European Banks – Credit Update

- UK banks 4Q22 earnings results point to strong underlying performance but the uncertain 2023 economic outlook dampened sentiment, particularly for domestically focused lenders
- Primary market activity slowed last week for SSAs and FIGs. Among SSAs, OeKB was the sole USD issuer, while Monte dei Paschi's first appearance in FIG markets since 2020 reflects its improved capital positions, good earnings and a recent credit rating upgrade by Moody's.
- Secondary market spreads continued to soften with both EUR and USD markets wider.

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UK banks – 4Q22 results

(⇔) **Barclays** posted a surprise decline in PbT (-14% yoy) to GBP8.2bn on the back of rising costs, litigation and conduct charges as well as disappointing earnings. The drop in the bottom-line is also related to higher provisions against expected credit losses. According to Barclays, credit impairment charges of GBP1.2bn reflect macroeconomic deterioration, translating to a cost of risk (CoR) of 30bps. This is up from a CoR of -18bps the previous year when the bank recorded credit impairment releases of GBP653m as pandemic-related restrictions were lifted and the economy rebounded. Operating expenses of GBP16.7bn were up 14% in the year, mainly reflecting GBP1.6bn in litigation and conduct charges, following the over-selling of U.S. securities by about 75% of the USD20.8bn limit agreed with U.S. regulators. Even excluding litigation items, costs were up 6% yoy, reflecting interest rate fluctuations and inflation. Barclays abandoned its cost to income guidance of <60% for 2023 and has instead extended this to be a medium-term target. The CIB housing its investment banking and global markets activities displayed mixed results. Advisory (-17% yoy), ECM (-80% yoy) and DCM (-33% yoy) were only partially offset by strong results in FICC (+65% yoy), transaction banking (+52% yoy) and equities (+6% yoy). CIB attributable net income of GBP3.3bn was down 23% yoy. Group RoTE was 10.4% (FY21: 13.1%) and Barclays continue to target a RoTE of greater than 10% in 2023 and over the medium term. Barclay's UK division, which contributes just under a third of total revenue, reported pre-tax profit of GBP2.6bn (+7% yoy), managing to leverage the improved rates environment and keep costs stable. The group expects to slightly grow its UK net interest margin in 2023 to 3.2% from 3.1%.

(↑) **NatWest** FY22 pre-tax profit of GBP3.8bn was up 35% yoy, excluding Irish subsidiary Ulster Bank from which NatWest is conducting a phased withdrawal. The group's underlying performance was strong as overall revenues rose 26% yoy to GBP13.1bn. NII was up 30% yoy and plays an important role in the group's revenue composition as it accounts for 75% of the total, befitting from higher rates environment. FY22 return on tangible equity (RoTE) was 12.3%. However, senior management cautioned about the longevity of these positive rate effects amidst an uncertain UK economic outlook. The group's cost base was well managed as operating expenses declined (-0.9% yoy) and litigation and conduct charges were also down (-17.4% yoy). After a sizeable release of impairment charges last year (GBP1.1bn), loan impairment charges have started to return to normalised levels again (-GBP337m) in 2022, which translates to cost of risk (CoR) of 9bps. For 2023 NatWest guided for a CoR rate of 20-30bps. The investment banking and global markets operations carried out by NatWest Markets have historically been the group's main weakness due to their earnings volatility, but their presence in capital markets has been significantly curtailed in recent years. Going forward NatWest Markets will be much smaller and more focused on corporate clients, providing interest rate and FX products, which should put the entire group on a more predictable and sustainable earnings trajectory. The group's CET1 ratio of 14.2% (FY21: 18.2%) remains strong but has been reduced considerably compared to last year due to share buy-backs, dividend payouts, and RWA inflation among other things. NatWest had previously indicated that it planned to lower its CET1 ratio to 13%-14% by end-2023. Further share repurchases over the near term are expected to include repurchases from the UK government in order to reduce its stake (currently 46%).

