



Japan Finance Organization for Municipalities

Yoshiyasu Hyotani
Senior Executive Director
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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	<ul style="list-style-type: none"> ■ Provide local governments with long-term funding at low interest rates ■ Support fund-raising of local governments in the capital markets
Governing Law	<ul style="list-style-type: none"> ■ Japan Finance Organization for Municipalities Law <ul style="list-style-type: none"> – Act No. 64 of 2007, as amended
Establishment	<ul style="list-style-type: none"> ■ 1 August, 2008 (reorganised on 1 June 2009) <ul style="list-style-type: none"> – Originally founded as a government financial institution in 1957
Capital	<ul style="list-style-type: none"> ■ JPY 16.6 bn (USD 201 mn)* <ul style="list-style-type: none"> – capitalised by 1,790 local governments in Japan (as of 31 March 2012) (Ex. Tokyo, Kyoto, Osaka, Yokohama, Kobe, Sapporo)
Outstanding Loan Balance	<ul style="list-style-type: none"> ■ JPY 22.3 tn (USD 271 bn, as of 31 March 2012)* <ul style="list-style-type: none"> – lending money to 2,026 local governments in Japan, including all prefectures (as of 31 March 2012)
Ratings	<ul style="list-style-type: none"> ■ AA- (negative: S&P) / Aa3 (stable: Moody's) <ul style="list-style-type: none"> – The ratings of JFM are the same as the Japanese sovereign itself

*USD1=JPY82.51 (31 March 2012)

JFM vs. European Peer Group Entities vs. JBIC, DBJ

- In terms of total assets, JFM is bigger than its peer group entities

Issuer	JFM	Kommunalbanken: KBN	KommuneKredit : KK	NV Bank Nederlandse: BNG	Kommuninvest: KI	Municipality Finance: MuniFin	JBIC	DBJ
Issuer Rating (Moody's/S&P)	Aa3/AA-	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aa3/AA-	Aa3/A+
Sovereign Rating	Aa3/AA-	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aa3/AA-	Aa3/AA-
Country	Japan	Norway	Denmark	Netherlands	Sweden	Finland	Japan	Japan
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 govts)	100% local govt (most of local govts)	30.66% local govt Pension fund 16% central govt 53.34% local govts (part of local govts)	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* (USD)	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: Compiled by JFM based on published materials by each issuer.

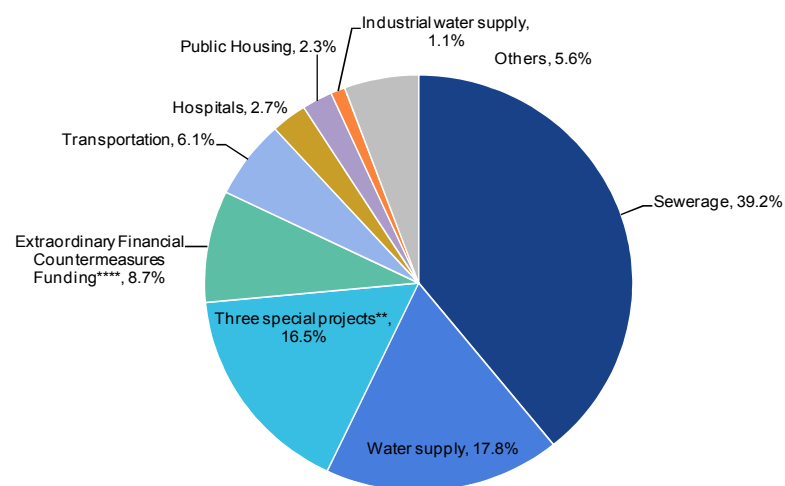
* Amounts are rounded to one decimal place using currency exchange rate as of the date of the financial data release.



