Daiwa Capital Markets

European Banks – Credit Update

- Credit Suisse's strong financial start to 2021 can't dispel reputational damage from Greensill fallout
- Greek banks still have long way to go in terms of balance sheet de-risking as delayed economic recovery could offset benefits from government guaranteed NPL disposals
- Last week's congested FIG pipeline saw volumes catch up considerably with 2020 levels while the FIG subordinated space was dominated by UK issuers

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Greensill deepens reputational damage for Credit Suisse

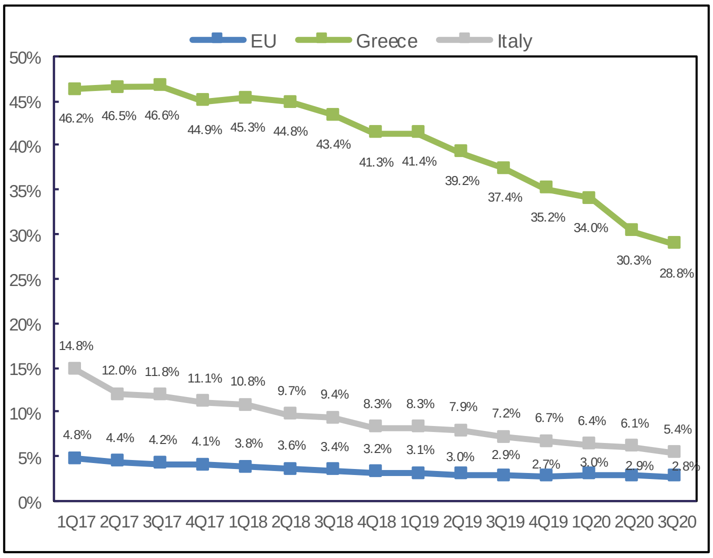
Supply chain finance firm Greensill Capital filed for administration in the UK two weeks ago, leaving creditors USD1.35bn out of pocket. Greensill filed for insolvency after Credit Suisse (CS) froze USD10bn in group funds, following concerns about their valuation and in expectation of defaults on invoice-backed assets. In turn, Greensill's insurer refused to provide coverage for some of its short-term financing which led to administration. In an effort to claw back investor funds, Credit Suisse received USD800m in cash allowing it to return a further USD1.25bn to clients on top of the USD3.1bn provided in redemptions to investors. The bank also stated that it was repaid USD50m of a USD140m bridge loan extended to Greensill with the remaining USD90m collateralised. While this presents some good news to investors, CEO Gottstein expects to take a financial hit on the funds' assets and acknowledged litigation threats from investors, which could result in financial losses and regulatory scrutiny.

The overall situation will undoubtedly cause reputational damage to the Swiss lender despite reporting a 50% rise in investment banking income during 1Q21 and the strongest pre-tax result in a decade. The situation will continue to weigh on it after it had just put the spying scandal under former CEO Thiam behind it. Doubts over the reliability of Credit Suisse's risk framework have also been raised given the fact that the former Greensill owner was also a major client of Credit Suisse's private bank and his company was granted the bridge loan against the recommendation of Credit Suisse's risk managers. The decision not to grant the loan was overruled by senior executives, casting a light on the bank's cross-selling practises under its 'integrated platform' strategy. The head of CS Asset Management also overlooking the bank's wealth management unit, Eric Varvel, is the most senior figure at the bank to have been let go in connection with this scandal. However, as investor dissatisfaction is growing over steep losses personnel changes may not be enough to salvage relationships that go beyond asset management, with high net worth individuals and institutional clients angered alike. CS stated that in the foreseeable future the bank's asset management division could be run more independently from the rest of the group, with its own risk controls and its new head directly reporting to the Group CEO. Gottstein indicated that having a holding structure around such an arrangement would allow for greater independence. However, for some of its investors this will be too little too late.

Herculean task ahead for Greek Banks

The European Central Bank (ECB) has supported plans by the Greek Ministry of Finance to extend the countries 'Hercules Asset Protection Scheme' (HAPS) that was due to run out by the end-March and was designed to help banks dispose of their bad loans. Under the scheme, senior tranches of NPL securitisations receive government guarantees and are often retained by the banks, provided that at least half of the riskier tranches (mezzanine and junior) are sold to private investors. The scheme was initially put in place in December 2019 to de-risk the banking sector's balance sheets by up to EUR30bn. At the behest of the country's leading banking institutions, the Greek government formally applied to the European Commission's Competition Directorate to launch 'Hercules II', an extension of the existing plan, with the aim of brining banking sector NPLs into single-digits by 2022. Additional securitisations should significantly reduce capital vulnerability to unreserved problem loans and could reduce the need for provisioning, notwithstanding the negative up-front capital impact.

