

# 1<sup>st</sup> Quarter Results, 2011

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Laurent Mignon

CEO

Good morning to you all. Thank you for attending this Analysts Conference on Natixis' 1<sup>st</sup> quarter results for 2011. As usual, I will provide the highlights for our global performance, along with initial comments. Luc-Emmanuel Auberger will then present the results of the different business units. We will then be available for a Question and Answer Session.

### **I. Key Figures**

Globally, this was a solid first quarter. We are on track for growth and risk was well under control. The net profit of the Group, down from last year, amounted to €412 million during Q1. Without the impact of own debt amounting to €108 million, €76 million on the net earnings, the earnings of Natixis would have been €488 million, up 4% from last year. This was achieved with normalized rates of tax of 31% compared to 11% one year ago.

This positive result was driven by the overall good performance of different business lines, which underscore the strength of the New Deal strategy business model. CIB pre-tax profit was up 36% versus Q1 2010, and it was well-balanced among business lines. There was also strong improvement in profitability with ROE of 21% in Q1 2011.

Investment Solutions also showed a strong performance with 18% growth in pre-tax profit versus Q1 2010. Net inflows in Asset management in the US amounted to more than \$5 billion. There were negative outflows in Europe, but, altogether, the mix of products has improved. We also had a sound performance of our SFS activity with pre-tax profit up 7% versus Q1 2010. The retail banking contribution was up 8%, amounting to €149 million. We note that there was good commercial momentum and a declining cost of risk.

Globally, the Core Tier 1 ratio has improved to 8.1%, up 20 basis points compared to the end of the year. Risk weighted assets are down 4%, or 2% if we include CCI in the calculation. The Tier 1 ratio was 11%, after the payback of €800 million of hybrid debt in March 2011.

The main highlights for recent results are: net revenues, excluding non-operating items, were up 4% at €1.7 billion, compared to €1.6 billion one year ago. Net revenues of core businesses were up 6%, and the contribution from retail networks was up 8% (€149 million). A very important result was the pre-tax profit of core businesses, up 28%, showing the strength of performance of those businesses. Pre-tax profit was up 19%, at €665 million. Lastly, net income, excluding non-operating items, was at €488 million, up 4%, and this is tied to the change to a normalized tax rate.

As for capital, risk weighted assets were at €145 billion, down 2%, thanks to the sharp improvement of 4% in RWA in the core businesses. The Tier 1 capital ratio was at 11.0% and Core Tier 1 capital ratio was 8.1%.

Concerning earnings, there was a sharp drop in provisions for credit loss, down 63%, compared to last year, at €44 million. GAPC and discontinued operations had a very low impact on the earnings. Globally, ROE was at 9.9%, improving from 9.5% a year ago. The tax rate is now at 31.2%.

## **II. Outstanding Underlying Performance in Q1 2011**

There is a clear trend for growth in operating performance, including for GAPC and non-operating items. Our operating performance has continued to be strong, up 19% for pre-tax profit, and amounting to €655 million, compared to €558 million a year ago. Non-operating items were at negative €108 million; this is due to the impact of own debt. Additionally, the fact that our spread continues to improve is good news in reference to financing costs. The GAPC contribution was of €-25 million, thus having a very limited impact on the earnings and being less than the total cost of managing the GAPC per quarter.

The growth of revenues for all business lines amounted to 6%, with +5% for Specialized Financial Services. These figures are pro forma, so that a fair comparison can be made, and they include GCE Paiements, Cicobail and Oceor Lease in 2010. The contribution of Investment Solutions was up 11%, at €472 million, and Corporate & Investment Banking was up 4%, at €821 million. There was a slight increase of Financial Investment at 1%. This is really a 7% growth in Coface, but with a sharp decrease in Natixis' private equity. For the Corporate Center, there was a negative contribution, mostly driven by own debt, but also due to the systematic tax that impacted their earnings.

Overall, the quarter has been good concerning cost of risk. The cost of risk has decreased to 10 basis points, amounting to €20 million for core businesses – an excellent result. Additionally, the cost of risk for CIB was close to zero.

### **1. Good Performance in Core Businesses**

There was an important contribution from core businesses, with a 25% increase for pre-tax earnings, including CCI. Corporate & Investment Bank had a 36% increase (€383 million); Investment Solutions, 18% increase (€146 million); Specialized Financial Services, 7% increase (€56 million); and Retail networks had a 13% increase (€116 million).

