Daiwa Capital Markets

European Banks – Credit Update

- Phasing out of ECB capital and liquidity support measures in 2022 should not adversely affect banks
- Primary markets remained activate last week with banks emerging from earnings season
- Funding conditions remain challenging in light of inflationary pressure and central bank monetary policy. Risk indicators remain elevated compared to prior months. EUR secondary market spreads ease somewhat after widening in recent weeks

William Hahn
Credit Analyst
+44 20 7597 5789
William.Hahn@uk.daiwacm.com

Withdrawal of ECB support measures unlikely to materially affect banks

With most of the adverse economic effects of the pandemic deemed to be behind us, the ECB signalled in late 2021 the gradual withdrawal of capital and liquidity support measures. Loan moratoria schemes have now largely expired across Europe and banks' balance sheet quality has remained adequate, according to the latest data available from the ECB risk dashboard. The removal of some support measures can be considered positively as it removes uncertainty surrounding future capital and liquidity planning. The data also show that banks have largely returned to or exceeded pre-pandemic profitability levels, which will have encouraged the ECB to gradually withdraw support. Recent policy changes include:

- LCR relief for banks ceased to apply from 2022;
- TLTRO scheme with favourable funding conditions ending in June 2022;
- Leverage ratio relief ending March 2022;
- Banks no longer allowed to operate below P2G beyond December 2022;

Return on Equity (RoE)- European Banks by Select Countries

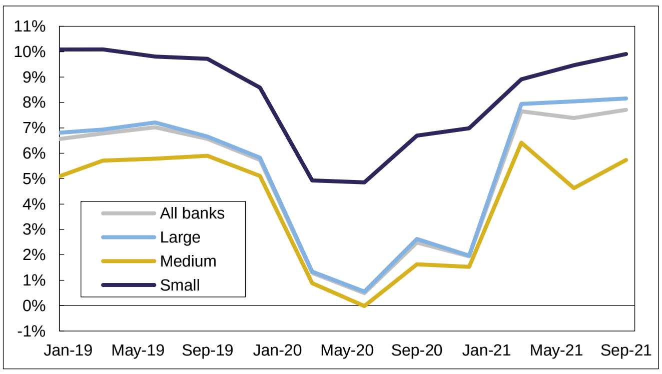
Country	Dec-20	Mar-21	Jun-21	Sep-21
AT	4.6%	6.6%	8.7%	9.3%
BE	4.7%	4.5%	7.0%	8.2%
CY	-4.4%	2.2%	0.3%	1.4%
CZ	7.4%	8.0%	9.8%	11.0%
DE	0.5%	4.7%	4.1%	4.4%
DK	4.1%	8.7%	8.1%	8.1%
ES	-3.9%	16.2%	11.9%	12.1%
FI	6.0%	8.1%	9.0%	9.0%
FR	4.3%	5.3%	7.3%	7.5%
GR	-6.5%	-1.0%	-32.7%	-25.0%
HU	9.8%	13.9%	15.4%	15.9%
IE	-3.2%	6.0%	6.7%	7.1%
IT	0.4%	8.7%	8.3%	7.9%
NL	3.2%	7.2%	8.5%	9.3%
NO	7.4%	10.2%	0.0%	0.0%
PL	-0.2%	6.7%	7.8%	8.6%
PT	-0.2%	3.6%	4.1%	4.2%
RO	11.4%	17.1%	15.3%	16.3%
SE	8.9%	11.1%	11.8%	11.9%
SK	6.4%	7.2%	9.5%	10.3%
EU/ EEA	**1.9%**	**7.7%**	**7.4%**	**7.7%**

Source: ECB

Until December 2021, the ECB had allowed banks to operate with LCR ratios below 100% to allow them to replenish capital buffers, expecting pressure on their liquidity positions. This measure was first introduced in March 2020 but banks have since shown ample buffers, allowing for its removal. Average LCR across the EU was 175% at 3Q21, well above the pre-pandemic average of 146% and 100% minimum. As part of a return to normal, the ECB announced that the favourable borrowing rate on the TLTRO operations would end by June-2022. While we expect an impact on bank's funding behaviour through increased activity in capital markets, this will be partially mitigated by rising customer deposit volumes, providing financial institutions with a degree of flexibility in those markets. Growing deposit volumes are reflected in the falling loan to deposit ratio that stood at 108% at 3Q21 (3Q20: 114%). Reduced reliance on TLTRO also creates an incentive for the sector to return excess liquidity sooner than later as central bank exposures may no longer be excluded from leverage ratio calculation. In September 2020, the ECB allowed banks to temporarily exclude certain central bank exposures from the denominators of their leverage ratio calculations but this practice will stop at the end of March 2022. Despite the phasing out of support measures, we don't believe that they will materially impact bank profitability, which has been mostly maintained well above requirements.