Banking System NPLs



Source: EBA

The freed up capital from reduced provisioning could flow back into the economy in the form of increased lending. The extended scheme will run from April 2021 until October 2022 and reduce banking system NPLs by a further EUR32bn.

Since 2016, Greek banks conducted nominal NPL reductions of some EUR106bn, yet still have by far the highest NPL figures in Europe. The Italian banking system was in a similar situation to that of Greece but it launched its government guaranteed NPL securitisation programme (GACS) three years earlier than HAPS, which helped it reduce NPLs quicker.

As at 3Q20, non-performing exposures for the four systemically relevant banks in Greece – Alpha Bank (43%), National Bank of Greece (29.3%), Piraeus Bank (47%) and Eurobank (14.9%) – were exceptionally high compared to European peers. Pandemic-related delays in 2020 slowed de-risking efforts but we expect to see further securitisations under the new scheme, which will more than offset the net inflows of impaired loans. In February, Alpha Bank announced an agreement for the sale of a EUR10.8bn NPL portfolio, the second largest in Europe after Monte dei Paschi's EUR24bn sale. The deal is expected to reduce Alpha Bank's NPE ratios to 24%. National Bank of Greece applied to benefit from the HAPS securitisation for a EUR6.1bn securitisation, reducing its NPE figure to some 15%. Piraeus is also making restructuring progress and expects to securitise EUR7bn in impaired loans, which would see its NPE figure fall to 37%. It also outlined plans for an additional securitisation for EUR5bn by end-2021. Lastly, Eurobank plans a new EUR3.3bn securitisation under the new Hercules II scheme, which will help it lower its NPE ratio to the single digits by end-2021.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR17.7bn over the course of last week, at the upper end of market expectations of EUR14bn-18bn. FIG supply of EUR21.3bn vastly exceeded forecast volumes of EUR5bn-9.5bn. Total 2021 year-to-date FIG volumes of EU120.7bn closed just 20.3% behind last year's issuance, narrowing the gap by 1240bps over the course of the week. SSAs remained up and extended their issuance lead against last year to 46.4%, standing at EUR252bn. For the week ahead, survey data suggest SSA volumes will range between EUR16bn-21bn and FIGs are expected to issue EUR6.5bn-10.5bn.

SSA issuance was partially impacted by the Fed's announcements last week, which led to a steeper US Treasury yield curve. Two major sovereign issues were launched by the French and Greek treasuries. France issued a EUR7bn green OAT that garnered book orders of EUR34.5bn. Issuance size matched that of its inaugural green OAT from January 2017 and it priced around 1.5bps within the conventional OAT curve. The French debt office, Agence France Trésor (AFT), stated that when taking the 2.5-3bps green issue premium into account the new issue paid a 1-1.5bps concession. The new green OAT was issued within the permissible Green Eligible Expenditure of EUR15bn in 2021. This includes state expenditures that qualify under the green OAT framework. The envelope was greatly upsized from EUR8bn in 2018 and 2019. AFT announced a second green bond that will be issued later in the year with a maturity of about 20-years. The proceeds of these bonds will be applied towards climate change mitigation, adaptation to climate change, biodiversity protection and pollution control, in line with the Energy Transition and Green Growth Act and France's commitment to implement the Paris Climate Agreement.

The **Greek** government went long with a 30-year bond, the first since the onset of the financial crisis, which is part of its plan to build out its bond curves. The outcome of the recent ECB Governing Council meeting helped stabilise euro markets, support investor sentiment and avoid the curve-steepening seen in dollar and sterling markets. As such, demand for the EUR2.5bn bond was immense as final book orders stood at EUR26.1bn. The **Flemish Community** looked to issue a EUR1.25bn sustainability bond with a 25-year maturity. Book orders 3.6x over deal size tightened spreads by 4bps to a final spread of OLO+21bps. The proceeds will be used to finance or refinance eligible expenditures that have environmental and social benefits such as energy efficiency in buildings, affordable housing, access to education and pollution prevention and control.

