Daiwa Capital Markets

European Banks – Credit Update

- 1Q21 Archegos losses overshadow otherwise robust underlying performance at Credit Suisse
- EU Taxonomy starts defining sustainable finance market with immediate benefit for covered bonds
- One of the quietest weeks of the years for primary SSA and FIG issuance volumes, while spreads in the secondary market firmed up in EUR and USD alike

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Credit Suisse 1Q21 results – Robust performance overshadowed by risk management failings

Credit Suisse Group (CS) recorded robust top-line revenues of CHF7.5bn (+31% yoy) during the first quarter, supported by strong results in the investment bank (CHF3.9bn; +80% yoy) and Asia-Pacific (CHF1bn; +35% yoy) divisions. The IB generated CHF3.9bn in revenues (51% of group tota) that were driven by fixed income sales and trading (+29% yoy) and equity sales and trading revenues (+23% yoy). The capital markets unit that includes DCM and ECM saw revenues soar by more than 500% yoy to CHF1.2bn, albeit on the back of particularly poor results one year prior. Nevertheless, CS accumulated a quarterly group-wide pre-tax loss of CHF757m (1Q20: CHF1.2bn gain) almost entirely linked to a pre-tax charge of CHF4.4bn related to the Archegos collapse. Senior management also flagged further expected losses of some CHF600m for 2Q21 from the unwinding of the remaining Archegos-related positions. Adjusted for non-recurring items, pre-tax income would have been CHF3.6bn and would have resulted in the best quarterly result in over a decade. CS stated that it had already exited 97% of all positions related to Archegos and in response to risk-control failings the group has reduced exposure across its entire prime services business and plans to reduce IB leverage exposure by at least USD35bn (9% of total) and align its IB RWAs to no more than 2020 levels. Despite the solid underlying business performance, the recent string of risk management and governance failings didn't just cause reputational damage to the bank but it also put into question its capital adequacy, with regulatory capital ratios declining. In addition, Swiss financial market supervisory authority (FINMA) is launching enforcement proceedings in addition to the ones already pursued in March relating to Greensill.

1Q21 CET1 fell to 12.2% (-70bps qoq) and is expected to drop by further 20bps in the coming quarter when the remaining Archegos positions are unwound. The bank's CET 1 leverage ratio also dropped to 3.8% (-60bps qoq) which is why CS sought to strengthen its capital position by placing a mandatory convertible bond of CHF1.7bn with a group of core shareholders, institutional investors and high net worth individuals. The non-syndicated private placement, together with a proposed dividend cut, a halt to the share buyback programme and the aforementioned leverage reductions and RWA caps, will add ~55-60bps to the bank's CET1 ratio and 16-18bps to its leverage ratio. We deem these steps credit positive as they will help lift the group's CET1 capital and leverage ratios to the envisioned target rates of ~13% and ~4% respectively. Despite these capital-strengthening measures, the near-term concern for the group remains the fallout from supply-chain finance company Greensill and potential regulatory and legal challenges in its wake. CS does not plan to compensate investors for losses incurred. However, the bank has collected a total of USD5.4bn (USD4.8bn already distributed) of the USD10bn in investor funds but stated that it was not yet possible to exact the final recovered amount. The heightened risk appetite at CS, paired with risk management shortcomings, potential litigation challenges, franchise impairment and incurred losses have led to a negative outlook on the bank's credit rating by each of the three major rating agencies.

EU Taxonomy solidifies first set of technical criteria

Last week, the European Commission (EC) adopted the first batch of implementing rules under the EU's sustainable finance taxonomy that will determine which activities contribute to climate change mitigation and are thus deemed sustainable. This is relevant for issuers and investors alike, as the forthcoming EU Green Bond Standard requires alignment on the sustainability of bond issuance proceeds. The second delegated act providing technical screening criteria for the remaining objectives will be published in 2022. The criteria has undergone several revisions but now encompasses 13 sectors (incl. renewable energy, transport, forestry, manufacturing and buildings) that together account for 80% of the EU's greenhouse emissions. Notably absent in the texts were the gas and nuclear energy sectors that were some of the most keenly debated. Strict requirements on emission thresholds per kilowatt hour means that gas currently cannot be labelled 'green' but efforts by member states are underway to soften this stance. Nuclear energy is recognised for its contribution towards lower carbon emissions but the safety aspect of waste handling is proving to be a sticking point.

