Daiwa Capital Markets

European Banks – Weekly Credit Update

- The full impact of the pandemic on European banks is not yet clear, but Q2 figures gave an impression of resilience.
- Profit numbers were certainly not very encouraging, but capital and liquidity remain strong, rebounding from the deterioration in Q1. As a result, with ongoing support from regulators and governments, we remain confident that all of the banks in our coverage are well positioned to face the current crisis.

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2Q20 Earnings

Following our summaries of the results of the Nordic banks and UBS, this Credit Update reports highlights of the Q2 earnings season for most of the other names we cover.

The overall picture was mixed, with the rather benign results from the Nordic banks not transposed to the rest of Europe. As expected, some profit figures deteriorated materially in Q2. But, should the current economic outlook not worsen materially further, we remain confident that none of the names in our coverage will incur material distress as a result of the crisis. We do expect credit profiles to deteriorate meaningfully in the second half of the year and early next year, particularly as the various forms of government support such as furlough schemes and payment holidays are slowly lifted. This will put upward pressure on spreads. But the impact will largely be absorbed through P&L, whilst capital and liquidity levels should remain adequate.

(Table 1) European banks IB Revenues Growth (2Q20 Y/Y %)

	Origination & Advisory	FICC	Equity
Barclays	+5	+60	+30
Credit Suisse	+32	+54	-2
UBS	-14	+118	-9
Deutsche	+73	+39	-
BNP Paribas	+33	+154	-53
SocGen	-28	+38	-80

Source: Banks' financial statements. Figures may not be directly comparable.

In fact, following a noticeable worsening in Q1, capitalization and liquidity metrics rebounded to some extent in Q2. Higher deposit volumes and the reopening of markets from end-March 2020 drove the improvement in liquidity levels. Capitalization metrics also improved for the large majority of the names in our coverage, yet they have become murkier and less insightful due to the different temporary reliefs provided by regulators. Finally, stage 3 (impaired) loans have yet to rise significantly. We continue to see notable variation in provisioning levels, partly driven by different economic assumptions and models, which also in part reflects management discretion regarding the accumulation of reserves for expected losses. Accordingly, as seen in table 2 for UK banks below, we also continue to see material variation in the economic forecasts on which impairment charges are based.

Largely as observed in the US, European banks with a universal banking model, i.e. with both retail and investment banking operations, have been better positioned to weather the current crisis, as profits arising from their capital market activities are significantly offsetting the charges booked to cover expected credit losses arising from retail operations. Already seen in Q1, this was evidenced again in the Q2 results from Barclays, Credit Suisse, UBS, Deutsche and BNP Paribas. SocGen and Natixis were the exception, as structured products linked to dividend payments put into question their Equity trading strategies.

Western European banks will continue to face significant headwinds in the short and medium term given the substantial economic downturn and low-for-longer interest rate environment, with both credit quality and interest margins under pressure across geographies. Yet vast capital and liquidity buffers, together with various forms of support by government and regulators, will ensure the operational resilience of European banks.

UK

In the UK, in addition to reduced retail and commercial banking activity because of lockdowns and the material deterioration in the economic environment, domestic retail banking earnings were hit by the lowering of interest rates by the BoE, contributing to a sharp decline in core earnings and squeezed margins. That said, UK banks still have solid capital and liquidity levels, allowing them to withstand even a further deterioration in the economic environment. In its latest Financial Stability Report, published last week, the BoE highlighted once again the resilience of the sector. The regulator found that expected losses as a result of the pandemic are now somewhat below the £80bn it predicted in May due to the somewhat less severe economic outlook. Moreover, the BoE found that losses would have to amount to about £120bn for UK bank capital ratios to decline by 5ppts on aggregate, and to £200bn for them to breach their minimum requirements. Accordingly, regardless of potentially sizeable losses in 2020, UK banks remain well positioned to face any renewed deterioration in economic conditions due to the pandemic and/or the end of the Brexit transition period.

