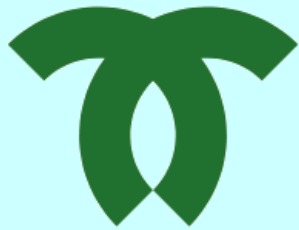
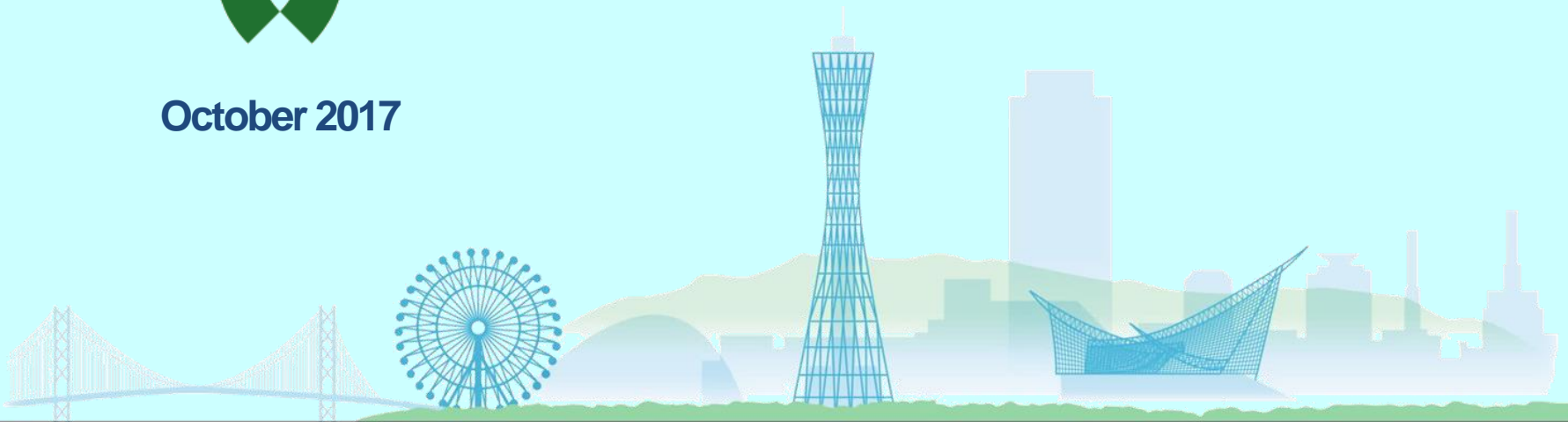


Fiscal Status of Kobe City



October 2017



1. Overview **P3**

2. Fiscal Profile **P7**

3. Kobe City's Local Government Bonds **P12**

4. Appendix **P17**





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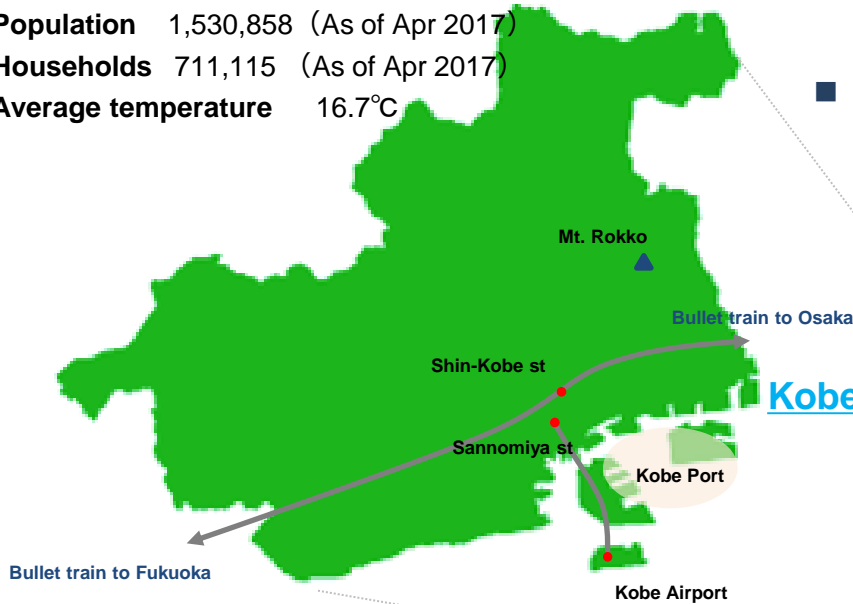
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- since 2008
-

1. Overview



Kobe City

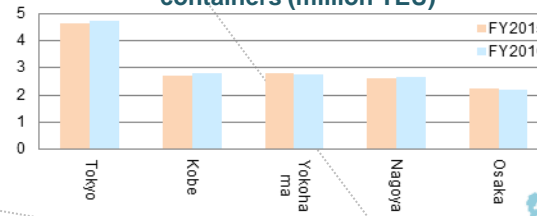
- **Area** 557.02km²
- **Population** 1,530,858 (As of Apr 2017)
- **Households** 711,115 (As of Apr 2017)
- **Average temperature** 16.7°C



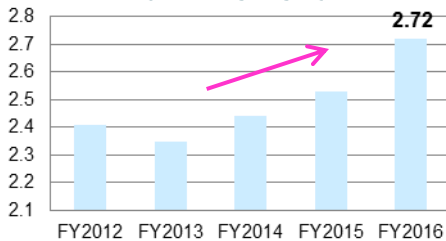
- Kobe is one of the major designated cities in Japan
- Kobe is the 6th largest designated city in terms of GDP scale in Japan (JPY 6.2 trillion in FY2014)
- All modes of transportation (land, sea and air routes) are available and interlinked

Kobe Port is the second largest in Japan

Comparison of the number of handled containers (million TEU)

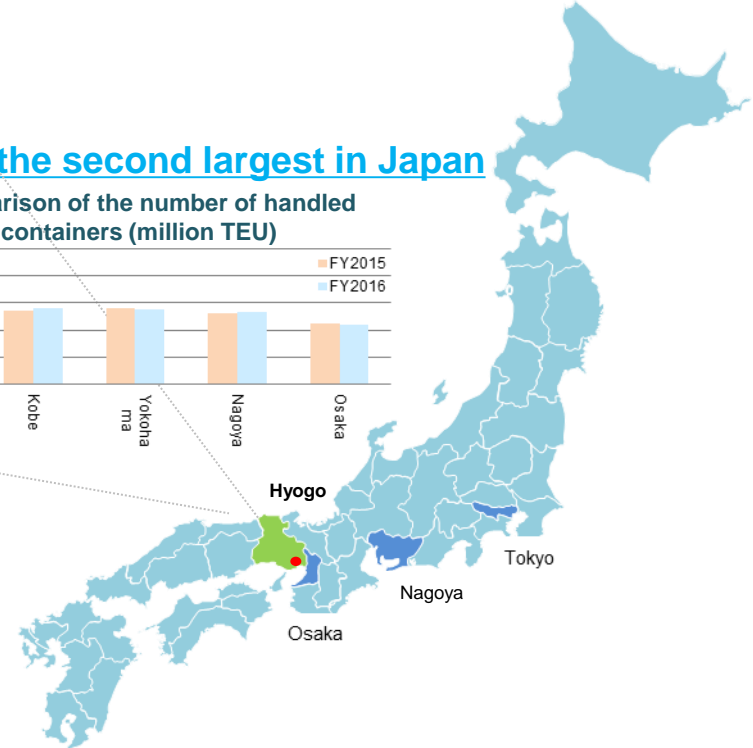


Transitions of No. of passengers (million people)

