BANKING SECTOR REPORT – August 2020

EXECUTIVE SUMMARY

US banks went higher in August after relatively flat dynamics in three previous months following very volatile first four months of the year. But banks underperformed the broad market significantly again, the 4th month in a row and the 7th month of weaker dynamics over last 8. Thus, BKX index increased by 3% MoM in August vs +7% MoM of SPX index. Absolute performance on MoM basis was 0.3 std from the mean and it is in the top 36% of absolute MoM performance of BKX index. Relative August performance was negative, -3.8% MoM. It is -0.8 std from the mean and it is in the bottom 15% of relative MoM performance vs SPX index since 1992. It was by a wide margin the worst first eight months of the year on both absolute and especially relative basis in BKX index history.

Key outperformers in August were consumer finance companies as quality characteristics of consumer loans remains resilient while employment dynamics is encouraging. The best performer was SIVB, among the few growth stories in US banking sector, which focuses on Tech sector. NYCB was the key underperformer because of high CRE concentration, especially in NY, which fundamentals have deteriorated significantly.

Macro data published in August were neutral, from our point of view, but forecasts were slightly improved recently despite high-frequency data have started to point to recovery deceleration. Notwithstanding, it is faster than feared 1 quarter ago. But no additional fiscal support after the previous program ended creates new risks for further economic growth, even taking into account slowing spread of the virus in majority states in August. New Fed strategy which targets inflation that averages 2 percent over time implies, from our point of view, that key rates will remain near zero even longer than previously expected. However, estimates were revised slightly up. Thus, median growth of 3Q20 EPS of BKX index members was +1.4% MoM in August, after it increased by 7.5% during 2Q20 earnings season while EPS 20E added 1% MoM and EPS 21E was flat.

Due to significant decline of EPS estimates ytd, banks is no more trading with discount to CY estimates but they are still undervalued to NY estimates and vs S&P 500. Thus, banks are trading at +1.0/+0.9 std on P/E CY and -0.5/-0.3 on P/E NY (on the basis of samples from 2000 and 2010 years to current moment) relative to historical averages (as of August 28). As for relative to S&P 500, banks are currently trading at -2.1 std and -2.2 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading at -1.5 std from the sample mean (2010-current moment) vs SPX at +2.5 std. Despite stocks are still trading at significant discount to S&P 500 index, we remain cautious on US banks given unprecedented decline of US economy in 1H20, still high level of uncertainty about the speed of US economic recovery, mixed 2Q20 results and rising risk related to the elections. Absence of outperformance of US banks vs SPX index during recent rally despite relatively high beta indicates that investors still prefer not to get involved with banks. So, we also remain on the sidelines until we see first signs of fundamentals improvement. But we have already been more positive about the sector perspectives than we were 2-3 months ago.

EU banks markedly rose in August after significant decline in July. But their dynamics remains very weak. SX7P index ended 5 out of 8 months of 2020 in the red zone. On absolute basis, SX7P index went up by 4% MoM in August or +0.6 std from the mean and this result is in the top 26% of absolute monthly performance of SX7P since index inception. Relative monthly performance was +1.1% MoM or +0.4 std and it is in the top 31% of relative monthly performance. Despite weak relative dynamics in two previous years when SX7P index underperformed the broad market by 12.1% and 17.1% in 2018 and 2017, respectively, EU banks continue to lag broad market considerably. On ytd basis,

SX7P underperformed by 26.7% as the end of August.

Dynamics of European banks was relatively uniform with more than 80% of SX7P index members ended August in the green zone. The key driver of positive dynamics was earnings season. Notwithstanding, the best performer in August, Banco Sabadell, which added 17% MoM, had reported weaker figures but it still remained one of the worst performers ytd and its growth was caused by relief rally.

European banks reported markedly better figures in 2Q20 with positive EPS and revenue surprises for majority of SX7P index members even despite significant growth of provisions for the second consecutive quarter. Thus, 26 out of 32 banks from SX7P index for which estimates were available reported positive surprises on EPS. But earnings momentum continued to worsen with median decline of operating profit of more than 40% yoy for the second consecutive quarter. Revenue declined by 3.4% yoy driven by both NII and fees which were unexpectedly resilient in 1Q20. Decline was broad-based and it seems that negative dynamics will persist in 2H20. Unsurprisingly, market perception of the results was slightly negative. Thus, median 1-day performance of SX7P index members around the earnings date was -0.2%.

The key driver of negative NI dynamics was an explosive growth of provision expense, which will remain elevated in the nearest quarters given the depth of economic slowdown. So, median ROE of EU banks declined by 158 bps qoq or -335 bps yoy to 5.1%, the lowest figure since 4Q14. Due to positive EPS and revenue surprises as well as strong cost control, expectations stopped being revised down. Thus, median decline of FY2020 revenue estimates is 4.6% ytd but +0.9% qtd, implying decline of 13.6% yoy. As of FY2021 revenue estimates, median decline is 7% ytd but +0.7% qtd, implying growth of +0.7% yoy in 2021. Median EPS 2020 decline is -59.2% ytd but +1.6% qtd while median EPS 2021 decline is -44.7% ytd or +1.0% qtd.

Despite credit quality of European banks remained solid so far, provisions skyrocketed by 280% yoy in 2Q20 after growth of 196% yoy in 1Q20, the 5th consecutive quarter of yoy growth after 27 consecutive quarters of lower provisions. It wasn't surprising given meltdown of EU economy in 1H20, but forecasts were relatively flat in 3Q20. And it is hardly to expect that provisions will continue their skyrocketing growth if we don't see new lockdowns because of the second wave of the pandemic. Thus, median growth of provision expense estimates of BKX index members was 175% ytd but flat qtd and +74% ytd / +1.0% qtd for 2020 and 2021 years, respectively. In turn, median NPLs ratio increased by 4 bps qoq or just +13 bps yoy to 2.8% in 2Q20. So, coverage ratio increased by 2.4% qoq or +3.1% yoy in absolute terms to 61.7%, the highest level over more than 10 years.

Recovery of EU economy has decelerated recently despite surprisingly fast response by ECB and the governments in the form of significant both fiscal and monetary stimuli. So, economic projections were improved recently while 2Q20 earnings season was markedly better than feared. But better figures don't mean that results were strong. On the contrary, they were quite mediocre and we expect that fundamentals will remain relatively weak in the nearest 3-4 quarters. Notwithstanding, we believe that EU banks have already tested the bottom given current economic estimates. From the other hand, EU banks is no more trading with discount to historical averages while discount to US peers is much lower than usually. Thus, premium to historical averages is +4% (+0.2 std at the moment from mean P/E NY of SX7P index members, sample from 2010 to the present) but discount to US peers (on median P/E NY of BKX index vs SX7P index) is just 15.5% at the moment vs average since 2010 of 20.8%, out of synch with reality, from our point of view, given higher risks associated with EU banks which have not fully recovered from the previous crisis yet. So, we continue prefer US banks to EU ones at the moment.

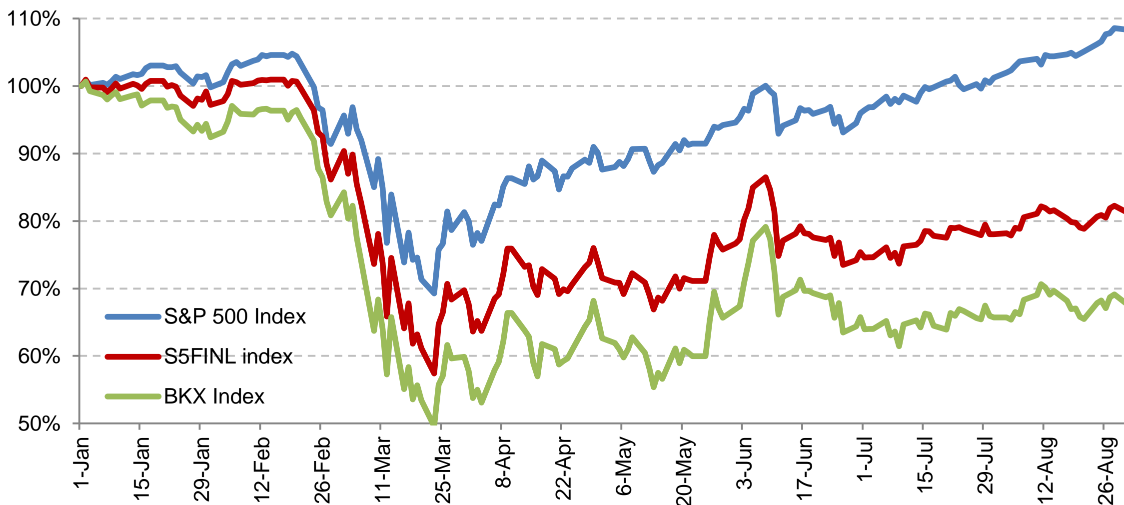
MARKET PERFORMANCE

US

US banks increased in August 2020 after relatively flat dynamics in three previous months following very volatile first four months of the year. But banks underperformed the broad market significantly again, the fourth month in a row and the seventh month of weaker dynamics over last 8. Thus, BKX index increased by 3% MoM in August vs +7% MoM of SPX index. Absolute performance on MoM basis was 0.3 std from the mean and it is in the top 36% of absolute MoM performance of BKX index. Relative August performance was negative, -3.8% MoM. It is -0.8 std from the mean and it is in the bottom 15% of relative MoM performance vs SPX index since 1992. It was by a wide margin the worst first eight months of the year on both absolute and especially relative basis in BKX index history.

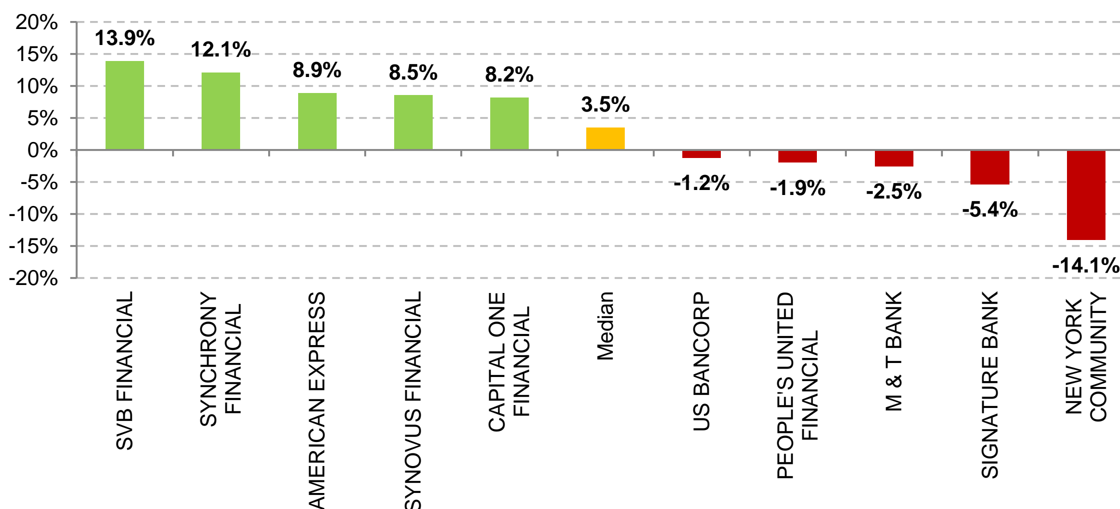
Key outperformers in August were consumer finance companies as quality characteristics of consumer loans remains resilient while employment dynamics is encouraging. The best performer was SIVB, among the few growth stories in US banking sector, which focuses on Tech sector. NYCB was the key underperformer because of high CRE concentration, especially in NY, which fundamentals have deteriorated significantly.

Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

Chart 2. August US Banks Performance. Leaders and Laggards, 1Month Price Change,%



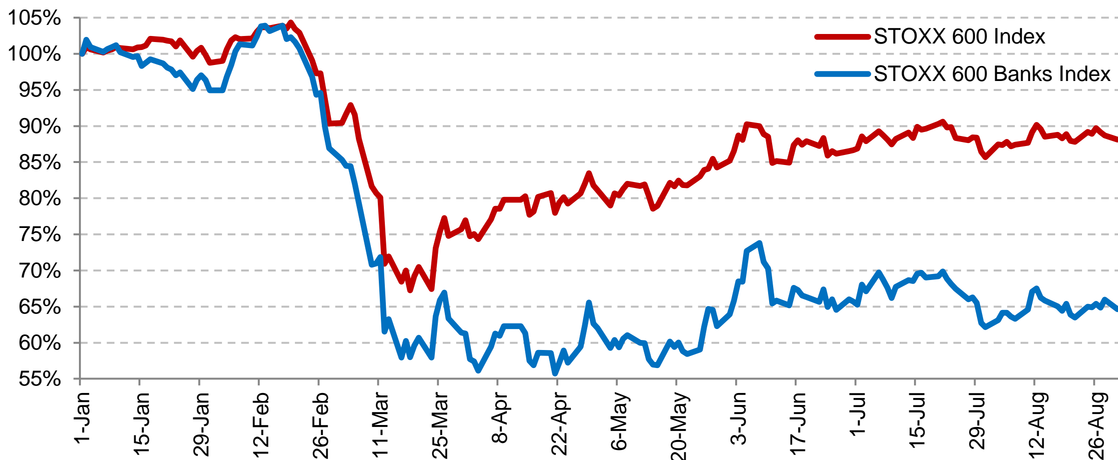
Source: Bloomberg

Europe

EU banks markedly increased in August 2020 after significant decline in July. But their dynamic remains very weak. SX7P index ended 5 out of 8 months of 2020 in the red zone. On absolute basis, SX7P index went up by 4% MoM in August or +0.6 std from the mean and this result is in the top 26% of absolute monthly performance of SX7P since index inception. Relative monthly performance was +1.1% MoM or +0.4 std and it is in the top 31% of relative monthly performance. Despite weak relative dynamics in two previous years when SX7P index underperformed the broad market by 12.1% and 17.1% in 2018 and 2017, respectively, EU banks continue to lag broad market considerably. On ytd basis, SX7P underperformed by 26.7% as the end of August.

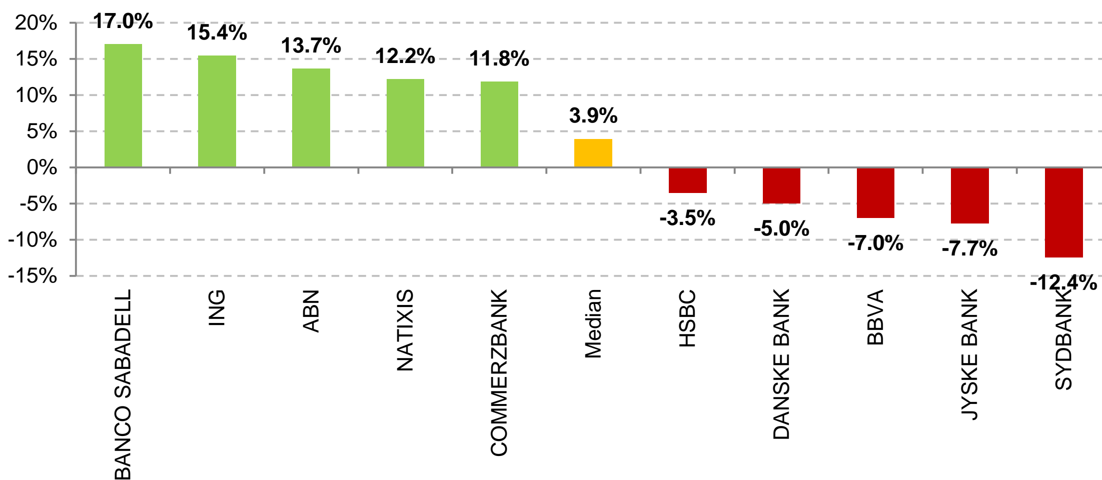
Dynamics of European banks was relatively uniform with more than 80% of SX7P index members in the green zone. The key driver of positive dynamics was earnings season. Notwithstanding, the best performer in August, Banco Sabadell, which added 17% MoM, had reported weaker figures but it still remained one of the worst performers ytd and its growth was caused by relief rally.

Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

Chart 4. August EU banks performance. Leaders and Laggards, 1Month Price Change,%



Source: Bloomberg

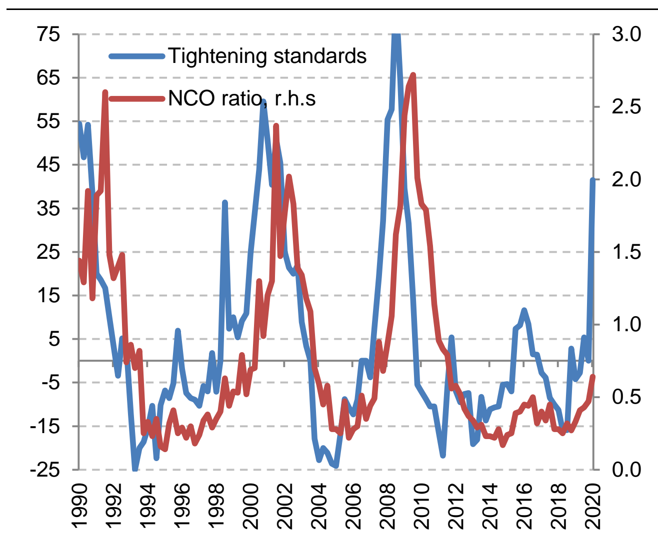
MACROECONOMIC NEWS

US

C&I loans

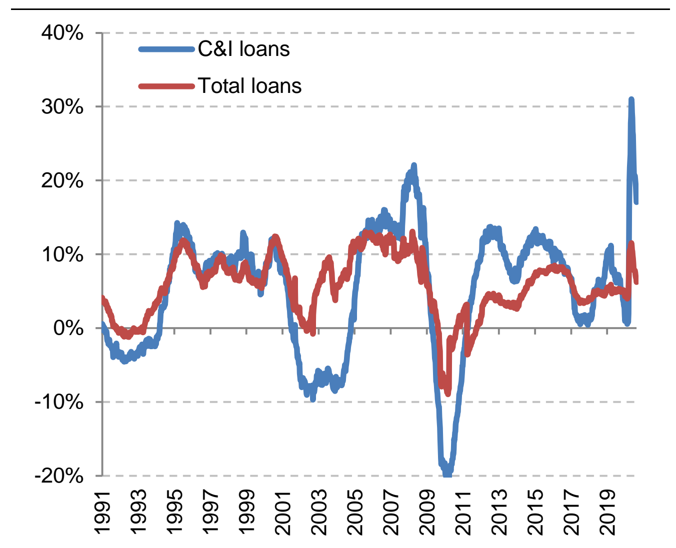
C&I loans growth accelerated to double-digit figures on yoy basis in March-May after anemic growth in the first two months of the year. But it has decelerated markedly from the peak as companies started to repay revolvers which had been taken out previously. C&I loans increased by $697 Bn since the end of February till the middle of May. But it decreased by $269 Bn for the next ten weeks. We expect that growth will continue to decelerate and C&I loans will inevitably go down in coming quarters given depth of economic slowdown, accompanied by significantly higher number of bankruptcies and tighter lending standards. According to the Fed H.8 survey, C&I loans increased by 18% yoy (as of August 12th) vs 7.2% yoy 1 year ago and +1.0% yoy as the end of 2019. On ytd basis, C&I loans skyrocketed by 19.0% vs +5.1% ytd of total loans, 86% of which was driven by C&I loans growth.

