European Banks – Credit Update

- SVB collapse in part rooted in pandemic deposit-boom and mismanaged securities portfolios
- Delayed Credit Suisse annual report raises further questions on its ability to clean house
- Primary markets for FIGs and SSAs were highly active at the beginning of the week but sentiment soured as markets were grappling with the SVB fallout
- Secondary market spreads mixed in EUR and wider for USD but expectations for further hikes have been curtailed somewhat, most notably in the U.S.

William Hahn
Credit Analyst
+44 20 7597 8321
William.Hahn@uk.daiwacm.com

SVB collapse highlights lingering deposit and securities risks for banks

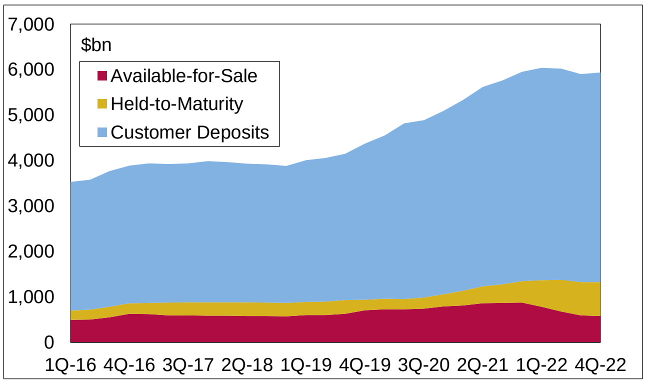
California-based Silicon Valley Bank (SVB) made headlines last week when it struggled to raise capital to cover USD1.8bn in losses from the sale of USD21bn in available-for sale securities. Significant unrealised losses in the bank's held-to-maturity portfolio, paired with a rapid outflow of customer deposits ultimately led to the closure of the bank after SVB had registered a negative cash balance of USD958m. The Federal Deposit Insurance Corporation (FDIC) was appointed as receiver and all insured deposits (amounts up to USD250k) were transferred to a newly created bank. Over the weekend, there remained a significant degree of ambiguity of what would happen to 88% of the USD173bn customer deposit base that was uninsured as at 4Q22. Under normal proceedings, uninsured depositors were expected to receive a partial payment from the FDIC over the course of this week, with the possibility of additional payments in the future, while the FDIC was tasked with the sale of SVB assets. However, according to a joint-statement late on Sunday by the U.S. Treasury Secretary and the Chairs of the FDIC and Fed, all depositors will be protected from the collapse of SVB.

Accounting matters

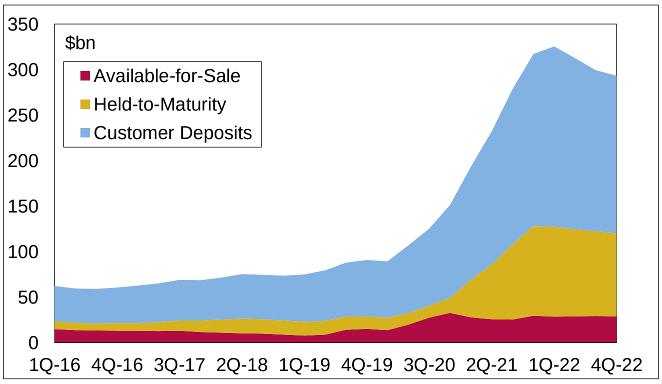
SVB's collapse is arguably rooted in the accommodative regulatory response to the pandemic that ensured cheap funding for the financial sector as well as high deposit inflows due to higher customer savings rates. The booming tech industry received a lot of investments and capital at the time which also contributed to the surge in SVB's deposit base. It grew more than 3.2x between 2020 and 2022 compared to the 42% observed among U.S. universal banks over the same period. However, only 15% of the sector's new deposit volumes were extended back into the economy in the form of loans, which left financial institutions with large amounts of excess cash on their balance sheets, much of which was invested into securities portfolios. At purchase, banks decide if these securities should be designated as held-to-maturity (HTM) or as available-for-sale (AFS). HTM assets are not Marked-to-Market (MtM) and remain on balance sheets at amortised costs while AFS securities are MtM, meaning the recognised change in fair value adds a higher degree of volatility to bank's balance sheets and ultimately their regulatory capital ratios. The appeal of AFS securities is the flexibility offered to the holder as they can be disposed in an uncomplicated way, while selling a single HTM security out of a portfolio results in the entire portfolio being re-marked accordingly.

