076	1,464	520	-328	94	1,150	1,280	907
Net other income	39	103	-148	-154	61	-457	-441	-337	487	30	32	33
Tax	-370	-317	-455	-181	-299	-440	121	284	-119	-356	-362	-249
Minorities	-118	-116	-69	-101	-107	-132	-114	-81	-98	-102	-102	-92
Group Net Income	916	748	622	98	731	435	86	-462	364	722	849	599

Source: Company reports and Citi Research Estimates

Figure 46. Societe Generale — Group Profit and Loss Account

€ m	2009	2010	% Chg	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
Net Interest Income	11,635	11,970	+3%	12,207	+2%	11,597	-5%	11,713	+1%	11,947	+2%	12,186	+2%
Net fee & commission income	7,812	7,485	-4%	7,179	-4%	6,820	-5%	6,956	+2%	7,165	+3%	7,380	+3%
Net trading income	947	5,374	+467%	4,432	-18%	4,265	-4%	4,444	+4%	4,633	+4%	4,830	+4%
Other income	1,336	1,589	+19%	1,819	+14%	430	-76%	-458	-207%	891	-294%	987	+11%
Total operating income	21,730	26,418	+22%	25,637	-3%	23,112	-10%	22,655	-2%	24,636	+9%	25,383	+3%
Total operating expenses	-15,766	-16,545	+5%	-17,036	+3%	-16,438	-4%	-15,869	-3%	-15,923	+0%	-15,720	-1%
Operating profit pre provisions	5,964	9,873	+66%	8,601	-13%	6,674	-22%	6,786	+2%	8,712	+28%	9,663	+11%
Credit loss expense	-5,848	-4,160	-29%	-4,330	+4%	-3,942	-9%	-3,355	-15%	-2,931	-13%	-2,575	-12%
Profit before tax	116	5,713	+4825%	4,271	-25%	2,732	-36%	3,431	+26%	5,782	+69%	7,088	+23%
Net other income	683	130	-81%	-160	-223%	-1,174	+634%	582	-150%	140	-76%	152	+9%
Associate income	0	0	NM	0	NM	0	NM	0	NM	0	NM	0	NM
Net non-recurring expense	0	0	NM	0	NM	0	NM	0	NM	0	NM	0	NM
Tax	308	-1,542	-601%	-1,323	-14%	-334	-75%	-1,085	+225%	-1,647	+52%	-2,035	+24%
Minorities	-430	-386	-10%	-403	+4%	-433	+7%	-394	-9%	-441	+12%	-508	+15%
Group Net Income	677	3,915	+478%	2,385	-39%	791	-67%	2,534	+220%	3,833	+51%	4,697	+23%
PER SHARE FIGURES													
EPS - incl. Hybrid Funding (€) - reported	0.42	4.94	+1085%	2.88	-42%	0.64	-78%	2.92	+353%	4.62	+58%	5.75	+24%
Dividend per share	0.25	1.75	+600%	0.00		0.45		1.15	+156%	1.75	+52%	2.25	+29%
Payout Ratio	56%	35%		0%		70%		30%		38%		39%	
Book value per share	48.9	54.0	+10%	54.6	+1%	56.9	+4%	58.9	+3%	63.3	+8%	67.8	+7%
Tangible Book Value per Share	37.5	41.6	+11%	43.0	+3%	46.5	+8%	48.5	+4%	53.0	+9%	57.4	+8%
Basic (period avg. m)	624	725		747		754		759		759		759	
OPERATING RATIOS													
Cost / income ratio	73%	63%		66%		71%		70%		65%		62%	
Provision charge / customer loans	1.46%	0.81%		1.02%		0.97%		0.79%		0.68%		0.58%	
NPL ratio	5.2%	5.4%		5.7%		5.8%		6.0%		6.1%		6.2%	
Coverage ratio	53.0%	59.3%		61.4%		57.4%		58.7%		62.0%		64.3%	
Return on Tangible Equity	2.6%	13.7%		7.7%		2.4%		7.1%		10.0%		11.2%	
BALANCE SHEET													
Total Assets	1,023,701	1,132,072	+11%	1,181,372	+4%	1,250,696	+6%	1,227,699	-2%	1,203,145	-2%	1,167,050	-3%
Gross customer loans	400,400	426,000	+6%	425,500	-0%	407,100	-4%	425,500	+5%	434,010	+2%	447,030	+3%
Customer deposits	300,054	337,447	+12%	340,172	+1%	337,230	-1%	341,471	+1%	355,130	+4%	369,335	+4%
Loan / deposit ratio	133%	126%		125%		121%		125%		122%		121%	
Shareholders equity excl minorities	35,128	39,140	+11%	40,762	+4%	42,926	+5%	44,657	+4%	48,054	+8%	51,423	+7%
CAPITAL POSITION													
Risk-Weighted Assets	324,080	334,800	+3%	673,500	+101%	623,300	-8%	315,921	-4%	354,270	+2%	353,256	+2%
RWA - B3 Pro forma (Estimates)		458,700	+0%	429,522	-6%	387,710	-10%	356,797	-8%	354,270	-1%	353,256	-0%
Core Tier 1	26,800	28,458	+6%	31,428	+10%	34,679	+10%	33,547	-3%	35,737	+7%	38,411	+7%
Core Tier 1 ratio	8.3%	8.5%		4.7%		5.6%		10.6%		10.1%		10.9%	
CET1 ratio - Basel 2		8.5%		9.7%		11.6%		12.4%		12.9%		13.6%	
CET1 ratio - B3 Pro-forma (Estimates)		5.5%		6.6%		8.1%		9.4%		10.1%		10.9%	

Source: Company Reports and Citi Research Estimates

Figure 47. Societe Generale — Divisional Profit and Loss Account

€m	2009	2010	% Chg	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
TOTAL RETAIL BANKING													
Total Operating Income	15,454	16,260	5%	16,625	2%	16,593	0%	16,073	-3%	16,369	2%	16,730	2%
Total Operating Expenses	-9,410	-9,668	3%	-10,082	4%	-10,185	1%	-9,732	-4%	-9,743	0%	-9,703	0%
Operating Profit Pre Provisions	6,044	6,592	9%	6,543	-1%	6,408	-2%	6,341	-1%	6,625	4%	7,027	6%
Provisions	-3,492	-3,378	-3%	-2,858	-15%	-2,966	4%	-2,872	-3%	-2,553	-11%	-2,230	-13%
Operating Pre-tax Profit	2,552	3,214	26%	3,685	15%	3,442	-7%	3,469	1%	4,072	17%	4,797	18%
Non Operating Items	-86	10	-112%	-214	0%	-223	0%	19	-109%	16	-16%	16	0%
Pre-tax Profit	2,466	3,224	31%	3,471	8%	3,219	-7%	3,488	8%	4,088	17%	4,813	18%
Cost/Income Ratio	61%	59%		61%		61%		61%		60%		58%	
o/w FRENCH RETAIL BANKING													
Total Operating Income	7,466	7,791	4%	8,165	2%	8,161	0%	8,149	0%	8,272	2%	8,396	2%
Total Operating Expenses	-4,911	-5,058	3%	-5,248	4%	-5,264	0%	-5,197	-1%	-5,185	1%	-5,135	1%
Operating Profit Pre Provisions	2,555	2,733	7%	2,917	7%	2,897	-1%	2,953	2%	3,087	5%	3,260	6%
Provisions	-970	-864	-11%	-745	-14%	-931	25%	-1,189	28%	-1,054	-11%	-959	-9%
Operating Pre-tax Profit	1,585	1,869	18%	2,172	16%	1,966	-9%	1,763	-10%	2,032	15%	2,302	13%
Non Operating Items	15	14	NA	11	-21%	11	0%	7	-36%	7	0%	7	0%
Pre-tax Profit	1,600	1,883	18%	2,183	16%	1,977	-9%	1,770	-10%	2,039	15%	2,309	13%
Cost/Income Ratio	66%	65%		64%		65%		64%		63%		61%	
o/w IRBFS													
Total Operating Income	7,988	8,469	6%	8,460	0%	8,432	0%	7,924	-6%	8,097	2%	8,335	3%
Total Operating Expenses	-4,499	-4,610	2%	-4,834	5%	-4,921	2%	-4,535	-8%	-4,559	1%	-4,568	0%
Operating Profit Pre Provisions	3,489	3,859	11%	3,626	-6%	3,511	-3%	3,389	-3%	3,539	4%	3,767	6%
Provisions	-2,522	-2,514	0%	-2,113	-16%	-2,035	-4%	-1,683	-17%	-1,499	-11%	-1,271	-15%
Operating Pre-tax Profit	967	1,345	39%	1,513	12%	1,476	-2%	1,706	16%	2,040	20%	2,496	22%
Non Operating Items	-101	-4	NA	-225	NA	-234	NA	12	NA	9	NA	9	NA
Pre-tax Profit	866	1,341	55%	1,288	-4%	1,242	-4%	1,718	38%	2,049	19%	2,505	22%
Cost/Income Ratio	56%	54%		57%		58%		57%		56%		55%	
GLOBAL INVESTMENT MANAGEMENT													
Total Operating Income	2,534	2,270	-10%	2,169	-4%	2,160	0%	1,803	-17%	1,874	4%	2,000	7%
Total Operating Expenses	-2,228	-2,002	-10%	-1,967	-2%	-1,905	-3%	-1,567	-18%	-1,604	2%	-1,667	4%
Operating Profit Pre Provisions	306	268	-12%	202	-25%	255	26%	236	-7%	270	14%	333	23%
Provisions	-40	-7	NA	-13	NA	-17	NA	2	NA	0	NA	0	NA
Pre-tax Profit	266	359	35%	216	-40%	-217	-200%	350	-261%	389	11%	463	19%
Cost/Income Ratio	88%	88%		91%		88%		87%		86%		83%	
CORPORATE AND INVESTMENT BANKING													
Total Operating Income	9,848	7,765	-21%	6,457	-17%	6,459	0%	6,716	4%	7,065	5%	7,325	4%
Total Operating Expenses	-3,941	-4,634	18%	-4,688	1%	-4,115	-12%	-4,025	-2%	-4,077	1%	-4,102	1%
Operating Profit Pre Provisions	5,907	3,131	-47%	1,769	-44%	2,344	33%	2,691	15%	2,988	11%	3,223	8%
Provisions	-922	-72	-92%	-138	92%	-368	167%	-279	-24%	-195	-30%	-156	-20%
Operating Pre-tax Profit	4,985	3,059	NM	1,631	-47%	1,976	21%	2,412	22%	2,793	16%	3,067	10%
Non Operating Items	46	2	NM	75	NM	10	NM	8	NM	5	NM	5	NM
Pre-tax Profit	5,031	3,061	NM	1,706	-44%	1,986	16%	2,420	22%	2,798	16%	3,072	10%
Cost/Income Ratio	40%	60%	49%	66%	10%	57%	-13%	59%	4%	58%	-3%	56%	-3%
CORPORATE CENTRE													
Total Operating Income	-3,286	52	NM	862	NM	-1,832	NM		-1%		-60%		-7%
Pre-tax Profit	-2,590	-104	-96%	-321	NM	-2,826	NM		-29%		-34%		-22%

