

JHF No.156 Monthly MBS Issue

Strategic Memorandum DSBE010

FICC Research Dept.

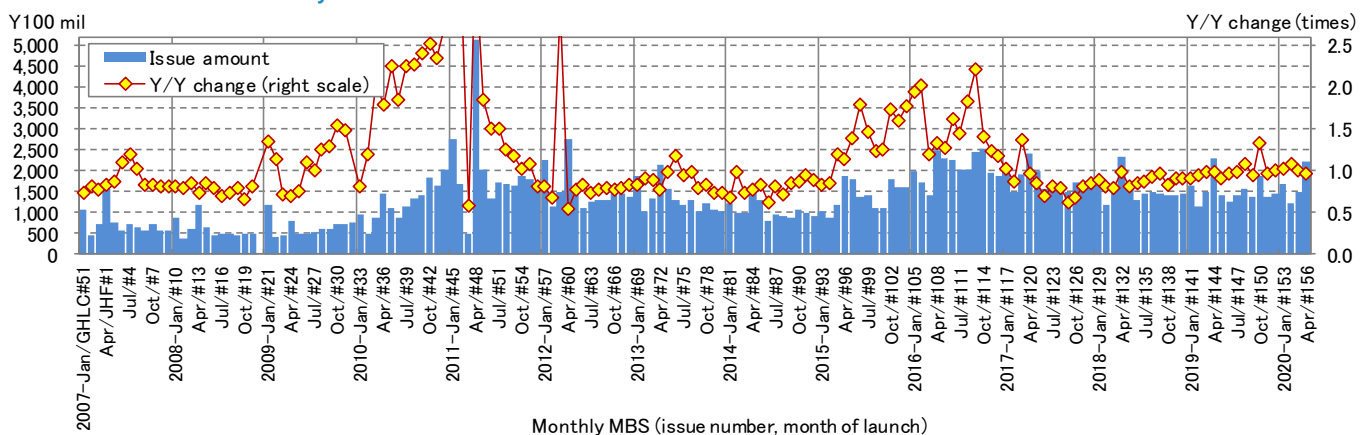
Chief Strategist of Securitization
Koji Matsushita
 (81) 3 5555-8778
 koji1.matsushita@daiwa.co.jp

Daiwa Securities Co. Ltd.

➤ Issuance totaled Y220 billion, confirming home purchases increase every spring

- The Japan Housing Finance Agency (JHF) plans to issue its No. 156 Monthly MBS. The coupon will be set by referencing the yield of the on-the-run 10-year JGB.
- JHF MBS are backed by housing loans and issued with overcollateralization. All the candidate assets used as collateral for the upcoming issue are Flat 35 loans originated in March, with a total amount of Y273.8 bil. If the credit enhancement ratio is unchanged from that for the previous issue at 19.2%, the issue amount is estimated at Y221.0 bil.
- The lowest retail rate on a Flat 35 loan in March declined 0.04ppt relative to February and was down 0.03ppt in y/y terms. The amount of originations increased 50% relative to February and declined 5% relative to March 2019. We attribute the m/m growth largely to seasonality, because the biggest increase in home purchases tends to be in the month of March.
- Based on our prepayment model, we estimate a WAL of 9.50 years (based on 9 April closing prices; same hereinafter). The expected WAL based on the JHF's PSJ Forecast Statistical Data is 8.95 years.
- The No. 155, launched in March, had a launch spread of 34bps and a coupon of 0.36%. Based on the same launch spread, the No. 156 would have a coupon of 0.35% and an OAS of 16.8bps, 2.8bps titer than the previous issue's launch OAS. Based on the No. 155's OAS in the secondary market, the No. 156's launch spread is estimated at 33-34bps and the coupon 0.34-0.35%.
- We think it appropriate that supply and demand will meet at the launch spread of about 34-37bps. If so, the coupon would be about 0.35-0.38%.

Chart: Issue Amount of Monthly MBS



Source: JHF; compiled by Daiwa Securities.
 Note: Estimate for No. 156 issue.

Issuance of JHF MBS and Situations of Flat 35

No. 156 to be launched in April

The Japan Housing Finance Agency (JHF) plans to price (launch) its No. 156 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 (JB358 in this case) at the time of the launch. The launch date is scheduled in mid-April, and the payment date is scheduled on 24 April.

