European Banks – Credit Update

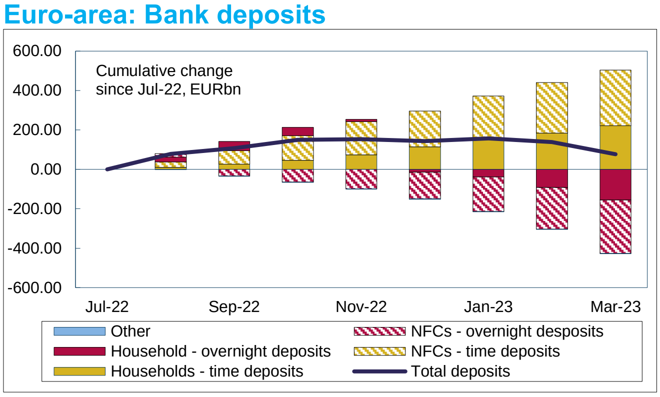
- After a strong 1Q23 earnings season in Europe, bank fundamentals have proven to be sound but low deposit betas and high capital distribution plans could be headwinds going forward
- A busy primary market for both SSAs and FIGs. Cross-currency swap moves benefitted European SSA issuing in USD, while FIGs revived sub-debt and Sterling markets
- Secondary market spreads continue to tighten in EUR, while this development was less pronounced in USD. Stronger tightening in sub-debt segments implies rising market confidence

William Hahn
Credit Analyst
+44 20 7597 8321
William.Hahn@uk.daiwacm.com

Bank fundamentals are sound but deposit and capital levels come into focus

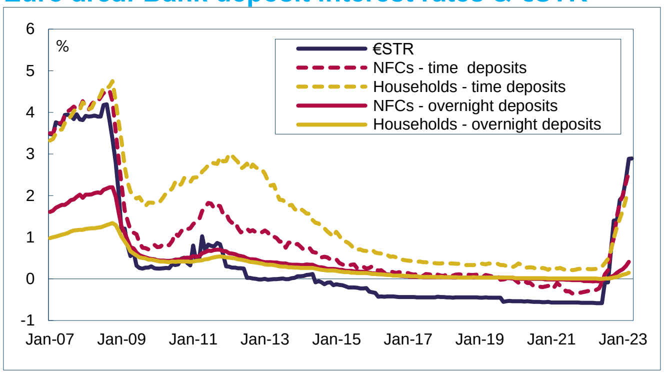
After the mostly positive set of earnings reports from European banks in 1Q23, we maintain a benign outlook on the European banking sector as it has made tangible improvements in asset quality, solvency, and liquidity that have supported credit quality and profitability. The higher interest rate environment is expected to continue supporting profitability, albeit at a reduced rate for the remainder of 2023. Unlike the US, in aggregate Euro area banks have not yet experienced a large-scale shift out of bank deposits towards money market funds or alternative investments. However, in regions such as Italy where deposit betas of roughly 10% are among the lowest in Europe we are starting to see higher than average deposit outflows in 1Q23 (3.1% qoq) compared to the rest of the Euro area. Italian retail depositors are seeking better saving opportunities, such as in government bonds, while institutional clients are withdrawing excess liquidity, which is resulting in lower deposit volumes. This will only partially be mitigated by Italian banks guiding for deposit betas of 20-40% for 2023 as further rate hikes could put further pressure on competitive pricing for savings products.

Euro-area: Bank deposits



Source: Bloomberg; ECB; NFC = Non-Financial Corporations

Euro area: Bank deposit interest rates & €STR



Source: Bloomberg; ECB; NFC = Non-Financial Corporations; STR = Short-Term Rate

AT1 market not recovered yet

The turmoil from recent banking failures and takeovers has placed emphasis on business models and risk management while also highlighting the importance of client confidence. The write-down of CHF16bn of Credit Suisse's AT1s caught most of the market off-guard, but crucially the recovery and resolution plans and the institution's loss-absorbing capacity provided Swiss authorities with options to resolve the situation. Nevertheless, the AT1 market remains under scrutiny exemplified by the fact that no major European bank has issued in this format since March. All AT1 bonds issued so far this year are trading below par and most of the remaining eight AT1s up for call in 2023 will likely not be replaced as they are deemed to require higher coupons than existing debt. Barclays, CaixaBank and SocGen are thought to have taken advantage of more benign funding conditions earlier in the year and pre-funded (some) of their AT1 requirements. Non-calls will also depend on regulatory approval but well-capitalised institutions will likely not be required to issue replacement bonds. This situation is likely to create uncertainty for investors as they face the prospect of holding onto AT1 risk for longer than initially anticipated.