Source: Company Reports and Citi Research Estimates

Company Focus

- Estimate Change
- Target Price Change
- Rating Change

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Buy	1
from Neutral	
Price (17 Jul 13)	€6.76
Target price	€8.00
from €7.30	
Expected share price return	18.3%
Expected dividend yield	4.4%
Expected total return	22.8%
Market Cap	€16,887M
	US\$22,226M

Price Performance (RIC: CAGR.PA, BB: ACA FP)



Credit Agricole SA (CAGR.PA) Small(er) is Beautiful – Upgrade to BUY

■ **Upgrading CASA to Buy** — The IB 'regulatory rollercoaster' is pushing consolidation (Figure 3) and, whilst we don't forecast any UBS-like scenario, we see more indicators that Credit Agricole's CIB refocusing could go further than current targets. This could free up €2bn capital or more (10% market cap), improve RoE (Figure 12) but also lower the cost of equity. With robust core businesses (French retail, insurance, asset management) and almost 10% RoTE expected this year for 0.7x TBV, we believe the time is ripe to start valuing CASA more like a retail & less like a wholesale bank. The run up to the investor day, in late Autumn, could act as a catalyst. Upgrade to Buy, TP €8.

■ **Regulatory Shield to Allow Transformation** — Shareholders of CASA benefit from the current regulatory set-up: regulators & credit agencies look at the group which is well capitalised (10% B3 CET1 ratio at 2013E, >3% leverage ratio at end-2012). CASA is also favoured by regulation on the treatment of insurance (Danish compromise) and on the calculation of B3 CET1 ratios (switch mechanism). Whilst some of these 'privileges' could be reviewed over time in the context of a European banking union, CASA should have a few years to reduce RWAs & the balance sheet (smaller IB, low RWA growth in other businesses) while generating double digit returns in its stable businesses.

■ 2Q13 Preview: Focus on Operational Trends

- **Retail: Stable Trends as in Q1:** Provisions should remain elevated at Cariparma (c140bp), be moderate in Italian consumer finance (<c€250m for Agos) and remain low in France (c40bp LCL, c20bp Regional banks).
- **CIB & Markets 'Normalising':** Financing trends should be stable with contained provisions. After a relatively tough Q1, capital markets revenue could show some resilience (more on p. 14). Nevertheless, we continue to see IB B3 RoE (10% allocation on RWAs) of c5% as too low for an activity that represents c40% of Group RWAs – despite synergies with the Group. In Insurance, mediocre market performance and investments could also translate in somewhat weaker PBT.
- **Capital & Cost Cutting:** We forecast a CET1 ratio of 7% for CASA, close to 10% for CA Group. We expect the bank to provide limited new information on the impact of Basel 3 on CASA and on the expansion of the 'Switch mechanism' ahead of the investor day in Autumn. CASA could also provide more details on its cost cutting plans: €650m by 2016, of which €320m in 2013 (Figure 24).

Credit Agricole SA (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	-1,471.0	-6,469.0	2,497.6	2,756.1	3,084.0
Diluted EPS (€)	-0.60	-2.59	1.00	1.09	1.20
Diluted EPS (Old) (€)	-0.60	-2.59	0.96	1.11	1.27
PE (x)	-11.3	-2.6	6.8	6.2	5.6
P/BV (x)	0.4	0.4	0.4	0.4	0.4
DPS (€)	0.00	0.00	0.30	0.35	0.40
Net Div Yield (%)	0.0	0.0	4.4	5.2	5.9
ROE (%)	-3.3	-15.7	6.1	6.4	6.8

Credit Agricole – Earnings Forecasts

We revise our forecasts for Credit Agricole SA (EPS +5% in 2013E, -2% in 2014E, -5% in 2015E) to reflect our expectations for Q2 trends as well as a deeper refocusing of CIB. With higher expected RoEs & capital return, we increase our TP from €7.3 to €8 and upgrade the shares to Buy.

Figure 48. Credit Agricole – Changes to our Financial Forecasts (2013E-2015E)

€m	2013E Old	2013E New	Change	2014E Old	2014E New	Change	2015E Old	2015E New	Change
Revenues	16,710	16,843	1%	16,905	16,641	-2%	17,044	16,408	-4%
Costs	-11,367	-11,440	1%	-11,170	-11,026	-1%	-11,165	-10,859	-3%
Profit Before Provisions	5,343	5,403	1%	5,735	5,615	-2%	5,878	5,549	-6%
Loan Losses	-3,364	-3,355	0%	-2,778	-2,752	-1%	-2,346	-2,307	-2%
Profit Before Taxes	1,979	2,048	3%	2,957	2,863	-3%	3,533	3,242	-8%
Net Income	2,390	2,498	5%	2,803	2,756	-2%	3,261	3,084	-5%
EPS - diluted, as reported	0.96	1.00	5%	1.11	1.09	-2%	1.27	1.20	-5%

Source: Citi Research

Figure 49. Credit Agricole – Quarterly Profit and Loss Account, 1Q11-4Q13E

€m	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13E	2Q13E	3Q13E	4Q13E
Total operating income	5,050	5,290	5,040	4,405	5,128	4,509	3,350	3,326	3,853	4,204	4,647	4,139
Total operating expenses	-3,101	-3,153	-3,058	-3,508	-2,981	-2,984	-2,947	-3,120	-2,879	-2,867	-2,830	-2,863
Operating profit pre provisions	1,949	2,137	1,982	897	2,147	1,525	403	206	974	1,337	1,817	1,276
Credit loss expenses	-605	-782	-1,386	-1,481	-943	-790	-963	-1,041	-765	-885	-833	-873
Profit before tax	1,344	1,355	596	-584	1,204	735	-560	-835	209	452	984	403
Associate Income & Other	295	-516	-142	-2,658	-497	-139	-2,474	-3,584	373	287	283	296
Tax	-515	-433	-117	176	-439	-424	248	255	-26	-136	-159	-137
Minorities	-124	-69	-78	-1	-13	-63	-65	183	-87	-80	-82	-82
Net profit (attributable)	1,000	337	259	-3,067	255	109	-2,851	-3,981	469	523	1,026	479