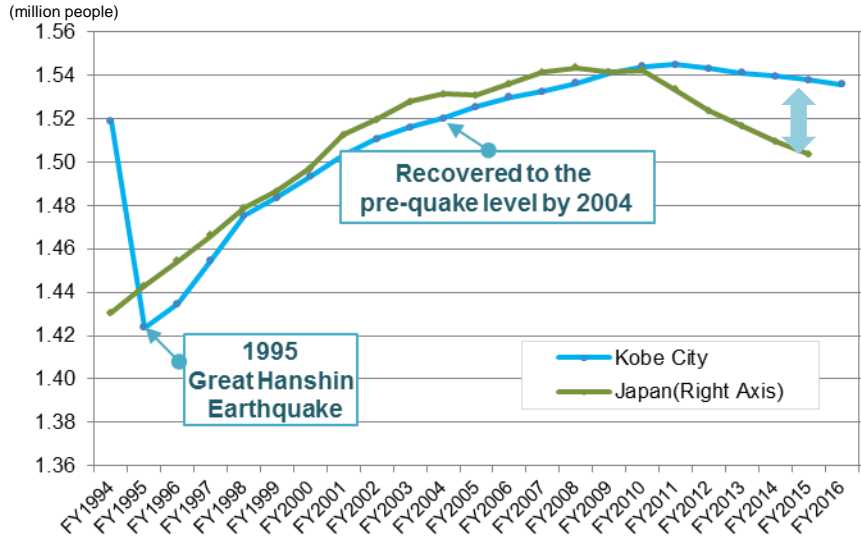


Kobe Airport

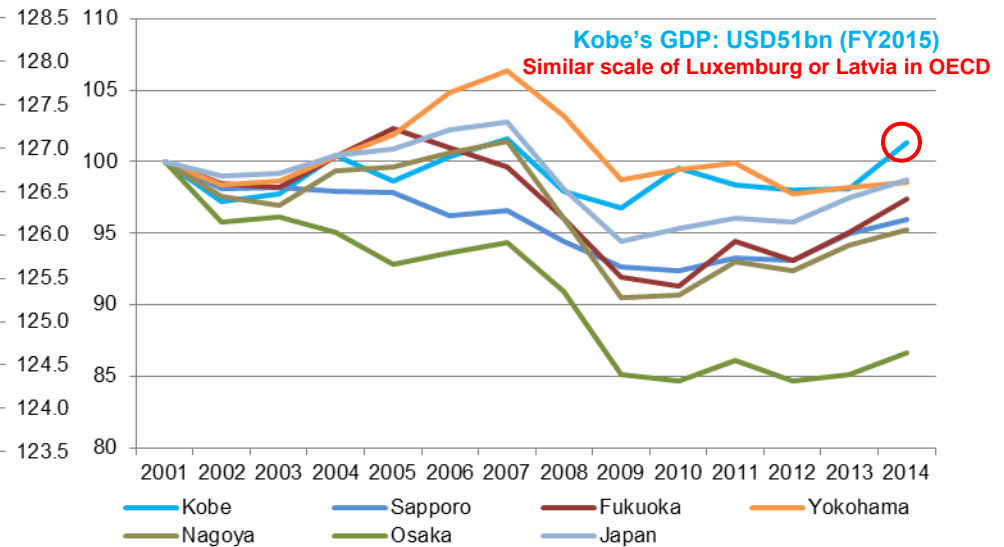
- 1hr from Haneda
- Flights to 7 main regional airports in Japan
- 18min from city center by train (Port liner)
- 30min from Kansai international Airport by train



Transition of the population in Kobe city Kobe outperform the whole Japan's population trend

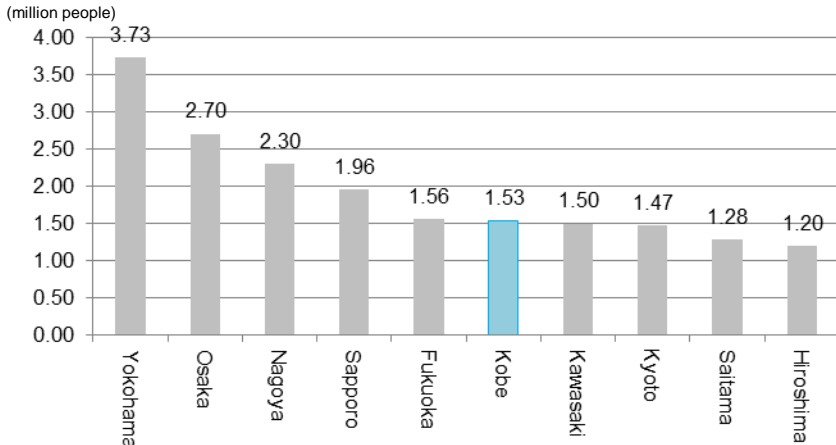


GDP trends of Japan's main cities (2001 = 100) Kobe's GDP outperforms that of 2001

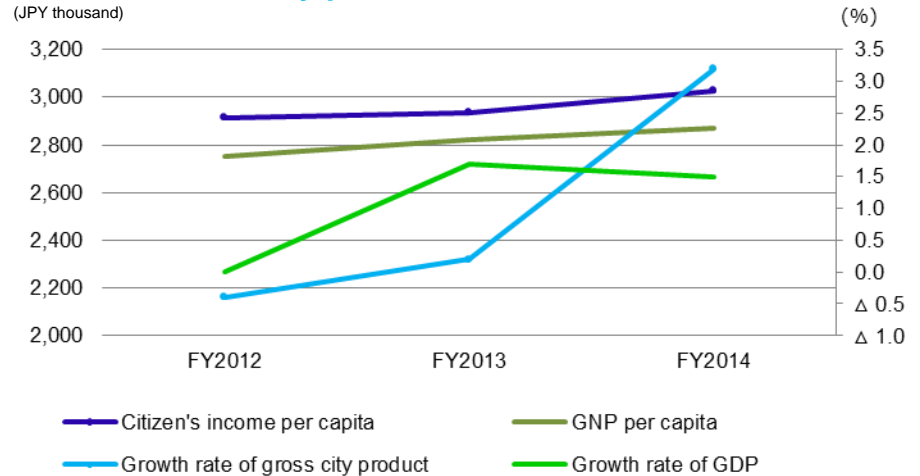


Estimated Population

Top 10 ranking among the government-designated cities



Gross city product and Citizen's income



Major Corporations Located in Kobe

- More than 200 global companies have headquarters and business establishments in Kobe
- Product exports: 6th among the designated cities (food stuffs: 1st among the designated cities)



- The “Waterfront Area” boasts outstanding access with both Kobe Airport and the Port of Kobe, and the “Inland Area” provides nature-rich suburbs with offices and residential areas close to each other.
- Kobe’s combination of two unique business developments can meet the needs of any individual or company looking to invest.

