European Banks – Credit Update

- Rising interest rates will likely not solve banks' profitability issues as headwinds persist
- Primary markets for both SSAs and FIGs were relatively active with issuers carefully picking funding windows. For FIGs, the market was predominantly accessed by high-quality names, including those from the periphery. New issue premiums remain firmly in double-digits.
- Secondary market spreads continued to widen in EUR and USD in response to the worsening economic outlook and continued expectation of rising policy interest rates.

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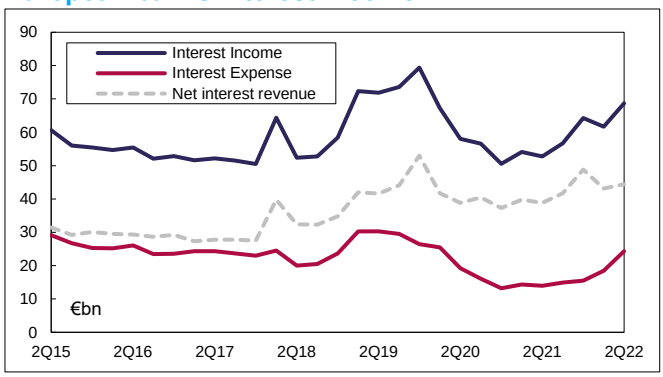
Navigating rate hike environment could be challenging for banks

Recent monetary policy tightening by central banks has often been perceived as broadly positive for European banks after the sector endured more than a decade of falling or stagnant interest rates. Over that period time, low interest rates put pressure on banks' profitability metrics, in part ushering in restructuring programmes and cost-saving measures in order to compensate for the loss of income. The pandemic resulted in rising deposit volumes thanks to accommodative central bank policies and higher levels of savings from customers. The recent shift in monetary policy prompted banks to pass on policy rate hikes to their lending and deposit-taking activities to varying degrees, depending often on the composition of the respective balance sheet and asset maturity profile. By making borrowing more expensive and savings more attractive, excess liability management is essential in navigating this new environment successfully. To offset the rising costs of customer deposits, banks will need to step up their lending activities, as they will tend only to receive higher interest rates on new loans. But achieving this will be a challenge in this weakening operating environment.

Higher interest rates may not necessarily lead to higher profits

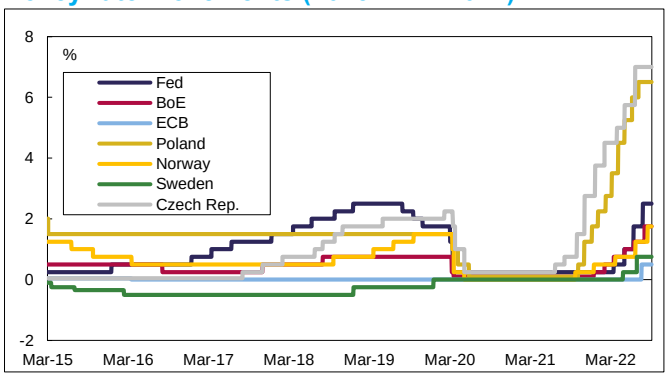
The shorter maturities of bank liabilities compared with balance sheet assets may reduce net interest margins (NIM), especially in an environment where lending activity is constrained. As of 2022, interest-bearing deposits exceeded 2019 levels by more than 25% but rising levels of inflation have started to erode savings while rising yields make certain assets more attractive for bank customers than savings accounts, accelerating deposit withdrawals. Bank lending meanwhile, has been expanding at below pre-pandemic levels, with some exceptions. The largest expansion of balance sheet assets was registered among cash and securities holdings as these increased 70% since 2019, exposing banks to valuation adjustment losses, and funds tied up in lower interest-generating reserves or securities. Rising interest cost pressure is amplified by more volatile wholesale markets that have adverse effects on banks' refinancing costs. We expect widening credit spreads to add to the cost base as a result of slowing economic growth, in turn limiting capital market access for certain entities. So far, the issuance of bank debt remains ahead of levels observed last year, but highly changeable conditions mean access is predominantly limited to tier 1 names.

