

# Subordinated bonds

## Bank Tier 1s: too late to sell, too early to buy

- Many deeply subordinated bank bonds have suffered double-digit price declines recently, driven by concerns over the stability of the European banking sector.
- We think major European banks will be supported by governments to prevent defaults on deposits and senior bonds. However, this support may have negative regulatory consequences for subordinated bonds. Supported banks may not be allowed to redeem bonds early and may need to defer or cancel coupon payments for several years.
- We think bonds of banks that may require support are valued at appropriate discounts. However, we expect much more pressure on valuations until there is clarity on actual restrictions. Therefore, we would currently not sell bonds of stronger issuers, but also refrain from increasing exposure as we expect lower entry levels at a later stage.

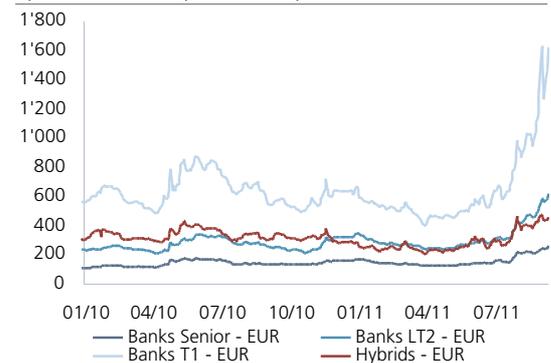
We expect Greece to default within the next six months (see "The debt crisis: Next hurdles for the Eurozone") and we think the European banking sector will require a wide range of support measures to restore confidence in its stability. Until supportive measures are effective in reassuring investors, bank bonds and stocks may suffer more losses. Therefore, we maintain our preference for non-financial corporates over financials for the time being. Within the different layers of European bank debt, we currently prefer senior bonds to subordinated ones as we expect support measures to be beneficial for senior debt. Also, we maintain a preference for non-European banks, like the major Canadian and Australian issuers as well as selected Scandinavian banks and some regionally well diversified global players. As long as uncertainty persists, Lower Tier 2 bonds should hold up better than Tier 1s, as extension and coupon risks are much lower. However, low market liquidity and the lessons learnt from enforced Lower Tier 2 loss participation in Ireland and the UK should continue to push valuations lower in the near-term. A political decision deferring a Greek default and limiting contagion to Italy and Spain may fuel short-term recoveries. However, we think these recoveries will not be sustainable as long as high sovereign default risk persists in Europe.

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### Highlighted research

- Subordinated bonds: Corporate Hybrids: Still attractive yield pickup; 14 July 2011
- Subordinated bonds: Updated bank Tier 1 and Tier 2 recommendations; 27 May 2011
- Subordinated bank bonds: reposition now; 15 February 2011
- Understanding CoCo bonds, 28 Oct 2010

**Fig. 1: Risk premium for bank bonds**  
Spread over swaps in basis points



Sources: UBS WMR, Iboxx, as of 26 September 2011.

*This report discusses subordinated bank bonds, which are subject to enhanced credit risk and lower secondary market liquidity and are not suitable for conservative investors. Those bonds are in some cases rated below investment grade and may incur coupon and principal losses while the issuing bank remains solvent and senior bonds are being serviced. Please refer to our education note "Understanding Bonds: Subordinated Bonds" and our previous publications on subordinated bank bonds for explanations on the risks involved in those investments.*

## Subordinated bonds

### Being cautious was right, and should remain right for longer

In our previous notes on subordinated bonds in February and May, we expressed our concerns about Tier 1 and Tier 2 bonds of stronger banks being priced for perfection, implying no further credit concerns and assuming redemptions at first call dates. Indeed, it was our number one reason to expect valuation losses highlighted in these reports, the sovereign debt crisis, that drove a pronounced correction of the entire subordinated bank bonds segment over the past months.

### Losses are driven by two strongly related concerns

1) Banks will suffer losses from an expected Greek default (see 14 September: "The debt crisis: Next hurdles for the Eurozone") and valuation losses on other peripheral government bonds as well as from a weaker economic environment in Europe and stress in the interbank market.

2) If banks require support from governments, this state-aid may trigger regulatory restrictions affecting subordinated bonds. Banks using support may be restricted from making optional coupon payments on Tier 1 securities for a period of several years and may not be allowed to use issuer call options to redeem any subordinated instruments early.

### Recent performance and new valuation levels

As shown in the table on the right, losses have been largest for the Italian and French banks, while Scandinavian banks have shown relative strength. This is also true for global players like HSBC, Standard Chartered and Credit Suisse. Banks that continue to be likely to redeem step-up bonds at their first call date trade at single digit yields-to-call. Banks showing double digit yield-to-call values are essentially those that may possibly face regulatory call restrictions or decide to refrain from early redemptions to preserve regulatory capital. Therefore, investors should not count on earning these high indicative yields.

To illustrate the effect of coupon and call restrictions, assume a 6% bond callable in two years with a 15% yield-to-call. Cancelling the next two coupon payments and deferring the first possible redemption date by three years takes the yield-to-call down to 7%. The higher the bond coupon and the shorter the period to the first call, the higher the impact of coupon cancellations and extended effective call dates on effective yields. Investors reliant on receiving scheduled payments and a repayment at the first call date may sell affected bonds even at depressed valuations following announcements of regulatory restrictions, possibly triggering a temporary sell-off into an illiquid market.

