

September 2016



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.

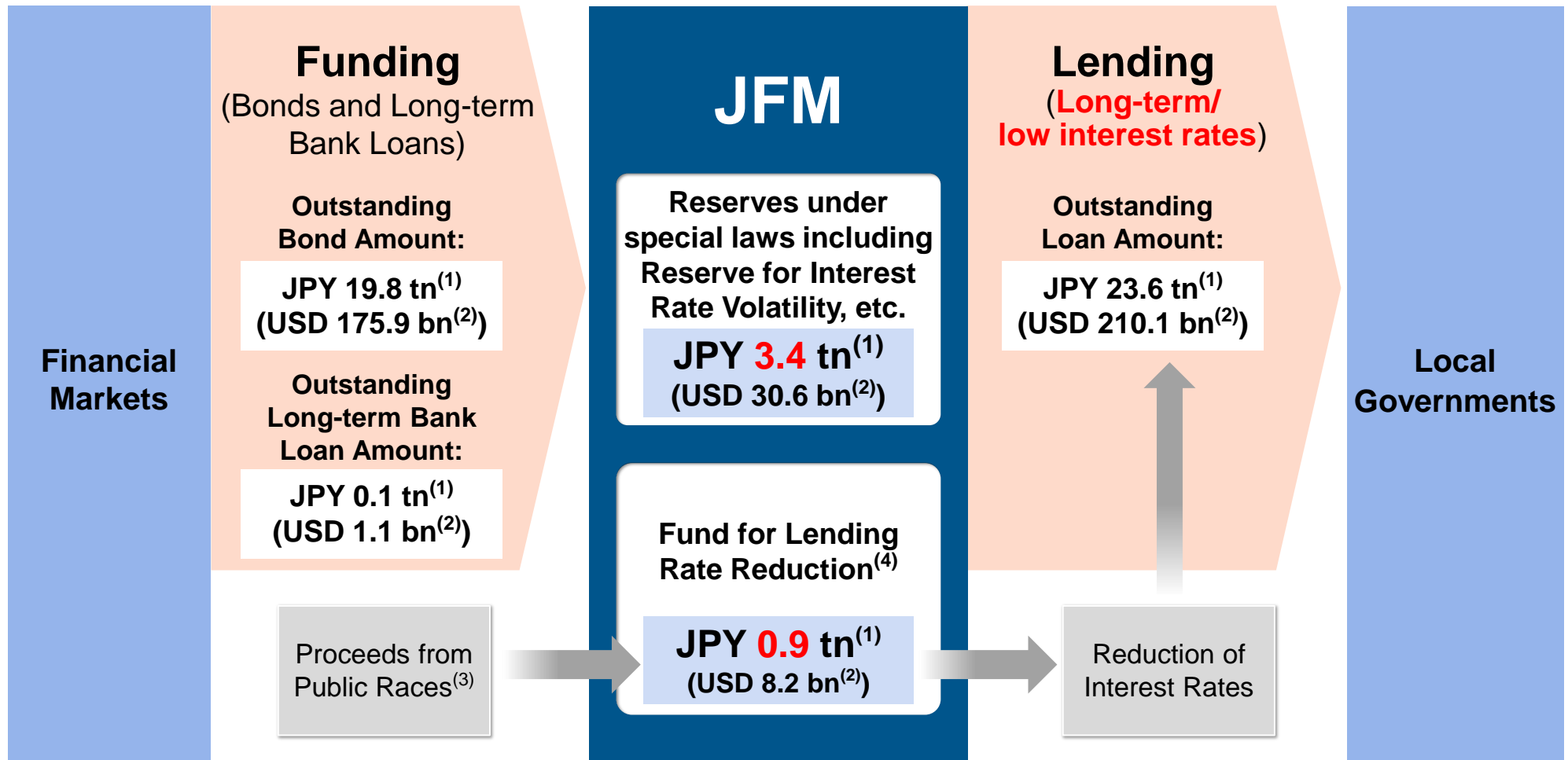
A Joint Funding Organization for Local Governments

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”) ■ JFM 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 147.4 mm)^{(1) (2)} ■ 100% owned by Japanese local governments <ul style="list-style-type: none"> – Capitalized by all 1,789 local governments and some local government associations of Japan (as of 31 March 2016) (e.g., Tokyo, Osaka, Yokohama and Nagoya)
Outstanding Loan Balance	<ul style="list-style-type: none"> ■ JPY 23.6 tn (USD 210.1 bn)^{(1) (2)} <ul style="list-style-type: none"> – Providing loans to 2,160 public institutions in Japan including almost all local governments (as of 31 March 2016)
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

(1) As of 31 March 2016.

(2) USD 1 = JPY 112.63 as of 31 March 2016.

Basic Framework of JFM's Business Operations



(1) As of 31 March 2016.

(2) USD 1 = JPY 112.63 as of 31 March 2016.

(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

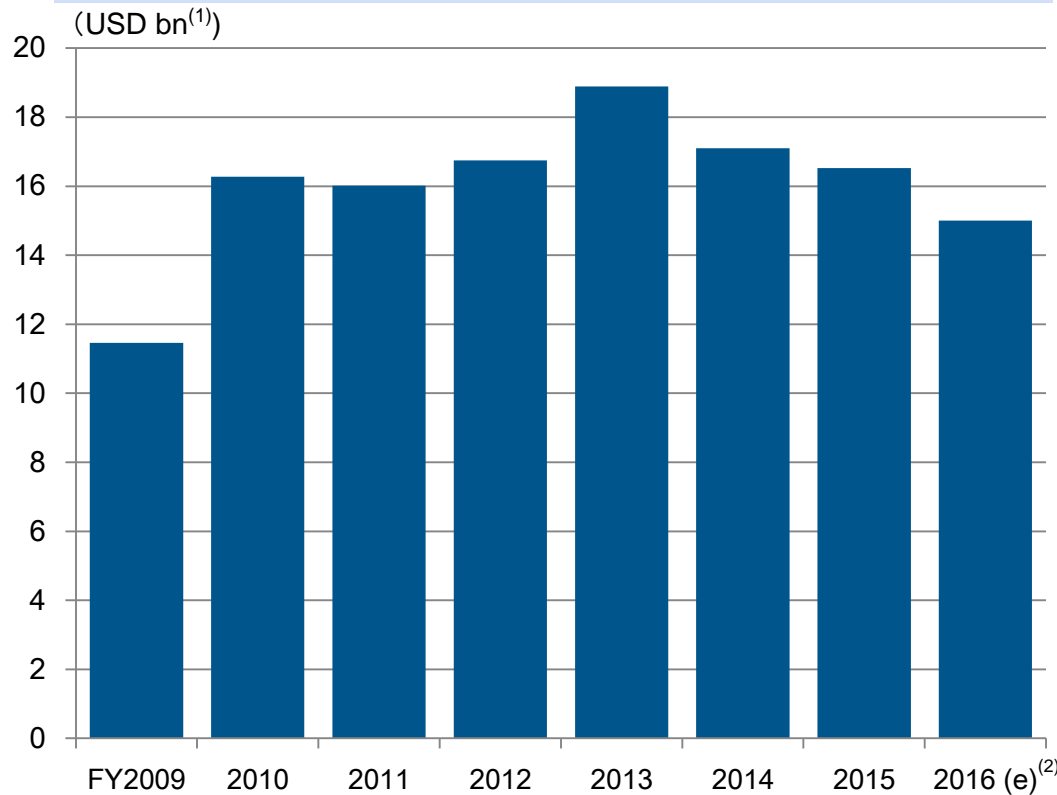
Issuer	JFM	AFL (Agence France Locale)	BNG (Bank Nederlandse)	KBN (Kommunalbanken)	KK (KommuneKredit)	KOMINS (Kommuninvest)	MuniFin (Municipality Finance)	JBIC	DBJ
Issuer Rating (Moody's/S&P)	A1/A+	Aa3/ -	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aa1/AA+	A1/A+	A1/A
Sovereign Rating	A1/A+	Aa2/AA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aa1/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 until 2013.

