

JCR's Credit Rating Process

A brief summary of the credit rating process for all classes except Asset Backed Securities from a request to publication and credit rating review is presented below. When a credit rating is obtained for the first time, the credit rating process will normally take approximately two months to complete.

1. Request for Credit Rating

The credit rating process typically begins with a request by an issuer (obligor) of a bond that will be assigned a credit rating (or a third party who has obtained the consent of the issuer (obligor)).

2. Selection of Responsible Rating Analysts

Following the receipt of the request for a credit rating, analysts are selected, taking into account the industry and the type of the debt to be rated, among other factors. More than two analysts (basically two) are chosen to maintain the objectivity of the analysis undertaken for a credit rating as a Responsible Rating Analyst.

3. Determining whether to initiate a credit rating

When receiving the request for or inquiries about credit ratings, the Responsible General Manager of the Rating Department shall determine whether the cases associated with the relevant requests or inquiries can proceed or not from the perspective of, among other things, assuring appropriate quality in assigning credit ratings, compliance with laws and regulations and protection of investor benefits. JCR has a review function that includes general managers and chief analysts with appropriate experience to review the feasibility of providing a credit rating. The Responsible General Manager of the rating department shall ask for the decision of this review function whether to proceed the case or not, if necessary.

4. Request for the Submission of Data

Responsible Rating Analysts ask the issuer to be rated to submit data necessary for the analysis, including nonpublic information. Although the types of data requested differ depending on the industry and the particular features of the company, they are typically wide-ranging, including a corporate profile, management organization, production, sales, financial statements, business plans, information on subsidiaries and affiliates, and important information such as legal actions, and bond issues. Although JCR already has and keeps public information such as industrial data, industry reference materials, and information on individual companies, JCR is

able to determine an even more appropriate credit rating by requesting this type of diverse information from the entity to be rated.

5. Sources of information used in determining credit ratings

JCR has policies and procedures to ensure the quality of information used in determining credit ratings. Responsible Rating Analysts use only the information which met the requirements of the quality standard prescribed in this policy. If Responsible Rating Analysts judge that the information used for determining credit ratings do not satisfy the quality standard, they shall suspend the credit rating activities.

Besides published information, the sources of information include non-public information provided by issuers or their agents. With regard to unsolicited credit ratings, JCR shall assign credit ratings even if part of or all of non-public information cannot be obtained, but if the information used in determining credit ratings satisfies the quality standard.

Information sources used for the corporate credit ratings includes, in general, financial statements and business records provided by issuers, documents and explanations regarding the management policy, documents for products to be rated provided by issuers and statistics and reports about economic and industrial trends published by a neutral institution. JCR may use data, reports and other information or information processing services provided by a third party such as reliable information vendors, etc.

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.

6. Analysis of Data, etc. and Transmission of Questionnaires

Responsible Rating Analysts perform both quantitative and qualitative analyses of the credit strength of the issuer based on the data submitted by the issuer, as well as financial data, industry data and other relevant information. Based on the results of the analysis, the Responsible Rating Analysts hold discussions to identify questions and issues, and compile these questions and issues into a questionnaire that is sent to the issuer to be rated or is inquired during the interviews.

7. Interviews and interacting with the management of the issuers

There are two kinds of interviews in the interviews with executives and employees of the obligor (issuer) where Responsible Rating Analysts receive an explanation for assigning a credit rating by face-to-face meeting. One is staff interview and another is management interview.

While both interviews are conducted in case where Responsible Rating Analysts consider it

necessary, JCR, in principle, conducts interviews when assigning an initial credit rating to an obligor (issuer). Also in principle, a staff interview is conducted when reviewing the credit ratings periodically. In addition, in a periodical credit rating review after the issuer's top management has been replaced considerably, JCR conducts a management interview in many cases where Responsible Rating Analysts consider it necessary to have an interview.

For the interview, Responsible Rating Analysts visit the issuer being rated. They are given the response to the questionnaire that has been sent to the issuer in advance and explanations on the data submitted. They undertake physical inspections, such as visiting a factory, if necessary. The purpose of the interviews and the inspections of plants and other facilities is to obtain information specific to the issuer being rated by confirming and viewing first-hand information that support the financial analysis. In particular, interviews with senior management is a critical source of information in better understanding of the future prospects of the issuer being rated, because they provide opportunities to hear an accurate vision of the entity being rated and confirm first hand management's policies, strategies, and other important activities.