(⇔) **Lloyds** reported net income for FY22 of GBP5.5bn (-6% yoy), in line with analyst forecasts. Revenues of GBP18bn were up 14% yoy, outpacing a rising cost base that grew to GBP9bn (+5% yoy). The latter rose on the back of higher staff compensation as well as strategic investments supporting its growth strategy. Compared to peers, Lloyds grew its bonus pool unusually strong (+12% to GBP446m), likely to compensate for previously withheld discretionary remuneration that led to high staff attrition. Senior management stated that it was now targeting a RoTE in excess of 15% by 2026, having previously targeted >12%. Crucially however, Lloyds indicated that the net interest margin may fall this year from 3.22% in 2022, indicating a decline in confidence in the UK market and suggesting interest margins may have peaked. The bottom line was weighed down by impairment charges of GBP1.5bn compared to a sizeable release of GBP1.4bn last year. The risk profile of Lloyds' retail mortgage portfolio remained broadly stable with average LTVs at 42% (unchanged) and >80% LTV mortgages rising to 6% from 5%. There were however signs of a slowdown in loan production as daily home loan volumes dipped to some GBP1.2bn from a normalised level of GBP1.5bn but still well above the slump to GBP600m observed during the volatile period surrounding the UK government's mini-budget presentation. Similar to peers, Lloyds expects a decline in UK real estate prices by some 7% for 2023.

(↑) **HSBC** reported a strong 4Q22 PbT rise of 92% yoy to USD5.2bn (USD2.7bn), some USD300m ahead of analyst forecasts. On an annual basis profits fell to USD17.5bn from USD18.9bn due to higher impairment charges related to the sale of its French retail banking unit (USD2.4bn). HSBC also flagged an expected USD300m loss on the completion of the sale of its Russian subsidiary in 1H23. The deal is still pending regulatory approval in Russia. Net operating income was USD51.7bn (+4.3% yoy) and with NII contributing 63% of that HSBC displayed some income dependence on this particular revenue item. For 2023, HSBC expect NII to reach USD36bn, up from USD32.6bn but somewhat below market forecasts. We expect HSBC's revenue to continue to improve, in line with further rate rises in HSBC's main operating countries. Operating expenses were well managed throughout the year and fell slightly to USD33.3bn (-3.7% yoy) but the group is considering further cost efficiency measures such as headcount reductions for which it flagged additional USD300m in severance expenses in 2023 as well as a cut to its bonus pool by 4%. These measures were likely announced to mitigate a rising costs base in the medium term as HSBC indicated operating expenses would rise by 3% in 2023, while it had previously guided towards a 2% increase. From a profitability perspective, Asia continues to dominate the group, contributing 78% of reported PbT in 2022. By region, pre-tax profits developed the strongest in Latin America (+953% yoy), albeit from a low nominal base, North America (+21%), Africa & Middle East (+20%) and Asia (+12%). In Europe HSBC generated a loss of USD415m. LLP rose stronger than was expected to USD3.6bn (forecast USD3.2bn) due to inflation and lingering problems in the Chinese commercial real estate market. The nominal loan exposure to mainland China is contained at USD16.8bn (1.8% of group net loan book). However, for its China exposures HSBC raised provisions by USD600m alone bringing the total to USD2bn. These could rise further by USD1bn should the Chinese real estate sector and overall economic environment worsen.

(↑) **Standard Chartered** SCB raised a number of its performance targets, including its RoTE guidance that was increased to 10% for 2023 and 11% for 2024 on the back of strong underlying performance. Income dependence on NII is not as pronounced at SCB as is the case at direct peer HSBC. Nevertheless, the USD7.6bn in NII (+12% yoy) still accounts for a sizeable 47% of total operating income, contributing to the PbT result of USD4.3bn (+ 28% yoy). Despite profitability falling short of analyst expectations the emerging markets focused lender reported its highest net income figure (USD2.9bn) in a decade. Similar to HSBC, SCB reported some difficulties in the Chinese market following lengthy lockdown measures. Impairments for the region rose sharply to USD838m (3x higher than 2021), more than expected, but senior management also expect a strong economic recovery in China in 2023 which may ease this burden. By region, pre-tax profits rose the strongest in Europe & Americas (+34% yoy), Asia (+8%) while Africa & Middle East recorded declines (-4%). Although income from the Africa & Middle East segment increased (+14%), rising expenses (+9%) and impairment charges from sovereign rating downgrades in Pakistan and Ghana weighed the results down. One of the group's segmental highlights was the performance of its financial markets business (+21% yoy), reporting record income growth as volatile markets encourage high client activity. The strong results have prompted SCB to announce an additional USD1bn share buyback supported by a CET1 ratio of 14%, which is at the higher end of SCB's internal target range of 13-14%.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR22bn over the course of last week, above market expectations of EUR14bn-19bn. FIG supply of EUR10bn was within the weekly forecast amount of EUR9.5bn-14.5bn. The total 2023 year-to-date FIG volume of EUR168bn is 37.9% ahead of last year's issuance volume. SSA volumes are also ahead of last year's level, up 26.2% at EUR210bn. For the current week, survey data suggest SSA volumes will range between EUR12bn-17bn and FIGs are expected to issue EUR8bn-13bn.

