European Banks – Credit Update

- 2Q22 earnings of European banks have mostly yielded unexpectedly positive results, exceeding average analyst consensus views. Rate hikes and stable loan demand have contributed to rising revenue and profitability metrics, partially offset by higher LLPs and rising costs.
- Primary markets largely muted for FIGs as the earnings season is still ongoing, with few SSA deals in between as markets continued to be volatile.
- Secondary market spreads tightened in EUR and USD in response to more assertive monetary policy

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Western European banks – 2Q22 results

(↑) **BNP Paribas** saw its net income surge to EUR3.2bn (+9.1% yoy), reflecting buoyant earnings of EUR12.8bn (+8.5% yoy), driven by strong performances in its retail banking division as well as the investment bank. RoTE was solid at 12%. The CIB, that houses BNP's investment bank, saw revenues increase 10.6% on the back of very robust client activity in global markets (+15% revenues). In particular, FICC and equity & prime services saw their revenues rise 15% and 16% respectively. Investor's hedging needs in rates and FX as well as demand for derivative products drove overall activity and contributed to the good results. Retail banking income was up 11%, supported by continued loan growth, especially in the euro zone (+8%) and in Europe-Mediterranean (+58%).

However, this business acceleration came at a cost, with operating expenses rising 8% yoy. BNP reported that around 35% of the increase in costs corresponded to scope and exchange rate effects. RWA inflation and the effects of a 60% pay-out ratio resulted in a 20bps decline in the group's transitional CET1 ratio to 12.2%. While this is well above the regulatory 9.39% minimum and above the bank's own target rate of 12% for its strategic plan ending 2025, we deem this low when compared to BNP's global peer group. Overall, BNP's results were strong but its outlook remained more uncertain, mirrored in the increased level of loan loss provisioning that went up to EUR789m from EUR456m in the previous quarter. Consequently, the cost of risk (CoR) measure stood at 33bps, up from 20bps in the previous quarter but still below the pre-pandemic level of 39bps in 2019.

(↑) **Deutsche Bank** reported better than expected net income of EUR1.21bn (+46% yoy), its eighth consecutive quarterly profit. The bank benefited from rising corporate bank revenues (+26% yoy) and higher investment banking income (+11% yoy), while cautioning on the outlook for the IB for the rest of the year due to the uncertain economic outlook. RoTE was 7.9%, up from 5.5% the same time last year and DB is targeting a rate of 8% for the end of the year. While DB reaffirmed its 2022 revenue guidance of EUR26-27bn it dropped its cost target for the year in recognition of unforeseen cost pressures, rising bank levies, inflation, litigation charges as well as the expenses related to the Ukraine war. Deutsche has now been unable to lower its cost base for the past three consecutive quarters and stated it won't be able to reach a targeted cost to income ratio below 70% and instead is aiming for a level in the 'mid-to-low 70s'. Looking ahead, bottom line results could be weighed down somewhat by litigation charges due to a probe by US regulators regarding employee's unapproved use of personal devices and record-keeping requirements. This investigation has afflicted large US and European peers and fines could range around USD200m. CET1 was down to 13% (-23bps yoy) but still above the bank's internal target rate of 12.5%.

(↓) **Credit Suisse** reported another quarterly net loss of CHF1.6bn, significantly deeper than the market consensus of CHF206m. The results included adverse one-off items such as CHF434m in litigation provisions, a CHF168m valuation loss related to Allfunds and leveraged finance related mark-to-market loss of USD245m. Reported RoTE was -15% compared to 2.6% one year prior. The weak figures were linked to poor revenue performance across most business lines. Group revenues were down 27% yoy to CHF3.8bn with main business lines such as Wealth Management (-7% yoy), the Investment Bank (-55% yoy) and Asset Management (-25% yoy) all performing badly. Throughout the preceding months we observed a series of senior management reshuffling, most recently, the group appointed Ulrich Körner as its new CEO (effective 1st August), having previously headed the asset management division. Credit Suisse views 2022 as a transitional year and under new management will launch another strategic review of the business with the aim of strengthening CS's global wealth management franchise while also transforming the IB into a less complex, capital-light advisory-led business. It also sets a cost efficiency target, reducing the group's cost base below CHF15.5bn over the medium-term from currently CHF19bn at FY21.

