

European Banks – Credit Update

- The Swedish regulator extended the list of entities that have to comply with stricter MREL rules; whilst Norway published a consultation paper on its own MREL and debt subordination rules, which implied it will follow the (French-style) contractual subordination approach.
- Primary markets have been busy ahead of the earnings season, whilst secondary markets moved largely sideways in the past week despite continued trade-war concerns.

Israel Da Costa, CFA

Credit Analyst

+44 20 7597 8355

Israel.DaCosta@uk.daiwacm.com

Market Developments

Danske Bank has been in the spotlight due to significant allegations of money laundering in its business in Estonia. Full details have yet to be disclosed, but the bank's franchise is already being impacted. The existence of clear red flags, ignored for a long period, show significant weaknesses in the bank's governance. Some accounts were said to be "textbook money laundering". A substantial fine is likely to ensue, whilst the bank's CEO is also under some pressure to resign. The Danish FSA is also being criticized for weak controls. That all said, the bank's financial position is solid enough to withstand the likely fine and the turbulence ahead.

In the Netherlands, the government announced it will remove preferential tax treatment for CoCo's issue by banks from 01 January 2019. It follows a similar approach taken by Sweden back in 2016, and is partly driven the European Commission view that such preferential treatment to hybrid instruments could constitute state aid. The change could lead to a Tax Event, allowing issuers to call such securities at par value. Swedish banks refrained from such a move, and the same is expected from Dutch banks. Other EU governments may replicate the approach. Dutch AT1 spreads widened with the decision, whilst the cost of funding for Dutch banks will naturally rise as a result.

On the regulatory front, the Swedish regulator recently increased the number of entities that have to comply with MREL with subordinated debt only. The main surprise was the inclusion of SEK in the list, an export credit agency fully owned by the government. It had been expected that less-commercially-focused entities, like SEK, would be excluded from stricter MREL requirements in Europe. In Norway, the local FSA published a consultation paper on MREL and debt subordination, where it will follow a similar MREL framework as in the Eurozone, whilst MREL eligible debt shall be contractually subordinated. DNB indicated it would have to issue around NOK150bn (€16bn) of SNP debt, exactly the amount the bank has of outstanding senior debt currently.

Primary Market

The primary market has been busy in recent days with placements across the debt structure as we approach the Q2 earnings season and issuers take advantage of the fairly stable environment. ABN AMRO, BFCM, Credit Suisse and Nykredit were in the market this week. **ABN** issued €1.25bn 5Y in SP format, priced at MS+35bps, 10bps inside IPT and demand in excess of 1.52. Also in SP format, **BFCM** placed a dual tranche (4Y/10Y) €1.5bn/€750m bond, priced at MS+40bps/MS+60bps, within 10bps of IPT and with a strong 1.7/2.5 bid-to-cover. **Credit Suisse** took the opportunity to raise AT1, issuing \$2bn with a 7.5% coupon, down from an IPT of 7.875%. Finally, **Nykredit** issued €500m in SNP, 3.5Y at MS+53bps, with oversubscription in excess of 1.6.

In the JPY market last week, **BPCE** launched a JPY119.5bn multi tranche, in both SP and SNP format, with the SNP 10Y priced at YSO+69bps, a 29bps increase over a similar placement in January, yet in line with the recent Credit Agricole Samurai transaction. The transaction highlighted high demand for SNP format (98% of the total deal) and social bonds (33.5%) in Japan.

Secondary Market

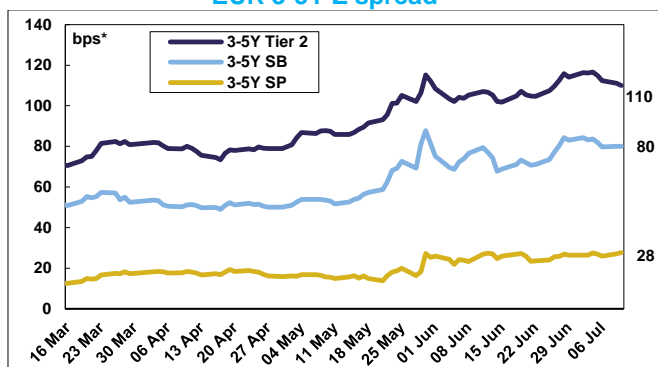
European banks' EUR and USD secondary spreads have moved largely sideways in the past weeks despite the continued talks of trade war. EUR Tier 2 (T2) debt tightened somewhat on the back of the Dutch tax changes, as some investors replaced AT1s by T2s. On differentials, we continue to see Senior Bail-in debt (SB) trading half-way between T2 and Senior Preferred debt (SP), albeit SB moved somewhat closer to SP in the USD market due to the high level of activity in the primary market. European Banks' Samurais have stabilized at the level found after the Credit Agricole deal a few weeks ago.

