Daiwa Capital Markets

European Banks – Credit Update

- EBA Green Asset Ratio proposal expected to help quantify ESG risks
- The newly formed UK development bank (UKIB) will partially offset loss of funding access to the EIB and follows the example of several European peers, albeit on a smaller scale
- Several ESG-themed primary issues among SSAs and FIGs supported overall volume growth while the dormant subordinated debt market was revitalised with a host of AT1s and Tier 2

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EBA floats green asset ratio for EU banks

Last week the European Banking Authority (EBA) launched a consultation on proposed technical standards (ITS) on Pillar 3 disclosures relating to ESG risks. The draft ITS are intended to ensure financial institutions make disclosures comparable for investors and other market participants about ESG exposures and strategies so that they can make informed decisions and exercise market discipline. The European Commission (EC) had called for such advice in September 2020 and in response the EBA proposed standards that include comparable disclosures and KPIs, most prominently among them the ‘Green Asset Ratio’ (GAR). This measures the volume of financial assets of an entity’s banking book (loans and advances, debt securities, equity instruments) used to fund sustainable economic activities according to the EU taxonomy. The GAR will exclude sovereign debt due to the lack of applicable taxonomy and standard disclosure obligations for these counterparties until alignment has been achieved. The EBA also considered extending the quantitative disclosure measures to bank’s trading-book exposures, but given their inherently more volatile and temporary nature recommended against. Indeed, such exposures were not deemed compatible with the longer-term nature of taxonomy-aligned activities. However, FIGs will still need to disclose information on the sustainability, composition, trends and limits, and investment policy of their trading book.

The GAR recommendations to the European Commission were echoed by the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), which released their own statements alongside that of the EBA. Such widespread consensus on quantifiable KPIs, however, beg the question as to how they should be applied to non-EU subsidiaries of affected banks, as the Non-Financial Reporting Directive (NFRD) and the EU-taxonomy only apply at the EU level. For these entities, it is recommended that their respective Green Asset Ratios reflect exposures to EU counterparties in a separate ‘non-EU GAR’. Currently, EU credit institutions’ assets to counterparties with residence outside the EU account for some 38% of their total assets. Given the sizeable exposures towards these subsidiaries that are in a constant flux, we believe a separate ‘non-EU GAR’, which identifies lending and equity exposures on a best-effort basis, is a sensible recommendation. This will serve as a proxy measure and should be disclosed separately from the EU-GAR and with appropriate caveats. Should the GAR proposal by the EBA be adopted, credit institutions will need to start disclosing it as of January 2022, while SMEs and retail counterparties not subject to NFRD are given time until June 2024.

UK Infrastructure Bank

During his 2021 Budget presentation last week, the Chancellor of the Exchequer announced the creation of the UK Infrastructure Bank (UKIB), which has long-term objectives of tackling climate change and supporting regional and local economic growth. Plans for the creation of the UK’s own development bank were initially publicised in November 2020, while its policy design was published by the Treasury alongside the budget speech. The creation of such an entity comes after the UK lost access to the EIB’s funding programmes, which in aggregate amounted to some GBP5bn per year, following the Brexit vote. The creation of such an entity trails the example of similar development banks across other European sovereigns, such as the Instituto de Credito Oficial in Spain, Bpifrance of France or KfW in Germany.

The Leeds-based UK Infrastructure Bank will launch in the spring and have an initial capitalisation of GBP12bn (GBP5bn in equity). It is expected to support at least GBP40bn of investment in infrastructure projects starting from this summer, and GBP4bn of its GBP12bn debt and equity capital will be allocated to local authority lending. As the bank has already been allocated a budget, immediate access to capital markets is unlikely to occur, but in due course it would likely meet high demand from UK bank treasuries. Future bond issuance is likely to remain modest as annual borrowing limits are currently set at GBP1.5bn to support a total borrowing allowance of GBP7bn by 2025/2026. Borrowing could either come from primary markets or from the UK’s Debt Management Office (DMO), whichever is more cost-effective. Disclosure is currently lacking on whether any bond issues will receive outright sovereign guarantees, although backing from the Treasury in the form of guarantees is insinuated, “where appropriate”. The creation of UKIB will likely be warmly welcomed by the investment community, and expectations of a broader mandate have already been voiced as the bank’s scale is currently dwarfed by that of European peers.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR19.5bn over the course of last week, above market expectations of EUR12bn-16.5bn. FIG supply of EUR6.7bn was also within the mid-range of survey data that forecast EUR4.5bn-8.5bn in weekly volumes. Total 2021 FIG volumes of EU94.8bn closed 24.7% behind last year’s issuance, while SSAs remained up overall by 26.4% at EUR213.4bn. For the week ahead, survey data suggest SSA volumes will range between EUR15.5bn-20bn and FIGs are expected to issue EUR5.5bn-10.5bn.

