

## JCR's Rating Results for 2021

### 1 Resident Long-term Rating

Concerning JCR's number of rating changes for 2021, while the number of rating upgrades was 50 issuers (32 issuers for 2020), the number of rating downgrades was 11 issuers (17 issuers for 2020). The year 2021 saw the number of rating upgrades exceeding the number of downgrades for the 9th consecutive year (Chart 1). The number of issuers upgraded increased compared to the year 2020, and the level was close to the 58 issuers in 2018 and the 56 issuers in 2019 before the effects of the COVID-19 pandemic. The number of rating downgrades was 11, a decrease from 17 in 2020. On the other hand, looking at the rating outlook (outlook) without change of ratings, it shows that there were significant changes in trend in 2021 compared to the previous year. The number of outlook revisions from Stable to Positive increased significantly to 57 issuers (36 in 2019 and 13 in 2020). The number of outlook revisions from Negative to Stable was also not small at 18 issuers. The number of outlook revisions from Stable to Negative was only 2 issuers (7 in 2019 and 38 in 2020). As a result, the possibility of a large increase in the number of rating upgrades in 2022 is increasing.

This situation can be attributed to the rapid recovery of overseas demand in the manufacturing sector such as Electric Appliances and the strong performance of the materials industry due to tight supply and demand and soaring resource prices, despite the continued struggles of domestic demand companies that were severely affected by the restrictions on activities for people caused by the COVID-19 pandemic. In the Banks, the number of issuers upgraded was notably large due to the effects of business integration and JCR's change in view on public funds.

In the manufacturing sector, the number of rating upgrades continued to be small with 7 issuers (compared to 5 in 2020) and the number of rating downgrades was 3 issuers (compared to 8 in 2020), and both figures were small, but unlike the previous year, the number of issuers

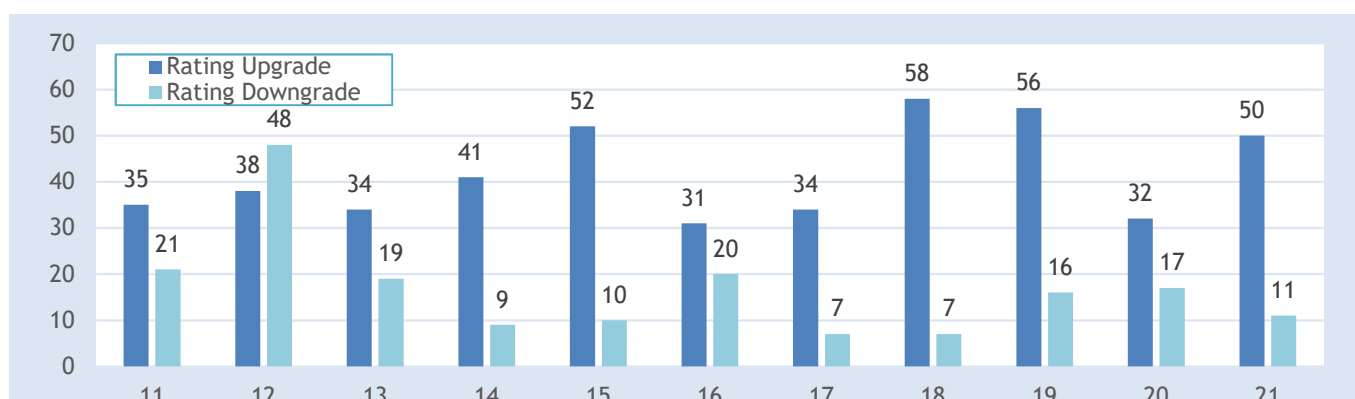
upgraded was larger than that of downgraded. As in the previous year, both upgrades and downgrades were sporadic, and no industry-specific characteristics were observed in terms of rating changes. However, the number of outlook revisions from Stable to Positive was 18, while the number of outlook revisions from Stable to Negative was 1, resulting in the significant difference between the former and the latter. Including revisions in the outlook, there were some industries, which showed distinctive features.

First, it is Electric Appliances. JCR upgraded 3 issuers, and revised the outlook from Stable to Positive for 5 issuers. This is because all of the companies are performing well even under the COVID-19 pandemic, and it is highly likely that demand for semiconductors and automobile-related parts will remain high in the future, and retained earnings are expected to accumulate over the medium term, advancing their financial base.

