

October 26, 2012

Investment Grade Credit

European Banks

Creeping Non-Calls: Who's Next?

Intesa, RZB and BBVA's recent LMEs brought the theme of 'Creeping Non-Calls' back in the spotlight. We believe subordinated debt coming up for call in the near term provides a catalyst for further LMEs. Top candidates include ING, HBOS, Nationwide and RBS (NV).

It feels like we coined the phrase 'creeping non-calls' years ago now, meaning that banks do LME (liability management exercises) below par and state that they will only call on an economic basis going forward. This – increasingly common – activity has long supported our concern about non-calls. We see scope for plenty more in 2013 due to the benefits of profit from LME, the optionality it gives a bank on calls, possibly tougher stances being adopted by regulators – and simply because it will become the norm, in our view.

A rising number of issuers are applying economic call policies. While it feels that most banks keep calling their subordinated bonds at the first call date, there's a growing minority that do not. As the recent RZB, BBVA and now Intesa's LMEs showed, a bank "always" calls – until it does not.

Intesa's LME seem to have taken investors off-guard and is likely to weigh on the callable market in the near term. However, LMEs can be negative or positive, depending on when one bought the bonds, and in which perspective one did so. Here we screen current relative value within LME candidates from a new buyer's point of view.

Looking at short-dated calls as a catalyst for LMEs, we focus on those issuers that may choose to exchange or tender, rather than call their bonds. The rationale here may be a track record of LMEs, an exit of an EC call ban, large amounts of sub debt coming up for call – most in some shape or form linking to underlying economics.

Best LME play is not in short-dated calls, but in more defensive bonds further out the curve. We'd switch out of short-dated calls into more attractively valued bonds.

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Trade Recommendations

B/O	Ticker	Price	YTC	YTP/M
B	€ BNP 5.868 13c	95	29.7	5.2
O	€ FBAVP 4.625 14c	84	14.4	5.2
B	€ LLOYDS 5.625 13c	95	20.5	4.4
O	€ HBOS 4.375 14c	89.5	10.5	5.3
B	£ NWIDE 6.024 13c	84	77.4	4.3
O	£ NWIDE 5.769 13c	84	7.7	7.1
O	\$ INTNED old 8.439 12c	96	28.6	7.2
O	€ INTNED FRN Mar.16-12c	96	31.4	2.4
O	\$ INTNED FRN May 16-13c	96	14.1	2.4
O	€ INTNED old 6.25 12c	97.5	20.2	3.7
O	\$ INTNED FRN Sep.16-12c	NA	NA	NA
O	\$ INTNED FRN Nov.16-12c	NA	NA	NA
O	\$ INTNED FRN Jul.17-13c	95.25	27.6	2.5

Source: Morgan Stanley Research, Bloomberg, Indicative Pricings

Risk Factors

- Terms of future LMEs are punitive for investors.
- LME does not happen and bonds are simply not called.

* All prices in this note are indicative only

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Creeping Non-Calls – Who's Next?

We have been cautious on calls for more than a year now, favouring bullet structures in LT2s and high steps in Tier 1s, as we were (and are) concerned about an increase of 'creeping non-calls' (see [The Case for Non-Calls](#), May 17, 2011, and [Still Value in LT2](#), October 25, 2011), and indeed, outright non-calls. Creeping non-calls are Liability Management Exercises (LMEs) done at premiums (sometimes skinny, or none at all) either for cash or through exchanges into longer-dated LT2s or seniors, with the bank stating in parallel that it will call on an economic basis going forward. ISPIM's is the latest example of this type of LME, going one step further as it modified the terms of the LT2s involved in the exchange to remove its call option (we discuss in more detail later).

The clear risk of these creeping non-calls is to investors who are holding the bonds and expecting a call at par at the first call date. You are forced into an LME and must consider not tendering and potentially ending up in a residual, illiquid deal (and the promise of a call only on an economic basis going forward), or tendering and giving up the par value at the call date that you had potentially based your investment decision on. The latter is also prone to putting you into a bond that many may wish to sell as soon as possible, as it no longer fits their portfolio, or the short-term investors who were in the original bond simply counting on an LME, wish to exit the trade.

Despite a rising number of creeping non-calls in the past few months, ISPIM's exchange seems to have caught investors off-guard and is having a detrimental impact on callable sub debt. We will write further on the impact and read-across of ISPIM's LME for sub debt in a future note – given our concerns about non-calls, we do not have many callable bonds in our recommendations.

However, LME could also of course be a positive, depending on when you bought the bonds, and we take a look at LME opportunities in the short term. Looking at Lloyds and RBS's latest exchange of LT2 securities into new, longer-dated callable LT2s, the new bonds have been priced with a market coupon (i.e., high coupon), and bonds have had a strong run since the exchange (e.g., LLOYDS € 11.875 21s trading at a high cash price of 118.25 mid or RBS € 10.5% 22s trading around 119.5 mid, both issued below par to investors), with the exchange in itself initially offering clients a 4.5-7 points premium in Lloyds' exchange and 2-3 points premium in RBS's LME.

Using the Perspective of a New Buyer

We can no longer be sure that any bonds without an economic incentive to be called will indeed be called – although naturally, some banks have a higher likelihood than others. With this backdrop, **here we are looking at LME potential with the eyes of a potential new buyer, looking for LME opportunities.** Indeed, the likely pressure on callable bonds in the near term may act as a further catalyst for banks to tackle their upcoming calls.

Banks Always Call – Until They Don't

Intesa's LME yesterday is the latest example of three creeping non-calls we had in the past two weeks. RZB offered an exchange of its € 5.77% UT2 into new callable LT2s dated 2023 (and subsequently did not call the UT2). BBVA tendered for €2.9 billion equivalent of LT2 securities for cash (and did not call one of them, which was tendered at its market price of 97 one day before the final call notice date). Intesa offered to exchange four LT2s (final maturities in 2017/2018) into new senior bonds dated 2017 (missing the call of the £ 6.375 17-12c LT2 whose call window was closing today).

An Aside on Intesa

Intesa's motive of exchanging its LT2s into seniors is not instantly clear. On the one hand, the motive cannot be to maximise capital value as the exchange is from LT2 into senior. On the other hand, the removal of the call option is likely designed to support the total capital ratio (as we discuss below) and also there is a cap (€1.5 billion cap versus €2.25 billion outstanding) which must be once again designed to ensure Intesa does not give up too much capital value. Our best guess is that we see the exchange as being designed as a transition for Intesa to a policy of economic calls, offering holders a way out by exchanging into senior and that going forward that it will be focused on total capital (as we move towards a world of minimum bail-in buffers). We also believe that this is being done against a backdrop of increased regulatory scrutiny in Italy on banks calling and reducing liquidity.

At first look, the removal of the call option is clearly unfavourable for investors, but over the longer term, this may not be as bad as first feared. For example, when a bank says it will only call if it is economic to do so – e.g., Deutsche and Santander – then it is likely that the bond will only be called when an investor does not want it to be called (i.e., as it is

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expensive for the bank to have it outstanding), whereas Intesa is actually taking this option away and holders will know when the bond will ultimately mature.

