Daiwa Capital Markets

European Banks – Credit Update

- Credit Suisse 4Q22 profit warning higher than expected following recent restructuring update
- The Financial Stability Board (FSB) publishes its list of 30 globally systemically important banks (G-SIBs), lowering capital requirement for BNP Paribas by 50bps
- Benign funding conditions in primary markets continue to foster SSA and FIG issuance despite Japanese and U.S. holidays. Secondary market spreads remained accommodative as central bank rate hikes are expected to be lower in December compared to previous months

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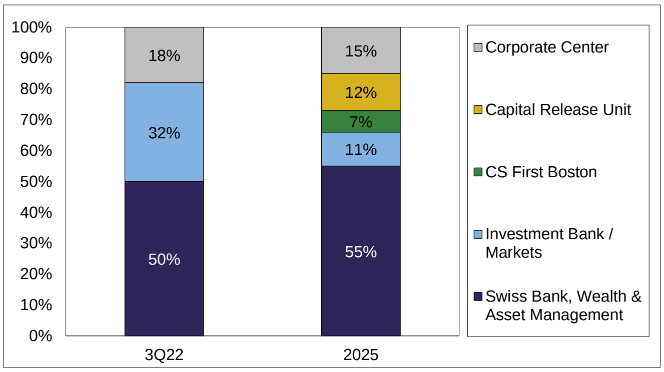
Credit Suisse 4Q22 profit warning follows announcement of restructuring plan

One month ago, Credit Suisse (CS) announced an update to its 2022 strategic plan, effectively outlining a restructure running until 2025 that will primarily reduce capital allocated to its investment banking division in favour of its wealth management and asset management offering. With this planned fundamental departure from capital market activities, Credit Suisse's updated plan will be more transformative than the group's previous 2022-2024 strategy as it seeks to generate more stable and reliable revenue streams under its new business model. To achieve this, senior management aim to reduce the risk-weighted assets (RWA) associated with investment banking and market-related activities below one fifth of the group's total by 2025. CS will create a separate independent IB, located in New York under the CS First Boston brand, which will house its equity and debt capital markets as well as the advisory business. Another cornerstone of the bank's plan is the creation of a capital release unit (CRU) that will house non-core businesses that Credit Suisse intends to wind down given their history of poor or volatile returns and their marginal connection to the core business. This should also support the group's cost-reduction target of 15% (CHF2.5bn) by 2025. Divisions included in the CRU are residual prime services, equity swaps, rates & FX, fixed income trading and some corporate and emerging market lending. This amounts to USD35bn in RWA and USD132bn leverage exposure. Lastly, the disposal of the majority of its securitised products group to Apollo and PIMCO, to be closed by 1H23, will free up a significant amount capital and liquidity held against the CHF22bn in RWAs and CHF85bn leverage exposure of this unit.

Credit Suisse RWA distribution



Source: Company reports

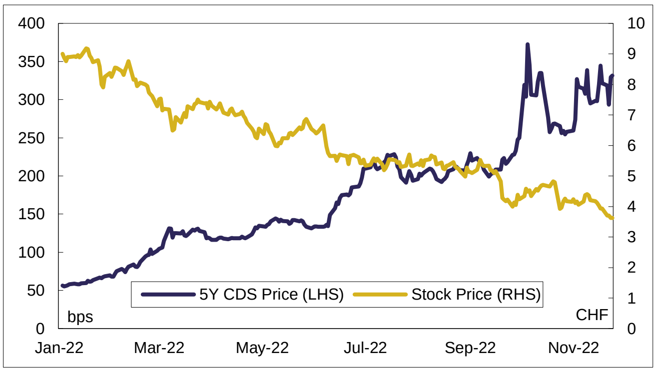
Credit Suisse has formulated the following financial targets to be met by 2025:

- **Group return on tangible equity (RoTE)** of 6% by 2025. This is a more modest target compared to the bank's 10% target under its previous 2022-2024 plan, despite significant cost reductions and asset disposals. We also consider this target to be at the low end when compared to global peers.
- **CET1** of >13.5% by 2025. This would be 50bps below the previous target of 14% and would be even greater when taking into consideration the Basel III reform. CS has therefore set itself a minimum target of 13% for this period.
- **Targeted 40% reduction of IB RWA and leverage exposure**, which is a more ambitious target than the 25% RWA decrease under the previous plan.

