

## **Programme Information**

**Japan Finance Organization for Municipalities**

## PROGRAMME INFORMATION

Type of Information:	Programme Information
Date of Announcement:	1 February 2019
Issuer Name:	Japan Finance Organization for Municipalities
Name and Title of Representative:	Kinya Takino, President and Chief Executive Officer
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Type of Securities:	Unsecured and unsubordinated notes
Scheduled Issuance Period:	3 February 2019 to 2 February 2020
Maximum Outstanding Issuance Amount:	¥3,000,000,000,000
Address of Website for Announcement:	<a href="http://www.jpx.co.jp/english/equities/products/tpbm/announcement/index.html">http://www.jpx.co.jp/english/equities/products/tpbm/announcement/index.html</a>
Status of Submission of Annual Securities Reports or Issuer Filing Information:	Not Applicable
Name of Arranger:	Barclays Bank PLC

### Notes to Investors:

1. TOKYO PRO-BOND Market is a market principally for professional investors and bonds listed on the market ("**TOKYO PRO-BOND MARKET Listed Bonds**") may involve high risk. Investors should act with responsibility and be aware of the listing qualification, timely disclosure requirements that apply to issuers of TOKYO PRO-BOND Market Listed Bonds and associated risks such as the fluctuation in market prices. Prospective investors should make an investment judgement only after having carefully considered the contents of this Programme Information.
2. The regulatory framework for TOKYO PRO-BOND Market is different in certain fundamental respects from the regulatory framework applicable to existing exchange markets in Japan. Investors should be aware of the rules and regulations of the TOKYO PRO-BOND Market, which are available on the website of Tokyo Stock Exchange, Inc. (the "**Tokyo Stock Exchange**").
3. The notes to be issued pursuant to this programme fall within disclosure exempt securities under Article 3(2) of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"), and as such, no "specified securities information" specified in Article 27-31, Paragraph 1 of the FIEA is required to be delivered or made public in respect of the offering of such notes in Japan under the FIEA. This Programme Information therefore does not comprise "specified securities information" (*tokutei shouken jouhou*) specified in Article 27-31, Paragraph 1 of the FIEA.
4. The Tokyo Stock Exchange does not make any representations or warranties with regard to any part of the Programme Information (including, but not limited to, whether the Programme Information (a) contains a false statement on important matters or (b) lacks a statement on: (i) important matters that should be stated or (ii) a material fact that is necessary for avoiding misunderstanding), and will not be liable to any damages or any other liabilities.
5. This Programme Information has been prepared solely by, and is the sole responsibility of, the Issuer, and its contents have not been independently verified by any Dealer (as defined herein). To the fullest extent permitted by law, none of the Dealers accepts any responsibility for the contents of this Programme Information or for any other statement, made or purported to be made by any Dealer or on its behalf in connection with the Issuer or the issue and offering of any notes pursuant to the programme described herein. The Dealers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Programme Information or any such statement.



# JAPAN FINANCE ORGANIZATION FOR MUNICIPALITIES

*(Incorporated under the Japan Finance Organization for Municipalities Law of Japan)*

**¥3,000,000,000,000**

## Global Medium Term Note Programme

Under the Global Medium Term Note Programme (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), Japan Finance Organization for Municipalities ("**JFM**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes ("**Notes**").

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed ¥3,000,000,000,000 (and for this purpose, any Notes denominated in a currency other than Japanese yen shall be translated into Japanese yen at the date of issue of such Notes (calculated in accordance with the provisions of the Dealer Agreement (as defined under "*Subscription and Sale*")). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

The Base Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Notes to be admitted listing on the Official List (the "**Official List**") of the FCA and to trading on the Regulated Market (the "**Regulated Market**") of the London Stock Exchange plc (the "**London Stock Exchange**") ("**PD Notes**") under the Programme during the period of twelve months after the date hereof. Applications have been made for such PD Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**") (the Markets in Financial Instruments Directive). Application is also being made to Tokyo Stock Exchange, Inc. (the "**Tokyo Stock Exchange**") for the Programme to be listed on the TOKYO PRO-BOND Market of the Tokyo Stock Exchange (the "**TOKYO PRO-BOND Market**").

The requirement to publish a prospectus under the Prospectus Directive only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area (the "**EEA**") and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 3(2) of the Prospectus Directive (as implemented in the relevant Member State(s)). References in this Base Prospectus to "**Non PD Notes**" are to Notes which are neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive. Unless specified otherwise, references to Notes are deemed to include references to PD Notes and Non PD Notes. The Non PD Notes do not comprise part of this Base Prospectus for the purposes of the Prospectus Directive. The FCA has neither approved nor reviewed information contained in this Base Prospectus in connection with Non PD Notes. The Programme also permits Non PD Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between JFM and the relevant Dealer(s).

The Notes have been assigned a provisional rating of "(P)A1" by Moody's Japan K.K. ("**Moody's**") and a rating of "A+" by Standard & Poor's Rating Japan K.K. ("**S&P**"). These credit ratings have been issued by Moody's and S&P, neither of which are established in the European Union and neither of which are registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**") but have been endorsed by Moody's Investors Service Ltd. ("**Moody's Europe**") and Standard & Poor's Credit Market Services Europe Limited ("**S&P Europe**"), respectively, each of which is an entity established in the European Union and registered under the CRA Regulation. JFM also has the following ratings: (i) long-term issuer rating (foreign), long-term issuer rating (domestic), senior unsecured (domestic), senior secured (domestic) and senior unsecured MTN (domestic), each by Moody's; (ii) local long-term, local short-term, foreign long-term and foreign short-term, each by S&P, and (iii) issuer rating by Rating and Investment Information, Inc. ("**R&I**"). These credit ratings have been issued by Moody's, S&P and R&I, none of which are established in the European Union and none of which are registered under the CRA Regulation; the ratings by Moody's and S&P have, however, been endorsed by Moody's Europe and S&P Europe, respectively, each of which is an entity established in the European Union and registered under the CRA Regulation. Notes issued under the Programme may or may not be rated. Any credit ratings assigned to an issue of Notes will be specified in the applicable Final Terms (as defined herein) or Pricing Supplement (as defined herein), as the case may be. Under the CRA Regulation, certain investors may generally only use a credit rating for regulatory purposes in the European Union if the credit rating is issued by a credit rating agency in the European Union and registered in accordance with the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation).

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

Interest and/or other amounts payable under the Notes may be calculated by reference to certain benchmarks. Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**") are set out in the section entitled "Benchmarks Regulation" on page 142 of this Base Prospectus.

**Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of JFM to fulfil its obligations under the Notes are discussed under "Risk Factors" below.**

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except in certain transactions exempt from the registration requirements of the Securities Act. Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations.

*Arranger*

**Barclays**

*Dealers*

**Barclays**  
**BofA Merrill Lynch**  
**Daiwa Capital Markets Europe**  
**Goldman Sachs International**  
**Mizuho Securities**  
**Nomura**

**BNP PARIBAS**  
**Citigroup**  
**Deutsche Bank**  
**J.P. Morgan**  
**Morgan Stanley**

The date of this Base Prospectus is 3 August 2018.

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## IMPORTANT NOTICES

JFM accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") and a document specific to such Tranche called (i) in the case of PD Notes, the final terms (the "**Final Terms**"), or (ii) in the case of Non PD Notes, the pricing supplement (the "**Pricing Supplement**"). This Base Prospectus must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes, must be read and construed together with the relevant Final Terms or the Pricing Supplement (as the case may be).

JFM has confirmed to the Dealers named under "*Subscription and Sale*" below that this Base Prospectus contains all information which is (in the context of the Programme and the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme and the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by JFM or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by JFM or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms or Pricing Supplement (as the case may be), nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of JFM since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

**Product Governance under Directive 2014/65/EU (as amended)** – A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

The Final Terms or Pricing Supplement (as the case may be) in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

The distribution of this Base Prospectus and any Final Terms and Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms or Pricing Supplement comes are required by JFM and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms or Pricing Supplement and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold, or in the case of Bearer Notes, delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes may be offered and sold (A) as Bearer Notes or Registered Notes outside the United States to non-U.S. persons in reliance on Regulation S ("**Regulation S Only Note Offerings**") or (B) in registered form outside the United States to non-U.S. person in reliance on Regulation S and within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A ("**Rule 144A and Regulation S Note Offerings**"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

**NEITHER THE PROGRAMME NOR THE NOTES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms or Pricing Supplement in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for JFM or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, **provided that** any such prospectus has subsequently been completed by Final Terms or Pricing Supplement which specifies that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus, final terms or pricing supplement, as applicable, and JFM has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither JFM nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for JFM or any Dealer to publish or supplement a prospectus for such offer. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

**IMPORTANT – EEA RETAIL INVESTORS:** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No. 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes are exempt from the requirement for registration under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**") and are subject to the Act on Special Measures Concerning Taxation of Japan (Law No. 26 of 1957, as amended, the "**Act on Special Measures Concerning Taxation**"). Each Dealer has represented and agreed

that it has not, directly or indirectly, offered or sold, and will not, directly or indirectly, offer or sell as part of its primary distribution (*boshu*) at any time, any Notes to, or for the benefit of, any person other than a beneficial owner that is, (i) for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual nonresident of Japan or a non-Japanese corporation that in either case is a Specially-Related Party of JFM (as defined in "Taxation") or (ii) a Japanese financial institution designated in Article 6 paragraph (9) of the Act on Special Measures Concerning Taxation.

**BY SUBSCRIBING FOR THE NOTES, AN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED THAT IT IS A PERSON WHO FALLS INTO THE CATEGORY OF (i) OR (ii) ABOVE.**

In addition, interest payments on the Notes will generally be subject to Japanese withholding tax unless it is established that the Notes are held by or for the account of a beneficial owner that falls within either clause (i) or (ii) set forth above, or is a Japanese public corporation, financial institution or financial instruments business operator, etc. described in Article 3-3, Paragraph 6 of the Act on Special Measures Concerning Taxation which complies with the requirement for tax exemption under that paragraph.

**JFM will not issue "Taxable Linked Securities" (securities of which the amount of interest is to be calculated by reference to certain indexes (as prescribed by the Cabinet Order under Article 6, Paragraph 4 of the Act on Special Measures Concerning Taxation) relating to JFM or a Specially-Related Party of JFM) under the Programme.**

Neither this Base Prospectus nor any Final Terms or Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by JFM, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms or Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms or Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of JFM.

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the EEA, references to "¥", "**Japanese yen**" or "**yen**" are to the Japanese yen, references to "U.S.\$", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "£", "**GBP**" or "**pounds**" are to pounds sterling and references to "€", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

In this Base Prospectus, references to the "**JFM Law**" are to the Japan Finance Organization for Municipalities Law of Japan (Law No. 64 of 2007, as amended).

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

**In connection with the issue of any Tranche of Notes, the Dealer(s) (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms or Pricing Supplement (as the case may be) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.**

## RISK FACTORS

*Prospective investors should read the entire Base Prospectus.*

*Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of JFM and the industry in which it operates together with all other information contained in this Base Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings in this section.*

*The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to JFM that are not currently known to JFM, or that JFM currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of JFM and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Base Prospectus and their personal circumstances.*

### **Risks Relating to JFM**

***JFM's business operations, results of operations and financial condition are affected by the policies of the Japanese national and local governments.***

JFM is an entity established by the JFM Law, which is a national law of Japan. JFM's primary objective is to contribute to the sound operation of local government financing and to improve the welfare of local residents by providing long-term funding at low interest rates to local governments. It also supports local governments by providing them with staff training, conducting surveys and research on local government funding and dispatching experts in local government finances in response to specific requirements, so that they can efficiently and effectively raise funds from private financial institutions and other investors. JFM is the primary public financial institution for supplying long-term, low-cost financing to local governments for funding national policy targets and it is a preferred lender to local governments for basic infrastructure-related funding. JFM loans, which accounted for approximately 15.6 per cent. of local government funding during the fiscal year ended 31 March 2018 based on the 2017 Local Government Borrowing Programme, constitute an integral part of the support system provided to local governments by the national government's Ministry of Internal Affairs and Communications under its Local Government Borrowing Programme.

As an entity created to facilitate public policy, JFM's business, financial condition and results of operations are significantly affected by the policies of the Japanese national and local governments. Such policies may determine, among other things, local government borrowing requirements and are affected by many factors, including the political, socioeconomic and financial conditions and developments in Japan and of such governments. In particular, local government outlays for public works projects, shortfalls between overall outlays and tax and other revenues, extraordinary events such as natural disasters and other factors affect the demand of local governments for borrowing. Social policy may affect JFM's management of its assets, as illustrated by various forms of relief granted to borrowers in the wake of the Great East Japan Earthquake. Moreover, a policy change leading to a change in the JFM Law could change JFM's mandate and negatively affect its operations and other aspects of its business.

Although the national government guarantees a certain amount of bonds issued by JFM, the national government does not, without specific grant, guarantee, directly or indirectly, JFM's securities or other obligations, and the amount of JFM bonds so guaranteed has been shrinking in recent periods as only those bonds which are issued to replace bonds previously issued by the Predecessor (as defined in "Japan Finance Organization for Municipalities") may be so guaranteed. Even JFM bonds issued without a national government guarantee, however, have received credit ratings consistent with the credit rating received by national government bonds ("JGBs"). For example, according to S&P, this is largely because it considers JFM a "government-related entity" with an extremely high likelihood of extraordinary government support and accordingly link JFM's rating to that of Japan, and according to Moody's, the alignment of JFM's ratings with that of the sovereign reflects the close integration of JFM's activities with the government (sources: S&P RatingsDirect®, 16 April 2018, Moody's Credit Opinion, 11 May 2018). This view arises from JFM's



important role in facilitating public policy. If the perceived likelihood of such implicit support were to fall, credit ratings of JFM and its bonds would also likely fall.

JFM benefits from the close relationship the national government has with JFM's borrowers, the local governments, and the financial support it provides to the local governments. For example, due to continuing shortfalls in local revenue sources, which are arising in part due to the severe local government financial situation, the national government has been allowing local governments to prepay, without penalty, higher interest rate loans from JFM and to refinance those loans at current lower interest rates. In addition, it is commonly perceived that there is implicit national government support for local government bonds and loans, which permits access by local governments to cheap funding. Although such bonds and loans are not explicitly guaranteed by the national government, their issues have been authorised by the national government and there have been no substantial credit risk spreads among local government issuers. This suggests a perception of implicit national government support for local government bonds and loans, including JFM loans. Moreover, the Ministry of Internal Affairs and Communications has itself indicated that such bonds and loans will be reimbursed due to arrangements in place for ensuring local governments have access to financial resources necessary to make reimbursements, and for monitoring local government financial situations and ensuring local government financial soundness.

The national government's policies could change in a way that affects its relationships with JFM or the local governments. It is possible the national government could further distance itself from JFM. Moreover, in recent years, government policy has been to increase the independence of local governments, and if further steps in this direction are taken, the implicit support of local governments by the national government could be reduced.

If actual or perceived national government support for JFM or JFM's borrowers declines, this would make obtaining funds by JFM and its borrowers from the capital markets more expensive. This could negatively affect their access to liquidity and their ability to pay their obligations when they come due.

***If Japanese economic conditions do not improve or if they worsen, JFM's business operations, results of operations and financial condition may be negatively affected.***

Prospective investors in JFM bonds should be aware of the challenges faced by the Japanese economy in general. Since returning to growth in the three-month period ended 31 December 2012, while there have been declining three-month periods, Japanese nominal GDP has continued to steadily grow on an annual basis through the year ended 31 March 2018 (source: Cabinet Office, Government of Japan). Outside of Japan, although there have been signs of economic recovery in the United States and other large economies in recent years, sustainability of this global recovery is uncertain, particularly after the effects of various government stimulus programmes subside. Concerns about conditions in certain European countries have contributed to economic instability throughout the region. The United Kingdom's upcoming exit from the European Union as a result of the referendum held on 23 June 2016 and geopolitical instability in other various parts of the world, including Asia, Eastern Europe, the Middle East and North Africa and material changes in regional economic or political unions or associations between countries, and the uncertain impact of the policies pursued by the current presidential administration in the United States, could contribute to economic instability in those and other regions and affect Japanese and global economic conditions. In addition, the European Central Bank continues to take quantitative easing action, including maintaining negative rates on deposits and expanding its asset purchase programme to include bonds issued by euro area central governments, agencies and European institutions, which could lead to distortions in the economy due to the heavy involvement by the government. The outlook for the Japanese and other global economies is uncertain, and the current trend of consistent positive annual nominal GDP growth in Japan may not continue. Additionally, it is possible that another global economic downturn could occur.

In Japan, economic conditions have shown improvement in recent years due in part to the policies of Prime Minister Shinzo Abe's administration, known as Abenomics, consisting of an aggressive monetary policy, flexible fiscal policy and growth strategies that promote private investment, the monetary easing measures aimed at overcoming deflation implemented by the Bank of Japan (including the introduction of negative interest rates on certain deposits held with the Bank of Japan and yield curve control measures announced by the Bank of Japan in September 2016). These policies and measures have helped Japanese equities to gain in value and generate inflation and have resulted in 2.6 per cent. real GDP growth rate in the year ended 31 March 2014, 1.4 per cent. real GDP growth rate in the year ended 31 March 2016, 1.2 per cent. real GDP growth rate in the year ended 31 March 2017, and 1.5 per cent. real GDP growth rate in the year ended 31 March 2018. However, the inflation has been largely due to the depreciation of the Japanese yen

relative to the U.S. dollar and euro, the trade balance, although exports have outpaced imports in the recent years, is still relatively low as compared to historical level and real GDP declined by 0.3 per cent. in the year ended 31 March 2015 partly due to the increase of the Japanese consumption tax rate from 5 per cent. to 8 per cent. pursuant to a revision of the Consumption Tax Act of Japan (Law No. 108 of 1988, as amended) in April 2014, which negatively affected consumption in Japan, a key component of real GDP. The increase in the Japanese consumption tax rate from 8 per cent. to 10 per cent. is scheduled to take effect in October 2019, and there is a risk that consumption in Japan could decrease again in response to such consumption tax increase when implemented. Any such factors may impede the growth of Japan's inflation. The long term impact on Japan's economy, trade balance, interest rates and fiscal position of Abenomics, increases in the consumption tax rate and other measures remains uncertain.

Challenges for the Japanese economy include an increased dependence on LNG and other energy imports as a result of the nuclear accident at the Fukushima Daiichi Nuclear Power Plant and suspension of operations at other nuclear power plants. A weakened yen would make these imports more expensive. In addition, over the long term, Japan faces demographic challenges, such as an aging workforce and population decrease, and high levels of public debt and associated debt servicing payments.

If economic conditions do not improve or if they worsen, particularly in Japan, the national government may be unable to support JFM or JFM's borrowers. In addition, JFM could experience a deterioration in the credit quality of its loan portfolio and a related increase in its credit costs, which could adversely affect its results of operations and financial condition.

***JFM's credit rating is linked to that of Japan, which means a downgrading of Japan would likely result in a downgrading of JFM.***

Due to JFM's public-sector role, for example, S&P considers JFM a "government-related entity" with an extremely high likelihood of extraordinary government support, and Moody's considers the alignment of JFM's ratings with that of the sovereign reflects the close integration of JFM's activities with the government (sources: S&P RatingsDirect®, 17 September 2015, Moody's Credit Opinion, 11 July 2017, any rating action taken with respect to Japan can be expected to impact JFM's ratings).

On 1 December 2014, Moody's downgraded Japan's debt rating from Aa3 to A1, noting uncertainty regarding Japan's ability to reduce its deficit and the timing and effectiveness of growth enhancement measures, and the resulting risk of rising Japanese government bond yields and reduced debt affordability, and on 16 September 2015, S&P lowered Japan's long-term sovereign credit rating (including the credit rating for national government bonds from AA– (Negative Outlook) to A+ (Stable Outlook), noting that economic support for Japan's sovereign creditworthiness has continued to weaken in the past three to four years, and despite showing initial promise, the government's strategy to revive economic growth and end deflation appears unlikely to reverse this deterioration in the next two to three years. Each of these downgrades resulted in a downgrade of JFM's rating. In addition, on 9 December 2014, Fitch changed its outlook for JGBs from Negative Outlook to Negative Watch, and subsequently downgraded JGB rating from A+ (Negative Watch) to A (Stable Outlook) on 27 April 2015. Fitch further changed its outlook from Stable Outlook to Negative Outlook on 13 June 2016, but reverted to Stable Outlook on 13 April 2018. Currently, JGBs are rated A+ (Positive Outlook) by S&P, A (Stable Outlook) by Fitch and A1 (Stable Outlook) by Moody's. While JFM has not experienced any significant negative effects as a result of those rating actions, and while S&P revised JFM's rating outlook from Stable to Positive following the same revision to Japan's rating outlook, any future adverse rating actions may adversely affect JFM. There can be no assurance JGB ratings will not be downgraded in the future.

Investors should also note that, notwithstanding the S&P and Moody's view that JFM is a "government-related entity", JFM is not a government entity and its debts (including the Notes) are not direct or indirect obligations of Japan or guaranteed in any way by Japan.

***JFM is exposed to credit risk.***

JFM is exposed to credit risk, which is the risk of loss arising from a credit event, such as deterioration in the financial condition of a borrower or a counterparty, which causes an asset to lose value or become worthless. Loans and financial transactions involve credit risk. JFM makes loans exclusively to local governments. Local taxes are a major source of revenue for local governments, and some local tax items are subject to local economic conditions. Accordingly the revenue of local governments may be subject to

fluctuations in the relevant local economies. There can be no assurance that JFM will not experience a credit event, including with counterparties, in the future.

***JFM is exposed to various market risks.***

JFM is exposed to various market risks, including the risk of loss resulting from changes in the value of assets and liabilities due to fluctuations in risk factors such as interest rates, securities prices and foreign exchange rates, and the risk of loss resulting from changes in earnings generated from assets and liabilities.

