Daiwa Capital Markets

European Banks – Credit Update

- Outcome of European Commission consultation on crisis management reform expected next week
- Primary markets saw increased activity among European FIGs, particularly as capital ratios face regulatory headwinds while legacy sub-debt approaches end of regulatory lifecycle
- Secondary market spreads broadly hold firm as recovery prospects fill the horizon

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Lack of political agreement in the way of BRRD reform

In February 2021, the European Commission (EC) launched a consultation on its bank crisis management and deposit insurance framework and focused on three EU legislative texts: the Bank Recovery and Resolution Directive (BRRD), the Single Resolution Mechanism Regulation (SRMR), and the Deposit Guarantee Schemes Directive (DGSD). The aim is to identify any weaknesses of the current framework with the consultation ending 20th May. There are several features considered to be lacking when it comes to meeting the objectives of the current framework. One is how national authorities should handle the winding-down of banks where resolution tools are not applied. In this context, national resolution authorities (NRA) have been seen to differ from the Single Resolution Board (SRB) when determining whether the resolution of a bank is in the public interest or not. Under BRRD, to avoid serious disturbance to the wider economy or in order to preserve the stability of the financial system, 'precautionary recapitalisations' are permitted under strict conditions as they utilise public funds to support solvent banks that are not yet at immediate risk of default.

Additional tools at the disposal of NRAs in resolution are deposit guarantee schemes. Italian banks have been supported with these methods (Banca Carige, Banca Popolare di Bari, Banca Popolare di Vicenza, and Veneto Banca). Banca Monte dei Paschi (MPS) also belongs to this group of banks as in 2017 it received a precautionary recapitalisation in the amount of EUR8.1bn (EUR5.4bn of which was state-aid). Ever since, MPS has struggled to return to profitability as it battled significant exposures to impaired loans and is currently embroiled in several high stakes legal challenges. Given its challenging outlook, compounded by the pandemic and its adverse effects on banks' balance sheets, MPS is very likely to incur a capital shortfall of some EUR1bn by end-2021, which could result in the bank being placed under extraordinary administration by the ECB, as was the case with Banca Carige a few years ago.

At its heart the Commission's consultation aims to harmonise national insolvency proceedings and public-interest assessments with best practices exercised under BRRD. The intention is to avoid dragged out rescue efforts for underperforming entities at the expense of tax-payers and ensure a more level playing field between competing banks. More stringent and clearly defined rules for granting tax-payer money across Europe would not only ease the financial burden on national governments but also make the various banking sectors across Europe more comparable and predictable, which in turn would be considered credit positive.

However, there does not seem to be sufficient political agreement to implement such reforms to the BRRD as there are diverging views on whether to only apply resolution tools to large, systemically relevant intuitions or to broaden the scope to include less significant institutions as well. The latter would require those banks to also build MREL. But as we have seen in Italy in recent years, access to confidence-sensitive capital markets has been prohibitively expensive for struggling small to mid-sized banks which have resorted mostly to deposit-based funding. Italian authorities thus argue that a one-size-fits-all approach does not consider the differences in national banking sector compositions and thus punishes more fragmented financial systems. We believe that less centralised oversight and continued national insolvency proceedings by NRA's on a broad scale poses a greater threat to the integrity of national banking systems as it does not encourage organic consolidation to take place in what are arguably overbanked financial systems. The outcome of the EC's consultation next week will give us an indication as to whether resolution reform is currently possible in Europe.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR4.3bn over the course of last week, well below market expectations of EUR8bn-12.5bn. FIG supply of EUR10.7bn was at the upper end of the weekly forecast amount of EUR6.5bn-11bn. Total 2021 year-to-date FIG volumes of EU173bn closed the gap to last year's volumes to just 7.5% behind last year's issuance volumes, closing the gap by 80bps over last week. An unusually slow week for SSAs means that for the first time this year they have fallen behind last year's volumes, 2.8% down at EUR358.6bn. For the week ahead, survey data suggest SSA volumes will range between EUR12bn-16.5bn and FIGs are expected to issue EUR5.5bn-10bn.