European Banks' AT1s issued YTD

Issuer	Country	First Call Date	Issue Date	Currency	Amt Issued (EUR)	Mid Price	Yld to Nxt Call (Mid)	Yld to Mty (Mid)	Coupon
Credit Agricole SA	FRANCE	23/09/2028	10/01/2023	EUR	1,250,000,000	99.1	7.5%	7.5%	7.3%
BNP Paribas SA	FRANCE	11/06/2030	11/01/2023	EUR	1,250,000,000	97.4	7.9%	7.8%	7.4%
Lloyds Banking Group PLC	BRITAIN	27/03/2028	17/01/2023	GBP	852,960,000	96.7	9.3%	9.1%	8.5%
Societe Generale SA	FRANCE	18/01/2029	18/01/2023	EUR	1,000,000,000	92.4	9.6%	8.8%	7.9%
Banco de Sabadell SA	SPAIN	18/07/2028	18/01/2023	EUR	500,000,000	96.1	10.4%	10.1%	9.4%
Ibercaja Banco SA	SPAIN	25/01/2028	25/01/2023	EUR	350,000,000	93.9	10.8%	10.2%	9.1%
Alpha Services and Holdings SA	GREECE	08/02/2028	08/02/2023	EUR	400,000,000	93.4	13.8%	13.0%	11.9%

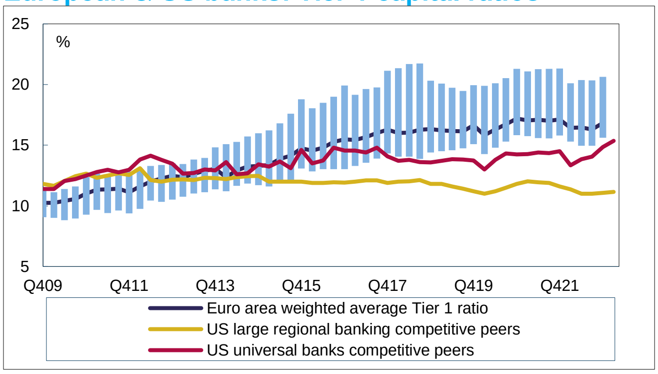
ING Groep NV	NETHERLANDS	16/05/2028	14/02/2023	USD	932,162,000	91.2	9.8%	8.2%	7.5%
Julius Baer Group Ltd	SWITZERLAND	15/08/2029	15/02/2023	EUR	400,000,000	85.6	9.8%	8.0%	6.6%
Bankinter SA	SPAIN	15/08/2028	15/02/2023	EUR	300,000,000	95.4	8.5%	8.0%	7.4%
Swedbank AB	SWEDEN	17/03/2028	23/02/2023	USD	472,348,500	92.4	9.6%	8.1%	7.6%
BNP Paribas SA	FRANCE	28/02/2028	28/02/2023	SGD	420,141,600	94.2	7.4%	6.0%	5.9%
Barclays PLC	BRITAIN	15/09/2028	06/03/2023	GBP	1,690,335,000	91.6	11.4%	10.4%	9.3%
HSBC Holdings PLC	BRITAIN	07/03/2028	07/03/2023	USD	1,892,610,000	99.6	8.1%	7.8%	8.0%
Barclays PLC	BRITAIN	15/06/2028	08/03/2023	SGD	280,276,800	88.6	10.2%	7.9%	7.3%
Lloyds Banking Group PLC	BRITAIN	27/09/2029	13/03/2023	USD	1,164,037,500	92.3	9.6%	8.5%	8.0%
CaixaBank SA	SPAIN	13/03/2029	13/03/2023	EUR	750,000,000	97.3	8.8%	8.5%	8.3%