Italy issued its long anticipated debut green BTP last week helping **SSA volumes** to exceed weekly expectations. This was the longest dated and largest sovereign green bond issued so far at EUR8.5bn, reportedly gathering book orders in excess of EUR80bn (9.4x subscribed). It will contribute towards the sovereign's environmental and climate strategy and also open up and diversify its investor base. Unbroken high demand for ESG-themed debt gave it the best ever start to a year in Europe as their share of total bond sales (Corporates, SSA and FIG) rose to 17% from just 7% during the same period last year. SSA green bond supply is expected to remain strong with the German, Spanish and UK governments announcing inaugural green issues during 2Q21. Other SSA issuers contributed to the three-year USD curve with deals from the Bank of England (USD2bn), Svensk Exportkredit (USD1.25bn) and Kommuninvest (green USD1bn).

FIGs saw a good amount of activity over the past week, well within the expected range, with several senior, green and social bonds in the mix. Given the highly conducive funding conditions in recent months, especially for shorter-dated senior bonds, issuers have been running the risk of issuing negative-yielding instruments. Two weeks ago, Deutsche Kreditbank ventured into negative territory but this did not faze investors who filled the order books. This may have encouraged Commerzbank, another core European issuer, to announce a EUR500m SP with just 4.5-years maturity. The recent shift in market sentiment saw 5-year swap rates rising over the past month by about 5bps, which diminished negative-yield risk somewhat. On the back of good demand (2.6x) the deal priced at MS+48bps offering investors a yield of 11bps.

Credit Mutuel Arkea issued a EUR500m, social SNP with a 12-year maturity. The final order book stood at EUR1.1bn allowing the lead managers to guide pricing 20bps tighter than IPT. The proceeds of the deal will be allocated to social projects, predominantly social housing in France under the bank's green, social and sustainability bond framework available on the issuer's website. Bank of Ireland also attracted high demand (3x) for its EUR750m, green senior unsecured HoldCo bond, which at the time of issuance represented a new issue premium of 2-3bps.The Irish lender went to market days after it had released FY20 financial results which were significantly better than expected. The bank 'only' reported a pre-tax loss of EUR374m against a consensus view of some EUR600m which was helped by lower loan loss provisions for the year than initially anticipated. Bank of Ireland announced further significant cost-cutting measures which will see them close over 100 branches across Ireland (90% in the Republic of Ireland where its predominantly operates). We expected the bank to benefit from the announced departure of NatWest from Northern Ireland, which currently operates there through Ulster Bank. The phased retreat by NatWest will reduce the number of significant lenders and should further bolster Bank of Ireland's strong market share in mortgage lending which currently stands at 25%.

Stable funding conditions also attracted several sub-debt issuers to the markets with Banco de Sabadell revitalising the dormant EUR-benchmark AT1 market. Sabadell stated that the main driver for this issuance were changes to Pillar 2 regulation that allow for a higher proportion of AT1 to make up bank's CET1 ratios. We also saw Greece's Alpha Bank venture into the sub-debt space with a Tier 2 bond, which was a first this year for a non-investment grade issuer. Alpha Bank is rated (B/ Caa1/ CCC+) by S&P, Moody's and Fitch respectively, which may explain why investors did not pile in on the transaction, eventually leading the deal to price flat to IPT. The bank still has a very high NPL ratio of some 13%, which has improved from 29% at 3Q20 after it sold a government backed (HAPS) bad loan portfolio of around EUR11bn. As a result, the rationale behind the Tier 2 transaction is to support the bank's total capital ratio by 1.25%, which as at 3Q20 stood at 15.5% on a pro-forma basis. This takes into account the 280bps adverse effect of the bad loan sale, giving it more headroom for future NPL disposals.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
Italy Government	BTP (Green)	EUR8.5bn	24Y	BTPS + 12	BTPS + 15	>EUR80bn
Bank of England	144A/RegS	USD2bn	3Y	T + 12	T + 15	>USD5.45bn
KfW	Senior Unsecured	EUR5bn	5Y	MS - 11	MS - 9	>EUR19bn
Credit Mutuel Arkea	SNP (Social)	EUR500m	12Y	MS + 80	MS + 100	>EUR1.1bn
Commerzbank	SP	EUR500m	4.5Y	MS + 48	MS + 65	>EUR1.3bn
Bank of Ireland	Senior unsecured HoldCo (Green)	EUR750m	6NC5	MS + 77	MS + 100	>EUR2.25bn
HSBC	AT1	USD1bn	PNC5	4.00%	4.625%	>USD10.2bn
HSBC	AT1	USD1bn	PNC10	4.70%	5.125%	>USD6.5bn
Sabadell	AT1	EUR500m	PNC5	5.75% (MS+619)	6.25%	>EUR1.8bn
Alpha Bank	Tier 2	EUR500m	10.25NC5.25	5.50% (MS+582)	5.50%	>EUR950m

