

European Banks – Credit Update

- UBS group 2Q23 results show impact of Credit Suisse integration and outlines restructuring path ahead with focus on cost savings. 'Record' profit generated due to negative goodwill effect.
- Primary market activity muted for SSAs with just a handful of trades while FIGs saw a host of activity across payment ranks and currencies. Santander's non-call didn't impact other AT1 issuance.
- Secondary market spreads were mixed for EUR and USD. Spreads were impacted by the UBS earnings presentation, resulting in tightening for Swiss entities.

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UBS' delayed 2Q23 earnings showcase new group structure and ambitious targets

The earnings report of Switzerland's only remaining G-SIB has provided additional information and context relating to the integration of Credit Suisse alongside the group's financial performance. Ahead of the release, UBS had announced that it chose to terminate the CHF9bn loss protection agreement agreed with the Swiss National Bank (SNB) as well as the CHF100bn public liquidity backstop, both guaranteed by the Swiss government. Additionally, Credit Suisse fully repaid the CHF50bn emergency liquidity assistance and loans provided to it by the SNB. These steps ahead of the earnings release underlined UBS's confidence in its liquidity position and support its assumption that there should be no further unexpected losses stemming from Credit Suisse's non-core assets. The loss protection agreement in particular was vital to secure UBS's support and reduce tail risks as the bank was only able to perform limited due diligence ahead of the take-over.

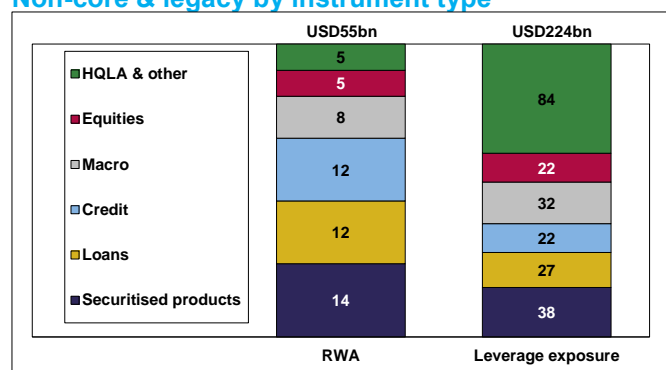
UBS generates 'record' profit from negative goodwill gain

Last Thursday, UBS presented its delayed 2Q23 earnings report, reporting a consolidated 'record' net income result of USD28.9bn and return on tangible equity (RoTE) of 178%. This figure, of course, was almost entirely attributable to the negative goodwill generated from acquiring Credit Suisse at a substantial discount (USD3.4bn) to its book value. Adjusted for this one-off effect and considering integration and acquisition costs (USD830m), pre-tax profit for UBS was USD1.1bn against USD2.6bn one year prior. Top-line revenues increased 7% yoy to USD9.5bn, largely due to the consolidation of Credit Suisse revenues. However, looking ahead, senior management outlined a significant cost-cutting plan that foresees USD10bn in expense reductions by 2026 compared to the previous figure of USD8bn that was targeted by 2027. The new figure includes a reduction in headcount of 3,000 in Switzerland alone. The combined entity counts some 120k staff globally, of which 30-35k are estimated to be let go over the coming years. UBS guided for a cost-to-income ratio of <70% by end-2026, which doesn't appear to be a significant departure from its recent figures (FY22: 72%; FY21: 74%). However, it does appear ambitious when considering political and public sensitivities surrounding the significant cuts proposed to Credit Suisse's domestic operations.

