Daiwa Capital Markets

European Banks – Credit Update

- Further 4Q22 earnings results of European banks continue to be mostly positive, with Credit Suisse the big outlier, underperforming relative to already low expectations.
- Primary market activity was busy for SSAs and FIGs. DCME supported two SSA transactions last week while FIGs continue to take advantage of benign conditions to move into riskier sub-debt.
- Secondary market spreads widened somewhat, particularly in EUR while USD held relatively firm. The week ahead brings a number of key UK economic data releases and more bank earnings.

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Western European banks – 4Q22 results

(↓) **Credit Suisse** reported another quarterly net loss. In 4Q22 it amounted to CHF1.39bn, more than the market consensus, bringing the annual total to CHF7.29bn. This is the largest annual loss reported by the Swiss bank since the financial crisis and adds to the CHF1.65bn net loss reported last year. CS senior management also announced further substantial losses in 2023 due to elevated restructuring costs and strained revenue streams. A return to profitability isn't expected before 2025. The poor bottom-line performance in 4Q22 was a function of a significant revenue slump (-33% yoy) and higher than expected group net deposit and asset outflows (-CHF111bn), reducing group AuM to CHF1.3tr. A key concern is the degree of asset outflows, which in wealth management alone reached CHF92.7bn, far exceeding analyst expectations of CHF62bn. Lower volumes of client funds and the prospect of further declines will likely lead to a reduction of net interest income and recurring fee and commission income, putting additional pressure on top-line revenue performance.

FY22 adjusted revenues of CHF15.1bn (-33% yoy) were outweighed by operating expenses of CHF16.2bn (+1% yoy) resulting in a reported cost-to-income ratio of 95%. Adjusted PbT across all business lines was poor with Wealth Management registering CHF249m (-86% yoy), the Investment Bank –CHF2.7bn (FY21: CHF3.2bn), Asset Management CHF171m (-64% yoy) and the Swiss Bank reporting CHF1.4bn (-19% yoy). Investment banking activities, which senior management are attempting to move away from, performed particularly poorly registering a 60% decline in revenues in the quarter, including an 84% drop in FICC income and 96% decline in equities. The group's CET1 ratio was one of the few positive developments as it rose to 14.1% in 4Q22 (+150bps qoq) mainly due to a CHF4bn capital raise and lower RWAs. Liquidity as measured by the LCR was also solid at 144%. From a credit perspective, the weak underlying performance of the business and potential further downside surprises could hamper restructuring efforts, which in turn may lead to further credit rating downgrades in the future. In the coming quarters the focus will be on management's ability to revive business flows and execute asset disposals while managing the group cost base.

(↑) **BNP Paribas** Europe's largest bank closed 2022 on a high, reporting annual net income of EUR10.2bn (+7.5% yoy) despite 4Q22 profits of EUR2.1bn falling behind last year's figures (-6.7% yoy). The latter reflects a significant rise in the cost of risk measure (+51.6% yoy), paired with rising operating expenses of almost EUR8.5bn (+6.8% yoy). Operating costs are somewhat inflated however, as they include some exceptional restructuring items as well as investments into IT systems. Return on tangible equity (RoTE) reached 10.2% and BNP raised its 2025 target to 12% from 11% on the expectation of better average annual revenue growth. Net income growth of more than 9% is expected between 2022 and 2025, up from a previous 7% forecast, in part thanks to more than EUR2bn in added revenue from interest rate rises. The CIB, that houses BNP's investment banking activities, saw revenues increase 15.7% to EUR16.5bn on the back of strong client activity in global markets (+27% revenues). In particular, FICC and equity & prime services saw their 2022 revenues rise 33% and 19% respectively. Revenues from Commercial & Personal Banking also performed strongly (+9.3% yoy to EUR27.5bn), primarily across the Eurozone, helped by rising interest rates.