Annual Lending Volume

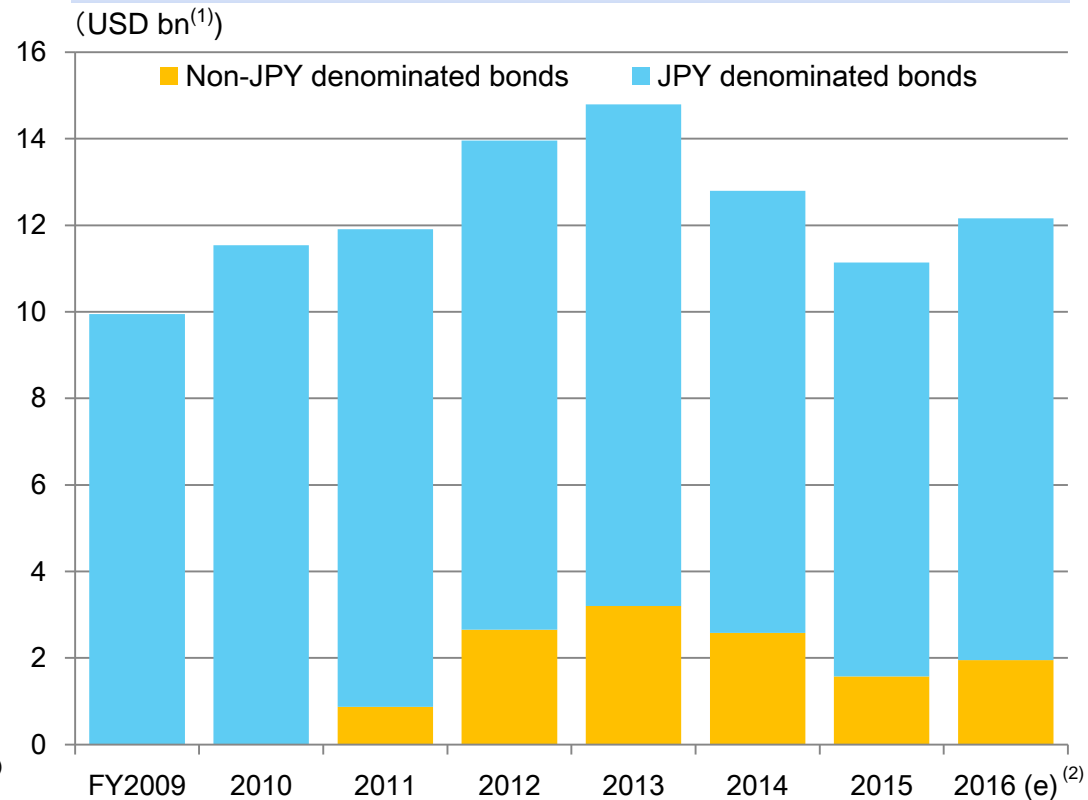


(1) USD 1 = JPY 112.63 as of 31 March 2016.

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

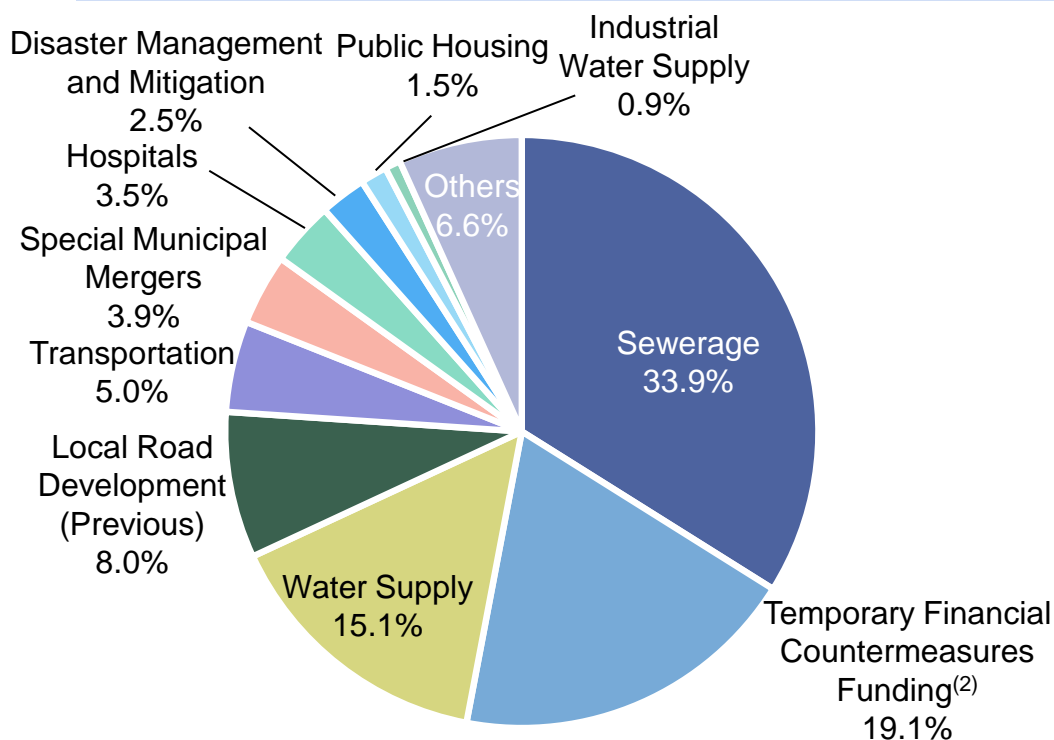
- The annual volume of non-guaranteed bond issuance has generally increased since 2009, corresponding to the increase in generally the lending volume.

Bond Issuance (Non-Guaranteed)

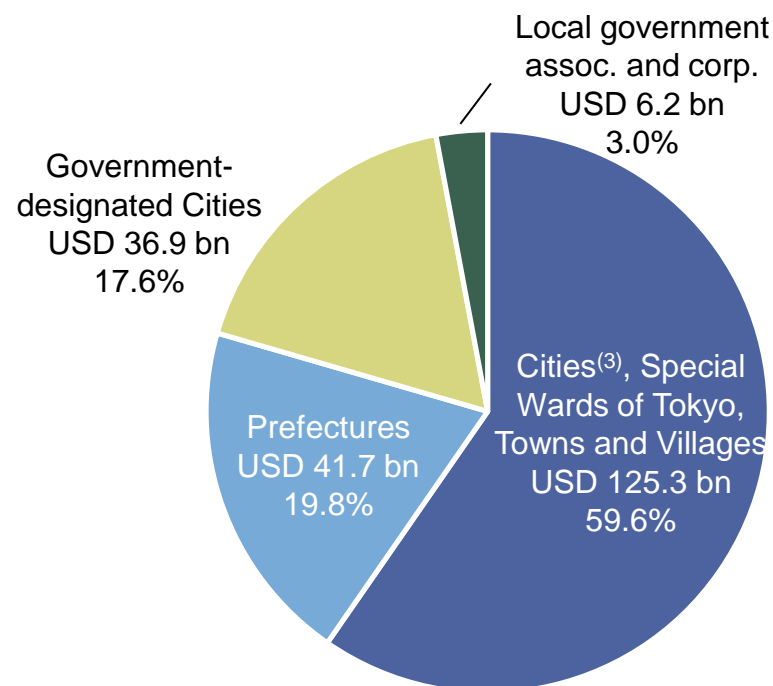


Breakdown of Outstanding JFM's Loan Portfolio

By Business⁽¹⁾



By Borrower⁽¹⁾



Total of USD 210.1 bn⁽¹⁾⁽⁴⁾ (JPY 23.6 tn)

(1) As of 31 March 2016.