### The regulatory backdrop should ease in the short-term and tighten strongly in the long-term

Following the financial crisis of 2008, regulators put forward a broad range of stricter rules for banks under the Basel 3 framework. The transition period during which stricter standards should be gradually phased-in will start in 2013. As most banks would currently not meet all new requirements, the sector was supposed to use the transition period to improve capital, liquidity and funding profiles over time. This has become highly challenging as the sovereign debt crisis hits the sector at a stage when it has not yet fully recovered from the financial crisis. We think that among a range of support measures for European banks, there may also be a deferred introduction of parts of Basel 3. This would ease the pressure on banks and may help preventing a credit crunch triggered by restrictive lending policies aimed at meeting new regulatory standards.

Requiring a second round of government support shortly after the financial crisis will most likely come at a high price for the banking sector in the longer-term. Regulatory standards may be tightened further and

**Table 1: Average change of Tier 1 prices from their 12 months highs, current average yields to call (indicative)**

Issuer	Price change	Yield to Call (%)
Nordea	-5%	7.3
SEB	-6%	8.1
Svenska Handelsbanken	-6%	9.2
Rabobank	-9%	6.4
DNB Nor Bank	-10%	7.4
Credit Suisse	-12%	9.9
HSBC Holdings	-12%	9.7
Standard Chartered	-14%	8.2
Swedbank	-14%	10.9
Fortis Bank SA/NV	-20%	35.5
Deutsche Bank	-22%	19.8
Barclays	-26%	14.5
BNP Paribas	-28%	26.6
Credit Agricole	-36%	25.1
Societe Generale	-40%	31.7
Unicredit	-45%	27.7
Intesa SanPaolo	-49%	20.3

Source: UBS WMR. Based on bonds listed in the Tier 1 bonds overview below. Values as of 27 September 2011.

### Selected Tier 1 calls and non-calls in 2011

Bond	Call date	Structure	Call decision
UBI Banca 8.364%	15.02.2011	step-up	not called
Commerzbank FRN	08.03.2011	CMS	not called
Banesto FRN	29.04.2011	CMS	not called
Barclays 8.55%	15.06.2011	step-up	called
UBS 7.247%	26.06.2011	step-up	called
UBI Banca 9%	27.06.2011	step-up	not called
DnB NOR 7.729%	20.06.2011	step-up	called
WestLB 8%	30.06.2011	fixed	not called
WestLB 6%	30.06.2011	fixed	not called
NordLB 5.625%	30.06.2011	fixed	not called
Helaba 5.5%	30.06.2011	fixed	not called
HSH Nordbank 7.25%	30.06.2011	fixed	not called
Dexia 6.821%	06.07.2011	step-up	not called
Intesa 6.988%	12.07.2011	step-up	called
Barclays 6.625%	15.09.2011	fixed	not called
Fortis Bank SA 6.5%	26.09.2011	step-up	not called
BNP 4.875%	17.10.2011	fixed	not called
BNP 6.25%	17.10.2011	fixed	not called
BNP 6.625%	23.10.2011	step-up	call confirmed

Source: UBS WMR, as of September 2011.

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legal changes may enforce loss absorption by share- and bondholders before any taxpayers' money is being used to support a bank in the future.

### Regulatory easing may be negative for subordinated bonds

For subordinated bonds, changes to the phase-out of existing subordinated capital instruments would be most impactful. The current rule is that all Tier 1 securities, which will not qualify as Tier 1 capital under Basel 3, will be phased out by reducing their capital recognition by 10% annually starting in January 2013. Bonds with an incentive to be redeemed, like those with step-up coupons, will lose their entire Tier 1 capital recognition immediately after the first call dates (see Fig. 2). Therefore, step-up Tier 1 bonds of stronger banks are currently expected to be called at the first call date.

### Why should governments inject fresh capital and at the same time allow repayments of capital to investors?

We think that it would be politically very difficult to justify using taxpayers money is (again) for the support of banks, while investors currently providing a bank with capital, like shareholders and subordinated bondholders, still receive dividends/coupons and principal repayments. To reduce the required amount of fresh capital, regulators may allow existing capital securities to qualify as Tier 1 capital for longer by postponing the phase-out rules explained above for a period of several years. Banks receiving support would be restricted from early redemptions and even banks not facing such restrictions would have a lower incentive to redeem Tier 1 securities, which would constitute cheap equity capital. Uncertainties about final redemption dates would in our view weigh on valuations and prevent a fast recovery to valuation levels of early 2011. We think only a small group of strong banks will firmly communicate their intention to continue to redeem their step-up Tier 1 and Tier 2 securities at the first call date.

### Valuations improve, but it is too early to look for opportunities

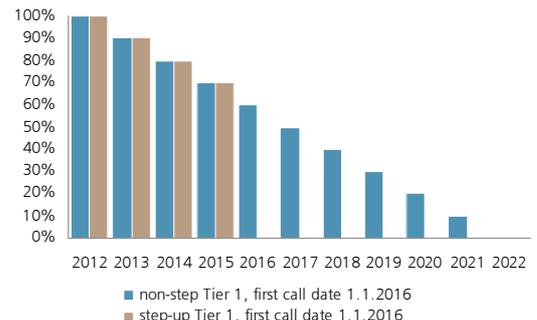
Within the group of major European banks, which are seen as systemically important financial institutions by national regulators, a default on senior bonds is unlikely to happen in this crisis, in our view. Legal amendments to force senior bondholders to contribute to bank bail-outs are not sufficiently advanced in Europe (in contrast to the US) and will most certainly be put in place over the next three to four years.