French banks are structurally somewhat curtailed by how much they are able to benefit from rising rates compared to their European peers, as fixed-rate loan products are common. Additionally, savings products that determine part of the bank's interest expense are more strictly regulated and adjusted according to a benchmark rate (Livret A). Since 2022, the benchmark was raised three times (+250bps in total) to 3%. However, out of all the major French banks, BNP has the lowest share of regulated savings products as part of their deposit base (~6.5%). BNP's senior management plans to redeploy EUR7.6bn in excess CET1 capital (-110bps) over time to expand existing businesses and pursue select acquisitions. These are thought to result in some EUR3bn of additional revenues by 2025. This is in part financed by the sale of BNP's U.S. retail operations that added 170bps to BNP's CET1 ratio (+EUR11.6bn) and will help fund EUR5bn in planned share buybacks. The group's CET1 ratio stood at 12.3%, well above the regulatory 9.56% minimum and above the bank's own target rate of 12% for its strategic plan ending 2025.

(↑) **Société Générale** France's third largest bank exceeded 4Q22 analyst forecasts for net income that came in at EUR1.16bn. Despite a 35% yoy reduction, profits beat consensus estimates of EUR840m, while loan loss provisions of EUR413m increased fivefold compared to last year. This takes the annual cost of risk to EUR1.6bn or 28bps, more than double last year's level. In recent years, SocGen's performance has been bogged down by restructuring projects as well as the expensive exit from its Russia business that generated a write-off of EUR3bn. The bank will see a change of management at the upcoming annual meeting May, when outgoing CEO Oudea will be replaced by Slawomir Krupa who currently holds the title of Head of Global Banking and Investor Solutions. Underlying performance of the bank was solid as total top-line revenues rose to EUR28bn for the year (+8.8% yoy) with NII (+40% yoy) and trading (16.9% yoy) the main contributors to growth. Although SocGen has a large international presence, it still generates a large portion of its revenues in France (49%) followed by the rest of Europe (32%), Americas (7%), Africa (7%) and Asia (5%). As is the case with other French banks, SocGen's exposure to the Eurozone and in particular the domestic market means that it is somewhat hampered in taking full advantage of rising rates. RoTE for FY22 was only 2.9%, but when adjusting for the Russia write-off and other exceptional items, it clocked in at 9.6%. Bank management reaffirmed 2025 financial targets, which include a cost to income ratio below 62% and an expected RoTE of 10%.

(⇔) **Crédit Agricole** France's second largest bank posted higher than expected profits of EUR1.56bn in 4Q22, coming in ahead of analyst estimates of EUR1.14bn. FY22 net income of EUR7.9bn was down 7% yoy, albeit from an all-time high result in 2021. CA benefitted from an upturn in business activity across divisions but the rise in interest rates also curtailed the performances of its asset management and French retail activities in 2H22. Underlying FY22 revenues were EUR37.6bn (+2.6% yoy) but a rising cost base of EUR23.5bn (+5.5% yoy) and higher cost of risk at EUR2.7bn (+45.9% yoy) ultimately dampened bottom-line results. The observed revenue moderation in retail operations was in part due to restricted asset repricing while the rising costs of French regulated savings products weighed on retail margins. However, we deem the impact manageable as French retail banking only accounts for 11% of underlying group net income. Investment banking activities that are housed within the Large Customer division saw revenues rise 11% yoy, with FICC income up 23% in 4Q22 due to higher customer demand for hedging services and generally higher market volatility. FY22 underlying RoTE was 12.6% (FY21: 13.1%). Cost of risk reached 25bps and remained above 2019 pre-Covid levels of 20bps but in line with the bank's medium-term assumption of 25bps for 2022-2025. Group CET1 of 17.6% was strengthened by 40bps qoq and comfortable above SREP requirements (+870bps buffer). Crédit Agricole confirmed its 2025 targets, including a yearly net income of more than EUR6bn and a RoTE of more than 12%.

