BANKING SECTOR REPORT – May 2020

EXECUTIVE SUMMARY

US banks were flat in May after very volatile first four months of the year. Notwithstanding, banks underperformed the broad market again, the fourth month of weaker dynamics over the last 5. Thus, BKX index increased by 0.1% MoM in May vs +4.5% MoM of SPX index. Absolute performance on MoM basis was -0.1 std from the mean and it is in the bottom 43% of absolute MoM performance of BKX index. Relative May performance was -4.2% MoM. It is -0.9 std from the mean and it is in the bottom 12% of relative MoM performance vs SPX index since 1992. It was the worst first five months of the year on both absolute and relative basis in BKX index history with the total absolute performance of -34.4% ytd and relative performance of -30.3% ytd.

After relief rally in April, when all members of BKX index increased on MoM basis, banks showed mixed dynamics in May. Outperformers were banks with relatively high share of trading and IB due to guidance for surge in capital market fees in 2Q20. Banks with weaker fundamentals underperformed.

Despite the fact that the broad market index wears a mask of nothing has happened, falling only 5.8% ytd as the end of May, credit quality of US banks will inevitably deteriorate meaningfully in the coming quarters because of deep recession even taking into account significant and timely bailout packages from the Government and liquidity injections from the Fed. Notwithstanding, key asset quality indicators remained strong so far, but banks provisioned more than $36 Bn for future asset quality deterioration in 1Q20 (partly because of CECL) and we expect that banks will reserve significantly more till the end of 2020. According to estimates compiled by Bloomberg, total provision expense of BKX index members for 2020 is $114 Bn as the end of May (min $81 Bn / max $189 Bn) or 2% of total loans as the end of 1Q20. However, corporate spreads have narrowed substantially in recent weeks as a result of the Fed decision to buy corporate bonds and other support measures. Undoubtedly, it could ease pressure on quotes for some time but it couldn't return real business to the normal state, especially taking into account the depth of the recession and many signs of a credit bubble on US corporate markets even in pre-COVID time. Total debt of US corporates increased by more than 50% since GFC while BBB-rated debt almost tripled and leveraged loans more than doubled over this period, with majority of leveraged loans being covenant lite. Credit bubble hasn't burst yet mainly due to low rate environment, yield seeking behavior and growing economy, but there is high risk of domino effect on that market now, from our point of view, given disruptive impact of pandemic on the global economy, even taking into account all forbearance actions of creditors and ample liquidity on the markets. US banks are less exposed to the risk than non-bank lenders, from our point of view, as lending standards were relatively tight during the all cycle, but they will not be able to avoid losses either when waive of bankruptcies begins. Also, banks noted during 1Q20 earnings season that they would ease lending standards in 2Q20, which is not consistent with fears of a prolonged recession and significant credit quality deterioration. During GFC, banks started to tighten standards to large and medium size firms as early as in 3Q07. In any case, we believe that banks have sufficient capital to absorb possible losses in case of credit quality deterioration even in case of prolonged downturn and much higher NCOs than it is expected by the market now.

US banks continue trading with significant discount both to historical averages and relative to S&P 500, but it seems that equity market is a bit out of touch with reality at the moment given the depth of global economy decline even taking into account zero rates and excess liquidity. And it is difficult to imagine that banks will outperform in short-term period given so high economic and political uncertainty. So, we still remain on the sidelines

until we see the first signs of fundamentals improvement.

EU banks decreased in May after a «dead cat» bounce in April, following significant decline in each of the first 3 months of the year. On relative basis, they underperformed the broad market again, the 4th month over the first 5 months of year. On absolute basis, SX7P index decreased by 0.5% MoM in May or -0.1 std from the mean and this result is in the bottom 39% of absolute monthly performance of SX7P since index inception. Also, relative monthly performance was -3.5% MoM or -0.9 std and it is in the bottom 15% 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% as the end of May.

One of the key drivers of May performance was the earnings season. So, banks with better than expected results outperformed those, which demonstrated weaker figures. Thus, the best performers added more than 10% MoM while Banco Sabadell lost more than 28% MoM and almost ¾ of its market capitalization ytd.

European banks reported slightly better figures in 1Q20 with positive EPS and revenue surprises for majority of SX7P index members even despite median growth of provision expense was almost 200% on yoy basis while key benchmark yields tumbled ytd. Thus, 20 out of 35 banks from SX7P index for which estimates were available reported positive surprises on EPS. Notwithstanding, earnings momentum worsened significantly in 1Q20 after two consecutive quarters of positive yoy dynamics of operating profit. Median decline of operating profit of SX7P index members was 42.4% yoy in 1Q20, the most significant one since 4Q12. However, both NII and fees were relatively resilient in 1Q20 despite challenging revenue environment, while costs remain under control but growing. So, the key question is whether NII and Non-II trends are sustainable in current environment as provision expenses will inevitably go up in coming quarters. In any case, the earnings season was better than feared. So, market perception of the results was positive given significant underperformance of EU banks ytd. Thus, median 1-day performance of SX7P index members around the earnings date was +2.4% during 1Q20 earnings season while SX7P index skyrocketed by 11.8% since April 21, a day before the first member of SX7P index reported its 1Q20 results, and till the end of May while STOXX 600 index increased by 8% over the same period.

From the other hand, EU macro data remains weak even despite partial re-opening of the economy in May. Economic surprise indices are still near record lows while projections continue to be revised down. Thus, according to consensus compiled by Bloomberg, it is expected that EU GDP will shrink by 7.6% yoy in 2020 while GDP decline will be double-digit in 2Q20. Unsurprisingly, estimates continue go down while variability of them remains very high, pointing to high level of uncertainty. Thus, median decline of FY2020 revenue estimates is 5.3% ytd, -2.5% qtd, implying decline of 13.8% yoy. As of FY2021 revenue estimates, median decline is 6% ytd or -2.6% qtd. Median EPS 2020 decline is -54.4% ytd or -40.1% qtd while median EPS 2021 decline is -38.1% ytd or -24.7% qtd. Notwithstanding, it seems that EU banks have already tested the bottom given current economic estimates. And EU banks continue to trade with noticeable discount to historical averages (-16%/ -0.9 std 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 15.6% 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

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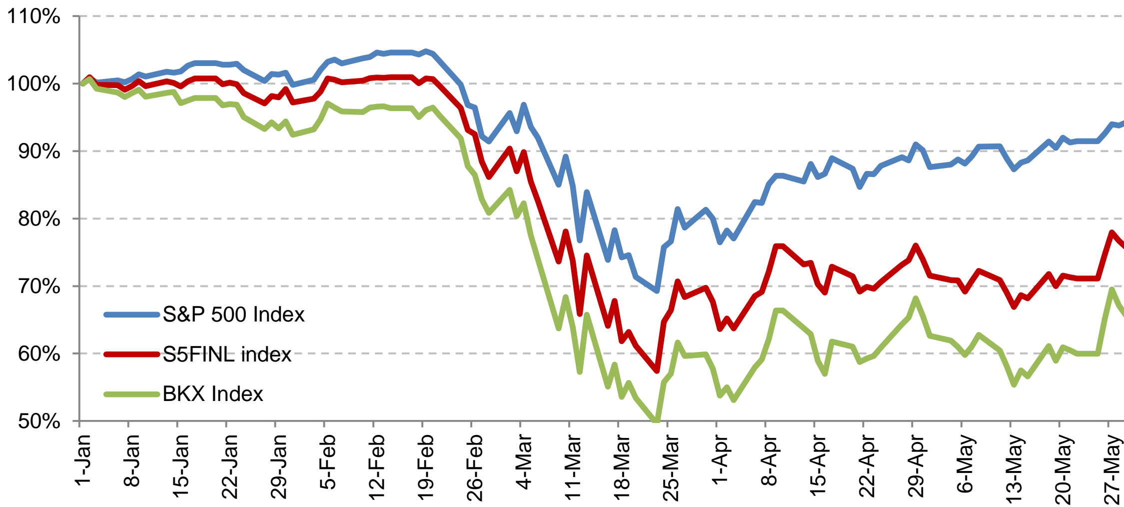
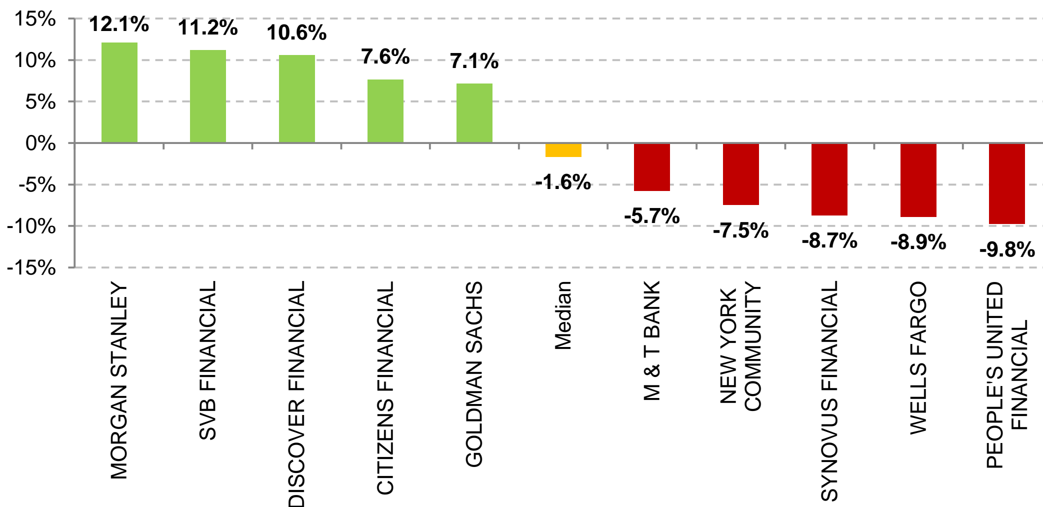
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

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



Source: Bloomberg

Europe

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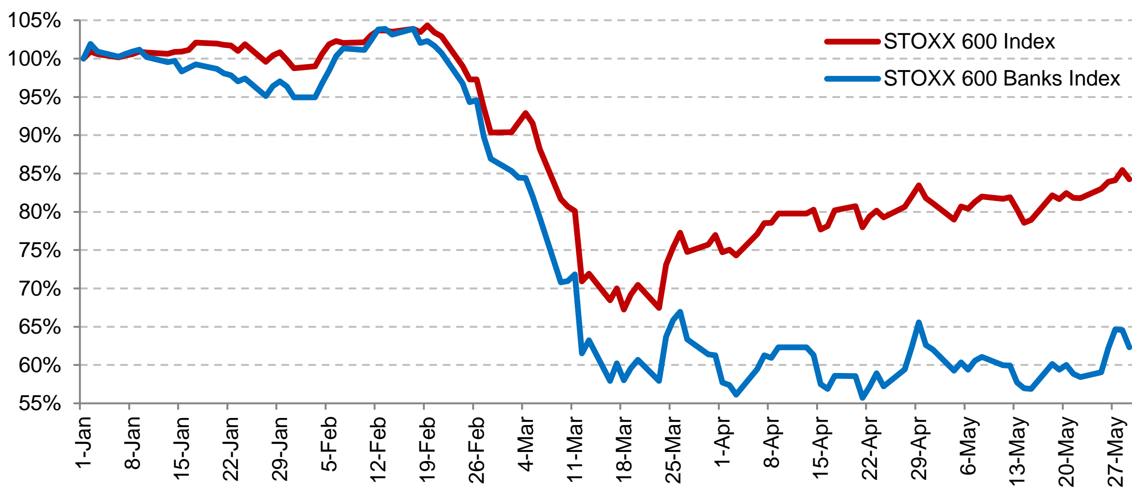
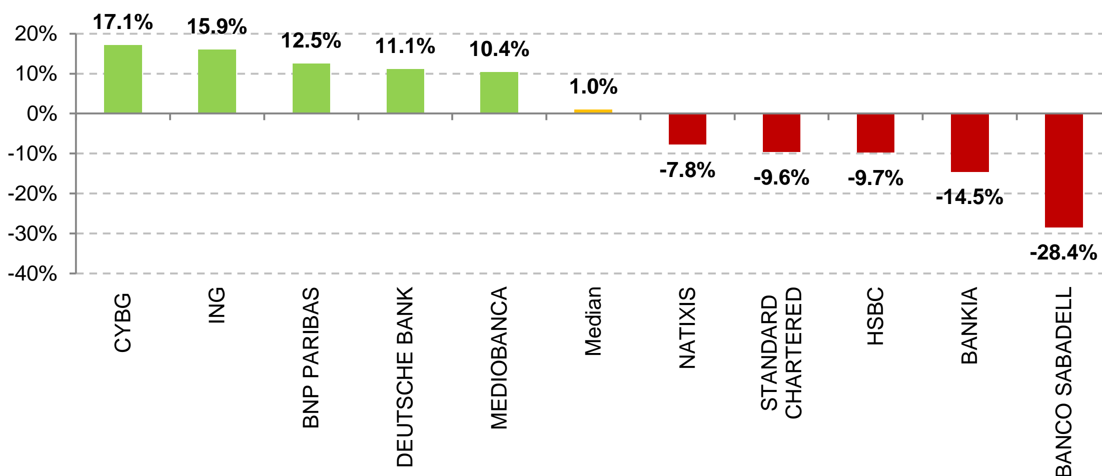
One of the key drivers of May performance was the earnings season. So, banks with better than expected results outperformed those, which demonstrated weaker figures. Thus, the best performers added more than 10% MoM while Banco Sabadell lost more than 28% MoM and almost ¾ of its market capitalization ytd.

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



Source: Bloomberg

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



Source: Bloomberg

COMPANY NEWS

EU Banks 1Q20 Overview

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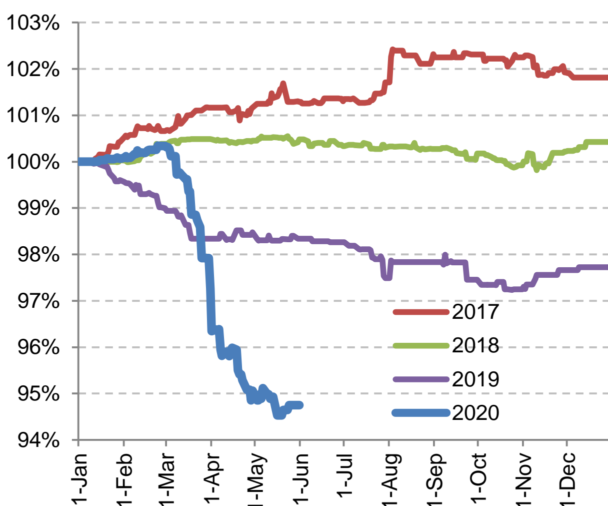
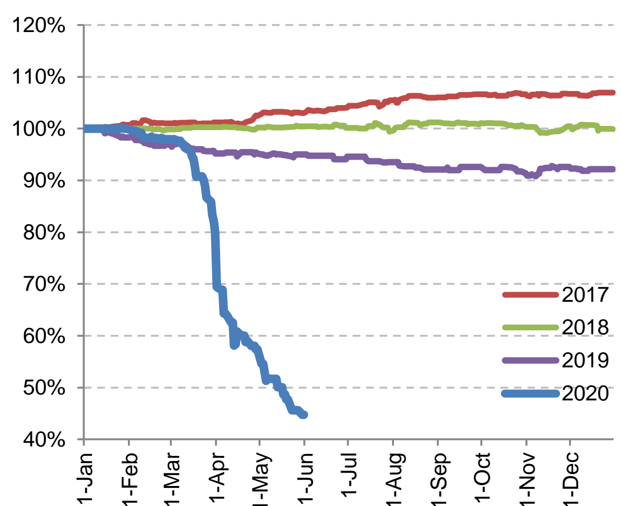
Median decline of net income of EU banks (SX7P index members) was 41.8% in 1Q20 following two consecutive quarters of positive yoy growth. The key driver of negative NI dynamics was skyrocketed provision expense, which will remain elevated in the nearest quarters given the depth of economic slowdown. So, median ROE of EU banks declined by 155 bps yoy or -113 bps qoq to 6.8%, the lowest figure since 1Q16. Despite positive EPS and revenue surprises and relatively resilient operating trends, expectations continue to be revised down. Thus, median decline of FY2020 revenue estimates is 5.3% ytd, -2.5% qtd, implying decline of 13.8% yoy. As of FY2021 revenue estimates, median decline is 6% ytd or -2.6% qtd. Median EPS 2020 decline is -54.4% ytd or -40.1% qtd while median EPS 2021 decline is -38.1%ytd or -24.7% qtd.

Chart 5. SX7P index. Median CY Rev Est. Dynamics



Source: Bloomberg

Chart 6. SX7P Index. Median CY EPS Est. Dynamics



Source: Bloomberg

Revenue environment remains very challenging for European banks and it will not improve materially in the foreseeable future, especially for 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 growth of EU banks was +3.1% yoy driven by both earning assets growth and NIM growth. Thus, median NIM increased by 5.4 bps yoy to 1.62%, unexpectedly higher by 11.3 bps on qoq basis. Notwithstanding, 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 3% qtd or -5.2% ytd while FY21 estimates declined by 3.7% qtd and -6.1% ytd. Median NIM FY20 estimate increased by 5 bps ytd but decreased by 3 bps qtd to 1.58% while NIM FY21 increased by 6 bps ytd to 1.58% (flat on qtd basis). Median growth of non-interest revenue was 1.2% yoy after growth of 11.5% yoy in 4Q19, the third consecutive quarter of positive yoy growth. Notwithstanding, fees estimates also declined ytd by 8.0%/6.9% for FY20/FY21, respectively.