Sizeable asset outflows and 4Q22 loss flagged

Last week, Credit Suisse provided the market with an updated outlook for the fourth quarter of 2022 as part of its equity raise process. An overwhelming majority of Credit Suisse shareholders agreed to the CHF4bn capital increase intended to help finance the group's restructuring plans. However, alongside this important step the bank also flagged a large CHF1.5bn pre-tax loss expected for 4Q22, roughly twice the consensus analyst forecast amount. CS cited a challenging economic and market environment that has had adverse effects on client activity across its business. The loss at the end of this quarter would be significantly higher than the one reported in 3Q22 (CHF342m) and would bring the cumulative loss amount incurred since 4Q20 to CHF5.8bn. Additionally, CS disclosed that it had been experiencing deposit and net asset outflows in the first two weeks of October at levels that substantially exceeded those throughout 3Q22. As of 11 November, net asset outflows were approximately 6% of 3Q22 assets under management (AuM). In the Wealth Management division, this trend has improved in recent weeks but has not yet reversed and represent approximately

CDS and share price development YTD



Source: Bloomberg

10% of AuM at 3Q22, according to the bank. These significant outflows represent a difficult start to the group's remodel and could further strain risk indicators, share price and bond spreads. These developments have also caused Credit Suisse to partially utilise liquidity buffers, lowering the short-term liquidity position, as measured by the liquidity coverage ratio (LCR), towards the regulatory minimum of 100%. The Swiss bank stated that average daily LCR in 4Q22 so far was 140% compared to a reported average of ~200% over the last two years. The capital increase was expected to lift the group's CET1 position to 14% from 12.6% at 3Q22, but given the larger-than-expected loss in 4Q22 this figure will likely be slightly lower. Credit Suisse is under considerable pressure to execute on its new strategy successfully as near-term shortcomings could add further downward pressure on the group. Recent rating actions from all major credit rating agencies have resulted in outright downgrades and negative outlooks and further action could adversely affect capital market funding costs. Rating commentaries of Moody's, Fitch and S&P all cite franchise impairment, strategy execution, earnings weakness or possible new governance failures as key rating drivers.

Credit Suisse Group credit ratings

Rating Agency	Senior Unsecured Bonds	Date
Moody's	Baa2 / Negative	01 Nov-2022
Fitch	BBB / Negative	04 Aug-2022
S&P	BBB- / Stable	01 Nov-2022

Source: Rating agency websites

Financial Stability Board (FSB) lowers BNP's G-SIB requirements, expands U.S. IB offering

The Financial Stability Board (FSB) recently updated its list of global systemically important banks (G-SIBs). Of the 30 banks included, 13 are European institutions, with eight residing in the European Union. This year's ranking reflects cross-border exposures within the European Banking Union (EBU), which can now be viewed as domestic exposures, effectively lowering their risk weightings and the capital requirements incurred. BNP Paribas stands to benefit the most from the new regulation as up until now it had the highest capital surcharge of all European Union G-SIBs. However, the FSB has moved BNP Paribas down from bucket 3 to bucket 2, lowering its capital surcharge by 50bps to 1.5%, effective Jan-2024. This will be credit positive for the bank's CET1 position and adds to the capital buffer generated from the USD16bn sale of BNP's retail & commercial banking in the United States conducted through its subsidiary Bank of the West. We expect BNP to reinvest some of those funds towards its expansion of European and U.S. investment banking activities. For this purpose, BNP Paribas completed the 100% acquisition of equity research house Exane in July-2021, among other bolt-on acquisitions, raising its stake from the 50% previously held. Earlier this month, BNP launched Exane in the U.S. and will expand its coverage of U.S. companies to 450 from its current 180 by end-2025. Sectoral focus will mainly be in technology, media, telecommunications, consumer, healthcare and industrials. The full integration of Exane into the BNP Group should facilitate research distribution to U.S. clients such as hedge funds who already use some of the groups other trading and prime brokerage services, ultimately leading to higher revenue synergies.