SSAs retained a steady flow of transactions last week. Daiwa Capital Markets Europe (DCME) acted as joint lead-manager on the USD1.5bn transaction from **Nederlandse Waterschapsbank N.V. (NWB Bank)** that settled on 24th February. It was the issuer's first USD benchmark of 2023, attracting a high-quality order book in excess of USD2.7bn. Given the size and quality of orders, the final re-offer spread of SOFR MS+19bps marked the tightest USD benchmark print in 2023 until that point, 3bps tighter from IPTs. The Austrian agency, **Österreichische Kontrollbank (OeKB)**, returned to USD raising USD1bn for a 5-year deal that was 3x subscribed. The bond is thought to have priced close to fair value in a week with no competing USD supply (NWB priced one week prior). This transaction contributes a sizeable 20% towards OeKB's 2023 funding target of USD5bn. A second USD benchmark syndication is expected for 2H23 alongside a Euro denominated sustainability bond.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
IADB	Sr. Unsecured (SDB)	GBP400m	7Y	G + 47	G + 47	>GBP750m
ESM	Sr. Unsecured	EUR3bn	5Y	MS - 10	MS - 7	>EUR13.6bn
Land Bremen	Sr. Unsecured	EUR500m	10Y	MS - 1	MS - 1	>EUR575m
Land Brandenburg	Sr. Unsecured	EUR600m	9Y	MS - 4	MS - 3	>EUR770m
OeKB	Sr. Unsecured	USD1bn	5Y	SOFR MS + 36	SOFR MS + 39	>USD3.1bn
IBB	Sr. Unsecured	EUR500m	10Y	MS + 2	MS + 2	n.a.
CADES	Sr. Unsecured (Social)	EUR4bn	7Y	OAT + 31	OAT + 31	>EUR25.6bn
Germany	Sr. Unsecured (Tap)	EUR4bn	Aug-2053	B + 10	B + 11.5	>EUR41bn
Luxembourg	Sr. Unsecured	EUR1.25bn	10Y	MS flat	MS + 4	>EUR5.6bn
Luxembourg	Sr. Unsecured	EUR1.75bn	20Y	MS + 40	MS + 42	>EUR6.5bn
Spain	Sr. Unsecured	EUR5bn	15Y	SPGB + 10	SPGB + 12	>EUR30.7bn
NWB*	Sr. Unsecured	USD1.5bn	2Y	SOFR MS + 19	SOFR MS + 22	>USD2.7bn
FIG (Senior)						
BMPS	SP	EUR750m	3NC2	6.750%	7%/7.125%	>EUR1.5bn
Rabobank	SNP	USD1bn	6NC5	T + 140	T + 155	>USD2bn
BPCE	SNP	EUR1bn	7NC6	MS + 160	MS + 175/185	>EUR2.2bn
Deutsche Bank	SNP	GBP750m	8NC7	G + 270	G + 290	>GBP1.3bn
FIG (Subordinated)						
Lloyds	Tier 2	GBP750m	10.25NC5.25	G + 310	G + 330	>GBP2bn
NatWest	Tier 2	EUR700m	11NC6	MS + 260	MS + 280/285	>EUR1.4bn
BNP Paribas	AT1	SGD600m	PNC5	5.90%	6.30%	n.a.
Credit Agricole	Tier 2	SGD500m	10NC5	4.85%	5.20%	n.a.

*Source BondRadar, Bloomberg; SDB=Sustainable Development Bond; *Priced 16th February*

FIG supply receded last week as funding conditions softened further. However, **Banca Monte dei Paschi (BMPS)**, which had been absent from capital markets since 2020, has made a strong return. Crucially, it shored up its capital position with a EUR2.5bn capital raise in 4Q22, helping the Italian lender's solvency and operational prospects after it had been loss making for many years and struggling with poor asset quality. BMPS pleasantly surprised markets with a solid set of financial results to close 2022. The improved fundamentals and stable capitalisation were factors that contributed to a recent credit rating upgrade by Moody's, which provided the backdrop for BMPS's EUR750m SP offering. The short-dated 3NC2 deal tightened to 6.75% on the back of 2x book orders. The final new issue premium of 25bps is a strong result for BMPS, which would have found accessing capital markets prohibitively expensive just a few months ago. UK lenders closed the reporting season by posting generally strong earnings but increasing uncertainty on the 2023 domestic economic outlook will have contributed to some of the subordinated debt issuance we observed last week. **Lloyds** placed GBP750m in Tier 2, tightening the spread by 20bps on the back of solid GBP2bn in book orders. This is the issuer's second subordinated debt deal of 2023, having already placed GBP750m in AT1 in January and is part of Lloyds' funding plan to raise GBP2bn-4bn in sub debt. NIP for the transaction is thought to have been around 25bps. **NatWest** opted to fund its Tier 2 in the Euro market, raising EUR700m with an 11NC6 tenor. The bond tightened to a spread of MS+260bps (-20/25bps from IPT) leaving a 15-25bps concession on the table.

