BNP Paribas BNP (XPAR) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
57.67 EUR	61.00 EUR	High	Narrow	Stable	Standard	Banks

BNP Paribas Reports Good Full-Year Results; New Strategic Plan Focuses on Cost Savings and Digital

See Page 2 for the full Analyst Note from 07 Feb 2017

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The primary analyst covering this company does not own its stock.

Research as of 07 Feb 2017
Estimates as of 11 Nov 2016
Pricing data through 02 Mar 2017
Rating updated as of 02 Mar 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 26 May 2016

BNP Paribas has deep roots in France, where it is the largest publicly traded bank by assets. In Italy, its BNL Banca Commerciale, purchased in 2006, has nearly 900 branches. Together with BancWest in the United States, Fortis in Belgium, and other activities, retail banking accounts for about half of BNP Paribas' allocated equity. We're especially enthusiastic about the group's moaty retail business in France and Belgium, where limited competition keeps profit margins high and gives the bank little incentive to take unnecessary risks. We also see BNP's BancWest business, which it plans to partially float in 2016, as moaty. We think these units will continue to pump out nearly 20% pretax returns on equity, especially when interest rates rise. BNP's Italian operations, in contrast, are reasonably efficient but only nominally profitable because of high credit costs.

Unlike many universal banks, BNP excels at cross-selling. It sells insurance through its own and via partner retail outlets around the world, which keeps customer acquisition costs down, while earning post-tax returns on equity over 12%. Its branch network also helps to support its strong wealth and asset management business, which is one of the world's largest and garners an impressive 25%-plus return on equity. Similarly, BNP's large corporate and investment bank helps to support the group's position as Europe's largest asset servicer, a moaty business with returns on equity around 50%.

BNP has gotten through the crisis in good shape compared with peers, even after considering its late 2014 EUR 9 billion settlement with the U.S. over money-laundering charges. We think it is likely to struggle with sluggish revenue growth in its home markets in the near term, so containing cost growth, especially given increasing regulatory demands, will be key. We're therefore glad that BNP is focusing on increasing efficiency and electronic delivery in its current operations and on exploiting growth opportunities abroad. While higher interest rates in Europe may be a way off, we think that when they come they will help push the bank's cost/income ratio to 61% in the medium term from 66% in 2015.

Vital Statistics

Market Cap (EUR Mil)	71,741
52-Week High (EUR)	63.35
52-Week Low (EUR)	35.27
52-Week Total Return %	31.9
YTD Total Return %	-4.8
Last Fiscal Year End	30 Dec 2015
5-Yr Forward Revenue CAGR %	4.0
5-Yr Forward EPS CAGR %	10.5
Price/Fair Value	0.95

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	NM	10.2	*10.4*	*9.5*
Price/Book	0.8	0.8	*0.8*	*0.8*
Price/Tangible Book	0.9	1.0	*0.9*	*0.8*
Dividend Yield %	2.9	3.8	*4.0*	—

Financial Summary and Forecasts (EUR Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Net Revenue	39,731	44,523	*42,402*	*43,856*
Net Revenue YoY %	0.8	12.1	*-4.8*	*3.4*
Net Interest Income	20,319	22,553	*21,325*	*22,268*
Net Interest Margin %	1.2	1.3	*1.2*	*1.2*
Pre-Tax Pre-Provision Earnings	6,854	14,176	*14,613*	*16,171*
Pre-Tax Pre-Provision Earnings YoY %	-44.0	106.8	*3.1*	*10.7*
Net Income	-83	6,385	*6,891*	*7,534*
Net Income YoY %	NM	NM	*7.9*	*9.3*
Diluted EPS	-0.07	5.13	*5.54*	*6.06*
Diluted EPS YoY %	-101.8	-7,794.1	*7.9*	*9.3*

Source for forecasts in the data tables above: Morningstar Estimates

Profile

The merger of Banque Nationale de Paris and Paribas created BNP Paribas in 2000, making it the largest publicly traded bank in France, with about EUR 2.1 trillion in assets. Retail banking generates about 40% of the company's pretax income, corporate and investment banking about 30%, asset management about 15%, and corporate center and equipment leasing about 15%, combined. Although BNP Paribas has operations in about 80 countries, it considers France and Italy its two home markets. It owns BancWest in the United States.

