European Banks Outlook 2013

PAN-EUROPEAN BANKS

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EQUITY RESEARCH

2013

Location, location, location

The north/south divide remains our core European bank investment thesis

November 29, 2012

Sector view Remains **Neutral**

Staying Neutral: Low ROTEs justify low valuations

We believe low valuations in Europe are largely warranted by low ROTEs and low prospects for capital return compared with global peers. We expect European ROTEs to remain around 10% in the medium term owing to the economic effect of prolonged austerity and new regulation (eg, ring fencing and introduction of bail-in debt), capping fundamental upside for a sector that is now trading at 0.9x TBV.

The north/south divide remains deeply entrenched…

While central banks can help alleviate short-term liquidity concerns and perceived tail risk around eurozone fragmentation, giving a short-term boost to the sector, the north/south (or non-EU17/EU17) divide in Europe is deeply entrenched. Weaker GDP in the periphery as well as funding costs that are still 200-300bp higher than the core drives weaker NII growth, higher NPLs, weaker earnings and so weaker share prices. In our view, asset quality is more of a threat to dilution than low capital levels given that the majority of the sector should be compliant with Basel 3 RWA and leverage ratios in 2013 (exceptions include DBK and CASA).

…which suggests a fairly cautious core stock selection

Given these persistent headwinds, our core Buys are still largely outside the EU17 economies including names such as STAN, HSBC, SWED, DNB and UBS. These have superior medium-term TBVPS growth and strong enough balance sheets to return capital. We believe premium relative ratings are reasonable in absolute terms given their ROTEs.

However, positioning is in the sector's favour…

Despite the gradual improvement in European balance sheets, and some moderate success by the ECB in limiting perceived tail risk, investors generally remain underweight the sector. Yet, while banks continued to see downgrades with the Q3 earnings season, for the first time in two years the broader market saw greater cuts. History shows that this has correlated strongly with short-term relative outperformance by the banks.

…which suggests some exposure to 'RARR' opportunities

With several stocks in the sector at barely half the multiple at which they traded in 2011, the share price performance for some banks could be more driven by re-rating than by book value growth. This would suggest some exposure to those banks that we believe have the potential to 'Re-rate at a Reasonable Risk' (RARR). We prefer French banks in this respect, led by BNP and SG, although we would note that if growth were to surprise on the upside, then we would expect the low P/TBV Italian banks also to perform strongly.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

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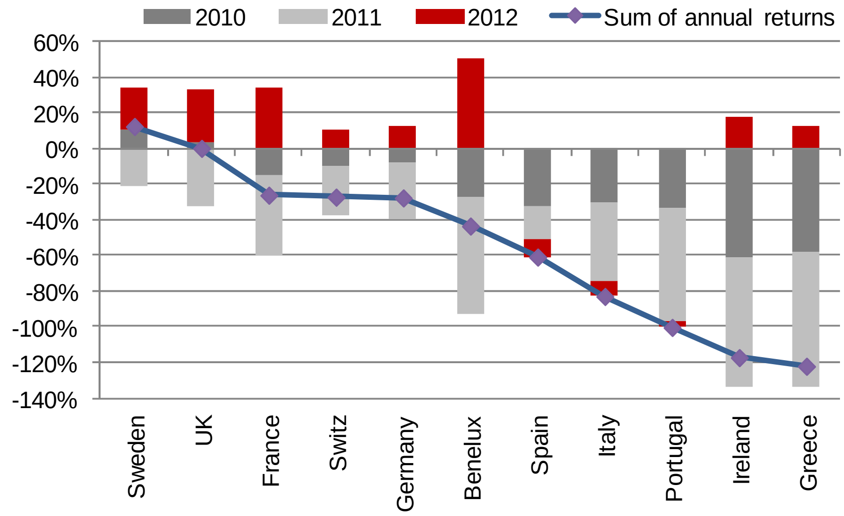
Executive summary

As sovereigns took on the contingent liabilities of their banking systems post crisis, in 2010 we outlined why we expected the north/south divide to be a fundamental and persistent differentiator in our European banking investment thesis as diverging GDP drives diverging earnings and share prices. Yet again it informs our title for 2013, and we have every reason to believe we will use it again given the long-term nature of austerity. As illustrated below, for each of the past three years, a bank's location has been the primary driver of its relative share price performance.

Fig. 1: Bank price performance by market

Figure shows annual % change in banks index and simple sum of annual returns



Source: Datastream, Nomura research

As a result, our core Buys are still largely outside the eurozone, including banks such as STAN, HSBC, SWED, DNB and UBS. However, we do recognise that balance sheets have generally improved in the past 12 months, relative earnings momentum is positive for the banks (even as investors remain underweight), multiples for many stocks are very low even by recent standards, and central banks have been effective in the past few months in limiting perceived tail risk. We would complement our more defensive picks with banks that we believe have the potential to re-rate at a reasonable risk, eg, BNP and SG.

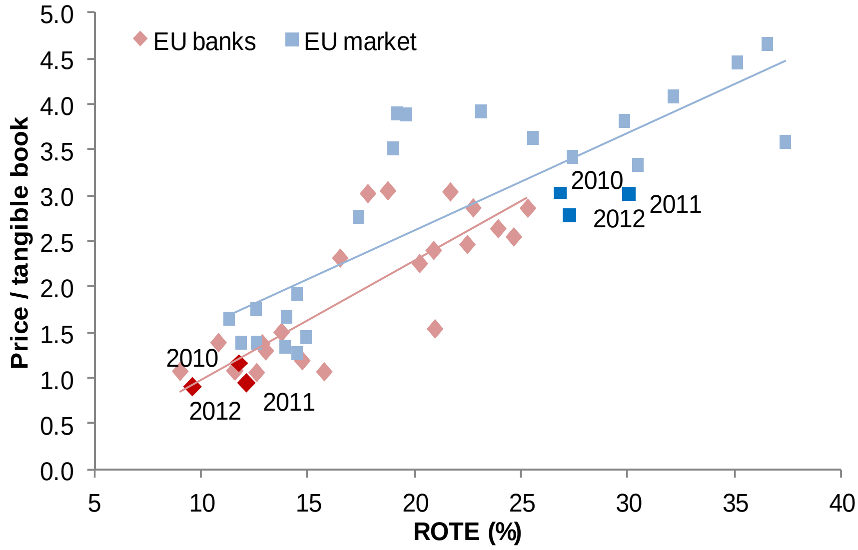
- **UK banks:** Despite low P/TBV multiples, we believe that low returns and low capital distribution during run-off periods will weigh on **LLOY** and **RBS**, although we see restructuring potential supporting **BARC**. We prefer the growth of the Asian banks, which we both rate as Buy, but with a small preference for **STAN** over **HSBC**.
- **Investment banks:** While these stocks have shown better short-term earnings momentum, we still believe much restructuring is needed to deliver an acceptable ROTE in a Basel 3 compliant world. Our preferred bank remains **UBS** on a capital return angle, while for **DBK** we believe leverage concerns will remain an overhang.
- **French & Benelux banks:** We see the economies as above average, with multiples not reflecting the balance sheet improvements. In France, with earnings upside potential from C&IB and International divisions, our preferred picks are **BNP** and **SG**, while in Benelux, given recent performance, we prefer **ING**.
- **Scandinavian banks:** Although we see some earnings risk in a low rate environment and limited room for multiple expansion in general, we still favour **SWED** as one of few EU banks with buy-back potential, and **DNB** given its comparatively low multiple.
- **Italian banks:** We believe that asset quality concerns are overstated, and valuations remain very low, although evidence of improved growth may be necessary to fulfil the valuation potential. We prefer **ISP's** balance sheet over **UCG**.
- **Spanish banks:** We expect domestic earnings to remain under pressure from higher real estate provisions and lower margins, capping the upside of even the well diversified **BBVA** and **SAN** (where we prefer BBVA for its Mexican exposure).

Low returns and payouts drive EU banks

In sharp contrast to the broader market, European banks are posting their lowest returns on tangible equity (ROTEs) at sub-10% and are trading at their lowest valuations in the past 25 years. In part, this reflects a challenging economic environment with subdued trading, higher funding costs and in some cases (but far from all) an elevated cost of risk. However, this largely reflects the substantial capital build required by regulators, which will have a permanent depressing effect on future ROTEs.

Fig. 2: European bank and European market 12m forward ROTE and P/TBV ratios

Annual observations from 1988 to date

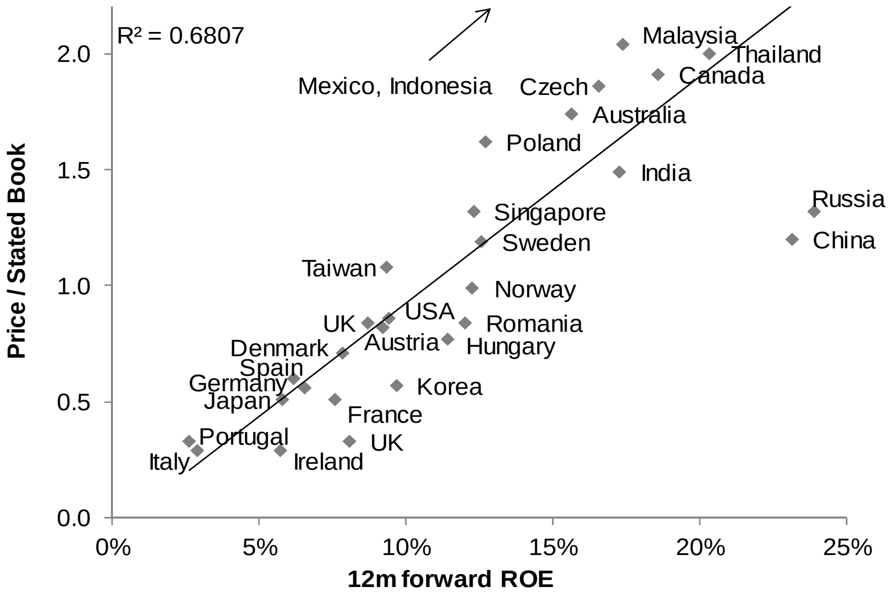


Source: Nomura StrategyInsight

We believe low valuations in Europe are largely warranted by these low ROTEs and low prospects for capital return compared with global peers. A chart of 12-month forward ROE versus price/book for global banking markets suggests that much of southern Europe does not appear attractive enough, although there appears to be some value in France, UK and Norway and in Hungary, Romania and Russia.

Fig. 3: Global bank markets 12m forward ROE and price/book ratios

Note ratios are stated rather than tangible, although this makes little change to relative position

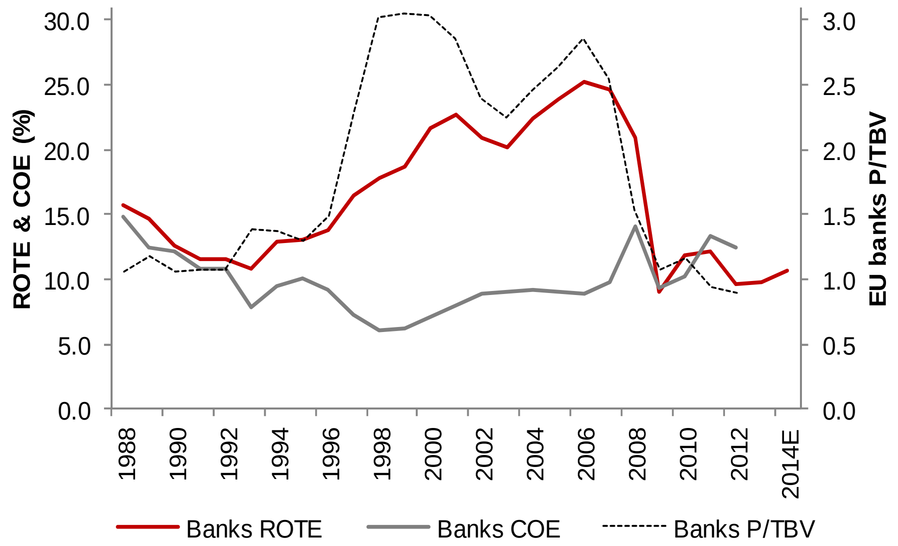


Source: Datastream, Nomura research

We expect European ROTEs to remain around 10% in the medium term because of the economic effect of prolonged austerity and regulation (eg, ring fencing and introduction of bail-in debt). Therefore, even if the sector's cost of equity (currently just under 11%) were to improve to its long-run average of just under 10%, we believe fundamental upside is capped for a sector that is now trading at 0.9x TBV.

Fig. 4: European banks time series of ROTE, cost of equity (COE) and P/TBV

COE is implied from reciprocal of 12m forward PE (strictly accurate when growth is zero)

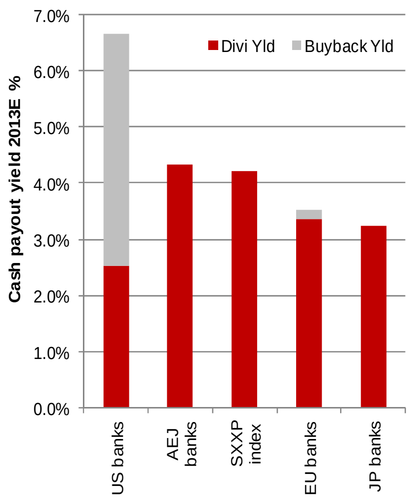


Source: Nomura StrategyInsight

We believe that in addition to weak macro, weaker balance sheets also weigh on capital distribution for European banks. While we expect US banks post the next Fed stress test to be able to deliver a total payout yield of c. 6.6%, we see European banks yielding just 3.6%, below the 4.2% of the broader European market (SXXP index). Looking to 2014, we see European bank yields improving to 4.6%, in line with the market, but with a broad spread between those with stronger balance sheets that can contemplate higher payouts (some including buy-backs in lieu of higher dividend payouts such as BPPP) and those that have weaker balance sheets and/or substantial restructuring ahead.

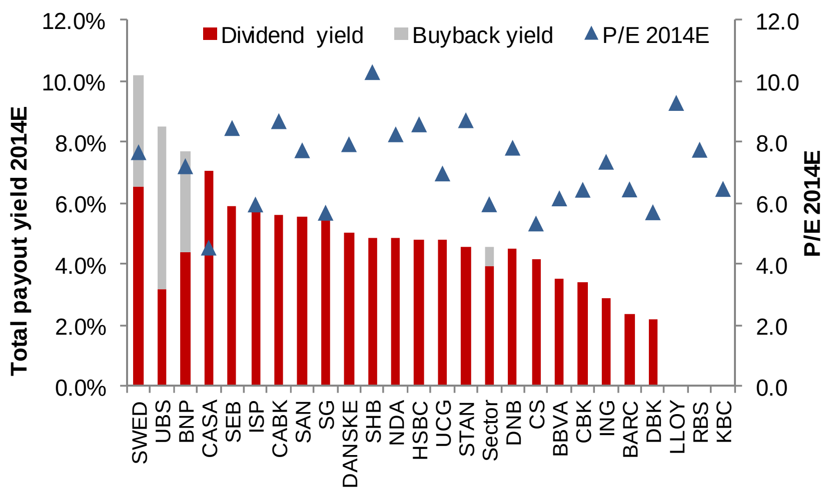
Fig. 5: Bank payout yields 2013E

Note: US is CCAR banks; EU is top 25



Source: Bloomberg, Nomura estimates

Fig. 6: Top 25 EU banks 2014E yields



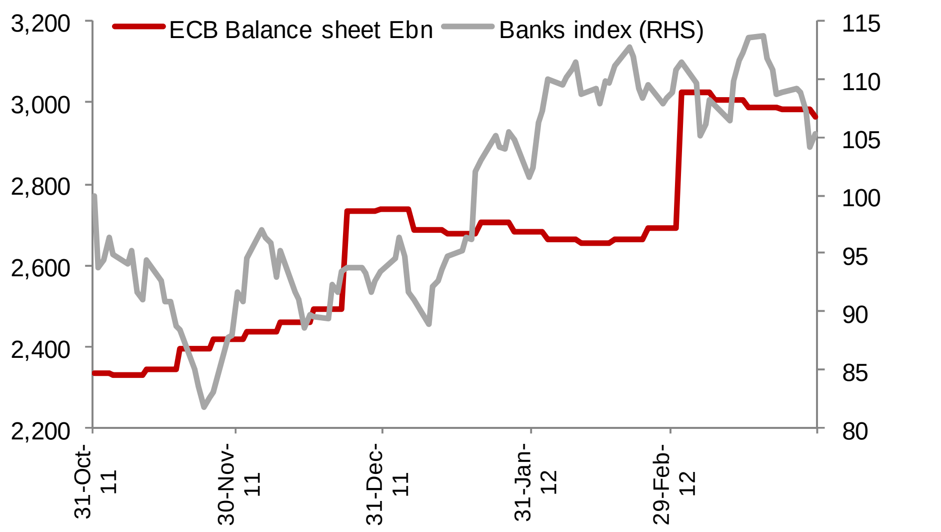
Source: Bloomberg, Nomura estimates

The north/south divide is the key theme

As sovereigns took on the contingent liabilities of their banking systems post crisis, in 2010 we outlined why we expected the north/south divide would be a fundamental and persistent differentiator in our European banking investment thesis. Yet again it becomes our title for 2013, and we have every reason to believe we will use it next year.

We acknowledge that in the short term, central bank balance sheet expansion (eg, LTRO 1 and 2 from the ECB, or QE 1-3 from the Fed) or the threat thereof (eg, Draghi's July 2012 comments to "do what it takes" to save the euro) can provide a short-term boost to relative bank equity performance.

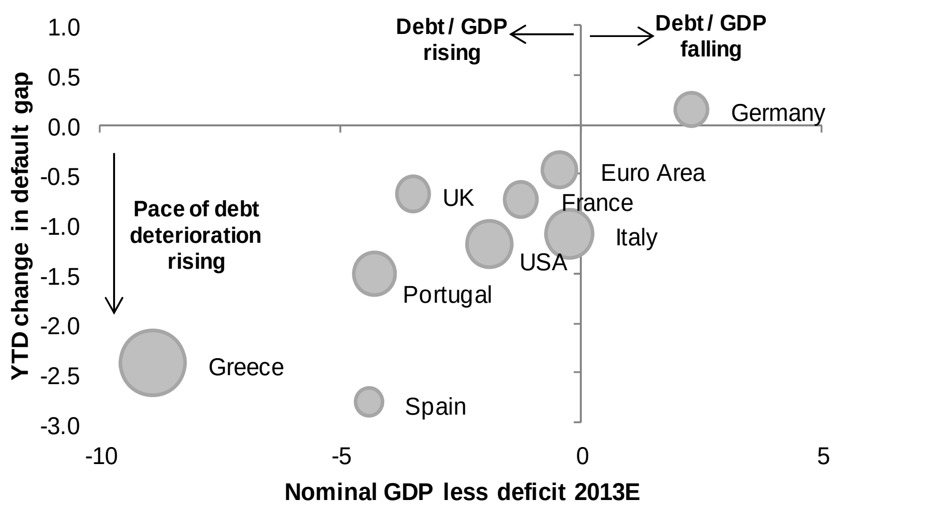
Fig. 7: Illustrated correlation of ECB balance sheet size with EU banks performance



Source: Bloomberg, Nomura research

However, fundamentally the 'investability' of a national banking sector is driven by the health of its sovereign given the banks' very high ownership of sovereign debt and earnings correlation with the GDP outlook. If a sovereign's nominal GDP growth remains less than its fiscal deficit, the stock of government debt/GDP will continue to climb until default is inevitable. In all large EU economies except Germany this continues to deteriorate.

Fig. 8: Selected sovereign debt/GDP dynamics

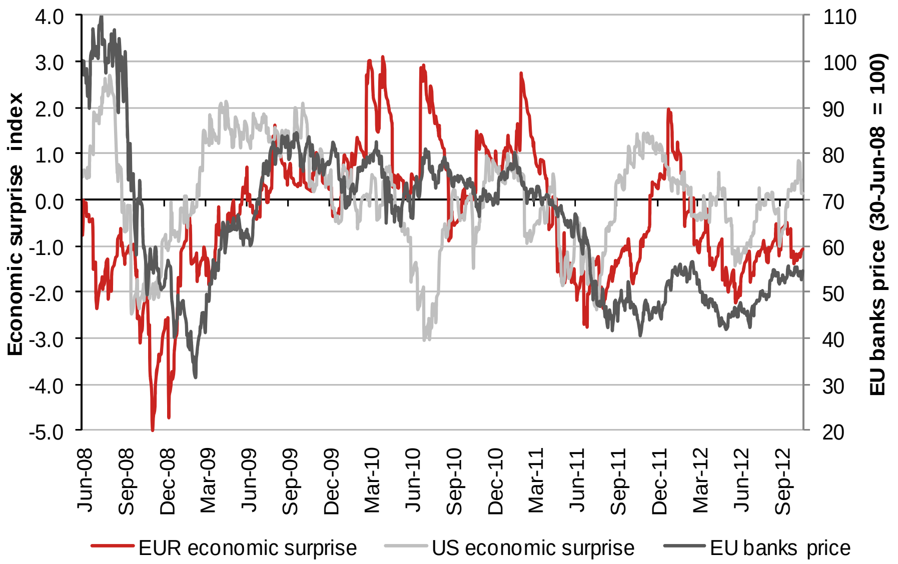


Source: Bloomberg, Nomura research

GDP divergence is a long-term trend under austerity

Economic surprises in general in Europe continue to be disappointing, particularly with respect to the US where a recovering housing market among other factors has helped a number of indicators beat expectations.

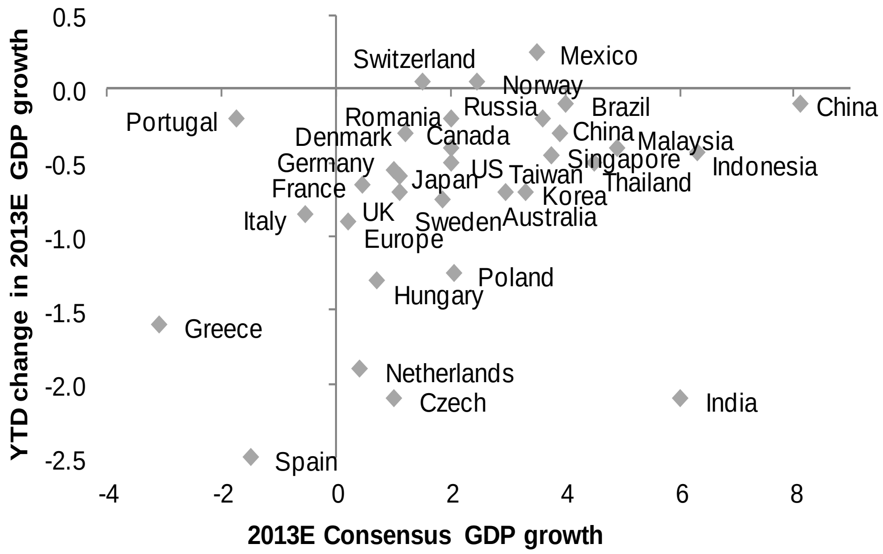
Fig. 9: Nomura economic surprise indices and correlation with EU banks price



Source: Nomura research

The GDP outlook in Europe looks particularly weak in a global context. Consensus 2013E global GDP growth in almost all economies has been downgraded during 2012, with only a handful of less indebted (Switzerland, Norway) and emerging market economies (Mexico, Brazil, China, Russia) nearly unchanged. Europe as a region will be lucky to avoid a recession, having seen some of the greatest downgrades this year.

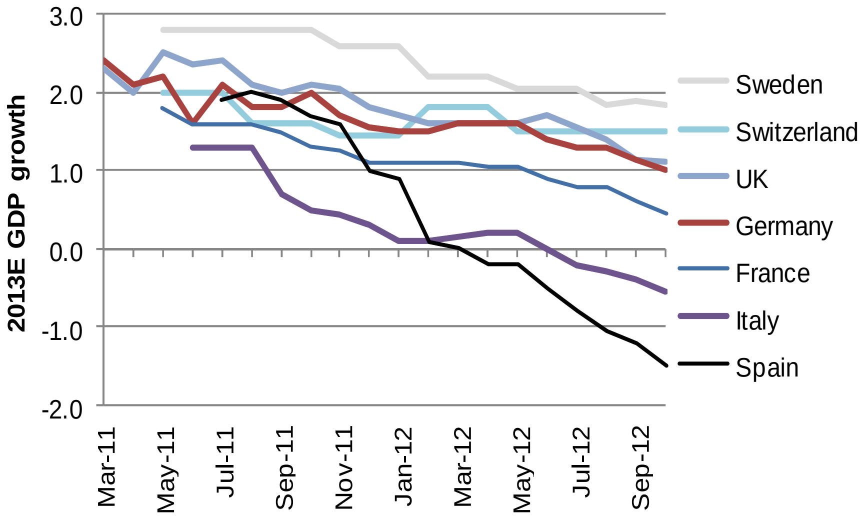
Fig. 10: Global consensus GDP growth forecasts and YTD revision



Source: Bloomberg, Nomura research

Within Europe, the north/south divide, or perhaps more accurately the non-EU17/EU17 divide, is deeply entrenched. The states that have had to pass the most austerity have seen the greatest downgrade in GDP expectations (and the greatest rate of downgrade), and given that this austerity must run for many years to bring debt/GDP under control, these lead to a long-term divergence in growth expectations.

Fig. 11: 2013E consensus GDP growth estimates

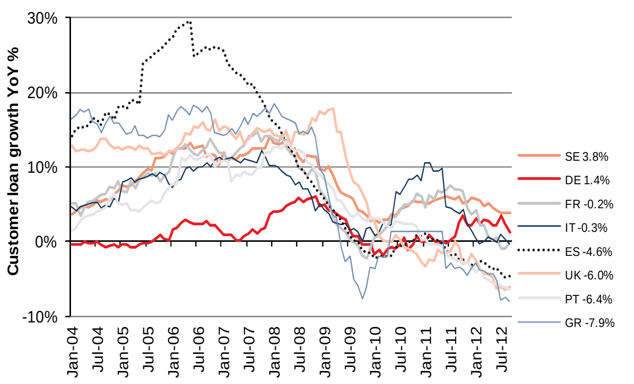


Source: Bloomberg, Nomura research

GDP drives NPLs, hence earnings and share prices

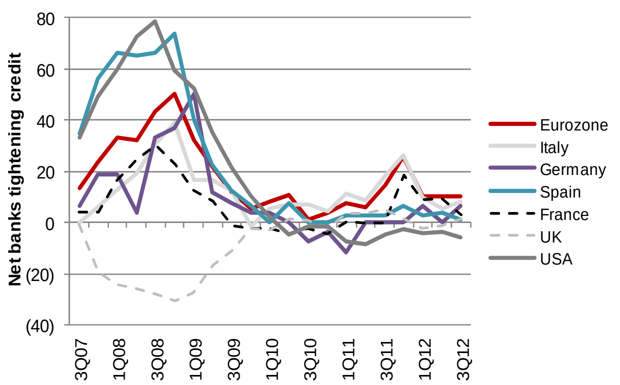
Weak GDP development, combined with bank deleveraging to meet Basel 3 targets (of which more later in this report), has led to subdued loan growth in the eurozone with clear consequences for revenue growth. For the latest available data in September 2012, the eurozone overall saw lending growth decline 1.0% with a clear north/south divide again (note UK banks show the effects of non-core run-off). Despite a low interest rate environment and political initiatives, eurozone bank lending surveys continue to point to both tight credit supply and weak credit demand. Tight bank lending standards have historically correlated very well with weak GDP growth.

Fig. 12: EU bank customer lending growth



Source: ECB, Datastream, Nomura research

Fig. 13: Tightness of banks' credit standards

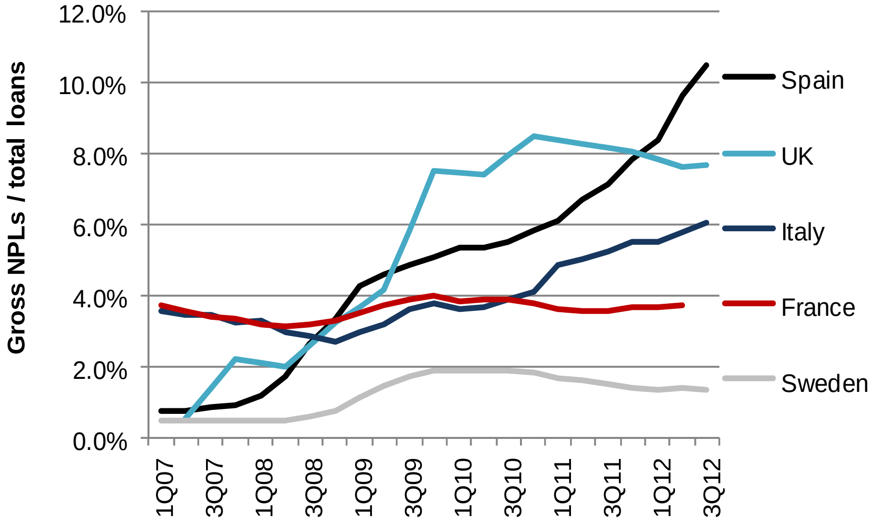


Source: Central banks, Nomura research

The weaker GDP trends in the periphery have driven much sharper increases in non-performing loans (NPLs) in those weaker regions, with comparative stability in economies that are (just) avoiding recession such as the UK and France.

Fig. 14: Non-performing loans as a percentage of total loans

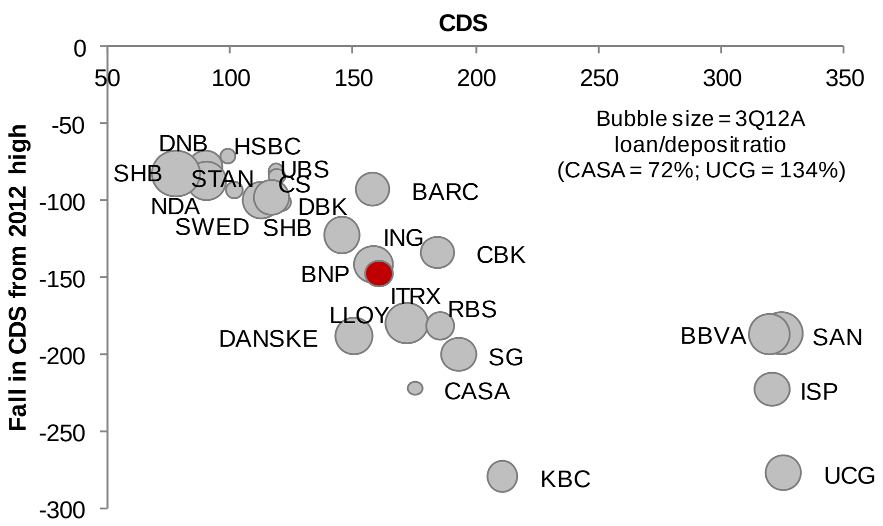
Note trend is key as direct comparability hindered by recognition policies



Source: Central banks, Nomura estimates

This is also seen in funding costs. While central banks have backstopped liquidity, leading to a sharp improvement in the iBoxx senior financials yield (down c. 300bp in the past 12 months to little over 2%) and in CDS, there is still a 200-300bp spread between large cap banks in Spain and Italy and those in the rest of the eurozone. We believe that funding will be less of a driver of banks' share prices in 2013 as liquidity pools have risen, (short-term) wholesale funding needs have reduced, and central banks have demonstrated the willingness to provide unlimited liquidity (subject to collateral). Indeed, we believe some stronger banks will be in a position to return some precautionary LTRO borrowing early in the coming months to avoid a negative carry. Nevertheless, persistently non-economic funding costs will force banks to more aggressively reduce loan/deposit ratios with negative consequences for growth.

Fig. 15: CDS and improvement in CDS from YTD highs

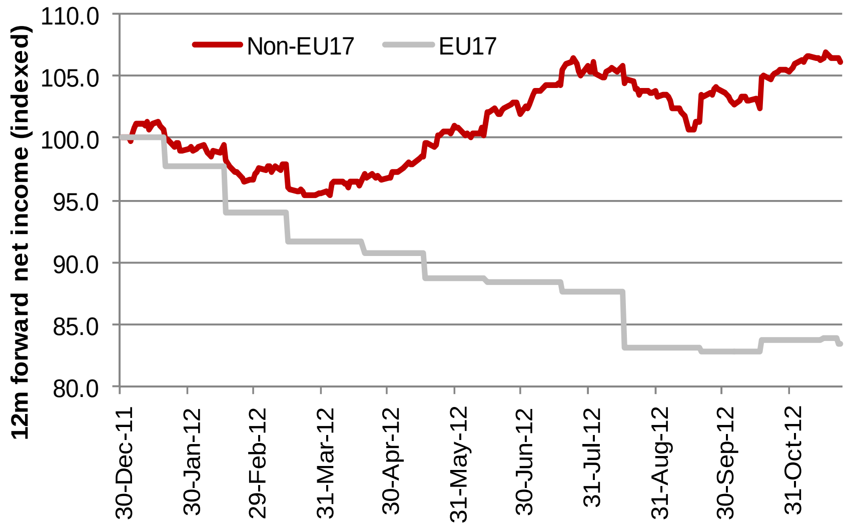


Source: Datastream, Nomura research

In turn, this divergence in non-performing loans and in funding costs drives divergent earnings forecasts, which have generally improved in non-eurozone economies in 2012 while EU17 banks have suffered heavier downgrades.

Fig. 16: 12m forward net income

Top 25 banks: Non-EU17 is UK, Switzerland, Scandi; EU17 is France, Germany, Italy, Spain, Benelux

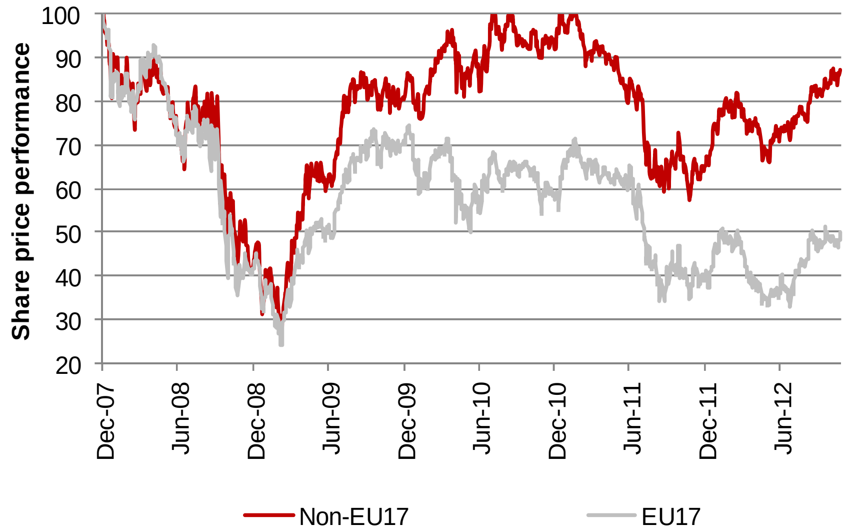


Source: Datastream, Nomura research

Lastly, this divergent earnings performance has driven divergent share price performance with EU17 banks consistently lagging behind post-crisis in all but short-term risk rallies. Given we expect austerity needs to continue for several years to reduce debt/GDP ratios, we believe a divergent trend in earnings will drive a medium-term outperformance of non-eurozone banks over EU-17 counterparts.

Fig. 17: Share price performance rebased

Top 25 banks: Non-EU17 is UK, Switzerland, Scandi; EU17 is France, Germany, Italy, Spain, Benelux

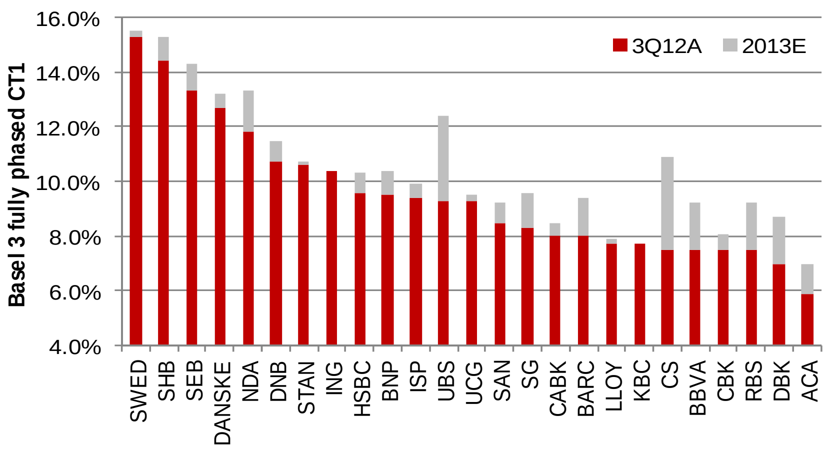


Source: Datastream, Nomura research

Basel 3 targets largely achieved in 2013

While the macro is weak, European banks have generally made rapid improvements to Basel 3 RWA ratios (not all through retained equity and deleveraging, with some owing to 'model enhancements'). Most should be Basel 3 compliant with minimum GSIFI/local regulatory standards by 2013 with some exceptions among German and UK restructuring stories and French mutual groups. A small number of banks have the prospect of joining US peers with buy-backs on a two-year view including SWED, UBS, and even BNP (in lieu of a higher dividend payout ratio we believe).

Fig. 18: Basel 3 fully phased core Tier 1 ratios



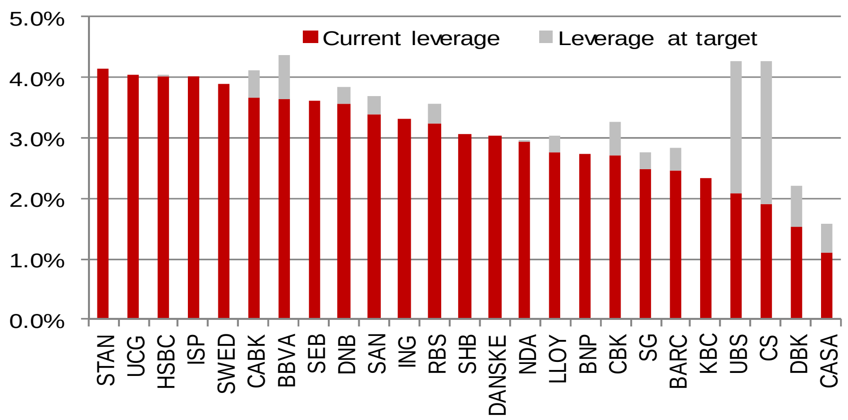
Source: Company data, Nomura estimates

However, even as the IMF estimates in its latest report that European banks will need to deleverage EUR 2.2trn of assets, progress from the listed banks with the unweighted balance sheet leverage has been slower. In simple terms, the Basel 3 leverage ratio requires capital (Basel 3 CET1 plus AT1) to exceed 3% of 'exposure' (gross assets adjusted for off balance sheet items such as derivatives and commitments). Banks need to disclose the ratio from 2015 before implementation in 2018, but rules may change.

In the chart below we have estimated Basel 3 leverage ratios at 3Q12. Given weak disclosure, we have used an estimate that the off balance sheet derivative gross-up is 50% of PRVs We believe this is reasonably accurate, but it would overestimate banks with a high mix of short-term rate products and underestimate those with a high mix of long-term equity and commodity derivatives. Few banks detail what percentage of their commitments is unconditionally cancellable, which carries just a 10%, not a 100%, weight. Therefore some calculations in this respect will be overstated.

Fig. 19: Basel 3 leverage ratio 3Q12A and at target level of B3 CT1 capital/assets

Note CS and UBS are shown on a 'Swiss' basis as described below



Source: Nomura estimates

We observe that most retail banks already exceed 3%, while most investment banks do not. Even after targeted actions (building capital to meet RWA ratios and gross asset reduction), most investment banks still fall a little short (and DBK very far short).

Note that CS and UBS are shown on a 'Swiss' basis. The Swiss banks are expected to issue between 7.5% and 9.0% of RWAs in Basel 3 Tier 2 cocos (depending on systematic risk), and with this in the numerator of the ratio to achieve a leverage ratio of between 4.2% and 4.56%. For this reason, UBS announced that it would cut its gross funded balance sheet by around one-third to CHF 600bn by 2015, while CS stated that it would cut its gross balance sheet by around 12% to CHF 900bn by 2013 "with limited revenue impact" by targeting assets with low ROAs such as repos.

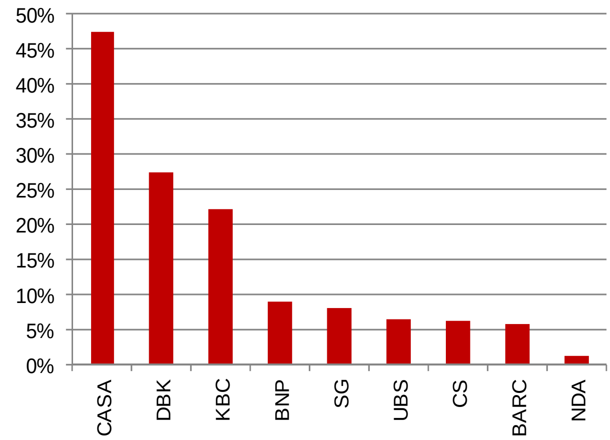
As shown below, the exposure reduction to meet a 3% leverage ratio for those banks that will not comply even when at their target level of Basel 3 CT1 (based on pro-forma post mitigation RWAs and the target CT1 ratio) is under 10% for all but CASA, DBK and KBC, suggesting a limited revenue impact of compliance.

Alternatively, banks can fill the funding gap by issuing Basel 3 Alternative Tier 1 capital (eg, certain cocos that meet required definitions). If we assume this will replace senior debt but with a 2% post tax increase in cost, we see the cost as very manageable at well under 5% of net profit except for DBK and CASA. While CASA will be able to rely on the financial strength of the mutual group, DBK may need to go well beyond its target of a 10% CET1 ratio or cut much more than the EUR125bn of assets associated with the run-off portfolio to achieve the Basel 3 leverage targets. This uncertain cost is one of the reasons behind our Reduce recommendation on the stock.

We would note that there is scope for the leverage rules to be amended before the 2018 implementation. Given the compromises inserted into the RWA ratio under Basel 3 (such as the 'Danish compromise' on insurance subsidiaries), it would appear likely that compromise could be found on leverage (excluding assets eligible for LCR ratios would be sensible, in our view). Whether this is sufficient to breach the large gap shown by Deutsche Bank, remains to be seen.

Fig. 20: Exposure reduction to meet a 3% leverage ratio

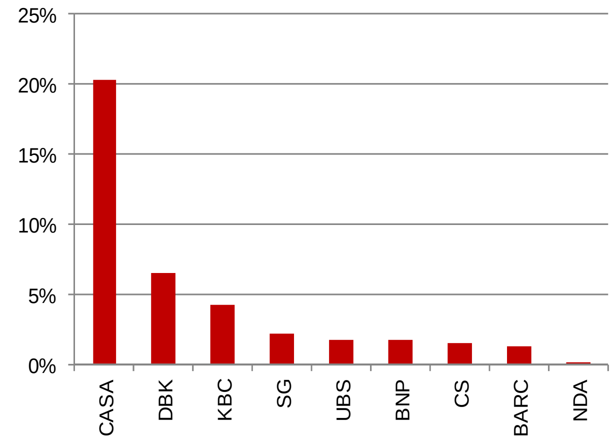
Exposure is a combination of gross on and off balance sheet assets



Source: Nomura estimates

Fig. 21: Reduction in net profit from issuing AT1

Assumes banks' plug the leverage gap by issuing AT1 debt



Source: Nomura estimates

Bail-in: A further cost for big balance sheets

The recent Liikanen review endorses the EU Commission's Bank Recovery & Resolution Directive (BRR) which suggests the introduction of bail-in instruments to improve loss absorbency of a bank during a resolution process.

The proposed Capital Markets Directive (CMD) requires unsecured debt to be bailed-in from 2018, in case write-off of AT1/T2 debt at the PONV does not restore solvency. A 'bail-in' takes place before insolvency and allows regulators to impose losses on bondholders while leaving untouched creditors of similar stature such as derivatives counterparties. Provisional minimum bail-in capital is set at 10% of total liabilities, however the ultimate decision will be up to national regulators.

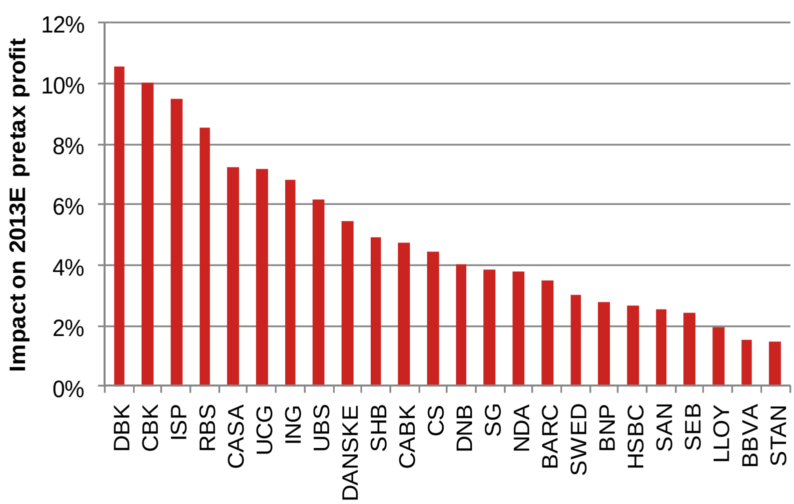
The proposed Capital Markets Directive will require all senior debt to be bailed in by the start of 2018, though national resolution legislation is moving at different speeds to make debt bail-inable at different dates.

How much current debt is priced for bail-in options is very hard to say given the volatility surrounding macro developments. With much senior debt due to mature before 2018, our belief is that the impact on pricing is comparatively modest. We would expect to see new issues whose maturity spans the bail-in date to price more expensively that shorter dated debt, other things being equal.

Equally, how much senior debt costs might rise as a result of being bailed-in is difficult to assess. Like with any credit, different bonds will have different costs depending on the perceived probability of the bail-in being called. However, for a starting point in the chart below, we have illustrated the negative impact on 2013E pre-tax profit from an illustrative 50bp rise in the cost of senior debt.

For the banks most affected, this could create a drag of around 5-10% on pre-tax profits. We note that gross balance sheet deleveraging could reduce the impact of higher senior funding costs for the investment banks, and in particular UBS plans a significant reduction in its gross balance sheet size. However, the proposed Liikanen recommendations, which would ring-fence some investment banking activity would also increase funding costs for that part of the balance sheet.

Fig. 22: Impact on 2013E pre-tax profit from a 50bp increase in senior debt cost

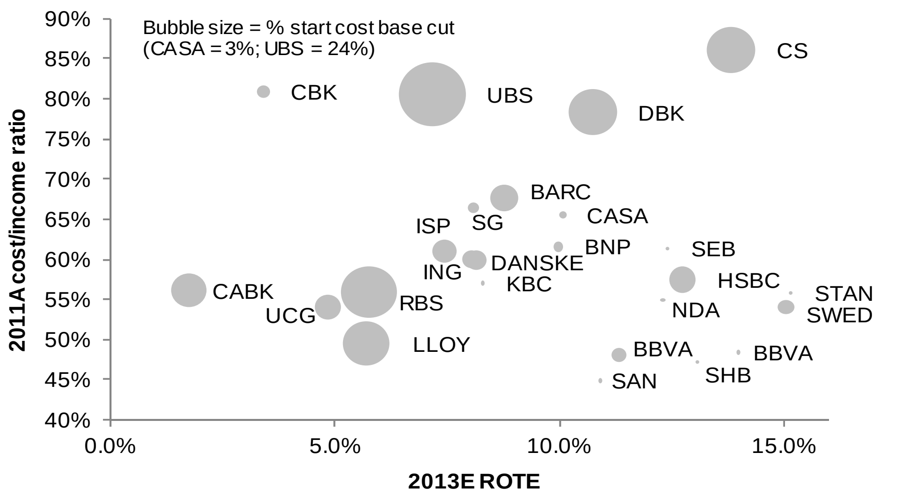


Source: Nomura estimates

Cost cutting to improve earnings

Given the difficult revenue environment, the majority of banks in the sector have announced cost-reduction plans. This is particularly evident among investment banks meeting structural change and a high legacy cost base, and at UK banks given the legacy of run-off portfolios. While banks in France, Benelux and Italy have outlined some plans, there is arguably more that could be done to deliver acceptable efficiency and ROTEs in the current weak revenue environment.

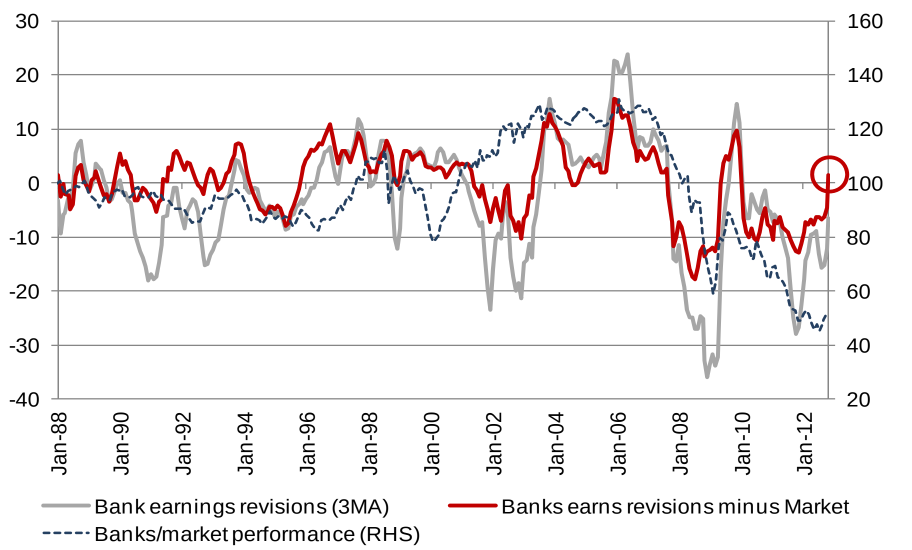
Fig. 23: Efficiency, cost cutting plans and ROTEs



Source: Company data, Nomura estimates

One important benefit of the cost reduction plans is its impact on earnings. The pattern for the past two quarter has been similar – revenues more or less in line with consensus but costs generally better, leading to a pre-tax profit outperformance. Given the weak macro, analysts have nevertheless cut their numbers further, but helped by cost reduction, for the first time in two years the earnings revisions have been less negative than the market. This is potentially significant given a strong correlation between relative earnings revisions and relative share price performance for banks (with a one-month lag, the five-year correlation is 50%). With institutional investors still underweight the sector, this could be supportive of short-term outperformance.

Fig. 24: Banks earnings revisions, absolute and relative



Source: Nomura StrategyInsight

Stock selection

GARP versus RARR opportunities

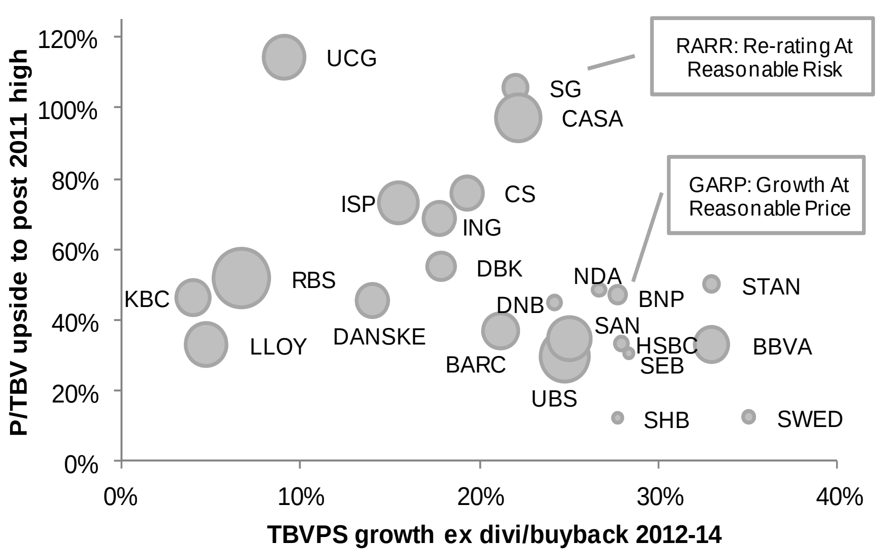
Bank stock price growth is driven by TBVPS growth and changes in the P/TBV multiple. Given the persistent weak macro outlook, our core Buy recommendations have generally favoured those banks that have high TBVPS growth and strong-enough balance sheets to return the growth to investors through dividends or buy-backs. This has driven our support for non-EU17 banks in Scandinavia, Switzerland and the UK (Asia) including SWED, DNB, UBS, STAN and HSBC. We believe premium relative ratings are reasonable in absolute terms given their ROTEs and superior growth potential – we regard these as the classic 'growth at a reasonable price' (GARR) stocks.

However, with several stocks in the sector at barely half the multiple at which they traded in 2011, the share price performance for some banks could be more driven by re-rating than by book value growth. Given a stabilisation in the market's perception of the tail-risk of eurozone break-up because of a more forceful stance by the ECB, this would suggest some exposure to those banks that have the potential to 're-rate at a reasonable risk' (RARR) because of an improving risk profile.

This is illustrated by the chart below that compares the ability for share prices to rise through TBVPS growth with the potential upside from re-rating to recent (2011) highs. The bubble size shows the 2013 EPS uncertainty (standard deviation of analyst estimates) as one indication of whether a stock is a 'reasonable risk'. We believe that the French banks led by SocGen and BNP Paribas fit the RARR criteria better than German, Italian or Spanish banks, given better Basel 3 and NPL ratios.

Note that expected ROTEs for many banks have fallen from 2011 highs, which means we might not expect them to attain the same historical multiple. Furthermore, the high growth on the x-axis is a long-term fundamental driver compared with the y-axis that is a one-time benefit. Nevertheless, we still believe that stocks like SocGen could be strong performers in 2013, even if they recapture just a part of their historical multiple.

Fig. 25: Bank share price appreciation from TBVPS growth and re-rating



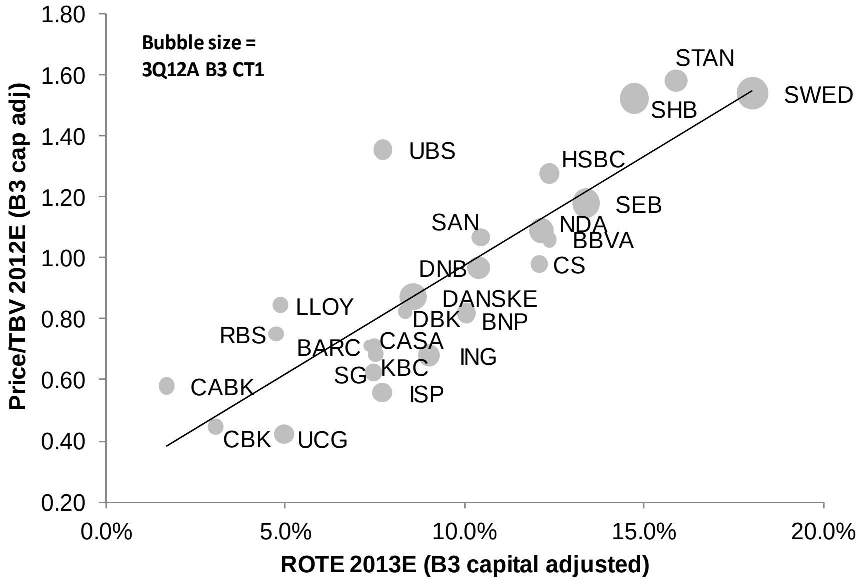
Source: Datastream, Nomura estimates

Basel 3 capital adjusted P/TBV vs ROTE

In the chart below we compare price/tangible book value with ROTE on a capital adjusted basis. We have compared current Basel 3 core Tier 1 levels with GSIFI/national targets (in the range of 9-13%) and assumed an equity increase in the event of a shortfall and a buy-back in the event of an excess. This tends to make undercapitalised banks (such as DBK) appear more expensive and overcapitalised banks (such as

SWED) more attractively valued. Note that although some of our preferred stocks such as the Scandinavian and Asian names appear on the 'expensive' side of the regression line, we believe this is still justified by the higher growth rates of these stocks. Furthermore, UBS's position is primarily owing to the restructuring costs in 2013, and it targets with some credibility a 15% ROE post restructuring. The RARR opportunities in France clearly position on the cheaper side of the line.

Fig. 26: Basel 3 adjusted P/TBV and ROTE



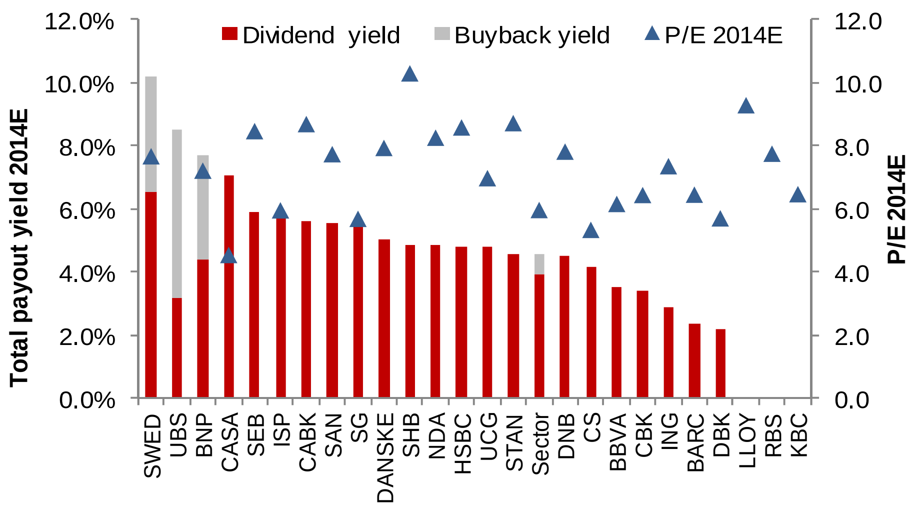
Source: Datastream, Nomura estimates

Payout potential and P/E ratios

We believe that in addition to weak macro, weaker balance sheets also weigh on capital distribution for European banks, but we expect a broad spread between those with stronger balance sheets that can contemplate higher payouts (some including buy-backs in lieu of higher dividend payouts such as BPPP) and those that have weaker balance sheets and/or substantial restructuring ahead. Our preferred stocks tend to have better payout ratios and/or lower P/Es than the sector considering their growth potential.

Fig. 27: European banks 2014E payouts and P/E ratios

Note UBS 2014 P/E is 15.4x including restructuring charges or X without

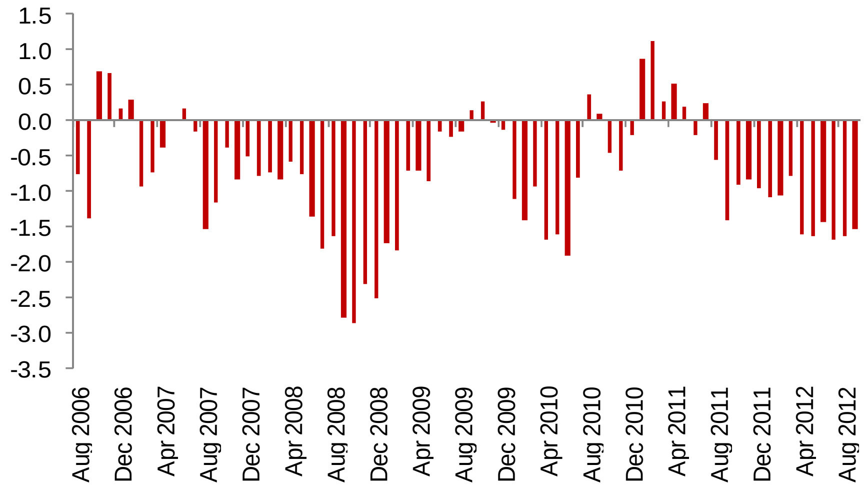


Source: Datastream, Nomura estimates

The risk to our view

We believe that a barbell selection of more defensive and 'RARR' banks will guard against the inevitable volatility of the sector as politicians and regulators work fitfully to resolve the crisis. On the positive side, if improved global growth and effective policy action leads to an improved eurozone GDP outlook and faster deficit reduction, we would expect investors to seek out more value opportunities, leading to a stronger performance from Italian banks in particular (especially as fund managers appear to be nearly as underweight in the sector as at any point post crisis).

