European Banks – Credit Update

- 4Q22 earnings results of European banks have so far mostly been positive, exceeding consensus analyst views. The profit outlook remains firm in light of the constructive rates environment
- Primary markets largely muted for FIGs as the earnings season continued, with a few SSA deals continuing to supply the market with Sterling bonds
- Secondary market spreads tightened in EUR and USD as market optimism about the inflation and rate outlook improved

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Western European banks – 4Q22 results

(⇔) **UBS's** consolidated net profit for FY22 rose 2.3% yoy to USD7.6bn, beating market expectation by USD300m despite a drop in the performance of financial market-related activities. The overall outlook for 2023 was uncertain as bank senior management cited lower client confidence, lower asset prices and slowing borrowing demand. Total revenues were down 2.3% for the year, which was offset by good cost control resulting in lower operating expenses of USD24.9bn (-4.3% yoy). The annual cost-to-income ratio was 72.1%, within its 70-73% guidance. Investment banking activities struggled to reach the same income and profitability levels of the previous year with FY22 PBT down to USD1.9bn from USD2.6bn. Notably, global banking, which houses advisory and capital markets activities, saw revenues decline 52%, while global markets revenues were down 11% due to derivatives linked services. Global wealth management PBT reached USD4.97bn (+4% yoy), in part due to a very strong NII increase of 35% that was due to an increase in deposit revenues, as rising interest rates led to higher deposit margins. UBS also registered an USD23.3bn net inflow of fee generating assets, with positive inflows from all regions. Bottom-line results also benefitted from a lower than expected effective tax rate in 4Q22. This helped lower the overall 2022 tax burden by 90bps compared to 2021. UBS's key capital measures declined slightly with CET1 down to 14.2% (-20bps qoq) but remained high overall, above the management guidance of 13%.

(↑) **Deutsche Bank** extends its streak of consecutive profitable quarters to 10, with a 4Q22 result of EUR1.8bn, twice what analysts had expected and significantly above the previous year's figure of EUR145m. Attributable net income to shareholders for 2022 was thus EUR5bn (EUR800m above forecasts) and the highest figure since 2007. This raised Deutsche's return on tangible equity (RoTE) rate close to double digits with a figure of 9.4%. However, adjusting for one-off items such as gains from deferred tax assets, RoTE comes down to a more familiar 6.7% for DB, behind its own target of 8%. The bank is also still trailing its cost-reduction targets, prompting management not to rule out further job cuts in order to lower costs. However, this is proving more difficult than expected. Previously announced targets such as headcount reductions of 18,000 or a reduction of the cost base to EUR17bn have been abandoned given the current operating environment. The latter was given up in favour of focusing on the cost-to-income ratio. At FY22, DB managed to lower this to 75% from 85% one year prior. By 2025, they aim to be below 62.5%, which we deem ambitious given the current rate of progress. Income from investment banking activities was lower than expected as income fell to EUR1.7bn in the quarter (-12% yoy). Big declines were registered among origination and advisory (-71% yoy) similar to what U.S. peers reported last month, while FICC trading was up 27% at EUR1.5bn but behind expectations.

Nordic banks – 4Q22 results

(↑) **SEB** Swedish bank SEB reported better than expected profitability metrics on the back of strong net interest and trading income. Quarterly net income of SEK7.4bn was above analysts' consensus forecast (SEK7.1bn) bringing the annual total to SEK27bn (+6% yoy). NII was up 28% yoy to SEK33.4bn, mainly from improvements among its corporate clients. Trading income provided an upside surprise, reaching SEK3.5bn (+131% yoy) further supporting bottom-line results. The CET1 ratio amounted to 19%, with a buffer of 470bps above regulatory requirements. This provides comfort that any potential weakening of the bank's borrower base from an eroding housing market and weaker economic outlook should be adequately covered. Additionally, SEB increased its loan-loss provisions (LLP) by 70% yoy to cover potential downside risks over the near term. The bank's 2022-2024 business plan and targets remain largely in place. However, the 2023 cost target of SEK26.5-27bn is a noticeable step up from 2022 levels of SEK25bn.