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Morningstar Analysis

BNP Paribas Reports Good Full-Year Results; New Strategic Plan Focuses on Cost Savings and Digital 07 Feb 2017

BNP Paribas reported good full-year results, as the company navigates through a difficult interest rate environment. We plan to maintain our EUR 61/$34 fair value estimate and narrow moat rating. Net income increased 15% to EUR 7.7 billion, while BNP decreased its cost of risk by 46 basis points. Pretax income was up on a segment level, except for corporate and institutional banking, as it undergoes further transformation and cost-saving initiatives. French and Italian retail banking saw net interest income decline by 3% and 7%, respectively, owing to the low interest rate environment, and fees declined as well in an unfavourable market environment. For 2016, the fully loaded common equity Tier 1 ratio stood at 10%, with a return on tangible equity of 11%.

BNP Paribas exchanged its old strategic plan for its new 2017-20 business development plan. After successfully executing on its previous ambitions, the company now targets an average net income growth of 6.5%, a fully loaded common equity Tier 1 ratio of 12%, and a 10% return on equity at the end of 2020. A key strategy to curtail costs going forward is a stronger digital client base, which should help BNP reduce its cost base across all segments. However, with spending targets on technology advancements of EUR 3.4 billion and expected savings of EUR 3 billion as a result thereof over the next three years, the initiative is going to be bear fruit only after 2019.

Valuation, Growth and Profitability 26 May 2016

Our fair value estimate for BNP Paribas is EUR 61 per common share. Our fair value is 1.0 times tangible book value and 0.9 times book value as of year-end 2015. We assume that equity/assets return to 4.9% near 2013's level, and up from 2014's 4.3% level, which was depressed by the regulatory settlement, as BNP works toward a 12% fully loaded common equity Tier 1 ratio.

We expect net interest margin, as we calculate it, to drop further in 2016 to 1.22% from 1.27% in 2015, and to rise to 1.40% in the medium term when interest rates rise from ultralow levels. We expect trading income to be 0.9%-1.0% of trading assets, in line with 2013-15 averages. We anticipate that fee income will grow just 1% in 2016 and 3% in the medium term, as slower growth in domestic markets is balanced by higher growth in international markets. We expect loan growth to average 3% and for loan losses to remain around 0.6% of loans as falling losses in Italy are balanced by normalizing losses elsewhere. We anticipate that compensation will consume 36.4% of revenue in 2016 and 34.0% in the medium term. As a result, we expect group return on common tangible equity to rise to 12.2% by the end of our forecast period. We assume a 27% tax rate and use a 12% cost of equity, which includes a 1% country risk premium.

Scenario Analysis

We model upside and downside scenarios with fair value estimates ranging from EUR 43 to EUR 79.

In our downside scenario, slow growth in Europe means that BNP's performance remains hear 2012-13 levels. Loan losses average 0.7% of loans annually, versus 0.6% in our base case. Slower revenue growth makes it more difficult for the bank to control costs, and compensation consumes 36% of revenue. All in, return on common tangible equity falls to 9%, below our cost of equity, and below the 12.2% in our base case. In this scenario, our fair value estimate would be EUR 43, 0.7 times tangible book value and 0.6 times book value as year-end 2015.

In our upside scenario, Europe's recovery gains steam. Equity/assets remains steady at 4.8%, and loan losses fall to 0.5% of loans. With stronger revenue growth, compensation consumes only 31% of revenue. As a result,

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Morningstar Analysis

Price/Fair Value Morningstar data as of Mar 02, 2017

return on common tangible equity rise to 16%. In this scenario, our fair value estimate would be EUR 80, 1.3 times tangible book value and 1.1 times book value as of year-end 2015.

Economic Moat

We assign BNP Paribas a narrow moat based on cost advantages and switching costs. We think its large, entrenched share in attractive markets and its conservative strategy will allow the bank to outearn its cost of capital as the immediate pressures of ultralow interest rates, loan losses in Italy, and large regulatory fines recede. The retail banking markets in France, Belgium, and Hawaii are especially attractive, in our opinion, because they are dominated by large banks that operate as rational oligopolies. BNP Paribas benefits from 15% market share in Paris and 20%-plus market share among France's higher-income customers, a 25% market share in Belgium, and a 40% share in Hawaii. These hefty market shares, and their accompanying base of low-cost deposits, allow the bank to fund nearly all of its loans with customer deposits and spend only 60%-65% of revenue on operating expenses. In France, the bank regularly earns pretax returns on equity over 25%, and returns in Belgium are nearly as good, consistently near or above 20%. Moreover, we think the bank's historically conservative strategy allowed it to escape the worst of the credit crisis and should help insulate it from whatever storms lie ahead.