Tightening monetary policy and widening bond spreads from the second half of 2021 onwards prompted several lenders to shift large amounts of their securities holdings from AFS to HTM. In anticipation of further bond price declines lenders such as JP Morgan opted to incur upfront losses by shifting the weighting of their securities holdings towards HTM. Sector-wide, the proportion of AFS securities was reduced from some 75% to roughly 52% by end-2022. Most of SVB's funds allocated in the HTM portfolio were mortgage-backed but the underlying value of these was adversely affected by the rising rates environment. By 3Q22, unrealised losses in the USD93bn HTM portfolio had amounted to USD15.9bn (4Q22: USD15.1bn) far exceeding SVB's tangible common equity of USD11.4bn (4Q22: USD11.8bn) but there was no need to liquidate the portfolio at the time. SVB's deposit base peaked in 1Q22 at USD198bn however, rising rates and increasing macroeconomic uncertainty paired with declining venture capital investment activity and high capital churn among SVB's tech-sector clients led to a steady stream of deposit outflows during the following quarters, prompting the bank to reposition its balance sheet. Additionally, rising loan loss provisions, the recent loss incurred from selling most of its AFS portfolio and the failed capital raise ultimately resulted in the demise of SVB. Selling its HTM portfolio was not an option by this time, as the fair value position would have meant that SVB would have incurred even higher losses.

NA banks* securities and deposit growth



SVB securities and deposit growth



*Source: Bloomberg; Daiwa Capital Markets Europe; *NA = North American; *Large Regional Banking Competitive Peers, incl. SVB*

Concentrated customer base and limited contagion expected

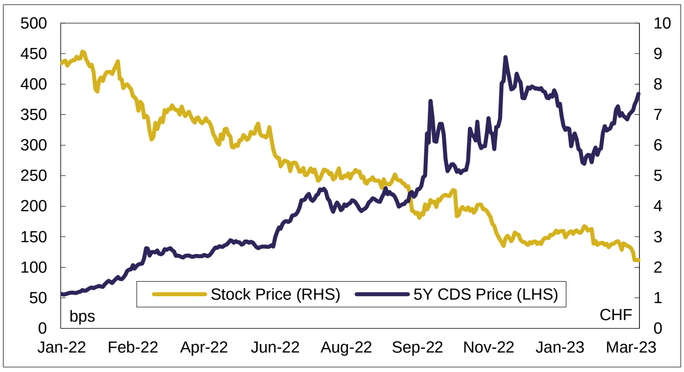
Silicon Valley Bank's customer base was relatively concentrated towards the region's tech-sector. Client deposit holdings in excess of USD250k represented a numerical minority (26% of all deposit customers) but accounted for 88% of the bank's deposit base at 4Q22. On average, they held USD4.2m in deposits and consisted of start-up companies and investors as well as more established tech-sector companies and some high-earning tech sector employees. Ripple effects in the rest of the banking sector are expected to remain limited, particularly larger banking institutions have more diverse portfolios and a more granular depositor base. SVB's singular exposure to the tech-sector that was experiencing a severe contraction and lay-offs over the past year is not widely replicated by other institutions. Despite the FDIC's position of being able to grant uninsured depositors an advanced dividend on their holdings, with the prospect of eventually finding one or more buyer's for SVB's assets, the intervention by U.S. regulators has once more raised the question of moral hazard. The removal to guard against financial risks may hamper efforts by other lenders in reviewing their own exposures. It remains doubtful whether the expected lack of recovered funds for SVB stock and bondholders will suffice as a deterrent for future failings. We currently do not see any direct contagion risk emanating from SVB that would affect any systemic lender however, global repricing of financials may have secondary effects on some smaller and less stable regional lenders that may find accessing capital markets more challenging and expensive.

