Quarterly Credit Report

Q2/2012 Volume 2, No 1

National University of Singapore

RMI
Advancing Risk Management for Singapore and Beyond

Introduction

The Quarterly Credit Report (QCR) is an analysis of credit outlooks across regions, economies and sectors based on the probabilities of default (PD) generated by the Risk Management Institute's (RMI) default forecast model. The objective of the QCR is to provide insights on trends in credit outlook to credit professionals, investors and researchers.

This fifth issue covers the second quarter of 2012. The QCR commentary is divided into four regions: the developed economies of Asia-Pacific; the emerging economies of Asia-Pacific; North America and Western Europe. For each region we discuss the general credit outlook based on relevant indicators and relate them to RMI's default forecasts. Important and noteworthy economies and sectors within each region are discussed in greater detail.

The appendices in this volume include a comprehensive overview of various outputs that are produced by the operational PD system of RMI. While the PD system outputs default forecasts at horizons ranging from one month to two years, the QCR reports only 1-year PDs in order to allow the reader to make consistent comparisons. In addition to the PD produced by the RMI system, the appendices provide important macroeconomic, corporate credit and sovereign risk indicators. These summarize the credit situation, as well as make detailed data available for reference purposes.

The commentary in the QCR is based on equally weighted averages of the PD of *exchange-listed firms* within economies and industry sectors. Classification into economies is based on each firm's country of domicile, and classification into industry sectors is based on each firm's Level I Bloomberg Industry Classification. An exception is for the banking and real estate sectors, where firms are included based on the Level II Bloomberg Industry Classifications. The daily frequency PD graphs in the written commentary are aggregates of firms that have a PD in both the first ten days and last ten days of the quarter. This prevents, for example, drops in the aggregate PD when high PD firms default and leave the sample.

The economies that are considered in each region are based on a selection of 30 economies covered by RMI's default forecast model. The developed economies of Asia-Pacific include: Australia, Hong Kong, Japan, Singapore, South Korea and Taiwan. The emerging economies of Asia-Pacific include: China, India, Indonesia, Malaysia, Philippines and Thailand. North America includes: Canada and the US. Western Europe includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK.

Credit Research Initiative

The QCR is a companion publication to the Global Credit Review and Weekly Credit Brief, with all three publications produced as part of the Credit Research Initiative (CRI) undertaken by RMI.

These publications supplement the RMI's operational PD system, which is accessible at:

www.rmicri.org

As of July 2012, the PD system covers 44 economies in Asia-Pacific, North America and Western Europe. The next issue of the QCR will include coverage of these 44 economies. The probabilities of default for nearly 50,000 firms are available, including historical data for firms that are now delisted from exchanges or firms that have defaulted. PDs aggregated at the region, economy and sector level are also available. The full list of firms are freely available to users who can give evidence of their professional qualifications to ensure that they will not mis-use the data. General users who do not request global access are restricted to a list of 2,300 firms. The PD system operates in a transparent manner, and a detailed description of our model is provided in a Technical Report available on our website.

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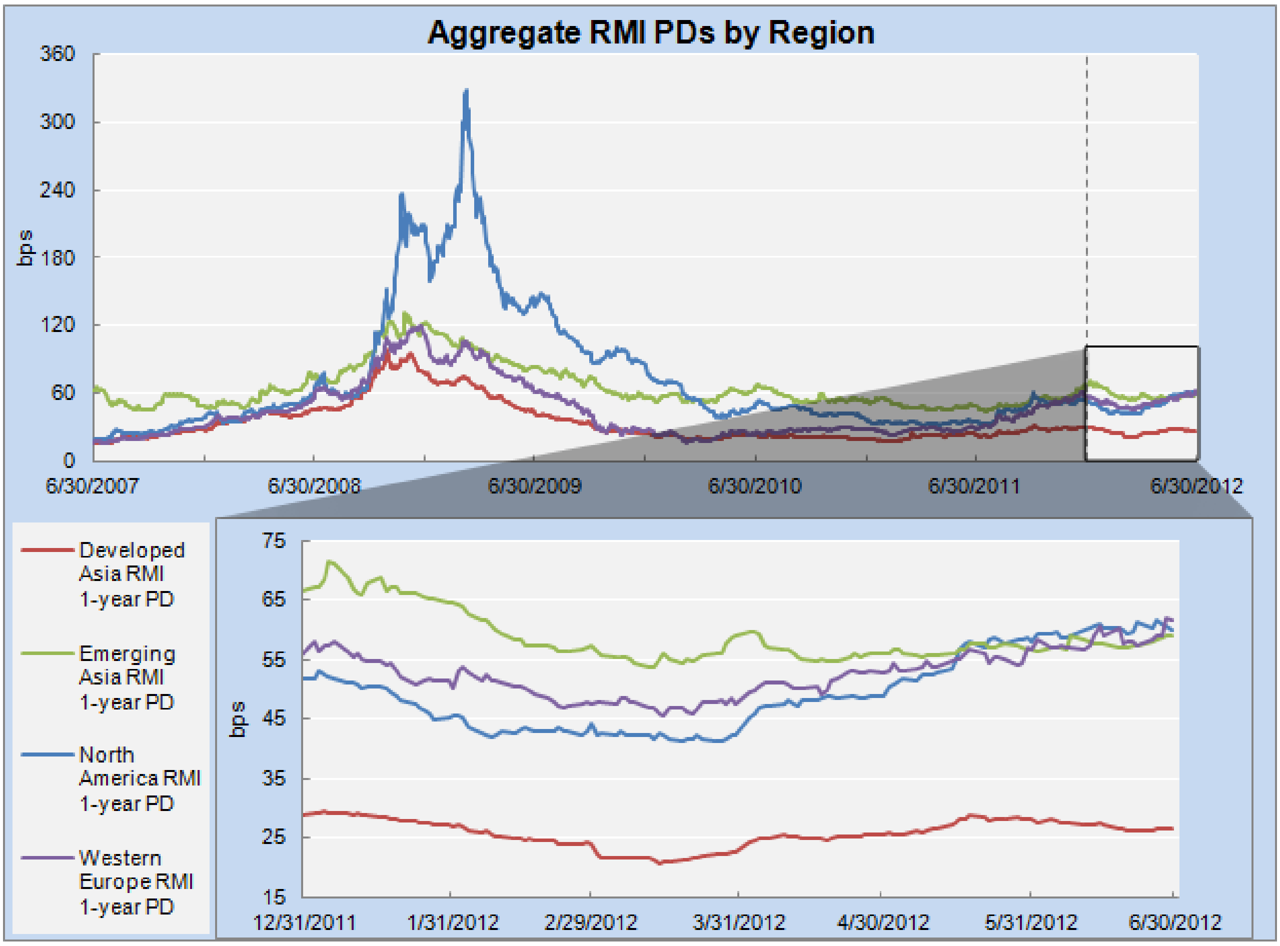
Acronyms

BIS	Bank for International Settlements
BOE	The Bank of England
CRA	Credit Rating Agency
CRR	Cash Reserve Ratio
EBA	European Banking Authority
EFSF	European Financial Stability Fund
ESM	European Stability Mechanism
EU	The European Union
FDI	Foreign Direct Investment
GFC	2008-2009 Global Financial Crisis
INE	Instituto Nacional de Estadi
LHS	Left-hand side of graph
LTRO	Long term refinancing operation
MAS	Monetary Authority of Singapore
MoM	Month on Month
MRO	Main refinancing operation
NPL	Non-performing loan
PBOC	The People's Bank of China
PMI	Purchasing Managers Index
QoQ	Quarter on Quarter
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RHS	Right-hand side of graph
RRR	Reserve requirement ratio
YoY	Year On Year

Global Overview

Aggregate global credit risk increased during Q2, with the eurozone sovereign debt crisis re-escalating on concerns about the health of the Spanish economy and banking sector. Based on RMI CRIs default forecast model, the aggregate 1-year RMI PDs for the four major regions increased or remained heightened during Q2. This followed a slight moderation of aggregate regional RMI PDs during Q1, indicating the overall credit outlook in each region remains unfavorable.



Loosening in monetary policy by central banks around the world towards the end of Q2 appears to have had little effect on credit risk at a regional level, with the increase in regional PDs suggesting that monetary transmission mechanisms have not affected levels of credit risk as in the past. For example, the ECB widened eligible collateral profiles and cut key lending rates at the end of Q2, in an effort to counter increased contagion as economic conditions in Spain deteriorated.

Credit conditions in Western Europe worsened, as European banks continued to reduce lending in Q2. This reduction has also affected funding conditions in Asia, with European banks being the traditional providers of export financing. This has been mitigated somewhat by moves towards more direct forms of financing in Asia-Pacific, such as bonds. Despite this trend, loans remain the primary source of financing in most markets outside the US. Incoming Basel III rules will likely lead to a further decline in banks willingness to lend to the real economy, especially in the US where capital rules are currently less onerous.

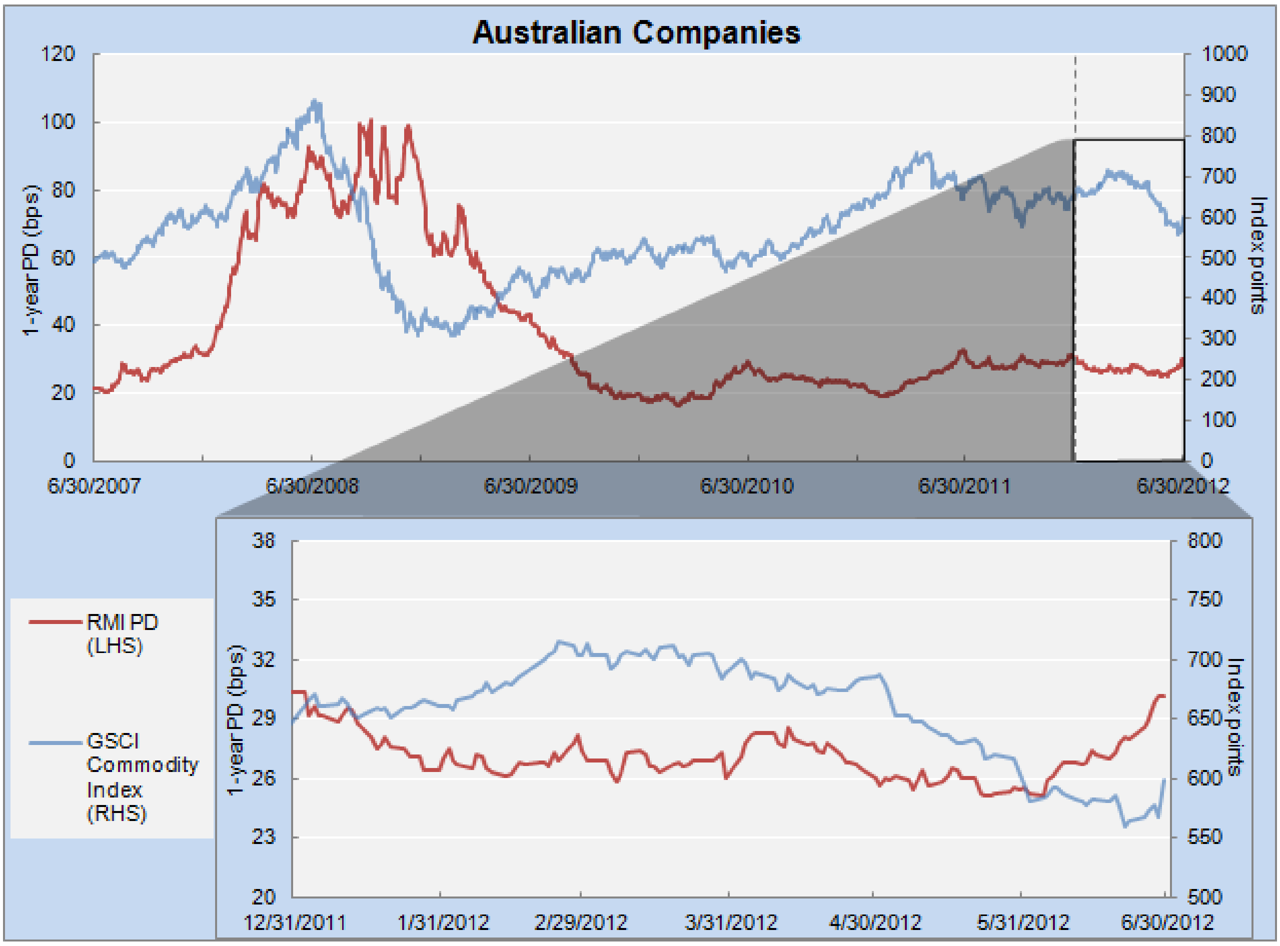
Moreover, a slowdown in bank lending has amplified the effect of slowing growth and generally worsening business conditions around the world. A significant economic contraction in Europe, driven by fiscal austerity and high unemployment, is likely to continue to weigh upon global markets going forward, and curtail corporate earnings. Growth in Asia-Pacific and the US has moderated somewhat, with firms in export reliant Asian nations exposed to further slowdown in Europe, despite increased insulation since the GFC.

Reflecting this, the IMF cut its 2013 global growth forecast to 3.9% in July 2012, from an original 4.1% estimate in April. The IMF's forecast assumes that governments around the world will take sufficient actions to ease market uncertainty in the eurozone and stimulate growth. However, questions remain about the ability of Western governments to achieve the latter, given ongoing budget deficits and fiscal austerity.

Asia-Pacific - Developed economies

Australian Companies

The aggregate 1-year RMI PD for Australian companies stabilised during Q2, following a slight decline during May. Healthy economic growth continued, but key sectors of the economy remain exposed to potential contraction in Asian markets, particularly China. The RMI PD for Australian companies is negatively correlated with global commodity prices. Furthermore, the effect of new taxes on the corporate sector remains uncertain, but the increase in government revenues should create room for fiscal stimulus. Funding profiles of Australian companies continued to improve during Q2, with financing conditions likely to remain favourable while international demand for comparatively higher yielding Australian assets continues.



Economy

- The Australian economy continued to expand during Q1, growing 1.3% QoQ, following growth of 0.6% QoQ in Q4 2011. Healthy growth is likely to continue, with respective IMF and OECD 2012 YoY growth forecasts of 3% and 3.1%.
- Unemployment increased to 5.2% in June from 5% in April, and remains close to the 10-year average.
- Retail sales increased sharply during Q1, however consumer confidence fell slightly

in Q2. Business confidence improved slightly during Q2, as companies reported increased sales.[1]

- The Australian manufacturing PMI recovered ground in June, increasing to 47.2 after falling to 42.4 in May. The improvement was driven by a revival in new orders, but the index remains in contraction territory.[2]
- Export revenues may slow, as Chinese growth forecasts were revised downwards during Q2, while commodities prices fell, with the GSCI index declining 14.4% during Q2 to 599.4 on June 29.[*]

Monetary

- The RBA further reduced its cash rate target during Q2. The key overnight money market interest rate was reduced by 25bps on May 2 to 3.75% per annum, and by an additional 25bps on June 6 to 3.5%.

Funding & Liquidity

- Yields on 10-year Australian government bonds fell sharply during Q2, to a low of 2.78% on June 4, down from 4.13% at the start of Q2. Yields increased towards the end of Q2, to 3.05% on June 29.
- Fixed interest rates on 3-year loans to small businesses declined sharply during Q2, to 6.6% per annum in June from 7.55% in March, the lowest point since January 2009.[3]
- Bank lending to businesses expanded at the fastest rate since 2008 during Q2, increasing 1.7% between March and May to AUD 713.5bn.[4]

Political

- From July 1, 2012, Australian companies became subject to a carbon tax of AUD 23 per tonne of carbon emissions; the impact of this on Australian companies is still uncertain.
- A new tax on the mining sector began on 1 July 2012, and is expected to generate AUD 10.6bn in tax revenues, but could drive investment overseas, and make the economy more reliant on growth in China.[5]
- In June, the Australian Treasury raised the possibility that it may abandon its previous commitment to budget surpluses in the near future, in order to protect the Australian economy from the European debt crisis.[6]

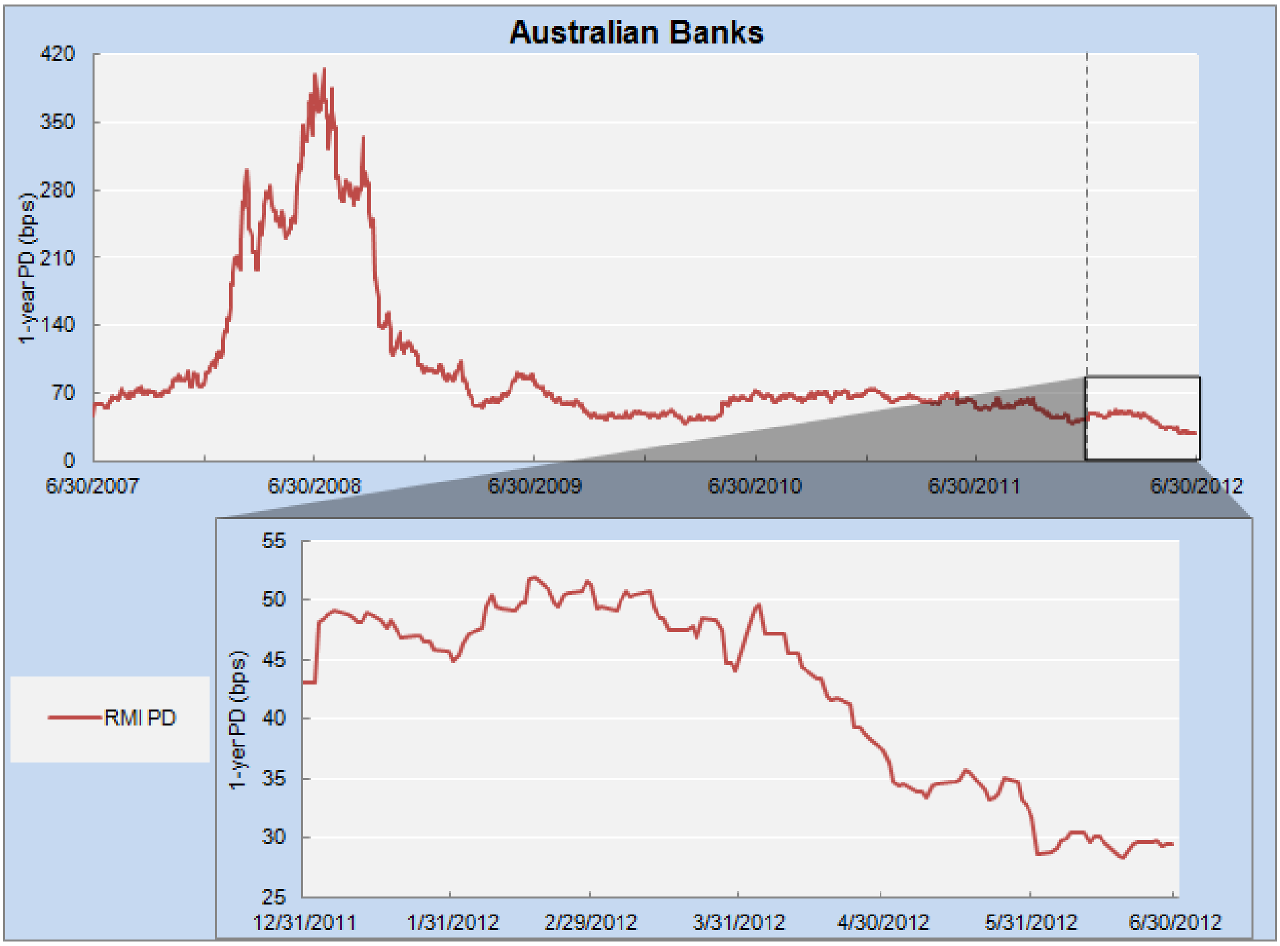
Sovereign Credit Ratings

- The three major CRAs retained AAA-equivalent ratings on Australia during Q2, with stable outlooks.

[*] The index subsequently recovered to 654.7 as of July 20.

Australian Banks

The aggregate 1-year RMI PD for Australian banks fell to lows not seen since early-2005 during Q2, with banks continuing to report strong earnings. Recent robust profitability is expected to moderate going forward, due to recent central bank monetary policy actions. The funding profiles of Australian banks improved significantly during Q2, which may offset declines in net interest margins. Moreover, financing conditions will likely remain favourable with international investors seeking the safety of Australian bank assets amidst the eurozone sovereign debt crisis. Despite an increasingly positive credit outlook for Australian banks, minor deterioration in manufacturing and SME loan portfolios is expected, while households remain highly geared.



Profitability

- During Q1, Australian banks remained among the most profitable in the world, with an aggregate net interest margin of 1.83%.[7]
- Net interest margins may decline though, as recent cash rate reductions have prompted lenders to reduce rates on loans, while rates in the deposit market remain highly competitive.[8]

Funding & Liquidity

- Coupon rates on 5-year fixed USD-denominated bonds issued by NAB and Westpac fell to 2% during Q2, down from rates as high as 3% in Q3 2011.
- Australian banks increased their deposits as a share of total liabilities to over 60% during Q2, the highest in 12 years. This has reduced banks' reliance on European commercial paper markets.[9]
- Moreover, legislative changes last year allowing banks to issue covered bonds has diversified funding sources, with steady issuance continuing through Q2.

Asset Quality

- Provisions for bad loans continued to decline during Q1. However, bad loans may increase in the struggling manufacturing sector. Increasing stress on SMEs, which account for around 10% of lending volume, could also lead to an increase in bad loans.[10]
- Household debt levels, relative to income, remained close to the highest in the developed world during Q2.[11]

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[1] Jul 7, 2012, Australia business conditions improve slightly in June, Reuters.

[2] Jul 2, 2012, AiG/PWC Australia Manufacturing PMI, Markit, http://www.markiteconomics.com/

[3] Jul 3, 2012, Indicator lending rates,, RBA, http://www.rba.gov.au/

[4] Jun 29, 2012, Lending And Credit Aggregates, RBA, http://www.rba.gov.au/

[5] Jul 9, 2012, Queensland joins Australia mining tax challenge, Channel News Asia.

[6] Jun 1, 2012, Labor would return to deficit if crisis worsens: Parkinson, Business Spectator.

[7] Jun 24, 2012, 82nd Annual Report, BIS, http://www.bis.org/

[8] Jun 8, 2012, ANZ passes on full 25 basis-point interest rate cut, Westpac and CommBank won't, News.com.au.

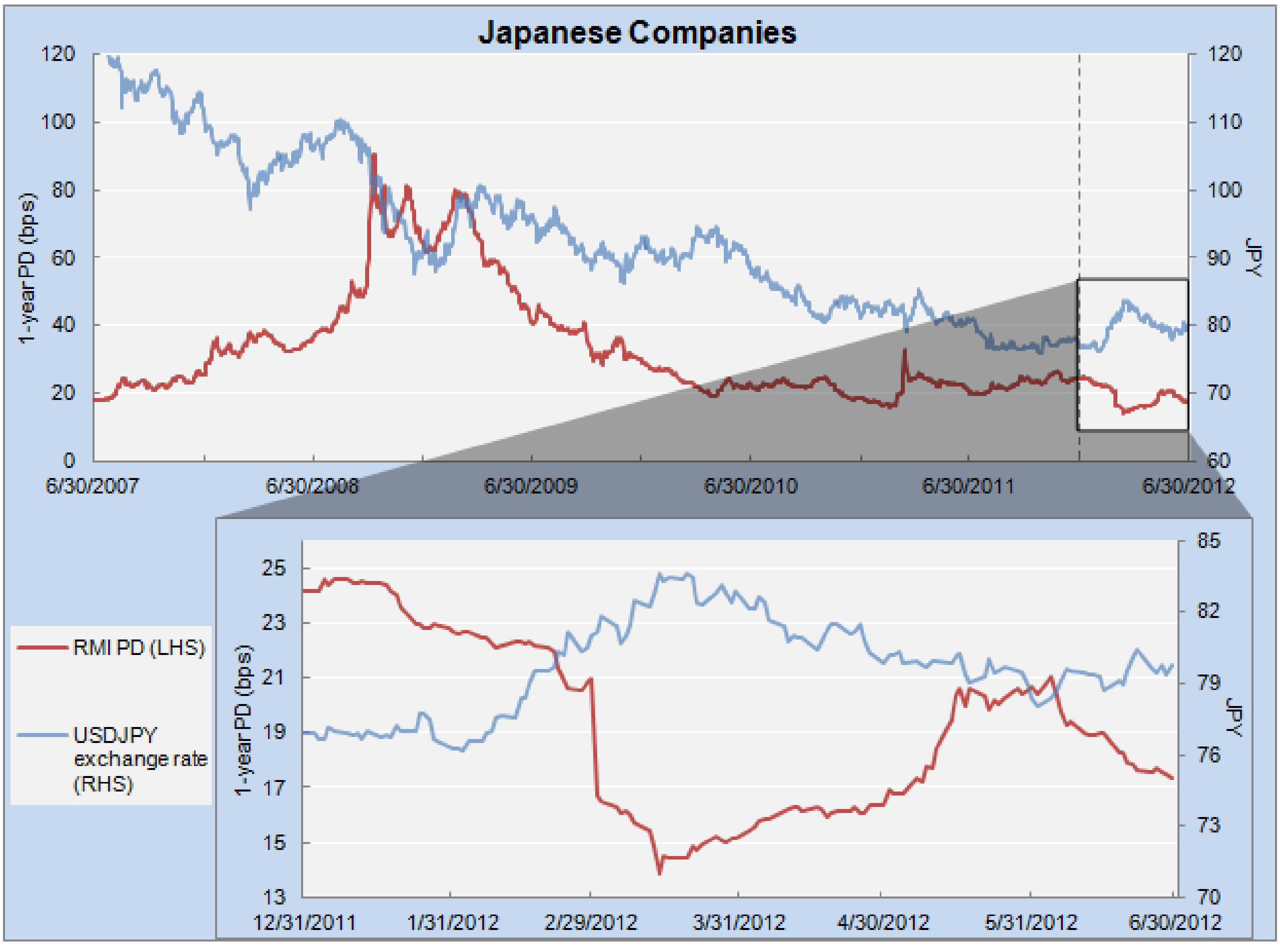
[9] Jul 18, 2012, Banks: Liabilities, RBA, http://www.rba.gov.au/

[10] Jul 19, 2012, Australia Bank Stocks Mask Risks, The Wall Street Journal.

[11] Jul 19, 2012, Australian Banks Strained by Rise in Bad Loans, CNBC.

Japanese Companies

The aggregate 1-year RMI PD for Japanese companies increased moderately during Q2, exhibiting noticeable volatility in May, and up from 5-year lows during Q1. Economic growth likely slowed during Q2, with both the services and manufacturing industries contracting for the first time in 2012 during June. Earnings at domestically-based multinationals likely deteriorated during Q2 in line with the appreciation of the Yen. Funding conditions improved significantly during Q2; safe-haven inflows into Japanese assets likely offset a decline in bank lending. However, the credit outlook for Japanese companies remains uncertain, and is dependent on the Bank of Japan's ability to simultaneously fight both currency appreciation and ongoing deflation.



Economy

- The Japanese economy grew by 1.2% QoQ in Q1 2012, from flat 0.0% growth in Q4 2011. IMF and OECD 2012 YoY growth forecasts of 2.4% and 2.0% respectively suggest continued modest growth.
- Japanese unemployment fell to 4.4% in May, from 4.6% in April, reversing an upwards trend in unemployment that started in late-2011.
- Retail sales declined at the fastest pace in 2 years during Q2, falling 3.9% YoY in June after stabilizing somewhat in Q1.
- The Japanese services PMI declined marginally, to 49.3 in June from 49.8 in May, the lowest in 9 months and indicative of only a marginal rate of decline in services output.[12]

- Japan's manufacturing PMI dipped fractionally in June, to 49.9 from 50.7 in May, the lowest reading in 7 months, indicating little growth in the manufacturing sector.[13]
- The JPY began to appreciate again during Q2, rising 3.82% against the USD, following a 7.15% decline during Q1.The JPY rose 9.4% against the EUR during Q2, after falling 10% during Q1.

Monetary

- The Bank of Japan expanded its asset-purchase and loan program by JPY 5tr. This brings total government purchases to JPY 70tr, aimed at countering on-going deflation.[14]

Funding & Liquidity

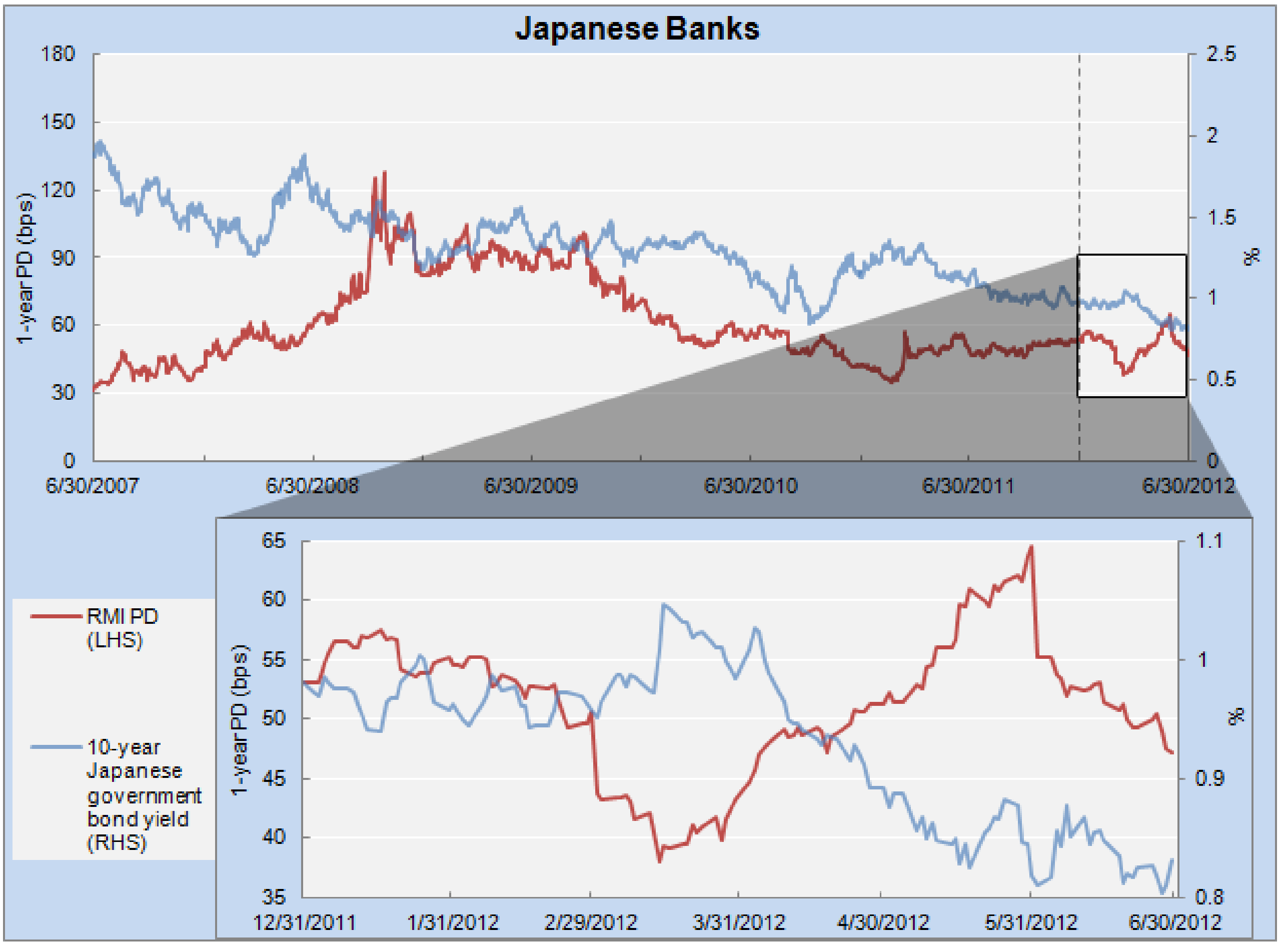
- Yields on 10-year Japanese bonds decreased during Q2, falling to a 9-year low of 0.81% on June 27 from 0.99% in Q1, as global investors sought safety from the eurozone crisis.
- Interest rates on new bank loans by Japanese banks declined during Q1, to 0.95% per annum in May from 1.08% in April.[15]
- Bank lending shrank during Q2, with outstanding loans to non-financials falling 1.45% to JPY 414.5tr between March and May, after increasing 1.68% during Q1.[16]

Sovereign Credit Ratings

- Fitch downgraded Japan to A+ on May 22, with a negative outlook. Moody's retained its Aa3 rating with a stable outlook, and S&P maintained a negative outlook on its AA- rating.

Japanese Banks

The aggregate 1-year RMI PD for Japanese banks increased once again during Q2, reaching levels in May not seen since late-2009, but falling slightly towards the end of Q2. Falling yields on government bonds underpinned strong earnings over the past year, but with no more room to fall, trading gains will be diminished going forward. Increased sovereign holdings weigh upon overall asset quality, especially given governmental debt levels significantly higher than Greece. Funding conditions have improved slightly, but falling interest rates may further affect the deposit bases of Japanese banks. The credit outlook is likely to decline going forward, given government regulatory actions and lower lending growth.



Profitability

- Yields on Japanese government bonds have fallen to record lows, resulting in trading gains and reducing the effect of weaker lending income. However, trading gains will likely be lower going forward.[17]
- A number of larger Japanese banks have plans to expand into the lucrative Australian mortgage market to offset anemic domestic loan demand.[18]

Funding & Liquidity

- Coupon rates on 5-year JPY-denominated bonds issued by Japanese banks fell to 0.39% during Q2, down from rates as high as 0.5% in Q1.
- Deposits at Japanese banks fell slightly during Q2, down 0.54% between March and May to JPY 607tr. However, this followed a 2.2% increase in deposits during Q1.[19]

Asset Quality

- The largest Japanese banks held about JPY 103.5tr worth of Japanese government bonds at the end of Q1; even a slight increase in bond yields could lead to large losses.

Regulations

- Japanese regulators may investigate domestic banks for insider trading following revelations that the Japanese units of Nomura and JPMorgan leaked insider information to other financial intermediaries.[20]

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[12] Jul 4, 2012, Markit Japan Services PMI, Markit, http://www.markiteconomics.com/

[13] Jun 29, 2012, Markit/JMMA Japan Manufacturing PMI, Markit, http://www.markiteconomics.com/

[14] Apr 27, 2012, Fighting Deflation, Japan's Central Bank Expands Asset Purchases, The New York Times.

[15] Jun 29, 2012, Average Contract Interest Rates on Loans and Discounts, Bank of Japan, http://www.boj.or.jp/

[16] Jul 9, 2012, Principal Figures of Financial Institutions, Bank of Japan, http://www.boj.or.jp/

[17] May 14, 2012, Japan mega banks face tough year as JGB gravy train slows, Reuters.

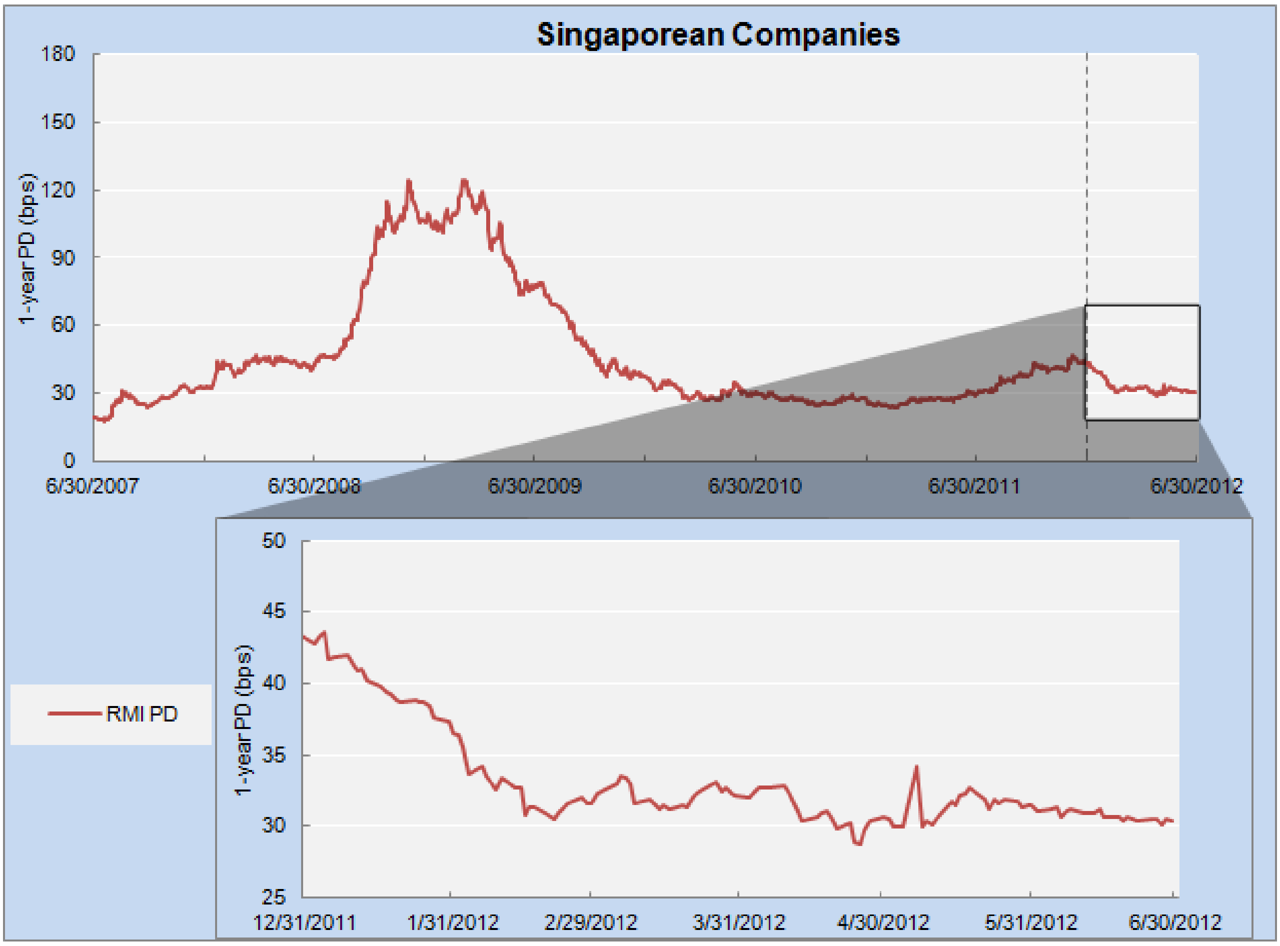
[18] Jan 23, 2012, Japanese banks could snatch $100 billion of the Australian home loan market, The Telegraph.

[19] Jun 29, 2012, Amounts Outstanding of Deposits by Depositor, Bank of Japan, http://www.boj.or.jp/

[20] Jun 12, 2012, Nomura Faces Regulatory Action on Insider Information Leaks, Bloomberg.

Singaporean Companies

The aggregate 1-year RMI PD for Singaporean companies remained stable during Q2, despite the city state's high exposure to a contracting global economy. Steps to strengthen the domestic economy following a recession during the GFC seem to have worked, with the earnings profiles of Singaporean companies supported by low unemployment and demand from the manufacturing, transport and communications sectors. The funding and liquidity profiles of Singaporean companies are likely to remain positive, as safe-haven inflows and record demand for domestic bonds continue. Overall, the credit outlook of Singaporean companies remains strong, with companies well placed to withstand global financial shocks. However, stricter immigration laws may weigh upon many multinationals operating in Singapore, the effects of which may filter through to domestic companies.



Economy

- The Singapore economy grew by 10% QoQ in Q1 2012, following a 2.5% QoQ contraction in Q4 2011. Growth is expected to remain moderate, with the IMF forecasting 2.7% YoY growth for 2012.
- The unemployment rate increased to 2.1% in Q1, from 2.0% in Q4 2011. The labor market reflected signs of softening as vacancies declined. Hiring in the services and construction industry accounted for a large proportion of new hires.[21]
- Industrial output stabilized during Q2, increasing 6.6% YoY in May, following a 3.1% YoY decline in March. Output likely increased further in June, with the manufacturing PMI remaining in positive territory.

- Domestic non-oil exports recovered in Q2, following a 4.4% YoY decline in March. Export growth increased through the three months to June 2012, growing 6.8% YoY in the last month of Q2.
- Retail sales continued to grow although at a slower pace, increasing 0.5% YoY in May, following a 1.4% increase in April.

