

Investment and Issuance Opportunities in Japanese Credit Market

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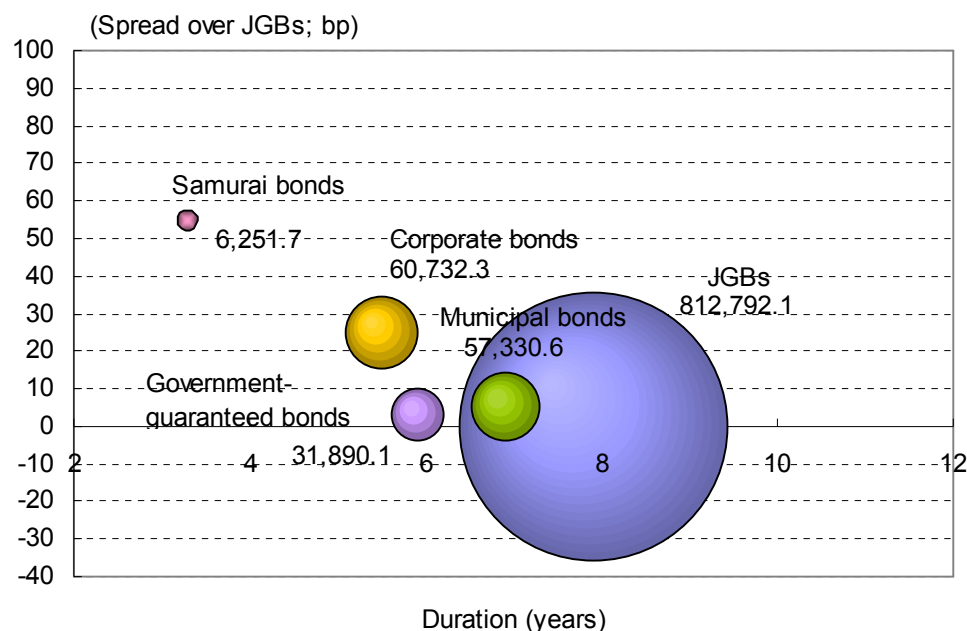
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Small Size of Japanese Corporate Bond Market

- Japanese bond market dominated by JGBs, with less than 10% share of corporate bonds
- As Japanese companies raise funds mainly via bank loans, procurement via corporate bonds accounts for only slightly above 10% of total

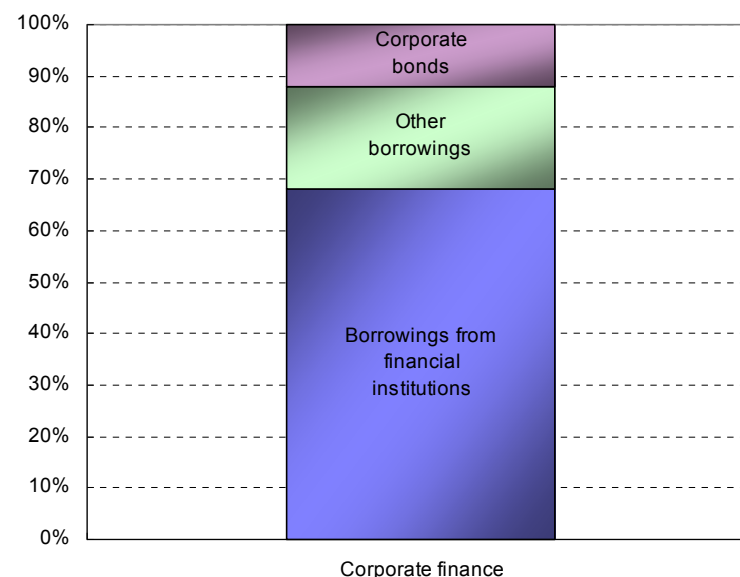
Overview of Japanese Bond Market



Source: Daiwa Bond Index as of 2 Oct 2014.

Note: Size of each circle indicates outstanding amount (Y bil).

Corporate Finance in Japan

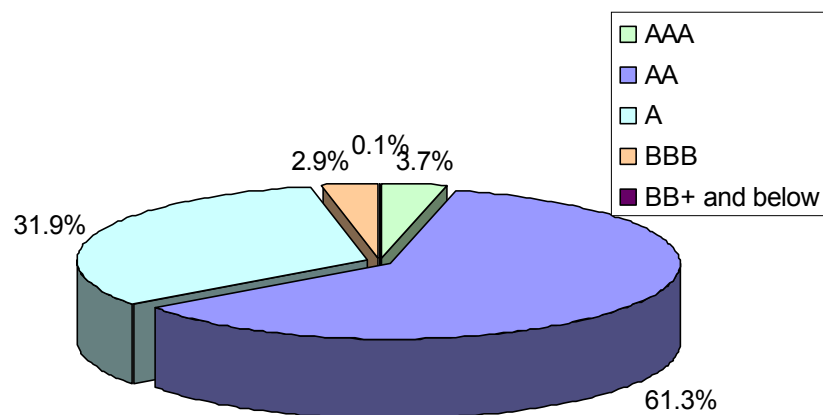


Source: Ministry of Finance.

Investment Grade Market

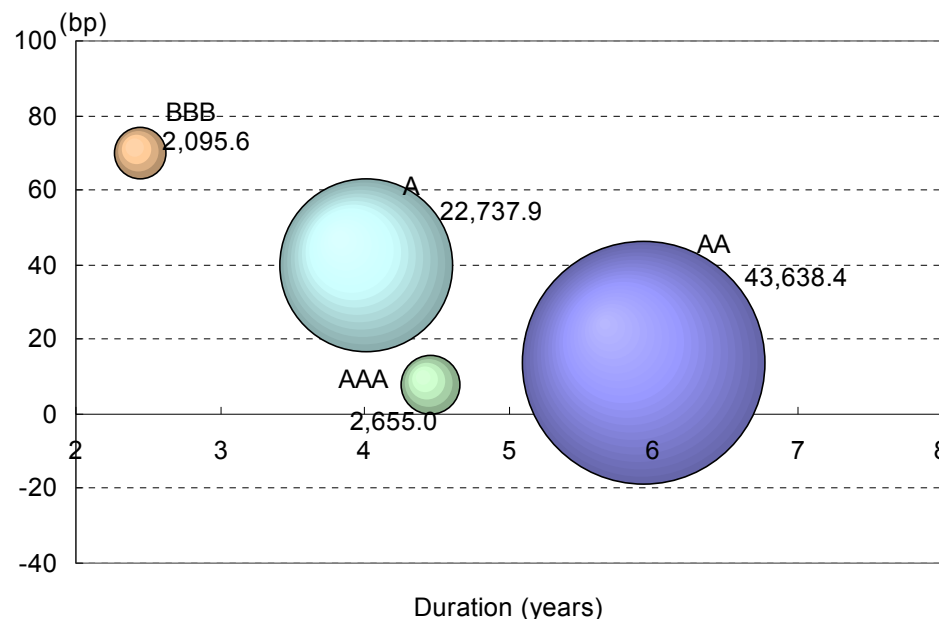
- All Japanese corporate bonds are investment grade at time of issuance
- Issuance market for high-yield bonds does not exist. Deterioration in issuers' creditworthiness leads to existence of such bonds.

Corporate Bond Share by Rating



Source: Daiwa Securities.
Note: As of 6 Oct 2014.

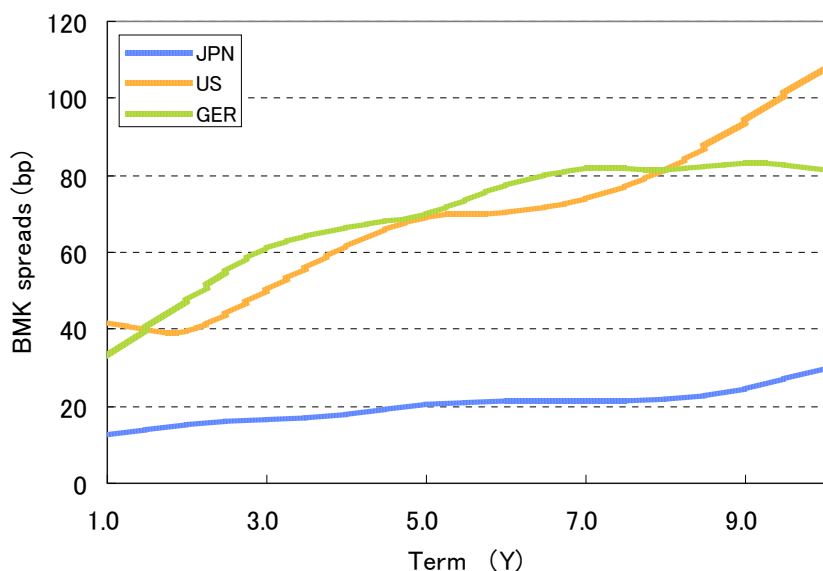
Avg Duration, JGB Spreads and Outstanding Bonds by Rating



Source: Daiwa Securities.
Note: Size of each circle indicates outstanding amount (Y bil) as of 6 Oct 2014.

