

Banks

# Bank Credit Outlook

## A liquid summer?

**Outlook:** We see little reason for jubilation at this point. Lending directly to banks by the ESM has a long way to go before it's activated. In fact, what we have seen recently is no Grexit, Moody's' bank downgrades are done, no EU-lending directly to Spanish banks (at least not yet), no Eurobonds, no political union, no Euro-wide deposit scheme and there are few-cares regarding Italian sovereign risk. The rating on the Spanish sovereign and the performance of Italian government debt are the events to watch over the summer months. The constant periphery pressure experienced in Q2 may not go on summer holiday. As such, we expect returns to remain more sentiment driven than fundamentally based over the next few months.

**Assessment:** Credit investors may dip their toes back in the water of EU bank debt during Q3, but rather than diving right in, we advise staying close to the shore. More specifically, steer clear of peripheral debt, unless you are prepared for sentiment-driven volatility. We expect the euro primary market to be selectively open for core-EU banking champions and anticipate more global markets to remain open for Nordic borrowers. Senior bail-in is an issue for the future, but investors are likely to begin to price this into new, longer-dated, issues, to the extent that we get any.

**How to trade it:** Our top CDS trade ideas contain a combination of trading opportunities based on fundamental views (ie. Sell Barclays sub protection, Buy DB sub protection; Buy INTNED senior and sub protection) and firm conviction that the market is mispricing the risk of default (Sell Dexia senior CDS protection). Our top cash trade ideas also focus on what we perceive to be relative value opportunities based on fundamental perspectives, combined with assessments of likely call or buy-back potential, where appropriate.

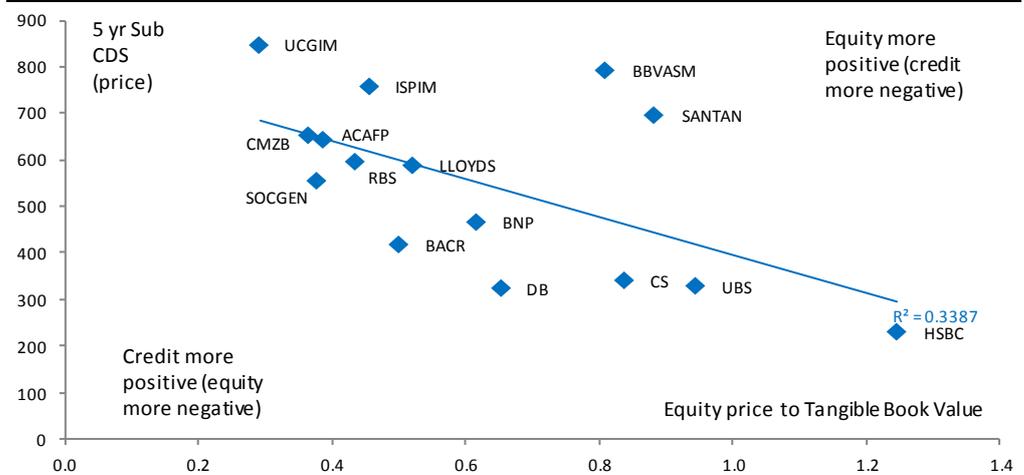
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**Equity and credit are in general agreement on most large EU bank names**



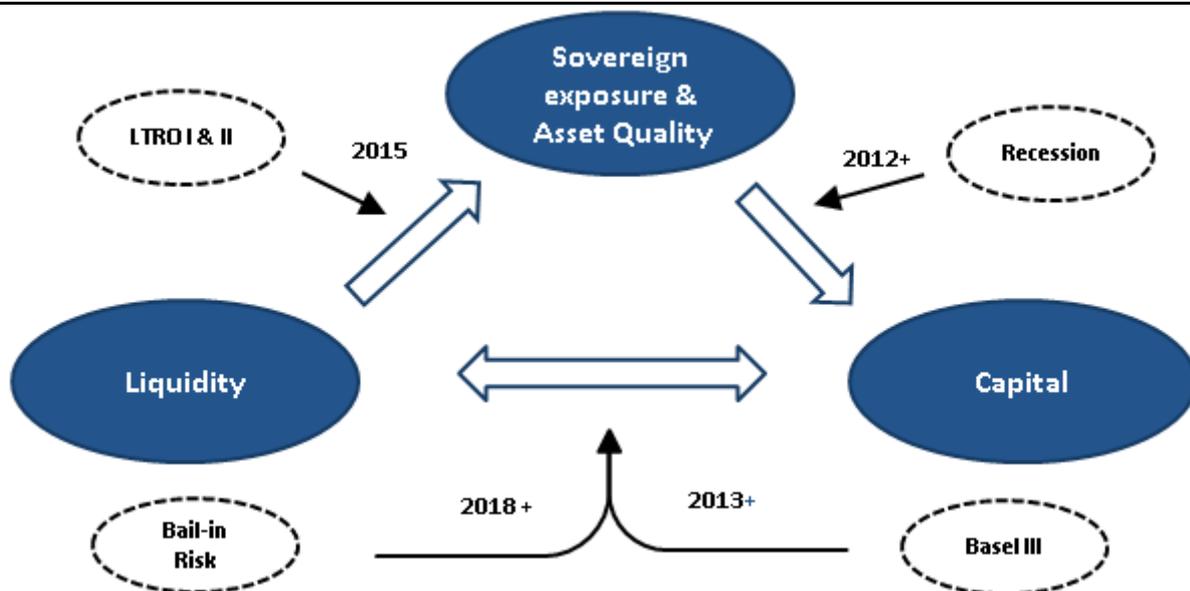
Source: SG Cross Asset Research, Bloomberg

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## Bank credit: time to dive in?

Credit investors may be tempted to dip their toes back in the water of EU bank debt during Q3, but, rather than diving right in, we advise staying close to the shore. We expect the euro primary market to be selectively open for core EU banking champions and anticipate more global markets to remain open for Nordic borrowers. Senior bail-in is an issue for the future, but we think investors are likely to begin to price this into new, longer-dated issues, to the extent that we get any. Ratings migration, but no senior bank debt burden sharing, has implications for investors. We expect more risk-averse investors to continue to exit periphery debt on ratings migration risks. This should create buying opportunities for others. Swap gains embedded in fixed senior and fixed-to-floating rate sub debt should keep a soft floor on issues with these latent accounting gains. Some lower tier II may benefit from the swap gain play, while most will remain a play on the call option. Tier 1 debt remains a case of big back-end steps versus smaller-sized steps. Liquidity may remain weak for most of Q3.

### Factors affecting EU banking systems



Source: SG Cross Asset Research

### Factors affecting individual bank credit profiles and credit spreads

**Operating environment:**

Low-to-no economic growth hampers loan demand; deposits remain pricey, margins remain tight

**Capitalisation:**

Capital-building 'arms race' by governments and jump to full Basel III compliance without new capital instruments drives bank business models

**Funding:**

Open, then closed, funding windows creates cash hoarding; LTRO impact is temporary

**Deleveraging:**

Driven more by funding concerns than capital constraints

**Asset quality:**

No longer improving across the EU, at an inflection point; can only go down?

**Profitability:**

Structural decline or cyclical weakness?

Source: SG Cross Asset Research

## Top trade recommendations

Keep out of the peripheral waters, unless you are prepared for sentiment-driven volatility. Our top CDS trade ideas contain a combination of trading opportunities based on fundamental views (ie Sell Barclays sub protection, Buy DB sub protection; Buy INTNED senior and sub protection) and firm conviction that the market is mispricing the risk of default (Sell Dexia senior CDS protection). Our top cash trade ideas also focus on what we perceive to be relative value opportunities based on fundamental perspectives, combined with assessments of likely call or buyback potential, where appropriate. See the tables below for links to our research with more details per trade idea.

In addition to our top trading recommendations, we outline tactical trading opportunities based on potential liability management exercises or swap gains potential later in this report.

From a 30,000 foot perspective, the assessment is simpler. Stay in the Nordics or in Swiss banks if you are risk averse. However, we see value-hunting opportunities in the core EU countries, while believe that the entire EU periphery is for more risk-tolerant investors.

From our perspective, equity and credit investors appear to be in agreement with each other with respect to where to invest. However, as in the past, we would expect this relationship to break down and provide interesting trading opportunities over time.

### Top CDS trade ideas

Recommendation	Report Link
Sell Barclays 5 yr Sub protection, Buy Deutsche Bank 5 yr Sub protection	<a href="#">Barclays Q1 '12: Expectations Management</a>
Buy INTNED 5 yr Sr & Sub protection	<a href="#">Dutch Banks - Don't Worry, Be Picky</a>
Sell ISPIM 5 yr Sr & Sub protection, Buy CMZB 5 yr Sr & Sub protection	<a href="#">Italian Banks: the Strong and the Weak</a>
Sell Dexia 5 yr Senior protection	<a href="#">Dexia: To the Victor, the Spoils</a>
Buy Bankia 5 yr Senior & Sub protection	<a href="#">Spanish Banks: Positioning ahead of a potential Spanish NAMA</a>
Buy BBVA 5 yr Sub protection, Sell Santan 5 yr Sub protection	<a href="#">Spanish Banks: Positioning ahead of a potential Spanish NAMA</a>

