

## Equities

7 February 2011 | 67 pages

# French Big Picture

## Banking, Economic and Capital Market Trends – Winter 2010

- **The Liquidity Unknown** — Proposed liquidity coverage ratios (LCRs) are likely to have a significant impact on French banks – in line with other major wholesale banks. The 100% risk-weighting of unfunded corporate commitments appears particularly ‘harsh’ given relatively modest usage through the recent financial crisis (6-8% disclosed by JPMorgan). Money markets remain relatively sanguine and rightfully so, in our view, as a 2015 introduction offers scope for further ‘shifting of the goalposts’.
- **Legacy Asset Deleveraging Potential** — Proactive reduction of legacy asset portfolios provides further scope for Basel 3 mitigation. SocGen looks best-placed to benefit from this trend, with the legacy portfolio representing c12% of Group RWAs under Basel 3. With the continuing rally of risk assets, we believe SocGen’s legacy assets offer net disposal gains, over time.
- **4Q10 Outlook** — We believe 4Q10 results will be characterized by a further slowdown in French retail banking revenue growth; ‘hits’ to shareholders’ equity from revaluation of the AfS portfolio; as well as a challenging FICC environment, although Equities & Financing should hold up better. Recent results from Deutsche Bank demonstrated strength in equity derivatives’ structured solutions where BNP Paribas & SocGen have ‘natural’ strength.
- **Neutral France, Buy SocGen** — SocGen is one of our Top 5 Eurobanks picks, offering a combination of emerging market exposure, further credit cycle normalization and an attractive price-to-GOP of 3.2x vs a sector average of 4.3x. We reiterate our target prices and ratings, with a Buy on SocGen & BNP Paribas, Hold on CASA and Sell on Natixis. We adjust our earnings forecasts for BNP, CASA and SocGen. *For more details please refer to the individual company sections.*

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Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
BNPP.PA	1M	1M	€64.00	€64.00	€6.62	€6.35	€7.24	€6.98
CAGR.PA	2M	2M	€11.50	€11.50	€0.44	€0.40	€1.69	€1.68
CNAT.PA	3H	3H	€3.50	€3.50	€0.37	€0.37	€0.37	€0.37
SOGN.PA	1M	1M	€62.00	€62.00	€5.26	€4.82	€6.78	€6.23

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

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**Figure 1. Recommendations and Target Price Changes**

Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates		Expected Total Return
	Old	New	Old	New	Old	New	Old	New	
BNPP.PA	1M	1M	64	64	6.62	6.35	7.24	6.98	18%
SOGN.PA	1M	1M	62	62	5.26	4.82	6.78	6.23	37%
CAGR.PA	2M	2M	12	12	0.44	0.40	1.69	1.68	9%
CNAT.PA	3H	3H	4	4	0.37	0.37	0.37	0.37	-6%

Note: New earnings estimates for BNPP, SG are diluted and now include hybrid funding (a new accounting treatment that justifies the reduction in EPS); Natixis is reported including hybrid funding; CredAg is diluted, as reported  
Source: Citi Investment Research and Analysis

**Figure 2. French Banks — Valuation Summary, Prices as of 4 February 2011**

Company	Rec	Ccy	Share Price			P/E		P/B	P/tB	RoE	RoE	DY	Performance (Absolute)				3 Year		Now v	M Cap
			Now	Target	+/-%	2010E	2011E	2010E	2010E	2010E	2011E	2010E	YTD	1m	3m	12m	High	Low	High	\$bn
BNP Paribas	Buy	EUR	57	64	13%	8.9x	8.1x	1.1x	1.4x	12%	13%	3.4%	+1%	+13%	+4%	+13%	69	21	-18%	92
Soc Gen	Buy	EUR	47	62	31%	9.8x	7.6x	0.9x	1.2x	10%	11%	3.4%	-4%	+9%	+5%	+18%	79	18	-41%	48
Credit Ag	Hold	EUR	11	12	3%	27.6x	6.6x	0.6x	1.1x	2%	9%	4.0%	-10%	+11%	-11%	+5%	21	6	-47%	36
Natixis	Sell	EUR	4	4	-11%	10.7x	10.8x	0.8x	1.0x	7%	7%	4.7%	+11%	+7%	-11%	+19%	8	1	-52%	16

Source: Powered by dataCentral. dataCentral is CIRA's proprietary database, which includes CIRA estimates, data from company reports and feeds from Reuters, Datastream, First Call, IBES and Toyo Keizai

**Figure 3. French Banks — Reporting Dates, 4Q10**

	Date	Time (UK)	Access
Societe Generale	16 Feb	06:00	www.socgen.com
BNP Paribas	17 Feb	06:00	www.bnpparibas.com
Natixis	23 Feb	06:00	www.natixis.fr
Credit Agricole	24 Feb	06:00	www.credit-agricole.com

Source: Company Reports and CIRA

## Latest Trends & 4Q10 Preview

In this edition of the French Big Picture, we examine 3 key issues:

- **Liquidity & Funding Needs:** In our recent report [French Banks: Feedback from Roadshow](#) (13 January 2011), we highlighted the proposed liquidity & funding rules as a key 'overhang' for the major French banks. We take a closer look at the LCR ratio and key 'pressure points' for French banks. With the minimum standard not due to be implemented until 2015, we believe that there remains scope for further 'shifting of goalposts'.
- **Deleveraging of legacy assets**, provides further scope for Basel 3 mitigation. SocGen looks best-placed to benefit from this with €58bn of legacy asset RWAs (guided Basel 3 Group RWA assets of €500bn). With the continuing rally of risk assets (as measured by ABX and CMBX), we believe that SG's legacy assets offer the potential for net disposal gains, over time.
- **4Q10 Outlook:** We believe that 4Q10 results will be characterized by a further slowdown in French retail banking revenue growth; 'hits' to shareholders' equity from revaluation of the AfS portfolio; as well as a challenging FICC environment, although we expect Equities & Financing to hold up better.

### 1. Liquidity & Funding – The Regulatory Unknown

#### Basel liquidity regulation still debated

The LCR ratio remains a major area of contention. In its 4Q10 results conference call, JPMorgan management highlighted "there are serious issues about how they look at certain types of deposits and certain types of revolvers". JPM has previously disclosed a preliminary LCR ratio of 53%, based on 2Q10 balances. Likewise, Banque de France Governor Christian Noyer suggested that the technical parameters needed further consideration and that the bias of the liquidity buffer towards government debt was perhaps not appropriate given the recent sovereign crisis.

French banks have traditionally followed liquidity rules set by Banque de France, per Figure 4, also based on a 30-day horizon. Although conceptually similar to the Basel 3 LCR ratio, i.e. comparing the liquidity buffer vs. "stressed" funding outflows, there are 3 key differences:

#### Current French regime comparable but appears less stringent

- **Narrower Liquidity Buffer:** The Basel 3 rules limit the level of non-sovereign debt securities with a credit rating of AA- or higher ("Level 2 assets") to 40% of the total liquidity buffer after haircuts (minimum 15%). Under the French rules, there are no such limits as long as they are 'liquid', although subject to haircuts (30% for corporate bonds, 50% for equities).
- **Off-Balance Sheet Commitments:** Perhaps most importantly, unfunded liquidity commitments and FI (financial institution) credit commitments carry a 100% factor compared to 5% under the French rules. In practice, JPM indicated that it experienced a 6-8% drawdown on unfunded balances during the financial crisis.
- **Deposit Run-Off:** Under Basel 3, run-off factors for so-called non-operational deposits of 75-100% compare to a rate of 20-30% under the French rules.

The question remains what are the potential mitigating factors if the LCR standards are not meaningfully eased.

## What is the potential mitigation?

### Potential mitigation at company and at system level

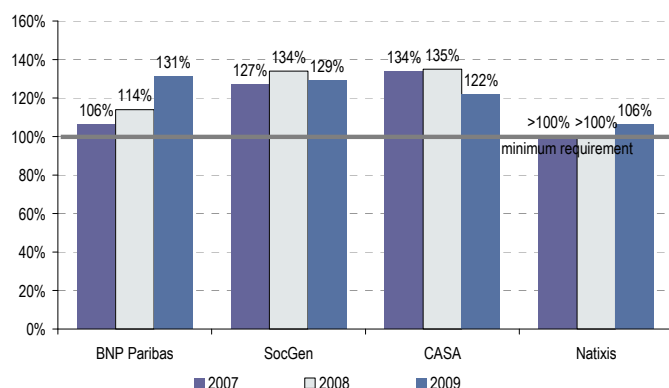
On a generic basis, legacy asset reduction – discussed later – will support LCR ratios by conversion into cash. Likewise, so will raising term debt or terming out short-term debt, although clearly this will also come at a cost. Most importantly, in our view, the pricing and level of committed facilities may have to undergo a fundamental transformation.

The issue in the French banking system is partly heightened by the fact that a significant part of the French savings pool is invested in life assurance – a fiscally attractive product – representing 42% of overall household financial investments at end-2009, up from 32% at end-2000. By contrast, ‘liquid’ assets declined from 37% to 32%, with the balance being securities.

### We expect further modifications of LCR framework

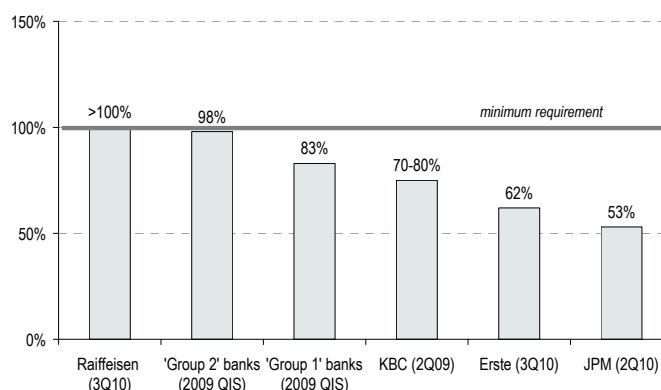
Other potential solutions in France could include changing tax incentives towards on-balance sheet products (i.e. deposits) as well as greater recognition for the banks of regulated savings deposits (which are partly centralized). In our view, the current LCR standards (under observation period from 2011) are unlikely to be the final outcome taking into account that minimum standard will not be introduced until 2015. For example, the Level 2 liquid assets, as part of the liquidity buffer albeit with a 40% limit, were not introduced until July 2010.

**Figure 4. French Regulatory Liquidity Ratios, 2007-2009**



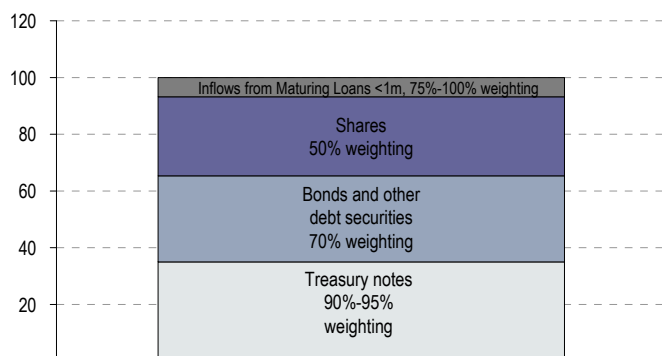
Source: Company Reports

**Figure 5. Basel 3 LCR – Latest Estimates Available**



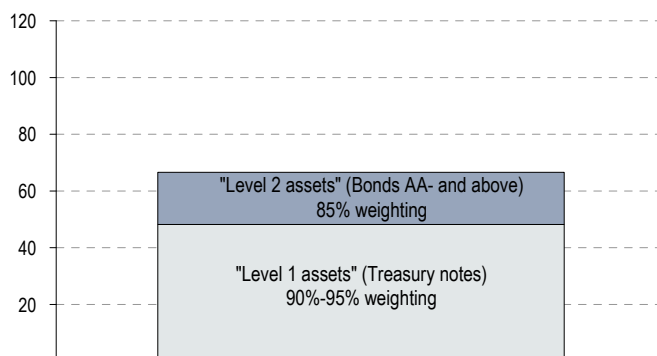
Source: Basel Committee on Banking Supervision (BCBS) and Company Reports  
Note: QIS refers to the quantitative impact study published in December 2010; QIS defines Group 1 banks are those that have Tier 1 capital in excess of €3bn, are well diversified, and are internationally active. All other banks are considered Group 2 banks.

**Figure 6. Numerator Components of French Liquidity Ratio – French Bank Illustration (100=Numerator in French system)**



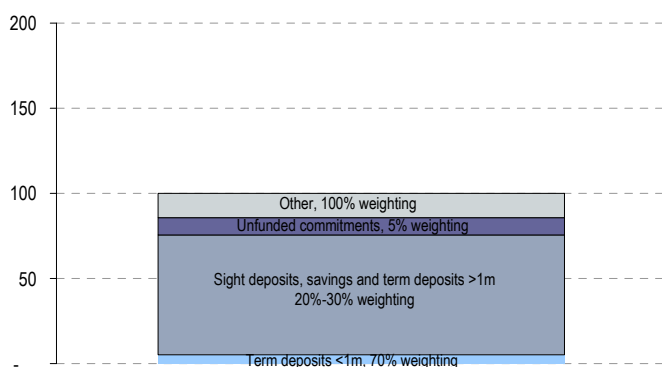
Source: CIRA  
Note: For illustration purposes only

**Figure 7. Numerator Components of LCR – French Bank Illustration (100=Numerator in French system)**



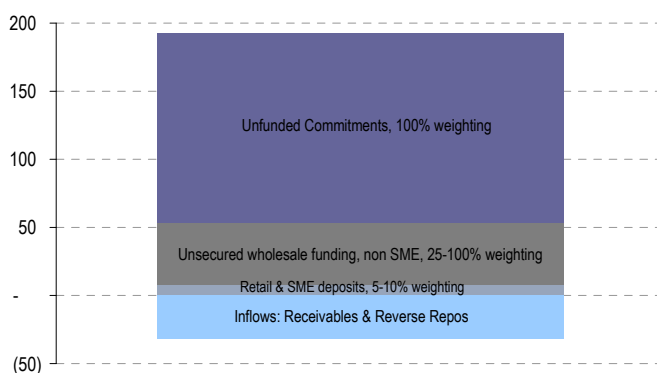
Source: CIRA  
Note: For illustration purposes only

**Figure 8. Denominator Components of French Liquidity Ratio – French Bank Illustration (100=Denominator in French system)**



Source: CIRA  
Note: For illustration purposes only

**Figure 9. Denominator Components of LCR – French Bank Illustration (100=Denominator in French system)**



Source: CIRA  
Note: For illustration purposes only

## Funding Markets Remain Open For Business

In 2010, the major French banks had a diversified funding program with unsecured senior funding typically representing a quarter to a third of overall funding.

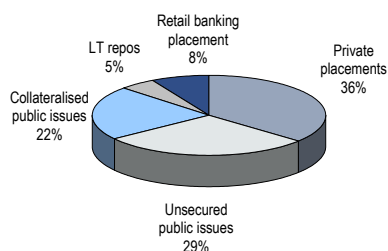
SocGen's has disclosed its 2011 funding target (€25-28bn), which is in-line or modestly lower than its prior year funding. At the start of the year, the bank issued a 2-year €2bn senior unsecured issue priced at 3-month LIBOR + 55bps. CASA followed with an 18-month issue also priced at 55bps, while BNP Paribas issued a 3-year US\$ deal at LIBOR + 90bps. Since then, French banks have successfully raised debt through a variety of securities including covered bonds, as well as across different currencies.

**Figure 10. French Banks – MLT Refinancing Programmes**

€bn	2010 Target (€bn)	Achieved (%)	2011 Target (€bn)
BNP	30	90% (as of end September)	n.a
SocGen	28	121%	25-28
CASA	25	100%+ (mid October)	n.a

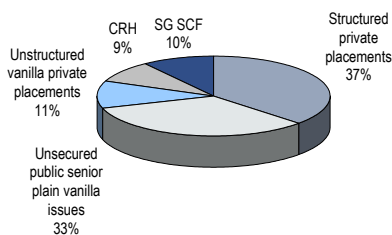
Source: Company Reports

**Figure 11. BNP – 2010 Funding Structure**



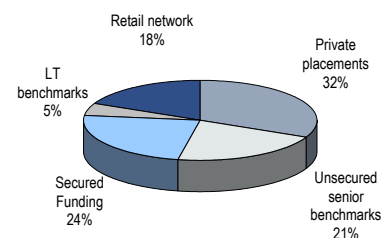
Source: Company Reports

**Figure 12. SocGen – 2010 Funding Structure**



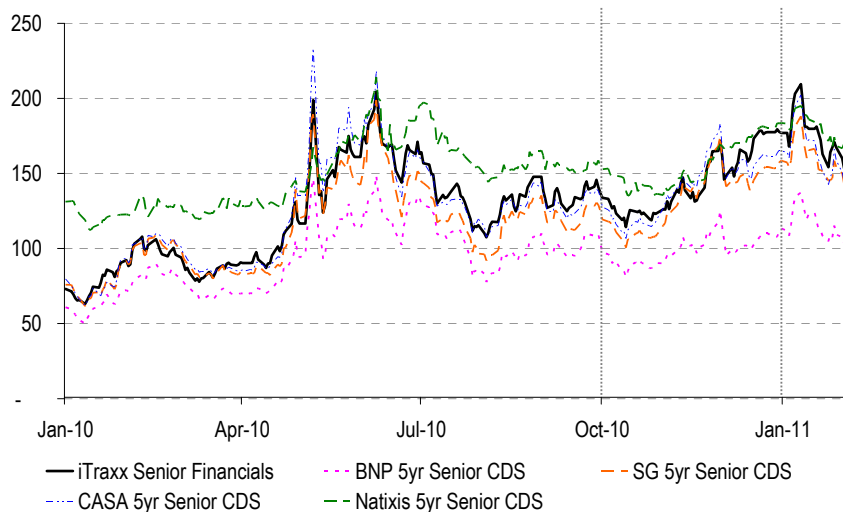
Source: Company Reports  
Note: SCF is Société de Crédit Foncier

**Figure 13. CASA – 2010 Funding Structure**



Source: Company Reports

**Figure 14. Funding Cost Development - French Banks vs iTraxx Senior Financials (bp)**



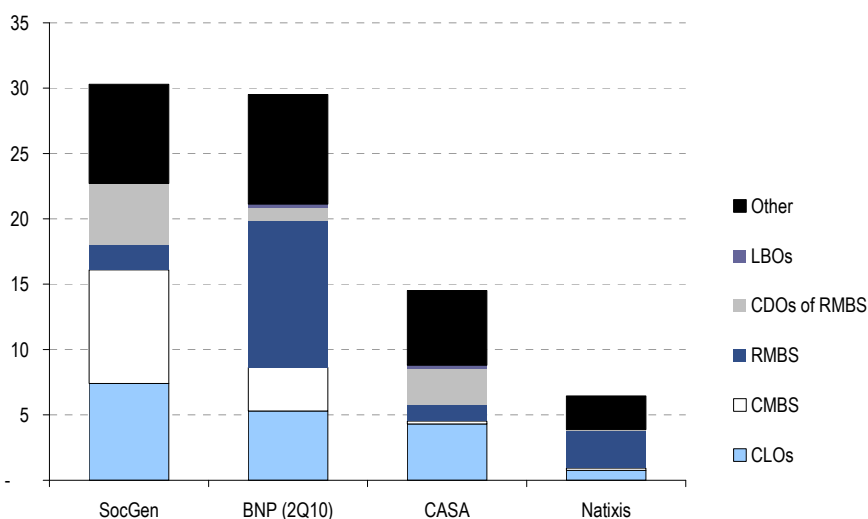
Source: DataStream, Bloomberg

## 2. Deleveraging Potential

**Further deleveraging potential, especially for SocGen**

As highlighted in *French Banks: Feedback from Roadshow*, we believe that there remains further deleveraging potential and Basel 3 mitigation, notably at SocGen. Although headline numbers appear significant, BNP Paribas' exposure to US RMBS CDOs is limited and only a small part of its disclosed RMBS assets are related to the US, UK or Spain. In Figure 15, Natixis benefits from an 85% guarantee from its BPCE parent, for a large part of its legacy asset exposure.

**Figure 15. French Banks Legacy Assets – Net Exposures, 3Q10**



Source: Company Reports

Note: Based on disclosures provided by the banks. BNP Paribas excludes Fortis "IN" Portfolio; only €0.9bn of total €11.2bn unhedged RMBS exposure relates to the US. Varying disclosures do not allow for accurate comparisons; Other includes ABS, banking & corporate bonds, other CDOs, structured financing; Natixis legacy assets discounted to the 85% guarantee on most of these assets

### SocGen – Significant Deleveraging Opportunity

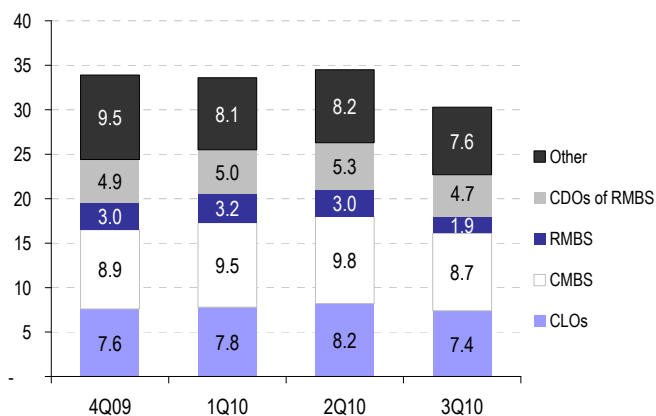
**Further scope for Basel 3 mitigation and potential net disposal gains**

In its 3Q10 results presentation, SocGen 'only' assumed 40bps of mitigation within its 7.5% pro forma end-2012 B3 capital ratio, against 310bp Basel 2.5 and 3 inflation. This is driven by a combination of market RWA & portfolio optimization as well as the reduction of legacy assets. In reality, we believe that the latter impact alone could be significantly higher (up to c1pp) on the basis of c€58bn of legacy asset RWAs ("weighting of B2 deductions") in the context of c€500bn of Group RWAs.

At its June 2010 Investor Day, SocGen indicated a potential €1.5bn latent gains driven by a €1.1bn unrealized loss on US RMBS CDOs and €2.6bn of gains elsewhere, based on external BlackRock Solutions marks. However, since 1Q10, ABX AA and CMBX AAA- prices (as tracked by Markit) have rallied by 21% and 11%, respectively. This suggests that that marks are likely to have improved across-the-board.

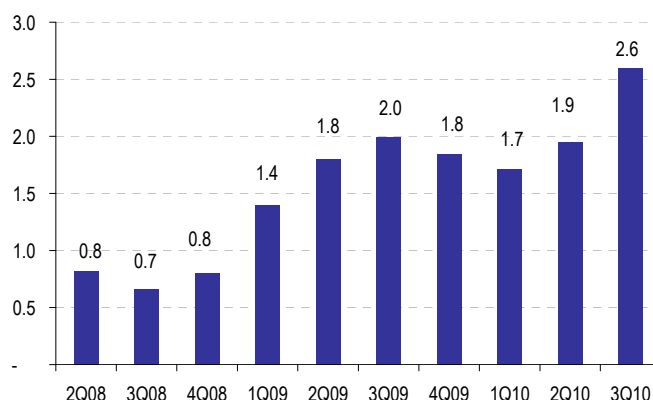
In 3Q10, the legacy asset portfolio experienced €2.6bn of disposals and amortizations. Although 'one swallow does not make a summer', we believe that this 'proactive' deleveraging process could continue over the coming quarters and years and provide support to core T1 ratios, ahead of market expectations.

**Figure 16. SocGen Legacy Assets – Exposures (€bn)**



Source: Company Reports; Note: Other includes ABS, Banking & Corporate bonds, other CDOs, structured financing

**Figure 17. SocGen Legacy Assets – Allocated Capital (€bn)**



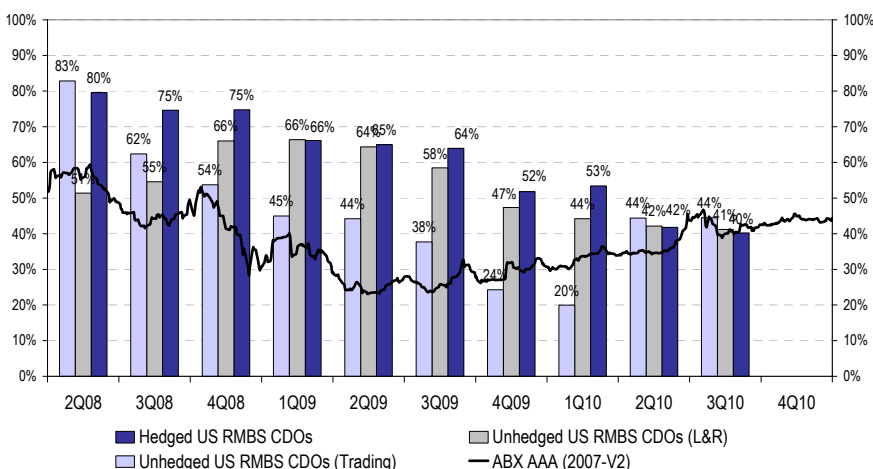
Source: Company Reports  
Note: 2008 figures adjusted to 7% allocation in place since 2009

**Figure 18. SocGen Legacy Assets – Valuation (€bn)**

	US RMBS CDOS	US RMBS'	US CMBS'	US CLOs	Other US ABS' and CDOs	European ABS, CLOs and CDOs	Other L&R and HTM assets	All AFS assets	Total
Book value	2.5	0.6	6.1	4.3	0.6	3	1.9	2.6	21.6
BlackRock valuation	1.4	0.6	6.9	4.7	0.7	3.4	2	3.4	23.1
BlackRock - BV	-1.1	0.0	0.8	0.4	0.1	0.4	0.1	0.8	1.5

Source: Company Reports  
Note: Disclosed during Investor Day on 15 June 2010

**Figure 19. SocGen Legacy Assets – US RMBS CDO Prices vs ABX Index**



Source: Company Reports, Markit



### 3. 4Q10 Outlook

#### AfS Revaluation 'Hits'

'Hits' from revaluation of the AfS  
portfolio of 2-4% of shareholders' equity

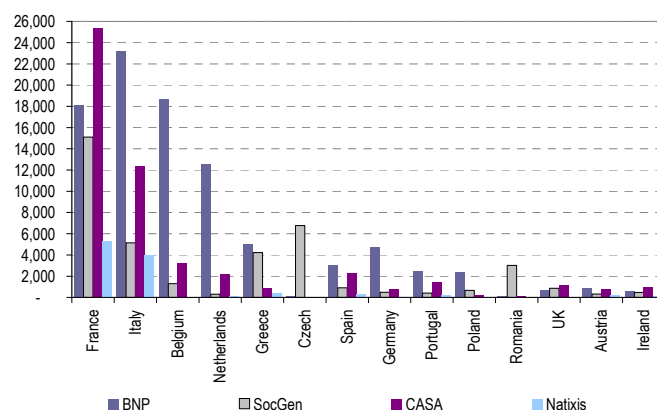
In 4Q10, sovereign bond yields rose not just for the peripheral countries, but also for core markets. The only partial mitigation was the sharp rebound in equities with Stoxx 600 +6.7% in 4Q10. As a result, we expect AfS losses with potential hits to shareholders' equity of 2% for Natixis, 3% for SocGen and 4% for BNP Paribas, respectively (see charts below).

