Daiwa Capital Markets

European Banks – Credit Update

- 1Q22 earnings of European banks have mostly yielded positive results, often exceeding average analyst consensus view. Rate hikes and stable loan demand have contributed to rising revenue and profitability metrics.
- Primary markets largely muted for FIGs as the earnings season is still ongoing. SSAs saw growing investor interest, particularly in EUR as spreads over BUNDS were particularly attractive
- Secondary market spreads continued to widen in EUR and USD as further rate hikes are expected

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Western European banks – 1Q22 results

(↑) **Deutsche Bank** reported net income of EUR1.23bn (+18% yoy), its seventh consecutive quarterly profit, benefitting from favourable revenue development in all of its core segments, resulting in annualised group ROTE of 8.1% up from 7.4% the prior year. DB managed its adjusted cost base well, especially when excluding transformation charges and bank levies. However, we believe cost discipline will be more challenging this year, as inflationary pressure and competition for talent will inflate personnel costs while loan loss provisions (LLP) are also expected to rise throughout the year with 1Q22 figures up more than threefold to EUR292m. CET1 was down to 12.8% (-92bps yoy) due to RWA inflation and was only slightly above the internal target rate (+30bps) but still deemed adequate.

(↓) **Credit Suisse** reported another weak set of results as the group reported a net loss of CHF273m, its fourth loss in the last six quarters. The results reflect rising burdens from legacy litigation cases, adding CHF653m in provision charges. Revenue generation was adversely impacted by poor results in the group's wealth management and capital markets divisions. Total revenues of CHF4.4bn were down 42% yoy due to reduced client activity and issuance as well as general scaling back of IB activities as the bank is reducing its risk appetite following costly losses from Archegos. Poor results have resulted in a considerable amount of senior management reshuffling and 2022 is likely to be a transitional year for the lender as it will reflect the adverse impact from exiting its prime brokerage business while making significant outlays towards its compliance and risk management.

(↑) **UBS** reported net income of USD2.1bn (+17% yoy) resulting in an annualised ROTE of 16%, marking the group's best quarterly profit in 15 years. The robust strong performance across the board was based on an 8% increase in revenues, primarily from its capital markets unit. Strong results in the group's IB and personal and corporate banking divisions made up for declines in the wealth and asset management divisions. Strong operational wealth management results in the Americas, Switzerland and Europe were offset by a significant slowdown in activity among UBS's Asian clients. Unlike many banks in Europe, UBS reported a rising CET1 ratio of 14.3%, up 30bps on last year with management continuing to guide for a ratio around 13%.

Nordic banks – 1Q22 results

(↑) **Svenska Handelsbanken** Sweden's second largest bank reported better than expected figures for 1Q22 as revenues were up 4% yoy to SEK12.3bn while the bank's expense base was down 3% yoy to SEK5.1bn. Net income of SEK5.65bn was 29% ahead of last year's figures as results were boosted by a strong post-pandemic economic climate reflected in increased lending to households (+5% yoy) and to corporates (+8% yoy). The lending uptick and the prospect of rising interest rates across Svenska's footprint in Sweden, Norway and the UK raises near-term expectations for solid revenue performance.

(⇔) **Swedbank** Net income for the most recent quarter was slightly better than expected despite falling to SEK4.62bn (-7.2% yoy) as analyst estimates foresaw a stronger profit decline. Swedbank's direct exposure to Russia is rather limited but it has substantial operations in all three Baltic states. These make up roughly 20% of its income and announced boycotts of Russian gas could have detrimental knock-on effects on the respective Baltic economies.

(↑) **DNB Bank** Norway's largest bank posted better than expected 1Q22 results, reflecting the robust Norwegian economic performance following pandemic-related lockdowns. An active corporate sector contributed to net income of NOK7.56bn (+28% yoy), above expectations. Results also benefitted from rising interest rates set by the central bank, with the Norges policy rate now at 0.75% compared to the low of 0% set in 2020. The group expects to offset economic volatility and inflationary pressure by benefitting from higher interest rates as the Norwegian central bank expects another seven rate hikes before end-2023. In the first quarter, net interest income rose by 13% to NOK10.45bn. CET1 fell to 18.1% (-130bps) mainly due to DNB's acquisition of Sbanken which was approved in March.