Capital Surcharges for Globally Systemically Important Banks

Capital Surcharge	G-SIBs in alphabetical order within each bucket
Bucket 5 (3.5%)	-
Bucket 4 (2.5%)	JP Morgan Chase
Bucket 3 (2.0%)	Bank of America (↑), Citigroup, **HSBC**
Bucket 2 (1.5%)	Bank of China, **BNP Paribas** (↓), **Barclays**, **Deutsche Bank**, Goldman Sachs, Industrial and Commercial Bank of China, Mitsubishi UFJ FG
Bucket 1 (1.0%)	Agricultural Bank of China, Bank of New York Mellon, China Construction Bank (↓), **Credit Suisse**, **Groupe BPCE**, **Groupe Crédit Agricole**, **ING Bank**, Mizuho FG, Morgan Stanley, Royal Bank of Canada, **Santander**, **Société Générale**, **Standard Chartered**, State Street, Sumitomo Mitsui FG, Toronto Dominion, **UBS**, **UniCredit**, Wells Fargo

Source: Financial Stability Board; Nov-2022 G-SIB list; (↓) = moved down; (↑) = moved up

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR3.5bn over the course of last week, below the market expectations of EUR6-10.5bn. FIG supply of EUR15.5bn was above the weekly forecast amount of EUR7-11.5bn. The total 2022 year-to-date FIG volume of EUR528bn is 17.8% ahead of last year's issuance volume. SSA volumes, however, remain behind last year's level, down 21% at EUR563bn. For the current week, survey data suggest SSA volumes will range between EUR5-9bn and FIGs are expected to issue EUR7-11.5bn.

The primary **SSA** market delivered volumes in line with expectations and saw three Nordic entities look for funding. Kommunalbanken Norway **(KBN)**, Swedish Export Kredit **(SEK)** and Nordic Investment Bank **(NIB)** all visited primaries on the Tuesday for a combined EUR3bn equivalent, albeit NIB with a tap. KBN, primarily a USD issuer, opted for Euros due to higher volatility in U.S. swap spreads and generally softer conditions since the summer. The EUR1bn trade marked KBN's first Euro benchmark deal in over three years and due to seemingly strong interest was upsized from an initial EUR500m. The 5-year deal settled on a spread of MS+10bps (-1bps from IPT) with the new issue premium (NIP) thought to have been 7-8bps at launch. Despite the funding challenges surrounding U.S. Dollar, SEK opted for a new USD1.75bn trade with a 3-year maturity at SOFR MS+51bps. The deal priced flat to guidance and with a NIP of 5bps, supported by book orders of 1.4x deal size. This can be seen as a success given last week's trade from Swedish peer Kommuninvest that struggled to adjust pricing and even had to widen its spread by 2bps on its new USD bond.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
UK	Sr. Unsecured (ILB Tap)	GBP1.5bn	Mar-2073	G - 20	G - 19	>GBP16.8bn
KBN	Sr. Unsecured	EUR1bn	5Y	MS + 10	MS + 11	>EUR1.2bn
SEK	Sr. Unsecured	USD1.75bn	3Y	SOFR MS + 51	SOFR MS + 51	>EUR2.4bn
NIB	Sr. Unsecured (Tap)	USD350m	May-2026	SOFR + 41	SOFR + 41	n.a.
Land Hessen	Sr. Unsecured	EUR500m	Sep-2027	MS - 18	MS - 18	>EUR540m
EIB	Sr. Unsecured (Tap)	AUD300m	Aug-2026	ASW + 25	ASW + 25	n.a.
FIG (Senior)						
Credit Mutuel	SP	EUR1.5bn	10Y	MS + 120	MS + 145	>EUR2.4bn
Liberty Mutual	Senior Unsecured	EUR500m	8Y	MS + 200	MS + 225	>EUR775m
Achmea	SP (Green)	EUR500m	3Y	MS + 90	MS + 135	>EUR2.4bn
Barclays	SNP	EUR1.25bn	11NC10	MS + 255	MS + 275	>EUR3.4bn
Argenta Spaarbank	SNP (Green)	EUR500m	5NC4	MS + 275	MS + 300	>EUR1.25bn
Credit Agricole	SNP	GBP750m	5NC4	G + 260	G + 275	>GBP1.5bn
Credit Agricole	SP	EUR1bn	4Y	MS + 75	MS + 100	>EUR1.75bn
Credit Agricole	SP	EUR1.25bn	12Y	MS + 125	MS + 150	>EUR2.6bn
Deutsche Bank	SP	EUR750m	5Y	MS + 135	MS + 170	>EUR3bn
FIG (Subordinated)						
Bank of Ireland	Tier 2	EUR500m	10.25NC5.25	MS + 415	MS + 475	>EUR4.75bn
DNB Bank	Tier 2	EUR750m	10.25NC5.25	MS + 200	MS + 230	>EUR1.8bn
Commerzbank	Tier 2	GBP350m	10.25NC5.25	G + 560	G + 525	>GBP2.3bn

