

Rating Action: Japan Finance Organization for Municipal Ent.

Moody's unifies Japan's government ratings at Aa2

26 government-related issuers and regional & local governments on review for possible downgrade

Tokyo, May 18, 2009 -- Moody's Investors Service unified the government of Japan's local and foreign currency bond ratings at Aa2, increasing its domestic currency bond rating (the JGB rating) from Aa3 and lowering its foreign currency bond rating from Aaa. The outlook for the government's ratings is stable. Japan's foreign and domestic currency long-term bond ceilings and deposit ceilings remain unchanged at Aaa, and its short-term ceilings remain at Prime-1.

In addition, the ratings of 26 Aaa-rated and Aa1-rated government-related issuers (GRIs), regional governments, and local governments were placed under review for possible downgrade. Moody's notes that the reviews are unlikely to lead to ratings for any of these entities below the government's rating of Aa2.

Moody's explained that its prior ratings reflected the view that Japan was more likely to meet its foreign obligations than its domestic obligations. Over the recent period of global financial distress, however, Moody's has observed that the payment priorities of various governments have proven very hard to predict. As a result, Moody's has unified its ratings on Japan's various obligations at the level of its overall credit profile, which is Aa2.

Japan's credit profile is Aa2

The unified rating of Aa2 reflects Japan's considerable strengths. These include Japan's large domestic savings, a strong home bias on the part of its domestic financial institutions and institutional investors, relatively low holdings of government debt by foreign investors, and Japan's \$1 trillion of official foreign exchange holdings. Moody's believes the domestic market will absorb the record level of bond issuance this year to fund the government's economic stimulus program.

However, the rating also reflects the risks of Japan's high level of debt, which leaves the country's fiscal position vulnerable to shocks or imbalances that would cause a sharp rise in interest rates. The ratings also reflect the sizable but temporary increase in the government's budget deficit caused by the severe effects of the global collapse in trade and recession on the Japan's economy. Further, Japan's large foreign exchange reserves, although large compared to those of most other countries, are only a small fraction of its liabilities and could not alone eliminate refinancing risk at a time of severe stress.

For the government's bond rating to move higher, Japan's economy would need a sustained recovery and the government would need to shrink its budget deficit and lower its debt trajectory. Conversely, the bond rating would be under pressure if the trend in debt increases continues, which could result from demographic pressures on social welfare and pension expenditures, or if the market loses enthusiasm for the government's new debt issuances.

Ratings unification adjusts assumptions on priority of payment

The unification of the government bond ratings at the Aa2 level was prompted by a reassessment of the priority of the payment the government might choose to assign to its various obligations were it to someday be unable to finance them all on a timely basis. Moody's now believes, based on recent experience in other countries, that it is too conjectural to presume that the government would be more likely to meet its foreign currency obligations than its local currency obligations. Accordingly, Moody's is assigning the same rating for both the government of Japan's domestic obligations in yen and its indirect, external euroyen obligations, which are guarantees on public agency's overseas borrowings.

Ratings of government-related issuers, regional governments, and local governments placed under review for possible downgrade

The 26 entities under review relate to 13 GRIs and 13 regional and local governments (see list below), which are currently rated above the government of Japan's rating. The review results from Moody's belief that default risk for the government of Japan and its related entities is highly correlated. Thus, it may not be appropriate for a related entity's rating to exceed that of the central government. However, the outcome of the

reviews is unlikely to lead to ratings below Aa2 given the strong institutional and financial support provided by the national government to the public sector entities subject to the review.

The rating reviews will focus on these entities' stand-alone financial strengths, the scope of their institutional and financial linkages with the central government, and their systemic importance to the broad economy, which could influence the willingness of the central government to protect their finances while possibly endangering its own.

Moody's intends to conclude these reviews within three months.

Implications for ratings on structured finance securities and banks

The adjustment of the government's bond ratings and the reviews of related entities may affect the ratings of certain structured finance issues. These include government bond repackaging transactions, residential mortgage-backed securities, and CDOs of small- and medium-sized enterprises. Moody's will announce any rating actions through separate press releases.

