Daiwa Capital Markets

European Banks – Credit Update

- BNP streamlines its CIB offering by acquiring the remaining 50% stake in investment firm Exane
- First T-LTRO auction this week following the mandate widening in December 2020
- Strong primary market activity across SSA and FIG issuers last week was supported in secondary market as the ECB policy meeting resulted in EUR spread tightening

William Hahn
Credit Analyst
+44 20 7597 8355
William.Hahn@uk.daiwacm.com

BNP Paribas streamlines investment banking activities

BNP Paribas announced its intention to purchase the remaining 50% stake in investment company Exane that it does not yet own. The partnership dates back 17 years ago with Exane offering equity research, which soon expanded to include cash equities. The acquisition will see full incorporation of the cash, equity and derivatives product offering to institutional investors and corporates under the BNP banner. Following the purchase and integration of Deutsche Bank's electronic equities and prime brokerage business almost two years ago, the Exane acquisition forms part of BNP's wider strategy to establish itself as Europe's dominant investment bank. Especially the equity franchise in Europe is expected to contribute more to the overall investment banking income as FY20 FICC income of EUR5.6bn (+59% yoy) outweighed equity and prime brokerage income of EUR1.1bn (-42% yoy) by a factor of one to five. Exane currently employs 850 people and generated a modest net profit of EUR21.9m in FY19, which BNP will certainly look to grow. Under CEO Jean-Laurent Bonnafe the broad strategic plan is to boost revenue at the securities unit and streamline retail operations towards a stronger digital offering in light of shifting customer needs under Covid-19. Approval for the deal from regulators and staff representatives is expected in the second quarter to kick off the integration early in the third quarter.

Capital shortfall may delay Monte dei Paschi re-privatisation

The saga that is the rescue mission of Banca Monte dei Paschi (MPS) is set to continue for a little while longer as the bank faces a potential capital shortfall. Recently appointed Italian Prime Minister Mario Draghi intends to push ahead with the re-privatisation of the 64% state-owned bank but mounting losses borne from loan-loss provisioning, low interest rates and sizeable legal claims continue to undo much of the progress on balance sheet de-risking that may have enticed suitors into a takeover. Instead, the bank recently approved and submitted a plan for a capital increase of EUR2.5bn by 3Q21, which would lift its CET1 ratio to 15%. Fully-loaded CET1 currently stands at just 9.9% giving it a thin 110bps buffer against requirements. The bank's total capital ratio of 13.5% has no buffer at all over requirements and we could therefore see a shortfall occur by the end of this quarter. Capital ratios took a 100bps hit during the 4Q20 earnings season due to ongoing NPL disposals while expected restructuring charges of some EUR500m are yet to be taken over the course of 2021. In the past the ECB has demonstrated that it doesn't shy away from placing banks under extraordinary administration if they don't meet their regulatory requirements, as was the case with Banca Carige which had a capital shortfall alongside governance issues.

The question remains whether UniCredit under incoming CEO Andrea Orcel can be enticed to take over its struggling domestic rival. Under former CEO Jean-Pierre Mustier the bank always stressed that a takeover would need to be capital neutral and that it would need to be shielded from any potential legal risks from MPS that amount to some EUR10bn. At the beginning of the year Italy's government was said to be working on a plan to take on about EUR14bn of UniCredit's EUR21bn gross NPL stock through the government's asset management company AMCO. However, UniCredit reportedly plans to sell a combined EUR2bn NPL portfolio on its own, which may indicate that NPL disposals via AMCO have become less likely. We expect the bank to display greater capital generation this year as provisioning levels are due to fall and retained earnings should support capital ratios. This is important if UniCredit will look to offload more of its NPL stock without government support. CET1 currently stands at 14.4%, significantly up from 12.6% back in 2019. Despite strains on its capital ratio stemming from planned share buybacks and dividend payments in the amount of EUR1.1bn and the aforementioned NPL disposal, MDA buffer amounts of more than 600bps are comfortably above the banks own target range of 200-250bps.

