Daiwa Capital Markets

European Banks – Credit Update

- Rising countercyclical capital buffers (CCyB) highlight increasing focus on bank capital. ECB is probing effects of gas stoppages on banks' capital resilience.
- High levels of activity in SSA and FIG primary markets driven by concerns of worsening funding conditions further down the line.
- Secondary market spreads continue to widen across EUR and USD. Last week's weaker UK data could pave way for 50bps rate hike by BoE.

William Hahn
Credit Analyst
+44 20 7597 5789
William.Hahn@uk.daiwacm.com

Rising countercyclical capital buffers (CCyB) highlight increasing focus on banks' capital

According to news reports, France's High Council for Financial Stability is planning to announce an increase in the countercyclical capital buffer applicable to French banks to 1% from the current level of 0.5%. The increase would come into effect in December unless changes in the economic cycle would unexpectedly reduce financial institutions' capacity to provide lending to the economy. Given the lagged implementation, banks will have 12 months to prepare before the new buffer becomes mandatory. The High Council further stated that all concerned banks already have sufficient capital buffers in place to meet future requirements. As at 2Q22, buffer amounts of BNP Paribas (280bps), SocGen (360bps), Credit Agricole (340bps) and BPCE (542bps) were well above current requirements and could comfortably absorb the expected 50bps increase. Nevertheless, the higher buffer amount may constrain banks' abilities to distribute excess capital to shareholders or conduct share buybacks. In other European regions, we have seen similar steps being taken by local authorities. The Swedish Financial Supervisory Authority (FI) for example already raised the CCyB to 2% in July while the BoE also announced its intention to raise the buffer for UK banks from 1% in December to 2% by 2Q23.

Upon introduction of the countercyclical capital buffer, the aim was to ensure that banking sector capital requirements take into account the wider macro-economic environment in which financial institutions operate. As the name suggests, the countercyclical nature of the buffer attempts to strengthen the resilience of the system during periods of economic expansion, thus reducing the potential for pro-cyclical retrenchment and additional credit losses in the sector during periods of slowdown or contraction. Likewise, it can be used to dampen excessive credit growth during rapid economic upswings. As mentioned above, banks are given up to 12 months to adjust to new, higher buffer levels. However, when a jurisdiction decides to decrease the level, the change will typically take effect immediately. The CCyB consists entirely of CET1 capital, and if the requirements are breached, constraints on capital distribution can be implemented on banks. In light of rising recession risks in Europe, the ECB has reportedly told financial institutions that it would be paying closer attention to banks' capital projections under severe adverse scenarios, including the impact of gas-supply stoppages on their business. The central bank intends to probe the sector's readiness for a potential surge in corporate defaults and a reduction of energy market liquidity amid supply issues. Responses to the ECB are expected this month.

