

JHF No.133 Monthly MBS Issue

Strategic Memorandum DSTE238

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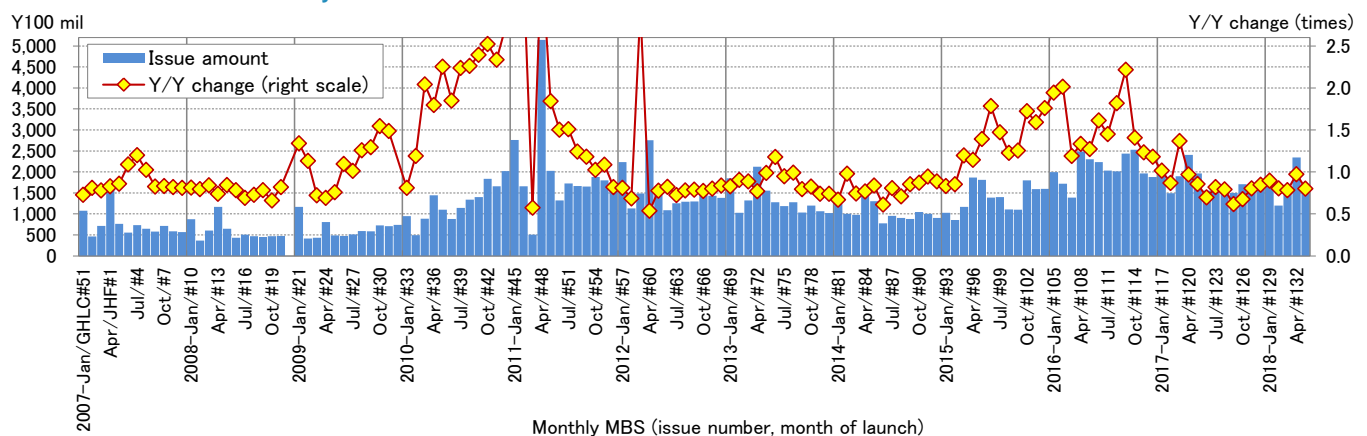
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Daiwa Securities Co. Ltd.

- May issue has no carry-over due to leveling-off for the first time in five years

- The Japan Housing Finance Agency (JHF) plans to issue its No. 133 Monthly MBS.
- The candidate trust assets total Y197.6 bil, almost all of which were Flat 35 loans originated in April. With the issuance amount of Y157.4 bil, the credit enhancement ratio is 20.3% (unchanged from the previous issue).
- The Flat 35 interest rate in April declined slightly m/m. The amount of Flat 35 loans decreased by about 10% y/y. New loans were largely flat y/y, of which those for new condominium and existing detached home purchases were favorable, but those for custom homes were sluggish and were a drag on overall new loan origination.
- Based on our prepayment model, we estimate a WAL of 8.44 years and a final maturity of 18.9 years (based on 11 May closing prices; same hereinafter). The expected WAL based on the JHF's PSJ Forecast Statistical Data is 8.81 years.
- The No. 132, launched in April, had a launch spread of 36bps and a coupon of 0.40%. Based on the same launch spread, the No. 133 would have a coupon of 0.40% and an OAS of 17.4bps.
- In the secondary market, the previous issue's risk premium in terms of the OAS is 15.9bps. Based on the same OAS, the No. 133's coupon would be about 0.38-0.39% and the launch spread 34-35bps.
- Based on our demand forecasts for the No. 133 issue, we think it appropriate that supply and demand will meet at the launch spread of around 34-38bps. If so, the coupon would be 0.38-0.42%.

Chart : Issue Amount of Monthly MBS



Source: JHF; compiled by Daiwa Securities.
 Note: Estimate for No. 133 issue.

Issuance of JHF MBS and Situations of Flat 35

No. 133 to be launched in May

The Japan Housing Finance Agency (JHF) plans to price (launch) its No. 133 MBS this month. Issuance terms are determined by the spread-pricing method, in which a new issue's coupon is set on the launch date by adding a launch spread—which is determined based on investor demand—to the compound yield on a benchmark 10Y JGB (JB350 in this case) at the time of the launch. The launch date is scheduled on 18 May, and the payment date is scheduled on 25 May.

Issuance amount of Y157.4 bil

Candidate trust assets for the No. 133 totaled Y197.6 bil, almost all of which were Flat 35 loans originated in April. There are some loans that were originated in March, albeit less than 2% of the total. The issue is likely to have the highest ratings from S&P and R&I. It was disclosed that the issuance amount would be Y180.8 bil and the credit enhancement ratio is 20.3% (unchanged from the previous issue).