Issuance amount of about Y220 bil

Candidate trust assets for the No. 156 totaled Y273.8 bil, all of which were Flat 35 loans originated in March. The issue is likely to have the highest ratings from S&P and R&I. The issue amount is to be announced on 13 April. If the credit enhancement ratio is unchanged from that for the previous issue at 19.2%, the issue amount is estimated at Y221.0 bil.

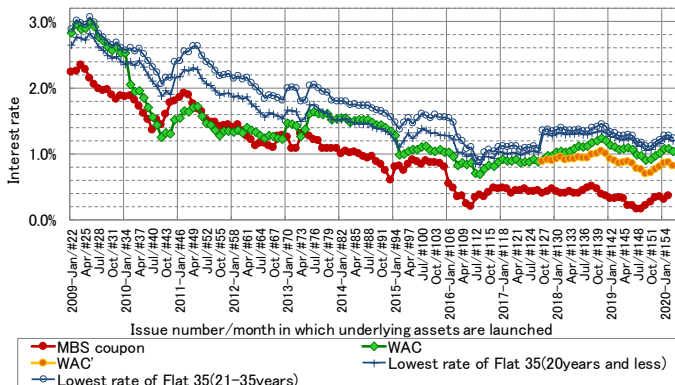
The usage of Flat 35 loans increased 50% m/m on seasonal factors

The lowest retail rate on Flat 35 loans in March was 1.24% for a 35-year loan (LTV of no more than 90%, includes costs of adding group credit insurance, here and below) and 1.19% for a 20-year loan, in both cases a 4bp m/m decline. The y/y change was a 3bp decline for both 35-year and 20-year loans. Originations increased 50% m/m, we think largely because of seasonality (home purchases tend to increase in March), and declined 5% in y/y terms. These are strong numbers in light of the disruptions caused by COVID-19.

Preferential interest rates are designed to encourage the purchase of high-quality homes

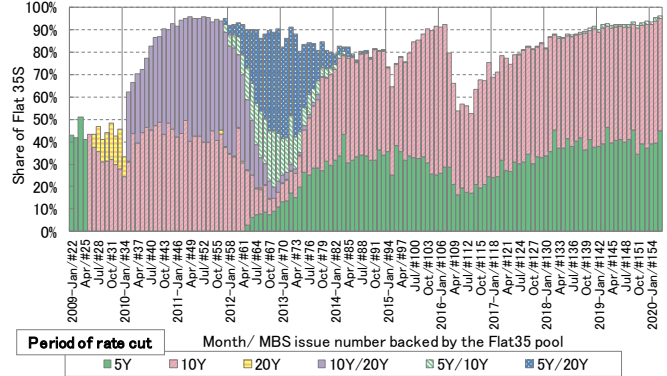
A record-high 96.3% of Flat 35 borrowers were able to access a preferential rate, and most of the remaining 3.7% were using the Flat 35 program for refis, which are ineligible for preferential rates.

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



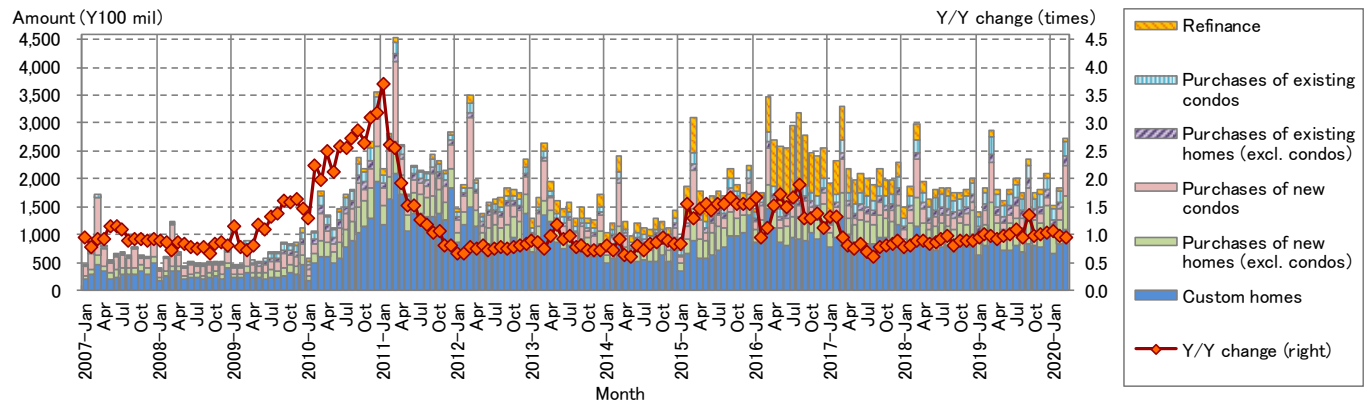
Source: JHF; compiled by Daiwa Securities.