Source BondRadar, Bloomberg.

FIG markets were predominantly visited by high-quality issuers, across payment ranks and currencies. Despite many issuers stating that they had already completed their 2022 funding programmes, the rather high volumes of debt issued suggest that banks either upped their funding targets or conducted pre-funding for 2023. **Credit Agricole** was among the busiest issuers last week, launching a dual-tranche SP offering for a combined EUR2.25bn and GBP750m in SNP format. Interest in the SP deals was skewed towards the longer, 12-year leg, underlining investors' interest in duration following similarly long-dated deals from ABN Amro, BPCE and Morgan Stanley one week prior. New issue premiums on the shorter 4-year leg were thought to have been around 5bps, while the longer leg paid a concession of around 30bps. The 5NC4, Sterling SNP by the French bank was its first and drew order books 2x deal size. This helped tighten spreads by 15bps to G+260bps. **Deutsche Bank** was also active in the senior space with their first SP bond in over two years. The EUR750m, 5-year bond was 4x subscribed and comes on the back of good 3Q22 earnings results and recent credit rating agency upgrades. Consequently, the final spread tightened to MS+135bps (-35bps), implying a new issue premium of around 15bps. As was the case in recent weeks, issuers also placed several subordinated bonds. Three Tier 2 bonds were placed by **Bank of Ireland** (EUR500m), **Commerzbank** (GBP350m) and **DNB Bank** (EUR750m) of Norway. All three transactions tightened significantly during pricing and benefitted from strong investor interest as recent Tier 2 deals offer attractive reset spreads that are significantly higher than those of outstanding Tier 2s. In the case of DNB, regulatory considerations will have also been a factor in launching the bond as Norway's Financial Supervisory Authority recently allowed domestic banks to partially meet their Pillar 2 requirements with AT1 and Tier 2 bonds.

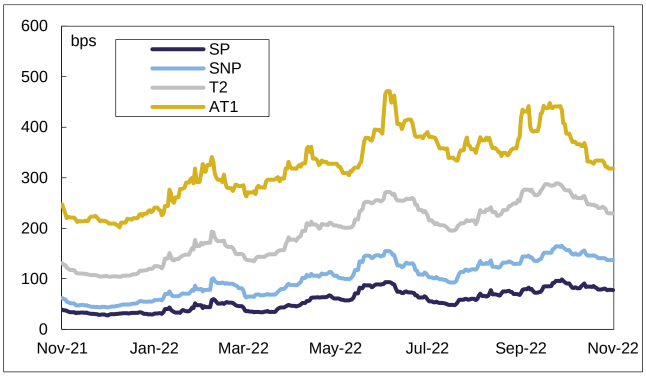
Secondary market spreads were mostly tighter for EUR and USD. CDS indices on European senior (102bps) and subordinated financials (181bps) as measured by iTraxx benchmarks also priced -3bps and -2bps tighter against the previous week's levels.