European banks interest income



Source: Bloomberg; Pan-European Bank Valuation Peers

Policy rate movements (2015 - YTD2022)



Source: Bloomberg

In addition to the aforementioned headwinds, certain jurisdictions have introduced restrictions on borrowing rates, thus limiting banks' ability to take advantage of the higher rate environment with their new lending activity. In France for example, the 'taux d'usure' (usury rate) is a legal restriction on how much banks can charge for housing loans. The current cap of 2.57% applies to fixed-rate housing loans with 20-year maturities or longer. The cap is revised on a quarterly basis and will be next reviewed at end-September. A formula calculates the effective interest rate charged by banks over the past quarter and grows in increments However, in light of expected further rate hikes, this structural lag will likely restrict lending to higher-yielding customer segments as rising effective interest rates will likely bring lending to this customer segment closer to the cap. Ultimately, such restrictive policies on lending activities will result in lower profitability for the sector.

The case for higher margins in UK and Germany

Banks in the UK or Germany may benefit from rising rates for different reasons. The UK was among the first major developed economies to experience increases in policy interest rates, which has led Fitch ratings to forecast a boost to banks' earnings that could mitigate the impact of likely asset deterioration caused by weaker GDP growth. The agency expects this to benefit banks with high proportions of current account deposits, as there is limited interest rate pass-through on current accounts. In this context, the expectation is for mid-sized banks, monoline mortgage lenders and challenger banks to find it more challenging to widen margins as they rely more on savings deposits. Earlier this year, German banks stated that they expect strong positive effects from ECB rate hikes on their revenue profiles. Deutsche Bank expects revenues to be EUR600m higher in 2022 compared to the previous year, while Germany's number two, Commerzbank, expects a positive rate effect of some EUR100m on 2022 NII performance. While these developments appear positive, the profitability challenge for banks will be strongly linked to how well they manage higher operating expenses linked to wage inflation, rising loan-loss provisions and reduced lending tied to a slowing of the overall economy.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR13.9bn over the course of last week, just within market expectations of EUR11.5bn-16bn. FIG supply of EUR18.7bn was above the weekly forecast amount of EUR9bn-14bn. The total 2022 year-to-date FIG volume of EUR382bn is 26.5% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 30% at EUR401bn. For the current week, survey data suggest SSA volumes will range between EUR14bn-19bn and FIGs are expected to issue EUR11.5bn-16.5bn.

It was another busy week for **SSAs** with issuers looking to progress their funding plans. Investor interest in deals from supras and agencies rose on the back of the larger spread pick-up over core Euro-govies, which in turn occurred due to underperforming euro swap-spreads. In this environment, Daiwa Capital Markets Europe (DCME) acted as joint lead for the placement of a EUR1.25bn bond by **Japan Finance Organization for Municipalities (JFM)**. The 5-year fixed bond priced MS+21bps (-3bps from IPT) after receiving book orders of EUR3.3bn. It was the first benchmark euro-denominated bond issued by JFM in over a year and the largest ever euro-bond issued by a Japanese SSA. The issuance of international bonds is part of JFM's funding strategy, aimed at expanding its investor base and diversifying its funding sources. When compared to DBJ's recent September-2026 euro-bond we infer a 2bps new issue premium from traded levels but this will likely be due to the one-year extension offered by JFM. Regional allocation for JFM was geared towards EMEA (83%), Asia (16%) and the US (1%) while the investor type consisted predominantly of banks (44%), asset managers & hedge funds (39%) and central banks & official institutions (11%).