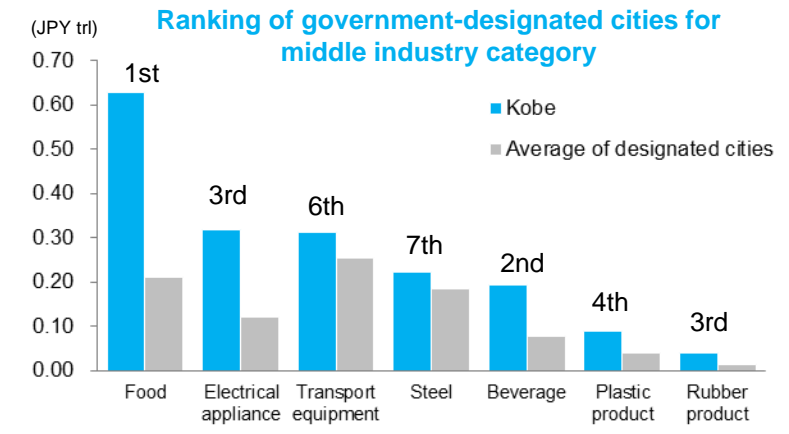
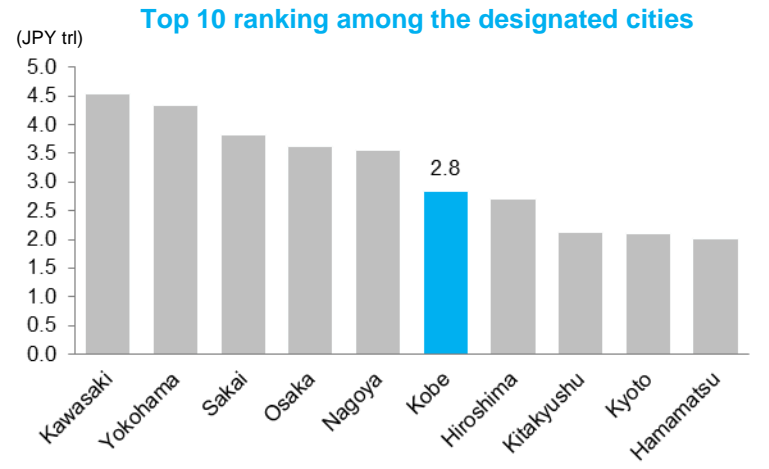


INLAND AREA

WATERFRONT AREA



Trade & Industry (Industry Statistics 2015 by Ministry of Economy)





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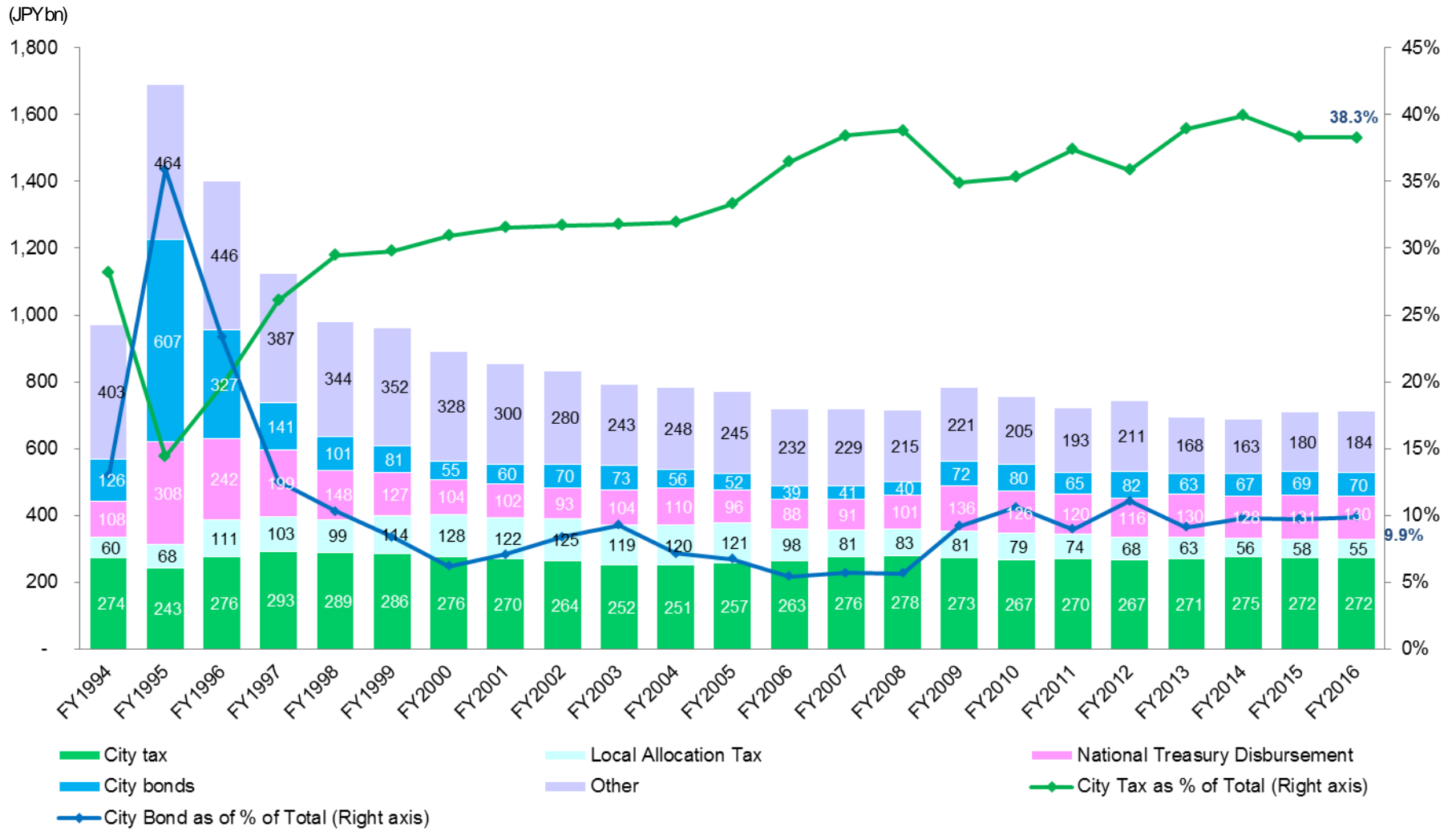
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2. Fiscal Profile



