European Banks – Credit Update

- German court ruling may have wide reaching consequences for German bank income generation
- The SRB recently updated its MREL policy, refining its approach towards MREL compliance and requirements while also giving insight into MREL eligible debt issuance across Europe.
- Last week's primary market debt issuance for FIGs and SSAs was mostly front-loaded ahead of the ECB's meeting while secondary market spreads tightened, benefitted from benign market conditions

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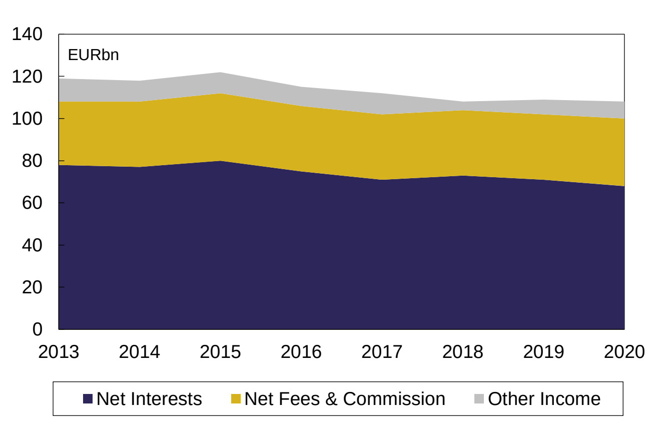
German federal court ruling curtails fee income

The German banking sector has historically been plagued by weak profitability due to the persistently low interest rate environment and intense competition. It will likely come under additional pressure from a recent German federal court ruling against Postbank, that may require banks to reimburse certain fees and commissions charged to clients without their explicit consent. The ruling looks back at the last three years, enabling affected customers to claim back excess costs charged. It emerged that the court deemed increased fees and commissions to be invalid given clauses in the bank's general terms and conditions. These clauses are not exclusive to Postbank and will likely affect many German retail banks. The court reasoned that accounts that are free of charge at outset cannot be changed on the assumption that clients will agree to a charge as it represents a vital part of the contract. Likewise, fees as an alternative for negative interest rates on deposit accounts should also not be assumed as they turn saving accounts into paid products. Following the ruling, German regulator BAFIN stated that it believes that the ruling could cost the German banking sector up to half of its annual profit in a worst-case scenario. As at FY20 net fee and commission income for the sector amounted to EUR32bn.

German Banking Sector Revenues



Source: ECB, Bloomberg

The Postbank ruling will affect Deutsche Bank in the first instance as it gained control of Postbank back in 2010, adding 14 million customers to its existing 10 million client base, becoming the country's biggest private-sector retail bank. In response to the ruling, Deutsche announced that it will book EUR100m in provisions in 2Q21 and expects to incur a EUR200m revenue shortfall in 2Q and 3Q21. This comes on top of announcements made during the bank's 1Q21 results presentation when senior management stated that they will miss annual cost-cutting targets by EUR400m as they expect to pay more into the Single Resolution Fund as well as EUR70m towards the German deposit insurance scheme for private banks. The full extent of the federal court judgement is not yet foreseeable. However, it will likely make customer acquisition for challenger as well as established banks more difficult. The conversion of initially free services into fee-generating products will require explicit customer consent and will greatly influence the frequency by which German banks approach their clients to increase fees and commissions. Fee increases were a common practice, especially in recent years, as data from the German federal statistical office shows that retail banking fees increased by some 35% between 2016 and 2020, helping banks offset declining interest income. Going forward, we may see banks implementing further cost-cutting measures to support their bottom lines as well as making negative interest rates more prevalent for retail customer deposit holdings.