These cost advantages are reinforced by implicit switching costs in retail and commercial banking, which we see as high relative to the benefits of switching. While switching is nominally free, the benefits are often unclear: Bank products are similar across firms, checking accounts are nominally free, and costs come through cross-sold products along with miscellaneous fees. Moreover, switching is viewed by customers as troublesome, especially for customers--like those of BNP Paribas--that purchase multiple products from their bank. As a result, retail banking customers tend to move banks only once a decade.

BNP Paribas has not outearned its cost of equity on a tangible basis since 2010, but we expect returns to be better going forward for two reasons. First, we expect the large, one-off expenses allocated to Corporate Center (such as provisions for regulatory settlements) to fade. While we expect Corporate Center operations to remain around the same size, as its losses narrow, the group returns will more closely follow those of the operating divisions, most of which consistently outearn the bank's 12% cost of equity, some by a wide margin. Second, we expect that operating division results that have been depressed by the near-term environment will normalize. For example, the return on equity in BNP's Italian bank, BNL, has been near zero, but its cost/income ratio in the mid-50s shows the bank is well run. As credit costs normalize, returns on equity at BNL will increase to attractive levels, in our opinion.

We rate France's banking system as fair. We see the regulatory environment as fair; we think that France's precrisis regulatory monitoring as poor, but are encouraged

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Morningstar Analysis

Nature of Liabilities

	2013	2014	2015	2016(E)	2017(E)
Loan/Deposit Ratio %	102.28	94.08	90.75	89.90	89.90
Short Term Debt (% of Liabilities)	6.31	5.68	4.17	4.34	4.15
Liquid Assets (% of Assets)	54.75	57.47	54.68	54.54	54.26

Leverage

	2013	2014	2015	2016(E)	2017(E)
Assets/Equity	20.55	23.24	20.71	20.62	20.41
Tangible Common Equity/Tangible Assets %	3.83	3.36	3.79	3.83	3.90
Tier I Ratio %	12.80	10.30	10.90	—	—

Source: Morningstar Estimates

by the European Central Bank taking over as primary regulator. We rate France's macro-economic environment as fair, which balances France's history of stability and reasonable debt/GDP ratio with the country's participation in the euro. This severely limits its ability to control its currency or interest rates in order to respond to economic conditions. We see the competitive environment as fair. The system is less concentrated than most countries, but high costs depress domestic profitability.

Moat Trend

We see BNP Paribas' moat trend as stable. We think that BNP's scale in the concentrated banking markets of France and Belgium would be difficult for new entrants to replicate, and any encroachment by direct banks will be effectively countered by both BNP's own online offerings and its own direct bank, HelloBank. We think the bank's large investment bank has been rebalanced toward less risky, client-driven activities. We're encouraged that the segment is reporting double-digit returns on equity, even in this difficult environment, and we do not anticipate that it will create significant value-destruction going forward.

We therefore think that BNP Paribas' cost advantages, which are built on its low-cost deposit base, will remain stable. Similarly, we think switching costs are likely to remain high relative to the benefits of switching for BNP Paribas' customers, many of whom have fairly complex relationships with the bank. While many of their transactions have, and will continue to, move to online and mobile platforms, we expect them to do so under the BNP Paribas umbrella.

Risk

BNP Paribas owns BNL bank in Italy, therefore, would have material exposure to Italian credit and sovereign default. BNP Paribas holds about EUR 14 billion of Italian sovereign debt and EUR 130 billion of other Italian credit exposure as of year-end 2015, compared with its EUR 88 billion of common equity as of year-end 2015. BNP Paribas' fourth-quarter loss in 2008 and its write-downs in fourth-quarter 2011 demonstrated that the bank is not immune to the market turmoil, and more write-downs on loans and securities, from Italy or elsewhere, could be ahead. We also worry about the dimming economic outlook for France, BNP's largest market, whose recovery seems to be lagging the rest of core Europe. We think that the bank could manage a moderate increase in loan losses, but a loss of confidence in the country and its sovereign debt could be catastrophic.

Financial Health

We see BNP as well capitalized. Its fully loaded common equity Tier 1 ratio was 11.0% as of March 31, above its 2016 10% requirement but well below the 12%-13% of the best-capitalized banks. We're therefore glad that BNP has increased its target to 12.0%. BNP's plans to float BancWest could add 40 basis points to BNP's common equity Tier 1 ratio. We calculate that BNP Paribas' tangible common equity ratio was 4.5% at year-end (adjusted to be comparable with U.S. reporting), below the 5%-7% we'd like to see but in line with European peers.