Fig. 28: Fund manager weightings in the banks sector (deviation from benchmark)

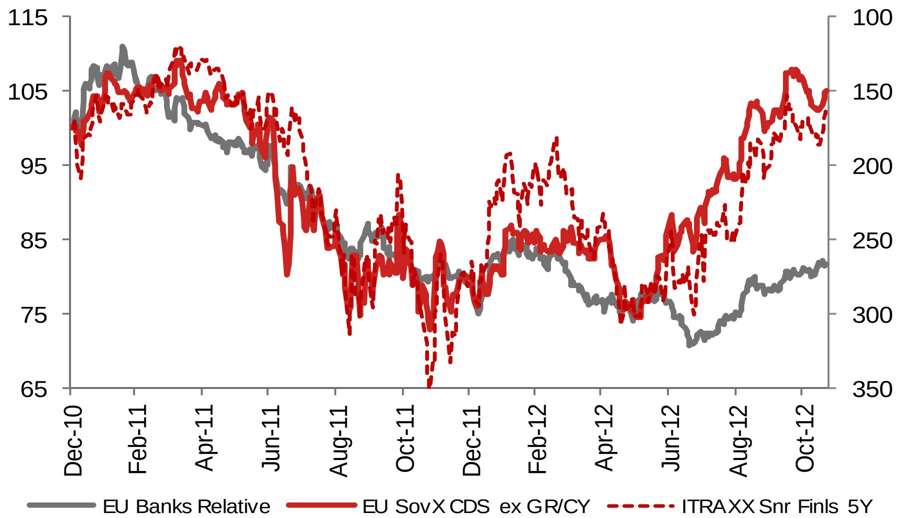


Source: EPFR, Nomura research

Conversely, the banks sector has shown a strong correlation with sovereign CDS given the high holding of such securities, and any renewed concerns of peripheral default could lead to a sharp sell-off in the sector irrespective of balance sheet improvements made over the past year. Progress towards banking union has been difficult, with many of the long-term safeguards (such as joint deposit insurance) likely not in place until long after the current crisis is resolved. That said, we note that credit markets have rallied much harder than equity markets since the summer, giving some room for moderation in the former without necessarily suggesting an equal correction for bank equities.

Fig. 29: Correlation between bank equity and sovereign CDS

SOVX index shown ex Greece & Cyprus given discontinuity around default



Source: Datastream, Bloomberg, Nomura research

European banks price sheet

Fig. 30: European bank valuations

EUROPE 27-Nov-12	Rec	Price			P/E			P/BV	P/TBV	Div Yld	M.Cap
		Current	Target	+/- %	12E	13E	14E	12E	12E	12E	(€ mn)
Erste Bank	Neutral	21.90	17.8	-19	10.9	10.4	8.3	0.7	1.1	2.1	8,641
Raiffeisen	Reduce	33.17	26.0	-22	8.2	10.7	9.0	0.6	0.7	1.2	6,486
Austria					**9.7**	**10.5**	**8.6**	**0.7**	**0.9**	**1.7**	**15,127**
ING	Buy	6.84	8.5	24	10.3	8.4	7.2	0.7	0.7		26,199
KBC	Buy	23.05	22.5	-2	8.5	8.2	6.6	0.6	0.6		8,251
BeNelux					**9.8**	**8.3**	**6.9**	**0.6**	**0.7**	**0.3**	**34,903**
BNPP	Buy	42.11	47.0	12	7.1	7.6	6.7	0.7	0.8	4.2	52,798
Credit Ag.	Neutral	5.70	6.0	5	n.a	5.4	4.6	0.3	0.6		14,239
Natixis	Reduce	2.39	2.5	5	8.6	6.4	5.7	0.4	0.5	4.2	7,370
Soc Gen	Buy	27.03	36.0	33	13.2	6.4	5.5	0.5	0.6	2.6	21,087
France					**7.5**	**6.9**	**6.0**	**0.5**	**0.7**	**3.2**	**95,493**
CBK	Reduce	1.38	1.2	-13	15.1	10.4	6.5	0.3	0.4		8,021
DBK	Reduce	33.86	35.0	3	9.4	7.1	5.9	0.5	0.8	2.2	31,473
Postbank	Neutral	31.38	24.0	-24	11.2	9.9	n.a	1.0	1.3	3.2	6,866
Germany					**10.7**	**8.1**	**5.2**	**0.6**	**0.8**	**1.9**	**47,351**
Alpha Bank	Neutral	1.68	0.6	-64	n.a	n.a	20.5	0.4	0.5		898
Eurobank	Reduce	0.79	0.2	-75	n.a	n.a	23.5	0.2	0.2		436
NBG	Reduce	1.54	0.7	-55	n.a	n.a	14.7	0.3	0.6		1,472
Piraeus	Reduce	0.40	0.1	-75	n.a	n.a	25.4	0.3	0.3		454
Greece							**19.0**	**0.3**	**0.5**		**3,260**
BP Milano	Neutral	0.38	0.5	18	16.6	14.1	9.6	0.3	0.3		1,237
Popolare	Reduce	1.13	1.0	-12	87.9	8.4	6.4	0.2	0.3	1.8	1,998
Intesa	Buy	1.26	1.3	3	9.2	7.9	6.2	0.4	0.6	4.0	19,501
Mediobanca	Neutral	4.18	5.0	20	45.6	8.2	7.0	0.6	0.6	1.2	3,601
MPS	Neutral	0.20	0.2	9	n.a	n.a	28.6	0.4	0.5		2,353
UBI Banca	Reduce	2.79	2.7	-3	15.5	7.7	5.8	0.3	0.4	1.8	2,516
UC Group	Neutral	3.51	3.1	-12	21.7	8.8	6.9	0.3	0.4	2.3	20,313
BPER	Reduce	4.28	4.3	1	8.0	7.5	5.3	0.3	0.4	2.7	1,423
Credem	Neutral	3.42	3.2	-6	10.4	8.8	8.0	0.6	0.8	3.4	1,137
Italy					**19.3**	**8.1**	**7.6**	**0.4**	**0.5**	**2.7**	**54,079**
Danske	Reduce	94.30	87.0	-8	19.4	9.5	7.2	0.7	0.8		12,752
DNB	Buy	71.75	79.0	10	9.0	8.2	7.8	0.9	1.0	2.8	15,880
Nordea	Reduce	60.65	64.0	6	9.4	9.0	8.2	1.0	1.1	4.2	28,445
SEB	Buy	52.90	62.0	17	9.7	9.1	8.5	1.0	1.2	4.7	13,293
Swedbank	Buy	121.60	146.0	20	10.3	9.4	8.5	1.3	1.5	4.9	13,394
SHB	Neutral	232.40	230.0	-1	10.4	11.3	10.8	1.4	1.5	4.3	16,711
Nordics					**10.9**	**9.4**	**8.5**	**1.1**	**1.2**	**3.6**	**100,474**
BCP	Reduce	0.07	0.1	74	n.a	n.a	n.a	0.1	0.2		1,360
BES	Neutral	0.78	1.5	94	5.0	5.8	4.4	0.2	0.2		3,114
BPI	Reduce	0.80	0.9	12	12.0	11.0	7.5	1.3	1.3		1,115
Portugal					**5.2**	**5.4**	**4.0**	**0.4**	**0.4**		**5,588**
Banesto	Neutral	2.72	3.6	32	n.a	14.2	6.7	0.4	0.4		1,870
Bankia	Reduce	1.06	0.2	-81	n.a	38.4	43.6	0.8	0.8		2,114
Bankinter	Reduce	2.95	2.8	-5	15.5	13.5	11.6	0.5	0.6	2.7	1,665
Caixabank	Reduce	2.79	2.4	-14	26.2	34.0	10.5	0.5	0.6	8.2	11,620
Popular	Reduce	0.57	0.5	-8	n.a	58.3	10.1	0.5	0.6		4,826
Sabadell	Neutral	2.03	1.9	-6	n.a	102.1	18.0	0.6	0.6		5,984
Spain - domestic					**11.5**	**49.2**	**13.9**	**0.5**	**0.6**	**3.6**	**28,839**
BBVA	Buy	6.41	7.8	22	29.7	7.8	6.8	0.9	1.1	6.5	34,943
SAN	Reduce	5.77	5.8	0	23.5	9.9	8.3	0.7	1.1	10.4	59,584
Spain					**22.4**	**18.5**	**9.2**	**0.7**	**1.0**	**7.7**	**123,367**
EFG Intl	Reduce	8.22	6.5	-21	8.7	11.7	8.6	1.0	1.3	1.2	1,001
Julius Baer	Buy	31.30	40.0	28	14.9	14.2	9.8	1.4	2.2	1.9	5,631
Sarasin	Neutral	26.70	40.0	50	7.7	n.a	n.a	1.1	1.1	5.1	1,144
Vontobel	Reduce	25.20	33.0	31	6.5	n.a	n.a	1.0	1.1	6.9	1,360
Swiss Pvt. Bank					**12.1**	**10.0**	**7.0**	**1.3**	**1.8**	**3.0**	**9,136**
CS Group	Neutral	21.54	26.0	21	22.0	7.2	6.4	0.7	1.0	3.5	23,608
UBS	Buy	14.47	17.0	17	n.a	n.a	n.a	1.2	1.3	1.0	46,037
Switzerland					**8.0**	**3.3**	**2.7**	**1.0**	**1.3**	**2.0**	**78,781**
Barclays	Reduce	243.65	230.0	-6	7.2	6.6	6.2	0.6	0.6	2.5	37,803
Lloyds Group	Reduce	46.41	37.0	-20	17.9	14.4	9.0	0.8	0.8		40,418
RBS	Reduce	295.10	270.0	-9	11.2	10.5	7.7	0.6	0.6		40,809
UK - domestic					**12.2**	**10.6**	**7.6**	**0.7**	**0.7**	**0.8**	**119,030**
HSBC	Buy	620.90	660.0	6	12.6	9.6	8.6	1.2	1.2	4.2	139,274
Stan Chart	Buy	1440.00	1600.0	11	10.5	9.6	8.7	1.6	1.6	3.6	42,904
UK					**12.1**	**10.0**	**8.2**	**1.1**	**1.1**	**2.8**	**301,207**
EU17					**14.6**	**11.2**	**7.4**	**0.6**	**0.8**	**4.0**	**379,168**
Pan Europe					**12.7**	**9.8**	**7.4**	**0.9**	**1.0**	**3.4**	**859,630**

Source: Nomura estimates

UK banks: Value traps; prefer Asia

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In the medium term we see STAN and HSBC as the best placed UK banks to provide tangible returns to shareholders and book value growth. They are geographically advantaged, and do not need to restructure their balance sheets like the other UK banks. Over a medium-term horizon we see the combination of dividends, book value growth and re-rating outweighing the pure re-rating potential but limited tangible returns at the domestic UK banks. While there are continued concerns about the weakness of growth in the emerging markets, prospects of growth remain better than the developed markets. As long as this is the case, we would continue to prefer the UK Asian banks.

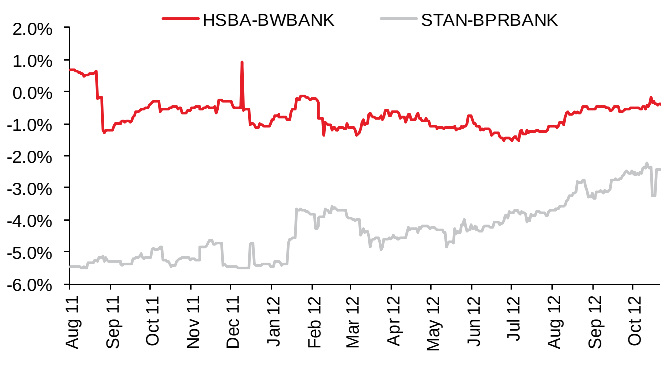
We have a Reduce rating on all three UK domestic banks, with a preference for Barclays over Lloyds, and Lloyds over RBS, as we believe that restructuring of balance sheets will still take time, delaying tangible returns to shareholders. We see Barclays as well positioned for upside from risk rallies. The capital market revenue environment has improved in the past few months and Barclays' investor day will give hopes of UBS-like performance on restructuring. After the recent rally, we see potential for Lloyds to underperform as a lot of the positives indicated by management appear to have been priced in, even if sell side estimates have adjusted higher. RBS has more optionality on capital, driven by Citizens, but the core ROE struggles to have the same attraction. Non-core assets will also continue to weigh on valuations of these banks until at least 2015, in our view.

Long STAN versus sector

Recent economic improvements negating headwinds
STAN has indicated that some recent economic data seems to be improving in Asia, which could imply some of the headwinds described at the Q3 IMS stage could be negated. Guidance at the time was maintained at double digits for income and EPS, with flat jaws. Consensus implies c. 8% EPS growth and 8.5% revenue growth now, broadly in line with our estimates. We see upside to consensus estimates on the back of the improving Asian trends. If this is indeed the case, we also see management being more confident about 2013 guidance, which could be a repeat of 2012 guidance. There could be similar upside to 2013 estimates as well.

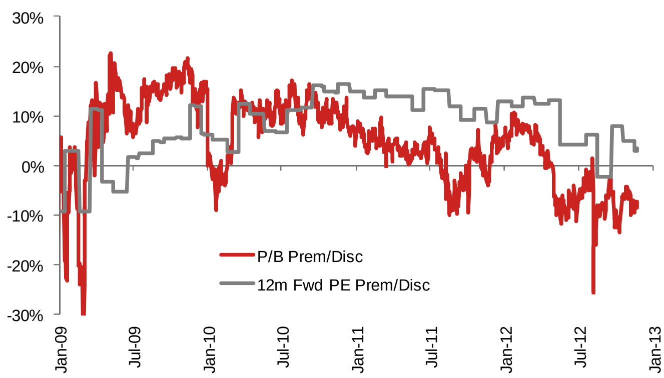
Performance against Asian banks contrary to valuation developments
STAN has consistently traded below the valuations of its peers on a P/B basis since the money laundering issues in August. Below we show the valuation of STAN against its peers on a RWA weighted basis. By our calculations, STAN has gone from trading at a premium to a high single-digit discount. However, this is against an improving ROE profile compared with Asian peers (below), where we show the STAN's ROE expectations against the Bloomberg Asian banks index for 2014. The trend of improving ROE against the index is shown below, which we see as inconsistent against STAN's performance.

Fig. 31: STAN ROE relative to Asian banks index



Source: Bloomberg, Nomura research

Fig. 32: STAN P/B relative to peers



Source: Datastream, Nomura estimates

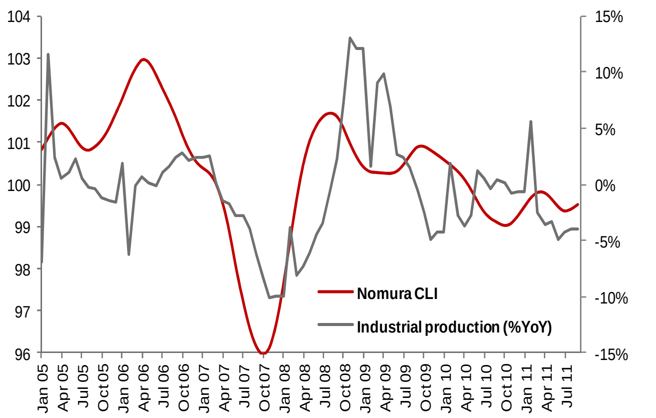
China improvements could drive Asian sentiment

Post the Q3 IMS, we highlighted our economists' view that China GDP would surprise positively in Q4/Q1. This has driven our view that China would help to negate these headwinds and is similar to what management appears to be implying. Nomura's proprietary leading indicator index has improved for the second consecutive month in October, and shows that of 27 underlying indicators, 63% had shown a pickup on year-on-year growth from the previous month, which is the highest level in 16 months. Our economists continue to expect a sharp rebound in GDP growth in China to 8.4% (consensus 7.7%) in Q4 12. Additionally, they expect continued policy easing in Q4 given low inflation and a focus on growth.

Growth differential relative to Europe remains

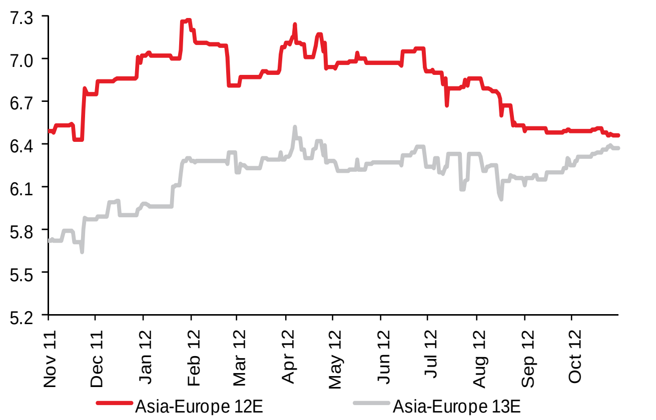
In addition, as we discussed earlier, the chart below shows the differential of Asia's GDP growth relative to Europe. This has been broadly consistent through the year and has also seen recent improvements. We expect this to remain the case in 2013 as China counters slowing economic growth post change of power.

Fig. 33: China leading indicators



Source: Bloomberg, Datastream, Nomura research

Fig. 34: Asia less Europe growth differential

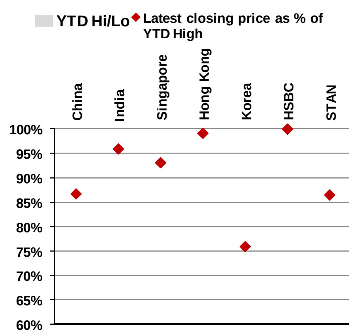


Source: Bloomberg, Nomura research

Full-year results and reiteration of guidance could drive upside

Below we show the performance of STAN relative to peers, which has been lacklustre in the past year. We suspect that consensus on STAN has come down enough already, which leaves room for upgrades on the back of improving Asian macro data. Running into full-year results we suspect that the company will be able to deliver on its guidance or miss by a smaller margin than consensus expects. If sentiment improves across Asia on the back of China improvement, management could repeat its guidance from 2012 for 2013. At 1.4x 2013 P/TB for an ROTE of c. 14.6% on our estimates, we see already see STAN trading at a no-growth multiple, arguably discounting tail risks of a hard landing in Asia.

Fig. 35: Performance vs peers



Source: Datastream, Nomura research

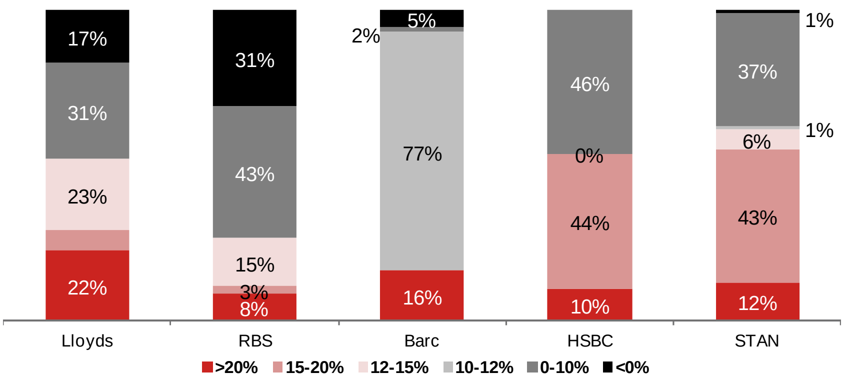
Business mix comparisons

Core operations are attractive but diluted by non-core assets

While ROEs in the core operations are attractive (they almost always are by definition), the problems with the UK domestic banks are their non-core assets, the amount of time they will take to run-off and the headwinds that this creates to group ROEs. By the companies' own plans, non-core assets will be rolled back into core assets over time, and will continue to dilute group ROEs for the coming years. In the chart below we have taken the sum-of-the-parts analysis that the sell-side traditionally uses, and show the ROE profile of the different UK banks. As is clear from this exercise, there are still large parts of UK banks that struggle to beat COE. Much of the upside for domestic UK banks is dependent on the concept of normalisation, and while earnings will normalise at some point, in a low interest rate and deleveraging environment that point is further out in time than we can usually model.

Fig. 36: ROE mix of UK banks

Based on segmental disclosures typically used in sum of the part exercise



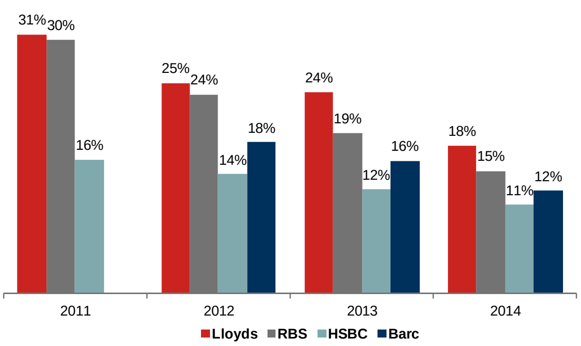
Source: Company data, Nomura estimates

Non-core will still take time to run off

When there are risk rallies, the market tends to be more forgiving on the length of time that banks will take to deleverage and shrink non-core and arguably rightly so. Equally, during periods of risk aversion, markets tend to shy away from restructuring risk. For us the underlying structural reality is that we are in a deleveraging world with material tail risks around. As such, we would err on the side of caution in determining the length of time that UK banks will take to run off their non-core assets. However, in our estimates we have not reflected this view and broadly model company guidance.

Fig. 37: Non-core RWAs as % of total at Lloyds and RBS

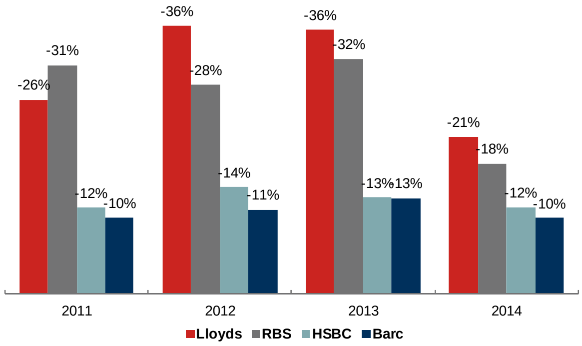
RBS includes the GBM run-off, BARC based on our estimates



Source: Company data, Nomura estimates

Fig. 38: Non-core ROEs, 2011-14E

RBS includes the GBM run-off, BARC based on our estimates



Source: Company data, Nomura estimates

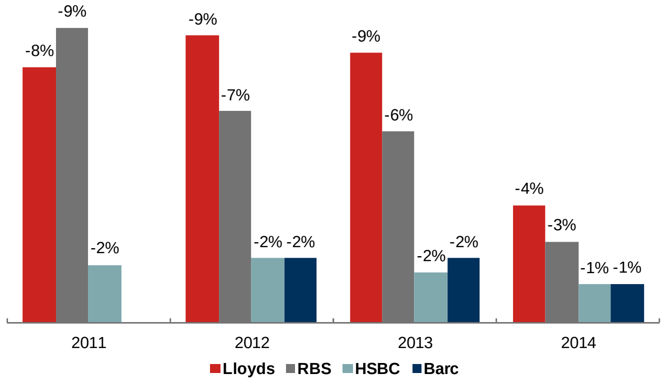
Even on our current estimates, we see c. 16-18% of the total capital at Lloyds and RBS tied up in non-core assets. We suspect that the rump left in these divisions will have long maturities or will be difficult to sell assets and may be a drag on group ROEs for a few more years.

Non-core will remain an ROE headwind

Not only will non-core divisions take time to run off, but they will also continue to be a headwind to group ROEs as we show in the below chart. This is the key reason why we should not value banks on core EPS, as non-core assets could remain a headwind for years to come. Core businesses are also more likely to become non-core assets if the low-growth environment persists.

Fig. 39: Percentage point headwind in group ROE from non-core assets, 2011-14E

Estimated as Non-Core RWAs multiplied by Non-Core ROE



Source: Company data, Nomura estimates

HSBC has similar issue with its run-off portfolio

The same could be said for the GBM legacy and CML portfolios at HSBC. As of 2011, c. 16% of group RWAs were tied up in the run-off portfolios. We expect that the half life period of these run-off RWAs is about five years, so even in 2016, c. 7% of group RWAs will be tied up in the run-off portfolio.

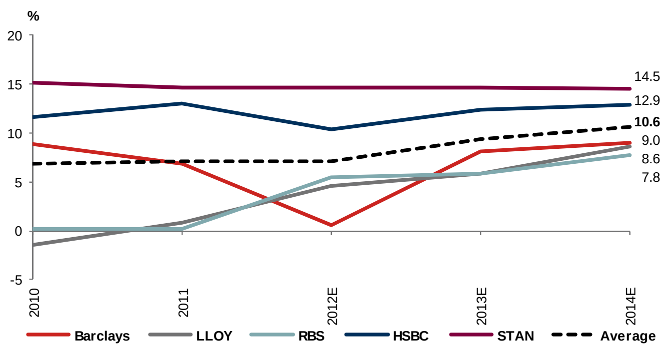
Barclays is yet to reveal its strategy

Barclays will announce its restructuring plans in February. We expect the European assets to be classified as non-core, which is c.6% of group RWAs. The elephant in the room for Barclays is restructuring BarCap. Our initial thoughts are that Barclays will look to reduce c. 15% of its BarCap RWAs. However, given the external pressure and the performance of UBS post its ambitious restructuring plans, we are more open to the idea of BarCap restructuring being a bit more ambitious. Nevertheless, we do not expect another 'UBS-like' move. This means that 14-21% of group RWAs could be under run-off.

ROE evolution

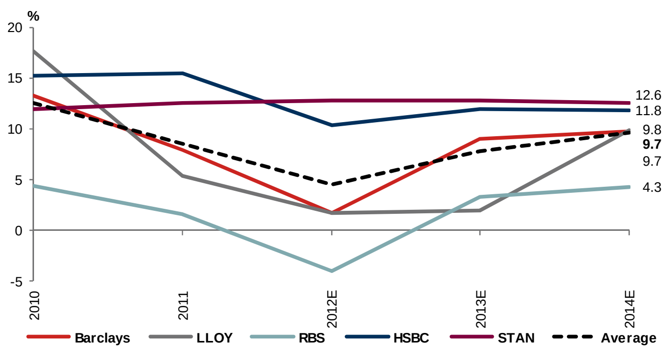
In the below chart we show our ROE expectations for the various groups. STAN stands out as the UK bank making the highest ROE. We also show the ROE based on normalised cost of risk adjacent to derive a sense of the improvement one could expect over time.

Fig. 40: UK Banks ROE evolution



Source: Company data, Nomura estimates

Fig. 41: UK Banks core ROE with normalised cost of risk



Source: Company data, Nomura estimates

Capital build will take time delaying returns

UK recovery or ICB compliant ratios required for dividends

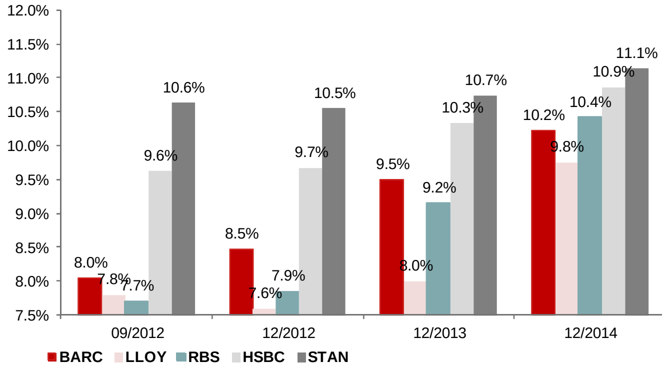
One of the most important drivers of domestic UK banks' performance is the timing of tangible shareholder returns. Our key view here is that RBS and Lloyds will not be allowed to pay dividends until either they have met the ICB capital requirements or the UK economy is back on sustainable recovery or both. Also, we believe that UK banks will need to have a buffer over the minimum requirements, so with a 10% minimum requirement the banks have to focus on an 11% Basel 3 CT1 ratio. In our capital modelling we do not see this happening until 2015, so we do not expect the domestic UK banks to make tangible returns at least until then. This means the calendar year in which first dividend will be paid is arguably 2016, on our numbers.

Domestic UK banks at around 10% by 2014, Asian UK banks at 11%

We see the domestic UK banks obtaining about a 10% B3 CT1 ratio by 2014. The only tail risk we model here is a GBP 2bn PPI provision at Lloyds.

Fig. 42: B3 CT1 evolution

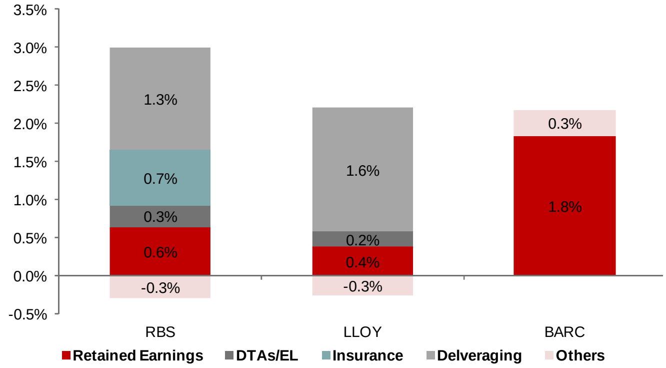
Back ended improvement for Domestic UK banks relies on normalisation



Source: Company data, Nomura estimates

Fig. 43: Sources of improvement in the B3 CT1 ratio

From Q312 to 2014



Source: Company data, Nomura estimates

Improvement is back ended and not driven by earnings

A lot of the improvement we model for the domestic UK banks is back ended and not driven by retained earnings, apart from Barclays. In the figure above we show that a large part of the improvement at Lloyds and RBS is driven by deleveraging, as one would expect, linking the capital ratio development to the risk environment. Recent improvements in capital markets are therefore welcome in the deleveraging process, but the reversal of risk appetite will also be telling on the performance of these banks. A good deal of improvement at RBS is driven by the sale of its insurance businesses. Retained earnings contribute only c. 40-60bp in our calculations.

Regulatory uncertainties around capital requirements

There remain regulatory risks surrounding capital requirements at banks. On one hand regulators are seen to be relaxing capital requirements for Funding for Lending Scheme (FLS) lending, which attract zero risk weight. On the other hand, the Financial Policy Committee (FPC) continues to demand that capital buffers be in excess of minimum requirements in times of crisis. The focus has also shifted from target ratios to absolute levels of capital required, which in our view is an interesting way to remove talks of capital return from the table.

In addition, we continue to think that the capital requirements under CRD IV will prefer to choose more stringent definitions where choice is available. For instance, we do not think the UK will adopt the Danish compromise on insurance. Even if Europe were to adopt it, the UK would look to offset this by counteracting provisions that effectively lead to more stringent definitions. There is also the question of risk weights and if these are appropriate. The Basel committee is looking into this and regulators are paying close attention to such issues.

Challenges from upcoming regulation

With ring fencing being proposed by Vickers (ICB) and Liikanen, it begs the question if UK banks could face structurally lower ROEs relative to continental European banks. The banking reform proposals in the UK are seen to be consistent with the Liikanen proposals and it has been suggested that they could be implemented simultaneously. While we are still not clear on how much of the Liikanen proposals will be adopted across Europe, the likelihood is that there will be a less stringent adoption if we believe the comments from French banks. Simultaneous implementation is a negative on the margin for Barclays and RBS.

ICB cost indicated at GBP 4bn-7bn or c. 15-20% of underlying banking profitability
The draft report on banking reform indicated that the impact on the UK banks from upcoming regulations will be in the region of GBP 4bn-7bn for the major UK banks. We present the details from the ICB report below. Estimates are based on the submissions made by the banks under the their own assumptions of how their business models would develop in reaction to the upcoming regulation, so there could very well be biases within these calculations.

Fig. 44: Impact of ICB proposals

Ongoing costs, per year (GBPbn)	New Low Est.	New High Est.	Explanation
Capital	1.50	3.00	Based on bank's modelling of required capital and a cost of capital between 8-16%.
Funding	-0.17	0.15	For ring-fenced banks, a change of between -10bps and 0bps; for non-ring-fenced banks, a change of between 0bps and 75bps
Operational	0.40	1.20	Based on estimates supplied by banks, the Government has assumed that operational costs for the large UK banks of complying with ring-fencing range from GBP0.1-0.3bn per bank per year. Costs likely to vary on bank's business models
Total ring fencing cost, per year	**1.73**	**4.35**	
Depositor Preference	0.30	0.70	Estimate includes all FSCS insured deposits and assumes a 25-50bp impact applied to the quantities of short-term funding included in each banks modelled balance sheet
Total ongoing cost, per year	**2.03**	**5.05**	
Transitional cost, one-off	1.50	2.50	The government used estimates from the large UK banks, which assumes restructuring costs of between GBP50-500m per bank

Note: The Impact Analysis from the White Paper in June included costs of bail-in tool and of requiring banks to divide their pension schemes to comply with ring-fencing. Other costs remain the same.

Source: HM Treasury draft bill 'Sound Banking: delivering reform', Nomura research

We estimate that the underlying normalised profitability of the major UK banks is in the region of GBP 20bn-25bn. On the current tangible book value, assuming UK banks are able to make a c. 13% ROTE, implied profits would be c. GBP 22bn. This means that the impact of the new rules of GBP 4bn-7bn will take away 2.4-4.1% from the ROEs at UK banks. Some banks will be more affected than others.

The interesting detail about the ICB costs as shown by the draft report is that GBP 1.5bn-3bn of the impact is because of higher capital requirement which is essential cost of equity that is not reflected in the banks ROE. So arguably the impact is more like 1.5-2.4%. However, the additional cost on funding is calculated to be minimal and this could be a headwind for banks with large capital markets operations. For instance, we calculate that, if Barclays' CDS converges with the US pure-play investment banks, it could take away up to GBP 0.5bn from profits, which is c. 8% for 2013E PBT. Also, operational costs could be more than those indicated above. Separation of Verde itself is costing Lloyds GBP 1bn, which makes both the ongoing operations cost of GBP 0.4bn-0.7bn and the one-off cost of GBP 1.5bn-2.5bn appear optimistic If one listens to the evidence given to the banking standards committee by the regulators, UK banks also need to invest in IT systems as they do not deem current systems to be adequate to exercise full control. So the risk here is again to the downside. We suspect that with the regulators inclined to err on the side of caution, there will be c. 2-4% headwind created on ROEs of UK banks by upcoming regulation with risks to the downside, and with the major question being whether banks will be able to offset this headwind through margin expansion.

How does Liikanen compare against the Vickers proposals?

The importance of the Liikanen recommendations will depend on the political will to implement these proposals. Many of the recommendations are in areas that have already been under scrutiny and discussed by regulators. The recommendation that the eurozone has thus far not considered seriously is around ring fencing. If there is political will to implement this recommendation, it could affect banks with large capital markets operations in Europe.

However, regulators and policymakers in France and Germany for instance have been a lot more accommodative than the UK. Therefore, the impact of the Liikanen report could be limited depending on how rigorously the recommendations are implemented. Draft regulations in France show that the ring fence will be quite narrowly constructed, with far more activities than Vickers allowed to sit with the retail bank. BNPP has indicated this week that the amount of C&IB revenues that might be affected is as little as 2%. Swedish banks are speaking against these rules in the face of already higher capital requirements. Given the potential headwinds that ICB proposals create for the UK banks, against the more limited perceived risk of Liikanen being implemented in Europe, we see this as a disadvantage for UK banks. We had undertaken an initial impact analysis for Liikanen which can be found on this link.

Barclays in particular could face material headwinds from new regulation impairing its ability to compete with the likes of DBK and US banks in the Fixed Income space, something that management will have to bear in mind looking at its longer-term strategy.

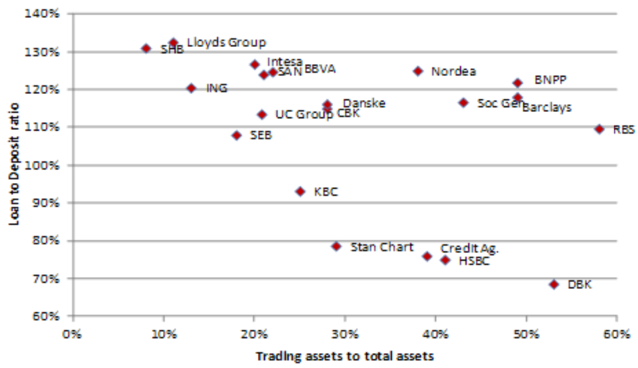
Fig. 45: Vickers vs Liikanen – a quick comparison

	Vickers	Liikanen
Ring fence	Ringfence around EEA retail Non-EEA retail can sit with trading Applies to all UK banks	Loose ringfence around trading Banks with >EUR100bn or 15-25% trading / total assets
Capital/ Bail-in	10% CET1 for ringfence 17% primary loss capacity	Each entity to comply with CRD4 Endorses existing investigations into bail-in debt and MRWAs
Other	LBG branch divestment	Bonuses to be paid in bail-in debt
Cost	ICB estimates £4-7bn BARC bears highest cost	No estimate; Banks tell us loose ringfence means manageable
Timetable	Draft legislation late 2012 Implementation 2015 Full compliance 2019	Consultation period late 2012 Potential legislation in 2013 Considered alongside other reforms

Source: Liikanen report, Independent Commission on Banking (Vickers), Nomura research

Fig. 46: Banks affected by Liikanen report

Banks on the right are most affected



Note: Loan deposit ratio adjusted for covered/retail bonds for Nordics/Italy
Source: Liikanen report, Company data, Nomura estimates

UK bank models

Fig. 47: HSBC model

HSBC Holdings financial information and forecasts USDm	FY 2011A	FY 2012E	Cons FY2012E	FY 2013E	Cons FY2013E	FY 2014E	Cons FY2014E
Net Interest Income	40,662	37,559	37,787	36,308	37,875	38,344	39,981
Net Fee Income	17,160	1,884	16,408	2,067	16,758	2,269	17,788
Dealing Revenue	6,506	1,863	8,650	2,045	8,781	2,244	9,306
Other Non Interest Income	7,952	28,962	4,703	29,115	4,690	30,681	4,795
Total Non-Interest Income	31,618	32,708		31,160		32,925	
Net operating income	**72,280**	**70,267**		**67,468**		**71,269**	
Clean Net operating income	**66,953**	**64,194**	**67,548**	**67,468**	**68,104**	**71,269**	**71,870**
Total Operating Expenses	41,545	40,970		37,742		39,423	
Clean Operating Expenses	39,165	36,298	37,408	37,742	37,768	39,423	38,798
Profits Before Provisions	**30,735**	**29,297**	**30,140**	**29,726**	**30,336**	**31,846**	**33,072**
Impairment provisions	12,127	8,577	9,576	7,906	8,818	7,437	8,427
Other Provisions and Write-Offs							
Operating Profit	**18,608**	**20,720**	**20,564**	**21,820**	**21,518**	**24,409**	**24,645**
Associates	3,264	3,635	3,714	4,060	4,064	4,644	4,452
PBT Pre-disposal & Own debt	**21,872**	**24,355**	**24,278**	**25,880**	**25,582**	**29,054**	**29,097**
Disposal Gains, Own debt gains	0	0	3,570	0		0	
PBT	**21,872**	**24,355**	**27,848**	**25,880**	**25,582**	**29,054**	**29,097**
Clean PBT	**18,925**	**22,954**		**25,880**		**29,054**	
Tax	3,928	5,099		5,176		5,811	
Minority Interests	1,720	1,776		1,872		1,976	
Attributable Profit	**16,224**	**17,479**	16,503	**18,832**	18,270	**21,267**	20,937
Per share data							
EPS (Clean)	75.1	91.6		103.7		116.3	
DPS	41.0	42.0	44.3	45.0	49.2	47.0	54.4
BVPS (tangible)	729	801		864		935	
Key ratios							
Cost/Income (%) Reported	57.5	61.1		55.9	55.5%	55.3	
RoE (%) Tangible	13.0	10.3		12.5		12.9	
Pay-out Ratio (%)	42.7	54.1		41.6		39.6	
Tax Rate (%)	18.0	24.1		20.0		20.0	
Balance Sheet							
Assets	2,555,579	2,734,358		2,790,548		2,944,063	
Loans	940,429	1,003,081	990,332	1,052,414	1,034,091	1,108,726	1,085,695
Risk Assets	1,209,514	1,171,642	1,201,245	1,234,462	1,309,960	1,309,216	
Customer Deposits	1,253,925	1,344,322	1,307,514	1,431,404	1,372,731	1,533,269	1,446,816
Loans/Deposits	75.0	74.6		73.5		72.3	
Geographic Breakdown(PBT)							
Europe	4,671	-592	865	3,881	3,908	4,126	4,604
Hong Kong	5,823	7,295	6,759	7,498	7,027	8,209	7,590
Middle East	1,492	1,464	1,497	1,670	1,636	1,710	1,787
Other Asia Pacific	7,471	8,085	8,385	8,693	9,205	9,799	10,187
North America	100	2,478	3,286	1,453	667	1,668	1,353
South America	2,315	2,409	2,353	2,685	2,866	3,542	3,419
Total	**21,872**	**21,140**	**23,145**	**25,880**	**25,309**	**29,054**	
Geographic Breakdown (Clean PBT)							
Europe	3,479	3,561	865	3,881	3,908	4,126	4,604
Hong Kong	5,731	6,959	6,759	7,498	7,027	8,209	7,590
Middle East	1,467	1,585	1,497	1,670	1,636	1,710	1,787
Other Asia Pacific	7,233	7,965	8,385	8,693	9,205	9,799	10,187
North America	-1,503	506	3,286	1,453	667	1,668	1,353
South America	2,518	2,379	2,353	2,685	2,866	3,542	3,419
Total	**18,925**	**22,954**	**23,145**	**25,880**	**25,309**	**29,054**	

Source: Company data, Nomura estimates

Fig. 48: STAN model

Standard Chartered financial information and forecasts						
Year end: 31 December - US$m	FY 2010	FY 2011	H1 2012A	FY 2012E	FY 2013E	FY 2014E
Net Interest Income	8,470	10,153	5,483	11,500	12,551	13,926
Total Non-Interest Income	7,592	7,484	4,028	7,710	8,415	9,337
Total Operating Income	**16,062**	**17,637**	**9,511**	**19,210**	**20,965**	**23,263**
Total Operating Expenses	8,961	9,848	4,931	10,408	11,317	12,532
Profits Before Provisions	**7,101**	**7,789**	**4,580**	**8,802**	**9,648**	**10,731**
Bad Debt Provisions	959	1,019	583	1,280	1,485	1,590
Associates	42	74	57	80	88	97
Profit Bef Non-op Items	**6,184**	**6,844**	**3,980**	**7,528**	**8,252**	**9,238**
Amortisation of intangibles	-62	-69	-32	-69	-69	-69
Profit Before Tax	**6,122**	**6,775**	**3,948**	**7,459**	**8,183**	**9,169**
Tax	1,708	1,842	1,048	2,051	2,237	2,510
Minority Interests	82	84	44	84	84	84
Attributable Profit	**4,231**	**4,748**	**2,806**	**5,223**	**5,761**	**6,475**
EPS-reported	193.0	198.2	116.5	217.3	238.0	262.9
DPS	**69.2**	**76.1**	**27.2**	**83.7**	**92.0**	**101.2**
BVPS	**1,274**	**1,356**	**1,414**	**1,480**	**1,622**	**1,810**
Total Assets ($bn)	516.5	599.1	625.4	662.6	722.2	786.3
Shareholders' Funds ($m)	29,959	32,028	33,829	35,617	39,723	45,098
Cost/Income Ratio (%)	55.8	55.8	51.8	54.2	54.0	53.9
RoTE (%)	15.4	14.8	16.7	14.7	14.8	14.7
Provisions/Total Loans (%)	0.39	0.38	0.42	0.43	0.46	0.44
Tax Rate (%)	27.9	27.2	26.5	27.5	27.3	27.4
Tier 1 Ratio (%)	14.0	13.7	13.4	13.2	13.3	13.6
Ordinary equity tier 1 ratio (%)	11.7	11.8	11.6	11.5	11.7	12.2
Total Loans	248,988	269,513	279,053	295,640	325,183	357,312
Risk Assets	245,077	270,510	286,318	303,284	332,595	364,572
Non-performing Loans	4,631	4,183	5,220	5,343	5,547	5,652
Loan Loss Reserves	2,679	2,734	3,005	3,002	2,938	3,107
LLR/NPLs	57.8	65.4	57.6	56.2	53.0	55.0
NPLs/Total Loans	1.86	1.55	1.87	1.81	1.71	1.58
Unprovided NPLs to Equity (%)	6.5	4.5	6.5	6.6	6.6	5.6

Standard Chartered financial information and forecasts (cont'd)						
Year end: 31 December - US$m	FY 2010	FY 2011A	H1 2012A	FY 2012E	FY 2013E	FY 2014E
Regional breakdown						
Hong Kong	1,103	1,551	870	1,780	1,949	2,137
Singapore	718	1,002	546	1,048	1,154	1,262
Other Asia Pacific	1,083	1,374	708	1,437	1,493	1,681
Korea	388	172	303	559	588	640
Africa	559	596	311	579	637	701
India	1,197	804	311	575	586	733
Other MESA	841	834	378	813	997	1,135
UK/Americas	233	533	464	788	890	983
Other	0	74	57	80	88	97
Levy	0	-165	0	-200	-200	-200
Total	**6,122**	**6,775**	**3,948**	**7,459**	**8,183**	9,169

Source: Company data, Nomura estimates

Fig. 49: BARC model

Barclays financial information and forecasts					
£m	**FY 2010A**	**FY 2011A**	**FY 2012E**	**FY 2013E**	**FY 2014E**
Net Operating Income	**31,049**	**28,454**	**28,711**	**29,328**	**30,358**
- O/w BarCap	13,209	10,335	11,367	11,506	11,845
- Group ex BarCap	17,840	18,119	17,344	17,822	18,513
Total Operating Expenses	19,971	19,588	18,428	18,489	19,152
Profits Before Credit Impairments	**11,078**	**8,866**	**10,283**	**10,840**	**11,206**
Credit Impairment	5,672	3,802	3,719	3,735	3,662
Income from JV's / Associates	58	60	101	107	109
Pre-exceptional pre-tax profit	**5,464**	**5,124**	**6,665**	**7,211**	**7,652**
Exceptional Items (inc own debt)	600	755	-5,242	0	0
Profit Before Tax	**6,064**	**5,879**	**1,423**	**7,211**	**7,652**
Tax	1,516	1,928	404	1,566	1,828
Minorities and prefs	985	944	763	801	827
Attributable Profit	**3,563**	**3,007**	**257**	**4,144**	**4,997**
Ordinary Dividend	531	663	739	752	752
Per Share data					
EPS Reported (p)	30.4	25.1	2.0	33.1	39.9
EPS - Effective (p)	**28.9**	**24.3**	**33.6**	**37.1**	**39.5**
DPS (p)	5.5	6.0	6.0	6.0	6.0
NAV/Share (tangible, diluted)	342	364	377	404	436
Divisional Breakdown					
UK Retail Banking	919	1,420	1,490	1,539	1,548
Western Europe Retail Banking	-136	-45	-240	-257	-106
Barclaycard	880	1,208	1,513	1,568	1,656
Barclays Africa (inc Absa from 1H 2011)	789	908	391	500	575
Retail and Business Banking	**2,452**	**3,491**	**3,153**	**3,350**	**3,673**
Barclays Capital (ex own debt)	4,533	2,965	3,996	4,456	4,595
Barclays Corporate	-340	126	422	307	276
Corporate and Investment Banking	**4,193**	**3,091**	**4,418**	**4,764**	**4,872**
Barclays Wealth	192	207	269	280	290
Wealth and Investment Management	**259**	**245**	**269**	**280**	**290**
Head Office and Other	-761	-1,129	-1,175	-1,175	-1,175
PBT before non operating items	**6,144**	**5,698**	**6,665**	**7,218**	**7,660**
- o/w Traditional banking (Group-BarCap-HO)	2,371	3,862	3,844	3,937	4,239
Non Operating Items	-80	159	-5,242	-700	0
PBT	**6,064**	**5,857**	**1,423**	**6,518**	**7,660**
Key ratios					
Cost/Income Ratio (%)	64.3	68.8	64.2	63.0	63.1
RoE (%)	8.7	6.9	9.1	9.5	9.7
Capital measures					
Tier 1 Ratio (%)	13.5	12.9	12.8	11.5	12.1
Ordinary Equity Tier 1 Ratio (%)	10.8	11.0	10.8	9.8	10.5
Risk Assets	398,031	390,900	389,513	465,198	477,344

Source: Company data, Nomura estimates

Fig. 50: LLOY model

Lloyds Banking Group financial information and forecasts			Cons		Cons		Cons
£m	**FY 2011A**	**FY 2012E**	**FY 2012E**	**FY 2013E**	**FY 2013E**	**FY 2014E**	**FY 2014E**
Net interest income	12,233	10,309	10,351	10,121	10,172	10,048	9,947
Non-interest income	9,233	8,325	8,126	8,331	8,323	8,348	8,478
Insurance claims	-343	-318		-353		-364	
Total income net of claims	**21,123**	**18,316**	**18,477**	**18,098**	**18,495**	**18,032**	**18,425**
Expenses	-10,621	-10,167	-10,084	-9,683	-9,777	-9,362	-9,477
Profit before impairment	**10,502**	**8,148**	**8,393**	**8,415**	**8,718**	**8,670**	**8,948**
Credit Impairment	-9,787	-5,861	-6,269	-5,194	-4,802	-3,620	-3,565
Fixed Asset Write-Downs	0	0		0		0	
Assocs + JVs	27	0		0		0	
EU mandated sales	0	0		-350		-380	
Profit before non-operating items	**742**	**2,287**	**2,123**	**2,871**	**3,916**	**4,670**	**5,383**
Fair Value Unwind	1,943	507	561	700	-48	600	-236
Restructuring Costs	-1,452	-1,013	-1,153	-1,250	-909	0	-253
Other Non-Operating Items	-4,775	-3,147	-1,547	-3,084	-1,332	-600	-476
Pre-Tax Profits	**-3,542**	**-1,366**	**-15**	**-763**	**1,626**	**4,670**	**4,418**
Tax	828	-231		-313		-1,200	
Minorities	-73	-73		-73		-73	
Attributable Profit	**-2,787**	**-1,670**		**-1,149**		**3,397**	
Retained Profit	-2,787	-1,670		-1,149		3,397	
Key ratios							
Banking Margin	2.07	1.88		2.00		2.05	
Cost/Income Ratio (%) (ex ins claims)	-50.3	-55.5		-53.5		-51.9	
Provisions/Loans (%)	-1.78	-1.14		-1.12		-0.80	
Capital measures							
Ordinary Equity Tier 1 Ratio	10.8	11.4		11.0		13.0	
Risk Assets	352,341	322,747		323,021		299,007	
Total Assets	970,546	944,242		892,035		879,512	
Total Loans	565,638	513,028		465,567		454,183	
Total Deposits	405,900	428,897		421,561		436,987	
Loans/Deposits Ratio	135	120		110		104	
Profits Breakdown							
Retail	2,797	3,023		3,137		3,314	
Insurance	1,465	1,193		1,156		1,095	
Commercial	446	494		573		593	
Wholesale	-1,346	73		151		386	
Wealth & International	-4,130	-2,073		-1,398		102	
Group Items	1,510	-423		-399		-439	
EU Mandated Sales		0		-350		-380	
Profit from Continuing Operations	**742**	**2,287**		**2,871**		**4,670**	
Non operating items	-4,284	-3,653		-3,634		0	
Total	**-3,542**	**-1,366**		**-763**		**4,670**	
Core	6,922	6,083		5,997		6,195	
Non-Core	-6,180	-3,796		-3,126		-1,525	
Total	**742**	**2,287**		**2,871**		**4,670**	

Note: Company complied consensus except for NIM where we use Bloomberg

Source: Company data, Nomura estimates

Fig. 51: RBS model

Royal Bank of Scotland financial information and forecasts					
£m	**2010**	**2011**	**FY12E**	**FY13E**	**FY14E**
Net interest income	14,200	12,689	11,859	11,559	11,792
Non-interest income	18,394	15,020	14,203	12,981	13,841
Total Income	**32,594**	**27,709**	**26,062**	**24,539**	**25,632**
Total expenses	-16,710	-15,478	-15,045	-14,196	-14,271
General insurance claims	-4,783	-2,968	-2,424	-2,424	-2,424
Profit Before Impairments	**11,101**	**9,263**	**8,593**	**7,920**	**8,937**
Impairments	-9,257	-7,439	-5,111	-4,188	-3,351
EU Mandated Disposals			0	-154	-537
Profit Before Tax and Exceptionals	**1,844**	**1,824**	**3,483**	**3,577**	**5,049**
Goodwill	-369	-222	-193	-195	-197
Restructuring and Other (inc own debt)	-1,725	-2,368	-6,482	-1,149	-649
Profit Before Tax	**-250**	**-766**	**-3,193**	**2,233**	**4,203**
Tax	-663	-1,250	-825	-644	-1,183
Minorities/prefs/discontd ops	-213	19	-251	-370	-370
Attributable Profit	**-1,126**	**-1,997**	**-4,269**	**1,219**	**2,651**
Per share data					
EPS Reported	-10.5	-18.5	-37.3	10.9	23.7
EPS (Clean)	1.1	0.7	26.4	28.0	38.1
EPS (Core)	51.0	36.9	36.6	36.8	39.0
BVPS-diluted	511.1	500.9	468.1	479.1	500.4
Capital measures					
Tier 1 Ratio	12.9%	13.0%	12.6%	12.3%	13.4%
Core Tier 1 Ratio (Reported)	10.7%	10.6%	10.5%	10.3%	11.3%
ROTE (Clean)	0.2%	0.1%	5.6%	5.8%	7.6%
ROTE (Core)	10.0%	7.4%	7.8%	7.7%	7.8%
Shareholders Funds	55,940	55,217	52,292	53,510	55,900
WRAs	462,600	439,000	472,514	494,541	473,891
Loans	502,748	454,112	415,293	390,140	389,071
Deposits	428,599	414,143	409,873	414,449	426,036
Loans/Deposits Ratio (%)	117	110	101	94	91
Divisional breakdown					
UK Retail	1,348	2,021	1,839	1,808	1,939
UK Corporate	1,893	1,924	1,830	1,606	1,685
Wealth	283	248	247	278	282
International Banking	1,311	755	580	441	480
Ulster Bank	-683	-984	-1,073	-737	-431
US Retail & Commercial	349	537	725	785	765
Retail & Commercial	4,501	4,501	4,148	4,180	4,721
Markets	2,724	899	1,463	1,425	1,506
Direct Line	-295	454	453	522	615
Central	630	191	-78	0	0
Core PBT pre EU sales	**7,560**	**6,045**	**5,986**	**6,128**	**6,842**
EU Mandated Disposals	0	0	0	-154	-537
Core PBT	**7,560**	**6,045**	**5,986**	**5,973**	**6,305**
Non Core	-5,715	-4,221	-2,504	-2,396	-1,255
Pre-exceptional PBT	**1,845**	**1,824**	**3,483**	**3,577**	**5,049**
One-offs (inc own debt)	-2,094	-2,590	-6,675	-1,344	-846
PBT	**-249**	**-766**	**-3,193**	**2,233**	**4,203**

Source: Company data, Nomura estimates

Investment banks: Rebuilding ROTEs

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Investment thesis

Although these stocks have shown better short-term revenue momentum than commercial banking peers, we still believe much restructuring is needed deliver an acceptable ROTE in a Basel 3 compliant world. Our preferred bank remains UBS on a capital return angle, while for DBK we believe leverage concerns will remain an overhang.

Returns post restructuring

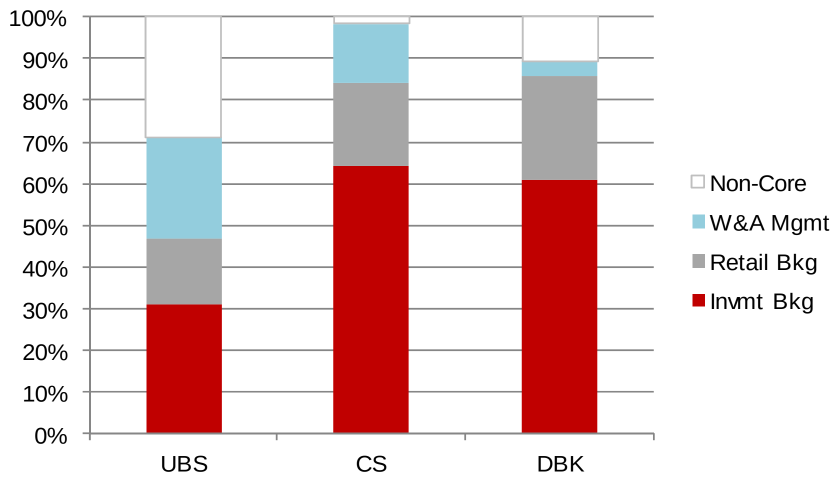
While UBS might have grabbed the headlines, each of the European investment banks plans its own substantial restructuring to reduce costs and RWAs, and improve ROTEs in a Basel 3 compliant world:

- **UBS** plans to cut CHF 5.4bn of costs (23% of the indicative starting point) and reduce Basel 3 RWAs from CHF 301bn at 3Q12 to CHF 225bn by 2015 and under CHF 200bn by 2017 through a substantial downsizing of its FICC business. This will also result in a 30% reduction in the funded balance sheet by 2015 (CHF 600bn excluding PRVs). UBS aims for an ROE of >15% by 2015 on a Basel 3 CT1 of 13.0% and aims for a total payout (dividend plus buy-back) of >50% once the CT1 exceeds 13% (during 2014).
- **CS** plans to cut CHF 4.0bn of costs (20% of the indicative starting point). CS plans to reduce Basel 3 RWAs from CHF 307bn at 3Q12 to CHF 280bn by 2013, as the wind-down business (still reported within the Investment Bank) has RWA of just CHF 13bn. CS plans to cut 13% of its gross balance sheet to CHF 900bn "with limited revenue impact". CS aims for an over-the-cycle ROE of >15% on a Basel 3 CT1 "approaching 11%" by 2013 after which it plans "substantial" payouts for shareholders.
- **DBK** plans to cut EUR 4.5bn of costs (17% of the indicative starting point). It aims to reduce Basel3 RWAs from approximately EUR 475bn to EUR 397bn by 31 March 2013 and then to under EUR 310bn in the long term by the run-off of EUR 135bn of RWAs (which have EUR 125bn of associated gross assets). DBK aims for an ROE of >12% (>15% from core businesses) by 2015 on a Basel 3 CT1 of >10%.

Even by 2015, UBS and DBK will have substantial non-core RWAs that will take some additional years to clear, while CS will have all but eliminated its target wind-down RWAs by end-2013. The pro-forma RWA mix by 2015 is indicated below, with UBS now notably less investment banking driven than CS or DBK.

Fig. 52: 2015 proforma RWA mix

Non-core includes corporate centre



Source: Company data, Nomura estimates

This pro-forma business mix is key to pro-forma profitability and therefore our relative preference between the banks. In the analysis below we begin with the annualised nine months' 2012 clean net profit of each of the banks, excluding the highlighted own debt, restructuring and litigation charges.

We then make a deduction for the profit loss from the run-off business of UBS. We assume this is the difference between the previous consensus investment bank net profit and the new target. While DBK and to a much lesser extent CS also have significant run-off plans, the indication has been that these wind-down assets were loss making in 2012 (ie, revenue lost will be offset by cost avoided). To this we add the incremental net cost reduction from the plans. UBS has been explicit that it intends to reinvest CHF 1.5bn of the incremental CHF 4.0bn in cost savings. DBK has been less specific, simply noting that reinvestment and other spend (including regulatory and litigation) will offset the benefits. Similar to UBS, we have assumed a net benefit of EUR 2.5bn pre-tax.

From this we calculate a pre (current) and post-run-off and cost saving 'ROB3E', which is an ROTE based on a Basel 3 CET1 allocation of 10% of RWAs. By adding back the expected Basel 3 deductions, we can arrive at an ROTE (in time it may be possible to move these deductions a little lower). And, lastly, by adding back goodwill and intangibles, we can arrive at an ROE. Note that, although these figures do not allow for market growth in profit assumptions, nor do they allow for additional regulatory costs including Liikanen and bail-in debt that could potentially be substantial, particularly for DBK.

Our analysis shows a clear variation with the banks with the highest mix of high-ROE asset gathering businesses posting the highest ROEs even after run-off. Even with a 13% target Basel 3 CET1, we believe that UBS's target ROE of >15% is feasible, while both CS and DBK will need some further market growth to meet their targets of >15% and >12%, respectively. For DBK, the post run-off ROE is little above the cost of equity.