For Iron & Steel, JCR downgraded 1 issuer, and revised the outlook to Negative for 3 issuers (2 issuers in the same group) in 2020, but the trend was reversed in 2021. Although there were no actual results for either the rating upgrades or downgrades, the outlooks for 3 issuers whose outlooks had been revised downward in the previous year were returned to Stable, and the outlooks for 2 other issuers whose outlooks had been revised downward earlier were changed from Negative to Stable. Demand for steel products has been recovering from the decline caused by the COVID-19 pandemic, boosting sales volume, while overseas demand and supply has tightened and export profitability has improved.

In the Transportation Equipment, JCR downgraded 2 issuers. However, the downgrades were largely due to individual factors. There were 1 shipbuilding company and 1 auto parts company. The downgrades were mainly due to the prolonged slump in the performance of both shipbuilding and auto parts companies.

Chart 1 Rating Changes (Resident Long-term Rating)



Notes 1: An issuer whose rating was changed multiple times during the year is counted as one.

2: The counted issuers are resident issuers including investment corporations, to which JCR assigned the long-term ratings. Japan, guaranteed bonds of issuers except holding companies and structured finance are all excluded from the counts.

Chart 2 Rating Change by Industry

| Industry                                     | 2017      |           | 2018      |           | 2019      |           | 2020      |           | 2021      |           |
|----------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                              | Upgrade   | Downgrade | Upgrade   | Downgrade | Upgrade   | Downgrade | Upgrade   | Downgrade | Upgrade   | Downgrade |
| Foods                                        | 1         |           | 3         |           | 2         |           |           |           |           |           |
| Textiles & Apparels                          | 2         |           |           |           |           |           |           |           |           |           |
| Pulp & Paper                                 |           |           |           |           |           |           |           |           | 1         |           |
| Chemicals                                    | 3         |           | 2         |           | 5         |           | 1         | 1         | 1         | 1         |
| Pharmaceutical                               |           |           |           |           |           |           | 1         |           |           |           |
| Oil & Coal Products                          |           |           | 2         |           | 2         |           |           |           | 1         |           |
| Rubber Products                              |           |           |           |           |           |           | 1         | 1         |           |           |
| Glass & Ceramics Products                    |           |           | 2         |           | 1         |           | 1         |           |           |           |
| Iron & Steel                                 |           |           | 1         |           | 1         | 1         |           |           | 1         |           |
| Nonferrous Metals                            | 1         |           | 1         |           |           |           |           |           | 1         | 1         |
| Metal Products                               | 1         |           |           |           |           |           |           |           |           |           |
| Machinery                                    | 2         |           | 1         |           | 3         | 1         | 1         | 1         |           |           |
| Electric Appliances                          | 1         |           | 2         | 1         | 4         |           |           |           | 2         | 3         |
| Transportation Equipment                     |           | 2         | 2         | 1         |           | 3         |           |           | 1         | 2         |
| Precision Instruments                        |           |           |           |           | 1         |           |           |           |           |           |
| Other Products                               |           |           | 4         |           |           |           |           |           |           |           |
| <b>Total for Manufacturing Industry</b>      | <b>11</b> | <b>2</b>  | <b>20</b> | <b>2</b>  | <b>19</b> | <b>6</b>  | <b>5</b>  | <b>8</b>  | <b>7</b>  | <b>3</b>  |
| Construction                                 | 1         |           | 5         |           | 3         |           | 3         |           | 1         |           |
| Electric Power & Gas                         |           |           |           |           | 1         |           | 3         |           | 1         |           |
| Land Transportation                          | 3         |           |           |           | 2         |           |           |           | 2         |           |
| Marine Transportation                        |           |           |           |           |           | 2         |           |           |           |           |
| Air Transportation                           | 2         |           |           |           |           |           |           |           |           | 1         |
| Warehousing & Harbor Transportation Services | 1         |           |           |           |           |           | 1         |           |           |           |
| Information & Communication                  | 3         |           |           |           | 2         |           |           |           | 2         |           |
| Wholesale Trade                              | 1         |           | 3         |           | 3         |           | 1         | 1         | 2         |           |
| Retail Trade                                 | 2         | 1         | 3         |           | 3         |           | 4         | 1         | 3         | 5         |
| Banks                                        | 9         | 1         | 13        | 5         | 4         | 4         | 1         | 3         | 10        | 1         |
| Securities & Commodity Futures               | 2         |           | 1         |           |           |           |           |           | 2         |           |
| Insurance                                    | 3         |           | 6         |           | 1         |           | 2         |           | 4         |           |
| Other Financing Business                     | 3         | 1         | 5         |           | 10        | 2         | 7         | 1         | 4         |           |
| Real Estate                                  | 7         | 1         | 2         |           | 8         | 1         | 1         | 1         | 9         |           |
| Services                                     | 4         |           |           |           |           | 1         | 1         | 2         | 3         | 1         |
| <b>Total for Non-manufacturing Industry</b>  | <b>37</b> | <b>4</b>  | <b>38</b> | <b>5</b>  | <b>37</b> | <b>10</b> | <b>24</b> | <b>10</b> | <b>43</b> | <b>8</b>  |
| <b>Public</b>                                |           |           |           |           |           |           | <b>3</b>  |           |           |           |
| <b>Total</b>                                 | <b>52</b> | <b>10</b> | <b>58</b> | <b>7</b>  | <b>56</b> | <b>16</b> | <b>32</b> | <b>17</b> | <b>50</b> | <b>11</b> |