Heightened execution risk on restructure and de-risking

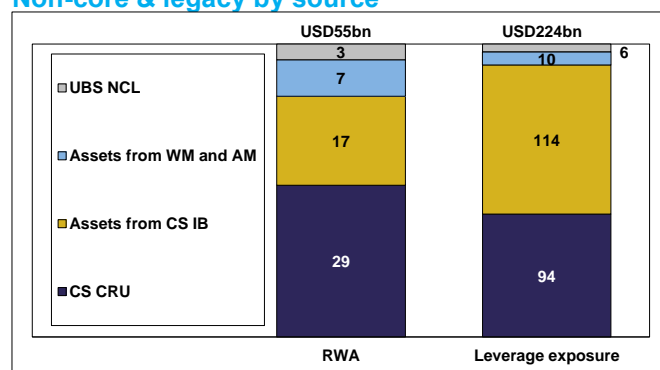
UBS outlined medium-term financial targets against a backdrop of major strategic structural changes at the combined group. One major announcement was the full retention and integration of Credit Suisse's Swiss operations. UBS explained that running it as a standalone entity in a focused spin-off scenario would face significant challenges because of a substantial funding gap, its smaller scale, low profitability and the lack of value proposition for international clients. Execution risks arise from the fact that UBS and Credit Suisse both have large distribution networks that require downsizing, while the integration from a technological and cultural perspective also poses some risk. Nevertheless, we view the integration as a positive step as it allows UBS to embed its risk culture more effectively across the combined group. Arguably this was one of the major weak points at Credit Suisse, ultimately contributing to its demise. It already appears that the closer alignment with UBS has had some positive effects on Credit Suisse's operations as the pace of asset outflows from its wealth management division has slowed in 2Q23 (-USD30bn) compared to 1Q23 (-USD51bn). They even registered a small positive inflow for the month of June (+USD1bn). UBS's global wealth management division reported net new money inflows of USD16bn in 2Q23, the highest figure recorded for a second quarter.

Non-core & legacy by instrument type



Source: Company reports;

Non-core & legacy by source



Source: Company reports; CS=Credit Suisse; WM=Wealth management; AM=Asset management; IB=Investment bank; CRU=Capital release unit

Management of non-core and legacy unit will be focal point going forward

UBS created a non-core and legacy (NCL) business division, which will include Credit Suisse positions and businesses not aligned with the group's strategy and policies, such as the assets and liabilities of Credit Suisse's capital release unit and certain assets and liabilities of its investment bank, wealth and asset management. The NCL unit will include USD55bn of RWAs and a leverage exposure of USD224bn. During 2Q23, NCL assets were already reduced by USD9bn of RWA and USD14bn of leveraged exposures. UBS also announced an accelerated rundown approach of the NCL as it would otherwise only achieve a 50% reduction in RWA from the natural run-off profile by end-2026. This will be beneficial in reducing operating expenses generated by non-core assets while also freeing up capital. In terms of legal integration, UBS are finalising plans towards a target legal entity structure, with a single parent bank and Credit Suisse's significant legal entities merged or integrated into their UBS equivalent. The expectation is for Credit Suisse AG to merge into UBS AG in 2024. Regarding capital markets activity, UBS's updated fixed income presentation simply states that they expect to continue the execution of their funding plans over the short term as capital and liquidity measures are considered adequate.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR3.8bn over the course of last week, below market expectations of EUR6-10.5bn. FIG supply of EUR11.6bn was in line with the weekly forecast amount of EUR6-10bn. The total 2023 year-to-date FIG volume of EUR417bn is 9.1% ahead of last year's issuance volume. SSA volumes are also ahead of last year's level, up 15.5% at EUR463bn. For the current week, survey data suggest SSA issuance volumes will range between EUR11-16bn and FIGs are expected to issue EUR11-16bn.

SSA primaries remained somewhat muted with **KfW** being the exception, issuing its largest dollar benchmark of the year at USD5bn alongside a green, 7-year SEK1bn note. The short maturity of 3-years on the dollar note kept it attractive for a wide investor audience that oversubscribed to the offering 2.7x. The 2bps new issue premium (NIP) was in line with recent USD peer transactions. **Kommuninvest** was also in the market with a 4-year, EUR500m green bond. The final spread of MS-8bps (-2bps from IPT) suggests that the issuer paid a small 2bps concession.