(⇔) **Swedbank** Net income for the most recent quarter was better than expected at SEK6.8bn up from SEK4.8bn one year ago. The bank stated that it took advantage of the better rates environment but also expects rising credit risks to gradually filter through. The net interest income (NII) revenue contribution from mortgages was up SEK11bn from SEK6.7bn and about 15% above consensus estimate amounts. Credit impairments of SEK679m mark a stark contrast to the SEK67m in reversals booked last year. These were slightly higher than expected, pointing towards a more mixed outlook by the lender than anticipated.

(⇔) **Danske** Denmark's largest bank suffered a DKK5.1bn loss (~EUR690m) in 2022. The result was primarily driven by provisions for Danske's Estonia matter, whereby the bank pleaded guilty to a criminal charge of conspiracy to commit bank fraud. The bank thereby concludes the matter with U.S. and Danish authorities and adjusted for these provisions (DKK13.8bn) as well as goodwill impairment charges (DKK1.6bn) the net income result would have been DKK10.3bn (~EUR1.4bn). Danske is looking to move past the matter in 2023 and expects a strong rebound in earnings, with a net income target range of DKK15-17bn. If Danske is able to meet its cost target of DKK25-25.5bn this would represent a net saving of roughly DKK1-1.5bn against 2022 levels. At a normalised level, Danske still operates an above-average cost-to-income ratio above 60% and is looking to push this down into the mid-50% range.

(↑) **Nordea** Finland's banking group reported better than expected net income of EUR1.26bn in 4Q22 (+24% yoy) bringing the annual total to EUR4.2bn (+9.5% yoy). Central bank rate hikes contributed to Nordea's strong NII growth of 31% to EUR1.6bn during the quarter, some EUR100m above estimates. This helped the bank achieve a return on equity (RoE) of 13.5% for 2022 (+230bps yoy) and guide for >13% in 2023, in line with the bank's 2025 target of 13%. Nordea continued to win market shares across the region, with mortgage lending up 3%. However, higher economic uncertainty and rising inflation also dampen the outlook somewhat. Nordea also grew its corporate lending by 9%, while Assets under management (AuM) were down 13% yoy due to some weakness earlier in the year. On a quarterly basis AuM were up 5% with continued positive flows from internal channels. Senior management stated that in 2023 the lender will remain focused on strict cost control and growing revenues faster than its rising cost base.

Southern European banks – 4Q22 results

(↑) **UniCredit** Excluding Russian operations, the bank continued to report strong results, exceeding analysts' expectations. Quarterly stated net income of EUR2.46bn was more than double average forecasts, and this time last year UniCredit reported a net loss of EUR0.9bn. The stated net income figure is adjusted for several items, including deferred tax assets (DTA), which carried a tax credit of EUR852m this quarter from past losses. Excluding DTAs and other items, net income was EUR1.5bn in 4Q22. The uplift to profitability from these items helped offset rising quarterly loan loss provisions (LLP) of EUR631m. Nevertheless, UniCredit's annual LLPs were down considerably to just EUR1bn (-36.6% yoy) as the group adjusted its cost of risk (CoR) measure down to 23bps from 37bps. Underlying performance of the group was solid with 2022 revenues of EUR19bn (+10% yoy) raised by higher NII (+16% yoy) and trading income (+37% yoy). RoTE reached 12.2% during the quarter, and brought the annual figure to 11.7%, comfortably within the 10% guide by 2024. UniCredit management stated that Russia cross-border exposure has been well managed and reduced overall by 66% to some EUR4.1bn and stated that it no longer views it as a source of substantial volatility. Going forward, financial reporting will include Russia again. CET1 was 16.0% (+97bps yoy), which should allow UniCredit to pursue a EUR5.25bn dividend payout. UniCredit management plan total payouts to shareholder of EUR16bn by 2024, which is expected to lower the group's CET1 ratio to 14.9%, still comfortably above its own target range of 12.5-13.0%