Chart 5. C&I. Loan Standards vs NCOs, %



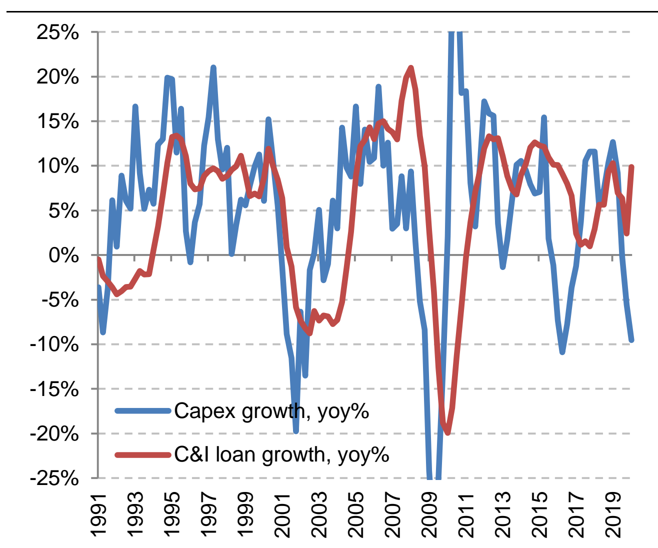
Source: Bloomberg

Chart 6. Loan Growth. C&I vs Total loans, YoY%



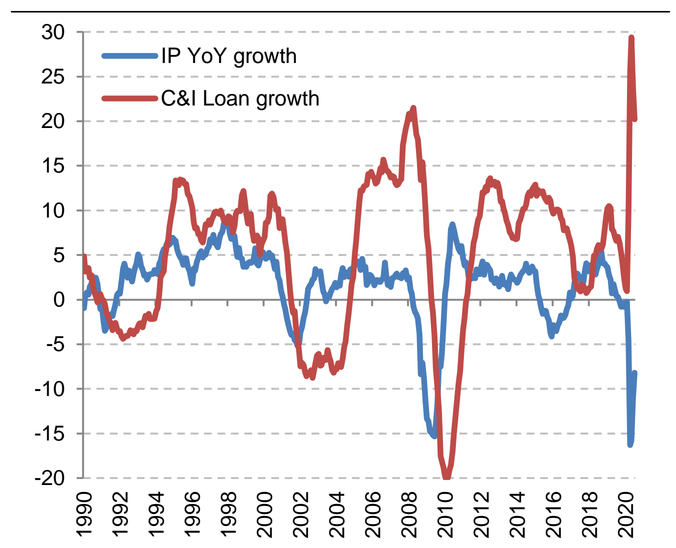
Source: Bloomberg

Chart 7. C&I. Loan Growth vs CAPEX



Source: Bloomberg

Chart 8. C&I. Ind. Production vs Loan Growth YoY%



Source: Bloomberg

Despite unprecedented support measures from both the Fed and the government, it will be difficult to avoid decline of C&I loans in coming quarters even taking into account banking forbearance programs and willingness to provide liquidity and restructure loans. We have already seen a wave of bankruptcies in the energy sector because of significant decline of oil prices while tourism, restaurants and nonfood retailers started to open just few weeks ago. So, we expect a wave of bankruptcies in these segments in the near future even despite US economy was slightly better than expected after reopening. In any case, we don't believe that it will be V-shaped recovery, taking into account the depth of decline in March-May 2020 and still elevated jobless claims, U-shaped at best. But it shouldn't be a big threat for banks given significantly higher capital levels, lower leverage and more cautious approach to borrowers during the cycle while non-bank lenders may be hit hard.

Despite concerns about deterioration of C&I credit quality over the recent quarters (and total loan portfolio at all), it remains benign so far but it was deteriorated noticeably in 2Q20, especially for a number of banks. WFC's C&I NCO ratio increased by 35 bps yoy to 0.53% while RF's one increased by 70 bps yoy to 1.06%. For other banks, deterioration was less significant. As of industry-average figures (latest available data), according to FDIC data, 30-89 delinquency rate even decreased by 1 bps yoy, or -7 bps qoq, to 0.27% in 2Q20. Being a leading indicator of asset quality, it confirms that it remains in a good shape so far despite recent recession in US economy. FDIC's NCO ratio increased by 17 bps qoq, or +31 bps yoy, to 0.64%, still lower than average figures of the last two cycles. Noncurrent rate increased by 18 bps qoq and +21 bps yoy to 1.01%. According to the Fed data, delinquency ratio increased by 14 bps qoq, or +21 bps yoy, to 1.27%, the highest figure over last 11 quarters. In turn, NCO ratio increased by 7 bps qoq, or +29 bps yoy, to 0.62%, the highest figure since 4Q11.

So far, financial health of US corporate sector was solid even despite relatively high leverage. Thus, ROA was high, quick ratios were solid while interest expense coverage was strong but deteriorated as total profit of the sector was flat in recent quarters. Situation changed considerably in March 2020 and it continued to deteriorate in April and May. But since then it improved meaningfully and it was better than feared, from our point of view. Given high leverage of US corporate sector and inevitable decline of revenues because of imminent recession in the USA, accompanied by skyrocketing growth of corporate spreads, especially for non-investment grade companies (but spreads have already declined markedly from the recent highs), we saw significant drop of interest coverage ratios in 2Q20 even despite the fed funds rate was cut to zero. Moreover, interest coverage ratios have already declined to levels last seen in 3Q09. The Fed acted quickly and it implemented an unprecedented set of measures to ease the negative impact of the perfect storm of financial markets on the economy. But it will just slow down somewhat growth of NPLs and NCOs but don't prevent it. The magnitude of the problem will depend on how long the recession last (it seems that just 2 quarters and it has already ended). And the key risk for corporate credit quality during recession comes from leveraged loans and its spillover effects on the economy as it grew rapidly during the cycle. Currently, corporate debt as a percent of GDP is higher than it was before the Great Recession while the share of covenant-lite leveraged loans issuance remained very high in recent years.

July 2020 Senior Loan Officer Opinion Survey indicated that C&I lending standards and terms were tightened for firms of all sizes again. Thus, net percent of domestic respondents tightening standards for C&I loans isn't far from the peak of GFC, -71% in 2Q20 vs -84% in 3Q08, implying further deterioration of credit quality and loan growth deceleration in 2H20. Tightening was broad based across all major loan terms. Unsurprisingly, the key reasons for tightening are a less favourable and more uncertain economic outlook worsening of industry-specific problems, and reduced tolerance for risk. Banks also reported a weaker demand in 2Q20. It was expected given significant growth of C&I loans in 1Q20 as a result

of cash and liquidity needs. Also, banks noted a decline of inquiries from potential borrowers in 2Q20. The key drivers of weaker demand were lower needs for inventory and receivables financing as well as lower investment needs in plant or equipment.

Macro data published in August 2020 were better than expected after very strong figures in June and July. And it seems that the pace of economic recovery will continue to slow down in coming months. But we believe that the worst is behind us. The start of the economy after reopening was markedly better that it was feared but majority of forecasts remain weak while acceleration of the pandemic in a number of states in June/July combined with November elections add uncertainty to a pace of the recovery in future. So, we still don't believe that economy will return to pre-COVID levels sooner than in 2022, even despite stock indices have already returned above the pre-COVID levels. At least, 2Q20 GDP decline was the weakest in history. But forecasts have improved recently due to more optimistic macro data as well as economic surprise indices, which skyrocketed in three recent months from multi-year lows in April. ISM manufacturing index increased by 1.6 pts MoM to 54.2 pts in July, slightly beating consensus of 53.6 pts. It was the highest reading over more than 1 year. All subcomponents of the index increased significantly and majority of them are again higher than 50 pts. Notwithstanding, employment component is still markedly below 50 pts while supply chains are far from normal work. In turn, employment report was again much better than expected but manufacturing payrolls missed expectations one more time while jobless claims remained elevated. So, GDP growth rates for the nearest 3 years improved insignificantly during the month of August. Thus, according to Bloomberg survey conducted in August 2020, expected GDP growth rates were -5.1%/3.6%/2.8% yoy for 2020/2021/2022, respectively vs -5.5%/3.9%/2.7% yoy in July. The most pessimistic forecasts for GDP 2020 imply that yoy decline could exceed 9%. Manufacturing payrolls increased just by 26K in July vs consensus of +255K, after it went up by 357K in June. Total payrolls skyrocketed by 1.8 mln in July vs consensus of +1.5 mln, after growth of 4.8 mln in June. So, unemployment rate declined by 0.9 p.p. MoM to still elevated 10.2%. Industrial production skyrocketed by 3.0% MoM in July, in-line with expectations, after growth by 5.7% MoM in June. But it is still -8.2% yoy as a result of meltdown in 2Q20. So, capacity utilization increased by 2.1% MoM in absolute terms to 70.6%, from revised up June number. But it still remains more than 8% below pre-COVID levels. In turn, Empire manufacturing index tumbled in July by 13.5 pts MoM to just 3.7 pts after several consecutive months of skyrocketing growth. Preliminary Markit manufacturing PMI increased by 2.5 pts MoM to 53.6 pts in August, being 17 pts higher than 2020 low and even by 1.3 bps higher than average level of 2019. But consensus IP growth forecasts were almost flat in August relative to July after significant decline in 2Q20 and equal to -8.2%/+3.8%/+2.8% yoy for 2020/2021/2022 in August, respectively, in comparison with -8.3%/+3.7%/+2.6% in July.

CRE

Growth rate of commercial real estate loans still remains pretty resilient despite significant negative effect of the lockdown on some CRE subsegments, such as retail and hotels. On yoy basis, it even accelerated vs 1 year ago and end-2019 levels. Thus, according to the last Fed H8 weekly report, CRE loan growth was +6.5% yoy (as of August, 12) vs +4.4% yoy 1 year ago. But recent uptick is temporary, from our point of view, given severe recession in 1H20 and imminent deterioration of fundamental characteristics of the sector which were relatively healthy so far. But we have already seen significant deterioration of some fundamentals in recent months. At least, transaction volumes decreased by unprecedented rate across all major segments except for industrials while prices began to decline. From the other hand, 2Q20 rent collection was better than expected, especially for retail segment, where majority of properties were closed or were operating in a limited functionality mode. Notwithstanding, forecasts continue to be revised down with lower rent,

higher vacancy rates, negative absorption and declining prices. As a consequence, loan growth will inevitably turn negative while NCO and NPL ratios will go up in the coming quarters. However, 2Q20 earnings season was relatively solid given the conditions in which the sector worked during the quarter. Unsurprisingly, REITs quotes remain pretty resilient in recent months after collapse in March. Thus, BBREIT index decreased by 12.2% ytd but it was flat MoM in August vs +8.3% ytd of SPX index.

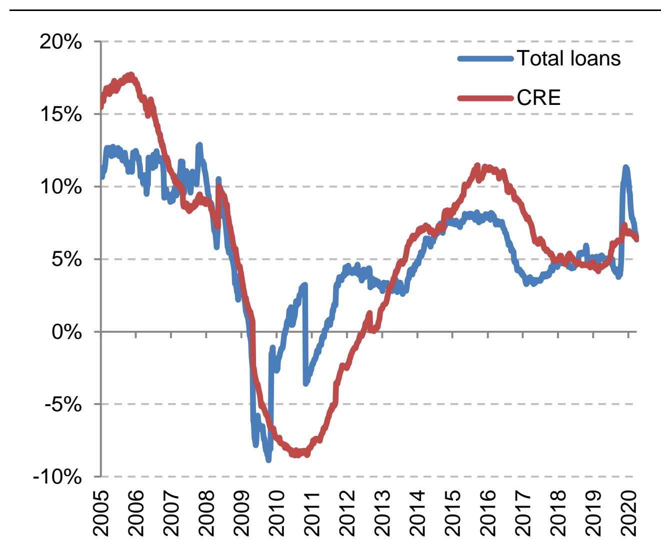
Credit quality remains strong so far but early signs of deterioration have already been seen in recent months. Obviously, CRE's credit quality will continue worsen in coming quarters. According to the Fed data, CRE NCO ratio was almost flat on yoy basis at just 0.06% in 2Q20 while delinquency ratio increased by 9 bps qoq or +25 bps yoy to 0.92%. According to FDIC data, NCO ratio for all CRE subsegments (construction, multifamily, commercial mortgage) remains stable, near 0% during the whole last year. The most significant growth was demonstrated by commercial mortgage NCO which increased by 7 bps yoy to 0.1% in 2Q20. In turn, non-current rates increased markedly in all major segments in 2Q20. Thus, commercial mortgage noncurrent ratio was 0.78%, +22 bps yoy; construction one was 0.55%, +11 bps yoy; multifamily noncurrent ratio was 0.19%, +6 bps yoy. As for leading indicator of future credit quality, 30-89 days delinquency ratio improved slightly in 2Q20 vs 1Q20 and it still remains not far from multi-year lows. The figure of commercial mortgage decreased by 7 bps qoq to 0.3%; in construction it was -14 bps qoq to 0.41%; in multifamily it was -4 bps qoq at 0.16%. In any case, NCO ratio highs booked in domestic offices were very different during three last recessions. According to Federal Reserve data, GFC's high was 2.82%, comparable to recession of early 1990s figure of 2.44%, but significantly higher that just 0.15% of recession of early 2000s. And we don't expect that the highest level of NCO ratio during the current cycle will reach the high of GFC even despite significant problems in retail and hotel segments (according to REIS forecasts, deterioration in retail in 2020 will be worse than 2009 one) due to shorter period of current downturn and much tighter lending standards during the last credit cycle. Moreover, the percent of rent collections still remains very high in majority segments. Price growth has remained positive on yoy basis so far but it decelerated markedly in recent months. Price index remained flat in last 10 months. But we expect that prices will be negative on yoy basis in coming quarters, especially in the most affected segments, such as retail/hotels and possibly in apartments. Notwithstanding, CRE price index remained near its all-time high in July (more than 30% higher than peak of the previous cycle), but adding just +1.5% yoy as the end of July 2020 vs +6.9% 1 year ago and +6.6% yoy as the end of 2019, the lowest growth rate since 1Q11.

Transaction volumes tumbled significantly both MoM and yoy in 2Q20 with few deals in majority of subsegments as market participants prefer to stay on the sidelines and preserve liquidity given high level of uncertainty. But volumes could increase somewhat in the nearest months given faster than feared recovery. According to RCA, "illiquidity continued to plague the U.S. commercial real estate market in July, with volume across the property types falling at high double-digit rates, the latest edition of US Capital Trends shows. Total U.S. sales activity fell 69% versus July 2019, the fourth month in a row that the Covid-19 crisis has scuttled dealmaking. However, the monthly sales level is still trending above the lows set in 2009 during the Global Financial Crisis". Prices remained resilient so far despite significant decline of transactions number. Thus, apartment price index added +6.9% yoy as the end of July, slight deceleration from growth rate in the middle of 2019. In turn, price index of retail CRE turned negative in May and it is currently -2.8% yoy vs +2.7% yoy 1 year ago. Growth of prices of industrial CRE decelerated to +8.3% yoy from +12.1% yoy in July 2019. Growth rate of office prices decelerated to -0.7% yoy from +2.7% yoy as of July 2019 as a result of remote work because of the pandemic. So, CRE all-property index was already -0.3% on ytd basis.

Solid but decelerating growth of US economy and rising employment supported CRE fundamentals till the early 2020, especially in office segment where we have seen growth of both same-store NOI and occupancy rates at the end of 2019. But the situation has changed dramatically in recent months with skyrocketed growth of unemployment, closed malls and stores, social distancing and home working. All this suggests difficult times for the sector in the near future, accompanied by lower occupancy rates, lower rents and so on. So, fundamentals deteriorated meaningfully in 2Q20 in all major segments. Thus, retail same-store NOI tumbled by more than 20% yoy as a result of low rent collections. The lowest figure of GFC was just -1.7% yoy in 2Q09. Office NOI declined by 0.82% yoy in 2Q20 vs +5.97% yoy in 1Q20 and the lowest growth during GFC of -3.2% yoy in 2Q10. Apartments NOI decreased by 3.8% yoy in 2Q20 vs +3.6% in 1Q20 and the lowest growth rate during GFC of -6.0% in 4Q09. Occupancy rates also decline substantially across all major segments except for industrials in 2Q20 and we expect that they will continue decline in coming quarters. Some REITs (with high leverage) have already announced suspension of dividends because of liquidity concerns while a number of them didn't pay the principal and percentages on their loans since April and tried to renegotiate loan terms. Of course, it currently applies to the most levered companies in the segment but it may spread to the other companies in the industry over time and it is quite probable that we won't see normalization of the situation in the coming months, accompanied by significant deterioration of key CRE fundamentals, lower credit quality and negative loan growth. Even if there are no lockdowns because of second wave or vaccine becomes available relatively soon and it will be very effective, effects of pandemic will negatively impact on CRE/REITs for a long time.

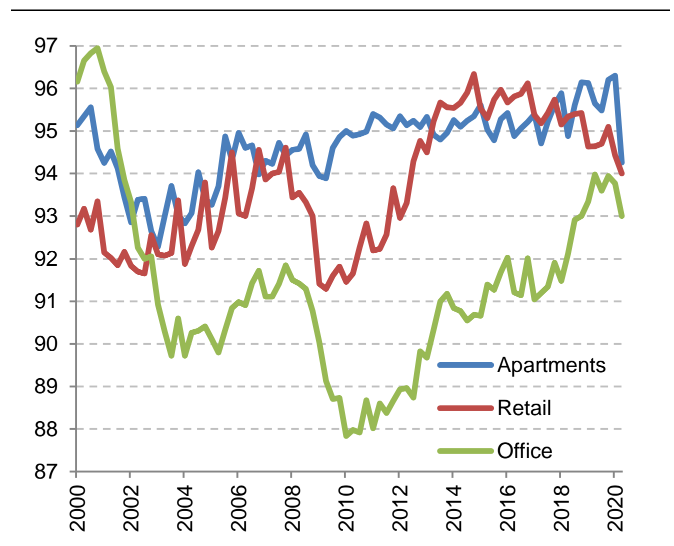
In 2Q20, banks continue to tighten standards for CRE loans. Standards were tightened for all three major CRE loan categories. For construction loans it was the 21th quarter of tightening in a row while for multifamily loans standards were tightened by significant net fraction of banks for the second consecutive quarter after flat standards in 4Q19 following 17 consecutive quarters of tighter standards. Also banks noted weaker demand for all three major loan categories of CRE. "Major net fractions of domestic and foreign banks reported that the current levels of their standards for all major categories of these loans are at the relatively tighter ends of the ranges that have prevailed since 2005 on balance".

