BARCLAYS

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27 November 2018

#brexit

UK Banks

Running the numbers on 'No-Deal' Brexit

INDUSTRY UPDATE

European Banks
NEUTRAL
Unchanged

European Banks
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As the likelihood of 'No-Deal' Brexit appears to have grown, we try to calibrate the earnings impact of 'No-Deal' on UK banks and what is in the price. Our estimates in such a scenario show a c.30-40% EPS cut for Lloyds, RBS and CYBG in 2020; with stocks trading at c.11.5x 'No-Deal' EPS they are close to pricing in this scenario, we think. We acknowledge that lower trough earnings, a worse economic impact of 'No-Deal' or a change of Government might mean stocks go lower.

We focus on four key questions in this report:

- **What would happen to the economy in 'No-Deal'? We draw on our UK Economics team's work and look at an orderly 'No-Deal' scenario with a mild recession.** This assumes a reversion to WTO trading rules, zero headline GDP growth by 2020, inflation peaking at 3.5%, unemployment rising to 6% and a BOE rate cut. For full details see *UK Themes: Alternative Brexit scenario: A No-Deal rate cut*.

- **How would 'No-Deal' translate into UK banks earnings/dividends? Our simulation suggests 'No-Deal' could mean a c.30-40% EPS cut for Lloyds, RBS and CYBG and c.9% for HSBC.** Our 'No-Deal' scenario factors in lower policy rates dragging on net interest margins, higher unemployment driving UK impairment charges to around double the base case and loan growth being more subdued. We model 'No-Deal' 2020 dividends as flat at 2018 levels and buybacks being cancelled (ex-HSBC).

- **Does now represent a good entry point? We think so; on the 'No-Deal' earnings estimates Lloyds and RBS trade on c.11.5x 2020e EPS.** Looking at the last 20+ years of trading history for Lloyds, RBS and HSBC shows the stocks on average trade at c.10-11x 12m forward EPS. On a longer-term view, buying trough earnings at a cross-cycle multiple looks good value to us. We also note that Lloyds with a covered dividend and yield of 5.6% looks appealing (RBS/CYBG both at c.3% however). For our initial take see *UK Banks No-Deal Brexit risks rising but 40% EPS cut already priced in* (15 Nov 2018).

- **What else could happen to drive stock prices lower? We see lower trough multiples, worse 'No-Deal' impact, or a change in Government as key risks.** We explore in this report some of the pushback we have had on our view – for more see *UK Banks: Top 5 pushbacks to our No-Deal Brexit view* (19 Nov 2018)

On our central case RBS and Lloyds trade at sub 7x 2020e EPS. While uncertainty is still running high, we continue to expect the withdrawal agreement to be ratified and in that central scenario OW-rated Lloyds and RBS offer c.50% potential upside to our price targets from here. For our economists' take see *UK Economics Research: Brexit update #11: Returning with a better deal*, 22 Nov 2018.

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What does a 'No-Deal' scenario look like?

For No-Deal, we use our UK Economics teams' scenario, see: *UK Themes: Alternative Brexit scenario: A No-Deal rate cut*. This entails inflation rising to 3.5%, growth slowing to 0% with risks of recession; unemployment rising above 6%, and a Bank Rate cut to 25bp.

FIGURE 1
Barclays Economics Research: No-Deal vs. Base case

	No-deal scenario				Basecase scenario				Difference		
	2017	2018e	2019e	2020e	2017	2018e	2019e	2020e	2018e	2019e	2020e
Real GDP, y/y	1.7%	1.3%	0.5%	0.2%	1.7%	1.3%	1.3%	1.4%	0.0%	-0.8%	-1.2%
Unemployment rate, %	4.4%	4.2%	4.8%	6.0%	4.4%	4.2%	4.8%	5.0%	0.0%	0.0%	1.0%
CPI inflation, y/y	2.7%	2.5%	3.5%	2.9%	2.7%	2.5%	2.0%	2.0%	0.0%	1.5%	0.9%
Bank Rate (EOP)	0.50%	0.75%	0.25%	0.25%	0.50%	0.75%	0.75%	0.75%	0.00%	-0.50%	-0.50%

Source: Barclays Economics Research

FIGURE 2
Real growth slowing to zero, risk of recession

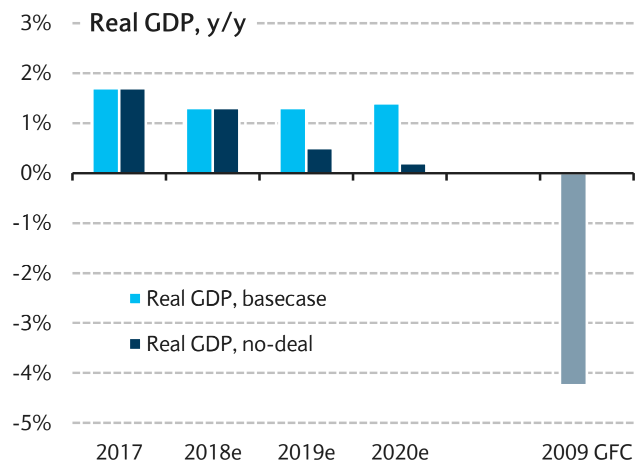


FIGURE 3
Unemployment rising to 6% by 2020

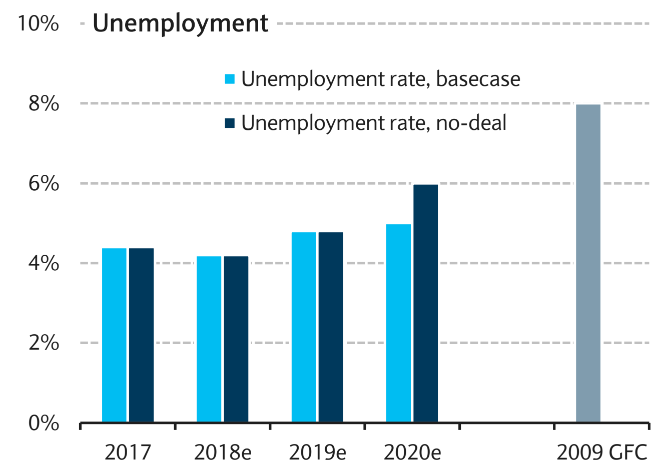


FIGURE 4
Inflation spiking to 3.5% in 2019

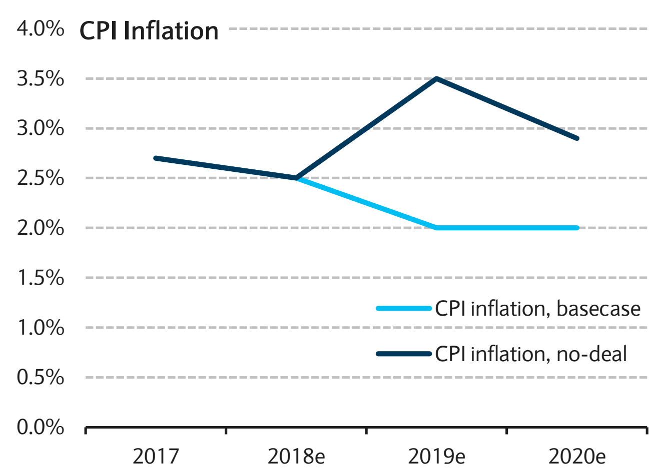
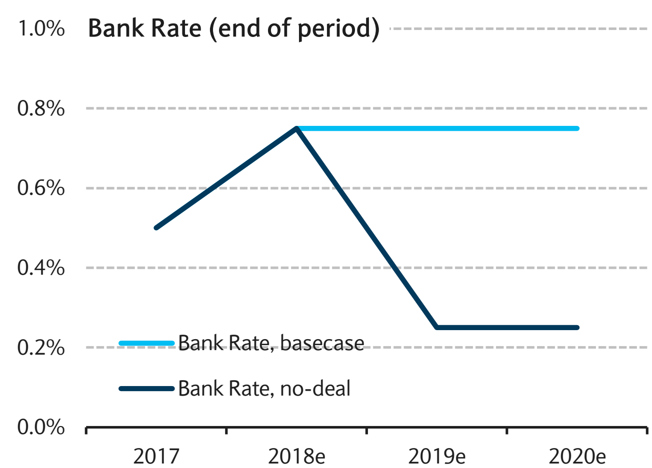


FIGURE 5
Bank Rate cut to 0.25%



Source for all charts: Barclays Economics Research estimates

What would that mean for UK banks' earnings?