We presume that Intesa is removing its call option to try to ensure that the LT2 will continue to get capital benefit post the call date. Bonds with incentives to redeem post January 1, 2013 will lose all regulatory capital value per CRDIV. To attempt to try and get around this, our read is that Intesa could either a) remove the call option, or b) remove the coupon step-up. Clearly, removing the step-up would be detrimental to bondholders and require investor consent. Given this, Intesa has chosen to remove its call option; hence, while there is still a coupon step-up, with no call option outstanding, there can be no incentive to redeem. As a result, we believe that Intesa hopes that these securities should be able to keep regulatory capital value (subject to normal 20% per annum amortisation). We do not know if this was confirmed by the Bank of Italy, although we can only assume that Intesa discussed it with them.

For context, the premiums on the LT2s exchanged were about 1 point, and the new seniors are coming at market price (m/s+310bp).

RZB, BBVA and Intesa had called all their institutional securities in the past. In light of these recent developments, and our expectations for more creeping non-calls, we take a look at who may be the next issuer to offer an LME on its outstanding subordinated debt.

Calls: No Longer a Given

There still seems to be a **general sentiment among market participants that most banks are calling their subordinated securities at the first call date. This is not the case**, as shown in Appendix 1, where banks listed in grey have missed calls on institutional securities or announced economic call policies going forward. When looking at regions, only France, Scandinavia and Switzerland have had their major banks calling throughout the global financial turmoil. In all other jurisdictions, one of the banks at least announced economic call policies, and this does not only apply to the smaller banks: Lloyds, RBS, Deutsche, BBVA, Santander and now Intesa have all missed calls on institutional securities to name a few. Clearly, a number of the banks have had bans from the EC due to state aid, but far from all of them.

There are several drivers of calls/non-calls to take into account when looking at subordinated debt. Perceived reputational risk, willingness to show capital/funding strength through calls, regulatory changes, market conditions and of

course the financial position of the issuer and its ability to call bonds are all playing a role in this process. As most of these factors are very much bank specific, we will discuss them on a case-by-case basis when looking at single issuers later in this note. A quick update on where we stand on regulatory changes may be a useful start when trying to get a sense of call policies. As we have discussed in many of our notes, tougher regulatory stance is one of the reasons why we are cautious on calls, as this could in effect remove the reputational risk of a non-call. **Quite clearly as we look ahead, calls even from the strongest issuers cannot be guaranteed.**

Regulatory Background – Any Read-Across for Calls?

CRD IV – Expected Agreement by Year-End

We, of course, not only await the finalisation of CRD4 (the EC is guiding for an agreement by year-end), but the EBA's technical standards that would have to follow it, which would flesh out requirements. We'd note that in [Basel III Definition of Capital - FAQ](#) (October 20, 2011), Basel's own clarification of capital rules included the following: "if a bank were to call a capital instrument and replace it with an instrument that is more costly (e.g., has a higher credit spread) this might create an expectation that the bank will exercise calls on its other capital instruments", and that therefore banks should not expect their regulators to allow them to call a security if it intends to refinance it with a more expensive instrument. If we assume that the EBA might pick up Basel's own views on uneconomic calls, while presumably applying only to newly issued capital, there is the risk that such a policy gets broadened to all instruments – or, at least, banks start behaving in such a way.

A Note on the FPC

Away from Basel's view that no investor should expect an uneconomic call, a lively debate is ongoing in the UK in terms of exactly how much capital the regulators really want the banks to have. Our equity colleagues focused on this in [Increasing UK Mortgage Risk Weights –Impact Assessment](#), (Manners, October 4, 2012), highlighting the FPC's call for a re-examination of risk-weightings. The FPC is the Financial Policy Committee, within the Bank of England, set up with the initial objective of enhancing the resilience of the UK financial system. The Financial Services Bill (legislation supporting the FPC) is currently going through Parliament, and in June, a second objective of the FPC was added – to support the economic policy of the government. A read through this October 4 report highlights the conflicting messages coming out of the FPC and FSA for higher levels

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of bank capital and those from the government, which is urging the banks to lend more.

With the UK economy as it stands – and the recently added second goal of the FPC – our view is that the banks will not be forced to raise equity in the near future. However, linking to our thoughts on LME here, **the first objective certainly argues for banks not to be allowed to use LME to actively lower the amount of capital they have.** Hence, our conclusion is that LME for the UK banks – specifically for the partially state-owned banks – will remain with the objective of not reducing subordinated debt, as shown by Lloyds' and RBS's recent LMEs of Tier 1/LT2s into new subordinated bonds (LT2 callables so far) – rather than for cash, or new senior debt.

As an aside, even if the banks are asked to raise risk-weightings, from a credit perspective, we shouldn't care, as risk has not changed. Further, if they are actually forced to raise equity, then that's a credit positive.

Bail-In Legislation – Impact on Calls and LMEs

As noted above, it's interesting that both Lloyds and RBS exchanged existing LT2 for longer-dated LT2, and we certainly believe that this was guided by the regulator – to not reduce subordinated debt. Looking at other state-aided banks' LMEs, the Dutch regulator has taken a different stance with ING so far, allowing exchanges into senior. However, we'd note that the draft bail-in directive, which suggests a layer of 'eligible liabilities' for bail-in, was issued after ING did its last LME. There's a debate at the moment about such a layer being made up of subordinated debt only, to 'spare' senior bondholders in times of stress, and to ensure senior debt trades as well as possible. This could well influence a regulator, or the bank itself, when considering calls on subordinated debt. However, this debate is in its infancy and the directive is still in draft.

Upcoming Calls – LME Catalysts

With this regulatory backdrop in mind, we look at the subordinated bonds coming up to call for the first time in the first half of 2013 for LME catalysts in the near term. In our view, the focus should be on institutional securities, as even the banks with the strongest call track records have not called retail securities in the past (e.g., HSBC, BNP, etc.).

We have excluded banks that have announced economic calls in the past few months from our analysis such as Monte, Santander, BBVA and very recently Intesa SanPaolo. In the same vein, we are excluding banks that have constantly been calling and where we would not expect a change of policy given the strength of the issuer or

comments on calls *so far* (e.g., UBS, CS, most Scandis, Standard Chartered, etc.) However, as stated above, we do not believe that any outright call of bonds is 100% certain and we will return to these in a future note.

We are left with five interesting issuers to look at from an LME perspective: Lloyds, Nationwide, RBS NV, ABN Amro, (see Exhibit 1 overleaf) and also ING in the very short term, as it is exiting its EC ban this November (see [ING: Action Expected Post End of EC Call Oversight](#), October 10, 2012).

