



Outline of R&I Credit Ratings

I . Outline of R&I Credit Ratings

The Credit Rating Business of R&I consists of "Credit Ratings" and "Credit Assessment". Although both of them express the R&I's opinion on a creditworthiness of the rated entity or individual obligation by using certain symbols, Credit Assessment is different from Credit Rating with regard to the points that it is the opinion on the rated entity or individual obligation on which the preconditions are established or those on which R&I does not receive sufficient information useful to the credit analysis. Please see "II . Outline of R&I Credit Assessment" for details.

The following is a summary on "credit rating" which is widely used as symbols representing the creditworthiness of the rated entity or its debt obligation.

1. What is credit rating?

The credit rating of R&I is the opinion shown in certain symbols regarding an issuer's general capacity to repay its financial obligation or a certainty of the repayments of individual obligations (creditworthiness).

When R&I assigns a credit rating on individual obligations, it first evaluates the default risk, i.e., the probability of the issuer defaulting or otherwise failing, and second, evaluates the recovery risk, i.e., the probability of losses in the event of default.

The primary pillar of the R&I's credit evaluation lies on an analysis of the default risk. This focuses on the issuer's ability to repay all its financial obligations. R&I calls the credit rating at this stage, an "Issuer Rating." The credit rating on an individual obligation is derived from the Issuer Rating, and in general, the level of the rating on the individual obligation is the same as that of the Issuer Rating. When the debt is backed by certain collaterals or the debt agreement contains certain clauses which determine subordination of the subject debt to the senior debt or the restriction of the pledge of collaterals, etc., R&I evaluates the recovery risk of an individual obligation and may assign a rating different from the Issuer Rating. R&I calls the credit rating at this stage a "Long-term Issue Rating."

R&I does not state its opinions by Credit Ratings any risks other than credit risk (including but not limited to liquidity risk, market value risk and price volatility risk of individual obligations).

2 . Rating symbols and definitions

(1) Issuer Rating

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.

Rating	Definitions
AAA	Highest creditworthiness supported by many excellent factors.
AA	Very high creditworthiness supported by excellent factors.
A	High creditworthiness supported by some excellent factors.
BBB	Creditworthiness is sufficient, though some factors require attention in times of major environmental changes.
BB	Creditworthiness is sufficient for the time being, though some factors require due attention in times of environmental changes.
B	Creditworthiness is questionable and there are factors which require constant attention.
CCC	High concern over the financial obligation of an issuer to be in default
CC	Financial obligation of an issuer is in default or there is strong concern over its default.
D	R&I considers all the financial obligation of an issuer is in default.

* Plus (+) and minus (-) signs may be added to the ratings from AA to CCC to indicate their relative standing within each category.

(2) Long-term Issue Rating

A Long-term Issue Rating is R&I's opinion on an issuer's certainty to repay its individual financial obligation (creditworthiness). The rating includes the probability of default and recovery (probability of losses in the event of default). Depending on the agreement and recovery, it may be lower or higher than Issuer Rating.

Rating	Definitions
AAA	Highest creditworthiness supported by many excellent factors.
AA	Very high creditworthiness supported by excellent factors.
A	High creditworthiness supported by some excellent factors.
BBB	Creditworthiness is sufficient, though some factors require attention in times of major environmental changes.
BB	Creditworthiness is sufficient for the time being, though some factors require due attention in times of environmental changes.
B	Creditworthiness is questionable and there are factors which require constant attention.
CCC	In default or there is high concern over default. In case of default, debt will not be recovered in full.
CC	In default or there is strong concern over default. In case of default, debt is only partially recovered.
C	In default and debt is hardly recoverable.

* Plus (+) and minus (-) signs may be added to the ratings from AA to CCC to indicate their relative standing within each category. The signs may also be added to CC rating if the Long-term Issue Rating differs from the Issuer Rating after reflecting the agreement and recoverability of debt.

(3) Short-term Rating

A Short-term Rating is R&I's opinion on an issuer's certainty to repay its short-term financial obligations as agreed. Short-term Rating is assigned to short-term programmes such as commercial papers, an issuer's payment ability of short-term financial obligations, and short-term individual obligations.

Rating	Definitions
a-1	Certainty to meet short-term obligation is high.
a-2	Certainty to meet short-term obligation is high but some factors need attention.
a-3	Certainty to meet short-term obligation is sufficient for the time being, though some factors need close attention in times of environmental changes.
b	Certainty to meet short-term obligation is not equal to that of a-ratings. There are factors which raise concerns about meeting obligation.
c	Lowest rating. In default or is extremely likely to be in default.

* Plus sign (+) may be added to a-1 ratings to indicate a particularly high level of repayment certainty.

(4) Insurance Claims Paying Ability

An Insurance Claims Paying Ability is R&I's opinion on an insurer's overall capacity to pay its insurance obligations as agreed, not on the degree of payment of individual insurance claims.

Rating	Definitions
AAA	Highest claim paying ability supported by many excellent factors.
AA	Very high claim paying ability supported by excellent factors.
A	High claim paying ability supported by some excellent factors.
BBB	Claim paying ability is sufficient, though some factors require attention in times of major environmental changes.
BB	Claim paying ability is sufficient for the time being, though some factors require due attention in times of environmental changes.
B	Claim paying ability is questionable and there are factors which require constant attention.
CCC	Insurance claim payment is in default or there is high concern over default. In case of default, claim may not be recovered in full.
CC	Insurance claim payment is in default or there is strong concern over default. In case of default, claim is only partially recovered.
C	Insurance claim payment is in default and claim is hardly recoverable.

* Plus (+) and minus (-) signs may be added to the ratings from AA to CCC to indicate their relative standing within each category.