*Interest Rate Risk.* JFM is exposed to interest rate risk, which is the risk of loss resulting from fluctuations in interest rates, and more specifically, the risk of losses being incurred or profits decreasing from fluctuations in interest rates when there is a duration gap between assets and liabilities. Loans constitute a large part of the assets of JFM, and the maximum term to maturity of JFM loans is 40 years. However, the majority of the funds for these loans is raised through issuance of 10-year bonds. This gap exposes JFM to the interest rate risk associated with bond refinance. Although JFM implements measures to address the interest rate risk resulting from a duration gap between lending and fundraising, there can be no assurance that such measures will always be effective in reducing such losses, and if such measures prove to be ineffective or insufficient, this could materially adversely affect JFM's profitability, results of operations and financial condition.

JFM is also exposed to "pipeline" risk. JFM generally raises funds required to finance a loan by issuing bonds prior to making the loan. Proceeds from bond issuances may not be earmarked for a particular loan. Fluctuations in interest rates between the time JFM issues bonds and the time it ultimately lends the proceeds therefrom may affect the profitability of a loan. Although JFM uses swap transactions to hedge against pipeline risk, there can be no assurance that such hedging transactions will cover all such risks.

*Foreign Exchange and Other Risks.* JFM is exposed to various other risks, for example foreign exchange risk, associated with bond principal and interest payments, which are generally hedged by swap transactions. JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of losses on foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, JFM reduces the risk of price decline by holding investments until maturity, and hedges foreign exchange risk with forward foreign exchange contracts. However, there can be no assurance that such measures will always be effective.

***JFM may be subject to liquidity risk.***

JFM may become subject to liquidity risk, which is the risk that JFM would incur losses because of difficulty in fundraising, or because of funding at far higher interest rates than under ordinary conditions. It also includes the risk that JFM would incur losses because of the inability to conduct market transactions or because of transactions at prices far more unfavourable than under normal conditions due to market disruption or other situations.

JFM believes its current exposure to liquidity risk is low because JFM conducts daily cash and liquidity management based on quarterly cash planning, and the possibility of the occurrence of an unexpected funding shortfall is low as JFM's loans are made based on a pre-set schedule and most of the funds of JFM are raised by long-term funding. Moreover, JFM has entered into overdraft agreements with a wide range of financial institutions to prepare for unexpected funding shortfalls, and invests surplus funds only in short-term financial products. However, if severe circumstances relating to liquidity unforeseen by JFM occur, JFM's funding costs, results of operations and financial condition may be adversely affected. In addition, liquidity may be limited if the Issuer makes large allocations to a limited number of investors.

***JFM is exposed to operational risk.***

JFM is exposed to operational risk, which is the risk of loss resulting from inadequate operation processes, inadequate activities by management and staff, and inadequate computer systems, or from external events, and includes, among other factors, administrative risk and systems risk.

*Administrative Risk.* JFM is exposed to administrative risk, which is the risk of loss resulting from the neglect or inadequacy of attention by management and staff to properly conduct administrative work, accidents caused by them and violations of law by them in the course of the administrative work process. While JFM endeavours to mitigate its exposure to administrative risk by preparing operational manuals,

holding educational seminars and reducing operational workload through systematisation, there can be no assurance that such measures will always be successful in preventing such losses.

**Systems Risk.** JFM is exposed to systems risk, which is the risk that the confidentiality, integrity and availability of information assets will be impaired as a result of computer system inadequacies or the fraudulent use of computer systems (including security breaches and hacking). JFM has established and implemented a Systems Risk Management Policy and a Systems Risk Management Standard to manage systems risk and ensure smooth business operations. JFM has also prepared a Contingency Plan to limit the scope of losses and the impact on operations and restore normal operations promptly and efficiently in the event that computer systems break down or cannot be used due to unexpected accidents, disasters or malfunctions. However, there can be no assurance that such policies, standards and plans will always be successful in effectively managing such risk.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that JFM will be unable to comply with its obligations as an entity with securities admitted to the Official List.

***JFM is exposed to risk of geographical concentration of its operational capabilities.***

JFM has its office only in Tokyo. As a result, an earthquake or other disaster affecting Tokyo could significantly disrupt JFM's operations. JFM has prepared a Contingency Plan to minimise the scope of losses and the impact on operations and restore normal operations promptly and efficiently in the event of such disaster. Furthermore, to prepare for a contingency, JFM has an externally located backup server so that its business can be continued despite an emergency. However, there can be no assurance that such policies, standards and plans will always be successful in effectively managing such risk. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that JFM will be unable to comply with its obligations as an entity with securities admitted to the Official List.

***JFM's business, financial condition or results of operations may be adversely affected by changes in rating agencies' and market professionals' assessment of JFM.***

JFM's business, financial condition or results of operations may be affected by changes in rating agencies' and market professionals' assessment of JFM. A downgrade in the credit ratings assigned to JFM, or negative assessments made by market professionals in respect of JFM, could have an adverse effect on JFM's business, financial condition or results of operations, including through:

- increased costs or difficulty in raising funds;
- the termination or cancellation of existing agreements; and
- the need to provide additional collateral in connection with derivatives transactions.

Credit ratings are based upon information furnished by JFM or obtained from independent sources and are subject to revision, suspension or withdrawal by the rating organisation at any time.

Notwithstanding anything contained in this risk factor, this risk factor should not be taken as implying that JFM will be unable to comply with its obligations as an entity with securities admitted to the Official List.

***JFM is exposed to risk of concentration of its loan portfolio and type of borrowers.***

As of 31 March 2018, 100 per cent. of JFM's outstanding loan portfolio consisted of loans to Japanese local governments. Adverse changes in the financial, economic and fiscal conditions within Japan may have significant consequences for the local government borrowers whose obligations include JFM loans, and consequently, on the credit quality of such obligations.

***JFM is reliant on third parties to which it has outsourced certain functions.***

JFM relies on a third-party provider for substantial parts of its IT services. Any interruption in the services of this third party or deterioration in its performance of the outsourced services could impair the timing and quality of JFM's services to its clients. Furthermore, if the contract with this third-party provider is terminated (or with any third-party provider of critical services in the future), JFM may not find alternative service providers on a timely basis or on as favourable terms or may suffer disruption as a result of the

transition of functions to the new services provider. The occurrence of any of these events could adversely affect JFM's business, reputation, results of operation or financial condition.

### **Risks Relating to the Notes**

#### ***There is no active trading market for the Notes.***

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of JFM. Although applications have been made for the Notes issued under the Programme to be admitted to listing on the Official List and to trading on the Regulated Market, and an application has also been made to the Tokyo Stock Exchange for the Notes issued under the Programme to be listed and traded on the TOKYO PRO-BOND Market, there is no assurance that such applications will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

#### ***The Notes may be redeemed prior to maturity.***

Unless in the case of any particular Tranche of Notes the relevant Final Terms or Pricing Supplement (as the case may be) specifies otherwise, in the event that JFM would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Japan or any political subdivision thereof or any authority therein or thereof having power to tax, JFM may redeem all outstanding Notes of any Series in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms or Pricing Supplement (as the case may be) specifies that the Notes are redeemable at JFM's option, in certain other circumstances JFM may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

#### ***Market values of notes issued at a substantial discount or premium may be volatile.***

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

#### ***There are risks that certain "benchmarks" to which the Notes are linked may be administered differently or discontinued in the future, including the potential phasing-out of LIBOR after 2021, which may adversely affect the value and return on such Notes.***

The London Interbank Offered Rate ("LIBOR"), the Euro Interbank Offered Rate ("EURIBOR") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**") was published in the Official Journal of the European Union on 29 June 2016 and has applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that have applied since 30 June 2016). The Benchmarks Regulation could have a material impact on any Notes linked to LIBOR, EURIBOR or another "benchmark" rate or index, in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the terms of the Benchmarks Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. In addition, the Benchmarks Regulation stipulates that each administrator of a "benchmark" regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. There is a risk that administrators of certain "benchmarks" will fail to obtain a necessary licence, preventing them from continuing to provide such "benchmarks". Other administrators may cease to administer certain "benchmarks" because of the additional costs of compliance with the Benchmarks Regulation and other applicable regulations, and the risks associated therewith. There is also a risk that certain benchmarks may continue to be administered but may in time

become obsolete. As an example of such benchmark reforms, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021 and that planning a transition to alternative reference rates that are based firmly on transactions, such as reformed SONIA (the Sterling Over Night Index Average), must begin.

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area.

Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or the benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. The elimination of the LIBOR benchmark or any other benchmark or changes in the manner of administration of a benchmark could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(e) (*Benchmark Replacement*)), or result in adverse consequences to holders of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR) or any other such benchmark that is subject to reform. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities based on the same benchmark.

The "Terms and Conditions of the Notes" set out below provide for certain fall-back arrangements in the event that a published benchmark, such as LIBOR (including any page on which such benchmark may be published (or any successor service), becomes unavailable, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. In certain circumstances the ultimate fall-back of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fall-back provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of JFM to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes. Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Notes.

***Because the Global Notes are held by or on behalf of DTC or Euroclear and Clearstream, Luxembourg, as applicable, investors will have to rely on their procedures for transfer, payment and communication with JFM.***

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Final Terms or Pricing Supplement (as the case may be)) as nominee for DTC or deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. DTC or Euroclear and Clearstream, Luxembourg, as applicable, will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through DTC or Euroclear and Clearstream, Luxembourg, as applicable.

While the Notes are represented by one or more Global Notes, JFM will discharge its payment obligations under the Notes by making payments through DTC or Euroclear and Clearstream, Luxembourg, as applicable, for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of DTC or Euroclear and Clearstream, Luxembourg, as applicable, to receive payments

under the relevant Notes. JFM has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by DTC or Euroclear and Clearstream, Luxembourg, as applicable, to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against JFM in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

***Notes may be issued with a minimum denomination.***

Notes may be issued with a minimum denomination. The Final Terms or the Pricing Supplement (as the case may be) of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and DTC or Euroclear and Clearstream, Luxembourg (or any other relevant clearing system), as applicable, so permit, the Notes will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) the minimum denomination plus integral multiples of an amount lower than the minimum denomination.

Where the Final Terms or the Pricing Supplement (as the case may be) specify that the Permanent Global Note will be exchangeable "only in the limited circumstances described in the Permanent Global Note", Definitive Notes will only be issued if (a) Euroclear or Clearstream, Luxembourg (or other relevant clearing system), as applicable, is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs. The Final Terms or the Pricing Supplement (as the case may be) may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will under no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination.

***Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.***

The Notes have been assigned a provisional rating of "(P)A1" by Moody's and a rating of "A+" by S&P. These credit ratings have been issued by Moody's and S&P, neither of which are established in the European Union and neither of which are registered under the CRA Regulation but have been endorsed by Moody's Europe and S&P Europe, respectively, each of which is an entity established in the European Union and registered under the CRA Regulation.

Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings described above. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

Under the CRA Regulation, certain investors may generally only use a credit rating for regulatory purposes in the European Union if the credit rating is issued by a credit rating agency established in the European Union and registered in accordance with the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation). Investors who wish to use a credit rating for regulatory purposes in the European Union should consider whether a credit rating assigned to an issue of Notes may be used for this purpose.

***The TOKYO PRO-BOND Market is a market principally for professional investors***

The TOKYO PRO-BOND Market is a market principally for professional investors and notes listed on the market ("**TOKYO PRO-BOND Market Listed Notes**") may involve high investment risk. Investors in any TOKYO PRO-BOND Market Listed Notes should act with responsibility and be aware of the listing qualification, timely disclosure requirements that apply to issuers of TOKYO PRO-BOND Market Listed Notes and associated risks such as the fluctuation in market prices. Prospective investors in any Notes to be listed on the TOKYO PRO-BOND Market should make an investment judgment only after having carefully considered the contents of this Base Prospectus and the relevant Final Terms. The Tokyo Stock Exchange does not make any representations or warranties with regard to any part of the Base Prospectus (including, but

not limited to, whether the Base Prospectus (a) contains a false statement on important matters or (b) lacks a statement on: (i) important matters that should be stated or (ii) a material fact that is necessary for avoiding misunderstanding) and will not be liable to any damages for any other liabilities.



## FORWARD-LOOKING STATEMENTS

This Base Prospectus contains certain forward-looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "estimate", "project", "will", "would", "may", "could", "continue" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the financial position, business strategy, management plans and objectives for future operations of JFM are forward looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause JFM's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which JFM expects to operate in the future. Important factors that could cause JFM's actual results, performance or achievements to differ materially from those in the forward looking statements include, among other factors described in this Base Prospectus:

- changes in Japanese national or local government policies;
- a stagnant or worsening Japanese economy; and
- a worsening of the creditworthiness of its borrowers.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Any forward-looking statements made by or on behalf of JFM speak only as at the date they are made. JFM does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

## INFORMATION INCORPORATED BY REFERENCE

The following shall be deemed to be incorporated in, and to form part of, this Base Prospectus in respect of any Notes issued under the Programme:

- the audited financial statements of JFM in respect of the fiscal years ended 31 March 2016 and 2017 (set out on pages 58 to 97 of the 2017 annual report of JFM) (including the Independent Auditor's Report thereon (set out on page 98 of the 2017 annual report of JFM));
- the audited financial statements of JFM in respect of the fiscal years ended 31 March 2017 and 2018 (including the Independent Auditor's Report thereon set out on the final page of such audited financial statements); and
- the terms and conditions set out on pages 30 to 52 of the base prospectus dated 4 August 2017 relating to the Programme (the "**2017 Base Prospectus**") under the heading "Terms and Conditions of the Notes" (the "**2017 Terms and Conditions**").

Since JFM does not have any subsidiaries or affiliates, it does not prepare consolidated financial statements.

Any information contained in any of the documents specified above which is not specifically incorporated by reference in this Base Prospectus is either not relevant for investors or is covered elsewhere in this Base Prospectus. The 2017 annual report of JFM specified above (other than the audited financial statements of JFM in respect of the fiscal years ended 31 March 2016 and 31 March 2017 (including the auditor's report thereon)), and the 2017 Base Prospectus (other than the 2017 Terms and Conditions), are not incorporated by reference into, and do not form part of, this Base Prospectus.

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus may be inspected, free of charge, at the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) and at the registered office of JFM at Shisei Kaikan, 1-3, Hibiya Koen, Chiyoda-ku, Tokyo 100-0012, Japan.

## **ENFORCEMENT OF FOREIGN JUDGMENTS**

JFM is an entity in Japan capitalised only by local governments under the laws of Japan. All of the directors and officers of JFM reside in Japan. All or a substantial portion of the assets of JFM and of such directors and officers are located in Japan. As a result, it may not be possible for investors to effect service of process within the United States or elsewhere outside Japan upon JFM or its directors and officers or to enforce against JFM or such persons judgments obtained in U.S. courts, whether predicated upon the civil liability provisions of the U.S. federal or state securities laws or other laws of the United States or elsewhere. JFM has been advised by its Japanese counsel, Nagashima Ohno & Tsunematsu, that in original actions or in actions for enforcement of judgments of U.S. courts brought before Japanese courts, there is doubt as to the enforceability in Japan of liabilities based solely on U.S. federal and state securities laws.

## **AVAILABLE INFORMATION**

JFM has agreed that, for so long as any Notes are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it will, during any period that it is neither subject to Sections 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of Notes or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

## OVERVIEW OF THE PROGRAMME

*The following overview is qualified in its entirety by the remainder of this Prospectus.*

<b>Issuer:</b>	<p>Japan Finance Organization for Municipalities.</p> <p>JFM, established in Japan on 1 August 2008, is a juridical person capitalised only by Japanese local governments under the JFM Law. JFM began operation after assuming the assets and liabilities of the Japan Finance Corporation for Municipal Enterprises (the "<b>Predecessor</b>"), which was a special corporation established on 1 June 1957 with the capital contribution of national government. JFM's objective is to contribute to the sound financial operation of Japanese local governments and to improve the welfare of local residents by providing long-term funding at low interest rates to local governments with respect to their general account-related projects as well as to municipal enterprises, and also by supporting funding by local governments from capital markets, in order to efficiently and effectively acquire such funding. JFM extends loans only to local governments. JFM issues public offering bonds or private placement bonds without government guarantee, and extends long-term (maximum maturity of 40 years) loans to local governments at low interest rate. In addition, JFM issues government guaranteed bonds in order to refinance government guaranteed bonds issued by the Predecessor.</p>
<b>Arranger:</b>	<p>Barclays Bank PLC</p>
<b>Dealers:</b>	<p>Barclays Bank PLC BNP Paribas Citigroup Global Markets Inc. Citigroup Global Markets Limited Daiwa Capital Markets Europe Limited Deutsche Bank AG, London Branch Goldman Sachs International J.P. Morgan Securities plc Merrill Lynch International Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated Mizuho International plc Morgan Stanley &amp; Co. International plc Nomura International plc</p> <p>and any other Dealer appointed from time to time by JFM either generally in respect of the Programme or in relation to a particular Tranche of Notes.</p>
<b>Fiscal Agent:</b>	<p>MUFG Bank, Ltd., London Branch and MUFG Union Bank, N.A. (as U.S. representative of MUFG Bank, Ltd. as fiscal agent).</p>
<b>Listing and Trading:</b>	<p>Applications have been made for Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List and to trading on the Regulated Market.</p> <p>Application has also been made to the Tokyo Stock Exchange for the Notes to be listed and traded on the TOKYO PRO-BOND Market.</p> <p>The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further</p>

competent authorities, stock exchanges and/or quotation systems as may be agreed upon between JFM and the relevant Dealer(s).

<b>Clearing Systems:</b>	The Depository Trust Company (" <b>DTC</b> "), Euroclear Bank S.A./N.V. (" <b>Euroclear</b> ") and/or Clearstream Banking S.A. (" <b>Clearstream, Luxembourg</b> ") and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms or Pricing Supplement (as the case may be).
<b>Programme Amount:</b>	Up to ¥3,000,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.
<b>Issuance in Series:</b>	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
<b>Forms of Notes:</b>	Notes may be issued in bearer form or in registered form.

*Bearer Notes (in Regulation S Only Note Offerings):*

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms or Pricing Supplement (as the case may be). Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms or Pricing Supplement (as the case may be), will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms or Pricing Supplement (as the case may be), will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms or Pricing Supplement (as the case may be), for Definitive Notes in accordance with its terms. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") (the "**TEFRA D Rules**") unless (i) the relevant Final Terms or Pricing Supplement (as the case may be) states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the Code (the "**TEFRA C Rules**") or (ii) the Bearer Notes are issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules; only Bearer Notes with a term of 365 days or less (taking into account any unilateral right to rollover or extend the term) may be issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules, which will be referred to in the relevant Final Terms or Pricing Supplement (as the case may be) as a transaction to which the United States Tax Equity and Fiscal

Responsibility Act of 1982 ("TEFRA") is not applicable. Where TEFRA D is applicable, Bearer Notes must initially be issued in the form of Temporary Global Notes, exchangeable for Permanent Global Notes or Definitive Notes upon certification of non-U.S. beneficial ownership.

If the TEFRA D Rules are specified in the relevant Final Terms or Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note.

*Registered Notes in Rule 144A and Regulation S Note Offerings:*

Each Tranche of Registered Notes offered in Rule 144A and Regulation S Offerings will be evidenced by (i) in the case of Registered Notes sold outside the United States to non-U.S. person in reliance on Regulation S, Unrestricted Global Registered Notes, and (ii) in the case of Registered Notes sold in the United States to QIBs in reliance on Rule 144A, Restricted Global Registered Notes. Each Note evidenced by an Unrestricted Global Registered Note will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the Unrestricted Global Registered Note will be deposited on or about the issue date with the common depositary. Each Note evidenced by a Restricted Global Registered Note will be registered in the name of Cede & Co. as nominee for DTC (or any other nominee of DTC), and the Restricted Global Registered Note will be deposited on or about the issue date with the DTC Custodian.

*Registered Notes in Regulation S Only Note Offerings:*

Each Tranche of Notes offered in Regulation S Only Note Offerings will be evidenced by Regulation S Global Registered Notes. Each Tranche of Notes represented by a Regulation S Global Registered Note will either be: (a) in the case of a Note which is not to be held under the new safekeeping structure ("New Safekeeping Structure" or "NSS"), registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Regulation S Global Registered Note will be deposited on or about the issue date with the common depositary; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Regulation S Global Registered Note will be deposited on or around the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Tranches of Notes may be evidenced by Individual Note Certificates.

Registered Notes are not exchangeable for Bearer Notes.

**Currencies:**

Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

**Status of the Notes:**

JFM will not, so long as any of the Notes remain outstanding, create any mortgage, charge, pledge or other security interest (other than certain permitted security interests) upon the whole or any part of its property, assets or revenues, present or future, to secure (i) any payment

due in respect of certain external indebtedness issued by it, or (ii) any payment under any guarantee of external indebtedness or indemnity relating to external indebtedness, without at the same time according to the Notes the same security as is granted to or is outstanding in respect of such external indebtedness or such guarantee or indemnity, or securing the Notes by such other security as shall be approved by an extraordinary resolution of Noteholders.

The Notes are (subject to the negative pledge as described above) direct, unconditional and (subject to the negative pledge as described above) unsecured obligations of JFM and rank *pari passu* and rateably without any preference among themselves and rank at least equally with all other unsecured indebtedness of JFM with the exception of certain preferential rights from time to time outstanding. Under the JFM Law, all holders of bonds and notes (including the Notes) issued by JFM have a preferential right to be paid prior to other unsecured indebtedness, and such preferential right shall rank immediately after the general preferential rights (*ippan sakidori tokken*) as provided for in the Civil Code of Japan (Law No. 89 of 1896, as amended).