Fig. 53: Proforma profitability

	UBS Group	CS Group	DBK Group
Clean net profit	4,960	4,305	4,790
Profit loss from runoff	(492)	0	0
Net cost reduction	2,050	1,460	1,650
Basel 3 RWAs	301,000	307,000	397,000
RWA runoff by 2015	(76,000)	(27,000)	(65,000)
Pre runoff ROB3E	16.5%	14.0%	12.1%
Post runoff ROB3E	29.0%	20.6%	19.4%
Deductions	7,000	7,100	6,000
Post runoff ROTE	22.1%	16.4%	16.4%
Goodwill & intangibles	6,632	8,884	16,287
Post runoff ROE	18.0%	13.1%	11.6%

Source: Company data, Nomura estimates

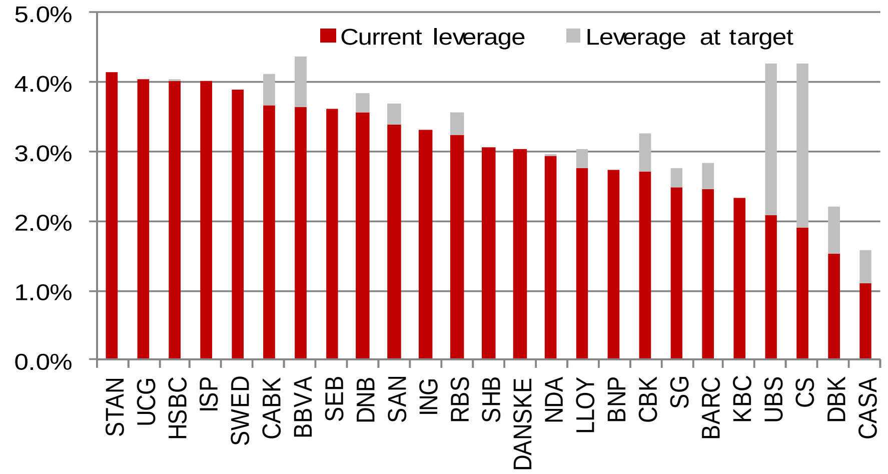
Leverage as an additional capital constraint

While progress for the broader banks sector on Basel 3 core Tier 1 is satisfactory, progress with the unweighted balance sheet leverage has been slower. In simple terms, the Basel 3 leverage ratio requires capital (Basel 3 CET1 plus AT1) to exceed 3% of 'exposure' (gross assets adjusted for off balance sheet items such as derivatives and commitments). Banks will need to disclose the ratio from 2015 before implementation in 2018, but rules may change.

In the chart below we have estimated Basel 3 leverage ratios at 3Q12. Given weak disclosure, we have used an estimate that the off-balance sheet derivative gross-up is 50% of PRVs We believe this is reasonably accurate, but it would overestimate banks with a high mix of short-term rate products and underestimate those with a high mix of long-term equity and commodity derivatives. Over time, if new regulation drives more derivatives to be transacted as agents over exchange, this balance may reduce. Further, few banks detail what percentage of their commitments is unconditionally cancellable, which carries just a 10% not a 100% weight. Therefore some calculations in this respect will be overstated.

Fig. 54: Basel 3 leverage ratio 3Q12A and at target level of B3 CT1 capital/assets

Note CS and UBS are shown on a 'Swiss' basis as described below



Source: Nomura estimates

We observe that most retail banks already exceed 3%, while most investment banks do not. Even after targeted actions (building capital to meet RWA ratios and gross asset reduction), most investment banks still fall a little short (and DBK very far short).

Note that CS and UBS are shown on a 'Swiss' basis. The Swiss banks are expected to issue between 7.5% and 9.0% of RWAs in Basel 3 Tier 2 cocos (depending on systematic risk), and with this in the numerator of the ratio to achieve a leverage ratio of between 4.2% and 4.56%. For this reason UBS announced that it would cut its gross funded balance sheet by around one-third to CHF 600bn by 2015, while CS stated that it would cut its gross balance sheet by around 12% to CHF 900bn by 2013 "with limited revenue impact" by targeting assets with low ROAs such as repos.

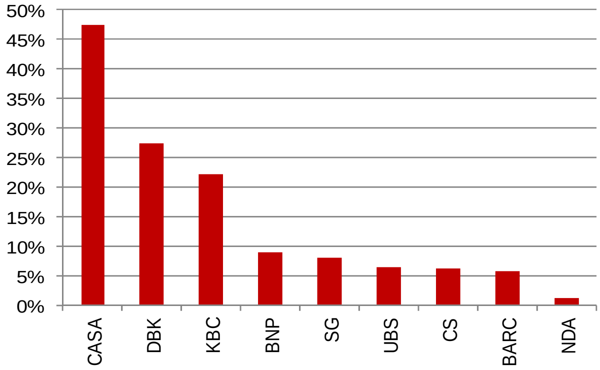
As shown below, the exposure reduction to meet a 3% leverage ratio for those banks that will not comply even when at their target level of Basel 3 CT1 (based on pro-forma post mitigation RWAs and the target CT1 ratio), is under 10% for all but CASA, DBK and KBC, suggesting a limited revenue impact of compliance.

Alternatively, banks can fill the funding gap by issuing Basel 3 Alternative Tier 1 capital (eg, certain cocos that meet required definitions). If we assume this will replace senior debt but with a 2% post-tax increase in cost, we see the cost as very manageable at well under 5% of net profit except for DBK and CASA. Although CASA will be able to rely on the financial strength of the mutual group, DBK may need to go well beyond its target of a 10% CET1 ratio or cut much more than the EUR 125bn of assets associated with the run-off portfolio to achieve the Basel 3 leverage targets. This uncertain cost is one of the reasons behind our Reduce recommendation on the stock.

We would note that there is scope for the leverage rules to be amended before 2018 implementation. Given the compromises inserted into the RWA ratio under Basel 3 (such as the 'Danish compromise' on insurance subsidiaries), it would appear likely that compromise could be found on leverage (excluding assets eligible for LCR ratios would be sensible, in our view). Whether this is sufficient to breach the large gap shown by Deutsche Bank, remains to be seen.

Fig. 55: Exposure reduction to meet a 3% leverage ratio

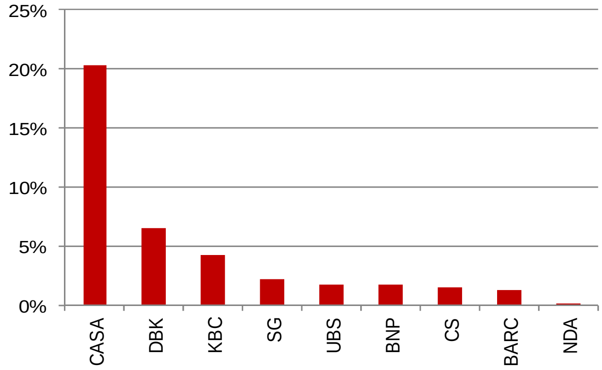
Exposure is a combination of gross on and off balance sheet assets



Source: Nomura estimates

Fig. 56: Reduction in net profit from issuing AT1

Assumes banks' plug the leverage gap by issuing AT1 debt



Source: Nomura estimates

The impact of bail-in debt

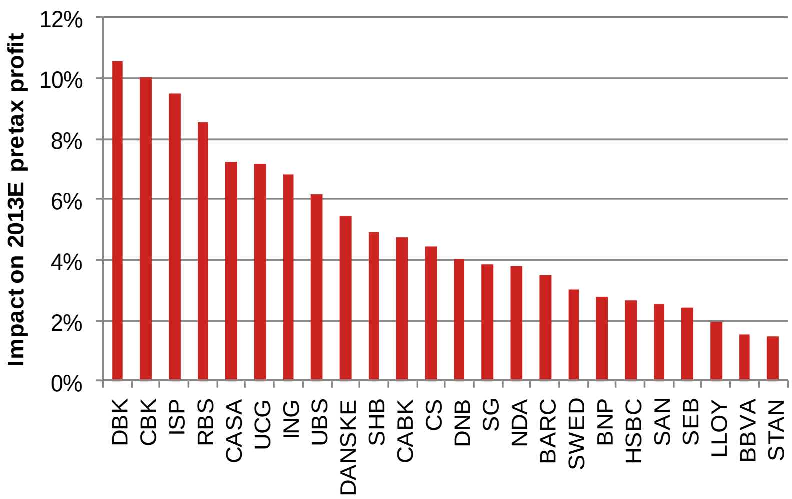
The proposed Capital Markets Directive will require all senior debt to be bailed in by the start of 2018, though national resolution legislation is moving at different speeds to make debt bail-inable at different dates.

How much current debt is priced for bail-in options is very hard to say given the volatility surrounding macro developments. With much senior debt due to mature before 2018, our belief is that the impact on pricing is comparatively modest. We would expect to see new issues whose maturity spans the bail-in date to price more expensively that shorter-dated debt, other things being equal.

Equally, how much senior debt costs might rise as a result of being bailed-in is difficult to assess. Like with any credit, different bonds will have different costs depending on the perceived probability of the bail-in being called. However, for a starting point in the chart below, we have illustrated the negative impact on 2013E pre-tax profit from an illustrative 50bp rise in the cost of senior debt.

For the banks most affected, this could create a drag of around 5-10% on pre-tax profits. We note that gross balance sheet deleveraging could reduce the impact of higher senior funding costs for the investment banks, and in particular UBS plans a significant reduction in its gross balance sheet size. However the proposed Liikanen recommendations which would ring-fence some investment banking activity would also increase funding costs for that part of the balance sheet.

Fig. 57: Impact on 2013E pre-tax profit from a 50bp increase in senior debt cost



Source: Nomura research

Investment bank models

Fig. 58: CSG model

Credit Suisse Group (CHFmn)	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Revenues	39,321	9,268	33,294	31,386	26,225	24,442	28,079	30,013	31,742
Costs	(25,341)	(23,357)	(24,711)	(23,978)	(22,577)	(21,322)	(21,180)	(21,980)	(23,165)
Gross operating proft	13,980	(14,089)	8,583	7,408	3,648	3,120	6,899	8,034	8,577
Provisions	(240)	(813)	(506)	79	(187)	(185)	(258)	(209)	(168)
Pretax profit	**13,740**	**(14,902)**	**8,077**	**7,487**	**3,461**	**2,935**	**6,642**	**7,825**	**8,409**
Extraordinary (incl. own debt)	6	(531)	169	(19)	0	1,493	(500)	(250)	(250)
Tax	(1,248)	4,596	(1,835)	(1,548)	(671)	(1,120)	(1,661)	(2,049)	(2,207)
Minorities	(4,738)	2,378	313	(822)	(837)	(317)	(208)	(214)	(221)
Net profit to shareholders	**7,760**	**(8,459)**	**6,724**	**5,098**	**1,953**	**2,992**	**4,272**	**5,312**	**5,731**
Preferred dividends			(131)	(162)	(216)	(228)	(228)	(228)	(228)
Net profit to ord shareholders			**6,724**	**5,098**	**1,953**	**2,992**	**4,272**	**5,312**	**5,731**
Share based payments			(379)	(265)	(97)	(226)	(245)	(308)	(333)
Net profit for EPS			**6,345**	**4,671**	**1,640**	**2,538**	**3,799**	**4,776**	**5,170**
Balance sheet									
Customer loans	240,534	235,797	237,180	218,842	233,413	244,023	259,173	275,990	293,976
Customer deposits	335,505	296,986	286,694	287,564	313,401	323,030	339,182	356,141	373,948
Shareholders equity	43,199	32,302	37,517	33,282	33,674	37,966	45,565	49,156	53,141
Total assets	**1,360,680**	**1,170,350**	**1,031,427**	**1,032,005**	**1,049,165**	**972,127**	**899,218**	**917,202**	**953,890**
Shares outstanding (mn)	1,020.6	1,163.9	1,169.2	1,173.9	1,220.3	1,292.7	1,580.7	1,580.7	1,580.7
Diluted EPS (CHF)	**6.95**	**(8.01)**	**5.14**	**3.89**	**1.36**	**1.95**	**2.50**	**3.00**	**3.25**
Dividend per share (CHF)	2.50	0.10	2.00	1.30	0.75	0.75	0.75	0.75	1.00
Return on equity	17.9%	(21.0%)	16.9%	13.2%	4.9%	2.9%	10.3%	10.6%	10.6%
Return on tangible equity	24.3%	(31.1%)	24.6%	17.9%	6.7%	9.4%	11.6%	12.4%	12.2%
Basel 3 CT1 fully phased	-	-	-	-	4.3%	8.5%	10.9%	11.7%	12.3%
Tangible book value per share	31.23	19.37	23.88	20.77	20.32	22.50	23.21	25.48	28.00
Divisional pretax profit									
Wealth Management	4,189	2,397	2,828	2,474	1,464	1,957	2,543	3,029	3,272
Corporate & Retail Banking	1,060	1,306	772	906	895	866	897	939	976
Asset Management	(219)	(1,400)	87	545	585	2,456	553	628	708
Investment Bank	2,416	(18,471)	7,561	3,811	(504)	2,309	3,060	3,650	3,883
Corporate Centre (incl. MI & own debt)	1,010	2,584	(2,689)	(1,090)	184	(3,476)	(1,120)	(886)	(901)
KPIs									
FICC trading revenues (stated)	4,709	(9,548)	11,186	6,683	3,611	6,069	6,457	6,780	7,119
Equity trading revenues (stated)	7,690	1,015	7,501	5,990	4,502	4,612	4,843	5,085	5,339
Advisory & u/w revenues	5,298	2,635	3,124	4,006	3,017	2,973	3,197	3,439	3,611
IB cost/income ratio	84.5%	-169.4%	63.0%	77.6%	103.9%	82.5%	77.8%	75.3%	75.1%
Wealth Mgmt new new money	6.7%	4.7%	5.0%	5.3%	4.9%	2.8%	3.5%	4.0%	4.0%
Wealth Mgmt gross margin	1.31%	1.34%	1.35%	1.24%	1.18%	1.11%	1.12%	1.15%	1.15%
Wealth Mgmt AUM	852,000	658,500	759,700	763,100	750,200	816,354	869,417	930,276	995,395
WM cost/income ratio	62.6%	75.7%	70.4%	73.6%	82.6%	76.2%	72.0%	70.0%	70.0%

Source: Company data, Nomura estimates

Fig. 59: UBS model

UBS Group (CHFmn)	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Revenues	27,900	3,682	24,299	31,729	27,829	25,407	25,679	27,119	28,499
Costs	(35,463)	(28,215)	(24,039)	(24,537)	(22,439)	(25,236)	(19,741)	(20,514)	(21,148)
Gross operating proft	(7,563)	(24,533)	260	7,192	5,390	170	5,938	6,605	7,351
Provisions	(238)	(2,997)	(1,832)	(66)	(84)	(138)	(97)	(100)	(104)
Equity method earnings	834	(5)	38	81	42	93	80	80	80
Pretax profit	(6,967)	(27,535)	(1,534)	7,207	5,348	125	5,920	6,585	7,327
Extraordinary items	3,628	311	89	250	2	(514)	(1,400)	(1,400)	0
Tax	(1,369)	6,837	443	380	(923)	(356)	(814)	(933)	(1,319)
Minorities	(539)	(568)	(610)	(304)	(268)	(275)	(275)	(275)	(275)
Net profit	**(5,247)**	**(21,293)**	**(2,736)**	**7,533**	**4,158**	**(1,019)**	**3,432**	**3,977**	**5,733**
Customer loans	335,864	291,456	266,477	262,877	266,604	281,782	295,871	310,665	326,198
Customer deposits	641,892	362,639	339,263	332,301	342,409	373,476	392,149	411,757	432,345
Shareholders equity	36,875	32,531	41,013	46,760	53,551	47,750	50,619	50,847	49,806
Total assets	**2,274,891**	**2,014,815**	**1,340,538**	**1,317,223**	**1,419,313**	**1,369,075**	**1,269,075**	**1,169,075**	**1,069,075**
Shares outstanding (mn)	2,011.2	2,870.7	3,520.6	3,792.5	3,747.7	3,746.3	3,746.3	3,546.3	3,212.9
Diluted EPS (CHF)	**(2.60)**	**(7.56)**	**(0.75)**	**1.96**	**1.08**	**(0.27)**	**0.90**	**1.10**	**1.75**
Dividend per share (CHF)	0.00	0.00	0.00	0.00	0.10	0.15	0.20	0.50	0.85
Buyback	-	-	-	-	-	-	-	(3,000)	(5,000)
Return on equity	(12.1%)	(60.4%)	(4.0%)	17.2%	8.3%	(2.0%)	7.0%	7.8%	11.4%
Return on tangible equity	(16.6%)	(87.4%)	(5.8%)	22.5%	10.3%	(2.4%)	8.1%	9.0%	13.1%
Basel 3 CT1 fully phased	-	-	-	-	6.7%	9.4%	12.6%	13.3%	13.4%
TBVPS	0.00	6.75	7.91	9.75	11.62	10.98	11.76	12.51	13.51
Divisional pretax profit									
Wealth Management	6,099	3,631	2,280	2,308	2,676	2,513	2,777	3,083	3,314
Retail & Corporate	2,443	2,382	1,629	1,771	1,919	1,785	1,653	1,774	1,845
Wealth Management Americas	621	(823)	31	(131)	534	826	917	972	1,104
Global Asset Management	1,454	1,332	437	516	426	536	637	744	804
Investment Banking	(16,670)	(34,301)	1,845	2,713	(654)	(2,251)	906	932	1,180
Corporate Centre	2,713	560	(8,786)	277	446	(3,795)	(2,370)	(2,320)	(920)
KPIs									
FICC trading	(16,176)	(29,864)	3,983	5,065	4,760	4,707	1,000	1,000	1,000
Equity trading revenues	9,000	5,184	4,937	4,469	1,849	2,772	2,809	2,528	2,528
Advisory & UW revenues	6,636	2,879	2,466	2,414	1,371	1,501	1,351	1,396	1,396
IB cost/income ratio	nm	nm	nm	78.6%	nm	125.2%	81.9%	80.5%	75.5%
WM net new money	0.0%	0.0%	(10.5%)	(1.5%)	3.1%	4.1%	4.5%	4.5%	4.5%
WM gross margin	0.00%	0.99%	0.91%	0.92%	1.01%	0.90%	0.92%	0.95%	0.95%
WM AUM	0	833,000	825,000	768,000	750,000	831,300	893,648	960,671	1,032,721
WM cost/income ratio	51.1%	61.7%	69.9%	68.7%	65.1%	64.7%	65.0%	65.0%	65.0%

Source: Company data, Nomura estimates

Fig. 60: DBK model

Deutsche Bank Group (EURmn)	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Revenues	29,321	12,025	27,669	30,343	33,265	33,584	34,858	36,495	38,056
Costs	(21,383)	(18,287)	(20,120)	(23,316)	(25,998)	(27,158)	(26,454)	(26,980)	(27,975)
Gross operating proft	7,938	(6,262)	7,549	7,027	7,267	6,426	8,404	9,515	10,081
Provisions	(613)	(1,076)	(2,631)	(1,273)	(1,840)	(1,728)	(1,533)	(1,286)	(1,174)
Equity method earnings	353	272	284	(1,778)	(38)	322	328	331	334
Pretax profit	7,979	(7,066)	5,202	3,976	5,390	5,020	7,199	8,560	9,241
Extraordinary items	769	1,325	0	0	0	0	0	0	0
Tax	(2,239)	1,845	(243)	(1,646)	(1,064)	(1,508)	(2,448)	(2,910)	(3,142)
Minorities	(35)	62	14	(20)	(194)	(69)	(112)	(133)	(152)
Net profit	**6,474**	**(3,834)**	**4,973**	**2,310**	**4,132**	**3,443**	**4,639**	**5,516**	**5,947**
Customer loans	198,892	269,281	258,105	407,729	412,514	409,329	433,889	459,922	487,518
Customer deposits	457,946	395,553	344,220	533,984	601,730	614,887	645,632	677,913	711,809
Shareholders equity	37,044	30,703	36,647	48,819	53,390	57,471	61,416	66,238	71,490
Total assets	**1,924,257**	**2,202,423**	**1,500,664**	**1,905,630**	**2,164,103**	**2,185,646**	**2,085,646**	**1,985,646**	**1,885,646**
Shares outstanding (mn)	549.1	616.7	682.0	919.0	905.0	926.0	926.0	926.0	926.0
Diluted EPS (EUR)	**11.94**	**(6.94)**	**6.94**	**2.92**	**4.30**	**3.60**	**4.80**	**5.70**	**6.15**
Dividend per share (EUR)	4.11	0.46	0.68	0.75	0.75	0.75	0.75	0.75	0.75
Return on equity	16.3%	(15.2%)	14.8%	5.4%	8.1%	6.2%	7.8%	8.6%	8.6%
Return on tangible equity	22.0%	(21.3%)	21.0%	7.7%	11.7%	8.7%	10.7%	12.0%	12.3%
Basel 3 fully phased CT1	-	-	-	-	-	7.2%	8.7%	9.5%	10.2%
Tangible book value per share	50.38	33.77	38.82	36.15	41.53	44.48	48.74	50.92	53.57
Divisional pretax profit									
Private & Business Clients	1,146	945	458	897	1,971	1,697	2,035	2,387	2,584
Asset & Wealth Management	921	(531)	193	209	767	343	525	736	813
Corporate & Investment Banking	5,182	(7,418)	4,312	6,018	4,054	4,498	5,258	6,074	6,500
Corporate Centre (incl. extraord)	1,493	1,263	239	(3,148)	(1,402)	(1,518)	(618)	(637)	(656)
KPIs									
FICC trading (stated)	8,409	124	9,557	9,925	8,578	10,067	10,107	10,612	11,143
Equity trading (stated)	4,613	(631)	2,651	3,108	2,421	2,514	2,640	2,772	2,910
Advisory & underwriting revenues	2,665	213	2,192	2,479	2,237	2,368	2,538	2,721	2,857
IB cost/income ratio	72.9%	334.1%	68.0%	69.4%	76.2%	74.9%	72.5%	71.4%	71.0%

Source: Company data, Nomura estimates

French banks: RARR opportunities

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Investment thesis

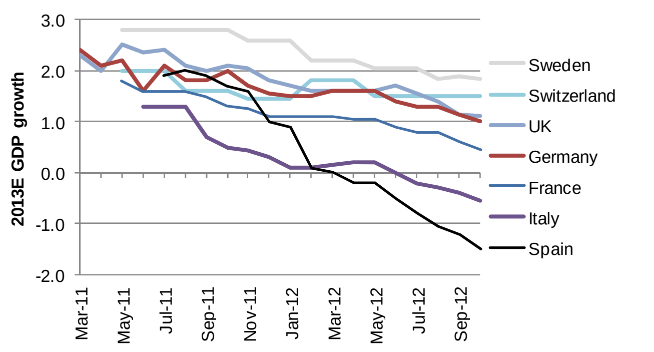
While the economy has its challenges, we still see it as better than the eurozone average, and the low multiples of the French banks we believe do not reflect the balance sheet improvements of the past year. With earnings upside potential from C&IB and International divisions, our preferred picks are BNP and SocGen.

The French economy

France faces challenges in 2013, but we still see the country as lower risk than the periphery. GDP forecasts have been downgraded, but at no greater rate that the UK or Germany, and for now, according to Bloomberg, consensus is still positive for 2013 unlike Italy or Spain. Sovereign CDS remain tighter than the eurozone average and, like for the sector, French banks have rallied by less than their CDS have tightened.

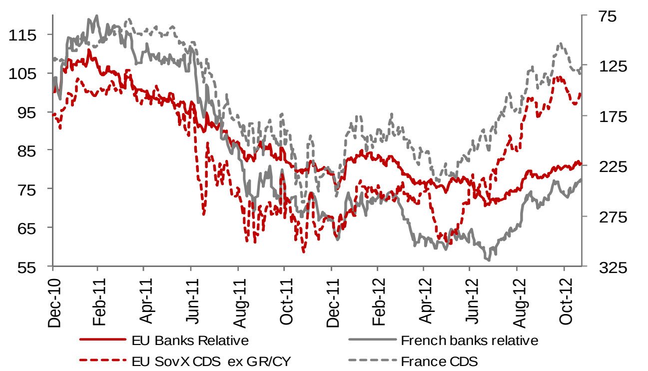
Lending growth is basically flat in France, but this is still above the eurozone average decline of 1% and much above the UK or Spain. NPL trends have shown no recent significant upward pressure in sharp contrast to Italy or Spain.

Fig. 61: 2013E GDP forecasts



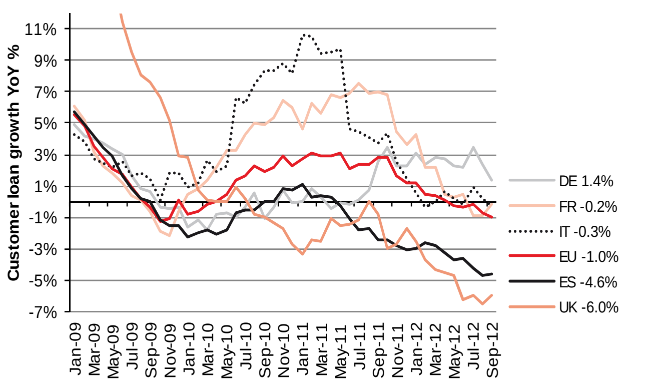
Source: Bloomberg, Nomura research

Fig. 62: Yields and CDS



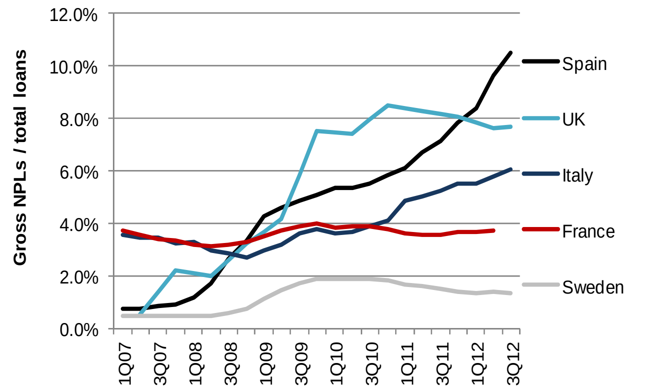
Source: Datastream, Bloomberg, Nomura research

Fig. 63: Lending growth



Source: ECB, Nomura research

Fig. 64: NPL trends

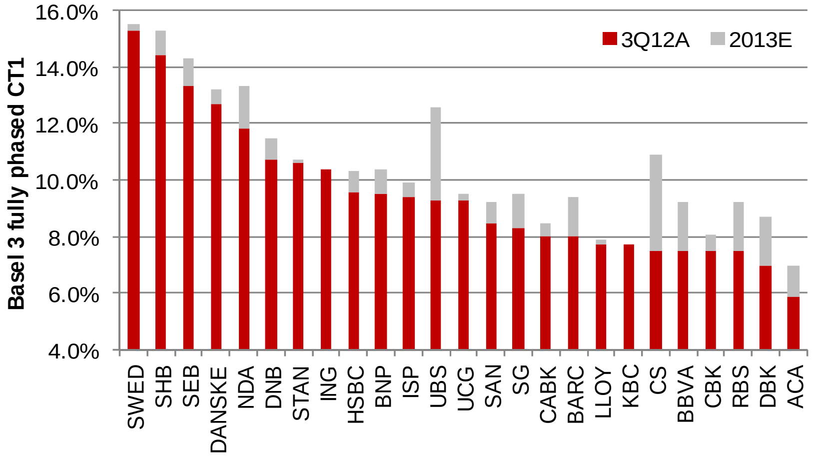


Source: Bloomberg, Central banks, Nomura research

Balance sheet de-risking

After funding costs spiked in 2H11, each French bank announced deleveraging plans to build Basel 3 capital ratios and reduce reliance on (short-term) wholesale funding. With these activities now largely complete, the French banks have seen substantial improvements in Basel 3 core Tier 1. From 2Q11 (before deleveraging plans were announced) to 3Q12, fully phased Basel 3 CT1 has risen by 200bp at BNP to 9.8% and 180bp at SocGen to 8.3% (with a further 40-50bp to come from imminent disposals). Note that CASA was little changed over the period at 6.3%, given heavy Greece related losses, particularly in 4Q11 and 3Q12). This leaves BNP ahead of its 9.5% target and SocGen well on track to achieve its 9.0-9.5% end-2013 target much earlier in the year. CASA targets 10.0% at the level of the mutual group by end-2013, with no target for the listed entity CASA. We believe that, until regulators give some comfort about the level of the gap between the group and CASA, the low headline ratios could be an overhang for the stock.

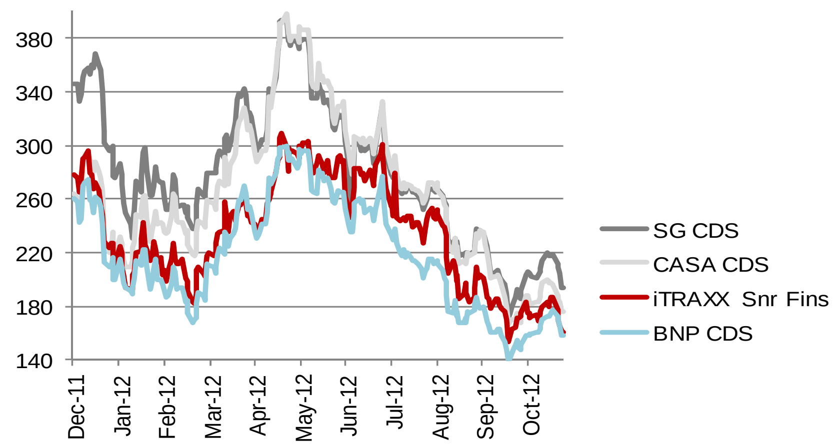
Fig. 65: Basel 3 fully phased core Tier 1 ratios



Source: Company data, Nomura estimates

Funding costs have substantially normalised with CDS at half the summer high (BNP tighter than sector, SG and CASA modestly wider). A snapshot of gross assets does not do justice to underlying risk improvement. BNP has improved unencumbered central bank assets/deposits from EUR 150bn (around 70% of short-term wholesale funding) to EUR 239bn (114%), while SocGen has increased the total from EUR 79bn (close to 50% of short-term funding) to EUR 142bn (100%). CASA's liquidity reserves have risen from EUR 120bn (70% of short-term wholesale funding) to EUR 201bn (151%).

Fig. 66: CDS trends



Source: Datastream, Nomura research

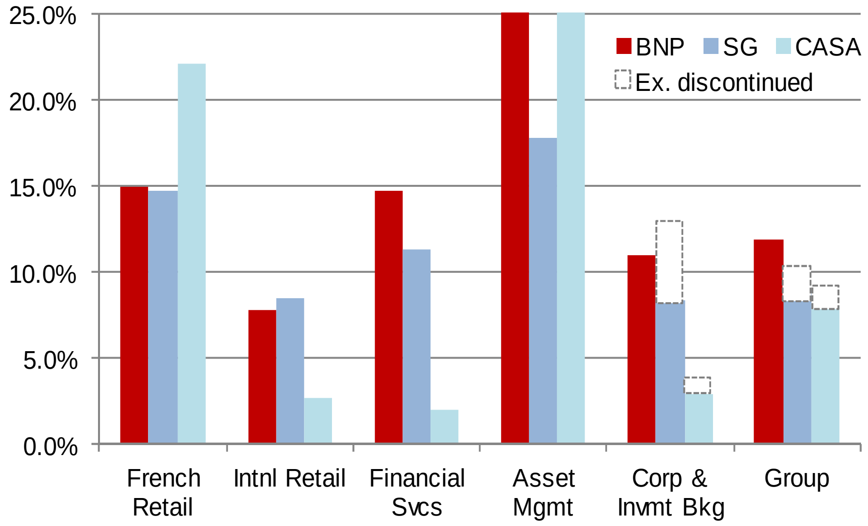
C&IB: Reasonable core business, legislation manageable

While the deleveraging plans of 2011 had a significant impact on the C&IB operations of French banks given their higher RWA consumption and their historical over-reliance on short-term wholesale funding, the resized businesses are broadly left in reasonable shape. A bias towards more traditional European bond issuance gives the banks a sustainable niche, while best-in-class cost/income ratios (ex. charges in the nine months of 2012 is around 60%) give the banks acceptable (low double digit) ROTEs for 2013 for their core businesses (although CASA is still affected by the drag from its equities businesses that it expects to sell during the year). Discontinued operations remain a drag for SocGen and for CASA, but the residual risks are now fairly small (EUR 16bn and EUR 12bn of Basel 2.5 RWAs, respectively, for SocGen and for CASA) and run-off is a source of Basel 3 capital accretion.

In December, France will reveal legislation to fulfil an election promise to split risky activities from retail banking. After intense lobbying by the banks, comments from the government about the proposed extent of the ring fence suggest that it will relate to a relatively limited number of activities including proprietary and high frequency trading. In this sense it could be more benign than the Liikanen proposals in that market-making activities are expected to be included with the retail bank. BNP has suggested that the amount of its C&IB revenues that might be affected could be as little as 1-2%, meaning that the reduction in profits will be very manageable. While SocGen and CASA have been less explicit about the cost, we see few reasons why it might be very different, especially as CASA has more substantially downsized its C&IB business with the proposed sale of much of its equities activities (Cheuvreux and CLSA). We would note that, post deleveraging, analysts appear to have erred on the side of caution for residual revenues in 2013. For SocGen, 3Q12 revenues annualised 18% ahead of 2013 consensus estimates (1% for BNPP, and analysis not applicable for CASA given the proposed sale of its equities activities).

Fig. 67: French bank divisional ROTE forecasts

Based on a capital allocation of 9.5% of RWAs



Source: Nomura estimates

International: CEE upside for SocGen

A look at expected divisional ROTEs in 2013 for the French banks (based on a capital allocation of 9.5% of RWAs) shows that international retail rather than C&IB is more of a drag on group profitability. In the case of BNPP and CASA this is primarily because of elevated provisions in the Italian businesses (this is also a drag on financial services for CASA) given that the economy is expected to be in recession in 2013. However, for SocGen, we believe that the more CEE-orientated businesses could beat expectations.

We believe that the earnings power of the SocGen international retail businesses has been masked by weak recent performance. This includes restructuring costs in Russia, recessionary losses in Romania and Greece and turmoil in northern Africa. Yet, with Russia restructured, the Romanian economy outlook improving (see Figure 10 for a global GDP comparison), and Greece sold, profitability should recover. In its 2010 investor day, SocGen suggested that International Retail could earn EUR 0.9bn-1.1bn in net profit by 2012. Yet consensus shows just over EUR 400m in 2013 and EUR 600m in 2014. We believe that, on a conservative estimate, profits could recover to EUR 800m (or EUR 700m after the expected sale of Egyptian operations, which could add a useful c. 0.3% to CT1).

Fig. 68: SocGen International Retail

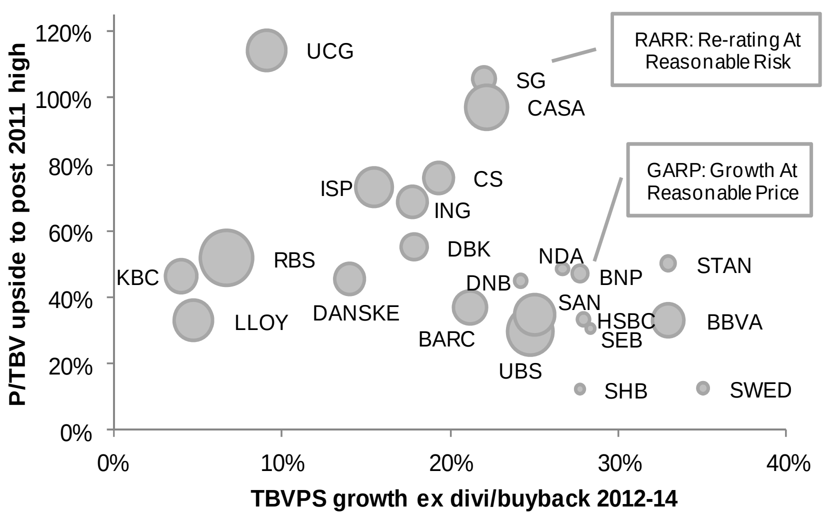
International Retail Net profit EURmn	2007	2008	2009	2010	2011	2012	Consensus 2013E	2014E	Earnings Potential	ex Egypt
Czech (Komercni)			187	250	262	269			250	250
Romania (BRD)			139	77	5	(46)			100	100
Russia (Rosbank)			(197)	(35)	5	(287)			100	100
Other CEE incl. Greece			6	(173)	(300)	(172)			50	50
Med Basin incl. Egypt			210	253	220	220			200	100
Sub-Sah Africa/Other			114	120	133	23			100	100
Total	**686**	**633**	**459**	**492**	**325**	**6**	**407**	**600**	**800**	**700**

Source: SocGen, Nomura estimates

Re-rating at a reasonable risk

With several stocks in the sector at barely half the multiple at which they traded in 2011, the share price performance for some banks could be more driven by re-rating than by book value growth. Given a stabilisation in the market's perception of the tail-risk of eurozone break-up because of a more forceful stance by the ECB, this would suggest some exposure to those 'RARR' banks that have the potential to 'Re-rate at A Reasonable Risk' owing to an improving risk profile. We believe that the French banks led by SocGen and BNP Paribas fit the 'RARR' criteria better than German, Italian or Spanish banks given better Basel 3 and NPL ratios.

Fig. 69: Upside potential from TBVPS growth and P/TBV re-rating



Source: Datastream, Nomura estimates

French bank models

Fig. 70: BNP Paribas model

BNP Paribas Group (EURmn)	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Revenues	30,054	27,224	40,212	43,720	42,384	39,595	41,070	42,711	44,688
Costs	(18,693)	(18,161)	(23,167)	(25,737)	(25,766)	(26,126)	(26,269)	(27,027)	(28,047)
Gross operating proft	11,361	9,063	17,045	17,983	16,618	13,469	14,801	15,684	16,641
Provisions	(1,725)	(5,752)	(8,369)	(4,802)	(6,797)	(3,780)	(3,861)	(3,716)	(3,299)
Equity method earnings	356	216	155	250	81	432	309	314	315
Extraordinary items	1,066	397	169	(413)	(251)	1,344	0	0	0
Pretax Profits	11,058	3,924	9,000	13,018	9,651	11,465	11,248	12,283	13,657
Tax	(2,747)	(472)	(2,526)	(3,856)	(2,757)	(3,254)	(3,419)	(3,740)	(4,169)
Minorities	(489)	(431)	(642)	(1,321)	(844)	(761)	(799)	(839)	(881)
Net profit (before pref divs)	**7,822**	**3,021**	**5,832**	**7,841**	**6,050**	**7,450**	**7,031**	**7,704**	**8,606**
Net profit (after pref divs)	**7,629**	**2,762**	**5,504**	**7,530**	**5,768**	**7,163**	**6,744**	**7,417**	**8,319**
Customer loans	445,103	494,401	678,766	684,686	665,834	633,757	638,932	659,278	686,777
Customer deposits	346,704	413,955	604,903	580,913	546,284	540,713	556,934	579,211	602,380
Shareholders equity	47,056	42,707	61,456	66,603	68,109	78,762	82,594	86,072	89,787
Total assets	**1,694,454**	**2,075,551**	**2,057,698**	**1,998,158**	**1,965,283**	**1,985,132**	**1,935,504**	**1,887,117**	**1,965,829**
Shares outstanding (mn)	896.1	906.6	1,181.6	1,195.7	1,191.8	1,234.8	1,216.1	1,177.2	1,132.2
Diluted EPS (EUR)	**8.42**	**3.06**	**5.20**	**6.32**	**4.81**	**5.90**	**5.55**	**6.30**	**7.35**
Dividend per share (EUR)	3.35	1.00	1.50	2.10	1.20	1.75	1.80	2.00	2.25
Buyback	-	-	-	-	-	-	(750)	(1,750)	(2,250)
Return on equity	16.6%	6.2%	10.6%	11.8%	8.6%	9.8%	8.4%	8.8%	9.5%
Return on tangible equity	22.3%	8.5%	14.1%	14.9%	10.8%	12.0%	10.1%	10.5%	11.2%
Basel 3 fully phased CT1	-	-	-	-	-	9.9%	10.4%	10.5%	10.6%
Tangible book value per share	39.20	33.07	40.86	44.14	45.50	52.73	56.70	61.52	67.25
Divisional profit before tax									
Domestic Retail Banking	1,648	1,647	1,484	1,716	2,011	2,003	1,955	2,012	2,113
BNL	572	628	524	432	564	504	443	567	910
Belgian Retail Banking	0	0	131	689	647	734	773	856	961
BancWest	619	333	(197)	573	734	894	934	963	1,013
Personal Finance	808	666	426	891	1,243	1,226	1,297	1,409	1,548
Europe Mediterranean	479	534	(204)	86	164	249	257	297	349
Other domestic markets	361	180	148	397	817	809	787	811	867
Wealth and Asset Management	894	599	714	997	837	713	717	774	835
Insurance	788	562	553	809	474	1,023	1,061	1,110	1,161
Securities Services	233	149	196	176	213	213	212	233	257
Financing	1,495	1,448	634	2,766	2,437	1,597	1,576	1,704	1,831
Advisory & Capital Markets	1,960	(2,637)	4,232	2,612	1,339	1,888	2,187	2,297	2,411
Residual Division	1,201	(185)	359	874	(1,829)	(386)	(950)	(750)	(600)
KPIs									
Equity & Advisory Revenues	2,772	(341)	1,920	2,225	2,074	1,730	1,817	1,907	2,003
Fixed Income Revenues	2,796	2,407	8,001	5,414	3,591	4,777	5,016	5,267	5,530
Financing Revenues	2,604	2,907	3,576	4,495	4,232	3,575	3,539	3,681	3,828

Source: Company data, Nomura estimates

Fig. 71: SocGen model

Societe Generale Group (EURmn)	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Revenues	21,421	21,871	21,801	26,418	25,636	24,112	24,787	25,671	26,900
Costs	(14,305)	(15,528)	(15,766)	(16,545)	(17,036)	(16,582)	(16,479)	(16,896)	(17,496)
Gross operating proft	7,116	6,343	6,035	9,873	8,600	7,530	8,307	8,775	9,404
Provisions	(905)	(2,655)	(5,848)	(4,160)	(4,330)	(3,540)	(2,953)	(2,583)	(2,187)
Equity method earnings	44	(8)	15	119	94	130	119	124	129
Pretax profit	6,255	3,680	202	5,832	4,364	4,120	5,474	6,316	7,346
Extraordinary items	(4,369)	328	598	12	(253)	(936)	20	20	20
Tax	(282)	(1,235)	308	(1,542)	(1,323)	(905)	(1,533)	(1,769)	(2,057)
Minorities	(657)	(763)	(430)	(385)	(403)	(458)	(488)	(560)	(581)
Net profit before prefs	**947**	**2,010**	**678**	**3,917**	**2,385**	**1,822**	**3,473**	**4,008**	**4,728**
Net profit after prefs	**858**	**1,826**	**280**	**3,581**	**2,363**	**1,543**	**3,194**	**3,729**	**4,449**
Customer loans	332,211	383,125	373,399	401,013	396,842	396,752	385,287	394,571	408,439
Customer deposits	270,662	282,514	300,054	337,447	340,172	349,561	367,039	385,391	404,661
Shareholders equity	23,266	29,944	35,069	39,099	40,054	43,801	47,971	50,782	54,085
Total assets	**1,071,762**	**1,130,003**	**1,023,701**	**1,132,072**	**1,181,372**	**1,230,240**	**1,194,690**	**1,223,479**	**1,266,481**
Shares outstanding (mn)	436.3	560.7	718.8	725.1	747.0	754.0	764.6	764.6	764.6
Diluted EPS (EUR)	**1.84**	**3.91**	**0.45**	**4.96**	**3.20**	**2.05**	**4.20**	**4.90**	**5.85**
Dividend per share (EUR)	0.90	1.20	0.25	1.75	0.00	0.70	1.20	1.50	1.80
Return on equity	3.5%	6.9%	0.9%	9.7%	6.0%	3.7%	7.0%	7.6%	8.5%
Return on tangible equity	4.7%	9.5%	1.1%	12.6%	7.7%	4.6%	8.5%	9.1%	10.1%
Basel 3 fully phased CT1 ratio	-	-	-	-	-	8.3%	9.5%	9.9%	10.2%
Tangible book value per share	38.40	38.97	37.43	41.57	42.04	47.15	51.95	55.63	59.95
Divisional net profit									
French Networks	1,375	1,287	1,007	1,233	1,428	1,348	1,268	1,406	1,608
International Retail	686	633	459	492	325	6	573	717	756
SFS & Insurance	600	469	26	343	297	654	576	640	742
GIMS	652	329	202	289	171	78	298	347	393
C&IB - Core	(2,221)	316	3,516	2,204	1,298	1,363	1,637	1,703	1,915
C&IB - Legacy Assets	na	(2,378)	(2,853)	(474)	(663)	(422)	(322)	(217)	(126)
Corporate Centre	(145)	1,354	(1,679)	(169)	(471)	(1,205)	(557)	(588)	(560)
KPIs									
FICC revenues	0	1,791	3,907	2,555	1,763	2,722	2,640	2,706	2,815
Equity revenues	3,548	1,112	3,431	2,466	2,379	2,200	2,266	2,357	2,474
Fin & Advisory revs	1,859	1,811	2,510	2,744	2,315	1,621	2,176	2,241	2,353
Legacy asset revenues	0	(3,333)	(2,820)	71	(476)	(338)	(250)	(150)	(50)

Source: Company data, Nomura estimates

Fig. 72: CASA model

Credit Agricole Group (EURmn)	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Revenues	16,768	15,956	17,893	20,129	19,782	17,575	17,999	18,596	19,434
Costs	(12,718)	(12,635)	(12,143)	(13,187)	(12,819)	(12,393)	(12,290)	(12,587)	(13,071)
Gross operating proft	4,050	3,321	5,750	6,942	6,963	5,182	5,708	6,010	6,363
Provisions	(1,897)	(3,165)	(4,689)	(3,777)	(4,254)	(3,484)	(2,782)	(2,255)	(1,824)
Equity method earnings	1,269	868	847	64	232	903	1,159	1,215	1,268
Pretax profit	3,422	1,024	1,908	3,229	2,941	2,600	4,084	4,969	5,807
Extraordinary items	1,391	176	(251)	(601)	(3,250)	(3,714)	0	0	0
Tax	(257)	66	(211)	(876)	(888)	(754)	(1,024)	(1,314)	(1,589)
Minorities	(512)	(242)	(321)	(488)	(273)	(257)	(429)	(460)	(502)
Net profit	**4,044**	**1,024**	**1,125**	**1,263**	**(1,470)**	**(2,125)**	**2,631**	**3,196**	**3,716**
Customer loans	302,444	349,037	362,348	383,246	399,381	375,900	367,391	370,020	385,728
Customer deposits	387,253	421,411	464,080	501,360	525,636	529,139	550,305	572,317	595,209
Shareholders equity	40,691	41,731	45,457	45,667	42,797	43,511	46,143	49,039	51,730
Total assets	**1,414,223**	**1,653,220**	**1,557,342**	**1,593,529**	**1,723,608**	**1,918,800**	**1,875,363**	**1,888,785**	**1,968,967**
Shares outstanding (mn)	1,657	2,213	2,309	2,392	2,491	2,498	2,498	2,562	2,562
Diluted EPS (EUR)	**2.51**	**0.51**	**0.50**	**0.54**	**(0.60)**	**(0.85)**	**1.05**	**1.25**	**1.45**
Dividend per share (EUR)	1.11	0.45	0.45	0.45	0.00	0.00	0.30	0.40	0.50
Return on equity	10.8%	2.5%	2.6%	2.8%	(3.3%)	(4.9%)	5.9%	6.7%	7.4%
Return on tangible equity	21.0%	4.9%	5.0%	5.1%	(6.1%)	(8.8%)	10.1%	11.1%	11.7%
Fully phased Basel 3 CT1 ratio	-	-	-	-	-	6.2%	7.0%	7.2%	8.0%
Tangible book value per share	12.61	9.35	10.54	10.43	9.39	9.94	10.99	11.85	12.90
Book value per share	24.55	18.85	19.68	19.09	17.18	17.42	18.47	19.14	20.19
Divisional net profit									
French Retail Banking	1,331	1,234	1,304	1,629	1,681	1,612	1,620	1,680	1,777
International Retail Banking	460	(419)	(458)	(928)	(2,458)	(2,932)	217	306	387
Specialised Financial Services	595	461	456	536	91	(559)	179	323	570
Savings Management	1,899	1,393	1,357	1,508	951	1,644	1,655	1,767	1,855
Financing	1,072	968	285	1,314	863	709	757	902	929
Investment Banking (incl. discont ops	(1,976)	(2,891)	(605)	(342)	(1,010)	(474)	80	186	211
Corporate Centre	663	281	(1,213)	(2,454)	(1,588)	(2,125)	(1,878)	(1,968)	(2,013)

Source: Company data, Nomura estimates

Benelux banks: Good restructuring progress with a long/term bias for ING

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Investment thesis

The case of Benelux banks continues to rotate around the restructuring progress and capital re-building. The disinvestment process is at an advanced stage at KBC and on the right track in the case of ING, although some issues remain for the latter about the disposal of its insurance business, for which the EC has recently allowed a postponement. The next steps remain the reimbursement of state aid for KBC while in the case of ING, the story is admittedly getting a little more complicated, as repayment of double leverage at group level needs both the disposal of the insurance business (at the right price) and the capital generation of the bank to progress nicely. We maintain our positive stance on both. As banks located in Northern Europe, we think earnings generation and lower funding costs both deserve a valuation premium. However, after the recent strong performance of KBC, we would maintain a long-term bias for ING, although we would continue to scrutinise carefully the restructuring progress.

ING

The recent announcement of an agreement with the European Commission allowing some extra time in both the divestment schedule and the repayment of the state aid (including a more realistic run-off of Westland Utrecht activities) gives some breathing room to the phasing of the restructuring, although with negative implication for dividend payment. ING has repaid the first tranche of the state aid this week (ie, EUR 1.2bn out of total EUR 4.5bn including penalty) and also repaid double-leverage by EUR 1bn, which we find encouraging. Next steps remain conditional on the progress of the disposal of the insurance business (after part of the Asian business was completed over the past 2 months), which together with capital generation of the bank remains the pivot for the reimbursement of double leverage. We maintain our positive long-term stance on the story (the banking business is trading at 7.6x 2013E earnings assuming a valuation of the insurance business at EUR 14.5bn).

New restructuring plan agreed with EC

ING reached an agreement with the EC for a new restructuring plan, which extended the timeline for the divestment plan to 2018 and the repayment of the state aid to 2015. In addition, the Westland Utrecht activities, previously supposed to be sold separately (a little unrealistic considering its funding gap), will be merged with Nationale-Nederlanden and divested as part of the European insurance business (this will involve the injection of a minimum EUR 350m of capital by ING Bank). The bulk of its mortgage portfolio will be instead in a run-off mode. As we detailed in our recent note, under the new agreement the repayment of the state aid will take place in four equal tranches (the first made on 26 November) up to May 2015 vs 2013 on previous terms, although management confirmed that it intends to repay it as soon as possible. This means that dividend payment (which we think it would have previously paid in 2014) is further postponed, considering the penalties on coupons still in place. The schedule for the Insurance divestment has been extended until 2018 (vs previous 2013 deadline), and it includes: (1) Asian Insurance/IM operations: the divestment of more than 50% of these operations is to be completed by year-end 2013, with the remaining interest divested by year-end 2016. (2) ING U.S.: The divestment of at least 25% of this business is to be completed by yearend 2013, more than 50% to be divested by year-end 2014, with the remaining interest divested by year-end 2016. (3) Insurance/IM Europe: the divestment of more than 50% of this business has to be completed by year-end 2015, with the remaining interest divested by year-end 2018. We view the divestment of the US insurance and particularly of the European business as the most challenging parts of the plan. Management's base-case scenario is for these two businesses to become standalone via an IPO process, with timing of divestments to depend on market conditions and performance, although for Europe, ING did not exclude a spin-off or sale-trade as secondary options. An IPO registration was filed with the SEC for ING U.S. on 9 November, with the transaction possibly due for execution in 2013, according to management.

Asian divestment plan progressing

The Asian disposal plan has made some good progress, although the timing of the least attractive regions is still uncertain (ie, Japan, Korea). The sales completed so far (Malaysia, Thailand, Hong-Kong and Macau) represent approximately one-quarter of the total Asian insurance, 50% of which needs to be divested by 2013, according to the new EC agreement. This should be achievable in our view, assuming a disposal of the Korean business by that date, which would leave up to 2016 for the disposal of Japan, admittedly the least attractive region, also in consideration of the potential losses recently disclosed on the closed block VA book. According to the latest press (Bloomberg, 15 November), the deal for the Korean disposal is close to an end, although negotiations around the price are delaying the agreement. We estimate the divestment of the entire Asian insurance to generate around EUR 8bn proceeds (of which only around 70% would be funnelled-up to the group for the repayment of the double-leverage, following the repayment of the local leverage). This includes EUR 2.9bn from the businesses already disposed of, which however were closed at the higher end of market expectations due to the attractiveness of those markets (Insurance Malaysia was sold to AIA on 11 October for EUR 1.3bn and Hong Kong/Thailand/Macau to Richard Li on 19 October for EUR 1.6bn). The other relatively small divestment done was sale of 33.3% stake in the JV China Merchants Fund for EUR 98m and disposal of IM business in Thailand for EUR 10m.

Solid capital

Core Tier 1 under B2.5 improved 100bp q-o-q to 12.1% in Q3 12. The guidance on the impact of B3 fully loaded is unchanged at around 175bp, including also a 50bp deduction from the introduction of IAS 19 on pensions, which will already come into effect at the beginning of 2013. After factoring in a 50bp positive impact from the disposal of ING Direct Canada and the recent repayment of state aid/double leverage, we estimate core Tier 1 B2.5 of 11.4%, or 9.6% under B3, which climbs to 10.4% at end 2013 (higher than management target of 10%), allowing for some room, in our view, for advanced repayment of state-aid/double leverage.

KBC

With the divestment programme almost completed, investors' focus will now turn to the capital angle of the story and the repayment of the state securities. We expect a tranche of the remaining EUR 4.2bn agreed with the EC to be repaid by end-2013 to be reimbursed by end-2012 (some EUR1/2bn). This remains conditional on the announcement by the national regulator of optimal capital requirements. With an estimated 2013 B3 CT1 of 7%, we factor into our valuation a capital deficit of 2bn/3bn to reach an optimal capital level of 10% by end-2013, assuming which we see the stock trading at 8x 2013E earnings. Apart from re-payment of state aid, which could justify another leg of outperformance of the stock, we expect the share price will continue to be geared toward capital rebuilding, which is the core of KBC investment case.

Disinvestment almost completed, focus on state aid repayment

KBC has almost completed all the key divestments agreed under the restructuring plan, with the divestment of all major units completed in recent months and only a few small units left for disposal (Absolut Bank, NLB, KBC Bank Deutschland, KBC Banka Serbia and Antwerp Diamond Bank). The last major businesses divested were KBL, which generated 70bp CT1 in Q3 12 and Warta, which was deconsolidated in Q3. As far as Kredyt, for which the deal announced with Santander is set to generate some 90bp of core Tier 1 (via release of EUR 7bn of RWAs), authorisation from local regulator is still pending (the deal was supposed to be closed in Q4 12). Of the five businesses left to divest, management has confirmed good progress on the negotiations around Absolut (for this management anticipated the disposal at a level above book value although some P&L charges are likely attributable to treatment of certain reserves) and KBC

Deutschland, and expects these two transactions to close before year-end. For Diamond Bank and NLB, talks are at an initial stage, with deals expected in 2013 (the Serbian business is immaterial in size). KBC expects the disposal of these entities to release a combined EUR 5bn of RWAs by 2013. (ca. 5% of total group's RWA).

With the divestment plan being close to completion, investors are now focused on the timing of the repayment of the state core Tier 1 securities. Out of the total state aid of EUR 7bn received from the Belgian and the Flemish governments (EUR 3.5bn each) in the form of CT1 securities, KBC has already re-paid EUR 500m to Belgium and agreed with the EC to repay an additional EUR 4.2bn by end of 2013, for a total of EUR 4.67bn (plus penalty). We expect KBC to repay some EUR 2bn (out of total EUR 3bn) to the Belgian government by 2012, the remaining in 2013 (the penalty on this is set to increase from 15% to 20% in 2013) and the remaining EUR 1.2bn in 2013 to the Flemish govt (with 50% penalty). Including penalty, this would amount to a total of EUR 5.25bn, for an impact of 470bp on CT1. In 3Q 12 B2.5 CT1 stood at 13.4% or 7.5% excluding the entire state capital (8.7% excluding only EUR 4.2bn due by 2013). Management stated in the conference call that core Tier 1 B3 fully-loaded including state aid would stand at 11.7% in 3Q, vs 10% in 2Q 12, while management guidance for end-2013 is for a core Tier after repayment of EUR 4.67bn state-aid of 10.2% (vs 9.5% given in 2Q 12).

We tend to exclude State aid from our estimated core Tier 1. On a fully-loaded basis, we estimate a core Tier 1 B3 ex-state aid of 4.3% in 3Q (vs 3% in 2Q) and we estimate this to climb to 5.1% at end 2012 (including the disposal of Kredyt Bank) and 7% in 2013, including RWAs deconsolidation of remaining assets under disposal. We believe at this point KBC is running with a EUR 2bn-3bn capital deficit based on an optimal core Tier 1 of 9-10%.

Group reorganisation recently announced.
In October, KBC provided an update on its new 2013-15 strategic plan. The group confirmed its long-term commitment to the integrated bank-insurance model, with core markets continuing to be Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria. All activities that do not serve a core market will be discontinued, with the exception of Ireland. The company also provided new targets for 2015, including: 1) cost/income at 55%; 2) combined ratio 95%; 3) liquidity coverage ratio at 100%; and 4) net stable funding ratio of 105%, while ROE target will be disclosed in 1Q13 after the minimum core equity target is defined by the NBB. Overall, we view the reorganisation as positive as it will give more visibility over the performance of the Czech Republic/other CEE countries, while refocusing the business of its core markets. However, we do not see these updates as transformational and execution will be key in realising the benefits of the new strategy.