(↓) **Nordea** Finland-based Nordea registered net income of EUR269m (-66% yoy), which was severely hampered by its exit from the Russian market. The hit to bottom-line results is expected to remain a one-off resulting mainly from a EUR529m charge from accumulated FX-losses related to its Russian operations. Nordea stated that all charges related to the exit have now been taken and 2022 financial targets were affirmed at RoE of 11% and a cost to income ratio of 49-50%. Adjusted for the extraordinary items, net income would have been EUR868m, 10% above last year's earnings.

(⇔) **Danske Bank** Danish lender Danske had a slightly disappointing quarter, missing earnings targets as net income came in at DKK2.8bn, below the average analyst forecast of DKK3.2bn compiled by the company. Results were hampered by lower financial market-related income, weaker insurance income and higher costs. Despite the underwhelming figures, the bank maintained its 2022 profit target of DKK13bn-15bn. Looking ahead, Danske's bottom-line performance will largely depend on how its cost base is managed. This in turn depends largely on the investigation by U.S. and Estonian authorities into its involvement in a money laundering scandal in which EUR200bn was laundered through its Estonian branch. No resolution has been reached so far and consequently the bank has decided to withhold dividends to ensure prudent capital management.

(↑) **SEB** Swedish bank SEB reported better than expected profitability metrics on the back of improved net interest income and commission income. Net income of SEK6.4bn was well beyond what analysts had forecast for the bank (SEK4.9bn) as results were supported by a strong corporate sector and rising AuM. Despite the dampened outlook from the war in Ukraine, which resulted in higher LLPs (SEK535m; +79% qoq), SEB believes that the stable economic environment and public finances in the Nordic and Baltic states will soften the downside effects. The strong results will encourage SEB to continue its share buyback programmes. In March, SEB acquired SEK2.5bn of its own shares with a plan to ultimately return SEK5bn-10bn in capital to shareholders in 2022.

Southern European banks – 1Q22 results

(↑) **CaixaBank** Spain's largest domestic bank reported solid operating performance in a volatile environment. Net income for the period was up 21.9% yoy to EUR707m despite some weakening of top-line revenue items. NII for instance was down 5.4% yoy, despite a rebound in new lending activity to consumers (+16%yoy) and SMEs (+22% yoy). Caixa in part attributed this to the lower day count in 1Q22, ultimately contributing to a flat gross income figure of EUR2.7bn. The bottom line benefitted from lower costs in line with guidance (-4.3% yoy) reflecting personnel cost-savings while also significantly reducing LLPs (-23.2% yoy) and other provisions (-37.7% yoy). Caixa is due to present its new strategic plan in May and given the expected cost inflation and limited revenue growth outlook from being confined to the domestic market, the focus will likely be on operational efficiency gains. Further impulses to bottom-line results could stem from further provision releases, depending on the macroeconomic outlook on Spain.

(↑) **Banco Santander's** net income rose strongly to EUR2.5bn (+19% yoy) ahead of first quarter results observed pre-pandemic. The regional contribution to the group's bottom line profitability is spread almost equally and net income was up in Europe (+30% yoy), North America (+4%), and South America (+8%). Improved operational efficiency in Europe paired with interest rate hikes in Poland and the UK contributed to the regional surge in profitability. Group RoTE in 1Q22 was 14.2% while cost discipline contributed to a solid cost to income ratio of 45%. Profit centres in Brazil and Mexico continued to perform strongly with NII growth of 20.5% yoy and 13.9% respectively. However, adjusted for FX effects margins were lower, around 6.5% in both cases, while costs were rising on the back of inflationary pressure. Nevertheless, the group maintains what we deem achievable RoTE and cost to income targets of 13% and 45% respectively for 2022.

