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Corrected Alert (first published 10 January 2014) (See page 3 for details)

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## Sovereign improvements

### Improvement to balance sheet from sovereign rally - ALERT

- Many European banks look likely to report improved capital ratios on a fully loaded basis thanks to the improvement in the final quarter of 2013 in peripheral Sovereign bond spreads held in their available for sale (AFS) portfolios.
- The benefit to the banks will largely depend on the duration of the sovereign bonds held as well as which portfolio they were held in. Most of the European banks held the majority of their bonds in their AFS portfolios, as such most of the benefit should be seen in their estimated fully loaded common equity tier I ratio. While some banks also held bonds in their trading portfolios, this was fairly limited, generally concentrated in the short-dated bonds and was sometimes offset by longer-dated shorts. We note that DB would likely benefit the most on their trading holdings with a profit of €41m, on our estimates.
- We have estimated the potential impact on capital and profit since Q3 13 by taking the EBA data as of 1H 2013 and assuming the holdings of the banks have remain relatively constant since then. We have then used the change in benchmark peripheral bonds in the 3/5/10yr buckets between Q3 13 and FY 13 to estimate the potential impact on profits and capital. Using EBA data we have matched the duration of the holdings to the various buckets to gain a best estimate for the European banks.
- Unsurprisingly, the beneficiaries of a rally in peripheral sovereign debt are primarily the peripheral banks. In Spain, POPSM could see an improvement of 24bps to its fully loaded CET1 ratio, last reported by the company at Q3 2013 as a full year estimate of 8.6%. In Italy, MONTE and UBI could see 83bp and 43bp improvements to their CET1 ratios from movements in sovereign debt. In Portugal, BPI would be the primary beneficiary with, potentially, an 83bp improvement coming from movements in its AFS reserves.
- Table 1 below breaks down the expected impact of each peripheral sovereign on both pre-tax profits (Trading & portfolios through profit and loss) and on capital (AFS).

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**European Credit - Financials****Alan Bowe** <sup>AC</sup>

(44-20) 7134-1837

alan.m.bowe@jpmorgan.com

**Roberto Henriques, CFA**

(44-20) 7134-1733

roberto.henriques@jpmorgan.com

**Axel J Finsterbusch, CFA**

(44-20) 7134-4711

axel.j.finsterbusch@jpmorgan.com

J.P. Morgan Securities plc

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Table 1: Estimated impact on PnL and on Capital from 1H 13 holding of peripheral bonds

