European Banks – Credit Update

- Second week of 1Q22 earnings generally positive but bottom-line results are weighed down by Russia related provisioning
- Primary markets largely muted for SSAs with only a handful of FIG deals coming to market
- Secondary market spreads continued to widen in EUR and USD as market uncertainty persists

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Western European banks – 1Q22 results – Part 2

(↑) **BNP Paribas** presented a strong set of results for 1Q22, with net income of EUR2.1bn up 19% against the same period last year. Europe's largest lender benefitted from strong trading performance of its CIB, and reduced loan loss provisions (LLP) which offset some higher than expected cost inflation. Operating income of EUR13.2bn was up 11.7% yoy and the largest contributor to this was BNP's CIB unit (36% of total income), followed by Commercial and Personal Banking (35%) and Insurance and Asset & Wealth Management (18%). The CIB, which houses the bank's trading activities, saw revenues rise 28% yoy on the back of strong FICC trading (+47.9% yoy) and surprisingly strong equity trading (+60.9% yoy), both exceeding the average U.S. peer performance. Client hedging needs and asset reallocation were the main drivers for the strong FICC performance, while equities and prime services benefitted from strong client activity early in the year and contributions from the integration of Deutsche's platform and Credit Suisse's referral agreement. BNP reported RoTE of 13.5% for the quarter (1Q21: 10.6%) and revised upwards its 2025 target to >11% from 10%.

Operational expenses were up 12% yoy, in part due to exceptional items such as rising contributions to the Single Resolution Fund (SRF), restructuring costs and IT reinforcement expenses. Cost of risk (CoR) provisioning fell 49% to EUR456m, despite an increase of EUR159m of impairments from BNP's 60% stake in Ukrainian lender Ukrsibbank. Gross exposures to Russia are relatively low at EUR1.3bn as the bank exited local retail banking in 2012 and prudently managed down its exposure to the country following the invasion of Crimea in 2014. CoR was relatively low at 20bps (-11bps yoy) and even undershot 2019 pre-pandemic levels of 39bps on the back of strong asset quality and provision releases. CET1 fell to 12.4% (-50bps qoq) but remained 309bps above regulatory requirements. BNP intends to keep the ratio above 12% by 2025, which should be helped by the sale of its North American commercial banking activities conducted by Bank of the West. The sale to BMO Financial Group was announced in December 2021 and the resulting capital release is expected to have a positive impact on the group's CET1 ratio by ~170bps.

(↑) **Societe Generale** reported net income of EUR842m (+3.4% yoy) on the back of solid EUR7.2bn in revenues (+16.6% yoy). The figures improved on an already strong set of financials from 1Q21 and the sustained improvement in its French retail operations (+6% yoy) underlines the recovery in business volume and activity. Domestic retail banking accounts for 30% of SocGen's total income and is arguably even more instrumental as its Global Markets & Investor Services division that conducts the group's trading activities and accounts for 24% of the total. Equity trading revenues were up 20% to EUR1bn driven by high client demand, notably on listed products and prime services, while FICC revenues went up 22% to EUR767m, driven by solid commercial activity in a favourable environment across all asset classes, and high demand for rates products. Cost pressure is making itself noticeable with operating expenses up 12% on the back rising variable compensation and a sizeable 47% increase in the SRF contribution, which now accounts for 16% of total operating expenses.

LLPs more than doubled to EUR561m yoy, as SocGen prudently provisioned for its activities in Russia, which will in part be reversed once the sale of Rosbank is finalised. The cost of risk was 39bps in 1Q22 and SocGen guided for a rate of 30-35bps. The bank also said it was putting aside higher LLPs due to the war in Ukraine. CoR is expected to rise to a range of 30-35bps, up 5bps from its previous guidance. These costs will be charged in addition to the EUR3.1bn write-off from the sale of its Russian subsidiary Rosbank to oligarch-controlled Interros Capital. The deal is expected to close in the coming weeks. The hasty exit from Russia will leave the bank with a reduced MDA buffer of 370bps (-100bps qoq). CET1 remains adequate at 12.9% (-80bps qoq) but fell despite strong revenue generation that was largely absorbed by higher SRF contributions and RWA growth. Additional pressure on the capital ratio may arise from SocGen's announced acquisition of Leaseplan Corporation.