**Figure 20. France vs Germany – 5Y Gvt Bond Yields**



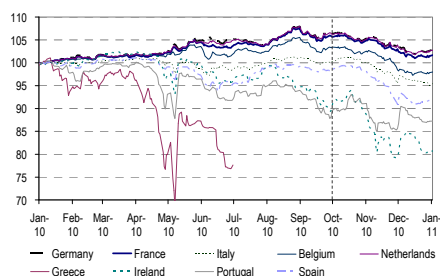
Source: Bloomberg

**Figure 21. French Banks – Sovereign Exposure (€bn)**



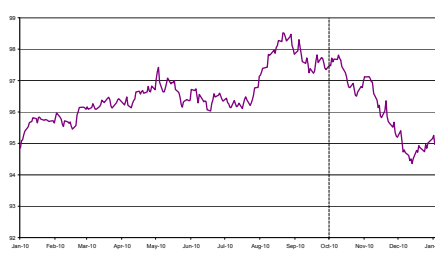
Source: Thomson Reuters (31 Dec 2009 = set to 100)

**Figure 22. Sovereign Debt – iBoxx € Sovereigns 2010**



Source: Thomson Reuters (31 Dec 2009 = set to 100)  
Note: Greek bonds removed from the Markit iBoxx Euro Sovereign Index at end-June

**Figure 23. Non-Financials Debt - iBoxx € Non-Fin 2010**



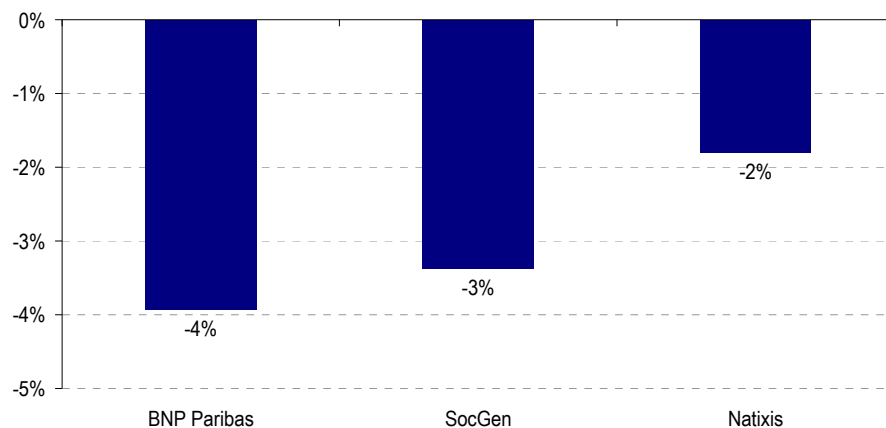
Source: Thomson Reuters (31 Dec 2009 = set to 100)

**Figure 24. Equity - DJ Stoxx 600**



Source: Datstream

**Figure 25. 4Q10E AFS Hit to Shareholders Equity, (% of SE)**



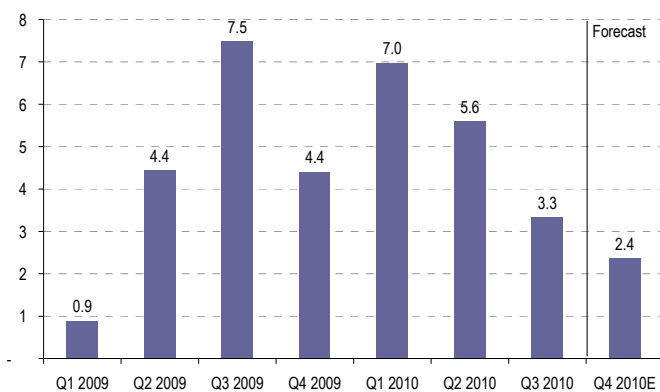
Source: Citi Investment Research and Analysis

Note: CASA disclosure does not allow for a comparable analysis; CEBS disclosure provided at Credit Agricole Group level.

## Retail – Further Normalization

After a growing by 6% in 1H10, French retail banking growth slowed to 3.3% in 3Q10, close to its trend level (2-3%). In our previous editions of the French Big Picture, we attributed this trend to a less positive base effect in market-sensitive fees & commissions, as well as some pressure on NII from Livret A rate hikes and the roll-over of ALM hedges. We expect this slowdown to have continued over 4Q10 as these trends continued.

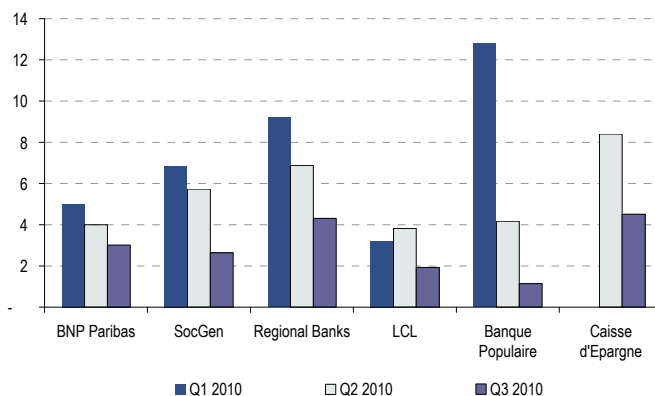
**Figure 26. French Retail Banking Revenue Growth (yoy, %)**



Source: Company Reports and CIRA Estimates

Note: Based on French retail activities of BNP, SocGen, Credit Agricole Regional Banks and LCL (part of CASA), and adjusted at constant scope

**Figure 27. French Retail Banking Revenue Growth at Selected Banks (yoy, %)**



Source: Company Reports

## Livret A – More Rate Hikes

**Livret A hike impact is estimated at 0.3% to 1.3% of 4Q10E Group PTP**

Livret A rates were hiked by 50bp on 1 August 2010. Therefore, a further one-third of the quarterly impact (i.e. one month) will be seen in 4Q10. We estimate this to range from 0.3% to 1.3% of Group PTP and a higher impact on the French Retail Banking division (see Figure 28).

Figure 28. Estimated impact of 50bps Livret A rate increase in 4Q10

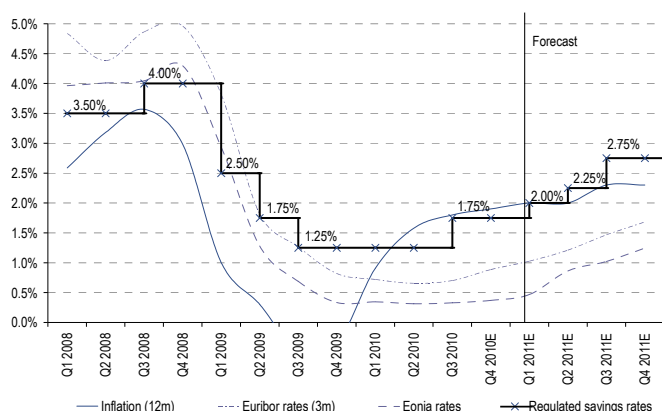
	Savings deposits (€bn)	Non centralised Livret A related (estimate, as % of savings)	Savings deposits subject to repricing (estimate, €bn)	4Q10 Impact (estimate, €m)	FRB PTP (€m)	Estimated impact as % of 4Q10 FRB PTP	4Q10 Group PTP (€m)	Estimated impact as % of 4Q10 Group PTP
BNP Paribas	46	44%	20	8	415	2.0%	2,974	0.3%
CASA – LCL	30	44%	13	5	248	2.2%	1,001	1.3%
CASA – Regional banks	159	44%	69	7	1,145	2.5%		
Société Générale	47	43%	20	8	469	1.8%	1,371	0.6%
Natixis - CCI in BPCE	197	37%	73	6	943	3.2%	643	0.9%

Source: Citi Investment Research and Analysis

Note: 25% of the impact of regional banks is accounted for in order to reflect CASA's shareholding; This is similar for Natixis' 20% shareholding in CCIs in BPCE

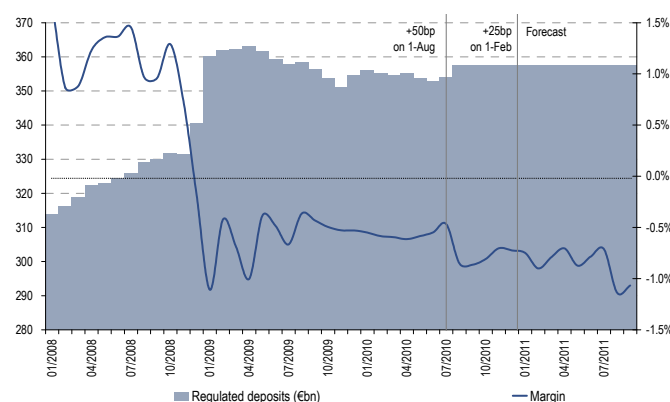
Increasing inflation continues to push up Livret A rates – which are set on the basis of inflation and interbank rates – resulting in a further 25bp hike on 1 February 2011.

Figure 29. Livret A interest rates



Source: Banque de France, Bloomberg, DataStream and CIRA Estimates

Figure 30. Spreads on Livret A savings



Source: Banque de France, Bloomberg and CIRA Estimates

## Rising House Prices but Contained Risk

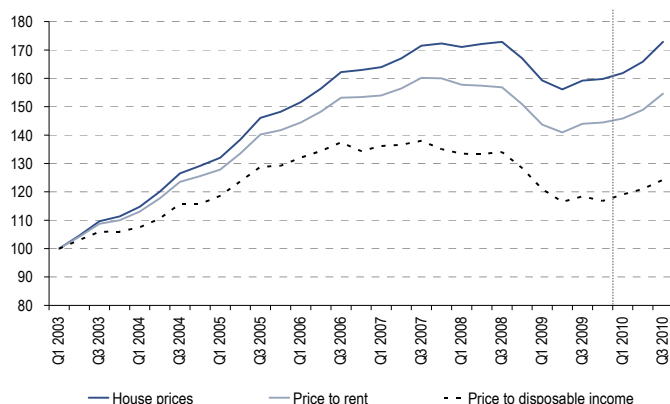
French mortgage loan production grew over 33% in 2010 (see Figure 71), as households took advantage of low interest rates to crystallize mortgages with fixed-term rates. In parallel, existing house prices grew 8.5% yoy in 3Q10, or broadly back to previous peak levels (according to INSEE). While the possibility of a potential bubble in French property cannot be dismissed, we believe an unlikely bubble burst would have a limited impact on French banks. Key arguments include:

- Loans in France are granted on the basis of income, rather than the value of the collateral. Therefore, unemployment is typically the best indicator for potential defaults. In this context, our economists forecast a modest decline in the unemployment rate from 9.2% in 4Q10E to 8.9% by 4Q12E. Most mortgages have long-term fixed rates and are therefore not sensitive to rising interest rates.
- Mortgage clients are generally required to hold their primary current accounts with lending banks. Use of Credit Lodgment also acts as a further screen and incentive to generate creditworthy mortgage business. Moreover, subprime lending is limited by usury ceiling rates, set at 133% of previously applied rates of the preceding quarter on similar loans with similar levels of risk at system level.

- Despite recent growth, French mortgage loan penetration remains relatively low, at 40% of GDP in October 2010, compared to c90% of GDP in UK and Ireland in 2009 (see Figure 32).

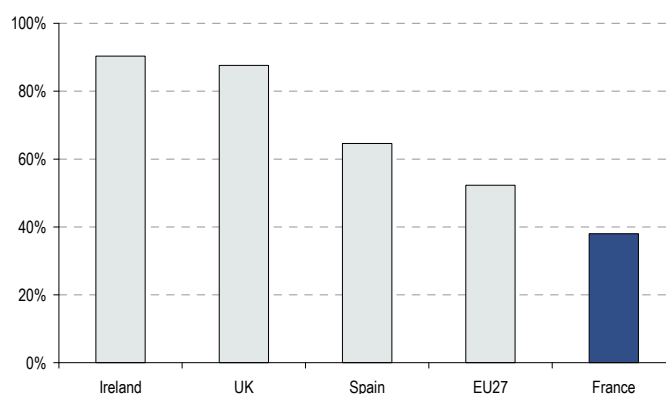
While French house prices have recovered faster than most anticipated and mortgage production has grown sharply, we believe that the underlying fundamentals of the French mortgage book remain solid.

**Figure 31. French Housing – House Prices and Affordability Indices (2003=100)**



Source: DataStream, Insee

**Figure 32. Residential Mortgage Debt to GDP ratio (%), 2009**



Source: European Mortgage Federation, Eurostat

## Investment Banks Read Through

### Challenging FICC environment. Equities & Financing should hold up better

US banks' trading businesses suffered from challenging conditions in 4Q10, especially in FICC (for a detailed read-through for European banks, refer to our 12<sup>th</sup> edition of [Banking on Markets, Main Street Leads Wall Street](#), 28 January). Overall, CIB revenues for the French banks should hold up better given that Structured Financing activity remained relatively robust.

US banks' FICC revenues declined 35% qoq, on average, driven largely by greater rates 'pain' than we had expected – a function of the spike in sovereign yields, higher volatility and 'one-way bias' in customer flows. Moreover, customer activity was held back by European sovereign risk fears. With a bias towards the rates business, we believe that the major French banks' FICC franchises will not be immune from this weakness.

US banks' equities revenues declined by a lower 7% qoq with stronger cash equities (& prime brokerage) offsetting weaker derivatives, which seemed to suffer from lower client activity and volatility. CASA should benefit from its cash equities bias. Deutsche Bank's equities grew by 27%, notably driven by equity derivatives' structured solutions activities. This potentially provides for a positive read-through for BNP Paribas and SocGen's leading equity derivatives operations. They also tend to have natural long-term 'short' volatility positions and are therefore unlikely to have been 'hit' by the declining volatility trend, which a couple of US peers suffered from. As we have previously demonstrated, falling correlation / skew and rising dividend expectations tend to provide a 'constructive' trading backdrop to French banks' equity derivatives operations.

**Figure 33. French Banks Equity Revenues vs Derivative Market Metrics**

€bn	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
<b>Equity Revenues</b>	1.9	1.8	1.3	1.2	0.9	1.5	1.0	-2.4	0.7	1.8	1.7	1.1	1.6	0.6	1.2	*
o/w BNP Paribas	0.8	0.8	0.6	0.6	0.3	0.8	0.5	-1.9	0.0	0.8	0.6	0.5	0.8	0.3	0.5	*
o/w SocGen	1.1	1.0	0.7	0.6	0.5	0.8	0.5	-0.5	0.6	1.0	1.0	0.7	0.8	0.4	0.6	*
<b>% qoq</b>	64%	-2%	-32%	-5%	-28%	78%	-35%	-343%	-127%	172%	-7%	-32%	44%	-62%	86%	*
<b>Market Metric</b>																
Volatility	↑	↔	↑	↔	↑↑	↓	↑↑	↑↑	↔	↓↓	↓	↓	↓	↑↑	↓	↓
Skew	↑↑	↓	↑↑	↔	↑↑	↓	↑↑	↑↑	↓↓	↓↓	↓	↔	↓↓	↑↑	↓	↓
Correlation	↑↑	↓↓	↑↑	↓↓	↑↑	↓↓	↑↑	↔	↓↓	↑	↑	↑↑	↓	↑↑	↔	↓
Dividend	↔	↑↑	↓	↓	↓↓	↔	↓	↓↓	↓↓	↑↑	↑↑	↑	↔	↓↓	↔	↑

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

\* To be reported

Source: Company Reports, Bloomberg and CIRA Estimates

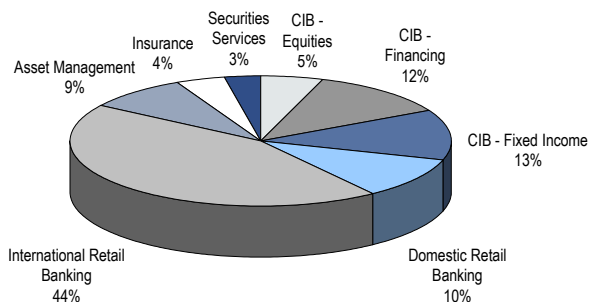
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## **Valuation & Business Mix**

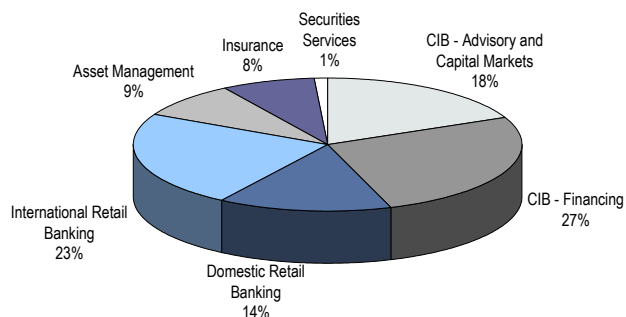
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## Business Mix

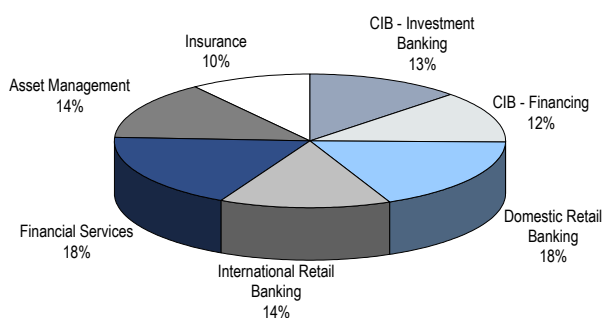
**Figure 34. BNPP — Revenue Mix by Division, 3Q10**



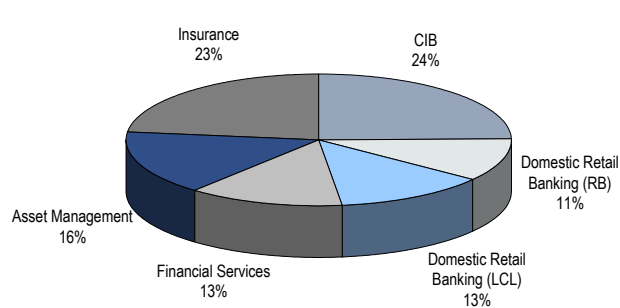
**Figure 35. BNPP — PBT Mix by Division, 3Q10**



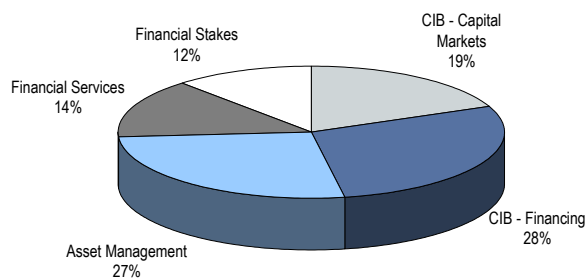
**Figure 36. CASA — Revenue Mix by Division, 3Q10**



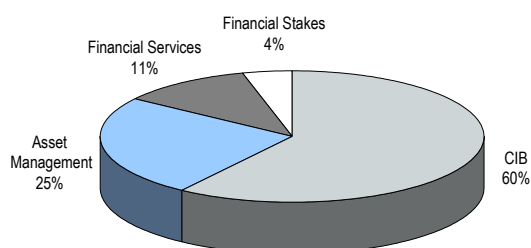
**Figure 37. CASA — PBT Mix by Division, 3Q10**



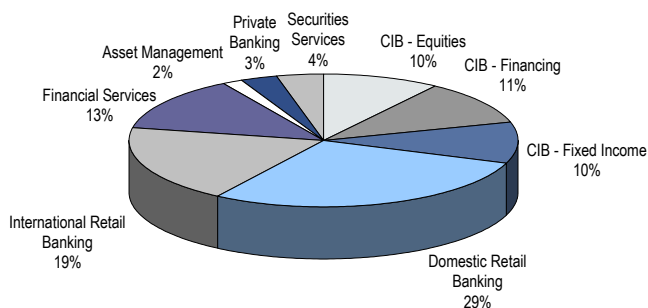
**Figure 38. Natixis — Revenue Mix by Division, 3Q10**



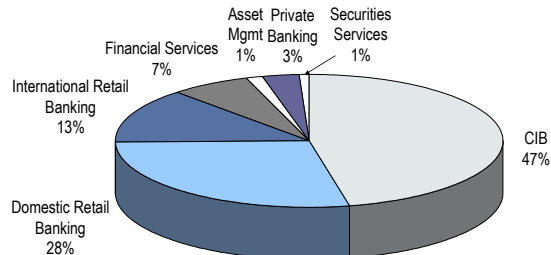
**Figure 39. Natixis — PBT Mix by Division, 3Q10**



**Figure 40. SOGN — Revenue Mix by Division, 3Q10**



**Figure 41. SOGN — PBT Mix by Division, 3Q10**

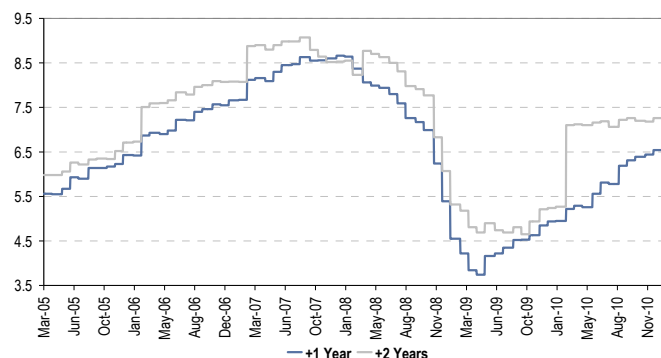


Source Company reports. Note: Reported basis

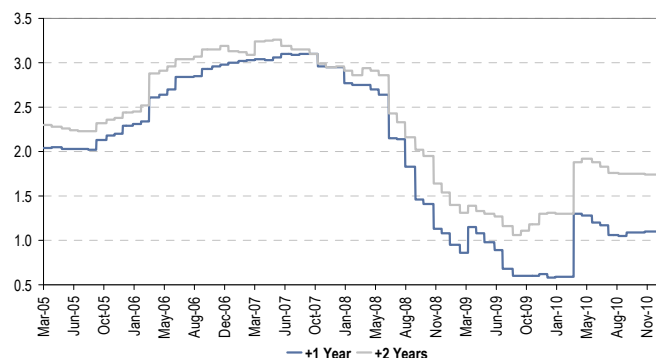
## Consensus EPS Revisions

- In recent months, consensus 2011E EPS revisions have remained broadly flat for most banks. 2010E EPS revisions have been, however, modestly positive for BNP Paribas and SocGen.

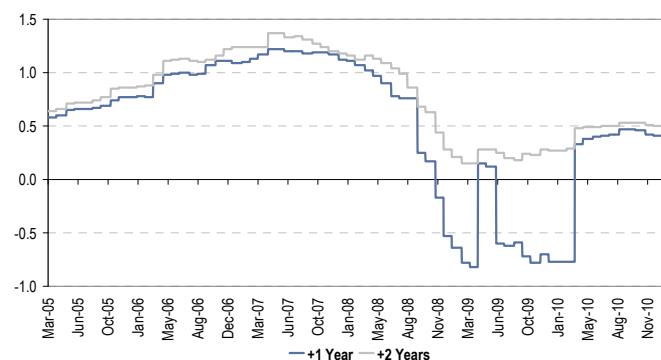
**Figure 42. BNPP — Consensus EPS Revisions, 2005-11 (Euros)**



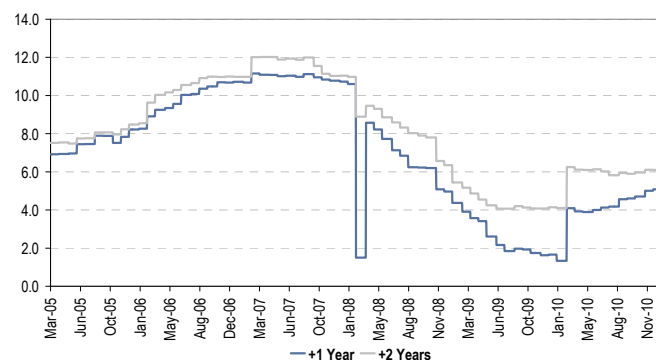
**Figure 43. CASA — Consensus EPS Revisions, 2005-11 (Euros)**



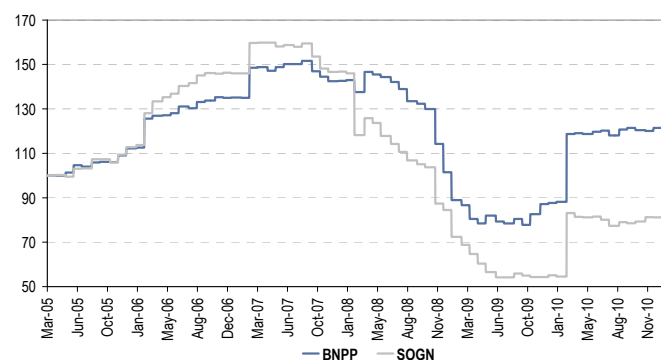
**Figure 44. Natixis — Consensus EPS Revisions, 2005-11 (Euros)**



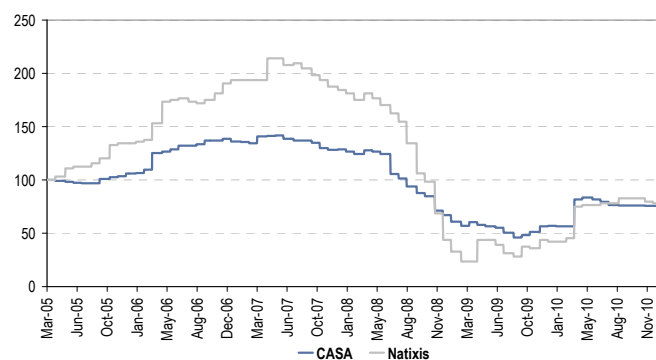
**Figure 45. SOGN — Consensus EPS Revisions, 2005-11 (Euros)**



**Figure 46. BNPP & SOGN — +2Yrs Consensus EPS (Mar 05=100)**



**Figure 47. CASA & Natixis — +2Yrs Consensus EPS, (Mar 05=100)**



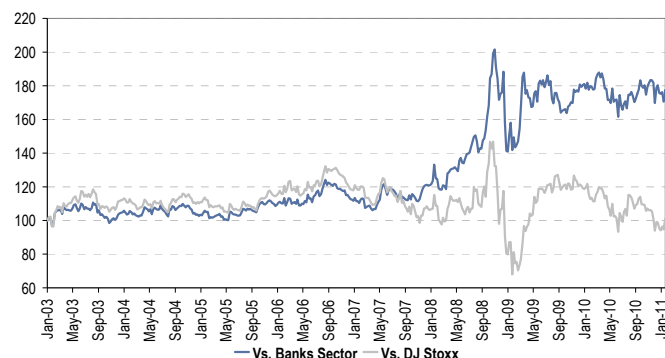
Source for all charts: I/B/E/S



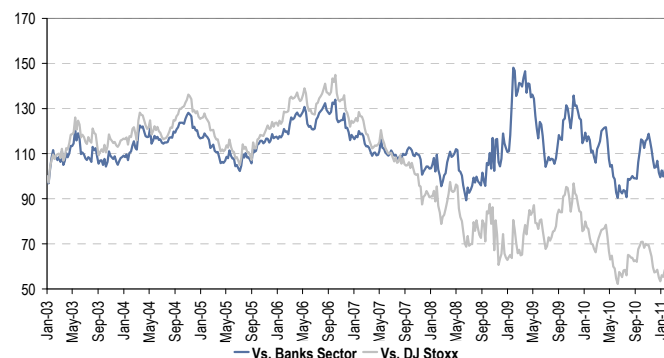
## Share Price Performance

- French Banks have outperformed the European banks sector by 5% ytd, led by BNP Paribas (+7%) while CASA and SocGen have outperformed by 4% apiece.

