Europe: Banks

Equity Research

The aggregate picture: Weak operating trends are known, easing reg. pressures are new

Four moving parts...

...(1) weak revenue trends, (2) a worsening credit quality outlook, (3) easing regulatory pressures and (4) valuation are likely to determine the banks' medium-term performance. Our Conviction List includes banks benefiting from reduced regulatory headwinds and self-help optionality; BNP (Buy) is added to the Conviction List.

(1) weak revenue trends...

...are driven by anaemic growth (outside France/ the Nordics) and continued margin pressure. Overall, we cut 2016-17E revenues by c.1% for the sector (up to 2% for Eurozone banks).

(2) and worsening credit quality outlook...

EM weakness and stresses in commodities/energy and the industrial sector have led the market to reassess credit quality. Unlike 2008-12, when credit losses were real-estate/consumer-driven, the current period sees risk from corporates.

All in: 4%-5% earnings cuts (2015-17E)...

...as we incorporate worsening revenue and credit quality dynamics.

(3) ...but over the hump on regulation...

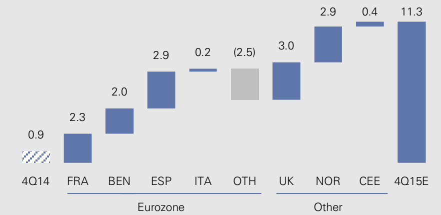
The outcome of FRTB (Basel's review of trading books) was more benign than we expected. Of the major regulatory issues, the FBO remains, but it is limited to a handful of banks (e.g. DBK). For most European banks, it seems we are over the hump on regulation: CS, BARC and BNP (all CL Buy and with high perceived regulatory risk) stand to benefit.

(4) ...and supportive valuations

We make the following Conviction List changes: (1) Erste Bank and Julius Baer are removed (now Neutral); their shares have performed strongly; (2) we add exposure to banks that have "self help" potential, aided by the clearer regulatory outlook – we add BNP (joining CS and BARC); finally, (3) we remain optimistic on M&A among smaller banks in Italy (BPER and BPM).

We also downgrade BKOM to Neutral (from Buy), upgrade CNAT and CAGR to Neutral (from Sell) and resume coverage of CABK with a Neutral. Our Sells have EPS vulnerability and comparatively lower restructuring optionality (SWED, CBK, BKIA, the Polish banks).

A SUBSTANTIAL IMPROVEMENT FORECAST FOR 4Q15 NET PROFIT YOY



Source: Company data, Goldman Sachs Global Investment Research.

TRANSFER OF COVERGAGE

With this report Jose Abad assumes primary coverage of Banco Popular Espanol, (POP.MC); Bankia (BKIA.MC); Bankinter (BKT.MC) and CaixaBank (CABK.MC). Our current investment ratings, earnings estimates, and target prices are contained in this report.

Prices in this report are based on the market close of January 18, 2016

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European banks: Aggregate P&L: 5% cut in 2016/17E profit

Exhibit 1: 4Q15 to mark an improvement from a depressed base, forward estimates down 2%/3% in aggregate for European banks

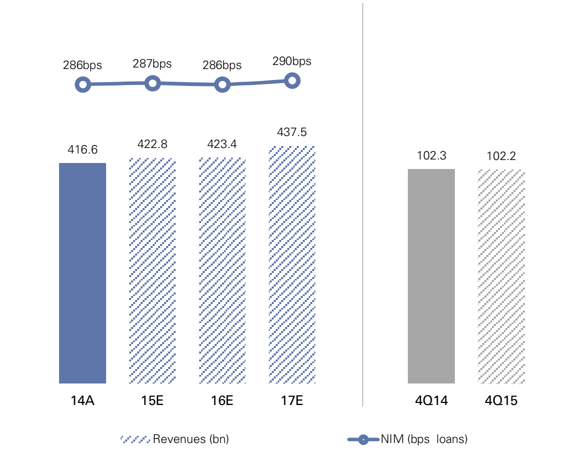
€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises 43 European banks under our coverage

EUR bn	Annual Review: Financials				Annual Review: Revision			Annual Review: Growth / Change			Quarterly Preview: Financials			Quarterly Preview: Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	248.6	251.2	252.5	259.6	1%	-1%	-1%	1%	0%	3%	--	--	--	--	--
Fees (net)	91.9	94.5	96.2	99.9	3%	3%	3%	3%	2%	4%	--	--	--	--	--
Core revenues	340.5	345.7	348.7	359.5	1%	0%	0%	2%	1%	3%	--	--	--	--	--
Other	76.1	77.1	74.7	78.0	-7%	-7%	-8%	1%	-3%	4%	--	--	--	--	--
Total Income	416.6	422.8	423.4	437.5	-0%	-1%	-1%	1%	0%	3%	102.3	101.2	102.2	1%	-0%
Operating Costs	(247.9)	(250.1)	(242.3)	(240.2)	1%	0%	-0%	1%	-3%	-1%	(66.9)	(60.0)	(63.7)	6%	-5%
Pre-Provision Profit	168.7	172.7	181.1	197.3	-2%	-3%	-2%	2%	5%	9%	35.4	41.1	38.4	-7%	8%
Provisions	(78.7)	(65.3)	(52.7)	(50.6)	2%	2%	3%	-17%	-19%	-4%	(26.2)	(12.8)	(19.5)	52%	-26%
Operating Result	89.9	107.4	128.5	146.7	-4%	-5%	-4%	19%	20%	14%	9.2	28.3	18.9	-33%	106%
Other	(22.4)	(4.2)	(0.4)	2.3	--	--	--	--	--	--	(5.5)	(2.1)	(2.2)	--	-60%
Result Before Tax	67.6	103.2	128.1	149.0	-5%	-4%	-4%	53%	24%	16%	3.7	26.2	16.7	-36%	349%
Net Attributable Result[(2)]	40.0	73.4	87.8	101.2	-7%	-5%	-5%	83%	20%	15%	0.9	19.9	11.3	-43%	1,133%
NIM[(1)]	2.9%	2.9%	2.9%	2.9%	2bp	-1bp	-0bp	1bp	-1bp	4bp	--	--	--	--	--
Cost / Income	60%	59%	57%	55%	1pp	1pp	1pp	-0pp	-2pp	-2pp	65%	59%	62%	3pp	-3pp
Cost of risk[(1)]	91 bp	75 bp	60 bp	56 bp	1bp	1bp	2bp	-16bp	-15bp	-3bp	121 bp	58 bp	88 bp	30bp	-32bp
ROTE	4.5%	8.1%	9.3%	10.3%	-0.6pp	-0.4pp	-0.4pp	3.6pp	1.2pp	0.9pp	0.4%	8.8%	4.9%	-3.9pp	4.5pp
ROTA	20 bp	38 bp	46 bp	53 bp	-3bp	-2bp	-2bp	17 bp	8 bp	7 bp	2 bp	41 bp	23 bp	-18 bp	21 bp
Net loans	8.69 t	8.81 t	8.85 t	9.07 t	-0%	-0%	-1%	1.3%	0.5%	2.5%	8.69 t	8.78 t	8.81 t	0.3%	1.3%
Loans/deposits	107%	106%	106%	105%	0pp	0pp	0pp	-1pp	-1pp	-1pp	107%	107%	106%	-0pp	-1pp
Total assets	19.8 t	19.5 t	19.3 t	19.4 t	-0%	-0%	-0%	-2%	-1%	1%	19.8 t	19.5 t	19.5 t	-0%	-2%
CET1%	11.1%	12.0%	12.4%	12.8%	2bp	3bp	0bp	85bp	47bp	37bp	11.1%	11.7%	12.0%	26bp	85bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

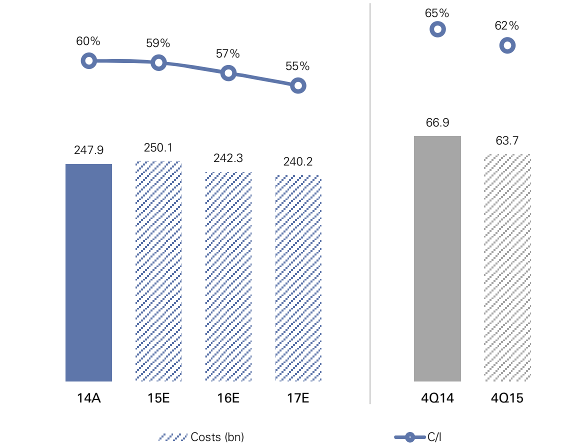
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 2: Anemic revenues
Revenues (€ bn) and NIM (on net loans)



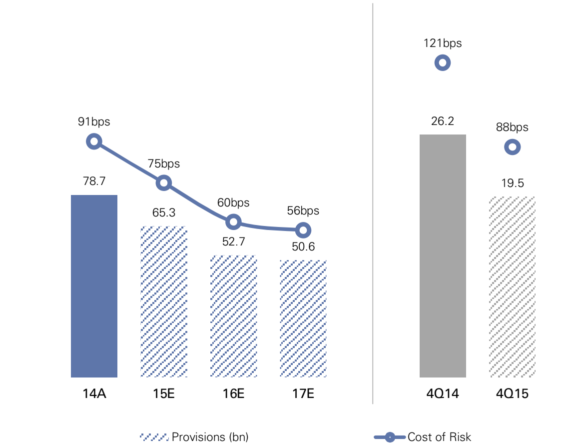
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 3: ...lead cost control...
Costs (€ bn) and C/I ratio



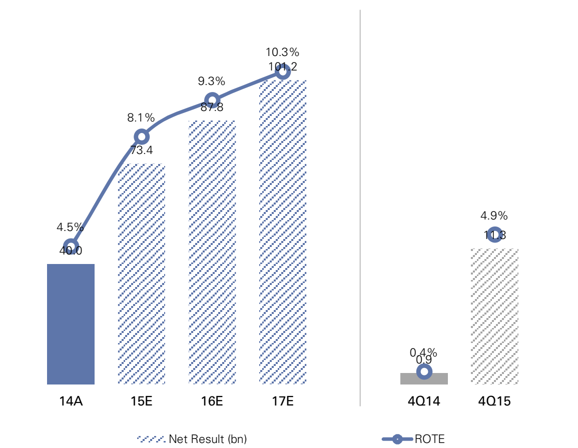
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 4: ...and lower LLPs...
Provisions (€ bn) and cost of risk (on net loans)



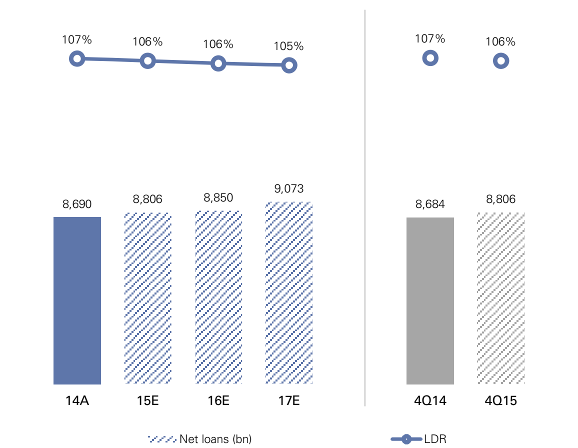
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 5: ...to boost ROTE from a low base.
Net results (€ bn) and ROTE



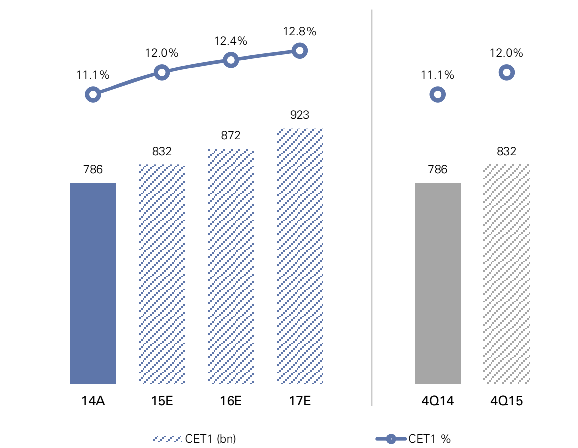
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 6: Volume growth remains muted...
Net loans (€ bn) and loan to deposit ratio



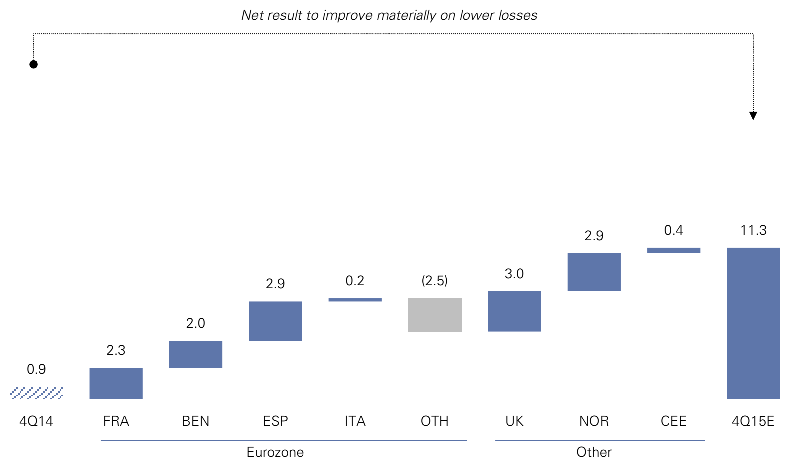
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 7: ...with capital formation as a silver lining
CET1 capital (€ bn) and ratio



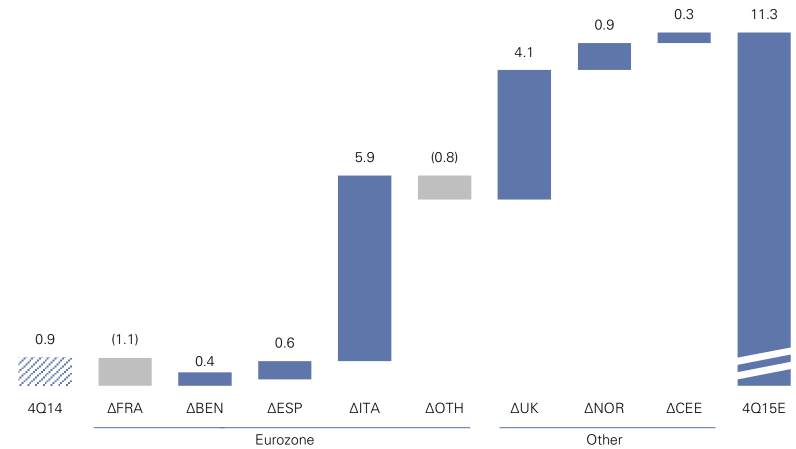
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 8: We forecast the sector to make €11.3 bn in 4Q…
Build-up of 4Q15E net results (€ bn); sample of 43 banks



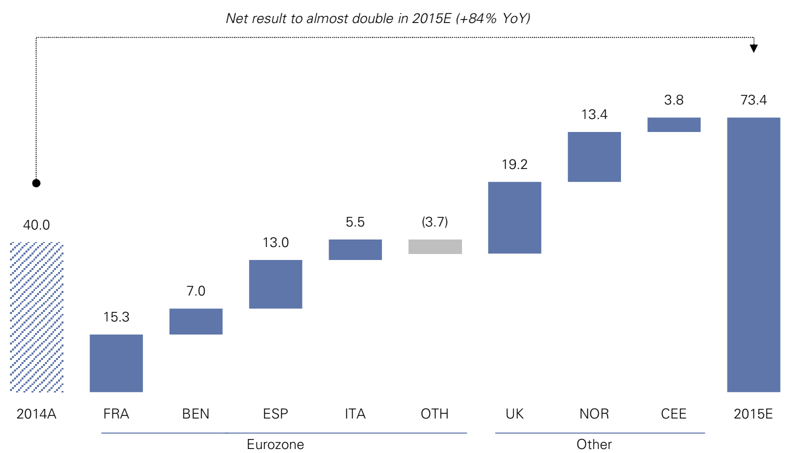
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 9: …with improvements originating in Italy and the UK
Bridge between 4Q14 and 4Q15E net results (€ bn); sample of 43 banks



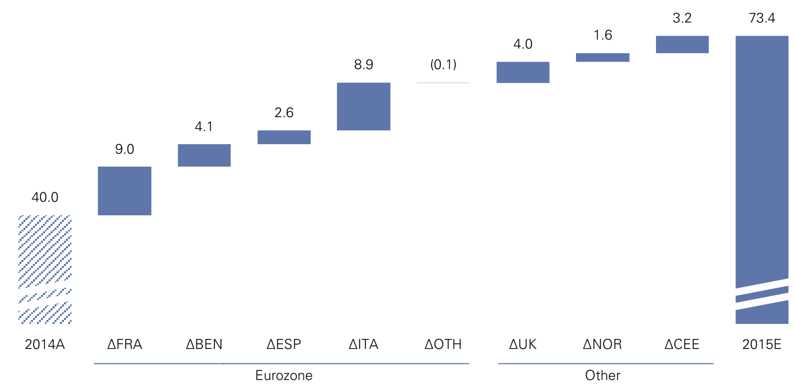
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 10: The largest earners are in the UK, France and the Nordics
Build-up of 2015E net results (€ bn); sample of 43 banks



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 11: Absence of one-offs (e.g. litigation) drives profit growth
Bridge between 2015E and 2014 net results (€ bn); sample of 43 banks



Source: Company data, Goldman Sachs Global Investment Research.

