

Can Abenomics Be Sustained?

– Opportunities and Challenges Ahead –

November 2014

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I . Japanese Economy 1. DIR economic outlook for Japan (Sep 2014)

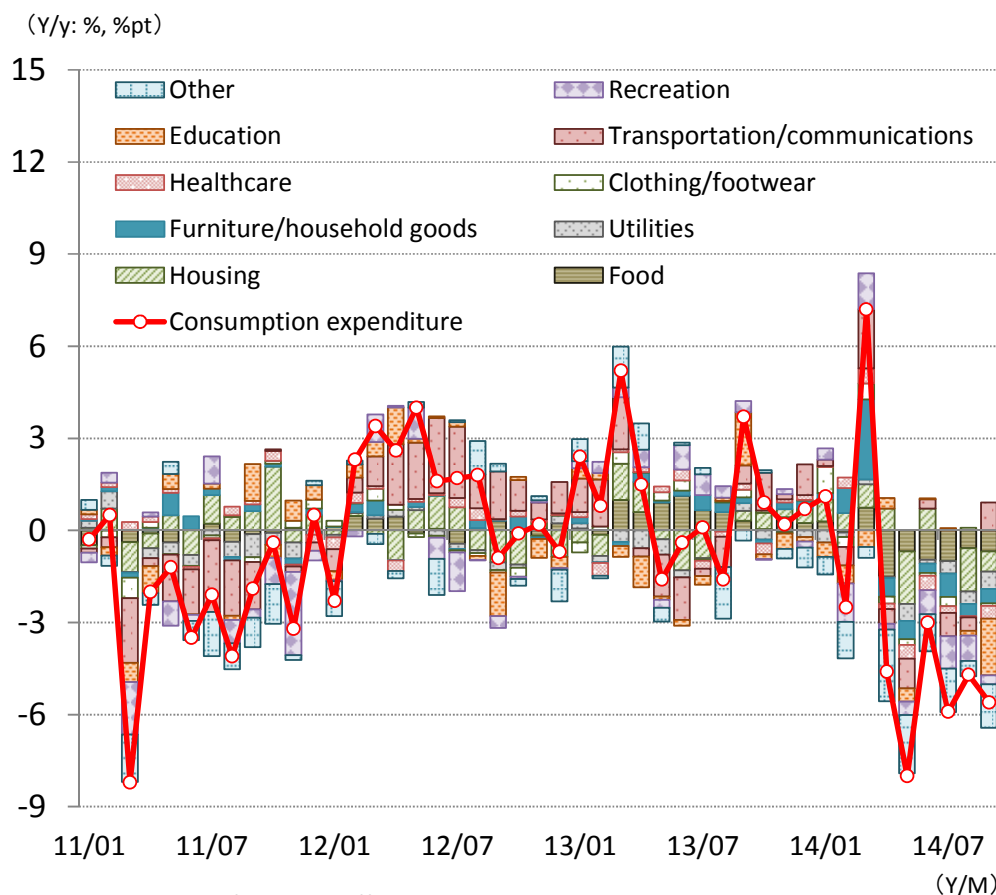
		2013					2014					2015				
		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	FY 2013	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	FY 2014	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	FY 2015
Real GDP	Q/q %; annualized	3.4	1.8	-0.5	6.0		-7.1	4.8	3.0	2.1		1.3	2.3	-3.7	2.8	
	Y/y	1.2	2.3	2.5	3.0	2.3	-0.1	0.8	1.5	0.4	0.7	2.8	2.1	0.5	0.7	1.5
Private final consumption	Q/q %; annualized	3.0	0.8	1.5	8.4	2.5	-19.0	6.1	3.4	2.0	-1.8	1.2	5.7	-10.7	2.8	1.3
Private housing investment	Q/q %; annualized	8.8	20.3	10.1	8.2	9.5	-35.6	-8.9	4.9	15.2	-7.3	7.0	4.5	-33.2	-16.8	-0.9
Capex	Q/q %; annualized	7.2	2.2	3.9	34.8	2.7	-18.8	6.3	5.3	5.6	2.9	5.9	7.0	0.4	2.4	5.0
Government final consumption	Q/q %; annualized	2.3	0.4	0.8	-0.7	1.8	0.3	1.2	1.2	1.2	0.5	1.3	1.3	1.3	1.3	1.3
Public investment	Q/q %; annualized	25.2	31.6	5.8	-9.8	15.1	-2.0	19.3	-10.3	-18.8	0.0	-13.9	-8.2	-9.8	-8.6	-10.9
Exports	Q/q %; annualized	12.8	-2.8	1.1	28.6	4.8	-2.0	2.2	5.3	6.1	5.7	6.6	7.4	8.7	9.5	6.7
Imports	Q/q %; annualized	9.6	7.3	15.7	28.0	7.0	-20.6	2.4	3.2	3.6	2.1	7.0	11.7	-8.9	2.0	4.0
Nominal GDP	Q/q %; annualized	1.2	1.5	0.9	6.4	1.9	-0.7	5.6	3.4	2.7	2.8	2.0	3.6	0.7	3.7	2.8
GDP deflator	Y/y	-0.6	-0.4	-0.4	-0.1	-0.4	2.0	2.2	2.1	2.1	2.1	0.6	0.8	1.7	1.8	1.2
Industrial production	Q/q	1.6	1.7	1.8	3.0	3.2	-3.8	0.4	1.6	1.7	1.2	2.0	2.4	-1.1	1.6	6.0
Core CPI	Y/y	0.0	0.7	1.1	1.3	0.8	3.3	3.3	3.2	3.3	3.3	1.3	1.2	2.6	2.7	1.9
Unemployment rate	%	4.0	4.0	3.9	3.6	3.9	3.6	3.7	3.5	3.5	3.6	3.4	3.4	3.4	3.5	3.4
Trade balance (goods, services)	Y tril; annualized	-6.7	-9.3	-11.2	-15.6	-11.0	-8.7	-9.7	-9.6	-9.4	-9.3	-9.5	-10.4	-6.7	-5.1	-7.9
Current account balance	Y tril; annualized	7.4	2.3	0.0	-5.5	0.8	2.6	2.6	3.3	3.9	3.1	3.9	3.1	7.9	10.1	6.3
Call rate (end-period)	%	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Major assumptions																
US real GDP	Q/q %; annualized	1.8	4.5	3.5	-2.1	2.3	4.2	2.5	3.0	3.1	2.4	2.8	2.9	2.6	2.4	2.8
Crude oil price (WTI futures)	\$/bbl	94.2	105.8	97.6	98.6	99.1	103.0	100.0	100.0	100.0	100.7	100.0	100.0	100.0	100.0	100.0
Exchange rate	Yen/\$	98.8	98.9	100.4	102.8	100.2	102.1	103.0	105.0	105.0	103.8	105.0	105.0	105.0	105.0	105.0

Source: Compiled by DIR.

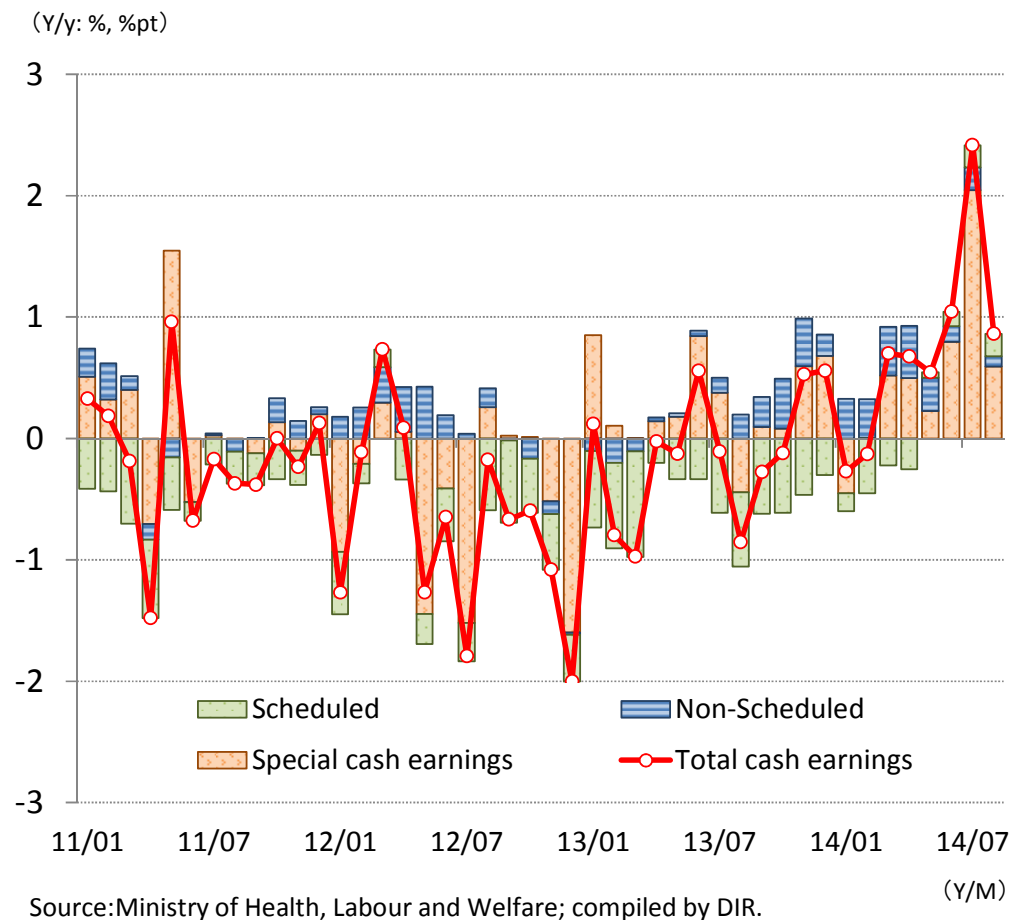
Note: GDP through Apr-Jun 2014: actual; thereafter: DIR estimates.

2. Current Economic Situation ①

Breakdown of Real Household Consumption Expenditure

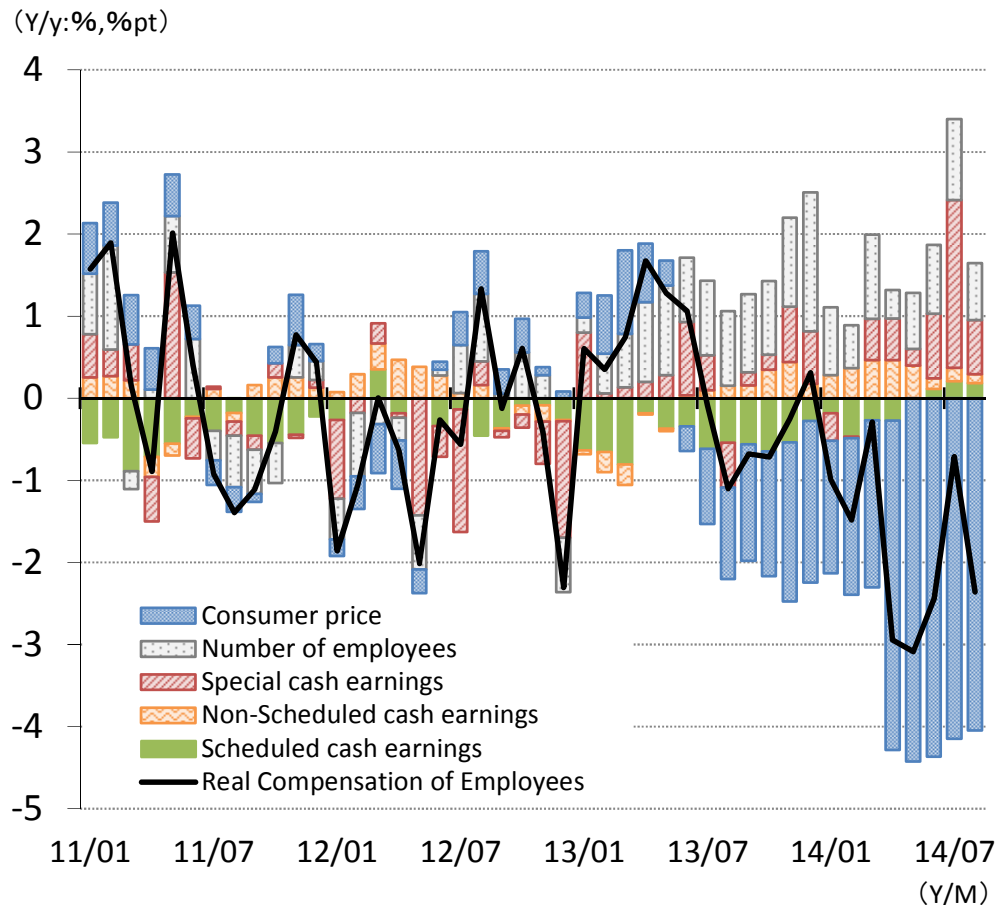


Breakdown of Total Cash Earnings



2. Current Economic Situation ②

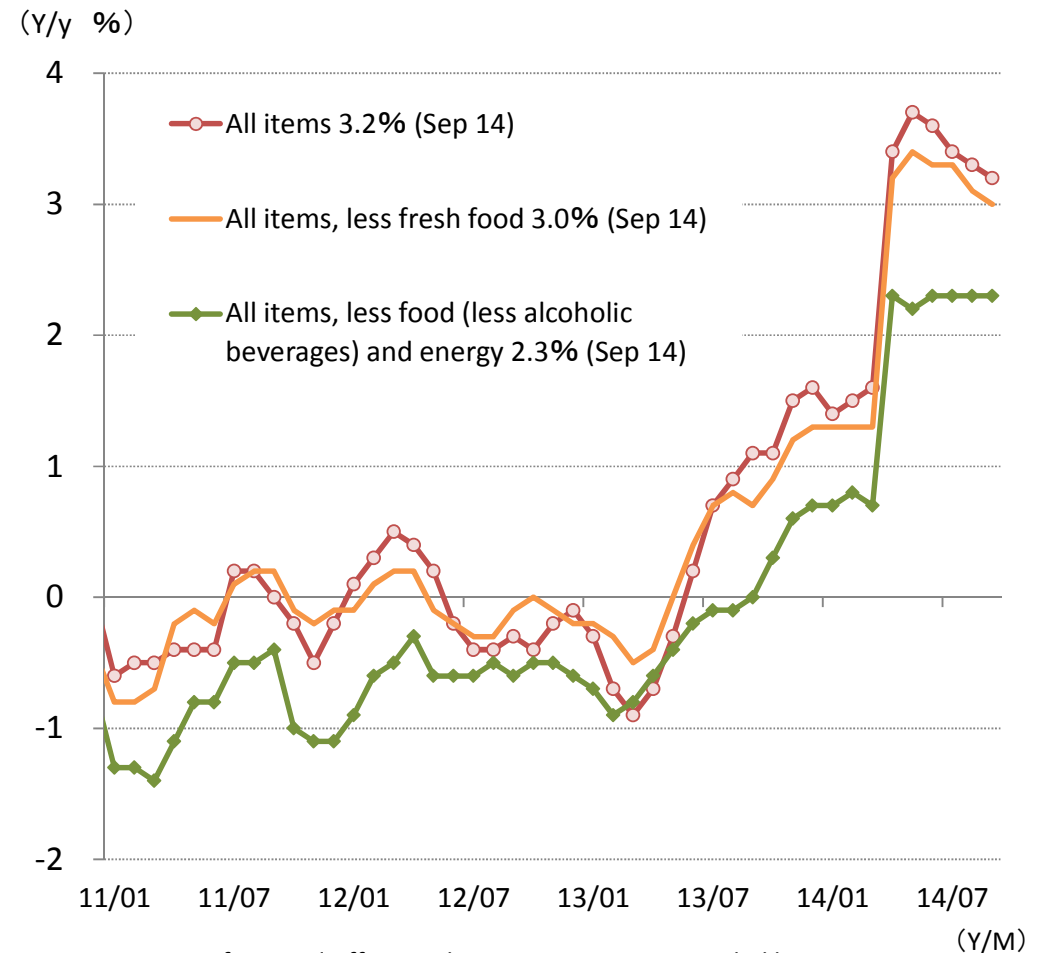
Breakdown of Real Compensation of Employees



Source: Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare ; compiled by DIR.