Source BondRadar, Bloomberg.

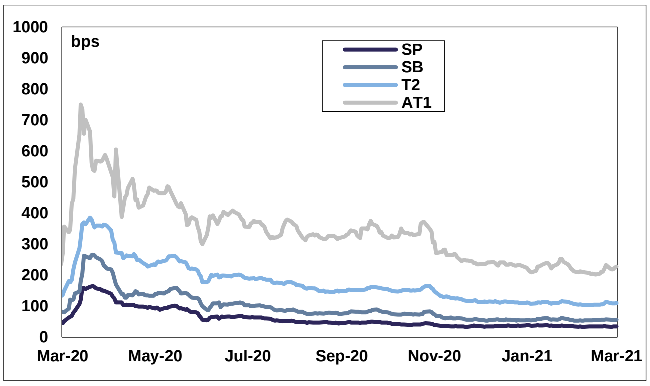
Secondary market EUR spreads tightened slightly offsetting some of the previous week's widening while USD spreads went wider. Nevertheless, improved risk perception was reflected in CDS price indices on European senior (60ps) and subordinated financials (109bps) as measured by iTraxx benchmarks, which priced lower against the prior week's levels by 3bps and 9bps respectively.

Market sentiment has been somewhat volatile in recent weeks, resulting in the recent bond market sell-off, both in Europe and the U.S.. Policymakers at the ECB continue to reiterate the importance of maintaining accommodative financial conditions, which in turn helped contain spread margin movements. Nevertheless, we saw markets close on a weaker footing at the end of the week as participants had perhaps expected a stronger signal from the U.S. Fed to help rein in rising government bond yields. Market perception was that Fed Chairman Powell expressed little immediate concern over high U.S. yields and gave no signal that any action might be forthcoming. This ultimately led to some USD spread widening towards the end of last week.

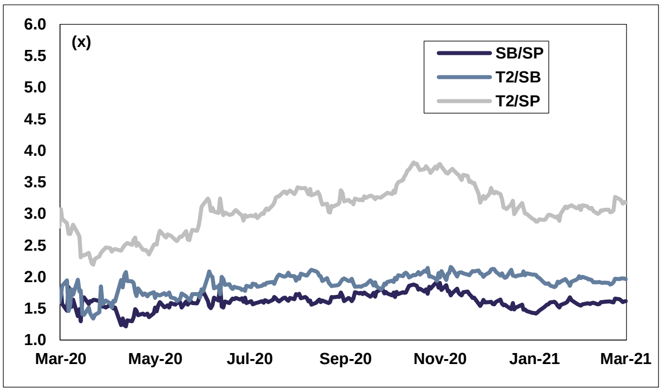
Weekly average EUR spreads tightened slightly against previous weeks, with SP (-1bps), SNP (-1bps) and Tier 2 (-1.8bps) all improving within moderate bounds. Widening USD spreads saw average weekly changes to SP (+2.3bps), SNP (+6.7bps) and Tier 2 (+6.9bps). Based on data collected from Bloomberg 40% of FIG tranches issued in March and 14.3% of SSAs quoted wider than launch.

