

CreditSights European Outlook Conference

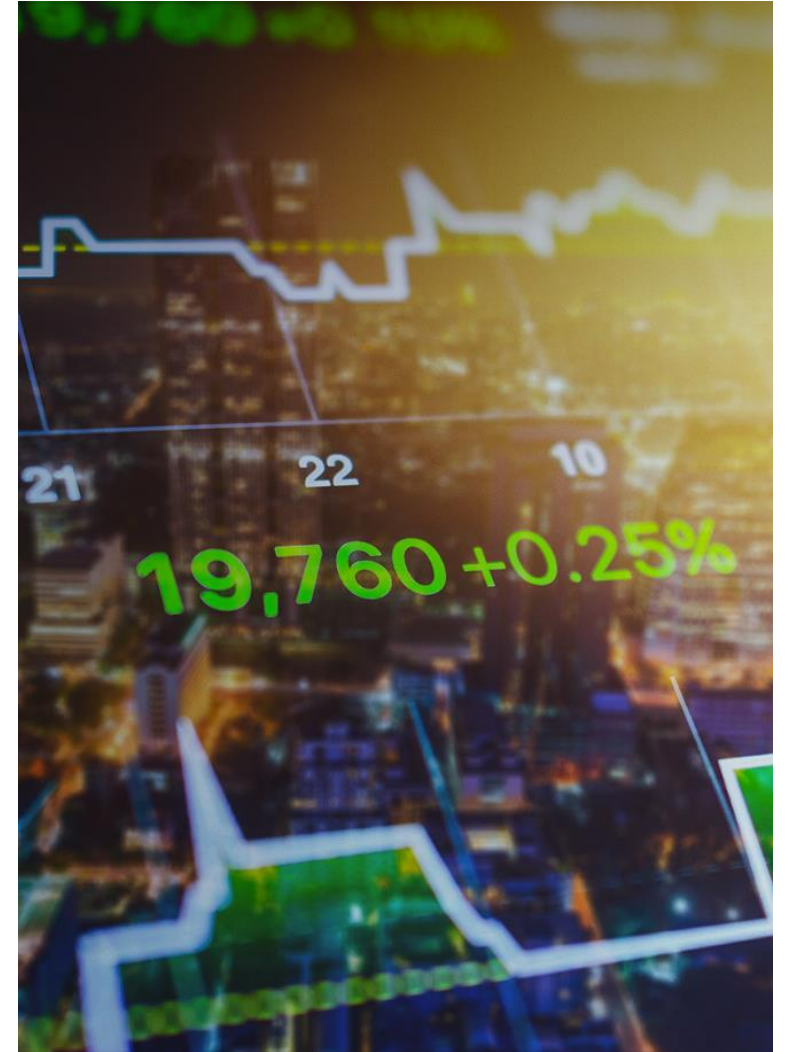
8 December 2022

European Banks: Cheques and Balances

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2. Earnings
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4. Capital evolution
5. Key fundamental metrics – what next?
6. Extension risk
7. Performance and sector recommendations



Macroeconomic Outlook To Weigh On European Bank Credit

Selected Economies: Fitch Solutions Forecasts

	Real GDP Growth		CPI Average		Central Bank Rate		Unemployment	
	2022	2023	2022	2023	2022	2023	2022	2023
Germany	1.93%	-1.07%	8.85%	6.49%	2.5%	3.0%	3.25%	3.40%
France	2.52%	-0.54%	5.20%	4.12%	2.5%	3.0%	7.22%	7.77%
Italy	3.79%	-0.67%	8.0%	5.0%	2.5%	3.0%	8.2%	8.6%
UK	4.51%	-0.82%	9.0%	7.0%	3.5%	4.0%	3.8%	4.6%
US	1.80%	0.33%	8.1%	4.5%	4.5%	4.5%	3.8%	4.1%

Key Factors for Banks

- Economic growth: tipping into recession
- Inflation: high but easing
- Interest rates: rising
- Unemployment: some pressure but contained