(↑) **BBVA's** results came in well ahead of analyst expectations, with net income of EUR1.65bn up 36% yoy, some EUR400m above the average consensus view. Like domestic rival Santander, BBVA's broad international footprint has been a major source of group earnings with gross revenues in Mexico accounting for 37% of the group total, followed by Spain (28%), Turkey (17%) and South America (15%). Revenue growth of 21.3% across the group far outstripped rising expenses (8.5%) that were kept low due to reversals in provisions. In April, BBVA increased its offer to acquire the remaining 50.15% stake it doesn't yet own in its Turkish subsidiary Garanti Bankasi. The unit saw profits rise 30.6% at current exchange rate, despite the challenging operating environment in Turkey and geopolitical tensions in the region. BBVA's senior management was criticised for betting on the highly volatile Turkish market but the results appear to be vindicating CEO Genc's belief. However, the persistently high inflation in the country (61% in March) is leading BBVA to consider applying hyperinflation accounting from 2Q22, as is already the case with its subsidiary in Argentina.

(↑) **Banco de Sabadell** saw net income almost treble to EUR213m compared to last year. Spain's number four in terms of assets saw top-line revenue improve 3% to EUR1.2bn on the back of improved NII and net fee and commission income. The performance was solid in light of the mixed evolution of the lenders loan book that only grew 0.9% yoy with consumer loans and public sector loans offsetting declines among SME and corporate lending. Part of the positive NII performance derives from Sabadell's ownership of TSB that benefitted from rate hikes in the UK. These contributed to 10% yoy NII growth at the UK division. Despite contributing around 14% of the group's pre-tax profits, a sale of TSB by Sabadell has been on the cards for some time, but CEO González-Bueno ruled out a quick sale as recently as late last-year. Bottom-line results were supported by the group's well-managed and declining cost base (-5.6 % yoy) and strong reductions in provisions and impairments (-36% yoy) contributed to the strong bottom line result. The bank appears to be on track to meet its 6% RoTE target for 2022 (1Q22: 6.5%) but this remains below that of direct peers CaixaBank and Bankinter.

UK banks – 1Q22 results

(⇔) **Barclays** net attributable profit to equity holders was down 18% to GBP1.4bn reflecting GBP540m in litigation and conduct charges. Total income was up to GBP6.5bn (+10% yoy). In the UK division specifically, pre-tax profit rose by 29% to GBP594m, partly driven by rising interest rates, contributing to a reported group RoTE of 11.5%, above the group's medium term target range of 10%. In late March, Barclays disclosed that it had exceeded the U.S. limit on sales of structured products, thus triggering a loss and potential restatement of some of its 2021 accounts. The bank posted GBP523m in litigation and conduct costs of which GBP320m were booked in its CIB, responsible for the trading blunder. Operating expenses were up 15% to GBP4.1bn but when adjusted for litigation expenses they were actually down by 1%, highlighting the bank's good cost management. The strong top-line revenue performance helped keep the cost to income ratio at an adequate 63% in 1Q22 only up slightly from 61% one year prior. Profitability should remain strong for the rest of 2022 but constrained by higher litigation charges and lower expected IB revenues.

(↑) **Lloyds** reported a better than expected net income of GBP1.2bn. Despite being down 14% yoy the results came in 14% above the average consensus view. Lloyds raised its 2022 performance forecasts for its NIM and RoTE to 2.7% from 2.6% and to 11% from 10% respectively. While acknowledging high inflation and cost of living pressures for UK residents Lloyds deems its business model and strategy well positioned to meet its guidance. Importantly it retained its cost outlook for 2022 at GBP8.8bn (2021: GBP8.3bn) in light of these pressures. The cost to income ratio improved to 51% when excluding remediation charges, down from 55.8% one year prior as it continues to execute sustained cost discipline in its BAU before allowing further increases from investments and new business costs. Impairment charges were up during the quarter but to a manageable and low nominal base of GBP177m. CET1 fell to 14.2% from 16.3% at end-2021, which it attributes to RWA inflation and higher variable pension contributions.

