Daiwa Capital Markets

European Banks – Credit Update

- Strong results by Goldman, Morgan Stanley and Bank of America confirm US investment banks entered 2021 from a position of relative strength.
- SSAs continue soaring with landmark deals in primaries while EUR supply from European FIGs almost runs dry.
- Spreads in the secondary market tightened as Italy averted political turmoil, the US presidential inauguration went smoothly and the ECB reaffirmed its policy stance

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4Q20 US Investment Banking Revenues - Continued

Rounding off the main earnings announcements from US Investment Banks were Goldman Sachs (GS), Morgan Stanley (MS) and Bank of America (BAML). Their 4Q20 results benefitted from improved corporate sentiment and a strong equity market driving investment-banking returns. Increased client activity persisted during the quarter, despite lower overall market volatility compared to 1H20. The improved macroeconomic outlook in the US led almost all of the reviewed banks to release excess credit loss reserves, thus further supporting bottom-line results. The banks continue to face downside risks from the low interest rate environment, especially those with larger retail presence. Nevertheless, average revenues across origination& advisory, equities and FICC rose significantly during the quarter, which translated to strong growth rates on an annual basis as per table to the right.

US Banks IB Revenues Growth (4Q20 Y/Y)

	Origination & Advisory (yoy)	Equities (yoy)	FICC (yoy)	ROTCE	Net Income ($m)
JPMorgan	37.0%	32.0%	15.0%	24.0%	12,136
Citi	-4.7%	57.0%	7.0%	11.4%	4,632
Wells Fargo	-2.8%	48.1%	-0.9%	7.7%	2,992
Goldman Sachs	27.0%	40.0%	6.0%	22.5%	4,506
Morgan Stanley	46.0%	30.0%	31.0%	17.7%	3,385
Bank of America	-7.0%	30.0%	-5.0%	11.7%	5,470
Average	**15.9%**	**39.5%**	**8.9%**	**15.8%**	**5,520**
(2020 Y/Y)					
JPMorgan	25.1%	32.5%	40.9%	14.3%	29,131
Citi	11.0%	25.0%	33.9%	6.9%	11,370
Wells Fargo	6.0%	n/a	15.0%	7.7%	3,301
Goldman Sachs	24.0%	30.0%	57.0%	11.8%	9,459
Morgan Stanley	25.6%	21.6%	59.1%	15.2%	10,996
Bank of America	-7.3%	20.7%	17.1%	9.5%	17,894
Median	**14.1%**	**26.0%**	**37.2%**	**10.9%**	**13,692**

Source: Bloomberg, Banks financial statements, compiled by DCME

Goldman reported net income of USD4.5bn in 4Q20 (+34% qoq and +135% yoy) on the back of its strong capital markets performance. The investment bank generated USD2.6bn in revenue (+27% yoy) as fees from equity underwriting nearly tripled while equity traders in the Global Markets division delivered a 40% revenue increase, making up for fixed-income trading that fell short of analyst estimates. Asset management was the only division that generated lower FY20 net income (-41% yoy) as income from private equity placements was greatly reduced while credit provisions and operating expenses were up on an annual basis. Bottom line 4Q20 operating expenses were down 19% yoy, primarily due to significantly lower net provisions for litigation and regulatory proceedings and despite a minor increase in credit loss provisions. GS was the only bank in its peer group to have slightly upped provisions during the quarter by USD293m (+5% qoq). The bank enters 2021 not expecting a repeat of the market volatility observed in 2020. In order to diversify its revenue streams away from global markets GS is slowly building out its retail banking division as seen in its communicated acquisition of General Motor's credit card business to be finalised by September 2021. Retail loans currently amount to USD40bn and the bank expects these to rise by USD20bn over the next few years.