European banks retained appropriate leverage ratios throughout the last two years. Most recently, the aggregate leverage ratio stood at 5.7% on a fully loaded basis which is well above the 3% minimum requirement. The ECB also sees no need for banks to operate below the level of capital defined by their Pillar 2 Guidance (P2G) beyond December-2022. This was permitted during the early stages of the pandemic, to ensure that banks keep lending throughout. With a return to 'normal', banks are expected to operate above their P2G floors again, but we believe this will be difficult to monitor for external parties, as disclosure on bank's P2G is limited. According to the ECB however, only a handful of banks have made use of this flexibility. Last week, the ECB also announced the results of its 2021 Supervisory Review and Evaluation Process (SREP), which sets legally required minimum capital levels, as well as Pillar 2 Requirements (P2R) applicable in 2022 for banks under its supervision. The ECB requires banks to only marginally hold more capital in 2022 with overall CET1 at 10.6% of RWA in 2022, up from 10.5% in 2021. P2R was up by just 20bps to 2.3% over the same period.

Profitability - RoE by bank size



Source: ECB

Please note the disclaimers and disclosures on the last page of this document.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR24bn over the course of last week, above market expectations of EUR14bn-19bn. FIG supply of EUR11.6bn was also above the weekly forecast amount of EUR6bn-10.5bn. The total 2022 year-to-date FIG volume of EUR100bn is 44% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 14% at EUR145bn. For the week ahead, survey data suggest SSA volumes will range between EUR12bn-16.5bn and FIGs are expected to issue EUR6bn-11bn.

SSA deal flow remains front-loaded in anticipation of further central bank action aimed at tackling rising inflation. The **European Union** launched its first deal of the year with a EUR7.2bn dual-tranche transaction. It comprised of a 5-year EUR2.2bn deal under the European Financial Stabilisation Mechanism (EFSM) and a EUR5bn tap of its NGEU 2051 bond. This brought the total of the latter to EUR11bn. The shorter dated 5-year saw spreads narrow, pricing with a 3bps new issue premium, while the 2051 tap priced in a concession of just 2bps, helped by considerable interest with orders of EUR60bn (12x). Both deals tightened in secondary trading by some 2bps and 6bps respectively, suggesting that the borrower chose an unfavourable issuance window or that the priority was finalising the transaction over pricing concerns. Looking ahead and in line with the EU's latest investor presentation, 1H22 long-term funding needs under the NGEU were listed at EUR50bn, subverting investor expectations. The EU's intention to borrow EUR800bn between mid-2021 and 2026, suggested an annual issuance of around EUR150bn. Estimates for 2022 borrowing range between EUR110bn-140bn but could change depending on whether the remaining EU member states finalise and receive approval for their national recovery and resilience plans. Given the flexibility the EU demonstrated in reducing its funding targets last year, we may well see it revise its plans upwards should circumstances require it.

