

October 2015



JFM

Japan Finance Organization for Municipalities

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Japan Finance Organization for Municipalities (JFM)

Brief Profile of JFM

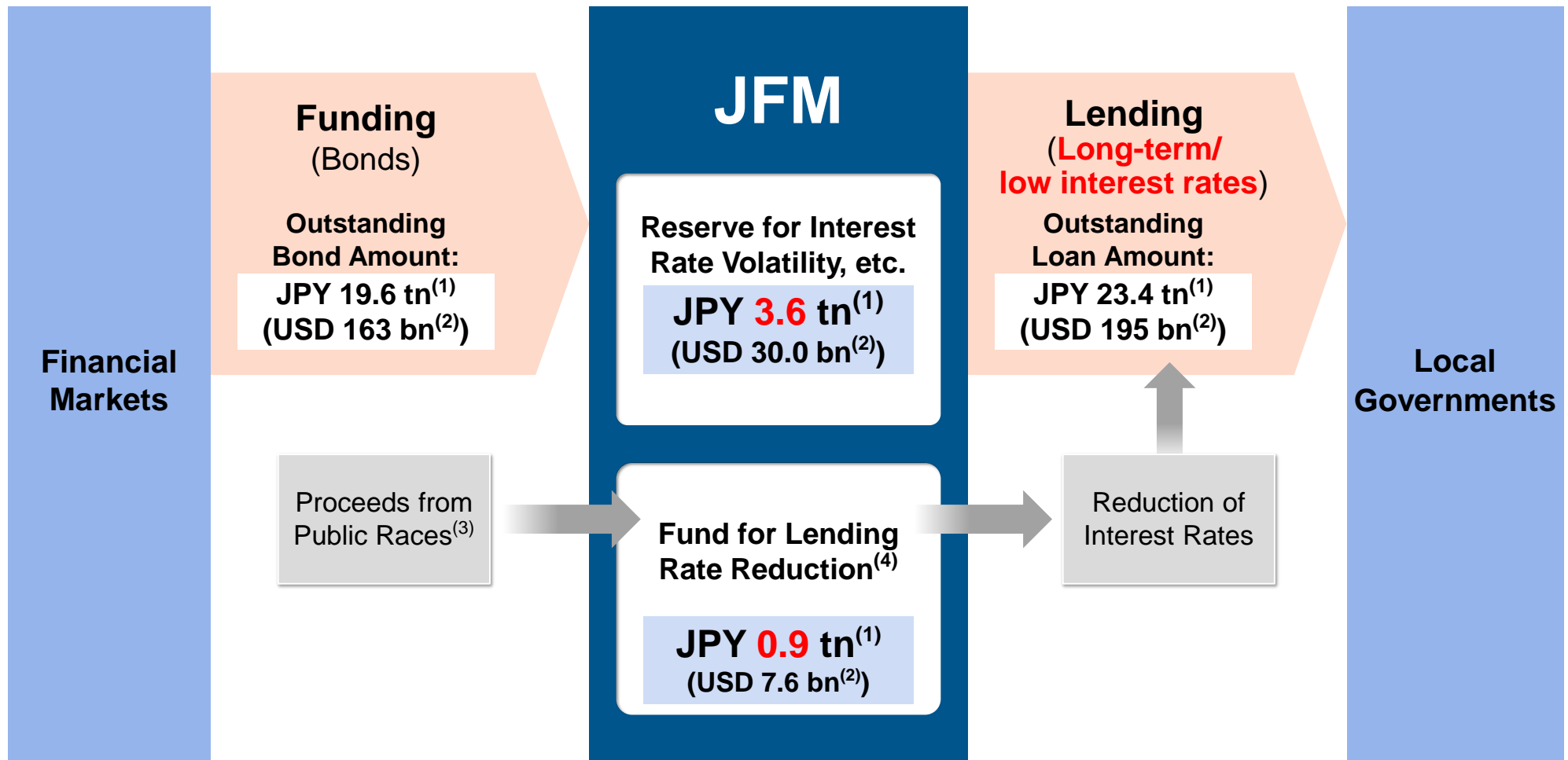
- JFM has been playing an important role in the Japanese local government system since 1957.

A Joint Funding Organization for Local Governments

Objective	<ul style="list-style-type: none"> ■ To provide local governments with long-term funding at low interest rates
Establishment	<ul style="list-style-type: none"> ■ The predecessor of JFM was established in 1957 as a government financial institution (the “predecessor”) ■ Succeeded the predecessor on 1 October 2008 (reorganised on 1 June 2009)
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
Capital	<ul style="list-style-type: none"> ■ JPY 16.6 bn (USD 138 mm)* ■ 100% owned by Japanese local governments <ul style="list-style-type: none"> – Capitalized by all 1,789 local governments of Japan (as of 31 March 2015) (e.g., Tokyo, Osaka, Yokohama and Nagoya)
Outstanding Loan Balance	<ul style="list-style-type: none"> ■ JPY 23.4 tn (USD 195 bn)* <ul style="list-style-type: none"> – Providing loans to 2,146 public institutions in Japan including almost all local governments (as of 31 March 2015)
Credit Ratings	<ul style="list-style-type: none"> ■ A+ (stable: S&P) / A1 (stable: Moody’s) <ul style="list-style-type: none"> – The ratings of JFM are the same as those of the Japanese sovereign

*USD 1 = JPY 120.37 as of 31 March 2015.

Basic Framework of JFM's Business Operations



(1) As of 31 March 2015.

(2) USD 1 = JPY 120.37 as of 31 March 2015.

(3) A portion of the earnings from municipally operated racing (horse, bicycle, motorcycle and speedboat).

(4) Sometimes also translated as "Fund for Improvement of Operations of Municipalities".

Peer Group Comparison

Issuer	JFM	AFL (Agence France Locale)	BNG (Bank Nederlandse)	KBN (Kommunalbanken)	KK (KommuneKredit)	KOMINS (Kommuninvest)	MuniFin (Municipality Finance)	JBIC	DBJ
Issuer Rating (Moody's/S&P)	A1/A+	Aa2/ -	Aaa/AA+	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AA+	A1/A+	A1/A
Sovereign Rating	A1/A+	Aa1/AA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AA+	A1/A+	A1/A+
Country	Japan	France	Netherlands	Norway	Denmark	Sweden	Finland	Japan	Japan
Guarantee Structure	Local govts to bear all costs to satisfy JFM's obligations on dissolution	Explicit support from French local govts	Implicit support from Dutch Ministry of Finance	Letter of support from Kingdom of Norway	Joint and several guarantee from local govts	Joint and several guarantee from local govts	Joint guarantee from local govts through Municipal Guarantee Board	With explicit central govt guarantee for overseas bonds	With / Without explicit central govt guarantee for overseas bonds
Ownership	100% local govts	100% local govts	50% central 50% local govts (most of local govts)	100% central govts	100% local govts	100% local govts (most of local govts)	30.66% local govts pension fund 53.34% local govts 16% central govts (part of local govts)	100% central govts	100% central govts (potential privatization)
Establishment	1957/2008	2013	1914	1926/1999	1898	1986	1989/1993	1950/1999/ 2008/2012	1951/1999/ 2008

