



Fiscal Position and Bond Issue Policies of Saitama Prefecture



February 2017

Sai no Kuni
彩の国



Saitama
Prefecture
埼玉県

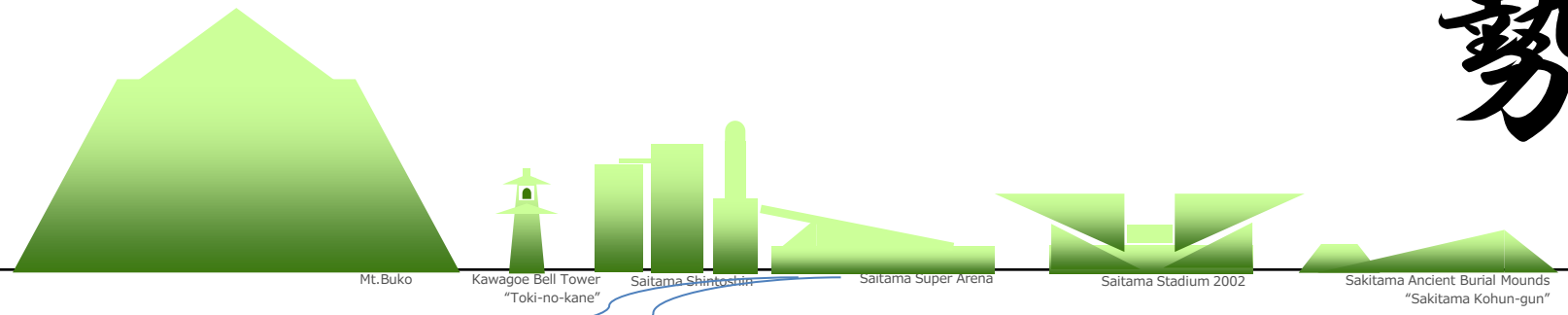


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埼玉県勢

1 Overview of Saitama Pref.

2 Fiscal Position

3 Bond Issue Policies



Overview of Saitama

Population, Industry, Transportation and Rising Potential

- ◆ **Population of 7.3 million** equal to that of Switzerland... Relatively lower average age and larger productive age population ratio than other prefectures
- ◆ A variety of industries generate nominal GDP worth **JPY21trn**, equal to that of Czech and New Zealand
- ◆ Convenient transportation network and lower disaster risks

Population 7.27mn (#5)

Source: 2015 National Census

1	Tokyo Metro.	13,520,000
2	Kanagawa Pref.	9,130,000
3	Osaka Pref.	8,840,000
4	Aichi Pref.	7,480,000
5	Saitama Pref.	7,270,000

Population Growth 1.0% (#3)

Employer compensation per capita

JPY4,620,000 (#7)

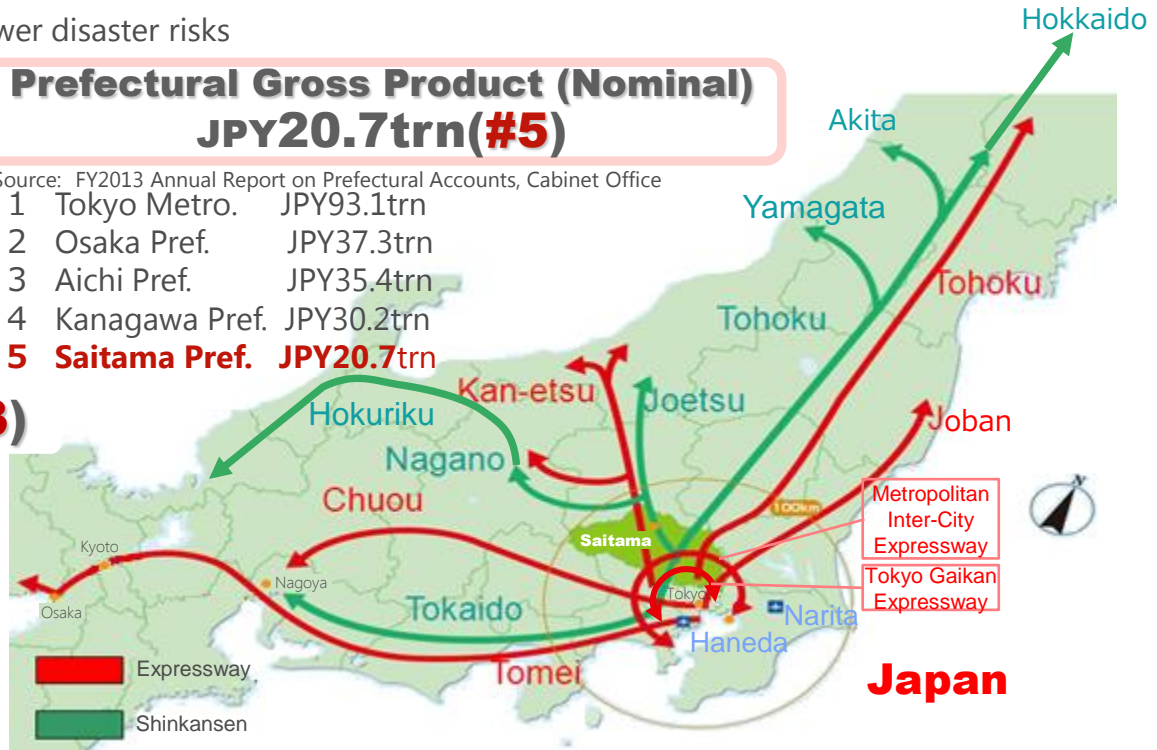
Source: FY2013 Annual Report on Prefectural Accounts, Cabinet Office

Prefectural Gross Product (Nominal) JPY20.7trn (#5)

Source: FY2013 Annual Report on Prefectural Accounts, Cabinet Office

1	Tokyo Metro.	JPY93.1trn
2	Osaka Pref.	JPY37.3trn
3	Aichi Pref.	JPY35.4trn
4	Kanagawa Pref.	JPY30.2trn
5	Saitama Pref.	JPY20.7trn

5 **Saitama Pref.** JPY20.7trn



Japan's Key Transportation Hub

- Connected to major eastern Japan cities with 6 Shinkansen lines
- Key eastern Japan expressways (Tohoku, Kan-etsu and Joban) running north-south
- Tokyo Gaikan and Metropolitan Inter-City Expressways connected to metropolitan expressways running east-west

Lower Risk of Natural Disaster

Estimated damage on buildings by Nankai Trough Earthquake (Liquefaction, Tsunami)*	Saitama 700 (# of buildings)	Tokyo 2,400	Kanagawa 4,000	Chiba 2,400
Length of coastline	Saitama 0km	Tokyo 762km	Kanagawa 428km	Chiba 534km

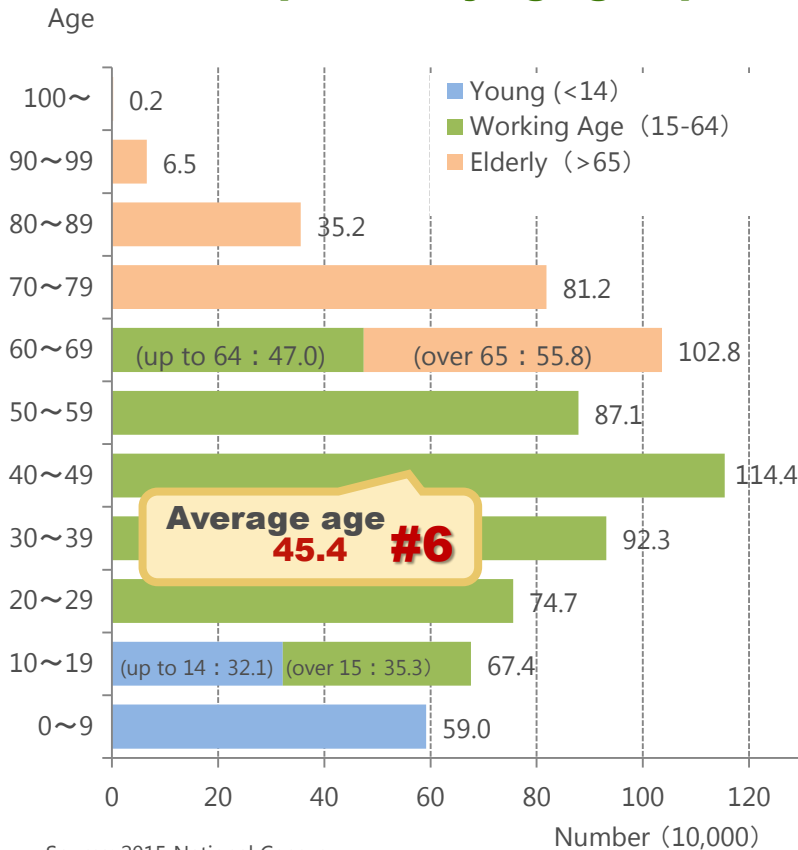
* Sources: Central Disaster Management Council in August 2012 (maximum damage)