Median growth of OpEx was 2% yoy in 1Q20 following growth of 4.2% yoy in 4Q19, significant acceleration of growth vs +0.1% yoy in 1Q19. So, operating leverage remains negative again, the fourth quarter over the last five. Thus, it was -3.2% in 1Q20 after +2.1% in 4Q19. Unsurprisingly, efficiency ratio increased by 1.3% qoq or +3.2% yoy in absolute terms to 65%, the highest figure since 1Q16. Given challenging revenue environment and higher provisions, it is necessary for banks to resume cost cutting programs, from our point of view.

Despite credit quality of European banks remained solid so far, provisions skyrocketed by 196% yoy in 1Q20 after growth of 4.1% yoy in 4Q19, the third consecutive quarter of yoy growth after 27 consecutive quarters of lower provisions. It wasn't surprising given slowdown of EU economy but forecast were revised down since the end of 1Q20, implying elevated provision expenses in the near future even despite massive government support programs and temporary eased IFRS-9 requirements. At least, median growth of provision expenses of BKX index members was 13.3% and 15.4% for 2020 and 2021 years, respectively, since the start of the earnings season till the end of May. In turn, median NPLs ratio declined by 6 bps qoq or -38 bps yoy to 2.76% in 1Q20. So, coverage ratio increased by 1.8% qoq to 59.3% but it still remains lower on yoy basis.

Capital of European banks remains strong with median CET1 ratio of SX7P index members at 13.4% in 1Q20, +47 bps yoy but -18 bps yoy. But estimates of dividends were revised down meaningfully, by 55.3% ytd and 40.6% ytd for FY2020 and FY2021, respectively. The key reasons are an attempt to preserve capital ahead of significant worsening of credit quality and regulator's wish, which had previously eased some capital requirements. Total CET1 requirements decreased by 70 bps ytd.

EU macro data remains weak even despite partial re-opening of the economy in May. Economic surprise indices are still near record lows while projections continue to be revised down. Thus, according to consensus compiled by Bloomberg, it is expected that EU GDP will shrink by 7.6% yoy in 2020 while GDP decline will be double-digit in 2Q20. Unsurprisingly, estimates continue go down while variability of them remains very high, pointing to high level of uncertainty. Notwithstanding, it seems that EU banks have already tested the bottom given current economic estimates. And EU banks continue to trade with noticeable discount to historical averages (-16%/ -0.9 std 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 15.6% 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.

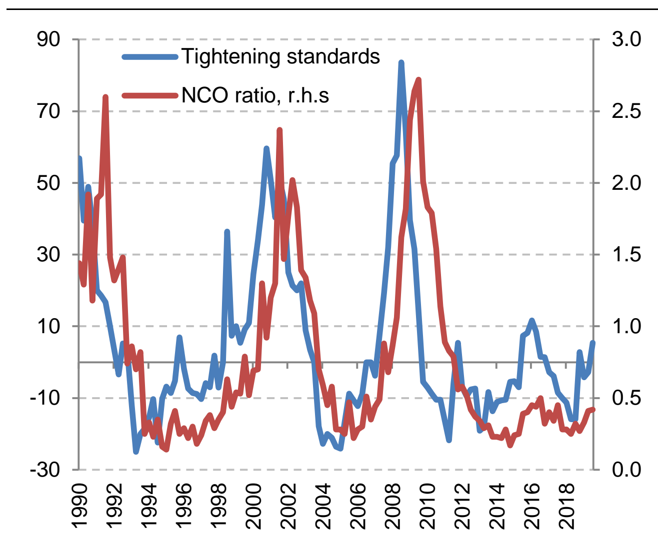
MACROECONOMIC NEWS

US

C&I loans

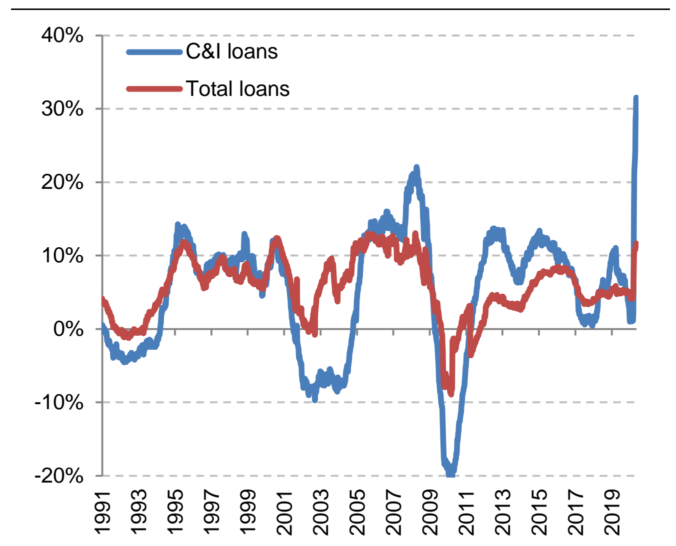
C&I loans growth accelerated to very high levels on yoy basis in March-May after anemic growth in the first two months of the year, when the figure fluctuated around 1% on yoy basis, as corporates started to actively use undrawn credit lines and revolvers because of liquidity needs. In result, C&I loans increased by $486 Bn in March but the growth decelerated markedly in April and May. Thus, C&I loans added $231 Bn in six weeks since April 1. 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 31.3% yoy (as of May 13) vs 8.1% yoy 1 year ago and +1.0% yoy as the end of 2019. On ytd basis, C&I loans skyrocketed by 31.4% vs +8.7% ytd of total loans.

Chart 7. C&I. Loan Standards vs NCOs, %



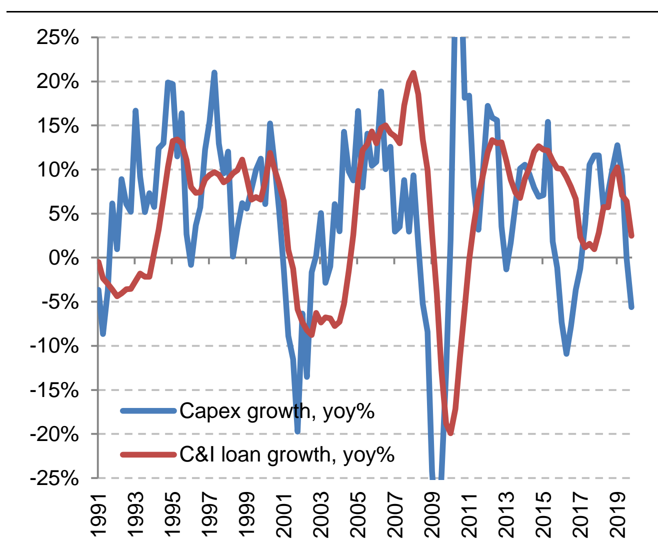
Source: Bloomberg

Chart 8. Loan Growth. C&I vs Total loans, YoY%



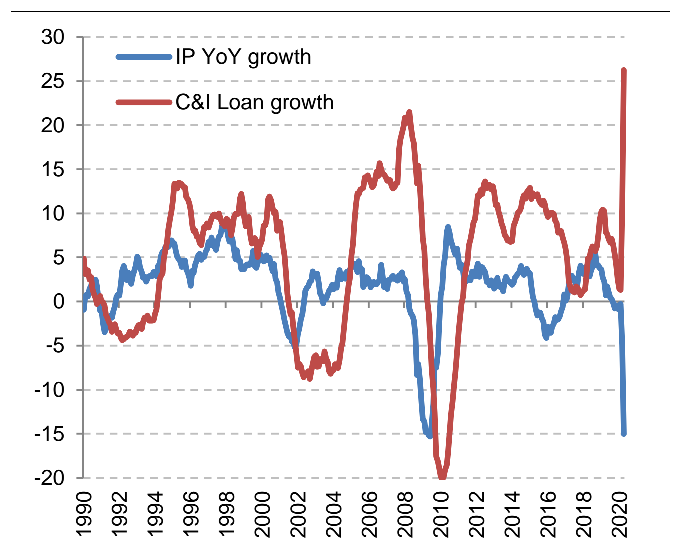
Source: Bloomberg

Chart 9. C&I. Loan Growth vs CAPEX



Source: Bloomberg

Chart 10. 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 bankruptcies in the Energy sector because of significant decline of oil prices while tourism, restaurants and non-food retailers are still almost closed, meaning that bankruptcies in these industries are not far off even despite support measures. At least, just earnings recession, which was our base case for 2020 even before spreading coronavirus around the world, looks the best, from possible options now, but currently the base case is full-fledged recession with the open question how long it will last. We don't expect that it will be a V-shaped recovery, taking into account recent macro data, 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 years (and total loan portfolio at all), it remains benign so far (even in 1Q20 in spite of significant growth of provision expense), but it will undoubtedly worsen in the coming quarters. According to FDIC data, 30-89 delinquency rate increased by 5 bps yoy but -1 bps qoq to 0.32% in 4Q19. Being a leading indicator of asset quality, it confirms that it remained in a good shape so far despite recent slowdown of US economy. Noncurrent rate also increased by 11 bps yoy to 0.79%, -2 bps qoq. Slightly lower than Fed figures, where delinquency ratio increased by 18 bps yoy or -1 bps qoq to 1.14% in 4Q19. FDIC's NCO ratio increased by 1 bps qoq or +10 bps yoy to 0.42%, still markedly lower than average figures of the last two cycles. According to the Fed data, NCO ratio increased by 8 bps yoy or -7 bps yoy to 0.35% in 4Q19.

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 and it continued to deteriorate in April. Given high leverage of US corporate sector and coming decline of revenues because of imminent recession in US, accompanied by skyrocketing growth of corporate spreads, especially for non-investment grade companies, we will see significant drop of interest coverage ratios as early as in 2Q20 even despite the fed funds rate was cut to zero. Moreover, interest coverage ratios have already been declining for eight months in a row despite relatively low benchmark rates and declining corporate spreads (to record lows). Nevertheless, 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 lasts. 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.

The January 2020 Senior Loan Officer Opinion Survey indicated that C&I lending standards remained basically unchanged on C&I loans of all segments but banks eased some C&I key terms. At least, banks narrowed spreads of loan rates over the cost of funds as well as lower cost of credit lines and easing loan covenants. The key reason of tightening standards was a less favorable or more uncertain outlook as well as reduced tolerance for risk. From the other hand, increased competition from other banks and nonbank lenders continues to be the main reason of easing standards. Banks noted weaker demand for C&I loans from firms of all sizes. Also, the number of inquiries from potential borrowers decreased in 4Q19. The key reasons were decreases in investment plans and lower needs

to finance accounts receivable. Also, banks noted that they expect “tighter standards and deterioration in loan performance for most loan categories over 2020”.

Manufacturing macro data published in May were clearly weak after disappointing April numbers. Possibly, the worst is over given that some states start to ease quarantine restrictions in May. But we don’t expect that the situation will return quickly to pre-COVID levels even despite we expect short-lived recession and positive qoq GDP growth in 3Q20. Notwithstanding, 2Q20 figures will be the weakest for several decades. So, forecasts continued to go down in May after significant decline in April, despite Citi’s economic surprise index increased significantly in May, from April’s multi-year low. ISM manufacturing index decreased by 7.6 pts MoM to 41 pts, beating consensus of 36 pts. But the real situation is worse as lower than expected decline was caused by longer delivery times while ISM production index was at the lowest level on record. Employment index also point to further GDP contraction. At least, consensus GDP growth rates for the nearest 3 years were revised down again in May. Thus, according to Bloomberg survey conducted in May, GDP growth was revised down from -3.3%/3.4%/2.3% for 2020/2021/2022, respectively, in April to -5.7%/3.9%/3.0% in May. But the most pessimistic forecasts imply that GDP could decreased by around 10% yoy in 2020. Manufacturing payrolls tumbled by 1330K in April vs expectations of -2500K, while total payrolls were -20.5 mln vs expectations of -22.0 mln. Industrial production tumbled by 11.2% MoM in April vs expectation of decline by 12% MoM after decline by 4.5% MoM in March (revised up from initial estimate of -5.4%) while capacity utilization decreased by 8.3% MoM in absolute terms to 64.9% in April, the lowest level on record. Empire manufacturing index skyrocketed by 29.7 pts MoM to -49 pts vs expectations of -60 pts. Markit manufacturing PMI increased by 3.7 pts MoM from the worst figure over decades set in April vs expectations of 40 pts. Unsurprisingly, consensus IP growth forecast was revised down again in May after significant decline in April, to -8.4%/2.2%/3.0% for 2020/2021/2022, respectively, from -5.7%/2.1%/3.0%.

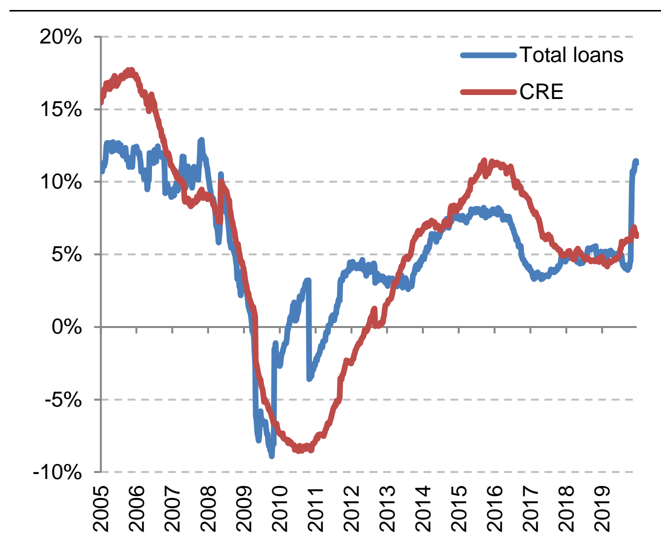
CRE

Growth rate of commercial real estate loans 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 +6.3% yoy (as of May 13) vs +4.8% yoy 1 year ago. But recent uptick is temporary, from our point of view, given upcoming recession and imminent deterioration of fundamental characteristics of the sector which were relatively healthy so far but we have already seen deterioration of some fundamentals in April. At least, transaction volumes decreased substantially across all major segments. From the other hand, April 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. Unsurprisingly, REITs quotes remain markedly lower ytd after collapse in the second half of March. Thus, BBREIT index decreased by 16.8% ytd but it was +1.7% MoM. Even significant decline of key benchmark rates didn’t support REITs as the risk of substantial deterioration of fundamentals is markedly higher at the moment.

Credit quality remains strong so far but early signs of deterioration will be seen as early as in 2Q20. According to the Fed data, CRE NCO ratio was almost flat on yoy basis at just 0.02% in 4Q19 while delinquency ratio decreased by 3 bps yoy to 0.67%, all-time low. According to FDIC data, NCO ratio for all CRE subsegments (construction, multifamily, commercial mortgage) remains stable, almost 0% during the last year. Non-current ratio is also lower on yoy basis in 4Q19 – commercial mortgage noncurrent ratio is 0.51%, -7 bps

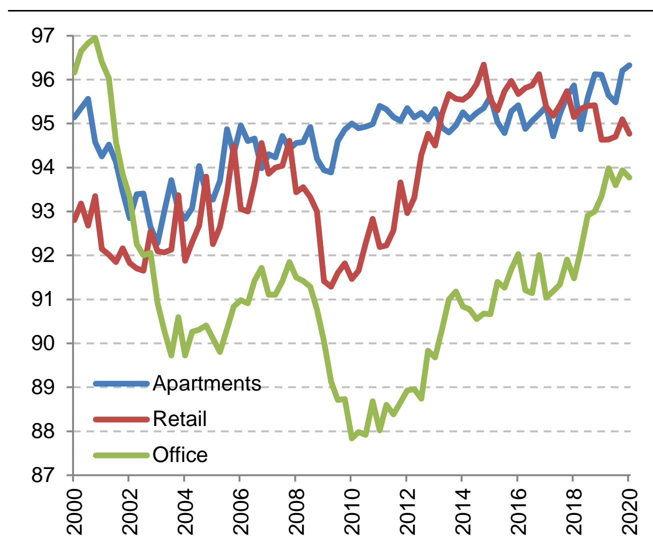
yoy; construction one is 0.44%, flat bps yoy; multifamily noncurrent ratio is 0.11%, -4 bps yoy. Leading indicator of future credit quality, 30-89 days delinquency ratio, is also stable in 4Q19, near multi-year lows. The figure in commercial mortgage changed -1 bps yoy to 0.24%; in construction it increased by 3 bps yoy to 0.38%; in multifamily it grew by 3 bps yoy at 0.14%. Even during 1Q20 earnings season, we didn't see material deterioration of key quality characteristics of CRE loan portfolio. 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. We don't expect that NCO ratio high of the current cycle will reach 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 in 2009 one) due to shorter period of current downturn and much tighter lending standards during the last credit cycle.