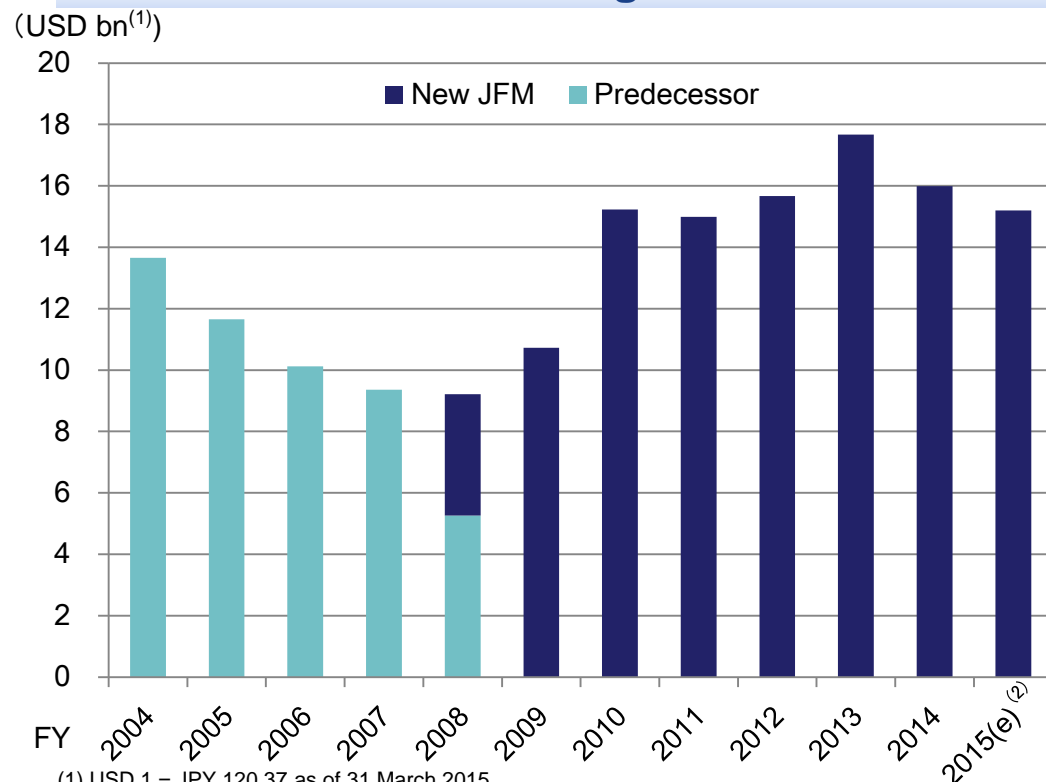
Source: Compiled by JFM based on published materials of each issuer.

Lending and Funding Operations

- Annual lending volume has generally increased since JFM's lending scope was expanded in FY2009 due to reorganisation.
- Loans planned to be made in FY2015 amount to USD 15.2 bn⁽¹⁾⁽²⁾.

- The annual volume of non-guaranteed bond issuance has increased since 2009, corresponding to the increase in the lending volume.
- We currently plan to raise a total of USD 10.8 bn⁽¹⁾ in FY2015 by issuing non-guaranteed bonds.

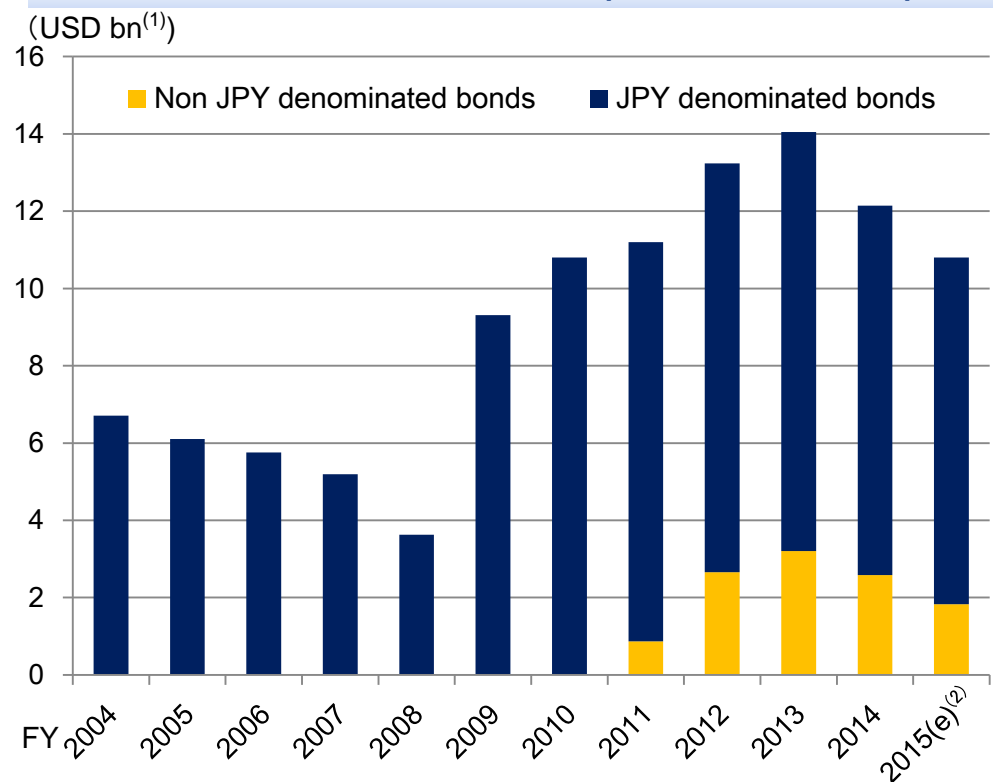
Annual Lending Volume



(1) USD 1 = JPY 120.37 as of 31 March 2015.

