Daiwa Capital Markets

# European Banks – Credit Update

- UK bank earnings in 2021 were strong but Ukraine and diverging Covid-strategies muddy the outlook
- SocGen, UniCredit and RBI most exposed of European banks to Russia but income dependence varies
- Primary markets largely muted for FIGs and SSAs amidst Ukraine conflict fallout. Markets expected to remain quiet this week as tightening of sanctions generates financial instability in Russia
- Secondary market spreads see double digit widening in EUR, less pronounced in USD

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## UK banks – 2021 results

(Table 1) UK Banks' Baseline Economic Forecasts

| | UK GDP | | | UK Unemployment | | |
|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 |
| Barclays | 4.9 | 2.3 | 1.9 | 4.7 | 4.5 | 4.3 |
| Lloyds | 3.7 | 1.5 | 1.3 | 4.3 | 4.4 | 4.4 |
| NatWest | 5.0 | 1.6 | 0.9 | 4.1 | 4.0 | 4.1 |
| HSBC | 5.0 | 2.1 | 1.9 | 4.5 | 4.3 | 4.2 |
| Santander | 4.6 | 1.7 | 1.5 | 4.5 | 4.4 | 4.3 |
| *DCME** | *4.0* | *1.2* | *1.0* | *4.0* | *3.9* | *3.9* |

*Source: Banks' financial statements; Daiwa Capital Markets Europe own forecast*

Ahead of the Russian invasion of Ukraine, the UK banking sector had been expected to benefit from the continued normalisation of economic activity from the pandemic, albeit with domestic GDP growth moderating from 2021. Daiwa economists forecast UK GDP growth at 4% in 2022 (7.5% in 2021) against an average forecast of 4.5% by UK banks. Admittedly, the risks to the UK growth outlook are skewed to the downside as high inflation, tax increases and rising mortgage rates erode disposable incomes, with increase in energy prices related to the Ukraine conflict adding to such pressures. While most major central banks have recently signalled a readiness to withdraw some of the exceptional monetary support provided to counter the adverse economic effects of the pandemic, the Bank of England (BoE) has so far taken a relatively hawkish approach.The Monetary Policy Committee (MPC) voted to raise Bank Rate by 15bps to 0.25% in December and by a further 25bps to 0.50% in February, and also starting quantitative tightening to shrink its balance sheet. Assuming it follows through on its guidance, the further rate hikes this year signalled by the MPC should support banks earnings and help grow margins.

Business conditions in the UK are judged now to be broadly favourable, as Covid-related restrictions have been lifted, allowing for a return to more normal activity. However, the reduced medium-term growth prospects associated with the UK's exit from the European Union – related to increased barriers to trade in goods and services, including financial services, as well as lower business investment – are likely to become more evident and will increasingly distinguish themselves from Covid-related downward pressure on activity.

Nevertheless, the BoE's Financial Stability Report in December 2021 highlighted the sector's resilience to even the most challenging economic scenarios, testing UK bank balance sheets against a much more severe evolution of the pandemic and consequent economic shock. In the solvency stress test (SST), the aggregate CET1 ratio fell by 5.5ppts to a low of 10.5%. This compared with a 7.6% reference rate, comprising banks' minimum requirements and systemic buffers. The aggregate Tier 1 leverage ratio low of 4.8% was also above the reference rate of 3.7%. A further indicator of the sector's strength is the countercyclical capital buffer (CCyB) which is set each quarter. It was set to 0% in March 2020 to support bank lending during the pandemic but will increase to 1% in December 2022, provided the economy continues to recover. A further increase to 2% could take effect in 2Q23. Ahead of the Ukraine conflict, the BoE believed that risks had returned to their pre-Covid level and major UK banks already had sufficient capital to meet this increase.

