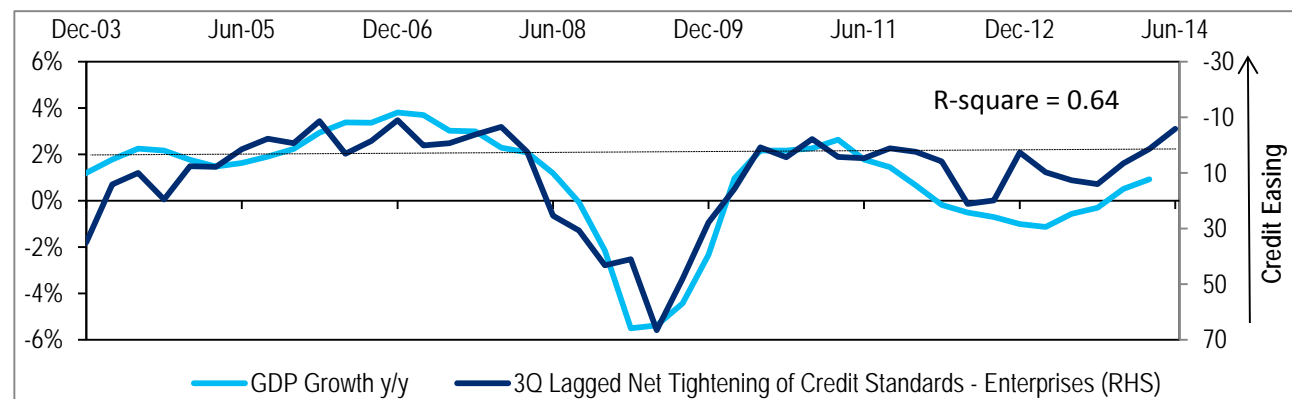


Turning Point in Credit Supports Recovery

European Banks – Funding Weekly

- **First loosening of credit standards since 2Q07 for enterprises (Figure 1)** — The Jul-14 ECB €-area bank lending survey showed loosening of credit standards for all categories of loans. This was also the first quarterly easing of credit standards for loans to enterprises since 2Q07. Historically, this has been a strong leading indicator of GDP growth, albeit with a lag of 3-quarters and bodes well for economic recovery into 2015. €-area banks best-placed to benefit include CaixaBank (Buy; €5.1 PT, Focus List); Bankia (Buy; €1.75 PT), Mediobanca (Buy; €8.0 PT) and UniCredit (Buy; €7.3 PT).
- **Corporate lending flow shows signs of revival (Figure 2)** — The pace of non-financial corporate (NFC) deleveraging has slowed significantly (-€2bn in Jun-14 vs. -€13bn in Jun-13). Corporate loan growth showed the fourth straight month of improvement (down 2.2% y/y in Jun-14). The improvement in the lending conditions for the corporates should support the nascent Euro Area recovery; TLTRO should reinforce this trend.

Figure 1. Euro Area GDP growth (y/y) vs 3M forward Net Tightening of Credit Standards for Enterprises- 3Q Lagged