(Table 2) UK banks' Economic Forecasts

Bank	Weighted UK GDP		UK Unemployment	
	2020	2021	2020	2021
Barclays	-8.7	6.1	6.6	6.5
Lloyds	-10.6	6.2	7.3	7.4
NatWest	-13.4	11.9	9.6	6.5
HSBC[1]	-7.8	5.9	6.8	6.3

Source: Banks' financial statements. Figures may not be directly comparable. [1]Central Scenario

The BoE has also removed its explicit easing bias on its monetary policy, and also made clear that it has no appetite to move to negative rates in the current environment, removing a near-term downside risk for the local banking sector. However, the BoE also made clear that Bank Rate will remain very low for long, and it remains prepared to ease further if downside risks to the outlook crystallise.

Barclays (net profit of £90m in Q2) saw a 17% drop in revenues in its ring-fenced UK division, and a 57bps decline in NIM, whilst the bank's consumer lending business was also weak. However, the group benefitted from the strong performance of the once contested CIB division, which reported a 60% Y/Y growth in FICC and 30% growth in Equities earnings. These have allowed the bank to report a positive figure in Q2 despite the strong increase in provisioning levels (see table 3).

In contrast, **Lloyds'** lack of geographic and business diversification led it to report a net loss of £461m in the quarter, impacted by a sharp 21% Y/Y decline in revenues, with NIM down 39bps and statutory profit also impacted by a £2.4bn impairment charge. Positively, the bank saw signs of recovery in its core diviosions, especially within the personal customer segment, but the outlook remains highly uncertain and the impact of lower rates and economic fragility will continue for at least the rest of the year.

Natwest (formerly known as RBS) reported a sharp 14% Y/Y decline in revenues from its UK Personal Banking division, whilst NIM was down 22bps (to 1.67%). Together with a significant underperformance from NatWest Markets and conservative provisioning booked, it led the bank to report a net loss of £893m in the quarter. Amid the deterioration in earnings, and expected elevated impairments for the rest of the year, the group might be on track to report a full-year loss in 2020. **Santander UK** also saw a sharp decline in core revenues (down 8% Y/Y), yet the bank's strong asset quality as a result of its focus on mortgage lending allowed it to report a lower cost of risk and maintain weak but positive profits (net profit of £27m in Q2). The impact on its NIM was also less material than peers, down 3bps Q/Q only, backed by the repricing of its 1-2-3 current accounts.

HSBC ($617m) relied on its geographic diversification to offset the additional $1.5bn impairment charge in relation to its UK ring-fenced division. The group saw the UK as the hardest hit of the major areas where it operates, with impairments more likely in commercial business rather than retail lending. Despite the decent quarterly numbers, it is the group's medium-term strategy that looks challenging amid the deterioration in trade and political relations between China and the US/UK. For now, the CEO has downplayed the impact of these issues on the bank's business in Asia, and confirmed that its activities in the region held up well in 6M20. Similarly, **Standard Chartered** ($549m) also confirmed good activity in Asia with only a moderate decline in overall profitability in Q2 despite the pandemic and the same trade/diplomatic tensions between China and the US/UK.