Financial Investments has decreased 68%, mostly due to the disappearance of Natixis' private equity during the quarter. In addition, the contribution of Coface was in line with this quarter's plan for operating performance and the net earnings are slightly below our expectations for this year. Globally, the Corporate Center was impacted by the own debt contribution.

### **2. Revenue Synergies Ahead of Plan**

Our cumulative target on additional revenues from the synergy of the Banque Populaire and Caisses d'Épargne networks is €395 million. Whereas the linear target was €123 million in the first quarter, we achieved €156 million and are thus clearly ahead of the plan. In particular, the Specialized Financial Services division is well ahead of its target, specifically in regard to Consumer Financing,

but also concerning Leasing and Sureties and Financial Guarantees. The latter was also due to a favorable mortgage market in France. Concerning Investment Solutions, the results are less positive. They were good related to Life Insurance, but negative for Asset Management. We must note that priority was given to increasing savings on the Bank's balance sheet.

### **III. Financial Structure**

One of the cornerstones to our plan was the Bank's development based on very strict control of risk—and we have achieved this. There was a 4% decrease in risk weighted assets during Q1, at €106 billion, compared to €110 billion. The respective CCI contribution went up from €38 billion to €39 billion, mostly thanks to earnings reserved by the networks.

Globally, Tier 1 capital has been slightly decreasing, because we have reimbursed €800 million of hybrid debt during the quarter, at an amount of €16 billion in March 2011. The Tier 1 ratio was at 11% and the Core Tier 1 ratio was at 8.1%, having gone up 20 basis points compared to last quarter. On a year-to-year comparison, it increased 150 basis points. Our objective to reach our above 8% Basel 3 target was based on the ability to put aside 130 basis points during this period. Thus, the improvement of 20 basis points during this first quarter is well in line with this objective.

#### **1. Strong Reduction of Hybrid Outstanding**

The Hybrids outstanding debt stands at €4.3 billion, having experienced a 34% decrease, and we have reimbursed above €2 billion in the last six months. This will have an accretive impact of 7% in the earnings per share of Natixis. I believe this can be done while keeping a Tier 1 ratio at a high level, despite the buybacks. Active management of hybrids will continue over the medium term, but at a slower pace. This is due to the fact that there are now issues harder to buy back on the market.

#### **2. Natixis: a Diversified Profile**

Overall, Natixis has a considerably diversified profile. Capital allocation is 50% for CIB, 13% for Investment Solutions, 11% for SFS and 26% for Retail (via CCI). The contribution breakdown for pre-tax profit is 50% from CIB, 19% from Investment Solutions, 7% from SFS and 24% from Retail. We note a fairly similar contribution to the earnings, with a slightly higher return on equity for Investment Solutions, at above 30%, and with CIB having made a solid contribution on return on equity of 21%.

#### **3. MLT Refinancing**

At the Natixis level, we are managing the refinancing through the BPCE Group. We have done 58% of the program already; therefore, we are ahead of our program. It is important to note that we have been very successful in creating the first jumbo bonds of housing loan issuance by BPCE SFH, for €2 billion, and which was significantly oversubscribed last week.

I will now pass the floor to Luc-Emmanuel Auberger for the results of the business divisions.

# **Business Divisions Results**

**Luc-Emmanuel Auberger**  
**Management Board**

Thank you, Laurent.

## **I. Corporate and Investment Banking**

### **1. Finance Activities**

After a strong fourth quarter, structured financing revenues were up 4% versus Q1 last year. New originations totaled €2.1 billion in Q1. Commercial banking revenues are slightly below the fourth quarter due to our policy to reduce the size of our balance sheet in this area. As you can see, we have a very low level of cost of risk during the quarter, with very few new entries in watchlist.

### **2. Capital Markets**

Capital markets revenues showed a 12% increase compared to Q1 of last year. Both the fixed income and the equity business lines had revenue levels higher than last year. There was a very good performance of debt capital markets, with improved rankings in bond originations, especially for covered and corporate bonds. Equity business lines also performed strongly, with client trading activities up 84% versus Q1 last year.

### **3. Business Model Evolution**

As was previously mentioned, CIB's business delivered high value creation this quarter, with annualized ROE standing at 21%, compared to 6.7% in Q1 2009 and 12.6% in 2010. Capital allocated to CIB has been reduced from €7 billion two years ago to €5.1 billion now. The cost income ratio is at 53.1%, remaining reasonably stable compared to one year ago, although we have done some investments in operational efficiency areas.