Source: Company Reports and Citi Research Estimates

Figure 50. Credit Agricole — Group Profit and Loss Account by Year

€ m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
Net interest income	14,290	14,894	15,169	+2%	14,730	-3%	14,141	-4%	14,565	+3%	15,002	+3%
Net fee & commission income	4,776	4,896	4,672	-5%	2,626	-44%	2,495	-5%	2,619	+5%	2,750	+5%
Net trading income	5,055	5,447	-3,622	-166%	5,255	-245%	-5,255	-200%	-5,518	+5%	-5,794	+5%
Other income	-6,179	-5,103	3,566	-170%	-6,299	-277%	5,462	-187%	4,974	-9%	4,449	-11%
Total operating income	17,942	20,134	19,785	-2%	16,312	-18%	16,843	+3%	16,641	-1%	16,408	-1%
Total operating expenses	-12,180	-13,182	-12,820	-3%	-12,032	-6%	-11,440	-5%	-11,026	-4%	-10,859	-2%
Operating profit pre provisions	5,762	6,952	6,965	+0%	4,280	-39%	5,403	+26%	5,615	+4%	5,549	-1%
Credit loss expenses	-4,691	-3,777	-4,254	+13%	-3,737	-12%	-3,355	-10%	-2,752	-18%	-2,307	-16%
Profit before tax	1,071	3,175	2,711	-15%	543	-80%	2,048	+277%	2,863	+40%	3,242	+13%
Capital gains and non-recurring income	-261	-601	-1,929	NM	-2,704	NM	0	NM	0	NM	0	NM
Associate Income & Other	847	66	-1,092	-1755%	-3,990	+265%	1,240	+0%	1,358	+0%	1,491	+0%
Tax	-211	-875	-889	+2%	-360	-60%	-458	+27%	-1,062	+132%	-1,214	+14%
Minorities	-321	-489	-272	-44%	42	-115%	-332	+0%	-402	+0%	-436	+0%
Attributable Net profit (reported)	1,125	1,276	-1,471	-215%	-6,469	+340%	2,498	-139%	2,756	+10%	3,084	+12%
PER SHARE FIGURES												
EPS - basic, as reported	0.50	0.54	-0.60	-211%	-2.59	+331%	1.00	-139%	1.09	+9%	1.20	+10%
Dividend per share	0.45	0.45	0.00	-100%	0.00	nm	0.30	nm	35%	17%	40%	14%
Payout Ratio (%)	90%	83%	0%	nm	0%	nm	30%	nm	32%	nm	33%	nm
Book value per share	19.60	19.01	17.13	-10%	15.93	-7%	16.90	+6%	17.36	+3%	17.86	+3%
Tangible Book Value per share	10.5	10.4	9.4	-10%	9.7	+3%	10.6	+10%	11.2	+5%	11.8	+6%
Basic (period avg, m)	2,256	2,361	2,450		2,498	0	2,498	0	2,523	+1%	2,573	+2%
OPERATING RATIOS												
Cost / income ratio	68%	65%	65%		74%		68%		66%		66%	
Provision charge / customer loans	1.22%	0.99%	1.07%		1.13%		1.03%		0.83%		0.68%	
NPL ratio	4.7%	5.5%	5.8%		4.7%		4.9%		5.1%		5.2%	
Coverage ratio	50.0%	65.8%	64.4%		75.7%		78.3%		82.8%		85.4%	
Return on Equity (underlying)	3.0%	6.4%	8.2%		5.1%		5.5%		6.4%		6.8%	
BALANCE SHEET ITEMS												
Total Assets	1,557,300	1,593,500	1,723,600	+8%	1,842,361	+7%	1,800,778	-2%	1,764,762	-2%	1,729,467	-2%
Gross customer loans	396,968	396,968	415,379	+5%	341,578	-18%	338,190	-1%	344,954	+2%	351,853	+2%
Customer deposits	464,080	501,360	525,600	+5%	483,600	-8%	489,875	+1%	499,673	+2%	509,666	+2%
Loan / deposit ratio	83%	76%	76%	-1%	68%	-10%	66%	-3%	66%	0%	66%	0%
Shareholders equity ex minorities (avg)	43,594	45,562	44,234	-3%	41,300	-7%	41,014	-1%	43,232	+5%	45,331	+5%
REGULATORY CAPITAL												
Risk-Weighted Assets	326,400	396,300	333,700	-2%	293,100	-6%	225,791	-23%	219,608	-3%	216,239	-2%
RWA - B3 Pro forma (Estimates)		488,300	333,700	-32%	376,100	+13%	302,791	-19%	288,608	-5%	277,239	-4%
Core Tier 1	30,300	31,400	28,600	-9%	27,000	-6%	29,788	+10%	28,103	-6%	30,672	+9%
Core Tier 1 ratio	9.3%	7.9%	8.6%	+8%	9.2%	+0%	11.1%	+0%	9.7%	+0%	11.1%	+0%
Tier 1 ratio	9%	10%	11%		10%		15%		15%		16%	
CET 1 ratio - Basel 2		8%	9%		9%		13%		15%		16%	
CET1 ratio - B3 Pro-forma (Estimates)		5.6%	5.8%		6.1%		8.7%		9.7%		11.1%	