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Bulls Say/Bears Say

Bulls Say

- BNP Paribas is one of Europe's strongest banks, and is poised to gain market share internationally as its rivals struggle.
- BNP Paribas is the largest securities servicer in Europe, a moaty business that generates pretax returns on equity of 50%.
- Unlike many of its competitors, BNP Paribas remained profitable in 2008 and 2009, thanks to steady earnings from its large retail bank. This stability will serve investors well, even if Europe's recovery falters.

Bears Say

- Court documents released with BNP's money laundering settlement show that BNP's corporate governance is not as strong as once thought.
- BNP Paribas' fate is tied closely to that of Europe, and a prolonged slowdown or a double-dip recession will mean subpar returns for investors. This is especially true in Italy, where BNP Paribas has a large subsidiary.
- While credit quality is holding up so far in France, loan losses could spike of France's slowdown deepens.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Oakmark International Fund	1.13	3.55	-2,784	31 Dec 2016
Vanguard Total Intl Stock Idx Fund	0.94	0.30	153	31 Jan 2017
VA CollegeAmerica Cap Income Builder	0.82	0.68	1,424	31 Dec 2016
VA CollegeAmerica EuroPacific Growth	0.49	0.34	2,014	31 Dec 2016
Vanguard Wellington™	0.42	0.35	—	31 Dec 2016
Concentrated Holders				
FCP PEA Court Terme	0.27	22.35	—	31 Dec 2016
R Sérénité PEA	0.01	16.40	8	31 Dec 2016
Initiative Dynamique	0.01	16.11	119	31 Dec 2015
BG Long Term Value	0.02	15.36	-2	31 Dec 2016
iShares EURO STOXX Banks 30-15 (DE)	0.25	14.32	—	01 Mar 2017

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Capital Research and Management Company	2.73	0.40	12,048	31 Dec 2016
Government Pension Fund of Norway - Global	2.80	0.33	9,086	31 Dec 2013
Union Investment Privatfonds GmbH	0.35	1.48	2,163	31 Dec 2016
Alken Luxembourg S.A.	0.08	1.05	979	29 Feb 2016
American Century Inv Mgt Inc	0.08	1.02	722	31 Dec 2016
Top 5 Sellers				
Harris Associates L.P.	1.16	3.55	-2,852	31 Dec 2016
Templeton Global Advisors Limited	0.79	1.51	-2,686	31 Jan 2017
InverCaixa Gestión SGIIC	0.05	0.32	-1,213	31 Jan 2017
Causeway Capital Management LLC	0.13	1.53	-1,022	31 Dec 2016
Standard Life Investments (Mutual Funds) Limited	0.03	1.05	-545	31 Jan 2017

Management 26 May 2016

We think BNP Paribas has been a Standard steward of shareholder value. The bank's predecessor, BNP, had been operated by the French government from World War II until privatization in 1993. Court documents released with BNP's money laundering settlement show egregious behavior among midlevel executives, most of which have left the bank, and before the current CEO took office. Still, we remain wary as cultures can be slow to change, and if evidence emerges that the bank is continuing to take on outsize risks for short-term gains, we may reduce our stewardship rating.

We think that BNP's executives' long tenures have helped the bank to maintain its retail-focused strategy. Jean Lemierre took over as chairman in late 2014, replacing Baudouin Prot. Lemierre, who has served as a senior adviser to BNP since 2008, played a key role in discussions between the bank and U.S. authorities over sanctions violations in 2014. We think his level head will serve the bank well if it should misstep again. CEO Jean-Laurent Bonnafe, the former COO, was appointed in 2013 and has been a member of the executive committee since 2002.

We think management has guided the bank fairly well through the crisis, expanding opportunistically while avoiding many of the mistakes of its competitors. We're especially pleased with its acquisition of Fortis at the peak of the financial crisis, which has broadened the group's business mix without introducing significant additional risks. Still, BNP's capital allocation decisions haven't been without hiccups--it bought Italy's BNL in 2006, on the eve of the financial crisis, and the unit continues to underperform. Going forward, we expect the bank to pay out 35%-40% of its profits as dividends and to use the rest to fund strategic growth opportunities in its core markets.