(⇔) **UBS's** consolidated net profit for 2Q22 rose 5% yoy to USD2.1bn, somewhat below the market expectation of USD2.4bn. Revenues were virtually flat at USD8.9bn and supported by one-offs such as the USD810m gain from the sale of its 49% stake in its Japanese real estate joint-venture with Mitsubishi. The sale helped offset a group wide decline in net fee and commission income (-USD783m yoy) reflecting negative market performance and lower levels of IPO and follow-on activity, as well as a decrease in the level of client activity. Its investment banking business saw revenue fall 14% yoy to USD2.1bn, below analyst's expectation of USD2.3bn. UBS displayed good cost control, slightly reducing its operating expense base by 1% to USD6.3bn, allowing UBS to achieve a cost-to-income ratio of 70.6%, well within its 70-73% guidance.

Global Wealth Management (GWM) and Asset Management (AM), two pillars of the Swiss group's income registered flat lining or declining asset bases. GWM net new fee-generating assets were just USD0.4bn and total fee generating assets declined to USD1.2tr from USD1.4tr. In the AM division there were also net fund outflows (USD12.1bn qoq) as well as declines in invested assets (-13% yoy). UBS's key capital measures declined as CET1 reached 14.2% (-80bps yoy) but remained high overall, above the management guidance of 13%.

Southern European banks – 2Q22 results

(↑) UniCredit surprised analysts when it reported net income of EUR2bn, double average forecasts and the previous year's figure. Excluding Russian operations, the results were very strong, at EUR1.7bn, up 74% yoy. UniCredit's EUR3.8bn exposure to Russia (excl. local participation) is one of the highest among European lenders but has been greatly reduced over the past quarter by EUR2.7bn. Nevertheless, performance in its Russian subsidiary was robust, benefitting from the Ruble's appreciation, ultimately contributing 62bps to the group's CET1 ratio. Unlike similarly exposed banks such as SocGen that have quickly disposed of their Russian outfits, UniCredit has stated it does not plan on selling its Russian subsidiary at any cost. The better than expected bottom-line figures at the group level should buy UniCredit more time for a managed exit. The potential hit to CET1 from an extreme exit scenario is estimated at 110bps, below the 128bps estimated in 1Q22.

UniCredit also surprised with a net release of loan loss provisions (LLP) of EUR108m, in contrast to most other banks that have reported during this earnings period thus far. Underlying performance of the group was solid with revenues of EUR4.8bn (+8.9% yoy) raised by higher NII (+13.3% yoy) and trading income (+41% yoy). RoTE reached 15% during the quarter, comfortably within the 10% guide by 2024. UniCredit forecast FY22 net profit of EUR4bn (excl. Russia), up from a previous indication of EUR3.3bn, which it believes it will achieve predominantly through higher lending income. CET1 rose to 15.73% (+22bps yoy), which should allow UniCredit to pursue a EUR1bn share buyback that was previously been put on hold.

(⇔) Intesa, Italy's largest bank joined other major European banks in reporting higher than forecast earnings. Results were boosted by higher lending and trading activity, offsetting rising loan loss provisions. Net income in 2Q22 was EUR1.3bn (-12% yoy) but ahead of the consensus view of some EUR1.03bn. Unlike domestic rival UniCredit, Intesa did not revise upwards its guidance and instead upped its LLP's to EUR730m (+21.8% yoy), which included provisions for Russia/ Ukraine exposures that are limited to 1% of the group's customer loans. Underlying revenue performance was solid, with operating income of EUR5.3bn above the same period last year (+3.3%). Senior management attributed that to a strong acceleration in net interest income in 2Q22 (+4.8% yoy) and has previously stated that every 50bps rise in rates translates to an additional EUR900m in income.

However, Intesa also pointed towards higher borrowing costs for clients that could lead to rising delinquencies and more impaired loans. This has given further impetus to the bank's 'Zero-NPL Bank' strategy that aims at bringing NPLs down to 1%. As at 2Q22 the NPL ratio was 2.3% (2Q21: 4.1%) following the deleveraging of EUR4.1bn in gross NPL stock. Another positive was the well-managed cost base (-1.8% yoy) resulting in a strong cost to income ratio of 47.5% (-17bps yoy). CET1 ratio of 13% remains ~410bps above requirements and above the 2022-2025 business plan target of >12%. Political turmoil in Italy, following the dissolution of the national unity government paired with the uncertain economic outlook throughout Europe may place additional pressure on Italy's GDP growth. Given Intesa's predominantly domestic focus and high dependence on the Italian operating environment, we believe that the lender is facing a challenging outlook.