### **4. Revenues**

Corporate and Investment Banking total revenues amounted to €821 million, up 4%. Pre-tax profit was at €383 million, entailing an increase of 36%, with the cost of risk down from €97 million last year to €2 million this year.

## **II. Investment Solutions**

### **1. Business Mix**

Q1 remained quite difficult for monetary funds in Europe, however, all other products performed very well, with €3.1 billion of net inflows. With the product mix changing towards "high fee"

products, the revenues were up 13%, compared to Q1 last year. The Gross Operating Income in asset management significantly increased to €94 million, having gone up 26% versus Q1 2010.

## **2. Centralized Distribution Platform**

We thought it would be important to highlight figures for Asset Management distribution. Approximately €100 billion are distributed through the global centralized distribution platform. The efficiency of this centralized multi-product and multi-geographical regions distribution platform is improving quickly. The Assets under Management distributed through this platform increased 60% over the last three years, from €63 billion in 2008 to €101 billion at the end of Q1. Additionally, in this quarter, the platform generated €2.3 billion of net inflows, with €29 billion originating from countries other than France. This represents an increase of 25% vs. the end of March, 2010, on a constant euro basis. Major inflows came mainly from China, Japan, and the UK.

## **3. Insurance and Private Banking**

There was a good momentum in Insurance and Private banking in Q1. Life insurance had €0.5 billion in net inflows and Assets under Management amounted to €37.5 billion at the end of March, up 7% from last year. Private Banking Assets under Management amounted to €19.4 billion, up 29% from last year, partially due to the first consolidation of “Selection 1818,” the new independent financial advisor distribution platform, owned in part by Rothschild.

## **4. Net Revenues**

Net revenues of Investment Solutions were at €472 million, with an increase of 11% over last year. There was a 13% increase for Asset Management. Pre-tax profits stood at €146 million, up 18% over last year.

## **III. SFS**

The SFS business line posted excellent performance in Q1. Specialized financing production was high in all areas, with total revenues up 10% compared to Q1 last year. Financial Services revenues have stabilized, with payment volumes up 8%. Employee Savings Scheme Assets under management increased 7%, reaching €18.8 billion at the end of Q1.

Lastly, SFS pre-tax profits stood at €56 million at the end of Q1.

## **IV. Retail Banking Networks**

The contribution of retail banking networks has increased to €149 million, up 8% versus Q1 last year. There was strong commercial momentum, with loan outstanding up 9% compared to Q1 2010 and customer deposits up 4%. The cost of risk was significantly reduced at 26 basis points compared to 39 basis points last year.

## **V. Financial Investments**

Overall, the performance of Financial Investments totaled a positive €11 million. Coface revenues increased 7% and there was a decrease in Natixis' proprietary private equity.

Coface had a good first quarter, with increases in turnover for both credit insurance and international factoring, especially in Germany. The Coface loss ratio stood at 53% down from 63% a year ago.

## **VI. GAPC**

GAPC posted a €18 million loss in Q1, despite significant asset sales in the quarter. We sold approximately €2 billion of assets. These figures, therefore, confirm the trends of previous quarters. What is important is that RWA decreased by 10% from last quarter to €6.6 billion.

I will now pass the floor back to Laurent Mignon.

## **Conclusion**

**Laurent Mignon**  
CEO

Thank you, Luc-Emmanuel. As a conclusion, I believe our results show that the client-focused business model that we have put in place a year and a half ago, within the New Deal plan, is clearly delivering growth and value. In all our business lines, we were able to generate growth. This was done thanks to a real commercial momentum in all our core businesses, with 6% increase in revenues. We also had a strong performance in Capital Markets with CIB, with 12% revenue growth this quarter, despite the fact that we had a challenging Q1 context.

Globally, net profits, excluding non-operating items, are up 4% compared to last year, despite the fact that the tax rate has gone up from 11% to 31%. This result definitely reflects the solid performance of our core businesses and an increased contribution of BPCE retail networks.

Revenue synergies with BPCE retail networks are ahead of plan at the end of Q1 2011 and I believe we will continue to deliver results on this basis. The financial structure of the Group continued to improve. Core Tier 1 ratio was up 20 basis points to 8.1%, in a context of strict risk weighted assets growth control.

This is the end of our formal presentation, and I will now open the floor to your questions. We are available to answer your questions.