(↑) **ABN Amro** 4Q22 net income was EUR354m (-35.8% yoy) comfortably above expectations of EUR105m, bringing the FY22 figure to EUR1.87bn (RoTE of 8.7%). The quarterly result was aided by lower loan loss provisions and operating expenses, which both came in below expectations. Loan impairment charges of just EUR32m in 4Q22 and EUR39m for FY22 means the cost of risk measure was just 3bps and well below the through-the-cycle expectation of 20bps. More favourable forecasts for economic growth, inflation and house price developments replaced a more conservative outlook. Operating expenses developed favourably in the quarter (-6% yoy to EUR1.3bn) and brought the annual total to EUR5.4bn (-7% yoy). This was in part achieved by continued headcount reductions as ABN is still refocusing its business towards a domestically focused, consumer lending entity, following the 2008 government bailout. The Dutch government still hold a 56.3% stake in the bank despite re-privatisation in 2015. However, shortly after the results presentation it was announced that it would reduce its stake to just below 50% through the sale of depositary receipts in the near term. Revenue performance benefitted from NII growth (+17% yoy) to EUR1.56bn, and FY22 figures of EUR5.4bn were in line with guidance. Nevertheless, ABN expects the impact of higher rates to gradually level off over the medium term. The bank announced a EUR500m share buyback for 1H23 (superseding previously announced EUR250m in 2Q22) but this doesn't have an adverse impact on the CET1 ratio of 15.2% as the increased amount is offset by 4Q22 net income.

Nordic banks – 4Q22 results

(⇔) **Svenska Handelsbanken** Results overall were solid but displayed some weakness in cost management in the last quarter of the year. 4Q22 profits were in line with expectations at SEK5.9bn, up 13% yoy but ultimately weighed down by higher than expected expenses of SEK5.8bn, which were also up 13% yoy. On an annual basis adjusted net income was SEK26.6bn (+11% yoy) and total expenses registered at SEK21.3bn (+3% yoy). NII in the quarter increased by 11% to SEK10.6bn, benefitting from improved interest margins but displayed weaker growth than peers. Most banks in Europe have had to contend with rising staff costs, but for Handelsbanken that was not the primary costs driver. Despite compensation rising 5% yoy, the main costs drivers were investment and development costs (+48% yoy). The higher cost base was also reflected in a higher cost-to-income ratio of 41.8% in 4Q22, above market estimates of 38.1%. The FY22 measure of 42.4% was reduced from 44.8%. Credit quality remains very strong with the cost of risk measure at just 1bps in 4Q22 and total accumulated management overlays at just SEK621m. Unlike its Nordic peers, Handelsbanken does not maintain high management overlays in addition to its provisions, recommended by provisioning models. These overlays were introduced during the pandemic to incorporate related risks and Handelsbanken's lack of additional provisioning compared to peers may result in higher levels having to be booked in 2023 should the overall operating environment deteriorate, which could weigh on profitability. The Common Equity Tier 1 ratio was 19.6% at FY22, the highest of the Nordic peer group and above its target range of 16.4%-18.4%. This was also 420bps above regulatory requirements.

(↑) **DNB Bank** FY22 net income increased almost 30% yoy to NOK32.8bn, helped by a 25% increase in NII to NOK48.3bn and an exceptionally low effective tax rate in 4Q22 of 18% rather than the usual 23%. The lower than usual tax expense is non-recurring and mainly a result of the liquidation of the subsidiary in Asia. In Norway, the central bank raised its policy rate to 2.75% in 2022 from 0.5% at the start of the year, which has supported the bank's lending margins domestically. However, according to the central bank, the policy rate is expected to peak at around 3% in 2023, limiting the scope for Norwegian banks to benefit significantly more from higher rates. Nevertheless, DNB delivered above-consensus NII revenues. The lender was also one of the few banks to report higher fee and commission income for 2022 as growth in payment and card fees offset weaknesses in other fee generating businesses areas. Total fee and commission income was ahead of 2021 figures at NOK11.4bn (+4% yoy) with senior management eyeing rising fee income of 4-5% annually going forward. In terms of cost management, total expenses rose to NOK26.3bn (+10.5% yoy), the highest among its peer group due to higher IT and personnel expenses. In terms of capitalisation, DNB reported a healthy CET1 ratio of 18.3% (-110bps yoy) ~175bps above expected Norwegian supervisory requirements (incl. CCyB talking effect March-2023) and ~330 above current requirements.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR37.1bn over the course of last week, above market expectations of EUR15.5bn-20.5bn. FIG supply of EUR21.6bn was also above the weekly forecast amount of EUR9bn-13.35bn. The total 2023 year-to-date FIG volume of EUR139bn is 38.6% ahead of last year's issuance volume. SSA volumes are also ahead of last year's level, up 10.8% at EUR160.5bn. For the current week, survey data suggest SSA volumes will range between EUR16bn-22bn and FIGs are expected to issue EUR11.5bn-16.5bn.