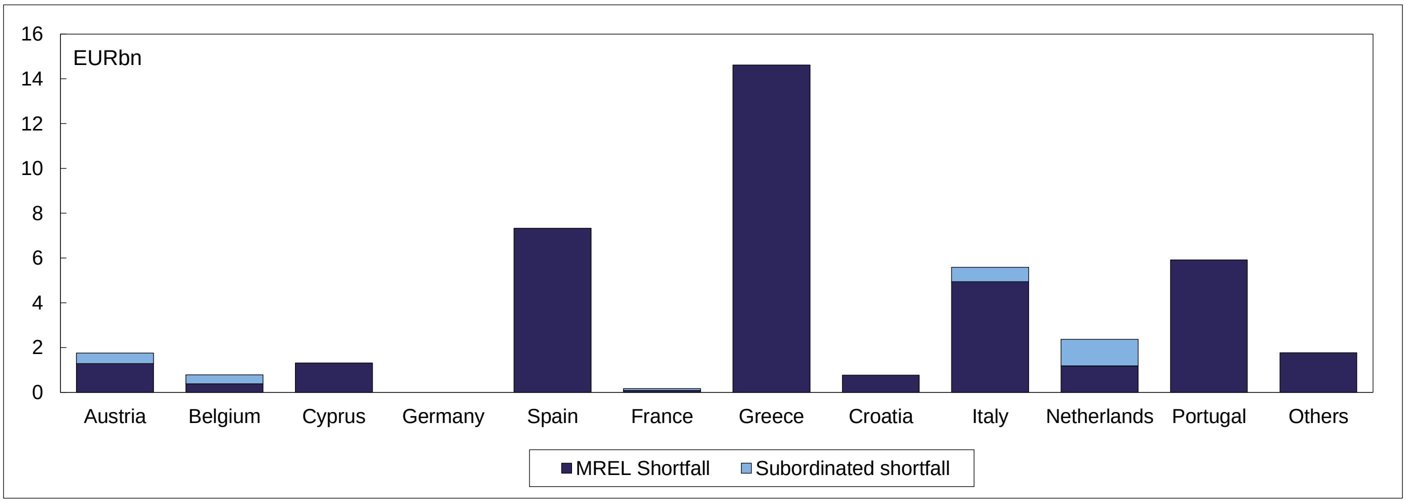
Significant updates to MREL policy by the SRB

At the end of May, the Single Resolution Board (SRB) updated its MREL policy reflecting new provisions in its latest Banking Package. It introduced several policy updates and refinements, among other things the new MREL maximum distributable amount (M-MDA). It also provided updates on calibration of leverage-based MREL that banks must comply with in addition to risk-based MREL. The SRB also set subordination requirements, which continue to divide banks into two groups. The first group comprises 'Pillar 1 Banks' that include: (i) resolution entities of G-SIIs and material subsidiaries of non-EU G-SIIs; (ii) banks with total assets exceeding EUR100bn, consolidated at the level of the resolution group (Top Tier Banks); and (iii) other banks chosen by the respective national resolution authority (NRA) which are not Top Tier Banks but are assessed as likely to pose a systemic risk in the event of failure (Other Pillar 1 Banks). The second group, 'non-Pillar 1 Banks', are subject to a subordination requirement upon the decision of the resolution authority to avoid a breach of the no creditor worse off (NCWO) principle, following a bank-specific assessment carried out as part of resolution planning. In brief, under the updated policy the first group of banks is subject to subordination requirements while the second group is only subject to one if so decided by its NRA. The absence of automatic subordination for the second group of banks may diminish protection to senior bondholders in the event of resolution.

The policy also expands on the subject of internal MREL requirements for systemic subsidiaries of banking groups. The SRB has now removed internal MREL waivers for systemic subsidiaries that are viewed as stand-alone entities. Essentially subsidiaries that on their own would qualify as a G-SII or a Top Tier Bank due to their size (total assets >EUR100bn) and that contribute more than 5% towards the resolution group's total risk exposure amount (TREA). In cases where only one of these criteria is met, the SRB will consider in particular whether the waiver would jeopardise the wider group's resolvability, considering the bilateral relation between subsidiary and parent. In turn, the scope of subsidiaries for which the SRB will set internal MREL has been expanded. Internal MREL will apply to entities that provide critical functions and those meeting the 3% threshold of the resolution group's TREA, or leverage exposure, or total operating income (the previous threshold was 4%).