Rising Potential of Saitama ①

Young and abundant workforce

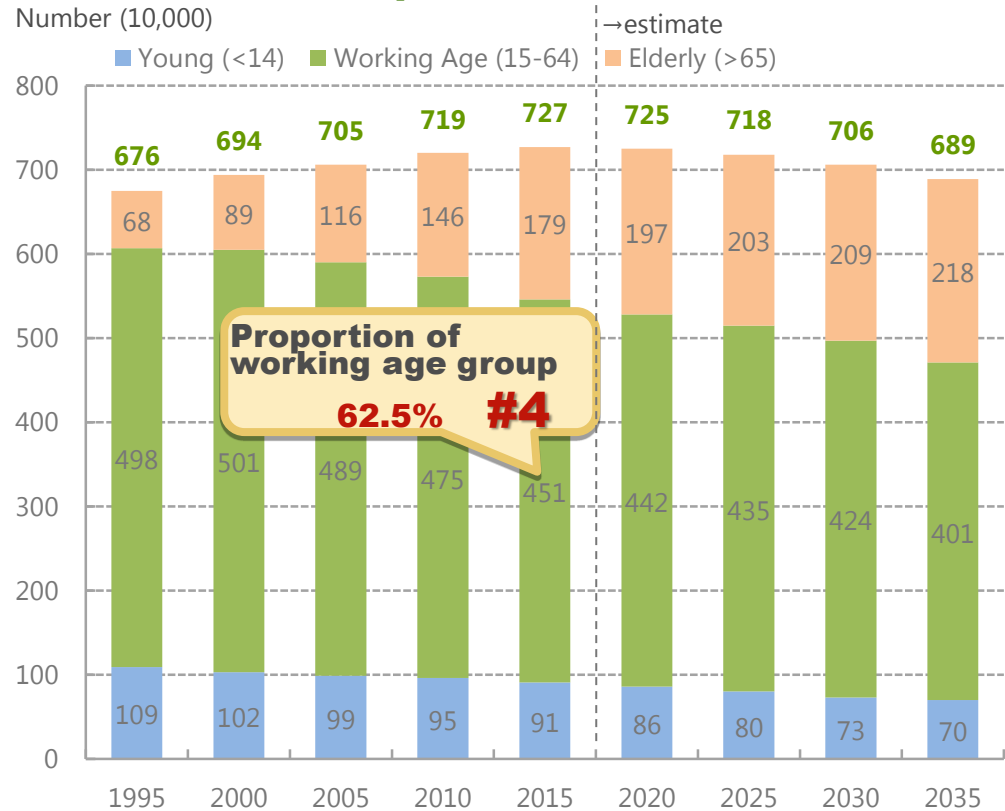
- ◆ 2015 National Census: Average age **45.4 (#6)**, proportion of working age group **62.5% (#4)**
- ◆ Population kept growing until 2015 and expected to stay at 700 million levels in 2030
- ◆ Population as of December 1, 2016 is estimated at **7,292,051** 《Largest ever》

Proportion by age group



Source: 2015 National Census

Population Estimates

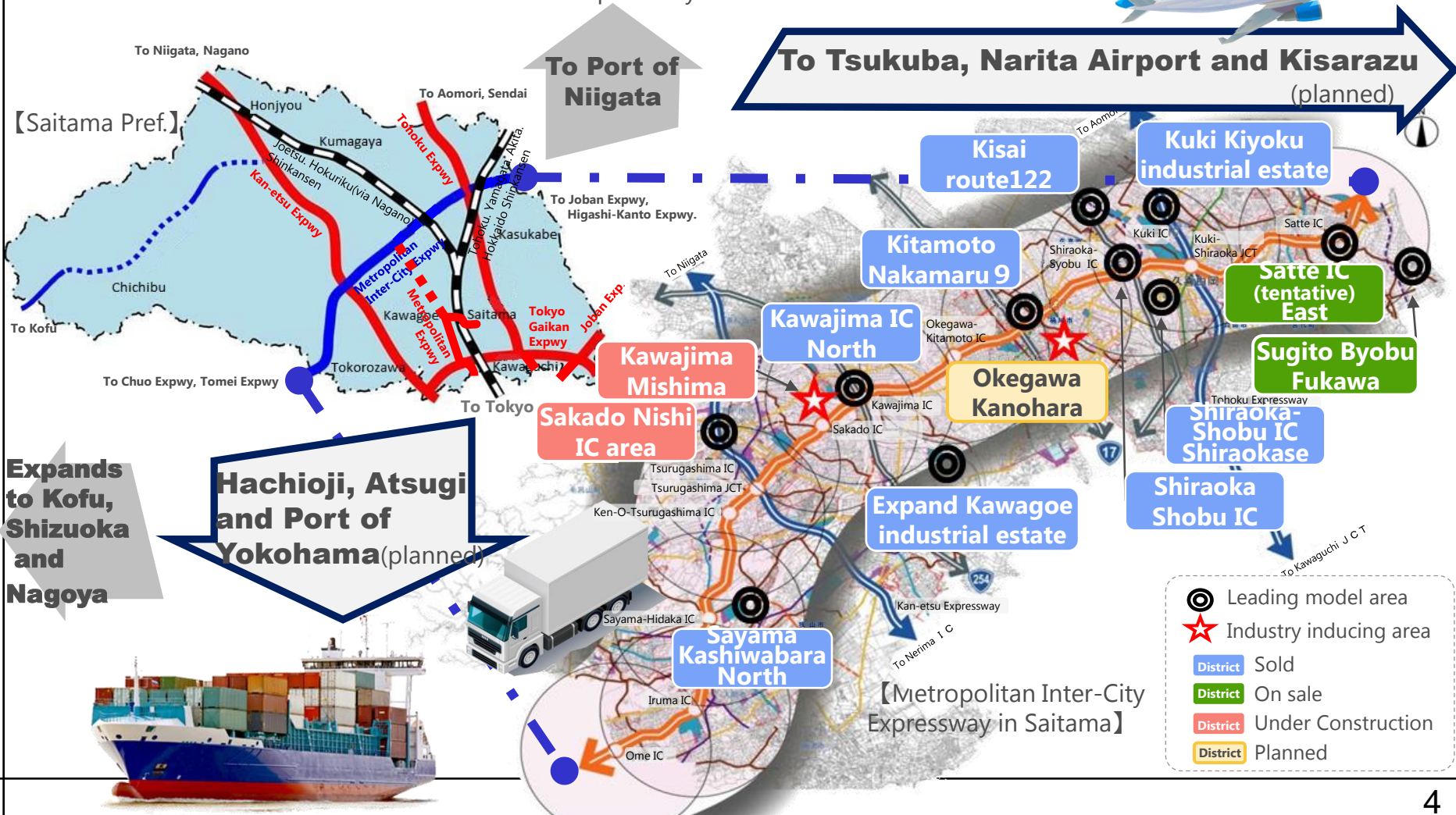
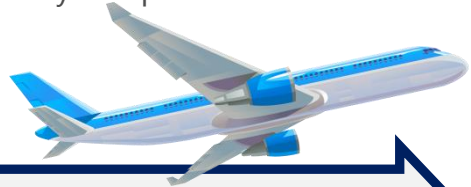


Source: 2015 National Census, Estimates by Saitama Pref. for 2020 and beyond

Rising Potential of Saitama ②

Logistics in the metropolitan area

- ◆ The Metropolitan Inter-City Expressway (Ken-O Expressway) running in Saitama Prefecture was fully completed **on October 31, 2015**, connecting Tomei and Tohoku Expressways, Japan's key expressways,
- ◆ **13 industrial estates** are scheduled to be developed along the Expressway. 5 such estates will also be located north of the Expressway



Rising Potential of Saitama ③

Boost by Saitama located firms

- ◆ A variety of industries, with large scale plants and supporting SMEs
- ◆ Support corporate establishment in Saitama through **"opportunity making strategy"**
- ◆ **Highest corporate headquarter incomer excess** over past 10 years