Monetary

- The Monetary Authority of Singapore (MAS) maintained the exchange rate on a path of modest appreciation in the six months to April 2012.
- MAS will continue with a policy of modest and gradual appreciation within a narrower band, to help anchor inflation expectations, ensure medium-term price stability, and keep growth on a sustainable path.[22]

Funding & Liquidity

- Yields on 10-year Singapore government bonds declined during Q2, to a record low of 1.4% on June 14 from 1.66% on March 30.
- Banks expanded lending during Q2, with loans to non-banks increasing 3.44% between March and May.[23]
- SGD-denominated bond issuance reached an all-time high of SGD 14.2bn in the first half of 2012, up 46% YoY.[24]
- The prime lending rate remained at 5.38% during Q2, unchanged since January 2008.[25]

Political

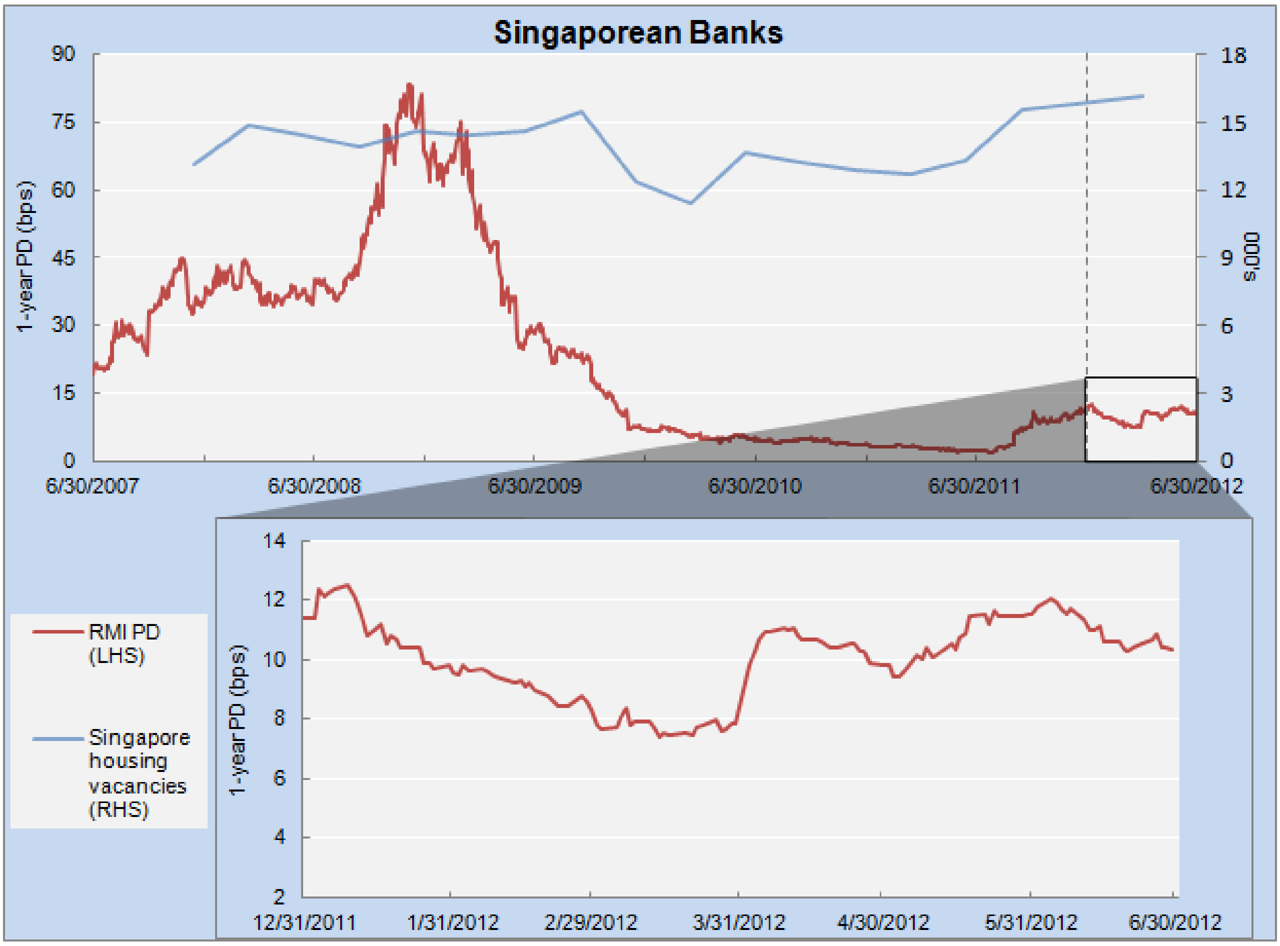
- In order to ease the pressure on Singapore's social infrastructure, the Ministry of Manpower has tightened immigration rules, restricting some foreign workers from bringing dependants with them.[26]

Sovereign Credit Ratings

- The three major CRAs maintained the Singapore government's AAA-equivalent ratings during Q2, with stable outlooks.

Singaporean Banks

The aggregate 1-year RMI PD for Singaporean banks remained stable during Q2, up slightly from levels seen during Q1, but remaining well below levels seen during the global financial crisis. Earnings profiles remain strong, but profits are likely to moderate somewhat due to respective slowdowns in the international economy and the domestic housing market. Unlike global peers, Singaporean lenders have suffered little deterioration in their respective credit outlooks during the eurozone sovereign debt crisis, with funding profiles supported by strong domestic and international demand for safe-haven assets, and a fairly unrestricted deposit market. Moreover, prudent lending and risk management practices have made Singaporean banks among the safest in the world. However, banks are expected to experience minor asset degradation in the near future, especially in their SME and consumer portfolios.



Profitability

- The three major Singapore banks all reported large earnings increases during Q1, with the aggregate net income to total assets increasing 5% YoY in Q1, after declining 15% YoY in Q4 2011.
- Loan growth slowed in Q2, growing 20.1% YoY during June following 26% YoY growth in March. Loan growth may contract further over the coming quarters amidst worries about the economy.[27]
- Housing loans constituted 75% of consumer loan portfolios in Q1. Demand for consumer mortgages is likely to decrease, with the housing market reacting to government cooling measures.

Funding & Liquidity

- Deposit growth at Singapore banks likely slowed during Q2, as deposits increased to SGD 493bn, reflecting a 0.1% increase between March and May. This followed an increase of 1.1% QoQ in Q1.[28]

Asset Quality

- Bad credit card debts written off by Singaporean lenders reached SGD 18m in April, the highest amount since December 2003. SGD 16.4m of debt was written off in May.[29]
- Loans to small exporters are vulnerable to deterioration if global growth continues to slow. However, such loans constituted less than 11.5% of total loans in Q1.

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[21] Jun 15, 2012, Singapore's Q1 unemployment up slightly, job vacancies fall, Channel News Asia.

[22] Apr 13, 2012, Monetary Policy Statement, MAS, http://www.mas.gov.sg

[23] Jul 23, 2012, Loans and Advances of DBUs to Non-Bank Customers by Industry, MAS, http://www.mas.gov.sg

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[26] Jul 9, 2012, Singapore Tightens Rules for Foreign Workers' Families, Bloomberg.

[27] Jun 23, 2012, Banks: Assets of DBUs, MAS, http://www.mas.gov.sg

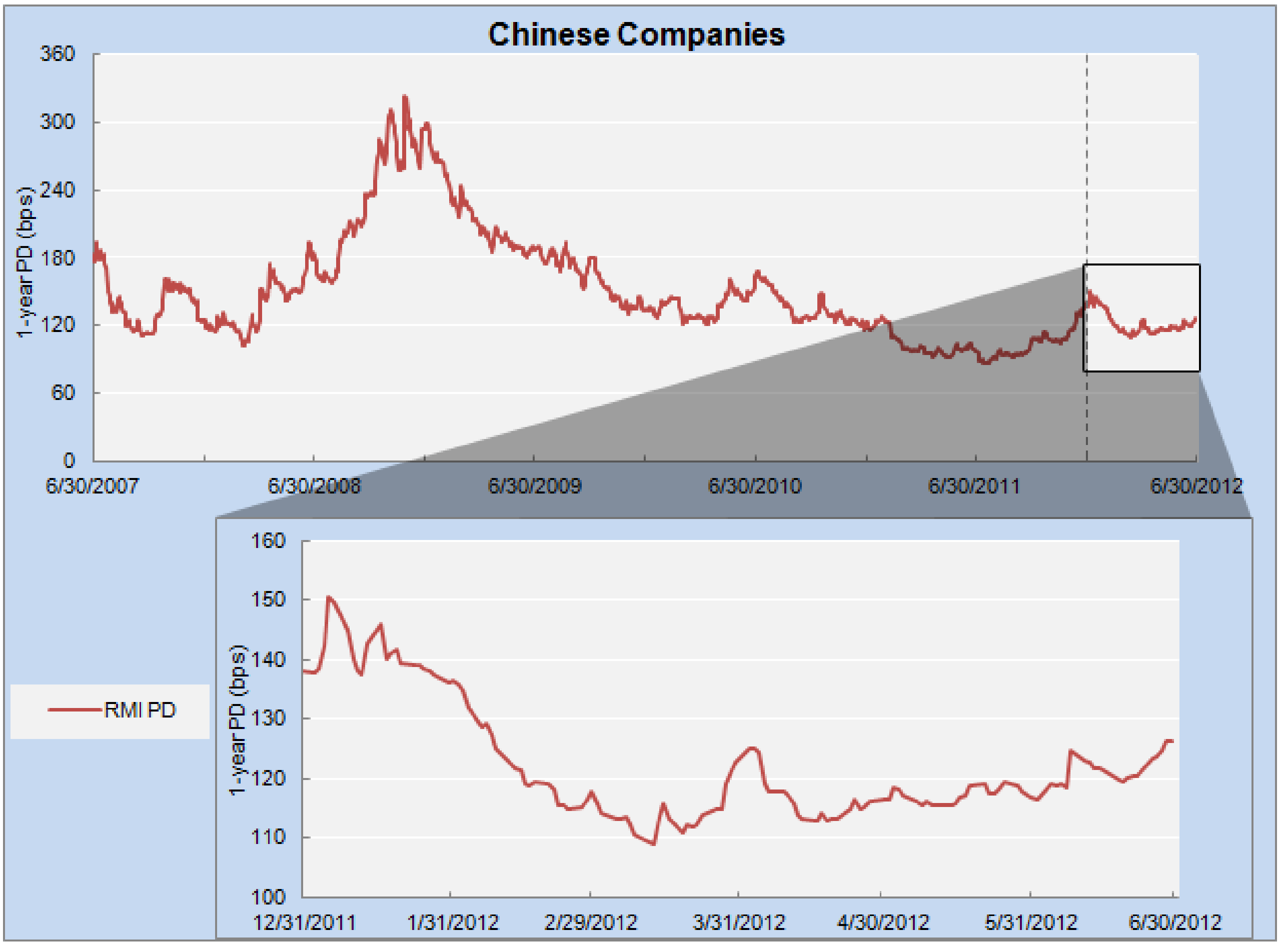
[28] Jun 23, 2012, Banks: Deposits, MAS, http://www.mas.gov.sg

[29] Jun 23, 2012, Credit and Charge Card Statistics, MAS, http://www.mas.gov.sg

Asia-Pacific - Emerging economies

Chinese Companies

The aggregate 1-year RMI PD for Chinese companies stabilized during Q2 following a decline in Q1, to levels slightly above those seen in mid-2011. Growth continued to moderate, with new business slowing in both the manufacturing and services sectors. However, exports continued to grow and unemployment remained stable, suggesting underlying demand will continue to support the earnings of Chinese companies. The funding profiles of Chinese companies improved during Q2, with regulatory streamlining of bond markets leading to record levels of new issuance. Despite this, caps on lending at Chinese banks have led to a minor liquidity squeeze; central bank measures enacted in Q2 should alleviate these strains somewhat. Moreover, expectations of higher levels of non-monetary stimulus have increased; it is expected that the government will implement spending measures to counter the effect of global macroeconomic headwinds. However, the credit outlook for Chinese companies deteriorated slightly towards the end of Q2, due to increasing concern that exports to the eurozone may slow in the near future.



Economy

- The Chinese economy slowed during Q2, with YoY GDP growth falling to 7.6% in Q2, down from 8.1% YoY in Q1 and well below highs seen in early 2010. IMF and OECD YoY growth forecasts of 8% and 8.2% YoY respectively, predicting a slowdown from 2011 YoY growth of 9.3%.

- The urban unemployment rate remained stable at 4.1% during Q1; however this number excludes migrant workers. Worsening underlying conditions in the labor market have prompted government measures aimed at keeping unemployment below 4.6%.[30]
- The Chinese manufacturing PMI indicates new manufacturing orders shrunk for the eighth consecutive month in June, falling to 48.2, from 48.4 in May.[31]
- However, exports grew 11.3% YoY in Q2, up from 8.9% YoY in Q1. Together with the aforementioned decline in manufacturing PMI, this suggests manufacturers continued to clear backlogs through Q2.
- The services PMI remained close to contraction territory at the end of Q2, falling to 50.6 in June from a 6-month high of 51.9 in May as manufacturing slowed.[32]

Monetary

- The PBOC cut the reserve requirement ratio (RRR) by 0.5% on May 18, to 20% for the country's largest financial institutions and to 16.5% for smaller financial institutions, injecting CNY 400bn of liquidity into the market.[33]
- The PBOC cut benchmark interest rates for the first time in more than three years in Q2; reducing key rates by 25bps on June 8. The 1-year deposit rate and the one-year lending rate were cut to 3% and 6.31%,* respectively.[34]
- The PBOC started a third round of reverse repurchase operations worth CNY 95bn on June 26, aimed at boosting economic growth and easing a liquidity squeeze driven by increased foreign exchange demand.[35]

Funding & Liquidity

- Yields on 10-year Chinese government bonds fell during Q2, to 3.35% on June 29 from 3.6% on March 1.
- Chinese regulators began allowing domestic SMEs to issue junk bonds during Q2, and streamlined bond issuance processes. Total issuance increased 60% in the first half of 2012 from the same period in 2011.[36,37]
- Loans to non-financials slowed slightly in Q2, but growth remained high relative to Q2 2011, increasing 4.4% between March and May to CNY 46.7tr.[38]
- Interest rates remain volatile. The monthly weighted interbank RMB lending rate fell to 2.72% in June, up from 2.19% in May but down from a high of 3.25% in April.[39,40,41]

Political

- Analysts expect the Chinese government to spend up to CNY 2tr on investments in the near future to stem the economic slowdown. Analysts' expectations are about half the size of growth measures enacted in 2008.[42]

Sovereign Credit Ratings

- Moody's maintained an Aa3 rating on the Chinese government with a positive outlook during Q2. Fitch and S&P both retained stable outlooks, with respective ratings of AA- and A+.

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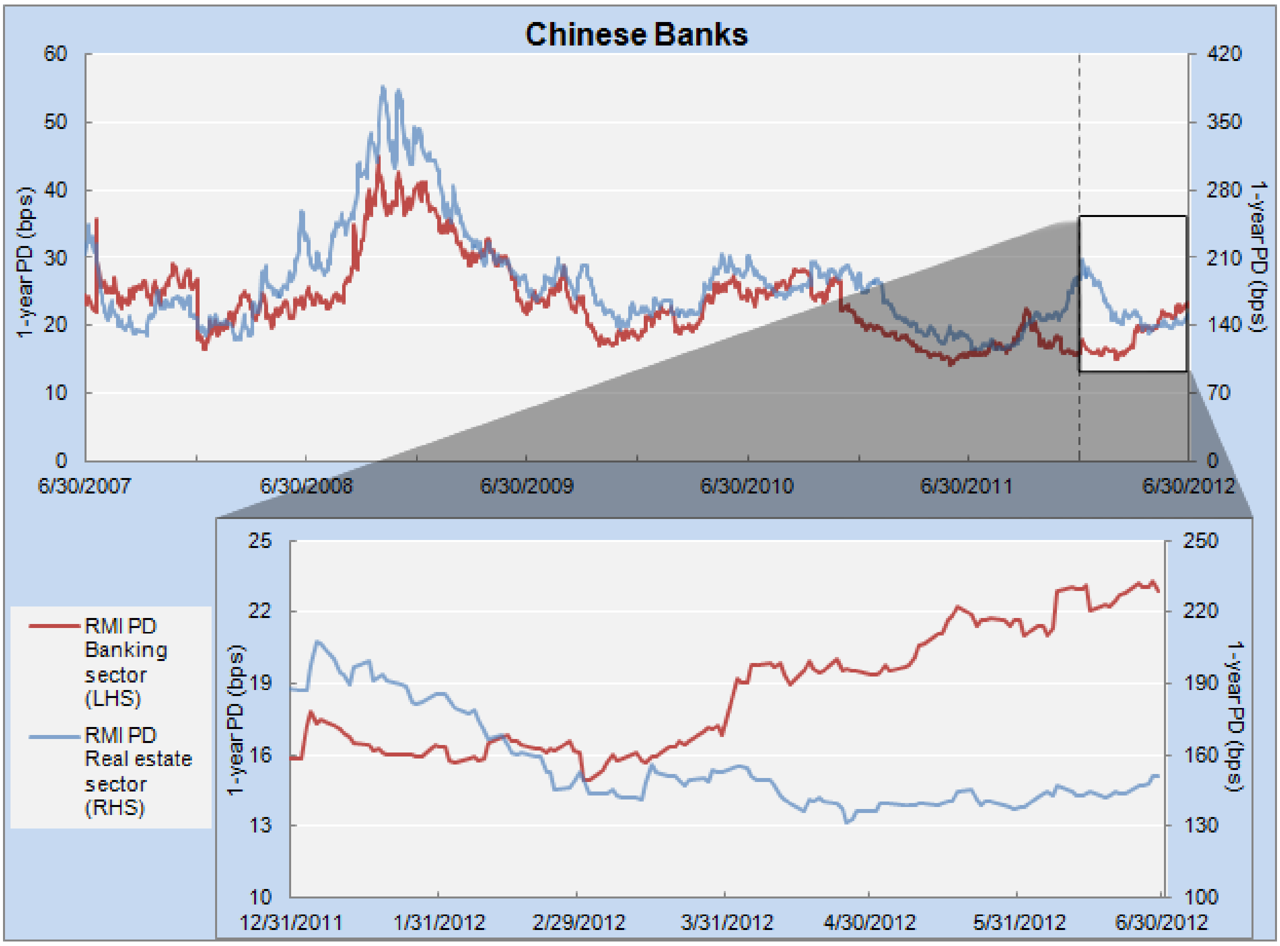
*The PBOC cut the one-year lending rate again on July 6 to 6%.

Chinese Banks

The aggregate 1-year RMI PD for the Chinese banking sector increased dramatically during Q2, reaching highs not seen since late 2010. Increasing fee revenues from banking and custody services should support bank earnings despite a contracting economy. Prevailing favorable funding conditions are likely to continue, but ongoing excessive liquidity due to a lack of higher yielding investment options negatively affects the industry's credit outlook. The increased flexibility afforded to Chinese banks by the PBOC's liberalization of interest rates will likely reduce net interest margins, as smaller banks compete for deposits. The potential for asset quality deterioration also weighs on the credit outlook of Chinese lenders. More specifically, loans to real estate developers are likely to suffer increasing impairment, given the current corrective phase in the housing market. Furthermore, regulatory obstacles preventing banks from raising capital in domestic markets may affect the ability of lenders to meet incoming Basel III requirements.



Profitability

- Earnings at Chinese banks reached record highs during Q1, with net income at listed banks increasing 55.5% QoQ to CNY 274bn. Earnings growth likely slowed through Q2, as economic growth decelerated.
- Increases in loan and fee-based income have underlined strong revenue growth in the past year, with fees for commercial banking services becoming increasingly lucrative.
- Income from asset custody businesses soared to CNY 16.8bn in 2011, with assets under management at Chinese banks increasing 49.3% YoY to reach a record CNY

14.15tr at the end of 2011.[43]

Funding & Liquidity

- Average coupon rates on 5-year CNY-denominated bank bonds fell below 4% during Q2, to levels last seen during Q4 2011.
- Deposit growth at Chinese banks continued to surge during Q2, with total deposits increasing 5.03% QoQ to CNY 88.3tr in June, after increasing 3.2% during Q1 QoQ.[44]
- Chinese banks will likely continue to face challenges raising much-needed capital, as regulators have not approved a mainland IPO for smaller banks since 2007.[45]

Asset Quality

- Provisions for bad debt at Chinese banks increased 14% during Q1 to CNY 1.26tr, up from CNY 1.1tr during Q4 2011. Provisions may increase further if the economic slowdown continues.[46]
- Loans to Chinese property developers may deteriorate, due to high sectoral leverage and the recent decline in home prices. However, prices increased in June after falling consecutively in the previous nine months.[47]

Regulations

- The PBOC liberalized Chinese interest rates during monetary policy changes on June 8, which is likely to result in commercial bank lending and deposit rates varying from benchmark rates.[48]
- Basel III will be phased in by Chinese regulators from 2013, with a minimum capital adequacy ratio of 10.5% for commercial banks and 11.5% for systemic banks.[49]
- The liquidity coverage and net stable funding ratios will also be introduced from 2013, with Chinese regulators maintaining the current cap on loans at 75% of deposits.[50]

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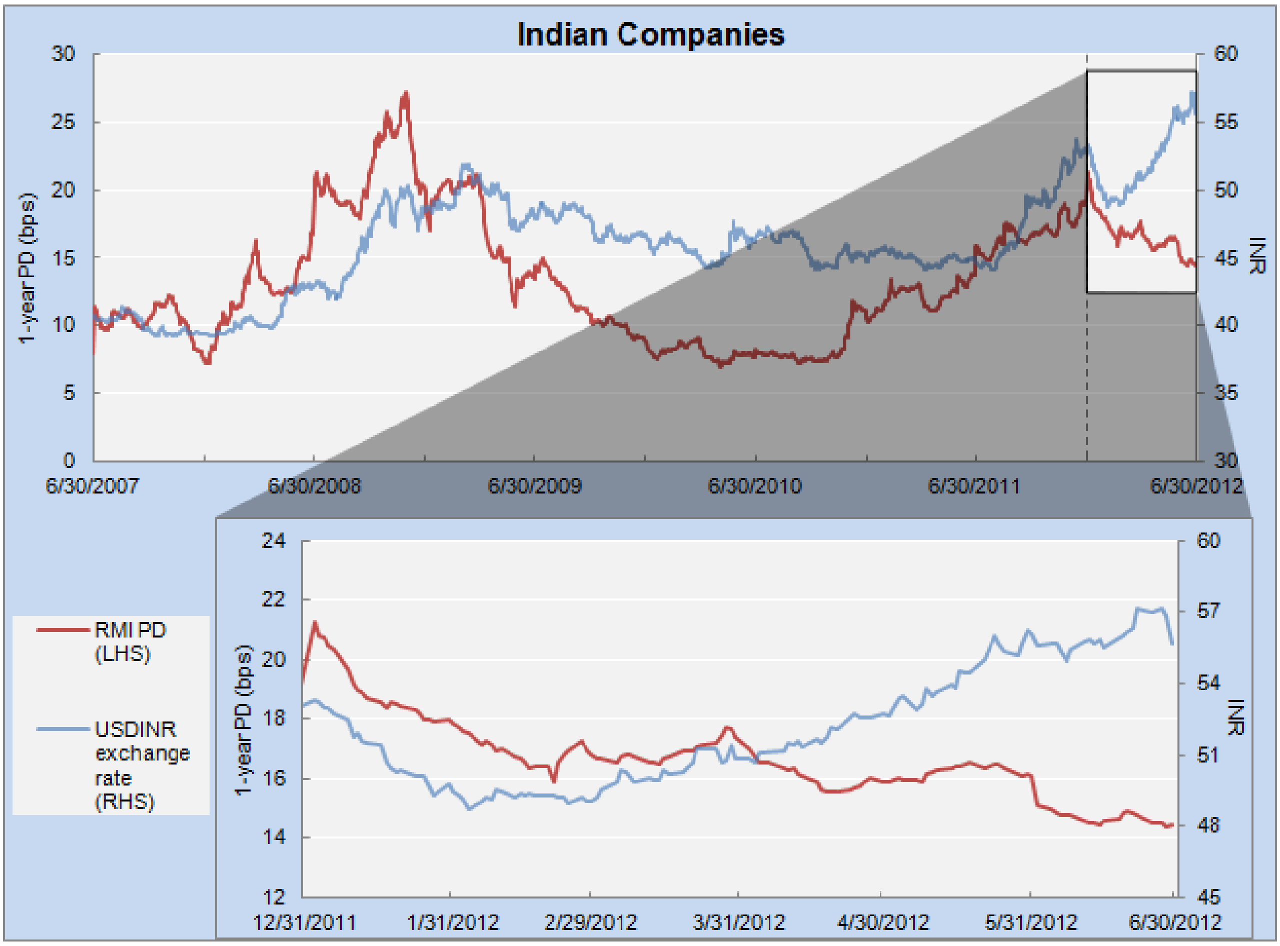
Indian Companies

The aggregate 1-year RMI PD for Indian companies improved during Q1; it declined from highs seen during Q1. Aggregate earnings are likely to remain resilient against global pressures. Growth appeared to stabilize in Q2 following concerns about a slowdown in Q1, as both the manufacturing and service sectors continued to expand during Q2. Moreover, the correlation between the RMI PD for Indian companies and currency fluctuations reversed during Q2, as domestic demand improved. Despite a number of companies experiencing increased difficulties in repaying foreign currency denominated loans, domestic funding conditions have improved. The central bank is expected to continue to loosen monetary policy from the tightest policy rates in four years, easing liquidity strains caused by a slowdown in lending activity. However, the credit outlook for Indian companies remains clouded by uncertain future fiscal policy, as the government is struggling with ongoing budget deficits.



Economy

- The Indian economy grew 5.6% YoY during Q1, slowing from 6.2% YoY growth in Q4 2011. Respective IMF and OECD 2012 YoY growth forecasts diverge, at 6.1% and 7.3% respectively.
- The Indian manufacturing PMI stabilized in positive territory during Q2, increasing slightly to 55 from 54.8 in May, as new orders increased due to stronger demand.[51]
- The Indian services PMI increased during Q2, to 55.7 in June from 55.3 in May, as service providers benefitted from sectoral new orders and a rising manufacturing output.[52]

- India's currency remained the worst performing in Asia during Q2, falling 9% against the USD and 3.8% against the EUR, after recovering some ground during Q1.
- Foreign direct investments recovered during Q2, with equity investment inflows reaching USD 5.5bn between March and May, up from total inflows of USD 4.5bn in Q1.

Monetary

- On April 17 the RBI reduced the rate it lends to banks by 50bps, to 8%. The Cash Reserve Ratio (CRR) was left unchanged at 4.75% per annum during Q2.[53]
- However, the RBI lifted the Export Credit Refinance limit to 50% from 15%, releasing INR 300bn into credit markets, equivalent to a 50bps cut to the CRR.[54]
- Going forward, the RBI is likely to continue to loosen monetary policy, as the central bank admitted during Q2 that tight monetary policy was having little effect on inflation, due to supply bottlenecks and the INR's decline.[55]
- In a move to stem the INR's decline, the RBI increased the amount of Indian government securities that foreign investors can purchase on June 25, to USD 20bn, up from the previous limit of USD 15bn.

Funding & Liquidity

- Yields on 10-year Indian government bonds fell steeply during Q2, declining 55bps to a 12-month low of 8.05% on June 14, down from 8.6% at the end of Q1. Yields increased towards the end of Q2, to 8.18% on June 29.
- The cost of bank loans fell towards the end of Q2, with the aggregate call money rate falling to 8% per annum in June from as high as 10% in March.[56]
- Outstanding commercial loans increased 18.76% YoY in May, the slowest pace since December 2009.[57]
- Indian companies face USD 5.3bn of maturing foreign-currency debt this year, and the INR's depreciation has affected Indian companies' ability to repay such debt.[58]

Political

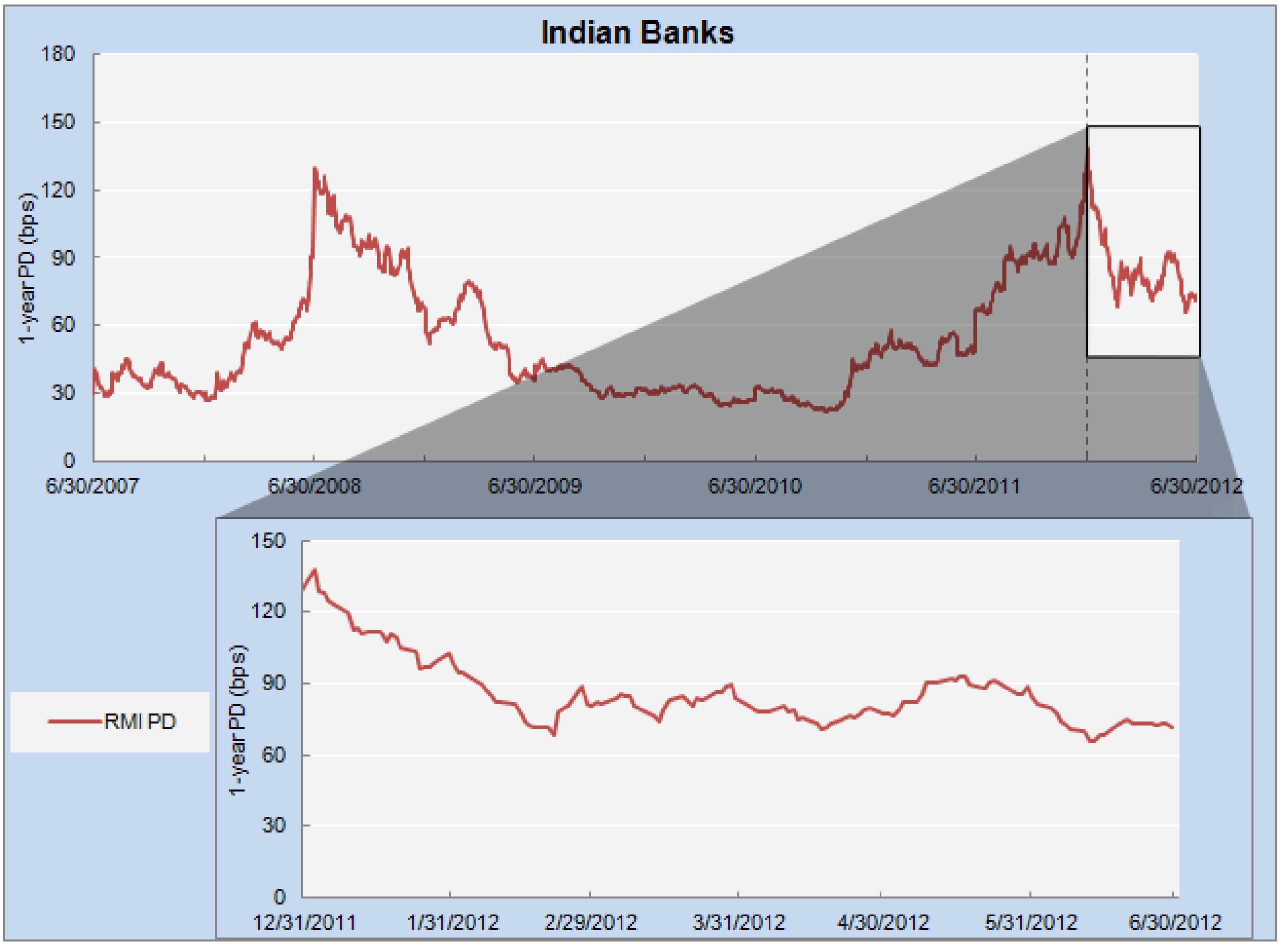
- The Indian government plans to increase taxes, reduce spending and impose import tariffs to cope with a budget deficit at 5.76% of GDP.[59]

Sovereign Credit Ratings

- The major CRAs retained BBB- equivalent ratings on the Indian sovereign during Q2. However, the government remains on negative watch at both Fitch and S&P; India could be the first BRIC nation to lose its investment grade rating.[60]

Indian Banks

The aggregate 1-year RMI PD for Indian banks declined during Q2, reaching the lowest level since mid-2011, but remained high relative to the five-year average. Earnings growth moderated during Q1, and is likely to improve slightly in the short-term due to an improvement in underlying economic conditions. Funding conditions improved somewhat, with a slight increase in market interest rates offset by strong deposit growth. However, asset quality continues to weigh upon the credit outlook for Indian lenders. In particular, the quality of government bonds will deteriorate if large budget deficits continue. Moreover, consistent budget imbalances will reduce the ability of the state to support public sector banks, in which the government has a controlling interest and which account for a large part of total lending.



Profitability

- Aggregate earnings growth slowed during Q1, increasing 6% QoQ, following 17% QoQ growth in both Q3 and Q4 2011. However, domestic demand sharpened in Q2.

Funding & Liquidity

- Average coupon rates on 5-year Indian bank bonds increased to 9.3% in Q2, from rates as low as 9.15% during Q1.
- Aggregate deposit grew 4.68% QoQ during Q2, the fastest rate in 2 years. This followed deposit growth of 2.3% QoQ during Q1.[61]

Asset Quality

- The aggregate NPL ratio for commercial banks stood at 3.2% for the fiscal year-ending March 2012. If growth slows due to fiscal contraction, NPL ratios could rise to 3.75% by March 2013.[62]
- Banks are heavily exposed to sovereign debt due to RBI requirements stipulating that they invest 24% of their core deposits in government bonds.

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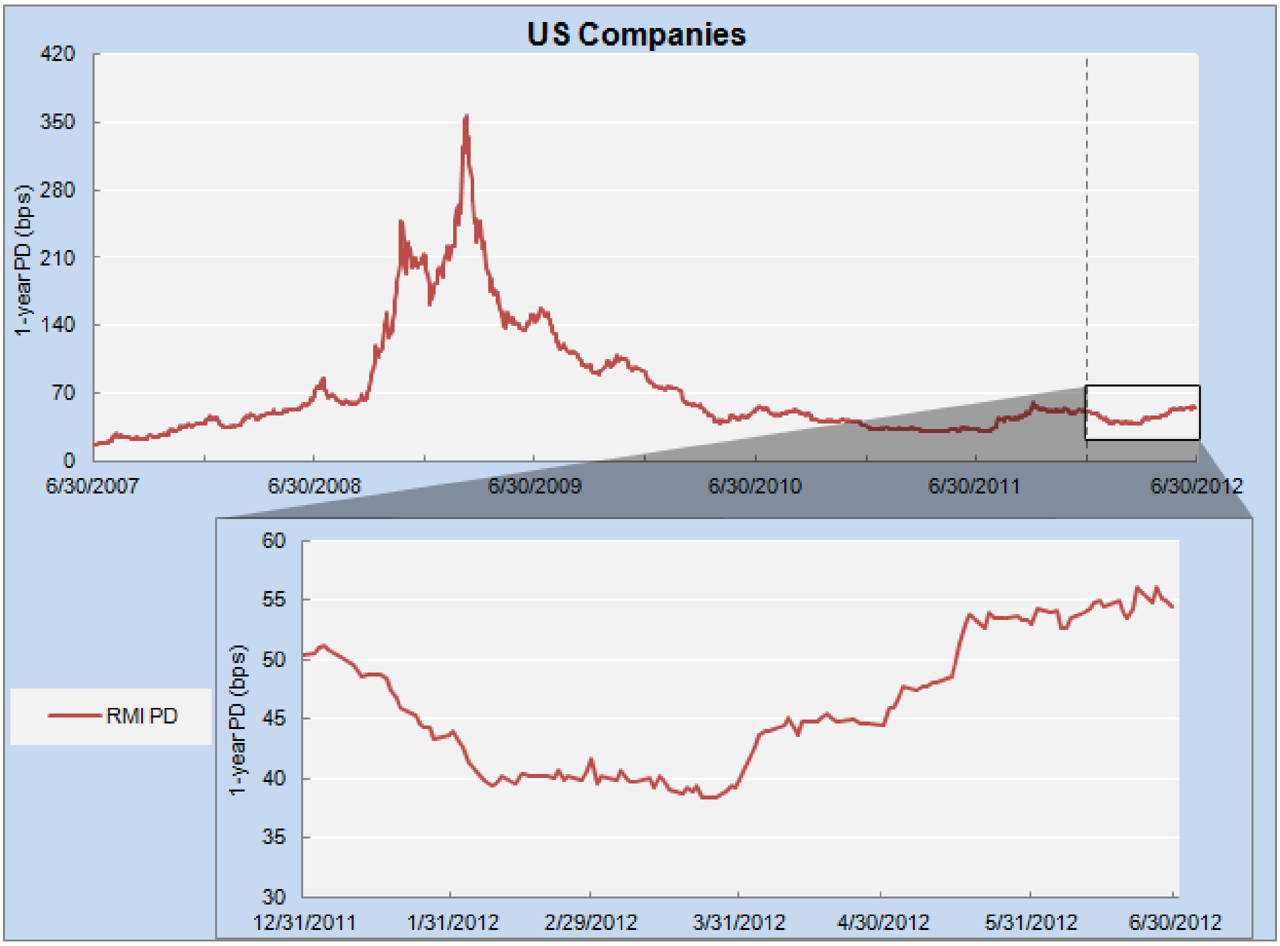
North America

US Companies

The aggregate 1-year RMI PD for US companies increased during Q2, to levels last seen in late-2011. US unemployment increased slightly and business activity decelerated due to a slowdown in China and economic contraction in the eurozone. However, declines in key input prices may lead to continued strong earnings at US companies. In addition, uncertainty about future government expenditure will likely dampen earnings prospects. Financing conditions remained favorable throughout Q2, and are expected to continue to improve following monetary policy actions. However, incoming regulatory changes may reduce bank's willingness to supply credit to the real economy. Overall, the credit outlook for US companies remains negative, in light of a weak domestic market and a slowing global economy.



Economy

- US economic expansion slowed during Q1, with QoQ GDP growth falling to 0.5% in Q1, down from 0.7% QoQ growth in Q4 2011. Growth is likely to increase through 2012, with respective IMF and OECD YoY growth forecasts of 2% and 2.4%, up from 2011 YoY growth of 1.7%.
- The unemployment rate increased marginally during Q2, to 8.2% in June from 8.1% in April 2012.

- Total retail sales barely increased during April. Growth in personal consumption remained stable, increasing marginally by 0.1% between April and May.[63]
- The US manufacturing PMI fell during Q2, falling to 52.5 in June from 54 in May, as new orders slowed and producers depleted inventories.[64]
- US benchmark crude oil prices fell substantially during Q2, from USD 105.23 per barrel at the beginning of April, to an eight-month low of USD 77.96 per barrel on July 28.

Monetary

- The Federal Reserve extended its Operation Twist by USD 267bn on June 20, until the end of 2012. This is an extension of the original USD 400bn program, aimed at reducing longer term borrowing costs, to spur economic growth.[65]
- The Federal Reserve reaffirmed its commitment to the current low interest rate environment in Q2, until at least 2014. However, a third round of quantitative easing remains a possibility.

Funding & Liquidity

- Yields on 10-year US Treasuries fell to record lows during Q2, falling 76bps to 1.45% on June 1 from 2.21% at the end of Q1. Yields increased towards the end of Q2, to 1.59% on June 29.
- Rates on short-term commercial paper increased to 0.21% per annum in Q2, while rates on both investment and non-investment grade corporate bonds continued to decline, to 3.64% and 5.02% per annum respectively.
- Interest rates on loans remained favorable during Q2, with the average bank prime lending rate stable at 3.25% per annum.[66]
- Lending growth slowed during Q1, with loans to US commercial and industrial companies increasing 2% to 1.17tr, following growth of 4.6% in Q4. Lending to small businesses reached the highest level in a year in May.[67]
- However, larger banks reduced lending during Q1. The trend is likely to continue as banks look to meet higher capital levels under incoming regulatory changes, with smaller lenders only partially filling the gap.

Political

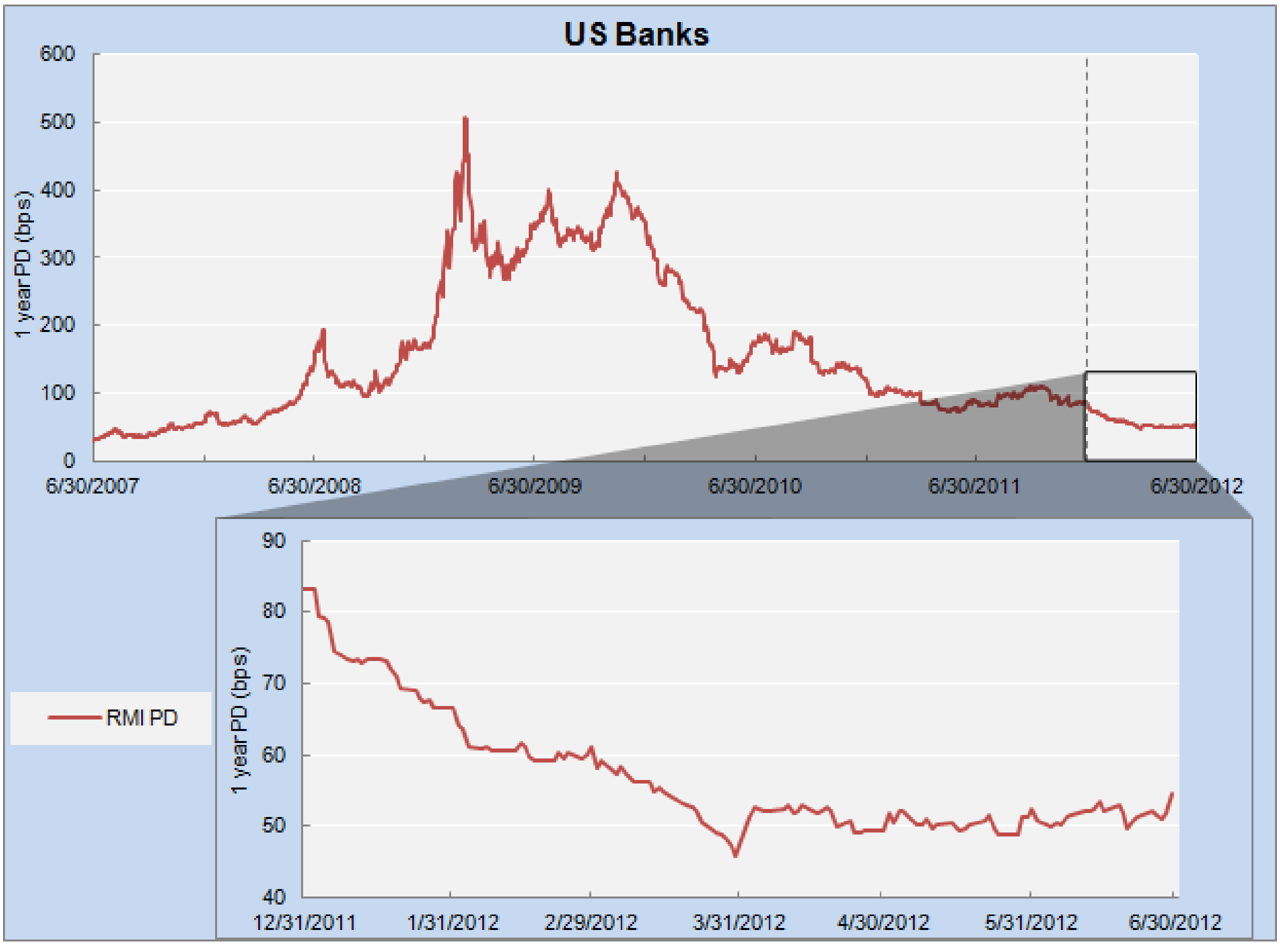
- A USD 109bn in automatic government spending cuts will take effect in January 2013, affecting different parts of the economy.[68]

Sovereign Credit Ratings

- Fitch and Moody's maintained the US government's AAA rating during Q2, while S&P affirmed its AA+ rating on June 8. All three CRAs retained a negative outlook on the US sovereign, due to political and fiscal risks.[69]

US Banks

The aggregate 1-year RMI PD for the US banking sector remained relatively low during Q2, down from levels seen in late-2011, but up from 5-year lows seen in Q1 2012. Overall earnings declined slightly, as net interest margins declined and non-interest costs continued to increase during Q2. Overall financing conditions deteriorated slightly while ratings were downgraded and deposit growth slowed. On a positive note, total delinquencies declined to the lowest point since the GFC and overall housing prices increased at the beginning of Q2. Despite these positives, the overall credit outlook for US banks is negative, as regulatory changes may constrain future earnings, while banks significantly increased their exposure to slowing eurozone markets during Q1.



