Daiwa Capital Markets

European Banks – Credit Update

- Commerzbank 4Q20 loss due to deepest cost cutting measures in recent history – why its restructuring is different from domestic rival Deutsche
- European banks M&A expected to continue in Italy and France
- Benign funding conditions for SSA and FIG primaries and generally better than expected quarterly FIG results reflected in tightening secondary spreads

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Commerzbank's restructure – "Same same, but different"

Last week, Germany's second largest private lender Commerzbank officially unveiled its new restructuring plan alongside its FY20 results, which saw the bank report a EUR2.9bn annual loss. The poor results were predominantly driven by high loan loss provisions (EUR1.7bn), restructuring charges (EUR814m) and goodwill impairments (EUR1.6bn). The bank has had a turbulent past two years with disappointing financial results, on-and-off merger talks with domestic rival Deutsche Bank and a failed attempt to sell its polish subsidiary mBank. The bank's overhaul has been long in the making after it was heavily criticised by major shareholders for the slow pace of headcount reduction, branch closures and streamlining efforts under its previous management. These cuts were demanded to reduce the persistently high cost base (5-year average cost to income ratio: 82%) and offset moderate profitability caused by extraordinary expenses related to the winding down of legacy exposures such as shipping and commercial real estate lending. In July 2020, the somewhat unexpected resignation of the bank's Chairman and CEO cast significant doubts over the overall direction of the institution but it also allowed for a strategic rethink.

Commerzbank	FY20	2024 Targets
RoTE	-0.8%	7.0%
Core Revenues	€8.2bn	€8.7bn
Cost of Risk	68bps	~25bps
Cost to Income Ratio	81.5%	~60%
CET1 Ratio	13.2%	14.6%
Corporate Client RWAs	€90bn	€84bn

Source: Company Strategy 2024 Update

Under new CEO Manfred Knof, who took charge at the start of 2021, in the weeks leading up to the February results presentation the bank gradually outlined its new strategy, which represented a departure from its previous growth targets and focused more on downsizing and efficiency improvements. Annual cost savings of EUR1.4bn and a return on tangible equity of 7% by 2024 are to be achieved through the reduction of 10,000 staff from the existing 40,000, the closure of 340 of its 790 branches and the reduction of its international footprint in favour of a greater focus on German clients. The plan is more ambitious than anything that had previously been announced and was surprisingly carried by the supervisory board, half of which consists of labour representatives that have traditionally heavily opposed job cuts. The new plan is reminiscent of the one employed by Deutsche Bank, which also focused on deep expense reductions and the sale or unwinding of non-core business units. Further similarities arose when Commerzbank announced the end of its own equity trading and research division, a move that resembles the sale of Deutsche's prime brokerage and electronic equities platform to BNP Paribas.

The near-term outlook for Commerzbank is very challenged given the sizeable financial burden the group faces. Total restructuring charges anticipated by the bank amount to EUR1.8bn, 89% of which relate to the large headcount reduction alone. Over the course of 2021, the bank will book the remaining EUR900m after it already booked the same amount over the course of 2019 and 2020. The EUR1.7bn hit to earnings in 2020 from LLPs and additional EUR800m-1.2bn expected in 2021 will burden the bank's credit profile in the near term. Despite the many similarities that can be drawn between the restructuring efforts of German's two largest lenders, Deutsche arguably benefitted from the better economic backdrop and timing when it launched its overhaul back in 2019. Observed market volatility over the past year also helped generate record revenues in its FICC division, serving as a welcome fall-back to revenue weakness in its retail franchise. Commerzbank on the other hand does not have large investment banking operations and its profile as lender to Germany's Mittelstand leaves it more exposed to the interest rate environment and the broader economic recovery. Commerzbank's ambitious 2024 goals of lifting its ROTE to 7% through 20% cost cuts and revenue growth, while bringing its current cost to income ratio of 82% in line with the European average of 61%, faces large execution risk and will greatly depend on a normalisation of the operating environment.