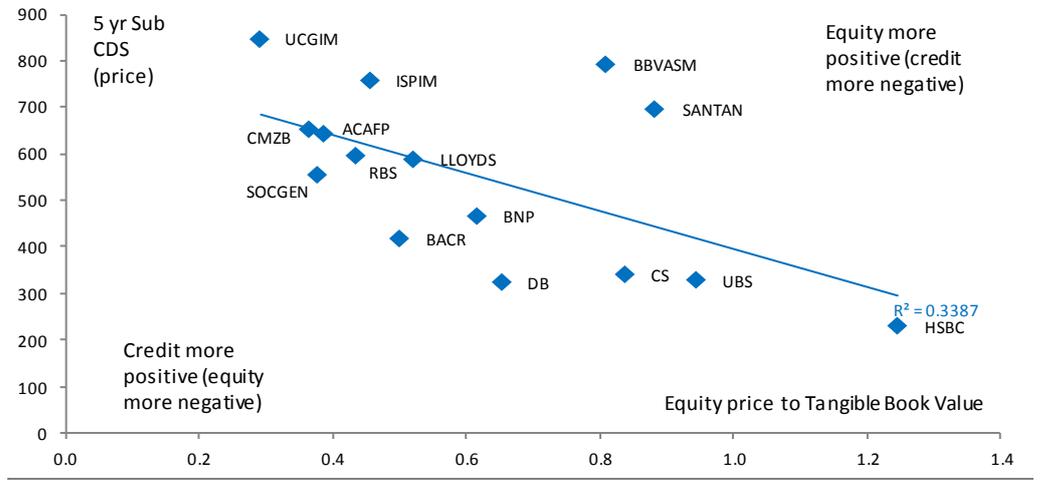
Source: SG Cross Asset Research

### Top cash trade ideas

Recommendation	Report Link
Buy HSBC 5 06/30/15 or HSBC 3.1 05/24/16	<a href="#">HSBC Holdings &amp; Finance: Q1 '12 Good Progress is Priced-in</a>
Buy ISPIM 5.75 18-13 & Buy ISPIM 4.375 18-13 ; Sell UCGIM 4.028 49-15	<a href="#">Italian Banks: the Strong and the Weak</a>
Buy RBAIV 3.625 01/14, Sell CMZB 5 02/14	<a href="#">RZB: Austria with a Strong CEE Flavour</a>
Buy CRLOG Var 03/49	<a href="#">Credit Logement: Tier 1 Calls over Time - Patience may have its Reward</a>
Buy BKIASM 09/23/13, Sell BKIASM 5 06/29/19	<a href="#">Bankia: No New Money - but Short Senior Looks Good</a>
Buy BBVA 4 3/8 19-14	<a href="#">Spanish Banks: Prefer BBVA LT2 as more becomes HY</a>

Source: SG Cross Asset Research

**Equity and credit are in agreement on most large EU bank names**

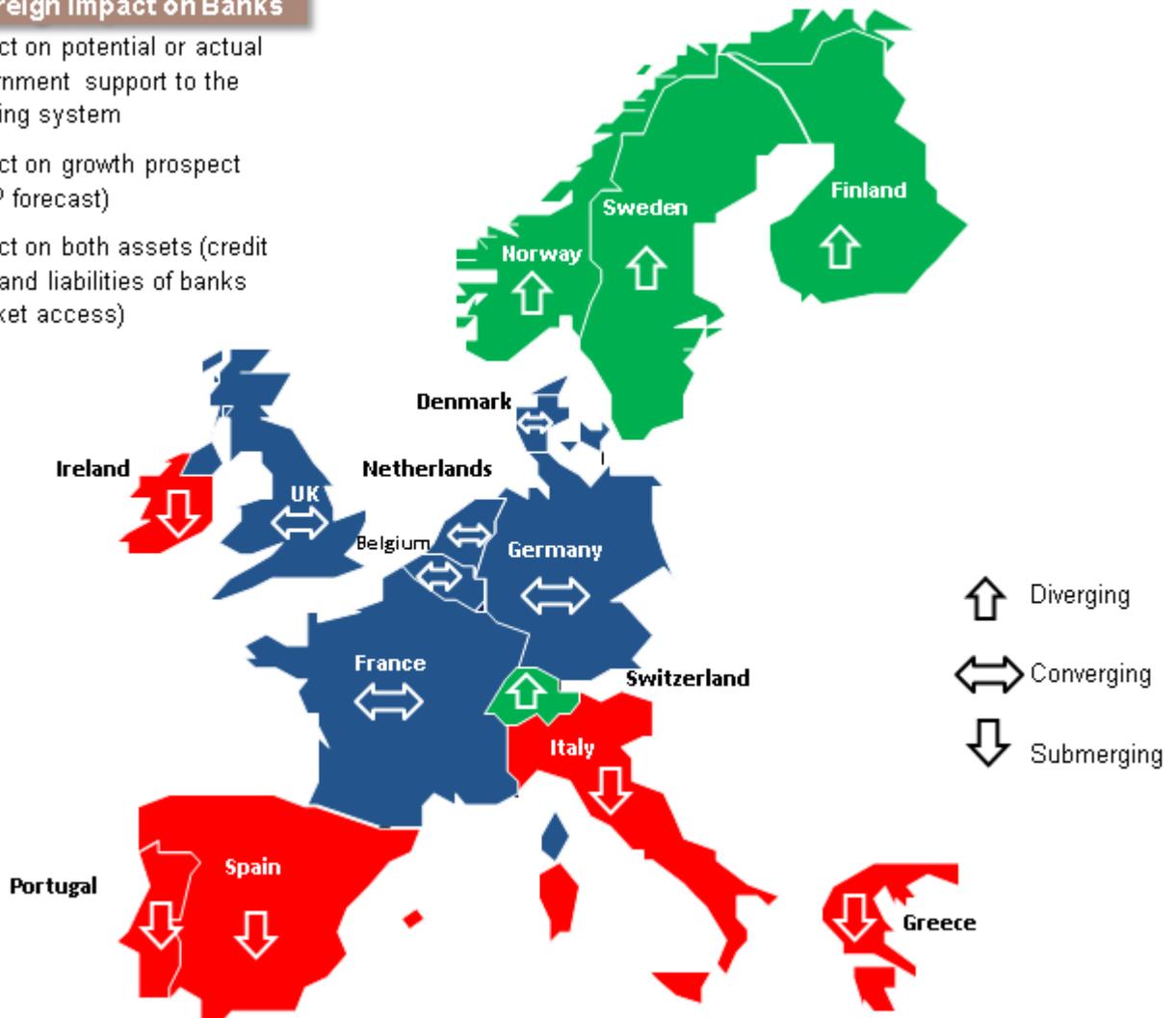


Source: SG Cross Asset Research, Bloomberg

Put simply: stay North if you're risk averse, core if you're value hunting and South if you're very risk tolerant

**Sovereign Impact on Banks**

- Impact on potential or actual government support to the banking system
- Impact on growth prospect (GDP forecast)
- Impact on both assets (credit risk) and liabilities of banks (market access)



Source: SG Cross Asset Research

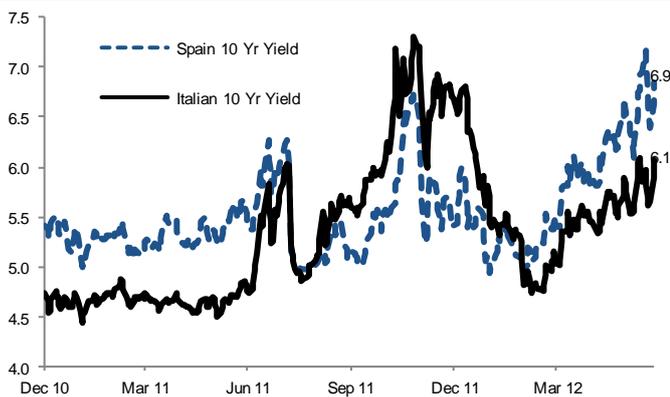
## Spanish vs Italian banks – choose your poison?

Italian banks outperformed Spanish banks during H1 12, with Italian bank CDS reverting to beginning of year levels, while Spanish bank CDS widened. However, with economic conditions continuing to deteriorate very sharply in Italy, this outperformance may be reversed. Should Italian bonds be subject to rising yields, then the situation has the potential to snowball with Italian banks selling off quickly.

This is a question of choosing your poison, in our view; either the long workout associated with re-valuing Spanish real estate assets or the potential fast re-pricing of Italian sovereign risk. Our preference, at these trading levels, is Spanish bank risk.

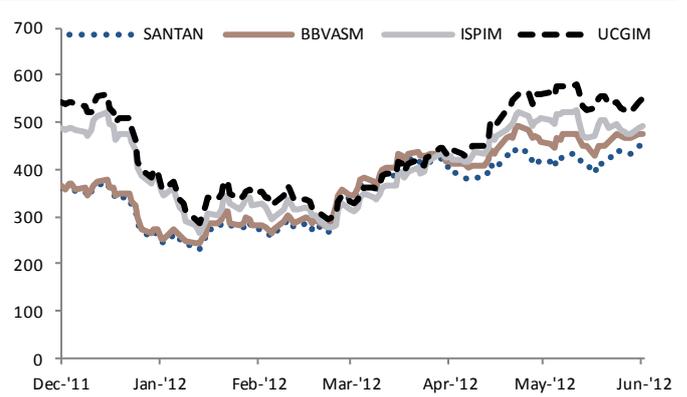
Amongst Italian banks, our preference is for ISPIM risk - see: [Italian Banks: The strong and the weak](#). Amongst Spanish banks, our preference is for SANTAN risk, although BBVA lower tier 2 presents an attractive relative value opportunity - see: [Spanish Banks: Prefer BBVA LT2](#).

10-yr government bond yields: Spain vs Italy



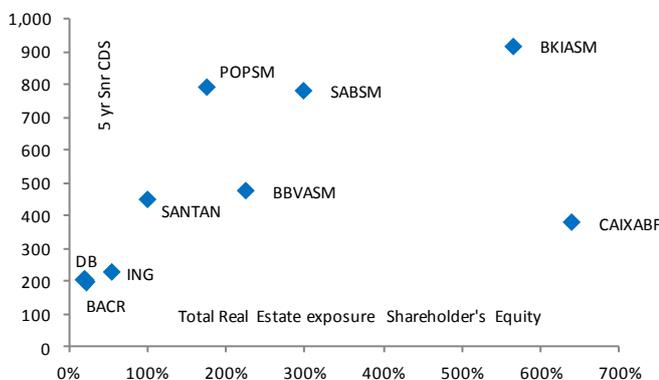
Source: SG Cross Asset Research, Bloomberg

5-yr senior CDS: Spanish vs Italian banks YtD



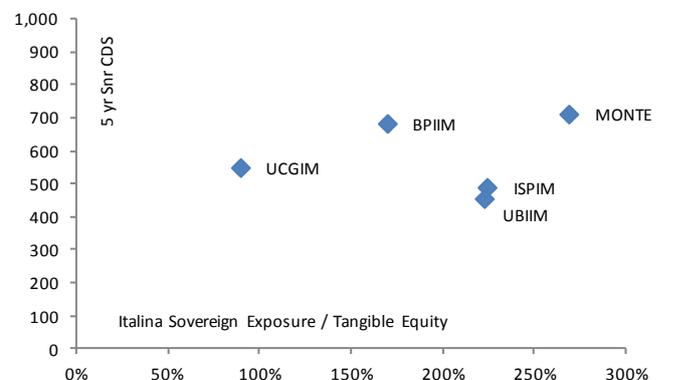
Source: SG Cross Asset Research, Bloomberg