Our key expectations for 4Q15 are summarized below; further details are available on the subsequent pages of this report. Our sample of 43 banks includes retail and commercial banks that report quarterly and where we maintain estimates.

Exhibit 12: Overview of key financial metrics and focus item by geography

Key operating trends in 2015E and 4Q15E across selected geographies based on a sample of 43 European banks under our coverage

	Period	Key ratios				Growth			Focus & key themes	Banks Included
		ROTE	C/I	CoR	CT1%	Revenues	Operating Income (net)	Loans		
Eurozone										
France	15E	9.3%	68%	62 bp	10.6%	6%	7%	3%	Continued headwinds in French retail as well as lower than anticipated growth in CIB offset by higher AuM values for 4Q15, lead to modest earnings. Dividends and ROE enhancing measures should be key for year end results.	BNPP, SOGN, CAGR, Natixis
	4QE	5.5%	69%	67 bp	10.6%	1%	-5%	0%		
	Δ QoQ	-4.5pp	2pp	10 bp	15bp	–	–	–		
Benelux	15E	11.7%	55%	27 bp	13.1%	8%	16%	5%	We expect the key focus to be on dividend pay-out and outlook for regulation vs capital distribution going forward, banks' ability to offset pressure on net interest margins, and early signs of asset quality headwinds across selected high risk-portfolio (oil, EM, etc).	ING, KBC
	4QE	14.0%	60%	28 bp	13.1%	-1%	-14%	2%		
	Δ QoQ	2.5pp	6pp	9 bp	6bp	–	–	–		
Spain	15E	9.1%	50%	120 bp	10.4%	7%	5%	8%	Key focus to be on weakening margins and already weak volume growth, as well as on the cyclical recovery on the cost of risk. Downside risks remain the macro outlook in EM and the political situation in Spain, upside risk the potential for further consolidation.	SAN, BBVA, CABK, BKIA, POP, BKT
	4QE	8.0%	51%	110 bp	10.4%	-1%	-2%	0%		
	Δ QoQ	4.1pp	0pp	2 bp	18bp	–	–	–		
Italy	15E	4.8%	57%	122 bp	11.8%	1%	3%	1%	Continued pressure on NIM and lack of meaningful volume growth lead to earnings downgrades. Focus on M&A should resurface as 2016 is the deadline for de-mutualisation for the Popolari banks.	CRDI, ISP, BAPO, BMPS, EMII, PMII, UBI
	4QE	0.9%	61%	146 bp	11.8%	3%	-1%	1%		
	Δ QoQ	-3.5pp	2pp	35 bp	-7bp	–	–	–		
Other (Germany, Greece, Portugal)	15E	-7.4%	62%	296 bp	11.6%	8%	33%	-3%	For Greece we expect further substantial impairments in 4Q reflecting front-loading of loans losses post recent recaps. Operating trends likely to remain subdued, with key focus on pre-provision, NPL inflows and banks' liquidity.	CBK, ALB, PIR, EURB, BCP, BPI
	4QE	-18.6%	65%	444 bp	11.6%	-3%	-5%	-1%		
	Δ QoQ	-31.9pp	1pp	345 bp	121bp	–	–	–		
Other										
UK (selected banks)	15E	8.5%	67%	15 bp	12.9%	-8%	-13%	-6%	The key areas of focus will be on (i) impairment levels at HSBC and STAN, (ii) revenue trends at RBS and Lloyds and (iii) the impact of recent policy changes on the buy-to-let market.	HSBC, RBS, LLOY
	4QE	5.4%	72%	22 bp	12.9%	1%	-15%	-1%		
	Δ QoQ	-4.4pp	6pp	8 bp	52bp	–	–	–		
Nordics	15E	13.0%	47%	9 bp	15.6%	0%	9%	3%	We expect key focus to be on dividends, guidance on capital rules as well as banks outlook for the full year in light of operating environment remaining challenging due to negative rates and increased risks loan losses for oil and shipping exposed counterparties.	NDA, SWE, SEB, SHB, DNB, DANSKE
	4QE	10.7%	53%	13 bp	15.6%	7%	-5%	1%		
	Δ QoQ	-1.8pp	6pp	7 bp	26bp	–	–	–		
Austria & CEE	15E	9.0%	55%	110 bp	12.6%	-4%	-10%	3%	Key focus will be on banks' ability to offset margin pressure with solid-loan growth in the region, further evidence of easing cycle and NPL balance reduction (sales), as well as development of regulatory initiatives in Poland (negative) vs Hungary and Austria (positive)	ERST, RBI, OTP, KOM, PKO, PEO, BZW, MBK, BHW
	4QE	3.5%	58%	155 bp	12.6%	0%	-13%	2%		
	Δ QoQ	-6.0pp	5pp	72 bp	4bp	–	–	–		

Source: Company data, Goldman Sachs Global Investment Research.

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Regulatory developments

Over the hump on regulation?

The outcome of FRTB (Basel's review of trading books) was more benign than we anticipated. Of the major regulatory issues, the FBO remains; but for banks not meaningfully impacted by the FBO, the regulatory intensity is likely to decline substantially. Finally, it seems, we are over the hump on regulation: CS, BARC and BNP (all CL Buy), which are perceived as carrying substantial regulatory risks in our view, stand to benefit.

The Basel Committee released the final trading book market risk rules on January 14. While the final framework will need to be thoroughly reviewed and its impacts estimated over the coming months, the final text contains many significant improvements compared with prior expectations. We see primary improvements as:

- **Securitizations:** Substantial reduction in risk weights (between 75% and 90% reductions).
- **Residual risks add-on:** the 1% multiplier has decreased to 10 bp for most in-scope product types.
- **Sovereigns:** Significant reduction in risk weights.
- **Non-modelable risk factors:** general improvements.

Exhibit 13: Outstanding regulatory issues – work on RWA denominator continues

Area of Focus	Rule Set
Standardized Approaches	Standardized Approach to Credit Risk
	Fundamental Review of the Trading Book
	Standardized Approach to Operational Risk
Internal Models	Market Risk - Fundamental Review of the Trading Book
	Credit Risk
	Operational Risk Framework
Leverage Ratio	Supplementary Leverage Ratio
Capital Floors	Standardized Approaches Capital Floors
Additional Revisions to RWA Framework	Simple, Transparent and Comparable (STC) Securitizations
	Interest Rate in the Banking Book (IRRBB)
	Sovereign Risk
Securitizations in the Banking Book	Revisions to Securitization Framework
	Simple, Transparent, Comparable
Pillar 3	External disclosure

	Risk-Weighted Capital Ratio	Leverage Ratio	NSFR	LCR
Numerator	Finalised	Monitoring	Finalised (ASF)	Finalised (HQLA)
Denom-inator	Ongoing Work	Monitoring	Finalised (RSF)	Finalised (net stressed cash outflows)
Disclosure	Finalised	Finalised	Finalised	Finalised
Calibration	Finalised	Ongoing Work	Finalised	Finalised

Source: Goldman Sachs Global Investment Research.

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4Q15 preview (selected regions)

Eurozone 4Q15 preview

Exhibit 14: Aggregate P&L forecast to show a material improvement
€ billion (bn) or trillion (t) unless otherwise stated

EUR bn	Annual Review: Financials 14A	15E	16E	17E	Revision 15E	16E	17E	Growth / Change 15/14	16/15	17/16	Quarterly Preview: Financials 4Q14	3Q15	4Q15	Growth / Change QoQ	YoY
NII	–	–	–	–	-	-	-	–	–	–	–	–	–	–	–
Fees (net)	–	–	–	–	-	-	-	–	–	–	–	–	–	–	–
Core revenues	–	–	–	–	-	-	-	–	–	–	–	–	–	–	–
Other	–	–	–	–	-	-	-	–	–	–	–	–	–	–	–
Total Income	261.6	276.4	280.8	292.5	-1%	-2%	-1%	6%	2%	4%	65.8	66.8	66.9	0%	2%
Operating Costs	(155.1)	(161.8)	(162.9)	(165.5)	0%	0%	0%	4%	1%	2%	(40.6)	(39.5)	(40.7)	3%	0%
Pre-Provision Profit	106.4	114.6	117.9	126.9	-2%	-4%	-3%	8%	3%	8%	25.3	27.3	26.1	-4%	3%
Provisions	(68.2)	(57.7)	(42.6)	(40.5)	2%	1%	3%	-15%	-26%	-5%	(23.6)	(11.3)	(16.8)	49%	-29%
Operating Result	38.2	56.9	75.4	86.4	-5%	-7%	-6%	49%	33%	15%	1.6	16.0	9.4	-41%	477%
Other	(9.9)	(0.1)	1.6	1.7	–	–	–	–	–	–	(2.0)	(1.6)	(1.2)	–	-39%
Result Before Tax	28.3	56.8	77.0	88.1	-8%	-7%	-6%	100%	36%	15%	(0.4)	14.3	8.1	-43%	-2,141%
Net Attributable Result[2]	12.4	37.0	50.0	57.4	-11%	-8%	-6%	198%	35%	15%	(0.0)	10.1	5.0	-50%	########
NIM[1]	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Cost / Income	59%	59%	58%	57%	0pp	1pp	1pp	-1pp	-1pp	-1pp	62%	59%	61%	2pp	-1pp
Cost of risk[1]	130 bp	108 bp	77 bp	72 bp	2bp	1bp	2bp	-22bp	-31bp	-5bp	180 bp	83 bp	123 bp	40bp	-57bp
ROTE	2.4%	7.0%	8.9%	9.8%	-0.9pp	-0.7pp	-0.6pp	4.6pp	2.0pp	0.8pp	0.0%	7.6%	3.7%	-3.9pp	3.7pp
ROTA	10 bp	30 bp	40 bp	46 bp	-4bp	-3bp	-3bp	20 bp	10 bp	6 bp	0 bp	33 bp	16 bp	-16 bp	16 bp
Net loans	5.25 t	5.45 t	5.55 t	5.69 t	-0%	-0%	-0%	3.6%	2.0%	2.4%	5.25 t	5.42 t	5.44 t	0.4%	3.6%
Loans/deposits	107%	106%	105%	104%	-0pp	-0pp	-0pp	-1pp	-1pp	-1pp	107%	107%	106%	-0pp	-1pp
Total assets	12.5 t	12.5 t	12.5 t	12.6 t	0%	-0%	-0%	0%	0%	0%	12.5 t	12.5 t	12.5 t	0%	0%
CET1%	10.5%	11.1%	11.5%	11.8%	0bp	4bp	-2bp	65bp	35bp	34bp	10.5%	10.9%	11.1%	20bp	64bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders

Source: Company data, Goldman Sachs Global Investment Research.

France 4Q15 preview: Lower estimates reflecting lower activity, capital build still a priority

Exhibit 15: 4Q15 flat yoy, forward estimates down 1%

€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises BNPP, SOGN, CAGR and Natixis

	Annual Review										Quarterly Preview				
EUR bn	Financials				Revision			Growth / Change			Financials			Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	43.2	47.9	49.1	49.4	6%	6%	6%	11%	3%	1%	–	–	–	–	–
Fees (net)	16.8	17.5	18.2	19.0	20%	20%	20%	4%	4%	4%	–	–	–	–	–
Core revenues	60.0	65.4	67.4	68.3	9%	9%	10%	9%	3%	1%	–	–	–	–	–
Other	26.9	27.1	28.6	30.7	-18%	-17%	-17%	1%	6%	7%	–	–	–	–	–
Total Income	86.9	92.5	95.9	99.0	-0%	-0%	-1%	6%	4%	3%	22.1	22.2	22.4	1%	1%
Operating Costs	(58.9)	(62.4)	(63.6)	(64.8)	0%	0%	-0%	6%	2%	2%	(15.1)	(14.9)	(15.5)	4%	2%
Pre-Provision Profit	28.0	30.0	32.3	34.2	-1%	-1%	-1%	7%	8%	6%	7.0	7.2	6.9	-5%	-2%
Provisions	(9.2)	(9.1)	(8.3)	(7.5)	0%	0%	-0%	-0%	-9%	-10%	(2.5)	(2.1)	(2.5)	17%	1%
Operating Result	18.9	20.9	24.0	26.8	-2%	-2%	-2%	11%	15%	11%	4.5	5.1	4.4	-14%	-3%
Other	(6.3)	2.8	2.1	2.2	–	–	–	–	–	–	0.4	1.0	(0.4)	–	-224%
Result Before Tax	12.6	23.7	26.2	29.0	-6%	-1%	-2%	89%	10%	11%	4.9	6.2	3.9	-36%	-19%
Net Attributable Result(2)	6.3	15.3	17.2	19.0	-8%	-1%	-2%	143%	12%	11%	3.5	4.2	2.3	-44%	-33%
NIM(1)	3.0%	3.3%	3.2%	3.2%	18bp	18bp	18bp	27bp	-2bp	-7bp	–	–	–	–	–
Cost / Income	68%	68%	66%	65%	0pp	0pp	0pp	-0pp	-1pp	-1pp	68%	67%	69%	2pp	1pp
Cost of risk(1)	63 bp	62 bp	55 bp	48 bp	0bp	0bp	-0bp	-1bp	-7bp	-7bp	69 bp	57 bp	67 bp	10bp	-2bp
ROTE	4.0%	9.3%	9.8%	10.2%	-0.7pp	-0.1pp	-0.1pp	5.4pp	0.5pp	0.4pp	8.7%	10.0%	5.5%	-4.5pp	-3.3pp
ROTA	11 bp	28 bp	31 bp	35 bp	-2bp	-0bp	-1bp	16 bp	4 bp	4 bp	25 bp	30 bp	17 bp	-13 bp	-8 bp
Net loans	1.45 t	1.50 t	1.54 t	1.59 t	-	-	-	3.4%	2.9%	2.9%	1.45 t	1.50 t	1.50 t	0.0%	3.4%
Loans/deposits	95%	92%	91%	89%	-	-	-	-3pp	-1pp	-1pp	95%	93%	92%	-1pp	-3pp
Total assets	5.6 t	5.5 t	5.5 t	5.5 t	-	-	-0%	-1%	-1%	-0%	5.6 t	5.5 t	5.5 t	-0%	-1%
CET1%	10.2%	10.6%	11.0%	11.6%	-2bp	-6bp	14bp	45bp	36bp	65bp	10.2%	10.5%	10.6%	15bp	45bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

Source: Company data, Goldman Sachs Global Investment Research.