(Table 1) Key Benchmark Transactions

Bank	Rank	Amount	Maturity	IPT (bps)	Final Spread (bps)	Book Orders
SSA						
Germany	Sr. Unsecured (Tap)	EUR3bn	Aug-2053	DBR + 8.5	DBR + 7.5	>EUR33bn
Kommuninvest	Sr. Unsecured (Green)	EUR500m	4Y	MS - 6	MS - 8	>EUR1.3bn
Bpifrance	Sr. Unsecured	GBP250m	Jan-2026	G + 85	G + 85	>GBP300m
KfW	Sr. Unsecured	USD5bn	3Y	SOFR MS + 27	SOFR MS + 25	>USD13.4bn
KfW	Sr. Unsecured (Green)	SEK1bn	7Y	MS + 18.5	MS + 18.5	n.a.
FIG (Senior)						
Swedbank	SNP (Social)	EUR500m	7Y	MS + 150	MS + 135	>EUR885m
Caixabank	SP	EUR1.25bn	7Y	MS + 150	MS + 120	>EUR2.55bn
BMPS	SP	EUR500m	4NC3	6.875%	6.750%	>EUR700m
Nordea Bank	SNP (SLL)	EUR1bn	3NC2	MS + 90	MS + 68	>EUR1.85bn
Sydbank	SNP (Green)	EUR500m	5NC4	MS + 200	MS + 185	>EUR730m
Banco de Sabadell	SNP	EUR750m	6NC5	MS + 265	MS + 240	>EUR1.75bn
BNP Paribas	SP	JPY121.9bn	5Y	TONA MS + 60	TONA MS + 60	n.a.
BNP Paribas	SP	JPY3.2bn	7Y	TONA MS + 61	TONA MS + 61	n.a.
BNP Paribas	SP	JPY4.6bn	10Y	TONA MS + 62	TONA MS + 62	n.a.
BNP Paribas	SNP	JPY27.2bn	6NC5	TONA MS + 105	TONA MS + 105	n.a.
Česká spořitelna	SNP	EUR500m	4.5NC3.5	MS + 270	MS + 235	>EUR1.75
NAB	Senior Unsecured	JPY57.6bn	5Y	TONA MS + 40	TONA MS + 40	n.a.
FIG (Subordinated)						
Crédit Agricole	Tier 2	SGD350m	10NC5	5.50%	5.25%	n.a.
KBC	AT1	EUR750m	PNC5.5	8.375% (Semi)	8.00% (Semi)	>EUR2bn
Allianz	Tier 2	USD1bn	30NC10	6.75%	6.35%	>USD3.8bn
Intesa	AT1	EUR1.25bn	PNC6.5	9.625%	9.125%	>EUR4.6bn

Source: BondRadar; Bloomberg; CAB = Climate Awareness Bond; SAB = Sustainability Awareness Bond; SDB = Sustainable Development Bond;

SLL = Sustainability-linked loan

The busy **FIG** market signals the end of the summer break, which in itself was busier than usual. Bloomberg data shows that in August alone some EUR41bn was issued across 67 transactions (excl. secured deals). Notable transactions from last week include a EUR500m SP from **Banca Monte dei Paschi (BMPS)** after publishing a strong set of 2Q23 earnings. The 6.750% yield on offer reflected the issuer's low, albeit improving credit rating ('B+/B1'), commensurate with that of other peripheral lenders in Greece or Cyprus. The deal will continue to strengthen the issuer's capital position (CET1 of 15.9% at 2Q23) that has gradually improved from its low point of 10% in the third quarter of last year. The NIP of 25bps was a respectable outcome. **Nordea** issued a unique sustainability-linked loan (SLL) under its [dedicated framework](#). This falls outside of traditional SLB or green activities as, according to Nordea, green loans can only fund projects that

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make a substantial contribution to environmental objectives, while SLLs open up sustainable financing to borrowers in any sector, including in carbon-intensive industries. Therefore, the SLL is designed to support a borrower on its overall transition journey, placing it in the realm of transition finance. The EUR1bn bond is a short-dated 3NC2 that garnered strong demand from investors, allowing for the spread to tighten to MS+68bps (-22bps from IPT). The NIP is thought to have been around 7bps.