(⇔) **HSBC** reported sound net income of USD2.8bn as revenues and expenses remained broadly unchanged. The 28% drop against the same period last year is largely attributable to the release of credit reserves a year ago. In 1Q22 HSBC added USD642m to account for a deteriorating forward economic guidance and charges relating to Russian counterparties. Roughly two-thirds of the group's pre-tax profits stem from Asia, and with further substantial investments into the region the reliance on revenue there is likely to increase. However, this currently coincides with Covid-related lockdowns in Hong Kong and parts of mainland China that have adversely affected some business units such as wealth management. We don't expect the USD21bn exposure to China's commercial real estate sector to pose a material threat as it is de-minimis in comparison to the group's USD1tr loan book. CET1 of 14.1% fell 170bps driven by rising RWA's, regulatory changes and economic hedges taken in expectation of central bank rate hikes. The latter may result in the group's CET1 position to temporarily fall below management's target range of 14-14.5% during 2022. Furthermore, the disposal of HSBC's French retail operations, resulting in a loss of some USD2.7bn, will have further adverse effects on CET1 by approximately 35bps in 2H22.

(↑) **Standard Chartered** Pre-tax profit of USD1.5bn was up 4% yoy and well above analyst estimates of USD1bn. 2022 income growth is now expected to slightly exceed guidance of 5-7% growth, due to policy rate hikes. The group sees itself on track to deliver a 10% RoTE by 2024, which for an emerging market focused lender remains rather unambitious. Headwinds to this arise from the increasing pivot towards Asian markets as they are still in part dealing with pandemic-related restrictions, stifling near-term economic prospects in the region. SCB's wealth management unit saw an 18% decline in income (-26% in HK), yet despite this the group is spending an additional USD300m to expand its wealth management offering in mainland China. Trading income was up 32% with the commodity business having had a particularly strong quarter on the back of energy price volatility. SCB flagged an additional USD200m in credit impairments, mostly relating to Chinese commercial real estate exposures, which paired with slightly higher operating expenses (+6% yoy) weighed on the bottom line. By end-2022, operating expenses are expected to be slightly higher than the guided USD10.7bn.

(↑) **NatWest** pre-tax profit of GBP1.24bn was up 40.6% yoy, excluding former Irish subsidiary Ulster Bank that NatWest agreed to sell last summer. The results are well above the average consensus analyst view of GBP838m. 1Q22 results benefited from a small GBP38m provision release while keeping operational expenses almost flat at GBP1.8bn. Top-line revenue of GBP3bn (+16.8% yoy) benefitted from volume growth in the mortgage book, and favourable yield curve movements. NatWest has also seen increased fee income in retail banking, as consumer spending levels recovered, and higher transactional banking fees were generated with commercial clients. Gross new mortgage lending reaching GBP9.1bn (+8.3% qoq) slightly below last year's figure. The group's transformation is ongoing but it has recently reached an important milestone when the government reduced its stake to 48%, signalling the return to majority private control. CET1 is currently 15.2% (-70bps qoq) with management aiming to reach a target range of 13%-14% by 2023. NatWest expects to reach income of GBP11bn in 2022 assuming a 1.25% base rate by end year. RoTE is expected to reach at least 10% in 2023 from currently 11.9%.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR19.6bn over the course of last week, above market expectations of EUR7bn-12bn. FIG supply of EUR11.6bn was also above the weekly forecast amount of EUR5.5bn-9.5bn. The total 2022 year-to-date FIG volume of EUR162bn is 43.9% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 28.5% at EUR357bn. For the current week, survey data suggest SSA volumes will range between EUR7bn-11.5bn and FIGs are expected to issue EUR5bn-9bn.