Negative
Mild negative
Positive
Neutral

The Winds Of War Will Continue To Blow

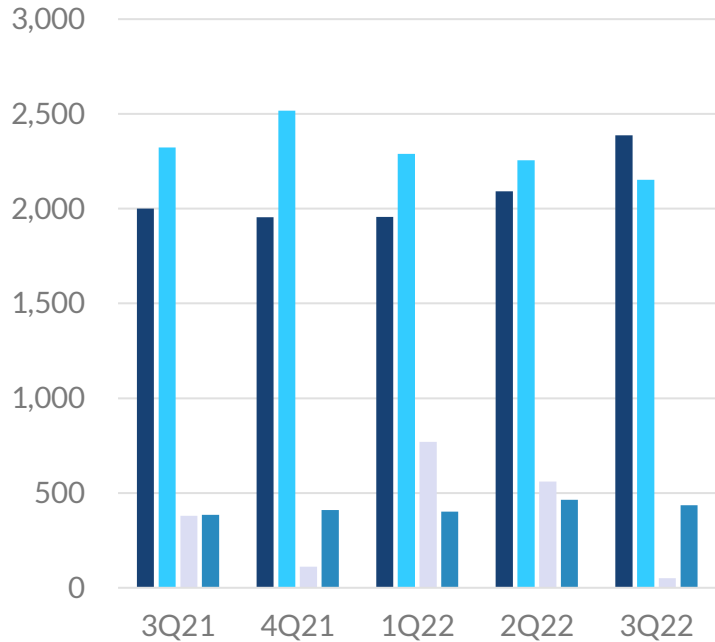
The effects of Russia's invasion of Ukraine still reverberate

- **Second order effects widespread**
 - Oil and gas imports disrupted
 - Rising inflation, rates and cost of living
 - Vulnerable corporate customers and households
 - Management overlay provisioning
 - Volatile markets and asset valuations
- **Direct exposure to Russia now limited to a few names**
 - UniCredit, RBI, ING, Intesa and Commerzbank managing down exposures
 - Exit through sale now impossible
 - Should I stay or should I go? Reputation versus economics

European Banks – Revenue Progression 3Q21 – 3Q22

Intesa Sanpaolo

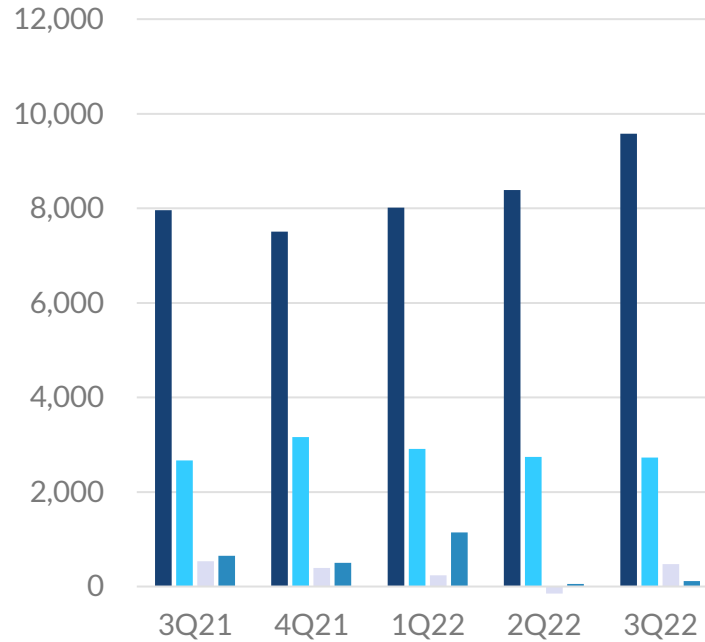
€ mn



- Net interest Income
- Net fees and commissions
- Net Trading Result
- Insurance

