

## European Banks – Credit Update

- 1Q20 results published last week showed resilience, but credit profiles will deteriorate in coming quarters.
- Temporary changes made by regulators to the calculation of loan loss provisions and market risk will reduce the transparency of banks' data.
- Primary market activity remained weak, and the tightening trend on secondary spreads came to a halt, driven by Italian names.

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### 1Q20 Results

The 1Q20 earnings season for European banks kicked off last week with key trends largely in line with expectations. In our coverage universe, **Svenska Handelsbank (SHB)**, **Swedbank** and **Credit Suisse (CS)** showed that their business models are resilient, and well prepared for the current crisis. Impairment charges have indeed increased sharply, yet these banks still have headroom for further material provisions for loan losses.

*Revenues* were up Y/Y in Q1, backed by higher client activity and higher lending and deposit volumes. On trading, CS, the first European GSIB to report 1Q20 numbers, reported a sharp 26% growth in FICC, on higher activity in macro and global credit products and structured products; whilst Equity earnings were up 24%, backed by strong activity across derivatives, prime and cash equities. Hence it outpaced its American peers in growth in trading revenues. Advisory & Underwriting earnings were again underwhelming, down 38% Y/Y, as the momentum observed in January and February reversed in March, further impacted by mark-to-market losses. More retail-focused names were more exposed, however, to the material market fluctuations. Both SHB and Swedbank reported significant negative valuations on derivative and bond inventories, which they were not able to absorb through higher client activity. That said, the improvement of some asset prices in April may lead to some loss reversal in Q2.

*Impairment charges* increased sharply: tenfold Y/Y by Swedbank, sevenfold by Credit Suisse, and 87% by SHB. Yet all three banks still have significant headroom for the likely additional material charges to be booked in coming quarters. This is, however, not the case for all European banks. In a profit warning last week, **Unicredit** disclosed it will book €900m in impairments in Q1 related to the Covid-19 outbreak, leading to total impairments of €1.2bn in the quarter. For the full year 2020, the bank expects its cost of risk to amount to 100-120bps, translating into total impairments of €4.5-5.5bn according to our estimates (up €2-3bn Y/Y). Added to planned restructuring charges, this might lead to a 2020 full-year loss for Unicredit on a reported basis.

*Liquidity* levels are holding up well, backed by deposits from both households and the many additional facilities provided by central banks. These have largely offset, for now, higher corporate client credit facility drawdowns and elevated business liquidity utilization. The Liquidity Coverage Ratios (LCR) reported so far, including by Unicredit, remained comfortably above requirement at end-1Q20, ranging between 140% and 182%.

*Capital ratios* are taking a significant hit, with reported CET1 ratios declining between 60 and 90bp Q/Q as a result of higher lending volumes, increased market volatility and ratings migration. That said, buffers above minimum requirements remain comfortable, partly driven by the reduction in requirements announced by several regulators, and partly driven by artificial reductions in the market measurement of market risk. Although optically positive for banks, such temporary measures, including the flexible approach toward the implementation of IFRS9 rules on impairment charges, are unwelcome. Both measures reduce the visibility outsiders have on banks' true credit profile.

**Deutsche Bank** disclosed last night some preliminary figures on its 1Q20 results. It announced a net income of €66m in the quarter, (down from €201m in 1Q19), flat revenues Y/Y at €6.4bn, and provisions for credit losses of €0.5bn, up from €140m in 1Q19. CET1 ratio of 12.8%, down 80bps. It also announced that its CET1 ratio may fall modestly and temporarily below its previous target of at least 12.5%, whilst the LR (4.2% at YE19) is now unlikely to reach its YE2020 target of 4.5%.

