European Banks – Credit Update

- BBVA to acquire remaining stake in Turkish subsidiary despite domestic volatility.
- UK Green Finance Roadmap holds many opportunities for UK firms, if implemented successfully.
- Primary market issuance picks up but issuers struggle to tighten pricing by much as funding conditions remain challenging. Risk indicators remain elevated compared to prior months while Covid restrictions re-emerge, adding further pressure on secondary market spreads widening.

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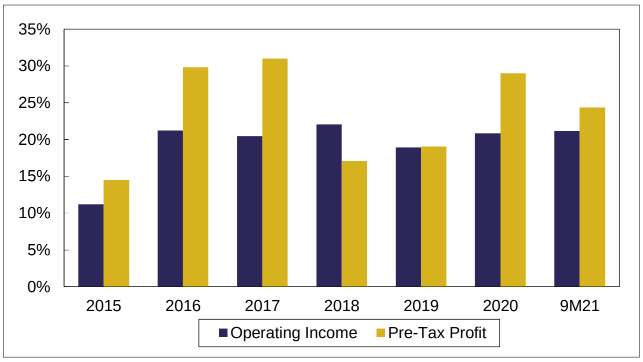
BBVA goes all in on Turkey

Early last week, BBVA's board announced that it has launched a bid to take full control of its listed Turkish subsidiary Turkiye Garanti Bankasi (Garanti). The bid is targeting the remaining 50.15% of shares that it does not already own in Garanti Bank. Turkey is the third largest revenue contributor to the BBVA group after Mexico and BBVA's home country Spain. Garanti contributes 16% of gross revenues while pre-tax profit generated in 9M21 was EUR1.5bn, representing 24% of the group total. Garanti has consistently been a profitable endeavor for BBVA and in the most recent quarter generated a RoE of 20%. BBVA is understood to offer TRY26bn (EUR2.2bn) for the outstanding stake, representing a ~15% premium over Garanti's closing share price prior to the announcement. BBVA even stated that they are offering a 34% share premium over the weighted average price of the past six month.

Garanti income as a share of BBVA Group total



Source: Bloomberg; Financial Reports

The Turkish Lira has depreciated more than 30% since the beginning of the year and inflation reached almost 20% yoy in October. In this challenging environment, and seemingly under political pressure, the Turkish central bank (CBRT) has taken the unorthodox step of lowering the benchmark interest rate by 400bps since September to 15%. So, despite the ongoing policy uncertainty, the BBVA deal represents a vote of confidence, not only in BBVA's subsidiary but in the country's financial sector and wider economy in the long term. Indeed, this comes at a time when other European banks are reducing their exposure to Turkey, such as the phased retreat of UniCredit from its investment in Yapi Kredi. UniCredit recently announced that it intends to sell its remaining 20% stake in Yapi by March 2022 to focus on its core markets. However, BBVA have been consistent in their commitment to Turkey over the past decade, having experienced volatile markets there on several occasions. To mitigate some of the risks, the group actively hedges all of its main investments in emerging markets, which account for on average between 30-50% of annual earnings and around 70% of the CET1 capital ratio surplus. BBVA states that CET1 sensitivity to a 10% depreciation in the Turkish Lira is 0bps. The same CET1 impact in the Mexican Peso for example would be -5bps.

With this transaction, BBVA is finally putting some of the EUR9.7bn it made through the sale of its US subsidiary to use after a tie up with Sabadell fell through last year. After not being able to agree on pricing with its domestic rival, BBVA stressed that it would only pursue acquisitions that it deems to make economic sense. In this context, an expansion into a market it already knows well, with a subsidiary that is well integrated into the wider group, makes sense. Although the deal is only expected to take place in 1Q22, BBVA has already had full control over Garanti's board since 2015. BBVA will gain a stronger foothold in a highly profitable market and it will also allow the group to fully account for Garanti's capital when calculating group ratios

UK Green Finance Roadmap

The UK government released its 'Green Finance Roadmap' in October 2021 just two weeks ahead of the United Nations 2021 Climate Change Conference (COP26). The paper broadly outlines the government's high-level policy intentions in relation to two key legislative proposals across two phases. Phase 1 covers the new UK Sustainability Disclosure Requirements (SDR), which will be built on the existing TCFD-aligned disclosures to which many sectors in the economy are, or will be, subject to. Phase 2 encompasses a UK Green Taxonomy, which will lean heavily on the EU Taxonomy regime. The roadmap sets out some indicative timelines legislation and regulatory rule-making over the next three years or so, although a detailed consultation and implementation process will be carried out on a sector-by-sector basis.

