

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

Nissay 2nd Subordinated Loan Securitization Company Limited

<Assignment>

Bonds: Preliminary A+

Rationale

1. Outline of the Scheme

- (1) Nissay 2nd Subordinated Loan Securitization Company Limited (the “Issuer”) securitizes a subordinated loan to Nippon Life Insurance Company (“Nippon Life”) through a special purpose company (the “Transaction”) with an aim to increase the equity capital of Nippon Life in a broad sense.
- (2) Daiwa Securities Co. Ltd. (the “Originator”) will make the subordinated loan of 50 billion yen (scheduled) in total to Nippon Life under a subordinated loan agreement with the latter (the “Subordinated Loan”).
- (3) The Issuer, in accordance with a subordinated loan receivable assignment agreement to be concluded with the Originator, will acquire the receivable on the Subordinated Loan and issues the 1st series unsecured bonds (the “Bonds”) with the receivable as underlying asset. The assignment will be perfected against the debtor and third parties when consent without objection is obtained from Nippon Life in the form of an instrument bearing a certified date issued on the day of assignment.
- (4) Nippon Life will pay directly to the Issuer interest payments on the Subordinated Loan, which will be used to pay interest payments on the Bonds. Because the subordinated loan agreement contains a deferral clause whereby the interest payments will be deferred at the discretion of Nippon Life or with respect to Nippon Life in cases including, but not limited to, when the solvency margin ratio falls below 200%, the interest payments on the Bonds will also be deferred in such an event.
- (5) Principal of the Bonds will be redeemed in a lump sum on the final due date. However, in certain cases including when Nippon Life is deemed unlikely to maintain the solvency margin ratio at a decent level after such redemption, the final due date of the subordinated loan will be extended; in such an event, the final due date for the Bonds will be extend to the interest payment date immediately following the revised final due date for the Subordinated Loan. Meanwhile, the Subordinated Loan as underlying asset can be redeemed early at Nippon Life’s option or due to other events, and the principal of the Bonds will be redeemed early in a lump sum in such an event.

2. Rating on the Subordinated Loan to Nippon Life

(1) Long-term issuer rating on Nippon Life

JCR assigns an AA long-term issuer rating for Nippon Life with Positive outlook.

Nippon Life is a core company of Japan’s largest life insurance group, Nippon Life Group (the “Group”). Other than the domestic life insurance business, the Group also operates in such areas as overseas insurance and asset management. As part of the strategies under the medium-term management plan to expand the profits of the Group businesses, Nippon Life has carried out management integration with Mitsui Life Insurance Company Limited and MassMutual Life Insurance Company in Japan and made MLC Limited of Australia a subsidiary. The rating incorporates the Group’s overall creditworthiness, which reflects the strong operating base in Japan, stable earnings capacity on the back of a large amount of policies in force, capital adequacy, etc. JCR has been closely watching the impact of the lingering low interest rate environment on capital adequacy, etc., and views positively that Nippon Life retains soundness even in a stressful business situation. Given progress in the diversification of earnings sources and improvement of capital adequacy from a medium-term perspective, JCR places Positive outlook on the rating.

(2) Certainty of principal and interest payments on the Subordinated Loan to Nippon Life

In rating hybrid securities, JCR sees: (i) The probability of deferral of interest or dividend payments in accordance with the deferral clause (probability of deferral) is usually higher than the probability of Nippon Life's falling into default (probability of default); and (ii) Ranking of claims at the time of bankruptcy is subordinated to the ranking of ordinary debts, and as a result, the probability of recovery is lowered (subordination property).

Ranking of claims to the Subordinated Loan at the time of Nippon Life's bankruptcy is subordinated to all debts (excluding the Subordinated Loan and the subordinated debts ranking *pari passu* with the Subordinated Loan). Furthermore, mandatory interest suspension and optional interest suspension clause are stipulated for the interest payments, and it is also provided that the principal payment will be deferred if and when certain requirements are not satisfied (repayment requirements). JCR views that the probability of the actual suspension of the interest payments, as well as the probability of the deferral of principal payment, is low at the moment, taking into account, among others, Nippon Life's financial conditions. JCR assigned a preliminary A+ rating to the Subordinated Loan, which is two notches below the long-term issuer rating, in light of such subordination property and the deferral clause for the principal and interest payments.

