Daiwa Capital Markets

European Banks – Credit Update

- US investment banks report strong 1Q21 profitability on the back of high capital market activity and credit reserve releases. They remained largely unscathed by the Archegos fallout
- European Union set to provide a sizeable boost to global ESG bond supply once NGEU takes off
- Muted primary market activity, particularly for FIGs ahead of the European 1Q21 reporting season. Secondary market spreads hold firm in EUR with minor widening in USD despite strong macros

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1Q21 - US Investment Banks

US-based global investment banks (GIB) reported mostly stellar 1Q21 figures with average net income up to USD8.2bn (+39% qoq) following an already impressive previous quarter. Capital market activity led by large underwriting volumes and strong client flow drove much of the performance. Additionally, sizeable releases of credit loss reserves predominantly benefitted banks with large retail operations such as BAML, Citi and JPM. In addition to this, the banks all maintained strong asset quality, liquidity and capital indicators. Although US-GIBs escaped the Archegos fallout largely unscathed, we note that GS and MS published their exposures. However, only MS incurred a significant loss amounting to USD911m. It comprised of USD644m in stocks held, related to Archegos' positions, which it sold. Exiting of remaining positions triggered further USD267m in losses, which reduced overall equity trading revenue to USD2.9bn (1Q20: USD2.4bn). Although US-GIBs are in a better position to absorb such market related losses compared to European counterparts given their stronger profitability, we still believe this signals a degree of risk management shortcomings. A heavy IPO pipeline contributed to unusually strong equity market underwriting activity which was up three-fold against the same period last year while M&A advisory and debt underwriting were also improved by 29% and 20% respectively.

US Banks IB Revenues Growth (1Q21 Y/Y)

	IB Fees - Origination & Advisory (yoy)	Equities (yoy)	FICC (yoy)	ROTE	Net Income ($m)
JPMorgan	57%	47%	15%	29.0%	14,300
Citi	46%	26%	-5%	20.1%	7,942
Goldman Sachs	105%	68%	31%	32.9%	6,836
Morgan Stanley	128%	17%	44%	21.1%	4,168
Bank of America	55%	9%	10%	17.1%	8,050
Average	**78.2%**	**33.4%**	**19.0%**	**24.0%**	**8,259**

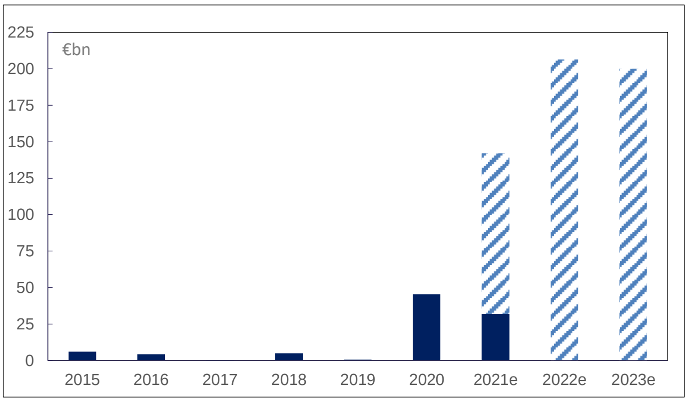
Source: Bank financial statements, compiled by Daiwa Capital Markets Europe

One year ago, during the onset of the pandemic banks globally booked the highest levels of credit reserves in an attempt to account for the adverse economic effects of the pandemic. As a result, high levels of provisioning have weighted down bottom line-results but as the macro-economic prospects improved and vaccine rollouts are under way, many US-GIBs have revised their macroeconomic forecasts and consequently made reversals on these provisions. The reversals amounted to USD11.9bn during 1Q21 across JPM (USD5.2bn), Citi (USD3.9bn), BAML (USD2.7bn), MS (USD98m) and GS (USD70m), benefitting bottom line profitability to varying degrees. Apart from GS and MS, the universal-banks recorded continued pressure on net interest income due to a combination of persistently low interest rate environments, lower credit card spending as well as lower overall loan volumes. Efforts to offset the loss in interest income are concentrated around higher fee and commission income from wealth and asset management activities. Citi in particular, under recently appointed CEO Jane Fraser, are moving ahead with their unified wealth group that combines the private bank and wealth management franchise in an effort to close the profitability gap to peers. Top-line revenue is expected to remain under pressure while the expense base will grow 2-3% due to investments in risk controls and bank transformation costs. Looking ahead for all US-GIBs, we may see some modest increases in credit card delinquencies and charge-offs as forbearance programmes relating to mortgages and other support measures come to a close.