Chart 9. Loan Growth. CRE vs Total Loans, YoY, %



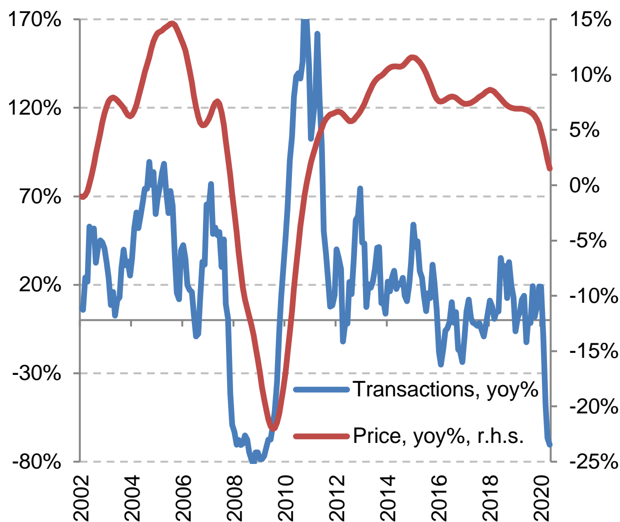
Source: Bloomberg

Chart 10. CRE. Occupancy rates, %



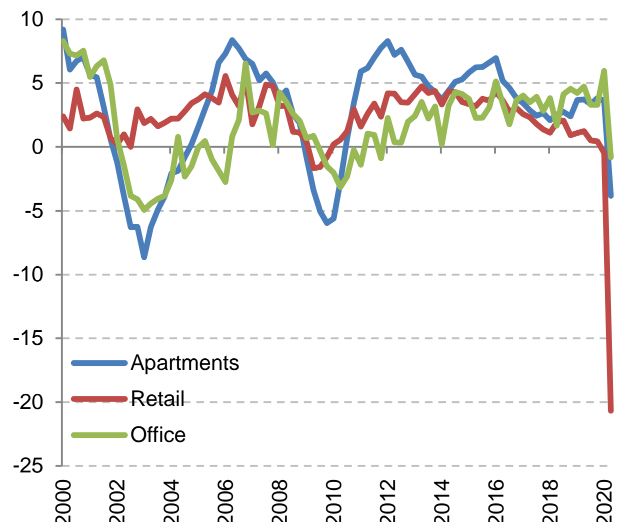
Source: Bloomberg

Chart 11. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

Chart 12. CRE. Same-Store NOI Growth, %



Source: Bloomberg

Mortgage

The growth rate of mortgage loans decelerated slightly in recent months vs the end of 2019, given significant deterioration of economic situation. And it remains relatively flat ytd as a consequence of the fact that a number of banks have already announced tighter lending standards for mortgage loans because of significant deterioration of financial health of US consumer. Thus, mortgage loans increased by 3.4% yoy (as of August, 12) vs +4.5% yoy 1 year ago and +5.3% yoy as the end of 2019. Credit availability index by MBA slightly increased in July (the first growth in 8 months), +1.9 pts MoM to 126.9 pts, still near the lowest level over more than 5 years, as a result of tightening lending standards. Also, affordability ratios have already declined meaningfully from the cycle high but it should increase in the near future because of substantial decline of key benchmark rates. However, even current level of affordability ratios isn't low from the historical averages point of view, as well as household debt burden isn't either. But banks prefer to remain on the sidelines (at least for new mortgage borrowers) given significant growth of unemployment ratio in the recent months and as a consequence forthcoming growth of problem loans. We don't expect that NPL and NCO ratios will even approach the values that we saw with in the last crisis (2.72% for NCO ratio and 10.5% for delinquency ratio) due to more cautious approach of US banks to the mortgage lending during all the recent cycle and stronger financial health of US Consumer now vs 2007-2008 years. Housing market also looks significantly healthier with no obvious imbalances as it was just before the last recession when it was a key engine of economic contraction. We expect that this time NCO ratio dynamics will be more like during recession of early 2000s with the highest figure of 0.3%. But percent of rent payments slightly deteriorated in August. According to the National Multifamily Housing Council Rent Payment Tracker, 90% of apartment households made a full or partial rent payment by August, 20 vs 91.3% in July 2020 and 92.1% in August 2019.

US economy created 1.8 mln payrolls in July vs expectations of 1.5 mln after +4.8 mln payrolls in June (in-line with initial estimate). It was created more than 9 mln payrolls in the last three months but employment still remains very far from pre-COVID levels as it was lost more than 22 mln payrolls in the months of March and April. Moreover, acceleration of employment growth in coming months remains questionable given reacceleration of the pandemic in a number of states, still elevated jobless claims and some deceleration of economic recovery path in recent weeks. Jobless claims decreased substantially from March extremes but they still remain meaningfully higher than they were in the beginning of

2020. Average figure of 1.04 mln in August (first two weeks) was 20% lower than average level of July but still almost fivefold higher than January-February levels. So, median forecast of average monthly payrolls for 2020-2022 years were revised materially up again in August, to -700K/300K/222K for 2020/2021/2022 years, respectively, from -765K/265K/200K in July and it seems that the worst is behind us. Unemployment rate declined by 0.9 p.p. MoM to 10.2%, markedly better than consensus estimate of 10.6% but it is still slightly higher than the peak of GFC. Moreover, underemployment rate is still at relatively high level. It declined by 1.5 p.p. MoM to 16.5% in July. Unsurprisingly, unemployment projections were revised down in August but not significantly to 9.0%/7.4%/5.9% for 2020/2021/2022 years, respectively, from July estimates of 9.1%/7.6%/6.0% with the most pessimistic estimates for the end of 2020 at 10.5% (it looks hardly probable at the moment). Despite significant growth of unemployment in 2Q20, it seems that negative impact of this factor on quality of mortgage portfolio could be limited, at least near term, due to forbearance programs and positive impact of CARES act. But further dynamics of quality characteristics will depend on how quickly economy will recover. Thus, according to MBA, "the total number of loans now in forbearance decreased by 1 basis point from 7.21% of servicers' portfolio volume in the prior week to 7.20% as of August 16, 2020. 3.6 million homeowners are in forbearance plans", slightly down from 3.9 mln 1 month ago. The key driver of decline of loans in forbearance is return of homeowners to work.

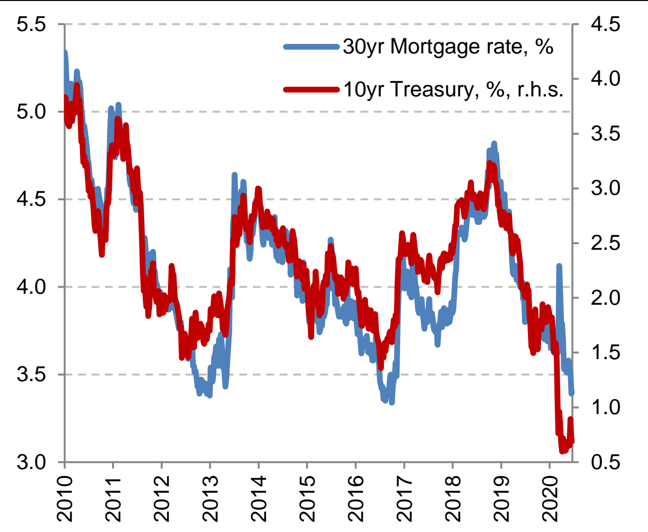
Mortgage credit quality was very strong so far. According to the Fed data, NCO ratio in the segment increased by 3 bps yoy to 0.0% in 2Q20 while delinquency ratio decreased by 7 bps yoy but +12 bps qoq to 2.49%, still near the lowest figure over 12 years. According to FDIC, the quality of mortgage portfolio remains also very strong with NCO ratio at -0.003% in 2Q20, +2.6 bps yoy. 30-89 days delinquency ratio decreased by 11 bps yoy to 0.79%. In turn, noncurrent ratio increased markedly by +21 bps yoy to 2.07% in 2Q20, +31 bps qoq. MBA's mortgage delinquencies skyrocketed by 386 bps qoq to 8.22%, the highest level since 2Q11. It was the biggest quarterly increase on a record of MBA's survey. In turn, foreclosures declined again, -5 bps qoq or -22 bps yoy to 0.69%, the lowest figure over more than 35 years. According to NY Fed, "about 0.5% of current mortgage balances became delinquent in 2020Q2, as many borrowers enrolled in forbearance programs and about 24,000 individuals had a new foreclosure notation added to their credit reports between April 1 and June 30. This is by far the lowest level we have seen since the beginning of our series in 1999". One of the key reasons that credit quality still remains very strong is that skyrocketing growth of unemployment mainly affected renters not owners. But we expect that quality of mortgage loans will remain very strong vs GFC's average figures of NCO and delinquency ratios as underwriting standards were much stronger during the last credit cycle.

Lending standards for most mortgage segments were tightened again in 2Q20, for the second consecutive quarter after five quarters in a row of relatively flat standards. In 4Q19 SLOOS, banks noted that they weren't going to tighten standards in mortgage segment but the situation deteriorated very quickly and the net percentage of domestic respondents tightening standards isn't far from the highs of GFC. It is unsurprisingly given unprecedented levels of unemployment and still elevated jobless claims. According to NY Fed 2Q20 report on HH debt and credit, "origination credit scores for mortgages increased notably in the second quarter of 2020. The median credit score of newly originating borrowers increased in the first quarter for mortgages, to 784, up 11 points from the previous quarter and 25 points from a year ago. The median credit score on newly originated auto loans declined, from 718 to 707".

Mortgage demand strengthened for five recent quarters after several quarters in a row of weaker demand. Banks noted that weaker demand was demonstrated only in home equity

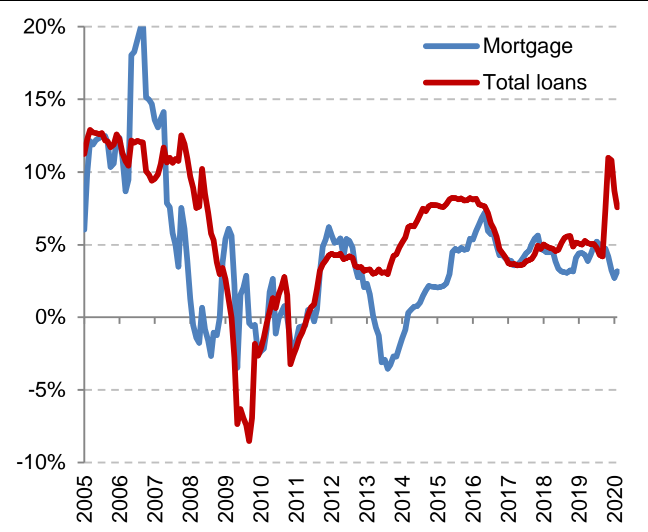
segment. But mortgage demand will inevitably be weaker in coming quarters as a result of the pandemic and consequences of the economic crisis. Despite recent uptick of employment and relatively solid dynamics of the economy after reopening, unemployment rate remains elevated.

Chart 13. Mortgage. 30yr Fixed Mrtg vs 10yr Tr yield, %



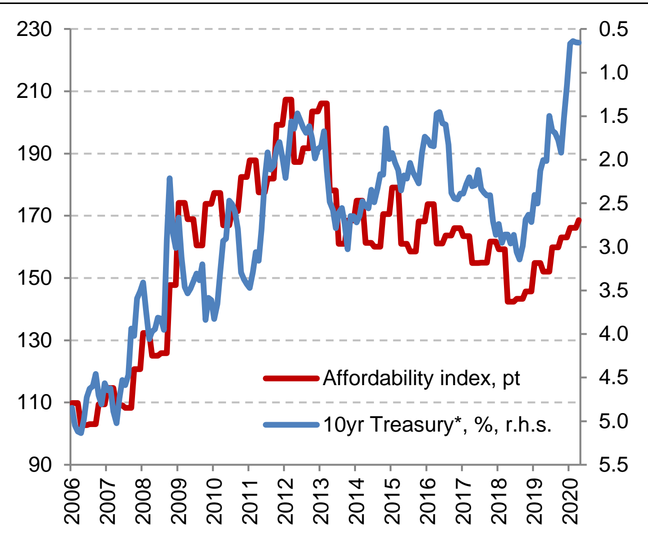
Source: Bloomberg

Chart 14. Loan Growth. Mrtg vs Total Loans, YoY, %



Source: Bloomberg

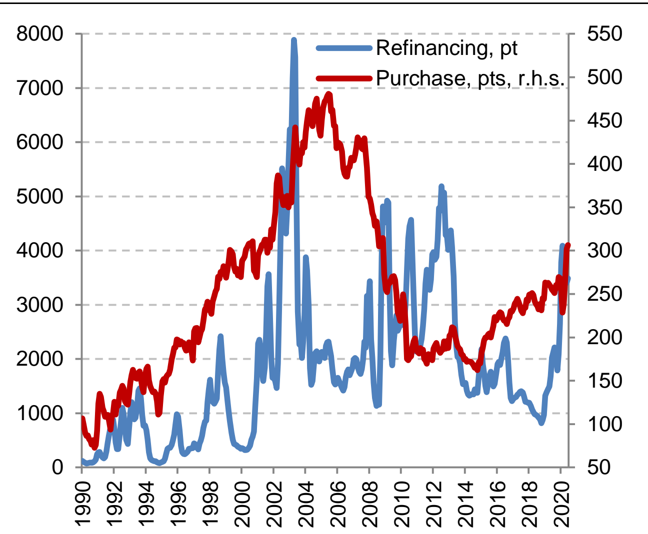
Chart 15. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 16. Mortgage. MBA Applications Indexes



Source: Bloomberg

Mortgage rates continued to be near their all-time low in August, after five consecutive months of decline, even despite key benchmark rates increased meaningfully within the month after being relatively flat since April. The key reason is spreads narrowing as a result of normalizing economic situation. Thus, 10yr treasury yield skyrocketed by 18 bps MoM to 0.7% after being relatively flat over several months. 30yr fixed rate mortgage (national average, Bankrate.com) increased by 4 bps MoM to 3.13% as the end of August. So, 30-yr mortgage rate (effective rate, MBA) decreased by 3 bps MoM to 3.22% (as of August 21), remaining near all-time low.

Housing market indicators published in August 2020 were better than expected after relatively in-line figures in July. Despite majority of indicators is substantially lower ytd, recent figures are encouraging, from our point of view. Unsurprisingly, NAHB index increased by 6 pts MoM to 78 pts in August, markedly beating consensus of 74 pts,

pointing to high optimism of homebuilders. In turn, construction spending decreased by 0.7% MoM in June, markedly missing consensus of +1.0% MoM. Notwithstanding, mortgage origination forecasts remain pretty resilient in recent months even despite sharp decline of US economy in 2Q20. Thus, according to Fannie Mae's August housing forecast, total 2020 mortgage originations increased by 8.5% MoM for 2020 year and by 5.7% MoM for 2021 year. Currently, it is expected that total originations will increase by 38.3% yoy in 2020, but it will decrease by 27.3% yoy in 2021. The key drivers of applications will be refinancing originations. According to MBA's forecast published in August, total mortgage originations will increase by 37% yoy in 2020 (+6% vs July forecast) driven by refinancing needs which are estimated to increase by 82.7% yoy in 2020 but total originations will decrease by 29.2% yoy in 2021 (flat MoM vs July forecast). The key driver of refinancing originations remains significant decline of mortgage rates.

Housing starts were 1496K in July vs expectations of 1245K, +276K MoM from revised up June figure (initially it was 1186K), still lower than pre-COVID levels. Building permits also beat estimates, 1495K vs consensus of 1326K. Existing home sales skyrocketed by 24.7% MoM to 5.86 mln vs expectations of 5.41 mln, the second consecutive month of an explosive growth. So, it is even higher now than pre-COVID levels, the highest figure since the end of 2006. New home sales also skyrocketed by 13.9% MoM to 901K in July, significantly beating consensus of 790K. The second consecutive month of very rapid growth and markedly better than consensus figures. New home sales have already surpassed pre-pandemic levels and it was also the best figure since the end of 2006. Meanwhile, housing prices increased significantly in June as a result of demand growth. Thus, FHFA house price index skyrocketed by 0.9% MoM in June vs consensus of +0.3% MoM and May figure of -0.2% MoM (revised down up initial estimate of -0.3% MoM). In turn, S&P CoreLogic home price index for 20 cities was flat MoM in June vs consensus of +0.1% after decline of -0.03% MoM in May (revised down from initial estimate of +0.04% MoM). On yoy basis, it was just +3.46% and it is not far from the lowest level since the end of 2012, significant deceleration from price growth of early 2018 of 6.7% yoy.

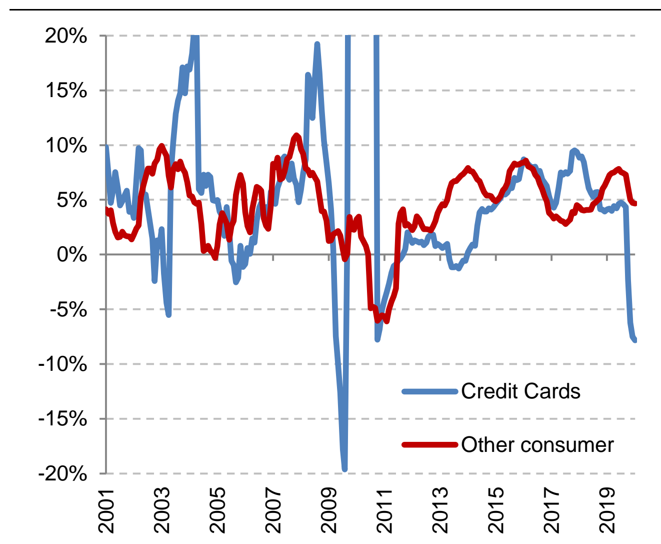
Consumer

Consumer loans growth decelerated significantly in April and May but stabilized in summer months. According to Fed H8 data, growth rate of consumer loans even turned negative in early May and it is currently -2.7% yoy (through August, 12th) vs +5.6% 1 year ago and +6.2% yoy as the end of 2019, the lowest growth rate since the end of 2011. On ytd basis, it already declined by 4.7%, driven by credit cards. Thus, CC growth rate was -8.9% yoy (as of August 12th) vs +5.0% yoy as the end of 2019. On ytd basis, CC loans decreased by 10.6% as credit cards limits were markedly cut because of rapid deterioration of US economy. Net change of consumer credit in June was +$8.9 Bn, slightly missing consensus of +$10 Bn, after decline by $14.4 Bn in May and by $70.2 Bn in April. Other segments of consumer credit also decelerated significantly, adding just 4.3% yoy (as of August 12th) vs 7.6% yoy as the end of 2019, just +1.9% ytd. According to 1Q20 HH debt and credit survey by NY Fed (latest available), "aggregate household debt balances declined by $34 billion in the second quarter of 2020, a 0.2% drop, and now stand at $14.27 trillion. The drop was the first decline since the second quarter of 2014 and the largest decline since the second quarter of 2013. Balances are $1.59 trillion higher, in nominal terms, than the previous peak (2008Q3) of $12.68 trillion and 27.9% above the 2013Q2 trough".