The account of the ECB's 27 October Governing Council meeting, published last week, suggested that a very large majority of members was supportive of the 75bps hike that took the Deposit Rate to 1.50%. However, the minutes hinted that the December meeting might well see a reduction in the magnitude of the hike. While members remained concerned about the current elevated level of inflation, they recognised that price pressures from commodity markets had recently fallen back, while the aggressive tightening of monetary policy so far - by a cumulative 200bps since July - as well as slower GDP growth would also dampen the inflation outlook over the medium term. Moreover, the Governing Council accepted that signs of second-round effects remain limited, with recent wage growth considered on the whole to be moderate, and inflation expectations considered still to be broadly anchored. Overall, Daiwa economists continue to expect the ECB to raise rates by 50bps in December and by a further 25bps in February.

Weekly average EUR spreads were tighter with SP (-5bps), SNP (-5.6bps) and Tier 2 (-18.1bps). USD average spreads were also tighter throughout the week, with SP (-4.5bps), SNP (-10.3bps) and Tier 2 (-8.4bps). Based on Bloomberg data, 82% of FIG tranches and 45% of SSA tranches issued in November quoted tighter than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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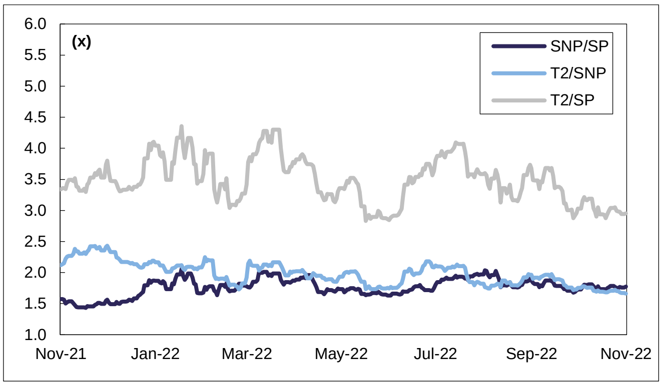