(Table 3) UK Banks' 2020 Quarterly Results

	Barclays (£m)		Lloyds (£m)		Natwest (£m)		StanChart ($m)		HSBC ($m)		Santander UK (£m)	
	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1
Revenues	5,338	6,238	3,461	3,952	2,676	3,162	3,764	4,335	13,059	13,686	884	964
Expenses	3,310	3,253	1,912	1,964	1,909	1,841	2,380	2,368	8,675	7,852	626	631
Impairments	1,623	2,115	2,388	1,430	2,056	802	614	962	3,832	3,026	211	165
Net Profit	90	605	-461	480	-893	331	549	517	617	2,508	27	85
Ratios (%)												
CIR	62.0	52.0	55.2	49.7	71.3	58.2	63.2	54.6	66.4	57.4	70.8	65.5
RoTE	0.7	5.1	-11.4	5.0	-12.4	3.6	3.6	5.1	3.5	4.2	1.9	4.4
CoR	2.23	1.79	2.16	1.30	2.29	0.90	0.22	0.35	1.48	1.14	0.40	0.32
Stage 3 Loans	2.5	2.2	29.6	25.0	1.9	-	3.11	2.80	1.7	1.3	1.23	1.10
Stage 3 Cover.	43.8	44.9	1.9	1.8	44.3	-	59.7	65.4	39.2	39.6	17.0	17.0
CET1	14.2	13.1	14.6	14.2	17.2	16.6	14.3	13.4	15.0	14.6	14.5	14.4
Total Capital	21.7	20.4	22.3	21.9	22.5	21.4	21.5	19.6	19.2	18.8	21.3	21.1
TLAC/MREL	32.4	29.3	36.8	34.5	36.8	34.1	30.7	28.5	29.9	-	32.7	32.2
Lev. Ratio	5.2	4.5	5.4	5.3	6.0	5.8	5.2	4.9	5.3	5.3	4.7	4.7
LCR	186	155	140	138	166	152	149	142	148	156	147	138

Source: Banks' financial statements. Figures as stated by the banks and may not be directly comparable.

France

The deterioration in French retail banking revenues was less material than observed across the English Channel. This was partly a result of the constant – albeit negative – interest rate in the euro area, and partly due to the somewhat less severe economic impact of the pandemic in France in Q2. The three cooperative groups continue to benefit from solid capital bases, yet BNPP and SocGen's capital bases are more vulnerable, with only BBVA and Santander reporting lower CET1 in our coverage universe. In all, we liked the figures posted by Credit Agricole and BNP Paribas, largely backed by the diversification of their business models.

Credit Agricole Group (Q2 net profit of €1,483m) showed once again why it's one of the strongest credits among large European banks, with stable revenues on an underlying basis, backed by a strong Capital Markets performance (revenues up 44%), whilst earnings from the Regional Banks and the Asset Gathering divisions held up well, up 1.2% and 1.6% Y/Y respectively. That said, the pandemic had a material impact on French & International Retail Banking and Specialised Financial Services divisions, which saw revenues drop by 6.5% and 11.7% respectively Y/Y in Q2.The group revised up its guidance on the issuance of SNP and Tier 2 paper in 2020, from €5-6bn to €6-8bn, reflecting the fact that it has already issued €5.2bn in SNP and €2.2bn in T2 paper.

BNP Paribas' (€2,299m) figures were backed by an impressive 154% Y/Y increase in FICC earnings, easily beating all European peers, and comparing well even against the US banks, where only Morgan Stanley reported a higher Y/Y FICC growth (+168%) in Q2. Other earnings held up well too, leading the bank to report a sound 4% Y/Y increase in revenues, and a decent RoTE of 10.3% for the quarter, the highest among the UK, French and Southern European banks we cover, but still lower than UBS and Credit Suisse.

SocGen (net loss of €1,264m in Q2) remains under significant pressure, and is the weakest credit in our view among the large French banking groups. Another dreadful performance in Equities trading (-80% Y/Y) significantly impacted the group's Q2 numbers, as dividend cancelations continue to affect structured products. Positively, the decline in earnings in French Retail was only a moderate -3.5% Y/Y. Impairments increased by another €459m Q/Q in Q2 (to €1,279m), whilst for the full year 2020, the bank estimates total impairment charges in the €3.5-5bn range (70 – 100bps of outstanding loans), vs. €2.1bn booked in 6M20. However, this projection and impairments booked so far this year were based on a central scenario (65% probability weighting) in which French GDP declines by 5.8% in 2020, which we see as optimistic, implying significant increases in impairment charges ahead.