## **Question and Answer Session**

### **Pascal Decque, Cheuvreux**

Good morning. I have three series of questions. The first one is related to CIB, structured financing and commercial banking. Could you tell us what the mix is between revenues from structured financing and commercial banking? Second, what was coming from volumes between margins in Q1? The third point regards something all your French competitors did, and which apparently you did not. It refers to adjusting your model parameters for the value of your collateralized derivatives, which took a hit for the others. What is your situation at the moment?

The second set of questions regards insurance. I would like to know why you reduced your capital allocation, when one of your competitors has done exactly the opposite a few quarters ago. The second question concerns the impact of capital allocation. I wanted to have your viewpoint on the evolution of the Life insurance market and if you could give me some indication concerning the evolution of the gross premium for Natixis.

The last series of questions regards the return on equity targets that you gave for CIB under Basel 3, 21% today and more than 12% in 2012. I would like to know what your target for 2013 will be, because that will be fully loaded with Basel 3. Therefore, after the last impact of Basel 3, what will be your level of return on equity, and which level of cost of risk would be embedded in this estimate?

### **Laurent Mignon**

You asked what would be our perspective in terms of mixed revenues, referring to commercial banking and structured finance activities. We are still reducing the contribution of the pure commercial banking business. The two main areas of development of CIB are structured financing and capital markets. If you remember our presentation of the New Deal strategy, this was clearly outlined. The commercial banking is only there in order to enable us to develop long-term relationships with our clients, so that we can generate cross-selling with respective products. We are constantly trying to reduce our business of pure commercial banking, which is high RWA consumption and low-return. We must remember that we operate in a very competitive market landscape.

We have taken a very structural decision, like creating the coverage activity to be product neutral, which used to be the head of commercial banking in the past.

Second, we have a much more selective approach to the files; we are syndicating much more than before. In the past, the culture at Natixis was to buy and hold position on those loans.

We have increased the length of the duration of the financing structure. This has generated a small amount of the reduction of the margin, but I believe this shows good management of our liquidity. This was done in 2009 and 2010; you can see the full effects now. This was really a choice that we made. The global amount of outstanding that we have with clients is decreasing. This represents a change of the business model of the bank.



Globally, I do not have an objective in terms of shares of revenues. My objective is to see the lowest possible contribution of that compared to the other revenues, because this is only there in order to generate client relationships.

Structured financing, on the other hand, should have, and will have, a higher contribution. There was already an improvement compared to Q1 last year, but we are in a quarter where the total amount of commissions that was received was lower than that of Q4. There were less finalized transactions, but the pipeline is good and we are very confident concerning Q2.

In reference to volume between margins, in respect to commercial banking, the margin was down in this activity because of a longer duration element. It is approximately 20 basis points lower than it was before and the volume is down. For structured financing, this refers to large files.

We are in the process of moving to the same OIS curve in order to value our activities, in the same way that most of our peers are doing. The impact should be limited to our earnings. I am not allowed to give you an exact number now, we are finalizing our figures and the simulation that was performed is quite complex. However, as I said, the impact should be limited.

Concerning your question about why we had reduced the capital allocation to insurance, our model was not really confirmed in line with the regulation. We have taken into account the regulatory capital of Natixis and the first impact of solvency that we calculated showed us that we will not have to increase capital allocation to insurance, but, rather, to decrease it. This is really linked to the structure of the balance sheet and the assets mix of our business from Natixis Assurance. So our estimate for Life insurance is for a greater release of capital, rather than greater allocation. As for premium development, we have done much better than the rest of the French market. Banque Populaire has been quite resilient during Q1 in terms of turnover. In terms of global, we are down 13% because we had some very significant contracts with our Luxembourg subsidiary in Q1 2010 that were not repeated in 2011. I believe we are down 3% for turnover, concerning the activities with Banque Populaire. In short, we had a good performance overall.

Our ROE target is above 12% in a full Basel 3 environment. This is certainly true for CIB for 2013.

### **Pascal Decque, Cheuvreux**

One last question: with this target level of above 12% fully loaded, which level of cost of risk did you embed in this target?

### **Laurent Mignon**

I cannot give you all the accounting elements, but it is something that we expect would be reasonable for the cost of risk in the long run. I should highlight that Q1 was very good in this respect, because, as we have seen, it was close to zero. We do not expect zero to be the normalized cost of risk.

### **Guillaume Tiberghien, Exane**

I have four questions. How much dividends did you accrue in Q1? Are you still comfortable with above 8% fully loaded under Basel 3? Is that sufficient for you? In your capital planning, how much would you allow in terms of basis points of solvency for acquisitions? Concerning CPM, you had

zero contribution in Q1. I had it in my mind that, normally, it should cost more than €100 million per year. Can you advise us what you are expecting now?

