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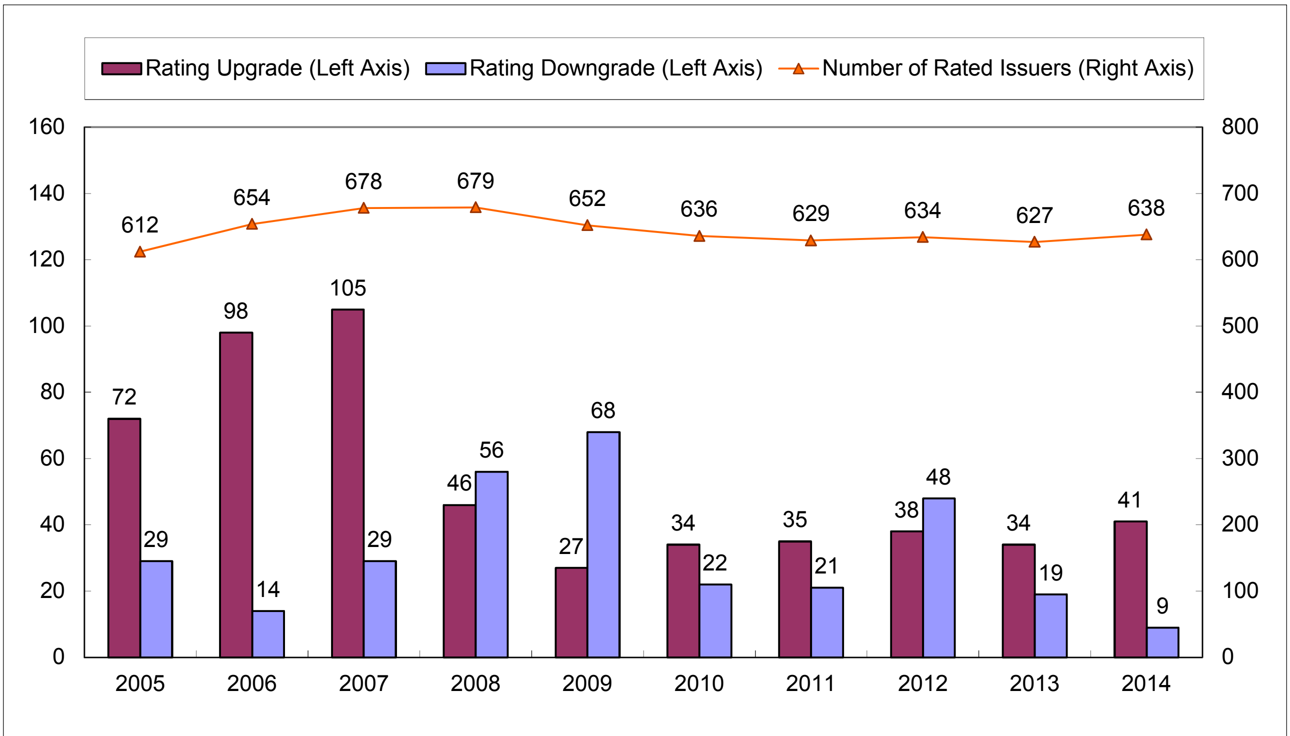
JCR's Rating Results for 2014

*This report applies only to long-term ratings for domestic residents (including investment corporations).

Japan Credit Rating Agency, Ltd. (“JCR”) has put together all the rating results for 2014. The number of domestic issuers for long-term ratings assigned at the end of 2014 was 638, which increased from the number for 2013 by 11 issuers. This number is the second highest after the number for 2009 in recent years. While the gross increase and decrease in the number of issuers were 23 and 12, respectively, 6 or half of the decreases in the number of issuers were primarily attributable to consolidation/reorganization or changes in the fund management policy under a stock holding company structure. In essence, the results show the strong increasing trend in the number of issuers in 2014.