Spanish real estate risk and 5-yr senior CDS



Source: SG Cross Asset Research, Wall Street Journal, Bloomberg

Italian bank sovereign government risk and 5-yr senior CDS



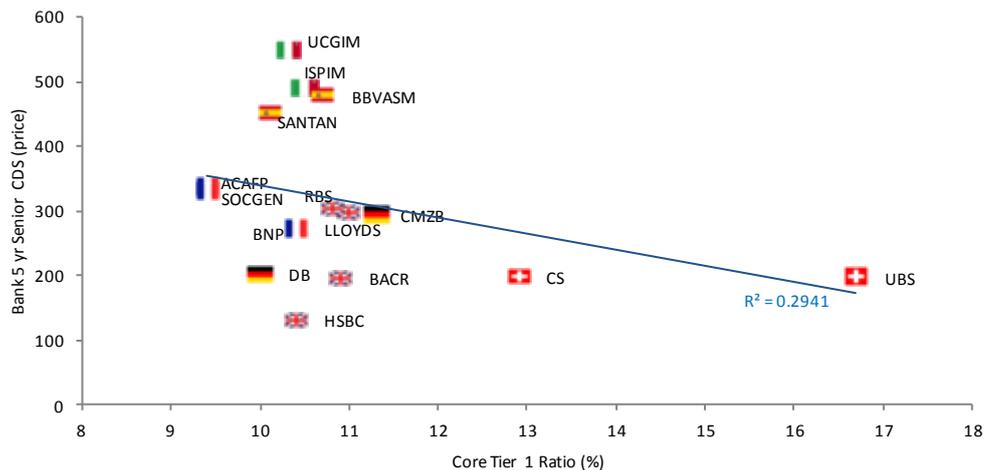
Source: SG Cross Asset Research, Bloomberg

## Basel III goalposts are moving forward to Jan 2013

Several banks have begun to publish fully-loaded 2019 Basel III numbers in their quarterly reports. We expect more to follow suit. At the same time, they remain focussed on delivering low-double digit ROE targets and simultaneously hitting the Basel III targets early. These are mutually exclusive, in our view, and may be difficult to achieve without material net interest margin improvements and/or reduced cost bases. As banks are only able to fully control their cost base, we expect continued emphasis on cost reduction, while margins and loan demand are under continued pressure. See: [Cutting your way to 12% ROE](#) by our bank equity team.

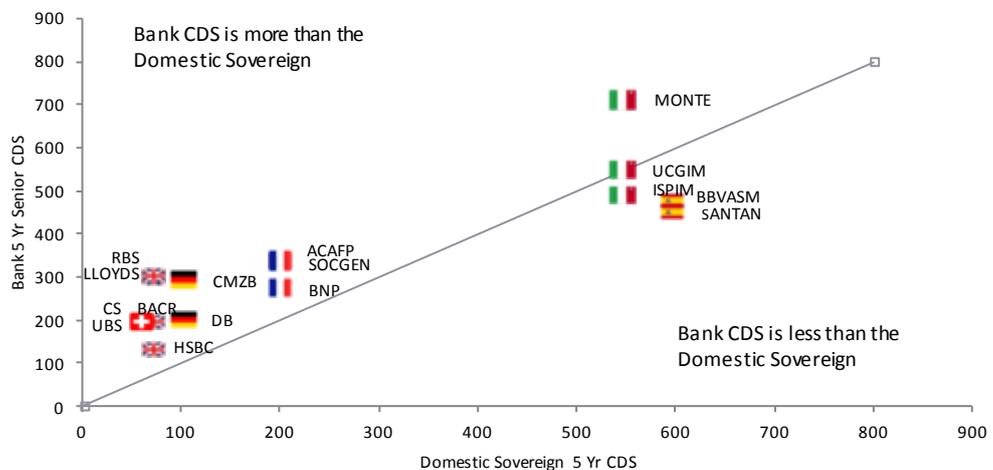
The capital-building arms race amongst EU governments looks impressive, but it is not rewarded in the debt capital markets. Sovereign risk is a bigger driver of credit market risk than capital levels. We advise investors to continue to invest based on more than core tier 1 capital levels.

### Higher core tier 1 ratios are not associated with lower CDS levels



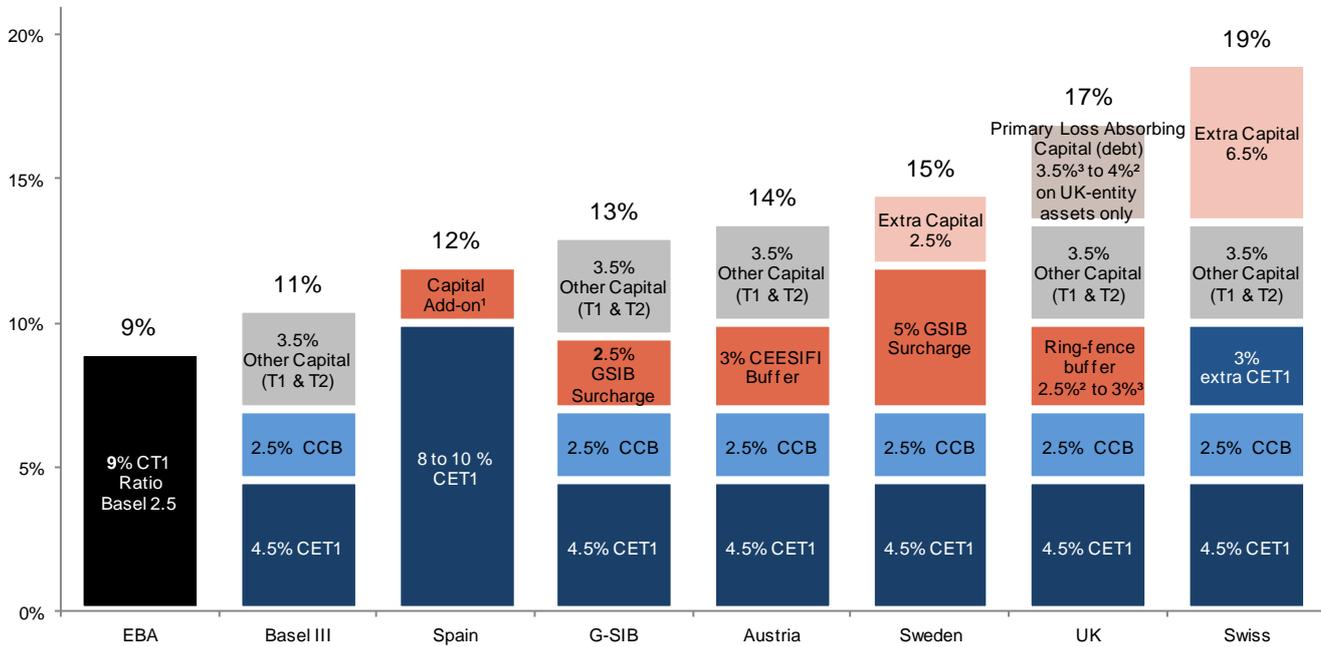
Source: SG Cross Asset Research, Bloomberg

### Sovereign risk is likely to remain the credit driver



Source: SG Cross Asset Research

Capital-building arms race among governments looks impressive...



Source: SG Cross Asset Research; Note: CCB = Capital Cushion Buffer

...but are all risk weightings created equal? There is considerable divergence by business model and country

Bank	Country	Currency	Assets	RWA	RWA / Assets ratio
Deutsche		EUR bn	2,164	381	17.6%
Barclays		GBP bn	1,564	391	25.0%
Credit Agricole		EUR bn	1,880	522	27.8%
RBS		GBP bn	1,507	439	29.1%
Societe Generale		EUR bn	1,181	349	29.6%
BNP		EUR bn	1,965	614	31.2%
Commerzbank		EUR bn	662	237	35.8%
Lloyds		GBP bn	971	352	36.3%
Santander		EUR bn	1,252	566	45.2%
HSBC		USD bn	2,556	1,210	47.3%
UniCredit		EUR bn	927	460	49.7%
Intesa		EUR bn	639	325	50.9%
BBVA		EUR bn	598	331	55.3%

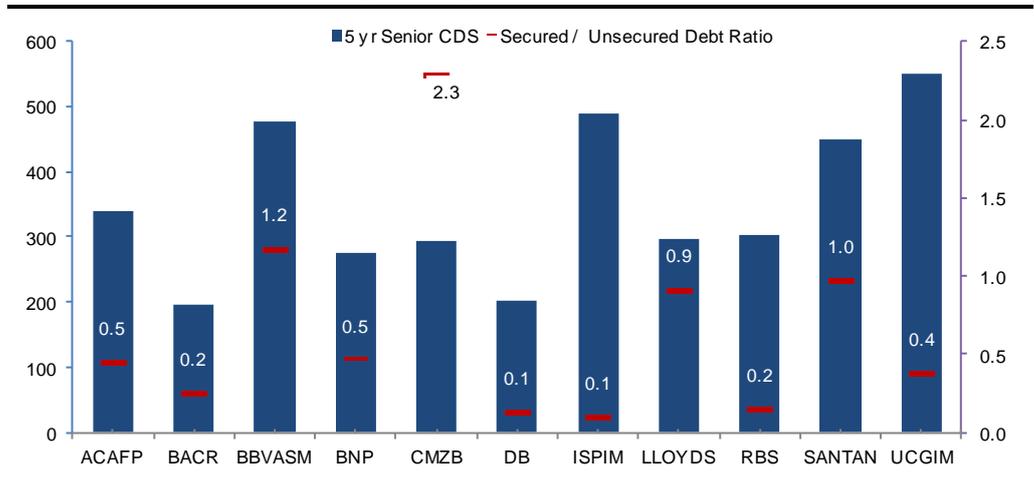
Source: SG Cross Asset Research, Bloomberg, Company Reports.

## Senior bail-in: no rush to enter harm's way

Senior bail-in is a long-term issue, with possible near-term implications for debt issuance. The inherent incentive to secure most of the balance sheet for funding needs is likely to prove counter-productive to the policy-making goal of lowering the potential taxpayer cost of supporting a banking system. Concurrently, application of the bail-in 'tool', post-2018, could make new issuance of long-term senior unsecured debt unattractive from a price perspective.