Under the UK SDR proposal, UK-registered corporates (including financial services firms) will need to make sustainability disclosures, including reporting under new International Sustainability Standards Board (ISSB) standards. The government expects that the standards developed by the ISSB will build on the four pillars of the TCFD recommendations (strategy, governance, risk management, metrics and targets). The ISSB's standards, building on the work of the TCFD, will focus on information that is material to investors. The UK SDR should go further, requiring wider information on how firms impact the environment. This includes requiring disclosure against the UK's Green Taxonomy.

In this context, the Financial Conduct Authority (FCA) is working with the Treasury on the development of a sustainable investment labelling regime. The labels will help consumers select investment products based on their sustainability characteristics and will be supported by the underlying SDR disclosures. It is envisaged that the labelling regime will cover the spectrum of investment products, classifying them objectively against specified sustainability criteria. For this purpose, the FCA published a discussion paper in early November, seeking views on the proposed new SDR and three-tiered labelling system with varying degrees of disclosures targeted at different types of investors. The FCA also proposes that asset managers and certain FCA-regulated asset owners should be in scope of the new disclosure rules. The FCA has set a deadline for providing comments, which is 7th January 2022 and a consultation is expected in 2Q22.

It is encouraging to see that the FCA states that it will be taking into account other disclosure initiatives such as the EU's entity and product level disclosure requirement under SFDR and the IFRS' international sustainability standards, which should allow for alignment and consistency between the regimes. However, some divergence is expected as the FCA's potential product classification (Transitioning, Aligned, Impact) will not exactly map to the equivalent articles under SFDR. In the meantime, the development of the UK's green taxonomy is also well underway and draws on the EU's approach. The UK government plans to consult on technical screening criteria (TSC) for two of the six environmental objectives, climate change mitigation and adaptation, in 1Q22 and propose legislation by end-2022. The remaining objectives are expected to be consulted on in 1Q23. Within the upcoming regulation lies a sizeable opportunity for the UK government and its bodies to take note of the criticism surrounding rule complexity and burdensome data requirements under the EU framework. The UK regime could offer a simplified and straightforward framework that would be less complex and still meaningful to investors. Data availability has been a key issue for many firms under the EU taxonomy, which should signal to UK firms that data preparedness could represent a significant advantage. The obvious overlaps between the aforementioned reporting regimes should allow UK firms to start planning how to produce and extract the more granular and detailed data required, enabling them to report on taxonomy alignment sooner than their European peers.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR10.5bn over the course of last week, the upper end of market expectations of EUR6bn-10.5bn. FIG supply of EUR8.1bn was also within the weekly forecast amount of EUR5bn-9bn. The total 2021 year-to-date FIG volume of EUR435bn is 21% ahead of last year's issuance volume. SSA volumes however, remain behind last year's level, down 8.2% at EUR709bn. For the week ahead, survey data suggest SSA volumes will range between EUR4.5bn-8.5bn and FIGs are expected to issue EUR2bn-4.5bn.

SSA deal flow was strong last week with several ESG-themed deals. Euro SSA deals struggled to grow sizeable book orders, which was partially responsible for spreads remaining at or near IPT. **Bank Nederlanske Gemeenten (BNG)** received a solid response from investors for its SDG-linked social bond. The spread on the EUR500m bond remained unchanged at MS+4bps book orders 3.6x over deal size. The 15-year note was the first under the new social bond framework published by BNG. According to the issuer, the deal came to market later than anticipated as the second party opinion provided on the framework was delayed. In 2021, 25% of all of BNG's issuance was sustainable and with the new framework in place the issuer hopes to exceed this figure next year. This was their second social bond since their EUR2bn April issuance. **Instituto de Crédito Oficial (ICO)**, the Spanish government's specialised lending institution and central financing agency, issued a EUR500m social bond. The 3-year WNG was one of the few deals that tightened from guidance. Spreads were set at SPGB+7bps (-3bps from IPT). The tighter pricing compared to others could be linked to the deal's 2.6x oversubscription as well as the rarity of the name in the market. This was only ICO's second deal in 2021, the other being a green bond issued in June. According to Bloomberg data, ICO has issued seven ESG bonds since 2017 (four social and three green) for a combined EUR3.5bn. The **Autonomous Community of Madrid (ACM)** provided further themed debt supply with a green senior unsecured for EUR500m. The 7-year deal spread was SPGB+11bps (-3bps from IPT). ACM's other recent ESG issuance was a EUR1bn sustainable bond that came to market in March 2021, following ACM's inaugural EUR700m green bond launched in May 2020. The region has been issuing ESG themed debt since 2017 across five transactions with outstanding volumes of EUR6.3bn, making it Spain's largest public sector ESG issuer.