Confidence in Credit Suisse lowered by annual report delay and SVB fallout

Last Thursday, Credit Suisse announced a delay to the publication of their annual report, due to what appears to be a minor technical reporting issue over immaterial amounts. However, the increased scrutiny of the bank in recent quarters may overly magnify the issue that comes at a time of renewed bank failures. A late request by the U.S. Securities and Exchange Commission (SEC) for additional information on past cash flows from 2019 and 2022, relating to share-based compensation and FX hedges was the catalyst for the announcement. Senior management at Credit Suisse decided to act prudently and understand the request more thoroughly, adding that the 2022 financial results are not impacted. However, this irregularity is being reported at a sensitive period for the Swiss lender and the financial sector as a whole. The collapse of SVB Bank in the U.S. has put the possibility of bank failures at the forefront of onlooker's minds, while Archegos probes by regulators may result in global fines of up to USD1bn for Credit Suisse. It is estimated that Credit Suisse may incur legal losses of CHF1.2bn that go beyond provisions for major litigation of CHF1.3bn.

There is seemingly no end to bad news surrounding the group as Swiss regulators recently opened a review into comments made by the group's Chairman, meant to reassure investors about the pace of customer deposit outflows. Credit Suisse's long-standing and largest shareholder Harris Associates also recently sold its entire stake in the bank, further lowering confidence in the lender's ability to resolve its ongoing and legacy issues. It is not unusual for regulators to query some aspects of entities disclosures but those issues tend to get resolved relatively quickly and quietly. The fact that this has seemingly been an ongoing issue, requiring intervention by the SEC shortly before publication suggests weaknesses in internal controls and that the bank's zero tolerance approach to mishaps under new management doesn't appear to be working, at least for now.

CDS and share price development YTD



Source: Bloomberg

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR16.7bn over the course of last week, within market expectations of EUR13.5-18.5bn. FIG supply of EUR25bn was above the weekly forecast amount of EUR9-14bn. The total 2023 year-to-date FIG volume of EUR208bn is 50.9% ahead of last year's issuance volume. SSA volumes are also ahead of last year's level, up 29.2% at EUR234bn. For the current week, survey data suggest SSA volumes will range between EUR6-10.5bn and FIGs are expected to issue EUR9.5-14.5bn.