First T-LTRO III auction under broader mandate

Bids for the seventh operation under the ECB's T-LTRO III programme will take place this week. This is the first operation where banks can use the extra borrowing allowance that was announced in December 2020. The extension of T-LTRO III until June 2022 allows banks to continue borrowing from the ECB at rates up to -1% as long as their lending does not fall below a net rate of 0% between October 2020 and December 2021. The maximum amount that banks will be able to borrow however, was raised from 50% to 55% of their stock of eligible loans as at end-February 2019. Additional net borrowing estimates from the programme range anywhere from EUR100bn-150bn, which is predominantly expected to come from peripheral banks that were either at or close to their original borrowing limits. The overall scope of the T-LTRO programme was widened by EUR300bn on a gross basis to EUR3.3tr. The deadline for banks to submit their bids is this Tuesday and the publication of the allotment will be made on Thursday. As a result, we may see a reduction in overall FIG funding levels from capital markets during the week. French, Italian and Spanish lenders are among the most heavily subscribed users of the funding programme and are expected to place their bids. One difficulty banks currently face is to actually meet lending requirements in order to take full advantage of the favourable borrowing conditions otherwise borrowing rates are curtailed by 50bps. Subdued credit demand in recent months has persisted despite the easing of lockdown measures on the horizon. The economic recovery has not yet set in and this auction can arguably be viewed as a guide to the economic outlook. For now, the ECB has calmed bond markets following its decision to accelerate asset purchases over the coming quarter, but a return of rising yields could lead to more restrained credit conditions. The following auction under the T-LTRO III programme will take place in June.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR23.7bn over the course of last week, above market expectations of EUR15.5bn-20bn. FIG supply of EUR7.1bn was within the mid-range of survey data that forecast EUR5.5bn-10.5bn in weekly volumes. Total 2021 FIG volumes of EU101bn closed 20.3% behind last year's issuance, narrowing the gap by 440bps over the course of the week. SSAs remained up and extended their issuance lead against last year's volumes to 38.7%, standing at EUR171bn. For the week ahead, survey data suggest SSA volumes will range between EUR14bn-18bn and FIGs are expected to issue EUR5bn-9.5bn.

SSAs were back in force last week with strong borrowing volumes. The EU returned with its second issuance under the temporary 'Support to mitigate Unemployment Risks in an Emergency' (SURE) programme. The EUR9bn bond with 15-years maturity met 6.7x demand resulting in a spread of MS -4bps. Pricing implied a 2-3bps new issue premium when compared to the existing SURE bond that was issued in late January. This transaction brought the total amount issued under the SURE programme to EUR62.5bn against the programme ceiling of EUR100bn as per latest investor presentation. Agence Française de Développement (AFD) was also in the market with a EUR1.25bn, 15-year senior unsecured bond before going into its blackout period at the end of the month. AFD has thus far met just under 40% of its 2021 EUR9bn funding target and expects to return to market before the summer and issue an SDG aligned bond later in the year. After completing funding for the temporary crisis resolution mechanism (EFSF) during 1Q21, the European Stability Mechanism (ESM), which is the euro area's permanent crisis resolution organisation, came to market for a shorter 5-year EUR2bn bond. Recent rising yields, especially for shorter-dated paper, made this transaction more appealing to investors compared to a few months ago. The deal priced at MS-11bps.

Primary market activity for **FIGs** was frontloaded last week as issuers took advantage of calmer funding conditions ahead of the ECB's policy meeting. Issuers continued to issue ESG-themed bonds as seen in Intesa's SP green bond offering sized at EUR1.25bn with a 7-year tenor. A strong order book (2.7x subscribed) saw the deal tighten by 27bps, pricing about 2bps through fair value. This was only the third bond issued under Intesa's green, social and sustainable bond framework and underlines the bank's profile as a highly sought after issuer. The issuance compares favourably to last week's ESG-linked bond issuance that priced at a premium (Bank of Ireland, Munich Hyp), while also showcasing an improvement in market sentiment. On the back of Intesa's positive turnout, Swedbank also made an outing to the senior bond market looking to attract investors only to find itself struggling to fill order books. Initial plans foresaw the issuance of a short SP with 3-year maturity and a SNP, 6NC5. However, the bank dropped the longer leg and only priced the USD750m, SP at T+55bps, flat to IPT. This marked a stark turnaround in sentiment in the USD market for European issuer, especially for an 'A+' rated entity that a few weeks ago would have undoubtedly enjoyed good conditions and high demand. Aggressive pricing and a general slowdown in the USD market may have played a role in the muted investor response, but we also believe that Swedbank's name is currently somewhat tainted due to an ongoing AML scandal that has rocked the Swedish lender.