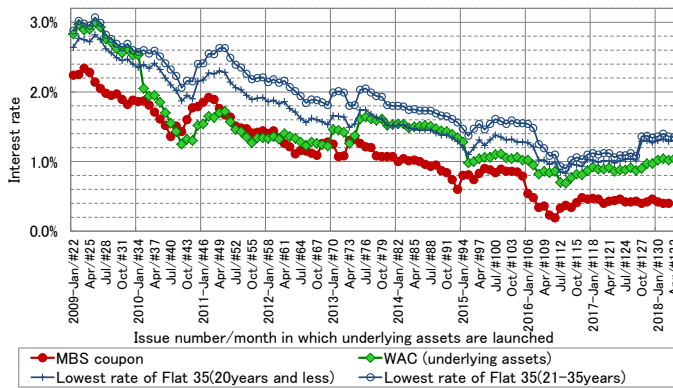
Slight decline in Flat 35 interest rate from March

For LTV of 90% or less, the lowest retail rate in April for Flat 35 mortgages of at least 21 years was 1.35%, 0.01% lower than the rate in March. The lowest retail rate for mortgages of 20 years or less was 1.30%, 0.01% higher m/m. The outstanding amount of candidate trust assets was 20% less than the year-earlier level partly owing to the absence of carry-over due to leveling-off, which inflated the May 2017 issue. The amount of loans originated in April declined by 10% y/y, of which refinancing loans halved, but new loans remained roughly flat (down 0.7%). Figures by usage type were also mixed—new loans for new condominiums and existing detached homes increased by around 20%, while loans for custom homes declined by about 10%.

The ratio of policyholders of the new JHF group credit life insurance system exceeded 50%

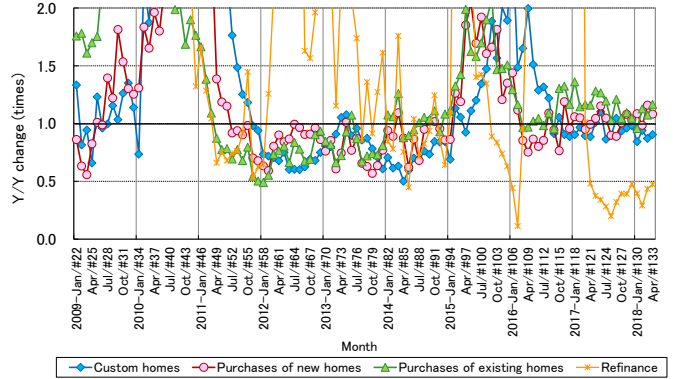
Regarding candidate trust assets for the No. 133 issue, the ratio of policyholders of the new JHF group credit life insurance system came in at 51.8% (including 3.1% for *Duet* and 6.9% for the insurance incl. the special contract for the three major diseases), exceeding 50% for the first time. The ratio of new Flat 35 borrowers was 60.1%, of which 86.2% of borrowers bought the new insurance.

Chart : Interest rate of Flat 35 Loans and JHF MBS (monthly trend)



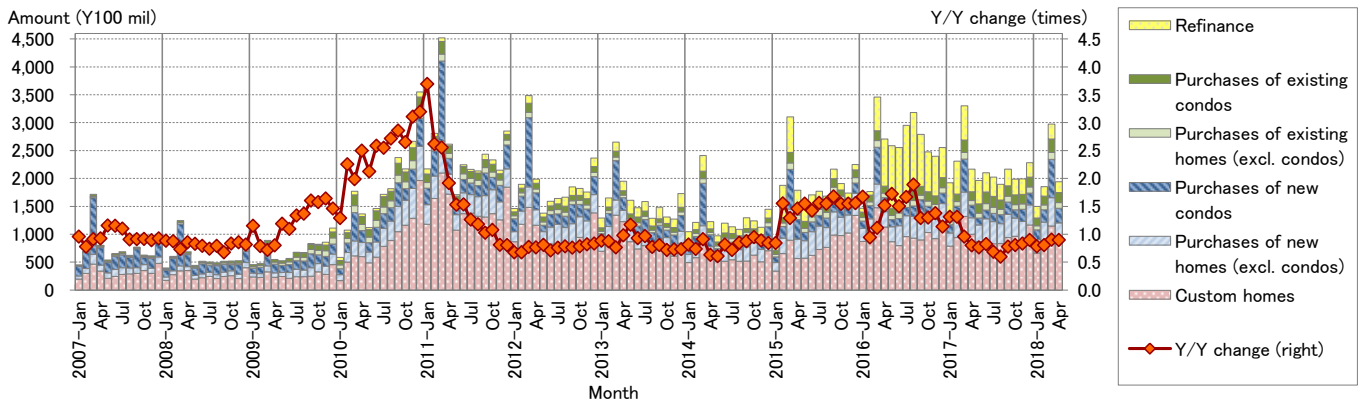
Source: JHF; compiled by Daiwa Securities.