Source: ECB; Note: Adjusted by Securitisations and sale

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

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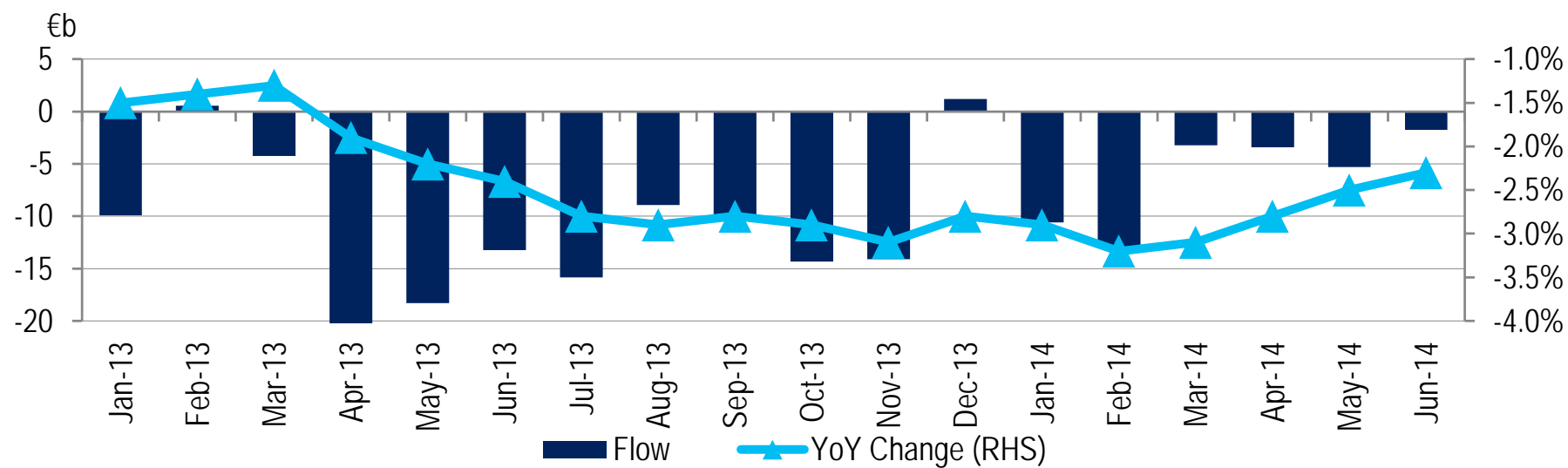
Azzurra Guelfi