Profitability

- Q2 bank earnings largely met or exceeded analysts' expectations, with aggregate earnings slightly below Q1 results.
- Despite a slowdown in overall domestic M&A activity, larger US banks continued to benefit from large deals in Asian markets.[70]
- Net interest margins at US banks fell to 3.52% during Q1, remaining the highest in the world. However, US banks continue to have the highest operating costs among global peers.[71,72]

Capital Levels

- Nineteen US banks may face a total capital shortfall of at least USD 50bn by 2019 under incoming Basel III regulations. The Fed believes most banks will be able to meet the new capital levels through retained earnings.[73]

Funding & Liquidity

- Average coupon rates on 5-year US bank bonds increased slightly during Q2, to just under 4%. However, more narrowly focused lenders were still able to issue at rates almost half this during Q2.
- Deposit growth slowed during Q2, increasing 1.7% between March and June after increasing 2.5% during Q1.[74]
- Downgrades of a number of large US banks by Moody's in June triggered large collateral calls, increasing asset encumbrance and reducing overall liquidity.[75]

Asset Quality

- During Q1, loan delinquencies continued to decline, falling 1.8% from Q4 2011, to the lowest level since late-2008. The Case-Shiller housing price index increased for the first time in six months in April.
- US banks significantly increased their exposure to the eurozone markets during Q1 as European banks deleveraged, with total US bank claims on eurozone nations increasing 11% to USD 731bn, up from USD 654bn in Q4 and 718bn in Q3 2011.

Regulation

- Political support for the Volcker Rule increased after losses at JPMorgan's Chief Investment Office ballooned to USD 5.8bn. The rule would ban FDIC-insured banks from proprietary trading activities.

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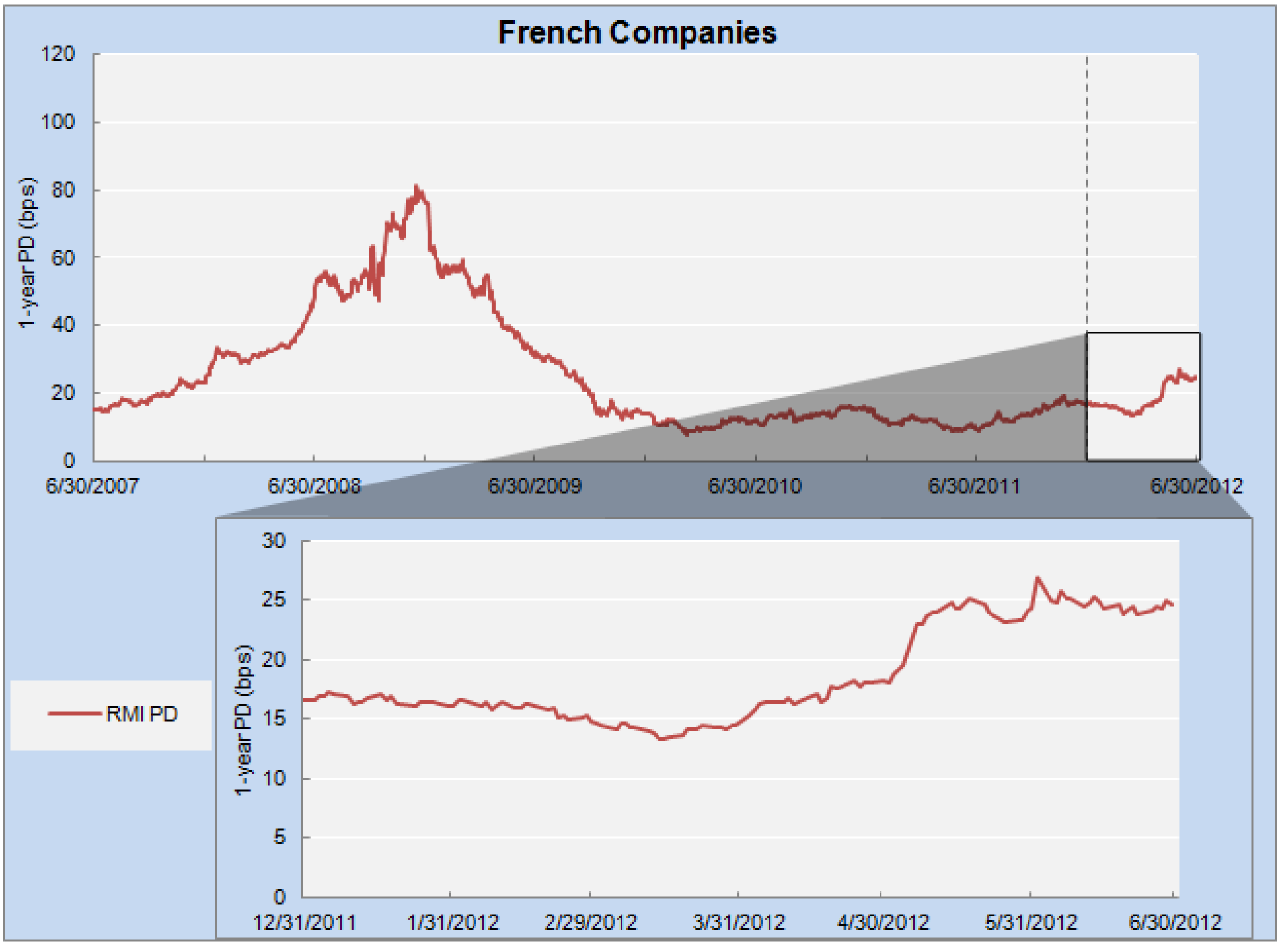
Western Europe

French Companies

The aggregate 1-year RMI PD for French companies increased gradually during Q2, as anemic economic growth weighed on the earnings profiles of French companies. High unemployment continued to weigh on the retail and services sectors. Protracted contraction in the manufacturing sector continued. Reduced government expenditure and potential corporate tax increases will also weigh on the future earnings of French companies. Despite a more favorable funding environment, banks continued to curtail lending to non-financials.



Economy

- The French economy did not expand or contract during Q1 2012, following a 0.2% QoQ expansion in Q4 2011. The IMF and OECD forecast a 2012 YoY growth of 0.3% and 0.6%, respectively.
- The unemployment rate increased to 10% during Q1, up 0.2% from Q4 2011, with the rate for under-25s remaining over 22% during Q2, and increasing to 22.7% in May.
- Consumer spending inched higher, by 0.4%, in May, due to a reduction in the savings rate. French retailers reported a slower decrease in sales during June, with the French retail PMI raising from 41.1 in May, to 48.9 in June.[76]

- The manufacturing PMI increased to 45.2 in June from 44.7 in May, a three-year low. The Services Activity Index rose to 47.1 in June from 45.1 in May. Both indices continue to indicate a contraction in business activity.[77,78]

Funding & Liquidity

- Yields on 10-year government bonds fell to a record low of 2.3% on June 1, from a high of 3.1% in April.
- Interest rates on new loans to non-financials fell 24bps to 2.24% per annum in May, from 2.48% in March, the lowest since December 2010.[79]
- Lending to non-financials continued to remain insipid during Q2, with outstanding loans falling 0.44% between March and May.[80]

Political

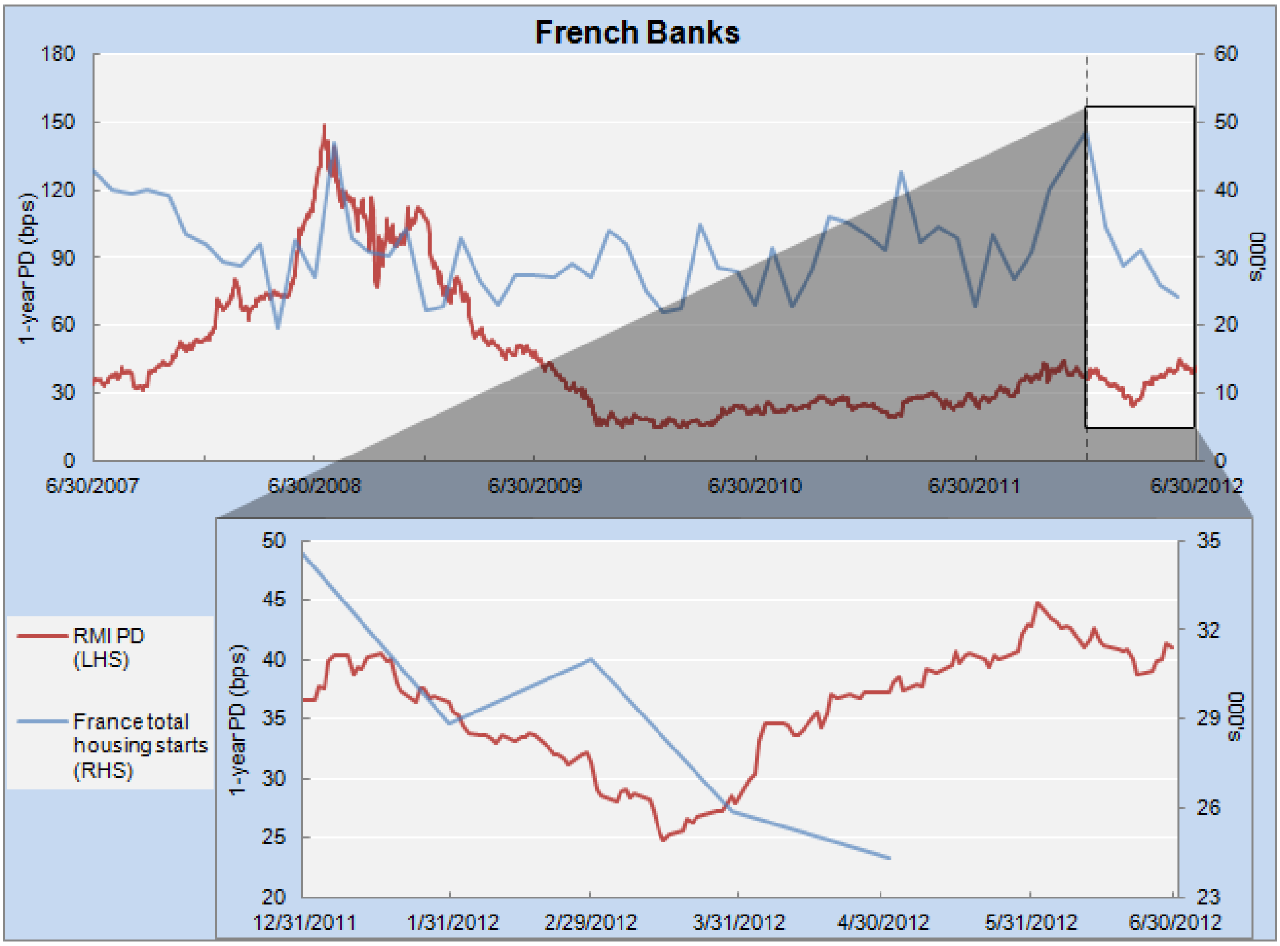
- The government must find EUR 6bn to 10bn through higher taxes on large corporations and spending cuts in order to meet its 2012 budget promises to the EU.[81]

Sovereign Credit Ratings

- Fitch and Moody's retained AAA equivalent ratings on the French government during Q2, while S&P maintained an AA+ rating. The sovereign rating remains on negative outlook at each CRA.

French Banks

The aggregate 1-year RMI PD for French banks increased during Q2, approaching levels last seen in June 2009. Overall earnings are likely to fall as larger banks shrink international operations, and demand in the domestic housing market falls. The funding profiles of French banks remained stable, and banks' balance sheets continued to exhibit high liquidity following the ECB's 3-year LTRO operations. Larger banks are considering disposals of their troubled Greek subsidiaries, leading to a slight improvement in the overall credit outlook of French banks. However, large sectoral exposures to the Italian economy will continue to weigh upon French banks, especially if growth stagnates across the eurozone.



Profitability

- During 2011, banks benefitted from strong demand for housing loans. However, loan demand is likely to decline as the economy slows.[82]

Funding & Liquidity

- Average yields on 5-year senior unsecured French bank bonds remained steady at 3.5% during Q2, even as yields on government bonds fell.
- Total deposits at French banks remained stable during Q2, growing 0.1% between March and May.

- Bank deposits at the French national bank increased 27.2% to EUR 224.1bn in April, from EUR 176.2bn in December 2011, following two rounds of ECB 3-year LTROS.

Asset Quality

- Credit Agricole is currently in negotiations to reduce its EUR 4.6bn exposure to Greece-based Emporiki Bank, through a sale of a majority stake.[83]
- Societe Generale is also considering a sale of its Greek subsidiary Geniki Bank, after cutting funding lines to the subsidiary towards the end of Q2.[84]
- Moreover, reported writedowns are likely to increase following the Greek restructuring in March; total provisions for loan losses in the banking sector increased 65% to EUR 9bn at the end of 2011.
- The French banking sector has the highest exposure to the Italian economy, with French banks making up 36% of total claims on Italian entities, according to the BIS.

Regulation

- French President Francois Hollande plans to implement legislation that will separate the speculative investment and commercial functions of banks.[85]

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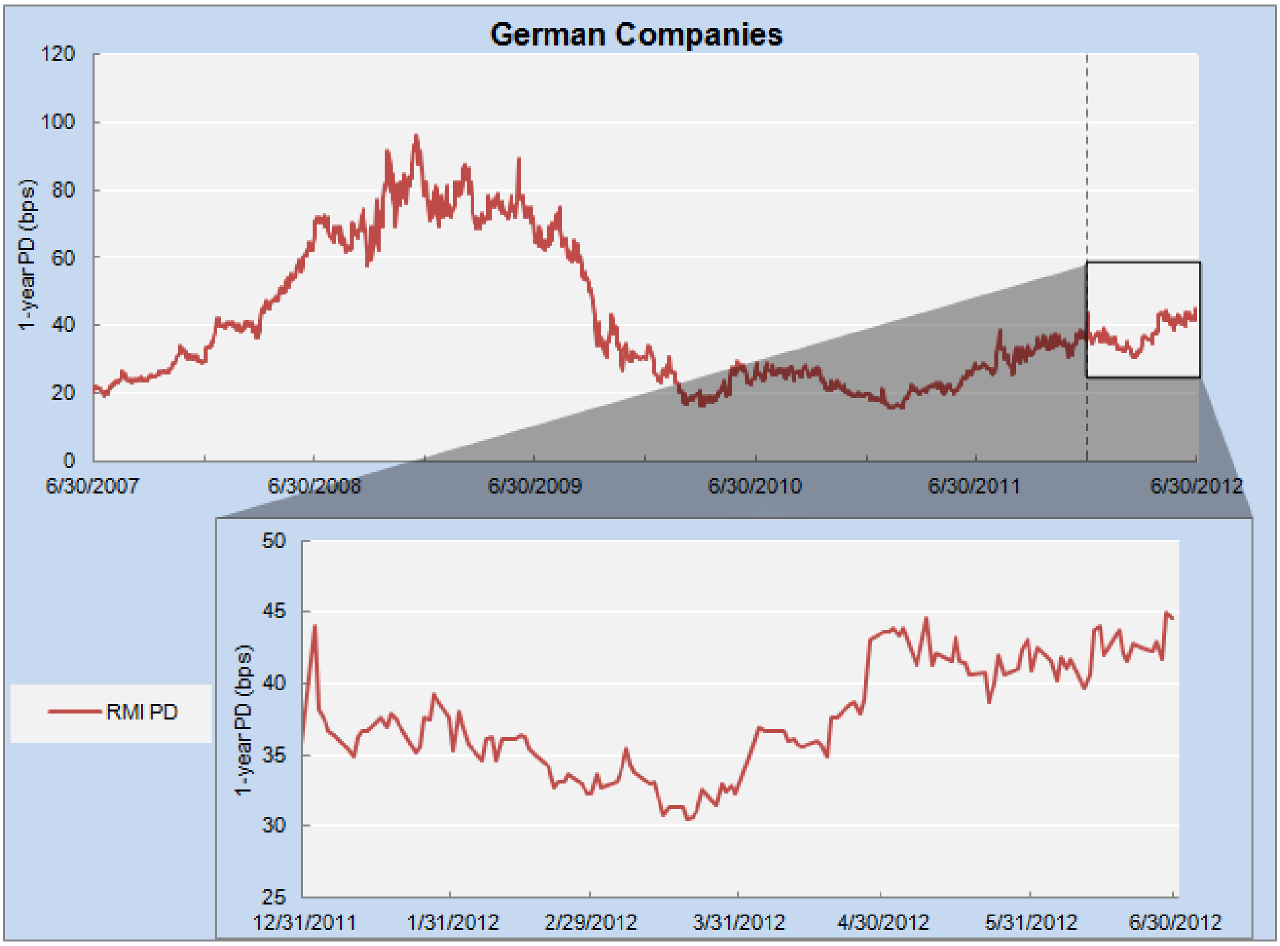
German Companies

The aggregate 1-year RMI PD for German companies remained elevated during Q2, but at levels well below those seen during the GFC. Moderate economic growth is likely to continue in the near term. Deepening recessions in key eurozone export markets weighed upon the earnings prospects of German companies during Q2, as manufacturers continued to reduce orders and employment levels. Despite a deterioration in overall business conditions, consumer confidence indicators stabilized, signaling that private consumption may mitigate sluggish export demand. German companies continued to benefit from a favorable funding environment, as German companies were able to price debt issuances more favorably, due to a decline in bund yields in Q2. Despite healthy finances, the credit outlook for German companies will continue to be uncertain while the eurozone sovereign debt crisis remains unresolved.



Economy

- The German economy grew 0.5% QoQ in Q1 2012, avoiding a recession after a 0.2% QoQ contraction in Q4 2011. Growth will likely remain modest, with respective IMF and OECD 2012 YoY growth forecasts of 1% and 1.2%.
- German unemployment fell to a post-reunification low of 6.8% in March, and remained at the same level during Q2. Employment in the manufacturing sector decreased for the third consecutive month in June.[86]

- GfK Consumer Sentiment Survey results remained steady in June, and retail sales recovered somewhat in May, shrinking 1.1% YoY, following a 4.2% YoY contraction in April.
- The Ifo Business Climate Index declined more than estimated in June, to the lowest reading since April 2010. The German services PMI decreased to 49.9 in June from 51.8 in May.[87,88]
- The German manufacturing PMI decreased to 45.0 in June from 45.2 in May, the lowest level since June 2009, as export orders from weaker eurozone economies contracted.[89]

Funding & Liquidity

- Fears that the Spanish banking sector would require support from the EU has led to an increased demand for German bunds, driving 10-year bund yields down to a record low of 1.19% on June 1.[90]
- Bank lending continued to trend upwards during Q2, with total outstanding loans to non-financial sector increasing 0.5% between March and May to EUR 918bn.[91]
- Furthermore, interest rates on new bank loans to non-financials fell 12bps to 2.48% per annum between March and May, continuing a sharp downward trend from 3.26% in October 2011.[92]

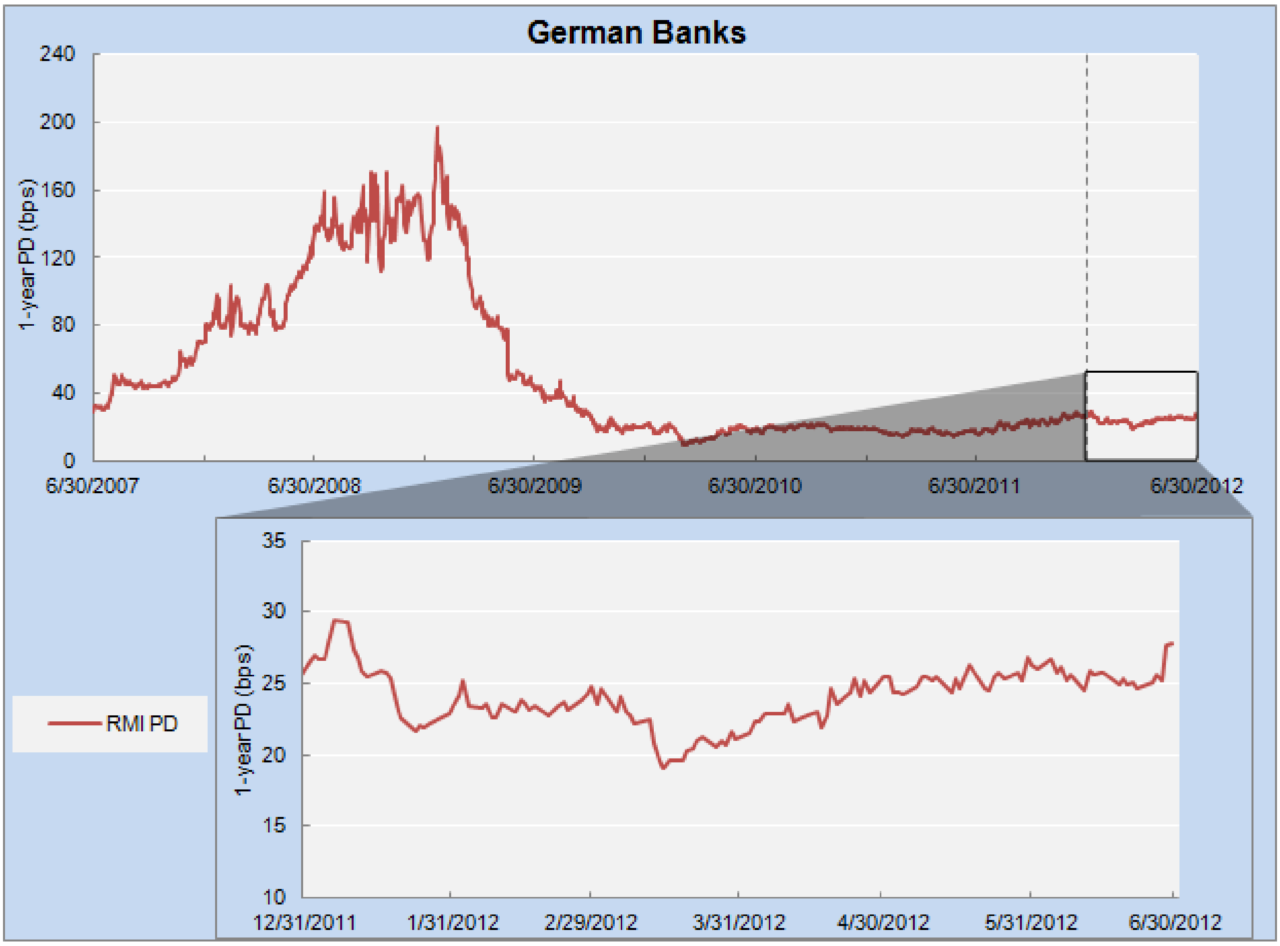
Sovereign Credit Ratings

- The three major CRAs retained AAA-equivalent ratings on the German government during Q2, with each CRA maintaining a stable outlook.[*]

[*] Moody's changed its outlook on the German sovereign to negative on July 23.

German Banks

The aggregate 1-year RMI PD for German banks increased slightly during Q2, to levels not seen since late-2009. Bank earnings are likely to weaken as the eurozone economy contracts, and banks deleverage. Concerns about capital quality and exposures to peripheral eurozone nations continue to negatively affect the credit outlook for German banks. However, the funding and liquidity profiles of German banks remain favorable in comparison with other eurozone lenders, with continuing deposit inflows expected to offset any contraction in wholesale funding markets.



Profitability

- A highly competitive banking sector will continue to affect profitability; German banks have the lowest average net interest margins amongst their global peers.[93]
- Commerzbank, the second largest German bank, announced in June it will close its loss-making commercial real estate and ship financing businesses.[94]

Capital Levels

- Despite sufficient capital levels, German banks continue to have the lowest capital quality amongst banks in the developed world, with a sectoral average Tangible Common Equity ratio under 3%.

- Commerzbank announced on June 27 it had strengthened its Core Tier 1 capital by a EUR 213.8mn by paying out the majority of employee bonuses in stock.[95]

Funding & Liquidity

- Deposits in Germany rose 4.5% year-on-year to EUR 2.17tr in May, as depositors sought the relative safety of German banks.[96]
- However, German banks remain highly leveraged, and are more dependent on wholesale funding compared with international peers.
- The German banking sector as a whole remains awash with liquidity, as 460 of the 800 banks participating in the February ECB LTRO were German, a majority of which were smaller lenders.
- Moreover, the ratio for both Commerzbank and Deutsche bank remains much higher, at 15.7% and 10.8% respectively during Q1.

Asset Quality

- German banks have the second highest exposures to GIIPS nations among European lenders, with total claims of EUR 419bn on GIIPS entities at the end of 2011, down EUR 106bn since Q4 2010.
- Moreover, the bailout of Spain in Q2 prevented loans worth more than EUR 40bn held by German banks from going bad.[97]
- Provisions for loan losses fell during Q1, but a weak domestic economy and economic contraction in the rest of Europe may impair asset quality.

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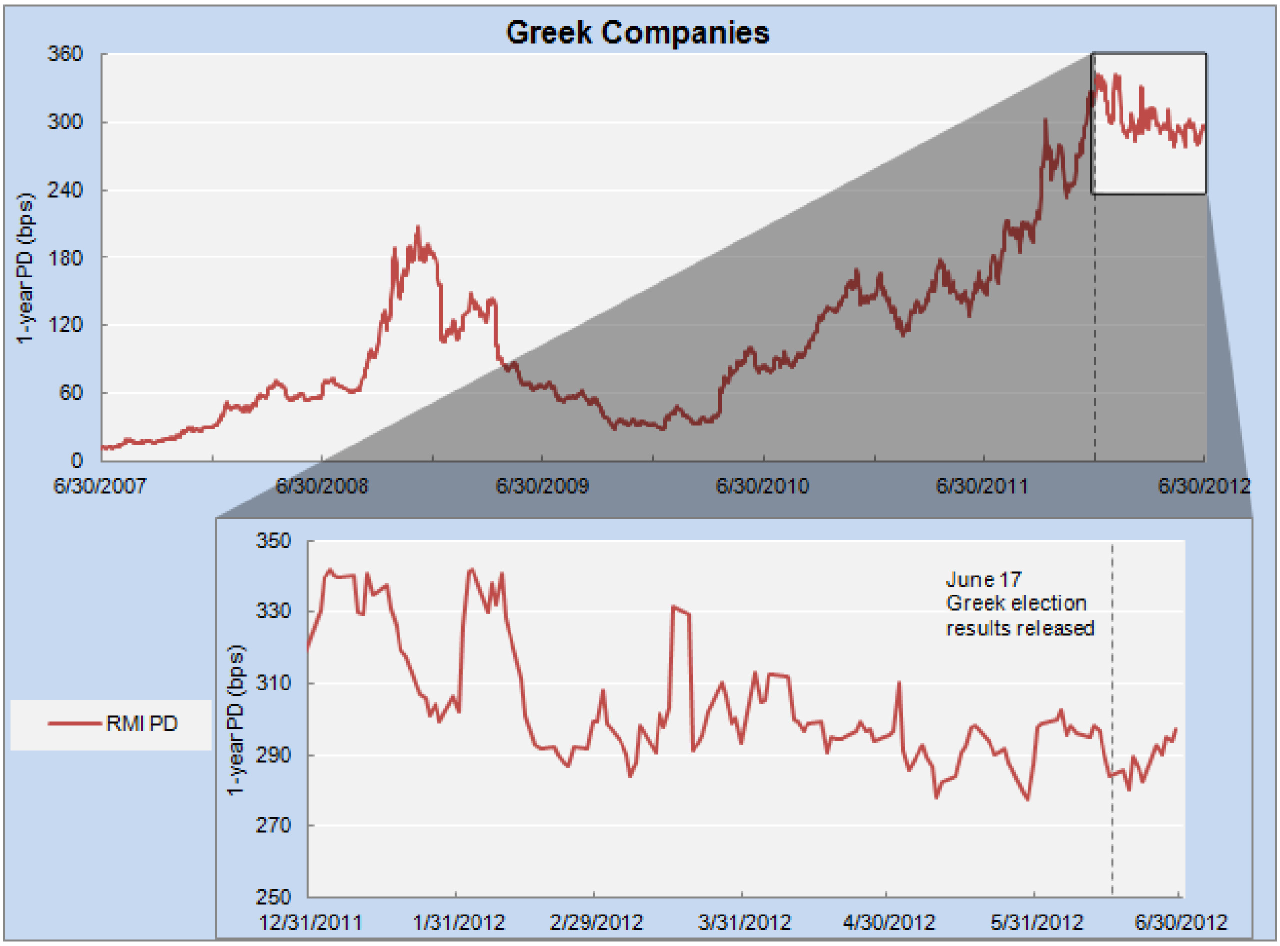
Greek Companies

The aggregate 1-year RMI PD for Greek companies fell during Q2, but remained close to levels seen during late-2011 and the GFC. Large sovereign debt write-downs continued to reduce Greek banks' willingness to lend, increasing pressure on the liquidity and funding profiles of Greek companies. The profitability of Greek companies will likely remain weak, as the economy is expected to continue to shrink. Uncertainty, instability and increasing unemployment has dampened consumer and business spending, and export sectors continue to struggle. Moves to seek more amiable bailout terms may not accelerate a return to growth; even a large loosening of austerity measures may not increase the government's ability to support Greek companies. Moreover, although a pro-bailout government coalition was formed after a second round of elections in June, many market participants continue to believe Greece may leave the eurozone; this would have a dramatic affect on the credit profiles of Greek companies.



Economy

- The Greek economy contracted by 6.5% in Q1 2012, extending the current recession into a fifth year, following a 7.5% contraction in Q4 2012. Significant economic contraction will likely continue, with respective IMF and OECD 2012 YoY growth forecasts of -4.7% and -5.3%.
- The unemployment rate hit a new high of 22.5% in April, with 52.8% of under-25s unemployed.

- Consumer spending dropped 7.5% YoY in Q1 2012 and gross capital investment fell 21.3% YoY.[98]
- The Greek Manufacturing PMI fell to 40.1 in June, from 43.1 in May, as new export orders contracted at the fastest pace in two years and domestic demand remained flaccid.[99]

Funding & Liquidity

- Greek government 10-year bond yields rose from a March low of 18.1% to a pre-election high of 30.8% in May, but fell to 25.8% at the end of Q2 after fears of a Greek exit waned.
- Bank lending to non-financial institutions continued to fall in Q2, with total loans decreasing by 1.3% between March and May.[100]
- Interest rates on new 1-year bank loans to non-financial Greek companies remained high during Q2, at an annualized rate of 6.1%.[101]

Political

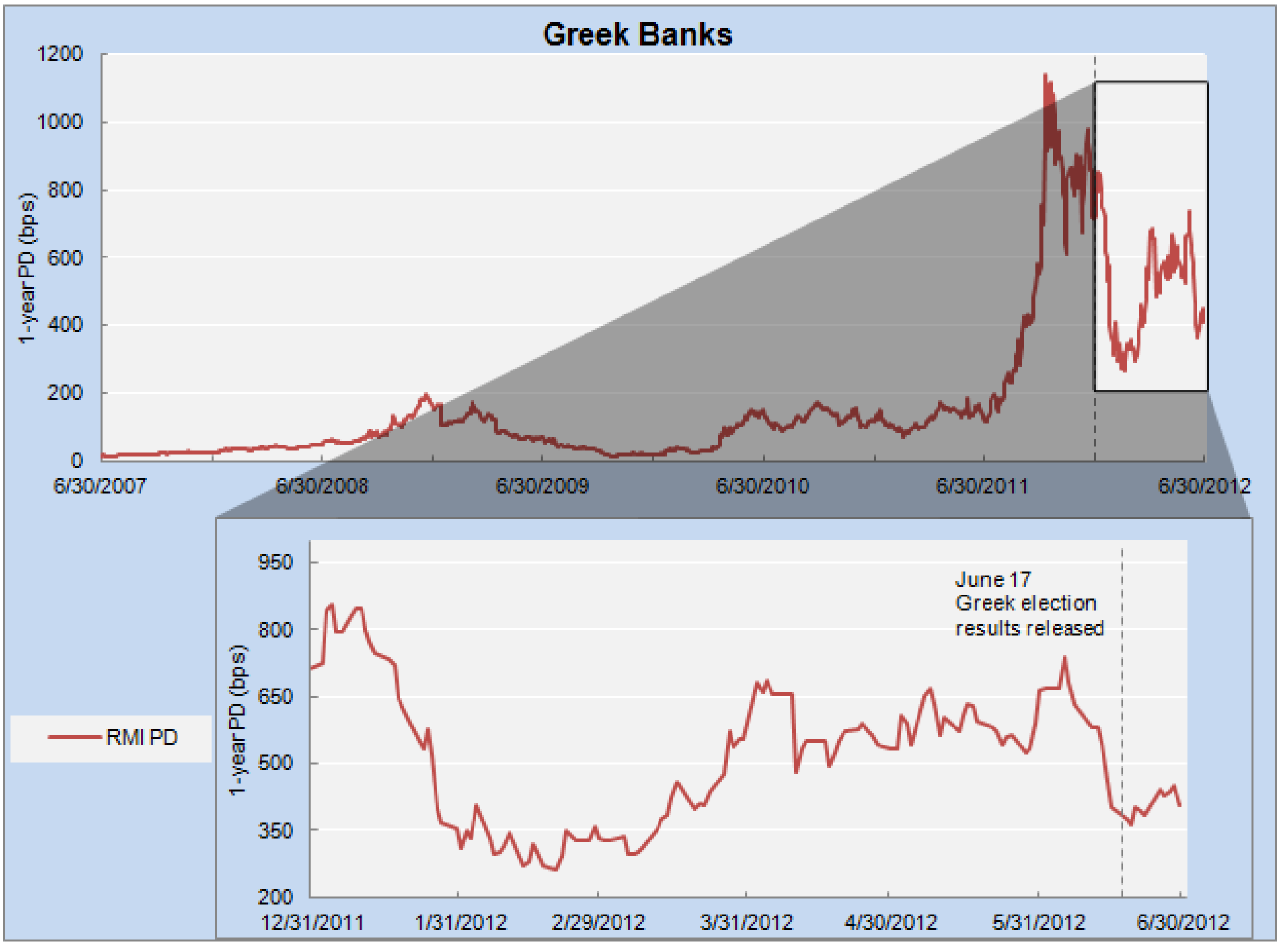
- Elections on May 6 saw increased support for anti-austerity parties and lower support for pro-bailout parties. After coalition talks failed another election round was called for on June 17.[102]
- The second round on June 17 became synonymous with Greek membership of the eurozone; a coalition of parties formed a pro-bailout government supporting eurozone participation.[103]
- The coalition government will seek more amiable austerity terms for previous bailout packages, without risking its membership in the eurozone.[104]

Sovereign Credit Ratings

- Greece remained rated well below investment grade by the major CRAs during Q2; as of June 30 Greece was rated CCC by Fitch, C by Moody's and CCC by S&P.

Greek Banks

The aggregate 1-year RMI PD for Greek banks spiked in Q2, after a second round of Greek elections increased concerns that Greece could exit the eurozone. The aggregate PD retreated in June following the successful formation of a governing coalition in favour of eurozone participation. However, the credit outlook for Greek banks remains unfavourable; with the aggregate bank PD almost triple its historical average. The Greek debt restructuring in March continued to affect domestic lenders, with associated writedowns leaving Greek banks with negative equity capital and reducing their ability to independently access ECB liquidity facilities. A deepening recession in Greece and continuing deposit outflows negatively affect the sectors profitability and funding profiles. Moreover, record-high unemployment in Greece is likely to lead to further increases in non-performing loans, placing further downward pressure on earnings.



Profitability

- The four biggest lenders reported 2011 after tax losses exceeding EUR 28bn, of which EUR 23bn was due to haircuts on Greek bond holdings following the debt restructuring, leaving the four largest Greek banks with negative equity capital.[105]
- Banks' net interest margins have been squeezed as they offer depositors higher interest rates to stem continuing outflows.[106]
- An ongoing recession and high unemployment has negatively affected demand for consumer credit, with total credit extended for household consumption falling 1.2% between March and May.[107]

Funding & Liquidity

- The ECB ceased liquidity operations with several under-capitalised Greek banks in May following the Greek restructuring. Instead, they sought emergency liquidity assistance from the national central bank which has more flexible qualifying criteria.[108]
- The Greek bank stability fund injected EUR 18bn of recapitalization funds into the four largest banks, allowing them to once again qualify for ECB funding.[109]
- Total deposits at Greek banks fell 5.2% in May, with outflows believed to reach EUR 800m in one day as fears of a eurozone exit mounted prior to the June 17 elections.[110]

Asset Quality

- Asset quality continued to deteriorate as the recession deepened, with the biggest Greek banks reporting large increases in loans in arrears, and increases in non-performing loan ratios.
- Moreover, the state of the economy weighed on existing loan performance in Q1, as provisions for bad loans at Greek banks reached a record average high of 5.6% of total outstanding loans.

Credit Ratings

- Major CRAs continued to rate the Greek government below CCC equivalent levels; Greek banks may face negative rating actions if the government's credit profile does not improve.
- Furthermore, political uncertainties continue to play a major role in the credit ratings of Greek banks, with Fitch downgrading five Greek banks in May for similar reasons.

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[98] Jun 8, 2012, Greek economy keeps on crumbling, Reuters.

[99] Jul 2, 2012, Markit Greece Manufacturing PMI, Markit, http://www.markiteconomics.com

[100] Jun 29, 2012, Greek MFIs: Total loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[101] Jul 5, 2012, Greek MFIs: Interest per annum on new loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[102] Jun 19, 2012, Greece profile, BBC News.

[103] Jun 20, 2012, Greece parties agree coalition government, BBC News.

[104] Jun 21, 2012, Greece Decides Against Imposing Layoffs, With Troika Visit Looming, The Wall Street Journal.

[105] Jul 2, 2012, Banks are heading for nationalization, Ekathimerini.

[106] May 30, 2012, Greek banks NBG, Piraeus post loss as slump hurts, Reuters.

