Daiwa Capital Markets

European Banks – Credit Update

- Stricter liquidity requirements for Switzerland's systemic banks a credit positive but at additional cost
- Cross-border M&A activity in Europe to be facilitated by lower capital requirements on banks
- Primary market activity was centered in the early part of last week, with FIG and SSA issuance receiving mixed levels of interest. We continue to see the issuance of junior debt among FIGs
- Volatile markets and the recent ECB messaging resulted in wider secondary market spreads, predominantly among peripheral lenders

William Hahn
Credit Analyst
+44 20 7597 5789
William.Hahn@uk.daiwacm.com

Switzerland toughens liquidity requirements for systemically important banks

The Swiss Federal Council recently adopted amendments to the domestic liquidity ordinance, affecting systemically important banks (SIBs). The Council found that the special requirements for SIBs do not consistently lead to higher liquidity holdings compared to the Liquidity Coverage Ratio (LCR) requirement of 100% that applies to all banks. This means that the greater resilience to liquidity shocks required by the domestic banking act is not guaranteed and the liquidity needs of SIBs in the event of restructuring or liquidation are not adequately covered. The entities in focus are UBS, Credit Suisse, Raiffeisen Gruppe Switzerland, PostFinance and Zürcher Kantonalbank. These banks must now hold enough liquidity to weather a 90-day liquidity stress as opposed to 30-days previously, and local regulator FINMA could further impose institution-specific surcharges if deemed necessary. The rules are due to come into effect in July but in order to facilitate the introduction of the new requirements, banks were given an 18-month transition period to comply. Furthermore, Swiss SIBs may count certain measures towards the new requirements, up to a limit. For instance, to generate additional liquidity, marketable securities can be sold during periods of stress while Swiss covered bonds may count as an additional liquidity source.

The move is generally considered credit positive as it reduces reliance on potentially volatile, short-term funding sources in favour of more long-term funding. However, the higher requirements may also result in increased funding costs that could weigh on profitability. FINMA estimates additional costs of up to CHF1.8bn across the five banks. Furthermore, a high level of liquidity is also a key condition for the introduction of a public liquidity backstop, proposed by the Federal Council in March. The new backstop ties into the "too big to fail (TBTF)" rules adopted by FINMA and would allow the provision of state-guaranteed funds should one of major Swiss banks fail. Despite the already stringent liquidity frameworks in place, the government believes that there could be instances where a SIB's liquid assets are not sufficient to perform successful resolution. In order to increase market participants' confidence in the ability of a recapitalised and solvent systemically important bank to survive, the Swiss government is proposing a third line of temporary additional liquidity via the aforementioned public liquidity backstop. In this context, we believe the regulatory focus may mostly lie with UBS and Credit Suisse given their global presence in capital markets and wealth management, which exposes them more to confidence-sensitive short-term funding dynamics. Based on data collected from banks' earnings reports and Bloomberg, we deem the liquidity metrics of the five banks to be adequate and mostly above those of their European peers.

Liquidity indicators for systemically relevant Swiss banks

Swiss SIB's	2019			2020			2021			1Q22		
(CHF)	TA (bn)	HQLA (bn)	LCR (%)	TA (bn)	HQLA (bn)	LCR (%)	TA (bn)	HQLA (bn)	LCR (%)	TA (bn)	HQLA (bn)	LCR (%)
UBS	940	160	134	997	189	152	1,019	208	155	1,051	233	160
Credit Suisse	787	165	198	819	204	190	756	227	203	740	226	196
Raiffeisen	248	28	136	260	48	159	284	61	185	-	-	-
Zuercher Kantonalbank	167	44	123	188	53	160	192	52	160	-	-	-
PostFinance	126	51	200	117	56	197	122	50	160	128	47	154
European Average*	747	-	147	769	-	156	835	-	155	858	-	154

*Source: Company earnings reports; Bloomberg; *Bloomberg Pan-European bank peers*