Chart : Change in Flat 35 Loan Originations



Source: JHF; compiled by Daiwa Securities.

Chart : Flat 35 Loans by Type of Loans



Source: JHF; compiled by Daiwa Securities.

Terms for the previous issue

No. 132's launch spread 36bps

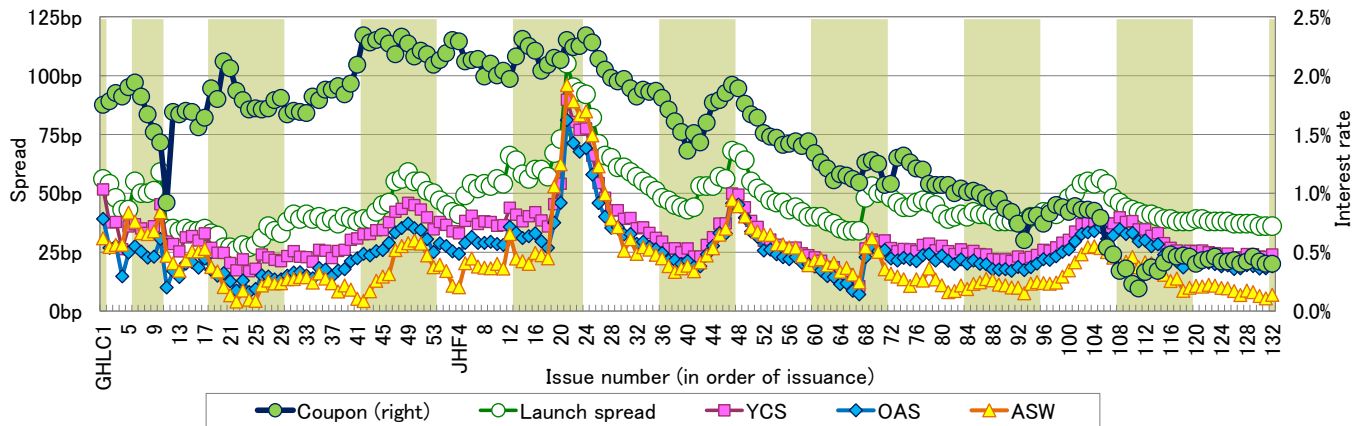
The No. 132 (Y234.2 bil) was launched on 19 April. The coupon was 0.40% and the spread was 36bps (unchanged from the previous issue). The OAS at launch (our estimate; same hereinafter) stood at 19.0bps (0.9bps wider) and the YCS was 24.0bps (1.0bp wider).

Large-scale issuance was well digested, despite no change in the spread

The issuance amount for the No. 132 issue jumped nearly 60% m/m (but fell 3% y/y), reflecting the seasonality of home purchase growth in March. The issue was a large-scale issuance, exceeding Y200 bil for the first time in 12 months. However, raising the launch spread to secure demand from investors seemed unnecessary. It appears that demand was robust as the issue was launched at the beginning of the new fiscal year. In addition, JHF MBS issuance amounts are unlikely to grow going forward, while downside potential for the Flat 35 interest rate is limited. There is little concern about the supply/demand balance, which appears to be leading to stability in the spread.

The OAS and YCS widened as the coupon level was rounded up in accordance with transaction rules at the time of launch, in addition to the flattening of the JGB yield curve in the zone over 10 years.

Chart : Issuance Terms for JHF Monthly MBS



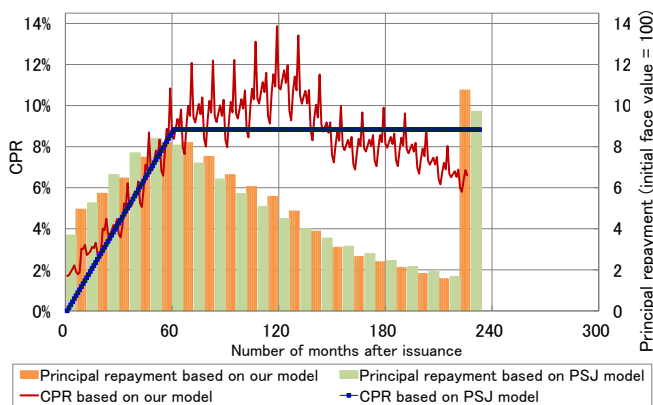
Source: JHF and our estimates.