In all, these figures are unsurprising. The full disclosure of results is required for a more thorough assessment. Yet the bank is likely to have had a strong performance in trading, which helped gross revenues to be flat Y/Y. Moreover, the decline in CET1 and reduced capital targets are fully in line with American and European peers, whilst the buffer above requirement remains comfortable. On profitability, expectations for Deutsche's FY20 earnings were already low before the crisis, and will be further hit by the sharp increase in impairment charges. That said, we currently expect its impact on the capital base to be manageable. Deutsche's full results will be published on Wednesday, 29 April.

### Liquidity Requirements

Both the BoE and the ECB have now explicitly stated that they will allow banks' LCR to go significantly below 100% if the decline is driven by the need to support clients and ensure liquidity in the system. The BoE clarification came in a [Q&A on the use of liquidity and capital buffers](#) published last week, whilst the ECB's [clarification](#) was published in early April.

*The LCR is a requirement whereby banks must hold an amount of high-quality liquid assets enough to fund a stressed 30-day period of significant cash outflows. It is hence a buffer above banks' normal liquidity needs. Basel rules require the LCR to be at least 100% at all times, albeit certain jurisdictions have a higher requirement in place.*

These measures are sensible in the context that European governments are utilizing banks' balance sheets as a tool to support the economy.

However, in light of the several liquidity and funding facilities being provided by central banks, the stress on the liquidity levels of a bank for it to not be able to comply with the minimal requirement would have to be material. Moreover, clarity on whether a bank's liquidity level is under stress as result of client activity, or whether it's driven by idiosyncratic issues, might be limited. Finally, with a LCR significantly below 100%, banks will be in a weak position to absorb any additional liquidity shock, even if market-driven.

Positively, European regulators are monitoring liquidity levels more closely since the crisis started, and we expect them to take mitigating actions if needed. However, although LCR fluctuations around 100% should be seen as a natural market development in the current environment, a LCR substantially below 100%, as now allowed by the central banks, would be a material credit concern.

### Rating actions

S&P took action on the ratings of a range of European banks on Thursday. It downgraded Commerzbank's SP debt to BBB+ (from A-) and its SNP debt to BBB- (from BBB) retaining a negative outlook. The agency also changed from stable to negative the outlook on the ratings of Deutsche Bank, BNP Paribas, Credit Mutuel, Credit Agricole, BPCE, Rabobank, ING, Barclays, Lloyds, RBS, Santander UK. The outlook on Nationwide was revised to stable from positive.

Positively, the agency affirmed on Friday evening its sovereign rating of Italy (at BBB-/Negative). This should reduce the downward pressure on the ratings of Unicredit and Intesa.

### Primary and secondary markets

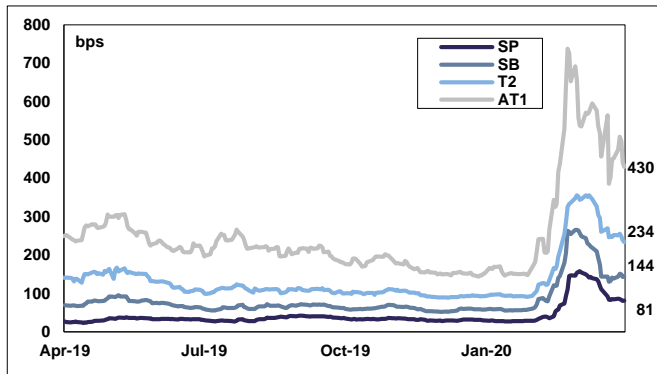
Amid the risk-off sentiment in the markets and the start of the earnings season, activity in the unsecured **primary market** for European banks was reduced. Only BPCE and Swedbank came to the market, with the safer Senior Preferred format. BPCE was met with adequate demand (2.1x), whilst NIP was around 9bps. Demand for the Swedish issuer was proportionally stronger (3.5x), with the transaction taking place a day after the bank released its 1Q20 result, with no noticeable NIP, and a material tightening from IPT.