BPCE's (net profit of €131m in Q2) numbers were also underwhelming, similarly impaired by a dreadful performance in Equity trading and underperformance in Asset and Wealth Management, both of which related to Natixis. Positively, the weakness in retail banking was only moderate, with revenues at the Caisse d'Epargne down by 3.7% Y/Y in Q2, albeit somewhat more elevated at the Banque Populaire network (-6.9%). These were largely offset by a good performance in Insurance and other services and by positive one-offs, leading the Retail Banking & Insurance division to report a marginal 0.4% Y/Y decline in revenues. The bank's Equity trading strategy is under review, whilst Natixis' CEO (Francois Riahi, CEO since mid-2018) left the group last week amid "strategic differences" regarding options for the bank's future. BPCE's CFO, Nicolas Namias, took over as Natixis CEO. The FT reported earlier last month that BPCE was considering acquiring the 30% stake it does not own from Natixis, but the group refuted this immediately.

Credit Mutuel also reported its 1H20 numbers, yet the bank does not publish quarterly figures, so that we are unable to assess the impact of the pandemic in Q2 only, when the economic downturn in France was most severe. Yet, despite the large-scale financial support the group provided to clients and members, overall figures remained decent. Retail banking earnings were down by a moderate 2.5% Y/Y, yet the hits to other divisions were more significant. Insurance reported a -36.3% earnings decline, impacted by one-off solidarity measures taken for the benefit of the insured, whilst asset valuations led to an 81% decline in capital markets earnings. The bank did not provide end-1H20 CET1 numbers. However, as it still reported a €768m profit for first half of the year, its solid capital base is unlikely to have deteriorated meaningfully, if at all.

(Table 4) French Banks' 2020 Quarterly Results

	BNPP		SocGen		BPCE		Credit Agricole		Credit Mutuel[1]	
(€m)	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	1H20	1H19
Revenues	11,675	10,888	5,.296	5,170	5,183	5,543	8,096	8,366	6,858	7,537
Expenses	7,338	8,157	3,860	4,678	3,837	4,546	5,250	6,457	4,552	4,567
Impairments	1,447	1,426	1.279	820	981	504	1,208	930	1,046	462
Net Profit	2,299	1,282	-1,264	-326	131	181	1,483	908	768	1,460
Ratios (%)										
CIR	62.9	74.9	72.9	90.5	74.0	82.0	64.8	77.2	66.4	60.6
RoTE	10.3	6.01	-6.5	-4.2			5.1	3.2	-	-
CoR	0.65	0.67	0.97	0.65	0.55	0.49	0.51	0.40	0.48	0.24
Stage 3 Loans	2.2	2.1	3.2	3.1	2.7	2.7	2.4	2.4	3.04	3.03
Stage 3 Cover.	72.3	73.2	54.0	55.0	44.9	46.1	84.5	84.3	52.7	54.0
CET1	12.2	12.0	12.3	12.6	15.6	15.5	15.8	15.5	16.9[2]	17.4
Total Capital	15.9	15.5	17.7	18.0	18.5	18.5	17.0	16.5	19.9	19.4
TLAC/MREL	22.9	21.5	26.0	25.8	23.4	23.4	19.7	19.1	37.5[2]	-
Lev. Ratio	4.0	3.9	4.2	4.2	4.9	5.2	5.3	5.3	6.2	6.3
LCR	133	130	167	141	156	138	155	147	160	138

Source: Banks' financial statements. Figures as stated by the banks and may not be directly comparable. [1]Credit Mutuel does not report quarterly results. [2]As at end-March 2020.

Southern Europe

Among our coverage universe, **Intesa** was the only name to report fairly decent figures in Southern Europe, with resilient NII backed by higher lending volumes, yet net fees and commissions were down 11.2% Y/Y as a result of the lockdown in place in Italy from 10 March to 3 June. Positively, the bank pointed to a strong recovery in commissions in June. It materially increased impairments, to 138bps of outstanding loans, yet it was largely offset by a €1.1bn gain from the sale of Nexi, a merchant payment business, allowing the bank to report a healthy €1.4bn profit in Q2.