Note: The background colors indicate different fiscal years.

Different risk premiums depending on expected cash flow distribution

With regard to the pricing of JHF MBS, it should be noted that the risk premium varies depending on the expected cash flow distribution. For example, the expected cash flows based on our prepayment model have terms that are somewhat shorter than those based on the PSJ Forecast Statistical Data. As a result, even with the same issuance terms (e.g., the coupon), YCSs based on the PSJ Forecast Statistical Data are slightly lower than those based on our prepayment model.

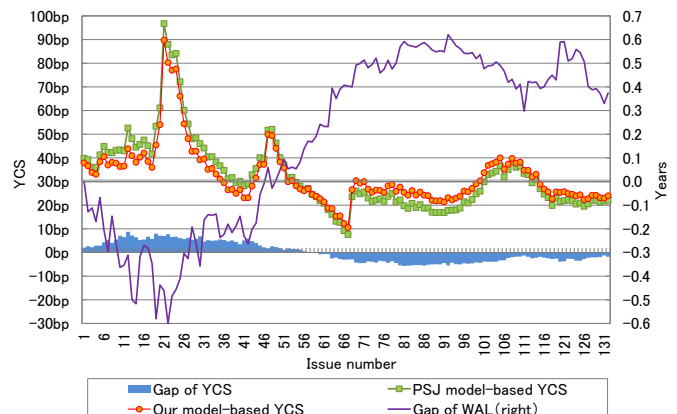
Chart : Expected CPR & Principal Repayment for No. 133 Issue (based on 11 May closing prices)



Source: Our estimates.

Note: Although principal repayments are made every month, the graph show annual repayment totals.

Chart : Difference in YCS for Monthly MBS at Launch



Source: Our estimates.

Cash flow characteristics and issuance terms for No. 133

We take a look at the issuance terms for the upcoming issue. Based on expected cash flow using our prepayment model and the PSJ model, we estimate the issuance terms (the coupon and launch spread) and the risk premiums.

Expected maturities change little vs. previous issue

The expected cash flow distribution for the upcoming issue (the chart on the previous page) is about the same as the previous issue (at the time of its launch; same hereinafter). The expected WAL is about 8.5 years. The length has changed little compared to the previous issue (based on 11 May closing prices; hereinafter the same unless otherwise noted).

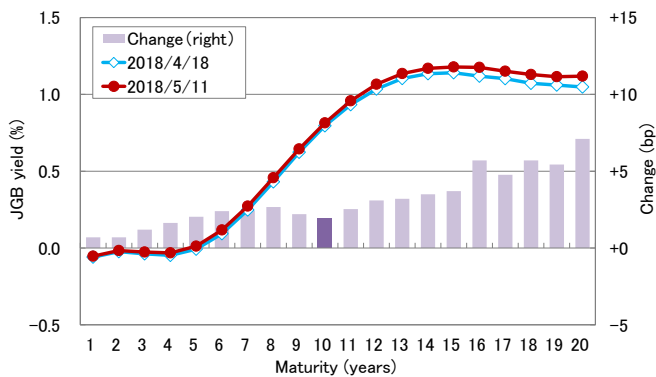
- Based on our model, the expected WAL is 8.44 years (8.45 years for the previous issue) and the expected final maturity 18.9 years. The PSJ forecast is 9.56% PSJ (vs. 9.56% PSJ for the previous issue).
- The PSJ Calculation Statistical Value (average) is 8.83% PSJ (vs. 8.81% PSJ for the previous issue). Accordingly, the expected WAL is 8.81 years (vs. 8.82 years for the previous issue).

For the No. 133 issue, the underlying loan pool's weighted-average coupon rose from the

No. 132 issue (from 0.90% to 0.91% based on figures excluding premiums for new JHF group credit life insurance). On the other hand, the implied forward rate (see the chart to the left) rose across the board, resulting in little change in prepayment estimates. On top of this, partly due to the JHF's semiannual exercising of clean-up call options, we estimate the No. 132 and No. 133 issues will eventually be redeemed in the same month.