(⇔) CaixaBank Spain's largest domestic bank reported solid operating performance in a volatile environment. Net income for the period was up 13.4% yoy to EUR866m well ahead of analyst net income forecasts of EUR592m. RoTE for the period was 7.9% (2Q21: 9.8%) excluding M&A effects. However, there was some weakening in top-line revenue items with NII for instance down 1.8% yoy, despite continued loan growth throughout the first half of 2022. Total loans to customers rose 2.8% in 1H22, while new lending activity to consumers (+21%yoy) and businesses (+54% yoy) also up. Caixa in part attributed this to higher costs for financial intermediaries, mainly due to the withdrawal of the 50bps discount on the TLTRO III in late June as well as higher institutional funding costs. Nevertheless, gross income was up 2.1% to EUR2.9bn, benefitting from higher income from insurance activities and trading income. The bottom line benefitted from lower costs in line with guidance (-6.9% yoy), mostly reflecting personnel cost-synergies while also reducing LLPs (-4.8% yoy) and other provisions (-44.4% yoy).

Caixa's new 2022-2024 strategic plan from May set out key targets such as RoTE >12% by 2024 to be achieved via 7% revenue growth over the lifetime of the plan. GDP growth over that period is expected to average 3.4%, boosting demand for mortgages and unsecured loans. The plan also aims to increase the revenues of its Portuguese subsidiary BPI by 9%. However, Caixa as well as other Spanish banks are facing the prospect of a new, temporary bank levy that could see bottom line results suffer over the short-term. In an already challenging market environment and after years of negative rates, the leftist Spanish government coalition has introduced a bill into parliament aimed at raising EUR7bn by 2024 to fund measures to ease cost of living pressures for citizens. It includes a 1.2% levy on the sales of large Spanish energy companies and a 4.8% charge on bank's net interest income and commissions. Over the two-year period envisioned for these extraordinary measures, the Spanish government expects to raise EUR3bn from the banking sector and the remainder from energy companies. Caixa estimates that the tax could have an adverse impact of EUR400m-450m on the bank. Secondary effects of the proposed levy could be higher borrowing costs for lenders as well as reduced lending into the economy.

(⇔) Banco Santander's results in 2Q22 were somewhat dampened by higher loan loss provisions as well as cost and lending pressures in its highly profitable Brazilian subsidiary. Group net income for the quarter was EUR2.35bn (+9.9% yoy) just shy of market forecasts of EUR2.38bn. The regional contribution to the group's bottom line profitability is spread almost equally and net income was up in Europe (+38% yoy), North America (-10%), and South America (+7%). Additionally, Santander's digital consumer bank that has been growing in recent years, now contributes 10% to the group's underlying profit and saw its bottom line increase by 16% yoy. Higher revenues in Europe and still solid contributions from the Americas supported bottom line results, while regulatory charges relating to the Single Resolution Fund and the Institutional Protection Scheme in Poland weighed on results. LLP's at constant Euros rose strongly in 2Q22 (+20.4% yoy) mainly due to higher CHF mortgage related charges in Poland, the worsening macroeconomic outlook in the US and weaker retail outlook in Brazil.

Inflation and FX effects in the current changeable market environment affected overall results. For instance, inflationary effects in South America during 1H22 led to 5% yoy increase in the regional cost base at constant Euros, while NII in Brazil which contributes around a third of the bank's underlying profits rose 19% qoq but actually fell when measured at constant Euros (-4.9% qoq). Group revenues of EUR12.6bn were up 3.4% yoy when measured at constant Euros. Group RoTE in 2Q22 was 13.7% and cost discipline contributed to a solid cost to income ratio of 45.5%. The group's cost of risk measure was up slightly to 83bps compared to the beginning of the year (77bps). Santander's capital ratios are lower than those of peers, with the CET1 clocking in at 12.05%. In part, this is due to Santander's business model that is geared towards retail and commercial banking that provide stable returns in normal times, warranting a lower ratios. Current CET1 is just above its 11-12% target range and we believe it should be strengthened in coming quarters if general market uncertainty persists.

