European Banks – Credit Update

- Extension of leverage ratio relief by ECB until end March-2022 will be welcomed by European banks but stands in contrast to approach taken in Switzerland and the U.S.
- Extension of Italian GACS scheme by one year for NPL securitisations credit positive for sector.
- Primary market issuance by European SSA and FIGs exceeds expectations while secondary market spreads continue to hold firm in wake of more hawkish FED policy stance.

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ECB Leverage Ratio

The ECB's supervisory board announced that it will extend its temporary leverage ratio relief that was due to expire on 27 June. For an additional nine months, the ECB will allow banks to exclude deposits held at central banks when calculating their leverage ratios. The measure takes into account the proportion of a bank's capital to its total assets without taking risk weights into consideration. The ECB is of the view that the exceptional circumstances brought on by the pandemic warrant the temporary exclusion from the calculation of banks' total exposure measures. Until end-March 2022 banks taking advantage of the support will thus be granted EUR70bn of cumulative capital relief. On average, the benefit translates to a 70bps uplift to the leverage ratio of the 39 significant banks that currently take advantage of the relief measures. The benefit is slightly offset by 20bps due to the recalibration of the 3% leverage ratio requirement. This is thought to ensure the exclusion of risks to financial stability affecting the relevant banking sectors, and that the resilience provided by the leverage ratio is maintained.

Banks under the ECB remit currently have an average 5.8% leverage ratio, comfortably above requirements. When calculating their leverage ratios, banks intending to exclude central bank holdings from the calculation must do so in such a way that only newly accumulated exposures since end-2019 will be considered, so to maintain the level of resilience provided by the ratio before the pandemic. While the extension will temporarily reduce banks' leverage exposures following the ECB's extensive pandemic bond-buying programs, regulators elsewhere have brought an end to the relief. The position of the ECB thus stands in contrast to that of regulators in Switzerland and the U.S. that ended their support earlier in the year. The difference in approach reflects the higher reliance on lending activities in the euro area compared to capital markets as a source of corporate financing in those jurisdictions. Nevertheless, the benefits in Europe will mostly be felt by Dutch, German and French banks, as they tend to have larger central bank deposits than their southern European peers.

EC approves GACS extension until June 2022

Last week the European Commission approved another one-year extension for the Italian state guarantee on the senior tranches of nonperforming loan (NPL) securitisations. The *Garanzia sulla Cartolarizzazione delle Sofferenze* (GACS) scheme will now run until June 2022 and allows banks to transfer NPLs to special-purpose vehicles (SPV), removing them from their balance sheets. The government backing makes the senior securitised tranches attractive to investors while improving banks' lending capacities. Since its inception in 2016, the scheme has securitised EUR74bn in NPLs, disposing more than a third of the sector's bad loans. The scheme has been instrumental in helping Italian banks clean up their balance sheets over the past 5 years, bringing their NPLs down from 17% in 2015 to 4.1% at FY20, closer to the EU average of 2.6% according to EBA data. Government support measures across Europe, such as public loan guarantees and moratoria, have so far helped absorb the economic impact of the pandemic, limiting the build-up of new bad loans. However, back in March 2021 the ECB sounded the alarm over rising stage 2 loans across Europe, especially for loans currently under moratoria. The expectation is that once these loan support schemes run off (in Italy it expires in December 2021) loans subject to moratoria may migrate to stage 3 buckets (bad loans), potentially leading to significant NPL increases. In Italy, the volume of loans under moratoria is EUR147bn or 9% of banking sector total assets (EU average is 2.6%). The extension of the GACS scheme is therefore considered credit positive as it would help offset a potential spike in NPLs, which may have otherwise undone years of balance sheet clean-ups in Italy's banking sector.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR23.8bn over the course of last week, above market expectations of EUR17.5bn-22.5bn. FIG supply of EUR17.8bn was also above the weekly forecast amount of EUR8bn-13bn. The total 2021 year-to-date FIG volume of EUR242.5bn is now 1.2% ahead of last year's issuance volume of EUR239.6bn. SSA volumes however, remain behind last year's level after having led them most of the year. They are down 9.6% at EUR460bn. For the week ahead, survey data suggest SSA volumes will range between EUR12bn-17bn and FIGs are expected to issue EUR7.5bn-12.5bn.