(Table 2) UK Banks' FY21 Results

| | Barclays (£m) | | Lloyds (£m) | | Natwest (£m) | | StanChart ($m) | | HSBC ($m) | | Santander UK (£m) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY20 | FY21 | FY20 | FY21 | FY20 | FY21 | FY20 | FY21 | FY20 | FY21 | FY20 | FY21 |
| **Revenues** | 21,766 | 21,940 | 15,288 | 16,223 | 10,508 | 10,512 | 14,754 | 14,701 | 50,429 | 49,552 | 3,835 | 4,544 |
| **Expenses** | 13,886 | 14,439 | 7,964 | 8,930 | 7,858 | 7,758 | 10,380 | 10,924 | 34,432 | 34,620 | 2,425 | 2,540 |
| **Impairments** | -4,838 | 653 | -4,247 | 1,207 | -2,992 | 1,250 | -2,325 | -254 | -8,817 | 928 | -639 | 233 |
| **PbT** | 3,065 | 8,414 | 1,226 | 6,902 | -481 | 4,032 | 1,613 | 3,347 | 8,777 | 18,906 | 508 | 1,858 |
| **Net Profit** | 2,461 | 7,226 | 1,387 | 5,885 | -434 | 3,312 | 751 | 2,313 | 6,099 | 14,693 | 438 | 1,405 |
| ***Ratios* (%)** | | | | | | | | | | | | |
| **Cost/ Income** | 64.5 | 65.7 | 56.7 | 56.7 | 94.5 | 73.4 | 70.4 | 74.3 | 65.0 | 67.0 | 60 | 50 |
| **RoTE** | 3.2 | 13.4 | 2.3 | 13.8 | -2.4 | 9.4 | 0.9 | 4.8 | 3.1 | 8.3 | 4.3 | 13.2 |
| **Stage 3** | 2.1 | 2.0 | 1.8 | 1.7 | 1.7 | 1.0 | 3.2 | 2.7 | 1.7 | 1.8 | 1.4 | 1.4 |
| **Stage 3 Cover** | 41.5 | 34.8 | 31.0 | 24.7 | 40.7 | 40.6 | 76 | 75 | 36.8 | 34.7 | n.a. | n.a. |
| **CET1** | 15.1 | 15.1 | 16.2 | 17.3 | 18.5 | 18.2 | 14.4 | 14.1 | 15.9 | 15.8 | 15.2 | 15.9 |
| **Total Capital** | 22.1 | 22.3 | 23.3 | 23.6 | 24.5 | 24.1 | 21.2 | 21.3 | 21.5 | 21.2 | 21.3 | 21.1 |
| **TLAC/MREL** | 34.8 | 34.4 | 36.4 | 37.2 | 37.5 | 39.8 | 30.9 | 31.7 | 30.9 | 32.3 | n.a. | n.a. |
| **Lev. Ratio** | 5.3 | 5.3 | 5.8 | 5.8 | 6.4 | 5.8 | 5.2 | 4.9 | 5.5 | 5.2 | 5.1 | 5.2 |
| **LCR** | 162 | 168 | 136 | 135 | 165 | 172 | 143 | 143 | 138 | 139 | 150 | 166 |

*Source: Bloomberg; Banks' financial statements; May not be comparable;*

**Barclays** reported a record annual profit for 2021 with PbT at GBP8.4bn. It was the first update given to investors by new CEO C. S. Venkatakrishnan who reiterated the banks focus on expanding its IB offering, aiming to gain market share. The division delivered its strongest annual result ever with pre-tax profits of GBP5.8bn, benefitting from a 34% uplift in IB fees, helping to offset a 33% reduction in FICC income. Equity trading performed well overall, rising 20% yoy. Barclays warned of rising inflation and higher staff compensation that would affect the banks adjusted cost base. The bank raised its bonus pool by 23% to retain talent but also mentioned strong competition in the segment.

**Lloyds** closed the year on a high, recording a sharp upturn in PbT of GBP6.9bn (2020: GBP1.2bn), helped by a sizeable reversal in provisioning charges. The bank fell short of analyst expectations as it was hampered by sizeable remediation charges of GBP1.3bn largely relating to historic fraud cases at its HBOS Reading branch. In the near term, the bank's geographic focus on the UK contributed to a generally positive outlook as the UK economy was expected to benefit from early easing of Covid restrictions. Further BoE interest hikes expected for the year would lift the lender's NIM and support top-line revenue performance. A strategy shift suggests that Lloyds will be looking to expand its business after years of retrenchment. A greater digital offering paired with more commercial banking activities is set to define the growth path.

**NatWest** benefitted from the economic upturn in the UK and increased consumer spending, recording PbT at 2021 of GBP4bn against a loss of GBP481m one year prior. The bottom line was weighed down by GBP466m in litigation and conduct charges, partially relating to failures to prevent money laundering. Nevertheless, the improved outlook meant that NatWest was able to release some GBP1.3bn in loan loss provisions but remained cautious over rising inflation that is expected to put pressure on UK households. This also prompted the bank to reduce its annual cost-cutting target from 4% to 3% over the next two years. NatWest reduced lending to the oil and gas sector by 21% in 2021 and announced further reductions towards firms that don't have credible plans to transition to net-zero.

**Standard Chartered** profitability improved on last year, with PbT at USD3.3bn (+107.5%). SCB underperformed against analyst consensus views that foresaw PbT at USD3.8bn. Nevertheless, senior management raised core profitability targets as they are looking towards global central bank rate hikes to offset rising inflation, helping to boost revenues. SCB expect revenues to grow by an additional 3% yoy from rate hikes, which it hopes will enable it to reach an ROTE target of 10% by 2024 from currently 4.8%. It remains to be seen if the emerging markets focused lender is able to deliver on these expectations as it has a track record of underperforming on its profitability targets. Key markets such as Hong Kong underperformed, particularly in 4Q21 as local authorities are re-introducing strict Covid measures. Investments into mainland China are set to grow by USD300m as it attempts to compete there with HSBC.

