European Banks – Credit Update

- REPowerEU could spur further sustainable bond issuance by EU under its NGEU programme
- Primary markets kicked back in gear as FIG issuers took advantage of favourable funding windows, including sub-investment grade entities. SSA volumes also met market expectations
- Secondary market spreads tightened for EUR deals over the last week while USD deals continued to see modest widening

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

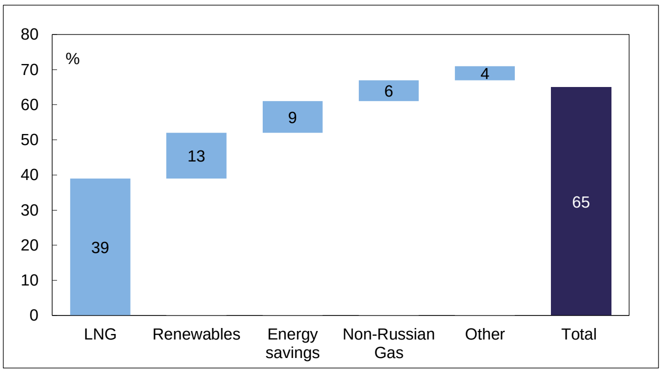
European energy policy could spur further growth of sustainable bonds

In response to the war in Ukraine, on 18 May the European Commission (EC) presented its REPowerEU energy plan, which aims to end the EU's energy dependency on Russian fossil fuels with two main justifications. First, the Commission argued that Russian fossil fuels are an economic and political weapon, costing European taxpayers EUR100bn per year. Secondly, the new plan will support efforts in addressing climate change by accelerating the phasing out of fossil fuels by increasing targets under other programmes such as the Fit for 55 package of the European Green Deal. In order to deliver this plan, the EC wants to focus on energy savings, diversification of energy supplies, and accelerated roll-out of renewable energy to replace fossil fuels in homes, industry and power generation. Long-term energy efficiency measures under Fit for 55 shall increase from 9% to 13% and the headline 2030 target for renewable energy is also set to increase to 45% from 40%.

The Recovery and Resilience Facility (RRF), which accounts for 90% of the European Union's recovery plan, the NextGenerationEU (NGEU), will be at the heart of REPowerEU. It will support coordinated planning and financing of cross-border and national infrastructure as well as energy projects and reforms. The Commission proposes to make targeted amendments to the RRF regulation to integrate dedicated REPowerEU chapters into member states' existing recovery and resilience plans (RRPs). Based on this, we expect proportionally higher spending on sustainable activities within the RRF, and the Commission indeed has estimated an additional investment requirement of EUR210bn in order to fully deliver REPowerEU by 2027. NGEU currently foresees 30% of all bonds issued under its EUR800bn bond programme to carry a green label.

In 2021, the EU imported 44% of its total gas consumption, 27% of oil imports and 46% of coal imports from Russia. To reduce these dependencies, particularly on gas, RePowerEU elevates the role of liquefied natural gas (LNG) as the main short-term alternative to Russian imports. LNG shall replace 39% of Russian gas supplies while 13% will be replaced by front-loading wind and solar energy adoption. Energy saving measures and alternative gas suppliers shall all contribute to a 65% reduction in Russian natural gas imports by the end of the year. Additionally, the EC proposes a mandatory 80% filling target for gas storage facilities by 1st November 2022 to avoid shortages in the near term.

Proposed replacements for Russian gas imports



Source: European Commission

When looking at various energy sources and how they are utilised in the EU, it becomes clear that the increased production of solar or wind energy will hardly be able to replace gas as an energy source. Based on 2019 data from the International Energy Agency, 51% of energy was used for heating and came from gas and coal, 28% was used for transportation (oil) and only 20% was used as electricity (gas, coal, nuclear and renewables). Renewables are not a suitable energy source for heating or high-temperature processes in manufacturing. Fossil-fuel energy far outweighs power generation (electricity) in this capacity. Therefore, reducing European gas dependency on Russia is strongly linked to the continent's heating demand and less with overall power demand. It appears misleading in this context that the rapid roll-out of solar and wind energy projects, combined with renewable hydrogen deployment that the EC advocates, is a suitable like-for-like replacement of Russian gas imports. In the short term, the focus will need to remain on gas-supply alternatives such as LNG or other suppliers.