While the debate around sustainable energy sources is ongoing, progress on green real estate standards has been made. In one of our previous publications, we highlighted the risk that the Taxonomy was choking off green covered bond and RMBS markets due to overly stringent requirements on eligible collateral, which would limit eligible building stock to just 1-2% of the total in some countries. The new, broadened criteria state that buildings built before 2021 that fall within the top 15% of energy efficient buildings in the country or region or alternatively carry an EPC rating of 'A' are deemed eligible. There were also changes made to eligibility of building stock constructed after January 2021 to include buildings with energy efficiency labels 10% lower than zero energy building requirements (originally 20%). These changes are welcome as they lower the requirement and include a wider range of stock. But the definitions of zero-energy buildings differ across member states and in some regions have not been set at all. In the near term, a boost in green covered bond supply from these regulatory adjustments is not likely as more attractive funding methods remain available to issuers. However, it keeps the prospect of a resurgence of this market alive.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR12bn over the course of last week, below market expectations of EUR13bn-18bn. FIG supply of just EUR6.7bn fell within forecast volumes of EUR5.5bn-9.5bn. Total 2021 year-to-date FIG volumes of EU152bn closed just 11.3% behind last year's issuance. SSAs remained ahead of last year, up 1.5% standing at EUR340bn. For the week ahead, survey data suggest SSA volumes will range between EUR13bn-18bn and FIGs are expected to issue EUR5bn-10bn.

It was a slow market for **SSAs** with just a handful of noteworthy deals. The **EIB** came to market twice last week with a 3-year USD4bn deal and a 6-year NOK1.5bn transaction. This was the EIB's first 3-year USD transaction since June last year and the book was 2.5x oversubscribed. At the end of last week, the issuer also came to market with a climate awareness bond for NOK1.5bn, the proceeds of which will be allocated to the EIB's lending activities that contribute substantially to climate change mitigation in line with evolving EU sustainable finance legislation, including the EU Taxonomy regulation. **NWB** issued a EUR500m water bond with a 30-year maturity, which is its longest public bond and proceeds will be utilised for lending to the Dutch water authorities according to the issuer's green bond framework. This was part of the issuer's EUR10bn-12bn annual funding programme, yet the transaction size was capped at EUR500m as the issuer stated it only had limited use of proceeds.

For European **FIGs**, it was one of the quietest weeks of the year in the primary market as banks gear up for reporting season and the ECB held its Governing Council meeting. After reporting a strong set of 1Q21 financials and issuing in USD, **JP Morgan** came to market with a dual-tranche Sterling transaction. The senior unsecured bonds were FXD-to-FRN for GBP1.25bn 5NC4 and GBP750m 12NC11. Combined book orders of GBP3.9bn were slightly skewed towards the shorter-dated tranche. In the sub-debt space, **Nykredit Realkredit** from Denmark issued its first Tier 2 bond in six year, taking advantage of calm and favourable funding conditions. The EUR500m, WNG 10.25NC5.25 closed at MS+118bps (-27bps from IPT) and is thought to have priced 2-4bps within fair value.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
EIB	Sr. Unsecured	USD4bn	3Y	MS - 3	MS - 1	>USD10bn
EIB	Sr. Unsecured (Climate Awareness)	NOK1.5bn	6Y	MS – 9.5	MS – 9.5	n.a.
NWB	Sr. Unsecured (Water Bond)	EUR500m	30Y	MS + 9	MS + 11	>EUR1bn
European Union	RegS	EUR4.75bn	15Y	MS - 7	MS - 5	>EUR41.5bn
NDB	Sr. Unsecured	USD1.5bn	5Y	MS + 25	MS + 27	>USD1.98bn
FIG (Senior)						
JPM	Senior Unsecured (FXD-FRN)	GBP1.25bn	5NC4	G + 100	G + 80	>GBP2bn
JPM	Senior Unsecured (FXD-FRN)	GBP750m	12NC11	G + 120	G +100	>GBP1.9bn
FIG (Subordinated)						
Nykredit	Tier 2	EUR500m	10.25NC5.25	MS + 118	MS + 145	>EUR1.7bn

Source BondRadar, Bloomberg.