Svenska Handelsbanken

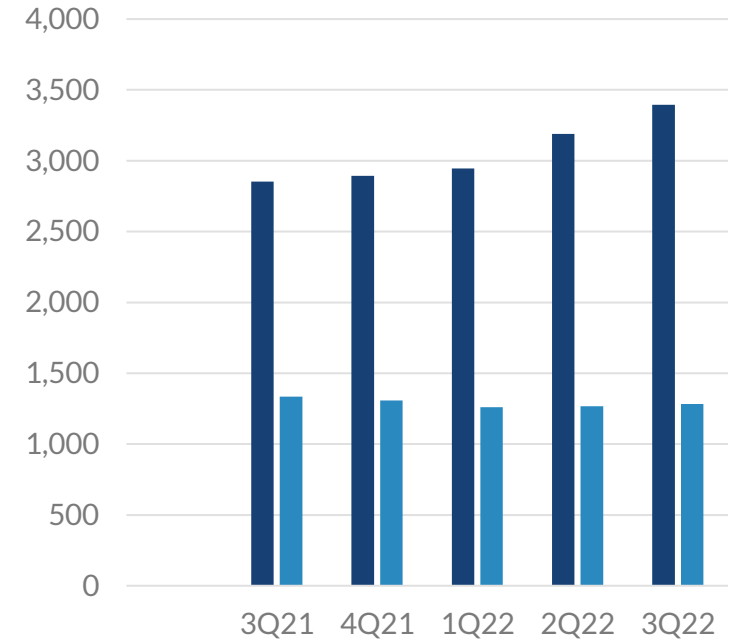
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- Net interest Income
- Net fees and commissions
- Net Trading Result
- Other income

Lloyds

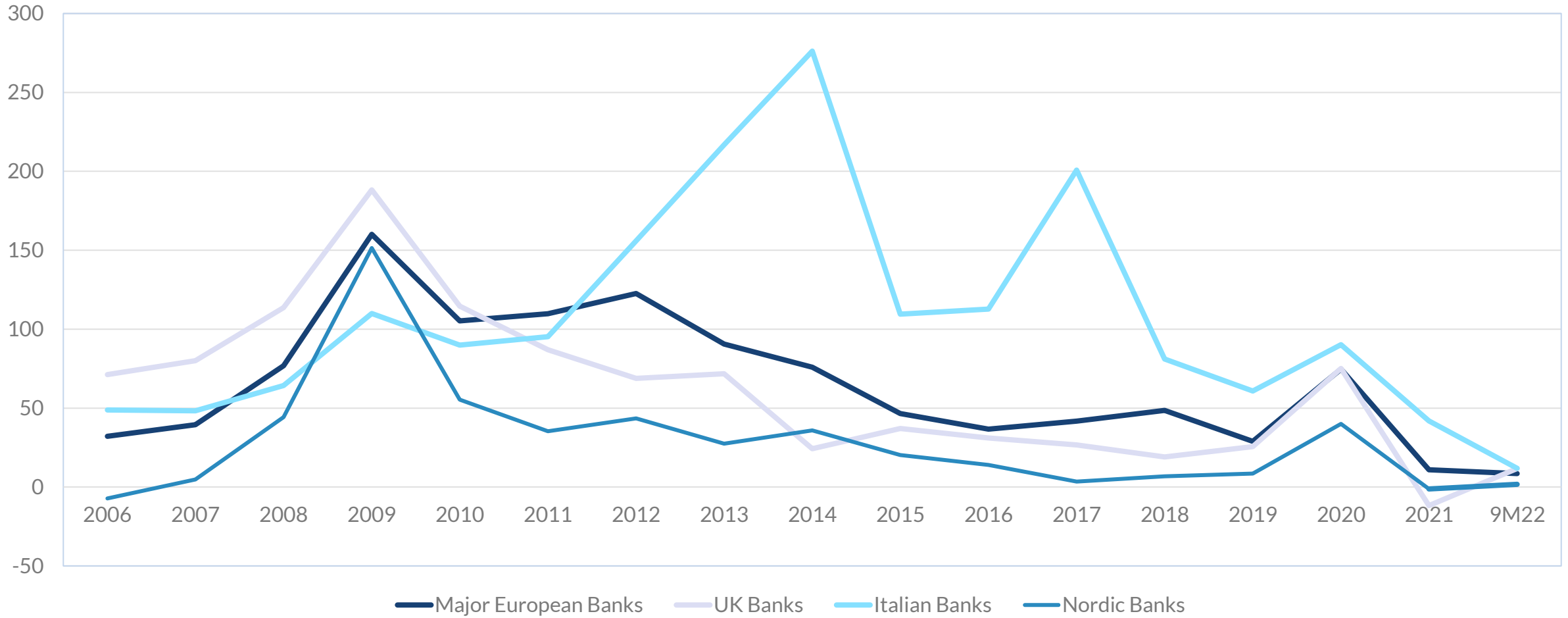
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- Net interest Income
- Other Income