[107] Jun 29, 2012, Greek MFIs: Total credit for household consumption, ECB, http://sdw.ecb.europa.eu/

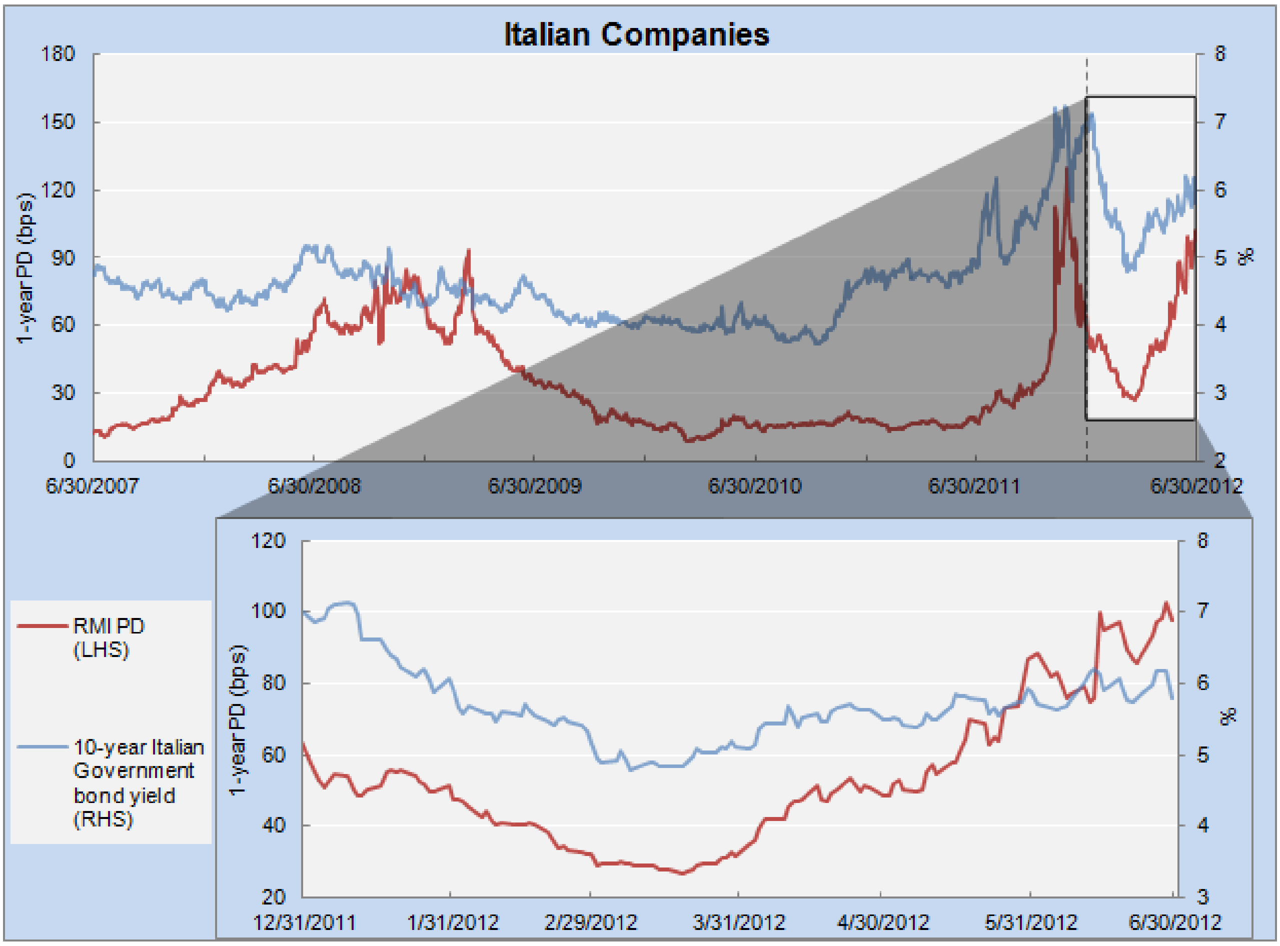
[108] May 16, 2012, ECB stops operations with some Greek banks, Reuters.

[109] May 22, 2012, Greek banks get 18 billion euro recapitalisation, Reuters.

[110] Jun 13, 2012, Greek Bank Withdrawals Accelerate, The Wall Street Journal.

Italian Companies

The aggregate 1-year RMI PD for Italian companies increased substantially in Q2, approaching levels last seen during the height of the Global Financial Crisis. The beginning of a deep recession weighs upon the future profitability of Italian companies, with manufacturing and retail spending continuing to contract in Q2, while consumer confidence hit an all time low. Despite a slight increase in bank lending, and a minor fall in interest rates on new loans, stubbornly high yields on government bonds continue to place strain on the funding profiles of Italian companies. In addition, immense government funding needs amid hostile market conditions and ongoing austerity measures may reduce the government's ability and willingness to support Italian companies as the economy contracts.



Economy

- The Italian economy contracted by 0.8% in Q1, with the country entering a technical recession after the economy contracted 0.7% in Q4 2011. The IMF and OECD 2012 YoY growth forecasts of -1.9% and -1.7% respectively point to further contraction.
- The unemployment rate remained above 10% during Q2, and hit a new 12-year high of 10.2% in April. Unemployment among under-25s reached a record 36.2% in May.
- The consumer confidence index fell to an all-time low of 86.5 in May, while retail sales fell at 4.7% YoY in April, almost the fastest rate historically.

- The Italian manufacturing PMI fell to 44.6 in June from 44.8 in May, while the services PMI rose to 43.1 in June from 42.8 in May. Both indices continue to indicate a decline in business activity.[111,112]

Funding & Liquidity

- The correlation between Italian and Spanish bonds has increased since March as the Spanish bank bailout increased contagion concerns and reduced the available stock of bailout funds.
- Concerns that Italy may be the next country to require a bailout sent 10-year Italian bond yields to 5.8% on June 29 from a yearly low of 4.8% on March 8, with yields reaching a peak of 6.2% on June 13.
- Despite increasing government bond yields, interest rates on new bank loans to non-financial Italian companies dropped 9bps in Q2 to 5.3% in May.[113]
- Bank lending to non-financials increased slightly by 0.41% between March and May, as the ongoing recession and a high unemployment rate weighed on demand for credit.[114]

Political

- The government approved state spending reductions, including public sector job cuts, which are expected to save EUR 5bn at the end of Q2, and should help avoid the need for a 2% increase in the value added tax.[115]
- Italy's public debt remains high at 120% of GDP, and the government must raise EUR 415bn in funding, or 25% of GDP, in the next fiscal year.[116]

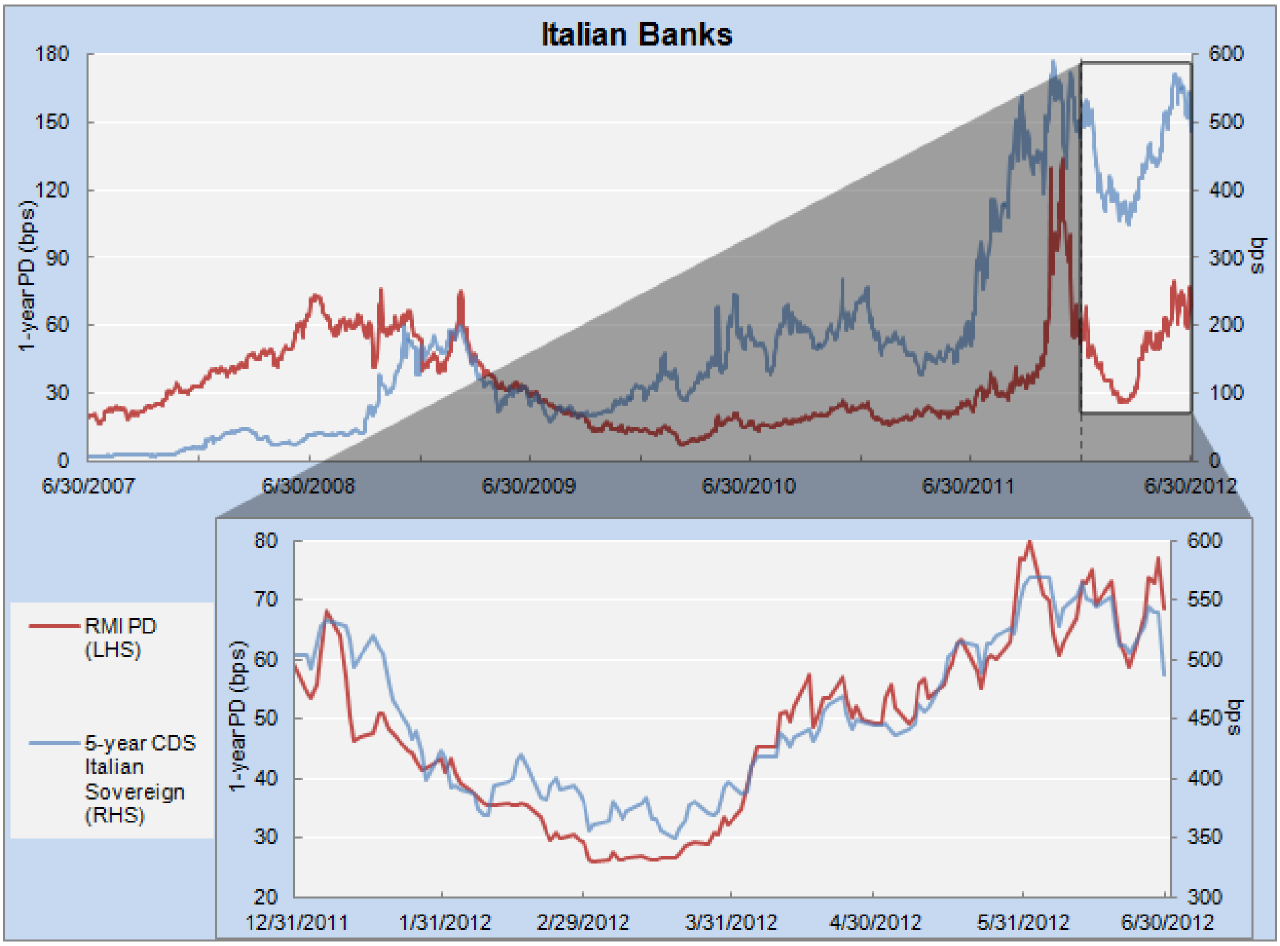
Sovereign Credit Ratings

- Italy maintained its credit rating during Q2; as of June 30, the country was rated A3 by Moodys,[*] BBB+ by S&P and A- by Fitch. The country remains on negative watch at all three CRAs.

[*] Italy was subsequently downgraded to Baa2 by Moody's on July 13.

Italian Banks

The aggregate 1-year RMI PD for Italian banks increased dramatically in Q2, but retreated slightly in June. The start of a recession in Italy has reduced the earnings prospects of domestic lenders. Although a majority of Italian banks remained profitable during Q1, banks benefitted from accounting technicalities and carry trades financed by cheap ECB funding that are unlikely to re-occur. Underlying earnings are expected to continue to remain weak as the economy shrinks. Banca Monte dei Paschi di Siena's state bailout highlighted the risk of Italian bank's holdings of sovereign bonds; yields are likely to remain volatile while a solution to the eurozone sovereign debt crisis remains elusive. Moreover, persistently high yields will continue to weigh on the funding profiles of Italian banks, while Italian banks may experience deposit outflows seen in other peripheral eurozone nations if the debt crisis deteriorates significantly.



Profitability

- Italian bank earnings in Q1 2012 relied substantially on carry trade profits that were only possible because of cheap funding from the ECB's 3-year LTROs.
- Earnings quality is likely to remain weak. For example, Italy's second largest lender Intesa Sanpaolo benefitted from a EUR 183m capital gain made by buying back its own debt with cheap ECB funds.[117]
- An ongoing recession has led to a deterioration in loan performance at Italian banks, leading to increases in non-performing loan provisions that hurt their profitability.[118]

Funding & Liquidity

- Average coupon rates on new 5-year Italian bank bond issuances approached 5% during Q2, as Italian sovereign yields trended upwards.
- Third largest Italian lender Monte dei Paschi announced on June 26 it would receive state support of up to EUR 3.9bn through bond issuances to the Italian Treasury, as raising private funds had become impossible.[119]
- A modest increase in total deposits at Italian banks offset somewhat more difficult funding conditions, with deposits at Italian banks increasing 0.43% between March and May.
- Rating downgrades by Moody's have reduced the amount of eligible collateral Italian banks can post to borrow from ECB facilities.

Asset Quality

- Carry trades financed with LTRO funds have increased bank exposure to the Italian sovereign, as foreign holdings of the EUR 1.95tr of Italian government debt fell to 45% in June.[120]
- The ongoing recession continues to weigh on bank asset quality, as bad debt at Italian banks increased 15.1% year-on-year to EUR 110.8bn in May.

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[111] Jul 2, 2012, Markit/ADACI Italy Manufacturing PMI, Markit,

[112] Jul 4, 2012, Markit/ADACI Italy Services PMI, Markit,

[113] Jul 5, 2012, Italian MFIs: Interest per annum on new loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[114] Jun 29, 2012, Italian MFIs: Total loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[115] Jul 5, 2012, Italy to cut spending, jobs despite union threats, Reuters.

[116] Jul 13, 2012, Moody's downgrades Italy by two notches, might cut more, Reuters.

[117] May 15, 2012, For Italian Banks, Future Is Cloudy, The Wall Street Journal.

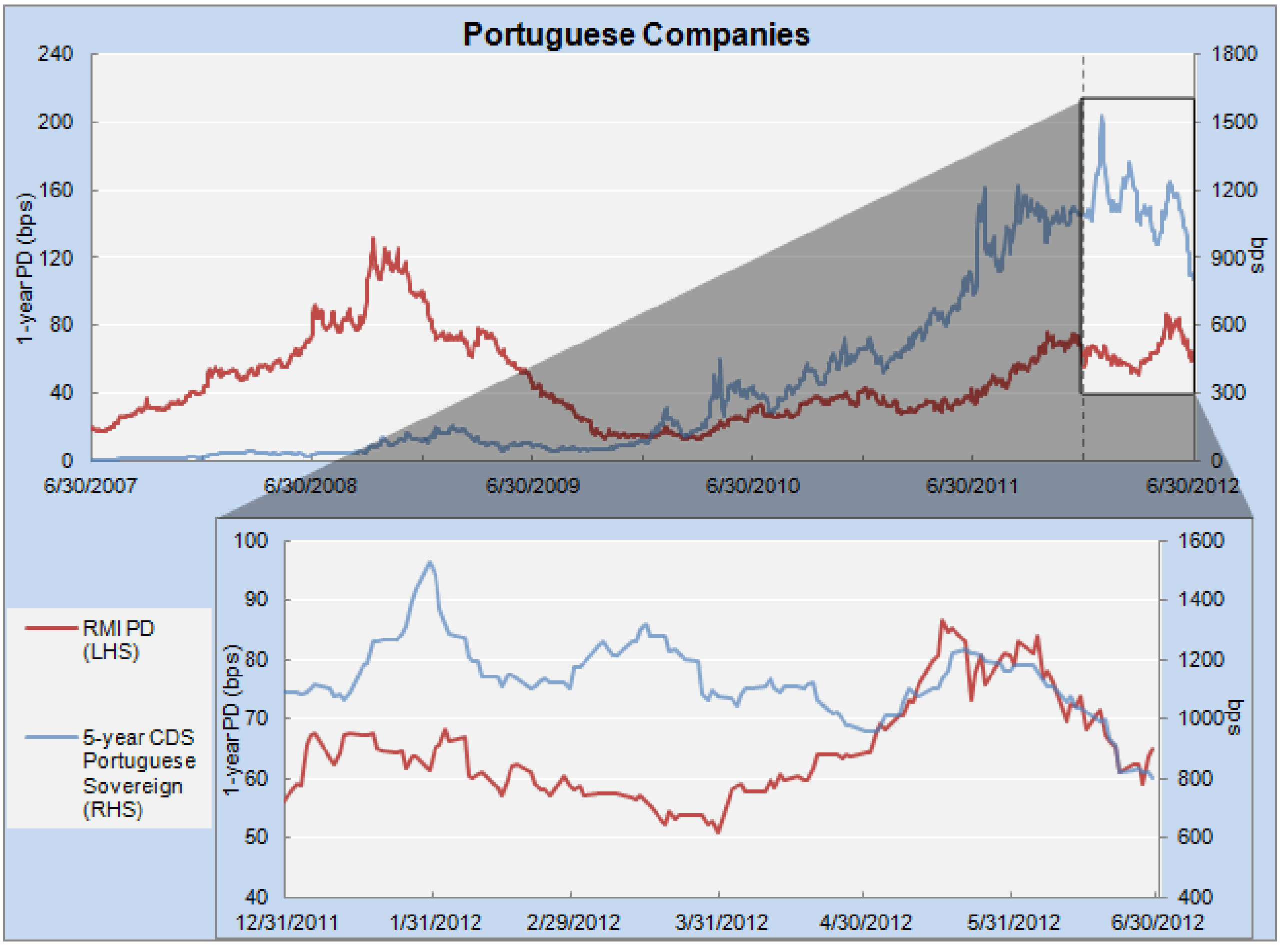
[118] Jun 20, 2012, Italy Banks Waning Loan Quality Hurts Efforts on Capital, Bloomberg.

[119] Jun 26, 2012, Italy to put 2bn into world's oldest bank, The Telegraph.

[120] Jun 20, 2012, Italy Banks Waning Loan Quality Hurts Efforts on Capital, Bloomberg.

Portuguese Companies

The aggregate 1-year RMI PD for Portuguese companies increased during Q2, reaching the highest level in three years in May. The earnings prospects of Portuguese firms have been negativity affected by continuing economic contraction and poor business conditions. Both the consumer and industrial sectors remained depressed during Q2, while unemployment reached record highs. Ongoing government spending cuts are expected to further curtail earnings. Despite more favorable funding conditions, banks likely reduce lending to non-financials during Q2. The credit outlook for Portuguese companies remains negative, especially with a deepening recession in Spain, Portugal's largest trading partner.



Economy

- The Portuguese economy contracted 0.1% QoQ in Q1, the sixth consecutive quarterly economic contraction, following a 1.3% QoQ contraction during Q4 2011. Respective IMF and OECD 2012 YoY growth forecasts of -3.3% and -3.2% signal economic contraction will continue.
- The unemployment rate rose to a record high of 14.9% in Q1, with 36.4% of under-25s out of work in May. The government forecasts unemployment will climb to 15.5% by the end of 2012.
- INE data shows consumer confidence recovered in Q2, and retail sales increased 2.9% in May. However, both indicators remain well below long-run averages.[121]

- An INE index of industrial production fell 6.7% YoY in May, while an index of new industrial orders fell 9.3% YoY in May. An INE business climate indicator remained close to record lows.[122]

Funding & Liquidity

- Yields on 10-year Portuguese bonds fell during Q2, to a low of 9.5% on June 25, and closing higher at 10.2% at the end of Q2.
- Despite interest rates on new loans to non-financials falling in the first half of 2012, rates still remain high at 6.3% per annum during May. Interest rates likely increased towards the end of Q2 as yields on government bonds rose.[123]
- Bank lending likely continued to fall during Q2, with total outstanding loans to the non-financial sector falling 1% between March and May, continuing a year-long downward trend.[124]

Political

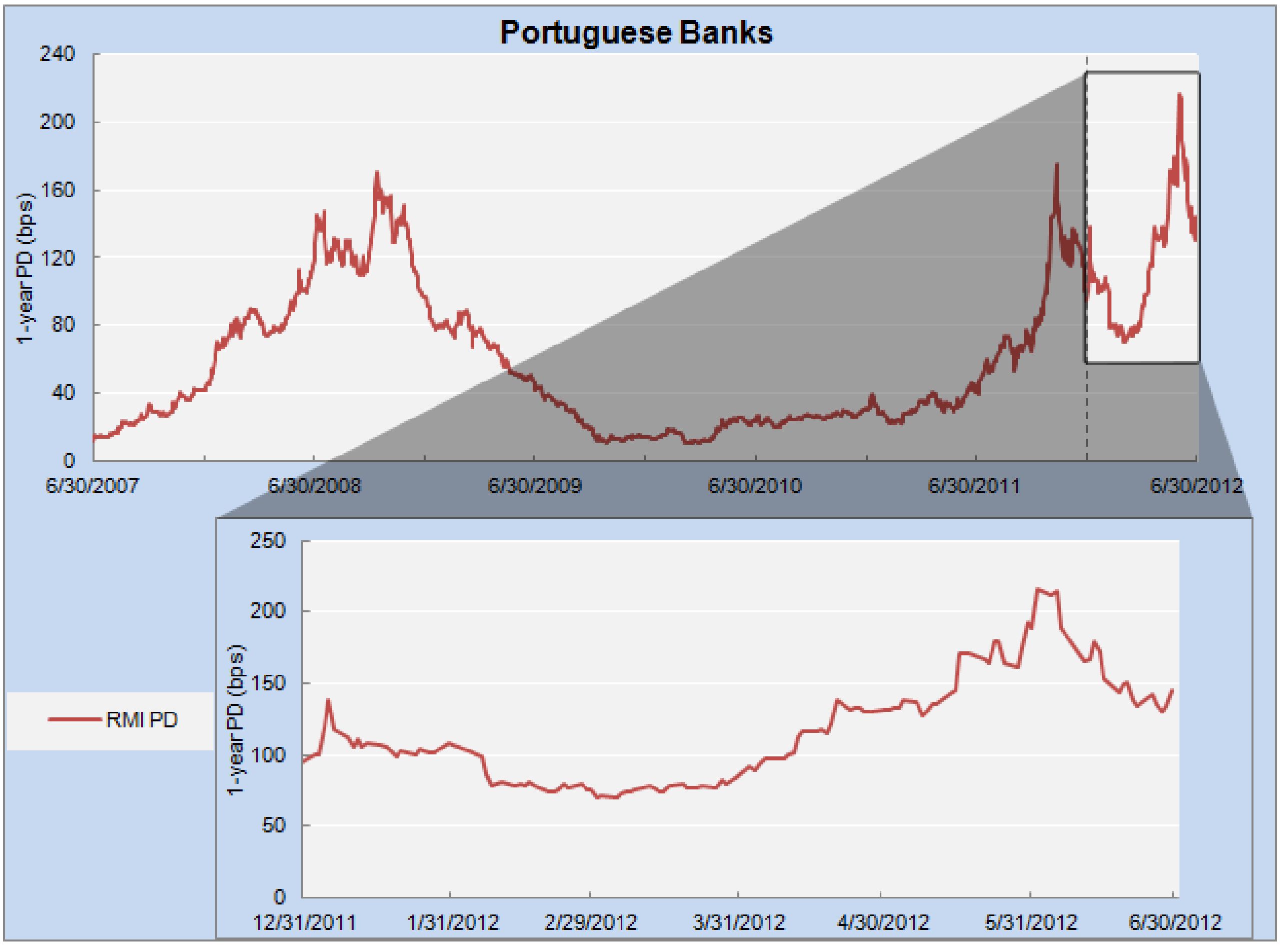
- Government spending fell by 0.6% during Q1, as the Portuguese government cut expenditure to meet the terms of its bailout plan.
- The government is unlikely to meet a budget deficit target of 4.5% for 2012 set by international lenders. This could lead to further large decreases in government spending. The budget deficit was 7.9% in Q1.[125]
- The government plans on increasing revenues by further developing the mining sector; since it came into power last year it has granted 30 mining concessions. Revenues from these grants may reduce the amount of spending cuts needed.[126]

Sovereign Credit Ratings

- The three major CRAs retained non-investment grade ratings on the Portuguese government during Q2, with each CRA maintaining a negative outlook for the country.

Portuguese Banks

The aggregate 1-year RMI PD for Portuguese banks increased dramatically during Q2, reaching record highs as banks significantly increased their holdings of sovereign debt, and lenders requested capital injections from the government towards the end of Q2. Asset quality continues to weigh upon the credit outlook of Portuguese banks, with yields on sovereign bond holdings remaining volatile, while ongoing economic contraction will likely lead to higher non-performing loan provisioning, curtailing future earnings performance. Despite increased sectoral liquidity, an unfavorable funding environment continues to affect the stability of a banking sector that has become increasingly dependent on funding from the ECB.



Profitability

- Bank earnings are likely to remain in negative territory as the economy contracts, with losses at Portuguese banks increasing during Q1.

Capital Levels

- The Portuguese government announced in June the three largest Portuguese banks would receive EUR 6.6bn in recapitalization funds.[127]
- Portuguese banks including Banco Comercial Portugues are buying back their own ABSs at distressed prices to bolster capital.[128]

Funding & Liquidity

- The increase in capital mentioned above also gives Portuguese lenders a larger stockpile of eligible collateral for use in ECB liquidity operations, with the ECB loosening qualifying criteria on June 22.
- Total deposits at Portuguese banks continued to fall in Q2, as corporate depositors sought the perceived safety of banks in core European countries.
- Portuguese banks increased their dependence on ECB financing during Q2, to EUR 60.5bn in June from EUR56.3bn in March.[129]

Asset Quality

- Provisions for bad loans decreased 47% during Q1, but remained well above the 5-year average. Continuing economic contraction will likely lead to continued high provisioning during 2012.
- Banks increased their holdings of sovereign debt by 28% to EUR 33.2bn in the four months up until May, a majority of which is likely to be Portuguese government debt.[130]
- The Portuguese construction sector is on the verge of collapse; the sector owes domestic banks around EUR 25bn, or 10% of the total assets of Portuguese lenders.[131]

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[121] Jun 8, 2012, Portuguese Economy Contracts For A Sixth Straight Quarter, Bloomberg.

[122] Jun 29, 2012, Main Indicators: Industrial and Energy, Statistics Portugal, http://www.ine.pt/

[123] Jul 5, 2012, Portuguese MFIs: Interest per annum on new loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[124] Jun 29, 2012, Portuguese MFIs: Outstanding loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[125] Jul 5, 2012, Portugal risks missing fiscal goal: monitor, Reuters.

[126] Jul 4, 2012, Portugal turns to natural resources in crisis times, Reuters.

[127] Jul 4, 2012, Portugal Props Up Three Banks, The Wall Street Journal.

[128] Jul 1, 2012, European Banks Bolster Capital With Shunned Bonds, Bloomberg.

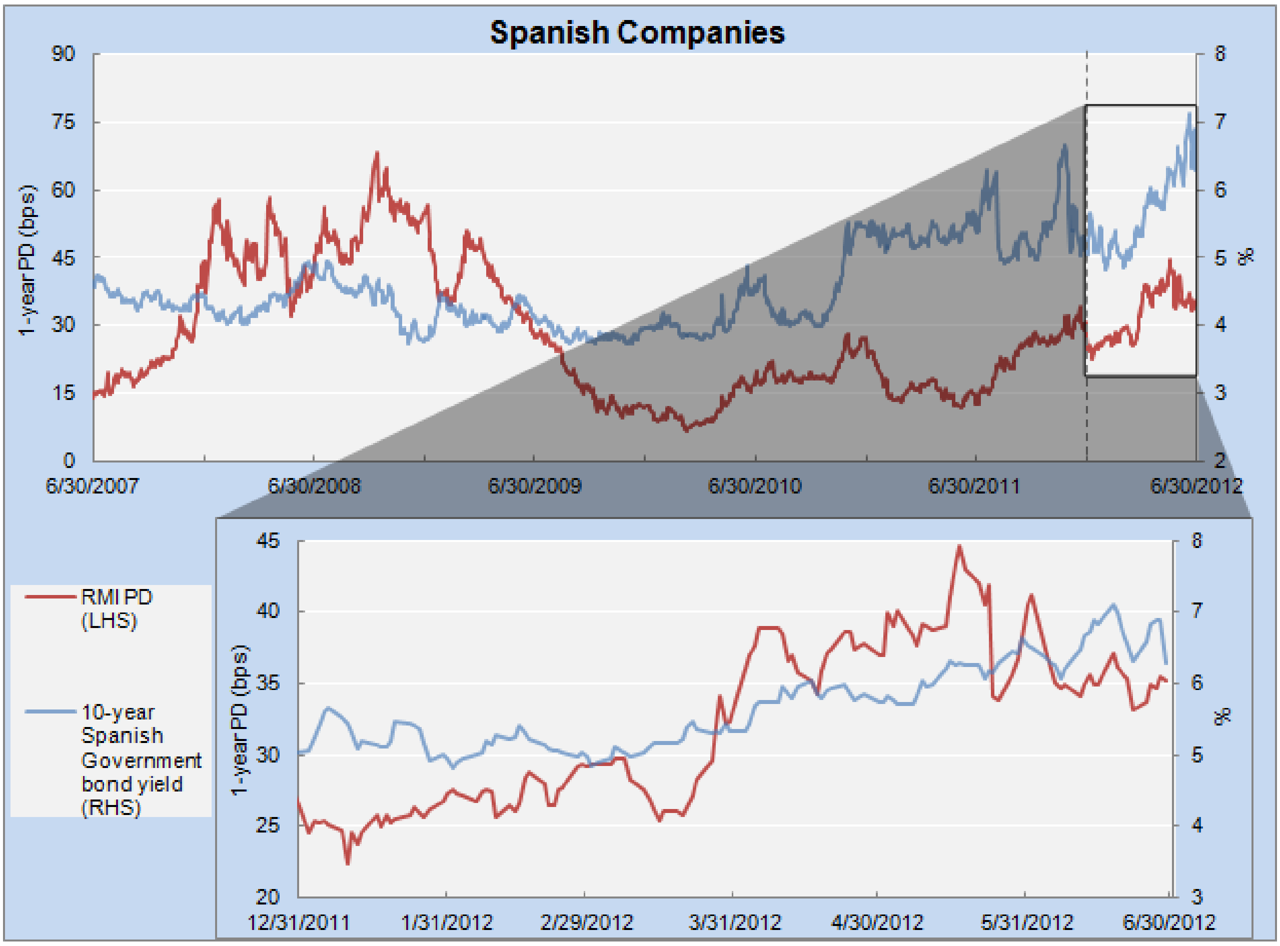
[129] Jul 9, 2012, National Bank Balance Sheet, Banco de Portugal, http://www.bportugal.pt/

[130] Jun 29, 2012, Portuguese MFIs: Total holdings of eurozone government debt, ECB, http://sdw.ecb.europa.eu/

[131] Jun 8, 2012, Portuguese Economy Contracts For A Sixth Straight Quarter, Bloomberg.

Spanish Companies

The aggregate 1-year RMI PD for Spanish companies continued to rise during Q2, peaking at the start of June as investor confidence in the health of the Spanish economy and sustainability of the Spanish banking system declined rapidly in May. The liquidity and funding profiles of Spanish companies continued to decline during Q2, with bank's reducing lending to the real economy and yields on government bonds remaining stubbornly high, increasing capital market borrowing costs for Spanish companies. Moreover, amidst ongoing austerity measures, deteriorating demand and rising unemployment may further constrain tax revenues and cause unemployment benefits to surge, reducing the government's ability to provide support to Spanish companies.



Economy

- The Spanish economy contracted by 0.3% in Q1 2012, following a 0.3% contraction during Q4 2011. This is the second technical recession in Spain since 2007 after a small expansion in early-2010. The IMF and OECD forecasts YoY 2012 growth of -1.5% and -1.6%, respectively.
- The unemployment rate remained at an 18-year high of 24.4% at the end of Q1, with 52.1% of under-25s out of work at the end of May.
- Retail sales fell a record 11.5% YoY in April, and declined by 4.3% YoY in May, while spending on personal goods fell 20% YoY in April.
- The Spanish manufacturing PMI fell to 41.1 in June from 42 in May, while the services

PMI rose to 43.4 in June from 41.8 in May. Both indices continue to indicate a decline in business activity.[132,133]

Funding & Liquidity

- Yields on 10-year Spanish government bonds continued to increase during Q2, reaching a record high of 7.2% on June 18,* on concerns about the weakening economy and the health of Spanish banks.
- Interest rates on new bank loans to non-financials increased to 3.9% in May, up 39bps from March. Funding costs are likely to remain high while yields on government bonds remain elevated.[134]
- Banks continued to reduce lending in Q2, although at a slower pace, with total outstanding loans to the non-financial sector falling 1.2% between March and May.[135]

Political

- The Spanish government must balance meeting EU requirements to reduce the budget deficit to 3% of GDP by 2013, and supporting an economy that is struggling amid higher taxes and major public spending cuts.[136]
- Spain's public debt increased to 72.1% of GDP in Q1 2012, from 63.6% in Q1 2011. The government anticipates that public debt will reach 79.8% of GDP by end-2012, excluding the impact of a eurozone loan of up to EUR 100bn to rescue Spanish banks.[137]

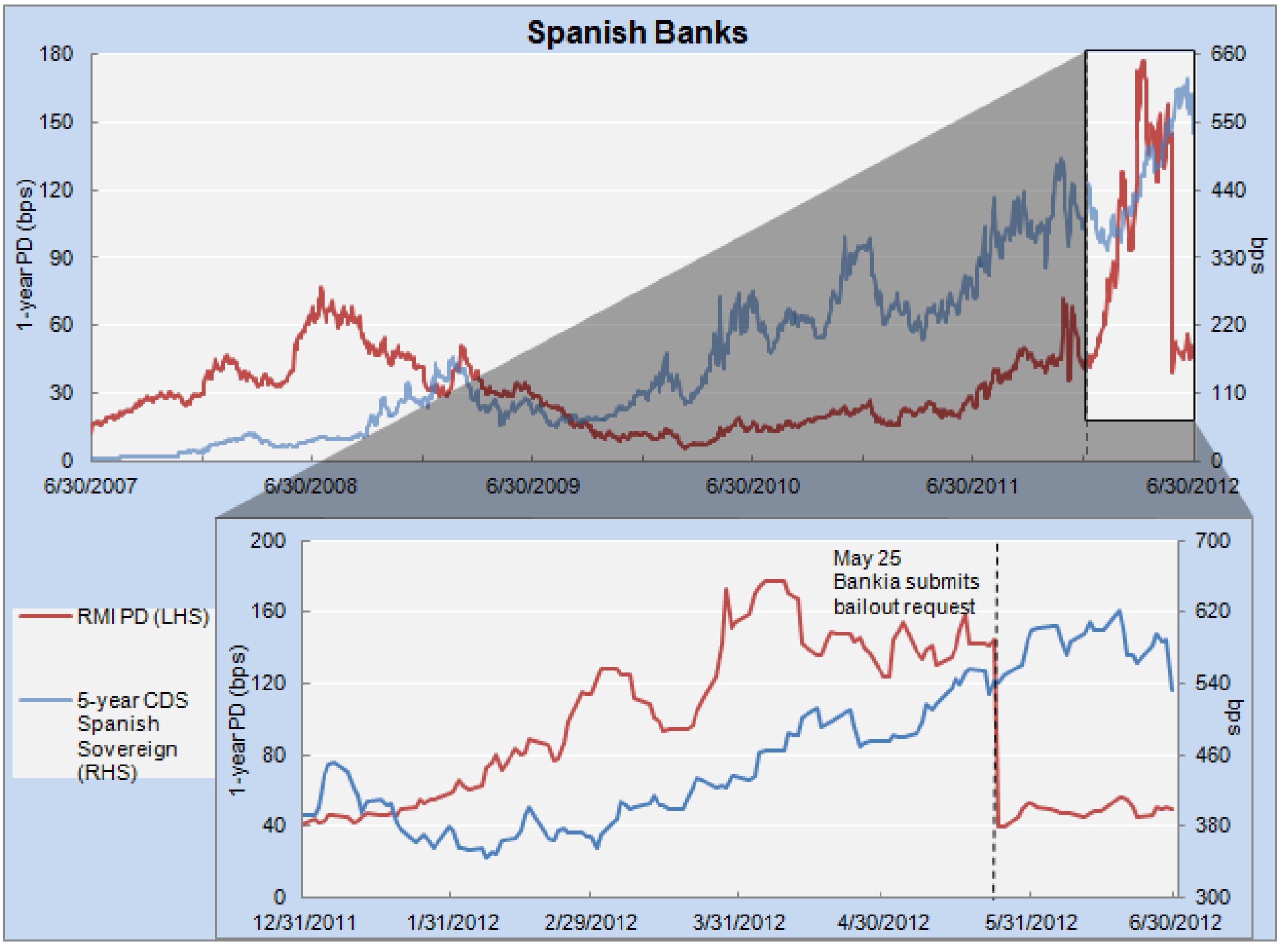
Sovereign Credit Ratings

- Spain received multi-notch downgrades from most of the major ratings agencies in Q2; as of June 30 the country was rated BBB by Fitch, Baa3 by Moody's and BBB+ by S&P; all three maintained a negative outlook for Spain.

*Yields surpassed this level in late July, reaching 7.6% on July 24.

Spanish Banks

The aggregate 1-year RMI PD for Spanish banks rose dramatically during Q2, as the nationalization of Bankia and a government request for EUR 100bn from other eurozone nations to bailout the sector weighed on the credit profiles of Spanish banks. Troubles at Bankia, the third largest Spanish bank by assets, amplified ongoing concerns about the quality of balance sheet assets at Spanish banks. The credit profiles of Spanish banks are likely to remain weak, as deposit outflows continued during Q2, with Spanish banks becoming increasingly interlinked with the health of an ailing Spanish sovereign.



Profitability

- Although the profit margins of Spanish banks improved during Q1, an ongoing contraction in the Spanish economy and increasing unemployment weigh on banks' future earnings.
- A large part of the profits reported by Spanish banks' during Q1 is believed to have arisen from carry trades involving Spanish government bonds financed with cheap ECB 3-year LTRO funds.

Funding & Liquidity

- In June, the Spanish government sought EUR 100bn from eurozone nations to shore up struggling Spanish lenders, after Bankia requested EUR 19bn in aid from the Spanish government in May.[138]

- Total deposits at Spanish banks likely continued to fall in Q2, decreasing 1.6% MoM in April and 0.25% MoM in May, with commercial deposits falling 3.5% in April.

Asset Quality

- Linkages between Spanish banks and the government continued to increase during Q2, with Spanish banks being the largest participants at bond sales by the Spanish Treasury.
- A EUR 3bn increase in loan impairments at Bankia in a restated annual report reflects the risk that assets at Spanish banks may be of much lower quality than reported.
- Moreover, a sectoral stress test by Oliver Wyman in June suggested almost 90% of loans to property developers could default if the Spanish economy continues to weaken.
- Continuing poor economic conditions may weigh on asset quality; increasing loan impairments at Spanish banks in Q1 were driven by a slowing economy and a record high unemployment rate.

Regulation

- Provisioning requirements for real estate-linked loans that are still performing were raised to 30% in May, leading to an additional EUR 30bn in provisioning by Spanish banks. This followed EUR 50bn of mandated provision increases in February.[139]
- Spanish regulators announced further capital demands would be imposed on a bank-by-bank basis rather than industry-wide to shore up the Spanish banking system on June 22.[140]

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[132] Jul 2, 2012, Markit Spain Manufacturing PMI, Markit, http://www.markiteconomics.com

[133] Jul 4, 2012, Markit Spain Services PMI, Markit, http://www.markiteconomics.com

[134] Jul 5, 2012, Spanish MFIs: Interest per annum on new loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[135] Jun 29, 2012, Spanish MFIs: Outstanding loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[136] May 29, 2012, Spain's Economy Shows Fresh Strain, The Wall Street Journal.

[137] Jun 15, 2012, Spanish debt climbs to 72.1% of GDP, Channel News Asia.

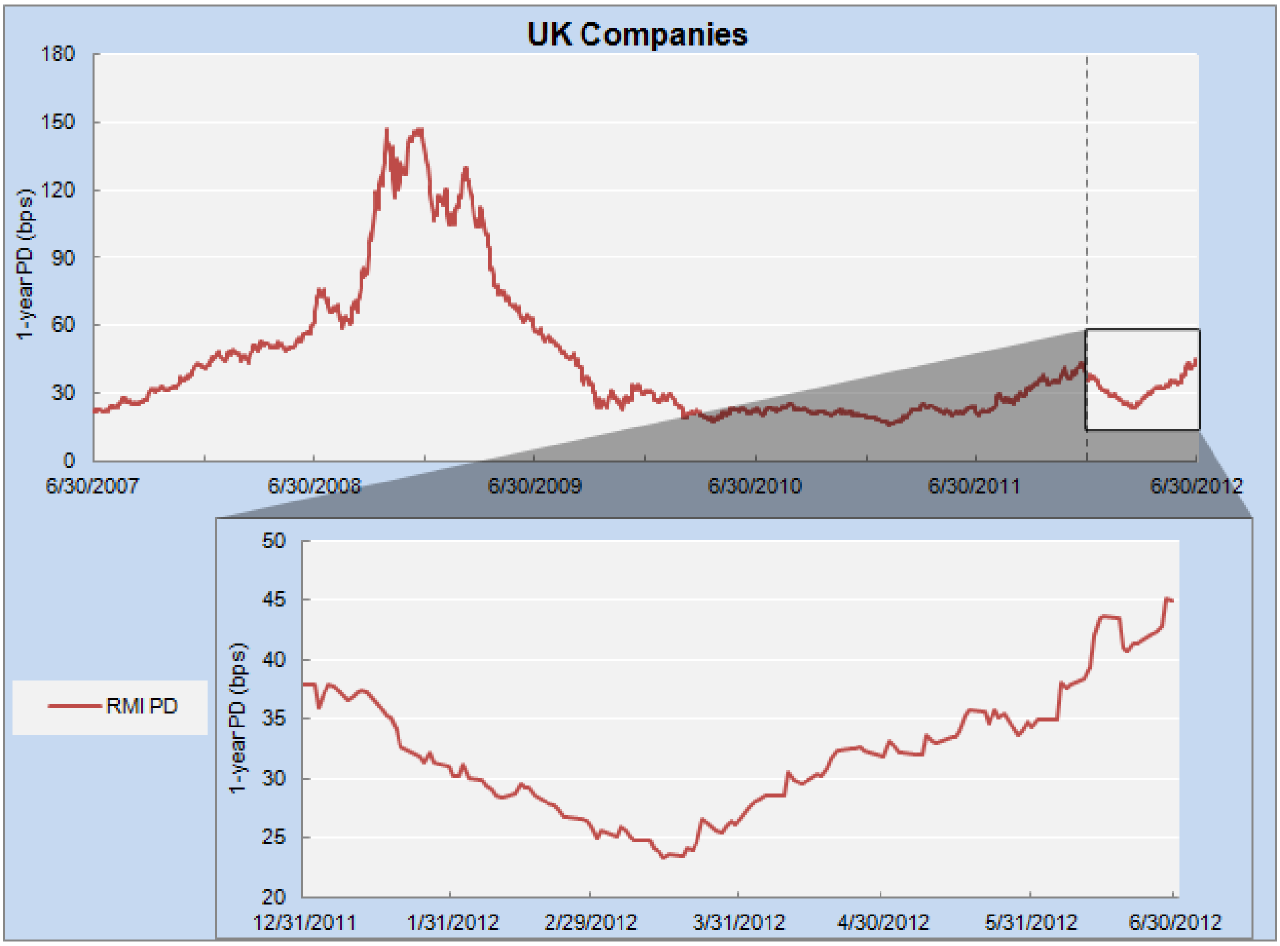
[138] May 26, 2012, Spain's loss-making Bankia vows transparency, BBC News.

