

## European Banks – Credit Update

- Assessments performed by the EBA and the Danish Central Bank reinforced the view that most European banks should be able to absorb the losses related to the Covid-19 crisis without hitting their minimal capital requirements.
- Activity in the primary market remained decent, whilst Credit Agricole tapped the JPY market with the largest deal since the implementation of the new risk-weight regime in Japan in April 2019. Secondary spreads rallied in both EUR and USD.

**Israel Da Costa, CFA**

Credit Analyst

+44 20 7597 8355

[Israel.DaCosta@uk.daiwacm.com](mailto:Israel.DaCosta@uk.daiwacm.com)

### Stress Tests

The **EBA** [published](#) last Monday a preliminary assessment of the impact of Covid-19 on the EU banking sector. Key findings:

- Capital accumulated by banks during recent years along with the capital relief provided by regulators on average amounts to 5ppt above their overall capital requirements.
- A sensitivity analysis around the 2018 EBA stress test scenario indicates that the impact of credit risk losses on CET1 ratios ranges between around 230bps and 380bps, without considering the potential beneficial effect of loan payment moratoria and guarantees. Hence, the banking sector would on average count on enough capital to cover potential losses under the most severe credit risk shock while maintaining a buffer equivalent to 1.1ppt of RWAs above their overall capital requirements.
- Profitability levels have remained subdued amidst low interest margins and the challenges for banks to reduce their operating expenses. Irrespective of the crisis, current weaknesses will likely be exacerbated by the low interest rate environment, which will now persist for even longer. A key challenge faced by banks might be an amplification of the need to consolidate and to address overcapacity in the sector.

The **Danish Central Bank** [published](#) last week the results of a stress test it performed on the Danish banking system, where it found that most Danish banks are able to withstand a prolonged recession and also a very severe, but temporary, economic downturn without falling significantly short of buffer requirements. But a combination of these scenarios could lead to a potential total capital shortfall of over DKK16bn (USD2.4bn) among the domestic systemic banks. In that scenario, the central bank also estimated that banks will have an issuance requirement of more than DKK160bn (USD24bn) until 2022.

That said, similar to the EBA assessment, the test did not consider the potential beneficial effect of loan payment moratoria and guarantees, which may have a significant positive impact on banks' capitalisation. According to Bloomberg, in response to the stress test, Danske Bank confirmed it has the financial resources it needs to weather the Covid-19 crisis, whilst it remains comfortable with its liquidity and capital buffers.

Finally, **Andrea Enria**, chair of the **ECB** supervisory board, stated last week that "less than a handful of banks under our responsibility are projecting a slight dip into buffers", he also pointed to a pack mentality as "there could be a concern on the side of banks, or CFOs in particular, to be seen as the first delving into buffers". The ECB freed up a significant proportion of euro area capital buffers in March, yet banks remain wary of utilising them amid the negative repercussions to share and debtholders and to the banks' overall financial stability. We naturally deem the maintenance of capital levels above buffers as a credit positive, although it might also lead to a reduction in banking support to economies.

In all, the above assessments and comments reinforce our view that although the current crisis might lead to a significant deterioration in the credit profiles of European banks, most banks in our coverage universe should be able to absorb the losses without hitting their minimal capital requirements.

### Rating Actions

Fitch [revised](#) the Outlook on Credit Suisse Group to Stable from Negative, whilst affirming the senior unsecured rating at 'A-'. The revision reflects the agencies' view that Credit Suisse's ratings have sufficient headroom to absorb significant shocks under the agencies' economic forecasts. The agency [affirmed](#), however, the Outlook on UBS Group at Negative, as it sees the economic fallout from the global pandemic as a medium-term risk to the group's earnings, asset quality and capitalisation. UBS Group's senior unsecured rating was affirmed at 'A+'.

### Primary and secondary markets

It was another week of decent activity in the unsecured **primary market** for European banks, backed by the rally in secondaries. French names were particularly busy, with all the five largest French banking groups tapping the market across currencies, although the biggest deal came from HSBC, with a USD3.5bn Sr HoldCo 6NC5/10NC5 dual tranche deal. Demand levels were strong, with average book orders of 4.9x the size of the deals with available information, whilst IPT tightening ranged between 2.5bps and 55bps in the USD and EUR deals.

In Japan, Credit Agricole launched a JPY122bn double format Samurai\* with 2 tranches of SNP and 1 tranche of Tier 2. This was the largest JPY non-domestic issue from a G-SIB since the implementation in April 2019 of a new risk weight regime, which applies a 150% risk weight to senior bail-in bonds issued by G-SIBs. The deal followed last week's SNP JPY50bn issue from BNP Paribas, launched in EuroYen format and priced at YOS+130bps.

