European Banks – Credit Update

- European banking sector consolidation is picking up in an effort to rein in costs and improve weak profitability, a process accelerated by the pandemic and its adverse economic effects.
- New capital requirements in Sweden are likely to make dividend payouts and AT1 coupons less desirable while the central bank sets first of its kind sustainability standards for asset purchases.
- Adequate primary market activity with some debut ESG-themed bonds and opportunistic issuance by sub-investment grade borrowers. While market conditions remain favourable, outlook for spreads remains uncertain due to the pandemic, vaccine news and Brexit risks.

William Hahn
Credit Analyst
+44 20 7597 8355
William.Hahn@uk.daiwacm.com

European banking consolidation picking up, at last

Over recent weeks, we have seen notable steps made towards long-anticipated consolidation in Europe's banking sector, necessary to reduce costs and capacity and improve weak profitability. The acceleration in activity compared to prior years is in part due to the pandemic and its likely lasting adverse economic effects, as shareholders, governments and financial supervisors recognized the need for new solutions to address long-standing weaknesses. In Spain, the landmark deal between Caixa and state-owned Bankia was sealed last week as Caixa's shareholders approved the EUR4.3bn acquisition. Italy also witnessed a flurry of activity since Intesa finalised a hostile take-over of domestic rival UBI Banca back in August.

It's no coincidence that the two countries currently most active in Europe with regards to business combinations have been Italy and Spain, as banks there have historically struggled with high non-performing loan (NPL) volumes compared to their European peers. Only over the last four years against the backdrop of steady economic recovery did we seen a gradual improvement in asset quality in those countries, which to a large degree relied on government-backed bad loan securitisations or NPL disposals. Going into 2021, we expect to see at least a partial reversal of these asset quality improvements as supportive government policies on loan moratoria and government guarantees, currently shielding bank's balance sheets, are due to expire.

In order for banks to face the adverse operating environment from a position of relative strength, governments and regulators put various measures in place to spur M&A activity. Earlier this year, the European Central Bank (ECB) issued a guide on the supervisory approach to consolidation, which benefited banks by recognising accounting gains through 'bad-will', which in turn can be used to offset integration costs. The ECB also signalled its willingness not necessarily to require higher capital ratios for the resulting entities, which was particularly helpful to Spanish and Italian banks as they display some of Europe's weakest levels of regulatory capital. The government in Italy has also gone as far as proposing tax changes to its 2021 budget law that would allow banks to turn accumulated, deferred tax assets (DTAs) into fiscal credits should they conduct a merger in 2021.

Supported by these measures we have seen M&A activity pick up in Italy following Intesa's acquisition of UBI. In late November, Credit Agricole made a EUR737m cash offer for Italy's third-tier bank Credito Valtellinese (Creval) through its own Italian subsidiary. Once completed, this would create Italy's sixth largest retail bank and seventh largest bank by total assets. The deal is pending acceptance by two-thirds of Creval's shareholder base after which it is expected to be finalised in April 2021.

The departure of Jean-Pierre Mustier as CEO of UniCredit has given more credence to the belief that we will see further M&A activity in Italy in 2021. Mustier was not a proponent of achieving 2023 business plan targets via acquisitions and would rather see bank excess capital returned to shareholders. However, pressure from his own board, including former Italian Minister of Economy & Finance and newly appointed chairman Pier-Carlo Padoan, to pursue a merger with state-controlled Monte dei Paschi ultimately led to his departure. Should this acquisition materialise this would certainly be credit positive for Monte dei Paschi, which has been struggling with weak asset quality and mounting legal challenges. It would also provide the Italian state with a much-needed exit strategy for the bank, which the ECB requires by end-2021. For UniCredit the strategic question arises whether it is putting the interest of its shareholders first or if it is acting more in the interest of the Italian economy.

In Spain, Caixa Bank and state-controlled Bankia agreed to merge in September with the Caixa shareholder sign off occurring last week. This merger in particular has significant implications for the competitive landscape in Spain as Caixa is already the country's largest domestic bank. The combined entity would significantly widen the gap to its main rivals BBVA and Santander, whose business models are more international. However, not all anticipated tie-ups have been successful, as the merger between Banco Sabadell and BBVA failed to materialise at the end of November as both parties could not reach an agreement on pricing. Nevertheless, the consolidation process in the Spanish banking sector is considered relatively advanced as the top four banking groups already make up three quarters of the domestic loan market. Any further M&A activity for the likes of BBVA and Santander is thus likely to take place outside of Spain.