Share Price Movements (%)			
Top 5 day Δ		Top YTD Δ	
SEBA SS	4.1	FBK IM	13.3
SHBA SS	2.6	BPE IM	11.8
KOMB CK	2.1	BKT SQ	5.5
SWEDA SS	1.9	DNB NO	4.7
JYSK DC	1.7	CBG LN	2.6
Bottom 5 day Δ		Bottom YTD Δ	
MB IM	-5.6	DBK GY	-41.9
BAMI IM	-4.8	CBK GY	-34.3
AIBG ID	-4.7	BKIA SQ	-19.6
CBK GY	-4.4	INGA NA	-19.6
BCP PL	-4.3	ABN NA	-17.4

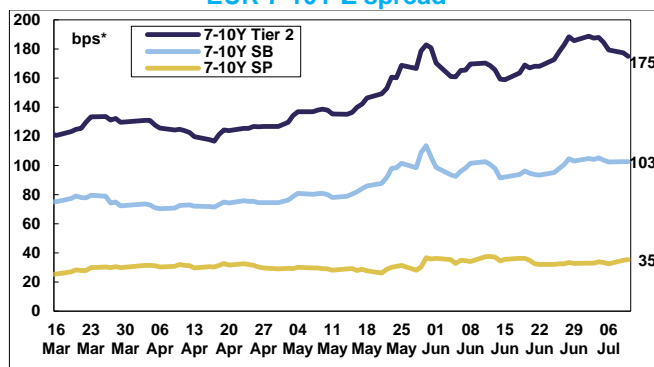
5Y Sr CDS Movements (bps)			
Top 5 day Δ		Top YTD Δ	
Deutsche	-27.8	SEB	-1.2
MB	-15.1	SWED	3.6
Santander	-15.1	Nordea	6.2
Bankia	-14.8	SHB	6.9
BPM	-13.7	Erste	10.5
Bottom 5 day Δ		Bottom YTD Δ	
RBI	8.8	BPM	127.0
Danske	6.6	MB	92.3
Erste	6.4	Deutsche	80.5
ING	4.9	ISP	80.3
RBS	1.0	Unicredit	69.9