France: Lower estimates reflecting lower activity, capital build still a priority

Overall, we lower our EPS estimates ahead of 4Q15 on softer than previously anticipated IB assumptions and temporary lower activity in French retail. As an offset, asset gathering activity should benefit from higher asset values. We expect capital formation of 10 bp in 4Q15, net of dividend accrual. The average dividend yield stands at 6% on our estimates, with a scrip option at CASA. Our top pick is BNP (CL-Buy), where we see the shares as overly discounting capital headwinds, considering the earnings generation and the optionality with the asset portfolio the bank has.

Softer P&L trends in Retail and CIB, partly offset by better asset values

Low-rate environment still weighs negatively on retail business

In 4Q15, rates remained at a low level, leading to continuous NII pressure at French banks despite volumes holding up well (c.4% yoy). Additionally, temporary lower activity in French retail, following the Paris events of November, could lead to lower fee income.

French banks seem to be losing market share in CIB

Overall, in 4Q15, the DCM and loan market were up 12% year on year according to Dealogic. For DCM, data points to market share loss for French banks, with little difference between them. However, for syndicated loans (CIB financing), more contrast emerges among banks: BNP's and SGs' market share seems to be increasing while decreasing slightly at CASA and significantly at KN.

- For DCM, BNP appears weak after a very strong 3Q (-17% yoy vs. +25% in 3Q) and SG looks broadly flat. KN and CASA volumes seem to be substantially up after a weak 3Q (respectively 35% and 48% vs -24% and + 5%).
- For loans, volumes are respectively up by more than 60% at BNP and SG, and by 25% at CASA, while they are flat at KN.

Asset gathering activity should benefit from higher asset values

In 4Q15, equity rebounded (STOXX Europe 600 up by 5%) and the US dollar was up by c.3% vs. the euro. Natixis is the most exposed to equities and has c.1/3 of its AUM in US dollars, driving a slightly better performance than at peers. Our AUM indicator estimated performance would stand at 2.4% for CNAT, 1.5% for BNP, and 0.9% Credit Agricole (it is the most exposed to bonds).

Outlook: Yields attractive if capital hurdles overcome, efficiency-related announcement likely

French banks disclosed their SREP in December 2015. BNP, SG and CA Group's SREP stand at 9.5%, with the G-SIB buffers the only differentiating factor (an additional requirement of 2%, 1% and 1%).

- BNP: CET1 requirement of 11.5% fully loaded in 2019. If cross border exposures inside the Eurozone were exuded from the G-SIB calculation, this could fall by 0.5% to 11%. BNP's old management buffer was 1%, which could imply a long-term CET1 target of 12%.
- SG will need 10.5% CET1, including 1% G-SIB buffer. Management targets a buffer of 100-150 bp. This translates into 11.5%-12% CET1 long-term target.
- CASA's requirement stands at 9.5% CET1 and there is no G-SIB surcharge. The bank aims to keep a buffer of 150 bp, translating into an 11% CET1 long-term target ratio.
- Natixis's requirement stands at 8.75% CET1. Management's long-term capital ratio target is 10.5%, the lowest of the group.

On our estimates, we forecast capital ratios in 4Q15 to increase by 10 bp in aggregate. Indeed, rates remained flat leading to unchanged AFS reserves. Additionally, bank by bank: BNP at 10.9% (+20 bp qoq), SG at 10.7% (+20 bp), CASA at 10.5% (+20 bp of which 5 bp for VISA), CNAT at 10.6% (from 11.3% on a fully loaded basis excluding DTA).

The dividend yield at French banks is 6% on average (for 2015E). Excluding Natixis, the payout is at or below 50%, as capital build is a priority, in particular following the SREP disclosure. Looking forward, we forecast French banks' ROEs to stand between 7% and 9% through 2016-2019. As we do not forecast meaningful capital surpluses over and above managements' targets, raising profitability to or above 10% will require more efficiency measures, either operationally or in terms of balance sheet usage. Announcements in this direction could be made with or around results. In this respect, CASA will publish a new business plan in March 2016 and BNP is reported to be preparing to present new measures for its CIB business (where the low returns are concentrated). Bank by bank, our estimates for DPS are:

- BNP dividend at €2.33 translating into 5.3% dividend yield.
- SG dividend at €2 translating into a 5.7% dividend yield.
- CASA dividend at €0.57 per share (with a scrip option) translating into a 6.3% headline dividend yield.
- CNAT dividend at €0.39 translating into a 9.7% dividend yield.

In France, we prefer BNP as near-term dividend appears safe

We like BNP (CL Buy) for its attractive blend of dividend yield (average 6.7% from 2015E to 2019E) on a moderate payout ratio (45%) and options to ramp up capital in a shareholder friendly way: BNP could report a 12% CET1 and 5% leverage by end-2016E in three simple steps (see "Capital deficit to morph into a dividend play"; January 19, 2016).

Spain 4Q15 preview: Higher pressure on margins, loan growth to remain muted

Exhibit 16: Muted loan growth and pressure on margins lead us to review our 2015-17 estimates
€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises SAN, BBVA, CABK, BKIA, POP, BKT

	Annual Review										Quarterly Preview				
EUR bn	Financials				Revision			Growth / Change			Financials			Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	54.7	58.7	60.0	63.7	-1%	-4%	-4%	7%	2%	6%	15	15	15	-2%	1%
Fees (net)	17.8	18.6	19.6	20.9	-1%	-4%	-2%	5%	5%	7%	5	5	5	0%	1%
Core revenues	72.5	77.3	79.6	84.7	-1%	-4%	-3%	7%	3%	6%	19	20	19	-1%	1%
Other	7.0	7.7	6.8	6.9	-2%	-5%	-4%	10%	-11%	1%	1	1	1	0%	15%
Total Income	79.5	85.0	86.5	91.6	-1%	-4%	-3%	7%	2%	6%	20	21	21	-1%	2%
Operating Costs	(39.1)	(42.5)	(43.1)	(44.3)	0%	-0%	-0%	9%	1%	3%	(10)	(11)	(11)	-1%	5%
Pre-Provision Profit	40.4	42.5	43.3	47.2	-3%	-8%	-6%	5%	2%	9%	10	10	10	-2%	-1%
Provisions	(21.6)	(19.1)	(17.9)	(18.2)	1%	3%	7%	-12%	-6%	2%	(5)	(4)	(5)	2%	-16%
Operating Result	18.9	23.4	25.5	29.0	-6%	-15%	-13%	24%	9%	14%	5	6	6	-5%	14%
Other	(3.2)	(3.0)	(0.9)	(0.5)	–	–	–	–	–	–	(2)	(3)	(1)	–	-50%
Result Before Tax	15.7	20.5	24.6	28.5	-8%	-16%	-13%	30%	20%	16%	3	3	5	48%	45%
Net Attributable Result[(2)]	10.4	13.0	15.8	18.3	-9%	-18%	-15%	25%	21%	16%	2	1	3	109%	25%
NIM[(1)]	3.6%	3.7%	3.6%	3.7%	-3bp	-14bp	-10bp	12bp	-10bp	11bp	3.8%	3.6%	3.6%	-9bp	-24bp
Cost / Income	49%	50%	50%	48%	1pp	2pp	2pp	1pp	-0pp	-1pp	50%	51%	51%	0pp	2pp
Cost of risk[(1)]	141 bp	120 bp	107 bp	106 bp	2bp	4bp	8bp	-21bp	-13bp	-1bp	141 bp	109 bp	110 bp	2bp	-30bp
ROTE	7.5%	9.1%	10.4%	11.4%	-0.9pp	-2.1pp	-1.7pp	1.6pp	1.3pp	0.9pp	6.8%	3.9%	8.0%	4.1pp	1.2pp
ROTA	39 bp	48 bp	56 bp	64 bp	-5bp	-12bp	-11bp	9 bp	8 bp	8 bp	35 bp	20 bp	42 bp	22 bp	7 bp
Net loans	1.53 t	1.65 t	1.70 t	1.75 t	-0%	-1%	-1%	7.5%	2.9%	3.1%	1.53 t	1.64 t	1.65 t	0.4%	7.5%
Loans/deposits	111%	112%	112%	112%	-0pp	-1pp	-1pp	1pp	0pp	0pp	111%	113%	112%	-1pp	1pp
Total assets	2.7 t	2.8 t	2.9 t	2.9 t	0%	-0%	-0%	5%	1%	1%	2.7 t	2.8 t	2.8 t	-0%	5%
CET1%	9.7%	10.4%	10.9%	11.3%	3bp	-1bp	-17bp	73bp	48bp	44bp	9.7%	10.2%	10.4%	18bp	73bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders

Source: Company data, Goldman Sachs Global Investment Research.

Spain: Pressure on margins to accentuate while loan growth remains muted

We expect pressure on margins to accentuate over the coming year on the back of falling asset yields and the inability of banks to fully offset this via additional liability repricing. In addition, we expect Spanish loan volumes to remain broadly flat over the next few years, which should put additional pressure on banks' top lines. The negative impact of these developments on earnings could be partly mitigated, however, by improvements in credit quality, the magnitude of which will be a function of the strength of the recovery going forward.

We reduce our estimates for a group of Spanish banks, notably SAN, BBVA, CABK and POP. While the revisions in EPS are optically large (c.17% in 2016, c.15% in 2017 on average), they reflect a reduction of our (positive) gap versus consensus. With this report, Jose Abad assumes primary coverage of Banco Popular Espanol, (POP.MC); Bankia (BKIA.MC); Bankinter (BKT.MC) and CaixaBank (CABK.MC).

Outlook: Pressure on margins to accentuate while loan growth remains muted

Pressure on margins to accentuate. We expect Spanish banks to see their margins deteriorate in 4Q15, by 9 bp qoq, and by a further 10 bp in 2016E, as asset yields continue compressing and the ability to offset this through liability repricing is exhausted.

- Asset yields should keep compressing on the back of a very accommodative monetary policy stance in the Eurozone, strong competition among banks for increasing market share in consumer and SME loans, and the removal of mortgage floors.
- With new sight and term deposits yielding, respectively, 17 bp and 36 bp as of October (Bank of Spain data), the ability of banks to offset lower asset yields with lower deposit rates is also being exhausted, in our view.

No uplift coming from additional cuts in the cost base. We expect growth in the cost base to remain flattish in 4Q15 as well as into 2016E, after substantial improvements in efficiency over the last years.

Cost of risk improvements to drive earnings. Higher activity in Spain is also translating into substantial improvements in the labour market (with employment growing at over 3% until 3Q15) as well as in the system-wide NPL ratio (down by almost 2 pp in 3Q15 vs. 4Q 2014). Given the prospects for firm growth in the coming years (our economists expect real GDP growth of 2.4% on average in 2015-19), we expect cost of risk improvements of 21/13 bp in 2015/16E.

Domestic loan growth to remain slow over 2016-17E. Despite strong credit demand, fueled by increasing activity levels (new gross loan growth is double-digit), this will be unlikely to offset the amortizations of the still large stock of mortgages which are a legacy of the crisis. Additionally, the fact that a number of Spanish regions are now being funded through the Treasury-funded Fondo de Liquidez Autonomica (FLA) should also reduce bank lending to the public sector, we believe.

Key risks: M&A on the upside, deteriorating macro outlook on the downside

- On the upside, prospects for M&A would open the door for efficiency gains. Nevertheless, we note there remains uncertainty around the timing and catalysts of any potential M&A. Consequently, we do not model acquisitions in our Spanish bank forecasts and our valuation methodology does not assign an M&A premium to any of the Spanish banks under our coverage.
- On the downside, a deteriorating macro outlook in Spain (on the back of, e.g., the potential inability to form a stable Government or even additional noise coming from Catalonia) or elsewhere (e.g., the recession in Brazil proving much severe than anticipated), could lead to higher credit costs and/or lower loan growth than anticipated.

Italy 4Q15 preview: Lower estimates reflecting continuous lower rate environment

Exhibit 17: AQR losses make 4Q14 a low base to improve from, forward earnings revisions are negative on lower NII
€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises CRDI, ISP, BAPO, BMPS, EMII, PMII and UBI

EUR bn	Annual Review: Financials				Annual Review: Revision			Annual Review: Growth / Change			Quarterly Preview: Financials			Quarterly Preview: Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	28.6	27.2	27.6	29.0	-0%	-2%	-2%	-5%	2%	5%	7.1	6.7	6.7	1%	-5%
Fees (net)	19.9	21.3	21.0	21.7	-	0%	0%	7%	-1%	3%	5.1	5.1	5.4	6%	6%
Core revenues	48.5	48.5	48.6	50.8	-0%	-1%	-1%	-0%	0%	4%	12.2	11.8	12.1	3%	-0%
Other	5.9	6.6	6.9	7.0	-2%	0%	0%	11%	4%	2%	1.3	1.2	1.2	5%	-3%
Total Income	54.5	55.1	55.5	57.8	-0%	-1%	-1%	1%	1%	4%	13.4	12.9	13.3	3%	-1%
Operating Costs	(31.5)	(31.3)	(30.6)	(30.7)	0%	0%	0%	-0%	-2%	0%	(8.3)	(7.7)	(8.1)	6%	-3%
Pre-Provision Profit	23.0	23.7	24.8	27.1	-1%	-3%	-2%	3%	5%	9%	5.1	5.3	5.2	-1%	3%
Provisions	(24.3)	(14.4)	(10.9)	(9.9)	7%	1%	1%	-41%	-24%	-9%	(12.1)	(3.3)	(4.3)	32%	-64%
Operating Result	(1.3)	9.3	13.9	17.1	-12%	-5%	-3%	-815%	49%	23%	(7.0)	2.0	0.9	-55%	-113%
Other	(0.5)	(0.6)	0.3	(0.1)	–	–	–	–	–	–	(0.7)	(0.0)	(0.8)	–	9%
Result Before Tax	(1.8)	8.7	14.2	17.1	-14%	-5%	-3%	-597%	63%	20%	(7.7)	2.0	0.1	-93%	-102%
Net Attributable Result(2)	(3.5)	5.5	8.9	10.8	-15%	-5%	-3%	-257%	63%	22%	(5.7)	1.3	0.2	-80%	-104%
NIM(1)	2.4%	2.3%	2.3%	2.4%	-0bp	-5bp	-4bp	-13bp	1bp	7bp	2.4%	2.3%	2.3%	0bp	-14bp
Cost / Income	58%	57%	55%	53%	0pp	1pp	1pp	-1pp	-2pp	-2pp	62%	59%	61%	2pp	-1pp
Cost of risk(1)	208 bp	122 bp	92 bp	82 bp	8bp	1bp	1bp	-86bp	-30bp	-10bp	413 bp	111 bp	146 bp	35bp	-267bp
ROTE	-3.2%	4.8%	7.4%	8.8%	-0.8pp	-0.3pp	-0.2pp	8.0pp	2.7pp	1.4pp	-20.5%	4.4%	0.9%	-3.5pp	21.4pp
ROTA	-17 bp	27 bp	43 bp	51 bp	-5bp	-2bp	-2bp	44 bp	16 bp	8 bp	-113 bp	25 bp	5 bp	-20 bp	118 bp
Net loans	1.17 t	1.18 t	1.20 t	1.23 t	-	-	-	0.7%	1.8%	2.5%	1.17 t	1.17 t	1.18 t	0.6%	0.7%
Loans/deposits	126%	126%	125%	125%	-	-	-	0pp	-1pp	-0pp	126%	127%	126%	-0pp	0pp
Total assets	2.0 t	2.1 t	2.1 t	2.1 t	-0%	-0%	-0%	2%	2%	2%	2.0 t	2.1 t	2.1 t	0%	2%
CET1%	11.4%	11.8%	11.9%	12.0%	-9bp	-11bp	-13bp	46bp	8bp	7bp	11.4%	11.9%	11.8%	-7bp	45bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders

Source: Company data, Goldman Sachs Global Investment Research.