Our simulation suggests this could equate to a c.40% EPS cut for Lloyds/RBS and 9% for HSBC. Our scenario involves:

- Impairments 30-100% higher than base case, with 2020e UK impairment charge rising above 50bp, from c30bp;
- Net interest margins 10-30bp lower than 2020e base-case, assuming rates are cuts
- Loan growth/costs broadly unchanged, vs. base-case
- Ordinary dividends maintained at the 2018e level, with specials/buybacks cancelled

FIGURE 6

No-Deal vs. base case P&L for key UK Banks

	Base-case scenario				No-deal scenario				% chg			
	Lloyds (£m)	RBS (£m)	HSBC ($m)	CYBG (£m)	Lloyds (£m)	RBS (£m)	HSBC ($m)	CYBG (£m)	Lloyds (£m)	RBS (£m)	HSBC ($m)	CYBG (£m)
Total income	18,064	13,585	61,233	1,675	16,755	12,754	59,730	1,564	-7%	-6%	-2%	-7%
Expenses	-8,133	-6,998	-35,534	-914	-8,139	-7,216	-34,901	-909	0%	3%	-2%	-1%
Pre-provision profit	9,930	6,587	25,699	761	8,616	5,537	24,829	655	-13%	-16%	-3%	-14%
Impairment	-1,491	-1,053	-3,267	-187	-3,115	-1,830	-4,166	-245	109%	74%	27%	31%
Associates/other	0	0	2,524	0	0	0	2,524	0	nm	nm	0%	nm
Profit before tax	8,439	5,533	24,955	574	5,500	3,708	23,188	410	-35%	-33%	-7%	-29%
Tax	-2,278	-1,521	-5,380	-149	-1,485	-1,010	-5,101	-107	-35%	-34%	-5%	-29%
AT1s etc	-403	-300	-2,387	-54	-403	-300	-2,387	-54	0%	0%	0%	0%
Attributable profit	5,757	3,712	17,189	371	3,612	2,398	15,700	250	-37%	-35%	-9%	-33%
EPS	8.5	32.8	0.85	25.9	4.9	19.5	0.78	17.4	-42%	-40%	-9%	-33%
Ordinary DPS	3.8	10.0	0.51	12.0	3.2	6.0	0.51	8.0	-14%	-40%	0%	-33%
Payout ratio	44%	31%	60%	46%	65%	31%	66%	46%	47%	1%	9%	-1%
CET1 ratio	13.9%	14.0%	15.4%	13.0%	13.6%	14.9%	15.0%	12.3%	-3%	7%	-3%	-5%
NIM	3.00%	2.06%	1.81%	1.62%	2.70%	1.94%	1.77%	1.52%	-10%	-6%	-2%	-6%
Loan growth	-0.3%	1.7%	3.8%	4.9%	-0.3%	-0.3%	3.5%	3.6%	-1%	-116%	-8%	-27%
Cost/income ratio	45.0%	51.0%	58.0%	54.6%	48.6%	56.1%	59.2%	58.1%	8%	10%	2%	7%
Impairment charge	0.33%	0.31%	0.31%	0.24%	0.69%	0.56%	0.39%	0.32%	110%	82%	27%	34%

Source: Barclays Research estimates

FIGURE 7

2020e EPS change – No-Deal vs. base case

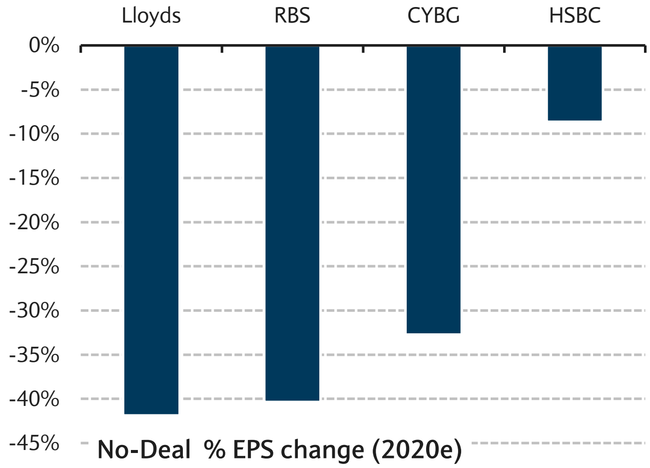


FIGURE 8

2020e DPS change – No deal vs. base case

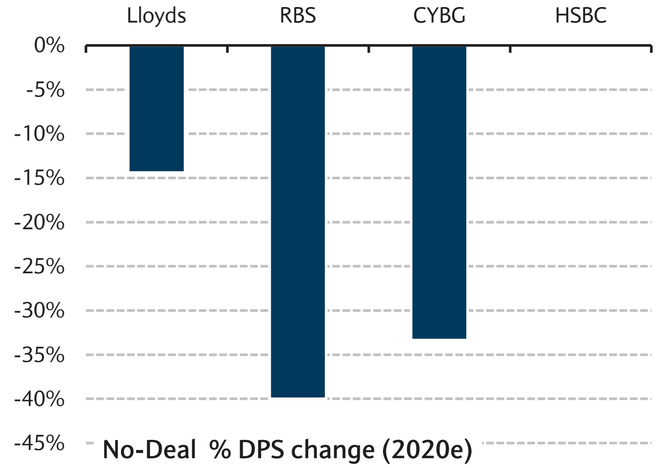


FIGURE 9

No deal vs. base case net interest margins (2020e)

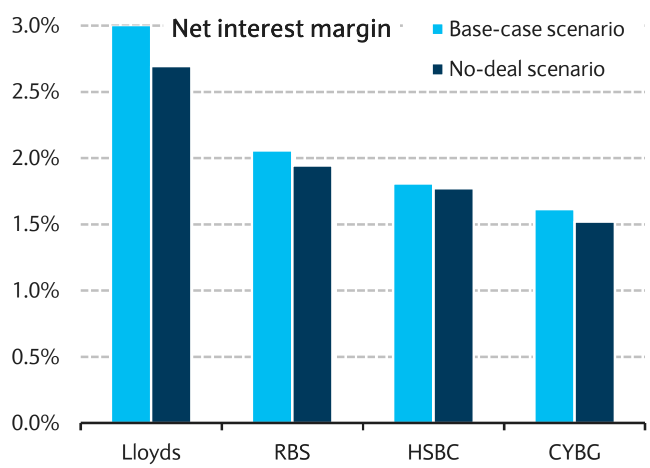


FIGURE 10

No deal vs. base case impairment charges (2020e)