Variation of industries

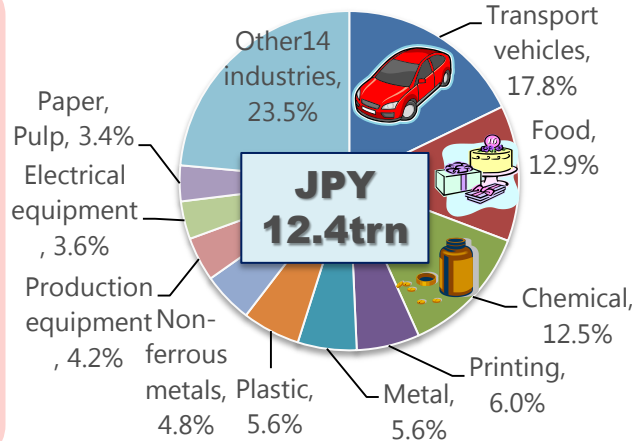
Leading industrial prefecture

Large scale plants of Honda and UD Trucks and supporting SMEs are located

- Pharmaceuticals #1**
- Rice polishing #1**

Sources: 2014 Statistics by METI

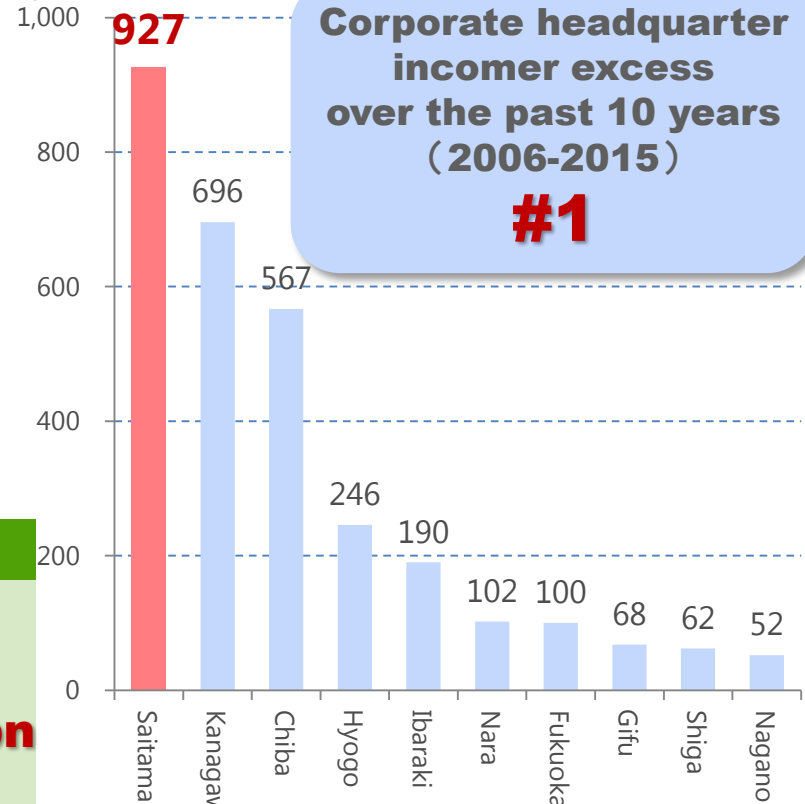
Proportion by shipment



Sources: 2014 Saitama industrial statistics

Corporate headquarter incomer over the past 10 years

(Number of Companies)



Corporate headquarter incomer excess over the past 10 years (2006-2015)

#1

Efforts to attract companies (Jan.2005 – Dec.2016)

- Quick procedurs
 - Customized location
 - Subsidies
- Strong support

located firms 901
Investment JPY1,320.7bn
New Jobs 29,200

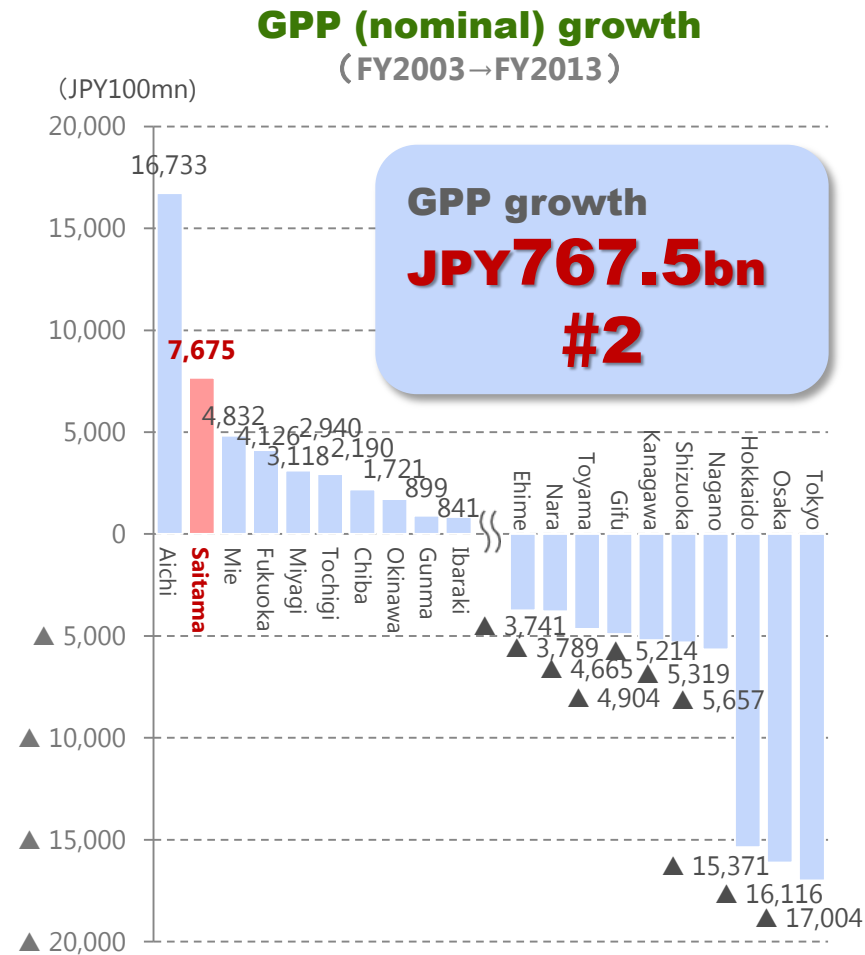
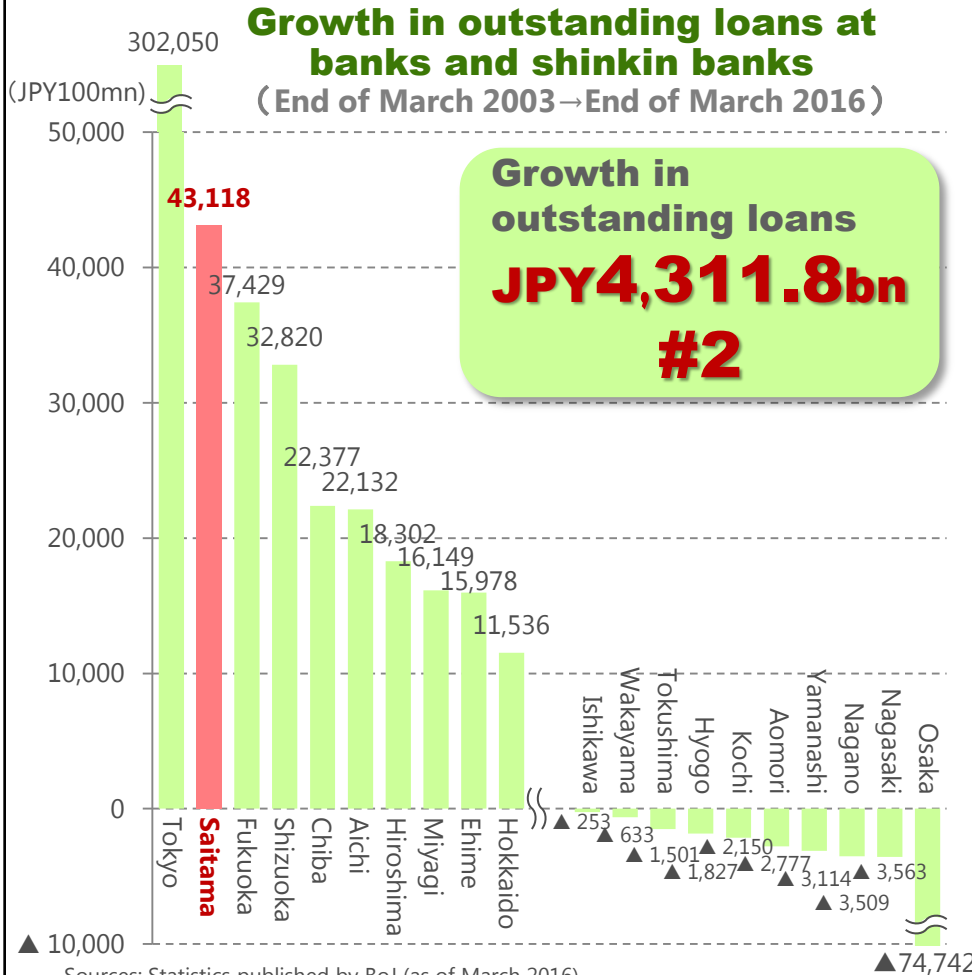
(based on plans by located firms)

Sources: Statistics by Teikoku Databank

Rising Potential of Saitama ④

Brisk Economic Growth

- ◆ Outstanding loans at banks and Shinkin banks grew by JPY4,311.8bn over the past 13 years, second highest growth rate following Tokyo
- ◆ Gross Prefectural Product (nominal) grew by JPY767.5bn over the past 10 years, second largest growth following Aichi



Sources: Statistics published by BoJ (as of March 2016) and National Association of Shinkin Banks (as of the end of March 2016)

Annual Report on Prefectural Accounts by Cabinet Office (FY2001 – FY2013) (93SNA, based on figures in 2005)

Rising Potential of Saitama ⑤

Creating next gen. industry

- ◆ Japan's leading institutions and universities are located, rich in human resources
- ◆ Promote development of new technology and industry through cooperation among government, industry and academia, utilizing such advantages
- ◆ Promote **Leading-edge Industry Development Project** by integrating researches at universities and institutions and technologies of companies and supporting practical development