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Analyst Notes

BNP Benefits from FICC Uplift in Q3 Offset by Weak Banking Results 30 Oct 2016

BNP Paribas' third-quarter results were acceptable as a jump in fixed income trading provided an earnings uplift, but weak banking results pointed to the still-critical need to cut costs, given the difficult overall European banking environment. We plan to maintain our EUR 61/$34 fair value estimate and narrow moat rating. Overall, pretax income improved 4% from last year to EUR 2.8 billion, helped by a 40%-plus jump in fixed income, currencies, and commodities, or FICC, revenue, which was similar to peers, with Deutsche Bank the only laggard with a 14% increase. However, French and Italian net interest income were down about 4%-5%, reflecting the weak environment and negative interest rates. The bank indicated that its 2017-2020 strategic plan would include more cost cuts, which we think is needed, as an annualized return on equity of 9.7% excluding exceptional items can be improved further. An 11.4% common equity Tier 1 ratio with 30 basis points of capital generation during the quarter is a good performance, and is a healthy level for the bank.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2013	Dec 2014	Dec 2015	Forecast Dec 2016	Forecast Dec 2017	Forecast 5-Year Proj. CAGR
Net Interest Income	1.2	-5.3	-1.3	11.0	-5.4	4.4	4.0
Pre-Tax, Pre-Provision Earnings	-0.2	-14.1	-44.0	106.8	3.1	10.7	7.7
Net Income	0.6	-27.0	NM	NM	7.9	9.3	10.5
Diluted EPS	-0.2	-28.6	NM	NM	7.9	9.3	10.5

Profitability	3-Year Hist. Avg	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	5-Year Proj. Avg
Net Interest Margin %	1.2	1.3	1.2	1.3	1.2	1.2	1.3
Non-Interest Income (% of Revenue)	48.7	47.8	48.9	49.4	49.7	49.2	48.2
Efficiency Ratio %	72.0	68.3	81.9	65.9	65.3	62.9	62.9
Return on Average Assets %	0.2	0.3	0.0	0.3	0.4	0.4	0.4
Return on Average Equity %	4.3	5.6	0.2	7.2	7.4	8.0	8.9
Return on Tangible Equity %	5.2	6.4	0.4	8.9	8.2	8.7	9.6

Leverage	3-Year Hist. Avg	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	5-Year Proj. Avg
Assets/Equity	21.50	20.55	23.24	20.71	20.62	20.41	20.45
Tangible Common Equity/Tangible Assets %	3.66	3.83	3.36	3.79	3.83	3.90	3.92
Tier I Ratio %	11.33	12.80	10.30	10.90	—	—	—

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.78	0.86	—	—
Price/Earnings	NM	10.2	10.4	9.5
Price/Book	0.8	0.8	0.8	0.8
Price/Tangible Book	0.9	1.0	0.9	0.8
Dividend Yield %	2.9	3.8	4.0	—

Key Valuation Drivers

Cost of Equity %	12.0
Long-Run Tax Rate %	27.0
Stage II Net Income Growth Rate %	3.5
Stage II Return on New Invested Capital %	12.0
Perpetuity Year	15.0

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	EUR Mil	Firm Value (%)	Per Share Value
Present Value Stage I	21,280	29.2	17.10
Present Value Stage II	26,208	36.0	21.06
Present Value of the Perpetuity	25,329	34.8	20.36
Total Common Equity Value before Adjustment	**72,817**	**100.0**	**58.53**
Other Adjustments	—	—	—
Equity Value	**72,817**	**—**	**58.53**
Projected Diluted Shares	1,244		
Fair Value per Share (EUR)	**61.00**		

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Morningstar Analyst Forecasts

Income Statement (EUR Mil)