Regulatory changes make European cross-border M&A more attractive

The Basel Committee on Banking Supervision completed its targeted review of the treatment of cross-border exposures within the European Banking Union (EBU) on the methodology of Globally Systemically Important Banks (G-SIBs). The EBU encompasses mainly the countries that share the euro. Cross-border exposures can now be viewed as domestic, in effect lowering their risk weightings and the capital requirements they incur. In the absence of a European-wide deposit-guarantee scheme and the diverging treatment of capital requirements in member states, this step could lower the barriers for European cross-border M&A activity. In recent years, we observed a wave of domestic banking sector consolidation in countries such as Italy, Spain and the Nordics, while cross-border mergers remained the exception. A more integrated banking sector in Europe will alleviate capital burdens and help create pan-European banking champions that can better compete with US peers. The latter benefit from operating in a market with a single currency and common regulator, central bank and resolution framework. European entities recently linked with cross-border acquisitions are UniCredit, BNP Paribas, Société Générale and Crédit Agricole.

Based on the Financial Stability Board (FSB) list of global systemically important banks, BNP Paribas stands to benefit the most from the new regulation as it currently has the highest capital surcharge of all European G-SIBs. Similarly, this could rekindle merger talks between the likes of UniCredit and Commerzbank that were abruptly brought to an end by the outbreak of the war in Ukraine. Under the agreement, a parallel set of G-SIB scores will be calculated for EBU-headquartered G-SIBs and used to adjust their bucket allocations. The parallel scores recognise 66% of the score reduction that would result from treating intra-EBU exposures as domestic exposures under the G-SIB scoring methodology. Banks are permitted to lower the classification of their capital surcharge by a maximum of one bucket without affecting their classification as G-SIB. Therefore, only BNP and Deutsche Bank would potentially stand to benefit from the new rules immediately, depending on capital recalculations. In due course, EU authorities are expected to publish a more detailed description of the methodology and requirements for relevant EBU-headquartered banks, including the cross-jurisdictional indicators needed to calculate the parallel set of scores.

Capital Surcharges for Globally Systemically Important Banks

Capital Surcharge	G-SIBs in alphabetical order within each bucket
Bucket 5 (3.5%)	-
Bucket 4 (2.5%)	JP Morgan Chase
Bucket 3 (2.0%)	**BNP Paribas**, Citigroup, HSBC
Bucket 2 (1.5%)	Bank of America, Bank of China Barclays China Construction Bank, **Deutsche Bank**, Goldman Sachs, Industrial and Commercial Bank of China, Mitsubishi UFJ FG
Bucket 1 (1.0%)	Agricultural Bank of China, Bank of New York Mellon, Credit Suisse, **Groupe BPCE**, **Groupe Crédit Agricole**, **ING Bank**, Mizuho FG, Morgan Stanley, Royal Bank of Canada, **Santander**, **Société Générale**, Standard Chartered, State Street, Sumitomo Mitsui FG, Toronto Dominion, UBS, **UniCredit**, Wells Fargo

Source: Financial Stability Board; Nov-2021 G-SIB list

Primary and secondary markets

European **primary market** issuance for SSAs stood at EUR13.6bn over the course of last week, just above market expectations of EUR7.5bn-13bn. FIG supply of EUR13bn was above the weekly forecast amount of EUR7.5bn-12bn. The total 2022 year-to-date FIG volume of EUR305bn is 34.6% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 25.4% at EUR325bn. For the current week, survey data suggest SSA volumes will range between EUR10bn-14bn and FIGs are expected to issue EUR7.5bn-12bn.

SSAs saw a slew of deals come to market across various currencies. However, it appeared that investors favoured larger, more established issuers with liquid built-out curves. This was evident when looking at subscription levels of some smaller issuers that tend to access markets less frequently. **Tokyo Metropolitan Government** for instance was looking to place a 3-year, USD500m note earlier in the week but a muted response from investors meant the issuer had to fix the spread at IPT. Historically, Tokyo Metropolitan Government only tends to access USD markets once or twice a year, which may explain the restraint from investors in this volatile environment. There were more issuers that failed to tighten spreads from IPT. IADB, EDC and NIB all accessed Sterling markets, following the recent political turmoil in the UK from the Conservative's party no-confidence vote in Boris Johnson.