Stefan Nedialkov

Simon Nellis

Yafei Tian

Figure 2. Loans to Euro Area Non-Financial Corporations



Source: ECB; Note: Adjusted by Securitisations and sales

Figure 3. House Purchases Forward Looking 3 Months

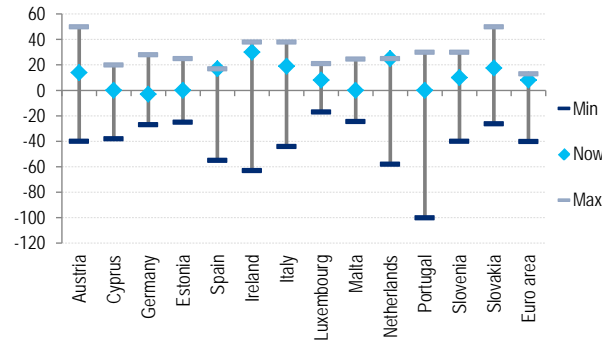


Figure 4. House Purchases Backward Looking 3 Months

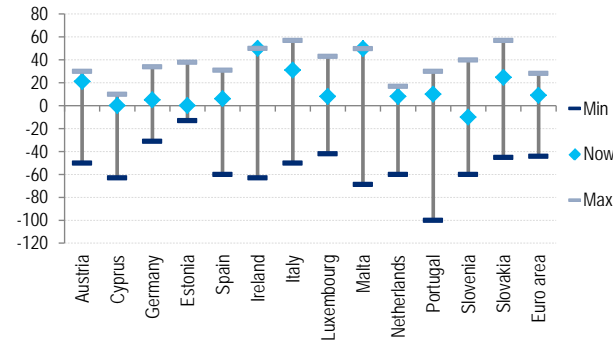


Figure 5. Enterprise Forward Looking 3 Months

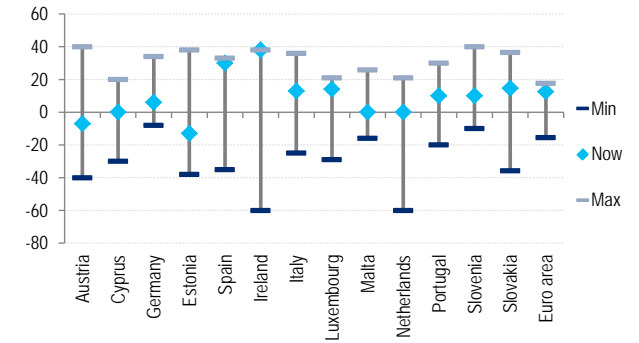


Figure 6. Enterprise Backward Looking 3 Months

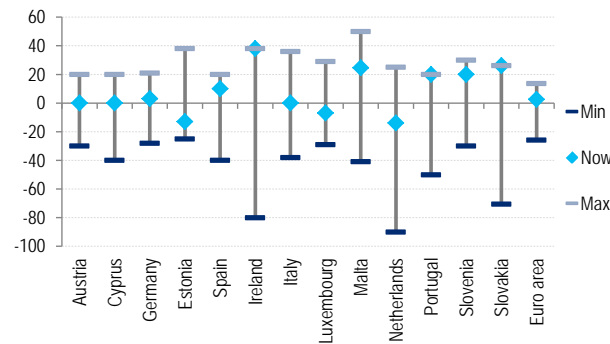


Figure 7. Consumer Credit Forward Looking 3 Months

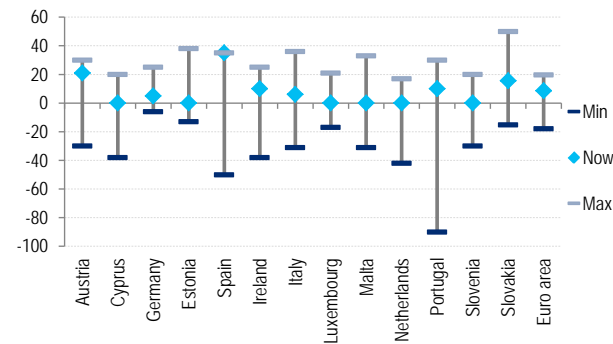
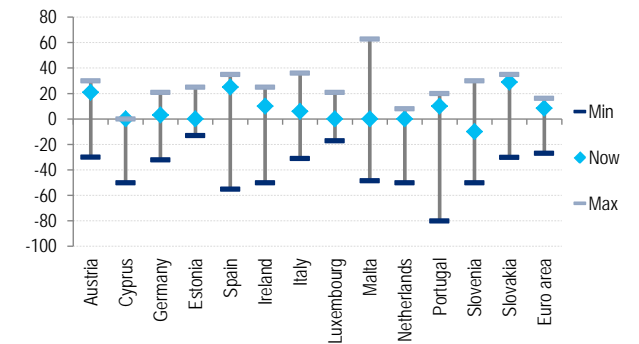


Figure 8. Consumer Credit Backward Looking 3 Months



Source for all charts: ECB Lending Survey, Jan 2014; Note: Based on Diffusion Index.

CaixaBank SA

(CABK.MC; €4.59; 1)

Valuation

We value CaixaBank on a Dividend Discount Model (DDM) methodology. Our €5.10 target price is adjusted for any capital and provisions surplus (shortfall). The DDM assumes a sustainable ROE of 9.3% (19.8% on a base of 10% of RWA) with a cost of equity of 10.5%. We cross check our main valuation against the results of two other methods, Sum of the Parts and Discount to NAV, which explicitly value CaixaBank's segments and stakes.

Risks

With regards to CaixaBank, we would highlight the following specific risks which could cause the stock to deviate from our target price (TP): (1) Macro-economic environment: a weak recovery in real GDP growth and employment in Spain could mean the shares undershoot our TP. Conversely, a better than expected recovery could make the share price outperform our TP. (2) Asset quality: we have assumed normalization of credit costs in 2015-16. If non-performing loans and provisions increase more than expected, the shares may not reach our TP. Conversely, if non-performing loans and provisions normalise, the shares may rise beyond our TP.

Bankia SA

(BKIA.MC; €1.49; 1)

Valuation

We value Bankia on a Dividend Discount Model (DDM) methodology. Our €1.75 target price is adjusted for any capital and provisions surplus (shortfall). The DDM assumes a sustainable ROE of c10.2% (18.0% on a base of 10% of RWA) with a cost of equity of 11.0% and 1.0% growth rate.