The group also announced the successful completion of its hostile takeover of UBI Banca. It now holds 91.01% of the bank, which will allow it to hold control of UBI Banca's extraordinary AGM, fully launch and complete the merger process aiming to generate ~€700m in synergies, and use the ~€2.8bn negative goodwill to cover integration charges and accelerate NPL disposals. The full integration of the two groups is expected to take place by December 2021.

Unicredit's figures were far less convincing than Intesa's, as, in addition to the lockdowns in several of the markets where the group operates, the group was also impacted by interest rate cuts in CEE and the US. Optimistically, the bank reduced impairment charges by €324m to €937m in Q2, or 77bps, consuming 54% of pre-impairment profits. Yet the bank signaled that provisions might increase further in the second half the year, which led its share price to decline by 3.9% on the day.

On a positive note, following two consecutive quarters of material losses related to asset disposals and restructuring charges, the group was back in the black in Q2 with a net profit of €420m, albeit still far below the €1.8bn reported in 2Q19. The group has now fully covered its 2020 funding needs, and has started pre-funding for 2021.

(Table 5) Southern European 2020 Quarterly Results

	Unicredit		Intesa		Santander SA		BBVA	
(€m)	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1
Revenues	4,170	4,378	4,136	4,939	10,459	11,809	5,561	6,484
Expenses	2,444	2,493	2,230	2,173	5,118	5,589	2,594	2,918
Impairments	937	1,261	1,398	403	3,109	3,919	1,571	2,575
Net Profit	420	-2,706	1,415	1,151	-11,129[1]	331	636	-1,792
Ratios (%)								
CIR	58.6	56.9	53.9	44.0	48.9	47.3	46.7	45.0
RoTE	3.3	n.m.	9.8	8.2	n.m.	0.3	4.6	2.4
CoR	0.77	1.04	1.38	0.40	1.26	1.17	1.51	2.57
Stage 3 Loans	4.8	4.9	7.1	7.1	3.5	3.3	3.7	3.6
Stage 3 Cover.	62.7	65.2	53.1	53.6	68.0	71.0	85.0	86.0
CET1	13.8	13.4	14.6	14.2	11.84	11.58	11.2	10.8
Total Capital	19.4	18.0	19.2	18.5	15.5	15.09	15.2	15.4
TLAC/MREL	22.4	21.0	-	-	-	19.7[2]	-	-
Lev. Ratio	5.13	5.26	6.3	6.4	4.8	5.0	6.1	6.2
LCR	173	143	-	-	175	146	159	134

Source: Banks' financial statements. Figures as stated by the banks and may not be directly comparable. [1]*Includes €12.6bn in Goodwill and DTA impairments.* [2] TLAC ratio of the resolution Group headed by Banco Santander, S.A.

In Spain, **Santander**'s bottom line was sharply impacted by a €12.6bn of impairments related to goodwill attributed to some subsidiaries and to deferred tax assets, as the low-for-longer interest rates and weaker economic outlook have impaired future earnings. Most of the revaluations came from Santander UK, whilst Santander US, Santander Bank Polska and Santander Consumer Finance were also negatively revalued. It is important to note that the €12.6bn figure is an accounting loss, not a financial loss, meaning it has no impact on capital ratios nor on the bank's financial capacity to pay dividends or AT1 coupons. That said, core figures were indeed weak, with underlying income gross revenues down 9.4% Q/Q, hit by the appreciation of the EUR against the currencies of Santander's core markets and by lower fees due to lower overall banking activity. Moreover, at 11.84%, the bank's CET1 ratio is the lowest among most of its peer group, only higher in fact than BBVA, which reported a subpar CET1 ratio of 11.2% at end-Q2.