(↑) BBVA's results came in well ahead of analyst expectations, with net income of EUR1.67bn up 139% yoy and almost EUR700m above the average consensus view. Like domestic rival Santander, BBVA's broad international footprint has helped the group diversify revenue streams from the low European interest rate environment in the past. Gross revenues in Mexico accounted for 42% of the group total, followed by Spain (26%), South America (17%) and Turkey (12%). 2Q22 gross income of EUR6.1bn grew 19.4% yoy, outstripping rising expenses (+14.6%) that rose predominantly on higher personnel expenses. Ahead of the results presentation, one concern was the contribution of BBVA's 86% stake in Turkish bank Garanti given the persistently high inflation. BBVA said they would restate inflation-adjusted numbers from the beginning of 2022, resulting in a negative contribution to the group's attributable profit. Taking into account the negative impact for 1Q22 as well as reported second quarter profits of EUR137m, Turkey's 1H22 net attributable profit was EUR62m. Although Garanti's 2Q22 bottom-line result was 29% down against last year, it came in well ahead of analyst expectations. In Mexico, net income was up 66% to EUR1bn, driven by a good evolution in risk indicators. NII was up 38% underlining the regions importance for the group. In BBVA's domestic market of Spain, net attributable income was the second highest across the group at EUR409m (+15% yoy) but it will likely need to revise its outlook due to the proposed temporary bank levy.

UK banks – 2Q22 results

(⇔) Barclays net attributable profit to equity holders was down 48% due to increased litigation and conduct charges. Barclay's incurred additional charges due to the lower market value of over-issued securities, partially mitigated by the bank's hedging activities. Other conduct expenses relate to the sector wide probe by US regulators regarding employee's unapproved use of personal devices. Total income was up to GBP6.7bn (+24% yoy) but the figures were inflated by gains made from the hedging related to the over-issuance of securities. Other drivers were strong client activity, growth in US credit cards balances, and higher net interest income (NII) from the higher rates environment. The bank's NII contribution surged 18% to GBP2.4bn, while Barclay's also reported strong growth in its non-interest revenue contribution that was up by 27%. The bank reported RoTE of 8.7% (down from 11.5% the previous quarter) but continues to target a RoTE >10% in 2022 and over the medium-term. Despite seeing revenues rise 35% in the CIB we expect full-year results to trail the exceptionally strong years of 2020 and 2021 reflecting an overall weaker market. Barclay's UK division contributes roughly a quarter of total revenue and reported pre-tax profit of GBP0.6bn on the back of a 6% yoy rise in revenues. The group now expects the net interest margin of the UK business to be in a range of 2.8% to 2.9% in 2022, provided that the Bank of England's base rate reaches 2.5% by year-end.

(↑) **NatWest** 1H22 pre-tax profit of GBP2.6bn was up 13% 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 GBP2.18bn and benefitted from strong lending growth paired with the Bank of England's interest rate hikes, echoing the strong results of domestic rivals. Gross new mortgage lending reached GBP9.8bn, in line with the previous quarter. Total 1H22 income rose strongly to GBP6.2bn (+20.9%), which led senior management to revise its full-year revenue forecast to GBP12.5bn, up from previously GBP11bn. The bank also raised its target for RoE to between 14% and 16% for 2023 from currently 15.2%. Despite the inflationary pressure on NatWest's borrowing base and further expected rate hikes by the BoE, NatWest decided to release some of its loan loss provisions (EUR46m) due to the low level of actual loan losses incurred. However, high inflation has resulted in the bank signalling that it would not be able to meet its costs targets over the short to medium-term, dropping its goal of cutting costs by 3% next year while maintaining the 3% reduction target for this year. CET1 is currently 14.3% (-90bps qoq), falling strongly for the second quarter in a row. This was explained by a special GBP1.75bn dividend and GBP250m dividend accrual (-111bps), as well as RWA inflation (-25bps) and other items (-8bps), partially offset by retained earnings (+53bps).

(↑) **Lloyds** reported a better than expected net income result for 1H22 of GBP3.7bn vs GBP3.2bn expected by analysts but 2% down on last year's figures. The retail banking focus of the group helped drive the solid results with net income up to GBP8.5bn (+12% yoy) as the NII contribution increased strongly by 13% yoy. Results were partially mitigated by rising costs (+5% yoy). RoTE came in at 13.2%, prompting Lloyds to raise its 2022 target rate to 13% after having just raised the target the previous quarter to 11% from 10%. 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. Nevertheless, the bank had to record GBP377m in impairment charges as the economic outlook weakened, a stark contrast to the GBP734m release in 1H21 following the rebound from Covid-19 lockdowns. Importantly it retained its cost outlook for 2022 at GBP8.8bn (2021: GBP8.3bn) in light of these pressures. The 2Q22 cost to income ratio improved to 50.2%, down from 60.7% one year prior as it continues to execute sustained cost discipline in its BAU before allowing further increases from investments and new business costs. There were also no signs of increased risk in Lloyds' mortgage portfolio as the proportion of >80-90% LTVs and >90-100% LTVs continued to decline compared to 2021 and 2010 values. Pro-forma CET1 fell to 14.8% from 16.3% at end-2021, which the lender attributes to variable pension contributions and dividend accruals.