Italy: Lower estimates reflecting continuous lower rate environment

In Italy, we expect 2016 to show earnings improvement compared to 2015, as lower loan losses should more than offset NIM pressure. However, from a forecast revision perspective, we lower our NIM estimate further while leaving our LLPs unchanged, leading to earnings cuts of 4%-5%. The key swing factors for 2016 should remain related to the upcoming phase of consolidation in the popolare sector and the potential for an acceleration in NPL disposals, as the new legislation easing bankruptcies and recoveries takes effect progressively. BPER (CL Buy) and BPM (Buy) are our two key calls on these themes.

Earnings revisions: NII falls on prolonged low interest rates outlook

Additional QE measures and falling money rates (into more negative territory over the course of the fourth quarter) should result in more pressure on NII, and the outlook has also deteriorated, with money market futures also falling. We make negative EPS revisions on lower NIM assumptions, with 2016E margin below 2015 on a like-for-like basis. In aggregate, our EPS estimates fall by 4%-5% for 2016-2017. We also reflect for the fourth quarter of 2015 the additional one-off charges stemming from the contribution to the restructuring of the four small banks decided by the authorities in December 2015. We anticipate 2016's returns to improve materially from 2015 on a continued decline in loan losses, but to remain low at 7.4% (5.9% ex Intesa).

Outlook: NPL sales and M&A as key swing factors

Earnings pressure is now well flagged in our opinion, and we believe that the banks which have not done so yet could follow the lead of UCG, BAPO and UBI in announcing additional cost efficiency measures (notably through early retirement). The other two key swing factors for 2016, in our opinion, will be asset quality evolution and the materialization of consolidation:

- The 10 Popolari concerned by the 2015 decree have to change their by-laws and become joint stock companies by the end of 2016. Therefore, we expect the long awaited wave of consolidation to materialize this year. A Reuters article dated January 13 reports that BPM and BAPO could join forces by March. With all major listed Popolari trading well below tangible book value, this should be the major catalyst for share price performance in 2016, in our opinion.
- In the absence of a bad bank (for more details see: "Private NPL transactions foreseeably the sole avenue for disposals – Buy BPER/BPM", December 9, 2015), the sole avenue for accelerated improvement is disposal in the private market. The stock of NPLs remains very large, but transactions have picked up since the enactment of a new law in the summer that will ease recovery and bankruptcy procedures. We believe that NPL sales can be a catalyst for consolidation (i.e., improved market liquidity should ease decision making as uncertainty over the partner's balance sheet should reduce), but also that mergers can accelerate disposals: with banks trading below tangible book, crystalization of "badwill" can offer room to take additional marks on bad loans, in turn easing the sales process.

Key calls

Our top pick in Italy is BPER: its potential for value release in a consolidation phase remains comparatively much more attractive than at peers we believe. This, combined with a multiple of 0.6x 2015E P/TBV, forms the basis of our CL-Buy. We also see BPM as a good play on domestic consolidation and rate it Buy. BPM's higher valuation multiple (0.8x 2015E P/TBV) is, in our view, justified by superior operational trends.

Benelux 4Q15 preview: Focus on NIM and dividends

Exhibit 18: Key operating trends in 2015-17E and 4Q15E for the Benelux banks
€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises ING and KBC

	Annual Review										Quarterly Preview				
EUR bn	Financials				Revision			Growth / Change			Financials			Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	16.7	16.9	17.5	18.2	-0%	-1%	-0%	1%	3%	4%	4.3	4.2	4.2	1%	-2%
Fees (net)	3.9	4.0	4.2	4.4	-	0%	-	4%	5%	4%	1.0	0.9	1.0	8%	2%
Core revenues	20.5	20.9	21.7	22.6	-0%	-1%	-0%	2%	4%	4%	5.3	5.1	5.2	2%	-1%
Other	1.5	2.9	2.2	2.2	1%	5%	3%	96%	-25%	1%	0.3	0.6	0.5	-28%	58%
Total Income	22.0	23.8	23.8	24.8	-0%	-0%	-	8%	0%	4%	5.6	5.7	5.7	-1%	2%
Operating Costs	(12.8)	(13.1)	(13.2)	(13.4)	1%	1%	1%	2%	1%	2%	(3.5)	(3.1)	(3.4)	10%	-3%
Pre-Provision Profit	9.2	10.7	10.6	11.4	-1%	-1%	-1%	16%	-1%	7%	2.0	2.6	2.2	-14%	10%
Provisions	(2.1)	(1.8)	(1.7)	(1.6)	-2%	-	-	-15%	-6%	-2%	(0.6)	(0.3)	(0.5)	50%	-22%
Operating Result	7.1	8.9	9.0	9.7	-1%	-2%	-1%	26%	0%	9%	1.5	2.3	1.8	-23%	23%
Other	0.0	0.8	0.0	0.0	–	–	–	–	–	–	0.0	0.0	0.8	--	12,717%
Result Before Tax	7.1	9.7	9.0	9.8	-0%	-2%	-1%	36%	-8%	9%	1.5	2.3	2.6	10%	75%
Net Attributable Result(2)	2.8	7.0	6.4	7.0	-13%	-2%	-1%	148%	-8%	9%	1.6	1.7	2.0	23%	27%
NIM(1)	2.6%	2.6%	2.6%	2.6%	-0bp	-2bp	-1bp	-3bp	-0bp	5bp	2.7%	2.5%	2.5%	-3bp	-19bp
Cost / Income	58%	55%	55%	54%	0pp	1pp	0pp	-3pp	0pp	-1pp	63%	54%	60%	6pp	-3pp
Cost of risk(1)	33 bp	27 bp	25 bp	24 bp	-1bp	-	-	-6bp	-3bp	-1bp	37 bp	19 bp	28 bp	9bp	-9bp
ROTE	4.6%	11.7%	10.8%	11.1%	-1.9pp	-0.4pp	-0.4pp	7.1pp	-0.9pp	0.4pp	10.4%	11.5%	14.0%	2.5pp	3.7pp
ROTA	23 bp	59 bp	56 bp	60 bp	-9bp	-1bp	-1bp	36 bp	-3 bp	4 bp	52 bp	59 bp	72 bp	13 bp	20 bp
Net loans	0.64 t	0.67 t	0.69 t	0.70 t	-	-	-	5.2%	2.2%	2.3%	0.64 t	0.66 t	0.67 t	2.1%	5.2%
Loans/deposits	105%	104%	103%	101%	-	-	-	-0pp	-2pp	-1pp	105%	103%	104%	1pp	-0pp
Total assets	1.2 t	1.1 t	1.2 t	1.2 t	-	0%	0%	-9%	2%	2%	1.2 t	1.1 t	1.1 t	1%	-9%
CET1%	12.6%	13.1%	13.2%	13.5%	15bp	85bp	90bp	47bp	16bp	26bp	12.6%	13.0%	13.1%	6bp	47bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders

Source: Company data, Goldman Sachs Global Investment Research.

We believe that the key focus for the Benelux banks going into 2016 will be the regulatory outlook and capital distribution. In terms of operating trends, we expect margins and consequently banks' top lines to remain under pressure. Cost efficiency and loan losses could offer a modest earnings relief near term. We forecast loan growth to remain in the low single digits.

Earnings: NIMs expected to pressure top lines; cost efficiency and loan loss performance solid; ROEs stable at 11%-12%.

We expect Benelux banks to deliver stable 11%-12% ROTE in 2015-17 on the back of resilient earnings and capital distribution.

- **Margins:** We forecast the underlying net interest margin of the banks to stay stable over the next years, with the pressure of low yields from the investment portfolios persisting.
- **Fee income:** we expect the relatively low fee income in 3Q15, largely explained by seasonal trends reported by ING, to recover in 4Q15. We estimate the fees to normalize and remain stable over the medium term.
- **Costs:** we estimate the cost-to-income ratio to gradually improve over the next years, with banks able to deliver on cost control initiatives and balanced investment plans. We forecast an elevated level of regulatory costs, with an increase in 2016 driven by incremental costs related to the deposit guarantee scheme and resolution fund contributions.
- **Cost of risk:** we estimate the banks will continue benefitting from positive macro trends in Benelux as well as the resilient performance of their corporate exposures. We forecast the cost of risk to remain at low levels (c.20-30 bp) in 2016-17.

Balance sheet: Growth to continue albeit at a low pace in the medium term

We estimate loan growth for the Benelux banks to remain in the low single-digits over the coming years.

- **Volumes - ING:** For ING, loan growth is driven by retail lending in Belgium and Germany and expansion within selected corporate portfolios, while the main drag remains mortgage lending in the Netherlands.
- **Volumes – KBC**: For KBC, lending growth comes from its Belgian and Czech operations, with other international markets showing more muted growth.

Capital distribution: Dividends set at > 40% payout ratio, subject to capital clarity

- **Dividends - ING:** For ING, we currently forecast a full year dividend for 2015 at €0.70/share, equivalent to a c.70% payout calculated on the basis of headline earnings (adjusted for restatement of NN related provisions). The group has announced its intention to distribute its excess capital to shareholders in the form of at least a 40% pay-out of its profits going forward with upside risks subject to the group's capital requirements. We estimate the payout ratio to be in the 60%-70% range over the coming years.

- **Dividends – KBC:** KBC has announced that it will start paying dividends from 2016 onwards, with a payout ratio of at least 50%, subject to the existence of value-accretive opportunities. We estimate KBC to pay out 60% of its profits from 2016 onwards.

UK 4Q15 preview: EM asset quality and domestic revenues are key concerns

Exhibit 19: Key operating trends in 2015-17E and 4Q15E for UK banks

€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises HSBC, RBS and LLOY

	Annual Review										Quarterly Preview				
EUR bn	Financials				Revision			Growth / Change			Financials			Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	57.0	52.9	50.6	50.6	-0%	-2%	-2%	-7%	-4%	-0%	14	13	13	-1%	-11%
Fees (net)	12.8	12.0	11.9	12.0	-	-0%	-0%	-7%	-1%	1%	5	5	5	9%	0%
Core revenues	69.8	64.9	62.5	62.6	-0%	-1%	-2%	-7%	-4%	0%	19	17	18	1%	-8%
Other	26.2	23.4	21.5	22.3	-0%	-0%	-0%	-11%	-8%	4%	3	3	3	1%	18%
Total Income	96.0	88.3	84.1	84.9	-0%	-1%	-1%	-8%	-5%	1%	22	20	21	1%	-5%
Operating Costs	(62.4)	(59.1)	(50.4)	(45.6)	-0%	-0%	-1%	-5%	-15%	-10%	(18)	(14)	(15)	10%	-16%
Pre-Provision Profit	33.7	29.2	33.7	39.4	-1%	-2%	-2%	-13%	15%	17%	4	7	6	-15%	41%
Provisions	(3.2)	(2.7)	(4.7)	(5.2)	-2%	1%	-1%	-16%	77%	12%	()	(1)	(1)	56%	112%
Operating Result	30.5	26.6	29.0	34.1	-0%	-3%	-2%	-13%	9%	18%	4	6	5	-22%	33%
Other	(10.0)	(3.5)	(1.1)	1.0	--	--	--	--	--	--	(3)	()	(1)	--	-78%
Result Before Tax	20.6	23.1	27.9	35.2	1%	-0%	-2%	12%	21%	26%	1	6	4	-32%	480%
Net Attributable Result(2)	15.2	19.2	20.2	24.2	-1%	-1%	-2%	26%	5%	20%	(1)	6	3	-45%	-367%
NIM(1)	3.0%	2.9%	3.0%	3.0%	0bp	-1bp	-2bp	-12bp	6bp	5bp	3.1%	2.9%	2.9%	-2bp	-16bp
Cost / Income	65%	67%	60%	54%	0pp	0pp	0pp	2pp	-7pp	-6pp	81%	67%	72%	6pp	-9pp
Cost of risk(1)	17 bp	15 bp	28 bp	31 bp	-0bp	1bp	0bp	-2bp	13bp	4bp	10 bp	14 bp	22 bp	8bp	12bp
ROTE	6.7%	8.5%	8.9%	10.3%	-0.1pp	-0.0pp	-0.1pp	1.8pp	0.4pp	1.4pp	-2.0%	9.7%	5.4%	-4.4pp	7.3pp
ROTA	34 bp	45 bp	51 bp	62 bp	-0bp	-0bp	-1bp	11 bp	6 bp	12 bp	-10 bp	53 bp	30 bp	-24 bp	40 bp
Net loans	1.87 t	1.75 t	1.65 t	1.70 t	-1%	-2%	-2%	-6.4%	-5.7%	2.7%	1.86 t	1.76 t	1.75 t	-0.5%	-6.1%
Loans/deposits	87%	85%	84%	84%	0pp	0pp	0pp	-2pp	-1pp	-0pp	87%	86%	85%	-0pp	-1pp
Total assets	4.5 t	4.1 t	3.9 t	3.9 t	-1%	-1%	-1%	-9%	-5%	1%	4.5 t	4.2 t	4.1 t	-2%	-9%
CET1%	11.5%	12.9%	13.8%	14.2%	2bp	2bp	8bp	144bp	91bp	38bp	11.5%	12.4%	12.9%	52bp	144bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

Source: Company data, Goldman Sachs Global Investment Research.

In our view, the key areas of focus during the upcoming results season for the UK banks will be impairment levels at HSBC and STAN, revenue trends at RBS and Lloyds, and the impact of recent policy changes on the buy-to-let market.

- **Cost of risk trends for HSBC and STAN will be a key focus:** With global markets heavily focused on the possibility of a worsening credit environment in Asia, asset quality trends at both HSBC and Standard Chartered will be sharply in focus:
  - So far, asset quality trends at **HSBC** have been largely resilient, with the cost of risk in the group's Asian business remaining below 20 bp during 9M15. We anticipate a modest pick-up in the group level cost of risk to 37 bp during 4Q15 (from 27 bp during 3Q15).
  - At the same time **Standard Chartered** has seen a significant deterioration in its asset quality, with NPLs up 27% since the start of the year and the group's (annualized) cost of risk rising to 178 bp during 3Q15. Commodity exposures have proven particularly significant for STAN, accounting for 47% of impairments at the group ytd. We expect the group's impairments (and associated asset write-offs) to remain elevated throughout 2016, with significant normalization only from 2017.
- **For large domestically focused banks, revenue trends will be an important area to watch:** Developments in the domestic mortgage market as well as the trend in non-interest income will be closely watched at RBS and Lloyds:
  - At **RBS**, we expect the bank to continue its expansion into residential mortgages. During 3Q15 RBS took a 12.1% share of new mortgage business, significantly above its 8.5% share of stock.
  - For **Lloyds**, other income will be a significant focus following a 13% yoy decline during the third quarter. We expect an improved performance in other income during 4Q15 (+15% qoq), chiefly due to reduced market volatility relative to the previous three months. A further focus at Lloyds will be on the performance of the group's mortgage backbook, which stood at £155.6 bn at the end of September. Given the growing number of remortgage deals available at higher LTVs, investors will be watchful of any acceleration in the churn of the group's backbook.
- **Following recent announced policy changes, significant attention will be paid to trends in the buy-to-let market**. During 2015, the Chancellor announced two significant changes to the taxation of buy-to-let properties: (1) restricting mortgage interest relief to the basic rate of income tax (20%); and (2) a 3% stamp duty surcharge on purchases of additional properties (e.g. second home, buy-to-let properties). The former change will be phased-in over four years from April 2017, while the latter change is effective from April 2016. With the stamp duty changes implemented at the beginning of 2Q15, we would expect elevated levels of demand and volume growth in 4Q15 and 1Q16. However, significant uncertainty remains over where new buy-to-let lending volumes will settle longer term, once the new taxation regime is fully implemented.
- **Buffer changes could provide capital comfort.** We continue to see the possibility that the Bank of England could lower individual banks' buffer requirements to avoid double-counting the impact of higher market risk RWAs on bank capital. We believe this would provide meaningful support to the Bank of England's statement that there will be no new wave of bank capital formation.