3. Major Risks Pertaining to the Mechanism

(1) True transferability

The assignment of the subordinated loan receivable is deemed to constitute true transferability mainly for the following reasons:

- The Originator and the Issuer aim for true transferability with respect to the assignment.
- The Originator is not obliged to buy back the receivable after the assignment.
- The Originator is not obliged to guarantee the principal and interests on the receivable to the Issuer as the assignee.

(2) Cash flow of funds for the Bonds

In the event that Nippon Life sends the funds for the interest payments on and the redemption of the Bonds to the Issuer through the bank account of another party concerned, such funds may commingle due to said party's default.

However, because Nippon Life will send the money directly to the Issuer's account in the Transaction, there is no such risk.

(3) Bankruptcy remoteness of the Issuer

As regards the bankruptcy remoteness of the Issuer, bankruptcy remoteness is necessary to ensure: i) that the Issuer is not affected even when parties to the scheme default; and ii) that the Issuer itself does not commence legitimate bankruptcy proceedings. The Issuer therefore pledges in the agreement that it is isolated from the parties to the scheme in terms of capital or human resources for the purpose of Item i) above and that it will not engage in any acts irrelevant to the execution of the Transaction, such as bearing debts that could trigger bankruptcy for the purpose of Item ii).

4. Key Points in the Rating

Considering the above, JCR finds no concerns about the structure and thus assigned a preliminary A+ rating to the Bonds, which is the same as the preliminary rating to the Subordinated Loan. The preliminary rating to the Bonds reflects JCR's view on the certainty of interest and principal payments on the due date, as with the preliminary rating to the Subordinated Loan.

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Rating

<Assignment>

Instrument Name: 1st Series Deferrable Interest and Callable Unsecured Subordinated Bonds (attached with limited recourse clause)
Scheduled Issue Amount: JPY 50 billion
Final Due Date: September 18, 2048
Preliminary Rating: A+

<Information on Outline of Issue>

Scheduled Issue Date: September 18, 2018
Interest Rate: TBD (fixed) until and including September 18, 2028
TBD (linked to 5-year Yen swap offered rate after that date)
*Floating rate to be revised on September 18, 2028 and the corresponding date every 5 years thereafter
Interest Payment Dates: March 18 and September 18
Redemption Method: Bullet Redemption
*Early redemption is possible every 5 years after September 18, 2028 at the option of Nippon Life Insurance Company.

Credit Enhancement & Liquidity Facility: NA

*The issue amount and interest rate will be determined on September 7, 2018.

<Information on Structure and Stakeholders>

Issuer: Nissay 2nd Subordinated Loan Securitization Company Limited
Borrower: Nippon Life Insurance Company
Originator: Daiwa Securities Co. Ltd.
Asset Manager: Mitsubishi UFJ Trust and Banking Corporation
Bond Administrator: MUFG Bank, Ltd.
Arranger: Daiwa Securities Co. Ltd.

<Information on Underlying Assets>

Outline of Underlying Assets: Subordinated loan to Nippon Life Insurance Company

Rating Assignment Date: August 22, 2018

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status 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 methodology for determination of the credit rating is shown as "Repackaged Financial Instruments" (December 3, 2012) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>). Rating methodologies for other ancillary points such as eligible deposit accounts and bankruptcy remoteness are also shown within the same page.

Glossary:

A preliminary rating is a credit rating assigned as a preliminary evaluation while material terms for issue to be rated are not yet finalized. When the issuing terms are finalized, JCR will confirm them and will assign a credit rating anew. The rating level of the final rating may be different from that of the preliminary rating, depending on the final content of the terms, etc.

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