

Report on Survey of the Status of Syndicated Loan Transactions

Excerpts (Chapters 4 and 6)

I. Purpose of the Survey

Despite the fact that Japanese syndicated loan market has reached approximately 62 trillion yen (as of March 2013; based on a survey by the Bankers Association of Japan), the status of the transactions in the syndicated market has not necessarily been thoroughly surveyed.

This survey has been conducted to shed light on the current status of Japanese syndicated loan market and to identify the challenges facing it, mainly from a legal perspective. In particular, we conducted our survey with an emphasis on such issues as the arrangements and decision-making process, the assignment of loan claims, collection, and contracts—issues that are particularly worth examining from a legal perspective.

II. Survey Method

- (1) Subjects: 171 full and associate members of the Bankers Association of Japan
- (2) Method: mail
- (3) Period: January 10 through January 30, 2013
- (4) Analysis: Syndicated Loan Study Group

III. Return Result

Surveyed Banks	Return Rate (percentage)
171 banks	76 banks (44.4%)

Reference: Syndicated Loan Study Group

Study Group Members

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HP(in Japanese)

<http://www2.osipp.osaka-u.ac.jp/~nomura/project/syndicated/index.htm>

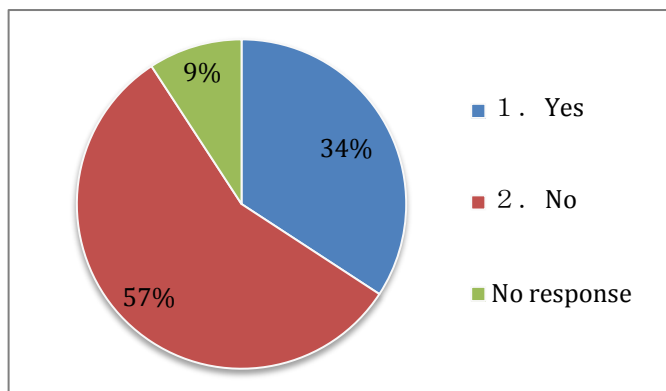
4. Assignment of Loan Claims and Transfer of Status

Q.14 Assignment of Loan Claims and Transfer of Status

(1) Have you ever assigned a syndicated loan claim or transferred your status as a participating bank? (This does not include the assignment of a loan claim or transfer of status that occurred contemporaneously with contract execution or immediately thereafter.)

[Responses]

1. Yes	26 banks
2. No	43banks
No response	7 banks

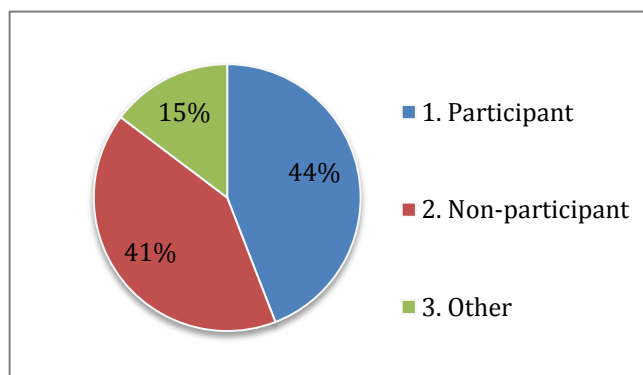


Responses Based on Type of Bank	Yes	No
1. City banks	6 banks	1 bank
2. Regional banks / Members of the Second Association of Regional Banks (three metropolitan areas)	6 banks	11 banks
3. Regional banks / Members of the Second Association of Regional Banks (outside of three metropolitan areas)	4 banks	28 banks
4. Foreign banks	9 banks	2 banks
Others / no response	1 bank	1 bank

(2) If you answered “Yes” to the question of whether you have ever assigned a loan claim or transferred your status as a participating bank in Q.14(1), who was the assignee or transferee? Circle all that apply.

[Responses]

1. Participant of a syndicated loan	15 banks
2. Non-participant of a syndicated loan	14 banks
Others	5 banks



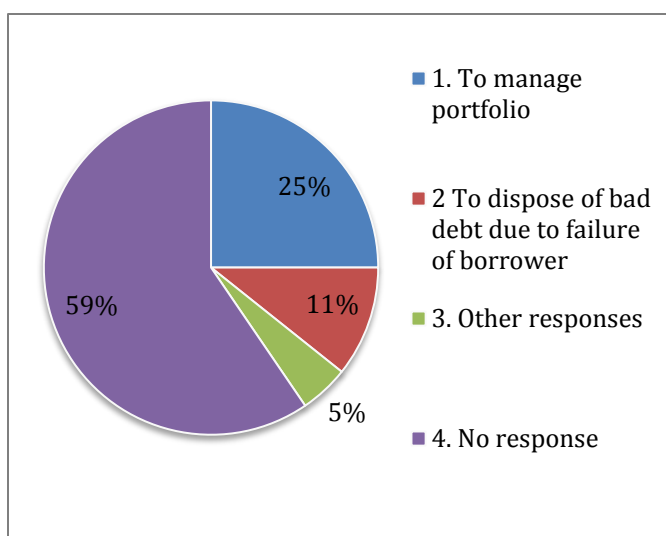
[Examples of Other Responses]

- Securities company
- Non-syndicated servicer
- Assignment to a collection agency by way of bulk sale
- Debt collection agency

(3) If you answered “Yes” to the question of whether you have ever assigned a loan claim or transferred your status as a participating bank in Q.14(1), what was the reason for the assignment or transfer? Circle all that apply.