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

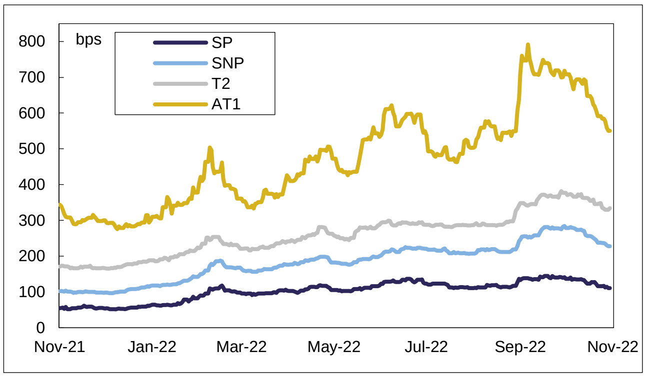
Selected Names

	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	3.5	3.5	65.9	-5.2	37.6	3.4	4.8	197.8	-7.3	120.6	3.0	4.5	169.5	-28.7	22.8
Barclays	1.5	3.1	4.8	-7.0	-15.9	3.5	4.8	195.0	-7.1	111.6	6.0	7.6	500.8	-31.3	401.1
BBVA	4.0	3.7	86.2	-3.7	-0.9	2.9	3.5	57.5	-6.4	19.7	3.8	5.0	205.6	-21.4	109.0
BFCM	3.8	3.5	68.2	-3.1	26.9	6.3	4.1	135.5	-2.2	78.3	4.9	4.1	133.7	-19.4	24.4
BNPP	2.5	3.0	13.4	-3.2	-6.7	4.9	4.2	147.2	-2.7	77.3	3.7	4.2	134.7	-20.1	56.2
BPCE	4.0	3.5	66.3	-2.3	19.8	4.6	4.1	137.0	-3.8	65.7	6.5	5.5	127.0	-10.8	62.9
Credit Ag.	3.8	3.5	54.3	-2.0	1.3	4.9	4.0	125.5	-1.9	66.0	3.2	4.1	117.3	-8.8	45.3
Credit Sui.	4.8	5.0	214.8	-20.7	111.0	4.4	7.5	454.9	42.9	305.7					
Danske	2.2	3.6	74.8	-3.6	47.8	3.3	4.4	150.1	-8.9	86.8	6.4	5.7	275.1	-23.9	170.3
Deutsche	3.5	3.9	108.9	-3.2	31.1	4.0	5.3	249.2	-12.8	147.2	3.1	5.6	267.3	-34.8	84.7
DNB	3.7	3.6	75.3	-0.9	17.4	6.1	3.9	110.7	-3.1	57.4	4.7	5.2	260.9	-20.4	157.1
HSBC	4.7	3.3	51.8	-4.7	17.6	3.9	4.3	153.7	-6.6	67.9	4.3	4.3	126.0	-12.0	64.1
ING	1.0	4.2	88.3	-6.6	-67.3	5.1	4.3	141.4	-7.5	78.0	5.6	5.2	232.2	-18.0	156.7
Intesa	3.7	3.8	99.5	-7.4	28.9	3.1	4.4	157.8	-13.4	52.7	3.8	4.8	193.3	-10.1	13.0
Lloyds	2.1	3.5	46.6	-7.8	38.0	2.5	4.0	121.4	-6.5	47.4	5.2	8.0	518.7	-17.3	477.5
Nordea	3.9	3.1	25.3	-2.4	12.6	5.8	3.6	86.5	-5.5	14.6	7.3	5.0			40.9
Rabobank	3.2	2.9	6.5	-2.7	-6.0	4.8	3.9	118.9	-4.8	65.9	5.4	4.6	180.7	-7.7	-6.6
RBS	2.5	4.9	196.4	-14.7	51.1	4.8	3.9	118.9	-4.8	65.9	5.4	4.6	180.7	-7.7	-6.6
Santander	2.7	3.5	66.5	-4.7	36.3	4.2	4.0	116.7	-8.7	60.7	3.8	4.0	114.4	-21.1	29.6
San UK	2.2	3.3	30.6	-1.7	27.7	3.7	4.8	219.4	-5.7	84.4	3.8	4.0	114.4	-21.1	29.6
SocGen	4.5	3.6	84.6	-4.6	24.5	4.8	4.3	153.5	-6.4	88.6	6.0	5.6	272.9	-21.8	159.7
StanChart	3.3	3.7	86.5	-0.9	37.7	4.7	4.7	192.6	-3.5	128.9	5.9	6.1	325.2	-20.4	204.5
Swedbank	3.3	3.5	68.9	-3.4	19.7	4.2	4.1	127.8	-3.9	69.5	7.8	5.2	236.6	-7.0	28.0
UBS	3.5	3.6	76.0	-2.5	50.6	3.8	4.1	131.3	-5.2	69.0	3.2	4.9	99.4	-19.4	36.4
UniCredit	3.5	4.3	147.0	-10.7	88.3	3.4	5.0	215.4	-14.5	92.0	6.0	7.2	427.5	-63.4	203.0