Risks

With regards to Bankia, we would highlight the following specific risks which could cause the stock to deviate from our target price. (1) Macro-economic environment: a weak recovery in real GDP growth and employment in Spain could mean the shares undershoot our forecasts. Conversely, a better than expected recovery could make the share price outperform our target. (2) Asset quality: we have assumed normalisation of credit costs in 2015-16. If non-performing loans and provisions increase more than expected, the shares may not reach our TP. Conversely, if non-performing loans and provisions normalise, the shares may rise beyond our TP.

Mediobanca

(MDBI.MI; €6.80; 1H)

Valuation

We have a €8.0 target price for Mediobanca. In valuing Mediobanca, we focus on a SOTP valuation given its diversified business mix. We value the CIB business based on P/E methodologies, the retail business on P/BV, based on long term potential profitability, and the investment portfolio at current market valuation. We also cross check it with a dividend discount methodology (DDM), based on a c11% cost of equity and a c10% sustainable tangible ROE. At our target price, Mediobanca would trade at 0.9x 2014E P/tangible book value.

Risks

We have a High Risk rating on Mediobanca due to its business mix, the macro conditions and other company and industry specific factors. Among the major risks to our target price and forecasts, we highlight: weaker than expected Italian macroeconomic and sovereign development adding pressure on revenues and asset quality, funding pressure, political development in Italy, liquidity and capital regulatory risk; credit rating agency action, and slowdown in the market activity in the advisory and capital market business as well as in the trading activities. Also, among company specific risks, we note: pressure on the funding market, given the high level of bonds maturing in the next 2 years; weaker than expected implementation of the Generali business plan; slower than expected disposal of equity stakes; share price pressure from potential disposals of stake by key shareholders; and management risk in the case of top management leaving, thus risking implementation of the strategic plan.

UniCredit Group

Risks

(CRDI.MI; €6.04; 1)

Valuation

We have a €7.30 target price for UCI. In valuing UCI, we focus primarily on a DDM valuation, using a c10.5% cost of equity and a c11% sustainable tangible ROE, we also take into account the group's capital position and business mix. We cross-check this with a price-to-book methodology. At our target price, the stock would trade at c1.0x price to tangible book valuation.

Risks

We identify a number of industry- and company-specific risks that may prevent the shares achieving our target price, although after the large clean-up in 4Q13 the market's perception of implied risk in the group's balance sheet has decreased. While AQR remains a headwind for the banking sector, we expect UCI to be in a more comfortable position now. Other key risks that need to be considered include potential deterioration of macroeconomic conditions and sovereign volatility, credit rating agency action, political developments in Italy, liquidity and execution risk in the restructuring plan all could weigh on group profitability (lower revenue growth and higher cost of risk) and share price performance. UCI has a large exposure to CEE, which still leaves a risk of incurring sizeable credit or other losses if there is concern over EM profitability or in case of currency volatility. The group also has significant capital market activities (more than other Italian banks), which have caused sizeable losses in the past. The group is exposed to credit risk (provisions are higher than peers) as well as market rate risk.

Appendix A-1

Analyst Certification

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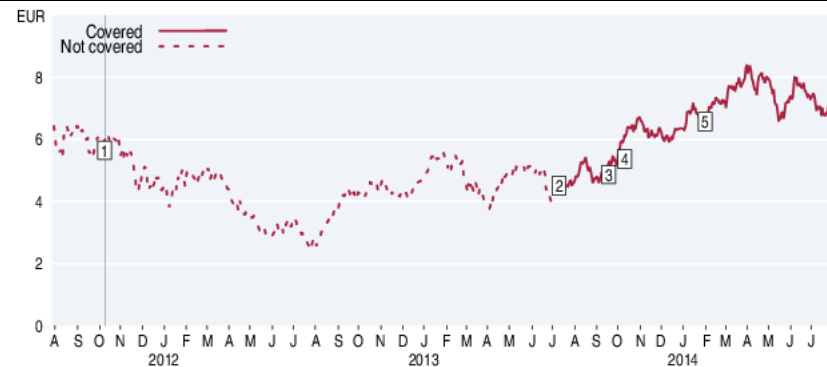
Mediobanca (MDBI.MI)