Chart: Preferential Rate Scheme



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

Launch spread of 34bps and coupon of 0.36%

The No. 155 (Y147.7 bil) was launched on 18 March with a coupon of 0.36%. The coupon was determined by adding the launch spread of 34bp on the compound yield of benchmark JB357. The OAS at launch (our estimate; same hereinafter) stood at 19.6bps (0.3bps wider than previous issue) and the YCS was 24.0bps (0.6bps wider).

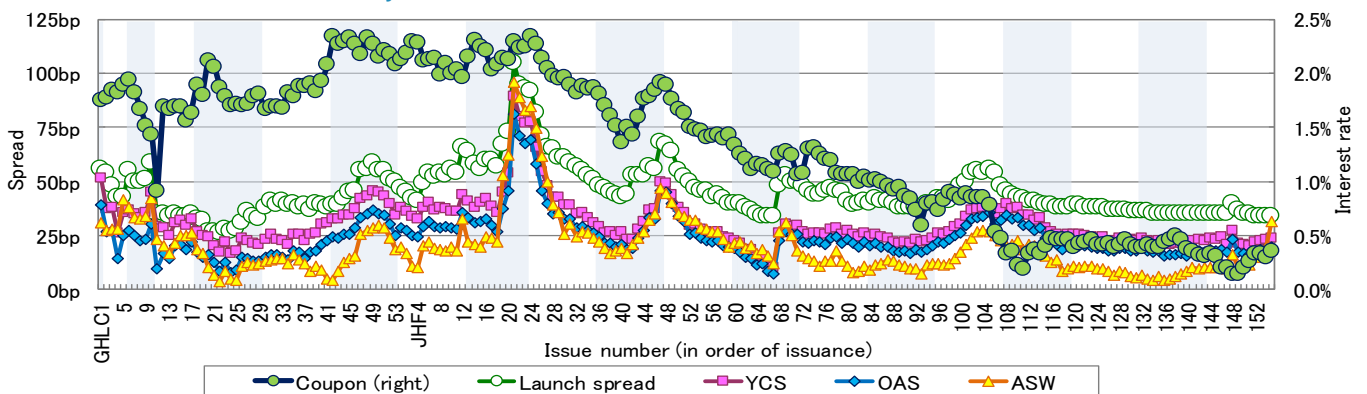
Impact from the rise in JGB yields

The coupon increased 6bp from 0.30% last month because of the increase in long-term JGB yields reflecting expectations of fiscal stimulus, as the advanced economies proposed economic packages to cope with the spread of COVID-19. The launch spread of 34bp was the same as last month. The turmoil in global financial markets caused some investors to put off their investments in agency RMBS, but the coupon increasing by the same amount as JGB yields seemed to ensure adequate investor demand.

The change in the yield curve spread was a technical one

The widening of OAS and YCS was a technical one, and can primarily be explained by the yield on the benchmark JGB rising relative to the overall yield curve and the bond's coupon being set higher by that amount. ASW also increased because there was only a small increase in the rate on JPY interest rate swaps.

Chart: Issuance Terms for JHF Monthly MBS

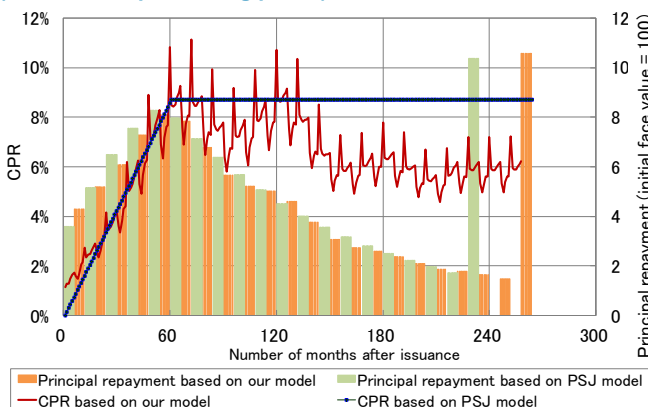


Source: JHF and our estimates.
Note: The background colors indicate different fiscal years.