### **Laurent Mignon**

Concerning dividends, we assumed that we would keep a 50% payout ratio, with a scrip dividend option, and also that BPCE will take shares.

We definitely believe that we will be above 8% by January 1, 2013, as was mentioned last quarter. The elements of this quarter are all reinforcing our planned objectives. I do not want to state exactly the final level. I believe that 8% or above is a reasonable target for us. As you remember, the minimum is 7%. I think we are showing that the global profile of the Group and of Natixis is much less risky than it used to be. In reference to CIB, the risk level of the CIB part has significantly diminished in the course of the last few years.

I restate the fact that we will be above 8%. No present elements are currently undermining this target. If there are any new needs or developments, we will then cope with them, but everything indicates that our stated objective is a reasonable one.

CPM was zero this quarter. We have put in place a “de-risking” of CPM. Last year, the cost of CPM was roughly €60 million. We do not disclose specific levels of our estimates of the cost of CPM. However, globally, we are pursuing the goal of reducing the CPM weight in our earnings. This reflects the fact that we have reduced the risk profile of the portfolios. In 2008 and 2009 there was urgent need to create capital, by using CPM to reduce the capital needs of the CIB. I believe this time has passed. We have to be very strict in the control of the risk weighted assets, when we generate them. CPM has now a much smaller degree of importance in our capital creation activities. The capital allocated to CIB has gone down from €7 billion to €5.1 billion in the last two years. This certainly illustrates my point.

The only business where we are looking for acquisitions as an element of development is Investment Solutions. In fact, we created what we call a “multi-boutique” activity, like we did in 2010 with H2O and Ossiam. Most of the growth we are looking at in all business lines is internal growth. In our plan, we have put aside a few hundred million euros of goodwill for investments in the plan for acquisitions. However, it is marginal compared to what we want to generate through internal growth. I believe we have significant internal growth potential as it is.

### **Florent Nitu, Citigroup**

My first question is on French retail. Revenues were pretty much flat and costs were up about 1%. Despite the revenue synergies being ahead of schedule, is this a result of margins or could you explain some of the trends that we are seeing? My second question is on GAPC. What types of products and portfolios were sold?

I have a third question on competitive pressure in structured financing. Where is this coming from? Is there a margin pressure? Lastly, my fourth question is on corporate solutions. Are we seeing a typical seasonality? And could you please share some insights on the pipeline?

## **Laurent Mignon**

Globally, during Q1, we posted flat growth in our net banking income on the two retail businesses. Mostly because it was down 2% in Banque Populaire. The underlying trend for Banque Populaire is slightly positive, in fact, of approximately 0.2%. It is not significant. The impact of that is mostly through structured products within Banque Populaire, which had a negative impact on the net banking income.

The revenue trend for the full retail business and for the cost is at the same level. We had a more dynamic development at the Caisses d'Epargne during the Q1 for the interest rate margin. On the other hand, Banque Populaire had significant growth in commissions, +6%, compared to +4% for Caisses d'Epargne.

In terms of costs, Q1 is always like an interim accounting exercise period. Therefore, we still expect to see a decrease in the expense ratio in the retail networks for the full year of 2011, thanks to the synergies that are happening between the two networks, respective developments and activities.

Concerning GAPC, we sold above €2 billion of assets during the quarter. It included a full range of products, e.g., CLO, CMBS, and so on, and these were mostly US products.

To answer your question on competitive pressure in structured financing, there is renewed competition there and I confirm that there is pressure on margins. What we see in our pipeline is very encouraging for the next quarters, so we are very confident. We have several developments in this area, in project financing, aircraft financing, and global energy. We are seeing renewed activity in the LBO business, so we are involved with some important opportunities currently in the market. We remain very confident, therefore, even if the pure spread margin is under constraint.

As for corporate solutions, the earnings for the quarter were €46 million. They were €42 million a year ago. I believe this is quite typical for an activity that has a seasonable element. It is very much linked to the respective transactions. Q1 is never a time where you close a great number of transactions.

## **Pierre Chedeville, CM-CIC Securities**

My first question refers to Natixis' cost of funding compared to that of its peers. I imagine Natixis is benefiting from the BPCE signature.

My second question is about Investment Solutions. In reference to the slide presenting "Business mix improvements," you mentioned the French market is difficult in terms of inflows, due to a Basel 3 effect. Could you please clarify what you were referring to? Could you give us the cost income ratio of your franchise in asset management in Europe and in the US? I would think that the business model for these two areas is quite different.