BBVA's revenues dropped by a moderate 5.7% Y/Y, as weaker NII was only partly offset by a sharp improvement in trading gains as a result of valuation gains and foreign-exchange rate hedging gains. The bottom line was also supported by lower provisioning in Q2, following a more conservative approach in Q1. That said, the performance of the Mexican sub, the group's cash cow, was weak, with the Mexican economy impacted hard by the pandemic, weakening the group's profitability outlook for the rest of the year. The bottom line figure (of €636m) shows a significant improvement Q/Q, yet this is driven by one-off goodwill impairment the bank booked in Q1 in relation to its US subsidiary.

Credit Suisse / Deutsche Bank

Credit Suisse performance was sound in Q2, with revenues up across most divisions. The domestic division (revenues up 2% Y/Y) was backed by International Trading Solutions (blend of wealth management and global markets) and by Ultra High Net Worth clients. IBCM started to perform again, at last, with a 61% Y/Y increase in earnings on the back of strong client activity across Advisory and Underwriting businesses, outperforming the Street. Global Markets was less exciting however, with FICC up 42% Y/Y, largely below peers, whilst Equities was flat. Positively, the bank signalled a strong start in trading activity this quarter, particularly in APAC, while peers have been more cautious on the outlook for the rest of the year.

(Table 6) Credit Suisse / Deutsche Bank 2020

	Credit Suisse (CHFm)		Deutsche Bank (€m)	
	Q2	Q1	Q2	Q1
Revenues	6,194	5,776	6,287	6,350
Expenses	4,347	4,007	5,367	5,952
Impairments	296	568	761	506
Net Profit	1,162	1,314	-77	-43
Ratios (%)				
CIR	70.2	69.4	85.4	93.7
RoTE	11.0	13.1	-0.6	-0.3
CoR	0.10	0.19	0.69	0.44
Stage 3 Loans	1.2	0.9	2.8	2.2
Stage 3 Cover.	27.3	30.9	33.0	39.0
CET1	12.5	12.1	13.3	12.8
Total Capital	17.2	16.9	17.0	16.6
TLAC/MREL	11.8[1]	10.7[1]	33.5	32.8
Lev. Ratio	6.2	5.8	4.2	4.0
LCR	196	182	144	133

Source: Banks' financial statements. Figures as stated by the banks and may not be directly comparable. [1]*As a percentage of leverage exposure.*

Fairly decent figures from **Deutsche** in Q2, with revenues marginally up Y/Y (+1.35%), whilst capitalization metrics partially rebounded from the sharp drop in Q1. This is the second consecutive quarter in which Deutsche reported stable Y/Y revenues, no small feature given the years of continuous decline. That said, it was largely driven by a significant rise in FICC earnings, which, in turn, has been driven by market conditions rather than Deutsche's idiosyncratic performance. The reported 39% Y/Y growth in FICC earnings in Q2 was actually below peers (+99% by the Americans, +118% by UBS and +60% by Barclays). Despite the somewhat improving top line figures, the bank's structurally elevated costs (cost to income of 85%) and increase in loan loss provisions (which had been very limited in Q1) led it to report another bottom line loss in Q2 (of €77m) following a €43m loss in Q1.

Primary and secondary markets

In the primary market last week, we saw European G-Sibs tapping the market for regulatory capital instruments ahead of potential deterioration in the economic outlook. The USD market was the preferred one as it has more depth for subordinated and deep subordinated bonds, whilst tightening USD yields supported absolute pricing levels. In the prior week, **UBS** was the only European bank to adventure into the primary market with a dual tranche USD senior HoldCo paper, successfully executed with good coverage and minimal new issuer concessions. The secondary market saw an overall tightening across debt ranks in both EUR and USD, on the back of some positive economic data across the continent.