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

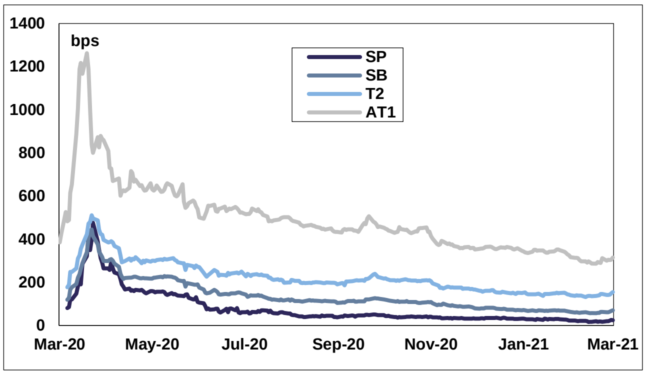
	Sr Preferred/Sr OpCo					Sr Non-Preferred/Sr HoldCo					Tier 2				
	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD	Dur.	Yield	Z	Z 5DΔ	Z YTD
Commerz	5.3	0.2	48.6	-1.2	-4.7	3.7	0.3	63.3	-1.2	-4.1	4.5	1.9	210.3	-3.4	-3.3
Barclays	3.1	0.2	54.6	-1.9	-3.9	2.7	0.0	43.9	-1.3	3.8	1.9	0.8	120.5	-1.4	-17.6
BBVA	4.9	0.1	40.9	-1.8	2.5	3.8	0.2	51.7	-1.9	2.5	5.5	0.9	117.0	-4.1	-1.5
BFCM	4.3	-0.1	29.7	-1.4	-0.9	8.6	0.6	62.1	-2.2	0.6	4.7	0.6	84.5	-3.4	3.0
BNPP	2.2	-0.3	17.8	0.5	-5.2	4.9	0.3	55.8	-1.4	-3.1	4.5	0.6	90.6	-4.1	-8.8
BPCE	3.5	-0.1	26.7	-1.4	-1.5	4.9	0.3	57.2	-1.7	0.9	2.2	0.2	58.7	-1.8	0.0
Credit Ag.	3.4	0.0	31.4	-0.4	-2.8	5.1	0.2	53.6	-1.9	1.4	4.5	0.9	113.5	-3.0	-0.4
Credit Sui.	5.3	0.2	48.6	-1.2	-4.7	5.1	0.4	64.8	-1.8	1.2	5.5	1.3	145.6	0.2	6.7
Danske	2.2	-0.2	28.8	-0.5	-3.4	2.2	0.0	42.6	-0.9	-9.5	3.8	1.0	138.3	-2.4	-3.6
Deutsche	2.4	0.0	40.9	-1.2	-6.0	4.3	0.7	100.7	-4.6	-16.4	4.3	1.8	210.8	-3.9	-27.9
DNB	2.7	-0.2	21.7	-0.4	-3.7	7.9	0.4	59.3	-1.1		1.5	0.1	48.7	1.0	2.1
HSBC	3.2	0.0	27.6	-0.7	-4.0	3.1	0.0	44.4	-1.0	5.6	5.3	0.6	81.8	-2.0	3.8
ING	1.1	-0.4	6.9	1.5	-6.1	4.7	0.2	47.7	-1.2	2.5	3.6	0.7	107.2	-2.3	0.8
Intesa	4.9	0.2	54.8	-0.3	1.1	7.2	1.2	131.8	1.0		5.0	1.5	177.8	1.0	-28.4
Lloyds	2.6	-0.2	19.4	0.0	0.2	3.5	0.1	47.7	-1.5	-2.9	2.4	0.5	93.9	-1.8	-12.0
Nordea	3.9	-0.2	21.5	-1.4	-5.2	2.3	-0.2	28.0	0.6	1.2	0.5	0.1	52.6	-4.1	-14.0
Rabobank	3.1	-0.2	15.3	-0.2	-10.4	5.6	0.2	35.5	-1.4	-2.5	1.5	0.0	39.6	-1.4	-5.2
RBS	3.0	0.1	36.5	-0.5	-4.6	5.6	0.2	35.5	-1.4	-2.5	1.5	0.0	39.6	-1.4	-5.2
Santander	4.4	0.0	37.4	-1.3	2.3	5.3	0.4	66.4	-1.2	7.7	5.5	0.9	111.7	-3.1	5.9
San UK	3.9	0.0	36.4	-1.3	0.2	2.3	0.0	55.0	-0.6	1.5	5.5	0.9	111.7	-3.1	5.9

SocGen	2.2	-0.2	20.8	-0.1	-4.3	6.1	0.5	76.6	-1.0	0.2	3.0	0.5	90.8	-1.3	-7.2
StanChart	5.3	0.1	35.3	-1.7	-9.1	5.3	0.3	60.0	-2.2	9.5	3.0	0.6	99.0	-3.6	-8.4
Swedbank	4.1	0.0	32.8	-2.0	-4.7	5.2	0.2	49.6	-1.7	-5.0	3.3	0.4	78.3	-1.5	-20.6
UBS	1.9	-0.3	19.8	0.1	-4.3	3.6	0.1	49.4	-1.6	1.1	0.2	0.7	48.5	-22.9	-57.9
UniCredit	4.0	0.4	82.2	-1.3	6.4	3.8	0.8	121.9	-0.8	-2.6	2.8	1.7	207.8	-0.5	-15.9