**HSBC** more than doubled its PbT to USD18.9bn at 2021. The release of provisions and rising interest rates allowed it to bring forward its key profitability target, ROTE of at least 10% by 2023, by one year. Given the lender's large Asian footprint, business growth will partially depend on the region's stance toward continued 'no-Covid' policies. Nevertheless, Asia remains very much the focal point of potential future growth as the group shifted more key personnel into the region while increasing its spend of the expansion of its wealth management offering. It did however warn of weaker performance in the division in 1Q22. HSBC also remained wary of risks stemming from the Chinese commercial real estate market despite exposure to the sector being relatively low at USD21.3bn (<1% of total assets). HSBC provisioned additional USD500m for further expected losses, which slight dented bottom line results.

**Santander UK** saw profitability more than triple to PbT GBP1.8bn from GBP508m. In the UK, Santander services around 14 million customers and it is the third largest retail mortgage provider. It benefits from rising interest rates set by the BoE and managed to boost its net interest income (+18% yoy) while lowering loan loss provisioning on the back of the UK economic recovery. Santander UK's adjusted NIM was up 29bps to 1.92%, which was driven by deposit repricing as well as lower funding and liquidity costs. The UK outfit also continued to make progress on its multi-year restructuring effort, improving its operational efficiency as measured by the cost to income ratio to 50% (-7 percentage points yoy).

(Table 3) UK Banks 2022 Wholesale Issuance Plans

| Country | Bank | SP/OpCo | SNP/HoldCo | Tier 2 & AT1 |
|---|---|---|---|---|
| UK | **Barclays** | ~£9bn of MREL eligible debt across senior HoldCo, Tier 2 and AT1 (GBP1bn senior raised) | | |
| UK | **Lloyds** | - | £5bn-6bn | Target of 2.5% for Tier 2 and 2% AT1 |
| UK | **NatWest Group** | Total needs £4bn-5bn; Total capital currently in excess of 2022 requirements. Issuance subject to RWA evolution | | |
| UK | **HSBC** | By certain subsidiaries in local markets | ~$10bn | ~$4bn Tier 2; Limited AT1 needs |
| UK | **Santander UK** | €5bn-6bn in SP/SNP; €0.5bn-0.75bn in CB | | - |

*Source: Banks' statements; CB = Covered Bonds; SP = Senior Preferred; SNP = Senior Non Preferred; OpCo = Senior debt issued by the operating entity. HoldCo = Senior unsecured debt issued by the holding entity. T2= Tier 2; AT1 = Additional Tier 1.*

## European bank exposures to Russia

The conflict between Russia and Ukraine has caused a humanitarian crisis in the region, displacing peoples and bringing war back to Europe. The international community has reacted with severe economic sanctions on Russia as the conflict's aggressor, including over the weekend an exclusion from SWIFT for some of the country's banks and impeding the Central Bank's (CBNR's) ability to mobilise its forex reserves to support its currency. That prompted fears of a run on Russian lenders, a sharp collapse of the Rouble this morning and a reactionary 10.5ppts hike in the CBR's main policy rate to 20.0%. In capital markets, Russia has already been paying the price for warmongering as its government bond yields had risen sharply in the buildup to the conflict. 5-year CDS prices reached their highest level since the financial crisis, peaking at 933bps on Thursday, having remained under 200bps for the past five years. Foreign investors have been offloading Russian assets over recent weeks, fearing sanction implications for holding them. For European banks, reducing their exposures rapidly will not be simple as they have well-established presences in the country with sizeable lending volumes to customers. For some, the Russian market has been relatively lucrative and downscaling operations will likely result in adverse earnings implications.

Russia's banking sector is dominated by government-controlled entities with foreign banks only playing a modest role. As at end-2020, roughly 73% of banks were state run, followed by domestic private banks (17%) and foreign-owned banks (10%). Russia's Sberbank and Bank VTB are both state-controlled entities and the country's two largest banks by total assets. They have a combined market share of 48%, Gazprombank trailing a distant third with 7% of total banking sector assets. After Russia's annexation of Crimea in 2014, many foreign banks reduced their exposures as seen in the overall decline in banking sector claims up until 2017. However, since then, above all, French, Italian and Austrian banks have regrown their presence. On a name-by-name basis, those with the largest exposures are Société Générale, UniCredit SpA and Raiffeisen Bank International (RBI) with lending exposures ranging between EUR11bn-13bn. This may appear manageable in comparison to their sizeable balance sheets however, income dependence is higher with banking groups whose footprints are geared towards central and eastern Europe (CEE).