Different risk premiums depending on expected cash flow distribution

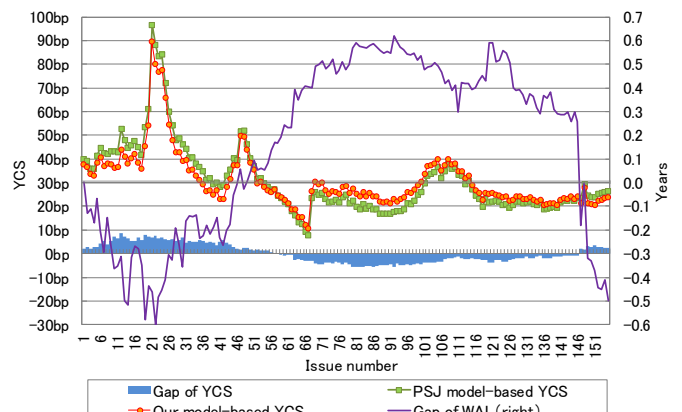
With regard to the pricing of JHF MBS, it should be noted that the risk premium varies depending on the expected cash flow distribution. The expected cash flows of JHF MBS No.156 based on our prepayment model have terms that are somewhat longer than those based on the PSJ Forecast Statistical Data. As a result, YCSs based on our prepayment model are several basis points lower than those based on the PSJ Forecast Statistical Data. Due to a minor change, our model provides a longer expected maturity at the time of new issuance than before, leading to a decline in YCS. The No. 147 issue, launched in July 2019, is the first one to reflect the impact from this.

Chart: Expected CPR & Principal Repayment for No. 156 Issue (based on 9 April closing prices)



Source: Our estimates.
Note: Although principal repayments are made every month, the graph shows annual repayment totals.

Chart: Difference in YCS for Monthly MBS at Launch



Source: Our estimates.

Cash flow characteristics and issuance terms for No. 156

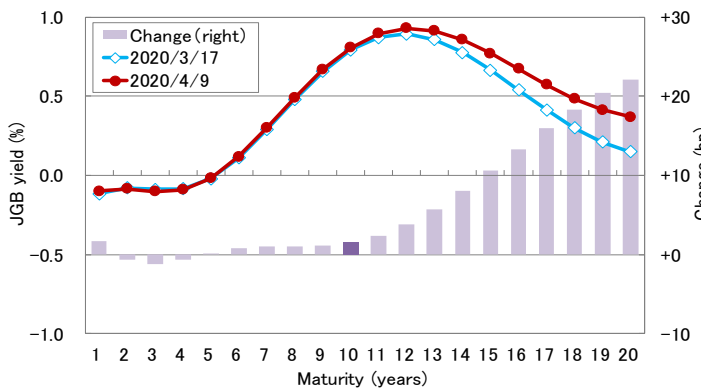
We take a look at the issuance terms for the upcoming issue. Based on expected cash flow using our prepayment model and the PSJ model, we estimate the issuance terms (the coupon and launch spread) and the risk premiums.

Expected maturity of around 9 years

The expected cash flow distribution for the upcoming issue (the chart on the previous page, based on 9 April closing prices; hereinafter the same unless otherwise noted) is about the same as the previous issue (at the time of its launch; same hereinafter). Both our model and PSJ Forecast Statistical Data suggest that the expected WAL is about 9 years.

- Based on our model, the expected WAL is 9.50 years (9.39 years for the previous issue) and the expected final maturity 22.0 years (21.5 years). The PSJ forecast is 7.77% (vs. 7.94% for the previous issue).
- The PSJ Calculation Statistical Value (average) is 8.70% (vs. 8.90% for the previous issue). Accordingly, the expected WAL is 8.95 years (vs. 8.89 years for the previous issue) and the expected final maturity 19.5 years (19.5 years).

Chart: Change in 3Y-Forward Rate (from the day before launch day of No.155)



The increase in the expected average maturity can mostly be attributed to a bear steepening of market JGB yields in the 10-year and above sectors and consequent bear steepening of implied forward rates. The rise in the refinancing rates expected in future periods has lowered the incentive to refinance and reduced expected prepayments. The underlying loan pool's weighted average coupon (WAC, based on the weighted average interest rate of home loan borrowers; see pp6-7) declined 0.05ppt from the previous issue, from 0.86% to 0.81%.