Subordinated FIG transactions made a strong return last week with four issuers bringing AT1s and Tier2s across a variety of currencies. While Tier 2 issuance has picked up over recent months, the AT1 market is still recovering from the Credit Suisse fallout and has only seen limited issuance since then. **KBC** launched an AT1 for EUR750m with a guidance of 8.375%. The book exceeded EUR2bn tightening the coupon to 8%. It is expected that KBC will call its outstanding EUR500m AT1 that becomes callable in March-2024 adding a net EUR250m to the Belgian bank's AT1 capital stack. Later in the week, **Intesa** also placed a large AT1 for EUR1.25bn with a PNC6.5 tenor. This coincided with Banco Santander's announcement that it would skip the call option of its own AT1. This marks only the second non-call event for a European financial in 2023. Nevertheless, pricing levels of Santander's AT1 suggest the step was widely anticipated by the market and did not appear to have adversely affected Intesa's issue. The Italian lender saw strong demand for its offering (3.7x subscribed), tightening the bond by 50bps to 9.125%. Demand was likely supported by Intesa's announcement of a cash tender offer for "any and all" of its existing euro 6.25% AT1 (callable May-2024) of which EUR750m remain outstanding.

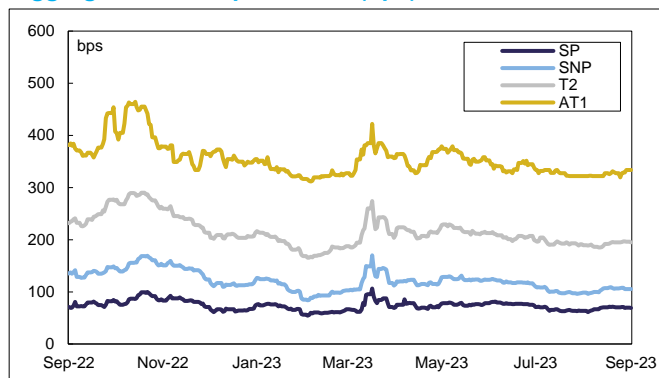
Secondary market spreads were mixed for EUR and USD. CDS indices on European senior (79bps) and subordinated financials (144bps) as measured by iTraxx benchmarks priced -6bps and -10bps against the previous week's levels.

Spreads in secondary markets were mixed for EUR and USD. Euro-denominated SP bonds widened modestly by +0.8bps, driven mostly by strong widening among UK (+6.3bps) and Danish entities (+3.5bps) while most other regions recorded moderate tightening. This was most pronounced among Swiss titles on the back of UBS's 2Q23 earnings report, which outlined a cohesive yet ambitious restructuring and integration plan for Credit Suisse. Consequently, Swiss USD-denominated SP bonds tightened strongly (-8.3bps) against an average widening of 3bps in all other regions. Euro-denominated SNP bonds traded slightly tighter benefitting from French (-2bps) and Swiss (-0.9bps) titles. We observed a 2bps widening in the Tier 2 space, driven mostly by Italian (+5.3bps) and UK banks (+4.1bps),

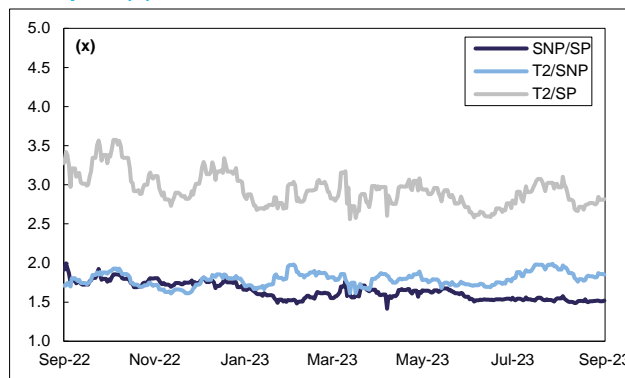
Weekly average EUR spreads were little changed for SP (+0.8bps), SNP (-0.5bps) and wider for Tier 2 (+2bps). USD average spreads were only marginally wider for SP (+0.6bps) and SNP (+1.7bps). Based on Bloomberg data, 32% of FIG tranches and 24% of SSA tranches issued in August quoted wider than launch.