Notes 1: An issuer whose rating was changed multiple times during the year is counted as one.

2: Investment corporations are counted as Real Estate.

3: Educational Institutions are counted as Services.

In the non-manufacturing sector, there were significant features. Ten banks (including 5 in 2 groups), 9 Real Estate issuers (including investment corporations), 5 Insurance issuers, and 4 Other Financing Business issuers were notable for the rating upgrades. The number of rating downgrades was notably high for 5 issuers in the Retail Trade.

As for Banks, JCR upgraded 10 issuers and downgraded 1 issuer. All of the upgrades and downgrades were for regional banks. The reasons for the upgrades were business integration for 4 issuers (including 3 in one group), mainly improved profitability and capital adequacy partly through cost reduction for 4 banks, and impact of the change in view of public funds by changing the methodology in October 2021 for 2 issuers (both in the same group). On the other hand, the downgrade for 1 issuer was mainly due to the fact that its fundamental earnings capacity is expected to continue to decline. The number of outlook revisions from Stable to Positive was 10 (9 regional banks, including 6 in 2 groups and 1 cooperative financial institution). JCR expects banks to steadily increase their capital against the backdrop of a low level of credit cost burden, and if this is realized, JCR expects to see more upgrades this year.

In the Real Estate (including investment corporations), JCR upgraded 9 issuers and downgraded no issuers, indicating the upgrade trend. In addition, the outlooks for 13 issuers were changed from Stable to Positive. All of these changes were for investment corporations, except for 2 issuers that were upgraded and 2 issuers whose outlooks changed. JCR valued that their cash flow stability has been strengthened by continued stable and solid portfolio management even under the COVID-19 pandemic. If the current business environment continues into the future, the number of issuers to be upgraded will increase.

In the Insurance, JCR upgraded 4 issuers and downgraded no issuers. Two of the upgrades were as a result of taking the relationship with major shareholders and strategic importance in the group into consideration. JCR revised the outlook for 5 issuers (4 in the same group) to Positive, indicating that risk reduction has been steadily progressing over the medium term and is expected to

continue in the future.

Four Other Financing Business issuers were upgraded. The reasons for the rating upgrades were different. One issuer was upgraded due to the merger, 1 issuer due to stronger business ties with the parent company's group, and 2 issuers due to improved capital adequacy as a result of enhanced earnings capacity and profit accumulation. In addition, JCR revised the outlooks for 2 issuers to Positive. There were no downgrades.

While rating upgrades were notable in each industry, the largest number of downgrades was 5 in the Retail Trade. Of these, 2 issuers (in the same group) were downgraded because it was judged that it would take time for them to recover their deteriorated financial structure through M&A. The remaining 3 issuers were affected by the COVID-19 pandemic, and the main reason was that a full-fledged recovery in business performance was not expected. On the other hand, 3 issuers were upgraded. One of them, a restaurant operator, was upgraded because it has diversified its revenue sources and strengthened its earning capacity through the increasing contribution of its overseas business. The other 2 issuers were volume-sales consumer electronics retailers, and although they have been currently hit by the recent reactionary decline in stay-at-home demand by the COVID-19 pandemic, they can be expected to capture steady replacement demand, which has been solid, by opening new stores, etc., and the financial structure is improving thanks to the reduction of interest-bearing debt.