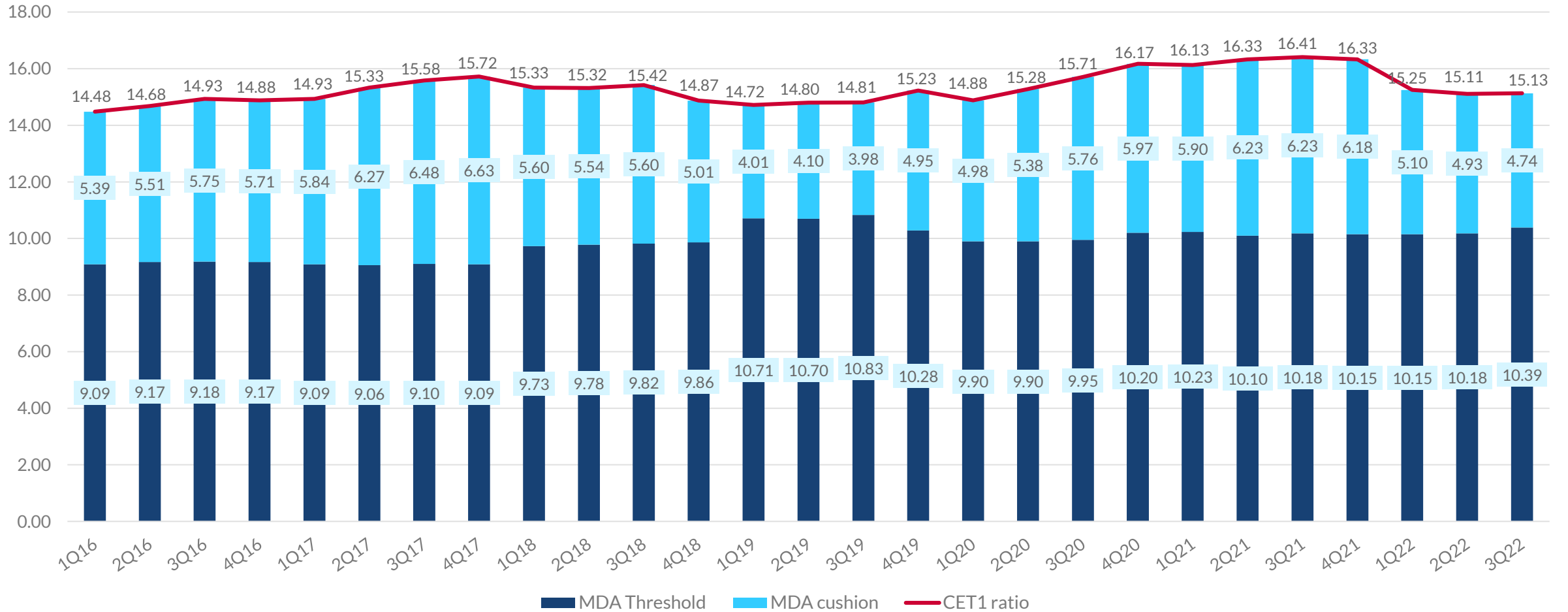
Cost Of Risk Expected To Rise

Average Cost of Risk (bp) – Major European Banks versus UK, Italian and Nordic Banks