Source: Company Reports and Citi Research Estimates

Figure 51. Credit Agricole — Divisional Profit and Loss Account by Year

€ m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
FRENCH RETAIL BANKING (LCL + 25% Regional Banks)												
Other	822	955	1,009	+6%	825	-18%	982	+19%	1,035	+5%	1,061	+3%
Pre-tax Profit	1,685	1,966	2,048	+4%	1,883	-8%	1,951	+4%	2,062	+6%	2,144	+4%
Tax	-351	-302	-331	+10%	-361	+9%	-340	-6%	-359	+6%	-379	+5%
Net Profit after tax	1,334	1,664	1,717	+3%	1,522	-11%	1,612	+6%	1,703	+6%	1,766	+4%
<i>Cost/income ratio</i>	66%	65%	65%	0%	65%	-1%	65%	1%	65%	0%	64%	-1%
-- FRENCH RETAIL BANKING REGIONAL BANKS (25%)												
Net Profit after tax	730	957	1,008	+5%	824	-18%	980	+19%	1,035	+6%	1,061	+3%
<i>Cost/income ratio (Regional Banks)</i>	54%	54%	55%	3%	59%	8%	56%	-6%	55%	-3%	54%	0%
-- FRENCH RETAIL BANKING LCL												
Total operating income	3,849	3,945	3,822	+0%	3,891	-1%	3,835	+0%	3,845	+0%	3,922	+2%
Total operating expenses	-2,551	-2,575	-2,497	-0%	-2,522	+1%	-2,509	-0%	-2,504	-0%	-2,529	+1%
Operating profit pre provisions	1,298	1,370	1,325	-3%	1,369	+3%	1,325	-3%	1,341	+1%	1,393	+4%
Provisions	-435	-359	-286	-20%	-311	+9%	-356	+14%	-314	-12%	-310	-1%
Operating pre-tax Profit	863	1,011	1,039	+3%	1,058	+2%	969	-8%	1,028	+6%	1,083	+5%
Other	0	-2	1	+0%	1	+0%	2	+0%	0	+0%	0	+0%
Pre-tax Profit	863	1,009	1,040	+3%	1,059	+2%	971	-8%	1,028	+6%	1,083	+5%
Tax	-259	-302	-331	+10%	-361	+9%	-340	-6%	-359	+6%	-379	+5%
Net Profit	604	707	709	0%	698	-2%	632	-10%	668	6%	704	5%
<i>Cost/income ratio</i>	66%	65%	65%	0%	65%	-1%	65%	1%	65%	0%	64%	-1%
INTERNATIONAL RETAIL BANKING & FINANCIAL SERVICES												
Total operating income	6,610	6,919	6,307	-9%	5,917	-6%	5,663	-4%	5,704	+1%	5,794	+2%
Total operating expenses	-3,692	-3,685	-3,312	-10%	-3,307	-0%	-3,032	-8%	-3,033	+0%	-3,043	+0%
Operating profit pre provisions	2,918	3,234	2,995	-7%	2,610	-13%	2,631	+1%	2,671	+2%	2,751	+3%
Provisions	-2,409	-2,742	-2,048	-25%	-2,628	+28%	-2,282	-13%	-1,832	-20%	-1,511	-18%
Operating pre-tax Profit	509	492	947	+92%	-18	-102%	348	-2036%	838	+141%	1,240	+48%
Other	-127	-295	-3,024	+925%	-6,679	+121%	136	-102%	161	+18%	268	+66%
Pre-tax Profit	382	197	-2,077	-1154%	-6,697	+222%	485	-107%	1,000	+106%	1,508	+51%
Tax	-316	-513	-326	-36%	-151	-54%	-147	-3%	-313	+113%	-467	+49%
Net Profit after tax	66	-316	-2,403	+660%	-6,848	+185%	338	-105%	687	+103%	1,041	+52%
<i>Cost/income ratio</i>	56%	53%	53%	-1%	56%	6%	54%	-4%	53%	-1%	53%	-1%
SAVINGS MANAGEMENT												
Total operating income	3,910	4,983	5,244	+5%	5,158	-2%	5,066	-2%	5,217	+3%	5,457	+5%
Total operating expenses	-1,979	-2,490	-2,508	+1%	-2,400	-4%	-2,451	+2%	-2,505	+2%	-2,601	+4%
Operating profit pre provisions	1,931	2,493	2,736	+10%	2,758	+1%	2,615	-5%	2,712	+4%	2,856	+5%
Pre-tax Profit	1,926	2,465	1,670	-32%	2,741	+64%	2,614	-5%	2,712	+4%	2,856	+5%
Tax	-535	-801	-620	-23%	-848	+37%	-837	-1%	-864	+3%	-912	+6%
Net Profit after tax	1,391	1,664	1,050	-37%	1,893	+80%	1,777	-6%	1,848	+4%	1,945	+5%
<i>Cost/income ratio</i>	51%	50%	48%	0%	47%	0%	48%	0%	48%	0%	48%	0%
CORPORATE CENTRE AND DISCONTINUING OPERATIONS												
Total operating income	-1,930	-1,402	-1,078	-23%	-2,042	+89%	-1,635	-20%	-1,503	-8%	-1,702	+13%
Total operating expenses	-901	-1,033	-1,411	+37%	-1,207	-14%	-964	-20%	-820	-15%	-738	-10%
Pre-tax Profit	-3,880	-4,128	-3,043	-26%	-3,697	+21%	-2,836	-23%	-2,623	-8%	-2,689	+3%
Net Profit after tax	-2,525	-2,817	-1,976	-30%	-2,603	+32%	-1,653	-36%	-1,836	+11%	-1,882	+3%
CORPORATE AND INVESTMENT BANKING												
Total operating income	5,503	5,689	5,490	-3%	3,389	-38%	3,914	+15%	3,378	-14%	2,937	-13%
Total operating expenses	-3,057	-3,399	-3,092	-9%	-2,596	-16%	-2,483	-4%	-2,165	-13%	-1,948	-10%
Operating profit pre provisions	2,446	2,290	2,398	+5%	793	-67%	1,431	+81%	1,214	-15%	988	-19%
Provisions	-1,032	-283	-328	+16%	-292	-11%	-510	+75%	-294	-42%	-223	-24%
Operating pre-tax Profit	1,414	2,007	2,070	+3%	501	-76%	921	+84%	920	-0%	765	-17%
Other	127	133	-978	-835%	-881	-10%	152	-117%	149	-2%	149	+0%
Pre-tax Profit	1,541	2,140	1,092	-49%	-380	-135%	1,073	-382%	1,069	-0%	914	-14%
Tax	-364	-570	-679	+19%	-94	-86%	-318	+239%	-313	-2%	-263	-16%
Net Profit after tax	1,177	1,570	413	-74%	-474	-215%	755	-259%	756	+0%	651	-14%
<i>Cost/income ratio</i>	56%	60%	56%	0%	77%	0%	63%	0%	64%	0%	66%	0%

Source: Company Reports and Citi Research Estimates

Company Focus

■ Estimate Change

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Buy	1
Price (17 Jul 13)	€3.49
Target price	€4.00
Expected share price return	14.8%
Expected dividend yield	4.9%
Expected total return	19.7%
Market Cap	€10,768M
	US\$14,173M

Price Performance

(RIC: CNAT.PA, BB: KN FP)



Natixis (CNAT.PA)

Capital Return: Act 1 in August, Act 2 Next Year

■ **Capital Return Story Playing Out** — Our Buy thesis rests on (1) attractive capital return, with a €2bn exceptional dividend in August (18% of market cap) from the sale of Retail and an extra €2bn+ locked in non-core assets, (2) stable core businesses with 10%+ RoE. Profit taking is possible in the run up of the special dividend in August, but valuations should then still be at an attractive 0.6x 2014E TBV. We remain Buyers, TP €4.

■ 1Q13 Preview: Focus on Non-Core Assets & CIB Costs

- **Capital:** For Natixis, we forecast a B3 CET1 ratio of 10% (incl. DTAs, 8.3% ex DTAs). Management's confident target to 'close the bad bank' by mid-2014 combined with attractive prices for disposing of legacy assets should be supportive (Figure 26). We expect limited news on other non-core assets (e.g. IPO credit insurer) ahead of the investor day towards year end.
- **€0.65 Special Dividend (c18% Yield) Expected in August:** We expect an update on the sale of the Retail business and the attached €0.65 special dividend, expected by August. We also expect progress on cost savings targets (€300m by 2014, of which €105m in 2013, Figure 24) but, as for capital, we believe further announcements are unlikely before the investor day at year end.
- **CIB: Stable, Focus on Costs:** Financing trends should be stable with contained provisions, while the bank could provide more guidance on the progress on the implementation of the originate-to-distribute model. FICC could suffer from relatively lower issuance in Natixis' expertise field of covered bonds. With underlying B3 RoEs of c8%, focus will remain on costs and RWA optimization, in our view.

Natixis (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	1,289.0	822.0	1,062.1	1,189.0	1,333.5
Diluted EPS (€)	0.43	0.27	0.34	0.38	0.43
Diluted EPS (Old) (€)	0.43	0.27	0.35	0.39	0.44
PE (x)	8.1	13.1	10.1	9.1	8.1
P/BV (x)	0.7	0.6	0.7	0.7	0.6
DPS (€)	0.10	0.10	0.17	0.19	0.22
Net Div Yield (%)	2.9	2.9	4.9	5.5	6.2
ROE (%)	8.0	4.8	6.3	7.4	7.9

Natixis – Earnings Forecasts

We marginally revise our forecasts for Natixis (EPS -1%) driven expectations of weaker market performance in 2Q13. We maintain our TP (€4) and Buy recommendation.

Figure 52. Natixis – Changes to our Financial Forecasts (2013E-2015E)

€m	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg
Revenues	7,235	7,183	-1%	7,299	7,237	-1%	7,518	7,454	-1%
Total Op. Expenses	-5,085	-5,052	-1%	-5,060	-5,021	-1%	-5,147	-5,107	-1%
Operating Income	2,150	2,131	-1%	2,238	2,216	-1%	2,371	2,347	-1%
Prov. Loan Losses (Net)	-469	-469	0%	-350	-350	0%	-268	-268	0%
Operating Income Post Provisions	1,682	1,662	-1%	1,889	1,866	-1%	2,103	2,079	-1%
Associate Income	20	20	0%	0	0	NM	0	0	NM
Pre-Tax Profit	1,699	1,679	-1%	1,884	1,861	-1%	2,098	2,074	-1%
Taxes	-538	-532	-1%	-567	-560	-1%	-631	-624	-1%
Net Income	1,160	1,147	-1%	1,317	1,301	-1%	1,467	1,450	-1%
Minorities	-19	-19	-2%	-46	-46	-1%	-51	-51	-1%
Attributable Net Income	1,141	1,128	-1%	1,271	1,256	-1%	1,416	1,400	-1%
Attributable Net Income (post hybrid cost)	1,075	1,062	-1%	1,206	1,191	-1%	1,351	1,334	-1%
EPS - Reported, Incl. Hybrids Funding (€)	0.35	0.34	-1%	0.39	0.38	-1%	0.44	0.43	-1%

Source: Citi Research

Figure 53. Natixis - Quarterly Profit and Loss Account, 1Q11-4Q13E

€m	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13E	2Q13E	3Q13E	4Q13E
Revenues	1,621	1,829	1,561	1,748	1,421	1,824	1,416	1,610	1,871	1,790	1,761	1,761
Total Op. Expenses	-1,219	-1,231	-1,144	-1,246	-1,240	-1,267	-1,232	-1,326	-1,274	-1,248	-1,238	-1,293
Operating Income	402	598	417	502	181	557	184	284	597	542	523	469
Prov. Loan Losses	-20	-106	-66	-174	-80	-151	-84	-131	-96	-122	-124	-127
Operating Income Post Provisions	382	492	351	328	101	406	100	153	501	420	399	342
Gains and Losses on Other Activities	22	0	0	0	0	2	-7	-3	2	0	0	0
CCI Associate Income	153	177	120	144	134	167	61	118	5	5	5	5
Goodwill & One Offs	-12	0	0	-43	-5	0	0	-11	0	-2	-2	-1
Pre-Tax Profit	545	669	471	429	230	575	154	257	508	423	402	346
Taxes	-126	-161	-121	-118	-37	-168	-13	-52	-181	-127	-121	-104
Net Income	419	508	350	311	193	407	141	205	327	296	282	242
Minorities	-4	-4	-7	-24	-7	-14	-1	-26	6	-9	-8	-7
Attributable Net Income	415	504	343	287	186	393	140	179	333	287	273	235