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.

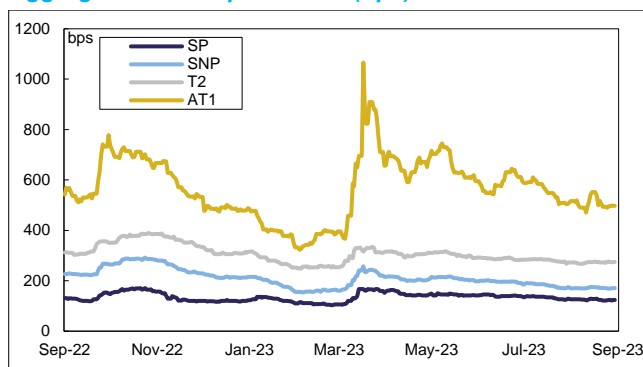
Selected Names

	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
ABN Amro	2.2	3.9	19.3	-2.8	14.0	5.5	4.3	106.4	-1.5	-4.3	4.4	5.7	236.8	-0.2	11.9
Sabadell	2.4	4.7	90.7	1.0	-60.8	2.8	5.2	164.1	2.4	-88.6	4.4	6.8	191.2	7.7	-9.2
Santander	3.0	4.2	58.3	-2.1	-11.0	3.4	4.2	80.7	-0.5	-9.6	3.6	4.6	92.3	0.6	-3.1
Barclays PLC						3.3	4.7	121.2	-1.5	-41.2	6.8	6.2	258.6	1.2	-49.4
Banco BPM	2.7	4.7	75.6	1.6	-51.6	2.8	5.3	167.8	0.3	-70.3	2.0	6.6	269.4	4.9	-135.2
BAWAG Group	3.1	4.6	114.1	-1.2	4.9	3.9	4.5	113.2	-1.4	13.5					
BFCM	4.0	4.1	60.3	-3.8	6.0	5.6	4.4	123.4	-3.2	13.1	4.4	4.5	123.2	0.3	2.4
BNP Paribas	4.5	4.1	64.8	-4.6	0.8	4.3	4.5	110.1	-2.8	-11.5	2.8	4.9	165.8	4.4	1.2
BPCE	3.8	4.1	67.3	-2.6	8.4	4.3	4.4	114.3	-2.0	-9.4	4.1	5.6	159.8	0.7	-29.1
BBVA	3.1	4.1	59.0	-0.2	-1.3	3.0	4.2	57.2	0.6	-3.6	3.7	5.5	110.9	-1.0	-48.0
Bankinter	5.3	4.5	122.2	-2.2	1.4	3.3	4.1	71.2	-0.7	-41.5	8.2	6.2	278.3	-2.5	-57.4
CaixaBank	2.8	4.2	57.6	2.1	-16.5	3.1	4.7	123.1	0.6	-19.6	5.0	6.1	228.1	-0.4	-86.3
Commerzbank	3.1	3.9	49.7	1.4	-5.0	2.9	4.4	104.7	0.2	-50.3	3.4	6.7	125.0	14.8	-33.3
Crédit Agricole	3.7	4.0	65.4	-6.4	1.1	4.2	4.2	88.6	-2.2	-7.4	2.6	4.7	105.4	3.7	-0.4
Danske Bank	1.9	4.3	56.6	1.7	-17.7	4.2	4.6	114.6	-0.2	-25.1	3.1	5.7	181.7	0.6	-53.5
Deutsche Bank	1.7	4.2	67.4	-0.2	-18.3	3.5	5.1	162.4	-0.3	-18.2	2.4	5.9	226.1	2.0	1.9
DNB Bank	3.5	4.0	57.9	-1.4	-0.8	3.5	4.3	91.5	0.9	5.0	4.2	5.1	189.7	8.3	-0.9
Erste Group	5.1	4.1	80.0	-1.4	-11.7	2.6	3.9	38.3	-1.4	-62.9	5.5	5.9	244.5	2.4	-42.8