European **senior FIG** primary market activity was booming last week, recording the second highest weekly issuance volumes since the beginning of the year. Standout transactions included **Nordea's** EUR500m green SNP which priced very tightly. Factors were a strong order book of EUR1.65bn, the issuer's strong credit profile, the rare SNP outing paired with a green label all helped pricing tighten considerably (-23bps from IPT). **Deutsche Bank** also ventured into green space with its first USD SP green bond which was upsized to USD800m from USD500m following strong investor demand and in line with its green asset pool. Deutsche will allocate the proceeds to projects and companies in renewable energy, energy efficient projects and green commercial real estate. This is part of its EUR200bn commitment towards sustainable projects by 2025. Spanish lenders **BBVA** and **Banco Santander** also launched senior deals into the market that were well received. It was BBVA's first SP bond in almost a year and proceeds of the bond will count towards its MREL ratio. According to the bank's own funding plans, the expectation is to issue around EUR2bn-3bn in SP and SNP bonds to offset maturing and legacy issuances. Later in the week, Santander followed its domestic rival into the senior primaries with a EUR1bn SNP of its own. The call option on the 6NC5 ultimately led to a new issue premium of some 5bps despite the deal tightening by 20bps from IPT. As per the bank's own 2021 funding plan, it expects to issue up to EUR10bn in senior debt to help bolster its MREL ratio. Investors were also able to get their hands on several Sterling transactions during the week as **BPCE** was one of the few continental issuers to venture into this space with a 5-year, GBP450m SP bond. Sterling transactions only made up 3% of BPCE's 2020 primary market funding and as such we don't expect to see many more throughout this year. In contrast, **HSBC** issued a large GBP1bn, senior unsecured fixed to FRN note. The SEC registration attracted some onshore U.S. investors but also meant there were no book updates to report on. It was the largest Sterling transaction this year alongside BNP Paribas' SNP GBP1bn transaction in January.

Subordinated FIG debt also contributed to the busy deal flow among European banks. UK issuers dominated the headlines as **Barclays Bank** was first out of the gates with a EUR1bn Tier 2 with a 10NC5 tenor. Book orders of 4x brought pricing to MS+155bps, 30bps below initial thoughts and in line with fair value. This issuance helps Barclays to partially offset GBP2bn in Tier 2 debt expiring by 1H21. **Standard Chartered Bank** was the other major UK bank to issue a Tier 2 with almost identical features to Barclays' transaction but book orders were not as heavily subscribed (1.7x). Nevertheless, spread levels matches those of Barclays at MS+155bps despite the lower interest and slightly longer tenor, leaving a 4-5bps new issue premium on the table. **Paragon Banking Group**, the UK based specialist savings and lending product provider was the unexpected issuer of the UK's first ESG themed sub-debt title. The bank opened its books for a small, green Tier 2 in the amount of just GBP150m. The proceeds will be allocated to finance a portfolio of green loans, including mortgages. The bond also served to replace an outstanding Tier 2 bond in the same amount. The spread on the green issuance (G+395bps) is also much more favourable than the existing Tier 2 had it been allowed to run until its call date and switch to the reset spread of MS+673bps.

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
France	OAT (Green)	EUR7bn	23Y	OAT + 18	OAT + 20	>EUR34.5bn
Greece	State Obligation	EUR2.5bn	30Y	MS + 150	MS + 160	>EUR26.1bn
Flemish Community	Senior Unsecured (Sustainability)	EUR1.25bn	25Y	OLO + 21	OLO + 25	>EUR4.5bn
FIG (Senior)						
Nordea	SNP (Green)	EUR500m	10Y	MS + 52	MS + 75	>EUR1.65bn
BAML	Senior Unsecured	EUR1.5bn	10NC9	MS + 75	MS + 100	>EUR3.2bn
BPCE SFH	SP	GBP450m	5Y	G + 82	G + 90	>GBP600m
BBVA	SP	EUR1bn	6NC5	MS + 52	MS + 70/75	>EUR1.4bn
Standard Chartered	Senior Unsecured (Sustainability)	USD500m	4NC3	T + 88	T + 115	>USD1.7bn
HSBC	Senior Unsecured (Fixed – FRN)	GBP1bn	6NC5	G + 135	G + 140	n.a.
Banco Santander	SNP	EUR1bn	6NC5	MS + 85	MS + 105	>EUR1.4bn
Deutsche Bank	SP (Green)	USD800m	5Y	T + 87	T + 110	>USD2.7bn
FIG (Subordinated)						
Barclays	Tier 2	EUR1bn	10NC5	MS + 155	MS + 185	>EUR4bn
Standard Chartered	Tier 2	EUR1bn	10.5NC5.5	MS + 155	MS + 175	>EUR1.7bn
Paragon Group	Tier 2 (Green)	GBP150m	10.5NC5.5	G + 395	MS + 410	>GBP150m

Source BondRadar, Bloomberg.