(↑) **Intesa** Italy's largest bank joined other major European lenders in reporting strong earnings as FY22 net income reached EUR4.4bn (+4% yoy). Despite setting a 2023 net income target of EUR5.5bn, market analysts deemed the target amount to be overly prudent and unambitious given the prevailing rates environment. In 4Q22, Intesa reduced its stock of risk-weighted assets (RWA) by EUR29bn to EUR295bn in order to offset a potential drop in its CET1 ratio following ECB comments about the adequacy of its risk models in relation to its treatment of large corporate loan exposures. In reducing its RWAs via asset disposals and securitisations, the bank lifted CET1 to 13.5% from 12.4% the previous quarter. Intesa reported its best ever operating income results, reaching EUR21.5bn in 2022 (+3.3% yoy) as NII was up 20% yoy, more than offsetting small declines in its net fee and commission income (-6.4% yoy). LLP's were up 12.5% to EUR3.1bn, including EUR1.3bn relating to Russia/Ukraine exposures that account for less than 1% of the group's customer loans. Overall, Intesa operates on a solid cost-to-income ratio of 50.9% that it managed to improve by -190bps yoy, despite the inflationary environment and investments into IT. Asset quality continued to improve in pursuit of the bank's 'Zero-NPL Bank' strategy. The NPL ratio was 1.9% at 4Q22, down from 2.4% one year prior, helped by the lowest ever inflow of NPLs. This represents a nominal de-risking of the loan book by EUR4.6bn.

(⇔) **Banco Santander** Santander generated record net income results of EUR9.6bn, up 18% yoy (+EUR200m over forecasts) on the back of higher lending volumes and rates. Good business helped offset higher provisions. Underlying RoTE was 13.37% in 2022 (FY21: 12.73%) and the bank set its 2023 RoTE at 15% as it expects to continue leveraging the benign rates environment. The regional contribution to the group's bottom line profitability is spread broadly evenly while underlying attributable profit growth presented a more mixed picture. Growth was strongest in Europe (+38% yoy) and South America (+1%) while North America declined (-14%). Additionally, Santander's digital consumer bank, which has been growing in recent years, now contributes 11% to the group's underlying profit and saw its bottom line increase by 12% yoy. Santander had to contest with a growing cost base that rose to EUR23.9bn in FY22 (+11.6% yoy) and higher LLPs. The latter doubled during the most recent quarter to EUR3bn, bringing the annual total to EUR10.5bn (+31.2%). The steep increase was primarily linked to spikes in the U.S. and Brazil. Brazil represents a key market for Santander as it accounts for 25% of overall group revenues. Santander is the largest foreign bank in the market but experienced strong increases in LLPs (+7.4% qoq) as it adopted a more selective lending approach in the region. Additionally, the sizeable exposure to Brazilian retailer Americanas SA that has fallen into bankruptcy protection is thought to have resulted in some EUR200m in additional provisions alone. The group-wide cost of risk measure was up to 99bps from 86bps in 3Q22. For 2023, Santander expects this to rise even further to 120bps indicating a heightened risk environment and ongoing elevated provisioning costs. Santander's home market Spain generates roughly 16%

(EUR1.56bn) of the group's underlying net profits. A strong quarterly result contributed to 2022 underlying attributable net profit growth of 149%. A well-managed cost base (-1% yoy) and higher NII income from strong lending demand and lower provisions were key drivers. Santander's capital ratios are lower than those of peers, with the CET1 clocking in at 12.04% (+8bps yoy). 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 lower ratios. Current CET1 is just above its 11-12% internal target range but still holds solid buffers above regulatory requirements (+297bps).