The **SSA** market has come back to life with a host of transactions garnering investor interest. Attractive spreads over BUNDS were one of the drivers for this. This was most evident in **KfW's** EUR3bn green bond that generated the issuer's largest ever green order book. The deal was 11.3x subscribed, a stark contrast to the underwhelming response to its Euro transactions in March. KfW announced earlier this year that it only intends to issue EUR10bn in green bonds this year, which adds to the rarity factor of this transaction. However, we note that the issuer is not unaccustomed to adjusting its funding plans and could increase the amount of green bond issuance throughout the year. The spread over BUNDS was sizeable at ~56bps and the 10-year tenor suited the needs of many investors. Sterling supply came from four separate transactions amounting to GBP1.75bn but volumes were noticeably smaller than comparable Euro trades. The only USD trade came from **Kommuninvest** with a short-dated 3-year bond, shortly after it had increased its 2022 funding plans. In expectation of higher lending volumes, the Swedish agency increased its borrowing needs to SEK125bn-145bn from SEK115bn-135bn (~EUR1bn). Funding will be issued in what it considers core markets, i.e. SEK, EUR and USD, with the latter eventually swapped back into SEK.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
IDA	Sustainable Development Bond	EUR2bn	15Y	MS + 7	MS + 8	>EUR2.7bn
Land NRW	Sr. Unsecured	GBP250m	3Y	G + 63	G + 63	n.a.
Quebec	Sr. Unsecured	GBP750m	Sep-2026	G + 74	G + 75	>GBP810m
States of Jersey	Sr. Unsecured	GBP500m	30Y	G + 100	G + 110	n.a.
KfW	Sr. Unsecured (Green)	EUR3bn	10Y	MS - 21	MS - 19	>EUR34bn
SFIL	Sr. Unsecured	EUR1bn	10Y	OAT + 26	OAT + 29	>EUR2.35bn
CADES	Sr. Unsecured	EUR5bn	10Y	FRTR + 25	FRTR + 27	>EUR25bn
Kommuninvest	Sr. Unsecured	USD1bn	3Y	SOFR MS + 25	SOFR MS + 27	>USD2bn
Rentenbank	Sr. Unsecured	GBP250m	Dec-2026	G + 49	G + 49	n.a.
Ontario TFT	Sr. Unsecured	EUR1.25bn	10Y	MS + 32	MS + 33	>EUR2.7bn
LCFB	Sr. Unsecured (Social)	EUR600m	10Y	OLO + 32	OLO + 34	>EUR825m
FIG (Senior)						
Santander	SP (FRN)	EUR2bn	2Y	3mE + 43	3mE + 55	>EUR2.5bn
deVolksbank	SNP (Green)	EUR500m	5NC4	MS + 120	MS + 120	>EUR650m
Credit Mutuel	SNP	EUR1bn	7.5Y	MS + 120	MS + 130	n.a.

Source BondRadar, Bloomberg.

FIG issuance remained muted last week as banks still reported 1Q22 earnings. We counted three transactions over the course of the week but expect more to follow as major lenders have emerged with better than expected results in most cases. **de Volksbank** launched a green SNP deal for EUR500m but the investor response was surprisingly low resulting in the deal being unable to move from IPT, resulting in a new issue premium of ~25bps. More defensive transactions such as **Santander's** short-dated floating-rate SP bond received a better response and the issuer was able to tighten the spread by 12bps from IPT. Santander's stature as a well-established large issuer and its strong earnings results will have likely contributed to the successful placement. **Credit Mutuel** with the only other SNP transaction also struggled to build momentum behind its placement as spreads only tightened 10bps from IPT, resulting in a concession of some 20bps at launch.