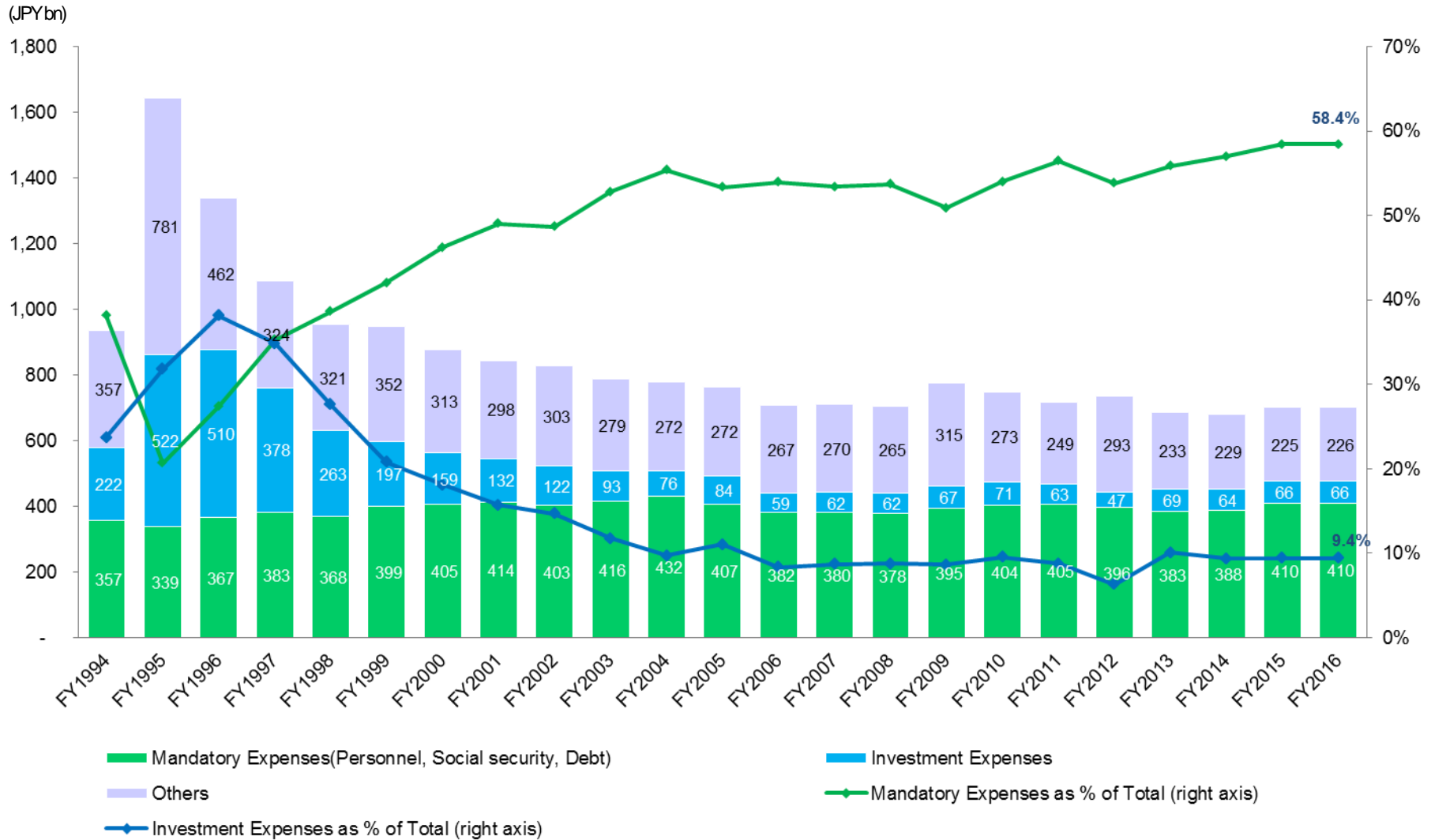
Change in Revenue Accounts

■ Kobe has stable city tax revenue which is around JPY 270bn every fiscal year
 ■ Total revenue of general account has been around JPY 700bn per year and the ratio of city bond revenue remains under 10%



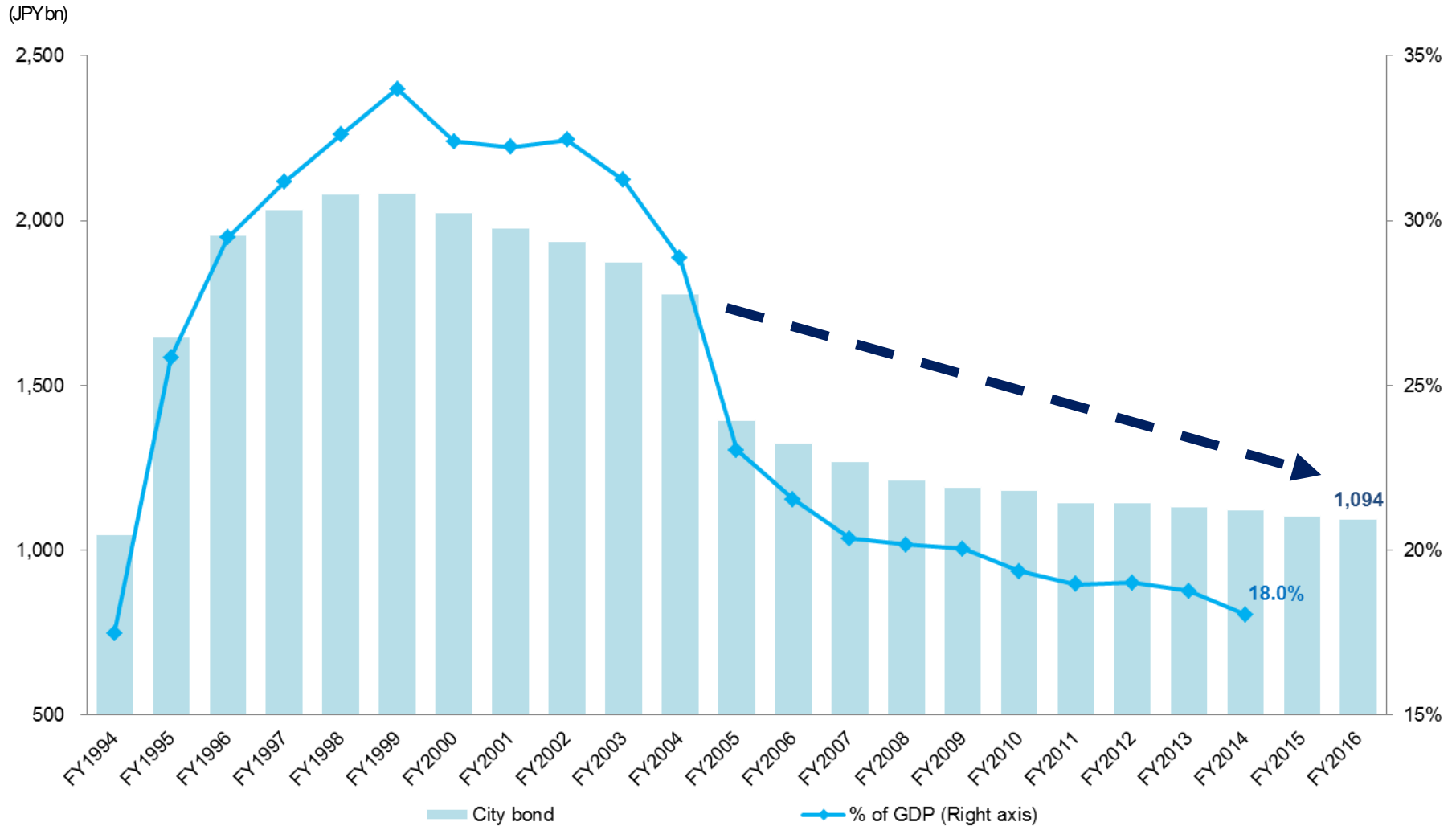
Change in Expenditure Accounts

- Mandatory expenditure accounts for more than half of all expenditure due to the increases of social security related expenses
- Investment expenditure has been managed under 10% of all general accounts expenditure since its recovery from the Great Hanshin Earthquake