SSAs had one of their slowest weeks all year with just a handful of benchmark deals hitting the primaries. The largest was a climate awareness bond from the **EIB** for USD1.5bn and a 10-year tenor. Lending will be allocated to activities contributing substantially to climate change mitigation in line with evolving EU sustainable finance legislation, including the EU Taxonomy. Final book orders (3.8x oversubscribed) helped the bond price at MS+10 (-2bps from IPT), reportedly just a few basis points wider than its EUR cost of funding. The **Nordic Investment Bank (NIB)** also came to market with a US-Dollar transaction, issuing its inaugural secured overnight financing rate (SOFR) floating-rate note for USD700m and a 5-year maturity. The bond was upsized from the original USD500m target amount as book-building exceeded initial targets. In preparation for the LIBOR transition, NIB stated that the decision to issue a bond referencing SOFR will help it to develop relevant products for its borrowing customers. The SOFR rate for USD denominated derivatives and loans is calculated based on past transactions and is considered to carry lower risk than LIBOR, which is expected to cease to exist for all new business as of January 2022 while legacy USD LIBOR-linked products remain until mid-2023. On the back of recent rating agency upgrades, the **Greek government** issued a 5-year, EUR3bn senior unsecured bond that garnered strong demand (6.6x) amidst the positive credit trajectory of the sovereign. Greece is now only two notches away from investment grade status, which helped pricing tremendously as the bond recorded the sovereign's lowest ever yield for a syndicated transaction at 0.172%.

European **senior FIG** bond supply picked up again compared to the previous two weeks as we approach the back-end of 1Q21 reporting season. **Barclays** launched a senior unsecured dual-tranche transaction for a combined EUR2bn. It was Barclays' first senior Eurobond in more than a year and allocation was skewed towards the longer dated 11NC10 fixed-rate bond (EUR1.25bn), while the 5NC4 floating-rate note (EUR750m) referenced 3-month Euribor. Another dual-tranche transaction came from **NatWest** but this time in USD for a combined USD1.25bn. We saw the same FRN/FXD split but with both maturities at 3.25-year. The USD300m FRN referenced SOFR with a 53bps spread. It appears that NatWest paid a new issue premium of 2-4bps on the fixed leg of its first USD issuance in 2021. **Zurcher Kantonalbank** issued its inaugural EUR500m SP bond, which quickly built book orders of EUR1.9bn. Switzerland's largest cantonal bank, backed by a full guarantee by the Canton of Zurich, had no trouble attracting investor interest. Pricing for the 'AAA/Aaa' rated entity was guided to MS+17bps, which means it is only the second European issuer to price in negative yield territory (-0.108%). This was partially to do with the nature of the issuer, which some investors place somewhere between an SSA and a traditional financial institution as it operates like a universal bank but has a state-backed guarantee. Lastly, Austria's **Erste Group Bank** attracted considerable interest for its inaugural SP sustainability bond. The EUR500m, 7-year bond was issued in accordance with the group's sustainable finance framework, which was only published in April 2021. The framework is aligned to the ICMA principles, contributes to the UN SDGs and complies with the draft delegated acts of the EU Taxonomy. The majority of funds raised will finance an existing pool of loans to green commercial real estate and subsidised social housing projects. Despite solid tightening on spread, recent increases in Euro swap rates helped the offering price with a positive yield for investors (+0.236%).