EU Next Generation fund not a 'SURE' thing yet

Last week, the European Union outlined its funding plan for the Next Generation EU (NGEU) programme and said it intends to start issuing this summer, once all member states have ratified the EU's 'Own Resources' decision that supports the borrowing. In total, the EU will raise EUR800bn (in current prices) by 2026 with a stated yearly average issuance volume of EUR150bn. Issuance activity will resemble that of EU-sovereigns with regular auctions and syndications of bonds with maturities of 3-30 years through a network of primary market dealers. Since end-2020, the EU has bolstered ESG bond supply when it started issuing under its social bonds programme (SURE) for up to EUR100bn. In addition, 30% of the NGEU will constitute green bonds (~EUR240bn) which will provide a massive boost to global green bond supply, expected to reach ~EUR420bn in 2021. If things go as planned, we anticipate NGEU issuance volumes of around EUR60bn this year, as well as planned SURE funding volumes of EUR13bn which are scheduled for 2Q21. Residual

Annual Bond Issuance - European Union



Source: Bloomberg; Daiwa Capital Markets Europe amounts under the SURE programme and 2021 shortfalls from annual averages under the NGEU are captured in 2022 volume expectations.

However, recent legal challenges threaten to derail the communicated timeline. Although, 17 of the 27 member states have already ratified the 'Own Resources' decision a recent injunction granted by the German Constitutional Court has prevented the German government from ratifying the required national law and at this stage it is not clear how long the delay will last. Under a benign scenario, the delay may last a few weeks and ratification is ultimately green lit, which should not have an adverse effect on Euro-bond markets. With a decision outstanding for the past 3 weeks markets still appear largely unaffected, however a referral to the ECJ or any prolonged legal dispute would seriously cast doubts over the summer ratification deadline which in turn could drive up spreads between core and peripheral sovereign bonds. Paired with politically delicate timing with upcoming elections in Germany and France as well as a re-evaluation of the PEPP programme in 1Q22, any significant delays that may undermine confidence in the instrument may cause significant turbulences in bond markets.

Primary and secondary markets

European **primary market** issuance volumes for SSAs stood at EUR29.7bn over the course of last week, exceeding market expectations of EUR17bn-22bn. FIG supply of just EUR7.1bn fell within forecast volumes of EUR4bn-8bn. Total 2021 year-to-date FIG volumes of EU146bn closed just 10% behind last year's issuance. SSAs remained ahead of last year, up 15.8% standing at EUR328bn. For the week ahead, survey data suggest SSA volumes will range between EUR13bn-18bn and FIGs are expected to issue EUR5.5bn-9.5bn.

The **SSA** market recorded a slew of SRI issuance from non-sovereign issuers. The Dutch public sector agency, **BNG Bank NV**, issued a EUR2bn sustainability bond under its updated sustainability framework that is linked to the UN's SDGs. Proceeds will be used for lending to all SDG-linked expenditures of Dutch municipalities. BNG stated that their next deal will either come in Australian or Canadian Dollars given the stability and strong market for sustainability paper in those markets. **Ile de France** also formulated a new GSS framework at the end of last month and issued its first sustainability bond under it. The EUR500m WNG received the highest order book ever for the issuer (6.6x). Other notable transactions came from the European Financial Stability Facility **(EFSF)** that issued a EUR4bn bond which was highly oversubscribed (4.55x) allowing the issuer to guide pricing 2bps tighter from IPT to MS – 10bps. The EFSF has a funding target of EUR7bn for 2Q21 and is thus expected to return to market in the coming weeks. Lastly, the International Facility for Immunisation **(IFFIm)** issued a senior unsecured vaccine bond for USD750m, its largest since 2006. The 5-year bond is backed by pledges from 10 sovereign donors, including recent commitments from the UK and Norway and will see proceeds distributed to the vaccine alliance Gavi.