A Few Words on Very Short-Dated Calls

Before digging further into LME candidates, **we'll quickly focus on short-dated calls as we have had many questions on the BNP €5.868% Jan-13c Tier 1**, whose call window is opening on November 13 this year, even prior to Intesa's exchange offer. This is the first Tier 1 of a major bank coming up for call in 2013. This is an institutional step-up Tier 1 (L+248bp), and BNP has always called its institutional Tier 1s in the past. The last Tier 1 it called was the BNP € 6.342% Jan-12c (step of L+233bp), which was called when trading around 97 last November.

While our base case is that BNP keeps on calling its subordinated bonds, at 96 offer; 24.7% YTC; 5.2% YTP, **we still see the risk/reward for the BNP €5.868 Jan-13c Tier 1 skewed to the downside here.** If not called, we would expect the YTP to readjust to ~5.7% YTP (BACR € 4.75% trades at 6.4% YTP, though with a lower step of L+71bp), which is equivalent to a cash price of 87. This is, of course, notwithstanding the pressure that one would see on the bonds straight after the non-call, as we believe that investors are not ready for such an event. We'd note that BNP € 5.431% 17 bullet LT2s – the bank's longest-dated bullet LT2s – are currently trading at a z-spread of 198bp, i.e., tighter than the 248bp step, though not significantly so – supporting our base case.

As we highlighted in [Credit Agricole: Greece and Beyond](#), September 20, 2012, **we are more comfortable holding FBAVP €4.625% 14c T1, offered at 84, 14.4% YTC; 5.2% YTP.** BNP has consistently called legacy Fortis subordinated securities (the only exception was the € 6.5, which was equity settled), and the lower cash price of these bonds means that there is less downside in the event of a non-call, in our view. Should BNP call the € 5.868% in January, FBAVP should trade up as well, in our view, providing a more balanced risk/reward.

Morgan Stanley rendered a financial opinion letter to Banco Bilbao Vizcaya Argentaria S.A. ("BBVA") in relation to the proposed sale of BBVA Puerto Rico S.A. to Oriental Financial Group Inc as announced on 28 June 2012. BBVA has agreed to pay fees to Morgan Stanley for its financial services. Please refer to the notes at the end of the report.

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Exhibit 1

1H13 Upcoming Institutional Calls (First Call Date)

Ticker	Next call	Type	Step	Ccy	Cpn	Amt o/s (m)
MONTE	15-Jan-13	LT2	3m €L + 100	EUR	FRN	104
BNP	16-Jan-13	T1	3m €L + 248	EUR	5.868	700
CS	23-Jan-13	LT2	3m €L + 87	EUR	3.625	77
STANLN	25-Jan-13	LT2	3m £L + 79	GBP	6	300
DNBNO	29-Jan-13	LT2	3m £L + 200	GBP	6.17	250
SANTAN	31-Jan-13	LT2	3m £L + 75	GBP	5.75	113
NWIDE	6-Feb-13	T1	3m £L + 50/150	GBP	6.024	350
NWIDE	12-Feb-13	LT2	5Y UKT + 198	GBP	5.25	200
FBAVP	14-Feb-13	LT2	3m €L + 75	EUR	FRN	800
ISPIIM	20-Feb-13	LT2	3m €L + 85	EUR	FRN	750
LLOYDS	25-Feb-13	T1	3m €L + 250	EUR	6.35	261,226
LLOYDS	5-Mar-13	LT2	3m €L + 203	EUR	5.625	1,000
BBVASM	11-Mar-13	LT2	3m £L + 73	GBP	5.75	250
DANBNK	20-Mar-13	UT2	3m €L + 295	EUR	6	500
STANLN	28-Mar-13	LT2	3m €L + 80	EUR	FRN	675
STANLN	28-Mar-13	LT2	3m \$L + 80	USD	FRN	100
UBS	11-Apr-13	T1	3m €L + 465	EUR	8.836	995
RBS NV	17-May-13	LT2		AUD	6.5	575
RBS NV	17-May-13	LT2	BBSW 3m + 79.	AUD	FRN	175
SOCGEN	22-May-13	T1	3m €L + 335	EUR	7.756	795
EURHYP	23-May-13	T1	3m €L + 367	EUR	6.445	119
ISPIIM	28-May-13	LT2	3m €L + 198	EUR	5.75	1,000
SANTAN	30-May-13	LT2	3m €L + 82	EUR	4.25	258
ABNANV	31-May-13	LT2	3m €L + 75	EUR	FRN	238
SHBASS	12-Jun-13	T1	3m £L + 51/151	GBP	6.4611	100
FRIES	13-Jun-13	LT2	3m €L + 150	EUR	4.75	135
DANBNK	20-Jun-13	UT2	3m €L + 205	EUR	4.25	500
ISPIIM	26-Jun-13	LT2	3m €L + 100	EUR	4.375	500
SWEDA	26-Jun-13	LT2	3m €L + 380	EUR	7.375	400
HSBC	27-Jun-13	T1	3m \$L + 199.5	USD	4.61	1,250

Source: Bloomberg, Morgan Stanley Research, Dealogic

LLOYDS – A Track Record of LME

Moving away from the very short-dated calls, we first get to the LLOYDS €5.625% LT2 callable in March 2013.

These are Lloyds' first institutional LT2 (not previously tendered for) to come up to call next year. The LLOYDS € 6.35% Tier 1s are coming to their first call date the month before; however, these have been exchanged in the past (into ECNs) and are unlikely to constitute a catalyst for further LME on their own, in our view.

Lloyds has an extensive record of LMEs: In January 2009, it exchanged 27 UT2s into new T1 issues; in March 2009, it exchanged 26 of its outstanding UT2s into senior debt followed again by a large exchange of UT2 and T1 debt into ECNs. In 2010, it exchanged another four of its UT2s into equity. In December 2011, it exchanged 11 LT2s and two

UT2s into new, longer-dated (for the LT2s) callable LT2s. In February 2012, it tendered a Tier 1 perp into a new callable LT2. Hence, we believe that Lloyds will look at offering investors an exit opportunity for these LT2s as well.

As one can see though, the format of tenders and exchanges that the bank has done has changed significantly over the years, so that it is not obvious what type of LME it would be looking to do here. As we mentioned when discussing regulatory background above, UK regulators have seemingly been focusing on maintaining capital ratios lately, with both LLOYDS and RBS exchanging subordinated bonds into new LT2s in their latest tender, so that our base case here is the same.

Is it worth playing the LME game at a 96.5 offer, 15.8% YTC; 4% YTM? Looking at the LLOYDS € 6.5% 20s bullet as a comparable, these trade at a z-spread of 405bp on the offer side. Using an approximate z-spread of 385bp for a 2018 maturity, we get to a cash price of 91.7 for the 18-13c, a downside we are not ready to risk here. An added concern is that if the 5.625% is exchanged into a longer-dated LT2, there will be a fair amount of longer-dated LT2s outstanding, potentially prompting a sell-off in the newly created bonds.

