Daiwa Capital Markets

European Banks – Credit Update

- 1Q23 earnings results of European banks continue to be positive and above expectations. Differences emerge from banks' forward guidance, with some raising targets while others held a more conservative outlook for the rest of 2023
- Limited primary market activity for SSAs and FIGs. The latter saw issuance from mostly highly rated entities, with short-dated senior trades. EUR funding currently holds a cost advantage over USD
- Continued U.S. banking sector turmoil contributed to wider secondary market spreads for issuers

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Western European banks –1Q23 results

(↑) **BNP Paribas** beat market expectations, reporting 1Q23 net income of EUR2.8bn (+54.6% yoy). Although this figure excludes the EUR2.95bn capital gain from the sale of BNP's U.S. retail division, Bank of the West, it includes other one-off effects that in combination resulted in an EUR954m upward adjustment in distributable net income. Reported group-wide revenues were EUR12bn (+1.4% yoy), rising the strongest in commercial and retail banking (+5.6% yoy) and the CIB (+4% yoy), which houses BNP's investment banking activities. Operating expenses of EUR9.1bn weighed on results somewhat as they were up 23% on the quarter and 5% up on the year, notably due to a EUR897m contribution to the Single Resolution Fund and exceptional items of EUR361m such as restructuring costs and IT investments. BNP's liquidity and capital remained strong, with a reported EUR466bn liquidity buffer that substantially mitigates any confidence-sensitive refinancing risks from wholesale funding or sudden deposit outflows. The LCR was at 139%, well above requirements. BNP's CET1 position benefitted from the sale of its U.S. retail division that generated EUR11.6bn of capital of which around EUR4bn will be used for an extraordinary share buyback programme later this year. CET 1 rose 130bps qoq to 13.6% (1Q22: 12.4%) and we expect remaining capital from the sale to be reinvested into growth areas of the business. BNP affirmed its 2025 targets, including a ROTE of 12%, cost-to-income ratio of ~60% and annual net income growth of 9% between 2022 and 2025.

Southern European banks – 1Q23 results

(↑) **UniCredit** reported another strong set of results, exceeding analysts' expectation and strongly raising its financial targets for 2023. Net income of EUR2.06bn was significantly above average forecasts (EUR1.3bn) and was adjusted for deferred tax asset (DTA) losses carried forward. The better than expected figures stem from good execution of the bank's strategic plan, its 'Unlock' programme. Net income guidance for the year was lifted to EUR6.5bn, up from the previous guidance of EUR5.2bn that was only announced in January. From an underlying performance perspective, we deem this to be achievable but there are several factors that could derail progress, such as the remaining exposure to Russia and high Italian government bond exposure, together amounting to EUR35bn. Total revenues were EUR5.8bn (+57% yoy), helped by strong NII growth of +44% yoy. NII contributes about 57% of top-line revenue, comfortably offsetting declines in fee income (-2% yoy to EUR2bn) and lower trading income (-14.8% yoy to EUR500m) but also signalling some dependency. With recent ECB rate hikes and the prospect of further tightening to come, UniCredit lifted its NII projected income to EUR12.6bn for the year, up from EUR11.3bn announced at FY22. The bank experienced some minor deposit outflows during the quarter (-1.6% qoq). But senior management stated that, due to the group's strong liquidity position, it could afford to be conservative in passing higher rates on to depositors. The portion of rate hikes that has been passed on to customers had risen in the quarter to 22% from 20% at the end of last year, and is now projected to reach 30% in 2023, down from 35-40% previously expected. This should further boost the bank's underlying profitability and support its goal of returning at least EUR5.75bn to shareholders through dividends and buybacks.