We believe that the aforementioned introduction of the M-MDA is probably the most significant update to MREL policy as it allows the SRB to restrict bank's profit distributions in the case of MREL breaches. These limitations sit on top of existing restrictions on dividend payments, share-buybacks and/or AT1 coupon payments in the case of regulatory capital shortfalls. The latter occurs when bank capital ratios fall below applicable combined buffer requirements (CBR) that sit above Pillar 1 and 2 requirements, consisting of the capital conservation buffer, the countercyclical capital buffer and systemic risk buffers. Banks are thus required to comply with the CBR in addition to meeting their MREL requirements as expressed in TREA. The M-MDA gives the SRB the necessary means to enforce MREL compliance the same way the MDA helps enforce compliance with capital requirements. The new M-MDA applies as of January 2022. Lastly, the SRB also published an updated 4Q20 MREL dashboard highlighting progress made in meeting MREL requirements. EU-wide, banks have a EUR40bn MREL shortfall at end-2020, down from EUR79bn one year ago. They have until January 2024 to be fully compliant with MREL targets and fill the shortfall amount, which as per the chart below is mostly required in Greece, Spain, Portugal and Italy in nominal terms.

FY20 MREL shortfall for EU-banks under SRB remit



Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR26.5bn over the course of last week, above market expectations of EUR10.5bn-14.5bn. FIG supply of EUR14bn was also above the weekly forecast amount of EUR6bn-10bn. The total 2021 year-to-date FIG volume of EUR225bn is now just 1.2% behind last year's issuance volume of EUR228. SSA volumes however, continue to fall behind last year's level after having led them most of the year. They are down 12.9% at EUR436bn. For the week ahead, survey data suggest SSA volumes will range between EUR17.5bn-22.5bn and FIGs are expected to issue EUR8bn-13bn.

A handful of **SSA** transactions took place over the course of last week, among them the **EIB** which tapped its existing Climate Awareness Bond of EUR1.8bn for EUR400m bringing the outstanding total to EUR2.2bn. The reoffer price of 108.8% contributed to the tranche having a spread of MS -13bps, thus yielding -0.362%. The maturity date of the bond is November 2026. The EIB has been issuing these bonds since 2007, which are de-facto green bonds. The **EFSF** also undertook a tap issuance last week. The existing EUR3bn facility was upsized by EUR2.5bn garnering strong interest with book orders 3.8x over deal size helping the deal to tighten by 2bps to MS-6bps. Since 2010, the EFSF has acted as the temporary crisis resolution mechanism by the euro area member states and has provided financial assistance to Ireland, Portugal and Greece. Caisse d'Amortissement de la Dette Sociale **(CADES)** issued a 5-year social bond for EUR4bn gathering EUR9.4bn in book orders. At OAT+15bps, the transaction priced 1bp within guidance. The proceeds will be used to finance eligible social deficits as set out in the CADES social bond framework that it launched in September 2020.

It was a busy week for European FIG issuers, and **senior FIG** transactions were dominated by USD issuance. One of the few EUR deals was from **Banco de Sabadell** that came to market with a green SNP for EUR500m. The 7NC6 tightened by 25bps to price at MS + 115, some 5bps within fair value compared to a comparable conventional SNP. The deal was 3.6x oversubscribed, considerably more than the two green SNP from Danske and Swedbank one week prior. This was likely due to the higher yield on offer that was likely driven by the lower rating level of Sabadell. **ABN** and **NatWest** accessed the USD market but with no insight into book size we can only assume that the deals were highly subscribed as they tightened by 20bps and 25bps respectively. NatWest looks to have priced flat to fair value which is a good result considering new issue premiums paid by European issuers in recent weeks in the senior debt space.