In March 2020, Swedbank was fined USD386m by the Swedish regulator FSA for serious deficiencies in its anti-money laundering controls and for withholding documents from authorities in the role in played in the Baltic money laundering scandal. The bank is also under investigation by U.S. authorities due to possible U.S. sanction violations. Profit is a key factor in these allegations and can be multiplied by up to 4x under U.S. sentencing guidelines. Swedbank said that it earned about USD100m from its Baltic non-resident business, which therefore leads us to believe that fines would not exceed USD400m. This does not rule out larger fines as there is still the possibility that US authorities uncover further evidence of wrongdoings. Nevertheless, bond spreads are expected to stay steady in the near term, as the bank's credit fundamentals were solid as per 4Q20 reporting and credit rating agencies all maintain a stable outlook on the lender.

We also saw further subordinated debt issuance with Caixa Bank coming to market with a rare green Tier 2 instrument, which received a much better reception than Alpha Bank's Tier 2 that priced flat to IPT one week prior. Caixa issued a EUR1bn 10.25NC5.25 at MS+163bps (-32bps from IPT) with healthy book orders 2.2x over. Despite ongoing discussions, whether subordinated debt is suitable to finance eligible pools of green assets, Caixa Bank stated that the bond priced 5-10bps inside fair value against an ordinary Tier 2 implying a negative premium. NatWest also issued GBP400m sub-debt in the form of an AT1, which was only its second Sterling AT1 to date. An upcoming call date in August 2021 on an outstanding USD2.65bn AT1 and legacy AT1 instruments in the amount of GBP800m that cease to count towards the bank's Tier 1 capital ratio as of 2022 gave rise to this issuance. As part of its funding plan, NatWest plans to issue GBP1bn in AT1 over the course of 2021, suggesting we will see the issuer return to this later in the year.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
EU (SURE)	RegS / Bearer Notes	EUR9bn	15Y	MS - 4	MS - 2	>EUR61bn
ESM	RegS / Bearer Notes	EUR2bn	5Y	MS - 11	MS - 9	>EUR12.2bn
AFD	Senior Unsecured	EUR1.25bn	15Y	FRTR + 22	FRTR + 25	>EUR5.1bn
Intesa	SP (Green)	EUR1.25bn	7Y	MS + 93	MS + 120	>EUR3.4bn
Swedbank	SP	USD750m	3Y	T + 55	T + 55	n.a.
Caixa Bank	Tier 2 (Green)	EUR1bn	10.25NC5.25	MS + 163	MS + 195	>EUR2.2bn
NatWest	AT1 (No Grow)	GBP400m	PNC7.5	4.5% (G+399)	5.0%	n.a.

Source BondRadar, Bloomberg.

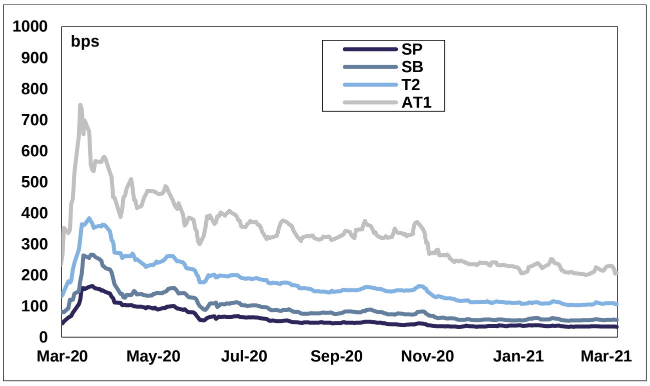
Secondary market EUR spreads tightened following the ECB's policy meeting while USD spreads continued to go wider. Improved risk perception was reflected in CDS price indices on European senior (56ps) and subordinated financials (102bps) as measured by iTraxx benchmarks, which priced lower against the prior week's levels by 4bps and 7bps respectively.