(↑) **Intesa** Italy's largest bank reported late last week, joining other major European lenders in reporting stronger than expected earnings. 1Q23 net income came in at EUR1.96bn (+87.5% yoy) and also exceeded the analyst consensus view of EUR1.54bn. Total revenues of EUR6.06bn were up 11.9% from the previous year, benefitting from higher rates that lifted lending income by 66% yoy, offsetting a 6.6% drop in net fees and commission. Intesa's income streams are less concentrated than those of domestic rival UniCredit and revenues are split between its retail and commercial banking division (46% of total), the CIB (16%), private banking (12%), international subsidiaries (11%), insurance (7%) and asset management (4%). For 2023 Intesa expects to generate net income of EUR7bn, significantly above last year's result of EUR5.5bn, and aims to 'comfortably' exceed its EUR6.5bn profit target in 2025. Further progress was made in reducing Russian exposures by EUR2.5bn (down 70%) against June-2022 levels, which now represent just 0.2% of the group's total customer loans. The capital position remained strong and fully-loaded CET1 was 13.7% after deducting from capital EUR1.4bn in accrued dividends, when considering the benefit of around 125bps from absorption of DTAs of which 30bps would fall into the 2Q23-2025 horizon. Overall, Intesa operates on a very solid cost-to-income ratio of 41.9%, strongly improved from an already robust 46.6% in 1Q22. Despite the inflationary environment and investments into IT, Intesa managed to keep operating expenses stable, with just a minor 0.5% yoy increase to EUR2.5bn. The NPL ratio was 2% at 1Q23, down from 2.3% one year prior, helped by continually low inflows of NPLs. This represents a nominal de-risking of the loan book by EUR4.5bn.

(↑) **CaixaBank** Spain's largest domestic bank reported net income growth of 21.1% yoy to EUR855bn, despite a EUR373m impact from the new Spanish windfall tax on banks. RoTE for the quarter was 10.5%. Operating income of EUR3.1bn (+16.7% yoy) comprised mostly of net interest income (EUR2.1bn) that grew by a significant 48.6% yoy, with margin growth more than offsetting foregone TLTRO income. In previous quarters, the average TLTRO contribution to NII would range between EUR100m-150m. Caixa kept net fee and commission income flat at EUR937m while trading income saw a 42.7% decrease, albeit from a low nominal base to EUR82m. CaixaBank stated that the implementation of new accounting standards on its insurance business retrospectively lowered its 2022 income result. The implementation of IFRS 9 and 17 accounting models as of this year had a negative EUR389m impact on NII but bottom-line profits were only reduced by some EUR16m. As of 1Q23 the insurance division contributed roughly 13% of NII. For 2023 the bank revised its NII guidance upwards to EUR8.75bn from EUR8.5bn, which would be a 34% increase over last year's EUR6.53bn result. Asset quality remained strong with the NPL ratio at 2.7% in 1Q23 and coverage at 76%, underscoring prudent underwriting standards and good delinquency management. Loan loss provisions were up 12% yoy and the cost of risk (CoR) measure ticked up slightly to 26bps (+1bp) against the previous quarter. 2023 guidance on the CoR was 30bps down from its former guidance of <40bps, implying that Caixa has a somewhat more positive outlook on its domestic operating environment.

UK banks – 1Q23 results

(↑) **HSBC** reported a strong 1Q23 PbT result of USD12.9bn, more than triple the amount one year ago. The results include an USD2.1bn impairment reversal related to the delayed sale of its French retail operations and an USD1.5bn provisional gain on the acquisition of Silicon Valley Bank UK (SVB UK) that took place in March. The impairment reversal was stated to be due to the completion of the transaction having become less certain. Overall, 1Q23 figures were the strongest result for HSBC in over a decade, supported by strong top-line revenue growth. The higher rates environment across HSBC's international footprint drove a 47% increase in reported NII to USD8.9bn, increasing the net interest margin to 1.69% (+50bps yoy). Operating expenses of USD7.6bn were 7% lower yoy, due to lower restructuring and other related costs following the completion of management's cost-saving programme at the end of 2022. We expect HSBC's revenue to continue to improve, in line with further rate rises in HSBC's main operating countries, but a slowdown in the pace of monetary tightening and increasing competition for customer deposits will likely curtail some of the projected revenue growth. HSBC recorded RoTE of 27.4%, but when adjusted for extraordinary gains it was 19.3%. Despite generating significant profits, HSBC prudently did not raise its key performance target on RoTE, which remained >12%. This may be linked to the increased uncertainty over the sale of its French retail division as well as increased scrutiny from Canadian regulators looking into HSBC's planned sale of its Canadian business to RBC for CAD13.5bn that was announced in November 2022. The country's competition watchdog is investigating whether the proposed acquisition might result in a substantial lessening or prevention of competition for services provided by the companies, including personal and business financial services across Canada. By business division, pre-tax profits were split by Wealth and Personal Banking (41% of total), Commercial Banking (37%), Global Banking and Markets (16%) and the Corporate Centre (6%). At the shareholder meeting that followed the results presentation, HSBC saw off a resolution introduced by its main shareholder Ping An that sought to split the highly profitable Asian business from the group into a separate entity. The Chinese insurance group has been pursuing this strategy in an effort to increase dividend pay-outs and receive more regular updates on strategic proposals.