As market sentiment remained uncertain, other large SSA issuers elected to occupy the short-end of the curve. **Development Bank of Japan (DBJ)** added an ESG angle to its 3-year, senior unsecured. The bond was offered as a USD700m sustainability bond, making it DBJ's tenth such offering, aligned with DBJ's sustainability bond framework from September 2020. The bond was upsized from its initial USD500m size, pricing flat to IPT at SOFR MS + 30bps. **KfW** continued its highly active start to the year with two deals over the course of last week. The German development bank raised CAD500m with a short-dated 3-year deal as well as AUD400m via tap, bringing the total to AUD1.95bn. We calculate that with these two deals, KfW brought its total number of issuance and taps in 2022 to 37 with a total volume of ~EUR21.9bn across nine currencies. This means KfW has already completed roughly 26% of its annual funding target.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
EU	Sr. Unsecured (Tap)	EUR5bn	29Y	MS + 29	MS + 32	>EUR60bn
EU (EFSM)	Sr. Unsecured	EUR2.2bn	5Y	MS - 23	MS - 21	>EUR19bn
CADES	Sr. Unsecured (Social)	EUR2bn	7Y	FRTR + 18	FRTR + 19	>EUR2.4bn
DBJ	Sustainability Bond	USD700m	3Y	SOFR MS + 30	SOFR MS + 30	>n.a.
JBIC	Sr. Unsecured	USD1.25bn	7Y	SOFR MS + 45	SOFR MS + 46	>n.a.
KfW	Sr. Unsecured	CAD500m	3Y	MS - 25	MS - 25	>n.a.
KfW	Sr. Unsecured (Tap)	AUD400m	4Y	ASW + 17	ASW + 17	>n.a.
Ile-de-France Mobilities	Sr. Unsecured (Green)	EUR700m	10Y	OAT + 31	OAT + 32	>EUR800m
Ile-de-France Mobilities	Sr. Unsecured (Green)	EUR600m	20Y	OAT + 33	OAT + 33	>EUR650m
Rentenbank	Sr. Unsecured (Tap)	EUR1.05bn	9Y	MS – 11	MS -11	n.a.
FIG (Senior)						
ING	Sr. HoldCo	EUR1.5m	9NC8	MS + 115	MS + 135	>EUR4.6bn
ING	Sr. HoldCo	EUR1.5m	5NC4	MS + 85	MS + 105	>EUR4.1bn
Nordea	SNP (Green)	EUR1bn	5Y	MS + 60	MS + 80/85	>n.a.
Danske	SNP (Green)	EUR750m	5NC4	MS + 85	MS + 100	>EUR1.35bn
ANZ Bank	Sr. Unsecured	USD500m	3Y	T + 57	T + 80	>n.a.
ANZ Bank	Sr. Unsecured (FRN)	USD500m	3Y	SOFR + 60	-	>n.a.
Swedbank	SNP	EUR750m	5Y	MS + 73	MS + 90	>EUR1.8bn

Source BondRadar, Bloomberg.

FIG deal volume picked up last week as the 4Q21 earnings season is coming to a close. Notable transaction came from **ING** that was in the market with two dual-tranche transactions (2x Sr. HoldCo; 2x Covered Bonds) for a combined EUR5.25bn. The EUR3bn Sr. HoldCo notes were nominally equally split with a 5NC4 and a 9NC8 maturity. Both legs saw pricing tighten noticeably but the issuer still paid a concession of about 8bps and 12bps respectively. This follows on from the trend we observed through January with issuers of conventional senior bonds having had to pay concessions in the region of 10-15bps for new issues. As per ING's latest funding plan, the bank looks to issue a total of EUR8-10bn in Sr. HoldCo notes in 2022.

Another core European name in the market was **Nordea,** launching a green SNP for EUR1bn. The 5-year issue will finance assets that have been evaluated and selected by the issuer pursuant to its green bond framework, published in

October 2021. The new issue premium of 7bps was slightly below that of other senior deals seen over the course of last week. The bond was launched shortly after the bank reported a strong set of 4Q21 earnings. Net profit was up 41% yoy, exceeding analyst expectations as the lender showed strong business growth among mortgage lending (+6% yoy), increased lending to SMEs (+6%) and AuM growth (+17%). Nordea's outlook for 2022 remained positive which led it to raise near-medium term RoE targets while cautioning higher expenses for 2022.

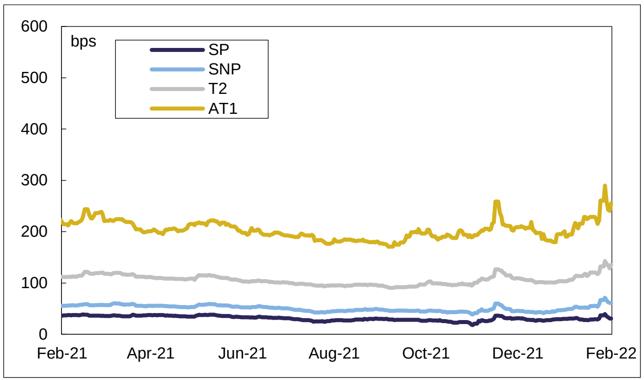
Secondary markets spreads saw mixed results between EUR and USD, as risk indicators pointed upwards amidst ongoing volatility in rates and equity markets. CDS price indices on European senior (76bps) and subordinated financials (142bps), as measured by iTraxx benchmarks, priced 3bps and 4bps wider against last week's levels.