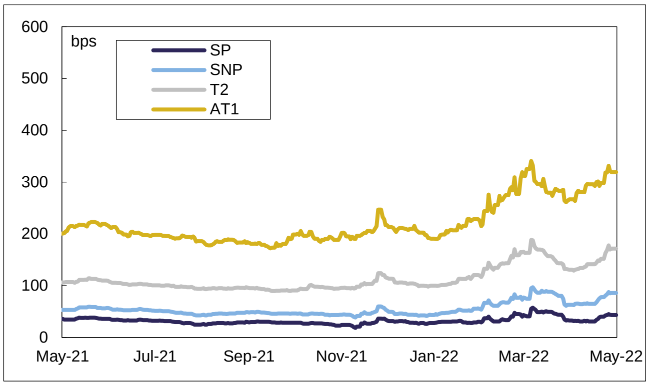
Secondary market spreads widened for EUR and USD. CDS indices on European senior (102bps) and subordinated financials (197bps), as measured by iTraxx benchmarks, priced +22bps and +17bps wider against the previous week's levels.

Spreads continued to widen for both EUR and USD denominated bonds. In the euro area, expectations for ECB interest rate lift-off in July were given a further boost last week as the preliminary inflation numbers for April once again exceeded expectations. Bunds made significant losses at the short end of the curve as euro area inflation rose again with a particularly steep rise in the core rate. The possible annexation of eastern Ukrainian territories by Russia fuelled concerns again of a protracted conflict. Recession fears in the UK and Europe add to the downbeat sentiment.

Weekly average EUR spreads were wider across payment ranks with SP (+4.2bps), SNP (+7.6bps) and Tier 2 (+16.4bps). USD average spreads were also wider week-on-week, with SP (+1bps), SNP (+4.6bps) and Tier 2 (+6.8bps). Based on Bloomberg data, 40% of FIG tranches issued in February and 19% of SSAs tranches quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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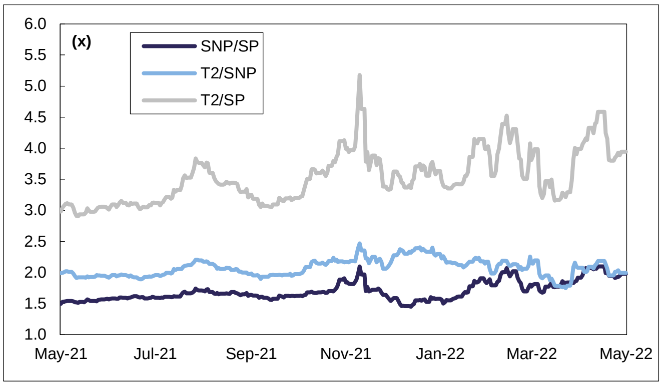