Change in Outstanding Volume of Debt

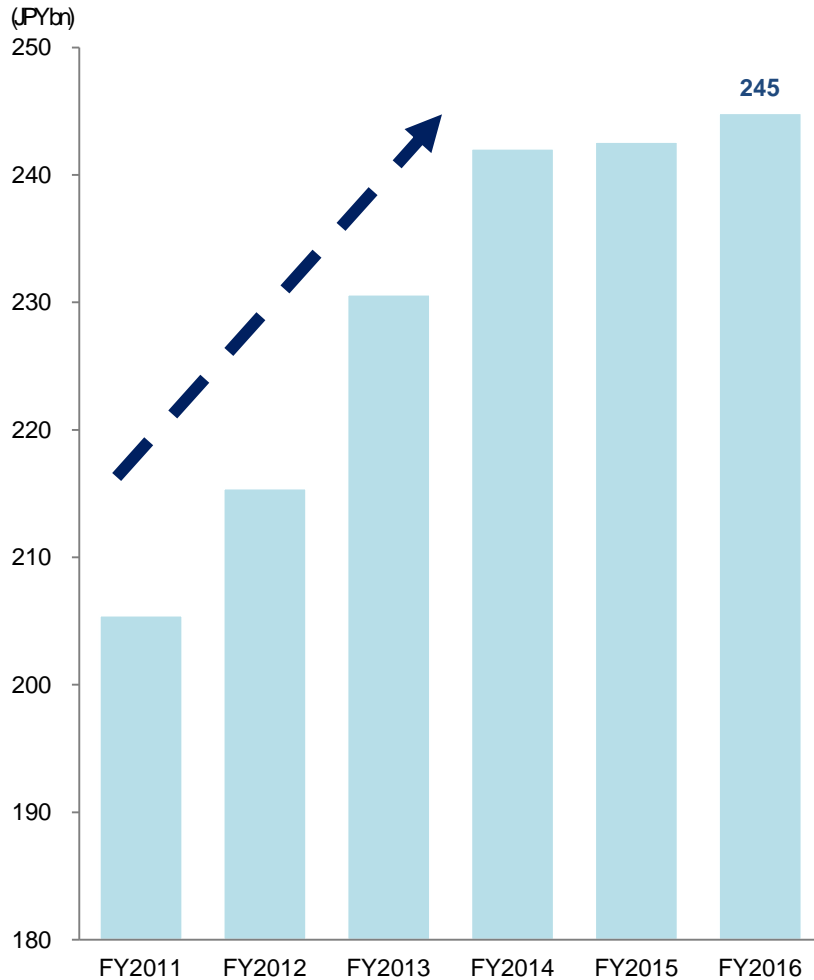
■ Outstanding volume of debt keep decreasing, which shows sound fiscal status of Kobe



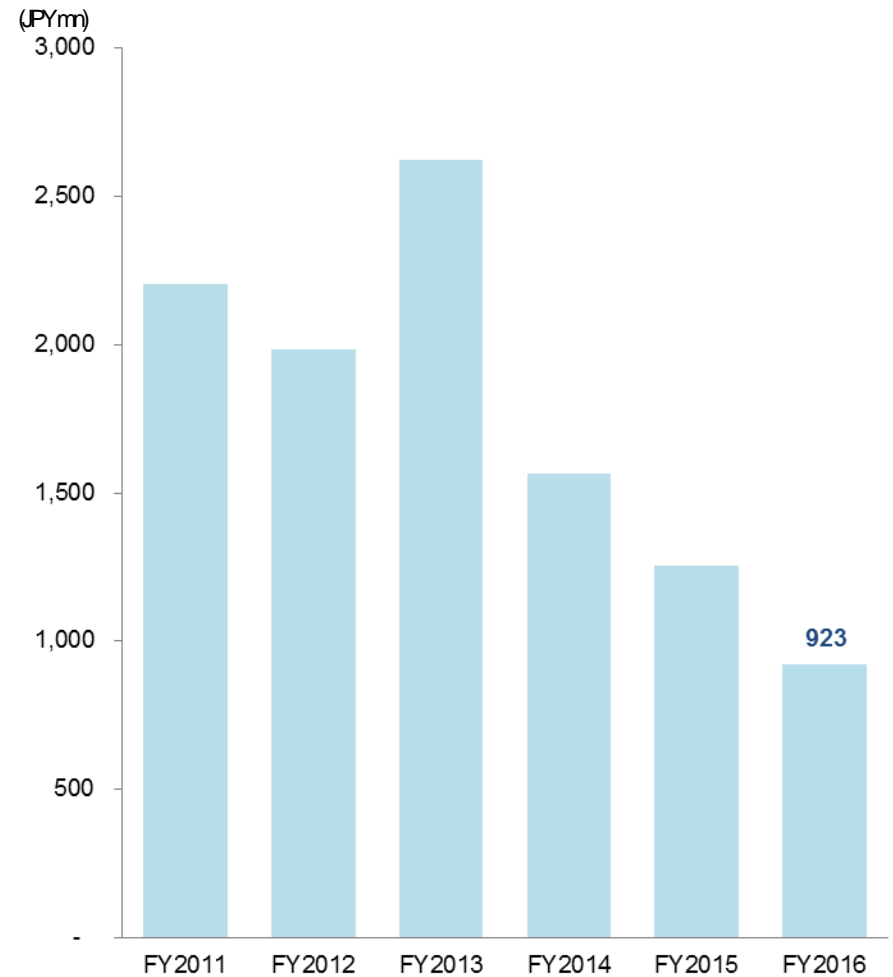
Liquidity: Status of Sinking Fund

- Kobe has accumulated its sinking fund under the prescribed rule and the amount reached to around JPY 245bn
- Kobe has recorded continuous surplus in its primary balance since FY1999

Sinking Fund Reserves



Surplus in primary balance





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3. Kobe City's Local Government Bonds

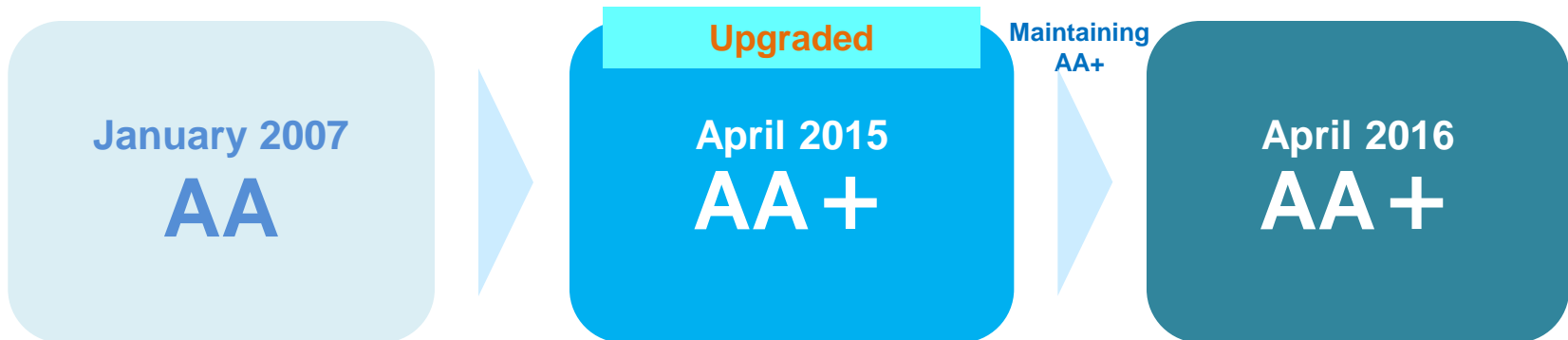


- The same rating as Japanese government bond. AA+ by R&I is the highest rating among Japanese municipalities
- Format : Japanese domestic municipal bond
- BIS Risk Weight : 0% for domestic investors
- Maturity : 5y, 10y, 20y and 30y