Secondary market stability in EUR and USD was reflected in unchanged risk perceptions. CDS price indices on European senior (58ps) and subordinated financials (106bps), as measured by iTraxx benchmarks, priced flat against the prior week's level.

Funding conditions remained benign in the Euro space. Limited news flow, 1Q21 reporting underway and an overall uneventful ECB Governing Council meeting last week meant that spreads remained stable. There is little expectation of a signal of imminent tapering let alone a rate hike by the Fed in this week's monetary policy meeting. Economic reopening in the U.S., and continued vaccine rollouts, may contribute to further tightening spreads on the USD side.

Weekly average EUR spreads were slightly improved for SP (-1.2bps), SNP (-1.3bps) and Tier 2 (-0.2bps). USD spreads tightened on improved news flow and average weekly changes to SP (-1.3bps), SNP (-2.2bps) and Tier 2 (1bps) were all improved. Based on data collected from Bloomberg, only 11% of FIG tranches issued in April and 13% of SSAs quoted wider than launch.

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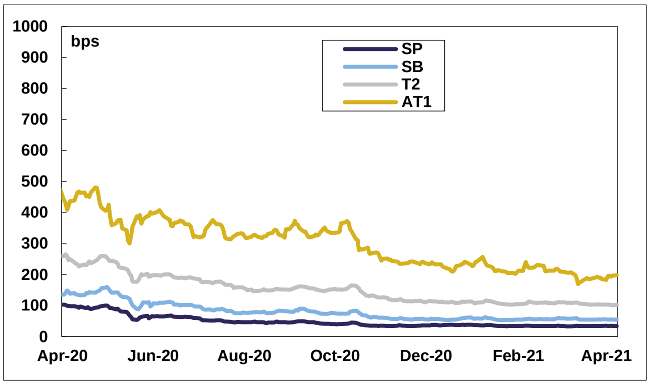
Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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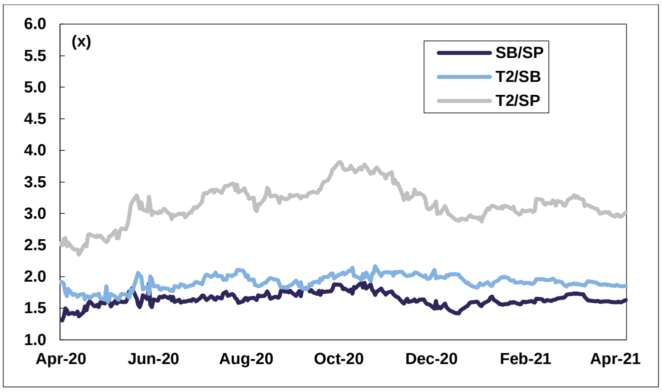