The number of rating changes is divided into rating upgrades for 41 issuers (34 issuers for 2013) and rating downgrades for 9 issuers (19 issuers for 2013). Following 2013, the year 2014 saw the number of rating upgrades exceed the number of rating downgrades (Chart 1). While the number of upgraded issuers has been firm with a rising tendency for recent several years, the decline in the number of downgraded issuers became increasingly remarkable, down to an extremely low level (The smallest number in the number of downgraded issuers since 1998 was 14 recorded in 2006). There were neither mutiple rating changes for the same issuer nor defaults.

Chart 1. The Number of Rated Issuers and Rating Changes



Note 1.One count for multiple rating changes for an issuer a year.
2. The counted issuers are domestic issuers including investment corporations, to which JCR assigned the long-term ratings. The government bonds, guaranteed bonds except those of holding companies and structured finance are all excluded from the counts.

Chart 2. Rating Change by Industry

Industry	2010		2011		2012		2013		2014	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Foods	2		1		1					2
Textiles & Apparels	1							1		
Pulp & Paper			1	1		2			1	
Chemicals		2	4		1	1		1	1	
Pharmaceutical										
Oil & Coal Products	1					3				
Rubber Products					1		1			
Glass & Ceramics Products		1			1	4	1	3	1	1
Iron & Steel		1			1	4		1		
Nonferrous Metals	1						1		1	
Metal Products		1			1	1			1	1
Machinery	3					1	1	1		
Electric Appliances	3		1	2		6	1		1	
Transportation Equipment		1	3				3		1	1
Precision Instruments										
Other Products	1						1			
Total of Manufacturing Industry	12	6	10	3	6	22	9	7	7	5
Construction	1		1		1	2			5	
Electric Power & Gas				9		8		4		
Land Transportation					1	1	4		1	
Marine Transportation		2		2		1		1		
Air Transportation		2								
Warehousing & Harbor Transportation Services										
Information & Communication	1	1	2		2			2	1	
Wholesale Trade	1		4		4	1			3	
Retail Trade	4	2	3		4	1	2	3	3	2
Banks	11	3	8	3	6	2	5	1	6	1
Securities & Commodity Futures		2		2	1	3			6	
Insurance	2		3	1		4	3	1		
Other Financing Business	1	2	1		6		6		2	
Real Estate		1	2		4	3	3		6	
Services	1	1	1	1	3		2			1
Total of Non-manufacturing Industry	22	16	25	18	32	26	25	12	33	4
Total	34	22	35	21	38	48	34	19	40	9
FILP Agency									1	

Note 1. One count for multiple rating changes for an issuer a year.
2. Investment corporations are included in Real Estate.

By industry, the following can be raised as characteristics of the year 2014: (i) Non-manufacturing industry accounted for majority of the rating upgrades (33 issuers out of the total 41 upgraded issuers). (ii) Financing business accounted for a principal part of the rating upgrades with 14 upgraded issuers, following the last year, but the number of upgraded Securities companies was 6 (0 issuer in 2013) against 2 for Other Financing Business (6 issuers in 2013). (iii) Rating upgrades for Construction and Real Estate industries were remarkable with 11 issuers (3 issuers of Real Estate industry only in 2013). (iv) There were neither downgrades nor upgrades for Electric Power & Gas industry, in which there had been many rating downgrades since 2011. (v) Rating upgrades for manufacturing industry were sporadic (Chart 2).

For financing business, improvement of quality and quantity of capital by ensuring a net income under a relatively stable business environment contributed to the rating upgrades. Underlying reasons for these upgrades are decline in credit costs for Banks and capital accumulation through good performance achieved in 2013 thanks to buoyant stock market in the year for Securities companies. Under the circumstances where the extremely low interest rates in general have been placing downward pressure on interest margin, namely, net interest income of Banks, however, there was one bank issuer, which JCR downgraded the rating, because JCR could not overlook the lowered ability to absorb loss caused by the downward pressure on the net interest income.