We see better relative value in the HBOS €4.375% 19-14c offered at 89.5; 10.5% YTC; 5.3% YTM, z+380bp to maturity. The downside is much more limited here, even factoring a z-spread of 390bp to maturity, and the bonds should benefit from an LME on the 18-13c, in our view, providing that the LME is generous. Lloyds could also look at including these securities in the potential LME of the 18-13c – and we prefer the risk/reward on these HBOS bonds.

NWIDE – LME into CRD IV Compliant Instruments?

NWIDE has two subordinated bonds coming up to call in February next year: the NWIDE £ 6.024% Tier 1 and the NWIDE £ 5.25% 18-13c LT2, both institutional deals. At 98.8/100.8 the LT2s are trading to the call while the 6.024% T1s, trading at 84/86, are clearly not. The LT2s step to G+198bp and as the NWIDE € 5.625% 19 seniors trade at G+164bp, the LT2s are likely to be called, in our view. We appreciate the amortisation, but don't believe that's a big enough driver to prevent a call.

The Tier 1s are non-step/step Permanent Interest Bearing Shares (PIBS) counting as Tier 1, meaning that the bonds step across to 3mL+50bp after the 2013 call date, and 'step up' to 3mL+150bp after February 2018. At first look, these represent cheap perpetual Tier 2 funding (even senior funding) and there is little incentive for the issuer to call the bonds, apart from reputational risk. However, **the £ 6.024% is Nationwide's first PIBS to come to call and, as such, could be a catalyst for a broader exchange of PIBS into new compliant instruments, in our view.**

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Indeed, at their July 2012 AGM, Nationwide passed a special resolution enabling it to issue new CRD IV compliant securities that could count as CT1, called Core Capital Deferred Shares (CCDS). We understand that the company is currently on the road, gauging interest for these securities, and offering an exchange from PIBS into CCDS would give it access to a captive audience. We understand that it received no objection from the EBA/FSA on the issuance of these new-style securities, which is the best outcome that it could hope for as these entities do not provide approvals, only objections, and the company is comfortable that these new securities will count as CT1 under the new rules applicable to building societies.

Exhibit 2

NWIDE' s Most Liquid Outstanding PIBS

Ticker	Next call	Cpn	Step	Amt o/s (m)	Offer	YTC	YTP
NWIDE	06-Feb-13	6.024	L+50	350	84	77.4	4.3
NWIDE	13-Mar-15	7.971	5yr UKT + 405	200	104.5	5.9	7.6
NWIDE	06-Feb-26	5.769	5yr UKT + 208	400	84	7.7	7
NWIDE	13-Mar-30	7.859	5yr UKT + 445	100	96.0	8.3	8.2

Source: Bloomberg, Morgan Stanley Research, indicative pricings

Yorkshire Building Society recently tendered for cash one of its PIBS at a 7.5-point premium (though well below par at 82), as well as three small LT2 deals, two of them below par also and one at 117.5 (we'd note that the LT2 tender was done according to a modified Dutch auction process, and bonds were taken out between 2 to 13 points higher than the minimum tender price initially guided), which supports the market view that tenders are being considered within the building society sector. As per the above, we would expect an exchange into new securities for NWIDE rather than a cash tender. We would also note that there are unconfirmed media reports of NWIDE as a potential bidder for RBS branches post Santander's withdrawal (*Financial Times*, "Nationwide eyes branches in RBS sell-off", October 21, 2012). Should that be the case, it may need to maintain/raise capital, which would also influence the society's choices on LME (i.e., would certainly reduce the chances of any cash tender, in our view, or exchange into senior).

Looking at outstanding PIBS, we see better value in the NWIDE £ 5.769% to play the 'will they/won't they' LME theme than in the NWIDE £ 6.024%. The 5.769% has a longer call (2026), but we believe that Nationwide would try and target most of its PIBS in the event of an LME. If it does not proceed with any tender/exchange, then at 84 (7.7% YTC; 7% YTP), we see less downside in the 5.769% than in

the 6.024% at 86 (4.2% YTP) and believe that 7% YTP is decent for an A2/A+/A+ rated issuer. We'd note though that liquidity can be difficult in these bonds.

LME Potential for Banks Exiting Call Bans

There are a number of banks exiting their EC call ban over the coming months: RBS NV, ABN Amro and ING. As we highlighted in [ING: Action Expected Post End of EC Call Oversight](#), October 10, 2012, there is no distinct pattern of LMEs for state-aided banks; hence, we are reviewing each bank separately here.

RBS NV – LME Post Call Ban?

RBS NV is the entity that relates to RBS's acquisition of some of ABN Amro's activities as part of the purchase of ABN Amro led by the consortium RBS/Santander/Fortis in 2007. The original ABN was demerged into RBS NV and ABN Amro (now owned by the Dutch State) in 2010. Unlike RBS Group and RBS Securities Plc, which were under a call ban until April this year, RBS NV securities are still under an EC call ban until April 1, 2013. The difference in timing of the ban is due to a one-year pusher period for three prefs allocated to RBS NV, triggered by the restructuring of the old ABN NV. By setting the coupon ban to start as soon as the pusher periods elapsed, the EC ensured the RBS NV securities come under a full two-year ban.

We'd also note here that RBS's ban on tendering/exchanging Tier 1 due to capital stoppers is lifted on March 31, 2013. RBS has four Tier 1s coming to call in 2013/14: the RBS € FRN (old 6.467%) whose next possible call date is June 2013 (it missed its first call in June 2012), the old £ 8.162% whose next call date is June 2013, the \$ 4.709% July 2013 call and the \$ 5.512% September 2014 call. All these have been part of prior LMEs, so there's no big push for RBS to do a further round, although we can't rule it out, once it's free to do so. We'll revisit these bonds closer to the end of the call ban when we have a better view on new Tier 1 structures and if RBS may look at a possible exchange into those. However, for now, at YTP of 7.4% for the FRN, and 6.6%/6.9% for the \$ 4.709% and \$ 5.512%, respectively, we see better value elsewhere and would not play LME here. Indeed, if RBS does not exchange these bonds, the YTP do not look compelling to us when compared to LLOYDS £ 6.461% must pay at 8.2% YTP for example. Hence, while RBS Plc may proceed with an LME on its Tier 1s, we'd rather look at RBS NV for LME opportunities.

Two RBS NV AUD institutional securities are coming up for call for the first time in May 2013, shortly after the end of the call ban (see Exhibit 1). While we do not trade these two

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securities, we believe that they could act as a catalyst for a broader LME. Indeed, RBS NV has about €4.5 billion of subordinated securities outstanding, most of which are institutional deals, and we believe that RBS may be looking to optimise its capital structure via a tender/exchange below par for some of these bonds.