Lastly, I would like a clarification concerning the fixed income business. You explained that the environment this quarter was quite positive. However, this differs from what other investment banks have said in regard to the same period. Therefore, I would like to understand why you, on the contrary, believe the environment was positive.

## Laurent Mignon

To answer your question about Natixis' real cost of funding compared to peers, from Day One, we said one of the required elements to be part of the BPCE Group was for funding to be grouped together. We have stopped issuing Natixis long-term debts two years ago. We have decided that the only signature on the market for long-term funding would be BPCE.

We have gone one step further during the last quarter, given that we decided to bring all the teams together for long-term and short-term funding, even if we continue to keep to two signatures, Natixis and BPCE. Therefore, we have merged our treasury teams. This should enable us to have a very efficient financing structure for the Group, which will produce a competitive cost of funding for Natixis and other entities in our Group. Therefore, there is no single Natixis cost of funding—we have a Group one.

Concerning Investment Solutions, why do we think that the Basel 3 environment is not good for assets management? Basel 3 means that the liquidity ratio will be an important element for banks. I believe all banks in France are putting considerable pressure in order to have a savings on their balance sheet rather than outside balance sheet savings through asset management products. This is related to the fact that the French market was one of the lesser intermediated markets in terms of investment solutions. This was done through the *Livrets*, such as *Livret A*. *Livret A*, in fact, is slightly different, since it is centralized partly at Caisse de Dépôt, although there is another part which is not centralized and is within the balance sheet in the bank. Secondly, there was also asset management, which was very significant in terms of savings for the French people, and, the last and most important was life insurance. None of these elements are favorable in terms of the ratios for the French banks.

The banking environment is now favoring products of deposits in their balance sheets. This is obviously generating less volume for asset management products. I believe this is an element that represents a long-term trend for all activities. This is very much the case for the monetary funds and it is why we have seen a significant decrease in monetary funds in the last two years in France. First, this is because of the decrease in rates, which makes them less attractive in terms of returns, but it is also due to structural reasons. When we talk about long-term savings, such as equity or other products that generate long-term prospects, the impact is less important, but there is still an impact.

Concerning the cost income ratio of our model, we have two different models. In the US, we have a “multi-boutique” approach, where we are selling products with high margins. For example, bonds through credits, through Loomis, which is the largest contributor for asset under management in the US, or through equity products, with Harris Associates. We definitely have more affiliates with the latter, but these are the two main contributors. Globally, the cost income ratio is lower in the asset management business in the US than in Europe.

In Europe, we have a model where we work with fixed income products, with a lower margin. We are managing assets behind life insurance. Therefore, we have a low-cost activity in reference to running the business, but, as we have fewer fees compared to assets, we have a higher cost income ratio. In fact, our revenues are growing and our US platform is developing significantly compared to our French platform for the time being.

In reference to fixed income, we stated that the fixed income environment has been erratic during the quarter. However, the credit environment was positive and one where there were some significant developments. In the debt capital market, we achieved a formidable success, being one

of the most active banks during this quarter. This also illustrates the fact that we are much less dependent on trading activities.

**Pierre Chedeville, CM-CIC Securities**

I would like to ask a follow-up question regarding my first inquiry about cost of funding. Perhaps I was not clear; I would like to know how the BPCE signature is evolving compared to peers?

**Laurent Mignon**

I think that the BPCE spread was higher than that of its peers, because the Group is new. As a consequence, we need to better inform and educate analysts and investors. However, the spread in reference to the others is decreasing in absolute and in relative terms, but it is still slightly higher than Société Générale and Crédit Agricole. It is also significantly higher than BNP for the time being. The trend, however, is that we are converging towards Société Générale and Crédit Agricole.

**Sabrina Blanc, Société Générale**

I would like to ask three questions. Could you give me more details on the evolution of the book value? Could we have an idea of the future of Coface? My third question is about the risk weighted assets of corporate investment banking. Could you furnish any details about which parts of the risk weighted assets of corporate investment banking have been impacted by the advanced method (IRBA)?

**Laurent Mignon**

The book value has increased by 7 cents during the quarter, to reach €5.54 per share.

As for Coface, there were three important elements. First of all, I believe that it was in August 2009, given the low level of synergies between Coface and the rest of the Group, that we decided that Coface was a non-strategic asset. Being a non-strategic asset, it was managed in a non-integrated way, but purely for the sake of creating value for us.