European banking consolidation gaining traction

M&A activity in Europe's banking sector is poised for another bumper year of business combinations, following the emergence of several new domestic champions in Spain (Caixa Bank + Bankia), Italy (Intesa + UBI) and Hungary (MKB Bank + Budapest Bank + Takarékszövetkezeti). The confluence of several conducive conditions has set the stage for further activity as banks brace themselves for an influx of impaired loan volumes following the run-off of guarantee and loan moratoria schemes across Europe in 2021. Economies of scale are expected to curb the prolonged interest margin pressures as cost synergies through headcount reductions and branch closures are expected to support bottom line results.

In Italy, the appointment of Andrea Orcel as new UniCredit CEO is widely expected to accelerate the heavily anticipated incorporation of state-owned Banca Monte dei Paschi (MPS) into UniCredit (UC) given Orcel's track record of orchestrating some of Europe's largest M&A deals over the past two decades. Both banks reported mixed 4Q20 results with particular weaknesses in their revenue generating capacities. However, it appears that MPS' only redeeming quality at the moment is its sheer size as Italy's fifth largest bank after it reported a higher than expected net loss of EUR1.69bn in 2020. Plagued by historically high NPL volumes, significant legal challenges and weak capitalisation in light of its risk profile, the Italian government is thought to be under pressure to make considerable concessions (capital-neutral transaction, protection from legal claims, NPL disposals to bad loan manager AMCO) to a potential buyer given its tight timeline to privatise the bank by end-2021, as agreed with the EU. Despite these drawbacks, we believe that UniCredit will come to a favourable agreement with the government as time is on its side.

Elsewhere, France's BPCE is planning to buy the remaining 29% stake in Natixis, which it does not yet own. Natixis provides corporate, investment, insurance and asset management services for BPCE and currently represents around 35% of BPCE's consolidated total assets of EUR1.4tr. The mandatory squeeze-out of minority shareholders (<10% shares) is part of a larger project to delist Natixis and fully integrate its functions into BPCE's various business units. The transaction is estimated to reduce BPCE's CET1 ratio by 70bps, which at FY20 stands at a strong 16% (+520bps above requirements). The decision to fully acquire Natixis was made after a string of missteps at Natixis and strategic differences between both senior management teams over the future direction of the bank. Losses in the equity derivatives franchise and controversial investments through its majority stake in London-based asset management firm H20 were some of the reasons for the reorganisation. In January 2021, Natixis agreed to sell its stake in H20 and we believe the loss of fund contributions will be meaningful for Natixis as the unit had previously contributed almost 20% of the bank's asset-management revenue.

FY20	UniCredit SpA	Monte dei Paschi
Total Assets (€bn)	931.5	150.4
Net Loans (€bn)	414.7	74.9
NPL Ratio (%)	4.5%	4.0%
Operating Income (€m)	17,140	2,917
LLPs (€m)	4,996	753
Net Operating Profit (€m)	2,339	714
Net Income / Loss (€m)	-2,785	-1,689
RoTE (%)	-5.4%	-24.3%
Cost to Income Ratio (%)	57.2%	109.9%
Cost of Risk (bps)	105bps	90bps
CET1 Ratio (%)	15.1%	9.9%
Leverage Ratio (%)	5.7%	4.3%
LCR (%)	178%	>150%