We didn't expect marked deterioration of the quality of consumer loans (only return to historic averages) until the recent times but the situation changed dramatically in 2Q20. Thus, GDP forecasts for the nearest years were revised down markedly in 2Q20 but improved in July and August. According to Bloomberg estimates compiled in August, the most pessimistic GDP growth forecast supposes a decline of around 12% yoy for 2020 US

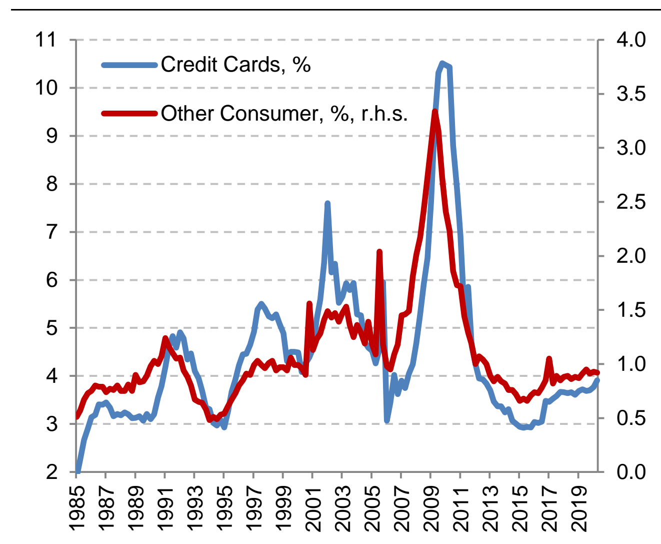
GDP while mean figure is -5.1% yoy. As of unemployment, it is estimated to be as high as 9% as the end of 2020 and it was 13% as the end of 2Q20. So, it is undoubtedly that quality characteristics of consumer portfolio will worsen significantly in 2H20/2021 even despite DSR and FOR of median HH is still markedly lower than historical averages. However, the figures of low-income consumer, which is usually suffer the most during recession, is already at or higher than pre-financial crisis levels. The key drivers of still pretty resilient quality characteristics of consumer loans portfolio are forbearance programs and state aid which, however, has ended, and the new one has not yet been approved. Even despite to the fact that quality characteristics of consumer loan portfolio were resilient in 1Q20 and 2Q20, banks continue to build reserves, especially in credit card segment. But we still don't expect that highs of the previous crisis (NCO ratio for credit cards of 10.5% and for other consumer loans of 3.3%) will be reached in the coming recession due to forbearance programs, faster than feared recovery and the fact that financial health of US Consumer is much stronger today than it was that time. But, of course, it will depend on the further speed of economic recovery and whether there will be the second wave of the pandemic.

Chart 17. Consumer. Loan Growth Rates, YoY, %



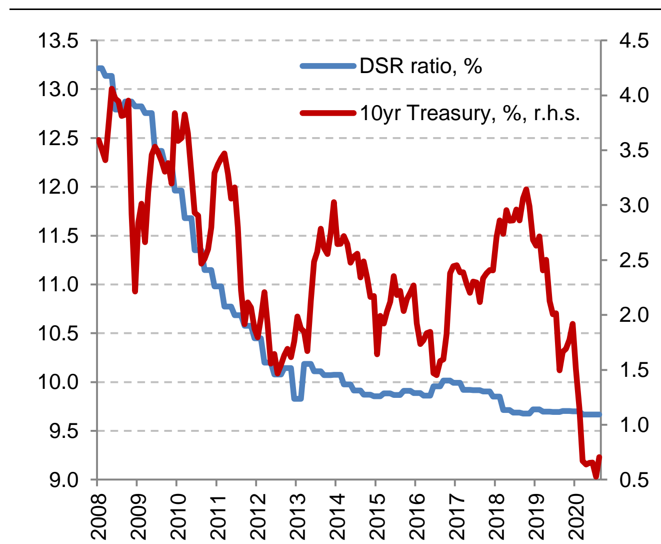
Source: Bloomberg

Chart 18. Consumer. NCOs Ratios, %



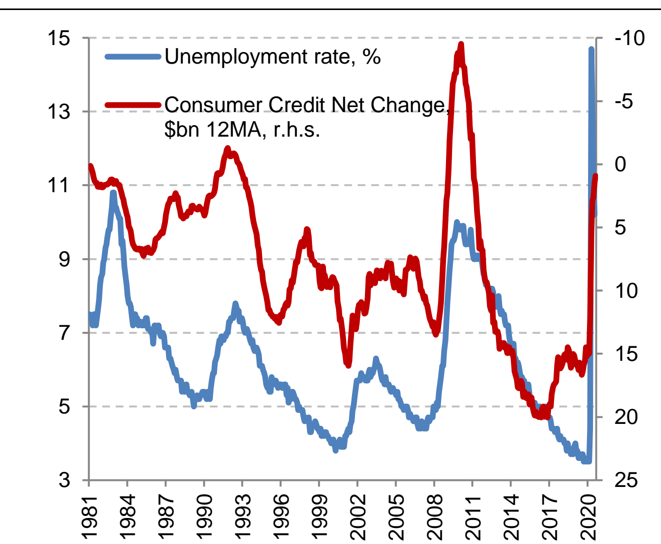
Source: Bloomberg

Chart 19. Debt Service Ratio vs 10yr Treasury Yield, %



Source: Bloomberg

Chart 20. Unemployment vs Net Change of Cons Credit



Source: Bloomberg

According to the Fed data, total consumer NCO ratio was flat qoq and just +2 bps yoy at 2.31% in 2Q20. NCO ratio in CC segment increased by +19 bps yoy to 3.91% while NCO

ratio of other consumer loans increased just by 1 bps yoy to 0.92%. In turn, delinquency ratio decreased by 35 bps yoy to 1.98%, driven by other consumer loans which delinquency ratio decreased by 47 bps yoy to 1.65%. According to FDIC, credit cards NCO ratio decreased by 3 bps yoy to 4% in 2Q20; in other consumer loans NCO ratio was flat yoy at 0.82%; Auto NCO ratio also increased by 10 bps yoy to 0.71%. 30-89 delinquency ratios (leading indicator of credit quality deterioration) decreased markedly in 2Q20: 1% (-28 bps yoy) in credit cards, 1.03% (-43 bps yoy) in other consumer loans and 1.32% (-66 bps yoy) in Auto. Number of bankruptcy filings decreased meaningfully in 2Q20, 136K vs 189K in 1Q20, historical low as the courts remained closed in many states because of the pandemic. According to NY Fed, "as of June 30, 3.6% of outstanding debt was in some stage of delinquency, a 1.0 percentage point decrease from the fourth quarter of 2019. Of the $512 billion of debt that is delinquent, $372 billion is seriously delinquent".

July 2020 SLOOS survey indicated that "major net shares of banks tightened lending standards on all categories of consumer loans. Major net fractions of banks also tightened important terms on credit card loans, including credit limits and minimum credit scores required. In contrast, a modest net share of banks reportedly reduced the minimum percent of outstanding balances required to be repaid each month. Meanwhile, significant net shares of banks tightened most surveyed terms on auto loans". Moreover, the net percentage of banks tightening standards is near the high of GFC. As of demand, banks noted that demand was weaker across all three major categories of consumer credit. Unsurprisingly, given the rate of economic deterioration. According to NY Fed, "the median credit score on newly originated auto loans declined, from 718 to 707".

Consumer activity data published in August of 2020 were markedly worse than expected as it was in July. Both indicators are still markedly lower on ytd basis and it seems that they could go even lower in coming months given recent high frequency data, growth of COVID-19 cases in summer months and still no extension of CARES actor a new state aid program (it wasn't signed in August but we expect that it will be done in the nearest months). Thus, consumer sentiment indicator published by Michigan University increased by 0.3 pts MoM to 72.8 pts vs expectations of 72.0 pts. It is just 2.3 pts higher than April low and it is 27 bps lower than pre-COVID levels. Unsurprisingly, 2Q20 consumer spending decline was the biggest on record. According to August Bloomberg survey, consumer spending will decline by 5.2% yoy in 2020. Conference board consumer confidence index was markedly weaker than expected and it decreased by 6.9 pts MoM from revised down July estimate to 84.8 pts, new low of the year, vs consensus of 93 pts. It was driven by present situation index which tumbled by 11.7 pts MoM to 84.2 pts as current job and income prospects remain hazy. Expectations index also declined but insignificantly.

All data which are related to employment published in summer months were clearly optimistic except for jobless claims which remain elevated, especially continuing jobless claims. But we don't think that it means V-shaped recovery in any case as it is just a result of reopening of the economy and employment will remain far from pre-COVID levels for long time. So, the most significant payrolls growth was demonstrated by industries which showed the largest losses in March and April. But uncertainty is still very high and businesses will inevitably collide with lower profitability and bankruptcies growth. So, employment recovery will be much slower than its downward spur during 1H20. Notwithstanding, July employment report was significantly better than expected across majority of the metrics as it was in two previous months. Thus, nonfarm payrolls were 1.8 mln in July vs expectations of 1.5 mln after growth of 4.8 mln in June and 2.7 mln in May. Private payrolls increased by 1.5 mln vs consensus of 1.2 mln. The vast majority of sectors demonstrated employment growth in July. The most significant growth was demonstrated in leisure and hospitality. Unemployment ratio declined by 0.9 p.p. MoM to 10.2% in July vs consensus of 10.6%. Average hourly earnings increased by 0.2% MoM in July vs

expectations of -0.5% MoM after decline by 1.3% in June as a result of employment growth which was driven by low-wage workers. From the other hand, underemployment ratio was 16.5% in July, -1.5 p.p. MoM from June level and it is slightly lower now than the high of the Great Recession of 17.2%. In any case, approximately 15 mln workers are still filling continuing jobless claims which is around twofold higher than the peak level of the GFC. Continuing claims remain very important indicator to track employment situation. On a year-over-year basis, hourly earnings were +4.8% vs consensus of +4.2% and June figure of +5.0%. Average weekly hours were -0.1 MoM at 34.5, +0.1 hour higher than consensus. Initial jobless claims markedly decreased in August vs July figures, but overall initial jobless claims over recent 4 weeks still exceeded more than fivefold pre-COVID levels despite better than feared economic recovery.

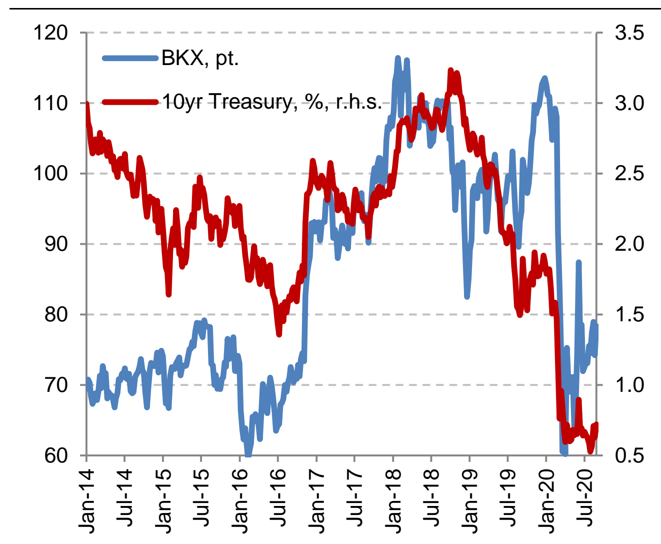
Interest Rate

The Fed announced its new longer-run monetary policy strategy at Jackson Hole symposium which was held via a video conference. The release was expected at September meeting. But it seems that timing was the only surprise of the new strategy. So, the Fed “seeks to achieve inflation that averages 2 percent over time”. The key reason of averaging inflation target is to change somewhat inflation expectations in the future. Maximum level of employment remains one of the key targets but it is no easily measurable aim, so “the Committee's policy decisions must be informed by assessments of the shortfalls of employment from its maximum level, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments”. Also, Powell noted that it was planned to undertake a thorough public review of monetary strategy every five years. There were no other numerical/formulas guidelines related to any of the goals. Moreover, Powell didn’t even answer the question how guidance could be changed at the nearest meetings. Currently, it is implied that rates will remain in zero bound until the Committee is confident that “the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals”. Quite probably, wording of the Committee guidance will be changed in accordance with new inflation/employment LT targets as early as at September meeting. Powell noted that banking sector was strong but new targets mean that rates will be near zero longer than expected and it is not a good driver for banking quotes. At September meeting, new economic projections will be unveiled but we expect that they will be rather pessimistic given acceleration of COVID-19 cases growth in summer months, uncertainty with elections and deceleration of economic recovery after relatively strong bounce from April/May bottom. Notwithstanding, market perception of the new strategy was positive – BKX index added 2.4% with all members in the green zone on the day of announcement as a result of higher yield curve. But in general, the reaction, however, was restrained.

Despite significantly better hard and soft data in summer months, high-frequency data showed some weakness in recent weeks. Unsurprisingly, it was noted that expansion is slowing. Moreover, the Fed also acknowledged that the path of the economy would depend significantly on the course of the virus. It is quite possible that we will see double dip if there is the second wave of the pandemic. So, it is crucial to approve another fiscal stimulus of $1 trln+ as fast as possible, from our point of view. June GDP projections by the Fed imply V-shaped recovery, even taking into account “the great uncertainty about the future”. Thus, according to FOMC projections, GDP will decline by 6.5% in 2020 but it will increase by 5.0% yoy in 2021 and by 3.5% yoy in 2022. Also, potential GDP growth was revised down slightly. As of unemployment ratios, it is implied that it will be 9.3% as the end of 2020, 6.5% as the end of 2021 and 5.5% as the end of 2022. In other words, it will be markedly higher even in 2022 vs pre-COVID levels. PCE inflation will decline to just 0.8% in 2020 but then it will rebound to 1.6% and 1.7% in 2021 and 2022, respectively. Overall, FOMC

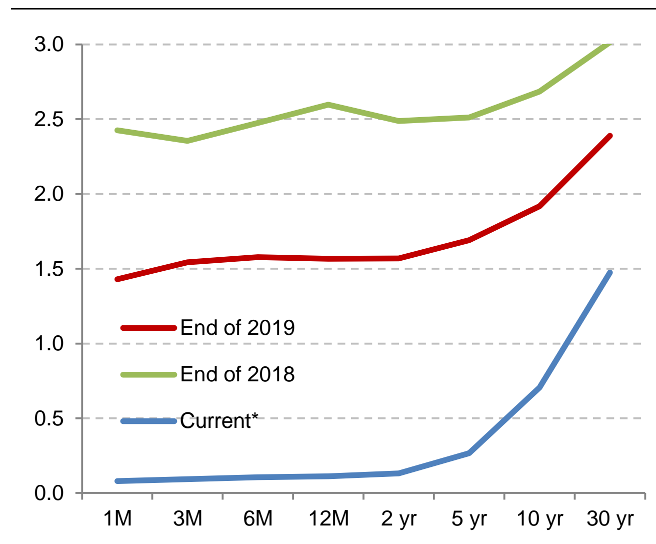
projections are relatively close to consensus forecasts which were almost unchanged MoM in August. According to Bloomberg August survey, GDP growth will be -5.1%/+3.7%/+2.8% yoy for 2020/2021/2022 years, respectively, vs -5.5%/+3.9%/+2.7% yoy in July. Unemployment forecasts decreased from 9.1%/7.6%/6% for 2020/2021/2022 years, respectively, in July to 9.0%/7.4%/5.9% in August.

Chart 21. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

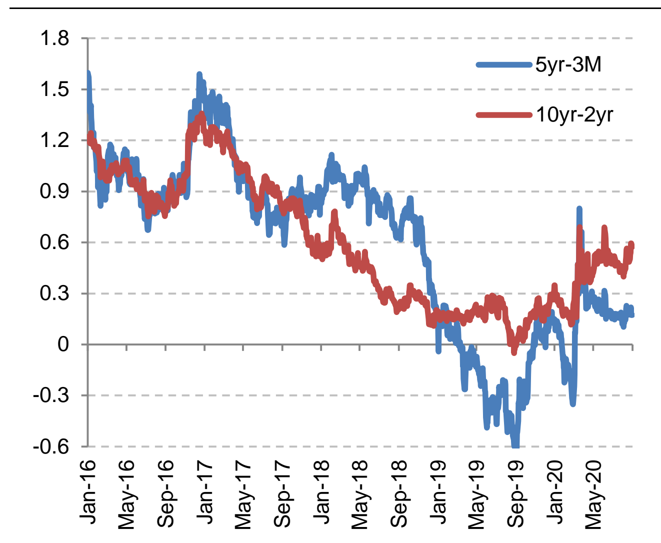
Chart 22. US Yield Curves, %



*As of end-August 2020

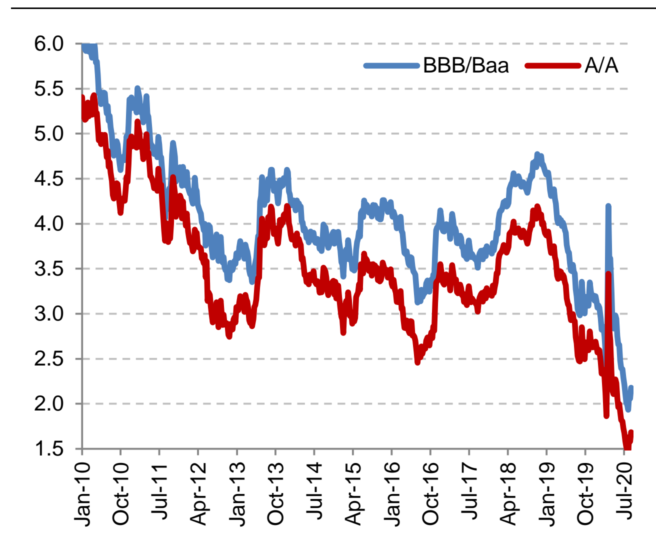
Source: Bloomberg

Chart 23. Treasury Spreads, %



Source: Bloomberg

Chart 24. Corporate spreads, %



Source: Bloomberg

So, challenging rate environment for US banks will persist for an even longer time than it was expected and NIM will remain a drag for US banks as well. We believe that the worst is behind us after US GDP tumbled by more than 30% in 2Q20 but we are still very far to be out of the woods. At least, uncertainty is still very high and growing at the moment. So, we believe that new measures to support the economy will be announced if situation deteriorate. But the key question whether it will be negative rates or curve control. In any case, both alterations are negative for US banks earnings. Moreover, further actions will depend not only on virus dynamics but also on fiscal response which is still necessary to support economy and labour market. The Fed overcome the liquidity crisis by massive injections but it doesn't mean that saved companies will operate as usual given substantial growth of leverage for many of them during recent months which had been quite high

before. So, we still expect a wave of bankruptcies in corporate sector in coming quarters, unless, of course, the fed decides to continue supporting zombies with weak balance sheets. But this can't go on forever since gradually the short-term benefits of this support outweigh the long-term negative consequences for the economy.