8. Rating Committee

Based on the analysis of the data submitted and the interviews, the Responsible Rating Analysts discuss the credit strength of the issuer being rated and the details of the debt being rated, and then prepare materials for convening a Rating Committee. When the materials are ready, the Rating Committee is held, where the analysts propose a credit rating and give an explanation of the rationale.

In general, the Rating Committee consists of at least five Rating Committee members, and the primary purpose of Rating Committee is to discuss whether the recommended credit rating arrived at through the various methods of analyses is consistent with the credit rating structure of JCR and whether it is accurate and valid, before a final credit rating decision is made. As a result of the discussion, Responsible Rating Analysts may modify the proposal during the Committee. In such cases, Rating Committee Members discuss about the modified proposal to determine the final credit ratings. If the analyses presented by the Responsible Rating Analysts are considered inadequate or if the analysts' recommendations are considered inappropriate, the Responsible Rating Analysts may be required to undertake a reexamination and reconvene the Rating Committee later.

Each Rating Committee Member who attends the Rating Committee has a voting right. If the Responsible Rating Analyst is one of the Rating Committee Members, he / she also has a voting right. Resolutions at the Committee shall be made by agreement of all attending Rating Committee Members in principle. If the agreement is not reached, items on the agenda shall be discussed in a collegial body consisting of senior Rating Committee Members. Resolutions at such collegial body shall be decided by majority in principle.

9. Informing issuers of rated securities about credit ratings decisions and for appeals of credit rating decisions

After a credit rating has been determined, the issuer or its agents being rated is promptly notified before the publication of the credit rating. This provides the entity being rated with an opportunity to raise an objection against factual errors, etc., so that a more accurate credit rating can be assigned.

Once credit ratings are determined, Responsible Rating Analysts shall promptly explain to the issuers or their agents the determinants of the credit ratings; such as primary information or major topics discussed, by issuing documents, such as draft press releases and other draft public notices associated with giving the credit ratings in question, so that the issuers or their agents could confirm whether there is any misrepresentation of the facts in information used for determining credit ratings or not. Responsible Rating Analysts shall also explain that the issuers or their agents have a right to notice any misrepresentation found by the deadline set out by JCR.

Responsible Rating Analysts may take necessary procedures to publicize the credit ratings timely without extending the deadline, even if the issuers or their agents cannot be likely to finish the confirmation of whether there is any misrepresentation of the facts or not by the deadline set out by JCR, when the reason of such delay is not justifiable nor reasonable.

In cases when the issuers point out misrepresentation of the facts or other considered as justifying examination of the accuracy of credit ratings, other rating analysts shall be appointed to reinvestigate and the Rating Committee to reexamine the credit ratings in question shall be convened only when judged as necessary. In this case, information and data that support the objection will be requested anew from the entity being rated. In cases when the issuers simply express their oppositional views against the ratings results, no reinvestigation or reexamination shall be conducted.

10. Publication

A credit rating that has been decided will be made public without any delay. For the results of a review of a credit rating that has already been made public, there may be instances where, for unavoidable reasons, they are made public without first obtaining the consent of the rated entity. However, the results of the review and the reasons thereof are, in all cases, explained to the rated entity.

In addition, if any material change is to be made in the rating criteria, etc., the fact that the change will be made and an outline will be announced before it is applied to individual credit ratings. In unavoidable instances, however, JCR may announce the cause, the fact that the change has been made, and an outline at the time the publication of an individual credit rating is made.

The publication will be made through one or more ways, including a news release through

the press club at the Tokyo Stock Exchange, distribution to electric media such as Bloomberg and Reuters, and posting on JCR's website.

11. Review of the Credit Rating

As long as there is rated debt outstanding, the performance of the issuer and the events and developments of the industry are monitored, and when there is a need to review the credit rating, a review will be made. If it is deemed necessary to change the credit rating, the credit rating will be changed and the result will be made public. JCR undertakes a regular review of credit rating. If an unexpected or drastic change occurs in the performance of the rated entity or in the business environment that may have a material impact on the creditworthiness of the rated entity, such as a merger or an acquisition, the credit rating will also be reviewed. In principle, JCR interviews the issuers with relevant data and information provided by them when conducting periodical reviews.