SSA supply remained steady last week with mostly EUR and USD trades. **African Development Bank (AfDB)** sold its first USD denominated benchmark bond of 2023. The USD2bn 5-year bond priced at SOFR MS+33bps (-2bps from IPT) on the back of an order book of USD3.5bn that is at the upper end of what the issuer usually gets. Final pricing was tighter than AfDB's existing secondary levels and leads looked towards the recent 5-year USD5bn EBRD bond, co-lead by Daiwa Capital Markets Europe (DCME). The strong tightening of that transaction by 4bps to SOFR MS+31bps provided a reference for AfDB in addition to looking at its own curve. More USD supply came from **Nordic Investment Bank (NIB)** raising USD1.5bn with books in excess of USD4bn. NIB tightened its level by 2bps from guidance to SOFR MS+30bps, the tightest spread for a 5-year USD SSA so far this year.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
AfDB	Sr. Unsecured	USD2bn	5Y	SOFR MS + 33	SOFR MS + 35	>USD3.5bn
European Union	Sr. Unsecured	EUR6bn	11Y	MS + 13	MS + 15	>EUR54.5bn
IBB	Sr. Unsecured	EUR500m	7Y	MS + 2	MS + 3	>EUR1bn
Junta de Andalucia	Sr. Unsecured (Sustainable)	EUR600m	10Y	SPGB + 29	SPGB + 32	>EUR1bn
NIB	Sr. Unsecured	USD1.5bn	5Y	SOFR MS + 30	SOFR MS + 33	>USD4bn
KfW	Sr. Unsecured	EUR5bn	7Y	MS - 8	MS - 6	>EUR25.9bn
Kommuninvest	Sr. Unsecured	EUR500m	4Y	MS - 8	MS - 4	>EUR4bn
LCFB	Sr. Unsecured (Social)	EUR700m	10Y	OLO + 43	OLO + 45	>EUR1.3bn
FIG (Senior)						
HSBC	Sr. HoldCo	EUR1.5bn	5NC4	MS + 120	MS + 145	>EUR3.1bn
HSBC	Sr. HoldCo	EUR1.25bn	9NC8	MS + 150	MS + 175	>EUR3bn
NatWest	Sr. HoldCo (Social)	EUR500m	5NC4	MS + 120	MS + 145	>EUR1.4bn
DNB Bank	SP (Green)	EUR1bn	6NC5	MS + 65	MS + 90	>EUR1.6bn
Intesa	SNP (Green)	GBP600m	6NC5	G + 285	G + 300/310	>GBP1.2bn
Intesa	SP	EUR1.5bn	2Y	3mE + 63	3mE + 85	>EUR2.3bn
Mizuho	Sr. Unsecured	GBP500m	5.25Y	G + 183	G + 200	>GBP940m
Mediobanca	SP	EUR750m	5NC4	MS + 137	MS + 160	>EUR1.3bn
Nationwide	SP	AUD450m	5Y	ASW + 147	ASW + 150	n.a.
Santander Holding USA	Sr. HoldCo	USD1bn	6NC5	T + 223	T + 250	n.a.
Volksbank Wien	SP (Green)	EUR500m	4Y	MS + 135	MS + 145	>EUR650m
HCOB	SP	EUR750m	2Y	MS + 100	MS + 125	>EUR1.5bn
ASB Bank	Sr. Unsecured	EUR500m	4Y	MS + 110	MS + 125/130	>EUR1.4bn
UBS	Sr. HoldCo	EUR1.5bn	5NC4	MS + 115	MS + 140	>EUR3.4bn
UBS	Sr. HoldCo	EUR1.25bn	9NC8	MS + 160	MS + 180	>EUR3.2bn
HSBC USA	Sr. Unsecured	USD1.25bn	2Y	T + 80	T + 100	>USD2.75bn
FIG (Subordinated)						
Lloyds	AT1	USD1.25bn	PNC7	8.0%	8.25%/8.375%	n.a.
HSBC	Tier 2	SGD1bn	10NC5	5.30%	5.625%	>SGD1.75bn

Source BondRadar, Bloomberg;

Last week's **FIG** primary market activity was characterised by sizeable transactions from high quality and frequent issuers. **HSBC** continued its highly active run in primaries, having already raised USD9bn with Sr. HoldCo and AT1 deals at the beginning of the month. The UK bank brought a dual-tranche Sr. HoldCo for a combined EUR2.75bn and a Tier 2 note for SGD1bn under strong investor demand. New issue premiums (NIP) for the senior deals were around 10-15bps. According to Bloomberg data, HSBC already meets around 55% of the groups 2023 Sr. HoldCo funding requirements of USD17bn-20bn. More senior supply came from **NatWest Group** issuing a social themed Sr. HoldCo transactions. The 5NC4 bond stood out not just for its low NIP of just 5bps but also for linking its use of proceeds specifically to women-led SMEs. The bond was placed on the same day that the EBA published its report on diversity practices and the gender pay gap, a timely launch. This is NatWest's third social bond since 2019 and so far, each bond has addressed different social aspect such as social housing and loans to SME's in the 30% most deprived areas in the UK. The pricing of the EUR500m bond arguably benefited from its ESG label as the final spread of MS+120bps was equal to that of the one notch better rated senior bond from HSBC. Additional themed senior supply came from Norway's **DNB Bank** with their 6NC5, EUR1bn SP green bond that priced at MS+65bps (-25bps from IPT). The NIP on DNB's bond was also very tight at 5bps likely helped by its green label.