*General preferential rights (ippan sakidori tokken) as provided for in the Civil Code of Japan include, among others, expenses for the common benefit and employees' right to wages.*

**Issue Price:**

Notes may be issued at any price, as specified in the relevant Final Terms or Pricing Supplement (as the case may be). The price and amount of Notes to be issued under the Programme will be determined by JFM and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

**Maturities:**

Notes will be issued at any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by JFM in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by JFM in the United Kingdom such Notes must:

- (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or
- (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("FSMA") by JFM.

**Redemption:**

Notes may be redeemable at par or at such other Redemption Amount as may be specified in the relevant Final Terms or Pricing Supplement.

**Optional Redemption:**

Notes may be redeemed before their stated maturity at the option of JFM (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms or Pricing Supplement.

**Tax Redemption:**

Except as described in "Optional Redemption" above, early redemption will only be permitted for tax reasons as described in Condition 9(b) (*Redemption for tax reasons*).

<b>Interest:</b>	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
<b>Denominations:</b>	No Notes may be issued under the Programme which carry the right to acquire shares (or transferable securities equivalent to shares) issued by JFM. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms or Pricing Supplement (as the case may be), save that in the case of any PD Notes, the minimum denomination shall be EUR100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes), and subject in all cases to compliance with all applicable legal and/or regulatory and/or central bank requirements.
<b>Negative Pledge:</b>	The Notes will have the benefit of a negative pledge as described in Condition 5 ( <i>Negative Pledge</i> ).
<b>Cross Default:</b>	The Notes will have the benefit of a cross default as described in Condition 13 ( <i>Events of Default</i> ).
<b>Taxation:</b>	All payments in respect of Notes will be made free and clear of withholding taxes of Japan, unless the withholding is required by law. In that event, JFM will (subject to the exceptions provided in Condition 12 ( <i>Taxation</i> )) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
<b>Governing Law:</b>	English law.
<b>Enforcement of Notes in Global Form:</b>	In the case of Global Notes, individual investors' rights against JFM will be governed by a Deed of Covenant dated 3 August 2018, a copy of which will be available for inspection at the specified office of the Fiscal Agent.
<b>Ratings:</b>	<p>The Notes have been assigned a provisional rating of "(P)A1" by Moody's and a rating of "A+" by S&amp;P. These credit ratings have been issued by Moody's and S&amp;P, neither of which are established in the European Union and neither of which are registered under the CRA Regulation but have been endorsed by Moody's Europe and S&amp;P Europe, respectively, each of which is an entity established in the European Union and registered under the CRA Regulation.</p> <p>Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings described above. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p> <p>Under the CRA Regulation, certain investors may generally only use a credit rating for regulatory purposes in the European Union if the credit rating is issued by a credit rating agency established in the European Union and registered in accordance with the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation). Investors who wish to use a credit rating for regulatory purposes in the European Union should consider whether a credit rating assigned to an issue of Notes may be used for this purpose.</p>



**Selling Restrictions:**

There are certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in, amongst others, the United States of America, the EEA, the United Kingdom, the Netherlands, Japan, Hong Kong, Italy, Singapore and Belgium.

Bearer Notes will be issued in compliance with the TEFRA D Rules unless (i) the relevant Final Terms or Pricing Supplement states that the Bearer Notes are issued in compliance with the TEFRA C Rules or (ii) the Bearer Notes are issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules; only Bearer Notes with a term of 365 days or less (taking into account any unilateral right to rollover or extend the term) may be issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules, which will be referred to in the relevant Final Terms or Pricing Supplement as a transaction to which the TEFRA is not applicable. Where TEFRA D is applicable, Bearer Notes must initially be issued in the form of Temporary Global Notes, exchangeable for Permanent Global Notes or Definitive Notes upon certification of non-U.S. beneficial ownership.

## FORMS OF THE NOTES

### **Bearer Notes**

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms or Pricing Supplement (as the case may be). Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in NGN form, as specified in the relevant Final Terms or Pricing Supplement, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms or Pricing Supplement, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the euro (the "**Eurosystem**"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used. Even if the Notes are intended to be held in a manner which would allow Eurosystem eligibility, the Notes may not be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met. If the Notes are recognised as eligible as collateral for Eurosystem operations, the Notes will be deposited initially upon issue with one of the ICSDs acting as common safekeeper or a non-ICSD common safekeeper.

Bearer Notes will be issued in compliance with the TEFRA D Rules unless (i) the relevant Final Terms or Pricing Supplement states that the Bearer Notes are issued in compliance with the TEFRA C Rules or (ii) the Bearer Notes are issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules; only Bearer Notes with a term of 365 days or less (taking into account any unilateral right to rollover or extend the term) may be issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules, which will be referred to in the relevant Final Terms or Pricing Supplement as a transaction to which TEFRA is not applicable. Where TEFRA D is applicable, Bearer Notes must initially be issued in the form of Temporary Global Notes, exchangeable for Permanent Global Notes or Definitive Notes upon certification of non-U.S. beneficial ownership.

### ***Temporary Global Note exchangeable for a Permanent Global Note***

If the relevant Final Terms or Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, from the 40th day after the issue date of the relevant Tranche of the Notes, in the case of Notes issued in accordance with the TEFRA D Rules, upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of Notes issued in accordance with the TEFRA D Rules cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, JFM shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) surrender of the Temporary Global Note outside the United States to or to the order of the Fiscal Agent; and

- (ii) if the relevant Final Terms or Pricing Supplement specifies that the TEFRA D Rules are applicable, receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts of the interests in the Temporary Global Note delivered in exchange therefore in accordance with the terms of the Temporary Global Note, including, in the case of Notes issued in accordance with the TEFRA D Rules, required certificates of non-U.S. beneficial ownership; *provided, however*, that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

- (a) the Permanent Global Note has not been delivered or the principal amount thereof has not been increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note in accordance with the terms of the Temporary Global Note; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only, at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**"):

- (a) on the expiry of such period of notice as may be specified in the Final Terms or Pricing Supplement; or
- (b) at any time, if so specified in the Final Terms or Pricing Supplement; or
- (c) if the Final Terms or Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:
  - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
  - (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, JFM shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms or Pricing Supplement (as the case may be)), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

***Temporary Global Note exchangeable for Definitive Notes***

If the relevant Final Terms or Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms or Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes from the 40th day after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, JFM shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms or Pricing Supplement (as the case may be)), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes in accordance with the terms of the Temporary Global Note; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

In relation to any issue of Notes which are expressed to be Temporary Global Notes exchangeable for Definitive Notes on or about the exchange date other than in the limited circumstances specified in the Temporary Global Notes, such Notes shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples thereof.

### ***Permanent Global Note exchangeable for Definitive Notes***

If the relevant Final Terms or Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms or Pricing Supplement; or
- (b) at any time, if so specified in the relevant Final Terms or Pricing Supplement; or
- (c) if the relevant Final Terms or Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:
  - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
  - (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, JFM shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms or Pricing Supplement (as the case may be)), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes in accordance with the terms of the Permanent Global Note; or
- (b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

In relation to any issue of Notes which are expressed to be Permanent Global Notes exchangeable for Definitive Notes on or about the exchange date other than in the limited circumstances specified in the Permanent Global Notes, such Notes shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples thereof.

### ***Rights under the Deed of Covenant***

Under the Deed of Covenant, each Accountholder (as defined under "*Summary of Provisions Relating to the Notes while in Global Form – Clearing System Accountholders*") shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against JFM all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

### ***Terms and Conditions applicable to the Notes***

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms or Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

### ***Legend concerning United States persons***

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days (taking into account any unilateral right to rollover or extend the term), the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

### **Registered Notes**

Each Tranche of Notes in registered form ("**Registered Notes**") will be in the form of either:

- (a) individual Note Certificates in registered form ("**Individual Note Certificates**"); or
- (b) one or more Regulation S global Note in registered form ("**Regulation S Global Registered Note**") in the case of Regulation S Only Note Offerings; or
- (c) one or more unrestricted global registered Note ("**Unrestricted Global Registered Note**") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S in Rule 144A and Regulation S Note Offerings ("**Unrestricted Registered Notes**") and/or one or more restricted global registered Note ("**Restricted Global Registered Note**") in the case of Registered Notes sold to QIBs in reliance on Rule 144A in Rule 144A and Regulation S Note Offerings ("**Restricted Registered Notes**"),

in each case as specified in the relevant Final Terms or Pricing Supplement, and references in this Base Prospectus to "**Global Registered Notes**" shall be construed as a reference to Regulation S Global Registered Notes in the case of Regulation S Only Note Offerings and Unrestricted Global Registered Notes and/or Restricted Global Registered Notes in the case of Rule 144A and Regulation S Note Offerings.

In a press release dated 22 October 2008, "*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in cooperation with market participants and that Notes to be held under the New Safekeeping Structure would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the Eurosystem, subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

Each Note represented by a Regulation S Global Registered Note will either be: (a) in the case of a Note which is not to be held under the New Safekeeping Structure, registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Regulation S Global Registered Note will be deposited on or about the issue date with the common depositary; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Regulation S Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Each Note represented by an Unrestricted Global Registered Note will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the Unrestricted Global Registered Note will be deposited on or about the issue date with the common depositary. Each Note represented by a Restricted Global Registered Note will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Final Terms or Pricing Supplement) as nominee for DTC and the Restricted Global Registered Note will be deposited on or about the issue date with the custodian for DTC (the "**DTC Custodian**").

If the relevant Final Terms or Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms or Pricing Supplement specifies the form of Notes as being "Global Registered Note exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Registered Note which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms or Pricing Supplement; or
- (b) at any time, if so specified in the relevant Final Terms or Pricing Supplement; or
- (c) if the relevant Final Terms or Pricing Supplement specifies "in the limited circumstances described in the Global Registered Note", then:
  - (i) in the case of any Regulation S Global Registered Note or Unrestricted Global Registered Note, if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business;
  - (ii) in the case of any Restricted Global Registered Note held by or on behalf of DTC, if DTC notifies JFM that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Registered Note or DTC ceases to be a "clearing agency" registered under the Exchange Act or if at any time DTC is no longer eligible to act as such, and JFM is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC; or
  - (iii) in any case, any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever a Global Registered Note is to be exchanged for Individual Note Certificates, each person having an interest in a Global Registered Note must provide the Registrar (through the relevant clearing system) with such information as JFM and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever a Restricted Global Registered Note is to be exchanged for Individual Note Certificates, each person having an interest in the Restricted Global Registered Note must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Registered Note stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Note Certificates issued in exchange for interests in the Restricted Global Registered Note will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Registered Note is to be exchanged for Individual Note Certificates, JFM shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the

persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or
- (b) any of the Notes represented by a Global Registered Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Note in accordance with the terms of the Global Registered Note on the due date for payment,

then, at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) each Accountholder having an interest in the Notes shall acquire under the deed of covenant (the "**Deed of Covenant**") rights of enforcement against JFM ("**Direct Rights**") to compel JFM to perform its obligations to the holder of the Global Registered Note in respect of the Notes represented by the Global Registered Note, including the obligation of JFM to make all payments when due at any time in respect of such Notes in accordance with the Conditions as if such Notes had (where required by the Conditions) been duly presented and surrendered on the due date in accordance with the Conditions.

The Direct Rights shall be without prejudice to the rights which the holder of the Global Registered Note may have under the Global Registered Note or otherwise. Payment to the holder of the Global Registered Note in respect of any Notes represented by the Global Registered Note shall constitute a discharge of JFM's obligations under the Notes and the Deed of Covenant to the extent of any such payment and nothing in the Deed of Covenant shall oblige JFM to make any payment under the Notes to or to the order of any person other than the holder of the Global Registered Note.

As a condition of any exercise of Direct Rights by an Accountholder, such Accountholder shall, as soon as practicable, give notice of such exercise to the Noteholders in the manner provided for in the Conditions or the Global Registered Note for notices to be given by JFM to Noteholders.

#### ***Terms and Conditions applicable to the Notes***

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" and the provisions of the relevant Final Terms or Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Registered Note will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*".

#### **Legends relating to Japanese Withholding Tax**

All Notes (including Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto, and any certificates in relation to Registered Notes (whether in individual or global form) will bear a legend to the following effect:

"Interest payments on this security will be subject to Japanese withholding tax unless it is established that this security is held by or for the account of a beneficial owner that is (i) for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual nonresident of Japan or a non-Japanese corporation that in either case is a party having a special relationship with



JFM as described in Article 6, Paragraph 4 of the Act on Special Measures Concerning Taxation of Japan (a "specially-related party of JFM"), (ii) a Japanese designated financial institution described in Article 6, Paragraph 9 of the Act on Special Measures Concerning Taxation of Japan which complies with the requirement for tax exemption under that paragraph, or (iii) a Japanese public corporation, financial institution or financial instruments business operator, etc. described in Article 3-3, Paragraph 6 of the Act on Special Measures Concerning Taxation of Japan which complies with the requirement for tax exemption under that paragraph.

Interest payments on this security to an individual resident of Japan, to a Japanese corporation (except as described in the preceding paragraph), or to an individual nonresident of Japan or a non-Japanese corporation that in either case is a specially-related party of JFM will be subject to deduction in respect of Japanese income tax at a rate of currently 15.315 per cent. of the amount of such interest."

### **Maturities of Notes**

Notes will be issued at any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by JFM in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by JFM in the United Kingdom such Notes must:

- (a) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or
- (b) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by JFM.

### **Further Issues**

JFM may from time to time, without the consent of the Noteholders or the Couponholders, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes; provided that if the additional Notes in registered form are not fungible with the outstanding Notes of a series for U.S. federal income tax purposes and either the additional Notes are or the outstanding Notes of such series were sold, in whole or in part, in reliance on Rule 144A, the additional Notes will have CUSIP, ISIN, or other identifying number(s) that are different from that of the outstanding Notes; and provided further that in the case of Bearer Notes that are issued under the TEFRA D Rules, any consolidation of additional Notes with outstanding Notes will occur only to the extent that certification of non-U.S. beneficial ownership has been received in accordance with the TEFRA D Rules and the Temporary Global Note has been exchanged for a Permanent Global Note or Definitive Note.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, (i) in the case of PD Notes, as completed by the relevant Final Terms, or (ii) in the case of Non PD Notes, as completed, supplemented, amended and/or replaced by the relevant Pricing Supplement, will (except for the paragraphs in italics) be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.*

### 1. Introduction

- (a) *Programme:* Japan Finance Organization for Municipalities ("**JFM**") has established a Global Medium Term Note Programme (the "**Programme**") for the issuance of up to ¥3,000,000,000,000 in aggregate principal amount of notes (the "**Notes**").
- (b) *Final Terms or Pricing Supplement:* Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of final terms (the "**Final Terms**") which should be read together with these terms and conditions (the "**Conditions**"), or, in the case of Notes ("**Non PD Notes**") for which no prospectus is required to be published under Directive 2003/71/EC, a pricing supplement (the "**Pricing Supplement**") which completes, supplements, amends and/or replaces, and should be read together with, these Conditions. In the case of a Tranche of Non PD Notes that is the subject of a Pricing Supplement, each reference to information being specified or identified in the relevant Final Terms or these Conditions being completed by the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Pricing Supplement or these Conditions being completed, supplemented, amended and/or replaced by the relevant Pricing Supplement unless the context requires otherwise. The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms.
- (c) *Agency Agreement:* The Notes are the subject of an amended and restated agency agreement dated 3 August 2018 (the "**Agency Agreement**") between JFM, MUFG Bank, Ltd., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), MUFG Union Bank, N.A., as U.S. representative of MUFG Bank, Ltd., London Branch, the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.
- (d) *Deed of Covenant:* The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 3 August 2018 (the "**Deed of Covenant**") entered into by JFM.
- (e) *The Notes:* All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html), and copies may be obtained at the registered office of JFM at Shisei Kaikan, 1-3, Hibiya Koen, Chiyoda-ku, Tokyo 100-0012, Japan.
- (f) *Summaries:* Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

## 2. Interpretation

(a) *Definitions:* In these Conditions the following expressions have the following meanings:

**"Accrual Yield"** has the meaning given in the relevant Final Terms;

**"Act on Special Measures Concerning Taxation"** means the Act on Special Measures Concerning Taxation of Japan (as amended or re-enacted as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms));

**"Additional Business Centre(s)"** means London and/or Tokyo and/or New York as specified in the relevant Final Terms;

**"Additional Financial Centre(s)"** means London and/or Tokyo and/or New York as specified in the relevant Final Terms;

**"Amortisation Yield"** has the meaning given in the relevant Final Terms;

**"Business Day"** means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

**"Business Day Convention"**, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) **"Following Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) **"Modified Following Business Day Convention"** or **"Modified Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **"Preceding Business Day Convention"** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) **"FRN Convention", "Floating Rate Convention" or "Eurodollar Convention"** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Interest Period after the calendar month in which the preceding such date occurred **provided, however, that:**
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

- (e) **"No Adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

**"Cabinet Order"** means Cabinet Order No. 43 of 31 March 1957 promulgated under the Act on Special Measures Concerning Taxation (as amended or re-enacted as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms));

**"Calculation Agent"** means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

**"Calculation Amount"** has the meaning given in the relevant Final Terms;

**"Coupon Sheet"** means, in respect of a Note, a coupon sheet relating to the Note;

**"Day Count Fraction"** means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (a) if **"Actual/Actual (ICMA)"** is so specified, means:
- (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (b) if **"Actual/Actual (ISDA)"** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if **"Actual/365 (Fixed)"** is so specified, means the actual number of days in the Calculation Period divided by 365;
- (d) if **"Actual/360"** is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if **"30/360"** is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**"Y<sub>1</sub>"** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**"Y<sub>2</sub>"** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30";

- (f) if **"30E/360"** or **"Eurobond Basis"** is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (g) if **"30E/360 (ISDA)"** is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

**provided, however, that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

**"Early Redemption Amount (Tax)"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Early Termination Amount"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

**"Extraordinary Resolution"** has the meaning given in the Agency Agreement;

**"Final Redemption Amount"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"First Interest Payment Date"** means the date specified in the relevant Final Terms;

**"Fixed Coupon Amount"** has the meaning given in the relevant Final Terms;

**"Holder"**, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

**"Interest Amount"** means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

**"Interest Commencement Date"** means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

**"Interest Determination Date"** has the meaning given in the relevant Final Terms;

**"Interest Payment Date"** means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Interest Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Interest Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

**"Interest Period"** means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

**"ISDA Definitions"** means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

**"Issue Date"** has the meaning given in the relevant Final Terms;

**"Margin"** has the meaning given in the relevant Final Terms;

**"Maturity Date"** has the meaning given in the relevant Final Terms;

**"Maximum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Minimum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Noteholder"**, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

**"Optional Redemption Amount (Call)"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Optional Redemption Amount (Put)"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Optional Redemption Date (Call)"** has the meaning given in the relevant Final Terms;

**"Optional Redemption Date (Put)"** has the meaning given in the relevant Final Terms;

**"Payment Business Day"** means:

- (a) if the currency of payment is euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities in definitive form and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities in definitive form and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Principal Financial Centre"** means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

**"Put Option Notice"** means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Put Option Receipt"** means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Rate of Interest"** means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

**"Redemption Amount"** means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

**"Reference Banks"** means four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**"Reference Price"** has the meaning given in the relevant Final Terms;

**"Reference Rate"** means LIBOR, EURIBOR or TIBOR in respect of the relevant Interest Period as specified in the relevant Final Terms;

**"Regular Period"** means:

- (a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

**"Relevant Date"** means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

**"Relevant Financial Centre"** is the city that is most closely connected with the Reference Rate;

**"Relevant Screen Page"** means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**"Relevant Time"** has the meaning given in the relevant Final Terms;

**"Reserved Matter"** means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;



**"Specially-Related Party of JFM"** means an individual nonresident of Japan or a non-Japanese corporation that in either case is a party having a special relationship with JFM as described in Article 6, Paragraph 4 of the Act on Special Measures Concerning Taxation;

**"Specified Currency"** has the meaning given in the relevant Final Terms;

**"Specified Denomination(s)"** has the meaning given in the relevant Final Terms;

**"Specified Office"** has the meaning given in the Agency Agreement;

**"Subsidiary"** means, in relation to any Person (the **"first Person"**) at any particular time, any other Person (the **"second Person"**):

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

**"Talon"** means a talon for further Coupons;

**"TARGET2"** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

**"TARGET Settlement Day"** means any day on which TARGET2 is open for the settlement of payments in euro;

**"Zero Coupon Note"** means a Note specified as such in the relevant Final Terms;

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes or Coupons being "outstanding" shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) (*Interpretation – Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form, Denomination, Title and Transfer**

- (a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination. Bearer Notes shall not be exchangeable for Registered Notes.
- (b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.
- (c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms. Registered Notes shall not be exchangeable for Bearer Notes.
- (d) *Title to Registered Notes:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.
- (e) *Ownership:* JFM and its Agents may treat the Holder of any Note or Coupon (except as otherwise required by law) as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.
- (f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of JFM or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

- (j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by JFM with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

#### 4. **Status**

The Notes and the Coupons relating to them are (subject to Condition 5 (*Negative Pledge*)) direct, unconditional and unsecured obligations of JFM and rank *pari passu* and rateably without any preference among themselves and rank at least equally with all other unsecured indebtedness of JFM with the exception of certain preferential rights from time to time outstanding. Under the Japan Finance Organization for Municipalities Law of Japan (Law No. 64 of 2007, as amended, the "**JFM Law**"), all holders of bonds and notes (including the Notes and the Coupons relating to them) issued by JFM have a preferential right to be paid prior to other unsecured indebtedness, and such preferential right shall rank immediately after the general preferential rights (*ippan sakidori tokken*) as provided for in the Civil Code of Japan (Law No. 89 of 1896, as amended).