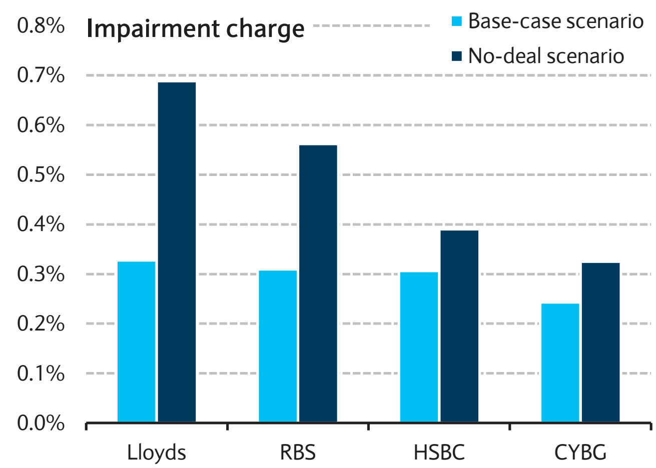
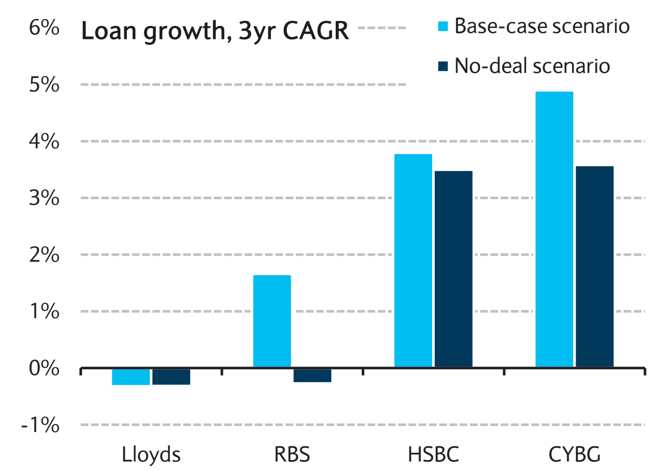


FIGURE 11

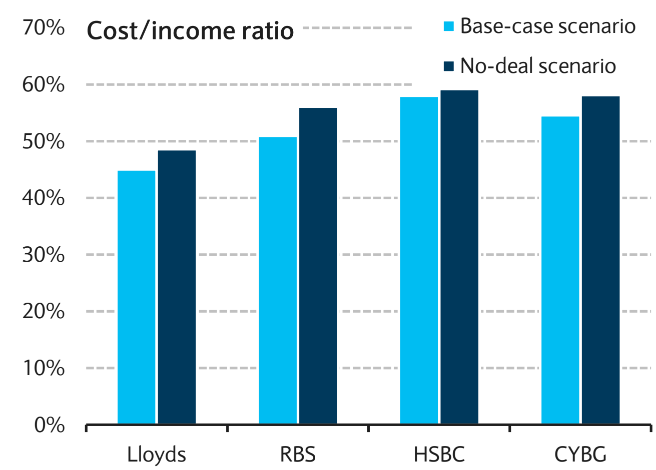
No deal vs. base case loan growth, 3yr CAGR



Source: Barclays Research estimates

FIGURE 12

No deal vs. base case cost income ratio (2020e)



Source: Barclays Research estimates

Is now a good entry point?

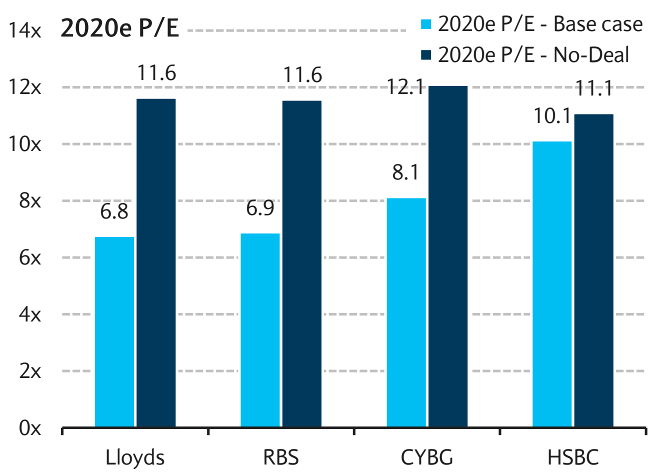
We think that current prices offer good risk-reward for Lloyds and RBS, as it looks like stocks are trading just above cross-cycle multiples on potential trough EPS in our 'No-Deal' scenario. We see 50%+ potential upside to stocks over time in the central case of a deal being agreed, although we acknowledge that uncertainty is high and multiples could trough lower than the cross-cycle average, meaning stocks could have more downside before value reasserts itself.

On our 'No-Deal' earnings estimates, Lloyds and RBS trade on c11.5x 2020e EPS... Our 'No-Deal' earnings estimates, as calibrated above, are c.40% below the base case for the domestic banks. On this basis the stocks are trading at c.11-12x 2020e EPS vs c.7x 2020e EPS on the base case.

... which is close to the cross-cycle multiple over the last 20-30 years. Overleaf we look at the last 20+ years of trading history for Lloyds, RBS and HSBC, which indicates that the stocks on average trade at c.10-11x 12m forward EPS. On a longer-term view, buying trough earnings at a close to cross-cycle multiple looks good value to us. We do note that in the run-up to previous recessions multiples troughed at low single-digit levels as the market discounted negative earnings revisions before consensus reacted.

FIGURE 13

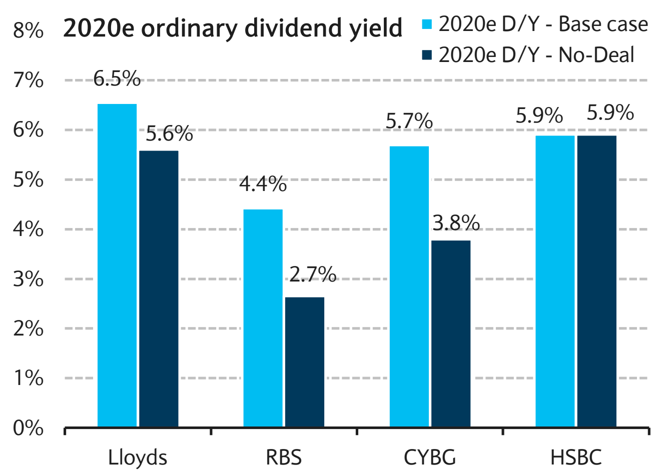
UK domestic banks trading at 11-12x No-Deal earnings, vs. c7x base case…