According to cash flow estimates based on the PSJ model, the timing when the outstanding amount becomes less than 10% of the issuance amount is anticipated in April. Expected maturities thus tend to shorten compared to those in our model in the case that actual prepayments are higher than the estimate.

Chart : Change in 3Y-Forward Rate



Source: Compiled by Daiwa Securities.

Chart : Launch Spread Estimates for No. 133 MBS (based on 11 May closing prices)

Valuations of JHF MBS #133 Pricing (Simulation)										Base Market Price date : 11-May-18 (Tokyo Close)	
Base Yield: JGB(350G) YTM 0.040 %											
Launch Spread	Coupon	Valuations of Cash Flows							Indications of Previous RMBS Issue (#132)		
		Daiwa Model				PSJ Model					
		Dynamic	Static			PSJ forecast	Statistical	Data(Ave)			
		OAS	YCS	ASW	RevDur*	YCS	ASW	RevDur*			
30 bp	0.34 %	11.3	16.3	-1.0	8.243	14.5	-2.4	8.595	(Issuance Terms)		
31 bp	0.35 %	12.3	17.3	0.0	8.239	15.5	-1.4	8.589	[Launch Spread=36bp]		
32 bp	0.36 %	13.3	18.3	0.9	8.234	16.5	-0.4	8.584	[Coupon=0.4%]		
33 bp	0.37 %	14.3	19.3	1.9	8.229	17.5	0.5	8.579	(Valuations at the time of launch)		
34 bp	0.38 %	15.3	20.4	2.9	8.224	18.6	1.5	8.574	[CF based on Daiwa Model]		
35 bp	0.39 %	16.4	21.4	3.9	8.219	19.6	2.5	8.568	OAS=19bp, YCS=24bp, ASW=6.8bp		
36 bp	0.40 %	17.4	22.4	4.9	8.214	20.6	3.5	8.563	[CF based on PSJ Model]		
37 bp	0.41 %	18.4	23.4	5.9	8.209	21.6	4.5	8.558	YCS=22.1bp, ASW=5.5bp		
38 bp	0.42 %	19.4	24.4	6.9	8.205	22.6	5.5	8.553	(Valuations in the secondary market)		
39 bp	0.43 %	20.5	25.4	7.8	8.200	23.6	6.5	8.548	[CF based on Daiwa Model/ Daiwa Price]		
40 bp	0.44 %	21.5	26.5	8.8	8.195	24.7	7.4	8.542	OAS=15.9bp, YCS=21bp, ASW=3.4bp		
41 bp	0.45 %	22.5	27.5	9.8	8.190	25.7	8.4	8.537	[CF based on PSJ Model/JSDA price]		
									YCS=20bp, ASW=3bp		
		<Daiwa Model>				<PSJ model/based on PSJ Forecast Statistical Data>				*RevDur: Revised Duration	
		PSJ 9.56 %PSJ				Ave : 8.83 %PSJ (Median: 8.63) %PSJ					
		WAL 8.44 years				8.81 years (8.89) years					

Source: Compiled by Daiwa Securities.

Note: 1) Figures in colored cells show similar indications to those in the previous issue, as indicated in the right section (Indications of Previous MBS Issue) with the same colors. Spreads in the previous issue at launch are based on those at the time of pricing. The spreads in the previous issue in the secondary market used in the Daiwa model are based on Daiwa prices, and the spreads in the previous issue in the secondary market used in the PSJ model are based on the JSDA's Trading Reference Statistical Data.

2) Figures for both Trading Reference Statistical Data and PSJ Forecast Statistical Data are average figures.

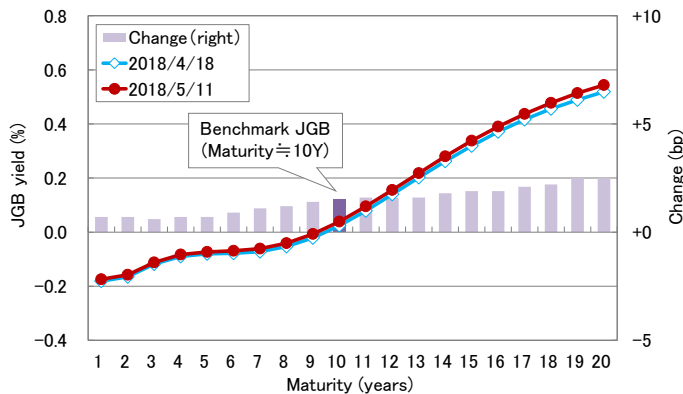
3) Estimated cash flow is based on the assumption that clean-up call options are exercised in initial April or October after the outstanding amount becomes 10% or less of the original.