Last week, the key transaction for **SSAs** came from the European Union that launched a bond from its **Next Generation EU (NGEU)** programme. The tranche was EUR20bn in size, which surprised onlookers who had expected something in the range of EUR11bn-15bn. Book orders for the 10-year bond ballooned to EUR142bn (7.1x subscribed), similar in size to the orders placed for the EU's inaugural SURE bond back in October 2020. The difference to the NGEU is that SURE bond tranches were capped at EUR10bn in size. In terms of pricing, the inaugural NGEU's spread was MS-2, some 4bps higher when compared to other 10-year EU bonds. Other European institutions such as the EIB or the EFSF saw their 10-year deals trade 5.5-6bps below mid-swaps. Two more syndicated transactions are expected before the end of July and together with further deals later in the year, the EU is believed to issue EUR80bn in long-term funding in 2021. **Unedic,** the French unemployment insurance company issued a EUR2bn social bond for 15-years. The proceeds from the issue will be exclusively used to carry out missions that meet the eligibility criteria described in Unedic's social bond framework formulated in June 2020. With this issuance Unedic has now issued EUR8bn of its EUR13bn funding plan for 2021. The deal is believed to have yielded a 1-2bps new issue premium.

A mixture of conventional and ESG themed bonds hit the **senior FIG** space last week. Three green and one social SNP bond were issued by DeVolksbank, Santander, Credit Mutuel and La Banque Postale respectively. They added to the existing eight ESG bonds that were already issued in June bringing the cumulative total to EUR6.35bn. More than half of all June FIG issuance have thus carried a sustainable label. For **La Banque Postale** it was its inaugural social SNP targeting the longer end of the curve with a 10-year benchmark transaction. Orders of EUR1.1bn for its EUR750m bond helped the issuer tighten the spread by 20bps from IPT at MS+70bps, pricing flat to fair value. **NatWest** issued a sizeable conventional senior bond at the OpCo level for EUR1.25bn. The 5-year transaction priced at MS+50 (-20bps from IPT) having left a ~5bps new issue premium on the table. Lastly, **Bank of Cyprus** (rated B3/B+/B-) returned to capital markets for a no-grow EUR300m SP after having just issued a Tier 2 for the same amount in mid-April. The 6NC5 bond was issued from the OpCo, yielding 2.5% and it was the first syndicated senior deal for the issuer since 2007. The issuance will count towards the bank's MREL ratio. Bank of Cyprus only had a thin 33bps headroom over its interim MREL target of 14.94% to be met by January 2022. Taking into account this note, its latest NPL disposal and recent Tier 2 issuance, the bank's pro-forma RWA MREL ratio improves to 18.37%. The final MREL target will be 23.32% by 2025 and at the moment Bank of Cyprus has no subordination requirement.

One of last week's **subordinated FIG** deals came from **Bankinter** that launched a Tier 2 for EUR750m. The 11.5NC6.5 bond priced MS+145bps (-25bps from IPT) with solid book orders of EUR1.9 (2.5x). It closely followed the bank's June AT1 issuance and will likely replace one of its existing Tier 2's that will become callable as of April next year. The existing EUR500m bond would reset to MS+240bps, 95bps wider than the new issue. **BayernLB** issued alongside Bankinter and came to market with its inaugural green Tier 2 for EUR500m. The pricing point set by the Spanish bank, paired with the ESG label likely helped BayernLB's bookrunners guide investors to a final spread of MS+135bps (-30bps from IPT) on the back of strong book orders (4.4x). Lastly, **Commerzbank** sold a PNC4 WNG EUR500m AT1. IPT was set at 4.875% and as books were building pricing came down, which saw some investor interest wane. Ultimately, orders of EUR1.75bn led to a coupon of 4.25% that suggests a price point flat to fair value. In recent weeks, many subordinated transactions appear either to have priced through or flat to fair value while senior deals have paid some form of concession. This suggests that market participants still perceive some upside market potential for these deals in the secondary market.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
ICO	Sr. Unsecured (Green)	EUR500m	6Y	SPGB + 6	SPGB + 10	>EUR2bn
EU (NGEU)	Sr. Unsecured	EUR20bn	10Y	MS – 2	MS + 1	>EUR142bn
AfDB	Sr. Unsecured	GBP600m	5Y	G + 27	G + 28	>GBP775m
Unedic	Sr. Unsecured (Social)	EUR2bn	15Y	OAT + 10	OAT + 12	>EUR5bn
FIG (Senior)						
NatWest	Sr. Unsecured (OpCo)	EUR1.25bn	5Y	MS + 50	MS + 70	>EUR2.1bn
DeVolksbank	SNP (Green)	EUR500m	5Y	MS + 65	MS + 80/85	>EUR1.1bn
La Banque Postale	SNP (Social)	EUR750m	10Y	MS + 70	MS + 90	>EUR1.1bn
Banco Santander SA	SNP (Green)	EUR1bn	8NC7	MS + 78	MS + 108	>EUR2.5bn
Credit Mutuel	SNP (Green)	EUR750m	7Y	MS + 40	MS + 60/65	>EUR1.55bn
Bank Julius Baer	Sr. Unsecured	EUR500m	3Y	MS + 41	MS + 41	>EUR850m
Bank of Cyprus	SP (OpCo)	EUR300m	6NC5	2.50%	2.75%	>EUR595m
FIG (Subordinated)						
Bankinter	Tier 2	EUR750m	11.5NC6.5	MS + 145	MS + 170	>EUR1.9bn
BayernLB	Tier 2 (Green)	EUR500m	10.25NC5.25	MS + 135	MS + 165	>EUR2.2bn
Commerzbank	AT1	EUR500m	PNC7	4.25%	4.875%	>EUR1.75bn