New capital requirements for Swedish banks

In late November, Sweden's Financial Supervisory Authority (FSA) outlined that it would update bank capital targets in line with the application of the EU's so-called banking package, comprising the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). In particular, the FSA is planning to keep the systemic risk buffer in Pillar 1 at 3%, while removing the 2% systemic risk buffer in Pillar 2 in favour of making a formal decision on each bank individually. An additional 1% will be added to the systemic risk buffer for other systemically important institutions (O-SIIs) and Pillar 2 Guidance for banks is expected to be between 1-1.5% of RWAs. These changes mean that the level at which automatic restrictions on value transfers (i.e. on dividend pay-outs or AT1 coupons) come into effect will increase by 1%. This increase in maximum distributable amount (MDA) trigger levels could make these capital instruments less desirable. Finally, the FSA also announced that it may decide on institution-specific additional leverage ratio requirements of 0.2-0.5% to sit on top of the leverage ratio requirement of 3%. The additional requirement would be placed within Pillar 2 capital.

Sweden's extended QE programme to comply with norms for sustainability

In its latest monetary policy meeting, on 26 November the Central Bank of Sweden (Riksbank) announced that it was expanding its envelope for asset purchases by SEK200bn to a total of up to SEK700bn until end-2021 and would accelerate purchases over the coming quarter. Corporate bond purchases, which form part of the overall programme, will account for up to SEK10bn by 1H21. The Executive Board also stated that it will apply a screening process to those corporate bond purchases and will only offer to buy bonds issued by companies deemed to comply with international standards and norms for sustainability. This policy stance is the first of its kind for a central bank, albeit in the absence of a clear definition of such standards. Although these are not determined yet, the Riksbank referred to the 10 principles of the UN Global Compact for reference, three of which are environmental.

Even though the purchase amounts in question currently seem manageable, we can reasonably expect to see increased corporate ESG offerings in Sweden resulting from this decision. At the same time, we would expect to see spread widening for companies not in compliance with the new standards. The Riksbank also buys green Swedish government, municipal and Kommuninvest bonds under its purchase programme but these currently do not fall under the new screening procedure. Nevertheless, if judged to be successful, this could provide a possible blueprint for the ECB, when its monetary policy strategic review concludes next year and it refines its policy toolkit in order to achieve its own sustainability targets.

EBA recognises need for extended loan moratoria

After monitoring the impact of the second wave of Covid-19 in many EU member states, the EBA decided last week to reactivate its guidelines on legislative and non-legislative moratoria after it had communicated in September 2020 its desire to phase them out. The guidelines ensure that banks will be able to grant payment holidays to customers, thus avoiding the automatic classification of exposures under the definition of forbearance or as defaulted under distressed restructuring. During the first wave of the pandemic, this measure – alongside government guarantees – has been widely lauded for preserving the flow of lending to European borrowers as well as temporarily shielding bank's balance sheets from rapid asset quality deterioration. However, there have been concerns voiced in the ECB's recent financial stability review that banks may face an influx of loan losses during the course of 2021, especially if governments withdraw their loan moratoria and guarantee schemes.

The EBA revised some of its renewed guidelines that will apply until end-March 2021. Loans that had previously not benefitted from the moratoria can now do so however, under the introduction of two new constraints that are intended to limit their use to bridging liquidity shortages triggered by the new lockdowns. Under the two new constraints, loans can only benefit from repayment holidays for a total of nine months and banks are now required to provide plans to their supervising entities to assess that these exposures do not become non-performing. It should be noted that loan moratoria are just one component of a wider set of policies designed to address economic distress experienced by borrowers, the prominence and application of which vary widely across Europe. As of 1H20, EUR495bn of corporate loans were under moratoria with loans to SMEs making up the majority (68% of total). EUR365bn loan moratoria extended to households comprised predominantly of collateralised mortgages (73%). The application of these payment holidays is so far mostly seen in Southern, Central and Eastern Europe, where the economic impact of Covid has been most felt.

Primary and secondary markets

Funding conditions have improved over the last few weeks as we observed a considerable tightening for senior as well as subordinated debt. In the **primary market** we've seen a healthy stream of issues across geographies, currencies and debt rank. Noteworthy in this context were two ESG-themed issues by Credit Agricole (CA) and DZ Bank (DZ). Both deals priced very tightly as high demand for these types of issues is driving spreads down. CA is already highly active as an ESG structurer and came to market with its inaugural EUR1bn social SNP bond, which was met with high demand (2.25x oversubscribed). DZ's final order book for its debut EUR250m SNP green bond was also highly subscribed (3x).