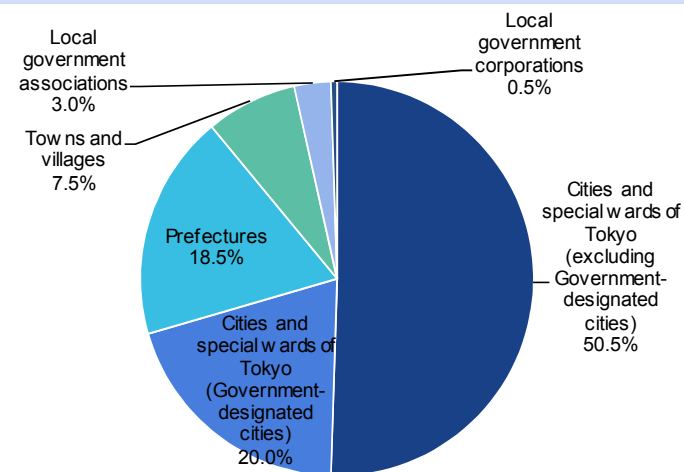
Outstanding Amount of Loans

- 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*



Outstanding loan by borrower*



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

* As of 31 Mar, 2012

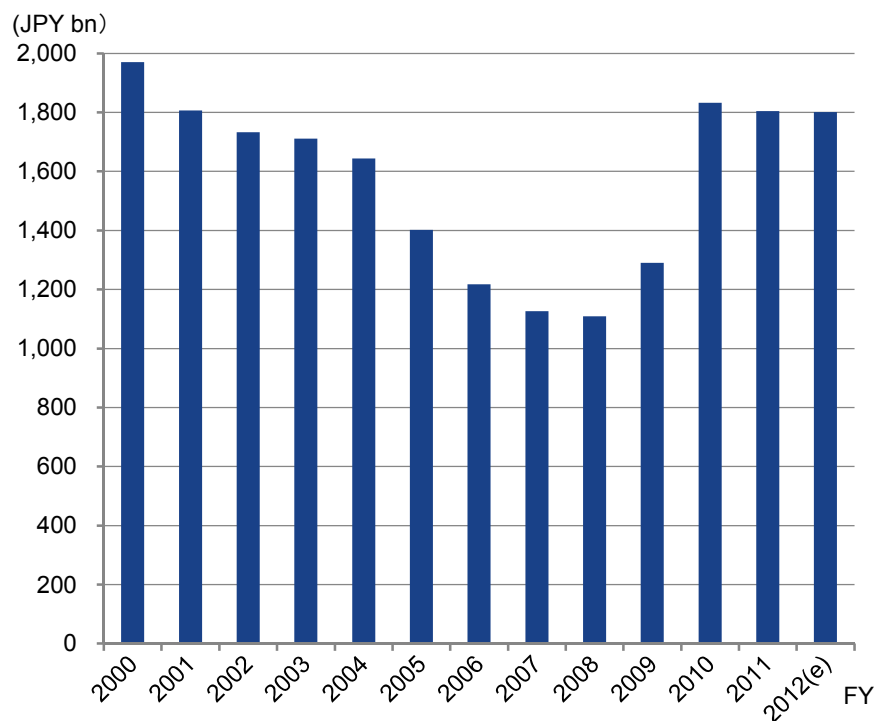
Local road construction, improvement of rivers and other waterways, high school construction. *USD1=JPY82.51 (31 March 2012)