[139] May 12, 2012, Spain Imposes 30 Billion Euros of Provisions on Banks, Bloomberg.

[140] Jun 22, 2012, Spain rules out decree on banks for more capital, Reuters.

UK Companies

The aggregate 1-year RMI PD for UK companies increased to levels not seen since September 2009 during Q2, after falling markedly during Q1. Economic contraction continued through Q2, with youth unemployment levels remaining high amid lackluster consumer demand and continuing contraction in the manufacturing sector. Despite declining interest rates, banks continued to reduce lending. Going forward, this trend may reverse once the BoE's new lending programs become operational. Moreover, financing conditions remain favorable for more established names, with yields on government bonds at record lows. However, the credit outlook for UK companies remains poor, especially with the government likely to enact large spending and public sector job cuts in pursuit of an elusive balanced budget.



Economy

- The UK economy is in a technical recession. It contracted 0.7% QoQ in Q2, following two previous quarters of economic contraction: 0.2% QoQ in Q1, and 0.6% QoQ in Q4 2011. The IMF and OECD YoY 2012 growth forecasts are 0.2% and 0.5%, respectively.[141]
- Unemployment fell to 8.1% during May, down from a 15-year high of 8.4% in January. Unemployment amongst under-25s remained near record highs during April, at 22%.
- Following a 2-year record high contraction in April, retail sales advanced 1.5% in May and 0.1% in June. Consumer confidence remained stable during Q2, but well-below the 5-year average.

- The UK manufacturing PMI increased to 48.6 during June, from a 3-year low of 45.9 in May, indicating ongoing manufacturing contraction during Q2. The services PMI decreased from 53.3 to 51.3 in June.[142,143]

Monetary

- Following increasing speculation, the BoE increased its asset purchase programme by GBP 50bn on July 5, to GBP 75bn. The expansion is aimed at increasing liquidity in the UK economy and boosting demand.[144]
- The BoE maintained its key interest rate at 0.5% during Q2. The BoE is considering cutting the rate to 0.25% in the near future, which would benefit homeowners.[145]

Funding & Liquidity

- Yields on 10-year UK government bonds fell to a record low of 1.53% on June 5, and increased slightly towards the end of Q2, to 1.73% on June 29.
- Interest rates on new loans to non-financials fell 6bps during Q2, to 3.7% per annum in May. Going forward, interest rates are unlikely to reflect sovereign yields, which have been distorted by central bank purchases and investors' flight to safety.[146]
- UK banks continued to reduce lending during Q2, with loans to the companies and households decreasing 0.51% between March and May.[147]
- The BoE announced two special lending programs in June, aimed at encouraging banks to continue lending in spite of the eurozone crisis, especially to SMEs.[148]

Political

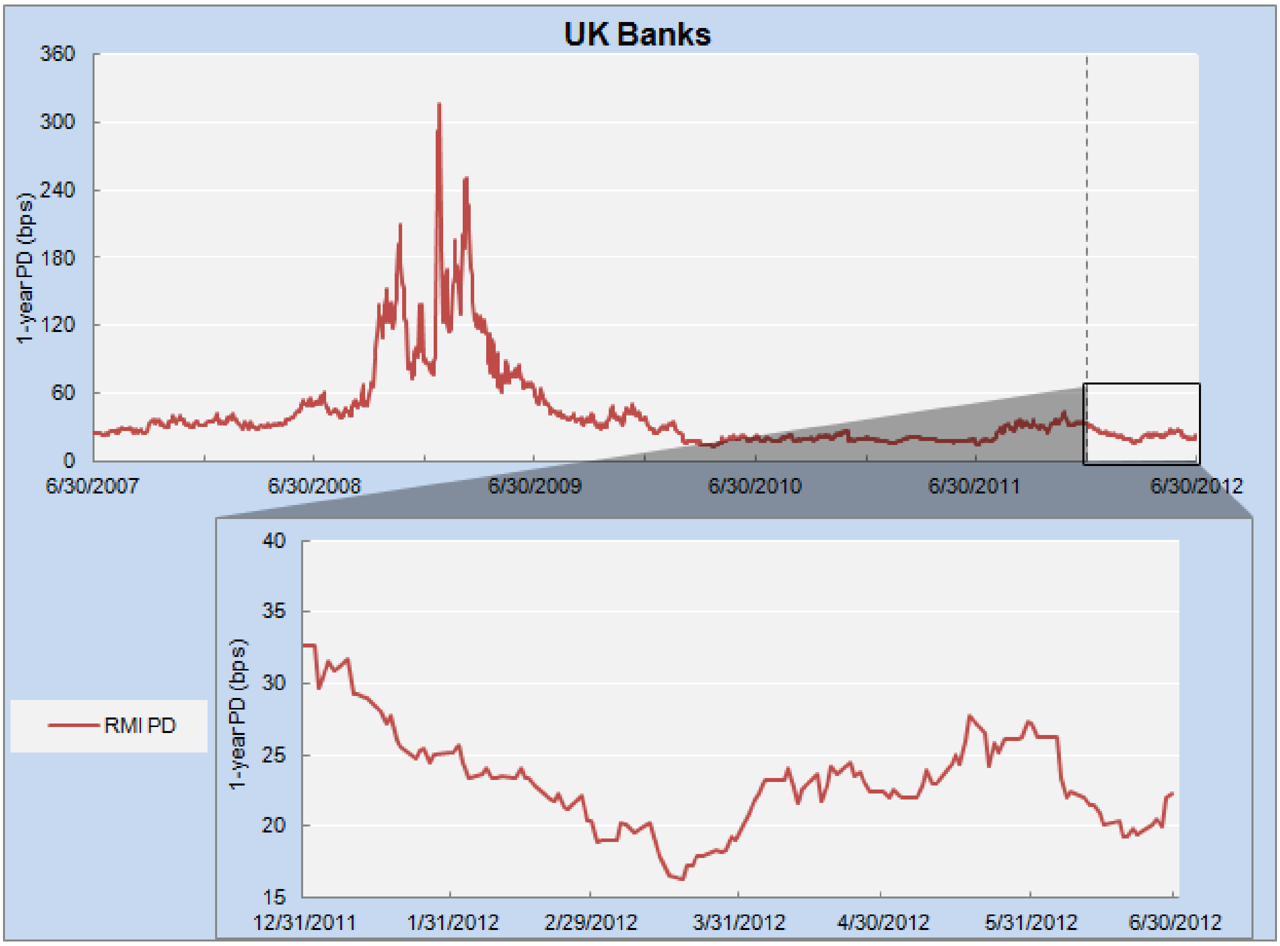
- The UK budget deficit remained the third highest among developed nations during Q2, with the budget deficit increasing unexpectedly again in May.
- Budget cuts enacted during the past year will lead to the eventual elimination of 700,000 public sector jobs; the majority of other spending cuts have yet to be implemented.[149]

Sovereign Credit Ratings

- The major CRAs retained AAA equivalent ratings on the UK government during Q2. However, the UK sovereign rating remains on negative watch at Fitch and Moody's.

UK Banks

The aggregate 1-year RMI PD for the UK banking sector continued to exhibit volatility during Q2. When Spain requested an EU bailout of its banking sector in May, the sectoral RMI PD for UK lenders approached levels last seen during the height of the eurozone sovereign debt crisis in late-2011. This indicates the credit outlook for UK banks remains linked to events in continental Europe, despite significant reductions in GIIPS balance sheet exposures through Q1. On a positive note, the eurozone crisis contributed to an improvement in the funding and liquidity profiles of UK banks during Q2, as safe-haven inflows increased. However, home market earnings are likely to remain constrained as economic growth slows, with more narrowly focused lenders likely to face increasing asset degradation in domestic portfolios. More internationally diversified lenders will likely continue to report strong earnings, unless global growth contracts significantly. Moreover, ongoing regulatory actions weigh upon future earnings, which combined with ongoing uncertainty about the implementation of the Vickers rule, negatively affects the credit outlook for UK lenders.



Profitability

- Earnings at UK lenders continued to contract during Q1, with Barclays, Lloyds and RBS all reporting deeply negative or weak profits on weakening earnings; this trend is likely to continue due to an insipid domestic economy.
- Earnings at more diversified HSBC and Standard Chartered weakened during Q1, but are likely to remain resilient while growth patterns in Emerging Asia continue.

Funding & Liquidity

- Average coupon rates on 5-year USD-denominated UK bank bonds fell to 2.45% during Q2, down from 2.87% during Q1 and 3.2% during Q4 2011.
- Total domestic deposits at UK banks increased significantly during Q2, up 2.2% between March and May, to GBP 2.1tr.[150]

Asset Quality

- Provisions for bad loans at listed UK lenders fell during Q1, while BoE data shows bad debt write-offs remain elevated. The quality of domestic loan portfolios is likely to decline while the economy remains sluggish.[151]
- UK banks reduced exposures to GIIPS nations during Q1, and significantly reduced exposures to France; exposures to banks in Germany, Luxembourg and the Netherlands increased substantially.

Regulation

- Barclays was fined USD 453m by UK and US regulators for submitting false Libor rates during the late-2000s. Other UK banks are under investigation for similar practices.[152]
- Uncertainty about the Vickers report, which will separate UK commercial and investment banking operations, continued in Q2; key government figures announced in December 2011 that they would accept the report's recommendations in full.

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[141] April 25, 2012, UK Slips Back Into Recession, Wall Street Journal.

[142] Jul 2, 2012, Markit/CIPS UK Manufacturing PMI, Markit, http://www.markiteconomics.com/

[143] Jul 4, 2012, Markit/CIPS UK Services PMI, Markit, http://www.markiteconomics.com/

[144] Jun 5, 2012, Asset Purchase Programme increased by 50 billion to 375 billion, BoE, http://www.bankofengland.co.uk

[145] Jul 19, 2012, Bank of England mulls interest rate cut, Telegraph.

[146] Jul 5, 2012, UK MFIs: Interest per annum on new loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/

[147] Jul 3, 2012, UK MFIs: Balance sheet, BoE, http://www.bankofengland.co.uk

[148] Jun 15, 2012, Will Bank of England's new lending schemes work, BBC.

[149] Mar 21, 2012, Osborne Says U.K. To Avoid Recession As He Keeps Austerity Push, Bloomberg.

[150] Jul 3, 2012, UK MFIs: Balance sheet, BoE, http://www.bankofengland.co.uk

[151] May 30, 2012, Write-offs of loans by banks and building societies, BoE,

[152] Jun 27, 2012, Barclays paying $453 million to settle Libor probe, Reuters.

Appendices

The appendices provide readers with a comprehensive overview of various outputs that are produced by RMI's operational probability of default (PD) system. While the PD system provides default forecasts at horizons ranging from one month to two years, here only 1-year PDs are reported. In addition to the PD produced by the RMI system, important macroeconomic, corporate credit and sovereign risk indicators are provided. These summarize the credit situation at a glance, as well as provide detailed data for reference purposes.

Appendix A and Appendix B give 1-year aggregate PD where the aggregations are by region, economy and sector. These are given as month-end data, and are based on RMI's default forecast model calibrated on July 8, 2012, using data up to June 30, 2012. For a detailed description of RMI's default forecast model, the Technical Report is available on our website.

Appendix A provides 1-year aggregate PD by economy and sector. For each economy, the graph on the left shows the time series of 1-year aggregate PD for all exchange listed firms within the economy (thick blue, left axis), and the time series of the number of firms with PD (thin orange, right axis). The table on the right provides the mean and standard deviation of PDs for firms within ten industry sectors at the end of Q1 2012 and Q2 2012. Note that the statistics are for firms that have a PD at both dates so that consistent comparisons can be made. The mean and standard deviation of the difference of individual PD is also given. The industry sectors are based on the Level I Bloomberg Industry Classification.

Appendix B gives 1-year aggregate PD by the four regions of Asia-Pacific developed, Asia-Pacific emerging, Western Europe and North America. The top two graphs of each regions show the time series of the distribition of Probability of Default implied Ratings (PDiR). The PDiR methodology is described in the last section of Appendix D. The different colored areas in the graph indicate different PDiR classes. From the bottom, the blue area indicates the percentage of CCC/C firms, the bottom-most white area indicates B firms, the orange area indicates BB firms, the middle white area indicates BBB firms, the green area indicates A firms, the top-most white area indicates AA firms, and the maroon area indicates AAA firms.

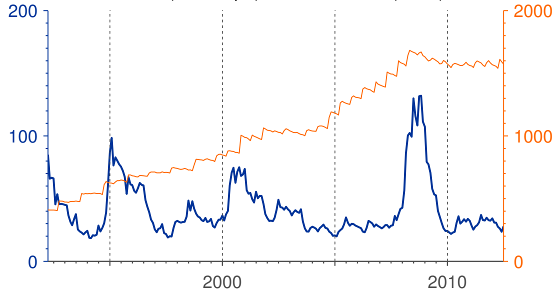
The bottom 12 graphs in each region show the time series of 1-year aggregate PD for all exchange listed firms in the region, all non-financial firms in the region, and firms in each of the ten industry sectors in the region. Each graph shows the PD in thick blue on the left axis and the count of firms with PD in thin orange on the right axis.

Appendix C provides common macroeconomic, corporate credit and sovereign risk indicators for each economy along with the 1-year aggregate PD for financial and non-financial firms. The graphs on the left give historical context to the values, and the table on the right give the data from the previous five quarters. For variables that are more frequent than quarterly, the last value in the quarter is used. But if a variable is available at a monthly frequency and the end of June data was not available at the time this report was compiled, the previous month's data is given with an asterisk.

Appendix D gives a more detailed description of the data in Appendix C, along with a description of the PDiR.

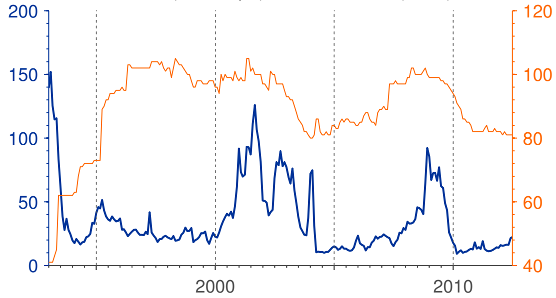
A PD by economies

Australia, All firms
1Y PD (LHS, bps) and # of firms (RHS)



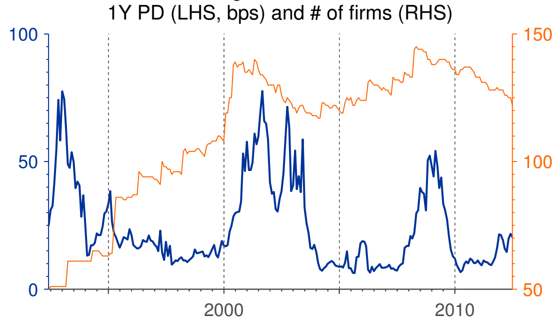
Australia	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	140	32.4	64.3	29.7	56.0	-2.7	41.5
Basic Materials	658	17.4	47.7	24.1	55.2	6.6	45.4
Communications	72	37.4	76.2	42.6	74.0	5.2	46.0
Consumer Cyclical	77	35.1	90.7	34.5	99.7	-0.6	30.6
Consumer Non-cyclical	171	24.8	57.6	31.9	83.9	7.1	65.8
Diversified	6	7.1	8.5	9.5	12.3	2.4	4.1
Energy	189	19.5	55.5	30.7	80.8	11.2	38.2
Industrial	116	33.5	91.2	35.6	96.8	2.1	91.4
Technology	42	26.1	38.0	20.2	25.7	-5.9	15.2
Utilities	14	42.4	132.6	39.0	91.1	-3.4	71.6

Austria, All firms
1Y PD (LHS, bps) and # of firms (RHS)



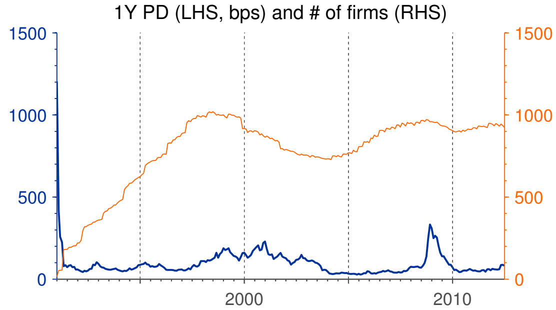
Austria	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	20	22.6	49.3	30.1	75.3	7.6	26.4
Basic Materials	3	11.0	6.2	13.4	5.8	2.4	1.4
Communications	2	51.6	66.0	120.0	160.1	68.5	94.1
Consumer Cyclical	11	13.4	15.1	22.6	35.5	9.2	28.2
Consumer Non-cyclical	7	9.6	8.5	8.1	6.6	-1.6	3.1
Energy	3	4.0	1.0	11.6	9.6	7.6	8.8
Industrial	17	15.9	19.1	19.6	22.5	3.7	9.3
Technology	5	25.8	29.5	24.6	22.4	-1.3	10.7
Utilities	1	5.3	–	4.6	–	-0.7	–

Belgium, All firms
1Y PD (LHS, bps) and # of firms (RHS)

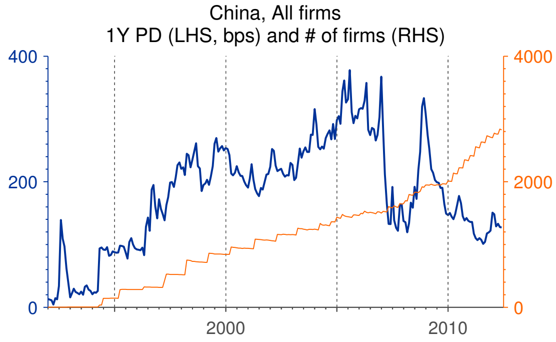


Belgium	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	29	20.9	63.7	26.6	103.4	5.7	44.6
Basic Materials	7	8.0	5.6	11.1	7.7	3.1	2.8
Communications	7	28.5	39.8	33.1	46.3	4.6	8.2
Consumer Cyclical	4	5.5	7.1	4.7	5.0	-0.8	2.2
Consumer Non-cyclical	24	7.3	13.3	9.5	18.8	2.2	6.3
Diversified	6	2.5	2.4	5.0	8.0	2.6	6.0
Energy	1	53.0	–	55.5	–	2.5	–
Industrial	21	9.1	8.5	11.2	10.2	2.1	5.2
Technology	7	12.1	11.0	11.0	8.7	-1.0	2.6
Utilities	1	1.3	–	0.8	–	-0.4	–

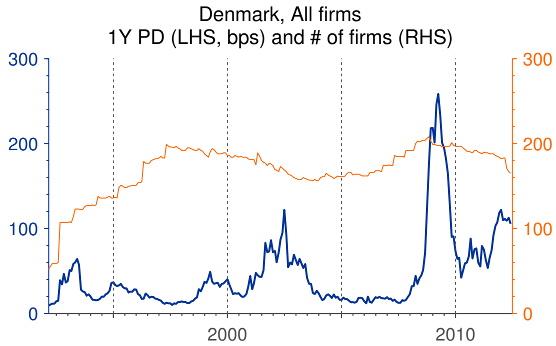
Canada, All firms
1Y PD (LHS, bps) and # of firms (RHS)



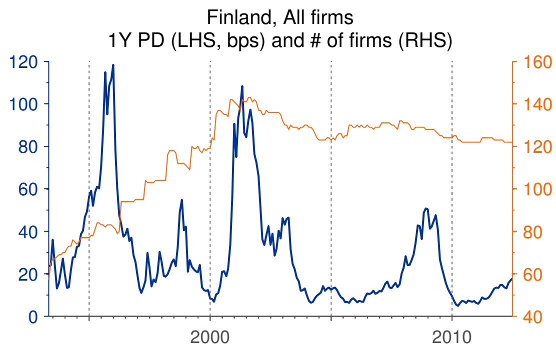
Canada	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	104	21.0	43.2	23.0	40.6	1.9	39.6
Basic Materials	298	36.1	77.3	74.3	259.5	38.1	240.4
Communications	50	171.3	871.8	220.5	900.6	49.3	238.9
Consumer Cyclical	61	50.1	111.1	58.1	114.8	8.1	59.2
Consumer Non-cyclical	103	51.6	112.5	70.3	158.7	18.7	100.5
Diversified	5	41.5	75.5	64.6	126.1	23.1	50.7
Energy	155	78.4	386.3	135.6	541.0	57.2	207.9
Industrial	73	47.4	110.0	55.9	165.5	8.5	98.5
Technology	28	52.7	72.3	72.6	91.5	19.9	64.6
Utilities	12	5.8	7.9	7.0	12.8	1.3	12.3



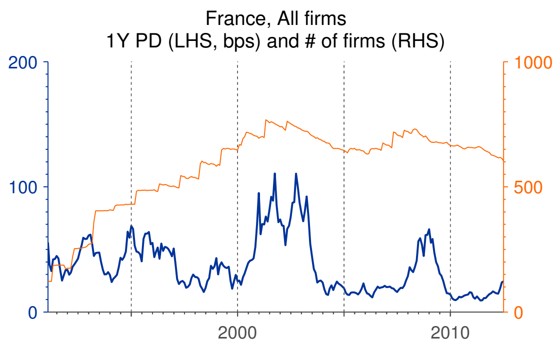
China		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	205	130.9	145.3	135.6	169.9	4.7	97.4
Basic Materials	342	161.2	145.9	177.4	174.9	16.3	95.9
Communications	145	77.6	99.7	93.8	135.4	16.2	72.5
Consumer Cyclical	485	131.4	136.4	140.6	160.0	9.2	105.0
Consumer Non-cyclical	430	114.0	158.0	112.6	169.0	-1.4	75.0
Diversified	29	194.5	126.4	206.0	139.0	11.5	58.2
Energy	77	109.7	199.3	132.8	240.6	23.1	145.9
Industrial	769	123.1	132.2	133.5	163.2	10.4	75.5
Technology	156	91.9	149.1	95.3	133.6	3.4	77.3
Utilities	77	200.9	163.8	190.9	174.2	-10.0	117.7



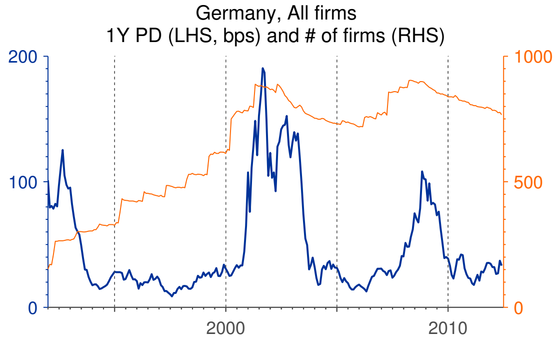
Denmark		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	59	111.4	195.2	105.5	173.3	-6.0	66.3
Basic Materials	1	20.3	–	20.6	–	0.3	–
Communications	8	52.2	76.9	36.0	47.3	-16.2	34.1
Consumer Cyclical	16	65.5	56.7	99.7	126.5	34.1	76.9
Consumer Non-cyclical	22	27.3	50.2	102.6	391.6	75.3	358.9
Diversified	1	111.6	–	98.8	–	-12.8	–
Industrial	36	191.0	452.1	113.1	181.3	-78.0	417.9
Technology	12	126.3	185.2	118.1	160.5	-8.1	46.6



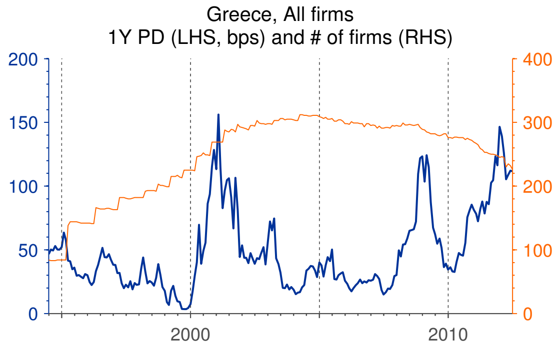
Finland		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	13	20.4	38.7	26.9	58.5	6.4	20.0
Basic Materials	8	14.1	10.2	21.0	18.2	6.9	10.4
Communications	14	12.6	14.9	18.0	18.2	5.4	11.4
Consumer Cyclical	8	6.7	5.0	9.6	9.4	2.9	5.0
Consumer Non-cyclical	15	10.5	7.6	10.7	8.0	0.2	4.2
Industrial	35	12.2	11.5	20.0	32.2	7.8	24.1
Technology	13	12.4	15.7	18.8	24.9	6.4	11.0



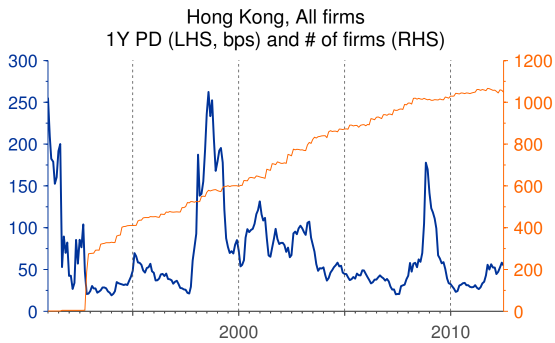
France		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	101	14.1	23.7	22.7	56.5	8.5	34.6
Basic Materials	17	15.7	15.4	22.0	18.8	6.3	9.4
Communications	70	14.7	14.9	28.9	76.2	14.2	68.1
Consumer Cyclical	78	14.8	16.0	55.3	302.8	40.5	294.6
Consumer Non-cyclical	113	8.3	16.7	11.4	16.4	3.1	8.4
Diversified	7	15.8	16.8	19.8	22.1	4.0	7.0
Energy	13	27.2	31.6	38.6	48.4	11.4	23.9
Industrial	99	12.6	15.9	17.8	22.9	5.1	12.4
Technology	77	16.7	24.4	21.0	27.0	4.2	16.0
Utilities	7	21.4	31.0	23.4	30.0	2.1	3.0



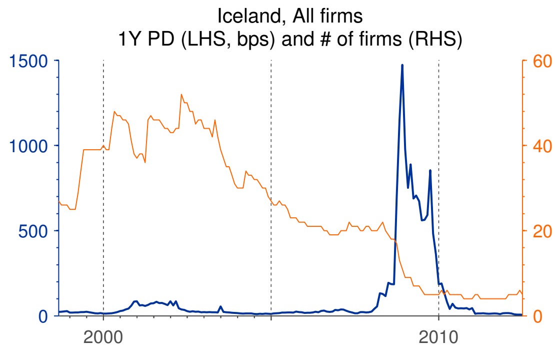
Germany	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	183	20.0	32.0	25.6	50.5	5.6	32.6
Basic Materials	24	16.0	43.0	16.1	35.1	0.1	8.8
Communications	71	20.9	45.5	20.2	44.4	-0.7	16.6
Consumer Cyclical	95	28.2	132.9	40.7	225.6	12.5	94.6
Consumer Non-cyclical	102	20.1	65.2	24.4	82.0	4.3	19.0
Diversified	3	51.3	48.0	311.3	500.9	260.0	454.1
Energy	19	35.6	54.4	103.7	308.9	68.1	309.1
Industrial	151	32.7	157.9	40.7	191.9	8.0	67.1
Technology	81	11.9	14.4	19.7	51.4	7.8	43.8
Utilities	8	8.2	14.7	7.0	7.4	-1.2	7.7



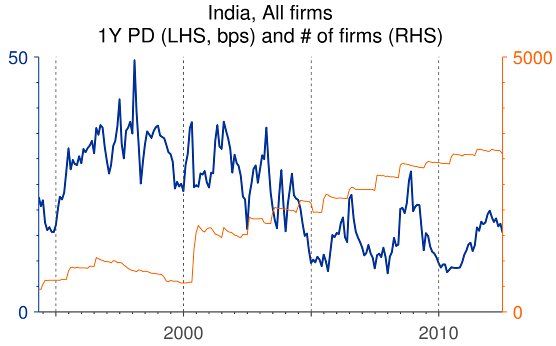
Greece	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	17	95.3	91.8	80.8	71.1	-14.5	42.7
Basic Materials	13	40.4	49.4	41.7	43.9	1.3	31.4
Communications	12	165.2	129.9	301.3	238.3	136.1	187.4
Consumer Cyclical	38	113.3	316.4	63.0	84.0	-50.2	306.9
Consumer Non-cyclical	40	78.2	108.0	67.8	67.4	-10.4	75.6
Diversified	1	14.6	–	31.0	–	16.4	–
Energy	4	38.6	34.9	32.3	16.7	-6.3	19.5
Industrial	69	113.6	170.1	159.7	251.6	46.1	188.9
Technology	9	67.5	56.5	62.6	54.2	-4.9	28.3
Utilities	2	32.3	38.0	66.1	82.6	33.8	44.7



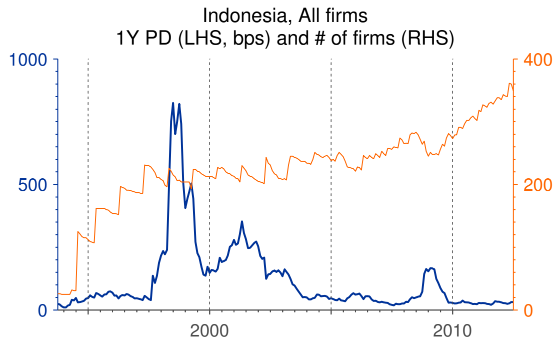
Hong Kong	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	212	38.2	60.0	44.2	73.1	6.0	51.0
Basic Materials	51	66.7	75.8	84.1	91.2	17.3	49.3
Communications	84	40.5	67.1	57.6	115.3	17.1	75.2
Consumer Cyclical	239	41.4	61.7	48.6	76.5	7.2	51.1
Consumer Non-cyclical	111	28.0	40.3	35.6	62.2	7.6	51.1
Diversified	39	42.5	39.3	42.0	37.5	-0.6	28.3
Energy	33	86.8	102.5	99.6	120.8	12.8	93.2
Industrial	172	60.8	103.2	66.4	126.4	5.6	52.9
Technology	57	80.2	252.3	94.6	323.0	14.4	83.4
Utilities	13	26.5	47.7	24.3	35.5	-2.2	20.0



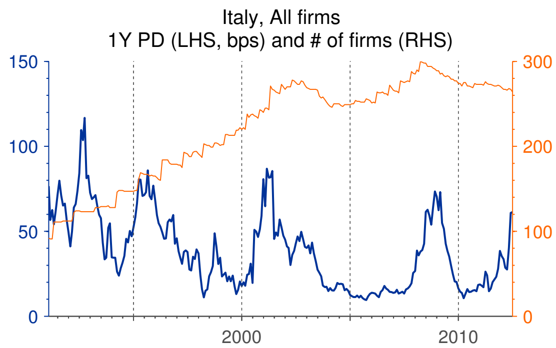
Iceland	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Consumer Non-cyclical	1	9.9	–	11.3	–	1.4	–



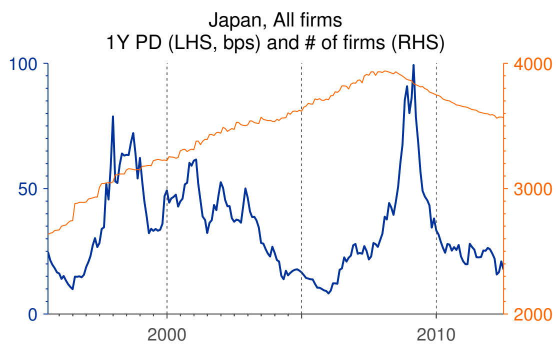
India		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	439	19.7	40.9	16.5	36.6	-3.2	14.5
Basic Materials	444	20.2	40.2	18.5	58.2	-1.7	51.9
Communications	120	18.3	23.5	15.2	24.4	-3.1	13.2
Consumer Cyclical	612	18.9	24.2	16.5	24.6	-2.5	17.7
Consumer Non-cyclical	486	17.9	56.1	13.8	27.6	-4.1	41.0
Diversified	21	18.7	32.9	15.8	24.0	-3.0	11.3
Energy	55	20.6	22.3	17.4	18.9	-3.3	7.5
Industrial	663	17.1	25.1	14.6	22.5	-2.5	11.8
Technology	199	14.4	23.2	12.1	24.3	-2.3	9.5
Utilities	32	13.9	14.8	12.8	13.3	-1.1	5.0



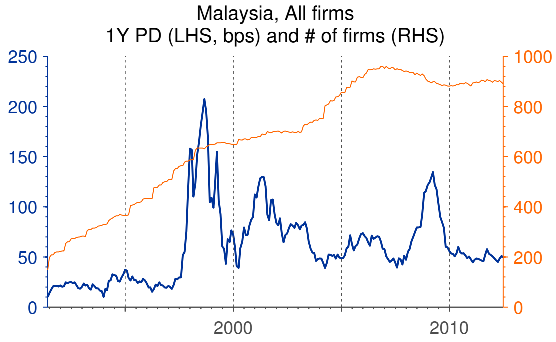
Indonesia		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	87	37.0	41.0	44.7	46.6	7.6	15.4
Basic Materials	35	20.1	18.7	28.0	25.2	7.9	12.9
Communications	16	21.5	24.1	30.7	35.2	9.2	14.0
Consumer Cyclical	49	17.9	18.8	22.9	22.9	5.0	12.5
Consumer Non-cyclical	52	13.2	14.0	16.7	19.9	3.5	9.4
Energy	24	28.9	38.9	50.6	85.9	21.7	49.9
Industrial	49	21.8	33.7	25.1	30.8	3.3	12.8
Technology	4	8.9	9.6	91.3	156.6	82.4	162.3
Utilities	1	78.5	–	46.0	–	-32.5	–



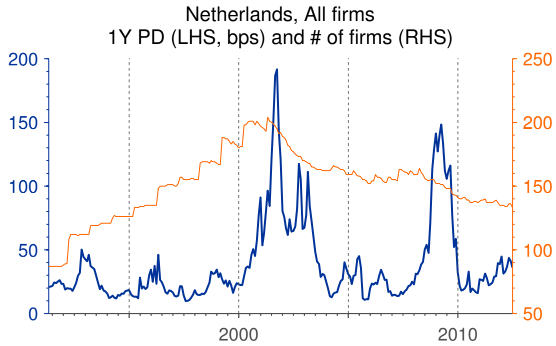
Italy		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	54	45.2	57.5	63.5	70.5	18.4	31.6
Basic Materials	6	53.7	61.6	49.9	41.7	-3.8	29.5
Communications	30	15.5	11.4	28.1	31.2	12.6	23.4
Consumer Cyclical	40	21.4	21.8	26.8	26.1	5.4	10.7
Consumer Non-cyclical	32	24.7	40.5	166.0	788.4	141.3	753.2
Diversified	2	20.3	2.1	30.0	0.1	9.7	2.2
Energy	13	22.3	37.5	26.1	29.6	3.8	12.2
Industrial	48	21.4	59.9	74.2	385.6	52.8	327.1
Technology	12	29.4	36.2	50.9	61.8	21.6	50.5
Utilities	12	14.5	8.5	23.4	20.5	8.9	16.1



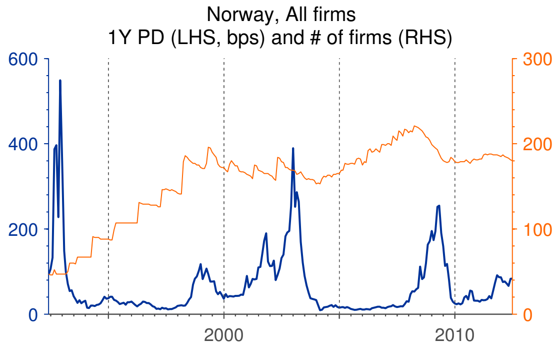
Japan		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	320	32.0	41.9	37.1	48.9	5.1	28.0
Basic Materials	246	13.7	19.4	17.3	22.7	3.7	11.1
Communications	247	13.4	31.4	14.4	34.8	0.9	11.8
Consumer Cyclical	869	13.2	22.0	15.5	22.6	2.3	10.7
Consumer Non-cyclical	572	9.8	27.8	11.2	32.1	1.4	14.3
Diversified	1	41.2	–	20.7	–	-20.5	–
Energy	16	31.8	68.4	26.2	32.8	-5.6	42.2
Industrial	978	16.6	25.9	18.7	27.2	2.0	12.1
Technology	258	12.5	23.9	14.7	40.1	2.2	30.4
Utilities	23	36.4	87.9	29.0	67.4	-7.4	36.3



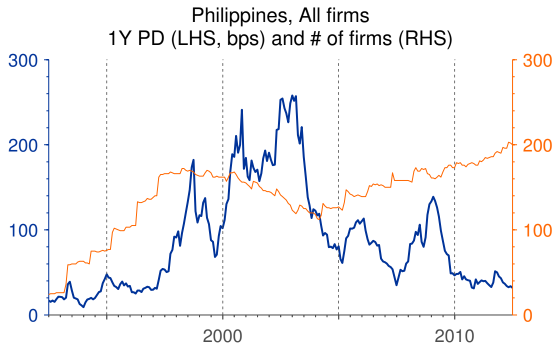
Malaysia		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	125	40.2	51.4	44.6	68.0	4.4	43.1
Basic Materials	64	54.6	67.1	66.6	88.4	12.0	36.3
Communications	34	35.4	58.2	48.9	66.7	13.4	33.0
Consumer Cyclical	120	46.0	70.0	50.2	65.1	4.1	36.6
Consumer Non-cyclical	143	37.7	80.8	33.8	62.9	-4.0	37.9
Diversified	22	23.8	21.6	26.4	26.5	2.6	11.3
Energy	20	45.7	61.1	86.2	172.6	40.5	116.9
Industrial	272	55.2	89.5	59.4	98.5	4.2	48.2
Technology	62	43.1	64.0	45.2	58.5	2.1	37.8
Utilities	4	3.2	4.2	2.4	4.0	-0.8	1.3



Netherlands		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	19	44.1	74.4	41.0	53.2	-3.1	30.5
Basic Materials	3	12.0	16.7	8.5	9.2	-3.5	7.6
Communications	10	23.3	44.6	33.6	74.1	10.3	31.3
Consumer Cyclical	10	177.2	532.6	23.3	45.9	-153.9	487.2
Consumer Non-cyclical	25	11.9	14.2	74.8	324.2	62.8	318.0
Diversified	1	1.2	–	1.3	–	0.1	–
Energy	5	6.4	7.4	9.5	10.2	3.1	4.0
Industrial	32	17.7	18.8	20.2	25.2	2.6	12.0
Technology	14	12.1	12.1	15.7	18.3	3.6	7.5

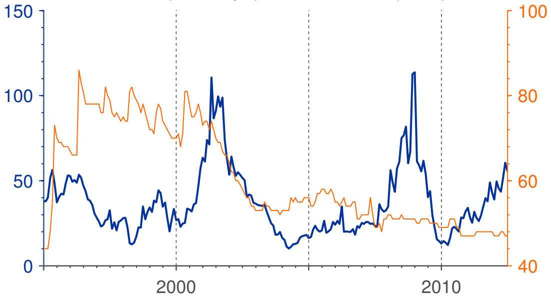


Norway		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	32	57.7	42.1	61.0	66.9	3.3	42.9
Basic Materials	5	56.7	80.2	59.2	102.6	2.5	25.3
Communications	7	14.8	10.1	20.5	13.6	5.7	10.8
Consumer Cyclical	4	36.6	41.9	36.4	41.1	-0.2	2.0
Consumer Non-cyclical	33	67.8	137.7	101.6	334.3	33.8	247.7
Energy	26	50.6	75.2	72.2	100.9	21.6	42.3
Industrial	49	109.6	360.2	127.1	412.3	17.6	468.0
Technology	10	109.8	249.5	50.0	92.9	-59.8	157.6
Utilities	1	5.0	–	5.7	–	0.6	–



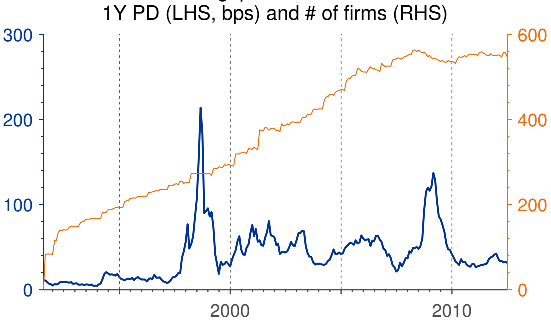
Philippines		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	62	53.5	117.9	44.5	56.0	-9.0	92.7
Basic Materials	19	22.1	37.7	20.3	25.1	-1.8	29.5
Communications	13	17.9	22.8	25.6	26.6	7.8	22.9
Consumer Cyclical	14	20.7	24.1	25.1	32.8	4.4	11.2
Consumer Non-cyclical	28	25.9	46.2	32.1	54.0	6.2	21.6
Diversified	17	39.3	68.7	26.6	33.7	-12.6	60.6
Energy	9	10.8	21.5	12.5	24.3	1.7	3.6
Industrial	11	46.1	58.9	55.0	73.0	8.9	17.1
Utilities	8	13.5	16.5	11.6	10.7	-1.9	9.8

Portugal, All firms
1Y PD (LHS, bps) and # of firms (RHS)