The Governing Council of the ECB did not hold any unwelcome surprises in last week's policy meeting and instead made market-friendly remarks, pledging continued support to maintain accommodative financial conditions. Concerns about recent euro area government bond yield spikes were eased somewhat by a commitment to speed up asset purchases over the coming quarter, albeit while keeping the envelope at EUR1.85tr until at least March-2022 or until the ECB deems the pandemic-induced crisis over. As was inevitable, the interest rates of the main refinancing operations and deposit facility will remain unchanged at 0% and -0.50% respectively. The steps represented small adjustments rather than a major overhaul of policy but supported EUR spread tightening towards the end of last week.

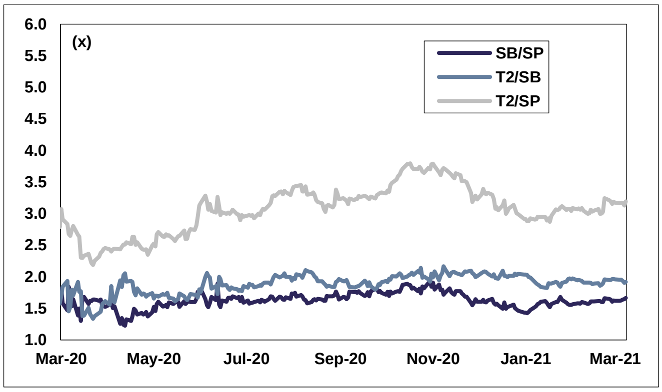
Weekly average EUR spreads tightened slightly against previous weeks, with SP (-0.6bps), SNP (-0.4bps) and Tier 2 (-2.7bps) all improving within moderate bounds. Widening USD spreads saw average weekly changes to SP (+1.5bps), SNP (+4.7bps) and Tier 2 (+3.8bps). Based on data collected from Bloomberg 35% of FIG tranches issued in March and 31% 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.