(⇔) **Credit Agricole** posted a sharp decline in net income on the back of mounting provisions. Net income for France's second largest bank fell to EUR552m (-47.2% yoy) after conservatively provisioning for the consequences of the war in Ukraine. CA booked a EUR389m provision for its Russian exposure and wrote down EUR195m against the equity value of its Ukrainian unit. Senior management stated that without these precautions, net income would have exceeded EUR1bn (+10% yoy) with lower like-for-like cost of risks when excluding Russia. Nevertheless revenue generation appeared healthy at EUR5.9bn (+8.1% yoy) with all business lines reporting rising income and higher activity. The CIB which houses CA's trading activities saw underlying revenues rise only 4.3% yoy to EUR1.4bn. FICC activities that make up almost 40% of CIB income were down by 9% and had to be compensated by stronger performances from the much smaller IB (+40.1% yoy), structured finance (+16%) and commercial banking & others (+8.2%). Exposures to Russia were managed down to EUR4.5bn from EUR5bn at the beginning of the year. Asset management performance was good with underlying net income up to EUR304m (+5.3% yoy). CA owns 70% of asset manager Amundi that self-reported adjusted net income of EUR324mm (+5% yoy) on the back of solid AuM inflows to a total of EUR2tr (+15% yoy). No further updates were provided on CA's 9.2% stake building in Italy's number three, which had fuelled speculation of a full takeover when it was first announced in April. Group CET1 fell to 11% (-90bps qoq) one of the lowest among its peers, but still 310bps above regulatory requirements. We anticipate further cost pressure to weigh on capitalisation over the near term.

(⇔) Raiffeisen Bank International reported an unexpectedly strong set of 1Q22 financials as net income doubled to EUR458m, greatly exceeding average analyst expectations of EUR165m. This included EUR96m from its Russian subsidiary for which RBI is developing strategic options. Results were driven by rising fee and commission income (+63% yoy) from higher FX activity in Russia and increased customer activity in general as well as and strong NII growth (+34% yoy) benefitting from higher interest rates in the Czech Republic, Hungary, Russia and Romania. This was somewhat offset by rising risk provisions as impairments rose to EUR319m (+319% yoy) on the back of exposures to Russia, Ukraine and Belarus. The strong top-line results and fall in the cost-to-income ratio to 42.1% (-13.2bps yoy) mask the group's rising cost base of EUR792m (+17.9% yoy), which will present a further drag on performance once income normalises. Despite the good bottom line, RBI revised its 2022 forward guidance on several accounts. Higher risk assumptions and lower than expected economic growth resulted in loan growth remaining 'stable' in mid-single digits in core CEE markets, compared to the previous growth expectation of 7-9%. RoE is forecast to reach 8-10% by end-2022 compared to 11.9% in 1Q22, while the cost of risk is also expected to rise to 100bps from previous guidance of 40bps.

The group's CET1 ratio of 12.3% declined 88bps qoq, resulting in a relatively thin residual capital buffer above requirements (190bps), reducing RBI's ability to react to future shocks and/or release capital for business growth in other areas. This will partially be offset by the sale of RBI's Bulgarian unit, which was announced in November 2021. The sale will generate EUR1bn in capital, reducing the group's RWA base. Somewhat disappointingly, RBI didn't provide any meaningful strategic options for the future of its Russian exposures, despite reporting unsolicited interest in the unit. Rivals such as SocGen, with similar nominal exposures to Russia have acted more decisively and have exited the country. We recognise that RBI's high income dependence on the region presents a considerable obstacle to any decision but more than two months into the conflict stakeholder's will want to gain clarity relatively soon.