As explained above, the outcome is much less straightforward for subordinated bonds. We think that major European banks will not turn insolvent and strong bond documentations of most subordinated bonds currently outstanding (except for example some German Landesbank Tier 1) would in our view not allow a total write-off of capital securities as long as a bank is still on a "going concern basis".

Even assuming an adverse scenario with coupon payments being cancelled for two years and redemption dates being deferred by two to three years, bonds of the major French and Italian banks currently look fairly valued. Therefore, **we advise against selling subordinated bonds of the issuers listed in Table 1** at current valuations.

However, we think low secondary market liquidity and further selling pressure can push subordinated bank bonds to much lower levels from

**Fig. 2: Capital recognition for existing subordinated bonds (example)**  
Incentive to redeem step-up bonds



Source: UBS WMR.

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here before a sustainable recovery may set in. Following the sizeable recent losses, we consider a short-term recovery to be possible, but think that as long as Europe lacks a credible approach to contain banking sector stress, there will be no lasting recovery in subordinated bank bonds. As a consequence, **we believe it is too early to invest** and we would feel more comfortable picking-up bonds of stronger banks at a time when the effective need for bank support and its possible form can be assessed with greater certainty. For the time being, we do not provide specific recommendations to invest in perpetual Tier 1 securities. However, we provide an overview of bonds we are monitoring actively below and assess the likelihood of call events for each bond.

### CoCo's are off the agenda for longer

The idea of Contingent Convertible Securities (see our 28 October 2010 note introducing CoCo bonds) has met much interest from investors and investment banks, but issuance so far was slim and is not expected to pick up materially. We think the Credit Suisse and Rabobank structures issued so far offer little value compared to existing Tier 1 bonds. As long as another debt crisis is looming and as long as national requirements for CoCo's are not finalized, we think it makes no sense for banks to rush ahead. Therefore, we think CoCo bonds will be off the agenda for longer.

## Sell recommendations

We maintain a number of Sell recommendations on perpetual securities. Most of these bonds that are still being actively priced have strongly underperformed other hybrid bank bonds over the recent months.

We are **closing our Sell recommendations** for perpetual securities of the following banks:

- **Allied Irish Bank:** Following the bank's nationalization, subordinated bonds were subject to a distressed exchange at 10% of nominal values and do no longer exist. We are therefore closing our Sell recommendation issued in July 2009 and remove the affected bonds from our coverage universe.
- **Bank of Ireland:** Most of the perpetual bonds were repurchased in a distressed debt exchange offering 10% of nominal values in cash or by means of a debt-to-equity swap. There is currently no secondary market for the few remaining bonds. We are therefore closing our Sell recommendation issued in July 2009 and remove the affected bonds from our coverage universe.

As we expect further downside for perpetual bonds of the issuers listed in the table on the right, we maintain our Sell recommendations.

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**Table: WMR Sell recommendations on perpetual securities**

Affecting all such bonds of those issuers

Issuer	WMR view
BAWAG	poor risk reward
BayernLB	poor risk reward
Bradford & Bingley	losses expected
Commerzbank	poor risk reward
Danske Bank	poor risk reward
Depfa Bank	losses expected
Erste Bank	poor risk reward
Eurohypo	poor risk reward
HSBC Finance (not 'Bank' or 'Holdings')	poor risk reward
Hypo Alpe Adria	losses expected
Kommunalkredit Austria	poor risk reward
Lloyds Banking Group (incl HBOS)	poor risk reward
Northern Rock	losses expected
RBS (incl National Westminster)	poor risk reward
RZB Finance	poor risk reward
WestLB (Hybrid Capital Funding)	losses expected

Source: UBS WMR.

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## Tier 1 bonds overview

The tables below provide an overview of our actively monitored Tier 1 securities and our views on call probabilities for each bond (using low, moderate and high), reflecting our outlook on the issuers as well as the bond's specific structure. Important structural factors are the coupon type (step-up or retail bond), the first call date (within possible restriction periods or not) and the coupon level after the call date (high or low margins). Prices and yields are only indicative and we assume that many bonds would be difficult to trade at those levels. Therefore, we currently do not provide a valuation view or trading recommendations.