Bank	Impact on PnL						Impact on fully load CET1						RWAs	imp (bp)
	Gre	Ire	Ital	Port	Spa	Total	Gre	Ire	Ital	Port	Spa	Total		
ERSTE	0	0	0	0	0	0	0	1	4	0	0	5	100,899	0.01%
RZB	0	0	1	0	0	1	0	0	0	0	0	0	87,043	0.00%
KBC	0	0	0	0	0	0	0	4	18	0	4	26	81,356	0.03%
Bank of Cyrus	0	0	0	0	0	0	0	0	1	0	0	1	23,510	0.01%
DB	1	1	32	5	3	41	0	10	28	3	1	41	314,304	0.01%
CMZB	0	1	0	1	1	3	0	0	155	0	1	156	206,288	0.08%
LBBW	0	0	0	0	0	0	0	0	82	18	12	112	89,188	0.13%
DZ Bank	0	0	2	0	0	2	0	0	0	0	0	0	87,113	0.00%
BYLAN	0	0	0	0	0	0	0	0	7	0	0	7	94,300	0.01%
NordLB	0	0	1	0	0	1	0	0	3	0	0	3	72,788	0.00%
HYPORÉ	0	0	0	0	0	0	0	0	51	8	0	59	17,371	0.34%
HSB	0	0	11	3	0	13	1	0	2	0	0	3	38,288	0.01%
HELABA	0	0	1	0	1	2	0	0	1	0	1	2	60,238	0.00%
Landesbank Berlin AG	0	1	0	0	0	1	0	0	2	0	3	5	29,038	0.02%
Deka Bank	0	0	0	0	0	0	0	0	0	0	0	0	23,672	0.00%
WGZ Bank	0	2	43	6	7	58	0	1	3	10	1	16	18,400	0.09%
DANSKE BANK	0	1	1	0	1	4	0	0	0	0	0	0	104,420	0.00%
Jyske Bank	0	0	1	0	0	1	0	0	0	0	0	0	14,804	0.00%
Sydbank	0	0	0	0	0	0	0	0	0	0	0	0	9,560	0.00%
Nykredit	0	0	0	0	0	0	0	0	0	0	0	0	42,368	0.00%
SANTAN	0	0	11	1	10	22	0	0	1	90	729	820	545,941	0.15%
BBVA	0	0	0	1	34	35	0	0	55	1	239	295	331,500	0.09%
CAIXABANK	0	0	0	0	10	10	0	0	0	0	134	134	160,420	0.08%
BANCO POPULAR ESPAÑOL, S.A.	0	0	0	0	1	1	0	0	14	30	163	207	87,702	0.24%
OP-Pohjola Group	0	0	0	0	0	0	0	0	0	0	0	0	40,015	0.00%
BNP PARIBAS	0	-1	-2	2	1	0	0	1	409	0	29	439	562,925	0.08%
CREDIT AGRICOLE	0	0	1	-1	-4	-3	0	0	139	0	1	139	507,743	0.03%
BPCE	0	0	-1	3	1	4	0	5	80	2	0	87	390,635	0.02%
SOCIÉTÉ GÉNÉRALE	0	0	25	1	0	26	0	0	12	0	4	16	313,834	0.01%
RBS	0	0	26	1	2	29	0	5	17	5	1	28	508,683	0.01%
HSBC	0	0	19	5	-4	20	0	0	0	0	0	0	847,407	0.00%
BARCLAYS plc	0	1	-12	0	-10	-21	0	0	7	7	0	14	451,738	0.00%
LLOYDS BANKING GROUP plc	0	0	0	0	0	0	0	0	0	0	0	0	336,829	0.00%
EFG EURO BANK ERGASIAS S.A.	1	0	0	0	0	1	0	0	0	0	0	0	34,652	0.00%
NATIONAL BANK OF GREECE	0	0	0	0	0	0	2	0	0	0	0	2	58,269	0.00%
ALPHA BANK	1	0	0	0	0	1	52	0	0	0	0	52	53,672	0.10%
PIRAEUS BANK GROUP	3	0	0	0	0	3	34	0	0	0	0	34	60,150	0.06%
OTP BANK NYRT.	0	0	0	0	0	0	0	0	0	0	0	0	25,096	0.00%
ALLIED IRISH BANKS PLC	0	0	0	0	0	0	0	226	8	0	0	234	65,421	0.36%
BANK OF IRELAND	0	10	1	0	0	11	0	147	0	0	0	148	58,926	0.25%
PERMANENT TSB	0	0	0	0	0	0	0	44	0	0	0	44	14,638	0.30%
INTESA SANPAOLO S.p.A	0	0	10	0	0	11	0	0	282	0	0	282	286,804	0.10%
UNICREDIT S.p.A	0	0	26	0	5	31	0	0	604	2	0	607	410,871	0.15%
MONTE	0	0	53	0	0	53	0	0	721	7	2	730	87,481	0.83%
BANCO POPOLARE - S.C.	0	0	17	0	0	17	0	0	114	0	1	114	54,712	0.21%
UBI	0	0	11	0	0	11	0	0	302	0	0	302	62,539	0.48%
BANQUE ET CAISSE D'ÉPARGNE DE L'ÉTAT	0	0	0	0	0	0	0	0	26	5	1	33	12,622	0.26%
BANK OF VALLETTA (BOV)	0	0	0	0	0	0	0	0	0	0	0	0	3,573	0.00%
ING BANK NV	0	0	3	0	0	3	0	0	33	28	5	66	277,632	0.02%
RABOBANK NEDERLAND	0	0	0	0	0	1	0	0	2	0	0	2	220,871	0.00%
ABN AMRO BANK NV	0	0	0	0	1	1	0	0	15	0	0	15	115,625	0.01%
SNS BANK NV	0	0	0	0	0	0	0	4	13	0	0	17	18,385	0.09%
DNB Bank ASA	0	0	0	0	0	0	0	0	0	0	0	0	127,775	0.00%
PKO BANK	0	0	0	0	0	0	0	0	0	0	0	0	36,998	0.00%
CAIXA GERAL DE DEPÓSITOS SA	0	0	0	4	0	4	0	0	0	191	0	192	67,663	0.28%
BCP	0	0	0	1	1	2	0	0	0	72	0	72	48,755	0.15%
ESFG	0	0	0	19	1	20	3	0	1	67	7	78	63,770	0.12%
Banco BPI, SA	0	0	0	0	0	0	0	12	34	113	0	159	23,219	0.68%
Nordea Bank AB (publ)	0	0	0	0	0	0	0	0	0	0	0	0	161,631	0.00%
SEB	0	0	0	0	0	0	0	0	1	0	0	1	105,821	0.00%
SHSBASS	0	0	0	0	0	0	0	0	0	0	0	0	55,594	0.00%
Swedbank AB (publ)	0	0	0	0	0	0	0	0	0	0	0	0	51,833	0.00%
NLB	0	0	0	0	0	0	0	0	0	0	0	0	10,590	0.00%
NKBM	0	0	0	0	0	0	0	0	0	0	0	0	4,052	0.00%

Source: J.P. Morgan. EBA

**Corrected Alert:** Table 1 updated

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