Source: Bloomberg

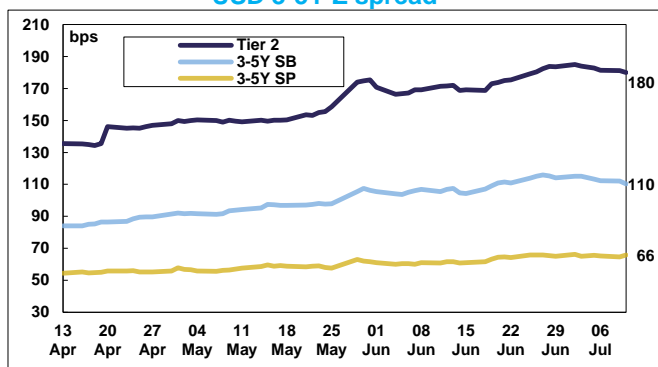
EUR 3-5Y Z spread^{1,2}



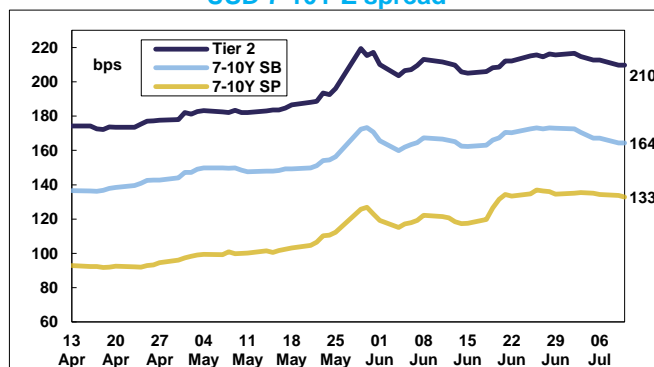
EUR 7-10Y Z spread^{1,2}



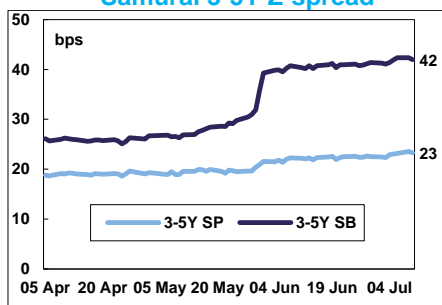
USD 3-5Y Z spread^{1,2}



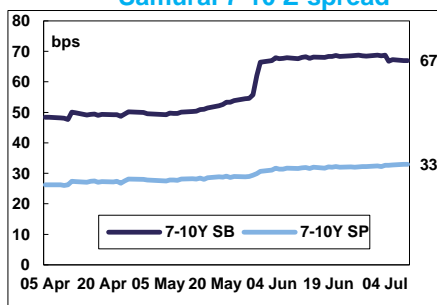
USD 7-10Y Z spread^{1,2}



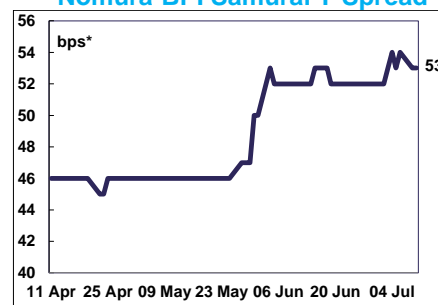
Samurai 3-5Y Z-spread^{1,2,3}



Samurai 7-10 Z-spread^{1,2,3}



Nomura-BPI Samurai T-Spread⁴



Spread Movements

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
EUR 3-5 years Z Spread (bps)					
T2	110	-1	0	3	34
SB	80	0	3	3	30
SP	28	1	2	0	17
EUR 7-10 years Z Spread (bps)					
T2	175	-2	-3	6	33
SB	103	0	5	2	31
SP	35	1	3	-2	6

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
USD 3-5 years Z Spread (bps)					
T2	180	-2	1	8	44
SB	110	-2	-4	5	26
SP	66	1	0	4	11
USD 7-10 years Z Spread (bps)					
T2	210	-3	-6	-2	35
SB	164	0	-9	-3	27
SP	133	-1	-2	11	40

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
Samurai (JPY) 3-5Y Z-Spread (bps)					
SB	42	0	1	2	16
SP	23	0	1	1	4
Samurai (JPY) 7-10Y Z Spread (bps)					
SB	67	0	-2	-1	17
SP	33	0	2	3	4
Nomura-BPI Samurai Index (bps)					
Index	53	0	1	1	7

Source: Daiwa Capital Markets Europe Ltd, Bloomberg. SP= Senior Preferred; SB=Senior Bail-in.

¹ Average of the largest European banks' debt securities. Herein included figures may not be reflective of the whole market. ² Mid Z Spread to maturity/call. ³ Liquidity and transparency of the samurai secondary market is significantly lower than that of the EUR and USD markets. Average formed by a lower number of bank's given reduced number of European banks issuing in JPY when compared to EUR and USD issuers. ⁴ Weighted average of OAS versus the JGB yield of JPY denominated foreign bonds.

Key contacts

London

Head of Research Financials, Supras/Sovereigns & Agencies	<i>Grant Lewis</i> <i>Israel Da Costa, CFA</i>	+44 20 7597 8334 +44 20 7597 8355
--	---	--------------------------------------

Research Assistant Manager	<i>Jodene Adjei</i>	+44 20 7597 8332
----------------------------	---------------------	------------------

Tokyo

Domestic Credit

Chief Credit Analyst Electronics, Automobiles, Non-Banks, Real Estate, REIT Chemicals, Iron & Steel	<i>Toshiyasu Ohashi</i> <i>Takao Matsuzaka</i> <i>Kazuaki Fujita</i>	+81 3 5555 8753 +81 3 5555 8763 +81 3 5555 8765
---	--	---

International Credit

Non-Japanese/Samurai, European Sovereigns Non-Japanese/Samurai Non-Japanese	<i>Hiroaki Fujioka</i> <i>Fumio Taki</i> <i>Jiang Jiang</i>	+81 3 5555 8761 +81 3 5555 8787 +81 3 5555 8755
---	---	---

London Translation

Head of Translation, Economic and Credit	<i>Mariko Humphris</i>	+44 20 7597 8327
--	------------------------	------------------

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at DAIR <GO>. If you are unable to access the research on this page, please contact Jodene Adjei on +44 207 597 8332.

Access our research at:

<http://www.uk.daiwacm.com/ficc-research/research-reports>



Follow us
[@DaiwaEurope](https://twitter.com/DaiwaEurope)

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.