Source BondRadar, Bloomberg.

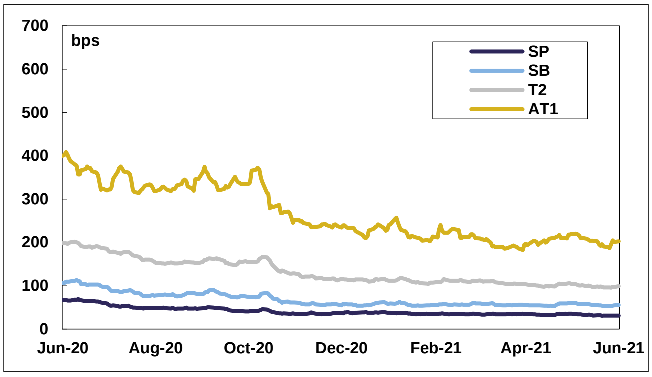
Secondary markets remained stable in EUR and USD despite minor increases in risk perceptions. CDS price indices on European senior (56ps) and subordinated financials (106bps), as measured by iTraxx benchmarks, priced 1bps and 3bps wider against last week's levels.

FOMC members raised their near-term forecasts for growth and inflation and also brought forward their projection for the timing of the first hikes in the Fed Funds Rate. The median view on the FOMC foresees two rate hikes take place in 2023, while seven members of the Committee now predict a hike in 2022. That news significantly impacted the US Treasury curve, with marked bear-flattening later in the week. However, the impact on secondary market spreads was less clear-cut. It will be interesting to see whether the outcome of Thursday's Bank of England's monetary policy announcements will similarly have a more hawkish tone, or whether it continues to judge current price pressures merely as transitory.

Weekly average EUR spreads were broadly stable across payment ranks with SP (-0.3bps), SNP (+0.5bps) and Tier 2 (+1.3bps). USD average weekly spreads also remained stable week on week with SP (+1bps), SNP (-0.5bps) and Tier 2 (-1.9bps). Based on data collected from Bloomberg, 15% of FIG tranches issued in June and 16% of SSAs tranche quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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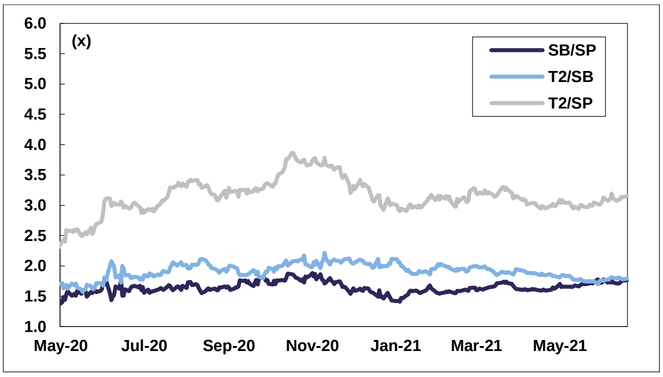