(Table 1) Countercyclical capital buffers across Europe

Country	Implementation date	Current CCyB	Country	Implementation date	Current CCyB
Austria	01-Jan-2016	0.0%	**Ireland**	01-Apr-2020	0.0%
Belgium	01-Apr-2020	0.0%		15-Jun-2023	0.5%
Bulgaria	01-Apr-2020	0.5%	**Italy**	01-Jan-2016	0.0%
	01-Oct-2022	1.0%	**Latvia**	01-Feb-2016	0.0%
	01-Jan-2023	1.5%	**Liechtenstein**	01-Jul-2019	0.0%
Croatia	01-Jan-2016	0.0%	**Lithuania**	01-Apr-2020	0.0%
	31-Mar-2023	0.5%	**Luxembourg**	01-Jan-2021	0.5%
Cyprus	01-Jan-2016	0.0%	**Malta**	01-Jan-2016	0.0%
Czech Republic	01-Jul-2022	1.0%	**Netherlands**	01-Jan-2016	0.0%
	01-Oct-2022	1.5%		25-May-2023	1.0%
	01-Jan-2023	2.0%	**Norway**	30-Jun-2022	1.5%
	01-Apr-2023	2.5%		31-Dec-2022	2.0%
Denmark	12-Mar-2020	0.0%		31-Mar-2023	2.5%
	30-Sep-2022	1.0%	**Poland**	01-Jan-2016	0.0%
	31-Dec-2022	2.0%	**Portugal**	01-Jan-2016	0.0%
	31-Mar-2023	2.5%	**Romania**	01-Jan-2016	0.0%
Estonia	01-Jan-2016	0.0%		17-Oct-2022	0.5%
	07-Dec-2022	1.0%	**Slovakia**	01-Aug-2020	1.0%
Finland	16-Mar-2015	0.0%		01-Aug-2023	1.5%
France	01-Apr-2020	0.0%	**Slovenia**	01-Jan-2016	0.0%
	07-Apr-2023	0.5%	**Spain**	01-Jan-2016	0.0%
Germany	01-Apr-2020	0.0%	**Sweden**	16-Mar-2020	0.0%
	01-Feb-2023	0.8%		29-Sep-2022	1.0%
Greece	01-Jan-2016	0.0%		22-Jun-2023	2.0%
Hungary	01-Jan-2016	0.0%	**United Kingdom**	10-Mar-2020	0.0%
	01-Jul-2023	0.5%		13-Dec-2022	1.0%
Iceland	18-Mar-2020	0.0%		05-Jul-2023	2.0%
	29-Sep-2022	2.0%			

Source: European Systemic Risk Board (ESRB); Bank of England (BoE)

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR27bn over the course of last week, above market expectations of EUR16bn-20.5bn. FIG supply of EUR23bn was also above the weekly forecast amount of EUR11bn-16bn. The total 2022 year-to-date FIG volume of EUR148.5bn is 21.7% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 27.9% at EUR443bn. For the current week, survey data suggest SSA volumes will range between EUR12bn-17bn and FIGs are expected to issue EUR6bn-11bn.

The primary **SSA** market was busy last week, headed by blowout deals from the European Union. The bloc syndicated for a dual-tranche **NGEU** with 5 and 30-year tenors for a total volume of EUR12bn. Both legs tightened during pricing but maintained attractive spreads over Bunds (60bps and 84bps respectively at issue). Together with the EUR8bn deal from July, the EU has now funded EUR20bn of the EUR50bn it plans to issue in 2H22. The EU plans three more syndications to reach this target. More supra supply followed from the **European Investment Bank (EIB)** that issued a EUR4bn Climate Awareness Bond (CAB) a day after it tapped an existing Oct-2025 Australian Dollar line for AUD500m to bring the total outstanding to AUD1.25bn. Subscription was high at 6.75x deal size for the 7-year CAB note. The spread tightened to MS-17bps (-2bps from IPT) and spreads over Bunds were 54bps. The EIB is targeting total funding of EUR45bn in 2022 but is authorised to issue up to EUR50bn in case of higher funding needs. According to Bloomberg data, the EIB has issued new debt amounting to EUR33.2bn (exc. taps) so far this year, 74% of the total target. Daiwa Capital Markets Europe (DCME) supported **Land NRW** in launching its USD1bn deal last Tuesday, ahead of the release of the US CPI report. The short 2-year tenor and solid order book contributed to spread tightening of 3bps to SOFR MS+21bps.