(⬇) ING reported net income of EUR429m (-57.5% yoy), undershooting average analyst estimates by 37%. One major driver for the weaker bottom line results were net additions to LLPs that amounted to nearly EUR1bn, the majority of which is associated with Russia-related exposures. Combined exposures to Russian entities and loans extended in the region amounted to some EUR5.8bn (0.9% of the total loan book). The overall weak set of results were also the consequence of low intrinsic revenue generation. Total revenues were down to EUR4.6bn (-2.2% yoy) with net core lending growth of EUR5.6bn, mostly linked to low-yielding mortgages in core markets such as Germany, Spain and Australia. Wholesale bank lending was negative, down EUR5.2bn mainly due to the decrease in TLTRO-related short-term facilities in markets.

Total NII stood at EUR3.4bn (-2.8% yoy) of which TLTRO contributed a rather negligible EUR82m. Net fee and commission income was the only top-line item that grew (+9.3% yoy to EUR933m) across retail and wholesale banking. ING has not communicated any strategic options for the disposal of its Russia exposures other than running down its books. While exposures remain elevated when compared to peers, the Dutch lender has managed to reduce them by EUR900m since March. Group CET1 of 14.9% includes EUR2.5bn earmarked for expected and unexpected losses from Russian dealings. With regards to management guidance the bank is currently meeting its 12.5% CET1 target but has still some way to go to meet RoE of 10-12% (1Q22: 8%) and cost to income ratio of 50-52% (1Q22: 60.5%).

Southern European banks – 1Q22 results – Part 2

(⇔) UniCredit surprised with the announcement of a EUR1.6bn share buyback at a time when Italy's number two booked EUR1.3bn in provisions on the back of its EUR7bn Russia exposures. Under an extreme scenario in which UniCredit would have to write off its Russian unit, a 40% recovery rate on cross-border loans and a EUR400m hit on derivatives, losses could total EUR5.2bn. This could reduce CET1 by 128bps vs 200bps previously estimated (72% already taken in 1Q22). The higher than expected provisioning will ease some concerns over UniCredit's Russia exposure, allowing the group to shift the narrative around its profit targets. Net income for the quarter was EUR247m (-70% yoy) and well below consensus estimates (-40%) due to the larger than expected volume of provisions. However, excluding Russian exposures, underlying net income of EUR1.16bn was up 48% yoy.

Underlying performance of the group was solid with net revenues of EUR4.7bn (+8% yoy) driven by fees and trading income. RoTE is guided at 10% by 2024 compared to 7% at end-2021. UniCredit also mentioned that the sale of its remaining 18% stake in Turkey's Yapi Kredi Bank has been concluded, with residual capital impacts to be booked in

2Q22. The bank expects to gain a low to mid-single digit uplift to its capital base, which should help offset some of the observed declines in 1Q22. CET1 fell by 103bps over the course of the quarter to 14%, taking into account EUR1.6bn share buyback approved by the ECB (-55bps), the impact from Russia (-92bps) and others (-13bps), partially offset by intrinsic capital generation (+57bps). It remains above the 2022 management guided rate of 12.5-13%.

(⇔) Intesa SanPaolo announced a significant reduction in its forward looking profit guidance as it set EUR800m in provisions aside to cover further fallout from the war in Ukraine. Net income for the quarter reached EUR1bn (-32.5% yoy) as the 2022 profit forecast was revised down to EUR4bn from EUR5bn guided in February. Positively, costs were well managed (-3.2% yoy) resulting in a strong cost to income ratio of 46.3% (-80bps yoy). Underlying revenue performance remained solid, with operating income of EUR5.4bn almost unchanged against the same period last year. Intesa's CIB generated stable operating profits during the quarter but sizeable Russia-related provisions (EUR679m) booked in the unit saw net income plunge to just EUR168m compared to EUR721m one year prior.

Domestic retail operations broadly maintained stable top-line revenue performance whilst benefitting from net LLP reversals (+EUR426m) that resulted in divisional net income of EUR528m (+142% yoy). Asset quality continued to improve with NPLs falling to 3% from 4.4% and coverage at 52.8% compared to 49.4% one year prior. Intesa's credit profile remains closely tied to that of the broader Italian economy given its more limited international footprint compared to domestic rival UniCredit. Additionally, widening BTP spreads over BUNDS put in focus Intesa's significant EUR89.5bn exposure to Italian sovereign debt (EUR34.3bn in banking and EUR55.2bn in insurance), which amounts to 8.3% of total assets. CET1 ratio of 13.6% remains ~470bps above requirements but does not take into account the ~100bps impact from proposed share buybacks, as senior management hasn't provided a firm update on timing.