Fig. 73: ING model

EUR m

ING Group (EURmn)	2011A	2012E	2013E	2014E
Bank				
Net interest income	12,254	12,088	11,768	11,906
Net commission income	2,209	2,166	2,165	2,105
Net trading income	-503	617	130	130
Net other income	588	82	697	647
Total revenues	**14,549**	**14,953**	**14,760**	**14,788**
Total costs	-8,970	-9,114	-8,330	-8,305
Pre-provision profit	**5,579**	**5,839**	**6,430**	**6,483**
Loan loss provisions	-1,341	-2,153	-2,212	-1,563
Profit before tax	**4,238**	**3,685**	**4,218**	**4,920**
Taxes	-1,107	-1,097	-1,131	-1,302
Minorities	-79	-85	-75	-79
Profit after tax	**3,052**	**2,504**	**3,012**	**3,539**
Discontinued operations (incl. special items)	1,501	873	0	0
Net result - Bank	**4,553**	**3,377**	**3,012**	**3,539**
Net result - Insurance	1,212	292	1,342	-
Net result- Group	**5,766**	**3,670**	**4,354**	**3,539**
Group (Bank only post-2013)				
Loans and advances to customers	602,525	577,648	559,774	550,622
Financial assets and investments	479,224	456,945	419,038	190,493
Customer deposits	467,546	446,416	426,430	453,365
Total assets	**1,279,188**	**1,250,890**	**1,231,461**	**876,429**
Intangibles	3,558	3,550	3,550	1,743
Shareholders' equity	**46,665**	**51,093**	**55,447**	**45,156**
Asset quality (Bank)				
Gross NPLs	13,400	15,158	14,703	13,527
Net NPLs	8,456	9,701	9,116	8,116
Coverage ratio	37%	36%	38%	40%
Group				
Shares outstanding (mn)	3,782	3,801	3,801	3,801
Diluted EPS (EUR)	1.52	0.97	1.15	0.93
Dividend per share (EUR)	0.00	0.00	0.00	0.20
Book value per share	12.3	13.4	14.6	11.9
Tangible book value per share	11.4	12.5	13.7	11.4
P/B	0.6	0.5	0.5	0.6
P/TB	0.6	0.6	0.5	0.6
P/E	4.5	7.1	6.0	7.4
Return on equity	12.4%	7.2%	7.9%	7.8%
Return on tangible equity	13.4%	7.7%	8.4%	8.2%
ROTE (assuming 10% CT1 in 2013)	14.5%	8.3%	9.0%	9.2%
Proforma group key numbers assuming insurance IPOs and Dutch govt. repayment by 2013				
Impact on bank's equity	4,945	4,945	4,945	4,945
Book value per share	10.4	11.5	12.3	13.2
Tangible book value per share	9.9	11.0	11.8	12.7
Core Tier 1	11.6%	14.0%	13.4%	13.9%
Core Tier 1 B3 excluding Duch securities (from 2013)	11.6%	14.0%	10.4%	11.0%
P/B	0.7	0.6	0.6	0.5
P/TB	0.7	0.6	0.6	0.5
Return on equity	11.2%	6.8%	7.5%	6.4%
Return on tangible equity	27.7%	114.6%	136.0%	110.5%
P/E (assuming 10% CT1 in 2013)			7.4	6.3
P/TB (assuming 10% CT1 in 2013)			0.6	0.6
Divisional Profits - Bank				
Retail - Netherlands	707	608	695	986
Retail - Belgium	336	453	382	470
Retail - Germany	258	302	331	382
Retail - Rest of the World	486	1,130	351	285
Retail - Asia				
Commercial Banking	2,309	1,133	1,158	1,320
Others	452	-249	96	96

Source: Company data, Nomura estimates

Fig. 74: KBC model

EUR m

KBC Group (EURm)	2009A	2010A	Underlying 2011A	2012E	2013E	2014E	2015E	2016E
Net Interest Income	5,496	5,605	5,404	4,535	4,368	4,520	4,668	4,833
Net Commission Income	1,570	1,667	1,535	1,303	1,385	1,397	1,402	1,317
Net Premium income	441	338	566	435	311	311	311	311
Net Trading Income	1,228	953	700	962	673	705	668	670
Net Other income	376	184	-25	143	138	188	163	163
Total Revenues	**9,111**	**8,747**	**8,180**	**7,377**	**6,874**	**7,122**	**7,211**	**7,293**
Total Costs	-4,887	-4,830	-4,686	-4,149	-4,083	-4,233	-4,253	-4,364
PPP	**4,224**	**3,917**	**3,494**	**3,228**	**2,791**	**2,888**	**2,958**	**2,930**
Loan Loss Provisions	-1,912	-1,523	-1,911	-1,124	-1,066	-907	-692	-703
Operating Profits	**2,312**	**2,394**	**1,583**	**2,104**	**1,725**	**1,982**	**2,266**	**2,227**
Associates	-22	-61	-57	-33	0	0	0	0
PBT	**2,290**	**2,333**	**1,526**	**2,071**	**1,725**	**1,982**	**2,266**	**2,227**
Taxes	-506	-588	-396	-516	-396	-512	-566	-584
Minorities	-58	-26	-32	-30	-24	-21	-20	-20
PAT	**1,726**	**1,719**	**1,098**	**1,525**	**1,306**	**1,448**	**1,680**	**1,623**
Discontinued Operations	0	0	0	0	0	0	0	0
PAT pre- coupon	**1,726**	**1,719**	**1,098**	**1,525**	**1,306**	**1,448**	**1,680**	**1,623**
Coupon	0	-595	-595	-553	-298	-198	-198	-198
PAT post-coupon	**1,726**	**1,124**	**503**	**973**	**1,008**	**1,250**	**1,482**	**1,425**
BALANCE SHEET								
Customer loans	153,230	150,665	138,284	132,870	132,827	134,758	138,303	141,324
Securities	98,252	89,395	65,036	64,455	64,498	64,498	64,498	64,498
Customer deposits	193,464	197,870	165,226	163,125	163,072	165,443	169,796	173,504
Stated shareholders' equity	16,662	18,147	16,257	13,875	13,128	14,378	15,860	17,234
Tangible equity (common, Ex-MI & govt.)	6,346	8,891	7,858	9,011	9,434	10,684	12,166	13,540
Total assets	**324,233**	**320,823**	**285,382**	**268,660**	**268,616**	**270,561**	**274,098**	**277,075**
Shares outstanding (mn)	358	358	358	358	358	358	358	358
Diluted EPS (pre-coupon)	5.08	4.80	3.07	4.26	3.65	4.05	4.69	4.54
Diluted EPS (post-coupon)	5.08	3.14	1.41	2.72	2.82	3.50	4.14	3.98
DPS	0.00	0.75	0.00	0.00	0.00	0.00	0.15	0.30
Payout ratio			0%	0%	0%	0%	4%	8%
ROTE	26.2%	14.8%	6.0%	11.5%	10.9%	12.4%	13.0%	11.1%
CT1 (Basel 3 from 2013, incl EUR 4.67bn repayment)	9.2%	10.9%	10.6%	11.7%	10.3%	11.4%	13.5%	14.5%
CT1 (Basel 3 from 2013, excl. the remaining state funds)	2.8%	3.9%	3.7%	6.6%	7.0%	8.1%	10.3%	11.3%
BVPS	27.0	31.2	27.3	29.0	30.2	33.7	37.8	41.7
TBVPS	17.7	24.9	22.0	25.2	26.4	29.9	34.0	37.8
P/TB	1.03	0.74	0.83	0.73	0.69	0.61	0.54	0.48
P/E (post - coupon)		nm	13.0	6.7	6.5	5.2	4.4	4.6
P/E (pre - coupon)		3.8	6.0	4.3	5.0	4.5	3.9	4.0
P/E (Assuming 10% CT1 in 2013)*		5.7	8.9	6.4	7.5	5.9	1.6	1.0
ROTE (Assuming 10% CT1 in 2013)*	17.6%	15.9%	9.5%	13.1%	10.5%	10.9%	19.4%	18.0%
*pre-coupon								
Divsional Profits								
Belgium	1,050	1,052	800	1,033	1,056	1,082	1,074	1,103
CEE	165	569	328	622	454	497	622	652
Merchant Banking	298	133	-110	-104	-172	-89	22	22
Group Center	213	-39	81	-99	-32	-42	-38	-153
KPIs								
Cost Income Ratio	-53.6%	-55.2%	-57.3%	-56.2%	-59.4%	-59.4%	-59.0%	-59.8%
PPP/Closing loans	2.8%	2.6%	2.5%	2.4%	2.1%	2.1%	2.1%	2.1%
LLP/Closing loans	-1.2%	-1.0%	-1.38%	-0.85%	-0.80%	-0.7%	-0.5%	-0.5%
Loan to Deposit Ratio	79%	76%	84%	81%	81%	81%	81%	81%
RWA	143,359	132,035	126,332	102,978	105,760	106,388	108,658	110,422

Source: Company data, Nomura estimates

Nordic Banks: Overweight in Europe

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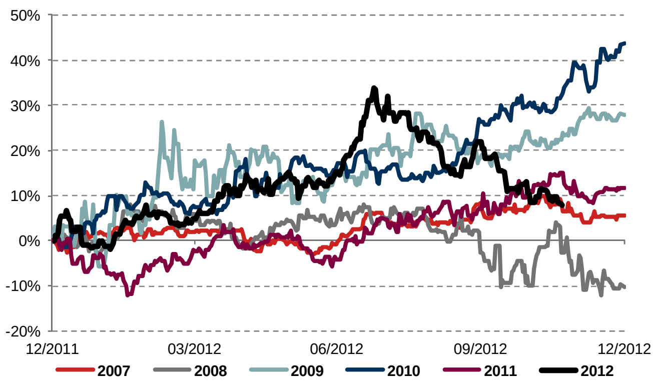
Our two top picks are Swedbank and DNB. Swedbank is our preferred pick structurally given position on capital and best outlook for return to shareholders. We would also prefer DNB given the stronger outlook for Norway than Sweden, and potential for relative re-rating sooner. We also rate SEB as a Buy. We believe the capital development over 2012 has improved the outlook for payout to shareholders.

Returns support premium valuations

We continue to be strategically overweight the Nordic banks. Nordic banks continue to have strength on earnings, capital, funding and are more defensive on asset quality relative to Europe. We believe these features will continue to support sustained performance. Additionally, the Nordic banks have proven and demonstrated ability to act rationally and have priced lending for higher capital and liquidity costs (in our view this acts as an insurance policy against tighter regulation, swapping excess capital for higher earnings in these instances). The risk to our bullish view is from periods of risk reversal. Nordics banks look to have outperformed the sector for the past four years. Over 2012 the peak outperformance versus the sector of Nordic banks was 34%. Increased risk appetite has seen some reversal of that outperformance, but multi-year outlook and north-south themes in Europe would make us continue to overweight the region.

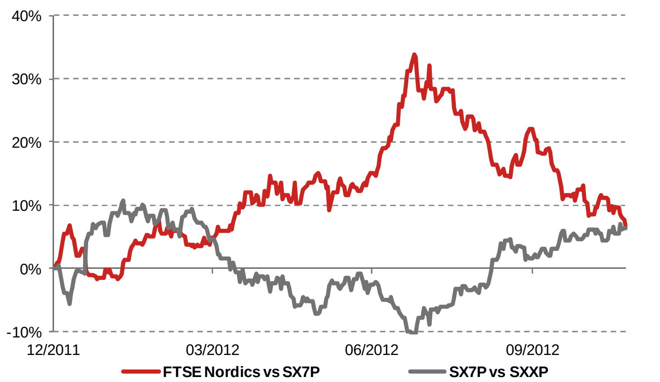
Fig. 75: Nordic banks performance vs SX7P



Source: Bloomberg, Nomura research

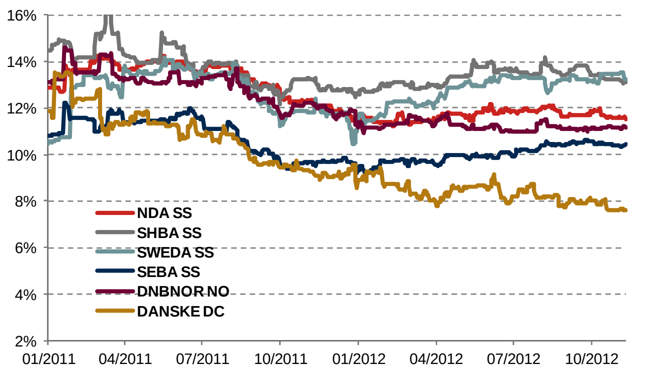
Fig. 76: Nordics have outperformed 7% YTD

Banks have outperformed the market 6% YTD



Source: Bloomberg, Nomura research

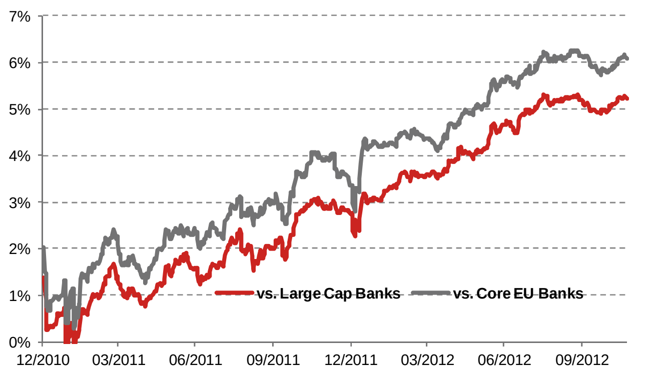
Fig. 77: Consensus ROE 2013E



Source: Bloomberg, Nomura research

Fig. 78: Nordics vs European ROEs 2013E

Nordic ROEs 5-6% higher



Source: Bloomberg, Nomura research

Nordic banks consensus ROEs look to be c. 5% ahead of European banks for 2013. Nordic banks trade on P/TBV on 1.18x versus the European sector on 0.96x and EU17 banks on 0.75x (a 0.43x premium). So we view the returns as amply justifying no-growth multiples. We would add and argue that, the current slowdown in Sweden aside, the better long-term growth prospects in the Nordic region are a reason to own the stocks, and so justify a further premium.

Fig. 79: Valuation

(reporting fx)	Rating	Price 22-Nov	Target Price	Upside	YTD Rel %	EPS 13E	vs. Cons	Div Yld 12E	Div Yld 13E	PE 13E	TBVPS 12E	P/TBV 12E	ROTE 13E	MCap EUR Bn
Nordea (EUR)	REDUCE	59.85	64	7%	-6%	6.72	-2%	4.3%	4.5%	8.9	52.6	1.14	12.3%	28.2
SHB (SEK)	NEUTRAL	228.00	230	1%	7%	20.54	-7%	4.4%	4.5%	11.1	152.0	1.50	13.1%	16.5
Swedbank (SEK)	BUY	119.40	146	22%	15%	13.16	3%	5.0%	5.5%	9.1	83.2	1.44	15.0%	15.2
SEB (SEK)	BUY	52.45	62	18%	12%	5.86	7%	4.8%	5.6%	8.9	45.4	1.16	12.3%	13.2
DNB (NOK)	BUY	71.35	79	11%	3%	8.76	1%	2.8%	4.3%	8.1	74.1	0.96	11.3%	15.9
Danske (DKK)	REDUCE	94.15	87	(8%)	11%	9.13	-14%	0.0%	2.7%	10.3	115.7	0.81	7.7%	12.7
Nordic average				**8%**						**9.3**		**1.18**	**12.1%**	**101.7**
Swedish banks										**9.4**		**1.28**		
Pan-Europe Banks										**9.6**		**0.96**		
EU17 Banks										**10.7**		**0.75**		

Note: Shares prices as of market close on 22 November Source: DataStream, SME consensus, Nomura estimates

Is book value growth and distribution enough to offset the inability to re-rate?

We believe investors should continue to favour the Nordic banks as strategic investments. While the re-rating potential could look more limited in a European context, the superior earnings and returns outlook should support sustained performance. If we look at the table below, most shareholder returns look to come from dividends and book value growth rather than a re-rating. We would favour such a profile with a long-term view. The table below shows the best re-rating potential at Swedbank, SEB and DNB among the Nordics. Swedbank would remain our preferred pick with the highest implied total upside potential.

Fig. 80: Total upside potential – split by tangible book value growth, dividends and re-rating

(reporting fx)	Rating	TBVPS 2012E	2015E	DPS 2012E	2013E	2014E	Total Growth	Current 2013 PE	Nomura Valuation	Upside Current	Total Upside	Per Annum
Nordea	**REDUCE**	6.1	7.7	0.30	0.31	0.34	**41%**	8.9	9.5	**7%**	48%	**14%**
SHB	**NEUTRAL**	152.0	183.7	10.00	10.30	10.80	**41%**	11.1	11.2	**1%**	42%	**12%**
Swedbank	**BUY**	83.2	102.0	5.92	6.58	7.28	**46%**	9.1	11.1	**22%**	69%	**19%**
SEB	**BUY**	45.4	56.2	2.50	2.93	3.12	**43%**	8.9	10.6	**18%**	61%	**17%**
DNB	**BUY**	74.1	93.2	2.00	3.07	3.21	**37%**	8.1	9.0	**11%**	48%	**14%**
Danske	**REDUCE**	115.7	137.1	-	2.50	4.82	**25%**	10.3	9.5	**-8%**	17%	**5%**

Source: Company data, Nomura estimates

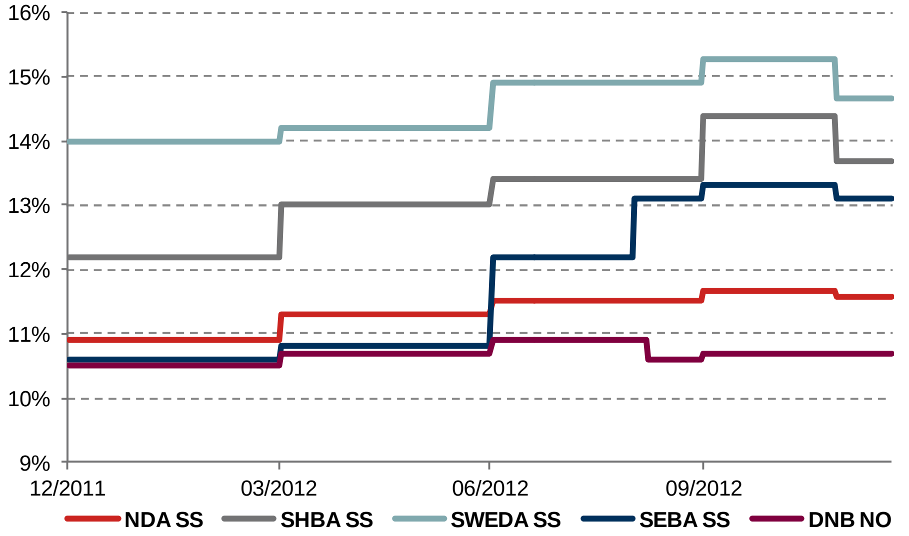
How will capital find its way to shareholders?

Nordic banks have beaten shareholders' expectations on capital this year, in our view. Incrementally, capital outperformance is positive for shareholder value, even if there is a lower probability of capital return. However, regulators could toughen regulation to erode excess capital, which is a real risk (though we argue this is mitigated by banks' demonstrated ability to re-price for regulation).

We have shown below how the fully loaded core Tier 1 ratios with 15% mortgage risk weights have developed over the course of 2012 to Q3. On Monday 26 November, the Swedish FSA disclosed it intends to introduce a risk weight floor of 15% for mortgage risk weights. We believe the base case for market expectations were for risk weights to go to 15%, but it is fair to say the tail risk was present of 20%, so the outcome is most positive for Swedbank, and supportive of capital return. Even if risk weights had gone to 20% then Swedbank's fully loaded ratio would have still been in the region of 14.7%.

Fig. 81: Fully loaded core Tier 1 development

(Illustrative for 15% Swedish mortgage risk weights)

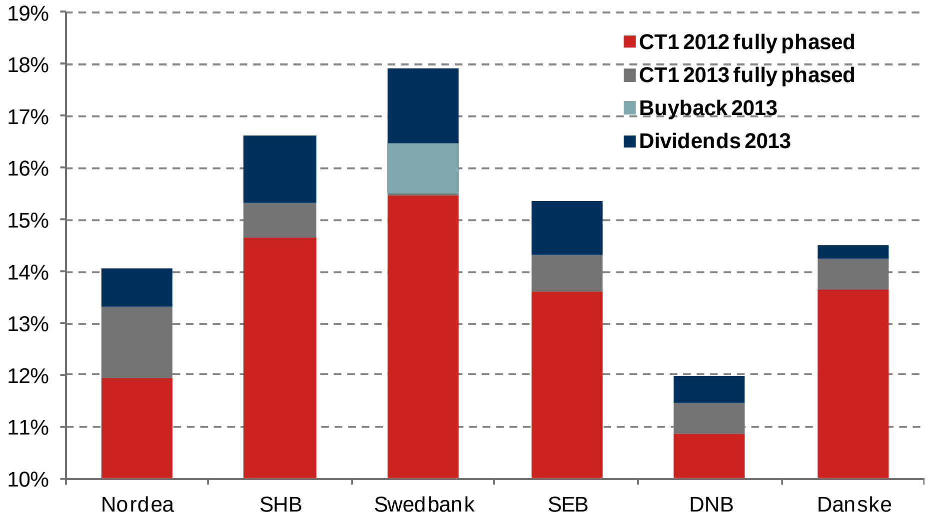


Source: Company data, Nomura estimates

The Swedish finish is for core Tier 1 of 10% from 1 January 2013 (though implementation is delayed) and 12% from 1 Jan 2015. Including the possibilities of counter-cyclical buffers, our working assumptions is that the more retail exposed banks (Swedbank and SHB) will run with 14%. Against this level, Swedbank, even with 20% mortgage risk weights, looks to have excess capital today and to continue accumulating capital (if we consider that based on our 2013 ROTE estimate of 15%, a payout level of 50% on itself would lead to continued capital accumulation at current growth rates). We illustrate in the graph below a fully loaded core Tier 1 ratio at end 2012 rolled forward to 2013, and where core Tier 1 ratios would be without dividends and assumed buy-backs. We think Swedbank is most likely to either buy back stock, pay a special dividend, or increase payout above 50% in 2013 out of the Nordic banks (though key risks are political and there could be media reaction to such plans).

Fig. 82: Roll forward of 2012 fully loaded core Tier 1 ratios to 2013

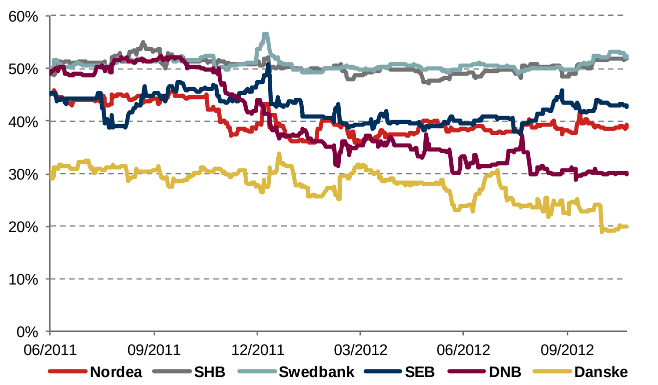
(with 15% mortgage risk weights)



Source: Nomura estimates

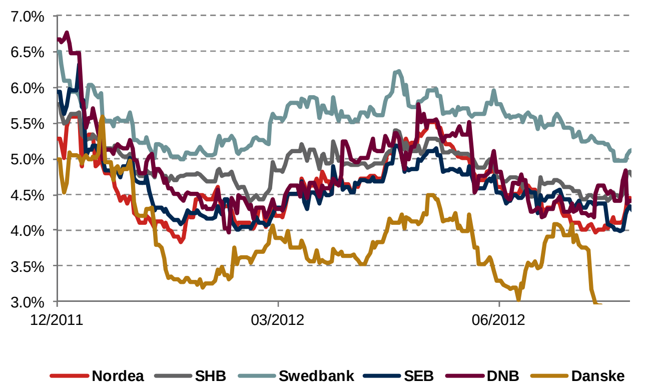
Capital outperformance was a big change for SEB following the Q2 results, and this has improved the outlook for payout potential. We upgraded the stock to Buy with our *Anchor report: Quantifying funding pressures* (3 September 2011). Current SEB policy is for dividend payouts of 40% over a cycle. Our view is that the capital outperformance allows payouts to increase above the 2011 level of 34% and consensus of 40%. We show below a time series for consensus payout ratios and dividend yields for the Nordic banks. Swedbank has the most attractive dividend yield among the Nordic banks.

Fig. 83: Consensus payouts, 2013E



Source: Bloomberg, Nomura research

Fig. 84: Consensus dividend yields, 2013E



Source: Bloomberg, Nomura research

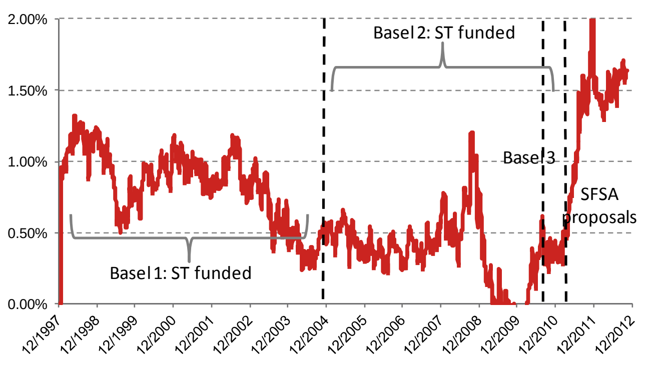
Capital negative/earnings positive? Excess capital for ROEs

A key reason for continuing to be overweight the Nordics is their proven ability to reprice assets for higher capital and liquidity costs. In our view, this acts as an insurance policy against tighter regulation for shareholders. We saw this already as mortgage margins increased when the market moved to expect 10%, then 12% core Tier 1, and then risk weights going to 15%. Although the developments were negative for capital and market perceptions of excess, in good time the banks responded to tighter regulation and repriced. We think this is eventually more valuable to shareholders in the long term because formerly excess capital earns the necessary returns and attracts the appropriate multiple.

It helps that the banks are focused on ROEs rather than growth. The behaviour gives us comfort that banks will continue to act rationally. We believe that we are seeing similar behaviour in Norway, where this is arguably more difficult to sustain given a more fragmented market. However, savings banks look to be focusing on ROE as well and taking higher margins as short-term rates have fallen.

Fig. 85: Long-run mortgage margin

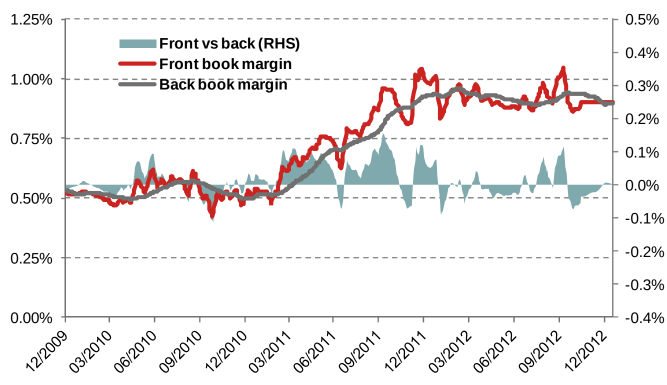
Fixed rate vs 3Y covered bond rate



Source: Nomura estimates

Fig. 86: Variable mortgage margin

Variable rate versus Stibor inclusive of covered bond spreads



Source: Nomura estimates

Nordic models

Fig. 87: Swedbank model

Swedbank Group (SEKm)	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Net Interest Income	19,157	21,702	20,765	16,228	19,014	20,960	21,591	23,026	24,156
Net Commission Income	9,880	8,830	8,453	10,116	9,597	9,541	9,827	10,207	10,598
Net financial income	1,581	2,250	2,731	2,400	1,584	2,154	1,743	1,761	1,805
Total Revenues	**32,924**	**36,463**	**34,782**	**31,534**	**34,045**	**35,906**	**36,351**	**38,223**	**39,828**
Total Costs	16,719	18,058	17,848	18,132	18,399	17,293	17,145	17,484	18,000
Pre-provision profits	**16,205**	**18,405**	**16,934**	**13,402**	**15,646**	**18,613**	**19,206**	**20,739**	**21,827**
Loan and other impairments	-619	-4,586	-26,395	-3,447	1,690	-1,270	-1,544	-1,832	-3,103
Goodwill write-down 2011					-1,913	0	0	0	0
Operating Profits	**15,586**	**13,819**	**-9,461**	**9,955**	**15,423**	**17,343**	**17,662**	**18,907**	**18,724**
Taxes	-3,450	-2,880	-981	-2,472	-3,669	-4,311	-3,718	-3,989	-3,983
Net Attributable Profit	**11,996**	**10,887**	**-10,511**	**7,444**	**11,740**	**13,004**	**13,926**	**14,901**	**14,723**
Balance sheet									
Customer loans	1,135,287	1,287,424	1,290,667	1,187,226	1,211,454	1,257,074	1,287,442	1,344,134	1,403,552
Customer deposits	400,035	458,375	508,456	504,424	534,237	561,696	634,611	713,295	764,385
Shareholders equity	68,008	86,230	89,670	94,897	97,993	104,562	107,186	110,924	113,996
Total assets	1,492,492	1,677,996	1,624,072	1,584,105	1,857,065	1,973,864	2,021,549	2,110,566	2,203,864
Shares outstanding (m)	515	773	1,160	1,158	1,098	1,098	1,058	1,023	988
Buybacks SEKm	na	na	na	na	6,180	0	4,800	4,200	4,200
EPS (adj for buybacks)	**10.35**	**9.40**	**-9.06**	**6.43**	**10.69**	**11.84**	**13.16**	**14.57**	**14.90**
EPS (without buybacks)	10.35	9.40	-9.06	6.43	10.69	11.84	12.68	13.57	13.41
DPS	9.00	4.50	0.00	2.10	5.30	5.92	6.58	7.28	7.45
ROTE	25.9%	19.0%	(15.1%)	9.8%	14.4%	14.8%	15.0%	15.6%	14.8%
ROE	19.8%	15.2%	(12.9%)	8.2%	12.2%	12.8%	13.2%	13.7%	13.1%
CT1 Basel 2.5	8.5%	10.7%	12.0%	13.9%	15.7%	17.5%	17.5%	17.4%	17.3%
CT1 - fully loaded						15.5%	15.5%	15.4%	15.3%
BPS	132.0	111.5	77.3	81.9	89.3	95.2	101.3	108.4	115.4
TBPS	92.9	86.2	62.2	68.3	76.7	83.2	88.8	95.5	102.0
P/E (Ref Price =117.5)						9.9	8.9	8.1	7.9
P/TBV (Ref Price =117.5)						1.41	1.32	1.23	1.15
Divsional Profits	**Old Segments**								
Retail (Swedish Ops)	8,607	9,132	5,712	5,306	6,973	7,839	8,088	8,870	8,720
LC&I	4,777	3,139	2,946	2,283	2,376	2,494	2,351	2,490	2,533
Baltics (Intn'l Banking)	493	-969	-9,758	5	2,103	3,024	2,163	2,115	1,898
Asset Management	1,295	633	-50	586	525	602	736	818	877
Group functions and other	-482	396	-936	-736	-237	-942	589	608	695
* Old Segments in brackets									
KPIs									
Cost Income Ratio	50.8%	49.5%	51.3%	57.5%	54.0%	48.2%	47.2%	45.7%	45.2%
PPP/Avg. Loans	1.43%	1.43%	1.31%	1.13%	1.29%	1.48%	1.49%	1.54%	1.56%
LLP/Avg. Loans	(0.06%)	(0.38%)	(2.05%)	(0.28%)	(0.02%)	(0.10%)	(0.12%)	(0.14%)	(0.23%)
Loan to Deposit Ratio	284%	281%	254%	235%	227%	224%	203%	188%	184%
RWA	600,238	696,505	603,431	541,327	492,337	478,882	490,451	512,047	534,683

Source: Company data, Nomura estimates

Fig. 88: DNB model

DNB Group (NOKm)	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Net Interest Income	17,866	21,910	22,633	23,436	25,253	27,134	28,796	30,289	31,892
Net fee income	7,083	6,894	6,242	7,041	6,879	6,898	7,166	7,525	7,901
Net financial items	3,185	3,339	6,286	4,961	7,661	3,521	4,146	4,271	3,899
Net Other Operating Income	13,732	12,438	14,995	16,156	16,753	14,028	14,892	15,216	14,877
Total Revenues	**31,599**	**34,348**	**37,628**	**39,593**	**42,006**	**41,162**	**43,688**	**45,505**	**46,770**
Total Costs	-16,449	-18,723	-18,910	-18,511	-20,171	-20,702	-21,105	-21,820	-22,500
Pre Provision Profits	**15,150**	**15,625**	**18,718**	**21,082**	**21,835**	**20,460**	**22,583**	**23,685**	**24,269**
Loan Loss Provisions	-221	-3,508	-7,711	-2,998	-3,443	-3,018	-3,302	-3,528	-3,461
Operating Profits	**17,411**	**12,168**	**11,032**	**18,108**	**18,412**	**17,508**	**19,281**	**20,157**	**20,808**
Taxes	-2,387	-3,252	-4,086	-4,121	-5,423	-4,531	-5,013	-5,241	-5,410
Net Attributable Profit	**14,780**	**9,209**	**8,586**	**14,814**	**12,973**	**12,977**	**14,268**	**14,916**	**15,398**
Balance sheet									
Customer loans	970,504	1,191,635	1,114,886	1,170,341	1,279,259	1,322,868	1,370,286	1,419,915	1,474,500
Customer deposits	538,151	597,242	590,745	641,914	740,036	776,364	811,956	849,483	890,634
Shareholders equity (ex MI)	73,314	77,064	98,648	111,196	117,815	127,688	138,699	148,621	158,798
Total assets	**1,473,919**	**1,831,699**	**1,823,453**	**1,861,620**	**2,126,098**	**2,397,799**	**2,483,749**	**2,573,705**	**2,672,645**
Shares outstanding (m)	1,332.7	1,332.7	1,629	1,629	1,629	1,629	1,629	1,629	1,629
EPS	**11.1**	**6.9**	**5.27**	**9.10**	**7.96**	**7.97**	**8.76**	**9.16**	**9.45**
DPS	4.5	0.0	1.75	4.00	2.00	2.00	3.07	3.21	4.73
ROE	20.8%	11.7%	9.4%	13.9%	11.3%	10.6%	10.7%	10.4%	10.0%
ROTE	24.0%	13.7%	10.8%	15.2%	12.1%	11.2%	11.3%	10.9%	10.5%
Core Tier 1 (Basel 2.5)	6.3%	5.9%	10.7%	11.3%	10.8%	11.6%	12.2%	12.7%	13.0%
Core Tier 1 (Fully loaded)	na	na	na	na	na	10.9%	11.5%	12.0%	12.3%
Core Tier 1 ratio - Transition rules	6.3%	5.9%	8.5%	9.2%	9.4%	9.7%	10.2%	10.6%	10.9%
BPS	57.0	61.0	62.3	68.3	72.3	78.4	85.2	91.2	97.5
TBPS	49.2	51.5	55.9	63.9	68.0	74.1	80.8	86.9	93.2
P/E (Ref Price =72.4)						9.1	8.3	7.9	7.7
P/TB (Ref Price =72.4)						0.98	0.90	0.83	0.78
Divisional PBT	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**2015E**
Large Corp	8,129	9,354	5,743	6,275	6,735	7,375	7,326	7,855	8,105
Retail	4,181	3,242	6,898	6,760	7,216	9,058	10,095	10,331	11,233
DNB Markets	1,749	3,934	5,331	3,656	4,160	5,124	3,536	3,636	3,764
Life & AM	2,357	748	1,339	1,893	759	1,436	1,225	1,201	1,107
DNB Baltics&Poland	470	-666	-4,287	-1,475	-1,447	271	450	471	513
Group centre	525	-5,050	-3,992	996	989	-5,756	-3,351	-3,338	-3,913
Group	**17,411**	**11,562**	**11,032**	**18,105**	**18,412**	**17,508**	**19,281**	**20,157**	**20,808**
KPIs									
Cost Income Ratio	-52.1%	-54.5%	-50.3%	-46.8%	-48.0%	-50.3%	-48.3%	-48.0%	-48.1%
PPP/Total Loans	**1.56%**	**1.31%**	**1.68%**	**1.80%**	**1.71%**	**1.55%**	**1.65%**	**1.67%**	**1.65%**
LLP/Avg. Loans	**-0.02%**	**-0.32%**	**-0.67%**	**-0.26%**	**-0.28%**	**-0.23%**	**-0.25%**	**-0.25%**	**-0.24%**
Loan to Deposit Ratio	180%	200%	189%	182%	173%	170%	169%	167%	166%
RWA (Norw ay Rules - full IRB Estimates)	759,476	919,678	839,385	840,398	964,731	913,956	946,717	981,005	1,018,718

Source: Company data, Nomura estimates

Italian banks: Cautious short term

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Investment case: Remaining cautious in the short term, but a number of myths are worth dissipating – prefer ISP over UCG

We remain cautious on Italian banks, given pressure on NII and credit quality, which in turn is putting pressure on ROTE, despite recent balance sheet improvements and cost-cutting achievements. **IntesaSP** and **Mediobanca** continue to be our favourite stocks, while BPM (Neutral, TP EUR 0.45) remains our favourite pick among small banks. The main risk to our call remains a reversal of the macro scenario, which would benefit the Italians given their P&L leverage to better economic conditions via improving lending growth/NPL write-backs, and positive sovereign evolution.

Investors' caution is generally caused by concerns on credit quality in a pan-European context, with higher NPL stocks and lower coverage levels being the main arguments used in favour of a systemic action needed to improve Italian banks' balance sheets (topics recently raised also by the IMF and the Bank of Italy). The regulator explicitly called for an increase in coverage, but also highlighted how different categorisations of doubtful loans make international comparisons difficult. We performed a comparison of different classification criteria at the European level and found that NPL classifications are indeed heterogeneous, therefore not comparable. When adjusted, Italian NPLs and coverage ratios would not look different from peers' (although we flag that the pace of growth remains a differentiator, also owing to lengthy recovery process in Italy).

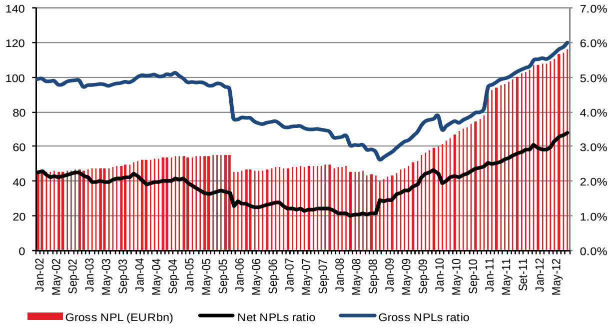
Additionally, Italian banks provide good granularity over the level of collateralisation of their portfolios, which would contribute to much better coverage levels if considered. The main risk would be a severe adjustment of real estate valuations in Italy, an option that we tend to exclude in the short term, given market data and our recent discussions with specialised NPL operators. We estimate that Italian banks would need EUR 32bn extra-provisioning (EUR 16bn for the banks under our coverage) to enable significant disposals of NPL portfolios, although we note that this does not represent our base-case expectation. In our view, a one-off action by the regulator to raise coverage would create significant risk, as it would undermine the credibility of the banks' balance sheet quality (therefore potentially triggering another wave of capital raising) and it would not facilitate access to funding (as sovereign issues would remain). Our base case is for banks to increase their coverage levels gradually, although these will stay below pre-crisis level for some years. Our LLP estimate for the sector remains high for 2013 and gradually to decrease for 2014 when recoveries/write-backs should help to reduce the P&L burden.

Decreasing coverage, increasing collateralisation

In our recent report, *Credit quality in Italy: Myth or reality,* dated 26 November 2012, we performed an analysis of the evolution of credit quality in Italy. We delve into the issue of coverage at Italian banks and compare doubtful loans classifications at a European level. At the system level, Italian banks' NPL coverage went down from 45.4% at the end of 2008 to 43.2% in August 2012, with declining trends across all banks under our coverage, and particularly for the small banks. Looking at the doubtful loans coverage ratio, we find similar trends, with large banks showing better ratios (although the component related to their Italian divisions deteriorated at a faster pace than those at their international units). Among the banks with the largest coverage decrease are BAPO and UBI, while it remained rather stable at BMPS. Besides a strong growth of doubtful loans, there are a number of possible explanations: 1) large banks and BMPS have increased their analytical provisions more than smaller banks during the past five years; 2) smaller banks (BMPS, BAPO and BPM) exclude from their coverage calculation NPLs that have been entirely written-off; and 3) more importantly, for the small banks the level of collateralisation of the loan book has progressively increased during the past five years, making coverage ratios only optically low.

Fig. 89: Gross NPL evolution in Italy

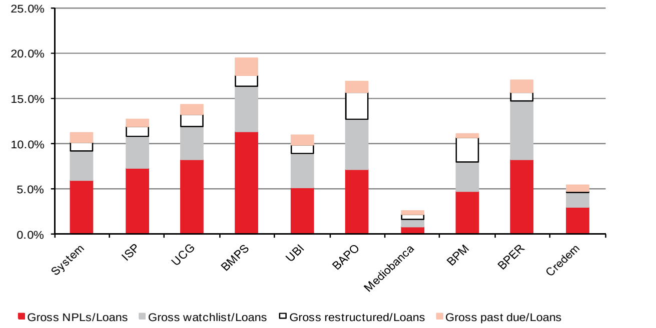
EUR bn/%



Source: Bank of Italy, Nomura research

Fig. 90: Total doubtful loans at system level

%

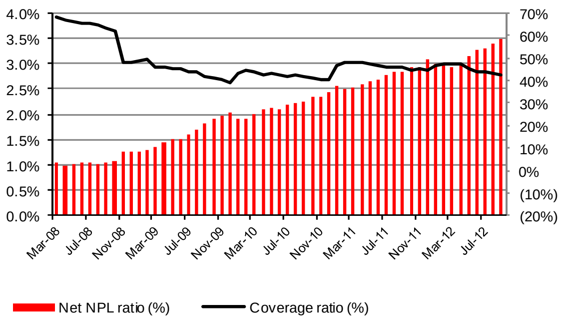


Source: Data for System and Mediobanca are from 2Q 12 (latest available). Source: Bank of Italy, Company data, Nomura research

Italian banks argue that coverage ratios only appear low, as they should also take into account the levels of collateralisation of the loan book, which has progressively increased over the past four years. The main risk to the banks' argument lies in the stability of collateral valuations, and primarily of Italian real estate; however, a major correction is not a likely scenario in the short term, as we discuss below. Delving into the issue of Italian banks' coverage ratios we note that: 1) the weight of secured loans has increased from 58% to 65% of total loans on average over the past five years (UBI being the most virtuous); 2) accounting also for collateral, doubtful loans' coverage would increase from 35% to 73% (UBI and ISP are the best covered); and 3) properties' fair value as reported in balance sheets totally cover the un-provisioned portion of doubtful loans (in this regard, however, we note that different accounting standards prevent a homogeneous comparison among Italian banks).

Fig. 91: Coverage ratios

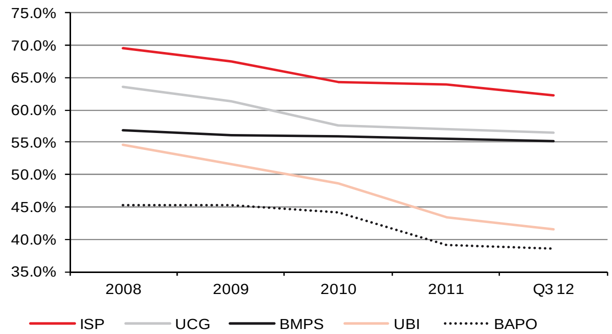
%



Source: Company data, Nomura estimates

Fig. 92: NPLs coverage

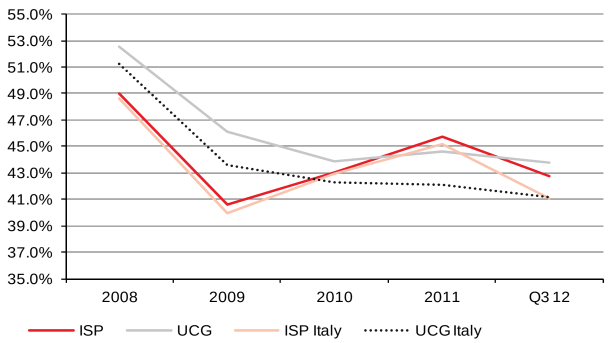
%



Source: Company data, Nomura estimates

Fig. 93: Doubtful loans coverage

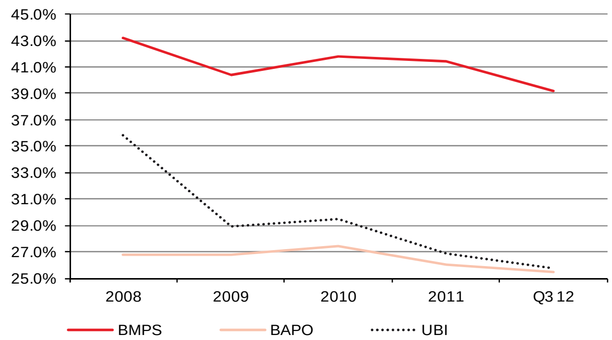
%



Source: Company data, Nomura estimates

Fig. 94: Doubtful loans coverage

%



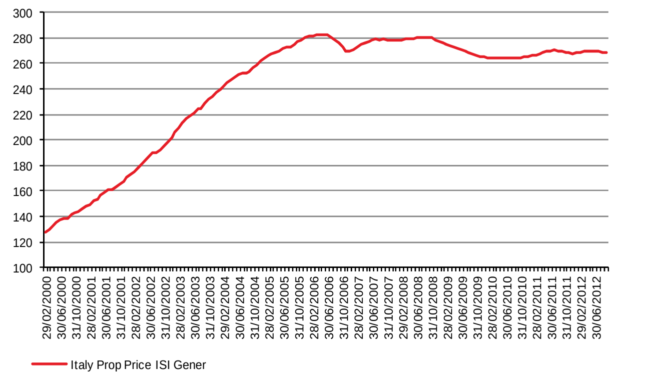
Source: Company data, Nomura estimates

Real estate: Negative outlook, but major correction unlikely

Overall, Italian real estate data seem to point toward a market in relatively distressed conditions, with a declining number of transactions, but with valuations holding up thanks to good affordability levels and prices still aligned to fundamentals, with a major price correction in the short term seen as relatively unlikely. Since the peak reached in 2008, the housing market in Italy has seen a sizeable decline (5-10%), but has proven resilient when compared with other European markets. As pointed out by the Bank of Italy in its latest Financial Stability Report (November 2012), affordability is not far from its long-term average, while prices appear to be broadly in line with fundamentals (including household disposable income, housing floor area per resident, monetary policy reference rate, inflation expectations, etc). According to official surveys from specialised operators, a further decline in prices is expected in the coming quarters, although a significant structural adjustment in the short term does not seem to be the consensus base-case scenario. Meanwhile, access to credit continues to be difficult, with a negative impact on the housing market, while housing supply has re-adjusted to account for diminished demand.

Fig. 95: House prices in Italy

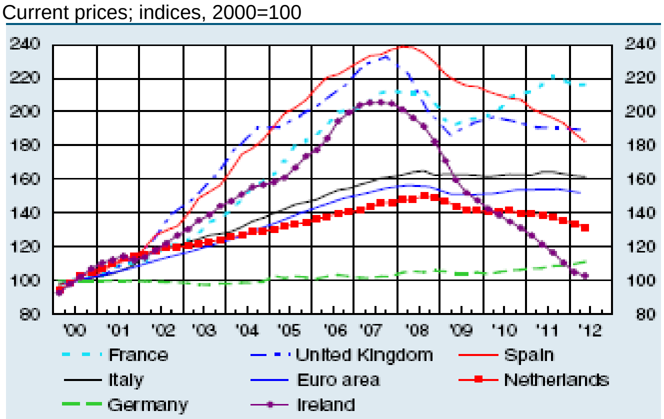
Index, 1996=100



Source: Bloomberg, Scenari Immobiliari, Nomura research

Fig. 96: House prices in Europe

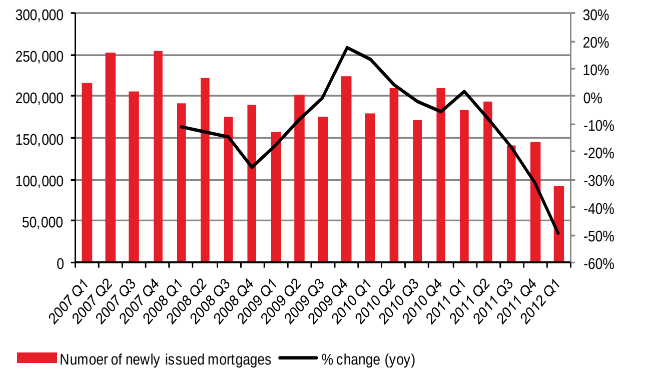
Current prices; indices, 2000=100



Source: Bank of Italy (Financial Stability Report, Nov 12)

Fig. 97: Number of newly issued mortgages

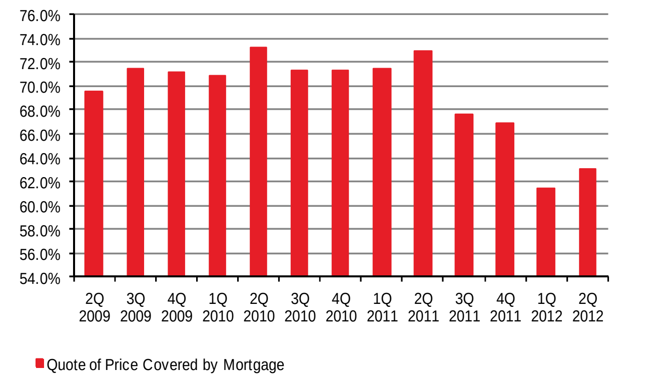
Number of new mortgages, % y-o-y change



Source: Istat, Nomura research

Fig. 98: Italian mortgages loan to value ratio

%



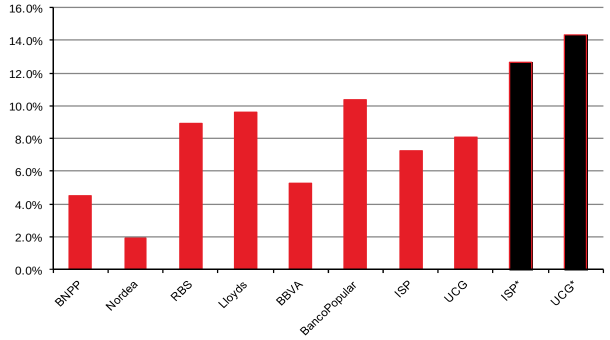
Source: Istat, Nomura research

A European comparison

In a European comparison, the level of doubtful loans in Italy appears higher in percentage terms than elsewhere. We compared doubtful loan classifications at the main European peers, and found that definitions vary between countries, making an international comparison difficult in our view (an issue recently raised also by the Bank of Italy governor). In particular, doubtful loans in Italy include also watch list/restructured loans that other countries seem not to include in their NPL classes (eg, watch list for UK, Spanish banks and Nordea; restructured for Spanish banks and Nordea). If we compare NPLs only ('sofferenze'), these are not far from levels reported in other regions, although we believe the comparison is still affected by criteria differences. The coverage ratio of Italians does not differ significantly from other countries when looking at NPLs only, while being lower when looking at total doubtful loans; however, we would not consider the latter a proxy for comparison with other European banks, considering Italians' broader definition of doubtful loans. Overall, European banks do not disclose details over the level of collateralisation of their loan books, which is useful data that Italians do disclose. Comparing Italian banks with BNPP (one of the few major European groups providing coverage net of collateral), the comparison would look favourable for the Italians. For further details on our comparison of loans classifications at lenders in France, the UK, Spain and Scandinavia, see to our recent note, *Credit quality in Italy: Myth or reality.*

Fig. 99: NPL ratio

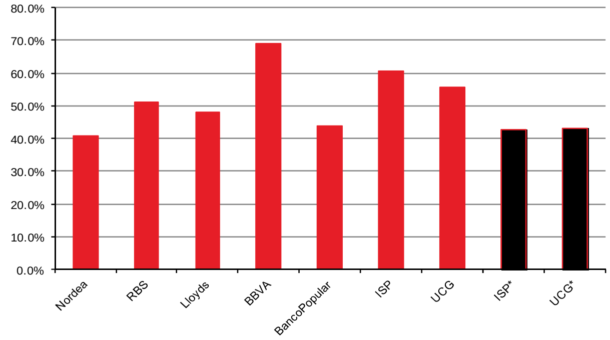
%



Source: Company data, Nomura estimates *Include all the categories

Fig. 100: NPL coverage

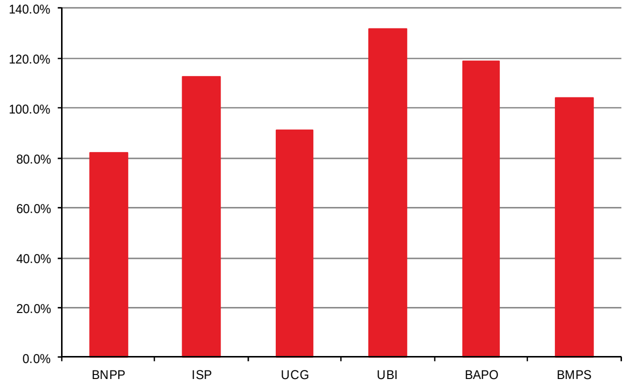
%



Source: Company data, Nomura estimates *Include all the categories

Fig. 101: Doubtful loan coverage including collateral

%



Source: Company data, Nomura estimates *Include all the categories

In a European comparison, the level of doubtful loans in Italy appears a higher percentage than elsewhere. However, we flag that definitions vary between countries, as doubtful loans in Italy include also watch list/ restructured positions that other countries do not classify in their NPL classes, or to a lesser extent (such as a watch list for the UK, Spain and Nordics; restructured for Spain and Nordics). If we compare NPLs only ('sofferenze'), these are not far from levels reported in other regions, although we believe the comparison is still affected by criteria. The NPL coverage ratio of Italians does not differ significantly from other countries. Overall, European banks do not disclose details over the level of collateralisation of their loan book. If we compare Italians with BNPP (one of the few major groups providing coverage net of collateral), the comparison looks favourable for Italians.

Need for action?

Recently, the Bank of Italy made clear that an increase in banking coverage levels is needed, while action on capital should continue in order to protect banks from worsening credit quality and more stringent regulation. Although still far from the early 1990s' peak, doubtful/ NPL ratios have significantly deteriorated recently, an issue, which together with falling coverage ratios, represents cause of concern, particularly when compared with international peers. However, Mr Visco also pointed out some peculiarities of the Italian system, which in our view still cause a certain degree of misperception among investors. These would include different NPL classification rules, stricter prudential supervision by the regulator, an extended NPL holding period and lengthy recovery procedures owing to a slow justice system (an issue confirmed by NPL specialised operators). In this respect, we have tried to understand why NPL disposals have become so rare in Italy, especially considering the fact that the real estate market has not suffered so much there. Comments from a number of specialised operators in NPL recovery in Italy reassure us that these operators rule out the possibility of severe corrections of the real estate market in the short term. We also understand that the lack of NPL deals in the system is related more to a number of factors rather that the intrinsic value of underlying collateral. This would create much divergence in terms of prices offered/requested by the acquirers/sellers. Banks would not include the cost of managing NPLs in their valuation models, while acquirers would tend to emphasise the time of recovery, which in Italy is admittedly slow because of the justice system.

We quantify the impact of a hypothetical intervention from the regulator via a sensitivity analysis on capital at increasing levels of coverage (50-70%). Mediobanca, Credem, BPM and IntesaSP appear to be the banks least affected, while other regional banks and UCG the most (considering their low level of coverage), although we have previously seen how BAPO and UBI have a higher portion of their loan book collateralised. Assuming a coverage level of 70%, we estimate an extra-provisioning requirement of EUR 16bn for the banks in our universe, and EUR 32bn at the system level. However, this does not represent our base case, as it would create significant systemic risk. In a more likely scenario we expect banks to increase their coverage levels gradually, although these will stay below pre-crisis level for some years (excluding one-off actions). Our LLP estimate for the sector remains high for 2013 and gradually decreases for 2014 when recoveries/write-backs should help to reduce the P&L burden. However, a key issue remains the stock of NPLs, with NPL ratios starting to improve only in 2014 in our view, possibly supported by a partial recovery of the NPL disposal market, the functioning of which is now distorted by an absence of liquidity in the market.