**Figure 48. BNPP — Price Relative to Sector/ Europe, 2003-2011 (Jan 03=100)**



**Figure 49. CASA — Price Relative to Sector/ Europe, 2003-2011 (Jan 03=100)**



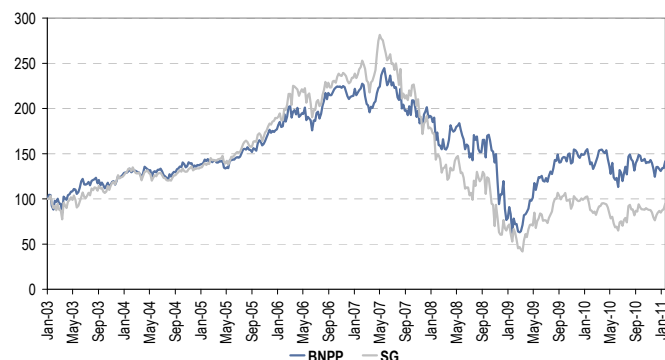
**Figure 50. Natixis — Price Relative to Sector/ Europe, 2003-2011 (Jan 03=100)**



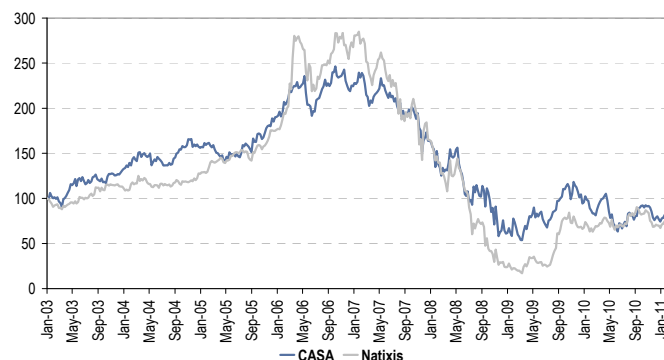
**Figure 51. SOGN — Price Relative to Sector/ Europe, 2003-2011 (Jan 03=100)**



**Figure 52. BNPP & SOGN — Share Price Chart, 2003-2011 (Jan 03 = 100)**



**Figure 53. CASA & Natixis— Share Price Chart, 2003-2011 (Jan 03 = 100)**

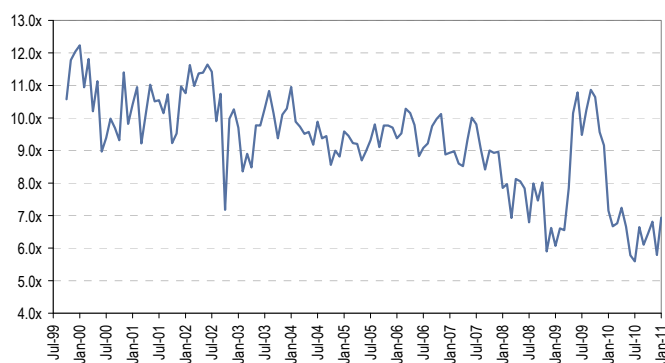


Source for all charts: DataStream

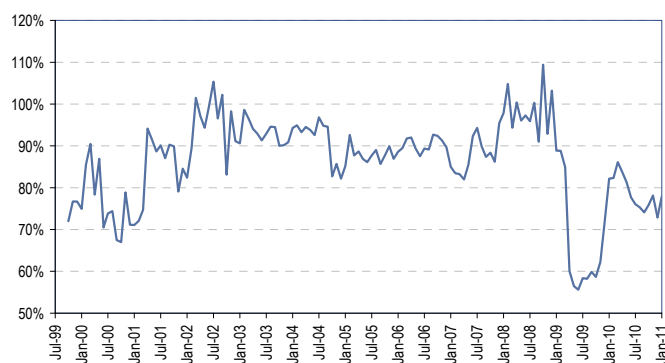
## PE Valuation

- Although French banks have recently re-rated, forward PE multiples relative to European banks remain attractive.

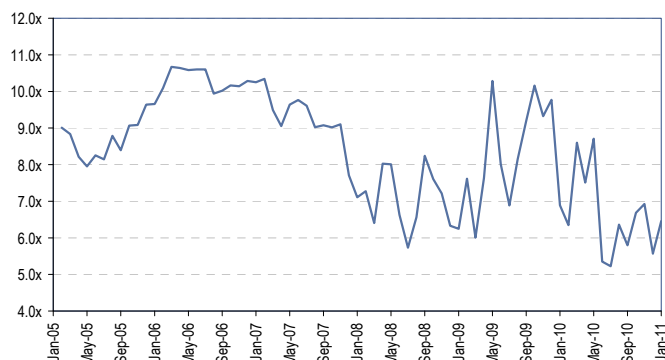
**Figure 54. BNP — Absolute PE +2yr, Jul 99-Jan 11**



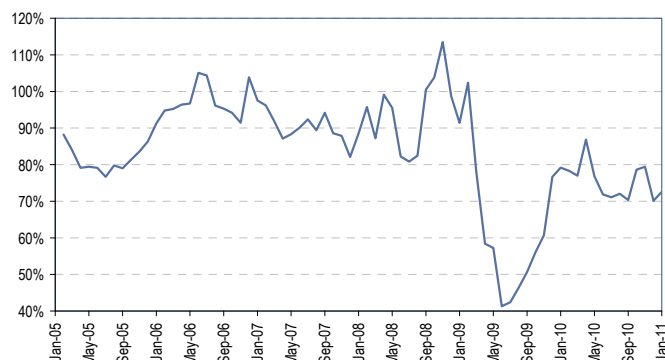
**Figure 55. BNP — Sector Relative PE +2yr, Jul 99-Jan 11**



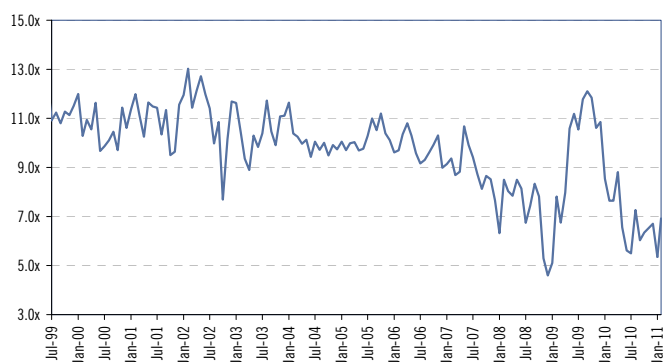
**Figure 56. CASA — Absolute PE +2yr, Jan 05-Jan 11**



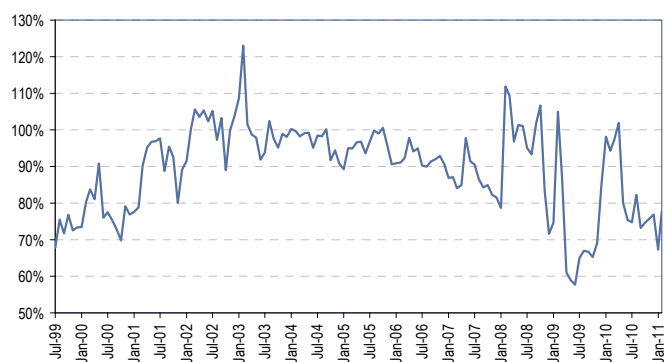
**Figure 57. CASA — Sector Relative PE +2yr, Jan 05-Jan 11**



**Figure 58. SOGN — Absolute PE +2yr, Jul 99-Jan 11**



**Figure 59. SOGN — Sector Relative PE +2yr, Jul 99-Jan 11**



Source for all charts: DataStream and CIRA

## PB and PTB Valuation

- French banks' share prices have increased from average lows of 0.4 and 0.6 of book and tangible book valuations to 0.9 and 1.2 in February 2011, following a 16% rally YTD.

Figure 60. BNP Paribas – PBV

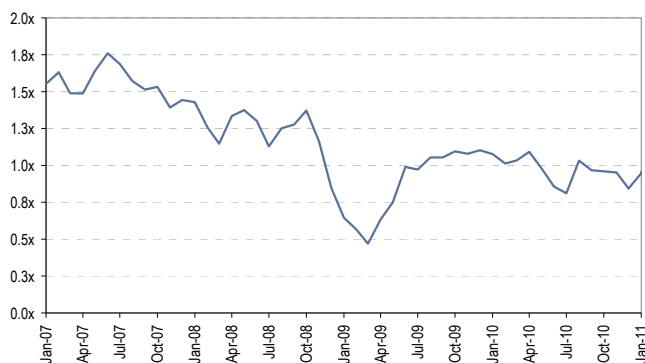


Figure 61. BNP Paribas – PTBV

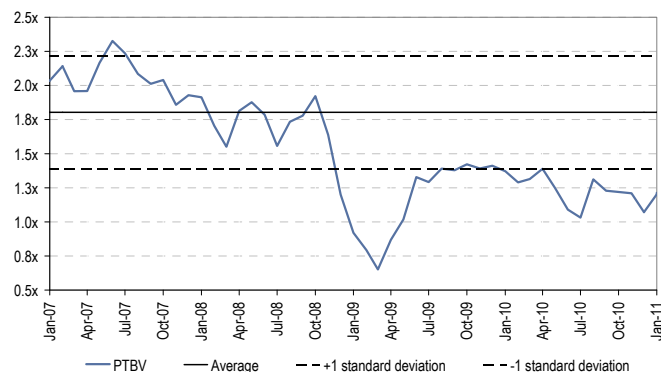


Figure 62. CASA – PBV



Figure 63. CASA – PTBV

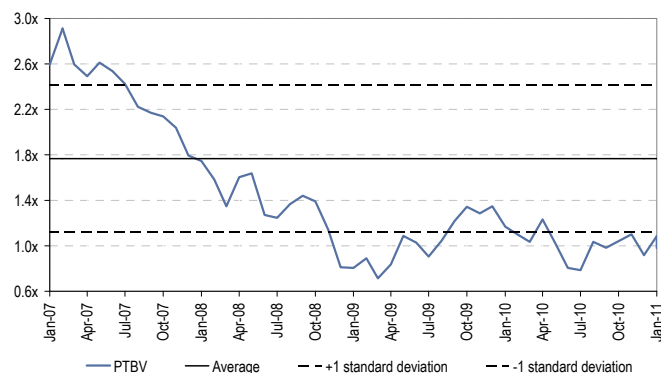


Figure 64. Societe Generale – PBV

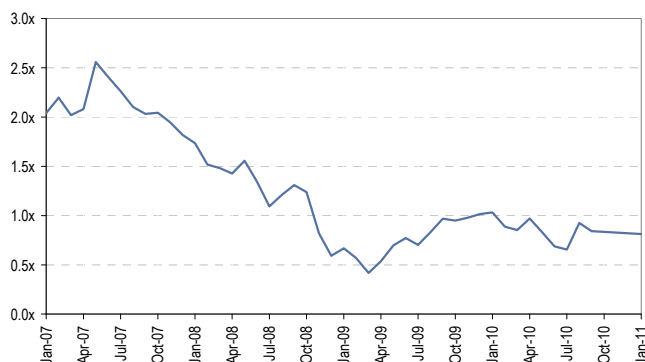
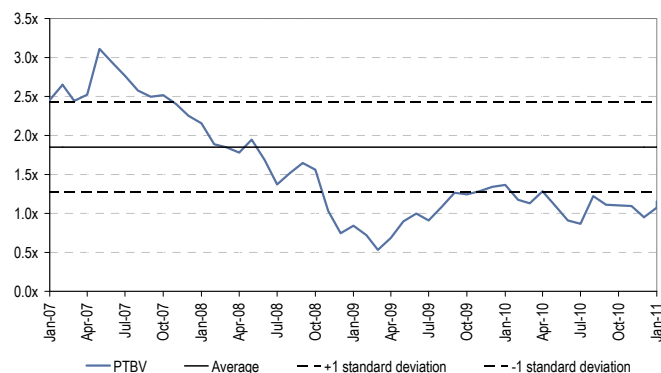


Figure 65. Societe Generale – PTBV



Source for all charts: dataCentral, CIRA

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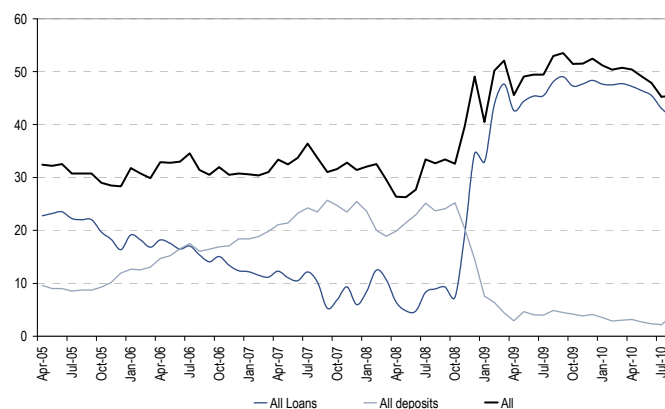
# Domestic Network Banking

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## NII and NIM

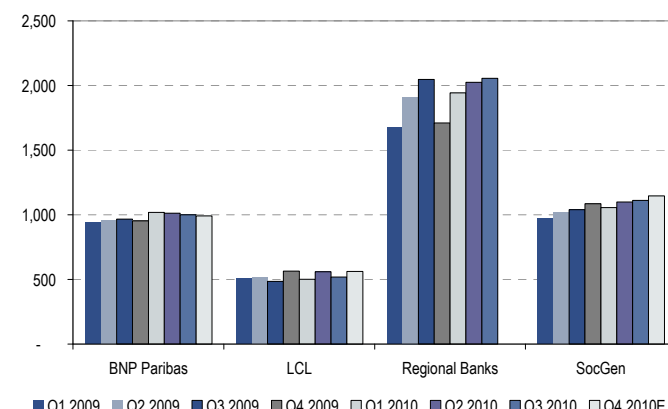
- In 2009, NII trends benefited from a favorable deposit mix shift as well as declining Livret A rates. However, in recent quarters, margins have come under pressure from the roll-over of ALM as well as increases in Livret A rates (50bps on 1 August 2010 and 25bps on 1 February 2011).

**Figure 66. France – NII on all loans and deposits (€bn, annualized)**



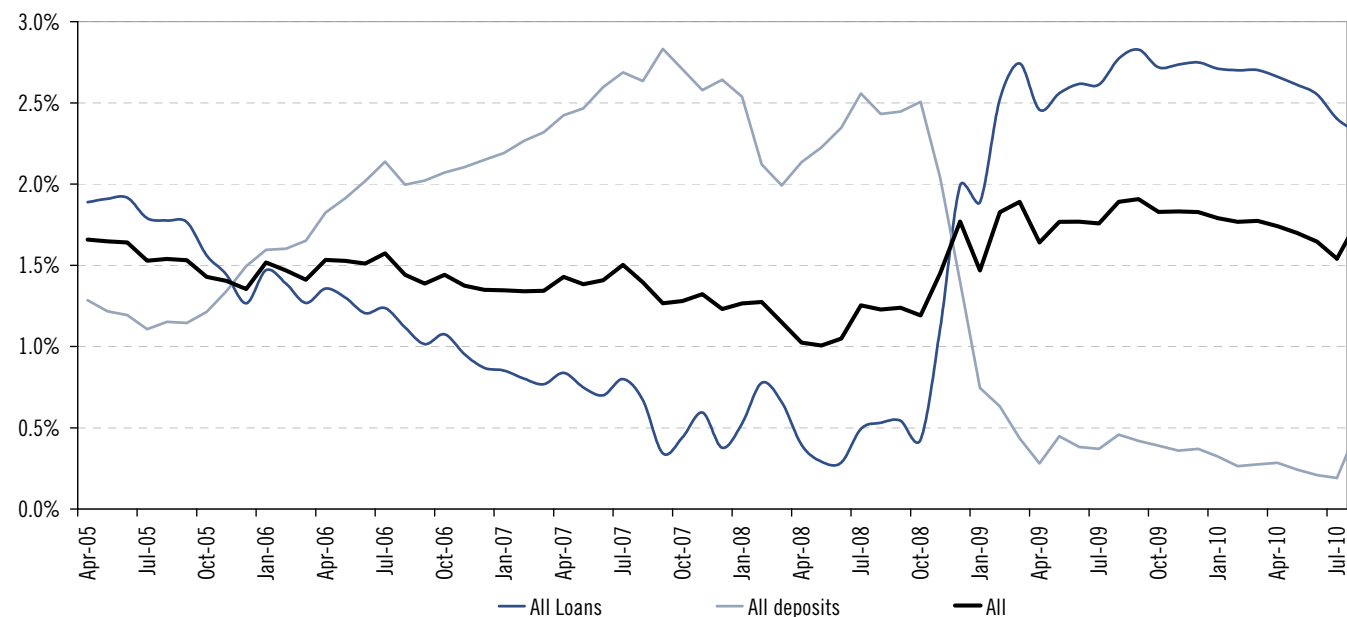
Source: DataStream and CIRA estimates

**Figure 67. French NII – Selected banks (€m, quarterly)**



Source: Company reports

**Figure 68. France – Average NIM on all loans and deposits (%)**



Source: DataStream and CIRA estimates

## Loan and Deposit Growth

- Lending growth is c4% yoy in November, broadly stable from year-ago levels, having bottomed-out at virtually no growth in October 2009.
- Deposits are up 5.5% yoy in October, broadly similar to prior-year levels, having been stronger in the interim period. Sight deposits have grown at close to 10% yoy, due to low rates on other products. Recently, this trend has started to reverse as regulated rates have become more attractive to depositors.

Figure 69. France — Loan Growth, 1995-2010



Figure 70. French retail — Loan yoy Growth, 1Q10-3Q10

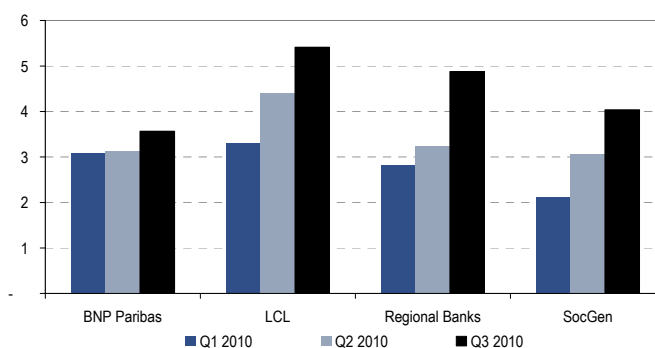


Figure 71. France — Housing Loan Growth, 1995-2010

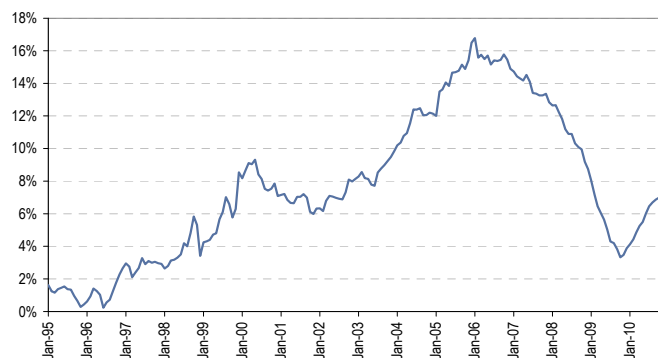


Figure 72. French retail — Housing Loans yoy Growth, 1Q10-3Q10

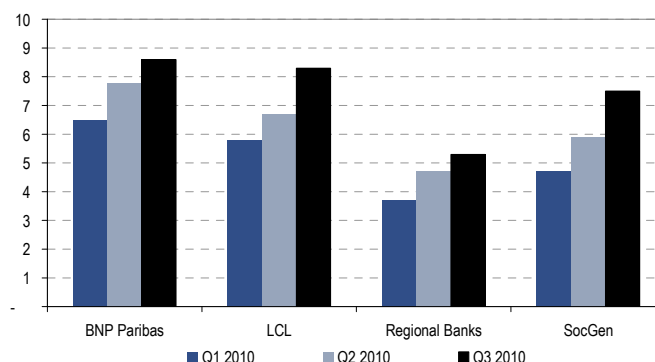
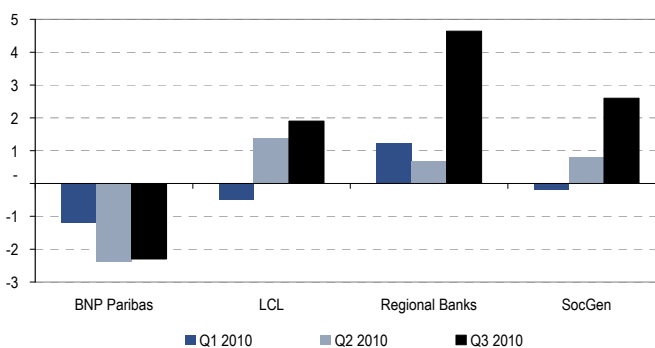


Figure 73. France — Loans to Business Growth 1995-2010

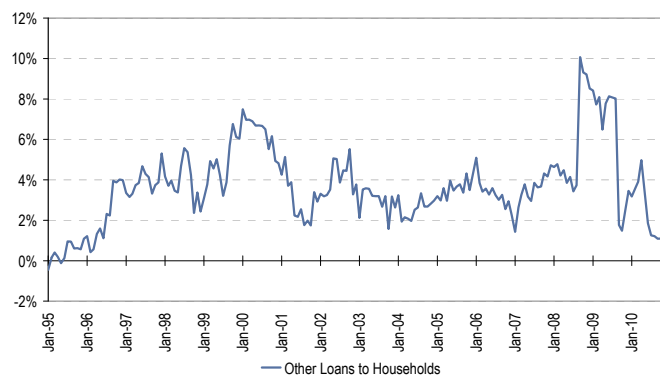


Figure 74. French retail — Loans to Business yoy Growth, 1Q10-3Q10

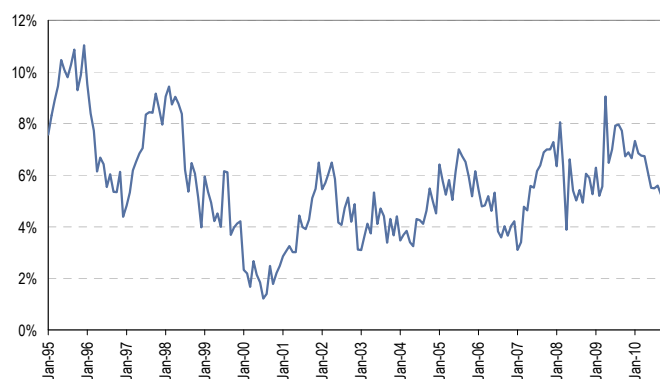


Source for all charts: Banque de France, Datastream, Company Reports and CIRA

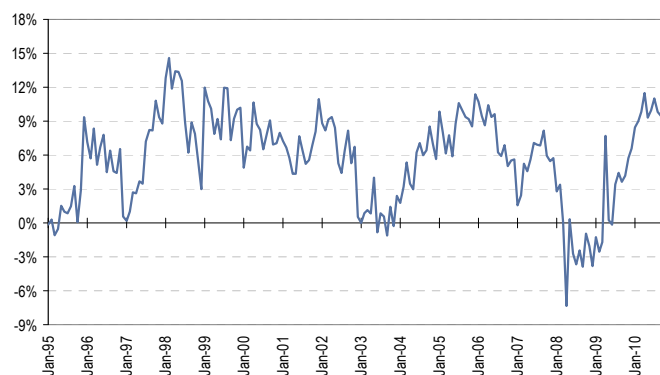
**Figure 75. France — Other Loans Growth 1995-2010**



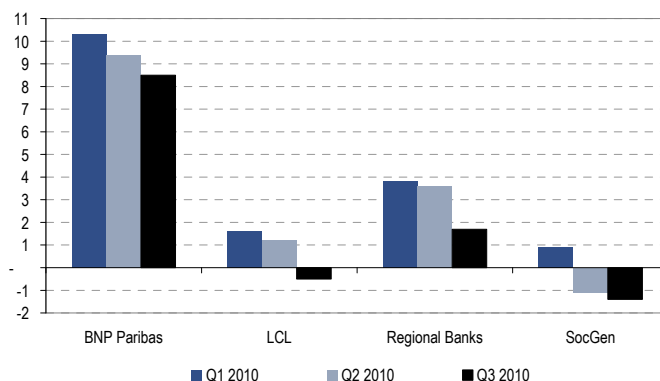
**Figure 77. France — Deposit Growth, 1995-2010**



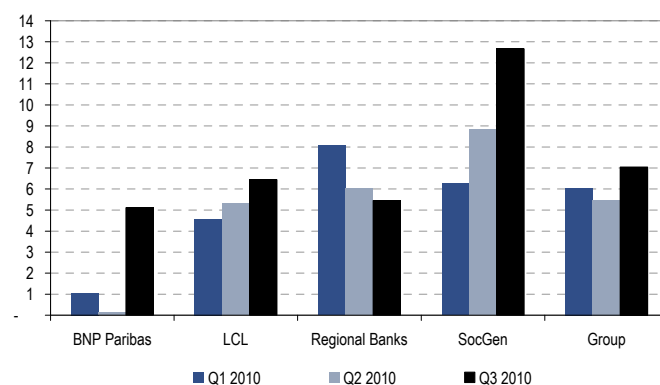
**Figure 79. France — Sight Deposit Growth, 1995-2010**



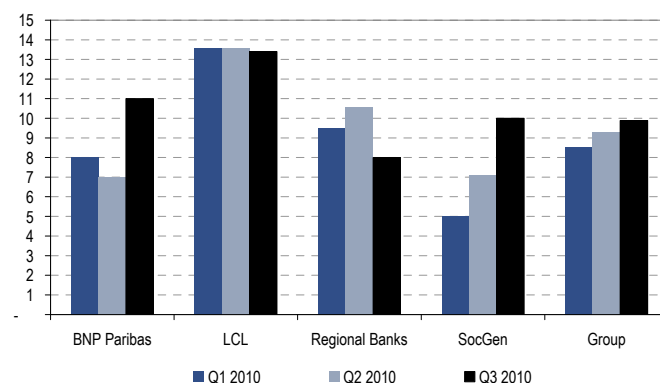
**Figure 76. French retail — Consumer Loans yoy Growth, 1Q10-2Q10**



**Figure 78. French retail — Deposit yoy Growth, 1Q10-2Q10**

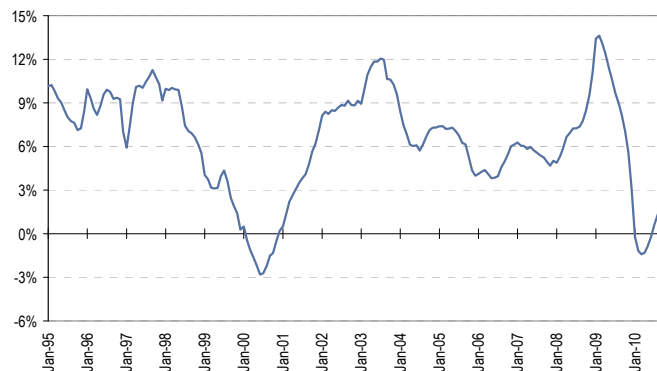


**Figure 80. French retail — Sight Deposit yoy Growth, 1Q10-2Q10**

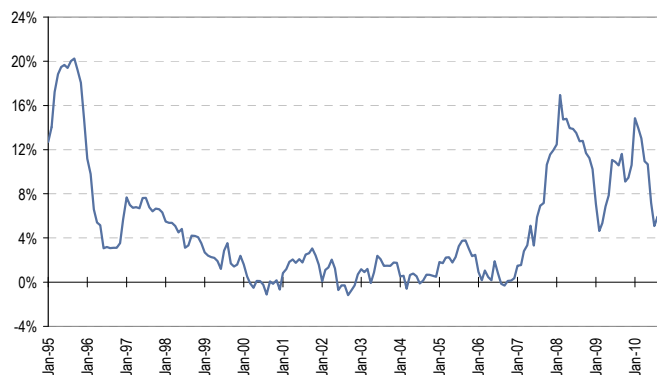


Source for all charts: Banque de France, Datastream and Company Reports

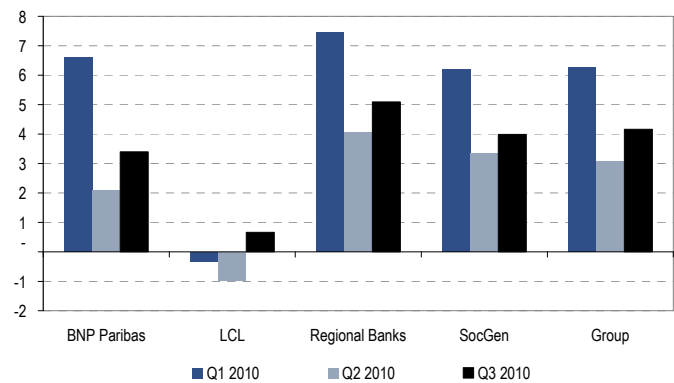
**Figure 81. France — Passbook Deposit Growth, 1995-2010**



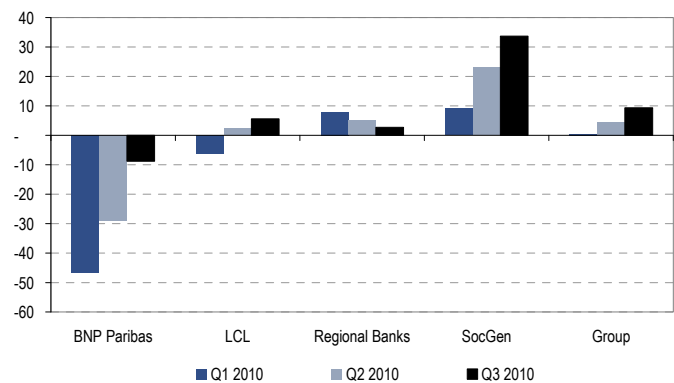
**Figure 83. France — Time Deposits Growth, 1995-2010**



**Figure 82. French retail — Savings Deposit yoy Growth, 1Q10-2Q10**



**Figure 84. French retail — Time Deposits yoy Growth, 1Q10-2Q10**



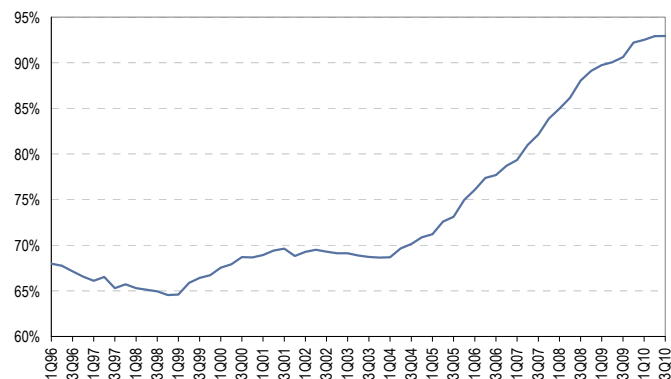
Source for all charts: Banque de France, Datastream and Company Reports



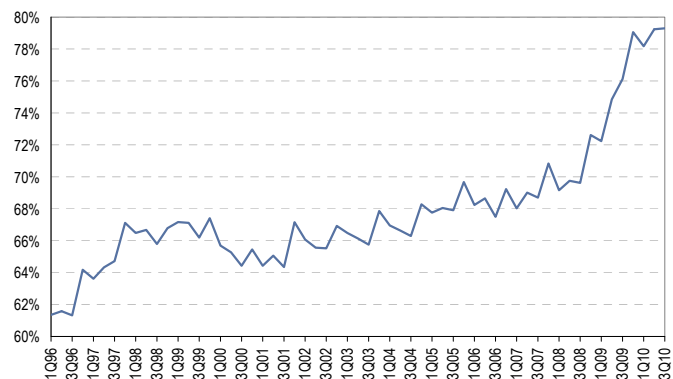
## Domestic Banking Penetration

- Lending penetration slightly up over 3Q10, at 93% of GDP (up 1% qoq).
- Mortgage lending penetration has reached 40% of GDP in 3Q10 (up 2% qoq).