(↑) Banco BPM reported higher than expected net income at EUR178m (+77.6% yoy), which was above analyst expectations of some EUR130m. Italy's third largest lender has become the subject of merger speculation after Credit Agricole raised prospects of a full takeover after building a 9.2% stake in the bank in April. Credit Agricole has actively been expanding into the Italian market, most recently with its takeover of mid-sized lender Credito Valtellinese in 2021. Signs that a potential acquisition by Credit Agricole may not be viewed favourably can be seen in the bidding process that has ensued for Banco BPM's insurance business. The Italian bank invited rival bids for the unit whilst Credit Agricole was looking to hold exclusive talks.

Aside M&A talk, Banco BPM's performance in 1Q22 was solid with total revenues rising to EUR1.18bn (+5.2% yoy) supported by strong trading performance and NII gains. LLPs were managed down significantly to EUR151m (-30.4% yoy), one of the lowest levels ever at the bank, resulting in a CoR of 54bps, close to its 48bps 2024 target. Banco BPM has also managed its non-performing exposure ratio well, reducing the gross ratio to 4.9% from 7.5% one year prior. The bank has already achieved its 2024 de-risking targets by reducing the NPE stock below EUR6bn. CET1 was 13.1%, down slightly (-29bps) compared to the previous quarter, still maintaining a sizeable 462bps SREP/ MDA buffer.

Primary and secondary markets

There was no new European **primary market** issuance for SSAs over the course of last week, below market expectations of EUR7bn-11.5bn. FIG supply of EUR10bn was above the weekly forecast amount of EUR5bn-9bn. The total 2022 year-to-date FIG volume of EUR243bn is 42.5% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 28.7% at EUR255bn. For the current week, survey data suggest SSA volumes will range between EUR14bn-18.5bn and FIGs are expected to issue EUR7bn-11.5bn.

The SSA market only saw a trickle of mostly non-benchmark sized tap transactions. KfW had the largest such transaction in the market with its USD1bn tap of a May-2024 bond, bringing the total to USD2bn.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
KfW	Sr. Unsecured (Tap)	USD1bn	May-2024	SOFR MS + 7	n.a.	n.a.
FIG (Senior)						
UBS	Sr. Unsecured	USD1.2bn	4NC3	T + 155	T + 180	n.a.
UBS	Sr. Unsecured	USD600m	4NC3	SOFR + 158	SOFR + equiv.	n.a.
UBS	Sr. Unsecured	EUR1.2bn	6NC5	T + 175	T + 200	n.a.
SEB	SP	EUR1bn	4.5Y	MS + 42	MS + 60	>EUR1.6bn
Morgan Stanley	Sr. Unsecured	EUR1.5bn	4NC3	MS + 88	MS + 110	>EUR2.75bn
Morgan Stanley	Sr. Unsecured	EUR1.5bn	10NC9	MS + 123	MS + 145	>EUR2.6bn

Source BondRadar, Bloomberg.

FIG markets saw a deluge of covered bonds with few unsecured transactions scattered amongst them. Only high-quality European issuers such as UBS and SEB approached markets as the earnings season is nearing its end. **UBS** launched a triple-tranche USD offering for a combined USD3bn. In the absence of order book figures one can assume that the bonds were well received as spread levels tightened noticeable from guidance following the Swiss bank's strong set of 1Q22 results. **SEB** also had a strong showing following its decent set of earnings. It was the first euro denominated SP bond issued by SEB in over two years, landing 18bps tighter than IPT. Demand reached 1.6x deal size helping the issuer to a relatively low new issue premium of some 10bps in an otherwise volatile market.