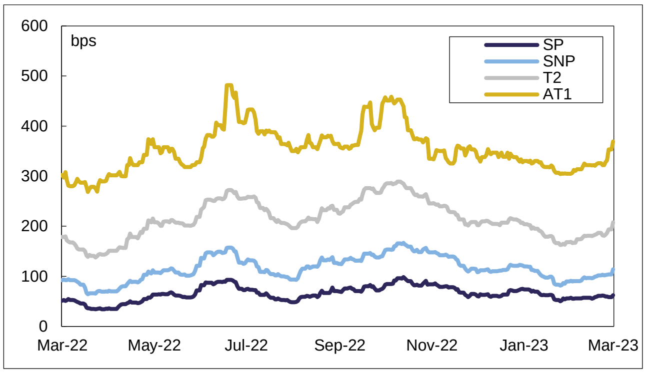
Secondary market spreads were wider last week for EUR and USD. CDS indices on European senior (108bps) and subordinated financials (194bps) as measured by iTraxx benchmarks priced +25bps and +52bps wider against the previous week's levels.

In Europe, the ECB policy announcement on Thursday seems highly likely to deliver another 50bps hike taking the deposit rate to 3%, but the updated forward guidance from the Governing Council is far from certain, with updated ECB economic projections to revise down profile for headline inflation despite persistence in core pressures. In the U.S. meanwhile, ahead of the Fed's latest monetary policy announcement on 22 March, this week will bring a number of top-tier releases (CPI, PPI, retail sales and IP data) that will factor heavily in the decision-making process. Against the backdrop of contagion risk from the SVB collapse, which we deem limited, Daiwa economists still expect the Fed to raise rates by 25bps but with higher uncertainty about further hikes.

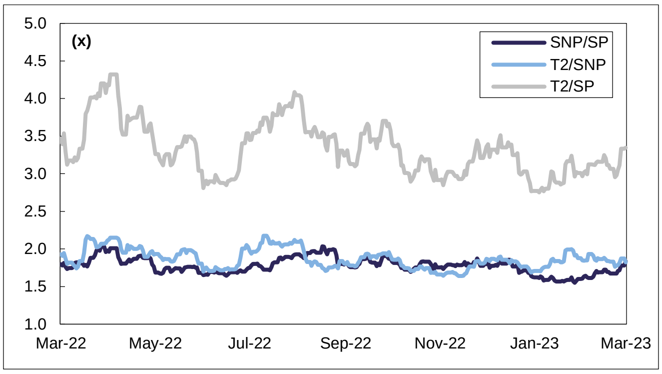
Weekly average EUR spreads were mixed with SP (-4bps), SNP (-0.7bps) and Tier 2 (+6.4bps). USD average spreads were wider for SP (+11.1bps), SNP (+18.4bps) and Tier 2 (+25bps). Based on Bloomberg data, 77% of FIG tranches and 89% of SSA tranches issued in March quoted tighter than launch.

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.