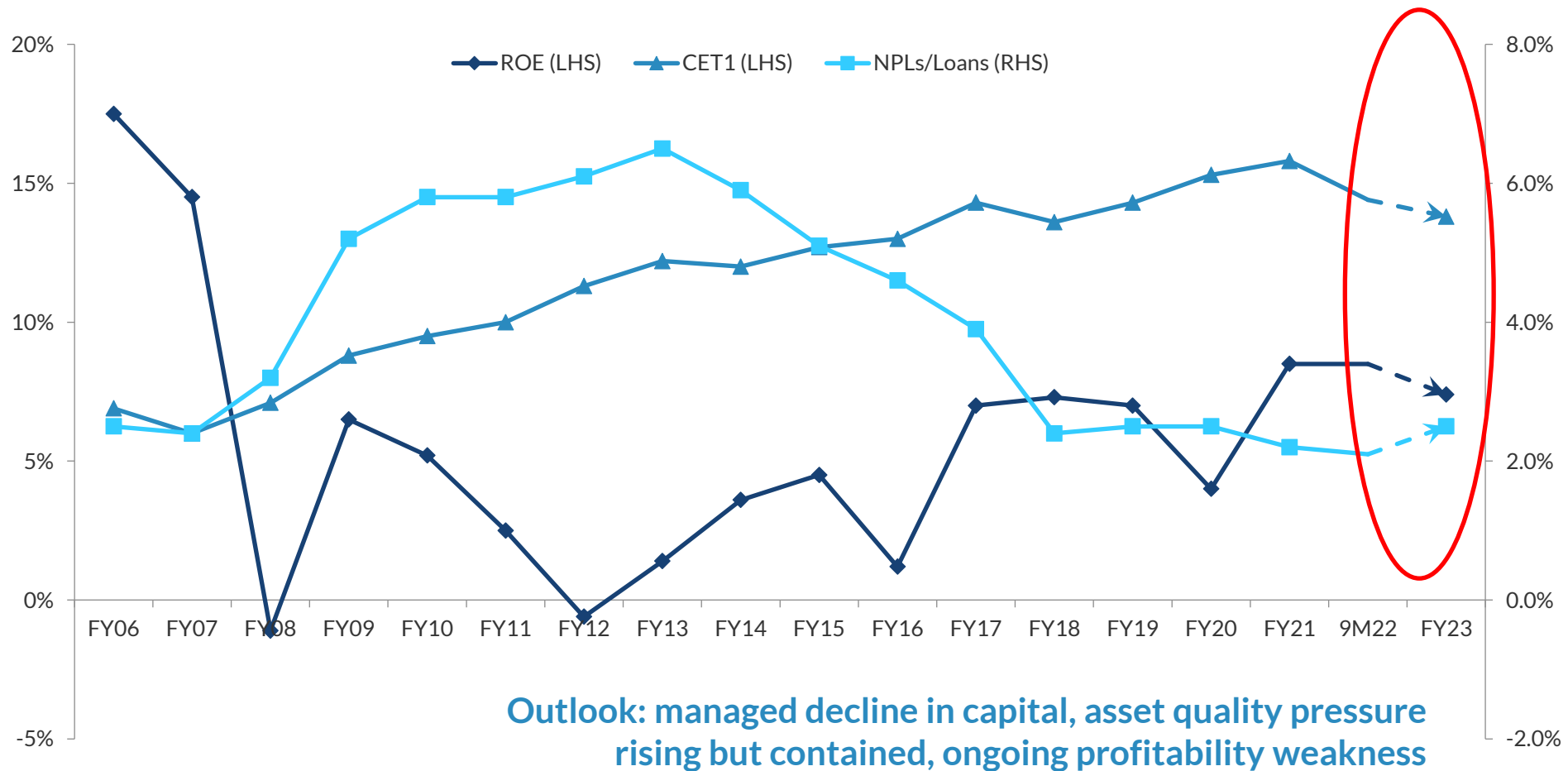


Capital Buffers Likely To Reduce

Major European Banks: Average CET1 ratio versus Effective MDA Trigger Level and MDA Cushion %



Key Metrics: What Next?