MS reported 4Q20 net revenues of USD13.6bn during (+25.6 yoy%) which were supported by the October 2020 acquisition of the online brokerage E*Trade, adding 24% revenue growth to the bank's wealth management division. Wealth Management is already MS's main revenue generator (41% of total). Integration costs from the acquisition resulted in an increase in total divisional expenses of 35%. MS also announced that it expects to finalise the acquisition of asset management firm Eaton Vance by 2Q21, which would see it further cement its position as leading wealth and asset manager among peers. The bank also reported stellar results in its IB, FICC and equity trading divisions consistently exceeding analyst expectations. MS is the largest equity-trading house among its peer group, retaining its leading position against rivals Goldman, Citi and JPM in this category driven by higher client activity, particularly in derivatives. On the fixed income side, higher volatility, foreign exchange and credit products saw big uplifts in revenues. FICC revenues jumped 31% beating consensus again and coming in as the strongest among peers.

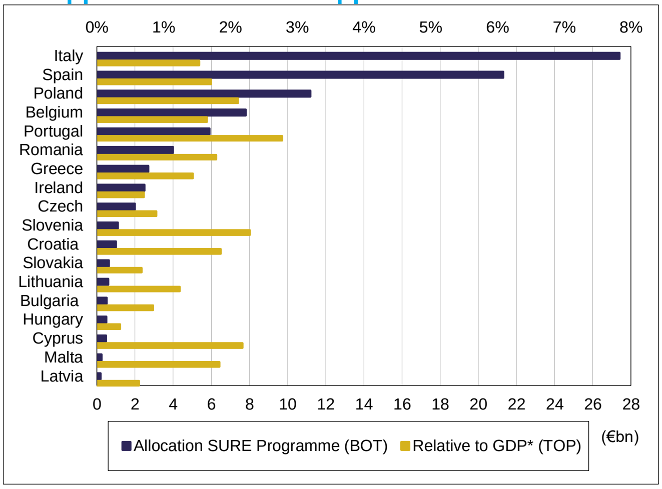
Results for BAML, the second largest US bank, were strong but lagged those of peers, crucially missing analysts' expectations. 4Q20 net income was USD5.5bn (-21% yoy) while top-line revenue performance of USD20.1bn (-10% yoy) just fell short of consensus. Lower FICC revenue (-5% yoy) resulted from weaker performance in macro products and mortgages. Despite a small uptick on a quarterly basis, net interest income (NII) fell 16% yoy although loan volumes remained broadly stable. BAML relies on higher interest rates to drive its profit growth as it has a large pool of deposits and rate-sensitive mortgage securities. The quarterly NII increase was generated, as the bank was able to lower the average rate paid on interest-bearing deposits by 2bps against 3Q20 (to 0.06%). Bottom-line results were supported by the release of USD0.8bn credit loss reserves after building more than USD8bn over the previous three quarters. Similar to peers, this underscores BAML's positive economic outlook but also the reflects the reduced exposure to industries most affected by the pandemic.

Primary and secondary markets

Large sovereign deals have helped push SSA bond issuance volumes forward in the **primary market** while FIG transactions continued to fall further behind last year's January figures following a slow week. Based on Bloomberg data, total January SSA issuance amounted to EUR107.8bn in 2021 (+20% yoy) helped by 9 issues over the last week while FIG volumes continued to lag at EUR46.3bn (-43.8% yoy) despite registering 20 deals over the same periods. Survey data suggests that this week will be another strong outing for SSA with the average expectation being in the range of EUR22.5bn-26.5bn while FIGs are expected to issue EUR7bn-11.5bn.

SSAs registered some standout transactions over the week with France's EUR7bn, 50-year bond reportedly receiving a 10.7x order book over deal size, helping guide the transaction to a spread of 7bps above the reference OAT. The deal set records in several ways being the French government's largest and most subscribed 50-year bond with the lowest ever yield of 0.593%. By contract, a comparable EUR3bn issue back in 2016 yielded 1.92%. The successful issue could set the tone for two additional syndicated deals planned by the French sovereign debt office over the course of the year, which include a 20-year green bond a 30-year OAT. Nevertheless, the EIB's EUR1bn Ecoop deal was the most subscribed bond last week (14x) after also being in the market with a benchmark 7-year floating rate note linked to Euro short-term rates. It was the first issuance in this format in 2021, extending the curve in this format.