FIG deal supply was dominated by core European names such as **Commerzbank's** short-dated 2-year floating rate note (FRN) for EUR700m. Despite the tricky conditions in recent weeks, the German lender sought to issue a SP no-grow following better than expected 3Q21 earnings results. The spread was revised to 3mE+25bps (-10bps from IPT) but a lack of comparable deals made it difficult to discern fair value. Earlier that week Commerzbank launched a further short dated 3-year, GBP250m SP bond, adding to the strong run for the currency. **Barclay's** launched its largest USD offering since 2018, launching a combined USD4bn across 3 tranches. As per Barclay's latest fixed income investor presentation from 3Q21 the lender already met their 2021 funding targets by September but would monitor market opportunities and investor demand for potential pre-funding opportunities for 2022 in Q421. The longer-dated triple tranches can therefore be viewed as pre-funding for 2022 in line with the group's strategy to meet MREL requirements, allowing for prudent headroom. Despite weeks of volatile and sub-optimal funding condition, **BayernLB** marked the return of subordinated debt transactions with its green Tier 2. The EUR500m WNG had an 11NC6 tenor but muted demand for the deal was attributed to existing sub-debt supply from BayernLB. The spread of MS+140bps was only 5bps wider than the spread of BayernLB's recent June Tier 2 that carried similar size and tenor and launched into a considerably more benign market environment.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
BNG Bank	Sr. Unsecured (SDG Social)	EUR1.5bn	15Y	MS + 4	MS + 4	>EUR1.8bn
Societe du Grand Paris	Sr. Unsecured	EUR1.75bn	10Y	OAT + 23	OAT + 23	>EUR1.95bn
Societe du Grand Paris	Sr. Unsecured	EUR1.25bn	30Y	OAT + 23	OAT + 23	>EUR1.45bn
ICO	Sr. Unsecured (Social)	EUR500m	3Y	SPGB + 7	SPGB + 10	>EUR1.3bn
Autonomous Community of Madrid	Sr. Unsecured (Green)	EUR500m	7Y	SPGB + 11	SPGB + 14	>EUR1.2bn
IBRD	Sustainable Development Bond	NZD1.5bn	5Y	MS + 17	MS + 17	>n.a.
Ile-de-France Mobilités	Sr. Unsecured (Green)	EUR500m	15Y	OAT + 30	OAT + 30	>EUR530m
FIG (Senior)						
Commerzbank	SP (FRN)	EUR700m	2Y	3mE + 25	3mE + 35	>EUR1.1bn
Commerzbank	SP	GBP250m	3Y	G + 105	G + 105	>GBP265m
Barclays	Sr. Unsecured	USD1.75bn	6NC5	T + 105	T + 125	>n.a.
Barclays	Sr. Unsecured	USD1.25bn	11NC10	T + 130	T + 150	>n.a.
Barclays	Sr. Unsecured	USD1bn	21NC20	T + 130	T + 150	>n.a.
Standard Chartered	Sr. Unsecured	USD1bn	4NC3	T + 95	T + 110/1115	>n.a.
Standard Chartered	Sr. Unsecured (FRN)	USD500m	4NC3	SOFR + 93	SOFR + 93	>n.a.
NN Group	Sr. Unsecured	EUR600m	10Y	MS + 70	MS + 70/75	>EUR670m
FIG (Subordinated)						
Bayern LB	Tier 2 (Green)	EUR500m	11NC6	MS + 140	MS + 140/145	>EUR500m
Banco Santander	Tier 2	USD1bn	11NC10	T + 160	T + 175/180	>n.a.
Deutsche Bank	AT1	EUR1.25bn	PNC5	4.50%	4.75%	>EUR2.3bn

Source BondRadar, Bloomberg.