300 research institutions and universities

- 240 institutions including **Saitama Industrial Technology Center** and **Institute of Physical and Chemical Research**
- 60 universities, including Saitama Univ., Waseda Univ., and IoT, which have their campuses in the prefecture



Appearance of SKIP City

Further expansion of universities and institutions

- Environment-related graduate school of Waseda is located in **Honjo Waseda Research Park** in Honjo, northern Saitama
- Saitama Industrial Technology Center and Sainokuni Visual Plaza are located in **SKIP City** in Kawaguchi, southern Saitama

Leading-edge Industry Development Project supporting next-generation and leading-edge industries

- Saitama Pref., National Institute of Advanced Industrial Science and Technology and New Energy and Industrial Technology Development Organization concluded agreement on developing leading-edge industry, first such cooperation in Japan
- Invest **JPY10bn** to support next-generation industry and create jobs for such industries
- Support financing as well by cooperating with financial institutions in Saitama when business realized
- **Leading-edge industry Development Project** supports corporate R&D in nano carbon, medical innovation, robots, new energy and aerospace



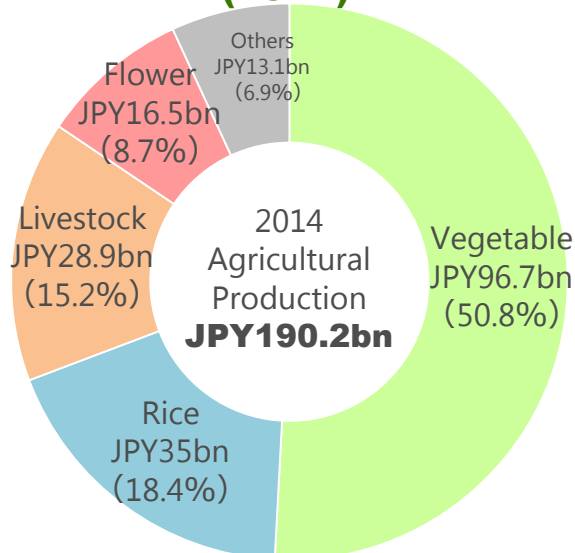
Magnesium Rechargeable Battery

Rising Potential of Saitama ⑥

Strength in Agriculture

- ◆ Agricultural production stood at JPY190.2bn in 2014, ranked #17
- ◆ Located in the Tokyo Metropolitan Area, huge market with one third of Japan's population, Saitama has realized strong agricultural and forestry

Agricultural Production in Saitama (2014)



Sources: "Statistics of Agricultural Income produced" MAFF

Vegetable JPY96.7bn(#6)

Item	Value	Rank
Green Onion	JPY17.9bn	# 1
Spinach	JPY13.6bn	# 1
Taro	JPY7.7bn	# 1
Komatsuna	JPY5.3bn	# 1
Broccoli	JPY4.0bn	#2
Turnip	JPY1.6bn	#2
Edamame	JPY3.5bn	#3



Wheat JPY0.7bn(#5)



Flower JPY16.5bn(#5)

Item	Value	Rank
Pansy(seedling)	JPY0.6bn	# 1
Lily (cut)	JPY3.2bn	#2
Tropical Orchid (potted)	JPY2.6bn	#2
Tulip	JPY0.5bn	#2



Shipment of Sake #4 ! (2015)
Up from #7 in 2010

Rising Potential of Saitama ⑦

Inbound to Saitama

- ◆ Saitama, located conveniently north of Tokyo and full of tourist attractions
- ◆ Eyes inbound utilizing "Saitama Platinum Route"

"Chichibu Night Festival" float festival on Dec. 2-3



"Nagatoro" for river rafting, outdoor activities and natural shaved ice



Institution related to **"Hosokawa Paper"** registered as World's Intangible Cultural Heritage in 2014

"Menuma Shodenzan Temple" Designated as national treasure in 2012



Animation "Lucky Star" pilgrimage site **"Washinomiya Shrine"**



"Hidaka" famous for Koma, District established 1300 years ago, and red spider lilies

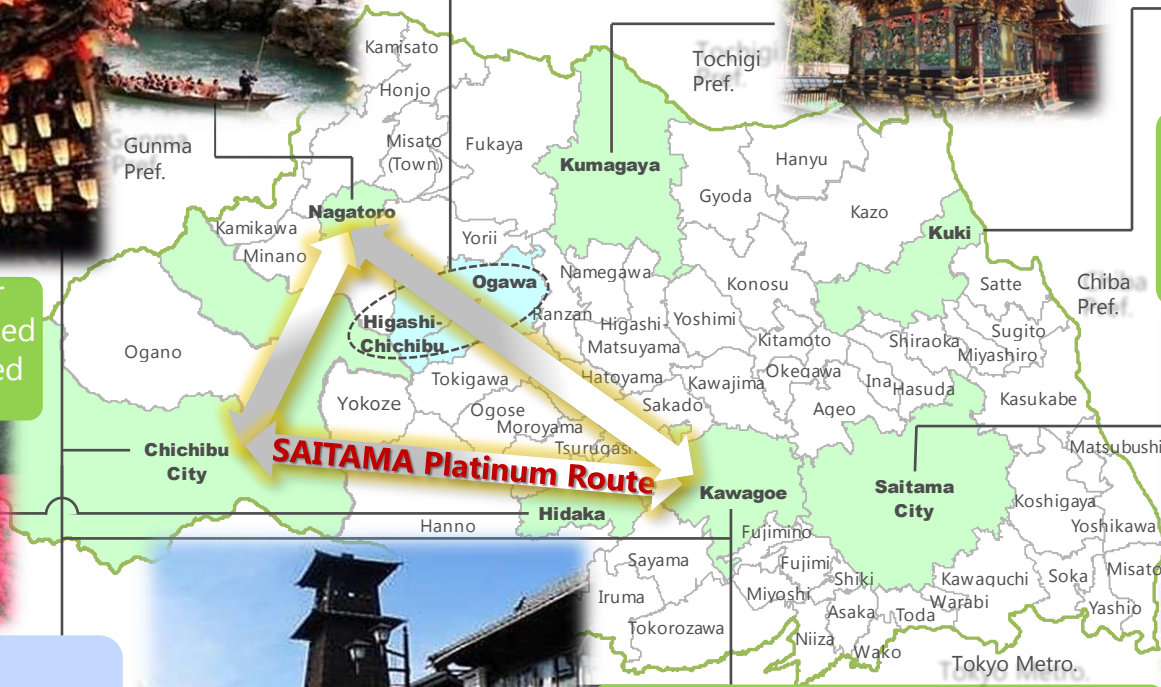


"Chichibu Festival" and **"Kawagoe Hikawa Festival,"** registered as World's Intangible Cultural Heritage for Yama, Hoko, Yatai, float festival elements



"Kawagoe" town retaining culture and aroma of Edo with old storehouses and penny candy lane and attracting **6.7 mil.** Visitors annually

"Railway Museum" with cumulative visitors of 8 mil. and **"Omiya Bonsai Art Museum"** to hold 2017 World Bonsai Convention



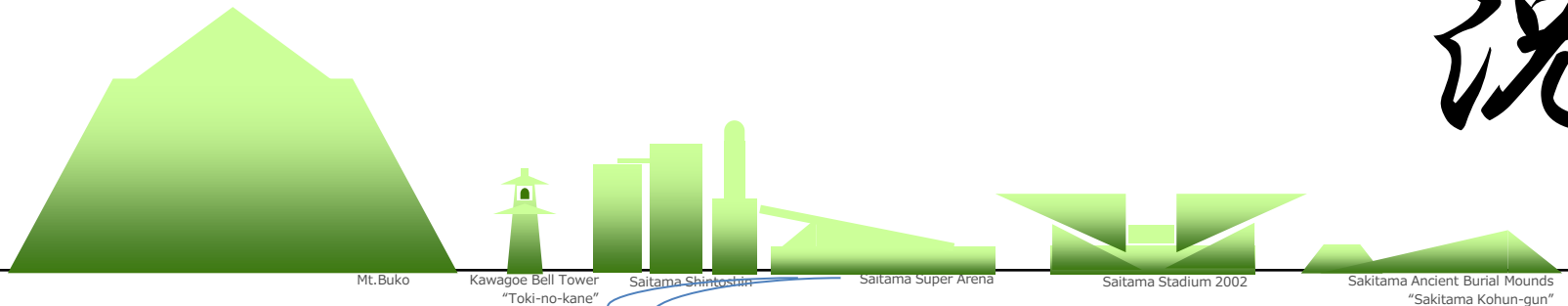
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財政状況



Fiscal Size of Saitama

FY2015 settled accounts of ordinary accounts

- ◆ Eighth largest fiscal size (expenditures) . Economic strength index further improved
- ◆ Increase financial adjustment monies and utilize reserve for welfare and leading-edge industry

Fiscal Size (expenditures)

JPY1,710.2bn (+3.8bn)