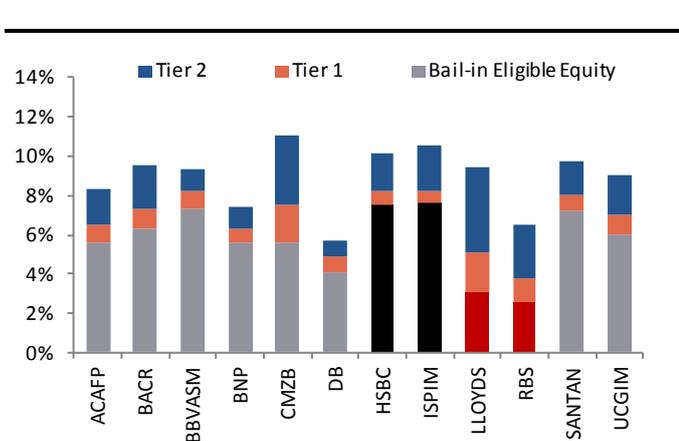
Senior bail-in does not appear priced-in, at the moment. The cushion to bail in is low for some, when adjusted for equity that is already in government hands. Meanwhile, senior liabilities that are available to absorb losses may be thin in a bail-in event. This would lower recovery rates. See: [Senior Bail-in: First, Cause no Harm](#) and [Senior Bail-in - No Rush](#). We advise investors to consider bail-in risk associated with longer-dated debt issuance.

### Senior CDS appear more driven by sovereign concerns than senior bail-in



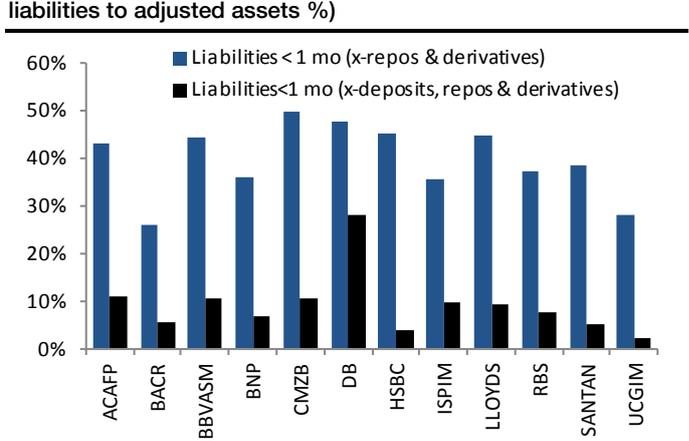
Source: SG Cross Asset Research

### Cushion to senior bail-in (capital / adjusted assets %)



Source: SG Cross Asset Research

### Senior recovery could be low in bail-in event (untouchable liabilities to adjusted assets %)



Source: SG Cross Asset Research

Simplified summary of the complex EU bail-in tool proposal

BAIL-IN securities

BAIL-OUT securities

Equity

Covered bonds

Additional Tier 1 capital

Repos & other secured debt

Tier 2 capital

Derivatives\*

All other debt w/ bail-in clauses

Short-term liabilities (< 1 mo. maturity)

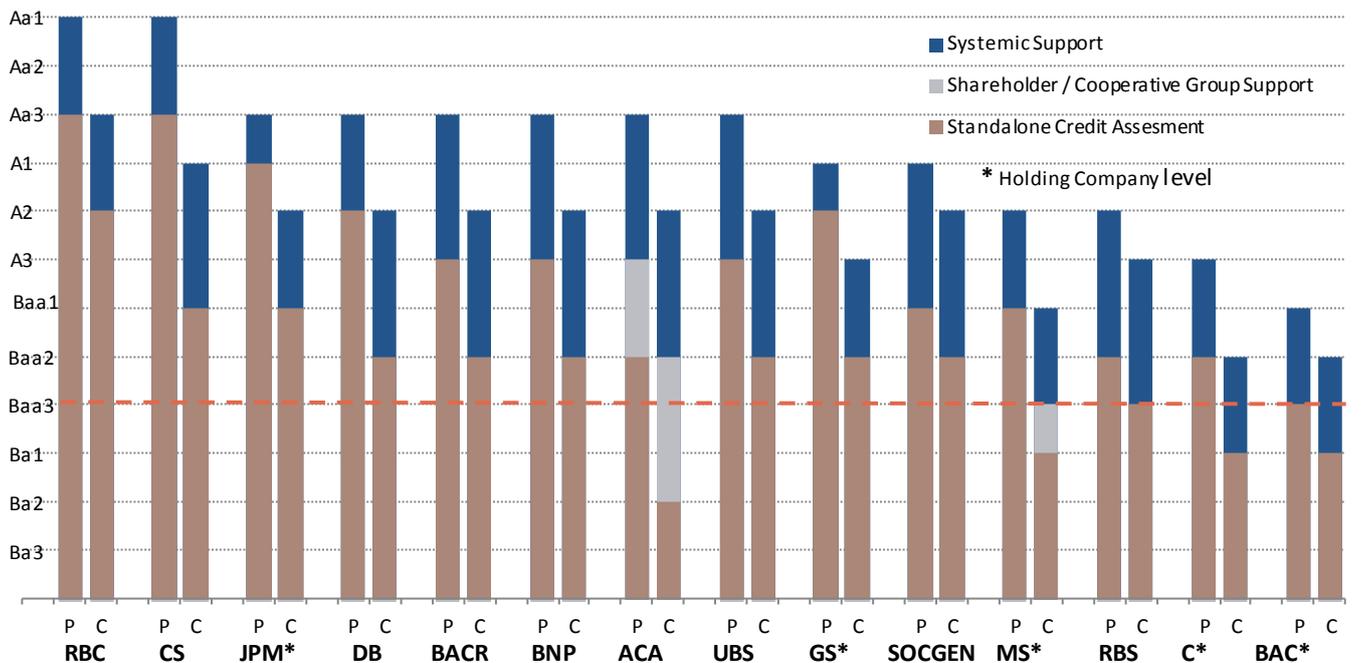
Senior unsecured (> 1 mo. maturity)\*\*\*

Guaranteed deposits \*\*

\* Derivatives are primarily not subject to bail-in due to master settlement agreements and other collateral  
 \*\* Deposit guarantee schemes participate in bail-in up to the amount guaranteed unless ranked higher by law  
 \*\*\* Including un-guaranteed deposits

Source: SG Cross Asset Research

EU senior bail-in is not factored into Moody's ratings as systemic support remains high before and after the GCMI review



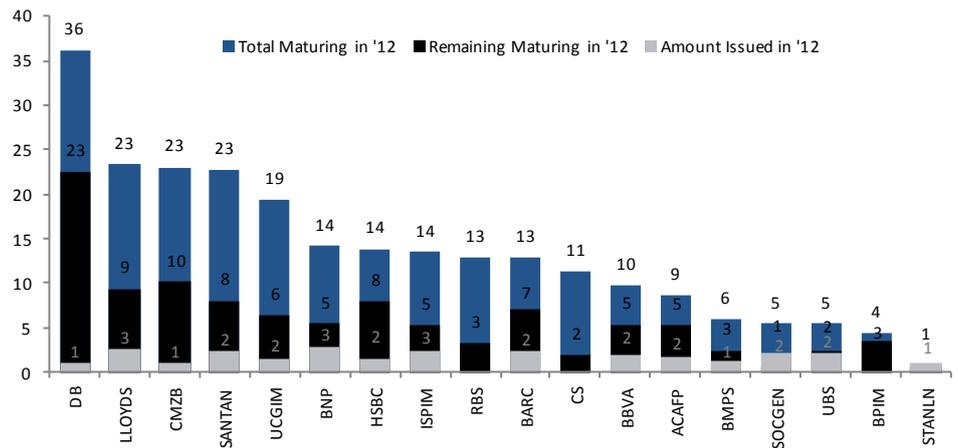
Source: Moody's Investors Service; Note P=Prior and C=Current

## Liability changes - but where are the CoCos?

Bank debt has the appearance of being in run-off mode in the primary markets. However, while LTRO I and II pushed back the re-financing needs of many eurozone banks, it did not completely remove this risk over time. It also introduced an additional element of structural subordination for senior unsecured investors. However, as we discussed in [Bank Credit Strategy: Bonds we'd Keep in a Sell-off](#), banks may be incentivised to buy back senior unsecured, as a means to improve their net interest margins.

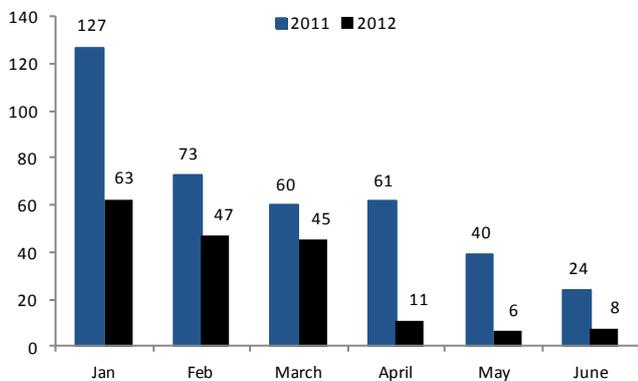
Contingent capital instrument investors continue to await finalisation of CRD IV. As a non-investment grade product, issuers are likely to await calmer markets before issuing. We anticipate a quiet summer in this respect, but note that the currently available crop of CoCos offers attractive yields on institutions with remote default risk, according to both rating agencies and CDS levels. The CoCos have primarily been issued in US dollars to retail investors. Tier 1 appears to now be mostly held in non-rating sensitive hands. We did not see any sell-off on the junking of large EU bank Tier 1 by Moody's, following the downgrades of 21 June 2012. See: [Moody's rating action\(s\) - II](#) for our views on the downgrades.

Is bank debt in run-off mode? Little is being replaced in the wholesale markets (€bn)



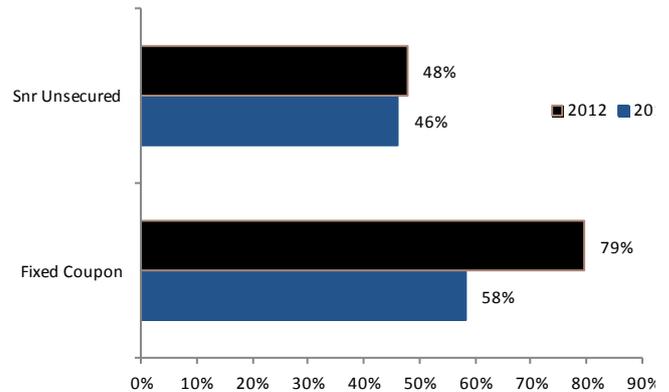
Source: SG Cross Asset Research, Dealogic

EU banks' global debt issuance continues to decline (€m)...