We also saw that core European investment-grade issuers are finding it increasingly difficult to offer investors positive yields as showcased by Svenska Handelsbanken recent EUR500m SNP issue, which narrowly missed negative territory with a yield of just 1.6bp. At the other end of the credit spectrum, we saw some opportunistic placements from sub-investment grade Italian lenders that took advantage of good pricing conditions on the back of favourable consolidation talk domestically and further bank stimulus. Offerings by Monte dei Paschi, Illimity Bank and Banco BPM were all well subscribed showcasing investor appetite for yield as they offered two SP and a Tier 2 respectively.

(Table 1) Key Transactions

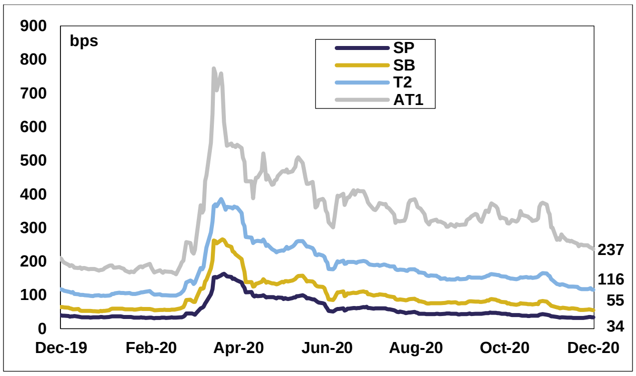
Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
Credit Agriocole	SNP Social	EUR1bn	7Y	MS + 60	MS + 85	>EUR2.25bn
DZ Bank	SNP Green	EUR250m	7Y	MS + 48	MS + 52	>EUR750m
L-Bank	Senior Unsecured	USD1.25bn	5Y	MS + 9	MS + 10	>USD1.55bn
Banco BPM	Tier 2	EUR350m	10NC5	MS + 380	MS + 410	>EUR700m
Monte dei Paschi	SP	EUR750m	5Y	MS + 240	MS + 270	>EUR1.85bn
Illimity Bank	SP	EUR300m	3Y	MS + 337	MS + 375	>EUR1bn
European Union	Senior Unsecured	EUR600m	15YTap	MS - 10	MS - 08	>EUR2.6bn
Banco Santander	Tier 2	USD1.5bn	10Y	T + 190	T + 210	N/A
Barclays Plc	Sr HoldCo	USD1.5bn	4NC3	T + 80	T + 115	N/A

Source BondRadar, Bloomberg.

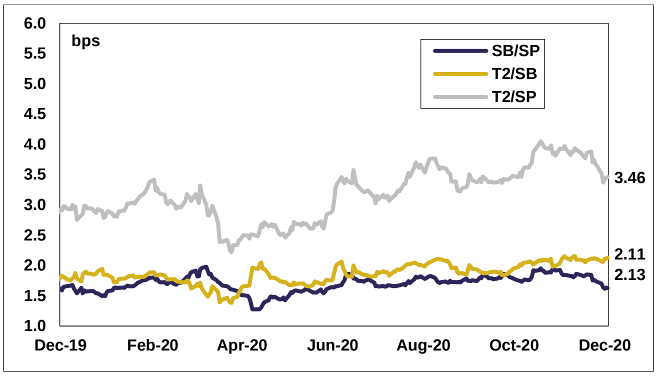
In the **secondary market**, the trend was mixed as we saw minor widening in the EUR SP by 1bp from the previous week except for UK issuers, which tightened on the back of upbeat news reflecting the view that a return to normal might be in sight following the Covid-vaccine development and rollout. There was a similar picture for USD SPs as spreads widened slightly by 0.8bp. The picture was more mixed for EUR SNP while Tier 2 saw overall EUR spread tightening (-4.9bps on average against last week) and even more so in USD (-10.9bps on average week on week). The short-term outlook on spreads remains uncertain given the intensification of the pandemic in the US and some European countries and lack of clarity surrounding the outcome of the Brexit negotiations, which contrasts with optimism surrounding expected vaccine rollouts over coming weeks and months.

Western European Banks EUR Spreads and Yields

Aggregate Z-spread LTM (bps)



Multiples (x)



Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCp; 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.