Launch spread indications

Since the launch of the previous issue, JGB yields have risen slightly across the board. As the change was large at the long end of the curve, the shape of the yield curve has steepened slightly in the zone over three years. When JGB yields were volatile in late April, the 10-year JGB yield rose nearly 0.07% at one point, but immediately returned to its previous level. Currently, the 10-year JGB yield is around 0.04%.

If the launch spread is the same as the previous issue at 36bps, the No. 133 coupon would be 0.40%. If so, the OAS would be at 17.4bps, 1.6bps tighter than the previous issue's launch OAS.

Chart : JGB Yield Curve Changes (from the day before launch day of No.132)



Source: Compiled by Daiwa Securities.

The connection with secondary market levels is also of concern. We confirmed spread levels from our offices' prices and JSDA Trading Reference Statistical Data for the previous issue and then looked at the connection with the current issue. For convenience, we used our offices' prices for our model's cash flow analysis and JSDA Trading Reference Statistical Data for the PSJ model-based cash flow estimates (the JSDA's published PSJ Forecast Statistical Data; PSJ values based on the average of the 0bp yield curve scenario).

We did a launch spread case study for the current issue and compared spreads based on cash flow using our model and the PSJ model (based on the average for the JHF's PSJ Forecast Statistical Data).

The following connections with the previous issue are apparent (secondary market levels and benchmark yield are as of the 11 May close).

(Connection with risk premium of previous issue)

【Pricing using our model's cash flow estimates】

- The No. 132's launch OAS was 19.0bps and the YCS 24.0bps. Based on the similar OAS and YCS, the No. 133's launch spread would be about 37-38bps and the coupon 0.41-0.42%.
- In the secondary market, the No. 132's OAS is 15.9bps and the YCS 21.0bps. In line with these, the No. 133's launch spread would be about 34-35bps and the coupon 0.38-0.39%.

【Pricing using PSJ forecast-based cash flow estimates】

- The No. 132's launch YCS was 22.1bps. Based on the similar YCS, the No. 133's launch spread would be about 37-38bps and the coupon 0.41-0.42%.
- In the secondary market, the No. 132's YCS is 20.0bps. In line with this, the No. 133's launch spread would be about 35-36bps and the coupon 0.39-0.40%.

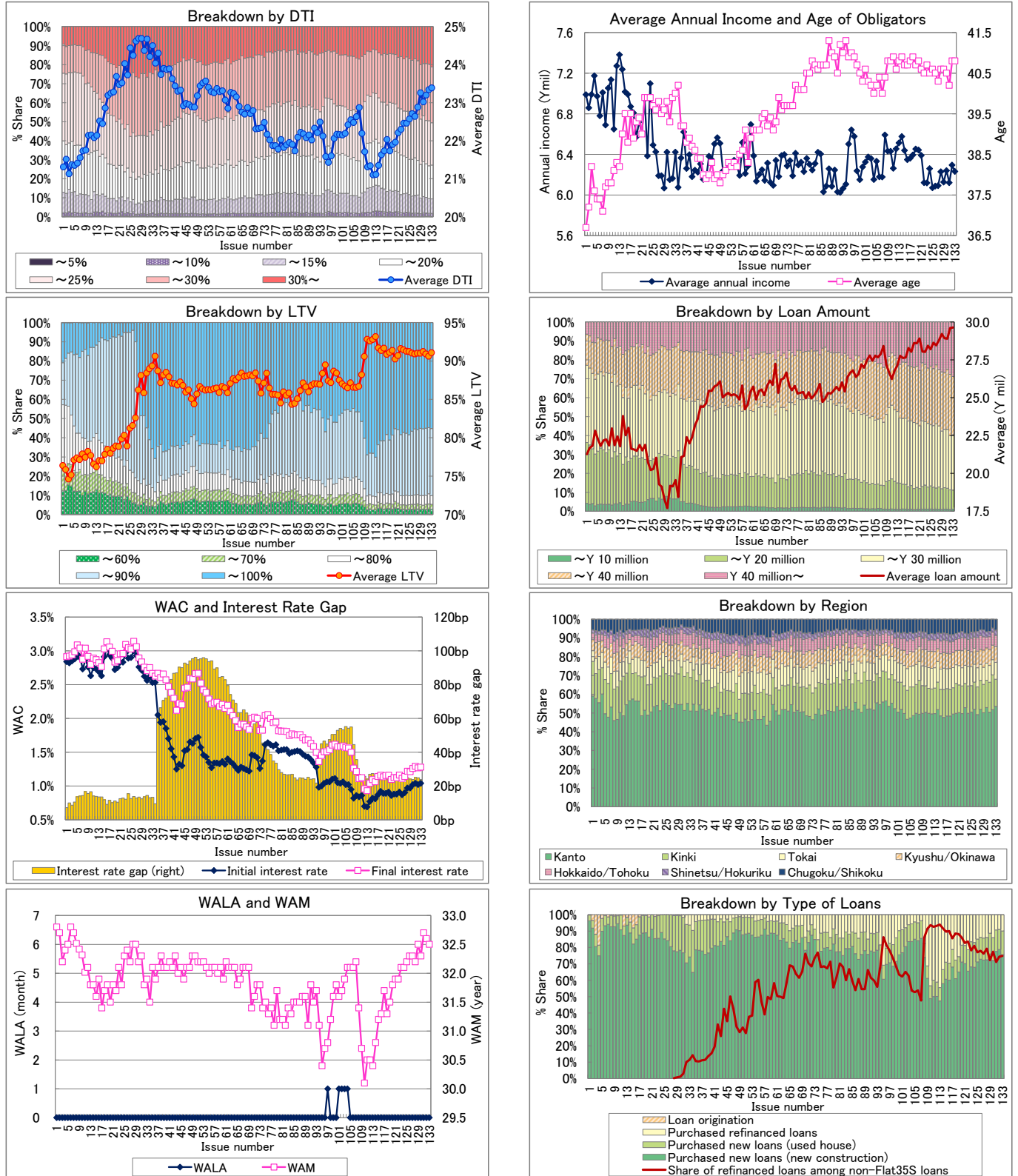
Demand forecast for No. 133 issue and issuance level