The two more liquid deals we do trade are the two LT2 floaters maturing in 2015, the \$ RBS FRN Mar-15s and the € RBS FRN Jun-15s. Trading at a lower cash price of 94.5 offered, DM+293bp, the euro securities look the most interesting out of the two, in our view. Should RBS NV not proceed to an LME, at DM+293bp, 3.4% YTM these bonds still present decent value, in our view, for example, compared to DPB Nov-15s FRN at DM+260bp. The risk here is that most assets currently under the NV entity get transferred to the Plc entity (some have already been transferred) and the NV entity ends up as being an orphan entity. While we see a limited probability of RBS Plc withdrawing support from the NV entity at this stage, we would not be fresh buyers of the NV bonds if we didn't own them already; with RBS € 4.875% 15s bullet LT2s (Bank Plc) offered at 103.70; z+278bp, we prefer the certainty of staying at the bank itself.

ABNANV – Not Many Bonds Outstanding

The ABNANV € FRN May-18-13c is ABN's first security to come to the first call date post the bank's exit of the EC ban on March 10, 2013. Three other institutional securities are callable in March/April 2013, as they missed their first call date under the EC ban. All four securities were part of the exchange offer into new LT2 securities in 2011. The rationale at the time was to provide investors with an option to exit the securities, given that the bank was not in a position to call them, as well as to optimise the capital structure of the bank as these bonds were giving the bank reduced capital benefits post the call date.

Exhibit 3

ABNANV' s Outstanding LT2 FRNs

Ccy	Bond	Step	Amt o/s (m)	Offer	YTP/M
€	ABNANV Jun.15 Mar.13c	E+77	377	95.6	2.8
€	ABNANV May.18 May.13c	E+75	238	90.5	3.5
€	ABNANV Sep.16 Mar.13c	E+70	441	94.0	2.9
\$	ABNANV Jan.17 Apr.13c		457	93.5	3.2

Source: Bloomberg, Morgan Stanley Research, indicative pricings

ABN Amro 2015s/2016s seniors currently trade at ~z+50/60bp, versus steps of 70-77bp on these LT2 securities. The bank may look at tackling the remaining bonds outstanding – that

provide them with little capital benefit – but the economics of an LME are not obvious here. (We'd note that in the LME, ABN did not mention anything about economic calls going forward, though). Given that ABN Amro is still fully state-owned, we'd once again refer back to the UK regulators' focus on maintaining capital at Lloyds and RBS, to get a sense of what type of LME could be done here. ABN already offered to exchange these securities into new LT2s in the past, so we think it may be looking for an exchange into LT2s again. On that note, it recently issued the ABNANV \$ 6.25% 22-17c LT2s trading at z+405bp to maturity, making these short-call LT2s look relatively cheap from an issuer's perspective, even if their contribution to capital ratios is limited, in our view.

Liquidity is extremely poor in these bonds as a result of the small amount outstanding.

ING – Base Case LME for €, Calls for \$

We wrote at length on the topic of potential LME for ING in [ING: Action Expected Post End of EC Call Oversight](#), October 10, 2012. The EC's call ban for ING will end on November 18, 2012, in our view, and with €5.4 billion of non-called institutional debt having built up over the call ban period, our base case for € LT2s is a (generous) exchange into senior debt, and likely calls for \$ denominated bonds.

The upside of a \$ Tier 1 call is clear from Exhibit 4 overleaf; however, if nothing happens, the YTP on the old 8.439% (now an FRN) is 7.2%. We'd be buyers of the \$ Tier 1 FRN here at 96, considering that ING's \$ 5.775% is offered at 94.50, with a YTC of 7.8%, YTP 5%. With a step in 2015 to L+168bp, if the FRN is left outstanding, we believe that this \$ 5.775% will be also. With the FRN, you get an extra 220bp of yield.

The upside to outright calls – which we think are theoretically possible – on our bank LT2s in Exhibit 4 is significant, considering none are trading above 96. However, as noted above, we think an exchange into senior is the most likely outcome, and the upside there depends on the terms of the new bonds – though **previous LME gives reasons to be hopeful**. Again, though, it's worth looking at the downside, which is greater for the LT2s than the Tier 1, in our view.

For the five bank LT2s in Exhibit 4, the YTM ranges from 2.4% to 2.5%. Looking at the maturity column, if nothing happens to these bonds, four of them represent just over four-year debt and one five-year (its first call date is January 2013). The first four will have 80% regulatory Tier 2 value now, dropping to 60% when they have four years left to maturity, and so on. With coupons between L+70bp and 105bp, and even ignoring any amortising Tier 2 value, this is relatively cheap senior for the bank, in our view. ING did a \$750 million 3-year deal in mid-September this year at L+164bp.

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The downside for the LT2s is greater than for the Tier 1, in our view. If ING does what we are not expecting, and simply leaves them outstanding, equivalent ING LT2s, which are not yet at the call date, are trading with better YTM yields. We look at YTM rather than YTC for comps, as if ING simply leaves the current LT2s outstanding, there's an obvious read across to all its other callable bonds. The €4.625% 19NC14s are at 98.25, z+226bp, giving a 3.6% YTM and clearly a much lower cash price; the €6.125% 23NC18s have a much better step, at L+255bp, cash price of 106.4, and a YTM of 4.8% and YTC of 5%. However, the first LT2 is probably the most instructive with a 2019 final maturity, closest to the possible 'left outstanding' maturities of our callable LT2s in

Exhibit 4, suggesting the untouched callable bonds in Exhibit 4 reprice to a 4% YTM. However, considering most of the remaining callable bonds would be ~3.5 years, this is relatively harsh. Possibly a better comp might be the ING Group € April 2016 senior bond, at around DM+80-90bp. Taking that as a comp and adding, say, 100bp for Tier 2 status, the downside risk to these callable bonds looks manageable, in our opinion.

Finally, with our view that in theory ING could call all these bonds, it would take just one call to push all these bonds in Exhibit 4 up to par. The first possible date for a call notice was October 22, 2012.

Exhibit 4

ING Bonds

Structure	Ccy	Ticker	Cpn	Next call date	Maturity	Step	Amt o/s (m)	Offer	YTC (%)	YTP/M (%)	DM to Call	DM to Maturity
T1	\$	INTNED	8.439	31/12/2012	Perp	L+360	522	96	28.6	7.2	2835	381
LT2	€	INTNED	FRN	18/12/2012	18/03/2016	L+105	1,000	96	31.4	2.4	3204	190
LT2	\$	INTNED	FRN	23/11/2012	23/05/2016	L+67.5	1,250	96	14.1	2.4	1370	183
LT2	€	INTNED	6.25*	21/12/2012	21/06/2021	L+185	1,250	97.5	20.2	3.7	2005	216
LT2	\$	INTNED	FRN	26/12/2012	26/09/2016	L+71	200	N/A**	N/A	N/A	N/A	N/A
LT2	\$	INTNED	FRN	21/11/2012	21/11/2016	L+70	200	N/A**	N/A	N/A	N/A	N/A
LT2	\$	INTNED	FRN	03/01/2013	03/07/2017	L+70	2,000	95.25	27.6	2.5	2731	170

Source: Bloomberg, Morgan Stanley Research; indicative pricings * issued by ING Verzekeringen NV, YTC in June 2013; DM=Discount Margin to Maturity; **Liquidity extremely poor