(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 112.63 as of 31 March 2016.

Capital Market Activities

Funding Plan

FY 2015

FY 2016

Type of Bonds	FY ended 31 March 2016 (Plan) ⁽¹⁾⁽²⁾	FY ended 31 March 2016 (Achieved) ⁽¹⁾	FY ending 31 March 2017 (Plan) ⁽¹⁾⁽²⁾
Non-guaranteed	USD 11.5 bn	USD 11.1bn	USD 12.2 bn
Domestic Issuance	USD 8.1 bn	USD 9.6 bn	USD 9.1 bn
GMTN	USD 2.0 bn	USD 1.6 bn	USD 2.0 bn
Open Issuance ⁽³⁾	USD 1.5 bn	-	USD 1.2 bn
Guaranteed Domestic issuance only	USD 6.4 bn	USD 6.4 bn	USD 5.3 bn
Bank Loans	-	USD 0.3 bn	USD 0.3 bn
Total Funding Amount	USD 17.8 bn	USD 17.8 bn	USD 17.8 bn

(1) USD 1 = JPY 112.63 as of 31 March 2016.

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

(3) Details of issuance such as tenor, issue size and issue market will be determined as necessary based on the lending status, market conditions and other factors.

Funding Activities in International Capital Markets

JFM continues to access international capital markets through public transactions as well as private placements.

■ Public Issuance (Outstanding)

Programme	Issue Date	Format	Currency	Issue Amount	Coupon (%)	Tenor
GMTN	13 Apr 2016	Rule 144A / Reg.S	USD	1,500 mm	2.125	5y
	12 Feb 2016	Rule 144A / Reg.S	USD	500 mm	2.125	5y
	21 Apr 2015	Rule 144A / Reg.S	USD	1,000 mm	2.000	7y
	13 Feb 2015	Rule 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	Rule 144A / Reg.S	USD	1,000 mm	2.125	5y
	12 Sep 2013	Rule 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.

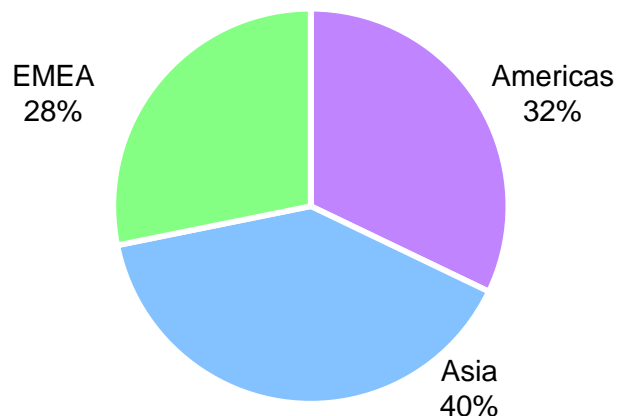
2.125% USD 1.5bn 5yr Bonds Deal Summary (Apr-2016)

Made mandate announcement 1 week prior to the pricing to cultivate potential demand

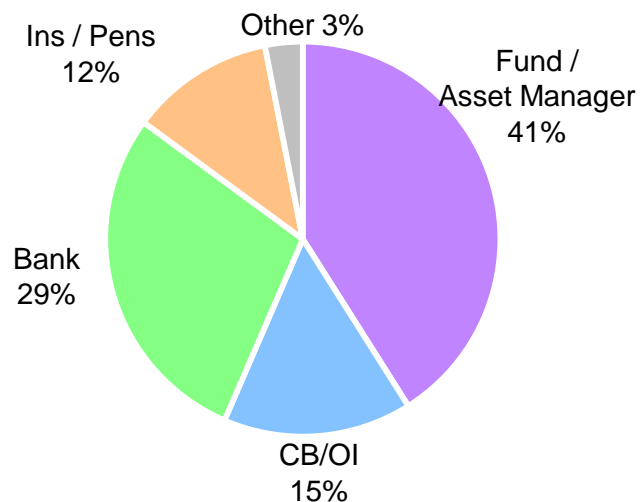
Well diversified geographical and investor base under improved market sentiment

Final order book exceeded USD 2.75bn

Distribution by Geography



Distribution by Investor



Issue Details

Issuer:	Japan Finance Organization for Municipalities ("JFM")
Format:	144A / Reg.S (GMTN Programme)
Ratings:	A1 / A+ (Moody's / S&P)
Tenor:	5yr
Issue Size:	USD 1.5 billion
Pricing Date:	6 th April 2016
Issue Date:	13 th April 2016
Maturity Date:	13 th April 2021
Re-offer Spread:	MS+100bp (UST5+96.7bp)
Coupon:	2.125%
Issue Price:	99.780%
Listing:	London / TOKYO PRO-BOND Market
Lead Managers:	BofAML / Daiwa / GS / JPM

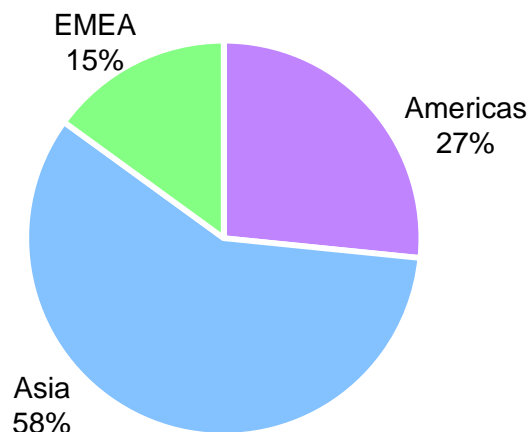
2.125% USD 500m 5yr Bonds Deal Summary (Feb-2016)

Carefully observed investor sentiment under globally volatile market condition

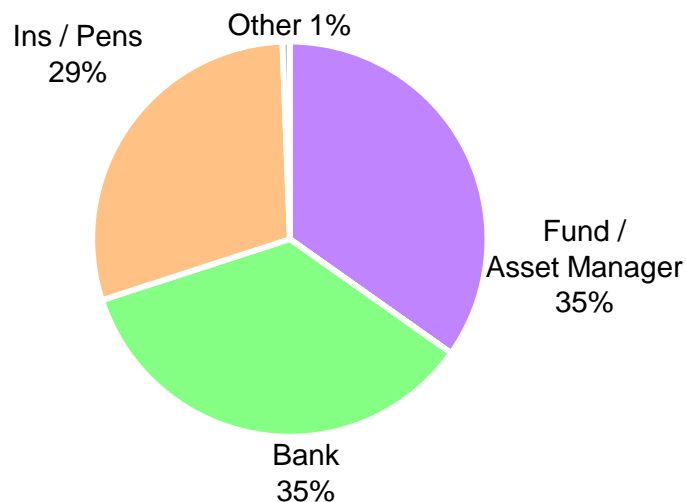
First 5yr USD denominated public bonds for JFM since March 2014

Achieved favorable funding cost supported by USD/JPY cross currency basis swap

Distribution by Geography



Distribution by Investor



Issue Details

Issuer:	Japan Finance Organization for Municipalities ("JFM")
Format:	144A / Reg.S (GMTN Programme)
Ratings:	A1 / A+ (Moody's / S&P)
Tenor:	5yr
Issue Size:	USD 500 million
Pricing Date:	4 th February 2016
Issue Date:	12 th February 2016
Maturity Date:	12 th February 2021
Re-offer Spread:	MS+95bp (UST5+92.0bp)
Coupon:	2.125%
Issue Price:	99.774%
Listing:	London / TOKYO PRO-BOND Market
Lead Managers:	Barclays / Citi / Nomura

