

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

JCR's Rating Review of Money Market Brokers

Issuer	Code	Long-Term Issuer Rating		Outlook
Ueda Yagi Tanshi Co., Ltd.	-	<Affirmation>	A-	Stable
Central Tanshi Co., Ltd.	-	<Affirmation>	A-	Stable
The Tokyo Tanshi Co., Ltd.	-	<Affirmation>	A-	Stable

Issuer	Code	Short-Term Issuer Rating	
Ueda Yagi Tanshi Co., Ltd.	-	<Affirmation>	J-1
Central Tanshi Co., Ltd.	-	<Affirmation>	J-1
The Tokyo Tanshi Co., Ltd.	-	<Affirmation>	J-1

Rating Viewpoints

- (1) JCR reviewed the ratings for three Japanese money market brokers (“tanshi companies”) and affirmed the respective ratings. Factors reflected in the ratings include tanshi companies’ importance in Japan’s overall financial system, sound assets and manageable risk level. The monetary policy of the Bank of Japan (“BOJ”) has long been extremely loose, including the recent COVID-related special funds-supplying operations. Negative or near-zero interest rate has become an everyday matter for almost all short-term money market products, and interest margins remain very low for all types of transactions. However, even in such an environment, there still are needs of market players for arbitrage transactions to earn profit margins between the interest rates in the negative to near-zero zone, transactions to benefit from low financing costs and other such transactions. Tanshi companies expeditiously seizes diverse earnings opportunities by meticulously responding to funding needs, including arbitrage transactions. For the most recently ended fiscal year, while there were factors pushing down revenue, including a drop in the brokerage fee rates for uncollateralized call transactions and in interest rates for commercial paper (“CP”), the outstanding balance of uncollateralized call and CP transactions remained high, helped by monetary easing measures such as the COVID-related special funds-supplying operations, and thus tanshi companies’ performance was fairly firm. Looking ahead, the outstanding balance is projected to decrease for uncollateralized call and other transactions partly because of the termination of the COVID-related special funds-supplying operations for large corporations. That said, given the current relatively firm open market transactions, including CP and bond repo, tanshi companies will probably keep achieving certain revenue. However, from a medium-term perspective, they tend to be affected by monetary policies and market conditions in terms of their performance and may report a loss, depending on the future developments. These risks are already incorporated into the ratings, but, partly because tanshi companies are intensively working on the enhancement of cost control and risk management, JCR assumes that the loss, if reported, will highly likely be marginal relative to financial strength. Having large equity capital, tanshi companies maintain enough financial soundness to ensure business continuity under a certain stress scenario.
- (2) Tanshi companies borrow and lend call money and mediate related transactions in the interbank market while also engaging in the trading of short-term JGBs, CP, bond repo, stock repo, etc. in the open market. They mediate a number of transactions in the call money market, where fund surpluses or deficits of financial institutions are finally adjusted and hence play a role as a node in

the market. In other words, if their intermediary function were not maintained and if their own funds were not settled smoothly, the call market could fall into a jumble, and the disorder might immediately spread to Japan's overall financial system. The ratings are underpinned by tanshi companies' such position in the financial system.

- (3) For uncollateralized call transactions, a core revenue source in the interbank market, there are needs for fund intermediary services from financial institutions and other parties in different situations for investment and procurement, including those who have, or do not have, a current account at BOJ and those who have, or do not have, enough basic balance and macro add-on balance under the three-tier system of the current account at BOJ, to which the interest rate of no less than 0% is applied. As market players have increased with a rise in funding needs, the market interest rate, which has once hit bottom at as low as -0.07%, now exceeds -0.04% for overnight call, thus nearing 0%. A lower absolute value of the interest rate level is putting downward pressure on revenue because it leads to a decline in the rate of brokerage fees received by tanshi companies. Yet, an increase in the outstanding balance thanks to the COVID-related special funds-supplying operations has offset such a rate decline, and tanshi companies' earnings level remained largely unchanged in the most recently ended fiscal year. Looking ahead, JCR assumes that the COVID-related special funds-supplying operations will come to an end, making the outstanding balance of uncollateralized call transactions fall to the pre-COVID level. Accordingly, the interbank market's revenue is expected to shrink. Even so, JCR predicts that tanshi companies can still ensure a certain level of revenue, on the grounds that there will likely remain needs for arbitrage transactions. As regards collateralized call transactions, while the outstanding balance in the market is at a low level, tanshi companies earn from, for instance, dealings combined with transactions other than call.
- (4) Tanshi companies meticulously seize earnings opportunities in the open market as well. In bond repo trading, transactions are made by market players with focus on interest rate differences with other short-term money market products and those with current accounts at BOJ. Mediating the needs of market players in different situations for investment and procurement helps ensure revenue. Currently, transactions are becoming active partly because of rising overseas interest rates. For CP transactions, while a lower interest rate level is placing tremendous downward pressure on revenue from securities holdings, there are needs for CP issues from the companies striving to secure liquidity partly because of price increases, and tanshi companies are building up revenue through sell transactions and so forth. As regards stock repo trading, although the amount of revenue is not large, tanshi companies steadily achieve revenue thanks to the expansion of the outstanding balance, driven by such factors as the active stock market.
- (5) For open market operations, tanshi companies are faced with the challenge of achieving revenue while controlling risks at the same time. Their positions in CP transactions continue to expand. There are some CP issues with a bit longer maturity, and there are also cases where the maximum amount is revised somewhat flexibly. Given that CP transactions are large-lot and unsecured transactions and there are uncertainties about the environment surrounding them, appropriate credit risk management is becoming increasingly important. Moreover, because funds for CP transactions, etc. are mostly unsecured funds financed through call money, unsecured borrowed bonds and so forth, liquidity management is also vital. Tanshi companies are appropriately controlling risks, which in JCR's view stay at manageable levels. That said, whether such risk control will continue in consideration of stress scenarios will be closely watched.