Economic Strength index

0.76548(+0.01046)

Total size of financial adjustment monies

JPY81.3bn (+0.4bn)

Total reserve

JPY174.2bn (▲8.7bn)

Comparison with other prefectures (FY2014)

Rank (2013)	Prefecture	Amount (JPY bn)	Rank (2013)	Prefecture	Index	Rank (2013)	Prefecture	Amount (JPY bn)	Rank (2013)	Prefecture	Amount (JPY bn)
1	(1) Tokyo	6,554.0	1	(3) Tokyo	0.92532	1	(1) Tokyo	566.3	1	(1) Tokyo	1,805.1
2	(2) Osaka	2,794.5	2	(1) Aichi	0.92083	2	(2) Osaka	192.8	2	(2) Fukushima	899.9
3	(3) Hokkaido	2,390.9	3	(2) Kanagawa	0.91658	3	(3) Aichi	158.4	3	(3) Miyagi	398.9
4	(4) Aichi	2,247.5	4	(4) Chiba	0.76447	4	(5) Kanagawa	145.2	4	(4) Osaka	345
5	(5) Hyogo	1,997.0	5	(5) Saitama	0.75502	5	(9) Shizuoka	83.2	5	(6) Aichi	243.1
6	(6) Kanagawa	1,950.1	6	(6) Osaka	0.73756	6	(6) Saitama	80.9	6	(5) Iwate	232.1
7	(7) Fukushima	1,910.5	7	(7) Shizuoka	0.69084	7	(32) Chiba	74.0	7	(9) Kanagawa	219.6
8	(8) Saitama	1,706.4	8	(8) Ibaraki	0.61857	8	(8) Nara	66.7	8	(11) Chiba	190
9	(9) Chiba	1,630.9	9	(9) Hyogo	0.60401	9	(7) Iwate	59.3	9	(7) Saitama	182.9
10	(10) Fukuoka	1,611.0	10	(10) Fukuoka	0.59582	10	(11) Fukushima	57.6	10	(14) Shizuoka	164.4

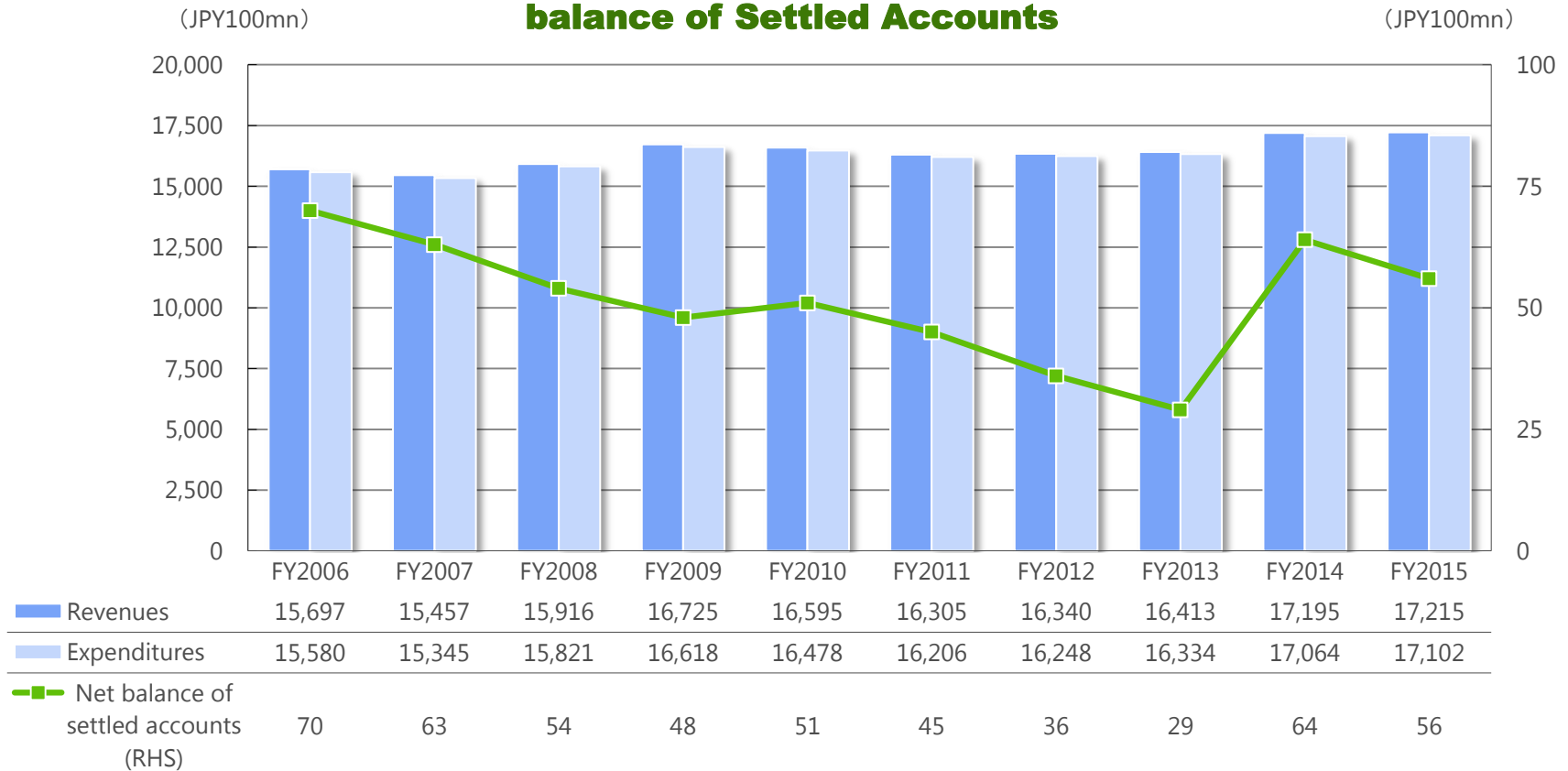
※includes sinking fund

※includes financial adjustment monies on the left

Settled accounts of ordinary accounts

- ◆ Size remains flat. Revenues and expenditures rose for the fourth straight year in FY2015
- ◆ Net balance of settled accounts stands at JPY5.6bn, staying profitable
- ◆ Primary balance of general accounts stands at some JPY50bn, turned profitable

Revenues, Expenditures and Net balance of Settled Accounts



Budget Breakdown ①(income)

- ◆ FY2015 Revenues stood at JPY1,721.5bn, up JPY2bn from a year before
- ◆ Local tax rose JPY107.4bn, accounts over 50% of the total revenues. 11.8pp above prefectural average of 38.7%
- ◆ Local bonds declined by JPY95.6bn, or down 28.7% to JPY237.3bn. Bonds for the extraordinary financial measures decreased by JPY56.5bn

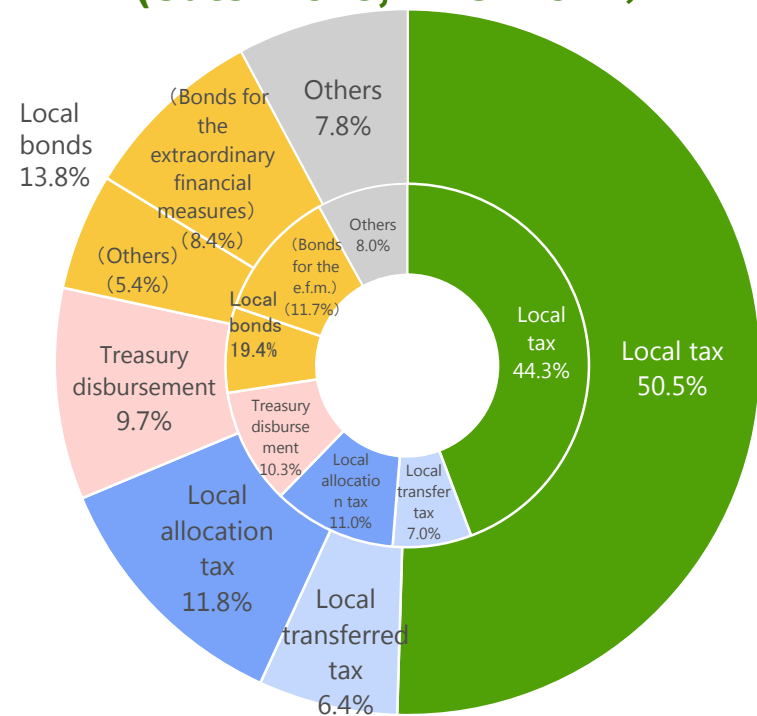
Revenues

(JPY100mn, %)