- BPCE, SP, EUR1.5bn, 5Y, priced at MS+95bps, IPT at MS+125bps, order book of EUR3.1bn. In January 2020, the issuer placed a similar SP paper, 6Y, priced at MS+45bps.
- Swedbank, SP, EUR1bn, 5Y, priced at MS+98bps, IPT at MS+130/135bps, order book of EUR3.5bn.

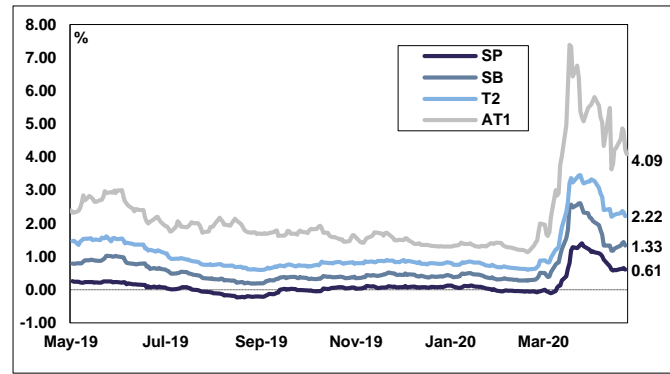
The tightening in the **secondary market** observed in the past few weeks came to a halt last week, with spreads widening in Southern Europe, particularly in Italy. The trend in Northern Europe was more mixed, with no clear trend and spreads moving largely sideways on aggregate. EUR SP spreads remain 53bps above pre-crisis levels (+86bps for SNP paper), whilst USD SP/Sr OpCo debt remains 70bps above pre-crisis levels (+98bps for SNP/Sr HoldCo paper).

## Western European Banks EUR Z spreads

### Z-spread LTM (bps)



### Yields LTM (%)



### EUR SP/Senior OpCo Z-Spread Net Change (bps)

|          | YTDΔ | Last 5 Days Δ |      |      |      |       |
|----------|------|---------------|------|------|------|-------|
|          |      | All           | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 74   | -5            | -4   | -6   | -6   | -6    |
| DENMARK  | 53   | -4            | -4   | -4   | -4   | -4    |
| FINLAND  | 50   | -7            | -8   | -6   | -8   | -6    |
| FRANCE   | 48   | -3            | -4   | -2   | -3   | -3    |
| GERMANY  | 67   | -5            | -4   | -4   | -5   | -6    |
| ITALY    | 140  | 4             | 0    | 6    | 7    | 4     |
| NETHERL. | 57   | -5            | -4   | -5   | -6   | -3    |
| SPAIN    | 103  | -2            | -2   | -2   | 1    |       |
| SWEDEN   | 44   | -7            |      | -7   |      |       |
| SWITZ.   | 60   | -9            | -9   |      |      |       |

### EUR SP/Senior OpCo

|          | Yield (%) | Z Spread Value (bps) |      |      |      |       |
|----------|-----------|----------------------|------|------|------|-------|
|          |           | All                  | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 0.83      | 100                  | 100  | 98   | 98   | 98    |
| DENMARK  | 0.61      | 81                   | 78   | 84   |      |       |
| FINLAND  | 0.50      | 69                   | 66   | 72   | 75   | 84    |
| FRANCE   | 0.55      | 73                   | 67   | 72   | 81   | 83    |
| GERMANY  | 0.93      | 105                  | 93   | 117  | 90   | 101   |
| ITALY    | 2.11      | 230                  | 210  | 234  | 241  | 248   |
| NETHERL. | 0.60      | 79                   | 74   | 96   | 72   | 148   |
| SPAIN    | 1.30      | 150                  | 107  | 150  | 161  |       |
| SWEDEN   | 0.53      | 73                   |      | 73   |      |       |
| SWITZ.   | 0.53      | 76                   | 76   |      |      |       |