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

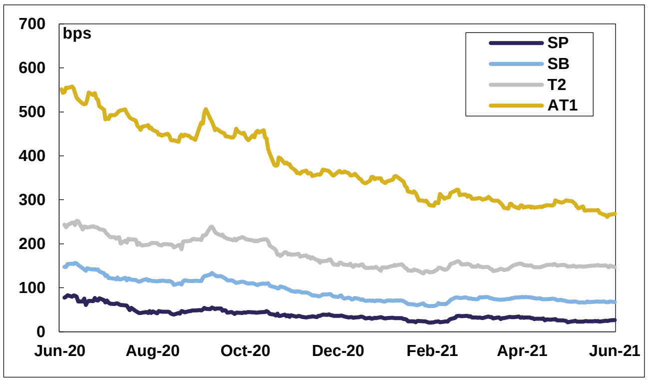
Selected Names

	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	4.6	0.2	41.8	-0.6	-8.3	3.5	0.2	49.3	-0.4	-12.7	4.4	1.3	152.0	-2.3	-61.6
Barclays	2.9	0.0	31.1	-2.7	-27.4	2.8	0.1	52.6	-0.9	-8.5	3.1	0.7	109.0	4.6	-34.6
BBVA	4.9	0.2	37.6	0.5	-5.8	3.5	0.0	37.8	0.3	-8.5	5.0	0.7	94.5	1.5	-24.0
BFCM	4.4	0.0	30.0	-0.1	-3.5	7.8	0.6	67.2	1.5	3.0	4.5	0.5	74.8	1.7	-6.9
BNPP	2.2	-0.3	13.8	-0.6	-9.4	4.9	0.3	51.8	0.3	-7.9	4.4	0.6	79.3	2.0	-26.8
BPCE	3.2	-0.2	20.3	-0.6	-7.4	4.6	0.3	51.6	0.6	-4.4	1.9	0.3	61.8	-0.3	-6.9
Credit Ag.	3.2	-0.1	21.2	-0.6	-6.2	5.2	0.3	52.7	0.6	-1.8	4.3	0.9	102.5	1.4	-14.7
Credit Sui.	4.6	0.2	41.8	-0.6	-8.3	4.8	0.6	86.3	1.3	22.7	5.4	1.1	123.0	2.9	0.1
Danske	1.9	-0.2	23.7	-0.9	-12.0	2.7	0.0	44.9	-0.3	-13.2	3.6	0.8	118.3	2.4	-16.5
Deutsche	2.2	0.0	36.7	-0.9	-10.3	4.2	0.6	84.3	-1.7	-31.1	4.2	1.3	152.6	0.5	-86.6
DNB	2.4	-0.3	14.5	-0.7	-10.9	7.5	0.5	59.8	0.9	4.3	1.2	0.1	49.5	0.7	2.9
HSBC	4.6	0.0	25.9	-1.7	-8.4	3.2	0.0	52.6	-2.3	2.6	5.1	0.4	65.7	-4.3	-12.3
Intesa	3.8	0.0	37.5	-0.3	-13.7	3.7	0.5	77.0	-0.1	-38.4	4.7	1.5	167.3	-0.8	-69.8
Lloyds	2.3	-0.3	10.8	-0.8	-8.4	3.2	0.0	43.1	-0.2	-16.0	2.2	0.1	55.8	-0.4	-50.7
Nordea	3.6	-0.2	15.9	-0.1	-11.4	5.8	0.2	35.4	0.8	-5.8	3.5	0.4	70.5	1.6	-10.9
Rabobank	3.7	-0.2	14.0	-0.1	-14.5	5.3	0.2	30.6	0.9	-6.4	1.6	-0.1	34.8	-0.8	-9.7
RBS	3.2	0.0	29.5	-0.3	-10.5	5.3	0.2	30.6	0.9	-6.4	1.6	-0.1	34.8	-0.8	-9.7
Santander	4.6	0.0	33.3	0.4	-4.1	5.1	0.4	60.9	3.5	-1.4	5.2	0.7	87.6	6.0	-18.8
San UK	4.6	-0.1	21.4	-1.6	-14.8	2.0	-0.1	41.1	-0.9	-11.9	5.2	0.7	87.6	6.0	-18.8
SocGen	3.3	-0.1	23.0	0.0	-8.5	6.1	0.6	78.9	0.5	0.7	3.5	0.4	79.1	0.9	-17.4
StanChart	5.0	0.1	34.4	0.2	-6.1	5.0	0.3	57.2	0.8	4.6	3.8	0.9	123.6	2.5	-17.8
Swedbank	3.8	-0.1	25.9	-0.2	-11.7	5.3	0.3	55.5	1.3	-1.1	1.4	0.2	65.0	0.2	-33.9
UBS	3.3	-0.1	24.2	0.1	-7.5	3.3	0.1	49.5	0.2	-3.2	8.5	1.9	192.5	4.9	7.2
UniCredit	4.6	0.3	64.5	0.4	-11.3	3.5	0.6	96.7	-0.5	-19.6	2.5	1.4	173.5	1.2	-56.9

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)