EU Approved Financial Support



**Based on 2019 GDP. Source: EU Investor Presentation and Daiwa Capital Markets Europe Ltd.*

Looking ahead, this week may initially see reduced sovereign bond issuance volumes as the market anticipates a dual-tranche transaction from the EU under its ICMA compliant social bond programme (SURE). The programme is available for member states to fight unemployment risks and other negative economic and social consequences of the Coronavirus. Requests for proposals were sent to investors after last week's ECB's Governing Council meeting. Based on an investor presentation from mid-January, the overall SURE loan programme has a ceiling of EUR100bn with the EU seeking to raise funding up to EUR45bn during the first half of 2021. 18 member states have already been assured financial support to an amount of EUR90.3bn with EUR39.5bn in funds already raised during 2020.

Total EUR, USD and GBP syndicated FIG bonds in Europe amounted to EUR12.5bn over the course of last week. Euro supply from core European entities was rather limited with just two deals from Austria's Erste Group Bank and Oberbank AG hardly moving the market with a EUR500m SP and a EUR250m SNP respectively. Funding conditions have been tight since the beginning of the year and the narrow spread gap between SP and SNP has made the latter a more attractive proposition for issuers. Observed spread widening in the secondary market consequently led to senior transactions attracting lower order books this year with average deal subscriptions just 1.7x compared to 2.8x during 4Q20. The situation is made worse as the market is receiving mixed messages from politicians and policymakers resulting in delayed capital allocations. For instance, Italian Prime Minister Giuseppe Conte early last week narrowly won votes of confidence in parliament following the withdrawal from his coalition of the Italia Viva party over the disbursement of EU recovery funds. The resulting rally in BTPs was however more than reversed after the ECB's Governing Council meeting on Thursday when some market participants perceived a lack of unconditional support from the central bank, unjustifiably raising fears of a more hawkish stance. Meanwhile, the Italian political situation remains uncertain with Conte reportedly considering seeking a mandate for a new government

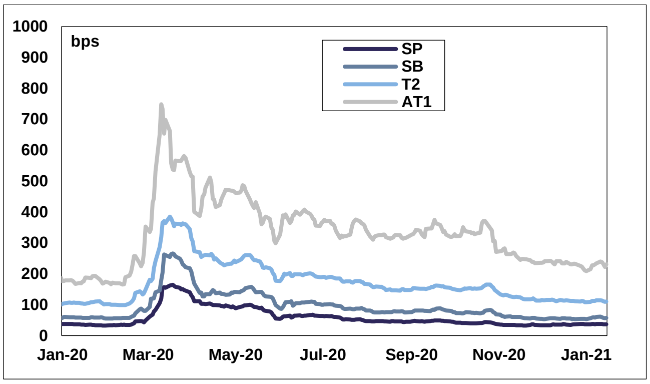
Despite the above, Goldman Sachs provided a bright spot in the Eurobond market on Thursday, as investors responded positively to its EUR1.75bn senior unsecured paper just days after the investment bank announced the aforementioned record profits in its 4Q20 earnings call. An order book of EUR4bn (2.3x) saw IPT of 90bps over mid-swaps tighten by 22bps which may signal that investors are looking towards fundamentals again. Large European issuers were mostly active in the non-Euro space and saw their bonds tighten nicely on the back of solid demand. Credit Agricole and BNP Paribas launched a USD1.5bn SNP (-25bps vs IPT T+105bps) and a USD1.25bn Tier 2 (-27bps vs IPT T+145bps) respectively ahead of their reporting periods, taking advantage of benign conditions in the Dollar market. Credit Mutuel ventured into Sterling earlier in the week with a GBP400m SP deal to help refinance a combined GBP850m of bonds that are due to be redeemed this year. Order books can be considered light (1.3x) echoing demand for SocGen's Sterling SNP mid-month (1.3x). Both deals struggled to meet the same demand levels seen in BNP's GBP1bn SNP at the beginning of the year (1.9x) which had first mover advantage at that point.