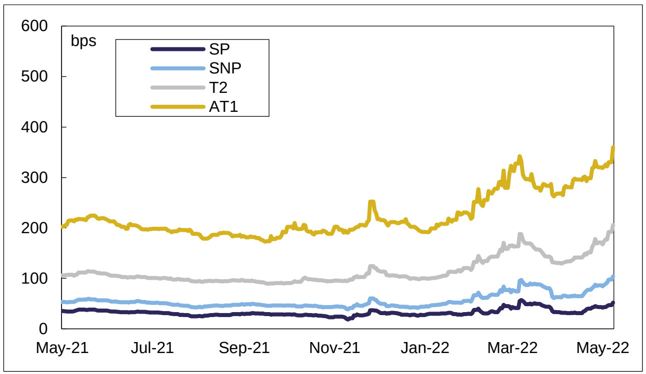
Secondary market spreads widened for EUR and USD. CDS indices on European senior (110bps) and subordinated financials (212bps), as measured by iTraxx benchmarks, priced +8bps and +15bps wider against the previous week's levels.

Spreads continued to widen for both EUR and USD denominated bonds with the latest monetary policy statements seemingly failing to tame market volatility. Following last week's policy meeting, the BoE increased Bank Rate by an additional 25bps to 1% but pointed to a significantly less hawkish outlook for monetary policy than has been priced into the market. While most members of the MPC judged that "some degree of further tightening in monetary policy may still be appropriate in the coming months", inflation was expected to fall back sharply from the start of 2023 as the updated outlook for GDP was extremely weak. The Fed also delivered its first 50bps rate hike in over twenty years, lifting the target range to 0.75-1%. Chair Jerome Powell indicated that changes of 50 basis points would be on the table "at the next couple of meetings", thus market participants should be planning for these changes in June and July. With the ECB's next monetary policy meeting a month away, several Governing Council members have signalled a preference for the deposit rate to rise for the first time in July, making room for three hikes between now and year-end.

Weekly average EUR spreads were wider across payment ranks with SP (+4.1bps), SNP (+13.2bps) and Tier 2 (+14.2bps). USD average spreads were also wider week-on-week, with SP (+2.1bps), SNP (+2.3bps) and Tier 2 (+3.0bps). Based on Bloomberg data, 45% of FIG tranches issued in May quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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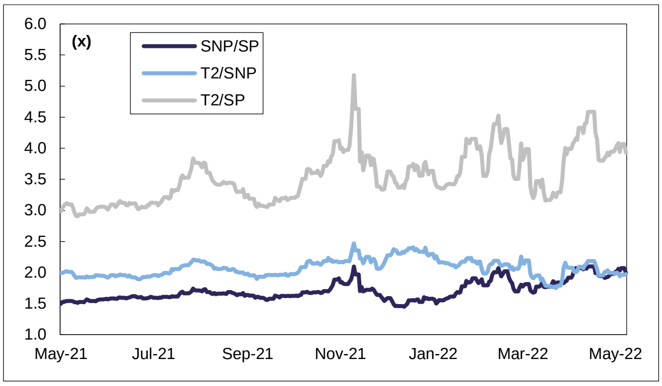