(↑) **Lloyds** reported net income for 1Q23 of GBP1.6bn (+43% yoy), above average analyst forecasts, resulting in a RoTE of 19.1%. The UK's largest mortgage lender continued to benefit from the higher rates environment, with NII up 20% to GBP3.5bn, but noted that it was starting to see some minor asset quality deterioration among its weakest clients. This in part led Lloyds to raise loan loss provisions by GBP243m in response to the 'modest' rise in arrears it observed. Operating expenses were up 5% to GBP2.1bn due to inflation and investments, but senior management remain confident that the bank is on course to meet its 2023 cost target of GBP9.1bn. The cost to income ratio remained strong at just 47%, underlining the group's strong cost control. The group's net interest margin (NIM) of 3.22% was broadly flat on the quarter suggesting that the revenue upgrade cycle has ended. Despite expected increases in the BoE's Bank Rate we expect margins to come under pressure due to rising deposit costs. Lloyds recorded deposit outflows of GBP2.2bn in 1Q23 as customers either dipped into their savings or moved money to other lenders or alternative products. Total deposits were GBP473bn, but tighter lending margins and more competition for customer deposits are expected to weigh on results in the coming quarters. Difficulties also emerge due to the bank's loan book composition. Lloyds' mortgage-focused lending book and UK focus mean that revenues are relatively undiversified. 68% of lending relates to mortgages while potential growth areas such as Wealth Management or Insurance only hold negligible shares. Lloyds is looking to increase the share of its non-interest income that is currently 27% of total income. Asset quality was resilient overall, but due to inflationary pressures on affordability there were some minor increases in arrears in some lending portfolios. However, the overall volume of problem loans (stage 3) fell to GBP10.4bn from GBP10.8bn qoq. The average mortgage LTV of 42% is deemed healthy and 93% of mortgages have an LTV below 80%, which we deem credit positive. Lloyds did not make any amendments to its key performance targets, which we attribute to the somewhat more cautious outlook.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at just EUR0.65bn over the course of last week, below market expectations of EUR5bn-9bn. FIG supply of EUR3.9bn was in line with weekly forecast amount of EUR3.5bn-7bn. The total 2023 year-to-date FIG volume of EUR262bn is 9.5% ahead of last year's issuance volume. SSA volumes are also ahead of last year's level, up 22.3% at EUR312bn. For the current week, survey data suggest SSA issuance volumes will range between EUR12.5bn-17.5bn and FIGs are expected to issue EUR7bn-11.5bn.

SSA activity was limited to just a handful of deals and taps. **KFW** tapped two of its existing Australian dollar lines for a total AUD1.15bn, its largest Kangaroo tap in over a decade. They were split by an AUD700m for the July 2027 line and AUD450m for the September 2026 line. Both priced within guidance and the new issue premium was thought to be 1bp. The taps likely occurred due to last week's surprise decision by the Australian central bank to raise rates by 25bps to 3.85%. A pause in hikes for a second consecutive month was widely anticipated.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
Land Schleswig-Hol.	Sr. Unsecured	EUR650m	5Y	MS – 8	MS – 8	>EUR795m
KfW	Sr. Unsecured (Tap)	AUD700m	Jul-2027	ASW + 30	ASW + 30	>n.a.
KfW	Sr. Unsecured (Tap)	AUD450m	Sep-2026	ASW + 19	ASW + 19	>n.a.
FIG (Senior)						
Barclays	Sr. HoldCo	USD2bn	4NC3	T + 215	T + 230	>n.a.
Barclays	Sr. HoldCo	USD2bn	11NC10	T + 280	T + 295	>n.a.
BBVA	SP	EUR1bn	3NC2	MS + 67	MS + 90	>EUR1.75bn
Nordea	SNP	EUR1bn	5Y	MS + 110	MS + 125	>EUR1.45bn
Yorkshire BS	SNP	GBP350m	5.5NC4.5	G + 265	G + 275	>GBP460m
SCB	Sr. HoldCo	EUR1bn	8NC7	MS + 185	MS + 205	>EUR1.6bn

Source BondRadar, Bloomberg;