Ratings and Target Price History

Fundamental Research

Analyst: Azzurra Guelfi

Covered since July 10 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	10-Jul-13	*1H	*5.60	4.47

* Indicates change

	Date	Rating	Target Price	Closing Price
3	18-Sep-13	1H	*6.00	5.25
4	10-Oct-13	1H	*7.20	6.15

	Date	Rating	Target Price	Closing Price
5	31-Jan-14	1H	*8.00	6.82

Rating/target price changes above reflect Eastern Standard Time

Mediobanca (MDBI.MI)

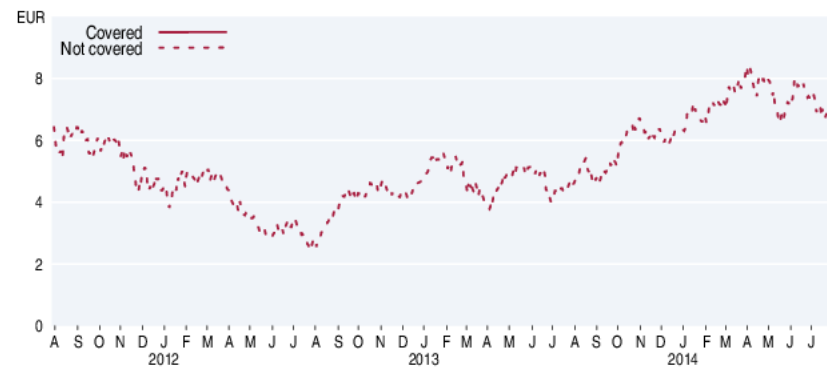
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Azzurra Guelfi

Covered since July 10 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

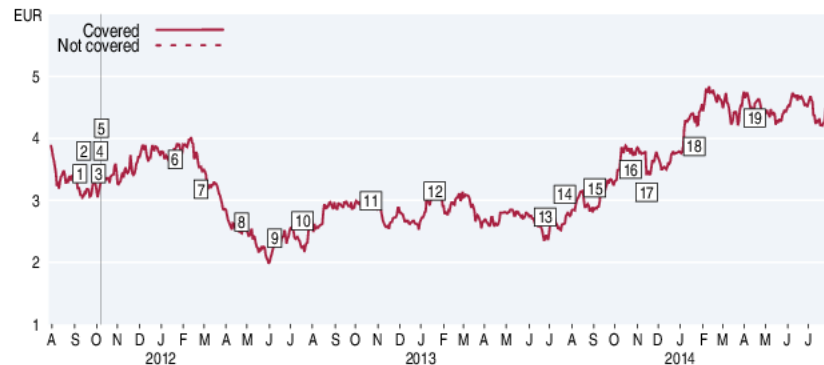
CaixaBank SA (CABK.MC)

Ratings and Target Price History

Fundamental Research

Analyst: Stefan Nedialkov

Covered since March 11 2013



Date	Rating	Target Price	Closing Price
1 8-Sep-11	Coverage terminated		
2 14-Sep-11	*3H	*2.70	3.08
3 5-Oct-11	*3S	*2.75	3.14
4 7-Oct-11	Stock rating system changed		
5 8-Oct-11	*3H	2.75	3.28
6 20-Jan-12	3H	*2.65	3.83
7 27-Feb-12	3H	*2.55	3.54

* Indicates change

Date	Rating	Target Price	Closing Price
8 24-Apr-12	3H	*2.25	2.47
9 8-Jun-12	3H	*0.98	2.30
10 18-Jul-12	3H	*1.08	2.25
11 23-Oct-12	3H	*1.76	2.88
12 21-Jan-13	3H	*2.30	3.09
13 25-Jun-13	*2H	*2.35	2.38
14 23-Jul-13	2H	*2.60	2.63