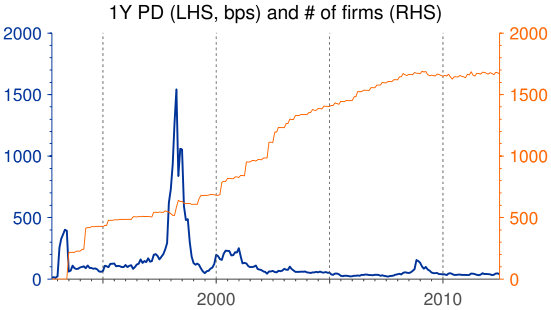
Portugal	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	3	71.6	44.1	138.4	161.2	66.8	117.2
Basic Materials	6	17.4	13.8	21.5	17.5	4.1	3.8
Communications	5	42.3	34.8	78.6	107.5	36.3	74.3
Consumer Cyclical	7	77.1	95.3	70.5	52.1	-6.6	79.3
Consumer Non-cyclical	4	42.2	46.2	56.3	69.1	14.1	25.6
Diversified	1	50.3	–	68.1	–	17.8	–
Industrial	7	37.8	16.3	49.5	31.2	11.7	25.5
Technology	1	5.5	–	7.3	–	1.8	–
Utilities	1	3.0	–	3.7	–	0.7	–

Singapore, All firms
1Y PD (LHS, bps) and # of firms (RHS)



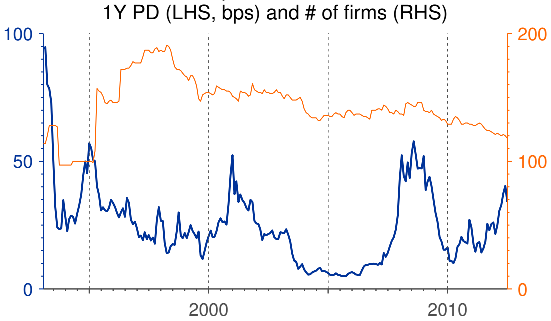
Singapore	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	85	14.4	25.5	15.0	28.3	0.6	14.7
Basic Materials	29	44.3	48.6	45.2	52.1	0.9	14.8
Communications	25	38.2	45.3	40.1	49.5	1.9	17.7
Consumer Cyclical	76	35.5	62.0	33.8	55.4	-1.7	30.1
Consumer Non-cyclical	68	20.1	29.3	25.5	40.4	5.3	26.4
Diversified	9	6.0	6.8	8.2	10.0	2.2	7.2
Energy	24	39.4	51.6	40.4	38.0	1.0	20.3
Industrial	180	44.8	77.8	37.7	53.9	-7.2	49.3
Technology	26	34.5	42.9	31.9	26.7	-2.7	32.0

South Korea, All firms
1Y PD (LHS, bps) and # of firms (RHS)

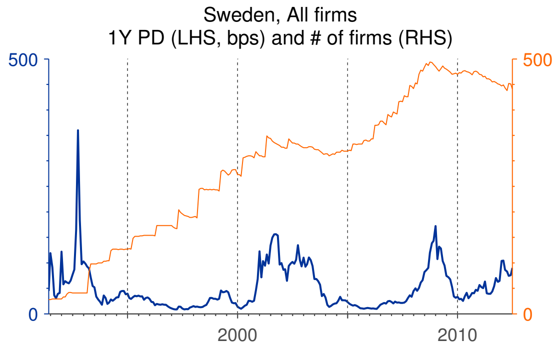


South Korea	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	109	47.4	59.7	78.3	142.2	31.0	103.0
Basic Materials	172	30.0	43.8	38.8	49.6	8.8	24.0
Communications	172	21.2	29.2	27.5	35.9	6.3	21.8
Consumer Cyclical	256	32.9	52.6	34.8	47.3	2.0	37.4
Consumer Non-cyclical	217	17.3	21.3	24.1	29.4	6.8	16.4
Diversified	23	14.9	33.0	21.1	43.8	6.2	32.3
Energy	9	21.3	20.1	30.0	23.3	8.6	11.0
Industrial	466	36.3	74.9	44.6	96.3	8.3	90.6
Technology	182	29.8	58.6	35.1	76.3	5.3	33.5
Utilities	16	21.4	18.8	34.0	22.4	12.6	19.9

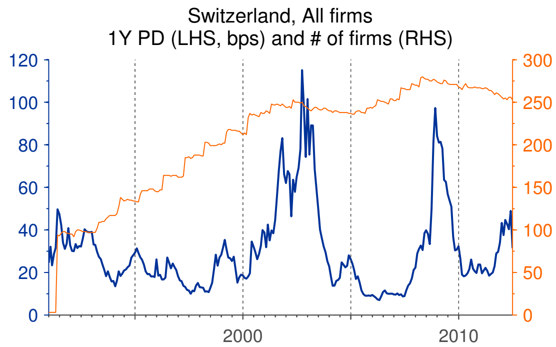
Spain, All firms
1Y PD (LHS, bps) and # of firms (RHS)



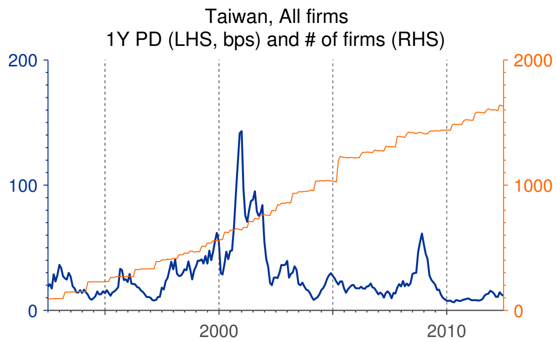
Spain	#	2012Q1 Mean	2012Q1 St.Dev.	2012Q2 Mean	2012Q2 St.Dev.	Q2-Q1 Mean	Q2-Q1 St.Dev.
Financials	28	86.2	233.7	53.3	50.1	-32.8	234.1
Basic Materials	7	21.4	33.0	57.1	113.6	35.7	81.1
Communications	8	14.5	14.4	15.1	12.0	0.6	4.6
Consumer Cyclical	10	19.2	16.1	26.7	24.1	7.5	11.7
Consumer Non-cyclical	24	15.8	23.6	24.1	49.2	8.3	30.7
Energy	3	6.9	1.1	14.9	1.4	8.0	2.5
Industrial	21	20.2	20.2	32.8	35.8	12.5	17.5
Technology	1	8.7	–	15.0	–	6.3	–
Utilities	4	5.0	1.3	6.9	1.9	2.0	1.0



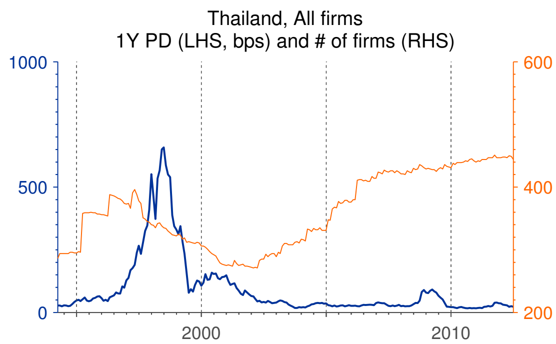
Sweden		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	51	84.7	298.8	90.7	252.8	5.9	169.2
Basic Materials	26	74.2	114.2	70.4	72.0	-3.8	107.0
Communications	44	175.5	838.7	216.6	1022.4	41.1	193.1
Consumer Cyclical	48	33.8	35.9	53.8	148.8	20.0	134.8
Consumer Non-cyclical	93	59.9	178.1	38.4	63.3	-21.4	169.8
Diversified	6	16.5	14.9	17.5	14.6	1.0	12.3
Energy	13	37.0	34.7	48.7	55.4	11.7	26.5
Industrial	94	55.0	102.5	128.4	481.1	73.4	446.4
Technology	35	70.2	181.8	74.0	174.4	3.8	101.2



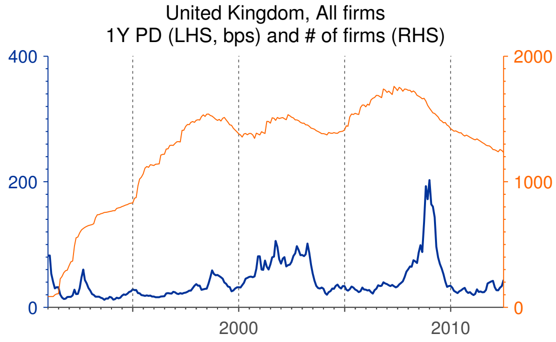
Switzerland		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	65	43.4	118.4	39.6	90.3	-3.7	34.9
Basic Materials	14	22.5	35.0	27.8	40.2	5.2	8.0
Communications	10	13.5	16.1	15.8	15.0	2.3	7.3
Consumer Cyclical	21	42.3	116.2	29.9	39.5	-12.5	84.7
Consumer Non-cyclical	37	48.8	199.7	39.0	109.0	-9.8	137.2
Diversified	3	38.6	31.8	38.6	32.3	-0.0	0.6
Energy	5	52.6	52.9	89.7	97.7	37.1	87.1
Industrial	64	18.9	32.0	20.7	26.9	1.8	10.4
Technology	7	20.6	22.4	20.5	20.3	-0.1	7.8
Utilities	7	19.4	30.5	24.9	36.9	5.5	7.0



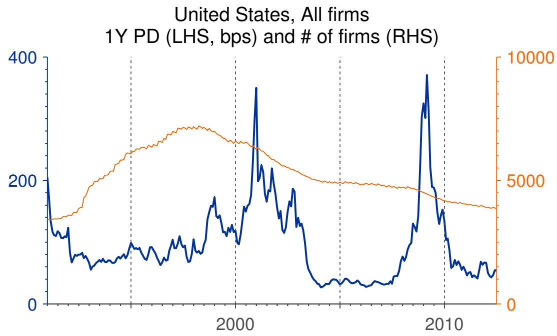
Taiwan		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	95	12.6	11.0	13.8	12.3	1.1	5.9
Basic Materials	106	9.6	28.4	10.3	28.2	0.7	5.5
Communications	81	5.9	8.1	8.3	13.2	2.4	9.3
Consumer Cyclical	188	9.2	23.0	9.9	21.8	0.7	14.0
Consumer Non-cyclical	131	4.4	7.7	5.2	10.9	0.8	7.4
Energy	7	22.4	16.0	20.8	16.8	-1.6	11.4
Industrial	619	11.2	21.7	13.1	31.2	1.9	21.6
Technology	335	11.2	21.6	13.9	34.1	2.7	19.2
Utilities	6	0.5	0.9	0.6	0.8	0.1	0.3



Thailand		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	85	36.4	47.2	33.6	49.8	-2.8	39.7
Basic Materials	42	26.4	32.8	22.0	28.9	-4.4	23.1
Communications	33	24.4	56.7	18.7	49.2	-5.7	12.5
Consumer Cyclical	95	22.0	29.6	15.0	23.7	-7.0	21.4
Consumer Non-cyclical	63	18.2	29.1	14.7	23.6	-3.6	17.6
Diversified	1	46.4	–	0.8	–	-45.5	–
Energy	10	28.1	50.5	17.8	17.1	-10.3	43.4
Industrial	81	35.9	71.3	24.3	53.3	-11.6	28.7
Technology	8	34.1	34.3	34.4	31.4	0.3	43.1
Utilities	6	16.0	26.1	13.3	24.5	-2.7	4.3



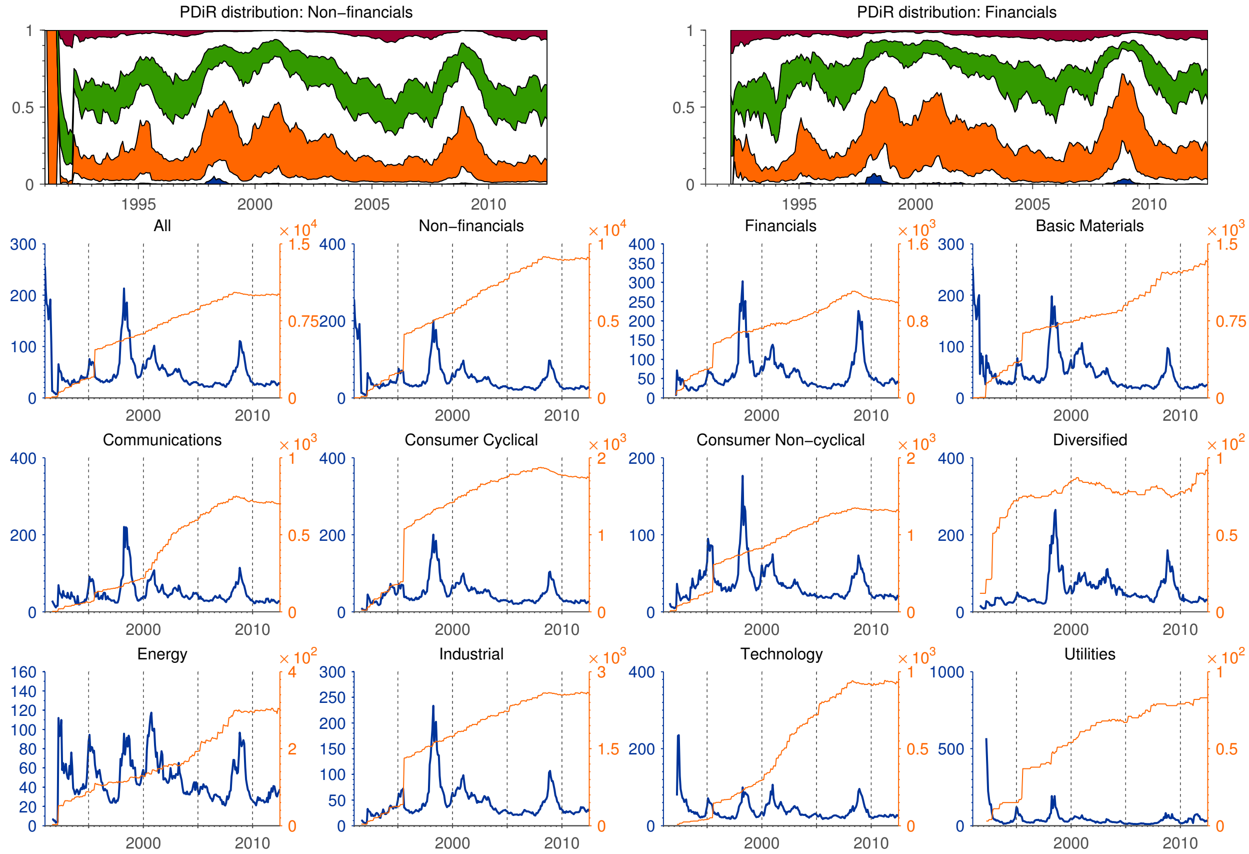
United Kingdom		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	202	27.4	114.6	28.8	52.9	1.4	103.1
Basic Materials	110	18.0	19.4	28.1	31.1	10.1	20.6
Communications	112	27.6	38.4	86.4	382.4	58.8	371.8
Consumer Cyclical	146	29.3	51.8	32.0	57.5	2.7	41.6
Consumer Non-cyclical	235	19.9	34.8	28.6	83.9	8.6	68.1
Diversified	11	24.1	44.2	176.0	536.5	151.9	496.0
Energy	98	24.3	38.0	59.5	238.1	35.2	215.1
Industrial	183	32.8	107.2	72.0	447.3	39.2	398.5
Technology	84	17.5	36.2	19.1	35.8	1.6	39.2
Utilities	11	7.0	9.8	6.7	8.5	-0.3	2.9



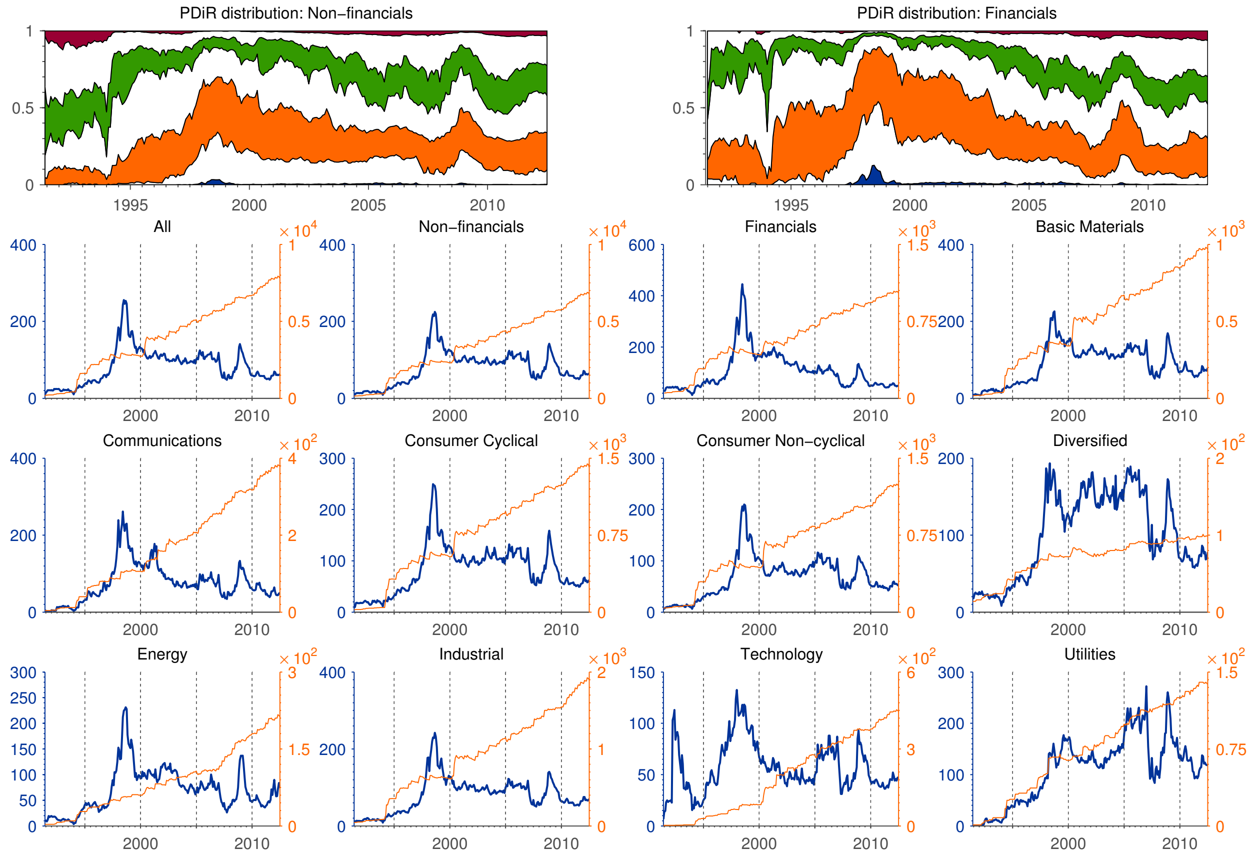
United States		2012Q1		2012Q2		Q2-Q1	
	#	Mean	St.Dev.	Mean	St.Dev.	Mean	St.Dev.
Financials	882	46.5	172.3	57.9	318.7	11.5	164.9
Basic Materials	147	27.6	91.1	48.3	155.9	20.8	98.4
Communications	317	61.1	194.9	78.0	233.7	16.9	117.8
Consumer Cyclical	453	29.7	67.6	31.3	59.3	1.5	37.6
Consumer Non-cyclical	778	29.7	69.6	42.0	140.3	12.3	100.4
Diversified	6	193.5	284.4	189.6	240.9	-3.9	154.5
Energy	283	50.7	124.6	131.1	645.8	80.4	567.4
Industrial	509	35.1	110.4	45.3	133.1	10.2	80.3
Technology	335	23.1	85.2	32.2	92.1	9.1	52.7
Utilities	89	89.7	775.7	47.9	361.4	-41.8	415.2

B PD by regions

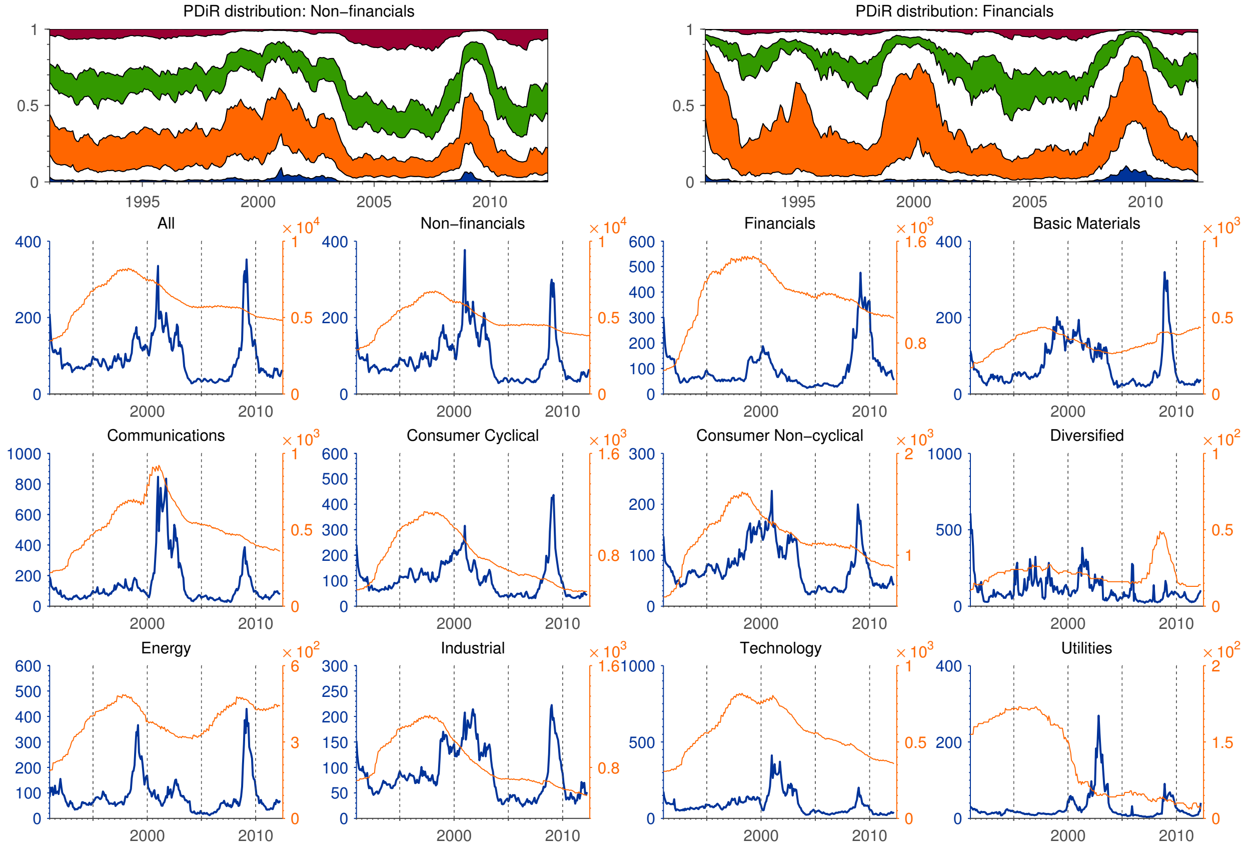
Asia Pacific - developed economies



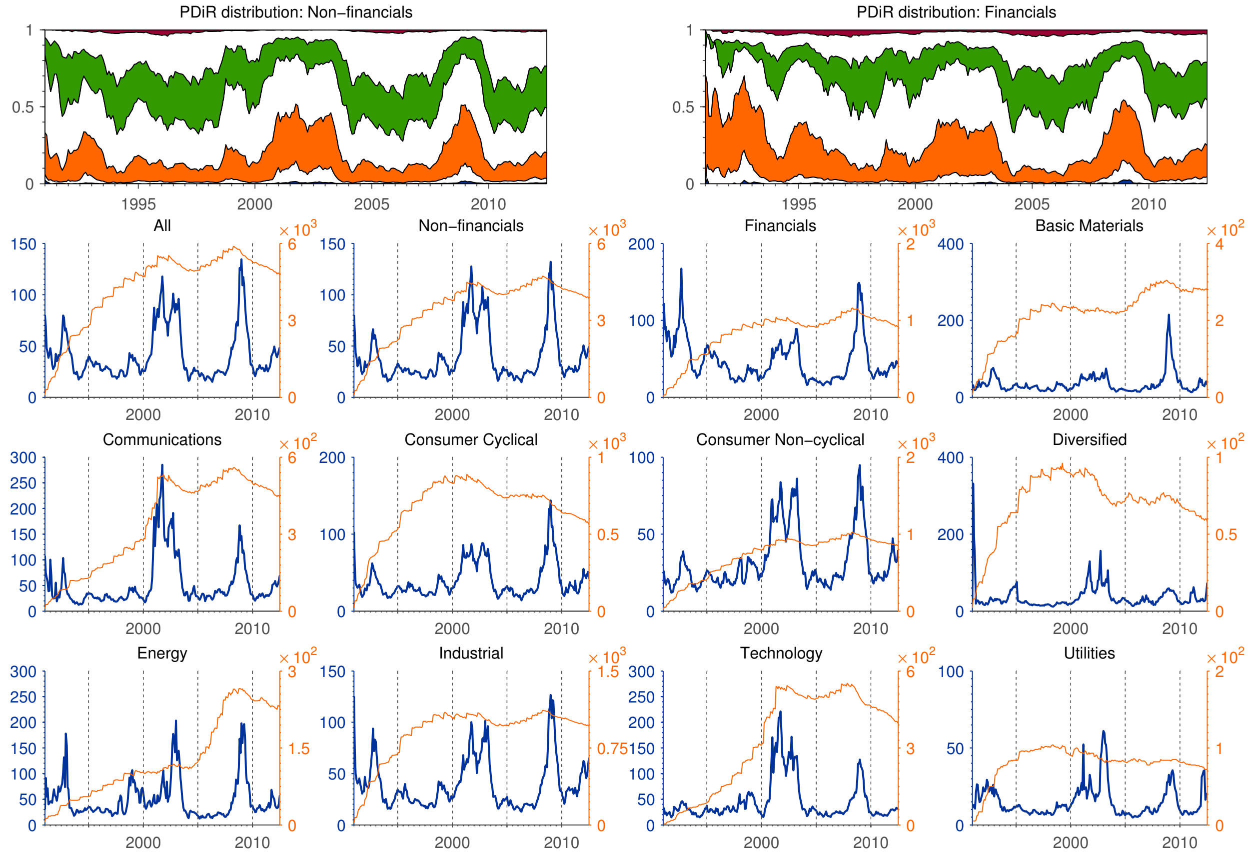
Asia Pacific - emerging economies



North America

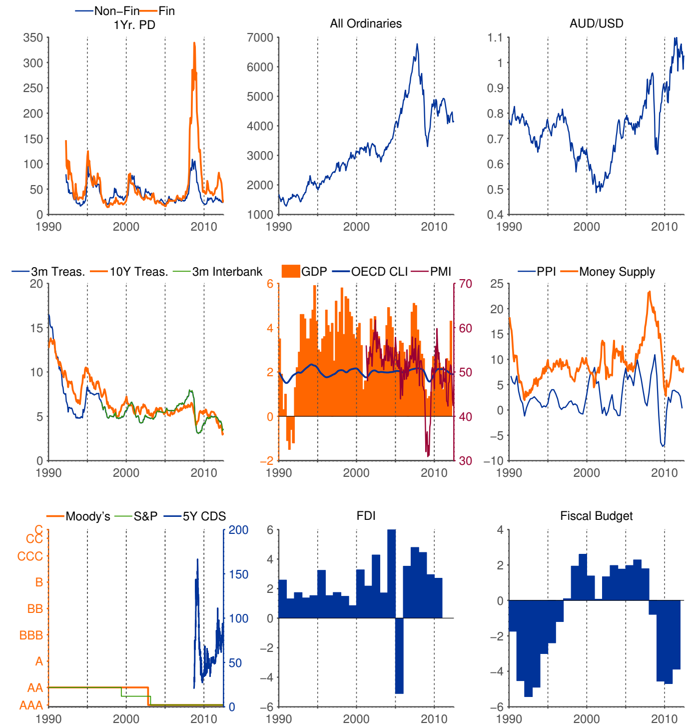


Western Europe

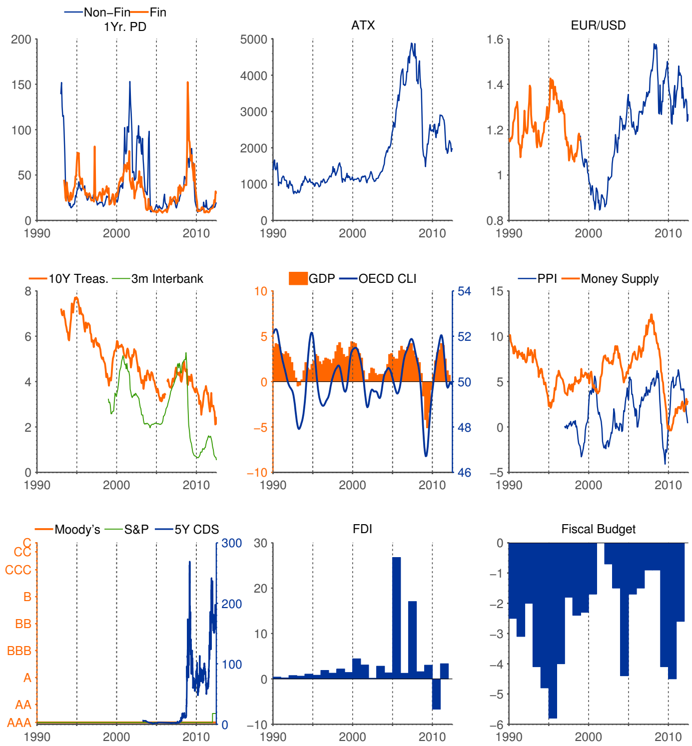


C Macroeconomic Indicators

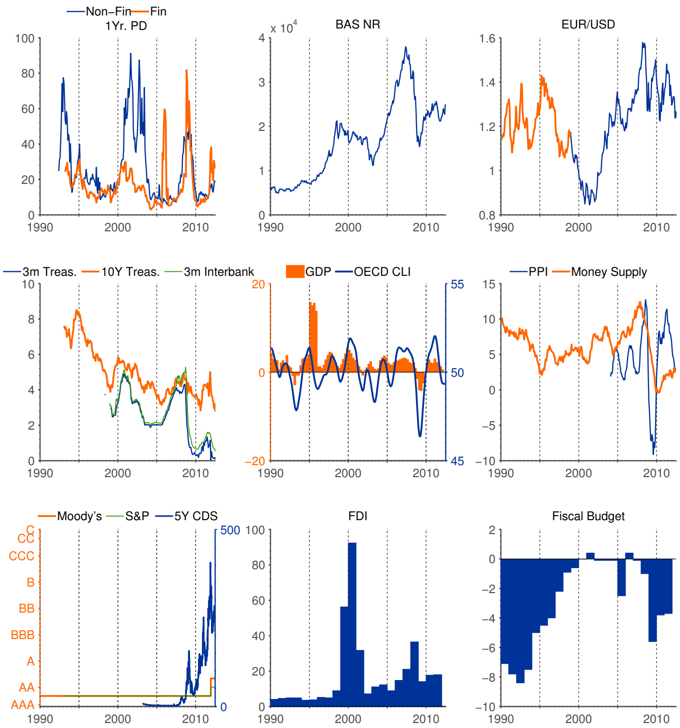
Descriptions of the data contained in this section are provided in Appendix D.



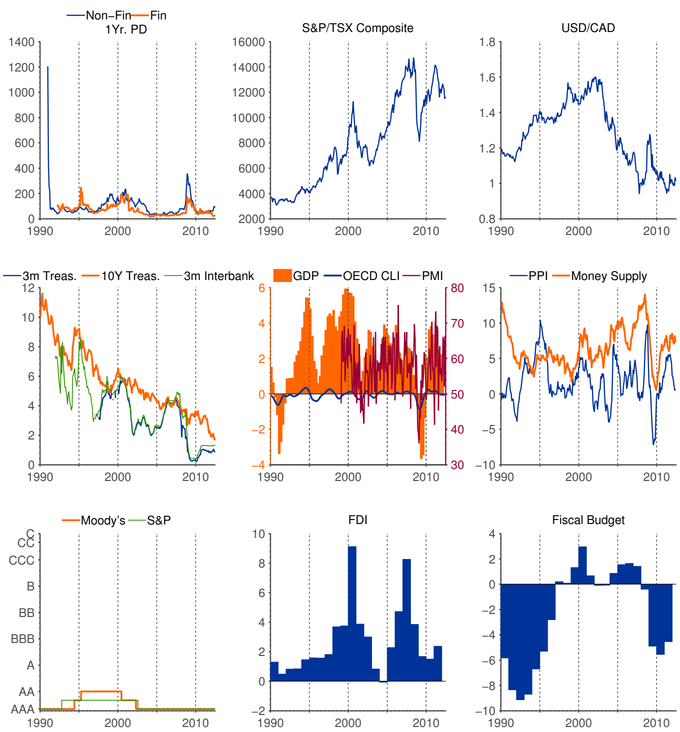
Australia	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	35.27	32.13	30.08	24.03	27.92
1Yr. PD, Fin.	51.99	58.21	72.44	61.41	28.64
All Ordinaries	4660	4070	4111	4420	4135
AUD/USD	1.07	0.97	1.02	1.03	1.02
3m Treas. Yield (%)	4.99	4.86	4.50	4.30	3.54
10Y Treas. Yield (%)	5.21	4.22	3.67	3.98	3.04
3m Interbank (%)	4.97	4.87	4.50	4.32	3.52
GDP (YoY%)	2.0	2.6	2.5	4.3	–
OECD CLI	100.38	100.07	99.71	99.51	99.60*
PMI	52.9	42.3	50.2	49.5	47.2
PPI (YoY%)	3.6	3.4	2.7	0.3	–
Money Supply (YoY%)	8.84	9.77	8.01	7.63	8.40*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	57.12	98.90	81.83	72.38	73.72
Fiscal Budget (%GDP)	–	–	-3.88	–	–



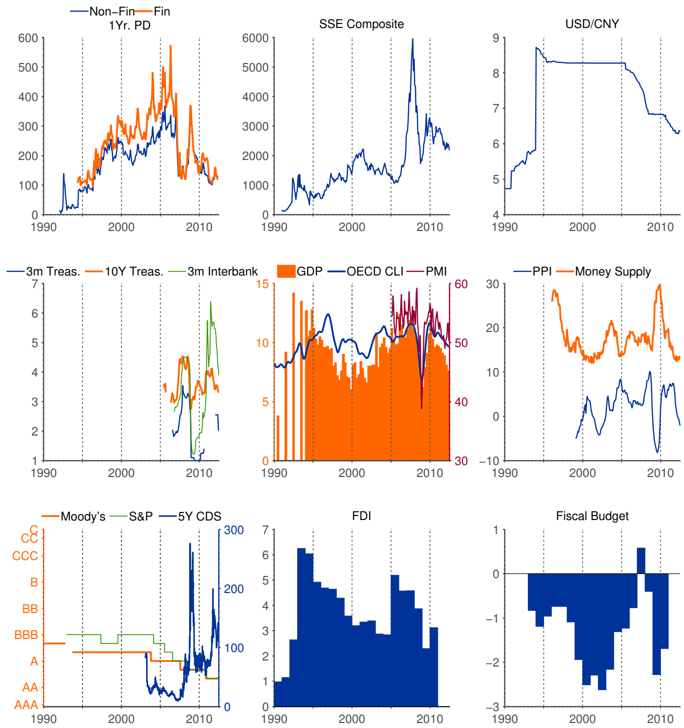
Austria	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	12.03	13.38	16.87	14.19	19.77
1Yr. PD, Fin.	8.72	12.27	13.44	22.39	29.30
ATX	2767	1948	1892	2159	1975
EUR/USD	1.45	1.34	1.30	1.33	1.27
10Y Treas. Yield (%)	3.50	2.68	2.90	2.75	2.42
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	4.0	2.5	1.2	0.7	–
OECD CLI	101.10	100.01	99.76	99.98	99.86*
PPI (YoY%)	4.7	4.2	3.1	1.5	0.4*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AA+	AA+	AA+	AA+
5Y CDS (bps)	61.45	170.95	190.37	154.70	168.05
FDI (%GDP)	–	–	3.34	–	–
Fiscal Budget (%GDP)	–	–	-2.60	–	–



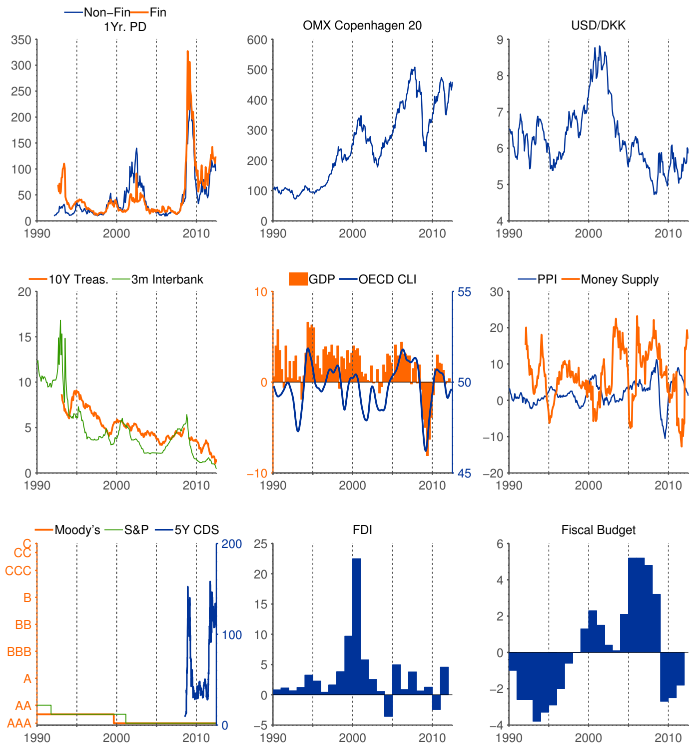
Belgium	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	9.90	12.39	15.57	12.90	18.47
1Yr. PD, Fin.	9.32	12.71	38.17	19.56	26.12
BAS NR	24165	21347	21997	23992	24837
EUR/USD	1.45	1.34	1.30	1.33	1.27
3m Treas. Yield (%)	1.35	0.83	0.05	0.17	0.17
10Y Treas. Yield (%)	4.09	3.65	4.09	3.40	3.19
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	2.2	1.8	1.2	0.5	–
OECD CLI	101.23	100.19	99.47	99.36	99.31*
PPI (YoY%)	9.2	8.0	5.6	3.9	3.1*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Aa1	Aa3	Aa3	Aa3	Aa3
Sov. Rating, S&P	AA+	AA	AA	AA	AA
5Y CDS (bps)	143.1	260.0	316.2	232.7	240.4
FDI (%GDP)	–	–	17.95	–	–
Fiscal Budget (%GDP)	–	–	-3.70	–	–



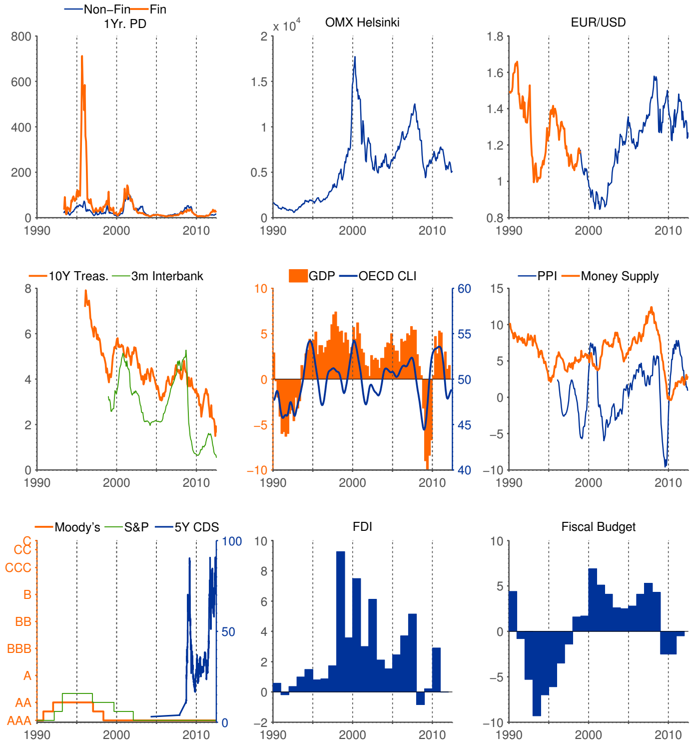
Canada	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	56.73	63.77	61.10	64.90	89.38
1Yr. PD, Fin.	47.14	43.70	53.61	20.61	22.35
S&P/TSX Composite	13301	11624	11955	12392	11597
USD/CAD	0.96	1.05	1.02	1.00	1.02
3m Treas. Yield (%)	0.90	0.81	0.80	0.91	0.88
10Y Treas. Yield (%)	3.11	2.15	1.94	2.11	1.74
3m Interbank (%)	1.29	1.28	1.28	1.28	1.31
GDP (YoY%)	2.03	2.52	2.22	1.79	–
OECD CLI	100.34	99.87	99.76	99.84	99.71*
PMI	68.2	63.4	53.6	65.0	55.3
PPI (YoY%)	5.52	5.58	2.60	1.05	0.70*
Money Supply (YoY%)	6.39	8.25	8.49	7.09	7.25*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
FDI (%GDP)	–	–	2.37	–	–
Fiscal Budget (%GDP)	–	–	-4.54	–	–