**** "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.

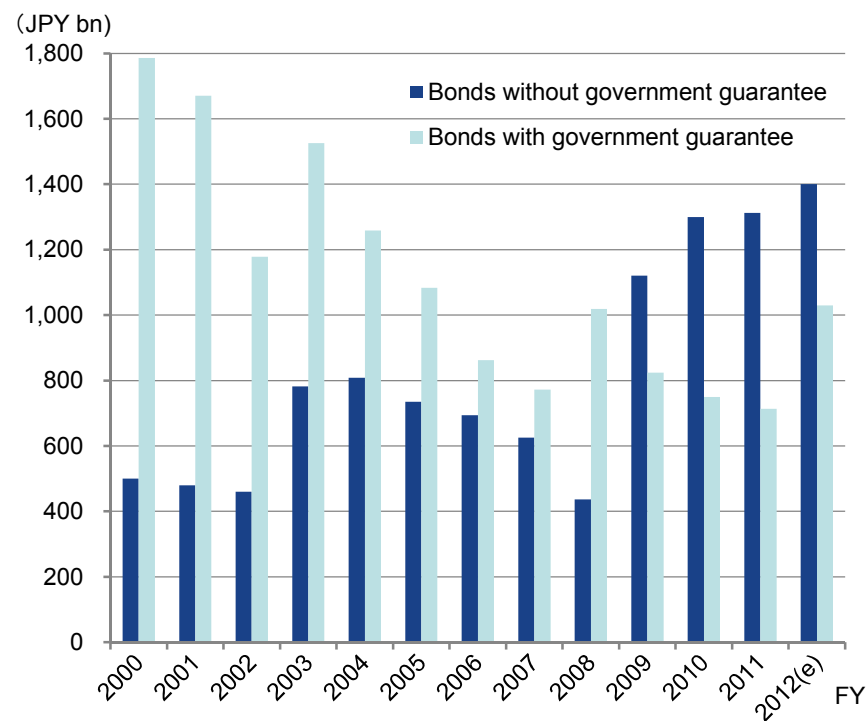
Lending and Fundraising Operations

- 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

Type of Bonds	FY ended 31 March 2012 (achieved)	FY ending 31 March 2013 (plan)	FY ending 31 March 2013 (plan)
Guaranteed	JPY 713 bn	JPY 1,030 bn	USD 12,483 mn
Non-guaranteed	JPY1,011.9 bn	JPY 1,100 bn	USD 13,332 mn
JPY 10 year benchmark bonds	JPY 400 bn	JPY 450 bn	USD 5,454 mn
JPY 20 year benchmark bonds	JPY170 bn	JPY160 bn	USD 1,939 mn
JPY 5 year benchmark bonds	JPY 80 bn	JPY 80 bn	USD 970 mn
FLIP*	JPY 293.5 bn	JPY 280 bn	USD 3,394 mn
EMTN	JPY 68.4 bn	JPY 130 bn	USD 1,576 mn

Domestic Issuance

International Issuance

*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.
 - Benchmark**
 - Issued USD1bn 5-year Benchmark Bonds in September.
 - Private placements**
 - 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

Japan Finance Organization for Municipalities

Finance, Finance Department

Shisei Kaikan, 1-3 Hibiya Koen,
Chiyoda-ku
Tokyo 100-0012, Japan

Tel: 81-3-3539-2697

Fax: 81-3-3539-2615

E-mail: funds-d@jfm.go.jp

Bloomberg ticker: JFM Govt



(JFM in Tokyo)