Exhibit 5

ING: Past Liability Management Exercises

Date	Name	Security	Type	Step up	Call date	Exchanged into	Amt offered (m)	Exchange ratio	Premium (points)	Amt accepted (m)	Participation rate
Dec 2011	ING Groep N.V.	INTNED 4.176% Perp	€T1	L+180	08/06/2015	New € 4.125% Senior maturing 23/3/2015	500	74.0	9.0	331.3	66%
		INTNED 6.375% 27	€LT2	L+190	07/05/2017		1000	87.0	7.0	523.7	52%
		INTNED 5.14% Perp	£T1	L+162	17/03/2016	New £ 3.875% Senior maturing 23/12/2016	600	77.0	11.5	533.9	89%
		INTNED FRN Perp	€T1	N/A	30/06/2013	New € 4% Senior maturing 23/12/2016	750	58.0	8.0	318.2	42%
		INTNED FRN Perp	€T1	N/A	30/06/2014		1,000	58.0	8.0	437.4	44%
		INTNED FRN Perp	\$T1	L+360	31/03/2012	Cash	1500	80.0	7.0	975.0	65%
Feb 2012	ING Insurance	INTNED 5.775% Perp	\$T1	L+168	08/12/2015		1000	80.0	7.0	635.8	64%
		INTNED 3.5% 12	€Snr	N/A	N/A	ING Group Snr € 3.5% maturing 28/11/2012	600	100.0	1.3	347.1	57.9%
		INTNED FRN 13	€Snr	N/A	N/A	ING Group Snr € FRN maturing 18/9/2013	1,000	100.0	1.5	730.3	73.0%
		INTNED 4% 13	€Snr	N/A	N/A	ING Group Snr € 4% maturing 18/9/2013	1,000	100.0	0.3	576.6	57.7%

Source: Bloomberg, Morgan Stanley Research

Remaining Cautious on Calls

Even though we highlighted callable bonds in this note, we very much remain cautious on calls, which is what paradoxically brought us to look at callables from the perspective of 'creeping non-calls' here. We'd flag that we limited our analysis to bonds coming up for call in the first

half of 2013, as we believe that short-dated calls will be the catalyst for further LMEs. However, we included a list of the institutional bonds coming up for call in the next two years in the universe we monitor in Appendix 2, and an overview of the total institutional bonds coming to call in 2013/14 per issuer in Appendix 3.

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Appendix 1 – European Banks' Call Policies

		<i>Amt Called*</i>	LT2 - Call rationale	<i>Amt Called*</i>	UT2/T1 - Call rationale
UK	Lloyds		Lloyds is only calling economically post Dec-2011 LME		Lloyds is only calling economically post previous LMEs
	RBS		RBS is calling economically post Mar-2012 LME		RBS is only calling economically post previous LMEs
	Barclays	5,152	Barclays has called all issues to date	3,375	Barclays has called all issues to date
	HSBC	5,165	HSBC has called all issues to date	1,674	HSBC has called all issues to date
	Standard Chartered	1,940	Standard Chartered has called all issues to date	500	Standard Chartered has called all issues to date
	Nationwide	1,257	Nationwide has called all issues to date		Nationwide has not had any issues come to call
	Co-operative Bank		Co-op exchanged issues in the past instead of calling		Co-op has not had any issues come to call. We assume it will not call consistent with the approach to LT2
Germany	DB		DB has not called since 2008		DB has not called since 2008
	Commerzbank		Commerzbank has not called post LT2 LME		Commerzbank is only calling economically post T1 LME
Austria	RZB		RZB has always called. However, call decisions going forward will be made dependent on prevailing regulatory, economic and market conditions at that time.		RZB did not call its most recent issue
	Erste		Erste's most recent issue was exchanged. Previously they have always called; however, call policy going forward is on an economic basis.		Erste called most recent institutional issue however call policy going forward is on an economic basis
France	SocGen	3,053	SocGen has called all issues to date	1,255	SocGen has called all issues to date
	CredAg		CredAg has called all issues to date		CredAg has called all issues to date
	BPCE		BPCE has not had any LT2 come to call		BPCE has not had any T1 come to call nor has it communicated that call decisions will be economic going forward
	Natixis	3,200	Natixis has called all issues to date	32	Natixis last called in Jun 2011 but made no comment on their call policy
	BNP Paribas	6193	BNP has called all issues to date	1,541	BNP has always called T1s
	BFCM	1000	BFCM has called all issues to date		BFCM has never had a Tier 1 come to call. At the Dec-2011, BFCM said it did not comment on its call policy
Belgium	KBC		KBC has not called		KBC has not called since Mar-2009
	Fortis Bank Belgium	1684	Fortis Bank Belgium has called all issues to date		Fortis 6.5% was not initially called. It was equity settled and subsequently called
Italy	Intesa		Intesa has offered to exchange LT2s into senior debt	1,500	Intesa has called all issues to date
	Unicredit	5,365	Unicredit has called all issues to date	883	Unicredit has called all issues to date
	Banco Popolare		Banco Popolare has had no issues which have been called but had one LT2 LME. Calls going forward will be made on an economic basis		Banco Popolare has never had a T1 come to call they did two LMEs. Calls going forward will be made on an economic basis
	Monte dei Paschi		Monte dei Paschi has had no issues which have been called but one LT2 issue which was tendered. Calls going forward will be made on an economic basis		Monte dei Paschi has had no issues which have been called but one T1 issue was tendered. Calls going forward will be made on an economic basis
Switzerland	UBS	4,025	UBS has called all issues to date	1,192	UBS has called all issues to date
	Credit Suisse		Credit Suisse tendered for €5.4bn of LT2, T1 and UT2 tendering in summer 2012. CS has made no comment about economic calls going forward	1,149	Credit Suisse has called all issues to date
Netherlands	ING		ING has not called since Oct-2009 due to EC restrictions		ING has not called since Oct-2009 due to EC restrictions
	Rabobank	1,000	Rabobank has called all issues to date	572	Rabobank has called all issues to date
	ABN Amro		ABN Amro has not called. Since April 5 2011, EC imposed ban on calling until Mar-2013		ABN Amro has not called. From April 5 2011, EC imposed ban on calling until Mar-2013
	SNS		SNS didn't call the recent Feb-2012 issue		SNS hasn't had any T1s come to call. SNS has stated that call decisions going forward will be economic
Scandinavia	Danske Bank	263	Danske has called all issues to date	2,166	Danske has called all issues to date
	SEB	1,750	SEB has called all issues to date	1,293	SEB has called all issues to date
	Swedbank	660	Swedbank has called all issues to date	267	Swedbank has called all issues to date
	Svenska	1,710	Svenska has called all issues to date	1,018	Svenska has called all issues to date
	Nordea	2,479	Nordea has called all issues to date	764	Nordea has called all issues to date
	DnB Nor	1,647	DnB has called all issues to date	963	DnB has called all issues to date
Spain	Bankinter		Bankinter has not-called or exchanged its LT2		Bankinter has not had any T1 or UT2 come to call
	Sabadell		Significant tender activity in past 3 years. Call decisions going forward to be made on an economic basis		Significant tender activity in past 3 years. Call decisions going forward to be made on an economic basis
	Santander		Call decisions going forward will be made on an economic basis post previous LMEs		Santander has not called UT2 or T1 and will make call decisions on an economic basis going forward
	BBVA		Call decisions going forward will be made on an economic basis post Oct 2012 LME		BBVA exchanged in July 2012
	Popular		Banco Popular has not called issues to date. Significant tender activity in past 3 years		Banco Popular has not called UT2 or T1. Significant tender activity in past 3 years

Source: Bloomberg, Dealogic, Morgan Stanley Research; *Amount called in € million equivalent for issuers without economic call policies (both retail and institutional deals). Other banks might have called in the past, the case is left blank if they missed institutional calls/announced economic call policies.