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

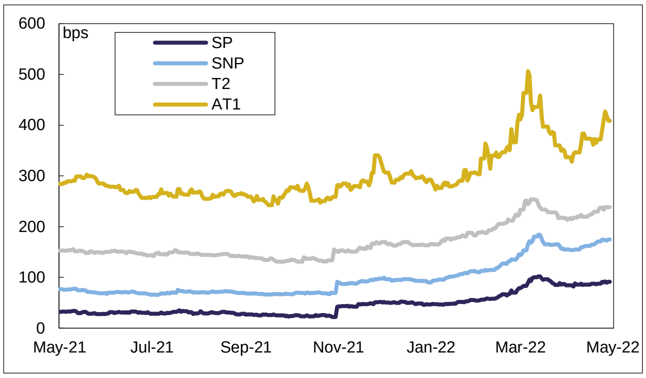
Selected Names

	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	3.8	2.0	45.7	8.9	18.2	2.8	2.1	83.5	8.4	30.8	3.6	4.0	244.4	21.9	97.0
Barclays	2.0	1.3	17.0	0.3	-7.3	2.8	1.9	85.8	8.4	49.0	5.7	2.7	198.4	27.7	100.4
BBVA	4.5	1.9	41.4	5.1	5.9	3.5	1.8	45.2	5.2	6.7	4.4	2.9	159.9	25.5	62.4
BFCM	3.6	1.7	41.4	3.5	17.6	6.9	2.7	108.8	16.9	53.3	4.3	2.8	131.1	23.1	58.9
BNPP	2.5	1.4	20.6	3.2	2.0	4.6	2.3	92.4	8.2	40.4	4.1	2.8	137.1	23.6	68.4
BPCE	3.7	1.7	34.8	3.1	1.4	5.2	2.5	106.7	8.9	36.4	3.9	2.8	129.6	15.5	53.3
Credit Ag.	3.9	1.3	21.7	2.5	-1.5	5.5	2.4	97.2	8.9	44.3	3.5	2.7	130.2	14.7	49.4
Credit Sui.	5.5	3.0	154.3	10.8	49.4	4.9	3.1	171.3	10.0	93.9					
Danske	2.0	1.0	27.2	2.7	-1.4	2.1	1.5	53.3	7.5	9.2	6.9	3.2	195.4	29.3	91.6
Deutsche	1.3	1.2	26.4	12.1	-0.3	3.6	2.9	146.1	13.5	70.7	3.5	4.2	246.7	17.8	84.1
DNB	3.6	1.3	23.2	1.7	3.3	6.7	2.4	87.2	3.8	33.9	5.0	1.4	122.1	11.6	66.9
HSBC	5.3	2.0	49.2	1.6	16.8	4.3	1.8	84.1	14.0	41.9	4.2	2.7	125.6	14.7	64.9
ING	1.6	1.8	90.7	-5.5	-71.7	5.5	2.4	91.6	9.8	40.3	6.7	2.9	164.6	26.3	82.1
Intesa	4.1	1.5	40.4	8.7	4.6	3.3	2.5	115.9	15.7	41.7	4.0	3.5	205.6	15.3	42.0
Lloyds	2.7	1.3	14.4	4.7	6.4	2.3	1.3	60.6	6.2	32.7	3.7	1.9	131.0	25.6	85.1
Nordea	4.5	1.7	24.5	2.8	13.5	5.5	2.1	49.4	4.6	8.6	7.2	2.8	123.6	0.0	40.9
Rabobank	3.4	1.3	-1.8	3.4	-9.3	5.1	2.1	59.8	6.7	19.8	1.2	0.5	-9.8	6.2	-17.5
RBS	2.9	2.3	92.5	9.0	60.9	5.1	2.1	59.8	6.7	19.8	1.2	0.5	-9.8	6.2	-17.5
Santander	3.3	1.6	41.0	2.5	15.1	4.8	2.3	87.9	9.2	33.1	4.4	2.9	141.5	19.2	50.3
San UK	2.8	1.5	26.3	2.5	22.2	1.3	0.9	66.5	6.0	34.7	4.4	2.9	141.5	19.2	50.3
SocGen	4.5	1.9	54.6	3.4	21.1	5.4	2.6	113.4	11.6	49.8	5.4	2.4	169.7	18.3	89.0
StanChart	4.5	1.8	39.0	1.4	5.8	5.1	2.6	115.5	13.2	61.9	5.8	3.5	210.8	19.2	91.9
Swedbank	3.7	1.6	25.5	-0.1	3.6	4.8	2.2	77.3	4.8	23.3	3.9	1.1	121.3	5.2	65.3
UBS	4.1	1.8	40.2	7.7	14.7	4.1	2.1	73.7	7.0	32.9	1.1	2.2	171.3	46.4	95.0
UniCredit	3.8	2.5	122.5	9.1	58.7	3.8	3.0	165.7	14.9	64.2	6.5	4.3	310.3	24.6	128.7

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)