(Table 4) RBI exposures to select network countries at FY21

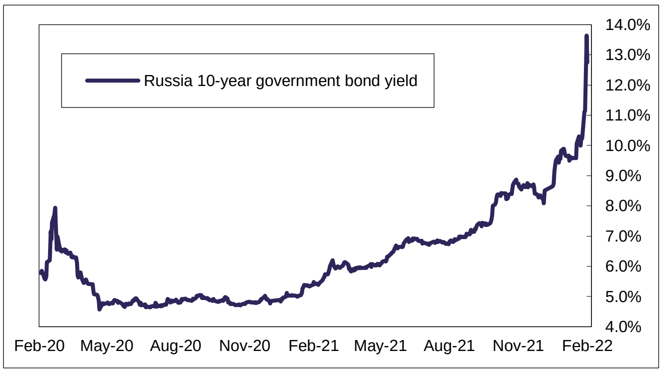
| RBI | (EURm) | | | % of Group Total | | |
|---|---|---|---|---|---|---|
| | Russia | Ukraine | Belarus | Russia | Ukraine | Belarus |
| Operating Result | 696 | 184 | 92 | 26.9 | 7.1 | 3.5 |
| Profit before Tax | 591 | 150 | 64 | 33.0 | 8.4 | 3.6 |
| Loans to Customers | 11,644 | 2,234 | 1,048 | 11.5 | 2.2 | 1.0 |
| Total Assets | 18,733 | 4,052 | 2,066 | 9.8 | 2.1 | 1.1 |

*Source: Banks' financial statements*

As per RBI's FY21 results presentation, loans to customers in Russia stood at EUR11.6bn (6% of total assets) while the total domestic exposure stands at EUR22.8bn (11.9%) when taking into consideration sovereign debt exposures. However, the high-yielding Russian banking sector has created a degree of income dependence for RBI. At FY21, 45% of RBI's pre-tax profit was generated in Russia, Ukraine and Belarus. The prospect of diminished income from these regions in the near to medium term has resulted in the decline of RBI's share price by almost 34% over the past five days. In January, UniCredit prudently withdrew from a possible deal to take a controlling stake in Russian state-owned bank Otkritie Bank in exchange for its own local operation. Otkritie Bank was nationalised in 2017 after it had been poorly run, building up a considerable volume of bad loans. It was bailed-out by the government and recently the Bank of Russia was reviewing options to dispose of its stake. The deal would have significantly increased UniCredit's exposure to Russia, which currently accounts for less than 5% of the bank's equity.

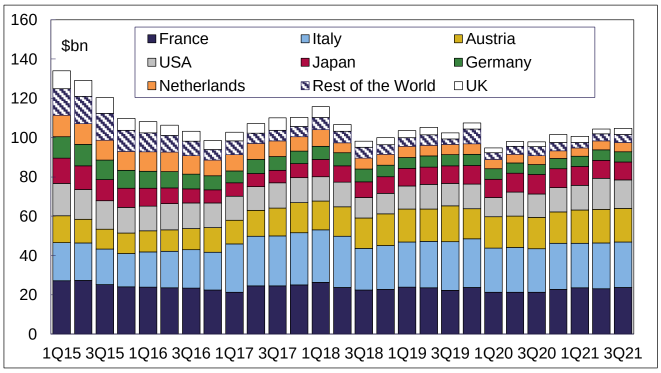
The decision to remove some Russian banks from the SWIFT payments system is relevant because it provides secure messaging that facilitates rapid cross-border payments, enabling seamless international trade. Exclusion from it will impede affected banks' ability to process high volumes of transactions at speed. Targeted banks are thought to include those already afflicted by sanctions, including VTB, Otkritie Bank, Sovcombank, Promsvyazbank and Novikombank.

Russia government 10-year bond yield




*Source: Bloomberg*

Banking exposures to Russia by country




*Source: Bank for International Settlements (BIS)*

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## Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR6.6bn over the course of last week, below market expectations of EUR9.5bn-14.5bn. FIG supply of EUR7.4bn was within the weekly forecast amount of EUR5.5bn-10bn. The total 2022 year-to-date FIG volume of EUR122bn is 40.5% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 14.4% at EUR167bn. For the week ahead, survey data suggest SSA volumes will range between EUR6bn-10.5bn and FIGs are expected to issue EUR2bn-5.5bn.