(Table 2) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
NGEU	Sr. Unsecured	EUR7bn	5Y	MS - 28	MS - 26	>EUR60bn
NGEU	Sr. Unsecured	EUR5bn	30Y	MS + 45	MS + 47	>EUR54.5bn
Land NRW	Sr. Unsecured	USD1bn	2Y	SOFR MS + 21	SOFR MS + 24	>USD2bn
CDP	Sr. Unsecured (Sustainable)	EUR750m	5Y	BTP + 45	BTP + 50	>EUR1.2bn
AFD	Sr. Unsecured (Tap)	EUR400m	Mar-2037	OAT + 36	OAT + 36	>EUR500m
AFD	Sr. Unsecured (Sustainable)	USD1.25bn	5Y	SOFR MS + 61	SOFR MS + 62	>USD1.8bn
KFW	Sr. Unsecured (Tap)	EUR1bn	Sep-2026	MS - 46	n.a.	n.a.
IBRD	Sr. Unsecured (SDB)	USD1.5bn	4Y	SOFR + 31	SOFR + 32	>USD1.8bn
IBRD	Sr. Unsecured (SDB)	USD3bn	7Y	SOFR MS + 46	SOFR MS + 46	>USD3.9bn
EIB	Sr. Unsecured (CAB)	EUR4bn	7Y	MS - 17	MS - 15	>EUR27bn
EIB	Sr. Unsecured (Tap)	AUD500m	Oct-2025	ASW + 18	ASW + 18	n.a.
DBJ	Sr. Unsecured (Sustainable)	USD600m	3Y	SOFR MS + 71	SOFR MS + 73	>USD2.4bn
Belgium	Sr. Unsecured (Green)	EUR4.5bn	Apr-2039	OLO + 6	OLO + 8	>EUR31.5bn
FIG (Senior)						
MUFG	Sr. Unsecured	EUR1.3bn	3NC2	MS + 100	MS + 105	>EUR2bn
Bank of Ireland	Sr. Unsecured (Green)	USD1bn	4NC3	T + 265	T + 285	n.a.
KBC	Sr. HoldCo	GBP425m	6NC5	G + 250	G + 270	>GBP1bn
Swedbank	SNP	USD1bn	5Y	T + 190	T + 220	n.a.
SR-Bank	SP (Green)	EUR500m	3Y	MS + 70	MS + 90	>EUR850m
BCC	SP (Social)	EUR500m	4NC3	8.0%	8.125%	>EUR975m
La Banque Postale	SNP	GBP425m	6NC5	G + 260	G + 270	>GBP700m
DNB Bank	SP (Green)	EUR1.25bn	5NC4	MS + 77	MS + 100	>EUR2.3bn
Iccrea Banca	SP	EUR350m	5NC4	6.375%	6.50%	>EUR590m
BBVA	SP	EUR1.25bn	5Y	MS + 115	MS + 140/145	>EUR4bn
Commerzbank	SNP	EUR600m	5.5NC4.5	MS + 220	MS + 240	>EUR1.1bn
Goldman Sachs	Sr. HoldCo	EUR1bn	7Y	MS + 160	MS + 175/180	>EUR2.1bn
Citigroup	Sr. HoldCo (Green)	EUR1bn	6NC5	MS + 125	MS + 145	>EUR2.4bn
Citigroup	Sr. HoldCo	EUR1bn	11NC10	MS + 160	MS + 175	>EUR2.1bn
Sparebank 1 SMN	SP (Green)	EUR500m	3.25Y	MS + 72	MS + 90	>EUR650m
Nordea	SP	USD1bn	3Y	T + 100	T + 120	n.a.
Nordea	SNP	USD1bn	5Y	T + 173	T + 200	n.a.
FIG (Subordinated)						
RBI	Tier 2	EUR500m	10.25NC5.25	MS + 520	MS + 575	>EUR2.5bn
BPER Banca	Tier 2	EUR400m	10NC5	8.625%	9.0%	>EUR900m
COFACE	Tier 2	EUR300m	10Y	MS + 355	MS + 375	>EUR650m

Source BondRadar, Bloomberg.