### Tier 1 securities actively monitored by WMR (THIS IS NO RECOMMENDATION LIST)

ISIN	Name	First		Coupon		Ratings	Ind. yield & price (%)			Notes	Call probability	
		Call date	Typ	Fix	FRN		to call	mat.	Ask			Piece
<b>Barclays</b>												
XS0205937336	EUR BARCLAYS BANK PLC	15.12.2014	var	4.875	3mE+105	A-/Abaa3	27.0	6.0	56.0	10+10	non-step; low margin	low
XS0214398199	EUR BARCLAYS BANK PLC	15.03.2020	var	4.750	3mE+71	A-/Abaa3	17.0	8.1	47.0	10+10	non-step; low margin	low
XS0222208539	GBP BARCLAYS BANK PLC	15.12.2017	var	6.000	3mL+142	A-/Abaa3	18.7	7.2	55.5	10+10	no step-up	low
XS0350187430	GBP BARCLAYS BANK PLC	15.12.2018	var	8.250	3mL+400	A-/Abaa2	8.8	4.1	97.1	50+1	step-up	high
XS0397801357	GBP BARCLAYS BANK PLC	15.06.2019	var	14.000	3mL+1340	A-/Abaa2	12.9	13.7	102.0	50+1	step-up; reg. par call	high
XS0305103482	GBP BARCLAYS BANK PLC	15.12.2019	var	6.3688	3mL+170	A-/Abaa2	13.2	6.8	67.0	50+1	step-up; reg. par call	high
XS0150052388	GBP BARCLAYS BANK PLC	15.06.2032	var	6.000	3mL+89	A-/Abaa2	10.4	8.9	63.0	1+1	non-step; low margin	-
XS0129959978	USD BARCLAYS BANK PLC	15.12.2011	var	7.375	3mL+233	A-/A-	21.8	2.9	97.0	1+1	step-up	high
XS0269453139	USD BARCLAYS BANK PLC	15.12.2016	var	5.926	3mL+175	A-/Abaa2	13.3	4.6	73.0	100+1	step-up; reg. par call	high
XS0322792010	USD BARCLAYS BANK PLC	15.12.2017	var	7.434	3mL+317	A-/Abaa2	11.3	6.0	83.0	100+1	step-up; reg. par call	high
XS0155141830	USD BARCLAYS BANK PLC	15.06.2032	var	6.860	6mL+173	A-/Abaa2	9.8	8.6	74.0	1+1	no step-up	-
US06738C8284	USD BARCLAYS BANK PLC	15.12.2034	var	6.278	6mL+155	A-/Abaa3	9.9	8.8	67.5	10+10	no step-up	-
<b>BNP Paribas</b>												
FR0010239319	EUR BNP PARIBAS	17.10.2011	fix	4.875	-	A/Abaa1 / * -	82.4	9.0	55.9	1+1	-	not called
XS0135791217	EUR BNP PARIBAS CAP TRST III	23.10.2011	var	6.625	3mE+260	A/Abaa1 / * -	13.9	13.9	99.5	1+1	step-up	confirmed
XS0141843689	EUR BNP PARIBAS CAP TRST IV	24.01.2012	var	6.342	3mE+233	A/Abaa1 / * -	55.4	4.8	86.0	1+1	step-up	moderate
XS0160850227	EUR BNP PARIBAS CAP TRST VI	16.01.2013	var	5.868	3mE+248	A/Abaa1 / * -	37.8	6.3	71.0	1+1	step-up	moderate
FR0010661314	EUR BNP PARIBAS	11.09.2013	var	8.667	3mE+405	A/Abaa1 / * -	19.2	7.4	84.0	50+50	non-step; reg. par call	low
FR0010306738	EUR BNP PARIBAS	12.04.2016	var	4.730	3mE+169	A/Abaa1 / * -	18.5	6.6	60.0	50+50	step-up; reg. par call	moderate
FR0010456764	EUR BNP PARIBAS	13.04.2017	var	5.019	3mE+172	A/Abaa1 / * -	16.6	6.9	60.0	50+50	step-up; reg. par call	moderate
FR0010638338	EUR BNP PARIBAS	02.07.2018	var	7.781	3mE+375	A/Abaa1 / * -	13.2	8.6	76.5	50+50	step-up; reg. par call	high
FR0010306787	GBP BNP PARIBAS	19.04.2016	var	5.945	3mL+113	A/Abaa1 / * -	16.8	5.0	67.0	50+50	no step-up	low
FR0010348557	GBP BNP PARIBAS	13.07.2016	var	5.954	3mL+181	A/Abaa1 / * -	15.6	5.6	69.0	50+50	step-up; reg. par call	moderate
FR0010533026	GBP BNP PARIBAS	23.10.2017	var	7.436	3mL+185	A/Abaa1 / * -	15.0	6.5	71.1	50+50	non-step; reg. par call	low
FR0010239368	USD BNP PARIBAS	17.10.2011	fix	6.250	-	A/Abaa1 / * -	36.8	8.3	76.7	2+2	-	not called
FR0010477125	USD BNP PARIBAS	06.06.2012	fix	6.500	-	A/Abaa1 / * -	33.5	7.8	84.0	2+2	reg. par call	low
USF1058YHV32	USD BNP PARIBAS	29.06.2015	var	5.186	3mL+168	A/Abaa1 / * -	14.0	3.9	75.0	1+1	step-up; reg. par call	moderate
USF1058YHX97	USD BNP PARIBAS	25.06.2037	var	7.195	3mL+129	A/Abaa1 / * -	9.6	8.9	77.0	100+100	non-step; reg. par call	-
<b>Credit Agricole</b>												
XS0146942189	EUR CL CAPITAL TRUST 1	26.04.2012	var	7.047	3mE+261	BBB+/Aa3 / * -	69.6	6.2	73.5	1+1	step-up; reg. mh call	low
FR0010248641	EUR CREDIT AGRICOLE SA	09.11.2015	var	4.130	3mE+165	BBB+/Abaa1 / * -	23.6	7.2	52.0	50+50	step-up; reg. mh call	moderate
FR0010603159	EUR CREDIT AGRICOLE SA	31.03.2018	var	8.200	3mE+480	BBB+/Abaa1 / * -	16.9	11.1	67.0	50+50	step-up; reg. mh call	high
FR0010814434	EUR CREDIT AGRICOLE SA	26.10.2019	var	7.875	3mE+642.4	BBB+/Abaa1 / * -	15.5	12.3	66.0	50+50	step-up; reg. par call	high
FR0010291997	GBP CREDIT AGRICOLE SA	24.02.2016	var	5.136	3mL+157.5	BBB+/Abaa1 / * -	18.8	5.7	61.2	50+50	step-up; reg. mh call	moderate
FR0010814418	GBP CREDIT AGRICOLE SA	26.10.2019	var	8.125	3mL+646.79	BBB+/Abaa1 / * -	17.1	12.8	62.1	50+50	step-up; reg. par call	high
FR0010575654	GBP CREDIT AGRICOLE SA	30.01.2020	var	7.589	3mL+355	BBB+/Abaa1 / * -	14.7	9.5	67.0	50+50	step-up; reg. mh call	high
FR0010533554	USD CREDIT AGRICOLE SA	19.10.2012	fix	7.375	-	BBB+/Abaa1 / * -	49.0	10.9	68.5	2+2	reg. par call	low
FR0010772244	USD CREDIT AGRICOLE SA	26.12.2014	fix	9.750	-	BBB+/Abaa1 / * -	17.4	12.0	81.5	2+2	reg. par call	moderate
USF22797FJ25	USD CREDIT AGRICOLE SA	31.05.2017	var	6.637	3mL+123.25	BBB+/Abaa1 / * -	20.1	6.4	55.5	100+1	non-step; reg. mh call	moderate
USF22797FK97	USD CREDIT AGRICOLE SA	13.10.2019	var	8.375	3mL+698.2	BBB+/Abaa1 / * -	13.8	10.9	74.0	100+1	step-up; reg. par call	high