Rationale

Issuer: Ueda Yagi Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A-
 Outlook: Stable
 Short-term Issuer Rating: J-1

Ueda Yagi Tanshi Co., Ltd. ("Ueda Yagi Tanshi") was formed in July 2001 as a result of a merger between Ueda Tanshi Co., Ltd. and Yagi Tanshi Co., Ltd. It ranks first among the three companies in terms of market share for uncollateralized call transactions. It has strength in the open market operations such as short-term JGB and stock repo trading, and the proportion of revenue from these operations to the total is larger than the other two. With relatively high risk preference, Ueda Yagi Tanshi expeditiously seizes earnings opportunities. For the most recently ended fiscal year, it continued to meticulously respond to fund management and procurement needs amid the COVID

crisis, and net operating revenue stayed firmly at the level comparable to before. Ueda Yagi Tanshi secures revenue from the interbank and open markets in good balance, and its performance is generally steady even when COVID-related special funds-supplying operations are coming to an end. Subsidiaries and affiliates are small in number and thus have only a minor impact on risks and profits/losses.

Issuer: Central Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable
Short-term Issuer Rating: J-1

Central Tanshi Co., Ltd. ("Central Tanshi") was formed in April 2001 as a result of a merger among Nagoya Tanshi Co., Ltd., Nihon Tanshi Co., Ltd. and Yamane Tanshi Co., Ltd. It has a wide customer base for call money transactions, underwriting commercial paper, etc. It is more cautious about risk taking and has stronger capital base than the other two, resulting in a low risk exposure relative to capital. Fluctuations in revenue are small among the three thanks to effective business diversification. For the most recently ended fiscal year, it secured revenue from short-term money market products in the interbank and open markets in good balance, and its performance is steady even when COVID-related special funds-supplying operations are coming to an end. It is making progress in strengthening the management of group companies, which has been an issue to be addressed, and its profit level is tending to improve.

Issuer: The Tokyo Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable
Short-term Issuer Rating: J-1

Established in 1909, The Tokyo Tanshi Co., Ltd. ("Tokyo Tanshi") is the core of the Totan Group (the "Group"). In the money market brokerage business, Tokyo Tanshi secures revenue from the interbank and open markets in good balance and has strength in bond repo trading in particular. For the most recently ended fiscal year, it continued to meticulously respond to fund management and procurement needs amid the COVID crisis, and net operating revenue in the money market brokerage business stayed firmly at the level comparable to before. Given the firm performance even when COVID-related special funds-supplying operations are coming to an end, operating income is expected to remain at a certain level into the future. While Tokyo Tanshi has been taking advantage of the Group's collective strength gained through diverse business operations, revenue has been weak for some of the subsidiaries in the broking business due to the COVID crisis. JCR is therefore looking at whether the current tendency of business improvement will continue for these subsidiaries.

Kenji Sumitani, Kota Matsuzawa

Rating

Issuer: Ueda Yagi Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable
Short-term Issuer Rating: J-1

Issuer: Central Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable
Short-term Issuer Rating: J-1

Issuer: The Tokyo Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable
Short-term Issuer Rating: J-1

Rating Assignment Date: July 1, 2022

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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