Median NII decline of BKX index members was -2.2% qoq and -3.1% yoy in 2Q20 vs +0.7% qoq or -0.6% yoy in 1Q20, the third consecutive quarter of yoy decline of NII in a row. The key driver of negative sequential NII dynamics was significant decline of NIM which was driven by both meaningful decline of rates and investing strong deposit inflows into high liquid assets. Taking into account that rates will stay low for foreseeable future, NII/NIM environment will remain very challenging. So, median NII surprise of BKX index members was -0.4% (vs estimates for July 13), after +1.5% in 1Q20 due to very strong C&I loan growth because of emergency liquidity needs. Just 11 out of 24 BKX members showed positive surprise on NII in 2Q20 vs 18 out of 24 BKX members in 1Q20. Moreover, just 5 out of 24 BKX members showed positive surprise on NIM in 2Q20 with median negative surprise of -9 bps vs 18 out of 24 BKX index members and +3.1 bps in 1Q20. Median NIM of BKX index members tumbled by 37 bps qoq or -46.5 bps yoy to just 2.96% (the lowest figure over decades) vs +4 bps qoq or -12 bps yoy in 1Q20. But despite significantly worse NIM in 2Q20, Bloomberg consensus estimates of median NIM of BKX index members were relatively flat after start of the earnings season. Thus, median NIM 20E of BKX index member didn't changed on MoM basis but still -26.4 bps ytd at 2.71% as the end of August while NIM 21E declined by 0.9 bps MoM or -32.1 bps ytd to 2.64%.

Median growth of NII income of BKX index members was negative on qoq basis despite favourable seasonality but it was expected given 2Q20 was the first full quarter of zero-bound range for the FF rate (after relatively short break). The key driver of negative NII surprise was much weaker NIM because strong deposit inflows were invested in high liquid assets while commercial loans declined qoq as a result of payoffs of previously using revolvers. Notwithstanding, NIM projections haven't changed significantly yet. We expect that pressure on NII/NIM will remain in 2H20 as key benchmark rates will stay low in foreseeable future, much low than current back book yields while there are almost no opportunities left to offset lower yields by reducing the cost of funding. Banks also signaled during 2Q20 earnings season that 3Q20 NII will be lower than it was 1 year ago despite significant growth of earning assets.

Treasury yields increased substantially in August, especially the long end, after relatively flat June and July. Thus, 1M yield was flat MoM at 0.08% while 3M yield went up by 1 bps MoM to 0.09%. 2yr yield increased by 2.6 bps MoM to 0.13% and 5yr yield added 6.3 bps MoM (currently at 0.27%). 10yr yield skyrocketed by 17.7 bps MoM to 0.7% (but it is still -121 bps ytd), while 30yr yield went up by 28.2 bps to 1.47%. We don't expect significant further growth of the yield curve in the foreseeable future. According to current forwards, the yield curve in 2 years will be just 15-30 bps higher than the current one, except for 30yr yield which is 30 bps lower.

By the same token, spreads also increased markedly in August, close to the highest levels over two years. Spreads were slightly higher on ytd basis but they are significantly lower than average levels of 2017 year. Thus, 5yr/3M spread increased by 5.3 bps to +0.17% and it is still 80 bps lower than average level of 2017 yr while 10yr-2yr spread is 36 bps lower (as the end of August). Spread (10yr-2yr) increased by 15 bps MoM to +0.57%.

According to Bankrate.com data, loan yields continued to go down despite growth of the yield curve. Thus, average 30yr mortgage rate decreased by 8 bps MoM to 3.08% as the end of August, the fifth consecutive month of decline after unexpected growth in March. Period-end rate was slightly higher, 3.13% as the end of August but it is 48 bps lower ytd than decline of 10yr treasury yield. Notwithstanding, it seems that mortgage rates hit

bottom, at least temporarily. Average 15yr mortgage rate decreased by 10 bps MoM either, to 2.63%, -58 bps ytd. Auto loans rate (new loans, 60 mnth) went down by 3 bps MoM to 4.44%, 10 bps lower ytd.

Deposit rates continued to decline in August on average basis but rate of decline was much lower than it was in previous months. Notwithstanding, it was the 11th month in a row of average rate decline. But we think that it will be no more any significant mitigation factor for NIM until FF rate cut again. Thus, national average cost of 6 month deposits decreased by 1 bps MoM to 0.33%, -46 bps ytd; average 3yr CDs cost declined by 1 bps to 0.57%, -63 bps ytd; average 5yr CDs cost decreased by 3 bps MoM to 0.67% (-74 bps ytd) while cost of interest checking accounts was flat MoM at 0.21%, -47 bps ytd. Average cost of money market accounts fell by 2 bps MoM to 0.24%, -33 bps ytd.

Europe

Corporate

Corporate loans growth markedly accelerated in recent months driven by emergency liquidity needs but it seems that the growth is unsustainable given deep recession in 1H20, deceleration of economic recovery in recent weeks and expected tightening of lending standards. Notwithstanding, EU corporate loans growth was positive on MoM basis again in July 2020, after flat dynamics in June, following five month in a row of positive dynamics. On yoy basis, corporate loans slightly decelerated in July vs June and May but remained elevated in comparison with historical averages. Thus, loans up to 1 year decreased by 0.8% MoM, or -3.3% yoy, in July. Loans 1-5 yrs accelerated to 14.3% yoy from +3.4% yoy in February and +5.0% yoy 1 year ago. Loans over 5yrs were +5.9% yoy in July vs +3.0% yoy one year ago, +0.5% MoM. Total corporate loans increased by +5.5% yoy vs +2.4% yoy one year ago, +0.4% MoM after flat June and average growth of 1.8% MoM in March-May. Credit growth in the EU began to vary markedly again after a period of synchronous rapid growth in spring months. So, we still see very healthy growth rates in Germany and France (and other Northern countries) while Italian corporate loans growth turned positive on yoy basis only in June after it was negative for 8 years. Spanish corporate loans growth rate turned positive in March and it was strong in 2Q20, +7.7% yoy in June. It is the highest yearly growth since the middle of 2008. But it was negative on MoM in July for the second consecutive month.

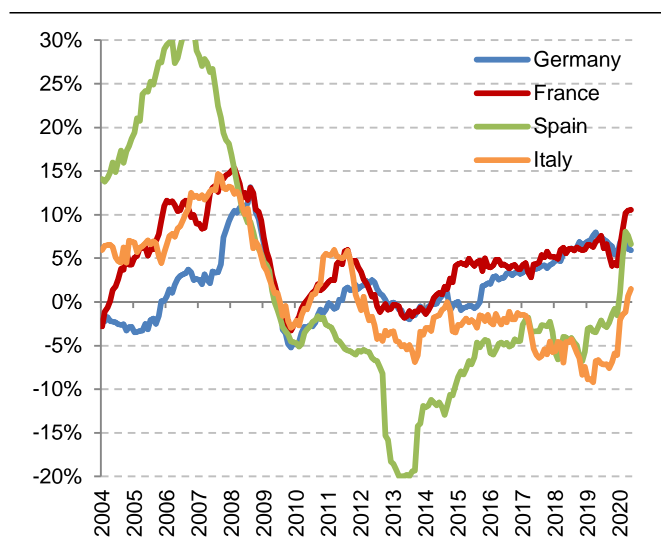
European corporations benefited from low interest rate environment so far but this will be little consolation in a recession time given imminent decline of revenues. At the end of last year there were hopes for stabilization of the macroeconomic situation, but the coronavirus spreading disrupted these expectations. In May 2020 ECB's Financial Stability Review it was noted that the coronavirus pandemic caused the largest and sharpest economic contractions in history. "Economic indicators suggest an abrupt contraction in economic growth in the first half of 2020 with full-year figures likely to be weaker than in the year following the 2008 global financial crisis, according to private sector estimates". It will inevitably lead to lower corporate profits and higher default rates given the fact that financial health of EU corporate sector had already worsened even before lockdowns. Notwithstanding, "credit risk measures have surpassed their average values since 2014, but remained below the levels that had been observed during the financial and sovereign debt crises". Recent data showed significant recovery in recent months. Despite August figure was slightly lower than expected it still remains above 50 pts. So, EU economy bottomed out in April but economic activity still remains well below pre-pandemic levels and growth slightly decelerated recently. Unsurprisingly, risks to euro area growth outlook remained on the downside.

According to July 2020 Euro Area bank lending survey, demand for corporate loans surged further in 2Q20 after significant growth in 1Q20. In result, it reached the highest net balance since the survey was launched in 2003. The key driver of demand growth remained emergency liquidity needs and precautionary build-up of liquidity buffers during the period when lockdown measures. From the other hand, demand for fixed investments was weak again. Unsurprisingly, loan demand was strong across all EU countries. Also, banks expect that demand for corporate loans will continue to grow further in 3Q20 but it will increase less than in 1H20. Credit standards remained broadly unchanged in 2Q20 but net percentage was still below the historical average since 2003. The key drivers for maintaining favourable credit standards in most countries were government guarantees. In turn, deteriorated economic outlook, worsened creditworthiness of borrowers and a lower risk tolerance remained the key arguments for tightening lending standards. So, banks expect considerable tightening of credit standards in 3Q20 as a result of termination of

state guarantee schemes in some large euro area countries.

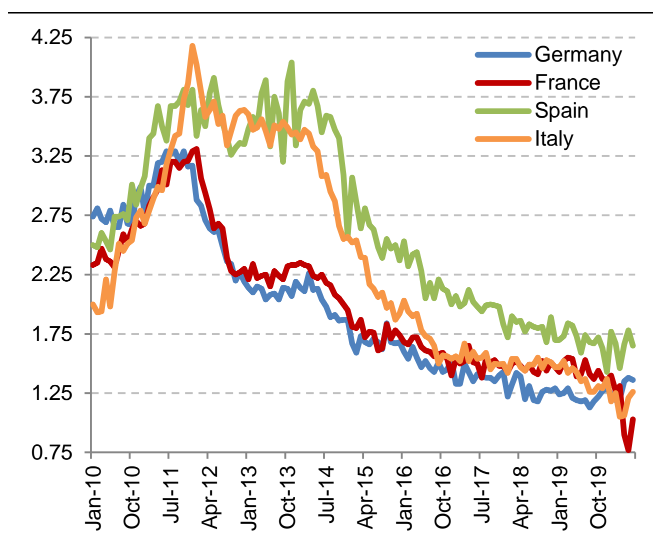
Unadjusted EoP corporate loans increased by 5.5% yoy at the end of July, the 34th consecutive month of positive growth on yoy basis. In turn, adjusted for sales and securitizations loans increased by 6.5% yoy, the 61th consecutive month of positive yoy growth. It was the highest rate of growth since the beginning of 2009. Notwithstanding, despite recent acceleration, it should continue weaken in 2H20 given the depth of recession, normalization situation with liquidity and deceleration of recovery rate. We don't exclude that it will be negative in several quarters, accompanied by challenging rate environment for a long period of time, having double negative effect on NII and profit.

Chart 25. EU Corporate Loan Growth, YoY



Source: Bloomberg

Chart 26. EU Corporate Loan Rates, New Loans, %



Source: Bloomberg

German outstanding corporate loans (unadjusted figures) increased by 5.9% yoy as the end of July but flat MoM vs +6.4% yoy as the end of 2019. French corporate loans outstanding (unadjusted figures) added 10.5% yoy or +1.2% MoM as the end of July (the 5th consecutive month of rapid growth above 1.0% MoM) vs +7.1% yoy one year ago. Due to significant MoM growth, Spanish loan growth is much higher today than it was one year ago but corporate loan growth in other Southern countries remains relatively weak. Thus, Spanish outstanding corporate loans added 6.6% yoy but -0.4% MoM vs -2.8% one year ago. Italian loan growth turned positive in June after being negative on yoy basis for more than 8 years. Thus, it added +1.5% yoy or +1.2% MoM in July.

European corporate rates continue to exhibit negative dynamics on yoy basis but they increased markedly in June after being relatively flat for three months in a row. Thus, average EU corporate loan rates (all maturities, new business lending, adjusted for loan sales) increased by 5 bps MoM to 1.36% in June, currently at pre-pandemic level shown in February. But it remains 6 bps below relative to one year ago level. Back book yields of EU banks continuously decreased on yoy basis since April 2014 and rate of decline speed up in 2Q20 after being relatively flat over all the previous year. It declined by 14 bps yoy but was flat MoM at 1.77% in June.

Dynamics of rates within European countries wasn't uniform in June with skyrocketing growth of front book yields in France after three consecutive months of a precipitous decline while in Germany and Spain rates decreased in June. Thus, Spanish yield went down by 13 bps MoM to 1.65%, after almost the same growth in May. In result, it is still +22 bps ytd but -9 bps yoy. Italian rate came up by 5 bps MoM to 1.26%, the third consecutive month of growth but it is still -11 bps ytd and +6 bps yoy. German corporate rate on new loans decreased by 2 bps MoM in June to 1.36% but it is still 7 bps higher ytd and +18 bps

higher than it was 1 year ago. French yield on new corporate loans skyrocketed by 26 bps MoM to 1.03%, but it is -33 bps ytd and -38 bps yoy. Also, Dutch yield declined by 9 bps MoM to 1.34%, -30 bps ytd and +4 bps yoy. Back book yields were flat MoM and -17 bps yoy but dynamics across countries wasn't uniform as well. Thus, German yield increased by 1 bps MoM to 1.82% in June, -13 bps yoy. French yield decreased by 2 bps MoM to 1.49%, -35 bps yoy. Italian yield declined by 1 bps to 1.89%, -19 bps yoy. Spanish one decreased by 1 bps MoM to 1.73%, -9 bps yoy. Dutch yield increased by 3 bps MoM to 1.97%, -14 bps yoy. Thus, spread between new and outstanding rates decreased again. During the month of June it decreased by -5 bps MoM, or -16 bps yoy, to 0.41% and this is the lowest figure since December 2011.

Consumer

EU consumer was the main driver of total loans growth till the beginning of the pandemic. Consumer loans decreased on MoM basis in March and April but the growth resumed then as a result of employment supporting programs. The growth continues even despite to banks started to tighten credit standards in 1H20. There were quite predictable actions given rapid deterioration of EU economy, which should inevitably lead to a significant deterioration of financial health of EU consumer (not yet). But unemployment rate has already started to grow while consumer confidence has declined to the levels unseen from the last crisis. It should also be noted that sustained growth of property markets which positively impacted on household wealth during recent years will be inevitably replaced by a fall in coming quarters. Notwithstanding, a positive moment is that the indebtedness of euro area households remains relatively low, stabilized near 58% of GDP. Given very low rate environment, household debt burdens are also near multi-year lows and it will remain at these levels or only slightly higher in the nearest years because of expected prolonged period of negative rates. Currently, households debt interest burden is 40-50% lower for majority of European countries than it was just before the US mortgage crisis. So, we believe that overall quality of consumer credit portfolio of European banks should be better in the current crisis vs GFC levels unless it will be L-shaped recovery rather than U-shaped one.

EU loans to households increased by 2.9% yoy and +0.3% MoM in July. It was the third consecutive month of positive MoM growth in a row, after 2 months of decline in a row. Consumer loan growth remained relatively strong so far but we expect that it should decelerate in the near term given more strict lending standards, very deep decline of economic activity in 1H20 and imminent growth of unemployment in 2H20 and further in 2021. And it will continue to differ widely across countries (as well as for corporate loans). Thus, German household loans increased by 4.4% yoy in July or +0.6% MoM, French retail lending added 5.3% and +0.7% MoM (marked acceleration vs the first four months of 2020), while household loans in Spain declined by 1.4% on yoy basis, the 13th month in a row, after non-negative loan growth rate for 13 months in a row following more than 7 years of negative yoy growth. Italian consumer loans added 0.2% yoy in July or +0.4% MoM, the third consecutive month of positive MoM growth.

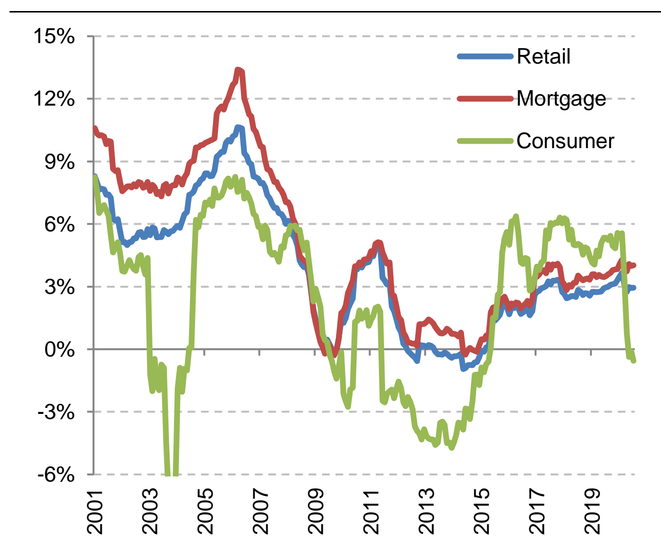
Consumer lending (excluding mortgage) remained the key driver of EU household loan portfolio so far but it was negative on yoy basis for three last months. On MoM basis, it was positive in June and July after decline in each of spring months. In turn, EU mortgage loans increased by 4.0% yoy as the end of July, +0.5% on MoM basis. According to July 2020 bank lending survey from the ECB demand for consumer credit was lower as well as net increase for housing loans because of worsening outlook. For more than 3 years, Spain demonstrated double-digit growth of consumer credit, significantly outperforming other major European countries. But the growth substantially decelerated in recent months. Thus, Spanish consumer credit declined by 1.3% on yoy basis vs 11.4% yoy 1 year ago, the

lowest growth rate since the middle of 2015 and it was -1.8% on MoM basis. In turn, Spanish mortgage portfolio continues to stagnate, -1.9% yoy as the end of July vs -1.7% yoy one year ago, but flat on MoM basis after four month of decline in a row.