*General preferential rights (ippan sakidori tokken) as provided for in the Civil Code of Japan include, among others, expenses for the common benefit and employees' right to wages.*

#### 5. **Negative Pledge**

- (a) *Negative Pledge:* JFM will not, so long as any of the Notes or Coupons remain outstanding, create any mortgage, charge, pledge or other security interest (other than Permitted Security Interests) upon the whole or any part of its property, assets or revenues, present or future, to secure (i) any payment due in respect of any External Indebtedness issued by it, or (ii) any payment under any guarantee of External Indebtedness or indemnity relating to External Indebtedness, without at the same time according to the Notes the same security as is granted to or is outstanding in respect of such External Indebtedness or such guarantee or indemnity, or securing the Notes by such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.
- (b) *Definitions:* For the purposes of this Condition 5 (*Negative Pledge*):

"**External Indebtedness**" means any indebtedness in the form of or represented by notes, debentures or other securities, all of which:

- (i) are initially distributed by or with the authorisation of JFM outside Japan; and
- (ii) are not repayable (otherwise than at the option, or due to the default, of JFM) within one year from the date of their issue; and
- (iii) are, or are capable of being, quoted, listed or ordinarily traded on any stock exchange or on any over-the-counter securities market; and

"**Permitted Security Interest**" means a lien arising by operation of law or any security interest or trust beneficiary interest created by JFM over the whole or any part of its present or future assets or revenues where such assets or revenues are loan receivables which, pursuant to the relevant provisions of the JFM Law, may form the collateral in respect of issues of covered bonds or other types of bonds as contemplated under Articles 42 and 43 (as amended from time to time, and including any successor provisions in relation thereto, the "**Relevant Articles**") of the JFM Law, **provided that** the creation of such security interest or trust beneficiary interest is pursuant to the relevant contractual or trust arrangements and specific provisions of the JFM Law relating to issues of covered bonds or other types of bonds as contemplated under the Relevant Articles applicable at the time of creation of such security interest or trust beneficiary interest.

#### 6. **Fixed Rate Note Provisions**

- (a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments – Bearer Notes*) and Condition 11 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (*Fixed Rate Note Provisions*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

## 7. **Floating Rate Note Provisions**

- (a) *Application:* This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments – Bearer Notes*) and Condition 11 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
  - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
    - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

- (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
  - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
  - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.
- (e) *Benchmark Replacement:* In addition, notwithstanding the provisions above in this Condition 7 (*Floating Rate Note Provisions*), if JFM determines that the relevant Reference Rate specified in the relevant Final Terms has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:
  - (i) JFM shall use reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser (as defined below) to determine (acting in good faith and in a commercially reasonable manner), no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**Interest Determination Cut-off Date**"), a Successor Rate (as defined below) or, alternatively, if there is no Successor Rate, an Alternative Reference Rate (as defined below) for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;
  - (ii) if JFM is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the Interest Determination Cut-off Date, JFM (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
  - (iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each

of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 7(e) (*Benchmark Replacement*)); **provided, however**, that if sub-paragraph (ii) applies and JFM is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the sum of the Margin and Issue Date Reference Rate specified in the Final Terms); for the avoidance of doubt, the proviso in this sub-paragraph (iii) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 7(e) (*Benchmark Replacement*);

- (iv) if the Independent Adviser or JFM determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or JFM (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date, and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fall-back rate in relation to the Notes, in order to follow market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser (in consultation with JFM) or JFM (as applicable), determines that an Adjustment Spread (as defined below) is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or JFM (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Fiscal Agent shall, at the direction and expense of JFM, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 7(e) (*Benchmark Replacement*). Noteholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Fiscal Agent (if required); and
- (v) JFM shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Fiscal Agent and the Noteholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions.

For the purposes of this Condition 7(e) (*Benchmark Replacement*):

**"Adjustment Spread"** means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with JFM) or JFM (as applicable), determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Noteholders and Couponholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body (as defined below); or
- (ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with JFM) or JFM (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

- (iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with JFM) or JFM in its discretion (as applicable), determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

**"Alternative Reference Rate"** means the rate that the Independent Adviser or JFM (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or JFM (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or JFM (as applicable) determines in its discretion (acting in good faith and in a commercially reasonable manner) is most comparable to the relevant Reference Rate;

**"Independent Adviser"** means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by JFM at its own expense;

**"Relevant Nominating Body"** means, in respect of a reference rate:

- (i) the central bank for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof; and

**"Successor Rate"** means the rate that the Independent Adviser or JFM (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

- (f) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (g) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a **"sub-unit"** means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (h) *Calculation of other amounts:* If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.
- (i) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the

relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination, the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

- (j) *Notifications, etc.:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on JFM, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## 8. **Zero Coupon Note Provisions**

- (a) *Application:* This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

## 9. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments – Bearer Notes*) and Condition 11 (*Payments – Registered Notes*).
- (b) *Redemption for tax reasons:* The Notes may be redeemed at the option of JFM in whole, but not in part:
  - (i) at any time (if the Floating Rate Note Provisions are not specified in the relevant Final Terms as being applicable); or
  - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

- (A) JFM has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and
- (B) such obligation cannot be avoided by JFM taking reasonable measures available to it,



**provided, however, that** no such notice of redemption shall be given earlier than:

- (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which JFM would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which JFM would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, JFM shall deliver to the Fiscal Agent (x) a certificate signed by an authorised officer of JFM stating that JFM is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of JFM so to redeem have occurred of and (y) an opinion of independent legal advisers of recognised standing to the effect that JFM has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for tax reasons*), JFM shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for tax reasons*).

- (c) *Redemption at the option of JFM*: If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of JFM in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on JFM's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige JFM to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- (d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of JFM*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of JFM*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Final Terms as being applicable, JFM shall, at the option of the Holder of any Note, redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e) (*Redemption at the option of Noteholders*), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(e) (*Redemption at the option of Noteholders*), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(e) (*Redemption at the option of Noteholders*), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

*While any Bearer Note that was issued in accordance with the TEFRA D Rules is held in the form of a Temporary Global Note, the Put Option will be available only to the extent that non-U.S. beneficial ownership certification has been received by JFM or its agent pursuant to the TEFRA D Rules.*

- (f) *No other redemption:* JFM shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.
- (g) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(g) (*Early redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

- (h) *Purchase:* JFM or any of its Subsidiaries (if any) may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.
- (i) *Cancellation:* All Notes so redeemed or purchased by JFM or any of its Subsidiaries (if any) and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

#### 10. **Payments – Bearer Notes**

This Condition 10 (*Payments – Bearer Notes*) is only applicable to Bearer Notes.

- (a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euros, any other account to which euros may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.
- (b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) *Payments in New York City:* Notwithstanding paragraphs (a) and (b) above, in the case of payments in U.S. dollars, payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) JFM has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest or principal on the Notes in U.S. dollars when due, (ii) payment of the full amount of such interest or principal at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is then permitted by applicable United States law.
- (d) *Payments subject to fiscal laws:* All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

- (e) *Deductions for unmatured Coupons:* If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
  - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
    - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
    - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.
- Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.
- (f) *Unmatured Coupons void:* If the relevant Final Terms specifies that this Condition 10(f) (*Unmatured Coupons void*) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(e) (*Redemption at the option of Noteholders*), Condition 9(c) (*Redemption at the option of JFM*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days:* If the due date for payment of any amount in respect of any Bearer Note (in definitive form) or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of

any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

#### 11. **Payments – Registered Notes**

This Condition 11 (*Payments – Registered Notes*) is only applicable to Registered Notes.

- (a) *Principal*: Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11 (*Payments – Registered Notes*) arriving after the due date for payment or being lost in the mail.
- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, JFM shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the close of business on the relevant Record Date.

#### 12. **Taxation**

- (a) *Gross-up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of JFM shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Japan or any political subdivision therein or any authority therein or thereof having power to tax ("**Taxes**"), unless the withholding or deduction of such Taxes is required by law. In that event, JFM shall pay such additional amounts as

will result in receipt by the Holders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts in respect of any Note or Coupon shall be payable:

- (i) to, or to a third party on behalf of, any Holder or beneficial owner of a Note or Coupon that is an individual nonresident of Japan or a non-Japanese corporation and is liable for such Taxes in respect of such Note or Coupon by reason of such Holder's or beneficial owner's (1) having some connection with Japan other than the mere holding of, receipt of interest on, or the enforcement of its rights under, such Note or Coupon or (2) being a Specially-Related Party of JFM;
- (ii) to, or to a third party on behalf of, any Holder or beneficial owner of a Note or Coupon that would otherwise be exempt from any such withholding or deduction but that fails to comply with any applicable requirement to provide Interest Recipient Information (as defined below) or to submit a Claim for Exemption (as defined below) to the Fiscal Agent, the Paying Agent or the Registrar (as the case may be), or whose Interest Recipient Information is not duly communicated through the relevant Participant (as defined below) and the relevant international clearing organisation to such Fiscal Agent, Paying Agent or Registrar (as the case may be);
- (iii) to, or to a third party on behalf of, any Holder or beneficial owner of a Note or Coupon that is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, except for:
  - (A) a Designated Financial Institution (as defined below) that complies with the requirement to provide the Interest Recipient Information or to submit a Claim for Exemption; and
  - (B) an individual resident of Japan or a Japanese corporation that duly notifies the Fiscal Agent, the Paying Agent or the Registrar (as the case may be) of its status as not being subject to Taxes to be withheld or deducted by JFM by reason of such individual resident or Japanese corporation receiving interest on the relevant Note or Coupon through a payment handling agent in Japan appointed by it;
- (iv) where the relevant Note or Coupon or Note Certificate is presented or surrendered (where presentation or surrender is required) for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days;
- (v) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be treated as income for Japanese tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a Partner of that partnership or other beneficial owner, in each case, who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or other beneficial owner been the Holder thereof; or
- (vi) in any case that is a combination of any of (i) through (v) above.

No additional amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Note where such deduction or withholding is imposed pursuant to Sections 1471-1474 of the U.S. Internal Revenue Code and the U.S. Treasury regulations thereunder ("FATCA"), any agreement entered into to comply with FATCA, any intergovernmental agreement entered into with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or relating to, FATCA or any such intergovernmental agreement.

(b) *Definitions:* For the purposes of these Conditions:

- (i) Where a Note or Coupon is held through a participant of an international clearing organisation or a financial intermediary prescribed by the Act on Special Measures Concerning Taxation and the Cabinet Order (each, a "**Participant**"), in order to receive

payments free of withholding or deduction for, or on account of, any Taxes, if the relevant beneficial owner of the Note or Coupon is:

- (A) an individual nonresident of Japan or a non-Japanese corporation (other than a Specially-Related Party of JFM); or
- (B) a Japanese financial institution falling under certain categories prescribed by the Act on Special Measures Concerning Taxation, and the Cabinet Order (a "**Designated Financial Institution**"),

that beneficial owner must, at the time it entrusts a Participant with the custody of the Note or Coupon, provide certain information prescribed by the Act on Special Measures Concerning Taxation ("**Interest Recipient Information**") to enable the Participant to establish that the beneficial owner is exempted from the requirement for Taxes to be withheld or deducted, and advise the Participant if that beneficial owner ceases to be exempted (including the case where the beneficial owner who is an individual nonresident of Japan or a non-Japanese corporation became a Specially-Related Party of JFM).

- (ii) Where a Note or Coupon is not held by a Participant, in order to receive payments free of withholding or deduction for, or on account of, any Taxes, if the beneficial owner is:

- (A) an individual nonresident of Japan or a non-Japanese corporation (other than a Specially-Related Party of JFM); or
- (B) a Designated Financial Institution,

that beneficial owner must, prior to each time it receives interest, submit to the Fiscal Agent, Paying Agent or Registrar (as the case may be) a claim for exemption from withholding tax (*Hikazei Tekiyo Shinkokusho*) ("**Claim for Exemption**"), in the form obtainable from the Fiscal Agent, Paying Agents and the Registrar. The Claim for Exemption must state, among other things:

- (1) the name and address (and, if applicable, the Japanese individual or corporation identification number) of the beneficial owner;
- (2) the title of the Notes;
- (3) the relevant interest payment date;
- (4) the amount of interest; and
- (5) the fact that the beneficial owner is qualified to submit the Claim for Exemption, together with the documentary evidence regarding its identity and residence.

- (c) *Taxing jurisdiction:* If JFM becomes subject at any time to any taxing jurisdiction other than Japan, references in these Conditions to Japan shall be construed as references to Japan and/or such other jurisdiction.

### 13. **Events of Default**

If any of the following events occurs and is continuing:

- (a) *Non-payment:* JFM:
  - (i) fails to pay any amount of principal in respect of the Notes when due; or
  - (ii) fails to pay any amount of interest in respect of the Notes when due and such failure continues for 5 business days (as defined below) following the due date for payment thereof; in this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in Japan); or
- (b) *Breach of other obligations:* JFM defaults in the performance or observance of any of its other obligations under or in respect of the Notes and (except where such default is not capable of remedy,

when no such notice shall be required) such default remains unremedied for 60 days after written notice thereof, addressed to JFM by any Noteholder, has been delivered to JFM; or

(c) *Cross-default/acceleration:*

- (i) Any present or future indebtedness of JFM for or in respect of moneys borrowed or raised (other than the Notes) exceeding in the aggregate ¥5,000,000,000 (or its equivalent in any other relevant currency or currencies) (the "**Relevant Indebtedness**") is accelerated as a result of a default by any person or any event treated in effect as a default; or
- (ii) JFM defaults in the repayment or discharge of any Relevant Indebtedness when due or at the expiration of any grace period originally applicable thereto; or
- (iii) JFM shall have failed to pay when properly called upon to do so or at the expiration of any grace period originally applicable thereto any guarantee for, or indemnity in respect of, any moneys borrowed or raised exceeding in the aggregate ¥5,000,000,000 (or its equivalent in any other relevant currency or currencies) in accordance with the terms of any such guarantee or indemnity; or

(d) *Winding-up:*

- (i) A law for winding up or dissolving JFM, or a law designating the date of winding-up or dissolution of JFM, is promulgated, and by the date one month prior to the date set for winding-up or dissolution of JFM under such law(s), no provision has been made for the obligations of JFM under the Notes to be assumed by a successor organisation or corporation; or
- (ii) JFM shall cease to carry on business and the obligations of JFM under the Notes shall not be assumed by a successor organisation or corporation; or

(e) *Enforcement proceedings:* Steps are taken to enforce any security or a distress, execution or seizure before judgment is levied or enforced upon or sued out against the whole or a substantial part of the property of JFM and is not discharged within 60 days thereof; or

(f) *Insolvency:* JFM stops payment (within the meaning of Japanese or any other applicable bankruptcy law) or is unable to pay its debts as and when they fall due; or

(g) *Bankruptcy:* A final decree or order is made or issued by a court of competent jurisdiction adjudicating JFM bankrupt or insolvent, or approving a petition seeking with respect to JFM a decree of commencement of bankruptcy under Japanese bankruptcy laws or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of JFM, or for the winding-up, dissolution or liquidation of JFM in its bankruptcy or insolvency,

then any Note may, by written notice addressed by the Holder thereof to JFM and delivered to JFM, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

14. **Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

15. **Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as JFM may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

16. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of JFM and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. JFM reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (a) JFM shall at all times maintain a fiscal agent and a registrar; and
- (b) if a Calculation Agent is specified in the relevant Final Terms, JFM shall at all times maintain a Calculation Agent; and
- (c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, JFM shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. **Meetings of Noteholders; Modification and Waiver**

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by JFM and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which (i) where "Three-Quarter Quorum" is specified in the relevant Final Terms, two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes, or (ii) where "100 per cent. Quorum" is specified in the relevant Final Terms, two or more Persons holding or representing not less than 100 per cent. or, at any adjourned meeting, three-quarters of the aggregate principal amount of the outstanding Notes, form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary



Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification:* The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but JFM shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

#### 18. **Further Issues**

JFM may from time to time, without the consent of the Noteholders or the Couponholders, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

*If the additional Notes in registered form are not fungible with the outstanding Notes of a series for U.S. federal income tax purposes and either the additional Notes are or the outstanding Notes of such series were sold, in whole or in part, in reliance on Rule 144A, the additional Notes will have CUSIP, ISIN, or other identifying number(s) that are different from that of the outstanding Notes. Further, in the case of Bearer Notes that are issued under the TEFRA D Rules, any consolidation of additional Notes with outstanding Notes will occur only to the extent that certification of non-U.S. beneficial ownership has been received in accordance with the TEFRA D Rules and the Temporary Global Note has been exchanged for a Permanent Global Note or Definitive Note.*

#### 19. **Notices**

- (a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

*So long as the Notes are represented or evidenced by Notes or Note Certificates in global form and such Notes are held on behalf of a clearing system, notices to Holders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for publication or mailing required by these Conditions.*

#### 20. **Currency Indemnity**

If any sum due from JFM in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against JFM, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, JFM shall indemnify each Noteholder, on the written demand of such Noteholder addressed to JFM and delivered to JFM, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of JFM and shall give rise to a separate and independent cause of action.

21. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law. JFM hereby irrevocably and unconditionally submits to the jurisdiction of the English courts for all purposes in connection with the Notes.
- (b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).
- (c) *Appropriate forum:* JFM agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England:* Notwithstanding Condition 22(b) (*English courts*), any Noteholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Process agent:* JFM agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Trident Company Services (UK) Limited at 7 Welbeck Street, London W1G 9YE, United Kingdom or, if different, its registered office for the time being or at any address of JFM in Great Britain at which process may be served on it in accordance with English law. If such person is not or ceases to be effectively appointed to accept service of process on behalf of JFM, JFM shall, on the written demand of any Noteholder addressed and delivered to JFM, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to JFM and delivered to JFM. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

## FORM OF FINAL TERMS

*The Final Terms in respect of each Tranche of Notes with a denomination of at least €100,000 to be admitted to trading on the Regulated Market will be substantially in the following form and completed to reflect the particular terms of the relevant Notes and their issue.*

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS:** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No. 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

**[MIFID II product governance / Professional investors and ECPs only target market –** Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")/MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Issuer to consider any negative target market.]* Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

**Japan Finance Organization for Municipalities**  
**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**  
**under the ¥3,000,000,000,000**  
**Global Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated • [and the supplement(s) to it dated • ] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "Base Prospectus"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5(4) of the Prospectus Directive and must be read in conjunction with the Base Prospectus. In order to get the full information on JFM and the offer of the Notes, both the Base Prospectus and these Final Terms must be read in conjunction. The Base Prospectus has been published on London Stock Exchange's website.

- |    |        |  |                      |
|----|--------|--|----------------------|
| 1. | (i)    | Series Number:                           | [•]                  |
|    | (ii)   | Tranche Number:                          | [•]                  |
|    | (iii)  | Date on which the Notes become fungible: | [Not Applicable/[•]] |
| 2. |        | Specified Currency or Currencies:        | [•]                  |
| 3. |        | Aggregate Nominal Amount:                | [•]                  |
|    | [(i)]  | Series:                                  | [•]                  |
|    | [(ii)] | Tranche:                                 | [•]                  |

4. Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]
5. (i) Specified Denominations: [•]  
(ii) Calculation Amount: [•]
6. (i) Issue Date: [•]  
(ii) Interest Commencement Date: [[•]/Issue Date/Not Applicable]
7. Maturity Date: [•]
8. Interest Basis: [[•] per cent. Fixed Rate]  
[[LIBOR/EURIBOR/TIBOR] +/- [•] per cent. Floating Rate]  
[Zero Coupon]
9. Redemption Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount.
10. Put/Call Options: [Investor Put]  
[Issuer Call]
11. Date President's approval for issuance of Notes obtained: [•]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

12. Fixed Rate Note Provisions: [Applicable/Not Applicable]
  - (i) Rate[(s)] of Interest: [•] per cent. per annum payable in arrear on each Interest Payment Date
  - (ii) Interest Payment Date(s): [•] [and [•]] in each year [adjusted in accordance with the [[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [with Additional Business Centre(s) being [London/Tokyo/New York]] / not adjusted]
  - (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
  - (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
  - (v) Day Count Fraction: [30/360 / Actual/Actual ([ICMA/ISDA])/ Actual/365 (Fixed) / Actual/360 / 30E/360 / Eurobond Basis / 30E/360 (ISDA)]
  - (vi) [Determination Dates: [•] [and [•]] in each year]
13. Floating Rate Note Provisions: [Applicable/Not Applicable]
  - (i) Interest Period(s): [•]
  - (ii) Specified Interest Payment Dates: [[•] [and [•]] in each year, subject to adjustment in accordance with the Business Day Convention set out in (iv) below]

- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]
- (v) Additional Business Centre(s): [London/Tokyo/New York]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination / ISDA Determination]
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): [•]
- (viii) Screen Rate Determination:
  - Reference Rate: [•]
  - Interest Determination Date(s): [•]
  - Relevant Time: [•]
  - Relevant Screen Page: [•]
- (ix) ISDA Determination:
  - Floating Rate Option: [•]
  - Designated Maturity: [•]
  - Reset Date: [•]
- (x) Margin(s): [+/-][•] per cent. per annum
- (xi) Minimum Rate of Interest: [•/0.000] per cent. per annum
- (xii) Maximum Rate of Interest: [•] per cent. per annum
- (xiii) Day Count Fraction: [•]
- (xiv) Issue Date Reference Rate: [•] per cent. per annum
- 14. Zero Coupon Note Provisions: [Applicable/Not Applicable]
  - (i) [Amortisation/Accrual] Yield: [•] per cent. per annum
  - (ii) [Reference Price: [•]]

#### **PROVISIONS RELATING TO REDEMPTION**

- 15. Call Option: [Applicable/Not Applicable]
  - (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount(s) of each Note [•] per Calculation Amount
  - (iii) If redeemable in part:
  - (c) Minimum Redemption Amount: [•] per Calculation Amount

- (d) Maximum Redemption Amount: [•] per Calculation Amount
- (iv) Notice period: [•]
16. Put Option: [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [[•]/[Any date from and including [date] to but excluding [date]]]
- (ii) Optional Redemption Amount(s) (Call) of each Note: [[•] per Calculation Amount][in the case of the Optional Redemption Date(s) falling [on [•]]/[in the period from and including [date] to but excluding [date]]]
- (iii) Notice period: [•]
17. Final Redemption Amount of each Note: [•] per Calculation Amount
18. Early Redemption Amount [[Par] per Calculation Amount]
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

19. Form of Notes: [Bearer Notes, represented by [Temporary Global Note exchangeable for] [Permanent Global Note which is exchangeable for Definitive Notes [on [•] days' notice/at any time/only in the limited circumstances specified in the Permanent Global Note]] [Definitive Notes]]

[Registered Notes, evidenced by:

- (i) In the case of Registered Notes sold outside the United States to non-U.S. person in reliance on Regulation S, Unrestricted Global Registered Notes; and
- (ii) In the case of Registered Notes sold in the United States to QIBs in reliance on Rule 144A, Restricted Global Registered Notes.