Source: Company reports

The new structure foresees the transfer of Natixis' insurance and payment activities into BPCE's retail business which builds on a prior transfer of consumer finance, leasing, factoring and securities services to BPCE, two years ago. CIB, asset & wealth management will continue to be run by Natixis under the newly formed Global Financial Services division. The closer integration into BPCE will allow for some welcome simplification and closer alignment with the business needs that come with being the second largest mutual and cooperative banking group in France. BPCE believes that with closer integration of Natixis' CIB business it will be able to better serve French mid-caps as financial sponsor and M&A advisor. Mixed financial performance in recent years has seen Natixis' price to book value fall to 0.66x, which could act as an impediment in accessing capital markets efficiently. The proposed step to delist Natixis therefore makes sense as like most mutual banking groups, BPCE retains the majority of its earnings and allocates the capital among its various business lines, making a listing less necessary.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR13.8bn over the course of last week, in line with market expectations of EUR13.5bn-18.5bn. FIG supply of EUR10.4bn was also within the survey data expectation that forecast EUR7bn-11bn in weekly volumes. Total 2021 FIG volumes of EU70.7bn closed 36.8% behind last year's issuance, the gap however narrowing for a second week in a row by 3% against. SSAs remained up overall by 12.9% at EUR168.8bn but a slow past week saw the lead fall noticeably from +29.2%. For the week ahead, survey data suggests SSA volumes will range between EUR10.5bn-14.5bn and FIGs are expected to issue EUR6.5bn-11bn.

SSAs registered the slowest week of the year so far. Unedic, the French unemployment insurance system, came to market ahead of its usual issuance window in March for a EUR3bn social bond, guaranteed by the government. The 13-year maturity met solid demand (2.66x) despite excluding certain investor groups that are not allowed to invest beyond 12-years. Pricing was set at OAT + 15bps, leaving a 1bp new issue concession. Unedic's stated that its funding programme for the year totals EUR13bn, of which EUR8bn carry an explicit government guarantee. Other notable transactions came from EIB and Cades that both tapped the USD market with a 10-year, USD4bn and a 5-year, USD5bn note respectively. Both deals met strong demand (2.75x) and (1.9x), especially EIB which hasn't issued a 10-year USD-benchmark transaction since 2015.

FIGs saw a decent amount of activity over the past week with Deutsche Bank issuing twice and garnering positive responses from investors following better than expected 4Q20 financial results. The lender offered a EUR3bn dual tranche SNP bond for 6NC5 and 11NC10. The aggregate order book (2.33x) pushed spreads tighter by 25bps for both notes. Nevertheless, a 5bp new issue premium offered investors attractive yields in the senior space compared to other domestic peers and other national champions. Later in the week DB returned with a GBP600m SNP for 8NC7 which rapidly filled the order books (4.9x). With these transactions, the German bank almost completed half of its 2021 funding plan in the SNP format.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
EIB	Sec Reg	USD4bn	10Y	MS + 11	MS + 13	>EUR11bn
Cades	Social Bond	USD5bn	5Y	MA + 8	MS + 9	>EUR9.5bn
Unedic	Social Bond	EUR3bn	13Y	OAT + 15	OAT + 18	>EUR8bn
Deutsche Bank	SNP	EUR1.5bn	11NC10	MS + 150	MS + 175	>EUR4.2bn
Deutsche Bank	SNP	EUR1.5bn	6NC5	MS + 120	MS + 145	>EUR3.4bn
Deutsche Bank	SNP	GBP600m	8NC7	G + 168	G + 190	>GBP2.95bn
JP Morgan	Senior Unsecured	EUR1.5bn	12NC11	MS + 65	MS + 85	>EUR3.3bn
SocGen	SP	EUR1bn	7Y	MS + 48	MS + 65/70	>EUR1.75bn

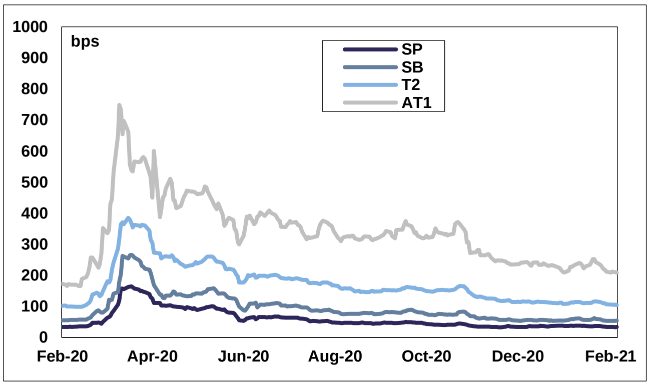
Source BondRadar, Bloomberg.