- The rating of Medium Term Note (MTN)

A rating for a Medium Term Note (MTN) programme is assigned for the programme and is not assigned to individual notes issued under the programme. Although the rating of individual notes is generally the same as that of the programme, it may differ depending on the details of the individual note contract. Upon the issuer's request, R&I may assign a rating on individual notes issued under the programme.

- Preliminary ratings

A preliminary rating is assigned when a provisional rating related to a Long-term Issue Rating or a Short-term Rating is required for the issuer's offering, etc., and final conditions for individual debts have not been determined. It is based on the request of an issuer or its related party. In order to obtain R&I's formal rating for individual debts, it will be necessary for R&I to confirm information regarding the bond agreement and the purpose for raising funds, when the bonds are actually issued or the funds procured. The formal rating may differ from the preliminary rating depending on the details of the individual debt contract.

(5) Rating Outlooks

A Rating Outlook is an opinion concerning the medium term prospects for Issuer Rating and Insurance Claims Paying Ability. In order to indicate its opinion of an issuer's creditworthiness in a clearer, more flexible way, R&I attaches Rating Outlooks to all Issuer Ratings and Insurance Claims Paying Abilities in principle.

Currently, when there is a strong likelihood that a rating will be reviewed with a view to upgrading it, the outlook is described as "Positive", while the outlook for a rating with a strong likelihood of a review with a view to a downgrade is described as "Negative", and when the likelihood of an adjustment in a rating for the foreseeable future is considered low, the outlook is deemed to be "Stable". In addition, when none of these applies, the outlook may be restrictively described as "Developing".

In deciding upon a rating, R&I examines a number of future scenarios and bases its judgment on the scenario that is most likely to eventuate and which takes into account the various risks that the issuer faces at an appropriate level. The future scenario is under constant review, taking into consideration changes in conditions, and the Rating Outlook is adjusted when the probability of a rating review in the future is deemed to be high.

However, a Positive or Negative outlook is not a statement indicating a future adjustment in a rating. Even the rating of an issuer with a Stable outlook may, depending on circumstances, be adjusted without any change in the Rating Outlook.

(6) Rating Monitor

Rating Monitor is a system for implementing a special rating review in the event of major changes in the issuer's operational environment such as mergers, takeovers, capital tie-ups, or developments such as a sudden deterioration in operational performance. For the ratings that are placed on Rating Monitor, R&I makes an urgent review centering on the effect the event and the

change in the business environment would have and announces a new rating. The rating placed on the Rating Monitor is indicated with brackets. Rating Monitor has three directions: "with a view to upgrading", "with a view to downgrading", and "direction uncertain" that indicates any direction would be possible including upgrading, downgrading and maintaining.

(7) Suspension/Withdrawal

R&I may suspend or withdraw ratings at its own discretion when it becomes impossible to make appropriate assessment due to factors like significant changes in environment, insufficient data/information or any other circumstances.

(8) op

"op" is mainly determined based on the publicly disclosed information and therefore differ from the ratings assigned upon request of corresponding companies, for which on-site surveys are conducted and extra data are examined. "op" is suffixed to such ratings to show the difference.

II . Outline of R&I Credit Assessment

2. What is R&I's credit assessment?

The credit assessment of R&I is the opinion shown in certain symbols regarding an issuer's general capacity to repay its financial obligation or a certainty of the repayments of individual obligations (creditworthiness) in the following cases. It should be noted that credit assessment is different from credit rating.

- 1) Preconditions are established on the rated entity or individual obligation; or
- 2) R&I does not have sufficient information on the rated entity or individual obligation which it considers relevant and creditworthiness is assessed within a certain range using credit rating.

R&I provides the following types of credit assessments.

(1) Scenario Rating

Credit assessment based on the scenario which the rated entity or related third-party proposes. It is the evaluation under the proposed scenario at certain point of time and does not incorporate any judgments by R&I analysts regarding the certainty of the scenario, etc. In principle, the assessment is not disclosed to the public and it is not subject to the monitoring of R&I.

(2) Indication

Indication is the evaluation based on a simplified research meeting or just based on publicly available information. This is used for the indication of the Issuer Rating. R&I may express its assessment in a certain range of the rating symbols. In principle, R&I does not disclose Indication to the public.

(3) Credit Worthiness Assessment

Credit Worthiness Assessment provides the R&I's opinion shown in certain symbols regarding a certainty of the repayments of individual obligations (structured finance products) under certain preconditions. The term "Equivalent" shall be added to the symbols that are used for Long-term Issue Rating or Short-term Rating. In principle, R&I does not disclose Credit Worthiness Assessment to the public.

The methodologies and models R&I uses in connection with evaluation of creditworthiness (collectively, the “Rating Methodologies”) are statements of R&I’s opinions prepared based on R&I’s own analysis and research, and R&I makes no representation or warranty, express or implied, as to the accuracy, timeliness, adequacy, completeness, merchantability, fitness for any particular purpose, or any other matter with respect to the Rating Methodologies. Further, disclosure of the Rating Methodologies by R&I does not constitute any form of advice regarding investment decisions or financial matters or comment on the suitability of any investment for any party. R&I is not liable in any way for any damage arising in respect of a user or other third party in relation to the content or the use of the Rating Methodologies, regardless of the reason for the claim, and irrespective of negligence or fault of R&I. All rights and interests (including patent rights, copyrights, other intellectual property rights, and know-how) regarding the Rating Methodologies belong to R&I. Use of the Rating Methodologies, in whole or in part, for purposes beyond personal use (including reproducing, amending, sending, distributing, transferring, lending, translating, or adapting the information), and storing the Rating Methodologies for subsequent use, is prohibited without R&I’s prior written permission.

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