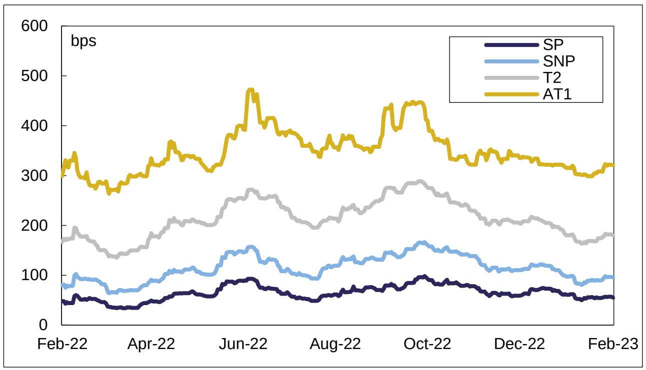
Secondary market spreads were wider last week for EUR and USD. CDS indices on European senior (88bps) and subordinated financials (154bps) as measured by iTraxx benchmarks priced +1bps and +3bps wider against the previous week's levels.

More hawkish tones on monetary policy from central banks and the expectation of continued rate hikes have contributed to a further softening of funding conditions. Secondary market spreads were generally wider for the third week running. Much of the underperformance in Euros stemmed from Swiss names again, but we also observed higher than average widening from peripheral issuers in Italy and Spain in the SP segment. Within the SNP segment, Swiss and UK banks were the worst performers. The latter have to contend with generally weaker growth prospects than their continental peers, which was echoed in their more uncertain earnings outlooks for 2023. The key focus in the Euro area this week will be flash February inflation estimates (Thursday) and the latest Euro area PPI inflation data (Friday). Beyond the data, Thursday will also bring the publication of the ECB's account of the February policy-setting meeting, which saw the Governing Council raise rates by 50bps taking the cumulative tightening so far this cycle to 300bps, but also signal its intention to raise interest rates by a further 50bps in March. Given that the Governing Council also judged the inflation outlook to be more balanced, and that policy decisions remained data dependent, the account will be closely watched for further insight into how much additional tightening might be anticipated beyond the current quarter.

Weekly average EUR spreads were wider with SP (+0.4bps), SNP (+4bps) and Tier 2 (+6bps). USD average spreads were also wider for SP (+3.5bps), SNP (+3.9bps) and Tier 2 (+5.2bps). Based on Bloomberg data, 87% of FIG tranches and 78% of SSA tranches issued in February quoted tighter than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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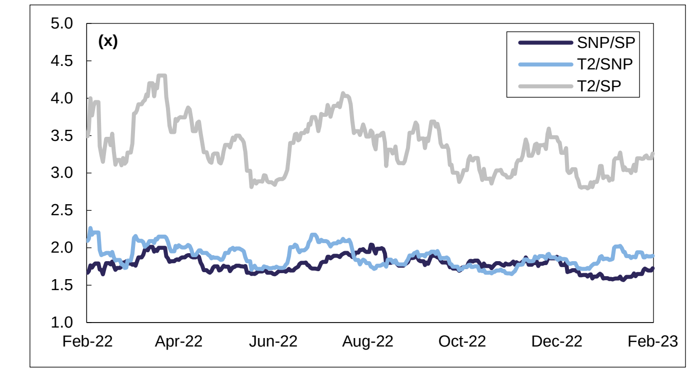


