## Brief Profile of JFM

JFM has been playing an important role in Japanese local government system with a long history.

### A Joint Entity for Local Governments

| **Objectives** | Provide local governments with long-term funding at low interest rates  
| | Support fund-raising of local governments in the capital markets  
| **Governing Law** | Japan Finance Organization for Municipalities Law  
| | Act No. 64 of 2007, as amended  
| **Establishment** | 1 August, 2008 (reorganised on 1 June 2009)  
| | Originally founded as a government financial institution in 1957  
| **Capital** | JPY 16.6 bn (USD 201 mn)*  
| | capitalised by 1,790 local governments in Japan (as of 31 March 2012)  
| | (Ex. Tokyo, Kyoto, Osaka, Yokohama, Kobe, Sapporo)  
| **Outstanding Loan Balance** | JPY 22.3 tn (USD 271 bn, as of 31 March 2012)*  
| | lending money to 2,026 local governments in Japan, including all prefectures (as of 31 March 2012)  
| **Ratings** | AA- (negative: S&P) / Aa3 (stable: Moody’s)  
| | The ratings of JFM are the same as the Japanese sovereign itself  

*USD1=JPY82.51 (31 March 2012)
In terms of total assets, JFM is bigger than its peer group entities

<table>
<thead>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer Rating</strong></td>
<td>Aa3/AA-</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aa3/AA-</td>
<td>Aa3/A+</td>
</tr>
<tr>
<td><strong>Sovereign Rating</strong></td>
<td>Aa3/AA-</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aaa/AAA</td>
<td>Aa3/AA-</td>
<td>Aa3/AA-</td>
</tr>
<tr>
<td><strong>Country</strong></td>
<td>Japan</td>
<td>Norway</td>
<td>Denmark</td>
<td>Netherlands</td>
<td>Sweden</td>
<td>Finland</td>
<td>Japan</td>
<td>Japan</td>
</tr>
</tbody>
</table>

Guarantee structure
- If its obligation can’t be satisfied in full on dissolution, Local Governments bear all of the cost to satisfy the obligation in full, via payments to JFM.
- Letter of support from Kingdom of Norway
- Joint and several guarantee from Local govt
- Implicit support from Dutch Ministry of Finance
- Joint and several guarantee from Local govt
- Joint guarantee from Local govt through Municipal Guarantee Board
- JBIC’s international bonds are explicitly guaranteed by Japan
- DBJ can issue international bonds with explicit guarantee by Japan and without guarantee.

Ownership
- 100% Local Governments
- 100% central govt
- 100% local govt
- 50% central
- 50% local govt (most of local govs)
- 100% local govt (most of local govs)
- 30.66% local govt
- Pension fund
- 16% central govt
- 53.34% local govt (part of local govs)
- 100% central govt
- 100% central govt (potential privatization)

Establishment
- 1957/2008
- 1926/1999
- 1898
- 1914
- 1986
- 1989/1993
- 1950/1999/2008/2012
- 1951/1999/2008

Total Assets*
- 282.9bn (Mar 2012)
- 67bn (Dec 2011)
- 30.9bn (Dec 2011)
- 176.9bn (Dec 2011)
- 33.8bn (Dec 2011)
- 31.9bn (Dec 2011)
- 153.8bn (Mar 2012)
- 188.8bn (Mar 2012)

Source: Complied by JFM based on published materials by each issuer.

* Amounts are rounded to one decimal place using currency exchange rate as of the date of the financial data release.
Outstanding Amount of Loans

Loans are provided exclusively to Japanese local governments by law.
Outstanding loan balances (excluding Entrusted Loans) of JFM as of 31 March 2012 by business sector and borrower are as follows:

**Outstanding loan by project type**
- Sewerage: 39.2%
- Water supply: 17.8%
- Three special projects**: 16.5%
- Extraordinary Financial Countermeasures Funding****: 8.7%
- Transportation: 6.1%
- Hospitals: 2.7%
- Industrial/water supply, 1.1%
- Others: 5.6%

**Outstanding loan by borrower**
- Cities and special wards of Tokyo (excluding Government-designated cities): 50.5%
- Cities and special wards of Tokyo (Government-designated cities): 20.0%
- Prefectures: 16.5%
- Towns and villages: 7.5%
- Local government associations: 3.0%
- Local government corporations: 0.5%
- Local government associations: 3.0%
- Local government corporations: 0.5%