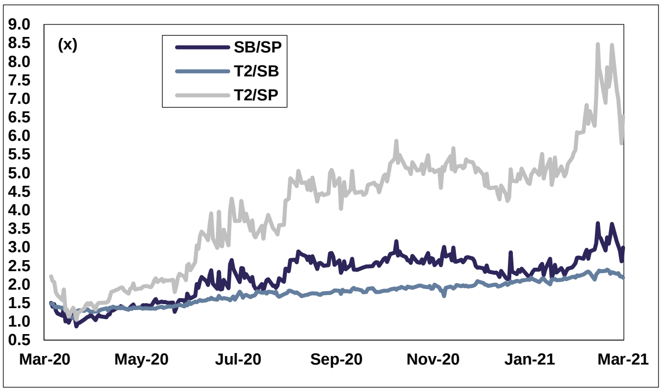
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative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

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	2.0	0.5	19.0	1.9	-8.8	3.9	1.7	91.0	4.2	-0.9	5.6	2.9	166.8	-2.3	-4.1
BFCM	2.3	0.4	23.3	2.4	-7.5	3.4	1.1	45.8	2.2	-3.3	5.6	2.9	166.8	-2.3	-4.1
BNPP	1.9	0.4	7.4	6.8	-7.7	4.0	1.6	64.9	3.4	-10.2	5.3	2.2	110.4	-0.6	-4.4
BPCE	4.8	1.4	45.9	5.5	-5.2	4.4	1.5	55.4	4.1	-12.1	3.1	1.4	79.0	4.8	-4.9
Credit Ag.	2.5	0.6	27.1	5.7	-3.9	4.1	1.5	44.1	1.5	-8.0	7.0	2.8	137.9	4.5	-1.4
Credit Sui.	2.9	0.6	16.6	3.5	2.7	4.0	1.5	59.6	3.9	-1.2	2.3	2.1	159.6	8.9	26.0
Danske	2.7	0.7	43.6	3.1	0.1	2.5	1.0	66.2	3.2	-17.2	2.3	2.1	159.6	8.9	26.0
Deutsche						3.4	1.4	80.0	-0.6	-19.1	7.1	3.7	269.8	-5.3	-8.2
HSBC	3.4	1.0	67.7	-1.8	-14.6	4.7	1.7	77.2	6.9	-3.1	10.5	3.6	170.7	3.6	-8.1
ING	3.4	1.0	67.7	-1.8	-14.6	4.3	1.5	65.2	2.8	-4.3	2.1	1.1	71.4	2.0	-14.1
Intesa	3.1	1.3	90.0	-2.9	-16.6	4.3	1.5	65.2	2.8	-4.3	3.7	2.8	205.7	10.3	-2.7
Lloyds	3.9	1.3	57.8	8.9	-4.9	3.4	1.3	64.3	7.1	0.4	4.5	2.8	140.6	4.7	-11.8
Nordea	3.3	0.8	24.6	7.6	0.1	2.4	0.6	23.8	1.3	-15.8	1.5	0.7	42.5	-3.3	-8.0
Rabobank	3.9	1.1	34.3	1.0	0.7	4.2	1.3	47.8	3.2	-4.2	4.5	1.6	76.2	2.5	-4.8
RBS	3.9	1.1	34.3	1.0	0.7	4.2	1.3	47.8	3.2	-4.2	4.5	1.6	76.2	2.5	-4.8
Santander	5.3	1.6	63.0	-0.2	-9.4	4.7	1.8	82.4	1.8	-8.7	6.4	2.5	131.1	-4.0	-6.3
San UK	2.8	0.8	25.4	1.9	-8.6	2.5	0.9	52.4	2.9	-12.1	4.0	1.9	131.8	2.4	-44.3
SocGen	4.2	1.4	60.7	7.1	10.0	4.1	1.7	92.7	3.6	-11.7	4.2	2.3	140.1	2.0	-18.7
StanChart	0.2	0.6	41.0	12.6	-13.7	3.6	1.4	78.2	2.0	-9.3	5.5	2.7	198.1	2.4	-19.3
UBS	2.9	0.5	20.2	0.6	0.5	4.6	1.6	65.6	0.8	-1.7	5.5	2.7	198.1	2.4	-19.3
UniCredit	1.7	1.4	111.3	-1.0	-12.4	4.2	2.1	141.6	-2.6	-14.4	6.1	4.6	313.3	-13.2	-37.6

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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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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