Fig. 102: System-level sensitivity to varying coverage ratio

%/EUR m

Optimal coverage	Coverage ratio in the system	Gross NPLs in the system (EURbn)	Additional provisions (EURbn)
50%	42.7%	117.3	8.6
60%	42.7%	117.3	20.3
70%	42.7%	117.3	32.1

Source: Bank of Italy, Nomura estimates

Fig. 103: UCG model

EUR m

P&L (EURm)	2008	2009	2010	2011A	2012E	2013E	2014E
Net Interest Income	18,373	17,304	15,721	15,433	14,639	14,920	15,378
Net fees	9,093	7,781	8,455	8,097	7,854	8,129	8,213
Trading Income	(1,969)	1,803	1,053	1,119	2,539	1,600	1,700
Other Income	1,379	684	845	551	522	591	659
Total Operating Revenues	**26,877**	**27,572**	**26,074**	**25,200**	**25,555**	**25,240**	**25,951**
Staff Costs	(9,918)	(9,098)	(9,205)	(9,209)	(8,955)	(8,831)	(8,964)
Other Costs	(6,774)	(6,227)	(6,119)	(6,252)	(6,079)	(5,945)	(6,012)
Total Operating expenses	**(16,692)**	**(15,324)**	**(15,324)**	**(15,461)**	**(15,034)**	**(14,777)**	**(14,976)**
Gross Operating Income	**10,185**	**12,248**	**10,750**	**9,739**	**10,521**	**10,463**	**10,975**
Loan Loss Charge	(3,700)	(8,313)	(6,892)	(6,025)	(7,029)	(5,964)	(5,163)
Generic provisions and adjustments to finan	(343)	(609)	(766)	(718)	(410)	(450)	(450)
Capital gain and other one off	(683)	(26)	(608)	(9,613)	400	-	-
Pre-tax Profit	**5,458**	**3,300**	**2,484**	**(6,617)**	**3,481**	**4,050**	**5,362**
Tax	(627)	(1,009)	(595)	(1,416)	(1,277)	(1,419)	(1,935)
Minorities	(518)	(332)	(321)	(365)	(365)	(420)	(475)
PPA	(301)	(257)	(247)	(808)	(440)	(440)	(440)
Net Attributable Profit	**4,012**	**1,702**	**1,321**	**(9,206)**	**1,399**	**1,770**	**2,512**
Adjusted Profit	**4,415**	**1,930**	**1,852**	**1,215**	**935**	**2,306**	**2,952**
P&L Measures							
Revenue Growth, y-o-y %	n/a	2.6%	-5.4%	-3.4%	1.4%	-1.2%	2.8%
Cost Growth, y-o-y %	n/a	-8.2%	0.0%	0.9%	-2.8%	-1.7%	1.3%
Operating Income Growth, y-o-y %	n/a	20.3%	-12.2%	-9.4%	8.0%	-0.5%	4.9%
Net Interest Margin / RWA (%)	n/a	3.6%	3.5%	3.4%	3.3%	3.4%	3.5%
Cost / Income (inc-depn)	62%	56%	59%	61%	59%	59%	58%
Tax Rate (%)	11%	31%	24%	-21%	37%	35%	36%
Balance Sheet (EURm)	**2008**	**2009**	**2010**	**2011A**	**2012E**	**2013E**	**2014E**
Customer loans	612,480	564,986	555,653	559,553	565,149	570,800	576,508
Securities	274,819	208,087	228,449	230,349	230,349	240,349	250,349
Goodwill	20,889	20,491	20,428	11,567	11,567	11,567	11,567
Total Assets	**1,045,612**	**928,760**	**929,488**	**926,769**	**972,710**	**989,327**	**1,006,005**
Customer deposits	388,831	381,623	402,248	398,379	406,347	414,474	414,474
Bonds	202,459	214,773	180,990	162,990	164,620	166,266	166,266
Other non-equity liabilities	**396,081**	**269,473**	**278,547**	**310,603**	**335,888**	**341,425**	**356,286**
Stated Shareholders Equity Capital	54,999	59,689	64,224	51,479	62,538	63,845	65,662
Minorities	3,242	3,202	3,479	3,318	3,318	3,318	3,318
Total liabilities	**1,045,612**	**928,760**	**929,488**	**926,769**	**972,710**	**989,327**	**1,006,005**
Risk Weighted Assets	**512,532**	**452,320**	**454,850**	**460,400**	**433,845**	**438,926**	**444,066**
Customer Loans, % y-o-y	n/a	-7.8%	-1.7%	0.7%	1.0%	1.0%	1.0%
Stated Shareholders Equity Capital, % y-o-y	n/a	8.5%	7.6%	-19.8%	21.5%	2.1%	2.8%
Risk Weighted Assets, % y-o-y change	n/a	-11.7%	0.6%	1.2%	-5.8%	1.2%	1.2%
Asset Quality							
Gross Doubtful Loans / Gross Customer loar	6.8%	10.2%	12.3%	13.0%	14.6%	15.8%	16.7%
Doubtful Loans Coverage	53%	46%	44%	45%	45%	47%	48%
LLC/Net Loans (bp)	60	147	124	108	122	104	90
Per share data (EUR)	**2008**	**2009**	**2010**	**2011A**	**2012E**	**2013E**	**2014E**
EPS (stated)	0.30	0.10	0.07	-4.77	0.24	0.31	0.43
EPS (adjusted)	0.33	0.11	0.10	0.63	0.16	0.40	0.51
DPS	0.00	0.03	0.03	0.00	0.08	0.12	0.17
BV/ Share (stated)	4.1	3.6	3.3	26.7	10.8	11.0	11.3
BV/ Share (adjusted)	2.1	2.0	2.0	18.55	8.1	8.3	8.6
No Shares at Yr End (m)	13,390	16,804	19,298	1,930	5,789	5,789	5,789
Stock market / Profitability ratios	**2008**	**2009**	**2010**	**2011A**	**2012E**	**2013E**	**2014E**
PE (stated)	11.6	34.4	50.8	-0.7	14.4	11.4	8.0
PE (adjusted)	10.6	30.3	36.3	5.5	21.6	8.7	6.8
Div Yield	0.0%	0.9%	0.9%	0.0%	2.3%	3.4%	4.9%
P/BV (stated)	0.8	1.0	1.0	0.1	0.3	0.3	0.3
P/BV (adj)	1.6	1.7	1.7	0.2	0.43	0.4	0.4
RORWA	n/a	0.4%	0.3%	-2.0%	0.3%	0.4%	0.6%
ROA	n/a	0.2%	0.1%	-1.0%	0.1%	0.2%	0.3%
ROE (stated)	n/a	3.2%	2.9%	2.4%	1.5%	3.6%	4.5%
ROE (adjusted)	n/a	5.7%	4.8%	3.4%	2.0%	4.8%	5.9%
Capital Ratios	**2008**	**2009**	**2010**	**2011A**	**2012E**	**2013E**	**2014E**
Tier 1 Ratio (%)	6.8%	8.6%	9.5%	9.3%	11.3%	11.4%	11.7%
Core Tier 1 Ratio (%)	6.0%	7.6%	8.6%	8.4%	10.7%	10.9%	11.1%
RWA/Assets (%)	49%	49%	49%	50%	45%	44%	44%

Source: Company data, Nomura estimates

Fig. 104: ISP model

EUR m

P&L (EURm)	2008	2009	2010	2011	2012E	2013E	2014E
Net Interest Income	11,518	10,486	9,768	9,780	9,576	9,878	10,250
Net fees	5,698	5,341	5,671	5,466	5,329	5,489	5,654
Trading Income	(53)	1,122	464	920	1,720	820	820
Other Income	678	531	722	619	814	809	869
Total Operating Revenues	**17,841**	**17,480**	**16,625**	**16,785**	**17,439**	**16,997**	**17,593**
Staff Costs	(5,713)	(5,587)	(5,571)	(5,419)	(5,338)	(5,418)	(5,526)
Other Costs	(4,138)	(3,872)	(3,783)	(3,718)	(3,602)	(3,480)	(3,550)
Total Operating expenses	**(9,851)**	**(9,459)**	**(9,354)**	**(9,137)**	**(8,940)**	**(8,898)**	**(9,076)**
Gross Operating Income	**7,990**	**8,021**	**7,271**	**7,648**	**8,499**	**8,098**	**8,516**
Loan Loss Charge	(2,566)	(3,706)	(3,108)	(4,243)	(4,434)	(3,578)	(2,691)
Generic provisions and adjustments to financ	(318)	(297)	(358)	(218)	(240)	(260)	(280)
Capital gain and other one off	(1,210)	265	800	(11,953)	(240)	-	-
Pre-tax Profit	**3,896**	**4,283**	**4,605**	**(8,766)**	**3,585**	**4,260**	**5,545**
Tax	(108)	(960)	(1,401)	910	(1,403)	(1,560)	(2,108)
Minorities	(147)	(133)	(101)	(13)	(63)	(93)	(123)
PPA	(1,088)	(385)	(398)	(321)	(300)	(300)	(300)
Net Attributable Profit	**2,553**	**2,805**	**2,705**	**(8,190)**	**1,819**	**2,307**	**3,015**
Adjusted Profit	**3,926**	**3,046**	**2,755**	**265**	**2,259**	**2,607**	**3,315**
P&L Measures							
Revenue Growth, y-o-y %	n/a	-2.0%	-4.9%	1.0%	3.9%	-2.5%	3.5%
Cost Growth, y-o-y %	n/a	-4.0%	-1.1%	-2.3%	-2.2%	-0.5%	2.0%
Operating Income Growth, y-o-y %	n/a	0.4%	-9.4%	5.2%	11.1%	-4.7%	5.2%
Net Interest Margin / RWA (%)	n/a	2.8%	2.8%	3.0%	3.0%	3.2%	3.3%
Cost / Income (inc-depn)	55%	54%	56%	54%	51%	52%	52%
Tax Rate (%)	3%	22%	30%	10%	39%	37%	38%
Balance Sheet (EURm)	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Customer loans	395,189	374,033	379,235	376,744	374,860	382,357	397,652
Securities	120,897	139,323	172,899	165,614	190,000	197,600	205,504
Goodwill	19,694	18,838	18,838	8,609	8,609	8,609	8,609
Total Assets	**636,113**	**624,844**	**658,757**	**639,221**	**663,291**	**679,440**	**704,255**
Customer deposits	217,498	210,814	220,047	197,165	201,108	205,130	209,233
Bonds	188,280	185,243	181,000	160,245	163,450	166,719	170,053
Other non-equity liabilities	**180,301**	**175,016**	**203,110**	**234,053**	**248,699**	**256,078**	**271,355**
Stated Shareholders' Equity Capital	48,954	52,681	53,533	47,040	49,316	50,795	52,896
Minorities	1,100	1,090	1,067	718	718	718	718
Total liabilities	**636,133**	**624,844**	**658,757**	**639,221**	**663,291**	**679,440**	**704,255**
Risk Weighted Assets	**383,072**	**361,648**	**332,158**	**325,206**	**306,237**	**310,153**	**319,254**
Customer Loans, % y-o-y	n/a	-5.4%	1.4%	-0.7%	-0.5%	2.0%	4.0%
Stated Shareholders' Equity Capital, % y-o-y	n/a	7.6%	1.6%	-12.1%	4.8%	3.0%	4.1%
Risk Weighted Assets, % y-o-y change	n/a	-5.6%	-8.2%	-2.1%	-5.8%	1.3%	2.9%
Asset Quality							
Gross Doubtful Loans / Gross Customer loan	5.7%	9.2%	9.8%	11.1%	13.6%	15.7%	17.3%
Doubtful Loans Coverage	49%	41%	43%	46%	43%	44%	45%
LLC/Net Loans (bp)	65	99	82	113	108	82	58
Per share data (EUR)	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EPS (stated)	0.20	0.22	0.21	-0.50	0.11	0.14	0.18
EPS (adjusted)	0.31	0.24	0.22	0.02	0.14	0.16	0.20
DPS	0.00	0.08	0.08	0.05	0.05	0.06	0.07
BV/ Share (stated)	3.8	4.1	4.2	2.9	3.0	3.1	3.2
BV/ Share (adjusted)	1.7	2.1	2.2	1.95	2.1	2.2	2.3
No Shares at Yr End (m)	12,782	12,782	12,782	16,434	16,434	16,434	16,434
Stock market / Profitability ratios	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
PE (stated)	6.3	5.7	5.9	-2.5	11.3	8.9	6.8
PE (adjusted)	4.1	5.2	5.8	77.5	9.1	7.9	6.2
Div Yield	0.0%	6.4%	6.4%	4.0%	4.0%	4.4%	5.5%
P/BV (stated)	0.3	0.3	0.3	0.4	0.4	0.4	0.4
P/BV (adj)	0.7	0.6	0.6	0.64	0.60	0.57	0.54
RORWA	n/a	0.8%	0.8%	-2.5%	0.6%	0.7%	1.0%
ROA	n/a	0.4%	0.4%	-1.3%	0.3%	0.3%	0.4%
ROE (stated)	n/a	5.3%	5.1%	-17.4%	3.7%	4.5%	5.7%
ROE (adjusted)	n/a	11.3%	9.9%	0.8%	6.6%	7.3%	8.8%
Capital Ratios	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Tier 1 Ratio (%)	7.1%	8.4%	9.4%	11.5%	12.0%	12.3%	12.5%
Core Tier 1 Ratio (%)	6.3%	7.1%	7.9%	10.1%	11.2%	11.2%	11.5%
RWA/Assets (%)	60%	58%	50%	51%	46%	46%	45%

Source: Company data, Nomura estimates

Spanish clouds still on the horizon

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BBVA and SAN performance likely to remain constrained by the yoke of economic and political risks in Spain

Despite the strong contribution to profits in 2013 from international operations, we believe relative performance and valuation of BBVA and Santander will continue to remain driven by economic and political events in Spain. Fundamental risks from Spain could imply additional provisions for Spanish real estate and ongoing deterioration in the rest of the loan book. Despite having greater relative balance sheet exposure in Spain, based on the recent stress results, we believe BBVA is better placed to absorb additional losses in Spain (in particular from real estate).

We estimate that exposure to growing emerging markets is greater for BBVA and maintain our preference for BBVA's greater relative exposure of c 34% of the balance sheet to: Mexico (17%), LatAm (14%) and Turkey (3%) will deliver stronger growth vs SAN's 26% exposure to: Brazil (23%), LatAm (12%) and Poland (2%). In particular, we remain more positive on the outlook for Mexico vs Brazil. We reiterate our Buy rating on BBVA and Reduce rating on Santander.

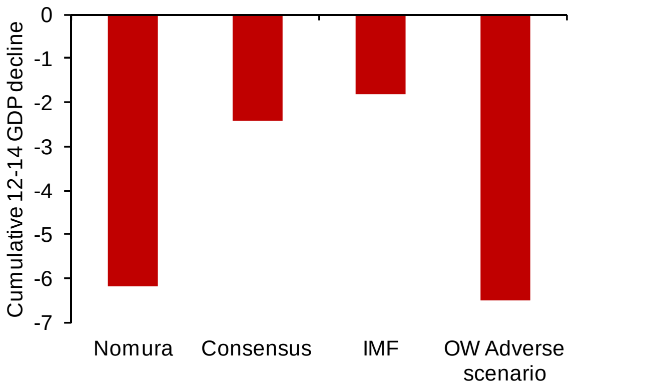
Spanish risks refuse to go away (despite three stress tests)

The macro outlook

The outlook for the Spanish remains negative and we believe there is still significant uncertainty around, not just the level of contraction in 2013, but also the duration of this recession. While consensus is forecasting a recession of c -1.5% for 2013, Nomura has a more pessimistic view at -3.0% (essentially based on the current austerity measures having a greater negative impact on the economy). Moreover, while consensus is forecasting a return to growth in 2014, Nomura economists are forecasting a recession of -1.5%. With a deficit of 2012 potentially being c -8.0%, the impact of trying to reduce this to -3.0% could mean a multi-year recessionary period for Spain. Our economists' forecasts are in line with the adverse scenario of the recent stress test.

Fig. 105: Risks to the downside

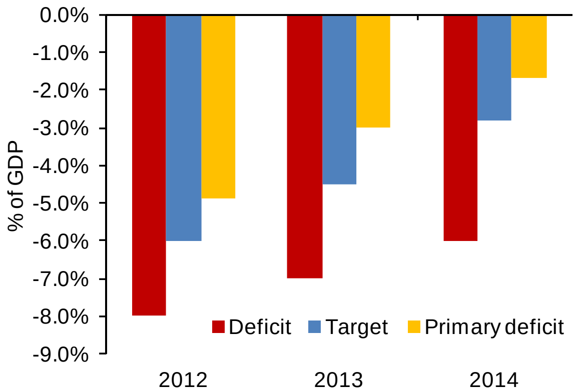
% GDP growth 12-14E



Source: Bloomberg, IMG, Oliver Wyman (Consulting), Nomura economics

Fig. 106: Deficit levels remain a risk

Spanish deficit estimates (total and primary) and current EU targets

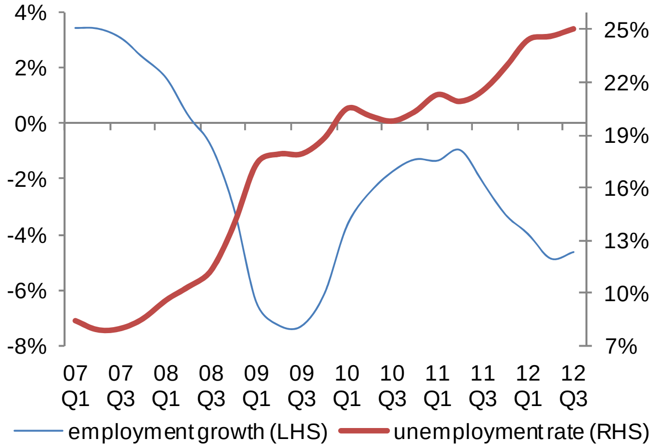


Source: Nomura economics

A clear reflection of this economic deterioration is the still rising unemployment figures. The last unemployment rate reported by the Spanish authorities was 25.0% for 3Q 2012, although the seasonally adjusted monthly data of eurostat indicates a rate of 25.8%. With the exception of Greece, Spain has seen the greatest deterioration in the unemployment rate since 2008, having increased 17.0pp vs 10.2% in the case of Ireland, 7.2pp in Portugal and 17.5pp in Greece. The latest data from Spain on unemployment benefit claimants shows, as of October, some 4.8 million people claiming income support, an increase of 10.8% y-o-y. If this level of deterioration were to be sustained in 2013, it would point to the unemployment rate reaching c 27.5% over the next 12 months.

Fig. 107: No end in sight for unemployment

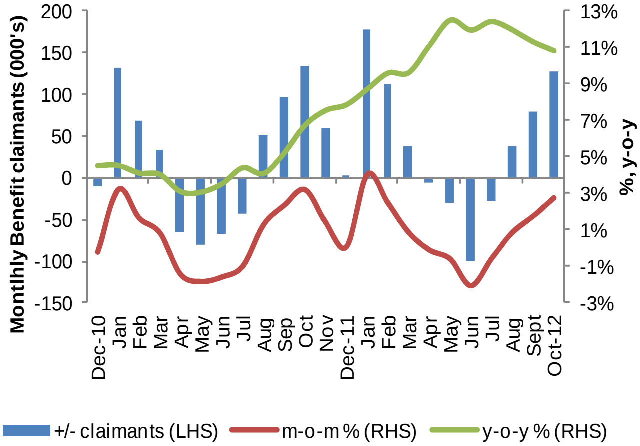
Unemployment rate and level of employment growth (%, y-o-y)



Source: INE, Nomura research

Fig. 108: End 2012 seeing a further deterioration

Monthly increase (000s) In benefit claimants and growth rates

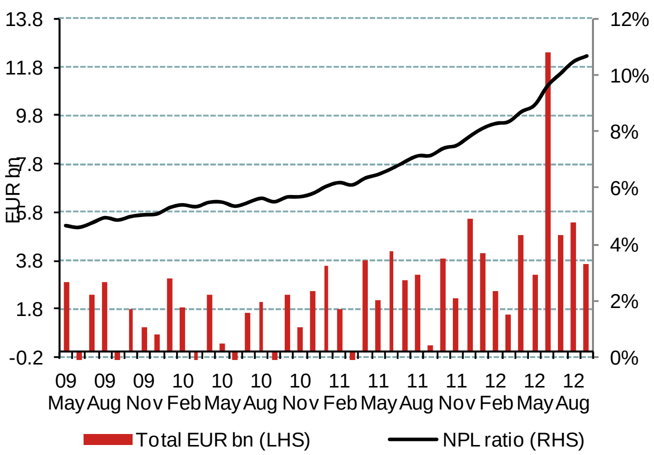


Source: Ministerio de Trabajo, Nomura research

As of September, NPLs in Spain have reached 10.7% with the stock of NPLs growing at 42% y-o-y. This is the fastest growth rate since December 2009, highlighting the increasing rate of asset quality deterioration as Spain slips back into recession. The recent stress test shows the capacity of BBVA and Santander to absorb losses and both banks will have fully complied with the recent legislation on real estate provisions. However, we believe there is still the capacity of real estate losses to put both banks under pressure to strengthen capital. We will look separately at the outlook for losses on Spanish real estate developers and the losses on the remainder of the loan book.

Fig. 109: NPL formation continues to deteriorate

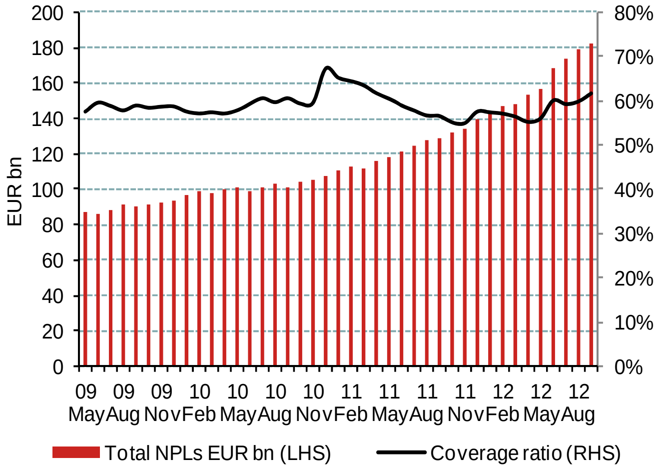
Net monthly NPL formation (EUR bn) and the NPL ratio (% gross private sector loans)



Source: Bank of Spain, Nomura research

Fig. 110: NPLs at c EUR 180bn or c 18% of GDP

Stock of NPLs (EUR bn) and loan coverage ratio



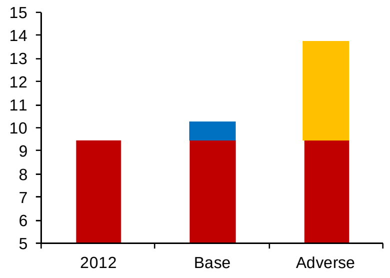
Source: Bank of Spain, Nomura research

Real estate risks

BBVA and Santander expect to fully comply with the provisioning requirements for Spanish real estate by 4Q 12. This should see gross provisions of EUR 9.4bn for SAN and EUR 11.2bn for BBVA (including the asset protection scheme of Unnim), representing 36% and 40%, respectively, against their gross real estate exposure. The recent stress test indicated potential losses of EUR 10.7bn for Santander and EUR 9.9bn for BBVA in our base case, while losses of EUR 13.7bn and EUR 13.4bn, respectively, in our adverse case. We have adjusted the losses at Santander to account for the reduction in gross exposure since 2011 (the reference for the stress test). This points to BBVA being in a position to absorb the base case but needing EUR 2.2bn for the adverse case. In the case of Santander, there would be a c EUR 0.8bn shortfall vs the base case and c EUR 4.3bn vs the adverse one. These additional losses in the adverse scenarios would represent c 7.3% of core capital for Santander and c 6.1% of core capital in the case of BBVA.

Fig. 111: Base/adverse imply more provisions

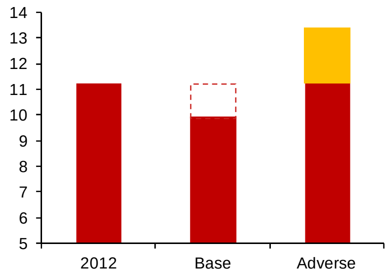
SAN



Source: Nomura research

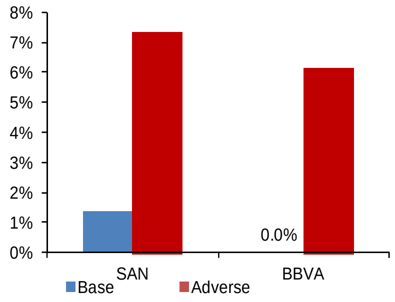
Fig. 112: BBVA prepared for adverse scenario?

BBVA



Source: Nomura research

Fig. 113: Less relative risk at BBVA?



Source: Nomura research

What is the probability of the banks needing to make these additional provisions? In normal circumstances these losses would accumulate over a number of years and therefore we believe it would be regulatory pressure/changes that could crystallise additional losses in 2013. If economic conditions in Spain continue to deteriorate, it is not impossible that regulators (or potentially the Troika) could see the need for additional provisions to be booked as a precaution. The possibility of this scenario, although not our base case, could weigh on the relative performance of both banks and raise the risk of additional capital being needed.

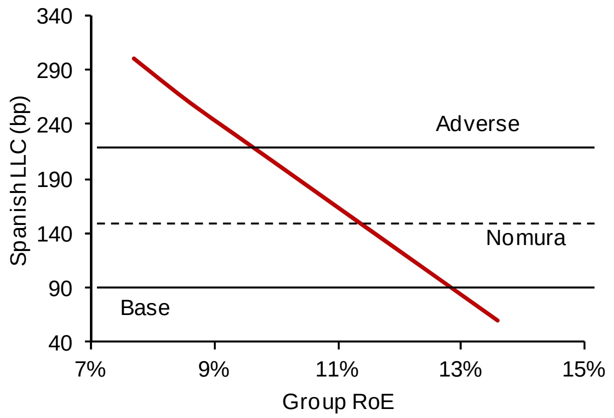
How Spanish non-real estate losses affect group returns

Additional losses on real estate are not the only risks facing BBVA and Santander in Spain, although we believe non-real estate risks to be more manageable. Here we look at the current outlook for loan loss charges and how an increase in non-real estate provisions in Spain could affect group profitability. Although we still see the risks of additional real estate provisions being needed, we have not explicitly included any additional charges for real estate in our current forecasts (ie, in our estimates and the analysis below we have only considered loan losses in Spain from the non-real estate loan book).

For Santander we highlight in Figure 114 the impact on group RoTE in 2013 that varying levels of loan loss charges in Spain would have. Here we can see our estimate of c 150bp in 2013 contributes to a group RoTE of c 11%. Based on three years of provisions the non-real estate losses from the base case would imply loan loss charges of c 90bp, which would improve the group RoTE to c 13%. In the adverse scenario LLC would rise to c 235bp, reducing the group RoTE to c 9.2%. Figure 115 highlights the recent evolution of loan loss provisions in Spain and Spanish return on assets (this excludes the additional provisions on real estate this year and adjusts profitability in Spain for the corporate centre).

Fig. 114: Impact on group RoTE from Spanish losses

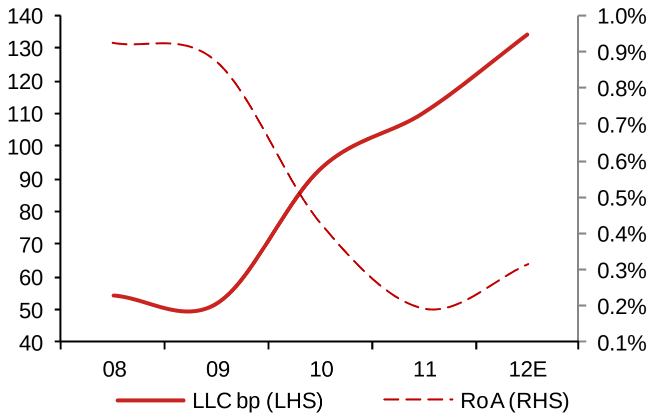
SAN – impact of non-real estate loan losses on group RoTE



Source: Nomura research

Fig. 115: Recent in provisions and profitability – Spain

SAN – recent evolution of loan losses and profitability

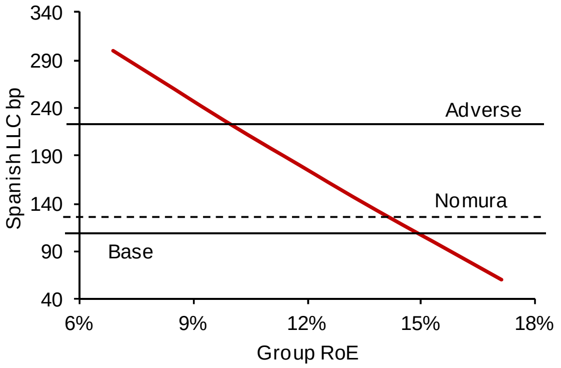


Source: Company data, Nomura research

In the case of BBVA we have an outlook for lower loan loss charges, reflecting a higher proportion of residential mortgages. We estimate a loan loss charge of 125bp in 2013 in Spain, which drives a group RoTE in 2013 of c. 14%. The base case scenario from the recent stress test would imply loan losses of c 110bp, which would imply a group RoTE of c 15%. However, the adverse scenario would see the loan loss charge rise to c 235bp, implying a group RoTE of c 9.5%.

Fig. 116: Impact on group RoTE from Spanish losses

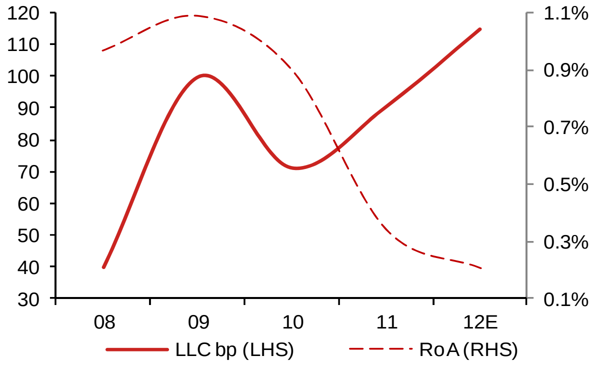
BBVA



Source: Nomura research

Fig. 117: Recent in provisions and profitability – Spain

BBVA –



Source: Nomura research

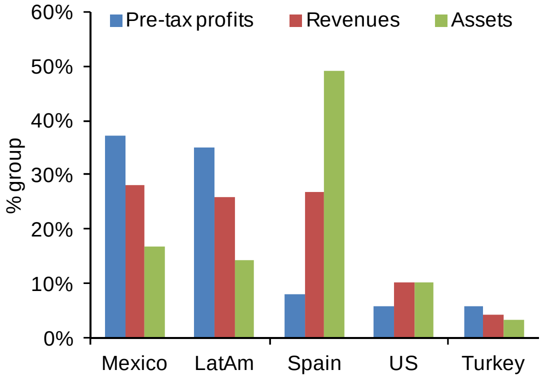
The benefit from international operations

Given that conditions in Spain remain challenging, a key driver for profitability for BBVA and Santander will be the contribution and earnings growth from international operations. However, it remains unclear if these can be the key driver for relative performance and valuation. Because Spain remains on the cusp of a bailout, this is likely to remain in the short term the key driver.

For BBVA our outlook for Mexico, LatAm and Turkey remains positive and we estimate in total will contribute c 58% to group revenues and 78% to group pre-tax profits in 2013 (pre-tax profit as a percentage of group 2013: Mexico – 37%, rest of LatAm – 35% and Turkey – 6%, this includes an adjustment for the corporate centre). While international operations for Santander will also be significant (71% of pre-tax profits in 2013), we take a more cautious view on the relative capacity for growth given the greater minority structure and geographical exposure. Mature markets (Spain, the UK and the US) account for 67% of SAN's assets, with Brazil accounting for an additional 12%. We believe growth opportunities in these markets are more limited and, while loan growth in absolute terms in Brazil should be c. 10%, this is significantly lower than the c. 20% growth of previous years. In contrast, although BBVA has greater relative exposure to Spain, overall mature markets account for 59% of assets and where we are more positive on the capacity for growth in Mexico, Turkey and LatAm excluding Brazil.

Fig. 118: Mexico and LatAm key for BBVA

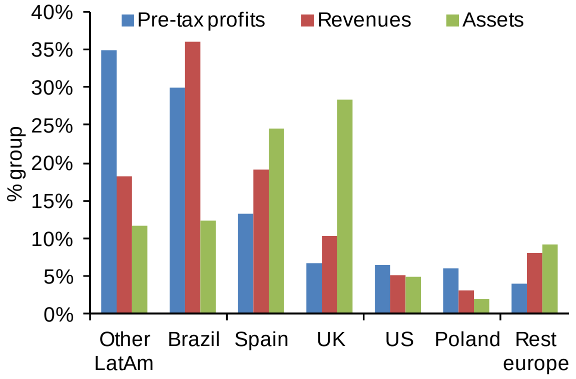
BBVA



Source: Company data, Nomura research

Fig. 119: Great exposure to mature markets for SAN

SAN



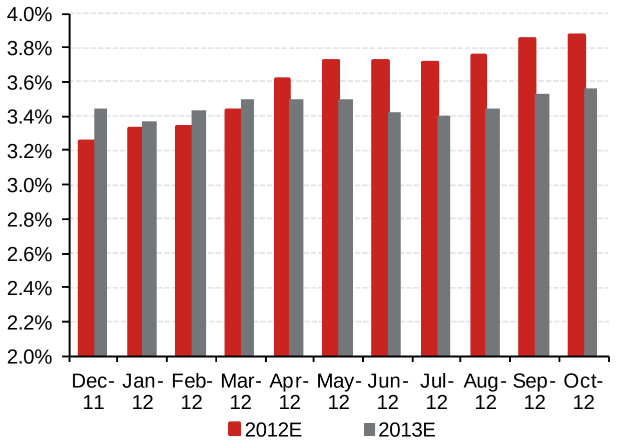
Source: Company data, Nomura research

Why we prefer Mexico to Brazil

The latest consensus data published by Banxico points to an improvement in GDP expectations over the past three months; this contrasts with a still weakening outlook in the 2013 outlook for Brazil in the series published by the Brazilian central bank, although expectations for 2012 appear to have now bottomed out for Brazil. The last survey published for Mexico points to consensus expectations for GDP growth of 3.6% for 2013 vs an average of 3.4% during H1 2012. Despite the slowdown in GDP growth in 3Q in Mexico, the outlook for 2012 has increased vs the beginning of the year. For Brazil, 2012 expectations appear to have stabilised at c 1.5% vs an average of 3.1% during H1 2012. Expectations for 2013 have also seen a reduction in recent weeks, falling to 3.8% from a high of 4.4% at the end of May. Nomura is forecasting 2013 GDP growth of 3.5% for Mexico and 4.1% for Brazil.

Fig. 120: Relative stable outlook for Mexico

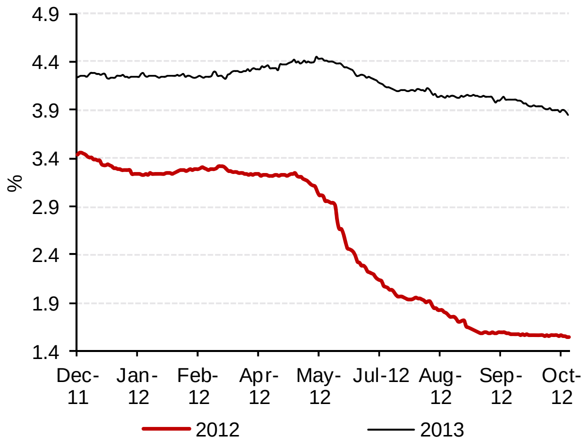
Consensus GDP forecasts – central bank survey



Source: Banxico, Nomura research

Fig. 121: Weakening outlook for Brazil

Consensus GDP forecasts – central bank survey

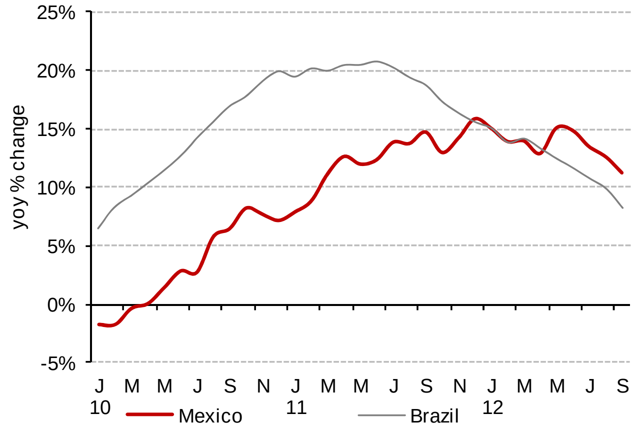


Source: Banco Central do Brasil, Nomura research

Relative economic conditions are also reflected in trends in the loan book. In Brazil the slowdown in loan growth for the private banks continues, now at just 8.3% y-o-y vs c 15.1% in 2011. In contrast, growth rates in Mexico remained more stable and higher at 11.3% y-o-y in September. Given debt penetration levels, we believe Mexico can deliver mid-teen loan growth over the next five years, while growth in Brazil could remain constrained at c 10% y-o-y. The diverging trends are also reflected in asset quality indicators. NPL trends in Mexico remain relatively stable, a reflection of relative stable economic conditions. The NPL ratio is at 2.76% now vs 2.71% in 2011. Meanwhile, in Brazil the upward trend in NPLs continues, reaching 5.88% in September vs 5.8% in 2Q 2012 and 5.54% in 2011.

Fig. 122: Still seeing a relative slowdown in Brazil

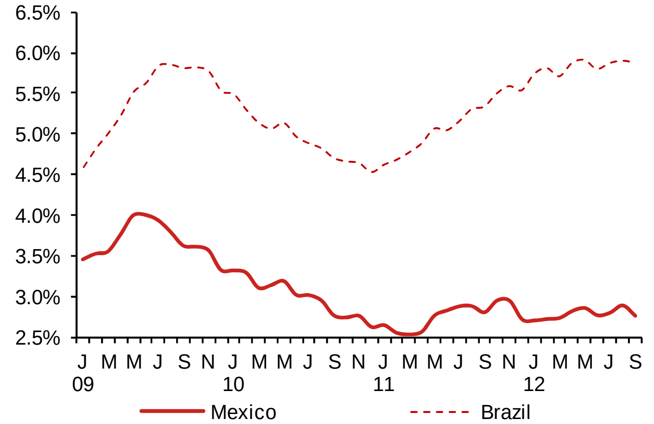
% y-o-y loan growth – private sector



Source: Central banks, Nomura research

Fig. 123: Asset quality rates remain high in Brazil

NPL ratio %



Source: Central banks, Nomura research

Fig. 124: BBVA model

BBVA Group				Recent Results and Forecasts							
	2004 A	**2005 A**	**2006 A**	**2007 A**	**2008 A**	**2009 A**	**2010 A**	**2011 A**	**2012 E**	**2013 E**	**2014 E**
Financials:	EURm	EURm	EURm	EURm	EURm	EURm	EURm	EURm	EURm	EURm	EURm
Net Interest Income	6,160	7,208	8,374	9,770	11,577	13,878	13,320	13,160	15,273	16,640	18,213
% change		*17.0%*	*16.2%*	*16.7%*	*18.5%*	*19.9%*	*-4.0%*	*-1.2%*	*16.1%*	*8.9%*	*9.5%*
Net Income Equity Method	97	122	308	242	6	0	0	0	0	0	0
Fees	3,413	3,940	4,335	4,723	4,488	4,430	4,531	4,561	5,019	5,239	5,556
Other income	391	487	650	729	1,407	810	1,159	1,367	1,454	1,445	1,469
Trading Income	1,059	1,268	2,033	1,823	1,444	1,543	1,894	1,479	1,273	1,287	1,373
Total Revenue	**11,119**	**13,024**	**15,700**	**17,287**	**18,922**	**20,661**	**20,904**	**20,566**	**23,020**	**24,611**	**26,612**
% change		*17.1%*	*20.5%*	*10.1%*	*9.5%*	*9.2%*	*1.2%*	*-1.6%*	*11.9%*	*6.9%*	*8.1%*
Net Revenues from Non-Fin Activities	126	126	131	187	8	0	0	0	0	0	0
General Expenses	-5,098	-5,763	-6,330	-7,053	-7,589	-7,659	-8,206	-9,104	-9,975	-10,712	-11,404
Depreciation and Amortisation	-449	-449	-472	-578	-699	-697	-761	-847	-998	-1,021	-1,026
Other Revenues and Expenses (Net)	-109	-115	-147	-146	-129	0	0	0	0	0	0
Cost synergies	0	0	0	0	0	0	0	0	0	0	0
Total Costs	**-5,530**	**-6,201**	**-6,818**	**-7,590**	**-8,409**	**-8,355**	**-8,967**	**-9,951**	**-10,973**	**-11,733**	**-12,431**
Operating Income	**5,589**	**6,823**	**8,882**	**9,697**	**10,513**	**12,305**	**11,937**	**10,615**	**12,047**	**12,878**	**14,181**
% change		*22.1%*	*30.2%*	*9.2%*	*8.4%*	*17.0%*	*-3.0%*	*-11.1%*	*13.5%*	*6.9%*	*10.1%*
Net Loan Loss Provisions	-784	-813	-1,477	-1,902	-2,912	-5,474	-4,717	-4,227	-4,782	-5,446	-5,382
Other Provisions / Impairments	-850	-454	-1,339	-110	-166	-4	-1,040	-2,689	-5,485	-142	-142
Sales of Financial Stakes	0	0	771	0	5	776	237	70	0	0	0
Other	181	36	191	-11	-511	-2,345	0	0	0	0	0
Pre-tax Profit	**4,136**	**5,593**	**7,029**	**7,674**	**6,929**	**5,258**	**6,417**	**3,768**	**1,780**	**7,290**	**8,657**
Corporate Income Tax	-1,029	-1,522	-2,059	-1,984	-1,543	-667	-1,425	-284	-100	-1,650	-1,997
Net Income	**3,107**	**4,071**	**4,970**	**5,690**	**5,386**	**4,591**	**4,991**	**3,484**	**1,681**	**5,640**	**6,660**
Minority interests	-185	-265	-235	-287	-365	-384	-389	-481	-588	-700	-890
Net Attributable Income (stated)	**2,922**	**3,806**	**4,735**	**5,402**	**5,021**	**4,207**	**4,603**	**3,003**	**1,092**	**4,940**	**5,770**
% change		*30.3%*	*24.4%*	*14.1%*	*-7.1%*	*-16.2%*	*9.4%*	*-34.8%*	*-63.6%*	*352.3%*	*16.8%*
DIVISIONAL DATA - Net attributable income											
Spain							2,255	1,363	-1,711	912	1,200
South America							889	1,007	1,299	1,412	1,647
Mexico							1,707	1,741	1,842	2,179	2,551
of which: Bancomer							*1,397*	*1,426*	*1,489*	*1,803*	*2,139*
Eurasia							588	1,027	924	917	886
of which: Turkey								263	322	352	381
USA							236	-722	438	391	383
Corporate Centre							-1,072	-1,413	-1,701	-871	-896
Total							**4,603**	**3,003**	**1,092**	**4,940**	**5,770**
Number of Shares (y/e; m)	3,391	3,391	3,557	3,748	3,748	3,748	4,491	4,903	5,531	5,691	5,851
EPS stated (EUR)	0.86	1.12	1.33	1.44	1.34	1.12	1.02	0.61	0.20	0.87	0.99
EPS adjusted 1 - core (EUR)	0.85	1.08	1.14	1.45	1.31	0.95	1.07	0.63	0.18	0.83	0.96
DPS (EUR)	0.44	0.53	0.64	0.73	0.61	0.42	0.42	0.42	0.42	0.42	0.42
Net Asset Value per share (stated)	3.23	3.84	5.12	6.62	7.09	7.83	8.17	8.35	7.48	7.90	8.24
Net Asset Value per share (adjusted 1)	2.99	3.23	4.20	4.42	4.84	5.90	6.43	6.58	5.64	6.09	6.46
Main Balance Sheet Measures:											
Shareholders' Equity	10,961	13,036	18,210	24,811	26,586	29,362	36,689	40,952	41,371	44,976	48,213
Net Lending - Group	172,083	216,850	256,565	310,882	324,721	323,615	338,857	351,900	375,212	387,480	397,627
% change Group		*26.0%*	*18.3%*	*21.2%*	*4.5%*	*-0.3%*	*4.7%*	*3.8%*	*6.6%*	*3.3%*	*2.6%*
Gross Lending - Spain	132,061	154,928	178,307	197,524	203,117	199,165	213,281	209,622	207,316	196,950	187,103
% change European Retail		*17.3%*	*15.1%*	*10.8%*	*2.8%*	*-1.9%*	*7.1%*	*-1.7%*	*-1.1%*	*-5.0%*	*-5.0%*
Gross Lending - Mexico	12,464	22,398	25,225	27,907	26,463	27,373	34,626	34,544	40,714	51,353	59,056
% change Mexico (local currency)		*49.6%*	*27.7%*	*24.0%*	*13.6%*	*1.8%*	*10.9%*	*8.6%*	*11.0%*	*15.0%*	*15.0%*
Customer Deposits	149,892										
Assets Under Management	121,553	142,707	142,064	150,777	119,017	0	0	0	0	0	0
Risk Weighted Assets	182,683	216,890	252,373	268,491	283,320	291,026	313,327	330,771	338,306	350,577	348,688
% change		*18.7%*	*16.4%*	*6.4%*	*5.5%*	*2.7%*	*7.7%*	*5.6%*	*2.3%*	*3.6%*	*-0.5%*
P&L Ratios:											
Net Interest Margin exc Dividends	1.83%	1.92%	1.99%	2.06%	2.15%	2.57%	2.45%	2.29%	2.52%	2.71%	2.97%
Net Interest Margin inc Divs - Spain		2.01%	1.95%	2.00%	2.16%	2.25%	1.90%	1.45%	1.56%	1.55%	1.55%
Net Interest Margin inc Divs - Mexico	3.85%	4.82%	6.03%	6.00%	5.98%	5.29%	5.15%	5.33%	5.45%	5.45%	5.40%
Cost-Income Ratio (all costs)	50.9%	48.6%	44.3%	45.0%	44.5%	40.4%	42.9%	48.4%	47.7%	47.7%	46.7%
Effective Tax Rate	24.9%	27.2%	29.3%	25.9%	22.3%	12.7%	22.2%	7.5%	5.6%	22.6%	23.1%
RoRWA	1.71%	2.04%	2.12%	2.18%	1.95%	1.60%	1.65%	1.08%	0.50%	1.64%	1.90%
RoA	0.96%	1.13%	1.24%	1.24%	1.03%	0.85%	0.92%	0.61%	0.28%	0.92%	1.09%
RoE (stated)	27.5%	31.7%	30.3%	25.1%	19.5%	15.0%	13.9%	7.7%	2.7%	11.4%	12.4%
RoE (adjusted)	31.6%	34.8%	30.7%	33.6%	28.2%	17.7%	17.4%	9.6%	3.0%	14.2%	15.2%
Asset Quality:											
Non-performing loans/Gross lending	1.25%	1.05%	0.95%	1.06%	2.54%	4.69%	4.50%	4.39%	4.28%	3.72%	3.25%
Coverage of non-performing loans	208.4%	238.7%	257.0%	211.9%	87.9%	55.9%	59.9%	59.3%	62.6%	79.3%	101.6%
Net LLP/Gross Loans (average)	0.47%	0.41%	0.61%	0.65%	0.90%	1.65%	1.39%	1.19%	1.28%	1.39%	1.33%
Capital - Group:											
Core Capital Ratio (T1 ex Prefs)	5.8%	5.6%	6.2%	6.0%	6.2%	7.9%	9.4%	10.3%	10.2%	10.9%	11.9%
Prefs as % Tier I	26.4%	25.4%	20.6%	22.0%	24.1%	18.3%	15.7%	5.2%	5.1%	4.6%	4.2%
BIS Ratio	12.5%	12.1%	12.0%	12.1%	12.2%	13.8%	13.7%	12.9%	12.8%	13.5%	14.5%

Source: Company data, Nomura estimates

Fig. 125: SAN model

Santander	**Recent Results and Forecasts**							
	2007 A	**2008 A**	**2009 A**	**2010 A**	**2011 A**	**2012 E**	**2013 E**	**2014 E**
	EURm	EURm	EURm	EURm	EURm	EURm	EURm	EURm
Financials:								
Net Interest Income	15,295	21,174	26,420	29,288	30,878	30,644	31,965	33,787
Net Income Equity Method	441	97	-15	-2	5	-93	10	10
Fees	8,040	9,021	9,079	9,734	10,471	10,230	10,616	11,189
Insurance Income	319	50	-64	423	407	625	814	814
Trading Income	2,998	2,597	3,422	2,606	2,500	2,726	2,508	2,483
Revenue synergies	0	0	0	0	0	0	4	4
Total Revenue	**27,094**	**32,939**	**38,843**	**42,049**	**44,262**	**44,132**	**45,916**	**48,286**
Net Revenues from Non-Fin Activities	-45	551	537	0	0	0	0	0
General Admin Expenses	-10,940	-13,579	-14,825	-16,256	-17,781	-18,164	-19,379	-20,496
Depreciation and Amortisation	-1,268	-1,366	-1,593	-1,940	-2,109	-2,162	-2,172	-2,200
Other Revenues and Expenses (Net)	0	0	0	0	0	0	0	0
Cost synergies	0	0	0	0	0	0	23	76
Total Costs	**-12,253**	**-14,394**	**-15,881**	**-18,196**	**-19,889**	**-20,326**	**-21,528**	**-22,620**
Operating Income	**14,842**	**18,545**	**22,962**	**23,853**	**24,373**	**23,805**	**24,388**	**25,666**
Net Loan Loss Provisions	-3,470	-6,601	-9,483	-10,258	-10,562	-12,749	-13,274	-12,553
Other	-446	-516	-1,713	-1,543	-2,994	-2,105	-1,236	-1,033
Pre-tax Profit	**10,926**	**11,428**	**11,766**	**12,052**	**10,817**	**8,951**	**9,878**	**12,080**
Corporate Income Tax	-2,392	-2,391	-2,337	-2,923	-2,936	-2,745	-2,452	-3,036
Net Income	**8,534**	**9,037**	**9,429**	**9,129**	**7,881**	**6,206**	**7,426**	**9,045**
Discontinued Operations	112	319	40	-27	-24	-2	0	0
Minority interests	-520	-480	-526	-921	-836	-740	-1,104	-1,281
Net Extraordinary Gains and Writedowns	934	0	0	0	-1,670	-2,946	0	0
Net Attributable Income (stated)	**9,060**	**8,876**	**8,943**	**8,181**	**5,351**	**2,517**	**6,323**	**7,764**
% change	*19.3%*	*-2.0%*	*0.7%*	*-8.5%*	*-34.6%*	*-53.0%*	*151.2%*	*22.8%*
DIVISIONAL DATA - Net attributable income								
Europe (European Retail pre IFRS)	4439	4706	5030	3355	2849	2292	2145	3102
of which: Spain (SAN + BTO)	*2475*	*2639*	*2753*	*1265*	*790*	*809*	*644*	*1231*
of which: Portugal	*527*	*530*	*531*	*457*	*174*	*100*	*96*	*74*
of which: SCF	*719*	*696*	*631*	*810*	*1228*	*719*	*646*	*881*
of which: Poland						*299*	*365*	*475*
UK	1201	1247	1726	1965	1145	1074	886	931
US			-25	424	526	783	545	511
LatAm (LatAm Retail)	2666	3608	3832	4728	4664	4366	4180	4751
of which: Mexico	*654*	*600*	*495*	*665*	*939*	*1055*	*1039*	*1281*
of which: Chile	*543*	*545*	*563*	*671*	*611*	*456*	*483*	*531*
of which: Brazil	*905*	*1768*	*2166*	*2814*	*2610*	*2220*	*1914*	*2063*
Corporate Centre	754	-685	-1620	-2292	-3833	-5998	-1434	-1531
Total	**9,060**	**8,876**	**8,943**	**8,181**	**5,351**	**2,517**	**6,323**	**7,764**
EPS stated (EUR)	1.45	1.25	1.10	0.99	0.62	0.26	0.60	0.71
EPS adjusted 1 - core (EUR)	1.22	1.05	1.03	0.93	0.57	0.25	0.58	0.70
Average Number of Shares (m)	6,254	7,124	8,112	8,279	8,619	9,579	10,539	10,979
DPS (EUR)	0.65	0.63	0.59	0.60	0.60	0.60	0.60	0.60
Net Asset Value per share (stated)	8.31	7.98	8.51	9.04	9.05	7.89	7.84	0.00
Net Asset Value per share (adjusted 1)	5.7	5.3	5.4	5.7	5.9	5.5	5.5	5.9
Number of shares	6254	7994	8229	8329	8909	10249	10829	11129
Main Balance Sheet Measures								
Shareholders' Equity (exc G/will)	38,115	44,932	47,141	50,651	55,540	55,904	59,858	65,187
Net Lending - Group	533,751	611,811	672,748	715,642	730,296	759,508	808,876	861,453
% change	*10.1%*	*14.6%*	*10.0%*	*6.4%*	*2.0%*	*4.0%*	*6.5%*	*6.5%*
Net Lending - SCH	116,798	121,466	115,582	111,372	102,643	97,510	99,461	104,434
% change	*10.7%*	*4.0%*	*-4.8%*	*-3.6%*	*-7.8%*	*-5.0%*	*2.0%*	*5.0%*
Customer Deposits								
Assets Under Management	150,977	118,723	0	0	0	0	0	0
Risk Weighted Assets	515,050	514,013	561,684	604,885	565,958	562,285	580,564	598,979
P&L Ratios:								
Net Interest Margin exc Dividends	1.70%	2.11%	2.40%	2.48%	2.46%	2.40%	2.45%	2.51%
Net Interest Margin inc Divs - SCH	2.52%	2.86%	3.35%	2.72%	2.95%	3.44%	3.30%	3.00%
Cost-Income Ratio (inc depn and other costs)	45.1%	45.4%	42.3%	43.3%	44.9%	46.1%	46.9%	46.8%
Effective tax rate	21.9%	20.9%	19.9%	24.3%	27.1%	30.7%	24.8%	25.1%
RoRWA	1.72%	1.76%	1.75%	1.57%	1.35%	1.10%	1.30%	1.53%
RoA	0.98%	0.92%	0.87%	0.78%	0.64%	0.49%	0.58%	0.68%
RoE (stated)	19.7%	15.3%	13.4%	11.3%	6.9%	3.1%	7.6%	8.9%
RoE (adjusted)	24.8%	21.4%	19.4%	16.7%	10.1%	4.5%	10.9%	12.4%
Asset Quality								
Non-performing loans/Gross lending	1.12%	2.24%	3.48%	3.94%	4.28%	4.61%	4.56%	3.95%
Coverage of non-performing loans	143.2%	89.2%	74.4%	69.1%	59.1%	52.6%	47.2%	44.1%
Net LLP/Gross Loans (average)	0.67%	1.13%	1.44%	1.45%	1.43%	1.67%	1.65%	1.47%
Write-offs as % last year's NPLs	0.0%	40.0%	0.0%	40.0%	30.0%	40.0%	40.0%	40.0%
Capital - Group:								
Core Capital Ratio (T1 ex Prefs)	6.2%	7.1%	8.6%	8.8%	10.0%	10.5%	11.0%	11.5%
Prefs as % Tier I	19.6%	19.2%	13.7%	12.1%	9.5%	9.0%	8.4%	7.8%
BIS Ratio	11.2%	12.2%	13.5%	13.5%	14.5%	15.1%	15.6%	16.0%

Source: Company data, Nomura estimates

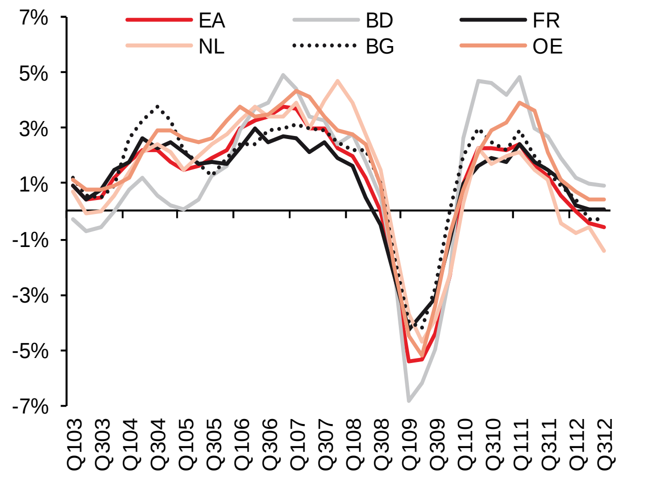
Appendix: Country data

System-level banking data for different countries in Europe

In the following pages we present country level banking data for various countries in Europe. The charts give detailed time series of loan growth, deposit growth, loan-to-deposit ratios, loan mix, deposit mix and lending mix by maturity. Apart from these, we also have a table for each country showing the system level P&L and balance sheet. The GDP growth and unemployment rates of different categories of countries are also shown because banks' loan growth is highly correlated to GDP growth, while banks' NPLs are strongly correlated to the unemployment rate prevailing in their market of operation.

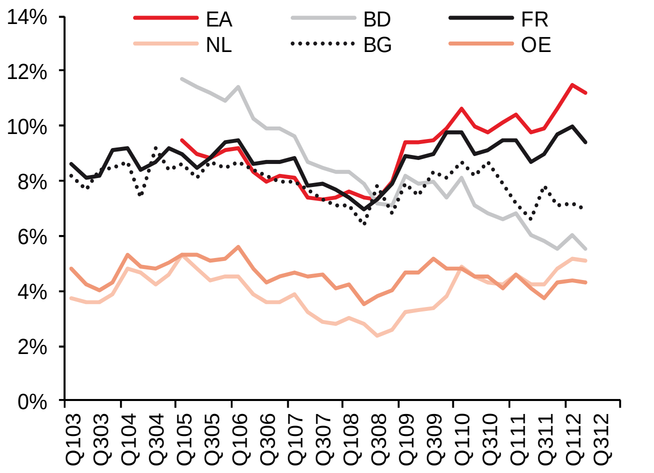
European macroeconomic indicators

Fig. 126: North Europe GDP growth



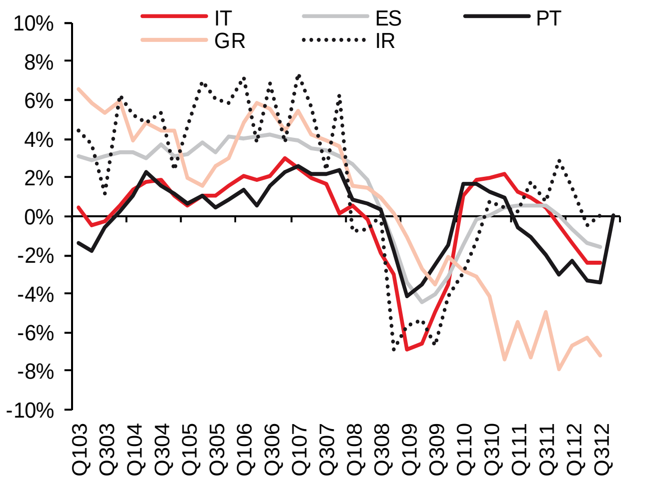
Source: Datastream, Nomura research

Fig. 127: North Europe unemployment



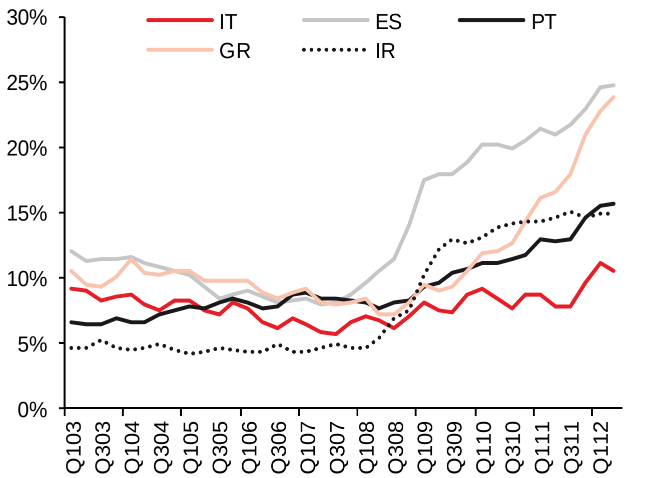
Source: European Central Bank, Datastream, Nomura research

Fig. 128: South Europe GDP growth



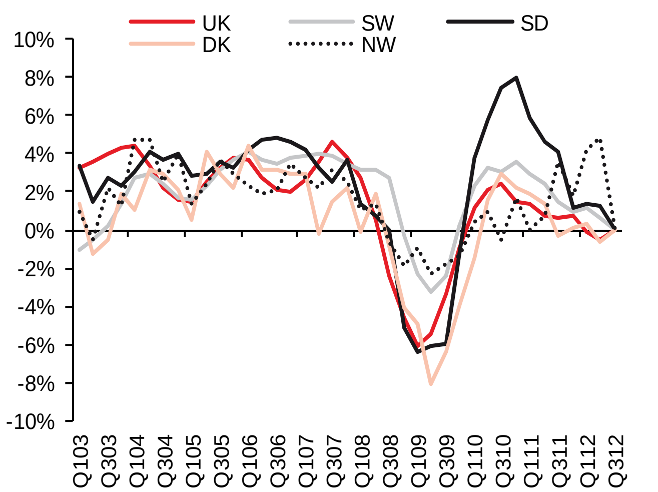
Source: Datastream, Nomura research

Fig. 129: South Europe unemployment



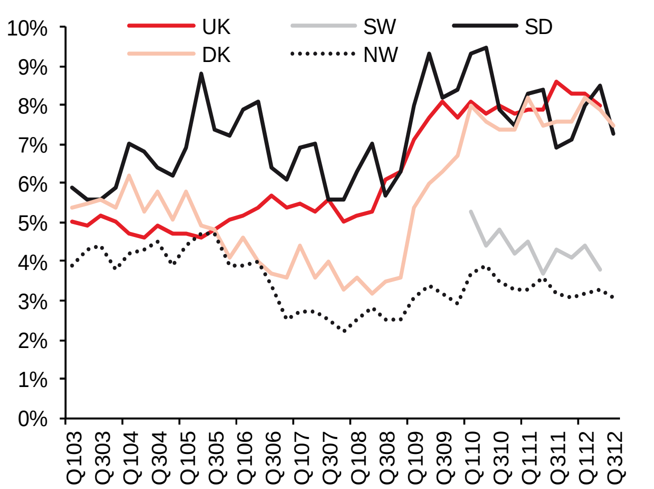
Source: Datastream, Nomura research

Fig. 130: Non-eurozone GDP growth



Source: Datastream, Nomura research

Fig. 131: Non-eurozone unemployment

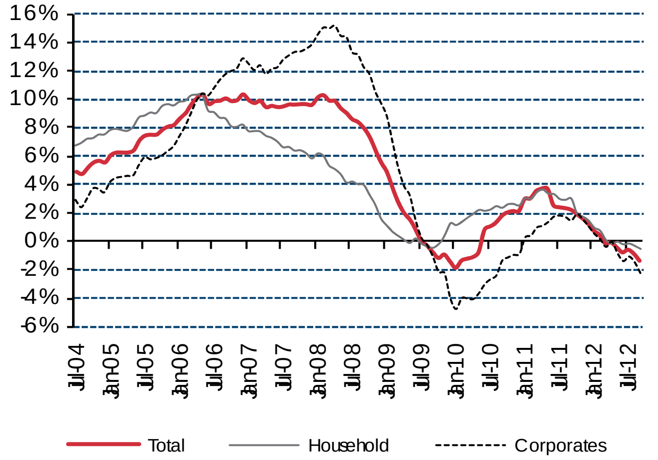


Source: Datastream, Nomura research

Eurozone

Fig. 132: Loan growth

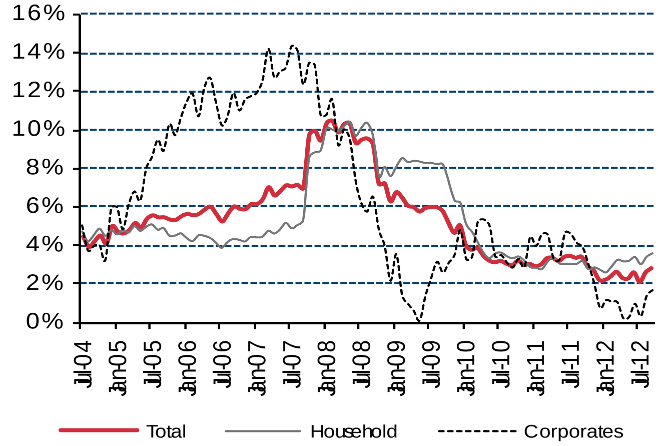
% change y-o-y in outstanding volume



Source: European Central Bank, Datastream, Nomura research

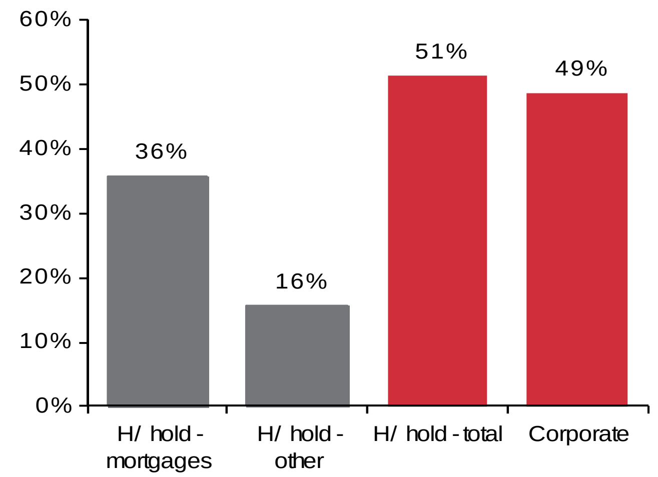
Fig. 133: Deposit growth

% change y-o-y in outstanding volume



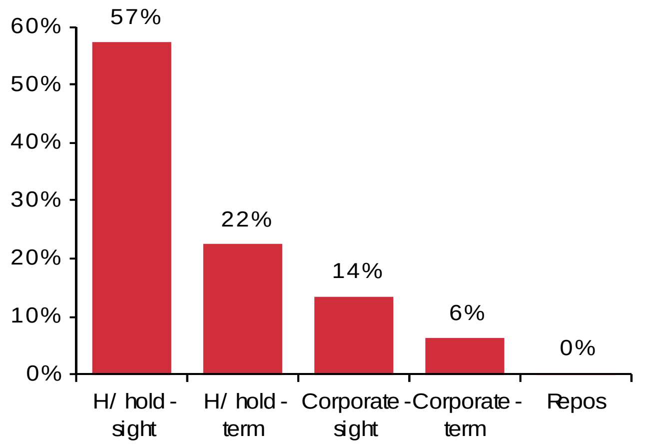
Source: European Central Bank, Datastream, Nomura research