Another busy week for **FIGs** saw a mix of established, core-European names as well as less frequent and lower quality issuers access markets early on, as deals closed in EUR, USD and GBP across payment ranks. However, following the release of US CPI data on Tuesday the market was limited to deals from safer, more established issuers. Early in the week, **BBVA** launched a new 5-year EUR1.25bn SP bond that followed the issuance of its USD1.75bn SNP dual-tranche offering the week before. Last week's euro offering drew sizeable interest (3.2x deal size), tightening the spread by

25/30bps and paying as little as 10bps new issue premium. More peripheral supply came from less frequent issuers such as **BPER, Iccrea** and **Banco de Crédito Social Cooperativo (BCC)** that accessed markets for a combined EUR1.25bn. New issue premiums for these lenders remained elevated compared to national champions such as DNB Bank that were in the market too, paying low double-digit concessions. **La Banque Postale** launched its first Sterling transaction into a busy window and a busy week for UK data with labour market figures, the August inflation report and retail sales figures being released. Nevertheless, the French issuer did well to tighten the spread on its GBP425m SNP to G+260bps (-10bps from IPT). There appeared to be decent investor interest (1.6x) despite a slew of recent Sterling deals in the market from Intesa, KBC and NY Life (GBP1.3bn combined). Some corporate bond investors may be looking towards FIG sterling as an alternative to the looming overhang of corporate bonds, given the upcoming sale of the BoE's corporate holdings under the Asset Purchase Facility (APF). Additionally, the issuer's fundamentals bode well with investors as it carries a solid credit rating (A/A+/A2) paired with a low risk and a steady business model. **Raiffeisen Bank International (RBI)** returned to capital markets after placing a green SP deal in late August. The Austrian lender, alongside **BPER** and **COFACE** demonstrated accessibility for subordinated debt. The issuer's Tier 2 bond was 6x subscribed, reducing the spread by 55bps, a sizeable reduction. The deal is thought to have priced ~25bps wide of fair value. Considering the adverse news flow surrounding the issuer's Russian exposures and the subordinated nature of the bond, RBI's pricing of the Tier2 can be considered a success.

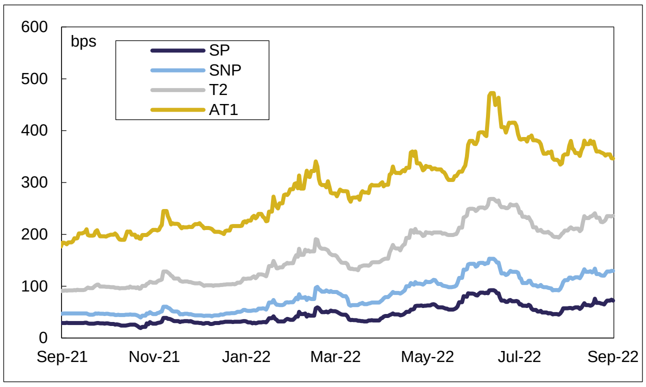
Secondary market spreads were mostly wider for EUR and USD. CDS indices on European senior (129bps) and subordinated financials (235bps) as measured by iTraxx benchmarks also priced +11bps and +20bps wider against the previous week's levels.

The challenging market backdrop worsened last week as UK retail sales fell more than expected in August raising risks of GDP contraction in 3Q22. Given the drop in consumer confidence last month to a series low and sharply falling real incomes, that should hardly come as a surprise. The government will hope that its subsequent belated announcement of measures to cap household energy bills will suffice to arrest the downtrend next quarter. This Thursday, the BoE's Monetary Policy Committee (MPC) seems bound to announce a further rate hike with Daiwa economist expecting the majority of the MPC to vote for a further 50bps increase, taking Bank Rate to 2.25%. Another hike of 50bps is possible in November, and a smaller 25bps increment in December to end the year at 3.0%. But despite concerns about recession, risks to that profile for Bank Rate seem skewed to the upside.