Source: JHF; compiled by Daiwa Securities.
 Note: WAC' means the Weight Average Coupon excl. premiums for JHF group credit life insurance

Chart: Launch Spread Estimates for No. 156 MBS (based on 9 April closing prices)

Valuations of JHF_MBS_#156 Pricing(Simulation)										9-Apr-20 (Tokyo Close)	
Base Yield: JGB(358G) YTM 0.010 %											
Launch Spread	Coupon	Valuations of Cash Flows							Indications of Previous RMBS Issue (#155)		
		Daiwa Model				PSJ Model					
		Dynamic	Static			PSJ forecast Statistical Data(Ave)					
		OAS	YCS	ASW	ModDur	YCS	ASW	ModDur			
30 bp	0.31 %	12.7	16.7	18.5	9.289	20.0	20.3	8.770	(Issuance Terms)		
31 bp	0.32 %	13.7	17.7	19.4	9.282	21.0	21.3	8.764	Launch Spread=34bp		
32 bp	0.33 %	14.7	18.7	20.4	9.275	22.1	22.3	8.758	Coupon=0.36%		
33 bp	0.34 %	15.7	19.7	21.4	9.268	23.1	23.3	8.752	(Valuations at the time of Launch)		
34 bp	0.35 %	16.8	20.7	22.4	9.262	24.1	24.4	8.746	[CF based on Daiwa Model]:		
35 bp	0.36 %	17.8	21.8	23.4	9.255	25.1	25.4	8.740	OAS=19.6bp, YCS=24bp, ASW=31.7bp		
36 bp	0.37 %	18.8	22.8	24.4	9.248	26.1	26.4	8.734	[CF based on PSJ Model]:		
37 bp	0.38 %	19.8	23.8	25.4	9.241	27.1	27.4	8.729	YCS=26.5bp, ASW=32.3bp		
38 bp	0.39 %	20.8	24.8	26.3	9.234	28.1	28.4	8.723	(Valuations in the secondary market)		
...	[CF based on Daiwa Model/Daiwa Price]		
42 bp	0.43 %	24.9	28.9	30.3	9.206	32.2	32.5	8.699	OAS=16bp, YCS=20.3bp, ASW=21.5bp		
43 bp	0.44 %	25.9	29.9	31.3	9.199	33.2	33.5	8.693	[CF based on PSJ Model/JSDA price]:		
									YCS=25.1bp, ASW=24.5bp		
		<Daiwa Model>			<PSJ Model/based on PSJ Forecast Statistical Data>						
	PSJ	7.77 %			Ave: 8.70 % (Median: 8.86) %						
	WAL	9.50 years			8.95 years (8.89) years						

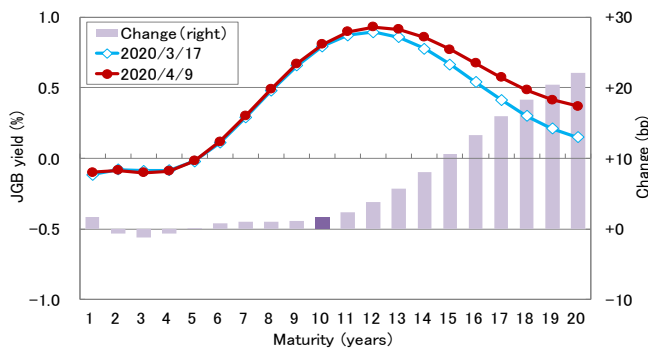
Source: Compiled by Daiwa Securities.
 Note: 1) Figures in colored cells show similar indications to those in the previous issue, as indicated in the right section (Indications of Previous MBS Issue) with the same colors. Spreads in the previous issue at launch are based on those at the time of pricing. 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

The previous issue (No. 155) was launched when the on-the-run 10-year JGB was yielding more than it was the previous month. This was later constrained because yields in the 10-year zone did not keep moving higher.

If the launch spread is the same as the previous issue at 34bps, the No. 156 coupon would be 0.35%. This would put the OAS at 16.8bps, 2.8bp lower than the previous issue's launch OAS of 19.6bp. The OAS is lower despite the launch spread being the same because of the increased concavity of the JGB yield curve in the 10-year zone, and because the relationship is such that the spread is narrowed by the extent that yields rise on maturities shorter than, as well as longer than, the 10-year zone.