Ratings by R&I

AAA	-
AA+	Japan(sovareign), Kobe City , Saitama Prefecture, Shizuoka Prefecture, Aichi Prefecture, Tochigi Prefecture
AA	Miyagi Prefecture, Fukui Prefecture, Nara Prefecture, Okayama Prefecture, Tokushima Prefecture, Saga Prefecture, Chiba City

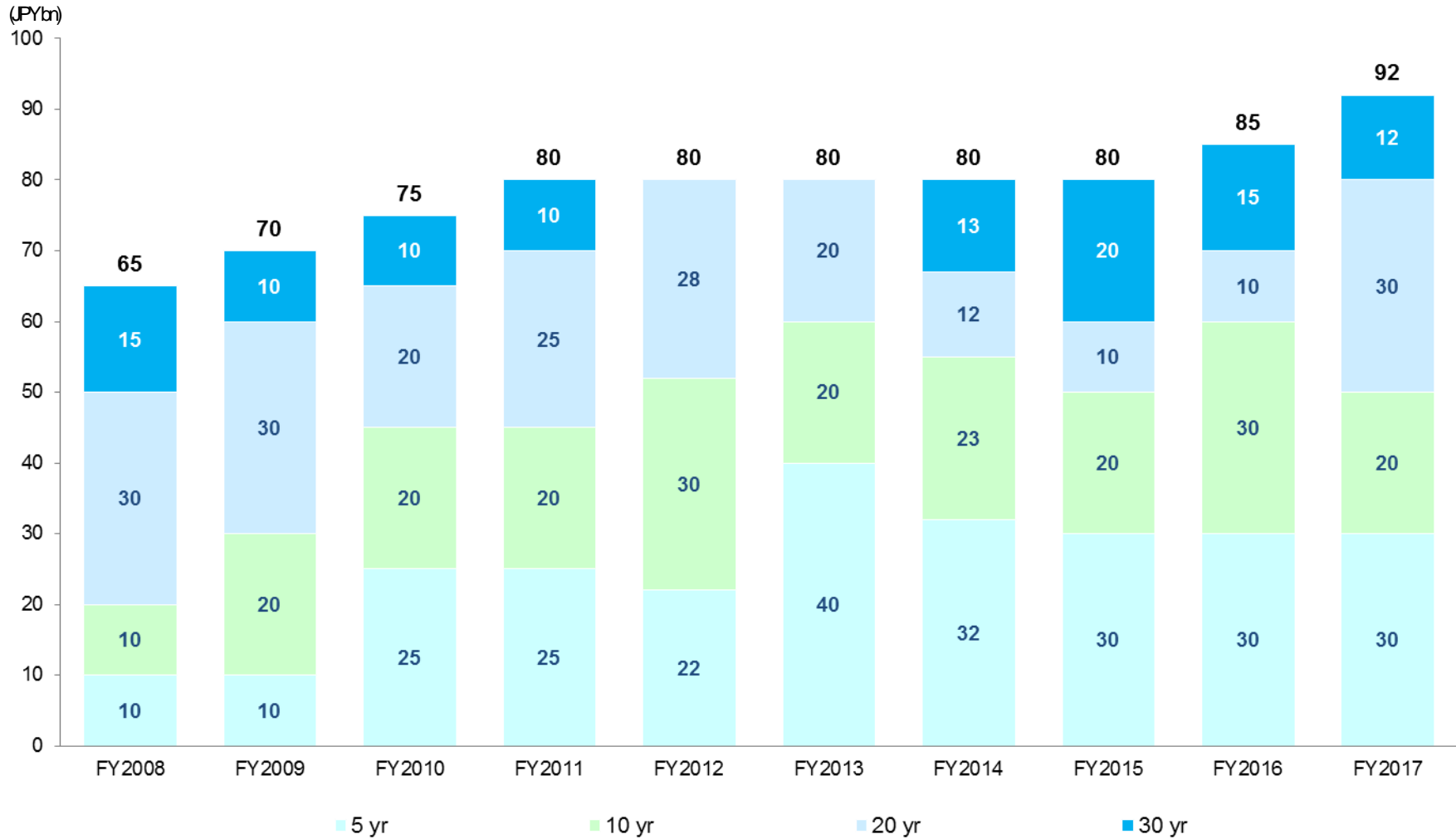
Transition of the raring of Kobe City by R&I



Issuance Plan and Historical Volume

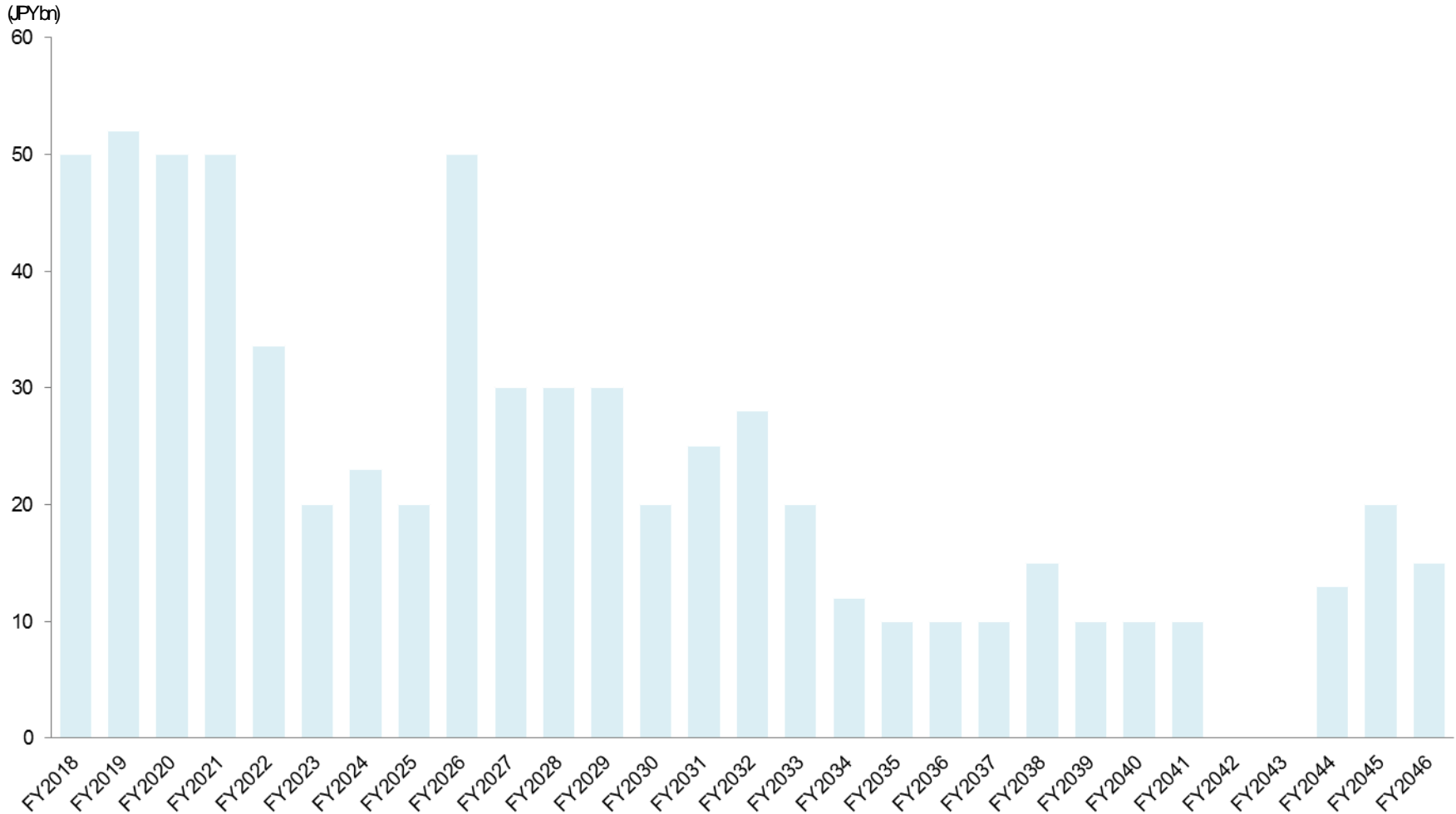
■ Kobe has issued 5yr, 10yr, 20yr and 30yr bond in the capital market every fiscal year