**Total of JPY 22,387.4 bn (USD 271,329.5 mn)**

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*As of 31 Mar, 2012
**Local road construction, improvement of rivers and other waterways, high school construction.
***USD1=JPY82.51 (31 March 2012)
****“Extraordinary Financial Countermeasures Funding” represents the fund-raising by local governments to cover shortfalls in the local allocation tax pursuant to the provisions of the Local Finance Law of Japan.
Lending and Fundraising Operations

- Loan amount has increased substantially since JFM’s lending scope was expanded in 2009
- Bonds without government guarantee have increased while guaranteed bonds have decreased
  - Non government guaranteed bonds are for financing new loans
  - Government guaranteed bonds are for the repayment of existing bonds issued by the predecessor

Loan Amount

Bond Issuance

* Subject to change depending on market circumstance
**Funding Plan**

JFM raises funds in a stable manner to provide local governments with low-interest and stable funds.

<table>
<thead>
<tr>
<th>Type of Bonds</th>
<th>FY ended 31 March 2012 (achieved)</th>
<th>FY ending 31 March 2013 (plan)</th>
<th>FY ending 31 March 2013 (plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed</td>
<td>JPY 713 bn</td>
<td>JPY 1,030 bn</td>
<td>USD 12,483 mn</td>
</tr>
<tr>
<td>Non-guaranteed</td>
<td>JPY1,011.9 bn</td>
<td>JPY 1,100 bn</td>
<td>USD 13,332 mn</td>
</tr>
<tr>
<td>JPY 10 year benchmark bonds</td>
<td>JPY 400 bn</td>
<td>JPY 450 bn</td>
<td>USD 5,454 mn</td>
</tr>
<tr>
<td>JPY 20 year benchmark bonds</td>
<td>JPY 170 bn</td>
<td>JPY 160 bn</td>
<td>USD 1,939 mn</td>
</tr>
<tr>
<td>JPY 5 year benchmark bonds</td>
<td>JPY 80 bn</td>
<td>JPY 80 bn</td>
<td>USD 970 mn</td>
</tr>
<tr>
<td>FLIP*</td>
<td>JPY 293.5 bn</td>
<td>JPY 280 bn</td>
<td>USD 3,394 mn</td>
</tr>
<tr>
<td>EMTN</td>
<td>JPY 68.4 bn</td>
<td>JPY 130 bn</td>
<td>USD 1,576 mn</td>
</tr>
</tbody>
</table>

*Flexible Issuance Programme ("FLIP") allows JFM to issue bonds in the domestic markets to meet both investors’ needs and JFM’s funding needs in a timely and flexible manner.

- In 2012, JFM contemplates to issue around JPY 130bn (USD1.6bn) in international bonds under EMTN programme in the international markets without government guarantee.
- Completed 88% of all amount.
- Issued USD1bn 5-year Benchmark Bonds in September.
- Plans to be more flexible to meet with the demands out of the international investor base.

JFM has no plan to issue government-guaranteed bonds in the international markets.

*USD1=JPY82.51 (31 March 2012)
Investment Highlights

1. Solid Institutional Framework
- JFM is a joint fund-raising organization for ALL local governments
- JFM has a very strong tie with the national government
- If JFM’s obligation can’t be satisfied in full on dissolution, Local Governments bear all of the cost to satisfy the obligation in full, via payments to JFM

2. High Asset Quality
- Loans are provided exclusively to the local governments
- Local Governments must have the consent or approval by Minister or governor when they undertake borrowing from JFM
- JFM has never experienced any default or delinquency for more than 50 years since its establishment

3. Sound Financial Foundation
- JFM maintains sufficient reserves
- JFM conducts proper risk management
Contact Information

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E-mail: funds-d@jfm.go.jp
Bloomberg ticker: JFM Govt

(JFM in Tokyo)
Appendix
As a result of the reorganisation as part of policy-based financial reform, JFM’s ownership transferred from the state government to the local municipal governments.

Despite the structure change, JFM has a very strong tie with the national government, having a vital role in the funding system for local governments.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Source of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jun, 1957</td>
<td>&lt;Foundation&gt; Japan Finance Corporation for Municipal Enterprises</td>
<td>National Government</td>
</tr>
<tr>
<td></td>
<td>All rights and obligations are succeeded to</td>
<td></td>
</tr>
<tr>
<td>1 Oct, 2008</td>
<td>&lt;Start-up of Operation&gt; Japan Finance Organization for Municipal Enterprises</td>
<td>All Local Governments</td>
</tr>
<tr>
<td>1 Jun, 2009</td>
<td>&lt;Reorganization&gt; Japan Finance Organization for Municipalities (The expansion of lending scope)</td>
<td>All Local Governments</td>
</tr>
</tbody>
</table>
Basic Framework of JFM’s Business Operations