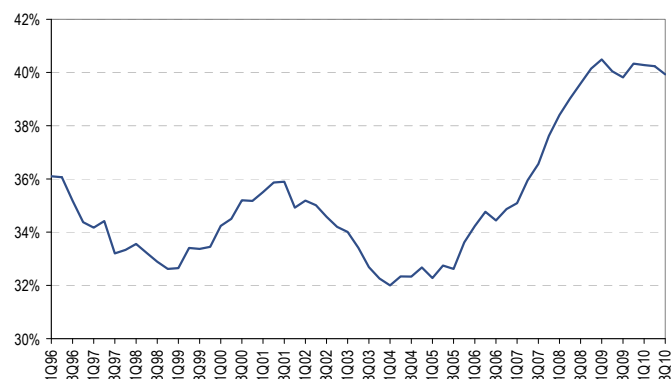
**Figure 85. Loans as a Pct of GDP, 1Q96-3Q10**



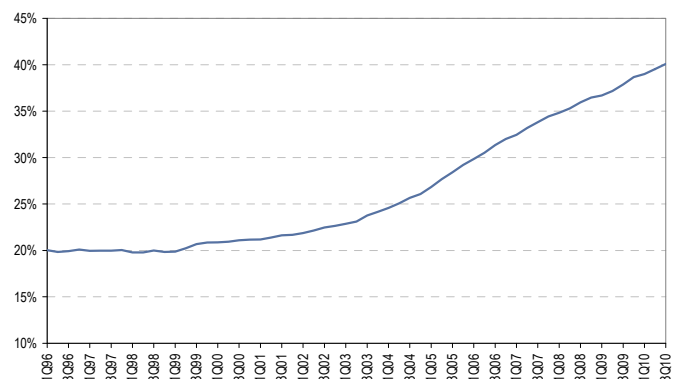
**Figure 86. Deposits as a Pct of GDP, 1Q96-3Q10**



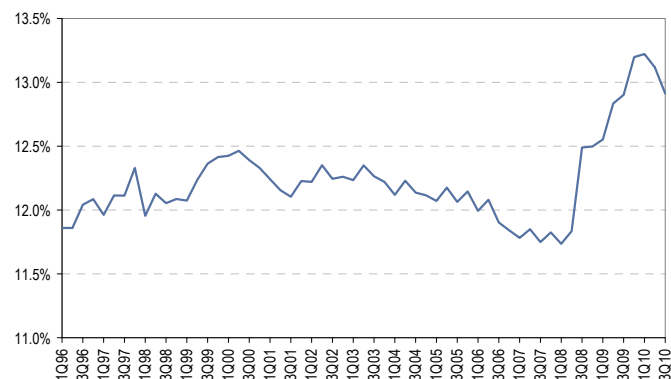
**Figure 87. Business Lending Penetration, 1Q96-3Q10 (as % of GDP)**



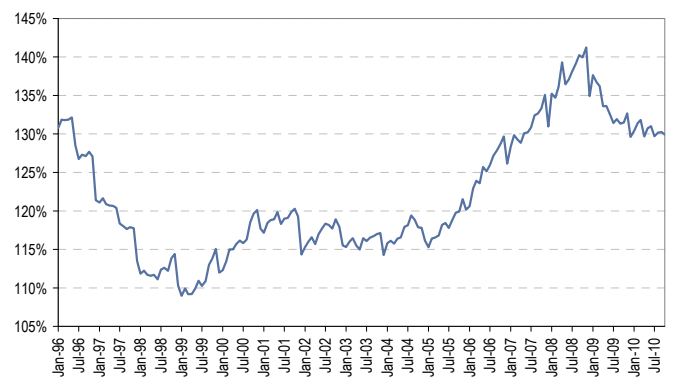
**Figure 88. Housing Lending Penetration, 1Q96-3Q10 (as % of GDP)**



**Figure 89. Other Household Lending Penetration, 1Q96-3Q10 (as % of GDP)**



**Figure 90. Ratio of Loans to Deposits, 1996-2010**

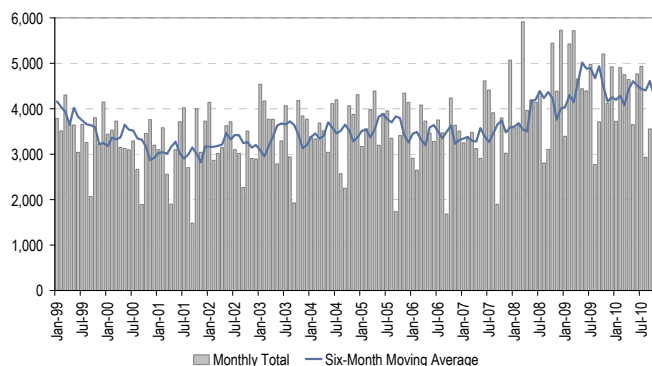


Source for all charts: Banque de France and CIRA

## Insolvencies and Debt

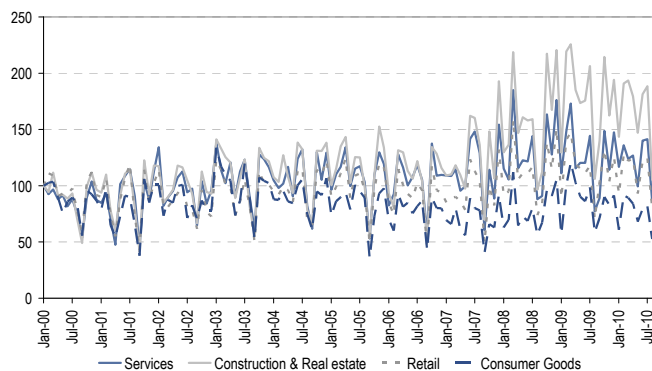
- Corporate insolvencies in October are down 4% yoy (6M moving average).
- Following a recent recovery, house prices in 3Q10 matched the previous high reached in 3Q08.

Figure 91. Corporate Insolvencies, 1999-2010 (Volume)



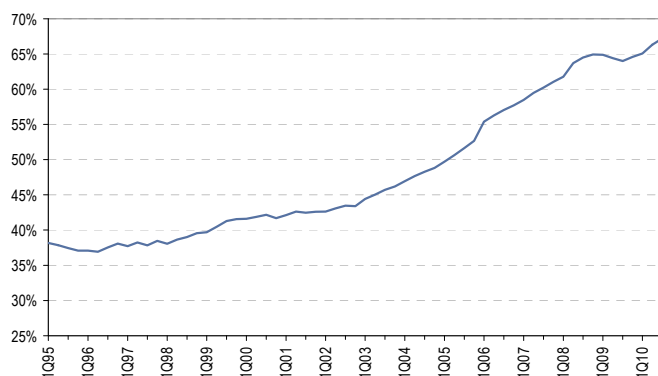
Source: INSEE

Figure 92. Corporate Bankruptcies, 2000-10 (Index: Jan 00 = 100)



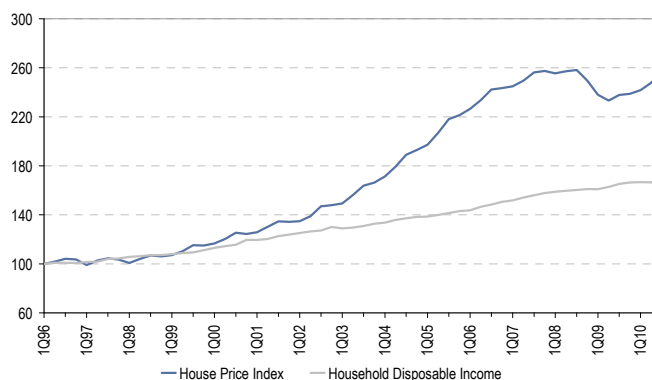
Source: INSEE

Figure 93. Household Lending to Disposable Income, 1Q95-3Q10



Source: DataStream and CIRA

Figure 94. House Price and Disposable Income Index, 1Q96-3Q10 (Jan 96 = 100)

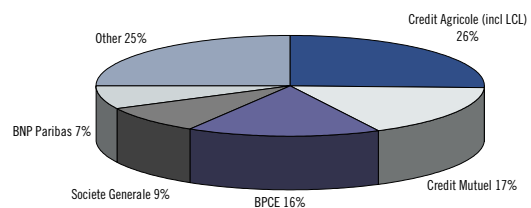


Source: DataStream and CIRA

## Market Shares

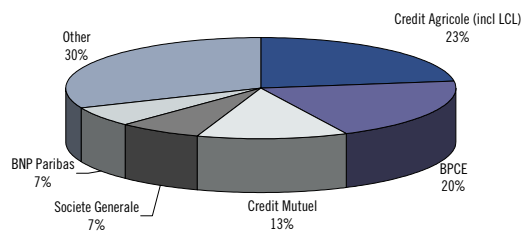
- France is a concentrated market, as the top five banks account for c75% of lending and c70% of the deposits.

**Figure 95. Lending Market Shares, 2009**



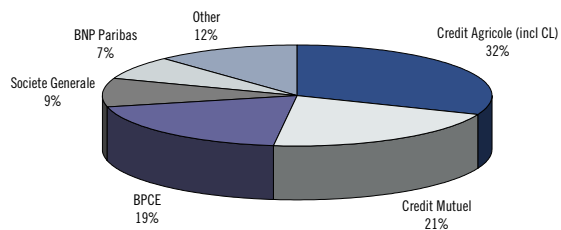
Source: BDF and CIRA. Note: SG includes CdN

**Figure 96. Deposits Market Shares, 2009**



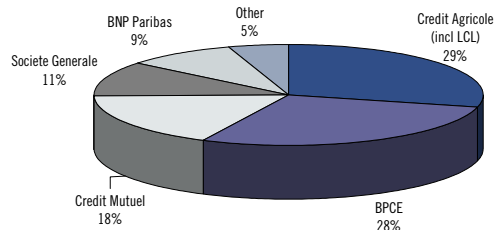
Source: BDF and CIRA. Note: SG includes CdN

**Figure 97. Mortgages Market Shares, 2009**



Source: BDF and CIRA. Note: SG includes CdN

**Figure 98. Branches Breakdown, 2009**

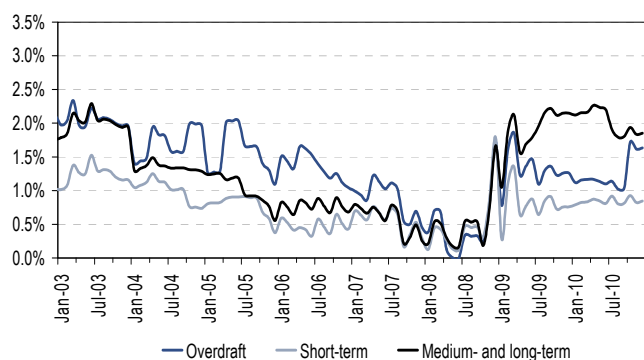


Source: BDF and CIRA. Note: SG includes CdN. Excludes Post Offices

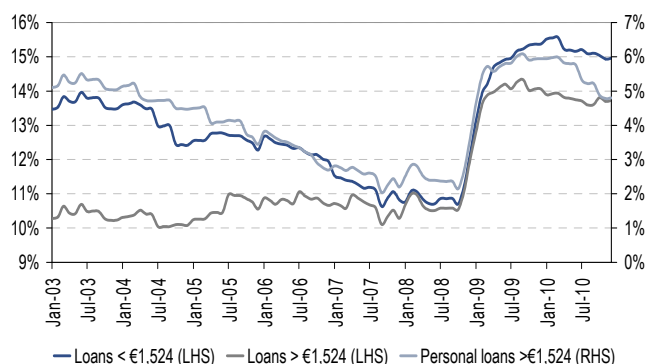
## Lending & Deposit Spreads

- NII and NIM have modestly improved as a favorable deposit mix shift has offset further pressure from lower reinvestment returns.

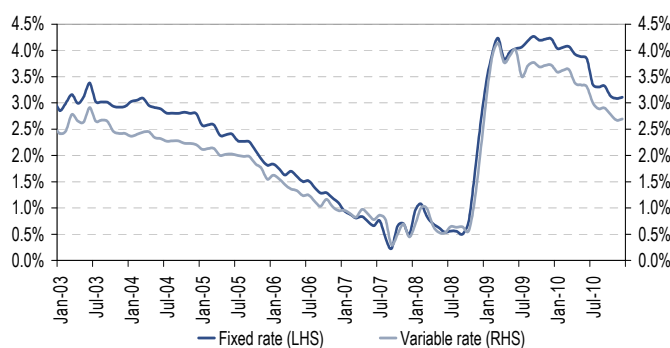
**Figure 99. Business Loan Spreads, 2003 - 2010**



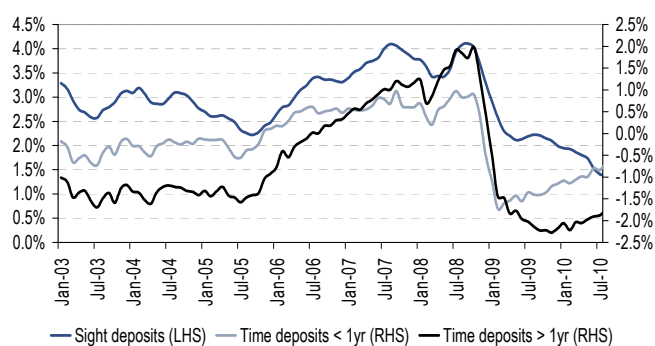
**Figure 100. Consumer Spreads, 2003 - 2010**



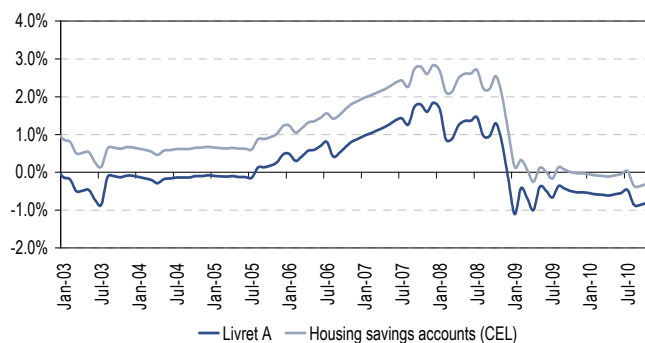
**Figure 101. Mortgage Spreads, 2003 - 2010**



**Figure 102. Deposit Spreads, 2003 - 2010**



**Figure 103. Regulated Deposit Spreads, 2003 - 2010**



Source for all charts: DataStream, Banque de France, CIRA estimates

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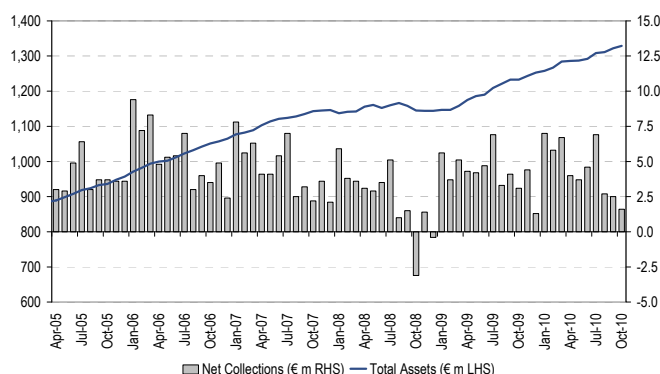
# **Insurance & Asset Management**

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## Life Insurance & Mutual Funds

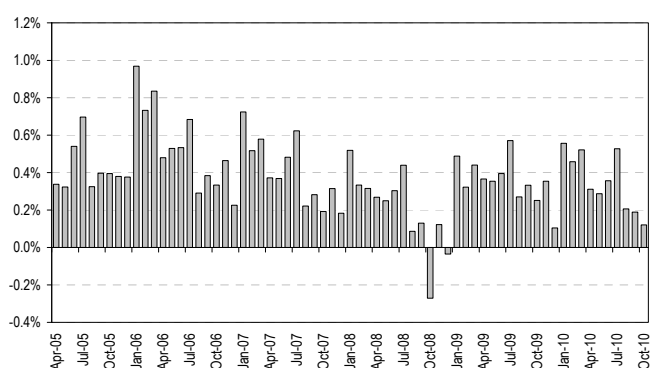
- In November 2010, life insurance assets grew c7% yoy, while ytd inflows were up 1%.

Figure 104. Life Insurance Total Assets and Net Inflows, 2005-10



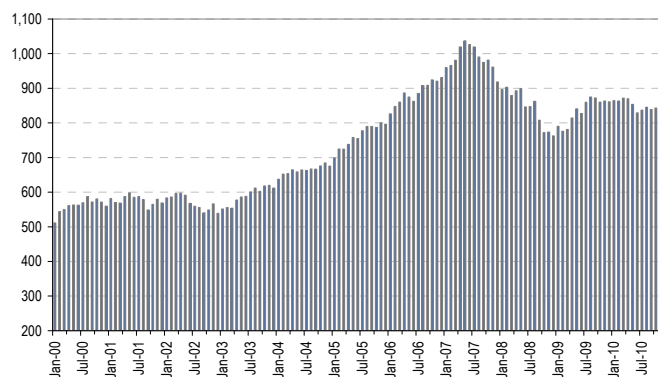
Source: FFSA

Figure 105. Life Insurance Net Inflows/ Total Assets, 2005-10



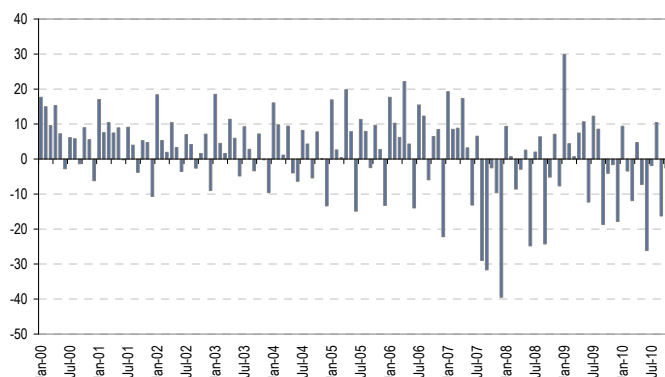
Source: FFSA

Figure 106. Stock of Mutual Fund Assets (Euros in Billions), Jan 00- Nov 10



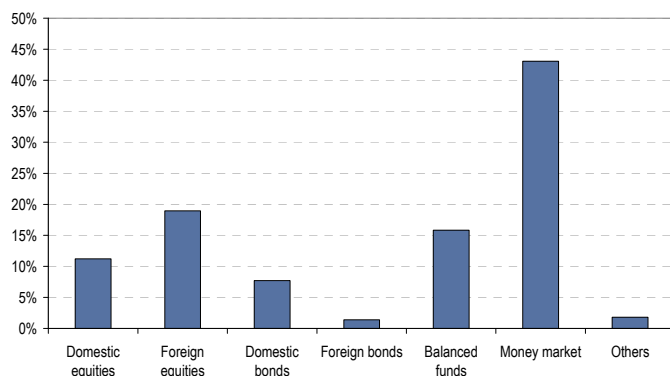
Source: Europerformance and CIRA

Figure 107. Flow of Mutual Fund Assets (Euros in Billions), Jan 00- Nov 10



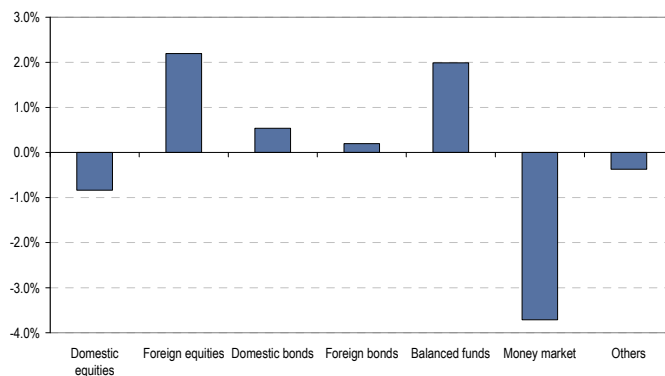
Source: Europerformance and CIRA

Figure 108. Asset Allocation as % of Total Assets, November 10



Source: Europerformance and CIRA

Figure 109. Change in Allocation % of Total Assets, Dec 09 vs Nov 10



Source: Europerformance and CIRA

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## **CIB and Markets**

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## Credit Indices and Spreads

- ABX AAA is up by 25% over 2010. It fell by 5% of 4Q10 but since mid-January has restabilised around 43%
- LCDX has increased by 2.4% over 4Q10.
- European corporate spreads widened over May and June 2010 from lows reached in April, but have since held flat.

**Figure 110. ABX Index, 2007-10 (Percentage)**



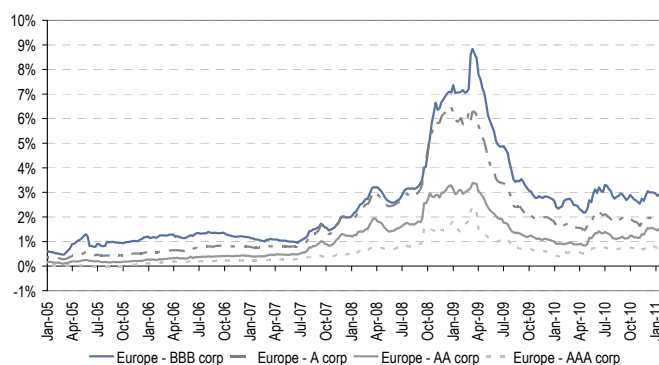
Source: Markit

**Figure 111. LCDX Index, 2008-10 (Percentage)**



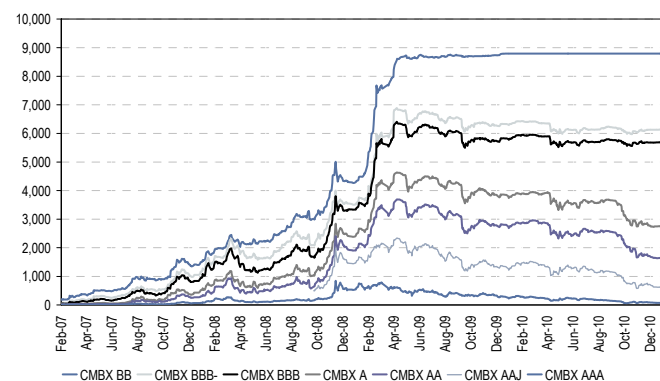
Source: Markit

**Figure 112. European Corporate Credit Spreads, 2005-11**



Source: DataStream and CIRA

**Figure 113. CMBX Index, 2006-10 (In Basis Points)**

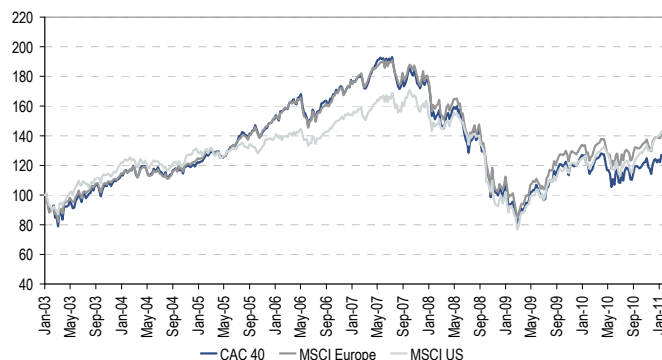


Source: Markit

## Equity Markets

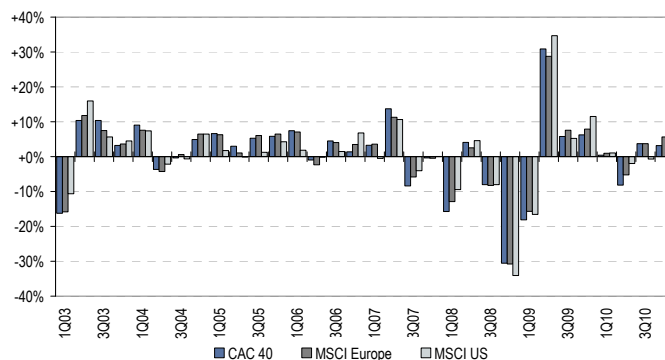
- The CAC 40 fell 3.3% yoy to end December 2010.
- DAX volatility index was down 1 point in 4Q10 and the VIX by 5.