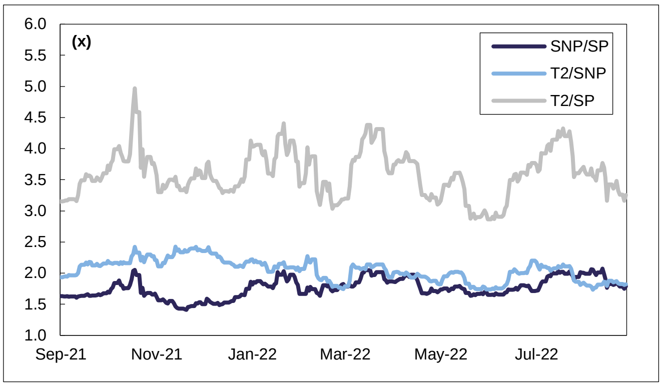
Weekly average EUR spreads were wider with SP (+1.1bps), SNP (+8.4bps) and Tier 2 (+7.9bps). USD average spreads fared better and were mostly tighter week-on-week, with SP (-4.9bps), SNP (-3.1bps) and Tier 2 (+1bps).

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



Multiples (x)



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

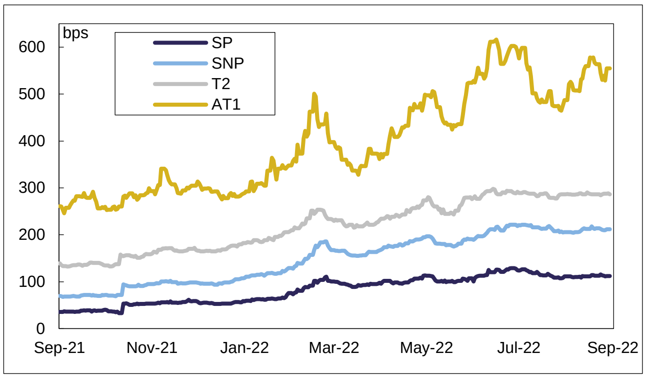
Selected Names

	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Commerz	3.7	3.4	70.5	8.4	39.0	3.5	4.4	176.3	18.3	92.2	3.2	5.4	266.4	17.6	123.0
Barclays	1.7	2.8	5.0	-4.7	-21.0	3.3	4.1	150.7	5.8	93.3	6.2	5.9	376.0	4.9	272.1
BBVA	4.0	3.6	92.2	3.7	19.6	3.1	3.4	72.2	6.6	33.5	4.0	4.8	215.5	13.2	121.5
BFCM	3.6	3.4	73.7	6.2	31.7	6.4	4.1	143.9	12.3	87.2	5.0	4.5	181.2	13.5	73.2
BNPP	2.1	2.8	18.3	0.2	-11.3	4.7	4.1	141.7	10.3	80.1	3.7	4.4	215.4	13.4	130.3
BPCE	3.3	3.1	49.1	5.3	23.8	4.8	4.0	136.4	8.9	60.3	6.6	4.7	168.5	7.0	77.4
Credit Ag.	3.7	2.9	29.5	2.3	-4.9	5.1	3.9	126.0	9.6	61.9	3.3	4.4	178.9	4.2	94.8
Credit Sui.	5.0	5.4	269.2	6.8	165.2	4.5	5.6	297.7	10.3	196.6					
Danske	2.3	3.1	55.1	0.4	24.3	3.4	4.2	150.4	6.3	87.6	6.6	5.5	285.2	10.4	180.8