Each Note evidenced by an Unrestricted Global Registered Note will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the Unrestricted Global Registered Note will be deposited on or about the issue date with the common depositary. Each Note evidenced by a Restricted Global Registered Note will be registered in the name of [Cede & Co.] [•] as nominee for DTC and the Restricted Global Registered Note will be deposited on or about the Issue Date with the DTC Custodian.]

[Registered Notes, evidenced by a Regulation S Global Registered Note. [The Notes evidenced by the Regulation S Global Registered Note will not be held

under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depositary (or its nominee) for [Euroclear and/or Clearstream, Luxembourg] [•] and the Regulation S Global Registered Note will be deposited on or about the Issue Date with the common depositary.] [The Notes evidenced by the Regulation S Global Registered Note will be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the Regulation S Global Registered Note will be deposited on or around the Issue Date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.]]

[Registered Notes, evidenced by Individual Note Certificates.]

20. New Global Note: [Yes] [No]
21. Additional Financial Centre(s): [Not Applicable/[London/Tokyo/New York]]
22. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [No/Yes]
23. Reserved Matters Quorum: [Three-Quarters Quorum] [100 per cent. Quorum]

### THIRD PARTY INFORMATION

[[•] has been extracted from [•]. JFM confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Japan Finance Organization for Municipalities:

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

[Listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market with effect from [•].]

[Series [•] has been listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market with effect from [•].]

[Application has been made for [the Notes/Series [•]] to be listed and admitted to trading on the TOKYO PRO-BOND Market of the Tokyo Stock Exchange with effect from the [first] business day in Tokyo following the Issue Date.]
2. **RATINGS**

Ratings: [The Notes to be issued [have been/are expected to be] rated]:

[S&P: [•]]

[Moody's: [•]]
3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

[•]
4. **TOTAL EXPENSES**

Estimated total expenses: [•]
5. **[Fixed Rate Notes only – YIELD]**

Indication of yield: [•]
6. **OPERATIONAL INFORMATION**

ISIN: [[•]]  
[Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

Common Code: [[•]]  
[Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

[FISN:] [[•]]  
[Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

[CFI Code:] [[•]]  
[Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

[CUSIP: Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

Legal Entity Identifier: 5493007YYYNZ4NMEOD64



Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking S.A. and/or DTC and the relevant identification number(s):	[Not Applicable/[•], [•]]
Names and addresses of additional Paying Agent(s) (if any):	[•]
Intended to be held in a manner which would allow Eurosystem eligibility:	<p>[Yes.[ Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [[and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]] /</p> <p>[No.[ Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [[and registered in the name of a nominee of one of the ICSDs acting as common safekeeper]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]]</p>

## 7. DISTRIBUTION

U.S. Selling Restrictions (Categories of potential investors to which the Notes are offered):	[Reg. S Compliance Category 2; TEFRA C/TEFRA D/TEFRA not applicable][; 144A]
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## FORM OF PRICING SUPPLEMENT

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS:** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No. 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

**[MIFID II product governance / Professional investors and ECPs only target market –** Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")/MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Issuer to consider any negative target market.]* Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

**Japan Finance Organization for Municipalities**  
**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**  
**under the ¥3,000,000,000,000**  
**Global Medium Term Note Programme**

## PRICING SUPPLEMENT

*This Pricing Supplement has been prepared by JFM in connection with the issuance of Notes other than Notes to be admitted to the Official List of the United Kingdom Financial Conduct Authority (the "FCA") and admitted to trading on the Regulated Market of the London Stock Exchange plc. This Pricing Supplement has not been reviewed or approved by the FCA and does not constitute a final terms for the purposes of directive 2003/71/EC, as amended.*

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated • [and the supplement(s) to it dated • ] (the "**Base Prospectus**"). This document constitutes the Pricing Supplement of the Notes described herein and must be read in conjunction with the Base Prospectus. In order to get the full information on JFM and the offer of the Notes, both the Base Prospectus and this Pricing Supplement must be read in conjunction. The Base Prospectus [and the supplemental Base Prospectus(es)] are available for viewing at [address] and copies may be obtained from [address].

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Pricing Supplement.]*

- |    |       |  |   |
|----|-------|--|---|
| 1. | (i)   | Series Number:                           | [•]   |
|    | (ii)  | Tranche Number:                          | [•]   |
|    | (iii) | Date on which the Notes become fungible: | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [insert description of the Series] on [insert date/the Issue Date/exchange of the Temporary Global |

Note for interests in the Permanent Global Note, as referred to in paragraph 19 below [which is expected to occur on or about *[insert date]*].]

2. Specified Currency or Currencies: [•]
3. Aggregate Nominal Amount: [•]
  - [(i)] Series: [•]
  - [(ii)] Tranche: [•]
4. Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•].]
5.
  - (i) Specified Denominations: [•]
  - (ii) Calculation Amount: [•]
6.
  - (i) Issue Date: [•]
  - (ii) Interest Commencement Date: [[•]/Issue Date/Not Applicable]
7. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
8. Interest Basis: [[•] per cent. Fixed Rate]  
[[LIBOR/EURIBOR/TIBOR] +/- [•] per cent. Floating Rate]  
[Zero Coupon]
9. Redemption Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount.
10. Put/Call Options: [Investor Put]  
[Issuer Call]
11. Date President's approval for issuance of Notes obtained: [•]  
*(N.B. Generally, each issue of Notes requires the President's approval.)*

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

12. Fixed Rate Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
  - (i) Rate[(s)] of Interest: [•] per cent. per annum payable in arrear on each Interest Payment Date
  - (ii) Interest Payment Date(s): [•] [and [•]] in each year [adjusted in accordance with the [[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [with Additional Business Centre(s) being [London/Tokyo/New York]] / not adjusted]

- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
- (v) Day Count Fraction: [30/360 / Actual/Actual ([ICMA/ISDA])/ Actual/365 (Fixed) / Actual/360 / 30E/360 / Eurobond Basis / 30E/360 (ISDA)]
- (vi) [Determination Dates: [•] [and [•]] in each year]
- (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*
13. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [•]
- (ii) Specified Interest Payment Dates: [[•] [and [•]] in each year, subject to adjustment in accordance with the Business Day Convention set out in (iv) below]
- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]
- (v) Additional Business Centre(s): [London/Tokyo/New York]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination / ISDA Determination]
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): [•]
- (viii) Screen Rate Determination:
- Reference Rate: [•]
  - Interest Determination Date(s): [•]
  - Relevant Time: [•]
  - Relevant Screen Page: [•]
- (ix) ISDA Determination:
- Floating Rate Option: [•]
  - Designated Maturity: [•]
  - Reset Date: [•]
- (x) Margin(s): [+/-][•] per cent. per annum

- (xi) Minimum Rate of Interest: [•/0.000] per cent. per annum
- (xii) Maximum Rate of Interest: [•] per cent. per annum
- (xiii) Day Count Fraction: [•]
- (xiv) Issue Date Reference Rate: [•] per cent. per annum
14. Zero Coupon Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) [Amortisation/Accrual] Yield: [•] per cent. per annum
- (ii) [Reference Price: [•]]
15. Call Option: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [[•]/[Any date from and including [date] to but excluding [date]]]
- (ii) Optional Redemption Amount(s) (Call) of each Note [[•] per Calculation Amount][in the case of the Optional Redemption Date(s) falling [on [•]]/[in the period from and including [date] to but excluding [date]]]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [•] per Calculation Amount
- (b) Maximum Redemption Amount: [•] per Calculation Amount
- (iv) Notice period: [•]
16. Put Option: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note: [•] per Calculation Amount
- (iii) Notice period: [•]
17. Final Redemption Amount of each Note: [•] per Calculation Amount
18. Early Redemption Amount [[Par] per Calculation Amount]
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

19. Form of Notes: [Bearer Notes, represented by [Temporary Global Note exchangeable for] [Permanent Global Note which is exchangeable for Definitive Notes [on [•] days' notice/at any time/only in the limited circumstances specified in the Permanent Global Note]] [Definitive Notes]]
- (Bearer Notes issued under TEFRA D must initially be represented by a Temporary Global Note, exchangeable for a Permanent Global Note or Definitive Notes upon certification of non-U.S. beneficial ownership.)*
- [Registered Notes, evidenced by:
- (i) In the case of Registered Notes sold outside the United States to non-U.S. person in reliance on Regulation S, Unrestricted Global Registered Notes; and
  - (ii) In the case of Registered Notes sold in the United States to QIBs in reliance on Rule 144A, Restricted Global Registered Notes.
- Each Note evidenced by an Unrestricted Global Registered Note will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the Unrestricted Global Registered Note will be deposited on or about the issue date with the common depositary. Each Note evidenced by a Restricted Global Registered Note will be registered in the name of [Cede & Co.] [•] as nominee for DTC and the Restricted Global Registered Note will be deposited on or about the Issue Date with the DTC Custodian.]
- [Registered Notes, evidenced by a Regulation S Global Registered Note. [The Notes evidenced by the Regulation S Global Registered Note will not be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depositary (or its nominee) for [Euroclear and/or Clearstream, Luxembourg] [•] and the Regulation S Global Registered Note will be deposited on or about the Issue Date with the common depositary.] [The Notes evidenced by the Regulation S Global Registered Note will be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the Regulation S Global Registered Note will be deposited on or around the Issue Date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.]]
- [Registered Notes, evidenced by Individual Note Certificates.]
20. New Global Note: [Yes] [No]
21. Additional Financial Centre(s): [Not Applicable/[London/Tokyo/New York]]

22. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.]
23. Reserved Matters Quorum: [Three-Quarters Quorum] [100 per cent. Quorum]

### **THIRD PARTY INFORMATION**

[[•] has been extracted from [•]. JFM confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Japan Finance Organization for Municipalities:

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING** [Not listed] [Listed on [•]]
  
2. **RATINGS**

Ratings: The Notes to be issued [will not be rated] [have been/are expected to be] rated:

[S&P: [•]]  
[Moody's: [•]].]

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating. If the Notes will not be rated, consider referring to issuer ratings.)*
  
3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

*(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below):*

*"Save as discussed in ["Subscription and Sale"], so far as JFM is aware, no person involved in the offer of the Notes has an interest material to the offer." (Amend as appropriate if there are other interests)]*
  
4. **TOTAL EXPENSES**

Estimated total expenses: [•]

Estimated net proceeds: [•]
  
5. **[Fixed Rate Notes only – YIELD]** [•]
 

Indication of yield: Calculated as *[include specific details of method of calculation in summary form]* on the Issue Date.

As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
  
6. **OPERATIONAL INFORMATION**

ISIN: [[•]]  
[Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

Common Code: [[•]]  
[Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

[FISN:] [[•]]  
[Restricted Global Registered Notes: [•]]  
Unrestricted Global Registered Notes: [•]]

[CFI Code:] [[•]]  
[Restricted Global Registered Notes: [•]]



	Unrestricted Global Registered Notes: [•]]
[CUSIP:	Restricted Global Registered Notes: [•] Unrestricted Global Registered Notes: [•]]
Legal Entity Identifier:	5493007YYYNZ4NMEOD64
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking S.A. and/or DTC and the relevant identification number(s):	[Not Applicable/[ <i>name of alternative clearing system</i> ], [ <i>address</i> ]]
Names and addresses of additional Paying Agent(s) (if any):	[•]
Intended to be held in a manner which would allow Eurosystem eligibility:	<p>[Yes.[ Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [[and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][<i>include this text for Registered Notes</i>] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]] /</p> <p>[No.[ Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [[and registered in the name of a nominee of one of the ICSDs acting as common safekeeper][<i>include this text for Registered Notes</i>]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]]</p>

## 7. DISTRIBUTION

- |   |  |
|---|--|
| (i) Method of distribution:                         | [Syndicated/Non-syndicated]  |
| (ii) If syndicated:                                 |  |
| (A) Names of Managers and underwriting commitments: | <p>[Not Applicable/give names, addresses and underwriting commitments]</p> <p><i>(Include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)</i></p> |
| (B) Date of Subscription Agreement:                 | [•]  |

- (C) Stabilising Managers (if any): [Not Applicable/*give name*]
- (iii) If non-syndicated, name of Dealer [Not Applicable/*give name*]
- (iv) Indication of the overall amount of the underwriting commission and of the placing commission: [•] per cent. of the Aggregate Nominal Amount
- (v) U.S. Selling Restrictions (Categories of potential investors to which the Notes are offered): [Reg. S Compliance Category 2; TEFRA C/TEFRA D/TEFRA not applicable] [; 144A]]
- (In the case of Bearer Notes, "TEFRA not applicable" can only be used if the Notes have a term of 365 days or less (taking into account any unilateral rights to rollover or extend the term).)*

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### Initial Issue of Notes

If the Global Notes or Regulation S Global Registered Notes are stated in the applicable Final Terms or Pricing Supplement to be issued in NGN form or to be held under the NSS (as the case may be), on or prior to the original issue date of the Tranche the Global Notes or Regulation S Global Registered Notes will be delivered to a Common Safekeeper and Euroclear and Clearstream, Luxembourg will be informed whether or not the Notes are intended to be held as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem ("**Eurosystem eligible collateral**").

Depositing the Global Notes or the Regulation S Global Registered Notes intended to be held as Eurosystem eligible collateral with a Common Safekeeper does not necessarily mean that the Notes will be recognised as Eurosystem eligible collateral either upon issue, or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met. In the case of Notes issued in NGN form or to be held under the NSS (as the case may be) which are not intended to be held as Eurosystem eligible collateral as of their issue date, should the Eurosystem eligibility criteria be amended in the future so that such Notes are capable of meeting the eligibility criteria, such Notes may then be deposited with Euroclear or Clearstream, Luxembourg as Common Safekeeper.

### Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, (a) in the case of a Regulation S Global Registered Note held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper, (b) in the case of an Unrestricted Global Registered Note held by or on behalf of a common depositary for Euroclear and/or Clearstream, Luxembourg, will be that common depositary or a nominee for that common depositary and (c) in the case of a Restricted Global Registered Note held by or on behalf of DTC, will be Cede & Co. (or such other entity that is specified in the applicable Final Terms or Pricing Supplement) as nominee for DTC.

Each of the persons shown in the records of DTC, Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an "**Accountholder**") must look solely to DTC, Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by JFM to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against JFM in respect of payments due under the Notes and such obligations of JFM will be discharged by payment to the holder of such Global Note or Global Registered Note.

### Transfers of Interests in Global Notes and Global Registered Notes

Transfers of interests in Global Notes and Global Registered Notes within DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of JFM, the Registrar, the Dealers or the Agents will have any responsibility or liability for any aspect of the records of any DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Registered Note or for maintaining,

supervising or reviewing any of the records of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Registered Note to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Registered Note to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the Registrar and the Fiscal Agent.

On or after the issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will need to have an agreed settlement date between the parties to such transfer. For transfers between a holder of interests in a Restricted Global Registered Note and a holder of interests in an Unrestricted Global Registered Note, there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, and transfers of interests in the relevant Global Registered Note will be effected through the Fiscal Agent, the DTC Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Registered Note resulting in such transfer and (ii) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately. The customary arrangements for delivery versus payment between Euroclear and Clearstream, Luxembourg account holders or between DTC participants are not affected.

For a further description of restrictions on the transfer of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Upon the issue of a Restricted Global Registered Note to be held by or on behalf of DTC, DTC or the DTC Custodian will credit the respective nominal amounts of the individual beneficial interests represented by such Restricted Global Registered Note to the account of DTC participants. Ownership of beneficial interests in such Restricted Global Registered Note will be held through participants of DTC, including the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in such Restricted Global Registered Note will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee. DTC has advised JFM that it will take any action permitted to be taken by a holder of Registered Notes represented by a Restricted Global Registered Note held by or on behalf of DTC (including, without limitation, the presentation of such Restricted Global Registered Note for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in such Restricted Global Registered Note are credited, and only in respect of such portion of the aggregate nominal amount of such Restricted Global Registered Note as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the Restricted Global Registered Note for Individual Note Certificates (which will bear the relevant legends set out in "*Transfer Restrictions*").

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Registered Note among participants and account holders

of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of JFM, the Registrar, the Dealers or the Agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Registered Note is lodged with DTC, Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of Notes will not be eligible for clearing and settlement through such clearing systems.

### **Conditions applicable to Global Notes**

Each Global Note and Global Registered Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Registered Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Global Note or Global Registered Note which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Registered Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of JFM in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, JFM shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

*Payment Business Day:* In the case of a Global Note, or a Global Registered Note, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

*Payment Record Date:* Each payment in respect of a Regulation S Global Registered Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a day on which each clearing system for which the Regulation S Global Registered Note is being held is open for business. Each payment in respect of an Unrestricted Global Registered Note or a Restricted Global Registered Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the fourth Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a day on which all of the clearing systems for which the Unrestricted Global Registered Note and the Restricted Global Registered Note are being held are open for business.

*Exercise of put option:* In order to exercise the option contained in Condition 9(e) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn. While any Bearer Note that was issued in accordance with the TEFRA D Rules is held in the form of a Temporary Global Note, the put option will be available only to the extent that non-U.S. beneficial ownership certification has been received by JFM or its agent pursuant to the TEFRA D Rules

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 9(c) (*Redemption at the option of JFM*) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by JFM in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of DTC, Euroclear and Clearstream, Luxembourg (to be reflected in the records of DTC, Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

*Notices:* Notwithstanding Condition 19 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or

the Global Registered Note is, registered in the name of DTC's nominee or deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

### **Eurosystem Eligibility**

For Notes intended to be in NGN form, the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper, and for Notes intended to be held under the NSS, to be registered in the name of a nominee of one of the ICSDs acting as common safekeeper, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

Where the Notes issued in respect of any Tranche are issued in NGN form or issued under the NSS, the ICSDs will be notified whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility.

## **USE OF PROCEEDS**

The net proceeds from the issue of each Tranche of Notes will be applied by JFM for general loans to local governments. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms or Pricing Supplement.

## EXCHANGE RATES

The following table presents the noon buying rates for Japanese yen per U.S.\$1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for and as of the end of each period indicated.

	<u>High</u>	<u>Low</u>	<u>Average<sup>(1)</sup></u>	<u>Period end</u>
	<i>(per U.S. dollar)</i>			
<b>Fiscal year ended/ending 31 March</b>				
2014.....	105.25	92.96	100.46	102.98
2015.....	121.50	101.26	110.78	119.96
2016.....	125.58	111.30	120.12	112.42
2017.....	118.32	100.07	108.31	111.41
2018.....	114.25	104.83	111.64	106.20
2019 (through 20 July 2018).....	111.74	108.73	110.12	111.74
<b>Most recent six months:</b>				
February 2018 .....	¥110.40	¥106.10	¥107.97	¥106.62
March 2018.....	106.91	104.83	106.04	106.20
April 2018.....	109.33	105.99	107.65	109.28
May 2018.....	111.08	108.62	109.68	108.73
June 2018.....	110.71	109.45	110.06	110.71
July 2018 (through 20 July 2018).....	112.98	110.48	111.66	111.74

Note:

- (1) Calculated from the average of the exchange rates on the last day of each month during the period with respect to fiscal years and from the average of daily noon buying rates with respect to months.

The exchange rates included above are for reference only and are not necessarily the rates used to calculate ratios or to convert yen to U.S. dollars in our financial statements or elsewhere in this Base Prospectus.

## JAPANESE LOCAL GOVERNMENT FINANCE AND THE ROLE OF JFM

JFM formulates its lending programme each fiscal year based on the Local Government Finance Programme and the Local Government Borrowing Programme, which are prepared in parallel with the national budget.

### Local Government System in Japan

Local governments are responsible for extensive services closely related to the daily lives of citizens, including social welfare, public health, school education, social education, policing and fire fighting in their respective regions.

Local governments are comprised of prefectures, cities, special wards, towns, villages, local government associations and property wards. Cities, towns and villages handle administrative issues related to their respective regions. Prefectures are broader-based local governments.

Each prefecture, city, special ward, town or village has an assembly, which consists of representatives directly elected by the respective residents, and is granted certain legislative powers within the limitation set by the constitution and national laws and cabinet orders, and exercises its legal rights, in addition to the power to enact budgets. These local governments are administered by governors and mayors directly elected by the respective residents.

JFM can provide funds only to local governments and neither JFM nor the Predecessor (as defined in "Japan Finance Organization for Municipalities") has experienced any defaults on its loans.

### Local Government Finance Programme

As local governments play a significant role in the national economy, the national government takes overall responsibility to provide local governments with the funds required to smoothly implement necessary measures and policies.



To this end, the national government formulates the Local Government Finance Programme each fiscal year in parallel with the national budget. The national government secures revenue sources including local allocation taxes for local governments.

The local allocation tax is an important source of funds for local governments, through which the national government distributes the money that is necessary to make up for the shortfall to maintain an appropriate level of public services.