Nordics 4Q15 preview: Low rates and activity levels to continue to weigh on returns

Exhibit 20: Still on a healthy run-rate

€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises NDA, SWE, SEB, SHB, DNB and DANSKE

	Annual Review										Quarterly Preview				
EUR bn	Financials				Revision			Growth / Change			Financials			Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	19.9	19.7	19.9	20.7	-0%	-0%	-0%	-1%	1%	4%	5.1	5.0	4.9	-2%	-4%
Fees (net)	9.3	9.7	9.7	10.1	-0%	2%	2%	5%	-0%	4%	2.5	2.3	2.4	6%	-3%
Core revenues	29.2	29.4	29.6	30.8	-0%	0%	1%	1%	1%	4%	7.6	7.2	7.3	1%	-4%
Other	6.3	6.1	5.3	5.5	5%	-0%	-1%	-3%	-12%	3%	1.3	1.1	1.6	51%	23%
Total Income	35.5	35.5	34.9	36.3	1%	0%	0%	0%	-2%	4%	8.9	8.3	8.9	7%	0%
Operating Costs	(18.3)	(16.8)	(16.1)	(16.3)	4%	1%	1%	-8%	-4%	1%	(5.5)	(3.9)	(4.7)	21%	-14%
Pre-Provision Profit	17.2	18.7	18.8	20.0	-2%	-0%	-0%	9%	1%	6%	3.4	4.4	4.2	-5%	22%
Provisions	(1.5)	(1.1)	(1.8)	(2.0)	7%	10%	12%	-26%	65%	7%	(0.5)	(0.2)	(0.4)	130%	-17%
Operating Result	15.7	17.6	17.0	18.0	-3%	-1%	-1%	12%	-3%	6%	2.9	4.2	3.8	-10%	29%
Other	(0.2)	(0.1)	(0.1)	(0.1)	–	–	–	–	–	–	(0.1)	(0.0)	(0.0)	–	-71%
Result Before Tax	15.4	17.5	16.9	17.9	-3%	-1%	-1%	13%	-3%	6%	2.9	4.2	3.8	-10%	31%
Net Attributable Result(2)	11.8	13.4	13.1	13.9	-3%	-1%	-1%	14%	-2%	6%	2.0	3.2	2.9	-12%	43%
NIM(1)	1.6%	1.6%	1.6%	1.6%	-0bp	-1bp	-0bp	-4bp	-2bp	3bp	1.7%	1.6%	1.5%	-3bp	-11bp
Cost / Income	52%	47%	46%	45%	2pp	0pp	0pp	-4pp	-1pp	-1pp	61%	47%	53%	6pp	-8pp
Cost of risk(1)	12 bp	9 bp	15 bp	15 bp	1bp	1bp	2bp	-3bp	6bp	1bp	16 bp	6 bp	13 bp	7bp	-3bp
ROTE	11.8%	13.0%	12.1%	12.2%	-0.5pp	-0.2pp	-0.2pp	1.2pp	-0.9pp	0.2pp	8.0%	12.5%	10.7%	-1.8pp	2.7pp
ROTA	52 bp	59 bp	57 bp	60 bp	-2bp	-1bp	-1bp	6 bp	-2 bp	3 bp	35 bp	56 bp	49 bp	-7 bp	14 bp
Net loans	1.22 t	1.26 t	1.28 t	1.31 t	-	-	-	2.9%	1.5%	2.8%	1.22 t	1.25 t	1.26 t	0.5%	2.9%
Loans/deposits	175%	171%	169%	168%	-	-	-	-4pp	-2pp	-1pp	175%	170%	171%	1pp	-4pp
Total assets	2.3 t	2.3 t	2.3 t	2.3 t	-0%	-0%	-0%	3%	-1%	1%	2.3 t	2.3 t	2.3 t	0%	3%
CET1%	14.5%	15.6%	16.4%	16.7%	12bp	15bp	13bp	117bp	74bp	32bp	14.5%	15.4%	15.6%	26bp	117bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders

Source: Company data, Goldman Sachs Global Investment Research.

Nordics 4Q15 preview: Low rates and activity levels to continue to weigh on returns

We expect 4Q results for Nordic banks to continue to show solid earnings power and strong capital formation. Key focus during the results season will most likely be on the banks' full year outlook, the impact from low rates, further cost-cutting initiatives and the bank's full year dividend payout ratios. Management commentary around potential changes to capital requirements will also be of interest. We make minor changes to our estimates, predominantly incorporating losses and gains recently guided by the banks.

- **Revenues expected to remain broadly stable versus last year**. We expect underlying revenues to come in roughly in line with 3Q15 figures as negative rates continue to weigh on net interest income margins and volume growth in the quarter was limited. While we expect fee income to grow 6% qoq, this remains 3% below the previous year due to lower than usual activity levels in the fourth quarter. Other income has been helped by one-off gains such as Nordea booking a €175 mn gain from selling its merchant acquiring business and SHB booking a Skr1.2 bn gain from selling a stake in SCA. Trading income is likely to remain under pressure from low activity levels.
- **Costs impacted by seasonality and various one-offs but still set to compare favorably to same period last year.** In addition to the usual higher fourth quarter charges caused by seasonality, we expect costs to be also adversely impacted by a pre-announced Dkr4.5 bn goodwill write-off at Danske, an estimated restructuring charge of €220 mn at Nordea and a pre-announced Nkr2 bn gain from changing its pension plan to defined contributions at DNB. Stripping this out, we expect a c.13% quarterly increase, roughly in line with the same level last year (excluding a Dkr9.1 bn goodwill write down at Danske in 4Q14).
- **Upping cost of risk estimates due to incorporating likely increased reserve requirements for oil and shipping exposures**. While credit costs for Nordic banks were very low over the course of the year, we are raising our loss estimates for the 4Q as well as subsequent years, owing to a further fall in commodity and oil prices since our last update (weighing on banks' corporate and Norwegian exposures).
- **Capital and dividends.** We make slight downward revisions to our dividend estimates driven by lower earnings expectations and slightly lower payout ratios. Despite the adjustments, dividend yields remain strong at 6.6% (average). We expect Nordic banks to build 40 bp of B3 CT1, driven by the banks' earnings power and the incorporation of accrued earnings not yet consolidated into capital. The main focus concerning capital will likely be around banks' guidance on further requirements, such as potentially higher corporate risk weights and the review of the m-factors used (duration adjustment).
- **Changes to estimates and investment view.** We update our estimates for trends seen in the quarter, guided one-offs and higher likely credit costs going forward. While we remain constructive on the sub-sector with Buy ratings on Nordea (underappreciated dividend yield) and DNB (oil headwinds more than priced in, we continue to expect limited earnings growth going forward as negative rates and limited volume opportunities constrain revenue growth and cost savings become increasingly challenging.

CEE and Austria 4Q15 preview: Margin pressure offset by healthy loan growth

Exhibit 21: Key operating trends in 2015-16E and 4Q15E for the Austrian and CEE banks
€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises ERST, RBI, OTP, KOM, PKO, PEO, BZW, MBK and BHW

	Annual Review										Quarterly Preview				
EUR bn	Financials				Revision			Growth / Change			Financials			Growth / Change	
	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	15.8	14.8	15.2	15.7	-0%	-0%	-0%	-6%	3%	3%	3.9	3.7	3.7	0%	-4%
Fees (net)	6.3	6.1	6.3	6.4	-0%	-1%	-1%	-2%	3%	2%	1.6	1.5	1.5	-0%	-4%
Core revenues	22.0	20.9	21.6	22.2	-0%	-0%	-0%	-5%	3%	3%	5.5	5.3	5.3	0%	-4%
Other	1.5	1.6	2.0	1.7	-1%	21%	-2%	8%	26%	-17%	0.3	0.4	0.3	-3%	17%
Total Income	23.5	22.5	23.6	23.8	-0%	1%	-1%	-4%	5%	1%	5.8	5.6	5.6	-0%	-3%
Operating Costs	(12.2)	(12.3)	(12.8)	(12.8)	2%	-0%	-1%	1%	4%	-1%	(3.1)	(3.0)	(3.2)	9%	4%
Pre-Provision Profit	11.4	10.2	10.7	11.0	-3%	3%	-0%	-10%	5%	3%	2.6	2.6	2.3	-13%	-14%
Provisions	(5.8)	(3.8)	(3.6)	(2.9)	-0%	0%	-1%	-35%	-7%	-19%	(1.7)	(0.7)	(1.4)	89%	-18%
Operating Result	5.5	6.4	7.2	8.2	-5%	4%	-0%	16%	12%	14%	1.0	1.9	0.9	-52%	-7%
Other	(2.3)	(0.6)	(0.9)	(0.4)	–	–	–	–	–	–	(0.4)	(0.3)	(0.3)	–	-34%
Result Before Tax	3.2	5.8	6.3	7.8	-5%	4%	-0%	79%	9%	24%	0.5	1.6	0.6	-61%	16%
Net Attributable Result[(2)]	0.6	3.8	4.5	5.6	-6%	3%	-2%	522%	17%	25%	0.0	1.0	0.4	-62%	740%
NIM[(1)]	4.6%	4.3%	4.2%	4.2%	-0bp	-2bp	-2bp	-36bp	-5bp	-1bp	4.5%	4.3%	4.2%	-6bp	-33bp
Cost / Income	52%	55%	55%	54%	1pp	-1pp	-0pp	3pp	-0pp	-1pp	54%	53%	58%	5pp	4pp
Cost of risk[(1)]	171 bp	110 bp	98 bp	77 bp	-0bp	0bp	-1bp	-61bp	-11bp	-21bp	195 bp	83 bp	155 bp	72bp	-40bp
ROTE	1.5%	9.0%	9.9%	11.6%	-0.5pp	0.3pp	-0.2pp	7.5pp	0.9pp	1.7pp	0.4%	9.6%	3.5%	-6.0pp	3.1pp
ROTA	11 bp	68 bp	78 bp	96 bp	-4bp	2bp	-2bp	57 bp	10 bp	18 bp	3 bp	74 bp	28 bp	-47 bp	24 bp
Net loans	0.34 t	0.35 t	0.37 t	0.38 t	0%	0%	0%	3.3%	4.7%	2.1%	0.34 t	0.35 t	0.35 t	1.7%	3.3%
Loans/deposits	96%	96%	97%	98%	0pp	0pp	0pp	0pp	1pp	1pp	96%	96%	96%	1pp	0pp
Total assets	0.6 t	0.6 t	0.6 t	0.6 t	0%	0%	0%	2%	3%	1%	0.6 t	0.6 t	0.6 t	1%	2%
CET1%	11.9%	12.6%	12.9%	13.6%	-3bp	-9bp	-13bp	74bp	27bp	75bp	11.9%	12.6%	12.6%	4bp	74bp

Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders.

Source: Company data, Goldman Sachs Global Investment Research.

We expect the low-margin environment for the CEE banks to continue pressuring the banks' top lines over the next few years. This is, to some extent, offset by healthy loan growth seen across the CEE and improving asset quality, which is supported by the economic recovery of the region. The regulatory risks remain a key overhang, in particular for Polish banks.

Margin and revenue pressure expected to remain; asset quality improving; returns to improve towards 12% by 2017E

We expect CEE banks to improve reported returns from c.9.0% in 2015E to 11.6% in 2017E. Importantly, our forecasts incorporate meaningful changes in the performance of individual institutions, both to the upside (ERST, RBI, OTP) and downside (Polish banks).

- **Margins**: We do not see any material improvement in banks' margins (NIMs) over the next 1-2 years, given expectations of a persistently low interest rate environment.
- **Fee income**. We expect pressure on fee income in 2015 to ease and forecast moderate recovery (supported by improving volumes) from 2016 onwards.
- **Operating costs**: We expect the banks to maintain strong cost control with low-single digit cost growth in 2016-17E. Consequently, we estimate the underlying cost-to-income ratio to improve for most CEE banks (excluding bank tax in Poland).
- **Asset quality**. We see CEE as a region that is past the peak of the credit cycle. Given a solid economic outlook, we expect the banks to benefit from positive asset quality trends, and move towards their normalized cost of risk on a 2-3 year view.

Loan growth remains healthy in most of the region

Overall, lending volumes should grow at healthy levels across most of CEE, with some regional differentiation continuing.

- We forecast loan growth in the mid-to-high single-digit range in 2015-16 in Poland, the Czech Republic, Slovakia and Romania, on the back of solid economic recovery and relatively low banking penetration.
- We see weaker recovery momentum for Hungary (the only major CE country experiencing deleveraging in 2015E) as well as banks' subsidiaries located in Russia / CIS.

Policy risks remain a pressure on the Polish banking sector

For regulatory and policy risks, please see our report published in conjunction with this note (*Sector under pressure: Bank tax approved, SFr debate continues*).

Top picks: We see highest upside for ERST and BKOM, remain cautious on Polish sector

We see ERST (39% upside) and BKOM (36% upside) as the most attractive banks in CEE, however, we rate the stocks as Neutral in the context of the European banks. We remain cautious on Polish banks given regulatory initiatives pressuring sector returns.

- **ERST** continues to benefit from its market-leading positions across the most attractive CEE markets and is out preferred play on the region's recovery; **BKOM** shares offer a 6%-7% dividend, while the group's stable earnings and strong returns are underpinned by exposure to a structurally attractive Czech market.

We remain Sell-rated on **PEO**, **BZW** and **MBK** owing to their high valuations and high regulatory risks in Poland that we expect to structurally pressure the returns in the domestic market.

Investment banks 4Q15 preview

Exhibit 22: Key operating trends in 2015-16E and 4Q15E for the European Investment banks
€ billion (bn) or trillion (t) unless otherwise stated; sample below comprises BARC, CS, DBK and UBS

	Annual Review										Quarterly Preview				
	Financials				Revision			Growth / Change			Financials			Growth / Change	
EUR bn	14A	15E	16E	17E	15E	16E	17E	15/14	16/15	17/16	4Q14	3Q15	4Q15	QoQ	YoY
NII	--	--	--	--	-	-	-	--	--	--	--	--	--	--	--
Fees (net)	--	--	--	--	-	-	-	--	--	--	--	--	--	--	--
Core revenues	--	--	--	--	-	-	-	--	--	--	--	--	--	--	--
Other	--	--	--	--	-	-	-	--	--	--	--	--	--	--	--
Total Income	109.3	113.2	113.3	114.4	-0%	-1%	-4%	4%	0%	1%	26.4	26.2	25.9	-1%	-2%
Operating Costs	(88.3)	(94.1)	(85.8)	(82.7)	0%	-0%	-4%	7%	-9%	-4%	(21.9)	(27.0)	(21.4)	-20%	-2%
Pre-Provision Profit	20.9	19.1	27.5	31.7	-3%	-4%	-5%	-9%	44%	15%	3.3	(1.9)	3.2	-272%	-0%
Provisions	(4.1)	(3.7)	(4.1)	(3.9)	-1%	-2%	-8%	-9%	11%	-4%	(1.2)	(0.9)	(1.1)	29%	-5%
Operating Result	16.8	15.4	23.4	27.7	-4%	-5%	-5%	-9%	52%	19%	2.1	(2.8)	2.1	-176%	3%
Other	(6.1)	(4.6)	(1.9)	(1.9)	--	--	--	--	--	--	(2.6)	(0.7)	(1.3)	--	--
Result Before Tax	10.7	10.8	21.5	25.8	-5%	0%	-5%	1%	100%	20%	(0.5)	(3.5)	0.8	-122%	-251%
Net Attributable Result[(3)]	5.8	5.8	13.6	16.7	-2%	1%	-5%	-0%	135%	23%	(0.1)	(2.8)	0.9	-132%	-1,629%
NIM[(1)]	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Cost / Income	81%	83%	76%	72%	1pp	1pp	0pp	2pp	-7pp	-3pp	83%	103%	83%	-20pp	-0pp
Cost of risk[(1)]	29 bp	26 bp	28 bp	27 bp	-0bp	-0bp	-2bp	-3bp	3bp	-1bp	34 bp	24 bp	32 bp	7bp	-2bp
ROTE	3.3%	3.2%	7.2%	8.5%	-0.0pp	0.1pp	-0.4pp	-0.1pp	4.0pp	1.2pp	-0.1%	-5.8%	1.9%	7.7pp	2.0pp
ROTA	12 bp	12 bp	29 bp	37 bp	-0bp	-0bp	-2bp	0 bp	17 bp	8 bp	0 bp	-24 bp	8 bp	31 bp	8 bp
Net loans	1.43 t	1.45 t	1.45 t	1.47 t	-0%	-0%	-0%	0.8%	0.6%	1.3%	1.43 t	1.46 t	1.45 t	-1.1%	0.8%
Loans/deposits	83%	83%	83%	84%	0pp	0pp	0pp	-1pp	0pp	1pp	83%	84%	83%	-1pp	-1pp
Total assets	5.1 t	4.7 t	4.6 t	4.5 t	1%	1%	-3%	-7%	-2%	-3%	5.1 t	4.8 t	4.7 t	-2%	-7%
CET1%	11.1%	11.5%	12.4%	13.3%	13bp	46bp	84bp	41bp	86bp	94bp	11.1%	11.6%	11.5%	-6bp	41bp

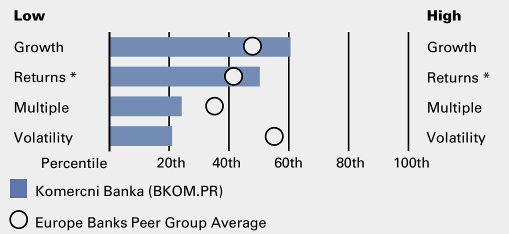
Note: (1) NIM and LLPs calculated as percentage of net loans; (2) Net profit or loss attributable to ordinary shareholders

Source: Company data, Goldman Sachs Global Investment Research.