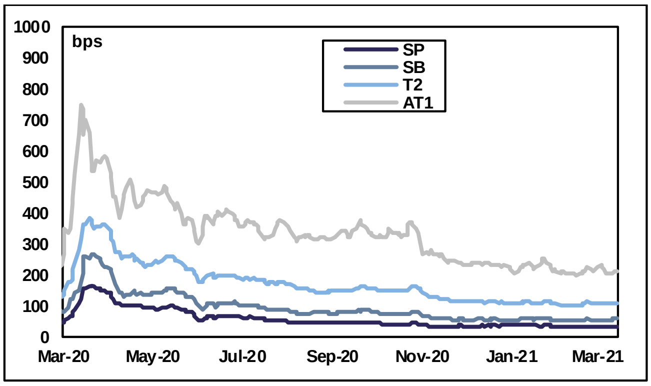
Secondary market EUR spread widening and USD stabilisation reflected in stable risk perception. CDS price indices on European senior (57ps) and subordinated financials (104bps), as measured by iTraxx benchmarks, priced slightly higher against the prior week's levels by 1bps and 1.5bps respectively.

Eurozone bank spreads registered only minor widening amidst heavy borrowing from the ECB last week. The seventh operation under the ECB's T-LTRO III programme attracted 425 institutions, borrowing a total of EUR330bn on a gross basis. That compared with borrowing of just EUR50.4bn to 156 banks at the prior operation in December and represented the highest allocation since the first phase of the pandemic last June. EUR15.7bn in redemptions of the T-LTRO II programme thus bringing the net borrowing amount to some EUR315bn. Prior to the publication of the allotment, analyst estimates ranged between EUR135bn-250bn. The bigger than expected uptake indicates that banks are confident in meeting lending requirements that allow them to take advantage of the most favourable borrowing conditions and that the ECB instrument is adequately calibrated and does not require near-term adjustments. Nevertheless, modest average weekly spread widening was predominantly driven by non-EU countries such as Switzerland.

Weekly average EUR spreads widened slightly against previous weeks, with SP (+0.7bps), SNP (+3.5bps) and Tier 2 (+1bps) all weakening within moderate bounds. USD spreads stabilised after some turbulence in prior weeks. Average weekly changes to SP (0bps), SNP (+1.2bps) and Tier 2 (-1bps) all pointed towards an improved market sentiment. Based on data collected from Bloomberg 34% of FIG tranches issued in March and 40% of SSAs quoted wider than launch.

Western European Banks EUR Spreads and Yields

Aggregate EUR Z-spread LTM (bps)



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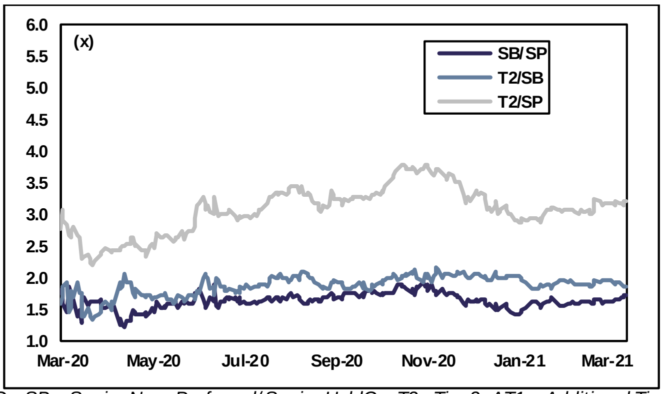


Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

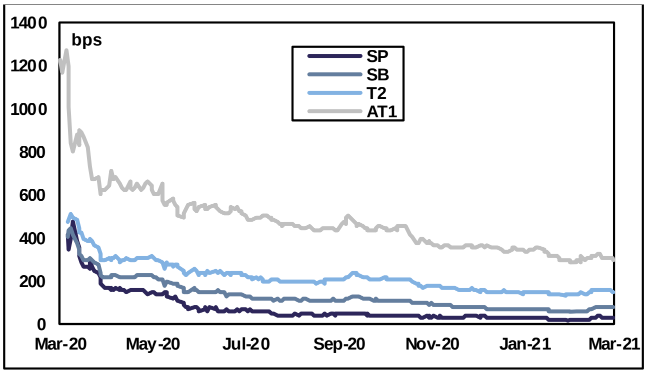
Selected Names

	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
Commerz	4.9	0.2	47.9	0.4	-5.3	3.7	0.3	65.4	3.1	-0.8	4.5	1.8	203.8	-1.9	-5.3
Barclays	3.1	0.2	51.5	1.9	-5.1	2.7	0.0	46.0	4.2	8.2	4.0	0.9	132.0	-3.7	-12.0
BBVA	5.6	0.2	46.8	1.8	2.9	3.8	0.1	51.1	0.8	2.4	5.4	0.8	117.3	2.0	-1.3
BFCM	4.3	-0.1	29.8	0.1	-1.3	8.6	0.7	67.2	4.2	5.4	4.7	0.6	86.2	1.0	4.1
BNPP	2.2	-0.3	18.6	0.4	-4.6	4.9	0.3	58.1	3.1	-0.3	4.5	0.6	90.7	0.2	-8.6
BPCE	3.5	-0.1	27.8	1.0	-1.6	4.8	0.3	60.1	3.4	4.1	2.2	0.2	59.4	1.0	0.5
Credit Ag.	3.4	-0.1	30.1	0.5	-3.7	5.0	0.3	57.1	3.5	4.2	4.5	1.0	113.1	2.1	-1.1
Credit Sui.	4.9	0.2	47.9	0.4	-5.3	5.1	0.5	77.5	9.5	11.5	5.4	1.2	143.1	0.8	4.4
Danske	2.2	-0.2	30.2	0.8	-2.5	2.1	0.0	44.9	1.5	-9.6	3.8	1.0	139.7	2.2	2.6
Deutsche	2.4	0.0	40.9	1.0	-5.6	4.3	0.8	105.5	5.3	-9.5	4.3	1.8	208.7	1.4	-30.3
DNB	2.7	-0.2	21.3	0.6	-4.0	7.8	0.5	61.9	2.1	6.2	1.5	0.0	48.4	0.7	2.2
HSBC	4.8	0.0	28.9	1.4	-2.3	3.4	0.0	56.1	5.4	11.3	5.3	0.6	81.2	0.5	3.3
ING	1.0	-0.4	6.0	0.7	-6.8	5.6	0.3	51.7	2.4	4.2	3.6	0.7	109.3	2.8	4.1
Intesa	5.0	0.2	57.6	2.0	2.9	7.1	1.2	132.1	2.0	12.4	5.0	1.5	174.1	-0.9	-31.2
Lloyds	2.6	-0.2	19.3	0.7	0.2	3.4	0.1	49.8	3.6	0.0	2.4	0.5	90.7	-0.3	-15.7
Nordea	3.8	-0.2	20.0	0.0	-7.0	6.0	0.2	41.4	1.2	0.3	0.5	0.1	53.5	-2.2	-14.9
Rabobank	3.0	-0.3	15.2	0.3	-11.5	5.6	0.2	36.5	1.5	-1.9	1.4	0.0	39.2	1.2	-2.4
RBS	3.0	0.0	35.0	-0.3	-5.3	5.6	0.2	36.5	1.5	-1.9	1.4	0.0	39.2	1.2	-2.4
Santander	4.4	0.0	37.7	1.1	2.9	5.2	0.4	71.3	5.3	12.6	5.4	0.9	110.2	2.2	6.2
San UK	3.9	0.0	35.6	-0.1	-0.7	2.2	0.0	58.3	4.0	4.7	5.4	0.9	110.2	2.2	6.2
SocGen	2.2	-0.3	21.4	-0.2	-3.9	6.0	0.6	80.3	3.2	4.0	2.9	0.5	90.1	1.4	-5.0
StanChart	5.2	0.1	34.3	0.2	-6.3	5.2	0.4	66.9	5.4	15.4	4.0	1.1	143.1	3.0	0.0
Swedbank	4.1	-0.1	31.0	-0.9	-6.5	5.2	0.2	50.4	1.3	-3.9	3.5	0.4	78.2	-0.2	-20.8
UBS	1.9	-0.3	21.7	1.6	-2.5	3.7	0.1	54.1	3.0	3.7	0.1	0.7	26.0	4.8	-74.9
UniCredit	4.0	0.4	79.7	0.8	6.6	4.1	0.9	124.4	3.6	0.2	2.8	1.7	200.9	-0.7	-23.5

