

European Banks – Credit Update

- Danske concluded its own investigation on money laundering in Estonia, in which it found that about €200bn of payments flowed through its Estonian non-resident portfolio, yet the bank failed to come up with a more accurate estimate of suspicious transactions.
- Primary market volumes were lighter in the past two weeks, following a flood of issuance in the prior weeks.

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Key Developments

Danske this morning published the results from its investigations into the money-laundering issues at the bank's Estonian operations. The assessment, prepared by Promontory Financial, PwC and EY, and the law firm Bruun & Hjejle found that around 15,000 customers either non-resident or with non-resident characteristics carried out a total of around 9.5 million payments, with a total flow of payments of around €200bn. So far, approximately 6,200 of these customers have been examined closely, and the vast majority of which have been deemed suspicious. A more accurate estimate of suspicious transactions was not provided. In parallel to the much awaited publication, the bank's CEO has also announced its resignation. He'll remain in office until a replacement is found.

As the group is facing criminal charges by both the Danish and Estonian authorities, a significant fine is likely, yet the size of which remains highly uncertain. That said, the bank's current DKK30bn (\$4.7bn) of excess capital does provide it with a significant loss absorbing cushion. In addition, today's announcement was followed by a marginal downward revision on the bank's net profit outlook for 2018, which is now expected to be around DKK16-17bn, from the DKK18-20bn announced previously. This highlights that, on top of the strong capital buffers, the bank has plenty of capacity to absorb the likely fine through its P&L, meaning debtholders are indeed well protected.

Danske is far from being the only European bank with deficient AML controls. Only this month, **ING** agreed to pay the U.S. authorities \$900m for AML failures, which also resulted in the bank's CFO departure, whilst **Credit Suisse** was warned by the Swiss regulator on 'deficiencies in the bank's adherence to anti-money laundering due diligence obligations'. The inefficient AML controls of several European banks is partly driven by the structure of the EU, in which there's cross border free flow of capital, yet money laundering supervision is left to national authorities, so that jurisdictions with weaker controls compromise the supervision of the whole block. Lack of coordination among national authorities further weakens the system. That said, the European Commission has proposed to enhance the mandate of the European Banking Authority so that it can also address money laundering issues, yet the proposal falls short of creating harmonized rules and centralized supervision.

On a brighter, separate, note Natixis (71% owned by **BPCE**) [announced](#) last week that it's planning to sell some of its activity involving consumer financing, factoring, leasing, sureties & guarantees and securities services to its parent BPCE SA for a total price of €2.7bn. The transaction aims to simplify the group's structure, which is always welcome, and will have a limited -20bps impact on the group's comfortable CET1 ratio of 15.2%.

Primary Market

Supply volumes reduced somewhat in the past couple of weeks, whilst demand remained strong. Investors were indifferent to ING's AML issues, as the bank met very strong demand (\$12.5bn) for its \$3.5bn 3-tranche 5Y/5Y Float/10Y HoldCo paper, which was priced at MS+80/3mE+85/MS+110bps, 20/15/15bps inside IPT. Another key transaction was SocGen's €1.75bn 5Y/10Y dual-tranche SNP, priced at MS+145/+185, which the issuer complemented one day later with a €2bn 3.5Y SP paper priced at MS+30bps, 10bps within IPT. So far this week we've seen BPCE placing a 5Y €1.25bn SP bond, which closed at MS+40; and DNB's 5Y €750m SP paper, priced at MS+28bps. In the Samurai market, HSBC priced a ¥160bn three-tranche (6NC5/8NC7/10NC9) MREL eligible note*, priced at YOS+40/+55/+60bps.

Secondary Market

Spreads in the EUR secondary market tightened somewhat in the past week, particularly for riskier securities, driven by the good recent performance of the Italian debt, the interest rate hike in Turkey and reduced pressure from the primary market. The USD curve meanwhile was largely flat, with some tightening in Tier 2 spreads.

*Daiwa Capital Markets Europe was a joint book runner in the transaction, together with HSBC, Mizuho and SMBC.