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

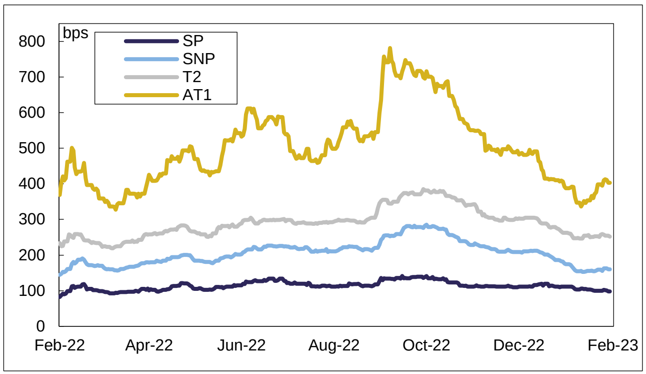
Selected Names

	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Commerz	3.3	3.7	24.3	-0.7	-18.8	3.3	4.6	105.6	6.9	-53.3	2.8	4.9	125.4	6.9	-26.6
Barclays	1.2	3.9	4.3	5.8	29.2	2.9	4.7	119.9	6.4	-35.1	7.2	6.0	240.3	16.9	-68.9
BBVA	3.8	4.0	56.0	2.5	-6.2	3.2	4.0	32.2	4.4	6.4	3.7	5.1	134.7	10.2	-28.4
BFCM	4.1	4.0	46.6	0.4	-1.1	6.0	4.4	111.2	6.4	4.1	3.9	5.0	175.7	4.6	13.5
BNPP	3.8	4.0	47.5	1.1	4.4	4.4	4.4	98.9	7.9	-15.1	3.5	4.7	133.3	7.7	-3.0
BPCE	3.9	3.9	49.5	-0.3	-1.8	4.7	4.4	114.1	7.9	-6.6	8.1	5.6	166.3	4.0	-1.2
Credit Ag.	3.7	3.9	50.5	0.3	-0.4	4.7	4.2	90.6	6.6	-6.6	2.7	4.4	83.0	7.8	-22.0
Credit Sui.	4.7	4.6	111.7	-5.0	-75.5	4.1	7.8	405.3	22.2	-67.9					
Danske	2.4	4.1	58.6	-4.1	-19.3	2.6	4.6	93.9	0.6	-24.4	5.5	5.6	188.9	10.4	-50.2
Deutsche	2.2	4.1	53.3	-1.0	-31.1	3.8	5.0	140.4	7.4	-39.0	2.8	5.6	196.7	8.0	-49.7
DNB	2.9	3.9	44.0	-2.4	-9.8	4.8	4.2	69.4	0.0	-7.1	2.2	4.1	78.4	0.0	-320.1
HSBC	4.4	3.7	22.3	0.7	-3.7	3.4	4.2	73.2	7.6	-18.9	4.1	4.8	142.5	9.3	-5.9
ING	2.5	6.0	229.7	-11.2	-72.2	4.9	4.4	83.6	4.8	-12.6	5.3	5.5	187.0	8.5	-29.9
Intesa	3.5	4.2	71.2	2.6	-13.2	2.9	4.5	85.3	1.8	-30.7	3.9	5.1	135.1	0.3	-3.3
Lloyds	1.8	4.0	20.7	2.6	1.2	3.1	4.2	49.7	4.3	-21.7	2.7	4.7	113.6	7.5	-362.6
Nordea	3.6	3.6	5.2	0.0	0.1	5.5	4.1	63.7	2.9	5.3	6.4	5.1			
Rabobank	2.9	3.6	-2.3	-0.3	6.1	4.6	4.2	86.7	5.6	-7.2	5.2	5.2	181.2	8.5	2.6
RBS	3.2	5.0	148.4	7.6	-16.2	4.6	4.2	86.7	5.6	-7.2	5.2	5.2	181.2	8.5	2.6
Santander	2.7	4.2	51.7	2.8	-5.9	3.9	4.2	83.8	5.0	-6.6	3.6	4.7	117.5	7.8	3.4
San UK	2.0	3.9	8.9	-0.9	4.2	2.8	4.6	137.3	8.0	-52.3	3.6	4.7	117.5	7.8	3.4
SocGen	4.2	4.0	60.1	1.1	-8.1	4.6	4.4	113.1	6.9	-21.3	7.0	5.5	187.8	7.8	-51.6
StanChart	3.6	4.2	68.6	-1.6	-10.1	4.4	4.5	98.9	6.5	-52.8	5.0	5.6	200.2	15.2	-90.4
Swedbank	3.1	3.9	36.8	-0.7	-7.7	4.1	4.4	97.6	2.6	-10.7	4.8	5.4	203.7	2.3	-27.3
UBS	3.3	4.0	56.7	0.4	-9.6	3.5	4.2	72.8	4.1	-32.9	2.2	7.7	90.1	0.0	-106.4
UniCredit	3.3	4.5	95.7	7.8	-34.9	3.3	5.0	154.9	12.5	-48.6	5.7	6.8	286.0	29.3	-75.4