				Forecast	
	Dec 2013	Dec 2014	Dec 2015	*Dec 2016*	*Dec 2017*
Net Interest Income	**20,596**	**20,319**	**22,553**	**21,325**	**22,268**
Provision for Losses on Loans	4,054	3,705	3,797	*4,101*	*4,793*
Net Interest Income after Provision	**16,542**	**16,614**	**18,756**	**17,224**	**17,476**
Non-Interest Income	18,834	19,412	21,970	*21,077*	*21,588*
Net Revenue	**39,430**	**39,731**	**44,523**	**42,402**	**43,856**
Net Revenue After Provision (excluding Gains on Sale)	35,376	36,026	40,726	*38,301*	*39,063*
Gains on Sale	—	—	—	—	—
Net Revenue After Provision (including Gains on Sale)	**35,376**	**36,026**	**40,726**	**38,301**	**39,063**
Non-Interest Expense	27,187	32,877	30,347	*27,788*	*27,686*
Operating Income (excluding Gains on Sale)	**8,189**	**3,149**	**10,379**	**10,513**	**11,378**
Taxes	2,750	2,642	3,335	*2,944*	*3,072*
Minority Interest, net of income taxes	607	350	350	*364*	*379*
Income after Taxes	**4,832**	**157**	**6,694**	**7,205**	**7,927**
Cumulative Effect of Accounting Change	—	—	—	—	—
After-tax Non-recurring Items	—	—	—	—	—
Discounted Operations	—	—	—	—	—
Preferred Dividends	**252**	**240**	**309**	**314**	**393**
Net Income attributable to common shareholders, Excluding All After-tax items	**4,580**	**-83**	**6,385**	**6,891**	**7,534**
Net Income attributable to common shareholders, including all after-tax items	**4,580**	**-83**	**6,385**	**6,891**	**7,534**
Average Diluted Shares Outstanding	1,244	1,244	1,244	*1,244*	*1,244*
Diluted EPS Excluding Charges	**3.68**	**-0.07**	**5.13**	**5.54**	**6.06**
Diluted EPS Including Charges	**3.68**	**-0.07**	**5.13**	**5.54**	**6.06**

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Morningstar Analyst Forecasts

Balance Sheet (EUR Mil)

Earning Assets	Dec 2014	Dec 2015	*Forecast* Dec 2016	*Forecast* Dec 2017
Cash and Due from Banks	117,473	134,547	*119,796*	*106,938*
Interest Bearing Deposits at Banks	7,924	9,346	*9,424*	*9,460*
Federal Funds Sold and Securities Borrowed or Purchased Under Agreement to Resell	2,671	2,542	*2,618*	*2,697*
Brokerage Receivables	—	—	—	—
Other Receivables (excluding interest receivables)	—	—	—	—
Trading Assets	813,647	684,983	*705,532*	*726,698*
Investment Securities Held to Maturity	8,965	7,757	*7,990*	*8,229*
Investment Securities Available-for-Sale	252,292	258,933	*266,701*	*274,702*
Financial Instruments Owned, at Fair Value (trading securities)	—	—	—	—
Other Earning Assets	25,369	22,618	*22,213*	*22,704*
Loans Held for Sale	—	—	—	—
Loans and Leases	716,831	740,230	*755,035*	*777,686*
Unearned Discount	—	—	—	—
Allowance for Loan Losses	-26,675	-26,194	*-26,426*	*-27,219*
Net Loans and Leases	**690,156**	**714,036**	**728,608**	**750,467**
Non-Earning Assets				
Premises & Equipment, Net	18,032	21,593	*21,847*	*22,111*
Premises & Equipment, Gross	29,793	34,629	*36,325*	*38,079*
(Accumulated Depreciation)	-11,761	-13,036	*-14,478*	*-15,969*
Interest Receivables	110,088	108,018	*110,178*	*112,382*
Goodwill	10,577	10,316	*10,216*	*10,116*
Identifiable Intangibles	2,951	3,104	*3,104*	*3,104*
Deferred Tax Assets	7,159	6,378	*5,740*	*5,166*
Other Non-Earning Assets (Other Real Estate Owned etc.)	10,455	10,022	*10,222*	*10,427*
Total Assets	**2,077,759**	**1,994,193**	**2,024,191**	**2,065,201**

Liabilities	Dec 2014	Dec 2015	*Forecast* Dec 2016	*Forecast* Dec 2017
Total Deposits	733,581	786,840	*810,445*	*834,759*
Customer Deposits	641,549	700,309	*721,318*	*742,958*
Federal Funds Purchased and Securities Loaned or Sold under Agreements to Repurchase	—	—	—	—
Brokerage Payables	—	—	—	—
Trading Liabilities	743,527	618,261	*604,742*	*614,899*
Financial Instruments Sold, but not yet purchased at Fair Value	—	—	—	—
Other Payables	—	—	—	—
Short-Term Debt	112,752	78,959	*83,350*	*81,412*
Long-Term Debt	74,322	80,488	*84,964*	*82,988*
Additional Debt	13,936	16,544	*17,464*	*17,058*
Total Short-Term, Long-Term and Other Debt	**201,010**	**175,991**	**185,778**	**181,458**
Deferred Tax Liabilities	2,099	2,167	*2,167*	*2,167*
Other Liabilities (bank acceptance outstanding, accrued expenses, etc.)	88,592	89,455	*91,244*	*93,981*
Total Liabilities	**1,984,118**	**1,894,116**	**1,922,210**	**1,960,198**
Equity				
Common Stock	82,821	88,414	*88,414*	*88,414*
Paid-in Capital	—	—	—	—
Retained Earnings	—	—	*1,904*	*4,926*
Preferred Equity	6,589	7,855	*7,855*	*7,855*
Treasury Stock	—	—	—	—
Accumulated Other Comprehensive Income	—	—	—	—
Other Equity	—	—	—	—
Shareholders?Equity	89,410	96,269	*98,173*	*101,195*
Total Liabilities & Shareholders?Equity (including Minority Interest)	**2,077,759**	**1,994,193**	**2,024,191**	**2,065,201**