**SSA** markets only saw limited issuance that was mostly geared towards the early part of the week. **KfW** pressed ahead with two transactions. Its short dated 3-year, EUR5bn transaction was seemingly what investors were looking given the bleak backdrop. Short dated paper from a high quality name garnered sizeable book orders of EUR47bn (10.6x) setting an order book record for KfW. The German development bank also launched a short 3-year, CNH2bn green bond a day later.

(Table 5) Key Transactions

| Bank | Rank | Amount | Maturity | Final Spread (bps) | IPT (bps) | Book Orders |
|---|---|---|---|---|---|---|
| **SSA** | | | | | | |
| Ned. Watershapsbank | Sr. Unsecured (SDG Housing) | AUD650m | 3.5Y | ASW + 26 | ASW + 24/26 | n.a. |
| AFD | Sr. Unsecured | EUR750m | 15Y | OAT + 27 | OAT + 27 | >EUR990m |
| KfW | Sr. Unsecured | EUR5bn | 3Y | MS – 30 | MS - 28 | >EUR47bn |
| KfW | Sr. Unsecured (Green) | CNH2bn | 3Y | 2.75% | 2.75% | n.a. |
| | | | | | | |
| **FIG (Senior)** | | | | | | |
| NatWest | Sr. OpCo | EUR1bn | 5Y | MS + 78 | MS + 90 | >EUR1.5bn |
| SocGen | SP (FRN) | AUD450m | 5Y | 3mBBSW + 100 | 3mBBSW + 100 | n.a. |
| BPCE | SNP (FXD-FRN) | EUR750m | 7NC6 | MS + 110 | MS + 120/125 | >EUR1bn |
| | | | | | | |
| **FIG (Subordinated)** | | | | | | |
| BPCE | Tier2 | EUR500 | 10NC5 | MS + 175 | MS + 195/200 | >EUR1.1bn |

*Source BondRadar, Bloomberg.*

**FIG** issuance largely came to a halt last week with only a few venturing out into the markets amidst the conflict in Ukraine. **NatWest** probed markets by launching a senior OpCo deal. The 5-year EUR1bn bond managed to tighten 12bps from IPT to price at MS+78bps but is thought to have left a premium of 15-18bps on the table. **BPCE** came into the week early with a SNP/Tier 2 dual tranche offering for a combined EUR2.1bn. The issuer has arguably been front-loading much of its 2022 funding needs and is thought to have nearly completed its Tier 2 funding needs bringing total issued to EUR2.2bn across three transactions against communicated needs of EUR2.5bn. Book orders and spread tightening was stronger on the subordinated note, arguably due to the smaller size that had been capped from the outset. The SNP was also the third for BPCE this year bringing the annual total to EUR2.5bn completing 66% of its 2022 requirement.

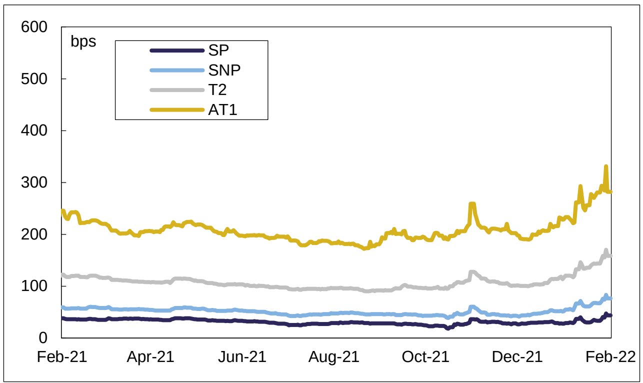
**Secondary market** spreads went wider for EUR and USD, despite risk indicators recovering somewhat from the adverse effects of intensified geo-political tensions in Ukraine. CDS price indices on European senior (77bps) and subordinated financials (143bps), as measured by iTraxx benchmarks, priced 3bps and 8bps tighter against last week's levels.

The war in Russia has increased secondary market spreads significantly, particularly for Euro-denominated bonds, although the initially underwhelming nature of sanctions imposed on Russia had towards the end of last week somewhat soothed market sentiment. Of course, those sanctions have since become significantly more stringent, generating financial instability in Russia. In addition to events in Ukraine and Russia, further impulses into markets this week may come from testimony by Fed Chair Jerome Powell as well as speeches by various ECB Governing Council members, and data on the US labour market and euro area inflation.