A busy week for **SSAs** resulted in a slew of activity. Early in the week, Daiwa Capital Markets Europe (DCME) acted as joint bookrunner on the USD1.75bn transaction from **Swedish Export Credit Corporation (SEK).** The 3-year bond attracted the issuer's largest ever order-book in excess of USD3.5bn and matched the largest deal size ever issued by SEK. The transaction effectively re-opened the Nordic SSA USD market following a two-week hiatus over Chinese New Year holidays and central bank announcements. The issuer was able to take advantage of an especially conducive issuance window, following two weeks of limited supply, despite competing with four other SSA USD issuances in the market on Tuesday. Significantly, this is SEK's first benchmark transaction of 2023 and the third Daiwa-led SEK public transaction in the Japanese fiscal year 2022/23, following the USD800m, 4yr SOFR FRN in July 2022 and the USD1.25bn, 2yr Global Bond in August 2022. DCME also priced a EUR1bn, 5-year Global Bond for **Japan Bank of International Cooperation (JBIC).** DCME was appointed Left Lead and also executed the liability swap with the issuer together with the allocations, billing & delivery and associated hedging of the entire transaction. JBIC is Japan's largest SSA issuer and annual issuance exceeds that of all other Japanese SSAs combined. Last week's transaction was only JBIC's second ever issue in Euro since their inaugural 7-year transaction in May 2022. After the announcement of IPT's, demand grew steadily from European bank treasuries, CB and AM. Included in this were orders from accounts who had calls with the issuer earlier in the week, and who had met the issuer on a physical European roadshow at the end of last year. Final books of EUR1.8bn helped tighten the final spread to MS+20bps (-2bps from IPT).

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
AIIB	Sr. Unsecured (SDB)	EUR1.5bn	5Y	MS + 13	MS + 15	>EUR2bn
EIB	Sr. Unsecured (CAB)	USD5bn	10Y	SOFR MS + 48	SOFR MS + 50	>USD19.6bn
EIB	Sr. Unsecured (CA)	EUR5bn	5Y	MS - 9	MS - 7	>EUR30.5bn
EIB	Sr. Unsecured (CAB)	AUD1.5bn	5.5Y	ASW + 40	ASW + 41	n.a.
IBRD	Sr. Unsecured (SDB)	USD5bn	7Y	SOFR MS + 47	SOFR MS + 49	>USD8.4bn
ADB	Sr. Unsecured (Gender)	AUD700m	3Y	ASW + 20	ASW + 20	>USD1.25bn
IDB Invest	Sr. Unsecured (Sustainability)	USD1bn	5Y	SOFR MS + 59	SOFR MS + 59	>GBP850m
Land Berlin	Sr. Unsecured (Sustainable)	EUR750m	10Y	MS - 2	MS + 1	>EUR5.25bn
Saxony Anhalt	Sr. Unsecured	EUR500m	10Y	MS - 2	MS - 1	>EUR1.5bn
Basque Gov.	Sr. Unsecured	EUR700m	10Y	SPGB + 21	SPGB + 27	>EUR5bn
Region Wallone	Sr. Unsecured (Social)	EUR1bn	10Y	OLO + 44	OLO + 45	>EUR1.7bn
Region Wallone	Sr. Unsecured (Social)	EUR500m	20Y	OLO + 45	OLO + 45	>EUR875m
KfW	Sr. Unsecured (Green)	EUR3bn	10Y	MS – 4	MS - 1	>EUR34bn
ICO	Sr. Unsecured	EUR500m	5Y	SPGB + 22	SPGB + 27	>EUR4.5bn
SEK	Sr. Unsecured	USD1.75bn	3Y	SOFR MS + 46	SOFR MS + 48	>USD3.5bn
CDC	Sr. Unsecured	EUR1bn	10Y	FRTR + 29	FRTR + 33	>EUR8.3bn
Action Logement	Sr. Unsecured (Sustainable)	EUR1.2bn	20Y	OAT + 56	OAT + 58	>EUR2.7bn
EAA	Sr. Unsecured	USD5bn	3Y	SOFR MS + 44	SOFR MS + 45	>USD1.2bn
JBIC	Sr. Unsecured	EUR1bn	5Y	MS + 20	MS + 22	>EUR1.8bn
Rentenbank	Sr. Unsecured	EUR500m	9Y	MS - 4	MS - 4	>EUR800m
LBank	Sr. Unsecured	EUR1.25bn	5Y	MS - 7	MS – 6/8	>EUR1.8bn
France	Sr. Unsecured	EUR5bn	30Y	FRTR + 9	FRTR + 11	>EUR46bn
Norway	Sr. Unsecured	NOK22bn	10Y	MS + 0	MS + 2	>NOK68bn
FIG (Senior)						
Danske	SP	GBP750m	4NC3	G + 170	G + 200	>GBP1.8bn
DNB	SP (Green)	EUR1bn	4NC3	MS + 63	MS + 90	>EUR2.9bn
Hypo Voralberg	SP (Green)	EUR500m	3Y	MS + 105	MS + 120/125	>EUR950m