(↑) BBVA's results came in slightly ahead of analyst expectations, with net income of EUR6.4bn up 38% yoy. Strong lending growth, particularly in its international footprint, drove that development. BBVA Mexico has grown to become an integral part of the overall business despite only accounting for 22% of the group's RWA. In 2022, it generated 57% group net income, followed by Spain (22.8%), the remainder of the South America business (10%) and Turkey (6.9%). Mexico's net attributable profit of EUR4.18bn was up 64% on the back of strong lending volumes (+28% yoy) and rising NII (+26.8% yoy). This far outweighed the 18% rise in the cost base of the Mexican subsidiary. However, these strong results also pose the risk of income dependence that should rise over the near term as BBVA management expects double-digit loan growth in Mexico for 2023. The emerging markets footprint exposes the group to heightened inflation risks, most prominently in Turkey. Consequently, BBVA has started to implement hyperinflation accounting for its Turkish subsidiary (Garanti Bank) since 1H22 where profits rose 11% despite a reduction in NII of 9%. Although lending in the Turkish banking system increased by 54% yoy, this represents a moderation in pace compared to previous months.
Ultimately, exposure to markets such as Mexico or Turkey afford BBVA with better loan growth, higher margins and better operating efficiency compared to developed markets. Similar to main peer Santander, BBVA saw robust growth in its domestic market with profits up 8.4% yoy. Bottom-line results in Spain could have been even stronger as lower operating expenses (-4.1% yoy) were offset by a sizeable one-off cost item of EUR200m. The group's capital position is sound with CET1 at 12.6% (-14bps yoy) but we deem it less strained than that Santander as BBVA is not subject to G-SIB capital requirements unlike its rival.

(⇔) CaixaBank Spain's largest domestic bank reported net income growth of 29.7% yoy to EUR3.15bn when adjusting for extraordinary items related to the merger with Bankia. RoTE for 2022 was 9.8% (2021: 7.6%) excluding M&A effects. Operating income of EUR11.6bn (+5.5% yoy) comprises mostly of net interest income (EUR6.9bn) that grew by 7.7% yoy, less than some peers. Net fee and commission income of EUR5bn was up 3.3% while trading income saw a 47% increase, albeit from a low nominal base (EUR338m). NII guidance for 2023 of EUR9bn may appear bullish but is backed by sufficient excess liquidity and a net floating-rate asset book. So, despite good top-line figures, Caixa management struck a cautious tone with recurring costs expected to rise to EUR6.4bn in 2023 from EUR6bn in 2022. Asset quality improved again with the NPL ratio at 2.7% in 4Q22 and coverage at 74%, underscoring prudent underwriting standards and delinquency management. Cost of risk remained relatively stable throughout the year (4Q22: 25bps) and is expected to approach 40bps by end-2023, adding to cost pressures. Like all Spanish banks, Caixa is subject to a temporary bank levy that will be charged for the next two years. It is not clear whether Caixa will join other domestic lenders in a legal challenge as it is currently reported. However any favourable outcome for the banking sector, if any, from such a challenge would not be expected to benefit the banks for several years to come.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR5.5bn over the course of last week, below market expectations of EUR10.5bn-15.5bn. FIG supply of EUR5.7bn was also below the weekly forecast amount of EUR7bn-12bn. The total 2022 year-to-date FIG volume of EUR119.5bn is 33.8% ahead of last year's issuance volume. SSA volumes, are also ahead of last year's level, up 2.7% at EUR124bn. For the current week, survey data suggest SSA volumes will range between EUR15.5bn-20.5bn and FIGs are expected to issue EUR9bn-13.35bn.