As of mortgage lending standards, they were tightened in 2Q20 as they were in 1Q20 after being broadly unchanged in 4Q19. Unsurprisingly, standards on consumer loans were also tightened in 2Q20 as a result of deteriorated economic outlook, worsened creditworthiness of borrowers and a lower risk tolerance. Banks expect that net tightening of standards on loans to households will continue in 3Q20. As of demand, it declined strongly for mortgage loans in 2Q20 while demand for consumer credit and other lending to households declined to a record low since survey was launched in 2003. "The demand for loans from households was dampened by weaker consumer confidence, worsened housing market prospects and lower spending on durable goods". But banks expect that demand for both housing loans and other consumer loans will increase in 3Q20. Given dynamics of HH loans in May and June, it sounds quite plausible.

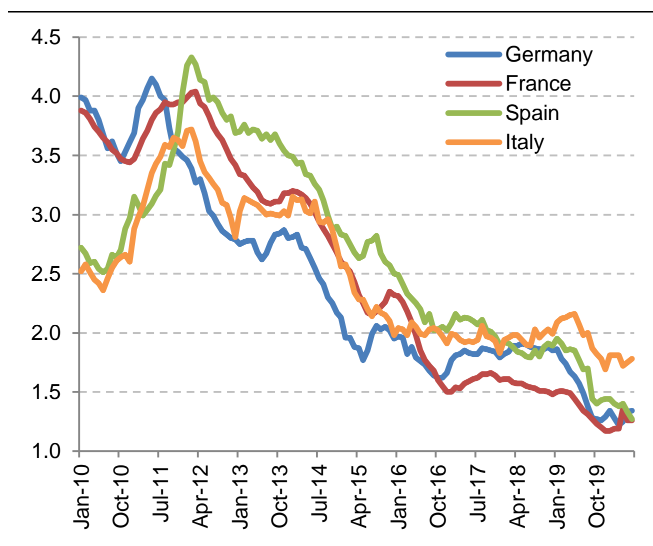
Average EU rate on new mortgage loans decreased by 1 bps MoM to 1.42% in June, after two months of growth. But it still is 22 bps lower than it was one year ago but flat ytd. It was hovering around 1.82-1.83% over 8 months from July of 2018 to February of 2019. But it declined by 40 bps since then because the key benchmark yields for mortgage rates declined markedly ytd, except for the short end which is relatively flat vs the end of 2019. 10yr generic yield increased by 12.7 MoM bps to -0.4% and it is +46 bps from its all-time low. 30yr yield went up by 16 bps MoM and it turned positive after being negative in July. So, almost entire yield curve still remains to be below 0% at the moment. In June, German mortgage rates on new loans increased by 1 bps MoM to 1.34%, -23 bps yoy. In turn, Italian mortgage rate went down by 6 bps MoM to 1.27% and it is 50 bps lower than it was 1 year ago. French yield was flat MoM at 1.26% in June after it declined by 10 bps MoM in May, -13 bps yoy. Spanish mortgage rate increased by 3 bps MoM to 1.78%, the second consecutive month of growth but it is still 29 bps lower than it was one year ago. Because of lower front book yields, we continue to see declining back book rates on a year-over-year basis, -16 bps yoy for all Eurozone mortgage loans. On a month-over-month basis, it decreased by 1 bps to 1.88%, the fourth month of decline in a row after unexpected growth in February. The pace of decline increased from 4.5 years low of -12 bps yoy which was shown in May-July of 2019 because of significant drop of benchmark rates.

Chart 27. EU Consumer Loan Growth, YoY



Source: Bloomberg

Chart 28. EU Mortgage Loan Rates, New Loans, %



Source: Bloomberg

As for other consumer loans, EU new business rates decreased by 6 bps MoM to 5.06% in June, the fifth month in a row of decline with a total drop of 62 bps. Consumer yields remain

too volatile. On a year-over-year basis it decreased by 58 bps. Consumer yields markedly decreased in Germany on MoM basis in June while it increased substantially in other major European countries. Thus, German yield went down by 9 bps MoM to 5.71% in June, -27 bps yoy. French rate skyrocketed by 32 bps MoM to 3.33, the second consecutive month of significant growth with total increase of 77 bps but it is still -43 bps yoy. Spanish rate increased by 16 bps MoM to 6.64%, but it is still -43 bps yoy. Italian consumer yield skyrocketed by 22 bps MoM in June to 6.11%, -52 bps yoy.

Average European new consumer deposits rate (with agreed maturity) was flat MoM at 0.27 in June, after growth of 1 bps MoM in May, following decline of 7 bps MoM in April. So, it still remains just 9 bps lower than it was 1 year ago, markedly slower rate of decline than loan yields one. Cost of outstanding deposits (with agreed maturity) also was flat MoM at 1.17% in June, being relatively flat over last 8 months. Total cost of deposits was flat MoM either, at 0.22% in June after decline by 1 bps in May. On yoy basis, it is just 6 bps lower than it was 1 year ago. So, spread between total loans yield and cost of total deposits decreased by 1 bps to 1.93% in June, the fourth consecutive month of decline on MoM basis with total decline of 7 bps, after being relatively flat during 6 months, hovering around 2%.

Consumer deposits growth remains healthy, adding 6.6% yoy as the end of July, slight acceleration vs +5.2% as the end of June 2019 and the fastest growth since 2H09. The growth rates of consumer deposits are around 5-8% yoy for all major European countries despite increasingly clear threats by banks to start shuffling off the burden of negative rates on to consumers. Corporate deposits growth also accelerated significantly in recent months, +18.8% yoy as the end of June vs +6.4% yoy 1 year ago, the fastest growth on record as a result of preserving liquidity by EU corporations.

Overall Macro

European economy contracted at a record pace in 1H20 with double-digit decline on qoq basis in 2Q20. High level of uncertainty remains but diminished. Moreover, economic recovery in EU was faster than initially feared. Notwithstanding, it faded in recent months. According to ECB's July introductory statement, "incoming information since our last monetary policy meeting in early June signals a resumption of euro area economic activity, although the level of activity remains well below the levels prevailing before the coronavirus (COVID-19) pandemic and the outlook remains highly uncertain. Both high-frequency and survey indicators bottomed out in April and showed a significant, though uneven and partial, recovery in May and June, alongside the ongoing containment of the virus and the associated easing of the lockdown measure". Majority of key economic indicators increased significantly in recent months but figures published in August were slightly worse than expected. PMI figures skyrocketed in July but declined in August, pointing to slower pace of economic recovery. ECB continues to support European economy with massive monetary stimuli and it seems that the size of PEPP could be increased further at the end of 2020, especially in case of the second wave of the pandemic.

European real GDP tumbled by 12.1% qoq or -15.0% yoy in 2Q20 vs consensus estimates of -12.1% qoq and -14.5% yoy, respectively, after significant drop in 1Q20 equal to, -3.6% qoq or -3.1% yoy. It was the biggest decline of EU GDP in history after previous one shown in 1Q20. French GDP decreased by 13.8% qoq or -18.9% yoy vs initial expectations of -15.2% qoq or -20.0% yoy, after decline of -5.3% qoq or -5.0% yoy in 1Q20, slightly revised up from initial estimates. Italian GDP decreased by 12.8% qoq or -17.7% yoy vs expectations of -15.5% qoq and -17.3% yoy, after decline by 5.2% qoq or -4.1% yoy in 1Q20. Spanish GDP declined by 18.5% qoq or -22.1% yoy in 2Q20 vs expectations of -16.6% qoq or -19.7% yoy, after drop of -5.4% qoq or -5.3% yoy in 1Q20. German GDP decreased by 9.7% qoq or -11.3% yoy in 2Q20 vs -5.5% qoq or -2.2% yoy in 1Q20. ECB

estimates imply that EU GDP will decline by 8.7% yoy in 2020 and will rebound by 5.2% and 3.3% in 2021 and 2022 years, respectively. The market is slightly more optimistic. Thus, according to July estimates compiled by Bloomberg, EU GDP growth rates were equal to -8.1%/+5.7%/+2.2% yoy for 2020/2021/2022 years, respectively, in compare to -8.1%/5.5%/2.2% yoy in June survey.

European macro data published in August 2020 were slightly worse than expected after clearly strong figures in July. Notwithstanding, European economy continues to stabilize after significant decline in March and April. But it is a little slower at the moment than before. So, expectations remained almost unchanged in August vs July after ongoing revision down in March-May. In turn, economic surprise indices continued their growth in the first decade of August but they declined significantly since then. In result, Citi's economic surprise index declined by more than 30 pts MoM to 132.6 pts as the end of August after significant growth in June and July. In May it was at all-time low of -300 pts but it is near the highest level over a decade at the moment. Bloomberg surprise index increased from -0.192 pts to 0.338 pts as the end of August, the maximum reading of 2.5 years. But recovery is still fragile, from our point of view, and risks remained tilted to downside, especially in case of the second wave. At least, a growth of daily new COVID-19 cases has resumed in a number of European countries recently. So, we will see further deceleration of loan growth after emergency liquidity needs demand for corporate loans will decline and growth of NPLs that is very negative for EU banks given very challenging revenue environment.

Composite PMI (preliminary figure), which is usually well correlated with GDP growth (but relation was less tight than usually in 1H20), markedly missed expectations in August, after strong beat in June and July. It decreased by 3.3 pts MoM to 51.6 pts vs consensus of 55.0 pts. So, it is almost in-line with its pre-COVID level. It was driven by services PMI, which decreased by 4.6 pts MoM to 50.1 pts vs consensus of 54.5 pts. From the other hand, manufacturing PMI was flat MoM, -0.1 pts in August to 51.7 pts, but it was 1 pts lower than expected. Services PMI declined meaningfully in majority countries while manufacturing PMI moved in different directions. Thus, German composite PMI decreased by 1.6 pts MoM to 53.7 pts vs expectations of 55.0 pts, with manufacturing PMI at 53.0 pts, +2.0 pts MoM, and services PMI at 50.8 pts, -4.8 pts MoM. French PMI tumbled by 5.5 pts MoM to 51.7 pts vs consensus of 57.0 pts with both manufacturing and services PMI markedly lower than expected while manufacturing PMI was again below 50 pts. In turn, industrial production remained elevated after meltdown in March in April. But it was again below expectations. Thus, IP increased by 9.1% MoM vs expectations of 10.0% MoM and May figure of +12.3% MoM. On yoy basis, it was -12.3%. Given recent PMI figures, it seems that IP will continue its recovery but at slower rate. But estimates were revised up slightly in August vs July projections. Thus, according to estimates compiled by Bloomberg, it will decline by 10.2% yoy in 2020 and increased by 6.3% yoy in 2021 and by 3.2% yoy in 2022 vs -10.9%/+6.1%/+3.2% yoy for 20/21/22 years as of July estimates.

EU consumer remained the key driver of European economy, demonstrating strong growth of consumer spending due to ongoing and broad-based wage growth in the pre-COVID era. But the situation has changed dramatically and difficult times are ahead for EU consumers. According to August Bloomberg survey, household consumption will decline by 8.0% yoy in 2020 but increased by 6.3% yoy in 2021 and by 2.2% yoy in 2022 (in-line with July estimates). Unemployment should increase markedly in 2H20 even despite massive support measures for employment and it will continue to grow in 2021. Notwithstanding, the growth rate of unemployment will be much lower than US one. Unsurprisingly, consumer confidence has already decline significantly while companies have announced more and more job cuts, especially in the most affected industries such as airlines and tourism. According to July introductory statement, “subdued labour market conditions and

precautionary household saving are weighing on consumer spending". Unemployment rate was markedly better in July but it continues to deteriorate, 7.9% in July vs expectations of 8.0%, just +20 bps MoM. So, unemployment forecasts improved markedly in recent months but real employment picture is worse than official figures because of significant growth of part-time workers. Thus, August consensus estimate of unemployment rates for 2020, 2021 and 2022 years, compiled by Bloomberg, were 8.0%/9.3%/8.4% vs June estimates at 8.9%/9.4%/8.7% for 20/21/22 years, respectively. ECB's unemployment projections are more pessimistic, being at 9.8%/10.1%/9.1% for 20/21/22 years, respectively. But they were announced 2 month ago. Currently, it is a very long period of time to radically change projections. Retail sales increased by 5.7% MoM in June after it skyrocketed by 20.3% MoM in May vs consensus of +6.1% MoM. But it was already positive on yoy basis, adding +1.3% vs consensus of -0.2%. Notwithstanding, August consumer confidence increased just by 0.3 pts MoM to -14.7 pts, slightly higher consensus of -15.0 pts, +7.5 pts from April low but -7.4 pts from the average level of 2014-2019 yrs.

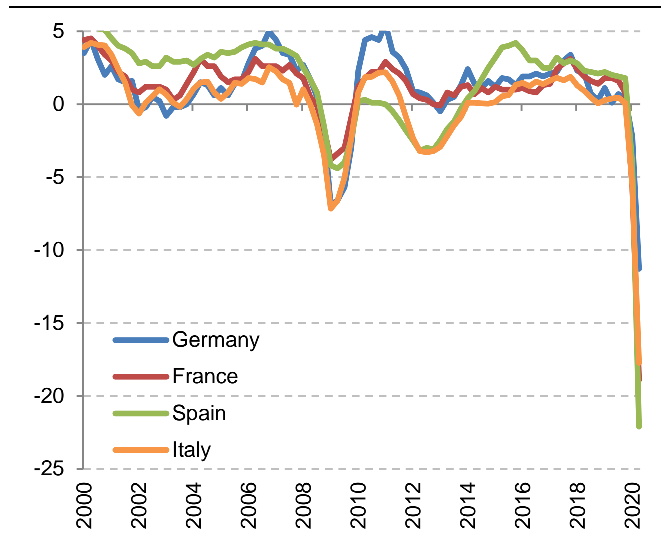
Rates

Given significant PEPP increase in June, it was expected that ECB's monetary policy would remain unchanged at July meeting. And it happened so. Thus, interest rates on the marginal lending facility and the deposit facility remained unchanged. "The Governing Council will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,350 billion" and it will last at least till the end of June 2021. Moreover, it was noted during press conference that entire envelope of the PEPP will be used, unless there were significant upside surprises, which isn't the baseline scenario. Reinvestments of the principal payments from maturing securities purchased under the PEPP will last until at least the end of 2022. Also, "net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year". And APP will run as long as necessary and it will end shortly before ECB will start to raise rates. Also, ample liquidity will continue to be provided through refinancing operations such as TLTRO III, which help to support bank lending to firms and households. From the other hand, tiering multiplier will remain unchanged at 6x and the question wasn't even discussed at the last meeting. But it was noted again that two-tier system was working good so far. Despite outlook remains highly uncertain, both recent surveys and high-frequency indicators signal a resumption of euro area economic activity, but it remains well below pre-COVID levels. In turn, inflation outlook remains pessimistic while inflation expectations even decreased since the start of pandemic, assuming the current very accommodative monetary policy will be maintained. Moreover, we think that it will be even more accommodative (for example, another increase of PEPP size), if situation worsens. But we believe that it is unlikely till 4Q20. Notwithstanding, September meeting will be very important, given the wording of July's minutes. At least, there will be published new staff projections, more hard data will be available and it is quite possible that there will be more understanding about the new fiscal incentives. Both recent hard data and high frequency data pointed to deceleration of the recovery. Taking into account inflation near zero, it is much more likely that we will see new monetary incentives sooner than later.

According to the introductory statement, survey data and real-time indicators for the economic activity have shown that it was bottomed out in April. Economic activity continues to resume due to both monetary/fiscal stimuli and easing of the lockdown measures. But it started to fade in recent weeks. According to ECB, "measures announced between March and June are estimated to add around 1.3 percentage points to euro area real GDP growth until the end of 2022 and 0.8 percentage points to annual inflation over the same period of time". But inflation outlook remains bleak. According to June staff projections, inflation were revised down to 0.3% in 2020 (-0.8 p.p. vs March projections), 0.8% in 2021 (-0.6 p.p. vs

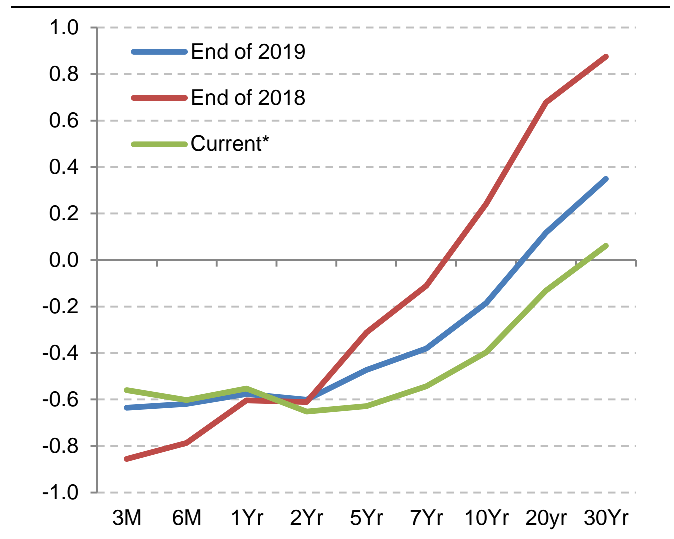
March) and 1.3% in 2022 (-0.3 p.p. vs March), according to baseline scenario. GDP forecasts were also revised down meaningfully. Thus, "in the baseline scenario of the projections, annual real GDP is expected to fall by 8.7% in 2020 and to rebound by 5.2% in 2021 and by 3.3% in 2022". Compared to March projections, total GDP growth over 2020-2022 years was revised down by 4.2%. Moreover, market estimates of GDP growth in 2020-2022 years remain relatively unchanged in July vs June, despite better real-time indicators.