Deutsche	2.6	3.5	83.3	4.3	54.0	4.2	5.2	259.0	7.5	150.9	3.2	5.8	314.3	15.8	142.3
DNB	2.5	3.0	36.1	4.0	-0.6	6.2	3.8	120.5	8.1	68.3	5.0	4.7	279.4	0.5	223.8
HSBC	4.9	3.3	64.8	6.4	33.0	4.0	3.9	140.1	9.8	83.1	3.9	4.0	130.1	12.5	69.8
ING	1.2	3.6	82.7	-32.2	-80.4	4.6	3.9	122.9	14.3	64.7	5.9	5.1	247.4	11.2	153.6
Intesa	3.7	3.6	93.2	3.4	54.2	3.3	4.7	206.5	6.9	98.4	4.0	5.1	241.6	8.9	60.7
Lloyds	2.2	2.8	15.0	2.1	7.8	2.4	3.5	86.3	7.7	59.5	5.4	5.7	325.3	9.0	279.5
Nordea	4.1	3.0	35.6	2.5	23.6	6.0	3.7	105.1	8.0	32.6	7.5	4.9			40.9
Rabobank	3.4	2.7	1.0	3.5	-10.5	5.0	3.8	109.7	8.5	65.6	5.8	4.5	189.8	14.9	3.7
RBS	2.7	4.4	168.3	0.0	88.0	5.0	3.8	109.7	8.5	65.6	5.8	4.5	189.8	14.9	3.7
Santander	2.9	3.3	66.7	0.4	32.9	4.4	4.0	136.1	8.9	79.2	3.9	4.6	196.0	14.8	101.5
San UK	2.4	2.8	11.2	-0.9	6.7	3.5	4.0	175.9	10.4	64.6	3.9	4.6	196.0	14.8	101.5
SocGen	4.4	3.4	74.6	6.0	36.9	5.0	4.2	153.3	13.5	93.8	6.2	5.8	313.0	10.9	200.3
StanChart	3.5	3.4	75.4	7.6	26.9	4.7	4.4	160.3	7.4	107.2	5.4	5.6	288.3	14.0	170.1
Swedbank	4.0	3.3	63.8	4.7	16.1	4.4	3.8	119.9	7.7	59.7	4.6	4.3	226.9	-1.4	77.7
UBS	3.7	3.4	74.0	5.4	49.3	4.0	3.9	123.1	10.0	69.9	3.2	4.1	37.2	-26.0	-43.4
UniCredit	3.8	4.5	188.3	3.7	128.3	3.8	5.2	254.8	8.8	152.0	6.0	7.7	495.5	18.5	267.8