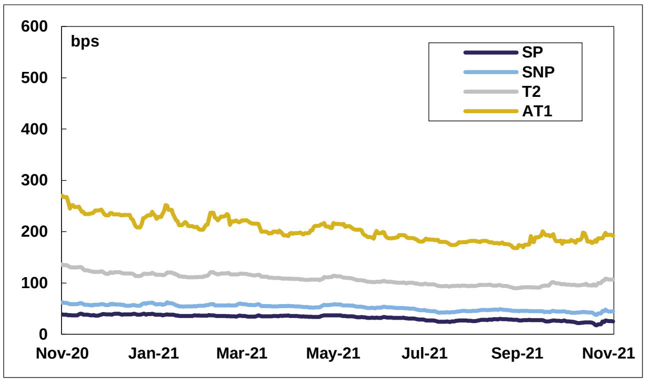
Secondary markets were mostly wider in EUR and USD as risk indicators pointed upwards amidst ongoing volatility in rates and equity markets. CDS price indices on European senior (58.1bps) and subordinated financials (112bps), as measured by iTraxx benchmarks, priced 2.5bps and 3bps wider against last week's levels.

Markets continued to be challenged as risk indicators and secondary market spreads have generally gone wider. Among senior issuance the widening occurred predominantly in shorter-dated maturities while for Tier 2 it was more back-loaded. Funding windows for many issuers are gradually closing this year and thoughts are now turning to 2022 funding plans. The expected reduction in primary market supply will likely not support any significant spread tightening by year-end. At the same time, the resurgence of Covid-related lockdown measures implemented in some EU countries has added to market uncertainty. While 66% of the EU population has now received at least two vaccinations, case numbers have been soaring in certain central and Northern European countries, leading Austria, the Netherlands and Germany to tighten Covid restrictions. While that is bad news for the near-term growth outlook, inflationary pressure persists, maintaining speculation over the timing of monetary tightening in the UK and US, and to a lesser extent the euro area.

Weekly average EUR spreads were generally wider across payment ranks with SP (+7.6bps), SNP (+3.9bps) and Tier 2 (+5.5bps). USD average weekly spreads also widened week on week with SP (+1.9bps), SNP (+2.5bps) and Tier 2 (+4.2bps). Based on data collected from Bloomberg, 31% of FIG tranches issued in November and 38% of SSAs tranche quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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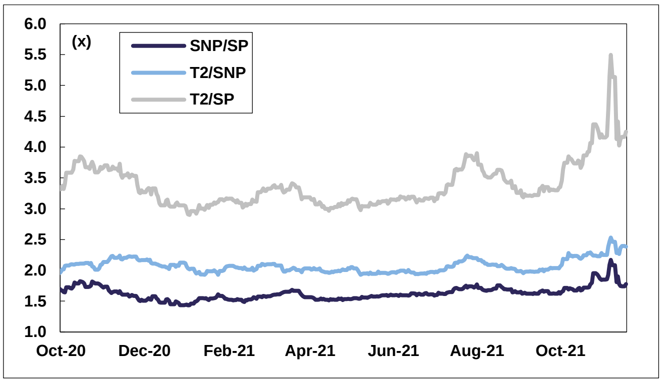