The Inter-American Development Bank (IADB) launched a sustainable development bond (SDB) for GBP500m and a 5-year maturity. Unfavourable secondary market trading conditions for Sterling, paired with the unexplored maturity of the bond for the issuer in this currency, likely contributed to the deal pricing flat to IPT at G+68bps. IADB last launched a benchmark line in April 2022, and this transaction is its third SDB in the Sterling market. The bond will support sustainable development projects in Latin American and the Caribbean in line with the issuer's Sustainable Development Bond Framework from 2020. The SDB bond is thought to have priced with a 20bps new issue premium. In this context, it was interesting to see how the other two Sterling trades fared considering similar size and maturity.

Export Development Canada (EDC) was the main comparable to the IADB trade, pricing 4bps wider, which suggest less liquidity in the trade and an even higher new issue premium. From EDC's 2022 funding plan, we see that the issuer plans to raise USD10bn-12bn across G8 and emerging market currencies, callable bonds, and private placements. This broad approach may have contributed to the bond pricing with a wider spread.

Lastly, **Nordic Investment Bank (NIB)** issued a 4-year GBP350m bond that also didn't tighten on pricing. Compared to NIB's other outstanding benchmark size GBP transactions, this one was one of the smaller trades, suggesting that demand for the deal was not strong. This would also explain the limited order book and unchanged pricing of the bond. According to the issuer's latest investor presentation, NIB plan to issue EUR7bn of long-term funding throughout 2022. 20% of the new funding is GBP, second only to USD (30%). NIB has more than EUR33bn in debt outstanding across 19 different currencies and it is the issuer's policy not to take any currency or structure risk. For that reason, NIB immediately swaps all the proceeds to the floating rate currencies needed for its lending operations.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
CDC Groupe	Sr. Unsecured	JPY25bn	5Y	MS + 5	MS + 3/5	n.a.
Kommuninvest	Sr. Unsecured	USD1.25bn	2Y	SOFR MS + 17	SOFR MS + 20	>USD3.5bn
Tokyo Metropolitan Gov.	Sr. Unsecured	USD500m	3Y	MS + 57	MS + 57	>USD760m
Spain	Sr. Unsecured	EUR8bn	10Y	SPGB + 11	SPGB + 12	>EUR40bn
Council of Europe	Sr. Unsecured (Social)	USD1bn	3Y	SOFR MS + 21	SOFR MS + 23	>USD2.3bn
NIB	Sr. Unsecured	GBP350m	4Y	G + 57	G + 57	>GBP365m
IADB	Sr. Unsecured (SDB)*	GBP500m	5Y	G + 68	G + 68	>GBP560m
EDC	Sr. Unsecured	GBP300m	5Y	G + 72	G + 72	>GBP300m
Land NRW	Sr. Unsecured (Sustainable)	EUR2bn	10Y	MS - 6	MS - 5	>EUR4.6bn
Land NRW	Sr. Unsecured (Sustainable)	EUR1.5bn	30Y	MS +35	MS +37	>EUR3.3bn
FIG (Senior)						
Royal Bank of Canada	Sr. Unsecured	GBP500m	5Y	G + 175	G + 185	>GBP645m
OP Corporate Bank	SP	GBP350m	Jan-2026	G + 160	G + 165/170	>GBP500m
Commerzbank	SNP (Green)	EUR500m	5.25NC4.25	MS + 115	MS + 130/135	>EUR1.1bn
UBS	Sr. HoldCo	EUR1bn	5NC4	MS + 135	MS + 155	>EUR1.9bn
UBS	Sr. HoldCo	EUR1bn	8NC7	MS + 58	MS + 75	>EUR1.9bn
HSBC	Sr. HoldCo	EUR2bn	5NC4	MS + 140	MS + 150	>EUR3bn
Ibercaja Banco	SP	EUR500m	3NC2	MS + 250	MS + 260	>EUR760m
Bank of Montreal	Sr. Unsecured	EUR800m	5Y	MS + 98	MS + 115	>EUR975m
SocGen	SP	USD600m	3Y	T + 140	T + 150	n.a.
SocGen	SP (FRN)	USD800m	5Y	T + 165	SOFR equiv.	n.a.
MUFG Bank Ltd	Sr. Unsecured (FXD-FRN)	EUR1bn	3NC2	MS + 95	MS + 115	>EUR1.65bn
MUFG Bank Ltd	Sr. Unsecured	EUR750m	10Y	MS + 150	MS + 170	>EUR1.65bn
FIG (Subordinated)						
Credit Mutuel	Tier 2	EUR1.25bn	10NC5	MS + 220	MS + 245	>EUR2bn
DeVolksbank	AT1 (Green)	EUR300m	PNC5	7.0%	7.0%	>EUR400m
Virgin Money	AT1	GBP350m	PNC5.5	8.25%	8.50%	>GBP750m
Helaba	Tier 2	EUR550m	10.25NC5.25	MS + 275	MS + 290/300	>EUR820m
SocGen	Tier 2	USD1.25bn	11NC10	T + 320	T + 340	n.a.