Fig. 134: Lending mix – outstanding loans by customer



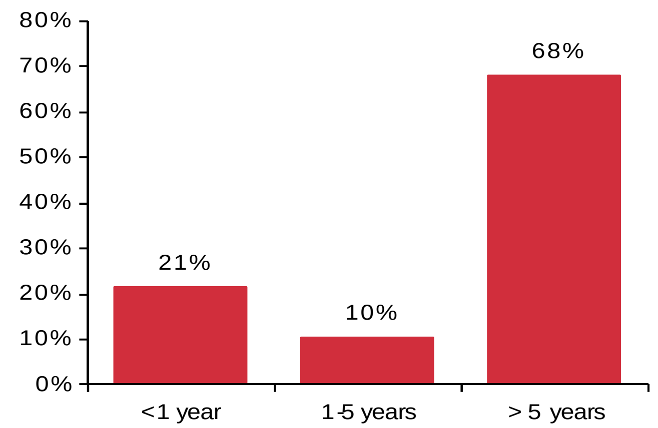
Source: European Central Bank, Datastream, Nomura research

Fig. 135: Deposit mix – excluding overdrafts



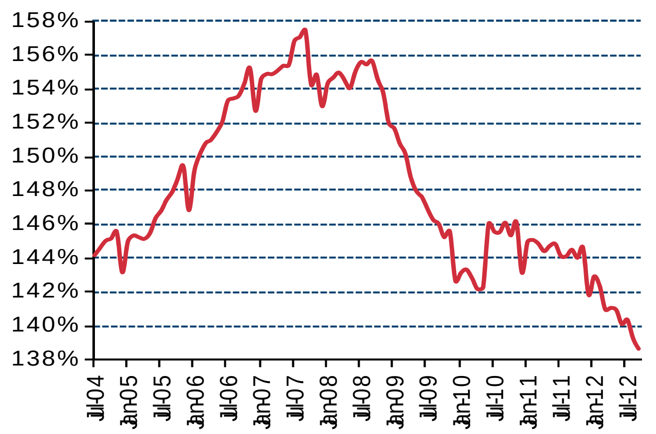
Source: European Central Bank, Datastream, Nomura research

Fig. 136: Lending mix – outstanding loans by maturity



Source: European Central Bank, Datastream, Nomura research

Fig. 137: Loan/deposit ratio

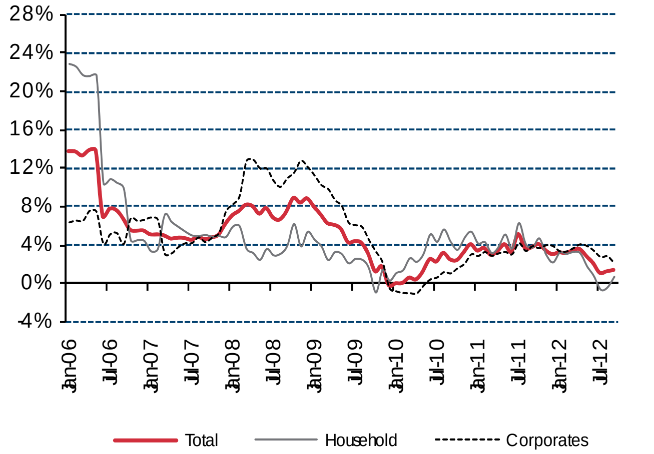


Source: European Central Bank, Datastream, Nomura research

Austria

Fig. 138: Loan growth

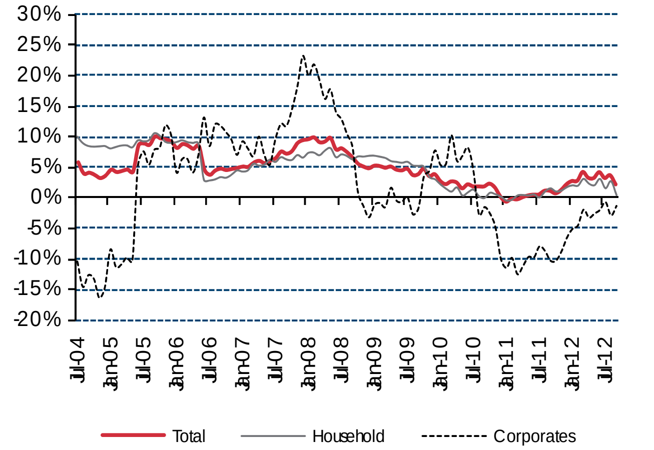
% change y-o-y in outstanding volume



Source: Oesterreichische Nationalbank, Datastream, Nomura research

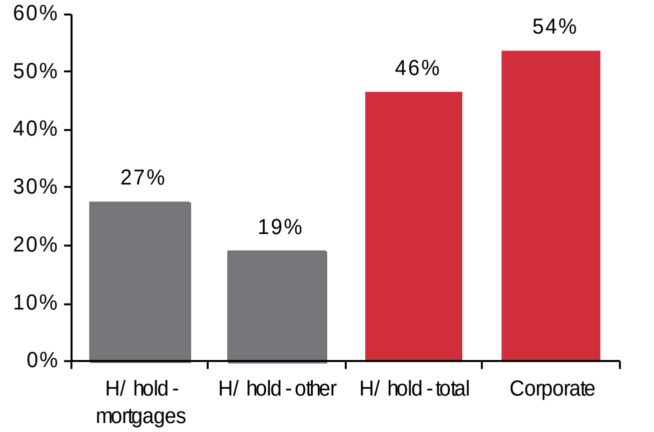
Fig. 139: Deposit growth

% change y-o-y in outstanding volume



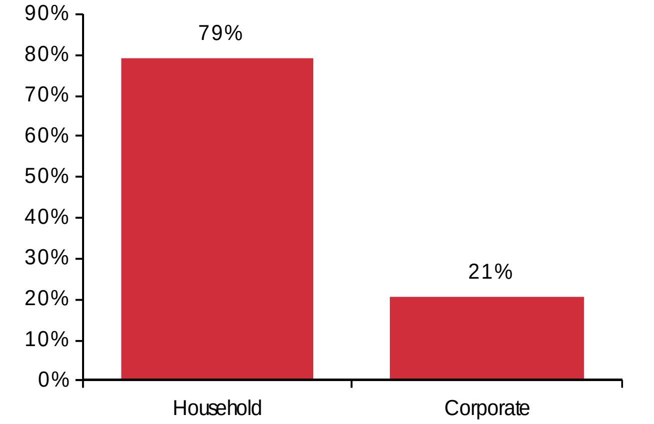
Source: Oesterreichische Nationalbank, Datastream, Nomura research

Fig. 140: Lending mix – outstanding loans by customer



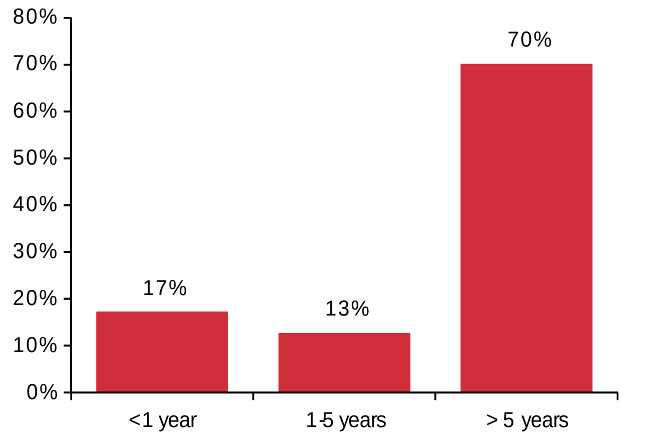
Source: Oesterreichische Nationalbank, Datastream, Nomura research

Fig. 141: Deposit mix – excluding overdrafts



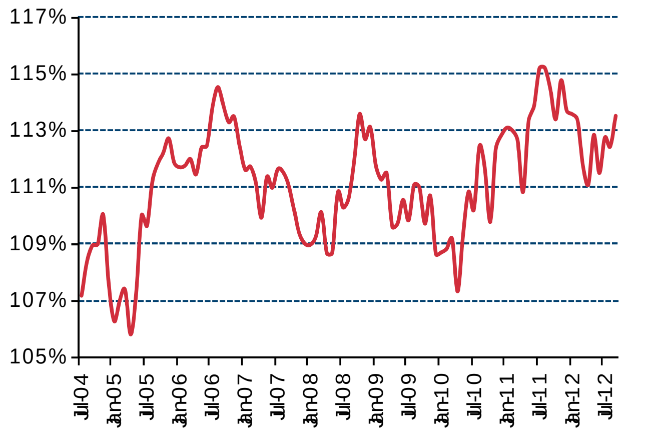
Source: Oesterreichische Nationalbank, Datastream, Nomura research

Fig. 142: Lending mix – outstanding loans by maturity



Source: Oesterreichische Nationalbank, Datastream, Nomura research

Fig. 143: Loan/deposit ratio



Source: Oesterreichische Nationalbank, Datastream, Nomura research

Fig. 144: Banking system data – Austria

Austria		All banks					Domestic banks only			
ECB data, EURbn	2009	2010	2011	% 2010	% 2011	2009	2010	2011	%2010	%2011
Net interest income	19.5	20.4	20.4	5%	0%	13.8	14.6	14.6	6%	0%
Total revenues	37.9	37.5	37.2	(1%)	(1%)	28.2	27.4	27.7	(3%)	1%
Comp costs	(7.4)	(7.8)	(7.9)	5%	2%	(5.1)	(5.4)	(5.6)	6%	2%
Total expenses	(22.2)	(24.0)	(26.8)	8%	12%	(17.0)	(18.0)	(20.2)	6%	12%
Pre-provision profit	15.6	13.5	10.4	(14%)	(23%)	11.2	9.4	7.5	(17%)	(20%)
Provisions	(11.7)	(6.7)	(7.3)	(43%)	8%	(9.2)	(4.6)	(5.4)	(50%)	17%
Profit before tax	2.6	4.9	1.7	93%	(66%)	1.0	3.6	1.2	267%	(67%)
Profit after tax	2.1	5.2	1.2	153%	(78%)	0.7	3.9	0.7	495%	(82%)
Loans	801	797	815	(0.4%)	2%	602	592	592	(1.8%)	0%
Total assets	1,140	1,131	1,166	(0.8%)	3%	868	857	874	(1.3%)	2%
Deposits	703	705	726	0%	3%	520	512	522	(1.5%)	2%
Equity	65	70	68	8%	(2%)	47	49	47	3%	(3.6%)
NPLs	27	38	40	43%	5%	19	28	28	45%	0%
Reserve for NPLs	20	26	27	33%	4%	14	19	19	36%	1%
NII/Avge loans	2.40%	2.55%	2.54%	-	-	1.94%	2.45%	2.47%	-	-
Cost/income ratio	58.7%	64.1%	72.1%	-	-	60.2%	65.8%	73.0%	-	-
Provision/Avge loans	1.45%	0.84%	0.90%	-	-	1.29%	0.77%	0.91%	-	-
NPLs/Total loans	3.35%	4.81%	4.96%	-	-	3.17%	4.66%	4.68%	-	-
Reserves/NPLs	73%	68%	67%	-	-	74%	70%	70%	-	-
Loan/deposit	114%	113%	112%	-	-	116%	115%	114%	-	-
Equity/assets	5.7%	6.2%	5.9%	-	-	5.5%	5.7%	5.4%	-	-
Tier 1 ratio	9.3%	10.0%	10.3%	-	-	9.6%	10.0%	10.3%	-	-
ROE	3.5%	7.8%	1.7%	-	-	1.3%	8.2%	1.5%	-	-
ROA	0.18%	0.46%	0.10%	-	-	0.06%	0.46%	0.08%	-	-

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	2.44%	2.52%	2.50%	2.43%	2.38%	2.33%	2.16%	2.05%	1.98%	1.99%
Cost/income ratio	69.0%	66.9%	67.6%	70.0%	68.8%	67.3%	63.7%	64.7%	59.4%	55.1%
Provision/Avge loans	0.61%	0.61%	0.50%	0.76%	0.62%	0.31%	0.50%	(0.28%)	0.57%	2.52%
NPLs/Total loans	n/a	n/a	n/a	n/a	0.90%	0.80%	0.70%	0.70%	0.80%	2.60%
Loan/deposit	128%	132%	129%	130%	126%	127%	132%	132%	127%	134%
Equity/assets	4.6%	4.4%	4.7%	4.8%	5.1%	5.1%	5.1%	5.8%	6.7%	6.3%
Tier 1 ratio	10.5%	10.2%	10.5%	10.2%	11.0%	11.2%	11.0%	11.9%	n/a	14.7%
ROE	8.1%	9.9%	10.7%	5.8%	7.2%	10.4%	10.1%	15.3%	9.2%	(2.3%)
ROA	0.4%	0.4%	0.5%	0.3%	0.4%	0.5%	0.5%	0.8%	0.6%	(0.1%)

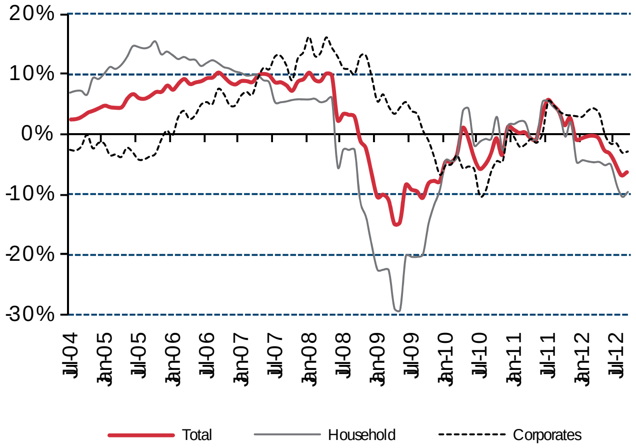
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	n/a	n/a	n/a	n/a	n/a	n/a	3.39%	3.25%	3.00%	2.76%
Cost/income ratio	n/a	n/a	n/a	n/a	n/a	n/a	69.5%	69.1%	69.4%	67.9%
Provision/Avge loans	n/a	n/a	n/a	n/a	n/a	n/a	0.88%	0.86%	0.77%	0.74%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	120%	119%	118%	117%	115%	113%	116%	118%	122%	123%
Equity/assets	4.3%	4.6%	4.7%	4.9%	5.0%	5.2%	4.6%	4.3%	4.5%	4.7%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	9.9%	10.1%	10.2%	10.9%
ROE	n/a	n/a	n/a	n/a	n/a	n/a	7.2%	7.5%	8.0%	9.0%
ROA	n/a	n/a	n/a	n/a	n/a	n/a	0.4%	0.3%	0.4%	0.4%

Source: OECD, Nomura research

Belgium

Fig. 145: Loan growth

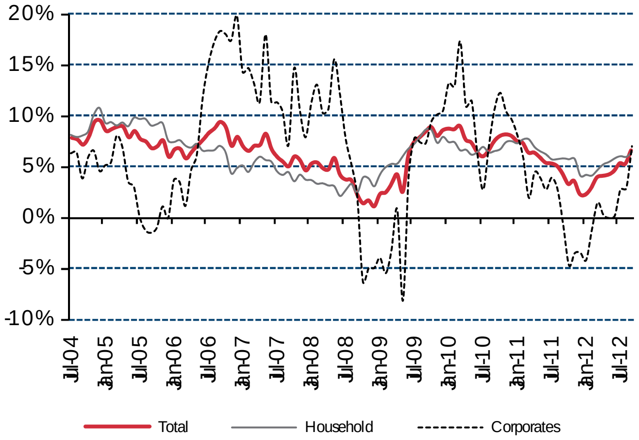
% change y-o-y in outstanding volume



Source: National Bank of Belgium, Datastream, Nomura research

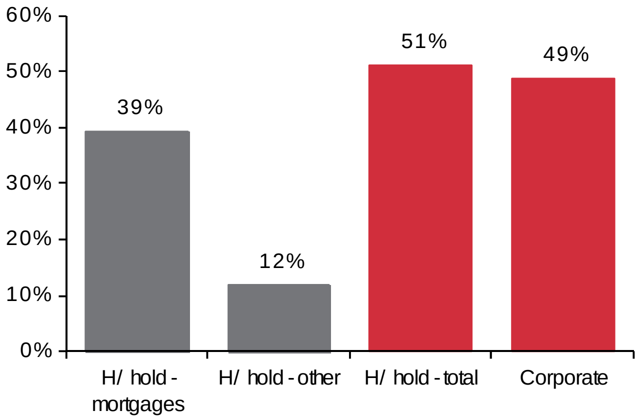
Fig. 146: Deposit growth

% change y-o-y in outstanding volume



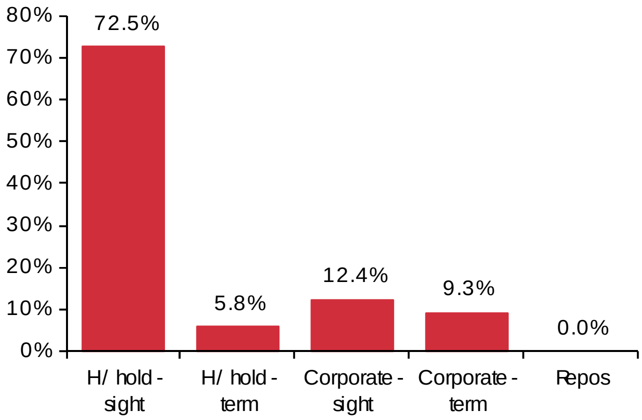
Source: National Bank of Belgium, Datastream, Nomura research

Fig. 147: Lending mix – outstanding loans by customer



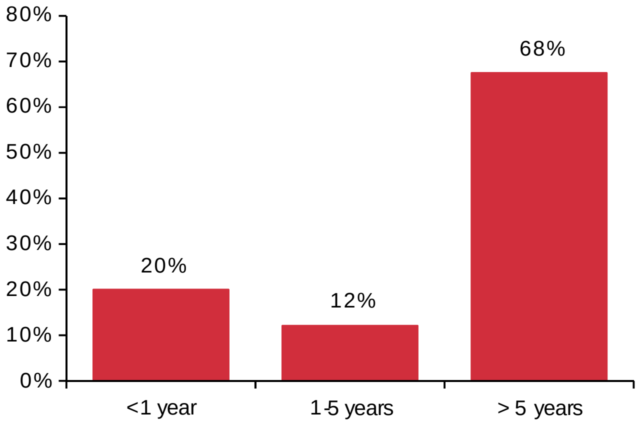
Source: National Bank of Belgium, Datastream, Nomura research

Fig. 148: Deposit mix – excluding overdrafts



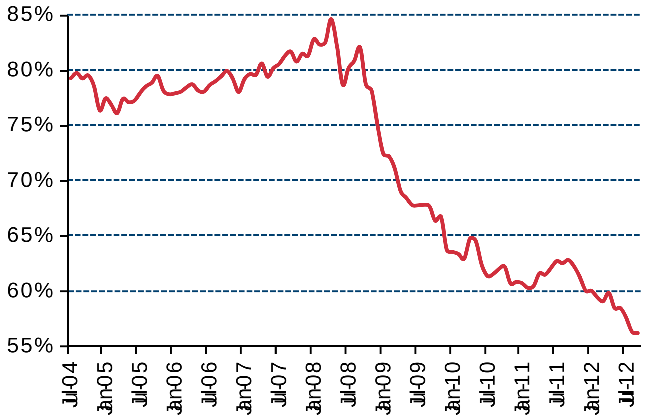
Source: National Bank of Belgium, Datastream, Nomura research

Fig. 149: Lending mix – outstanding loans by maturity



Source: National Bank of Belgium, Datastream, Nomura research

Fig. 150: Loan/deposit ratio



Source: National Bank of Belgium, Datastream, Nomura research

Fig. 151: Banking system data – Belgium

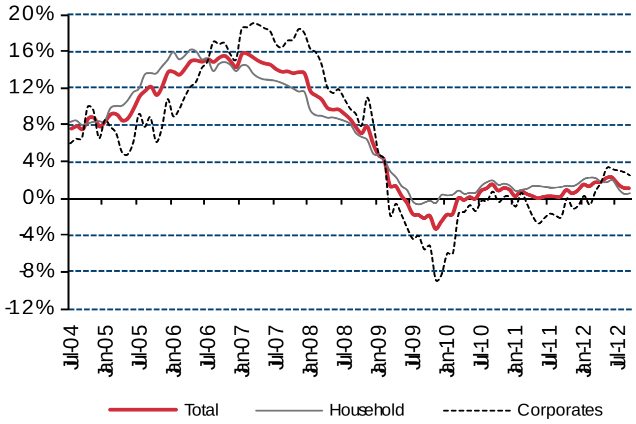
Belgium	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	14.9	13.8	14.0	-8%	2%	7.4	7.5	6.7	1%	-10%
Total revenues	18.4	19.5	19.0	6%	-3%	7.3	10.1	9.0	39%	-11%
Comp costs	(7.4)	(6.7)	(6.7)	-10%	0%	(3.0)	(2.9)	(2.9)	-4%	-1%
Total expenses	(14.1)	(12.6)	(12.5)	-11%	-1%	(6.8)	(6.1)	(6.1)	-9%	-1%
Pre-provision profit	4.3	6.9	6.5	61%	-6%	0.5	4.0	2.9	690%	-27%
Provisions	(6.8)	(1.8)	(4.8)	-74%	169%	(2.5)	(1.6)	(3.0)	-36%	92%
Profit before tax	(3.0)	5.5	1.1	na	-80%	(2.0)	2.7	(0.9)	na	na
Profit after tax	(1.3)	6.0	0.7	na	-88%	(1.8)	2.6	(0.6)	na	na
Loans	695	705	685	1%	-3%	369	376	350	2%	-7%
Total assets	1,190	1,151	1,147	-3%	0%	590	590	556	0%	-6%
Deposits	727	708	665	-3%	-6%	359	378	314	5%	-17%
Equity	50	53	49	7%	-8%	22	23	19	5%	-19%
NPLs	39	37	38	-6%	2%	19	20	23	5%	16%
Reserve for NPLs	11	11	12	-6%	9%	5	6	7	20%	13%
NII/Avge loans	2.04%	1.97%	2.02%	-	-	1.29%	2.00%	1.85%	-	-
Cost/income ratio	76.7%	64.6%	65.7%	-	-	93.1%	60.9%	67.9%	-	-
Provision/Avge loans	0.93%	0.25%	0.69%	-	-	0.44%	0.42%	0.84%	-	-
NPLs/Total loans	5.67%	5.25%	5.48%	-	-	5.17%	5.34%	6.66%	-	-
Reserves/NPLs	29%	29%	32%	-	-	27%	31%	30%	-	-
Loan/deposit	96%	100%	103%	-	-	103%	99%	112%	-	-
Equity/assets	4.2%	4.6%	4.3%	-	-	3.7%	3.9%	3.4%	-	-
Tier 1 ratio	13.2%	15.5%	15.1%	-	-	12.6%	14.1%	13.3%	-	-
ROE	-2.8%	11.7%	1.4%	-	-	-5.7%	11.5%	-3.1%	-	-
ROA	-0.10%	0.51%	0.06%	-	-	-0.18%	0.44%	-0.11%	-	-
Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	3.25%	2.87%	2.84%	2.85%	2.79%	2.72%	2.35%	2.00%	1.77%	2.08%
Cost/income ratio	66.1%	60.9%	62.6%	67.2%	60.9%	66.7%	63.7%	51.4%	62.7%	2342.5%
Provision/Avge loans	0.45%	0.36%	0.39%	0.30%	0.20%	0.06%	(0.09%)	0.08%	0.59%	1.90%
NPLs/Total loans	2.01%	1.67%	1.66%	1.75%	1.71%	1.56%	1.33%	1.30%	1.16%	1.25%
Loan/deposit	90%	97%	85%	86%	83%	81%	87%	91%	92%	86%
Equity/assets	3.2%	3.6%	3.8%	3.9%	3.7%	3.3%	2.9%	3.2%	4.3%	3.8%
Tier 1 ratio	12.3%	13.3%	14.2%	16.2%	14.7%	14.3%	12.5%	13.0%	15.0%	16.4%
ROE	11.5%	15.6%	13.6%	8.5%	13.7%	11.1%	15.0%	23.5%	6.4%	(37.7%)
ROA	0.4%	0.5%	0.5%	0.3%	0.5%	0.4%	0.5%	0.7%	0.2%	(1.5%)
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	4.74%	4.37%	4.27%	4.33%	4.09%	3.83%	3.81%	3.91%	3.59%	3.57%
Cost/income ratio	66.8%	72.3%	70.1%	68.3%	67.9%	71.7%	67.6%	65.7%	63.9%	63.5%
Provision/Avge loans	1.40%	0.64%	0.90%	1.08%	0.73%	0.44%	0.73%	0.69%	0.78%	0.71%
NPLs/Total loans	n/a	n/a	n/a	n/a	3.61%	4.09%	3.87%	3.39%	2.79%	2.47%
Loan/deposit	101%	100%	99%	96%	101%	102%	99%	94%	90%	88%
Equity/assets	3.4%	3.4%	3.8%	4.0%	2.5%	2.6%	2.5%	2.5%	2.6%	3.1%
Tier 1 ratio	n/a	n/a	n/a	n/a	10.1%	10.6%	10.8%	11.0%	11.2%	13.0%
ROE	4.0%	6.5%	4.9%	3.8%	8.3%	9.3%	8.3%	10.6%	10.5%	10.6%
ROA	0.1%	0.2%	0.2%	0.1%	0.3%	0.2%	0.2%	0.3%	0.3%	0.3%

Source: OECD, Nomura research

Denmark

Fig. 152: Loan growth

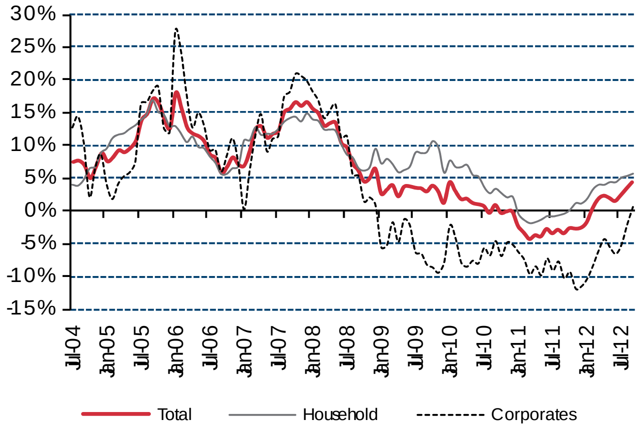
% change y-o-y in outstanding volume



Source: Danmarks Nationalbank, Datastream, Nomura research

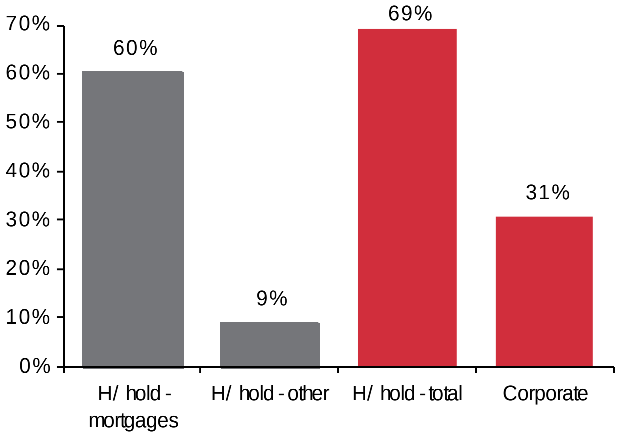
Fig. 153: Deposit growth

% change y-o-y in outstanding volume



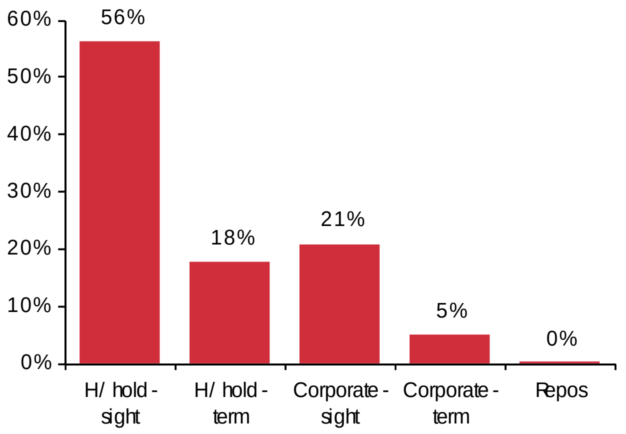
Source: Danmarks Nationalbank, Datastream, Nomura research

Fig. 154: Lending mix – outstanding loans by customer



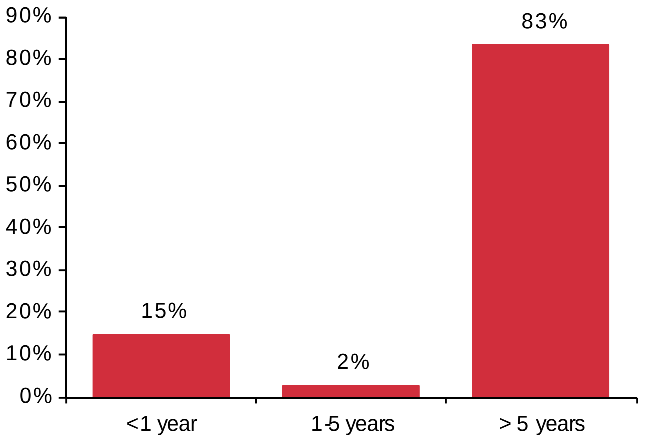
Source: Danmarks Nationalbank, Datastream, Nomura research

Fig. 155: Deposit mix – excluding overdrafts



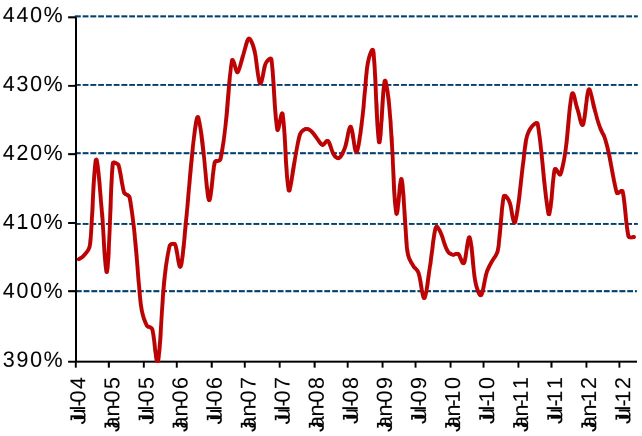
Source: Danmarks Nationalbank, Datastream, Nomura research

Fig. 156: Lending mix – outstanding loans by maturity



Source: Danmarks Nationalbank, Datastream, Nomura research

Fig. 157: Loan/deposit ratio



Source: Danmarks Nationalbank, Datastream, Nomura research

Fig. 158: Banking system data – Denmark

Denmark			All banks					Domestic banks only		
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	11.2	12.9	11.2	15%	-13%	9.1	10.7	9.1	18%	-15%
Total revenues	15.0	17.4	15.0	15%	-13%	12.0	14.6	12.0	21%	-17%
Comp costs	(4.7)	(5.2)	(4.7)	10%	-9%	(3.8)	(4.2)	(3.8)	13%	-11%
Total expenses	(8.6)	(9.5)	(8.6)	10%	-9%	(7.0)	(7.8)	(7.0)	12%	-10%
Pre-provision profit	6.4	7.8	6.4	22%	-18%	5.0	6.7	5.0	35%	-26%
Provisions	(5.6)	(9.5)	(5.6)	70%	-41%	(4.6)	(8.1)	(4.6)	75%	-43%
Profit before tax	1.5	(1.3)	1.5	na	na	0.9	(1.1)	0.9	na	na
Profit after tax	1.0	(1.6)	1.0	na	na	0.6	(1.3)	0.6	na	na
Loans	624	619	624	-1%	1%	517	510	517	-1%	1%
Total assets	912	905	912	-1%	1%	760	741	760	-2%	3%
Deposits	333	354	333	6%	-6%	261	274	261	5%	-4%
Equity	40	39	40	-3%	3%	34	33	34	-3%	3%
NPLs	23	21	23	-11%	13%	20	18	20	-8%	9%
Reserve for NPLs	6	9	6	70%	-41%	5	8	5	75%	-43%
NII/Avge loans	1.77%	2.08%	1.80%	-	-	1.56%	2.08%	1.76%	-	-
Cost/income ratio	57.4%	55.0%	57.4%	-	-	58.4%	53.8%	58.4%	-	-
Provision/Avge loans	0.88%	1.52%	0.89%	-	-	0.80%	1.58%	0.90%	-	-
NPLs/Total loans	3.75%	3.35%	3.75%	-	-	3.86%	3.60%	3.86%	-	-
Reserves/NPLs	24%	46%	24%	-	-	23%	44%	23%	-	-
Loan/deposit	187%	175%	187%	-	-	198%	186%	198%	-	-
Equity/assets	4.4%	4.3%	4.4%	-	-	4.5%	4.5%	4.5%	-	-
Tier 1 ratio	13.8%	13.5%	14.1%	-	-	13.4%	14.4%	15.1%	-	-
ROE	2.5%	-3.9%	2.5%	-	-	1.7%	-3.8%	1.9%	-	-
ROA	0.11%	-0.17%	0.11%	-	-	0.07%	-0.17%	0.08%	-	-

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	4.27%	4.00%	3.94%	4.01%	3.97%	3.31%	2.79%	2.16%	2.00%	2.33%
Cost/income ratio	62.1%	59.5%	53.1%	54.3%	51.5%	50.0%	48.1%	46.4%	50.3%	62.6%
Provision/Avge loans	0.64%	0.62%	0.78%	0.64%	0.68%	0.28%	0.10%	0.04%	0.13%	1.54%
NPLs/Total loans	na	na	na	na	na	na	na	na	na	na
Loan/deposit	91%	102%	110%	106%	100%	103%	114%	131%	132%	135%
Equity/assets	6.1%	6.7%	6.2%	5.8%	6.0%	5.7%	5.7%	6.4%	5.8%	4.9%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	11.6%	12.3%	12.4%	11.2%	11.8%	15.2%	15.7%	15.5%	13.4%	(2.6%)
ROA	0.7%	0.8%	0.8%	0.6%	0.7%	0.9%	0.9%	1.0%	0.8%	(0.1%)

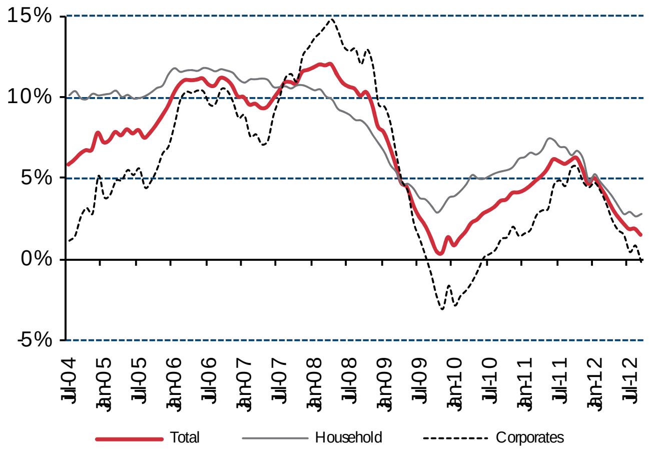
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	5.64%	5.72%	6.77%	7.18%	7.75%	8.78%	6.66%	5.77%	4.87%	4.69%
Cost/income ratio	64.9%	68.6%	62.6%	81.4%	51.1%	72.5%	54.0%	56.9%	59.2%	59.8%
Provision/Avge loans	1.92%	2.64%	2.97%	3.61%	3.48%	2.06%	1.60%	1.04%	0.71%	0.77%
NPLs/Total loans	na	na	na	na	na	na	na	na	na	na
Loan/deposit	92%	94%	101%	96%	86%	81%	78%	80%	86%	87%
Equity/assets	8.7%	7.9%	6.7%	5.9%	5.5%	6.6%	6.9%	6.9%	6.5%	6.3%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	2.4%	(3.1%)	(0.6%)	(21.4%)	6.9%	(0.5%)	15.3%	13.5%	13.7%	12.3%
ROA	0.2%	(0.2%)	(0.0%)	(1.3%)	0.4%	(0.0%)	1.1%	0.9%	0.9%	0.8%

Source: OECD, Nomura research

France

Fig. 159: Loan growth

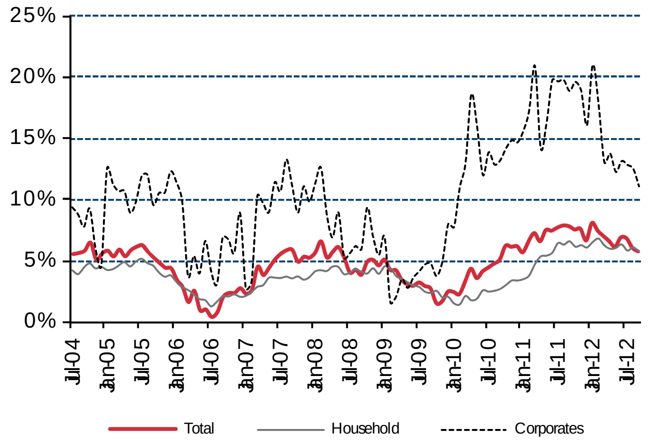
% change y-o-y in outstanding volume



Source: Banque-de-France, Datastream, Nomura research

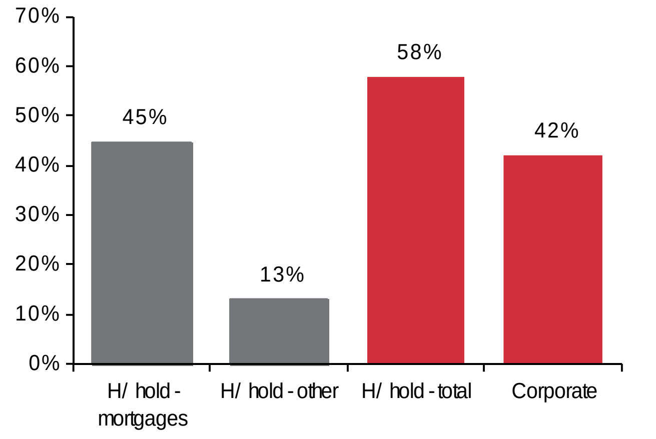
Fig. 160: Deposit growth

% change y-o-y in outstanding volume



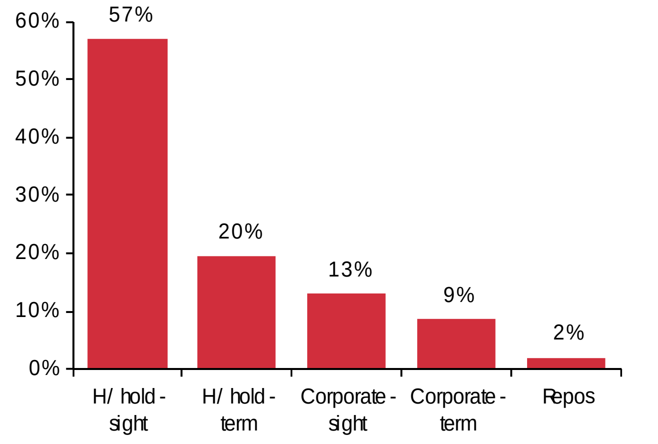
Source: Banque-de-France, Datastream, Nomura research

Fig. 161: Lending mix – outstanding loans by customer



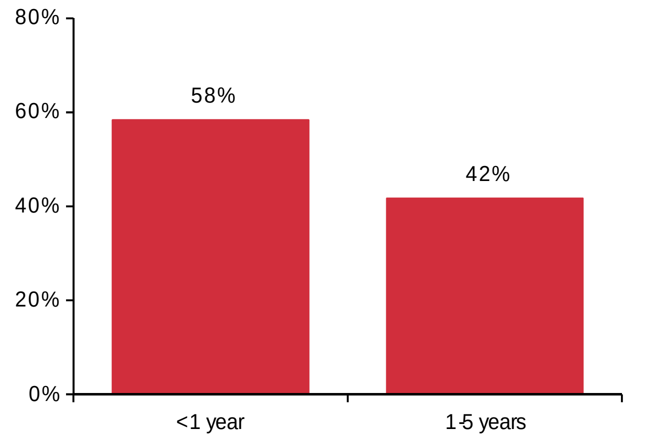
Source: Banque-de-France, Datastream, Nomura research

Fig. 162: Deposit mix – excluding overdrafts



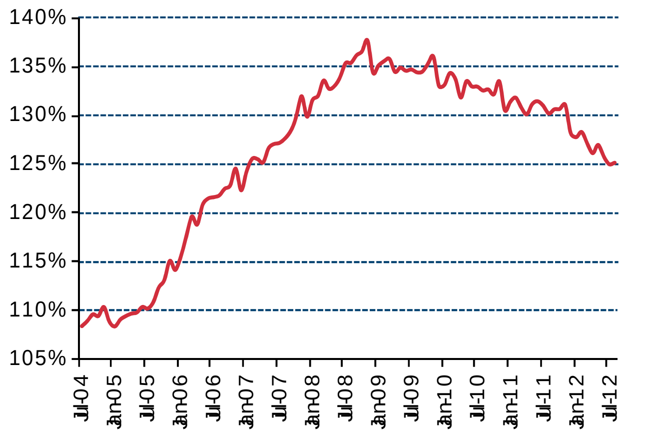
Source: Banque-de-France, Datastream, Nomura research

Fig. 163: Lending mix – outstanding loans by maturity



Source: Banque-de-France, Datastream, Nomura research

Fig. 164: Loan/deposit ratio



Source: Banque-de-France, Datastream, Nomura research

Fig. 165: Banking system data – France

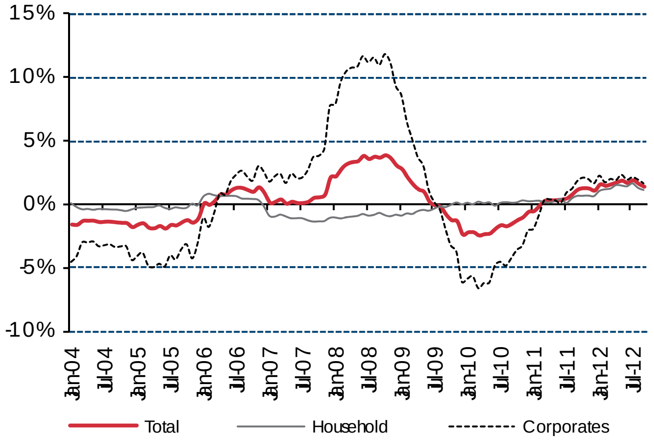
France	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	74.5	78.7	77.4	6%	-2%	72.9	77.4	76.2	6%	-1%
Total revenues	137.5	149.6	146.3	9%	-2%	135.0	147.1	144.3	9%	-2%
Comp costs	(50.4)	(52.6)	(52.1)	4%	-1%	(49.3)	(51.4)	(51.1)	4%	-1%
Total expenses	(91.9)	(96.8)	(97.0)	5%	0%	(90.2)	(95.0)	(95.2)	5%	0%
Pre-provision profit	45.5	52.9	49.4	16%	-7%	44.9	52.1	49.1	16%	-6%
Provisions	(30.8)	(18.8)	(24.4)	-39%	30%	(30.5)	(18.7)	(24.3)	-39%	30%
Profit before tax	18.4	37.5	26.7	103%	-29%	18.0	36.9	26.6	105%	-28%
Profit after tax	14.3	26.6	17.7	86%	-33%	13.9	26.1	17.6	88%	-33%
Loans	3,453	3,602	3,627	4%	1%	3,364	3,500	3,539	4%	1%
Total assets	6,316	6,385	6,674	1%	5%	6,101	6,173	6,451	1%	5%
Deposits	3,041	3,080	3,135	1%	2%	2,957	2,997	3,067	1%	2%
Equity	277	291	291	5%	0%	272	285	286	5%	0%
NPLs	191	206	208	8%	1%	189	204	207	8%	1%
Reserve for NPLs	76	84	91	11%	9%	75	83	91	11%	9%
NII/Avge loans	2.14%	2.23%	2.14%	-	-	2.12%	2.25%	2.16%	-	-
Cost/income ratio	66.9%	64.7%	66.3%	-	-	66.8%	64.6%	66.0%	-	-
Provision/Avge loans	0.88%	0.53%	0.68%	-	-	0.89%	0.54%	0.69%	-	-
NPLs/Total loans	5.54%	5.72%	5.75%	-	-	5.62%	5.83%	5.84%	-	-
Reserves/NPLs	40%	41%	44%	-	-	40%	41%	44%	-	-
Loan/deposit	114%	117%	116%	-	-	114%	117%	115%	-	-
Equity/assets	4.4%	4.6%	4.4%	-	-	4.5%	4.6%	4.4%	-	-
Tier 1 ratio	13.8%	10.8%	10.9%	-	-	13.4%	10.7%	10.9%	-	-
ROE	5.4%	9.4%	6.1%	-	-	5.3%	9.3%	6.1%	-	-
ROA	0.21%	0.42%	0.27%	-	-	0.21%	0.42%	0.28%	-	-
Timeseries (OECD)	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
NII/Avge loans	2.49%	2.23%	2.11%	2.34%	2.36%	2.06%	1.83%	1.44%	1.05%	1.42%
Cost/income ratio	67.6%	66.0%	62.1%	64.7%	64.0%	63.5%	65.5%	58.0%	68.8%	95.5%
Provision/Avge loans	0.37%	0.44%	0.60%	0.46%	0.49%	0.23%	(0.00%)	0.16%	0.23%	0.56%
NPLs/Total loans	2.01%	1.67%	1.66%	1.75%	1.71%	1.56%	1.33%	1.30%	1.16%	1.25%
Loan/deposit	124%	130%	124%	124%	123%	108%	108%	115%	119%	114%
Equity/assets	4.6%	4.6%	4.6%	4.9%	5.1%	4.7%	3.9%	4.2%	3.8%	4.0%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	8.0%	9.7%	10.3%	9.6%	8.9%	11.0%	12.6%	15.2%	8.9%	(2.5%)
ROA	0.4%	0.4%	0.5%	0.5%	0.4%	0.5%	0.5%	0.6%	0.3%	(0.1%)
Timeseries (OECD)	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
NII/Avge loans	4.37%	4.12%	4.08%	3.81%	3.48%	3.40%	3.18%	2.98%	2.58%	2.36%
Cost/income ratio	72.2%	72.4%	69.5%	66.8%	64.7%	71.3%	65.6%	69.9%	68.8%	67.7%
Provision/Avge loans	0.52%	0.62%	0.71%	1.23%	1.78%	1.51%	1.59%	1.15%	0.87%	0.72%
NPLs/Total loans	na	na	na	na	3.61%	4.09%	3.87%	3.39%	2.79%	2.47%
Loan/deposit	173%	178%	172%	171%	156%	146%	137%	128%	121%	120%
Equity/assets	3.1%	3.4%	3.8%	4.0%	4.5%	4.6%	4.4%	4.1%	4.0%	4.1%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	9.4%	7.7%	8.0%	4.3%	0.5%	(1.3%)	1.3%	2.4%	5.3%	8.3%
ROA	0.3%	0.3%	0.3%	0.2%	0.0%	(0.1%)	0.1%	0.1%	0.2%	0.3%

Source: OECD, Nomura research

Germany

Fig. 166: Loan growth

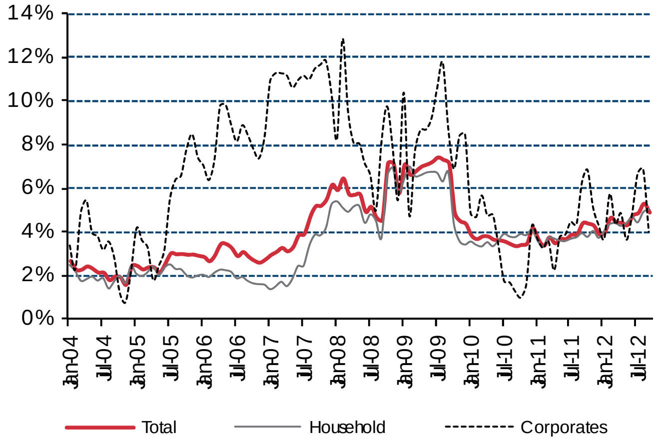
% change y-o-y in outstanding volume



Source: Bundesbank, Datastream, Nomura research

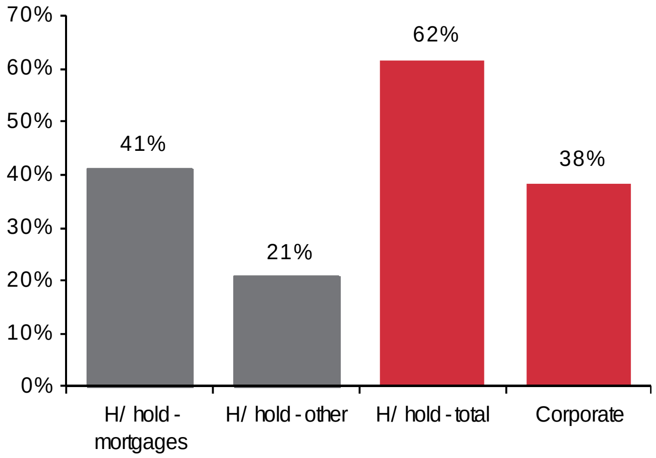
Fig. 167: Deposit growth

% change y-o-y in outstanding volume



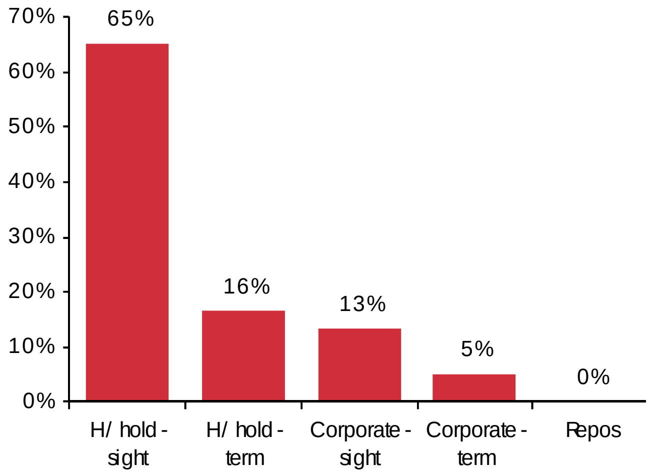
Source: Bundesbank, Datastream, Nomura research

Fig. 168: Lending mix – outstanding loans by customer



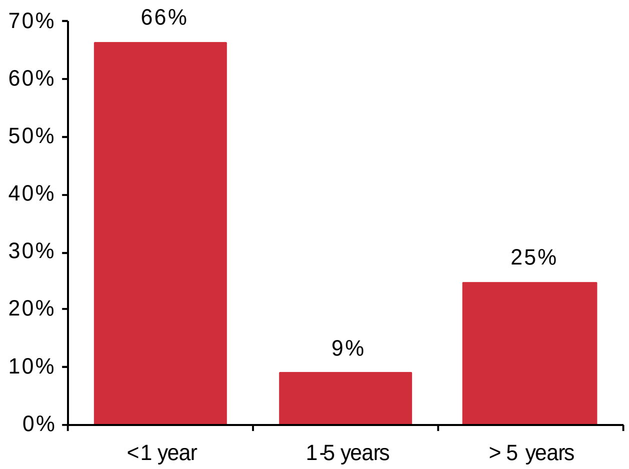
Source: Bundesbank, Datastream, Nomura research

Fig. 169: Deposit mix – excluding overdrafts



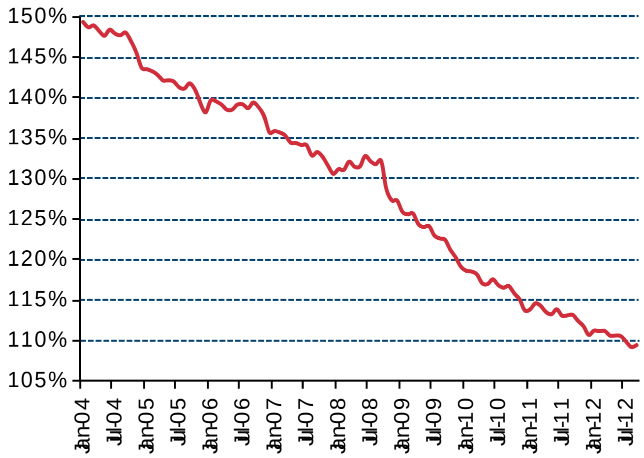
Source: Bundesbank, Datastream, Nomura research

Fig. 170: Lending mix – outstanding loans by maturity



Source: Bundesbank, Datastream, Nomura research

Fig. 171: Loan/deposit ratio



Source: Bundesbank, Datastream, Nomura research

Fig. 172: Banking system data – Germany

Germany	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	80.6	87.7	82.9	9%	-5%	75.4	77.7	76.9	3%	-1%
Total revenues	127.2	140.3	126.5	10%	-10%	119.5	123.4	117.8	3%	-5%
Comp costs	(24.1)	(27.7)	(10.8)	15%	-61%	(23.9)	(25.2)	(10.7)	5%	-58%
Total expenses	(84.8)	(95.2)	(89.2)	12%	-6%	(79.6)	(84.6)	(83.3)	6%	-2%
Pre-provision profit	42.4	45.1	37.3	6%	-17%	39.9	38.9	34.5	-3%	-11%
Provisions	(18.9)	(39.1)	(4.7)	107%	-88%	(16.9)	(35.0)	(3.0)	107%	-92%
Profit before tax	8.9	(5.9)	8.0	na	na	9.9	(6.3)	8.0	na	na
Profit after tax	5.8	(7.0)	6.7	na	na	6.7	(7.4)	6.7	na	na
Loans	4,062	4,572	4,729	13%	3%	3,789	4,053	4,438	7%	10%
Total assets	7,897	8,628	7,996	9%	-7%	7,517	7,767	7,577	3%	-2%
Deposits	4,245	4,749	4,306	12%	-9%	3,955	4,235	3,988	7%	-6%
Equity	299	317	305	6%	-4%	281	270	283	-4%	5%
NPLs	133	174	99	31%	-43%	124	156	94	26%	-40%
Reserve for NPLs	47	73	40	56%	-46%	41	61	36	50%	-41%
NII/Avge loans	2.12%	2.03%	1.78%	-	-	2.06%	1.98%	1.81%	-	-
Cost/income ratio	66.7%	67.8%	70.5%	-	-	66.6%	68.5%	70.7%	-	-
Provision/Avge loans	0.50%	0.91%	0.10%	-	-	0.46%	0.89%	0.07%	-	-
NPLs/Total loans	3.28%	3.81%	2.08%	-	-	3.28%	3.85%	2.11%	-	-
Reserves/NPLs	35%	42%	40%	-	-	33%	39%	38%	-	-
Loan/deposit	96%	96%	110%	-	-	96%	96%	111%	-	-
Equity/assets	3.8%	3.7%	3.8%	-	-	3.7%	3.5%	3.7%	-	-
Tier 1 ratio	13.8%	10.6%	11.7%	-	-	13.4%	10.2%	11.6%	-	-
ROE	2.7%	-2.3%	2.2%	-	-	3.3%	-2.7%	2.4%	-	-
ROA	0.06%	-0.08%	0.08%	-	-	0.08%	-0.10%	0.09%	-	-

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	2.95%	2.67%	2.67%	2.96%	2.85%	2.96%	2.94%	2.86%	2.72%	2.79%
Cost/income ratio	67.8%	68.7%	69.9%	63.8%	72.6%	74.0%	61.7%	64.6%	69.6%	81.4%
Provision/Avge loans	0.58%	0.65%	0.81%	1.30%	1.08%	0.68%	0.61%	0.64%	0.28%	1.21%
NPLs/Total loans	n.a.	n.a.	n.a.	n.a.	5.20%	4.90%	4.00%	3.40%	2.70%	n.a.
Loan/deposit	111%	114%	111%	111%	108%	103%	104%	105%	104%	100%
Equity/assets	4.0%	4.0%	4.1%	4.4%	4.5%	4.1%	4.1%	4.2%	4.1%	4.6%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	5.2%	5.0%	3.7%	2.0%	(2.2%)	1.1%	8.6%	7.4%	7.3%	(6.7%)
ROA	0.2%	0.2%	0.2%	0.1%	(0.1%)	0.0%	0.4%	0.3%	0.3%	(0.3%)

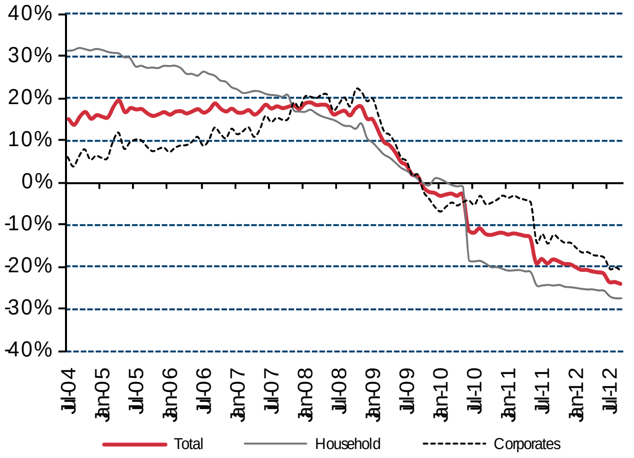
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	3.48%	3.39%	3.43%	3.47%	3.59%	3.80%	3.46%	3.34%	3.14%	2.96%
Cost/income ratio	64.6%	64.8%	65.2%	64.5%	62.4%	60.8%	63.8%	63.8%	64.1%	57.6%
Provision/Avge loans	0.80%	0.80%	0.59%	0.67%	0.78%	0.94%	0.62%	0.60%	0.62%	0.61%
NPLs/Total loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Loan/deposit	104%	105%	108%	110%	107%	112%	116%	115%	116%	116%
Equity/assets	3.8%	3.8%	3.8%	4.1%	4.0%	4.2%	4.2%	4.1%	4.1%	3.9%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	5.4%	5.5%	6.0%	5.0%	6.1%	6.1%	6.0%	5.8%	5.3%	8.9%
ROA	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%	0.3%

Source: OECD, Nomura research

Greece

Fig. 173: Loan growth

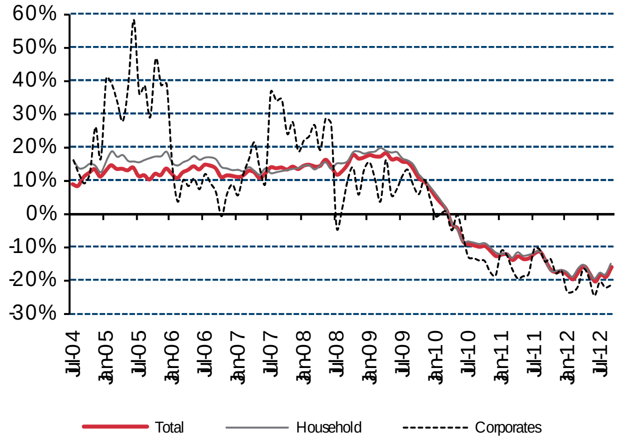
% change y-o-y in outstanding volume



Source: Bank of Greece, Datastream, Nomura research

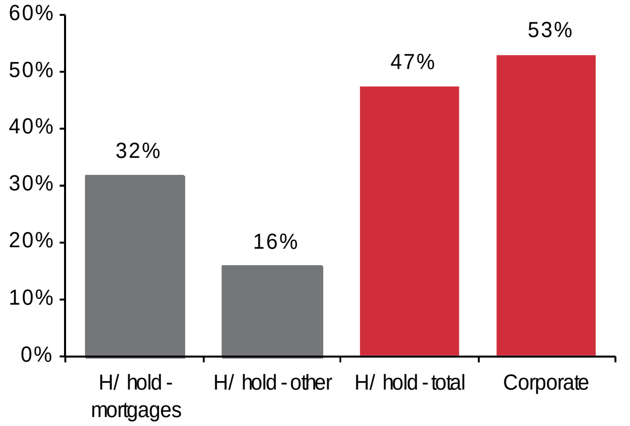
Fig. 174: Deposit growth

% change y-o-y in outstanding volume



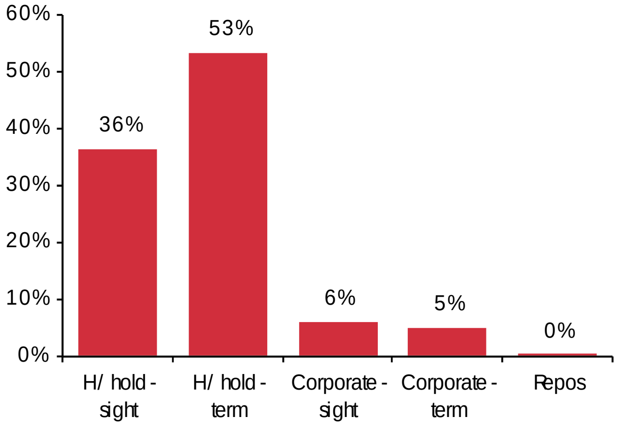
Source: Bank of Greece, Datastream, Nomura research