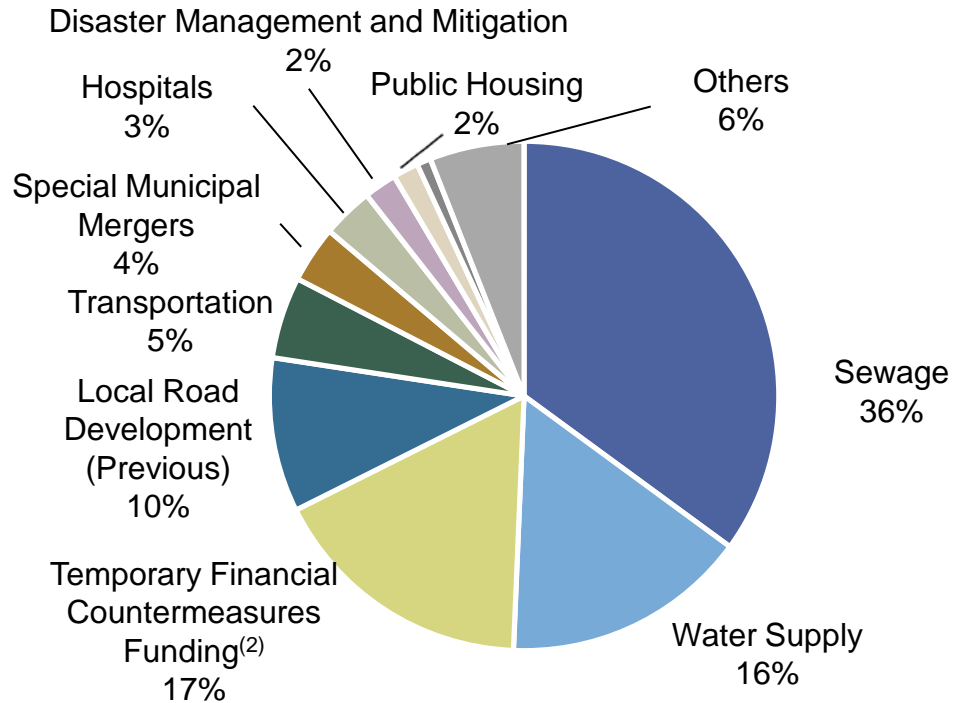
(2) Initially planned amount; subject to change depending on lending status, market conditions and other factors.

Bond Issuance (Non-Guaranteed)

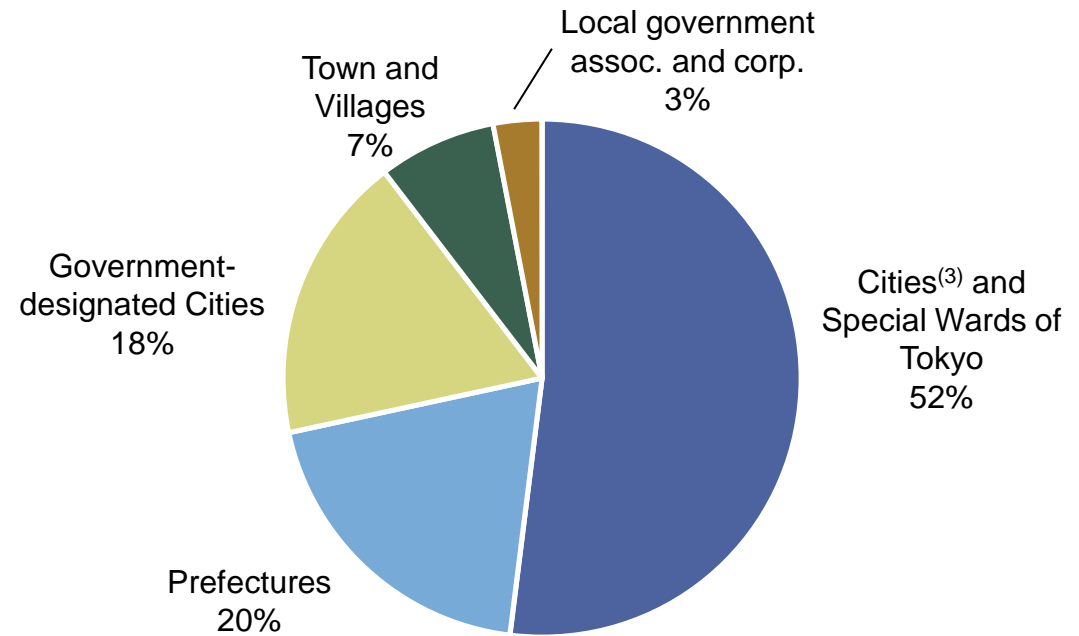


Breakdown of JFM's Loan Portfolio

By Business⁽¹⁾



By Borrower⁽¹⁾



Total of USD 195 bn⁽¹⁾⁽⁴⁾ (JPY 23.4 tn)

(1) As of 31 March 2015.

(2) Sometimes also translated as "Extraordinary Financial Countermeasures Funding".

It represents the funding by local governments to cover shortfalls in the local allocation tax pursuant to the provisions of the Local Government Finance Act (Law No. 109 of 1948).

(3) Excludes government-designated cities.

(4) USD 1 = JPY 120.37 as of 31 March 2015.

Financial Performance

Balance Sheet

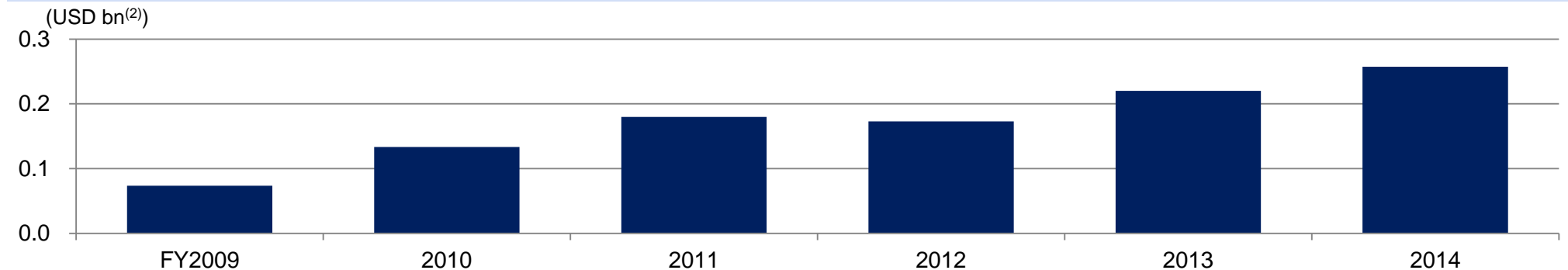
	As of 31 Mar. 2015	
	(USD bn ⁽²⁾)	Change from 31 Mar. 2014
Total Assets	204	+3.5
Loans	195	+2.9
Total Liabilities	202	+3.3
Bonds	162	+1.0
Reserves	30	+1.2
Total Net Assets	1.4	+0.3
Capital	0.1	0

Statement of Income

	12 months ended 31 Mar. 2015	
	(USD bn ⁽²⁾)	Change from 31 Mar. 2014
Income	3.6	-0.2
Interest Income	3.6	-0.2
Expenses	2.1	-0.1
Interest Expenses	2.0	-0.1
Ordinary Income	1.5	-0.1
Net Special Gains (Losses)⁽¹⁾	(1.2)	+0.1
Net Income	0.3	+0.0

(1) Net Special Gains (Losses) represents the difference between the amounts show in (a) the Special Gains and (b) the Special Losses line items in our audited Statement of Income for FY2014.

Stable Income



(2) USD 1 = JPY 120.37 as of 31 March 2015.