Last week continued to be busy in the **subordinated FIG** space as was the case in prior weeks. **Lloyds Bank** launched a longer dated (10.5NC5.5) GBP500m Tier 2 bond. Again, there were no order book updates as this was a SEC registered deal. Has the new 3 month call option but spreads tightened 25bps from IPT to G+160bps suggesting the deal priced within fair value compared to comparable Sterling transactions from UK and non-UK peers. **Raiffeisen Bank International (RBI)** issued its inaugural green Tier 2. The EUR500m bond tightened by some 30bps from IPT on the back of strong book orders of EUR2.8bn (5.6x) to price at MS+160bps, 10bps within fair value to its vanilla curve. Australia and New Zealand Banking Group (**ANZ Bank)** accessed Sterling for GBP500m in Tier 2 format. The 10.25NC5.25 transaction will help the bank meet its TLAC requirements. The Australian regulator (APRA) requires major banks to hold an additional 3% of total capital by January 2024 to reach a minimum 17%. According to a recent Moody's report, Australian banks may need to raise some AUD36bn to meet this requirement, most likely in the cost-effective Tier 2 format. In the case of ANZ, Moody's estimate that the bank needs to issue AUD7.9bn in Tier 2 by 2024 which is the lowest amount among the four D-SIBs. **Piraeus Bank** issued its long anticipated AT1 transaction for an amount of EUR600m. The coupon of the 'Ca/CCC' rated transaction priced at 8.75% (-25/50bps from IPT) on the back of 3.75x book orders. The capital generated from this deal will help lift the bank's total capital ratio to 23% (+140bps) which it will need to fund sizeable NPE disposals that are expected to bring the bank's NPE ratio down from 45% at FY20 (~EUR19bn impaired loans) to 10% by end-2021. Two state-guaranteed securitisations will help the bank shed around EUR11bn of impairments with further NPE reduction efforts expected later this year.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
AFD	Sr. Unsecured (Sustainable)	EUR1.5bn	7Y	OAT + 18	OAT + 20	>EUR2.75bn
EFSF	Sr. Unsecured (Tap)	EUR2.5bn	3Y	MS – 6	MS - 4	>EUR7.5bn
ADB	Sr. Unsecured	EUR1bn	10Y	MS + 1	MS + 1	>EUR1bn
CADES	Sr. Unsecured (Social)	EUR4bn	5Y	OAT + 15	OAT + 16	>EUR9.4bn
FIG (Senior)						
Santander UK	Sr. Unsecured	USD1bn	6NC5	T + 88	T + 110	n.a.
BAML	Sr. Unsecured	USD1.5bn	3NC2	T + 37	T + 60	n.a.
BAML	Sr. Unsecured	USD3bn	8NC7	T + 85	T + 140/145	n.a.
Banco de Sabadell	SNP (Green)	EUR500m	7NC6	MS + 115	3mE + 70	>EUR1.5bn
ABN AMRO	SNP	USD750m	6NC5	T + 80	T + 100	n.a.
NatWest	Sr. Unsecured	USD1.5bn	6NC5	T + 90	T + 115	n.a.
FIG (Subordinated)						
Lloyds Banking Group	Tier 2	GBP500m	10.5NC5.5	G + 160	G + 185	>GBP2.25bn
RBI	Tier 2 (Green)	EUR500m	12NC7	MS + 160	MS + 190/195	>EUR2.2bn
ANZ Bank	Tier 2	GBP500m	10.25NC5.25	G + 145	G + 170	>GBP1.35bn
Piraeus Bank	AT1	EUR600m	PNC5.5	8.75%	9.0%/9.25%	>EUR2.1bn

Source BondRadar, Bloomberg.

Secondary market remained resilient in EUR and USD with improvements in risk perceptions. CDS price indices on European senior (55ps) and subordinated financials (103bps), as measured by iTraxx benchmarks, priced 2bps and 5bps tighter against last week's levels.