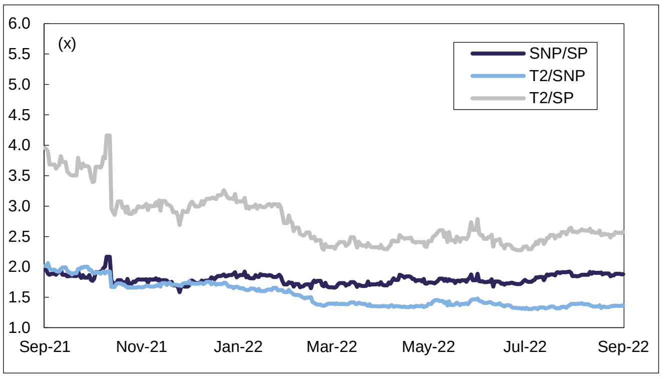
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



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	1.6					4.3	6.0	251.4	-0.5	99.3	5.0	6.5	301.1	0.7	125.1
BFCM	3.6	3.4	73.7	6.2	31.7	3.5	6.4	265.0	0.4	-2.3	5.0	6.5	301.1	0.7	125.1
BNPP	2.1	2.8	18.3	0.2	-11.3	4.7	5.8	214.2	-3.3	103.3	3.9	5.7	204.1	-1.9	73.0
BPCE	3.3	3.1	49.1	5.3	23.8	4.6	6.0	227.7	-1.0	107.7	2.7	6.1	231.9	0.0	97.0
Credit Ag.	3.7	2.9	29.5	2.3	-4.9	3.3	5.5	167.0	-7.2	85.3	7.1	6.1	275.5	0.5	119.4
Credit Sui.	2.3	5.7	156.3	-4.1	74.4	3.2	7.0	300.6	-1.8	162.6	2.7	8.5	451.6	14.8	173.0
Danske	2.3	3.1	55.1	0.4	24.3	2.6	6.0	194.1	-3.0	109.6	2.7	8.5	451.6	14.8	173.0
Deutsche	2.6	3.5	83.3	4.3	54.0	3.0	6.8	291.4	0.0	147.5	7.3	8.7	520.2	16.4	305.9
HSBC	4.9	3.3	64.8	6.4	33.0	3.5	5.8	216.8	-2.1	88.7	8.7	6.4	298.4	-0.4	92.4
ING	1.2	3.6	82.7	-32.2	-80.4	3.9	5.6	175.7	-2.9	59.5	2.7	8.5	406.4	50.8	155.0
Intesa	3.7	3.6	93.2	3.4	54.2	3.9	5.6	175.7	-2.9	59.5	2.9	8.7	498.8	-1.0	245.5
Lloyds	2.4					2.7	5.6	176.5	-0.7	66.7	7.6	5.8	197.0	-3.6	66.6
Nordea	4.1	3.0	35.6	2.5	23.6	4.0	5.3	166.2	0.7	70.1	7.0	5.7			-13.7
Rabobank	3.4	2.7	1.0	3.5	-10.5	4.2	5.5	171.6	-2.4	55.8	3.5	5.6	171.8	-1.3	71.7
RBS	2.7	4.4	168.3	0.0	88.0	4.2	5.5	171.6	-2.4	55.8	3.5	5.6	171.8	-1.3	71.7
Santander	2.9	3.3	66.7	0.4	32.9	4.6	6.1	247.9	-2.9	105.6	6.9	6.8	336.5	-0.2	160.1
San UK	1.5				9.5	4.0	6.1	235.4	-1.7	125.1	2.7				42.9
SocGen	4.4	3.4	74.6	6.0	36.9	4.0	6.2	246.2	0.0	123.6	3.5	6.6	302.6	-2.4	74.3
StanChart	3.5	3.4	75.4	7.6	26.9	2.9	5.8	189.2	1.2	90.4	8.1	6.6	330.1	-0.8	96.9
UBS	2.2	4.8	60.9	-5.4	27.9	4.1	5.7	193.2	-5.3	69.6	8.1	6.6	330.1	-0.8	96.9
UniCredit	3.8	4.5	188.3	3.7	128.3	3.6	6.5	212.2	-8.2	110.1	7.1	9.8	623.5	0.6	337.5

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.

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies, ESG	*William Hahn*	+44 20 7597 5789
Head of Translation, Economic and Credit	*Mariko Humphris*	+44 20 7597 8327
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst, Financials, Power, Communication, Wholesale Trade, Air Transportation	*Toshiyasu Ohashi*	+81 3 5555 8753
Local government, Government agency	*Koji Hamada*	+81 3 5555 8791
Electronics, Non-Banks, Real Estate, REIT, Retail trade, Chemicals, Iron & Steel, Marine	*Takao Matsuzaka*	+81 3 5555 8763
Transportation, Pulp & Paper, Oil, Land Transportation	*Kazuaki Fujita*	+81 3 5555 8765
Automobiles, Foods, Heavy equipment, Construction, Machinery	*Ayumu Nomura*	+81 3 5555 8693
International Credit		
Non-Japanese/Financials	*Fumio Taki*	+81 3 5555 8787
Non-Japanese/Financials	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Corporates	*Stefan Tudor*	+81 3 5555 8754
ESG		
Chief Securitisation Strategist	*Koji Matsushita*	+81 3 5555 8778
Strategist	*Shun Otani*	+81 3 5555 8764
Strategist	*Takao Matsuzaka*	+81 3 5555 8763

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at DAIR <GO>.

Access our research at:
http://www.uk.daiwacm.com/ficc-research/research-reports

Explanatory Document of Unregistered Credit Ratings
This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Conflicts of Interest: Daiwa Securities Co. Ltd. may currently provide or may intend to provide investment banking services or other services to the company referred to in this report. In such cases, said services could give rise to conflicts of interest for Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Other Disclosures Concerning Individual Issues:
1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association