Primary market activity for European **senior FIG** bonds was limited to just a handful of issuers. French issuers **Credit Agricole** and **BNP Paribas** both issued SNP paper, albeit in different denominations. Credit Agricole issued a EUR1bn SNP for 7-years and despite pricing 20bps tighter than IPT at MS + 65bps it paid a new issue premium of 3-4bps. BNP Paribas returned to markets with a sizeable USD2.25bn SNP bond, having kicked off its 2Q21 issuance programme with a EUR1.25bn SNP deal the previous week. These deals form part of its 2021 funding target of ~EUR13bn in the SNP format. The German mortgage bank for commercial real estate, **Berlin Hyp,** was the first FIG to issue a sustainability-linked bond (SLB) last week in the amount of EUR500m in SP format. It took several months to collect environmental loan book data, determine relevant ESG criteria and develop performance indicators that would ultimately allow investors to assess whether or not Berlin Hyp was meeting its pledge to reduce the carbon footprint of its loan book by 40% over the next 10 years. Should the issuer not be able to meet this pledge it will pay an extra 25bps on the final coupon of its 10-year SLB. Despite the innovative format, demand for the issuance was modest (1.58x), likely due to tight pricing at launch resulting in a final spread of MS + 35bps (-15bps from IPT). Whether or not this type of senior issuance will be MREL-eligible in the future will likely depend on clarification from regulators as eligible issues are currently not permitted to contain redemption incentives, compromise their loss absorbing capacity or include features that may change interest based on credit standing or accelerated payment features.

Subordinated FIG debt was issued by **Rabobank** early last week with the first Euro AT1 since mid-March. The recent scarcity of this format in the market contributed to high book orders (5.33x), helping the EUR750m note carry a very low coupon of just 3.1%. This compares favourably to the 5.75% paid by Sabadell for its EUR500m AT1 from four weeks ago. The proceeds of the bond will likely be used to partially offset an existing EUR1.25bn AT1 that has a call date at the end of Jun 2021. Sub-investment grade issuer **Bank of Cyprus** was the other name in the sub-debt space, placing a EUR300m Tier 2 at the end of last week with a coupon of 6.625%. The 10.5NC5.5 garnered strong demand (3.66x) and was issued at the HoldCo level. Greek sub-investment grade lender Alpha Bank launched a EUR500m Tier 2 with similar features back in March carrying a coupon of 5.5%

(Table 1) Key Transactions

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
BNG Bank NV	Sr. Unsecured (Sustainability)	EUR2bn	12Y	MS - 3	MS +/- 0	>EUR3.2bn
EFSF	RegS	EUR4bn	5Y	MS - 10	MS - 8	>EUR18.2bn
Ile de France	RegS (Sustainability)	EUR500m WNG	7Y	OAT + 19	OAT + 23	>EUR3.3bn
IFFIm	Sr. Unsecured (Vaccine Bond)	USD750m	5Y	MS + 11	MS + 11	>USD1bn
AfDB	Sr. Unsecured (Social/Green)	SEK1bn	5Y	MS - 4	MS - 4	n.a.
AfDB	Sr. Unsecured (Social/Green)	NOK1bn	5Y	MS - 9.5	MS - 9.5	n.a.
FIG (Senior)						
Credit Agricole	SNP	EUR1bn	7Y	MS + 65	MS + 85	>EUR1.6bn
Berlin Hyp	Sr. Unsecured (SLB)	EUR500m	10Y	MS + 35	MS + 50	>EUR790m
BNP Paribas	SNP	USD2.25bn	11NC10	T + 120	T + 145	n.a.
FIG (Subordinated)						
Rabobank	AT1	EUR750m	10NC5	3.1%	3.5%	>EUR4bn
Bank of Cyprus	Tier 2 (HoldCo)	EUR300m	10.5NC5.5	6.625%	7.0%	>EUR1.1bn

Source BondRadar, Bloomberg.

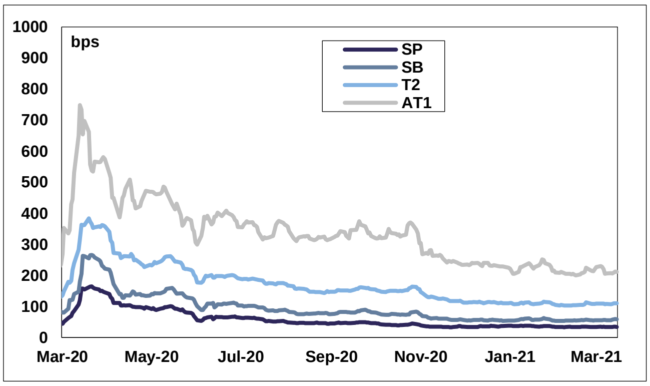
Secondary market stability in EUR and minor widening in USD was reflected in stable risk perception. CDS price indices on European senior (58ps) and subordinated financials (106bps), as measured by iTraxx benchmarks, priced flat against the prior week's level.