(↑) **Standard Chartered** 1H22 pre-tax profit was USD2.8bn, up 8% yoy, resulting in underlying RoTE of 10.1%. On a quarterly basis pre-tax profits of USD1.32bn came in 20% above average analyst estimates. 1H22 income growth of 8% yoy to USD8.2bn is ahead of previously communicated income guidance, following policy rate hikes in key markets. However, SCB has provided updated 2022 targets with income growth aiming for 10% growth at constant currency rates. This should help the group deliver its 10% RoTE target by 2024, if not earlier. We maintain our view that this target remains unambitious for an emerging market focused lender. By region, pre-tax profits rose the strongest in Europe & Americas (+109% yoy), Africa & Middle East (+28%) while Asia recorded declines (-15%). In Asia credit impairments increased by USD351m reflecting changes in the Chinese commercial real estate sector as well as the credit downgrade of Sri Lanka. Europe & Americas benefitted from strong performance in financial markets including gains on mark-to-market liabilities from widening funding spreads as well as some net releases in impairments (USD29m). Some downsides stem from rising expenses (+9% yoy) on a constant currency basis. SCB's wealth management continued to display weakness with income down 16% yoy as customer sentiment became more risk-averse. North Asian markets were said to still feel the impacts from Covid restrictions, branch closures and lower footfall. Trading income was up 23%, benefitting mostly from macro trading (+32% yoy) and financing & securities services (+80%). The strong quarterly results have prompted SCB to announce an additional USD500m share buyback supported by a CET1 ratio of 13.9%, 40bps above consensus views but down 20bps against the same period last year.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR1.85bn over the course of last week, just within market expectations of EUR1.5bn-4bn. FIG supply of EUR3.23bn was slightly above the weekly forecast amount of EUR1bn-3bn. The total 2022 year-to-date FIG volume of EUR334bn is 24% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 33% at EUR367bn. For the current week, survey data suggest SSA volumes will range between EUR1bn-3bn and FIGs are expected to issue EUR0.75bn-3bn.

The **SSA** market was relatively quiet last week with a handful of transactions. Daiwa Capital Markets Europe (DCME) acted as joint lead for the placement of an USD800m bond by **Swedish Export Credit (SEK)**. The 4-year FRN is SEK's second USD trade of the year following their USD1bn, 5-year benchmark from March. The transaction represents the first USD transaction in two weeks and the first public SOFR FRN syndication in almost four months due to volatile market conditions. The transaction gathered good momentum from the outset and was priced with a spread of SOFR MS + 57bps. Due to solid interest, the issuer was able to upsize to the final size of USD800m from an initial targeted size of USD500m. The order book had a very high quality accounts with 58% of the bonds being placed with Banks, 28% with Central Banks and Official Institutions and 14% with Asset Managers.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
IADB	Sr. Unsecured (SDB)	GBP300m	7Y	G + 56	G + 56	n.a.
Land Berlin	Sr. Unsecured	EUR500m	10Y	MS – 10	MS – 8	>EUR2.7bn
NRW Bank	Sr. Unsecured (Green)	EUR1bn	10Y	MS – 7	MS – 7	> EUR3.8bn
SEK	Sr. Unsecured (FRN)	USD800m	4Y	SOFR MS + 57	SOFR MS + 57	>USD810m
FIG (Senior)						
Toronto-Dominion Bank	Sr. Unsecured	EUR1bn	5Y	MS + 105	MS + 115	>EUR1.4bn
Toronto-Dominion Bank	Sr. Unsecured	EUR1.25bn	10Y	MS + 130	MS + 145	>EUR2.25bn

Source BondRadar, Bloomberg.

FIG markets only saw limited supply as the earnings seasons in Europe is in full swing. Only **Toronto-Dominion Bank** came to market with a dual tranche Euro issuance across 5 and 10-year maturities. The combined EUR2.25bn in senior notes represented one of the larger Euro trades from North American issuers since May. Interest in both legs was solid but the lack of longer dated senior Euro supply may have contributed to the higher interest in 10-year. Since early June, there hasn't been a senior Euro issuance at or above that maturity.