Note: Consumer price is all items less imputed rent.

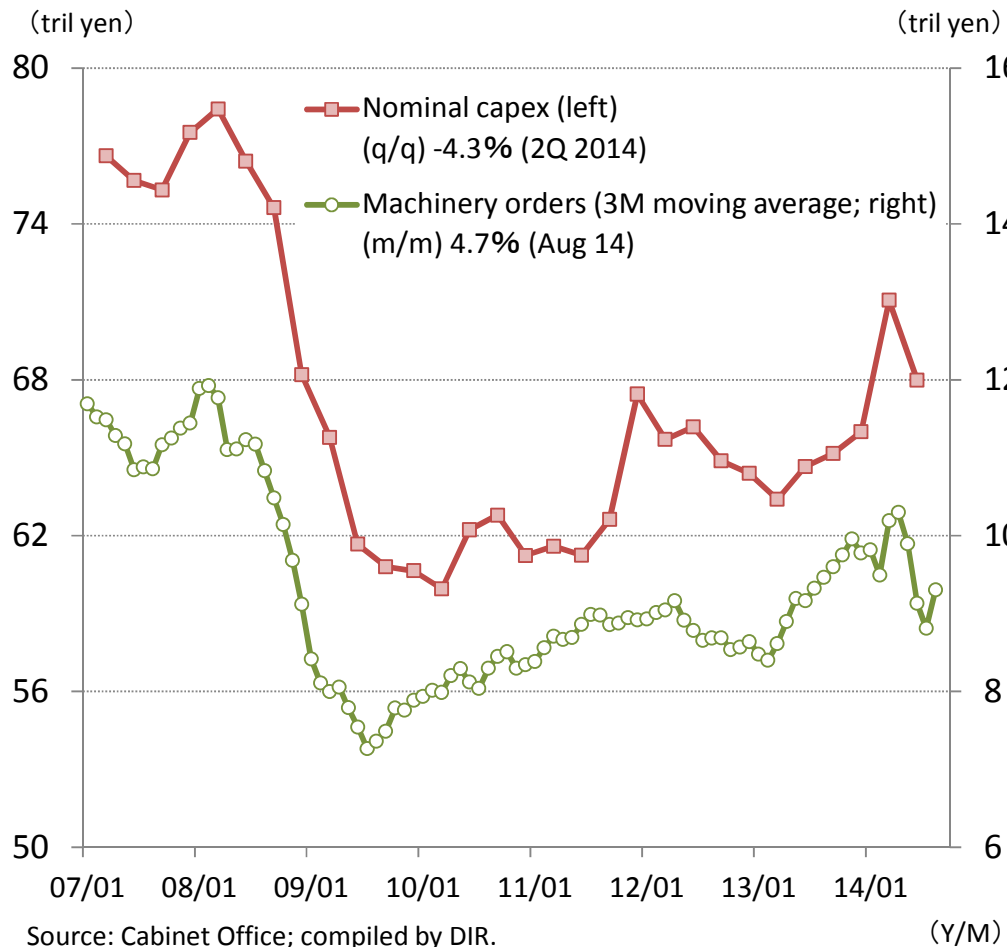
Consumer Price Index



Source: Ministry of Internal Affairs and Communications; compiled by DIR.

2. Current Economic Situation ③

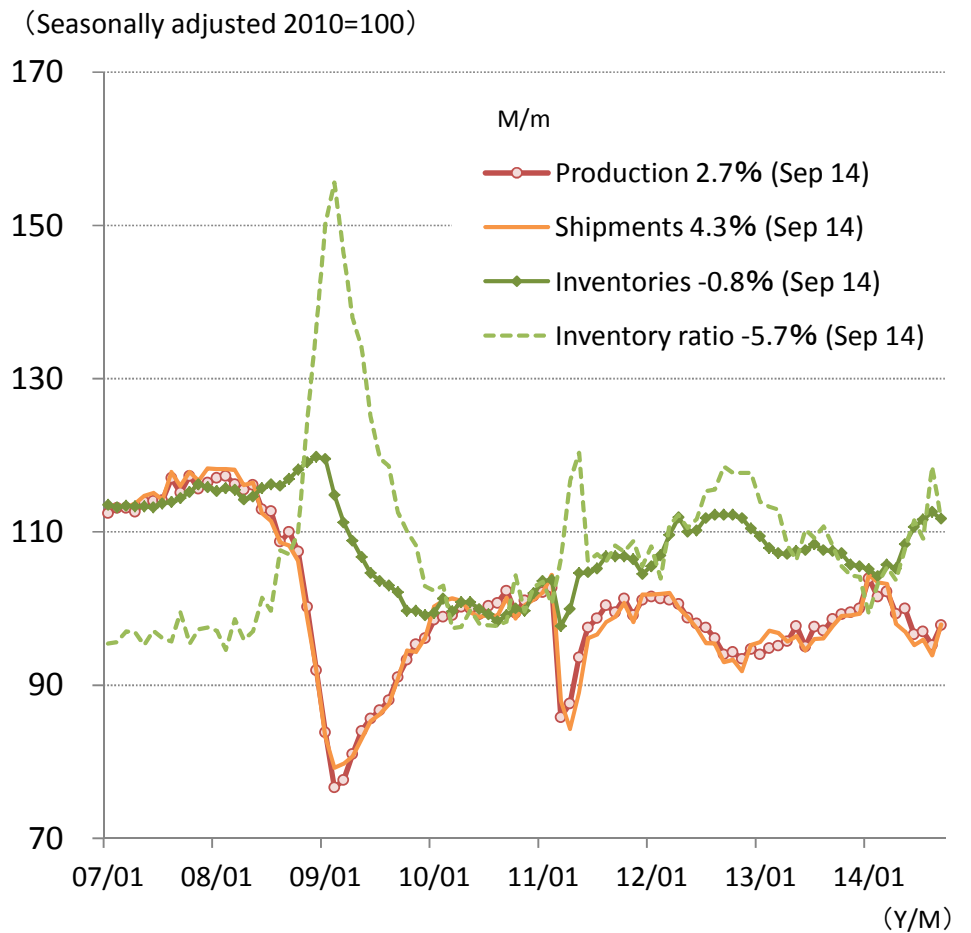
Machinery Orders and Nominal Capex



Source: Cabinet Office; compiled by DIR.

Note: Machinery orders seasonally adjusted, annualized. Private-sector orders excl. those for shipbuilding and from electric power companies.

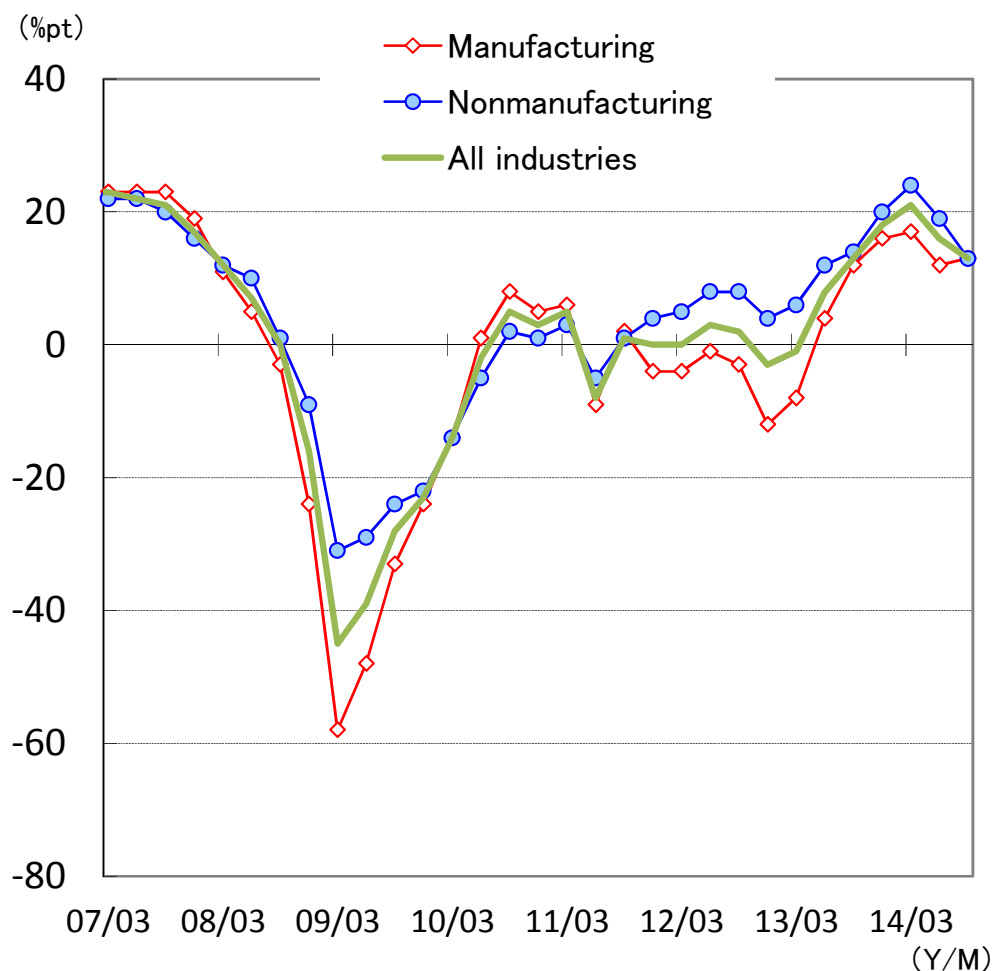
Industrial Production



Source: Ministry of Economy, Trade and Industry; compiled by DIR.

2. Current Economic Situation ④

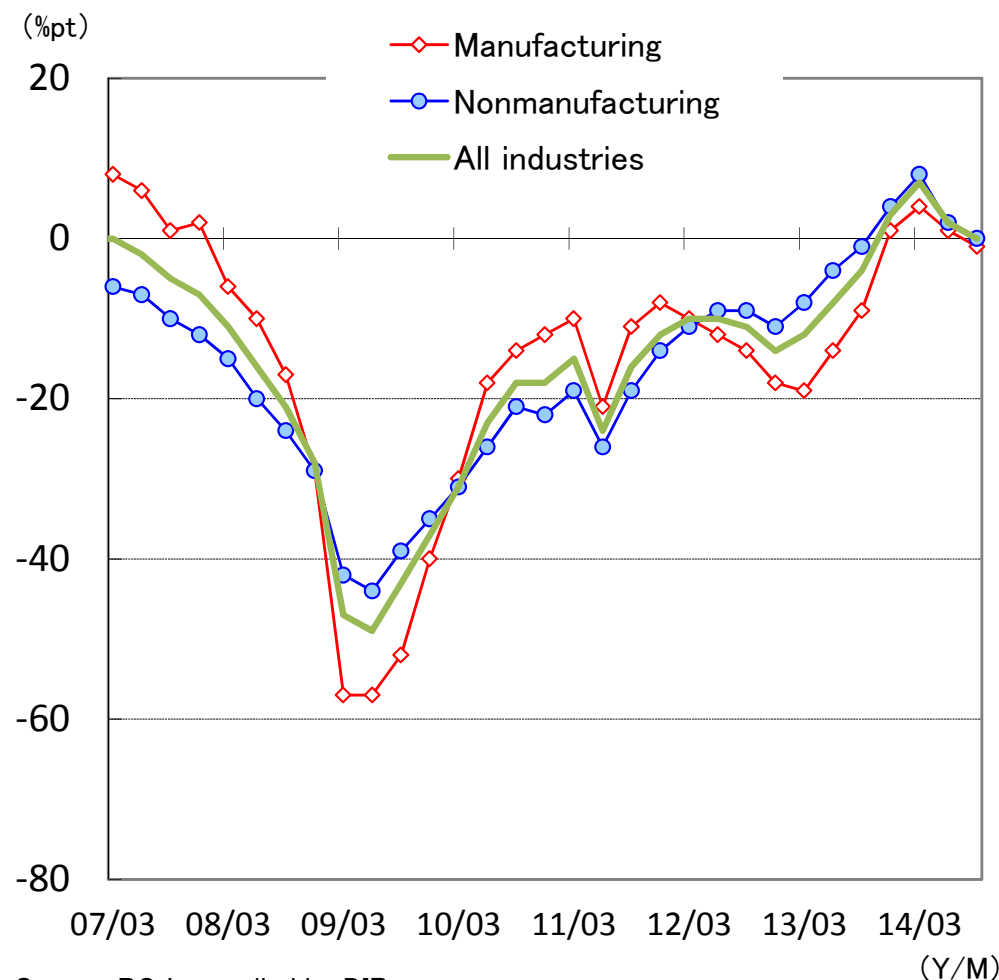
BOJ TANKAN Business Conditions: DI (Large Enterprises)



Source: BOJ; compiled by DIR.

Note: Diffusion index of "Favorable" minus "Unfavorable".

BOJ TANKAN Business Conditions: DI (Small enterprises)

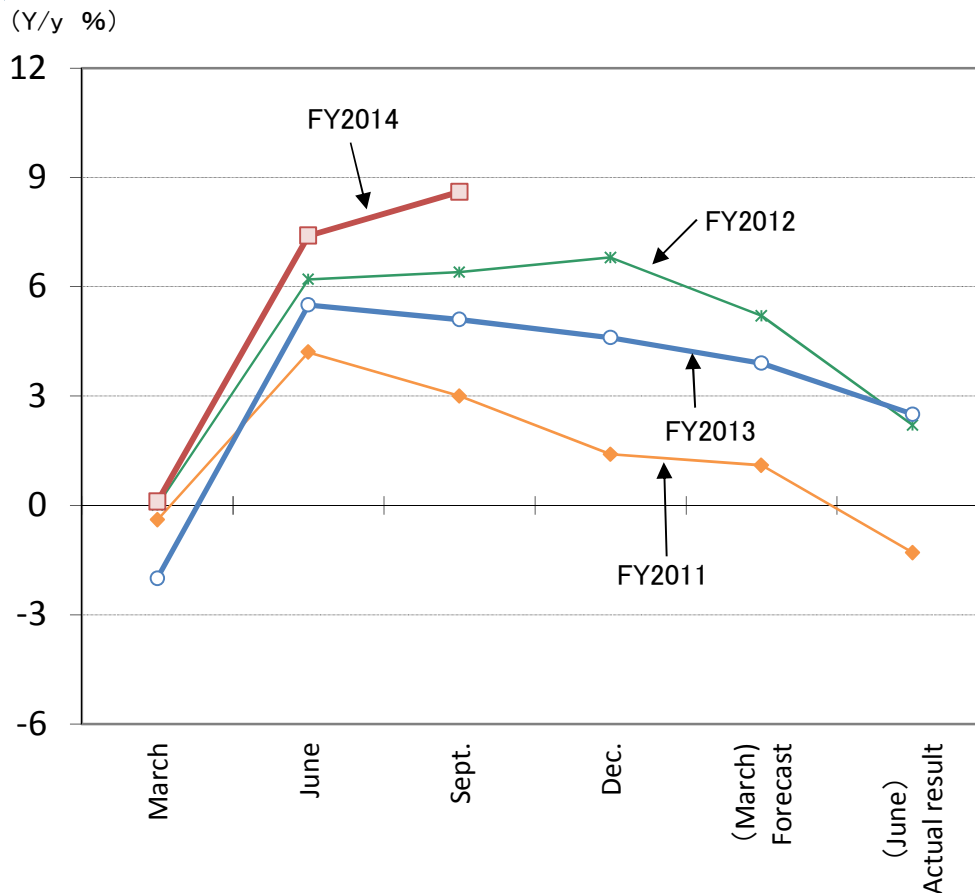


Source: BOJ; compiled by DIR.