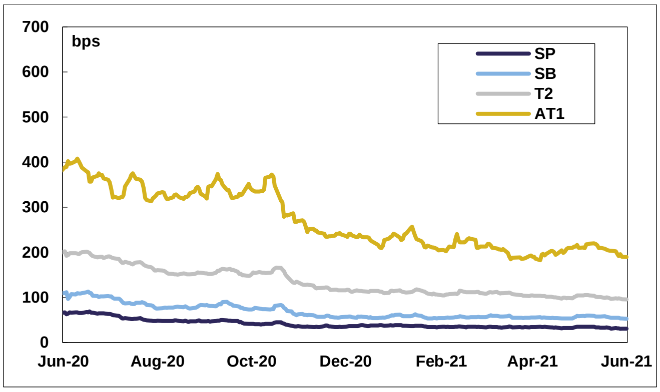
Funding conditions remained benign during the week and issuers have been taking advantage of this by accessing the sub debt space. The outcome of the ECB's Governing Council meeting last Thursday fell in line with market expectations as the central bank extended its net asset purchases at a "significantly higher pace" for the coming quarter. There was thus little volatility in the rates market following the meeting and with sizeable supply from the EU via the imminent NGEU offering expected for June and July this could lead to further spread tightening in Euros. The ECB's macroeconomic and inflation outlooks were revised upwards but inflationary pressures are expected to remain transitory. Additionally, we do not expect any major impulses from this week's FED and BoJ meetings on spreads.

Weekly average EUR spreads were down across payment ranks with SP (-1.5bps), SNP (-2.5bps) and Tier 2 (-3.4bps). USD average weekly spreads also tightened week on week with SP (-1.1bps), SNP (-1.1bps) and Tier 2 (-1.7bps).

Based on data collected from Bloomberg, 17% of FIG tranches issued in June and 13% of SSAs tranche quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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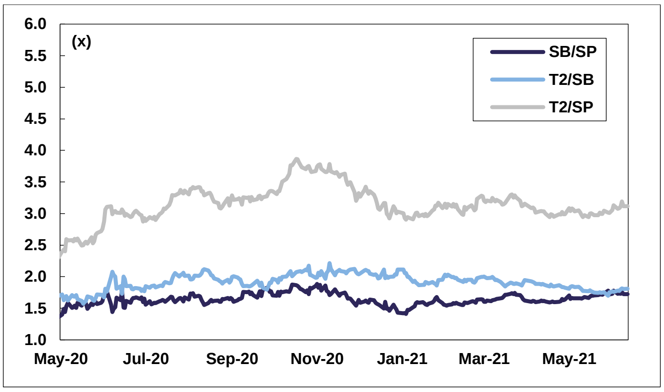