European Bank AT1 Extension Risk

Investor expectations versus economic reality

European Bank AT1s: 2023 Calls																
ISIN	Issuer	Ccy	Mn	Next call date	Coupon	Reset	Implied coupon	Call Frequency	Price	Yield to Call	Yield to Perp	Price	Yield to Call	Yield to Perp	Extend Risk	Predict
CH0400441280	UBS	USD	2,000	31-Jan-23	5.000%	USSW5YF + 243.2	6.40%	Annual	100.0	4.8%	4.8%	96.2	26.9%	5.9%	High	CALLED
XS1571333811	Barclays	GBP	1,250	15-Mar-23	7.250%	BPISSD05 + 673.9	10.48%	5 years	100.0	7.5%	10.0%	99.8	7.9%	9.8%	Low	Call
US404280BN8	HSBC	USD	2,350	23-Mar-23	6.250%	USISDA05 + 345.3	7.26%	5 years	98.6	11.1%	6.5%	94.6	24.2%	7.0%	High	Call
US853254BH2	Standard Chartered	USD	1,000	02-Apr-23	7.750%	USSW5 + 572.3	9.53%	5 years	100.0	7.5%	8.9%	99.8	8.2%	9.0%	Low	Call
XS1619015719	UniCredit	EUR	1,250	03-Jun-23	6.625%	EUSA5 + 638.7	8.97%	Semi-annual	99.4	7.9%	8.6%	99.6	7.5%	8.7%	Low	Call
XS1043552188	Lloyds Banking Group	GBP	135	27-Jun-23	7.625%	BPSWS5 + 528.7	8.74%	5 years	101.8	4.4%	8.5%	101.6	4.8%	8.3%	Low	Call
US225401AJ72	Credit Suisse	USD	2,000	17-Jul-23	7.500%	USSW5 + 460	8.40%	5 years	80.5	47.9%	9.6%	87.1	31.4%	9.1%	High	Extend
US06738EBA2	Barclays	USD	2,500	15-Sep-23	7.750%	USSW5 + 484.2	8.65%	5 years	97.6	11.2%	8.2%	96.0	13.3%	8.5%	Medium	Call
XS1880365975	CaixaBank	EUR	500	19-Sep-23	6.375%	EUSA5 + 622.4	8.80%	Quarterly	99.5	7.2%	8.4%	99.4	7.3%	8.6%	Low	Call
CH0360172719	Credit Suisse	CHF	200	22-Sep-23	3.875%	SFSW5 + 399.3	n.a.	5 years	77.7	41.0%	7.0%	76.1	43.1%	7.3%		
XS1882693036	HSBC	SGD	750	24-Sep-23	5.000%	SDSOA5 + 296.9	6.07%	5 years	99.5	5.7%	5.9%	97.9	7.9%	6.3%	High	Call
ES0813211002	BBVA	EUR	1,000	24-Sep-23	5.875%	EUSA5 + 566	8.24%	Anytime	97.8	9.1%	7.9%	97.4	9.5%	8.1%	Low	Call
XS1298431104	HSBC	EUR	1,000	29-Sep-23	6.000%	EUSA5 + 533.8	7.92%	5 years	99.9	6.2%	7.3%	99.4	6.8%	7.5%	Low	Call
XS1692931121	Santander	EUR	1,000	29-Sep-23	5.250%	EUSA5 + 499.9	7.58%	Quarterly	96.9	9.6%	7.2%	95.7	11.2%	7.5%	Medium	Call
US83367TBV0	Société Générale	USD	1,250	04-Oct-23	7.375%	USSW5 + 430.2	8.11%	5 years	96.9	11.5%	7.6%	95.3	13.3%	7.9%	Medium	Call
CH0447353704	UBS	SGD	700	28-Nov-23	5.875%	SDSW5 + 360.5	7.01%	Semi-annual	100.7	5.2%	6.8%	99.4	6.6%	7.1%	Low	Call
US22546DAB2	Credit Suisse	USD	2,250	11-Dec-23	7.500%	USSW5+ 459.8	8.40%	5 years	88.0	21.3%	8.7%	89.9	18.6%	8.7%	High	Extend
US83367TBF57	Société Générale	USD	1,750	18-Dec-23	7.875%	USSW5 + 497.9	8.78%	5 years	99.7	8.2%	8.0%	98.8	9.1%	8.3%	Low	Call