*\*Daiwa was one of the Lead Managers in the transaction.*

Following ING and Deutsche in previous weeks, both Commerzbank and Credit Agricole issued Tier 2 paper last week aiming to enhance their MDA buffers. Credit Agricole's EUR750m 10NC5 paper was launched at MS+190, whilst Commerzbank priced its EUR750m 10.5NC5.5 at MS+435bps. The latter compares favourably to the EUR1.25bn 11NC6 Tier 2 issued by Deutsche on 11 May, priced at MS+600. Although Commerzbank's paper generally trade tighter than Deutsche's, the 165bps difference is partly explained by the significant rally in EUR spreads in the past couple of weeks. Deutsche's paper is trading at ASW+ 545bps in the secondary market at time of writing.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
Commerzbank	Tier 2	€750m	10.5NC5.5	MS+435	MS+490	>€5.2bn
Credit Agricole	Tier 2	€750m	10NC5	MS+190	MS+230	>€3.4bn
Credit Agricole	SNP	¥105.5bn	6NC5	YSO+125	YSO+123/125	
		¥10.8bn	10NC9	YSO+128	YSO+128/130	
	Tier 2	¥5.8bn	10NC5	YSO+168	YSO+168/170	
HSBC	Sr HoldCo	\$2bn	6NC5	T+175	T+200	
		\$1.5bn	11NC10	T+215	T+235	
BFCM	SNP	€1bn	10Y	MS+143	MS+175	>€3.5bn
BBVA	Covid-19 Social SP	€1bn	5Y	MS+112	MS+145	>€4.8bn
BPCE	SP	AUD375	5Y	ASW+160	ASW+165/170	
		AUD275	5Y	3mBBSW+160	3mBBSW+165/170	
BNP Paribas	SNP	AUD250	5Y	ASW+210		
Swedbank	SP	\$1bn	3Y	T+112.5	T+115	

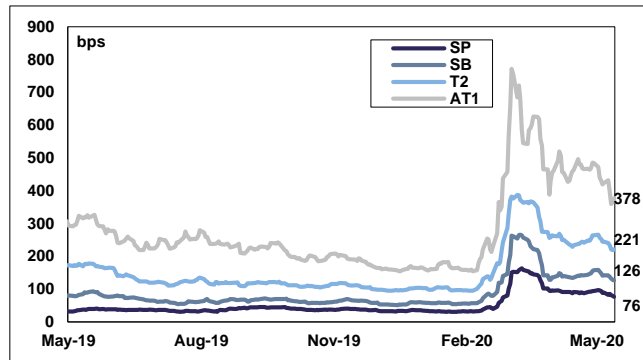
Source BondRadar, Bloomberg.

**Secondary spreads** of European banks rallied last week, with a particularly sizeable tightening of EUR lower ranked paper from Italian, Spanish and UK banks. Different to previous weeks, EUR bonds outperformed USD paper, with the ICE BofA US Corporates index up 0.2% and the ICE BofA Euro Corporate up 0.6%.

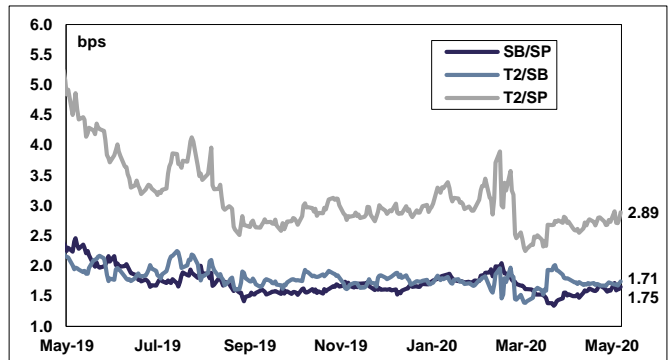
EUR SP/Sr OpCo paper closed the week at 76bps (126bps for SNP/Sr HoldCo) on aggregate, down 14bps (17bps) W/W, 44bps (69bps) above pre-crisis levels but down 87bps (140bps) since the peak in mid-March. USD SP/Sr OpCo paper closed the week at 101bps (190bps for SNP/Sr HoldCo) on aggregate, down 13bps (16bps) W/W, this is 50bps (100bps) above pre-crisis levels, yet 289bps (263bps) down from the mid-March peak.

## Western European Banks EUR Spreads and Yields

Aggregate 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.