Source: Bloomberg

EBA discusses AT1 reforms and ECB intensifies oversight

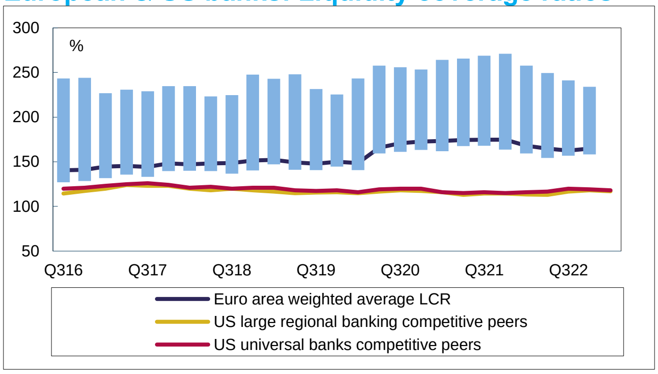
As part of its regular dialogue with stakeholders, the European Banking Authority (EBA) reportedly discussed some of the measures that have been proposed to increase investor interest in the AT1 market. Suggested initiatives include a potential ban on banks paying dividends before considering skipping an AT1 coupon during times of stress and a requirement to pay out skipped coupons at a later stage rather than cancelling them altogether. While the EBA stated that it currently does not see the need for such measures, elevated funding costs and prevailing non-call economics may eventually lead to some steps being taken. The average yield of Bloomberg's European Banks CoCo Tier 1 Total Return Index currently stands at 10.7%, nearly double the average coupon of previously issued AT1 bonds. Enhancing the AT1 market and restoring investor confidence would likely require implementation of measures by several regulatory authorities and take time. Meanwhile, the ECB is intensifying its oversight of banks' capital positions and liquidity reserves and could communicate stricter requirements for the latter this year. The heightened scrutiny of liquidity funds may lead to higher requirements on bank's liquidity coverage ratio (LCR) but initial results of its annual review will only be available after the summer, at the earliest.

European & US banks: Tier 1 capital ratios



Source: Bloomberg; ECB

European & US banks: Liquidity coverage ratios



Source: Bloomberg; ECB

Capital distribution vs capital position

In terms of capital distributions, banks are planning similar pay-outs as last year, with an average pay-out ratio of around 50%. Distributions are subject to supervisory review, but some larger lenders such as BNP Paribas, HSCB or KBC have expressed their intention to make additional, special distributions after planned business disposals. Large capital distribution plans amid the challenging market backdrop have raised concerns about contagion risk and fears that tighter monetary policy might expose vulnerabilities in euro area banks. But while there are some lasting effects, e.g. wider spreads of AT1 bank bonds, most financial market prices suggest confidence in the sector. European banks' capital and liquidity indicators are stronger than in the US. Moreover, EU supervisors have for some time emphasised a focus on interest rate risk and business model risk, two areas proved problematic in the US. Average total capital requirements and guidance for supervised institutions increased from 14.7% to 15% yoy as at FY22. Furthermore, pending increases in countercyclical and systemic risk buffers in certain countries, such as Ireland, the Netherlands, Sweden, and the UK, will lead to a higher average combined buffer requirement by the end of the year. It is worth noting that regulators have emphasized caution in light of recent events. While banks have not veered away from their announced dividend policies or share buybacks, there is increased scrutiny and vocalisation from regulators.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at just EUR25bn over the course of last week, above market expectations of EUR12bn-17bn. FIG supply of EUR18bn was also above weekly forecast amounts of EUR11bn-15.5bn. The total 2023 year-to-date FIG volume of EUR295bn is 11.5% ahead of last year's issuance volume. SSA volumes are also ahead of last year's level, up 21.8% at EUR346bn. For the current week, survey data suggest SSA issuance volumes will range between EUR14.5bn-19bn and FIGs are expected to issue EUR10.5bn-15.5bn.