Revenues	FY2015	FY2014	YoY growth	YoY growth%
Local tax	8,689	7,614	1,074	14.1
Individual inhabitants tax	3,085	3,068	16	0.5
2 local corporation taxes	1,417	1,309	107	8.2
Local transferred tax	1,099	1,205	▲105	▲8.7
Special grants to local gov	36	36	▲0	▲0.7
Local allocation tax	2,039	1,888	150	8.0
Special grants for traffic safety	19	18	1	7.1
Shares and charges	26	21	6	26.9
Rents and fees	320	279	41	14.6
Treasury disbursements	1,668	1,774	▲106	▲6.0
Property Income	113	117	▲4	▲3.1
Contributions	4	4	▲0	▲4.0
Transfers	258	333	▲76	▲22.7
Accounts brought forward	131	79	53	67.1
Miscellaneous	440	499	▲59	▲11.8
Local bonds	2,373	3,329	▲956	▲28.7
Bonds for the extraordinary financial measures	1,452	2,017	▲565	▲28.0
Total	17,215	17,195	20	0.1

* Local tax includes local consumption tax after settlement

Proportion of Revenues (Outer 2015, Inner 2014)



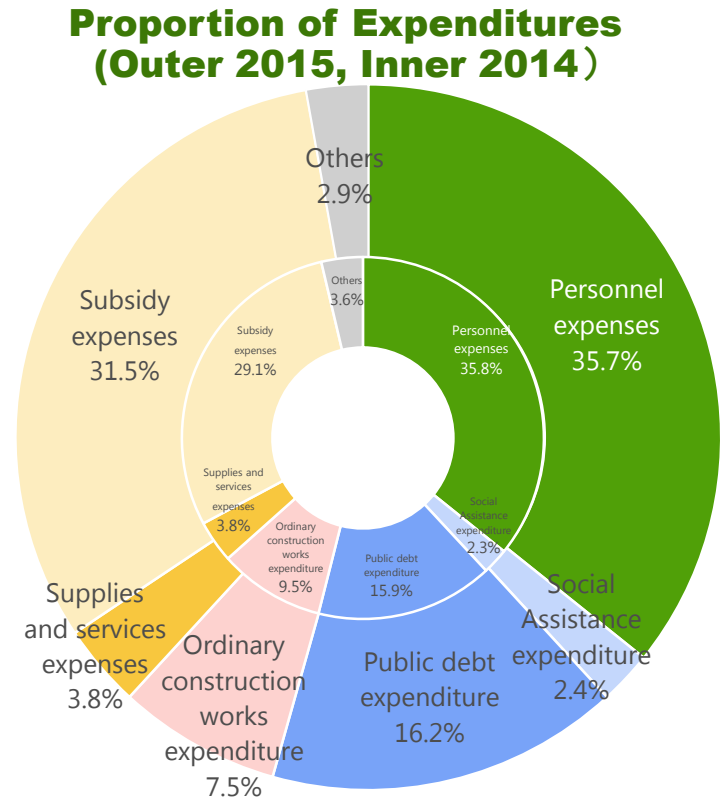
Budget Breakdown ②(expenditure)

- ◆ FY2015 expenditures stood at JPY1,710.2bn, up JPY3.8bn from a year before
- ◆ Growth in subsidy expenses reflects growth in subsidy to municipalities related to local consumption tax
- ◆ Ordinary construction works expenditure decreased due to completion of work in western area as well as Metropolitan Inter-City Expressway

Expenditures

(JPY100mn, %)

Expenditure	FY2015	FY2014	YoY growth	YoY growth%
Labor cost	6,113	6,104	9	0.1
Payment	4,440	4,413	27	0.6
Supplies expenses	651	645	6	1.0
Maintenance and repair	126	124	2	2.3
Social assistance	416	396	20	4.9
Subsidy	5,392	4,969	422	8.5
Ordinary construction works	1,276	1,613	▲337	▲20.9
Subsidized project	468	605	▲137	▲22.6
Independent project	648	782	▲134	▲17.2
Disaster restoration works	28	6	22	381.0
Unemployment measures	-	-	-	-
Debt service expenses	2,770	2,706	65	2.4
Reserves	128	278	▲150	▲53.9
Investment	52	47	5	9.2
Loans	89	109	▲20	▲18.2
Money draws	62	68	▲6	▲9.0
Total	17,102	17,064	38	0.2



* Figures are rounded and may not always equal the sum of the parts

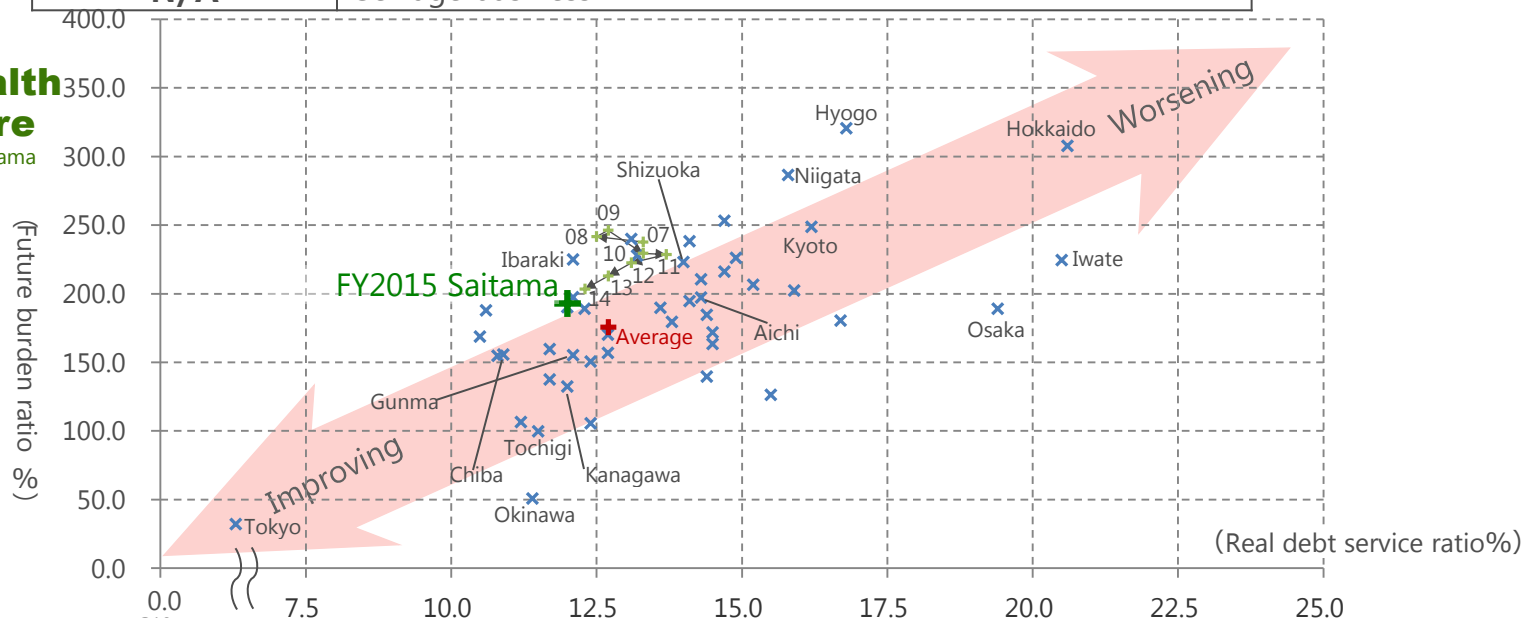
Financial Benchmarks

- ◆ Real deficit ratio and consolidated real deficit ratio show **profitable. No capital insufficiency** in all targeted businesses
- ◆ Real debt service ratio and future burden ratio keep improving yoy and not requires early reconstruction

Financial Benchmarks	Ratios to determine financial health								Current expence/Current income ratio	
	Real deficit ratio		Consolidated real deficit ratio		Real debt service ratio		Future burden ratio		FY2015	FY2014
	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
Saitama Pref.	Profitable	Profitable	Profitable	Profitable	12.0%	12.3%	192.9%	203.5%	94.9%	94.6%
standard to require early reconstruction	▲3.75%	▲3.75%	▲8.75%	▲8.75%	25.0%	25.0%	400.0%	400.0%		
Capital insufficiency ratio	Hospital business, Industrial water utility business, Water provider business, Local development business, Sewage business									
	N/A									