Secondary market spreads tightened across EUR and USD, reflecting perceived improvements in political stability in Italy. CDS price indices on European senior (56ps) and subordinated financials (105bps) as measured by iTraxx benchmarks priced lower against the prior week's levels by 2bps and 4bps respectively. Talk of vaccine-led economic recoveries have seemingly drowned out the news of virus mutations and ongoing lockdowns, while UK GDP fared better than expected in the fourth quarter, continuing to grow despite the renewed wave of pandemic. Although the European Commission's forecast for Eurozone GDP growth this year was lowered to 3.8% from 4.2% for 2021 expectations further ahead remain positive. We assume the ongoing spread tightening is in part owed to the overall better than expected earnings reports from European banks that remain well capitalised amidst earnings pressure.

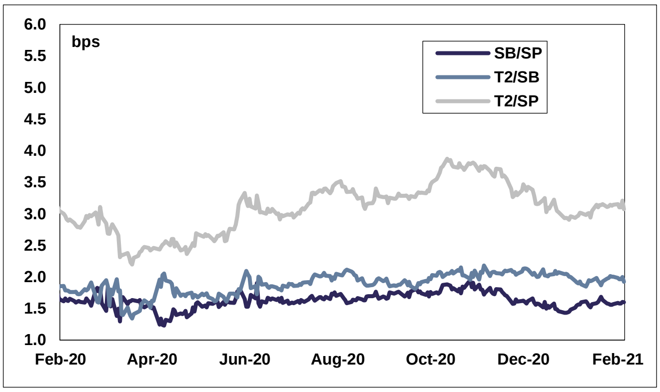
Weekly average EUR spreads tightened further, albeit at a slower pace than previous weeks, with SP (-0.4bps), SNP (-0.4bps) and Tier 2 (-3.5bps) all improving. We witnessed a similar picture among USD spreads with the average weekly change of SP (-0.7bps), SNP (-1.5bps) and Tier 2 (-3.5bps) in line with developments in EUR. Based on data collected from Bloomberg just 4.5% tranches issued in February quoted wider than launch while all SSAs quoted tighter.

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.