BNP Paribas BNP (XPAR) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
57.67 EUR	61.00 EUR	High	Narrow	Stable	Standard	Banks

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings				Price/Book				Price/Tangible Book			
Company/Ticker	Price/Fair Value	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*
Societe Generale SA GLE FRA	1.2	12.0	9.5	*12.0*	*10.9*	0.7	0.7	*0.6*	*0.5*	0.8	0.8	*0.5*	*0.5*
Credit Agricole SA ACA FRA	1.1	12.8	8.9	*11.5*	*12.8*	0.6	0.6	*0.6*	*0.6*	0.9	0.9	*0.7*	*0.7*
Average		12.4	9.2	*11.8*	*11.9*	0.7	0.7	*0.6*	*0.6*	0.9	0.9	*0.6*	*0.6*
BNP Paribas BNP FR	**0.9**	**NM**	**10.2**	***10.4***	***9.5***	**0.8**	**0.8**	***0.8***	***0.8***	**0.9**	**1.0**	***0.9***	***0.8***

Returns Analysis

		Return on Average Equity %				Return on Average Assets %				Return on Tangible Equity %			
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*
Societe Generale SA GLE FRA	1,334,391 EUR	5.1	7.0	*5.6*	*6.0*	0.2	0.3	*0.3*	*0.3*	5.7	6.7	*5.4*	*5.7*
Credit Agricole SA ACA FRA	1,529,294 EUR	5.1	6.8	*5.6*	*5.1*	0.2	0.2	*0.2*	*0.2*	6.1	8.2	*7.3*	*6.4*
Average		5.1	6.9	*5.6*	*5.6*	0.2	0.3	*0.3*	*0.3*	5.9	7.5	*6.4*	*6.1*
BNP Paribas BNP FR	**1,994,193** EUR	**0.2**	**7.2**	***7.4***	***8.0***	**0.0**	**0.3**	***0.4***	***0.4***	**0.4**	**8.9**	***8.2***	***8.7***

Growth Analysis

		Net Revenue Growth %				Pre-Tax, Pre-Provision Earnings Growth %				EPS Growth %			
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*
Societe Generale SA GLE FRA	26,067 EUR	1.4	9.1	*-5.3*	*3.4*	3.3	25.0	*-4.4*	*3.4*	21.5	54.0	*-17.8*	*9.7*
Credit Agricole SA ACA FRA	18,766 EUR	-3.8	13.4	*-6.5*	*1.4*	-7.6	33.2	*-16.3*	*1.4*	-15.2	45.9	*-15.7*	*-9.3*
Average		-1.2	11.3	*-5.9*	*2.4*	-2.2	29.1	*-10.4*	*2.4*	3.2	50.0	*-16.8*	*0.2*
BNP Paribas BNP FR	**44,523** EUR	**0.8**	**12.1**	***-4.8***	***3.4***	**-44.0**	**106.8**	***3.1***	***10.7***	**NM**	**NM**	***7.9***	***9.3***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Net Interest Margin %				Efficiency Ratio %				Non Interest Income % of Revenue			
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*
Societe Generale SA GLE FRA	26,067 EUR	0.9	0.8	*0.8*	*0.8*	67.1	64.8	*64.5*	*64.5*	56.3	64.3	*61.8*	*61.2*
Credit Agricole SA ACA FRA	18,766 EUR	0.8	0.8	*0.8*	*0.8*	63.9	57.8	*61.8*	*61.8*	31.5	38.4	*35.7*	*36.0*
Average		0.9	0.8	*0.8*	*0.8*	65.5	61.3	*63.2*	*63.2*	43.9	51.4	*48.8*	*48.6*
BNP Paribas BNP FR	**44,523** EUR	**1.2**	**1.3**	***1.2***	***1.2***	**81.9**	**65.9**	***65.3***	***62.9***	**48.9**	**49.4**	***49.7***	***49.2***