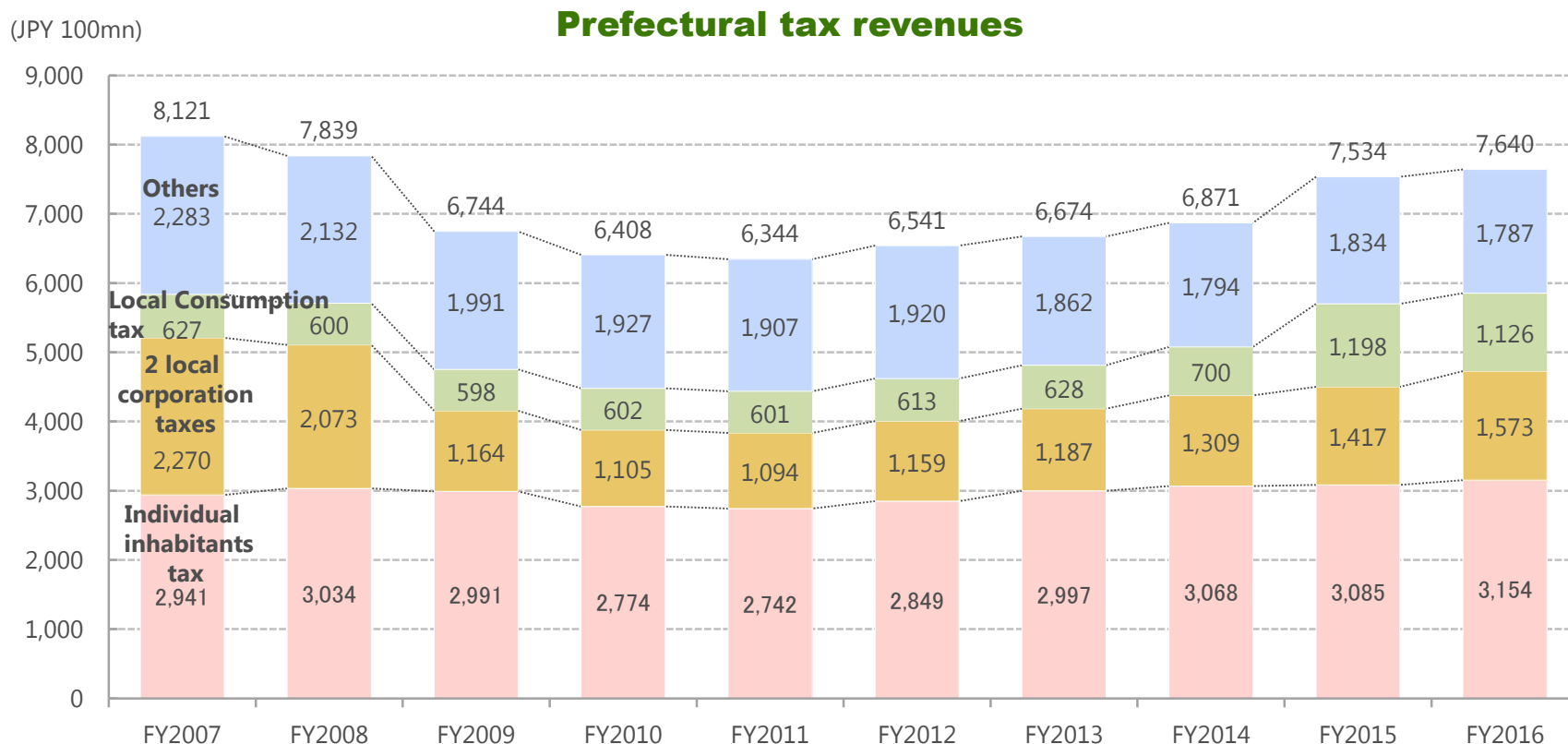
Financial health by prefecture

(figures suggest past Saitama financial health index)



Prefectural Tax Revenues

- ◆ In FY2015, prefectural tax revenue stood at JPY753.4bn, up JPY66.3bn and growing for the fourth straight year
- ◆ FY2016 initial tax revenue budget is JPY764bn, up JPY54bn, or 7.6%
- ◆ Revenues from enterprise tax on corporation, individual inhabitants tax and local consumption tax are expected to increase due to improvement in employment and income, as well as corporate earnings

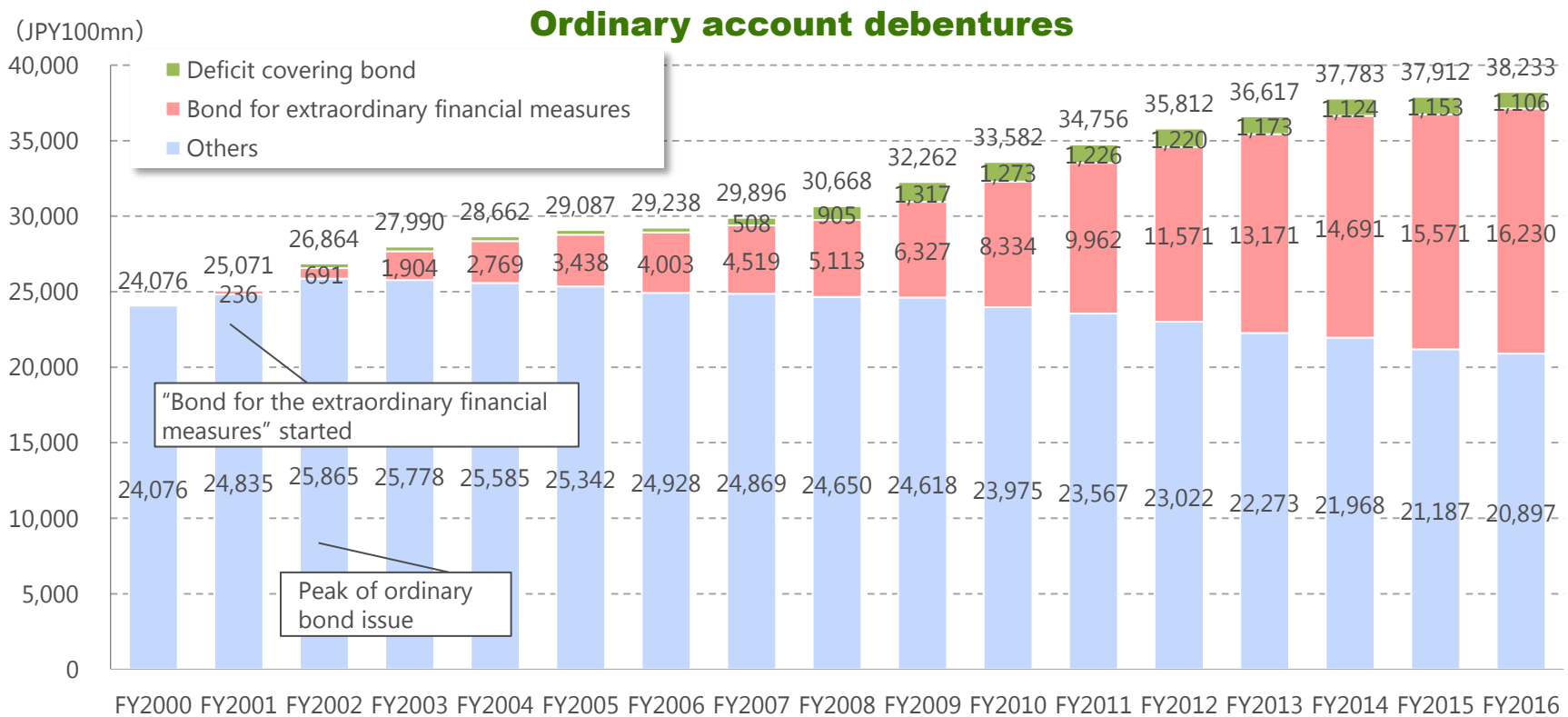


※Figures suggest ordinary accounts (~FY2015) and initial budget for FY2016

Proper Management of Debenture

- ◆ As of the end of FY2015, debentures stood at JPY3,791.2bn, up JPY12.8bn yoy
- ◆ Debentures, controllable by prefecture, declines steadily by proper management (excluding bonds for the extraordinary financial measures, which is substitute of local allocation tax)
- ◆ Debentures per capita stands at JPY520,000, **fifth** lowest levels in Japan*





* on FY2014 Ordinary account basis



※Figures suggest ordinary accounts (~FY2015) and initial budget for FY2016

Local Public Corporations financial conditions

- ◆ 3 local public corporations (Saitama Prefectural Development Public Corp., Saitama Toll Roads Corp. and Saitama Housing Provision Corp.) are profitable under **sound management**, intending further improvement
- ◆ In FY2014, Saitama prefecture supported Saitama Railway Corp. ("SR") by issuing third sector bonds. SR **turned profitable for the first time ever** following drastic restructure by Business Revitalization ADR

		Saitama Prefectural Development Public Corp. 		Saitama Toll Roads Corp. 		Saitama Housing Provision Corp. 		Saitama Railway Corp. 		
		FY2015	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014	
Investment	Investment by prefecture	1	1	115	115	0.4	0.4	590	590	
	Investment ratio	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	49.3%	49.3%	
BS	assets	Floating asset	67	54	3	3	51	44	73	49
		Fixed asset	3	4	350	350	217	224	618	635
		Total asset	70	58	352	352	267	268	691	685
	liabilities	Floating liabilities	4	2	1	1	31	34	31	31
		Fixed liabilities	33	22	69	79	94	97	601	597
		Total liabilities	36	24	236	236	126	131	633	628
	net assets	capital	1	1	115	115	0	0	1	1
		surplus	33	33	2	1	141	136	57	56
		Total net assets	34	34	117	116	142	137	58	57
	Total		70	58	352	352	267	268	691	685
Income statement	Operating profit/Loss	▲ 0	▲ 0	1	1	3	5	22	▲ 5	
	Recurring profit/Loss	0	0	0	0	5	4	15	▲ 22	
	Profit/Loss	0	0	0	0	5	4	21	▲ 443	

