



Moody's Investors Service

## Rating Action: **Moody's downgrades 13 Japan government-related issuer ratings to Aa2**

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Global Credit Research - 22 Jul 2009

Tokyo, July 22, 2009 -- Moody's Investors Service has downgraded the ratings of 13 Japanese government-related issuers (GRIs) to Aa2 from Aaa. The rating outlooks of 11 of the 13 GRIs are stable, while those for the other two are negative.

The 11 GRIs with stable outlooks are Central Nippon Expressway Company Limited, East Nippon Expressway Company Limited, Japan Expressway Holding and Debt Repayment Agency, Japan Finance Corporation, Japan Finance Organization for Municipalities, Japan Housing Finance Agency, Japan Railway Construction, Transport and Technology Agency, Kansai International Airport Co., Ltd, Metropolitan Expressway Company Limited, Urban Renaissance Agency, and West Nippon Expressway Company Limited.

The two GRIs with negative outlooks are the Development Bank of Japan Inc. ("DBJ") and Shoko Chukin Bank, Ltd ("SCB").

This rating action concludes the review for possible downgrade initiated on May 18, 2009.

The rating action reflects Moody's reassessment of the level of the public-sector support anchor in accordance with the unification of the Japanese government's local and foreign currency bond ratings at Aa2, and which involved a rise in Japan's domestic currency bond rating (the JGB rating) from Aa3 and a fall in its foreign currency bond rating from Aaa.

The unification was prompted by Moody's reassessment of the priority of payments which the government might choose to assign to its various obligations, if it were unable to finance them all on a timely basis. As a result of the global financial crisis, Moody's understands that the payment priorities of various governments around the world have proven very hard to predict.

Throughout the current crisis, Moody's notes that it is the creditworthiness of a government's own balance sheet — its safe-haven features — that ultimately anchors the creditworthiness of a particular country's intrinsically weaker public sector entities. In addition, the ability of a government to provide system-wide support converges with, and is constrained by, its own debt capacity.

In the case of the Japanese GRIs, Moody's has reclassified the 13 institutions rated under its Joint Default Analysis ("JDA") approach into two categories: those with Baseline Credit Assessments ("BCA") and those without.

Accordingly, Moody's is removing the BCAs from those 11 GRIs with stable outlooks, as they should be analyzed -- we have concluded -- as part of the national government due to their strong ties with the latter and the essential role the government plays in executing their major policies.

As such, support probability and dependence for these institutions are significant enough that their final ratings are equal to their supporter's ratings and regardless of their BCAs. As a result, Moody's has also downgraded the ratings of the 11 to Aa2 with stable outlook.

Moody's would also note that it will always review which approach -- JDA with BCA or without BCA -- best fits each issuer and best explains the latter's analytically relevant credit factors. As part of this process, we are closely monitoring the robustness and sustainability of government support for the GRIs and naturally any changes in its stance.

Moreover, regardless of the approaches outlined above, we believe that fundamental credit analysis remains critical to determining an issuer's rating and Moody's continues to closely monitor each issuer's stand-alone credit strength, as well as its political, economic and systemic importance, the level of government involvement in its management and finance, and the possibility of its full privatization.

For a more detailed explanation of this analysis, see Moody's Special Comment titled "Changes to Moody's Ratings of Japan's Government Related Issuers," July 2009.

For the remaining two GRIs, DBJ and SCB, Moody's has decided to retain their BCAs. Their negative outlooks reflect the Japanese government's objective of fully privatizing these two institutions, and take into account a possible medium-term decline in the probability of support from the government, if needed.

However, the target dates for their full privatizations were recently postponed to 2017-2019, while their roles -- as designated financial institutions under the government's crisis response programs -- have been substantially expanded.

Moody's last rating action with respect to Japanese GRIs was taken on May 18, 2009, when their Aaa ratings were placed under review for possible downgrade.

The principal methodologies used in rating GRIs were "The Application of Joint Default Analysis to Government Related Issuers" (April 2005), "Rating Government-Related Non-Depository Financial Institutions in Asia Pacific" (July 2005), and "Revised Methodology for Government Related Non-Bank Financial Institutions" (August 2006), all of which can be found at [www.moodys.com](http://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.

Below is a list of those entities whose ratings have been downgraded with details of their rating actions.

Central Nippon Expressway Company Limited

Domestic currency issuer rating: to Aa2 from Aaa

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Development Bank of Japan Inc.

Domestic currency issuer rating: to Aa2 from Aaa

Non-guaranteed domestic and foreign currency debt ratings: to Aa2 from Aaa

Government-guaranteed domestic and foreign currency debt ratings: to Aa2 from Aaa

East Nippon Expressway Company Limited

Domestic currency issuer rating: to Aa2 from Aaa

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Japan Expressway Holding and Debt Repayment Agency

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Government-guaranteed foreign currency debt ratings: to Aa2 from Aaa

Japan Finance Corporation

Domestic and foreign currency issuer ratings: to Aa2 from Aaa

Non-guaranteed domestic currency debt rating: to Aa2 from Aaa

Government-guaranteed domestic and foreign currency debt ratings: to Aa2 from Aaa

Japan Finance Organization for Municipalities

Domestic and foreign currency issuer ratings: to Aa2 from Aaa

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Government-guaranteed domestic and foreign currency debt ratings: to Aa2 from Aaa

Japan Housing Finance Agency

Domestic currency issuer rating: to Aa2 from Aaa

Japan Railway Construction, Transport and Technology Agency

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Kansai International Airport Co., Ltd

Domestic currency issuer rating: to Aa2 from Aaa

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Metropolitan Expressway Company Limited

Domestic currency issuer rating: to Aa2 from Aaa

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Shoko Chukin Bank, Ltd

Domestic and foreign currency long-term deposit ratings: to Aa2 from Aaa

Non-guaranteed domestic currency debt rating: to Aa2 from Aaa

Urban Renaissance Agency

Domestic currency issuer rating: to Aa2 from Aaa

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

Government-guaranteed domestic currency debt ratings: to Aa2 from Aaa

West Nippon Expressway Company Limited

Domestic currency issuer rating: to Aa2 from Aaa

Non-guaranteed domestic currency debt ratings: to Aa2 from Aaa

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