SSA issuers were keen to access markets ahead of a string of central bank decisions. **KfW** was in the market twice with AUD and GBP. The Sterling deal was one of the longer SSA GBP trades on offer this year and comes in addition to KfW's Sterling tap earlier in the year. Total funding in the currency thus was reached GBP2.15bn. More supply in the currency came from **ADB** with a short dated 3Y GBP600m deal as well as **Bpifrance's** GBP250m transaction for the same tenor. 2023 Sterling supply from SSAs thus reached GBP12.85bn, which includes a large Gilts contribution (GBP6bn) from the UK DMO. Supply is already four times that of 4Q22. Recent Gilt spread tightening made it an attractive proposition for issuers, which may in part explain somewhat muted book orders.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
ADB	Sr. Unsecured	GBP600m	3Y	G + 74	G + 74	>GBP750m
IFC	Sr. Unsecured (Tap)	AUD400m	Feb-2026	ASW + 20	ASW + 20	n.a.
Land Hessen	Sr. Unsecured	EUR2bn	10Y	MS - 1	MS + 1	>EUR4.6bn
Land Berlin	Sr. Unsecured (Sustainable)	EUR750m	10Y	MS - 2	MS + 1	>EUR3.6bn
NIB	Sr. Unsecured	NZD700m	7Y	MS + 44	MS + 44	n.a.
KfW	Sr. Unsecured	AUD550m	6Y	ASW + 45	ASW + 45	n.a.
KfW	Sr. Unsecured	GBP500m	Jul-2027	G + 57	G + 57	>GBP850m
Bpifrance	Sr. Unsecured	GBP250m	3Y	G + 94	G + 94	>GBP405m
FIG (Senior)						
SEB	SNP	EUR1bn	5Y	MS + 85	MS + 110	>EUR1.85bn
ANZ Bank	SNP	JPY10.6bn	6NC5	TONA + 125	TONA + 120/125	n.a.
BayernLB	SNP (Green)	EUR500m	6Y	MS + 95	MS + 120	>EUR1.16bn
Nordea	SNP	EUR1bn	3NC2	MS + 48	MS + 75	>EUR3bn
FIG (Subordinated)						
Commerzbank	Tier 2	SGD300m	10.25NC5.25	5.702%	6.125%	>SGD2bn
ANZ Bank	Tier 2 (SDG)	EUR1bn	10NC5	MS + 215	MS + 255	>EUR2.95bn
Alpha Bank	AT1	EUR400m	PNC5.5	12.50%	11.875%	>EUR1.65bn

Source BondRadar, Bloomberg.

FIGs are currently in the middle of their reporting season. Nevertheless, a handful of transactions made their way to market such as **SEB's** SNP bond for EUR1bn. SEB reported results early and on the back of good fundamentals placed its 5Y transaction at a spread of MS+85bps (-25bps from IPT), helped by strong demand at 1.85x deal size. SEB paid a new issue premium (NIP) of some 15bps. **BayernLB** placed the only bond with a green label. The Bavarian issuer raised EUR500m with a green SNP, garnering solid demand of almost EUR1.2bn. Spread tightening of 25bps contributed to a low NIP of 5-10bps. Perhaps somewhat unexpected several issuers launched subordinated transactions. Two Tier 2 bonds and one AT1 were brought to market to bolster MREL/TLAC ratios. **Alpha Bank** that launched the most junior deal received sufficient demand to eventually upsize deal-size from EUR300m to EUR400m. Recent positive credit rating action by Fitch and the high yield on offer will have supported demand in the transaction. Australian **ANZ Bank** sought to bolster its TLAC ratio, launching a sizeable EUR1bn Tier 2 bond, which tightened significantly on the back of a subscription ratio of 2.95x.

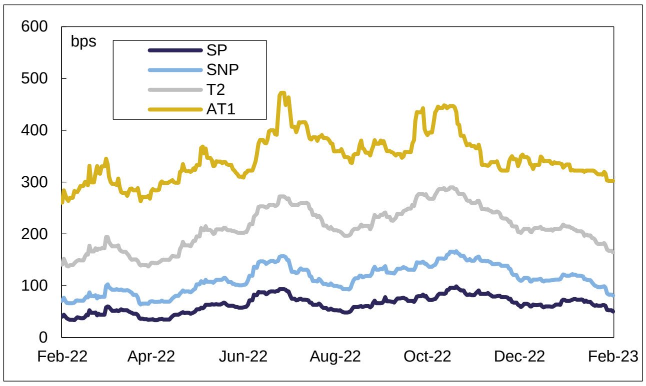
Secondary market spreads were mostly tighter for EUR and USD. CDS indices on European senior (84bps) and subordinated financials (147bps) as measured by iTraxx benchmarks also priced -5bps and -10bps tighter against the previous week's levels.