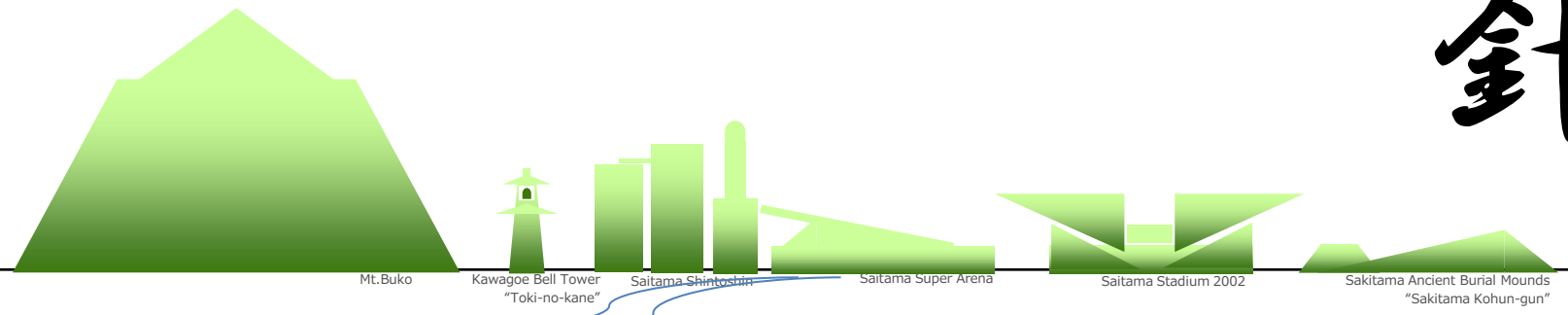
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三
起債方針

1 Overview of Saitama Pref.

2 Fiscal Position

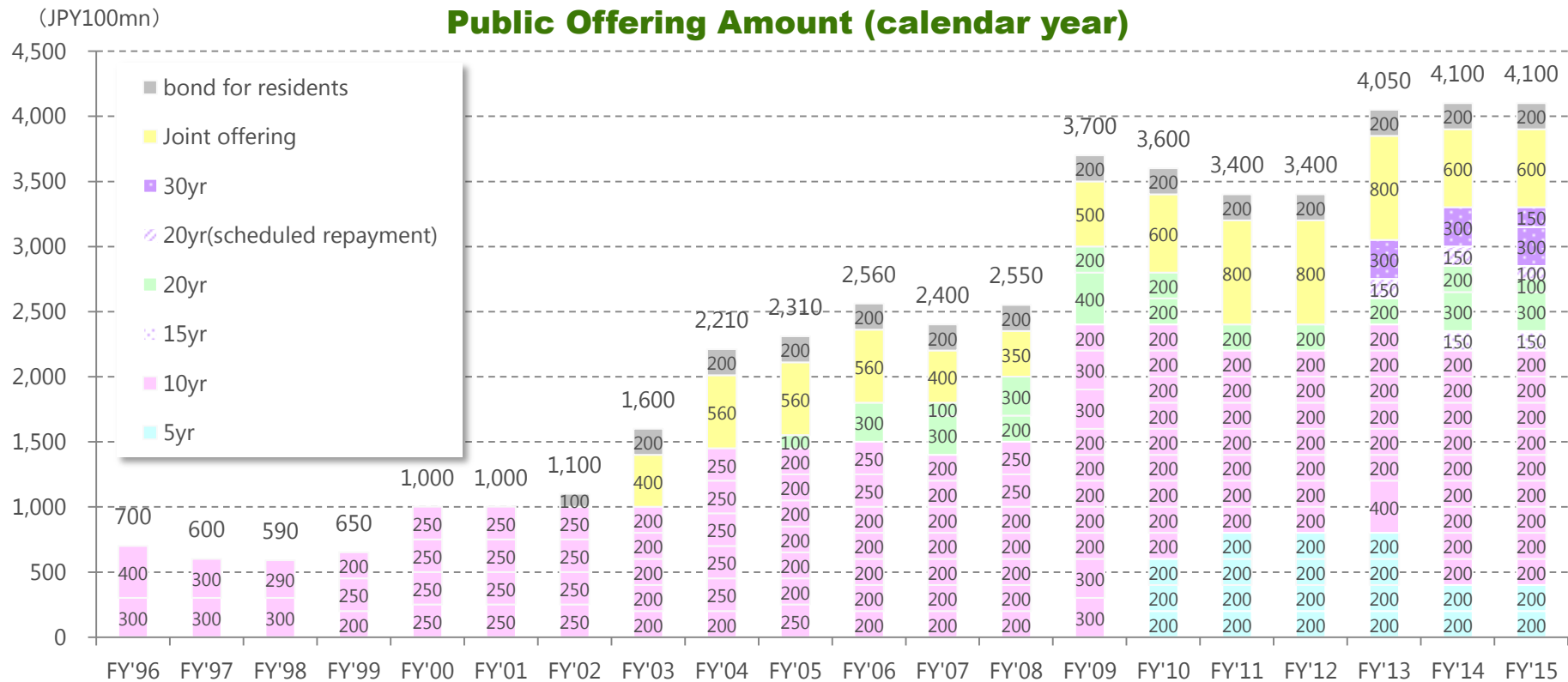
3 Bond Issue Policies



Funding Policy & Issue Record


Saitama Pref. funding policy **Stable Funding**

1. Maintain issue size and frequency of public offering
2. Varying maturities and flexible issuance reflecting market conditions and demand
3. Communication with market through IR activities and acquisition of rating
4. Expand investor base to create sustainable Saitama Pref. bond market
5. Diversified issue types leading to reduction in national debt service expenditure



FY2016 Public Offering and Plan

- ◆ Syndicate underwriting and premarketing were introduced for 5-yr tranche, as well as pricing based on absolute yield and above par issuance, first for local bond issuance
- ◆ 10-yr tranche, including joint offering, is priced based on both spread and absolute yield
- ◆ Saitama's first 30-yr bond, ultra long term bond, issued with book over 2.5 times covered. Issue size of 20-yr tranche was increased by JPY10bn
- ◆ Japan's First 25-yr bond issued in October won **1st prize for regional bond in Nikkei Veritas "Deal of the year 2016"**.

	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total (JPYbn)
10yr	JPY20bn 0.080% C+14.5bp	JPY20bn 0.080% (+14.0bp)	JPY20bn 0.070% (+14.0bp)	JPY20bn 0.050% (+14.0bp)		JPY20bn 0.085% C+13.0bp				JPY20bn 0.180% C+12.0bp	JPY20bn 0.249% C+14.0bp	JPY20bn	160
5yr	JPY20bn 0.020% —						JPY20bn 0.001% * —						40
20yr		JPY10bn 0.323% C+4.5bp							JPY10bn 0.536% C+4.5bp				20
Flexible	(30y-sr) JPY15bn 0.495% MS+20bp	(20yr) JPY10bn added		(30yr) JPY30bn 0.260% (T+12bp)			(25yr) JPY15bn 0.543% T+9bp	(20y-sr) JPY15bn 0.260% MS+10bp	(20yr) JPY10bn added	(15yr) JPY10bn 0.430% T+11bp	(30yr) Approximately JPY10bn		120
Joint offering (10yr)	JPY8bn 0.080%	JPY10bn 0.080%		JPY8bn 0.050%	JPY10bn 0.060%			JPY6bn 0.050%			JPY8bn 0.245%		50
Bond for residents (5yr)													-
Total (JPYbn)	63	50	20	58	10	20	35	21	20	30	28	20	JPY390

※Spreads are tentative figures estimated by syndicate. Spreads in parenthesis are for pricing (not used) *Coupon around 0.0006%

Figures without spreads are for planned issuance sr: scheduled repayment bond

Issue Rating

- ◆ Rated AA+ by R&I on December 27, 2016
- ◆ Strengthen creditworthiness in the bond market by acquisition of rating for stable financing
- ◆ Outlook changed to negative from stable on June 7, 2016, after outlook of Japan Government Bond changed

<Rating> **AA+** : Very high credit with excellent factors
 -Saitama has maintained the rating since the prefecture acquired the rating in 2008

<Outlook> **Negative** : could be downgraded

<Rating Rationale (overview)>

- Japan's key industrial prefecture with a variety of manufacturers. Transportation infrastructure and promotion to attract companies resulted in large scale plants and supporting SMEs spreading in the prefecture. It has high potential and further economic growth is expected due to full operation of the Metropolitan Inter-City Expressway in the area
- Further improvement in services for inhabitants, economic revitalization and well-balanced prefectural administration are expected to continue

Rating	Definition	Issuer (regional and central)
AAA	Highest creditworthiness supported by many excellent factors	—
AA	Very high creditworthiness supported by some excellent factors	AA+: Tochigi Pref., Saitama Pref. , Shizuoka Pref., Aichi Pref., Kobe City, Japan
		AA: Miyagi Pref., Fukui Pref., Nara Pref., Okayama Pref., Tokushima Pref., Saga Pref., Chiba City
A	High credit worthiness supported by a few excellent factors	

* Rating by R&I

IR info website, Key contact

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Thank You!

Saitama Prefectural Mascots
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