Capital Market Activities

Funding Plan for FY2015

FY 2013

FY 2014

FY 2015

Type of Bonds	FY ended 31 March 2014 (achieved) ⁽¹⁾	FY ended 31 March 2015 (achieved) ⁽¹⁾	FY ended 31 March 2016 (plan) ⁽²⁾
Non-guaranteed	USD 14.0 bn	USD 12.1 bn	USD 10.8 bn
Domestic Issuance	USD 10.8 bn	USD 9.6 bn	USD 7.6 bn
GMTN	USD 3.2 bn	USD 2.6 bn	USD 1.8 bn
Open Issuance ⁽³⁾	-	-	USD 1.4 bn
Guaranteed Domestic issuance only	USD 10.6 bn	USD 5.2 bn	USD 6.0 bn
Bank Loans	USD 0.4 bn	USD 0.1 bn	-
Total Funding Amount	USD 25.1 bn	USD 17.5 bn	USD 16.8 bn

(1) USD 1 = JPY 120.37 as of 31 March 2015.

(2) Planned amount is subject to change depending on lending status, market conditions and other factors.

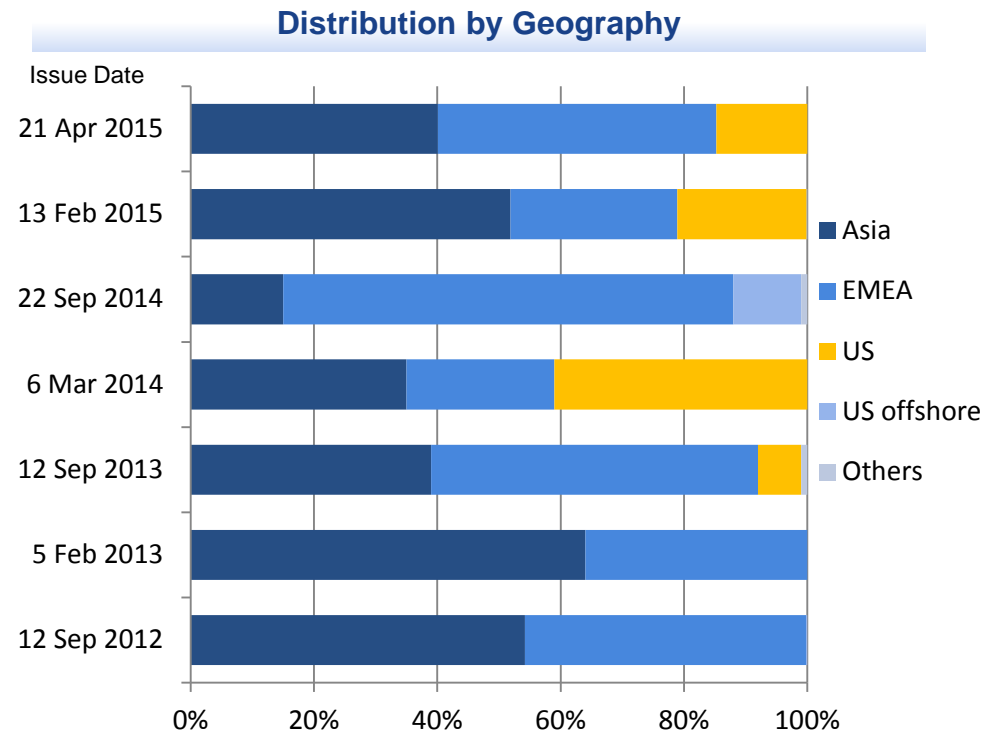
(3) Issuance market and details will be determined subject to market conditions.

Funding Activities in Overseas Markets

JFM continues to access overseas markets through benchmark transactions as well as private placements.

■ Benchmark Issuance (Outstanding)

Program	Issue Date	Format	Currency	Issue Amount	Coupon (%)	Tenor
GMTN	21 Apr 2015	144A / Reg.S	USD	1,000 mm	2.000	7y
	13 Feb 2015	144A / Reg.S	USD	1,000 mm	2.375	10y
	22 Sep 2014	Reg.S	EUR	1,000 mm	0.875	7y
	6 Mar 2014	144A / Reg.S	USD	1,000 mm	2.125	5y
	12 Sep 2013	144A / Reg.S	USD	1,500 mm	2.500	5y
EMTN	5 Feb 2013	Reg.S	USD	1,000 mm	1.375	5y
	12 Sep 2012	Reg.S	USD	1,000 mm	1.500	5y



■ Private Placements

- Issuances in various major currencies through the GMTN Programme to meet specific investor demand.

■ Uridashi Bonds

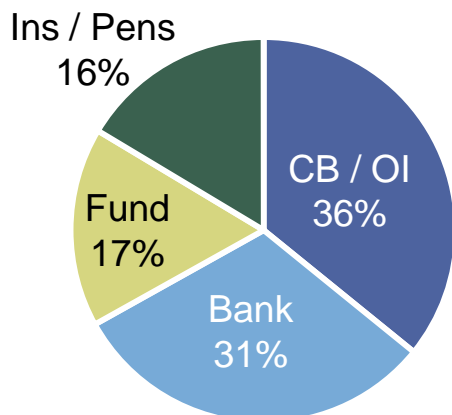
- Issuances targeting Japanese retail investors.

JFM's GMTN issuance in FY2015

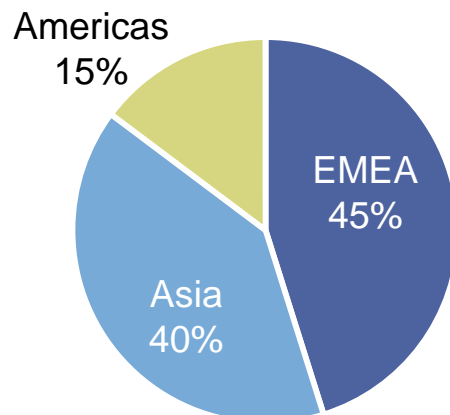
JFM issued 2.000% USD 1 bn 7yr in April 2015

Issue Details	
Format:	144A / Reg.S (GMTN Programme)
Tenor:	7yr
Issue Size:	USD 1 bn
Pricing Date:	14 th April 2015
Issue Date:	21 st April 2015
Maturity Date:	21 st April 2022
Re-offer Spread:	MS+38bp
Coupon:	2.000%
Issue Price:	99.391%
Listing:	London
Lead Managers:	BofAML / Daiwa / MS

Distribution by Investor



Distribution by Geography



- JFM's most recent benchmark transaction appeared in April 2015 with 7yr USD 1.0 bn at mid-swap+38bp
 - Book size reached over USD 1.6 bn
 - Active participation from central banks and public institutions was observed
- USD 1.0 bn has been already raised out of USD 1.8 bn of initial funding plan for MTNs during FY2015
- JFM seeks an opportunity for another benchmark transaction through the fiscal year subject to market conditions and progress of other funding measures

Credit Highlights

Credit Highlights

1. Solid Institutional Framework

- JFM is a joint funding organization for all local governments, established under a special law.
- JFM has strong ties with the national government.
- If JFM's obligations cannot be satisfied in full during the dissolution process, local governments bear all of the costs to satisfy such obligations in full, via payments to JFM.