Note: Diffusion index of "Favorable" minus "Unfavorable".

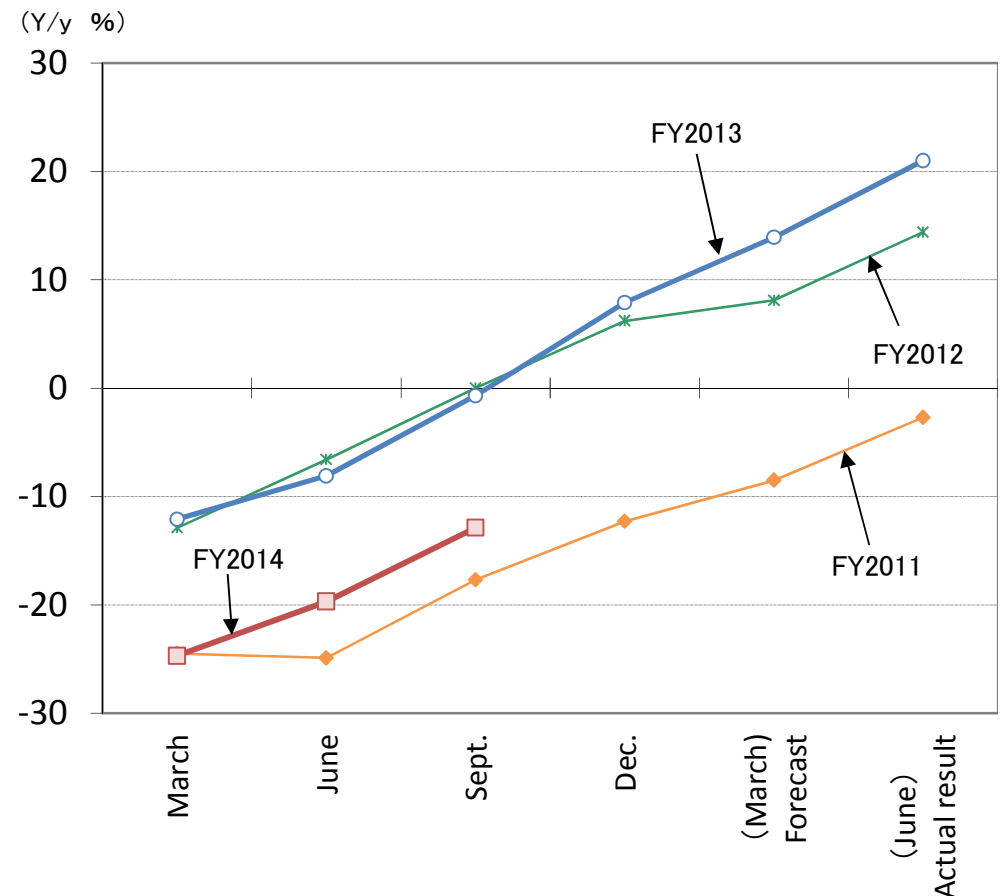
2. Current Economic Situation ⑤

Fixed Investment Including Land Purchases (Large Enterprises)



Note: The graphs indicate the revision pattern of fixed investment. The horizontal axis represents the point of time when the survey is conducted for each fiscal year. Namely, the first survey for each year (March survey) is on the left, and the last survey (June survey of the following year; actual result) is on the right. The vertical axis represents the year-to-year percent change. Excludes software investment. Source:BOJ; compiled by DIR.

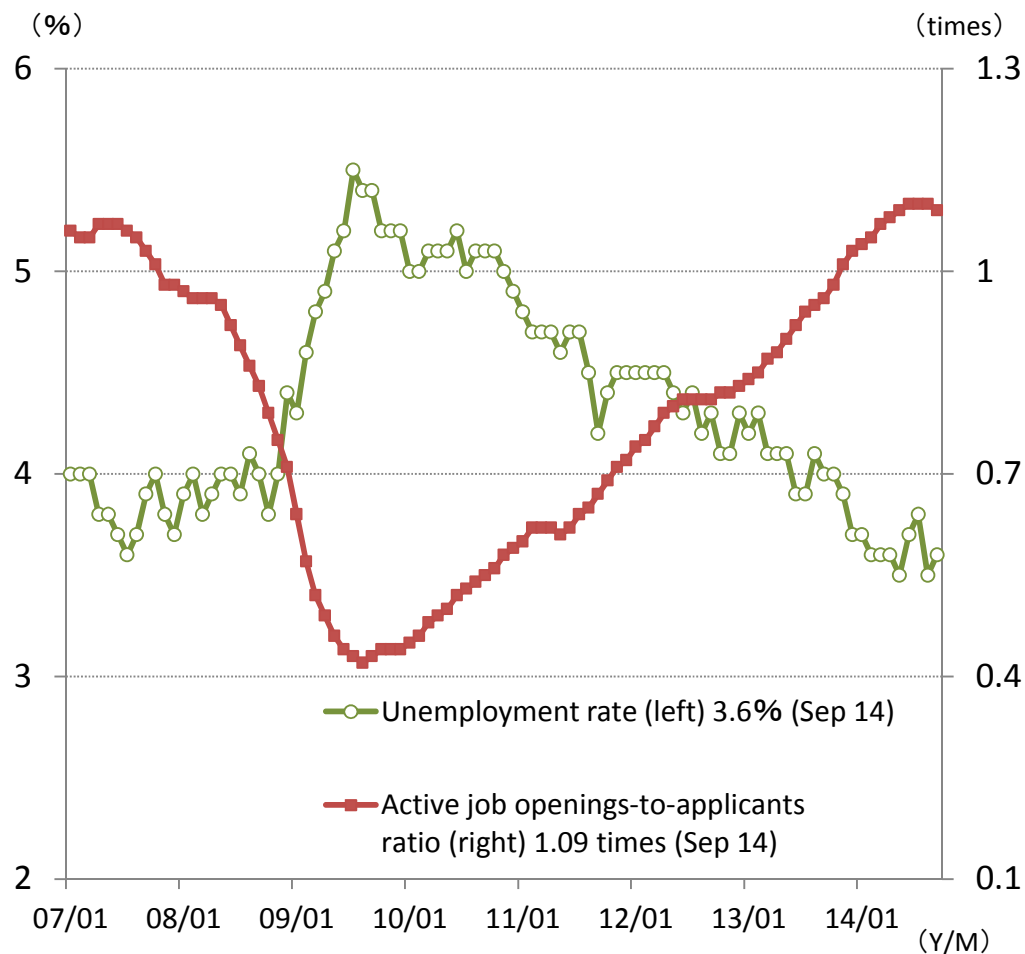
Fixed Investment Including Land Purchases (Small enterprises)



Note: The graphs indicate the revision pattern of fixed investment. The horizontal axis represents the point of time when the survey is conducted for each fiscal year. Namely, the first survey for each year (March survey) is on the left, and the last survey (June survey of the following year; actual result) is on the right. The vertical axis represents the year-to-year percent change. Excludes software investment. Source:BOJ; compiled by DIR.

2. Current Economic Situation ⑥

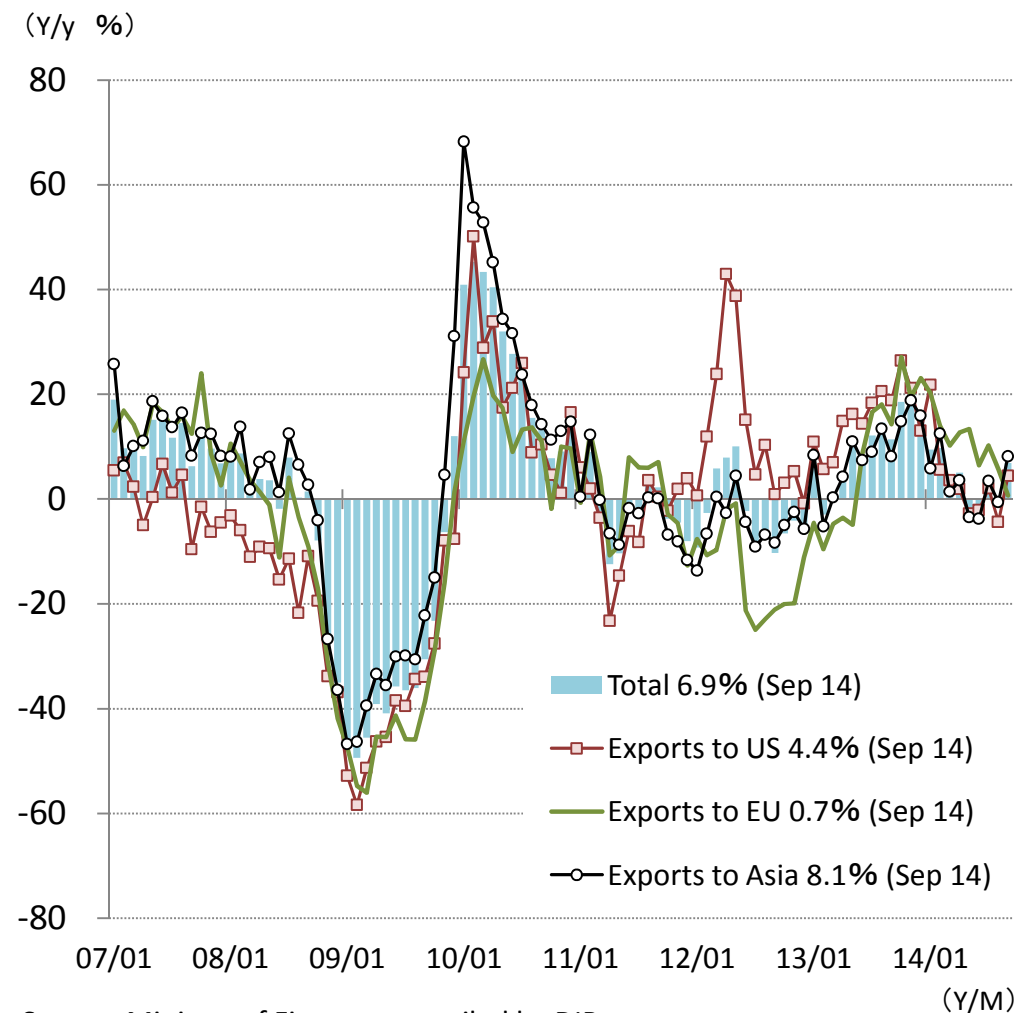
Unemployment Rate, Active Job Openings-to-Applicants Ratio



Source: Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare; compiled by DIR.

Note: Unemployment rate during Mar-Aug 2011 is adjusted for three devastated quake-hit prefectures.

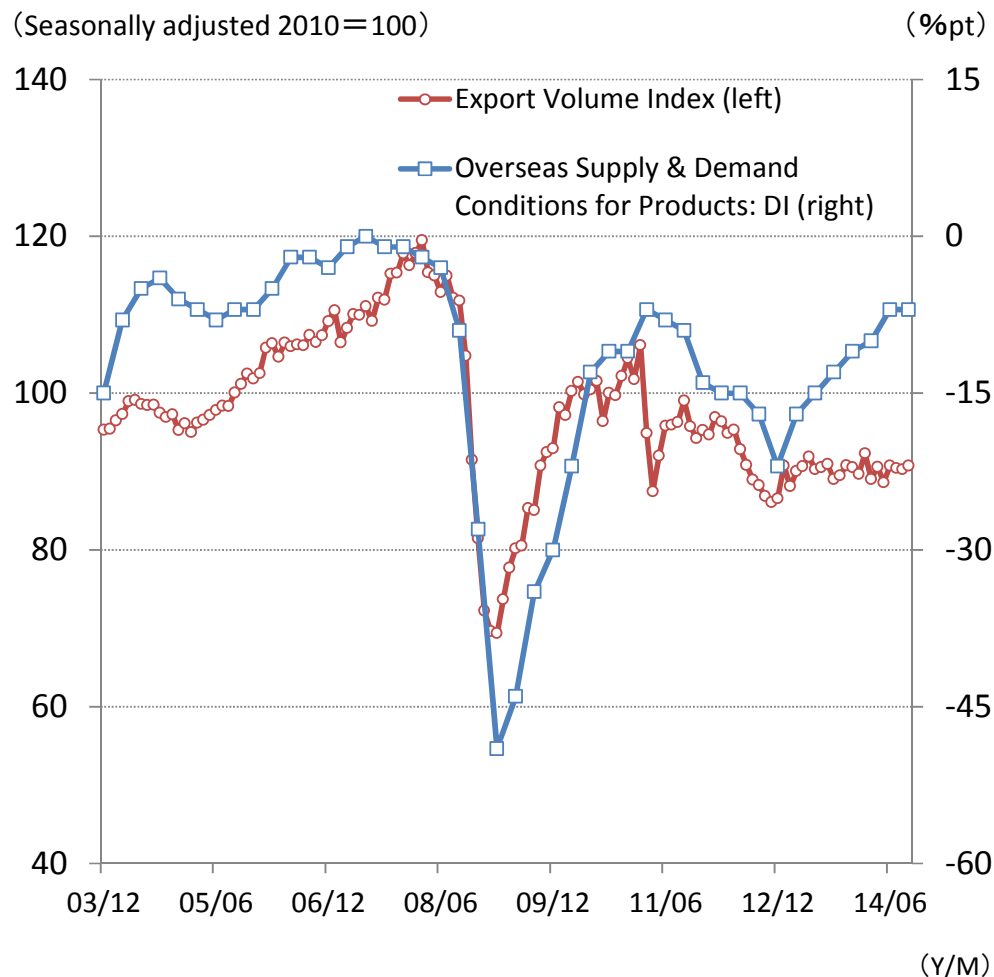
Exports by Trading Partner (value)



Source: Ministry of Finance; compiled by DIR.