Several **subordinated FIG** transactions hit the market after many European FIGs reported better than expected fundamentals. Among them was **Deutsche Bank** which launched a six-month callable, EUR1.25bn AT1, its first Euro denominated contingent convertible since 2014. The bank stated that the intention was to bolster its capital base ahead of regulatory headwinds from the ECB's TRIM exercise as well as changes that take effect in January 2022 under CRR, that render some of its legacy junior sub-debt ineligible for Tier 1 capital calculations. As at 1Q21, Deutsche had around EUR1.1bn in legacy debt outstanding, more than half of which has a call date in June. With the new issuance, Deutsche will maintain some currency diversification as only one of its five existing AT1's is Euro denominated and it has a call date in April 2022. The deal launched at 4.625% (IPT: 5.25%) with orders reaching EUR5.5bn. **Santander** followed Deutsche into the sub-debt space with its own AT1 however, with an unusual currency split across a EUR750m leg and a USD1bn leg. Both transactions were SEC registered giving us no insight into book orders. Nevertheless, both legs tightened by 37.5bps and 25bps respectively. As per Santander's 1Q21 results presentation, the Spanish bank stipulated that any AT1 or Tier 2 issuance in 2021 would be made to cover expected RWA growth from increased lending but also from RWA inflation linked to the recent TRIM review carried out by the ECB.

Secondary market remained resilient in EUR and USD with minor increases in risk perceptions. CDS price indices on European senior (60ps) and subordinated financials (110bps), as measured by iTraxx benchmarks, priced 2bps and 3bps wider against last week's levels.

Funding conditions remained broadly stable. While bank's continued to report better than expected earnings, central bank actions remain conductive. The BoE's Monetary Policy Committee (MPC) kept its policy unchanged but announced a slight slowdown in its asset purchases. Although this could technically be considered tapering, the MPC stated that it does not intend to tighten monetary policy, at least not until there was clear evidence of significant progress being made in eliminating spare capacity. Meanwhile in the U.S., Fed chairman Powell suggested in a press conference that there was no imminent scaling back of monthly central bank bond purchases. These comments coincided with U.S. unveiling large investment programmes for education and infrastructure. However, worse than expected job numbers placed downward pressure on U.S. economic recovery forecasts.

Weekly average EUR spreads were almost unchanged for SP (-0.6bps), SNP (-0.4bps) and Tier 2 (+0.6bps). USD average weekly spreads also largely unchanged for SP (+/- 0bps), SNP (+0.1bps) and Tier 2 (+1.5bps). Based on data collected from Bloomberg, 33% of FIG tranches issued in May and a single SSAs tranche quoted wider than launch.

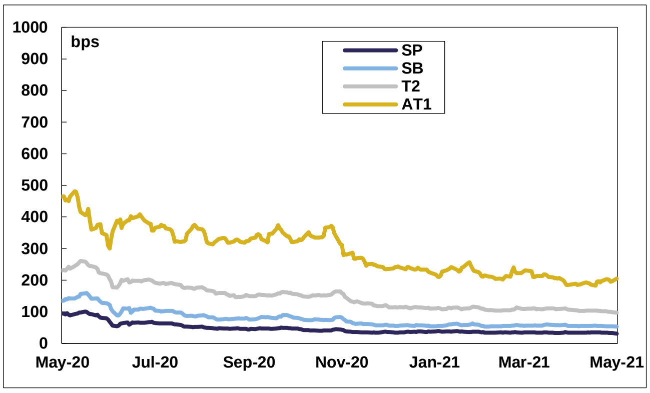
(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
EIB	SEC Registered Global	USD1.5bn	10Y	MS + 10	MS + 12	>USD5.8bn
NIB	SEC Registered Global	USD700m	5Y	SOFR + 19	SOFR + 20	>USD700m
Greece	Senior Unsecured	EUR3bn	5Y	MS + 47	MS + 55	>EUR20bn
State of Saxony	Senior Unsecured	EUR500m	15Y	MS + 0	MS + 0	n.a.
FIG (Senior)						
Barclays	Senior unsecured (FRN)	EUR750m	5NC4	3mE + 65	3mE + 90	>EUR1.8bn
Barclays	Senior unsecured (FXD)	EUR1.25bn	11NC10	MS + 100	MS + 120	>EUR2.6bn
NatWest	Senior Unsecured (FRN)	USD300m	3.25Y	SOFR + 53	SOFR equiv.	>n.a.
NatWest	Senior Unsecured (FXD)	USD950m	3.25Y	T + 55	T + 85	>n.a.
Zurcher Kantonalbank	SP	EUR500m	5Y	MS + 17	MS + 20	>EUR1.9bn
Erste Group Bank	SP (Sustainability)	EUR500m	7Y	MS + 35	MS + 60	>EUR1bn
FIG (Subordinated)						
Deutsche Bank	AT1	EUR1.25bn	PNC7	4.625%	5.25%	>EUR5.5bn
Santander	AT1	EUR750m	PNC7	4.125%	4.50%	n.a.
Santander	AT1	USD1bn	PNC6	4.750%	5.00%	n.a.
Bank of Ireland	Tier 2 (Green)	EUR500m	10.25NC5.25	MS + 165	MS + 185	>EUR1.8bn