In order to achieve this goal, the Number One priority in 2009 was to restore profitability. This was the task we accomplished in Q2 2009 and the Q1 2010, with a significant improvement in the loss ratio, as you have seen earlier. The environment also contributed to this result. The loss ratio went down from 120% to 38%, which was the low point at the end of the last quarter. It is now back to 53%. Our target for the full year is roughly 49%.

We had to think about what the real strategy and the business model for Coface meant to us, what we wanted to implement and how we would structure this area. By analyzing the type of businesses involved in Coface, we came to the conclusion that we had to refocus Coface on its core business, credit insurance. We are now in this phase. We are working with Jean-Marc Pillu and the Coface Board in this respect. This work is important. It is taking some time, since we had to reformulate some of our activities, including the service activities. All the elements must comply with the new strategy, which is to focus on Coface's core business: credit insurance. Once this phase is finished, we will be able to think about how we could generate value from Coface, perhaps through an IPO

or through other means. This will really be a second step. For the time being, and during the year of 2011, we will dedicate our attention to refocusing the strategy for Coface.

The impact of the RWA going from the standard to the advanced methodology for the CIB business is €13.6 billion. This is mostly in the structured financing business, and it has a very limited impact on “plain vanilla” commercial banking activities. The global impact for Natixis was approximately €16 billion in total. We still have some marginal elements we are looking at, but we do not expect changes to the global RWA environment. Now, it is a matter for the RWA of managing the business and ensuring that we continue to reduce our risk profile, while generating more net banking income.

### **Pierre Flabbée, Kepler**

I have three questions. The first question regards the possible consequences of implementation of Basel 2.5 on CIB activities. Do you see any negative impacts in your activities, taking into account the seasonality inherent to CIB? Is there a chance that you will be able to repeat your Q1 performance further in the year?

Regarding your position on Life insurance in Natixis, you mentioned that Basel 3 played against the development of Life sales, at the same time that it created additional capital constraints. Do you still think that keeping 100% of your subsidiary makes sense? As for my third question, I would like to know if we can measure the underlying profitability of Coface.

### **Laurent Mignon**

In reference to your first question asking whether Basel 2.5 will change the model, first of all, capital market activities are the most volatile part of the Natixis business. Therefore, they will vary from quarter to quarter. I can also underscore that the way we are developing our business with our clients is in line with our plan, and having a positive result. We are confident that we will continue to generate growth in these activities. It is true that Basel 2.5 will entail certain changes, especially concerning how we approach some of the products. We are preparing ourselves and we are working on these elements. Our aim is to be pro-active and not being hampered by the fact that there will be changes in the market. We must note that this will be a disrupting factor on the market. However, I do not believe it will be detrimental to us in the long term. I would like to emphasize that we are working on the issue in order to be ready and to adapt our business model as necessary. Capital markets are seasonal, in both positive and negative respects. However, globally, our platform is developing well. The debt platform that has been put in place at the end of 2010 is also developing very well, in terms of the business volumes generated and the value offered to our clients, as well as our ability to syndicate loans that we have generated on the commercial side. All of these developments are proceeding very well and they are fully in line with our plan decided one year ago.

I believe life insurance is a strategic element. You cannot be an active player in Investment Solutions if you are not active in life insurance; at least this is true for France. Our development in life insurance is positive. There will be more deposits in the balance sheet of the banks, but they will still need long-term savings in France. We are taking an active role in our development, not only related to banks, but also to IFAs. This is the reason for our strategic move related to “Selection 1818,” the merger between Selection R and 1818 Partenaires. I believe this is the first platform to serve the IFAs, which presently are and should continue to be a fast-growing segment of the savings market in France. We should be well placed in this activity, which should generate

significant inflows in life insurance and asset management for private banks. The study that we carried out concerning Basel 3 showed that the return on equity of our life insurance business is stable in terms of profitability and it is slightly above 12%. Therefore, this represents a good contribution to our business, characterized, as I mentioned, by having a stable revenue profile.

The pre-tax profit of Coface is €27 million. Globally, it is disappointing in terms of net earnings, even if the operating items of this result are positive. However, we have a one-off impact of €11 million on financial revenues linked to an exchange rate impact. This is a non-recurring element. Despite this, we are confident that we will achieve a type of return in line with what Euler Hermes is able to achieve, even if Euler Hermes is a high performance company and it is in a more advanced position compared to Coface, especially in reference to the credit insurance business. This is why we want to refocus Coface and to be able to demonstrate in 2011 that we are able to generate operating earnings in Coface in line Euler Hermes' performance in the long term.