Virgin Money	Sr. HoldCo	EUR500m	5.75NC4.75	MS + 175	MS + 200	>EUR1.35bn
Cassa Centrale	SP	EUR500m	4NC3	MS + 275	MS + 300	>EUR1.7bn
Nykredit	SNP	EUR750m	5Y	MS + 115	MS + 140	>EUR1.2bn
UniCredit	SNP	EUR1bn	6NC5	MS + 160	MS + 185	>EUR1.4bn
Svenska Handelsb.	SP	EUR1bn	5Y	MS + 55	MS + 75	>EUR1.4bn
FIG (Subordinated)						
Julius Baer	AT 1	EUR400m	PNC7	6.625%	7.125%	>EUR4.45bn
Sabadell	Tier 2	EUR500m	10.5NC5.5	MS + 315	MS + 360	>EUR2.6bn
Deutsche Bank	Tier 2	USD1.5bn	11NC10	T + 345	T + 385	n.a.
Bankinter	AT1	EUR300m	PNC6	7.375%	8.0%	>EUR3.25bn

Source BondRadar, Bloomberg; SDB=Sustainable Development Bond; CAB=Climate Awareness Bond; CA=Climate Awareness

FIG issuers were also very active last week as primary market conditions continue to prove conductive. We saw an increasing amount of trades fall into the more risky subordinated debt categories while senior unsecured trades also generated strong investor demand, pushing new issue premiums (NIP) below double digits. The overall benign sentiment was underpinned by mostly better than expected bank earnings for 2022 and improved 2023 outlooks. Nordic issuers that traditionally report results early took to the floor with a number of senior trades. **Danske Bank** entered the UK market with a Sterling SP. The GBP750m deal had a 4NC3 tenor and drew over GBP1.85bn of interest, leading to a spread of G+170bps and a concession of 10bps. Danske's Sterling profile is difficult to assess, as it did not have any Sterling SP debt outstanding until last week and only one SNP in the currency. SNP supply came from **DNB Bank**, and the attached green label arguably added additional investor interest. The 4NC3 gathered EUR2.9bn in book orders, lowering the final spread to MS+63bps (-27bps from IPT). The NIP is thought to have been as low as 5bps. Additional Nordic SNP supply came from **Nykredit**, bringing a 5-year SNP deal with IPTs in the MS+140bps area. The subscription level was 1.6x on the EUR750m trade also culminating in a NIP around 5bps. **Svenska Handelsbanken** rounded out the week for Nordic issuers when it launched a SP bond on Friday, after it released a set of solid financial results on Wednesday. The SP bond followed a redemption in the bucket and the strong order book of EUR1.7bn lowered the NIP to a level of 7bps. In total, we counted four sub-debt trades last week. **Sabadell** issued a Tier 2, following its release of strong 2022 financial results. It was the Spanish bank's first Tier 2 bond in over two years and follows the issuers SNP and AT1 offerings in January, bringing Sabadell's total 2023 issuance volume to EUR1.75bn. As book orders built (5.2x), the spread was guided down consistently to a final level of MS+315bps (-45bps from IPT), contributing to the deal pricing flat to fair value.