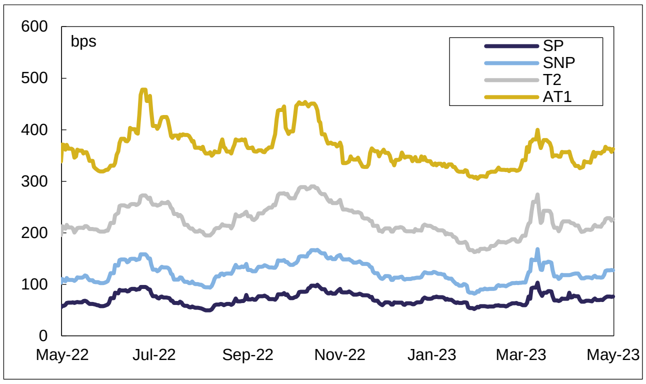
Several **FIGs** visited primaries after publishing mostly better than expected earnings results. The deals revolved around established top-tier names with generally shorter, senior offerings. **Barclays** had the largest transaction in the market last week with a dual-tranche senior HoldCo for a combined USD4bn. A 4NC3 leg was accompanied by an 11NC10 fixed-to-floating rate note. It was Barclays' first Yankee transaction of the year and the bank was first from Europe to issue in USD since the collapse of SVB in March. The backdrop was somewhat tainted by JP Morgan's recent acquisition of First Republic Bank, after the latter ran into liquidity issues, stoking concerns about the sectors' health. However, without any other Dollar supply it could be argued that this was an opportunistic move, just ahead of the Fed's FOMC at which it was decided to raise rates by 25bps. Meanwhile, other European banks looked towards Euro issuance with **Standard Chartered Bank (SCB)** issuing a bail-inable Sr. HoldCo for EUR1bn. Compared to the other Euro transactions, this carried the most duration at 8NC7 years. SCB tends to issue most of its debt in USD but the better pricing in Euros meant the issuer placed its first Euro benchmark transaction in almost two years. Cost savings over USD equivalent pricing were said to be around 30-40bps. Despite the savings, SCB is thought to have paid a new issue premium (NIP) of 20-25bps on the deal. Nordea also placed a bail-in bond for EUR1bn with a 5-year maturity. The SNP bond priced with a spread of MS+110bps (-15bps from IPT) as demand hit 1.45x deal size. NIP was around 20bps. The only SP offering came from **BBVA** with a short dated 3NC2. On the back of solid demand (1.75x) the deal tightened 23bps to a spread of MS+67bps. NIP was thought to be around 15bps.

Secondary market spreads were broadly flat for EUR and USD. CDS indices on European senior (105bps) and subordinated financials (206bps) as measured by iTraxx benchmarks priced +1bps and -6bps against the previous week's levels.Spreads in secondary markets were impacted by ongoing turmoil in the US banking sector and the ECB's decisions to raise rates by a further 25bps, signal further tightening to come, and end its APP portfolio reinvestments from July. In Euros and USD, we observed some spread weakness among Italian and Spanish titles, particularly in the SP segment. In the SNP segment, most regions saw double-digit increases in the low to mid-teens among their average weekly spreads, with the exception of German titles where spreads only widened by 7.8bps in comparison. The Tier 2 segment saw strongest widening among Swedish and Swiss banks (low 30s) while Italian banks fared the best with spread widening just 12.4bps on average. This week, the main focus will be on the BoE' latest monetary policy announcement on Thursday, which will be accompanied by updated macroeconomic projections in its latest Monetary Policy Report. At the previous policy meeting in March, the BoE slowed the pace of tightening to 25bps, taking Bank Rate to 4.25%. Daiwa economists expect another 25bps hike to come from the BoE as UK economic data have surprised on the upside.

Weekly average EUR spreads were wider with SP (+4.6bps), SNP (+12.4bps) and Tier 2 (+20.9bps). USD average spreads were also wider for SP (+3.0bps), SNP (+10.2bps) and Tier 2 (+14.3bps). Based on Bloomberg data, 40% of FIG tranches and 100% of SSA tranches issued in May quoted tighter than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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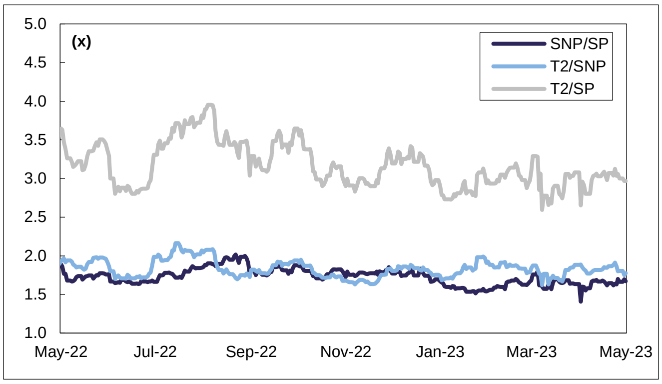