Leverage Analysis

		Assets/Equity				Tangible Common Equity/ Tangible Assets %				Tier I Ratio %			
Company/Ticker	Last Historical Year Total Debt (Mil)	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*
Societe Generale SA GLE FRA	119,458 EUR	23.7	22.6	*22.4*	*22.2*	3.1	3.3	*3.4*	*3.4*	10.0	10.9	—	—
Credit Agricole SA ACA FRA	187,965 EUR	31.7	28.4	*28.6*	*28.6*	2.0	2.3	*2.3*	*2.3*	13.1	13.7	—	—
Average		27.7	25.5	*25.5*	*25.4*	2.6	2.8	*2.9*	*2.9*	11.6	12.3	—	—
BNP Paribas BNP FR	**175,991** EUR	**23.2**	**20.7**	***20.6***	***20.4***	**3.4**	**3.8**	***3.8***	***3.9***	**10.3**	**10.9**	**—**	**—**

Liquidity Analysis

		Loans/Deposits %				Short-Term Debt % of Liabilities				Liquid Assets (% of Total Assets)			
Company/Ticker	Last Historical Year Market Cap (Mil)	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*	2014	2015	*2016(E)*	*2017(E)*
Societe Generale SA GLE FRA	35,085 EUR	77.3	84.1	*83.3*	*85.6*	—	—	—	—	62.1	60.2	*60.1*	*59.8*
Credit Agricole SA ACA FRA	33,258 EUR	50.7	51.0	*49.5*	*49.5*	5.2	6.9	*5.2*	*5.1*	46.8	44.6	*44.7*	*44.5*
Average		64.0	67.6	*66.4*	*67.6*	5.2	6.9	*5.2*	*5.1*	54.5	52.4	*52.4*	*52.2*
BNP Paribas BNP FR	**71,741** EUR	**94.1**	**90.8**	***89.9***	***89.9***	**5.7**	**4.2**	***4.3***	***4.2***	**57.5**	**54.7**	***54.5***	***54.3***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Economic Moat
Financial Health
Stewardship
Uncertainty
Moat Trend

Morningstar Fair Value

Margin of Safety
Market Pricing

Morningstar Rating™ For Stocks
★★★★★

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

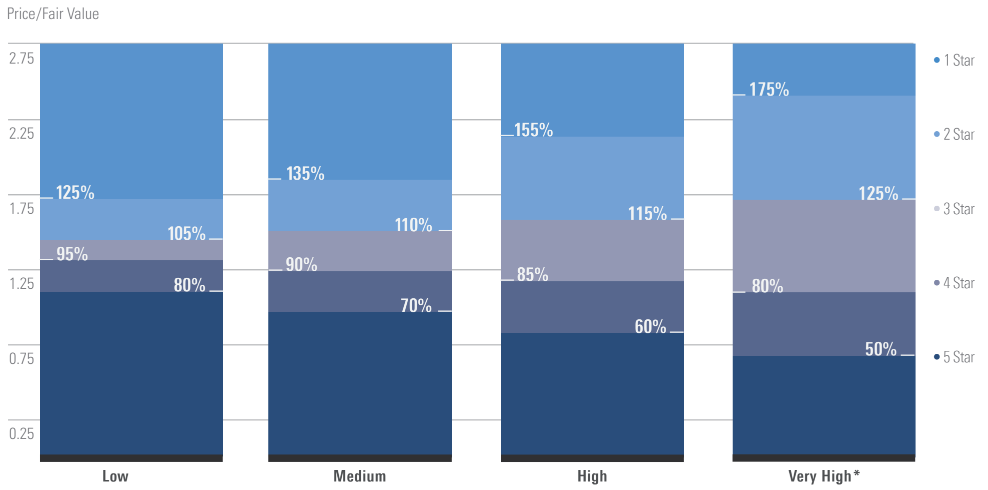
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
57.67 EUR	61.00 EUR	High	Narrow	Stable	Standard	Banks

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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57.67 EUR	61.00 EUR	High	Narrow	Stable	Standard	Banks

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Last Price	**Fair Value**	**Uncertainty**	**Economic Moat™**	**Moat Trend™**	**Stewardship**	**Industry Group**
57.67 EUR	61.00 EUR	High	Narrow	Stable	Standard	Banks

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