2. High Quality of Assets

- Loans are provided exclusively to local governments.
- Local governments must have the consent or approval of the Minister* or respective prefectural governors when they undertake borrowings from JFM.
- Local governments have support from the national level via the Local Allocation Tax system.
- JFM has never experienced a default on its lending for more than 50 years since its establishment.

3. Sound Financial Foundation

- JFM maintains appropriate reserves.
- JFM conducts prudent ALM.

*Minister for Internal Affairs and Communications.

Appendix

History of JFM

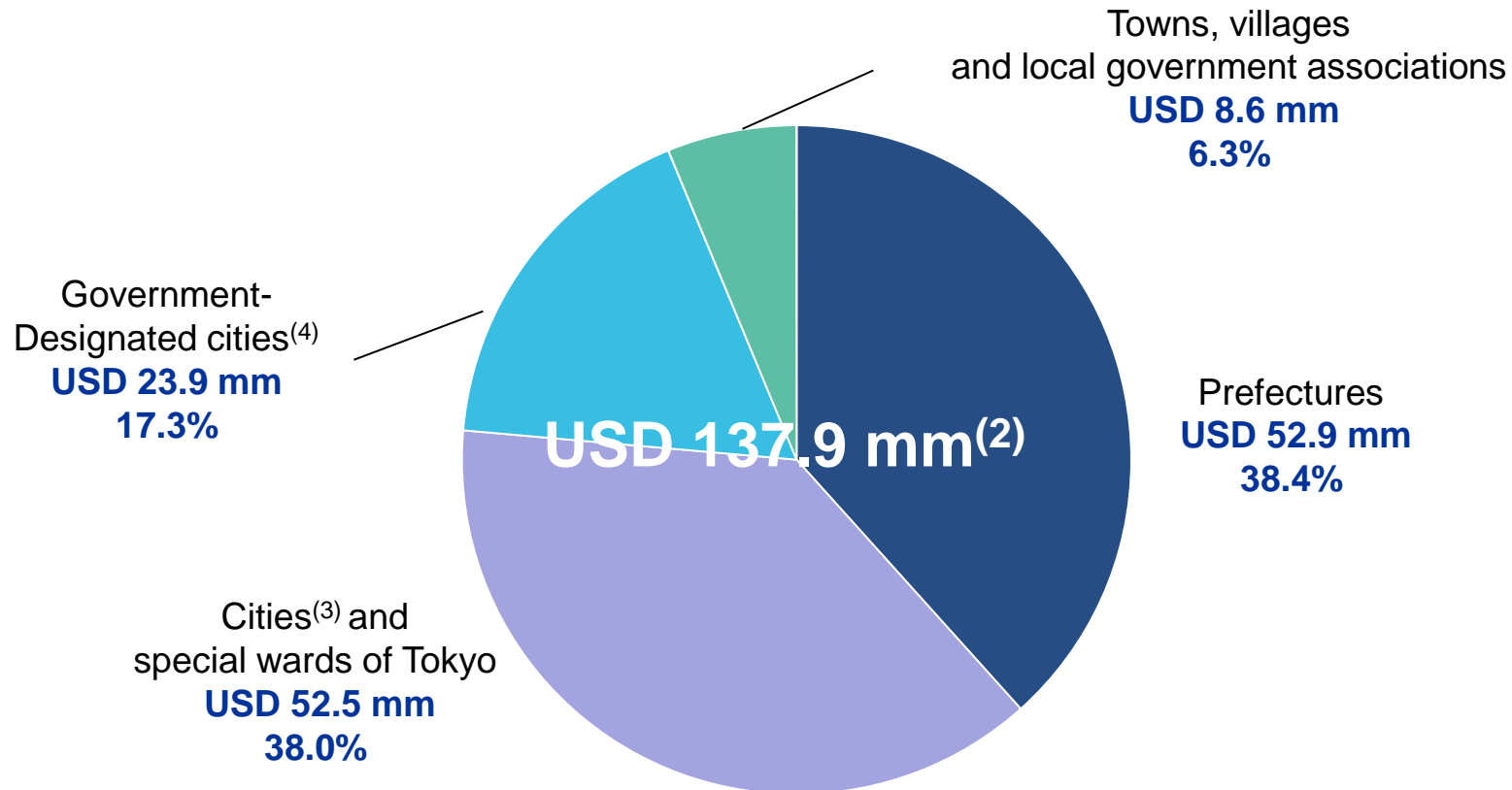
- As a result of the reorganisation mandated by the policy-based financial reform, JFM's ownership transferred from the national government to local governments.
- Despite the structural change, JFM has strong ties with the national government, playing a vital role in the funding system for local governments.

Date	Event	Source of Capital
1 June 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;"> Substantially all rights and obligations are succeeded to </div>	
1 October 2008	< Start-up of Operation> Japan <u>Finance Organization</u> for <u>Municipal Enterprises</u>	Local Governments
1 June 2009	<Reorganization> Japan Finance Organization for <u>Municipalities</u> (<u>The expansion of lending scope</u>)	Local Governments

JFM Shareholders

- JFM has paid-in capital of JPY 16.6 bn (USD 138 mm⁽¹⁾⁽²⁾) contributed by 1,789⁽¹⁾ Japanese local governments.

Amount of Capital Contribution⁽¹⁾



(1) As of 31 March 2015.

(2) USD 1 = JPY 120.37 as of 31 March 2015.

(3) Excludes Government-designated cities.