Chart: JGB Yield Curve Changes (from the day before launch day of No.155)



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).

The connections with the previous issue are shown as follows (secondary market levels and benchmark yield are as of the 9 April close).

(Connection with risk premium of previous issue)

【Pricing using our model's cash flow estimates】

- The No. 155's launch OAS was 19.6bps and the YCS 24.0bps. Based on the similar OAS and YCS, the No. 156's launch spread would be 36-37bps and the coupon 0.37-0.38%.
- In the secondary market, the No. 155's OAS is 16.0bps and the YCS 20.3bps. In line with these, the No. 156's launch spread would be about 33-34bps and the coupon 0.34-0.35%.

【Pricing using PSJ forecast-based cash flow estimates】

- The No. 155's launch YCS was 26.5bps. Based on the similar YCS, the No. 156's launch spread would be about 36-37bps and the coupon 0.37-0.38%.
- In the secondary market, the No. 155's YCS is 25.1bps. In line with this, the No. 156's launch spread would be about 35bps and the coupon 0.36%.

(Demand forecast for No. 156 issue and issuance level)

Impacts from COVID-19

With the spread of the coronavirus apparently being contained in China, the lockdown of the city of Wuhan was lifted on 8 April, but growth in the number of cases or the number of deaths has not slowed in many other regions of China, and the effectiveness of its many measures to control the epidemic, healthcare system updates, and economic measures are being watched closely. The volatility of global financial markets brought by the squeeze on real economic activity and policy responses looks likely to continue. Although Japan's rate of growth in number of cases is still low compared to that of the US and especially New York, it is difficult to project what is coming. Prime Minister Abe just declared a state of emergency on 7 April.

The relationship between JHF and RMBS

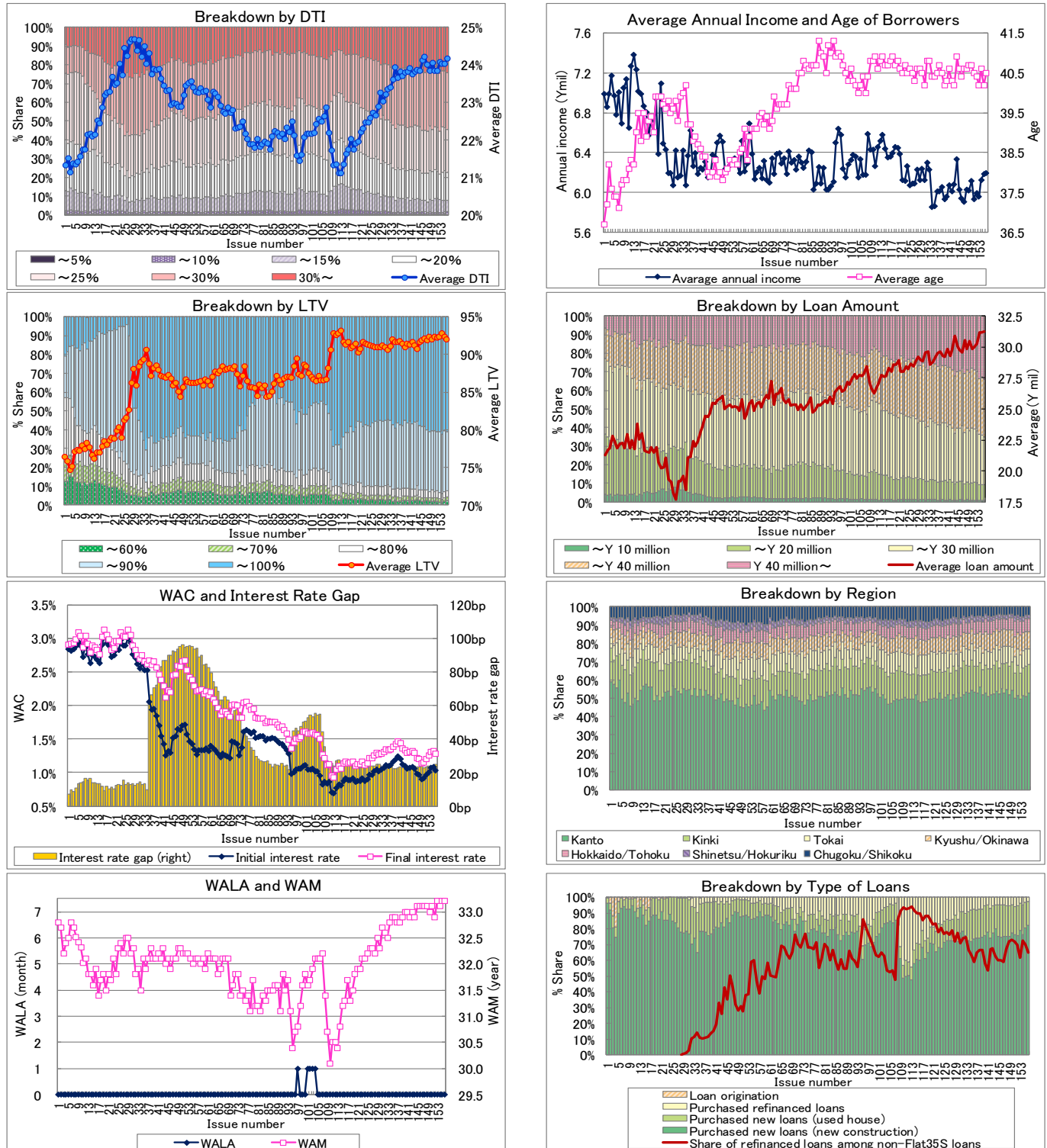
This monthly series JHF RMBS is funded with Flat 35 loans written in March. The growth in issuance that results from robust home purchases in early spring has not been affected much by the coronavirus crisis. The provision of Flat 35 loans and funding of JHF RMBS are an integrated whole, providing public-private financial intermediation, enabled by private sector financial institutions and the Japan Housing Finance Agency, supporting the Japanese populace. This should be sustainable in a post-COVID-19 world. Even if the number of Flat