Source: UBS WMR, Bloomberg, as of 26 September 2011.

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## Tier 1 securities actively monitored by WMR (THIS IS NO RECOMMENDATION LIST)

ISIN	Name	First		Coupon		Ratings SP/Fit/Mdy	Ind. yield & price (%)				Notes	Call probability
		Call date	Typ	Fix	FRN		to call	mat.	As k	Piece		
<b>Credit Suisse</b>												
XS0138429575	EUR CRED SUISE GRP CAP V	07.11.2011	var	6.905	3mE+320	BBB-/Baa1	11.0	11.0	99.5	1+1	step-up	high
XS0112553291	GBP CRED SUISE GRP CAP III	15.06.2015	var	8.514	5yT+440	BBB-/Baa1	9.5	6.6	97.1	1+1	reg. mh call	high
XS0371612762	USD CLAUDIUS (CREDIT SUISE)	27.12.2013	fix	8.250	-	BBB+/-/A3	8.4	8.3	99.8	2+2	reg. par call	high
XS0531067659	USD CLAUDIUS (CREDIT SUISE)	12.12.2015	fix	7.875	-	BBB+/-/A-	8.9	8.2	96.5	2+2	reg. par call	high
US225448AA76	USD CREDIT SUISE GUERNSEY	15.05.2017	var	5.860	3mL+169	BBB+/-/A3	11.8	4.4	76.0	2+2	step-up; reg. mh call	high
<b>Deutsche Bank</b>												
DE000A0AA0X5	EUR DEUTSCHE CAP TRUST V	02.12.2009	fix	6.150	-	BBB-/Baa2	-	8.1	77.5	0.1+0.1	-	not called
XS0176823424	EUR DEUTSCHE CAP TRUST IV	19.09.2013	var	5.330	3mE+199	BBB-/Baa2	29.8	6.1	67.0	1+1	step-up	low
DE000A1ALVC5	EUR DB CAPITAL FUNDING XI	31.03.2015	fix	9.500	-	BBB-/Baa2	11.3	10.0	95.0	1+1	reg. par call	moderate
DE000A0TU305	EUR DB CONT CAP TRUST IV	15.05.2018	fix	8.000	-	BBB-/A-	10.4	9.0	89.0	1+1	reg. par call	moderate
US25153Y2063	USD DEUTSCHE BK CAP FUND IX	20.08.2012	fix	6.625	-	BBB-/Baa2	32.2	8.2	20.4	25\$	-	low
US25153RAA05	USD DEUTSCHE BK CAP FNDG TST	19.01.2016	var	5.628	3mL+170	BBB-/Baa2	15.5	4.5	69.8	1+1	step-up	low
<b>DnB Nor Bank</b>												
XS0157873760	EUR DNB NOR BANK ASA	19.11.2012	var	7.068	3mE+325	BBB+/-/Baa3	7.0	5.0	100.0	1+1	step-up; reg. mh call	high
XS0285087358	GBP DNB NOR BANK ASA	29.03.2017	var	6.0116	3mL+169.5	BBB+/-/Baa3	7.9	3.9	92.0	50+1	step-up; reg. mh call	high
<b>Fortis Bank SA/NV</b>												
BE0117584202	EUR FORTIS BANK SANV	26.09.2011	var	3.906	3mE+237	A-/A-/Baa3	49.8	4.5	90.0	100+100	step-up	not called
BE0119806116	EUR FORTIS BANK SANV	27.10.2014	var	4.625	3mE+170	A-/A-/Baa3	21.2	5.9	65.0	50+50	step-up; reg. mh call	low
<b>HSBC Holdings</b>												
XS0110562534	EUR HSBC CAPITAL FUNDING LP	30.06.2012	var	8.030	3mE+365	A-/A+/-/A3	10.7	5.5	98.0	1+1	step-up	high
XS0178404793	EUR HSBC CAPITAL FUNDING LP	24.03.2014	var	5.3687	3mE+200	A-/A+/-/A3	13.3	4.7	84.0	1+1	step-up; reg. mh call	high
XS0188853526	EUR HSBC CAPITAL FUNDING LP	29.03.2016	var	5.130	3mE+190	A-/A+/-/A3	11.0	5.1	80.0	1+1	step-up; reg. mh call	high
XS0110560165	GBP HSBC CAPITAL FUNDING LP	30.06.2015	var	8.208	5yT+465	A-/A+/-/A3	8.2	6.5	100.0	1+1	reg. mh call	high