Source: Barclays Research estimates

FIGURE 14

…With 3-6% ordinary dividend yields in No-Deal , vs. 6-7% base-case



Source: Barclays Research estimates

UK banks long-run earnings multiples

FIGURE 15

Lloyds typically trades at 10.5x 12m forward earnings

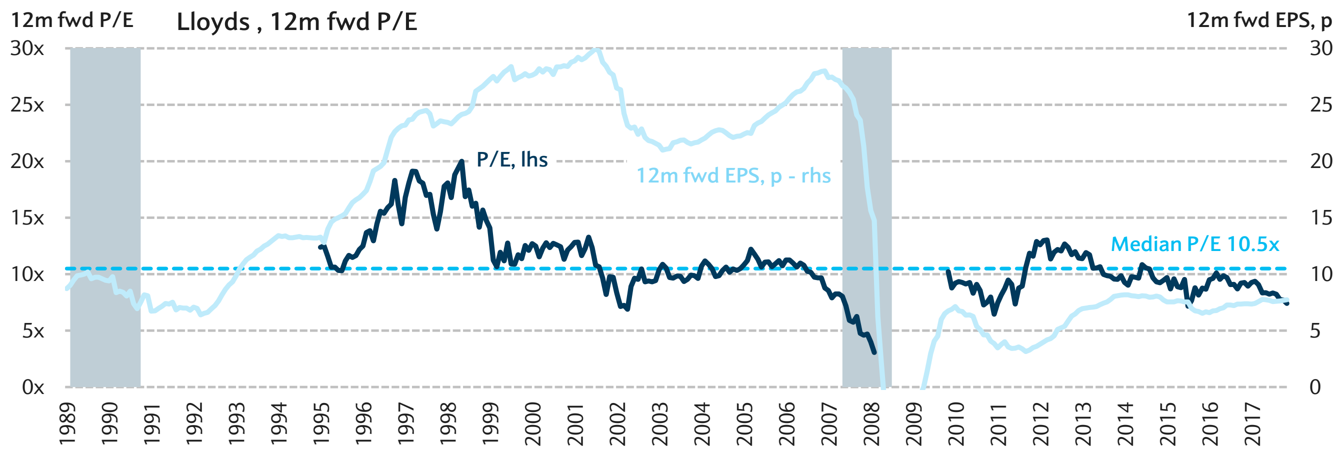


FIGURE 16

RBS also typically trades at 10.5x 12m forward earnings

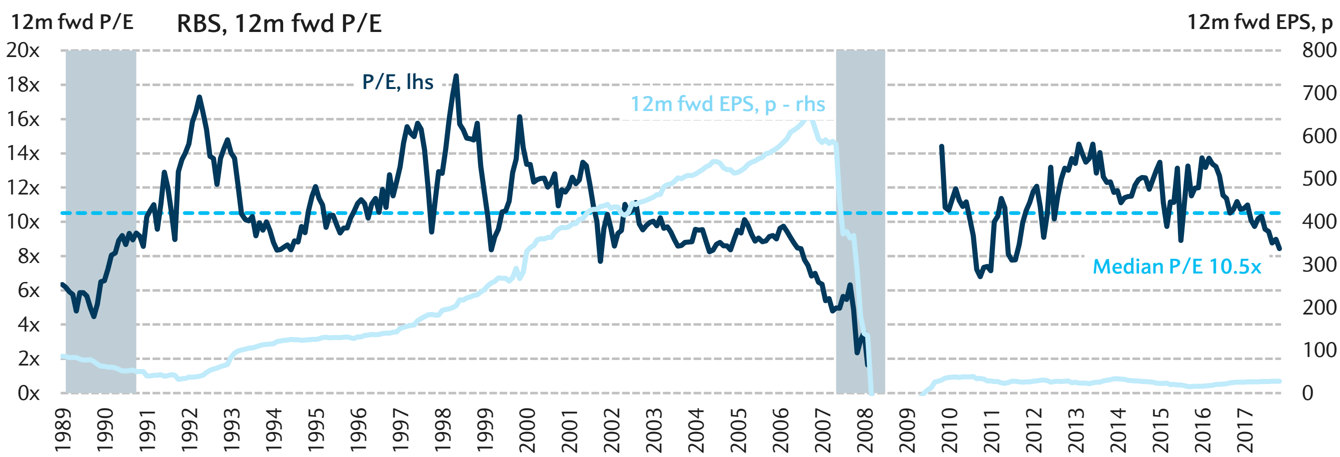
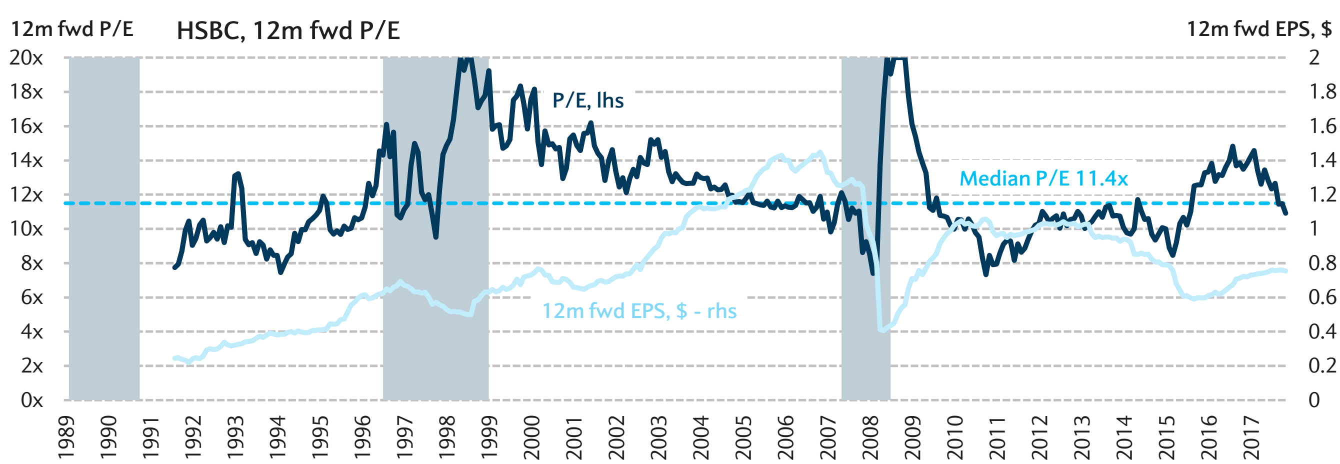


FIGURE 17

HSBC typically trades at 11.4x 12m forward earnings



Source for all charts: DataStream, 12m fwd earnings based on Thomson Reuters consensus, Barclays Research

What else could drive stock prices lower?

As we debated in our report on Monday 19th November, see *UK Banks: Top 5 pushbacks to our No-Deal Brexit view*, there are a few recurrent pushbacks to our view that current prices offer a good entry point:

1. Will your assumption that the P/E multiple of 10-11x through the cycle offer a decent entry point hold?

Investors are concerned that even if our 'No-Deal' 2020 EPS estimates of 4.9p for Lloyds and 20p for RBS prove ultimately correct, the market would still penalise the stocks with a lower multiple to account for the uncertainty (e.g. in 2011/12 Lloyds and RBS hit 5-7x forward EPS as investors digested risk of a double-dip UK recession and the Eurozone crisis). Other investors expect that the market, when it has asset quality concerns, would flip to using a price-to-tangible book lens and note that Lloyds is still trading above 1x TNAV.

Our take: we acknowledge that the market could overreact, but do expect multiples to revert to historical averages over time, and we think that paying an average multiple on trough earnings could prove good value.

2. Couldn't a recession and economic impact of 'No-Deal' be worse than you assume?

We base our assumptions of zero loan growth, 70bps cost of risk and 2.70% net interest margin for Lloyds by 2020 on our UK economists' scenario of a mild recession caused by No-Deal with CPI at 3.5% (tariffs/sterling moves), unemployment of 6%, zero GDP growth and lower policy rates by 2020. We have had investors suggesting that 'No-Deal' could be significantly worse than this baseline or be more prolonged.

Our take: it's fair to say that the depth of any potential recession is highly uncertain and for a more severe outcome one could look at BOE/EBA stress test results to assess outcomes, and *recent BOE comments* suggest that Lloyds, RBS and HSBC would be resilient to severe economic and market stress

3. What if there were a general election and a Labour government were elected – wouldn't stocks fall further?

Given the 2017 Labour party manifesto talked about launching a consultation to break up RBS to "create new local public banks that are better matched to their customers' needs", investors are concerned firstly about how / if a nationalization might happen and secondly what impact that could have on profitability across the UK banking sector. They are also concerned about other potential policies and the impact on the competitiveness of the UK economy overall.

Our take: at the moment we do not expect that conservative MPs would back a general election given the 2/3rd majority needed under the fixed term Parliament Act to call a general election and that a vote of no confidence is unlikely. However, we think there could be further downside to UK bank stocks if there were a general election and a Labour government were elected.

4. Wouldn't the banks' 2020 earnings trough lower than you forecast in 'No-Deal' due to the pro-cyclical nature of the new accounting standard IFRS 9 causing provision front-loading?

The new accounting standard extant as of 1 Jan 2018 means that banks need to recognise 'expected' losses as well as incurred losses by taking lifetime impairment charges on 'significantly deteriorated' loans known as Stage 2 loans. This acceleration of loss recognition could mean banks start to report much lower trough earnings and cut dividends etc vs our estimates.

Our take: given the transitional relief available on capital ratios from the PRA and the fact that investors will know how much provisioning has been brought forward, we expect the market to look through the stage 1&2 impairments to the incurred/stage 3 losses. We do flag though that this is untested and banks could show some lumpy quarters of losses and so careful explanations will be needed from management teams and regulators.

5. Lloyds (-16%) and RBS (-19%) stocks have outperformed the SX7P European banks index (-21%) YTD, so shouldn't they underperform from here?

The recent moves since November 14th were a big catch-up trade for Lloyds and RBS but given the elevated risk shouldn't the major domestic banks underperform European peers?

Our take: on the central case Lloyds and RBS have had c.5% positive EPS revisions ytd, vs European banks c.-5% so the relative derating has been material, we also note idiosyncratic reasons (Italy, Turkey, EU rates, Trade Tension, AML etc) why EU banks have been weak.