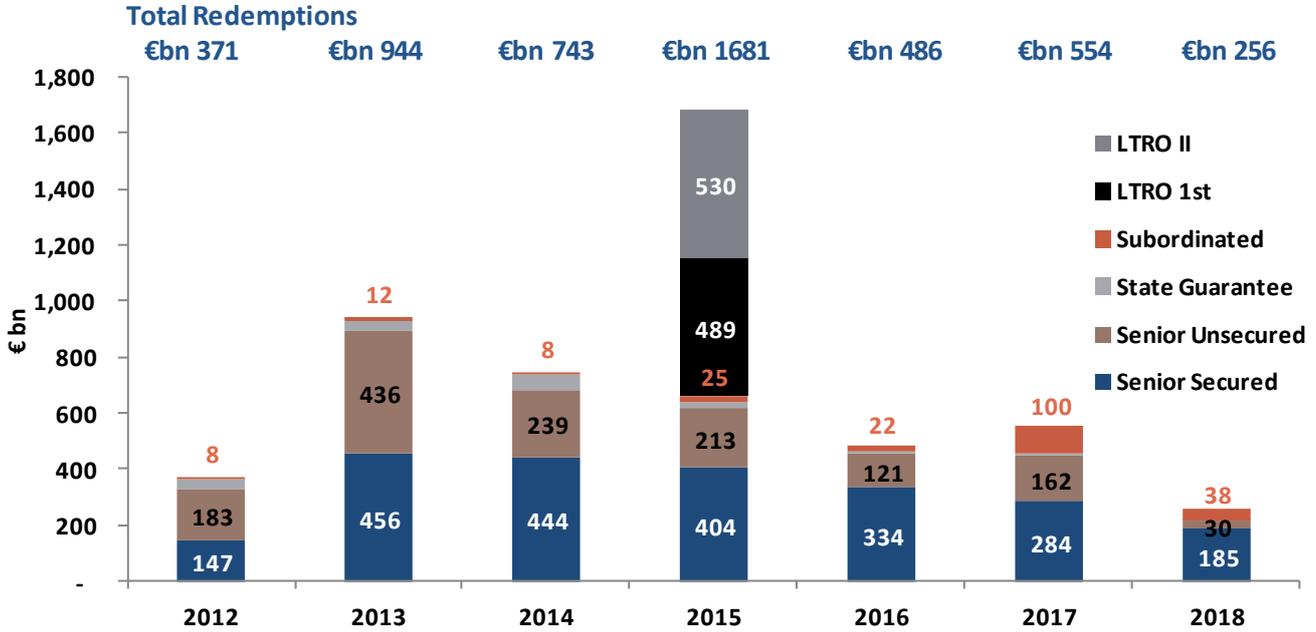
Source: SG Cross Asset Research, Dealogic

...but is more fixed rate and slightly more unsecured



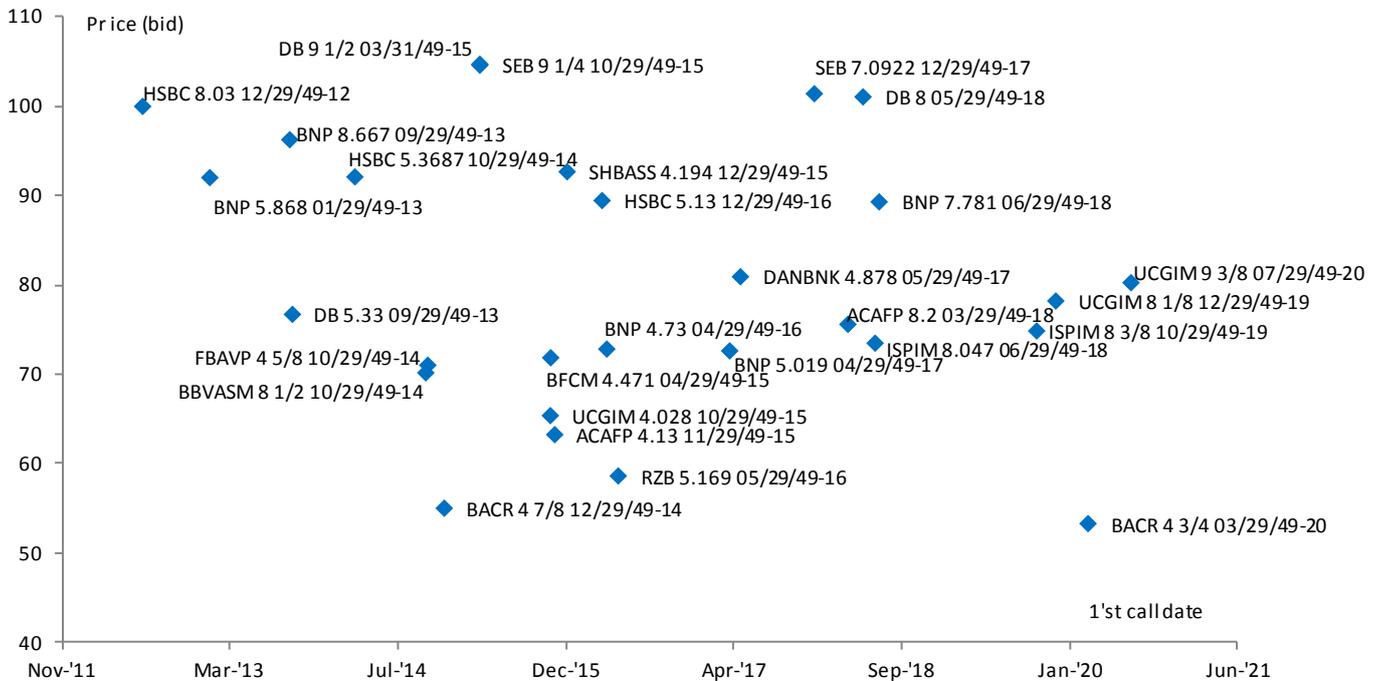
Source: SG Cross Asset Research, Dealogic

LTRO I and II bought time but did not re-finance all EU bank debt. We expect more LTRO with time



Source: SG Cross Asset Research, Bloomberg

Tier 1 levels of select banks – big back-end steps and stronger banks tend to trade higher on first call expectations



Source: SG Cross Asset Research, Bloomberg

## Senior buyback opportunities – swap and interest rate driven

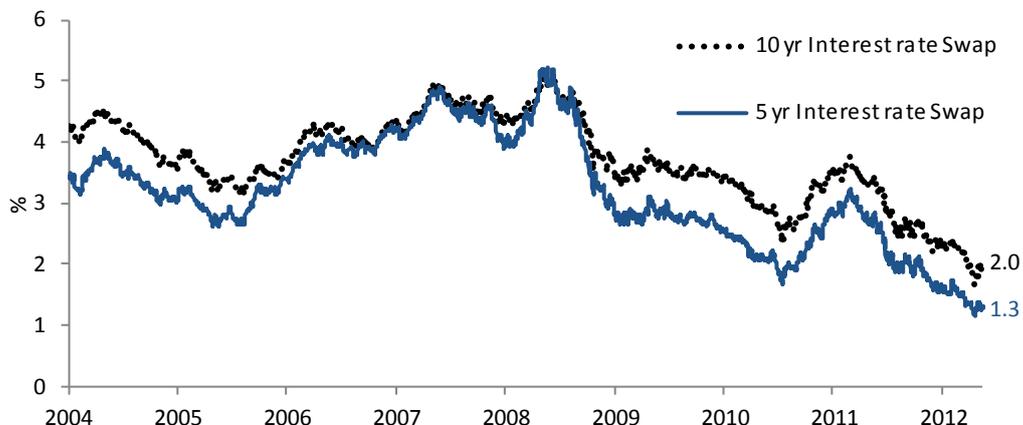
One of our biggest non-consensus recommendations over the past few months has been to position in senior unsecured bonds with embedded swap gains for potential buyback opportunities. With fixed-to-floating interest rate swaps bouncing off historical lows in the 5 and 10-year space, banks may be incentivised to buy back bonds early, even at prices over par, to realise the swap gains and reduce the negative cost of carrying these securities.

In several cases, the swap gain realised offsets the loss from purchasing the securities at a price over par. In addition, with cash-on-hand in excess of the amount required to buy back these bonds, banks may also book net interest savings over time by lowering their negative cost of carry from keeping these securities outstanding. Furthermore, buying back short-dated negative-carry bonds while issuing longer-dated debt has a positive impact on the banks' debt maturity profile. We view this as smart deleveraging.

The higher the potential swap gain realised less the cost of buying these securities back early, the greater the potential for a buyback, in our view. In several cases, the swap gain realised offsets the loss from purchasing the securities at a price over par. In addition, with cash-on-hand in excess of the amount required to buy back these bonds, banks may also book net interest savings over time by lowering their negative cost of carry from keeping these securities outstanding. See: [Bank Credit Strategy: Bonds we'd Keep in a Sell-off](#).

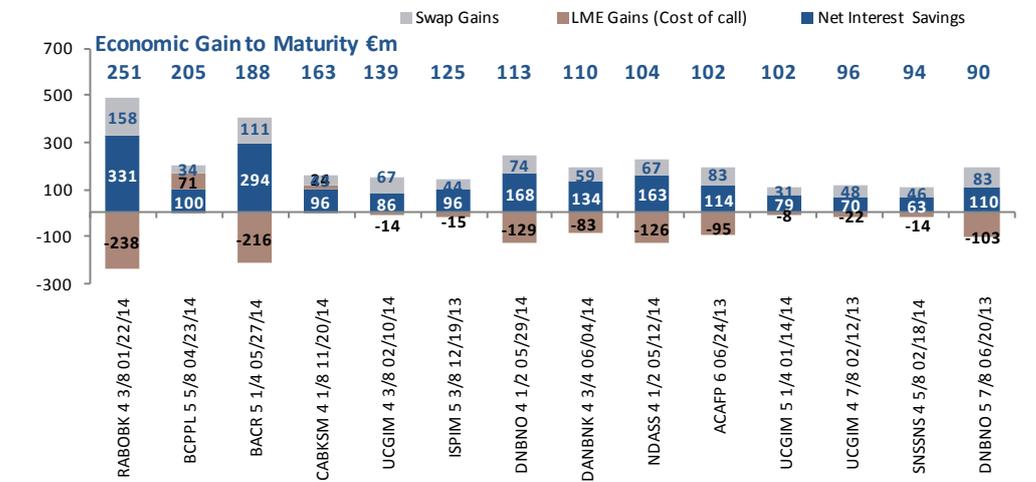
As the senior unsecured market weakens on eurozone and senior bail-in concerns, we have identified a baker's dozen of senior unsecured bonds that we'd continue to hold, and buy as they dip in price. We believe they have potential for liability management exercises (LMEs). On the back of these LMEs, we have seen senior CDS tightening and would expect the same of any additional announcements undertaken. We advise against being too short our top senior buyback names in senior CDS.