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

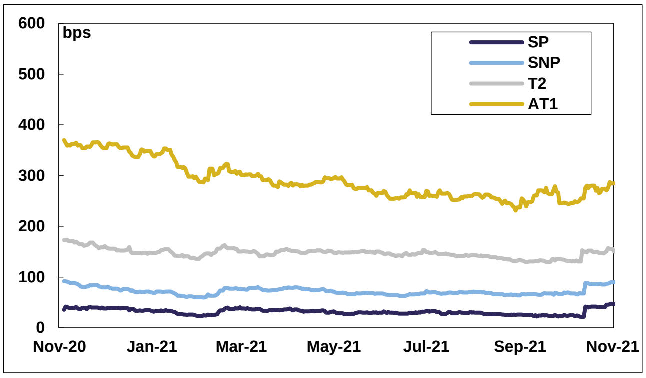
Selected Names

	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	4.2	0.2	35.8	6.6	-15.8	3.3	0.2	39.4	5.2	-23.7	4.0	1.5	160.0	3.7	-53.8
Barclays	2.5	0.0	19.2	7.1	-40.1	2.5	0.1	39.3	7.8	-21.3	2.7	0.8	103.3	4.2	-40.7
BBVA	4.6	0.2	30.3	4.7	-11.5	3.4	0.1	31.7	6.1	-9.5	3.1	0.9	95.7	6.6	-33.5
BFCM	4.5	0.1	22.8	7.3	-10.7	7.4	0.6	60.5	3.8	-2.7	4.8	0.6	72.2	3.6	-13.0
BNPP	2.4	-0.2	6.8	9.6	-19.4	4.4	0.3	39.6	3.3	-16.5	4.3	0.6	71.3	4.2	-30.3
BPCE	2.8	-0.1	12.3	8.5	-12.8	4.2	0.3	40.3	5.0	-14.6	4.3	0.5	57.1	3.9	-9.3
Credit Ag.	3.5	-0.1	18.6	6.8	-10.7	4.8	0.4	46.3	4.8	-7.6	4.0	0.8	88.0	3.3	-21.5
Credit Sui.	4.2	0.2	35.8	6.6	-15.8	4.5	0.6	78.6	2.9	12.5					
Danske	1.9	-0.2	19.3	6.3	-16.7	2.3	-0.1	26.8	4.9	-25.1	3.1	0.9	107.4	3.6	-35.2
Deutsche	1.8	-0.1	19.4	6.7	-27.0	3.8	0.6	69.1	3.7	-41.0	3.8	1.1	126.0	8.8	-111.4
DNB	2.0	-0.3	2.2	7.6	-23.9	6.5	0.5	53.5	5.4	-2.1	0.8	0.0	41.2	0.1	-7.0
HSBC	4.1	0.0	20.9	6.9	-13.8	3.9	0.1	47.1	4.2	-4.0	4.7	0.5	61.8	3.0	-15.4
Intesa	4.3	0.2	37.9	5.7	-16.1	3.3	0.4	61.9	2.3	-49.6	4.4	1.6	165.7	3.2	-89.5
Lloyds	3.1	-0.1	7.8	5.3	-13.3	2.8	0.0	32.1	5.5	-20.9	1.8	0.1	46.9	5.5	-59.3
Nordea	4.5	-0.1	5.7	4.2	-21.6	6.9	0.5	35.2	2.9	-15.6	5.6	0.6	76.9	0.9	-19.3
Rabobank	3.4	-0.2	2.6	6.2	-25.4	4.9	0.2	25.7	4.1	-13.7	1.6	-0.1	20.3	1.1	-24.3
RBS	3.2	0.1	23.1	6.2	-16.8	4.9	0.2	25.7	4.1	-13.7	1.6	-0.1	20.3	1.1	-24.3
Santander	3.7	0.0	22.1	4.9	-9.3	5.1	0.5	56.5	2.0	-6.5	4.7	0.9	94.6	4.3	-15.5
San UK	3.2	-0.2	1.3	1.5	-34.4	1.8	-0.1	32.2	5.1	-12.2	4.7	0.9	94.6	4.3	-15.5
SocGen	4.5	0.2	35.5	5.0	-5.1	5.7	0.6	68.5	3.0	-10.2	2.3	0.6	85.9	3.1	-32.2
StanChart	4.9	0.2	33.4	2.4	-0.3	4.7	0.5	56.3	2.2	2.8	3.4	1.0	122.2	0.1	-20.1
Swedbank	4.2	0.0	20.0	4.4	-11.3	4.5	0.3	46.2	5.1	-10.8	1.0	0.1	54.2	3.6	-45.6
UBS	4.4	0.1	20.0	5.3	-8.6	4.3	0.2	39.1	3.1	-8.4	8.7	2.1	203.5	8.8	19.3
UniCredit	3.4	0.3	56.5	4.2	-20.1	3.1	0.6	85.4	4.3	-33.0	2.4	1.6	187.9	10.9	-50.8