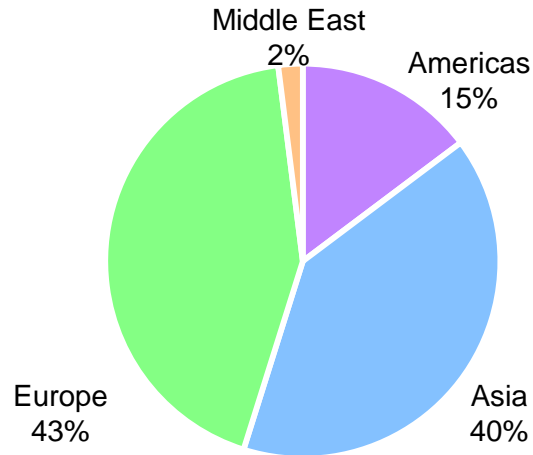
2.000% USD 1 bn 7yr Bonds Deal Summary (Apr-2015)

First 7yr USD non-government guaranteed benchmark transaction for JFM

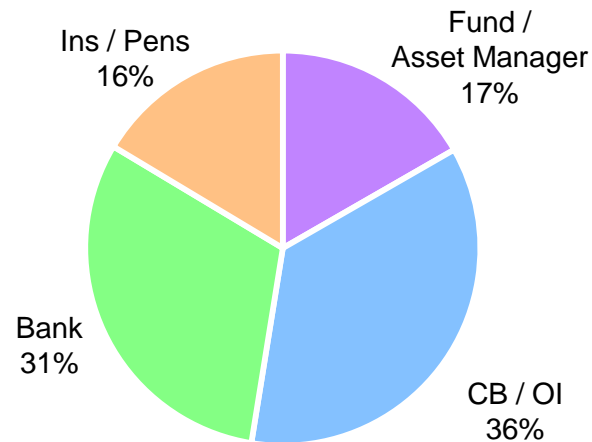
Over USD 1.6bn order book

Achieved a re-offer spread of MS+38bp

Distribution by Geography



Distribution by Investor



Issue Details

Issuer:	Japan Finance Organization for Municipalities ("JFM")
Format:	144A / Reg.S (GMTN Programme)
Ratings:	A1 / AA- (Moody's / S&P)
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 (UST7+46.1bp)
Coupon:	2.000%
Issue Price:	99.391%
Listing:	London
Lead Managers:	BofAML / Daiwa / MS

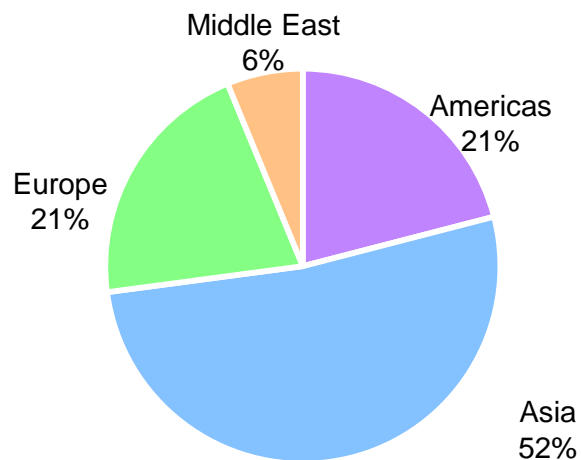
2.375% USD 1 bn 10yr Bonds Deal Summary (Feb-2015)

First 10yr USD non-government guaranteed benchmark transaction for JFM

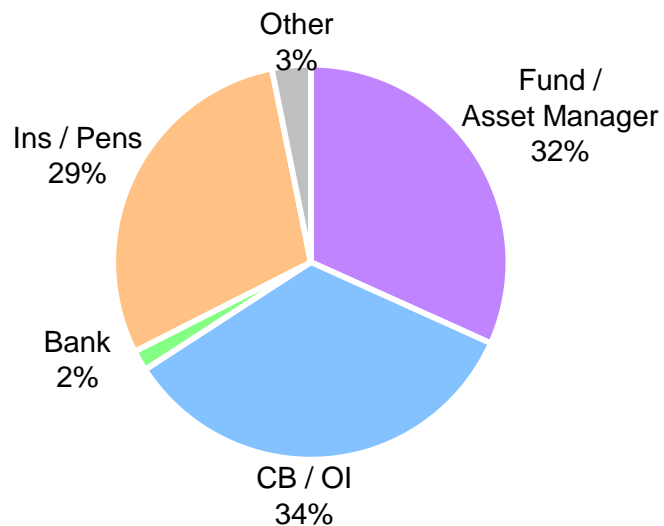
Over USD 1.4 bn order book

Achieved a re-offer spread of MS+48bp

Distribution by Geography



Distribution by Investor



Issue Details

Issuer:	Japan Finance Organization for Municipalities ("JFM")
Format:	144A / Reg.S (GMTN Programme)
Ratings:	A1 / AA- (Moody's / S&P)
Tenor:	10yr
Issue Size:	USD 1 bn
Pricing Date:	5 th February 2015
Issue Date:	13 th February 2015
Maturity Date:	13 th February 2025
Re-offer Spread:	MS+48bp (UST10+61.2bp)
Coupon:	2.375%
Issue Price:	99.611%
Listing:	London
Lead Managers:	Barclays / Goldman Sachs / J.P. Morgan

Appendix

History of JFM

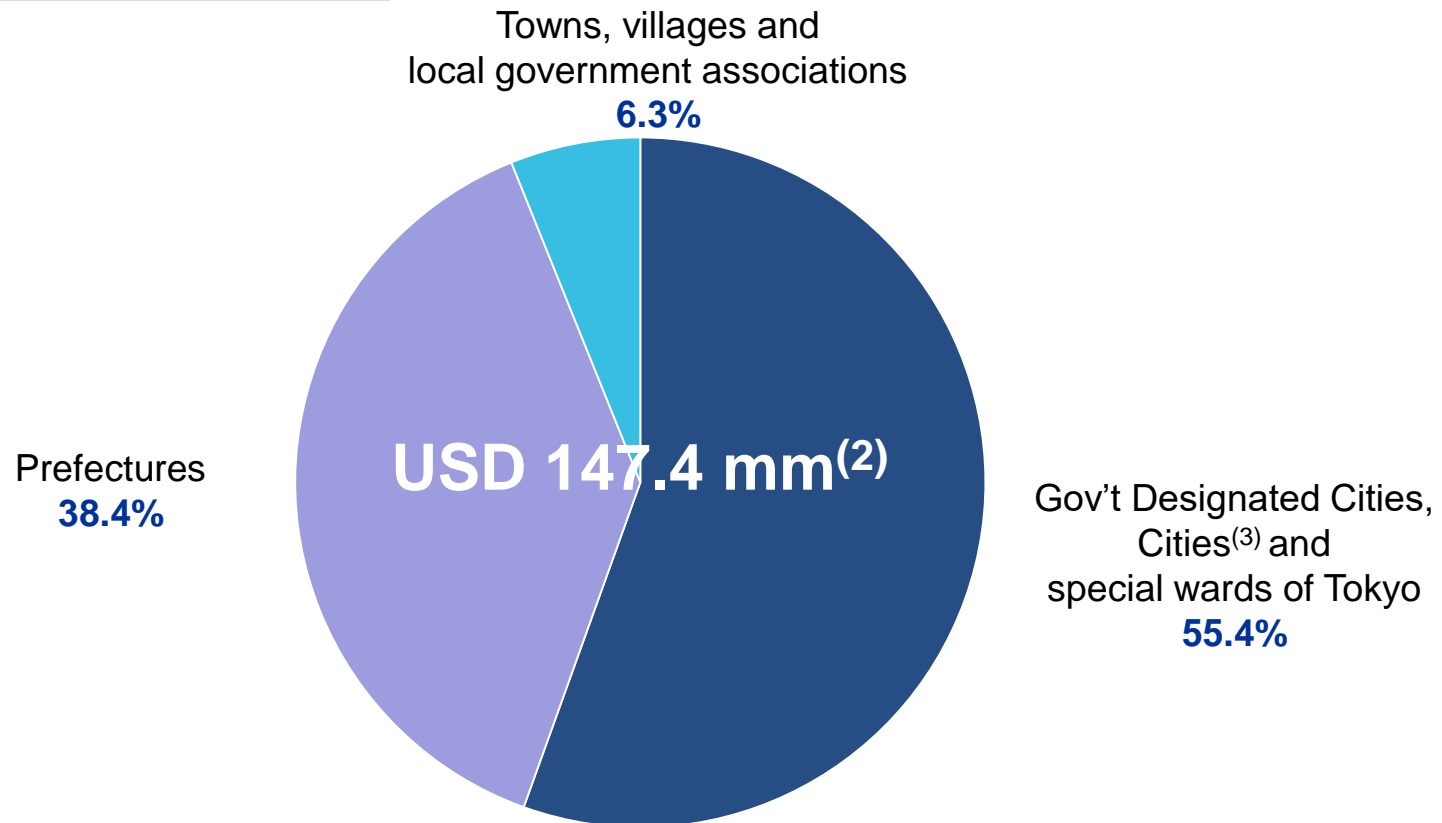
- As a result of the reorganisation mandated by the policy-based financial reform, JFM's ownership transferred from the national government to local governments.
- Despite the structural change, JFM has strong ties with the national government, playing a vital role in the funding system for local governments.