Tight Credit Spread in Japan

Credit Spread of Single A-category Bonds



Source: Reuters. As of 06 Oct. 2014

Why is Credit Spread Tight in Japan?

Possible Reasons

1. Low interest rates and low volatility
2. Severe competition with bank loans
3. Investors' strong home market bias and low risk appetite
4. Homogeneous investors
5. Rare SB defaults in Japanese corporate bond market
6. Rating gap between domestic and overseas rating agencies

Default of Corporate Bonds Still Rare, but Recovery Rate Low

- Very rare defaults of Japanese corporate bonds
- But, recovery rate is extremely low at about 10% once they face default

Default Cases of Publicly Offered Corporate Bonds and Recovery Rate by Bond Type in Japan

Default timing	Company name (industry)	Applied law	Existence of CCB*	Outstanding bonds (Y bil.)	Recovery rate
Dec-98	Japan Land Development (Real estate)	Corporate Reorganization Law	Existed	50	10% (19-year installment repayment) 6% (Lump-sum repayment)
Sep-01	Mycal (Retail)	Corporate Reorganization Law	Existed	243	30% (Retail bonds) 10.2% (Wholesale bonds)
			No	100	Depends on holding amount 5%+ Y5 mil (up to Y2 bil) 4%+ Y25 mil (up to Y10 bil), etc.
Jun-08	Suruga (Real estate)	Civil Rehabilitation Law	No	21	Y30 mil + at least 54.2% of excess amount (Rehabilitation plan)
Jul-08	Zephyr (Real estate)	Civil Rehabilitation Law	No	20	14.7% (Rehabilitation plan)
Aug-08	Urban (Real estate)	Rehabilitation Law	No	20	Around 15% at maximum (Rehabilitation plan)
Oct-08	New City Residence Investment (J-REIT)	Civil Rehabilitation Law	No	17	100% (Rehabilitation plan)
Feb-09	Japan General Estate (Real estate)	Corporate Reorganization Law	No	10	4.0% (Y0.1~1bil) 2.8% (Over Y1 bil) (Rehabilitation plan)
Mar-09	Pacific Holdings (Real estate)	Corporate Reorganization Law	No	37	5.78% (over Y0.1 mil) + Y100,000 + α
May-09	Joint (Real estate)	Corporate Reorganization Law	No	15	7.13% (over Y0.5 mil) + Y500,000 (5-year installment)
Jun-09	ES-CON Japan (Real estate)	Business Rehabilitation ADR	No	8	4-year installment repayment starting in 3.5 years (100%) or immediate purchases at 15%
Jan-10	Japan Airlines (Air transportation)	Corporate Reorganization Law	No	47	12.5% (Rehabilitation plan)
Feb-10	Willcom (Telecom)	Corporate Reorganization Law	No	35	13.3% (over Y10 mil) (Rehabilitation plan) 100% up to Y10 mil
Sep-10	Takefuji (Non-bank)	Corporate Reorganization Law	No	93	3.3% (First repayment) (Rehabilitation plan)
Feb-12	Elpida Memory (Semiconductor)	Corporate Reorganization Law	No	45	17.4% (Rehabilitation plan proposal)

Source: Various materials; compiled by Daiwa Securities.

*CCB denotes commissioned company for bondholders.

【Reference】

According to Moody's, worldwide recovery rate of senior unsecured bonds during 1982-2011 averaged at 36.8%

- Domestic corporate bonds:
Consensus of expected recovery rate is about 10%

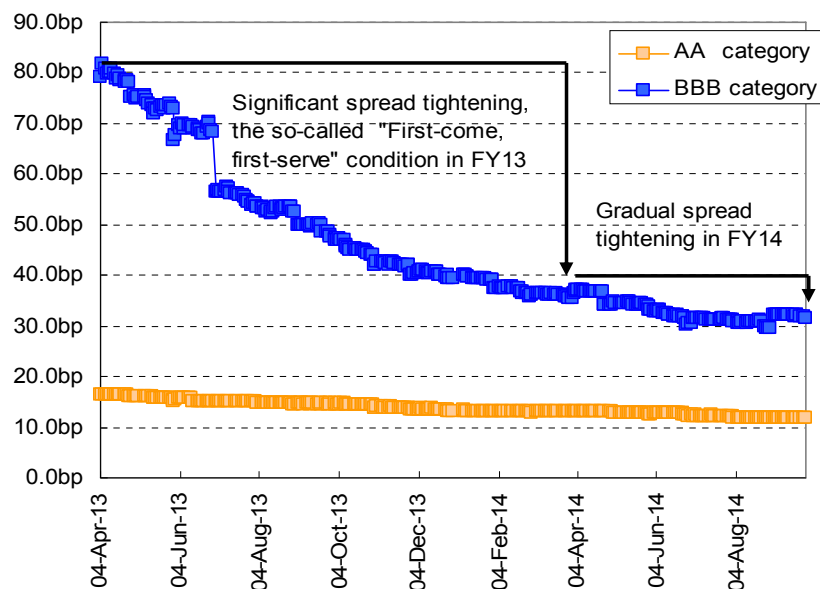
Source: Moody's Annual Default Study.

Outlook for Japanese Corporate Bond Market

Japanese Corporate Bond Market in Good Condition

- Cash bond market: Spread to continue to tighten moderately, despite limited room for tightening
- CDS market: More volatile than cash bonds, but spread tightening trend continues

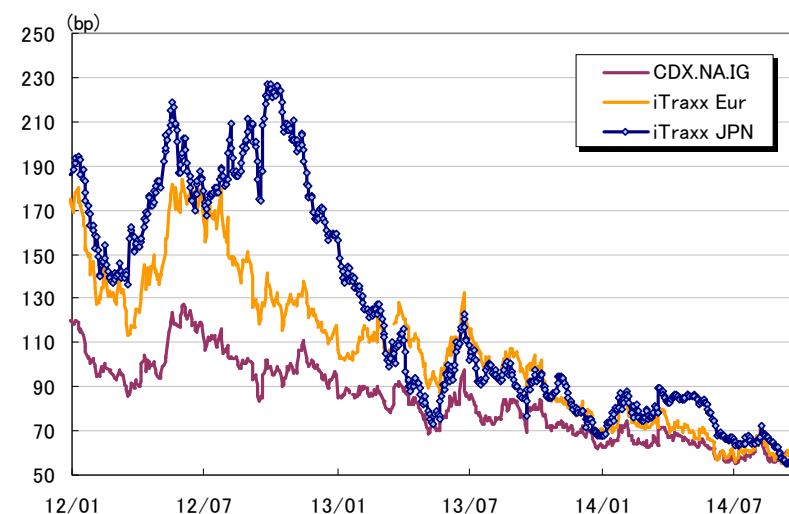
Cash Bond Market in Japan (Avg of bonds with 3-7Y maturities)



Source: Daiwa Securities.

Note: Data excludes electric utility bonds since March 2011.