**Figure 114. CAC 40 vs Selected Equity Markets, 2003-11**



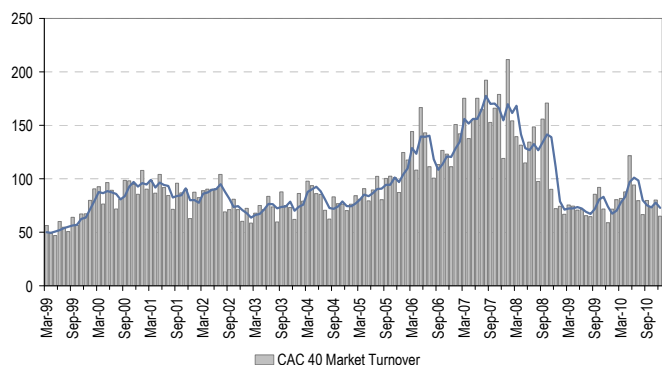
Source: DataStream and CIRA

**Figure 115. CAC 40 — Performance vs Selected Equity Markets, 2003-10**



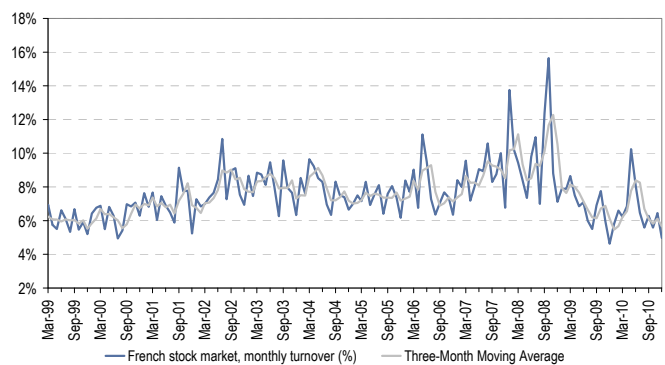
Source: DataStream and CIRA

**Figure 116. Equity Volumes (EUR bn), 1999-2010**



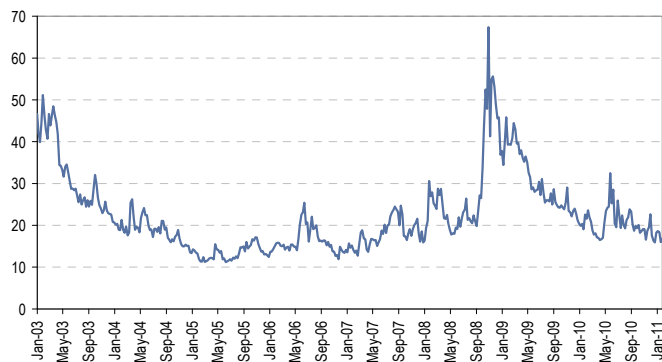
Source: DataStream and CIRA

**Figure 117. Equity Turnover as % of Market Capitalisation, 1999-2010**



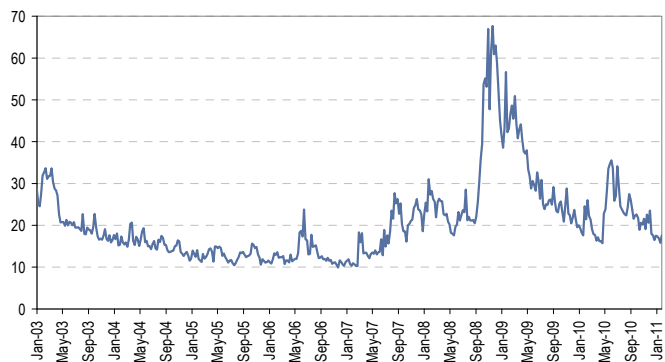
Source: DataStream and CIRA

**Figure 118. DAX Volatility Index, 2003-11**



Source: DataStream

**Figure 119. CBOE US Volatility Index (VIX), 2003-11**

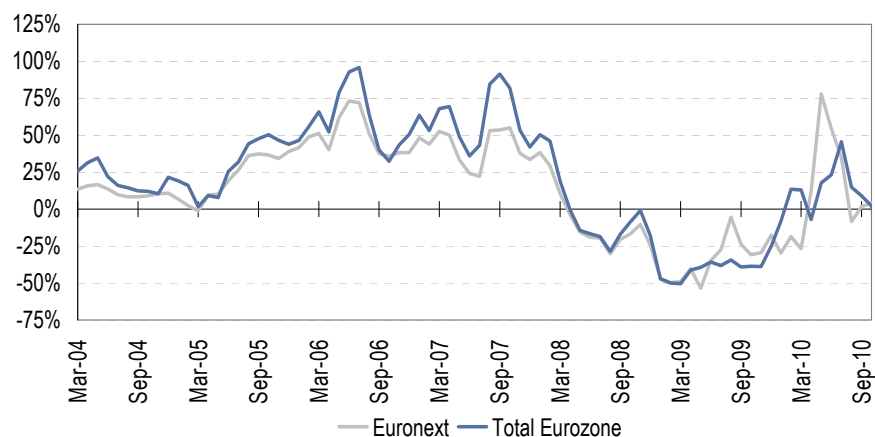


Source: DataStream

## Exchange Traded Derivatives

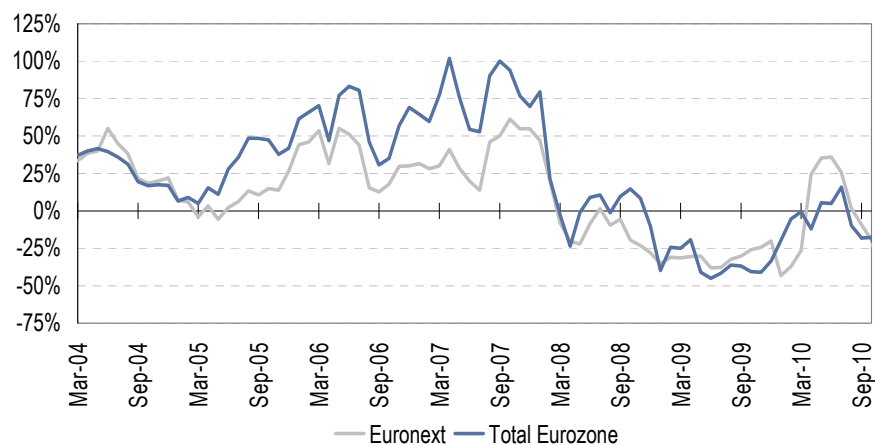
- Eurozone futures fell by 97% yoy in 4Q10, and Eurozone options fell by 91%.

**Figure 120. Exchange Traded Derivatives — Growth in Index Futures, 2004-10**  
(Percentage Change in 3-Month Volume)



Note: Total Eurozone includes Eurex, Euronext and Borsa Italiana.  
Source: CIRA and WFE

**Figure 121. Exchange Traded Derivatives — Growth in Index Options, 2004-10**  
(Percentage Change in 3-Month Volume)



Note: Total Eurozone includes Eurex, Euronext and Borsa Italiana.  
Source: CIRA and WFE

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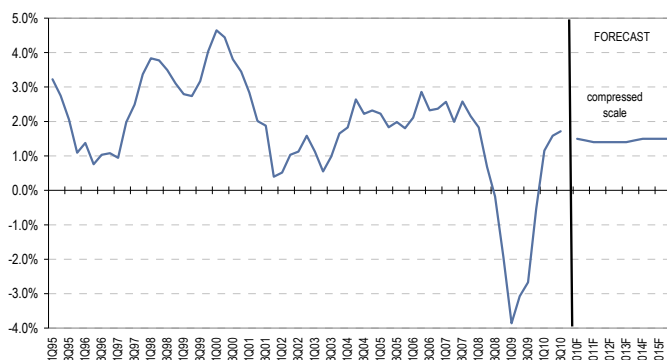
# The Economic Context

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## Macro Environment

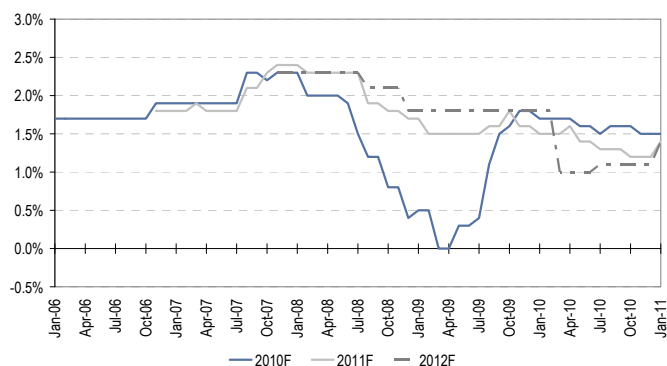
- French GDP growth is expected by Citi economists to reach +1.5% in 2010F, followed by 1.4% in 2011F and 1.4% in 2012F.
- Inflation in France increased by 1.8% in December, and is expected to increase by 2.1% in 2011.

Figure 122. GDP Growth, 1Q95-2015F



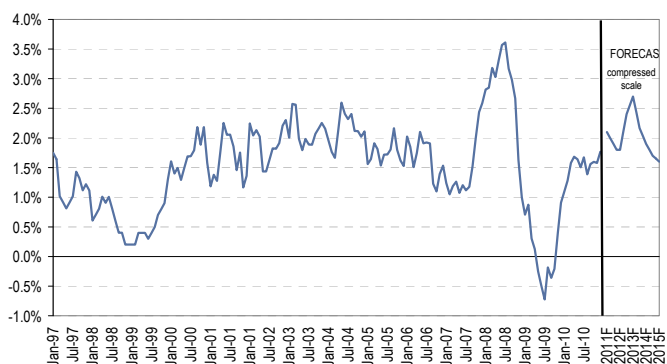
Source: DataStream and Citi Economists Forecasts

Figure 123. GDP Estimates Over Time, Jan 06-Jan 11



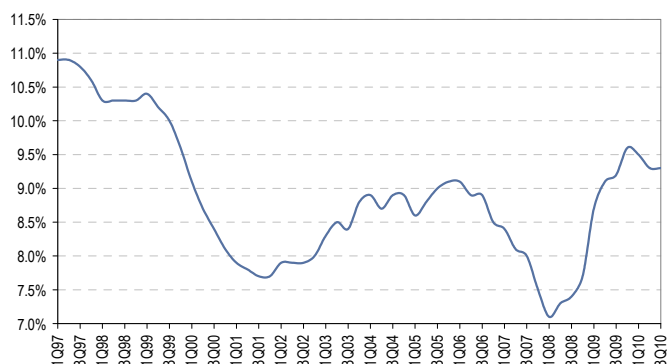
Source: Citi Economists Forecasts

Figure 124. Inflation, Jan 97-2015F



Source: DataStream and Citi Economists' Forecasts

Figure 125. Unemployment Rate (%), 1Q97-3Q10

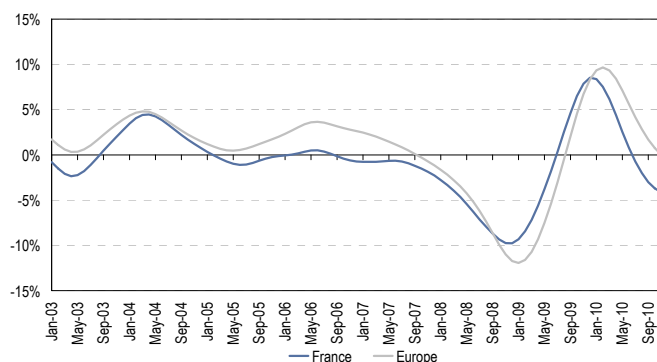


Source: INSEE

## Economic Outlook

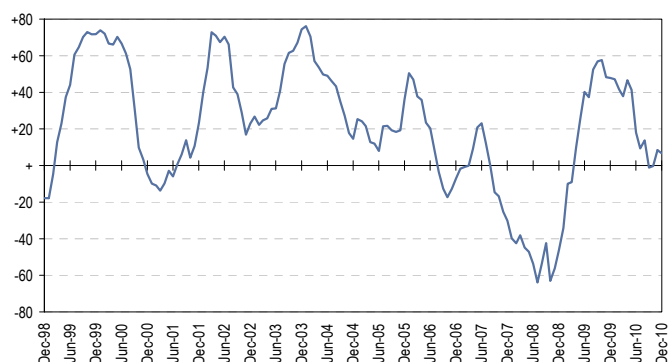
- The OECD leading indicator weakened to -4.1% in November from the December 09 peak of 8%.
- Consumer confidence in France was -0.7% in December, up from the June 2010 low of -1.9% for the year.

Figure 126. OECD Leading Indicator, 2003-10



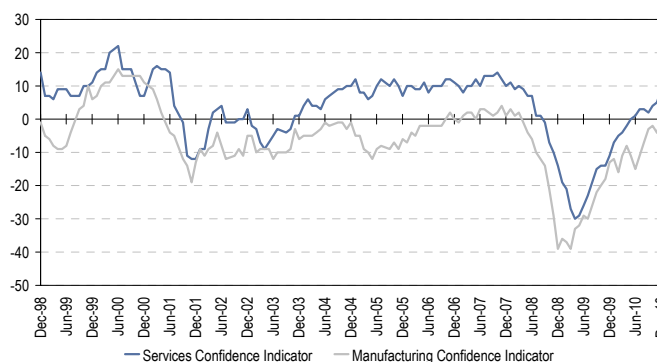
Source: DataStream. Note: 12 month change in index

Figure 127. Economic Sentiment Indicator, 1998-2010



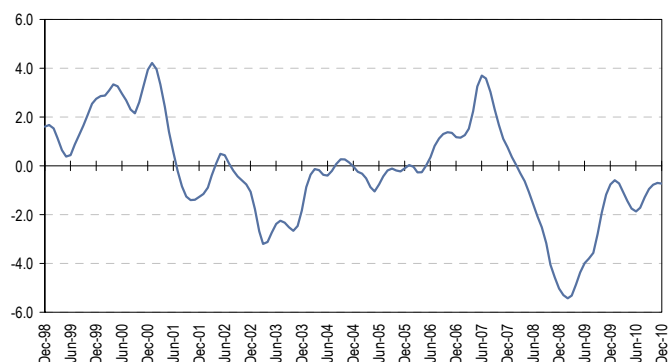
Source: DataStream

Figure 128. General Sector Indicator Survey, 1998-2010



Source: DataStream

Figure 129. Consumer Confidence Indicator, 1998-2010

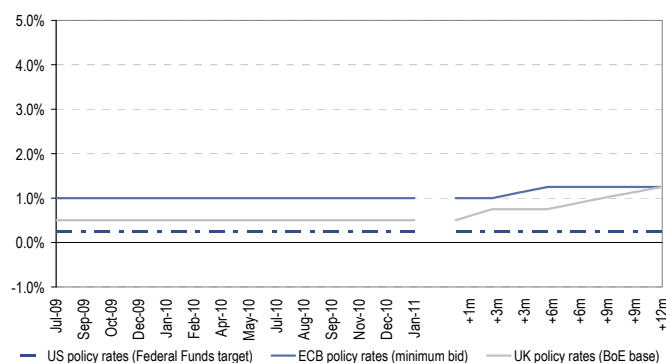


Source: DataStream

## Currency and Rates

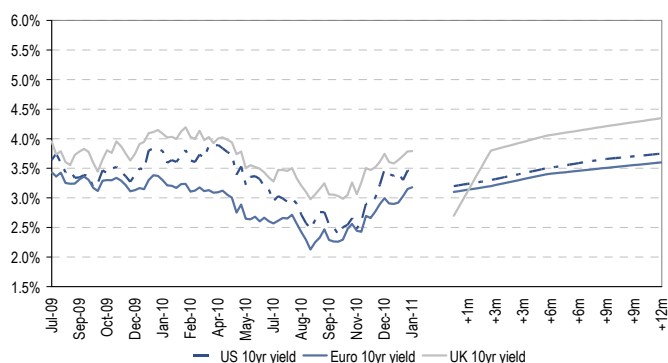
- The Euro ended the year around 1.36, approximately midway between its 2010 high of 1.45 and low of 1.19.

**Figure 130. Policy Rates, 2009-2011F**



Source: DataStream and Citi Economists Forecasts

**Figure 131. 10-Year Yields, 2009-2011F**



Source: DataStream and Citi Economists Forecasts

**Figure 132. Euro versus US\$, 2003-11**



Source: DataStream

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# Company Analysis

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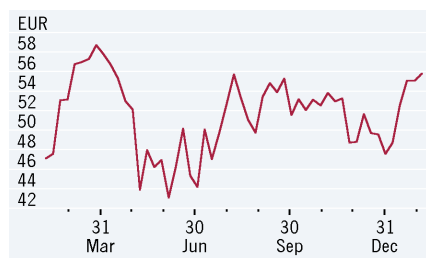


## Company Focus

- Company Update
- Estimate Change

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (04 Feb 11)	€55.81
Target price	€64.00
Expected share price return	14.7%
Expected dividend yield	3.7%
<b>Expected total return</b>	<b>18.4%</b>
Market Cap	€66,897M
	US\$90,887M

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



## BNP Paribas SA (BNPP.PA)

### Crisis 'Winner'

- **French Retail Slowdown** — BNP Paribas' French retail banking revenues should experience a further slowdown to c2% yoy in 4Q10, from c3% in 3Q10, partly driven by the ongoing increases in Livret A rates as well as rollover of ALM hedges (refer to section *Retail – Further Normalization* on page 10). Nonetheless, we expect the business to remain a strong 'cash cow'.
- **CIB Mixed Due to FICC** — BNP Paribas' FICC and Rates bias, in particular, should serve as a 'headwind' in 4Q10 driven by sovereign related-weakness in customer activity as well as the rising in long bond yields. However, Financing should fare better where BNP Paribas has gained market share through the crisis. Likewise, its leading equity derivatives franchise is unlikely to have been affected by the fall in volatility that hurt US banks (see section *Investment Banks Read Through* on page 12 for details) given French banks' 'long-term 'short' volatility position.
- **Further Provision Normalization** — The trend towards normalization across a number of businesses, including BancWest, Personal Finance and French Retail, should continue in 4Q10. The exception is likely to be BNL, where provisioning is likely to remain relatively high for longer.
- **Solid Performance and Dividend, Buy BNP Paribas** — BNP offers a combination of resilient-to-growing pre-provision earnings as well as a normalizing provisioning outlook. Looking ahead, BNP Paribas remains well positioned to benefit from stable earnings from French retail market, while its international operations, through asset gathering, retail and wholesale, offer growth potential. BNP Paribas trades at 1.3x P/TB for a 14% 2012E RoTCE. We expect the bank to pay a 2010 dividend of c€2, up 32% YoY. We reiterate our Buy (1M) rating on BNP Paribas and maintain our target price of €64.

### BNP Paribas SA (EUR)

Year to 31 Dec	2008A	2009A	2010E	2011E	2012E
Net Income (€M)	3,021.0	5,832.0	7,577.3	8,385.2	9,317.2
Diluted EPS (€)	3.32	5.51	6.35	6.98	7.76
Diluted EPS (Old) (€)	3.32	5.51	6.62	7.24	8.01
PE (x)	16.8	10.1	8.8	8.0	7.2
P/BV (x)	1.2	1.1	1.1	1.0	0.9
DPS (€)	0.97	1.50	2.00	2.30	2.56
Net Div Yield (%)	1.7	2.7	3.6	4.1	4.6
ROE (%)	5.6	9.5	11.1	11.6	11.8

# BNP Paribas

We broadly maintain our 2011-12E net profit expectations. Our EPS forecasts (including hybrid funding) are lowered (-4% in 2010E, -4% in 2011E, -3% in 2012E), reflecting the new accounting treatment of the cost of subordinated debt, which is not accounted for in the P&L accounts.

Figure 133. BNPP – Changes to Our Financial Forecasts, 2010E-12E (Euros in Millions)

	2010E Old	2010E New	Change	2011E Old	2011E New	Change	2012E Old	2012E New	Change
<b>Revenues</b>	<b>44,014</b>	<b>43,975</b>	<b>0%</b>	<b>45,334</b>	<b>45,279</b>	<b>0%</b>	<b>47,595</b>	<b>47,539</b>	<b>0%</b>
Costs	-26,228	-26,252	0%	-26,516	-26,483	0%	-27,239	-27,205	0%
<b>Profit Before Loan Losses</b>	<b>17,786</b>	<b>17,723</b>	<b>0%</b>	<b>18,818</b>	<b>18,796</b>	<b>0%</b>	<b>20,356</b>	<b>20,333</b>	<b>0%</b>
Loan Losses	-4,849	-4,834	0%	-4,381	-4,381	0%	-4,024	-4,024	0%
<b>Profit before tax</b>	<b>12,936</b>	<b>12,889</b>	<b>0%</b>	<b>14,437</b>	<b>14,415</b>	<b>0%</b>	<b>16,332</b>	<b>16,310</b>	<b>0%</b>
Associate income	433	432	0%	303	302	0%	308	307	0%
Tax	-4,181	-4,167	0%	-4,608	-4,601	0%	-5,402	-5,395	0%
Minorities	-1,287	-1,287	0%	-1,441	-1,441	0%	-1,614	-1,614	0%
<b>Net profit (attributable)</b>	<b>7,902</b>	<b>7,867</b>	<b>0%</b>	<b>8,691</b>	<b>8,675</b>	<b>0%</b>	<b>9,623</b>	<b>9,607</b>	<b>0%</b>
EPS - incl hybrid funding (€)	6.63	6.36	-4%	7.25	7.00	-4%	8.03	7.77	-3%
EPS - excl hybrid funding (€)	6.63	6.60	0%	7.25	7.24	0%	8.03	8.02	0%
EPS - diluted, incl hybrid funding (€)	6.62	6.35	-4%	7.24	6.98	-4%	8.01	7.76	-3%

Source: Citi Investment Research and Analysis

Figure 134. BNPP – Quarterly Profit & Loss Account, 1Q08-4Q10E

€ m	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10E
<b>Total operating income</b>	<b>7,395</b>	<b>7,517</b>	<b>7,614</b>	<b>4,850</b>	<b>9,477</b>	<b>9,993</b>	<b>10,663</b>	<b>10,058</b>	<b>11,530</b>	<b>11,174</b>	<b>10,856</b>	<b>10,415</b>
Total operating expenses	-4,605	-4,852	-4,635	-4,308	-5,348	-5,818	-6,037	-6,137	-6,596	-6,414	-6,620	-6,622
<b>Operating profit pre provisions</b>	<b>2,790</b>	<b>2,665</b>	<b>2,979</b>	<b>542</b>	<b>4,129</b>	<b>4,175</b>	<b>4,626</b>	<b>3,921</b>	<b>4,934</b>	<b>4,760</b>	<b>4,236</b>	<b>3,793</b>
Credit loss expense	-546	-662	-1,992	-2,552	-1,826	-2,345	-2,300	-1,898	-1,337	-1,081	-1,222	-1,194
<b>Profit before tax</b>	<b>2,244</b>	<b>2,003</b>	<b>987</b>	<b>-2,010</b>	<b>2,303</b>	<b>1,830</b>	<b>2,326</b>	<b>2,023</b>	<b>3,597</b>	<b>3,679</b>	<b>3,014</b>	<b>2,599</b>
Associate income	430	72	156	42	-13	340	119	72	243	-3	137	55
Tax	-570	-446	-101	645	-658	-376	-918	-574	-1,188	-1,248	-951	-780
Minorities & Hybrids	-123	-124	-141	-43	-74	-190	-222	-156	-369	-323	-295	-300
<b>Net profit (attributable)</b>	<b>1,981</b>	<b>1,505</b>	<b>901</b>	<b>-1,366</b>	<b>1,558</b>	<b>1,604</b>	<b>1,305</b>	<b>1,365</b>	<b>2,283</b>	<b>2,105</b>	<b>1,905</b>	<b>1,574</b>

Source: Company Reports and CIRA Estimates

Figure 135. BNPP — Group Profit and Loss Account by Year

€ m	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
Net interest income	13,498	+39%	21,021	+56%	22,072	+5%	23,176	+5%	24,334	+5%
Net fee & commission income	5,859	-7%	7,467	+27%	8,139	+9%	8,872	+9%	9,670	+9%
Net trading income	3,157	-69%	5,649	+79%	5,931	+5%	6,228	+5%	6,539	+5%
Net insurance income	3,130	+118%	1,282	-59%	1,530	+19%	1,729	+13%	1,915	+11%
Other income	1,732	-46%	4,772	+176%	6,302	+32%	5,275	-16%	5,080	-4%
<b>Total operating income</b>	<b>27,376</b>	<b>-12%</b>	<b>40,191</b>	<b>+47%</b>	<b>43,975</b>	<b>+9%</b>	<b>45,279</b>	<b>+3%</b>	<b>47,539</b>	<b>+5%</b>
Total operating expenses	-18,400	-2%	-23,340	+27%	-26,252	+12%	-26,483	+1%	-27,205	+3%
<b>Operating profit pre provisions</b>	<b>8,976</b>	<b>-27%</b>	<b>16,851</b>	<b>+88%</b>	<b>17,723</b>	<b>+5%</b>	<b>18,796</b>	<b>+6%</b>	<b>20,333</b>	<b>+8%</b>
Credit loss expense	-5,752	+233%	-8,369	+45%	-4,834	-42%	-4,381	-9%	-4,024	-8%
<b>Profit before tax</b>	<b>3,224</b>	<b>-69%</b>	<b>8,482</b>	<b>+163%</b>	<b>12,889</b>	<b>+52%</b>	<b>14,415</b>	<b>+12%</b>	<b>16,310</b>	<b>+13%</b>
Associate income	217	-39%	518	+139%	432	-17%	302	-30%	307	+2%
Tax	-472	-83%	-2,526	+435%	-4,167	+65%	-4,601	+10%	-5,395	+17%
Minorities & Hybrids	-431	-12%	-642	+49%	-1,287	+100%	-1,441	+12%	-1,614	+12%
<b>Net profit (attributable)</b>	<b>3,021</b>	<b>-61%</b>	<b>5,832</b>	<b>+93%</b>	<b>7,867</b>	<b>+35%</b>	<b>8,675</b>	<b>+10%</b>	<b>9,607</b>	<b>+11%</b>
<b>PER SHARE FIGURES</b>										
EPS - incl hybrid funding	3.32	-61%	5.51	+66%	6.36	+15%	7.00	+10%	7.77	+11%
<b>EPS - excl hybrid funding</b>	<b>3.32</b>	<b>-61%</b>	<b>5.51</b>	<b>+66%</b>	<b>6.60</b>	<b>+20%</b>	<b>7.24</b>	<b>+10%</b>	<b>8.02</b>	<b>+11%</b>
Dividend per share	0.97	-70%	1.50	+55%	2.00	+33%	2.30	+15%	2.56	+11%
Payout Ratio	0.29	nm	0.27	nm	0.32	nm	0.33	nm	0.33	nm
<b>Book value per share</b>	<b>46.82</b>	<b>-10%</b>	<b>51.85</b>	<b>+11%</b>	<b>53.12</b>	<b>+2%</b>	<b>58.36</b>	<b>+10%</b>	<b>64.07</b>	<b>+10%</b>
Tangible Book Value per share	32.87	+0%	40.73	+0%	41.32	+0%	46.56	+0%	52.27	+0%
Diluted (period avg, m)	909	-1%	1,059	+17%	1,194	+13%	1,201	+1%	1,201	+0%
<b>OPERATING RATIOS</b>										
Net interest margin	0.72%		1.02%		1.05%		1.05%		1.04%	
<b>Cost / income ratio</b>	<b>67%</b>		<b>58%</b>		<b>60%</b>		<b>58%</b>		<b>57%</b>	
<b>Provision charge / customer loans</b>	<b>1.17%</b>		<b>1.33%</b>		<b>0.74%</b>		<b>0.63%</b>		<b>0.55%</b>	
NPL ratio	3.3%		5.0%		5.5%		5.2%		4.9%	
Coverage ratio	87.2%		81.1%		77.2%		83.3%		88.9%	
<b>Return on Tangible Equity</b>	<b>9.3%</b>		<b>14.9%</b>		<b>16.1%</b>		<b>16.5%</b>		<b>16.2%</b>	
<b>BALANCE SHEET ITEMS</b>										
Total Assets	2,075,551	+22%	2,057,698	-1%	2,140,006	+4%	2,268,406	+6%	2,404,511	+6%
<b>Gross customer loans</b>	<b>507,814</b>	<b>+14%</b>	<b>652,900</b>	<b>+29%</b>	<b>685,545</b>	<b>+5%</b>	<b>726,678</b>	<b>+6%</b>	<b>770,278</b>	<b>+6%</b>
Customer deposits	413,955	+19%	604,903	+46%	617,001	+2%	654,021	+6%	693,262	+6%
Loan / deposit ratio	119%	0%	104%	0%	106%	0%	106%	0%	106%	0%
<b>Shareholders equity excl minorities</b>	<b>53,228</b>	<b>-1%</b>	<b>69,501</b>	<b>+31%</b>	<b>71,695</b>	<b>+3%</b>	<b>77,974</b>	<b>+9%</b>	<b>84,820</b>	<b>+9%</b>
<b>CAPITAL RATIOS</b>										
Risk-Weighted Assets	535,000	+11%	620,700	+16%	614,080	-1%	644,784	+5%	677,023	+5%
Tier 1 capital	41,799	+15%	62,900	+50%	69,244	+10%	75,056	+8%	81,493	+9%
Equity Tier 1	29,000	+6%	49,600	+71%	55,764	+12%	61,656	+11%	68,093	+10%
Total capital	59,499	+11%	88,198	+48%	94,029	+7%	99,841	+6%	106,278	+6%
<b>Tier 1 ratio</b>	<b>7.8%</b>	<b>+3%</b>	<b>10.1%</b>	<b>+30%</b>	<b>11.3%</b>	<b>+11%</b>	<b>11.6%</b>	<b>+3%</b>	<b>12.0%</b>	<b>+3%</b>
Total ratio	11.1%	-0%	14.2%	+28%	15.3%	+8%	15.5%	+1%	15.7%	+1%
<b>Core Tier 1 ratio</b>	<b>5.4%</b>		<b>8.0%</b>		<b>9.1%</b>		<b>9.6%</b>		<b>10.1%</b>	
T1 capital to assets	2.0%		3.1%		3.2%		3.3%		3.4%	