Secondary market spreads tightened across EUR and USD, reflected in market risk perceptions. CDS price indices on European senior (61bps) and subordinated financials (116bps) as measured by iTraxx benchmarks also priced lower against the prior week's levels by 2bps and 5bps respectively. Most of the improvements only really came through towards the end of the week once political tensions in Italy had temporarily abated, the US presidential inauguration was completed and the ECB's Governing Council meeting was concluded. As we slowly approach the reporting period for European banks, we expect investor focus to shift more towards fundamentals. The strong results reported by US Investment Banks boded well with investors and were quickly converted into USD and EUR bond offerings.

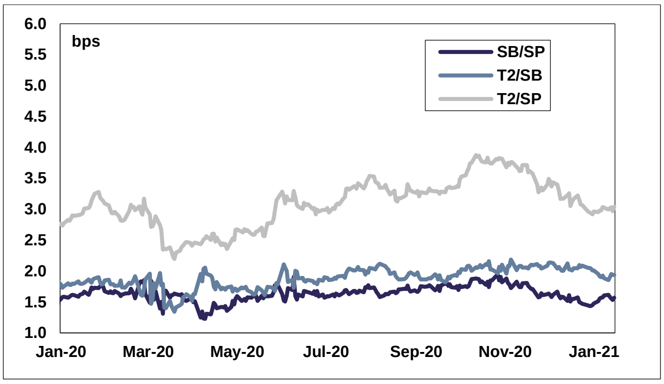
Funding conditions appear to have improved, especially for European senior debt. Based on data collected from Bloomberg only 27.4% of FIG tranches issued this year quoted wider than launch (SSA only 24.5%) which compares favourably against last week where 46.3% of FIG deals traded wider (SSA: 21.6%). Weekly average EUR spreads across geographies for SP (-2.4bps), SNP (-4.5bps) and Tier 2 (-4.4bps) closed tighter as Italian issuers retraced lost ground from the previous week's volatility and impulses into the market from Thursday's ECB monetary policy meeting have largely subsided. Demand for USD issuance continued to keep spreads more stable over the past week with USD SP (-0.2bps) and Tier 2 (-0.6bps) marginally tighter while SNP saw some minor widening (+0.9bps).