For Construction and Real Estate industries, a good business environment, that is, post-earthquake reconstruction demand, progress in redevelopments in central Tokyo and recovery of office market, is an underlying reason for the rating upgrades. In particular, selective order-winning, which is widely prevalent in Construction industry against the background of the intensified tightening of supply-demand conditions thanks also to Tokyo's decision to host the Olympic Games in 2020, is largely contributing to their earnings.

For Electric Power & Gas industry, power companies reduced their net loss by raising electricity rates and made efforts to stop impairment of their financial foundations by capital reinforcement. JCR is now examining whether creditworthiness of power companies, which has been worsening since fiscal year ended March 31, 2012, can bottom out. With failure to essentially solve the nuclear power risk, however, the Negative rating outlook for power companies has not been weakened yet.

Rating upgrades for manufacturing industry remained sporadic, causing the number of the rating upgrades in 2014 to be limited to a single-digit number or 7. This is largely because JCR took a cautious stance for business environment as well as uncertainty about future outlook of business risk in terms of ratings for the manufacturing industry, despite the recovery in the business performance on the back of the depreciated yen, etc. Revisions in the rating outlook (Chart 3), however, show that creditworthiness of manufacturing industry has been gradually increasing. Revisions from Stable to Positive for manufacturing industry in 2014 increased sharply from such revisions in 2013, and the number was almost the same as that number for non-manufacturing industry. Revisions from Stable to Negative for manufacturing industry in 2014, on the other hand, decreased sharply from such revisions in 2013, 5 issuers in 2013 to 1 issuer in 2014 in number. Three out of these 5 issuers whose Negative outlooks were revised from Stable to Negative in 2013 saw their rating outlooks return to Stable in 2014.

Chart 3. Revisions in Rating Outlook from "Stable"

	2013		2014	
	1. From Stable To Positive	2. From Negative To Positive	From Stable To Positive	From Negative To Positive
Manufacturing Industry	4	5	11	1
Non-Manufacturing Industry	13	4	13	1
Of which, Financing Business	8	0	4	0
Total	17	9	24	2

Results of Rating Reviews in 2014

	Revised to Positive in 2013 (1. in Upper Table)			Revised to Negative (2. in Upper Table)		
Rating	Upgrade	Affirmation		Downgrade	Affirmation	
Rating Outlook (2013) Rating Outlook (2014)		From Positive To Positive	From Positive To Stable		From Negative To Negative	From Negative To Stable
Manufacturing Industry	1	3	0	1	1	3
Non-Manufacturing Industry	6	7	0	0	4	0
Of which, Financing Business	3	5	0	0	0	0
Total	7	10	0	1	5	3

The main focus of attention for 2014 concerning Japanese economy was effects from consumption tax hike in April. Occurrences of both last minute surge in demand centering on consumer spending from January to March and the following drop in demand during April to June in reaction to the surge including their implications were as expected. However, recovery in July to September was slow, causing "GDP shock" that revealed Japan's negative GDP growth for July to September quarter following the previous quarter in a row with an unexpectedly high annualized negative GDP growth rate. The consumption tax hike to 10% scheduled for October 2015 was postponed for one and a half years due to concerns about future economy. JCR thinks it is necessary to watch macroeconomic trends continually into the future.

However, as described above, the year 2014 was good and saw no effects from consumption tax hike in terms of credit ratings. This is largely because there were no signs of changes in the generally good corporate earnings forecasts centering on large corporations for FY 2014 in July to September period and beyond that period. Underlying reasons for the good unchanged earnings forecasts include the following: (i) The year 2014 was stable with no listed companies who went bankrupt. (ii) Despite the concerns for the price temporarily, the stock price was strong as indicated by the closing price at the end of the year increased by 10% approximately from the opening price at the beginning of the year and increased by 30% approximately from the bottom price in April, and there was not negative wealth effect. (iii) A weakening yen had a positive impact on many global corporations through the increased global competitive strength and improved foreign currency translation adjustment, despite different effects on individual industries. (iv) There were no important changes in the post-earthquake reconstruction demand as well as the Olympics demand.

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