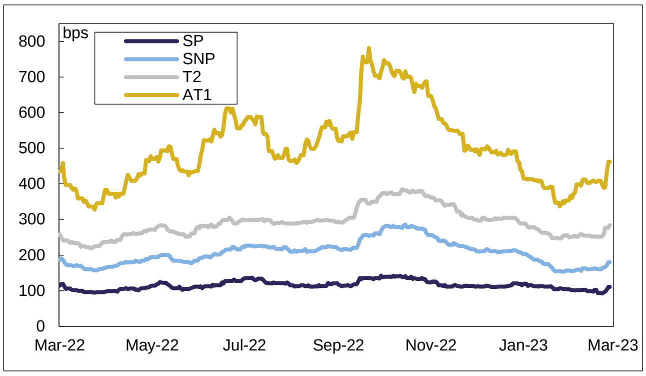
Selected Names

	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	3.2	3.8	42.4	0.0	-14.4	3.4	4.6	127.8	-1.0	-49.1	2.7	4.8	141.8	-6.2	-29.7
Barclays	1.2	3.9	13.1	3.3	30.5	2.9	4.7	143.7	4.0	-24.4	7.1	6.1	270.3	4.4	-59.4
BBVA	3.7	4.0	62.1	-3.1	-3.3	3.4	4.1	68.6	-0.2	-1.3	3.6	5.5	178.9	1.8	-14.2
BFCM	4.1	3.9	60.5	-2.5	3.7	5.9	4.4	136.1	2.6	9.6	4.4	5.0	191.9	2.3	15.4
BNPP	3.7	3.9	50.4	0.8	4.9	4.3	4.4	113.4	-0.7	-14.9	3.5	4.7	151.1	2.5	3.6
BPCE	3.8	3.9	63.8	-2.6	1.8	4.7	4.4	130.6	0.8	-2.2	8.3	5.7	178.6	4.1	7.5
Credit Ag.	3.7	3.9	59.9	-1.8	2.3	4.6	4.3	108.2	-0.5	-2.2	2.7	4.6	123.5	2.3	-14.4
Credit Sui.	4.4	4.2	92.8	-12.7	-93.2	4.3	9.2	580.5	45.9	1.1					
Danske	2.4	4.0	52.4	-6.1	-26.7	2.6	4.5	94.8	-6.8	-31.0	5.8	5.6	210.1	1.1	-47.4
Deutsche	2.2	4.0	63.7	-5.0	-31.7	3.8	5.1	166.5	0.3	-27.5	2.8	5.8	238.6	4.6	-42.7
DNB	3.3	3.7	35.4	-5.3	-11.0	4.6	4.0	73.9	-3.6	-7.1	2.2	5.3	78.4	0.0	-320.1
HSBC	4.4	3.6	32.1	-4.6	-1.1	3.6	4.4	111.7	0.0	-0.6	4.0	4.8	164.2	2.0	6.7
ING	2.5	6.1	255.1	10.2	-76.7	4.8	4.5	106.0	1.3	-6.9	5.3	5.7	214.3	5.1	-22.8
Intesa	3.5	4.1	70.1	0.4	-10.2	3.9	4.7	147.2	1.7	-0.7	3.8	5.0	149.9	29.1	-5.2
Lloyds	1.8	3.9	25.8	-4.1	-1.6	3.1	4.2	67.6	0.8	-13.0	2.2	4.9	124.3	10.4	-374.0
Nordea	3.6	3.5	15.8	-4.1	3.0	5.5	4.0	81.3	-0.1	9.9	6.5	5.1			
Rabobank	2.9	3.5	6.3	-3.6	7.2	5.2	4.2	109.7	-1.6	-3.0	5.6	5.3	210.1	6.6	14.7
RBS	3.0	4.9	153.6	-5.1	-19.1	5.2	4.2	109.7	-1.6	-3.0	5.6	5.3	210.1	6.6	14.7
Santander	2.7	4.1	66.7	-0.9	-2.1	3.9	4.2	101.4	0.5	-5.1	3.6	4.7	138.1	3.5	14.0
San UK	1.9	3.7	5.9	-7.3	2.0	2.8	4.8	160.5	3.3	-43.2	3.6	4.7	138.1	3.5	14.0
SocGen	4.2	3.9	74.0	-1.8	-5.1	4.6	4.4	126.4	-0.1	-18.8	7.0	5.6	215.4	2.2	-43.1
StanChart	3.6	4.0	62.0	-5.2	-12.9	4.5	4.5	115.3	1.7	-45.2	5.0	5.7	229.6	4.0	-77.2
Swedbank	3.0	3.8	42.2	-5.4	-8.0	4.1	4.3	107.6	-2.9	-9.6	5.9	5.5	224.0	1.0	-23.3
UBS	3.2	3.9	56.0	-3.6	-3.1	4.1	4.4	112.5	11.7	-25.9	2.3	12.3	90.1	0.0	-106.4
UniCredit	3.3	4.6	102.0	7.1	-30.1	3.2	5.2	166.3	8.7	-36.5	5.7	6.9	283.0	9.9	-66.7