## 2 Non-resident Long-term Rating (excluding Japanese corporations)

### (1) Sovereign

No ratings were upgraded or downgraded in 2021. On the other hand, there were 2 issuers whose outlooks were revised back to Stable from Negative. United Kingdom of Great Britain and Northern Ireland (U.K.)'s budget deficit has widened significantly and public debt has increased due to spending on measures to combat the COVID-19 pandemic, but the U.K. government has made clear that it will not tolerate an increase in government debt in the medium term and has announced a plan to raise the corporate tax rate in 2023.

Upon these developments, JCR reverted the outlook back to Stable in the belief that it is possible for the U.K. economy to return to a growth trajectory and to return to fiscal consolidation.

The outlook for Republic of Italy, which was revised to Negative the year before last, was also returned to Stable. The spread of the COVID-19 pandemic caused the economy to significantly decline and public finance to deteriorate in 2020, but the economy is now recovering on the progress of vaccination, relaxation of restrictive measures and the effect of the economic package. The main reason for returning the outlook to Stable is that JCR expects the growth rate to increase in the future and fiscal consolidation to progress gradually, as investments using the massive EU's Recovery Fund will start.

## (2) Other

One issuer, Bharat Oman Refineries Limited ("BORL"), an oil refinery company based in central India, was upgraded. The reason for the rating upgrade was that as the parent company made BORL a wholly owned subsidiary, creditworthiness of the parent company was reflected more strongly in BORL's rating. There was no rating downgrade.

JCR reverted the outlooks for 2 issuers back to Stable from Negative. JCR revised the outlook for Deutsche Bank AG, as JCR believes that the bank will be able to secure solid profit over the medium term despite the ongoing difficult business environment, given the improved stability of its revenue base and the prospect of additional cost reductions. JCR believes that performance of Renault, the other issuer, will begin to recover and keep improving in and after the fiscal year ending December 2022, and its financial structure, which deteriorated in 2020, is also expected to improve, albeit gradually, in the medium term, and JCR has therefore revised the outlook.

