

CALYON ON TRACK FOR GROWTH

Rejane Reibaud

Crédit Agricole's corporate and investment bank seems able to provide additional growth for the group.

The details are almost complete. By July, Calyon and Société Générale are expected to announce the merger of their futures and options brokerage subsidiaries. According to an internal source, "We have just completed the due diligence and are now analyzing the results and their consequences for the two companies' valuations. The agreement should be announced as planned." The combination of Calyon Financial and Fimat will produce the world leader in derivatives brokerage and, above all, will enable the corporate and investment banking subsidiary of Crédit Agricole SA (CASA) to reach a new stage in its development.

Calyon, now three years old, has made a strong comeback. In 2004, with the market starting to show renewed positive signs, the entity that resulted from the merger of Crédit Lyonnais's corporate and investment banking division with those of Crédit Agricole recorded a sharp drop in revenues. In addition, Calyon fell behind in its merger plans and was the main reason research houses issued a series of downgrades concerning Crédit Agricole. Calyon's equity derivatives and trading operations were hit particularly hard. Nearly three quarters of its equity derivatives traders left the bank at a time when its three platforms – i.e. those at Crédit Agricole Indosuez (CAI), Cheuvreux and Crédit Lyonnais – were to be combined. "The market was skeptical as to Esparbès's ability to turn Calyon into a credible performer without increasing expenses," recalls Christophe Ricetti, an analyst at Ixis Securities.

Equity derivatives as a symbol

Calyon and its parent company stay confident and are able to announce that the corporate and investment banking division reached breakeven at the end of 2005. In the meantime, several strategic moves were decided on. In the brokerage division, the "green bank" hives off the loss-making Crédit Lyonnais Securities Europe (CLSE) and folds the equally loss-making CLC-Bourse's execution platform into Cheuvreux's platform. On the human resources side, Calyon recruits at the end of 2004 a derivatives heavyweight, Marc Litzler, the joint head of investment banking at Société Générale. Litzler becomes Calyon's Deputy Chief Executive Officer with responsibility for its capital markets and brokerage businesses. Calyon's goal is to be a head-to-head competitor in equity derivatives with Société Générale and BNP Paribas in less than four years. Litzler's target for 2007 is to triple the business line's revenues to EUR 600 million. Moreover, Calyon's growth target for 2007 in terms of global net banking income is set at EUR 1 billion. At the end of 2004, it amounted to less than EUR 4 billion.

Today, less than six months from year-end, Calyon is well on its way to meeting its goals. Last year, equity derivatives generated revenues of EUR 500 million, EUR 300 million more than in 2004. Equivalent growth in 2007 would put Calyon well beyond its target. Its overall revenues have already reached their goal since net banking income for 2006 came to EUR 5.4 billion. In addition, the staff seems stable overall. "We are now in a position to confirm the Bloomberg estimate placing us first year to date in both primary and secondary equity markets and second in M&A in France," claims Gilles de Dumast, Senior General Manager and global head of investment banking at Calyon.

Calyon exceeded analysts' earnings estimates for the first quarter of 2007 with revenues up 16%. The corporate and investment banking division of BNP Paribas, one of Calyon's major rivals, recorded just 5% growth year to year. Calyon's cost-to-income ratio came to 56.4%, "among the best in the industry," according to Oddo Securities analysts.

Starting from further back

Calyon has thus become an important source of growth for Crédit Agricole S.A. at a time when retail banking in France is causing concern. In fact, it would appear that Calyon's development is the most satisfactory of all its major French competitors. "However it is important to remember that Calyon started from further back, especially concerning equity derivatives," stresses Christophe Ricetti. Calyon believes there is still significant room for improvement. It has plans in the area of structured finance in Asia, the Middle East and the United States, while investment banking must add to its resources in France. Advisory services need to become more international with plans afoot in the Middle East and Asia. In May, Calyon announced the formation of a joint venture with Banque Saudi Fransi, a longtime ally in Saudi Arabia that originated with Indosuez. Calyon has also just obtained a full banking license in Algeria enabling it to form a subsidiary there, and has announced the doubling by 2010 of the staff at CLSA, its brokerage and investment banking subsidiary in Asia, with most investment going into operations in China and India.

Calyon is not content to rest on its laurels. That is the message expected from Georges Pauget, the Chief Executive Officer of Crédit Agricole S.A. and the Chairman of Calyon, on August 30 when the results for the first half will be presented.

© 2007 L'Agefi Hebdo. All rights reserved

Use of this document is subject to international copyright laws. Specific authorization is required for copying it or communicating it to the public via internet.