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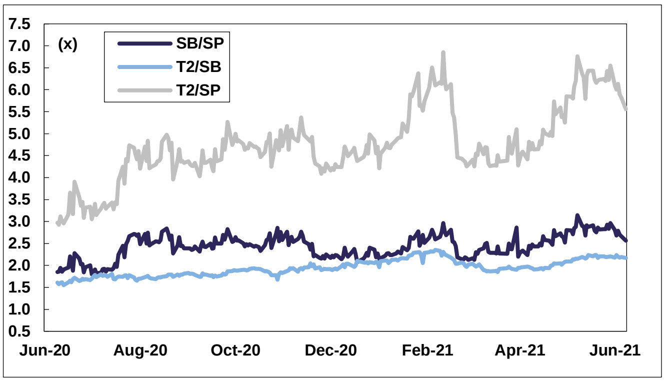

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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
Barclays	2.8	0.7	18.2	2.2	-19.5	3.9	1.6	71.9	0.0	-10.3	6.0	2.8	159.0	-1.9	-10.6
BFCM	2.0	0.4	21.3	3.2	-10.0	3.9	1.6	71.9	0.0	-10.3	6.0	2.8	159.0	-1.9	-10.6
BNPP	1.6	0.4	13.9	7.9	-1.2	5.0	1.7	75.9	-0.4	-9.2	5.1	2.3	121.4	-0.1	2.5
BPCE	4.8	1.4	44.0	0.6	-13.5	4.9	1.6	61.5	-1.0	-14.0	2.8	1.3	75.0	0.4	-12.1
Credit Ag.	2.7	0.8	27.4	5.4	5.3	3.8	1.4	60.6	0.1	-8.3	6.6	2.6	133.9	-1.2	-5.1
Credit Sui.	2.6	0.5	27.9	1.5	2.2	4.1	1.6	82.2	0.4	5.7	2.1	1.9	138.9	2.0	14.4
Danske	2.5	0.8	40.9	0.9	-2.5	2.2	1.0	64.3	-0.5	-21.1	2.1	1.9	138.9	2.0	14.4
Deutsche	4.6	1.5	55.3	0.6		3.2	1.4	79.2	-0.3	-38.7	4.5	3.0	201.6	-1.5	-81.0
HSBC	3.1	0.9	63.6	6.1	-18.7	4.5	1.6	66.6	-0.4	-10.0	10.5	3.3	171.3	-0.2	-6.8
ING	3.1	0.9	63.6	6.1	-18.7	4.6	1.6	63.4	0.3	-5.6	1.9	1.4	105.4	3.4	-8.2
Intesa	2.8	1.2	71.8	2.0	-23.9	4.6	1.6	63.4	0.3	-5.6	4.0	3.4	219.9	-4.2	-44.6
Lloyds	3.7	1.3	56.1	5.1	-6.6	3.1	1.2	49.4	2.6	-6.0	4.3	1.9	94.7	-2.5	-25.3
Nordea	2.9	0.7	15.0	2.8	-4.8	2.1	0.7	24.9	0.3	-13.9	1.2	0.6	30.0	6.8	-3.2
Rabobank	3.7	1.0	23.6	0.7	-13.2	3.9	1.3	46.1	0.6	-3.8	4.2	1.7	74.0	-0.6	-6.8
RBS	3.7	1.0	23.6	0.7	-13.2	3.9	1.3	46.1	0.6	-3.8	4.2	1.7	74.0	-0.6	-6.8
Santander	5.0	1.5	61.9	-2.0	-10.5	5.2	2.0	96.7	1.7	-6.6	6.2	2.4	125.1	0.5	-3.8
San UK	2.6	0.7	17.2	3.2	-14.3	3.5	1.3	59.9	1.4	-11.5	3.9			-1.6	-78.8
SocGen	3.9	1.3	52.7	-0.1	2.0	4.3	1.8	87.4	-0.2	-14.8	4.0	2.1	118.3	-1.5	-24.1
StanChart	1.0	0.6	38.6	-6.3	-16.2	3.1	1.2	64.4	0.7	-14.7	5.0	2.5	147.9	3.5	-21.5
UBS	2.6	0.6	33.7	1.4	7.9	4.4	1.6	64.1	-0.6	-3.2	5.0	2.5	147.9	3.5	-21.5
UniCredit	5.1	2.3	131.9	5.1	-38.1	4.0	1.9	116.5	5.3	-24.8	6.0	4.3	296.5	-1.3	-37.2

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.

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Assumptions, Significance and Limitations of Credit Ratings

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Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of March 7th, 2017, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")
The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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 "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.

For the details of assumption, purpose and restriction of credit ratings, please refer to "Definitions of ratings and other forms of opinion" on the website of Fitch Rating Japan Limited.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of September 27th, 2019, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Fitch Rating Japan Limited (https://www.fitchratings.com/site/japan)

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