Chart 11. Loan Growth. CRE vs Total Loans, YoY, %



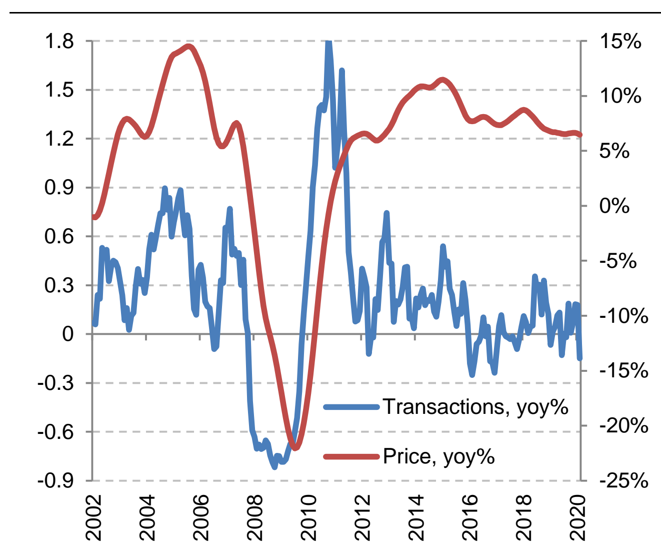
Source: Bloomberg

Chart 12. CRE. Occupancy rates, %



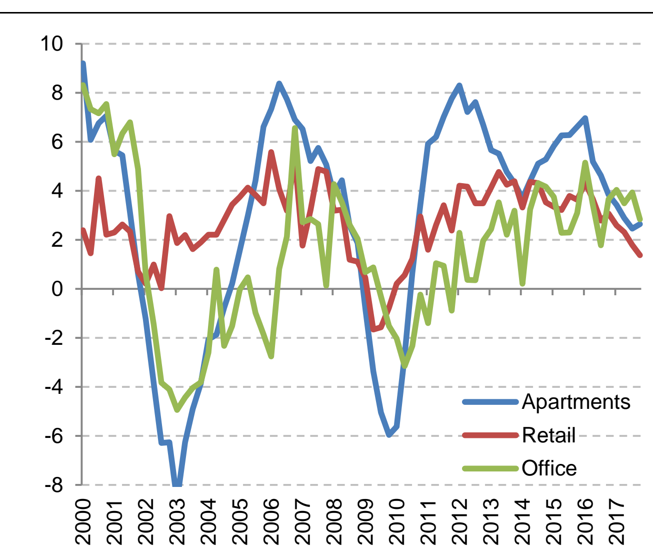
Source: Bloomberg

Chart 13. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

Chart 14. CRE. Same-Store NOI Growth, %



Source: Bloomberg

Price growth remains solid so far and it even accelerated in the beginning of the year but yoy growth rate still remains lower than it was 1 year ago. Obviously, prices will start to go down in the nearest future, especially in the most affected segments, such as retail and hotels. The key drivers of recent price acceleration were apartments and offices while

industrial and retail were almost flat. Thus, CRE price index has renewed its all-time high again (more than 30% higher than peak of the previous cycle), adding +6.5% yoy as the end of March 2020 vs +6.7% 1 year ago, the lowest growth rate since mid-2012.

Transaction volumes tumbled significantly both MoM and yoy in April with just few deals in majority of subsegments as market participants prefer to stay on the sidelines and preserve liquidity given high level of uncertainty. It seems that it will go down further because of recession and upcoming price decline. According to RCA, “April sales activity across all property types sank 71% from a year earlier, on the heels of a 17% year-over-year decline in March”. But prices remained resilient so far despite significant decline of transactions number. Thus, apartment price index added +10.8% yoy as of end of April, marked acceleration from growth rate in the middle of 2019. In turn, price index of retail CRE increased only by +3.1% yoy, relatively flat growth rate for the last year and half. Growth of prices of industrial CRE decelerated to +8.3% yoy from +12.5% yoy in July 2019 and slightly down from 10.6% yoy in April 2019. In turn, growth rate of office prices accelerated to 4.0% yoy from 2.7% yoy as of July 2019.

Solid but decelerating growth of US economy and rising employment supported CRE fundamentals so far, 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 of this suggests difficult times for the sector in the near future, accompanied by lower occupancy rates, lower rents and so on. Moreover, some REITs (with high leverage) have already announced suspension of dividends because of liquidity concerns. Of course, it currently applies to the most levered companies but it may spread to the other companies in the industry over time and the problem is 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.

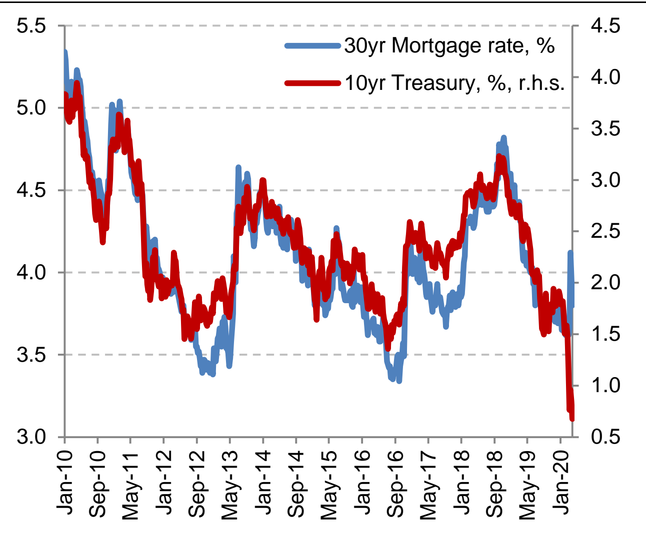
In 4Q19, banks continue to tighten standards for CRE loans, for construction loans (the 19th quarter in a row) while for multifamily loans it was no tightening as well as loosening after 17 quarters in a row of tighter standards. On net, it was slight improvement on the absolute level of tightening vs 3Q19 for majority of loan categories. Credit standards for nonfarm nonresidential loans were also tightened. Banks also mentioned weaker demand for construction and land development loans while demand for multifamily and nonfarm nonresidential properties remained basically unchanged. Answering on the special set of questions, banks reported that they expected tighter standards for all major CRE categories in 2020. Also, banks expect performance deterioration of all CRE categories except for multifamily where it is expected to remain unchanged.

Mortgage

The growth rate of mortgage loans decelerated slightly in recent weeks vs the end of 2019, given significant deterioration of economic situation. But it still remains solid ytd even despite a number of banks has already announced tighter lending standards for mortgage loans. Thus, mortgage loans increased by 3.8% yoy (as of May 13) vs +4.3% yoy 1 year ago and +5.3% yoy as the end of 2019. Notwithstanding, credit availability index by MBA decreased by 12.2 pts MoM to 133.5 pts in April, the lowest level over more than 5 years. Also, affordability ratios have already declined meaningfully from the cycle high but they 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 near future and as a consequence forthcoming growth of problem loans. We

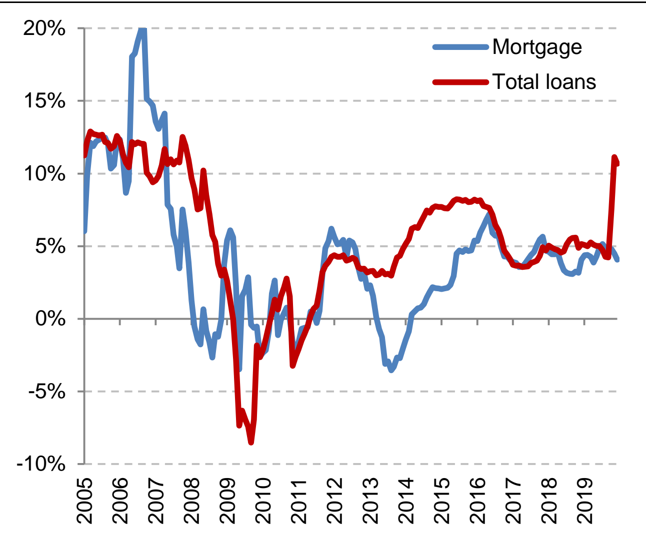
don't expect that NPL and NCO ratios will even approach the values that we saw in the last crisis (2.72% for NCO ratio and 10.5% for delinquency ratio) due to more cautious approach of US banks to the mortgage lending during all recent cycle and more strong financial health of US Consumer now vs 2007-2008 yrs. 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 NCO ratio dynamics will be more like to one during recession of early 2000s with the highest figure of 0.3%. At least, according to the National Multifamily Housing Council Rent Payment Tracker, 87.7% of apartment households made a full or partial rent payment by May 13, just 2.1% lower than 1 year ago but 2.7% higher than in April 2020.

Chart 15. Mortgage. 30yr Fixed Mrtg vs 10yr Tr yield, %



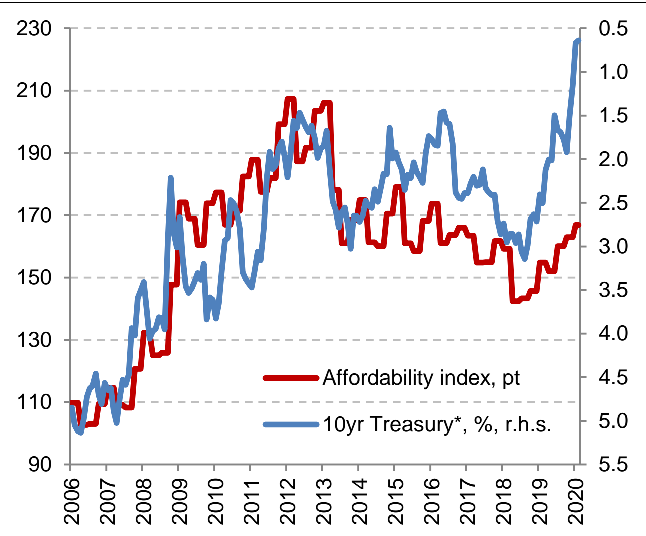
Source: Bloomberg

Chart 16. Loan Growth. Mrtg vs Total Loans, YoY, %



Source: Bloomberg

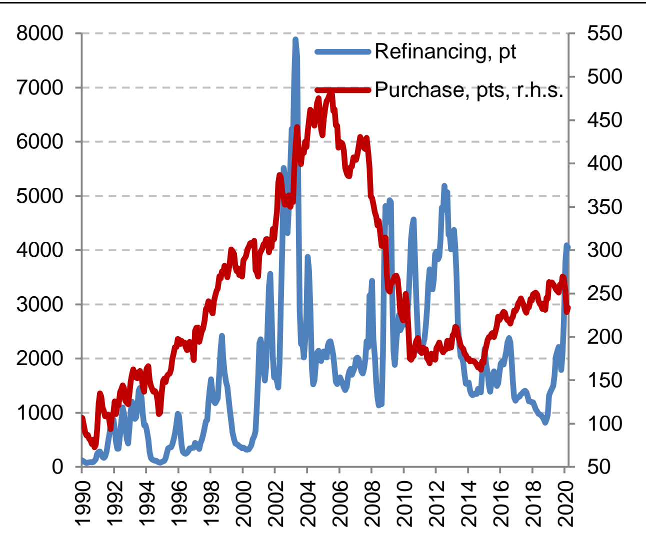
Chart 17. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 18. Mortgage. MBA Applications Indexes



Source: Bloomberg

US economy lost 20.5 mln payrolls in April, slightly lower meltdown vs consensus estimate of -22.0 mln, but a positive surprise hardly means anything in the current environment. At least, employment is very far from normal levels and we don't expect that it will improve as quickly as it worsened in March-April. Jobless claims decreased substantially from March high but it still remains elevated, average figure of 2.6 mln in May (first 4 weeks), tenfold higher than January-February levels. So, median forecast of average monthly payrolls for

2020-2022 years were significantly revised down again, to -1260K/451K/244K for 2020/2021/2022 years in May, respectively (from -511K/225K/187K in April) and we don't rule out that it will continue to be revised down in the near future. Unemployment rate skyrocketed by 10.3 p.p. MoM to 14.3%, slightly better than consensus estimate of 16.0% but it is the highest reading since the WWII. Moreover, underemployment rate increased by 14.1 p.p. MoM to 22.8% in April, the highest figure in the history of ratio. Unsurprisingly, unemployment projections were revised up markedly in May, to 11.0%/7.9%/6.5% for 2020/2021/2022 years, respectively, from April estimates of 8.2%/6.8%/5.4%, with the most pessimistic estimates for the end of 2Q20 as high as 25%. Despite significant growth of unemployment, it seems that negative impact of this factor on quality of mortgage portfolio could be restricted in case of relatively quick constrains removal due to extensive use of various forbearance programs. Thus, according to MBA, "the total number of loans now in forbearance increased from 6.99% of servicers' portfolio volume in the prior week to 7.54% as of April 26, 2020. According to MBA's estimate, a total of 3.80 million homeowners are now in forbearance plans". But if restrictions remain for a long time, the quality will worsen significantly because of record unemployment.

Mortgage credit quality was very strong so far. According to the Fed data, NCO ratio in the segment increased by 1 bps yoy to 0.0% in 4Q19 while delinquency ratio tumbled by 48 bps to 2.35%, the lowest figure over 12 years. According to FDIC, the quality of mortgage portfolio remains very strong with NCO ratio at +0.01% in 4Q19, +1 bps yoy. 30-89 days delinquency ratio decreased by 7 bps yoy to 0.88%. Noncurrent ratio declined significantly again, -33 bps yoy to 1.76% in 4Q19. MBA's mortgage delinquencies decreased by 20 bps qoq or -29 bps yoy to 3.77% in 4Q19, the lowest figure in the dataset history. Foreclosures declined by 6 bps qoq or -17 bps yoy to 0.78%, the lowest figure over more than 30 years. According to NY Fed, "about 0.9% of current mortgage balances became 30 or more days delinquent in 2020Q1 and about 75,000 individuals had a new foreclosure notation added to their credit reports between January 1 and March 31. Foreclosures remain low by historical standards". The key drivers of very good quality of mortgage portfolio were strong job market, rising home prices and tight underwriting standards which remain markedly tighter than historical averages even despite some easing in recent quarters. In coming quarters, asset quality will undoubtedly worsen as situation has changed dramatically. We expect that credit quality deterioration will be seen as early as in 2Q20 earnings season.

Lending standards for majority mortgage segments were basically unchanged in 4Q19 as it was in four previous quarters following a slight easing in 3Q18. Answering on special set of questions in 4Q19, banks reported that they weren't going to tighten standards unlike to most other segments. Also, banks don't expect deterioration of quality of mortgage loans in 2020 as it did for majority other loan segments. Also, banks reported "stronger demand for most mortgage loan categories but weaker demand for HELOCs". According to NY Fed 4Q19 report on HH debt and credit, "credit standards tightened slightly, again, in the fourth quarter. The median credit score of newly originating borrowers increased in the fourth quarter for mortgages, to 770, a 5 point increase from the third quarter, reflecting higher share of refinances".

Mortgage demand strengthened for three recent quarters after several quarters in a row of weaker demand. But, from our point of view, demand remains relatively weak given still solid financial health of US Consumer and ample affordability of US homes which increased recently because of significant decline of mortgage rates. Also, it should be mentioned that more and more consumers noted in various surveys that it wasn't the best time for buying home currently. Previously, banks indicated that they would tighten lending standards if the yield curve was inverted.

Mortgage rates were relatively flat in May after significant decline in April, following marked growth in March because of spreads widening while key benchmark yields declined to

multi-decades low. Thus, 10yr treasury yield was relatively flat in May as it was in April, ending the month at 0.65%, +1.6 bps MoM. 30yr fixed rate mortgage (national average, Bankrate.com) was flat MoM at 3.52% in May after it tumbled by 34 bps MoM in April but it is -34 bps ytd. 30-yr mortgage rate (effective rate, MBA) increased by 3 bps MoM to 3.52% (as of May) from all-time low of 3.49% as of May 1.

Housing market indicators published in May were slightly better than expected after very weak figures in April. Despite majority of indicators is substantially lower ytd, recent figures are encouraging, especially new home sales. Unsurprisingly, NAHB index increased by 7 pts MoM to 37 pts in May, beating consensus of 35 pts. However, it is still markedly lower than 50 pts. Construction spending increased by 0.9% MoM in March, markedly beating consensus of -3.5% MoM. So, mortgage origination forecasts remain pretty resilient in recent month even despite sharp decline of US economy. Thus, according to Fannie Mae's May housing forecast, total 2020 mortgage originations increased by 4.2% MoM for 2020 year and decreased by 0.9% MoM for 2021 year. Currently, it is expected that total originations will increase by 14.2% yoy in 2020 but it will decrease by 7.1% yoy in 2021. The key drivers of growth will be refinance originations for 2020 and purchase originations for 2021. According to MBA's forecast published in May, total mortgage originations will increase by 12.2% yoy in 2020 (+0.5% vs April forecast) driven by refinancing which is estimated to increase by 32% yoy in 2020 but total originations will decrease by 14.9% yoy in 2021 (+9.3% MoM). The key driver of originations remains significant decline of 10yr treasury yield but we disagree that it will be more important than significant deterioration of financial health of US consumer in 2020 and tightening of lending standards.

