

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

Japan (security code: -)

<Outlook Change>

Foreign Currency Long-term Issuer Rating:	AAA
Outlook:	from Negative to Stable
Local Currency Long-term Issuer Rating:	AAA
Outlook:	from Negative to Stable

Rationale

- (1) The ratings mainly reflect the country's highly advanced economic structure, its position as the world's largest net external creditor, holdings and purchases of government bonds by domestic investors in a stable manner against the backdrop of ample household savings, moderate economic recovery and ongoing momentum of an exit from deflation, and continued implementation of economic policy measures aimed at fiscal consolidation and economic growth. The economic growth under the Abenomics has exceeded JCR's earlier forecast and has now reached a level faster than that during the economic expansion in the 2000s. Steady tax revenues are expected to continue going forward amid a moderate economic expansion. With the Bank of Japan's large-scale monetary easing expected to remain in force for a while, JCR holds that the interest payments of the government will be kept suppressed amid continuation of low interest rates. In its new fiscal consolidation plan announced in June 2018, the government postponed the target date for achieving a primary fiscal surplus by five years. However, JCR believes that the debt-to-GDP ratio will either stay stable or slowly decline even at the more realistic pace of deficit reduction in favor of economic growth. The feasibility of fiscal consolidation has rather increased under the new plan as compared to the previous one, although it is true that the huge government debt stemming from chronic fiscal deficits continues to put downward pressure on the ratings. These have led to JCR's judgement that uncertainty over medium- to long-term fiscal sustainability has now receded. In light of the above, JCR has retained its ratings and changed their outlook from Negative to Stable.
- (2) On the back of record-high corporate profits and solid external demand, corporate activities have become increasingly active, giving a boost to economic expansion. The economy grew 1.6% in real GDP terms in FY2017. The annual growth rates in FY2013-2017 under the Abenomics averaged 1.3%, exceeding the 1.0% potential growth rate estimated by the Cabinet Office. It is highly likely that the ongoing economic expansion may prove to be the longest since the end of World War II. The government is set to raise the consumption tax rate in October 2019. JCR sees less likelihood of the economy faltering because the hike is smaller than the previous one and because the introduction of a reduced tax rate system will help ease tax burden. Looking at recent trend of the potential growth rate, the contribution of capital stock and labor input to the potential growth rate has turned positive against the background of the expansion of capital investment and the promotion of labor participation by women and the elderly under the growth strategy implemented by the government. On the other hand, the total factor productivity has been on the decline, resulting in a slight gain in the potential growth rate. Increasing productivity is essential to ensure a sustained increase of the potential growth rate. The government is currently pushing ahead with various reforms under its two initiatives dubbed "Human Resources Development Revolution" and "Productivity Revolution". JCR will keep watching whether the potential growth rate will be steadily enhanced under the initiatives.
- (3) The outstanding of government bonds and borrowings swelled to reach JPY 1,087.8 trillion (198.3% of GDP) at the end of FY2017, the highest in the world in GDP terms. In its previous fiscal consolidation plan, the government had set a target of achieving a primary surplus by FY2020, and JCR had seen it as a pivotal goal for restoring fiscal discipline. However, the new fiscal consolidation plan put off the target date by five years to FY2025. This was partly because the government decided under its "New Economic Policy Package" in December 2017 to change the use of increased revenues to be accrued from the scheduled hike of the consumption tax rate to 10%. In the new plan, economic assumptions used in Economic and Fiscal Projections for Medium

to Long Term Analysis by Cabinet Office such as the growth rate and inflation rate have been replaced by more realistic ones, and the pace of deficit reduction has also been made more realistic to give more consideration to economic growth. Yet, JCR expects that if the economic growth and debt reduction realized so far under Abenomics basically continue going forward, the debt-to-GDP ratio will stay stable at the current level until around FY2020 and will gradually decline thereafter. The new plan can be regarded as one aimed to strike a balance between fiscal consolidation for the reduction of the swollen debt and fiscal policy in favor of economic growth. JCR thinks that the plan will enhance the feasibility of medium-to long-term fiscal consolidation and that the government's strong commitment to that objective has therefore been retained. It will pay close attention to future progress on fiscal consolidation, including the details of the reform time schedule for the new plan to be worked out by the end of 2018.