XS0189704140	GBP HSBC BANK FUNDING STER	07.04.2020	var	5.862	6mL+185	A-/A+/-/Baa1	8.4	5.2	84.0	1+1	step-up; reg. mh call	high
XS0179407910	GBP HSBC BANK FUNDING STER	05.11.2031	var	5.844	6mL+176	A-/A+/-/Baa1	8.1	6.9	78.0	1+1	step-up; reg. mh call	-
USG463802037	USD HSBC CAPITAL FUNDING LP	27.06.2013	var	4.610	3mL+199.5	A-/A+/-/A3	9.7	2.9	92.0	1+1	step-up; reg. mh call	high
USG4637HAB45	USD HSBC CAPITAL FUNDING LP	30.06.2030	var	10.176	3mL+498	A-/A+/-/A3	7.9	7.4	122.0	1+1	step-up; reg. mh call	-
<b>Intesa</b>												
XS0371711663	EUR INTESA SANPAOLO SPA	20.06.2018	var	8.047	3mE+410	BBB-/Baa2	21.1	13.0	55.0	50+50	step-up; reg. mh call	moderate
XS0456541506	EUR INTESA SANPAOLO SPA	14.10.2019	var	8.375	3mE+687.1	BBB-/Baa2	19.5	15.2	56.5	50+50	step-up; reg. mh call	moderate
<b>Nordea</b>												
XS0151270310	GBP NORDEA BANK FINLAND PLC	18.07.2014	var	6.250	3mL+235	/A/A2	6.7	3.8	98.7	1+1	step-up; no reg. call	high
XS0453319039	USD NORDEA BANK AB	25.03.2015	var	8.375	step-up delay*	A-/A/Baa2	8.0	7.9	101.0	2+1	no reg. call	high
USW5816FCM42	USD NORDEA BANK AB	20.04.2015	var	5.424	3mL+158	A-/A/Baa2	7.0	2.7	95.0	100+1	step-up; reg. par call	high
* changes to 5yT+598.5 (non-step) in 2015 and then steps up to 5yT+897.75 in 2020.												
<b>Rabobank</b>												
CH0102806061	CHF RABOBANK NEDERLAND	12.11.2014	var	6.875	6mL+496.5	AA-/A2	3.8	4.9	109.0	5+5	non-step; reg. mh call	high
CH0043174397	CHF RABOBANK NEDERLAND	27.06.2018	var	5.500	6mL+280	-/AA-/A2	4.7	3.4	104.5	5+5	step-up	high
XS0203782551	GBP RABOBANK CAP FD TRUST IV	31.12.2019	var	5.556	6mL+146	AA-/AA-/A2	9.2	5.1	78.5	1+1	step-up; reg. mh call	high
XS0368541032	GBP RABOBANK NEDERLAND	10.06.2038	var	6.910	6mL+282.5	AA-/AA-/A2	8.2	7.8	86.1	50+1	step-up; reg. mh call	-
XS0325306990	USD RABOBANK NEDERLAND	22.10.2012	fix	7.000	-	AA-/AA-/A2	5.5	6.9	101.5	2+2	reg. par call	moderate
XS0367701983	USD RABOBANK NEDERLAND	06.06.2013	fix	7.000	-	AA-/AA-/A2	3.3	6.6	106.0	10+10	reg. par call	moderate
XS0180995945	USD RABOBANK CAPITAL FUND II	31.12.2013	var	5.260	3mL+162.75	AA-/AA-/A2	6.5	2.4	97.5	1+1	step-up; reg. mh call	high
XS0387971152	USD RABOBANK NEDERLAND	24.03.2014	fix	7.375	-	AA-/AA-/A2	6.3	7.2	102.5	2+2	reg. par call	moderate
XS0583302996	USD RABOBANK NEDERLAND	26.07.2016	var	8.375	5yT+642.5	-/A-	8.2	7.6	100.5	100+1	NEW Tier 1*	high
XS0203891840	USD RABOBANK CAP FDG TR III	21.10.2016	var	5.254	3mL+159	AA-/AA-/A2	6.9	3.0	93.0	1+1	step-up	high
XS0431744282	USD RABOBANK NEDERLAND	30.06.2019	var	11.000	3mL+1086.75	AA-/AA-/A2	7.8	9.5	119.5	75+1	step-up; reg. mh call	high
* includes loss absorption trigger if equity capital ratio declines to below 8%; no write-up option included.												

