

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

### Rationale

- (1) The ratings mainly reflect the country's highly advanced economic structure, its position as the world's largest net external creditor, ample household savings that support the structure of government bonds being mostly held by domestic investors, the stability of its financial market, the ongoing momentum toward an exit from the long-lasting stagnation and deflation, and the implementation of policy measures aimed at fiscal consolidation and resumption of economic growth. On the other hand, the huge government debt stemming from chronic fiscal deficits continues to put downward pressure on the ratings. In June 2016, Prime Minister Shinzo Abe postponed the scheduled hike of the consumption tax to 10% for two and a half years until October 2019 to avoid a possible stall of economic recovery and stem a return to deflation. The Abe administration, with its political base bolstered by the upper house election victory in July 2016, has instructed to consider another economic stimulus measures including the second supplemental budget, amid the growing uncertainty over the future of the economy stemming from the slowdown of the Chinese economy and the yen's appreciation following Britain's decision to leave the European Union while pledging to uphold its target of attaining a primary fiscal surplus by FY2020. Uncertainty is mounting in securing fiscal sustainability in the medium and long run under the situation that the perspective to push up the growth potential remains unclear. Taking these factors into account, JCR has changed the rating outlook from Stable to Negative.
- (2) Monetary policy plays a pivotal role as one of the three arrows that comprise the Abenomics. In January 2016, the Bank of Japan (BOJ) introduced "quantitative and qualitative monetary easing with a negative interest rate" in order to solidify and expand its monetary policy. There has since been some progress toward an exit from deflation as indicated by a slight fall of the bank lending rates, a modest pickup of the money stock growth rate and a rise of the GDP deflator. However, the 2% CPI inflation target has not been attained yet and the CPI index is even showing signs of downward moves. The negative interest rate might undermine the profitability of financial institutions, going against the original intention of the monetary easing. BOJ's massive holding of government bonds has begun to have a harmful effect of reducing their liquidity and there is a concern that further additional easing may face certain limitation. JCR will continue to keep a close watch on the implementation of the monetary policy by monitoring the impacts of the negative interest rate, the consumer price trends and real estate market developments.
- (3) In FY2015, the government estimates to have attained its target of halving the ratio of primary fiscal deficit to GDP as compared to FY2010. Its efforts for fiscal consolidation has been making headway as the bond dependency in the FY2016 budget dropped to 35.6% from the peak 51.5% in FY2009. Yet, the outstanding balance of government bonds stood at Yen 805 trillion as of the end of March 2016. When FILP bonds are included, the total comes to Yen 902 trillion, or equivalent to 179% of GDP, which is the highest in the world. Under its FY2016 budget, the government plans to issue Yen 162 trillion worth of bonds, including Yen 34 trillion in newly issued bonds and Yen 109 trillion in refunding bonds. Currently both bonds are being issued without a hitch. In order to ensure a smooth issuance of bonds and their sustainability in the long run, it is crucial for the government to retain the confidence of investors through adherence to the fiscal consolidation and steady compression of the issuance volume. JCR will monitor the content and financing of a supplementary budget due to be compiled, implementation of the reform initiatives included in its "Basic Policy on Economic and Fiscal Management and Reform" and its policy for FY2017 budget compilation with a view to having its assessment mirrored on future ratings.
- (4) Three years of the Abenomics has produced some good results in improving the performance of the Japanese economy. The national income increased by around Yen 40 trillion and tax revenues

grew by Yen 15 trillion during that period. Corporate profit soared to a record high, with the unemployment rate falling to 3.2%, the lowest in 18 years. Meanwhile, the “growth strategy” still remains as an important challenge. With private consumption and corporate investment still lacking momentum, what it calls “a virtuous cycle of growth and distribution” has not been fully materialized at this moment. The structural problem of declining birthrate and aging population remains as the bottleneck to growth of the Japanese economy. For the second stage of the Abenomics, the administration has added “three new arrows” of “robust economy that gives rise to hope”, “dream-weaving childcare supports” and “social security that provides reassurance” while shoring up the enforcement of its original three arrows. Various structural reforms included in its “Japan’s Plan for Dynamic Engagement of All Citizens”, “Japan Revitalization Strategy 2016” and “Basic Policy on Economic and Fiscal Management and Reform 2016” form an ambitious reform package with a long-term vision. In order for those measures to prove really effective in enhancing the future growth path of the Japanese economy, their sustained implementation based on firm political commitments will be all-important. JCR will closely monitor how the reforms will be carried out and how they will bolster the long-term growth potential of the Japanese economy.

Atsushi Masuda, Toshihiko Naito

### Rating

Issuer: Japan

#### <Outlook Change>

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

#### Rating Assignment Date: July 11, 2016

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 Rating Policies on JCR’s website (<http://www.jcr.co.jp/english/>).

Outline of methodology for determination of the credit rating is shown as “Sovereign and Public Sector Entities” (November 7, 2014) in Rating Policies on JCR’s website (<http://www.jcr.co.jp/english/>).

The aforementioned 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

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

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

Issuer:	Japan
Rating Publication Date:	July 14, 2016

**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) 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.

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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:

<http://www.jcr.co.jp/english/nrsro/index.html>

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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)(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

The table above was corrected after the publication of the news release of the rating action.  
May, 2017.

## 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

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Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
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