*Source BondRadar; Bloomberg; *SDB = Sustainable Development Bond*

Last week's **FIG** issuance was understandably concentrated ahead of Thursday's ECB Governing Council meeting. The ongoing volatility in markets mean that funding windows still only appear sporadically, which a host of issuers took advantage of last Tuesday and Wednesday in particular. Although it was encouraging to see a variety of debt instruments across payment ranks, including junior subordinated AT1, issuers often paid considerable concessions on their deals. Order books were not as heavily subscribed as was previously the case, in part owed to the presence of less frequent issuers in the market last week.

There were three Sterling transactions in the market, ranging from RBC, OP Corporate Bank to **Virgin Money**. Compared to the sizeable order books for junior sub-debt trades from SEB and Julius Baer last week, Virgin's GBP350m AT1 only saw demand at 2.1x deal size. Consequently, the coupon only tightened 25bps to 8.25%, leaving some 25bps new issue premium on the table. Dutch lender **DeVolksbank** became the second European bank to issue a green AT1 after BBVA had already done so back in June of 2020. Despite the rarity of the labelled AT1, the EUR300m note struggled to build momentum with investors even when the coupon remained unchanged from guidance at 7%. According to Bloomberg data, the issuer has EUR7.1bn of benchmark-sized debt outstanding across 15 bonds. The green AT1 is the issuer's only junior sub-debt deal, which may have contributed to the muted interest, leading to a 70-75bps new issue premium.

SocGen launched a trio of USD-denominated bonds, comprising two SP and one Tier 2. The short and medium-term maturities on the SP bonds did little to contain the concessions the issuer had to pay, which was in the region of 30-35bps compared to the average ~20bps paid on senior notes throughout the week. The heightened spread may also reflect the loss incurred from the sale of SocGen's Russian business and the strategic uncertainty it faces after its CEO surprisingly announced stepping down from the role this time next year. For the week ahead, we again expect activity to be front-loaded ahead of the Fed's FOMC announcement on Wednesday and BoE's MPC announcement on Thursday.

Secondary markets remained volatile and went wider for EUR and USD. CDS indices on European senior (110bps) and subordinated financials (210bps), as measured by iTraxx benchmarks, priced +11bps and +21bps wider against the previous week's levels.

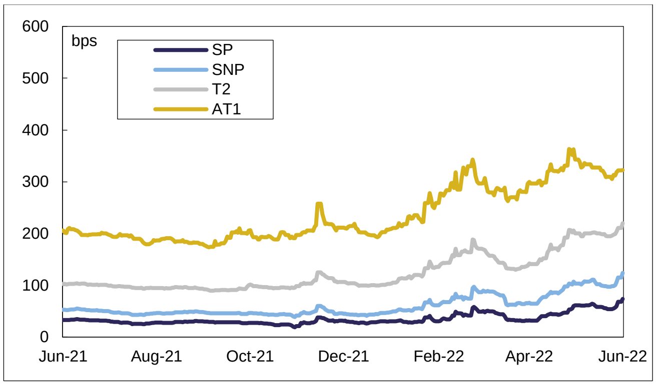
Headlines were dominated by the outcome of the ECB's Governing Council meeting that set out plans for monetary policy normalisation. The Governing Council left its main interest rates unchanged in June but pre-committed to increasing them by 25bps in July, which will be the first hike since 2011. Rates will rise by a larger amount (presumably

50bps) in September should the medium-term inflation outlook not improve by then. A gradual but sustained path of further increases is likely thereafter according to the ECB, raising the likelihood of more hikes in 4Q22 and additional tightening in 2023. The ECB justified its hawkishness by its updated economic projections, which inevitably revised up significantly its inflation outlook but revised down significantly its GDP outlook. In particular, the ECB now projects that inflation will peak in the current quarter at 7.5%Y/Y, almost 2ppts above the peak in its previous projection, before declining very gradually. It also acknowledges that the risks to its forecast are skewed significantly to the upside. Peripheral sovereign yields went wider on the news with Italian and Greek debt reaching their highest level in two years. We saw this reflected in wider EUR and USD spreads for European FIG issuers, predominantly those based in Italy and Spain. Looking ahead, next week sees the BoE monetary policy meeting take place, the policy statement and minutes from which will be released on Thursday.