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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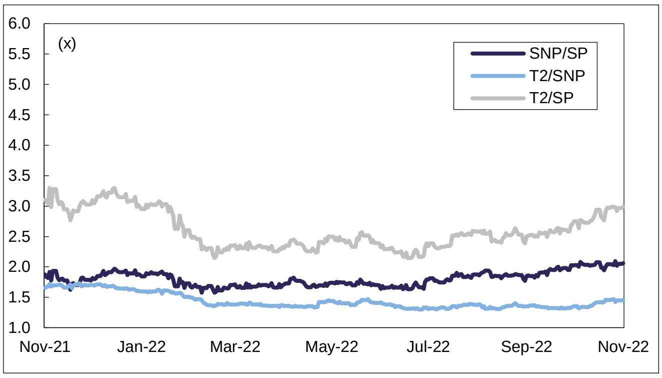

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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	1.4					4.1	6.4	253.8	-9.1	106.8	5.2	7.1	341.2	-6.1	169.4
BFCM	3.8	3.5	68.2	-3.1	26.9	3.3	6.4	239.4	-18.7	-31.5	5.2	7.1	341.2	-6.1	169.4
BNPP	2.5	3.0	13.4	-3.2	-6.7	4.5	6.1	209.9	-11.4	103.0	3.7	6.4	258.7	-2.2	127.1
BPCE	4.0	3.5	66.3	-2.3	19.8	4.5	6.3	244.7	-10.4	105.6	3.0	7.1	313.3	-3.7	145.6
Credit Ag.	3.8	3.5	54.3	-2.0	1.3	3.5	5.9	183.7	-10.0	93.9	6.9	6.5	297.4	-9.5	140.0
Credit Sui.	2.1	7.6	297.7	8.7	216.0	3.2	8.6	449.9	21.6	194.2	2.5	10.6	618.5	10.5	345.3
Danske	2.2	3.6	74.8	-3.6	47.8	2.8	7.2	262.9	-9.4	123.4	2.5	10.6	618.5	10.5	345.3
Deutsche	3.5	3.9	108.9	-3.2	31.1	2.8	7.2	314.9	-10.8	193.5	7.1	8.4	488.7	-9.6	267.1
HSBC	4.7	3.3	51.8	-4.7	17.6	3.4	6.3	215.7	-11.6	117.9	8.7	7.1	356.8	-12.7	58.1
ING	1.0	4.2	88.3	-6.6	-67.3	3.8	6.0	198.0	-6.9	72.8	4.5	14.5	897.9	-20.4	924.6
Intesa	3.7	3.8	99.5	-7.4	28.9	6.8	7.8	426.4	-16.9	-24.7	4.9	8.7	510.2	-23.5	205.8
Lloyds	2.3	5.2	79.1		0.0	3.3	6.2	201.5	-10.5	73.6	6.8	6.7	329.4	-6.5	63.2
Nordea	3.9	3.1	25.3	-2.4	12.6	3.9	5.5	165.8	-14.2	28.7	7.0	6.2			-13.7
Rabobank	3.2	2.9	6.5	-2.7	-6.0	4.1	5.8	184.8	-3.8	82.9	3.3	6.0	229.0	-3.2	95.8
RBS	2.5	4.9	196.4	-14.7	51.1	4.1	5.8	184.8	-3.8	82.9	3.3	6.0	229.0	-3.2	95.8
Santander	2.7	3.5	66.5	-4.7	36.3	4.1	6.2	234.2	-13.1	101.4	6.7	7.0	345.9	-12.6	174.5
San UK	1.3	5.5	55.5		12.2	3.5	6.7	259.4	-8.1	143.6	2.5				127.8
SocGen	4.5	3.6	84.6	-4.6	24.5	3.8	6.5	249.3	-17.6	119.5	3.3	7.0	324.5	-9.7	116.5
StanChart	3.3	3.7	86.5	-0.9	37.7	2.9	6.6	230.3	-16.5	117.3	7.9	7.6	353.2	-10.4	155.0
UBS	2.0	5.4	67.9	0.5	27.4	4.0	5.9	205.1	-10.3	54.4	7.9	7.6	353.2	-10.4	155.0
UniCredit	3.5	4.3	147.0	-10.7	88.3	3.4	7.6	245.0	0.2	126.9	7.3	9.5	581.2	-14.0	279.8

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.

Credit Research

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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.
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