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

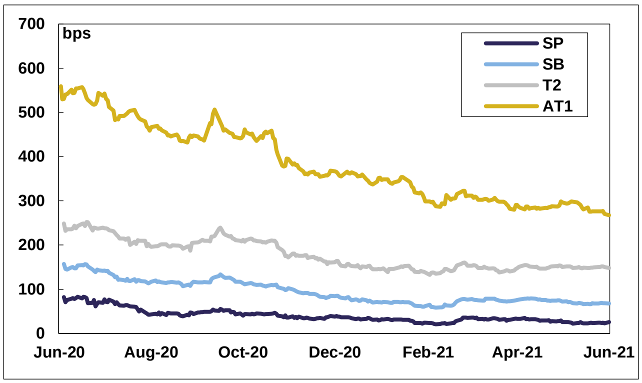
Selected Names

	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	4.6	0.1	41.3	-1.5	-8.8	3.5	0.2	49.6	-3.8	-12.4	4.4	1.3	153.4	-10.0	-60.1
Barclays	2.9	0.0	33.3	-7.8	-25.2	2.8	0.1	52.5	-1.8	-7.5	3.1	0.7	103.9	-2.0	-39.7
BBVA	5.1	0.1	36.8	-1.7	-6.6	3.6	0.0	36.9	-2.4	-9.5	5.2	0.6	92.5	-4.7	-25.8
BFCM	4.2	0.0	29.1	-1.4	-3.6	7.9	0.6	65.4	-3.8	1.1	4.6	0.5	72.8	-3.5	-9.0
BNPP	2.2	-0.3	14.5	-0.5	-9.0	4.9	0.2	51.1	-3.1	-8.4	4.4	0.5	76.6	-4.6	-27.1
BPCE	3.3	-0.2	21.6	-1.1	-6.8	4.6	0.2	50.5	-3.1	-5.5	2.0	0.2	61.4	-1.9	-8.3
Credit Ag.	3.2	-0.2	20.1	-1.4	-5.9	5.3	0.3	51.3	-3.0	-3.4	4.3	0.8	101.0	-2.7	-14.1
Credit Sui.	4.6	0.1	41.3	-1.5	-8.8	4.9	0.6	84.6	-2.4	21.2	5.4	1.0	120.6	-3.8	-5.0
Danske	2.0	-0.2	24.6	-1.2	-10.7	2.7	0.0	44.8	-1.3	-13.2	3.6	0.8	115.5	-4.5	-17.3
Deutsche	2.2	0.0	37.3	-1.1	-9.7	4.3	0.5	85.3	-7.0	-29.3	4.2	1.3	152.7	-6.5	-86.5
DNB	2.4	-0.3	15.4	-1.2	-10.0	7.5	0.4	58.5	-2.5	3.1	1.2	0.0	49.0	-1.3	2.4
HSBC	4.6	0.0	25.9	-1.7	-8.4	3.2	0.0	52.6	-2.3	2.6	5.1	0.4	65.7	-4.3	-12.3
Intesa	3.8	0.0	36.7	-3.3	-12.3	3.8	0.4	77.5	-4.7	-38.0	4.7	1.4	167.5	-6.4	-68.6
Lloyds	2.4	-0.3	11.4	-1.3	-7.8	3.2	0.0	42.4	-2.5	-16.7	2.2	0.1	55.9	-6.9	-50.0
Nordea	3.6	-0.2	15.5	-1.5	-12.1	5.8	0.1	34.1	-2.0	-7.0	3.4	0.3	68.2	0.0	-13.2
Rabobank	3.7	-0.2	13.5	-1.2	-15.0	5.4	0.1	28.8	-2.2	-8.1	1.6	-0.1	35.2	-2.0	-9.3
RBS	3.3	0.0	28.3	-0.4	-10.1	5.4	0.1	28.8	-2.2	-8.1	1.6	-0.1	35.2	-2.0	-9.3
Santander	4.6	0.0	32.5	-0.9	-3.7	4.7	0.3	54.9	-4.0	-5.8	5.2	0.6	80.8	-6.9	-25.1
San UK	4.6	-0.1	22.1	-9.8	-14.1	2.0	-0.2	41.4	-3.1	-11.3	5.2	0.6	80.8	-6.9	-25.1
SocGen	3.3	-0.1	22.6	-1.4	-8.9	6.1	0.6	77.2	-2.9	-0.3	3.6	0.4	78.0	-4.8	-18.0
StanChart	5.0	0.1	33.8	-1.4	-6.7	5.0	0.3	55.5	-3.8	3.6	3.8	0.9	120.6	-2.9	-22.4
Swedbank	3.9	-0.1	25.7	-1.3	-11.9	5.2	0.2	53.0	-1.5	-3.4	1.4	0.2	65.0	-3.8	-33.9
UBS	3.3	-0.1	23.6	-1.3	-8.0	3.3	0.1	48.8	-2.7	-4.0	8.5	1.9	189.0	-3.0	3.4
UniCredit	4.6	0.2	64.3	-4.2	-11.5	3.5	0.6	97.1	-5.4	-20.7	2.5	1.4	172.1	-9.6	-58.2

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)



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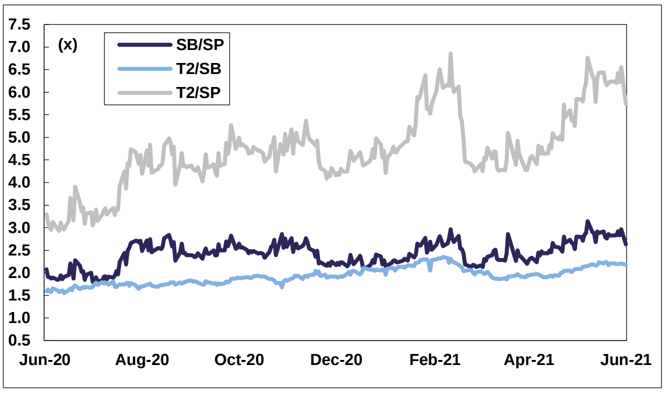