Source: UBS WMR, Bloomberg, as of 26 September 2011. Background color for call dates indicates that a bond was not called at the first call date. Variable rate formulas not linked to a standard money market rate are also highlighted with background color.

# Subordinated bonds

## Tier 1 securities actively monitored by WMR (THIS IS NO RECOMMENDATION LIST)

ISIN	Name	First		Coupon		Ratings SP/Fit/Mdy	Ind. yield & price (%)			Piece	Notes	Call probability
		Call date	Typ	Fix	FRN		to call	mat.	Ask			
<b>SEB</b>												
XS0454821462	EUR SKANDINAVISKA ENSKILDA	31.03.2015	var	9.250	5ySwap+640	BBB-/A-Ba1	9.3	8.6	100.0	1+1	reg. par call	high
XS0337453202	EUR SKANDINAVISKA ENSKILDA	21.12.2017	var	7.0922	3mE+340	BBB-/A-Ba1	8.5	6.2	93.5	50+1	step-up; reg. mh call	high
XS0276252581	GBP SKANDINAVISKA ENSKILDA	28.11.2011	var	5.500	3mL+184	BBB-/A-Baa3	8.2	2.8	99.5	50+1	step-up	high
USW25381DL07	USD SKANDINAVISKA ENSKILDA	25.03.2014	var	4.958	3mL+182.75	BBB-/A-Ba1	6.3	2.6	97.0	100+1	step-up; reg. mh call	high
USW25381DM89	USD SKANDINAVISKA ENSKILDA	23.03.2015	var	5.471	3mL+154	BBB-/A-Ba1	8.1	2.7	92.3	100+1	step-up; reg. mh call	high
<b>Societe Generale</b>												
XS0365303329	EUR SOCIETE GENERALE	22.05.2013	var	7.756	3mE+335	BBB+/-Baa2 /# -	57.6	10.4	55.5	50+50	non-step; reg. mh call	low
XS0179207583	EUR SG CAPITAL TRUST III	10.11.2013	var	5.419	3mE+195	BBB+/-A-Baa2 /# -	49.3	8.4	49.0	1+1	step-up; reg. mh call	low
FR0010136382	EUR SOCIETE GENERALE	26.01.2015	var	4.196	3mE+153	BBB+/-A-Baa2 /# -	30.7	7.5	49.0	1+1	step-up; reg. mh call	low
XS0336598064	EUR SOCIETE GENERALE	19.12.2017	var	6.999	3mE+335	BBB+/-Baa2 /# -	21.3	11.6	53.0	50+50	step-up; reg. mh call	moderate
XS0449487619	EUR SOCIETE GENERALE	04.09.2019	var	9.375	3mE+890.1	BBB+/-Baa2 /# -	15.2	13.5	74.0	50+50	step-up; reg. par call	high
XS0292464244	GBP SOCIETE GENERALE	27.03.2012	var	5.750	3mL+110	BBB+/-A-/A3 /# -	49.9	2.9	82.0	50+1	no step-up	low
XS0369350813	GBP SOCIETE GENERALE	16.06.2018	var	8.875	3mL+340	BBB+/-Baa2 /# -	20.2	11.5	60.0	50+1	non-step; reg. mh call	moderate
XS0454569863	USD SOCIETE GENERALE	07.04.2015	fix	8.750	-	BBB+/-Baa2 /# -	20.2	12.2	72.0	2+2	reg. par call	moderate
USF8586CAA02	USD SOCIETE GENERALE	05.04.2017	var	5.922	3mL+175	BBB+/-A-Baa2 /# -	21.0	7.1	52.0	100+1	step-up; reg. mh call	moderate
<b>Standard Chartered</b>												
XS0129229141	GBP STANDARD CHARTERED BANK	11.05.2016	var	8.103	5yT+427.5	BBB+/-A/A3	8.3	6.3	99.0	1+1	step-up; reg. par call	high
XS0222434200	GBP STANDARD CHARTERED BANK	14.07.2020	var	5.375	3mL+189	BBB+/-A/A3	8.7	5.1	80.0	1+1	step-up	high
XS0119816402	GBP STANDARD CHARTERED BANK	31.01.2022	var	7.750	5yT+380	BBB+/-A/A3	8.5	6.9	95.1	10+10	step-up	high
XS0365481935	USD STANDARD CHARTERED PLC	27.11.2013	fix	8.125	-	BBB-/A-Baa2	6.7	7.9	102.8	2+2	reg. par call	high
XS0347919457	USD STANDARD CHARTERED BANK	24.12.2014	var	9.500	step-up delay*	BBB+/-A/A3	7.4	7.6	106.0	1+1	reg. par call	high
US853254AA86	USD STANDARD CHARTERED PLC	30.01.2017	var	6.409	3mL+151	BBB-/A-Baa2	10.2	3.7	84.8	100+100	non-step; call every 10y	high
US853254AC43	USD STANDARD CHARTERED PLC	30.07.2037	var	7.014	3mL+146	BBB-/A-Baa2	7.9	7.3	90.0	100+100	non-step	-
* changes to 5yT+678 (non-step) in 2014 and then steps up to 5yT+1017 in 2019.												
<b>Svenska Handelsbanken</b>												
XS0292434684	EUR SVENSKA HANDELSBANKEN AB	23.03.2012	frn	1.837	3mE+30/180	A-/A/A3	9.7	3.5	96.3	50+1	step-up floater; UT2	high
XS0238196942	EUR SVENSKA HANDELSBANKEN AB	16.12.2015	var	4.194	3mE+168	A-/Baa2	7.0	4.0	90.0	50+1	step-up	high
XS0279046709	GBP SVENSKA HANDELSBANKEN AB	18.01.2012	var	5.500	3mL+184	A-/A/A3	12.6	2.9	97.8	50+1	step-up	high
XS0303911795	GBP SVENSKA HANDELSBANKEN AB	12.06.2013	var	6.4611	3mL+51/151	A-/A-Baa2	8.3	1.9	97.1	50+1	addl. step-up by 2018	high
XS0266243806	GBP SVENSKA HANDELSBANKEN AB	04.09.2013	var	5.375	3mL+189	A-/A/A3	8.3	3.3	95.0	50+1	step-up; UT2	high
<b>Swedbank</b>												
XS0188779028	GBP SWEDBANK AB	17.03.2016	var	5.750	6mL+192	BBB-/Baa2	10.9	4.8	82.3	1+1	step-up; reg. par call	moderate
<b>Unicredit</b>												
DE0008512021	EUR HVB FUNDING TRUST VIII	28.03.2012	var	7.055	3mL+257	/BBB/Ba1 /# -	42.2	5.2	85.0	0.1+0.1	step-up	low
XS0231436238	EUR UNICREDITO ITAL CAP TRST	27.10.2015	var	4.028	3mE+176	/BBB/BBB+/Baa3 /# -	28.5	8.5	45.0	50+1	step-up; reg. mh call	low
XS0470937243	EUR UNICREDIT INTL BANK	10.12.2019	var	8.125	3mE+665	BBB/Baa3 /# -	19.2	14.8	56.0	50+1	step-up; reg. mh call	high
XS0527624059	EUR UNICREDIT SPA	21.07.2020	var	9.375	3mE+749	/BBB/BBB+/Baa3 /# -	20.5	16.8	56.0	50+1	new Tier 1*	high
XS0231436667	GBP UNICREDITO ITAL CAP TRST	27.10.2015	var	5.396	3mL+176	/BBB/BBB+/Baa3 /# -	31.6	8.6	44.1	50+1	step-up; reg. mh call	low
XS0372556299	GBP UNICREDIT INTL BANK	27.06.2018	var	8.5925	3mL+395	/BBB/BBB+/Baa3 /# -	24.3	14.6	49.0	50+1	step-up; reg. mh call	moderate
* Issued in 2010, including mandatory coupon suspension; possible principal write-down event.												