A busy issuance window for **SSAs** saw sizeable transactions across a variety of currencies come to market. There was heightened activity in the USD space as moves in cross-currency swaps benefitted European issuers, including CADES, Council of Europe Development Bank, NRW Bank and KommuneKredit. Last Tuesday, Daiwa Capital Markets Europe (DCME) priced the inaugural sustainability bond for **Japan International Cooperation Agency (JICA).** The transaction followed a roadshow outlining the issuer's new Sustainability framework from April, resulting in DCME being appointed Left Lead. The bond carried a 5-year tenor and was sized at USD1.25bn, comfortably making it JICA's largest ever issue. Spreads tightened on the sizeable USD2.7bn order book to their final level of SOFR MS+45bps (-2bps from IPT). DCME followed this deal up with another USD print by one of the aforementioned European entities the following day. Danish public sector issuer **KommuneKredit** launched a USD1bn transaction, after receiving orders in excess of USD3.1bn. The transaction tightened by 3bps to land at MS+44bps during execution and is thought to have priced flat to fair value. It also featured one of KommuneKredit's largest ever USD orderbooks, on par with its 5-year USD bond offered in 2020. Sizeable Euro supply came from KfW and the EIB that both launched 7-year deals, alongside a smaller EUR500m deal from Kommuneinvest. **KfW** placed EUR3bn no-grow with a green label, tightening 2bps from guidance to a spread of MS-11bps and a 2bps concession. This deal takes KfW to just over half of its EUR80bn-85bn funding target. The **EIB** launched one of its EARN transactions, raising EUR5bn, pricing MS-4bps (-2bps from IPT) on the back of EUR35.5bn in orders. The larger size of the EIB trade and the split demand on the day may have resulted in the EIB's NIP being slightly higher at 3bps.

(Table 1) Key Benchmark Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
ESM	Sr. Unsecured	EUR2bn	10Y	MS + 7	MS + 9	>EUR24bn
EIB	Sr. Unsecured	EUR5bn	7Y	MS – 4	MS – 2	>EUR35.5bn
CoE	Sr. Unsecured (Social)	USD1bn	3Y	SOFR MS + 24	SOFR MS + 24	n.a.
Kommuinvest	Sr. Unsecured (Green)	EUR500m	7Y	MS + 1	MS + 5	>EUR2.5bn
KfW	Sr. Unsecured (Green)	AUD650m	5Y	ASW + 34	ASW + 34	n.a.
KfW	Sr. Unsecured (Green)	EUR3bn	7Y	MS – 13	MS - 11	>EUR6.4bn
CDC	Sr. Unsecured	GBP325m	Aug-2025	G + 76	G + 79	>EUR860m
CADES	Sr. Unsecured (Social)	USD3bn	5Y	SOFR MS + 45	SOFR MS + 47	>USD4.5bn
JICA	Sr. Unsecured	USD1.25bn	5Y	SOFR MS + 76	SOFR MS + 80	>USD2.7bn
KommuneKredit	Sr. Unsecured	USD1bn	5Y	SOFR MS + 44	SOFR MS + 47	>USD3.1bn
NRW Bank	Sr. Unsecured	USD1bn	3Y	SOFR MS + 32	SOFR MS + 34	>USD2.9bn
Belgium	Sr. Unsecured	EUR4bn	20Y	MS + 54	MS + 55	>EUR19.3bn
UK	Sr. Unsecured	GBP5.5bn	Oct-2063	G + 6.5	G + 6.5/7	>GBP54bn
FIG (Senior)						
Intesa	SP (Green)	EUR1bn	3Y	MS + 90	MS + 115	>EUR1.9bn
Intesa	SP (Green)	EUR1.25bn	7Y	MS + 195	MS + 220	>EUR2.8bn
ING	Sr. HoldCo	EUR1.5bn	6NC5	MS + 160	MS + 180	>EUR2.5bn
ING	Sr. HoldCo	EUR1.5bn	11NC10	MS + 190	MS + 210	>EUR3bn
BPCE	SNP	GBP400m	6NC5	G + 240	G + 250	>GBP520m
Swedbank	SNP (Green)	GBP400m	6NC5	G + 230	G + 240	>GBP615m
Rabobank	Sr. Unsecured	AUD500m	3Y FRN	3mBBSW + 88	3mBBSW + 88	n.a.
HSBC	Sr. HoldCo	EUR1.75bn	10NC9	MS + 190	MS + 210	>EUR3.4bn
DeVolksbank	SNP (Green)	EUR500m	4.5Y	MS + 170	MS + 180	>EUR625m
BNP Paribas	SP	EUR1.25bn	10Y	MS + 118	MS + 140	>EUR1.6bn
ABN AMRO	SP (Green)	GBP750m	3Y	G + 160	G + 175	>GBP1.25bn
FIG (Subordinated)						
Banco Santander	Tier 2	EUR1.5bn	10.25NC5.25	MS + 285	MS + 310	>EUR4bn