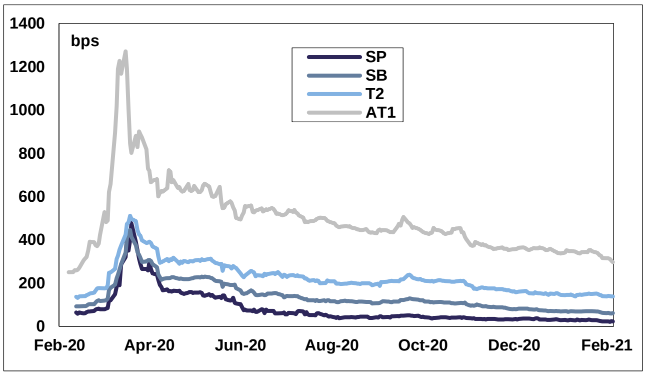
Selected Names

	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	5.3	0.1	47.9	0.8	-5.4	3.8	0.3	66.1	0.5	-4.4	4.6	1.7	194.1	-3.1	-19.7
Barclays	3.2	0.2	56.9	0.4	-1.1	2.8	0.0	45.5	0.4	3.8	1.9	0.7	119.5	-6.7	-19.7
BBVA	5.0	0.0	39.5	1.0	1.9	3.9	0.1	50.7	1.1	0.3	5.5	0.7	112.5	1.2	-7.8
BFCM	4.3	-0.1	30.4	0.7	0.0	8.7	0.5	60.2	-0.1	-0.8	4.8	0.5	82.4	0.4	-0.6
BNPP	2.3	-0.3	18.3	-0.2	-3.9	4.9	0.2	55.3	0.8	-3.4	4.5	0.6	89.9	-1.4	-10.8
BPCE	3.6	-0.2	28.0	0.6	-0.7	4.5	0.2	54.9	0.6	1.5	2.3	0.1	59.2	0.2	0.1
Credit Ag.	3.5	-0.1	30.8	0.5	-1.7	5.1	0.2	54.1	0.5	1.5	4.6	0.8	114.9	-1.3	-7.1
Credit Sui.	5.3	0.1	47.9	0.8	-5.4	5.2	0.3	63.6	0.0	0.4	5.5	1.1	137.2	-3.9	-10.2
Danske	2.3	-0.2	28.8	0.3	-2.3	2.2	0.0	42.5	-0.1	-9.1	3.9	0.9	129.5	0.8	-11.2
Deutsche	2.5	0.0	41.9	0.3	-4.8	4.2	0.6	100.4	-4.2	-13.2	4.4	1.7	200.2	-4.6	-41.9
DNB	2.7	-0.3	21.8	0.8	-2.5	3.6	0.0	42.9	0.3	-7.5	1.5	0.0	44.5	0.6	-1.7
HSBC	3.2	-0.1	29.1	0.2	-2.0	3.1	-0.1	42.6	1.2	3.1	5.3	0.5	76.3	-1.0	-1.6
ING	1.1	-0.4	5.1	-0.5	-4.0	4.7	0.1	46.4	1.0	1.2	3.9	0.6	103.2	0.9	-2.8
Intesa	4.5	0.1	51.9	0.8	-2.5						5.1	1.4	171.2	-3.1	-29.7
Lloyds	2.7	-0.2	19.8	0.5	1.2	3.5	0.1	49.0	0.4	-1.0	2.5	0.5	91.7	-3.8	-14.6
Nordea	3.9	-0.2	22.1	0.9	-5.1	2.3	-0.2	26.8	0.7	0.5	0.6	0.2	56.7	-2.7	-11.4
Rabobank	3.1	-0.3	16.4	-0.5	-8.1	5.7	0.0	34.7	0.3	-2.5	1.5	0.0	39.6	0.3	-2.4
RBS	3.1	0.0	36.8	1.3	-3.6	5.7	0.0	34.7	0.3	-2.5	1.5	0.0	39.6	0.3	-2.4
Santander	4.5	0.0	34.6	1.2	0.7	5.3	0.3	61.6	1.3	3.4	5.5	0.7	103.2	0.4	-7.0
San UK	4.0	0.0	37.1	0.9	1.6	2.3	0.0	53.8	1.4	0.7	5.5	0.7	103.2	0.4	-7.0
SocGen	1.8	-0.3	19.8	0.4	-3.4	6.1	0.4	73.9	1.2	-2.5	3.0	0.4	84.6	0.2	-9.4
StanChart	3.6	-0.1	33.4	0.9	-5.0	5.3	0.3	60.6	-0.4	9.8	3.0	0.6	99.2	-1.3	-8.8
Swedbank	4.1	-0.1	34.6	0.8	-2.3	5.3	0.1	49.2	0.5	-4.3	4.0	0.3	80.1	-3.0	-19.5
UBS	2.0	-0.3	19.9	0.2	-3.8	3.0	0.0	46.5	0.6	0.6	0.2	0.7	53.7	-26.7	-56.5
UniCredit	4.1	0.3	76.5	0.6	1.4	3.8	0.7	112.4	-0.1	-12.4	2.7	1.5	188.2	-2.6	-42.8

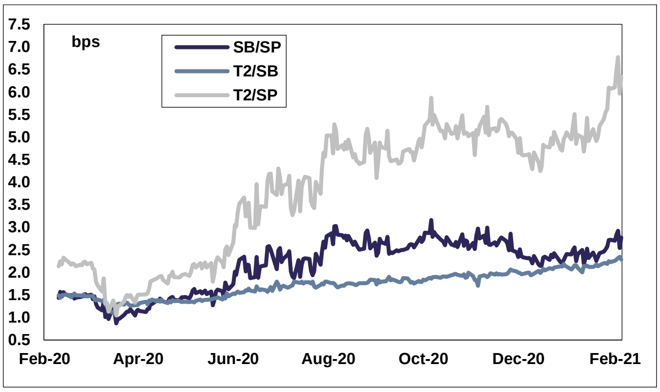
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