Historical Public Issuance Volume from FY 2008



■ Kobe has redemption scheduled for around JPY 50bn every fiscal year until FY2021 as of FY2017

Kobe's redemption schedule



Kobe's New Issues from FY2013

Pricing Date	Issuer	Issue Date	Tenor	Currency	Amount (JPY bn)	R&I Rating	Maturity	Coupon Rate (%)	Offer Price	JGB Spread
6-Oct-17	City of Kobe	18-Oct-17	5	JPY	10	AA+	18-Oct-22	0.020	100	JGB(#325)+11.00bp
4-Oct-17	City of Kobe	16-Oct-17	10	JPY	10	AA+	15-Oct-27	0.230	100	JGB(#348)+16.50bp
1-Sep-17	City of Kobe	20-Sep-17	20	JPY	20	AA+	18-Sep-37	0.597	100	JGB(#161)+5.00bp
2-Aug-17	City of Kobe	14-Aug-17	10	JPY	10	AA+	13-Aug-27	0.220	100	JGB(#347)+14.50bp
12-May-17	City of Kobe	23-May-17	30	JPY	12	AA+	20-Mar-47	0.950	100	JGB(#54)+11.00bp
5-Apr-17	City of Kobe	14-Apr-17	5	JPY	20	AA+	14-Apr-22	0.010	100	JGB(#322)+12.00bp
13-Jan-17	City of Kobe	24-Jan-17	20	JPY	10	AA+	23-Jan-37	0.645	100	JGB(#159)+5.00bp
7-Oct-16	City of Kobe	19-Oct-16	5	JPY	10	AA+	19-Oct-21	0.001	100.002	JGB(#318)+22.00bp
9-Sep-16	City of Kobe	21-Sep-16	10	JPY	15	AA+	18-Sep-26	0.105	100	JGB(#344)+13.00bp
15-Jul-16	City of Kobe	27-Jul-16	30	JPY	15	AA+	20-Jun-46	0.283	100	JGB(#51)+12.00bp
3-Jun-16	City of Kobe	14-Jun-16	5	JPY	20	AA+	14-Jun-21	0.005	100	JGB(#316)+24.00bp
8-Apr-16	City of Kobe	19-Apr-16	10	JPY	15	AA+	17-Apr-26	0.080	100	JGB(#342)+15.00bp
15-Jan-16	City of Kobe	26-Jan-16	20	JPY	10	AA+	25-Jan-36	1.007	100	JGB(#155)+3.50bp
4-Dec-15	City of Kobe	15-Dec-15	10	JPY	10	AA+	15-Dec-25	0.479	100	JGB(#341)+15.00bp
7-Oct-15	City of Kobe	19-Oct-15	5	JPY	20	AA+	19-Oct-20	0.101	100	JGB(#311)+5.00bp
2-Oct-15	City of Kobe	14-Oct-15	30	JPY	20	AA+	20-Sep-45	1.513	100	JGB(#48)+14.00bp
4-Sep-15	City of Kobe	15-Sep-15	10	JPY	10	AA+	12-Sep-25	0.510	100	JGB(#340)+12.00bp
15-Apr-15	City of Kobe	24-Apr-15	5	JPY	10	AA+	24-Apr-20	0.112	100	JGB(#307)+4.00bp
16-Jan-15	City of Kobe	27-Jan-15	10	JPY	10	AA	27-Jan-25	0.280	100	JGB(#337)+5.00bp
11-Dec-14	City of Kobe	19-Dec-14	5	JPY	12	AA	19-Dec-19	0.101	100	JGB(#305)+3.50bp
3-Dec-14	City of Kobe	12-Dec-14	30	JPY	13	AA	20-Sep-44	1.575	100	JGB(#44)+15.00bp
9-Jul-14	City of Kobe	18-Jul-14	10	JPY	13	AA	18-Jul-24	0.606	100	JGB(#334)+5.00bp
3-Jul-14	City of Kobe	14-Jul-14	20	JPY	12	AA	14-Jul-34	1.482	100	JGB(#149)+4.50bp
4-Apr-14	City of Kobe	15-Apr-14	5	JPY	20	AA	15-Apr-19	0.219	100	JGB(#299)+3.00bp
7-Feb-14	City of Kobe	19-Feb-14	10	JPY	10	AA	19-Feb-24	0.689	100	JGB(#332)+7.00bp
7-Feb-14	City of Kobe	19-Feb-14	20	JPY	10	AA	17-Feb-34	1.520	100	JGB(#147)+6.00bp
13-Dec-13	City of Kobe	25-Dec-13	5	JPY	20	AA	25-Dec-18	0.229	100	JGB(#298)+3.00bp
7-Aug-13	City of Kobe	16-Aug-13	5	JPY	20	AA	16-Aug-18	0.312	100	JGB(#295)+3.50bp
4-Jul-13	City of Kobe	19-Jul-13	20	JPY	10	AA	19-Jul-33	1.817	100	JGB(#145)+6.00bp
10-Apr-13	City of Kobe	19-Apr-13	10	JPY	10	AA	19-Apr-23	0.571	100	JGB(#328)+2.50bp



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4. Appendix



All four indicators are performing well better than the nationally established standards

4 Indicators*	Description	Fiscal 2016	National Standard	
			Early warning limit	Reconstruction limit
Real deficit ratio	Amount of general account deficit as a proportion of fiscal scale	(Surplus)	3.75%	5.0%
Consolidated real deficit ratio	Amount of all account deficits as a proportion of fiscal scale	(Surplus)	8.75%	15.0%
Real debt payment ratio	Public debt expenses as a proportion of fiscal scale	7.4%	25.0%	35.0%
Future burden ratio	Prefectural bond balance as a proportion of fiscal scale	80.0%	400.0%	-

* With the exception of the Future burden ratio, if national standards are exceeded, national government authorization and additional national government involvement is required to issue bonds

Japanese local government bonds have a risk weight of zero as a result of powerful national fiscal backing, a tax system designed to prevent failure and other measures as described below.