HSBC Holdings	4.3	3.7	42.6	-3.8	4.7	3.2	4.5	108.5	-2.9	-8.2	3.5	4.7	138.5	2.7	-7.0
ING Group						4.4	4.5	90.0	-2.1	-18.7	5.8	5.7	205.3	-1.9	-6.7
Intesa Sanpaolo	3.2	4.3	97.2	-2.4	-9.2	3.3	4.7	136.2	-1.7	-15.9	3.1	5.4	118.5	15.0	9.1
Jyske Bank	4.3	4.6	123.1	-2.1	-0.2	2.9	4.7	105.3	0.6	-70.1					
KBC Group						2.9	4.3	77.1	-1.9	-26.2	5.5	5.8	194.1	16.7	-67.9
Lloyds	1.3	4.1	20.1	6.7	-1.4	3.8	4.6	73.8	-0.7	-12.5	2.7	33.2	229.2	3.5	-251.4
Mediobanca	3.2	4.4	50.7	-0.8	-28.7	3.3	4.5	88.2	2.7	-36.4					
NatWest Group	2.4	4.2	61.7	0.2	-20.4	3.4	4.7	125.0	-1.8	-17.7	7.0	6.1	290.1	2.3	-7.2
Nordea	3.1	3.7	23.8	-1.1	15.9	4.6	4.1	71.8	-0.7	7.9	5.9	5.3			
Rabobank	2.5	3.6	-8.6	2.6	1.1	4.2	4.2	85.0	-1.1	-13.6	4.8	5.2	186.8	-2.7	7.5
RBI	2.6	5.0	145.3	0.2	-25.7						6.5	9.4	587.6	-2.0	95.2
SEB	3.3	3.9	54.1	-2.0	-9.2	3.9	4.2	87.6	-1.2	15.1	6.6	5.2	192.1	2.8	-10.9
Santander UK	1.5	4.2	31.7	5.8	25.3	3.7	5.0	146.4	-2.0	-28.2					
SocGen	3.7	4.2	79.7	-1.8	5.9	4.1	4.6	123.9	-1.1	-10.0	6.5	5.8	219.0	1.5	-6.0
Svensk. Handel.	3.7	3.9	55.1	-0.9	7.7	4.6	4.0	69.5	-1.4	-9.9	5.2	5.2	169.8	-2.8	-3.1
Swedbank	2.6	4.1	60.4	0.2	11.2	3.6	4.4	100.0	1.4	-14.1	3.6	5.7	177.2	-1.2	-55.1
Stand. Chart.						4.2	4.6	122.0	-1.0	-25.5	1.9	6.0	214.5	4.6	-44.9
UBS Group	2.8	4.1	59.5	-7.6	0.8	3.8	4.7	117.3	-13.2	-30.8					
UniCredit	2.9	4.5	85.8	0.2	-49.0	2.8	4.8	122.1	0.9	-61.6	1.0	6.3	197.2	1.3	-132.7

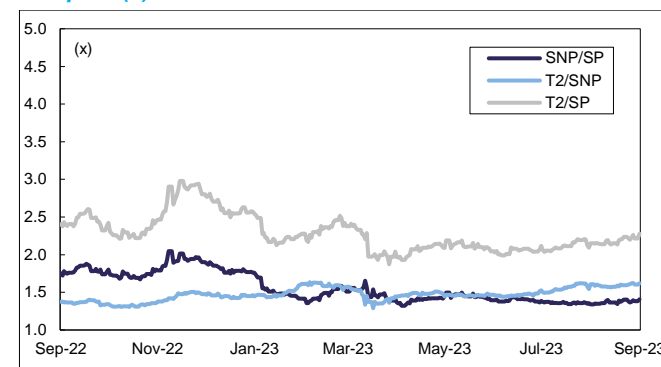
Source: Bloomberg, Daiwa Capital Markets Europe. Dur. = Duration. Yield = Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative of the whole market. Issuance >300m