CDS Index in Japan, US, and Europe (5Y)



Source: Markit

Difficult to Find Risk Factors in Japanese Credit Market

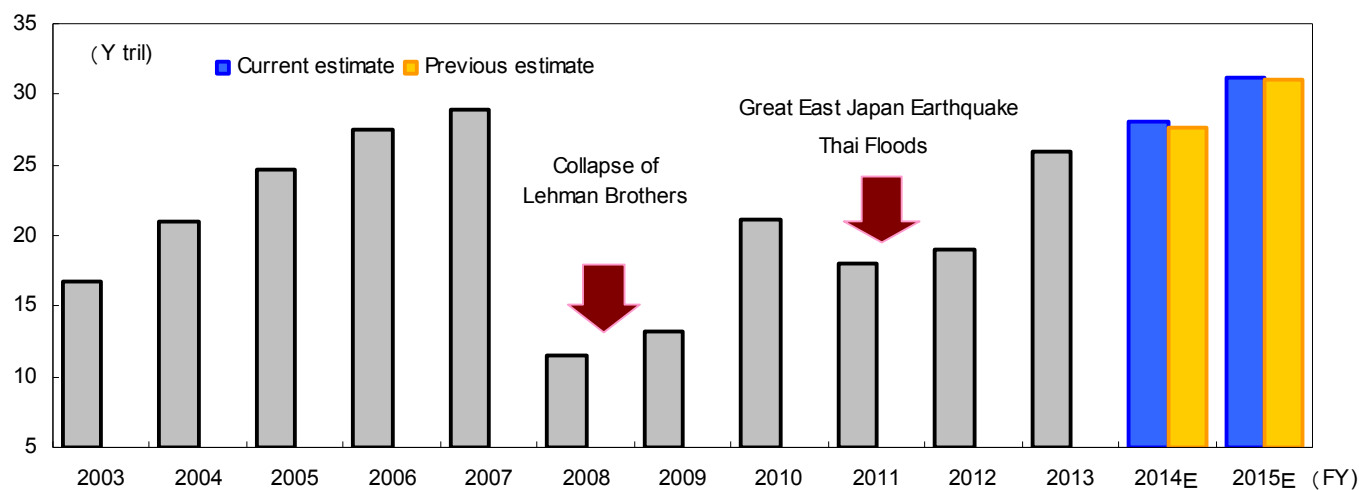
Seven Supportive Factors in Japanese Credit Market

1. Expected growth for corporate profit
2. Favorable credit fundamentals, given low leverage on balance sheets
3. Eased risk of resurgence of credit concerns about two issuers (TEPCO, Sharp), both of which warranted caution
4. Weaker downgrading pressure in terms of rating cycle
5. Ongoing corporate bond purchases by BOJ
6. Calming of CDS market
7. Market sentiment not overheated

Profit Growth Expected for FY14

- Growth to slow down in FY14. Recurring profit to rise 8.3% y/y (1.8% points upward revision to previous estimate)
- 1Q FY14 recurring profit gained 7.3% y/y (full-FY recurring profit estimate could be lifted, given impact of reactionary decline due to consumption tax hike)

Recurring Profit Outlook for Daiwa 200



Source: Regular Earnings Survey (September 2014) by Daiwa Securities.

Favorable Credit Fundamentals

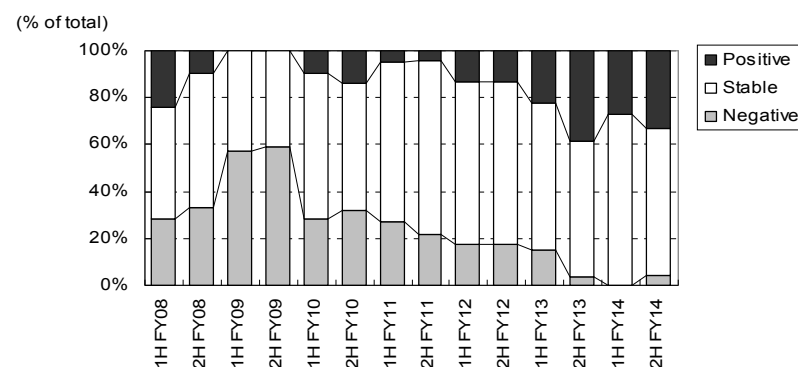
- Concerns about higher credit risk unwarranted yet
- Going forward, it would be more important to grasp credit risk trend of individual issuers

Credit Outlook by Sector

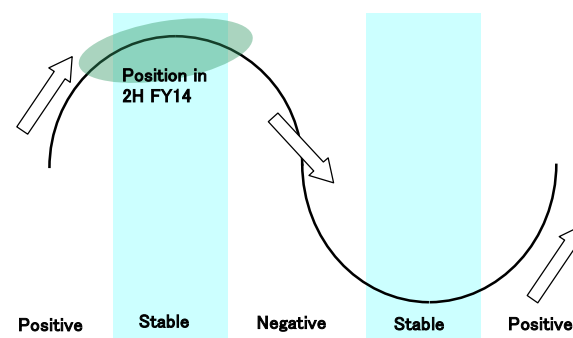
Sector	2H FY2013	1H FY2014	2H FY2014
Food & beverages	Slightly positive	Stable	Stable
Paper & pulp	Stable	Stable	Stable
Chemicals	Slightly negative	Stable	Stable
Oil	Slightly positive	Stable	Stable
Glass/ceramics	Stable	Stable	Stable
Iron/steel	Stable	Stable	Slightly positive
Electrical machinery	Stable	Stable	Stable
Automobiles	Positive	Positive	Positive
Trading companies	Stable	Stable	Stable
Retail	Stable	Stable	Polarized
Nonbank	Slightly positive	Stable	Stable
Major banks	Slightly positive	Slightly positive	Stable
Regional banks	Stable	Stable	-
Construction	Stable	Stable	Slightly positive
Real estate	Stable	Slightly positive	Slightly positive
REITs	Slightly positive	Slightly positive	Slightly positive
Railways	Slightly positive	Slightly positive	Slightly positive
Shipping majors	Slightly positive	Slightly positive	Stable
Air transport	Stable	Stable	Slightly positive
Electric utilities	Slightly positive	Slightly positive	Slightly positive
Gas utilities	Stable	Stable	Stable
Telecom	Stable	Stable	Stable
FILP agencies	Stable	Stable	Stable
Municipals	Stable	Stable	Stable

Source: Daiwa Securities.

Note: Indicating credit outlook (not credit level) for each sector's debt redemption capacity.



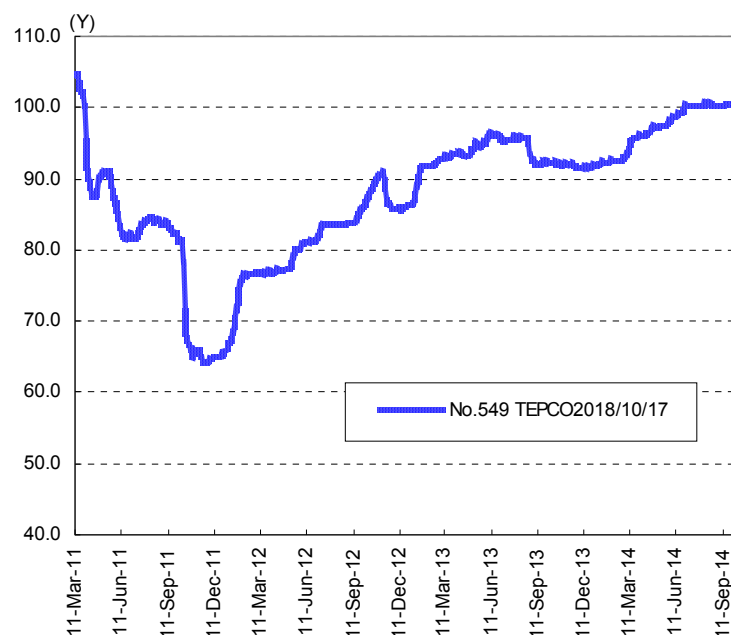
Note: Positive/negative include "slightly" positive/negative, negative includes "two-tier performance" and "diversification."