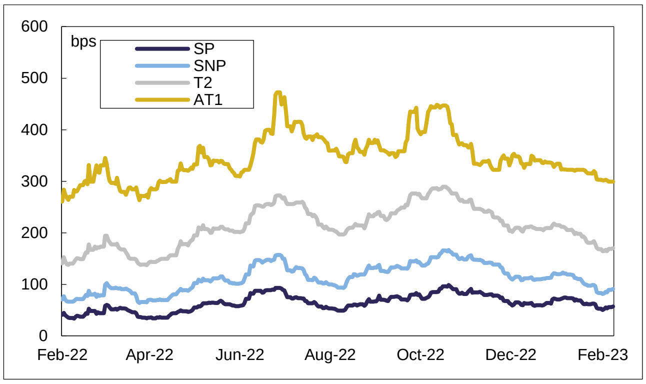
Secondary market spreads were broadly flat for EUR and USD. CDS indices on European senior (87bps) and subordinated financials (153bps) as measured by iTraxx benchmarks priced +3bps and +5bps wider against the previous week's levels.

Spreads in secondary markets displayed a somewhat mixed pictures, with performance varying by regions and tenors. In Euros, we observed some spread weakness among Swiss titles, particularly in the SNP segment, following the poor financials reported by Credit Suisse and a mixed picture from UBS. Banks from Denmark, Finland and Italy outperformed relative to other regions on the back of solid earnings. In Italy, the positive momentum was driven by UniCredit across SP and SNP categories. The week ahead brings a number of key UK economic data releases, including the latest labour market report (Tuesday), inflation figures (Wednesday) and retail sales data (Friday). Despite the weakness in GDP, the labour market has remained remarkably resilient. Last week Gilts made significant losses as UK GDP failed to contract in Q4 despite a non-negligible drop in December.

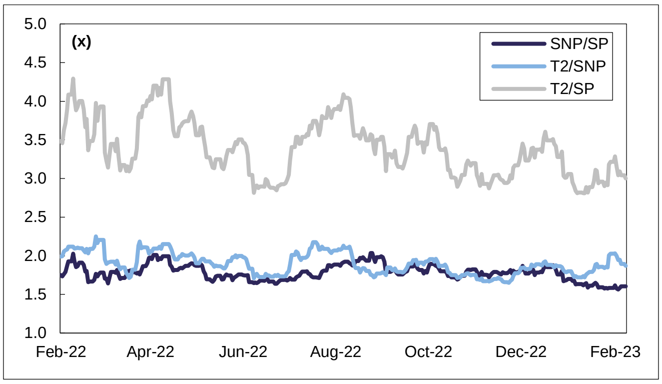
Weekly average EUR spreads were wider with SP (+5.1bps), SNP (+7.6bps) and Tier 2 (+6.2bps). USD average spreads were tighter for SP (-1.2bps), but wider for SNP (+1.5bps) and Tier 2 (+7.3bps). Based on Bloomberg data, 65% of FIG tranches and 50% of SSA tranches issued in February quoted tighter than 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.