Markets continued to be challenged as risk indicators have gone wider while secondary market spreads in EUR eased somewhat after weeks of widening. The latter may be attributed to the relatively dovish tones from ECB Chief Economist Lane and President Lagarde who last week cautioned against hasty policy adjustment reflecting the contrasting economic backdrop in the euro area to that of the US and UK, both of which are expected to see tightening of monetary policy throughout 2022. Bank spreads will have also benefitted from fundamentals that have thus far remained exceptionally strong.

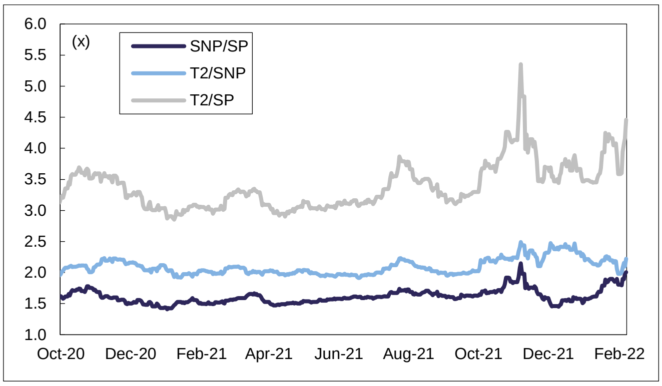
Weekly average EUR spreads were tighter across payment ranks with SP (-8.2bps), SNP (-5.2bps) and Tier 2 (-0.4bps). USD average weekly spreads moved the other way week on week with SP (+0.9bps), SNP (+3.0bps) and Tier 2 (+6.5bps). Based on data collected from Bloomberg, 68% of FIG tranches issued in February and 67% of SSAs tranches quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



Multiples (x)