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 147.4 mm⁽¹⁾⁽²⁾) contributed by 1,789⁽¹⁾ Japanese local governments.

Amount of Capital Contribution⁽¹⁾



(1) As of 31 March 2016.

(2) USD 1 = JPY 112.63 as of 31 March 2016.

(3) 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.

Local Government System in Japan

National Government

- Foreign affairs
- National defense
- Monetary policy

Local Governments

1,789 Prefectures, Cities, Towns, Villages, Special Wards, and local associations*

- Prefectures:

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

- Cities, Towns, Villages, and Special Wards:

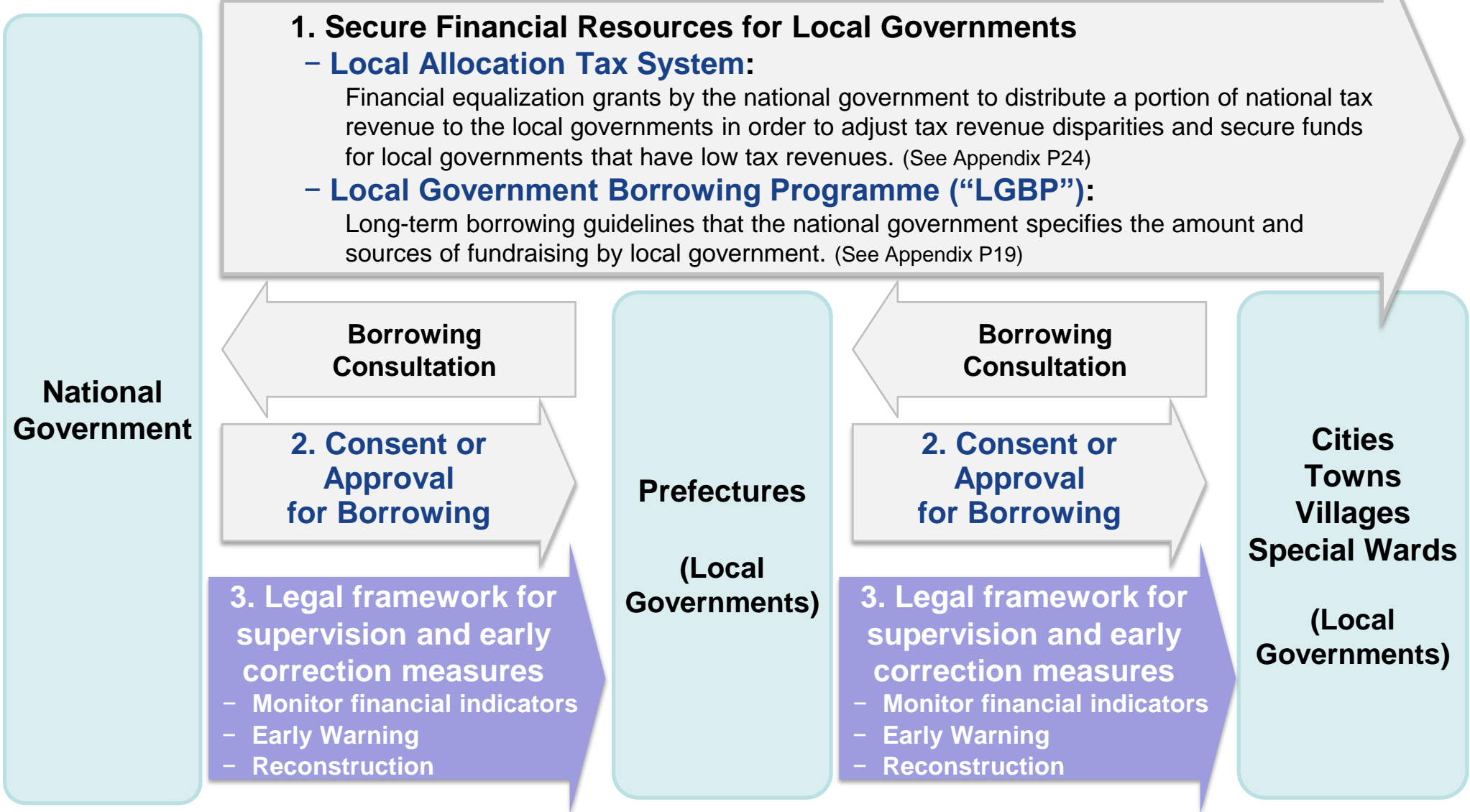
Handling administrative issues related to their respective regions,
e.g., Yokohama, Nagoya, Sapporo

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

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

*As of 31 March 2016.