Market conditions remained highly conducive following monetary policy decisions by the ECB, BoE and Fed. Euro area govvies made big gains, as the ECB raised rates by 50bps last week, stating that it intends to hike by a further 50bps in March, but also judged the inflation outlook to be 'more balanced'. Gilts also rallied as the BoE raised rates by a further 50bps but suggested that the end of the tightening cycle might be near. Meanwhile, the Fed also hiked rates by 25bps, with the slower pace of tightening reflecting the recent moderation in inflation.

Weekly average EUR spreads were tighter with SP (-8.7bps), SNP (-15.3bps) and Tier 2 (-12.5bps). USD average spreads were also tighter throughout the week, with SP (-10.2bps), SNP (-19.1bps) and Tier 2 (-19.8bps). Based on Bloomberg data, 100% of FIG tranches SSA tranches issued in February quoted tighter than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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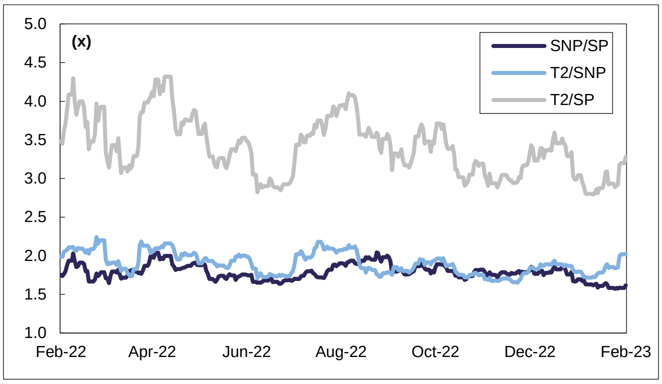


