

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

JCR's Rating Review of Money Market Brokers

JCR has reviewed the rating for three money market brokers. The rating viewpoints in this review are given below. Please refer to JCR's press releases (25-D-0482 through 25-D-0484) dated today for rating rationale for individual companies.

Rating Viewpoints

- (1) JCR has reviewed the rating for three money market brokers (the "Companies") and affirmed their respective rating with Stable outlook. Factors reflected in the rating include the importance of the Companies in Japan's overall financial system, the stability of profits and high stress tolerance backed by financial soundness. Amid the changing trading environment due to the monetary policy review by the Bank of Japan ("BOJ"), the Companies are diversifying their revenue sources and steadily seizing earnings opportunities. As they also maintain appropriate cost control and risk management systems, JCR assumes that they will continue securing a certain level of profits and retain financial soundness into the future.
- (2) After a long period of the extremely accommodative monetary policy, its framework was revised in March 2024, and a flat interest rate of 0.1% was applied to current deposits held by financial institutions in BOJ ("BOJ Current Account"). Subsequently, the rate was raised in July 2024 and again in January 2025, now reaching 0.5%. With interest rates for the instruments in the short-term money market moving from the negative territory to the positive territory, interest margins have recovered to certain levels. In the most recent fiscal year, when negative interest rates ended, the Companies all attained a high level of earnings, mainly from open market transactions such as bond repos and CPs, by seizing opportunities for arbitrage transactions in the volatile interest rate environment and so forth. Trading in bond repos, CPs, etc. remains brisk even as of now. The Companies will likely be able to maintain relatively high levels of earnings for the time being by meticulously responding to funding needs, including arbitrage transactions.
- (3) The Companies borrow and lend call funds and mediate related transactions in the interbank market while also engaging in the trading of short-term JGBs, CPs, bond repos, stock repos, etc. in the open market. They mediate a number of transactions in the call market, where fund surpluses or shortages of financial institutions are adjusted, and hence play a role as a node in the market. If their intermediary function were not maintained and their own funds were not settled smoothly, either, the call market could fall into a jumble, and the disorder could spread to the entire financial system. Individual ratings are underpinned by the Companies' such position in the financial system.
- (4) In uncollateralized call transactions, which are the core revenue source in the interbank market, as the absolute value of interest rates rises, the rate of brokerage commissions the Companies receive will go up to a certain level and stabilize. The overnight call rate, which had been in the negative territory prior to the monetary policy review, has turned around and is now in the positive territory, staying roughly in the 0.47% range at the moment. Given that the policy rate is tending to rise going forward, too, it is hardly likely that the brokerage commission rate will decline. Meanwhile, the current outstanding balance is lower than before partly because of a decrease in arbitrage transactions leveraging the BOJ Current Account due to the monetary policy review. Despite the decline in the balance, the Companies are all achieving a certain level of earnings by stabilizing the brokerage commission rate and responding to the intermediary funding needs of financial institutions in different situations for investment and financing, such as those with or without the BOJ Current Account. Although the market balance for collateralized call transactions remains low, market participants' interest has increased as interest rates have moved into the positive territory, and JCR will keep an eye on future developments.
- (5) In the open market, even after the monetary policy review, the Companies are carefully seizing earnings opportunities. In bond repo trading, transactions are made by market players with focus on interest rate differences with the BOJ Current Account and other short-term money market products. Mediating the needs of market players in different situations for investment and financing is resulting in earnings growth. In CP transactions, the market balance remains at a high level thanks to robust

corporate performance and interest rates on the uptrend. Earnings have been strong for the Companies alike as gains on sales have improved, and so has carry income thanks to higher issue interest rates. As regards stock repo trading, earnings are growing, helped by the brisk stock market and also by an increase in the transaction balance thanks in part to enhanced responsiveness to customer needs.

- (6) In open market operations, managing risks, as well as securing earnings, is important. In CP transactions, the Companies continue to hold relatively large positions partly because of the high level of the market balance. Proper credit risk management is required for CP transactions because the lot size per counterparty is large and transactions are unsecured. Given also that not a small portion of CP and other transactions are financed by unsecured funds, managing liquidity is also vital. Under these circumstances, the Companies are appropriately controlling risks, and JCR views that they have stress tolerance for credit and liquidity risks thanks to capital accumulation, multiple financing means and so forth.

Hidekazu Sakai, Naoki Shimura

<Reference>

Issuer: Central Tanshi Co., Ltd.

Long-term Issuer Rating: A Outlook: Stable

Issuer: The Tokyo Tanshi Co., Ltd.

Long-term Issuer Rating: A Outlook: Stable

Issuer: Ueda Yagi Tanshi Co., Ltd.

Long-term Issuer Rating: A Outlook: Stable

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)