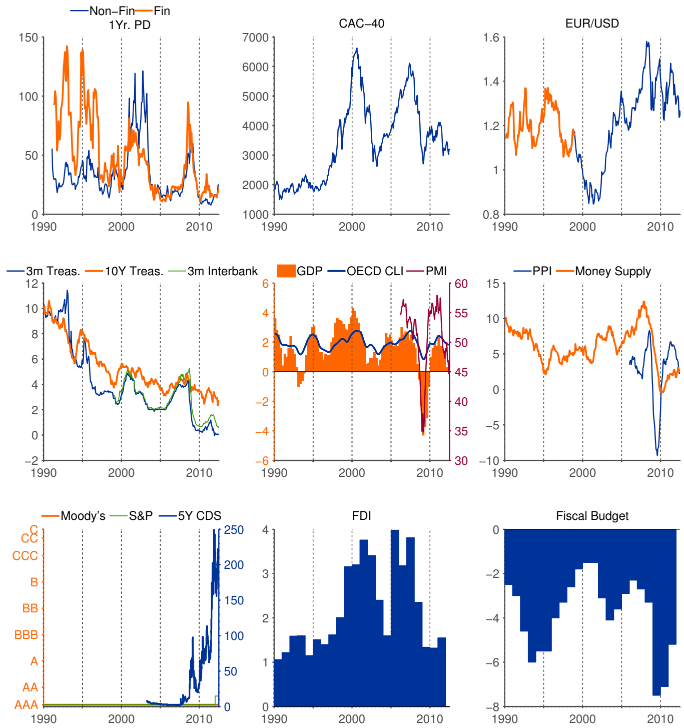
China	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	106.95	117.16	150.14	133.13	127.46*
1Yr. PD, Fin.	112.54	123.17	158.81	133.10	120.10*
SSE Composite	2762	2359	2199	2263	2225
USD/CNY	6.46	6.38	6.29	6.30	6.35
3m Treas. Yield (%)	–	–	–	2.55	2.03
10Y Treas. Yield (%)	3.89	3.93	3.44	3.52	3.34
3m Interbank (%)	6.39	5.65	5.47	4.88	4.08
GDP (YoY%)	9.5	9.1	8.9	8.1	7.6
OECD CLI	100.78	100.43	99.94	99.54	99.22*
PMI	50.9	51.2	50.3	53.1	50.2
PPI (YoY%)	7.1	6.5	1.7	-0.3	-2.1
Money Supply (YoY%)	15.9	13.0	13.6	13.4	13.6
Sov. Rating, Moody's	Aa3	Aa3	Aa3	Aa3	Aa3
Sov. Rating, S&P	AA-	AA-	AA-	AA-	AA-
5Y CDS (bps)	85.45	190.25	148.74	112.25	119.82



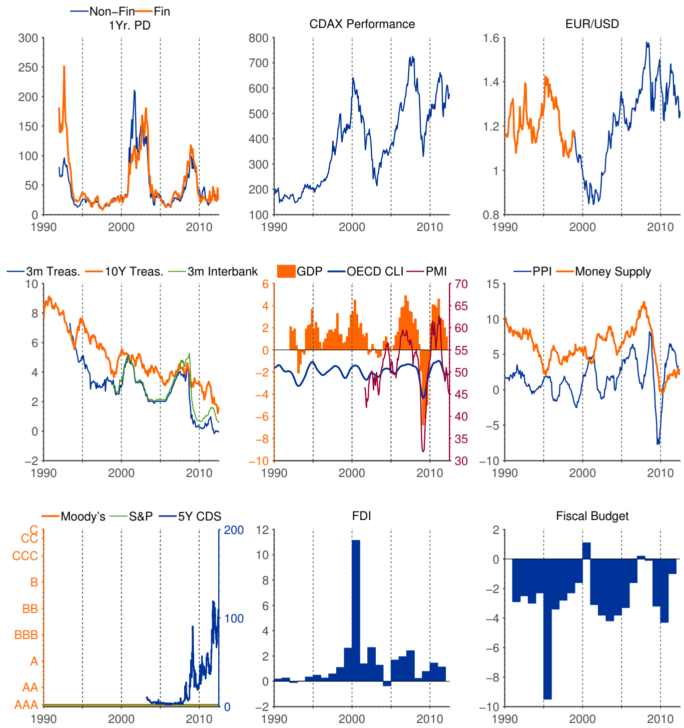
Denmark	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	49.63	98.24	109.95	103.72	95.81*
1Yr. PD, Fin.	91.41	111.18	142.44	118.78	124.01*
OMX Copenhagen 20	431.1	350.3	389.9	444.7	446.0
USD/DKK	5.14	5.56	5.73	5.58	5.87
10Y Treas. Yield (%)	3.24	2.08	1.68	1.83	1.44
3m Interbank (%)	1.61	1.38	1.00	0.98	0.58
GDP (YoY%)	1.3	-0.2	0.1	0.4	–
OECD CLI	100.13	99.35	99.17	99.50	99.62*
PPI (YoY%)	6.8	5.9	4.1	2.7	1.2
Money Supply (YoY%)	-8.71	-5.19	-6.28	15.52	16.92*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	44.51	143.64	137.00	113.94	115.72
FDI (%GDP)	–	–	4.56	–	–
Fiscal Budget (%GDP)	–	–	-1.80	–	–



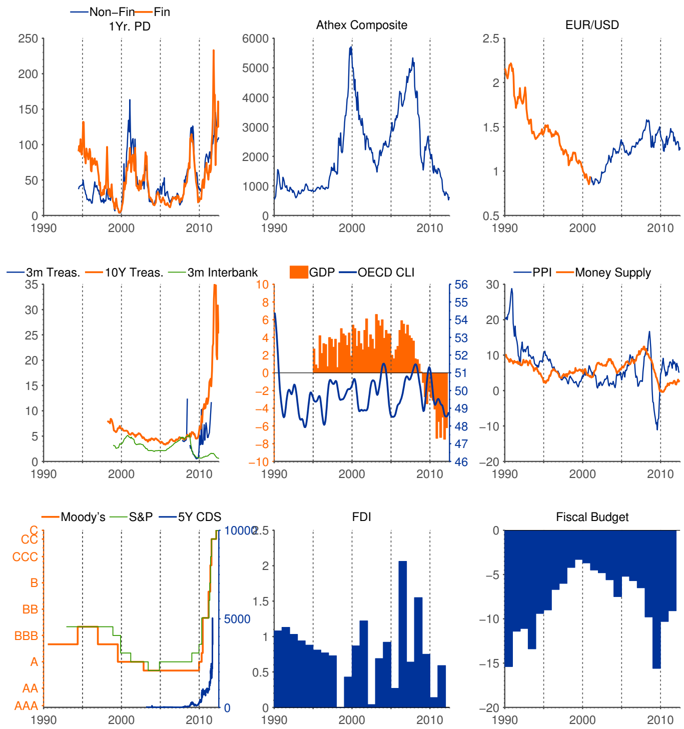
Finland	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	8.61	12.33	13.33	11.26	16.18
1Yr. PD, Fin.	8.60	18.07	25.18	26.25	29.44
OMX Helsinki	6717	5272	5355	6035	5073
EUR/USD	1.45	1.34	1.30	1.33	1.27
10Y Treas. Yield (%)	3.34	2.34	2.31	2.22	1.93
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	1.8	3.0	1.1	1.5	–
OECD CLI	100.54	98.25	97.94	98.58	98.84*
PPI (YoY%)	5.9	4.3	1.8	1.4	0.9*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	35.12	80.89	77.83	66.55	77.83
FDI (%GDP)	–	–	-0.01	–	–
Fiscal Budget (%GDP)	–	–	-0.50	–	–



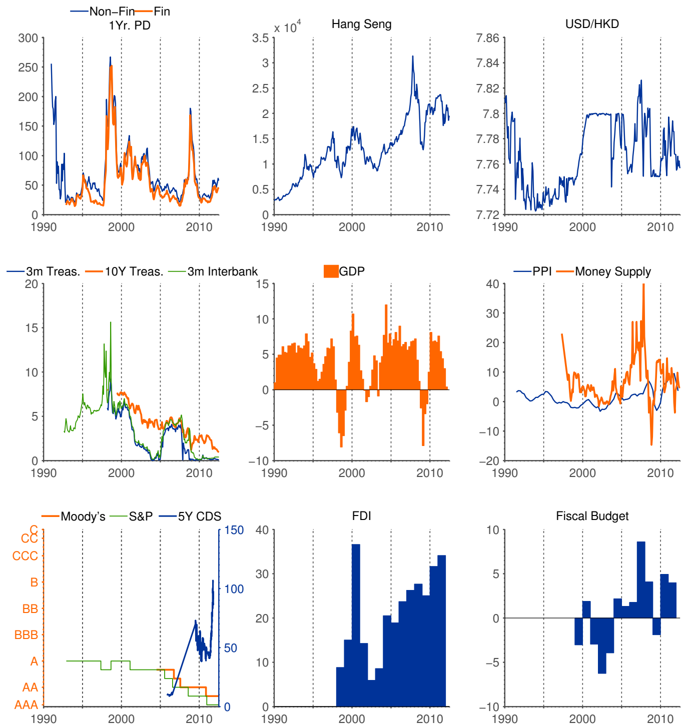
France	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	7.80	12.18	16.58	14.73	24.90
1Yr. PD, Fin.	16.23	16.05	15.87	14.13	22.66
CAC-40	3982	2982	3160	3424	3197
EUR/USD	1.45	1.34	1.30	1.33	1.27
3m Treas. Yield (%)	1.18	0.38	-0.06	0.07	0.04
10Y Treas. Yield (%)	3.41	2.60	3.15	2.89	2.69
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	1.7	1.5	1.2	0.3	–
OECD CLI	100.72	100.27	99.86	99.63	99.58*
PMI	52.5	48.2	48.9	46.7	45.2
PPI (YoY%)	6.1	6.1	4.6	3.8	2.2*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AA+	AA+	AA+	AA+
5Y CDS (bps)	80.17	187.31	222.30	169.41	188.84
FDI (%GDP)	–	–	1.55	–	–
Fiscal Budget (%GDP)	–	–	-5.20	–	–



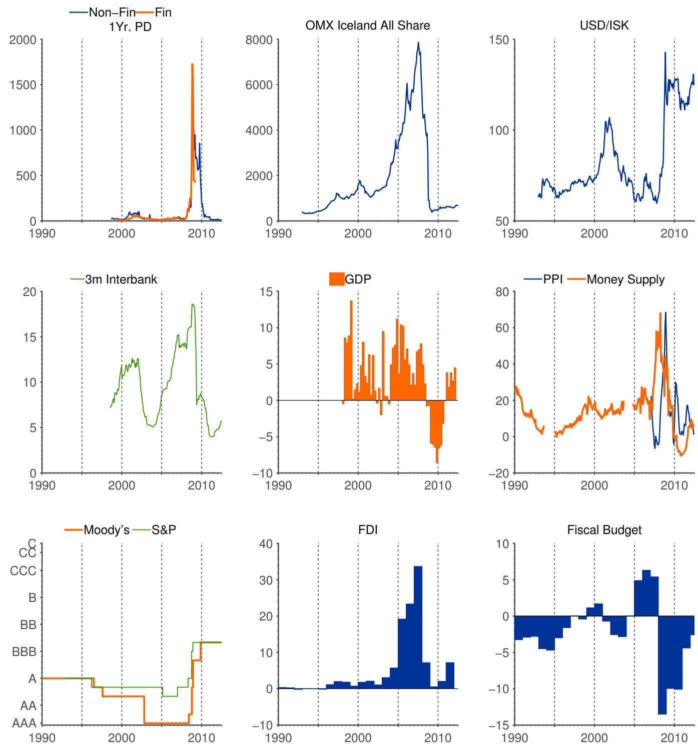
Germany	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	27.93	31.38	34.56	28.49	35.65*
1Yr. PD, Fin.	29.98	47.06	24.02	22.88	25.21*
CDAX Performance	651.4	487.2	520.7	612.1	568.8
EUR/USD	1.45	1.34	1.30	1.33	1.27
3m Treas. Yield (%)	0.98	0.11	-0.18	-0.03	-0.02
10Y Treas. Yield (%)	3.02	1.89	1.83	1.79	1.58
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	2.9	2.7	2.0	1.2	–
OECD CLI	101.49	100.02	99.43	99.50	99.40*
PMI	54.6	50.3	48.4	48.4	45.0
PPI (YoY%)	5.6	5.5	4.0	3.3	2.1*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	42.84	112.23	103.73	73.67	102.19
FDI (%GDP)	–	–	1.13	–	–
Fiscal Budget (%GDP)	–	–	-1.00	–	–



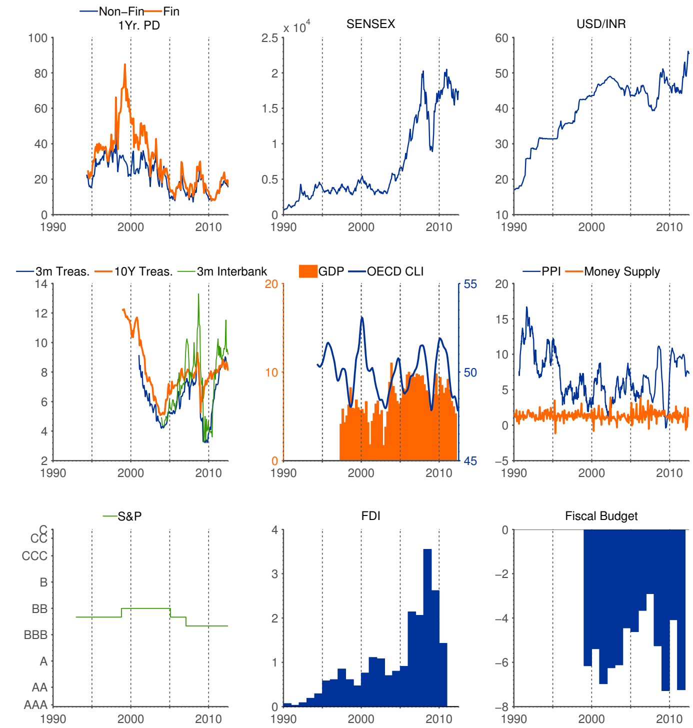
Greece	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	89.98	101.06	144.25	103.50	110.29
1Yr. PD, Fin.	65.27	139.51	170.05	124.47	124.35
Athex Composite	1279	798	680	729	611
EUR/USD	1.45	1.34	1.30	1.33	1.27
3m Treas. Yield (%)	9.62	11.71*	–	–	–
10Y Treas. Yield (%)	16.34	22.69	34.96	21.08	25.83
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	-7.3	-5.0	-7.5	-6.2	–
OECD CLI	99.19	98.87	98.54	98.59	98.77*
PPI (YoY%)	6.3	8.1	5.7	6.7	5.1*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Caa1	C	C	C	C
Sov. Rating, S&P	CCC	CSD	CSD	CSD	CSD
5Y CDS (bps)	1952.4	3535.7	–	–	–
FDI (%GDP)	–	–	0.59	–	–
Fiscal Budget (%GDP)	–	–	-9.10	–	–



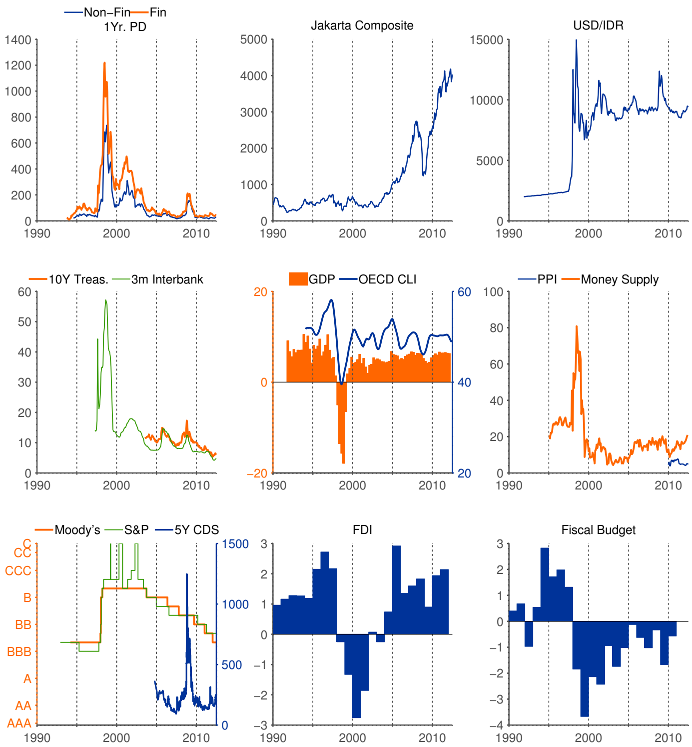
Hong Kong	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	34.99	58.03	53.37	49.84	57.44
1Yr. PD, Fin.	26.81	45.69	48.38	37.47	43.72
Hang Seng	22398	17592	18434	20556	19441
USD/HKD	7.78	7.79	7.77	7.77	7.76
3m Treas. Yield (%)	0.10	0.13	0.24	0.14	0.10
10Y Treas. Yield (%)	2.33	1.31	1.51	1.28	0.98
3m Interbank (%)	0.26	0.28	0.38	0.40	0.40
GDP (YoY%)	5.4	4.4	3.0	0.4	–
PPI (YoY%)	9.0	9.5	6.6	3.6	–
Money Supply (YoY%)	8.4	-0.4	4.6	7.3	4.5*
Sov. Rating, Moody's	Aa1	Aa1	Aa1	Aa1	Aa1
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	57.84	104.18	86.63*	–	–
FDI (%GDP)	–	–	34.13	–	–
Fiscal Budget (%GDP)	–	–	3.98	–	–



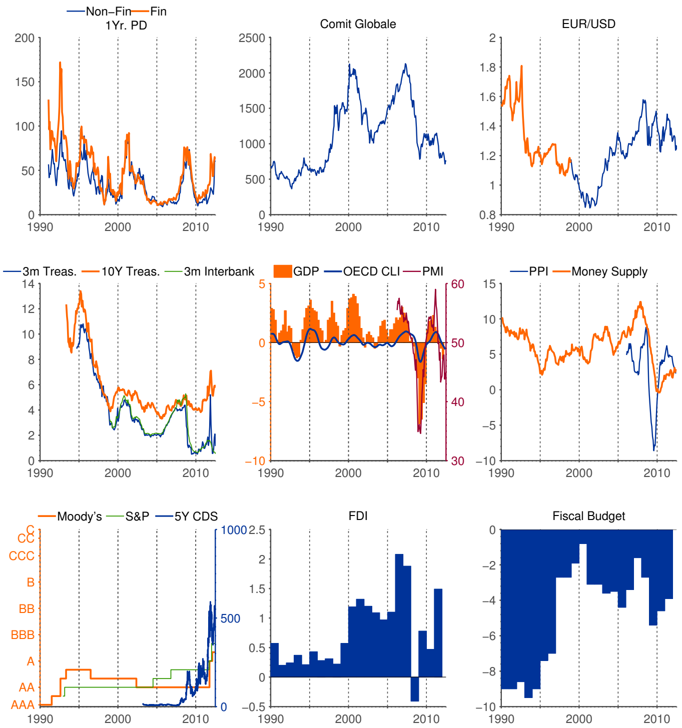
Iceland	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	11.87	13.07	16.41	9.00	6.63
OMX Iceland All Share	605.0	576.8	580.7	663.4	677.6
USD/ISK	114.3	118.3	122.7	126.5	124.9
3m Interbank (%)	4.00	4.60	4.80	5.10	5.70
GDP (YoY%)	1.8	3.8	2.7	4.5	–
PPI (YoY%)	13.01	13.86	6.77	6.42	1.01*
Money Supply (YoY%)	-5.00	5.46	7.11	4.47	7.13*
Sov. Rating, Moody's	Baa3	Baa3	Baa3	Baa3	Baa3
Sov. Rating, S&P	BBB-	BBB-	BBB-	BBB-	BBB-
FDI (%GDP)	–	–	7.20	–	–
Fiscal Budget (%GDP)	–	–	-4.39	–	–



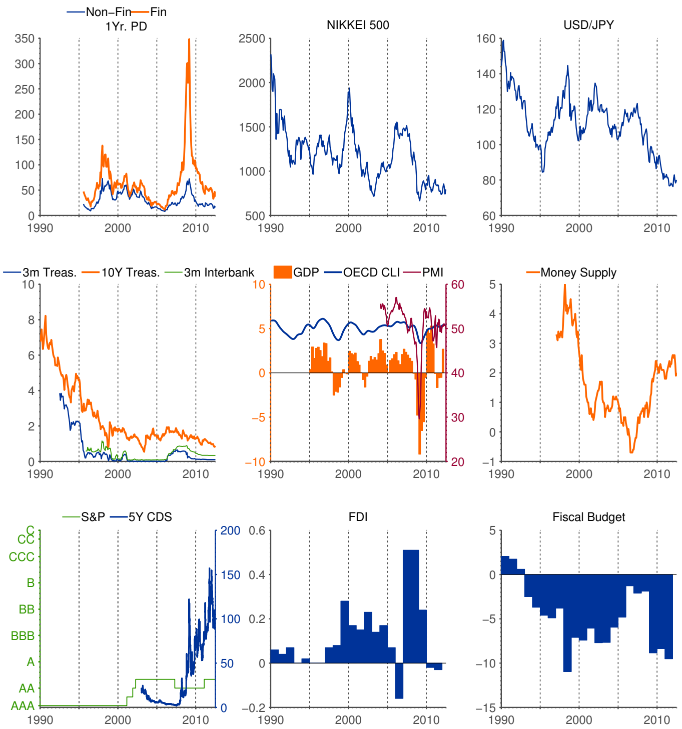
India	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	16.17	16.55	19.17	18.17	15.41
1Yr. PD, Fin.	18.78	20.85	23.84	19.27	16.52
SENSEX	18846	16454	15455	17404	17430
USD/INR	44.70	48.97	53.06	50.88	55.64
3m Treas. Yield (%)	8.15	8.42	8.53	8.93	8.27
10Y Treas. Yield (%)	8.33	8.43	8.57	8.54	8.18
3m Interbank (%)	9.00	8.88	9.60	11.53	9.32
GDP (YoY%)	8.0	6.7	6.1	5.3	–
OECD CLI	98.97	98.54	98.63	98.18	97.79*
PPI (YoY%)	9.51	10.00	7.74	7.69	7.25
Money Supply (YoY%)	1.42	0.40	2.52	-0.27	1.19*
Sov. Rating, S&P	BBB-	BBB-	BBB-	BBB-	BBB-
Fiscal Budget (%GDP)	–	–	-7.24	–	–



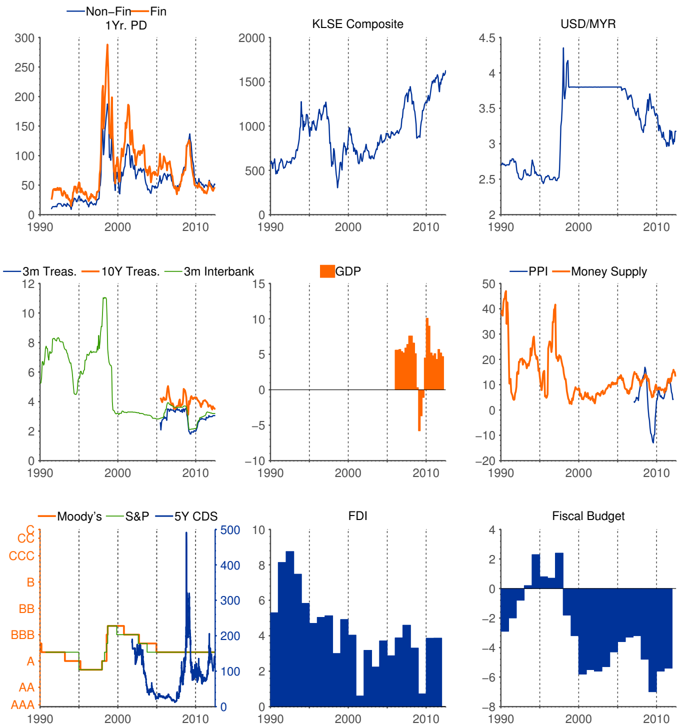
Indonesia	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	18.08	25.65	23.40	19.49	27.29
1Yr. PD, Fin.	39.04	60.87	50.49	37.21	42.99
Jakarta Composite	3889	3549	3822	4122	3956
USD/IDR	8579	8875	9069	9146	9433
10Y Treas. Yield (%)	7.55	6.92	6.03	5.93	6.15
3m Interbank (%)	7.14	6.10	5.27	4.21	4.69
GDP (YoY%)	6.5	6.5	6.4	6.3	–
OECD CLI	100.37	100.45	100.24	99.33	98.85*
PPI (YoY%)	4.66	4.87	4.44	4.60	4.86
Money Supply (YoY%)	13.07	16.19	16.43	18.79	20.88*
Sov. Rating, Moody's	Ba1	Baa3	Baa3	Baa3	Baa3
Sov. Rating, S&P	BB+	BB+	BB+	BB+	BB+
5Y CDS (bps)	141.7	291.5	210.0	166.5	192.9
FDI (%GDP)	–	–	2.14	–	–



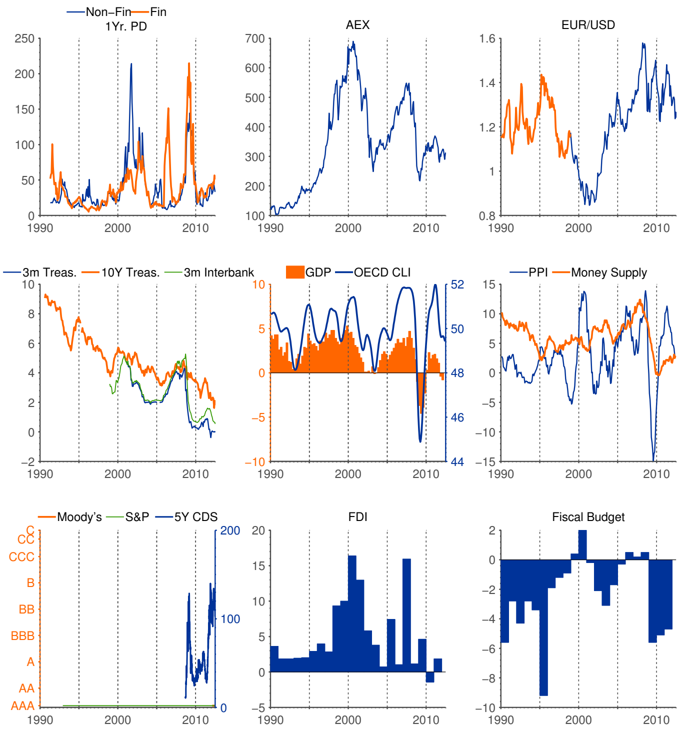
Italy	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	13.57	20.37	28.39	22.95	61.11
1Yr. PD, Fin.	26.48	33.55	61.03	44.27	62.04
Comit Globale	1039	796	806	859	761
EUR/USD	1.45	1.34	1.30	1.33	1.27
3m Treas. Yield (%)	1.58	1.60	2.86	0.59	2.10
10Y Treas. Yield (%)	4.88	5.54	7.11	5.12	5.82
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	1.0	0.4	-0.5	-1.4	–
OECD CLI	101.43	100.60	99.83	99.24	98.85*
PMI	49.8	48.3	44.3	47.9	44.6
PPI (YoY%)	4.6	4.7	3.9	2.8	2.3*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Aa2	A3	A3	A3	A3
Sov. Rating, S&P	A+	BBB+	BBB+	BBB+	BBB+
5Y CDS (bps)	171.0	470.0	503.2	396.8	487.8
FDI (%GDP)	–	–	1.49	–	–
Fiscal Budget (%GDP)	–	–	-3.90	–	–



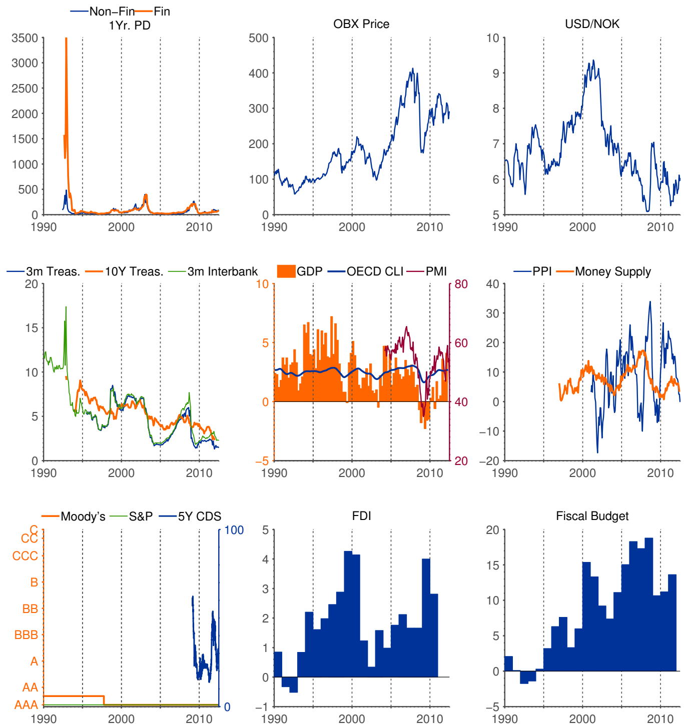
Japan	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	19.77	22.53	23.10	14.03	15.77
1Yr. PD, Fin.	50.57	52.76	52.35	32.88	36.83
NIKKEI 500	845.7	770.3	738.8	856.3	788.8
USD/JPY	80.56	77.06	76.91	82.87	79.79
3m Treas. Yield (%)	0.10	0.10	0.10	0.10	0.10
10Y Treas. Yield (%)	1.14	1.03	0.99	0.99	0.84
3m Interbank (%)	0.34	0.34	0.34	0.34	0.34
GDP (YoY%)	-1.67	-0.57	-0.53	2.68	–
OECD CLI	100.45	100.34	100.63	100.85	100.71*
PMI	50.7	49.3	50.2	51.1	49.9
Money Supply (YoY%)	2.3	2.3	2.6	2.6	2.0
Sov. Rating, S&P	AA-	AA-	AA-	AA-	AA-
5Y CDS (bps)	90.77	146.47	143.07	99.94	94.66
FDI (%GDP)	–	–	-0.03	–	–
Fiscal Budget (%GDP)	–	–	-9.52	–	–



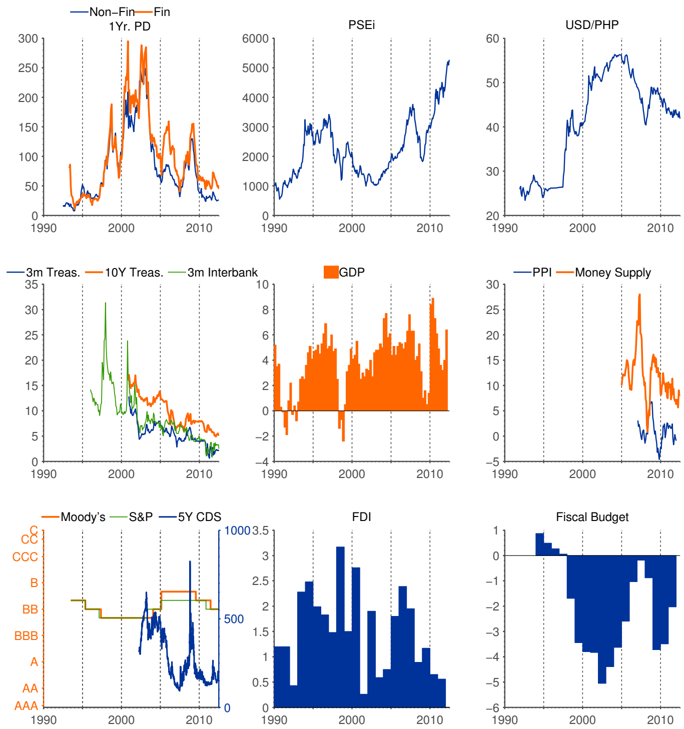
Malaysia	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	47.27	58.13	51.27	45.83	50.48
1Yr. PD, Fin.	40.58	55.60	46.64	40.18	44.46
KLSE Composite	1579	1387	1531	1596	1599
USD/MYR	3.02	3.19	3.17	3.06	3.18
3m Treas. Yield (%)	2.89	3.05	2.99	3.04	3.04
10Y Treas. Yield (%)	3.93	3.70	3.70	3.68	3.52
3m Interbank (%)	3.29	3.26	3.22	3.19	3.19
GDP (YoY%)	4.3	5.7	5.2	4.7	–
PPI (YoY%)	10.7	11.2	6.2	4.3*	–
Money Supply (YoY%)	12.36	12.47	14.39	14.99	13.20*
Sov. Rating, Moody's	A3	A3	A3	A3	A3
Sov. Rating, S&P	A-	A-	A-	A-	A-
5Y CDS (bps)	90.68	196.85	142.74	100.26	124.42
FDI (%GDP)	–	–	3.87	–	–
Fiscal Budget (%GDP)	–	–	-5.40	–	–



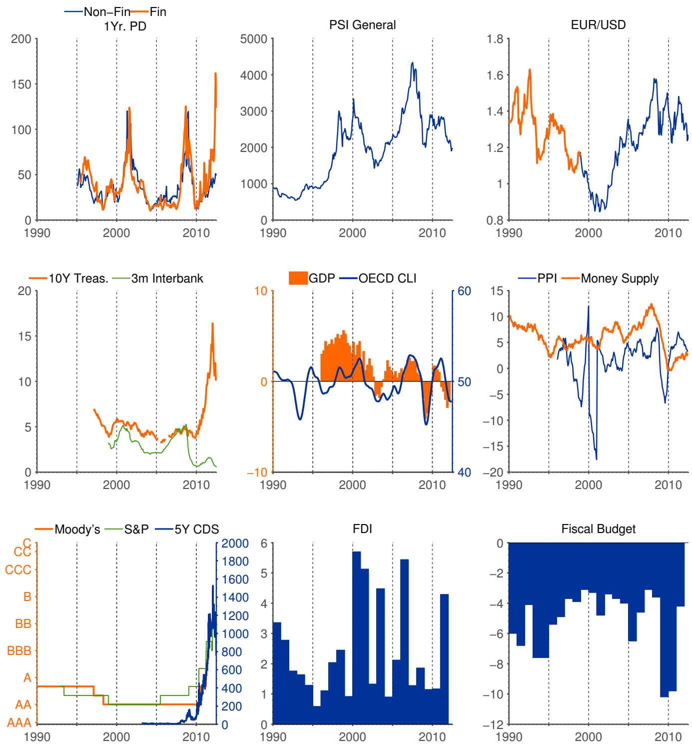
Netherlands	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	20.42	26.72	44.96	35.01	33.08
1Yr. PD, Fin.	36.99	43.21	43.96	46.75	50.81
AEX	339.6	280.2	312.5	323.5	307.3
EUR/USD	1.45	1.34	1.30	1.33	1.27
3m Treas. Yield (%)	0.90	0.16	-0.39	0.02	0.02
10Y Treas. Yield (%)	3.34	2.29	2.19	2.33	2.10
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	1.6	1.1	-0.4	-0.8	–
OECD CLI	101.07	99.94	99.62	99.62	99.42*
PPI (YoY%)	9.1	7.7	4.9	4.1	2.6*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	–	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	38.03	105.14	121.85	117.63	111.27
FDI (%GDP)	–	–	1.86	–	–
Fiscal Budget (%GDP)	–	–	-4.70	–	–



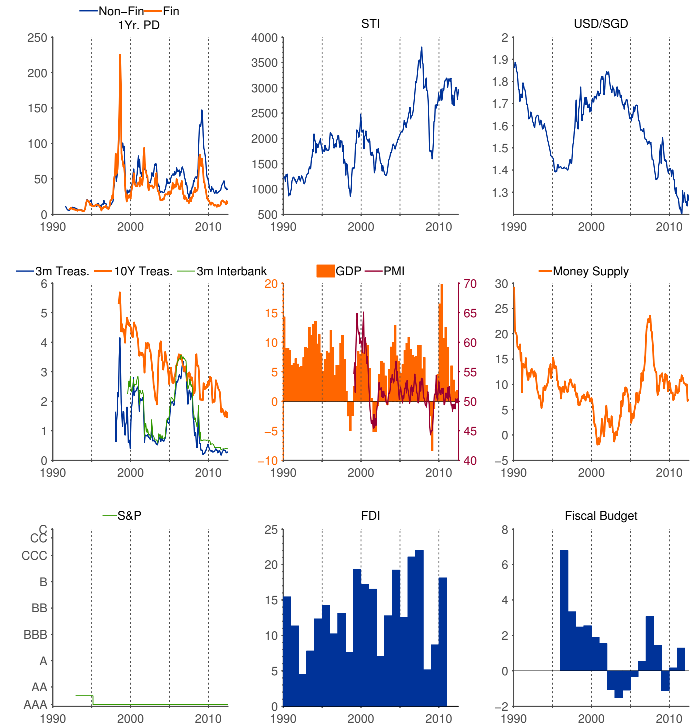
Norway	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	43.01	81.10	92.84	75.48	88.85
1Yr. PD, Fin.	40.27	46.03	59.86	55.27	60.05
OBX Price	310.5	258.6	284.0	312.3	286.7
USD/NOK	5.39	5.87	5.98	5.69	5.96
3m Treas. Yield (%)	2.33	1.76	1.31	1.50	1.49
10Y Treas. Yield (%)	3.41	2.38	2.40	2.38*	–
3m Interbank (%)	2.92	3.03	2.89	2.28	2.30
GDP (YoY%)	0.5	3.6	1.8	4.1	–
OECD CLI	100.51	100.40	100.55	100.71	100.74*
PMI	56.2	53.8	46.9	59.0	46.3
PPI (YoY%)	14.4	15.3	8.2	6.6	-0.2
Money Supply (YoY%)	6.3	7.7	6.0	6.2	3.3*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	21.37	50.03	44.28	21.50	31.50
Fiscal Budget (%GDP)	–	–	13.63	–	–



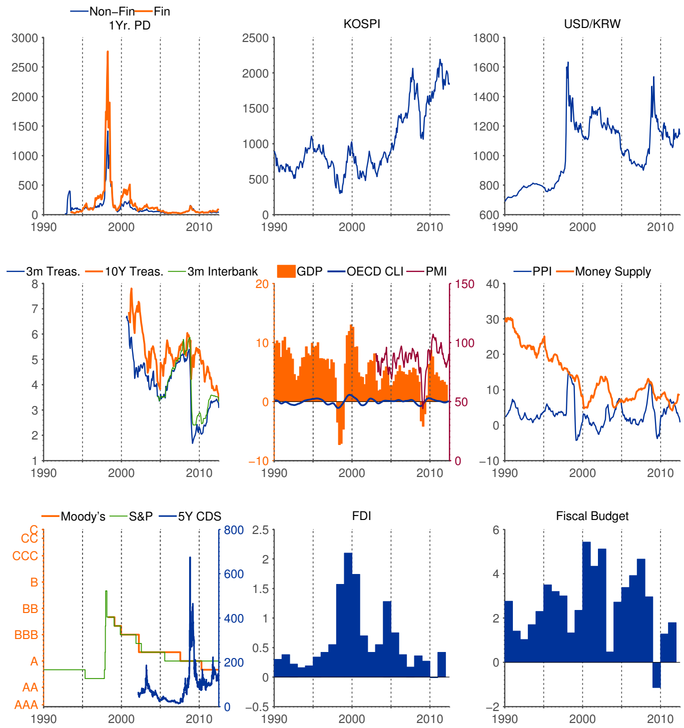
Philippines	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	29.26	39.81	32.55	24.47	25.54
1Yr. PD, Fin.	45.08	72.98	62.97	53.13	44.84
PSEi	4291	4000	4372	5108	5246
USD/PHP	43.38	43.77	43.84	42.91	42.15
3m Treas. Yield (%)	2.90	2.75	1.45	2.35	2.20
10Y Treas. Yield (%)	6.41	5.86	5.07	5.30	5.27
3m Interbank (%)	3.75	2.38	2.25	3.38	3.31
PPI (YoY%)	2.4	-0.8	-0.9	–	–
Money Supply (YoY%)	11.37	7.41	6.31	5.64	7.88*
Sov. Rating, Moody's	Ba2	Ba2	Ba2	Ba2	Ba2
Sov. Rating, S&P	BB	BB	BB	BB	BB
5Y CDS (bps)	138.7	256.6	193.5	146.3	161.3
FDI (%GDP)	–	–	0.56	–	–
Fiscal Budget (%GDP)	–	–	-2.03	–	–