Source BondRadar, Bloomberg;

FIG issuers made the most of a well-received 1Q23 earnings season, resuming their annual funding plans after muted supply in prior weeks. Issuance continued to be dominated by high quality issuers in the senior segment in Euros or Sterling. The latter offered attractive funding levels compared to USD or EUR and was mostly utilised by non-UK entities. ABN AMRO, BPCE and Swedbank all opted for the currency, bringing a total GBP1.55bn to market. **ABN AMRO** placed the largest of the three, with a green SP for GBP750m, which was the largest Sterling transaction since February and the third largest in 2023. The 3-year transaction eventually priced at G+160bps (-15bps from IPT) as subscription levels clocked in at 1.66x. The somewhat elevated spread resonated well with investors as did the short tenor, attracting real money accounts. More Sterling may hit the market early this week as funding conditions appear conductive and UK CPI numbers are expected on Wednesday. Long-dated EUR senior supply came from top-tier issuers **HSBC** and **BNP Paribas** that accessed this undersupplied segment of the curve. This allowed for both issuers to placing large bonds for EUR1.75bn and EUR1.25bn respectively. HSBC's deal was at the Sr. HoldCo level, tightening 20bps from IPT while the SP trade by BNP Paribas was 22bps tighter. This supply in duration was complemented by **ING** issuing EUR1.5bn at the Sr. HoldCo level with a 11NC10 maturity. This was part of a dual tranche offering for a total of EUR3bn, with the shorter leg being a 6NC5. The deals took a sizeable portion out of ING's Holdco level funding plans for the year of between EUR7bn-9bn. The shorter leg carried a NIP of 15-20bps while the longer-dated transaction is thought to have had a 20bps NIP.

Another sign that the funding environment has improved was that **Banco Santander** opted to revive the Tier 2 market, the first subordinated transaction by a bank since the Credit Suisse fallout. The Tier 2 was eventually upsized to EUR1.5bn from EUR1.25bn as order books were greater than EUR4bn. The positive response to the 10.25NC5.25 deal will likely encourage more issuers to pursue subordinated transactions in the coming weeks as that funding segment had been put on hold for almost two months. The issuer's status as national champion and solid credit profile allowed for spreads to tighten by 25bps to MS+285bps. Santander paid a NIP of 20-25bps, comparable to some senior trades, which is an excellent result considering recent market volatility.

Secondary market spreads were mostly tighter for EUR and USD. CDS indices on European senior (96bps) and subordinated financials (179bps) as measured by iTraxx benchmarks priced -5bps and -16bps against the previous week's levels.

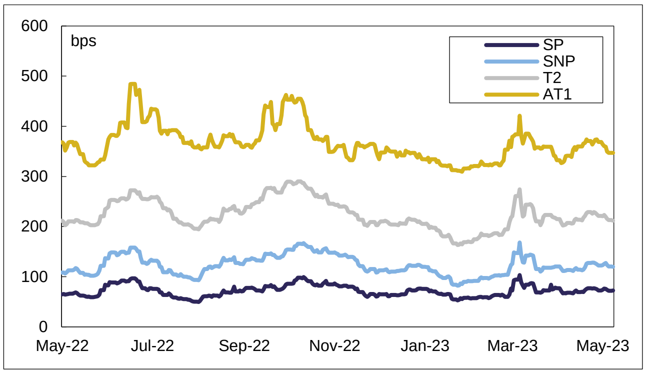
Spreads in secondary markets continued to improve against previous weeks as risk indicators are pointing downward. EUR secondary spreads tightened across the board with SP improving the most among German and Italian entities (-8.6bps and -7.3bps respectively). This was most pronounced in the short-medium term buckets (1-5 years). Average spread tightening in the SNP bail-in segment was fairly evenly distributed, with UK lenders performing a bit better than the rest (-6.4bps). Peripheral lenders in Spain and Italy benefitted the most among Tier 2, possibly taking into account the positive market reaction to Banco Santander's new Tier 2, opening the market after a more than two-month long hiatus. Their spreads tightened -16.3bps and -15.8bps respectively.