Western European Banks EUR Spreads and Yields

Aggregate EUR 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

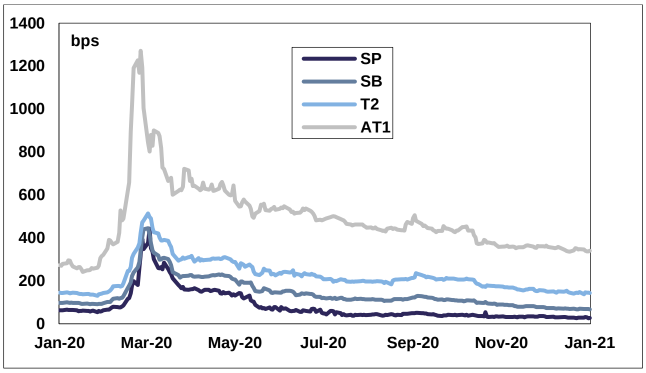
	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Commerz	5.4	0.1	49.6	-2.3	-3.8	3.9	0.3	69.5	-4.3	-1.7	4.6	1.7	206.4	-3.5	-7.1
Barclays	3.2	0.2	56.7	-4.1	-1.9	2.8	0.0	50.6	-5.6	9.2	2.0	0.8	130.6	-8.1	-7.5
BBVA	5.0	0.0	42.7	-2.6	4.3	3.9	0.1	52.1	-5.4	3.7	5.4	0.7	120.3	-4.6	-5.9
BFCM	4.4	-0.1	31.9	-2.3	1.1	8.7	0.4	65.0	-3.8	4.5	4.8	0.4	82.3	-2.4	-0.8
BNPP	2.3	-0.3	20.5	-2.8	-0.7	5.0	0.2	59.8	-4.1	0.6	4.5	0.6	93.8	-5.4	-5.4
BPCE	3.4	-0.2	29.6	-2.4	1.0	4.5	0.2	57.3	-3.2	4.2	2.4	0.2	70.0	-2.1	1.0
Credit Ag.	3.2	-0.1	31.9	-1.6	-0.7	5.6	0.2	56.5	-4.3	3.9	4.6	0.8	113.4	-3.2	-1.4
Credit Sui.	5.4	0.1	49.6	-2.3	-3.8	5.3	0.3	69.7	-4.6	7.0	5.6	1.2	152.2	-4.4	0.7
Danske	2.3	-0.2	29.4	-2.1	-0.2	2.3	0.0	51.2	-6.7	-2.6	3.6	0.8	121.7	-5.6	-11.0
Deutsche	2.6	0.0	42.9	-1.9	-4.1	3.9	0.7	109.1	-6.5	-1.9	4.4	1.9	222.2	-8.4	-15.9
DNB	2.8	-0.2	23.9	-2.9	-1.5	3.6	0.0	45.5	-5.8	-6.5	1.6	0.0	47.0	-3.2	0.5
HSBC	3.3	-0.1	33.1	-1.9	1.0	3.2	-0.1	42.7	-4.3	5.3	5.4	0.4	75.1	-3.6	-2.9
ING	1.1	-0.4	7.4	-2.9	-1.5	4.8	0.1	48.2	-3.1	3.1	3.6	0.6	101.8	-3.5	-2.5
Intesa	4.5	0.2	64.6	-3.1	9.0						5.1	1.6	200.6	-8.4	-3.6
Lloyds	2.8	-0.2	20.0	-2.1	0.8	3.6	0.1	51.9	-3.9	1.8	2.6	0.6	101.5	-6.1	-4.5
Nordea	3.9	-0.2	22.8	-2.5	-2.8	2.4	-0.2	26.4	-3.8	-0.3	0.6	0.2	57.3	-5.9	-9.3
Rabobank	3.2	-0.3	19.4	-2.5	-4.8	5.7	0.0	38.1	-2.4	1.5	1.6	0.0	41.9	-2.6	-1.0

RBS	3.1	0.0	39.5	-2.3	-0.8	5.7	0.0	38.1	-2.4	1.5	1.6	0.0	41.9	-2.6	-1.0
Santander	3.4	-0.1	35.7	-2.1	3.0	4.8	0.2	61.3	-5.5	4.6	5.6	0.7	108.1	-5.5	-4.1
San UK	4.0	-0.1	36.2	-1.8	-0.1	2.4	0.0	55.4	-6.5	2.0	5.6	0.7	108.1	-5.5	-4.1
SocGen	1.9	-0.3	21.2	-3.3	-2.5	6.2	0.4	75.9	-3.7	1.5	3.0	0.5	91.2	-3.7	-4.0
StanChart	3.7	-0.1	36.6	-3.1	-2.7	5.4	0.3	64.9	-6.1	14.9	3.1	0.6	100.9	-3.1	-6.4
Swedbank	4.2	-0.1	36.3	-2.4	-1.3	5.3	0.1	53.1	-3.7	-1.0	5.1	0.5	90.8	-5.0	-8.1
UBS	2.0	-0.3	21.6	-1.7	-2.5	3.1	0.0	50.0	-4.5	3.8	0.3	0.9	80.5	-2.9	-25.9
UniCredit	4.1	0.4	85.5	-2.0	10.1	4.4	0.9	130.7	-8.4	6.4	2.8	1.7	215.6	-9.0	-6.8

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.