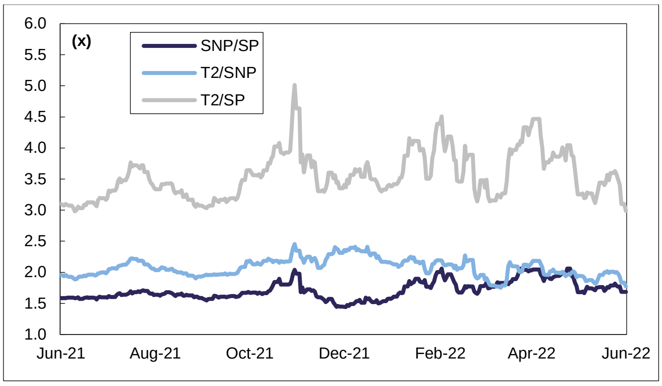
Weekly average EUR spreads were wider once more across payment ranks with SP (+8.9bps), SNP (+17.8bps) and Tier 2 (+14.7bps). USD average spreads were also tighter week-on-week, with SP (+3.4bps), SNP (+6.1bps) and Tier 2 (+10.1bps). Based on Bloomberg data, 75% of FIG tranches and 25% of SSA tranches issued in June 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.

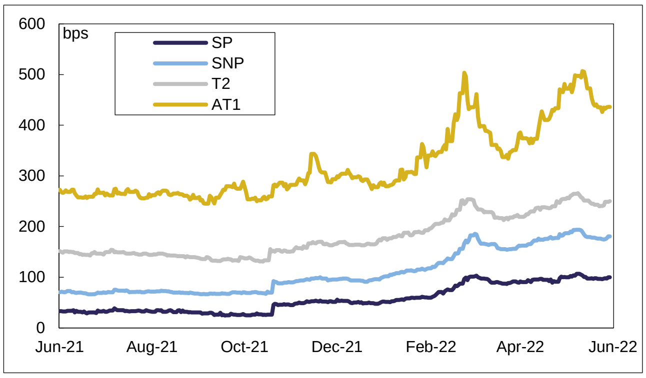
Selected Names

	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	3.6	2.9	85.4	16.9	49.8	3.3	3.3	135.8	22.4	68.7	3.5	4.6	248.9	11.2	83.4
Barclays	1.9	2.1	25.8	2.2	-2.4	3.5	3.0	137.3	14.4	79.9	6.4	4.0	272.5	20.8	158.0
BBVA	3.8	2.8	75.5	21.2	26.0	3.4	2.8	75.8	21.6	27.5	4.3	4.1	222.2	33.5	108.4
BFCM	3.5	2.6	66.6	13.1	31.2	6.7	3.6	137.9	18.4	73.5	5.3	4.1	197.7	26.5	86.3
BNPP	2.4	2.6	55.5	12.1	1.8	4.7	3.3	128.9	16.4	63.7	4.0	4.0	186.1	24.5	101.2
BPCE	3.5	2.7	63.0	12.7	24.6	5.1	3.4	131.5	16.4	54.1	3.8	3.6	130.8	18.1	72.4
Credit Ag.	3.8	2.1	32.4	7.4	1.5	5.4	3.4	127.6	18.4	63.6	3.6	3.7	170.4	4.9	82.3
Credit Sui.	5.3	4.4	225.9	25.0	109.9	4.8	4.2	213.1	15.6	124.5					
Danske	2.6	2.2	52.1	9.0	19.1	3.3	3.2	123.4	15.6	53.7	6.9	4.5	255.7	18.0	143.0
Deutsche	2.1	2.0	41.8	5.1	10.6	4.4	4.2	206.8	21.7	100.9	3.5	5.0	248.4	8.9	84.7