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

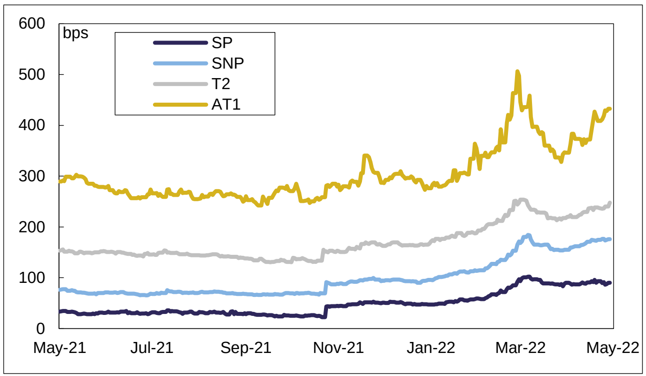
Selected Names

	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	3.7	2.3	59.3	8.7	28.0	2.8	2.4	102.7	14.0	52.0	3.6	4.4	277.7	14.6	111.5
Barclays	2.0	1.4	22.7	-0.2	-7.5	2.8	2.1	104.8	11.1	59.3	6.1	3.2	235.7	24.3	124.8
BBVA	4.5	2.1	53.2	5.1	11.8	3.5	2.1	64.5	10.2	16.9	4.4	3.4	189.7	17.3	78.8
BFCM	3.6	1.9	51.1	4.0	20.0	6.8	3.1	126.7	13.0	65.7	4.3	3.2	165.6	19.9	78.9
BNPP	2.5	1.6	30.1	3.9	2.0	4.6	2.6	109.4	11.4	50.8	4.1	3.3	170.9	17.3	84.9
BPCE	3.7	1.9	46.8	5.4	7.5	5.2	2.8	123.4	12.2	46.5	3.9	3.0	138.7	16.1	65.7
Credit Ag.	3.9	1.4	24.5	3.5	-0.6	5.5	2.8	114.1	11.1	56.4	3.5	3.1	155.8	12.3	66.3
Credit Sui.	5.4	3.6	190.7	19.7	69.1	4.9	3.4	192.8	14.0	110.9					
Danske	2.1	1.1	35.4	6.2	4.7	2.0	1.7	63.3	8.3	18.6	7.0	3.7	236.6	23.7	115.7
Deutsche	2.1	1.3	34.0	5.9	5.6	3.6	3.4	173.6	20.1	88.4	3.5	4.7	272.0	2.6	82.9
DNB	3.5	1.5	30.3	4.2	7.5	6.6	2.8	103.2	14.2	48.1	5.3	1.6	142.2	12.7	79.6
HSBC	5.3	2.3	57.7	5.8	22.6	4.3	2.1	107.2	15.0	56.9	4.2	3.0	147.0	10.7	75.6
ING	1.5	2.2	119.8	-1.7	-73.5	5.4	2.7	111.5	14.2	51.3	6.7	3.3	201.5	22.0	103.3
Intesa	4.1	1.7	55.0	7.6	10.9	3.3	3.0	152.3	21.6	62.1	3.9	3.9	228.9	9.0	51.0
Lloyds	2.6	1.5	21.7	2.1	8.5	2.3	1.5	81.1	12.3	44.8	5.0	2.5	183.0	29.6	114.7
Nordea	4.5	1.9	35.3	6.0	20.7	5.5	2.4	66.4	12.4	22.5	7.6	3.2		0.0	40.9
Rabobank	3.4	1.5	5.7	4.2	-5.1	5.1	2.5	76.7	13.0	32.2	1.2	0.8	19.2	18.4	0.9
RBS	2.9	2.7	117.3	13.9	74.3	5.1	2.5	76.7	13.0	32.2	1.2	0.8	19.2	18.4	0.9
Santander	3.4	1.8	51.4	5.8	21.0	4.8	2.7	111.3	13.1	48.7	4.4	3.4	176.4	18.9	69.3
San UK	2.8	1.7	32.9	-0.4	21.7	1.3	1.7	83.9	11.6	46.3	4.4	3.4	176.4	18.9	69.3
SocGen	4.5	2.1	58.9	6.4	25.7	5.4	3.0	133.3	12.7	62.9	5.4	2.8	207.7	20.4	109.4
StanChart	4.5	2.0	44.9	5.6	11.4	5.1	2.9	135.6	12.3	75.2	5.8	3.8	235.3	12.1	103.9
Swedbank	3.7	1.8	33.5	4.3	7.9	4.8	2.5	93.2	12.2	32.7	4.2	1.3	135.1	8.9	74.2
UBS	4.1	2.0	53.9	8.2	22.9	4.1	2.5	92.8	12.4	47.0	1.2	2.6	209.0	4.2	99.1
UniCredit	3.8	2.9	140.7	11.9	73.5	3.7	3.5	203.0	23.2	85.9	6.5	4.9	358.3	25.1	150.6