Source BondRadar, Bloomberg.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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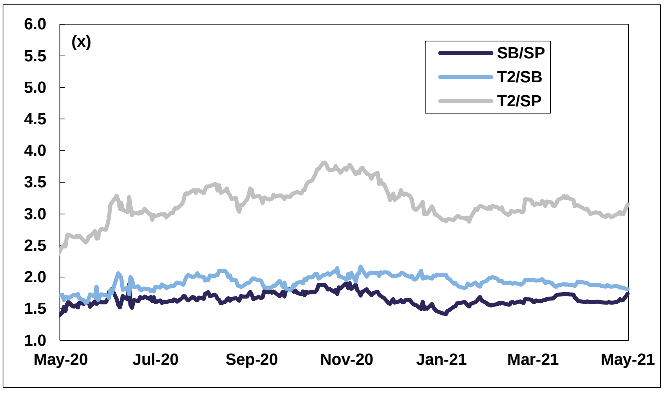


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

Selected Names

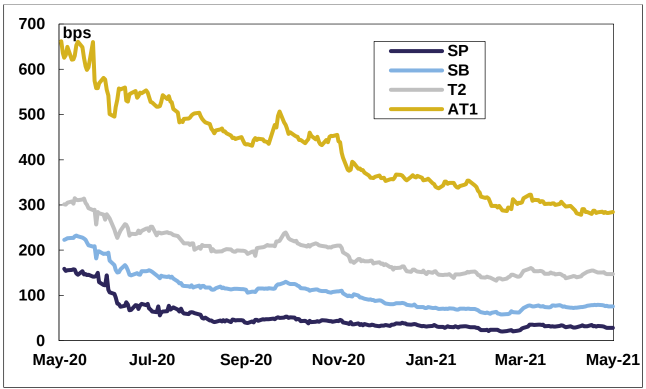
	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Commerz	4.7	0.2	44.3	0.0	-6.9	3.6	0.3	55.8	-0.8	-7.3	4.5	1.6	179.9	-0.1	-31.9
Barclays	3.0	0.1	43.3	-0.5	-15.2	2.9	0.2	58.9	-1.3	-2.4	3.2	0.7	104.1	3.0	-39.5
BBVA	5.2	0.2	41.1	0.2	-2.3	3.6	0.1	40.5	0.3	-6.4	5.3	0.7	96.2	1.8	-22.4
BFCM	4.3	0.0	29.6	0.3	-2.2	8.5	0.7	64.2	1.9	2.5	4.7	0.5	77.1	1.1	-4.5
BNPP	2.1	-0.3	14.5	0.0	-7.2	4.9	0.3	53.7	0.7	-7.2	4.5	0.6	82.9	1.9	-20.6
BPCE	3.3	-0.1	23.7	0.4	-4.6	4.7	0.3	53.9	0.4	-2.2	2.1	0.1	49.5	0.0	-8.0
Credit Ag.	3.2	-0.1	25.5	0.4	-4.6	5.4	0.3	54.2	1.1	-0.3	4.4	0.9	104.1	1.1	-12.4
Credit Sui.	4.7	0.2	44.3	0.0	-6.9	5.0	0.6	81.7	1.4	17.8	5.3	1.0	117.9	3.8	-6.3
Danske	2.0	-0.2	28.1	-1.3	-6.6	2.0	0.0	39.7	-0.9	-12.0	3.7	0.9	120.3	0.4	-11.3
Deutsche	2.3	0.0	39.4	-0.5	-7.5	4.2	0.7	95.4	0.4	-18.9	4.1	1.5	171.9	0.9	-67.3
DNB	2.5	-0.2	17.3	-0.8	-8.1	7.7	0.5	59.1	0.9	3.6	1.3	0.1	48.9	0.2	2.4
HSBC	4.7	0.0	27.9	0.1	-6.2	3.3	0.0	52.7	0.5	4.6	5.1	0.5	70.1	1.9	-7.8
Intesa	3.8	0.1	42.4	-0.5	-7.8	3.8	0.6	93.5	0.8	-22.0	4.8	1.4	165.4	-1.2	-49.6
Lloyds	2.5	-0.3	12.5	-0.7	-6.7	3.3	0.0	44.1	-0.5	-11.8	2.3	0.2	64.4	-0.5	-41.5
Nordea	3.7	-0.2	18.2	1.2	-8.7	5.9	0.2	36.1	0.3	-5.1	0.3	0.0	46.1	-4.6	-20.5
Rabobank	2.9	-0.3	12.0	0.1	-13.7	5.5	0.2	29.8	0.3	-7.6	1.3	-0.1	34.6	-1.3	-12.0