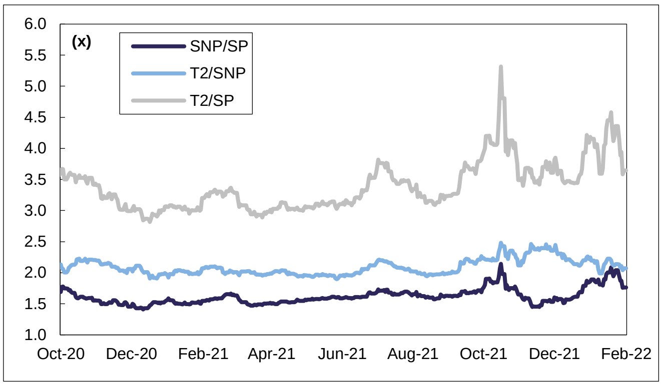
Weekly average EUR spreads were wider across payment ranks with SP (+13.4bps), SNP (+10bps) and Tier 2 (+16.9bps). USD average weekly spreads were also wider week-on-week with SP (+5bps), SNP (+5.2bps) and Tier 2 (+6.5bps). Based on data collected from Bloomberg, 98% of FIG tranches issued in February and 67% of SSAs tranches quoted wider than launch.

## Western European Banks EUR Spreads and Yields

### Aggregate EUR Z-spread LTM (bps)




### Multiples (x)




*Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.*

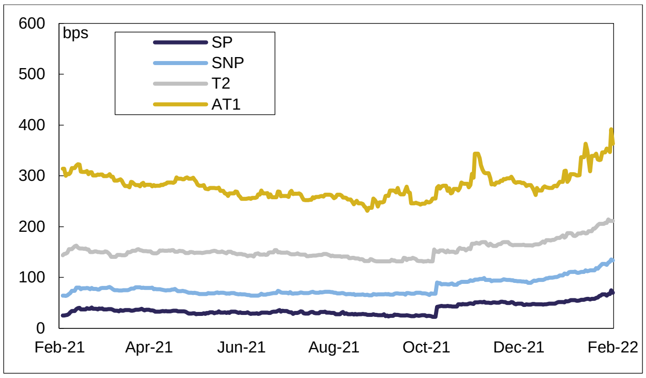
### Selected Names

| | Sr Preferred/Sr OpCo | | | | | Sr Non-Preferred/Sr HoldCo | | | | | Tier 2 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dur. | Yield | Z | Z 5DΔ | Z YTD | Dur. | Yield | Z | Z 5DΔ | Z YTD | Dur. | Yield | Z | Z 5DΔ | Z YTD |
| Commerz | 3.9 | 1.1 | 51.2 | 12.7 | 19.5 | 3.0 | | 68.4 | 12.5 | 28.6 | 3.7 | 2.9 | 228.7 | 24.5 | 77.5 |
| Barclays | 2.2 | 0.6 | 27.4 | 5.4 | 3.1 | 2.8 | | 71.1 | 13.2 | 31.2 | 4.6 | 1.7 | 158.3 | 23.8 | 60.4 |
| BBVA | 4.7 | 1.1 | 50.6 | 9.7 | 15.1 | 3.7 | | 63.4 | 11.7 | 24.9 | 4.6 | 2.1 | 160.4 | 18.6 | 54.9 |
| BFCM | 4.0 | 1.0 | 46.4 | 12.5 | 19.8 | 7.1 | | 86.6 | 2.7 | 33.3 | 4.5 | 1.9 | 122.1 | 15.2 | 49.0 |
| BNPP | 2.4 | 0.7 | 29.0 | 14.4 | 18.0 | 4.5 | | 77.8 | 10.5 | 29.3 | 4.0 | 1.8 | 121.6 | 13.7 | 52.9 |
| BPCE | 3.1 | 0.8 | 36.6 | 13.3 | 12.9 | 5.1 | | 91.1 | 15.4 | 32.8 | 4.1 | 1.8 | 116.8 | 13.6 | 35.5 |
| Credit Ag. | 4.0 | 0.6 | 26.9 | 6.4 | 1.0 | 5.7 | | 80.1 | 8.1 | 33.3 | 3.7 | 1.9 | 129.4 | 14.3 | 49.7 |
| Credit Sui. | 5.7 | 2.1 | 146.4 | 22.0 | 41.5 | 5.1 | | 125.7 | 14.1 | 50.2 | | | | | |
| Danske | 2.5 | 0.4 | 33.2 | 12.3 | 4.5 | 2.2 | | 62.8 | 13.7 | 16.7 | 2.9 | 1.9 | 147.5 | 15.5 | 44.0 |