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

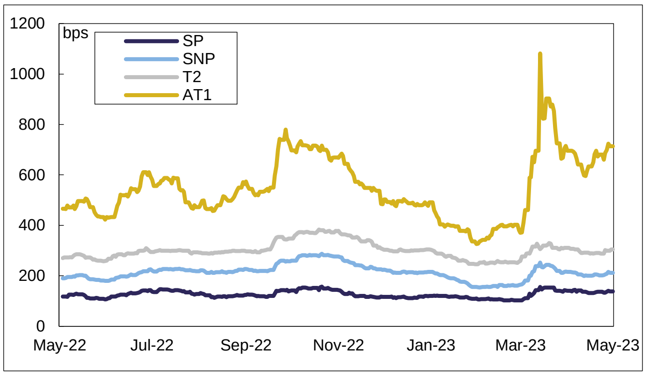
Selected Names

	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	3.1	3.6	43.1	17.6	3.4	3.2	4.6	150.0	11.3	-9.4	2.7	5.2	181.9	21.9	20.3
Barclays	1.1	4.0	5.7	2.2	29.3	2.8	4.7	156.4	15.9	-0.3	7.1	6.4	311.8	20.8	1.2
BBVA	3.4	3.9	64.4	17.9	4.0	3.3	3.9	69.9	13.6	8.4	3.5	5.8	191.4	26.5	28.5
BFCM	4.3	3.9	68.2	8.1	13.3	5.9	4.4	136.9	15.0	27.1	5.5	4.9	185.6	15.7	42.4
BNPP	3.7	3.8	47.9	5.1	4.7	4.3	4.3	120.7	16.3	-2.2	3.3	4.7	159.4	19.4	39.3
BPCE	3.7	3.8	74.7	8.8	15.6	4.5	4.3	128.9	13.7	10.0	8.4	5.8	184.8	13.7	13.1
Credit Ag.	3.6	3.8	63.0	7.8	5.8	4.5	4.1	108.7	15.3	6.3	2.8	4.4	104.4	7.5	-2.0
Credit Sui.	4.5	4.3	112.4	4.3	-75.2	4.0	5.7	246.9	10.4	-224.4					
Danske	2.3	4.0	61.5	5.7	-10.4	3.6	4.6	140.8	12.4	9.6	6.1	6.0	244.5	19.1	16.3
Deutsche	2.0	4.0	73.4	2.3	-12.7	4.0	5.3	213.3	5.2	27.3	2.6	6.9	351.4	25.9	101.9
DNB	4.0	3.8	60.0	8.3	0.8	4.6	4.1	97.0	10.8	18.6	4.8	5.0			
HSBC	4.2	3.5	38.2	5.7	11.4	3.4	4.3	125.0	14.7	-1.1	3.9	4.7	163.4	21.2	17.7
ING	2.3	6.9	345.3	12.1	45.2	4.7	4.3	103.3	13.0	2.4	5.7	5.7	231.6	15.7	16.6
Intesa	3.3	4.1	87.6	14.3	-9.0	3.8	4.7	159.2	14.1	20.9	3.7	5.1	160.1	9.1	21.5
Lloyds	1.6	3.8	18.0	3.0	-2.0	3.0	4.0	67.0	12.8	-12.9	4.6	7.2	275.9	1.3	-219.8
Nordea	3.4	3.6	40.1	1.7	32.0	5.3	4.1	107.6	15.8	29.3	6.7	5.2			
Rabobank	2.8	3.4	9.6	3.0	13.9	4.9	4.1	106.1	13.6	6.6	6.0	5.2	214.3	18.0	34.7
Santander	2.5	4.0	64.8	13.0	-0.1	3.8	4.1	105.7	12.2	7.4	3.4	4.4	129.2	18.2	30.7
San UK	1.8	3.7	17.6	7.0	11.6	4.4	4.9	186.9	13.6	-10.8	3.4	4.4	129.2	18.2	30.7
SocGen	4.0	4.0	90.2	10.2	15.5	4.9	4.5	147.0	17.3	12.6	6.8	6.3	302.5	29.0	52.1
StanChart	3.4	4.0	85.9	4.6	-11.9	4.5	4.7	154.0	21.2	-4.4	4.8	6.1	280.9	27.6	-13.4
Swedbank	2.9	3.9	70.8	-18.9	17.6	3.9	4.3	128.1	10.7	11.6	7.5	5.6	253.6	21.8	21.7
UBS	3.1	4.0	85.8	6.8	19.3	4.3	4.9	167.0	15.0	48.6	4.9	5.5			
UniCredit	3.1	4.4	110.1	13.7	-21.7	3.1	5.0	182.7	12.2	-21.3	5.5	7.3	383.2	4.5	2.3

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.