Source: Company Reports and CIRA Estimates

Figure 136. BNPP — Divisional Profit and Loss Account by Year

€ m	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
<b>FRENCH RETAIL BANKING</b>										
Total operating income	5,717	-0%	6,247	+9%	6,608	+6%	6,641	+1%	6,823	+3%
Total operating expenses	-3,868	+1%	-4,249	+11%	-4,411	+4%	-4,433	+1%	-4,510	+2%
<b>Operating profit pre provisions</b>	<b>1,849</b>	<b>-3%</b>	<b>1,998</b>	<b>+5%</b>	<b>2,197</b>	<b>+10%</b>	<b>2,208</b>	<b>+1%</b>	<b>2,313</b>	<b>+5%</b>
Provisions	-203	+28%	-515	+226%	-462	-10%	-461	-0%	-449	-3%
<b>Pre-tax Profit</b>	<b>1,647</b>	<b>-6%</b>	<b>1,484</b>	<b>-15%</b>	<b>1,736</b>	<b>+17%</b>	<b>1,748</b>	<b>+1%</b>	<b>1,864</b>	<b>+7%</b>
Cost/income ratio	68%		68%		67%		67%		66%	
<b>INTERNATIONAL RETAIL BANKING &amp; FINANCIAL SERVICES</b>										
Total operating income	8,782	10%	9,549	9%	10,709	12%	11,146	4%	11,834	6%
Total operating expenses	-5,033	9%	-5,169	3%	-5,759	11%	-5,960	3%	-6,216	4%
<b>Operating profit pre provisions</b>	<b>3,749</b>	<b>13%</b>	<b>4,380</b>	<b>17%</b>	<b>4,950</b>	<b>13%</b>	<b>5,186</b>	<b>5%</b>	<b>5,618</b>	<b>8%</b>
Provisions	-2,378	94%	-4,309	81%	-3,072	-29%	-2,442	-20%	-2,209	-10%
<b>Operating pre-tax Profit</b>	<b>1,371</b>	<b>-35%</b>	<b>71</b>	<b>-95%</b>	<b>1,878</b>	<b>+2545%</b>	<b>2,744</b>	<b>+46%</b>	<b>3,409</b>	<b>+24%</b>
Non Operating Items	342	+98%	102	-70%	100	-2%	100	+0%	105	+5%
<b>Pre-tax Profit</b>	<b>1,713</b>	<b>-25%</b>	<b>173</b>	<b>-90%</b>	<b>1,978</b>	<b>+1043%</b>	<b>2,845</b>	<b>+44%</b>	<b>3,514</b>	<b>+24%</b>
Cost/income ratio	57%		54%		54%		53%		53%	
<b>BNL bc</b>										
Total operating income	2,775	6%	2,975	7%	3,017	1%	3,077	2%	3,200	4%
Total operating expenses	-1,737	1%	-1,780	2%	-1,767	-1%	-1,785	1%	-1,838	3%
<b>Operating profit pre provisions</b>	<b>1,038</b>	<b>17%</b>	<b>1,195</b>	<b>15%</b>	<b>1,250</b>	<b>5%</b>	<b>1,292</b>	<b>3%</b>	<b>1,362</b>	<b>5%</b>
Provisions	-411	29%	-671	63%	-825	23%	-813	-12%	-768	0%
<b>Operating pre-tax Profit</b>	<b>627</b>	<b>11%</b>	<b>524</b>	<b>-16%</b>	<b>424</b>	<b>-19%</b>	<b>480</b>	<b>13%</b>	<b>594</b>	<b>24%</b>
Non Operating Items	1	N/M	0	-100%	-2	NM	-2	0%	-2	0%
<b>Pre-tax Profit</b>	<b>628</b>	<b>11%</b>	<b>524</b>	<b>-17%</b>	<b>422</b>	<b>-19%</b>	<b>478</b>	<b>13%</b>	<b>592</b>	<b>24%</b>
Cost/income ratio	63%		60%		59%		58%		57%	
<b>BELUX RETAIL BANKING</b>										
Total operating income			1,931		3,253	68%	3,318	2%	3,418	3%
Total operating expenses			-1,444		-2,311	60%	-2,273	-2%	-2,249	-1%
<b>Operating profit pre provisions</b>			<b>487</b>		<b>942</b>	<b>93%</b>	<b>1,045</b>	<b>11%</b>	<b>1,169</b>	<b>12%</b>
Provisions			-352		-224	-36%	-221	0%	-204	-10%
<b>Operating pre-tax Profit</b>			<b>135</b>		<b>718</b>	<b>432%</b>	<b>824</b>	<b>15%</b>	<b>965</b>	<b>17%</b>
Non Operating Items			-4		12	-400%	12	0%	12	0%
<b>Pre-tax Profit</b>			<b>131</b>		<b>730</b>	<b>457%</b>	<b>836</b>	<b>15%</b>	<b>977</b>	<b>17%</b>
Cost/income ratio			75%		71%		69%		66%	
<b>ASSET MANAGEMENT AND SERVICES</b>										
Total operating income	4,935	-7%	5,363	9%	6,041	13%	6,578	9%	7,295	11%
Total operating expenses	-3,423	2%	-3,835	12%	-4,303	12%	-4,595	7%	-4,952	8%
<b>Operating profit pre provisions</b>	<b>1,512</b>	<b>-23%</b>	<b>1,528</b>	<b>1%</b>	<b>1,738</b>	<b>14%</b>	<b>1,983</b>	<b>14%</b>	<b>2,343</b>	<b>18%</b>
Provisions	-207	N/M	-41	N/M	19	N/M	0		0	
<b>Operating pre-tax Profit</b>	<b>1,305</b>	<b>-33%</b>	<b>1,487</b>	<b>14%</b>	<b>1,757</b>	<b>18%</b>	<b>1,983</b>	<b>13%</b>	<b>2,343</b>	<b>18%</b>
Non Operating Items	5	-81%	-24	-580%	114	-575%	84	-26%	84	0%
<b>Pre-tax Profit</b>	<b>1,310</b>	<b>-34%</b>	<b>1,463</b>	<b>12%</b>	<b>1,871</b>	<b>28%</b>	<b>2,067</b>	<b>10%</b>	<b>2,427</b>	<b>17%</b>
Cost/income ratio	69%		72%		71%		70%		68%	
<b>CORPORATE AND INVESTMENT BANKING</b>										
Total operating income	4,973	-40%	13,497	171%	11,907	-12%	12,539	5%	13,260	6%
Total operating expenses	-3,711	-22%	-6,174	66%	-6,325	2%	-6,578	4%	-6,841	4%
<b>Operating profit pre provisions</b>	<b>1,262</b>	<b>-64%</b>	<b>7,323</b>	<b>480%</b>	<b>5,582</b>	<b>-24%</b>	<b>5,961</b>	<b>7%</b>	<b>6,419</b>	<b>8%</b>
Provisions	-2,477	8746%	-2,473	0%	-293	-88%	-444	52%	-394	-11%
<b>Operating pre-tax Profit</b>	<b>-1,215</b>	<b>-135%</b>	<b>4,850</b>	<b>-499%</b>	<b>5,289</b>	<b>9%</b>	<b>5,517</b>	<b>4%</b>	<b>6,024</b>	<b>9%</b>
Non Operating Items	26	-73%	16	-38%	42	163%	28	-33%	28	0%
<b>Pre-tax Profit</b>	<b>-1,189</b>	<b>-133%</b>	<b>4,866</b>	<b>-509%</b>	<b>5,331</b>	<b>10%</b>	<b>5,545</b>	<b>4%</b>	<b>6,052</b>	<b>9%</b>
Cost/income ratio	75%		46%		53%		52%		52%	
<b>CORPORATE CENTRE AND OTHER ACTIVITIES</b>										
Total operating income	194	-82%	629	224%	2,440	NA	1,980	0%	1,709	0%
Total operating expenses	-628	47%	-689	10%	-1,375	100%	-860	-37%	-599	7%
<b>Operating profit pre provisions</b>	<b>-434</b>	<b>-164%</b>	<b>-60</b>	<b>-86%</b>	<b>1,065</b>	<b>-1875%</b>	<b>1,120</b>	<b>5%</b>	<b>1,110</b>	<b>NM</b>
Provisions	-76	-643%	-8	NM	23	NM	0	NM	0	NM
<b>Operating pre-tax Profit</b>	<b>-510</b>	<b>-173%</b>	<b>-68</b>	<b>-87%</b>	<b>1,088</b>	<b>-1700%</b>	<b>1,120</b>	<b>3%</b>	<b>1,110</b>	<b>NM</b>
Non Operating Items	325	53%	427	31%	165	-61%	80	-52%	80	0%
<b>Pre-tax Profit</b>	<b>-185</b>	<b>-120%</b>	<b>359</b>	<b>-294%</b>	<b>1,253</b>	<b>249%</b>	<b>1,200</b>	<b>-4%</b>	<b>1,190</b>	<b>NM</b>
Cost/income ratio	324%		110%		56%		43%		35%	

Source: Company Reports and CIRA Estimates

## **BNP Paribas SA**

### **Investment strategy**

We rate BNP Paribas as Buy/Medium Risk (1M). We believe the bank has an attractive franchise and is benefiting from good growth in its retail and corporate franchises. We believe management has been strategically bold and also sensible in capital management. The bank's domestic French retail network is focused on urban, affluent clients. The bank also has rapidly growing franchises in retail banking overseas, specialised financial services such as consumer credit, and a successful bancassurance and asset-gathering franchise. In wholesale banking, BNPP is a leader in European fixed income and has a strong global equity derivatives franchise.

### **Valuation**

We use a two-stage dividend discount model (DDM) to value BNPP, including the present value of 2009-13E dividends and a terminal value assuming zero growth at the sustainable RoE. We use a Cost of Equity of 10.8% 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 BNPP's historical trading range and growth prospects. We set our target price at €64 on this basis.

### **Risks**

We rate BNP Paribas as Medium Risk based on our assessment of industry- and company-specific risks. The following risks may impede the shares from achieving our target price:

Credit risks are low, but BNPP financial performance would suffer if the credit risk cycle turned down again.

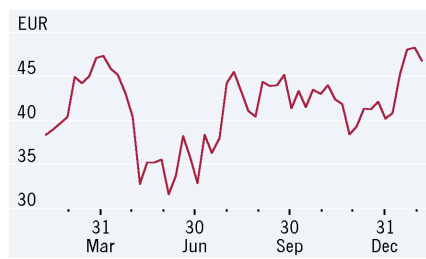
Wholesale banking accounts for approximately one-third of the revenues and capital of BNP Paribas, and the bank may be exposed to downturns in several of its key market segments.

## Company Focus

- Company Update
- Estimate Change

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (04 Feb 11)	€46.81
Target price	€62.00
Expected share price return	32.5%
Expected dividend yield	4.3%
<b>Expected total return</b>	<b>36.8%</b>
Market Cap	€34,936M
	US\$47,464M

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



## Societe Generale (SOGN.PA)

### Pulling the Emerging and Legacy Levers

- **Emerging Markets at a Reasonable Price** — Beyond recent geopolitical concerns in some of its North African franchise, which we believe are manageable, SocGen remains well positioned in attractive markets. Its Czech business is delivering reliable high-teen returns, SG Russia offers loan growth, rapidly falling provision charges and cost reduction opportunities, while African markets offer a lot of room for profitable growth. Refer to our recent report [Societe Generale - Emerging Growth At Reasonable Price](#), 24 January for further detail.
- **French Retail Cash Cow** — Similar to other French retail networks, revenue should decelerate (see section *Retail – Further Normalization* on page 10). This should be partly offset by the integration of Societe Marseillaise de Credit, in the short term. With provision charges continuing to decrease and costs growing slower than revenue due to ongoing back-office consolidation, French retail should continue to offer reliable returns.
- **CIB Mixed in 4Q** — Like its peers, SocGen's FICC business will have suffered from sovereign related-weakness in customer activity as well as the rising in long bond yields. However, we believe SocGen's equities franchise will have held up better, unlike some US banks, as it is driven by its bias to structured products as well as long-term short position in volatility (see paragraph *Investment Banks Read Through* on page 12 for details).
- **Legacy Assets** — Basel 3 mitigation could be higher than the 40bps previously indicated, implying targeted core T1 ratios higher than the 7.5% (start-2013) & 8.5% (end-2013). This would be partly driven by more aggressive reduction of legacy asset exposures, supported by rising risk assets prices. This could free up more capital than previously planned, thereby reducing capital adequacy concerns (see section 2. *Deleveraging Potential* on page 3 for more details).
- **Reiterate Buy, Top 5 Pick** — SocGen is well positioned in attractive Emerging Markets, French Retail remains a cash cow, the CIB business should benefit from its equities bias while the legacy portfolio may see faster-than-expected deleveraging. Societe Generale trades at 1.1x P/TB for a 15% 2012E RoTCE and is in our Top 5 Eurobanks. We reiterate our Buy (1M) rating on SocGen and maintain our target price of €62.

#### Societe Generale (EUR)

Year to 31 Dec	2008A	2009A	2010E	2011E	2012E
Net Income (€M)	2,010.0	679.0	3,497.1	4,541.5	5,722.6
Diluted EPS (€)	3.68	1.01	4.82	6.23	7.85
Diluted EPS (Old) (€)	3.68	1.01	5.26	6.78	8.31
PE (x)	12.7	46.2	9.7	7.5	6.0
P/BV (x)	0.8	1.0	0.9	0.8	0.7
DPS (€)	1.20	0.25	1.50	2.18	2.75
Net Div Yield (%)	2.6	0.5	3.2	4.7	5.9
ROE (%)	6.9	2.0	10.5	12.2	12.7

# Société Générale

We broadly maintain our 2011-12E net profit expectations. Our EPS forecasts (including hybrid funding) are lowered (-8% in 2010E, -8% in 2011E, -5% in 2012E), reflecting the new accounting treatment of the cost of subordinated debt, which is not accounted for in the P&L accounts.

Figure 137. SocGen – Changes to our Financial Forecasts, 2010E-2012E

€m	2010E Old	2010E New	Change	2011E Old	2011E New	Change	2012E Old	2012E New	Change
Revenues	25,849	25,888	0%	27,490	27,514	0%	29,482	29,511	0%
Costs	-16,224	-16,259	0%	-16,999	-17,037	0%	-17,946	-17,988	0%
<b>Profit before loan losses</b>	<b>9,625</b>	<b>9,629</b>	<b>0%</b>	<b>10,492</b>	<b>10,477</b>	<b>0%</b>	<b>11,535</b>	<b>11,523</b>	<b>0%</b>
Loan Losses	-4,061	-4,046	0%	-3,141	-3,128	0%	-2,559	-2,548	0%
<b>Operating profit before tax</b>	<b>5,564</b>	<b>5,583</b>	<b>0%</b>	<b>7,351</b>	<b>7,349</b>	<b>0%</b>	<b>8,977</b>	<b>8,975</b>	<b>0%</b>
<b>Net profit (attributable)</b>	<b>3,814</b>	<b>3,832</b>	<b>0%</b>	<b>4,943</b>	<b>4,877</b>	<b>0%</b>	<b>6,053</b>	<b>6,058</b>	<b>0%</b>
EPS - incl hybrid funding (€)	5.28	4.84	-8%	6.82	6.26	-8%	8.35	7.89	-5%
EPS - excl hybrid funding (€)	5.26	5.31	1%	6.78	6.73	-1%	8.31	8.35	1%
EPS - diluted, incl hybrid funding (€)	5.26	4.82	-9%	6.78	6.23	-8%	8.31	7.85	-5%

Source: Citi Investment Research and Analysis

Figure 138. SocGen – Quarterly Profit and Loss Account, 1Q08-4Q10E

€m	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10E
<b>Total operating income</b>	<b>5,679</b>	<b>5,584</b>	<b>5,108</b>	<b>5,495</b>	<b>4,913</b>	<b>5,716</b>	<b>5,970</b>	<b>5,131</b>	<b>6,581</b>	<b>6,679</b>	<b>6,301</b>	<b>6,327</b>
Total operating expenses	-3,905	-3,957	-3,697	-3,969	-3,777	-4,107	-3,898	-3,984	-4,001	-4,065	-4,039	-4,154
<b>Operating profit pre provisions</b>	<b>1,774</b>	<b>1,627</b>	<b>1,411</b>	<b>1,526</b>	<b>1,136</b>	<b>1,609</b>	<b>2,072</b>	<b>1,147</b>	<b>2,580</b>	<b>2,614</b>	<b>2,262</b>	<b>2,173</b>
Credit loss expense	-598	-387	-687	-983	-1,354	-1,075	-1,513	-1,906	-1,132	-1,010	-918	-986
<b>Profit before tax</b>	<b>1,176</b>	<b>1,240</b>	<b>724</b>	<b>543</b>	<b>-218</b>	<b>534</b>	<b>559</b>	<b>-759</b>	<b>1,448</b>	<b>1,604</b>	<b>1,344</b>	<b>1,187</b>
Net other income	612	40	21	-348	-13	4	12	682	52	5	32	36
Tax	-519	-432	-333	49	60	-122	-40	410	-375	-431	-372	-327
Minorities	-172	-206	-228	-157	-107	-106	-105	-112	-62	-95	-107	-106
<b>Net profit (attributable)</b>	<b>1,097</b>	<b>642</b>	<b>184</b>	<b>87</b>	<b>-278</b>	<b>310</b>	<b>426</b>	<b>221</b>	<b>1,063</b>	<b>1,083</b>	<b>897</b>	<b>789</b>

Source: Company Reports and CIRA Estimates



Figure 139. SocGen — Group Profit and Loss Account

€ m	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
Net Interest Income	8,414	+129%	11,635	+38%	12,449	+7%	13,321	+7%	14,253	+7%
Net fee & commission income	7,415	-3%	7,812	+5%	8,359	+7%	8,860	+6%	9,392	+6%
Net trading income	4,770	-49%	947	-80%	1,004	+6%	1,030	+3%	1,058	+3%
Other income	1,267	+5%	1,344	+6%	4,076	+203%	4,303	+6%	4,808	+12%
<b>Total operating income</b>	<b>21,866</b>	<b>-0%</b>	<b>21,738</b>	<b>-1%</b>	<b>25,888</b>	<b>+19%</b>	<b>27,514</b>	<b>+6%</b>	<b>29,511</b>	<b>+7%</b>
Total operating expenses	-15,528	+9%	-15,779	+2%	-16,259	+3%	-17,037	+5%	-17,988	+6%
<b>Operating profit pre provisions</b>	<b>6,338</b>	<b>-17%</b>	<b>5,959</b>	<b>-6%</b>	<b>9,629</b>	<b>+62%</b>	<b>10,477</b>	<b>+9%</b>	<b>11,523</b>	<b>+10%</b>
Credit loss expense	-2,655	+193%	-5,842	+120%	-4,046	-31%	-3,128	-23%	-2,548	-19%
<b>Profit before tax</b>	<b>3,683</b>	<b>-45%</b>	<b>117</b>	<b>-97%</b>	<b>5,583</b>	<b>+4672%</b>	<b>7,349</b>	<b>+32%</b>	<b>8,975</b>	<b>+22%</b>
Net other income	633	+1483%	684	+8%	125	-82%	108	-14%	119	+11%
Associate income	-8	-118%	0	-100%	0	NM	0	NM	0	NM
Net non-recurring expense	0	-100%	0	NM	0	NM	0	NM	0	NM
Tax	-1,235	+338%	308	-125%	-1,505	-589%	-2,108	+40%	-2,434	+15%
Minorities	-763	+16%	-430	-45%	-370	-14%	-472	+27%	-603	+28%
<b>Net profit (attributable)</b>	<b>2,010</b>	<b>+112%</b>	<b>679</b>	<b>-66%</b>	<b>3,832</b>	<b>+464%</b>	<b>4,877</b>	<b>+27%</b>	<b>6,058</b>	<b>+24%</b>
<b>PER SHARE FIGURES</b>										
EPS - incl. Hybrid Funding (€)	3.71	+88%	1.06	-71%	4.84	+356%	6.26	+29%	7.89	+26%
<b>EPS - excl. Hybrid Funding (€)</b>	<b>3.71</b>	<b>+88%</b>	<b>1.06</b>	<b>-71%</b>	<b>5.31</b>	<b>+400%</b>	<b>6.73</b>	<b>+27%</b>	<b>8.35</b>	<b>+24%</b>
Dividend per share (€)	1.20	+33%	0.25	-79%	1.50	+500%	2.18	+46%	2.75	+26%
Payout Ratio	32%	-29%	24%	-27%	31%	+32%	35%	+13%	35%	+0%
<b>Book value per share (€)</b>	<b>55.9</b>	<b>-2%</b>	<b>48.9</b>	<b>-13%</b>	<b>52.0</b>	<b>+6%</b>	<b>58.1</b>	<b>+12%</b>	<b>65.6</b>	<b>+13%</b>
Tangible Book Value per Share (€)	44.2	-4%	36.9	-17%	39.0	+6%	45.1	+16%	52.6	+17%
Basic (period avg. m)	542		640		725		725		725	
<b>OPERATING RATIOS</b>										
Net interest margin	0.76%		1.08%		1.19%		1.21%		1.23%	
<b>Cost / income ratio</b>	<b>71%</b>		<b>73%</b>		<b>63%</b>		<b>62%</b>		<b>61%</b>	
<b>Provision charge / customer loans</b>	<b>0.76%</b>		<b>1.73%</b>		<b>1.14%</b>		<b>0.85%</b>		<b>0.65%</b>	
NPL ratio	4.3%		6.1%		6.7%		6.1%		5.8%	
Coverage ratio	52.7%		53.0%		54.6%		64.4%		70.0%	
<b>Return on Tangible Equity</b>	<b>8.1%</b>		<b>2.6%</b>		<b>13.5%</b>		<b>14.9%</b>		<b>15.9%</b>	
<b>BALANCE SHEET</b>										
Total Assets	1,130,003	+5%	1,023,701	-9%	1,074,886	+5%	1,128,630	+5%	1,185,062	+5%
<b>Gross customer loans</b>	<b>358,365</b>	<b>+26%</b>	<b>348,971</b>	<b>-3%</b>	<b>366,420</b>	<b>+5%</b>	<b>384,741</b>	<b>+5%</b>	<b>407,825</b>	<b>+6%</b>
Customer deposits	282,514	-0%	300,054	+6%	312,056	+4%	324,538	+4%	337,520	+4%
Loan / deposit ratio	124%		113%		113%		114%		116%	
<b>Shareholders equity excl minorities</b>	<b>31,338</b>	<b>+18%</b>	<b>35,128</b>	<b>+12%</b>	<b>37,689</b>	<b>+7%</b>	<b>42,131</b>	<b>+12%</b>	<b>47,556</b>	<b>+13%</b>
<b>CAPITAL POSITION</b>										
Risk-Weighted Assets	345,500	+6%	324,080	-6%	333,802	+3%	347,154	+4%	404,512	+5%
Tier 1 capital	30,300	+41%	34,700	+15%	35,286	+2%	39,138	+11%	41,501	+6%
Core Tier 1	22,700	+29%	26,800	+18%	28,722	+7%	32,916	+15%	38,125	+16%
Total capital	41,956	+28%	46,356	+10%	45,186	-3%	49,038	+9%	51,401	+5%
<b>Core Tier 1 ratio</b>	<b>6.6%</b>		<b>8.3%</b>		<b>8.6%</b>		<b>9.5%</b>		<b>9.4%</b>	
Tier 1 ratio	8.8%		10.7%		10.6%		11.3%		10.3%	