RBS	2.8	0.0	29.3	0.4	-10.3	5.5	0.2	29.8	0.3	-7.6	1.3	-0.1	34.6	-1.3	-12.0
Santander	4.2	0.0	34.2	0.0	-1.3	4.8	0.4	55.7	0.7	-5.1	5.3	0.7	87.6	0.7	-18.6
San UK	4.6	0.0	32.1	0.4	-4.2	2.1	-0.1	44.9	-0.4	-8.1	5.3	0.7	87.6	0.7	-18.6
SocGen	2.0	-0.3	15.8	-0.7	-7.3	6.2	0.6	77.0	1.0	-0.6	3.7	0.5	83.6	0.8	-14.8
StanChart	5.1	0.1	34.3	0.8	-6.3	5.1	0.4	59.1	1.3	7.2	3.9	0.9	123.8	1.1	-14.5
Swedbank	3.9	0.0	28.8	1.1	-8.8	5.0	0.2	47.6	1.6	-6.6	1.5	0.3	69.4	0.3	-29.4
UBS	3.4	-0.1	25.5	-2.4	-6.1	3.4	0.1	50.1	-0.6	-1.9	8.8	2.1	199.1	13.0	13.6
UniCredit	3.9	0.3	70.2	0.1	-5.3	3.6	0.7	106.9	-0.4	-14.1	2.6	1.5	183.9	-0.1	-42.4

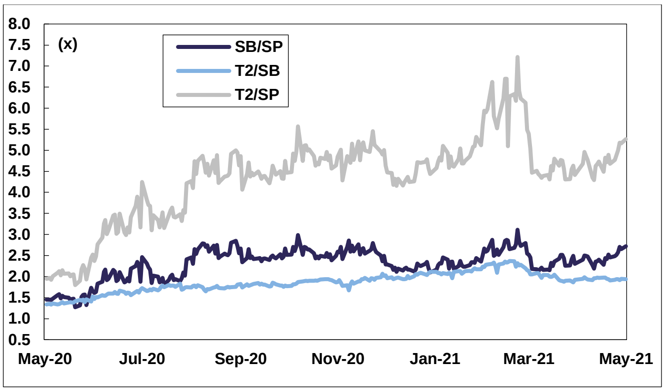
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