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
IDA	Sr. Unsecured (SDB)	EUR2bn	15Y	MS + 10	MS + 10	>EUR2.9bn
NIB	Sr. Unsecured	USD1.25	5Y	SOFR MS + 36	SOFR MS + 38	>USD2.3bn
KommuneKredit	Sr. Unsecured	EUR1bn	10Y	MS + 4	MS + 6	>EUR2.2bn
ADB	Sr. Unsecured (Gender)	CAD700m	3Y	MS - 11	MS - 10	>CAD1bn
NRW Bank	Sr. Unsecured (Social)	EUR1bn	15Y	MS + 6	MS + 8	>EUR3.7bn
Sagess	Sr. Unsecured	EUR1bn	10Y	OAT + 85	OAT + 90	>EUR1.9bn
Germany	Sr. Unsecured (Green)	EUR5bn	5Y	OBL - 1.25	OBL - 1	>EUR14bn
JFM	Sr. Unsecured	EUR1.25bn	5Y	MS + 21	MS + 24	>EUR3.3bn
OKB	Sr. Unsecured	USD1bn	5Y	SOFR MS + 42	SOFR MS + 43	>USD2.4bn
Finnvera	Sr. Unsecured	EUR1bn	5Y	MS - 8	MS - 5	>EUR4.3bn
BGK	Sr. Unsecured	EUR600m	5Y	MS + 180	MS + 190	>EUR1bn
FIG (Senior)						
NatWest	Sr. Unsecured (Green)	EUR1bn	6NC5	MS + 185	MS + 210	>EUR1.9bn
Intesa	SNP (Green)	EUR1bn	5Y	MS + 250	MS + 270/275	>EUR2bn
Mizuho	Sr. Unsecured (Green)	EUR800m	5Y	MS + 123	MS + 145	>EUR950m
Mizuho	Sr. Unsecured	EUR500m	10Y	MS + 160	MS + 180	>EUR700m
Sabadell	SNP	EUR500m	4NC3	MS + 325	MS + 330	>EUR825m
Credit Suisse	Sr. HoldCo	GBP750m	5NC4	G + 420	G + 440	>GBP1.25bn
Credit Suisse	Sr. HoldCo	GBP750m	11NC10	G + 455	G + 475	>GBP1.4bn
Caixabank	SP (Green)	EUR1bn	7Y	MS + 155	MS + 175	>EUR1.4bn
RBI	SP (Green)	EUR500m	3Y	MS + 200	MS + 230	>EUR1.7bn
FIG (Subordinated)						
Commerzbank	Tier 2	EUR500m	10.25NC5.25	MS + 430	MS + 450/460	>EUR1.45bn
Bank of Ireland	Tier 2 (Green)	GBP300m	10.25NC5.25	G + 470	G + 480	>GBP600m
BNP Paribas	AT1	EUR1bn	PNC7.25	6.875%	7.0%	>EUR1.7bn
Lloyds	AT1	GBP750m	PNC5.5	8.50%	8.75%	n.a.
SocGen	Tier 2 (Social)	EUR500m	10NC5	MS + 310	MS + 325/330	>EUR1.1bn
Allianz	Tier 2 (FXD-FRN)	EUR1.25bn	16NC6	MS + 230	MS + 245	>EUR1.7bn

Source BondRadar, Bloomberg.

Other key transactions came from the **German** government with their EUR5bn, 5-year green OBL. 2.8x book orders allowed for some minor tightening of the spread from 1bp to 1.25bps inside the conventional OBL curve. This continues the trend of German green bonds pricing inside of their conventional twins. But the perceived greenium at issue was lower when compared to similar twin bond transactions of the past. For instance, the recent June tap of a 30-year line saw Germany's green bond price 2bps inside of the conventional curve. As mentioned in our quarterly ESG report, we attribute the narrowing greenium to worsening liquidity conditions in the green bond space as a result of higher market volatility and uncertainty. This is amplified by the fact that green bonds typically trade among a narrower investor base, are smaller in size and feature less liquid tenors than their conventional peers. More green bond supply from sovereigns is expected in the coming weeks following announcements from Belgium's debt agency and the UK's DMO.

Last week, there was also a rare outing from Société Anonyme de Gestion de Stocks de Sécurité **(Sagess)**, the French agency managing the countries strategic oil reserves. The issuer hasn't accessed bond markets since 2016 and currently only has EUR3.4bn in debt outstanding (excluding its new bond). An attempt to place a note in June was delayed by the leads, without providing a specific justification but challenging market conditions, especially for infrequent and less liquid names, will likely have played a role. The EUR1bn, 10-year bond landed at OAT+85bps, offering investors a tenor alternative to other recent French agency deals such as Bpifrance (8-years) or Cades (5-years).

FIG markets have seen a slew of activity since mid-August and issuers appear to be placing more challenging bail-inable notes. Market headwinds that have been ever present since the beginning of the year, (i.e. war, recession, inflation) are not showing any signs of letting up, prompting higher-quality issuers to pursue their funding targets despite the sub-optimal conditions. With this backdrop in mind, deals appeared generally well-supported, even from issuers such as **Raiffeisen Bank International (RBI)**. The Austrian lenders made a return to senior markets, having been absent for over a year. At the beginning of the year, RBI made headlines due to its sizeable asset exposure and income dependence to Russian, Ukrainian and Belarussian markets. They placed a SP green bond for EUR500m with a defensive three-year tenor, receiving solid interest (3.4x orders) that helped tighten spreads by 30bps to MS+200bps. According to the issuer, the new issue premium on the deal was around 50bps.