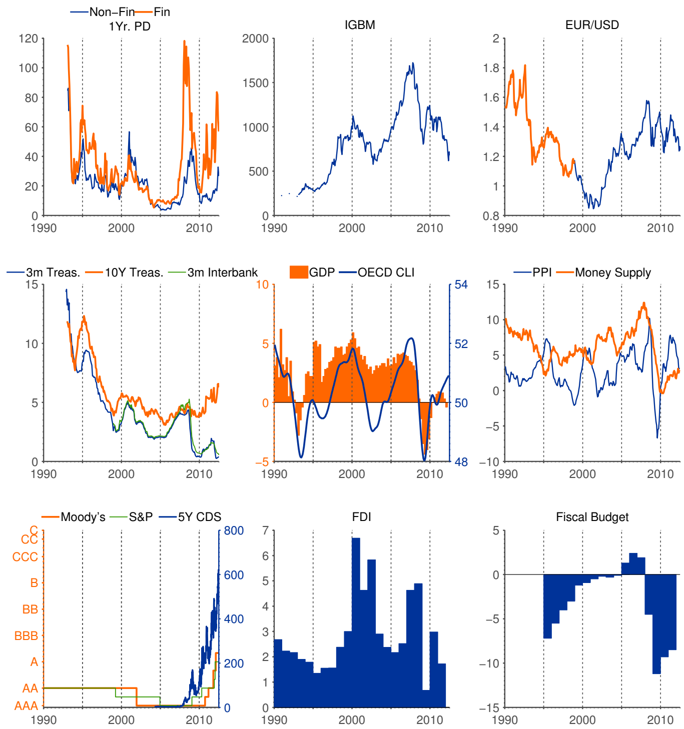
Portugal	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	29.04	36.91	35.64	40.07	49.07
1Yr. PD, Fin.	33.35	46.08	66.42	73.16	123.57
PSI General	2774	2292	2167	2189	1952
EUR/USD	1.45	1.34	1.30	1.33	1.27
10Y Treas. Yield (%)	10.90	10.93	13.36	11.53	10.16
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	-1.1	-2.0	-2.9	-2.2	–
OECD CLI	101.04	99.57	98.28	97.77	97.84*
PPI (YoY%)	5.8	5.5	4.4	3.7	3.2*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Baa1	Ba3	Ba3	Ba3	Ba3
Sov. Rating, S&P	BBB-	BB	BB	BB	BB
5Y CDS (bps)	744.8	1109.6	1092.7	1075.6	804.9
FDI (%GDP)	–	–	4.29	–	–
Fiscal Budget (%GDP)	–	–	-4.20	–	–



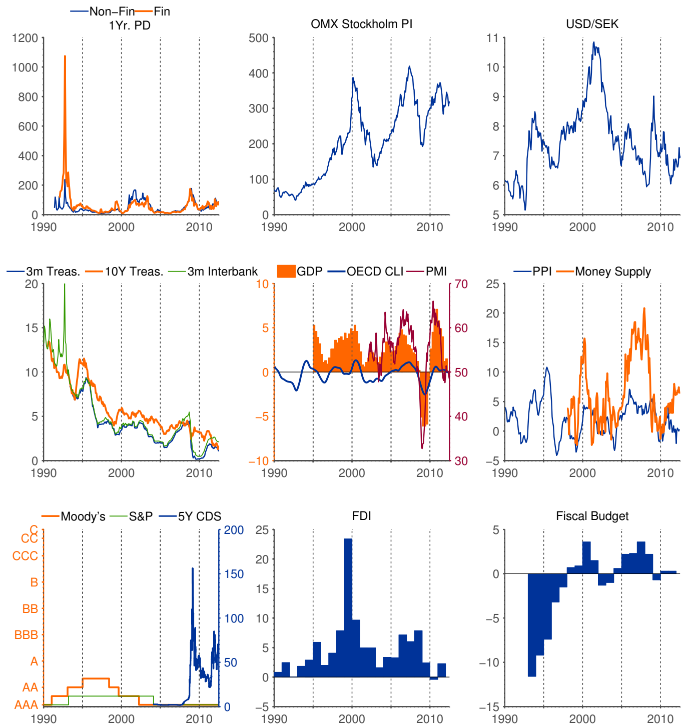
Singapore	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	33.37	41.53	47.28	37.51	34.61
1Yr. PD, Fin.	12.28	19.18	17.40	14.12	14.79
STI	3120	2675	2646	3010	2878
USD/SGD	1.23	1.31	1.30	1.26	1.27
3m Treas. Yield (%)	0.32	0.22	0.37	0.30	0.28
10Y Treas. Yield (%)	2.31	1.62	1.63	1.66	1.61
3m Interbank (%)	0.44	0.38	0.39	0.39	0.39
GDP (YoY%)	1.2	6.0	3.6	1.6	1.9
PMI	50.4	48.3	49.5	50.2	50.4
Money Supply (YoY%)	10.6	11.3	10.1	10.0	7.1*
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
Fiscal Budget (%GDP)	–	–	1.29	–	–



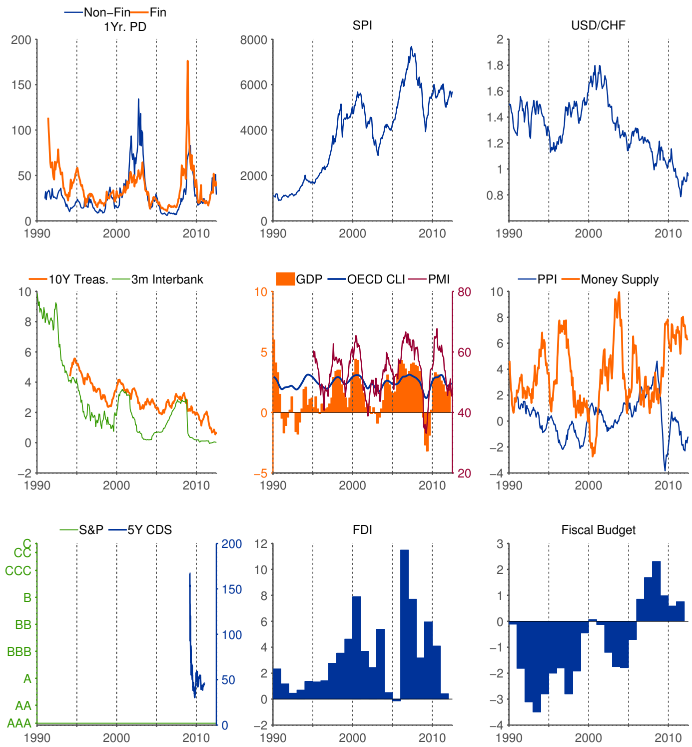
South Korea	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	33.25	46.25	37.80	33.49	35.21
1Yr. PD, Fin.	53.13	71.25	58.24	49.40	77.20
KOSPI	2101	1770	1826	2014	1854
USD/KRW	1068	1178	1152	1133	1145
3m Treas. Yield (%)	3.32	3.31	3.36	3.43	3.29
10Y Treas. Yield (%)	4.29	3.95	3.79	3.96	3.62
3m Interbank (%)	3.56	3.57	3.56	3.53	3.50
GDP (YoY%)	3.5	3.6	3.3	2.8	–
OECD CLI	99.84	99.31	99.22	99.88	100.39*
PMI	97.0	86.0	83.0	84.0	86.0
PPI (YoY%)	6.2	5.7	4.3	2.8	0.8
Money Supply (YoY%)	4.1	5.7	6.2	8.7	8.4*
Sov. Rating, Moody's	A1	A1	A1	A1	A1
Sov. Rating, S&P	A	A	A	A	A
5Y CDS (bps)	102.9	215.2	169.4	123.7	121.2
FDI (%GDP)	–	–	0.42	–	–
Fiscal Budget (%GDP)	–	–	1.79	–	–



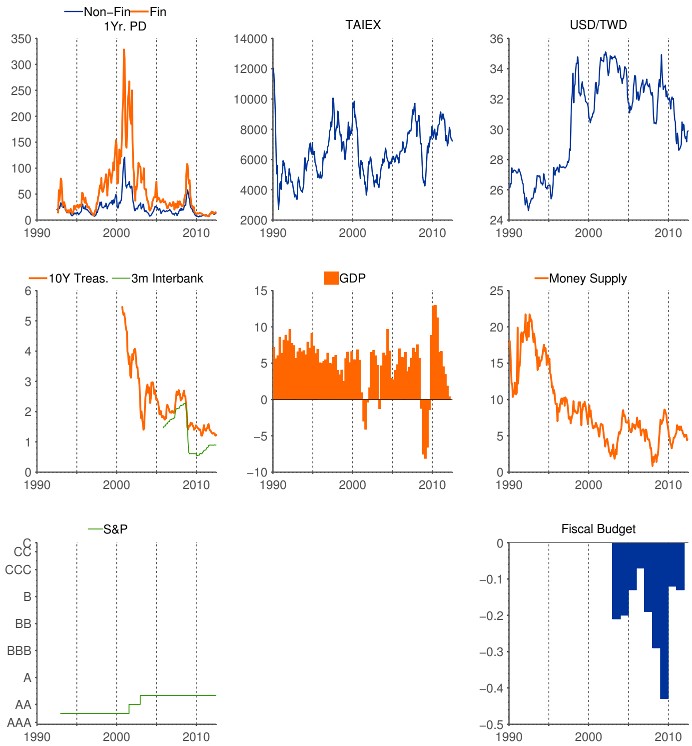
Spain	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	10.10	15.55	16.77	16.67	26.63
1Yr. PD, Fin.	32.79	45.29	35.97	83.56	56.86
IGBM	1050	863	858	807	718
EUR/USD	1.45	1.34	1.30	1.33	1.27
3m Treas. Yield (%)	1.40	1.75	1.10	0.25	0.38
10Y Treas. Yield (%)	5.45	5.14	5.09	5.35	6.33
3m Interbank (%)	1.55	1.55	1.36	0.78	0.65
GDP (YoY%)	0.8	0.8	0.3	-0.4	–
OECD CLI	100.41	100.56	100.70	100.84	100.91*
PPI (YoY%)	6.7	7.1	5.5	4.4	3.2*
Money Supply (YoY%)	2.0	2.8	1.7	3.1	2.9*
Sov. Rating, Moody's	Aa2	A3	A3	A3	A3
Sov. Rating, S&P	AA	A	A	A	A
5Y CDS (bps)	269.91	382.24	393.52	436.64	531.21
FDI (%GDP)	–	–	1.72	–	–
Fiscal Budget (%GDP)	–	–	-8.50	–	–



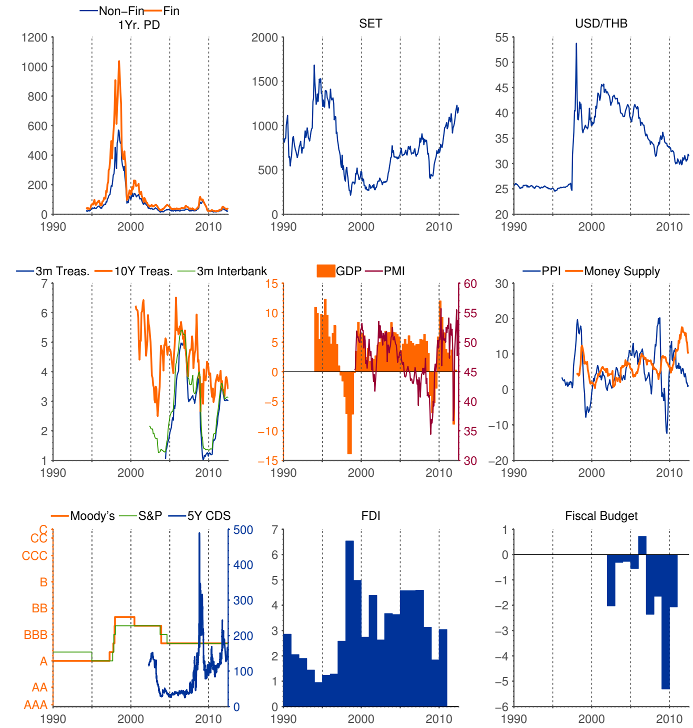
Sweden	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	36.00	73.53	103.50	82.67	89.99
1Yr. PD, Fin.	61.66	46.84	105.16	84.70	90.07
OMX Stockholm PI	353.9	283.6	307.0	338.4	316.0
USD/SEK	6.33	6.87	6.89	6.61	6.92
3m Treas. Yield (%)	1.80	1.55	1.40	1.45	1.10
10Y Treas. Yield (%)	2.90	1.74	1.62	1.98	1.60
3m Interbank (%)	2.48	2.51	2.64	2.27	2.14
GDP (YoY%)	4.9	4.0	1.2	1.5	–
OECD CLI	100.41	100.50	100.29	99.94	100.05*
PMI	52.9	48.1	48.9	50.2	48.4
PPI (YoY%)	-0.2	-0.2	-2.1	0.2	0.3*
Money Supply (YoY%)	5.37	8.02	6.41	6.62	6.35*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	27.12	61.49	77.83	42.91	59.49
FDI (%GDP)	–	–	2.28	–	–
Fiscal Budget (%GDP)	–	–	0.30	–	–



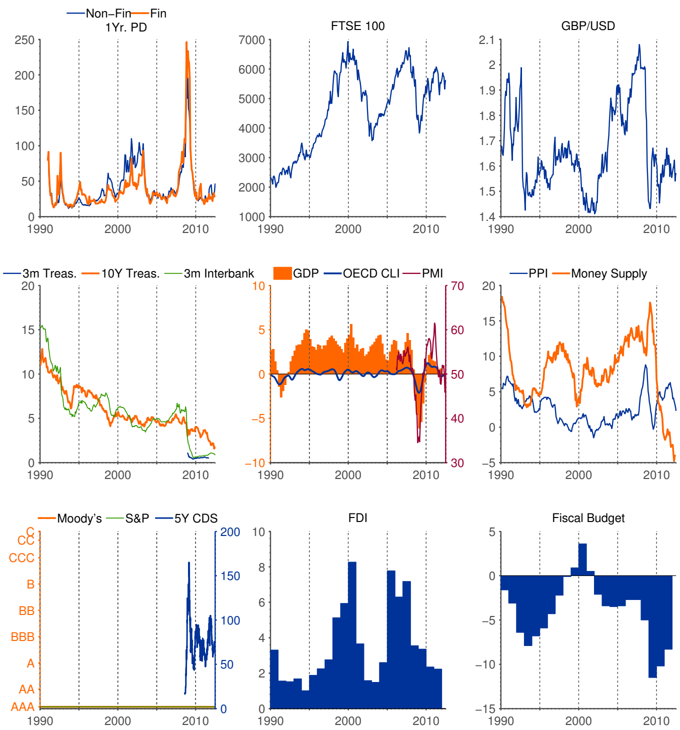
Switzerland	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	20.16	29.29	47.51	42.83	28.82
1Yr. PD, Fin.	16.83	28.00	31.32	42.65	38.25
SPI	5685	5006	5344	5716	5633
USD/CHF	0.84	0.91	0.94	0.90	0.95
10Y Treas. Yield (%)	1.73	0.94	0.66	0.87	0.67
3m Interbank (%)	0.11	-0.04	-0.01	0.05	0.02
GDP (YoY%)	2.3	1.7	1.7	1.9	–
OECD CLI	100.73	99.06	98.82	99.35	99.56*
PMI	54.2	49.3	49.1	51.1	48.1
PPI (YoY%)	-0.8	-1.9	-2.2	-1.5	-1.2
Money Supply (YoY%)	5.18	7.93	7.43	6.61	6.24*
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
FDI (%GDP)	–	–	0.42	–	–
Fiscal Budget (%GDP)	–	–	0.76	–	–



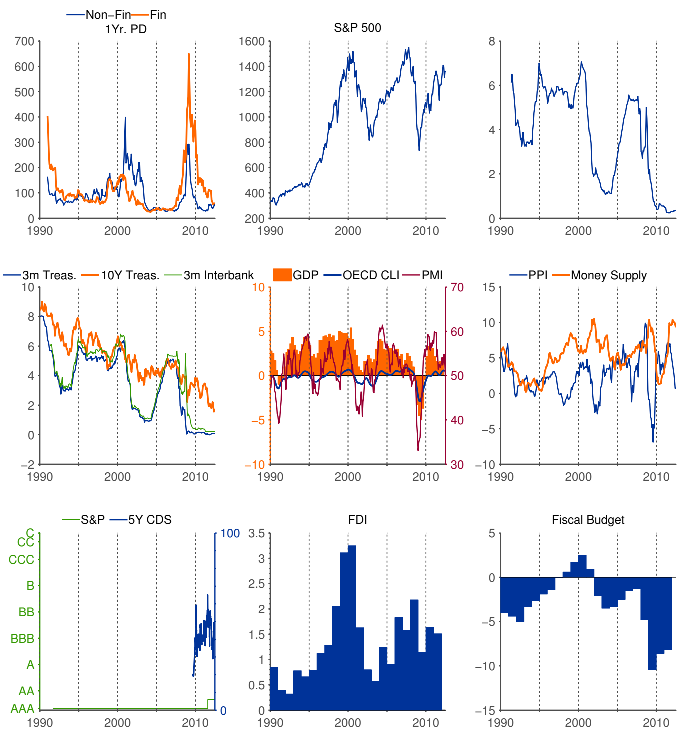
Taiwan	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	8.21	12.81	14.70	10.62	11.53
1Yr. PD, Fin.	7.44	12.85	15.81	12.50	13.61
TAIEX	8653	7225	7072	7933	7296
USD/TWD	28.72	30.48	30.28	29.50	29.87
10Y Treas. Yield (%)	1.55	1.38	1.29	1.28	1.24
3m Interbank (%)	0.82	0.90	0.89	0.89	0.89
GDP (YoY%)	4.52	3.45	1.85	0.39	–
Money Supply (YoY%)	5.94	5.73	4.84	5.13	4.64*
Sov. Rating, S&P	AA-	AA-	AA-	AA-	AA-
Fiscal Budget (%GDP)	–	–	-0.13	–	–



Thailand	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	24.22	36.51	33.95	26.46	19.56
1Yr. PD, Fin.	32.27	48.11	44.90	36.27	33.46
SET	1041	916	1025	1197	1172
USD/THB	30.73	31.19	31.55	30.83	31.56
3m Treas. Yield (%)	3.06	3.50	3.14	3.02	3.03
10Y Treas. Yield (%)	3.88	3.69	3.29	3.81	3.48
3m Interbank (%)	3.29	3.60	3.26	3.11	3.14
GDP (YoY%)	2.7	3.7	-8.9	0.3	–
PMI	53.1	48.5	48.5	55.5	53.8*
PPI (YoY%)	4.52	5.62	4.47	1.82	1.16*
Money Supply (YoY%)	16.30	16.16	15.20	13.14	10.13*
Sov. Rating, Moody's	Baa1	Baa1	Baa1	Baa1	Baa1
Sov. Rating, S&P	BBB+	BBB+	BBB+	BBB+	BBB+
5Y CDS (bps)	132.4	237.0	182.0	126.8	150.7



United Kingdom	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	24.37	39.01	44.95	26.36	46.77
1Yr. PD, Fin.	20.95	32.02	27.61	30.73	28.55
FTSE 100	5946	5128	5572	5768	5571
GBP/USD	1.61	1.56	1.55	1.60	1.57
3m Treas. Yield (%)	0.54	0.53	–	–	–
10Y Treas. Yield (%)	3.38	2.43	1.98	2.20	1.73
3m Interbank (%)	0.83	0.95	1.08	1.03	0.90
GDP (YoY%)	0.5	0.5	0.6	-0.2	–
OECD CLI	100.96	99.85	99.45	99.69	99.69*
PMI	51.4	50.8	49.7	51.9	48.6
PPI (YoY%)	5.8	6.3	4.8	3.7	2.3
Money Supply (YoY%)	-0.7	-1.7	-2.5	-4.8	-4.1*
Sov. Rating, Moody's	Aaa	Aaa	Aaa	Aaa	Aaa
Sov. Rating, S&P	AAA	AAA	AAA	AAA	AAA
5Y CDS (bps)	60.70	94.41	97.50	62.86	69.52
FDI (%GDP)	–	–	2.23	–	–
Fiscal Budget (%GDP)	–	–	-8.30	–	–



United States	2011			2012	
	Q2	Q3	Q4	Q1	Q2
1Yr. PD, Non-Fin. (bps)	32.00	54.82	53.40	39.39	52.66
1Yr. PD, Fin.	83.31	112.39	109.00	54.41	57.66
S&P 500	1321	1131	1258	1408	1362
	0.26	0.24	0.31	0.33	0.35
3m Treas. Yield (%)	0.01	0.02	0.01	0.07	0.08
10Y Treas. Yield (%)	3.16	1.92	1.88	2.21	1.64
3m Interbank (%)	0.20	0.20	0.22	0.20	0.21
GDP (YoY%)	1.6	1.5	1.6	2.0	–
OECD CLI	100.51	100.08	100.70	101.17	100.94*
PMI	55.8	52.5	53.1	53.4	49.7
PPI (YoY%)	6.9	7.0	4.7	2.8	0.7
Money Supply (YoY%)	6.0	9.7	9.7	10.0	9.3
Sov. Rating, S&P	AAA	AA+	AA+	AA+	AA+
5Y CDS (bps)	50.36	51.41	51.00	29.66	48.78
FDI (%GDP)	–	–	1.51	–	–
Fiscal Budget (%GDP)	–	–	-8.20	–	–

D Data notes

This Appendix provides a comprehensive list of the macroeconomic and capital market data provided in Appendix C as well as their sources. Most of the data was obtained from Bloomberg. In some cases, the data was not available in Bloomberg and was obtained directly from primary sources. In either case, the primary sources for the data are listed in the tables below. The data was retrieved on July 17 and every effort has been made to verify its accuracy.

The last section of this Appendix describes the Probability of Default implied Rating (PDiR). The PDiR has been introduced to aid intuition about PD values for individual companies.

Stock index (top-center graph) The one-year return on an economy's stock index is one input variable for RMI's default forecast model. The stock indices used in the model are the ones that are displayed in Appendix C. The following table lists the name of each stock index.

Stock Indices

Economy	Index Name
Australia	Australian All Ordinaries Index
Austria	Austrian Traded Index
Belgium	Brussels All-Share Net Return Index
Canada	S&P/Toronto Stock Exchange Composite Index
China	Shanghai Stock Exchange Composite Index
Denmark	OMX Copenhagen 20 Index
Finland	OMX Helsinki All-Share Index
France	CAC-40 Index
Germany	CDAX Performance Index
Greece	Athex Composite Share Price Index
Hong Kong	Hang Seng Index
Iceland	OMX Iceland All-Share Index
India	Bombay Stock Exchange SENSEX
Indonesia	Jakarta Composite Index

Economy	Index Name
Italy	Italy Stock Market BCI Comit Globale Index
Japan	Nikkei 500
Malaysia	FTSE Bursa Malaysia KLCI
Netherlands	AEX Index
Norway	OBX Price Index
Philippines	Philippine Stock Exchange PSEi Index
Portugal	PSI Geral (General) Index
Singapore	Straits Times Index
South Korea	KOSPI Index
Spain	Madrid Stock Exchange General Index
Sweden	OMX Stockholm All-Share Index
Switzerland	Swiss Performance Index
Taiwan	Taiwan TAIEX Index
Thailand	Bangkok SET Index
United Kingdom	FTSE 100 Index
United States	Standard and Poor's 500 Index

FX rate (top-right graph) Foreign exchange (FX) rates are quoted by market convention against the US dollar. For Eurozone countries, a fixed official rate is used to convert the domestic currency to the Euro prior to the introduction of the common currency. In the graphs, the FX rate for the domestic currency before the economy adopted the Euro is in orange, and the FX rate for the Euro after the Euro was adopted is in blue. The table below shows the conversion dates and rates.

Conversion to Euro

Economy	Conversion Date	Conversion Rate (per Euro)
Austria	31/12/1998	13.7603
Belgium	31/12/1998	40.3399
Finland	31/12/1998	5.94573
France	31/12/1998	6.55957
Germany	31/12/1998	1.95583

Economy	Conversion Date	Conversion Rate (Per Euro)
Greece	31/12/2000	340.75
Italy	31/12/1998	1936.27
Netherlands	31/12/1998	2.20371
Portugal	31/12/1998	200.482
Spain	31/12/1998	166.386

3-month government bond yield (middle-left graph) The primary sources of the 3-month government bond yields are listed in the table below. The asterisk indicates that data was retrieved directly from the indicated source, and not from Bloomberg.*

3-month government bond yields

Economy	Source
Australia	Reserve Bank of Australia*
Belgium	National Bank of Belgium
Canada	Bloomberg
China	Bank of Tianjin
Denmark	Nykredit Bank
Finland	Svenska Handels-banken
France	Bloomberg
Germany	Bloomberg
Greece	Bloomberg
Hong Kong	Bloomberg
India	Bloomberg

Economy	Source
Italy	Bloomberg
Japan	Bloomberg
Malaysia	Bank Negara Malaysia
Netherlands	Bloomberg
Norway	Norges Bank
Philippines	Philippine Dealing & Exchange Corp.
Portugal	Bloomberg
Singapore	Monetary Authority of Singapore

Economy	Source
South Korea	Korea Financial Investment Association
Spain	Corretaje E Informacion Monetaria Y De Divisas, S.
Sweden	Bloomberg
Thailand	Bloomberg
United Kingdom	Thomson Reuters*
United States	Bloomberg

10-year treasury bond yield (middle-left graph) All 10-year treasury bond yields are based on Bloomberg indices except for the following list: Bank Negara Malaysia for Malaysia, Korea Financial Investment Association for South Korea and Philippine Dealing & Exchange Corp for Philippines.

*The RMI CRI model uses Germany's three-month Bubill rate for all eurozone countries after their adoption of the euro. For the period before joining the eurozone, their own interest rates are used. Switzerland and Iceland do not use benchmark interest rate input variable for their whole history.

3-month interbank rate (middle-left graph) The primary sources of the 3-month interbank rates are listed in the following table.

Interbank Lending Rates

Economy	Interbank Rate	Source
Australia	AUD Bank Bill 3-month	CMPT - Composite(Tokyo)
Austria	Euribor 3-month	European Banking Federation (EBF)
Belgium	Euribor 3 month	EBF
Canada	Canada Bankers Acceptances 3 Month	Moneyline Telerate
China	Shanghai Interbank Offered Rate Fixing - 3 Month	National Interbank Funding Center
Denmark	Copenhagen Interbank Offered Rates 3 Month	Danish Central Bank
Finland	Euribor 3 month	EBF
France	Euribor 3 month	EBF
Germany	Euribor 3 month	EBF
Greece	Euribor 3 month	EBF
Hong Kong	HKAB Hong Kong Dollar Hibor Fixings 3 Month	HK Interbank Offered Rate (HIBOR) Fixing
Iceland	Central Bank of Iceland ISK Reibor 3 Month Interest Rate Fixing	Central Bank of Iceland
India	INR 3 Month Deposit	CMPN - Composite(NY)
Indonesia	Indonesia Jakarta Interbank Offering Rate 3 Month	Bank Indonesia
Italy	Euribor 3 month	EBF
Japan	Tibor Fixing Rate 3 Month	Japanese Bankers Association
Malaysia	Malaysia Interbank Offered Rate Fixing 3 Month	Bank Negara Malaysia
Netherlands	Euribor 3 month	EBF

Economy	Interbank Rate	Source
Norway	Norway Interbank Offered Rate Fixing 3 Month	Bloomberg
Philippines	Bankers Association of the Philippines Interbank Offering Rates 3 Month PHIBOR	Bankers Association of the Philippines
Portugal	Euribor 3 month	EBF
Singapore	Association of Banks in Singapore SGD Sibor Fixing 3-Month	Association of Banks in Singapore
South Korea	Korea Federation of Banks KORIBOR 3 Month	Bank of Korea
Spain	Euribor 3 month	EBF
Sweden	Stockholm Interbank Offered Rates 3 Month	NASDAQ OMX
Switzerland	LIBOR Libid Limean CHF 3 Month	Bloomberg
Taiwan	Taiwan Interbank Money Center TAIBOR Fixing Rates 3 Month	Taiwan Interbank Money Center
Thailand	Thailand Bibor Fixings 3 Month	Bank of Thailand
United Kingdom	BA LIBOR GBP 3 Month	British Bankers Association
United States	ICAP Capital Markets Domestic Fed Funds 3 Month	CTRB ICAP Fixed Income & Money Market Products

GDP (middle-center graph, left axis) Real GDP YoY changes are seasonally-adjusted except for China, Hong Kong, Iceland, India, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand. The following is a list of primary sources of the GDP data.

Real GDP growth

Economy	Source
Australia	Australian Bureau of Statistics
Austria	Eurostat
Belgium	Eurostat
Canada	Statistics Canada
China	National Bureau of Statistics of China
Denmark	Eurostat
Finland	Eurostat
France	Eurostat
Germany	Eurostat
Greece	Eurostat
Hong Kong	Census & Statistics Department Hong Kong
Iceland	Statistics Iceland
India	India Central Statistical Organisation
Indonesia	OECD
Italy	Eurostat
Japan	OECD
Malaysia	Department of Statistics Malaysia
Netherlands	Eurostat
Norway	Statistics Norway
Philippines	National Statistical Coordination Board
Portugal	Eurostat
Singapore	Singapore Ministry of Trade & Industry
South Korea	Bank of Korea
Spain	Eurostat
Sweden	Eurostat
Switzerland	State Secretariat for Economic Affairs
Taiwan	Taiwan Directorate General of Budget Accounting & Statistics
Thailand	National Economic Development Board
United Kingdom	UK Office for National Statistics
United States	Bureau of Economic Analysis

OECD CLI (middle-center graph, right axis) The OECD Composite Leading Indicator for each economy is intended to provide early signals of turning points between different trends in the economic cycle. For forecasting purposes, peaks in CLI are candidate early signals of downturns in the economic cycle, and troughs in the CLI are candidate early signals of upturns in the economic cycle. More information can be obtained at www.oecd.org/std/cli. The OECD CLI shown in Appendix C is amplitude adjusted with a deduction of 50 for the purpose of presentation along with the PMI.

PMI (middle-center graph, right axis) The Purchasing Managers Index or similar indices are used to reflect an economy's manufacturing activities. An index reading above 50 indicates an expansion of manufacturing activity while a reading below 50 indicates a contraction. An exception is the Business Survey Index used in South Korea, which has 100 as its benchmark. The following table lists the indices as well as their primary sources.

PMI

Economy	Index name	Source
Australia	Australian Performance of Manufacturing Index	Australian Industry Group
Canada	Ivey Purchasing Managers Index (Canada)	Purchasing Management Association of Canada
China	China Manufacturing PMI (seasonally adjusted)	China Federation of Logistics & Purchasing
France	Markit France Manufacturing PMI	Markit
Germany	Markit/BME Germany Manufacturing PMI	Markit
Italy	Markit/ADACI Italy Manufacturing PMI	Markit
Japan	Nomura/JMMA PMI (seasonally adjusted)	Markit/Nomura Securities Co.Ltd
Norway	Norway PMI (Seasonally Adjusted)	Danske Bank

Economy	Index name	Source
Singapore	Singapore Manufacturing PMI	Singapore Institute of Purchasing & Materials Management
South Korea	Business Survey Index on business conditions Manufacturing sector	Bank of Korea
Sweden	Swedbank PMI (seasonally adjusted)	Swedbank Markets
Switzerland	Switzerland procure.ch PMI	Credit Suisse
Thailand	Thailand Business Sentiment Index	Bank of Thailand
United Kingdom	Markit/CIPS UK Manufacturing PMI	Markit
United States	ISM Manufacturing PMI (seasonally adjusted)	Institute for Supply Management

PPI (middle-right graph) The Producers' Purchasing Index or similar indices are presented as YoY changes. The following table shows the indices used and the primary sources for the indices.

PPI

Economy	Index name	Source
Australia	Australia Manufacturing PPI YoY	Australian Bureau of Statistics
Austria	Eurostat PPI Austria Industry Excluding Construction YoY	Eurostat
Belgium	Belgium PPI YoY	Belgium National Institute of Statistics
Canada	STCA Canada Industrial Product Price YoY (not seasonally adjusted)	Statistics Canada
China	China PPI YoY	China Economic Information Network
Denmark	Denmark Wholesale Prices YoY	Denmark Statistics
Finland	Finland PPI YoY	Finnish Statistics Office
France	France PPI YoY	INSEE National Statistics Office of France
Germany	Bundesbank Germany Producer Prices YoY (seasonally adjusted)	Deutsche Bundesbank
Greece	Eurostat PPI Greece Industry Ex Construction YoY	Eurostat
Hong Kong	Hong Kong PPI All Manufacturing Industries YoY	Census & Statistics Department Hong Kong
Iceland	Iceland PPI Main Index YoY	Statistics Iceland
India	India Wholesale Price All Commodities YoY	Press Information Bureau of India
Indonesia	Indonesia Wholesale Prices YoY	Badan Pusat Statistik Indonesia
Italy	Italy PPI Manufacturing YoY	The Italian National Institute of Statistics
Malaysia	Malaysia Producer Price Index Goods in Domestic Economy YoY	Department of Statistics Malaysia
Netherlands	Eurostat PPI Netherlands Industry Ex Construction YoY	Eurostat
Norway	Norway PPI Domestic & Export Industry YoY New Classification	Statistics Norway
Philippines	Philippines PPI Manufacturing YoY	National Statistics Office Philippines
Portugal	Portugal Producer Prices Total YoY	Instituto Nacional de Estatistica Portugal
Singapore	IMF Singapore WPI	International Monetary Fund
South Korea	South Korea PPI YoY	Bank of Korea
Spain	Spain PPI YoY	Instituto Nacional de Estadstica
Sweden	Sweden Producers Prices YoY	Statistics Sweden
Switzerland	Producers Price Index YoY	Federal Statistics Office of Switzerland
Thailand	Thailand PPI All Products YoY	Commerce Ministry
United Kingdom	UK PPI Manufactured Products YoY (not seasonally adjusted)	UK Office for National Statistics
United States	PPI By Processing Stage Finished Goods Total YoY (not seasonally adjusted)	U.S. Bureau of Labor Statistics

Money Supply (middle-right graph) YoY growth of money supply uses M3 when it is available for an economy. The exceptions are: China, Indonesia, Norway, Taiwan, Thailand and the United States where M2 is used; and the UK where M4 is used. For Eurozone countries, data after the adoption of the Euro represents total money supply growth of the Euro. The following is a list of primary sources for the money supply data.

Money Supply

Economy	Source
Australia	Reserve Bank of Australia
Austria	Eurostat
Belgium	Eurostat
Canada	Bank of Canada
China	The People's Bank of China
Denmark	Danish Central Bank
Finland	Eurostat
France	Eurostat
Germany	Deutsche Bundesbank /Eurostat
Greece	Eurostat
Hong Kong	Hong Kong Monetary Authority
Iceland	Statistics Iceland
India	OECD
Indonesia	Bank Indonesia
Italy	Eurostat
Japan	Bank of Japan
Malaysia	Bank Negara Malaysia
Netherlands	Eurostat
Norway	Central Bank of Norway
Philippines	Bangko Sentral ng Pilipinas
Portugal	Banco de Portugal /Eurostat
Singapore	Monetary Authority of Singapore
South Korea	Bank of Korea
Spain	Eurostat
Sweden	Sveriges Riksbank
Switzerland	Swiss National Bank
Taiwan	The Central Bank of China
Thailand	Bank of Thailand
United Kingdom	Bank of England
United States	Federal Reserve

Sovereign credit ratings (bottom-left graph, left axis) For most of the economies, the Standard & Poor's and Moody's sovereign ratings are for foreign currency long term debt. Moody's ratings for France, Germany, India, Japan, Netherlands, Singapore, Switzerland, Taiwan, United Kingdom and the United States are foreign currency long term issuer ratings instead. Among the above mentioned economies, France, Germany, Switzerland, United Kingdom and the United States ratings are cited from Moody's website directly, with the remainder of the data from Moody's and S&P retrieved from Bloomberg. For graphical purposes, selective or resticted defaults are reflected as C grades in the graphs. For example, according to S&P data, Indonesia had selective default events on March 29, 1999; April 17, 2000 and April 23, 2002, seen as C grades in the graphs above.

5Y CDS spread (bottom-left graph, right axis) 5-year Credit Default Swap spreads are for each economy's long term sovereign debt. All of the CDS data is sourced from Bloomberg.

FDI (bottom-center graph) FDI into each economy is presented as a percentage of GDP. The World Bank is the primary source of all FDI data.

Fiscal budget (bottom-right graph) Fiscal budget is presented as a percentage of GDP. The primary sources are shown in the following table.

Fiscal Budget

Economy	Source
Australia	Bloomberg Indices
Austria	Eurostat
Belgium	Eurostat
Canada	Bloomberg Indices
China	Bloomberg Indices
Denmark	Eurostat
Finland	Eurostat
France	Eurostat
Germany	Eurostat
Greece	Eurostat
Hong Kong	Bloomberg Indices
Iceland	OECD
India	Bloomberg Indices
Indonesia	World Bank
Italy	Eurostat
Japan	Bloomberg Indices
Malaysia	Bloomberg Indices
Netherlands	Eurostat
Norway	Bloomberg Indices
Philippines	Bloomberg Indices
Portugal	Eurostat
Singapore	World Bank
South Korea	Bloomberg Indices
Spain	Eurostat
Sweden	Eurostat
Switzerland	Bloomberg Indices
Taiwan	Bloomberg Indices
Thailand	Bloomberg Indices
United Kingdom	Eurostat
United States	U.S. Treasury

PDiR

The Probability of Default implied Rating (PDiR) has been introduced to aid intuition about what different values of 1-year PD from RMI's default forecast model imply about a firm's credit quality. In short, the 1-year PD for a firm is used to imply a credit rating based on historically observed default rates for credit rating agency ratings.

The table at right is used to classify firms into PDiR based on their 1-year PD. For example, if a firm has a 1-year PD of 50bps, then it will be classifed as BB. The upper bounds for each PDiR are derived using S&P's historical default rates.† These default rates are taken as the average one-year default rates (ADR) from 1992-2010 to coincide with the period of RMI's PD.

PDiR	Upper bound (bps)
AAA	0.28
AA	5
A	13
BBB	42
BB	194
B	1075
CCC/C	–

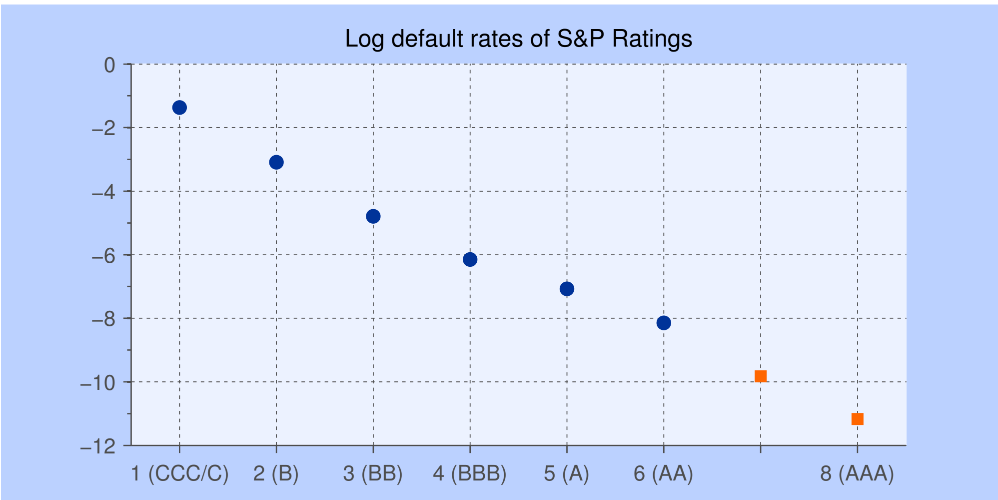
Computing the boundaries between different PDiR classes: The blue circles in the graph below indicate the logarithm of the ADR for S&P firms with ratings from AA down to CCC/C. There have been no defaults within one year for S&P rated AAA firms.

Given the linear relationship between the log default rates and the ratings, it makes sense to take the boundary between PDiR classes as the mid-point of the log default rates.

For example, the upper bound for BBB is computed as:

$$\mathrm{UB}\,(\mathrm{BBB}) = \exp\left(\frac{\log\left(\mathrm{ADR}\,(\mathrm{BBB})\right) + \log\left(\mathrm{ADR}\,(\mathrm{BB})\right)}{2}\right).$$

For the upper boundary of AAA firms, a mid-point of observed log ADR cannot be taken since the ADR is zero for S&P rated AAA firms. Instead, a line of best fit can be plotted through the six observed points (blue circles) in order to extrapolate the orange squares. Taking the default rate based on the the first extrapolated orange square results in a boundary that leads to far larger fraction of PDiR AAA firms as compared to S&P rated AAA firms. Therefore, the boundary between AA and AAA is taken as the mid-point between the first and second orange square.



†March 2011, Default, Transition, and Recovery: 2010 Annual Global Corporate Default Study And Rating Transitions, Standard & Poor's.

About RMI and the Credit Research Initiative

The NUS Risk Management Institute (RMI) was established in August 2006 as a research institute at NUS dedicated to the area of financial risk management. The establishment of RMI was supported by the Monetary Authority of Singapore (MAS) under its program on Risk Management and Financial Innovation. RMI seeks to complement, support and develop Singapore's financial sector's knowledge and expertise in risk management, and thereby help to take on the challenges arising from globalization, structural change and volatile financial markets.

Credit Research Initiative (CRI) is a non-profit project undertaken by NUS-RMI in response to the 2008-2009 GFC. The CRI takes a ”public good” approach to credit ratings by providing the outputs from our default forecast system in a transparent, non-profit basis. In the current phase, the CRI model generates probabilities of default (PD) on a daily basis for corporate entities in 44 economies in Asia-Pacific, Western Europe, Latin America and North America. Our PD can serve as a benchmark against traditional rating agencies' systems or internal credit analyses for industry analysts and business professionals. For more information about RMI and the CRI project, please visit our main site at http://rmicri.org

Usage, redistribution and publication of data

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