Western European Banks USD Spreads and Yields

Aggregate USD Z-spread LTM (bps)



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	2.1	0.4	17.7	0.5	-10.1	4.0	1.3	77.9	-1.1	-8.1	5.5	2.3	142.4	1.1	-13.5
BFCM	2.3	0.4	23.7	-2.1	-9.6	2.5	0.6	26.4	-2.0	-11.4	5.5	2.3	142.4	1.1	-13.5
BNPP	2.0	0.2	-1.9	-7.6	-17.0	4.1	1.2	56.8	-1.5	-12.2	5.3	1.8	96.3	-2.0	-13.0
BPCE	3.9	0.8	37.4	-3.7	-11.7	4.4	1.2	56.7	-2.0	-14.2	3.2	1.1	71.7	-3.0	-9.2
Credit Ag.	2.5	0.5	26.3	-2.1	-8.7	4.3	1.1	42.9	-1.2	-9.5	7.0	2.3	121.4	-0.7	-11.3
Credit Sui.	2.9	0.4	16.4	-0.8	-4.0	4.1	1.2	55.5	-1.3	-9.4	2.3	1.8	143.6	-6.0	9.8
Danske	1.8	0.5	28.2	-8.5	-6.6	2.6	1.0	62.8	-1.8	-15.8	2.3	1.8	143.6	-6.0	9.8
Deutsche						3.3	1.2	71.8	0.1	-22.5	7.1	3.3	261.1	1.1	-10.6
HSBC	3.5	1.0	68.8	-6.8	-13.6	4.7	1.3	63.3	-1.2	-9.6	10.7	3.2	160.7	-0.6	-13.2
ING	3.5	1.0	68.8	-6.8	-13.6	4.3	1.1	53.9	-1.1	-8.4	2.2	1.0	66.9	1.1	-15.7
Intesa	3.2	1.2	87.2	-3.7	-14.0	4.3	1.1	53.9	-1.1	-8.4	3.7	2.4	188.8	-0.1	-23.9
Lloyds	4.0	0.9	43.9	-0.2	-18.7	3.5	1.0	50.3	-0.7	-6.2	4.5	1.7	96.7	-0.1	-18.5
Nordea	3.4	0.6	18.2	-1.4	-6.4	2.4	0.6	23.3	-1.0	-15.3	1.5	0.6	32.1	-7.8	-7.4
Rabobank	4.0	0.7	22.0	-0.4	-3.2	3.8	0.8	32.3	-1.6	-9.3	4.5	1.3	62.6	0.4	-8.8
RBS	4.0	0.7	22.0	-0.4	-3.2	3.8	0.8	32.3	-1.6	-9.3	4.5	1.3	62.6	0.4	-8.8
Santander	5.3	1.3	57.3	-2.8	-15.1	4.7	1.4	71.3	-0.5	-16.6	6.5	2.1	118.5	-2.6	-11.9
San UK	2.9	0.6	26.4	-1.4	-12.8	2.6	0.8	47.1	-1.5	-13.5	4.1	1.9	131.8	-0.8	-39.4
SocGen	4.3	1.0	49.8	-1.8	-0.9	4.2	1.3	78.4	-1.3	-13.8	4.0	1.8	123.1	-1.7	-24.7
StanChart	0.3	0.5	28.2	-8.8	-26.5	3.6	1.1	68.8	-2.7	-14.3	5.4	2.4	185.0	-1.6	-22.0
UBS	3.0	0.4	15.4	-1.1	-3.1	4.7	1.2	53.5	-2.2	-9.5	5.4	2.4	185.0	-1.6	-22.0
UniCredit	1.7	1.3	111.6	-0.2	-11.7	4.3	1.8	132.3	-3.3	-21.8	5.7	4.2	299.9	-4.8	-36.9

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

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[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)

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