### **Local Government Borrowing Programme**

The national government also prepares the Local Government Borrowing Programme each fiscal year, based on the Local Government Finance Programme, to give an overall picture of long-term borrowings of local governments and to secure necessary revenue sources. The Local Government Borrowing Programme sets the amounts of fundraising by local governments by projects as well as procurement sources. Under the Local Government Borrowing Programme, JFM funds, as well as the national government funds, are treated as public funds. Under the Local Government Borrowing Programme for the fiscal year ending March 2019, JFM will provide approximately 15.3 per cent. of local government funding.

### **The Financial Soundness of Local Governments Law**

The Financial Soundness of Local Governments Law (Law No. 94 of 2007, as amended), which was enacted and promulgated in June 2007, stipulates that local governments whose financial indices exceed specified levels are required to expeditiously restore financial soundness. Under the Financial Soundness of Local Governments Law, financial indices of local governments shall be disclosed, and the local governments whose financial indices exceed certain limits must map out their plans to restore fiscal soundness. The Financial Soundness of Local Governments Law is designed to ensure the fiscal soundness of local governments through administrative measures that help them execute their plans.

Under the Financial Soundness of Local Governments Law, local governments with financial indices exceeding the early warning limits (*souki kenzenka kijun*) or reconstruction limits (*zaisei saisei kijun*) shall restore their fiscal soundness in a carefully planned manner.

### **Municipal Enterprises**

Local governments provide some types of services through municipal enterprises. Municipal enterprises are departments within local governments which undertake the construction and operation of public facilities or provision of public services, such as water supply, sewerage, hospital facilities and transportation. Municipal enterprises are operated basically upon their own revenues, and are accounted for independently from general services like social welfare and school education which are operated as part of the general account. However, holders of obligations of municipal enterprises have recourse against the general account, and holders of obligations of the general account have recourse against municipal enterprises.

### **Procedures for Local Governments' Fundraising**

In principle, borrowings including the issue of bonds can be undertaken as revenue sources for expenditures of local governments only when the proceeds are used for the purposes specifically provided for in the Local Government Finance Law of Japan (Law No. 109 of 1948, as amended) and other related regulations. Authorised purposes include, for example, the payment of expenses associated with municipal enterprises, and the construction of public buildings and facilities. Furthermore, the purposes, amount limits, methods of issuances, interest rates and methods of redemptions of local government bonds and loans must be stipulated in the budget and approved by the relevant local government assembly.

To contribute to the sound fiscal management of local governments, the following consultation system has been established:

- Prefectures and government-designated cities (being large cities with population of over 0.5 million designated as such by the government) and local government associations constituted thereby must consult with the Minister for Internal Affairs and Communications when they borrow funds and issue bonds.

- Cities, special wards, towns, villages and local government associations (except for such local government associations as are stipulated in the previous paragraph) must consult with the respective prefectural governors when they borrow funds and issue bonds.
- Local governments can borrow public funds, including loans from JFM, only with the consent of the Minister for Internal Affairs and Communications or their respective prefectural governors, which is given through the consultation mentioned above.
- In the case of local government bonds and loans for which consent has been given by the Minister for Internal Affairs and Communications or the relevant prefectural governors, the national government incorporates the total amount of the payment of the principal and interest of such local government debts in the "expenditures" of the Local Government Finance Programme, and the corresponding total amount of local allocation tax grants is secured. When calculating the amount to be allocated to individual local governments, a part of the payment of the principal and interest of such local government debts is included.
- If a local government undertakes to borrow money without obtaining consent from the Minister for Internal Affairs and Communications or the relevant prefectural governor, the head of the local government must report that fact to the local government's assembly in advance.
- Certain local governments, such as those whose deficits exceed specified limits or whose debt payment ratios exceed specified limits, must obtain specific approval from the Minister for Internal Affairs and Communications or the relevant prefectural governors before borrowing money. Local governments which borrow money for certain municipal enterprises, such as those having loss carried forward, must also obtain the approval (the **"Early Correction Measure"** (*souki zesei sochi*)).

In order to promote the autonomy and independence of local governments, this consultation system was partially amended as of 1 February 2012 by introducing a notification system. Under the notification system, those local governments planning to undertake bonds and loans from sources other than public funds including JFM funds will not, in principle, be required to consult in advance with the Minister for Internal Affairs and Communications or the relevant prefectural governors, **provided that** the local governments satisfy specified conditions, such as having a real debt payment ratio of less than 16 per cent.

In the case of local government bonds and loans with respect to which notification has been made and the national government has recognised that consent would be given by the Minister for Internal Affairs and Communications or the respective prefectural governors if a consultation was undertaken, the national government incorporates the payment of the principal and interest of these local government debts into the Local Government Finance Programme, and a part of these debt services are also included in the computation of local allocation tax grants to the relevant local government, as is the case with the local government bonds and loans to which consent has been given.

## CAPITALISATION AND INDEBTEDNESS

The following table sets out the capitalisation and indebtedness of JFM as of 31 March 2018, which has been extracted without material adjustment from JFM's audited financial statements as of the same date:

	<b>As of 31 March 2018 (Millions of yen)</b>
<b><i>Indebtedness:</i></b>	
Bonds <sup>(1)(2)</sup> .....	¥20,284,520
Borrowed money <sup>(2)</sup> .....	159,500
Total indebtedness .....	<u>20,444,020</u>
<b><i>Funds and Reserves:</i></b>	
Fund for lending rate reduction <sup>(3)</sup> .....	920,287
<i>Of which:</i>	
Basic fund for lending rate reduction .....	920,287
Reserves under special laws .....	3,105,003
<i>Of which:</i>	
Reserve for interest rate volatility <sup>(4)</sup> .....	2,200,000
Management account reserve for interest rate volatility <sup>(4)</sup> .....	870,453
Reserve for interest rate reduction <sup>(5)</sup> .....	34,550
<b><i>Net Assets:</i></b>	
Capital .....	16,602
Retained earnings .....	191,890
<i>Of which:</i>	
General Account surplus reserve .....	191,890
Valuation, translation adjustments and others .....	5,268
Management account surplus reserve .....	<u>53,666</u>
Total net assets .....	<u>267,427</u>
Total capitalisation and indebtedness <sup>(6)(7)</sup> .....	<u>¥24,736,739</u>

**Notes:**

- (1) JFM issued ¥90,000 million in aggregate principal amount of government-guaranteed bonds and ¥635,494 million in aggregate principal amount of non-guaranteed bonds from 31 March 2018 to 31 July 2018.
- (2) Includes current maturities.
- (3) Fund for lending rate reduction pursuant to the JFM Law. This has been included in the above table although, under the JFM Law, this item is presented as a liability on JFM's balance sheets.
- (4) Reserves to prepare for interest rate risk associated with refinancing of bonds pursuant to the JFM Law. This has been included in the above table although, under the JFM Law, this item is presented as a liability on JFM's balance sheets.
- (5) Reserve for interest rate reduction pursuant to the JFM Law. This has been included in the above table although, under the JFM Law, this item is presented as a liability on JFM's balance sheets.
- (6) Total capitalisation and indebtedness comprises the aggregate of bonds, borrowed money, the fund for lending rate reduction, reserves under special laws and total net assets.
- (7) Other than as described above, there has been no material change in JFM's capitalisation and indebtedness since 31 March 2018.

## JAPAN FINANCE ORGANIZATION FOR MUNICIPALITIES

In this section "*Japan Finance Organization for Municipalities*", the term "**JFM**" refers to Japan Finance Organization for Municipalities, or where appropriate, Japan Finance Corporation for Municipal Enterprises as the predecessor (the "**Predecessor**") of Japan Finance Organization for Municipalities.

### Overview

JFM is a public sector financial institution established by the JFM Law with a history dating back over 60 years to the establishment of the Predecessor in 1957.

JFM's primary objective is to contribute to the sound operation of local government financing and to improve the welfare of local residents by providing long-term funding at low interest rates to local governments. JFM also supports local governments by providing them with staff training, conducting surveys and research on local government funding and dispatching experts in local government finances in response to specific requirements. JFM is the primary public financial institution for supplying long-term, low-cost financing to local governments for funding national policy targets, and it is a preferred lender to local governments for basic infrastructure-related funding. JFM loans constitute an integral part of the support system provided to local governments by the national government's Ministry of Internal Affairs and Communications under its Local Government Borrowing Programme.

JFM was established in 2008 to replace the Predecessor as part of a policy-based financial reform implemented by the national government intended, in part, to increase the independence of local governments. Pursuant to the reform, JFM succeeded to substantially all of the assets, and assumed all of the obligations of, the Predecessor on 1 October 2008 and the Predecessor was then dissolved. JFM was formed exclusively with capital from local governments, whereas the Predecessor had been formed exclusively with capital from the national government. The reform consequently resulted in the national government's divestiture of direct ownership of the assets and obligations of the Predecessor. JFM is autonomously managed by local governments through its representative board. Except as otherwise described herein, JFM conducts its affairs in essentially the same manner as the Predecessor.

JFM was originally established under the name Japan Finance Organization for Municipal Enterprises and originally made only loans to municipal enterprises. In June 2009, however, JFM changed its name to Japan Finance Organization for Municipalities and expanded the types of loans it could make to generally include loans for general account expenditures.

The contact address and telephone number for JFM for the purposes of this Base Prospectus is: Finance Department, Shisei Kaikan, 1-3, Hibiya Koen, Chiyoda-ku, Tokyo 100-0012, Japan, telephone: +81-3-3539-2697.

### Operations

#### *Loan Operations*

As a general rule, each local government is responsible for raising its own funds in the capital markets or by borrowing from private financial institutions. However, local governments often require significant additional funds, which may be obtained from JFM loans. JFM might lend such funds to provide a safety net function for local governments in weaker financial circumstances that would otherwise encounter difficulty in raising funds. JFM might also facilitate local budgeting by making loans with a longer amortisation than expected to be available from a private lender. A longer term may be desirable, for example, to fund improvements to social infrastructure which require a long time to recoup capital expenditures and to equalise the burden across generations. While the number of local governments endeavouring to raise funds in capital markets for longer terms of 20 or 30 years has been increasing, a 10-year or shorter term is still common. In March 2015, the maximum term of maturity of loans which may be extended by JFM was increased from 30 years to 40 years, effective from April 2015.

#### *Types of Borrowers*

JFM may only lend to local governments. As of 31 March 2018, loans extended to cities (excluding government-designated cities) and special wards of Tokyo represent 52.8 per cent. of the total loan outstanding. Loans extended to prefectures, government-designated cities, towns and villages, and local government

associations and corporations represented 20.5 per cent., 16.6 per cent., 7.3 per cent., and 2.8 per cent., of the total loans outstanding, respectively.

### *Types of Loans by Business*

Historically, municipal enterprise-related businesses such as sewerage and water supply businesses accounted for almost all of JFM's general loans. However, since the reorganisation on 1 June 2009, JFM has become generally eligible to extend loans for general account related businesses. More specifically, JFM became eligible to extend loans for regional revitalisation, disaster prevention and special municipal mergers (mergers of municipalities under the Special Municipal Mergers Law of Japan (Law No. 59 of 2004, as amended)) in the fiscal year ended 31 March 2010; social welfare facilities development in the fiscal year ended 31 March 2011; public projects, etc., disaster prevention and general projects (investments, loans and contributions) in the fiscal year ended 31 March 2012; educational facilities development and general projects (regional development funding projects) in the fiscal year ended 31 March 2013; national disaster prevention in the fiscal year ended 31 March 2014; and general waste disposal in the fiscal year ended 31 March 2015. In addition, in the fiscal year ended 31 March 2010, JFM became eligible to extend loans for temporary financial countermeasures funding, i.e., funds extended to local governments to cover general resource shortfalls pursuant to the provisions of the Local Government Finance Law (Law No. 109 of 1948, as amended). As a result, the proportion of the loan amounts by business types of JFM has changed significantly.

A core distinction between municipal enterprise-related businesses and the other business categories is that, municipal enterprise-related businesses are in principal generally expected to repay JFM loans from usage fees charged to the public following completion.

The following table sets forth a breakdown of the current business categories for which JFM provides loans:

<b>Municipal enterprise-related businesses</b>	<b>General account-related businesses</b>	<b>Other</b>
<ul style="list-style-type: none"> <li>• Water supply</li> <li>• Industrial water supply</li> <li>• Transportation</li> <li>• Electricity supply</li> <li>• Gas supply</li> <li>• Port facilities</li> <li>• Hospitals</li> <li>• Elderly care services</li> <li>• Markets</li> <li>• Slaughterhouses</li> <li>• Sewerage</li> <li>• Tourism facilities</li> <li>• Parking facilities</li> <li>• Industrial waste processing</li> </ul>	<ul style="list-style-type: none"> <li>• Public projects, etc.</li> <li>• Public housing</li> <li>• Disaster management and mitigation</li> <li>• National disaster prevention</li> <li>• Educational facilities development</li> <li>• Social welfare facilities development</li> <li>• General waste disposal</li> <li>• General projects</li> <li>• Regional revitalisation</li> <li>• Disaster prevention</li> <li>• Local road development</li> <li>• Special municipal merger</li> <li>• Public facilities optimisation<sup>(2)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Temporary financial countermeasures funding<sup>(1)</sup></li> <li>• Refinancing Loans for Municipal Enterprise-Related Projects</li> <li>• Refinancing Loans for Facilities Affected by Earthquake</li> </ul>

#### Notes:

- (1) Temporary financial countermeasures funding represents fundraising by local governments to cover shortfalls in the local allocation tax pursuant to the Local Government Finance Law of Japan.
- (2) JFM began extending loans for public facilities optimisation projects in the fiscal year ended 31 March 2016.

Approximately 56.9 per cent., 20.5 per cent. and 22.4 per cent. of JFM loans outstanding as of, and approximately 38.9 per cent., 28.6 per cent. and 32.5 per cent. of JFM loans extended in the year ended, 31 March 2018 were for municipal enterprise-related businesses, general account related businesses and temporary financial countermeasures funding, respectively.

### *General and Entrusted Loans*

JFM distinguishes between general loans and entrusted loans, although approximately 99 per cent. of the total amount of its loans are general loans. General loans are loans extended by JFM to local governments,

which are not entrusted loans. Entrusted loans are loans extended by JFM using funds entrusted to JFM by Japan Finance Corporation ("JFC"), a governmental financial institution. Such entrusted funds are loaned by JFM to local governments for financing the maintenance of public forests and improvements of pastures.

#### *Types of Loans by Term*

JFM further classifies general loans into the following three categories depending on the term:

- Long-term loans;
- Pre-consent (approval) loans, which are bridge loans to cover the period up to disbursement of long-term loans for projects for which consent (approval) is assured; and
- Short-term loans, which are loans to be repaid with revenues in the same fiscal year.

#### *Interest Rates on Loans*

The following two types of interest rates on JFM loans were consented to, or approved, on or after the year ended 31 March 2018:

- *Standard Interest Rate.* The standard interest rate represents the rate at which the discounted present value of the cash flows of the loans roughly equals the discounted present value of the funds raised by JFM to make loans.
- *Special Interest Rate.* The special interest rate is set at a discount to the standard rate (0.35 per cent. per annum below the standard rate) for projects that are particularly important to the livelihood of residents and temporary financial countermeasures funding.

Effective from the year ended 31 March 2013, the former special interest rate (0.3 per cent. per annum below the standard rate) and the former extra-special interest rate (0.35 per cent. per annum below the standard rate) were integrated into the new special interest rate (0.35 per cent. per annum below the standard rate). The former special and extra-special interest rates are applied to loans consented or approved in or before the year ended 31 March 2012.

Approximately 99 per cent. of JFM loans outstanding as of 31 March 2018 consisted of special interest rate loans.

Because the amount of loans extended by JFM always exceeds the amount of JFM's borrowings (with a portion being funded from reserves, on which JFM does not pay interest), JFM's interest income exceeds its interest expense. Furthermore, JFM calculates loan interest rates based on the funding yield curve for 10-year and 20-year bonds. For loans with maturities of greater than 20 years, JFM sets the interest rate by extrapolating the curve to the corresponding maturity of the loan. As maturities of loans extended by JFM exceed the maturities of JFM's borrowings, JFM's interest income exceeds its interest expense. The difference between its interest income and its interest expense funds JFM's operating expenses.

#### *Maturities of Loans*

Loan maturities are established according to the business categories. Currently JFM's maximum loan term is 40 years.

#### ***Local Government Support Operations***

JFM has been conducting local government support operations since 2009. Such operations include conducting surveys and collecting research on local governments' fundraising, providing training to local government staff and providing informational, advisory and other support services. JFM formulated its Local Government Support Operations Implementation Policy in October 2010 to promote these operations.

## *Fundraising Operations*

As a joint funding organisation for local governments, JFM raises funds in a stable manner to provide local governments with low-interest and stable funds, while endeavouring to reduce the cost of funds.

JFM raises funds for its loan operations mainly by issuing non-guaranteed bonds in the domestic public capital markets. JFM also raises funds for its loan operations by issuing bonds through its global medium term note programme in the overseas markets, private placements to pension funds and mutual aids for local government officials including the Pension Fund Association for Local Government Officials and by borrowing from banks. JFM is permitted to issue Japanese government-guaranteed bonds to refinance previously issued Japanese government-guaranteed bonds (including those issued by the Predecessor). JFM issues bonds with a wide variety of maturities, ranging from medium-term to super long-term, and in a variety of markets to reduce the cost and provide stable fundraising, while closely monitoring conditions in domestic and overseas markets.

### *Domestic Public Offerings*

Publicly offered bonds issued in the domestic market accounted for approximately 28.6 per cent. of the funds raised by JFM for the year ended 31 March 2018. In the domestic public markets, JFM has issued 5-, 10-, 20- and 30-year bonds since its establishment. In order to secure stable fundraising, JFM issues 10-year bonds every month. The average issue amount thereof per month for the year ended 31 March 2018 was ¥20.0 billion, and such issues accounted for approximately 58.9 per cent. of the JFM bonds issued via domestic public offering for the year. JFM also issues 5-year bonds and 30-year approximately twice a year and 20-year bonds approximately twice a quarter.

In addition to such conventional types of domestic public offerings, JFM issues domestic bonds under the flexible issuance programme ("**FLIP**"), in order to meet both the needs of investors in the domestic market and the borrowing needs of local governments in a timely and flexible manner.

FLIP is a programme unique to JFM, which is similar to the MTN programme in some ways. FLIP permits:

- Bonds to be issued with maturities ranging from 2 years to 40 years, but excluding 5, 10, 20 and 30 years, and maturities of benchmark bonds; and
- Minimum and maximum issue amounts of ¥3 billion and ¥20 billion, respectively.

### *Issues under the Medium Term Note Programme*

In addition to the public offerings in the domestic market, JFM issued bonds in the overseas markets under a euro medium term note programme until July 2013 and subsequently under this global medium term note programme from August 2013.

### *Private Placements with Pension Funds for Local Government Officials*

Private placements with pension funds and mutual aids for local government officials are an important source of funds for JFM. JFM raised a total of ¥498 billion of 10-year and 20-year bonds through such private placements in the year ended 31 March 2018, of which ¥300 billion of 10-year and 20-year bonds were issued and purchased solely by the Pension Fund Association for Local Government Officials based upon the relevant law, while ¥198 billion of 10-year and 20-year bonds were purchased by other pension funds and mutual aids for local government officials.

### *Bank Loans*

JFM first undertook borrowing by way of bank loans in the year ended 31 March 2012. As of 31 March 2018, the balance of bank loans was ¥159.5 billion. While JFM intends to raise funds substantially through the regular issuance of bonds in accordance with its bond issuance plan, JFM also intends to utilise bank loans as a complementary means of fundraising, taking into consideration the relevant demand for funds and the financial environment.

### *Government-Guaranteed Bonds*

JFM issues government-guaranteed bonds in order to refinance government-guaranteed bonds issued by the Predecessor.

### **General and Management Account**

JFM manages assets and liabilities succeeded from the Predecessor, and related revenues and expenses, in its management account. JFM manages its other assets and liabilities and related revenues and expense in its general account. Newly issued bonds are normally recorded in the general account, unless issued to refinance a bond issued by the Predecessor, in which case it is recorded to the management account. JFM may issue Japanese government-guaranteed bonds to refinance Japanese government-guaranteed bonds issued by the Predecessor. JFM prepares an asset management plan every fiscal year to manage the Predecessor's assets and liabilities, and this plan is required to be approved by the Minister for Internal Affairs and Communications and the Minister of Finance.

While the recording of assets and liabilities are kept separate between the general and management accounts, liabilities of JFM (including Notes issued under the Programme) have recourse to both the general and management accounts' assets.

The following table sets out the total assets in the general account and the management account as of the dates indicated:

	As of 31 March				
	2014	2015	2016	2017	2018
	(Billions of yen)				
General account total assets .....	¥10,380.3	¥12,039.1	¥13,346.2	¥14,698.4	¥15,788.2
Management account total assets.....	14,837.3	13,388.3	12,044.0	10,759.7	9,625.9

### **Properties**

As of 31 March 2018, JFM owned 3,726m<sup>2</sup> of land, and ¥1.6 billion and ¥0.7 billion in book value of land and buildings, respectively, for JFM employee housing.

### **Legal Proceedings**

JFM is not involved in any litigation or other legal proceedings that would individually, or in the aggregate, be expected to have a material adverse effect on its results of operations or financial condition.

### **Competition**

JFM is the sole public sector financial institution that provides public funds with long-term and low interest rates for local governments. The maturities of JFM loans are up to 40 years, and it is generally recognised that it is difficult for private financial institutions to extend loans with such long maturities. In addition, JFM offered its special lending rates, which are as low as the national government's lending rates that are applicable to loans for specific public projects, to approximately 99 per cent. of its loans outstanding as of 31 March 2018. As a result, JFM does not engage in material competition with other financial institutions.

