

Aozora Bank Forms Capital and Business Alliance with Daiwa Securities Group—Easing Downward Pressure on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on Aozora Bank, Ltd. (security code: 8304)'s announcement of a capital and business alliance with Daiwa Securities Group Inc. (security code: 8601).

- (1) On May 13, Aozora Bank, Ltd. (the "Bank") announced that it had entered into a capital and business alliance agreement with Daiwa Securities Group Inc. and resolved to issue new shares through a third party allotment to Daiwa Securities Group as the planned subscriber to the third party allotment. Payment is currently scheduled for July 1, subject to the acquisition of permissions and approvals from the relevant authorities. If the capital and business alliance is completed, Daiwa Securities Group will own approximately 16% of the Bank's issued and outstanding common shares and will appoint one outside director of the Bank, and the Bank will become an equity method affiliate of Daiwa Securities Group.
- (2) One of the reasons why JCR has placed the Negative rating outlook on the Bank's rating is that the Bank's capital level is inferior to its rating and it may take time to improve it. The capital increase of over JPY 50 billion is equivalent to about 1% of the consolidated risk assets, and the effect of improving capital level through the capital increase is not small. If the capital increase is implemented, the downward pressure on the rating can be eased in terms of capital adequacy. In addition to confirming the progress of the procedures for the capital increase, JCR will carefully examine synergies from the collaboration with Daiwa Securities Group, earnings outlook, including the effect of utilizing the increased capital, and risk of additional losses on the loans to the US offices, among other factors, and show the results in the rating.
- (3) Even if the Bank becomes an equity method affiliate of Daiwa Securities Group, JCR will incorporate the Bank's stand-alone creditworthiness in the rating based on the degree of involvement in the management and business ties currently indicated.

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<Reference>

Issuer: Aozora Bank, Ltd.

Long-term Issuer Rating: A Outlook: Negative

Issuer: Daiwa Securities Group Inc.

Long-term Issuer Rating: A+ Outlook: Stable

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