Euro spreads have been relatively stable over the last week and we would expect this to remain as such in the build up to the ECB governing council meeting on Thursday. Market participants don't expect any major announcements and the focus will likely be on 2Q21 economic recovery expectations. Despite the rather positive economic backdrop in the USA one potential driver for USD spread widening could be escalating tensions between the U.S. and Russia and the latest round of sanctions imposed.

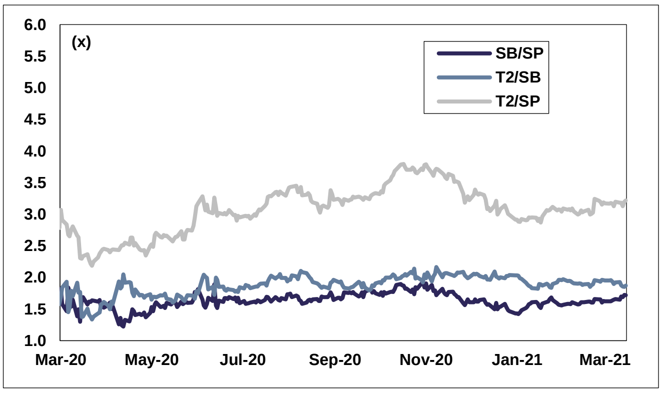
Weekly average EUR spreads were virtually flat for SP and SNP, with some tightening observed among Tier 2 (-1.6bps). USD spreads continued going wider but for the third week running but still remain comfortably tighter YTD. Average weekly changes to SP (+0.6bps), SNP (+1.9bps) and Tier 2 (+2.3bps) were all within reasonable bounds. Based on data collected from Bloomberg 39% of FIG tranches issued in April and 54% 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.

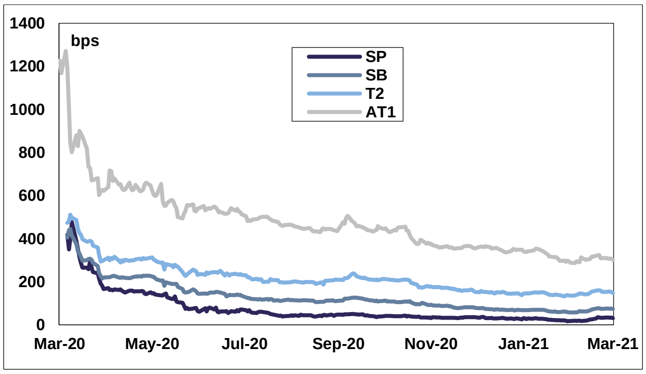
Selected Names

	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	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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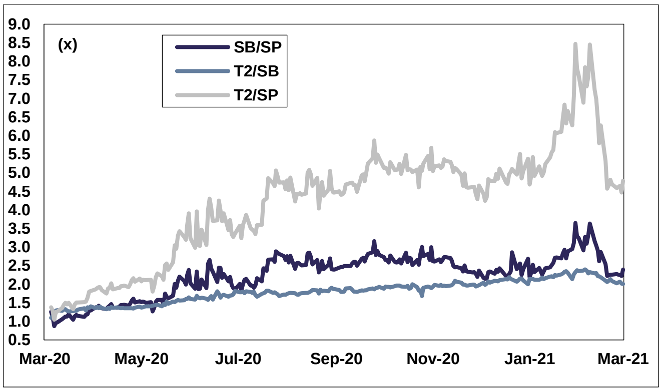

Source: Bloomberg, Daiwa Capital Markets Europe. SP = Senior Preferred/Senior OpCo; SB = Senior Non- Preferred/ Senior HoldCo; T2= Tier 2; AT1 = Additional Tier 1. All figures based on Z to worst spread of public benchmark issuances.

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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	19.7	-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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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