



Press Release

Corporate & Government Ratings & Research

For immediate release

Media Contact: Kyota Narimatsu

Tel: (81) 3-4550 -8411

Fax: (81) 3-4550 -8740

Marunouchi Kitaguchi Bldg. 28F, 1-6-5 Marunouchi,

Chiyoda-ku, Tokyo 100-0005

tokyo_pressroom@standardandpoors.com

S&P: Japan Finance Organization for Municipal Enterprises Rated 'AA/A-1+', Replacing Old JFM

SINGAPORE (Standard & Poor's) Sept. 26, 2008--Standard & Poor's Ratings Services said today it assigned 'AA' long-term rating and 'A-1+' short-term rating on Japan Finance Organization for Municipal Enterprises (new JFM). The outlook is stable.

"The ratings on Japan Finance Organization for Municipal Enterprises reflect the organization's robust public policy role as the primary public financial institution supplying long-term, low-cost financing for public projects," said Standard & Poor's credit analyst Takahira Ogawa.

These projects include road building, water supply, and sewerage works that are undertaken by municipal enterprises, divisions of local governments, and public enterprises established by local governments.

The ratings also incorporate the support that the new JFM receives from the local and regional governments (LRGs) in Japan, including capital injections and managerial support. The new organization is wholly owned and controlled by all LRGs in Japan.

"Despite the change of ownership to LRGs from 100% ownership by the central government, Standard & Poor's expects the new JFM would receive similar level of timely support from the LRGs in Japan as the Japan Finance Corp. for Municipal Enterprises (old JFM) used to enjoy from the central government," Mr. Ogawa said.

The new JFM was established by capital contributions from all local and regional governments in Japan on Aug. 1, 2008, to take over the assets and liabilities of the old JFM from Oct. 1, 2008. The previous organization will be abolished the same day. This is a part of the reform and restructuring of Japan's public sector financial institutions, which was approved by the cabinet in December 2005. The old JFM has no nonperforming loans (NPLs).

Nevertheless, there is a risk of NPLs in the new JFM's loan portfolio going forward due to the growing gap between the financially strong and weaker local governments. If the legal framework for Japan local government financial systems becomes more laissez-faire, it could also adversely affect the asset quality of financially weaker local governments, which, in turn, could hurt the organization's asset quality. The possibility of such a change in the next few years, however, is rather remote, given the political stalemate in Japan and weak near-term macroeconomic condition.

Based on the budget approved by parliament, the old and the new JFM are planning to extend a total of ¥1,338 billion (US\$12.2 billion; old JFM US\$690 billion and the new JFM ¥648 billion) for fiscal 2008 (ending March 31, 2009). This is 5% less than the previous year's budget of ¥1,414 billion (US\$12.0 billion), reflecting the structural reform plan for public financial institutions to reduce their total size of assets and ongoing fiscal consolidation of local governments in Japan. The new JFM plans to issue a total of ¥420 billion (US\$4.0 billion) guaranteed bonds to satisfy 16% of the ¥2,572 billion (US\$24.3 billion) funding needs for the latter half of fiscal 2008. The rest will be financed by recovery of the funds from maturing loans and stand-alone bonds. There is no international bond issue planned in fiscal 2008.

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Analytical Contact:

Takahira Ogawa, Singapore
(65) 6239 6342
takahira_ogawa@standardandpoors.com

Media Contact:

Kyota Narimatsu
(81) 3-4550-8411
tokyo_pressroom@standardandpoors.com

Kumiko Kakimoto, Tokyo
(81) 3 4550 8705
kumiko_kakimoto@standardandpoors.com

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