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



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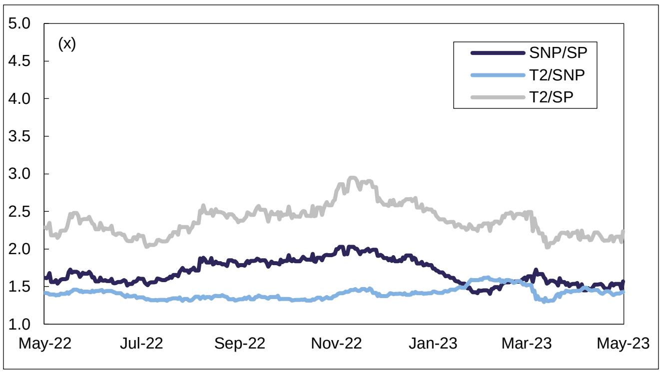

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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	1.0					3.8	6.0	239.1	16.4	3.1	4.6	6.5	316.9	20.5	8.4
BFCM	4.3	3.9	68.2	8.1	13.3	3.0	5.9	212.9	4.7	5.9	4.6	6.5	316.9	20.5	8.4
BNPP	3.7	3.8	47.9	5.1	4.7	4.3	5.6	196.7	8.3	-8.7	3.4	5.9	238.8	12.2	6.9
BPCE	3.7	3.8	74.7	8.8	15.6	4.1	5.9	212.7	8.4	1.9	2.6	6.9	349.2	12.2	-7.1
Credit Ag.	3.6	3.8	63.0	7.8	5.8	2.7	5.5	166.0	11.6	9.1	6.7	6.2	275.1	9.9	-28.9
Credit Sui.	1.7	6.7	272.0	13.9	-43.6	3.5	7.2	337.4	11.3	-114.9	2.2	8.5	430.4	-8.3	-96.7
Danske	2.3	4.0	61.5	5.7	-10.4	2.7	6.3	201.1	6.2	-0.3	2.2	8.5	430.4	-8.3	-96.7
Deutsche	2.0	4.0	73.4	2.3	-12.7	2.4	6.9	312.4	16.9	25.1	7.0	8.5	512.5	25.4	65.4
HSBC	4.2	3.5	38.2	5.7	11.4	3.8	5.8	209.8	9.9	-16.4	8.8	6.2	287.8	9.0	-19.6
ING	2.3	6.9	345.3	12.1	45.2	3.6	5.5	182.5	7.0	-6.6	8.8	6.2	287.8	9.0	-19.6
Intesa	3.3	4.1	87.6	14.3	-9.0	6.7	7.4	402.4	8.9	-36.2	4.6	8.7	531.0	16.1	20.3
Lloyds	1.9				0.0	3.4	5.6	181.5	11.4	12.2	6.5	6.6	326.9	11.9	10.9
Nordea	3.4	3.6	40.1	1.7	32.0	3.5	5.2	164.8	7.7	21.6	6.6	5.8			
Rabobank	2.8	3.4	9.6	3.0	13.9	3.8	5.4	172.2	6.9	11.5	7.3	5.8	215.7	3.7	25.6
Santander	2.5	4.0	64.8	13.0	-0.1	3.7	5.6	211.4	13.9	3.1	6.4	6.6	322.0	11.9	19.8
San UK	1.1					3.8	6.3	248.5	11.0	9.4	2.2				
SocGen	4.0	4.0	90.2	10.2	15.5	3.8	6.3	262.3	7.8	10.7	7.1	7.4	402.0	9.9	65.7
StanChart	3.4	4.0	85.9	4.6	-11.9	2.4	5.9	181.3	3.6	-14.4	8.7	7.0	341.7	4.7	-2.7
UBS	2.2	5.7	136.0	6.3	58.1	3.8	6.0	239.8	9.7	37.5	8.7	7.0	341.7	4.7	-2.7
UniCredit	3.1	4.4	110.1	13.7	-21.7	3.1	6.8	306.6	24.2	99.3	6.6	8.6	507.1	17.8	-26.4

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.
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