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Appendix 2 – Upcoming Calls in 2013-14

Ticker	Ccy	Cpn	Type	Next call	Step	Amt o/s (m)	Price	YTC	YTP/M	ISIN
MONTE	EUR	FRN	LT2	15-Jan-13	3m €L + 100	104	77.1	138.7	6.3	XS0238916620
BNP	EUR	5.868	T1	16-Jan-13	3m €L + 248	700	98.1	14.8	5.1	XS0160850227
CS	EUR	3.625	LT2	23-Jan-13	3m €L + 87	77	100.5	3.5	2.0	XS0241241180
STANLN	GBP	6	LT2	25-Jan-13	3m £L +79	300	100.1	5.7	2.1	XS0297667205
DNBNO	GBP	6.17	LT2	29-Jan-13	3m £L +200	250	100.8	3.0	3.1	XS0342149134
SANTAN	GBP	5.75	LT2	31-Jan-13	3m £L +75	113	80.0	77.1	5.7	XS0284633327
NWIDE	GBP	6.024	T1	6-Feb-13	3m £L + 50/150	350	86.5	65.9	4.2	XS0284776274
NWIDE	GBP	5.25	LT2	12-Feb-13	5Y UKT +198	200	99.4	2.4	4.2	XS0162459928
FBAVP	EUR	FRN	LT2	14-Feb-13	3m €L + 75	800	98.6	9.0	1.4	BE0930831194
ISPIIM	EUR	FRN	LT2	20-Feb-13	3m €L + 85	750	93.9	20.5	2.2	XS0243399556
LLOYDS	EUR	6.35	T1	25-Feb-13	3m €L + 250	261	81.8	89.9	6.4	XS0156923913
LLOYDS	EUR	5.625	LT2	5-Mar-13	3m €L +203	1,000	98.3	17.9	4.2	XS0350487400
BBVASM	GBP	5.75	LT2	11-Mar-13	3m £L +73	250	90.1	34.6	4.2	XS0289655598
DANBNK	EUR	6	UT2	20-Mar-13	3m €L + 295	500	101.9	0.8	3.3	XS0336634711
STANLN	EUR	FRN	LT2	28-Mar-13	3m €L + 80	675	99.2	3.6	1.2	XS0276889937
STANLN	USD	FRN	LT2	28-Mar-13	3m \$L +80	100	98.3	4.9	1.4	XS0276951919
UBS	EUR	8.836	T1	11-Apr-13	3m €L +465	995	102.4	4.2	7.0	XS0357283257
RBS	AUD	6.5	LT2	17-May-13		575	86.4	35.7	7.5	AU0000ABOHG2
RBS	AUD	FRN	LT2	17-May-13	BBSW 3m +79.	175	83.9	35.8	7.7	AU0000ABOHH0
SOCGEN	EUR	7.756	T1	22-May-13	3m €L +335	795	89.5	29.0	6.6	XS0365303329
EURHYP	EUR	6.445	T1	23-May-13	3m €L + 367	119	65.0	115.2	9.8	XS0169058012
ISPIIM	EUR	5.75	LT2	28-May-13	3m €L+198	1,000	94.0	14.9	4.5	XS0365303675
SANTAN	EUR	4.25	LT2	30-May-13	3m €L +82	258	83.5	40.6	6.0	XS0255291626
ABNANV	EUR	FRN	LT2	31-May-13	3m €L + 75	238	90.8	16.7	3.4	XS0256778464
SHBASS	GBP	6.4611	T1	12-Jun-13	3m £L + 51/151	100	98.5	0.8	3.6	XS0303911795
FRIES	EUR	4.75	LT2	13-Jun-13	3m €L +150	135	98.8	8.0	3.3	XS0170466592
DANBNK	EUR	4.25	UT2	20-Jun-13	3m €L + 205	500	101.7	1.5	2.6	XS0170248503
ISPIIM	EUR	4.375	LT2	26-Jun-13	3m €L +100	500	94.0	14.7	3.7	XS0258143477
SWEDA	EUR	7.375	LT2	26-Jun-13	3m €L + 380	400	104.1	1.8	4.6	XS0372124403
HSBC	USD	4.61	T1	27-Jun-13	3m \$L +199.5	1,250	99.9	4.2	4.6	US40429Q2003
RBS	USD	4.709	T1	1-Jul-13	3m \$L +186.5	846	70.0	75.8	6.6	US749274AA41
KNFP	EUR	4.375	LT2	24-Jul-13	3m €L +89B	500	97.5	8.2	2.9	FR0010002113
SHBASS	GBP	5.375	UT2	4-Sep-13	3m £L + 189	300	102.3	2.9	4.9	XS0266243806
NDASS	EUR	6.25	LT2	10-Sep-13	3m €L +320	500	104.1	1.5	4.0	XS0386569296
BNP	EUR	8.667	T1	11-Sep-13	3m €L +405	650	101.5	6.3	6.6	FR0010661314
DB	EUR	5.33	T1	19-Sep-13	3m €L + 199	1,000	80.4	34.5	5.7	XS0176823424
UBS	EUR	4.125	LT2	25-Sep-13	3m €L +75	578	100.4	4.0	2.4	XS0268105821
BACRED	GBP	5.375	LT2	11-Oct-13	3m £L +97	200	92.0	14.9	4.4	XS0270002669
UCGIM	GBP	6.375	LT2	16-Oct-13	3m £L + 138	350	93.0	14.4	4.7	XS0326211801
CS*	USD	11	T1	23-Oct-13	"illiquid"	3,500	"illiquid"	"illiquid"	"illiquid"	XS0394946809
CS*	CHF	10	T1	23-Oct-13	"illiquid"	2,500	"illiquid"	"illiquid"	"illiquid"	XS0394947104

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Appendix 2 – Upcoming Calls in 2013-14 (Cont.)