### Interest rate swaps at historical lows may drive potential buyback gains



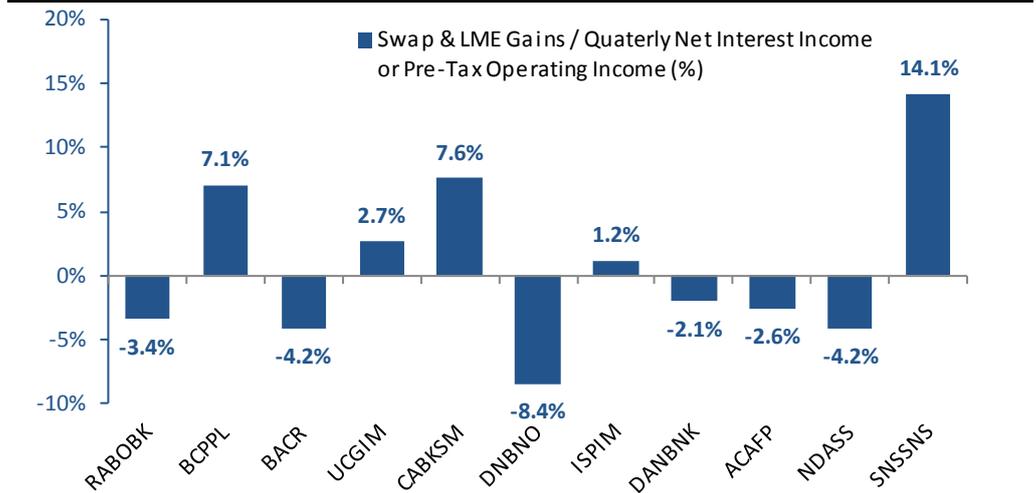
Source: SG Cross Asset Research, Bloomberg

Senior unsecured with embedded swap gains are hold-for-buyback opportunity plays



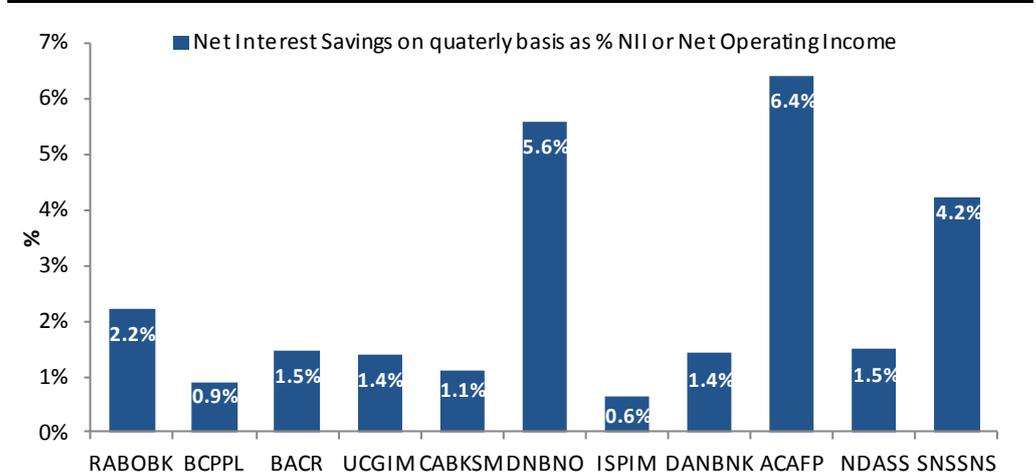
Sources: SG Cross Asset Research, Bloomberg

Liability management is more likely where gains can be immediately recorded in P&L



Source: SG Cross Asset Research, Bloomberg. Note: income data is as of Q1 '12, except for BCPPL, which is Q4 '11 and Credit Agricole and Barclays, which are Q1 '12 pre-tax operating income; Rabobank and SNS are estimated quarterly net interest income.

Quarterly net interest savings from retiring debt early to net interest income



Source: SG Cross Asset Research, Bloomberg. Note: income data is as of Q1 '12, except for BCPPL, which is Q4 '11 and Credit Agricole and Barclays, which are Q1 '12 pre-tax operating income; Rabobank and SNS are estimated quarterly net interest income

## Other potential LME opportunities

Innovative securities and distressed securities of some issuers are most likely to experience LMEs in the near term. Subordinated debt that was issued with an incentive for it to be called (innovative debt) will not be considered capital, of any form, once it has gone past its effective maturity date under Basel III regulations that are to come into effect from 1 January 2013. We interpret the effective maturity date as the date of first call. As such, banks have an incentive to tender for these bonds early, and book the difference between the tender price and par as profits, when the securities are trading at low price levels. Outside of innovative debt, it is the more distressed securities that are more likely to continue to undertake LMEs, as a means for the firm to improve its financial condition.

We do not anticipate additional LME announcements from relatively stronger banks until bond prices decline more substantially. Our rationale is that banks that have already announced tender offers on their securities would be unlikely to offer again, at least not before the price of the security falls below the prior tender offer level. We are above these levels for most banks, despite relatively illiquid and difficult markets.

On the back of most LME exercises, we have seen subordinated /senior CDS tightening and would expect the same of any additional announcements undertaken. See: [Looking for Liability Management](#) and [Looking for Liability Management II](#) for background on our methodology for identifying LME opportunities and the tables below for positioning ideas.

### Our top picks for LME gains at 15 December 2011

Issuer	Security	Isin	Currency	First Call Date	Price at our recommendation	Purchase Price	Cash Gain	Debt Type	Kind
BANCO BILBAO VIZCAYA ARG	BBVASM 4 3/8 10/20/19	ES0213211099	EUR	20/10/2014	73.8			LT2	institutional
BANCO POPOLARE SCARL	<del>BPIM 6.156 06/29/49</del>	XS0304963290	EUR	<del>21/06/2017</del>	<del>41.1</del>	70.00	28.92	Tier 1	institutional
BANCA POPOLARE LODI TRST	<del>BPIM 6.742 06/29/49</del>	XS0223454512	EUR	<del>30/06/2015</del>	<del>48.7</del>	78.00	29.33	Tier 1	Retail
COMMERZBANK AG	<del>CMZB 5.5/8 11/29/17</del>	DE000CB8AUX7	EUR	<del>29/11/2012</del>	<del>68.0</del>	85.00	17.00	LT2	institutional
DEUTSCHE BK CAP FNDG TST	DB 5.628 01/29/49	US25153RAA05	USD	19/01/2016	73.0			Tier 1	Retail
ERSTE CAPITAL FINANCE JE	<del>ERSTBK 5.294 09/29/49</del>	XS0268694808	EUR	<del>28/09/2016</del>	<del>42.3</del>	70.00	27.67	Tier 1	institutional
BANCO POPULAR ESPANOL	POPSM 5.702 12/22/19	ES0213790001	EUR	22/12/2014	70.5			LT2	institutional
RAIFF ZENTRALBK OEST AG	RZB 4 1/2 03/05/19	XS0289338609	EUR	05/03/2014	76.7			LT2	institutional
SANTANDER ISSUANCES	<del>SANTAN 4 1/2 09/30/19</del>	XS0201169439	EUR	<del>30/09/2014</del>	<del>75.2</del>	87.00	11.82	LT2	institutional
UNICREDIT SPA	UCGIM 4 1/2 09/22/19	XS0200676160	EUR	22/09/2014	72.4			LT2	institutional
UNICREDITO ITAL CAP TRST	<del>UCGIM 4.028 10/29/49</del>	XS0231436238	EUR	<del>27/10/2015</del>	<del>46.0</del>	71.00	25.00	Tier 1	institutional
UNICREDIT SPA	UCGIM 6 3/8 10/16/18	XS0326211801	GBP	16/10/2013	72.0			LT2	institutional
UNICREDIT INTL BANK	<del>UCGIM 8 1/8 12/29/49</del>	XS0470937243	EUR	<del>10/12/2019</del>	<del>55.2</del>	81.00	25.83	Tier 1	institutional
UNICREDIT INTL BANK	<del>UCGIM 8.5925 12/29/49</del>	XS0372556299	GBP	<del>27/06/2018</del>	<del>50.5</del>	72.00	21.49	Tier 1	institutional

Source: SG Cross Asset Research, Bloomberg. Strikethrough indicates bond has been bought back since 15 December.

**Bonds not bought back since our 15 December 2011 publication**

Issuer	Security	Isin	Currency	First Call		LME Potential Gain (€ or €-equivalent)s	Debt	
				Date	Price		Type	Kind
BANCO BILBAO VIZCAYA ARG	BBVASM 4 3/8 10/20/19	ES0213211099	EUR	20/10/2014	66.08	289,230,000	LT2	institutional
BANCO POPULAR ESPANOL	POP 5.702 12/22/19	ES0213890001	EUR	22/12/2014	61.00	92,854,000	LT2	institutional
UNICREDIT SPA	UCGIM 4 1/2 09/22/19	XS0200676160	EUR	22/09/2014	78.06	84,680,000	LT2	institutional
UNICREDIT SPA	UCGIM 6 3/8 10/16/18	XS0326211801	GBP	16/10/2013	77.00	78,609,672	LT2	institutional
DEUTSCHE BK CAP FNDG TST	DB 5.628 01/29/49	US25153RAA05	USD	19/01/2016	84.37	68,186,628	Tier 1	Retail
RAIFF ZENTRALBK OEST AG	RZB 4 1/2 03/05/19	XS0289338609	EUR	05/03/2014	82.94	60,295,000	LT2	institutional

Source: SG Cross Asset Research, Bloomberg.