UK energy plan is longer term but remains reliant on gas

In April, the UK government published its 'Energy Security Strategy' offering plans to develop offshore wind and nuclear energy to help accelerate its drive to net zero. Unlike the situation in the EU, the UK's starting point for energy security is comparatively favourable as only 5-10% of its natural gas imports come from Russia. Furthermore, almost half of its gas supply comes from domestic production, providing further protection. However, the reliance on natural gas means the UK remains exposed to future price volatility. UK energy consumption consists broadly of 40% gas, 21% wind, 17% nuclear, and 15% bioenergy, with the remaining 7% from solar, hydro, oil, coal and others. By 2030, the UK aims for 95% of its energy to be low-carbon. The recent strategy focuses more on long-term ambitions and reduced reliance on imported energy compared to the EU's current efforts in shoring up near-term sources of energy supply.

Primary and secondary markets

European **primary market** issuance for SSAs stood at EUR13bn over the course of last week, within market expectations of EUR9bn-13.5bn. FIG supply of EUR17.4bn was above the weekly forecast amount of EUR7bn-11.5bn. The total 2022 year-to-date FIG volume of EUR265bn is 36.4% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 27.8% at EUR284bn. For the current week, survey data suggest SSA volumes will range between EUR9.5bn-14bn and FIGs are expected to issue EUR7.5bn-12.5bn.

After several slow weeks, the **SSA** market appeared to be kicking back into gear with a number of transactions. Daiwa Capital Markets Europe (DCME) acted as joint lead for the successful placement of a USD900m bond from **Japan International Cooperation Agency (JICA).** It was the issuer's first Dollar trade since April 2021 in a difficult environment as the Japanese investor base has been gravitating towards core-European debt in favour of US-sovereign bonds. The **European Investment Bank (EIB**) had the most sought after deal of the week among SSAs, as it garnered EUR23bn of interest for its inaugural Climate Awareness bond. The EUR4bn note carried a longer-dated 10-year maturity, which turned out to be less of a concern compared to previous weeks, given the overall improved market sentiment, reflected in tightening spreads in the euro area. The EIB bond spread tightened to MS-19bps (-2bps from IPT) but remained some 54bps wide of German BUNDS.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
ADB	Sr. Unsecured	NZD850m	5Y	MS + 27	MS + 27	n.a.
EIB	Sr. Unsecured (Climate Awareness)	EUR4bn	10Y	MS - 19	MS - 17	>EUR23bn
ESM	Sr. Unsecured	EUR2bn	5Y	MS - 25	MS - 22	>EUR12.7bn
NWB	Sr. Unsecured	USD500m	2Y	SOFR MS + 15	n.a.	n.a.
JICA	Sr. Unsecured	USD900m	5Y	SOFR MS + 63	SOFR MS + 63	n.a.
OKB	Sr. Unsecured	USD1bn	3Y	SOFR MS + 25	SOFR MS + 27	>USD1.9bn
FIG (Senior)						
Lloyds	Sr. Unsecured	JPY115.1bn	6NC5	TONA MS + 110	TONA MS 108/112	n.a.
BPER	SP	EUR500m	3NC2	MS + 245	MS + 265	>EUR850m
BBVA	SP	EUR1.25bn	3.5Y	MS + 60	MS + 80	>EUR2bn
BBVA	SP	EUR500m	3.5Y	3mE + 64	3mE + 80	>EUR750m
Swedbank	SP	EUR1bn	5Y	MS + 70	MS + 90	>EUR1.55bn
BNP Paribas	SNP	EUR1.5bn	6NC5	MS + 137	MS + 160	>EUR3.5bn
Deutsche Bank	SNP (Green)	EUR500m	6NC5	MS + 193	MS + 215	>EUR3bn
Deutsche Bank	SNP	GBP650m	4NC3	G + 265	G + 280	>GBP1.1bn
ING	Sr. HoldCo (Green)	EUR1.5bn	4NC3	MS + 110	MS + 135	>EUR2.68bn
Nordea	SNP	EUR1bn	7Y	MS + 105	MS + 125	>EUR2.2bn
NAB	Sr. Unsecured (Green)	EUR1bn	6Y	MS + 72	MS + 95	>EUR2.3bn
NatWest	Sr. Unsecured	EUR750m	3.25Y	MS + 90	MS + 105	>EUR900m
NatWest	Sr. Unsecured	EUR500m	3.25Y	3mE + 94	3mE + equiv.	>EUR600m

Source BondRadar, Bloomberg.