Comparing UK banks to the sector

FIGURE 18

Sector 2020e P/E

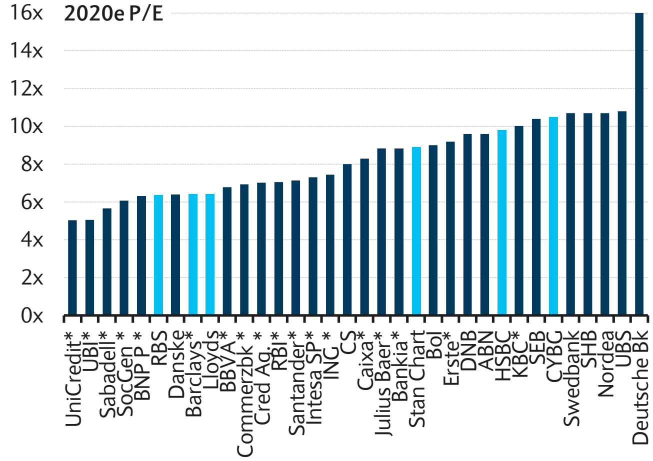


FIGURE 19

Barclays vs. Consensus EPS

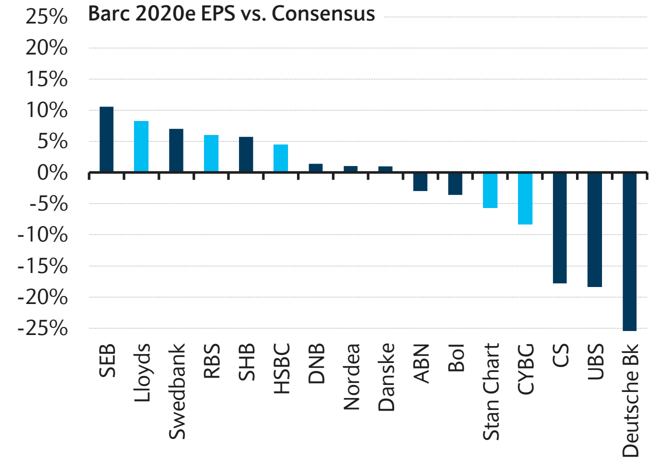


FIGURE 20

2018e PTBV vs 2020e RoTE

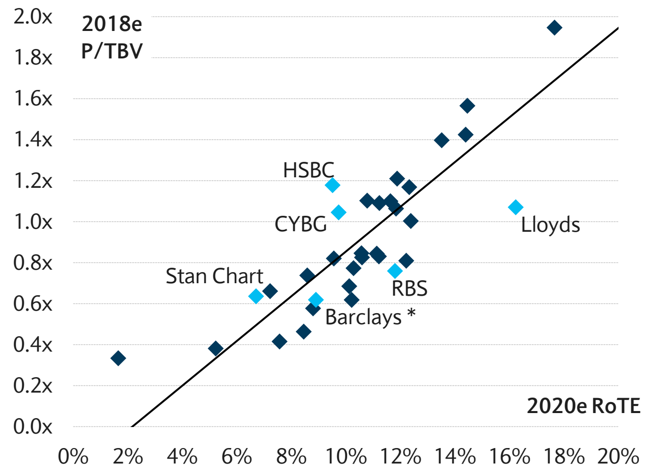


FIGURE 21

2020e dividend yield – headline

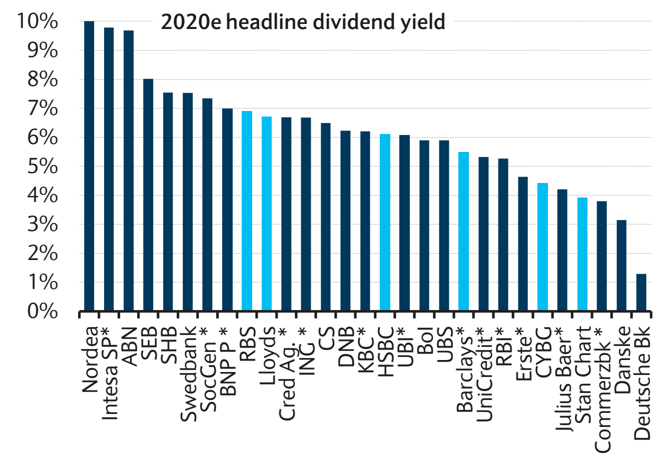


FIGURE 22

Consensus EPS revisions

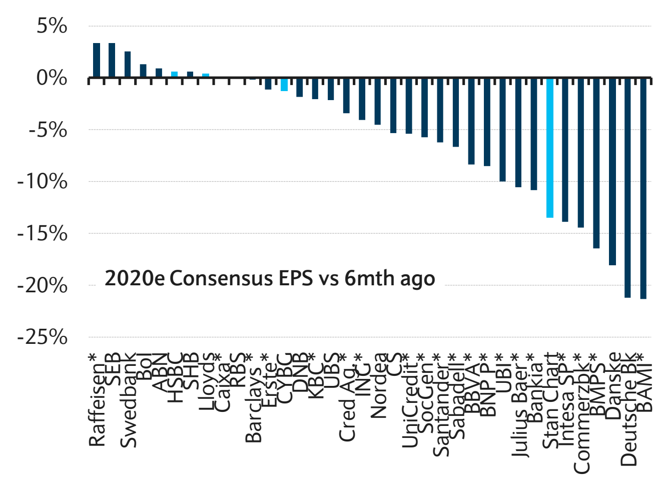
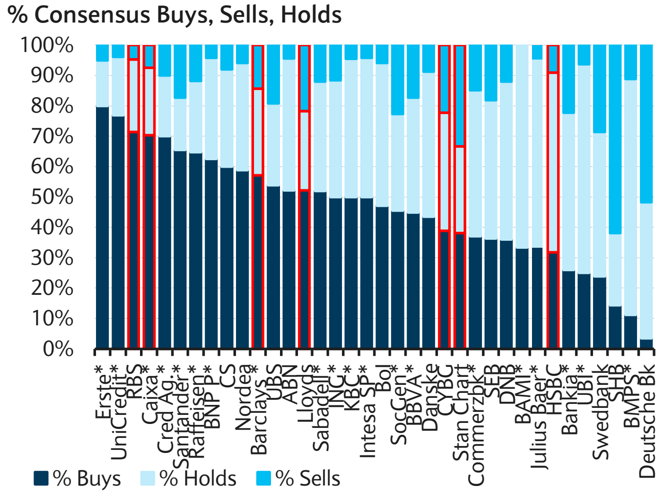


FIGURE 23

% Consensus Buys, Sells, Holds



Source: Thomson Reuters consensus, Barclays Research estimates. *Not covered by Barclays Research; Thomson Reuters consensus is shown. Priced as at 23/11/18

FIGURE 24

Our Top Pick is Lloyds (OW) and we're most cautious on Standard Chartered (UW) and CYBG (UW)