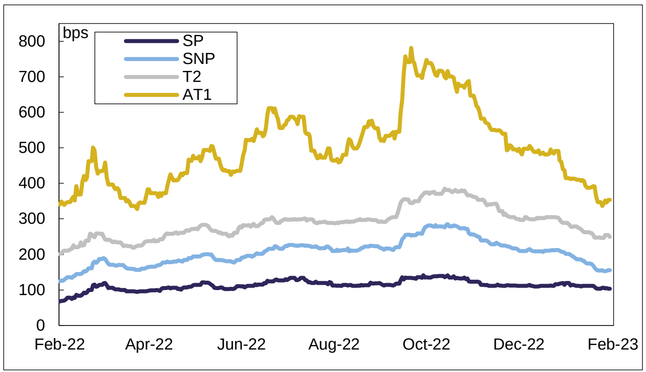
Selected Names

	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	3.3	3.4	27.1	5.4	-18.8	3.3	4.2	101.6	6.0	-63.1	2.8	4.4	121.6	9.9	-37.8
Barclays	1.3	3.6	-5.7	7.4	17.0	3.0	4.3	113.8	16.6	-45.7	7.3	5.4	216.3	11.4	-99.5
BBVA	3.8	3.7	57.6	9.1	-9.6	3.2	3.7	32.5	10.8	-3.0	3.7	4.6	104.9	19.5	-57.5
BFCM	4.1	3.7	51.0	7.9	-1.7	6.0	4.0	105.4	10.8	-5.1	3.9	4.6	165.4	10.2	3.1
BNPP	2.9	3.5	34.9	9.1	3.3	4.4	4.0	92.2	8.4	-26.1	3.5	4.3	120.3	10.2	-10.1
BPCE	3.9	3.6	52.5	8.8	-1.2	4.7	4.0	105.8	9.2	-16.5	8.2	5.2	160.6	9.9	-8.5
Credit Ag.	3.6	3.6	52.1	7.8	-1.5	4.7	3.9	85.7	9.3	-16.1	2.8	4.2	99.2	4.7	-18.7
Credit Sui.	4.7	4.4	130.5	-1.3	-60.4	4.1	7.1	373.5	32.7	-112.8					
Danske	2.5	4.0	66.0	3.5	-13.9	2.6	4.3	96.6	6.4	-24.3	3.8	5.1	169.5	12.7	-73.5
Deutsche	3.3	3.8	61.0	6.4	-26.6	3.9	4.5	127.5	16.9	-53.2	2.9	5.1	185.8	17.7	-67.8
DNB	3.1	3.6	51.6	3.6	-7.2	4.8	3.8	72.8	5.7	-11.9	3.5	4.7	35.3	61.1	-287.0
HSBC	4.4	3.4	27.0	7.3	-2.3	3.3	3.8	71.0	9.5	-33.9	4.1	4.3	129.3	11.3	-18.2
ING	2.6	6.0	265.5	-3.4	-36.7	4.9	4.1	80.9	9.9	-18.9	5.4	5.1	178.0	8.1	-50.3
Intesa	3.5	3.9	70.7	7.3	-9.6	2.9	4.2	92.6	4.3	-32.4	3.6	4.6	141.7	7.4	-4.4
Lloyds	1.9	3.7	21.5	9.5	-0.2	3.2	3.9	53.1	9.5	-30.1	0.6	4.4	78.9	-15.4	-399.9
Nordea	3.7	3.3	8.5	6.2	-1.0	5.6	3.7	60.7	7.9	1.7	6.4	4.7			
Rabobank	3.0	3.2	3.8	6.1	6.9	4.7	3.8	81.4	9.4	-15.9	4.7	4.7	169.0	9.5	-12.9
RBS	2.8	4.5	133.9	3.0	-34.6	4.7	3.8	81.4	9.4	-15.9	4.7	4.7	169.0	9.5	-12.9
Santander	2.8	3.9	58.1	8.4	-7.5	4.0	3.8	78.4	10.3	-12.4	3.7	4.2	107.9	9.7	-3.4
San UK	2.0	3.5	12.0	4.9	3.3	2.6	4.3	131.6	7.1	-61.4	3.7	4.2	107.9	9.7	-3.4
SocGen	4.3	3.6	62.4	7.2	-7.3	4.6	4.0	103.4	8.6	-28.3	4.4	5.1	188.3	7.1	-62.1
StanChart	3.6	3.9	76.5	4.2	-5.6	4.2	4.1	93.4	4.0	-59.8	5.1	5.1	180.6	7.3	-115.6
Swedbank	3.1	3.6	41.2	5.4	-5.5	4.2	4.1	99.9	6.6	-10.7	4.1	5.0	199.0	8.5	-34.8
UBS	3.3	3.7	58.6	6.9	-9.2	3.5	3.9	73.1	8.5	-39.1	3.1	5.9	84.9	75.3	-52.2
UniCredit	3.4	4.2	102.1	5.0	-39.3	3.3	4.6	143.9	9.2	-68.5	4.5	6.1	247.2	13.0	-113.4