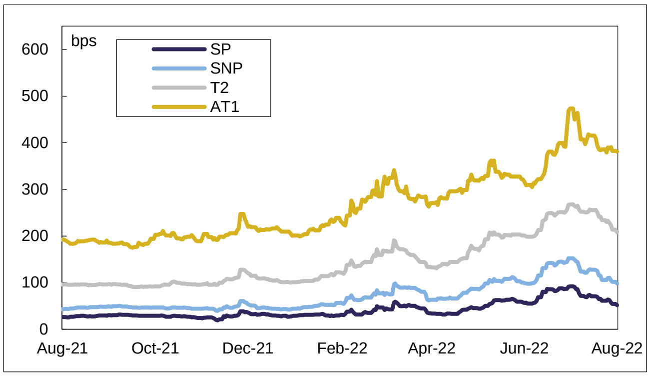
Secondary market spreads widened for EUR and USD. CDS indices on European senior (109bps) and subordinated financials (203bps), as measured by iTraxx benchmarks, priced -6bps and -13bps tighter against the previous week's levels.

In late-July, the ECB's Governing Council agreed on a 50bps hike to its main interest rates, more than it had previously signalled, as it judged inflation risks to have worsened. It also agreed on a new Transmission Protection Instrument (TPI), giving the ECB scope to address widening sovereign bond spreads via potentially unlimited bond purchases if and when judged appropriate. This marked the first hike since 2011 and may be followed by a similar increase (presumably 50-75bps) in September should the medium-term inflation outlook not improve by then. The ECB is now taking a "meeting by meeting" approach to interest rate decisions, abandoning its previous 'modus operandi' of providing forward guidance. In the US, the Federal Open Market Committee (FOMC) implemented its second 75bps rate hike in a row, bringing the Fed Funds Rate target range to 2.25-2.50%. Chair Powell suggested that additional increases would be implemented in the months ahead. Meanwhile, in the UK the BoE's Monetary Policy Committee (MPC) is expected to hike the bank rate from currently 1.25% and publish plans for active Gilt sales. The BoE noted that it would act forcefully if needed to prevent high inflation becoming more persistent. Despite an inflation-driven record drop in real wages in the UK, the BoE will consider a 25bp or 50bps rate hike this week and begin quantitative tightening via active Gilt sales in September. Daiwa economists expect the majority on the MPC to favour a larger rate increase of 50bps to 1.75%, with signals of further monetary tightening ahead too (possibly of a similar magnitude).

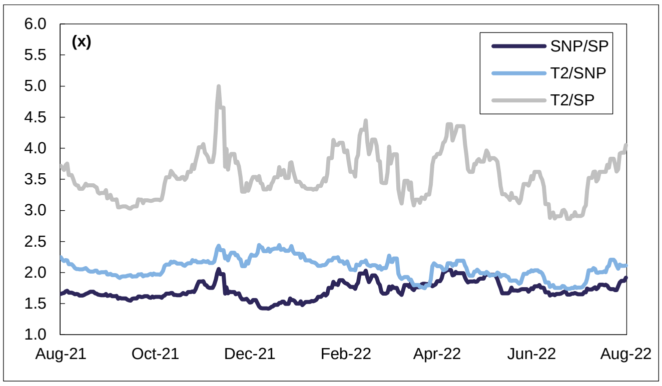
Weekly average EUR spreads were tighter across payment ranks with SP (-2.7bps), SNP (-4.9bps) and Tier 2 -17.1bps). USD average spreads were also wider week-on-week, with SP (-7.2bps), SNP (-2.5bps) and Tier 2 (8.8bps). Based on Bloomberg data, 65% of FIG tranches issued in July and 45% of SSAs tranches 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.