Preference				Sellside		Capital/dividends		Valuation					
Order	Stock	Price		Sentiment				TNAV/shr		EPS	2018e	2019e	2020e
1	**Lloyds**	**Price Target**	**90p**	Buyers	52%	CET1 ratio (18e)	14.6%	TNAV (18e)	52.0p	BARCe	8.0p	8.1p	8.6p
		Price (last)	57p	Holders	26%	T1 Lev ratio (18e)	5.3%	P/TNAV	1.1x	Cons.	7.7p	7.8p	8.0p
OW	Mkt cap	Up/downside	57%	Sellers	22%	DPS, (h/line 19e)	3.5p	RoTE (20e)	16.3%	Be vs C.	3%	4%	7%
	£40.7bn	26/11/2018				Divi yield	6.1%			P/BARCe	7.2x	7.1x	6.6x
2	**RBS**	**Price Target**	340p	Buyers	71%	CET1 ratio (18e)	16.5%	TNAV (18e)	286.0p	BARCe	26.9p	29.1p	34.3p
		Price (last)	225p	Holders	24%	T1 Lev ratio (18e)	5.3%	P/TNAV	0.8x	Cons.	28.0p	28.0p	32.1p
OW	Mkt cap	Up/downside	51%	Sellers	5%	DPS, (h/line 19e)	20.0p	RoTE (20e)	12.1%	Be vs C.	-4%	4%	7%
	£26.6bn	26/11/2018				Divi yield	8.9%			P/BARCe	8.4x	7.7x	6.6x
3	**HSBC**	**Price Target**	740p	Buyers	32%	CET1 ratio (18e)	14.4%	TNAV (18e)	$7.08	BARCe	$0.79	$0.82	$0.85
		Price (last)	674p	Holders	59%	T1 Lev ratio (18e)	4.7%	P/TNAV	1.2x	Cons.	$0.73	$0.76	$0.82
EW	Mkt cap	Up/downside	10%	Sellers	9%	DPS, (h/line 19e)	$0.51	RoTE (20e)	9.5%	Be vs C.	7%	8%	4%
	£131.0bn	26/11/2018				Divi yield	5.9%			P/BARCe	11.0x	10.5x	10.1x
4	**CYBG**	**Price Target**	240p	Buyers	39%	CET1 ratio (18)	13.0%	TNAV (18e)	266.2p	BARCe	-	23.9p	25.9p
		Price (last)	213p	Holders	39%	T1 Lev ratio (18)	4.3%	P/TNAV	0.8x	Cons.	-	26.7p	28.2p
UW	Mkt cap	Up/downside	13%	Sellers	22%	DPS, (h/line 19e)	12.0p	RoTE (20e)	9.7%	Be vs C.	-	-10%	-8%
	£2.7bn	26/11/2018				Divi yield	5.6%			P/BARCe	-	8.9x	8.2x
5	**StanChart**	**Price Target**	600p	Buyers	38%	CET1 ratio (18e)	14.6%	TNAV (18e)	$12.03	BARCe	$0.71	$0.78	$0.84
		Price (last)	616p	Holders	29%	T1 Lev ratio (18e)	5.7%	P/TNAV	0.7x	Cons.	$0.73	$0.82	$0.91
UW	Mkt cap	Up/downside	-3%	Sellers	33%	DPS, (h/line 19e)	$0.25	RoTE (20e)	6.6%	Be vs C.	-3%	-5%	-7%
	£19.9bn	26/11/2018				Divi yield	3.2%			P/BARCe	11.1x	10.2x	9.4x

Source: Company data, Barclays Research estimates, Thomson Reuters Consensus, Priced at 26/11/2018.

Appendix

Long-run UK impairments

FIGURE 25

2020e impairments rising to 50bp vs. 30bp base-case, vs. 2% in last two recessions

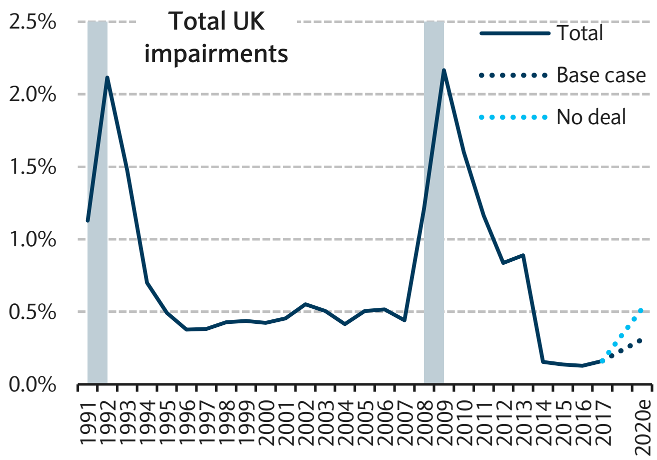


FIGURE 26

Corporates historically a key source of impairments; banks now have less exposure to costly Commercial RE

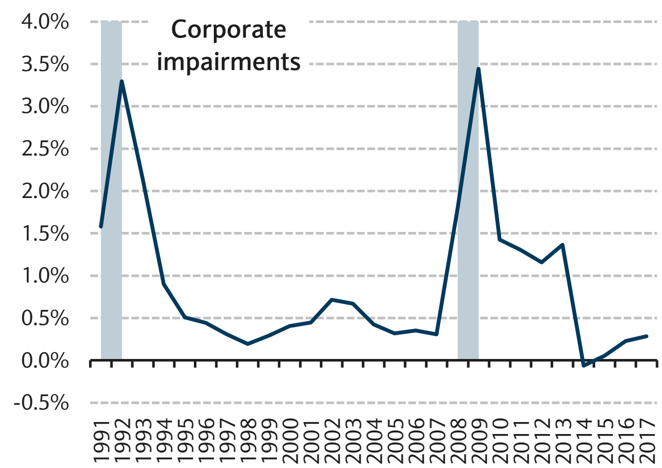


FIGURE 27

Consumer credit also a key driver of impairments, closely linked to moves in UK unemployment

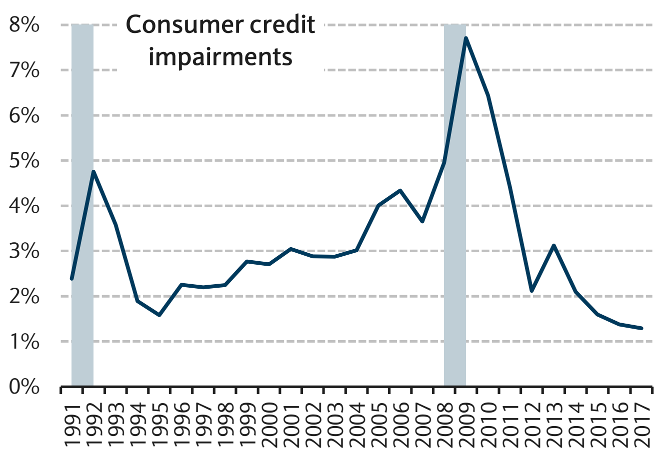
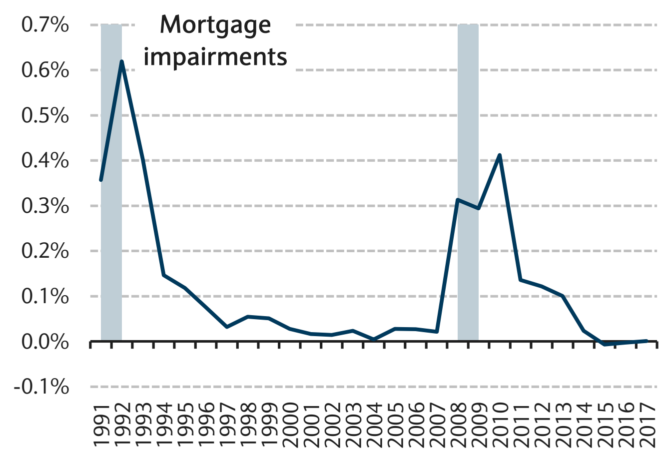


FIGURE 28

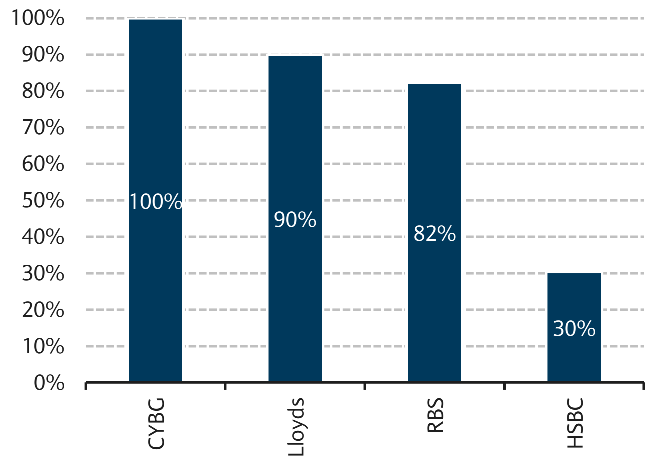
Mortgage impairments expected benign, supported by low LTVs/strong house prices