Housing starts were just 891K in April, slightly worse than expectations of 900K, -385K MoM. March figure was revised up from 1216K to 1276K but two-month decline was almost 45%. In turn, building permits beat estimates, 1074K vs consensus of 1000K. Existing home sales declined by 18% MoM to 4.33 mln vs expectations of 4.22 mln. In turn, new home sales increased by 0.6% MoM to 623K in April, significantly beating consensus of 480K, even despite widespread lockdowns across US states. Housing prices continue to grow but growth rate markedly decelerated in March as a result of coronavirus spreading. Thus, FHFA house price index added +0.1% MoM in March vs consensus of +0.5% MoM and revised up February figure of +0.8% MoM (from +0.7% MoM initially). Also, S&P CoreLogic home price index for 20 cities went up by 0.47% MoM vs consensus of +0.3% after growth of +0.52% MoM in February (revised up from initial estimate of +0.45% MoM). On yoy basis, it was just +3.9% 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 loan growth decelerated significantly in the recent months both in credit card segment and other segments of consumer credit. According to Fed H8 data, growth rate of consumer loans even turned negative in early May and it is currently -0.9% yoy (through May 13th) vs +4.9% 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 4.4%, driven by credit cards. Thus, CC growth rate was -5.8% yoy (as of May 15) vs +5% yoy as the end of 2019. On ytd basis, CC loans decreased by 8.5% as credit cards limits were markedly cut because of rapid deterioration of US economy. Net change of consumer credit in March was -$12 Bn, meaningfully missing consensus of $15 Bn but it will continue to decline significantly in coming months. Other segments of consumer credit also decelerated significantly, adding just 4.9% yoy (as of May13) vs 7.6% yoy as the end of 2019, just +0.2% ytd. According to 1Q20 HH debt and credit survey by NY Fed, "total household debt increased by $155 billion, or 1.1 percent, to reach $14.3 trillion in the first quarter of 2020. Mortgage balances rose by $156 billion, while nonhousing debt balances remained relatively flat.

Credit card balances declined by a larger-than-expected degree, based on seasonal patterns, but it is too soon to confidently assess any connection between this decline and the coronavirus outbreak”. But “the March 2020 Survey of Consumer Expectations shows a significant deterioration in households’ expectations regarding their labor market and financial situation, a decline seen across all age, education, and income groups”.

We didn’t expect marked deterioration of the quality of consumer loans (only return to historic averages) until the recent times but the situation has changed dramatically. Thus, GDP forecasts for the coming quarters were revised almost every week (of course, in the downward direction). According to Bloomberg compiled estimates in May, the most pessimistic GDP growth forecast is decline is around 10% yoy for 2020 US GDP while mean figure is -5.7% yoy. As of unemployment, it is estimated to be as high as 11% as the end of 2020 and more than 16% as the end of 2Q20. So, it is undoubtedly that quality characteristics of consumer portfolio will worsen significantly in the coming quarters even despite DSR and FOR of median HH is still markedly lower than historical averages. But the figures of low-income consumer, which is usually suffer the most during recession, is already at or higher than pre-financial crisis levels. Even despite the fact that quality characteristics of consumer loan portfolio were resilient in 1Q20 banks have already provisioned more than $36 Bn in total for future credit losses in 1Q20, and most part of reserve built related to credit cards segment. And 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 and the fact that financial health of US Consumer is much stronger today than it was then but, of course, it will depend on how long the restrictions related to controlling the virus spread will last. The longer the higher losses will be. And the dependence of losses on the time of restrictions will also be somewhat exponential. So, our expectations deteriorated significantly during the last month.

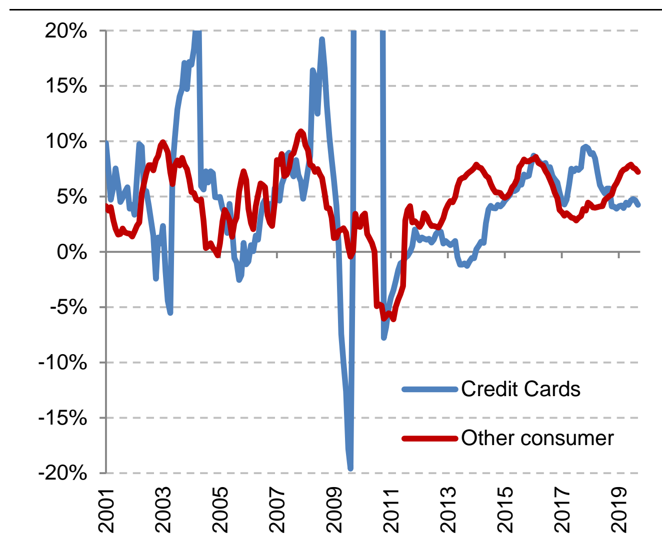
According to the Fed data, total consumer NCO ratio decreased by 4 bps qoq but +4 bps yoy to 2.27% in 4Q19, driven by other credit loans where NCO ratio decreased by 4 bps qoq but +3 bps yoy to 0.91%. Delinquency ratio also increased, +1 bps yoy to 2.34%, driven by credit cards segment where delinquency ratio increased by 7 bps yoy to 2.61%. According to FDIC, credit cards NCO ratio increased by 4 bps yoy to 3.75% 4Q19; in other consumer loans NCO ratio increased by 4 bps to 1.01%; Auto NCO ratio was flat at 0.93%. 30-89 delinquency ratios (leading indicator of credit quality deterioration) were flat at 4Q19: 1.38% (-1 bps yoy) in credit cards, 1.68% (-2 bps yoy) in other consumer loans and 2.36% (+3 bps yoy) in Auto. Number of bankruptcy filings decreased again in 1Q20, 189K vs 192K in 1Q19, the lowest figure since the end of 2006. According to NY Fed, “aggregate delinquency rates were mostly unchanged in the first quarter of 2020. As of March 31, 4.6% of outstanding debt was in some stage of delinquency, a 0.1 percentage point decrease from the fourth quarter of 2019. Of the $652 billion of debt that is delinquent, $449 billion is seriously delinquent”.

January 2020 SLOOS survey indicated that “over the fourth quarter, a moderate net share of banks reported tighter standards on credit card loans, and a modest net share of banks reported tighter standards on auto loans, while banks reportedly left standards unchanged for other consumer loans”. But during 1Q20, banks noted that they had already started to tighten standards for consumer loans, especially for credit cards, and tightening would be continue in the near future. As of demand, banks noted that demand was unchanged for credit cards and other consumer loans but it was indicated that demand for auto loans weakened in 4Q19. Undoubtedly, it also weakened significantly in 1Q20. According to NY Fed, “credit standards tightened slightly, again, in the first quarter. The median credit score of newly originating borrowers increased in the first quarter for mortgages, to 773, up 14 points from a year ago. Auto loans also saw tightening in underwriting standards, with a 3

point increase in the median originating credit score. The volume of subprime auto originations was $28 billion, a level on par with the last several years".

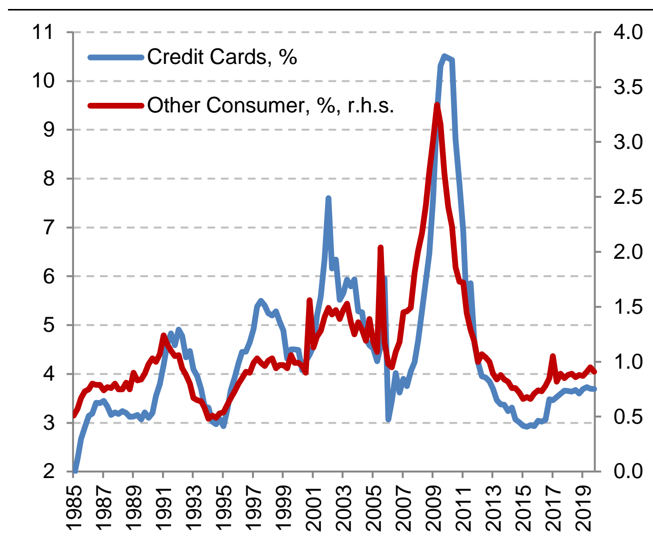
Consumer activity data published in May was in-line with expectations after weaker figures in April when one-month drop of many readings was the biggest on record. Notwithstanding, consumer confidence indicators stopped falling, at least now. Thus, consumer sentiment indicator published by Michigan University increased by 1.9 pts MoM to 73.7 pts vs expectations of 68.0 pts, driven by current conditions index while expectations index slightly decreased again but it was markedly better than expected. It is still 17 pts higher than low of the last cycle but it seems that 2Q20 consumer spending decline will be the biggest on record. In turn, conference board consumer confidence index was slightly weaker than expected but it also increased on MoM basis, +0.9 pts MoM from revised down April estimate to 86.6 pts vs consensus of 87 pts. It was driven by expectations index.

Chart 19. Consumer. Loan Growth Rates, YoY, %



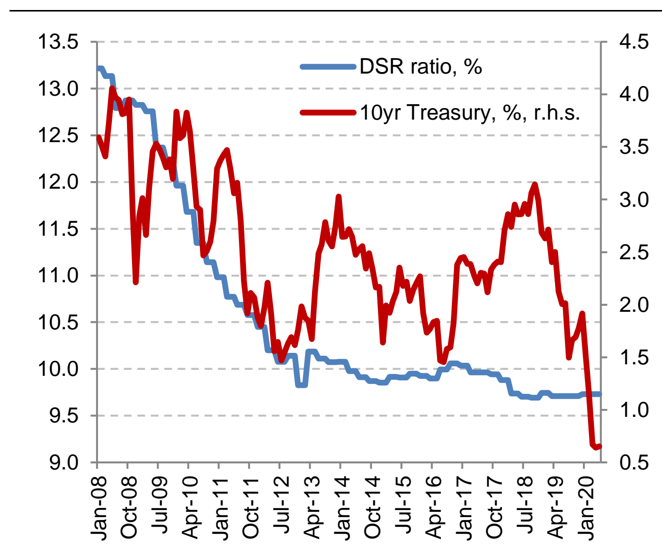
Source: Bloomberg

Chart 20. Consumer. NCOs Ratios, %



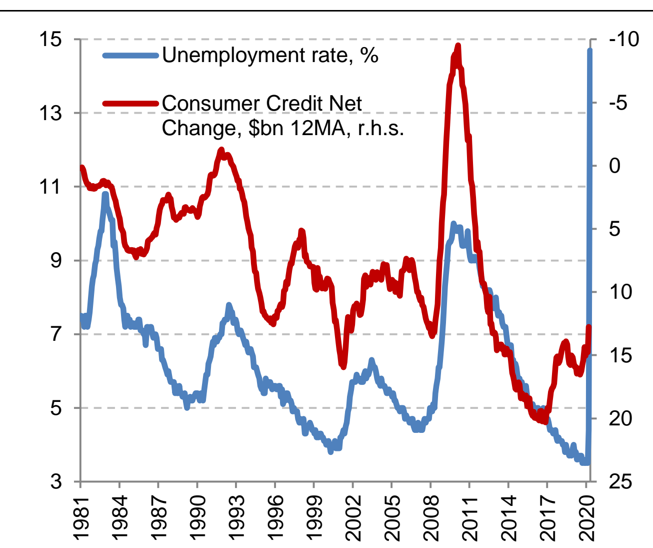
Source: Bloomberg

Chart 21. Debt Service Ratio vs 10yr Treasury Yield, %



Source: Bloomberg

Chart 22. Unemployment vs Net Change of Cons Credit



Source: Bloomberg

April employment report was slightly better than expected after weaker figures in March but positive surprise isn't a reason for optimism given double-digit unemployment ratio. And the key problem is that normalization of the situation will take some time even in case of

relatively fast restrictions removal. Thus, it was lost 20.5 mln payrolls in April vs consensus of -22.0 mln. Unemployment ratio skyrocketed by 10.3 p.p. MoM to 14.7%, slightly better than consensus of 16.0% and it might continue to grow in coming months. Underemployment rate increased by 14.1 p.p. MoM to 22.8%. Also, average hourly earnings were higher estimates, +4.7% MoM vs estimates of +0.4% MoM and +0.5% in March. On a year-over-year basis, it was 7.9%, +460 bps MoM and vs consensus. Average weekly hours were +0.1 MoM at 34.2, markedly beating consensus of 33.5 hours. April ADP employment was -20.2 mln vs expectations of -20.6 mln and March figure of 149K. Initial jobless claims noticeably decreased in May vs April highs, but overall initial jobless claims over 4 weeks in May exceeded 10 mln. While overall jobless claims since mid-March exceeded 40 mln over 10 weeks.

Interest Rates

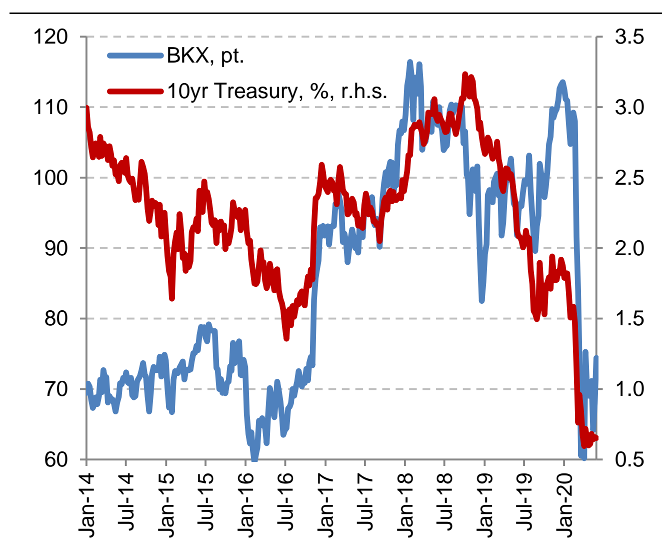
Treasury yields remained relatively unchanged in the recent months as a result of almost no significant new signals from the fed and stable rate expectations. Thus, April FOMC meeting brought us little news but it had been expected given restrained market reaction after the meeting. Forward guidance remained unchanged – "the Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals". Taking into account economic outlook of the chairman, it means that rates will not be hiked at least in coming 2-3 years, which is in-line with current market expectations. Also, Powell noted that the Fed would be patient and would not hurry to move rates up. Notwithstanding, market participants were disappointed by no clear guidance from the Fed. April minutes published in May also didn't shed any light on the situation. There is hope that guidance will be modified to more evident message at June meeting when uncertainty will decline and staff projections will be finally published. There were also no more new details of QE program – "the Federal Reserve will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions". However, Powell noted that corporate credit facilities were near being finalized but that the Fed could only make loans to solvent entities. The long story short, the Fed did all it could but it will do more if necessary and there is high probability that it will be necessary given "the depth and the duration of the economic downturn are extraordinarily uncertain and will depend in large part on how quickly the virus is brought under control". In May speeches, Powell rewound that there were almost no limits for the fed actions but he again stressed out importance of additional fiscal stimulus in case of deterioration of economic situation, especially in case of the second wave of pandemic. Given that fed funds futures turned into negative territory in May, the question about the possibility of negative rate environment was asked again, but the chairman rejected such possibility, at least now.

The key takeaway for banks is that challenging revenue environment will persist for a long time. And it could get worse at first before it gets better as even such massive both fiscal and monetary stimuli can't save US economy from falling into very deep recession. Thus, US GDP declined by 5.0% annualized pace in 1Q20 (revised down in May from initial estimate of -4.8%) and 2Q20 GDP decline is expected to be as high as 34% while total number of initial jobless claims exceeded 40 mln over the last 10 weeks, implying that unemployment rate could reach more than 20% in the current cycle (twice as much as the high of GFC). So, we do not exclude that new measures to support the economy will be announced if situation deteriorate but the probability of that has diminished substantially in the recent weeks. Implying the wave of bankruptcies, banks have already started to build reserves but we expect that provision expense will be even higher in 2Q20. The longer the lockdown of the economy the longer recovery will be and it is obvious for us that probability

of a V-shaped recovery tends to zero. The situation is also complicated by high leverage of US corporations and relatively short period of time during which companies could survive being shut down. The problem was partly fixed due to meaningful liquidity injections by the Fed but it doesn't change the fact that we will see a wave of bankruptcies in the near future.

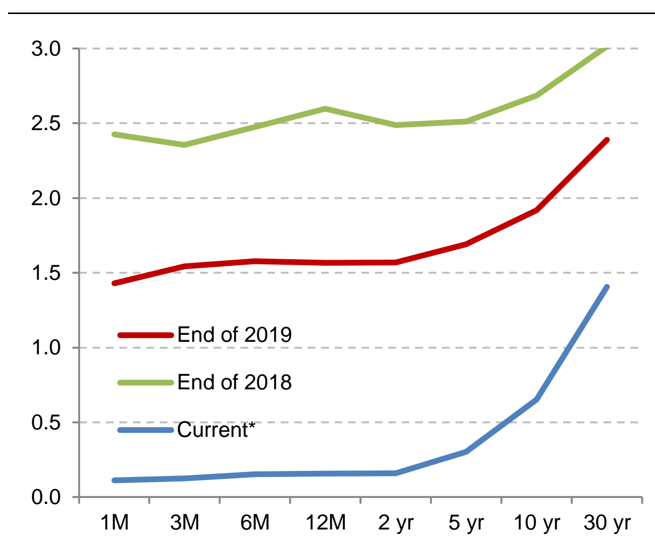
As we expected, wording about economic situation changed dramatically but it seems that real situation could be even worse given recent economic data. Personal consumption plunged by 6.8% in 1Q20 despite relatively strong figures in the first two months of the year. Composite PMI fell below 30 pts in April while business investment tumbled by 8.6% in 1Q20. So, GDP consensus forecasts continue go down every week. Thus, according to Bloomberg May survey, GDP growth will be -5.7%/+3.9%/+3.0% yoy for 2020/2021/2022 years, respectively, vs -3.3%/+3.4%/+2.3% yoy in April, while most pessimistic forecasts imply that US GDP could shrink by more than 10% yoy in 2020. Unemployment forecasts increased from 8.2%/6.8%/5.4% for 2020/2021/2022 years, respectively, in April to 11.0%/7.9%/6.5% in May.