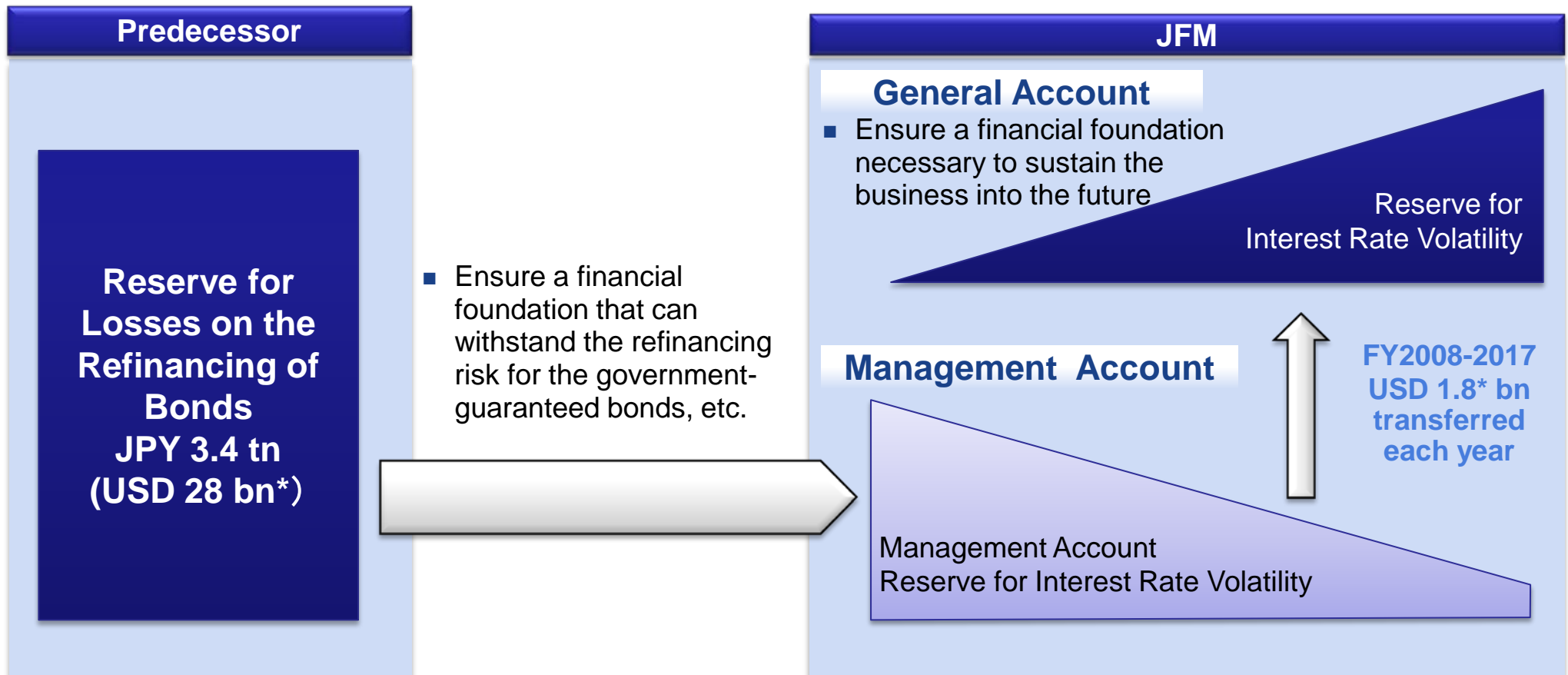
(4) Government-designated cities:

Cities with populations of 500,000 or more designated in accordance with Paragraph 1, Article 252-19 of the Local Autonomy Act. Such government-designated cities are allowed to administer certain matters such as social welfare, food sanitation, urban planning and so on, for which prefectures are responsible in principle.

General Account and Management Account

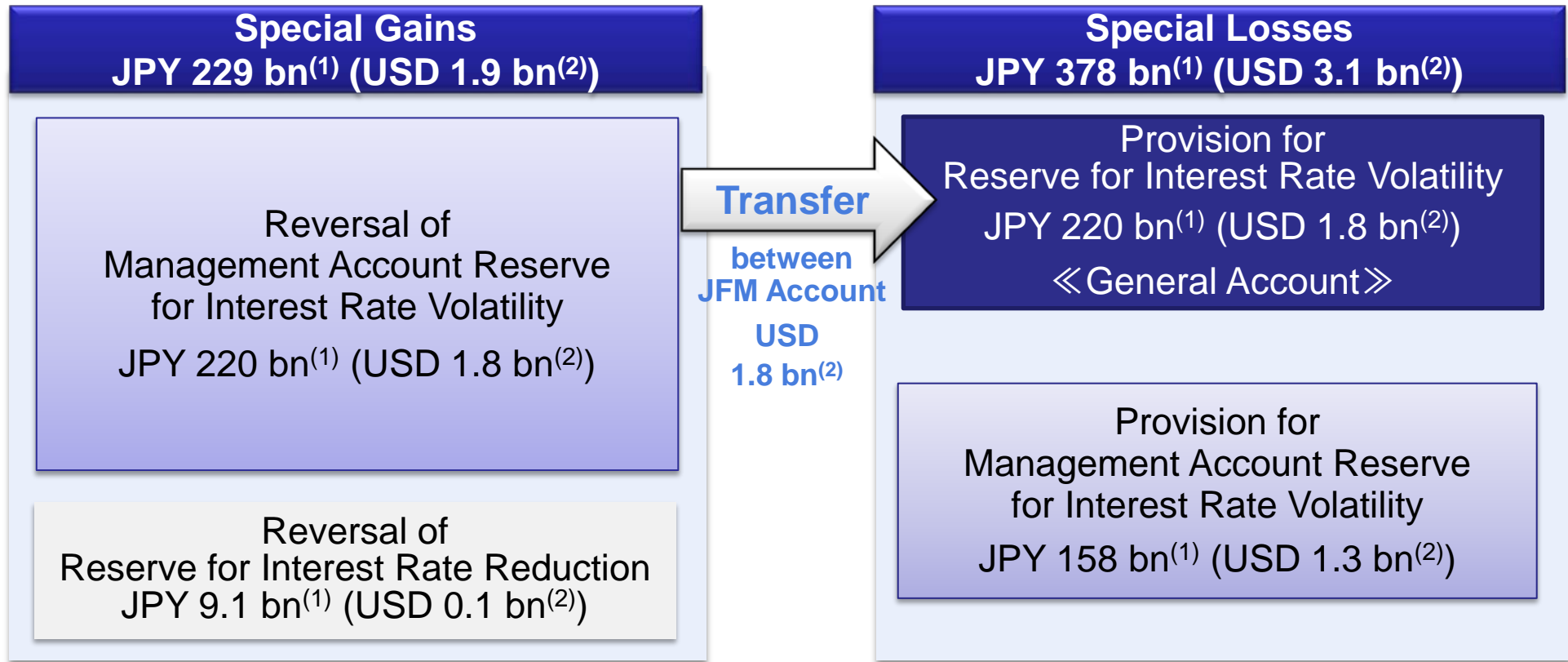
- **General Account:** New loans to be extended and new bonds to be issued by JFM (since 2008).
- **Management Account:** Legacy operations to manage loans carried over from the predecessor.

JFM's Reserves under Special Laws



*USD 1 = JPY 120.37 as of 31 March 2015.

Special Gains and Special Losses



(1) As of 31 March 2015.

(2) USD 1 = JPY 120.37 as of 31 March 2015.

Managing Interest Rate Risk

Providing local governments with long-term funding, JFM is exposed to interest rate risk resulting from a duration gap between lending and funding.

- Lending: Maximum maturities of 40 years⁽¹⁾ (Loans (assets) duration : 8.98 years⁽²⁾)
- Funding: Issuing bonds mainly with 10 year maturities (Bonds (liabilities) duration: 7.83 years⁽²⁾)

Duration gap:
1.15 years⁽²⁾

To address such interest rate risk, JFM takes the following measures:

■ Reserves for Interest Rate Volatility

- JFM maintains reserves for interest rate volatility to deal with the interest rate risk resulting from a duration gap between lending and funding.

■ ALM Committee

- The ALM Committee carries out medium- and long-term management and risk analysis through scenario, Value at Risk, duration and other analyses.