Fig. 175: Lending mix – outstanding loans by customer



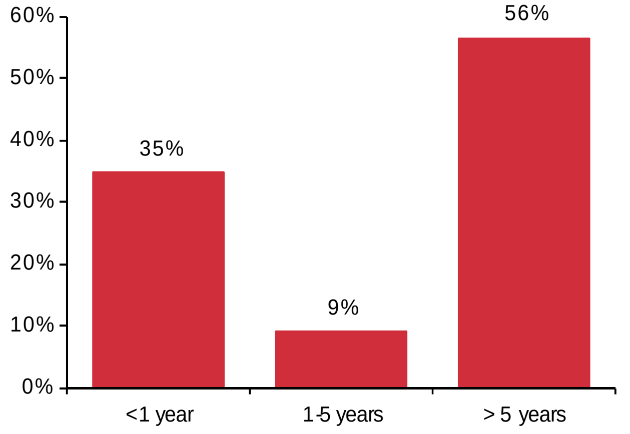
Source: Bank of Greece, Datastream, Nomura research

Fig. 176: Deposit mix – excluding overdrafts



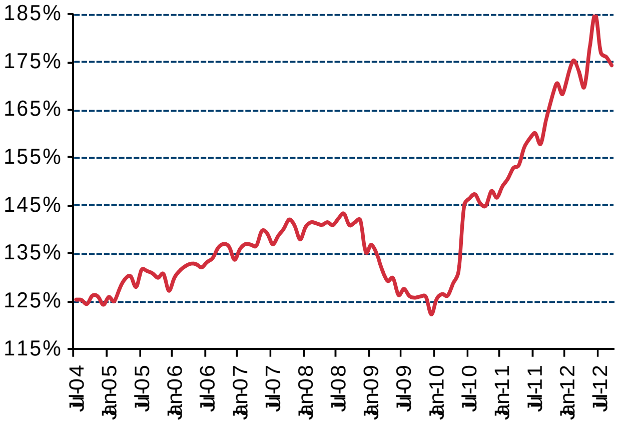
Source: Bank of Greece, Datastream, Nomura research

Fig. 177: Lending mix – outstanding loans by maturity



Source: Bank of Greece, Datastream, Nomura research

Fig. 178: Loan/deposit ratio



Source: Bank of Greece, Datastream, Nomura research

Fig. 179: Banking system data – Greece

Greece		All banks				Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	12.1	12.8	12.1	5%	-5%	10.4	10.9	10.2	5%	-7%
Total revenues	15.9	14.7	13.2	-7%	-10%	13.4	12.3	10.8	-8%	-12%
Comp costs	(5.0)	(4.9)	(4.7)	-3%	-4%	(3.9)	(3.8)	(3.7)	-2%	-3%
Total expenses	(8.8)	(8.6)	(8.1)	-1%	-6%	(6.9)	(6.8)	(6.4)	-2%	-5%
Pre-provision profit	7.1	6.1	5.1	-15%	-17%	6.5	5.5	4.4	-16%	-21%
Provisions										
Profit before tax	1.4	(1.0)	(45.3)	na	n/a	2.0	0.4	(40.3)	na	n/a
Profit after tax	0.7	(1.5)	(40.7)	na	n/a	1.5	(0.0)	(36.0)	na	n/a
Loans	370	362	320	-2%	-12%	284	277	250	-3%	-10%
Total assets	490	493	425	1%	-14%	386	395	343	2%	-13%
Deposits	342	298	257	-13%	-14%	3,027	231	195	-92%	-15%
Equity	32	30	(3)	-4%	n/a	8	27	(4)	233%	n/a
NPLs	23	31	45	36%	44%	240	21	31	-91%	48%
Reserve for NPLs	10	15	26	45%	77%	96	9	17	-90%	82%
NII/Avge loans	3.33%	3.49%	3.55%	-	-	3.67%	3.88%	3.87%	-	-
Cost/income ratio	55.1%	58.7%	61.6%	-	-	51.3%	55.2%	59.6%	-	-
Provision/Avge loans	0.00%	0.00%	0.00%	-	-	0.00%	0.00%	0.00%	-	-
NPLs/Total loans	6.20%	8.59%	13.95%	-	-	84.42%	7.66%	12.54%	-	-
Reserves/NPLs	44%	47%	58%	-	-	40%	43%	53%	-	-
Loan/deposit	108%	121%	124%	-	-	9%	120%	128%	-	-
Equity/assets	6.5%	6.1%	-0.8%	-	-	2.1%	7.0%	-1.1%	-	-
Tier 1 ratio	10.8%	10.9%	n/a	-	-	11.2%	11.3%	n/a	-	-
ROE	2.6%	-4.9%	-303.2%	-	-	17.6%	-0.2%	-303.6%	-	-
ROA	0.15%	-0.31%	-8.87%	-	-	0.38%	-0.01%	-9.75%	-	-

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	6.64%	6.96%	5.84%	4.92%	4.96%	4.72%	4.63%	4.91%	4.74%	4.46%
Cost/income ratio	41.6%	53.3%	58.4%	68.2%	62.7%	65.6%	54.9%	52.3%	52.6%	60.0%
Provision/Avge loans	1.77%	0.84%	0.70%	0.75%	0.86%	0.97%	0.88%	1.08%	0.77%	0.19%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	54%	69%	74%	84%	87%	83%	92%	81%	80%	76%
Equity/assets	9.9%	8.9%	9.3%	6.6%	6.8%	4.9%	5.7%	6.7%	6.5%	5.0%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	9.6%	8.7%	9.5%	9.4%	8.7%
ROE	21.9%	14.3%	10.3%	7.0%	9.0%	6.5%	14.0%	11.3%	13.7%	3.2%
ROA	2.2%	1.3%	1.0%	0.5%	0.6%	0.3%	0.8%	0.8%	0.9%	0.2%

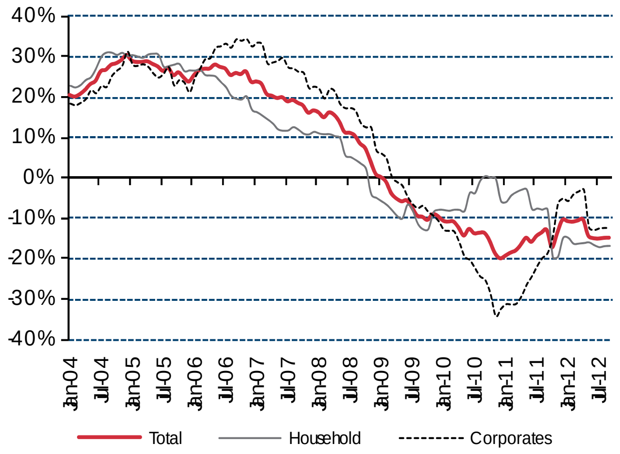
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	3.68%	5.33%	7.82%	6.08%	6.13%	5.20%	7.02%	5.91%	6.49%	6.44%
Cost/income ratio	74.8%	64.1%	51.3%	61.0%	62.7%	59.5%	64.3%	68.2%	63.2%	59.3%
Provision/Avge loans	0.96%	1.48%	2.45%	1.22%	1.33%	1.50%	0.87%	1.63%	1.87%	1.52%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	38%	35%	33%	31%	30%	33%	38%	42%	40%	47%
Equity/assets	3.1%	3.9%	4.7%	4.6%	4.6%	4.9%	4.8%	4.5%	5.1%	6.0%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	11.7%	16.5%	26.4%	15.6%	14.4%	18.6%	17.4%	10.3%	12.6%	12.2%
ROA	0.4%	0.6%	1.2%	0.7%	0.7%	0.9%	0.8%	0.5%	0.6%	0.7%

Source: OECD, Nomura research

Ireland

Fig. 180: Loan growth

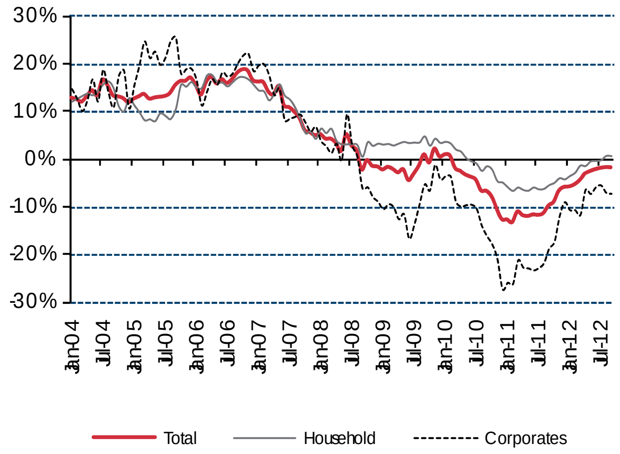
% change y-o-y in outstanding volume



Source: Central Bank of Ireland, Datastream, Nomura research

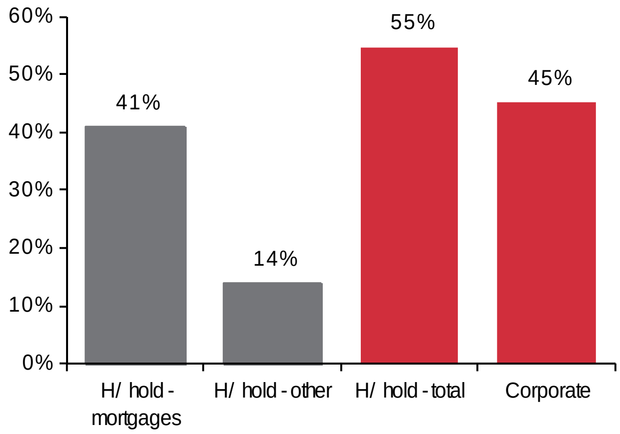
Fig. 181: Deposit growth

% change y-o-y in outstanding volume



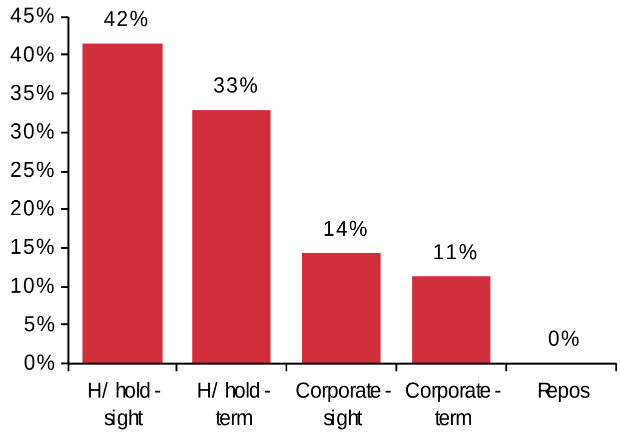
Source: Central Bank of Ireland, Datastream, Nomura research

Fig. 182: Lending mix – outstanding loans by customer



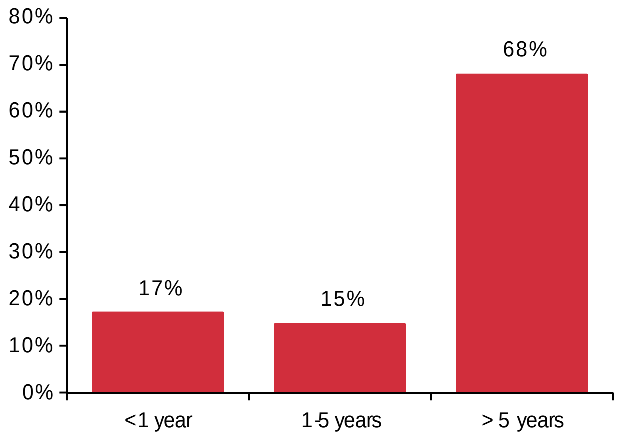
Source: Central Bank of Ireland, Datastream, Nomura research

Fig. 183: Deposit mix – excluding overdrafts



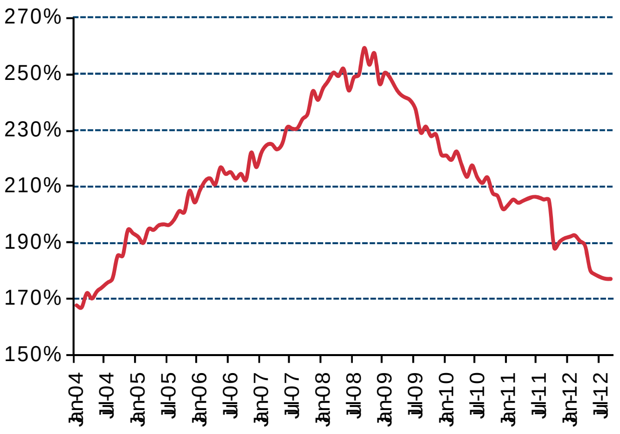
Source: Central Bank of Ireland, Datastream, Nomura research

Fig. 184: Lending mix – outstanding loans by maturity



Source: Central Bank of Ireland, Datastream, Nomura research

Fig. 185: Loan/deposit ratio



Source: Central Bank of Ireland, Datastream, Nomura research

Fig. 186: Banking system data – Ireland

Ireland	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	11.5	8.1	6.6	-30%	-18%	7.5	5.2	4.1	-30%	-22%
Total revenues	17.2	1.6	15.9	-91%	918%	12.0	(2.0)	11.1	na	na
Comp costs	(3.5)	(3.4)	(3.2)	-4%	-4%	(2.3)	(2.2)	(2.0)	-1%	-9%
Total expenses	(6.6)	(6.4)	(6.5)	-2%	1%	(4.0)	(4.0)	(3.9)	1%	-3%
Pre-provision profit	10.7	(4.9)	9.4	na	na	8.0	(6.0)	7.2	na	na
Provisions	(34.4)	(28.4)	(19.5)	-17%	-31%	(27.9)	(23.4)	(14.7)	-16%	-37%
Profit before tax	(24.0)	(38.7)	(10.6)	61%	-73%	(20.2)	(34.8)	(8.0)	72%	-77%
Profit after tax	(23.2)	(36.4)	(7.5)	57%	-79%	(19.3)	(32.5)	(4.9)	68%	-85%
Loans	772	596	508	-23%	-15%	361	301	250	-17%	-17%
Total assets	1,339	1,179	1,193	-12%	1%	517	448	381	-13%	-15%
Deposits	597	417	351	-30%	-16%	237	230	167	-3%	-27%
Equity	63	55	67	-13%	23%	27	19	31	-31%	67%
NPLs										
Reserve for NPLs										
NII/Avge loans	1.38%	1.19%	1.20%	-	-	1.19%	1.58%	1.48%	-	-
Cost/income ratio	38.0%	412.2%	40.8%	-	-	33.2%	-202.5%	35.2%	-	-
Provision/Avge loans	4.11%	4.15%	3.54%	-	-	4.44%	7.06%	5.32%	-	-
NPLs/Total loans	0.00%	0.00%	0.00%	-	-	0.00%	0.00%	0.00%	-	-
Reserves/NPLs									-	
Loan/deposit	129%	143%	145%	-	-	152%	131%	150%	-	-
Equity/assets	4.7%	4.7%	5.7%	-	-	5.2%	4.2%	8.2%	-	-
Tier 1 ratio	9.8%	11.6%	16.7%	-	-	7.7%	7.7%	7.7%	-	-
ROE	-40.1%	-61.6%	-12.3%	-	-	-48.6%	-141.2%	-19.3%	-	-
ROA	-1.57%	-2.89%	-0.63%	-	-	-1.80%	-6.73%	-1.17%	-	-

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	2.99%	2.98%	2.87%	2.62%	2.31%	2.12%	1.84%	1.82%	1.95%	1.62%
Cost/income ratio	51.7%	50.1%	55.7%	51.2%	50.7%	49.6%	46.6%	47.5%	48.0%	47.6%
Provision/Avge loans	0.17%	0.22%	0.30%	0.23%	0.15%	0.08%	0.08%	0.07%	0.12%	0.91%
NPLs/Total loans	n/a	n/a	n/a	n/a	0.90%	0.80%	0.70%	0.70%	0.80%	2.60%
Loan/deposit	123%	125%	128%	151%	158%	168%	190%	180%	186%	na
Equity/assets	6.1%	6.3%	6.6%	5.7%	5.2%	5.0%	4.0%	4.3%	4.2%	3.3%
Tier 1 ratio	12.2%	12.0%	12.1%	15.4%	13.8%	12.2%	11.6%	11.9%	11.6%	10.3%
ROE	13.9%	13.5%	10.5%	12.7%	12.1%	13.3%	14.0%	13.3%	12.8%	0.3%
ROA	0.8%	0.9%	0.7%	0.7%	0.6%	0.7%	0.6%	0.6%	0.5%	0.0%

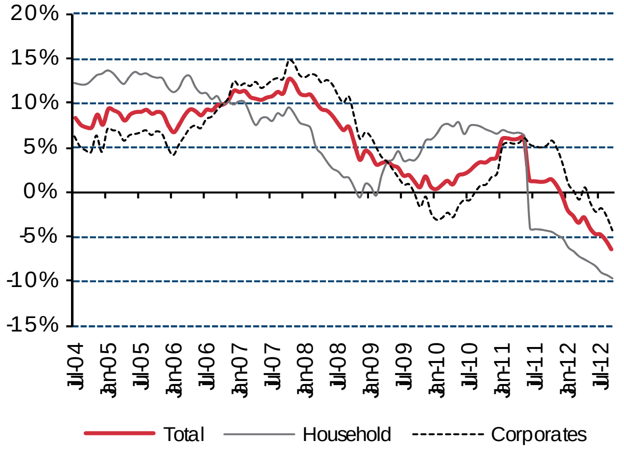
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	n/a	n/a	n/a	n/a	n/a	n/a	4.88%	4.25%	3.17%	3.26%
Cost/income ratio	n/a	n/a	n/a	n/a	n/a	n/a	59.3%	57.6%	58.3%	52.0%
Provision/Avge loans	n/a	n/a	n/a	n/a	n/a	n/a	0.27%	0.22%	0.18%	0.21%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	n/a	n/a	n/a	n/a	n/a	n/a	98%	106%	114%	120%
Equity/assets	n/a	n/a	n/a	n/a	n/a	n/a	6.7%	6.7%	5.7%	6.0%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	10.7%	10.7%	9.9%	11.1%
ROE	n/a	n/a	n/a	n/a	n/a	n/a	14.5%	14.3%	14.0%	15.9%
ROA	n/a	n/a	n/a	n/a	n/a	n/a	1.0%	1.0%	0.8%	1.0%

Source: OECD, Nomura research

Italy

Fig. 187: Loan growth

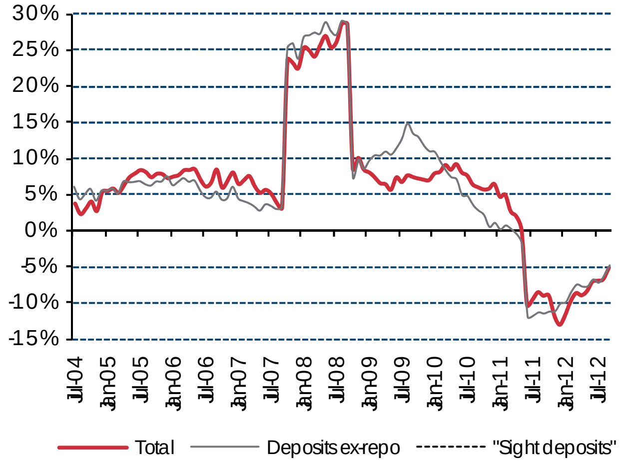
% change y-o-y in outstanding volume



Source: Banca d ' Italia, Datastream, Nomura research

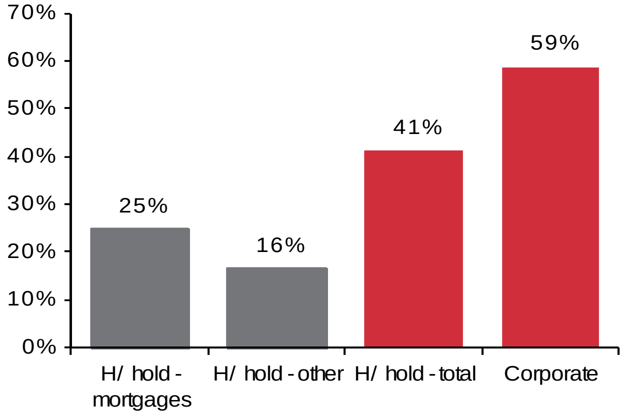
Fig. 188: Deposit growth

% change y-o-y in outstanding volume



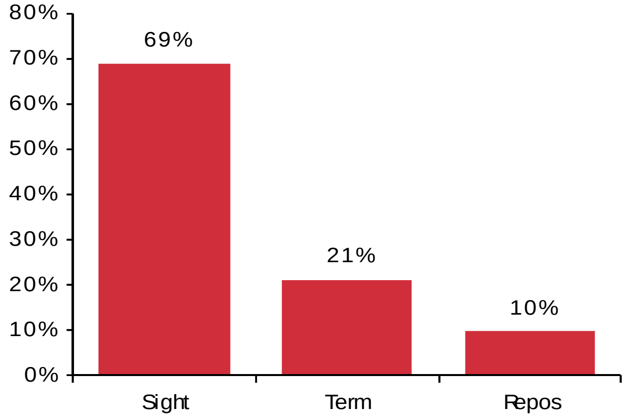
Source: Banca d ' Italia, Datastream, Nomura research

Fig. 189: Lending mix – outstanding loans by customer



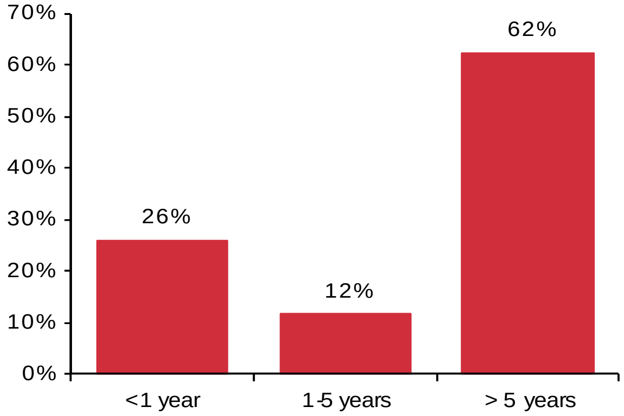
Source: Banca d ' Italia, Datastream, Nomura research

Fig. 190: Deposit mix – excluding overdrafts



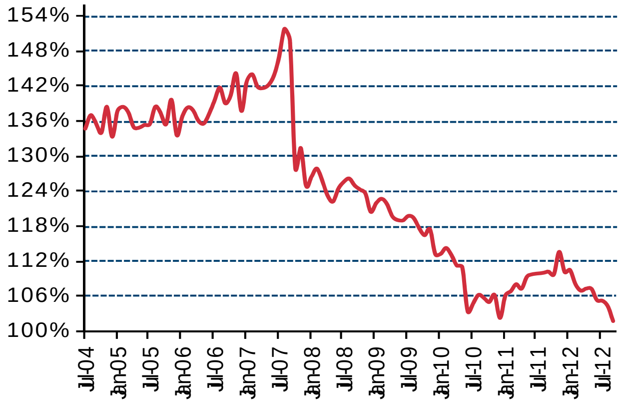
Source: Banca d ' Italia, Datastream, Nomura research

Fig. 191: Lending mix – outstanding loans by maturity



Source: Banca d ' Italia, Datastream, Nomura research

Fig. 192: Loan/deposit ratio



Source: Banca d ' Italia, Datastream, Nomura research

Fig. 193: Banking system data – Italy

Italy	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	49.3	45.6	45.8	-8%	1%	45.5	41.9	42.0	(8%)	0%
Total revenues	82.3	79.3	80.3	-4%	1%	76.1	73.2	73.8	(4%)	1%
Comp costs	(28.8)	(29.0)	(29.5)	1%	2%	(26.6)	(26.6)	(27.2)	0%	2%
Total expenses	(49.2)	(49.7)	(52.2)	1%	5%	(45.5)	(45.7)	(48.1)	1%	5%
Pre-provision profit	33.1	29.6	28.1	-11%	-5%	30.7	27.5	25.7	(10%)	(6%)
Provisions	(20.5)	(17.6)	(51.0)	-14%	190%	(19.4)	(16.4)	(49.7)	(16%)	204%
Profit before tax	12.1	11.6	(24.4)	-4%	na	10.9	11.0	(25.3)	1%	na
Profit after tax	8.4	8.0	(24.4)	-5%	na	7.7	7.8	(24.8)	1%	na
Loans	1,892	1,922	1,932	2%	0%	1,713	1,749	1,753	2%	0%
Total assets	2,711	2,765	2,794	2%	1%	2,475	2,536	2,558	2%	1%
Deposits	1,358	1,458	1,432	7%	-2%	1,210	1,315	1,274	9%	(3.1%)
Equity	204	209	180	3%	-14%	192	197	168	3%	(15.0%)
NPLs	168	193	219	15%	13%	158	180	204	14%	13%
Reserve for NPLs	67	78	88	16%	13%	62	72	81	15%	13%
NII/Avge loans	2.66%	2.39%	2.38%	-	-	2.65%	2.42%	2.40%	-	-
Cost/income ratio	59.8%	62.7%	65.0%	-	-	59.7%	62.5%	65.1%	-	-
Provision/Avge loans	1.11%	0.92%	2.65%	-	-	1.13%	0.94%	2.84%	-	-
NPLs/Total loans	8.86%	10.05%	11.32%	-	-	9.24%	10.30%	11.61%	-	-
Reserves/NPLs	40%	40%	40%	-	-	39%	40%	40%	-	-
Loan/deposit	139%	132%	135%	-	-	142%	133%	138%	-	-
Equity/assets	7.5%	7.6%	6.5%	-	-	7.8%	7.8%	6.6%	-	-
Tier 1 ratio	8.3%	8.7%	9.5%	-	-	8.3%	8.8%	9.6%	-	-
ROE	4.3%	3.9%	-12.5%	-	-	4.0%	4.0%	-13.6%	-	-
ROA	0.31%	0.29%	-0.88%	-	-	0.31%	0.31%	-0.97%	-	-

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	4.90%	4.92%	5.30%	4.96%	4.66%	4.37%	4.22%	3.80%	3.76%	3.88%
Cost/income ratio	60.7%	56.0%	55.4%	59.9%	61.0%	60.6%	59.9%	57.1%	58.0%	64.4%
Provision/Avge loans	0.86%	0.75%	1.35%	1.14%	1.08%	0.62%	0.59%	0.44%	0.26%	1.06%
NPLs/Total loans	7.20%	5.55%	4.59%	4.43%	4.65%	4.70%	3.65%	3.42%	3.11%	2.62%
Loan/deposit	149%	169%	173%	173%	175%	175%	177%	186%	200%	na
Equity/assets	6.9%	6.8%	6.8%	6.8%	6.9%	6.7%	7.2%	6.8%	8.0%	7.9%
Tier 1 ratio	11.0%	10.5%	10.7%	11.2%	11.7%	12.0%	12.3%	11.5%	12.2%	7.6%
ROE	8.4%	10.9%	8.4%	6.8%	7.1%	9.2%	8.6%	11.0%	8.9%	3.9%
ROA	0.6%	0.7%	0.6%	0.5%	0.5%	0.6%	0.6%	0.7%	0.7%	0.3%

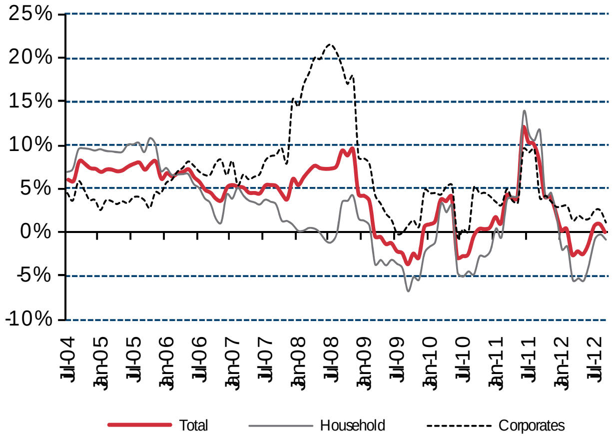
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	6.93%	6.94%	6.55%	6.92%	6.77%	6.31%	6.64%	6.52%	5.69%	5.38%
Cost/income ratio	62.6%	61.8%	64.7%	65.6%	60.8%	68.4%	67.6%	66.7%	68.7%	61.0%
Provision/Avge loans	1.32%	1.29%	1.06%	1.32%	1.69%	1.82%	1.72%	1.56%	1.60%	1.11%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8.82%	8.43%
Loan/deposit	98%	100%	104%	112%	108%	109%	112%	110%	129%	138%
Equity/assets	5.4%	5.8%	6.5%	6.8%	6.7%	7.0%	6.8%	6.5%	6.5%	6.8%
Tier 1 ratio	n/a	n/a	n/a	10.3%	11.1%	11.3%	10.7%	11.0%	10.7%	11.1%
ROE	8.4%	9.9%	7.5%	4.9%	4.3%	1.2%	1.2%	3.4%	1.4%	7.0%
ROA	0.4%	0.6%	0.5%	0.3%	0.3%	0.1%	0.1%	0.2%	0.1%	0.5%

Source: OECD, Nomura research

Netherlands

Fig. 194: Loan growth

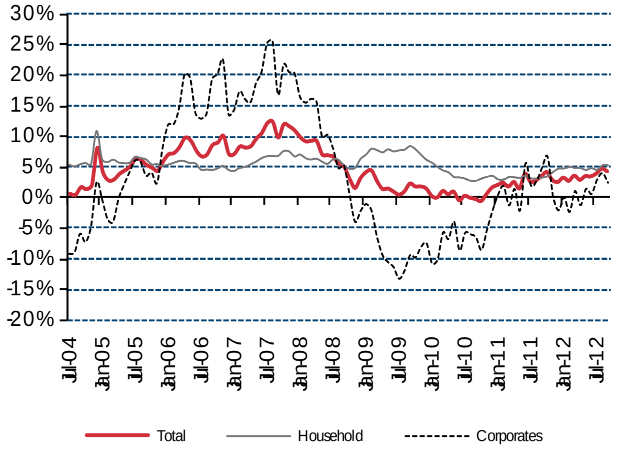
% change y-o-y in outstanding volume



Source: De Nederlandsche Bank , Nomura research

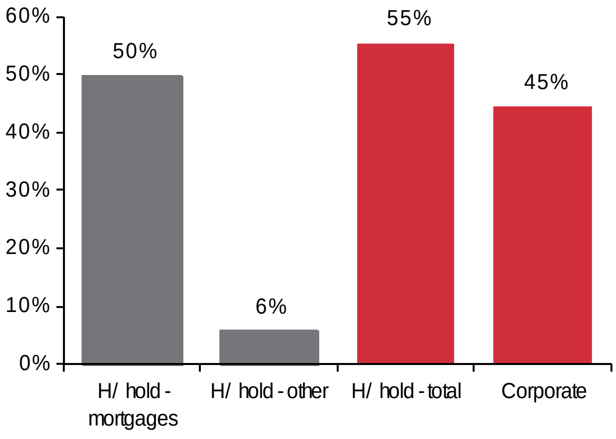
Fig. 195: Deposit growth

% change y-o-y in outstanding volume



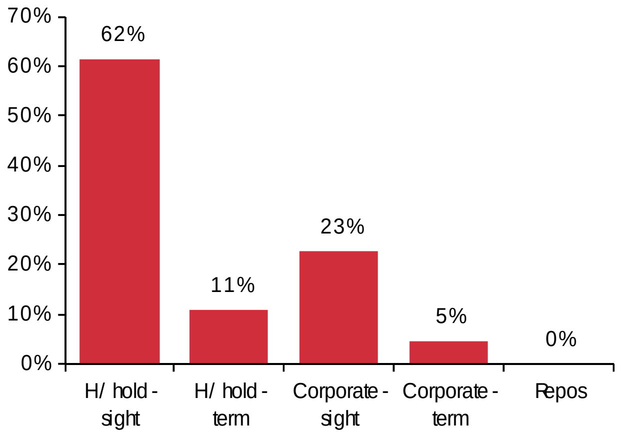
Source: De Nederlandsche Bank , Nomura research

Fig. 196: Lending mix – outstanding loans by customer



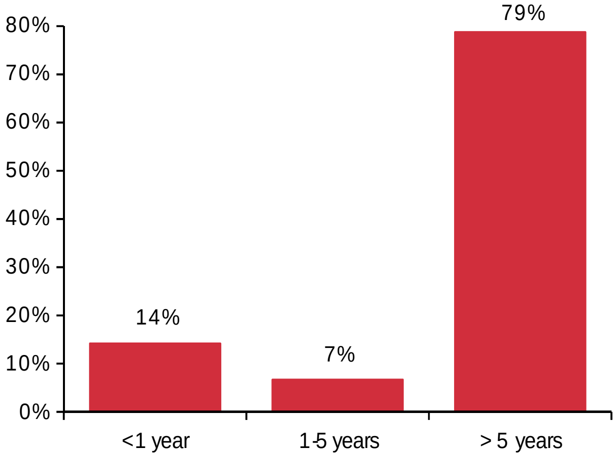
Source: De Nederlandsche Bank , Nomura research

Fig. 197: Deposit mix – excluding overdrafts



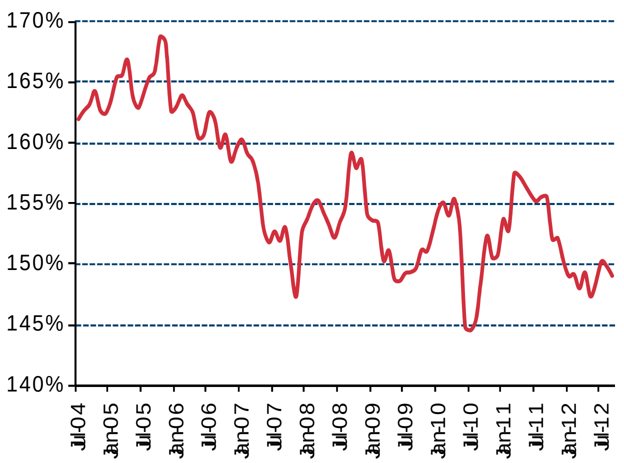
Source: De Nederlandsche Bank , Nomura research

Fig. 198: Lending mix – outstanding loans by maturity



Source: De Nederlandsche Bank , Nomura research

Fig. 199: Loan/deposit ratio



Source: De Nederlandsche Bank , Nomura research

Fig. 200: Banking system data – Netherlands

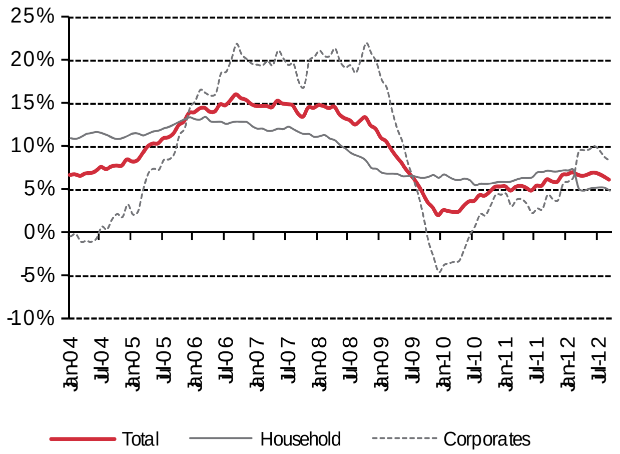
Netherlands	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	30.0	33.1	32.9	10%	0%	29.0	30.4	30.9	5%	2%
Total revenues	43.4	49.3	49.4	14%	0%	41.8	43.4	44.0	4%	1%
Comp costs	(16.0)	(17.5)	(16.6)	9%	-5%	(15.8)	(15.1)	(14.8)	-4%	-2%
Total expenses	(30.0)	(31.2)	(29.9)	4%	-4%	(29.1)	(26.6)	(26.2)	-9%	-2%
Pre-provision profit	13.4	18.1	19.5	35%	8%	12.6	16.8	17.8	33%	6%
Provisions	(10.2)	(6.7)	(9.9)	-34%	47%	(9.9)	(6.5)	(7.7)	-34%	19%
Profit before tax	(0.5)	10.6	9.6	na	-10%	(0.8)	9.8	9.7	na	0%
Profit after tax	(0.3)	8.9	7.2	na	-19%	(0.6)	7.5	7.8	na	4%
Loans	1,857	1,929	1,919	4%	-1%	1,767	1,749	1,753	-1%	0%
Total assets	2,648	2,707	2,832	2%	5%	2,530	2,364	2,514	-7%	6%
Deposits	1,430	1,479	1,533	3%	4%	1,324	1,289	1,288	-3%	0%
Equity	156	113	114	-27%	1%	108	101	104	-7%	3%
NPLs	10	7	54	-32%	704%	10	7	49	-31%	638%
Reserve for NPLs	21	20	22	-6%	11%	21	18	18	-15%	2%
NII/Avge loans	1.56%	1.75%	1.71%	-	-	1.55%	1.73%	1.77%	-	-
Cost/income ratio	69.2%	63.3%	60.5%	-	-	69.8%	61.4%	59.6%	-	-
Provision/Avge loans	0.53%	0.36%	0.51%	-	-	0.53%	0.37%	0.44%	-	-
NPLs/Total loans	0.53%	0.35%	2.80%	-	-	0.54%	0.38%	2.78%	-	-
Reserves/NPLs	214%	293%	40%	-	-	219%	269%	37%	-	-
Loan/deposit	130%	130%	125%	-	-	133%	136%	136%	-	-
Equity/assets	5.9%	4.2%	4.0%	-	-	4.3%	4.3%	4.1%	-	-
Tier 1 ratio	12.5%	11.9%	11.8%	-	-	12.4%	11.9%	11.7%	-	-
ROE	-0.3%	6.6%	6.3%	-	-	-0.6%	7.2%	7.7%	-	-
ROA	-0.02%	0.33%	0.26%	-	-	-0.04%	0.31%	0.32%	-	-
Timeseries (OECD)	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
NII/Avge loans	2.66%	2.61%	2.49%	2.54%	2.57%	2.53%	2.16%	1.97%	1.83%	1.80%
Cost/income ratio	67.9%	70.4%	69.6%	70.8%	67.0%	67.4%	66.6%	67.5%	62.5%	97.2%
Provision/Avge loans	0.26%	0.20%	0.36%	0.49%	0.33%	0.18%	0.10%	0.17%	0.18%	0.83%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	131%	132%	126%	128%	122%	120%	133%	127%	129%	133%
Equity/assets	4.1%	4.0%	3.8%	3.7%	3.7%	3.5%	2.7%	3.3%	4.0%	3.3%
Tier 1 ratio	8.9%	9.0%	8.2%	8.7%	9.0%	9.3%	9.4%	8.8%	8.5%	10.0%
ROE	13.0%	13.4%	12.1%	8.6%	12.2%	14.5%	17.8%	16.0%	16.9%	(9.5%)
ROA	0.5%	0.5%	0.5%	0.3%	0.5%	0.5%	0.5%	0.5%	0.6%	(0.3%)
Timeseries (OECD)	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
NII/Avge loans	3.94%	3.09%	2.87%	2.92%	2.89%	3.09%	3.10%	3.10%	3.03%	3.00%
Cost/income ratio	65.4%	68.9%	67.5%	67.2%	66.6%	67.1%	67.3%	67.3%	69.2%	70.8%
Provision/Avge loans	0.35%	0.41%	0.47%	0.43%	0.38%	0.29%	0.27%	0.30%	0.31%	0.41%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	119%	134%	137%	136%	138%	113%	116%	122%	125%	123%
Equity/assets	4.4%	4.0%	4.1%	4.0%	4.1%	4.6%	4.6%	4.6%	4.2%	3.8%
Tier 1 ratio	n/a	8.1%	8.0%	7.9%	8.3%	8.2%	8.2%	7.6%	8.4%	9.0%
ROE	15.5%	9.8%	9.5%	10.2%	11.7%	11.4%	11.5%	12.5%	12.2%	10.8%
ROA	0.7%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.6%	0.5%	0.4%

Source: OECD, Nomura research

Norway

Fig. 201: Loan growth

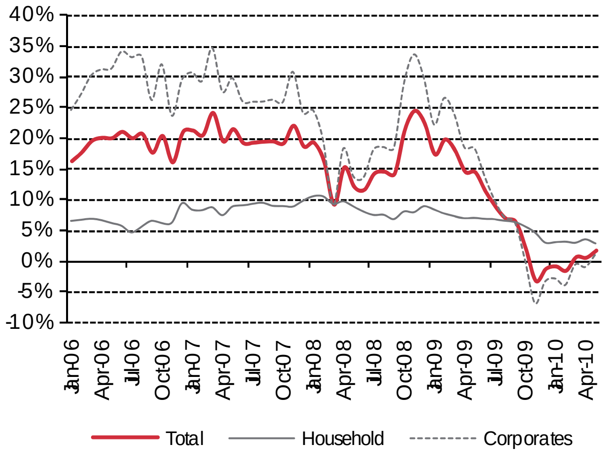
% change y-o-y in outstanding volume



Source: Norges Bank, Datastream, Nomura research

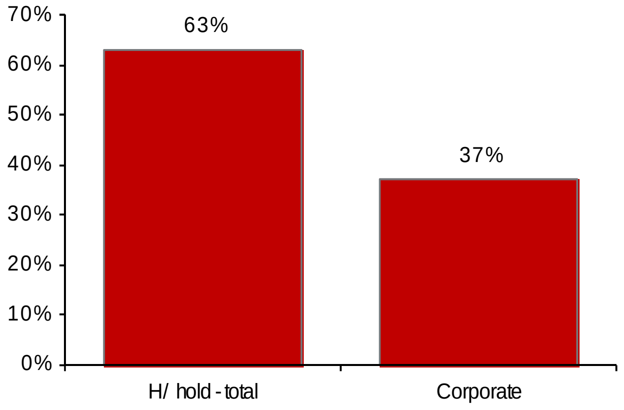
Fig. 202: Deposit growth

% change y-o-y in outstanding volume



Source: Norges Bank, Datastream, Nomura research

Fig. 203: Lending mix – outstanding loans by customer



Source: Norges Bank, Datastream, Nomura research

Fig. 204: Deposit mix – excluding overdrafts

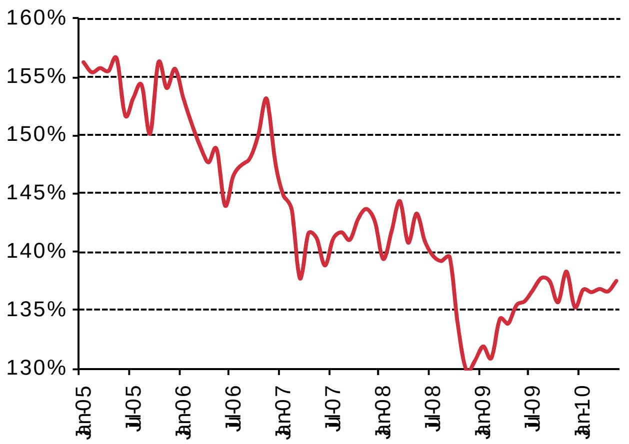
[Data not available]

Source: Norges Bank, Datastream, Nomura research

Fig. 205: Lending mix – outstanding loans by maturity

[Data not available]

Fig. 206: Loan/deposit ratio



Source: Norges Bank, Datastream, Nomura research

Fig. 207: Banking system data – Norway

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	2.93%	2.86%	2.85%	2.78%	2.63%	2.40%	2.08%	1.93%	1.79%	2.00%
Cost/income ratio	59.3%	59.5%	60.8%	63.7%	59.7%	59.0%	53.9%	53.7%	52.4%	54.7%
Provision/Avge loans	0.07%	(0.06%)	0.37%	0.62%	0.50%	(0.05%)	(0.11%)	(0.14%)	(0.07%)	0.27%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	143%	149%	149%	147%	155%	155%	163%	164%	168%	170%
Equity/assets	7.1%	7.0%	6.8%	6.3%	6.0%	6.1%	5.7%	5.3%	5.2%	4.6%
Tier 1 ratio	9.3%	9.1%	9.7%	9.5%	9.7%	9.8%	9.5%	8.7%	12.2%	8.6%
ROE	13.8%	14.3%	11.2%	5.6%	9.1%	13.6%	16.1%	15.6%	14.4%	9.1%
ROA	1.0%	1.0%	0.8%	0.4%	0.5%	0.8%	0.9%	0.8%	0.7%	0.4%

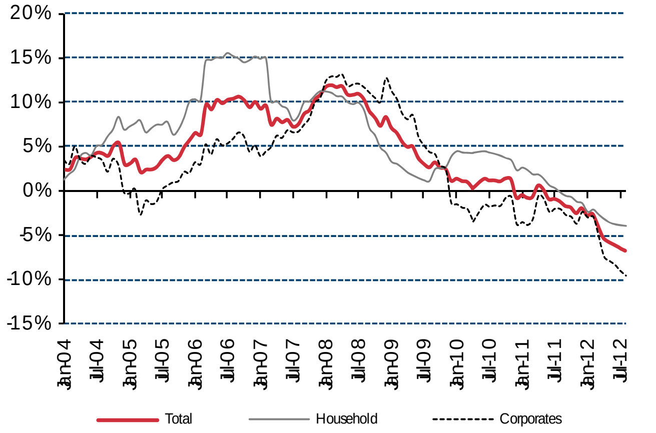
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	4.60%	4.26%	4.25%	4.42%	4.95%	4.37%	4.06%	3.63%	3.07%	3.03%
Cost/income ratio	60.4%	70.7%	88.0%	60.3%	50.4%	65.8%	69.2%	69.5%	68.9%	68.0%
Provision/Avge loans	2.15%	2.45%	4.79%	2.49%	1.91%	0.21%	(0.14%)	(0.16%)	(0.02%)	0.13%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	129%	128%	120%	114%	115%	107%	111%	118%	139%	146%
Equity/assets	4.3%	3.9%	2.9%	3.5%	5.8%	6.5%	7.3%	6.9%	6.8%	6.9%
Tier 1 ratio	n/a	n/a	4.6%	6.1%	8.5%	9.5%	10.1%	9.9%	9.3%	9.4%
ROE	3.4%	(18.9%)	(113.8%)	(7.6%)	17.5%	17.0%	17.2%	15.1%	12.9%	10.8%
ROA	0.1%	(0.7%)	(3.3%)	(0.3%)	1.0%	1.1%	1.3%	1.1%	0.9%	0.7%

Source: OECD, Nomura research

Portugal

Fig. 208: Loan growth

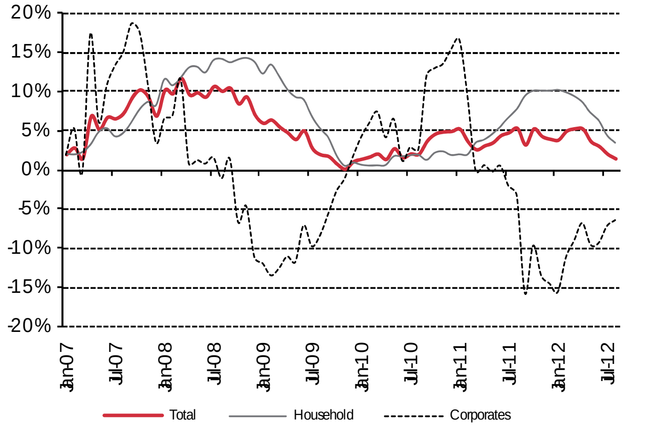
% change y-o-y in outstanding volume



Source: Banco de Portugal, Datastream, Nomura research

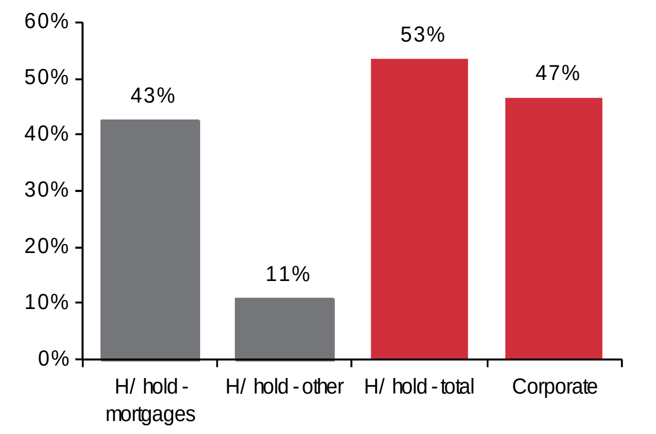
Fig. 209: Deposit growth

% change y-o-y in outstanding volume



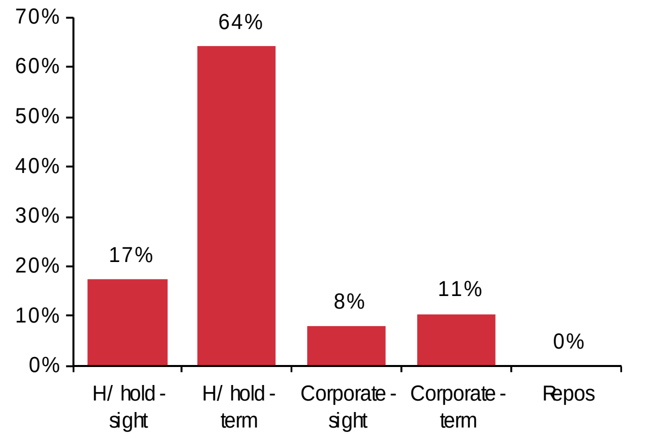
Source: Banco de Portugal, Datastream, Nomura research

Fig. 210: Lending mix – outstanding loans by customer



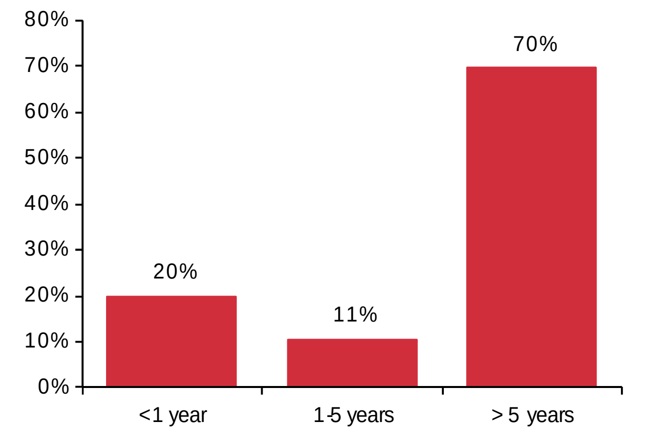
Source: Banco de Portugal, Datastream, Nomura research

Fig. 211: Deposit mix – excluding overdrafts



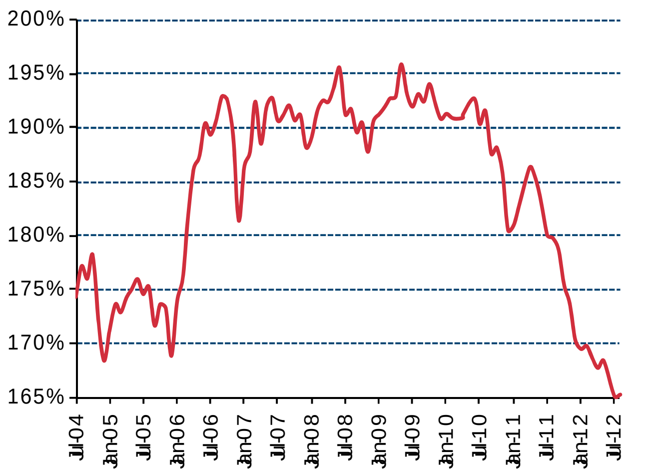
Source: Banco de Portugal, Datastream, Nomura research

Fig. 212: Lending mix – outstanding loans by maturity



Source: Banco de Portugal, Datastream, Nomura research

Fig. 213: Loan/deposit ratio



Source: Banco de Portugal, Datastream, Nomura research

Fig. 214: Banking system data – Portugal

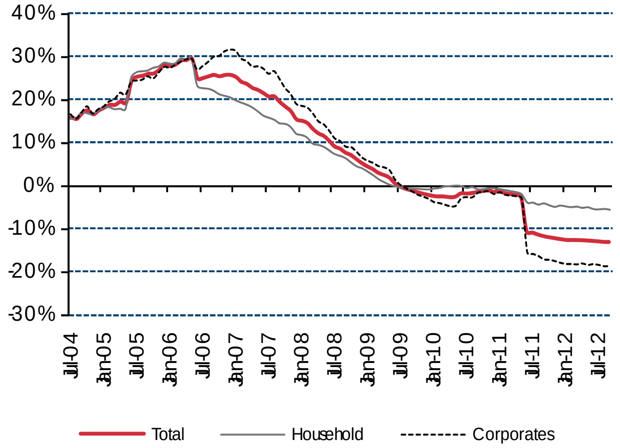
Portugal	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	7.9	7.9	8.0	-1%	1%	6.0	6.0	6.2	1%	3%
Total revenues	13.7	13.9	12.9	2%	-7%	10.8	11.0	10.3	2%	-6%
Comp costs	(4.2)	(4.4)	(4.4)	3%	0%	(3.5)	(3.6)	(3.6)	3%	-1%
Total expenses	(7.8)	(8.0)	(8.0)	3%	-1%	(6.2)	(6.4)	(6.4)	3%	-1%
Pre-provision profit	5.9	5.9	5.0	0%	-16%	4.5	4.6	4.0	1%	-13%
Provisions	(3.5)	(3.6)	(6.5)	1%	82%	(2.9)	(2.9)	(5.7)	-2%	99%
Profit before tax	2.2	2.5	(1.8)	15%	na	1.3	1.8	(1.9)	37%	na
Profit after tax	1.7	2.2	(1.1)	26%	na	1.1	1.7	(1.1)	57%	na
Loans	387	390	382	1%	-2%	301	298	290	-1%	-3%
Total assets	511	532	513	4%	-4%	401	414	399	3%	-4%
Deposits	293	312	319	6%	2%	218	225	233	3%	4%
Equity	23	23	18	2%	-23%	17	18	13	4%	-25%
NPLs	11	12	24	5%	105%	10	10	22	4%	113%
Reserve for NPLs	9	9	14	6%	50%	8	8	12	4%	53%
NII/Avge loans	2.10%	2.02%	2.06%	-	-	1.98%	2.01%	2.11%	-	-
Cost/income ratio	56.8%	57.5%	61.5%	-	-	58.0%	58.5%	61.6%	-	-
Provision/Avge loans	0.93%	0.92%	1.69%	-	-	0.97%	0.96%	1.95%	-	-
NPLs/Total loans	2.93%	3.06%	6.41%	-	-	3.31%	3.47%	7.60%	-	-
Reserves/NPLs	76%	77%	57%	-	-	78%	78%	56%	-	-
Loan/deposit	132%	125%	120%	-	-	138%	133%	124%	-	-
Equity/assets	4.5%	4.4%	3.5%	-	-	4.3%	4.3%	3.4%	-	-
Tier 1 ratio	7.9%	8.3%	8.6%	-	-	7.5%	7.9%	8.1%	-	-
ROE	7.9%	9.6%	-5.2%	-	-	6.2%	9.6%	-7.3%	-	-
ROA	0.45%	0.42%	-0.20%	-	-	0.27%	0.41%	-0.28%	-	-
Timeseries (OECD)	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
NII/Avge loans	3.98%	3.35%	3.24%	3.01%	2.89%	2.81%	2.56%	2.70%	2.64%	2.60%
Cost/income ratio	58.5%	59.1%	57.1%	61.5%	53.9%	54.9%	59.7%	54.7%	54.7%	54.2%
Provision/Avge loans	0.82%	0.18%	0.63%	0.49%	0.94%	0.95%	0.89%	0.79%	0.73%	1.37%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	102%	114%	121%	131%	129%	129%	138%	145%	155%	157%
Equity/assets	10.7%	11.3%	11.8%	12.3%	12.2%	12.1%	10.7%	11.0%	10.4%	9.3%
Tier 1 ratio	10.4%	9.6%	9.5%	9.5%	9.6%	8.6%	7.9%	8.2%	6.6%	7.1%
ROE	5.9%	7.8%	5.4%	4.7%	4.9%	4.5%	5.3%	6.4%	6.6%	2.2%
ROA	0.6%	0.9%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.7%	0.2%
Timeseries (OECD)	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
NII/Avge loans	10.17%	11.48%	11.15%	8.64%	7.94%	7.44%	6.62%	5.86%	5.60%	4.71%
Cost/income ratio	46.8%	41.6%	44.9%	53.5%	56.2%	61.8%	64.9%	64.3%	60.0%	55.4%
Provision/Avge loans	3.93%	4.87%	3.98%	2.82%	2.13%	1.65%	1.17%	1.08%	1.07%	1.37%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	51%	59%	61%	67%	65%	63%	64%	67%	73%	88%
Equity/assets	10.3%	11.0%	11.6%	10.9%	9.5%	9.0%	8.2%	9.2%	9.0%	10.3%
Tier 1 ratio	n/a	n/a	n/a	n/a	12.9%	13.3%	12.4%	11.5%	10.5%	12.1%
ROE	7.0%	9.5%	9.1%	6.9%	7.3%	5.8%	6.1%	6.1%	7.2%	6.1%
ROA	0.7%	1.0%	1.1%	0.8%	0.7%	0.5%	0.5%	0.6%	0.6%	0.6%

Source: OECD, Nomura research

Spain

Fig. 215: Loan growth

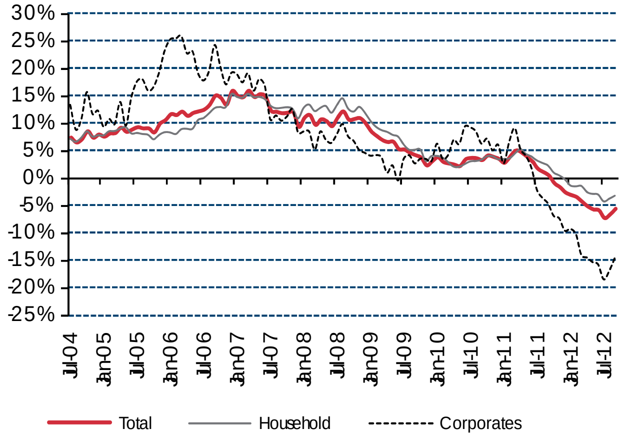
% change y-o-y in outstanding volume



Source: Banco de España, Datastream, Nomura research

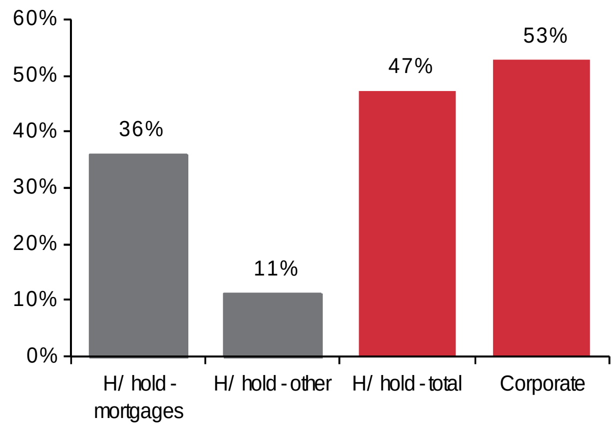
Fig. 216: Deposit growth

% change y-o-y in outstanding volume



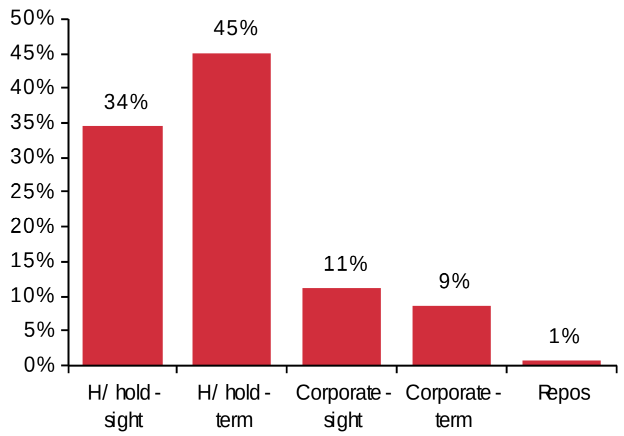
Source: Banco de España, Datastream, Nomura research