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

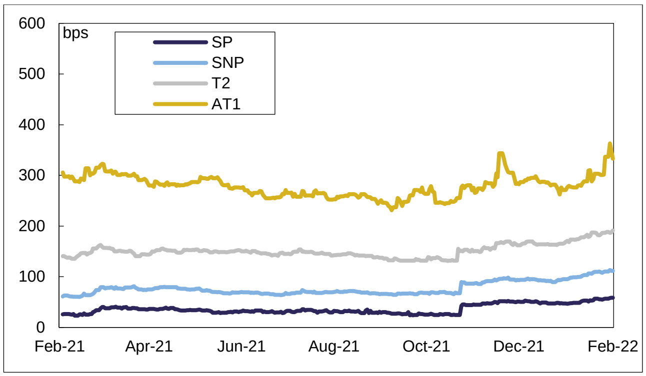
Selected Names

	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Commerz	3.9	1.0	32.9	-7.3	3.3	3.0	1.0	49.9	-4.2	10.5	3.7	2.6	192.9	3.4	46.9
Barclays	2.3	0.6	16.3	-5.1	-5.3	2.6	0.8	46.3	-5.3	10.6	3.3	1.5	126.3	-2.2	29.6
BBVA	4.1	1.0	39.0	-6.8	4.1	3.7	1.0	44.8	-4.6	7.5	4.7	1.9	127.7	-2.6	31.5
BFCM	4.0	0.8	25.2	-6.9	-1.1	7.1	1.6	80.3	-6.5	24.6	4.5	1.7	100.6	-3.0	29.4
BNPP	2.5	0.5	9.4	-7.0	-4.7	4.2	1.2	63.8	-7.0	13.6	4.1	1.7	101.8	-6.0	34.2
BPCE	3.2	0.7	16.6	-8.2	-3.4	4.7	1.3	68.8	-8.0	11.1	4.1	1.8	113.5	-1.2	11.6
Credit Ag.	3.9	0.6	17.7	-4.9	-4.4	5.7	1.3	65.2	-6.6	17.1	3.7	1.7	106.8	-3.4	32.0
Credit Sui.	5.7	1.9	119.3	-0.5	15.9	4.6	1.6	103.7	-2.3	29.2					
Danske	1.9	0.3	15.0	-9.3	-10.4	2.3	0.7	47.0	-3.7	8.1	2.9	1.7	122.9	-1.4	22.0
Deutsche	1.5	0.4	13.0	-9.2	-11.9	3.8	1.7	104.3	-2.3	27.3	3.6	2.2	154.8	5.8	39.7
DNB	3.6	0.5	11.7	-7.2	-5.6	6.9	1.4	71.7	-4.6	19.7	0.6	1.1	50.1	-0.9	10.4
HSBC	3.9	0.8	25.5	-5.5	4.0	3.9	0.8	50.7	-7.1	10.5	4.5	1.5	87.1	-2.1	27.3
Intesa	1.8	1.7	140.6	1.5	-24.1	5.7	1.3	76.7	0.9	21.9	3.0	1.6	107.2	-0.9	27.5
Lloyds	4.2	0.7	31.1	-4.1	2.6	3.1	1.3	80.0	-4.0	14.6	4.2	2.6	194.0	-1.8	24.1
Nordea	2.9	0.5	-1.8	-7.5	-6.2	2.5	0.5	37.1	-4.6	7.6	1.5	0.7	57.2	-1.9	14.9
Rabobank	4.2	0.6	5.6	-7.0	1.0	5.7	1.2	47.9	-4.0	7.9	6.8	1.7	110.9	1.2	29.1
RBS	3.6	0.6	2.5	-9.0	-2.0	5.2	1.2	57.0	-7.0	12.2	1.4	0.1	-2.8	-6.8	-9.8
Santander	3.1	0.9	37.9	-5.6	10.3	5.2	1.2	57.0	-7.0	12.2	1.4	0.1	-2.8	-6.8	-9.8
San UK	3.5	0.7	23.0	-7.9	2.2	4.9	1.4	75.2	-3.2	19.4	4.6	1.9	125.9	-1.6	35.3
SocGen	3.0	0.5	-2.0	-8.3	-3.2	1.6	0.2	39.8	-6.4	10.4	4.6	1.9	125.9	-1.6	35.3
StanChart	4.2	1.0	38.4	-3.8	10.2	5.5	1.6	86.0	-6.0	23.2	3.3	1.1	103.2	-4.1	26.1
Swedbank	4.7	0.9	29.6	-8.5	-0.3	4.5	1.4	71.4	-5.2	18.7	5.4	2.1	155.0	-0.2	37.9
UBS	3.9	0.7	17.2	-5.8	-1.7	4.9	1.3	61.4	-3.6	11.3	2.9	0.5	80.9	4.1	23.8
UniCredit	4.2	0.9	27.7	-5.7	5.9	4.4	1.1	50.4	-9.3	13.2	13.8	3.2	241.4	-9.9	37.0

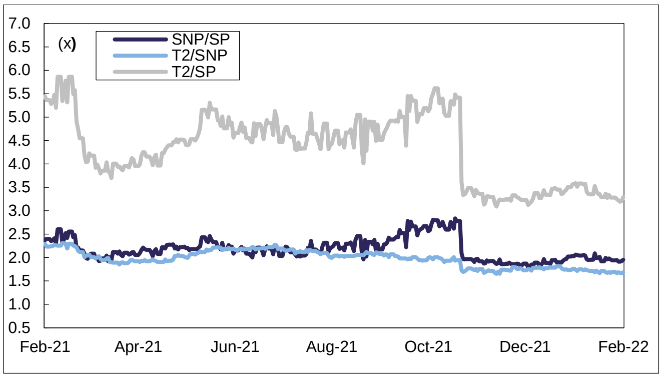
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



Multiples (x)