If you make a comparison with Coface, you will see that the turnover has increased by 5% during the Q1, which is good performance compared to Euler Hermes. The loss ratio is at 53% and our target is at 49% for the full year. Q1 has been impacted by a €6 million provision made for the Fukushima area. This is another non-recurring item. However, when this is applied only in one quarter, it has an impact on the loss ratio of that quarter, but which will then diminish for the full year.

### **Robin Down, HSBC**

First, thank you for the disclosure on distribution channels (slide 24). It would be very useful for us if we could be provided with some margins by distribution channels, or revenues by distribution channels. I do not want to sound too picky, given that you have had a very good performance on impairments this quarter. But if I look at the specialized financial services business, there has been a sharp percentage uplift in credit losses in Q1 versus Q4 and the Q1 of last year. In the last twenty years, too many consumer credit businesses have blown off. Therefore, I would like to know: is there anything special going on in terms of payment losses in Q1?

### **Laurent Mignon**

Concerning asset management products, the global platform distributing products, both in the US and throughout the rest of world, is developing swiftly. It is selling mostly US products, which are either Loomis or Harris, the two blockbusters in this area. These are the ones that have the highest margin and they are distributed through affiliates in the US. The lowest margin products are related to the European affiliates, even if you include AEW, which is the real estate asset management company, and a new company like H2O Asset Management, then we are referring again to products with higher margins. H2O Asset Management really had a very promising start. We are now well above €1 billion assets under management and I think we will have a €2 billion target shortly.

Therefore, basically, in terms of mix of revenues, the light blue and pink elements of the graphic have the highest revenues. We do not disclose figures for the revenue distribution channel by distribution channel. However, this is why the development of this global platform is a key strategic element, as we had stated a year and a half ago.

Concerning SFS, the increasing cost of risk is mostly consumer credit. It is difficult to keep the cost of risk flat when you have significant growth in production in these businesses. We had a very significant growth in the outstanding amount and risk is increasing in line with that. We have done

some adjustments to our parameters during Q1, adding one more year in our calculations, but we have not seen any dramatic changes related to the cost of risk linked to the outstanding amount. Developing our activities in consumer credit generates higher cost of risk, without any significant negative deviation in terms of overall cost of risk. In short, outstanding is growing and so is the cost of risk.

### **Jacques-Henri Gaulard, Autonomous**

I would like to know your assessment of an across-the-cycle cost of risk. In the past, it was about 50 basis points in the old Natixis. Do you believe that, given the risk reduction you are experiencing, it would be roughly 30-35? Is this a reasonable figure across the cycle? As to my second question, we have seen Crédit Agricole moving assets to their parent company in the overall switch process. You, however, are in a different situation, being slightly better capitalized than your parent company. Could we have things the other way around, whereby BPCE could use you to raise capital to effectively increase the capital level of the whole Group?

### **Laurent Mignon**

As I mentioned, the cost of risk in Q1 was very low. I also expect that the historical cost of risk of Natixis is not in line with business model that we have, which is now less risky than it was previously. As a guess, I would say that a 25-30 basis point cost of risk across the cycle is a fair estimate.

In terms of capital or switch, what we have said is that our own generation of capital allows us, together with the growth that we are generating, to fund our growth and to generate a Core Tier 1 capital Basel 3 above 8% at the end of 2012. In order to reach this goal, we do not need to put in place any kind of transaction with BPCE, such as the switch transactions that you have mentioned. Even though these tools exist, they are not needed. We should be able to generate enough capital by ourselves. Would the Group use Natixis, as you have mentioned, in order to reinforce its capital base? The capital plan of the Group is to be above the 8% by the end of 2012, as a result of the earnings of the Group itself. The announcements today of the sale of Foncia and Eurosic will generate above €1 billion additional capital for the Group. I believe it is €1.2 billion altogether that will be generated from these two transactions. Other elements will also contribute to generating capital in the coming months for the Group. Therefore, all of these positive elements should be sufficient to place us well above the 8% target in 2013. The cheapest way to obtain capital will not be to ask Natixis to make capital increases on the market. Therefore, I do not believe we will be choosing such a course of action.

We are a listed company, and, therefore, we have access to capital markets. However, we will only go to the capital markets in order to fund transactions which will be able to generate additional growth to Natixis, but there are presently no plans to do so.

Our next presentation will be on August 5<sup>th</sup> for the 1<sup>st</sup> half results. Thank you.