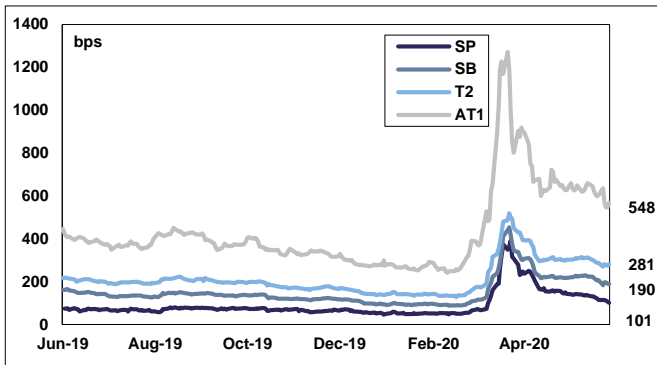
### Selected Names

	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
Commerz	4.9	1.1	137	-16	88	4.2	1.9	209	-23	140	5.6	3.6	374	-68	185
Barclays	3.8	1.1	119	-15	76	3.4	1.3	156	-26	103	6.1	3.6	345	-81	225
BBVA	4.9	0.7	102	-18	54	4.5	1.3	156	-27	97	7.8	2.5	271	-53	146
BFCM	4.1	0.4	62	-11	32	9.3	1.1	118	-16	60	5.4	1.7	184	-15	107
BNPP	2.7	0.2	50	-13	29	5.3	0.9	116	-15	60	5.5	1.7	180	-16	80
BPCE	3.9	0.4	66	-12	36	4.7	1.0	122	-17	69	2.9	1.5	165	-22	107
Credit Ag.	3.4	0.4	58	-17	25	5.3	0.9	112	-19	59	5.1	2.0	209	-17	81
Credit Sui.						6.7	1.4	156	-19	91					
Danske	2.9	0.4	69	-10	33	3.3	1.3	155	-16	83	8.3	2.5	274	-17	126
Deutsche	3.0	1.0	123	-13	66	2.9	2.3	246	-34	117	5.0	4.6	476	-39	166
DNB	3.4	0.4	62	-13	31						7.0	1.8	204	-15	146
HSBC	3.4	0.4	62	-11	31	3.3	0.7	89	-20	46	5.8	1.5	167	-25	82
ING	1.7	0.4	63	-11	46	5.2	0.8	102	-19	53	5.5	1.8	203	-10	111
Intesa	4.6	1.7	190	-20	110	6.2					4.2	2.9	312	-34	160
Lloyds	2.2	0.4	66	-13	35	4.0	1.3	154	-23	103	7.7	2.4	258	-26	144
Nordea	4.6	0.3	52	-12	23	3.0	0.7	95	-16	58	3.8	2.0	185	-19	135
Rabobank	2.5	0.1	39	-11	21	6.3	0.7	90	-9	50	2.9	1.3	152	-17	103
RBS						4.5	1.6	186	-25	110					
Santander	4.0	0.4	69	-22	42	4.9	1.1	138	-20	73	5.7	2.0	220	-25	119
San UK	3.1	0.6	77	-13	46	3.5	1.4	178	-19	114					
SocGen	2.0	0.4	61	-11	36	5.9	1.3	155	-16	87	4.5	1.8	199	-28	121
StanChart						6.8	1.6	175	-18	104	3.7	3.4	309	-82	261
Swedbank	4.8	0.5	74	-11		4.3	1.0	122	-13	58	7.2	2.0	223	-22	122
UBS	1.6	0.3	52	-12	32	3.6	0.8	107	-17	65					
UniCredit	4.2	1.8	200	-19	117	5.1	2.7	290	-31	190	4.9	4.7	449	-45	263