35 borrowers unable to pay their mortgages increases as a result of a further spreading of the virus and contraction of the economy, the corresponding loan assets would be removed from the RMBS loan pool and assumed by the JHF (as long as JHF survives in its current state), with no risk of principal reductions for RMBS investors.

Coupon of 0.3% range

I personally think that demand for the No.156 issue will meet at a launch spread of around 34-37bps. If so, the coupon is estimated at 0.35-0.38%.

Characteristics of Underlying Loan Pools for All JHF Monthly MBSs



Source: JHF; compiled by Daiwa Securities.
 Note: Candidate pool used for No. 156 issue.

Characteristics of Underlying Loans: No. 156 Monthly MBS and Last Six Issues (No. 150-155)

	JHF #150	JHF #151	JHF #152	JHF #153	JHF #154	JHF #155	JHF #156	Ave. of previous 6 issues	Change from #155
Loan Pool Selected in	Sep-2019	Oct-2019	Nov-2019	Dec-2019	Jan-2020	Feb-2020	Mar-2020		
Loan Application Started in	Nov-2016	Jun-2017	Sep-2017	Jun-2017	Mar-2017	Mar-2017	Jun-2017		
Repayment Started in	Sep-2019	Oct-2019	Sep-2019, Nov-2019	Dec-2019	Dec-2019, Jan-2020	Feb-2019	Mar-2019		
Initial Outstanding Entrusted Assets (Y mil)	236,759	236,759	180,231	209,500	152,477	182,925	273,804	199,775	+90,879
Issue Size (Y mil)	186,800	186,800	144,100	167,100	122,400	147,700	TBD	159,150	-
Excess Collateral (Y mil)	49,959	49,959	36,131	42,400	30,077	35,225	TBD	40,625	-
Overcollateralization	21.1%	21.1%	20.0%	20.2%	19.7%	19.2%	TBD	20.2%	-
Number of Loans	7,760	7,760	6,007	6,918	4,890	5,863	8,749	6,533	+2,886
Average Outstanding Loan	30.510	30.510	30.003	30.283	31.181	31.192	31.295	30.613	+0.104
Average LTV	92.04%	92.04%	92.23%	92.37%	92.78%	92.37%	91.97%	92.31%	-0.40%
Average DTI	24.05%	24.05%	23.85%	24.07%	24.03%	24.03%	24.16%	24.01%	+0.13%
Average LTV for Refinance	86.33%	86.33%	86.19%	85.65%	85.46%	82.45%	87.12%	85.40%	+4.67%
Average DTI for Refinance	19.41%	19.41%	19.51%	19.59%	19.78%	19.30%	19.29%	19.50%	-0.01%
Average Annual Income of Obligor (Y mil)	6.117	6.117	5.994	5.961	6.125	6.181	6.193	6.082	+0.012
Average Age of Obligor	40.7	40.7	40.4	40.2	40.6	40.2	40.5	40.5	+0.3
WAC (Initial Rate)	0.90%	0.90%	0.97%	1.01%	1.07%	1.08%	1.03%	0.99%	-0.05%
WAC (Final Rate)	1.14%	1.14%	1.21%	1.25%	1.31%	1.32%	1.28%	1.23%	-0.04%
WALA (Weighted Average Loan Age)	0	0	0	0	0	0	0	0	+0
WALA for Refinance	92	92	98	100	95	98	106	96	+8
WAM	396	396	395	398	397	398	398	397	+0
Maturity Structure of Loans at Origination (% share)	Up to 10Y	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	-0.0%
	10-20Y	5.0%	5.0%	4.6%	4.3%	4.1%	4.0%	4.5%	+0.1%
	20-25Y	3.1%	3.1%	3.7%	3.2%	3.4%	3.4%	3.3%	+0.0%
	25-30Y	8.6%	8.6%	8.9%	7.6%	8.0%	7.4%	8.2%	-0.4%
	Over 30Y	83.1%	83.1%	82.8%	84.7%	84.4%	85.2%	85.5%	83.9%
% share of loans with bonus payments	(in number)	13.6%	13.6%	12.5%	12.2%	14.0%	14.0%	13.1%	+1.0%
	(in value)	15.7%	15.7%	14.2%	14.0%	16.0%	16.0%	15.1%	+1.3%
Type of Loan	new	95.2%	95.2%	95.0%	96.3%	95.2%	96.7%	95.6%	+0.9%
	refinanced	4.8%	4.8%	5.0%	3.7%	4.8%	3.3%	4.4%	-0.9%