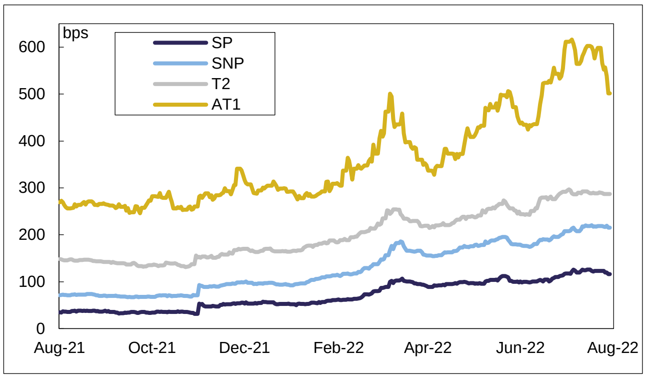
Selected Names

	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	3.5	1.8	45.9	-8.5	16.1	3.3	2.6	136.6	-2.9	76.7	3.4	3.4	206.3	-15.3	71.2
Barclays	1.8	1.2	-5.3	-0.8	-26.9	3.4	2.3	126.0	-1.9	71.6	6.5	4.5	341.5	-3.8	245.1
BBVA	3.7	1.9	65.5	-4.7	28.7	3.3	1.8	53.1	-6.5	21.5	4.2	2.9	179.4	-16.2	88.4
BFCM	3.5	1.5	25.9	-5.9	7.0	6.6	2.5	100.6	-4.9	47.2	4.2	2.7	127.8	-18.4	38.6
BNPP	2.3	1.3	21.2	-4.2	15.1	4.6	2.3	94.5	-3.5	43.5	3.9	2.5	165.4	-17.9	65.9
BPCE	3.4	1.6	31.2	-7.7	-1.3	5.0	2.4	101.9	-4.1	34.8	6.9	3.2	147.9	-17.6	65.9
Credit Ag.	3.9	1.4	11.0	-1.6	-9.6	5.3	2.3	93.2	-5.3	42.6	3.5	3.0	160.9	-16.3	61.7
Credit Sui.	5.2	3.9	247.5	-1.0	147.4	4.7	3.9	246.7	15.1	162.5					
Danske	2.5	1.6	47.9	-2.6	21.4	3.5	2.6	137.8	-2.4	77.6	6.9	3.8	254.4	-13.8	157.7
Deutsche	1.9	1.6	46.4	1.0	22.6	4.2	3.5	209.8	-0.1	121.2	3.4	4.0	268.5	-5.5	86.9
DNB	3.5	1.7	53.5	-4.8	0.4	6.4	2.5	103.4	-3.0	53.2	5.3	3.4	252.5	8.4	199.8
HSBC	5.0	1.8	38.2	-7.4	8.8	3.9	2.3	101.2	-8.8	50.6	4.1	2.3	95.6	-14.3	43.2
ING	1.3	3.6	237.4	11.5	74.9	4.8	2.3	90.3	-2.9	46.0	6.5	3.4	214.7	-10.5	140.4
Intesa	3.7	2.1	95.2	-2.1	65.4	3.1	3.0	171.7	-2.6	102.9	3.7	3.6	222.8	0.5	109.4
Lloyds	2.4	1.3	10.2	-4.1	6.5	2.2	1.9	80.4	-3.8	56.0	5.6	4.3	324.5	-2.3	278.2
Nordea	4.2	1.6	27.7	-7.1	21.1	6.2	2.4	83.3	-3.9	33.8	7.9	3.3			40.9
Rabobank	3.6	1.1	-12.9	-6.7	-16.7	4.9	2.2	72.3	-5.4	31.0	6.9	3.4	219.3	-8.4	123.3
RBS	2.6	2.9	153.5	-5.0	120.4	4.9	2.2	72.3	-5.4	31.0	6.9	3.4	219.3	-8.4	123.3
Santander	3.2	1.8	56.7	-4.7	33.4	4.5	2.3	104.5	-7.3	51.8	4.1	2.7	131.0	-19.0	44.0
San UK	2.6	1.3	10.0	-1.5	10.3	1.7	1.6	76.7	-2.0	46.9	4.1	2.7	131.0	-19.0	44.0
SocGen	4.6	1.8	45.1	-8.0	9.4	5.2	2.5	113.8	-6.9	58.5	6.4	3.8	248.9	-18.7	144.9
StanChart	4.2	1.9	56.5	-6.0	25.7	4.9	2.6	127.3	-3.7	78.2	5.6	3.7	242.9	-15.8	130.6
Swedbank	4.2	1.8	46.8	-7.0	15.5	4.5	2.3	97.5	-6.9	41.0	4.3	2.7	200.9	-16.4	149.8
UBS	3.9	1.8	49.5	-8.3	31.0	3.9	2.2	93.8	-2.7	32.2	3.3	4.5	305.9	11.7	234.7
UniCredit	3.8	3.1	188.5	-2.2	126.0	4.0	3.8	237.2	-2.3	147.6	6.3	5.9	455.7	-14.1	279.8