Chart 23. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

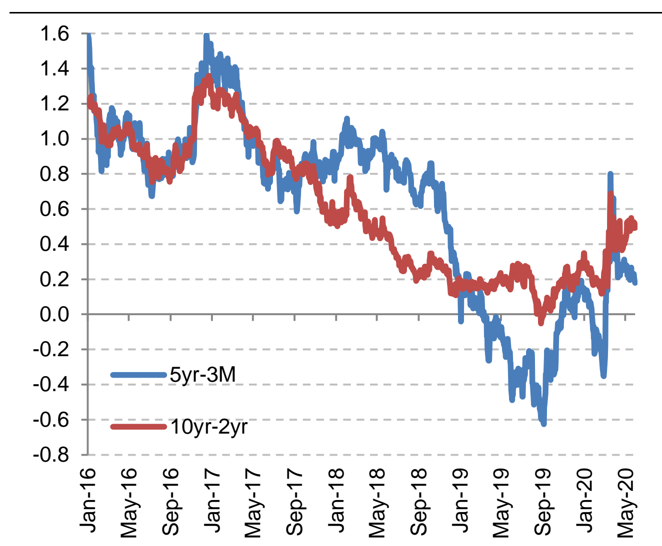
Chart 24. US Yield Curves, %



*As of end-May 2020

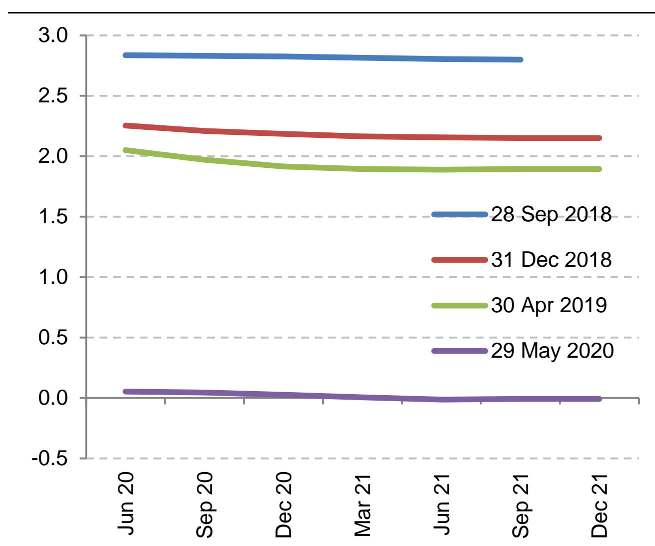
Source: Bloomberg

Chart 25. Treasury Spreads, %



Source: Bloomberg

Chart 26. Futures Implied FF Rate, %



Source: Bloomberg

Median NII growth of BKX index members was 0.7% qoq in 1Q20 but -0.6% yoy vs -0.4% qoq or -2.3% yoy in 4Q19, the first qoq growth after 4 consecutive quarters of decline. Also,

median NII surprise of BKX index members was +1.5% (vs estimates for April 13), after two consecutive quarters of missed expectations. The key driver of positive sequential NII dynamics was strong growth of earning assets and relatively resilient NIM but it seems both drivers are unsustainable at the moment and we will see further decline of NII in coming quarters especially taking into account rate cut to zero in March. Median NIM of BKX index members decreased by 3.5 bps qoq or -21 bps yoy to 2.96% (the lowest figure since 2Q17) vs -5 bps qoq or -17.5 bps yoy in 4Q19. So, despite better NIM in 1Q20 and stabilization of key benchmark rates in April-May, Bloomberg consensus estimates of median NIM of BKX index members slightly decreased in May. Thus, median NIM 20E of BKX index members decreased by 0.5 bps MoM or -29.3 bps ytd to 2.76% as the end of May while NIM 21E declined by 0.8 bps MoM or -29.8 bps ytd to 2.67%.

Median growth of NII income of BKX index members was positive on qoq basis in 1Q20 despite lower day count but it is not a good guidance for coming quarters given significant growth of earning assets due to strong deposit inflow and emergency liquidity demand from C&I segment, primarily by utilizing revolvers. And its growth remains elevated in May as well as deposit growth. The key driver of future decline of NII is significant drop of NIM due to full impact of March cuts in 2Q20. But it will be partly mitigated by lower deposit costs and wider spreads. The key risk for NIM is that it will remain low for prolonged time. At least, current futures imply that there will be no rate hike in two nearest years while the last cycle example tell us that this period could be much longer.

Treasury yields increased slightly in May except for the middle part of curve after being little changed in April. Thus, 1M yield increased by 6.3 bps MoM to 0.11% while 3M yield went up by 4.6 bps MoM to 0.12%. In turn, 2yr yield went down by 3.5 bps MoM to 0.16% and 5yr yield decreased by 5.9 bps MoM (currently at 0.3%). 10yr yield increased by 1.3 bps MoM to 0.65% (-139 bps ytd), while 30yr yield went up by 12.2 bps to 1.4%. Notwithstanding, according to current FF rate futures, the yield curve in coming 2 years will be just 20-30 bps higher than the current one.

So, spreads also changed insignificantly in May as it was in April either, remaining near multi-month high for 10yr-2yr spread but markedly lower than average levels of 2017 year. Thus, 5yr/3M spread decreased by 10.5 bps to +0.17% but it is still 79 bps lower than average level of 2017 yr while 10yr-2yr spread is 49 bps lower (as the end of April). Spread (10yr-2yr) increased by 4.9 bps MoM to +0.49%.

According to Bankrate.com data, loan yields continue to decline following significant drop of key benchmark rates ytd, but decline of loan yields is much lower because of spreads widening which are started to decline in recent weeks. Thus, average 30yr mortgage rate was flat MoM to 3.52% as the end of May after meaningful decline in April but its decline is still 42 bps lower ytd than decline of 10yr treasury yield. In turn, average 15yr mortgage rate decreased by 19 bps MoM to 2.84%, -57 bps ytd. Auto loans rate (new loans, 60 mnth) went down by 6 bps MoM to 4.46%, the third consecutive month of decline but it is just 17 bps lower ytd. Deposit rates continued to decline in May but the rate of decline slightly decelerated recently after some acceleration in March and April, following rate cuts in March, the eighth month in a row of decline So, it will continue partially mitigate the negative impact of significant decline of key benchmark rates but NIM will continue to decline in coming quarters.

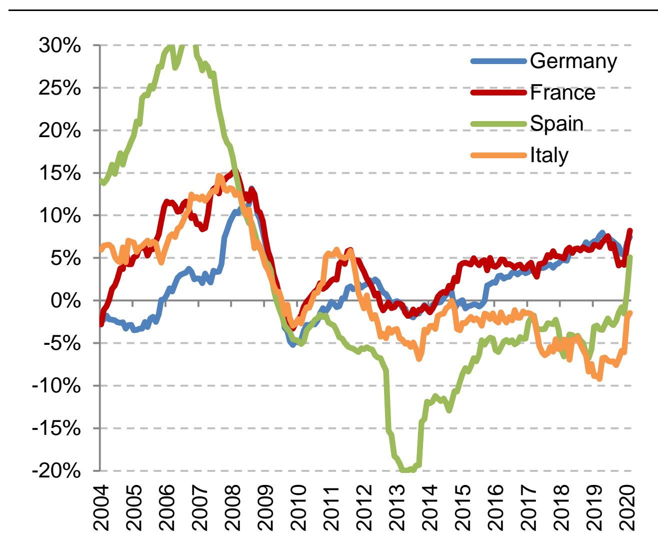
Thus, national average cost of 6 month deposits decreased by 5 bps MoM to 0.39%, -40 bps ytd; average 3yr CDs cost declined by 5 bps to 0.7%, -55 bps ytd; average 5yr CDs cost decreased by 4 bps MoM to 0.81% (-60 bps ytd) while cost of interest checking accounts decreased by 1 bps MoM to 0.21%, -41 bps ytd. Average cost of money market accounts fell by 2 bps MoM to 0.29%, -29 bps ytd.

Europe

Corporate

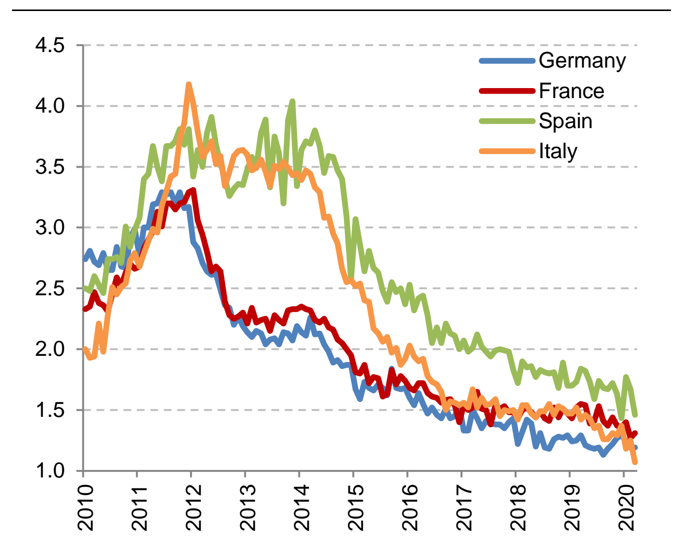
Corporate loans growth markedly accelerated in recent months driven by emergency liquidity needs but it seems that the growth is unsustainable given significant decline of economic activity across majority of EU countries. So, EU corporate loans growth was positive on MoM basis in March and April, the fourth consecutive month of growth after significant decline in December. Even on yoy basis it markedly accelerated due to active use of credit lines because of liquidity needs after deceleration in previous months. Thus, loans up to 1 year increased by 0.4% yoy but -1.2% MoM in April. Loans 1-5 yrs accelerated to 12.2% yoy from +3.4% yoy in February and +4.2% yoy 1 year ago. Loans over 5yrs were +4.5% yoy in April vs +2% yoy 1 year ago, +1.4% MoM. Total corporate loans increased by +5.1% yoy vs +2% yoy 1 year ago, +1.6% MoM, after +2.6% MoM in March, which was the highest monthly growth on record. Credit growth in the EU still varies markedly across countries but it was very similar across majority of EU countries in two recent months. So, we still see very healthy growth rates in Germany and France (and other Northern countries) while Italian corporate loans growth remains negative. From the other hand, Spanish corporate loans growth rate turned positive in March and it was solid +5.1% yoy in April.

Chart 27. EU Corporate Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

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 was hope for stabilization of the macroeconomic situation, but the coronavirus spreading disrupted these hopes. 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". But the situation could deteriorated substantially given the depth of economic decline and significant refinancing needs in coming years for companies in sensitive sectors, especially in case of the second wave of the pandemic. From our point of view,

how deep credit quality problems will be depends on how quickly the economy starts to recover. We think that probability of a V-shaped recovery tends to zero, taking into account recent macroeconomic data. At least, PMI figures remain at unprecedented low levels. Industrial production decreased by double-digit figures in March while recovery after lockdowns isn't as fast as it was expected. Uncertainty is still very high and it will remain high for some time.

According to April 2020 Euro Area bank lending survey, demand for corporate loans surged in 1Q20 after decline in 4Q19, reflecting "firms' emergency liquidity needs to cover ongoing payment needs (e.g. for rents or employees) during the lockdown period" as well as drawing previously committed credit lines. Loan demand was heterogeneous across European countries and banks expect that it will increase further in 2Q20. In turn, credit standards were tightened in 1Q20, reflecting significant uncertainty related to COVID-19 spreading. The net percentage was still below the historical average since 2003 but banks noted that "they were not yet able to fully evaluate the effects of the coronavirus pandemic". The key driver of tightening standards was risk perception while competitive pressure was the main driver of easing. Rejection rate increased but banks expect that "a considerable net easing of credit standards for firms (a net percentage at -11%) in the second quarter of 2020, probably on account of the liquidity support measures and loan guarantees introduced by governments". But we don't expect that there will be long-lived effect if there is any at all.

Unadjusted EoP corporate loans increased by 5.1% yoy at the end of April, 31st consecutive month of positive growth on yoy basis. In turn, adjusted for sales and securitizations loans increased by 6% yoy, the 58th consecutive month of positive yearly growth (the highest growth on yoy basis since 2009 year). It was the highest rate of growth since the end of 2008. Notwithstanding, despite recent acceleration, it should weaken in 2H20 given the depth of recession. 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.

German outstanding corporate loans (unadjusted figures) increased by 7.5% yoy as the end of April or +1.1% MoM vs +6.4% yoy as the end of 2019. French corporate loans outstanding (unadjusted figures) added 8.2% yoy or +2.2% MoM as the end of April vs +6.5% yoy one year ago. Due to significant MoM growth, Spanish loans are higher than it was one year ago but overall corporate loan growth in Southern countries remains weak. Thus, Spanish outstanding corporate loans added 5.1% yoy or +3.7% MoM vs -2.9% one year ago, the highest rate of growth on yoy basis since 2H08. Italian loans continue to decrease, -1.4% yoy but +1% MoM (the second month in a row of positive MoM growth) vs -8.8% one year ago.

European corporate rates continue its negative dynamics, following the key benchmark yields, after marked growth in October 2019 and being flat in two consecutive months. So, rates (new business) set a new low in March, the third month in a row of MoM decline, after small improvement at the end of last year. Even higher spreads because of higher liquidity needs and significantly higher risks don't increase loan rates. Thus, average EU corporate loan rates (all maturities, new business lending, adjusted for loan sales) decreased by 6 bps MoM to 1.3% in March, or -18 bps yoy. Back book yields of EU banks continuously decreased on yoy basis since April 2014 and rate of decline went up in February-March after being relatively flat over the last year. It declined by 3 bps MoM to 1.82%. On yoy basis, it is -15 bps vs the lowest yoy decline since mid-2014 of 10 bps.

Dynamics of rates within European countries wasn't uniform in February with significant decline of front book yields in Spain, Italy and Netherlands but flat rates in Germany and even higher rates in France. Thus, Spanish yield tumbled by 21 bps MoM to 1.46% in

March, the second month in a row of significant decline after impressive growth in January. Italian one came down by 18 bps MoM to 1.07%, after unexpected growth in February, 11 bps lower than previous all-time low, set in January. German corporate rate on new loans was flat MoM at 1.19%, -10 bps ytd after four consecutive months of growth with overall move of +16 bps at the end of 2019. French yield on new corporate loans unexpectedly increased by 4 bps MoM to 1.31%, from all-time low showed in February. In turn, Dutch yield tumbled by 18 bps MoM to 1.24% in March, -14 bps yoy. Back book yields declined in all European countries in March. Thus, German yield decreased by 3 bps MoM to 1.84% in March, -16 bps yoy. French yield decreased by 4 bps MoM to 1.61%, -13 bps yoy. Italian yield declined by 2 bps to 1.97%, -13 bps yoy. Spanish decreased by 4 MoM to 1.73%, -11 bps yoy. Dutch yield decreased by 1 bps MoM to 1.94%, -17 bps yoy. Thus, spread between new and outstanding rates remains relatively flat over the last 1.5 year, hovering around 50 bps, at 0.52% in March.

Consumer

EU consumer was the main driver of total loans growth so far but situation changed dramatically in recent months. So, growth rates of both mortgage and other consumer loans decelerated markedly in March and April while banks started to tighten credit standards in 1Q20. There were quite predictable actions given rapid deterioration of EU economy, which will inevitably lead to a significant deterioration of financial health of EU consumer. At least, unemployment rate has already started to grow while consumer confidence declined to the levels unseen from the last crisis. It should 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. But 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 prolonged negative rate environment. Currently, households debt interest burden is 40-50% lower for majority of European countries than it was just before the US mortgage crisis. But in the event of a significant increase in unemployment, this will be a little help for people who lost a job. Notwithstanding, overall quality of consumer credit portfolio of European banks should be better in the current crisis vs GFC levels unless it will be a L-shaped recovery rather than U-shaped one.

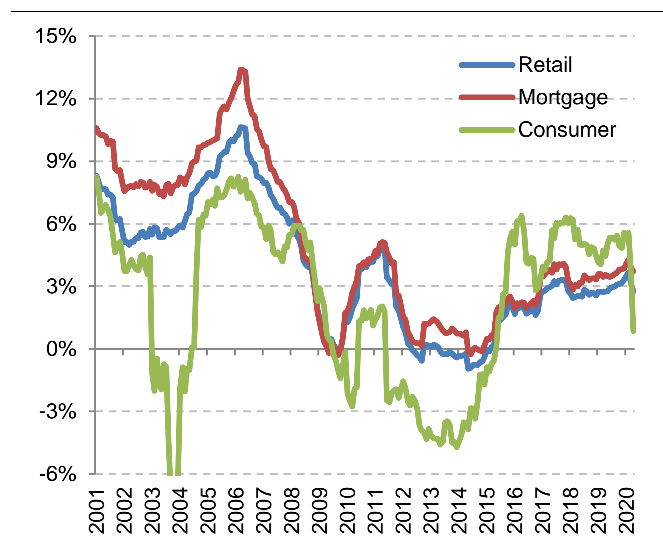
EU loans to households increased by 2.7% yoy but -0.1% MoM in April (the second month of MoM decline in a row, after 25 consecutive months of growth). Consumer loan growth remained relatively strong so far but it will continue to decelerate in the near term given more strict lending standards and imminent recession. Moreover, it will continue to differ widely across countries (as well as for corporate loans). Thus, German household loans increased by 4.4% yoy in April or +0.2% MoM, French retail lending added 4.7% yoy but -0.3% MoM (marked deceleration vs December 2019 figures), while household loans in Spain declined by 1.3% on yoy basis, the 10th 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 lost 0.3% yoy in April, the first month on negative yoy growth over the last 11.