Source: Company Reports and CIRA Estimates



Figure 140. SocGen — Divisional Profit and Loss Account

	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
<b>TOTAL RETAIL BANKING</b>										
<b>Total Operating Income</b>	<b>15,545</b>	<b>17%</b>	<b>15,454</b>	<b>-1%</b>	<b>16,235</b>	<b>5%</b>	<b>17,143</b>	<b>6%</b>	<b>18,184</b>	<b>6%</b>
Total Operating Expenses	-9,421	17%	-9,410	0%	-9,643	2%	-10,154	5%	-10,626	5%
Operating Profit Pre Provisions	6,124	16%	6,044	-1%	6,592	9%	6,990	6%	7,558	8%
Provisions	-1,582	74%	-3,492	121%	-3,390	-3%	-2,987	-12%	-2,416	-19%
Operating Pre-tax Profit	4,542	4%	2,552	-44%	3,202	25%	4,002	25%	5,143	28%
Non Operating Items	-290	-553%	-86	-70%	17	-120%	-11	-164%	-11	0%
<b>Pre-tax Profit</b>	<b>4,252</b>	<b>-4%</b>	<b>2,466</b>	<b>-42%</b>	<b>3,219</b>	<b>31%</b>	<b>3,991</b>	<b>24%</b>	<b>5,132</b>	<b>29%</b>
Cost/Income Ratio	61%		61%		59%		59%		58%	
<b>o/w FRENCH RETAIL BANKING</b>										
<b>Total Operating Income</b>	<b>7,411</b>	<b>5%</b>	<b>7,466</b>	<b>1%</b>	<b>7,749</b>	<b>4%</b>	<b>8,048</b>	<b>2%</b>	<b>8,290</b>	<b>3%</b>
Total Operating Expenses	-4,874	7%	-4,911	1%	-5,033	2%	-5,184	1%	-5,288	2%
Operating Profit Pre Provisions	2,537	2%	2,555	1%	2,716	6%	2,864	5%	3,002	5%
Provisions	-495	50%	-970	96%	-874	-10%	-792	-9%	-739	-7%
Operating Pre-tax Profit	2,042	-6%	1,585	-22%	1,842	16%	2,072	12%	2,263	9%
Non Operating Items	9	50%	15	67%	14	NA	0	NA	0	NA
<b>Pre-tax Profit</b>	<b>2,051</b>	<b>-5%</b>	<b>1,600</b>	<b>-22%</b>	<b>1,856</b>	<b>16%</b>	<b>2,072</b>	<b>12%</b>	<b>2,263</b>	<b>9%</b>
Cost/Income Ratio	66%		66%		65%		64%		64%	
<b>o/w IRBFS</b>										
<b>Total Operating Income</b>	<b>8,134</b>	<b>29%</b>	<b>7,988</b>	<b>-2%</b>	<b>8,487</b>	<b>6%</b>	<b>9,095</b>	<b>7%</b>	<b>9,894</b>	<b>9%</b>
Total Operating Expenses	-4,547	29%	-4,499	-1%	-4,610	2%	-4,969	8%	-5,338	7%
Operating Profit Pre Provisions	3,587	29%	3,489	-3%	3,877	11%	4,126	6%	4,557	10%
Provisions	-1,087	88%	-2,522	132%	-2,517	0%	-2,196	-13%	-1,677	-24%
Operating Pre-tax Profit	2,500	14%	967	-61%	1,360	41%	1,930	42%	2,880	49%
Non Operating Items	-299	-616%	-101	-66%	3	NA	-11	NA	-11	NA
<b>Pre-tax Profit</b>	<b>2,201</b>	<b>-2%</b>	<b>866</b>	<b>-61%</b>	<b>1,363</b>	<b>57%</b>	<b>1,919</b>	<b>41%</b>	<b>2,869</b>	<b>49%</b>
Cost/Income Ratio	56%		56%		54%		55%		54%	
<b>GLOBAL INVESTMENT MANAGEMENT</b>										
<b>Total Operating Income</b>	<b>2,842</b>	<b>-24%</b>	<b>2,542</b>	<b>-11%</b>	<b>2,256</b>	<b>-11%</b>	<b>2,481</b>	<b>10%</b>	<b>2,724</b>	<b>10%</b>
Total Operating Expenses	-2,363	-13%	-2,241	-5%	-2,008	-10%	-2,135	6%	-2,254	6%
Operating Profit Pre Provisions	479	-54%	301	-37%	248	-18%	346	40%	470	36%
Provisions	-45	10%	-34	-24%	0	NA	0	NA	0	NA
<b>Pre-tax Profit</b>	<b>434</b>	<b>-56%</b>	<b>266</b>	<b>-39%</b>	<b>353</b>	<b>33%</b>	<b>461</b>	<b>31%</b>	<b>596</b>	<b>29%</b>
Cost/Income Ratio	83%		88%		89%		86%		83%	
<b>CORPORATE AND INVESTMENT BANKING</b>										
<b>Total Operating Income</b>	<b>4,714</b>	<b>4%</b>	<b>9,848</b>	<b>109%</b>	<b>7,668</b>	<b>-22%</b>	<b>8,200</b>	<b>7%</b>	<b>8,854</b>	<b>8%</b>
Total Operating Expenses	-3,522	3%	-3,941	25%	-4,369	11%	-4,510	3%	-4,869	5%
Operating Profit Pre Provisions	1,192	9%	5,907	NM	3,299	-44%	3,690	12%	3,984	8%
Provisions	-845	-1609%	-922	9%	-109	-88%	-93	-15%	-79	-15%
<b>Operating Pre-tax Profit</b>	<b>347</b>	<b>-70%</b>	<b>4,985</b>	<b>NM</b>	<b>3,190</b>	<b>NM</b>	<b>3,597</b>	<b>13%</b>	<b>3,905</b>	<b>9%</b>
Non Operating Items	11	NM	46	NM	7	NM	4	NM	4	NM
<b>Pre-tax Profit</b>	<b>358</b>	<b>-110%</b>	<b>5,031</b>	<b>NM</b>	<b>3,197</b>	<b>NM</b>	<b>3,601</b>	<b>13%</b>	<b>3,909</b>	<b>9%</b>
Cost/Income Ratio	75%	-1%	40%	-46%	57%	42%	55%	-3%	55%	0%
<b>CORPORATE CENTRE</b>										
Total Operating Income	2,095	NM	-3,286	-257%	-179	-95%	-400	123%	-400	0%
<b>Pre-tax Profit</b>	<b>2,516</b>	<b>NM</b>	<b>-2,590</b>	<b>-203%</b>	<b>-367</b>	<b>-86%</b>	<b>-590</b>	<b>61%</b>	<b>-595</b>	<b>1%</b>

Source: Company Reports and CIRA Estimates

## **Societe Generale**

### **Investment strategy**

We rate Societe Generale Buy/Medium Risk (1M). Following the 2008 fraud losses, the company has made substantial efforts to restore its credibility by focusing on its core businesses, making disposals and recent guidance also suggests that the worst of legacy asset losses are behind it.

### **Valuation**

We use a two-stage dividend discount model (DDM) to value SocGen, including the present value of 2009-13E dividends and a terminal value assuming zero growth at the sustainable RoE. 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 €62 on this basis.

### **Risks**

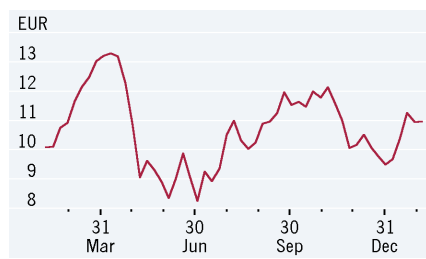
We rate SG Medium Risk based on our assessment of industry and company-specific risk factors. For SG, the following risks may prevent the shares from achieving our target price: (1) the risks of a further sharp downturn in the CEE region where SocGen has significant exposure; (2) a more challenging capital markets environment especially in equity derivatives where SocGen has one of the leading franchises; and (3) more generally, a 'double-dip' in the macroeconomic environment.

## Company Focus

- Company Update
- Estimate Change

<b>Hold/Medium Risk</b>	<b>2M</b>
Price (04 Feb 11)	€10.96
Target price	€11.50
Expected share price return	4.9%
Expected dividend yield	5.0%
<b>Expected total return</b>	<b>9.9%</b>
Market Cap	€26,322M
	US\$35,761M

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



## Credit Agricole SA (CAGR.PA) Beyond the Intesa Hit

- **4Q10 Retail Slowdown** — Regional banks and LCL together own market shares of 26% of lending and 32% of mortgages (see Figure 95 and Figure 97) and should perform in line with the market, i.e. grow at c2-3% and benefit from moderate cost of risk improvement (see section *Retail – Further Normalization* on page 10).
- **2011 Retail Outlook** — During our recent French trip, LCL Management shared the view of slower 2011 revenue growth as NII margins and F&C remain under pressure, partly offset by volume growth and market share gains. A deposit war is unlikely although focus on deposit acquisition is increasing, in the company's view (see our note *French Banks: Feedback from Roadshow*).
- **Bond Gains Sustainable?** — In 3Q10, the asset gathering division saw strong results, largely due to an "effective management of investments" in the insurance business. This could have been related to high level of bond gains, which may not necessarily recur in 4Q10 in a context where bond prices have performed poorly (see section *Afs Revaluation 'Hits'* on page 3).
- **CIB Flat** — In 4Q10E, CIB should be broadly flat, as financing activities offset investment banking activities. We expect CASA's cash equity platform to have performed well, offsetting weak performance in FICC (see paragraph *Investment Banks Read Through* on page 12 for details).
- **4Q Loss due to Intesa** — On 17 December 2010, Credit Agricole said that its 4.79% equity stake in Intesa would be reclassified from equity affiliate to available-for-sale financial assets. CASA estimated the impact on net profits at c.€1.25bn in 4Q10. As a result, we expect a c.€500m loss in 4Q10E, and pressure on the dividend as the resulting payout will be at c110%. Nevertheless, we expect CASA to keep dividend equal to 2009 (at €0.45) by offering a scrip dividend that should be at least partly taken by regional banks.
- **Remain Hold, Prefer SocGen & BNP Paribas** — Trading at 6.5x 2011E P/E vs above 7x for French peers, CASA's valuations remain low. However, in light of challenges listed above, we remain cautious on the name and continue to prefer SocGen and BNP Paribas. We reiterate our Hold/Medium Risk rating with a target price of €11.50.

### Credit Agricole SA (EUR)

Year to 31 Dec	2008A	2009A	2010E	2011E	2012E
Net Income (€M)	1,121.0	976.0	934.9	3,888.1	4,597.2
Diluted EPS (€)	0.56	0.43	0.40	1.68	1.98
Diluted EPS (Old) (€)	0.56	0.43	0.44	1.69	2.00
PE (x)	19.5	25.3	27.2	6.5	5.5
P/BV (x)	0.6	0.6	0.6	0.5	0.5
DPS (€)	0.45	0.45	0.45	0.55	0.70
Net Div Yield (%)	4.1	4.1	4.1	5.0	6.4
ROE (%)	2.7	2.2	2.1	8.3	9.2

# Credit Agricole

We reduce our 2010E EPS by 9% to reflect the €1.25bn expected hit on net income from the accounting reclassification of Intesa as well as modest downward revisions in top-line growth of the regional banks.

Figure 141. Credit Agricole – Changes to Our Financial Forecasts, 2010E-12E (Euros in Millions)

	2010E Old	2010E New	Change	2011E Old	2011E New	Change	2012E Old	2012E New	Change
Revenues	20,315	20,264	0%	21,369	21,384	0%	22,755	22,771	0%
Costs	-13,033	-13,047	0%	-13,439	-13,464	0%	-14,059	-14,085	0%
<b>Profit Before Provisions</b>	<b>7,282</b>	<b>7,217</b>	<b>-1%</b>	<b>7,929</b>	<b>7,920</b>	<b>0%</b>	<b>8,696</b>	<b>8,686</b>	<b>0%</b>
Loan Losses	-3,805	-3,856	1%	-2,702	-2,698	0%	-2,357	-2,352	0%
<b>Profit Before Taxes</b>	<b>3,477</b>	<b>3,361</b>	<b>-3%</b>	<b>5,227</b>	<b>5,222</b>	<b>0%</b>	<b>6,339</b>	<b>6,334</b>	<b>0%</b>
<b>Net Income</b>	<b>1,022</b>	<b>935</b>	<b>-9%</b>	<b>3,918</b>	<b>3,888</b>	<b>-1%</b>	<b>4,633</b>	<b>4,597</b>	<b>-1%</b>
EPS – diluted, as reported (€)	0.44	0.40	-9%	1.69	1.68	-1%	2.00	1.98	-1%

Source: Citi Investment Research and Analysis

Figure 142. Credit Agricole – Quarterly Profit and Loss Account, 1Q08-4Q10E

€m	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10E
<b>Total operating income</b>	<b>4,109</b>	<b>3,248</b>	<b>4,000</b>	<b>4,597</b>	<b>4,049</b>	<b>4,548</b>	<b>4,816</b>	<b>4,481</b>	<b>4,824</b>	<b>5,470</b>	<b>4,982</b>	<b>4,988</b>
Total operating expenses	-3,218	-3,146	-3,123	-3,148	-2,968	-2,976	-3,043	-3,154	-3,163	-3,406	-3,198	-3,280
<b>Operating profit pre provisions</b>	<b>891</b>	<b>102</b>	<b>877</b>	<b>1,449</b>	<b>1,081</b>	<b>1,572</b>	<b>1,773</b>	<b>1,327</b>	<b>1,661</b>	<b>2,064</b>	<b>1,784</b>	<b>1,708</b>
Credit loss expenses	-446	-364	-741	-1,615	-1,084	-1,127	-1,189	-1,290	-1,073	-980	-973	-830
<b>Profit before tax</b>	<b>445</b>	<b>-262</b>	<b>136</b>	<b>-166</b>	<b>-3</b>	<b>445</b>	<b>584</b>	<b>37</b>	<b>588</b>	<b>1,084</b>	<b>811</b>	<b>878</b>
Capital gains and non-recurring	422	0	0	-246	0	0	0	0	0	0	0	0
Associate Income & Other	343	217	321	88	330	50	-74	140	266	-157	269	-944
Tax	-204	230	-51	91	-82	-230	-121	222	-270	-457	-292	-304
Minorities	-114	-109	-59	40	-44	-65	-102	-110	-114	-119	-133	-125
<b>Net profit (attributable)</b>	<b>150</b>	<b>76</b>	<b>347</b>	<b>-193</b>	<b>201</b>	<b>200</b>	<b>287</b>	<b>289</b>	<b>470</b>	<b>351</b>	<b>655</b>	<b>-495</b>

Source: Company Reports and CIRA Estimates

**Figure 143. Credit Agricole — Group Profit and Loss Account by Year**

€m	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
Net interest income	12,113	+53%	12,719	+5%	13,355	+5%	14,022	+5%	14,723	+5%
Net fee & commission income	4,398	-6%	4,618	+5%	4,987	+8%	5,386	+8%	5,817	+8%
Net trading income	-8,630	-199%	-7,336	-15%	-7,702	+5%	-8,087	+5%	-8,492	+5%
Other income	8,073	-279%	7,893	-2%	9,624	+22%	10,062	+5%	10,722	+7%
<b>Total operating income</b>	<b>15,954</b>	<b>-5%</b>	<b>17,894</b>	<b>+12%</b>	<b>20,264</b>	<b>+13%</b>	<b>21,384</b>	<b>+6%</b>	<b>22,771</b>	<b>+6%</b>
Total operating expenses	-12,636	-1%	-12,142	-4%	-13,047	+7%	-13,464	+3%	-14,085	+5%
<b>Operating profit pre provisions</b>	<b>3,318</b>	<b>-18%</b>	<b>5,752</b>	<b>+73%</b>	<b>7,217</b>	<b>+25%</b>	<b>7,920</b>	<b>+10%</b>	<b>8,686</b>	<b>+10%</b>
Credit loss expenses	-3,166	+67%	-4,690	+48%	-3,856	-18%	-2,698	-30%	-2,352	-13%
<b>Profit before tax</b>	<b>152</b>	<b>-93%</b>	<b>1,062</b>	<b>+599%</b>	<b>3,361</b>	<b>+216%</b>	<b>5,222</b>	<b>+55%</b>	<b>6,334</b>	<b>+21%</b>
Capital gains and non-recurring inc	176	NM	0	NM	0	NM	19	NM	19	NM
Associate Income & Other	969	-24%	446	-54%	-613	-237%	1,239	-302%	1,321	+7%
Tax	66	-126%	-211	-420%	-1,322	+527%	-1,829	+38%	-2,152	+18%
Minorities	-242	-53%	-321	+33%	-491	+53%	-763	+55%	-925	+21%
<b>Net profit (attributable)</b>	<b>1,121</b>	<b>-72%</b>	<b>976</b>	<b>-13%</b>	<b>935</b>	<b>-4%</b>	<b>3,888</b>	<b>+316%</b>	<b>4,597</b>	<b>+18%</b>
<b>PER SHARE FIGURES</b>										
<b>EPS - basic, as reported</b>	<b>0.56</b>	<b>-76%</b>	<b>0.43</b>	<b>-23%</b>	<b>0.40</b>	<b>-7%</b>	<b>1.68</b>	<b>+316%</b>	<b>1.98</b>	<b>+18%</b>
Dividend per share	0.45	-63%	0.45	0%	0.45	0%	0.55	22%	0.70	27%
Payout Ratio	80%	nm	104%	nm	112%	nm	33%	nm	35%	nm
<b>Book value per share</b>	<b>18.44</b>	<b>-24%</b>	<b>19.60</b>	<b>+6%</b>	<b>19.55</b>	<b>-0%</b>	<b>20.78</b>	<b>+6%</b>	<b>22.21</b>	<b>+7%</b>
Tangible Book Value per share	9.1	-26%	10.6	+16%	10.5	-0%	11.8	+12%	13.2	+12%
Basic (period avg, m)	1,992		2,256		2,320		2,320		2,320	+0%
<b>OPERATING RATIOS</b>										
Net interest margin	0.79%		0.79%		0.84%		0.84%		0.84%	
<b>Cost / income ratio</b>	<b>79%</b>		<b>68%</b>		<b>64%</b>		<b>63%</b>		<b>62%</b>	
<b>Provision charge / customer loans</b>	<b>0.93%</b>		<b>1.34%</b>		<b>1.05%</b>		<b>0.70%</b>		<b>0.58%</b>	
NPL ratio	3.9%		5.2%		5.2%		4.7%		4.3%	
Coverage ratio	50.6%		50.0%		62.0%		78.3%		94.5%	
<b>Return on Equity (Citi)</b>	<b>2.2%</b>		<b>2.2%</b>		<b>2.1%</b>		<b>8.3%</b>		<b>9.2%</b>	
<b>BALANCE SHEET ITEMS</b>										
Total Assets	1,653,200	+17%	1,557,300	-6%	1,635,165	+5%	1,716,923	+5%	1,802,769	+5%
<b>Gross customer loans</b>	<b>349,037</b>	<b>+15%</b>	<b>362,348</b>	<b>+4%</b>	<b>380,465</b>	<b>+5%</b>	<b>399,489</b>	<b>+5%</b>	<b>419,463</b>	<b>+5%</b>
Customer deposits	421,411	+9%	464,080	+10%	482,643	+4%	501,949	+4%	522,027	+4%
Loan / deposit ratio	81%	6%	76%	-6%	76%	1%	77%	1%	77%	1%
<b>Shareholders equity ex minorities (avg)</b>	<b>41,211</b>	<b>+9%</b>	<b>43,594</b>	<b>+6%</b>	<b>45,403</b>	<b>+4%</b>	<b>46,770</b>	<b>+3%</b>	<b>49,853</b>	<b>+7%</b>
<b>CAPITAL RATIOS</b>										
Risk-Weighted Assets	356,500	+3%	326,400	-8%	342,720	+5%	359,856	+5%	385,046	+7%
Tier 1 capital	30,700	+9%	31,000	+1%	30,891	-0%	33,735	+9%	37,057	+10%
Total capital	33,400	+12%	31,800	-5%	31,691	-0%	34,535	+9%	37,857	+10%
<b>Tier 1 ratio</b>	<b>8.6%</b>	<b>+6%</b>	<b>9.5%</b>	<b>+10%</b>	<b>9.0%</b>	<b>-5%</b>	<b>9.4%</b>	<b>+4%</b>	<b>9.6%</b>	<b>+3%</b>
Total ratio	9.4%	+9%	9.7%	+4%	9.2%	-5%	9.6%	+4%	9.8%	+2%
Tangible Equity to Assets	1.3%		1.7%		1.6%		1.7%		1.8%	

Source: Company Reports and CIRA Estimates

Figure 144. Credit Agricole — Divisional Profit and Loss Account by Year

€ m	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
<b>DOMESTIC RETAIL BANKING</b>										
Total operating income	3,715	+1%	3,849	+4%	3,944	+2%	4,007	+2%	4,103	+2%
Total operating expenses	-2,533	-6%	-2,551	+1%	-2,602	+2%	-2,654	+2%	-2,707	+2%
Operating profit pre provisions	1,182	+23%	1,298	+10%	1,342	+3%	1,353	+1%	1,396	+3%
Provisions	-200	+57%	-435	+118%	-365	-16%	-362	-1%	-348	-4%
Operating pre-tax Profit	982	+18%	863	-12%	977	+13%	991	+1%	1,048	+6%
Other	677	-22%	822	+21%	887	+8%	1,020	+15%	1,101	+8%
Pre-tax Profit	1,659	-2%	1,685	+2%	1,863	+11%	2,011	+8%	2,149	+7%
Tax	-390	+16%	-351	-10%	-293	-16%	-297	+1%	-314	+6%
Net Profit after tax	1,269	-7%	1,334	+5%	1,570	+18%	1,713	+9%	1,834	+7%
Cost/income ratio	68%	-8%	66%	-3%	66%	0%	66%	0%	66%	0%
<b>O/W FRENCH RETAIL BANKING CREDIT AGRICOLE</b>										
Net Profit after tax	581	-25%	730	+26%	887	+21%	1,020	+15%	1,101	+8%
Cost/income ratio (Regional Banks)	61%	5%	54%	-12%	53%	-2%	53%	0%	53%	-1%
<b>O/W FRENCH RETAIL BANKING LCL</b>										
Total operating income	1,928	+0%	2,071	+7%	2,158	+4%	2,125	+0%	2,135	+1%
Total operating expenses	3,715	+1%	3,849	+4%	3,944	+2%	4,007	+2%	4,103	+2%
Operating profit pre provisions	-2,533	-6%	-2,551	+1%	-2,602	+2%	-2,654	+2%	-2,707	+2%
Provisions	1,182	+23%	1,298	+10%	1,342	+3%	1,353	+1%	1,396	+3%
Operating pre-tax Profit	-200	+57%	-435	+118%	-365	-16%	-362	-1%	-348	-5%
Other	982	+18%	863	-12%	977	+13%	991	+1%	1,048	+6%
Pre-tax Profit	982	+18%	863	-12%	977	+13%	991	+1%	1,048	+6%
Tax	-294	+18%	-259	-12%	-293	+13%	-297	+1%	-314	+6%
Net Profit	688	18%	604	-12%	684	13%	694	1%	734	6%
Cost/income ratio	68%	-8%	66%	-3%	66%	0%	66%	0%	66%	0%
<b>INTERNATIONAL RETAIL BANKING &amp; FINANCIAL SERVICES</b>										
Total operating income	6,032	+7%	6,561	+9%	6,944	+6%	7,445	+7%	7,871	+6%
Total operating expenses	-3,693	+11%	-3,653	-1%	-3,725	+2%	-3,832	+3%	-3,982	+4%
Operating profit pre provisions	2,339	+2%	2,908	+24%	3,219	+11%	3,614	+12%	3,889	+8%
Provisions	-1,564	+100%	-2,409	+54%	-2,723	+13%	-1,976	-27%	-1,689	-14%
Operating pre-tax Profit	775	-48%	499	-36%	496	-1%	1,638	+230%	2,200	+34%
Other	-240	-194%	-265	+10%	-360	+36%	98	-127%	99	+1%
Pre-tax Profit	535	-70%	234	-56%	136	-42%	1,736	+1175%	2,299	+32%
Tax	-383	-24%	-314	-18%	-521	+66%	-647	+24%	-785	+21%
Net Profit after tax	152	-88%	-80	-153%	-385	+381%	1,089	-383%	1,513	+39%
Cost/income ratio	61%	3%	56%	-9%	54%	-4%	51%	-4%	51%	-2%
<b>ASSET MANAGEMENT, INSURANCE &amp; PRIVATE BANKING (CA &amp; CL)</b>										
Total operating income	3,994	-7%	3,911	-2%	5,009	+28%	5,382	+7%	5,902	+10%
Total operating expenses	-1,866	+4%	-1,980	+6%	-2,548	+29%	-2,673	+5%	-2,845	+6%
Operating profit pre provisions	2,128	-15%	1,931	-9%	2,462	+27%	2,709	+10%	3,057	+13%
Pre-tax Profit	2,013	-26%	1,928	-4%	2,445	+27%	2,696	+10%	3,043	+13%
Tax	-610	-22%	-534	-12%	-786	+47%	-811	+3%	-919	+13%
Net Profit after tax	1,403	-28%	1,394	-1%	1,659	+19%	1,884	+14%	2,124	+13%
Cost/income ratio	47%	0%	51%	0%	51%	0%	50%	0%	48%	0%
<b>PROPRIETARY ASSET MANAGEMENT AND OTHER ACTIVITIES</b>										
Total operating income	-4,140	-1162%	-1,930	-53%	-1,297	-33%	-1,248	-4%	-1,200	-15%
Total operating expenses	-1,263	-5%	-901	-29%	-930	+3%	-960	+3%	-1,008	+5%
Pre-tax Profit	-5,010	-2486%	-3,880	-23%	-3,909	+1%	-2,288	-41%	-2,248	-2%
Net Profit after tax	-3,016	-473%	-2,525	-16%	-3,002	+19%	-1,602	-47%	-1,574	-2%
<b>CORPORATE AND INVESTMENT BANKING</b>										
Total operating income	6,353	+128%	5,503	-13%	5,664	+3%	5,797	+2%	6,095	+5%
Total operating expenses	-3,281	-7%	-3,057	-7%	-3,242	+6%	-3,344	+3%	-3,542	+6%
Operating profit pre provisions	3,072	-507%	2,446	-20%	2,422	-1%	2,453	+1%	2,552	+4%
Provisions	-1,083	+13%	-1,032	-5%	-354	-66%	-272	-23%	-266	-2%
Operating pre-tax Profit	1,989	-216%	1,414	-29%	2,068	+46%	2,181	+5%	2,287	+5%
Other	111	-17%	127	+14%	145	+14%	145	+0%	145	+0%
Pre-tax Profit	2,100	-233%	1,541	-27%	2,213	+44%	2,326	+5%	2,432	+5%
Tax	-545	-171%	-364	-33%	-629	+73%	-673	+7%	-712	+6%
Net Profit after tax	1,555	-292%	1,177	-24%	1,584	+35%	1,653	+4%	1,720	+4%
Cost/income ratio	52%	0%	56%	0%	57%	0%	58%	0%	58%	0%

Source: Company Reports and CIRA Estimates

## **Credit Agricole SA**

### **Investment strategy**

We have a Hold/ Medium Risk (2M) 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 are improving. 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 2008-13E dividends and a terminal value assuming zero growth at the sustainable RoE. We use a Cost of Equity of 11.7% 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 €11.50.

### **Risks**

Our risk rating on CASA is Medium Risk. The risk rating on the stock is derived after consideration of a number of factors. These factors include an assessment of industry-specific risk, financial risk and management risk. With regard to CASA, we would highlight in particular: complexity of the group and its financials, operational and financial leverage, and acquisition risk.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, the stock will likely have difficulty achieving/exceed our target price.

## Company Focus

### ■ Company Update

<b>Sell/High Risk</b>	<b>3H</b>
Price (04 Feb 11)	€3.95
Target price	€3.50
Expected share price return	-11.3%
Expected dividend yield	4.6%
<b>Expected total return</b>	<b>-6.8%</b>
Market Cap	€11,481M
	US\$15,599M

### Price Performance (RIC: CNAT.PA, BB: KN FP)



## Natixis (CNAT.PA) Flat 4Q, Profits Challenge

- **Retail Networks Headwinds** — We expect the 4Q10 earning contribution from Natixis' 20% stake in the retail network to remain weak, as in the prior quarter. In addition to overall revenue growth slowdown in French retail, the networks should be hit by further reductions in Livret A distribution margins in 2011-12 as well as by the loss of €193m annual top-line contribution from the sale of Societe Marseillaise de Credit to SocGen (refer to section *Retail – Further Normalization* on page 10).
- **CIB Well Positioned in 4Q** — In 4Q10, CIB should perform well compared to peers, in our view. Structured and plain vanilla finance should hold up well. Capital markets should be broadly flat, as the FICC decrease could be compensated by growth in equities (see paragraph *Investment Banks Read Through* on page 12 for details).
- **CIB Outlook** — In our report, *French Banks: Feedback from Roadshow* (13 January 2011), we described the constructive CIB revenue outlook for 2011 discussed with Natixis Management. Natixis should benefit from market share gains in FICC, stronger Equities trends in 2011, and is well positioned in corporate derivatives and structured finance. The bank indicated it performed well in the start of the year, even though financing 'windows' may periodically close.
- **Other Divisions Flat and Higher Group Taxes** — In 4Q10E, the other divisions should perform broadly in line with the previous quarter, in our view. Combined with increased tax rates, as guided by the company, we believe group earnings will be down. Looking ahead, effective tax rates rises from 13% in 2010E to 30% from 2011E also imply weakened post-tax profits in the coming years.
- **Unchanged View** — At 8x P/E 2011E against c7x for French peers, Natixis trades at a premium that we believe make other French banks more attractive. We maintain our Sell/High Risk rating.