### **Risk Management**

JFM established the Integrated Risk Management Committee as part of its efforts to identify and formulate appropriate responses to various risks JFM must manage in the course of its operations. In addition, JFM utilises advanced analytical procedures for its asset and liability management.

### **Credit Risk**

Credit risk is the risk of loss arising from a credit event, such as deterioration in the financial condition of a borrower, which causes an asset to lose value or become worthless. In addition to credit risk associated with loans, market transactions also involve credit risk.



*Credit Risk for Loans.* JFM makes loans exclusively to local governments. For reasons outlined below, absent a significant change in government policy, JFM believes it is unlikely that any of its borrowers will default those loans. There has been no default of interest or principal on any obligation of JFM or the Predecessor, and neither has accordingly experienced any loan losses.

- Financial sources for the payment of the principal and interest of local government bonds and loans are secured through the following mechanisms. First, local governments can obtain local tax revenues pursuant to their right to impose tax. Second, in addition to such local tax revenues, local allocation tax grants are allocated as follows: (i) the national government includes certain local government debt servicing costs, i.e., expenditures for the payment of the principal and interest of certain local government bonds and loans including those issued or borrowed with consents or approvals, in the amount of "expenditures" in the Local Government Finance Programme formulated by the national government; and (ii) the total amount of local allocation tax grants is calculated so that the total amount of local government expenditures, including such debt servicing costs, is equivalent to the total amount of the local government revenues, in the Local Government Finance Programme. Thus, the national government effectively secures revenue sources for the payment of principal and interest of such local governments bonds and loans in terms of the total amount. When calculating the amount of local allocation tax grants to be allocated to an individual local government, a part of the "expenditures" for the payment of the principal and interest of such local government bonds and loans are included.
- Before issuing a loan, JFM checks the financial and operational status of the local government, including its debt servicing costs, tax revenues and necessary funds. JFM also verifies that the local government has obtained any required consent or approval from the Minister for Internal Affairs and Communications or their respective prefectural governors necessary to borrow the amount applied for in the loan application. This credit check process may include an interview of local government staff. After a loan is disbursed, JFM conducts additional onsite reviews to verify the use of the funds and to check the operational status of the project or borrower and the financial and operational status of the borrower or borrowers. Where consent or approval is required and obtained, JFM assumes the details, legality and possibility of repayment of each project has been confirmed during the consent or approval process. In addition, when reviewing the ability of a local government to repay the loan, where such local government's expenditures exceed the revenue generated by local taxes, JFM takes into account the local allocation tax grants from the national government described above. After a loan is disbursed, JFM conducts additional onsite reviews to verify the use of the funds and to check the operational status of the project or borrower and the financial and operational status of the borrower or borrowers.
- The Early Correction Measure requires certain local governments, such as those whose debt servicing costs or financial deficits exceed specified levels, to obtain approval from the Minister for Internal Affairs and Communications or their respective prefectural governors in cases where they issue additional bonds or borrow additional loans. In addition, local governments whose fiscal indicators exceed certain early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed certain "reconstruction limits" must take necessary actions to restore fiscal soundness under the oversight of the national government with regard to redemption of local government bonds and loans, and other operations. This system facilitates the maintenance of the credit standing of local government bonds and loans.
- Japanese local governments are regarded as not being subject to proceeding under the Bankruptcy Act of Japan (Law No. 75 of 2004, as amended). However, it is generally believed that creditors can bring judicial actions to enforce claims against local governments, including by way of attaching their ordinary assets, which are any assets of the local government that are not currently in the governmental or public use and are not determined to be put to such use.

As of 31 March 2018, JFM's total outstanding loans stood at ¥23,768.2 billion. The amount of loans outstanding made to local governments whose fiscal indicators exceeded the early warning limits or the reconstruction limits accounted for less than 0.03 per cent. in aggregate of total loans outstanding as of 31 March 2018.

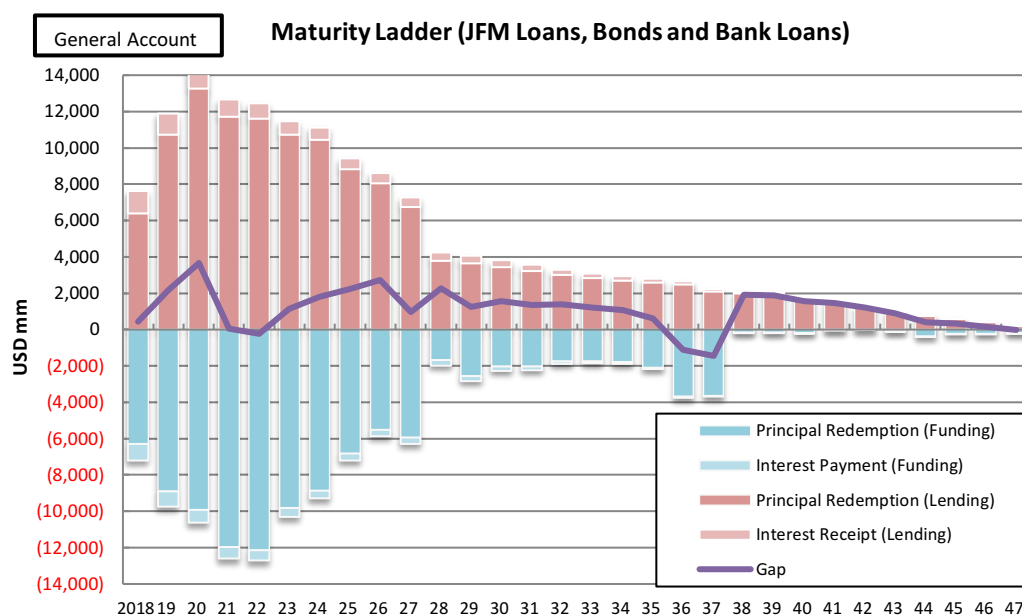
JFM is not subject to the Japanese Banking Law (Law No. 59 of 1981, as amended) or the Financial Reconstruction Law (Law No. 132 of 1998, as amended). JFM performs self-assessment of loans made to local government road corporations in accordance with the Financial Inspection Manual of the Financial Services Agency ("FSA"). All of these loans have been processed as unclassified assets based on the self-assessment.

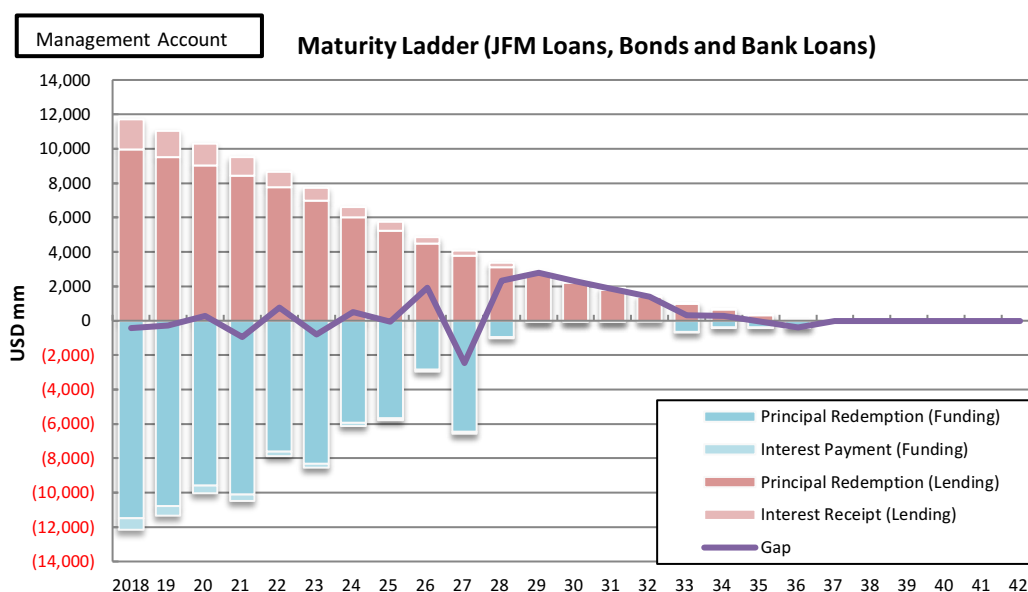
*Credit Risk Associated with Market Transactions.* JFM is exposed to the risk of loss arising from credit events, such as deterioration in the financial condition of a counterparty, which could cause an asset to lose value or become worthless. JFM manages credit risk of this type by monitoring the financial standing of its counterparties and by limiting counterparties to those financial institutions that meet certain credit rating and other criteria. In addition, JFM enters into ISDA Master Agreements and CSA (Credit Support Annex) with financial institutions which are its derivatives transaction counterparties to reduce credit risk resulting from fluctuations in the value of derivative transactions.

### Market Risk

Market risk is the risk of loss resulting from changes in the value of assets and liabilities due to fluctuations in factors that affect the overall performance of the financial markets, such as interest rates, securities prices and foreign exchange rates, or the risk of loss resulting from changes in earnings generated from such assets and liabilities. Market risk includes interest rate risk, foreign exchange risk, inflation risk and price change risk.

*Interest Rate Risk.* JFM is exposed to interest rate risk, which is the risk of loss resulting from fluctuations in interest rates. Loans constitute a large part of the assets of JFM, and the maximum term to maturity of JFM loans is 40 years. However the majority of the funds for these loans are raised through issuance of 10-year bonds. This gap exposes JFM to the interest rate risk associated with bond refinancing.





JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and fundraising.

- JFM maintains reserves for interest rate volatility to address the interest rate risk resulting from a duration gap between lending and fundraising. The amount of the above reserves stood at ¥2,200.0 billion in the general account and ¥870.4 billion in the management account for a total of ¥3,070.4 billion overall as of 31 March 2018.
- JFM manages assets and liabilities succeeded from the Predecessor in the management account. Total assets and liabilities in this account are expected to decline as time passes because no new loans or bonds (other than bonds issued to refinance Predecessor bonds) have been issued in this account since October 2008 and no such loans or bonds are expected. Interest rate risk in the management account is accordingly expected to decline.

The following table sets out the assets and liabilities in the management account as of the dates indicated:

	As of 31 March				
	2014	2015	2016	2017	2018
	(Billions of yen)				
<b>Management Account</b>					
Total assets.....	¥14,837.3	¥13,388.3	¥12,044.0	¥10,759.7	¥9,625.9
Total liabilities.....	14,783.6	13,334.6	11,990.3	10,706.0	9,572.3

As total assets and liabilities in JFM's general account expand as a result of loan increases, JFM conducts an asset-liability management ("ALM") analysis of this account to best ensure the effectiveness of its management of interest rate risk. JFM also established a medium-term management target (for the five years beginning the year ended 31 March 2014) of maintaining a duration gap at below two years. In order to implement this management target, JFM takes the following measures:

- Controlling lending duration – Lending rates for loans for temporary financial countermeasures funding, which account for approximately 40 per cent. of JFM's outstanding loans in its general account, are revised every 5 years or 10 years, depending on the loans, while maturities of the loans are set to be a maximum of 30 years.

- Extending funding duration – Utilising its FLIP and Open Issuance scheme, JFM aims to extend the funding duration by carefully choosing maturities of bonds to be issued e.g., continuously issuing long-dated bonds with maturities over 10 years.

For the five years ended 31 March 2013, JFM established a management target of maintaining an outlier ratio of less than 20 per cent. in order to help investors effectively compare JFM with other Japanese financial institutions, which also calculate outlier ratios. However, JFM's operations and those other financial institutions differ in ways that produce a higher outlier ratio for JFM and management determined that the 20 per cent. outlier ratio ceiling was an inappropriate and potentially misleading management target.

The JFM Law allows the Minister for Internal Affairs and Communications and the Minister of Finance (collectively the "**Ministers**") to transfer to the national treasury a portion of the reserves for interest rate volatility maintained in the management account. The management account was created by the JFM Law to manage the legacy obligations of the Predecessor, and the national treasury has a reversionary interest in the assets of the management account upon termination of the legacy obligations of the Predecessor. JFM succeeded the reserve for losses on the refinancing of bonds in the amount of ¥3,476 billion from the Predecessor in order to ensure stable management going forward, and, out of this reserve, ¥220 billion was recorded in the general account and the remainder, ¥3,256 billion, was recorded in the management account. However, the JFM Law and the Cabinet Order concerning the Preparation of the Related Cabinet Orders and Transitional Measures in connection with the Abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Cabinet Order 226 of 2008, as amended) requires a transfer of ¥220 billion per year from the management account to the general account for the period from the year ended 31 March 2010 to the year ended 31 March 2018. JFM has completed the transfers by the year ended 31 March 2018 accordingly.

The JFM Law prohibits reduction of JFM's reserves for interest rate volatility in the management account except to make the above transfers and to cover losses from refinancing the Predecessor's bonds and long-term borrowing.

In order to effect a transfer from the management account to the national treasury, the Ministers must determine that the sum of the management account reserves for interest rate volatility and the management account surplus reserve exceeds the amount necessary for JFM to operate smoothly on an ongoing basis. The Ministers, in consultation with JFM, determine this amount based on the financial resources JFM needs to maintain a solid financial base and to preserve market confidence. As part of the determination process, the Ministers and JFM model the potential for adverse cash flows resulting from interest rate volatility and stress test these models.

In December 2011, after making the determination described above, the Ministers required that up to ¥1,000 billion of JFM's reserves for interest rate volatility within its management account be transferred to the national government over the three-year period from the year ended 31 March 2013 to the year ended 31 March 2015. For the fiscal year ended 31 March 2013, ¥350 billion was so transferred by JFM to the national treasury. Subsequently, in the year ended 31 March 2014, the remaining ¥650 billion was similarly transferred by JFM to the national treasury. In addition, in January 2015, the Ministers made a further determination and required that JFM transfer up to ¥600 billion from JFM's reserves for interest rate volatility maintained in the management account to the national treasury over the three-year period ended 31 March 2018. In October 2015 and October 2016, ¥300 billion and ¥200 billion were transferred by JFM to the national treasury, respectively. In December 2016, the Ministers made a further determination and required that JFM transfer up to ¥900 billion from JFM's reserves for interest rate volatility maintained in the management account to the national treasury over the three-year period ending 31 March 2020, including a transfer of ¥400 billion in the year ending on 31 March 2018 of which the transfer of ¥100 billion is pursuant to the January 2015 determination. Furthermore, it was also determined that an additional amount of up to ¥1.5 billion would be transferred by JFM to the national treasury over the six-year period ending 31 March 2024. JFM completed the transfer of ¥400 billion in October 2017 accordingly. JFM plans to make an additional transfer of ¥400 billion during the year ending 31 March 2019. The completed transfers have not had, and JFM does not expect the additional planned transfer to have, a material effect on JFM's business, results of operations or financial condition. This is due primarily to the fact that the margins on the management account loan portfolio are generally improving in the current low interest rate environment because bonds are being refinanced at lower rates and that interest rate risk in the management account is expected to decline overall as the size of that portfolio declines over time.

With respect to the reserves for interest rate volatility maintained in the general account, following the last annual transfer of ¥220 billion for the year ended 31 March 2018 described above, pursuant to the formula in the Ministerial Ordinance concerning the Finance and Accounting of the Japan Finance Organization for Municipalities (Ministerial Ordinance No. 87 of 2008, as amended), JFM will annually contribute a portion of profits generated from refinancing, if any, to the reserve. Specifically, JFM will contribute the lesser of the following:

- the difference between (i) 12.5 per cent. of the balance of the local government bonds and loans held by JFM at the end of the fiscal year and (ii) the reserve for interest rate volatility in the general account as of the end of the preceding fiscal year; or
- the profit generated from refinancing of bonds issued and loans taken out by JFM to fund local government loans ten or more years ago. This figure is calculated, in accordance with a prescribed formula, which is summarised as follows. First, the profits generated from the refinancing for each fiscal year are calculated and then aggregated. Profit is calculated for a given fiscal year ("Year X") by multiplying the average balance during the current fiscal year of loans extended in Year X by the difference between (a) the market interest rate for 10-year loans taken out by JFM in Year X and (b) the same rate for the fiscal year in which such loans were refinanced (i.e., Year X + 10 for loans issued between 10 and 20 years ago, and the Year X + 20 for loans issued between 20 and 30 years ago).

If either of the above is zero or a negative number, JFM does not need to contribute to the reserve for interest rate volatility in the general account for that fiscal year.

The JFM Law and JFM's Articles of Incorporation prohibit reduction of the reserve for interest rate volatility in JFM's general account except to cover losses from refinancing JFM's bonds and long-term borrowing.

JFM is also exposed to "pipeline" risk. JFM generally raises funds required to finance a loan by issuing bonds prior to making the loan. Proceeds from bond issuances may not be earmarked for a particular loan. Fluctuations in interest rates between the time JFM issues bonds and ultimately lends the proceeds therefrom may affect the profitability of a loan. JFM uses swap transactions to hedge against pipeline risk.

*Foreign Exchange and Other Risks.* JFM is exposed to various other risks, for example foreign exchange risk, associated with bond principal and interest payments, which are generally hedged by swap transactions. JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of losses on foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, JFM reduces the risk of price decline by holding investments until maturity, and hedges foreign exchange risk with forward foreign exchange contracts.

### ***Liquidity Risk***

JFM may become subject to liquidity risk, which is the risk that JFM would incur losses because of difficulty in fundraising, or because of funding at far higher interest rates than under ordinary conditions. It also includes the risk that JFM would incur losses because of the inability to conduct market transactions or because of transactions at prices far more unfavourable than under normal conditions due to market disruption or other situations.

JFM believes its current exposure to liquidity risk is low because JFM conducts daily cash and liquidity management based on quarterly cash planning, and the possibility of the occurrence of an unexpected funding shortfall is low as JFM's loans are made based on a pre-set schedule and most of the funds of JFM are raised by long-term funding. Moreover, JFM has entered into overdraft agreements with a wide range of financial institutions to prepare for unexpected funding shortfalls, and invests surplus funds only in short-term financial products. However, if severe circumstances relating to liquidity unforeseen by JFM occur, JFM's funding costs, results of operations and financial condition may be adversely affected.

In addition, although JFM is not required to comply with the liquidity coverage ratio requirements of Basel III, as a voluntary measure, JFM has implemented a policy to maintain a certain amount of liquid assets so that, in the event of market disruption, JFM may continue to timely make its payments of interest and principal on the Notes and other debt securities.

## **Operational Risk**

Operational risk is the risk of loss resulting from inadequate operation processes, inadequate activities by management and staff, and inadequate computer systems, or from external events, and includes, among other factors, administrative risk and systems risk.

*Administrative Risk.* Administrative risk is the risk of loss resulting from the neglect or inadequacy of attention by management and staff to properly conduct administrative work, accidents caused by them and violations of law by them in the course of the administrative work process. JFM endeavours to mitigate its exposure to administrative risk by preparing operational manuals, holding educational seminars and reducing operational workload through systematisation.

*Systems Risk.* Systems risk is the risk that the confidentiality, integrity and availability of information assets will be impaired as a result of computer system inadequacies or the fraudulent use of computer systems. JFM has established and implemented a Systems Risk Management Policy and a Systems Risk Management Standard to manage systems risk and ensure smooth business operations. JFM has also prepared a Contingency Plan to limit the scope of losses and the impact on operations and restore normal operations promptly and efficiently in the event that computer systems break down or cannot be used due to unexpected accidents, disasters or malfunctions.

## **Local Government Control and Supervision**

As of 31 March 2018, 1,789 local governments, encompassing all of the prefectures, cities, special wards, towns and villages, as well as some local government associations, contributed the capital to JFM. While the local governments do not have an obligation to provide additional capital to JFM, if JFM were to be dissolved for any reason, local government borrowers would have an obligation to bear the costs necessary to satisfy all JFM obligations which are not satisfied during the dissolution process.

*Representative Board.* JFM is subject to control and supervision of the local governments through its Representative Board, which consists of members nominated by the local governments. There are six members, three of whom are heads of local governments (governors of prefectures or mayors of cities, towns or villages), with the other three being individuals knowledgeable in the affairs of local administrations and their finances, economics, law and accounting.

The term of each member is three years. The Representative Board appoints JFM's President and Chief Executive Officer and Corporate Auditors. The Representative Board is authorised to approve such key management matters as appointment of management, business plans and annual budget. The Representative Board is also authorised to obtain from JFM's management information relating to JFM's operations and financial condition, and to order JFM's management to take corrective actions with respect to any illegal or other inappropriate activities.

The Representative Board members of JFM as of the date of this Base Prospectus are as follows:

<b>Name</b>	<b>Title</b>	<b>Background</b>
Toshizo Ido	Chairman	Vice Chairman, National Governors' Association Governor, Hyogo prefecture
Masataka Matsuura	Deputy Chairman	Chairman, Finance committee of Japan Association of City Mayors Mayor, Matsue City, Shimane prefecture
Yasuomi Araki	Deputy Chairman	Chairman, National Association of Towns & Villages Mayor, Kashima Village, Kumamoto prefecture
Junko Obata	Member	Professor, Sophia University Law School
Naohiko Jinno	Member	Professor Emeritus, The University of Tokyo
Isao Sumihiro	Member	Chairman of The Hiroshima Bank, Ltd.

*Supervisory Committee.* To ensure adequate third-party monitoring of JFM's business activities, JFM has a Supervisory Committee. The members of the Supervisory Committee are appointed by the

Representative Board, and are individuals knowledgeable in the affairs of local administrations and their finances, economics, finance, law and accounting.

The Supervisory Committee is authorised to monitor JFM's annual budgets and business plans and to provide its opinions and recommendations to JFM's management with respect to key matters concerning JFM's business and operations. JFM's management is required to report to the Representative Board, and to give due regard to, such opinions and recommendations of the Supervisory Committee.