The issuance amount for the No. 133 issue is expected to decrease by 33% m/m or 20% y/y. While the amount of Flat 35 loans in April declined by 10% y/y, the issuance amount fell 20%. This was mainly because there was no leveling-off in 2018—the May 2017 issue was inflated, reflecting carry-over from the previous month due to leveling-off.

In January 2014, the JHF introduced a scheme to level-off the issuance amount, aiming to stabilize JHF MBS issuance conditions. Since then, JHF has carried over a part of mortgage originations in March, which tend to be higher due to seasonal factors, from April issue to May issue. However, the leveling-off was not implemented this year for the first time in five years, implying that JHF has a solid outlook for the supply/demand balance.

For the No. 133 issue, we think it appropriate that supply and demand will meet at the launch spread of around 34-38bps. If so, the coupon would be 0.38-0.42%.

Characteristics of Underlying Loan Pools for All JHF Monthly MBSs



Source: JHF; compiled by Daiwa Securities.
 Note: Candidate pool used for No. 133 issue.

Characteristics of Underlying Loans: No. 133 Monthly MBS and Last Six Issues (No. 127-132)

	JHF #127	JHF #128	JHF #129	JHF #130	JHF #131	JHF #132	JHF #133	Ave. of previous 6 issues	Change from #132
Loan Pool Selected in	Oct-2017	Nov-2017	Dec-2017	Jan-2018	Feb-2018	Mar-2018	Apr-2018		
Loan Application Started in	Sep-2015	Dec-2014	Jun-2015	Mar-2015	Aug-2015	Aug-2015	Jun-2015		
Repayment Started in	Sep-2017, Oct-2017	Nov-2017	Dec-2017	Nov-2017, Jan-2018	Feb-2018	Mar-2018	Mar-2018, Apr-2018		
Initial Outstanding Entrusted Assets (Y mil)	198,865	199,490	228,395	150,012	185,520	293,977	197,632	209,376	-96,345
Issue Size (Y mil)	157,600	158,900	180,800	119,700	148,400	234,200	157,400	166,600	-76,800
Excess Collateral (Y mil)	41,265	40,590	47,595	30,312	37,120	59,777	40,232	42,776	-19,545
Overcollateralization	20.7%	20.3%	20.8%	20.2%	20.0%	20.3%	20.3%	20.4%	+0.0%
Number of Loans	6,989	6,927	7,817	5,187	6,420	9,933	6,668	7,212	-3,265
Average Outstanding Loan	28.454	28.799	29.218	28.921	28.897	29.596	29.639	28.981	+0.043
Average LTV	90.91%	91.01%	91.00%	91.23%	90.92%	90.61%	91.08%	90.95%	+0.47%
Average DTI	22.64%	22.88%	23.26%	23.02%	23.20%	23.34%	23.39%	23.06%	+0.05%
Average LTV for Refinance	87.66%	87.19%	88.61%	86.58%	86.14%	85.00%	87.30%	86.86%	+2.30%
Average DTI for Refinance	19.37%	19.37%	20.06%	20.03%	19.61%	19.71%	19.97%	19.69%	+0.26%
Average Annual Income of Obligor (Y mil)	6.092	6.229	6.127	6.240	6.122	6.294	6.231	6.184	-0.063
Average Age of Obligor	40.3	40.6	40.6	40.5	40.2	40.8	40.8	40.5	+0.0
WAC (Initial Rate)	0.90%	0.97%	0.97%	1.02%	1.04%	1.02%	1.04%	0.99%	+0.02%
WAC (Final Rate)	1.14%	1.22%	1.21%	1.26%	1.29%	1.27%	1.28%	1.23%	+0.01%
WALA (Weighted Average Loan Age)	0	0	0	0	0	0	0	0	+0
WALA for Refinance	72	77	79	77	82	81	82	78	+1