Eased Risk of Resurgence of Credit Concerns About Two Issuers (TEPCO, Sharp)

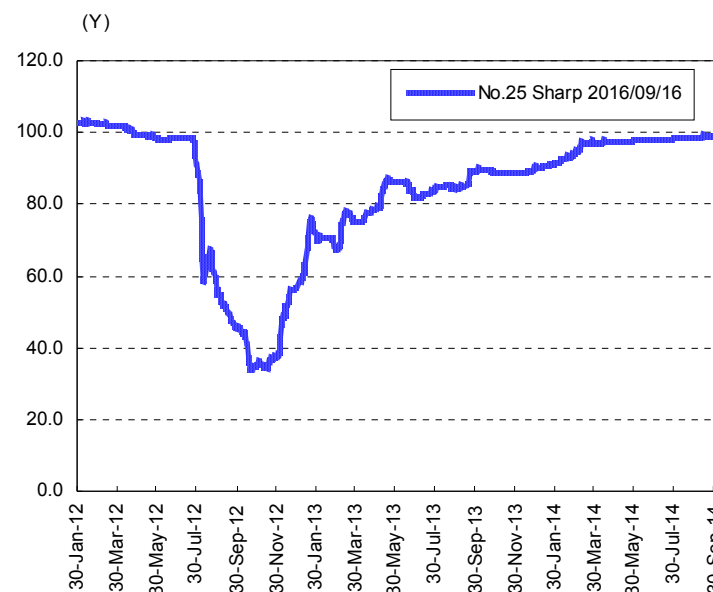
- TEPCO: Going concern assumption being reinforced on national support and self-help efforts
- Sharp: Short-term liquidity risk limited thanks to capital increase and continued financial support. Entered earnings/financial improvement phase.

Price of TEPCO Bond



Source: JSDA, Daiwa Securities.

Price of Sharp Bond

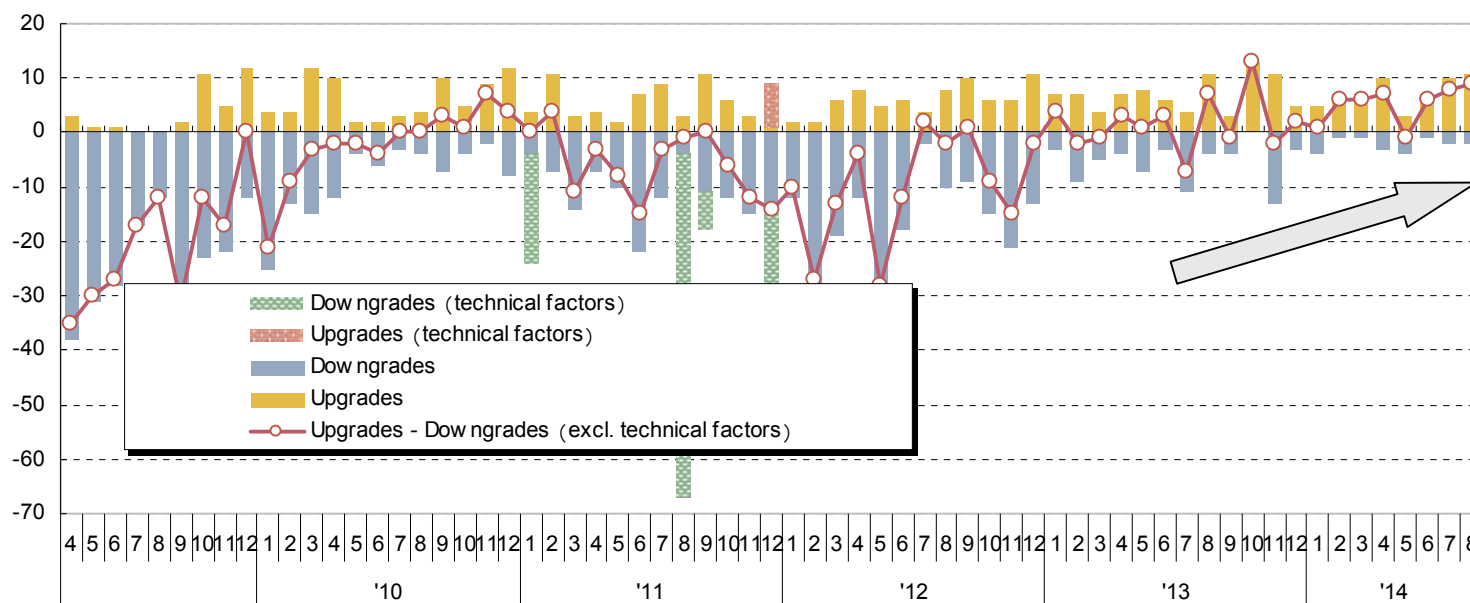


Source: JSDA, Daiwa Securities.

Weaker Downgrading Pressure in Terms of Rating Cycle

- Number of upgrades clearly exceeds downgrades
- As upgrades serve as lagging indicator, we should regard that companies' creditworthiness is improving ahead of upgrades

Monthly Trend of Rating Actions



Source: Rating agencies; compiled by Daiwa Securities.

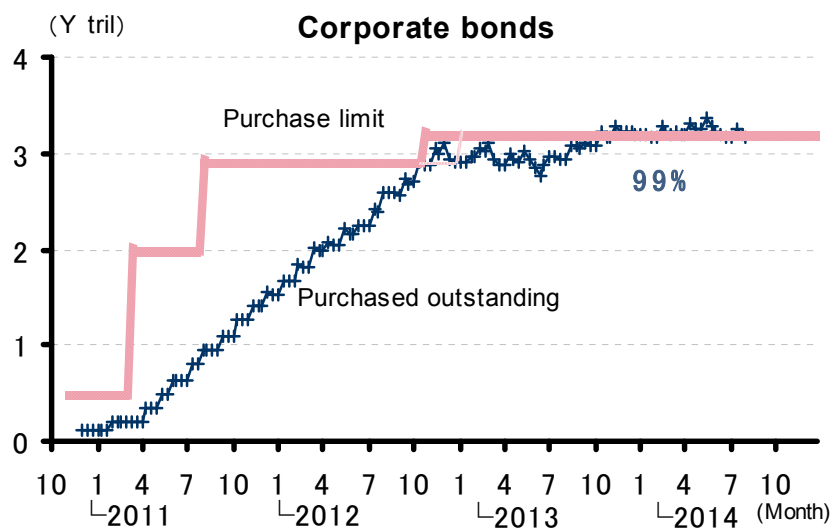
Notes: 1) Downgrades expressed as negatives.

2) Technical factors are rating actions triggered by changes in sovereign ratings or by changes in rating agency's valuation methodology.

Ongoing Corporate Bond Purchases by BOJ

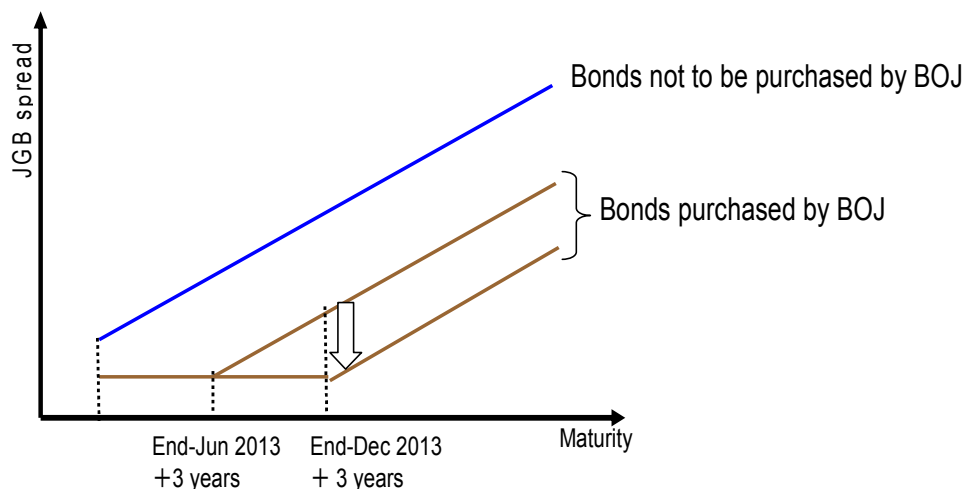
- BOJ maintains to purchase corporate bonds (¥100-150 bil/month) in matter-of-fact stance
- BOJ is narrowing credit risk premium, which is supportive for corporate bond market

Corporate Bond Purchases by BOJ



Source: Bank of Japan.