Consumer lending (ex. mortgage) remained the key driver of EU household loan portfolio but it was negative on MoM for two consecutive months. But it still remains positive on yoy basis, adding just 0.9% yoy in April, -2% MoM after non-negative MoM dynamics over 11 months in a row. EU mortgage loans increased by 3.7% yoy as the end of April, +0.1% on MoM basis. According to April 2020 bank lending survey from ECB, loan 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 was flat on yoy basis vs 13.8% yoy 1 year ago, the lowest growth rate since the end of 2015. In turn, Spanish mortgage portfolio continues to stagnate, -1.9% yoy as the end of April vs -1.3% yoy 1 year ago, -0.2% on MoM basis.

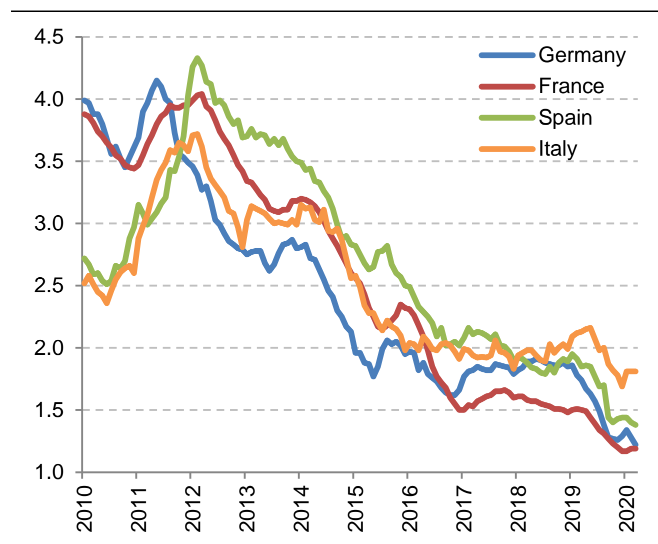
As of mortgage lending standards, it was tightened in 1Q20 after being broadly unchanged in 4Q19. Net percentage was above the historical average level since 2003 but it still remained overall moderate vs GFC. “Banks referred to a lower risk tolerance and a worsening creditworthiness of households as relevant factors for the tightening. By contrast, banks’ cost of funds and balance sheet situation had a neutral impact”. Unsurprisingly, banks expect that standards will tighten in 2Q20 while demand will be strongly negative. “The net tightening was mainly related to a tightening impact of loan-to-value ratios and collateral requirements, while margins on average loans continued to narrow and margins on riskier loans remained broadly unchanged”. It was also noted that rejection rate for housing loans increased. As of consumer loans, the lending standards continued to tighten in 1Q20 and it was “the strongest net tightening since 1Q13”. “Higher risk perceptions related to the general economic outlook and a lower risk tolerance of banks were the most important factors contributing to the net tightening of credit standards on consumer credit in the first quarter of 2020”. Rejection rate was also higher.

Chart 29. EU Consumer Loan Growth, YoY



Source: Bloomberg

Chart 30. EU Mortgage Loan Rates, New Loans, %



Source: Bloomberg

Average EU rate on new mortgage loans decreased by 1 bps MoM to 1.38% in March after decline of 3 bps MoM in February, new all-time low, -39 bps yoy. It was hovering around 1.82-1.83% over 8 months from July’18 to February’19 but it declined by more than 40 bps since then because the key benchmark yields for mortgage rates declined markedly ytd, except for the short end which is slightly higher than it was at the end of 2019. In April, 10yr generic yield increased by 13.9 bps to -0.45%, after decline in April, +41 bps from this year low. In fact, it just returned to the end of February level and it is still -0.26% ytd. 30yr yield added 18 bps MoM but it is just +0.03% as the end of May. So, almost the entire current yield curve still remains to be below 0%. In March, German mortgage rates on new loans decreased by 6 bps MoM to 1.22%, -52 bps yoy. Italian mortgage rate went down by 2 bps MoM to 1.42% and it is 47 bps lower than it was 1 year ago. French yields were flat MoM at 1.19%, -31 bps yoy. Spanish mortgage rate was also flat MoM at 1.81%, the second month in a row, and it is 32 bps lower than it was 1 year ago. Because of lower front book yields, we continue to see declining back book rates on year-over-year basis, -16 bps yoy. On month-over-month basis, it decreased by 2 bps to 1.92%, after unexpected growth in

February. The rate of decline increased from 4.5 years low of -12 bps yoy which was shown in May-July of 2019 due to significant decline of benchmark rates.

As for other consumer loans, EU new business rates decreased by 11 bps MoM to 5.46% in March after significant decline in February but it is still +16 bps ytd due to skyrocketing growth in January. Consumer yields remain too volatile. On year-over-year basis it decreased by 13 bps. Consumer yields were flat or negative in all major European countries except for Spain, where it increased markedly. German yield was flat MoM at 5.8% in March, +9 bps yoy. French rate decreased by 10 bps MoM to 3.71%, -7 bps yoy. Spanish rate increased by 19 bps MoM to 7.03%, after it tumbled by 45 bps MoM in February, but it is -40 bps yoy. Italian consumer yield went down by 8 bps MoM to 6.46%, -22 bps on yoy basis.

Average European new consumer deposit rate (with agreed maturity) decreased by 2 bps MoM to 0.34% in March after unexpected growth by 4 bps MoM in February, which was the second consecutive month of growth despite significant decline across the whole yield curve. Cost of outstanding deposits (with agreed maturity) also decreased by 1 bps MoM to 1.18%, remaining relatively flat over last year, hovering around 1.2%. Total cost of deposits declined by 1 bps MoM to 0.23% in March, the third consecutive month of decline after being flat for three month at 0.26%. On yoy basis, it is just 5 bps lower than it was 1 year ago. But spread between total loans yield and cost of total deposits remains relatively flat over the last 6 months, hovering around 2%, 12 bps lower than it was 1 year ago. Consumer deposits growth remains healthy, adding 6% yoy as the end of April, slight acceleration vs +5.1% as the end of April 2019 and the fastest growth since 2H09. The growth rates of deposits are around 5-7% 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 month, +12.6% yoy as the end of April vs +5.8% 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 1Q20 but the speed of decline will be significantly higher in 2Q20. High level of uncertainty remains but diminished. Thus, according to ECB's introductory statement, “euro area GDP could fall by between 5% and 12% this year, depending crucially on the duration of the containment measures and the success of policies to mitigate the economic consequences for businesses and workers”. Even despite some countries have already announced gradual easing of quarantine restrictions, economic activity will remain very weak for some time. At least, high-frequency indicators (such as traffic, electricity, public transport usage and so on) point to relatively slow recovery at the moment. Majority of key economic indicators were at the worst or so levels in history recently. Massive monetary and fiscal stimuli have already help EU economy somewhat but it needs more while fiscal stimulus capacity of some countries is very restrained. We agree with ECB's president that “an ambitious and coordinated fiscal stance is critical, in view of the sharp contraction in the euro area economy”, but we don't expect it to be made in the near future, if at all. At least, the speed of consensus-building by European politicians has not been very high so far. The longer decision-making process, the longer time of economic recovery. And the key risk for the EU economy is far from zero probability of the second wave of the pandemic.

European real GDP tumbled by 3.8% qoq or -3.3% yoy in 1Q20, in-line with consensus, after tiny growth in 4Q19, +0.1% qoq or +0.9% yoy. It was the biggest decline of EU GDP in history but 2Q20 plunge will be double-digit given still closed economies and April PMI's. French GDP decreased by 5.8% qoq or -5.4% yoy vs expectations of -4.0% qoq or -3.6% yoy, after decline of -0.1% in 4Q19, implying technical recession in the country. Italian GDP

decreased by 4.7% qoq or -4.8% yoy vs expectations of -5.4% qoq and -5.4% yoy, after decline by 0.3% qoq in 4Q19. Spanish GDP declined by 5.2% qoq or -4.1% yoy in 1Q20 vs expectations of -4.3% qoq or -3.2% yoy, after growth of +0.4% qoq or +1.8% yoy in 4Q19. German GDP hasn't announced yet, but it should be slightly better than expected given weaker figures of Spain and France but in-line with overall EU GDP decline. But it will also be a significant drop. In May survey, Bloomberg consensus estimates for GDP yoy growth were markedly decreased again to -7.6%/5.1%/1.8% yoy for 2020/2021/2022 years, respectively (vs -5.2%/4.4%/1.6% yoy in April). But the most pessimistic estimates imply that GDP will decline by more than 10% yoy in 2020 with the peak of unemployment of 12.2% as the end of 2Q20. ECB expects that GDP could decline by 15% on a quarterly basis in 2Q20 while most pessimistic scenarios imply decline of more than 20%.

European macro data published in May was slightly better than expected with positive surprises on PMI figures, consumer confidence and industrial production after clearly negative figures published in March and April. But expectations was lowered significantly in recent months while even slightly better than expected indicators were at very depressed levels, pointing to very deep contraction of EU economy in 2Q20. So, economic surprise indices were relatively flat in May after meltdown in April. Thus, Citi's economic surprise index decreased by 7 pts MoM in May after it tumbled by 219 pts MoM in April and -50 pts in March. During May, it decreased to -304.6 pts. Bloomberg surprise index declined by 4.5 bps MoM to -0.65 pts, near multi-year low. It seems that both figures will begin to improve in the coming months due to gradual re-opening of EU economy but the speed of recovery won't probably be high. And, from our point of view, risks remained tilted to downside. So, we will see further deceleration of loan growth (after emergency liquidity needs demand for corporate loans will decline) and growth of NPLs what is very negative for EU banks given prolonged negative rate environment. We expect that EPS/NI 20/21 estimates will continue to be revised down in the coming months and it is quite possible that profit of some European banks will be again negative.

Composite PMI (preliminary figure), which is usually well correlated with GDP growth, slightly beat expectations in May, after significant miss in March and April. It increased by 16.9 pts MoM to 30.5 pts vs consensus of 27 pts, from unprecedented level of April of 13.6 pts. Technically, it was just back to March level. Unsurprisingly, it was driven by services PMI which is skyrocketed by 16.7 pts MoM to 28.7 pts vs expectations of 25 pts, due to news of economies reopening. Manufacturing PMI increased by 6.1 pts MoM to 39.5 pts vs consensus of 38 pts. In turn, March industrial production decreased by 11.3% MoM or -12.9% yoy vs expectations of -12.5% MoM and -13.6% yoy, respectively. Given April PMI figures, it seems that IP will continue to go down. Moreover, estimates were revised down again in May. Thus, according to estimates compiled by Bloomberg, it will decline by 10.2% yoy in 2020 and increased by 6.4% in 2021 vs -8.8% yoy / +6.4% yoy as of April 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 May Bloomberg survey, household consumption will decline by 8.5% yoy in 2020. Unemployment will increase significantly in 2020 even despite massive support measures for employment. Unsurprisingly, consumer confidence has already decline significantly while companies have announced more and more job cuts. According to ECB, "consumer sentiment and unemployment expectations deteriorated sharply, with some improvement in May". So, unemployment forecast increased significantly in recent months while recovery of the employment to pre-COVID levels will be gradual. The situation is partly mitigated by the fact that balance sheets of EU consumers was strong, implying less severe decline of asset quality of consumer loans. In any case, unemployment rate was slightly better in March, +10 bps MoM but -30 bps yoy at 7.4% vs consensus of 7.8%, but

Bloomberg consensus of unemployment rates for 2020, 2021 and 2022 years were revised up again to 9.5%/9.3%/8.9% in May vs April estimates at 9.0%/8.5%/8.4%. March retail sales tumbled by 11.2% MoM or 9.2% yoy vs consensus of -10.6% MoM or -5% yoy, from relatively strong February figures, which is quite understandable given the fact that March is the first month of lockdown in Europe. May preliminary consumer confidence slightly increased, +2.9 pts MoM to -18.8 pts vs consensus of 23.8 pts, from the lowest figure since early 2009, demonstrated in April.

Interest rates

At April meeting, ECB kept rates unchanged as well as terms of asset purchase programs which were announced in March. But Christine Lagarde said during press conference that PEPP might be extended further than the end of 2020 and its size also could be adjusted if necessary. "The Governing Council is fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed". And the market expects that the size of the program will be increased as early as at June meeting given the current pace of asset purchases. The minutes of April meeting also pointed to high probability of this type of actions. In any case, ECB "stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry". ECB also announced that TLTRO III conditions were eased further. "The Governing Council decided to reduce the interest rate on TLTRO III operations during the period from June 2020 to June 2021 to 50 basis points below the average interest rate on the Eurosystem's main refinancing operations prevailing over the same period". It was also announced "a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs)" which would consist of 7 additional rounds with interest rate of -0.25% now. It was quite sensible decision given surged demand for corporate loans in March-May because of companies' emergency liquidity needs. Once again it was noted the importance of fiscal stimuli to overcome the crisis – "an ambitious and coordinated fiscal stance is critical, in view of the sharp contraction in the euro area economy", which could decline from 5% yoy in mild scenario to 12% yoy in severe scenario in 2020, according to ECB staff estimates.

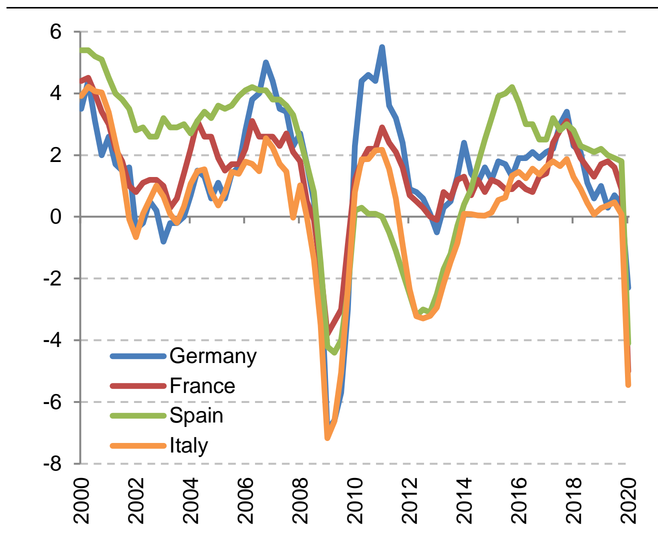
ECB remains as flexible as it can and it is ready to expand its facilities but efficiency of these measures will be relatively low without strong joint fiscal response, from our point of view, given sharp deterioration of economic activity. Thus, EU GDP tumbled by 3.8% qoq in 1Q20, the worst decline on a record, and it will decline even more significantly in 2Q20 while uncertainty still remains high but declining. So, it is quite possible that new monetary easing measures will be announced in the near future. And the key positive for EU banks is decline of cost of TLTRO funding which positively impact on both bottom line and willingness to extend a credit. 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 coming quarters given double-digit figures of GDP decline in 2Q20. Notwithstanding, NII remains pretty resilient so far despite significant decline of key benchmark yields ytd. Thus, median NII growth of EU banks was +3.1% yoy in 1Q20 driven by both earning assets growth and NIM growth. Thus, median NIM increased by 5.4 bps yoy to 1.62%, unexpectedly higher by 11.3 bps on qoq basis. Notwithstanding, NII outlook continues to worsen despite ECB's actions aimed at easing the effect of negative rate 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 3% qtd or -5.2% ytd while FY21 estimates declined by 3.7% qtd and -6.1% ytd. Median NIM FY20 estimate increased by 5 bps ytd but decreased by 3 bps qtd to 1.58% while NIM FY21 increased by 6 bps ytd to 1.58% (flat on qtd basis).

Key benchmark rates increased in May except for the short end of the curve after marked

decline in April. Notwithstanding, rates remain significantly lower ytd. Thus, 3M Euribor (Dec 2021) increased by 5 bps MoM to -0.43% (as the end of March) or -15 bps ytd while 3M Euribor (Dec 2022) went up by 4 bps MoM to -0.39% and it is -27 bps yoy.