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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
Barclays	2.8	0.5	15.9	-1.7	-21.8	3.9	1.4	73.3	-0.7	-9.8	6.0	2.7	157.7	-3.7	-10.4
BFCM	2.0	0.3	21.5	0.0	-11.9	3.9	1.4	73.3	-0.7	-9.8	6.0	2.7	157.7	-3.7	-10.4
BNPP	1.7	0.3	5.8	4.2	-9.3	5.1	1.5	76.7	-0.6	-9.5	5.1	2.1	117.7	-1.5	2.3
BPCE	4.8	1.3	44.1	-2.2	-9.2	5.0	1.5	62.3	-1.8	-12.5	2.9	1.2	72.1	-2.1	-11.6
Credit Ag.	2.7	0.6	20.8	-3.8	-20.1	3.8	1.3	60.9	-0.6	-11.9	6.6	2.6	138.5	-3.5	-4.3
Credit Sui.	2.6	0.5	26.5	-2.2	1.6	4.1	1.5	83.2	-0.8	6.6	2.1	1.8	142.2	0.6	15.6
Danske	2.4	0.6	40.8	2.1	-2.7	2.3	0.9	59.4	-0.7	-20.4	2.1	1.8	142.2	0.6	15.6
Deutsche	4.6	1.4	48.0	-1.5		3.2	1.3	80.2	-1.3	-37.3	4.8	2.9	207.6	2.0	-73.8
HSBC	3.2	0.8	58.5	0.2	-23.9	4.6	1.5	66.1	-0.5	-9.7	10.5	3.3	169.6	0.0	-8.1
ING	3.2	0.8	58.5	0.2	-23.9	4.7	1.4	62.7	-0.8	-8.8	1.9	1.3	103.5	-4.5	-11.0
Intesa	2.9	1.1	70.6	-2.3	-27.4	4.7	1.4	62.7	-0.8	-8.8	4.0	3.3	222.3	-2.4	-40.3
Lloyds	3.7	1.2	54.6	-1.0	-8.0	3.2	1.1	49.7	-0.8	-6.6	4.3	1.7	94.7	-1.0	-21.3
Nordea	2.9	0.5	13.3	-1.7	-7.7	2.1	0.6	25.3	-0.6	-12.9	1.2	0.5	26.0	-1.9	-11.0
Rabobank	3.7	0.9	25.5	-1.0	-1.7	3.9	1.2	44.8	-1.1	-5.5	4.2	1.6	77.1	0.3	-3.6
RBS	3.7	0.9	25.5	-1.0	-1.7	3.9	1.2	44.8	-1.1	-5.5	4.2	1.6	77.1	0.3	-3.6
Santander	5.0	1.4	60.3	-2.7	-12.0	5.2	1.9	93.1	-1.0	-11.0	6.2	2.3	123.5	-3.4	-5.1
San UK	2.6	0.5	13.7	-5.3	-20.2	3.7	1.2	60.9	0.6	-15.2	3.9			1.2	-71.4
SocGen	3.9	1.1	51.8	-1.7	1.2	4.5	1.7	87.1	0.5	-17.0	4.1	1.9	119.6	-2.1	-27.2
StanChart	1.0	0.6	38.6	-16.7	-16.1	3.1	1.1	63.2	-2.5	-15.7	5.1	2.4	144.2	0.1	-29.5
UBS	2.6	0.5	32.6	-1.0	6.9	4.4	1.4	62.7	-0.7	-4.4	5.1	2.4	144.2	0.1	-29.5
UniCredit	5.2	2.2	127.8	0.7	-42.2	4.0	1.8	118.3	-1.8	-31.1	6.0	4.3	298.2	1.6	-38.8

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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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)

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