Effects of Extension of Purchased Assets' Maturities (pattern diagram)



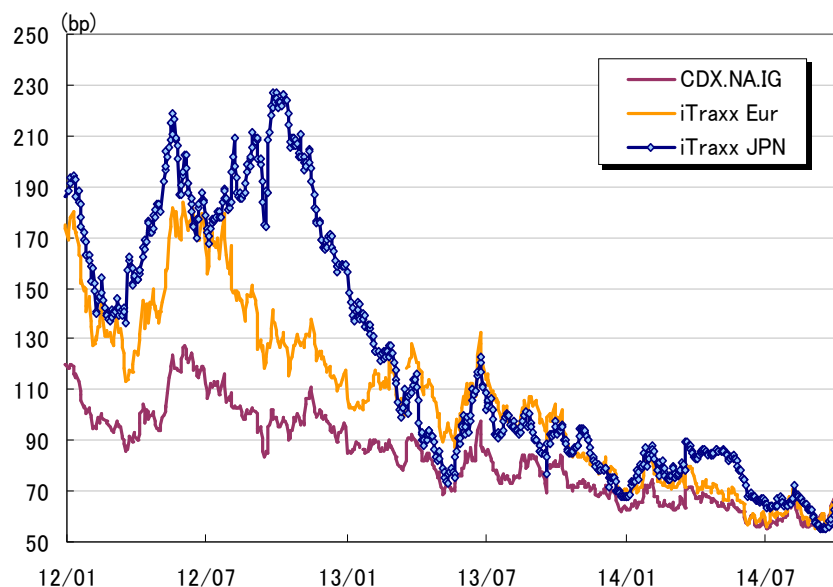
Source: Daiwa Securities.

Calming of CDS Market, Market Sentiment Not Overheated

No Signs of Eager Stance to Take Credit Risk Unlike FY05-06

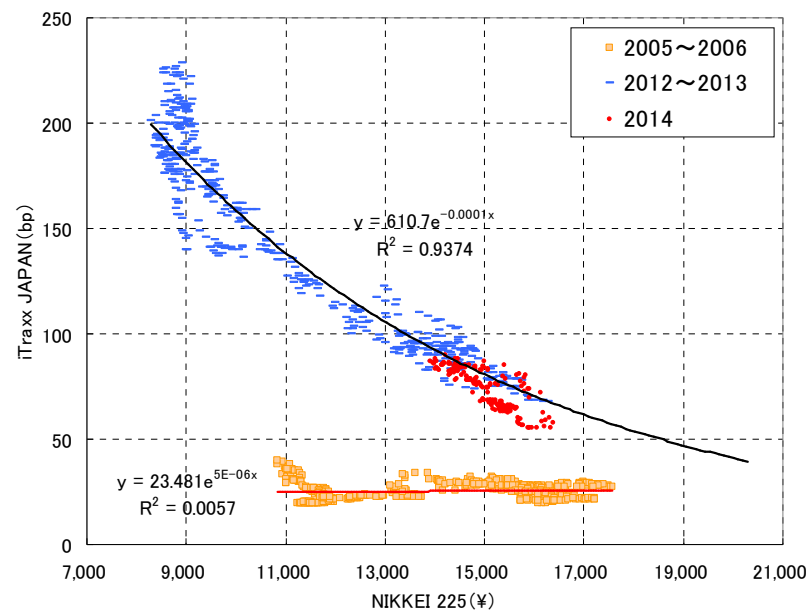
- At that time, market excessively factored in government support for banks/companies
- Subsequent increase in default of corporate bonds/low recovery rate changed investor mind
- Investors are currently quite cautious about increasing credit risk appetite

CDS Index in Japan, US, and Europe (5Y)



Source: Markit

Correlation Between CDS and Stock Index



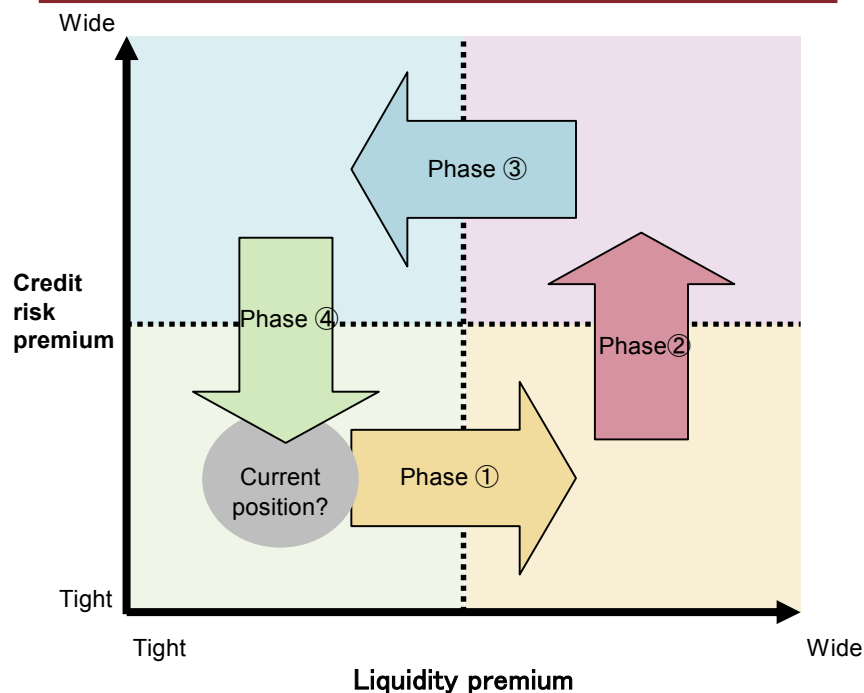
Source: Bloomberg, DAIWA Securities

Credit Cycle in Final Phase

Final Phase Likely to Lengthen

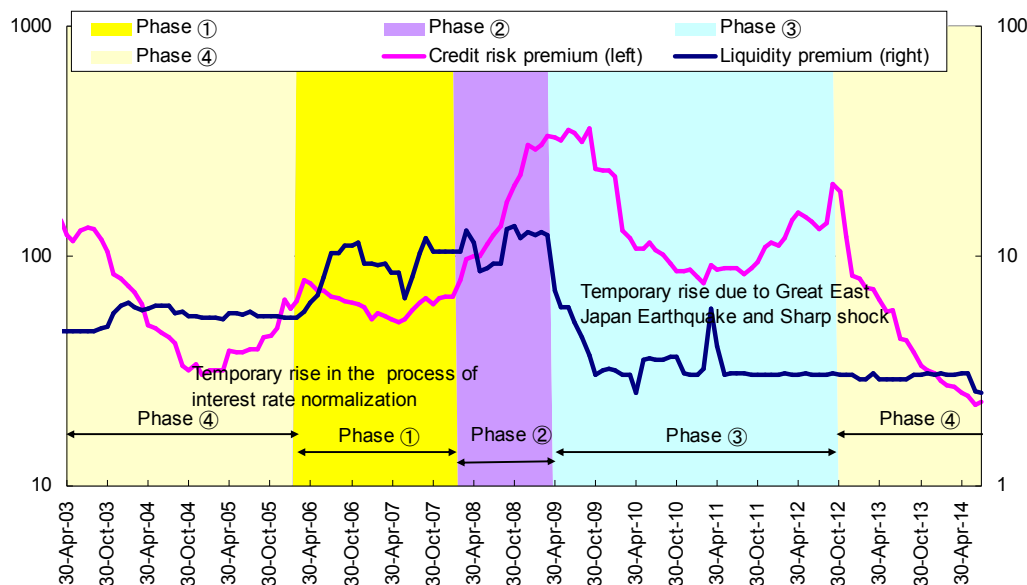
- It is good to wait until optimal phase in credit investment, but it may take at least a few years until that timing
- We should find possible credit investment --- (1) credit investment left under existing constraint and (2) new credit investment

Credit Cycle/Credit Curve (pattern diagram)



Source: Daiwa Securities.

Estimate for Credit Cycle Phase Since FY13



Source: JSDA, DBI; compiled by Daiwa Securities.

Note: Liquidity premium indicates spread on government-guaranteed bonds and credit risk premium denotes gap between spread on BBB-category bonds and that on AAA-category bonds.