Company snapshots

Komercni Banka (BKOM.PR): Down to Neutral on limited upside in a sector context

Investment Profile

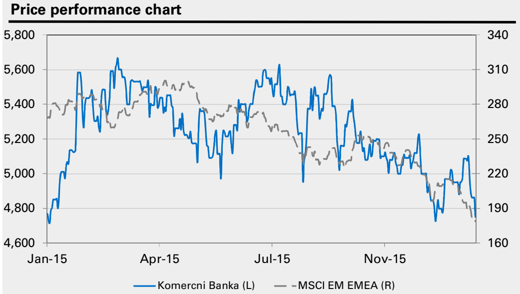


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Kc)	4,750.00
12 month price target (Kc)	6,600.00
Upside/(downside) (%)	39
Market cap (Kc mn)	179,413.1
Tier 1 ratio (%)	16.4

	12/14	12/15E	12/16E	12/17E
GS EPS (Kc) New	**343.78**	**339.59**	**372.72**	**419.83**
EPS (Kc) Old	343.78	339.59	373.16	420.27
DPS (Kc) New	**310.00**	**322.61**	**354.09**	**335.86**
DPS (Kc) Old	310.00	322.61	354.51	336.21
GS P/E (X)	13.7	14.0	12.7	11.3
Dividend yield (%)	6.6	6.8	7.5	7.1
GS ROE (%)	13.1	12.3	13.6	15.1
P/BV (X)	1.7	1.8	1.7	1.7

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(6.5)	(13.7)	(0.4)
Rel. to MSCI EM EMEA	32.1	32.0	49.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/18/2016 close.

What happened

We downgrade our rating on Komercni to Neutral from Buy. We make no changes to our investment case assumptions and marginally increase our 12-month price target as we roll forward our valuation (to 2017E from 2016E). However, given the average upside potential across our European banks coverage, we no longer see a relative opportunity for the stock.

Since being added to the Buy List on June 18, 2012, the stock is up 36% versus a 22% increase in the SX7P and a 31% decline in the MSCI EM EMEA (in CZK).

Current view

In our view, Komercni remains a profitable, well-capitalized bank with strong liquidity and lack of FX lending. The bank's dominant market position in the Czech Republic gives it a favourable exposure to a fundamentally attractive market with an oligopolistic structure in the CEE region. In addition, we estimate the bank will continue to offer a 6%-7% dividend yield, among the highest and most stable of the CEE and European banks. We forecast Komercni to generate returns (ROTE) of 14%-16% in 2016-17.

We make marginal adjustments to our 2015-19 EPS estimates (< 1%) to reflect recent operating trends.

Komercni is now trading at 11.3x 2017E P/E and 1.8x 2016E TBV, compared to a CEE average of c.10x and 1.2x respectively. We forecast an 85% dividend pay-out ratio in 2015-20 on average.

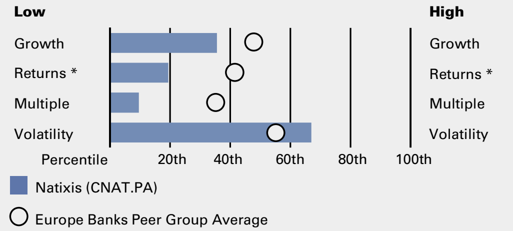
We value Komercni shares using a capital-adjusted ROTE/COE and derive a 12-month price target of CZK6,600 (up from CZK6,500 as we roll forward our valuation to 2017 estimates). Consequently, on a 12-month view, the upside potential offered by Komercni's shares (39%) now ranks broadly on a par with the average upside we see for the European banks.

Key risks to our view and price target include a better/worse-than-expected operating environment and macro conditions, resulting in higher/lower volume growth, net interest margin development and provisions. Higher/lower regulatory pressures are also a risk.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Natixis (CNAT.PA): Up to Neutral from Sell post underperformance

Investment Profile

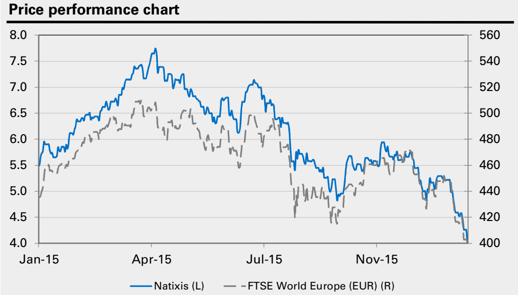


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (€)	4.02
12 month price target (€)	5.30
Upside/(downside) (%)	32
Market cap (€ mn)	12,453.9
Tier 1 ratio (%)	12.0

	12/14	12/15E	12/16E	12/17E
GS EPS (€) New	**0.37**	**0.35**	**0.43**	**0.48**
EPS (€) Old	0.37	0.35	0.45	0.50
DPS (€) New	**0.34**	**0.39**	**0.24**	**0.26**
DPS (€) Old	0.34	0.43	0.25	0.27
GS P/E (X)	13.7	11.5	9.3	8.4
Dividend yield (%)	6.6	9.7	5.9	6.6
GS ROE (%)	6.3	5.7	7.1	7.7
P/BV (X)	1.0	0.9	0.7	0.7

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(27.2)	(43.0)	(26.9)
Rel. to FTSE World Europe (EUR)	(19.3)	(29.2)	(20.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/18/2016 close.

What happened

We downgraded Natixis to Sell on July 27, 2015 as at that time we saw it as trading at a valuation premium to the banks sector and also to the asset managers, a risk given regulatory headwinds (the Basel proposals) as well as earnings risk from the energy segment. Since adding the shares to the Sell List, they are down 41%, vs. a 13% decline for the sector and -15% for the FTSE World Europe.

Natixis now trades on 0.9x 2015E P/TBV, broadly in line with the sector on 1.0x. Since then, some of the Basel proposals have been updated, and while they still point to rising capital demands, the proposed increase is less than was previously the case. This combined with share price underperformance leads us to upgrade the shares to Neutral.

Current view

In a related note published today (*BNP Paribas: Capital deficit to morph into dividend play: Onto the Conviction List*), we update our analysis of the potential capital impact from the latest update of the Basel proposals now commonly referred to as Basel 4. Our initial estimate, detailed in our note dated July 27, 2015 ("high yields reflect regulatory headwinds"), pointed to a c.180 bp headwind to CET1 ratio. The update to the credit and market risk components leads us to reduce this to 124 bp on a conservative basis.

This in turn, has a positive impact on our 12-month price target, partly offsetting our 3% 2016-2019E EPS cuts, as well as the rise in the capital threshold we use for valuation purposes (from 10% to 10.5% post RWA inflation).

We also believe that its capital return for 2015 will be among the highest in the sector at 9.1%, as no RWA growth should enable Natixis to pay more than its minimum target

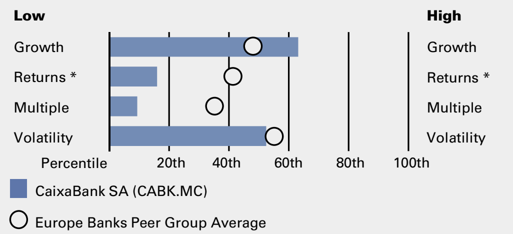
With our latest round of updates and after the share price underperformance, our 12-month ROE/COE-based price target of €5.30 (from €5.70) implies 32% upside, no longer among the lowest in the sector. Hence, we upgrade to Neutral from Sell.

The key risks to our estimates and price target continue to revolve around unexpected positive/negative regulatory developments, as well as capital market activity levels and asset values for the asset management business.

Source: Company data, Goldman Sachs Research estimates, FactSet.

CaixaBank (CABK.MC): Improving earnings and profitability outlook; reinstate at Neutral

Investment Profile

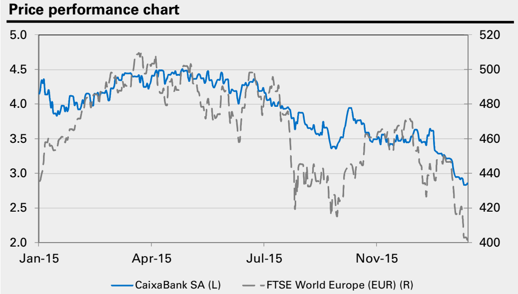


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (€)	2.86
12 month price target (€)	4.00
Upside/(downside) (%)	40
Market cap (€ mn)	16,896.7
Tier 1 ratio (%)	13.1

	12/14	12/15E	12/16E	12/17E
GS EPS (€) New	**0.09**	**0.20**	**0.29**	**0.35**
EPS (€) Old	0.09	0.24	0.35	0.41
DPS (€) New	**0.08**	**0.16**	**0.18**	**0.21**
DPS (€) Old	0.08	0.21	0.21	0.21
GS P/E (X)	47.6	14.1	10.0	8.1
Dividend yield (%)	1.8	5.6	6.3	7.4
GS ROE (%)	2.1	4.6	6.4	7.6
P/BV (X)	1.0	0.7	0.6	0.6

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(24.1)	(33.9)	(31.1)
Rel. to FTSE World Europe (EUR)	(15.8)	(17.9)	(25.3)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/18/2016 close.

What's changed

We have removed the Not Rated designation from CaixaBank's shares. We have a Neutral rating with a 12-month price target of €4.00.

Implications

CaixaBank is Spain's largest domestic bank, with a loan book of €202 bn as at 3Q15 and c.16% market share in domestic mortgages. In our view, while CABK is positively geared to a Spanish macroeconomic recovery, risks remain over potential political instability in Spain or Catalonia, and/or action over full retrocession of mortgage floor payments. **Earnings outlook:** (1) We forecast loan growth of c.1%-3% over 2016-17, driven by corporate loan volumes (c.35% of CABK's loan book), and keeping in line with our economists' forecast of real GDP growth of 2%-3% over the period; (2) within mortgage loans, we forecast trends to remain muted, as large legacy amortizations continue to offset new borrowing inflows. Additionally, issues concerning the removal of mortgage floors in Spain, as well as continued NIM pressure, are likely to act as a headwind to NII growth in this part of CABK's business, in our view; (3) we expect cost of risk improvements to materialize over the medium term, driven by higher activity levels in Spain and the scope for substantial improvements in the domestic unemployment rate. We forecast CABK's credit costs to fall to 60-50 bp over 2016-17 (vs. c.100 bp in 1H15), which we view as in line with Bloomberg consensus expectations. **Profitability and capital:** Overall, we forecast CaixaBank's underlying ROTE to improve to 10.5% by 2017 (adjusted for excess capital at 10% CET1) and expect the bank's capital profile to remain solid, with its CET1 B3 fully phased ratio remaining above 11%. We therefore forecast the bank to move to a fully cash-based dividend payout by 2016, with an average 3-year payout ratio of 60%. At current levels, this implies a 2016E dividend yield of 6%.

Valuation

CaixaBank's shares trade at 0.7x 2016E TBV, a 36% discount to our European banks coverage, reflecting the bank's lower ROTE of 7.5% in 2016E (vs. a sector average of 12%). On an earnings basis, CABK trades at 10x 2016E GS P/E, a small (9%) discount to the European average. We value the shares using a ROTE/COE methodology to derive a 12-month price target of €4.00. Our price target implies 40% upside potential from current levels, but with our 2016-17 EPS estimates in line with consensus, we reinstate with a Neutral rating.

Key risks

Key upside/downside risks relate to top-line trends: better/worse than expected loan growth, NIM compression, and/or fee development. Further risks relate to asset quality trends, M&A prospects and the execution of the potential disposal of CABK's stake in Banco BPI; better/worse than expected developments in the Spanish domestic economy.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Estimate and price target changes