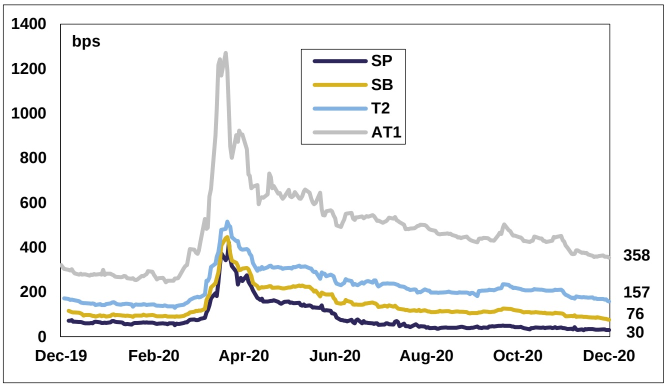
Selected Names

	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	5.1	0.1	53	0	-3	4.0	0.3	77	-1	0	4.7	2.0	239	-22	45
Barclays	3.4	0.2	61	2	19	2.9	0.0	48	-2	-9	2.1	1.0	143	-1	-22
BBVA	4.4	-0.1	34	2	-4	4.1	0.1	54	0	-5	5.6	0.9	139	-5	22
BFCM	4.3	-0.2	29	1	-5	8.9	0.4	64	-1	3	5.0	0.4	82	0	-3
BNPP	2.2	-0.3	22	1	0	4.8	0.2	59	-1	1	4.7	0.5	92	1	6
BPCE	3.5	-0.2	29	1	1	4.7	0.1	54	-1	1	2.5	0.2	57	1	-4
Credit Ag.	3.2	-0.1	28	1	-3	5.7	0.1	54	-1	0	4.7	0.9	130	-4	5
Credit Sui.	5.1	0.1	53	0	-3	5.4	0.3	66	-1	1	5.7	1.3	165	-8	9
Danske	2.5	-0.2	28	2	-8	2.4	0.1	56	1	-18	3.7	0.9	134	-5	-13
Deutsche	2.7	0.0	45	-1	-23	3.9	0.7	112	-11	-53	4.5	2.3	265	-20	2
DNB	2.9	-0.2	26	2	-6	3.8	0.2	63	-3	25	1.7	0.0	46	1	-13
HSBC	3.4	-0.1	33	1	-4	3.0	-0.1	38	-4	-7	5.5	0.4	79	-3	-6
ING	1.3	-0.4	6	1	-12	4.4	0.0	43	-1	-5	4.1	0.6	108	-3	10
Intesa	4.2	0.1	55	2	-22						5.2	1.8	213	-4	42
Lloyds	2.9	-0.3	16	0	-15	3.7	0.1	56	-3	-3	2.7	0.6	108	-4	-5
Nordea	4.1	-0.2	23	2	-5	2.5	-0.2	26	3	-12	0.7	0.3	69	0	15
Rabobank	2.4	-0.3	17	1	2	5.9	-0.1	35	0	-2	1.7	0.0	43	3	-7
RBS	3.3	0.0	43	1	1	5.9	-0.1	35	0	-2	1.7	0.0	43	3	-7
Santander	3.5	-0.1	35	2	-1	4.9	0.2	64	-1	1	5.6	0.7	113	-5	6
San UK	3.1	0.2	49	-1	18	3.4	1.0	141	-3	79					
SocGen	2.6	-0.2	23	0	-9	2.5	0.1	60	-3	2	5.6	0.7	113	-5	6
StanChart	3.8	0.0	41	1	-11	5.5	0.3	66	-5	-6	3.2	0.7	111	-4	36
Swedbank	4.3	-0.1	40	1		3.8	0.0	45	-1	-19	5.7	0.5	98	-4	-2
UBS	2.0	-0.3	22	1	-6	3.2	0.0	45	1	1	0.4	0.7	68	-7	-139
UniCredit	3.6	0.3	67	0	-16	4.7	0.9	135	1	-18	2.9	2.0	242	5	13