### Charts 3 Details of Rating Changes in 2021

#### ► Resident Rating

##### <Rating Upgrades>

| Release Date | Issuer                                                                         | Before Change  | After Change |
|--------------|--------------------------------------------------------------------------------|----------------|--------------|
| Jan. 15      | HIKARI TSUSHIN, INC.                                                           | A-             | A            |
| Jan. 15      | Fukuoka Kogyo Daigaku Corporation                                              | A+             | AA-          |
| Jan. 22      | Harima-Kyowa Co., LTD.                                                         | BBB-           | BBB          |
| Jan. 22      | TOKYO DOME CORPORATION                                                         | #BBB/Positive  | AA-          |
| Feb. 5       | Sumitomo Realty & Development Co., Ltd.                                        | A+             | AA-          |
| Mar. 4       | Asahi Mutual Life Insurance Company                                            | BBB            | BBB+         |
| Mar. 11      | Daiwa Securities Living Investment Corporation                                 | A+             | AA-          |
| Mar. 18      | Hitachi Capital Corporation                                                    | #AA-/Positive  | AA           |
| Mar. 18      | Hitachi Capital Insurance Corporation (current Capital Insurance Corporation ) | #AA-/Positive  | AA           |
| Mar. 23      | Tokyo Tatemono Co., Ltd.                                                       | A-             | A            |
| Mar. 23      | The Mortgage Corporation of Japan, Limited                                     | A              | A+           |
| Mar. 25      | NIFCO INC.                                                                     | A              | A+           |
| Apr. 1       | Kansai Mirai Financial Group, Inc.                                             | A+             | AA-          |
| Apr. 1       | Kansai Mirai Bank, Limited                                                     | A+             | AA-          |
| Apr. 1       | THE MINATO BANK, LTD.                                                          | A+             | AA-          |
| May 24       | KONAMI HOLDINGS CORPORATION                                                    | A              | A+           |
| May 25       | The Kyoei Fire and Marine Insurance Company, Limited                           | A+             | AA           |
| May 28       | Hulic Reit, Inc.                                                               | AA-            | AA           |
| June 25      | SAISON AUTOMOBILE AND FIRE INSURANCE COMPANY,LIMITED                           | AA             | AA+          |
| June 28      | THE FUKUHO BANK, LTD.                                                          | #BBB-/Positive | BBB          |
| June 30      | NEC Corporation                                                                | A              | A+           |
| July 2       | Star Asia Investment Corporation                                               | A-             | A            |
| July 14      | NIPPON REIT Investment Corporation                                             | A              | A+           |
| July 19      | ICHINEN HOLDINGS CO., LTD.                                                     | BBB            | BBB+         |
| July 21      | The Kansai Electric Power Company, Incorporated                                | AA-            | AA           |
| Aug. 20      | SONY GROUP CORPORATION                                                         | A+             | AA-          |
| Aug. 24      | Daio Paper Corporation                                                         | BBB+           | A-           |
| Aug. 26      | DAIKI ALUMINIUM INDUSTRY CO., LTD.                                             | BBB            | BBB+         |
| Aug. 27      | COSMO ENERGY HOLDINGS COMPANY, LIMITED                                         | BBB            | BBB+         |
| Sept. 10     | The Hokuto Bank, Ltd.                                                          | BBB            | BBB+         |
| Sept. 15     | Mitsui Fudosan Logistics Park Inc.                                             | AA-            | AA           |
| Oct. 1       | The Juroku Bank, Ltd.                                                          | A              | A+           |
| Oct. 1       | MAEDA CORPORATION                                                              | A              | A+           |
| Oct. 27      | ZENSHO HOLDINGS CO., LTD.                                                      | BBB            | BBB+         |
| Oct. 29      | Jimoto Holdings, Inc.                                                          | BBB-           | BBB          |
| Oct. 29      | THE SENDAI BANK LTD.                                                           | BBB-           | BBB          |
| Oct. 29      | Mitsubishi UFJ NICOS Co., Ltd.                                                 | AA-            | AA           |
| Dec. 1       | HANWA CO., LTD.                                                                | BBB+           | A-           |
| Dec. 2       | FUKUYAMA TRANSPORTING CO., LTD.                                                | A              | A+           |
| Dec. 2       | SEINO HOLDINGS CO., LTD.                                                       | A+             | AA-          |
| Dec. 13      | EDION Corporation                                                              | A-             | A            |
| Dec. 13      | Nojima Corporation                                                             | BBB+           | A-           |
| Dec. 15      | THE DAITO BANK, LTD.                                                           | BBB            | BBB+         |
| Dec. 21      | Monex Group, Inc.                                                              | BBB            | BBB+         |
| Dec. 21      | Monex, Inc.                                                                    | BBB            | BBB+         |
| Dec. 22      | Kenedix Retail REIT Corporation                                                | A+             | AA-          |
| Dec. 22      | NIDEC CORPORATION                                                              | AA-            | AA           |
| Dec. 24      | The Senshu Ikeda Bank, Ltd.                                                    | A-             | A            |
| Dec. 27      | ITOCHU Advance Logistics Investment Corporation                                | A+             | AA-          |
| Dec. 28      | AIFUL CORPORATION                                                              | BB+            | BBB          |

### <Rating Downgrades>

| Release Date | Issuer                                     | Before Change  | After Change |
|--------------|--------------------------------------------|----------------|--------------|
| Jan. 21      | The Aomori Bank, Ltd.                      | A              | A-           |
| Feb. 16      | Namura Shipbuilding Co., Ltd.              | BBB            | BBB-         |
| Apr. 8       | YOROZU CORPORATION                         | BBB+           | BBB          |
| May 25       | KURARAY CO., LTD.                          | AA             | AA-          |
| June 18      | H.I.S. Co., Ltd.                           | #BBB-/Negative | BB+          |
| July 2       | Seven & i Holdings Co., Ltd.               | #AA+/Negative  | AA           |
| July 2       | SEVEN-ELEVEN JAPAN CO., LTD.               | #AA+/Negative  | AA           |
| July 30      | ROYAL HOLDINGS Co., Ltd.                   | BBB            | BBB-         |
| Sept. 14     | KISOJI CO., LTD.                           | BBB            | BBB-         |
| Oct. 22      | AOKI Holdings Inc.                         | A              | A-           |
| Nov. 5       | ANA HOLDINGS INC.                          | A              | A-           |
| Dec. 1       | Namura Shipbuilding Co., Ltd. ( 2nd time ) | BBB-           | BB+          |

### ► Non-Resident Rating

#### <Rating Upgrades>

| Release Date | Issuer                         | Before Change | After Change |
|--------------|--------------------------------|---------------|--------------|
| Sept. 16     | Bharat Oman Refineries Limited | BBB           | BBB+         |

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