Exhibit 23: Changes to our estimates and 12-month price targets

Estimate changes	Share Price	Rating		Price Target			U/D	PT period	EPS ccy	GS EPS (old)					GS EPS (new)					GS EPS (change)				
		Old	New	Old	New	Change				2015E	2016E	2017E	2018E	2019E	2015E	2016E	2017E	2018E	2019E	2015E	2016E	2017E	2018E	2019E
Austria																								
Erste Bank	€ 24.54	Buy*	Neutral	35.00	35.00	--	43%	12 months	€	2.09	2.54	3.42	3.95	4.16	2.09	2.55	3.42	3.95	4.17	0%	0%	0%	0%	0%
Raiffeisen Bank International	€ 11.30	Neutral	Neutral	14.75	16.00	8%	42%	12 months	€	0.31	1.53	3.10	3.43	3.59	0.31	1.53	3.12	3.44	3.59	0%	0%	0%	0%	0%
Benelux																								
ING Groep N.V.	€ 10.80	Neutral	Neutral	14.80	15.00	1%	39%	12 months	€	1.09	1.15	1.24	1.31	1.38	1.08	1.12	1.22	1.30	1.37	-1%	-3%	-2%	-1%	-1%
KBC Group	€ 50.88	Neutral	Neutral	60.00	64.00	7%	26%	12 months	€	7.11	4.95	5.42	5.80	6.09	7.11	4.95	5.42	5.80	6.09	0%	0%	0%	0%	0%
Czech Republic																								
Komercni Banka	Kc 4,750.00	Buy	Neutral	6,500.00	6,600.00	2%	39%	12 months	Kc	339.59	373.16	420.27	451.27	480.08	339.59	372.72	419.83	450.83	479.65	0%	0%	0%	0%	0%
France																								
BNP Paribas	€ 44.33	Buy	Buy*	70.00	66.00	-6%	49%	12 months	€	5.83	6.39	7.11	7.62	8.10	5.71	6.28	7.02	7.54	8.01	-2%	-2%	-1%	-1%	-1%
Societe Generale	€ 34.91	Neutral	Neutral	50.00	49.00	-2%	40%	12 months	€	3.88	4.63	5.20	5.47	5.77	3.85	4.62	5.19	5.46	5.76	-1%	0%	0%	0%	0%
Credit Agricole SA	€ 9.06	Sell	Neutral	11.40	12.10	6%	34%	12 months	€	1.09	1.23	1.34	1.42	1.50	1.09	1.21	1.32	1.39	1.47	-1%	-2%	-2%	-2%	-2%
Natixis	€ 4.02	Sell	Neutral	5.70	5.30	-7%	32%	12 months	€	0.35	0.45	0.50	0.53	0.57	0.35	0.43	0.48	0.51	0.55	-1%	-3%	-3%	-3%	-3%
Germany																								
Commerzbank AG	€ 7.90	Sell	Sell	10.00	10.00	--	27%	12 months	€	0.88	0.92	0.96	1.00	1.07	0.88	0.92	0.96	1.00	1.07	0%	0%	0%	0%	0%
Deutsche Bank	€ 18.55	Neutral	Neutral	33.00	29.20	-12%	57%	12 months	€	3.74	3.61	3.78	3.98	4.21	3.75	3.34	3.43	3.72	3.92	0%	-8%	-9%	-7%	-7%
Greece																								
Bank of Piraeus	€ 0.19	Neutral	Neutral	0.45	0.35	-22%	86%	12 months	€	-2.10	0.00	0.01	0.03	0.04	-2.10	0.00	0.01	0.03	0.04	0%	0%	0%	0%	0%
Eurobank Ergasias	€ 0.82	Neutral	Neutral	1.45	1.40	-3%	70%	12 months	€	-3.63	0.03	0.08	0.17	0.21	-3.63	0.03	0.08	0.17	0.21	0%	0%	0%	0%	0%
Alpha Bank	€ 1.87	Buy	Buy	3.30	3.30	--	76%	12 months	€	-3.16	0.04	0.14	0.34	0.40	-3.16	0.04	0.14	0.34	0.40	0%	0%	0%	0%	0%
Hungary																								
OTP Bank Plc	HUF 5,900.00	Neutral	Neutral	6,200.00	7,000.00	13%	19%	12 months	HUF	269.61	591.56	734.60	783.41	816.21	268.70	620.85	754.23	802.73	835.53	0%	5%	3%	2%	2%
Ireland																								
Bank of Ireland	€ 0.30	Neutral	Neutral	0.35	0.35	--	16%	12 months	€	0.02	0.03	0.03	0.03	0.04	0.03	0.03	0.03	0.03	0.04	12%	-8%	-3%	0%	-2%
Italy																								
Banca Monte dei Paschi di Siena	€ 0.77	Neutral	Neutral	2.00	2.00	--	161%	12 months	€	-0.01	0.09	0.16	0.21	0.25	0.00	0.08	0.15	0.21	0.25	-48%	-12%	-4%	0%	0%
UBI Banca	€ 4.91	Neutral	Neutral	8.20	7.70	-6%	57%	12 months	€	0.25	0.44	0.58	0.67	0.73	0.20	0.37	0.51	0.65	0.78	-17%	-17%	-12%	-2%	6%
Banca Popolare di Milano	€ 0.82	Buy	Buy	1.19	1.16	-3%	42%	12 months	€	0.06	0.06	0.08	0.09	0.09	0.06	0.06	0.07	0.08	0.09	4%	-6%	-7%	-5%	0%
Banco Popolare	€ 10.40	Neutral	Neutral	16.00	14.90	-7%	43%	12 months	€	1.20	1.12	1.37	1.63	1.84	0.95	1.05	1.31	1.59	1.80	-21%	-6%	-4%	-2%	-2%
Intesa Sanpaolo	€ 2.66	Neutral	Neutral	3.77	3.71	-2%	39%	12 months	€	0.21	0.26	0.29	0.32	0.34	0.19	0.26	0.28	0.32	0.34	-11%	-1%	-1%	-2%	-1%
UniCredit	€ 4.16	Neutral	Neutral	6.80	6.50	-4%	56%	12 months	€	0.33	0.57	0.73	0.85	0.92	0.27	0.53	0.71	0.82	0.89	-16%	-7%	-4%	-3%	-3%
BPER	€ 5.65	Buy*	Buy*	11.10	10.70	-4%	90%	12 months	€	0.38	0.62	0.78	0.87	0.93	0.37	0.58	0.74	0.83	0.93	-3%	-7%	-6%	-4%	0%

*Conviction List.

Source: Factset, Goldman Sachs Global Investment Research.

Exhibit 23 cont'd: Changes to our estimates and 12-month price targets

Estimate changes	Share Price		Rating Old	Rating New	Price Target Old	Price Target New	Price Target Change	U/D	PT period	EPS ccy	GS EPS (old) 2015E	GS EPS (old) 2016E	GS EPS (old) 2017E	GS EPS (old) 2018E	GS EPS (old) 2018E	GS EPS (new) 2015E	GS EPS (new) 2016E	GS EPS (new) 2017E	GS EPS (new) 2018E	GS EPS (new) 2018E	GS EPS (change) 2015E	GS EPS (change) 2016E	GS EPS (change) 2017E	GS EPS (change) 2018E	GS EPS (change) 2018E
Nordics																									
Danske Bank	Dkr	171.9	Neutral	Neutral	215.00	225.00	5%	31%	12 months	Dkr	16.42	15.06	16.52	17.84	19.34	16.45	15.79	17.27	18.61	20.16	0%	5%	5%	4%	4%
DNB	Nkr	93.7	Buy	Buy	139.00	135.00	-3%	44%	12 months	Nkr	13.43	12.02	12.71	14.03	14.81	12.75	11.61	12.10	13.78	14.70	-5%	-3%	-5%	-2%	-1%
Swedbank	Skr	169.8	Sell	Sell	195.00	195.00	--	15%	12 months	Skr	15.20	15.02	15.64	16.36	17.07	14.99	14.67	15.39	16.12	16.84	-1%	-2%	-2%	-1%	-1%
Nordea	Skr	86.1	Buy	Buy	118.00	118.00	--	37%	12 months	€	0.93	0.92	0.97	1.00	1.03	0.90	0.89	0.95	0.99	1.03	-3%	-4%	-2%	-1%	0%
SEB	Skr	77.8	Neutral	Neutral	104.00	105.00	1%	35%	12 months	Skr	7.79	7.37	7.98	8.31	8.65	7.62	7.26	7.87	8.20	8.54	-2%	-1%	-1%	-1%	-1%
Svenska Handelsbanken	Skr	100.3	Neutral	Neutral	128.00	130.00	2%	30%	12 months	Skr	8.07	8.57	9.25	9.99	10.79	8.00	8.57	9.25	9.99	10.79	-1%	0%	0%	0%	0%
Poland																									
Bank Handlowy	PLN	71.83	Neutral	Neutral	85.00	75.00	-12%	4%	12 months	PLN	5.25	5.18	5.18	5.61	6.07	5.25	4.70	4.94	5.42	5.95	0%	-9%	-5%	-3%	-2%
Bank Pekao	PLN	132.05	Sell	Sell	150.00	130.00	-13%	-2%	12 months	PLN	9.13	9.24	9.72	10.83	11.91	9.10	7.71	8.32	9.14	10.00	0%	-17%	-14%	-16%	-16%
Mbank	PLN	275.30	Sell	Sell	327.00	300.00	-8%	9%	12 months	PLN	30.76	20.21	20.68	27.74	34.33	31.51	24.19	23.62	26.09	29.88	2%	20%	14%	-6%	-13%
PKO BP	PLN	22.63	Neutral	Neutral	30.00	27.00	-10%	19%	12 months	PLN	2.38	2.37	2.38	2.90	3.38	2.36	1.84	2.10	2.48	2.82	-1%	-22%	-11%	-14%	-17%
Bank Zachodni WBK	PLN	232.45	Sell	Sell	240.00	230.00	-4%	-1%	12 months	PLN	20.43	18.81	20.16	24.20	27.81	20.23	18.88	19.85	22.33	24.68	-1%	0%	-2%	-8%	-11%
Idea Bank	PLN	25.50	Neutral	Neutral	29.00	28.00	-3%	10%	12 months	PLN	4.45	3.95	4.43	4.69	5.10	4.45	3.59	4.34	4.56	4.95	0%	-9%	-2%	-3%	-3%
Spain																									
BBVA	€	5.81	Neutral	Neutral	10.90	8.30	-24%	43%	12 months	€	0.72	0.90	1.07	1.20	1.24	0.66	0.72	0.85	0.92	0.96	-8%	-20%	-21%	-23%	-22%
Banco Santander	€	3.95	Neutral	Neutral	6.80	5.55	-18%	41%	12 months	€	0.55	0.62	0.66	0.72	0.78	0.52	0.51	0.57	0.64	0.68	-5%	-17%	-14%	-12%	-13%
Bankinter	€	5.90	Neutral	Neutral	7.30	6.90	-5%	17%	12 months	€	0.42	0.52	0.58	0.62	0.65	0.42	0.49	0.53	0.57	0.60	-1%	-6%	-8%	-8%	-9%
Banco Popular Espanol	€	2.46	Neutral	Neutral	4.45	3.60	-19%	46%	12 months	€	0.19	0.34	0.38	0.50	0.56	0.17	0.25	0.33	0.43	0.45	-11%	-28%	-14%	-15%	-20%
CaixaBank SA	€	2.86	Not Rated	Neutral		4.00	--	40%	12 months	€	0.24	0.35	0.41	0.46	0.47	0.20	0.29	0.35	0.42	0.48	-15%	-19%	-13%	-9%	1%
Bankia	€	0.94	Sell	Sell	1.05	1.05	--	12%	12 months	€	0.08	0.09	0.08	0.08	0.09	0.08	0.09	0.08	0.08	0.09	0%	-1%	-1%	0%	0%
Portugal																									
Banco Comercial Portugues	€	0.04	Neutral	Neutral	0.06	0.06	-5%	56%	12 months	€	0.01	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	-4%	24%	1%	1%	1%
Banco BPI	€	0.96	Not Rated	Not Rated			--			€	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.16	0.16	-1%	1%	4%	2%	4%
Switzerland																									
Credit Suisse	SFr	18.40	Buy*	Buy*	31.59	31.59	--	72%	12 months	SFr	2.48	2.86	3.10	3.30	3.54	2.48	2.86	3.10	3.30	3.54	0%	0%	0%	0%	0%
UBS	SFr	16.75	Neutral	Neutral	20.90	20.90	--	25%	12 months	SFr	1.36	1.69	1.97	2.23	2.51	1.36	1.69	1.97	2.23	2.51	0%	0%	0%	0%	0%
EFG International	SFr	9.56	Neutral	Neutral	11.80	11.60	-2%	21%	12 months	SFr	0.57	0.94	1.15	1.30	1.46	0.56	0.94	1.15	1.29	1.43	-3%	0%	0%	0%	-2%
Julius Baer Group	SFr	41.93	Buy*	Neutral	59.00	59.00	--	41%	12 months	SFr	3.31	3.64	4.22	4.84	5.32	3.31	3.64	4.23	4.85	5.32	0%	0%	0%	0%	0%
Vontobel	SFr	39.65	Neutral	Neutral	47.40	47.50	0%	20%	12 months	SFr	3.07	3.34	3.91	4.37	4.95	3.07	3.35	3.91	4.37	4.96	0%	0%	0%	0%	0%
UK																									
Barclays plc	£	187.65	Buy*	Buy*	335.00	320.00	-4%	71%	12 months	£	22.73	28.55	32.37	35.47	38.66	22.66	27.28	31.30	34.32	37.44	0%	-4%	-3%	-3%	-3%
HSBC	£	479.70	Neutral	Neutral	630.00	630.00	--	31%	12 months	$	0.81	0.83	0.91	1.02	1.04	0.81	0.80	0.89	0.99	1.01	0%	-3%	-3%	-3%	-2%
Lloyds Banking Group Plc	£	63.96	Neutral	Neutral	87.00	87.00	--	36%	12 months	£	8.47	7.30	7.45	7.71	8.27	8.39	7.19	7.34	7.60	8.16	-1%	-1%	-1%	-1%	-1%
Royal Bank of Scotland	£	260.20	Neutral	Neutral	400.00	400.00	--	54%	12 months	£	25.88	26.21	27.95	30.71	31.90	25.83	25.38	27.75	30.59	31.79	0%	-3%	-1%	0%	0%
Standard Chartered	£	489.10	Buy	Buy	840.00	790.00	-6%	62%	12 months	$	0.37	0.81	1.02	1.31		0.37	0.79	0.98	1.26		0%	-2%	-4%	-4%	
Virgin Money	£	289.70	Neutral	Neutral	450.00	410.00	-9%	42%	12 months	£	23.90	35.34	47.03	57.85	70.19	23.37	32.49	44.09	54.14	66.08	-2%	-8%	-6%	-6%	-6%
Arrow Global Group	£	217.50	Buy	Buy	360.00	320.00	-11%	47%	12 months	£	20.24	27.45	34.84	37.87	41.78	20.21	27.26	34.28	37.15	41.01	0%	-1%	-2%	-2%	-2%
Provident Financial	£	2,903.00	Neutral	Neutral	3,370.00	3,330.00	-1%	15%	12 months	£	155.45	177.19	192.24	206.74	221.86	157.77	178.16	193.31	207.87	223.05	1%	1%	1%	1%	1%
Shawbrook	£	304.70	Neutral	Neutral	400.00	370.00	-8%	21%	12 months	£	24.94	31.37	41.39	50.36	58.04	25.21	31.62	40.68	48.79	55.93	1%	1%	-2%	-3%	-4%

*Conviction List.

Source: Factset, Goldman Sachs Global Investment Research.

Exhibit 24: Methodology and risks to our price targets and view

Company	Methodology	Risks to our estimates and target price
Austria		
Erste Bank	ROTE/COE; SOTP	Stronger / weaker underlying volumes, margin, asset and quality trends; positive / negative political and regulatory decisions.
Raiffeisen Bank International	ROTE/COE	Better / worse than expected macro developments in CIS, CEE and SEE regions, unfavourable political decisions in core markets, risks related to the execution of their new strategic review
Benelux		
ING Groep N.V.	ROTE/COE	Better / worse than expected asset quality developments, regulatory changes and execution risks regarding disposals
KBC Group	ROTE/COE	Better / worse topline trends (core revenues, NIM) and lending volumes as well as dividends, regulation and asset quality trends
Czech Republic		
Komercni	ROTE/COE	Better / worse than expected macro conditions resulting in higher / lower growth, higher lower / provisioning and stronger / weaker pressure
France		
BNP Paribas	ROTE/COE	Worsening of credit quality, unanticipated regulatory headwinds, higher funding costs
Societe Generale	ROTE/COE	Upside: better CEE/France macro trends, lower increase in capital requirements; Downside: worse credit quality, weaker capital markets, regulatory headwinds
Credit Agricole SA	ROTE/COE	Upside: better France macro trends, lower increase in capital requirements; Downside: worse credit quality, weaker capital markets, regulatory headwinds, lower AuM performance
Natixis	ROTE/COE	Upside: better France macro trends, lower increase in capital requirements; Downside: worse credit quality, weaker capital markets, regulatory headwinds, lower AuM performance
Germany		
Commerzbank AG	ROTE/COE	Better macro and asset quality trends in Germany / Europe, regulatory changes, litigation
Deutsche Bank	ROTE/COE	Better/Worse than expected capital markets performance, German macroeconomic data and impact of regulatory changes
Greece & Cyprus		
Piraeus Bank	ROTE/COE	Political and funding risk, better/worse macro developments, progress on the restructuring and recapitalization
EFG Eurobank	ROTE/COE	Political and funding risk, better/worse macro developments, progress on the restructuring
Alpha Bank	ROTE/COE	Political and funding risk, worse macro developments, progress on the restructuring
Hungary		
OTP Bank Plc	ROTE/COE	Worse / better than expected macro conditions resulting in higher/lower volume growth and provisioning, further political measures adversely impacting operational environment
Ireland		
Bank of Ireland	ROTE/COE	Better or worse than expected regulatory developments, margin trends, credit quality, loan volumes and defined benefit pension deficit movements
Italy		
Banca Monte dei Paschi di Siena	ROTE/COE, M&A adj.	Unforeseen change in sovereign, macro, asset quality and regulatory situation, either way
UBI Banca	ROTE/COE, M&A adj.	Unforeseen change in sovereign, macro, asset quality and regulatory situation, either way
Banca Popolare di Milano	ROTE/COE, M&A adj.	Renewed sovereign concerns, deteriorating macro outlook and asset quality, adverse regulatory changes
Banco Popolare	ROTE/COE, M&A adj.	Unforeseen change in sovereign, macro, asset quality and regulatory situation, either way
Intesa Sanpaolo	ROTE/COE	Unforeseen change in sovereign, macro, asset quality and regulatory situation, either way
UniCredit	ROTE/COE	Unforeseen change in sovereign, macro, asset quality and regulatory situation, either way
BPER	ROTE/COE, M&A adj.	Renewed sovereign concerns, deteriorating macro outlook and asset quality, adverse regulatory changes

Source: Goldman Sachs Global Investment Research.

