



Press Release

Corporate & Government Ratings & Research

For immediate release

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S&P: Ratings On Japan's JFM Affirmed Despite Lending Expansion Plan

TOKYO (Standard & Poor's) Dec. 12, 2008--Standard & Poor's Ratings Services today affirmed its 'AA' long-term and 'A-1+' short-term credit ratings on the new Japan Finance Organization for Municipal Enterprises (JFM), despite the announcement of a plan to increase JFM's lending volume. At the same time, Standard & Poor's affirmed its 'AA' ratings on JFM's senior secured debt. The outlook on the long-term rating is stable.

The Local Financial System Council, an advisory body within the Ministry of Internal Affairs and Communications, published a report on Dec. 10 detailing plans to expand the business scope of JFM. JFM currently provides long-term financing for fee-based services such as water and sewage operated by local and regional governments (LRGs) in Japan, collectively called "municipal enterprises". The report recommends a new loan scheme whereby JFM would increase its lending volume by initiating loans for non-fee administrative services in the LRG general account, but without fortifying its capitalization. The central government is unlikely to extend its financial guarantees to help increase debt financing by JFM to this end. Fundamentally, however, JFM's asset quality should remain unchanged, as it is only capable of lending to LRGs, including loans to cover municipal enterprises' obligations. Standard & Poor's assumes that the volume of loan expansion would not endanger the current business and financial profiles of JFM.

In terms of potential movement in the ratings on JFM, there are various uncertainties that will be explored in our analysis, such as the precise volume of loan expansion. We are scrutinizing the decision-making process to assess whether the loan expansion policy is in JFM's own economic interests, and whether central and local government support for JFM will remain at current levels. Currently, Standard & Poor's incorporates support from both the central and local governments into the ratings on JFM as a positive factor. However, the current level of support may be insufficient to maintain the ratings if the lending volume increase outweighs this support. The rating might come under downward pressure if this were to be the case.

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>. Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Ratings List

Ratings Affirmed

Japan Finance Organization for Municipal Enterprises

Issuer Credit Rating AA/Stable/A-1+

Senior Secured (78 issues) AA

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