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



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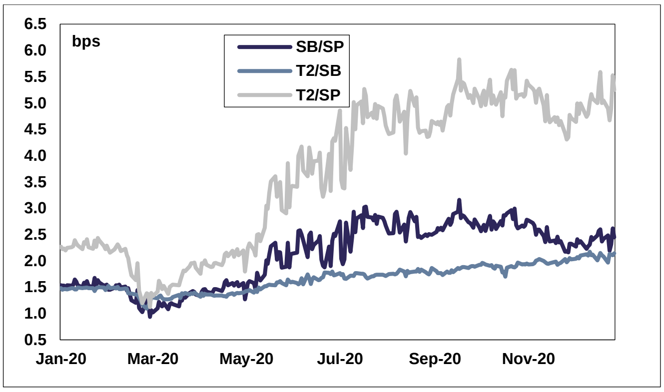

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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	2.2	0.5	23.0	1.1	-6.0	4.0	1.3	82.1	1.5	-0.7	5.5	2.2	147.0	1.4	-5.6
BFCM	2.4	0.5	28.1	-1.4	-0.3	4.0	1.3	82.1	1.5	-0.7	5.5	2.2	147.0	1.4	-5.6
BNPP	2.0	0.3	11.5	-1.4	-2.3	4.2	1.3	66.0	0.0	-5.8	5.4	1.8	106.0	3.0	-1.9
BPCE	3.9	0.8	42.7	-2.2	-2.6	4.5	1.2	52.7	-1.9	-2.5	3.2	1.2	83.9	0.4	-5.5
Credit Ag.	2.6	0.6	30.4	-0.6	-1.9	4.4	1.2	49.9	1.7	-2.7	7.0	2.3	130.4	-0.7	-1.5
Credit Sui.	2.2	0.4	23.6	1.0	0.6	4.0	1.2	68.8	-1.1	-2.4	2.4	1.8	145.7	-2.5	18.0
Danske	1.9	0.6	38.2	1.4	2.0	2.6	1.0	70.5	-0.7	-6.4	2.4	1.8	145.7	-2.5	18.0
Deutsche						3.4	1.4	72.2	0.1	-5.2	7.6	3.4	271.0	0.4	-5.1
HSBC	3.6	1.0	74.5	2.5	-10.3	4.7	1.3	72.1	0.9	-1.3	10.7	3.1	167.2	-0.2	-8.0
ING	3.6	1.0	74.5	2.5	-10.3	4.4	1.1	60.4	-0.2	-1.4	2.2	1.2	81.9	-2.0	-3.4
Intesa	3.2	1.4	104.0	-6.3	7.0	4.4	1.1	60.4	-0.2	-1.4	3.8	2.5	200.7	-15.6	0.2
Lloyds	4.0	1.0	60.6	-2.0	-0.1	3.5	1.1	64.5	1.9	0.3	4.6	1.7	112.5	0.1	-5.0
Nordea	3.4	0.6	23.1	-2.1	0.7	2.5	0.7	31.7	0.3	-7.7	1.6	0.8	43.7	2.0	0.1
Rabobank	3.0	0.5	22.1	0.5	-0.7	3.8	0.8	39.1	-0.8	-3.6	4.6	1.3	69.8	0.8	-6.5
RBS	3.0	0.5	22.1	0.5	-0.7	3.8	0.8	39.1	-0.8	-3.6	4.6	1.3	69.8	0.8	-6.5
Santander	5.4	1.3	66.7	1.6	-7.3	4.8	1.5	85.9	-0.4	-3.6	6.5	2.1	126.8	-0.4	-3.3
San UK	2.9	0.6	32.9	1.8	-16.4	2.6	0.9	54.8	1.6	-9.4	4.2			-12.7	-15.9
SocGen	4.3	1.0	51.1	-2.0	2.4	4.2	1.3	87.1	1.0	-1.9	4.1	1.8	131.3	1.3	-12.6
StanChart	0.4	0.5	35.9	-1.8	-17.0	3.7	1.2	75.6	0.8	-7.2	5.2	2.3	169.5	-0.8	-11.5
UBS	9.4	1.4	59.7	0.9	-0.7	4.3	1.2	62.8	0.4	1.3	5.2	2.3	169.5	-0.8	-11.5
UniCredit	1.8	1.4	120.0	-2.0	-1.3	4.3	1.9	145.1	-2.3	-3.6	5.8	4.4	331.4	0.9	-10.7

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)

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