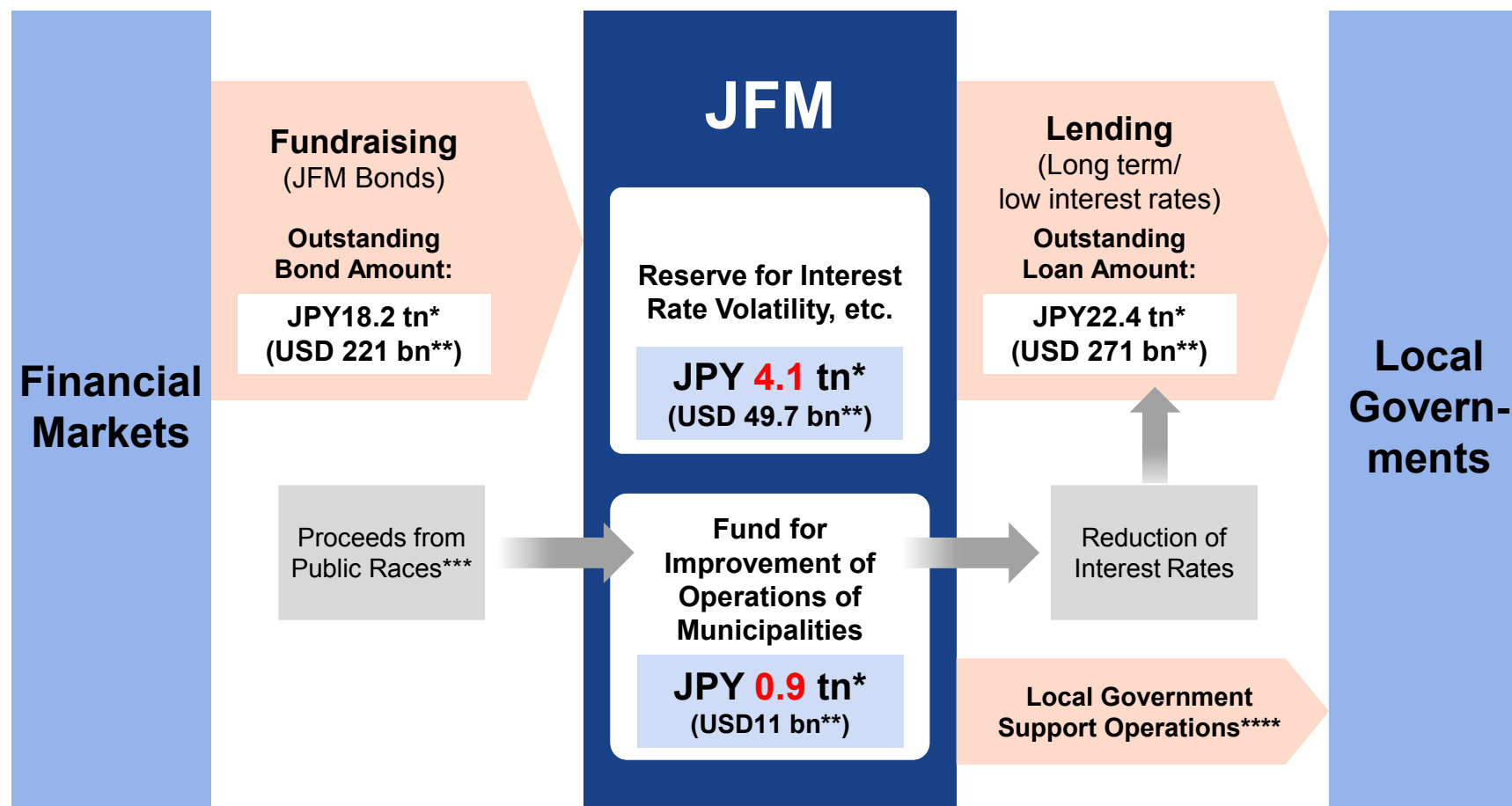
Appendix

History of JFM

- 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

Date	Event	Source of Capital
1 Jun, 1957	<Foundation> Japan <u>Finance Corporation</u> for Municipal Enterprises	National Government
	 <div style="border: 1px solid black; border-radius: 15px; padding: 5px; display: inline-block;">All rights and obligations are succeeded to</div>	
1 Oct, 2008	< Start-up of Operation> Japan <u>Finance Organization</u> for <u>Municipal Enterprises</u>	All Local Governments
1 Jun, 2009	<Reorganization> Japan Finance Organization for <u>Municipalities</u> (<u>The expansion of lending scope</u>)	All Local Governments

Basic Framework of JFM's Business Operations



*as of 31 March, 2012

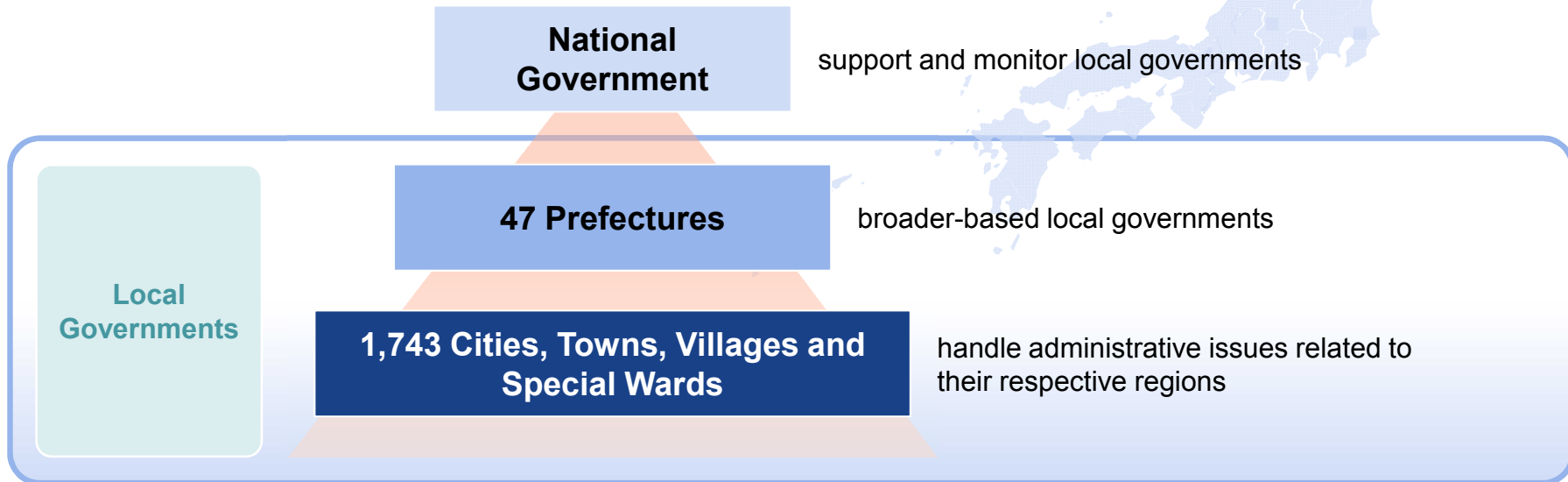
**USD1=JPY82.51 (31 March 2012)

***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



Sound Financial Foundation

- 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

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

Statements of Income

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

*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.