### EUR SNP/Senior HoldCO Z-Spread Net Change (bps)

|          | YTDΔ | Last 5 Days Δ |      |      |      |       |
|----------|------|---------------|------|------|------|-------|
|          |      | All           | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 122  | 5             | 5    | 7    | 4    | 122   |
| DENMARK  | 103  | -3            | -3   | -3   | -1   | 103   |
| FINLAND  | 83   | -4            |      | -4   |      | 83    |
| FRANCE   | 70   | 5             | 7    | 6    | 6    | 70    |
| ITALY    | 158  | -11           | -10  | -11  | -16  | 158   |
| NETHERL. | 178  | 24            | 11   | 24   | 31   | 178   |
| SPAIN    | 71   | 1             | 2    | 1    | 3    | 71    |
| SWEDEN   | 110  | 7             | 3    | 7    | 10   | 110   |
| SWITZ.   | 71   | -1            |      | -1   | 0    | 71    |

### EUR SNP/Senior

|             | Yield (%) | Z Spread Value (bps) |      |      |      |       |
|-------------|-----------|----------------------|------|------|------|-------|
|             |           | All                  | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| BRITAIN     | 1.73      | 191                  | 163  | 183  | 204  | 191   |
| DENMARK     | 1.48      | 167                  | 147  |      | 170  | 186   |
| FINLAND     | 0.99      | 118                  |      | 118  |      |       |
| FRANCE      | 1.19      | 133                  | 120  | 119  | 133  | 140   |
| GERMANY     | 1.79      | 198                  | 308  | 191  | 245  | 179   |
| ITALY       | 3.10      | 328                  | 281  | 566  | 329  | 313   |
| NETHERLANDS | 1.02      | 121                  | 104  | 101  | 130  | 129   |
| SPAIN       | 1.70      | 184                  | 133  | 209  | 182  | 202   |
| SWEDEN      | 1.16      | 134                  | #N/A | 134  | 121  | 132   |

### EUR Tier 2 Z-Spread Net Change (bps)

|          | YTDΔ | 5DΔ |      |      |      |       |
|----------|------|-----|------|------|------|-------|
|          |      | All | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 204  | 0   | -22  | -13  | 34   | -2    |
| DENMARK  | 156  | -6  |      |      | 8    | -8    |
| FINLAND  | 197  | -6  | -4   |      | -6   | -7    |
| FRANCE   | 114  | -3  | -3   | -5   | -4   | -1    |
| GERMANY  | 226  | 11  |      |      |      |       |
| ITALY    | 201  | 16  | -14  | 25   | -4   | 19    |
| NETHERL. | 151  | -4  | -5   | -12  | 3    | -4    |
| SPAIN    | 272  | 10  |      | 10   | 9    | 19    |
| SWEDEN   | 134  | -8  |      |      | 8    | -9    |

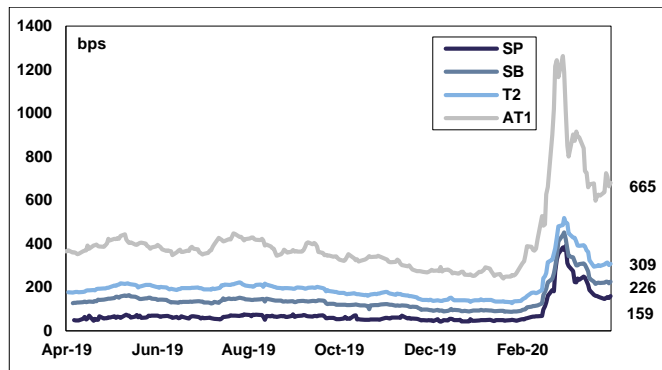
### EUR Tier 2

|          | Yield (%) | Z Spread Value (bps) |      |      |      |       |
|----------|-----------|----------------------|------|------|------|-------|
|          |           | All                  | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 2.71      | 288                  | 250  |      | 278  | 316   |
| DENMARK  | 2.63      | 280                  |      |      |      | 318   |
| FINLAND  | 2.73      | 255                  | 137  |      |      | 246   |
| FRANCE   | 2.10      | 220                  | 156  | 179  | 210  | 239   |
| GERMANY  | 3.93      | 388                  |      | 407  | 450  | 218   |
| ITALY    | 4.58      | 481                  | 386  | 316  | 382  | 550   |
| NETHERL. | 2.70      | 282                  | 163  | 165  | 296  | 299   |
| SPAIN    | 4.05      | 374                  |      | 210  | 349  | 536   |
| SWITZ.   | 2.45      | 261                  |      |      | 261  | 257   |