FIG issuance over the course of last week was characterised by bursts of activity early on, eventually waning in the latter part of the week as sentiment shifted. These changeable conditions created short favourable funding windows that will likely remain crowded as many lenders still have substantial funding requirements. There has been a noticeable absence of lower-tier banks in the market as well as very limited subordinated debt supply, which could characterise upcoming funding windows. We also observed some themed-debt being issued last week, notably **Deutsche Bank** launched a SNP dual tranche, printing a green EUR500m and a conventional GBP650m bond. Both tranches tightened during pricing as demand was solid, with the euro bond though to have paid a new issue premium of ~13bps while the premium on the sterling leg is estimated at ~25bps. However, when swapped back into euros, the sterling bond offers DB funding arbitrage. **ING** also launched a green bond ahead of its investor day in June. The senior HoldCo had a defensive short tenor of 4NC3 but was sizeable at EUR1.5bn. Demand was solid with a subscription level of 1.8x allowing the note to tighten by 25bps from IPT. This resulted in a surprisingly low concession of just ~5bps, considering the bail-inable nature of the bond and higher premiums paid on comparable transactions. The quality of the issuer, the short tenor and the ESG label are thought to have contributed to the positive outcome. **BPER** was the only lower-tier lender in the market with a short-dated SP bond. The EUR500m transaction tightened well, helped by the senior payment rank and the short maturity to MS+245bps (-20bps from IPT). Nevertheless, BPER is thought to have paid a sizeable concession of ~25-30bps, likely due to its status as an infrequent issuer and sub-investment grade rating (BB+/Ba3). Overall, the deal was considered a success and may pave the way for further Tier 2 and 3 banks to come to market.

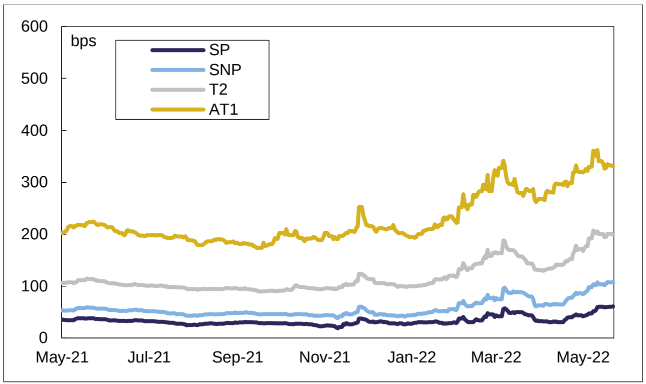
Secondary market spreads improved for EUR and continued to widen for USD. CDS indices on European senior (109bps) and subordinated financials (207bps), as measured by iTraxx benchmarks, priced +6bps and +11bps wider against the previous week's levels.

Market sentiment was positive early last week, with stronger-than-expected economic data from the US – in particular regarding retail sales and industrial production – pushing up Treasury yields before some adverse corporate reports had the opposite effect ahead of the weekend. For the coming week in Europe, market sentiment may be driven by the preliminary PMIs for May, which will be released on Tuesday, as well as business confidence surveys from the large member states. On Wednesday, the ECB is due to release its semi-annual Financial Stability Review discussing potential risks to financial stability in the euro area.

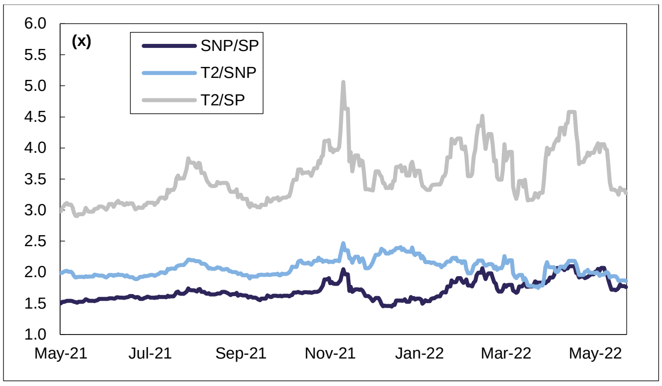
Weekly average EUR spreads were tighter across payment ranks with SP (-2.1bps), SNP (+1.1bps) and Tier 2 (-0.9bps). USD average spreads were also wider week-on-week, with SP (+2.2bps), SNP (+1.7bps) and Tier 2 (+6.2bps). Based on Bloomberg data, 70% of FIG tranches and 50% issued in May quoted wider 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.