**Innovative debt: top picks in positioning for LME gains in descending order of LME gains for the issuer**

Issuer	Security	Isin	Currency	First Call		LME Potential Gain (€ or €-equivalent)s	Debt	
				Date	Price		Type	Kind
BANCO BILBAO VIZCAYA ARG	BBVASM 4 3/8 10/20/19	ES0213211099	EUR	20/10/2014	66.08	289,230,000	LT2	institutional
HBOS PLC	LLOYDS 4 1/2 03/18/30	XS0214965534	EUR	18/03/2025	62.23	245,790,000	LT2	Retail
ROYAL BK OF SCOTLAND PLC	RBS 4 5/8 09/22/21	XS0201065496	EUR	22/09/2016	71.59	234,120,000	LT2	Retail
BANCAJA EMISIONES SA UNI	BKIASM 4 5/8 12/29/49	XS0205497778	EUR	17/11/2014	29.63	195,096,651	UT2	Retail
DEXIA CREDIT LOCAL	DEXGRP 4 3/8 02/12/19	XS0284386306	EUR	12/02/2014	39.33	167,001,000	LT2	institutional
HBOS CAPITAL FUNDING NO2	LLOYDS 6.071 06/29/49	USG43648AA57	USD	30/06/2014	67.66	164,381,914	Tier 1	Retail
HBOS PLC	LLOYDS 4 3/8 10/30/19	XS0203871651	EUR	30/10/2014	73.13	164,047,500	LT2	Retail
CREDIT AGRICOLE SA	ACAFP 8.2 03/29/49	FR0010603159	EUR	31/03/2018	75.72	163,905,500	Tier 1	institutional
LBG CAPITAL NO.1 PLC	LLOYDS 8 12/29/49	XS0471767276	USD	15/06/2020	80.00	151,350,529	UT2	institutional
LLOYDS TSB BANK PLC	LLOYDS 6.9625 05/29/20	XS0366686284	GBP	29/05/2015	80.16	138,954,758	LT2	institutional
CREDIT AGRICOLE SA	ACAFP 7 7/8 10/29/49	FR0010814434	EUR	26/10/2019	73.17	120,070,500	Tier 1	institutional
LLOYDS TSB BANK PLC	LLOYDS 5 5/8 03/05/18	XS0350487400	EUR	05/03/2013	83.90	111,010,000	LT2	institutional

Source: SG Cross Asset Research, Bloomberg.

**Distressed securities of select banks: top picks in positioning for potential LME in descending order of LME gains for the issuer**

Issuer	Security	Isin	Currency	First Call		LME Potential Gain (€ or €-equivalent)s	Debt	
				Date	Price		Type	
CREDIT LOGEMENT SA	CRLOG 0 03/29/49	FR0010301713	EUR	16/03/11	45.54	395,664,000	Tier 1	
BANCO FINANCIERO AHORROS	BFASM 0 10/17/16	ES0214950166	EUR	17/10/11	29.28	244,638,978	LT2	
DEPFA BANK PLC	DEPFA 0 12/15/15	XS0229524128	EUR	15/12/10	62.79	161,035,000	LT2	
EFG EUROBANK ERGASIAS SA	EUROB 6.01 01/09/36	XS0235001327	EUR	09/01/11	34.00	122,000,000	Tier 1	
COMMERZBANK AG	CMZB 0 01/05/39	XS0093427960	EUR	05/01/09	5.78	111,526,250	LT2	
OESTERREICH VOLKSBANKEN	AUSTVB 0 11/28/16	XS0275528627	EUR	28/11/11	61.11	101,679,000	LT2	

Source: SG Cross Asset Research, Bloomberg.

Summary of Moody's rating actions on the largest banks since March 2012

	Intrinsic (adjusted BCA)			LT senior unsecured			Lower tier 2		Junior subordinated (UT2)		Hybrids (Tier 1)		ST debt	
	Previous	Current	Direction	Previous	Current	Direction	Previous	Current	Previous	Current	Previous	Current	Previous	Current
<b>Austria</b>														
Erste Group Bank	baa1	baa3	neg	A1	A3	neg	A2	Ba1	Ba1/Ba2	Ba3/Ba1	Ba1	Ba3	P-1	P-2
Raiffeisen Bank Int'l	baa1	baa2	stable	A1	A2	stable	A2	Baa3	Ba1	Ba2	Ba1	Ba2	P-1	P-1
<b>Belgium</b>														
KBC Bank	baa1	baa3	stable	A1	A3	stable	A2	Ba1	Ba1	Ba2	Ba3	Ba3	P-1	P-2
<b>Denmark</b>														
Danske Bank	a3	baa2	stable	A2	Baa1	stable	A2	Ba1	Baa2	Ba1	Baa3	Ba2	P-1	P-2
<b>the Netherlands</b>														
ABN Amro Bank	baa1	baa2	stable	Aa3	A2	stable	A1	Baa3	Ba2	Ba2			P-1	P-1
ING Bank	a2	baa1	neg	Aa3	A2	neg	A1	Baa2	Ba1*	Ba1*	Ba1*	Ba1*	P-1	P-1
Rabobank	aa2	a1	stable	Aaa	Aa2	stable	Aa1	A2	A2	Baa1	A2	Baa1	P-1	P-1
SNS Bank	baa3	ba1	stable	Baa1	Baa2	stable	Baa2	Ba2			Ba3	B1	P-2	P-2
<b>France</b>														
BNPP	a3	baa2	stable	Aa3	A2	stable	A1	Baa3	Baa1	Ba1	Baa3	Ba2	P-1	P-1
Credit Agricole	a3	baa2	neg	Aa3	A2	neg	A1	Baa3	Baa1	Ba1	Baa3	Ba2	P-1	P-1
BPCE	baa1	baa2	stable	Aa3	A2	stable	A1	Baa3	Baa2	Ba1	Baa3	Ba2	P-1	P-1
Natixis	baa1	baa2	stable	Aa3	A2	stable	A1	Baa3			Ba2	Ba2	P-1	P-1
BFCM	a3	a3	stable	Aa3	Aa3	stable	A1	Baa1			Baa3	Baa3	P-1	P-1
CM Arkea	a2	a3	stable	Aa3	Aa3	stable	A1	Baa1					P-1	P-1
3CIF	a3	caa1	developing	A1	A1	RUR	A2	removed	A3	removed			P-1	P-1
<b>Germany</b>														
Commerzbank	baa3	baa3	neg	A2	A3	neg	Ba1	Ba1	Ba2/B3	B1/Caa3	Ba1/Caa1	Ba2/Caa2	P-1	P-2
Deutsche Bank	a2	baa2	stable	Aa3	A2	stable	A3	Baa3	Baa1	Ba1	Baa2	Ba2	P-1	P-1
DZ Bank	a2	a3	stable	Aa3	A1	stable	A3	Baa1			Baa2/Baa3	Baa3/Ba1	P-1	P-1
LBBW	baa1	baa2	stable	A2	A3	stable	Baa2	Baa3					P-1	P-2
LB Hessen-Thuringen	a3	baa1	stable	A1	A2	stable	Baa1	Baa2	Baa2	Baa3	Ba1	Ba2	P-1	P-1
Nord LB	baa1	baa3	stable	A2	A3	stable	Baa2	Ba1			Ba1/Ba3	Ba3/Ba2	P-1	P-2
WGZ	a3	a3	neg	A1	A1	neg	Baa2	Ba1					P-1	P-1
<b>Italy</b>														
Banca MPS	baa2	ba2	neg	Baa1	Baa3	neg	Baa2	Ba3	Ba1	B1	Ba3	B2	P-2	P-3
Banco Popolare	baa3	ba1	neg	Baa2	Baa3	neg	Baa3	Ba2	Ba1	Ba3	Ba3	B1	P-2	P-3
Intesa	a2	baa1	neg	A2	A3	neg	A3	Baa2	A3	Baa3	Baa2	Ba1	P-1	P-2
Unicredit	baa1	baa2	neg	A2	A3	neg	A3	Baa3	Baa2	Ba1	Ba1	Ba2	P-1	P-2
UBI Banca	baa1	baa3	neg	A3	Baa2	neg	Baa1	Ba1	Baa2	Ba2	Ba1	Ba3	P-2	P-2
<b>Luxembourg</b>														
BCEE	a2	a3	stable	Aaa	Aa1	stable	Aa1	Baa1	A1	Baa2			P-1	P-1
<b>Norway</b>														
DNB	a3	baa1	stable	Aa3	A1	stable	A1	Baa3	Baa1	Baa3	Baa3	Ba1	P-1	P-1
<b>Portugal</b>														
Caixa Geral	ba2	b1	neg	Ba2	Ba3	neg	Ba3	B2	B1	B3	B2	Caa1	NP	NP
BES	ba2	b1	neg	Ba2	Ba3	neg	Ba3	B2	B1	B3	B3	Caa1	NP	NP
BCP	ba3	b2	neg	Ba3	Ba3	neg	B1	B3			Caa1	Caa2	NP	NP
<b>Spain</b>														
Santander	a1	baa2	RUR	Aa3	Baa2	RUR	A2	Baa3	A3	Ba1	Baa2	Ba3/Ba1	P-1	P-2
BBVA	a1	baa3	RUR	Aa3	Baa3	RUR	A2	Ba1			Baa2	B1	P-1	P-3
CaixaBank	a1	ba1	RUR	Aa3	Baa3	RUR	A2	Ba2			Baa2	B2	P-1	P-3
Bankia	ba3	b2	RUR	Baa3	Ba2	RUR	B1	B3	B2	Caa1	Ca	Ca	P-3	NP
Banco Popular	baa1	ba2	RUR	A2	Ba1	RUR	Baa2	Ba3			Ba2	B3	P-1	NP
Bankinter	a3	ba1	RUR	A2	Ba1	RUR	Baa1	Ba2			Ba1	B2	P-1	NP
Banco Sabadell	baa2	ba2	RUR	A3	Ba1	RUR	Baa3	Ba3			Ba3	B3	P-2	NP
<b>Sweden</b>														
Nordea	a2	a3	stable	Aa2	Aa3	stable	Aa3	Baa1	A3	Baa2	Baa2	Baa3	P-1	P-1
SEB	baa1	baa1	stable	A1	A1	stable	A2	Baa2	Baa2	Baa3	Ba1	Ba1	P-1	P-1
Svenska Handelsbanken	a2	a3	stable	Aa2	Aa3	stable	Aa3	Baa1	A3	Baa2	Baa2	Baa3	P-1	P-1
Swedbank	baa2	baa2	stable	A2	A2	stable	A3	Baa3	Baa3	Ba1	Ba2	Ba2	P-1	P-1
<b>Switzerland</b>														
UBS	a3	baa2	stable	Aa3	A2	stable	A1	Baa3			Baa3	Ba2	P-1	P-1
CS	aa3	baa1	stable	Aa1	A1	stable	Aa2	Baa2	A1	Baa3	A3	Ba1	P-1	P-1
<b>UK</b>														
HSBC Bank	a2	a3	stable	Aa2	Aa3	neg	A2	A2	A3	A3	Baa1/A3	Baa1/Baa2	P-1	P-1
Lloyds TSB Bank	baa1	baa3	stable	A1	A2	neg	Baa2	Baa3/Ba1	Baa3/B3	Ba1/B1	Ba1/B3	Ba1/Ba3	P-1	P-1
RBS	baa2	baa3	stable	A2	A3	neg	Baa3/Ba1	Ba1/Ba2	Ba1	Ba2	Ba2	Ba3	P-1	P-2
Barclay's Bank	a3	baa2	stable	Aa3	A2	neg	Baa1	Baa3	Baa2	Ba1	Baa2/Baa3	Ba1/Ba2	P-1	P-1
<b>US</b>														
Morgan Stanley	a3	baa3	stable	A2***	Baa1***	neg	A3***	Baa2****	Baa3***	Ba2***	Ba1***	Ba3***	P-1***	P-2***
Goldman Sachs	a1	baa1	stable	A2***	A3***	neg	A2***	Baa1***	Baa1***	Ba1***	Baa2***	Ba2***	P-1***	P-2***
JP Morgan	aa3	a3	stable	Aa3***	A2***	neg	A1***	A3***	A3***	Baa3****	Baa1***	Ba1***	P-1***	P-1***
Bank of America	baa2	baa3	stable	Baa1***	Baa2***	neg	Baa2***	Baa3***	Ba1***	Ba2/Ba3***	Ba3***	B1***	P-2***	P-2***
Citi	baa1	baa3	stable	A3***	Baa2***	neg	Baa1***	Baa3***	Baa3/Ba1***	Ba2/Ba3***	Ba2***	B1***	P-2***	P-2***