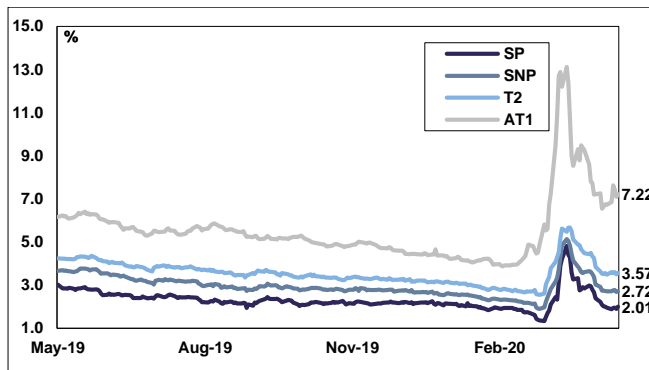
Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SNP = Senior Non-Preferred/Senior HoldCo; T2 = Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances. Blank cells represent lack of statistically significant data. Figures may not be representative of the whole market and are not corrected for duration.

### Western European Banks USD Z spreads

Z-spreads LTM performance (bps)



Yields LTM performance (%)



### USD SP/Senior OpCo Z-Spread Net Change (bps)

|          | YTDΔ | 5DΔ |      |      |      |       |
|----------|------|-----|------|------|------|-------|
|          | All  | All | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 105  | -3  | -10  | 0    |      |       |
| DENMARK  | 7    | 4   |      |      |      |       |
| FINLAND  | 4    | 2   | -34  |      |      |       |
| FRANCE   | 77   | 2   | -6   | 1    |      |       |
| GERMANY  | 6    | 3   |      |      |      |       |
| ITALY    | 139  | 18  | 29   | 16   | 27   |       |
| NETHERL. | 122  | 3   | -3   |      | 0    |       |
| SPAIN    | 59   | 0   |      | 6    |      |       |
| SWEDEN   | 12   | 1   | -4   |      |      |       |
| SWITZ.   | 159  | 0   | 0    | 0    |      |       |

### USD SP/Senior OpCo

|          | Yield (%) | Z Spread Value (bps) |      |      |      |       |
|----------|-----------|----------------------|------|------|------|-------|
|          |           | All                  | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 2.14      | 151                  | 151  | 207  |      |       |
| DENMARK  | 2.10      | 165                  | 165  |      |      |       |
| FINLAND  | 1.41      | 86                   | 86   |      |      |       |
| FRANCE   | 1.93      | 141                  | 109  | 161  | 171  |       |
| GERMANY  |           |                      |      |      |      |       |
| ITALY    | 4.15      | 345                  | 301  | 330  |      |       |
| NETHERL. | 1.96      | 112                  | 111  |      |      |       |
| SPAIN    | 2.56      | 197                  |      | 168  |      |       |
| SWEDEN   | 1.96      | 152                  | 152  |      |      |       |
| SWITZ.   | 2.06      | 154                  | 137  | 191  |      |       |