| Deutsche | 1.5 | 0.6 | 36.0 | 16.0 | 9.3 | 4.3 | | 134.0 | 12.4 | 49.9 | 3.5 | 2.5 | 195.7 | 22.1 | 83.0 |
| DNB | 3.8 | 0.6 | 29.0 | 12.2 | 9.0 | 6.9 | | 86.1 | 9.0 | 32.7 | 2.2 | 0.9 | 66.9 | 13.3 | 26.7 |
| HSBC | 3.8 | 0.9 | 42.6 | 12.7 | 20.4 | 4.4 | | 68.0 | 9.9 | 25.7 | 4.4 | 1.7 | 113.9 | 21.6 | 53.3 |
| Intesa | 1.7 | 1.7 | 149.3 | 3.7 | -13.1 | 5.7 | | 82.3 | 5.0 | 34.9 | 4.9 | 1.8 | 131.5 | 15.7 | 49.8 |
| Lloyds | 4.3 | 0.9 | 49.8 | 12.6 | 18.4 | 3.0 | | 102.9 | 15.1 | 34.8 | 4.2 | 2.8 | 218.2 | 14.6 | 39.1 |
| Nordea | 2.8 | 0.6 | 18.8 | 12.0 | 10.7 | 2.5 | | 62.0 | 16.0 | 32.2 | 1.5 | 0.8 | 84.5 | 22.0 | 38.6 |
| Rabobank | 4.7 | 0.9 | 26.5 | 12.8 | 15.5 | 5.7 | | 58.6 | 7.4 | 18.3 | 7.6 | 2.0 | 139.9 | 19.8 | 57.2 |
| RBS | 3.6 | 0.7 | 20.2 | 9.9 | 11.6 | 5.3 | | 65.2 | 6.5 | 22.8 | 1.4 | 0.1 | 12.2 | 6.6 | 4.5 |
| Santander | 3.1 | 1.6 | 97.4 | 51.2 | 67.1 | 5.3 | | 65.2 | 6.5 | 22.8 | 1.4 | 0.1 | 12.2 | 6.6 | 4.5 |
| San UK | 3.4 | 0.8 | 35.4 | 8.8 | 14.6 | 4.9 | | 88.9 | 9.1 | 34.0 | 4.6 | 2.0 | 137.4 | 6.5 | 46.2 |
| SocGen | 3.0 | 0.6 | 17.4 | 12.3 | 13.3 | 1.5 | | 66.4 | 16.2 | 34.7 | 4.6 | 2.0 | 137.4 | 6.5 | 46.2 |
| StanChart | 4.7 | 1.2 | 62.2 | 13.8 | 27.1 | 5.6 | | 106.6 | 13.3 | 44.1 | 4.0 | 1.3 | 128.8 | 15.2 | 49.3 |
| Swedbank | 4.7 | 1.1 | 42.0 | 9.1 | 8.8 | 5.1 | | 90.0 | 11.5 | 35.7 | 6.0 | 2.3 | 177.9 | 15.8 | 59.0 |
| UBS | 3.9 | 0.9 | 33.8 | 9.2 | 11.9 | 5.0 | | 79.0 | 12.1 | 25.1 | 3.7 | 0.6 | 97.1 | 14.4 | 41.1 |
| UniCredit | 4.2 | 1.0 | 44.1 | 11.4 | 19.9 | 4.5 | | 68.2 | 10.4 | 26.3 | 13.1 | 3.4 | 253.5 | -3.8 | 57.1 |

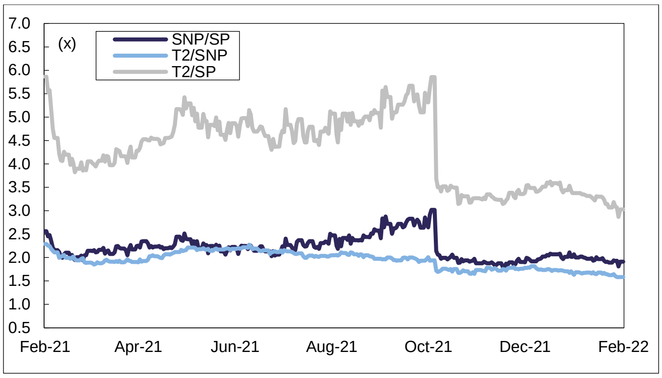
*Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative of the whole market.*

