

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

## Nissay 3rd Subordinated Loan Securitization Company Limited

<Assignment>

Bonds: Preliminary A+

### Rationale

#### 1. Outline of the Scheme

- (1) This is a securitization scheme to increase Nippon Life Insurance Company (“Nippon Life”)’s equity capital in a broad sense where a Subordinated Loan to Nippon Life is securitized through a special purpose company (the “Transaction”).
- (2) Daiwa Securities Co. Ltd. (the “Originator”) will make a Subordinated Loan of 50 billion yen (scheduled) in total to Nippon Life under a Subordinated Loan agreement with the latter.
- (3) Nissay 3rd Subordinated Loan Securitization Company Limited ( 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 issue the 1st series unsecured bonds (the “Bonds”) with the receivable as the underlying asset. The assignment will be perfected against the debtor and third parties by Nippon Life’s consent without objection by means 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. There is a deferral cause in the Subordinated Loan agreement whereby the interest payments shall be deferred at the discretion of Nippon Life and in cases, for example, where its solvency margin ratio falls below 200%. The interest payments on the Bonds will also be deferred in such cases.
- (5) Principal of the Bonds will be redeemed in a lump sum on the final due date. However, in cases, for example, where 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 extended to the interest payment date immediately following the extended 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

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. Aiming to expand the profits of the Group businesses under the medium-term management plan, it is accelerating multi-channel strategy as well as the main sales staff channel through 4 companies in Japan consisting of the core Group companies, Mitsui Life Insurance Company Limited (company name will become Taiju Life Insurance Company Limited from April 2019), Nippon Wealth Life Insurance Company Limited (former MassMutual Life Insurance Company) for bancassurance and HANASAKU LIFE INSURANCE Co., Ltd. (opened in April 2019) for insurance agency representing multiple insurance companies. Overseas, it has been taking measures to create synergies including sharing know-how at MLC Limited of Australia.

Its long-term issuer 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) probability of deferral of interest or dividend payments in accordance with the deferral clause (probability of deferral) is usually higher than the probability of an issuer'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, probability of recovery is low (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 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 repayment 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 repayment, 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 Sale

The assignment of the Subordinated Loan receivable is deemed to be a true sale mainly for the following reasons:

- The Originator and the Issuer aim for true sale 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 Issuer as the assignee the principal and interest payments on the receivable, etc.

### (2) Cash flow of funds for the Bonds

In cases where Nippon Life sends the principal and interest payments on the Bonds to the Issuer through a bank account of another party concerned, such payments may commingle due to the said party's default.

However, as 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 that (i) the Issuer is not affected when parties to the scheme default; and (ii) the Issuer itself does not enter into legal bankruptcy proceedings. The Issuer needs to be isolated from the parties to the scheme in terms of capital or human resources for (i) and it needs to pledge in an agreement that it will not engage in any acts irrelevant to the execution of the Transaction, such as borrowing that could become a cause of commencement of bankruptcy proceedings for (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, the same preliminary rating as 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: April 22, 2049

Preliminary Rating: A+

### <Information on Outline of Issue>

Scheduled Issue Date: April 22, 2019

Interest Rate\*: TBD (fixed: Note 1) until April 22, 2029  
TBD (floating: Note 2) after April 22, 2029

Interest Payment Dates: April 22 and October 22 every year

Redemption Method: Bullet Redemption  
Early redemption is possible every 5 years after April 22, 2029 at the option of Nippon Life Insurance Company.

Credit Enhancement & Liquidity Facility: NA

\*The issue amount and interest rate will be determined on April 12, 2019.

(Note 1): 10-year yen swap offered rate with addition rate of a certain percentage point (TBD) per annum.

(Note 2): After 10th year, 5-year yen swap offered rate with addition rate described in (Note 1) + 1.00% every 5 years at that time.

### <Information on Structure and Stakeholders>

Issuer: Nissay 3rd Subordinated Loan Securitization Company Limited

Borrower: Nippon Life Insurance Company

Originator: Daiwa Securities Co. Ltd.

Asset Management Company: 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: March 20, 2019

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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