Investment and Issuance Opportunities

Investment Opportunities

1. Distressed-debt investment in cash bond market
2. Utilization of disparity between cash bond and CDS markets
3. Investment in capital securities issued by financial institutions (such as B3T2)
4. Foreign bonds issued by Japanese companies and their overseas subsidiaries

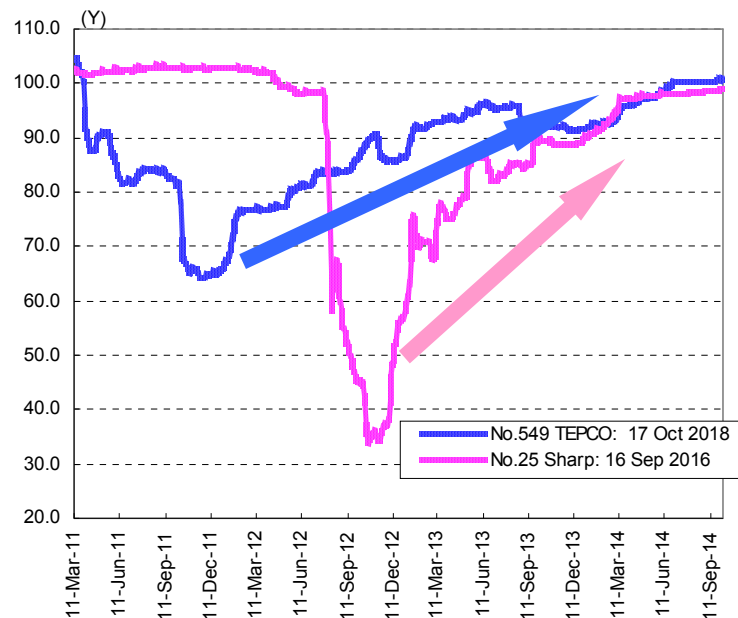
Issuance Opportunities

1. Issuance in samurai bond market (e.g., utilization of JBIC-guaranteed samurai bonds)
2. Issuance in Tokyo Pro-Bond Market

Distressed-debt Investment in Cash Bond Market

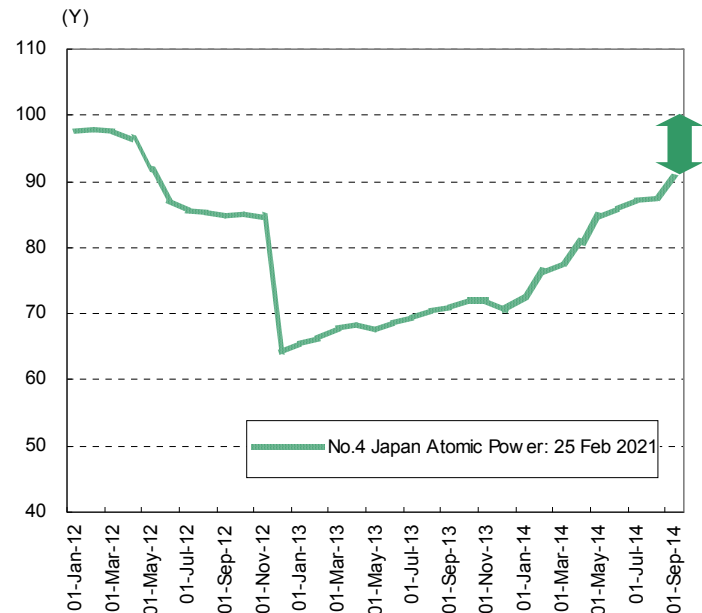
- In cash bond market, few investors are available for distressed-debt investment, and recovery rate is low in case of defaults. Thus, deterioration in creditworthiness tends to cause substantial decline in bond prices.
- Despite rare opportunities, you can enjoy high return if distressed bonds bounce back (e.g., TEPCO, Sharp)

Price of TEPCO, Sharp Bonds



Source: JSDA, Daiwa Securities.

Price of Japan Atomic Power Bond

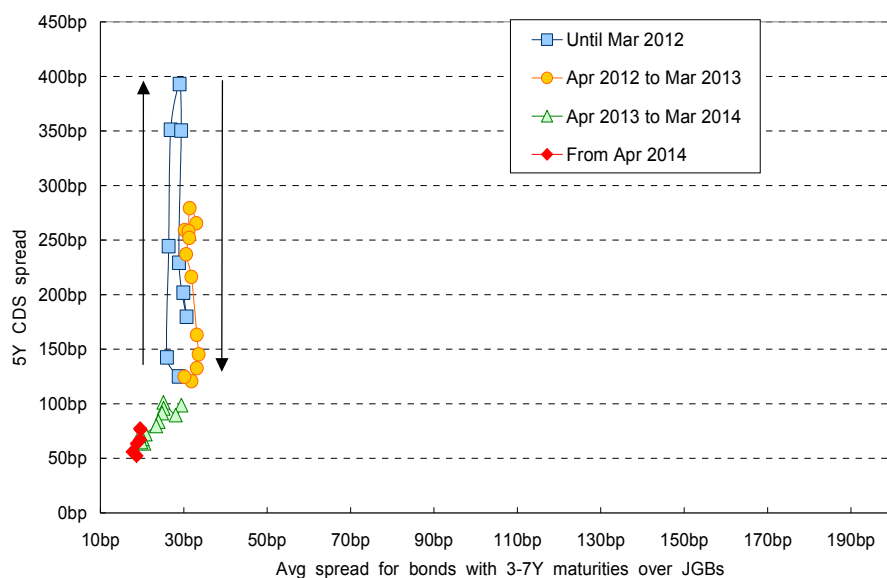


Source: JSDA, Daiwa Securities.

Utilization of Disparity Between Cash Bond and CDS Markets

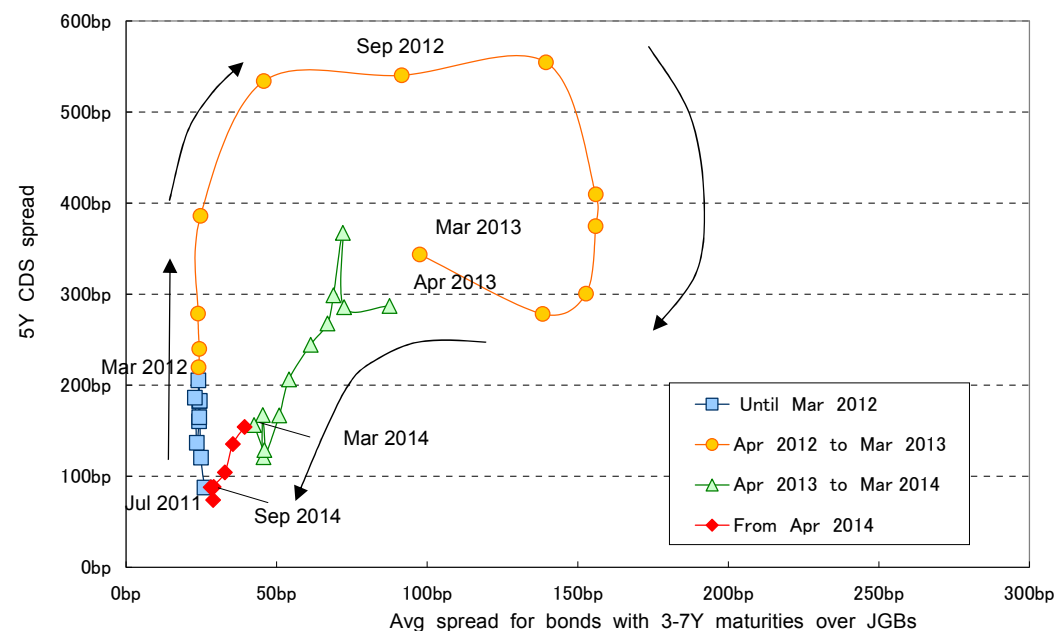
- In some cases, earnings opportunities are generated by disparity between cash bond and CDS markets
- As change in CDS market is structurally greater than that in cash bond market, investment in CDS is more attractive

Marubeni's Cash Bond and CDS Spread Trend



Source: JSDA, Markit, Daiwa Securities.

Kobe Steel's Cash Bond and CDS Spread Trend



Source: JSDA, Markit, Daiwa Securities.