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

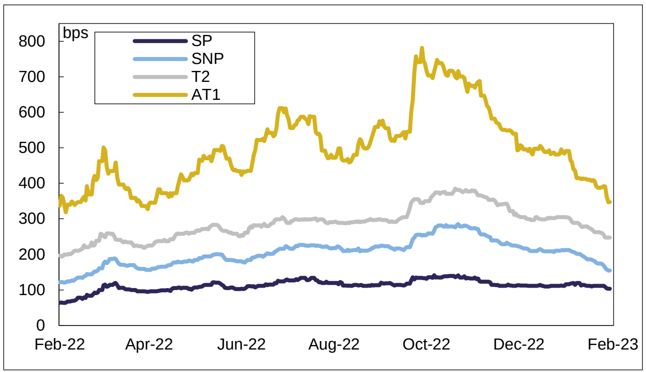
Selected Names

	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	3.3	3.3	20.3	-11.7	-24.1	3.3	4.0	94.6	-26.2	-63.7	2.8	4.2	111.0	-11.0	-47.2
Barclays	1.3	3.4	-12.7	-2.8	9.8	3.0	4.0	94.1	-27.2	-61.1	3.6	7.4	201.3	-13.7	-378.4
BBVA	3.9	3.5	45.8	-11.1	-17.2	3.2	3.5	19.5	-9.8	-13.4	3.6	4.3	86.1	-19.6	-76.9
BFCM	4.2	3.5	41.7	-8.9	-7.4	6.1	3.8	92.3	-17.6	-15.1	3.9	4.4	152.9	-10.2	-3.4
BNPP	2.9	3.3	42.3	-7.1	-0.7	4.5	3.8	84.2	-18.4	-31.6	3.6	4.1	106.9	-11.4	-16.5
BPCE	4.0	3.4	43.3	-8.9	-8.2	4.7	3.8	92.4	-16.3	-23.9	8.1	5.0	152.4	-11.5	-17.0
Credit Ag.	3.6	3.5	43.2	-8.0	-8.7	4.7	3.7	75.1	-15.9	-24.8	2.8	4.0	88.7	-8.0	-17.7
Credit Sui.	4.7	4.4	130.0	-16.8	-54.0	4.2	6.7	352.0	-21.7	-142.2					
Danske	2.5	3.8	62.9	-12.3	-16.4	2.7	4.2	90.1	-15.7	-28.2	2.8	4.8	154.9	-12.9	-83.9
Deutsche	3.3	3.6	53.7	-12.3	-32.1	3.8	4.2	108.2	-23.2	-68.3	2.9	4.8	163.6	-8.2	-85.0
DNB	3.1	3.5	49.1	-7.1	-6.9	5.9	3.7	77.9	-11.5	-16.9	3.4	4.4	45.2	-69.1	-336.1
HSBC	4.5	3.3	18.9	-6.6	-8.0	3.4	3.6	62.3	-17.1	-42.8	4.1	4.1	115.2	-13.6	-30.2
ING	2.6	5.9	268.7	-2.2	-25.8	4.9	3.9	69.6	-13.5	-27.5	5.4	4.9	164.2	-16.8	-51.3
Intesa	3.6	3.7	64.6	-16.0	-14.3	2.9	4.0	88.6	-20.2	-36.5	3.6	4.4	132.0	0.8	-4.5
Lloyds	1.9	3.4	11.3	-8.1	-8.6	3.2	3.7	41.2	-16.6	-39.6	0.6	4.4	94.2	-24.2	-373.3
Nordea	3.7	3.1	2.6	-5.5	-5.5	5.7	3.6	52.0	-4.7	-6.8	6.4	4.6			
Rabobank	3.0	3.1	-3.3	-4.6	4.6	4.7	3.6	70.7	-13.4	-23.6	4.6	4.6	157.6	-9.7	-22.2
RBS	2.8	4.4	129.1	-20.4	-33.9	4.7	3.6	70.7	-13.4	-23.6	4.6	4.6	157.6	-9.7	-22.2
Santander	2.8	3.6	47.7	-10.3	-15.5	4.0	3.6	66.0	-12.5	-20.5	3.7	4.0	94.3	-12.5	-9.3
San UK	2.0	3.4	5.5	-3.6	-0.8	2.6	4.1	122.2	-24.3	-69.6	3.7	4.0	94.3	-12.5	-9.3
SocGen	4.3	3.5	54.4	-9.3	-13.4	4.7	3.9	92.9	-16.4	-36.2	4.4	4.4	180.7	-13.3	-63.6
StanChart	3.7	3.8	72.0	-5.9	-7.5	4.1	3.9	85.5	-23.2	-61.2	5.1	4.9	169.8	-27.0	-117.1
Swedbank	3.1	3.5	35.2	-7.8	-8.7	4.2	3.9	92.1	-10.6	-18.1	4.1	4.9	189.7	-10.7	-40.9
UBS	3.3	3.5	50.5	-6.1	-16.8	3.5	3.7	62.9	-19.7	-43.4	2.7	5.5	60.5	-55.0	-128.9
UniCredit	3.4	4.0	96.6	-27.3	-39.7	3.3	4.3	123.8	-42.6	-72.2	4.6	5.9	234.8	-50.7	-120.9

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)



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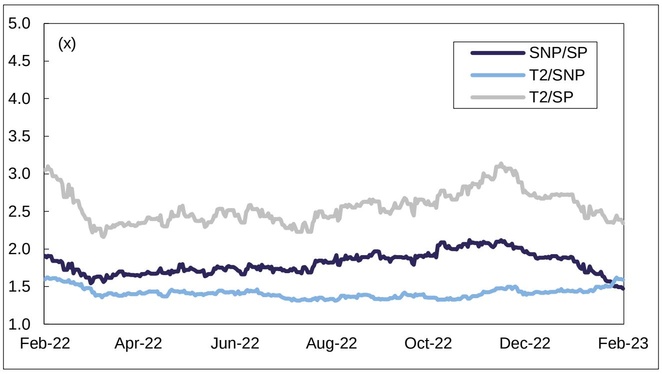