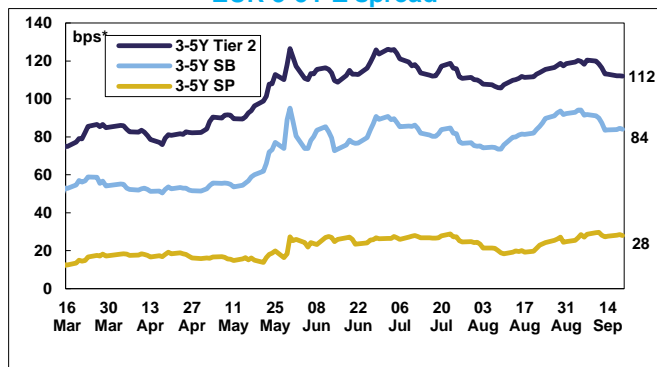
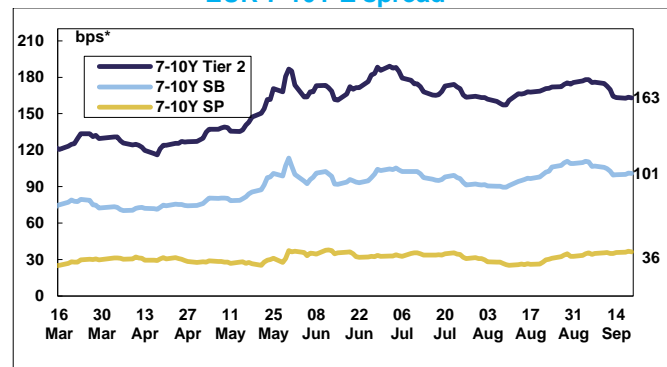
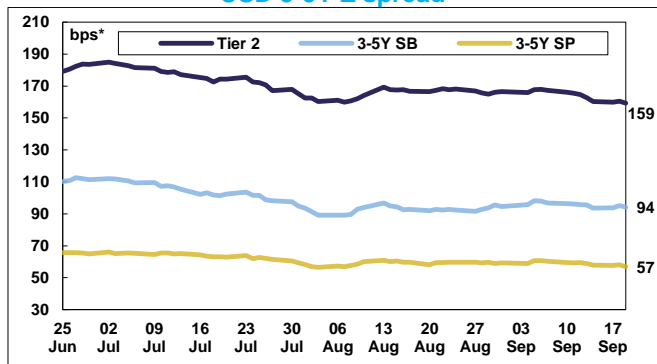
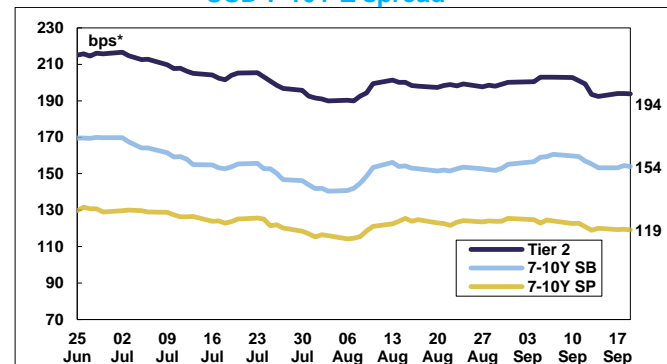
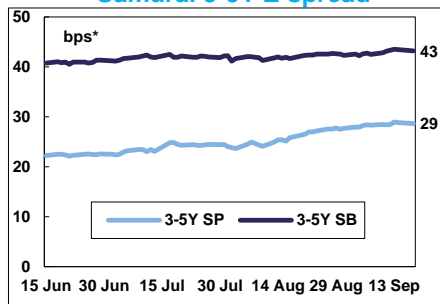
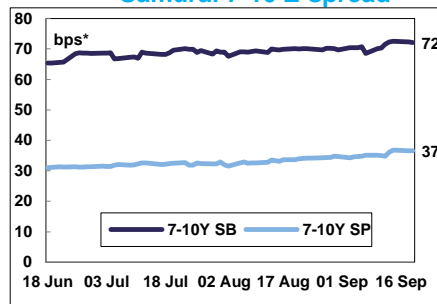
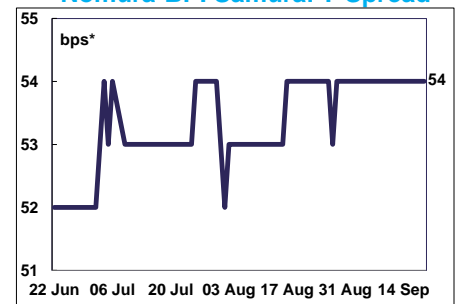
Share Price Movements (%)

Top 5 day Δ		Top YTD Δ	
UBI IM	19.9	FBK IM	35.1
CBK GY	13.5	CBG LN	13.5
FBK IM	13.0	DNB NO	11.1
BAMI IM	13.0	EBS AV	7.9
BKIA SQ	12.2	CABK SQ	6.8
Bottom 5 day Δ		Bottom YTD Δ	
SYDB DC	-14.2	DBK GY	-36.4
JYSK DC	-8.2	DANSKE	-30.3
DANSKE	-8.0	INGA NA	-26.7
BAER SE	-6.8	CBK GY	-26.2
BARC LN	-5.3	SYDB DC	-25.1

5Y Sr CDS Movements (bps)

Top 5 day Δ		Top YTD Δ	
BPM	-8.1	SEB	-2.2
RBI	-6.3	Nordea	+2.9
BBVA	-5.9	Swedbank	+4.0
Unicredit	-5.8	SHB	+5.7
Intesa	-4.7	Bankinter	+6.9
Bottom 5 day Δ		Bottom YTD Δ	
Barclays	+4.4	BPM	+146.4
Caixabank	+3.6	Mediobanca	+87.4
RBS	+3.1	Intesa	+82.7
HSBC	+1.7	UBI	+73.4
Lloyds	+1.4	Unicredit	+73.2

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	112	0	-8	-2	-7
SB	84	0	-10	-2	0
SP	28	-1	-1	5	26
EUR 7-10 years Z Spread (bps)					
T2	163	-1	-15	-8	37
SB	101	0	-10	-1	3
SP	36	-1	1	7	4

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
USD 3-5 years Z Spread (bps)					
T2	159	-1	-8	-8	-20
SB	94	-1	-4	1	-16
SP	57	-1	-4	-3	-9
USD 7-10 years Z Spread (bps)					
T2	194	0	-9	-5	-21
SB	154	-1	-5	2	-16
SP	119	0	-4	-3	-11

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
Samurai (JPY) 3-5Y Z-Spread (bps)					
SB	43	0	1	1	2
SP	29	0	1	2	6
Samurai (JPY) 7-10Y Z Spread (bps)					
SB	72	0	2	2	3
SP	34	0	2	3	5
Nomura-BPI Samurai Index (bps)					
Index	54	0	0	0	2

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.

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