- (4) Under its quantitative and qualitative monetary easing policy launched in 2013, the Bank of Japan introduced a yield curve control in September 2016 with the aim of achieving its 2% inflation target. On the back of strong monetary easing such as the BOJ's purchases of long-term government bonds, real interest rates have been staying substantially below the equilibrium yield curve, indicating that the effect of those policies has been largely maintained. The core consumer price inflation rate currently stays in the higher 0% positive range, way below the 2% target. As the growth of wages stays moderate despite a favorable performance of the real sector, JCR holds that current monetary easing will continue for a while. Meanwhile, the banking sector's financial intermediation has already begun to be impaired amid continuation of low interest rates brought by the prolonged monetary easing. Attention needs to be paid to the possibility of the protracted easing adversely affecting the stability of the financial system. Moreover, the difference in monetary policy stance between the United States and Eurozone on one hand and Japan on the other is becoming clearer as the United States keeps monetary tightening and Eurozone looks to wind down its monetary easing. The BOJ's outright purchases of JGBs have already begun to decline in volume, and it has now entered a phase where it is further required to maintain the effect of monetary easing and the sustainability of JGB purchases. It should be noted that the degree of freedom of monetary policy can be narrowed in the face of heightened market volatility.

Atsushi Masuda, Shinichi Endo

Rating

Issuer: Japan

<Outlook Change>

	Rating	Outlook
Foreign Currency Long-term Issuer Rating	AAA	Stable
Local Currency Long-term Issuer Rating	AAA	Stable

Rating Assignment Date: August 6, 2018

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The aforementioned long-term issuer credit ratings are unsolicited. Except in cases of a credit rating for a sovereign, JCR indicates affix "p" after a rating symbol to distinguish it from a rating with solicitation. The undisclosed information, which has material influence on the credit rating, was obtained from the rating stakeholder.

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.



INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Japan
Rating Publication Date:	August 9, 2018

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Economic Base

The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

B) Fiscal Base

The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

C) External Positions

The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

D) Social and Political Bases and Economic Policy

The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government

The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government
- B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR does not receive payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Economic Base

The credit rating is subject to alteration if there is an improvement or deterioration of the issuer's economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

B) Fiscal Base

The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

C) External Positions

The credit rating is subject to alteration if there is a change in the issuer's international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

13

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting

improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Japan	Issuer(Long-term)(LC)	June 12, 2002	AAA	Negative
Japan	Issuer(Long-term)(LC)	July 14, 2003	AAA	Negative
Japan	Issuer(Long-term)(LC)	May 14, 2004	AAA	Negative
Japan	Issuer(Long-term)(LC)	June 17, 2005	AAA	Negative
Japan	Issuer(Long-term)(LC)	August 28, 2006	AAA	Stable
Japan	Issuer(Long-term)(LC)	August 13, 2007	AAA	Stable
Japan	Issuer(Long-term)(LC)	September 22, 2010	AAA	Stable
Japan	Issuer(Long-term)(LC)	October 28, 2011	AAA	Stable
Japan	Issuer(Long-term)(LC)	March 15, 2013	AAA	Stable
Japan	Issuer(Long-term)(LC)	December 25, 2013	AAA	Stable
Japan	Issuer(Long-term)(LC)	March 27, 2015	AAA	Stable
Japan	Issuer(Long-term)(LC)	July 14, 2016	AAA	Negative
Japan	Issuer(Long-term)(LC)	June 16, 2017	AAA	Negative
Japan	Issuer(Long-term)(FC)	June 12, 2002	AAA	Negative
Japan	Issuer(Long-term)(FC)	July 14, 2003	AAA	Negative
Japan	Issuer(Long-term)(FC)	May 14, 2004	AAA	Negative
Japan	Issuer(Long-term)(FC)	June 17, 2005	AAA	Negative
Japan	Issuer(Long-term)(FC)	August 28, 2006	AAA	Stable
Japan	Issuer(Long-term)(FC)	August 13, 2007	AAA	Stable
Japan	Issuer(Long-term)(FC)	September 22, 2010	AAA	Stable
Japan	Issuer(Long-term)(FC)	October 28, 2011	AAA	Stable
Japan	Issuer(Long-term)(FC)	March 15, 2013	AAA	Stable
Japan	Issuer(Long-term)(FC)	December 25, 2013	AAA	Stable
Japan	Issuer(Long-term)(FC)	March 27, 2015	AAA	Stable
Japan	Issuer(Long-term)(FC)	July 14, 2016	AAA	Negative
Japan	Issuer(Long-term)(FC)	June 16, 2017	AAA	Negative

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Atsushi Masuda
General Manager of International Rating Department

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026