Source: Company Reports and Citi Research Estimates

Figure 54. Natixis — Group Profit and Loss Account by Year

€m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
Revenues	4,106	6,364	6,759	+6%	6,271	-7%	7,183	15%	7,237	+1%	7,454	+3%
Total Op. Expenses	-4,412	-4,580	-4,840	6%	-5,065	5%	-5,052	0%	-5,021	-1%	-5,107	2%
Operating Income	-306	1,784	1,919	+8%	1,206	-37%	2,131	77%	2,216	+4%	2,347	+6%
Prov. Loan Losses	-2,402	-178	-366		-446		-469		-350		-268	
Operating Income Post Provisions	-2,708	1,606	1,553	-3%	760	-51%	1,662	119%	1,866	+12%	2,079	+11%
Gains and Losses on Other Activities	5	-24	22		-8		2		0		0	
Associates (incl CCI)	425	499	594	19%	480	-19%	20	-96%	0	-100%	0	NM
Goodwill & One Offs	-170	-80	-55	-31%	-16	-71%	-5	-69%	-5	0%	-5	0%
Pre-Tax Profit	-2,448	2,001	2,114	+6%	1,216	-42%	1,679	38%	1,861	+11%	2,074	+11%
Taxes	1,061	-241	-526	118%	-270	-49%	-532	97%	-560	5%	-624	11%
- Implied Tax Rate	43%	12%	25%		22%		30%		30%		30%	
Net Income	-1,387	1,760	1,588	-10%	946	-40%	1,147	21%	1,301	13%	1,450	11%
Minorities	-55	-36	-39	8%	-48	23%	-19	-61%	-46	145%	-51	11%
Net Income - Reported	-1,442	1,724	1,549	-10%	898	-42%	1,128	26%	1,256	+11%	1,400	+11%
Cost of Hybrids	-318	-381	-260	-32%	-76	-71%	-66	-13%	-65	-1%	-65	0%
Net Income - Adjusted	-1,760	1,343	1,289	-4%	822	-36%	1,062	29%	1,191	+12%	1,334	+12%
Exceptional items (Citi caclulations)	0	-45	-210	0%	-287	0%	44	0%	0	0%	0	0%
Underlying Net Income	-1,760	1,388	1,499	0%	1,109	0%	1,019	0%	1,191	0%	1,334	0%
PER SHARE FIGURES												
EPS - Reported, Incl. Hybrids Funding (€)	-0.61	0.46	0.43	-7%	0.27	-38%	0.34	29%	0.38	+12%	0.43	+12%
EPS - Excl. Hybrids Funding (€)	-0.50	0.59	0.52	-13%	0.29	-44%	0.37	25%	0.41	11%	0.45	11%
Dividend	0.00	0.23	0.10		0.10		0.17		0.19		0.22	
Payout ratio	0%	50%	23%		38%		50%		50%		50%	
Book Value per share	4.89	5.44	5.29	-3%	5.74	8%	5.12	-11%	5.34	+4%	5.58	+4%
Tangible Book Value per share	3.7	4.3	4.1	-3%	4.6	11%	4.2	-8%	4.4	+5%	4.6	+5%
Number of shares (avg)	2,898	2,908	2,994		3,084		3,088		3,090		3,090	
OPERATING RATIOS												
ROE	-11.8%	8.9%	8.0%		4.8%		6.3%		7.4%		7.9%	
Cost / income ratio	107.5%	72.0%	71.6%		80.8%		70.3%		69.4%		68.5%	
Operating Profit / avg RWAs	-0.2%	1.3%	1.3%		0.9%		1.7%		1.8%		1.9%	
Provision charge / customer loans (bps)	2.2%	0.1%	0.3%		0.4%		0.5%		0.4%		0.3%	
BALANCE SHEET												
Total assets	449,218	458,009	508,000	+11%	528,400	+4%	537,260	2%	515,769	-4%	495,139	-4%
Gross customer loans	109,090	131,120	114,546	-13%	99,418	-13%	98,424	-1%	99,408	+1%	100,402	+1%
Shareholders' equity	14,218	15,831	16,300	+3%	17,700	+9%	15,836	-11%	16,495	+4%	17,234	+4%
Average shareholders' equity	14,885	15,831	16,300		17,700		15,836		16,495		17,234	
CAPITAL RATIOS												
Core Tier 1	11,100	11,700	12,100		13,600		12,597		11,036		12,225	
Risk-weighted assets	130,900	147,900	145,600	-13%	125,700	-14%	122,576	-3%	122,509	-2%	122,733	-0%
RWA - B3 Pro forma		218,400	171,600	-21%	145,300	-15%	124,396	-14%	122,509	-2%	122,733	+0%
Core tier 1 capital ratio	8.5%	7.9%	8.3%		10.8%		10.3%		9.0%		10.0%	
Core tier 1 - B2		6.3%	8.7%		11.4%		10.8%		11.6%		12.2%	
Core tier 1 - B3 Pro Forma (incl DTA - company definition)		5.1%	6.8%		9.0%		9.6%		10.2%		10.7%	
Core tier 1 - B3 Pro Forma (fully loaded)		3.7%	5.2%		7.4%		8.0%		9.0%		10.0%	

Source: Company Reports and Citi Research Estimates

Figure 55. Natixis — Divisional Profit and Loss Account by Year

€m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
WHOLESALE BANKING												
Revenue	2,648	3,025	2,847	-6%	2,829	-2%	2,854	1%	2,815	-1%	2,840	1%
Operating Expenses	-1,601	-1,650	-1,675	2%	-1,690	1%	-1,667	-3%	-1,630	-2%	-1,631	0%
Operating Income	1,047	1,375	1,172	-15%	1,139	-3%	1,187	4%	1,184	0%	1,209	2%
Provisions	-1,384	-204	-106	-48%	-265	150%	-350	32%	-271	-22%	-212	-22%
Operating Profit Post Provisions	-337	1,171	1,066	-9%	874	-18%	837	-4%	913	9%	997	9%
Cost/Income Ratio	60%	55%	58%		60%		59%		58%		57%	
INVESTMENT SOLUTIONS												
Revenue	1,560	1,791	1,889	5%	2,069	10%	2,139	4%	2,233	4%	2,377	6%
Operating Expenses	-1,152	-1,280	-1,355	6%	-1,524	12%	-1,572	3%	-1,630	4%	-1,723	6%
Operating Income	408	511	534	5%	545	2%	567	4%	603	6%	653	8%
Provisions	-33	-26	-100	NA	1	-101%	-5	-600%	0	0%	0	0%
Operating Profit Post Provisions	375	485	434	-11%	546	26%	562	3%	603	7%	653	8%
Cost/Income Ratio	74%	71%	72%		74%		74%		73%		73%	
SFS												
Revenue	870	961	1,139	19%	1,189	4%	1,247	5%	1,292	4%	1,338	4%
Operating Expenses	-618	-672	-792	18%	-786	-1%	-827	5%	-850	3%	-874	3%
Operating Income	252	289	347	20%	403	16%	420	5%	442	5%	464	5%
Provisions	-48	-54	-60	-28%	-75	-10%	-91	21%	-64	-30%	-45	-30%
Operating Profit Post Provisions	204	235	287	22%	328	14%	329	1%	378	15%	419	11%
Cost/Income Ratio	71%	70%	70%		66%		66%		66%		65%	
FINANCIAL STAKES												
Revenue	401	869	869	0%	915	5%	872	-2%	871	0%	889	2%
Operating Expenses	-722	-742	-762	4%	-743	2%	-733	-1%	-724	-1%	-729	1%
Operating Income	-321	127	107	-16%	172	61%	139	-5%	148	6%	160	8%
Provisions	-19	-36	-55	53%	-9	-84%	-7	-22%	-5	-30%	-3	-30%
Operating Profit Post Provisions	-340	91	52	-43%	163	213%	132	-4%	143	8%	156	9%
Cost/Income Ratio	180%	80%	88%		81%		84%		83%		82%	
GAPC (Legacy Assets)												
Revenue	-1,782	-146	55	-138%	138	151%	77	-63%	15	-80%	0	0%
Operating Expenses	-168	-183	-137	-25%	-125	-9%	-68	-46%	-20	-70%	0	0%
Operating Income	-1,950	-329	-82	-75%	13	-116%	9	-75%	-5	nm	0	nm
Provisions	-914	146	-31	NM	-75	142%	-7	-91%	-1	-80%	0	0%
Operating Profit Post Provisions	-2,864	-183	-113	-38%	-62	-45%	2	-105%	-6	-420%	0	0%
CORPORATE CENTRE												
Revenue	409	-136	217	-260%	-612	-382%	-7	-99%	10	-243%	10	0%
Operating Expenses	-151	-53	-119	125%	-197	66%	-184	-7%	-166	-10%	-149	-10%
Operating Income	258	-189	98	-152%	-809	nm	-191	-76%	-156	-19%	-139	-11%
Provisions	-4	-4	-14	250%	-23	-36%	-9	-61%	-9	-5%	-8	-5%
Operating Profit Post Provisions	254	-193	84	-144%	-832	nm	-200	-76%	-164	-18%	-147	-10%