[Responses] (Includes multiple selections)

1. To manage portfolio	21 banks
2. To dispose of bad debt due to failure of borrower	9 banks
Other responses	4 banks
No response	50 banks



[Examples of Other Responses]

- Because of the need for advanced depreciation of balance sheet
- For organization purposes or for purposes of earning gains by assigning a claim at an over par price
- To realize profit or to make room in the credit facility of the borrower

Q.15 If you have not assigned a loan claim, or transferred your status as a participating bank, or do not wish to do either, what are the reasons (Please describe.)

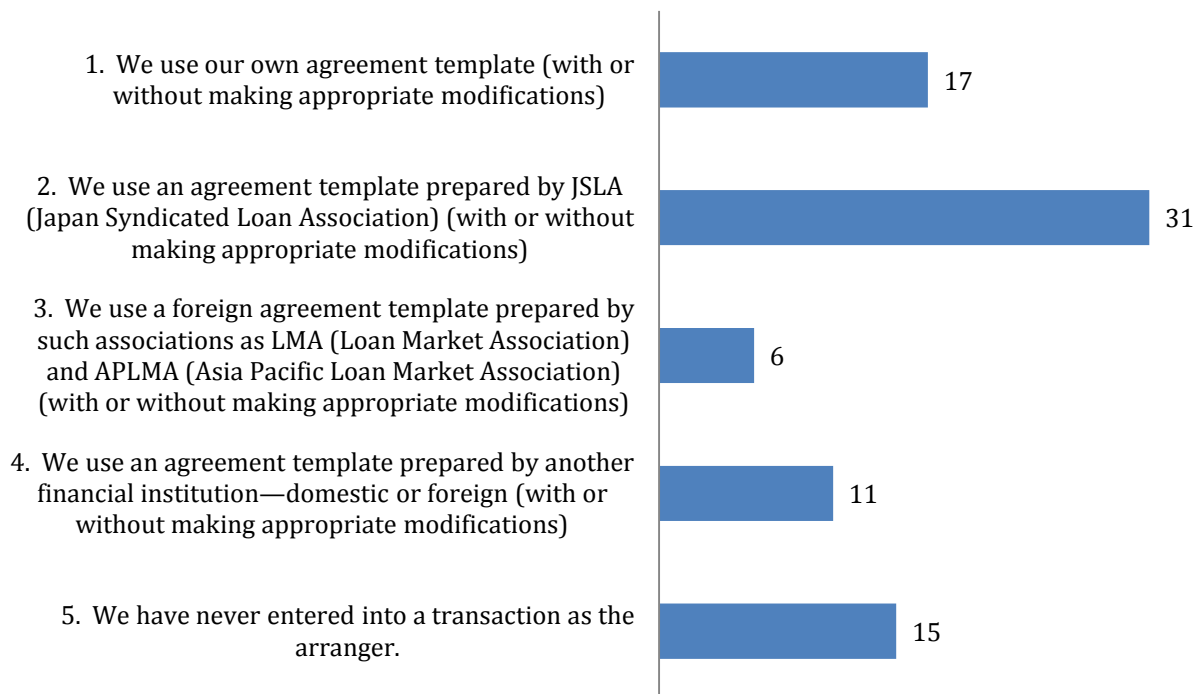
[Responses]

- We didn't feel the need to do so. [regional banks (outside of metropolitan areas)] [regional banks (within metropolitan areas)] (multiple banks)
- The interest condition has deteriorated constantly over the last several years, and there was no reason to assign a loan obtained with a favorable condition. We will consider assignment if there is a need to do so. [regional bank (outside of metropolitan areas)]
- We don't feel much need for assignment because the basic purpose for participating in the syndicated loan is to supplement the outstanding loan balance. [regional bank (outside of metropolitan areas)]