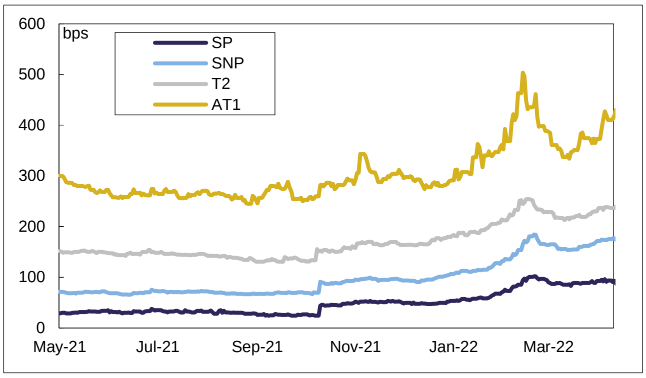
Selected Names

	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	3.7	2.1	68.7	-1.2	39.6	3.2	2.3	114.4	2.9	65.4	3.6	3.9	252.9	-8.1	100.2
Barclays	2.0	1.3	25.4	-2.0	-0.7	3.0	2.0	106.1	3.3	69.4	6.2	3.1	236.7	2.3	138.1
BBVA	3.9	1.9	57.3	2.4	15.4	3.4	1.9	59.7	-2.1	21.6	4.4	3.1	183.0	2.2	85.1
BFCM	3.5	1.8	58.0	-2.4	30.7	6.8	2.8	122.4	1.5	68.0	4.2	2.9	148.4	-2.3	75.1
BNPP	2.5	1.8	48.4	-1.7	6.5	4.8	2.5	113.7	8.7	62.6	4.0	3.0	156.1	0.7	87.5
BPCE	3.6	1.8	53.5	-0.2	15.8	5.1	2.6	119.1	2.9	53.8	3.9	2.9	131.6	-2.0	65.8
Credit Ag.	3.9	1.3	28.1	-1.1	1.7	5.5	2.6	114.2	3.6	63.0	3.5	2.9	159.5	-0.8	74.2
Credit Sui.	5.4	3.4	197.2	-0.8	90.8	4.9	3.3	193.5	2.2	116.4					
Danske	2.4	1.2	42.7	-2.8	13.1	2.2	2.6	109.4	2.4	37.9	7.0	3.5	232.3	1.7	130.5
Deutsche	2.1	1.4	43.8	-1.7	16.7	4.0	3.3	185.1	5.1	98.2	3.6	4.3	256.0	-8.3	79.1
DNB	3.5	1.5	37.4	-1.0	17.1	6.6	2.6	111.4	3.9	58.5	5.2	1.6	129.2	-3.5	78.1
HSBC	5.2	2.1	63.6	-0.5	31.4	4.3	2.0	111.8	4.5	69.6	4.1	2.9	148.1	2.4	87.2
ING	1.5	2.3	130.4	-13.7	-35.3	5.0	2.6	109.2	1.7	65.7	6.7	3.1	193.7	1.9	111.5
Intesa	4.0	1.7	62.4	1.3	26.1	3.3	2.7	147.0	-0.6	73.7	3.9	3.7	227.4	4.4	64.2
Lloyds	2.6	1.4	28.7	0.8	20.6	2.4	1.5	85.9	1.0	57.2	5.7	2.5	184.9	3.3	137.3
Nordea	4.4	1.9	46.7	1.3	35.5	6.3	2.5	85.3	2.2	28.8	7.9	3.1			40.9
Rabobank	3.7	1.5	14.8	-0.9	8.3	5.1	2.4	82.1	3.6	40.7	1.1	0.8	11.6	-4.8	6.2
RBS	2.8	2.8	138.6	3.4	104.5	5.1	2.4	82.1	3.6	40.7	1.1	0.8	11.6	-4.8	6.2
Santander	3.4	1.7	53.6	-3.0	27.9	4.7	2.5	107.4	-0.7	53.1	4.3	3.1	164.4	0.4	76.6
San UK	2.8	1.6	39.6	0.2	35.6	2.0	1.4	84.3	0.1	52.3	4.3	3.1	164.4	0.4	76.6
SocGen	4.4	2.0	72.6	0.0	38.1	5.4	2.8	132.0	3.5	71.0	5.4	2.6	197.4	1.8	124.3
StanChart	4.4	2.0	56.4	2.1	22.8	5.1	2.7	136.3	2.6	81.2	5.7	3.6	233.8	2.4	114.7
Swedbank	4.4	2.0	58.1	3.1	14.3	4.7	2.4	102.8	3.4	44.1	3.9	1.2	122.4	-7.0	67.4
UBS	4.1	2.0	64.1	0.4	37.9	4.1	2.3	95.9	1.8	50.3	1.8	2.6	194.1	11.7	135.1
UniCredit	3.9	2.7	145.2	-1.4	83.3	3.7	3.3	194.8	0.4	100.3	6.5	4.4	323.6	-5.6	146.9