Source: Company Reports and Citi Research Estimates

Figure 56. European Banks – Valuations as of 17 July

Bank	RIC	Rec	Currency	Price	TP	P/TBV 13E	P/TBV 14E	ROTE 13E	ROTE 14E
Benelux						0.62x	0.58x	7.6%	9.2%
ING	ING.AS	Buy	E	7.21	9.60	0.51x	0.48x	6.5%	7.8%
KBC	KBC.BR	Buy	E	31	35	1.11x	1.03x	13.0%	15.8%
CEE/Austria						1.24x	1.16x	8.9%	12.0%
Bank Pekao	PEO.WA	Neutral	ZL	156	149	1.73x	1.68x	9.8%	11.8%
Erste Bank	ERST.VI	Neutral	E	21	23	0.94x	0.87x	2.2%	11.8%
Komercni Banka	BKOM.PR	Neutral	Kc	3604	3950	1.41x	1.37x	12.2%	11.7%
OTP Bank	OTPB.BU	Buy	Ft	5030	5600	0.83x	0.76x	8.9%	11.1%
PKO BP	PKO.WA	Buy	ZL	36	42	1.97x	1.75x	12.3%	15.1%
Raiffeisen Bank Intl	RBIV.VI	Neutral	E	21	28	0.62x	0.58x	8.4%	10.6%
France						0.70x	0.66x	8.0%	9.2%
BNP Paribas	BNPP.PA	Buy	E	44	60	0.75x	0.71x	8.3%	9.0%
Credit Agricole	CAGR.PA	Neutral	E	6.71	7.30	0.69x	0.65x	9.5%	10.2%
Natixis	CNAT.PA	Buy	E	3.48	4.00	0.84x	0.79x	8.7%	10.1%
Societe Generale	SOGN.PA	Buy	E	28	40	0.58x	0.53x	6.2%	8.8%
Germany						0.56x	0.54x	6.6%	8.3%
Commerzbank	CBKG.DE	Neutral	E	6.44	7.85	0.31x	0.30x	1.7%	3.9%
Deutsche Bank	DBGn.DE	Buy	E	34	45	0.68x	0.65x	8.9%	10.3%
Greece/Cyprus									
National Bank of Greece	NBGr.AT	Neutral	E	2.49	na	1.38x	1.32x	NM	4.2%
Iberia						0.90x	0.91x	4.1%	7.9%
Banco BPI	BBPI.LS	Neutral	E	.88	1.25	0.66x	0.61x	6.8%	7.0%
Banco Espirito	BES.LS	Buy	E	.60	1.30	0.38x	0.36x	0.4%	4.6%
Banco Popular	POP.MC	Sell	E	2.61	2.15	0.68x	0.68x	-1.8%	0.9%
Banco Santander	SAN.MC	Neutral	E	4.87	4.60	1.10x	1.11x	7.8%	10.2%
Bankinter	BKT.MC	Buy	E	2.83	3.20	0.86x	0.83x	3.2%	5.6%
BBVA	BBVA.MC	Neutral	E	6.24	6.25	0.95x	0.94x	4.7%	8.3%
Bco de Sabadell	SABE.MC	Sell	E	1.48	1.15	0.62x	0.59x	-0.8%	6.8%
CaixaBank	CABK.MC	Neutral	E	2.53	2.35	0.67x	0.75x	-1.1%	5.0%
Italy						0.48x	0.47x	2.3%	4.0%
Banco Popolare	BAPO.MI	Neutral	E	.89	na	0.30x	0.29x	2.2%	2.6%
BP Milano	PMII.MI	Neutral	E	.34	na	0.32x	0.31x	1.6%	2.4%
Intesa Sanpaolo	ISP.MI	Sell	E	1.26	1.10	0.59x	0.58x	4.3%	5.6%
Mediobanca	MDBI.MI	Buy	E	4.38	5.60	0.59x	0.56x	1.1%	6.8%
Monte dei Paschi	BMPS.MI	Sell	E	.22	.17	0.50x	0.54x	-11.2%	-7.3%
UBI Banca	UBI.MI	Neutral	E	2.84	3.50	0.36x	0.35x	2.1%	2.9%
UniCredit	CRDI.MI	Neutral	E	3.54	3.70	0.43x	0.42x	2.6%	4.2%
Nordics						1.35x	1.25x	11.9%	12.8%
Danske Bank	DANSKE.CO	Buy	Dkr	101	140	0.80x	0.73x	7.6%	10.6%
DnB	DNB.OL	Neutral	NKr	95	93	1.18x	1.07x	11.1%	12.1%
Nordea	NDA1V.HE	Neutral	E	8.96	9.25	1.38x	1.27x	12.2%	13.0%
SE Banken AB	SEBa.ST	Neutral	SKr	71	65	1.58x	1.48x	12.9%	13.3%
SHB	SHBa.ST	Neutral	SKr	285	265	1.75x	1.63x	13.6%	13.6%
Swedbank	SWEDa.ST	Neutral	SKr	154	160	1.70x	1.62x	16.0%	15.8%
Switzerland						1.31x	1.21x	8.6%	11.9%
Credit Suisse	CSGN.VX	Buy	SFr	27	35	1.16x	1.04x	13.1%	14.9%
Julius Baer	BAER.VX	Neutral	SFr	39	38	2.56x	2.58x	14.1%	18.4%
UBS	UBSN.VX	Buy	SFr	17	21	1.32x	1.25x	4.9%	9.1%
Turkey						1.09x	0.96x	14.8%	13.8%
Garanti	GARAN.IS	Neutral	TL	7.68	9.50	1.35x	1.22x	14.4%	13.7%
Halkbank	HALKB.IS	Buy	TL	16	24	1.32x	1.13x	20.9%	17.6%
Isbank	ISCTR.IS	Neutral	TL	5.36	7.00	0.93x	0.83x	14.4%	12.7%
Yapi Kredi	YKBK.IS	Buy	TL	4.43	5.90	1.05x	0.91x	13.1%	13.5%
UK/Ireland						1.10x	1.03x	10.5%	11.0%
Bank of Ireland	BKIR.I	Sell	E	.16	.08	0.79x	0.80x	-5.6%	0.4%
Barclays	BARC.L	Buy	p	308	450	0.86x	0.78x	11.3%	13.2%
HSBC	HSBA.L	Buy	p	726	770	1.36x	1.27x	13.5%	12.7%
Lloyds Banking Grp	LLOY.L	Neutral	p	69	65	1.19x	1.12x	10.3%	8.1%
RBS	RBS.L	Sell	p	319	270	0.68x	0.66x	4.9%	8.0%
Standard Chartered	STAN.L	Buy	p	1504	1775	1.33x	1.22x	13.8%	13.7%
Sector						0.94x	0.88x	8.9%	10.1%

Source: dataCentral, Citi Research

BNP Paribas SA

Company description

BNP Paribas SA is a universal bank whose activities are roughly split between retail banking (1/2), CIB (1/3) and Investment Solutions (1/6). Retail Banking operates primarily in France, Italy, Belgium and Luxembourg, but increasingly also in Central Eastern Europe and North Africa (particularly in Poland and Turkey). CIB operations include capital markets and financing operations. Investment Solutions includes the private bank, securities services and asset management.