- Other than to dispose of a bad debt, whether or not to assign a loan claim or to transfer our status as a participating bank depends solely on the condition of the financial market and our bank's portfolio. [regional bank (outside of metropolitan areas)]
- We currently do not transfer our status because we syndicate based on our policy of providing support as the arranger. [regional bank (outside metropolitan areas)]
- We negotiated purchases on a secondary basis a few times, but we were unable to agree on pricing. [foreign bank]
- As a general rule, the ideal situation would be to manage a loan until maturity. [regional bank (in a metropolitan area)]
- Insufficient standards within the bank. [regional bank (in a metropolitan area)]
- We have been taking a closer look at profitability, etc., than when we initially participated, and there was no need for an assignment or transfer. [others]
- We put emphasis on building assets. [regional bank (in a metropolitan area)]
- We evaluate the borrower's credit as a whole and would not consider an assignment if it's the kind of borrower with whom we want to maintain the loan balance. We would consider an assignment when we want to adjust our exposure or to dispose of bad debts. [regional bank (in a metropolitan area)]
- There is no such need. (There hasn't been any significant change in the debtor's circumstances or the bank's policy since we initially participated.) [regional bank (outside of metropolitan areas)]
- There are no issues with the borrower's credit capacity, and we accepted or participated in the loan to a degree without any problem regarding the credit balance. As such, we didn't feel the need for assigning the claim, etc. [regional bank (outside of metropolitan areas)]
- We would not assign good claims. [foreign bank]
- To maintain the balance of the syndicated loan claim. [regional bank (outside of metropolitan areas)]
- We did not participate in order to assign our claim. [regional bank (in a metropolitan area)]
- Loans are assets; as such, there is no good reason to actively assign them. [regional banks] (multiple)
- The procedure is complicated. [regional bank (outside of metropolitan areas)]
- As a general rule, we would not do anything that would cause a "hair cut" [foreign bank]

6. Syndicated Loan Agreement

Q.19 When you become the arranger for a syndicated loan, what do you primarily use for the syndicated loan agreement? Circle all that apply.



Q.20 **When you use an agreement template prepared by such institutions as JSLA, LMA, and APLMA or other financial institution, which provisions do you primarily modify? (Please describe.)**

[Sample Responses]

- Provision regarding the exclusion of antisocial forces, changes that accompany the changes in the form of the loan (commit-out type term loan, etc.). [regional bank (outside of metropolitan areas)]
- Nothing in particular. It depends on the borrower's preferences. [foreign bank]
- Covenants [many]
- If the governing law differs, then all applicable provisions (including specific laws and regulations), description of administrative matters, covenants, commitments, etc. [foreign bank]
- Modification of representations and warranties and compliance provisions based on the facts of the transaction. [regional banks (in metropolitan areas)] (multiple) [regional bank (outside of metropolitan areas)]
- Covenants and whether or not there are limitations on the provision of security. [regional bank (within a metropolitan area)]
- Covenants and adjustment of recovered money. [regional bank (within a metropolitan area)]
- Rules regarding the majority lender: 1/2, 1/3, etc. [foreign bank]

- When the borrower is a foreign blue-chip company, oftentimes there are no limitations to negative pledges, asset assignments, etc. We ask the arranger to modify applicable provisions, but most often they are not modified. [regional bank (outside of metropolitan areas)]
- We usually do not have provisions that require modification (we make changes depending on the contractual terms with the borrower). [regional bank (outside of metropolitan areas)]
- Covenants, preconditions, representations and warranties, etc. [regional bank (in a metropolitan area)]
- We modify various definitions (date, spread, etc.), representations and warranties by the borrower, and the borrower's commitments based on the specifics of each matter. [regional bank (in a metropolitan area)]
- Modifications may be made on a case-by-case basis. [regional bank (outside of metropolitan areas)]
- We primarily modify provisions on the settlement method and other administrative procedures to align them to our bank's administrative flow. [other]
- Covenants, provisions that require modifications because of changes in law, etc. [regional bank (outside of metropolitan areas)]
- We do not make major modifications; our modifications are limited to the payment terms and covenant provisions. [regional bank (outside of metropolitan areas)]
- Borrower's commitments and general provisions. [regional bank (outside of metropolitan areas)]
- Representations and warranties, obligations of the borrower, limitations on the provision of security, conditions for repayment before maturity, reporting matters, and scope of matters that require consent. [regional bank (in a metropolitan area)]

Q.21 When you discuss contractual terms with other parties, are there any provisions with respect to which the opinions of the arranger and participating banks or the opinions of the participating banks tend to differ? (Please describe.)

[Sample Responses]

- Covenant provisions [many]
- Mandatory prepayment [foreign bank]
- There are not any if it is a typical corporate loan. On the other hand, for LBOs, etc., we need to adjust provisions regarding risk mitigation (because each bank's screening standards are different). [foreign bank]
- Covenants, collection of the parties' intentions [regional bank (outside of metropolitan areas)]
- Negative pledge clause, restrictive financial covenant [regional bank (in a metropolitan areas)]
- Representations and warranties, commitments, etc. [regional bank (in a metropolitan area)]
- Rule regarding the majority lender: 1/2, 1/3, etc. The arranger wants to require the consent of 2/3 of the participants to designate the majority lender, but participating banks tend to lower the requirement to 1/2 of the participants. [foreign bank]
- There are not many points on which the parties disagree because we generally use JSLA's agreement template, but we tend to negotiate loan terms (participation fee, commitments, etc.). [regional bank (outside of metropolitan areas)]
- Multiple lenders [regional bank (outside of metropolitan areas)]
- Covenants, lending terms (term, interest, fee) [regional bank (outside of metropolitan areas)]
- Due to the past transactional history, we rarely run into any issues with regard to provisions of an agreement template. [city bank]

- Representations and warranties, obligations of the borrower, limitations on the provision of security, conditions for repayment before maturity, reporting matters, and scope of matters that require consent [regional bank (in a metropolitan area)]