1. Local Issue Tax System

- When determining budgets for each fiscal year, the national government sets forth an estimate of revenues and expenditures for all local governments, and guarantees revenue shortfalls.
- As part of this system, the national government provides backing for the redemption of the principal and interest of local government bonds, thereby strengthening the repayment capacity of local government bonds by local governments.

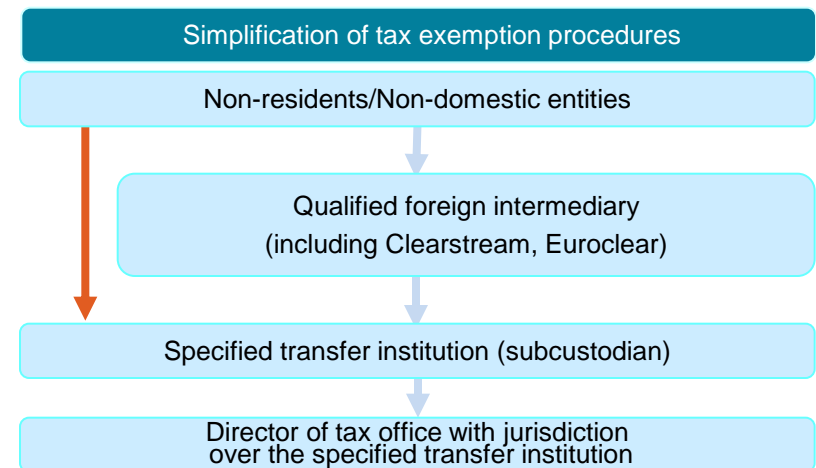
2. Bond issuance approval system as an early correction measure

- Local governments must discuss with the national government before issuing bonds, and receive confirmation that the new bond issuance is reasonable and will not negatively affect the local governments' future ability to repay principal and interest of local government bonds.

Outline of Tax Exemption for Non-Residents

Tax Exemption for Non-Residents

- Starting in 2008, with the Article 5-2 Act on Special Measures Concerning Taxation (Limited to the provisions related to nonresidents and foreign corporations), the interest gains on LGBs owned by non-resident or foreign corporations which settled by the book-entry system are exempted from withholding tax.



General Accounts – Change in Revenue

Category / FY [JPY bn]	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
City tax	2,741	2,433	2,761	2,929	2,891	2,863	2,756	2,697	2,642	2,517	2,506	2,568	2,626	2,759	2,779	2,731	2,671	2,698	2,665	2,706	2,750	2,719	2,723
Individual citizen tax	869	661	758	947	901	867	820	799	789	747	716	747	821	934	948	949	887	874	905	908	909	920	931
Corporate citizen tax	289	269	368	317	278	242	224	220	208	202	234	273	327	311	307	253	248	272	271	283	297	279	259
Fixed asset tax	1,127	1,055	1,171	1,192	1,242	1,272	1,235	1,227	1,207	1,156	1,138	1,142	1,080	1,104	1,115	1,124	1,126	1,131	1,078	1,089	1,106	1,095	1,103
Urban planning tax	260	248	273	261	269	273	261	256	248	230	225	224	211	216	220	222	224	225	214	216	220	218	222
Other	196	200	191	212	201	209	216	195	190	182	193	182	187	194	189	183	186	196	197	210	218	207	208
National taxes allocated to local governments	603	682	1,107	1,032	985	1,140	1,280	1,225	1,253	1,193	1,201	1,212	979	811	825	809	786	737	679	627	559	577	546
Financial index	0.83	0.83	0.78	0.74	0.72	0.72	0.71	0.68	0.67	0.66	0.65	0.64	0.66	0.69	0.72	0.73	0.73	0.73	0.74	0.76	0.76	0.79	0.80
City bonds	1,261	6,065	3,267	1,408	1,011	805	551	603	697	734	561	518	391	409	403	720	802	646	822	633	674	690	702
Bonds for extraordinary fiscal measures								83	188	336	241	185	167	151	142	220	423	435	421	427	429	413	415
Other	5,110	7,714	6,879	5,862	4,923	4,800	4,317	4,022	3,734	3,478	3,578	3,410	3,205	3,200	3,155	3,566	3,306	3,139	3,267	2,983	2,902	3,112	3,142
Revenue	9,715	16,894	14,014	11,231	9,810	9,608	8,904	8,547	8,326	7,922	7,846	7,708	7,201	7,179	7,162	7,826	7,565	7,220	7,433	6,949	6,885	7,098	7,113

※2005 fiscal results exclude city bond redemption funds (revenue) related to contribution/loans for the restoration fund

General Accounts – Change in Expenditures

Category / FY [JPY bn]	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Mandatory costs	3,574	3,393	3,666	3,830	3,681	3,989	4,055	4,137	4,025	4,156	4,319	4,074	3,816	3,800	3,783	3,950	4,038	4,050	3,963	3,833	3,879	4,095	4,102
Personnel costs	1,528	1,570	1,540	1,577	1,554	1,623	1,534	1,566	1,393	1,348	1,325	1,302	1,335	1,314	1,258	1,270	1,221	1,201	1,166	1,104	1,117	1,217	1,197
Social aid costs	1,071	945	878	923	968	1,047	981	1,056	1,134	1,216	1,306	1,319	1,327	1,362	1,396	1,469	1,719	1,784	1,797	1,802	1,853	1,951	1,991
Municipal bonds costs	975	878	1,248	1,330	1,159	1,319	1,540	1,515	1,498	1,592	1,688	1,453	1,154	1,124	1,129	1,211	1,098	1,065	1,000	927	909	927	914
Investment outlays	2,223	5,222	5,104	3,784	2,632	1,973	1,585	1,323	1,217	926	760	841	589	620	619	670	713	629	465	692	636	659	661
Transferred fund	709	761	732	692	831	829	886	826	798	835	790	864	893	914	936	851	833	852	781	800	820	883	872
Equipment costs, etc.	2,856	7,046	3,886	2,548	2,380	2,694	2,243	2,149	2,233	1,953	1,926	1,856	1,774	1,784	1,710	2,297	1,896	1,635	2,150	1,534	1,469	1,369	1,389
Expenditures	9,362	16,422	13,388	10,854	9,524	9,485	8,769	8,435	8,273	7,870	7,795	7,635	7,072	7,118	7,048	7,768	7,480	7,166	7,359	6,859	6,804	7,006	7,024
Mandatory cost ratio	38.2%	20.7%	27.4%	35.3%	38.6%	42.1%	46.2%	49.0%	48.7%	52.8%	55.4%	53.4%	54.0%	53.4%	53.7%	50.9%	54.0%	56.5%	53.8%	55.9%	57.0%	58.4%	58.3%

※2005 fiscal results exclude city bond redemption funds (revenue) related to contribution/loans for the restoration fund



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