2. Current Economic Situation ⑦

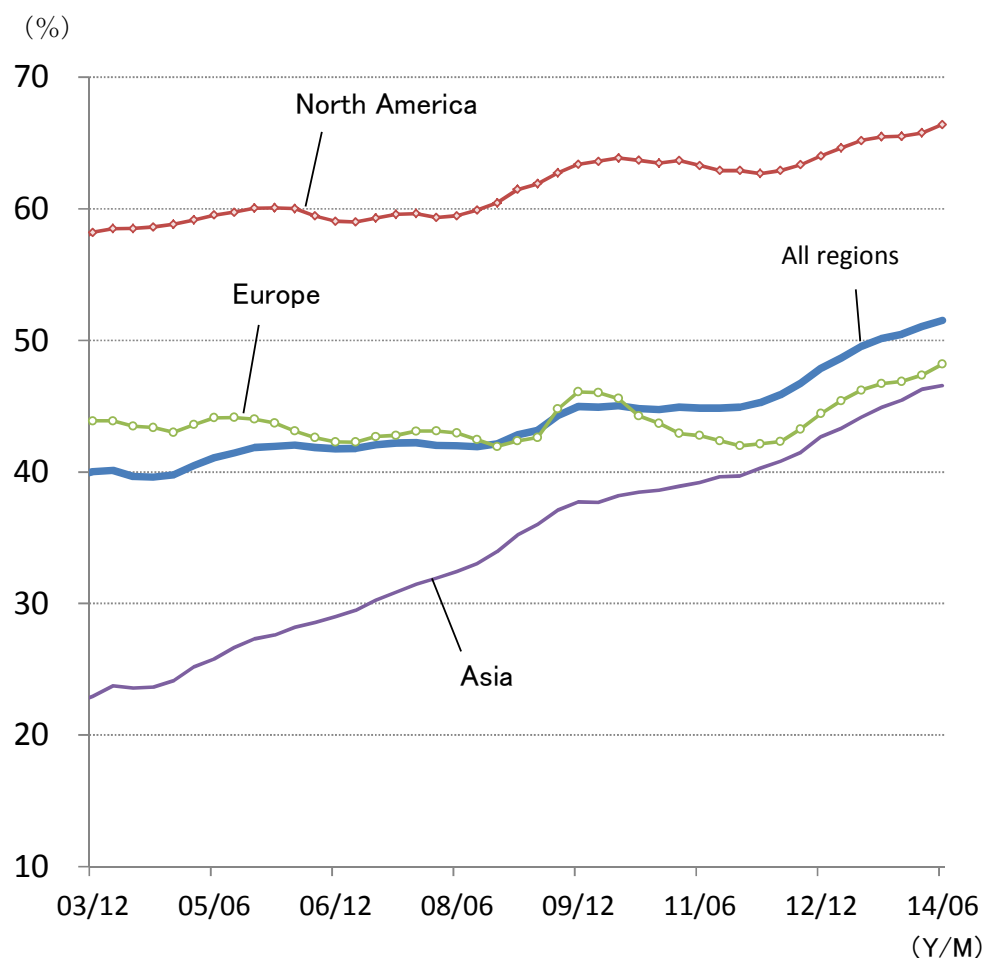
Overseas Supply & Demand Conditions for Products, Export Volume



Source:BOJ, Ministry of Finance; compiled by DIR.

Note: DI of "Excess demand" minus "Excess supply". Export Volume Index is seasonally adjusted By Cabinet Office .

Percentage of Sales by Overseas Subsidiaries



Source: Ministry of Economy, Trade and Industry, Ministry of Finance; compiled by DIR.

Note: Percentage of Sales by Overseas Subsidiaries=Local Sales / (Export from Japan + Local Sales) . Four-quarter moving average.

II . Monetary Policy 1. Quantitative and Qualitative Monetary Easing

Monetary Base Target, BOJ's Balance Sheet

	End-2013 (actual)	End-2014 (projected)	(tril yen) The pace of annual increase
Monetary base	202	275	About 80 trillion

Breakdown of the bank's balance sheet

JGBs	142	200	About 80 trillion
CP	2.2	2.2	Maintain the outstanding balance
Corporate bonds	3.2	3.2	Maintain the outstanding balance
ETFs	2.5	3.8	About 3 trillion
J-REITs	0.14	0.18	About 90 billion
Total assets (including others)	224	297	
Bank notes	90	93	
Current deposits	107	177	
Total liabilities and net assets (including others)	224	297	

Note: According to the Policy Board of the BOJ's decision on 31 Oct 2014, the average remaining maturity of the Bank's JGB purchases will be extended to about 7-10 years (an extension of about 3 years at maximum compared with the past).

Source: Bank of Japan; compiled by DIR.

Forecasts of the Majority of BOJ Policy Board Members (Oct 2014)

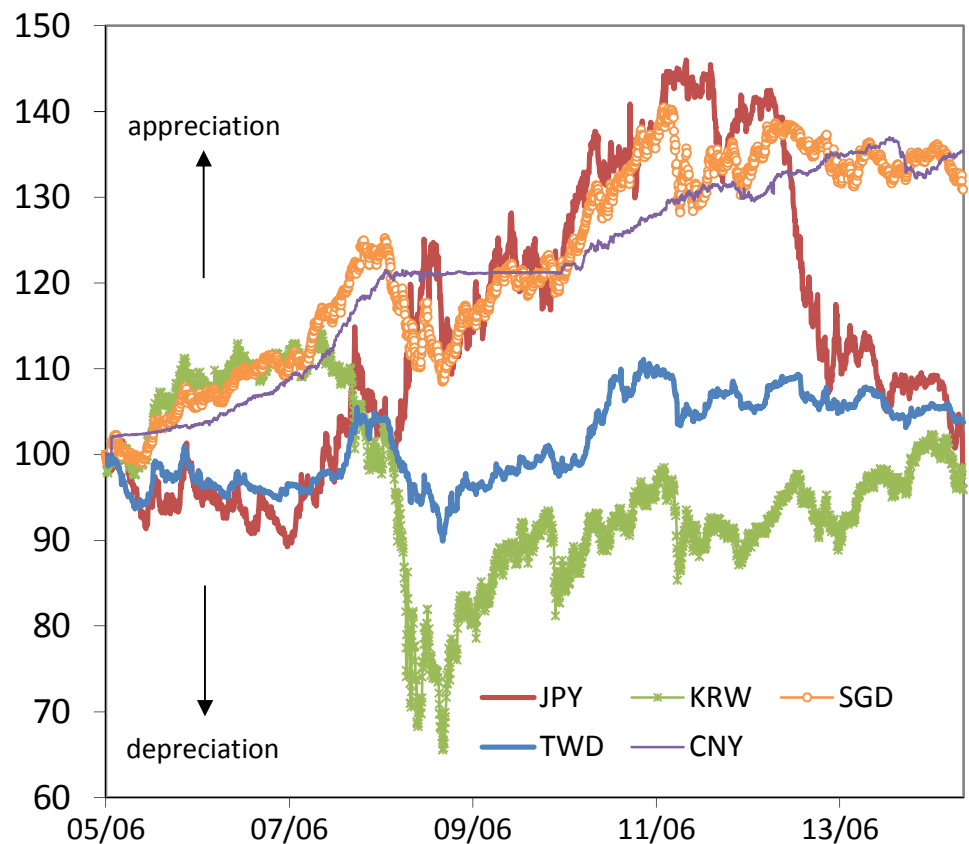
	Real GDP	CPI (all items less fresh food)	(Y/y, %) Excluding the effects of the consumption tax hikes
Fiscal 2014	+0.2 to +0.7 [+0.5]	+3.1 to +3.4 [+3.2]	+1.1 to +1.4 [+1.2]
Forecasts made in July 2014	+0.6 to +1.3 [+1.0]	+3.2 to +3.5 [+3.3]	+1.2 to +1.5 [+1.3]
Fiscal 2015	+1.2 to +1.7 [+1.5]	+1.8 to +2.6 [+2.4]	+1.1 to +1.9 [+1.7]
Forecasts made in July 2014	+1.2 to +1.6 [+1.5]	+1.9 to +2.8 [+2.6]	+1.2 to +2.1 [+1.9]
Fiscal 2016	+1.0 to +1.4 [+1.2]	+1.9 to +3.0 [+2.8]	+1.2 to +2.3 [+2.1]
Forecasts made in July 2014	+1.0 to +1.5 [+1.3]	+2.0 to +3.0 [+2.8]	+1.3 to +2.3 [+2.1]

Note: Notes: Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates). The consumption tax hike in April 2014 -- to 8 percent -- and the one scheduled for October 2015 -- to 10 percent -- are incorporated in the forecasts. In terms of the forecasts for the CPI, individual Policy Board members make their forecasts based on figures excluding the direct effects of the consumption tax hike.

2. Developments in Financial Market ① Foreign Exchange

US Dollar Exchange Rates vs. Asian Currencies

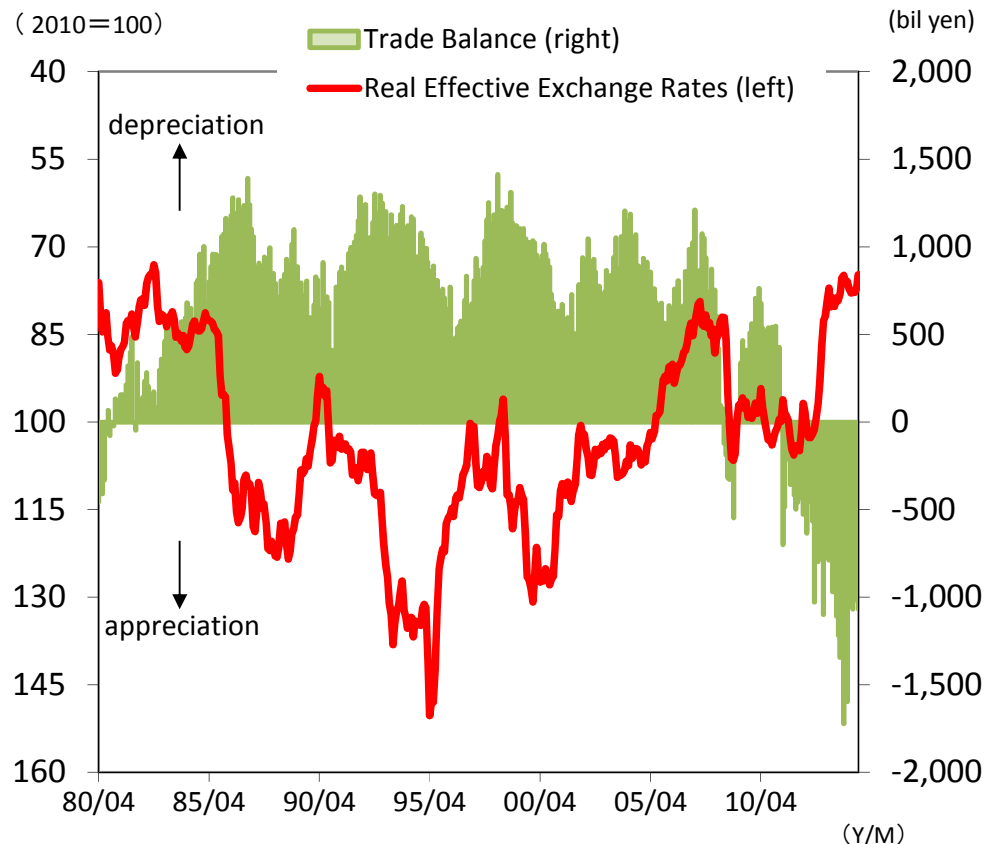
(June 2005 = 100)



Source: Bloomberg; compiled by DIR.

Real Effective Exchange Rate, Trade Balance

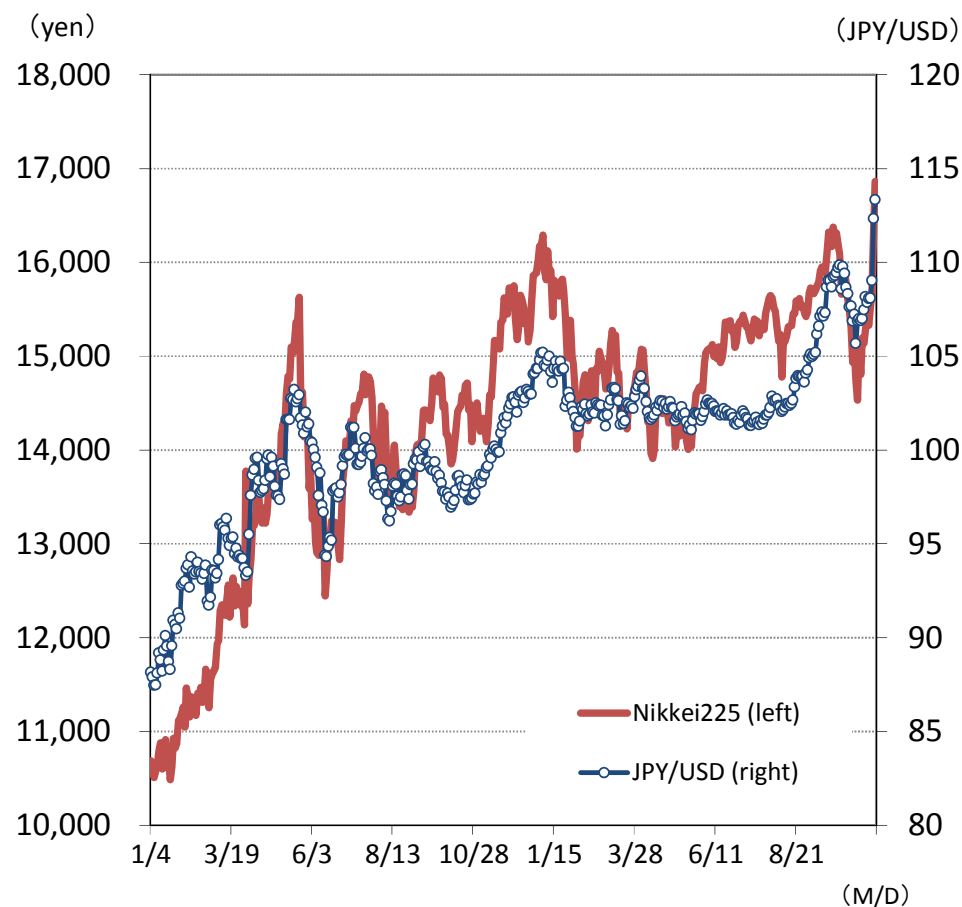
(2010 = 100)



Source: Bank of Japan, Ministry of Finance Japan; compiled by DIR.