JCR conducts a regular review of credit ratings about once a year, but the actual review interval may exceed a year, depending on necessity for additional information collection or adjustment of schedules and other reasons. JCR periodically identifies credit ratings for which more than a year and a month passed from the most recent assignment and examines the background of the passage of the period, etc. and then urges the Responsible Rating Analysts to promptly review the credit ratings, if necessary.

When conducting the review of the credit ratings, JCR basically refers to the same rating policies and methodologies used for assigning an initial credit rating. When revising or establishing credit rating policies and methodologies for assigning an initial credit rating, they shall be applied not only to credit ratings assigned for the first time thereafter but also to credit ratings to be reviewed. When credit rating policies and methodologies used for the review is revised or established, JCR shall apply the revised policies and methodologies when assigning an initial credit rating if necessary.

In case that the establishment or the revisions of the rating policies and methodologies is material, JCR shall publicize the scope of individual credit ratings on which reviews are needed according to the establishment or revisions and a timeframe for such reviews without delay after the publication of the establishment or the revisions.

While there is a likelihood of a change in the credit rating as a result of the review, and when JCR deems it necessary to obtain additional information or make an additional analysis with respect to the event described above for determination of the credit rating, the credit rating will be placed under Credit Monitor and JCR will publish an announcement to that effect to call the attention of investors. After it is placed under Credit Monitor, the credit rating may be changed.

12. Suspension and Withdrawal

JCR may suspend a credit rating if JCR deems that it is temporarily difficult or impossible to review the credit rating when a significant change occurs to the objective circumstances, such as a situation where it becomes difficult or impossible to obtain the necessary information for reviewing the credit rating. Suspension is a temporary measure, and if the event that caused Suspension is unlikely to be resolved, the

credit rating will be Withdrawal. The credit rating will be withdrawn if JCR deems that it will be impossible to conduct the rating review into the future, because a significant change has occurred to the objective circumstances such as a lack of issuer cooperation with regard to the provision of information. Such suspension or Withdrawal shall be determined by the Rating Committee.

A credit rating may be withdrawn if JCR deems that it is no longer necessary to sustain the credit rating due to bankruptcy procedures involving the issuer or other circumstances, in the event that the need arises in order to comply with laws and ordinances, or in the event that unavoidable circumstances occur in order to conduct business. A credit rating will also be withdrawn when JCR receives a request from a person who has solicited the rating to withdraw the rating and then accepts the request. Withdrawal at the request of the issuer or the aforementioned reasons shall be implemented by approval of the senior executives of the responsible department.

JCR promptly publicizes Suspension or Withdrawal of credit rating except for the extinction of rated securities or entities. When withdrawing a credit rating after JCR receives a request from a person who has solicited the rating to withdraw it due to the downgrade of its rating and JCR accepts the request, JCR will publicize the fact that it has downgraded the credit rating when announcing the Withdrawal.