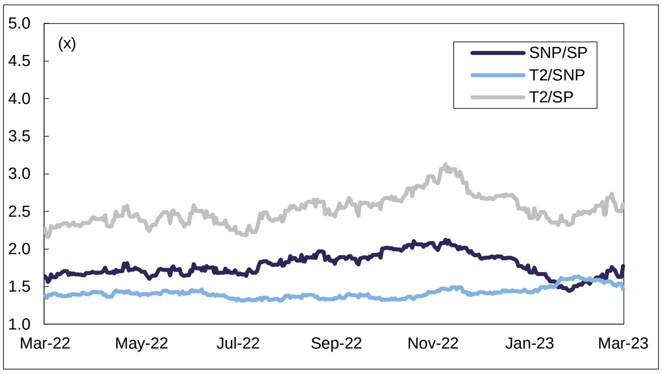
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative 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	6.0	228.5	25.3	-20.0	4.6	6.5	296.9	26.7	-22.6
BFCM	4.1	3.9	60.5	-2.5	3.7	3.1	6.0	204.6	17.6	-25.8	4.6	6.5	296.9	26.7	-22.6
BNPP	3.7	3.9	50.4	0.8	4.9	4.4	5.6	196.9	19.4	-26.9	3.6	5.5	173.5	17.8	-33.9
BPCE	3.8	3.9	63.8	-2.6	1.8	4.2	5.8	186.7	18.7	-28.4	2.7	6.5	319.3	15.7	-65.6
Credit Ag.	3.7	3.9	59.9	-1.8	2.3	2.8	5.4	143.0	20.4	-25.8	6.8	6.0	267.8	22.3	-62.7
Credit Sui.	1.9	7.8	348.6	28.4	-29.2	3.6	8.8	508.1	51.0	-7.8	2.3	8.8	465.7	45.5	-146.9
Danske	2.4	4.0	52.4	-6.1	-26.7	2.0	5.6	151.8	14.9	-68.0	2.3	8.8	465.7	45.5	-146.9
Deutsche	2.2	4.0	63.7	-5.0	-31.7	2.6	6.4	222.7	23.0	-49.3	7.2	7.9	437.0	46.1	-84.4
HSBC	4.4	3.6	32.1	-4.6	-1.1	3.8	6.0	216.1	24.9	-30.0	8.6	6.3	288.6	20.3	-28.1
ING	2.5	6.1	255.1	10.2	-76.7	3.6	5.4	168.0	24.3	-16.9	0.0	10.8	477.9	0.0	-430.6
Intesa	3.5	4.1	70.1	0.4	-10.2	6.8	8.0	458.8	50.7	-25.6	4.8	8.5	505.7	35.4	-28.8
Lloyds	2.0				0.0	3.5	5.7	177.3	23.3	-23.0	6.6	6.3	299.5	25.8	-11.2
Nordea	3.6	3.5	15.8	-4.1	3.0	3.6	5.2	146.2	10.3	-8.8	6.8	6.0			
Rabobank	2.9	3.5	6.3	-3.6	7.2	3.8	5.4	152.2	15.0	-12.2	7.4	5.6	169.7	14.8	-4.7
RBS	3.0	4.9	153.6	-5.1	-19.1	3.8	5.4	152.2	15.0	-12.2	7.4	5.6	169.7	14.8	-4.7
Santander	2.7	4.1	66.7	-0.9	-2.1	3.8	5.8	199.4	21.2	-17.2	6.5	6.3	290.8	27.0	-18.5
San UK	1.1	5.9	65.3	7.6	-21.1	4.0	5.9	192.1	21.5	-43.2	2.3				
SocGen	4.2	3.9	74.0	-1.8	-5.1	3.7	6.0	213.9	21.8	-40.7	7.3	6.7	343.4	24.5	-19.1
StanChart	3.6	4.0	62.0	-5.2	-12.9	2.2	5.8	157.1	21.1	-58.7	8.9	6.2	270.4	13.0	-76.0
UBS	2.4	5.2	76.1	16.2	-24.7	3.5	5.7	184.1	21.0	-13.4	8.9	6.2	270.4	13.0	-76.0
UniCredit	3.3	4.4	106.4	-0.9	-32.3	2.7	6.8	218.3	15.8	11.0	5.7	8.3	471.1	25.9	-81.6

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

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies, ESG	*William Hahn*	+44 20 7597 8321
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	*Kouji 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
Strategist	*Kaori Ichikawa*	+81 3 5555 8758

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

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

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