Systems Designed to Secure Financial Soundness of Local Governments

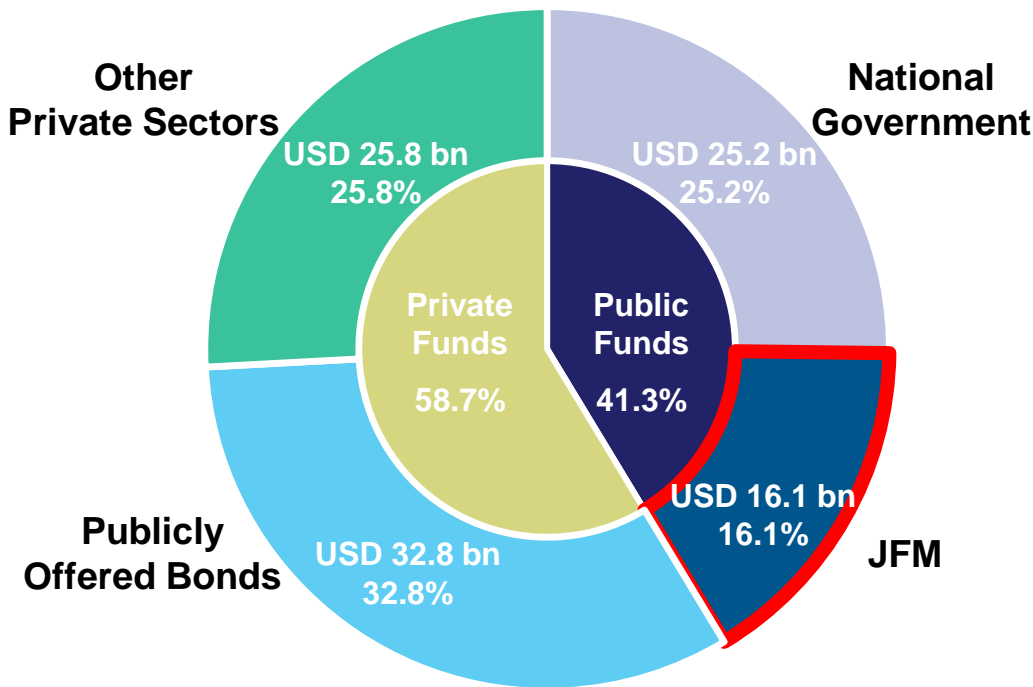


Local Government Borrowing Programme

- Long-term borrowing guidelines prepared by the national government each fiscal year
- Specifies the amount and sources of local government fundraising
- Each local government raises funds within this amount.
- The total amount of JFM funds is based on the LGBP, and JFM funds account for around 16% of local government funding.

Funding measures of local governments

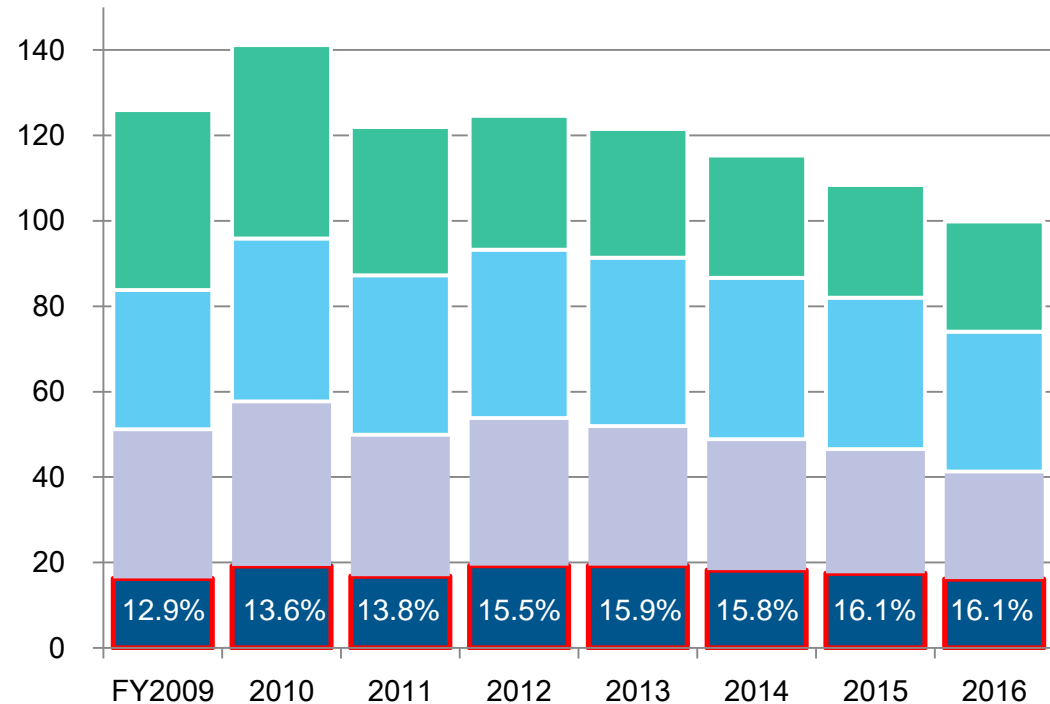
LGBP for FY 2016 : Total USD 99.9 bn



Funding amount of local governments (Initial plan)

(USD bn*)

- Other Private Sectors
- Publicly Offered Bonds
- National Government
- JFM Funds



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

* USD 1 = JPY 112.63 as of 31 March 2016.

Source: Ministry of Internal Affairs and Communications



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 (Loans (assets) duration : 8.96 years*)
- Funding: Issuing bonds mainly with 10-year maturities (Bonds (liabilities) duration: 7.66 years*)

Duration gap in the general account:
1.30 years*

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

■ Reserves for Interest Rate Volatility

- JFM maintains reserves for interest rate volatility (totaled USD 30.6 bn*) 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.

*As of 31 March 2016.

Financial Performance

Balance Sheet

(USD bn*)

	As of 31 Mar. 2016	Change from 31 Mar. 2015
Total Assets	218.8	+1.06
Loans	210.1	+2.01
Total Liabilities	216.9	+0.68
Bonds	175.8	+2.28
Reserves	30.6	-1.43
Total Net Assets	1.9	+0.38
Capital	0.1	0

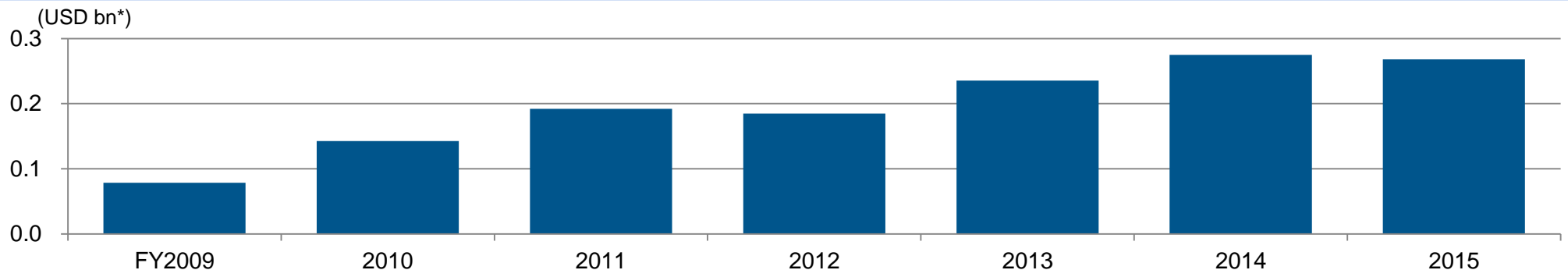
Statement of Income

(USD bn*)

	12 months ended 31 Mar. 2016	Change from 31 Mar. 2015
Income	3.62	-0.24
Interest Income	3.59	-0.21
Expenses	2.12	-0.13
Interest Expenses	2.05	-0.14
Ordinary Income	1.50	-0.10
Net Special Gains (Losses)⁽¹⁾	(1.23)	+0.10
Net Income	0.27	-0.01

(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 FY2015.