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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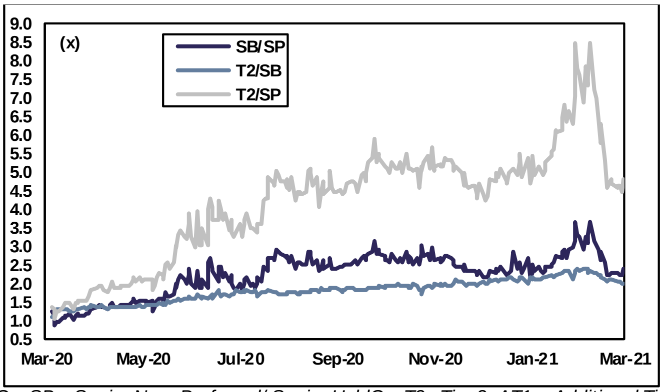

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

Selected Names

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	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	19.7	-2.4	-8.2	4.1	1.8	98.6	1.8	8.3	6.1	3.0	166.1	-0.3	12.8
BFCM	2.2	0.5	24.4	-0.2	0.7	3.4	1.2	52.0	4.2	8.0	6.1	3.0	166.1	-0.3	12.8
BNPP	1.9	0.5	23.5	-1.7	8.4	4.0	1.7	66.8	0.8	0.0	5.3	2.3	117.0	0.8	10.3
BPCE	4.7	1.4	58.0	1.3	1.0	4.3	1.6	58.1	1.6	-3.3	3.1	1.4	82.2	0.4	-2.7
Credit Ag.	2.4	0.7	37.6	5.3	15.9	4.0	1.5	53.0	1.0	3.6	7.9	2.9	136.8	3.3	11.2
Credit Sui.	2.8	0.6	35.7	5.7	16.5	4.0	1.6	68.9	3.0	12.2	2.3	2.2	173.8	11.2	54.8
Danske	2.7	0.8	52.5	2.3	9.0	2.5	1.0	67.8	0.2	-11.8	2.3	2.2	173.8	11.2	54.8
Deutsche	4.8	1.7	76.7			3.4	1.5	90.7	-2.1	-13.5	6.6	3.6	257.3	-2.5	7.9
HSBC	3.4	1.1	75.5	4.8	-6.8	4.6	1.8	80.0	1.2	7.8	10.4	3.8	179.2	-0.3	7.2
ING	3.4	1.1	75.5	4.8	-6.8	4.2	1.6	71.5	2.1	8.0	2.1	1.2	84.2	5.0	2.0
Intesa	3.1	1.3	83.2	0.8	-15.8	4.2	1.6	71.5	2.1	8.0	3.6	2.8	202.1	-2.0	-11.0
Lloyds	3.9	1.3	62.6	3.4	-0.1	3.4	1.3	66.2	0.4	9.7	4.5	3.0	147.3	-2.0	0.5
Nordea	3.3	0.8	31.1	-1.5	6.5	2.3	0.7	26.7	1.7	-13.1	1.5	0.7	42.8	-0.7	3.4
Rabobank	3.9	1.1	41.2	-1.1	7.1	4.1	1.4	54.3	1.5	9.5	4.4	1.8	87.9	0.8	4.9
RBS	3.9	1.1	41.2	-1.1	7.1	4.1	1.4	54.3	1.5	9.5	4.4	1.8	87.9	0.8	4.9
Santander	5.2	1.7	75.8	2.6	3.4	4.7	1.9	90.0	1.8	1.6	6.3	2.7	138.2	0.7	11.4
San UK	2.8	0.8	33.8	0.3	-1.6	3.9	1.1	56.1	-0.7	-0.5	4.1			-0.3	-38.0
SocGen	4.2	1.4	66.2	3.3	15.6	4.1	1.8	99.2	5.0	-2.9	4.2	2.3	142.8	0.6	-6.8
StanChart	0.2	0.9	75.4	22.1	20.6	3.6	1.3	77.0	2.1	2.1	5.4	2.8	204.7	-0.7	-14.9
UBS	2.9	0.5	30.5	3.1	7.5	4.6	1.7	70.6	2.4	8.0	5.4	2.8	204.7	-0.7	-14.9
UniCredit	1.6	1.3	112.4	0.6	-11.0	4.2	2.1	148.0	0.2	-4.7	6.0	4.7	313.4	1.8	-22.5

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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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

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Conflicts of Interest: Daiwa Securities Co. Ltd. may currently provide or may intend to provide investment banking services or other services to the company referred to in this report. In such cases, said services could give rise to conflicts of interest for Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Other Disclosures Concerning Individual Issues:
1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association