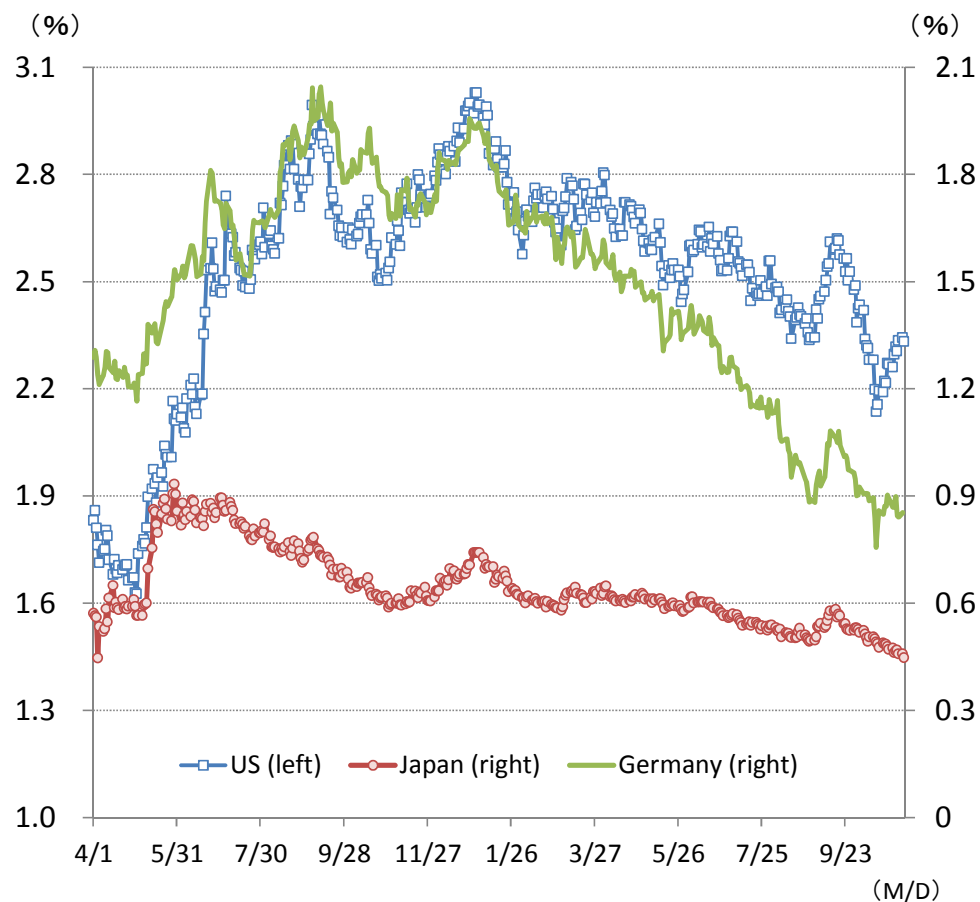
2. Developments in Financial Market ② Equities and Bonds

Nikkei 225, JPY/USD



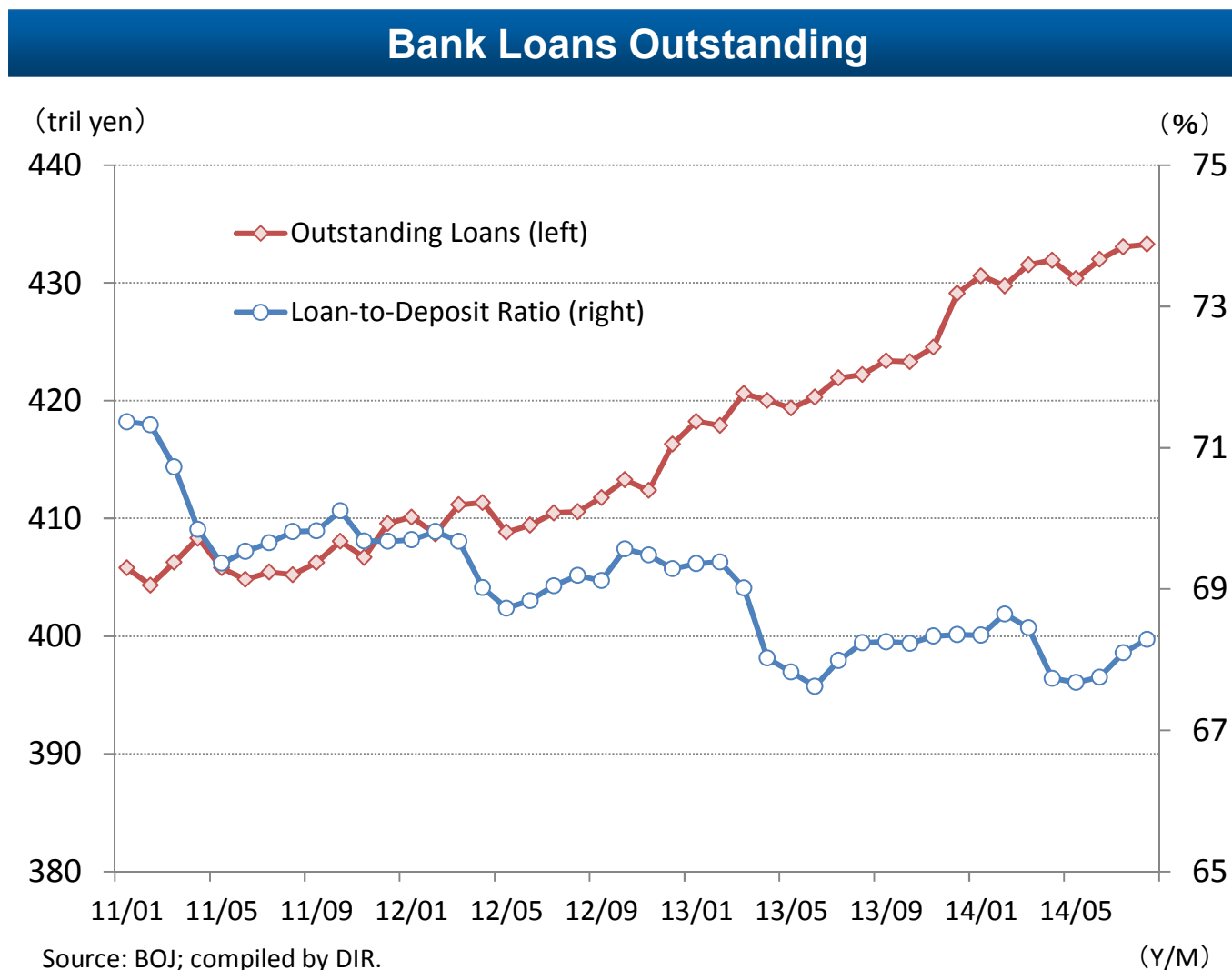
Source: Nikkei Inc. ,Bloomberg; Compiled by DIR.

Yields on 10-year Government Bonds



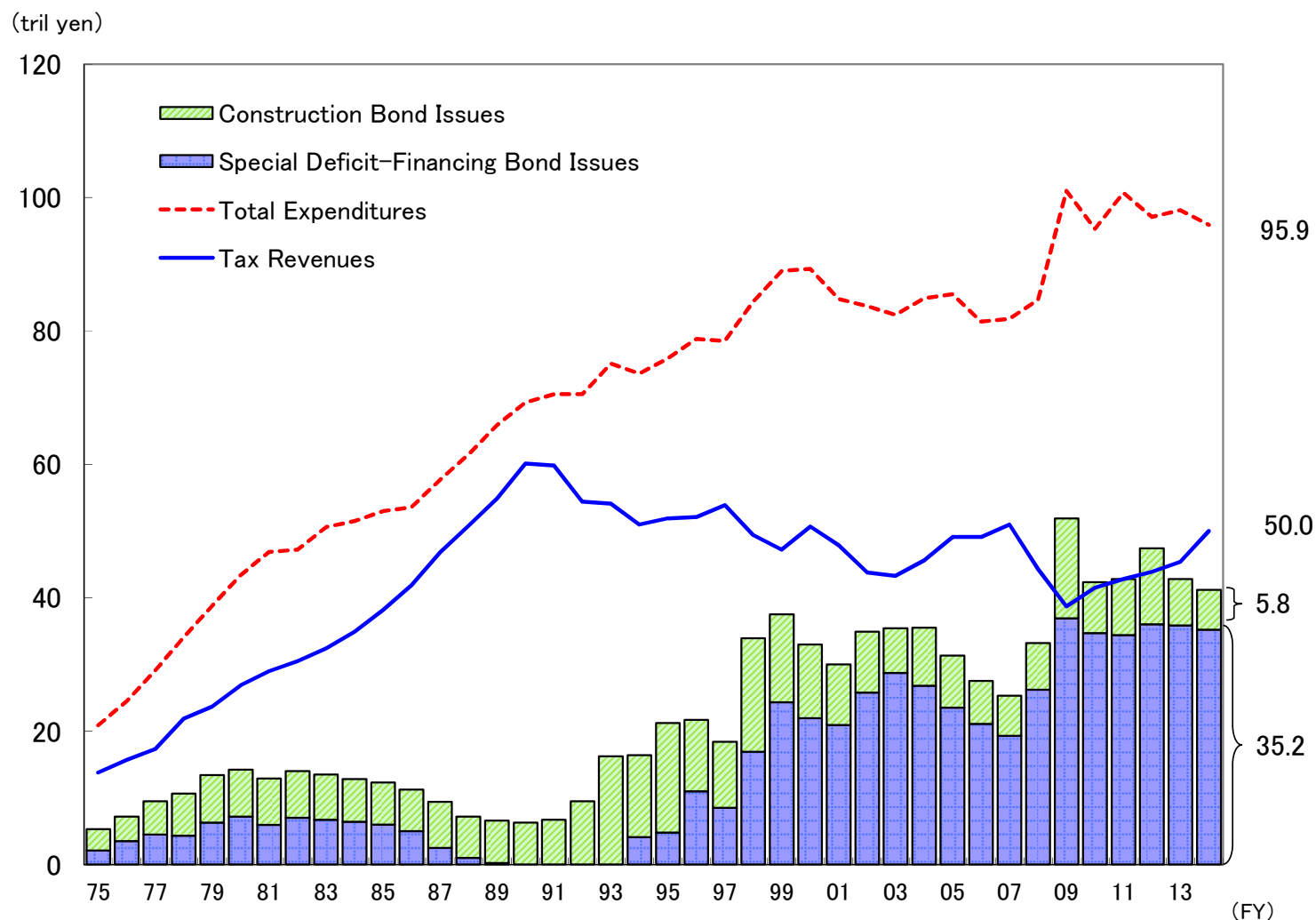
Source: Bloomberg; Compiled by DIR.

2. Developments in Financial Market ③ Bank Loans



III. Fiscal Consolidation

1. Trends in General Account Tax Revenues, Total Expenditures and Bond Issues

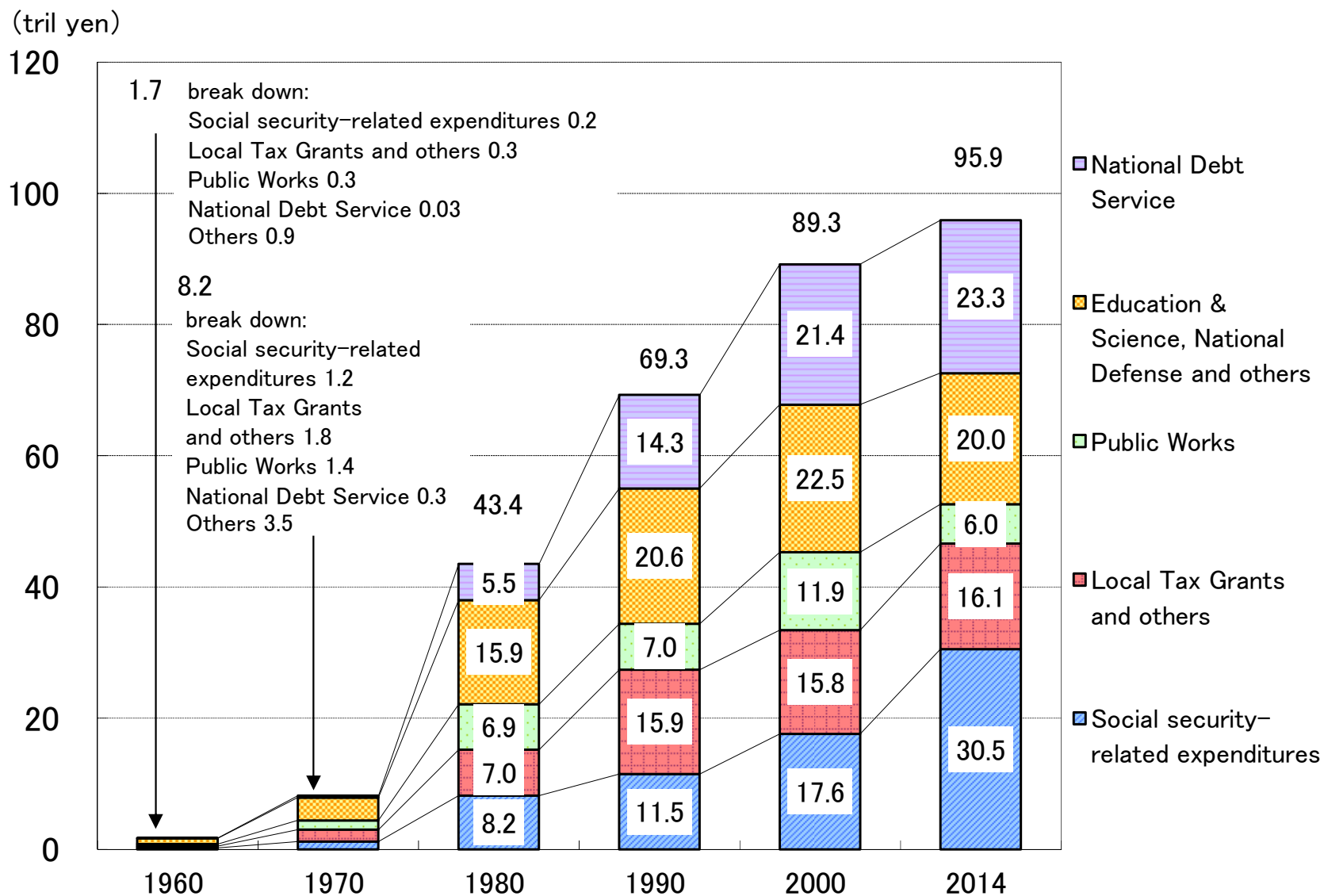


Source: Ministry of Finance; compiled by DIR.

Notes1: FY1975-2012:Account Settlement, FY2013: Supplementary Budget, FY2014: Initial Budget

Notes2: The following bonds are excluded from Special Deficit-Financing Bonds: Ad-hoc Special Deficit-Financing Bonds issued in FY1990 to support peace and reconstruction activities in the Persian Gulf Region, Tax reduction-related Special Deficit-Financing Bonds issued in FY1994-96 to compensate reduce revenue by tax cuts preceding consumption tax hike from 3% to 5%, Reconstruction Bonds issued in FY2011 for the reconstruction from the Great East Japan Earthquake, Pension-related Special Deficit-Financing Bonds issued in FY2012-13 to cover one-half of the basic pension outlays from the national treasury.

2. Transition of Major Expenditure Items in the General Account



Source: Ministry of Finance; compiled by DIR.

Notes: Based on account settlement for FY1960-2000 and Initial budget for FY2014.