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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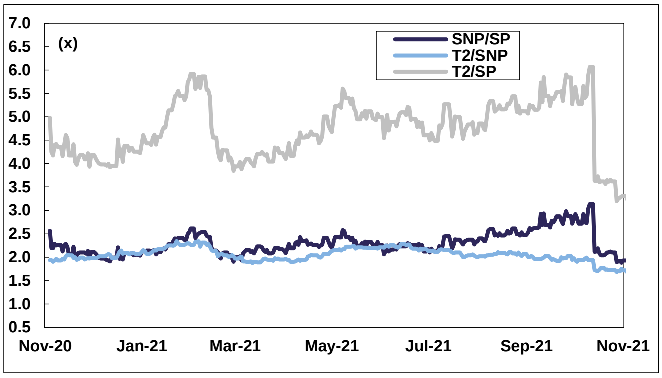

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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	2.4	1.0	27.7	2.2	-10.0	4.7	2.3	117.3	7.1	5.5	5.6	2.9	167.9	7.7	-1.9
BFCM	2.9	1.1	45.1	3.4	-1.9	4.7	2.3	117.3	7.1	5.5	5.6	2.9	167.9	7.7	-1.9
BNPP	1.2	0.6	25.5	0.2	10.3	5.1	2.1	98.1	4.4	8.3	4.7	2.7	148.0	3.7	13.6
BPCE	4.3	1.8	68.5	1.9	3.9	5.2	2.3	103.6	3.2	11.7	3.1	1.8	95.0	4.2	-0.4
Credit Ag.	2.3	1.1	36.4	0.5	6.3	3.4	1.8	76.7	1.0	0.8	6.2	2.8	150.4	4.1	0.5
Credit Sui.	2.2	0.8	38.0	2.7	14.0	3.7	2.0	98.7	3.1	27.5	1.7	1.9	125.2	-3.8	-14.4
Danske	2.7	1.4	59.5	0.1	11.8	2.0	1.5	84.5	0.8	-9.0	1.7	1.9	125.2	-3.8	-14.4
Deutsche	4.2	1.8	81.5	6.2		3.8	2.2	109.2	2.9	-24.5	4.1	2.9	184.2	5.6	-120.7
HSBC	2.8	1.0	89.9	-1.0	7.5	4.2	2.1	101.4	6.1	18.9	10.2	3.4	188.4	6.1	18.5
ING	2.8	1.0	89.9	-1.0	7.5	4.2	2.0	87.7	5.3	7.5	1.5	1.6	116.6	-2.0	-4.6
Intesa	2.6	1.5	88.0	1.3	-15.3	4.2	2.0	87.7	5.3	7.5	3.7	3.6	236.2	-10.4	-49.8
Lloyds	6.3	2.3	114.6	2.8	-5.0	2.8	1.6	66.7	1.9	6.8	3.9	2.7	141.2	3.3	-10.1
Nordea	2.5	1.1	30.9	2.3	2.9	3.2	1.4	53.7	0.4	-13.4	3.9	2.7	141.2	3.3	-10.1
Rabobank	3.3	1.3	34.0	0.2	7.1	3.5	1.7	63.4	1.3	9.6	4.3	2.0	85.0	5.0	6.9
RBS	3.3	1.3	34.0	0.2	7.1	3.5	1.7	63.4	1.3	9.6	4.3	2.0	85.0	5.0	6.9
Santander	2.5	1.2	45.9	1.9	4.3	4.7	2.2	108.7	3.8	8.9	7.9	3.1	171.1	6.5	12.1
San UK	2.2	1.1	34.9	4.9	4.6	3.1	1.9	91.4	2.0	12.0	3.5			3.9	-64.1
SocGen	3.5	1.6	63.8	-0.5	13.2	3.9	2.2	111.6	2.2	-6.8	3.6	2.4	134.1	2.2	-12.9
StanChart	0.5	0.3	21.2	3.9	-33.6	3.0	1.8	90.3	3.5	1.2	4.7	2.9	170.8	3.2	-7.8
UBS	2.4	0.9	44.5	3.3	20.7	4.0	2.0	87.2	1.9	16.5	4.7	2.9	170.8	3.2	-7.8
UniCredit	4.8	2.6	145.1	3.7	-24.8	3.6	2.1	121.2	1.4	-31.8	5.8	4.2	291.0	7.7	-49.3

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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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.

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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