Investment strategy

We rate BNP Paribas as Buy. We believe management has been strategically bold and also sensible in capital management. In our view, the bank benefits from strong franchises in its three main activities: Retail Banking, CIB and Investment Solutions. The bank's domestic French retail network is focused on urban, affluent clients. The bank also has rapidly growing franchises in retail banking overseas. In wholesale banking, BNPP is a leader in European fixed income and has a strong global equity derivatives franchise. The bank is also now undertaking a refocus of its operations, by reducing reliance on short-term USD financing and by increasing its deposit base, which will allow it to be less exposed to wholesale financing.

Valuation

We use a two-stage dividend discount model (DDM) to value BNPP, including the present value of 2012-15E dividends, a terminal value assuming zero growth at the sustainable RoE and the estimated surplus capital in 2015E. We use a Cost of Equity of 11.4% based on the company's business mix and funding stress risks. We cross-check this valuation using: (1) justified price-to-book valuation; (2) comparable P/E valuation relative to the bank sector; and (3) comparable P/E valuation relative to BNPP's historical trading range and growth prospects. We set our target price at €60 on this basis.

Risks

The key risks to our investment thesis on BNPP are: (1) Credit risks are low, but BNPP financial performance would suffer if the credit risk cycle turned down again; and (2) Wholesale banking accounts for approximately one-third of the revenues and capital of BNP Paribas, and the bank may be exposed to positive or negative swings in several of its key market segments, as well as to funding stress risks.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Societe Generale

Company description

Société Générale is a leading financial services group in Europe, with three core businesses: (1) French Retail Networks, (2) International Retail Banking (primarily

Czech Republic, Romania, other CEE, Russia and Africa) and (3) Corporate & Investment Banking (with leading franchises in equity derivatives, €-denominated DCM for corporates and financing). Société Générale is also a major player in Specialised Financial Services (incl. consumer credit, vehicle lease financing), Insurance, Private Banking and Global Investment Management and Services (incl. asset management, securities services and commodities futures brokerage brokerage).

Investment strategy

We have a Buy rating on Societe Generale. Following the 2008 fraud losses and the liquidity crisis in 2H11, the company has made substantial progress (1) to restore its credibility by focusing on its core businesses, and (2) to strengthen its balance sheet, by increasing capital ratios while reducing the reliance on ST & USD funding and further bolstering liquidity buffers, (3) reducing its exposure to legacy assets and disposing of non-core activities (e.g. Greece).

Valuation

We use a two-stage dividend discount model (DDM) to value SocGen, including the present value of 2012-15E dividends, a terminal value assuming zero growth at the underlying through-the-cycle RoE and the expected surplus capital in 2015E. We use a Cost of Equity of 11.5% based on the company's business mix. We cross-check this valuation using: (1) justified price-to-book valuation; (2) comparable P/E valuation relative to the bank sector; and (3) comparable P/E valuation relative to SocGen's historical trading range and growth prospects. We set our target price at €40 on this basis.

Risks

The key risks to our investment thesis on SocGen are: (1) the risks of a further sharp downturn in the CEE region where SocGen has significant exposure; (2) a more challenging capital markets environment especially in equity derivatives where SocGen has one of the leading franchises, and (3) more generally, a worsening of the macroeconomic (impacting provisions and revenue) or bank funding environment.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Credit Agricole SA

Company description

Credit Agricole SA is the quoted entity within the Credit Agricole Group. CASA acts as the central bank of the group, coordinates its sales and marketing strategy and ensures the liquidity and solvency of each of the Caisse Regionales. CASA, through its product subsidiaries, designs and manages specialised financial products such as insurance and consumer credit to the retail network of the Group and via third-party channels.

Investment strategy

We have a Neutral rating on Credit Agricole. It has a leading position in the growing domestic life insurance market and has used France as a base to expand across Europe in consumer credit and specialised financial services. Its retail network is the largest in France and its revenue and volume growth remain resilient. The bank is withdrawing from the riskier CIB lines and focusing on lower risk activities.

Valuation

We use a two-stage dividend discount model (DDM) to value CASA, including the present value of 2012-15E dividends, a terminal value assuming zero growth at the over-the-cycle underlying RoE as well as the expected capital surplus in 2015E (adjusted to the discount we apply on the switch mechanism). We use a Cost of Equity of 11.6% based on the company's business mix. We cross-check this valuation using: (1) justified price to book valuation, (2) comparable P/E valuation relative to the banks sector and (3) comparable P/E valuation relative to CASA's historical trading range and growth prospects. Our target price on this basis is €8.

Risks

The key risks to our investment thesis on CASA are: (1) The complexity of the group and its financials, (2) large exposure to the challenged banking markets of Southern Europe, (3) funding risk, (4) operational and financial leverage, and (5) acquisition risk.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Natixis

Company description

Natixis is the quoted entity within the BPCE group. Natixis' core businesses are: 1) Wholesale banking (FICC, equities, financing), 2) Investment solutions (leading international asset manager, insurance), and 3) Specialised financial services, which includes consumer finance operations. Natixis also owns Coface, the leading credit insurer.

Investment strategy

We have a Buy rating on Natixis. Natixis has significantly improved its balance sheet and operations to reduce its risk profile and return capital to shareholders. After its recently agreed disposal of retail operations, we expect Natixis to further reduce its non-core assets (financial stakes & legacy assets) and focus on improving the profitability of its core businesses in wholesale banking, investment solutions and specialised financial services.

Valuation

We use a two-stage dividend discount model (DDM) to value Natixis, including the present value of 2012-15E dividends, a terminal value assuming zero growth at the sustainable RoE and the estimated excess capital in 2015E. We use a Cost of Equity of 11.8% based on the company's business mix and adjusted to funding risks

on CIB. We cross-check this valuation using: (1) justified price to book valuation; and (2) comparable P/E valuation relative to the banks sector. On this basis, we set our target price at €4.

Risks

The key risks to our investment thesis on Natixis include: (1) complexity of the group and its financials, (2) operational and financial leverage (including funding risks), (3) the high reliance on activities related to markets (capital markets, asset management); (4) the execution risk of the bank's strategy plan.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Notes

Notes

Notes

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.

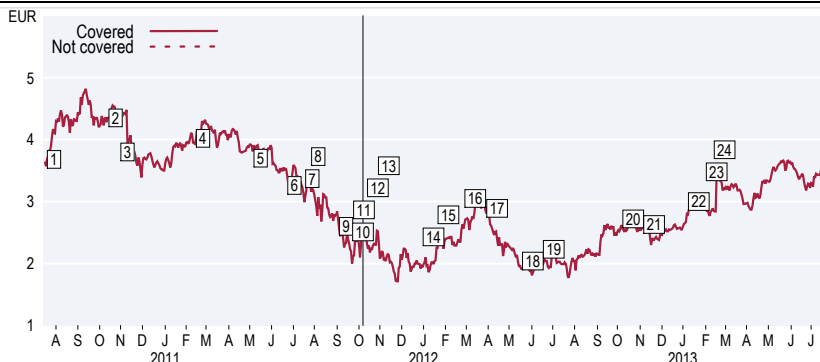
IMPORTANT DISCLOSURES

Natixis (CNAT.PA)

Ratings and Target Price History Fundamental Research

Analyst: Florent Nitu

Covered since June 4 2012



Date	Rating	Target Price	Closing Price
1 29-Jul-10	3H	*3.40	4.11
2 25-Oct-10	3H	*3.70	4.44
3 10-Nov-10	3H	*3.50	3.93
4 24-Feb-11	3H	*4.00	4.26
5 17-May-11	*2M	4.00	3.77
6 4-Jul-11	2M	*3.70	3.57
7 28-Jul-11	2M	*3.40	3.21
8 5-Aug-11	2M	*2.90	3.07

* Indicates change

Date	Rating	Target Price	Closing Price
9 14-Sep-11	2M	*2.30	2.33
10 7-Oct-11	Stock rating system changed		
11 8-Oct-11	*2	2.30	2.42
12 28-Oct-11	2	*2.60	2.52
13 14-Nov-11	2	*2.20	2.13
14 16-Jan-12	2	*2.00	1.99
15 6-Feb-12	2	*2.50	2.42
16 14-Mar-12	2	*3.10	2.95

Date	Rating	Target Price	Closing Price
17 13-Apr-12	2	*2.70	2.39
18 4-Jun-12	2	*1.90	1.85
19 3-Jul-12	2	*2.20	2.21
20 23-Oct-12	2	*2.80	2.60
21 21-Nov-12	2	*2.60	2.38
22 23-Jan-13	2	*3.10	2.88
23 18-Feb-13	*1	*3.80	3.48
24 28-Feb-13	1	*4.00	3.19