13. Unsolicited Credit Ratings

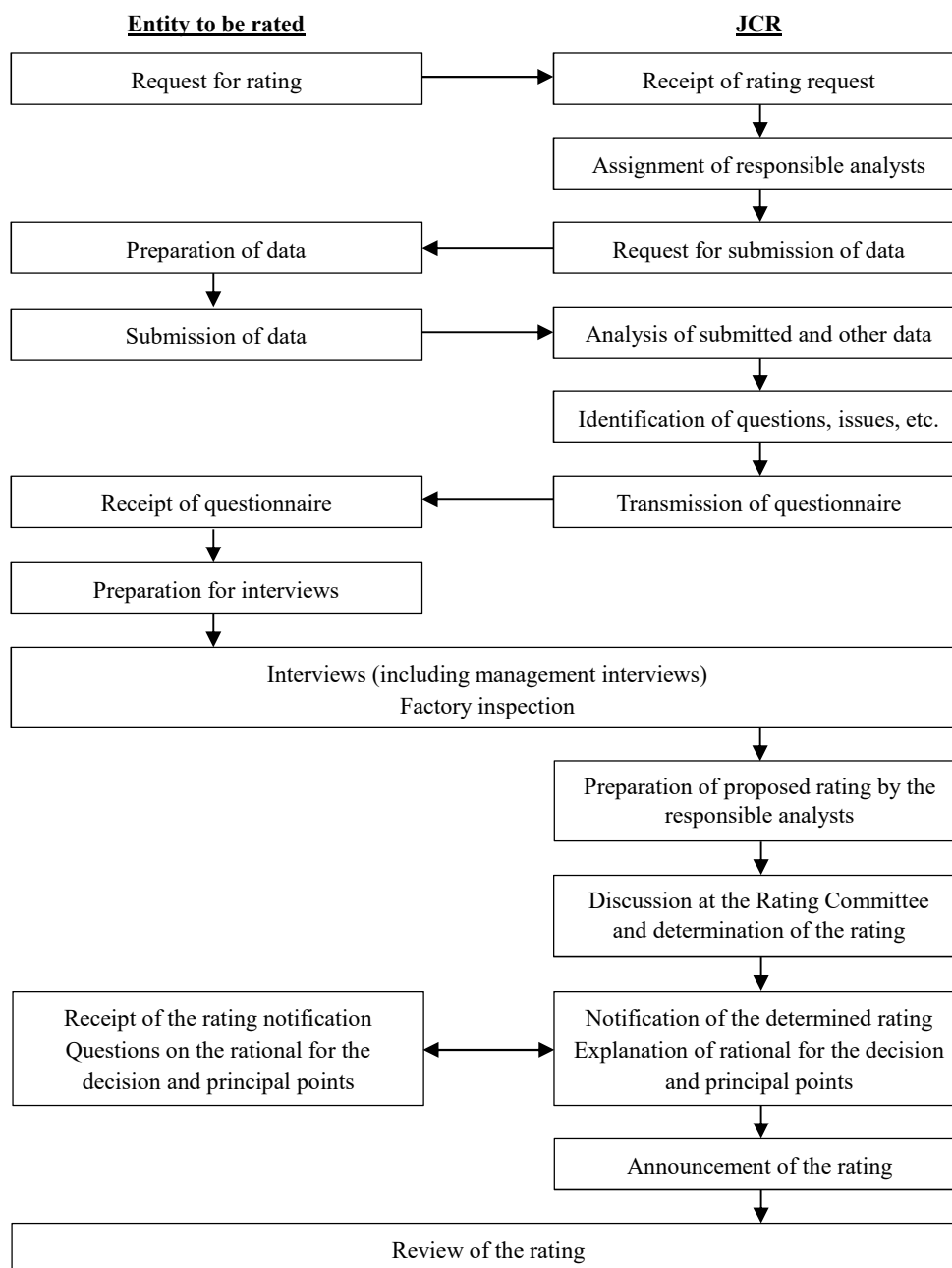
If a publication of a credit rating on an issuer is perceived to contribute to the enhancement of credit rating accuracy because the issuer's market share, for example, is high, JCR shall assign and, if assigned, publicize the unsolicited credit rating without delay with the consent of the issuer. In this case, JCR shall disclose the credit rating not assigned at the request of the issuer by indicating affix, "p", to the rating symbol to identify it as such.

Even in the cases when credit ratings are not solicited by the Stakeholders, JCR shall assign credit ratings based on the same credit rating process, methodologies and information as for a solicited credit rating. Even in the cases when an interview with Stakeholders can be conducted only partially or no such interview can be conducted or when only partial non-public information can be obtained or no such information can be obtained, JCR may assign credit ratings not solicited by the Stakeholders, if it can ensure the quality of information used for such unsolicited credit ratings.

For a credit rating for a sovereign, in some cases, JCR assigns a rating without consent of the applicable nation. In the case of sovereign credit ratings, when assigning and publishing unsolicited credit ratings, the affix, "p", shall not be indicated. In this case, however, JCR shall publish unsolicited credit ratings by publicly stating that such ratings are unsolicited credit ratings.

Appendix I

Process of Corporate Credit Rating



(Note) If an objection against the decision is made by the entity being rated, the details of the objection will be examined, and if deemed necessary, the rating will be reexamined by other analysts and discussed again at the Rating Committee.