(1)On 1 April 2015, JFM extended maximum maturity of its loans from 30 years to 40 years

(2)As of 31 March 2015

Local Allocation Tax System

- Under the Local Allocation Tax (“LAT”) system, the national government allocates a part of national tax revenue to local governments in order to adjust the imbalance of revenue sources among the local governments.
- LAT for each local government is decided based on its requirement and revenue as follows:



(1) Standard financial requirements are the amount of funds necessary to provide standard public services. The requirements are calculated for each local government according to the standard specified by the Ministry of Internal Affairs and Communications.

(2) Local governments have a right to tax only within their respective local regions in Japan. Regional imbalances in tax revenues are common.

Local Government Finances

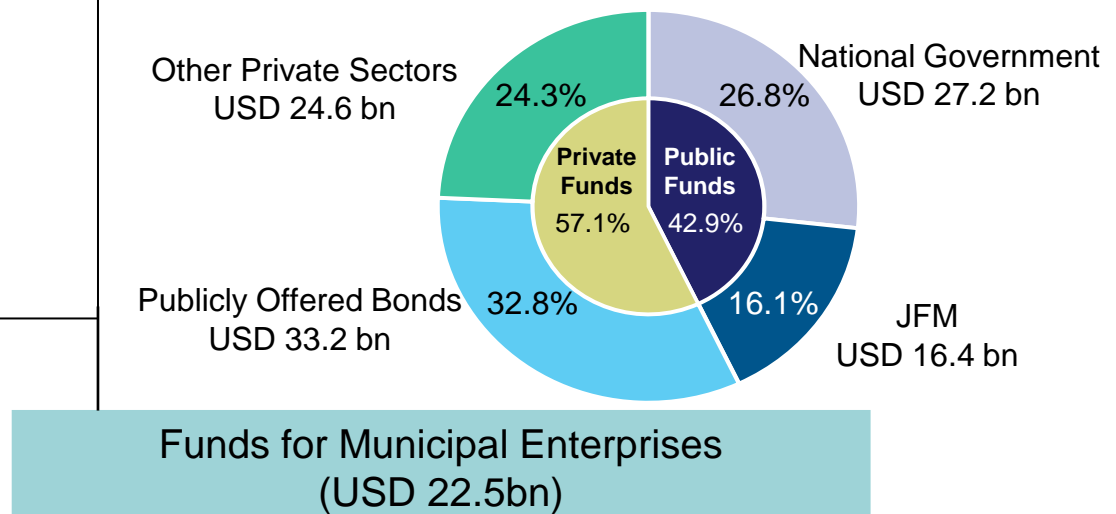
Local Government Finance Program (“LGFP”):

- The national government formulates LGFP each fiscal year based on assessments of the scale of local government finance and forecasts of overall revenues and expenditures. In the LGFP, the total amount of local government revenues and expenditure are balanced.
- LGFP secures revenue sources for all local governments, including Local Allocation Tax grants as well as bonds and loans to be issued or borrowed to ensure uniform public service standards.

Local Government Finance Program (Initial Plan for FY2015)⁽¹⁾

	Amount (USD bn)	(%)
Local Tax	334.8	47.3%
Local Allocation Tax	139.2	19.6%
National Government Disbursements	108.6	15.3%
Local Government Bonds and Loans	78.9	11.1%
Others	46.9	6.6%
Total	708.4	100.0%

**Local Government Borrowing Programme (LGBP)
(USD 101.4bn)**



As of January 2015 and the program includes Great East Japan Earthquake related budgets.

Local Government System in Japan

National Government

- Foreign affairs
- National defense
- Monetary policy

47 Prefectures*

Serving broader areas,
e.g., Tokyo, Kanagawa, Osaka, Aichi, Saitama

Local Governments

1,741 Cities, Towns, Villages and Special Wards*

Handling administrative issues related to their respective regions,
e.g., Yokohama, Nagoya, Sapporo

- Local governments are responsible for a wide range of services closely related to the daily lives of citizens such as:

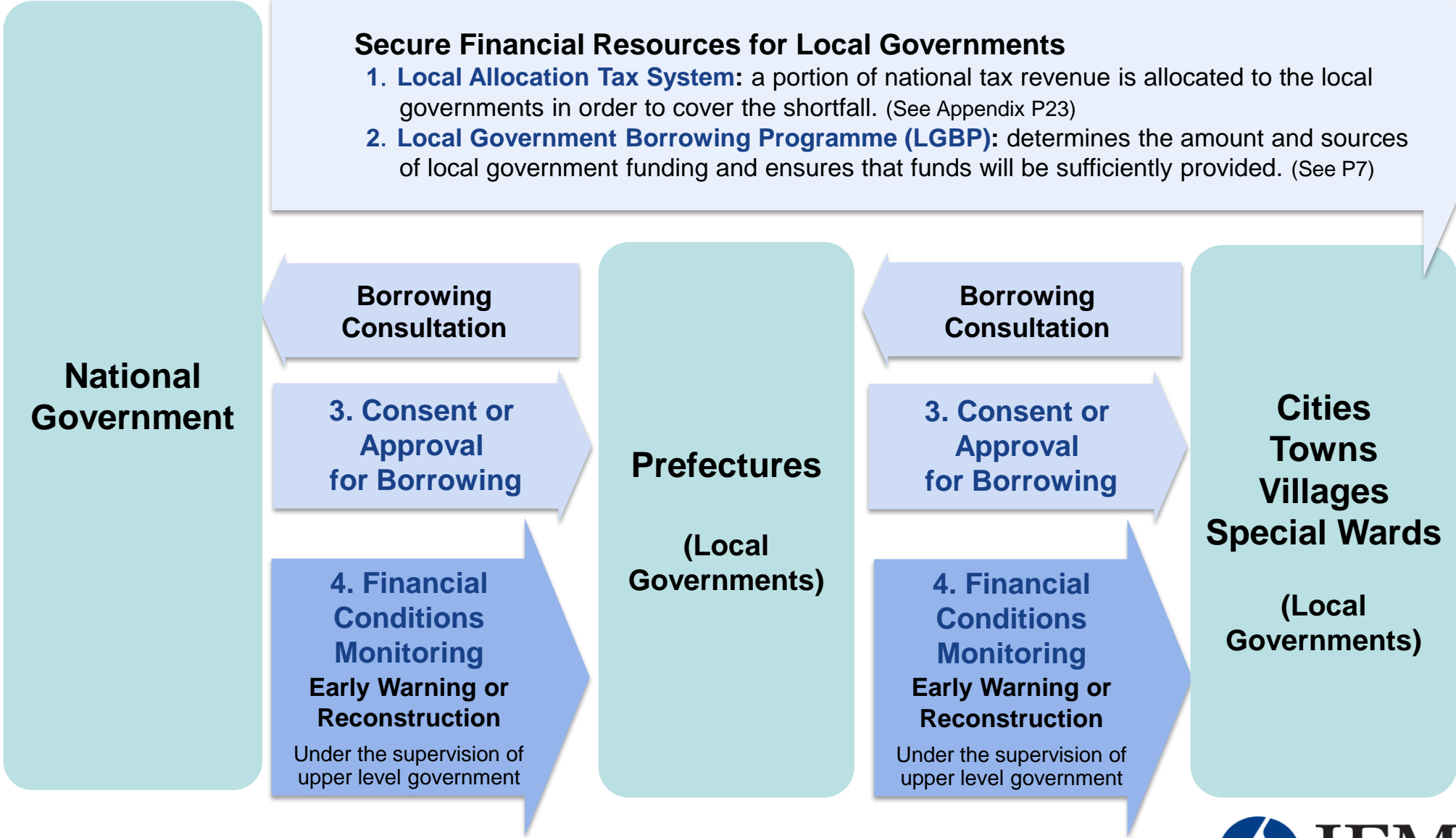
- Water supply and Sewage systems
- Roads
- Public health
- Social welfare
- Education
- Policing
- Fire fighting
- Disaster prevention
- Transportation

*As of 31 March 2015.