Source: UBS WMR, Bloomberg, as of 26 September 2011. Background color for call dates indicates that a bond was not called at the first call date. Variable rate formulas not linked to a standard money market rate are also highlighted with background color.

### Appendix

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## Subordinated bonds

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### Appendix

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#### **Stock selection system:**

Analysts provide three equity selections (Most Preferred, Neutral View, Least Preferred).

#### **Equity preference:**

##### **Most preferred:**

Taking into consideration the stock's rating as well as other factors relevant for portfolio management (e.g. risk, diversification), analysts expect the stock to contribute positively to the overall performance of the relevant Equity Preference List (EPL) in the next 12 months, i.e. to outperform versus the thematic benchmark.

##### **Neutral view:**

Analysts expect the stock to neither contribute positively nor negatively to the performance of the relevant EPL, i.e. to perform in line with the thematic benchmark in the next 12 months.

##### **Least preferred:**

Taking into consideration the stock's rating as well as other factors relevant for portfolio management (e.g. risk, diversification), analysts expect the stock to contribute positively to the relevant EPL in the next 12 months, i.e. to underperform versus the thematic benchmark, which results in a positive contribution to the EPL.

##### **Suspended**

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Buy	56.67%	(43.15%*)
Neutral	30.72%	(41.57%*)
Sell	5.93%	(23.30%*)
Suspended	5.81%	(53.47%*)
Discontinued	0.86%	(0.00%*)

## Appendix

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In general, as currently released, the Proposed Amendments may require an investor that has acquired a "participating interest" other than an "exempt interest" (as defined in the Proposed Amendments) in a FIE, to include in income for income tax purposes each year (i) an amount equal to a prescribed percentage of the designated cost of its participating interest in the FIE; (ii) in limited circumstances, its gain on its participating interest in FIEs, on a mark-to-market basis whether or not such gain has been realized; or (iii) in limited circumstances, its proportionate share of the FIE's income (or loss) calculated using Canadian tax rules. Accordingly, if the Proposed Amendments apply to an investor, the investor may be required to include in taxable income amounts that the investor has not earned or received. The foregoing summary provides a general description of Proposed Amendments, and should not be construed as advice to any particular investor regarding the implications of the Proposed Amendments in the investor's particular circumstances. Investors are urged to consult their own tax advisors regarding the application and impact of the Proposed Amendments in their particular circumstances. A Canadian investor in the Fund must promptly notify UBS if that investor acquires or holds more than 10% of any class of shares of a particular Fund. 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## Appendix

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