high yield universe  
Baa3 (LT) or P-3 (ST) universe  
investment grade universe

in black and bold =  
in red and bold =

banks with a negative outlooks on their LT senior unsecured ratings  
banks under review

\* ING Group  
\*\*\* HoldCo level

Source: SG Cross Asset Research, Moody's.

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## APPENDIX

### ANALYST CERTIFICATION

The following named research analyst(s) hereby certifies or certify that (i) the views expressed in the research report accurately reflect his or her or their personal views about any and all of the subject securities or issuers and (ii) no part of his or her or their compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report: **Hank Calenti, CFA, Stephane.LePriol, Jean-Luc Lepreux**

### EXPLANATION OF CREDIT RATINGS

SG credit research may contain both a credit opinion of the company and market recommendations on individual bonds issued by the company and/or its Credit Default Swap.

#### Credit Opinion:

**Positive:** Indicates expectations of a general improvement of the issuer's credit quality over the next six to twelve months, with credit quality expected to be materially stronger by the end of the designated time horizon.

**Stable:** Indicates expectations of a generally stable trend in the issuer's credit quality over the next six to twelve months, with credit quality expected to be essentially unchanged by the end of the designated time horizon.

**Negative:** Indicates expectations of a general deterioration of the issuer's credit quality over the next six to twelve months, with the credit quality expected to be materially weaker by the end of the designated time horizon.

#### Individual Bond recommendations:

**Buy:** Indicates likely to outperform its iBoxx subsector by 5% or more

**Hold:** Indicates likely to be within 5% of the performance of its iBoxx subsector

**Sell:** Indicates likely to underperform its iBoxx subsector by 5% or more

#### Individual CDS recommendations:

SG Credit research evaluates its expectation of how the 5 year CDS is going to perform vis-à-vis its sector.

**Sell:** CDS spreads should outperform its iTraxx sector performance

**Neutral:** CDS spreads should perform in line with its iTraxx sector performance

**Buy:** CDS spreads should underperform its iTraxx sector performance

#### Sector weightings:

**OVERWEIGHT:** Sector spread should outperform its iBoxx corporate index

**NEUTRAL:** Sector spread should perform in line with its iBoxx corporate index

**UNDERWEIGHT:** Sector spread should underperform its iBoxx corporate index

### CONFLICTS OF INTEREST

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### IMPORTANT DISCLOSURES

Banca Popolare di SG acted as joint bookrunner in Banca Popolare di Milano's capital raising.

Milano

Banco Popular SG acted as joint Dealer Manager in Banco Popular Espanol's tender offer (targeted ISIN: DE0009190702 ; DE000A0BDW10 ; XS0288613119 ; XS0225590362 ; ES0213770011)

Banco Popular SG acted as joint bookrunner in Banco Popular Espanol's bond issue. (TAP)

Bank of America SG acted as co-manager in Bank of America's bond issue.

Bankia SG acted as co-lead manager in Bankia's IPO

Barclays SG acted as co-lead manager in Barclays' covered bond issue (4.25% 12/01/22 GBP).

BBVA SG acted as joint lead manager in the BBVA's bond issue.

BBVA SG acted as dealer manager in BBVA's tender offer.

BNP Paribas SG is acting as financial advisor to SFPI, 100% owned by the Belgian State, which holds a 25% stake in Fortis Bank SA/NV

Citigroup SG acted as co manager in Citigroup's high grade bond issue.

Citigroup SG acted as co-manager in Citigroup's senior bond issue

Crédit Agricole SG acted as joint bookrunner in Crédit Agricole's covered bond issue.

Crédit Agricole SG acted as joint bookrunner in Crédit Agricole's covered bond issue (3.5% 14/06/18 EUR).

HSBC SG acted as co manager in HSBC's High Grade bond.

HSBC SG acted as joint manager in HSBC's High Grade Covered bond.

HSBC SG acted as co-manager in HSBC's bond issue.

Intesa Sanpaolo SG acted as Joint Dealer Manager in Intesa Sanpaolo's share buy back..

Intesa Sanpaolo SG acted as co-lead manager in Intesa Sanpaolo's rights issue.

JP Morgan Chase SG acted as co-manager in JP Morgan's bond issue.

Nordea SG acted as joint bookrunner in Nordea's bond issue (10/01/14 EUR & 4% 11/07/19 EUR).

Nordea SG acted as joint bookrunner in Nordea's covered bond issue.

Raiffeisen International	Bank SG acted as joint bookrunner in Raiffeisen Bank International's bond issue (2.875% 06/03/15 EUR).
Raiffeisen Oesterreich (RZB)	SG acted as joint bookrunner in Raiffeisen Bank International's bond issue (2.875% 06/03/15 EUR).
Royal Bank of Canada	SG acted as co manager in Royal Bank of Canada's high grade bond issue.
Royal Bank of Canada	SG acted as co manager in the forthcoming Royal Bank of Canada's senior high grade bond issue.
Santander	SG acted as joint bookrunner in Santander's covered bond issue (4.625% 21/06/16 EUR).
Svenska Handelsbanken	SG acted as Joint Lead Manager in Svenska Handelsbanken' bond issue
Svenska Handelsbanken	SG acted as joint bookrunner of Svenska Handels Banken bond issue.
UBI Banca	SG acted as co-bookrunner in UBI Banca's right's issue.
UBS	SG acted as joint lead manager in UBS' bond issue (7.25% 22/02/22 USD).
UBS	SG acted as co-lead manager in UBS' covered bond issue (2.25% 10/01/17 EUR).
UBS	SG acted as joint lead manager in UBS' covered bond issue.
UniCredit SpA	SG acted as joint lead manager in Unicredit's bond issue (5yr).
UniCredit SpA	SG acted as joint bookrunner in Unicredit's rights issue.
UniCredit SpA	SG acted as joint bookrunner in Unicredit's covered bond issue.

Director: A senior employee, executive officer or director of SG and/ or its affiliates is a director and/or officer of UniCredit SpA.

SG and its affiliates beneficially own 1% or more of any class of common equity of BBVA, BNP Paribas, Banco Popolare, Crédit Agricole SA, ING Group, Intesa Sanpaolo, Santander, UniCredit SpA.

SG or its affiliates act as market maker or liquidity provider in the equities securities of BBVA, BNP Paribas, Banca MPS, Banca Popolare di Milano, Banco De Sabadell, Banco Popolare, Banco Popular, Bankinter SA, Commerzbank, Crédit Agricole SA, Deutsche Bank, ING Group, Intesa Sanpaolo, Natixis, Santander, Svenska Handelsbanken, UBI Banca, UBS, UniCredit SpA.

SG or its affiliates expect to receive or intend to seek compensation for investment banking services in the next 3 months from BBVA, BNP Paribas, Commerzbank, Deutsche Bank, Dexia, HSBC, Intesa Sanpaolo, KBC, Royal Bank of Scotland, Santander, Svenska Handelsbanken, Swedbank, UBI Banca, UBS, UniCredit SpA.

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SG or its affiliates managed or co-managed in the past 12 months a public offering of securities of BBVA, Banca Popolare di Milano, Banco Popular, Bank of America, Bankia, Barclays, Citigroup, Crédit Agricole SA, HSBC, Intesa Sanpaolo, JP Morgan Chase, Nordea, Raiffeisen Bank International, Raiffeisen Zentralbank Oesterreich (RZB), Royal Bank of Canada, Santander, Svenska Handelsbanken, UBI Banca, UBS, UniCredit SpA.

SGAS had a non-investment banking non-securities services client relationship during the past 12 months with BNP Paribas, BPCE, Banco Comercial Portugues, Banco De Sabadell, Bank of America, Barclays, Citigroup, Commerzbank, Crédit Agricole SA, DNB, Danske Bank, Deutsche Bank, Dexia, Erste Group, Goldman Sachs, HSBC, ING Group, Intesa Sanpaolo, La Caixa (Caja de Ahorros y Pensiones de Barcelona), Morgan Stanley, Nordea, Royal Bank of Canada, Royal Bank of Scotland, Santander, Swiss RE, UBI Banca, UBS, UniCredit SpA.

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SGAS received compensation for products and services other than investment banking services in the past 12 months from BNP Paribas, BPCE, Banco Comercial Portugues, Banco De Sabadell, Banco Popolare, Bank of America, Barclays, Citigroup, Commerzbank, Crédit Agricole SA, DNB, Danske Bank, Deutsche Bank, Dexia, Erste Group, Goldman Sachs, HSBC, ING Group, Intesa Sanpaolo, JP Morgan Chase, KBC, La Caixa (Caja de Ahorros y Pensiones de Barcelona), Morgan Stanley, Nordea, Raiffeisen Bank International, Royal Bank of Canada, Royal Bank of Scotland, Santander, Svenska Handelsbanken, Swiss RE, UBI Banca, UBS, UniCredit SpA.

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