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
ABN Amro						4.6	6.2	182.6	1.8	-49.4	2.4	6.4	174.1	2.3	-2.8
Santander	4.2	5.9	154.7	-0.5	2.5	3.5	6.1	179.1	1.6	-32.7	6.6	6.9	285.4	-3.0	-14.0
Barclays PLC	1.2					3.7	6.3	201.0	1.4	-35.4	4.8	6.9	286.7	5.6	-18.8
BFCM	2.4	5.9	125.8	1.4	-5.8										
BNP Paribas	4.0	5.8	156.4	1.0	-7.3	4.0	6.1	159.9	2.5	-35.6	3.1	6.2	167.5	3.1	-33.9
BPCE	3.2	5.8	148.0	0.3	-18.0	3.7	6.3	173.4	2.2	-38.9	7.8	6.9	289.1	1.2	-13.4
BBVA	1.9	5.8	95.4	4.5	-16.1	2.6	6.3	169.3	0.6	-29.1					
CaixaBank						3.7	6.4	217.4	1.6	-24.7					
Crédit Agricole	2.8	5.7	114.5	0.8	-9.9	2.4	6.0	123.5	1.4	-26.4	6.5	6.4	216.4	2.4	-63.4
Danske Bank	2.6	6.4	143.3	1.4	-28.7	1.9	6.5	153.2	1.1	-49.7					
Deutsche Bank	3.4	5.8	101.0	4.1	16.2	2.7	6.6	207.5	3.0	-59.6	6.9	8.0	398.8	2.5	-72.6
DNB Bank	1.7	6.1	69.4	-3.0	-2.7	3.5	6.1	154.4	1.3	-14.6					
HSBC Holdings						3.3	6.2	171.5	1.9	-44.2	8.2	6.7	265.1	3.8	-32.8
ING Group						3.2	5.9	143.6	2.4	-29.0					
Intesa Sanpaolo	3.5	6.8	254.5	-1.0	-13.1	6.8	7.9	395.6	-1.0	-46.3	6.8	8.8	474.7	-10.0	-49.6
KBC Group						3.8	6.2	195.6	2.4	-17.2					
Lloyds	4.9	6.0	148.6	0.8	13.5	3.0	6.1	156.1	1.4	-25.2	6.4	6.6	257.6	0.0	-21.1
NatWest Group	1.4	6.0	112.1	-0.4	-22.6	3.5	6.2	182.0	1.5	-16.9	7.0	7.9	307.7	0.6	-66.7
Nordea	1.9	5.8	77.5	2.8	7.0	3.2	5.8	138.8	2.1	-3.2	7.6	6.9	268.0	1.4	17.6
Rabobank	1.7	5.6	58.1	0.8	-3.2	3.5	6.0	159.4	2.1	-15.3	2.6	6.2	180.4	2.6	-38.4
SEB	1.8	5.9	90.0	0.8	2.3										
Santander UK	3.5	6.6	199.7	1.1	-44.3	3.5	6.6	199.7	1.1	-44.3	6.2	6.9	190.0	11.6	-57.2
SocGen	1.8	6.0	119.1	1.0	8.5	3.5	6.5	188.3	2.3	-41.9	8.8	7.3	327.6	0.4	-11.5
Svensk. Handel.	2.5	5.6	104.5	-1.1	8.3	3.8	6.1	167.7	-0.4	-13.1					
Swedbank	2.5	5.7	113.8	2.0	-5.4	3.5	6.0	169.4	3.7	0.6					
Stan. Chart.						2.3	6.3	142.6	0.8	-52.8	7.5	7.1	279.3	4.9	-29.9
UBS Group	1.9	5.5	85.8	-0.2	-30.8	3.3	6.1	174.3	-0.7	-35.0					
UniCredit	3.5	6.6	203.9	3.7	1.8	2.3	7.1	216.5	2.7	13.1	5.4	8.3	414.6	-1.6	-116.9

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. Issuance >300m

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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 ¥10bn. 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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