



NEWS RELEASE

Mar 8, 2010

R&I Assigns AA: Kobe City 10-year Bonds No.22 (FY2009)

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Kobe City
10-year City Bonds No.22 (FY2009)
New Issue

R&I RATING: AA (Assigned)

RATIONALE:

The economic development of Kobe City has proceeded along with Kobe Port, one of the top ports in the world. As a leading international port city in Japan, Kobe City is on par with Kyoto City in the Kansai region in terms of economic scale. The city's financials, which were seriously damaged by the 1995 Hanshin-Awaji Earthquake, have been recovering thanks to the forceful implementation of planned administrative and fiscal reforms directly following the earthquake disaster. Since FY1997, Kobe City's primary balance has been positive, and its adjusted single fiscal year balance ratio for FY2007 was 16.1%, well above the average for other prefectures and ordinance-designated cities. Further, in its "Administrative Policy," Kobe City set a target of reducing actual outstanding debt in the general account by 500 billion yen between the end of FY2003 and the end of FY2010. This target was achieved at the end of FY2008, two years ahead of the schedule.

Regarding the economy of Kobe City, which suffered severe damage as a result of the earthquake disaster, the population and distribution, etc. are on a path towards recovery. The independent revenue ratio, which had sunk below 40% directly following the earthquake disaster, stood as high as 59.7% in FY2008 -- a level on par with other ordinance-designated cities. Port Island (2nd Stage), which is based on the Kobe Medical Industry Development Project, has succeeded in attracting 164 medical-related organizations as of February 2010. Meanwhile, one of Kobe City's challenges is to reduce remaining municipal debt for public enterprise accounts that has risen to 1.0914 trillion yen. Kobe City is steadily accumulating the funds to repay city bonds as many bonds become due in FY2009. Given the impact of the economic downturn, however, R&I will continue to keep an eye on the progress of Kobe City's attempts to recover its funds in new city planning and coordination accounts.

There is a high possibility that the rate of municipal debt reduction will be more moderate than in the past given the increase in social assistance expenditure attributed to the falling birthrate and aging population, as well as the increase in expenditure for economic and employment measures to respond to the increasingly severe economic situation in the region since the autumn of 2008. Nevertheless, under the leadership of mayor Tatsuo Yada, who has stated his commitment to maintaining the primary balance surplus and has made known his strong determination to reduce the outstanding municipal debt, R&I believes Kobe City will continue to improve its financial condition while implementing economic measures.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Local Governments". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

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NEWS RELEASE

R&I RATINGS:**ISSUER:** Kobe City

LONG-TERM ISSUE RATING:	Issue Date	Redemption	Issue Amount (mn)
10-year City Bonds No.22 (FY2009)	Mar 23, 2010	Feb 20, 2019	Yen 5,000

R&I RATING: AA (Assigned)**ISSUER RATING:** AA**RATING OUTLOOK:** Stable

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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