Exhibit 24 cont'd: Methodology and risks to our price targets and view

Company	Methodology	Risks to our estimates and target price
Nordic		
Danske Bank	ROTE/COE	Better / worse than expected macro conditions resulting in higher / lower volume growth as well as better / worse asset quality and NIM trends
DNB	ROTE/COE	Significantly worse-than-expected oil-related losses and a worse-than-expected Norwegian macro picture, worse than expected capital requirements
Swedbank	ROTE/COE	Better than expected macro conditions resulting in higher / lower volume growth as well as better / worse asset quality and NIM trends, Baltic exposures being less / more impacted by Russian slow-down than expected
Nordea	ROTE/COE	Worse than expected macro conditions resulting in lower volume growth as well asworse asset quality and NIM trends - rising capital requirements weighing on Dividend payout
SEB	ROTE/COE	Better / worse than expected macro conditions resulting in higher / lower volume growth as well as better / worse asset quality and NIM trends, Baltic exposures being less / more impacted by Russian slow-down than expected
Svenska Handelsbanken	ROTE/COE	Better / worse than expected macro conditions resulting in higher / lower volume growth as well as better / worse asset quality and NIM trends
Poland		
Bank Handlowy	ROTE/COE	Better / worse macro conditions; higher / lower volume growth & NIM development; stronger / milder than expected regulation impact
Bank Pekao	ROTE/COE	Better macro conditions; higher volume growth & NIM development; milder than expected regulation impact
Mbank	ROTE/COE	Better macro conditions; higher volume growth & NIM development; milder than expected regulation impact
PKO BP	ROTE/COE	Better / worse macro conditions; higher / lower volume growth & NIM development; stronger / milder than expected regulation impact
Bank Zachodni WBK	ROTE/COE	Better macro conditions; higher volume growth & NIM development; milder than expected regulation impact
Idea Bank	ROTE/COE	Better / worse macro conditions; higher / lower volume growth & NIM development; stronger / milder than expected regulation impact
Spain		
BBVA	ROTE/COE, SOTP	Better/worse than expected operating conditions in Latin America and Spain
Banco Santander	ROTE/COE, SOTP	Better/worse than expected operating conditions in Latin America and Spain
Bankinter	ROTE/COE	Better / worse than expected macro conditions resulting in higher / lower volume growth as well as better / worse asset quality and NIM trends
Banco Popular Espanol	ROTE/COE	Better / worse than expected macro conditions resulting in higher / lower volume growth as well as better / worse asset quality and NIM trends
CaixaBank SA	ROTE/COE	Better / worse than expected macro conditions resulting in higher / lower volume growth as well as better / worse asset quality and NIM trends
Bankia	ROTE/COE	M&A pick up, acceleration of lending growth, better-than-expected business mix shift towards corporate and SME lending or an unexpected sharp increase in interest rates
Portugal		
Banco Comercial Portugues	ROTE/COE	Resurgence of sovereign concerns impacting margins, macro weakness impairing operations domestically and internationally, further regulatory changes impacting capital requirements
Banco BPI	--	--
Switzerland		
Credit Suisse	ROTE/COE	Worse than expected capital markets performance, net new money flows and impact of regulatory changes.
UBS	ROTE/COE	Better/worse than expected capital markets performance, net new money flows and impact of regulatory changes
EFG International	ROTE/COE	Stronger / weaker than expected AuM development; margins or regulatory change, US settlement.
Julius Baer Group	ROTE/COE	Weaker than expected AuM development, margins or regulatory changes, US settlement.
Vontobel	ROTE/COE	Weaker/Stronger than expected inflows in EM equities, reliance on key personnel, pressure on margins or regulatory change.
UK		
Barclays plc	ROTE/COE	Worse than expected regulatory changes, potential incremental litigation and weaker IB revenues.
HSBC	ROTE/COE	Better or worse than expected regulation, macro, margins, credit quality and progress on cost reduction
Lloyds Banking Group Plc	ROTE/COE	Better or worse than expected regulation, macro, competitive trends in the mortgage market and asset quality
Royal Bank of Scotland	ROTE/COE	Better or worse than expected regulation, macro, margins, credit quality, volumes and trading income
Standard Chartered	ROE/COE	Better / worse than expected margins, efficiency, credit quality, trading income and macro developments.
Virgin Money	ROE/COE	Better or worse than expected regulatory developments, mortgage margin trends, cost of risk and volume growth
Arrow Global Group	Peer P/E	Increases in the purchase price of future portfolio vintages, adverse regulatory developments, deteriorating macro environment
Provident Financial	Historic P/E	Better or worse than expected macro, regulatory changes and loan volumes
Shawbrook	ROTE/COE	Better or worse than expected regulatory developments, margin trends, credit quality and loan volumes

Source: Goldman Sachs Global Investment Research.

Exhibit 25: Reasons for estimate changes and 12-month price target changes

Company	Target Price and Estimate Changes						Comments
	TP	EPS 15E	EPS 16E	EPS 17E	EPS 18E	EPS 19E	
Austria							
Erste Bank	--	0%	0%	0%	0%	0%	Minor estimate changes to reflect recent operating trends
Raiffeisen Bank International	8%	0%	0%	0%	0%	0%	TP change due to rolling forward our valuation
Benelux							
ING Groep N.V.	1%	-1%	-3%	-2%	-1%	-1%	TP change due to rolling forward our valuation
KBC Group	7%	--	--	--	--	--	TP change due to rolling forward our valuation
Czech Republic							
Komercni Banka	2%	--	-0%	-0%	-0%	-0%	Minor estimate changes to reflect recent operating trends; TP change due to rolling forward our valuation
France							
BNP Paribas	-6%	-2%	-2%	-1%	-1%	-1%	Lower asset values in AM, slow down in corporate finance
Societe Generale	-2%	-1%	-0%	-0%	-0%	-0%	Lower asset values in AM, slow down in corporate finance
Credit Agricole SA	6%	-1%	-2%	-2%	-2%	-2%	Lower asset values in AM, slow down in corporate finance
Natixis	-7%	-1%	-3%	-3%	-3%	-3%	Lower asset values in AM, slow down in corporate finance
Germany							
Commerzbank AG	--	--	--	--	--	--	Minor adjustments for trends seen in 3Q results
Deutsche Bank	-12%	0%	-8%	-9%	-7%	-7%	Incorporating announced strategic actions, guidance for RWA inflation, recent market trends
Greece							
Piraeus Bank	-22%	--	--	--	--	--	TP change on higher cost of equity
EFG Eurobank	-3%	--	--	--	--	--	TP change on higher cost of equity
Alpha Bank	--	--	--	--	--	--	
Hungary							
OTP Bank Plc	13%	-0%	5%	3%	2%	2%	Minor adjustments to reflect changes in bank tax; valuation rolled forward
Ireland							
Bank of Ireland	--	12%	-8%	-3%	-0%	-2%	Updating estimates to reflect weaker margin outlook, reduced non-interest income, wage increases and additional levy costs
Italy							
Banca Monte dei Paschi di Siena	--	-48%	-12%	-4%	--	--	Lower NIM assumptions
UBI Banca	-6%	-17%	-17%	-12%	-2%	6%	Lower NIM assumptions
Banca Popolare di Milano	-3%	4%	-6%	-7%	-5%	--	Lower NIM assumptions
Banco Popolare	-7%	-21%	-6%	-4%	-2%	-2%	Lower NIM assumptions
Intesa Sanpaolo	-2%	-11%	-1%	-1%	-2%	-1%	Lower NIM assumptions and higher costs
UniCredit	-4%	-16%	-7%	-4%	-3%	-3%	Lower NIM assumptions
BPER	-4%	-3%	-7%	-6%	-4%	--	Lower NIM assumptions

Source: Goldman Sachs Global Investment Research.

Exhibit 25 cont'd: Reasons for estimate changes and 12-month price target changes

Company	Target Price and Estimate Changes						Comments
	TP	EPS 15E	EPS 16E	EPS 17E	EPS 18E	EPS 19E	
Nordic							
Danske Bank	5%	0%	5%	5%	4%	4%	Updating for recent trends
DNB	-3%	-5%	-3%	-5%	-2%	-1%	Updating for recent trends
Swedbank	--	-1%	-2%	-2%	-1%	-1%	Updating for recent trends
Nordea	--	-3%	-4%	-2%	-1%	-0%	Updating for recent trends
SEB	1%	-2%	-1%	-1%	-1%	-1%	Updating for recent trends
Svenska Handelsbanken	2%	-1%	--	--	--	--	Updating for recent trends
Poland							
Bank Handlowy	-12%	--	-9%	-5%	-3%	-2%	Adjusting our estimates to reflect higher bank tax, lower SFr scheme costs and one-offs; valuation rolled forward
Bank Pekao	-13%	-0%	-17%	-14%	-16%	-16%	Adjusting our estimates to reflect higher bank tax, lower SFr scheme costs and one-offs; valuation rolled forward
Mbank	-8%	2%	20%	14%	-6%	-13%	Adjusting our estimates to reflect higher bank tax, lower SFr scheme costs and one-offs; valuation rolled forward
PKO BP	-10%	-1%	-22%	-11%	-14%	-17%	Adjusting our estimates to reflect higher bank tax, lower SFr scheme costs and one-offs; valuation rolled forward
Bank Zachodni WBK	-4%	-1%	0%	-2%	-8%	-11%	Adjusting our estimates to reflect higher bank tax, lower SFr scheme costs and one-offs; valuation rolled forward
Idea Bank	-3%	--	-9%	-2%	-3%	-3%	Adjusting our estimates to reflect higher bank tax; valuation rolled forward
Spain							
BBVA	-24%	-8%	-20%	-21%	-23%	-22%	Adjusting for quarterly trends, as well muted loan growth, pressured NIM margins and potential deterioration in EM asset quality
Banco Santander	-18%	-5%	-17%	-14%	-12%	-13%	Adjusting for quarterly trends, as well muted loan growth, pressured NIM margins and potential deterioration in EM asset quality
Bankinter	-5%	-1%	-6%	-8%	-8%	-9%	Adjusting for quarterly trends, as well muted loan growth and pressured NIM margins
Banco Popular Espanol	-19%	-11%	-28%	-14%	-15%	-20%	Adjusting for quarterly trends, as well muted loan growth and pressured NIM margins
CaixaBank SA	--	-15%	-19%	-13%	-9%	1%	Adjusting for quarterly trends, as well muted loan growth and pressured NIM margins
Bankia	--	--	-1%	-1%	-0%	-0%	Adjusting for quarterly trends, as well muted loan growth and pressured NIM margins
Portugal							
Banco Comercial Portugues	-5%	-4%	24%	1%	1%	1%	Adjusting for trends seen in 3Q results as well as continuing operational headwinds
Banco BPI	--	-1%	1%	4%	2%	4%	Adjusting for trends seen in 3Q results as well as continuing operational headwinds
Switzerland							
Credit Suisse	--	--	--	--	--	--	
UBS	--	--	--	--	--	--	
EFG International	-2%	-3%	-0%	-0%	-0%	-2%	Updating for trends seen in 3Q 2015, incorporating US settlement
Julius Baer Group	--	-0%	-0%	0%	0%	0%	Updating for market moves in 1Q15
Vontobel	0%	0%	0%	0%	0%	0%	Updating for trends seen in 3Q 2015
UK							
Barclays plc	-4%	-0%	-4%	-3%	-3%	-3%	Minor estimate changes to reflect recent industry trends
HSBC	--	-0%	-3%	-3%	-3%	-2%	Revision of 4Q15 loan growth forecasts (due to FX impact) and slight increase in LLP forecasts.
Lloyds Banking Group Plc	--	-1%	-1%	-1%	-1%	-1%	Minor estimate changes to reflect recent industry trends and announced asset sales.
Royal Bank of Scotland	--	-0%	-3%	-1%	-0%	-0%	Minor estimate changes to reflect recent industry trends and announced asset sales.
Standard Chartered	-6%	--	-2%	-4%	-4%	--	Updating estimates to reflect latest earnings and planned RWA reduction.
Virgin Money	-9%	-2%	-8%	-6%	-6%	-6%	Reflecting recent industry trends, weaker loan volumes and shift in timing of share based payments
Arrow Global Group	-11%	-0%	-1%	-2%	-2%	-2%	Updating estimates to reflect recent industry trends and slightly higher costs
Provident Financial	-1%	1%	1%	1%	1%	1%	Updating estimates to reflect recent industry trends and improved near-term impairment outlook
Shawbrook	-8%	1%	1%	-2%	-3%	-4%	Minor estimate changes to reflect recent industry trends and adjustments to path of volume growth

Source: Goldman Sachs Global Investment Research.

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Goldman Sachs and/or one of its affiliates is acting as a financial advisor in connection with an announced strategic matter involving the following company or one of its affiliates: Banca Popolare Dell'emilia Romagna Scarl.

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Disclosure Appendix

Reg AC

We, Jernej Omahen, Pawel Dziedzic, Jean-Francois Neuez, Martin Leitgeb, CFA, Heiner Luz, Jose Abad, Gurpreet Singh Sahi, CFA, Willis Palermo and Nick Baker, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Coverage group(s) of stocks by primary analyst(s)

Jernej Omahen: Europe-Pan-Euro Banks. Pawel Dziedzic: Europe-Pan-Euro Banks. Jean-Francois Neuez: Europe-Pan-Euro Banks. Martin Leitgeb, CFA: Europe-Pan-Euro Banks. Heiner Luz: Europe-Pan-Euro Banks. Jose Abad: Europe-Pan-Euro Banks. Gurpreet Singh Sahi, CFA: Asia Pacific Exchanges, Asia Pacific Financials, Japan-Brokers & Asset Managers. Willis Palermo: Europe-Pan-Euro Banks. Nick Baker: Europe-Pan-Euro Banks.

Asia Pacific Exchanges: Hong Kong Exchanges, Singapore Exchange.

Asia Pacific Financials: AIA Group, AMMB Holdings, Axis Bank, Bajaj Finance, Bajaj Finserv, Bangkok Bank, Bank Central Asia, Bank Danamon, Bank Mandiri, Bank Negara Indonesia, Bank of Baroda, Bank of East Asia, Bank Rakyat Indonesia, Bank Tabungan Negara, BDO Unibank, BNK Financial Group, BOC Hong Kong (Holdings), Cathay Financial, Chailease Holdings, Chang Hwa Commercial Bank, China Development Financial, CIMB Group Holdings, CTBC Financial Holdings, Dah Sing Banking Group, Dah Sing Financial Holdings, DBS Group Holdings, DGB Financial Group, E.Sun Financial Holding, Federal Bank, First Financial Holdings, Fubon Financial Holdings, Hana Financial Group, Hang Seng Bank, HDFC Bank, Hong Leong Bank, Housing Development Finance Corp., HSBC Holdings, ICICI Bank, IDFC Bank Ltd, IDFC Ltd., IndusInd Bank, Industrial Bank of Korea, Kasikornbank, KB Financial Group, Kotak Mahindra Bank, Krung Thai Bank, LIC Housing Finance, Mahindra & Mahindra Financial Svcs., Malayan Banking Bhd, Mega Financial Holdings, Metropolitan Bank and Trust Co, Oversea-Chinese Banking Corp., Public Bank Bhd, Punjab National Bank, RHB Capital, Shin Kong Financial Holdings, Shinhan Financial Group, Shriram Transport Finance, Siam Commercial Bank, SinoPac Holdings, Standard Chartered Bank, State Bank of India, Taishin Financial Holdings, TMB Bank Public Co., United Overseas Bank, Woori Bank, Yes Bank, Yuanta FHC.

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