Credit Suisse was the only lender accessing the senior sterling market with its GBP1.5bn dual-tranche senior HoldCo offering. The 5NC4 and 11NC10 legs were equally split and thought to diversify the issuer's funding. Interest in the deals was broadly even and total books amounted to GBP2.6bn The spread levels of G+420bps and G+455bps appear elevated to us when compared to similar transactions from peers. Last week was also characterised by a host of Tier 2 and AT1 supply, amounting to EUR4.5bn equivalent across six transactions. Some of Europe's strongest names went further down the capital stack with **BNP Paribas** opening the euro AT1 market last Tuesday, followed by **Lloyds** issuing sterling AT1. The latter tightened 25bps to price at 8.5% but the SEC-registration meant there was no insight into book building. The concession paid is thought to have been around 50bps. Half of the Tier 2 bonds from **Allianz, Commerzbank, Bank of Ireland** and **SocGen** carried an ESG label. We note that according to Bloomberg data, SocGen's social themed Tier 2 is only the second social bond in this category since the inaugural issuance by Credito Emiliano in May. The self-led note priced at MS+310bps, roughly 20bps above fair value.

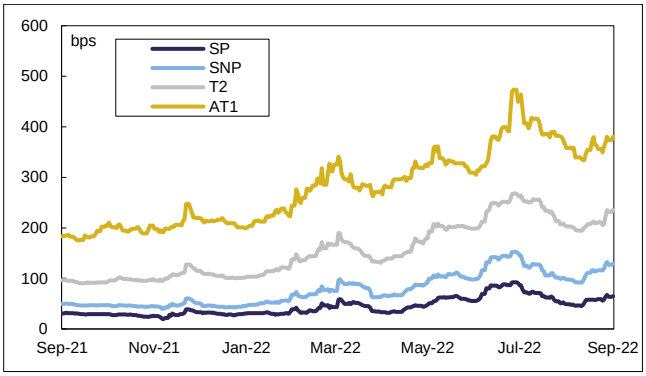
Secondary market spreads widened for EUR and USD. CDS indices on European senior (127bps) and subordinated financials (233bps), as measured by iTraxx benchmarks, priced +5bps and +9bps wider against the previous week's levels.

Recent market softening due to further deterioration in the economic outlook and rampant inflation places even greater emphasis on the upcoming ECB Governing Council meeting on Thursday where a rate hike of either 50bps or 75bps is expected. Although the bloc recently hit a series low unemployment rate of 6.6%, the minor decline by 0.1ppt in July came from an upwardly revised prior month, thus bringing the level no lower than previously thought to be the case in May. However, the further upside surprise in the flash euro area August inflation data, as well as the historically tight labour market, strengthened the case for a hike of the larger increment. According to Daiwa economists, with the increasing likelihood of a broad-based downturn over coming months, the jobs market seems likely to soften from now on. That, however, is unlikely to deter the ECB's hawks from pressing ahead with a jumbo 75bps rate hike this week, and perhaps in October too. Indeed, the historically low unemployment rate will provide sufficient cover for substantive tightening. And they will also argue that, while the flattening of the Phillips curve over recent decades allowed the ECB to run the economy above its potential level before inflationary pressures emerged, it might also now require a significant economic contraction and increase in unemployment to reduce inflation back to target.

Weekly average EUR spreads were wider across payment ranks with SP (+5.2bps), SNP (+12.3bps) and Tier 2 (+21.1bps). USD average spreads were also wider week-on-week, with SP (+1.3bps), SNP (+4.1bps) and Tier 2 (+10.5bps). Based on Bloomberg data, 80% of FIG tranches issued in August and 92% of SSAs tranches quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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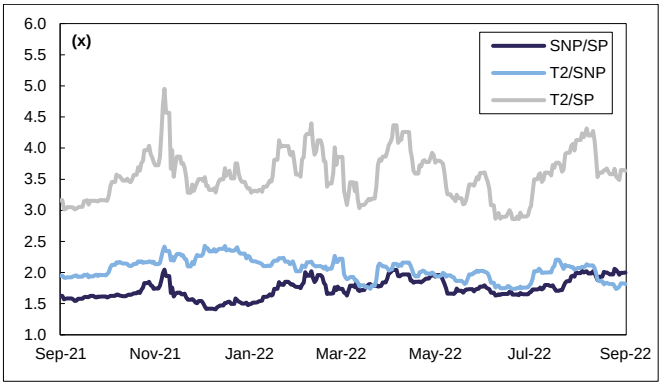