Ticker	Ccy	Cpn	Type	Next call	Step	Amt o/s (m)	Price	YTC	YTP/M	ISIN
UBS	CHF	2.75	LT2	23-Oct-13	3m Sfr L +62.5	250	"illiquid"	"illiquid"	"illiquid"	CH0027335030
UBIIM	EUR	FRN	LT2	30-Oct-13	3m €L +110	212	82.5	21.1	4.6	XS0272418590
MONTE	EUR	29.54	LT2	31-Oct-13	6m €L +300	100	"illiquid"	"illiquid"	"illiquid"	XS0391999801
LLOYDS	USD	5.375	UT2	01-Nov-13	3m \$L +170.25	14	"illiquid"	"illiquid"	"illiquid"	US4041A3AF96
SOCGEN	EUR	5.419	T1	10-Nov-13	3m €L + 195	420	91.2	15.5	5.0	XS0179207583
RABOBK	USD	5.26	T1	31-Dec-13	3m \$L +162.75	733	101.6	4.4	4.3	US749768AA51
BNP	EUR	4.375	LT2	22-Jan-14	3m €L + 71	386	99.9	4.4	2.6	XS0283256062
DEXGRP	EUR	4.375	LT2	12-Feb-14	3m €L + 72	300	50.2	78.3	15.8	XS0284386306
BACR	EUR	4.5	LT2	04-Mar-14	3m €L + 139	1,000	97.6	6.4	3.7	XS0187033864
RZB	EUR	4.5	LT2	05-Mar-14	3m €L + 87	500	90.0	13.0	4.7	XS0289338609
SOCGEN	EUR	4.5	LT2	12-Mar-14	3m €L + 92	249	98.7	5.5	3.1	XS0187584312
INTNED	EUR	4.625	LT2	15-Mar-14	3m €L + 144	1000	98.8	5.5	3.5	NL0000113892
HSBC	EUR	5.3687	T1	24-Mar-14	3m €L + 200	1,400	98.5	6.5	4.7	XS0178404793
POPSM	EUR	6.75	T1	30-Mar-14	3m €L + 150	440	"illiquid"			ES0170412003
KNFP	EUR	4.5	LT2	14-May-14	3m €L + 74	500	94.6	8.3	3.8	FR0010468546
SANTAN	EUR	4.75	LT2	29-May-14		415	84.5	16.7	5.9	XS0301810262
BCPPL	EUR	5.543	T1	09-Jun-14		99	40.0	87.7	11.7	XS0194093844
DANBNK	USD	5.914	T1	16-Jun-14	3m \$L +166	750	97.0	7.9	4.6	USK22272CP99
HSN**	EUR	7.4075	T1	30-Jun-14	12m €L + 215	500	26.50	132	14	XS0142391894
NDASS	GBP	6.25	UT2	18-Jul-14	3m €L +235	300	103.0	4.4	5.5	XS0151270310
SANTAN	GBP	11.3	T1	27-Jul-14	3m €L + 766	661	102.4	9.6	10.7	XS0441528949
SANTAN	EUR	6.5	LT2	27-Jul-14	3m €L + 414	242	98.0	7.7	6.2	XS0440402393
BPCEGP	EUR	5.25	T1	30-Jul-14	3m €L + 184	471	79.1	20.6	5.7	FR0010031138
UBS	EUR	4.5	LT2	16-Sep-14	3m €L +126	893	100.1	4.4	3.4	XS0200985207
NYKRE	EUR	4.901	T1	22-Sep-14	3m €L + 170	500	98.9	5.5	4.4	XS0201146064
UCGIM	EUR	4.5	LT2	22-Sep-14	3m €L + 95	500	89.0	11.3	5.2	XS0200676160
SANTAN	GBP	7.3	LT2	27-Sep-14	3m £L + 416	550	97.2	9.0	6.9	XS0440403797
SANTAN	EUR	4.5	LT2	30-Sep-14	3m €L + 86	500	83.6	15.0	6.2	XS0201169439
BBVASM	EUR	4.375	LT2	20-Oct-14	3m €L + 87	1000	86.6	12.4	5.5	ES0213211099
BBVASM	EUR	8.5	T1	21-Oct-14	3m €L + 574	645	94.7	11.7	8.9	XS0457228137
BBVASM	GBP	9.1	T1	21-Oct-14	3m £L + 570	251	91.1	14.6	9.8	XS0457234291
FBAVP	EUR	4.625	T1	27-Oct-14	3m €L + 170	1,000	84.0	14.4	5.2	BE0119806116
LLOYDS	EUR	4.375	LT2	30-Oct-14	3m €L + 136	750	91.1	9.5	5.0	XS0203871651
RABOBK	CHF	6.875	T1	12-Nov-14	6m CHF L + 496.5	750	107.5	3.0	6.0	CH0102806061
BKIASM	EUR	4.625	UT2	17-Nov-14	3m €L +217	298	26.8	103.2	17.3	XS0205497778
SANTAN	EUR	4.375	UT2	10-Dec-14	3m €L + 160	216	75.9	19.4	5.6	XS0206920141
BACR	EUR	4.875	T1	15-Dec-14	3m €L +105	1,000	68.0	26.4	5.7	XS0205937336
POPSM	EUR	5.702	LT2	22-Dec-14	3m €L + 360	273	72.8	23.1	11.3	ES0213790001
RABOBK	AUD	6.415	T1	31-Dec-14	BBSW 3m + 167	250	102.1	5.4	5.4	XS0204237654

Source: Bloomberg, Dealogic, Morgan Stanley Research, Indicative pricings as per Oct-25 *Securities placed with strategic investors ** Stressed Yields for missing coupons on account of EC ban

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Appendix 3 – Total of Institutional Bonds Coming Up to Call per Issuer in 2013-14

(€m eq.) Ticker	2013		2014		2013-14 Total
	T1	T2	T1	T2	
ABNANV		238			238
BACR			1,000	1,000	2,000
BACRED		247			247
BBVASM		309	955	1,000	2,263
BCPPL			99		99
BKIASM				298	298
BNP	1,350			386	1,736
BPCEGP			471		471
CS		77			4,851
DANBNK		1,000	580		1,580
DB	1,000				1,000
DEXGRP				300	300
DNBNO		309			309
EURHYP	119				119
FBAVP		800	1,000		1,800
FRIES		135			135
HSBC	967		1,400	774	3,141
HSHN			500		500
INTNED				1,000	1,000
ISPIIM		2,250			2,250
KNFP		500		500	1,000
LLOYDS	261	1,011		750	2,022
MONTE		204			204
NDASS		500		370	870
NWIDE	432	247			679
NYKRE			500		500
POPSM			440	273	713
RABOBK	567		819		1,386
RBS	654	598			1,252
RZB				500	500
SANTAN		398	816	2,050	3,264
SHBASS	123	370			494
SOCGEN	1,215			249	1,464
STANLN		1,123			1,123
SWEDA		400			400
UBIIM		212			212
UBS	995	785		893	2,673
UCGIM		432		500	932

Source: Bloomberg, Dealogic, Morgan Stanley Research

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Underweight/Sell	470	16%	122	11%	26%
Total	2,957		1102		

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