### Natixis (EUR)

Year to 31 Dec	2008A	2009A	2010E	2011E	2012E
Net Income (€M)	-2,800.0	-1,711.4	1,077.1	1,064.0	1,265.4
Diluted EPS (€)	-1.36	-0.59	0.37	0.37	0.44
Diluted EPS (Old) (€)	-1.36	-0.59	0.37	0.37	0.44
PE (x)	-2.9	-6.7	10.7	10.8	9.1
P/BV (x)	0.7	0.8	0.8	0.8	0.7
DPS (€)	0.00	0.00	0.19	0.18	0.22
Net Div Yield (%)	0.0	0.0	4.7	4.6	5.5
ROE (%)	-17.3	-9.4	10.7	8.9	9.8



# Natixis

Our forecasts for Natixis are unchanged.

Figure 145. Natixis – Changes to our Financial Forecasts, 2010E-2012E (Euros in Millions)

	2010E Old	2010E New	% Chg	2011E Old	2011E New	% Chg	2012E Old	2012E New	% Chg
Revenues	6,184	6,184	0%	6,681	6,681	0%	7,188	7,188	0%
Total Op. Expenses	-4,488	-4,488	0%	-4,637	-4,637	0%	-4,894	-4,894	0%
<b>Operating Income</b>	<b>1,695</b>	<b>1,695</b>	<b>0%</b>	<b>2,044</b>	<b>2,044</b>	<b>0%</b>	<b>2,294</b>	<b>2,294</b>	<b>0%</b>
Prov. Loan Losses (Net)	-166	-166	0%	-311	-311	0%	-270	-270	0%
<b>Operating Income Post Provisions</b>	<b>1,530</b>	<b>1,530</b>	<b>0%</b>	<b>1,733</b>	<b>1,733</b>	<b>0%</b>	<b>2,023</b>	<b>2,023</b>	<b>0%</b>
Associate Income	412	412	0%	384	374	-3%	397	387	-2%
<b>Pre-Tax Profit</b>	<b>1,845</b>	<b>1,845</b>	<b>0%</b>	<b>2,042</b>	<b>2,032</b>	<b>-1%</b>	<b>2,345</b>	<b>2,336</b>	<b>0%</b>
Taxes	-240	-240	0%	-623	-620	-1%	-715	-712	0%
<b>Net Income</b>	<b>1,605</b>	<b>1,605</b>	<b>0%</b>	<b>1,419</b>	<b>1,412</b>	<b>-1%</b>	<b>1,630</b>	<b>1,624</b>	<b>0%</b>
Minorities	-49	-49	0%	-78	-78	-1%	-98	-97	0%
<b>Attributable Net Income</b>	<b>1,556</b>	<b>1,556</b>	<b>0%</b>	<b>1,341</b>	<b>1,334</b>	<b>-1%</b>	<b>1,533</b>	<b>1,526</b>	<b>0%</b>
EPS - Incl. Hybrids Funding (€)	0.37	0.37	0%	0.37	0.37	-1%	0.44	0.44	0%
EPS - Excl. Hybrids Funding (€)	0.53	0.53	0%	0.46	0.46	0%	0.52	0.52	0%

Source: Citi Investment Research and Analysis

Figure 146. Natixis – Quarterly Profit and Loss Account, 1Q08-4Q10E

€m	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10E	4Q10E
<b>Revenues</b>	<b>1,365.6</b>	<b>185.5</b>	<b>1,154.0</b>	<b>227.9</b>	<b>99.0</b>	<b>664.0</b>	<b>1,474.0</b>	<b>1,918.0</b>	<b>1,642.0</b>	<b>1,643.0</b>	<b>1,352.0</b>	<b>1,546.8</b>
Total Op. Expenses	(1,257.6)	(1,238.0)	(1,098.4)	(1,094.0)	(1,095.0)	(1,086.0)	(1,073.0)	(1,158.0)	(1,127.0)	(1,093.0)	(1,092.0)	(1,176.3)
Operating Income	108.0	-1,052.5	55.6	-866.1	-996.0	-422.0	401.0	760.0	515.0	550.0	260.0	370.5
Prov. Loan Losses	(93.0)	(279.0)	(455.0)	(988.0)	(928.0)	(1,286.0)	(78.0)	(110.0)	(104.0)	(54.0)	32.0	(39.6)
<b>Operating Income Post Provisions</b>	<b>15.0</b>	<b>-1,331.5</b>	<b>-399.4</b>	<b>-1,854.1</b>	<b>-1,924.0</b>	<b>-1,708.0</b>	<b>323.0</b>	<b>650.0</b>	<b>411.0</b>	<b>496.0</b>	<b>292.0</b>	<b>330.9</b>
Gains and Losses on Other Activities	9.0	0.0	0.0	-18.0	36.0	-4.0	-1.0	-26.0	-15.0	-1.0	2.0	0.0
CCI Associate Income	107.0	193.0	116.0	68.0	113.0	157.0	126.0	29.0	143.0	104.0	91.0	73.7
Goodwill & One Offs	-37.0	-51.0	-15.0	-51.0	-43.0	-42.0	-23.0	-62.0	-17.0	-26.0	-15.0	-25.0
<b>Pre-Tax Profit</b>	<b>94.0</b>	<b>-1,189.5</b>	<b>-298.4</b>	<b>-1,855.1</b>	<b>-1,818.0</b>	<b>-1,597.0</b>	<b>425.0</b>	<b>591.0</b>	<b>522.0</b>	<b>573.0</b>	<b>370.0</b>	<b>379.6</b>
Taxes	-5.0	209.0	87.4	365.6	46.0	798.0	-56.0	273.0	-49.0	-43.0	-53.0	-94.9
<b>Net Income</b>	<b>89.0</b>	<b>-980.5</b>	<b>-211.0</b>	<b>-1,489.5</b>	<b>-1,772.0</b>	<b>-799.0</b>	<b>369.0</b>	<b>864.0</b>	<b>473.0</b>	<b>530.0</b>	<b>317.0</b>	<b>284.7</b>
Minorities	-20.0	-36.0	-23.0	7.0	-2.0	-21.0	-10.0	-22.0	-8.0	-8.0	-13.0	-20.0
<b>Attributable Net Income</b>	<b>69.0</b>	<b>-1,016.5</b>	<b>-234.0</b>	<b>-1,482.5</b>	<b>-1,774.0</b>	<b>-820.0</b>	<b>359.0</b>	<b>842.0</b>	<b>465.0</b>	<b>522.0</b>	<b>304.0</b>	<b>264.7</b>

Source: Company Reports and CIRA Estimates

Figure 147. Natixis — Group Profit and Loss Account by Year

€m	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
<b>Revenues</b>	<b>2,516</b>	<b>-58%</b>	<b>4,155</b>	<b>65%</b>	<b>6,184</b>	<b>49%</b>	<b>6,681</b>	<b>8%</b>	<b>7,188</b>	<b>8%</b>
Total Op. Expenses	-4,407	-14%	-4,412	0%	-4,488	2%	-4,637	3%	-4,894	6%
<b>Operating Income</b>	<b>-1,891</b>	<b>NM</b>	<b>-257</b>	<b>-86%</b>	<b>1,695</b>	<b>-760%</b>	<b>2,044</b>	<b>21%</b>	<b>2,294</b>	<b>12%</b>
Prov. Loan Losses	-1,815		-2,402		-166		-311		-270	
<b>Operating Income Post Provisions</b>	<b>-3,706</b>	<b>NM</b>	<b>-2,659</b>	<b>-28%</b>	<b>1,530</b>	<b>NA</b>	<b>1,733</b>	<b>13%</b>	<b>2,023</b>	<b>17%</b>
Gains and Losses on Other Activities	-9	NM	5		-14		0		0	
CCI Associate Income	484	-28%	425	-12%	412	-3%	374	-9%	387	4%
Goodwill & One Offs	-154	NM	-170	10%	-83	0%	-75	-10%	-75	0%
<b>Pre-Tax Profit</b>	<b>-3,385</b>	<b>NM</b>	<b>-2,399</b>	<b>-29%</b>	<b>1,845</b>	<b>-177%</b>	<b>2,032</b>	<b>10%</b>	<b>2,336</b>	<b>15%</b>
Taxes	657	NM	1,061	61%	-240	-123%	-620	158%	-712	15%
- Implied Tax Rate	19%		44%		13%		30%		30%	
Net Income	-2,728	NM	-1,338	-51%	1,605	-220%	1,412	-12%	1,624	15%
Minorities	-72	-36%	-55	-24%	-49	-11%	-78	58%	-97	25%
<b>Net Income</b>	<b>-2,800</b>	<b>NM</b>	<b>-1,393</b>	<b>-1</b>	<b>1,556</b>	<b>-2</b>	<b>1,334</b>	<b>0</b>	<b>1,526</b>	<b>0</b>
<b>PER SHARE FIGURES</b>										
<b>EPS - Reported - Incl. Hybrids Funding</b>	<b>-1.36</b>	<b>-252%</b>	<b>-0.59</b>	<b>-57%</b>	<b>0.37</b>	<b>-163%</b>	<b>0.37</b>	<b>-1%</b>	<b>0.44</b>	<b>19%</b>
EPS - Excl. Hybrids Funding	-1.36	0%	-0.48	0%	0.53	-211%	0.46	-14%	0.52	14%
Dividend	0.00		0.00		0.19		0.18		0.22	
Payout ratio	0%		0%		50%		50%		50%	
<b>Book Value per share</b>	<b>5.35</b>	<b>-61%</b>	<b>4.89</b>	<b>-9%</b>	<b>5.07</b>	<b>4%</b>	<b>5.26</b>	<b>4%</b>	<b>5.47</b>	<b>4%</b>
Tangible Book Value per share	4.1	-62%	3.7	-10%	3.9	3%	4.0	3%	4.1	4%
Number of shares (avg)	2,059		2,898		2,908		2,908		2,908	
<b>OPERATING RATIOS</b>										
<b>ROE</b>	<b>-17.3%</b>		<b>-9.4%</b>		<b>10.7%</b>		<b>8.9%</b>		<b>9.8%</b>	
Cost / income ratio	175.2%		106.2%		72.6%		69.4%		68.1%	
Operating Profit / avg RWAs	-1.2%		-0.2%		1.3%		1.5%		1.5%	
<b>Provision charge / customer loans (bps)</b>	<b>1.5%</b>		<b>2.2%</b>		<b>0.2%</b>		<b>0.3%</b>		<b>0.2%</b>	
<b>BALANCE SHEET</b>										
Total assets	555,760	7%	449,218	-19%	482,909	8%	519,128	8%	558,062	8%
<b>Gross customer loans</b>	<b>117,960</b>	<b>5%</b>	<b>109,090</b>	<b>-8%</b>	<b>107,999</b>	<b>-1%</b>	<b>114,479</b>	<b>6%</b>	<b>121,348</b>	<b>6%</b>
Shareholders' equity	15,552	-8%	14,218	-9%	14,757	4%	15,289	4%	15,921	4%
<b>Average shareholders' equity</b>	<b>16,219</b>		<b>14,885</b>		<b>14,757</b>		<b>15,289</b>		<b>15,921</b>	
<b>CAPITAL RATIOS</b>										
Equity Tier 1	9,600		11,100		11,878		12,545		13,308	
Risk-weighted assets	163,100	15%	130,900	-20%	136,136	4%	144,985	7%	154,409	7%
Total capital	16,553	11%	16,320	-1%	17,098	5%	17,765	4%	18,528	4%
<b>BIS Tier 1 ratio</b>	<b>8.2%</b>		<b>9.7%</b>		<b>9.9%</b>		<b>9.8%</b>		<b>9.7%</b>	
BIS Total Capital ratio	10.1%		12.5%		12.6%		12.3%		12.0%	
<b>Core tier 1 capital ratio</b>	<b>5.9%</b>		<b>8.5%</b>		<b>8.7%</b>		<b>8.7%</b>		<b>8.6%</b>	
Tangible Equity to Assets	2.2%		2.4%		2.3%		2.2%		2.2%	

Source: Company Reports and CIRA Estimates

Figure 148. Natixis — Divisional Profit and Loss Account by Year

	2008	% Chg	2009	% Chg	2010E	% Chg	2011E	% Chg	2012E	% Chg
<b>CORPORATE AND INVESTMENT BANKING</b>										
Revenue	-595	-132%	2,697	-553%	3,024	12%	3,214	6%	3,342	4%
Operating Expenses	-1,832	-8%	-1,601	-13%	-1,616	1%	-1,718	5%	-1,787	3%
Operating Income	-2,427	1407%	1,096	-145%	1,407	28%	1,496	6%	1,556	4%
Provisions	-1,500	573%	-1,384	-8%	-222	-84%	-227	2%	-204	-10%
Operating Profit Post Provisions	-3,927	NM	-288	-93%	1,186	-512%	1,269	7%	1,351	7%
Cost/Income Ratio	-308%		59%		53%		53%		53%	
<b>INVESTMENT SOLUTIONS</b>										
Revenue	1,358	-21%	1,560	15%	1,737	11%	1,850	7%	2,069	12%
Operating Expenses	-965	-25%	-1,152	19%	-1,262	10%	-1,335	6%	-1,473	10%
Operating Income	393	-8%	408	4%	474	16%	515	8%	596	16%
Provisions	-56	0%	-33	-41%	0	NA	0	NA	0	NA
Operating Profit Post Provisions	337	-21%	375	11%	474	27%	515	8%	596	16%
Cost/Income Ratio	71%		74%		73%		72%		71%	
<b>SFS</b>										
Revenue	1,477	14%	870	-41%	920	6%	985	7%	1,054	7%
Operating Expenses	-955	17%	-618	-35%	-645	4%	-680	5%	-717	5%
Operating Income	522	9%	252	-52%	275	9%	305	11%	336	10%
Provisions	-22	83%	-48	118%	-55	15%	-56	2%	-39	-30%
Operating Profit Post Provisions	500	7%	204	-59%	220	8%	248	13%	297	20%
Cost/Income Ratio	65%		71%		70%		69%		68%	
<b>FINANCIAL STAKES</b>										
Revenue	800	-13%	401	-50%	802	100%	861	7%	927	8%
Operating Expenses	-696	6%	-722	4%	-702	-3%	-745	6%	-783	5%
Operating Income	104	-60%	-321	-409%	100	NM	116	16%	143	24%
Provisions	-28	87%	-19	-32%	-25	10%	-26	3%	-24	-5%
Operating Profit Post Provisions	76	-69%	-340	-547%	75	NM	90	20%	119	32%
Cost/Income Ratio	87%		180%		88%		87%		85%	
<b>GAPC (Legacy Assets)</b>										
Revenue	191	-62%	-1,782	-1033%	-140	NM	-49	-65%	-25	-50%
Operating Expenses	-170	2%	-168	-1%	-168	NM	-59	-65%	-29	-50%
Operating Income	21	-94%	-1,950	NM	-308	-84%	-108	-65%	-54	-50%
Provisions	-13	-263%	-914	6931%	138	NM	0	0%	0	0%
Operating Profit Post Provisions	8	-98%	-2,864	NM	-170	-94%	-108	-37%	-54	-50%
Cost/Income Ratio	89%		-9%		-120%		-120%		-120%	
<b>CORPORATE CENTRE</b>										
Revenue	-296	35%	409	NM	-159	-5%	-180	13%	-180	0%
Operating Expenses	-70	-68%	-151	100%	-95	-5%	-99	5%	-104	5%
Operating Income	-366	-17%	258	NM	-254	-198%	-279	10%	-284	2%
Provisions	-198	NM	-4	NM	-2	-5%	-2	5%	-2	5%
Operating Profit Post Provisions	-564	29%	254	-145%	-256	-201%	-281	10%	-286	2%

Source: Company Reports and CIRA Estimates

## **Natixis**

### **Investment strategy**

We have a Sell/High Risk (3H) rating on Natixis. After the announced creation of a bad bank with support from core shareholder, Natixis will start a new era. Natixis' core business is a standalone CIB franchise with other product businesses. Its various subsidiaries are of differing quality. While it has a leading position in the growing domestic asset management market and specialised financial services, its retail networks may be constrained by limited bottom-line growth potential due to lack of control. The company also owns Coface, the leading credit insurer.

### **Valuation**

We use a two-stage dividend discount model (DDM) to value Natixis, including the present value of 2009-13E dividends and a terminal value assuming zero growth at the sustainable RoE. We use a Cost of Equity of 11.2% based on the company's business mix. We cross-check this valuation using: (1) justified price to book valuation; and (2) comparable P/E valuation relative to the banks sector. From this, we derive our target price of €3.50.

### **Risks**

We rate Natixis as High Risk. The risk rating on the stock is derived after consideration of a number of factors. These include an assessment of industry-specific risk, financial risk and management risk. With regard to Natixis, we would highlight in particular: complexity of the group and its financials, operational and financial leverage, and acquisition risk.

If the impact on the company from any of these factors proves to be more positive than we anticipate, then the stock might exceed our target price.

## Appendix A-1

### Analyst Certification

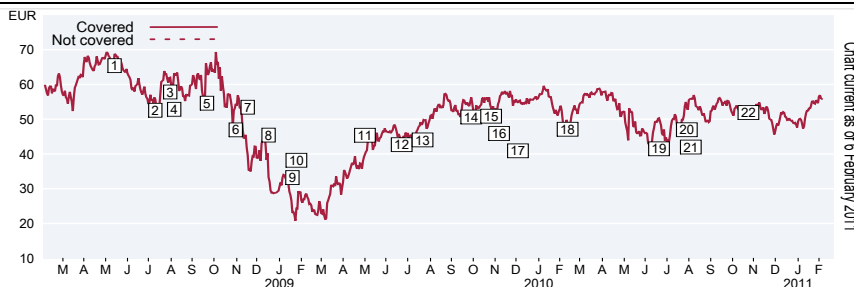
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### IMPORTANT DISCLOSURES

#### BNP Paribas SA (BNPP.PA)

##### Ratings and Target Price History Fundamental Research

Analyst: Kinner Lakhani  
Covered since June 17 2010



	Date	Rating	Target Price	Closing Price
1	14-May-08	1M	*79.70	68.79
2	10-Jul-08	1M	*63.17	55.75
3	31-Jul-08	1M	*68.03	62.01
4	6-Aug-08	1M	*69.98	63.23
5	22-Sep-08	1M	*77.75	64.15
6	31-Oct-08	1M	*68.03	54.43
7	18-Nov-08	1M	*63.17	39.67
8	17-Dec-08	1M	*53.45	33.26

\* Indicates change

	Date	Rating	Target Price	Closing Price
9	20-Jan-09	1M	*43.74	23.04
10	26-Jan-09	*1H	*38.88	24.30
11	1-May-09	*1M	*48.59	39.12
12	23-Jun-09	1M	*53.45	42.67
13	22-Jul-09	1M	*58.31	48.79
14	29-Sep-09	1M	*60.00	56.27
15	27-Oct-09	1M	*65.00	53.24
16	6-Nov-09	1M	*68.00	55.17

	Date	Rating	Target Price	Closing Price
17	3-Dec-09	1M	*70.00	54.73
18	11-Feb-10	1M	*65.00	48.50
19	21-Jun-10	1M	*60.00	50.32
20	29-Jul-10	1M	*62.00	53.40
21	4-Aug-10	1M	*66.00	55.89
22	25-Oct-10	1M	*64.00	52.84

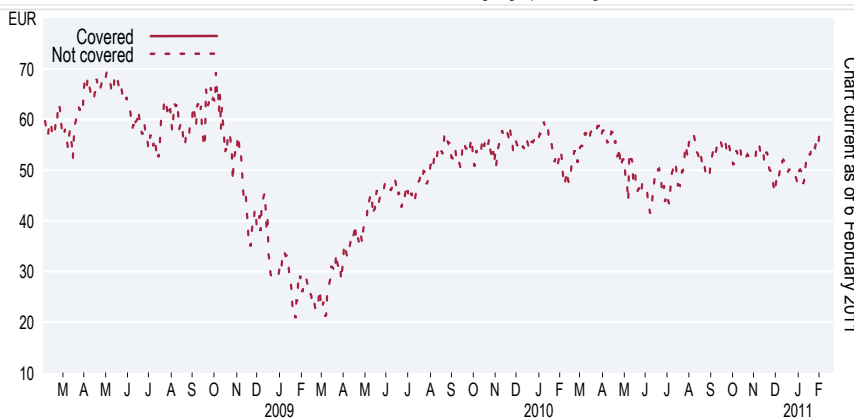
Rating/target price changes above reflect Eastern Standard Time

#### BNP Paribas SA (BNPP.PA)

##### Ratings and Target Price History

##### Best Ideas Research Relative Call (3 Month)

Analyst: Kinner Lakhani  
Covered since June 17 2010



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Credit Agricole SA (CAGR.PA)

### Ratings and Target Price History Fundamental Research

Analyst: Kinner Lakhani

Covered since June 17 2010



Chart current as of 6 February 2011

	Date	Rating	Target Price	Closing Price
1	15-May-08	2M	*17.53	17.75
2	10-Jul-08	2M	*13.50	12.82
3	31-Jul-08	2M	*13.00	13.77
4	22-Sep-08	2M	*15.00	13.91

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	31-Oct-08	2M	*13.00	11.24
6	26-Jan-09	*1M	*11.00	8.82
7	14-May-09	1M	*12.00	10.18
8	27-Aug-09	1M	*15.00	13.06

	Date	Rating	Target Price	Closing Price
9	27-Oct-09	*2M	15.00	13.65
10	11-Feb-10	2M	*12.00	10.40
11	21-Jun-10	2M	*10.50	9.96
12	25-Oct-10	2M	*11.50	11.91

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: Kinner Lakhani

Covered since June 17 2010

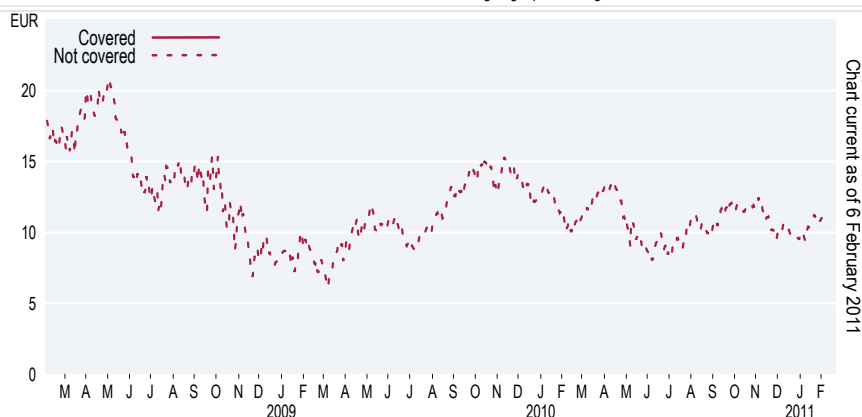


Chart current as of 6 February 2011

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Natixis (CNAT.PA)

### Ratings and Target Price History Fundamental Research

Analyst: Kinner Lakhani

Covered since June 17 2010

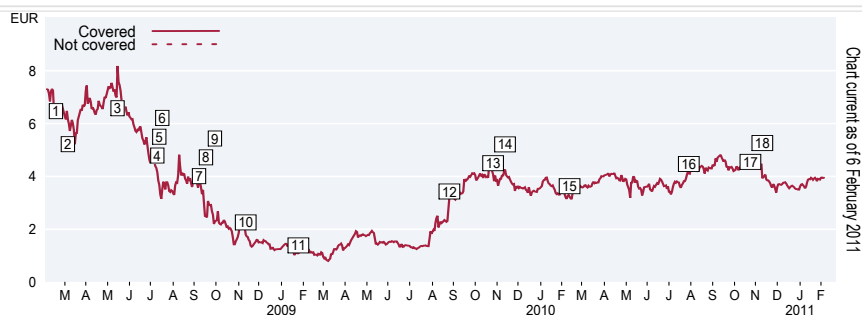


Chart current as of 6 February 2011

	Date	Rating	Target Price	Closing Price
1	19-Feb-08	2H	*7.57	6.59
2	6-Mar-08	2H	*6.91	6.16
3	15-May-08	*3H	*6.58	8.18
4	10-Jul-08	3H	*3.95	4.16
5	14-Jul-08	3H	*3.29	3.68
6	17-Jul-08	*2H	*3.95	3.51

\* Indicates change

	Date	Rating	Target Price	Closing Price
7	8-Sep-08	2H	*4.00	3.87
8	17-Sep-08	2H	*3.00	2.49
9	30-Sep-08	*3H	*1.50	2.29
10	12-Nov-08	3H	*1.25	1.80
11	26-Jan-09	3H	*1.00	1.09
12	26-Aug-09	*1H	*4.00	3.21

	Date	Rating	Target Price	Closing Price
13	27-Oct-09	*3H	4.00	4.07
14	12-Nov-09	3H	*3.50	4.26
15	11-Feb-10	3H	*3.00	3.23
16	29-Jul-10	3H	*3.40	4.11
17	25-Oct-10	3H	*3.70	4.44
18	10-Nov-10	3H	*3.50	3.93

Rating/target price changes above reflect Eastern Standard Time

## Natixis (CNAT.PA)

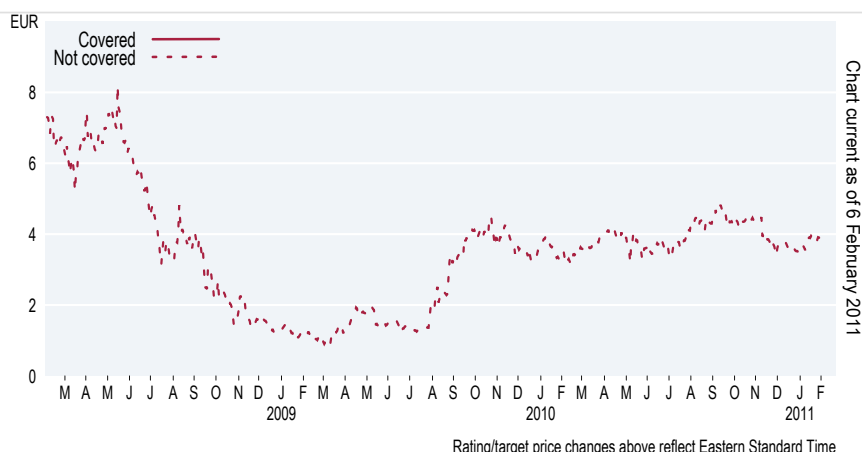
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Kinner Lakhani

Covered since June 17 2010



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Societe Generale (SOGN.PA)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Kinner Lakhani

Covered since June 17 2010



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

	Date	Rating	Target Price	Closing Price
1	12-Feb-08	3H	*58.76	73.13
2	10-Jul-08	3H	*47.39	51.66
3	31-Jul-08	3H	*49.29	56.72
4	5-Aug-08	3H	*55.92	61.70
5	22-Sep-08	*2H	*66.35	61.23
6	31-Oct-08	2H	*52.13	39.97
7	3-Nov-08	2H	*47.39	40.12
8	26-Jan-09	*1H	*37.91	28.68

	Date	Rating	Target Price	Closing Price
9	18-Feb-09	1H	*28.43	22.13
10	1-May-09	*1M	*42.65	37.12
11	7-May-09	*2M	42.65	37.41
12	23-Jun-09	2M	*40.76	36.25
13	16-Jul-09	*1M	*44.55	39.85
14	6-Aug-09	1M	*52.13	48.05
15	27-Oct-09	1M	*55.00	45.33
16	11-Feb-10	1M	*50.00	40.26

	Date	Rating	Target Price	Closing Price
17	19-Feb-10	1M	*48.00	39.70
18	30-Apr-10	1M	*52.00	40.40
19	21-Jun-10	1M	*50.00	38.89
20	29-Jul-10	1M	*54.00	44.71
21	10-Aug-10	1M	*57.00	45.07
22	4-Nov-10	1M	*59.00	44.85
23	26-Jan-11	1M	*62.00	46.07

## Societe Generale (SOGN.PA)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Kinner Lakhani

Covered since June 17 2010



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	0%	100%	0%
% of companies in each rating category that are investment banking clients	45%	44%	40%	0%	44%	0%

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To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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