## Western European Banks USD Spreads and Yields

*Aggregate USD Z-spread LTM (bps)*




*Multiples (x)*




*Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.*

### Selected Names

| | Sr Preferred/Sr OpCo | | | | | Sr Non-Preferred/Sr HoldCo | | | | | Tier 2 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dur. | Yield | Z | Z 5DΔ | Z YTD | Dur. | Yield | Z | Z 5DΔ | Z YTD | Dur. | Yield | Z | Z 5DΔ | Z YTD |
| Barclays | 2.1 | | | | | 4.8 | 3.3 | 149.4 | 6.1 | 38.8 | 5.4 | 3.9 | 215.8 | 6.6 | 41.4 |
| BFCM | 4.0 | 1.0 | 46.4 | 12.5 | 19.8 | 4.8 | 3.3 | 149.4 | 6.1 | 38.8 | 5.4 | 3.9 | 215.8 | 6.6 | 41.4 |
| BNPP | 2.4 | 0.7 | 29.0 | 14.4 | 18.0 | 5.1 | 3.3 | 148.6 | 6.6 | 39.9 | 4.4 | 3.6 | 176.2 | 6.1 | 48.5 |
| BPCE | 3.1 | 0.8 | 36.6 | 13.3 | 12.9 | 5.0 | 3.2 | 145.7 | 6.6 | 40.7 | 3.2 | 3.4 | 162.9 | 9.9 | 38.9 |
| Credit Ag. | 4.0 | 0.6 | 26.9 | 6.4 | 1.0 | 3.1 | 2.9 | 118.5 | 5.0 | 34.7 | 7.8 | 3.9 | 200.9 | 14.1 | 50.8 |
| Credit Sui. | 2.1 | 2.3 | 67.5 | 5.0 | 36.7 | 3.0 | 3.3 | 152.0 | 7.2 | 48.4 | 1.4 | 3.5 | 186.2 | 3.9 | 54.3 |
| Danske | 2.5 | 0.4 | 33.2 | 12.3 | 4.5 | 2.2 | 2.5 | 122.7 | 3.9 | 33.7 | 1.4 | 3.5 | 186.2 | 3.9 | 54.3 |
| Deutsche | 1.5 | 0.6 | 36.0 | 16.0 | 9.3 | 3.5 | 3.2 | 151.3 | 6.9 | 46.3 | 7.5 | 4.7 | 283.8 | 4.5 | 69.6 |
| HSBC | 3.8 | 0.9 | 42.6 | 12.7 | 20.4 | 3.5 | 3.2 | 145.8 | 7.5 | 40.5 | 9.7 | 4.2 | 233.6 | 8.9 | 39.8 |
| ING | 1.7 | 1.7 | 149.3 | 3.7 | -13.1 | 3.8 | 3.0 | 126.3 | 8.2 | 37.5 | 1.2 | 2.6 | 134.9 | 14.3 | 35.7 |
| Intesa | 4.3 | 0.9 | 49.8 | 12.6 | 18.4 | 3.8 | 3.0 | 126.3 | 8.2 | 37.5 | 3.5 | 5.0 | 317.5 | 1.9 | 86.0 |
| Lloyds | 3.0 | | | | | 2.6 | 2.9 | 113.1 | 8.6 | 36.2 | 8.8 | 3.8 | 198.6 | 8.7 | 46.8 |
| Nordea | 4.7 | 0.9 | 26.5 | 12.8 | 15.5 | 2.9 | 2.4 | 137.4 | 4.6 | 27.4 | 8.8 | 3.8 | 198.6 | 8.7 | 46.8 |
| Rabobank | 3.6 | 0.7 | 20.2 | 9.9 | 11.6 | 3.6 | 2.7 | 95.0 | 4.7 | 25.1 | 4.0 | 3.6 | 173.2 | 11.3 | 37.0 |
| RBS | 3.1 | 1.6 | 97.4 | 51.2 | 67.1 | 3.6 | 2.7 | 95.0 | 4.7 | 25.1 | 4.0 | 3.6 | 173.2 | 11.3 | 37.0 |
| Santander | 3.4 | 0.8 | 35.4 | 8.8 | 14.6 | 5.2 | 3.2 | 144.8 | 6.3 | 37.6 | 7.6 | 4.1 | 226.8 | 4.7 | 48.7 |
| San UK | 2.1 | 2.2 | 65.3 | 15.9 | 22.0 | 4.2 | 3.2 | 140.5 | 6.4 | 34.9 | 3.2 | | | | |
| SocGen | 4.7 | 1.2 | 62.2 | 13.8 | 27.1 | 4.5 | 3.4 | 163.6 | 7.7 | 45.1 | 3.7 | 3.6 | 187.5 | 6.2 | 47.9 |
| StanChart | 4.7 | 1.1 | 42.0 | 9.1 | 8.8 | 2.9 | 3.0 | 136.9 | 5.4 | 34.7 | 7.6 | 4.3 | 244.5 | 3.9 | 41.0 |
| UBS | 2.6 | 2.3 | 54.2 | -1.5 | 16.9 | 3.8 | 3.0 | 126.3 | 0.9 | 33.4 | 7.6 | 4.3 | 244.5 | 3.9 | 41.0 |
| UniCredit | 3.9 | 1.5 | 94.7 | 13.0 | 33.9 | 3.3 | 3.5 | 186.0 | 9.2 | 60.8 | 5.4 | 5.7 | 385.5 | 4.3 | 94.4 |

*Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative of the whole market.*

Daiwa Capital Markets

# Credit Research

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2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
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