Systems Designed to Secure Financial Soundness of Local Governments

Secure Financial Resources for Local Governments

- 1. **Local Allocation Tax System:** a portion of national tax revenue is allocated to the local governments in order to cover the shortfall. (See Appendix P23)
- 2. **Local Government Borrowing Programme (LGBP):** determines the amount and sources of local government funding and ensures that funds will be sufficiently provided. (See P7)

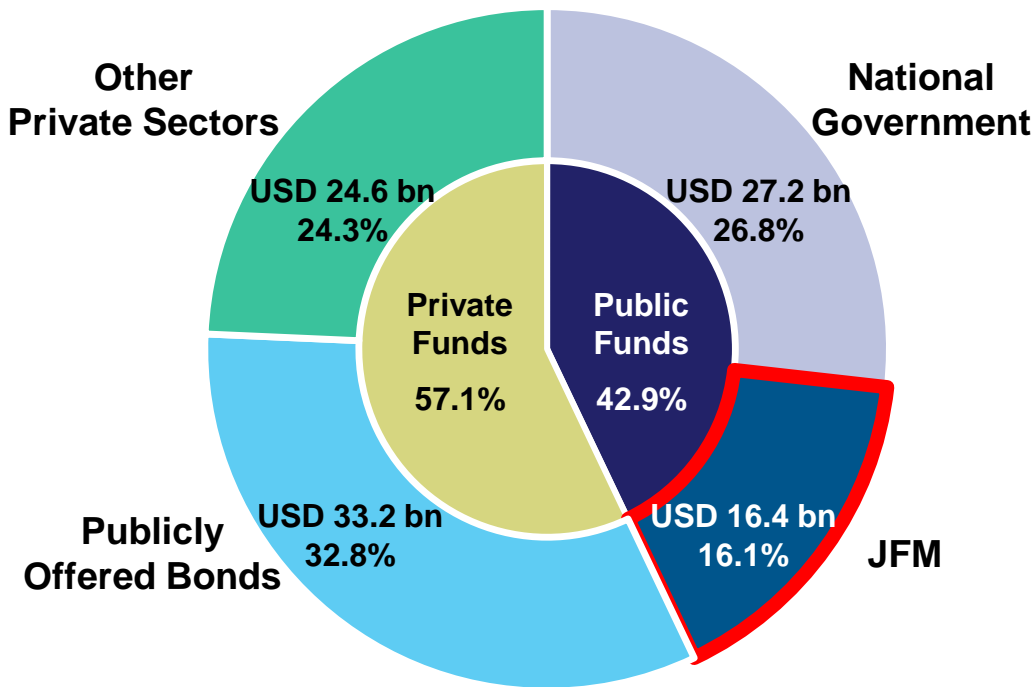


Local Government Borrowing Programme

- The national government decides guidelines for the amount of local government borrowing according to the Local Government Borrowing Programme (the “LGBP”). Each local government raises funds within this amount.
- The total amount of JFM funds is based on the LGBP, prepared by the national government each fiscal year.
- JFM funds account for around 16% of local government funding.

Funding measures of local governments

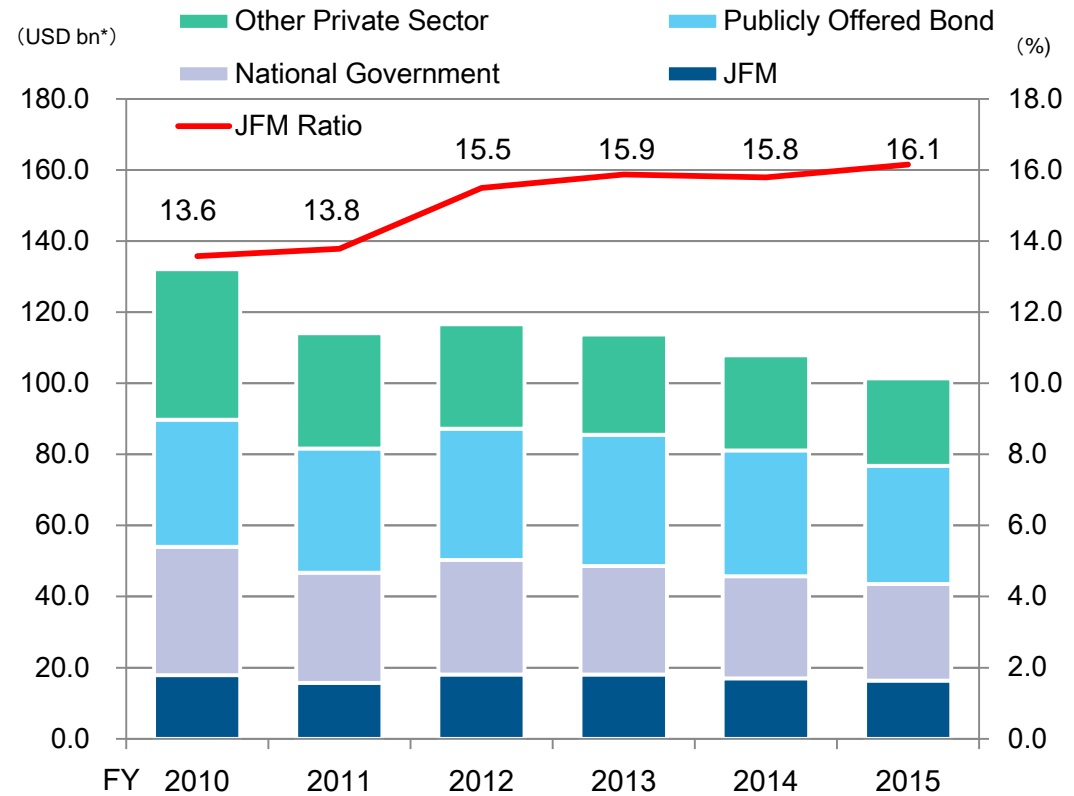
LGBP for FY 2015 : Total USD 101.4 bn



The figures above are the initially planned numbers (not actual).

*USD 1 = JPY 120.37 as of 31 March 2015.

Funding amount of local governments (Initial plan)



Source: Ministry of Internal Affairs and Communications



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