Loan Amount at Origination (% share)	Up to ¥10 mil	0.8%	0.8%	0.9%	1.0%	0.8%	0.7%	0.9%	+0.1%
	¥10-20 mil	8.8%	8.8%	9.6%	9.1%	8.5%	8.5%	8.9%	+0.1%
	¥20-30 mil	28.4%	28.4%	28.5%	27.9%	26.9%	26.7%	27.8%	-0.9%
	¥30-40 mil	31.5%	31.5%	32.0%	32.3%	30.1%	31.6%	31.5%	-0.6%
	¥40-50 mil	17.2%	17.2%	16.8%	16.2%	17.0%	17.7%	17.0%	+0.5%
	Over ¥50 mil	13.3%	13.3%	12.1%	13.4%	16.7%	15.0%	14.0%	+0.8%
Loan Amount by Region (% share)	Hokkaido/Tohoku	6.5%	6.5%	7.2%	7.4%	6.5%	7.1%	6.9%	-0.1%
	Kanto	54.5%	54.5%	51.7%	49.5%	51.5%	53.0%	52.1%	+2.1%
	Shinetsu/Hokuriku	2.0%	2.0%	2.2%	2.5%	2.2%	1.9%	2.1%	+0.1%
	Tokai	8.0%	8.0%	8.9%	9.7%	9.7%	8.6%	9.0%	-0.8%
	Kinki	15.5%	15.5%	16.3%	14.5%	15.0%	15.5%	15.6%	-1.1%
	Chugoku	2.7%	2.7%	3.3%	3.8%	4.2%	3.2%	3.3%	-0.1%
	Shikoku	1.5%	1.5%	1.2%	1.5%	1.2%	1.4%	1.4%	-0.1%
Kyushu/Okinawa	9.3%	9.3%	9.2%	11.2%	9.7%	9.3%	9.7%	+0.1%	

Source: JHF; compiled by Daiwa Securities.

Note: Candidate pool used for No. 156 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.

■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:

- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

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

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

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

The information is posted under "Unregistered Rating Information" (<http://www.standardandpoors.co.jp/unregistered>) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

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Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of March 7th, 2017, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moody.com/pages/default_ja.aspx))

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service's ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")

The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

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

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (<https://www.fitchratings.com/site/japan>)

Assumptions, Significance and Limitations of Credit Ratings

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Other Disclosures Concerning Individual Issues:

- 1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies. As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.
- 2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITs: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).
- 3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.
- 4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.
- 5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).
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Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

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

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

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

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

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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