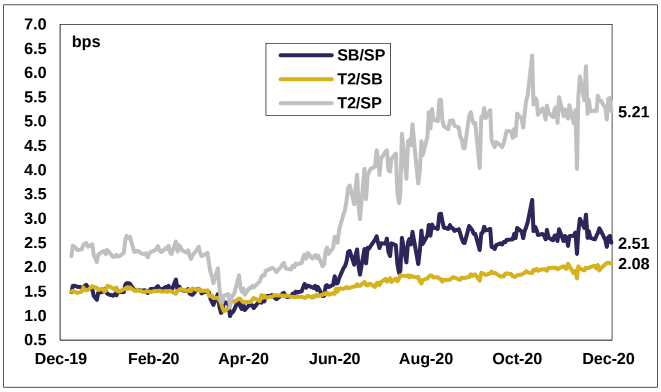
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

Western European Banks USD Spreads and Yields

Aggregate Z-spread LTM (bps)



Multiples (x)



Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCp; 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	2.3	0.6	36	-1	-15	4.4	1.4	93	-8	-11	5.7	2.6	186	-16	-5
BFCM	2.5	0.5	25	0	-24	4.4	1.4	93	-8	-11	3.9			-6	-38
BNPP	2.2	0.3	3	-7	-33	4.0	1.2	75	-3	-8	5.2	1.8	121	-4	-9
BPCE	2.6	0.6	45	-2	-14	4.3	1.1	56	-4	-13	3.3	1.4	96	-10	-15
Credit Ag.	2.2	0.5	28	1	-19	2.9	1.0	44	-1	-23	7.9	2.2	130	-5	14
Credit Sui.	2.4	0.4	27	-1	-17	4.1	1.2	68	-4	-11	2.5	2.1	172	-1	2
Danske	2.0	0.6	37	-1	-42	2.6	1.2	82	-4	-18	2.5	2.1	172	-1	2
Deutsche						3.5	1.6	95	-10	-44	6.4	3.7	320	-30	-60
HSBC	3.7	1.4	110	14	2	4.5	1.4	80	-7	-15	10.9	3.1	175	-15	25
ING	3.7	1.4	110	14	2	4.5	1.1	64	-4	-19	2.4	1.6	121	-9	-11
Intesa	3.4	1.4	101	0	-36	4.5	1.1	64	-4	-19	3.8	2.7	223	-16	-11
Lloyds	4.1	1.0	65	3	-1	3.3	1.1	68	-3	-19	4.7	1.8	128	-8	-8
Nordea	3.5	0.6	23	-1		2.6	0.8	45	-6	-37	1.7	0.8	41	-1	-30
Rabobank	2.0	0.4	13	-2	-21	3.9	0.9	46	-1	-26	4.6	1.4	84	-5	-16
RBS	2.0	0.4	13	-2	-21	3.9	0.9	46	-1	-26	4.6	1.4	84	-5	-16
Santander	5.4	1.3	79	-7	-8	4.9	1.6	100	-8	-18	6.6	2.2	148	-14	18
San UK	3.1	0.8	48	0	-14	2.8	1.1	78	-3	-22	4.3	1.7	131	-2	-13
SocGen	4.4	0.9	49	-6		3.8	1.3	90	-8	-6	4.2	2.0	153	-11	9
StanChart	0.5	0.7	51	-6	-201	3.6	1.4	96	-7	-9	5.6	2.3	180	-11	24
UBS	9.5	1.4	66	-5	11	4.4	1.1	65	-1	-18	5.6	2.3	180	-11	24
UniCredit	1.9	1.6	136	2	-20	3.6	1.7	130	-2	-16	5.9	4.3	343	-10	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.

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies	*William Hahn*	+44 20 7597 8355
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst	*Toshiyasu Ohashi*	+81 3 5555 8753
Electronics, Automobiles, Non-Banks, Real Estate, REIT	*Takao Matsuzaka*	+81 3 5555 8763
Chemicals, Iron & Steel	*Kazuaki Fujita*	+81 3 5555 8765
International Credit		
Non-Japanese/Samurai, European Sovereigns	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Samurai	*Fumio Taki*	+81 3 5555 8787
Non-Japanese	*Jiang Jiang*	+81 3 5555 8755
London Translation		
Head of Translation, Economic and Credit	*Mariko Humphris*	+44 20 7597 8327

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at DAIR <GO>.

Access our research at:
http://www.uk.daiwacm.com/ficc-research/research-reports

Follow us
@DaiwaEurope

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)

February 2020

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Conflicts of Interest: Daiwa Securities Co. Ltd. may currently provide or may intend to provide investment banking services or other services to the company referred to in this report. In such cases, said services could give rise to conflicts of interest for Daiwa Securities Co. Ltd.

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.
Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association