Excess Return Performance - Banks

Excess Return Heatmap						
	FY17	FY18	FY19	FY20	FY21	YTD
EUR Senior	2.33%	-0.82%	2.79%	1.51%	0.65%	-1.43%
EUR Sub- Senior	4.64%	-3.39%	6.38%	2.09%	0.80%	-2.96%
EUR Tier 2	7.14%	-3.13%	8.34%	3.09%	2.69%	-2.09%
USD Senior	2.36%	-1.20%	4.48%	0.79%	0.82%	-2.03%
USD Sub-Senior	4.25%	-3.14%	7.73%	2.10%	0.92%	-3.57%
USD Tier 2	6.98%	-5.51%	14.05%	2.96%	2.39%	-5.00%
CoCos EUR	15.70%	-5.20%	16.54%	8.28%	7.18%	-5.08%
CoCos EUR Core	15.18%	-4.78%	13.59%	6.21%	5.68%	-4.22%
CoCos EUR Periphery	16.65%	-5.89%	20.96%	8.94%	8.74%	-3.23%
CoCos USD	11.61%	-4.41%	13.03%	4.27%	5.84%	-6.29%
CoCos USD Core	12.35%	-4.93%	13.13%	3.50%	6.14%	-3.60%
CoCos USD Periphery	15.50%	-8.66%	22.07%	5.04%	7.18%	-0.76%

Excess Return Heatmap month-by-month in 2022												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	YTD
EUR Senior	-0.14%	-1.33%	0.76%	-0.67%	-0.15%	-1.58%	0.93%	-0.31%	-0.60%	0.51%	1.33%	-1.43%
EUR Sub- Senior	-0.50%	-1.72%	1.02%	-1.33%	-0.09%	-2.42%	1.72%	-1.02%	-0.72%	0.48%	1.64%	-2.96%
EUR Tier 2	-0.61%	-2.51%	1.46%	-1.33%	-0.30%	-2.77%	1.55%	-0.07%	-1.43%	1.41%	2.85%	-2.09%
USD Senior	-0.40%	-0.72%	-0.11%	-0.45%	-0.13%	-0.53%	0.24%	0.24%	-0.59%	-0.41%	0.91%	-2.03%
USD Sub-Senior	-0.64%	-0.89%	-0.23%	-1.00%	0.10%	-0.98%	0.03%	0.18%	-1.27%	-0.82%	2.06%	-3.57%
USD Tier 2	-1.10%	-1.83%	0.20%	-1.57%	0.15%	-2.01%	0.20%	0.28%	-2.07%	-0.87%	3.36%	-5.00%
CoCos EUR	-1.69%	-3.37%	2.20%	-3.12%	0.62%	-7.82%	4.30%	-0.47%	-6.35%	6.18%	6.18%	-5.08%
CoCos EUR Core	-1.38%	-3.72%	2.17%	-2.55%	0.28%	-6.61%	4.27%	-0.92%	-5.40%	5.42%	4.74%	-4.22%
CoCos EUR Periphery	-1.52%	-2.69%	1.96%	-2.79%	0.79%	-7.59%	4.58%	-0.78%	-6.02%	-9.43%	6.12%	-3.23%
CoCos USD	-0.66%	-2.02%	1.72%	-1.96%	-0.44%	-5.07%	4.47%	-1.93%	-5.05%	6.56%	2.92%	-6.29%
CoCos USD Core	-0.40%	-1.38%	1.58%	-1.88%	0.01%	-3.75%	4.38%	-1.71%	-4.41%	6.18%	3.43%	-3.60%
CoCos USD Periphery	-0.02%	-2.02%	1.77%	-2.02%	0.06%	-5.05%	4.31%	-1.48%	-4.90%	5.42%	4.98%	-0.76%

European Banks: Recommendations

European Banks Recommendations: Senior	
Outperform	Underperform
Senior (Sector: Outperform)	
Barclays	Commerzbank
BBVA	RBI
Monte dei Paschi	
NatWest	
Sub-senior (Sector: Market perform)	
BBVA	Commerzbank
CaixaBank	Standard Chartered
Deutsche Bank	
NatWest	
Société Générale	
Virgin Money UK	

European Banks Recommendations: Subordinated	
Cheap	Rich
Tier 2 (Market Perform)	
Banco Sabadell	BCP
Barclays HoldCo	Monte de Paschi
BBVA	RBI
Deutsche Bank	
Lloyds HoldCo	
AT1 (Sector: Market Perform)	
Barclays HoldCo	BCP
BBVA	CaixaBank
Lloyds HoldCo	RBI
NatWest	
Société Générale	
Danske Bank	

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