3. General Account Expenditures and Revenues, Change by Item

(tril yen)

		FY1990	FY2014	Change (FY1990 to FY2014)	
Total Expenditures		69.3	95.9	+26.6	
	Social security (A)	11.5	30.5	+19.0	67%
	Local Tax Grants (B)	15.9	16.1	+0.2	1%
	National debt service (C)	14.3	23.3	+9.0	32%
	(A)+(B)+(C)	41.7	69.9	+28.2	100%
Total revenues		69.3	95.9	+26.6	
	Tax revenues	60.1	50.0	-10.1	
	Government bond issues	6.3	41.3	+35.0	

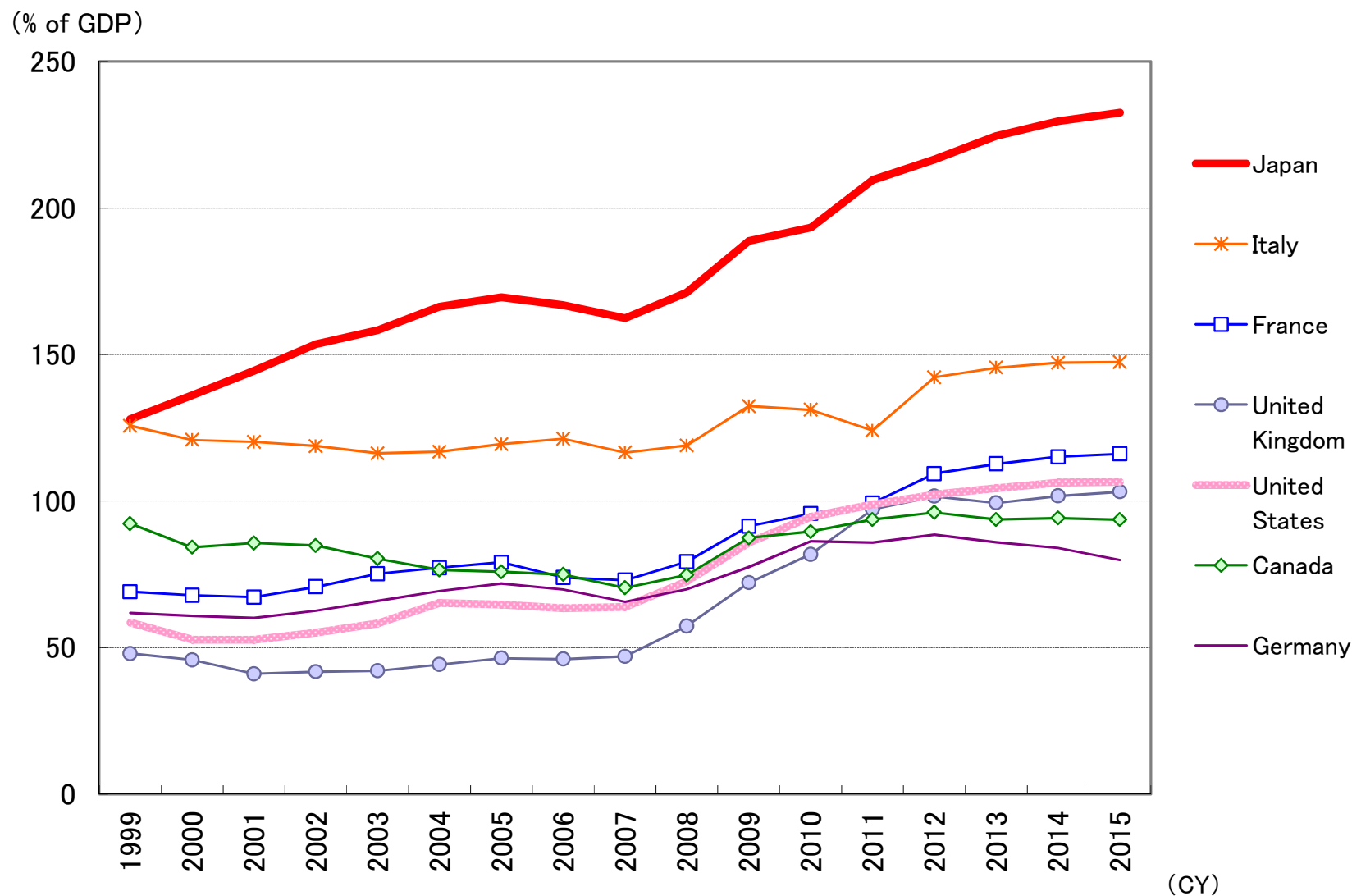
[Reference]

		FY1990	FY2013
Population share of age 65 and older		12.1%	25.0%
National burden ratio		38.4%	40.6%
	As tax rate	27.7%	23.3%
	As social security payment rate	10.6%	17.4%

Source: Ministry of Finance, Ministry of Internal Affairs and Communications; compiled by DIR.

Note: Based on account settlement for FY1990, expected settlement for FY2013 and initial budget for FY2014.

4. Gross National Debt Outstanding as a Percentage of GDP by Country



Source: OECD Economic Outlook 95; compiled by DIR

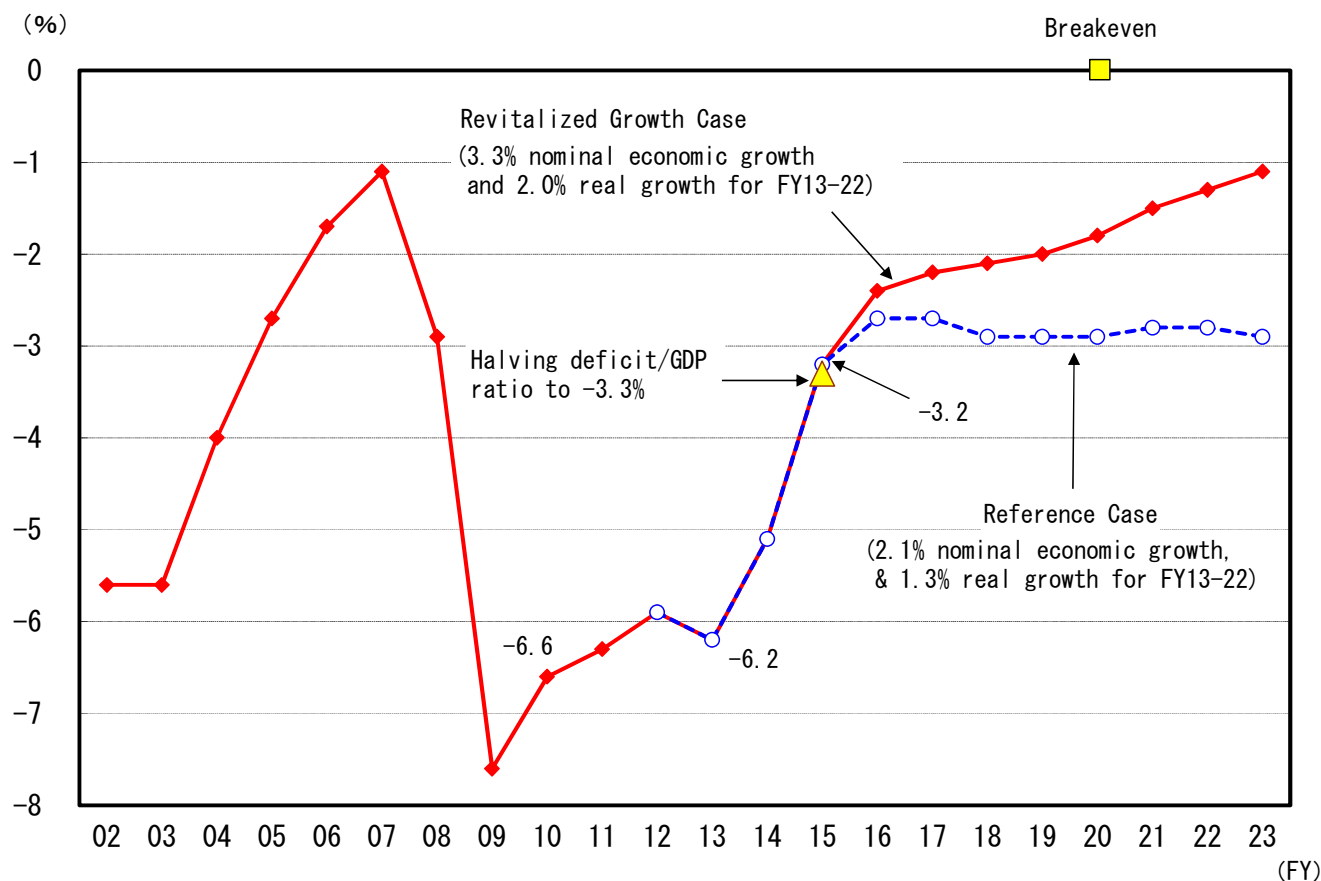
Note: OECD estimates shown for 2012 onward for Japan, 2013 onward for others.

5. Medium-term Framework for Fiscal Consolidation

(As Approved by the Cabinet Aug 8, 2013)

The Government (central and local combined) aims to halve the primary deficit as a percentage of GDP from 6.6% in FY2010 to 3.3% by FY2015 and achieve a primary surplus by FY2020. Thereafter, the Government seeks to steadily reduce the outstanding public debt as compared to GDP.

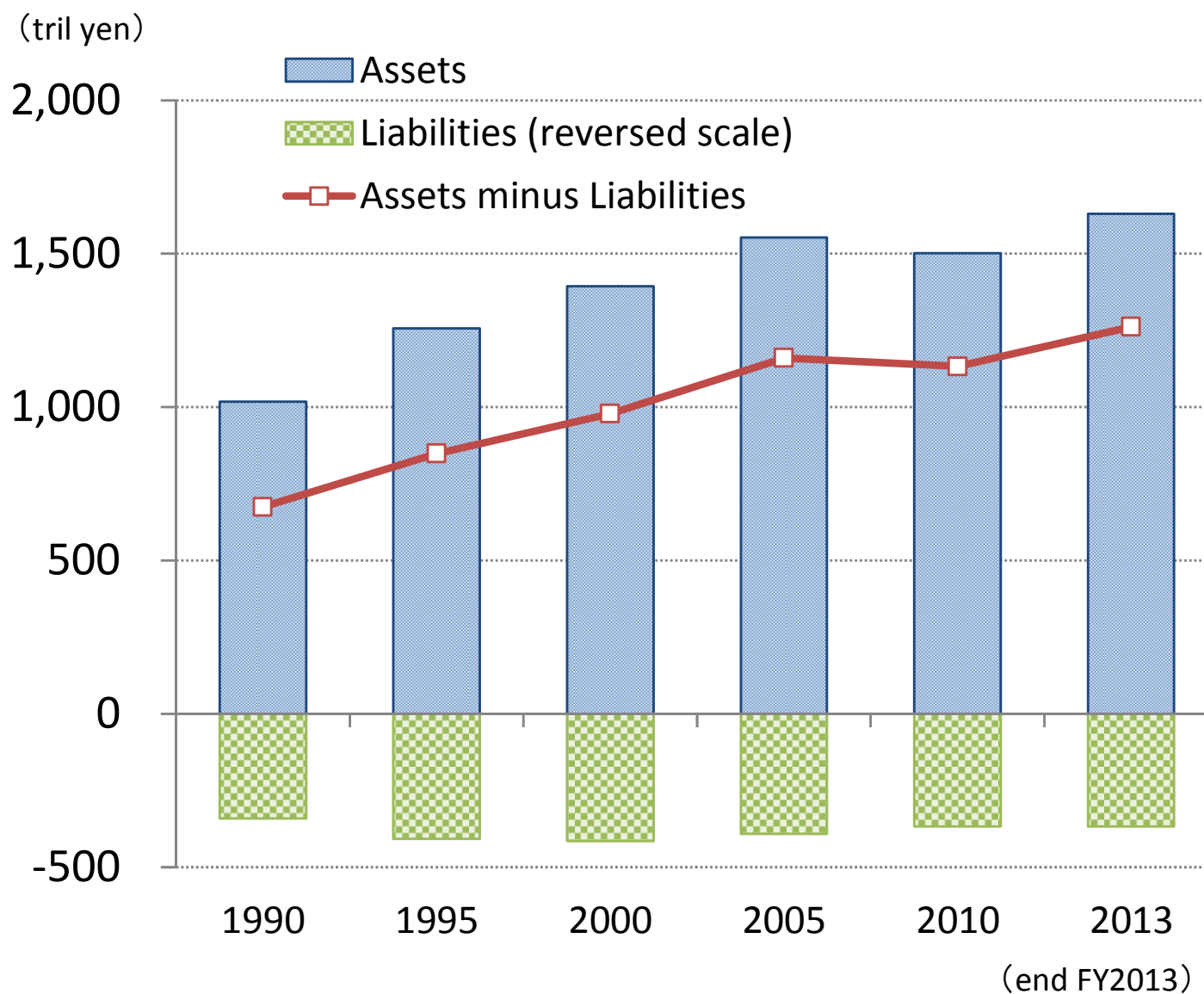
Government (central/local) Primary Balance (% of GDP) (25 July 2014)



Source: Cabinet Office; compiled by DIR.

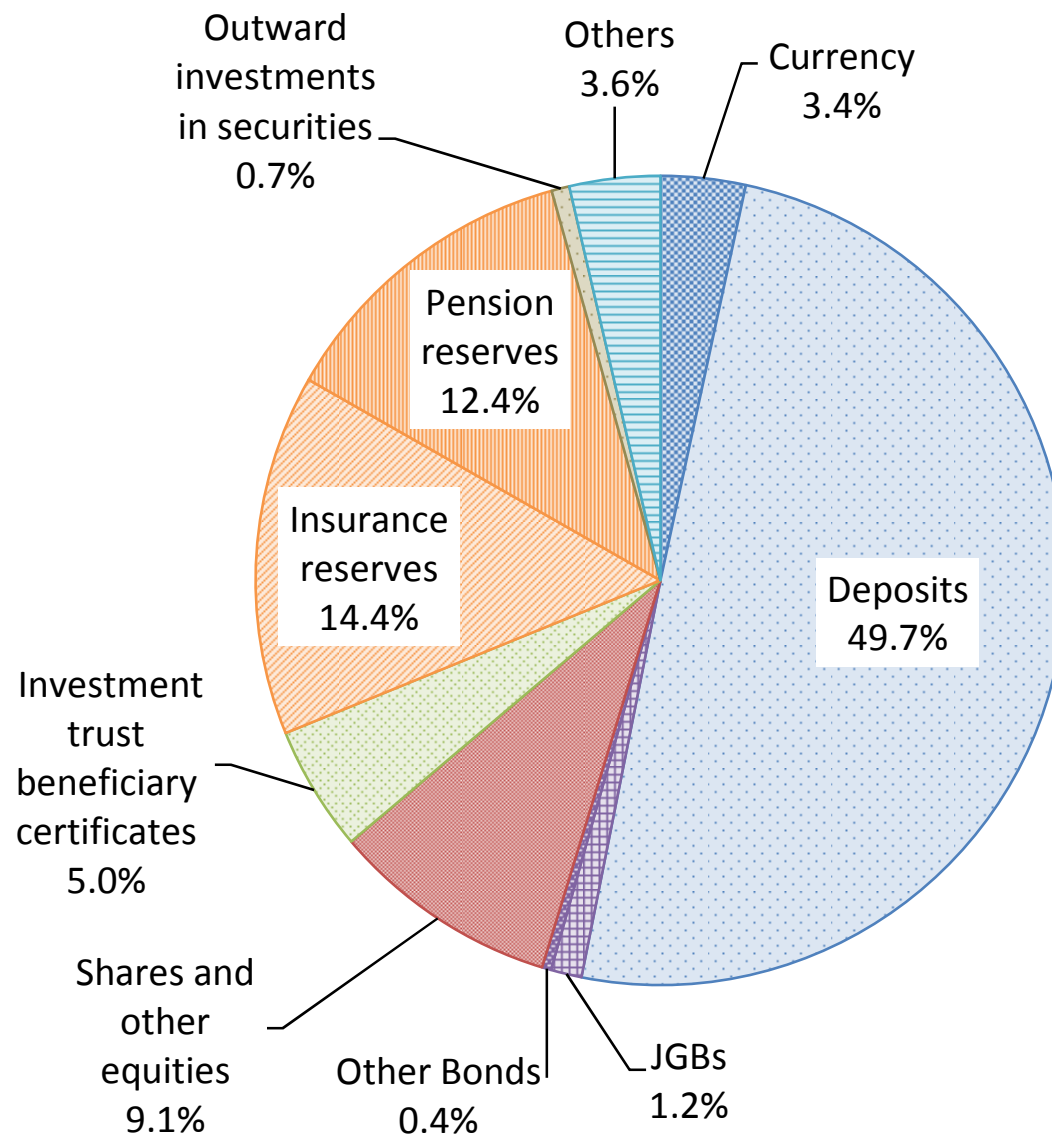
Note: Government (central/local) primary deficit stood at 6.6% of GDP in FY10. Thus, 50%-reduction target set at 3.3%. Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures.