Chart 29. EU Countries Real GDP Growth, YoY, %



Source: Bloomberg

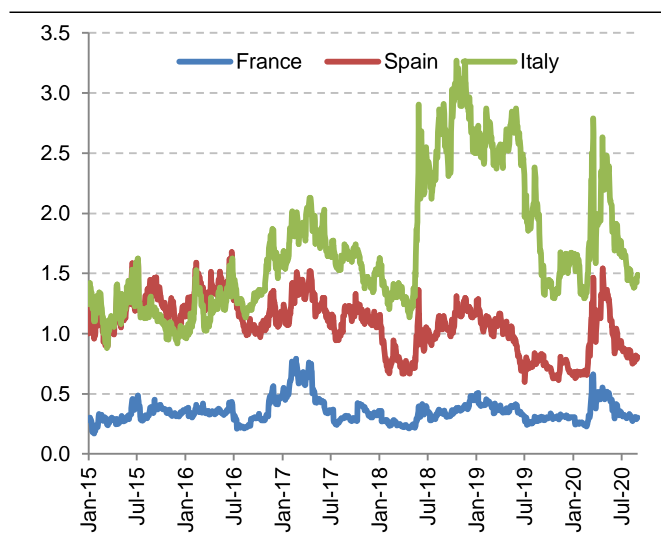
Chart 30. EU Yield Curves, %



*end of August

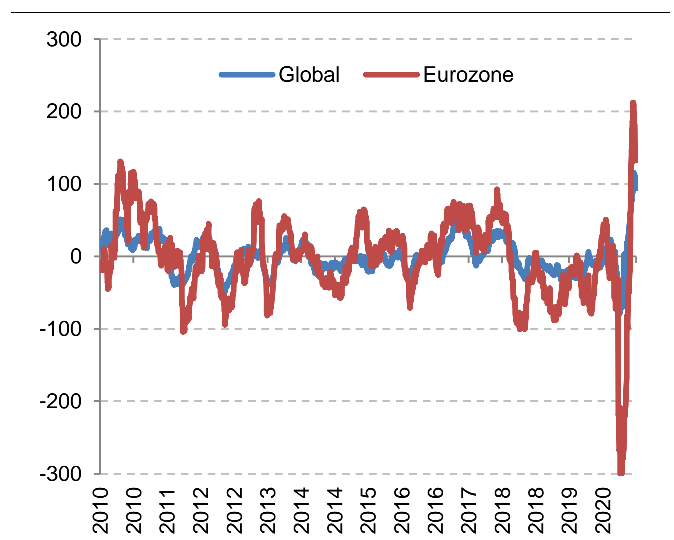
Source: Bloomberg

Chart 31. EU Countries Sov. Spreads vs Germany, 10Yr, %



Source: Bloomberg

Chart 32. Citi Economic Surprise Indexes, pts



Source: Bloomberg

ECB remains as flexible as it can and it is ready to expand its facilities further in case of deterioration of economic situation but outlook for banking NII/NIM remains weak given the fact that challenging rates environment will remain in foreseeable future (years and years). At the moment, NII remains relatively flat as weaker margins were offset by strong loan growth due to emergency liquidity needs. But the latter will inevitably decelerate in coming months as it was in US. Moreover, asset quality will continue to deteriorate as a result of sharp drop of economic activity. Thus, EU GDP tumbled by 12% qoq in 2Q20, the worst decline on a record, after the second worst decline on qoq basis shown in 1Q20. As we had

expected, new monetary easing measures were announced in June but it seems that another new measures could be announced till the end of the year as well. Accompanied by previous ECB's liquidity and capital relief measures, it could ease some pressure on banking quotes and reduce the risk of dilution but fundamentals will remain weak in foreseeable future.

Unsurprisingly, NII outlook continues to worsen despite ECB's actions aimed at easing the effect of negative rates on banks' P&L and spike in corporate lending as a result of active use of drawdowns. Thus, median decline of NII FY20 estimates of EU banks was 0.2% qtd or -5.2% ytd while FY21 estimates declined by 0.4% qtd and -7.1% ytd. Median NIM FY20 estimate decreased by 1.9 bps qtd but +2.5 bps ytd to 1.52% while NIM FY21 decreased by 2.7 bps qtd or -0.7 bps ytd to 1.47%, implying further decline yoy in 2021.

Key benchmark rates increased meaningfully in August after weak dynamics in June and July. Notwithstanding, rates still remain significantly lower ytd. Thus, 3M Euribor (Dec 2021) increased only by 2 bps MoM to -0.48% (as the end of August) or -20.5 bps ytd while 3M Euribor (Dec 2022) went up by 3 bps MoM to -0.46% and it is -32.5 bps yoy.

The direction of dynamics of generic yields was uniform in August with growth across the yield curve but the long end increased more significantly. But, it still remains meaningfully lower than it was at the end of 2019. 3M yield increased by 1.2 bps MoM to -0.56%. 6M yield went down by 3.4 bps to -0.6%. 1yr generic yield was almost flat MoM at -0.55% while 2yr yield increased by 6.1 bps MoM to -0.65%. 5yr yield went up by 9.2 bps to -0.63% while 10yr yield skyrocketed by 12.7 bps to -0.4%. Overall, the yield curve remains relatively flat and slightly inverted in the middle part of the curve. Spreads increased markedly in August after weak dynamics in previous months. Thus, spread between 10yr yield and 1yr yield increased by 12.7 bps MoM to 0.16% while spread between 5yr and 3M yields went up by 8 bps MoM to still negative -0.07%. Both spreads are markedly higher than April trough but they remain much lower ytd. The yield curve is still below 0 except for 30-yr yield.

THEME OF THE MONTH

EU Banks 2Q20 Overview

European banks reported markedly better figures in 2Q20 with positive EPS and revenue surprises for majority of SX7P index members even despite significant growth of provisions for the second consecutive quarter. Thus, 26 out of 32 banks from SX7P index for which estimates were available reported positive surprises on EPS. Revenues were also better than expected with 17 out 24 banks from SX7P index for which estimates were available reported positive surprises. The key reason of better results was significant decline of estimates. In turn, earnings momentum continued to worsen with median decline of operating profit of more than 40% yoy for the second consecutive quarter. It was the most significant drop since 4Q12. Revenue declined by 3.4% yoy driven by both NII and fees which were unexpectedly resilient in 1Q20. Decline was broad-based and it seems that negative dynamics will persist in 2H20. Unsurprisingly, market perception of the results was slightly negative even despite significant underperformance of EU banks ytd. Thus, median 1-day performance of SX7P index members around the earnings date was -0.2% during 2Q20 earnings season while SX7P index decreased by 4.6% since July, a day before the first member of SX7P index reported its 2Q20 results, till the end of August while STOXX 600 index was almost flat over the same period, losing just 0.1%.

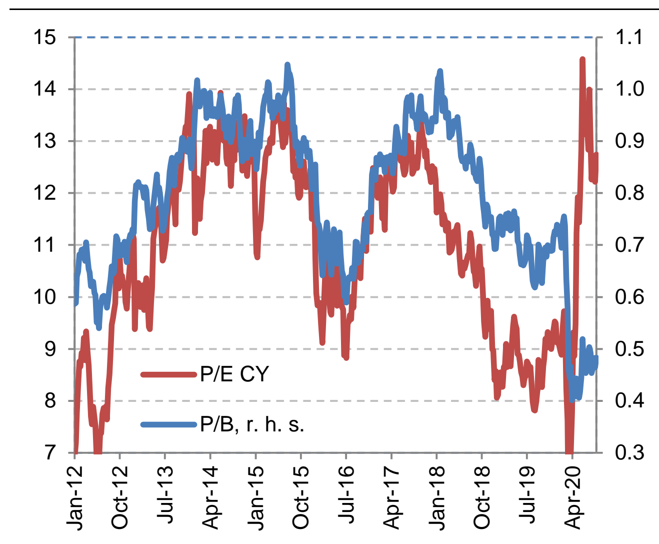
Median decline of EU banks net income (SX7P index members) was 42% in 2Q20 after drop by 41% in 1Q20, following two consecutive quarters of positive yoy growth. The key driver of negative NI dynamics was skyrocketed provision expense, which will remain elevated in the nearest quarters given the depth of economic slowdown. So, median ROE of EU banks declined by 158 bps qoq or -335 bps yoy to 5.1%, the lowest figure since 4Q14. Due to positive EPS and revenue surprises as well as strong cost control, expectations stopped being revised down. Thus, median decline of FY2020 revenue estimates is 4.6% ytd but +0.9% qtd, implying decline of 13.6% yoy. As of FY2021 revenue estimates, median decline is 7.0% ytd but +0.7% qtd, implying growth of +0.7% yoy in 2021. Median EPS 2020 decline is -59.2% ytd but 1.6% qtd while median EPS 2021 decline is -44.7% ytd or +1.0% qtd.

Revenue environment remains very challenging for European banks and it will not improve materially in the foreseeable future, especially NII/NIM while credit quality will remain a drag for the bottom line. Notwithstanding, NII remains pretty resilient so far despite significant decline of key benchmark yields ytd. Thus, median NII decline of EU banks was just 2.8% yoy and was positively impacted by earning assets growth while NIM was a drag. Thus, median NIM decreased by 5.4 bps qoq, or -2.4 bps yoy, to 1.54%, the lowest figure since 1Q17. Unsurprisingly, NII outlook continues to worsen despite ECB's actions aimed at easing the effect of negative rates on banks' P&L and a spike in corporate lending as a result of active use of drawdowns. Thus, median decline of NII FY20 estimates of EU banks was 0.2% qtd, or -5.2% ytd, while FY21 estimates declined by 0.4% qtd and -7.1% ytd. Median NIM FY20 estimate decreased by 1.9 bps qtd but +2.5 bps ytd to 1.52% while NIM FY21 decreased by 2.7 bps qtd, or -0.7 bps ytd, to 1.47%, implying further decline yoy in 2021. Median decline of non-interest revenue was 3.4% yoy after growth of 1.2% yoy in 1Q20, which was the third consecutive quarter of positive yoy growth. Notwithstanding, fees estimates were revised up qtd but remains negative on ytd basis, -6.7%/-5.7% for FY20/FY21, respectively.

Median decline of OpEx was 4.8% yoy in 2Q20, the first decline after five consecutive quarters of growth. So, operating leverage was positive but it was just the second quarter of positive operating leverage over the last 6. Thus, it was +2.6% in 2Q20 after -3.4% in 2Q20. Unsurprisingly, efficiency ratio decreased by 6.3% qoq, or -0.5% yoy, in absolute terms to

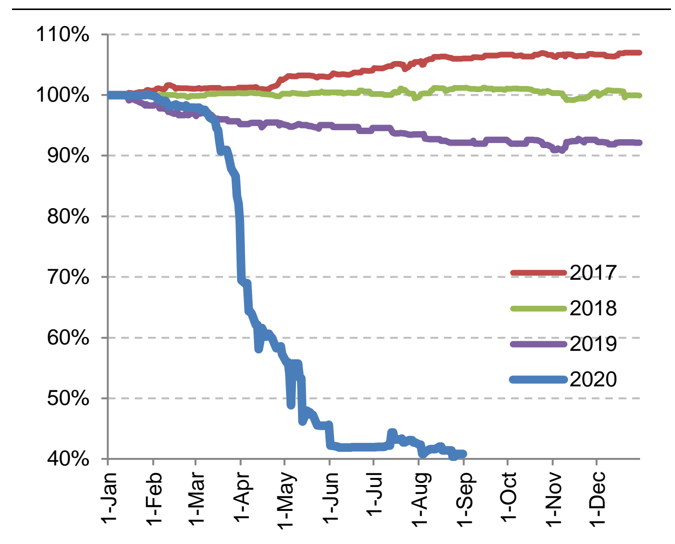
59.6%, the lowest figure since 3Q18. Given challenging revenue environment and higher provisions, a number of banks have already announced new cost cutting programs. But we don't expect that it will significantly improve bottom line, taking into account challenging revenue environment.

Chart 33. EU Banks. Multipliers



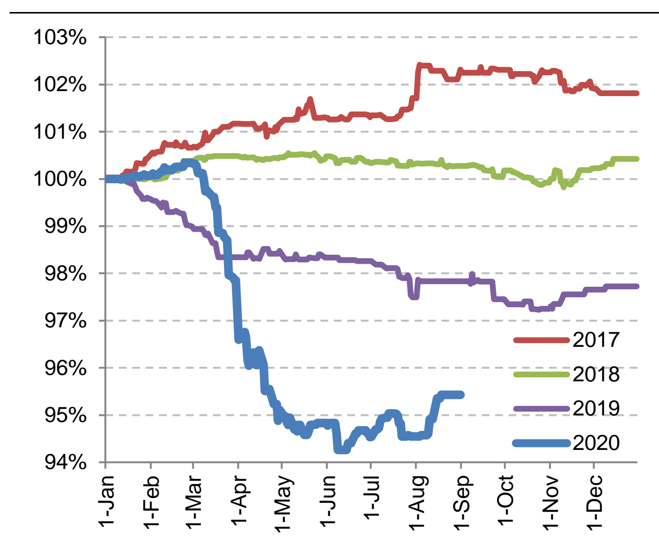
Source: Bloomberg

Chart 34. SX7P Index. Median CY EPS Est. Dynamics



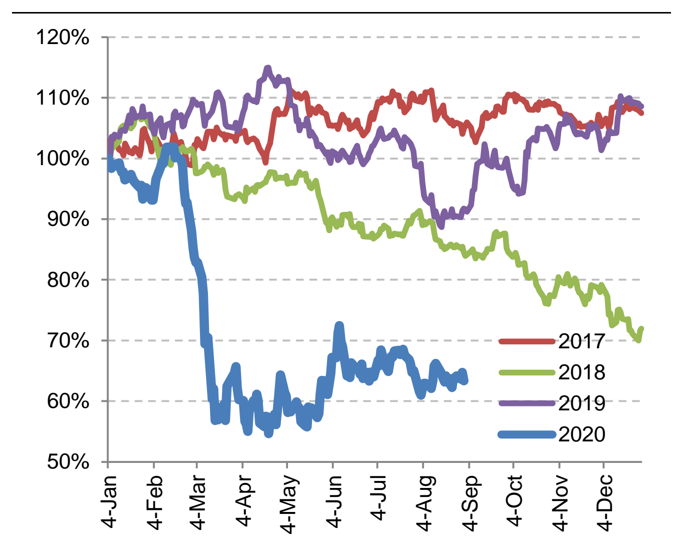
Source: Bloomberg

Chart 35. SX7P Index. Median CY Rev Est. Dynamics



Source: Bloomberg

Chart 36. SX7P Index. Price dynamics



Source: Bloomberg

Despite credit quality of European banks remained relatively strong so far, provisions skyrocketed by 280% yoy in 2Q20 after growth of 196% yoy in 1Q20, the 5th consecutive quarter of yoy growth after 27 consecutive quarters of lower provisions. It wasn't surprising given meltdown of EU economy in 1H20 but forecasts were relatively flat in 3Q20. And it is hardly to expect that provisions will continue their explosive growth if we don't see new lockdowns because of the second wave of the pandemic. Thus, median growth of provision expense estimates of BKX index members was 175% ytd but flat qtd and +74% ytd/+1% qtd for 2020 and 2021 years, respectively. In turn, median NPLs ratio increased by 4 bps qoq or just +13 bps yoy to 2.8% in 2Q20. So, coverage ratio increased by 2.4% qoq or +3.1% yoy in absolute terms to 61.7%, the highest level over more than 10 years.

Capital of European banks remains very strong with median CET1 ratio of SX7P index members at 14.6% in 2Q20, +90 bps both qoq and yoy. But estimates of dividends were relatively flat qtd as a result of temporary ban on dividends despite CET1 ratios of majority

European banks are markedly higher than minimum required level, -66% ytd and -45% ytd for FY2020 and FY2021, respectively. It is quite possible that capital ratios could fall in 2H20 as a result of RWA growth because of NPLs mounting but we expect that DPS forecasts should increase markedly in the near term, at least for 2021 year.

Recovery of EU economy has decelerated recently despite surprisingly fast response by ECB and the authorities of the countries in the form of significant both fiscal and monetary stimuli. So, economic projections were improved recently while 2Q20 earnings season was markedly better than feared. But better figures don't mean that results were strong. On the contrary, they were quite mediocre and we expect that fundamentals will remain relatively weak in the nearest 3-4 quarters. Notwithstanding, we believe that EU banks have already tested the bottom given current economic estimates. From the other hand, EU banks is no more trading with discount to historical averages while discount to US peers is much lower than usually. Thus, premium to historical averages is +4% (+0.2 std at the moment from mean P/E NY of SX7P index members, sample from 2010 to the present) but discount to US peers (on median P/E NY of BKX index vs SX7P index) is just 15.5% at the moment vs average since 2010 of 20.8%, out of synch with reality, from our point of view, given higher risks associated with EU banks which have not fully recovered from the previous crisis yet. So, we continue prefer US banks to EU ones at the moment.