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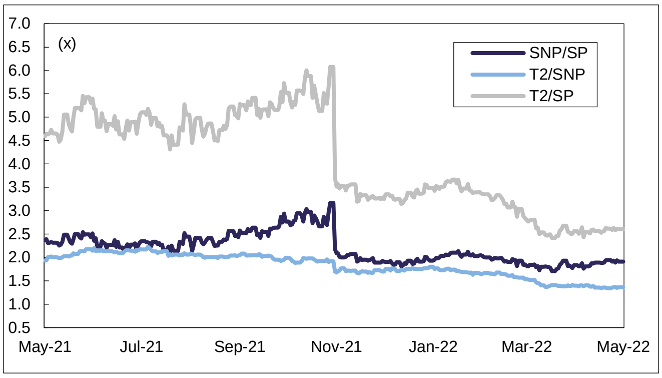

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Selected Names

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	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Barclays	1.9					4.8	4.8	197.9	5.7	74.1	5.2	5.4	252.4	11.0	78.7
BFCM	3.6	1.7	41.4	3.5	21.6	4.8	4.8	197.9	5.7	74.1	5.2	5.4	252.4	11.0	78.7
BNPP	2.5	1.4	20.6	3.2	11.1	5.0	4.8	188.1	2.4	77.1	4.3	4.9	202.1	2.7	70.4
BPCE	3.7	1.7	34.8	3.1	9.2	4.9	4.8	190.2	4.4	70.4	3.1	5.1	218.1	4.9	55.9
Credit Ag.	3.9	1.3	21.7	2.5	3.0	3.6	4.6	165.8	1.6	81.1	7.5	5.1	234.7	6.8	79.0
Credit Sui.	2.2	3.7	81.3	7.8	50.5	3.1	4.8	190.8	4.7	96.8	1.3	4.9	212.9	11.5	81.0
Danske	2.0	1.0	27.2	2.7	5.2	2.2	4.4	171.3	7.6	64.0	1.3	4.9	212.9	11.5	81.0
Deutsche	1.3	1.2	26.4	12.1	2.4	3.4	4.9	199.9	13.4	95.7	7.7	6.5	370.2	16.8	156.0
HSBC	5.3	2.0	49.2	1.6	30.1	3.5	4.4	169.3	9.4	71.1	8.8	5.5	270.6	11.6	65.3
ING	1.6	1.8	90.7	-5.5	-23.9	4.4	4.6	171.9	5.8	59.6	2.1	4.6	227.4	-0.5	78.5
Intesa	4.1	1.5	40.4	8.7	16.1	4.4	4.6	171.9	5.8	59.6	3.3	6.6	361.9	15.7	125.6
Lloyds	2.8					2.7	4.4	162.7	0.9	65.3	8.2	5.1	233.3	6.9	81.3
Nordea	4.5	1.7	24.5	2.8	23.6	2.7	3.7	166.4	1.7	56.4	8.2	5.1	233.3	6.9	81.3
Rabobank	3.4	1.3	-1.8	3.4	8.0	4.3	4.2	131.5	3.8	44.2	3.8	4.8	198.4	3.9	53.1
RBS	2.9	2.3	92.5	9.0	100.3	4.3	4.2	131.5	3.8	44.2	3.8	4.8	198.4	3.9	53.1
Santander	3.3	1.6	41.0	2.5	14.1	5.0	4.9	201.3	4.2	76.1	7.3	5.4	257.4	6.7	79.5
San UK	1.9	3.5	67.7	10.3	40.9	4.3	4.7	181.7	2.6	80.5	3.1				
SocGen	4.5	1.9	54.6	3.4	41.4	4.2	5.0	217.1	6.1	87.7	3.5	5.0	212.7	3.6	71.2
StanChart	4.5	1.8	39.0	1.4	14.4	3.0	4.5	167.2	7.3	72.3	8.4	5.6	272.2	4.6	57.1
UBS	2.4	3.6	63.4	1.3	42.5	3.9	4.5	174.3	8.5	70.3	8.4	5.6	272.2	4.6	57.1
UniCredit	3.8	2.5	122.5	9.1	48.7	3.2	5.1	222.7	2.9	97.6	6.2	7.2	430.2	4.7	139.9

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.

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Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Other Disclosures Concerning Individual Issues:
1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

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
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- 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**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
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