In the week ahead, the key focus in the UK will be April's consumer price inflation report on Wednesday. Daiwa economists expect to see a significant decline in the headline CPI rate, by around 2ppts to 8.0%Y/Y, due principally to base effects associated with the spike in wholesale energy prices after the Russian invasion of Ukraine and the associated jump in Ofgem's household energy price cap in April 2022. Of key relevance to the inflation outlook, on Thursday the energy regulator Ofgem is set to announce a substantive cut in its household energy price cap from July.

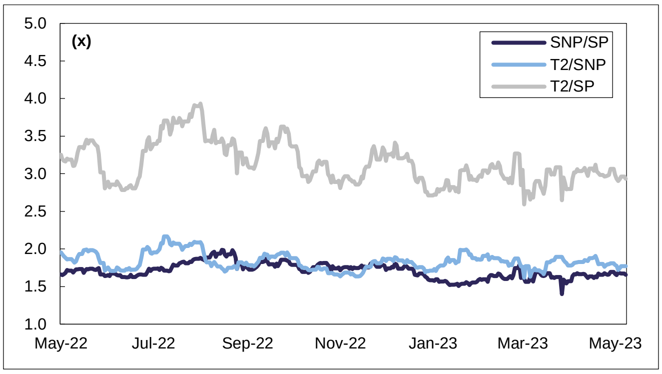
Weekly average EUR spreads were tighter with SP (-4.8bps), SNP (-4.3bps) and Tier 2 (-8.5bps). USD average spreads were wider for SP (+3.0bps), but tighter for SNP (-2.7bps) and Tier 2 (-15.3bps). Based on Bloomberg data, 98% of FIG tranches and 93% of SSA tranches issued in May quoted tighter than launch.

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.