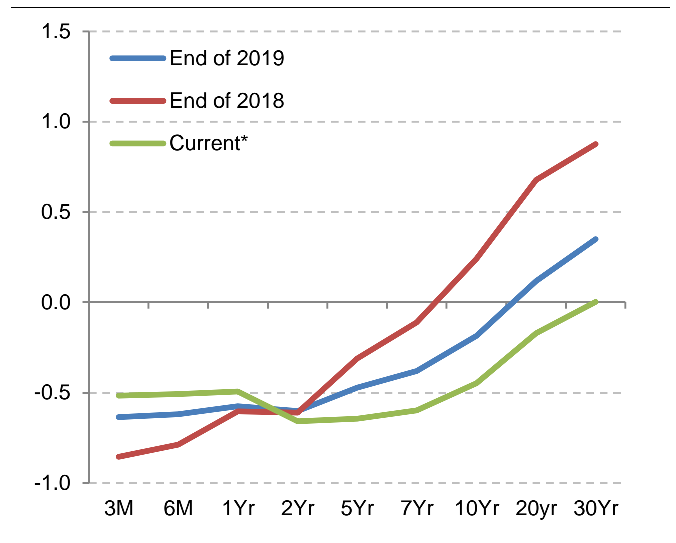
The direction of dynamics of generic yields was almost uniform in May with marked growth of the long end. Notwithstanding, it remains meaningfully lower than it was at the end of 2019. 3M yield increased by 0.3 bps MoM to -0.52%. 6M yield went down by 2.5 bps to -0.51%. 1yr generic yield declined by 2.8 bps MoM to -0.49% while 2yr yield increased by 10.1 bps MoM to -0.66%. 5yr yield went up by 11.8 bps to -0.64% while 10yr yield increased by 13.9 bps to -0.44%. Overall, the yield curve remains relatively flat and inverted in the middle part of the curve. But spreads markedly increased on MoM basis. Thus, spread between 10yr yield and 1yr yield increased by 16.7 bps MoM to +0.05% while spread between 5yr and 3M yields went up by 11.5 bps MoM to -0.13%.

Chart 31. EU Countries Real GDP Growth, YoY, %



Source: Bloomberg

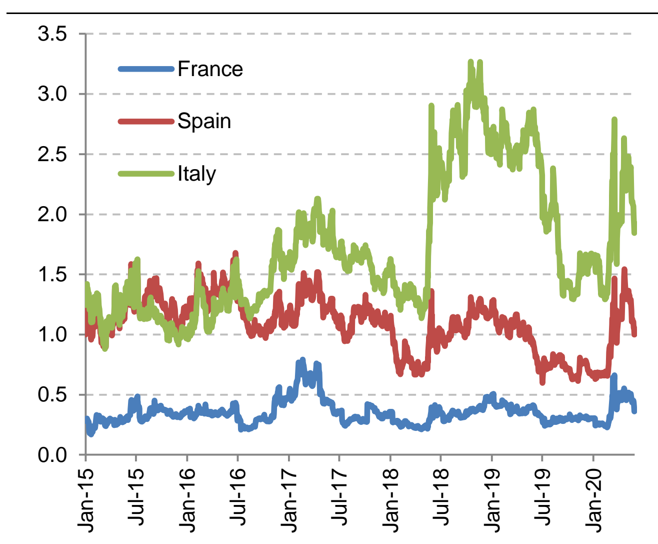
Chart 32. EU Yield Curves, %



*end of May

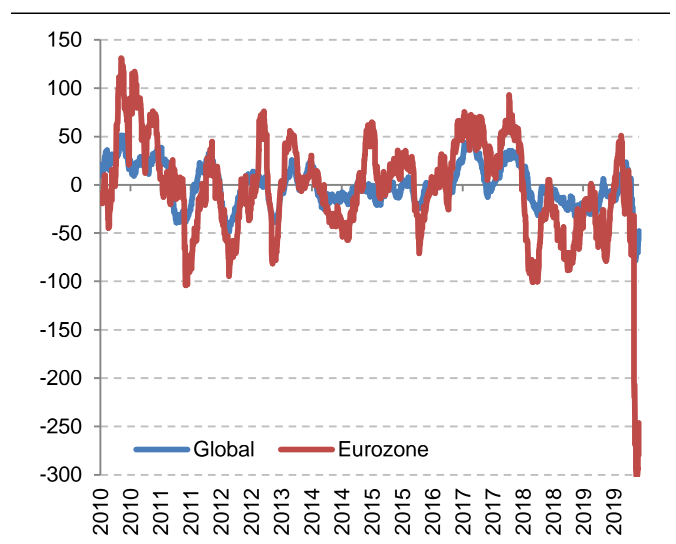
Source: Bloomberg

Chart 33. EU Countries Sov. Spreads vs Germany, 10Yr, %



Source: Bloomberg

Chart 34. Citi Economic Surprise Indexes, pts



Source: Bloomberg

THEME OF THE MONTH

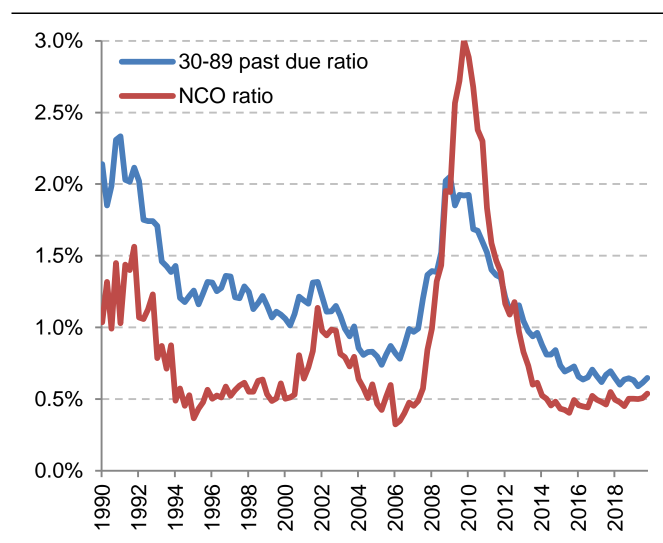
US Credit Quality Overview

Despite the fact that the broad market index wears a mask of nothing has happened, falling only 5.8% ytd as the end of May, credit quality of US banks will inevitably deteriorate meaningfully in the coming quarters because of deep recession even taking into account significant and timely bailout packages from the Government and liquidity injections from the Fed. Notwithstanding, key asset quality indicators remained strong so far, but banks provisioned more than $36 Bn for future asset quality deterioration in 1Q20 (partly because of CECL) and we expect that banks will reserve significantly more till the end of 2020. According to estimates compiled by Bloomberg, total provision expense of BKX index members for 2020 is $114 Bn as the end of May (min $81 Bn / max $189 Bn) or 2% of total loans as the end of 1Q20. However, corporate spreads have narrowed substantially in recent weeks as a result of the Fed decision to buy corporate bonds and other support measures. Undoubtedly, it could ease pressure on quotes for some time but it couldn't return real business to the normal state, especially taking into account the depth of the recession and many signs of a credit bubble on US corporate markets even in pre-COVID time. Total debt of US corporates increased by more than 50% since GFC while BBB-rated debt almost tripled and leveraged loans more than doubled over this period, with majority of leveraged loans being covenant lite. Credit bubble hasn't burst yet mainly due to low rate environment, yield seeking behavior and growing economy, but there is high risk of domino effect on that market now, from our point of view, given disruptive impact of pandemic on the global economy, even taking into account all forbearance actions of creditors and ample liquidity on the markets. US banks are less exposed to the risk than non-bank lenders, from our point of view, as lending standards were relatively tight during all the cycle, but they will not be able to avoid losses either when waive of bankruptcies begins. Also, banks noted during 1Q20 earnings season that they would ease lending standards in 2Q20, which is not consistent with fears of a prolonged recession and significant credit quality deterioration. During GFC, banks started to tighten standards to large and medium size firms as early as in 3Q07. In any case, we believe that banks have sufficient capital to absorb possible losses in case of credit quality deterioration even in case of prolonged downturn and much higher NCOs than it is expected by the market now.

Past recessions give a mixed picture where the peak of NCO ratio could be. According to FDIC data, NCO ratio of total portfolio peaked at 1.56% during recession of early 90s, at 1.14% in early 00s and at 3.0% during GFC. Unsurprisingly, one of the key drivers of much higher NCO ratio during GFC was real estate portfolio, NCO of which peaked at 2.67% vs just 0.23% during recession of early 00s. We don't expect that real estate portfolio will be a drag for credit quality during the current recession given very tight lending standards during all the cycle, low LTVs from historical point of view and relatively restrained building activity. Despite the total number of mortgage loans in forbearance increased to 8.36% as of mid-May (according to MBA data), Jamie Dimon noted that roughly 1/3 of those who asked for forbearance on mortgage loans didn't use it. In any case, we will be surprised if peak NCO ratio of RE portfolio exceeds 0.5% in coming years. Of course, it is the base case which implies no the second wave of pandemic and start of relatively rapid recovery as early as in 3Q20. C&I loans NCO ratio peaked at 2.37%-2.60% during the last three recessions while NCO ratio peak of credit cards grew from 4.86% during recession of early 90s to 7.69% in early 00s and 13.21% during GFC. Growth of peak of CC's NCO ratio in the last 3 recessions is caused by higher penetration of credit cards and more leveraged US Consumer. But the key driver of CC's NCO ratio during recession is unemployment rate. Notwithstanding, we don't expect that NCO ratio in CC segment will exceed 10% in the current cycle, even taking into account the record unemployment rate for decades in April-

May, as so high unemployment will be short-lived while current leverage of US Consumer is much lower than it was during GFC while interest rates is markedly lower at the moment. So, debt service ratio and financial obligation ratios are just 9.73% and 15.1% now vs 13.2% and 18.1% as the end of 2007 and 12.1% and 17.1% as the end of 2000. Total NCOs in 2001-2003 as a percent of 4Q00 average loans were 2.76% while during GFC (2008-2010 NCOs as % of 4Q07 average loans) it was 6.35%. We don't expect that this ratio will significantly exceed 3% in 2020-2022 years while current estimates imply that total provisions for BKX index members will be 3.2% for 2020-21 years (min 1.7%/max 5.1%).

Chart 35. US Banks. Credit Quality. Total Loans



Source: FDIC

Table 1. US banks. Peak NCO Ratios

	1991	2001	GFC
Construction and Development	4.0%	0.2%	8.0%
1-4 Family Residential	0.4%	0.3%	2.5%
Multifamily	1.3%	0.1%	1.7%
Nonfarm Non-Residential	2.0%	0.1%	1.4%
Total Real Estate	1.0%	0.2%	2.7%
Commercial & Industrial	2.6%	2.4%	2.6%
Credit Cards	4.9%	7.7%	13.2%
Other Loans to Individuals	1.3%	1.8%	3.0%
Total loans	**1.6%**	**1.1%**	**3.0%**

Source: FDIC

Key credit metrics of US banks still remained pretty resilient while provision expense of all banks increased considerably as a result of CECL adoption and credit quality outlook worsening. The key drivers of reserve build were credit cards. In result, 20 out of 24 members of BKX index demonstrated provision expense worse than expected in 1Q20 vs just 8 banks in 4Q19. Median excess of actual provisions over estimates is 87% for BKX index members. Total provisions of BKX index members increased by 3.5x sequentially. In turn, median NCO ratio of BKX index members increased by 8 bps yoy or -1 bps qoq to 0.38%. Median NPL ratio of BKX index members increased by 12 bps qoq but just + 6bps yoy to just 0.53% in 1Q20. From the other hand, total C&I NPLs increased by 44% for BKX index in 1Q20 driven mainly by Energy sector which has already suffered from significant decline of oil price. Given speed of deterioration of economic activity, we expect that significant growth of NPLs and NCOs will begin as early as in 2Q20 but how long will elevated levels of both ratios remain is highly uncertain, as well as peak levels of both indicators. It will depend on how quickly the economy will start its recovery, when workers will return to work, whether there will be a second wave of the epidemic and so on. We can only say with certainty that banks will continue to actively build their reserves up in coming quarters. Median Texas ratio of BKX index members slightly increased recently but it was just 3.2% as the end of 1Q20 with the maximum indicator of BKX index members of 10.1% for MTB. Also, reserve to annualized NCO ratio increased by 110% qoq in absolute terms to 430% as the end of 1Q20, the highest level over almost 5 years.

The key area of uncertainty for us is leveraged and HY loans, which increased significantly in the current cycle. Total leveraged loans + HY loans exceeded 20% of GDP vs just 8% before GFC. Banks weren't the main holders of that market. According to Jamie Dimon comments during 1Q19 earnings season, "if you look at the banking system, if you look at the leveraged lending bridge book in 2007, it was over $400 billion. Today, it's a number

like $80 billion”. But if credit bubble burst because of perfect storm caused by COVID-19, asset quality of banks will suffer significantly either because of domino effect in corporate sector. Substantial growth of HY spreads in March and April was stopped by meaningful liquidity inflection by central banks but it doesn’t mean that the risk completely disappeared. We are convinced that artificial support for the functioning of some credit market segments can lead only to bigger problems in the future. At least, central banks and governments cannot support problem borrowers forever, especially taking into account the size of both leveraged loans and HY segments. The current dynamics of both equity and credit markets implies that the problems were fixed properly at the moment. But the key unknown is whether the economy will recover as fast as it is necessary for normal functioning of the credit markets without central banks support. In any case, rating agencies continue to downgrade ratings much faster in 1H20 than they did it in any year since GFC. Of course, at the moment it relates to the most affected industries, such as energy, tourism, airlines etc., but it may spread on other relatively weak industries in the near future. We don’t think it is a big threat to the financial stability of US banks, but it is in any case a very big risk for their quotes.

Even in case of pessimistic scenario, we convinced that banks have sufficient capital to absorb possible losses, although capital ratios declined markedly in recent years. Moreover, to preserve capital during recession and significant growth of problem loans, banks postponed buybacks but confirmed dividends. Notwithstanding, a number of banking shares outstanding went down in 1Q20 and median decline of number of shares outstanding of BKX index members was -0.9% qoq or -5.6% yoy as the end of 1Q20 (vs -1.4% qoq in 4Q19 and -1.6% in 3Q19). While median dividend yield FY20 estimate of BKX index members is currently 4.2% and dividend yield FY21 estimate is 4.4%. Median Basel III CET1 ratio of members of BKX index decreased by 33 bps qoq or -113 bps yoy in absolute terms to 9.9%, the lowest level over almost 7 years. Median TCE ratio decreased by 47 bps qoq or -44 bps yoy to 7.43%, the lowest figure since mid-2011 but still meaningfully higher than median figure of 5.7% as the end of 4Q07.