IV. Vitalizing Financial and Capital Markets 1. Household Financial Assets



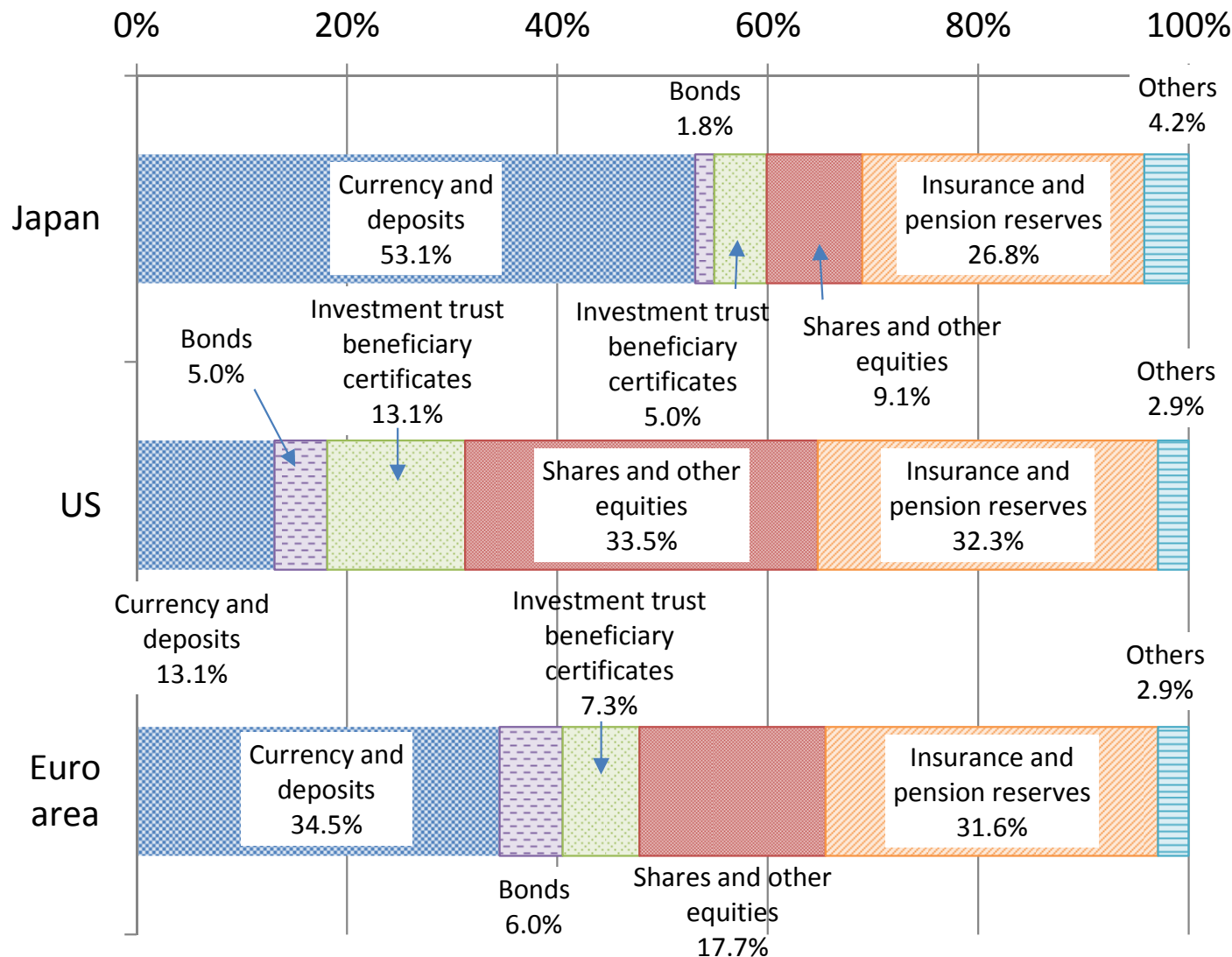
Source: Bank of Japan; compiled by DIR.

2. Breakdown of Household Financial Assets (end-June 2014)



Source: Bank of Japan; compiled by DIR.

3. International Comparison of Household Financial Assets

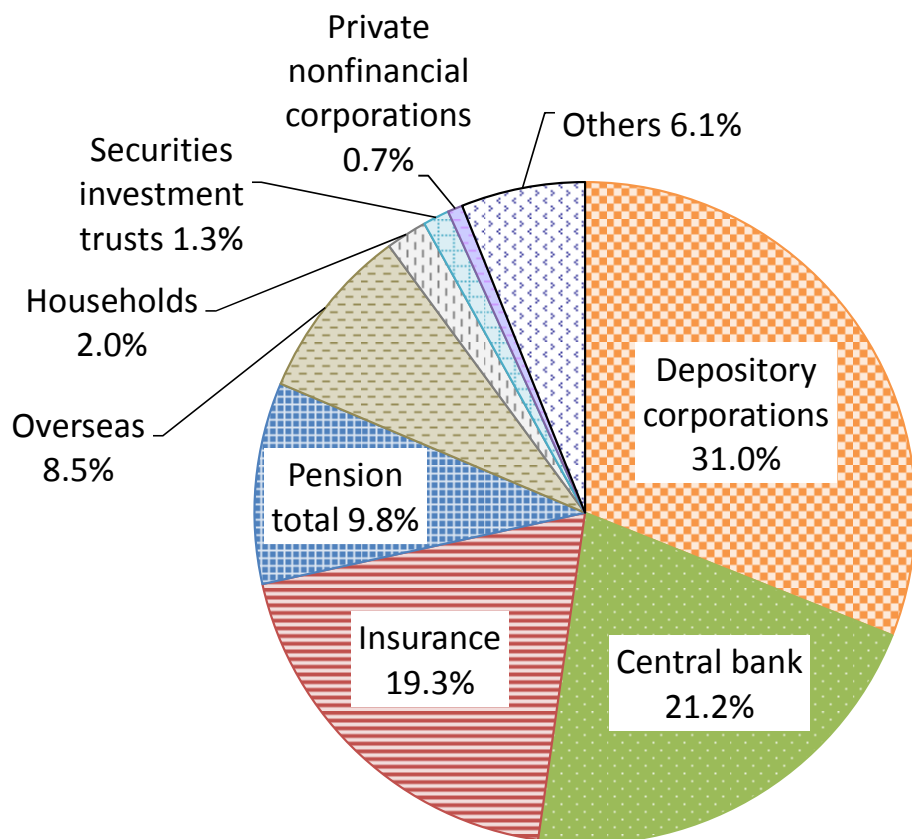


Source: BOJ; compiled by DIR.

Note: As of June-end 2014 for Japan and US, March-end 2014 for Euro area. "Households" includes nonprofit institutions serving households for US and Euro area but not for Japan.

4. JGB Holders and Sovereigns Rating

Breakdown of JGB Holders



Source: Bank of Japan; compiled by DIR.

Note: JGB includes treasury bills, government bonds and Fiscal Investment and Loan Program (FILP) bonds. Pension total includes pension funds and public pensions.

Sovereigns Rating (S&P) ※

	S&P
AAA	United Kingdom, Germany, Luxembourg, Finland(-)
AA+	United States, Austria, Netherlands
AA	Belgium, France
AA-	Japan (-), China, South Korea
A+ to A-	Ireland: A- (+)
BBB+	Brazil, South Africa
BBB	Spain, Italy(-), Turkey(-), Russia(-)
BBB-	India
BB+	
BB	Hungary, Portugal
BB-	
B+ to CCC+	Greece: B, Cyprus: B(+)
CCC	
D/SD	

Source: Bloomberg; compiled by DIR.

Note: Ratings for local currency long term government bonds. Signs in brackets indicate rating outlook; (+) means positive and (-) means negative. No sign indicates stable outlook.
 ※This report uses credit ratings assigned by Standard & Poor's, which is not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. See explanations of ratings at the end of this document..

IV. Vitalizing Financial and Capital Markets

5. International Financial Center Ranking

Title	International Financial Center Development Index	Global Financial Center Index	Financial Development Index
Source	Xinhua News Agency Dow Jones & Company	Z/Yen Group	World Economic Forum
Date of publication	Sep 2013	Mar 2014	Oct 2012
1	New York	New York	Hong Kong
2	London	London	United States
3	Hong Kong	Hong Kong	United Kingdom
4	Tokyo	Singapore	Singapore
5	Singapore	Zurich	Australia
6	Shanghai	Tokyo	Canada
7	Paris	Seoul	Japan
8	Frankfurt	Boston	Switzerland
9	Chicago	Geneva	Nederland
10	Sydney	San Francisco	Sweden

Source: Xinhua News Agency, Dow Jones & company, Z/Yen Group, Financial Development Index; compiled by DIR.

V . World Economy 1. IMF World Economic Outlook

GDP Growth rate

(Y/y %)

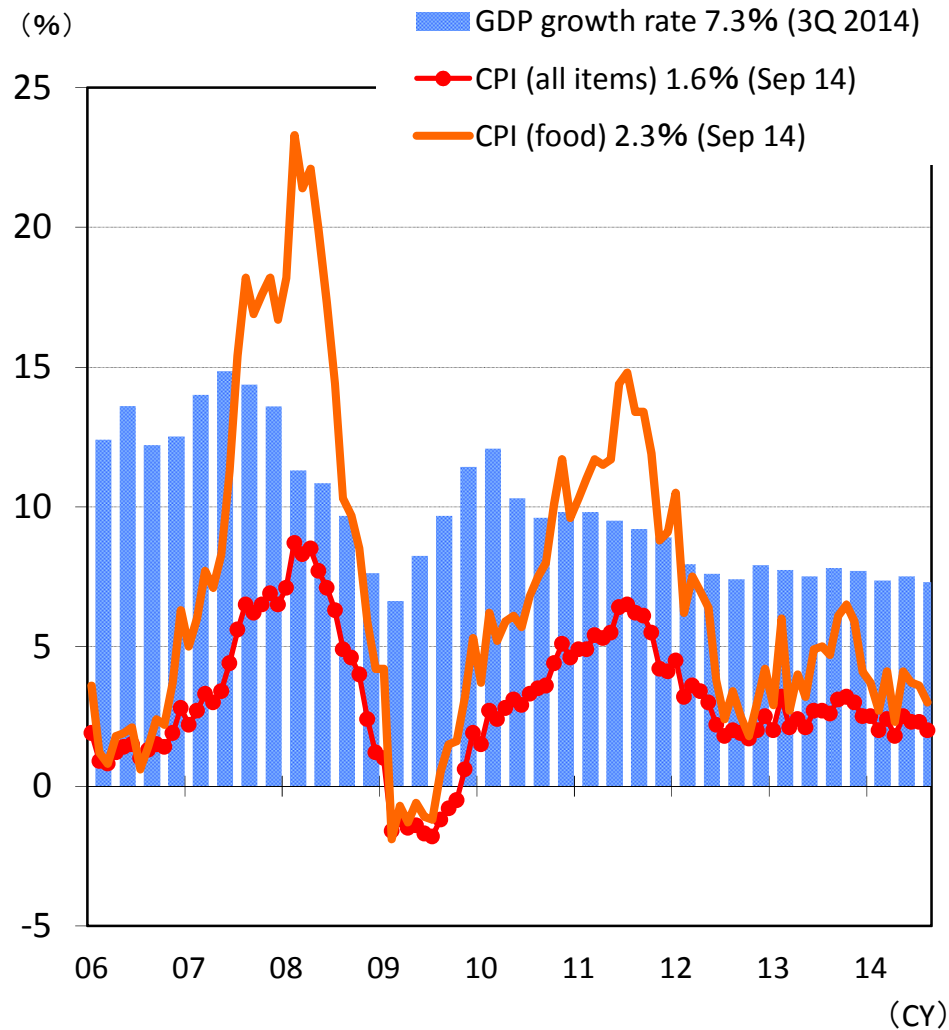
	2012	2013	Projections as of Oct 2014	
			2014	2015
World	3.4	3.3	3.3	3.8
Advanced Economies	1.2	1.4	1.8	2.3
United States	2.3	2.2	2.2	3.1
Eurozone	-0.7	-0.5	1.2	1.5
United Kingdom	0.3	1.7	3.2	2.7
Japan	1.5	1.5	0.9	0.8
Emerging and Developing Economies	5.1	4.7	4.4	5.0
China	7.7	7.7	7.4	7.1
India	4.7	5.0	5.6	6.4
Russia	3.4	1.3	0.2	0.5
Brazil	1.0	2.5	0.3	1.4
ASEAN-5	6.2	5.2	4.7	5.4

Source: IMF; compiled by DIR.

Note: ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

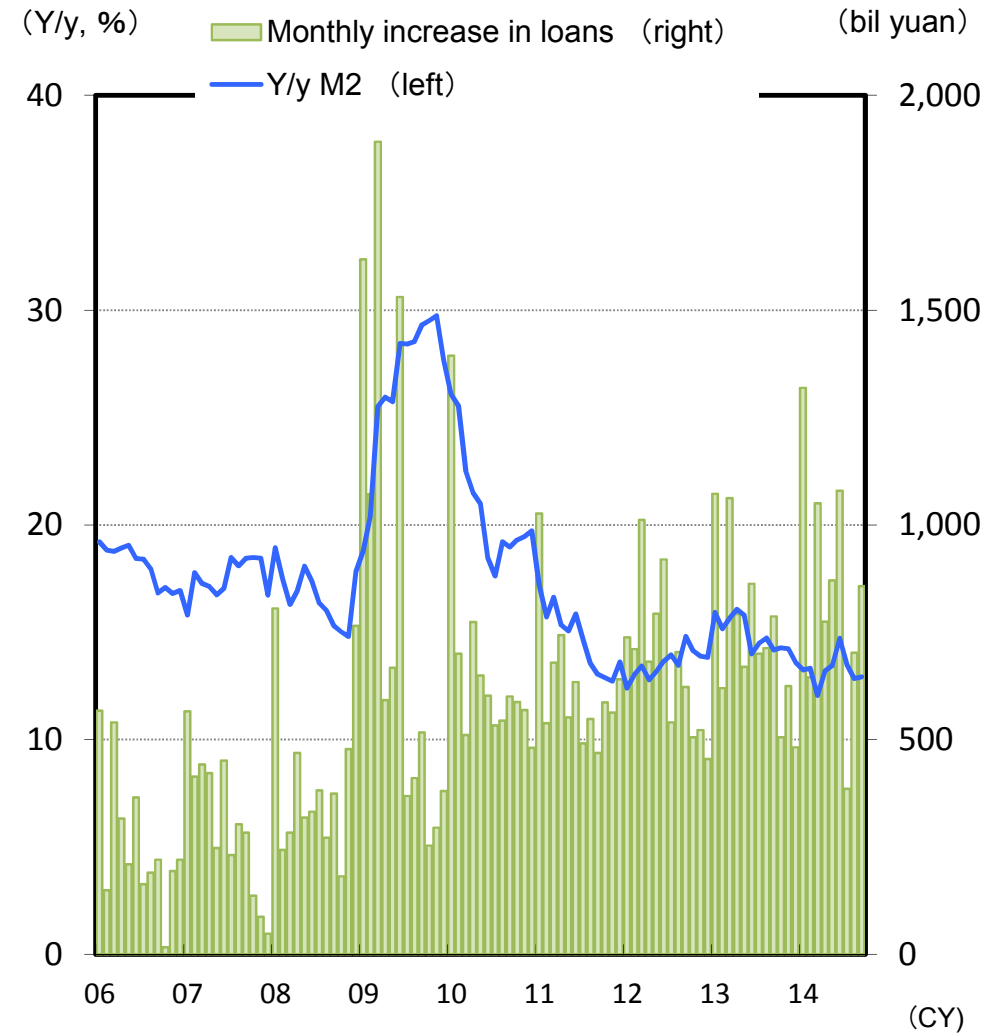
2. Chinese Economy ①

GDP Growth rate and CPI



Source: National Bureau of Statistics of China; compiled by DIR.