DNB	3.8	2.6	65.7	10.2	4.5	6.5	3.4	127.6	13.9	66.7	5.2	2.2	158.8	13.0	89.2
HSBC	5.2	2.9	78.9	13.8	39.7	4.3	3.4	143.1	24.1	81.5	4.2	3.7	164.4	17.0	93.6
ING	1.4	3.1	129.9	23.2	-27.6	4.9	3.4	126.8	17.1	68.2	6.6	4.1	218.7	22.7	123.4
Intesa	3.8	2.6	75.2	19.9	32.0	3.2	3.8	175.8	27.8	88.6	3.8	4.5	232.9	1.5	61.5
Lloyds	2.5	2.3	36.4	8.9	24.0	2.3	2.4	99.1	14.2	60.9	5.6	3.5	222.2	24.2	161.4
Nordea	4.4	2.7	56.0	12.0	40.4	6.2	3.3	101.9	12.7	36.2	7.9	4.1			40.9
Rabobank	3.7	2.3	24.6	14.6	10.9	5.0	3.2	105.1	16.4	50.5	1.1	1.3	10.9	-0.7	-9.7
RBS	2.8	3.6	156.0	14.6	113.6	5.0	3.2	105.1	16.4	50.5	1.1	1.3	10.9	-0.7	-9.7
Santander	3.4	2.5	65.3	15.7	32.6	4.6	3.4	128.8	21.3	63.9	4.2	4.0	191.6	22.6	89.3
San UK	2.7	2.4	47.7	10.7	40.3	1.9	2.2	101.4	13.1	61.1	4.2	4.0	191.6	22.6	89.3
SocGen	4.7	3.0	89.4	14.4	42.6	5.3	3.6	147.6	18.3	75.0	6.5	4.2	262.4	26.2	156.7
StanChart	4.3	2.8	66.6	10.7	30.7	5.0	3.7	157.5	18.5	92.7	5.7	4.6	257.4	20.6	126.0
Swedbank	4.3	2.8	68.5	11.5	20.2	4.7	3.3	116.2	13.9	51.1	3.9	1.6	135.9	8.5	77.0
UBS	4.0	2.8	76.0	15.6	46.1	4.3	3.2	122.0	27.1	69.0	1.1	2.7	172.9	17.0	94.9
UniCredit	3.7	3.7	166.0	25.2	98.4	3.6	4.3	229.5	33.9	113.7	6.4	5.5	361.9	32.2	162.9

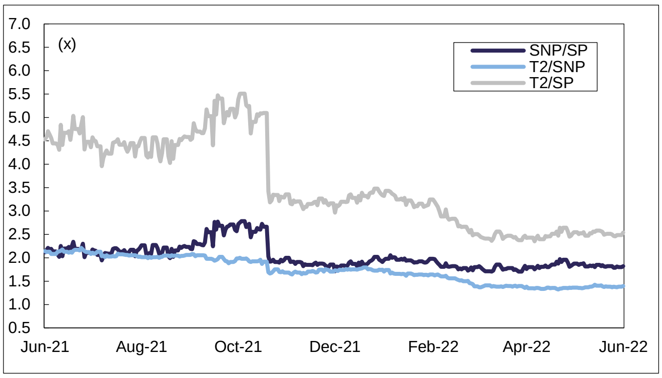
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