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 29/05/20, $	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	95.1	102.5	7.9%	138.1	67.0	56.0	76.5	1.8%	1.9%	2.0%	30.5	13.6	11.0	3.6	N. A.	12.9	27.9	34.4	10.0	10.7
JP Morgan Chase	JPM	97.3	106.8	9.7%	141.1	77.0	55.9	296.5	3.7%	3.9%	4.1%	19.1	11.4	9.6	1.3	1.6	6.5	11.3	12.7	7.0	12.4
PNC Financial	PNC	114.0	112.7	-1.2%	161.7	79.5	61.2	48.4	4.0%	4.1%	4.1%	20.3	14.3	11.2	1.1	1.3	6.2	6.9	9.6	9.8	9.5
Bank of America	BAC	24.1	27.1	12.3%	35.7	18.0	54.2	209.3	3.1%	3.3%	3.7%	17.1	10.8	8.8	0.9	1.2	5.1	7.7	9.3	7.2	11.2
Citigroup	C	47.9	60.4	26.0%	83.1	32.0	54.0	99.7	4.3%	4.5%	5.0%	17.2	8.0	5.9	0.6	0.7	3.3	7.3	9.4	7.7	11.8
Truist Financial Corp	TFC	36.8	42.1	14.5%	56.9	24.0	54.9	49.6	4.9%	5.0%	5.2%	12.2	10.2	8.4	0.8	1.5	6.1	7.6	9.1	7.3	9.5
Goldman Sachs	GS	196.5	216.5	10.2%	250.1	130.9	58.5	70.4	2.6%	2.7%	2.8%	14.5	9.2	7.9	0.8	0.9	6.0	8.9	9.6	7.5	13.3
Bank of NY Mellon	BK	37.2	42.3	13.8%	51.6	26.4	57.6	32.9	3.4%	3.4%	3.6%	10.1	10.1	8.9	0.9	1.9	8.6	8.1	8.8	4.8	12.5
Comerica	CMA	36.4	36.4	0.1%	74.1	24.3	55.7	5.1	7.4%	7.5%	8.2%	33.2	10.0	7.3	0.7	0.7	2.7	6.5	9.2	9.2	10.1
Citizens Financial	CFG	24.1	27.9	15.8%	41.3	14.1	58.5	10.3	6.4%	6.5%	6.8%	22.8	8.5	6.4	0.5	0.8	3.6	5.6	7.8	8.5	10.0
Regions Financial	RF	11.3	12.2	7.6%	17.5	7.0	58.9	10.9	5.6%	5.7%	6.1%	15.6	8.9	6.8	0.7	1.0	4.0	7.1	8.9	8.1	9.6
Discover Financial	DFS	47.5	51.4	8.2%	93.0	23.3	60.9	14.6	3.8%	3.8%	4.1%	23.3	7.8	5.3	1.6	1.7	7.4	17.7	23.6	9.6	11.2
M&T Bank	MTB	105.7	124.6	17.9%	174.9	85.1	52.7	13.6	4.2%	4.2%	4.4%	13.1	10.1	8.7	0.9	1.4	7.1	8.3	10.2	8.5	9.7
Fifth Third Bancorp	FITB	19.4	21.5	11.1%	31.6	11.1	56.8	13.8	5.6%	5.7%	6.1%	16.6	9.0	7.1	0.7	0.9	5.0	6.9	9.2	9.0	9.8
Huntington Bancorp	HBAN	8.9	9.8	9.7%	15.6	6.8	54.3	9.0	6.8%	6.9%	7.6%	23.5	9.7	7.1	0.9	1.1	3.7	7.7	11.2	7.8	9.9
Northern Trust	NTRS	79.0	81.7	3.4%	110.5	60.7	54.3	16.4	3.6%	3.7%	3.7%	14.4	14.2	13.1	1.5	1.6	11.3	11.1	12.2	7.6	13.2
People's United	PBCT	11.5	12.2	6.6%	17.2	9.4	49.4	4.9	6.3%	6.3%	6.6%	10.5	10.3	8.4	0.6	1.1	6.0	6.2	7.4	8.0	10.2
Synchrony Financial	SYF	20.4	23.1	13.6%	38.2	12.2	58.6	11.9	4.4%	4.5%	4.9%	14.3	6.8	5.1	1.1	1.3	3.6	13.9	15.9	11.7	14.1
KeyCorp	KEY	11.9	13.2	11.2%	20.5	7.5	55.7	11.6	6.3%	6.5%	6.8%	15.8	8.7	6.9	0.7	0.9	5.3	7.4	10.6	9.0	9.4
State Street Corp	STT	61.0	64.9	6.5%	85.9	42.1	54.2	21.5	3.4%	3.5%	3.7%	10.7	10.9	9.2	1.0	1.9	9.1	9.9	9.7	4.7	11.9
US Bancorp	USB	35.6	41.3	16.1%	61.0	28.4	53.8	53.6	4.7%	4.8%	5.0%	16.7	11.3	8.9	1.2	1.5	7.1	9.2	12.9	7.3	9.1
Zions Bancorp	ZION	32.9	34.0	3.2%	52.5	23.6	57.1	5.4	4.1%	4.2%	4.4%	16.1	10.9	8.0	0.8	0.9	5.3	7.0	9.3	8.5	10.2
Morgan Stanley	MS	44.2	47.5	7.5%	57.6	27.2	60.5	69.6	3.2%	3.4%	3.7%	12.3	9.8	8.3	0.9	1.0	7.4	8.9	9.6	7.2	16.4
Capital One Financial	COF	68.0	77.5	13.9%	107.6	38.0	58.6	31.0	2.4%	2.4%	2.4%	-41.9	8.5	5.8	0.6	0.8	-1.0	6.2	9.3	10.2	12.2
Wells Fargo	WFC	26.5	31.2	17.8%	54.8	22.0	50.4	108.4	7.5%	7.4%	7.3%	25.2	10.6	7.0	0.7	0.8	1.9	5.9	9.3	7.3	11.1
First Republic Banks	FRC	108.2	105.1	-2.8%	122.3	70.1	60.0	18.5	0.7%	0.8%	0.9%	22.3	21.0	18.2	2.0	2.1	9.1	9.0	9.5	7.3	9.9
NY Commercial Bancshares	NYCB	10.1	11.8	17.1%	13.8	8.2	52.7	4.7	6.8%	6.8%	6.8%	12.5	10.2	8.9	0.8	1.3	6.1	7.0	8.2	7.4	9.9
SVB Financial	SIVB	214.8	196.6	-8.4%	271.0	127.4	63.4	11.1	0.0%	0.0%	0.0%	17.3	14.6	11.4	1.7	1.7	9.4	10.3	12.7	8.4	12.6
Signature Bank	SBNY	102.9	115.0	11.7%	148.6	69.1	54.0	5.6	2.2%	2.2%	2.5%	11.3	9.6	8.1	1.2	1.2	10.3	10.6	11.0	9.4	11.6
East West Bancorp	EWBC	35.0	34.8	-0.4%	51.8	22.6	54.1	4.9	3.2%	3.3%	4.0%	9.6	9.7	7.5	1.0	1.1	10.2	9.6	11.5	10.4	12.9
Synovus Financial	SNV	19.2	24.3	26.5%	40.3	10.9	52.3	2.8	6.9%	7.0%	7.3%	16.2	8.6	5.5	0.6	0.7	5.4	5.6	12.5	8.1	8.9
First Horizon National	FHN	9.4	11.1	18.9%	17.4	6.3	54.6	2.9	6.4%	6.5%	7.1%	11.9	6.9	5.7	0.6	0.9	3.1	9.2	10.5	7.5	9.2
BOK Financial	BOKF	50.9	53.3	4.7%	88.2	34.6	53.9	3.6	4.0%	4.1%	4.1%	10.8	10.5	7.6	0.7	0.9	6.2	6.0	8.1	9.0	11.4
Median				**10.2%**			**55.7**		**4.1%**	**4.2%**	**4.4%**	**15.8**	**10.1**	**8.0**	**0.9**	**1.1**	**6.1**	**7.7**	**9.6**	**8.1**	**10.7**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (29/05/20)	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	19.8	27.1	37.0%	35.8	15.2	54.2	8.5	3.9%	5.1%	6.8%	11.4	9.1	6.9	0.6	0.6	5.8	6.9	7.5	5.2	13.8
Raiffeisen Bank	RBI AV	EUR	16.5	20.4	23.3%	23.5	10.7	59.8	5.4	4.6%	5.8%	6.0%	7.8	6.5	6.5	0.5	0.5	5.7	7.3	7.2	7.3	13.9
KBC Groep	KBC BB	EUR	47.1	56.4	19.8%	73.6	33.4	51.0	19.6	4.4%	5.0%	6.3%	16.3	11.3	9.6	1.1	1.2	6.4	8.8	9.4	6.0	17.1
Komercni Banka	KOMB CK	CZK	519.0	682.8	31.6%	908.5	465.0	49.2	3.7	7.0%	7.3%	8.0%	11.1	9.8	8.8	0.9	1.0	9.0	9.1	9.3	9.0	19.1
Jyske Bank	JYSK DC	DKK	185.4	198.4	7.0%	285.4	150.5	58.6	1.9	3.9%	3.1%	3.3%	20.3	7.7	6.5	0.4	0.4	2.1	5.1	5.4	5.0	17.4
SydBank	SYDB DC	DKK	117.1	112.7	-3.8%	162.3	83.0	67.1	1.0	3.7%	4.9%	5.6%	12.6	9.4	8.4	0.6	0.6	4.9	6.2	6.8	7.3	17.8
Danske Bank	DANSKE DC	DKK	83.0	99.6	20.1%	123.6	68.0	59.6	9.6	2.1%	6.0%	7.5%	27.9	8.0	6.4	0.5	0.5	1.0	5.6	6.7	3.9	17.3
BNP Paribas	BNP FP	EUR	32.3	41.8	29.5%	54.2	24.5	61.0	40.3	6.0%	6.6%	8.2%	9.0	7.3	5.8	0.4	0.5	4.2	4.7	5.7	4.0	12.1
Natixis	KN FP	EUR	2.0	2.8	40.7%	4.4	1.5	46.1	6.3	7.5%	9.8%	12.1%	15.0	8.0	6.1	0.3	0.4	3.2	4.5	5.9	2.5	11.3
Societe Generale	GLE FP	EUR	13.2	17.6	32.7%	32.2	11.3	48.2	11.3	1.3%	6.3%	10.0%	27.0	6.9	4.5	0.2	0.2	0.7	2.6	3.9	4.2	12.7
Credit Agricole	ACA FO	EUR	7.8	10.2	29.9%	13.8	5.7	60.2	22.6	3.9%	6.9%	7.9%	9.4	7.4	6.3	0.4	0.5	3.6	4.1	5.4	2.2	12.1
Virgin Money	CYBG LN	GBp	89.1	135.0	51.4%	222.1	46.1	56.6	1.4	0.0%	0.0%	0.1%	29.7	7.3	4.1	0.3	0.3	-0.2	4.0	6.8	5.0	13.3
HSBC	HSBA LN	GBp	370.1	463.2	25.2%	674.8	369.4	35.1	83.8	0.0%	0.1%	0.1%	13.4	8.1	6.4	0.5	N. A.	3.3	4.9	6.1	5.3	14.7
Royal Bank of Scotland	RBS LN	GBp	110.4	166.4	50.8%	265.0	100.4	48.6	14.8	0.1%	0.1%	0.1%	29.8	8.2	5.6	0.3	0.4	-0.3	3.9	6.0	4.5	16.2
Barclays	BARC LN	GBp	115.2	143.9	24.9%	193.0	73.0	59.5	22.2	0.0%	0.0%	0.1%	23.0	7.8	5.5	0.3	0.4	0.6	4.1	5.3	4.0	13.8
Standard Charted	STAN LN	GBp	368.4	541.5	47.0%	742.6	368.4	40.0	12.9	0.0%	0.1%	0.1%	10.9	5.7	4.2	0.3	0.4	1.3	4.3	5.7	5.3	13.8
Lloyds	LLOY LN	GBp	29.9	43.8	46.8%	70.0	27.1	46.8	23.5	0.0%	0.1%	0.1%	13.6	7.3	5.4	0.5	N. A.	0.4	6.9	8.7	4.3	13.6
Commerzbank	CBK GY	EUR	3.5	4.0	13.2%	6.8	2.8	54.1	4.4	0.8%	2.1%	3.2%	-62.5	14.1	6.0	0.2	0.2	-0.6	0.9	2.5	5.5	13.4
Deutsche Bank	DBK GY	EUR	7.5	5.6	-25.4%	10.4	4.4	62.6	15.6	0.0%	0.4%	1.8%	-18.0	36.7	10.3	0.3	0.3	-2.7	0.2	3.1	3.8	13.6
UniCredit	UCG IM	EUR	7.7	10.0	30.0%	14.4	6.0	64.5	17.2	1.7%	4.5%	6.2%	24.8	8.3	5.6	0.3	0.3	0.3	3.0	4.8	6.2	13.2
Mediobanka	MB IM	EUR	5.8	8.2	40.0%	11.0	4.1	63.2	5.2	5.7%	5.8%	7.0%	8.3	9.5	7.7	0.5	N. A.	6.5	5.3	6.3	11.5	14.1
Intesa Sanpaolo	ISP IM	EUR	1.6	1.9	21.5%	2.6	1.3	61.8	27.2	7.5%	7.8%	8.5%	10.5	9.2	8.0	0.5	0.7	4.4	5.6	5.6	5.2	13.9
Emilia Romagna	BPE IM	EUR	2.1	2.9	34.6%	4.7	1.8	50.1	1.1	2.0%	3.4%	6.4%	85.9	6.9	4.4	0.2	0.3	1.6	2.9	4.8	5.5	13.9
UBI Banca	UBI IM	EUR	2.5	2.9	12.2%	4.5	2.0	53.3	2.9	2.5%	3.5%	6.5%	20.0	12.0	7.0	0.3	0.3	0.6	2.6	4.0	6.2	12.3
ING Groep	INGA NA	EUR	5.8	7.7	33.4%	11.3	4.2	59.7	22.6	5.9%	7.9%	8.7%	7.9	7.2	6.0	0.4	0.4	4.8	5.9	6.5	5.8	14.6
ABN Amro	ABN NA	EUR	7.2	10.9	50.6%	19.8	5.7	54.6	6.8	2.2%	8.4%	11.3%	56.8	5.5	5.1	0.3	N. A.	1.3	5.2	6.9	5.7	18.1
DNB	DNB NO	NOK	132.2	132.2	0.0%	178.1	94.3	63.2	19.4	4.3%	5.8%	6.6%	15.1	10.7	9.4	0.9	1.0	6.6	8.2	9.1	7.5	18.6
BBVA	BBVA SQ	EUR	2.8	3.4	22.0%	5.3	2.5	51.1	18.6	1.4%	4.8%	6.5%	11.5	7.1	5.6	0.4	0.4	4.0	6.1	6.5	6.0	12.0
Santander	SAN SQ	EUR	2.0	2.6	29.8%	4.3	1.8	51.4	33.9	1.2%	5.1%	7.5%	10.7	7.8	5.7	0.4	0.5	3.4	4.5	5.4	4.8	11.7
Bankia	BKIA SQ	EUR	0.8	1.1	36.0%	2.3	0.7	39.9	2.4	3.3%	4.7%	7.9%	23.3	13.5	7.0	0.2	0.2	0.6	1.7	2.4	6.2	14.3
Bankinter	BKT SQ	EUR	3.8	4.4	14.6%	6.9	3.0	55.5	3.4	1.6%	3.6%	5.5%	13.3	12.4	8.9	0.7	0.8	6.3	6.9	7.5	5.3	11.6
Sabadell	SAB SQ	EUR	0.3	0.4	63.6%	1.1	0.3	35.4	1.5	1.1%	4.4%	11.5%	-54.1	10.8	4.4	0.1	0.1	-0.3	1.5	2.5	4.7	12.4
CaixaBank	CABK SQ	EUR	1.7	2.1	26.5%	2.9	1.5	52.4	10.0	1.9%	5.1%	7.1%	15.1	9.0	6.5	0.4	0.5	3.1	5.2	6.0	5.5	12.0
SEB	SEBA SS	SEK	81.7	86.4	5.8%	104.9	59.8	63.2	17.1	5.4%	6.4%	7.1%	12.9	10.0	9.3	1.1	1.2	8.5	10.6	10.9	5.2	17.6
Handelsbanken	SHBA SS	SEK	89.1	91.7	2.9%	113.8	71.8	54.2	16.9	4.5%	5.7%	6.4%	12.0	11.0	10.2	1.1	1.2	8.7	9.4	9.5	4.9	18.5
Swedbank	SWEDA SS	SEK	118.0	143.7	21.8%	162.7	99.1	59.9	12.8	3.6%	6.1%	7.1%	10.7	8.1	7.3	0.9	1.1	7.3	10.9	11.1	5.1	17.0
Nordea	NDA SS	SEK	63.6	70.7	11.1%	86.7	48.0	60.1	24.6	0.4%	0.6%	0.7%	13.9	8.8	9.6	0.8	0.9	5.6	7.4	8.1	4.9	16.3
Julious Baer	BAER SW	CHF	40.9	43.0	5.2%	51.3	24.1	62.3	8.6	3.8%	4.0%	4.4%	11.3	11.4	10.1	1.4	2.7	12.4	12.0	13.1	3.3	14.0
Credit Suisse	CSGN SW	CHF	8.8	11.0	25.0%	13.7	6.1	57.4	21.0	2.9%	3.4%	3.5%	9.4	7.1	6.0	0.4	0.5	5.6	6.6	6.8	4.9	12.7
UBS	UBSG SW	CHF	10.3	11.7	14.1%	13.0	6.9	60.4	37.2	5.7%	6.4%	6.8%	9.3	8.7	8.0	0.7	0.7	7.3	7.1	8.2	5.0	13.7
Median					**25.1%**			**56.1**		**2.7%**	**4.9%**	**6.5%**	**12.8**	**8.3**	**6.5**	**0.4**	**0.5**	**3.5**	**5.3**	**6.4**	**5.2**	**13.9**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Jun	US	Macro	ISM Manufacturing	May
3-Jun	EU	Macro	PPI	Apr
3-Jun	EU	Macro	Unemployment Rate	Apr
3-Jun	US	Macro	ADP Employment Change	May
3-Jun	US	Macro	Factory Orders and Durable Goods	Apr
3-Jun	US	Macro	ISM Non-Manufacturing Index	May
4-Jun	EU	Macro	Retail Sales	Apr
4-Jun	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Jun 4**
4-Jun	US	Macro	Trade Balance	Apr
5-Jun	**US**	**Macro**	**Employment Report**	**May**
5-Jun	US	Macro	Consumer Credit	Apr
9-Jun	EU	Macro	Employment	1Q
9-Jun	EU	Macro	GDP	1Q
10-Jun	US	Macro	CPI	May
10-Jun	**US**	**Macro**	**FOMC Rate Decision**	**Jun 10**
11-Jun	US	Macro	PPI	May
12-Jun	EU	Macro	Industrial Production	Apr
12-Jun	US	Macro	U. of Mich. Sentiment	Jun
15-Jun	EU	Macro	Trade Balance	Apr
15-Jun	US	Macro	Empire Manufacturing	Jun
16-Jun	EU	Macro	ZEW Survey Expectations	Jun
16-Jun	US	Macro	Retail Sales	May
16-Jun	US	Macro	Industrial Production and Capacity Utilization	May
16-Jun	US	Macro	NAHB Housing Market Index	Jun
17-Jun	EU	Corporate	KBC Group. Investor Day	
17-Jun	EU	Macro	Construction Output	Apr
17-Jun	US	Macro	Building Permits and Housing Starts	May
18-Jun	US	Macro	Leading Index	May
22-Jun	EU	Macro	Consumer Confidence	Jun
22-Jun	US	Macro	Existing Home Sales	May
23-Jun	EU	Macro	Markit Eurozone Manufacturing, Services and	Jun
23-Jun	US	Macro	Markit US Manufacturing, Services and Composite	Jun
23-Jun	US	Macro	New Home Sales	May
23-Jun	US	Macro	Richmond Fed Manufact. Index	Jun
24-Jun	US	Macro	FHFA House Price Index	Apr
25-Jun	US	Macro	Durable Goods Orders	May
25-Jun	US	Macro	GDP	1Q
25-Jun	US	Macro	Kansas City Fed Manf. Activity	Jun
26-Jun	US	Macro	Personal Income and Spending	May
29-Jun	EU	Macro	Economic and Industrial Confidence	Jun
29-Jun	US	Macro	Pending Home Sales	May
29-Jun	US	Macro	Dallas Fed Manf. Activity	Jun
30-Jun	EU	Macro	CPI	Jun
30-Jun	US	Macro	Conf. Board Consumer Confidence	Jun