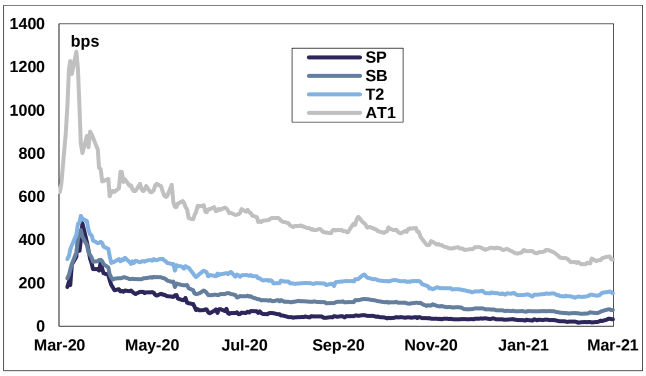
Selected Names

	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	4.9	0.2	46.7	-1.1	-5.8	3.7	0.3	62.8	0.0	-4.1	4.5	1.9	206.2	-4.1	-7.4
Barclays	3.1	0.2	51.4	-3.2	-7.1	2.7	0.0	42.4	-0.7	3.3	1.9	0.7	117.9	-2.6	-20.2
BBVA	4.9	0.1	39.6	-1.2	1.3	3.8	0.1	50.1	-1.8	0.8	5.5	0.8	115.3	-3.5	-5.0
BFCM	4.3	-0.1	29.1	-0.6	-1.5	8.6	0.6	62.6	0.5	1.1	4.7	0.6	84.5	-1.5	2.4
BNPP	2.2	-0.3	18.1	0.0	-5.2	4.9	0.3	55.0	-0.5	-3.3	4.5	0.6	88.8	-2.6	-8.8
BPCE	3.5	-0.1	26.4	-0.8	-2.4	4.8	0.3	56.9	-0.1	0.9	2.2	0.2	58.0	-0.7	0.0
Credit Ag.	3.4	-0.1	30.2	-1.0	-4.6	5.0	0.2	53.5	-0.3	0.6	4.5	0.9	112.7	-1.4	-2.0
Credit Sui.	4.9	0.2	46.7	-1.1	-5.8	5.1	0.4	66.5	1.6	3.0	5.5	1.2	142.0	-3.6	3.2
Danske	2.2	-0.2	29.4	0.3	-3.1	2.2	0.0	42.3	-0.2	-9.7	3.8	1.0	137.5	-0.4	-4.2
Deutsche	2.4	0.0	40.1	-0.8	-6.9	4.3	0.7	99.7	-0.8	-17.2	4.3	1.8	207.9	-3.2	-31.3
DNB	2.7	-0.2	21.0	-0.7	-4.3	7.7	0.4	59.3	0.0		1.5	0.1	48.0	-0.6	1.5
HSBC	3.2	0.0	27.3	-0.3	-3.8	3.1	0.0	45.5	0.3	5.7	5.3	0.6	80.6	-1.2	2.7
ING	1.1	-0.4	5.5	-1.3	-7.4	5.6	0.2	48.9	-0.4	2.2	3.6	0.7	106.1	-0.6	0.3
Intesa	5.0	0.2	56.9	0.4	2.1	7.1	1.2	130.1	-1.7		5.0	1.5	174.7	-2.9	-33.0
Lloyds	2.6	-0.2	18.6	-0.8	-0.5	3.4	0.1	46.9	-0.9	-4.0	2.4	0.5	90.7	-3.3	-15.3
Nordea	3.9	-0.2	20.4	-1.1	-6.1	2.3	-0.2	27.2	-0.8	0.4	0.5	0.1	54.0	1.4	-12.6
Rabobank	3.1	-0.2	14.6	-0.9	-11.7	5.6	0.2	34.5	-1.4	-3.3	1.5	0.0	38.0	-1.6	-5.8
RBS	3.0	0.1	35.5	-1.0	-6.0	5.6	0.2	34.5	-1.4	-3.3	1.5	0.0	38.0	-1.6	-5.8
Santander	4.4	0.0	36.5	-0.8	1.8	5.3	0.4	65.2	-0.8	6.5	5.4	0.9	108.4	-3.4	2.5
San UK	3.9	0.0	35.6	-0.8	-0.6	2.2	0.0	54.3	-0.6	0.9	5.4	0.9	108.4	-3.4	2.5
SocGen	2.2	-0.2	20.8	-0.7	-5.8	6.0	0.6	76.2	-0.3	0.0	3.0	0.5	89.0	-0.5	-6.4
StanChart	5.3	0.1	34.1	-1.2	-10.2	5.2	0.3	59.8	0.0	9.5	2.9	0.6	97.9	-0.8	-9.2
Swedbank	4.1	0.0	32.0	-0.8	-5.6	5.2	0.2	48.9	-0.7	-5.3	3.2	0.4	78.1	-0.2	-20.8
UBS	1.9	-0.3	20.2	0.4	-3.9	3.6	0.1	49.9	-0.2	1.5	0.1	0.6	21.8	-26.7	-84.6
UniCredit	4.0	0.4	80.4	-0.1	6.8	3.9	0.8	120.6	-0.6	-3.1	2.8	1.7	203.7	-6.2	-22.9