### USD SNP/Senior HoldCo Z-Spread Net Change (bps)

|          | YTDΔ | 5DΔ |      |      |      |       |
|----------|------|-----|------|------|------|-------|
|          | All  | All | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 116  | 0   | 6    | 0    | -1   | 0     |
| DENMARK  | 183  | 0   | 12   | -7   | -1   |       |
| FINLAND  | 158  | -47 |      | -47  |      |       |
| FRANCE   | 132  | 0   | -2   | -1   | -3   | 3     |
| GERMANY  | 266  | -4  | 23   | -18  | -7   |       |
| ITALY    | 239  | 72  | 62   | 81   |      |       |
| NETHERL. | 113  | 4   | -15  | -9   | 5    | 10    |
| SPAIN    | 135  | 0   | 5    |      | -4   | -4    |
| SWITZ.   | 123  | 16  | 16   | 27   |      | 3     |

### USD SNP/Senior

|          | Yield (%) | Z Spread Values (bps) |      |      |      |       |
|----------|-----------|-----------------------|------|------|------|-------|
|          |           | All                   | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 2.73      | 218                   | 178  | 214  | 223  | 250   |
| DENMARK  | 3.10      | 283                   | 259  | 321  | 285  |       |
| FINLAND  | 2.39      | 188                   |      | 188  |      |       |
| FRANCE   | 2.71      | 222                   | 186  | 217  | 220  | 229   |
| GERMANY  | 4.61      | 392                   | 387  | 372  | 419  |       |
| ITALY    | 4.76      | 448                   | 415  | 481  |      |       |
| NETHERL. | 2.47      | 184                   | 145  | 175  | 199  | 221   |
| SPAIN    | 2.98      | 242                   | 224  |      | 260  | 258   |
| SWITZ.   | 2.76      | 217                   | 205  | 212  | A    | 240   |

### USD Tier 2 Z-Spread Net Change (bps)

|          | YTDΔ | 5DΔ |      |      |      |       |
|----------|------|-----|------|------|------|-------|
|          | All  | All | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 160  | 7   | 7    | 16   | 1    | 8     |
| FINLAND  | 97   | 13  | 13   |      |      |       |
| FRANCE   | 158  | -2  |      | -7   | 3    | -6    |
| GERMANY  | 324  | 0   |      |      |      |       |
| ITALY    | 223  | 46  |      | 0    | 74   | 46    |
| NETHERL. | 175  | 0   | -2   | -4   | 0    | 0     |
| SPAIN    | 203  | 2   |      |      | 2    |       |

### USD Tier 2

|          | Yield (%) | Z Spread Values (bps) |      |      |      |       |
|----------|-----------|-----------------------|------|------|------|-------|
|          |           | All                   | 1-3Y | 3-5Y | 5-7Y | > 7 Y |
| UK       | 4.01      | 324                   | 316  | 306  | 259  | 319   |
| FINLAND  | 3.24      | 227                   | 227  |      |      |       |
| FRANCE   | 3.60      | 314                   |      | 285  | 290  | 356   |
| GERMANY  | 6.81      | 602                   |      | 599  | #N/A | 606   |
| ITALY    | 6.40      | 556                   |      | 520  | 527  | 595   |
| NETHERL. | 3.43      | 317                   | 215  | 232  | 270  | 407   |
| SPAIN    | 3.95      | 327                   |      |      | 327  |       |

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SNP = Senior Non-Preferred/Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances. Blank cells represent lack of statistically significant data. Figures may not be representative of the whole market and are not corrected for duration.

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##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (<http://www.standardandpoors.co.jp/unregistered>) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

##### Assumptions, Significance and Limitations of Credit Ratings

Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of March 7th, 2017, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

#### [Moody's]

##### The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website ([https://www.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx)))

##### Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service's ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of April 16th, 2018, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Moody's Japan K.K. ([https://www.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx))

#### [Fitch]

##### The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")

The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (<https://www.fitchratings.com/site/japan>)

##### Assumptions, Significance and Limitations of Credit Ratings

Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. Despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

For the details of assumption, purpose and restriction of credit ratings, please refer to "Definitions of ratings and other forms of opinion" on the website of Fitch Rating Japan Limited.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of September 27th, 2019, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Fitch Rating Japan Limited (<https://www.fitchratings.com/site/japan>)

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