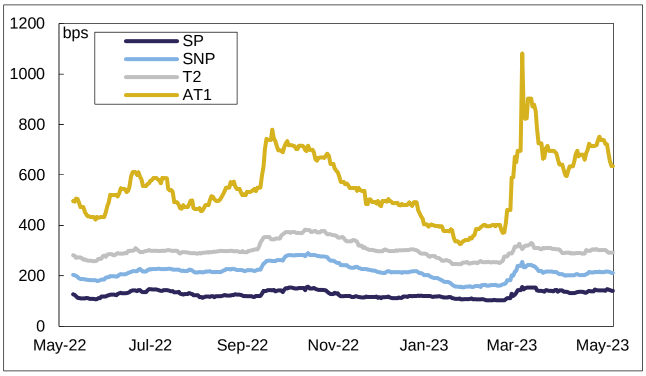
Selected Names

	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	3.1	3.7	30.0	-8.8	-9.8	3.2	4.7	136.7	-5.9	-20.0	2.7	4.8	127.5	-23.0	-20.0
Barclays	1.0	4.0	0.4	-6.0	23.3	2.7	4.7	143.2	-4.4	-14.2	7.0	6.4	291.7	-16.1	-19.2
BBVA	3.4	4.0	59.8	-3.9	-0.7	3.2	4.0	65.2	-3.9	3.6	3.4	5.8	184.6	-10.0	16.0
BFCM	4.3	4.0	59.7	-5.0	4.7	5.9	4.4	130.8	-2.4	20.7	6.0	5.0	181.8	-7.6	18.6
BNPP	4.9	4.1	73.0	-1.0	1.1	4.3	4.3	111.8	-2.3	-9.2	3.3	4.7	143.4	-6.6	18.3
BPCE	3.6	3.9	66.7	-4.2	10.4	4.5	4.4	119.7	-2.2	-2.1	8.1	5.8	175.1	-6.3	-1.3
Credit Ag.	3.7	3.8	58.7	-3.6	-0.9	4.4	4.2	100.1	-3.2	-1.3	2.7	4.5	97.5	-5.0	-9.6
Credit Sui.	4.3	4.5	108.6	-4.7	-82.0	4.0	5.4	206.2	-6.0	-268.6					
Danske	2.2	4.1	56.1	-2.4	-15.4	3.6	4.7	133.3	-1.8	6.5	6.0	6.1	237.3	-3.2	0.3
Deutsche	2.0	4.2	73.4	1.8	-14.2	4.0	5.3	195.2	-9.2	14.4	2.7	6.3	274.7	-40.7	29.8
DNB	3.8	3.9	55.9	-3.4	-4.3	4.5	4.2	91.6	-2.6	12.8	4.1	5.0			
HSBC	4.6	3.6	39.3	0.0	1.4	3.6	4.4	127.0	1.3	-2.6	3.8	4.7	146.4	-8.4	1.2
ING	2.3	6.8	324.5	-10.9	21.3	4.8	4.5	107.5	-4.6	0.0	5.7	5.7	217.3	-5.9	-2.0
Intesa	3.3	4.3	95.6	-4.2	-9.6	3.8	4.8	152.3	-5.1	15.8	3.6	5.3	145.9	-8.9	0.7
Lloyds	1.6	3.8	11.6	-3.0	-10.4	2.9	4.2	66.1	0.1	-13.0	4.2	6.6	221.3	-1.2	-235.9
Nordea	3.4	3.7	31.4	-3.4	24.7	5.2	4.1	98.3	-3.7	22.1	6.5	5.2			
Rabobank	2.7	3.4	1.8	-7.6	0.6	5.1	4.2	100.5	-1.7	5.7	5.4	5.2	196.7	-2.7	17.9
Santander	2.5	4.1	59.9	-3.4	-7.3	3.7	4.1	100.3	-4.8	2.0	3.9	4.6	120.0	-1.6	23.1
San UK	1.8	3.9	19.3	-1.3	7.8	4.0	5.0	178.7	-5.9	-16.8	3.9	4.6	120.0	-1.6	23.1
SocGen	4.0	4.0	81.8	-5.0	4.7	4.9	4.6	143.8	-1.0	7.7	6.8	6.2	280.9	-10.3	22.4
StanChart	3.4	4.1	78.3	-4.5	-19.8	4.5	4.7	140.3	-6.2	-15.3	4.8	6.3	282.4	-8.0	-8.5
Swedbank	2.8	4.0	60.7	-4.6	10.9	3.9	4.4	119.2	-6.5	2.3	7.5	5.8	256.3	2.6	23.2
UBS	3.0	4.1	77.9	-5.8	16.9	4.3	4.9	158.1	-6.7	40.0	4.5	5.5			
UniCredit	3.1	4.5	103.3	-3.9	-27.3	3.0	5.1	172.2	-7.9	-32.9	5.5	6.9	322.4	-30.7	-63.8