Source for all charts: Aggregation of long-run company data/reports, Barclays Research estimates

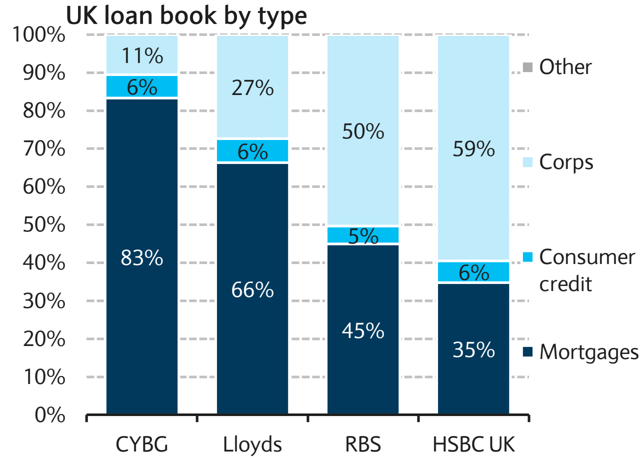
UK loan exposures and book mix

FIGURE 29
UK banks' exposure to UK loans



Source: Company reports, Barclays Research, 2017

FIGURE 30
UK loan book by type



Source: Company reports, Barclays Research, 2017

ANALYST(S) CERTIFICATION(S):

We, Chris Manners and Aman Rakkar, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Materially Mentioned Stocks (Ticker, Date, Price)

CYBG PLC (CYBGC.L, 26-Nov-2018, GBp 213), Underweight/Neutral, A/CD/D/J/L

HSBC Holdings PLC (HSBA.L, 26-Nov-2018, GBp 674), Equal Weight/Neutral, CD/J/K/M/N

Lloyds Banking Group PLC (LLOY.L, 26-Nov-2018, GBp 57), Overweight/Neutral, A/CD/CE/D/E/I/J/K/L/M/N

Royal Bank of Scotland Group PLC (RBS.L, 26-Nov-2018, GBp 225), Overweight/Neutral, CD/CE/D/I/J/K/L/M/N

Standard Chartered PLC (STAN.L, 26-Nov-2018, GBp 616), Underweight/Neutral, A/CD/D/J/K/L/M/N

Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market, unless another time and source is indicated.

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Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Positive - industry coverage universe fundamentals/valuations are improving.

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European Banks

ABN AMRO (ABN.AS)	Bank of Ireland (BIRG.I)	Credit Suisse AG (CSGN.S)
CYBG PLC (CYBGC.L)	Danske Bank (DANSKE.CO)	Deutsche Bank (DBKGn.DE)
DNB (DNB.OL)	HSBC Holdings PLC (HSBA.L)	Lloyds Banking Group PLC (LLOY.L)

IMPORTANT DISCLOSURES CONTINUED

Nordea (NDAFI.HE)	Royal Bank of Scotland Group PLC (RBS.L)	SEB (SEBa.ST)
Standard Chartered PLC (STAN.L)	Svenska Handelsbanken (SHBa.ST)	Swedbank (SWEDa.ST)
UBS AG (UBSG.S)		

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Barclays Equity Research has 1555 companies under coverage.

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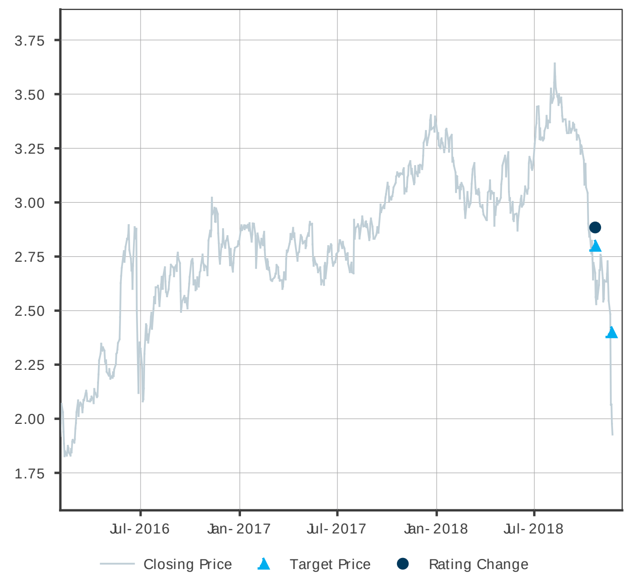
IMPORTANT DISCLOSURES CONTINUED

CYBG PLC (CYBG LN / CYBGC.L)	Stock Rating	Industry View
GBp 213 (26-Nov-2018)	**UNDERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - GBP (as of 26-Nov-2018)



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Currency=GBP

Publication Date	Closing Price	Rating	Adjusted Price Target
21-Nov-2018	2.07		2.40
22-Oct-2018	2.67	Underweight	2.80

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

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Valuation Methodology: We value UK banks using the traditional Gordon Growth model to determine a fair P/BV multiple for the franchise at Dec 2022e; we then add or subtract the capital surplus/deficit versus our steady-state capital forecast at that date and discount this back to our price target date and add the present value of dividends until the valuation date. For the UK banks we use a cost of equity of 10% and terminal EPS growth of 2%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to our price target include the following:

CYBG could offset margin pressure with stronger growth (e.g. VM re-brand catalyses stronger growth).

Rate hikes could be greater / deposit betas lower than we expect.

CYBG could upgrade synergy targets (either costs, or giving detail on revenue synergies)

PPI costs could come through lower than we expect, boosting surplus capital.

Resolution of macro concerns around Brexit / politics could see the space rebound.

IMPORTANT DISCLOSURES CONTINUED

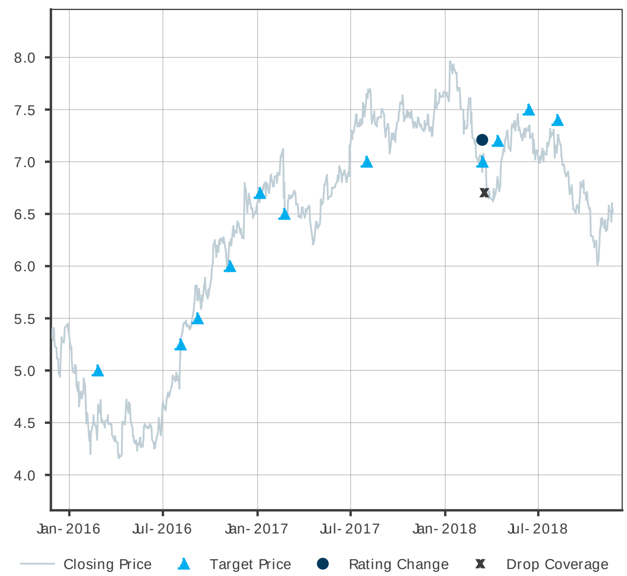
HSBC Holdings PLC (HSBA LN / HSBA.L)

GBp 674 (26-Nov-2018)

Stock Rating: **EQUAL WEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - GBP (as of 26-Nov-2018)



Source: IDC, Barclays Research

Currency=GBP

Publication Date	Closing Price	Rating	Adjusted Price Target
07-Aug-2018	7.16		7.40
12-Jun-2018	7.33		7.50
13-Apr-2018	6.85		7.20
14-Mar-2018	6.90	Equal Weight	7.00
12-Mar-2018	7.06	Coverage Dropped	
01-Aug-2017	7.65		7.00
22-Feb-2017	6.80		6.50
05-Jan-2017	6.62		6.70
08-Nov-2016	6.20		6.00
06-Sep-2016	5.69		5.50
04-Aug-2016	5.17		5.25
25-Feb-2016	4.49		5.00

On 26-Nov-2015, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 6.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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Valuation Methodology: We value the UK banks using the traditional Gordon Growth model to determine the price to book value for franchise at Dec 2020. We then add or subtract the capital surplus/deficit versus our steady state capital forecast at that date. We discount this back to the Price Target date and add the present value of dividends until the valuation date. For the UK banks we use a cost of equity of 10% and a terminal growth of 2%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key upside risks: Faster growth and benign credit quality in Asia together with a faster rise in US rates driving earnings and returns higher in addition to higher-than-expected capital return.