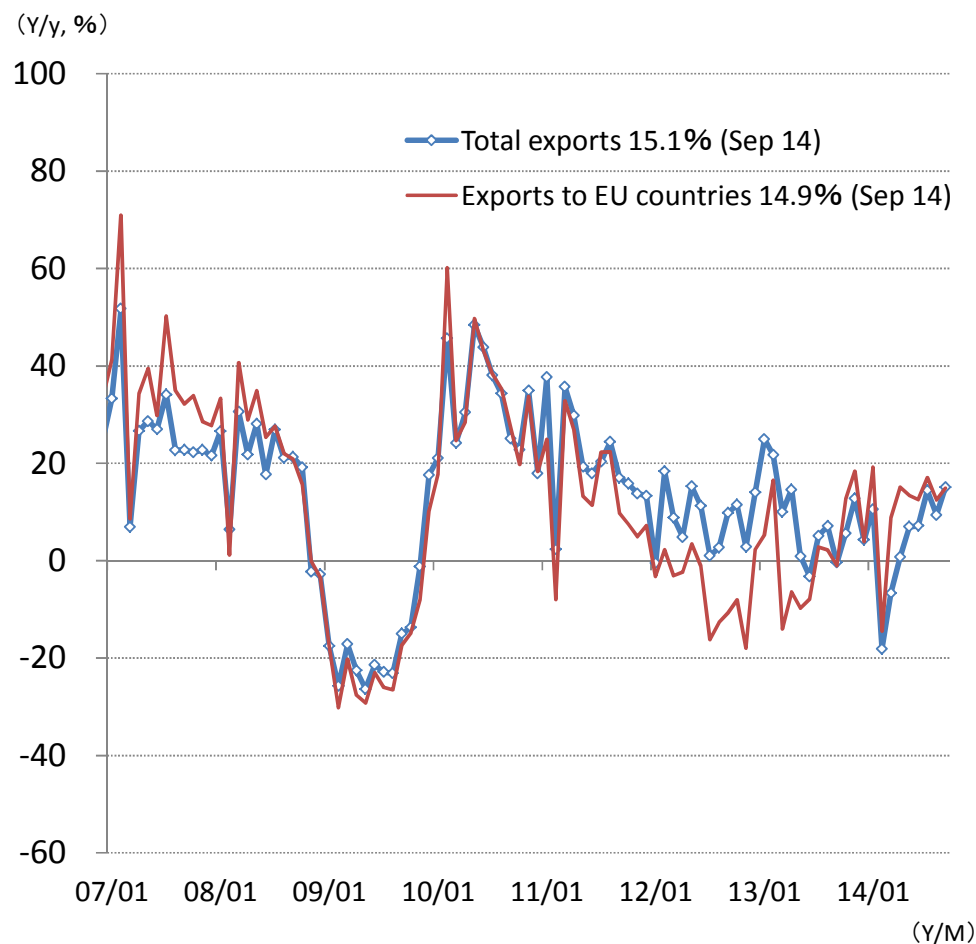
Increase in loans and M2 growth rate



Source: National Bureau of Statistics, The people's Bank of China; compiled by DIR.

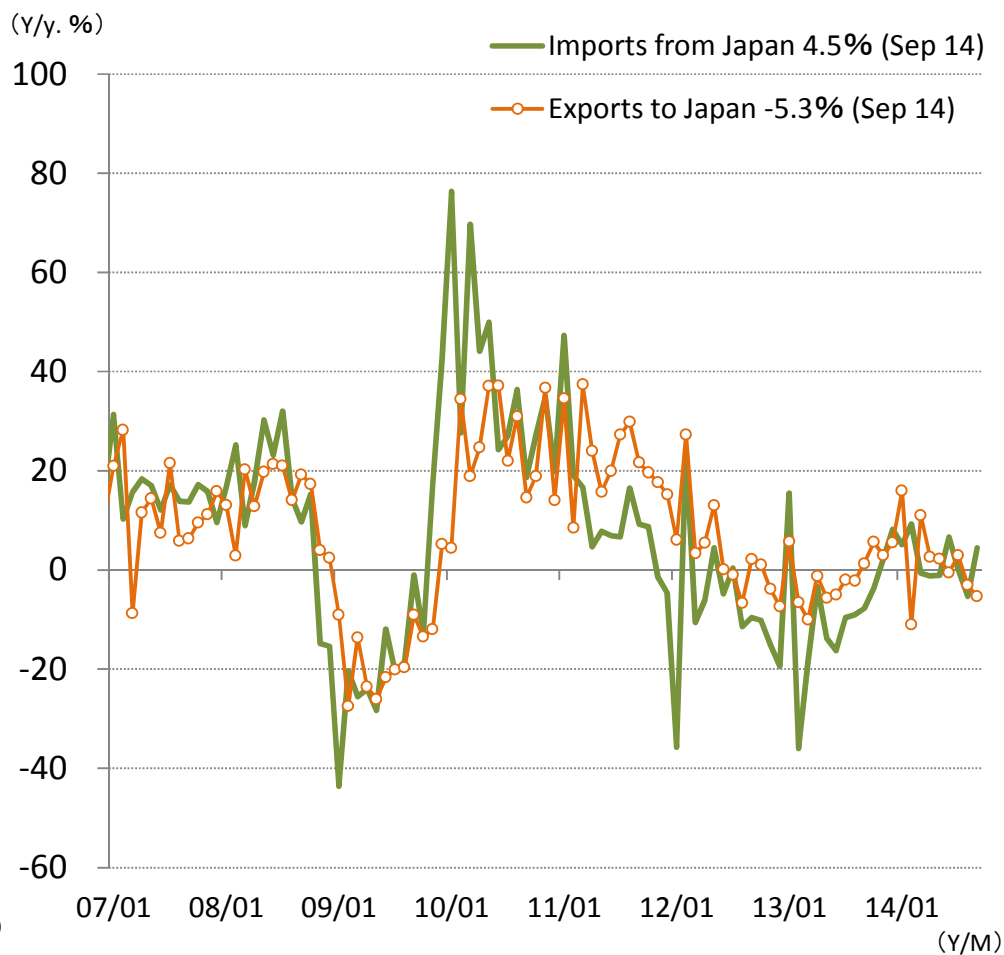
2. Chinese Economy ②

Total Exports Value



Source: General Administration of Customs of China; compiled by DIR.

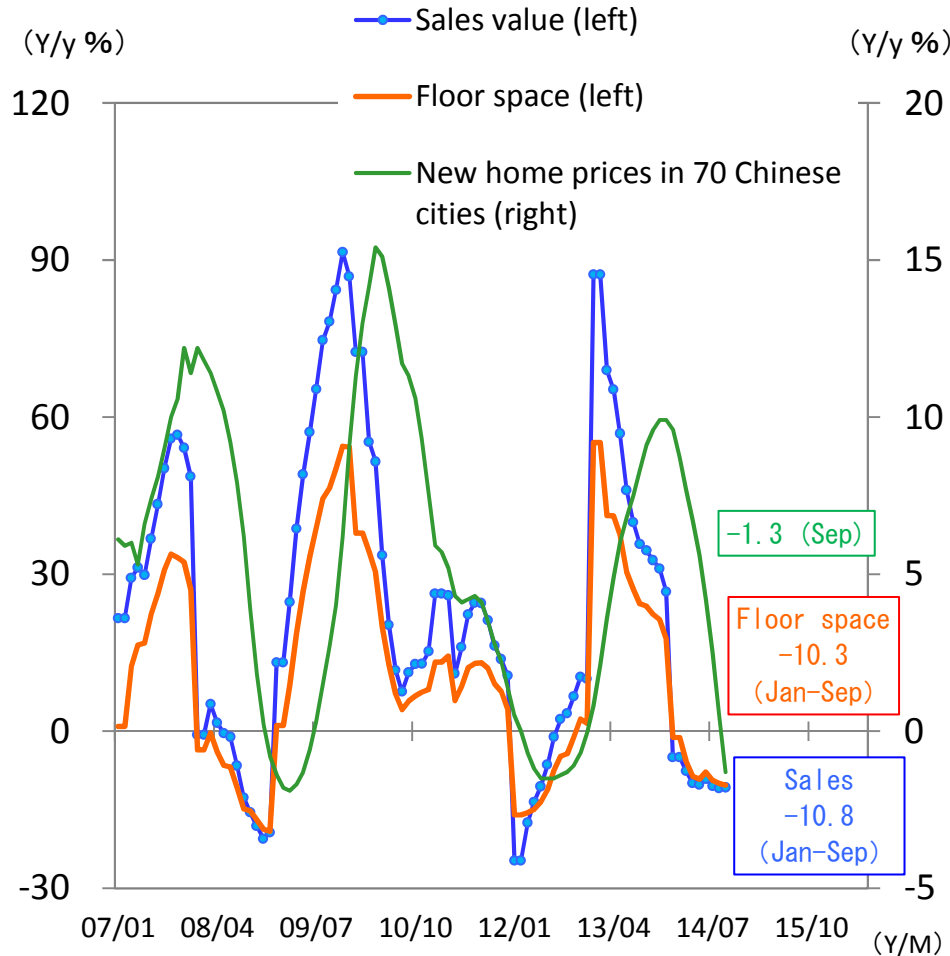
Value of Trades with Japan



Source: General Administration of Customs of China; compiled by DIR.

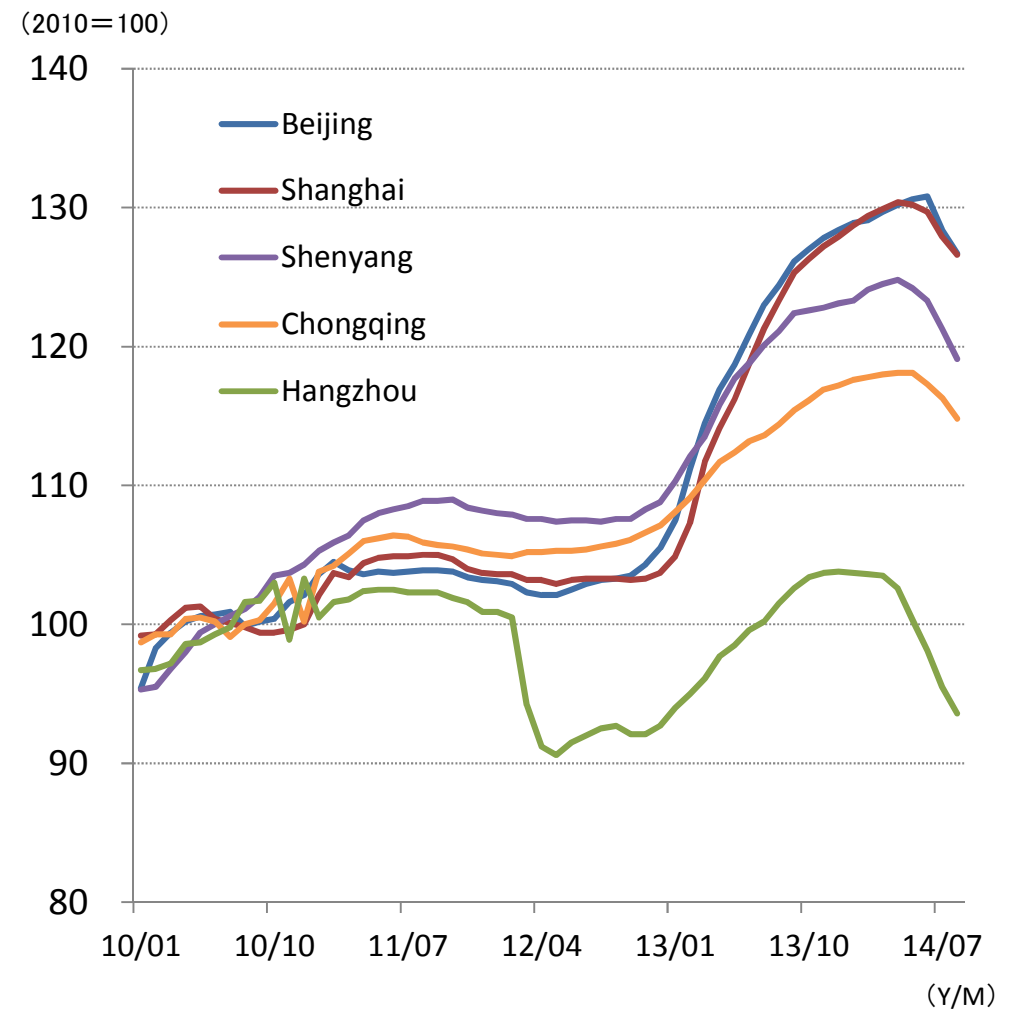
2. Chinese Economy ③

Housing Sales



Source: National Bureau of Statistics of China, Reuters; compiled by DIR.
Note: Dates from January to February are average about floor space and sales. Values of Floor space and sales are accumulated from beginning of

New Home Prices



Source: National Bureau of Statistics of China; compiled by DIR.

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: Standard & Poor's Ratings Services

The name and registration number of the Registered Credit Rating Agency in the group:

Standard & Poor's Ratings Japan K.K. (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 Standard & Poor's ratings Japan K.K. (<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 February 7th, 2014, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Standard & Poor's Ratings Japan K.K. (<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, Inc. ("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 (<http://www.moodys.co.jp>))

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service, Inc.'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 October 1st, 2010, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Moody's Japan K.K. (<http://www.moodys.co.jp>)

< 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 (<http://www.fitchratings.co.jp>)

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 February 7th, 2014, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Fitch Rating Japan Limited (<http://www.fitchratings.co.jp>)

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Attention

This cover letter is an unofficial translation. The official document is in Japanese.

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 materials presented along with this cover letter, 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 (including tax) 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.

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.

Financial instruments firm: 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