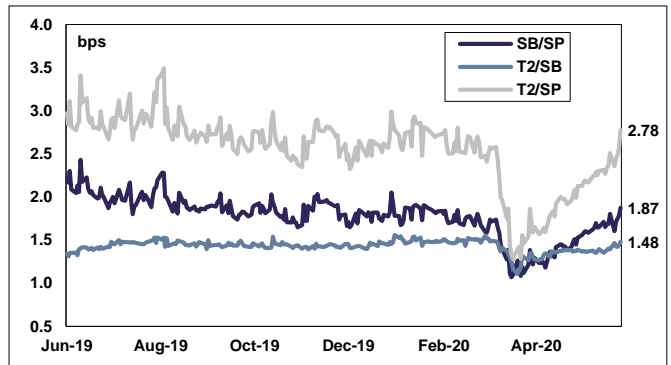
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative 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 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	1.2	93	-31	40	4.5	2.4	196	-11	88	5.6	3.5	297	-25	122
BFCM	2.4	1.3	105	-11	54										
BNPP	1.9	0.7	38	-21	6	4.6	2.4	182	-18	93	5.3	3.0	247	-10	130
BPCE	2.5	1.5	118	-5	60	4.3	2.4	195	-17	95	3.7	2.9	250	-8	143
Credit Ag.	1.7	1.2	61	-7	31	3.4	2.1	158	-15	75	8.2	2.8	217	-25	108
Credit Sui.	1.7	1.1	62	-6	33	4.9	2.2	155	-16	85					
Danske	1.5	1.3	97	-24	34	3.1	2.6	221	-16	111					
Deutsche						3.1	3.3	283	-36	141	6.7	5.8	517	-38	191
HSBC	4.1	2.2	186	-12	77	5.1	2.1	170	-5	74	10.8	3.8	290	1	130
ING	1.1	0.8	44	15	24	4.9	1.9	145	-11	71	4.8	3.2	280	-13	146
Intesa	3.7	3.0	258	-12	130						4.1	5.2	466	-30	244
Lloyds	3.4	1.7	140	-6	74	3.8	2.1	172	-11	89	5.1	2.9	243	-12	103
Nordea						3.0	2.0	147	-7	61	2.2	2.2	172	-6	105
Rabobank	2.5	1.0	73	-5	33	3.5	1.5	105	-14	55	5.0	2.4	185	-14	98
RBS						4.7	2.5	205	-14	95	3.1	3.1	271	-9	146
Santander	5.8	2.2	180	-8	94	5.3	2.7	222	-12	116	4.8	3.2	275	-14	158
San UK	1.4	1.0	86	-16	32	3.3	2.1	156	-20	80	4.6	3.6	318	-18	162
SocGen						4.2	2.6	215	-10	112	4.6	3.5	304	-19	155
StanChart	0.0	1.4	114	-30	-138	4.5	2.6	216	-13	109	5.8	3.8	324	-16	164
UBS	9.7	1.8	122	-12	74	4.8	2.0	152	-14	74					
UniCredit	2.4	3.3	312	-19	147	2.2	4.2	377	-57	241	8.5	6.5	576	-16	205

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

<i>London</i>		
<i>Head of Research</i>	<i>Chris Scicluna</i>	+44 20 7597 8326
<i>Financials, Supras/Sovereigns &amp; Agencies</i>	<i>Israel Da Costa, CFA</i>	+44 20 7597 8355
<i>Research Assistant</i>	<i>Katherine Ludlow</i>	+44 20 7597 8318
<i>Tokyo</i>		
<i>Domestic Credit</i>		
<i>Chief Credit Analyst</i>	<i>Toshiyasu Ohashi</i>	+81 3 5555 8753
<i>Electronics, Automobiles, Non-Banks, Real Estate, REIT</i>	<i>Takao Matsuzaka</i>	+81 3 5555 8763
<i>Chemicals, Iron &amp; Steel</i>	<i>Kazuaki Fujita</i>	+81 3 5555 8765
<i>International Credit</i>		
<i>Non-Japanese/Samurai, European Sovereigns</i>	<i>Hiroaki Fujioka</i>	+81 3 5555 8761
<i>Non-Japanese/Samurai</i>	<i>Fumio Taki</i>	+81 3 5555 8787
<i>Non-Japanese</i>	<i>Jiang Jiang</i>	+81 3 5555 8755
<i>London Translation</i>		
<i>Head of Translation, Economic and Credit</i>	<i>Mariko Humphris</i>	+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](https://twitter.com/DaiwaEurope)

This document is produced by Daiwa Securities Co. Ltd and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority, is a member of the London Stock Exchange and an exchange participant of Eurex. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in, or be mandated in respect of, other transactions with the issuer(s) referred to herein, perform services for or solicit business from such issuer(s), and/or have a position or effect transactions in a particular issuer's securities or options thereof and/or may have acted as an underwriter during the past twelve months in respect of a particular issuer of its securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of a particular issuer. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in securities of a particular issuer before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited is part of Daiwa Securities Group Inc. Daiwa Securities Group Inc., its subsidiaries or affiliates, or its or their respective directors, officers and employees from time to time have trades as principals, or have positions in, or have other interests in the securities of the company under research including market making activities, derivatives in respect of such securities or may have also performed investment banking and other services for the issuer of such securities. Daiwa Securities Group Inc., its subsidiaries or affiliates do and seek to do business with the company(s) covered in this research report. Therefore, investors should be aware that a conflict of interest may exist.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <http://www.us.daiwacm.com/>.

The statements in the preceding paragraphs are made as of June 2020.

## **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.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx)))

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

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

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

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

#### **[Fitch]**

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

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

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

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

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

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

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

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

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

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

February 2020