Multiples (x)



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

Selected Names

	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Barclays	1.9	0.5	17.5	2.4	-10.4	4.0	1.5	78.4	1.6	-3.3	6.1	2.8	158.4	1.1	-7.1
BFCM	2.1	0.4	21.8	-0.6	-11.3	4.0	1.5	78.4	1.6	-3.3	6.1	2.8	158.4	1.1	-7.1
BNPP	1.8	0.3	4.4	7.1	-10.7	4.6	1.5	76.4	-0.1	-6.6	5.2	2.2	116.3	1.6	7.7
BPCE	4.6	1.3	51.5	-0.3	-4.8	4.2	1.4	58.5	0.3	-11.1	2.9	1.3	75.0	-2.5	-6.8
Credit Ag.	2.3	0.6	27.3	-4.4	-1.4	3.9	1.4	67.3	-3.7	-10.9	6.8	2.8	139.5	-1.0	-2.5
Credit Sui.	2.7	0.7	37.9	-2.1	12.2	3.9	1.6	87.9	0.2	15.5	2.2	1.9	146.9	4.8	19.8
Danske	2.5	0.7	42.1	-5.6	-1.4	2.4	1.0	60.1	-1.1	-15.3	2.2	1.9	146.9	4.8	19.8
Deutsche	5.2	1.5	56.5	0.3		3.4	1.3	85.8	1.3	-25.9	4.6	3.0	214.3	2.7	-77.6
HSBC	3.3	1.0	70.7	-0.6	-11.6	4.6	1.6	76.5	-1.4	-4.2	10.6	3.5	174.8	0.4	-0.4
ING	3.3	1.0	70.7	-0.6	-11.6	4.8	1.5	64.1	0.3	-5.1	2.0	1.2	79.1	-0.8	-6.5
Intesa	2.9	1.2	79.3	0.8	-16.3	4.8	1.5	64.1	0.3	-5.1	4.1	2.4	174.3	-2.2	-36.5
Lloyds	3.7	1.2	58.1	0.2	-4.6	3.3	1.1	54.4	0.0	-4.9	4.4	2.8	136.7	0.6	-17.0
Nordea	3.1	0.7	22.2	-2.4	-2.3	2.2	0.6	24.0	-0.5	-13.7	1.3	0.6	33.2	0.1	-7.5
Rabobank	3.8	1.0	34.3	-0.5	-2.4	4.0	1.2	47.3	0.7	-1.0	4.3	1.7	83.0	1.6	3.2
RBS	3.8	1.0	34.3	-0.5	-2.4	4.0	1.2	47.3	0.7	-1.0	4.3	1.7	83.0	1.6	3.2
Santander	5.1	1.6	71.9	2.2	-0.5	5.3	2.0	95.7	-1.7	-5.1	6.2	2.5	129.6	2.1	0.9
San UK	2.7	0.6	25.2	2.3	-13.4	3.6	1.0	54.4	-0.4	-12.3	4.0			-5.2	-55.4
SocGen	4.0	1.3	56.4	-6.9	5.7	4.0	1.6	81.8	0.3	-9.2	4.1	2.1	132.2	-0.8	-15.4
StanChart	0.1	0.5	43.8	-0.7	-11.0	3.5	1.2	69.7	-1.0	-9.0	5.1	2.6	172.5	-0.3	-18.5
UBS	2.7	0.6	71.5	-1.7	9.4	4.5	1.5	64.1	-1.0	-1.5	5.1	2.6	172.5	-0.3	-18.5
UniCredit	3.6	1.8	122.8	1.5	-31.0	4.1	1.9	127.4	-1.3	-24.3	6.1	4.5	298.3	-2.5	-39.3

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

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[Standard & Poor's]

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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

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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