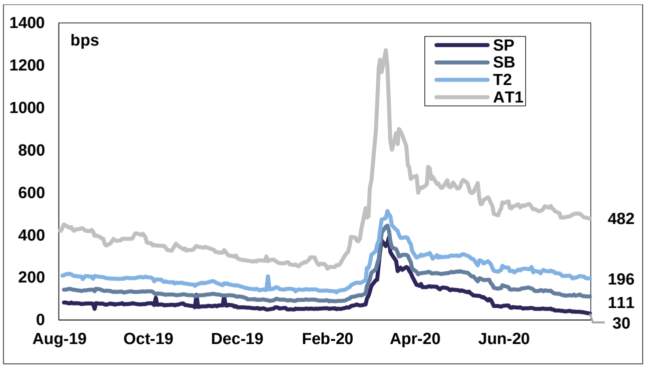
(Table 7) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	NIC	Book Coverage
Credit Suisse	AT1	USD1,500m	PNC7	5.25% (coupon)	5.625% (coupon)		
Baclays	AT1	USD1,500m	PNC5	6.125% (coupon)	6.625% (coupon)		4.5x
BNP Paribas	Tier 2	USD1,500m	15NC10	T+205	T + 235	0	3.1x
UBS	Sr HoldCo	USD1,300m	4NC3	T + 83	T + 112.5	3	3.3x
		USD1,300m	6.5NC5.5	T + 108	T + 137.5	3	3.2x

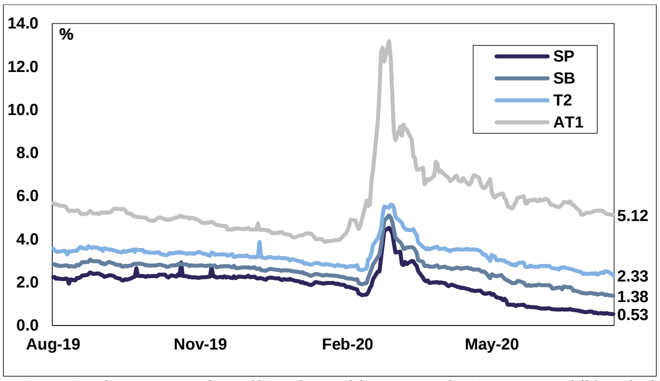
Source BondRadar, Bloomberg.

Western European Banks Spreads and Yields

Aggregate USD Z-spread LTM (bps)

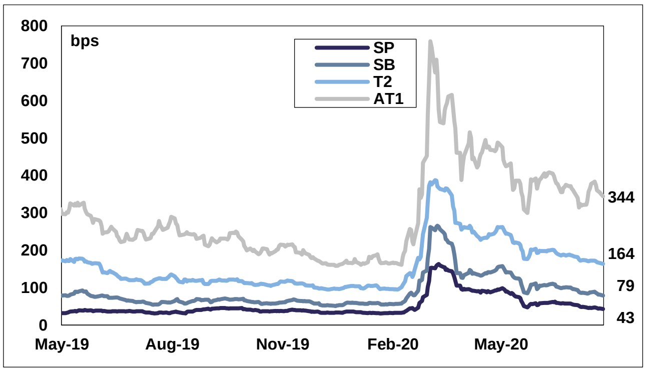


Aggregate USD Yields LTM (bps)

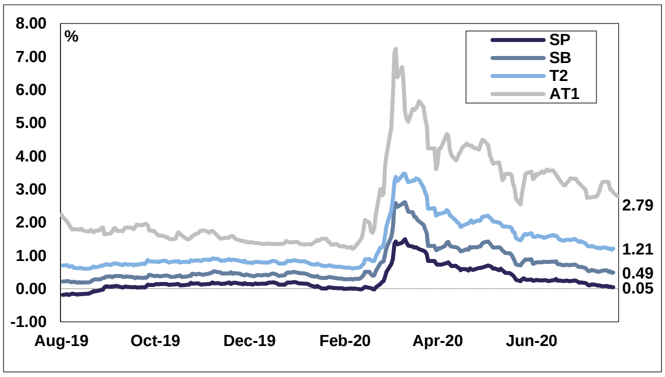


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

Aggregate EUR Z-spread LTM (bps)



Aggregate EUR Yields LTM (bps)



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.

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Explanatory Document of Unregistered Credit Ratings

In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:
1) Duty of good faith.
2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")
The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

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.moodys.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.moodys.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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