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

Selected Names

	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Barclays	2.1					4.0	3.1	135.4	2.9	20.6	5.4	3.7	193.2	5.2	19.3
BFCM	4.0	0.9	29.2	-6.9	-1.1	4.0	3.1	135.4	2.9	20.6	5.4	3.7	193.2	5.2	19.3
BNPP	2.5	0.6	11.8	-7.0	-4.7	5.2	3.1	128.7	4.1	21.4	4.5	3.2	146.5	2.7	29.0
BPCE	3.2	0.7	19.1	-8.2	-3.4	5.1	3.1	129.5	1.0	20.9	3.3	3.1	134.9	3.4	20.1
Credit Ag.	3.9	0.6	16.9	-4.9	-4.4	3.2	2.8	102.2	1.6	15.6	7.3	3.6	178.8	4.3	27.9
Credit Sui.	2.2	2.1	45.4	0.7	12.3	3.0	3.1	132.3	3.4	26.7	1.5	3.1	160.5	-3.2	34.3
Danske	1.9	0.3	17.0	-9.3	-10.4	2.3	2.4	101.0	2.8	18.5	1.5	3.1	160.5	-3.2	34.3
Deutsche	1.5	0.4	14.6	-9.2	-11.9	3.6	3.0	118.4	3.5	17.7	7.4	4.5	267.8	14.7	48.3
HSBC	3.9	0.8	27.7	-5.5	4.0	3.5	2.9	125.8	3.3	19.8	9.8	3.9	210.9	5.5	19.5
ING	1.8	1.7	140.3	1.5	-24.1	3.9	2.7	101.7	-1.0	18.0	1.3	2.5	124.0	1.9	18.7
Intesa	4.2	0.7	36.0	-4.1	2.6	3.9	2.7	101.7	-1.0	18.0	3.5	4.7	294.9	16.5	71.6
Lloyds	3.0					2.6	2.7	102.7	1.1	16.6	9.0	3.6	181.2	4.6	23.3
Nordea	4.2	0.7	7.3	-7.0	1.0	2.9	2.3	121.0	3.0	11.6	9.0	3.6	181.2	4.6	23.3
Rabobank	3.6	0.6	4.6	-9.0	-2.0	3.4	2.6	84.2	1.1	10.5	4.1	3.4	154.3	0.2	21.6
RBS	3.1	1.0	44.1	-5.6	10.3	3.4	2.6	84.2	1.1	10.5	4.1	3.4	154.3	0.2	21.6
Santander	3.5	0.7	24.6	-7.9	2.2	4.7	3.0	126.4	1.9	20.2	7.7	3.8	199.3	4.5	24.9
San UK	2.1	2.1	44.9	-0.4	-0.5	4.2	2.9	120.7	3.1	17.8	3.2				
SocGen	4.2	1.0	41.6	-3.8	10.2	4.5	3.2	147.4	3.3	24.6	3.7	3.4	167.2	4.6	27.0
StanChart	4.7	1.0	30.2	-8.5	-0.3	2.8	2.8	115.8	2.8	16.3	7.5	4.2	240.5	2.9	24.5
UBS	2.6	2.2	45.8	4.0	9.3	3.8	2.9	113.6	1.6	23.2	7.5	4.2	240.5	2.9	24.5
UniCredit	3.6	1.3	77.5	-2.2	17.7	3.4	3.3	162.8	9.3	34.6	5.5	5.4	356.7	8.6	68.0

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

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies, ESG	*William Hahn*	+44 20 7597 5789
Head of Translation, Economic and Credit	*Mariko Humphris*	+44 20 7597 8327
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst, Financials, Power, Communication, Wholesale Trade, Air Transportation	*Toshiyasu Ohashi*	+81 3 5555 8753
Local government, Government agency	*Koji Hamada*	+81 3 5555 8791
Electronics, Non-Banks, Real Estate, REIT, Retail trade, Chemicals, Iron & Steel, Marine	*Takao Matsuzaka*	+81 3 5555 8763
Transportation, Pulp & Paper, Oil, Land Transportation	*Kazuaki Fujita*	+81 3 5555 8765
Automobiles, Foods, Heavy equipment, Construction, Machinery	*Ayumu Nomura*	+81 3 5555 8693
International Credit		
Non-Japanese/Financials	*Fumio Taki*	+81 3 5555 8787
Non-Japanese/Financials	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Corporates	*Stefan Tudor*	+81 3 5555 8754
ESG		
Chief Securitisation Strategist	*Koji Matsushita*	+81 3 5555 8778
Strategist	*Shun Otani*	+81 3 5555 8764
Strategist	*Takao Matsuzaka*	+81 3 5555 8763

DAIR <GO>

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

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

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

IMPORTANT

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

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

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

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

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

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

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

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

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

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

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

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

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