- **JFM Fund for Improvement of Operations of Municipalities**
  - JPY 4.1 tn* (USD 49.7 bn**)
  - Reserve for Interest Rate Volatility, etc.
  - Proceeds from Public Races***

- **Fundraising (JFM Bonds)**
  - Outstanding Bond Amount: JPY18.2 tn* (USD 221 bn**)

- **Lending (Long term/low interest rates)**
  - Outstanding Loan Amount: JPY22.4 tn* (USD 271 bn**)
  - Reduction of Interest Rates

- **Local Government Support Operations****

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*as of 31 March, 2012
**USD1=JPY82.51 (31 March 2012)
***Portion of revenues from municipally operated racing (horse, bicycle, motorcycle and speedboat)
****Support for local governments’ fundraising in capital markets
Local Government System in Japan

- Local governments are responsible for extensive services closely related to the daily lives of citizens, including:
  - Public health
  - Social welfare
  - School education
  - Social education
  - Policing
  - Fire fighting
JFM does not expect any default on JFM’s loans because of the solid system as follows:

- **The national government’s overall responsibility**
  - The national government formulates the local government finance programme (the “LGFP”) each fiscal year in parallel with the national budget.
    - LGFP determines the total amount of money which is collected by the national government as a part of national tax and to be allocated to the local governments.
  - The national government also prepares the local government borrowing programme (the “LGBP”) each fiscal year based on the LGFP.
    - LGBP sets the amounts of local government bonds as well as borrowing from JFM and national government.
    - JFM funds and the national government funds are treated as public funds under the LGBP.

- **Requirement for sound financial management**
  - Local governments must have the consent or approval by Minister or governor when they undertake borrowing from JFM.
  - The Financial Soundness of Local Governments Law (the “FSLG Law”), promulgated in June 2007, stipulates local governments whose financial indices exceed certain levels to restore their financial soundness expeditiously.
  - Under the FSLG Law, financial indices of local governments shall be disclosed, and the relevant local governments must map out their plans to restore fiscal soundness.
  - The national government will oversee the local government whose financial indices exceed the early warning limits or reconstruction limits.

- Japanese local government is regarded as not subject to proceeding under the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended) and is not regarded as capable of becoming bankrupt.
# Financial Performance

## Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>As of 31 March 2011 (JPY mn)</th>
<th>As of March 2012 (JPY mn)</th>
<th>As of 31 March 2012 (USD mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>23,226,787</td>
<td>23,340,707</td>
<td>282,883</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>22,231,856</td>
<td>22,387,411</td>
<td>271,330</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>23,157,405</td>
<td>23,247,010</td>
<td>281,748</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>18,327,190</td>
<td>18,176,696</td>
<td>220,297</td>
</tr>
<tr>
<td><strong>Reserve under special laws</strong></td>
<td>3,896,421</td>
<td>4,104,844</td>
<td>49,750</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>69,382</td>
<td>93,696</td>
<td>1,136</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>16,602</td>
<td>16,602</td>
<td>201</td>
</tr>
</tbody>
</table>

## Statements of Income

<table>
<thead>
<tr>
<th></th>
<th>FY ended 31 March 2011 (JPY mn)</th>
<th>FY ended 31 March 2012 (JPY mn)</th>
<th>FY ended 31 March 2012 (USD mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td>539,997</td>
<td>511,805</td>
<td>6,203</td>
</tr>
<tr>
<td><strong>Interest Income</strong></td>
<td>539,812</td>
<td>511,641</td>
<td>6,201</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>292,428</td>
<td>281,749</td>
<td>3,415</td>
</tr>
<tr>
<td><strong>Interest Expenses</strong></td>
<td>283,177</td>
<td>274,320</td>
<td>3,325</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>247,569</td>
<td>230,055</td>
<td>2,788</td>
</tr>
<tr>
<td><strong>Special Gains</strong></td>
<td>233,994</td>
<td>232,601</td>
<td>2,819</td>
</tr>
<tr>
<td><strong>Special Losses</strong></td>
<td>465,489</td>
<td>441,024</td>
<td>5,345</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>16,074</td>
<td>21,632</td>
<td>262</td>
</tr>
</tbody>
</table>

*USD1=JPY82.51 (31 March 2012)*
Bond issuance in the international markets

- **Benchmark Issuance**
  - Since 1984 to 2011: Issuance of 64 international bonds with government guarantee.