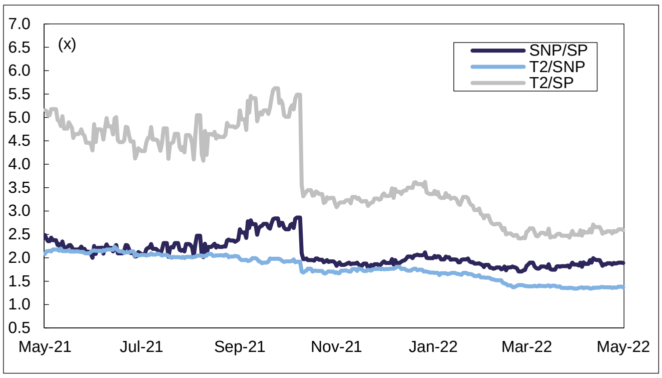
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



Multiples (x)



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

Selected Names

	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Barclays	1.9					4.8	4.8	217.8	2.8	92.9	5.2	5.4	275.7	7.1	101.7
BFCM	3.5	1.8	58.0	-2.4	30.7	4.8	4.8	217.8	2.8	92.9	5.2	5.4	275.7	7.1	101.7
BNPP	2.5	1.8	48.4	-1.7	6.5	5.0	4.8	210.1	4.8	97.5	4.2	4.8	208.3	4.0	85.8
BPCE	3.6	1.8	53.5	-0.2	15.8	4.8	4.8	202.9	4.2	79.6	3.0	5.0	233.4	6.0	74.9
Credit Ag.	3.9	1.3	28.1	-1.1	1.7	3.9	4.6	186.5	4.8	102.2	7.4	5.3	259.8	4.1	105.7
Credit Sui.	2.4	4.0	127.2	4.0	51.4	3.3	4.9	218.7	3.8	118.1	1.2	4.7	194.7	6.4	75.4
Danske	2.4	1.2	42.7	-2.8	13.1	2.3	4.4	180.6	1.6	75.9	1.2	4.7	194.7	6.4	75.4
Deutsche	2.1	1.4	43.8	-1.7	16.7	3.3	4.9	217.8	5.1	114.5	7.6	6.7	399.7	14.1	184.2
HSBC	5.2	2.1	63.6	-0.5	31.4	3.6	4.4	188.5	4.8	85.5	8.8	5.5	281.9	7.1	79.5
ING	1.5	2.3	130.4	-13.7	-35.3	4.3	4.6	195.9	3.5	73.8	2.3	4.3	177.5	6.4	81.1
Intesa	4.0	1.7	62.4	1.3	26.1	4.3	4.6	195.9	3.5	73.8	3.2	6.7	399.7	13.1	170.3
Lloyds	2.8					2.7	4.4	174.4	3.7	81.2	8.1	5.2	252.6	8.1	102.7
Nordea	4.4	1.9	46.7	1.3	35.5	2.7	3.7	174.1	1.0	62.7		5.7	309.5		
Rabobank	3.7	1.5	14.8	-0.9	8.3	4.3	4.2	150.9	5.7	57.7	3.8	4.8	214.9	2.3	68.1
RBS	2.8	2.8	138.6	3.4	104.5	4.3	4.2	150.9	5.7	57.7	3.8	4.8	214.9	2.3	68.1
Santander	3.4	1.7	53.6	-3.0	27.9	4.9	4.9	223.9	5.3	95.6	7.2	5.5	285.7	13.2	114.1
San UK	1.8	3.5	76.0	9.0	33.4	4.4	4.7	196.8	2.7	94.7	3.0	4.9	207.8	0.7	30.7
SocGen	4.4	2.0	72.6	0.0	38.1	4.2	5.0	228.2	3.0	103.2	3.5	4.9	219.5	2.3	83.0
StanChart	4.4	2.0	56.4	2.1	22.8	3.0	4.5	176.0	0.0	85.2	8.4	5.6	294.9	11.1	81.1
UBS	2.4	3.6	75.9	2.3	41.0	3.5	4.5	191.1	3.9	86.0	8.4	5.6	294.9	11.1	81.1
UniCredit	3.9	2.7	145.2	-1.4	83.3	3.9	5.1	221.3	1.2	99.4	6.2	7.3	465.2	12.8	185.2

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