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

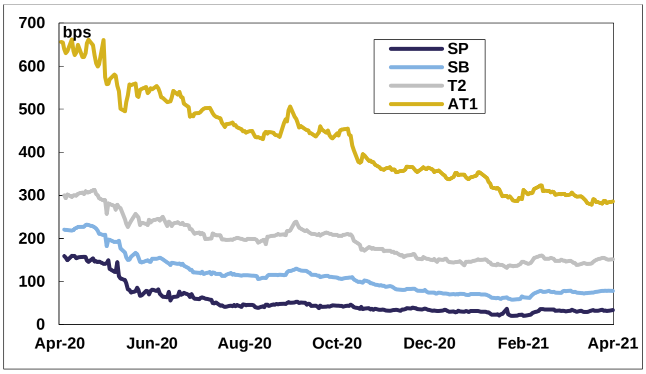
Selected Names

	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	4.8	0.2	45.2	-1.2	-7.6	3.6	0.3	58.3	-0.8	-5.6	4.5	1.7	186.0	-1.6	-19.7
Barclays	3.0	0.1	47.9	-1.8	-10.7	2.7	0.1	50.3	-1.6	-0.7	3.3	0.7	105.6	-3.7	-38.0
BBVA	5.4	0.2	43.1	-1.3	-0.2	3.7	0.1	41.7	-1.4	-5.6	5.3	0.7	101.4	-2.2	-18.1
BFCM	4.4	0.0	30.4	-1.2	-1.2	8.5	0.6	63.9	-0.8	2.1	4.7	0.5	78.4	-1.6	-3.3
BNPP	2.1	-0.3	16.0	-0.9	-6.5	5.0	0.3	54.3	-1.5	-5.5	4.5	0.6	83.6	-0.1	-20.1
BPCE	3.4	-0.1	25.6	-1.4	-3.3	4.8	0.3	54.4	-1.4	-1.4	2.1	0.1	49.8	-1.7	-3.5
Credit Ag.	3.3	-0.1	26.8	-0.8	-4.6	5.4	0.3	54.4	-1.0	-0.5	4.4	0.9	110.0	-0.3	-8.7
Credit Sui.	4.8	0.2	45.2	-1.2	-7.6	5.0	0.6	82.8	-5.3	18.4	5.3	1.0	119.4	3.4	-9.1
Danske	2.1	-0.2	28.9	-0.8	-4.6	2.0	0.0	40.6	-0.5	-11.7	3.7	0.9	122.8	-0.2	-8.4
Deutsche	2.3	0.0	40.2	-1.3	-6.8	4.2	0.7	99.3	-0.7	-15.6	4.2	1.6	185.3	6.6	-48.6
DNB	2.6	-0.2	18.6	-1.6	-6.7	7.7	0.5	65.7	5.5	10.2	1.4	0.0	47.6	-0.7	1.1
HSBC	4.7	0.0	29.5	-1.2	-4.3	3.3	0.0	52.4	-1.1	6.1	5.2	0.5	73.5	-0.9	-4.5
Intesa	3.9	0.1	44.6	-1.0	-5.9	3.9	0.6	95.0	-1.7	-20.4	3.5	1.1	143.4	-0.1	-48.2
Lloyds	2.5	-0.2	15.3	-1.2	-3.9	3.3	0.0	45.0	-1.2	-5.5	2.3	0.3	69.1	-3.7	-37.1
Nordea	3.7	-0.2	19.0	-1.3	-7.3	5.9	0.2	36.4	-0.9	-4.7	0.4	0.1	51.9	0.8	-14.7
Rabobank	2.9	-0.3	13.0	-1.3	-12.8	5.5	0.2	31.8	-0.8	-5.4	1.3	0.0	35.4	-0.9	-10.0
RBS	2.9	0.0	31.5	-1.7	-8.6	5.5	0.2	31.8	-0.8	-5.4	1.3	0.0	35.4	-0.9	-10.0
Santander	4.6	0.0	35.8	-0.8	0.4	4.8	0.4	57.7	-0.4	-3.0	5.3	0.7	91.7	-2.9	-15.0
San UK	4.6	0.0	33.2	-2.0	-2.9	2.1	-0.1	54.6	-1.3	-5.2	5.3	0.7	91.7	-2.9	-15.0
SocGen	2.1	-0.3	17.9	-0.9	-5.1	6.2	0.6	77.6	-0.9	0.0	3.7	0.5	85.8	-1.0	-12.9
StanChart	5.1	0.1	34.5	-1.3	-6.0	5.1	0.4	60.0	-1.1	8.4	3.9	1.0	132.2	-0.7	-7.7
Swedbank	4.0	-0.1	29.5	-1.5	-8.0	5.1	0.2	47.5	-0.8	-6.7	1.6	0.3	70.7	-0.2	-28.1
UBS	3.4	-0.1	28.2	-1.4	-3.4	3.6	0.1	52.2	-1.6	0.4	8.6	1.9	189.1	5.1	3.5
UniCredit	4.6	0.3	71.0	-0.9	-2.9	3.7	0.7	109.9	-0.9	-13.3	2.7	1.5	182.7	1.0	-44.2

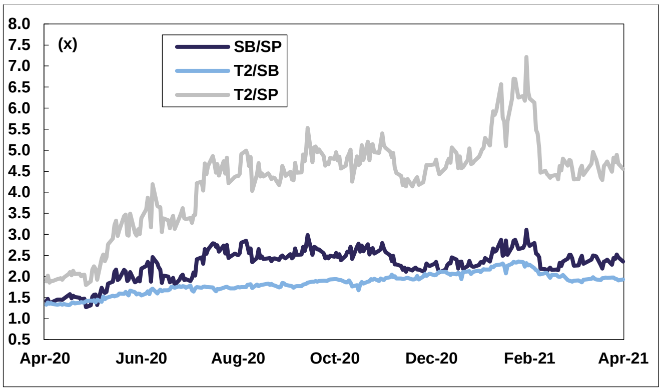
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