Investment in Capital Securities Issued by Financial Institutions

Issuance of B3T2 Started in US Market, Domestic Market Followed Suit

- Issuers are bank holding companies
- Contractual bail-in, not statutory. Bail-in clause is full principal reduction-type.
- Bail-in clauses set in motion in case that financial institutions are approved as insolvent
- Bail-in trigger is simple: When Prime Minister confirms the case as “specific measures under Item 2 in Part 2, Article 126 of Deposit Insurance Act” (note: bonds to lapse on any day within ten business days after confirmation)
- 10-year bullet type, 10NC5 type (including clause for early redemption in case that such bonds no longer satisfy Tier2 requirements, despite lack of clause for advance redemption)
- Due to rise in risk weighting from 100% to 250%, B3T2 bonds to be less attractive for regional financial institutions

Actual Issuance of B3T2

Launched on	Issuer	Issuance amount		Duration	Rating				Redemption date	Coupon	Issuance price	Spread (bp)	
	(Real debtor)	Currency			R&I	JCR	MDY	S&P					
20-Mar	Mizuho Financial Group	USD	\$1500 mil	10	-	-	-	BBB+	27-Mar-24	4.600%	99.754	T	+185
26-Mar	SMFG	USD	\$1750 mil	10	-	-	Baa2	BBB+	02-Apr-24	4.436%	100.000	T	+175
20-Jun	MUFG	Yen	Y40 bil	10	A+	A+	-	-	26-Jun-24	0.940%	100.000	G	+35
20-Jun	MUFG	Yen	Y10 bil	10NC5	A+	A+	-	-	26-Jun-24	0.66% during initial 5 years, 6mL+32bp from 6th year	100.000	L	+32
9-Jul	Mizuho Financial Group	Yen	Y80 bil	10	A	A	-	-	16-Jul-24	0.950%	100.000	G	+39
9-Jul	Mizuho Financial Group	Yen	Y20 bil	10NC5	A	A	-	-	17-Jul-24	0.67% during initial 5 years, 6mL+36bp from 6th year	100.000	L	+36
22-Aug	Chiba Bank	Yen	Y30 bil	10	A+	-	-	-	29-Aug-24	0.911%	100.000	G	+39
29-Aug	Sumitomo Mitsui Trust Holdings	Yen	Y30 bil	10	A	A+	-	-	05-Sep-24	0.857%	100.000	G	+36
5-Sep	SMFG	Yen	Y100 bil	10	A+	A+	-	-	12-Sep-24	0.849%	100.000	G	+31
5-Sep	SMFG	Yen	Y30 bil	10NC5	A+	A+	-	-	12-Sep-24	0.61% during initial 5 years, 6mL+0.34% from 6th year	100.000	L	+34

Source: Daiwa Securities.

Ratings of Three Major Financial Groups' Bond Instruments

		S&P	MDY	JCR	R&I
BTMU	Senior Unsecured	A+	Aa3	AA	AA-
	B2T2	A	A1	AA-	A+
	B2 junior T2	-	-	-	-
MUFG	B2T1	BBB	Ba1	-	-
MUFG	B3T2	(A-)	(Baa2)	A+	A+
SMBC	Senior Unsecured	A+	Aa3	AA	AA-
	B2T2	A	A1	AA-	A+
	B2 junior T2	BBB+	A2	-	-
SMFG	B2T1	BBB-	Ba1	-	-
SMFG	B3T2	BBB+	Baa2	A+	A+
Mizuho BK	Senior Unsecured	A+	A1	AA-	A+
	B2T2	A	A2	A+	A
	B2 junior T2	BBB+	A3	A	A-
Mizuho FG	B2T1	BBB-	Ba2	-	-
Mizuho FG	B3T2	BBB+	(Baa3)	A	A

Source: Rating agencies.

Note: Ratings in parentheses indicate our estimates.

Foreign Bonds Issued by Japanese Companies and Their Overseas Subsidiaries

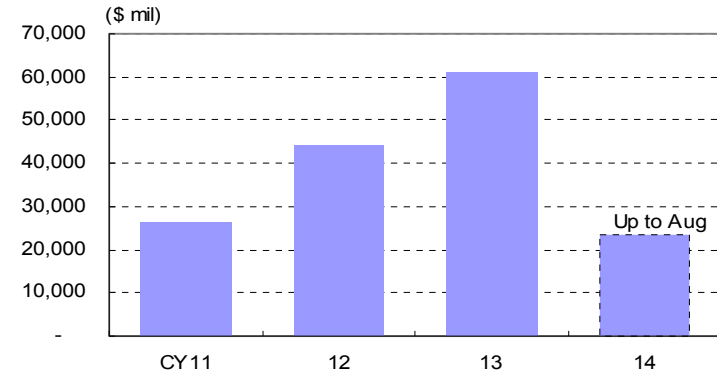
Greater Investment Opportunities

- Increasing issuance amount of foreign bonds
 - ✓ Senior & Tier 2 debt by three major financial groups
 - ✓ Activated overseas operations by Japanese blue chips
 - ✓ Increasing in-out M&A of Japanese firms
- Japanese investors showing interest in foreign bonds

Major Foreign Bond Issuers

- | | |
|--|---|
| ■ Banks/securities/insurance firms | ■ Others |
| ➢ Bank of Tokyo-Mitsubishi UFJ | ➢ Mitsubishi UFJ Lease & Finance |
| ➢ Mizuho Bank (former Mizuho Corporate Bank) | ➢ Japan Tobacco |
| ➢ Sumitomo Mitsui Banking Corporation | ➢ Mitsubishi |
| ➢ Sumitomo Mitsui Trust Bank | ➢ Softbank |
| ➢ Nomura Holdings | ➢ Nippon Telegraph and Telephone |
| ➢ Nippon Life Insurance | ➢ Takeda Pharmaceutical |
| ➢ Dai-ichi Life Insurance | ➢ Orix |
| ➢ Sumitomo Life Insurance | ■ Automobile sales financial subsidiaries |
| ➢ Fukuoku Mutual Life Insurance | ■ Governmental agencies |
| ➢ Sampo Japan Nipponkoa Insurance | |

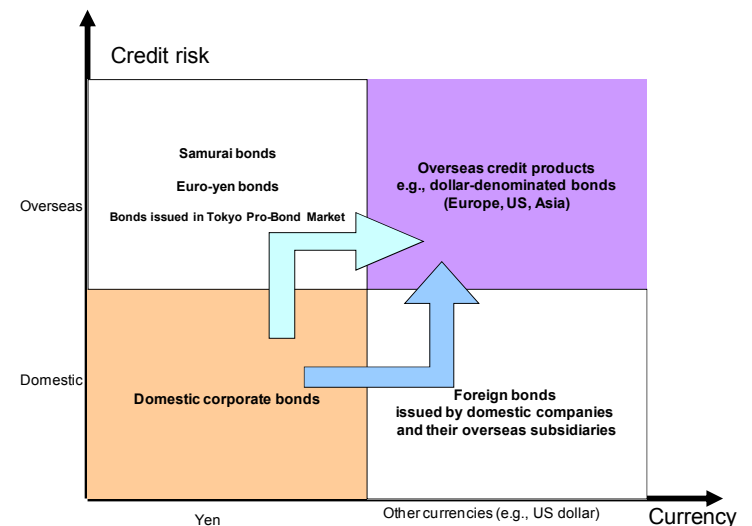
Amount of Foreign Bonds Issued by Domestic Companies and Their Overseas Subsidiaries



Source: Bloomberg; compiled by Daiwa Securities.

Note: Dollar-denominated bonds whose issuance amount of at least \$300 mil.

Two Paths Toward Overseas Credit Investment

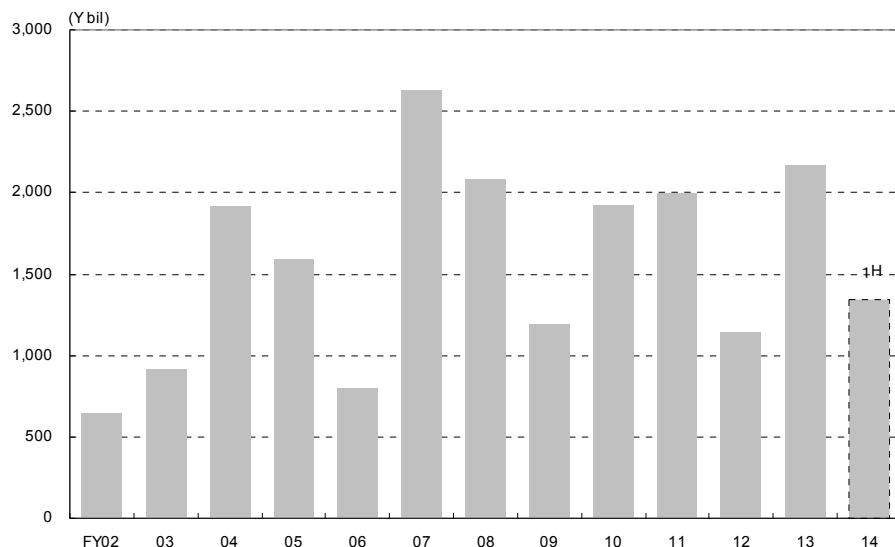


Source: Daiwa Securities.