Key downside risks: Weaker Asian growth as tariff barriers weigh on trade flows, further structural challenges in investment banking and higher credit costs pose the greatest risk to our price target.

IMPORTANT DISCLOSURES CONTINUED

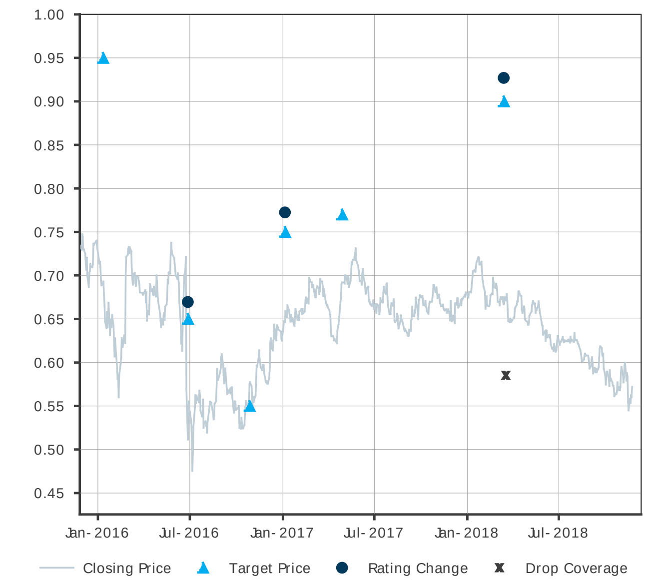
Lloyds Banking Group PLC (LLOY LN / LLOY.L)

GBp 57 (26-Nov-2018)

Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - GBP (as of 26-Nov-2018)



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Currency=GBP

Publication Date	Closing Price	Rating	Adjusted Price Target
14-Mar-2018	0.67	Overweight	0.90
12-Mar-2018	0.68	Coverage Dropped	
28-Apr-2017	0.69		0.77
05-Jan-2017	0.65	Overweight	0.75
27-Oct-2016	0.58		0.55
27-Jun-2016	0.51	Equal Weight	0.65
11-Jan-2016	0.69		0.95

On 26-Nov-2015, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 1.

Source: Thomson Reuters, Barclays Research

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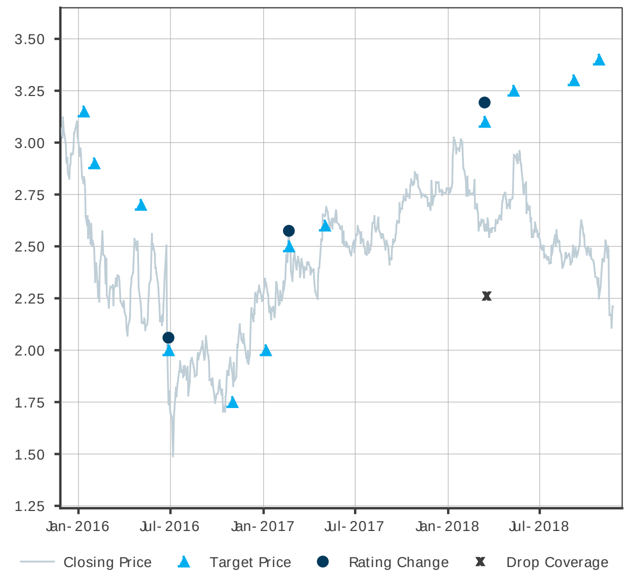
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key downside risks: Factors in a weaker UK macro outlook with NIM compression as rates stay lower and the SVR book continues to run off, loan contraction, a miss on the cost:income target and impairments over double the cross-cycle average cited by the company.

IMPORTANT DISCLOSURES CONTINUED

Royal Bank of Scotland Group PLC (RBS LN / RBS.L)

	Stock Rating	Industry View
GBp 225 (26-Nov-2018)	**OVERWEIGHT**	**NEUTRAL**

Rating and Price Target Chart - GBP (as of 26-Nov-2018)



Source: IDC, Barclays Research

Currency=GBP

Publication Date	Closing Price	Rating	Adjusted Price Target
26-Oct-2018	2.25		3.40
06-Sep-2018	2.48		3.30
10-May-2018	2.87		3.25
14-Mar-2018	2.58	Overweight	3.10
12-Mar-2018	2.63	Coverage Dropped	
02-May-2017	2.65		2.60
20-Feb-2017	2.59	Equal Weight	2.50
05-Jan-2017	2.31		2.00
31-Oct-2016	1.89		1.75
27-Jun-2016	1.74	Underweight	2.00
03-May-2016	2.23		2.70
01-Feb-2016	2.49		2.90
11-Jan-2016	2.80		3.15

On 26-Nov-2015, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 4.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

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Valuation Methodology: We value the UK banks using the traditional Gordon Growth model to determine the price to book value for franchise at Dec 2020. We then add or subtract the capital surplus/deficit versus our steady state capital forecast at that date. We discount this back to the Price Target date and add the present value of dividends until the valuation date. For the UK banks we use a cost of equity of 10% and a terminal growth of 2%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key downside risks: Factors in a weaker UK macro outlook with NIM compression as rates stay lower, loan contraction, a miss on the cost:income target, higher impairments and costly resolution of legacy items.

IMPORTANT DISCLOSURES CONTINUED

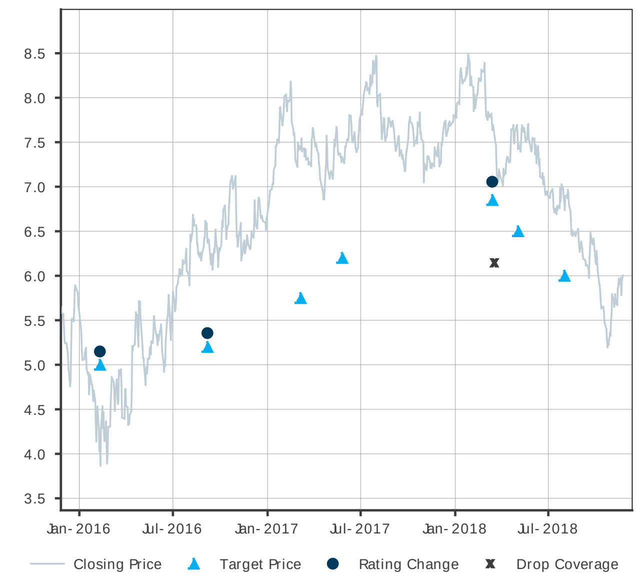
Standard Chartered PLC (STAN LN / STAN.L)

GBp 616 (26-Nov-2018)

Stock Rating: **UNDERWEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - GBP (as of 26-Nov-2018)



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Currency=GBP

Publication Date	Closing Price	Rating	Adjusted Price Target
01-Aug-2018	6.83		6.00
03-May-2018	7.42		6.50
14-Mar-2018	7.64	Underweight	6.85
12-Mar-2018	7.82	Coverage Dropped	
26-May-2017	7.34		6.20
06-Mar-2017	7.42		5.75
06-Sep-2016	6.39	Underweight	5.20
10-Feb-2016	4.07	Equal Weight	5.00

On 26-Nov-2015, prior to any intra-day change that may have been published, the rating and price target for this security were suspended.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

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Valuation Methodology: We value the UK banks using the traditional Gordon Growth model to determine the price to book value for franchise at Dec 2020. We then add or subtract the capital surplus/deficit versus our steady state capital forecast at that date. We discount this back to the Price Target date and add the present value of dividends until the valuation date. For the UK banks we use a cost of equity of 10% and a terminal growth of 2%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key upside risks: Faster growth across Standard Chartered's footprint, together with a stronger recovery in commodity prices and faster US rate rises, would increase our confidence in Standard Chartered growing revenues sufficiently to drive a recovery in profitability.

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