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	0.5	18.0	-0.8	-9.9	4.0	1.6	82.4	-2.4	-0.5	6.0	2.9	161.1	-2.3	-2.6
BFCM	2.1	0.5	22.1	-0.6	-11.5	4.0	1.6	82.4	-2.4	-0.5	6.0	2.9	161.1	-2.3	-2.6
BNPP	1.8	0.3	3.5	-1.2	-11.6	4.7	1.7	80.9	-2.1	-4.0	5.2	2.3	118.9	-3.9	8.0
BPCE	4.6	1.4	53.9	-2.1	-2.0	4.3	1.5	68.3	0.7	-8.6	3.0	1.4	81.0	-2.4	-5.6
Credit Ag.	2.3	0.7	31.0	-2.9	4.7	3.9	1.5	72.3	0.9	2.0	6.7	2.8	139.6	-1.5	-1.4
Credit Sui.	2.7	0.7	43.8	-4.0	22.8	3.9	1.7	93.2	-2.0	18.5	2.2	2.0	153.4	2.8	30.7
Danske	2.6	0.8	50.3	-1.0	6.8	2.4	1.0	62.8	-0.3	-14.0	2.2	2.0	153.4	2.8	30.7
Deutsche	5.2	1.6	59.5	0.3		3.5	1.4	88.9	-2.1	-18.7	5.0	3.2	226.5	-1.1	-67.5
HSBC	3.3	1.0	70.5	-3.8	-11.9	4.6	1.7	83.1	-2.5	1.8	10.3	3.6	176.7	-3.3	1.2
ING	3.3	1.0	70.5	-3.8	-11.9	4.9	1.6	69.4	-2.4	-1.0	2.0	1.2	80.9	-1.4	-4.6
Intesa	3.0	1.3	82.5	0.0	-17.2	4.9	1.6	69.4	-2.4	-1.0	4.2	2.6	179.7	-2.2	-40.6
Lloyds	3.8	1.3	53.8	-3.7	-8.9	3.3	1.2	59.5	-2.6	-1.2	4.4	2.8	136.8	-1.4	-12.4
Nordea	3.2	0.8	24.6	-2.2	0.1	2.2	0.6	23.2	-0.1	-13.3	1.4	0.6	34.0	-3.0	-5.5
Rabobank	3.8	1.1	35.9	-1.1	-0.9	4.0	1.3	51.4	-5.6	0.7	4.3	1.7	84.5	-2.9	3.4
RBS	3.8	1.1	35.9	-1.1	-0.9	4.0	1.3	51.4	-5.6	0.7	4.3	1.7	84.5	-2.9	3.4
Santander	5.1	1.6	71.0	-1.9	-1.4	5.4	2.1	101.0	-3.5	-3.6	6.2	2.5	133.8	-4.0	4.4
San UK	2.7	0.7	28.0	-3.5	-10.6	3.7	1.1	56.9	-1.4	-6.3	4.0			-1.0	-48.4
SocGen	4.1	1.4	58.5	-1.4	7.8	4.0	1.6	85.0	-1.5	-8.3	4.1	2.2	134.6	-0.9	-10.4
StanChart	0.1	0.6	42.4	-1.0	-12.4	3.6	1.2	70.7	-0.6	-3.9	5.2	2.7	189.9	-2.5	-17.6
UBS	2.8	0.7	73.7	-3.2	11.6	4.6	1.6	67.9	-0.7	2.1	5.2	2.7	189.9	-2.5	-17.6
UniCredit	3.7	1.8	122.4	-2.0	-32.6	4.1	2.0	134.8	-2.7	-18.8	6.1	4.5	303.8	9.3	-32.5

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.

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The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moodys.com/pages/default_ja.aspx)

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service's ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of April 16th, 2018, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Moody's Japan K.K. (https://www.moodys.com/pages/default_ja.aspx)

[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")
The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (https://www.fitchratings.com/site/japan)

Assumptions, Significance and Limitations of Credit Ratings

Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. Despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

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February 2020

IMPORTANT

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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