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Currency</th>
<th>Issue Amount</th>
<th>Coupon (%)</th>
<th>Issue Date</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURO</td>
<td>GBP</td>
<td>150 mn</td>
<td>5.750</td>
<td>9 Aug 1999</td>
<td>9 Aug 2019</td>
</tr>
<tr>
<td>GLOBAL</td>
<td>JPY</td>
<td>130,000 mn</td>
<td>1.350</td>
<td>26 Nov 2003</td>
<td>26 Nov 2013</td>
</tr>
<tr>
<td>EURO</td>
<td>EUR</td>
<td>900 mn</td>
<td>4.500</td>
<td>27 May 2004</td>
<td>27 May 2014</td>
</tr>
<tr>
<td>GLOBAL</td>
<td>USD</td>
<td>1,200 mn</td>
<td>4.625</td>
<td>21 Apr 2005</td>
<td>21 Apr 2015</td>
</tr>
<tr>
<td>GLOBAL</td>
<td>JPY</td>
<td>120,000 mn</td>
<td>2.000</td>
<td>9 May 2006</td>
<td>9 May 2016</td>
</tr>
<tr>
<td>GLOBAL</td>
<td>USD</td>
<td>1,000 mn</td>
<td>5.000</td>
<td>16 May 2007</td>
<td>16 May 2017</td>
</tr>
<tr>
<td>GLOBAL</td>
<td>JPY</td>
<td>75,000 mn</td>
<td>1.900</td>
<td>25 Jun 2008</td>
<td>22 Jun 2018</td>
</tr>
<tr>
<td>GLOBAL</td>
<td>USD</td>
<td>1,000 mn</td>
<td>4.000</td>
<td>13 Jan 2011</td>
<td>13 Jan 2021</td>
</tr>
</tbody>
</table>

- Issued 1 billion US dollar benchmark international bond without government guarantee in early September.

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Currency</th>
<th>Issue Amount</th>
<th>Coupon (%)</th>
<th>Issue Date</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURO</td>
<td>USD</td>
<td>1,000 mn</td>
<td>1.50</td>
<td>5 Sep 2012</td>
<td>5 Sep 2017</td>
</tr>
</tbody>
</table>

- **Private Placements**
  - Since January 2012, JFM has been issuing private placement bonds using its EMTN program targeting to a single investor or small number of investors based on their reverse inquiries. Set forth on the right hand side is a summary of such bonds as of 31 July 2012.

<table>
<thead>
<tr>
<th>Total Issue Amount</th>
<th>JPY 104.9 bn (USD 1.27 bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Issue</td>
<td>30</td>
</tr>
<tr>
<td>Term</td>
<td>5y, 7y</td>
</tr>
<tr>
<td>Coupon</td>
<td>FRN, FIX</td>
</tr>
<tr>
<td>Currency</td>
<td>USD, AUD, NZD</td>
</tr>
</tbody>
</table>
Minimising Exposure to Market Risks

■ Reserves for Interest Rate Volatility
  – Loans constitute a large part of the assets of JFM and the maximum term of maturity of JFM loan is 30 year. However the majority of the funds for these loans is raised through issuance of 10-year bonds. These expose JFM to the interest rate risk associated with bond refinance.
  – JFM maintains necessary reserves for interest rate volatility to deal with the interest rate risk resulting from a duration gap between lending and fund-raising.

■ Duration gap
  – To reduce its exposure to the interest rate risk, JFM continuously issues bonds with maturities exceeding 10 years.

■ Pipeline Risk
  – JFM uses swap transaction to hedge the pipeline risk, whereby losses would be incurred or profits decrease as a result of interest rate fluctuations during the time from which JFM raises money to the point at which the money is loaned.

■ Liquidity Control
  – JFM’s current exposure to liquidity risk is low because loans are made based on a pre-set schedule and the daily cash and liquidity management is carried out.
  – Moreover, JFM has entered into overdraft agreements with a wide range of financial institutions to prepare for unexpected fund shortfalls and invests surplus funds only in short-term financial products.

*USD1=JPY82.51 (31 March 2012)*
Safety of Japan’s Local Government

- Strong financial support and monitoring system for Local Governments by the national government as follows:

1. Secured resources for Local Governments
   - Power to levy taxes
   - Local Government Finance Programme
   - Local Government Borrowing Programme
   - Local Allocation Tax System, etc.

2. Monitoring system I
   - Consultation system for bonds and loans

3. Monitoring system II
   - Early warning system and reconstruction system to assure fiscal soundness
1. Secured resources for Local Governments: 
Outline of Local Allocation Tax System

- The Local Allocation Tax (LAT) system allows the national government to balance local authority revenues and guarantee a standard level of service throughout all Local Governments by transferring funds to Local Governments.