Japanese bank ratings are not affected by the rating actions discussed in this press release. Moody's Special Comment titled "Financial Crisis More Closely Aligns Bank Credit Risk and Government Ratings in Non-Aaa Countries," dated May 2009, explains the relationship between a bank and government ratings.

Methodologies used to rate the national government, government-related issuers, and regional and local governments

The principal methodology used in rating the government of Japan is "Sovereign Bond Ratings." The principal methodologies used in rating the Japanese RLGs are "Regional and Local Governments Outside the US" and "Application of JDA to Japanese Prefectures and Cities" The principal rating methodology used in rating the 13 government-related issuers is "The Application of Joint Default Analysis to Government Related Issuers."

These methodologies can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory on Moody's website.

The last rating action with respect to Japan was on June 30, 2008 when Moody's raised the Japanese government's rating for domestic debt securities (JGBs) to Aa3 from A1 and maintained a stable outlook. At the same time, Moody's left unchanged Japan's Aaa rating for government guaranteed internationally issued bonds (including euroyen).

Below is a list of those entities whose ratings have been placed on review for possible downgrade.

Zaito Agencies

Central Nippon Expressway Company Limited

Aaa domestic currency issuer rating

Aaa non-guaranteed domestic currency debt ratings

Development Bank of Japan Inc.

Aaa domestic currency issuer rating

Aaa non-guaranteed domestic and foreign currency debt ratings

Aaa government guaranteed domestic and foreign currency debt ratings

East Nippon Expressway Company Limited

Aaa domestic currency issuer rating

Aaa non-guaranteed domestic currency debt ratings

Japan Expressway Holding and Debt Repayment Agency

Aaa non-guaranteed domestic currency debt ratings

Aaa government guaranteed foreign currency debt ratings

Japan Finance Corporation

Aaa domestic and foreign currency issuer ratings

Aaa non-guaranteed domestic currency debt rating

Aaa government guaranteed domestic and foreign currency debt ratings

Japan Finance Organization for Municipal Enterprises

Aaa domestic and foreign currency issuer ratings

Aaa non-guaranteed domestic currency debt ratings

Aaa government guaranteed domestic and foreign currency debt ratings

Japan Housing Finance Agency

Aaa domestic currency issuer rating

Japan Railway Construction, Transport and Technology Agency

Aaa non-guaranteed domestic currency debt ratings

Kansai International Airport Company Limited

Aaa domestic currency issuer rating

Aaa non-guaranteed domestic currency debt ratings

Metropolitan Expressway Company Limited

Aaa domestic currency issuer rating

Aaa non-guaranteed domestic currency debt ratings

Shoko Chukin Bank, Ltd.

Aaa domestic and foreign currency long-term deposit ratings

Aaa non-guaranteed domestic currency debt rating

Urban Renaissance Agency

Aaa domestic currency issuer rating

Aaa non-guaranteed domestic currency debt ratings

Aaa government guaranteed domestic currency debt ratings

West Nippon Expressway Company Limited

Aaa domestic currency issuer rating

Aaa non-guaranteed domestic currency debt ratings

Regional and local governments

Fukuoka City

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Fukuoka Prefecture

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Hamamatsu City

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Hiroshima Prefecture

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Kyoto, City of

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Nagoya, City of

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Niigata Prefecture

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Osaka City Government

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Sakai City

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Sapporo, City of

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Shizuoka City

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Shizuoka Prefecture

Aaa foreign currency issuer rating

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Tokyo, Metropolis of

Aaa foreign currency issuer rating

Aaa non-guaranteed foreign currency debt ratings

Aaa guaranteed foreign currency debt ratings

Aa1 domestic currency issuer rating

Aa1 non-guaranteed domestic currency debt ratings

Singapore

Thomas J. Byrne

Senior Vice President - Regional Credit Officer

Sovereign Risk Group

Moody's Singapore Pte Ltd.

JOURNALISTS: (852) 2916-1150

SUBSCRIBERS: (65) 6398-8308

London

Pierre Cailleteau

Managing Director

Sovereign Risk Group

Moody's Investors Service Ltd.

JOURNALISTS: 44 20 7772 5456

SUBSCRIBERS: 44 20 7772 5454

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