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 31/08/20, $	Target price, $	Upside	52-week price, $		RSI	MCap, $ bn.	Dividend yield			Price/Earnings			Price to book	Price to tang. book	ROE, %			TCE ratio, %	CET1 ratio, %
					High	Low			2020E	2021E	2022E	2020E	2021E	2022E			2020E	2021E	2022E		
American Express	AXP	101.6	105.8	4.2%	138.1	67.0	59.0	81.8	1.7%	1.8%	1.8%	29.7	15.3	11.5	3.9	N. A.	12.4	22.9	28.4	10.0	10.7
JP Morgan Chase	JPM	100.2	113.7	13.5%	141.1	77.0	51.9	305.3	3.6%	3.7%	3.9%	17.2	11.4	9.6	1.3	1.6	7.5	10.8	12.5	7.0	12.4
PNC Financial	PNC	111.2	115.9	4.2%	161.7	79.5	56.5	47.2	4.1%	4.2%	4.2%	14.5	15.3	12.1	1.0	1.2	7.3	6.1	7.9	9.8	9.5
Bank of America	BAC	25.7	27.8	8.1%	35.7	18.0	52.4	223.0	2.8%	3.0%	3.4%	16.5	12.1	9.4	0.9	1.3	5.6	7.0	8.7	7.2	11.2
Citigroup	C	51.1	67.8	32.7%	83.1	32.0	49.0	106.4	4.0%	4.2%	4.6%	16.1	8.4	6.0	0.6	0.7	3.8	7.0	9.2	7.7	11.8
Truist Financial Corp	TFC	38.8	44.1	13.6%	56.9	24.0	52.5	52.3	4.6%	4.7%	4.9%	12.7	12.0	9.2	0.8	1.5	6.4	6.4	8.7	7.3	9.5
Goldman Sachs	GS	204.9	247.4	20.7%	250.1	130.9	49.0	73.4	2.4%	2.5%	2.7%	11.6	8.9	7.7	0.9	1.0	7.0	9.7	10.4	7.5	13.3
Bank of NY Mellon	BK	37.0	43.9	18.6%	51.6	26.4	50.5	32.8	3.3%	3.4%	3.8%	9.6	9.5	8.6	0.8	1.7	8.8	8.5	8.7	4.8	12.5
Comerica	CMA	39.5	41.5	4.9%	73.3	24.3	51.0	5.5	6.9%	6.8%	7.0%	20.7	11.8	9.1	0.7	0.8	3.8	6.0	8.3	9.2	10.1
Citizens Financial	CFG	25.9	29.6	14.5%	41.3	14.1	54.6	11.0	6.0%	6.1%	6.2%	14.8	10.3	7.4	0.5	0.8	3.7	5.0	6.8	8.5	10.0
Regions Financial	RF	11.6	12.7	9.9%	17.5	7.0	53.9	11.1	5.4%	5.5%	5.7%	21.3	9.5	7.6	0.7	1.0	3.1	6.4	8.5	8.1	9.6
Discover Financial	DFS	53.1	61.6	16.1%	87.4	23.3	54.1	16.3	3.3%	3.2%	3.5%	53.2	9.8	6.3	1.9	2.0	2.6	13.1	21.8	9.6	11.2
M&T Bank	MTB	103.3	123.4	19.5%	174.0	85.1	46.0	13.2	4.3%	4.3%	4.4%	11.8	10.5	8.6	0.9	1.3	7.5	7.8	9.5	8.5	9.7
Fifth Third Bancorp	FITB	20.7	23.0	11.3%	31.6	11.1	53.8	14.7	5.3%	5.3%	5.5%	15.4	10.9	7.8	0.7	0.9	4.7	5.8	8.6	9.0	9.8
Huntington Bancorp	HBAN	9.4	10.8	14.9%	15.6	6.8	48.8	9.6	6.4%	6.6%	7.0%	15.7	9.8	7.6	0.9	1.1	5.4	8.0	11.3	7.8	9.9
Northern Trust	NTRS	81.9	84.3	2.9%	110.5	60.7	49.8	17.0	3.4%	3.5%	3.6%	14.2	13.9	12.7	1.5	1.6	11.8	11.5	12.5	7.6	13.2
People's United	PBCT	10.6	12.2	15.4%	17.2	9.4	43.1	4.5	6.8%	6.9%	6.9%	9.6	11.0	9.1	0.6	1.0	6.1	5.6	6.4	8.0	10.2
Synchrony Financial	SYF	24.8	28.5	15.0%	38.2	12.2	54.4	14.5	3.6%	3.6%	4.0%	16.8	9.3	6.0	1.3	1.6	6.5	11.5	18.1	11.7	14.1
KeyCorp	KEY	12.3	14.0	13.9%	20.5	7.5	49.5	12.0	6.0%	6.2%	6.4%	13.3	9.6	7.1	0.7	0.9	5.5	7.2	10.2	9.0	9.4
State Street Corp	STT	68.1	71.0	4.2%	85.9	42.1	51.5	24.0	3.1%	3.1%	3.3%	10.6	10.8	9.6	1.1	1.9	10.2	9.3	9.3	4.7	11.9
US Bancorp	USB	36.4	42.4	16.5%	61.0	28.4	47.9	54.8	4.6%	4.7%	4.8%	14.9	12.6	9.1	1.2	1.6	8.2	8.9	12.6	7.3	9.1
Zions Bancorp	ZION	32.2	36.5	13.6%	52.5	23.6	45.0	5.3	4.2%	4.4%	4.8%	15.1	10.5	8.3	0.8	0.9	5.1	6.6	8.2	8.5	10.2
Morgan Stanley	MS	52.3	59.2	13.2%	57.6	27.2	56.8	82.4	2.7%	2.8%	3.0%	10.3	10.5	9.2	1.1	1.2	9.9	9.3	10.0	7.2	16.4
Capital One Financial	COF	69.0	81.6	18.2%	107.6	38.0	56.1	31.5	1.4%	1.4%	2.1%	-32.8	10.9	6.0	0.6	0.9	-2.3	4.8	8.9	10.2	12.2
Wells Fargo	WFC	24.2	29.1	20.4%	54.8	22.0	44.9	99.5	5.1%	2.3%	4.0%	243.9	11.5	7.0	0.6	0.8	0.2	4.7	8.2	7.3	11.1
First Republic Banks	FRC	112.9	116.3	3.0%	125.1	70.1	46.8	19.3	0.7%	0.7%	0.8%	21.1	20.7	17.8	2.1	2.1	9.9	9.3	9.7	7.3	9.9
NY Commercial Bancshares	NYCB	9.1	12.0	33.0%	13.8	8.2	35.6	4.2	7.5%	7.5%	7.5%	10.5	8.9	7.8	0.7	1.1	6.4	7.5	8.1	7.4	9.9
SVB Financial	SIVB	255.4	252.5	-1.1%	271.0	127.4	64.2	13.2	0.0%	0.0%	0.0%	18.5	17.3	13.7	1.9	1.9	10.8	10.4	11.5	8.4	12.6
Signature Bank	SBNY	97.0	132.8	36.8%	148.6	69.1	41.0	5.2	2.3%	2.3%	2.4%	9.9	8.4	7.1	1.1	1.1	10.7	11.4	11.7	9.4	11.6
East West Bancorp	EWBC	36.8	40.9	11.2%	51.8	22.6	49.6	5.2	3.0%	3.1%	3.3%	10.4	10.0	8.6	1.0	1.2	10.0	9.6	10.7	10.4	12.9
Synovus Financial	SNV	21.9	25.3	15.7%	40.3	10.9	53.9	3.2	6.0%	6.0%	6.1%	14.0	11.6	6.8	0.7	0.8	5.6	6.4	9.0	8.1	8.9
First Horizon National	FHN	9.6	11.8	23.4%	17.4	6.3	49.1	5.3	6.3%	6.5%	7.0%	11.9	7.3	6.0	0.6	0.9	7.2	8.5	10.4	7.5	9.2
BOK Financial	BOKF	56.1	60.4	7.6%	88.2	34.6	47.0	3.9	3.7%	3.7%	3.8%	11.5	11.1	9.1	0.8	1.0	6.5	6.6	7.7	9.0	11.4
Median				**13.9%**			**50.5**		**4.0%**	**3.7%**	**4.0%**	**14.5**	**10.8**	**8.6**	**0.9**	**1.1**	**6.5**	**7.8**	**9.3**	**8.1**	**10.7**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (31/08/20)	Target price*	Upside	52-week price*		RSI	MCap, € bn.	Dividend yield			Price/Earnings			Price to book	Price to tang. book	ROE, %			TCE ratio, %	CET1 ratio, %
						High	Low			2020E	2021E	2022E	2020E	2021E	2022E			2020E	2021E	2022E		
Erste Group	EBS AV	EUR	20.4	26.9	32.1%	35.8	15.2	52.7	8.8	3.0%	4.4%	6.0%	13.6	10.0	7.4	0.6	0.6	4.8	6.0	7.4	5.2	13.8
Raiffeisen Bank	RBI AV	EUR	15.0	19.5	29.9%	23.5	10.7	48.5	4.9	3.1%	4.6%	5.8%	8.1	7.0	5.7	0.4	0.4	6.4	6.9	7.0	7.3	13.9
KBC Groep	KBC BB	EUR	48.1	58.8	22.3%	73.6	33.4	50.3	20.0	3.5%	4.8%	6.2%	16.3	12.1	9.8	1.1	1.2	6.3	8.2	9.2	6.0	17.1
Komercni Banka	KOMB CK	CZK	530.0	657.5	24.1%	850.0	465.0	51.2	3.8	6.8%	6.8%	7.3%	12.4	11.2	9.5	0.9	1.0	8.0	8.0	8.8	9.0	19.1
Jyske Bank	JYSK DC	DKK	186.3	220.2	18.2%	285.4	150.5	33.0	1.9	2.1%	1.9%	2.4%	14.0	7.4	6.3	0.4	0.4	3.1	5.2	5.6	5.0	17.4
SydBank	SYDB DC	DKK	104.9	120.8	15.2%	162.3	83.0	23.6	0.9	4.9%	5.3%	6.1%	9.5	8.4	7.4	0.6	0.6	5.8	6.0	6.5	7.3	17.8
Danske Bank	DANSKE DC	DKK	96.5	115.3	19.4%	123.6	68.0	42.8	11.2	2.2%	5.7%	7.1%	23.7	8.8	7.1	0.5	0.6	2.3	6.0	7.1	3.9	17.3
BNP Paribas	BNP FP	EUR	36.6	44.5	21.6%	54.2	24.5	58.2	45.7	5.8%	6.1%	7.4%	8.5	7.9	6.3	0.5	0.5	5.4	5.2	6.5	4.0	12.1
Natixis	KN FP	EUR	2.3	2.8	20.1%	4.4	1.5	56.7	7.3	3.9%	8.7%	10.5%	40.4	9.6	7.0	0.4	0.5	0.7	4.3	5.5	2.5	11.3
Societe Generale	GLE FP	EUR	13.6	16.5	21.4%	32.2	11.3	52.3	11.6	2.0%	5.9%	9.7%	-23.5	8.6	5.0	0.2	0.2	-0.3	2.9	4.1	4.2	12.7
Credit Agricole	ACA FO	EUR	8.6	10.6	23.8%	13.8	5.7	56.5	24.8	3.8%	5.7%	7.3%	9.1	8.6	6.8	0.4	0.6	4.3	4.3	5.5	2.2	12.1
Virgin Money	CYBG LN	GBp	93.2	119.6	28.4%	222.1	46.1	52.1	1.5	0.0%	0.0%	0.0%	25.2	10.4	4.7	0.3	0.3	0.2	2.4	5.9	5.0	13.3
HSBC	HSBA LN	GBp	330.2	365.7	10.8%	633.5	319.5	41.3	75.3	0.0%	0.1%	0.1%	14.9	8.4	6.0	0.5	0.6	2.4	4.7	6.4	5.3	14.7
Royal Bank of Scotland	RBS LN	GBp	112.8	144.3	27.9%	265.0	100.4	47.3	15.3	0.0%	0.1%	0.1%	-30.5	11.2	6.1	0.4	0.4	-2.0	2.7	5.8	4.5	16.2
Barclays	BARC LN	GBp	112.0	140.2	25.2%	193.0	73.0	54.6	21.8	0.0%	0.0%	0.1%	26.7	9.3	5.6	0.3	0.4	1.1	4.4	6.2	4.0	13.8
Standard Charted	STAN LN	GBp	392.4	491.7	25.3%	740.8	368.4	42.4	13.9	0.0%	0.1%	0.1%	11.8	6.5	4.7	0.4	0.4	2.0	3.7	5.1	5.3	13.8
Lloyds	LLOY LN	GBp	28.4	37.1	30.9%	70.0	25.5	46.1	22.5	0.0%	0.1%	0.1%	31.5	8.3	5.7	0.5	0.6	1.5	7.0	7.5	4.3	13.6
Commerzbank	CBK GY	EUR	4.9	4.9	0.4%	6.8	2.8	63.2	6.1	0.2%	0.9%	2.1%	-286.1	26.4	8.7	0.2	0.2	-0.6	0.2	2.6	5.5	13.4
Deutsche Bank	DBK GY	EUR	8.0	6.7	-16.8%	10.4	4.4	55.3	16.6	0.0%	0.4%	2.0%	-48.1	33.0	10.0	0.3	0.3	-1.6	0.7	3.4	3.8	13.6
UniCredit	UCG IM	EUR	8.3	9.8	19.0%	14.4	6.0	55.6	18.5	1.6%	3.9%	5.6%	105.8	9.5	5.8	0.3	0.4	-0.5	3.2	5.3	6.2	13.2
Mediobanka	MB IM	EUR	7.3	8.5	16.4%	11.0	4.1	62.2	6.5	5.3%	5.2%	7.1%	11.0	8.9	8.0	0.7	N. A.	5.2	6.3	7.5	11.5	16.1
Intesa Sanpaolo	ISP IM	EUR	1.8	2.1	15.2%	2.6	1.3	52.0	34.8	6.7%	7.0%	8.0%	11.2	9.8	8.1	0.6	0.7	5.5	5.7	6.8	5.2	13.9
Emilia Romagna	BPE IM	EUR	2.3	3.0	30.1%	4.7	1.8	56.4	1.2	0.8%	3.1%	5.9%	62.2	7.4	4.8	0.2	0.3	1.2	2.6	4.6	5.5	13.9
UBI Banca	UBI IM	EUR	3.6	3.0	-16.3%	4.5	2.1	55.2	4.2	1.3%	2.7%	4.9%	25.9	16.7	9.5	0.3	0.4	1.5	3.2	4.5	6.2	12.3
ING Groep	INGA NA	EUR	6.8	8.4	23.7%	11.3	4.2	61.6	26.5	5.1%	7.0%	7.8%	9.5	7.8	6.5	0.5	0.5	5.1	5.8	6.8	5.8	14.6
ABN Amro	ABN NA	EUR	8.0	10.8	35.2%	18.7	5.7	58.5	7.5	1.6%	7.9%	11.4%	-22.7	8.6	5.7	0.3	0.3	-1.5	4.3	6.4	5.7	18.1
DNB	DNB NO	NOK	140.2	145.9	4.1%	178.1	94.3	53.7	21.2	4.5%	5.5%	6.3%	13.3	10.8	9.6	1.0	1.0	7.7	8.6	9.3	7.5	18.6
BBVA	BBVA SQ	EUR	2.5	3.3	33.0%	5.3	2.4	45.8	16.4	1.3%	4.9%	6.9%	12.6	6.8	5.2	0.3	0.4	1.3	5.2	6.4	6.0	12.0
Santander	SAN SQ	EUR	1.9	2.5	31.8%	4.0	1.8	50.6	31.0	2.6%	5.2%	7.2%	9.9	7.5	5.5	0.4	0.5	-2.1	5.2	6.6	4.8	11.7
Bankia	BKIA SQ	EUR	1.1	1.1	7.5%	2.0	0.7	49.9	3.2	0.9%	2.9%	5.8%	48.0	17.6	9.0	0.2	0.3	0.8	1.6	2.8	6.2	14.3
Bankinter	BKT SQ	EUR	4.5	4.5	-0.1%	6.9	3.0	57.5	4.1	0.9%	2.5%	4.3%	16.2	15.5	10.8	0.9	0.9	5.0	8.4	7.6	5.3	11.6
Sabadell	SAB SQ	EUR	0.3	0.4	7.9%	1.1	0.3	56.0	1.9	0.9%	2.7%	6.2%	-67.6	14.7	6.5	0.2	0.2	-0.1	0.9	2.5	4.7	12.4
CaixaBank	CABK SQ	EUR	1.8	2.2	20.3%	2.9	1.5	44.6	11.0	1.8%	4.9%	6.7%	13.7	9.2	7.1	0.5	0.5	3.0	4.6	5.9	5.5	12.0
SEB	SEBA SS	SEK	85.7	95.9	11.9%	104.9	59.8	55.1	18.2	5.4%	6.3%	7.0%	12.6	10.2	9.4	1.2	1.2	8.6	10.8	11.1	5.2	17.6
Handelsbanken	SHBA SS	SEK	87.0	95.3	9.6%	113.8	71.8	56.1	16.7	4.6%	5.8%	6.5%	11.6	10.9	10.1	1.1	1.1	9.0	9.2	9.5	4.9	18.5
Swedbank	SWEDA SS	SEK	146.6	170.0	16.0%	162.7	99.1	64.1	16.1	3.3%	5.3%	5.9%	12.9	9.5	8.6	1.1	1.3	8.0	11.3	11.6	5.1	17.0
Nordea	NDA SS	SEK	69.6	78.7	13.0%	86.7	48.0	57.5	27.3	0.6%	0.8%	0.7%	14.0	8.9	8.7	0.9	1.0	6.0	8.0	8.6	4.9	16.3
Julious Baer	BAER SW	CHF	43.3	45.7	5.6%	51.3	24.1	59.2	9.0	3.6%	3.8%	4.1%	10.8	11.5	10.2	1.5	2.8	13.1	11.6	12.4	3.3	14.0
Credit Suisse	CSGN SW	CHF	9.9	12.1	21.5%	13.7	6.1	49.5	22.5	2.9%	3.1%	3.2%	8.3	7.5	6.2	0.5	0.6	6.6	6.6	7.5	4.9	12.7
UBS	UBSG SW	CHF	11.0	13.0	18.5%	13.0	6.9	51.4	39.3	4.5%	4.6%	4.8%	8.6	8.7	7.6	0.8	0.9	8.2	7.2	8.3	5.0	13.7
Median					**19.7%**			**53.2**		**2.2%**	**4.6%**	**5.9%**	**12.5**	**9.3**	**7.0**	**0.5**	**0.5**	**3.1**	**5.2**	**6.5**	**5.2**	**13.9**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Sep	EU	Macro	Unemployment Rate	Jul
1-Sep	EU	Macro	CPI	Aug
1-Sep	US	Macro	ISM Manufacturing	Aug
1-Sep	US	Macro	Construction Spending	Jul
2-Sep	EU	Macro	PPI	Jul
2-Sep	US	Macro	ADP Employment Change	Aug
2-Sep	US	Macro	Factory Orders	Jul
3-Sep	EU	Macro	Retail Sales	Jul
3-Sep	US	Macro	Trade Balance	Jul
4-Sep	**US**	**Macro**	**Employment Report**	**Aug**
8-Sep	EU	Macro	GDP	2Q
8-Sep	US	Macro	Consumer Credit	Jul
10-Sep	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Sep 10**
10-Sep	US	Macro	PPI	Aug
11-Sep	US	Macro	CPI	Aug
14-Sep	EU	Macro	Industrial Production	Jul
15-Sep	EU	Macro	ZEW Survey Expectations	Sep
15-Sep	US	Macro	Empire Manufacturing	Sep
15-Sep	US	Macro	Industrial Production and Capacity Utilization	Aug
16-Sep	EU	Macro	Trade Balance	Jul
16-Sep	US	Macro	Retail Sales	Aug
16-Sep	US	Macro	NAHB Housing Market Index	Sep
16-Sep	**US**	**Macro**	**FOMC Rate Decision**	**Sep 16**
17-Sep	EU	Macro	Construction Output	Jul
17-Sep	US	Macro	Building Permits and Housing Starts	Aug
17-Sep	US	Macro	Philadelphia Fed Business Outlook	Sep
18-Sep	US	Macro	Leading Index	Aug
18-Sep	US	Macro	U. of Mich. Sentiment	Sep
21-Sep	US	Macro	Chicago Fed Nat Activity Index	Aug
22-Sep	EU	Macro	Consumer Confidence	Sep
22-Sep	US	Macro	Existing Home Sales	Aug
22-Sep	US	Macro	Richmond Fed Manufact. Index	Sep
23-Sep	EU	Macro	Markit Eurozone Manufacturing, Services and Composite PMI	Sep
23-Sep	US	Macro	Markit US Manufacturing, Services and Composite PMI	Sep
24-Sep	US	Macro	New Home Sales	Aug
26-Sep	EU	Macro	Bank Lending	Aug
28-Sep	US	Macro	Dallas Fed Manf. Activity	Sep
29-Sep	EU	Macro	Economic and Industrial Confidence	Sep
29-Sep	US	Macro	Wholesale Inventories	Aug
29-Sep	US	Macro	Conf. Board Consumer Confidence	Sep
30-Sep	EU	Macro	CPI	Sep
30-Sep	US	Macro	ADP Employment Change	Sep
30-Sep	US	Macro	GDP	2Q
30-Sep	US	Macro	Pending Home Sales	Aug