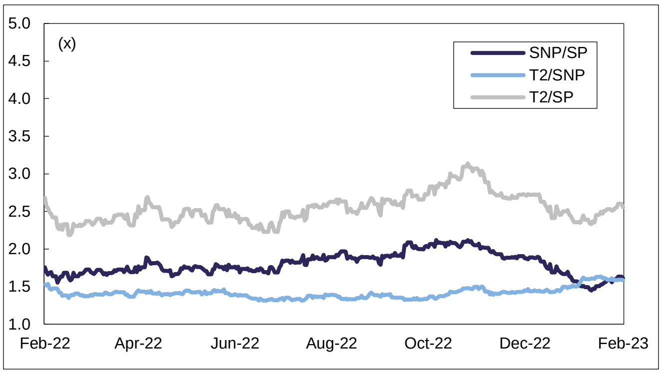
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative 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	1.1					3.9	6.1	188.7	4.2	-39.9	4.7	6.4	246.1	3.7	-44.7
BFCM	4.1	4.0	46.6	0.4	-1.1	3.0	6.1	159.7	2.6	-40.1	4.7	6.4	246.1	3.7	-44.7
BNPP	3.8	4.0	47.5	1.1	4.4	4.5	5.9	157.7	3.5	-42.2	3.5	6.0	152.4	2.9	-50.1
BPCE	3.9	3.9	49.5	-0.3	-1.8	4.2	6.1	163.3	0.2	-49.4	2.7	6.7	291.2	1.4	-72.6
Credit Ag.	3.7	3.9	50.5	0.3	-0.4	2.8	5.7	106.1	3.2	-45.9	6.8	6.0	233.5	-1.9	-77.2
Credit Sui.	1.9	7.8	262.3	22.5	-61.4	3.3	8.5	426.6	32.3	-49.1	2.4	8.4	351.1	7.0	-212.4
Danske	2.4	4.1	58.6	-4.1	-19.3	2.1	6.2	136.8	0.0	-78.5	2.4	8.4	351.1	7.0	-212.4
Deutsche	2.2	4.1	53.3	-1.0	-31.1	2.6	6.4	185.0	8.9	-70.4	7.1	7.6	374.9	11.2	-114.1
HSBC	4.4	3.7	22.3	0.7	-3.7	2.9	6.0	153.9	4.9	-58.6	8.6	6.2	248.1	2.2	-54.6
ING	2.5	6.0	229.7	-11.2	-72.2	3.6	5.8	139.7	3.2	-36.8	0.1	10.6	477.9	-23.0	-430.6
Intesa	3.5	4.2	71.2	2.6	-13.2	6.6	7.6	375.8	6.2	-59.1	4.9	8.4	443.4	21.5	-49.2
Lloyds	2.1				0.0	2.9	5.9	142.1	9.9	-41.5	6.7	6.3	272.0	3.7	-38.1
Nordea	3.6	3.6	5.2	0.0	0.1	3.6	5.7	129.5	2.6	-14.5	6.8	5.8			
Rabobank	2.9	3.6	-2.3	-0.3	6.1	3.7	5.7	128.3	0.4	-32.5	7.4	5.9	139.7	3.7	-17.8
RBS	3.2	5.0	148.4	7.6	-16.2	3.7	5.7	128.3	0.4	-32.5	7.4	5.9	139.7	3.7	-17.8
Santander	2.7	4.2	51.7	2.8	-5.9	3.9	5.9	165.6	5.0	-38.7	6.6	6.4	256.6	6.5	-39.0
San UK	1.1	5.6	15.6	2.8	-25.3	4.0	6.2	156.8	0.0	-65.7	2.3				
SocGen	4.2	4.0	60.1	1.1	-8.1	3.6	6.2	167.5	2.5	-55.9	6.8	6.8	311.0	2.8	-42.3
StanChart	3.6	4.2	68.6	-1.6	-10.1	2.2	5.9	112.0	2.2	-83.4	8.0	6.3	252.0	2.7	-88.1
UBS	2.4	5.6	43.8	0.5	-27.0	3.4	5.8	151.0	5.3	-31.0	8.0	6.3	252.0	2.7	-88.1
UniCredit	2.4	5.6	43.8	0.5	-27.0	2.8	6.7	207.3		0.0	5.7	8.6	436.9	18.6	-94.6

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

Credit Research

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

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

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

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

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

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

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

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

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

Corporate Name: Daiwa Securities Co. Ltd.
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