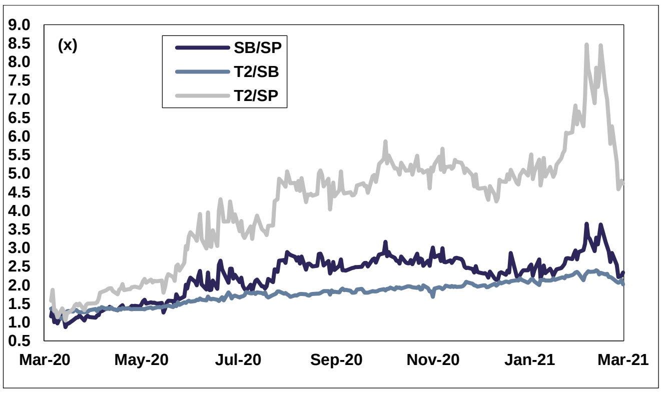
Source: Bloomberg, Daiwa Capital Markets Europe. Dur.= Duration. Yield= Yield to worst (%). Z = Z-Spread to Worst (bps). Z 5DΔ = last 5 days Z-spread net change (bps). Z YTD = year to date Z-Spread net change (bps). Blank cells represent lack of statistically significant data. Figures may not be representative 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	24.9	6.5	-3.0	4.1	1.8	97.2	5.4	5.4	6.1	3.0	166.6	1.5	7.3
BFCM	2.3	0.5	26.0	0.8	1.1	3.4	1.1	49.7	2.5	3.8	6.1	3.0	166.6	1.5	7.3
BNPP	1.9	0.5	21.8	8.5	6.6	4.0	1.7	67.9	4.1	-2.7	5.3	2.4	121.3	5.6	9.7
BPCE	4.7	1.4	54.2	2.8	-1.7	4.3	1.6	58.2	3.2	-4.1	3.1	1.4	81.5	6.3	1.3
Credit Ag.	2.4	0.7	33.9	4.7	1.8	4.1	1.5	49.4	5.3	1.8	7.0	2.8	137.5	3.9	1.8
Credit Sui.	2.9	0.5	28.9	7.9	12.2	4.0	1.6	67.5	8.7	12.0	2.2	2.2	174.9	10.9	43.6
Danske	2.7	0.8	50.2	5.7	6.7	2.5	1.1	67.5	3.0	-11.9	2.2	2.2	174.9	10.9	43.6
Deutsche						3.4	1.5	84.5	1.9	-12.4	7.2	3.7	266.4	1.2	5.7
HSBC	3.4	1.1	73.9	7.9	-8.4	4.6	1.8	82.3	7.4	8.3	10.5	3.7	178.6	10.5	4.6
ING	3.4	1.1	73.9	7.9	-8.4	4.3	1.6	69.7	3.8	3.0	2.1	1.2	84.1	11.2	-3.2
Intesa	3.1	1.3	85.2	0.4	-15.0	4.3	1.6	69.7	3.8	3.0	3.6	2.8	205.6	-16.2	-6.5
Lloyds	3.9	1.3	57.2	1.9	-5.5	3.4	1.4	67.0	4.2	6.1	4.5	2.9	150.5	10.4	-0.4
Nordea	3.3	0.8	29.0	3.1	4.5	2.4	0.6	23.9	0.1	-14.4	1.5	0.7	45.9	5.5	4.1
Rabobank	3.9	1.1	38.5	3.3	8.5	4.1	1.4	53.0	6.6	5.1	4.5	1.8	86.5	4.8	5.1
RBS	3.9	1.1	38.5	3.3	8.5	4.1	1.4	53.0	6.6	5.1	4.5	1.8	86.5	4.8	5.1
Santander	5.2	1.7	73.7	4.3	1.3	4.7	1.9	89.5	1.2	-0.8	6.4	2.6	137.9	5.6	6.8
San UK	2.9	0.8	34.1	7.6	1.0	3.9	1.1	59.3	6.9	-2.3	4.1	1.9	131.8	-5.6	-40.5
SocGen	4.2	1.4	65.4	0.9	14.7	4.1	1.8	98.3	2.2	-4.6	4.2	2.3	141.4	2.0	-12.0
StanChart	0.2	0.6	37.7	2.4	-17.1	3.7	1.4	82.0	6.0	0.3	5.7	2.8	203.4	6.6	-12.0
UBS	2.9	0.5	28.1	8.4	8.4	4.6	1.7	70.4	2.2	4.6	5.7	2.8	203.4	6.6	-12.0
UniCredit	1.7	1.3	111.4	4.7	-11.9	4.2	2.1	148.3	3.2	-5.7	6.1	4.7	314.6	1.8	-21.8

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.

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies	*William Hahn*	+44 20 7597 8355
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst	*Toshiyasu Ohashi*	+81 3 5555 8753
Electronics, Automobiles, Non-Banks, Real Estate, REIT	*Takao Matsuzaka*	+81 3 5555 8763
Chemicals, Iron & Steel	*Kazuaki Fujita*	+81 3 5555 8765
International Credit		
Non-Japanese/Samurai, European Sovereigns	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Samurai	*Fumio Taki*	+81 3 5555 8787
Non-Japanese	*Jiang Jiang*	+81 3 5555 8755
London Translation		
Head of Translation, Economic and Credit	*Mariko Humphris*	+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 _

Explanatory Document of Unregistered Credit Ratings

In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:
1) Duty of good faith.
2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")
The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

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

The information is posted under "Unregistered Rating Information" (http://www.standardandpoors.co.jp/unregistered) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of March 7th, 2017, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")
The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moodys.com/pages/default_ja.aspx)

Assumptions, Significance and Limitations of Credit Ratings

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

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

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

[Fitch]

The Name of the Credit Rating Agencies group, etc

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

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

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

Assumptions, Significance and Limitations of Credit Ratings

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

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

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

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

February 2020