Issuance in Samurai Bond Market (for IG issuers)

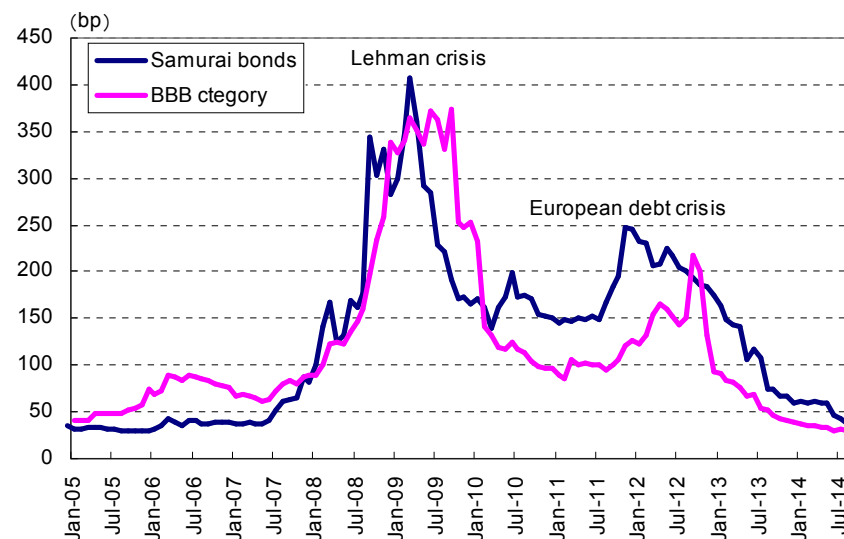
- Issuance opportunities exist because samurai bond primary market remains active
- However, investors are likely to intensify selective stance on samurai bonds as expected yields have been falling

Issuance Amount of Samurai Bonds



Source: Daiwa Securities.

Spread of Samurai Bonds over JGB Yield



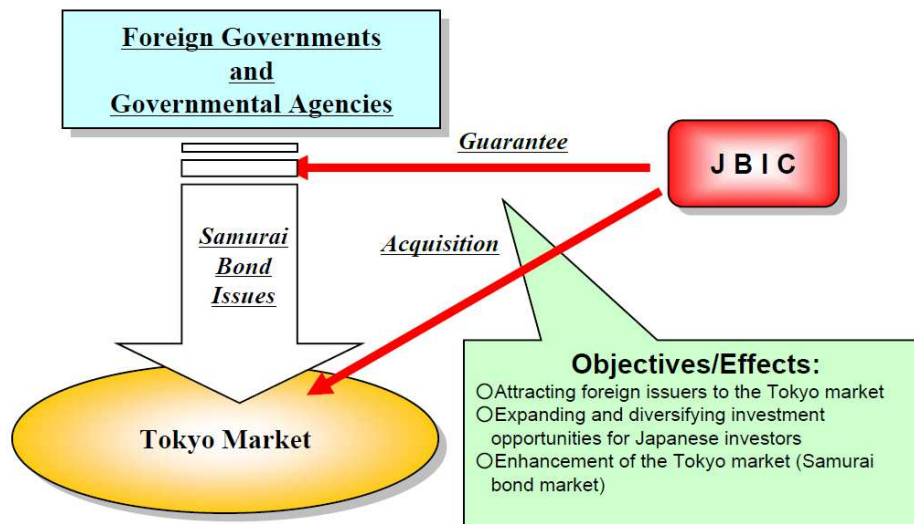
Source: Daiwa Bond Index; compiled by Daiwa Securities.

Note: Avg for bonds with 3-7Y maturities.

Issuance in Samurai Bond Market (for IG & SG issuers)

- Japan Bank for International Cooperation (JBIC; policy-based financial institution) provides partial guarantee to samurai bonds, which are called JBIC-guaranteed samurai bonds
- JBIC guarantees up to 95% of total present value of principal and interest. Usually, principal is fully guaranteed.

Scheme of JBIC-guaranteed Samurai Bonds



Source: Ministry of Finance, Financial Services Agency.

Issuance Record of JBIC-guaranteed Samurai Bonds

Issued on	Issuer	Issuer rating* Moody's / S&P (as of issuance)	Issuance amount (¥ bil)	Coupon	Maturity (years)	Non- guaranteed period (years)
17-Jul-09	Republic of Indonesia	Ba3/BB-	35.0	2.73%	10	2
18-Nov-09	Republic of Colombia	Ba1/BB+	45.0	2.42%	10	2.5
11-Dec-09	The United Mexican States	Baa1/BBB+	150.0	2.22%	10	2.5
23-Feb-10	Republic of the Philippines	Ba3/BB-	100.0	2.32%	10	2.5
20-Oct-10	The United Mexican States	Baa1/BBB+	150.0	1.51%	10	4.5
4-Nov-10	Republic of Indonesia	Ba2/BB	60.0	1.60%	10	4.5
18-Jan-11	Republic of Panama	Baa3/BBB-	41.5	1.81%	10	3.5
4-Mar-11	Export-Import Bank of India	Baa3/BBB-	20.0	1.88%	10	3
11-Mar-11	Republic of Turkey	Ba2/BB	180.0	1.87%	10	3
27-May-11	Oriental Republic of Uruguay	Ba1/BB+	40.0	1.64%	10	3.5
8-Mar-12	Republic of Turkey	Ba2/BB	90.0	1.47%	10	4.5
9-Aug-12	Qatar Petroleum	Aa2/AA	85.0	1.14%	10	5
16-Nov-12	Republic of Indonesia	Baa3/BBB+	60.0	1.13%	10	6.5
7-Dec-12	Central Bank of Tunisia	Baa3/BB	25.0	1.19%	10	5
31-Jul-13	Central Bank of Tunisia	Baa3/BB	22.4	2.04%	10	3.5
16-Dec-13	Development Bank of Mongolia (guaranteed by Mongolia)	B1/BB-(rating for Mongolia)	30.0	1.52%	10	4

Source: Compiled by Daiwa Securities.

(*) indicates non-registered domestic rating; please see disclaimer at end of document.

Issuance in Tokyo Pro-Bond Market

- Tokyo Pro-Bond Market (participants limited to professional investors) was newly established market in May 2011 as a measure to activate corporate bond market
- Tokyo Pro-Bond Market enables issuers to substantially simplify disclosure documents (simplification of disclosure documents at time of issuance, approval of information disclosure in English)
- Tokyo Pro-Bond Market was activated at outset of FY14 via catalyst of political supports (DBJ prepared as investor, Tokyo Metropolitan Gov't planning to issue foreign bonds on Tokyo Pro-Bond Market)

Comparison of Tokyo Pro-Bond Market and Publicly Offered Bond Market

	Tokyo Pro-Bond Market	Publicly offered market
Investors	Specific investors/non residents	No limitation
Information disclosure system	Established by Tokyo Pro-Bond Market	Established by Financial Services Agency
Disclosure documents	Specific Securities Information Program information Issuer information	Securities Registration Statement Shelf registration statement (incl. additional documents) Financial statements
Disclosure language	Japanese/English	Japanese
Access to disclosure documents	Websites of Tokyo Pro-Bond Market and issuers	EDINET
Trading	OTC (taxation on position is assumed for externalization)	OTC
Settlement	No limitation	Japan Securities Depository Center
Reference Statistical Prices (Yields) for OTC Bond Transactions	Included	Included

Source; TSE; compiled by Daiwa Securities.

Bond Issuers

ING BANK N.V.
Banco Santander-Chile
Malayan Banking Berhad
First Gulf Bank P.J.S.C

Issuers Which Implemented Program Listing

Asian Development Bank
Banco Santander-Chile
Bank of America Corporation
Deutsche Pfandbriefbank AG
First Gulf Bank P.J.S.C.
ICICI Bank Limited
ING Bank N.V.
Malayan Banking Berhad
Nomura Bank International plc

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.moody.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.moody.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>)

Notification Items Regarding Advertising etc.

(Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law)

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 The 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