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

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



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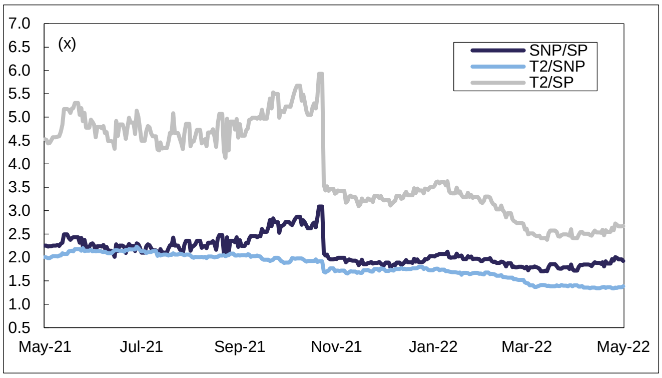

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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
Barclays	1.9					4.8	5.0	205.4	2.3	78.3	5.3	5.5	258.3	4.5	85.8
BFCM	3.6	1.9	51.1	4.0	20.0	4.8	5.0	205.4	2.3	78.3	5.3	5.5	258.3	4.5	85.8
BNPP	2.5	1.6	30.1	3.9	2.0	5.0	4.8	195.4	-0.7	78.9	4.3	5.0	204.4	-1.9	68.6
BPCE	3.7	1.9	46.8	5.4	7.5	4.9	4.8	198.0	0.7	70.3	3.1	5.2	223.2	2.7	58.8
Credit Ag.	3.9	1.4	24.5	3.5	-0.6	3.6	4.6	170.6	3.5	85.9	7.4	5.5	248.5	7.8	87.9
Credit Sui.	2.4	3.8	91.4	0.9	36.7	3.1	4.9	204.9	5.6	100.8	1.3	4.7	199.1	-10.1	71.0
Danske	2.1	1.1	35.4	6.2	4.7	2.1	4.3	166.2	3.4	69.1	1.3	4.7	199.1	-10.1	71.0
Deutsche	2.1	1.3	34.0	5.9	5.6	3.3	4.9	204.7	3.3	100.2	7.6	6.6	373.0	-3.2	153.9
HSBC	5.3	2.3	57.7	5.8	22.6	3.5	4.5	176.2	0.1	69.9	8.8	5.7	268.1	-2.0	60.7
ING	1.5	2.2	119.8	-1.7	-73.5	4.4	4.7	179.1	3.8	64.1	2.2	4.6	238.1	10.3	83.7
Intesa	4.1	1.7	54.2	7.6	10.9	4.4	4.7	179.1	3.8	64.1	3.2	6.7	374.8	12.0	138.7
Lloyds	2.8					2.8	4.4	157.0	3.7	68.6	8.1	5.3	241.4	4.7	85.5
Nordea	4.5	1.9	35.3	6.0	20.7	2.7	3.8	173.0	3.9	60.3	8.1	5.3	241.4	4.7	85.5
Rabobank	3.4	1.5	5.7	4.2	-5.1	4.3	4.2	137.3	2.7	44.1	3.8	5.0	205.1	3.9	57.2
RBS	2.9	2.7	117.3	13.9	74.3	4.3	4.2	137.3	2.7	44.1	3.8	5.0	205.1	3.9	57.2
Santander	3.4	1.8	51.4	5.8	21.0	5.0	5.0	207.8	6.3	83.4	7.3	5.7	271.1	5.0	84.5
San UK	1.9	3.4	63.5	-9.1	15.4	4.3	4.8	187.8	1.2	79.1	3.1	4.7	177.1		0.0
SocGen	4.5	2.1	58.9	6.4	25.7	4.2	5.1	220.2	0.5	85.8	3.5	5.0	212.3	0.3	69.0
StanChart	4.5	2.0	44.9	5.6	11.4	3.0	4.4	176.5	2.0	74.1	7.5	5.8	277.4	1.3	58.4
UBS	2.4	3.6	69.8	-1.0	26.0	3.6	4.6	176.8	1.6	75.9	7.5	5.8	277.4	1.3	58.4
UniCredit	3.8	2.9	140.7	11.9	73.5	3.2	5.1	219.4	-6.0	91.7	6.2	7.4	443.2	7.2	151.8

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.

Credit Research

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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.

Corporate Name: Daiwa Securities Co. Ltd.
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