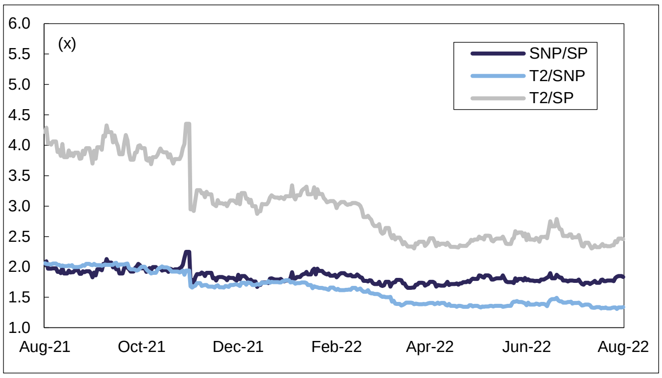
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative 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	1.7					4.6	5.0	245.7	-1.6	105.9	5.4	5.7	311.4	-0.9	135.2
BFCM	3.5	1.5	25.9	-5.9	7.0	4.6	5.0	245.7	-1.6	105.9	5.4	5.7	311.4	-0.9	135.2
BNPP	2.3	1.3	21.2	-4.2	15.1	4.8	4.9	227.6	-1.2	116.5	4.0	4.8	226.4	-2.9	97.5
BPCE	3.4	1.6	31.2	-7.7	-1.3	4.7	5.0	233.4	-1.6	94.0	2.8	5.4	242.4	2.4	121.5
Credit Ag.	3.9	1.4	11.0	-1.6	-9.6	3.8	4.5	190.2	-5.1	107.9	7.3	5.3	276.6	-1.9	125.5
Credit Sui.	2.2	4.4	144.0	-5.2	59.1	3.3	5.7	299.7	3.3	188.2	1.0	5.7	220.4	3.1	106.4
Danske	2.5	1.6	47.9	-2.6	21.4	2.5	5.2	212.4	-1.1	78.7	1.0	5.7	220.4	3.1	106.4
Deutsche	1.9	1.6	46.4	1.0	22.6	3.2	5.6	288.0	-18.5	149.9	7.5	7.5	491.3	-34.2	271.5
HSBC	5.0	1.8	38.2	-7.4	8.8	3.6	4.8	214.7	-1.1	104.6	8.6	5.4	277.6	-3.6	73.7
ING	1.3	3.6	237.4	11.5	74.9	4.1	4.6	194.1	-7.9	70.5	2.5	5.3	199.2	-8.3	113.8
Intesa	3.7	2.1	95.2	-2.1	65.4	4.1	4.6	194.1	-7.9	70.5	3.1	7.7	493.2	-23.2	234.7
Lloyds	2.6					2.9	4.6	175.8	-4.7	91.0	8.1	5.1	231.9	-2.9	93.9
Nordea	4.2	1.6	27.7	-7.1	21.1	2.5	3.9	181.9	-2.2	77.5	7.2	5.3			-13.7
Rabobank	3.6	1.1	-12.9	-6.7	-16.7	4.1	4.4	172.2	-3.9	73.6	3.6	4.6	190.3	-2.8	76.2
RBS	2.6	2.9	153.5	-5.0	120.4	4.1	4.4	172.2	-3.9	73.6	3.6	4.6	190.3	-2.8	76.2
Santander	3.2	1.8	56.7	-4.7	33.4	4.8	5.0	241.0	-7.5	116.5	7.1	5.8	331.3	-3.3	156.6
San UK	1.7				9.5	4.2	5.1	234.0	0.0	129.0	2.8			0.0	42.9
SocGen	4.6	1.8	45.1	-8.0	9.4	4.1	5.2	253.8	-3.1	119.1	3.6	5.0	238.4	0.0	94.1
StanChart	4.2	1.9	56.5	-6.0	25.7	3.0	4.8	195.7	-1.2	104.1	8.4	5.8	335.7	-3.3	106.8
UBS	2.4	3.9	85.5	4.0	51.8	4.3	4.6	209.0	-0.5	93.2	8.4	5.8	335.7	-3.3	106.8
UniCredit	3.8	3.1	188.5	-2.2	126.0	3.7	5.7	240.4	21.0	120.1	7.4	8.7	611.7	-15.8	318.4

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.

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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.
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