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

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

Security Type	Currency	Issue Amount	Coupon (%)	Issue Date	Maturity Date
EURO	USD	1,000 mn	1.50	5 Sep 2012	5 Sep 2017

■ 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.

Total Issue Amount	JPY 104.9 bn (USD 1.27 bn)
Number of Issue	30
Term	5y, 7y
Coupon	FRN, FIX
Currency	USD, AUD, NZD

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.

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

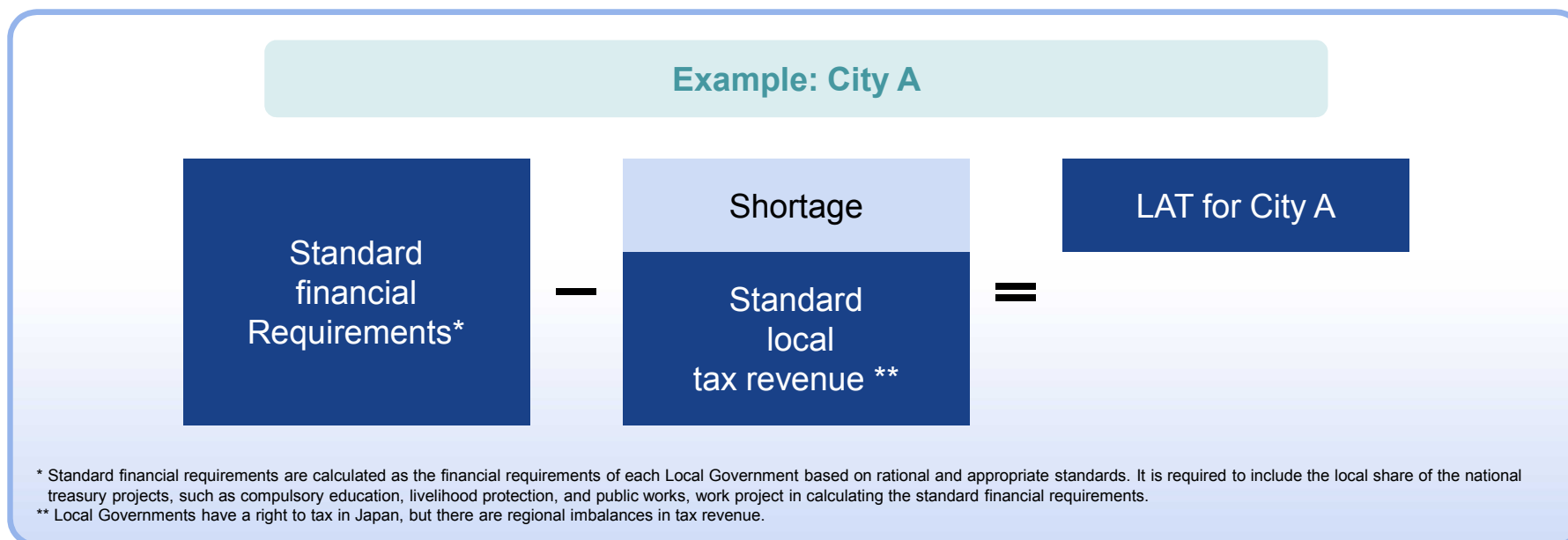
- Consultation system for bonds and loans

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:



1. Secured resources for Local Governments: Local Government Borrowing Programme

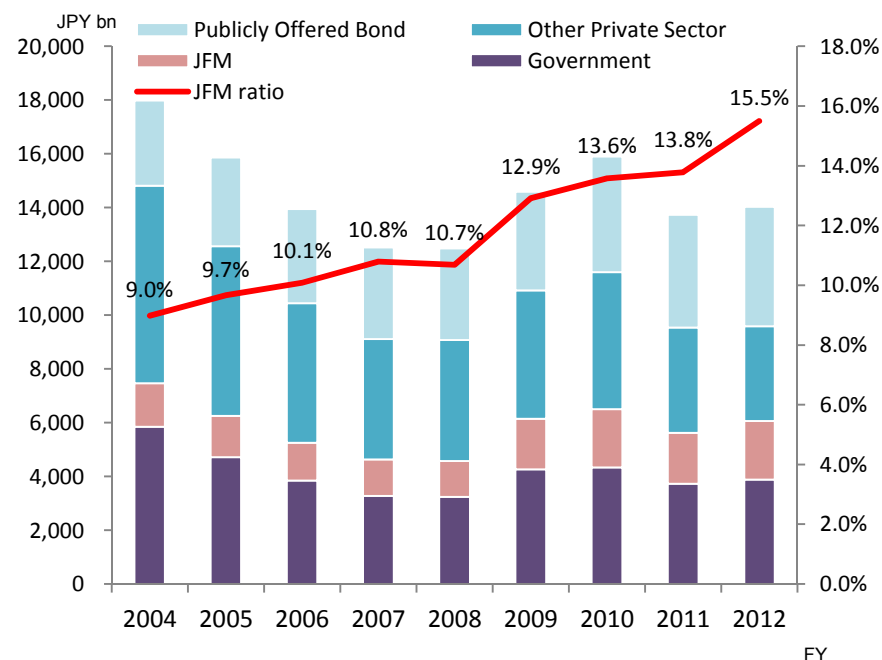
- The national government decides guidelines for local government borrowings amount according to the 'Local Government Borrowing Programme' (LGBP). Each local government raises funds within this amount
- Total loan amount of JFM is based on LGBP, prepared by the national government each fiscal year
-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

Funding measures

			FY ended 31 March 2012	FY ending 31 March 2013	
					earthquake- related
1	Self fund- raising	Publicly Offered Bond around 31%	4,200	4,440	-
		Other Private Sector around 25%	3,910	3,529	-
2	Joint fund- raising	JFM around 15%	1,893	1,952	222
3	Funds from Government	Government around 28%	3,731	3,619	268
Total			13,734	13,540	490
				14,030	

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.

Funding amount

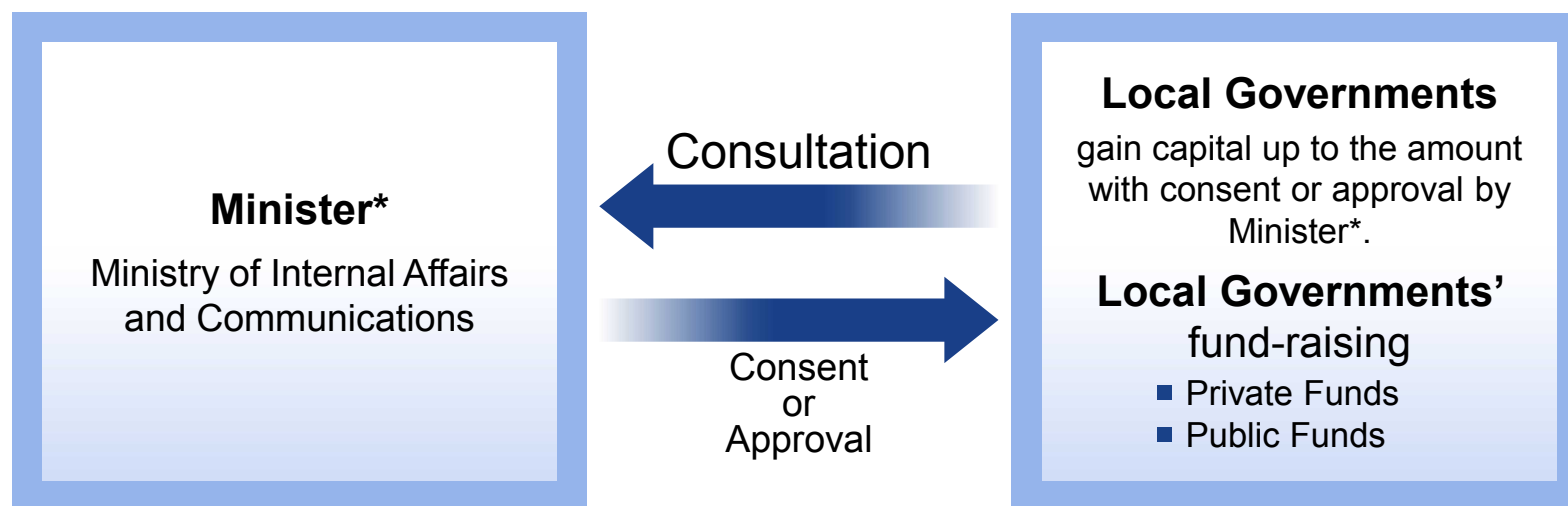


Source: Ministry of Internal Affairs and Communications



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)

Disclosure System of Fiscal Condition

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.

Early Warning System

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.

Reconstruction System

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.

*Source: Ministry of Internal Affairs and Communications

Disclaimer

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.