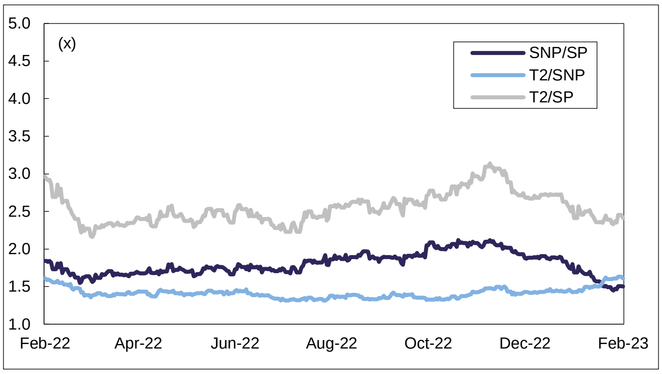
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

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	1.2					3.9	5.7	179.9	11.2	-54.0	4.7	6.1	235.4	4.8	-60.6
BFCM	4.1	3.7	51.0	7.9	-1.7	3.1	5.8	159.2	-0.3	-40.8	4.7	6.1	235.4	4.8	-60.6
BNPP	2.9	3.5	34.9	9.1	3.3	4.5	5.5	154.4	5.0	-48.2	3.6	5.6	152.5	3.4	-46.9
BPCE	3.9	3.6	52.5	8.8	-1.2	4.2	5.8	164.1	0.9	-48.5	2.8	6.4	289.4	2.4	-77.7
Credit Ag.	3.6	3.6	52.1	7.8	-1.5	2.9	5.3	104.6	-1.0	-46.3	6.9	5.7	228.2	1.9	-76.1
Credit Sui.	1.9	7.0	234.2	-2.5	-104.3	3.4	7.7	375.3	12.4	-105.0	2.4	7.8	325.8	11.7	-225.9
Danske	2.5	4.0	66.0	3.5	-13.9	2.1	5.9	136.9	-10.3	-86.1	2.4	7.8	325.8	11.7	-225.9
Deutsche	3.3	3.8	61.0	6.4	-26.6	2.7	6.1	174.7	-3.0	-80.1	7.2	7.2	359.2	-1.1	-122.4
HSBC	4.4	3.4	27.0	7.3	-2.3	3.0	5.6	144.5	7.2	-61.9	8.7	6.0	247.4	9.5	-55.2
ING	2.6	6.0	265.5	-3.4	-36.7	3.6	5.4	139.5	0.6	-39.0	3.0	11.0	410.3	18.8	-455.1
Intesa	3.5	3.9	70.7	7.3	-9.6	6.7	7.1	349.5	22.0	-83.4	4.9	7.8	414.1	22.4	-87.9
Lloyds	2.1				0.0	2.9	5.6	142.2	3.0	-47.5	6.7	6.1	263.4	12.6	-57.0
Nordea	3.7	3.3	8.5	6.2	-1.0	3.7	5.3	131.3	-0.8	-15.6	6.9	5.6			
Rabobank	3.0	3.2	3.8	6.1	6.9	3.6	5.4	124.9	-1.8	-33.4	7.5	5.6	132.8	0.8	-16.3
RBS	2.8	4.5	133.9	3.0	-34.6	3.6	5.4	124.9	-1.8	-33.4	7.5	5.6	132.8	0.8	-16.3
Santander	2.8	3.9	58.1	8.4	-7.5	3.8	5.5	157.1	2.2	-46.0	6.6	6.2	261.0	10.7	-37.5
San UK	1.2	5.5	24.2	2.2	-16.7	4.1	5.8	167.7	3.0	-68.9	2.3				
SocGen	4.3	3.6	62.4	7.2	-7.3	3.7	5.8	157.0	1.2	-61.0	6.9	6.6	305.7	11.2	-41.0
StanChart	3.6	3.9	76.5	4.2	-5.6	2.3	5.6	119.3	-0.6	-78.6	7.9	6.1	249.8	-3.1	-79.8
UBS	2.5	5.3	49.9	3.7	-19.2	3.4	5.5	145.2	2.4	-37.3	7.9	6.1	249.8	-3.1	-79.8
UniCredit	2.5	5.3	49.9	3.7	-19.2	2.8					5.0	7.9	405.8	17.0	-120.7

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

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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
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- 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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