Date	Rating	Target Price	Closing Price
15 3-Sep-13	2H	*2.90	2.86
16 23-Oct-13	2H	*4.20	3.75
17 14-Nov-13	*1	4.20	3.41
18 21-Jan-14	*2	*4.60	4.31
19 16-Apr-14	*1	*5.10	4.56

Rating/target price changes above reflect Eastern Standard Time

CaixaBank SA (CABK.MC)

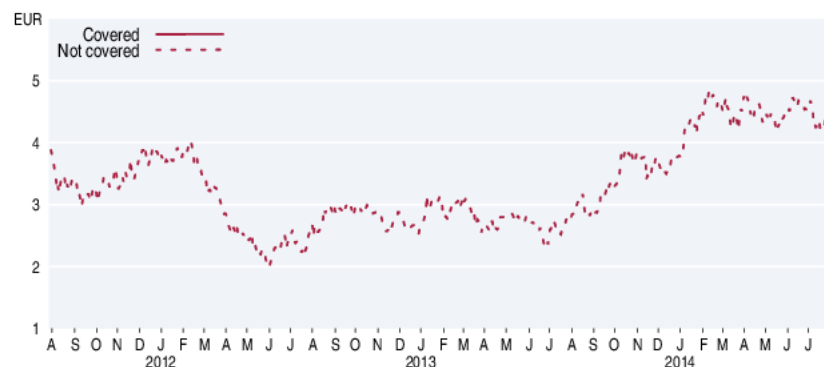
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since March 11 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UniCredit Group (CRDI.MI)

Ratings and Target Price History

Fundamental Research

Analyst: Azzurra Guelfi



Date	Rating	Target Price	Closing Price
1 1-Aug-11	*2S	*9.88	7.88
2 6-Oct-11	2S	*5.93	5.44
3 7-Oct-11	Stock rating system changed		
4 8-Oct-11	*2H	5.93	5.66
5 15-Nov-11	2H	*5.60	4.87

* Indicates change

Date	Rating	Target Price	Closing Price
6 12-Jan-12	*1H	*4.00	2.90
7 30-Jan-12	1H	*4.65	3.56
8 28-Mar-12	1H	*4.85	3.99
9 8-May-12	1H	*4.00	2.79
10 19-Jul-12	1H	*3.50	2.63

Rating/target price changes above reflect Eastern Standard Time

Date	Rating	Target Price	Closing Price
11 12-Sep-12	*2H	*3.70	3.81
12 7-Aug-13	2H	*4.25	4.36
13 11-Oct-13	2H	*5.80	5.43
14 7-Feb-14	*1H	*6.60	5.69
15 12-Mar-14	*1	*7.30	6.45

UniCredit Group (CRDI.MI)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Azzurra Guelfi



Date	Rating	Target Price	Closing Price
1 7-Nov-11	*ADD LP	-	5.21
2 12-Jan-12	*REM LP	-	2.90

* Indicates change

Date	Rating	Target Price	Closing Price
3 2-Jul-12	*ADD MP	-	2.94
4 28-Aug-12	*REM MP	-	3.14

Rating/target price changes above reflect Eastern Standard Time

Bankia SA (BKIA.MC)

Ratings and Target Price History

Fundamental Research

Analyst: Stefan Nedialkov
Covered since February 5 2014



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	5-Feb-14	*2	*1.45	1.33

* Indicates change

	Date	Rating	Target Price	Closing Price
3	16-Apr-14	*1	*1.70	1.47
4	25-Jul-14	1	*1.75	1.45

Rating/target price changes above reflect Eastern Standard Time

Bankia SA (BKIA.MC)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov
Covered since February 5 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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<i>Data current as of 30 Jun 2014</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	0%	100%	0%
<i>% of companies in each rating category that are investment banking clients</i>	55%	53%	46%	0%	54%	0%

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