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	1.8					4.7	5.2	199.1	7.7	70.1	5.2	5.8	259.5	8.6	84.8
BFCM	3.5	2.6	66.6	13.1	31.2	4.7	5.2	199.1	7.7	70.1	5.2	5.8	259.5	8.6	84.8
BNPP	2.4	2.6	55.5	12.1	1.8	4.9	5.2	187.4	8.0	82.3	4.2	5.3	201.4	7.4	69.0
BPCE	3.5	2.7	63.1	12.7	24.6	4.8	5.3	195.6	6.7	79.6	3.0	5.6	238.5	11.0	57.5
Credit Ag.	3.8	2.1	32.4	7.4	1.5	3.5	5.0	166.2	5.0	83.6	7.3	5.4	240.9	4.4	83.7
Credit Sui.	2.3	4.6	117.5	7.3	39.6	3.5	5.4	226.0	6.3	108.5	1.2	5.2	180.5	46.9	75.4
Danske	2.6	2.2	52.1	9.0	19.1	2.0	4.8	180.6	4.8	63.4	1.2	5.2	180.5	46.9	75.4
Deutsche	2.1	2.0	41.8	5.1	10.6	3.2	5.4	211.5	8.8	100.8	7.5	7.0	380.7	30.0	177.8
HSBC	5.2	2.9	78.9	13.8	39.7	3.5	5.0	177.0	7.2	72.6	8.7	5.7	262.8	7.1	53.3
ING	1.4	3.1	129.9	23.2	-27.6	4.3	4.9	175.0	3.2	53.4	2.3	4.6	190.9	6.1	84.7
Intesa	3.8	2.6	75.2	19.9	32.0	4.3	4.9	175.0	3.2	53.4	3.1	7.1	378.4	22.4	154.9
Lloyds	2.7					2.6	4.8	159.0	5.8	65.2	8.2	5.4	231.7	4.9	82.2
Nordea	4.4	2.7	56.0	12.0	40.4	2.6	4.2	169.7	1.8	60.8	7.3	5.5	288.2	0.0	-13.7
Rabobank	3.7	2.3	24.6	14.6	10.9	4.2	4.8	140.3	3.4	45.5	3.7	5.1	198.9	0.5	49.5
RBS	2.8	3.6	156.0	14.6	113.6	4.2	4.8	140.3	3.4	45.5	3.7	5.1	198.9	0.5	49.5
Santander	3.4	2.5	65.3	15.7	32.6	4.9	5.3	212.8	7.7	78.4	7.3	5.8	269.0	8.9	93.0
San UK	1.8	3.4	52.7	-1.3	9.5	4.2	5.2	184.6	5.8	83.3	2.9	5.1	196.2	0.6	19.1
SocGen	4.7	3.0	89.4	14.4	42.6	4.1	5.5	211.8	6.5	82.9	3.7	5.5	215.9	8.9	69.9
StanChart	4.3	2.8	66.6	10.7	30.7	2.9	4.9	172.9	4.6	76.9	8.3	6.0	287.8	5.0	73.6
UBS	2.5	4.2	78.2	0.0	36.9	4.0	5.0	188.4	7.8	73.7	8.3	6.0	287.8	5.0	73.6
UniCredit	3.7	3.7	166.0	25.2	98.4	3.0	5.3	179.5	9.8	94.1	6.1	7.7	450.7	10.6	158.6

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.

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies, ESG	*William Hahn*	+44 20 7597 5789
Head of Translation, Economic and Credit	*Mariko Humphris*	+44 20 7597 8327
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst, Financials, Power, Communication, Wholesale Trade, Air Transportation	*Toshiyasu Ohashi*	+81 3 5555 8753
Local government, Government agency	*Koji Hamada*	+81 3 5555 8791
Electronics, Non-Banks, Real Estate, REIT, Retail trade, Chemicals, Iron & Steel, Marine	*Takao Matsuzaka*	+81 3 5555 8763
Transportation, Pulp & Paper, Oil, Land Transportation	*Kazuaki Fujita*	+81 3 5555 8765
Automobiles, Foods, Heavy equipment, Construction, Machinery	*Ayumu Nomura*	+81 3 5555 8693
International Credit		
Non-Japanese/Financials	*Fumio Taki*	+81 3 5555 8787
Non-Japanese/Financials	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Corporates	*Stefan Tudor*	+81 3 5555 8754
ESG		
Chief Securitisation Strategist	*Koji Matsushita*	+81 3 5555 8778
Strategist	*Shun Otani*	+81 3 5555 8764
Strategist	*Takao Matsuzaka*	+81 3 5555 8763

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at DAIR <GO>.

Access our research at:
http://www.uk.daiwacm.com/ficc-research/research-reports

Please note the disclaimers and disclosures on the last page of this document.

Explanatory Document of Unregistered Credit Ratings
This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:
https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Conflicts of Interest: Daiwa Securities Co. Ltd. may currently provide or may intend to provide investment banking services or other services to the company referred to in this report. In such cases, said services could give rise to conflicts of interest for Daiwa Securities Co. Ltd.

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.
Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association