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

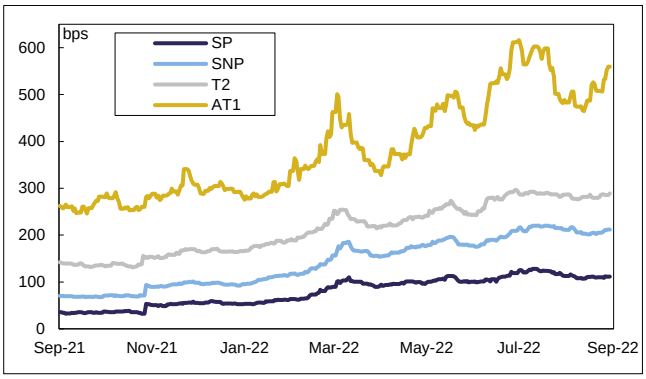
Selected Names

	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	3.8	2.9	64.1	9.3	30.8	3.2	3.8	154.2	7.9	83.6	3.2	5.0	267.9	47.7	116.4
Barclays	1.7	2.4	7.3	12.9	-17.9	3.3	3.6	157.1	8.6	83.1	6.3	5.5	370.2	7.7	259.8
BBVA	3.6	3.0	74.5	7.3	27.2	3.1	3.0	66.8	14.1	27.5	4.0	4.3	215.8	21.7	109.0
BFCM	3.4	2.7	47.3	9.4	18.5	6.4	3.9	144.6	15.3	84.4	5.1	4.1	177.3	26.9	69.0
BNPP	2.2	2.4	17.1	5.8	-24.2	4.7	3.8	148.6	9.9	82.8	3.7	4.1	226.6	29.8	116.2
BPCE	3.3	2.7	45.1	10.1	14.7	4.9	3.7	138.9	13.5	59.8	6.7	4.4	201.6	26.3	77.4
Credit Ag.	3.8	2.4	20.3	7.5	-7.4	5.2	3.7	130.0	13.3	63.1	3.4	4.0	168.6	13.3	90.2
Credit Sui.	5.1	5.0	264.1	9.9	157.5	4.6	5.5	313.6	20.2	202.5					
Danske	2.2	2.5	38.1	-2.6	8.1	3.5	3.8	149.7	10.3	83.0	6.7	5.1	284.2	19.1	176.2
Deutsche	2.7	3.0	72.8	6.8	43.0	4.2	5.0	266.7	9.2	152.1	3.3	5.6	331.9	30.6	128.1
DNB	1.6	2.1	-5.8	0.6	-16.8	6.3	3.5	119.4	9.9	62.3	5.1	4.1	258.8	0.5	200.7
HSBC	4.9	2.9	60.3	9.5	25.0	4.1	3.6	141.2	10.5	78.4	4.0	3.6	125.9	20.3	59.6
ING	1.2	3.5	119.5	-21.5	-30.2	4.6	3.6	119.2	14.7	72.6	6.5	4.9	255.1	21.5	155.3
Intesa	3.7	3.0	98.1	12.8	58.0	3.4	4.5	219.3	26.0	98.3	3.6	4.6	222.4	12.9	56.3
Lloyds	2.3	2.4	12.6	4.6	3.8	2.4	3.2	90.8	9.5	41.9	5.4	5.0	305.8	-2.6	253.1
Nordea	4.1	2.7	37.0	6.4	24.3	6.1	3.5	106.6	8.6	30.6	7.7	4.5			40.9
Rabobank	3.4	2.3	-2.1	8.9	-14.5	5.1	3.5	104.7	12.4	58.7	6.0	4.3	196.7	11.9	7.2
RBS	2.7	3.9	189.0	9.2	71.7	5.1	3.5	104.7	12.4	58.7	6.0	4.3	196.7	11.9	7.2
Santander	3.0	2.8	56.4	3.7	29.9	4.4	3.7	134.8	14.3	76.3	4.0	4.2	189.3	35.0	88.2
San UK	2.4	2.4	13.8	3.4	9.8	2.4	3.1	139.5	8.8	32.5	4.0	4.2	189.3	35.0	88.2
SocGen	4.4	3.0	70.2	8.9	29.8	5.1	3.9	154.9	14.5	88.9	6.2	5.5	321.5	40.6	203.2
StanChart	4.1	3.0	67.1	6.3	33.0	4.7	4.2	185.2	13.4	109.7	5.4	5.1	283.9	26.3	158.7
Swedbank	4.1	2.9	58.2	8.2	10.0	4.4	3.5	117.4	10.4	54.8	5.4	3.9	227.1	24.1	89.3
UBS	3.8	3.0	70.0	10.3	43.3	4.1	3.5	123.7	10.7	66.4	2.5	4.8	257.1	62.7	162.4
UniCredit	3.9	4.1	189.1	13.0	127.5	3.9	4.9	252.8	17.7	144.8	6.1	7.4	499.5	41.2	269.5

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.