- The national government reallocates LAT to Local Governments whose financial resources are insufficient by collecting financial resources through national taxation system.

- LAT for each Local Government is decided based on its requirement and revenue as follows:

Example: City A

- Standard financial Requirements*
- Shortage
- Standard local tax revenue **
- LAT for City A

*Standard financial requirements are calculated as the financial requirements of each Local Government based on rational and appropriate standards. It is required to include the local share of the national treasury projects, such as compulsory education, livelihood protection, and public works, work project in calculating the standard financial requirements.

**Local Governments have a right to tax in Japan, but there are regional imbalances in tax revenue.
1. Secured resources for Local Governments: Local Government Borrowing Programme

- The national government decides guidelines for local government borrowings amount according to the ‘Local Government Borrowing Programme’ (LGBP). Each local government raises funds within this amount.
- Total loan amount of JFM is based on LGBP, prepared by the national government each fiscal year.
- JFM funds account for around 15% of all Local Governments’ fundraising.

### Funding measures

<table>
<thead>
<tr>
<th></th>
<th>FY ended 31 March 2012</th>
<th>FY ending 31 March 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self fund-raising</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publicly Offered Bond</td>
<td>4,200</td>
<td>4,440</td>
</tr>
<tr>
<td>Other Private Sector</td>
<td>3,910</td>
<td>3,529</td>
</tr>
<tr>
<td><strong>Joint fund-raising</strong></td>
<td>1,893</td>
<td>1,952</td>
</tr>
<tr>
<td>JFM</td>
<td>1,952</td>
<td>222</td>
</tr>
<tr>
<td><strong>Funds from Government</strong></td>
<td>3,731</td>
<td>3,619</td>
</tr>
<tr>
<td>Government</td>
<td>3,731</td>
<td>3,619</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13,734</td>
<td>13,540</td>
</tr>
</tbody>
</table>

### Funding amount

- JPY bn
- These are plan of Ministry of Internal Affairs and Communication and not actual achievement.
- Numbers of FY ending 31 March 2012 include supplementary budget.
- Source: Ministry of Internal Affairs and Communications.
2. Monitoring system I: Consultation system for fund-raising

- Local Governments have to consult with the Minister* of MIC to undertake borrowings.
- Local Governments need consent by the Minister* for each fundraising, when they borrow from JFM**.
- If Local Governments don’t meet certain standards set by the national government, Local Governments will be required to obtain prior approval from Minister* for their fund-raising. Furthermore depending on their financial condition, Local Governments may be restricted in their fund-raising activities.

* Prefectural governors for the fund-raising by cities, towns and villages
** The law bans JFM from making loans to the fund-raising activities without consent or approval.
3. Monitoring system II:
Early warning system and reconstruction system to assure fiscal soundness

The Financial Soundness of Local Governments Law (2007, Law No. 94)

<table>
<thead>
<tr>
<th>Disclosure System of Fiscal Condition</th>
<th>Early Warning System</th>
<th>Reconstruction System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four fiscal indicators reveal Local Governments’ fiscal condition thoroughly. This disclosure reinforces public monitoring of their fiscal condition and makes Local Governments much more accountable for the public and investors.</td>
<td>If any of the fiscal indicators fail to meet the requirement, the Local Governments shall make a fiscal soundness plan to satisfy the requirement. This plan must be checked by outside auditors, authorised by the local assembly and reported to the national government. In addition, the Local Governments must report its progress annually to the assembly, the public and the national government. If the feasibility of this plan is considered difficult, the national government is entitled to make a recommendation of necessary measures to the Local Governments.</td>
<td>If any three of four fiscal indicators fail to meet the higher requirement, the Local Governments shall make a fiscal reconstruction plan with heavy oversight by the national government. In accordance with the plan, the Local Governments are required to take rigid measures such as reduction of expenditure or increase of tax or other revenue. Importantly, filing of bankruptcy or discharge of debt is not allowed by law and the Local Governments must repay full amount of debt.</td>
</tr>
</tbody>
</table>

*Source: Ministry of Internal Affairs and Communications*
Forward-looking statements including JFM’s plans in this presentation material are based on information available for JFM at the time of this presentation and involve potential risks and uncertainties.

Actual results, therefore, may differ from those described in this presentation material due to changes in a variety of factors, such as market trends, economic conditions and regulations.

Accordingly, investors are advised to use their own discretion and exercise great caution when making investment decisions.