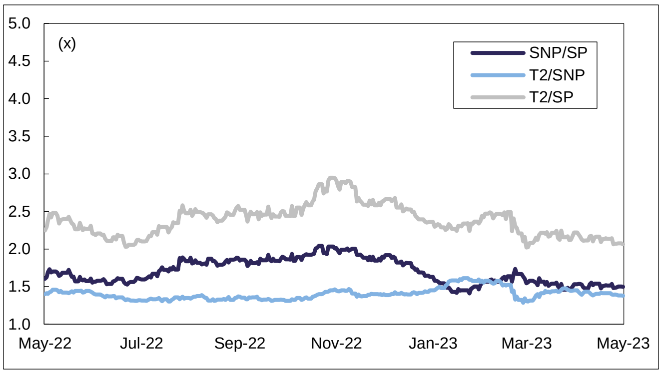
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative 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	3.7	3.8	58.7	-3.6	-0.9	3.9	6.1	232.0	-9.5	-3.3	4.5	6.7	310.8	-11.7	12.5
BFCM	4.3	4.0	59.7	-5.0	4.7	2.9	6.0	210.5	-6.8	8.0	4.5	6.7	310.8	-11.7	12.5
BNPP	4.9	4.1	73.0	-1.0	1.1	4.2	5.8	193.1	-3.9	-1.8	3.4	6.1	229.6	-8.4	-10.6
BPCE	3.6	3.9	66.7	-4.2	10.4	4.0	6.2	213.4	-4.9	0.1	2.6	7.0	333.9	-8.8	-15.3
Credit Ag.	3.7	3.8	58.7	-3.6	-0.9	2.7	5.8	163.6	-0.1	12.1	6.6	6.4	275.3	-5.1	-26.5
Credit Sui.	1.7	6.5	247.4	-20.3	-67.6	3.5	6.7	279.1	-14.8	-142.8	2.2	8.7	443.8	-37.6	-111.7
Danske	2.2	4.1	56.1	-2.4	-15.4	2.7	6.5	196.6	-1.0	7.0	2.2	8.7	443.8	-37.6	-111.7
Deutsche	2.0	4.2	73.4	1.8	-14.2	2.4	7.0	311.9	-5.5	25.5	6.9	8.6	499.1	-28.2	34.9
HSBC	4.6	3.6	39.3	0.0	1.4	3.8	5.9	201.4	-6.2	-18.1	8.7	6.3	284.3	-10.7	-20.6
ING	2.3	6.8	324.5	-10.9	21.3	3.5	5.6	178.3	-3.6	-3.4	8.7	6.3	284.3	-10.7	-20.6
Intesa	3.3	4.3	95.6	-4.2	-9.6	6.8	7.4	391.9	-10.1	-43.4	4.6	8.8	524.8	-11.3	17.8
Lloyds	1.9				0.0	3.5	5.8	173.8	-4.2	3.3	6.7	6.7	319.1	-6.2	10.4
Nordea	3.4	3.7	31.4	-3.4	24.7	3.5	5.5	167.5	-1.3	25.5	6.8	5.8			
Rabobank	2.7	3.4	1.8	-7.6	0.6	3.8	5.6	176.1	-3.6	10.1	7.2	6.0	215.7	-1.4	23.1
Santander	2.5	4.1	59.9	-3.4	-7.3	3.7	5.8	212.5	-3.3	7.6	6.4	6.6	310.2	-17.0	11.1
San UK	1.0					3.8	6.5	248.0	-1.5	10.2	2.1	6.6	255.7	0.0	0.0
SocGen	4.0	4.0	81.8	-5.0	4.7	3.8	6.5	265.4	-6.7	10.3	7.1	7.5	393.7	-10.7	52.0
StanChart	3.4	4.1	78.3	-4.5	-19.8	2.4	6.1	182.1	-4.3	-21.1	8.7	7.0	344.1	-14.1	-6.1
UBS	2.2	6.0	134.8	-4.5	54.1	3.7	6.0	242.2	-11.3	36.0	8.7	7.0	344.1	-14.1	-6.1
UniCredit	3.1	4.5	103.3	-3.9	-27.3	3.0	6.8	299.1	0.0	91.8	6.6	8.7	500.0	-5.5	-31.5

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

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies, ESG	*William Hahn*	+44 20 7597 8321
Head of Translation, Economic and Credit	*Mariko Humphris*	+44 20 7597 8327
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst, Financials, Power, Communication, Wholesale Trade, Air Transportation	*Toshiyasu Ohashi*	+81 3 5555 8753
Local government, Government agency	*Kouji Hamada*	+81 3 5555 8791
Electronics, Non-Banks, Real Estate, REIT, Retail trade, Chemicals, Iron & Steel, Marine	*Takao Matsuzaka*	+81 3 5555 8763
Transportation, Pulp & Paper, Oil, Land Transportation	*Kazuaki Fujita*	+81 3 5555 8765
Automobiles, Foods, Heavy equipment, Construction, Machinery	*Ayumu Nomura*	+81 3 5555 8693
International Credit		
Non-Japanese/Financials	*Fumio Taki*	+81 3 5555 8787
Non-Japanese/Financials	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Corporates	*Stefan Tudor*	+81 3 5555 8754
ESG		
Chief Securitisation Strategist	*Koji Matsushita*	+81 3 5555 8778
Strategist	*Shun Otani*	+81 3 5555 8764
Strategist	*Takao Matsuzaka*	+81 3 5555 8763
Strategist	*Kaori Ichikawa*	+81 3 5555 8758

DAIR <GO>

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

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

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

IMPORTANT

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

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

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

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

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

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

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

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

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