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Barclays	1.2					3.9	5.5	170.6	-14.6	-66.6	4.7	5.8	220.5	-16.8	-65.5
BFCM	4.2	3.5	41.7	-8.9	-7.4	3.1	5.6	159.9	-16.2	-41.4	4.7	5.8	220.5	-16.8	-65.5
BNPP	2.9	3.3	42.3	-7.1	-0.7	4.5	5.3	150.4	-16.1	-54.0	3.6	5.6	149.7	-13.6	-50.2
BPCE	4.0	3.4	43.3	-8.9	-8.2	4.3	5.6	171.3	-16.8	-44.7	2.8	6.2	283.6	-20.3	-75.6
Credit Ag.	3.6	3.5	43.2	-8.0	-8.7	2.9	5.2	110.1	-17.9	-41.9	6.9	5.6	223.2	-17.5	-72.0
Credit Sui.	1.9	6.7	240.2	-26.6	-96.7	3.4	7.5	365.8	-22.7	-116.2	2.4	7.5	315.9	-29.6	-240.3
Danske	2.5	3.8	62.9	-12.3	-16.4	2.5	5.9	152.9	-23.9	-71.8	2.4	7.5	315.9	-29.6	-240.3
Deutsche	3.3	3.6	53.7	-12.3	-32.1	2.7	5.8	180.1	-21.6	-95.1	7.2	7.0	350.7	-20.8	-128.2
HSBC	4.5	3.3	18.9	-6.6	-8.0	3.1	5.4	139.0	-20.5	-66.7	8.8	5.8	238.3	-11.5	-63.9
ING	2.6	5.9	268.7	-2.2	-25.8	3.7	5.3	141.5	-13.7	-41.8	3.7	9.9	360.5	-209.3	-541.1
Intesa	3.6	3.7	64.6	-16.0	-14.3	6.8	6.7	327.7	-39.7	-108.4	5.0	7.4	388.1	-32.5	-109.0
Lloyds	2.1				0.0	2.9	5.3	140.7	-12.8	-47.4	6.8	5.9	252.2	-12.6	-66.5
Nordea	3.7	3.1	2.6	-5.5	-5.5	3.7	5.1	130.2	-13.1	-18.3	6.9	5.5			
Rabobank	3.0	3.1	-3.3	-4.6	4.6	3.8	5.3	126.5	-14.0	-33.4	7.6	5.4	170.4	-7.8	-16.2
RBS	2.8	4.4	129.1	-20.4	-33.9	3.8	5.3	126.5	-14.0	-33.4	7.6	5.4	170.4	-7.8	-16.2
Santander	2.8	3.6	47.7	-10.3	-15.5	3.9	5.4	155.5	-15.8	-48.9	6.7	5.9	247.8	-14.4	-49.4
San UK	1.2	5.2	22.0	-1.1	-18.9	4.1	5.7	169.8	-17.7	-69.1	2.4				
SocGen	4.3	3.5	54.4	-9.3	-13.4	3.8	5.7	160.6	-19.4	-69.0	7.0	6.3	281.9	-14.6	-56.3
StanChart	3.7	3.8	72.0	-5.9	-7.5	2.5	5.5	123.2	-21.4	-79.8	8.9	6.0	258.4	-20.6	-44.0
UBS	1.9	5.2	44.2	-15.6	-28.8	3.5	5.3	146.4	-14.3	-41.8	8.9	6.0	258.4	-20.6	-44.0
UniCredit	1.9	5.2	44.2	-15.6	-28.8	2.8					4.8	7.7	398.3	-53.8	-125.2

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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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.

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