WAM	388	386	390	388	392	391	390	389	-1
Maturity Structure of Loans at Origination (% share)	Up to 10Y	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	-0.1%
	10-20Y	7.1%	7.1%	6.7%	6.4%	5.5%	6.0%	6.5%	+0.1%
	20-25Y	4.2%	4.7%	3.7%	4.3%	3.6%	3.8%	4.0%	+0.4%
	25-30Y	12.7%	12.8%	11.3%	12.7%	10.9%	10.6%	10.8%	+0.2%
	Over 30Y	75.9%	75.4%	78.1%	76.5%	79.9%	79.5%	78.9%	-0.6%
% share of loans with bonus payments	(in number)	14.2%	12.3%	12.5%	12.9%	14.5%	13.4%	13.5%	-0.9%
	(in value)	16.0%	13.7%	14.0%	14.6%	16.4%	15.4%	15.2%	-0.9%
Type of Loan	new	85.8%	86.1%	88.7%	86.1%	90.8%	91.1%	88.1%	-0.9%
	refinanced	14.2%	13.9%	11.3%	13.9%	9.2%	8.9%	11.9%	+0.9%
Loan Amount at Origination (% share)	Up to Y10 mil	1.1%	1.0%	1.0%	1.1%	1.0%	0.9%	1.0%	+0.2%
	Y10-20 mil	11.2%	11.8%	10.9%	11.4%	11.1%	10.4%	11.1%	-0.3%
	Y20-30 mil	33.8%	32.2%	30.5%	30.8%	31.2%	28.7%	31.2%	+0.6%
	Y30-40 mil	31.3%	29.8%	31.3%	30.1%	31.7%	32.3%	31.1%	-1.5%
	Y40-50 mil	13.8%	13.4%	15.1%	14.6%	14.5%	16.2%	14.6%	+0.5%
	Over Y50 mil	8.8%	11.8%	11.2%	12.0%	10.5%	11.5%	11.0%	+0.6%
Loan Amount by Region (% share)	Hokkaido/Tohoku	7.2%	7.4%	7.1%	5.7%	6.7%	6.9%	6.8%	-0.9%
	Kanto	49.1%	51.8%	50.1%	52.9%	50.3%	51.8%	51.0%	+1.7%
	Shinetsu/Hokuriku	3.3%	3.1%	3.6%	2.8%	2.7%	2.2%	2.9%	+0.6%
	Tokai	10.3%	8.5%	9.1%	9.2%	8.9%	8.1%	9.0%	+0.9%
	Kinki	14.7%	15.5%	15.1%	14.5%	16.1%	18.5%	15.7%	-4.0%
	Chugoku	4.7%	3.8%	3.9%	5.0%	4.7%	3.3%	4.2%	+0.9%
	Shikoku	1.9%	1.9%	1.8%	1.8%	1.9%	1.5%	1.8%	+0.2%
	Kyushu/Okinawa	8.8%	8.1%	9.2%	8.2%	8.6%	7.8%	8.4%	+0.7%

Source: JHF; compiled by Daiwa Securities.
Note: Candidate pool used for No. 133 issue.

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.

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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).

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■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")

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

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

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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.

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[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 (https://www.moody.com/pages/default_ja.aspx))

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 May 13th, 2016, 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.moody.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.co.jp/web/>)

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 May 13th, 2016, 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.co.jp/web/>)

IMPORTANT

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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 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 (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.

** 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