Fig. 217: Lending mix – outstanding loans by customer



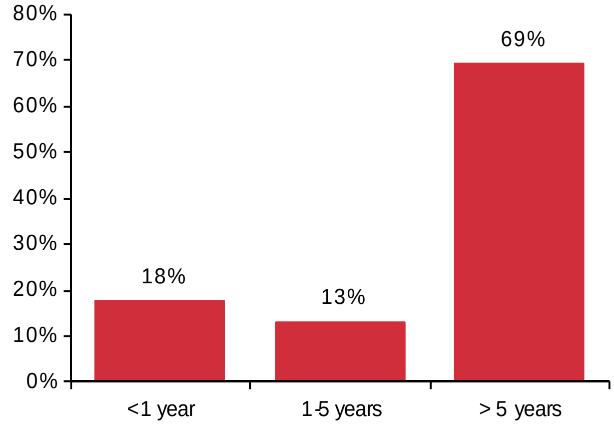
Source: Banco de España, Datastream, Nomura research

Fig. 218: Deposit mix – excluding overdrafts



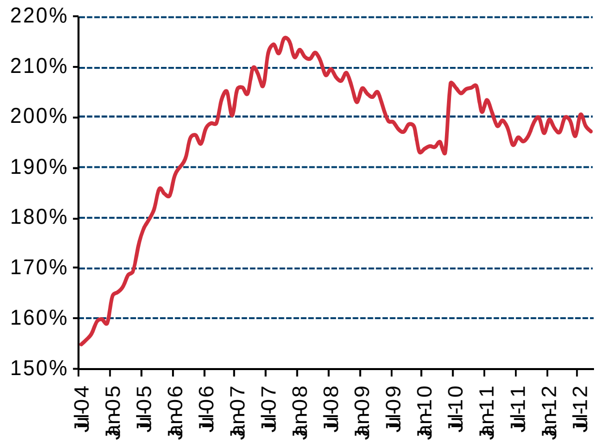
Source: Banco de España, Datastream, Nomura research

Fig. 219: Lending mix – outstanding loans by maturity



Source: Banco de España, Datastream, Nomura research

Fig. 220: Loan/deposit ratio



Source: Banco de España, Datastream, Nomura research

Fig. 221: Banking system data – Spain

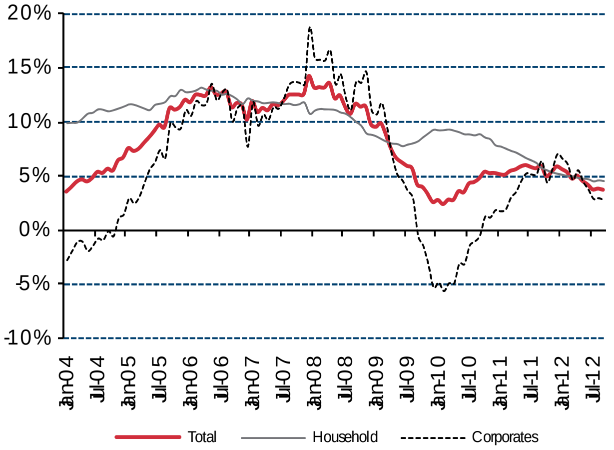
Spain	All banks					Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	73.0	68.0	66.1	(7%)	(3%)	68.5	64.1	61.9	(7%)	(3%)
Total revenues	112.1	104.6	101.1	(7%)	(3%)	105.6	98.8	95.5	(6%)	(3%)
Comp costs	(26.7)	(27.5)	(28.6)	3%	4%	(25.7)	(26.5)	(27.5)	3%	4%
Total expenses	(48.0)	(50.1)	(52.0)	4%	4%	(44.9)	(47.0)	(48.8)	5%	4%
Pre-provision profit	64.1	54.5	49.1	(15%)	(10%)	60.7	51.8	46.7	(15%)	(10%)
Provisions	(40.2)	(30.4)	(42.2)	(24%)	39%	(37.1)	(27.1)	(39.8)	(27%)	47%
Profit before tax	22.8	22.9	(0.2)	0%	na	23.0	22.9	(0.0)	(0%)	na
Profit after tax	20.1	18.9	0.2	(6%)	(99%)	20.3	18.9	0.5	(7%)	(97%)
Loans	2,685	2,697	2,688	0%	(0.3%)	2,439	2,459	2,442	1%	(0.7%)
Total assets	3,732	3,808	3,915	2%	3%	3,404	3,498	3,604	3%	3%
Deposits	2,381	2,525	2,481	6%	(1.7%)	2,101	2,252	2,211	7%	(1.8%)
Equity	214	207	204	(3.2%)	(1.6%)	206	200	193	(3.1%)	(3.5%)
NPLs	116	131	167	14%	27%	103	119	153	15%	29%
Reserve for NPLs	71	87	95	23%	10%	64	78	87	22%	11%
NII/Avge loans	2.74%	2.53%	2.45%	-	-	2.81%	2.62%	2.52%	-	-
Cost/income ratio	42.8%	47.9%	51.5%	-	-	42.5%	47.6%	51.1%	-	-
Provision/Avge loans	1.51%	1.13%	1.57%	-	-	1.52%	1.11%	1.62%	-	-
NPLs/Total loans	4.31%	4.88%	6.20%	-	-	4.24%	4.84%	6.27%	-	-
Reserves/NPLs	61%	66%	57%	-	-	62%	66%	57%	-	-
Loan/deposit	113%	107%	108%	-	-	116%	109%	110%	-	-
Equity/assets	5.7%	5.4%	5.2%	-	-	6.1%	5.7%	5.4%	-	-
Tier 1 ratio	9.3%	9.7%	10.6%	-	-	9.3%	9.6%	10.5%	-	-
ROE	9.9%	9.0%	0.1%	-	-	9.8%	9.3%	0.3%	-	-
ROA	0.54%	0.50%	0.01%	-	-	0.60%	0.55%	0.01%	-	-
Timeseries (OECD)	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
NII/Avge loans	4.13%	3.85%	4.34%	3.89%	3.53%	3.15%	2.51%	2.37%	2.43%	2.48%
Cost/income ratio	63.1%	61.0%	55.5%	56.7%	54.3%	57.9%	51.2%	43.4%	41.2%	43.1%
Provision/Avge loans	0.45%	0.64%	1.14%	0.99%	0.88%	0.61%	0.52%	0.59%	0.59%	1.03%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	93%	94%	91%	95%	102%	110%	115%	120%	123%	121%
Equity/assets	7.4%	8.3%	8.3%	8.5%	8.1%	8.5%	7.7%	7.2%	7.0%	7.5%
Tier 1 ratio	9.2%	8.9%	8.8%	8.7%	8.5%	8.2%	8.4%	7.3%	7.6%	8.4%
ROE	9.7%	9.3%	8.7%	8.5%	8.1%	7.6%	8.5%	11.0%	12.6%	7.9%
ROA	0.7%	0.8%	0.7%	0.7%	0.7%	0.6%	0.7%	0.8%	0.9%	0.6%
Timeseries (OECD)	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
NII/Avge loans	8.60%	8.38%	7.87%	7.38%	7.26%	6.75%	6.09%	5.68%	5.15%	4.63%
Cost/income ratio	60.9%	61.1%	58.5%	60.4%	59.7%	59.7%	63.2%	62.2%	61.4%	60.6%
Provision/Avge loans	1.11%	1.21%	1.28%	1.47%	3.15%	1.74%	1.10%	1.06%	0.88%	0.84%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	70%	71%	77%	80%	78%	80%	78%	79%	85%	93%
Equity/assets	8.1%	8.3%	9.5%	9.1%	8.3%	8.6%	8.0%	7.9%	7.8%	7.7%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	11.7%	10.9%	10.4%	8.6%	1.4%	6.7%	7.6%	8.3%	9.3%	9.6%
ROA	0.9%	0.9%	1.0%	0.8%	0.1%	0.6%	0.6%	0.7%	0.7%	0.7%

Source: OECD, Nomura research

Sweden

Fig. 222: Loan growth

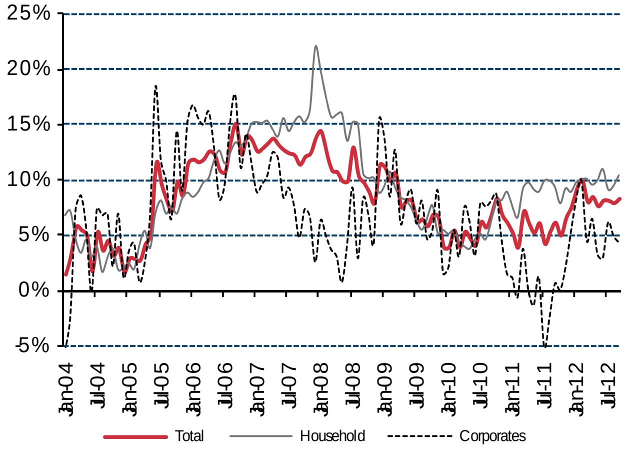
% change y-o-y in outstanding volume



Source: Riksbank, Datastream, Nomura research

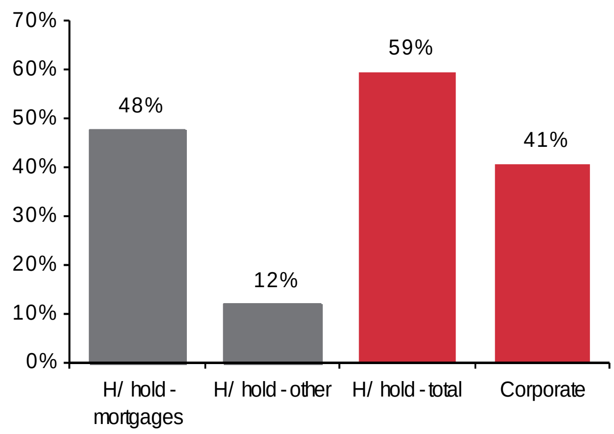
Fig. 223: Deposit growth

% change y-o-y in outstanding volume



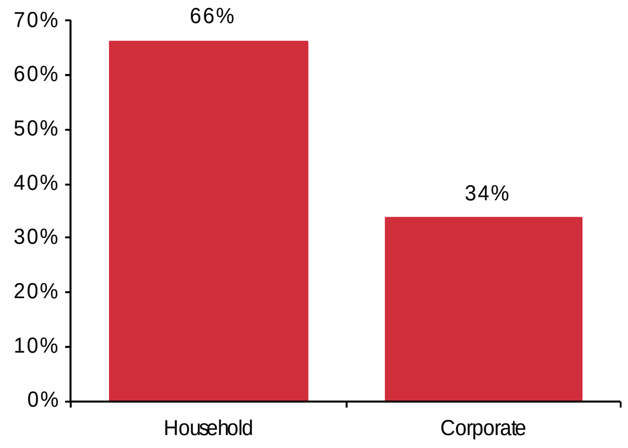
Source: Riksbank, Datastream, Nomura research

Fig. 224: Lending mix – outstanding loans by customer



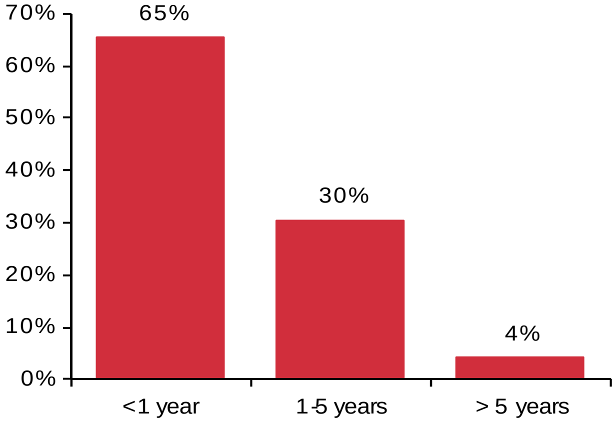
Source: Riksbank, Datastream, Nomura research

Fig. 225: Deposit mix – excluding overdrafts



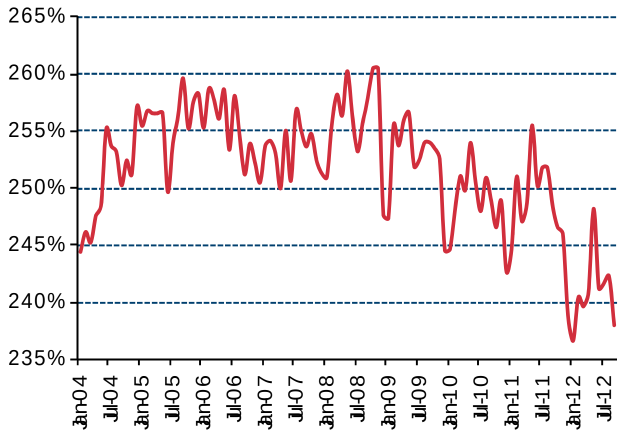
Source: Riksbank, Datastream, Nomura research

Fig. 226: Lending mix – outstanding loans by maturity



Source: Riksbank, Datastream, Nomura research

Fig. 227: Loan/deposit ratio



Source: Riksbank, Datastream, Nomura research

Fig. 228: Banking system data – Sweden

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	3.33%	2.87%	2.95%	3.07%	3.29%	2.88%	2.28%	2.03%	1.93%	2.11%
Cost/income ratio	73.9%	67.4%	65.9%	71.4%	64.7%	58.2%	65.2%	46.4%	58.8%	58.3%
Provision/Avge loans	(0.29%)	(0.35%)	(0.27%)	0.27%	0.28%	(1.90%)	(0.59%)	(0.21%)	(0.06%)	0.46%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	99%	104%	109%	108%	100%	101%	105%	109%	132%	136%
Equity/assets	5.7%	5.5%	5.7%	5.2%	5.7%	6.7%	5.7%	5.9%	5.5%	4.9%
Tier 1 ratio	12.8%	12.7%	12.6%	12.4%	13.7%	19.0%	16.4%	17.1%	13.2%	12.6%
ROE	11.6%	14.4%	15.0%	7.1%	9.3%	20.2%	12.4%	23.2%	13.2%	10.6%
ROA	0.7%	0.8%	0.9%	0.4%	0.5%	1.4%	0.7%	1.4%	0.7%	0.5%

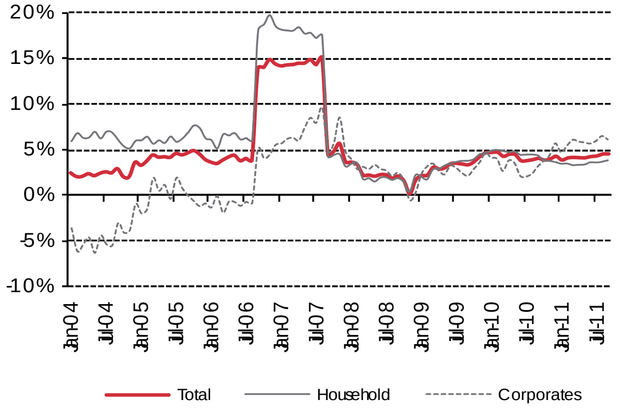
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	3.94%	4.07%	4.64%	4.37%	5.61%	5.60%	6.08%	5.37%	4.14%	3.57%
Cost/income ratio	62.0%	79.5%	117.6%	122.2%	106.5%	80.0%	71.6%	64.3%	77.6%	70.0%
Provision/Avge loans	1.39%	0.80%	(6.79%)	(3.32%)	(1.40%)	(0.50%)	(0.30%)	0.07%	0.12%	0.21%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	145%	146%	121%	122%	96%	88%	85%	85%	92%	98%
Equity/assets	6.5%	5.8%	5.5%	4.9%	5.7%	5.7%	6.1%	5.3%	5.7%	5.3%
Tier 1 ratio	n/a	n/a	9.2%	7.5%	9.7%	11.0%	13.5%	11.6%	11.6%	10.9%
ROE	4.8%	2.1%	39.8%	15.5%	3.3%	15.9%	16.8%	18.5%	8.1%	13.4%
ROA	0.3%	0.1%	2.2%	0.8%	0.2%	0.9%	1.0%	1.0%	0.5%	0.7%

Source: OECD, Nomura research

Switzerland

Fig. 229: Loan growth

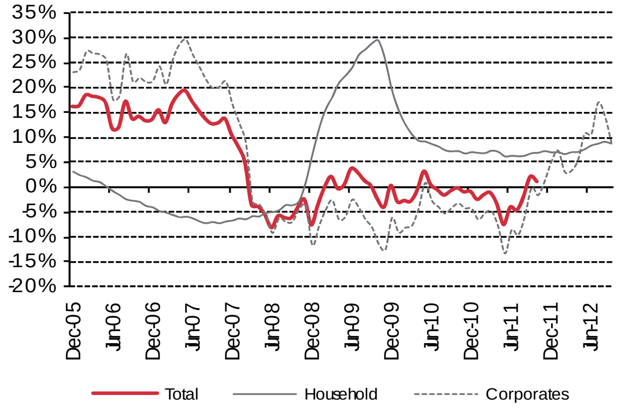
% change y-o-y in outstanding volume



Source: Swiss National Bank , Datastream, Nomura research

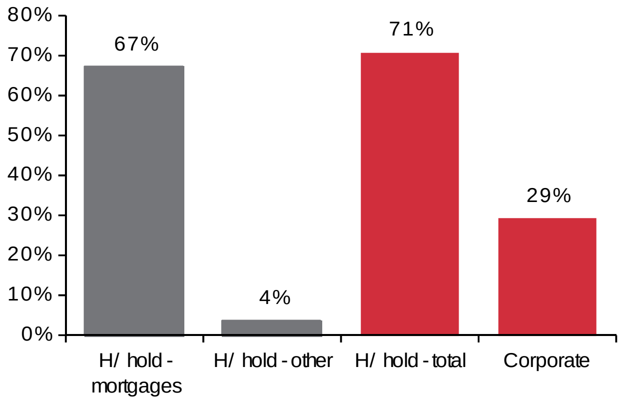
Fig. 230: Deposit growth

% change y-o-y in outstanding volume



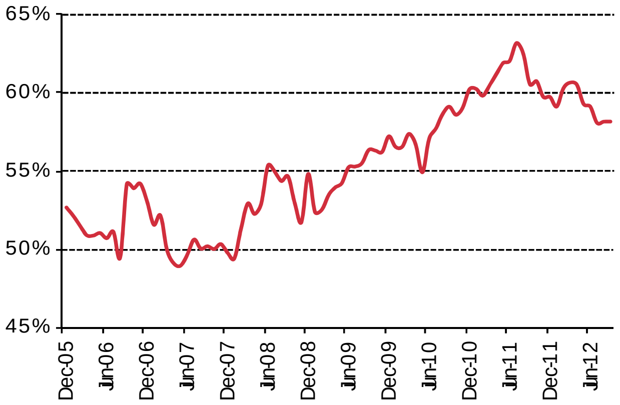
Source: Swiss National Bank , Datastream, Nomura research

Fig. 231: Lending mix – outstanding loans by customer



Source: Swiss National Bank , Datastream, Nomura research

Fig. 232: Loan/deposit ratio



Source: Swiss National Bank , Datastream, Nomura research

Fig. 233: Banking system data – Switzerland

Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	2.48%	2.74%	2.66%	2.84%	2.84%	2.43%	2.54%	1.98%	1.93%	2.04%
Cost/income ratio	55.0%	55.9%	60.0%	58.9%	60.7%	60.5%	53.7%	59.7%	63.0%	81.4%
Provision/Avge loans	0.89%	0.89%	1.16%	1.41%	0.71%	0.47%	0.43%	0.37%	1.09%	3.11%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	94%	106%	102%	102%	96%	96%	92%	95%	93%	93%
Equity/assets	4.6%	6.0%	5.9%	5.8%	5.9%	5.5%	5.3%	4.9%	4.5%	5.1%
Tier 1 ratio	10.2%	12.7%	12.0%	12.6%	12.2%	11.6%	10.9%	11.2%	n/a	12.5%
ROE	16.1%	14.6%	8.7%	7.0%	9.6%	11.3%	16.4%	12.7%	5.8%	(19.9%)
ROA	0.7%	0.9%	0.5%	0.4%	0.6%	0.6%	0.9%	0.6%	0.3%	(1.0%)

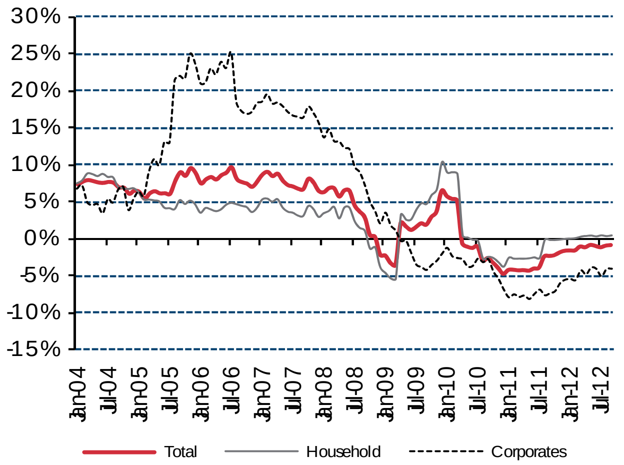
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	2.14%	2.04%	2.32%	2.48%	2.88%	2.24%	2.26%	2.21%	2.38%	2.43%
Cost/income ratio	55.3%	59.6%	52.3%	52.1%	48.6%	55.6%	56.4%	66.1%	63.2%	52.5%
Provision/Avge loans	0.82%	0.83%	1.42%	1.57%	1.80%	1.35%	1.32%	1.67%	1.65%	1.20%
NPLs/Total loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan/deposit	126%	131%	133%	130%	126%	121%	116%	110%	104%	101%
Equity/assets	6.5%	6.5%	6.5%	6.5%	6.6%	6.8%	6.4%	6.0%	5.1%	4.5%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	9.6%	9.2%	8.7%	9.7%
ROE	8.5%	5.8%	6.2%	5.7%	8.1%	5.9%	6.9%	0.3%	4.0%	15.0%
ROA	0.6%	0.4%	0.4%	0.4%	0.5%	0.4%	0.4%	0.0%	0.2%	0.7%

Source: OECD, Nomura research

UK

Fig. 234: Loan growth

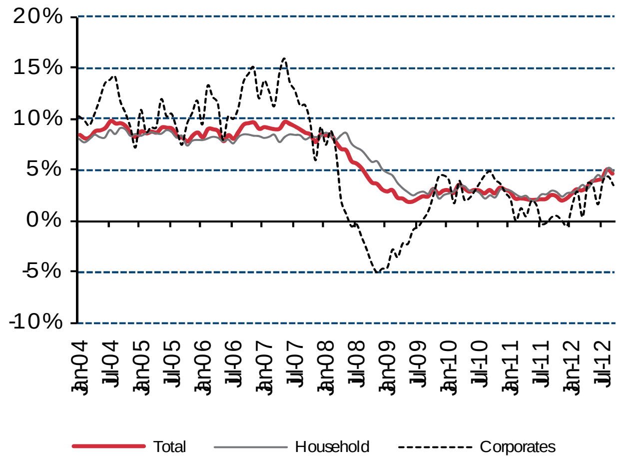
% change y-o-y in outstanding volume



Source: Bank of England, Datastream, Nomura research

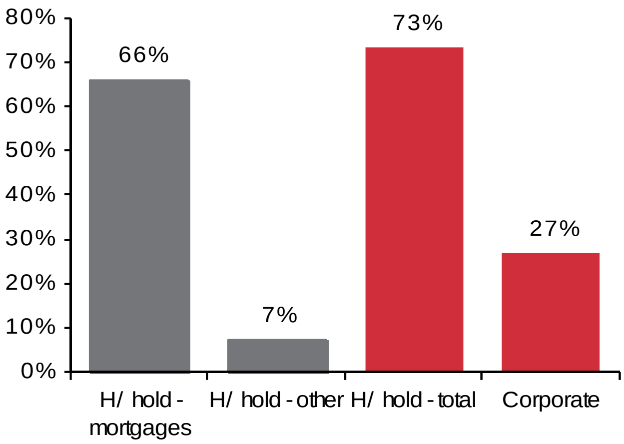
Fig. 235: Deposit growth

% change y-o-y in outstanding volume



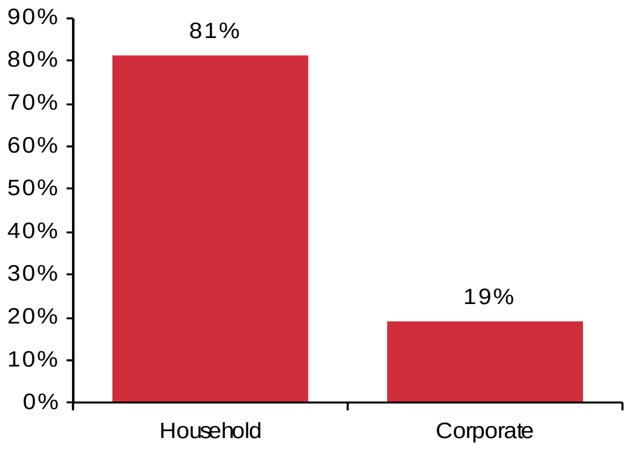
Source: Bank of England, Datastream, Nomura research

Fig. 236: Lending mix – outstanding loans by customer



Source: Bank of England, Datastream, Nomura research

Fig. 237: Deposit mix – excluding overdrafts



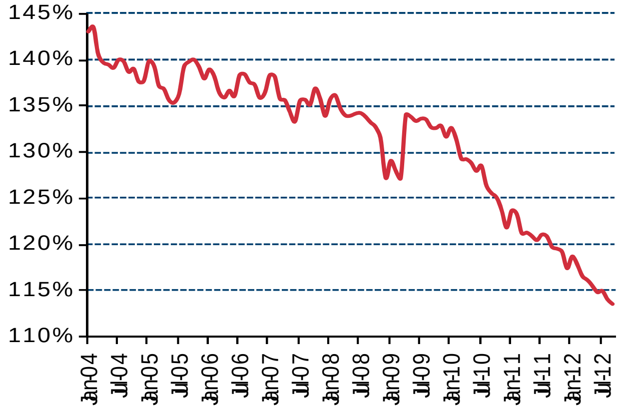
Source: Bank of England, Datastream, Nomura research

Fig. 238: Lending mix – outstanding loans by maturity

[Data not available]

Source: Bank of England, Datastream, Nomura research

Fig. 239: Loan/deposit ratio



Source: Bank of England, Datastream, Nomura research

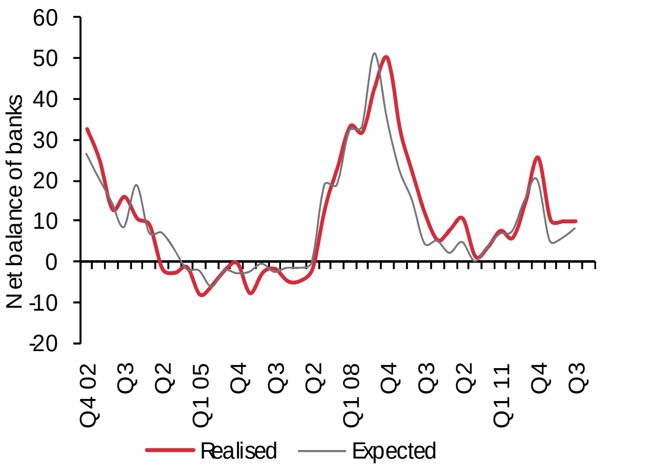
Fig. 240: Banking system data – United Kingdom

Spain		All banks				Domestic banks only				
ECB data, EURbn	2009	2010	2011	%2010	%2011	2009	2010	2011	%2010	%2011
Net interest income	73.0	68.0	66.1	(7%)	(3%)	68.5	64.1	61.9	(7%)	(3%)
Total revenues	112.1	104.6	101.1	(7%)	(3%)	105.6	98.8	95.5	(6%)	(3%)
Comp costs	(26.7)	(27.5)	(28.6)	3%	4%	(25.7)	(26.5)	(27.5)	3%	4%
Total expenses	(48.0)	(50.1)	(52.0)	4%	4%	(44.9)	(47.0)	(48.8)	5%	4%
Pre-provision profit	64.1	54.5	49.1	(15%)	(10%)	60.7	51.8	46.7	(15%)	(10%)
Provisions	(40.2)	(30.4)	(42.2)	(24%)	39%	(37.1)	(27.1)	(39.8)	(27%)	47%
Profit before tax	22.8	22.9	(0.2)	0%	na	23.0	22.9	(0.0)	(0%)	na
Profit after tax	20.1	18.9	0.2	(6%)	(99%)	20.3	18.9	0.5	(7%)	(97%)
Loans	2,685	2,697	2,688	0%	(0.3%)	2,439	2,459	2,442	1%	(0.7%)
Total assets	3,732	3,808	3,915	2%	3%	3,404	3,498	3,604	3%	3%
Deposits	2,381	2,525	2,481	6%	(1.7%)	2,101	2,252	2,211	7%	(1.8%)
Equity	214	207	204	(3.2%)	(1.6%)	206	200	193	(3.1%)	(3.5%)
NPLs	116	131	167	14%	27%	103	119	153	15%	29%
Reserve for NPLs	71	87	95	23%	10%	64	78	87	22%	11%
NII/Avge loans	2.74%	2.53%	2.45%	-	-	2.81%	2.62%	2.52%	-	-
Cost/income ratio	42.8%	47.9%	51.5%	-	-	42.5%	47.6%	51.1%	-	-
Provision/Avge loans	1.51%	1.13%	1.57%	-	-	1.52%	1.11%	1.62%	-	-
NPLs/Total loans	4.31%	4.88%	6.20%	-	-	4.24%	4.84%	6.27%	-	-
Reserves/NPLs	61%	66%	57%	-	-	62%	66%	57%	-	-
Loan/deposit	113%	107%	108%	-	-	116%	109%	110%	-	-
Equity/assets	5.7%	5.4%	5.2%	-	-	6.1%	5.7%	5.4%	-	-
Tier 1 ratio	9.3%	9.7%	10.6%	-	-	9.3%	9.6%	10.5%	-	-
ROE	9.9%	9.0%	0.1%	-	-	9.8%	9.3%	0.3%	-	-
ROA	0.54%	0.50%	0.01%	-	-	0.60%	0.55%	0.01%	-	-
Timeseries (OECD)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NII/Avge loans	4.13%	3.85%	4.34%	3.89%	3.53%	3.15%	2.51%	2.37%	2.43%	2.48%
Cost/income ratio	63.1%	61.0%	55.5%	56.7%	54.3%	57.9%	51.2%	43.4%	41.2%	43.1%
Provision/Avge loans	0.45%	0.64%	1.14%	0.99%	0.88%	0.61%	0.52%	0.59%	0.59%	1.03%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	93%	94%	91%	95%	102%	110%	115%	120%	123%	121%
Equity/assets	7.4%	8.3%	8.3%	8.5%	8.1%	8.5%	7.7%	7.2%	7.0%	7.5%
Tier 1 ratio	9.2%	8.9%	8.8%	8.7%	8.5%	8.2%	8.4%	7.3%	7.6%	8.4%
ROE	9.7%	9.3%	8.7%	8.5%	8.1%	7.6%	8.5%	11.0%	12.6%	7.9%
ROA	0.7%	0.8%	0.7%	0.7%	0.7%	0.6%	0.7%	0.8%	0.9%	0.6%
Timeseries (OECD)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NII/Avge loans	8.60%	8.38%	7.87%	7.38%	7.26%	6.75%	6.09%	5.68%	5.15%	4.63%
Cost/income ratio	60.9%	61.1%	58.5%	60.4%	59.7%	59.7%	63.2%	62.2%	61.4%	60.6%
Provision/Avge loans	1.11%	1.21%	1.28%	1.47%	3.15%	1.74%	1.10%	1.06%	0.88%	0.84%
NPLs/Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loan/deposit	70%	71%	77%	80%	78%	80%	78%	79%	85%	93%
Equity/assets	8.1%	8.3%	9.5%	9.1%	8.3%	8.6%	8.0%	7.9%	7.8%	7.7%
Tier 1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	11.7%	10.9%	10.4%	8.6%	1.4%	6.7%	7.6%	8.3%	9.3%	9.6%
ROA	0.9%	0.9%	1.0%	0.8%	0.1%	0.6%	0.6%	0.7%	0.7%	0.7%

Source: OECD, Nomura research

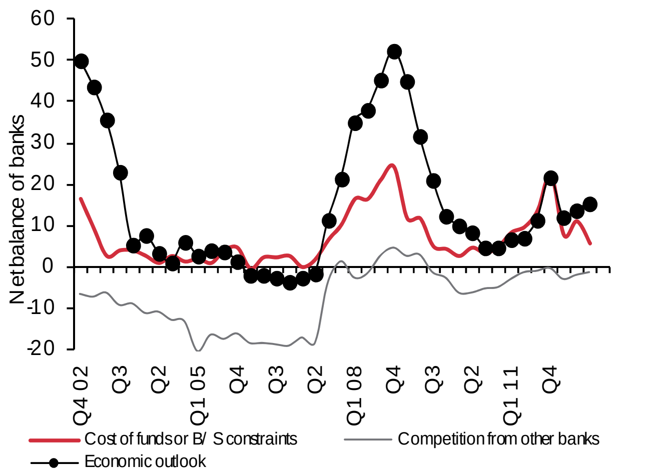
Eurozone bank lending survey

Fig. 241: Change in credit standards



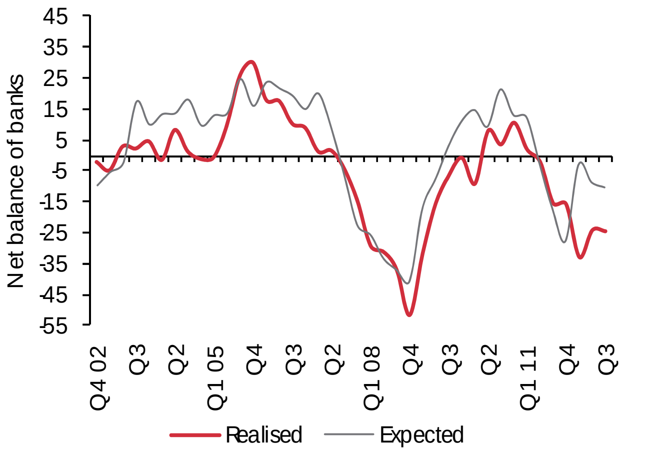
Source: European Central Bank, Datastream, Nomura research

Fig. 242: Factors affecting credit standards



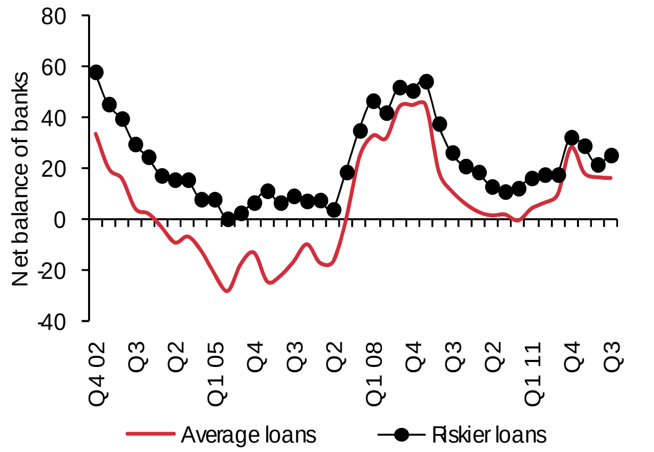
Source: European Central Bank, Datastream, Nomura research

Fig. 243: Changes in demand



Source: European Central Bank, Datastream, Nomura research

Fig. 244: Changes in pricing



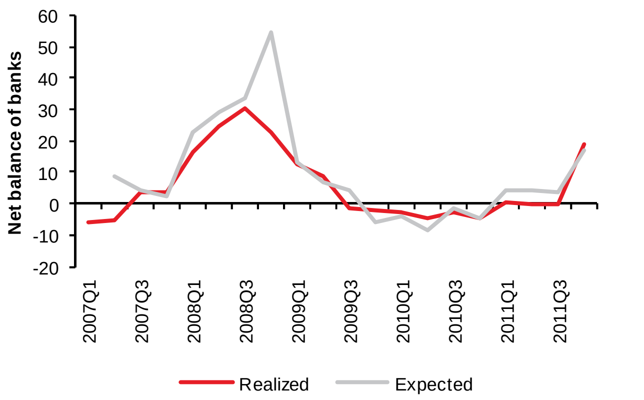
Source: European Central Bank, Datastream, Nomura research

Note: Net balance equals difference between % of loan officers saying tightened standards/see increased demand and those easing standards/seeing decreased demand. Average of corporate and households (mortgage and consumer credit)

.

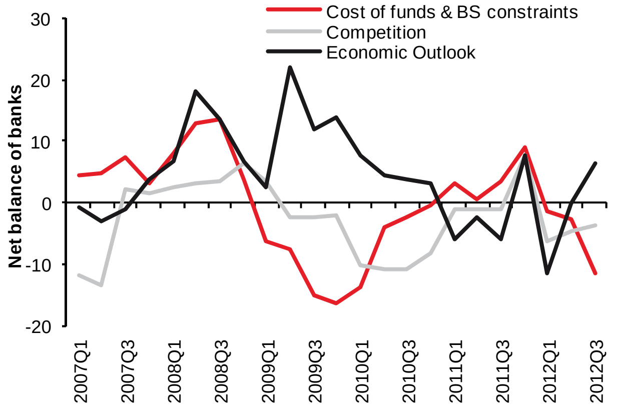
France bank lending survey

Fig. 245: Change in credit standards



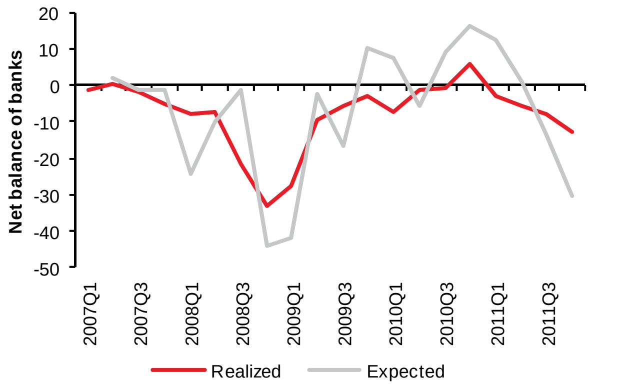
Source: Bank of England, Datastream, Nomura research

Fig. 246: Factors affecting credit standards



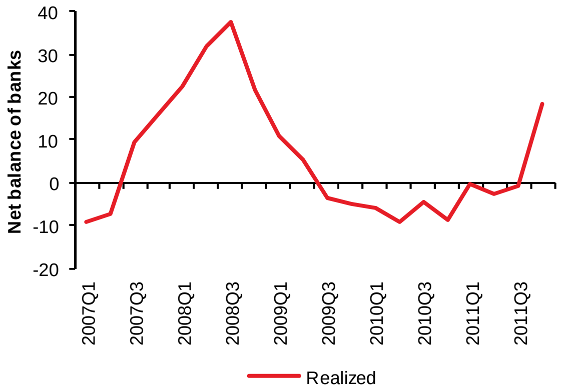
Source: Bank of England, Datastream, Nomura research

Fig. 247: Changes in demand



Source: Bank of England, Datastream, Nomura research

Fig. 248: Changes in pricing

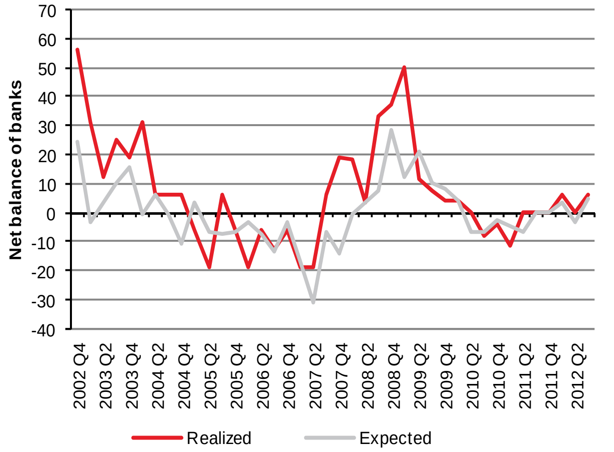


Source: Bank of England, Datastream, Nomura research

Note: Net balance equals difference between % of loan officers saying tightened standards/see increased demand and those easing standards/seeing decreased demand. Average of corporate and households (mortgage and consumer credit).

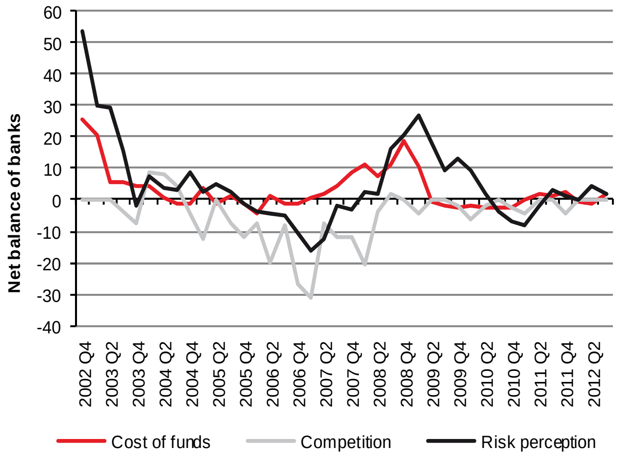
German bank lending survey

Fig. 249: Change in credit standards



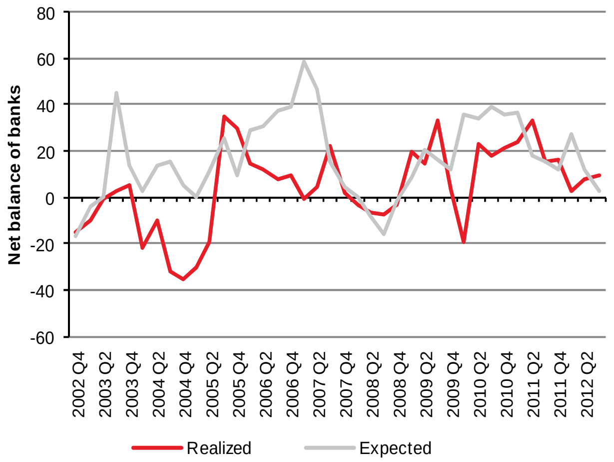
Source: Bundesbank, Datastream, Nomura research

Fig. 250: Factors affecting credit standards



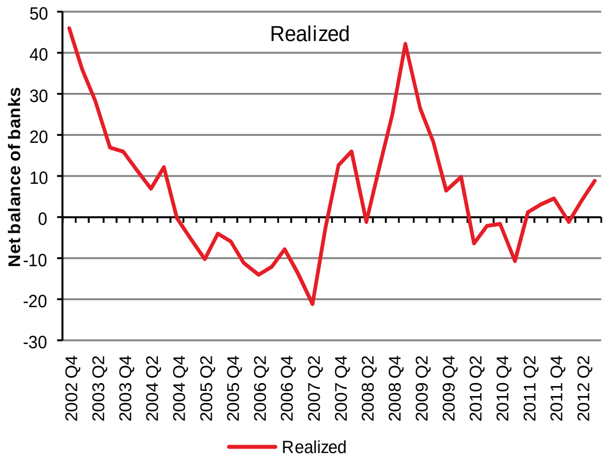
Source: Bundesbank, Datastream, Nomura research

Fig. 251: Changes in demand



Source: Bundesbank, Datastream, Nomura research

Fig. 252: Changes in pricing

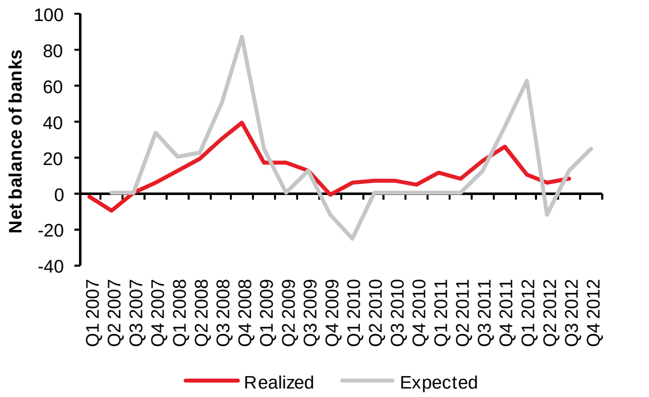


Source: Bundesbank, Datastream, Nomura research

Note: Net balance equals difference between % of loan officers saying tightened standards/see increased demand and those easing standards/seeing decreased demand. Average of corporate and households (mortgage and consumer credit)

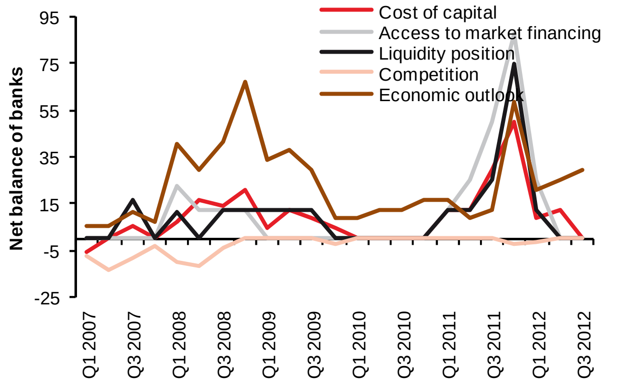
Italy bank lending survey

Fig. 253: Change in credit standards



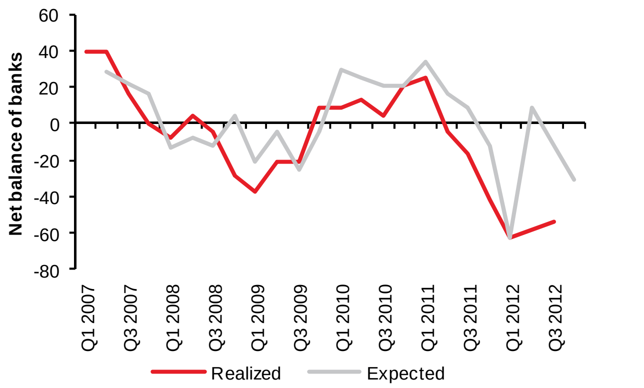
Source: Banca d'Italia, Datastream, Nomura research

Fig. 254: Factors affecting credit standards



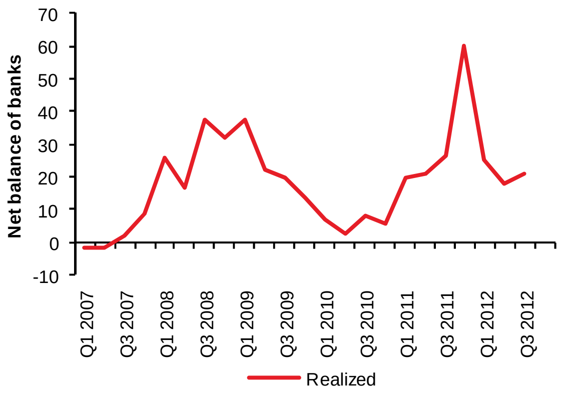
Source: Banca d'Italia, Datastream, Nomura research

Fig. 255: Changes in demand



Source: Banca d'Italia, Datastream, Nomura research

Fig. 256: Changes in pricing

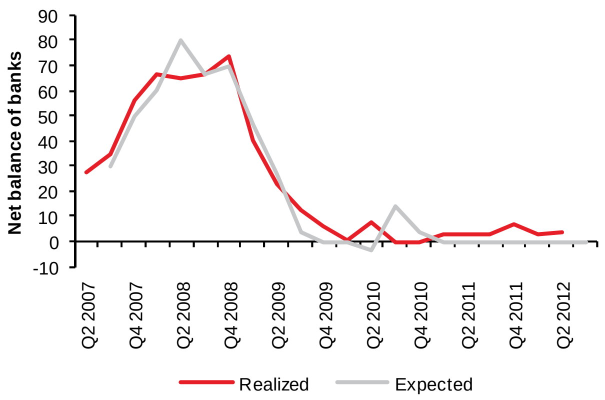


Source: Banca d'Italia, Datastream, Nomura research

Note: Net balance equals difference between % of loan officers saying tightened standards/see increased demand and those easing standards/seeing decreased demand. Average of corporate and households (mortgage and consumer credit).

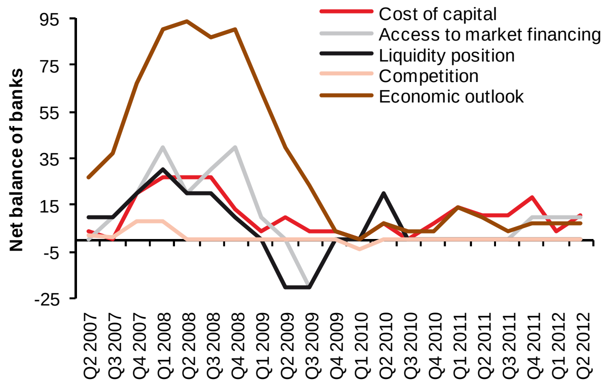
Spain bank lending survey

Fig. 257: Change in credit standards



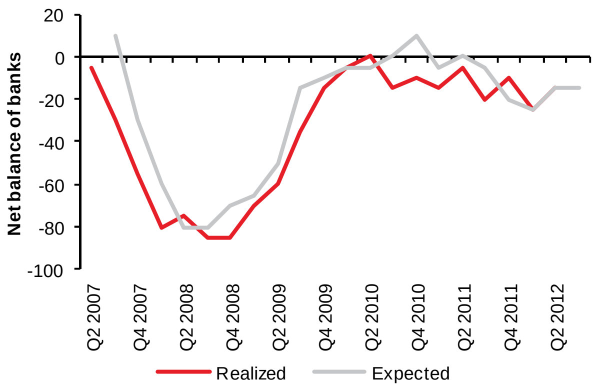
Source: Banco de España, Datastream, Nomura research

Fig. 258: Factors affecting credit standards



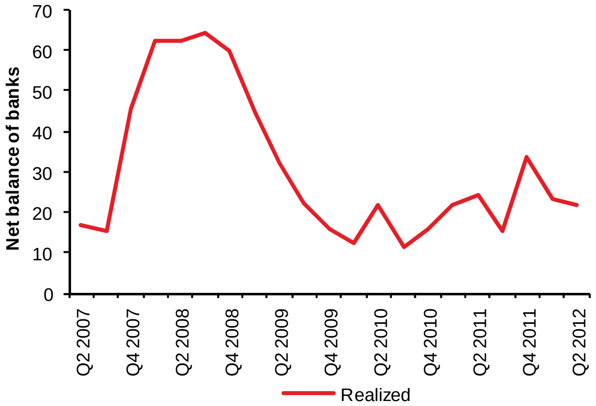
Source: Banco de España, Datastream, Nomura research

Fig. 259: Changes in demand



Source: Banco de España, Datastream, Nomura research

Fig. 260: Changes in pricing

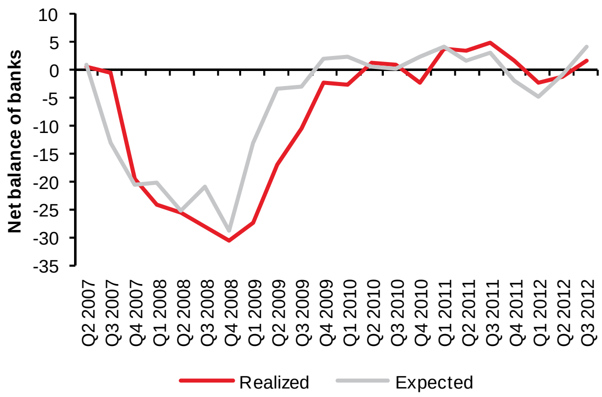


Source: Banco de España, Datastream, Nomura research

Note: Net balance equals difference between % of loan officers saying tightened standards/see increased demand and those easing standards/seeing decreased demand. Average of corporate and households (mortgage and consumer credit).

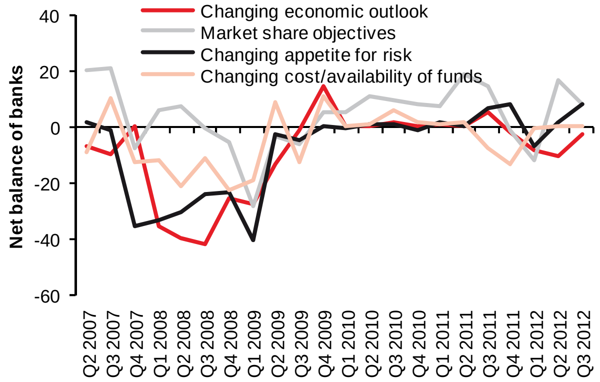
UK bank lending survey

Fig. 261: Change in credit standards



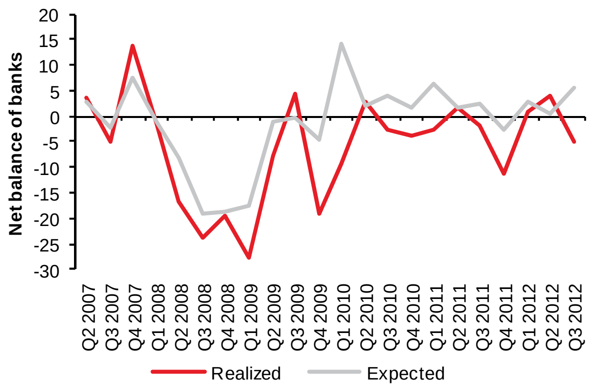
Source: Bank of England, Datastream, Nomura research

Fig. 262: Factors affecting credit standards



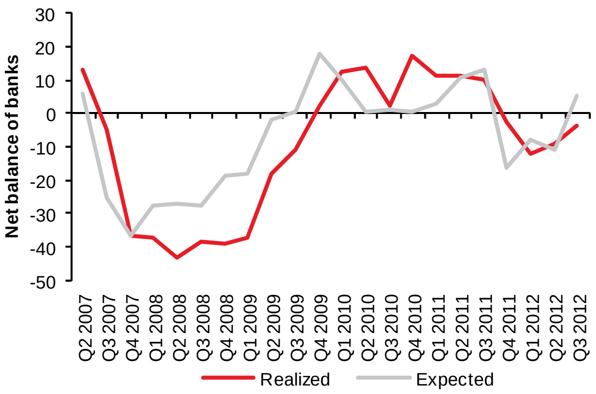
Source: Bank of England, Datastream, Nomura research

Fig. 263: Changes in demand



Source: Bank of England, Datastream, Nomura research

Fig. 264: Changes in pricing

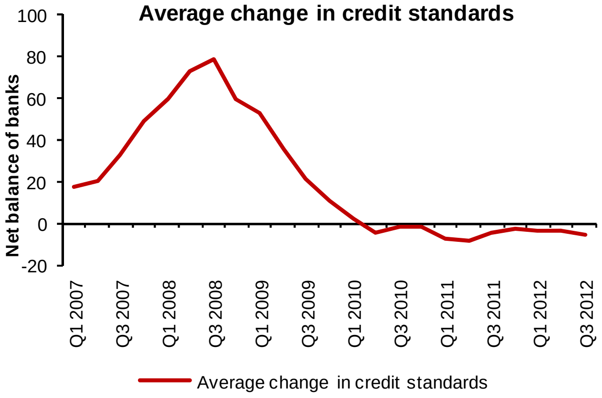


Source: Bank of England, Datastream, Nomura research

Note: Net balance equals difference between % of loan officers saying tightened standards/see increased demand and those easing standards/seeing decreased demand. Average of corporate and households (mortgage and consumer credit).

US bank lending survey

Fig. 265: Change in credit standards



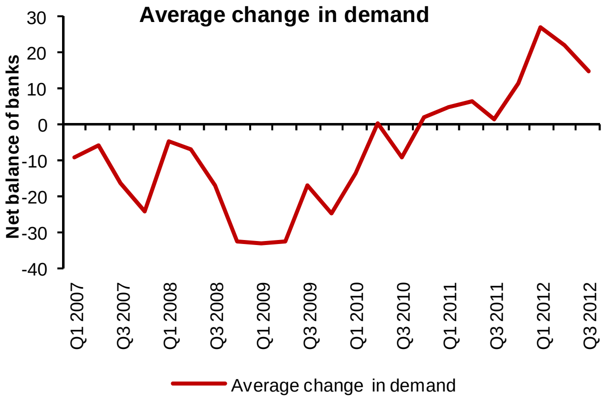
Source: US Federal Reserve, Datastream, Nomura research

Fig. 266: Factors affecting credit standards

[Data not available]

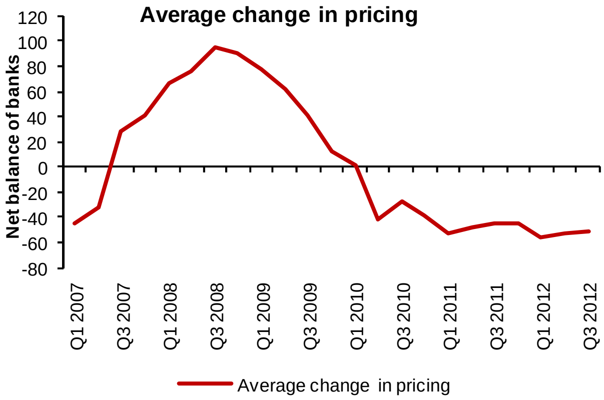
Source: US Federal Reserve, Datastream, Nomura research

Fig. 267: Changes in demand



Source: US Federal Reserve, Datastream, Nomura research

Fig. 268: Changes in pricing



Source US Federal Reserve, Datastream, Nomura research

Note: Net balance equals difference between % of loan officers saying tightened standards/see increased demand and those easing standards/seeing decreased demand. Average of corporate and households (mortgage and consumer credit).

Appendix A-1

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Crédit Agricole	ACA FP	EUR 5.80	23-Nov-2012	Neutral	Neutral	Buy	15-Sep-2011
Barclays	BARC LN	254p	23-Nov-2012	Reduce	Neutral	Neutral	04-Jul-2012
BBVA	BBVA SM	EUR 6.46	23-Nov-2012	Buy	Neutral	Reduce	10-Jul-2012
BNP Paribas	BNP FP	EUR 42.60	23-Nov-2012	Buy	Neutral	Neutral	05-Feb-2010
Caixabank	CABK SM	EUR 2.77	23-Nov-2012	Reduce	Neutral	Neutral	23-Jul-2012
Commerzbank	CBK GY	EUR 1.34	23-Nov-2012	Reduce	Neutral	Neutral	24-Sep-2012
CS Group	CSGN VX	CHF 21.52	23-Nov-2012	Neutral	Neutral	Buy	16-Dec-2010
Danske Bank	DANSKE DC	DKK 95	23-Nov-2012	Reduce	Neutral	Neutral	12-Mar-2012
Deutsche Bank	DBK GY	EUR 33.80	23-Nov-2012	Reduce	Neutral	Buy	13-Sep-2009
DNB	DNB NO	NOK 71.50	23-Nov-2012	Buy	Neutral	Not Rated	06-Mar-2009
Société Générale	GLE FP	EUR 27.13	23-Nov-2012	Buy	Neutral	Reduce	09-Nov-2012
HSBC Holdings plc	HSBA LN	625p	23-Nov-2012	Buy	Neutral	Neutral	15-Sep-2011
ING Group	INGA NA	EUR 6.93	23-Nov-2012	Buy	Neutral	Neutral	24-Jan-2012
Intesa Sanpaolo	ISP IM	EUR 1.27	23-Nov-2012	Buy	Neutral	Neutral	16-Mar-2012
KBC	KBC BB	EUR 22.56	23-Nov-2012	Buy	Neutral	Not Rated	05-May-2011
Lloyds Banking Group	LLOY LN	46p	23-Nov-2012	Reduce	Neutral	Neutral	13-Feb-2012
Nordea	NDA SS	SEK 60.55	23-Nov-2012	Reduce	Neutral	Neutral	03-Sep-2012
Royal Bank Of Scotland	RBS LN	294p	23-Nov-2012	Reduce	Neutral	Neutral	13-Feb-2012
Santander	SAN SM	EUR 5.81	23-Nov-2012	Reduce	Neutral	Neutral	10-Jul-2012
SEB	SEBA SS	SEK 53.30	23-Nov-2012	Buy	Neutral	Neutral	03-Sep-2012
Svenska Handelsbanken	SHBA SS	SEK 230.90	23-Nov-2012	Neutral	Neutral	Buy	05-Jul-2012
Standard Chartered plc	STAN LN	1437p	23-Nov-2012	Buy	Neutral	Neutral	15-Aug-2012
Swedbank	SWEDA SS	SEK 120.00	23-Nov-2012	Buy	Neutral	Reduce	02-Nov-2009
UBS	UBSN VX	CHF 14.74	23-Nov-2012	Buy	Neutral	Neutral	31-Aug-2010
Unicredit Group	UCG IM	EUR 3.55	23-Nov-2012	Neutral	Neutral	Buy	25-Nov-2011

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STOCKS

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