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



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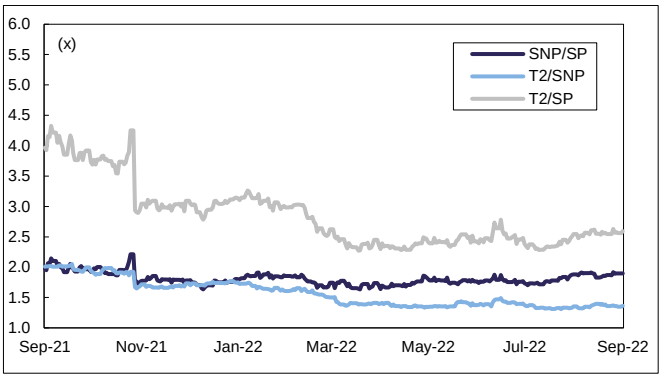

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Barclays	1.6					4.3	5.7	256.4	10.7	100.5	5.0	6.3	311.8	10.9	128.7
BFCM	3.4	2.7	47.3	9.4	18.5	4.3	5.7	256.4	10.7	100.5	5.0	6.3	311.8	10.9	128.7
BNPP	2.2	2.4	17.1	5.8	-24.2	4.7	5.5	222.7	8.9	111.5	3.9	5.4	210.4	5.1	81.4
BPCE	3.3	2.7	45.1	10.1	14.7	4.6	5.5	234.0	7.6	94.2	2.7	5.7	223.4	5.8	106.2
Credit Ag.	3.8	2.4	20.3	7.5	-7.4	3.5	5.1	174.8	5.0	91.3	7.2	6.0	280.3	7.1	121.1
Credit Sui.	2.3	5.2	163.8	15.5	68.9	3.2	6.6	317.4	12.2	169.4	0.9	6.0	209.8	-10.4	101.2
Danske	2.2	2.5	38.1	-2.6	8.1	2.1	5.4	176.2	0.6	94.1	0.9	6.0	209.8	-10.4	101.2
Deutsche	2.7	3.0	72.8	6.8	43.0	3.1	6.3	284.8	13.9	149.4	7.3	8.5	529.8	22.5	314.1
HSBC	4.9	2.9	60.3	9.5	25.0	3.5	5.4	224.9	7.6	91.3	8.3	6.1	295.8	8.1	92.9
ING	1.2	3.5	119.5	-21.5	-30.2	4.0	5.1	186.5	6.8	61.5	2.8	6.0	228.4	6.4	126.4
Intesa	3.7	3.0	98.1	12.8	58.0	4.0	5.1	186.5	6.8	61.5	3.0	8.4	504.0	34.6	262.8
Lloyds	2.5					2.8	5.2	187.9	7.4	76.7	7.8	5.5	212.9	5.9	82.7
Nordea	4.1	2.7	37.0	6.4	24.3	3.8	4.6	143.2	6.5	66.3	7.1	5.6			-13.7
Rabobank	3.4	2.3	-2.1	8.9	-14.5	4.3	5.1	172.9	5.7	59.0	3.5	5.1	179.9	8.4	73.1
RBS	2.7	3.9	189.0	9.2	71.7	4.3	5.1	172.9	5.7	59.0	3.5	5.1	179.9	8.4	73.1
Santander	3.0	2.8	56.4	3.7	29.9	4.6	5.7	248.6	11.4	116.0	7.0	6.5	335.8	10.7	161.6
San UK	1.6				9.5	4.1	5.7	246.7	6.2	125.1	2.7				42.9
SocGen	4.4	3.0	70.2	8.9	29.8	4.0	5.8	241.6	6.4	113.9	3.6	6.3	307.7	11.7	89.7
StanChart	4.1	3.0	67.1	6.3	33.0	3.0	5.2	197.2	3.9	103.3	8.2	6.2	321.9	6.6	91.2
UBS	2.3	4.3	66.2	0.8	33.6	4.3	5.3	205.4	9.0	80.3	8.2	6.2	321.9	6.6	91.2
UniCredit	3.9	4.1	189.1	13.0	127.5	3.6	6.1	230.0	7.0	115.7	7.2	9.6	629.3	27.0	346.1

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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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
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