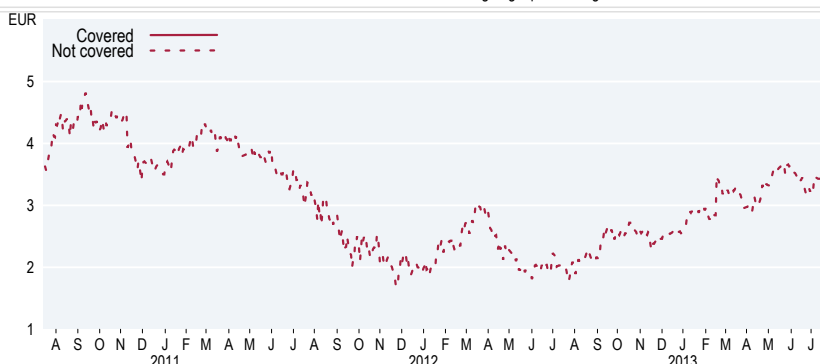
Rating/target price changes above reflect Eastern Standard Time

Natixis (CNAT.PA)

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

Analyst: Florent Nitu

Covered since June 4 2012



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BNP Paribas SA (BNPP.PA)

Ratings and Target Price History Fundamental Research

Analyst: Kinner Lakhani



	Date	Rating	Target Price	Closing Price
1	29-Jul-10	1M	*62.00	53.40
2	4-Aug-10	1M	*66.00	55.89
3	25-Oct-10	1M	*64.00	52.84
4	22-Feb-11	1M	*67.00	55.56
5	5-May-11	1M	*69.00	53.98
6	4-Jul-11	1M	*65.00	53.95

* Indicates change

	Date	Rating	Target Price	Closing Price
7	28-Jul-11	1M	*64.00	46.40
8	14-Sep-11	1M	*44.00	26.90
9	7-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	44.00	31.55
11	28-Oct-11	1	*40.00	36.35
12	16-Jan-12	1	*38.00	32.31

	Date	Rating	Target Price	Closing Price
13	5-Feb-12	1	*47.00	35.20
14	13-Apr-12	1	*43.00	30.40
15	23-Oct-12	1	*47.00	40.05
16	8-Nov-12	1	*50.00	40.05
17	23-Jan-13	1	*57.00	45.12
18	15-Feb-13	1	*60.00	46.01

Rating/target price changes above reflect Eastern Standard Time

BNP Paribas SA (BNPP.PA)

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

Analyst: Kinner Lakhani



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD MP	-	54.62
2	30-Jun-11	*REM MP	-	53.23

* Indicates change

	Date	Rating	Target Price	Closing Price
3	9-Aug-11	*ADD MP	-	39.34
4	10-Apr-12	*REM MP	-	31.00

	Date	Rating	Target Price	Closing Price
5	4-Jan-13	*ADD MP	-	44.39

Rating/target price changes above reflect Eastern Standard Time

Credit Agricole SA (CAGR.PA)

Ratings and Target Price History Fundamental Research

Analyst: Florent Nitu

Covered since July 10 2012



	Date	Rating	Target Price	Closing Price
1	25-Oct-10	2M	*11.50	11.91
2	16-Mar-11	2M	*12.00	11.29
3	13-Jun-11	2M	*11.10	10.01
4	4-Jul-11	2M	*10.80	10.65
5	29-Jul-11	2M	*9.60	8.62
6	1-Sep-11	2M	*7.00	6.68
7	14-Sep-11	2M	*5.30	5.22
8	7-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	5.30	5.36

* Indicates change

	Date	Rating	Target Price	Closing Price
10	28-Oct-11	2	*6.20	6.16
11	11-Nov-11	2	*5.00	4.90
12	16-Jan-12	2	*4.30	4.25
13	6-Feb-12	2	*5.80	5.18
14	6-Mar-12	2	*5.30	4.51
15	18-Apr-12	2	*4.30	3.82
16	17-May-12	2	*3.10	3.00
17	3-Jul-12	2	*3.70	3.75
18	19-Sep-12	2	*6.40	5.79

	Date	Rating	Target Price	Closing Price
19	23-Oct-12	2	*6.70	6.10
20	14-Nov-12	2	*6.10	5.54
21	23-Jan-13	2	*8.40	7.32
22	19-Feb-13	2	*8.20	7.32
23	28-Feb-13	2	*8.00	7.20
24	23-Apr-13	2	*7.50	6.73
25	9-May-13	2	*7.30	7.05

Rating/target price changes above reflect Eastern Standard Time

Credit Agricole SA (CAGR.PA)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Florent Nitu

Covered since July 10 2012



	Date	Rating	Target Price	Closing Price
1	9-Aug-11	*ADD LP	-	6.89
2	24-Jan-12	*REM LP	-	5.00

* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Mar-12	*ADD LP	-	4.66
4	3-Jul-12	*REM LP	-	3.75

Rating/target price changes above reflect Eastern Standard Time

Societe Generale (SOGN.PA)

Ratings and Target Price History

Fundamental Research

Analyst: Kinner Lakhani



	Date	Rating	Target Price	Closing Price
1	29-Jul-10	1M	*\$54.00	44.71
2	10-Aug-10	1M	*\$57.00	45.07
3	4-Nov-10	1M	*\$59.00	44.85
4	26-Jan-11	1M	*\$62.00	46.07
5	18-May-11	1M	*\$60.00	41.93
6	4-Jul-11	1M	*\$56.00	41.87
7	28-Jul-11	1M	*\$55.00	35.61

* Indicates change

	Date	Rating	Target Price	Closing Price
8	4-Aug-11	1M	*\$50.00	27.70
9	14-Sep-11	1M	*\$38.00	17.39
10	7-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	38.00	20.51
12	28-Oct-11	1	*\$35.00	23.39
13	9-Nov-11	1	*\$33.00	18.20
14	16-Jan-12	1	*\$28.00	16.55

	Date	Rating	Target Price	Closing Price
15	6-Feb-12	1	*\$32.00	23.55
16	18-Apr-12	1	*\$30.00	17.64
17	9-Nov-12	1	*\$32.00	24.62
18	23-Jan-13	1	*\$41.00	32.34
19	14-Feb-13	1	*\$40.00	30.41

Rating/target price changes above reflect Eastern Standard Time

Societe Generale (SOGN.PA)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Kinner Lakhani



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	48.40
2	11-May-11	*REM MP	-	42.98

* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Jun-11	*ADD MP	-	40.92
4	9-Aug-11	*REM MP	-	26.02

	Date	Rating	Target Price	Closing Price
5	2-Mar-12	*ADD MP	-	25.40
6	4-Jan-13	*REM MP	-	29.33

Rating/target price changes above reflect Eastern Standard Time

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Svenska Handelsbanken AB

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Royal Bank of Scotland Group PLC

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Standard Chartered PLC

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Skandinaviska Enskilda Banken AB

Citigroup Global Markets Ltd is mandated as Joint Bookrunner on the announced sale of Unicredit's 9.1% stake in Bank Pekao. DMBH is a market maker in the publicly traded equity securities of Bank Pekao SA. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30th June 2013 is as follows: Buy (1) representing 55% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 21% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 24% of the DMBH coverage 0% of which are IB clients

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of BNP Paribas SA Citigroup Global Markets Limited is currently mandated as sole global co-ordinator in relation to the recently announced re-IPO of BNP Paribas SA's polish subsidiary, BNP Paribas Bank Polska.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of HSBC Holdings PLC

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

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

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Intesa Sanpaolo SpA

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

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Citigroup Global Markets Ltd is currently mandated as advisor to Banco Sabadell in relation to the announced acquisition of Banco Gallego from Fondo de Reestructuración Ordenada Bancaria.

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Nicholas D Herman, Associate, holds a long position in the securities of Bank of Ireland.

Henrik Christiansson, Analyst, holds a long position in the securities of Deutsche Bank.

A member of the household of Andrzej Powierza, Analyst, holds a long position in the securities of PKO BP.

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Garanti Bank, DNB ASA, Isbank, Banca Monte dei Paschi di Siena SpA, UBS, Deutsche Bank, Intesa Sanpaolo, Komercni Banka as, Societe Generale, PKO BP, Julius Baer Gruppe AG, Unione Banche Italiane, Mediobanca, Banco de Sabadell SA, CaixaBank SA, Yapi Kredi Bank, Banco Popolare, Danske Bank A/S, Barclays PLC, Raiffeisen Bank Intl, Bank of Ireland, Lloyds Banking Group PLC, Credit Suisse, Banco Bilbao Vizcaya Argentaria SA, Banco BPI.

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Citi Research Equity Ratings Distribution

Data current as of 30 Jun 2013	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	40%	12%	6%	88%	6%
% of companies in each rating category that are investment banking clients	53%	50%	45%	58%	51%	49%

Guide to Citi Research Fundamental Research Investment Ratings:

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