Stable Net Income

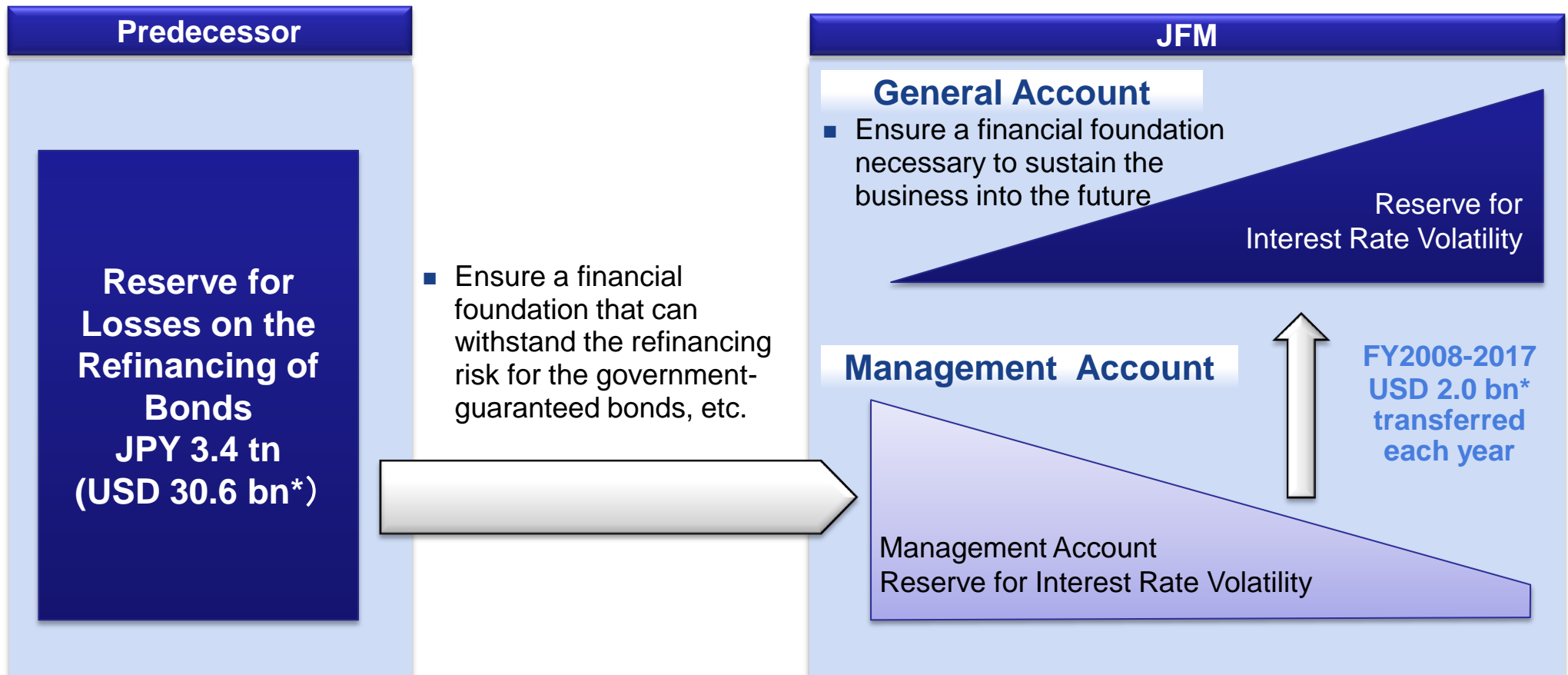


* USD 1 = JPY 112.63 as of 31 March 2016.

General Account and Management Account

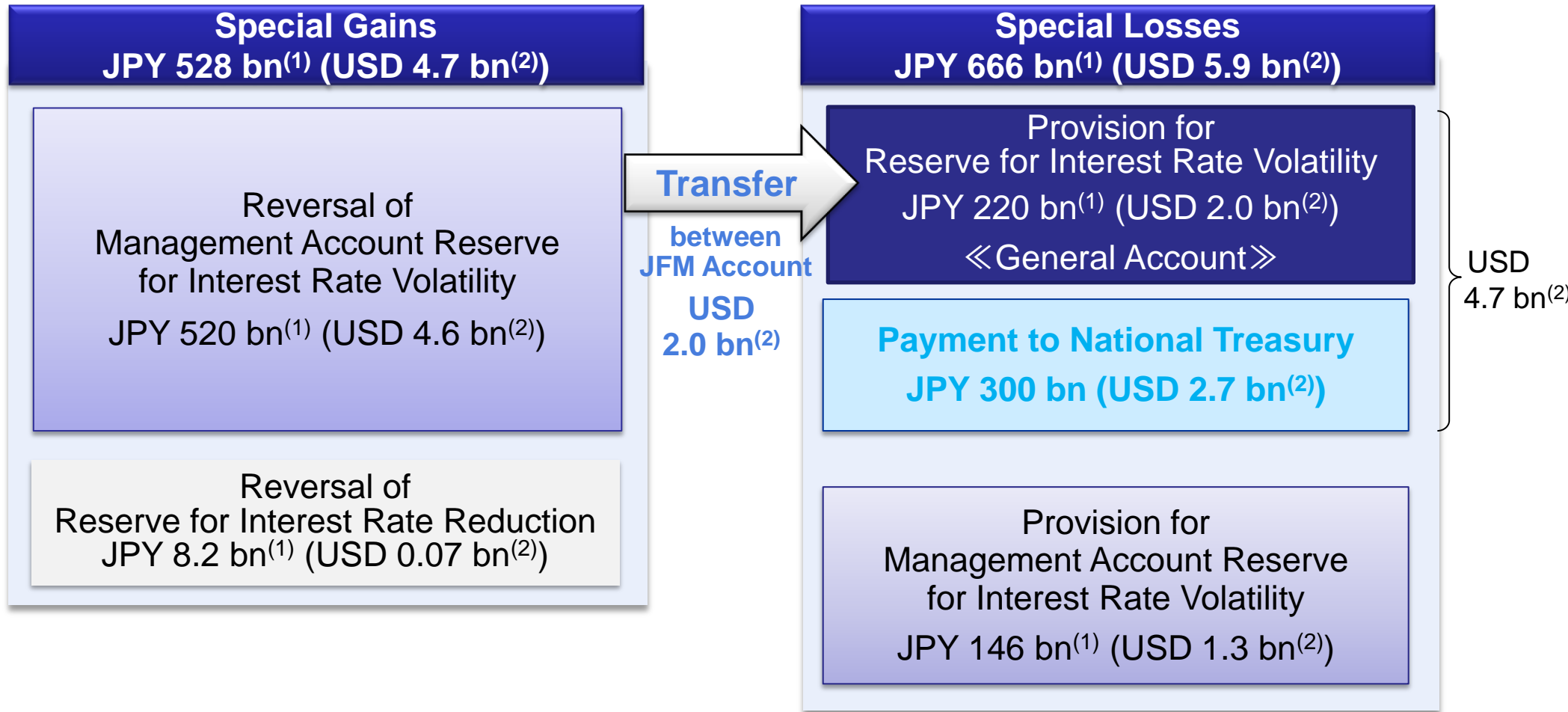
- **General Account:** New loans to be extended and new bonds to be issued by JFM (since 2008).
- **Management Account:** Legacy operations to manage loans carried over from the predecessor.

JFM's Reserves under Special Laws



* USD 1 = JPY 112.63 as of 31 March 2016.

Special Gains and Special Losses

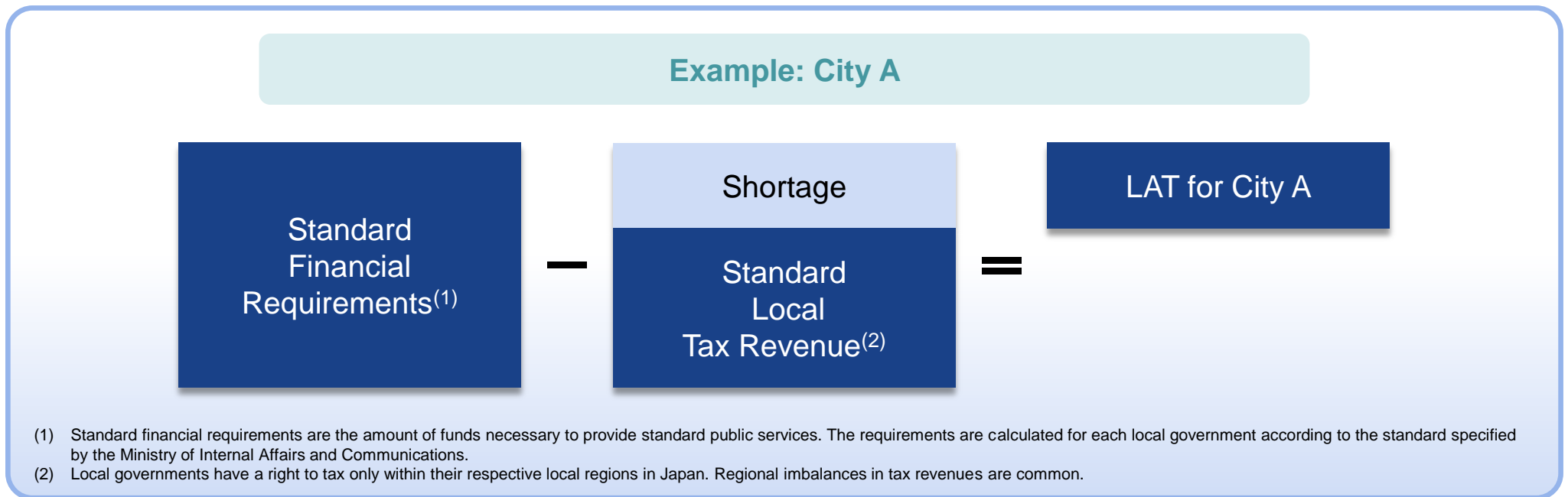


(1) As of 31 March 2016.

(2) USD 1 = JPY 112.63 as of 31 March 2016.

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:



Local Government Finances

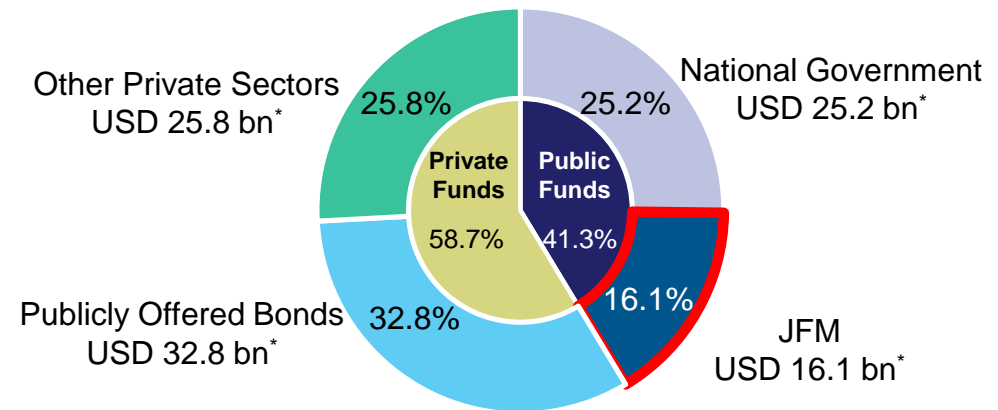
Local Government Finance Programme (“LGFP”):

- 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 expenditures 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 Programme (Initial Plan for FY2016)*

	Amount (USD bn)	(%)
Local Tax	365.9	47.0%
Local Allocation Tax	152.5	19.6%
National Government Disbursements	128.5	16.5%
Local Government Bonds and Loans	79.0	10.1%
Others	52.5	6.8%
Total	778.4	100.0%

Local Government Borrowing Programme (LGBP) (USD 99.9bn*)



Funds for Municipal Enterprises (USD 21.3bn*)

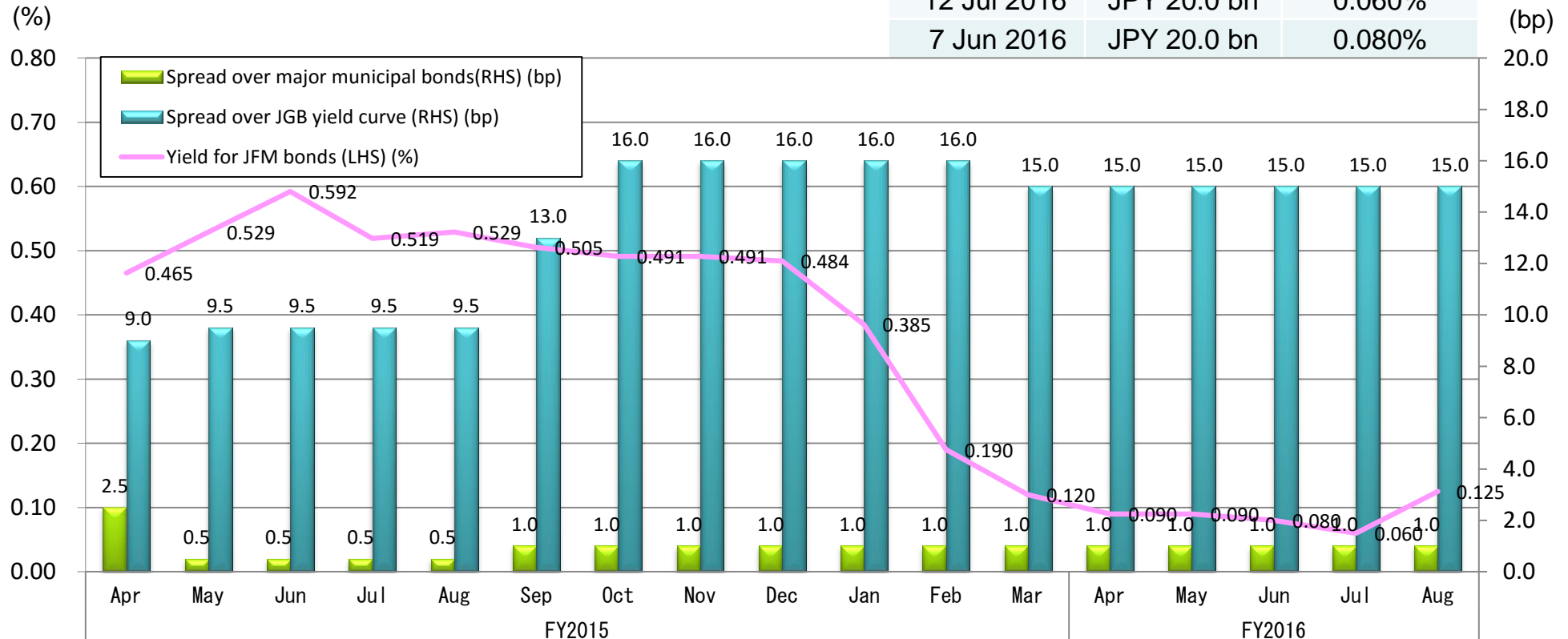
* USD 1 = JPY 112.63 as of 31 March 2016.

10-year Non-guaranteed Domestic Bonds

10-year non-guaranteed domestic bonds have been JFM's primary funding sources

- Account for 37% of JFM's non-guaranteed domestic public bonds in FY2015
- Monthly issuance with issue price at par
- Issue amount is JPY 20 bn or larger each month

Launch Date	Issue Amount	Coupon
9 Aug 2016	JPY 20.0 bn	0.125%
12 Jul 2016	JPY 20.0 bn	0.060%
7 Jun 2016	JPY 20.0 bn	0.080%



(1) Spread over JGB curve is theoretical value calculated by JFM



Credit Highlights

Credit Highlights

1. Institutional Framework

- JFM is a joint funding organization for all local governments, established under a special law.
- The national government has obligation to maintain fiscal soundness of each local government through fiscal equalization system and monitoring and early correction measure systems which as a result no Japanese local government has ever defaulted.
- 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. Quality of Assets

- JFM provides its loan 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.
- JFM has never experienced a default on its loans for more than 50 years since its establishment.

3. Financial Foundation

- JFM maintains reserves in accordance with special loans to cover various risks.
- JFM conducts ALM to ensure effectiveness of its management of interest rate risk.

*Minister for Internal Affairs and Communications.

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