The Supervisory Committee members of JFM as of the date of this Base Prospectus are as follows:

<b>Name</b>	<b>Title</b>	<b>Background</b>
Takahiro Mitani	Chairman	Chairman, Tanshi Association
Yutaka Suzuki	Deputy Chairman	Professor Emeritus, Aoyama Gakuin University
Tomoko Seiichi	Member	Professor, Seinan Gakuin University
Yasuharu Yoneda	Member	Professor Emeritus, Shinshu University
Hitomi Tamaoki	Member	Chief Executive Officer, Tsumugi Co., Ltd.
Masanori Kamizaki	Member	Director, General Administration Department, Jiji Press, Ltd.

## **Management**

JFM is managed by the President and Chief Executive Officer, one Deputy President and up to three Senior Executive Directors. In addition, it has two Corporate Auditors. The President and Chief Executive Officer and the Corporate Auditors are appointed by the Representative Board. The Deputy President and the Senior Executive Directors are appointed by the President and Chief Executive Officer with the approval of the Representative Board. When the Representative Board has, or the President and Chief Executive Officer have, appointed an officer, JFM is required to notify the officer's name and address to the Minister for Internal Affairs and Communications.

The President and Chief Executive Officer has the authority to manage all operations and holds the right of final decision and representation on all matters related to JFM. The Deputy President and Senior Executive Directors assist the President and Chief Executive Officer in the performance of his duties.

The Corporate Auditors are responsible for auditing the accounts of JFM, and may, at their discretion, submit reports to the Representative Board, the President and Chief Executive Officer and the Minister for Internal Affairs and Communications.

The officers of JFM as of the date of this Base Prospectus are as follows:

<b>Name</b>	<b>Title</b>
<b><i>Executive Officers</i></b>	
Kinya Takino	President and Chief Executive Officer
Yutaka Endo	Deputy President (in charge of overall coordination)
Tsutomu Sakai	Senior Executive Director (in charge of Corporate Planning Department, and Local Government Support Department)
Eiichi Sugimura	Senior Executive Director (in charge of Loan Department, Local Government Support Department, and Credit)
Toru Nojima	Senior Executive Director (in charge of Finance Department)
<b><i>Corporate Auditors</i></b>	
Koichi Kato	Corporate Auditor
Masaaki Omori	Corporate Auditor (part-time)

All of the above Executive Officers and Corporate Auditors, except Mr. Omori, are engaged in the business of JFM on a full-time basis. The business address of all of the above Executive Officers and Corporate Auditors is Shisei Kaikan, 1-3, Hibiya Koen, Chiyoda-ku, Tokyo 100-0012, Japan.

### **Conflicts of Interest**

As of the date of this Base Prospectus, JFM is not aware of any conflicts of interest between any duties to JFM of the members of the Representative Board and the Supervisory Committee or JFM's directors, executive officers or corporate auditors and their respective private interests and/or other duties.

### **Related Party Transactions**

During the year ended 31 March 2018, none of the members of JFM's Representative Board or Supervisory Committee, or JFM's directors or executive officers or corporate auditors, and none of the close members of their respective families, had any transactions that were material or any transactions that were unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which JFM was, is or will be a party, and there were no such transactions proposed as of 31 March 2018.

### **Employees**

As of 31 March 2018, JFM had 88 employees.

### **Subsidiaries and Affiliates**

Since its establishment, JFM has had no subsidiaries, consolidated or otherwise, or equity method affiliates.



## SELECTED HISTORICAL FINANCIAL INFORMATION

The following table shows selected financial information of JFM as of each of the indicated dates and for each of the indicated periods below. Such information is derived from JFM's audited annual financial statements as of each of the indicated dates and for each of the indicated periods below. This information is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes to the financial statements, that are included elsewhere or incorporated by reference in this Base Prospectus.

### Statements of Income Data

	For the year ended 31 March				
	2014	2015	2016	2017	2018
	(Billions of yen)				
Income .....	¥458.3	¥434.5	¥407.9	¥376.4	¥347.4
Interest income .....	455.1	428.9	404.8	372.7	343.3
Expenses .....	270.3	254.0	239.0	216.2	195.4
Interest expenses .....	260.9	246.0	230.5	208.8	187.9
Other operating expenses .....	6.5	4.6	4.4	3.8	3.9
General and administrative expenses .....	2.5	3.0	3.8	3.2	3.2
Ordinary income .....	188.0	180.4	168.9	160.2	151.9
Special gains .....	880.2	229.1	528.2	427.3	626.4
Special losses .....	1,041.7	378.6	666.9	559.6	752.3
Net income .....	¥26.5	¥30.9	¥30.1	¥27.8	¥26.1

### Balance Sheet Data

	As of 31 March		
	2016	2017	2018
	(Billions of yen)		
<b>Assets:</b>			
Loans .....	¥23,664.5	¥23,720.0	¥23,768.2
Securities .....	235.0	166.0	170.0
Cash and bank deposits .....	711.6	861.2	747.7
Cash collateral paid for financial instruments .....	16.2	24.3	56.2
Total assets .....	24,643.3	24,786.2	24,755.8
<b>Liabilities:</b>			
Bonds .....	19,799.6	19,955.5	20,284.5
Borrowed money .....	120.5	170.5	159.5
Cash collateral received for financial instruments .....	129.5	111.1	12.2
Other liabilities .....	10.3	8.3	6.6
Fund for lending rate reduction .....	920.2	920.2	920.2
Reserves under special law .....	3,446.8	3,379.1	3,105.0
Reserve for interest rate volatility .....	1,760.0	1,980.0	2,200.0
Management account reserve for interest rate volatility .....	1,638.4	1,358.1	870.4
Total liabilities .....	24,427.1	24,545.1	24,488.4
<b>Net Assets:</b>			
Capital .....	16.6	16.6	16.6
Retained earnings .....	137.9	165.7	191.8
Valuation, translation adjustments and others .....	8.0	5.0	5.2
Management account surplus reserve .....	53.6	53.6	53.6
Total net assets .....	¥216.1	¥241.0	¥267.4

## OPERATING AND FINANCIAL REVIEW

*The following operating and financial review is based on information contained in the 2017 annual report of JFM and the audited financial statements of JFM in respect of the fiscal years ended 31 March 2017 and 2018 as well as the accounting records of JFM and is intended to convey management's perspective on the operating performance and financial condition of JFM during the period under review, as measured in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"). This disclosure is intended to assist readers in understanding and interpreting the financial statements of JFM incorporated by reference in this prospectus. The discussion should be read in conjunction with the "Selected Historical Financial Information" and the financial statements of JFM and the accompanying notes which are incorporated by reference in this Base Prospectus. JFM is required to comply with Japanese GAAP, and its accounting policies have been established accordingly.*

*This discussion and analysis contains forward-looking statements that involve risks and uncertainties. JFM's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Risk Factors" and "Forward-looking Statements".*

### Overview

JFM's net income for the year ended 31 March 2018 decreased by 6.3 per cent. to ¥26.1 billion compared to ¥27.8 billion in the year ended 31 March 2017. The decrease was due primarily to a decrease in ordinary income, which was partially affected by a decrease in net special losses (the difference between special gains and special losses). JFM's ordinary income for the year ended 31 March 2018 decreased by 5.1 per cent. to ¥151.9 billion compared to ¥160.2 billion in the year ended 31 March 2017. The decrease was due primarily to a decrease of 7.9 per cent. in interest income to ¥343.3 billion in the year ended 31 March 2018, which was partially offset by a decrease in interest expenses. See "— Results of Operations — Special Gains and Losses" below for more information about JFM's net special losses.

Based on its lending plan, JFM extended 9,436 loans to local governments in an amount of ¥1,732.0 billion with the consent or approval of the Minister for Internal Affairs and Communications and prefectural governors in the year ended 31 March 2018. These loans included:

- loans, for a total of ¥495.1 billion, for general account-related businesses such as local road construction and special municipal merger projects;
- loans, in the amount of ¥563.5 billion, for temporary financial countermeasures funding to make up for a shortfall of local allocation tax pursuant to the provisions of the Local Government Finance Law; and
- loans, for a total of ¥673.4 billion, for municipal enterprise-related businesses such as sewerage and water supply.

In accordance with its fundraising plan, in the domestic market, JFM issued ¥604.0 billion of public offering bonds without government guarantee, ¥498.0 billion of private placement bonds without government guarantee subscribed to by pension funds and mutual aids for local government officials including the Pension Fund Association for Local Government Officials for lending, and ¥765.0 billion (face value) of government-guaranteed bonds to refinance the existing government-guaranteed bonds of the Predecessor to smoothly manage the Predecessor's assets to which JFM has succeeded. And, in the offshore market, JFM issued ¥233.3 billion of non-Japanese denominated bonds without government guarantee. In addition, JFM conducted research and study and provided information on local governments' fundraising, trained local government staff, and provided administrative support for fundraising.

### Principal Source of Ordinary Income

JFM's principal source of ordinary income is net interest income. Net interest income, or the difference between JFM's interest income and interest expenses, is a function of:

- the amount of interest-earning assets and interest-bearing liabilities;
- the spread (the difference between the rate of the interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities);

- the general level of interest rates; and
- the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

JFM's principal interest-earning assets are loans and, to a lesser extent, cash and bank deposits and securities. JFM's principal interest-bearing liabilities are bonds. JFM's interest expenses also include interest paid on other liabilities.

## **Factors Affecting Results of Operations**

### ***Policies of the Japanese National and Local Governments***

JFM's business, financial condition and results of operations are significantly affected by the policies of the Japanese national and local governments. Such policies determine, among other things, local government borrowing requirements and are affected by many factors, including the political, socioeconomic and financial conditions and developments in Japan and of such governments. In particular, local government outlays for public works projects, shortfalls between overall outlays and tax and other revenues, extraordinary events such as natural disasters and other factors affect the demand of local governments for borrowing.

Due to continuing shortfalls in local revenue sources, which are arising in part due to the severe local government financial situation, the national government has been allowing local governments to prepay, without penalty, higher interest rate loans from JFM and to refinance those loans at current lower interest rates. In order to qualify for prepayment without penalty, local governments are required to take certain measures, such as establishing and implementing qualifying reform plans. JFM permitted such prepayments (including refinancings) for a total of ¥162.7 billion for the year ended 31 March 2014. There were no prepayments for the years ended 31 March 2015, 2016, 2017 and 2018.

### ***Interest Rate Changes***

Fluctuations in interest rates affect JFM's results of operations primarily in the following ways:

- *Maturity Gap.* JFM generally issues 10-year bonds in order to finance loans with maturities of up to 40 years. This "maturity gap" can result in a need for JFM to refinance loans through subsequent bond issuances. If interest rates are higher at the time of such a refinancing, JFM may incur losses or reduced net interest income associated with the underlying loan.
- *Prepayment Risk.* As noted above, as interest rates decline there is increasing risk of prepayment.
- *Pipeline Risk.* JFM generally raises funds required to finance a loan by issuing bonds prior to making the loan. Proceeds from bond issuances may not be earmarked for a particular loan. Fluctuations in interest rates between the time JFM issues bonds and when it ultimately lends the proceeds therefrom may affect the profitability of a loan.

JFM takes measures to reduce the effect of interest rate fluctuations on its results of operations. For example, it maintains a reserve for interest rate volatility to hedge against maturity gap, and uses swap transactions to hedge against pipeline risk.

### ***Reduction of JFM's Reserves for Interest Rate Volatility***

JFM manages assets and liabilities succeeded from the Predecessor in its management account. JFM manages its other assets and liabilities in its general account. For a breakdown, see note 15 to JFM's financial statements for the year ended 31 March 2018. Total assets and liabilities in the management account are expected to decline as time passes because no new loans or bonds (other than bonds issued to refinance Predecessor bonds) have been issued in this account since October 2008 and no such loans or bonds are expected.

The Ministry of Internal Affairs and Communications announced in December 2011 that a portion of JFM's reserves for interest rate volatility within its management account would be transferred to the national government. The transfer was expected to occur over a period of three years from the year ended 31 March 2013 to the year ended 31 March 2015, with the aim of transferring ¥1,000 billion over this period. The full

¥1,000 billion was so transferred by JFM to the national treasury in the two years ended 31 March 2014. In addition, in January 2015, the Ministers made a further determination and required that JFM transfer up to ¥600 billion from JFM's reserves for interest rate volatility maintained in the management account to the national treasury over the three-year period ended 31 March 2018. In October 2015 and October 2016, ¥300 billion and ¥200 billion were transferred by JFM to the national treasury, respectively. In December 2016, the Ministers made a further determination and required that JFM transfer up to ¥900 billion from JFM's reserves for interest rate volatility maintained in the management account to the national treasury over the three-year period ending 31 March 2020, including a transfer of ¥400 billion in the year ending on 31 March 2018 of which the transfer of ¥100 billion is pursuant to the January 2015 determination. Furthermore, it was also determined that an additional amount of up to ¥1.5 billion would be transferred by JFM to the national treasury over the six-year period ending 31 March 2024. JFM completed the transfer of ¥400 billion in October 2017 accordingly. JFM plans to make an additional transfer of ¥400 billion during the year ending 31 March 2019. The completed transfers have not had, and JFM does not expect the additional planned transfer to have, a material effect on JFM's business, results of operations or financial condition. This is due primarily to the fact that the margins on the management account loan portfolio are generally improving in the current low interest rate environment because bonds are being refinanced at lower rates and that interest rate risk in the management account is expected to decline overall as the size of that portfolio declines over time.

### ***General and Management Accounts***

JFM manages assets and liabilities succeeded from the Predecessor, and related revenues and expenses, in its management account. JFM manages its other assets and liabilities and related revenues and expenses, in its general account. Of the liabilities succeeded from the Predecessor, JFM succeeded to a ¥3.4 trillion reserve for losses on refinancing of bonds. This reserve was transferred to the management account reserve for interest rate volatility and is being administered as follows:

- ¥2.2 trillion was deemed necessary to the continuity of JFM's operations and is being transferred to JFM's general account reserve for interest rate volatility in equal instalments over a ten year period. As of 31 March 2018, ¥2.2 trillion had been fully transferred accordingly; and
- the remaining was deemed necessary to appropriately manage the Predecessor's assets and liabilities to which JFM succeeded and to prepare for related bond refinancing risks. As such, this remainder is expected to remain in the management account reserve for interest rate volatility.

In accordance with the JFM Law, if any assets remain when the asset management operations of the Predecessor are completed and the management account is closed, those assets are to be returned to the Japanese national treasury.

### ***Liquidity***

JFM needs liquidity to pay its operating expenses, pay interest on and principal of debt, and maintain its lending activities. Adverse market and economic conditions in the domestic and global economy may limit or adversely affect JFM's ability to replace maturing liabilities in a timely manner, satisfy statutory capital requirements and access the capital necessary to operate its business.

The principal sources of JFM's liquidity are bond proceeds, cash flows from its loan portfolio, cash and bank deposits, and sales of assets, consisting mainly of assets that are readily convertible into cash. JFM depends on its ability to continue to refinance its bonds at commercially acceptable rates, and finances a portion of its operations with short-term funds. JFM has entered into overdraft agreements with a wide range of financial institutions to protect against unexpected fund shortfalls, and invests surplus funds only in short-term financial products.

Although presented as liabilities on JFM's balance sheet in accordance with the JFM Law, JFM maintains large reserves and other funds totalling ¥3,105.0 billion as of 31 March 2018 which it considers to provide additional liquidity in certain circumstances. For example, JFM maintains reserves for interest rate volatility in its general and management accounts totalling ¥3,070.4 billion as of 31 March 2018. In addition, JFM maintains the fund for lending rate reduction totalling ¥920.2 billion as of 31 March 2018.

## ***Derivatives and Hedging Activities***

JFM follows the Accounting Standards for Financial Instruments issued by the Accounting Standards Board of Japan (the "ASBJ") and guidelines issued by the Japanese Institute of Certified Public Accountants (the "JICPA") regarding the application of hedge accounting to derivative financial instruments. Under such accounting standards and guidelines, derivative financial instruments designated as hedging instruments are recognised as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are deferred until gains or losses on hedged items are realised.

Over the life of a hedging instrument, changes in the fair value or cash flows of the hedged item can be expected to be almost fully offset by changes in the fair value or cash flows of the hedging instrument, making the net impact on profit over time relatively small. However, if the item to be hedged is one that would normally not be recorded at fair value (for instance if it is held at cost less impairment) but the hedging instrument is a type that would normally be accounted for at fair value, there could be substantial differences in the profit and loss affect for the two items during specific accounting periods, although over the whole life of the instrument these differences would be expected to balance out. Applying hedge accounting means that changes in the fair values of designated hedging instruments affect net income in a period based on the economic effectiveness of each hedge.

## ***The Great East Japan Earthquake***

Following the Great East Japan Earthquake on 11 March 2011, JFM implemented various support measures for the restoration and reconstruction of the affected regions. For example, 32 organisations faced challenges in making scheduled repayments because the disaster occurred 11 days before the regular repayment date of 22 March 2011. Complications included a temporary loss of administrative functions, financial system malfunctions and damage to the public infrastructure resulting from the disaster. The total amount of principal and interest scheduled to be repaid on that day by those organisations was ¥7.2 billion. Under the internal rules of JFM and special stipulations set forth in various the loan agreements, JFM extended the repayment date to 20 September 2011, which was the next regular repayment date. All of such principal and interest were repaid by the extended repayment date.

In addition, JFM revised its lending conditions for public housing projects relating to the Great East Japan Earthquake by extending the loan period from within 25 years to 30 years. JFM also decided in principle not to demand prepayment of loans advanced to public facilities that were affected by the disaster. However, JFM consented to the prepayment of some of the loans at the request of the relevant borrowers and provided funding for the refinancing of such loans, as some borrowers benefitted from more favourable lending conditions, such as lower interest rates. Further, JFM provided loans to three municipalities in the amount of ¥1.1 billion in the year ended 31 March 2012 to meet funding shortfalls of related municipal enterprises that had been or were likely to have been affected by the disaster. In addition, JFM expanded the scope of its lending to cover subletting loans for the relief of disaster and mother, child and widower welfare.

JFM believes that the Great East Japan Earthquake and its aftermath have not had, and will not have, a material adverse effect on JFM. JFM issued loans in the amount of ¥143.9 billion and ¥135.7 billion for disaster management and mitigation projects that needed to be implemented urgently, in the years ended 31 March 2017 and 2018, respectively. In the year ending 31 March 2019, JFM expects to extend loans for such projects in the amount of ¥106.0 billion.

## ***JFM's Lending and Fundraising Plan for the Year Ending 31 March 2019***

### ***Lending Plan***

JFM's lending plan is formulated based on the amounts of local government borrowings for which the consent or approval is scheduled to be given by the Minister for Internal Affairs and Communications or prefectural governors under the Local Governments Borrowing Programme. The Local Governments Borrowing Programme for the year ending 31 March 2019 was formulated by the Japanese government to address a shortfall in local revenue sources, which arose in part due to the severe local government financial situation. The programme intends to ensure funding so that local governments are able to continue providing necessary regional services and making strategic investments in priority areas. The programme promotes increased funding in the markets and narrows the priority areas into which public funds may be directed.

The Local Governments Borrowing Programme for the year ending 31 March 2019 targets borrowings of ¥11,650.9 billion, a 0.1 per cent., or ¥6.4 billion increase compared to the year ended 31 March

2018, and contemplates borrowings from JFM in an amount of ¥1,779.9 billion. Based on the programme, JFM plans to extend loans in the total amount of 1,660.0 billion in the year ending 31 March 2019. This includes loans of:

- ¥460.0 billion for general account-related businesses;
- ¥531.7 billion for temporary financial countermeasures funding; and
- ¥668.3 billion for municipal enterprise-related businesses.

The aforementioned plan is subject to revision without notice, including as a result of the changes necessitated by any future supplementary budgets of the national government or amendments to the Local Governments Borrowing Programme.

#### *Fundraising Plan*

In the year ending 31 March 2019, JFM plans to raise the amount of ¥1,900 billion. Bonds planned to be issued by JFM in the year ending 31 March 2019 are ¥1,850 billion and include:

- ¥600.0 billion (face value) of non-guaranteed domestic public offering bonds, of which ¥20.0 billion are 5-year bonds, ¥225.0 billion are 10-year bonds, ¥100.0 billion are 20-year bonds, ¥20.0 billion are 30-year bonds, and ¥235.0 billion are for opportunistic issuance;
- ¥250.0 billion under its global medium term note programme;
- ¥110.0 billion through its open issuance scheme, in which 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;
- ¥490.0 billion of 10-year and 20-year private placement bonds subscribed to by pension funds and mutual aids for local government officials including the Pension Fund Association for Local Government Officials; and
- ¥400.0 billion of government-guaranteed domestic bonds to refinance the Predecessor's guaranteed bonds.

The issuance of FLIP bonds, global medium term notes and other bonds will be flexibly made within the various issuance ranges. The aforementioned plan is subject to revision without notice, including as a result of the changes necessitated by any future supplementary budgets of the national government or amendments to the Local Governments Borrowing Programme.

JFM also plans to raise ¥50.0 billion through long-term loans from banks in the year ending 31 March 2019.

#### **Critical Accounting Policies and Estimates**

The preparation of JFM's financial statements requires it to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

JFM considers the accounting estimates discussed in this section to be critical accounting estimates for the following reasons. First, the estimates require JFM to make assumptions about matters that are highly uncertain at the time the accounting estimates are made. Second, different estimates that JFM reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of JFM's financial condition, changes in financial condition or results of operations. JFM believes the following represent its critical accounting policies.

#### ***Reserve for Possible Loan Losses***

JFM does not maintain a reserve for possible loan losses as neither JFM nor the Predecessor has ever experienced any loan losses. The determination not to maintain such a reserve requires significant

management judgment and the use of estimates and assumptions. If actual events prove the estimates and assumptions, including the assumption that JFM will not experience loan losses going forward, used in this determination are incorrect, JFM may need to maintain a reserve for possible loan losses.

### ***Impairment in Value of Securities***

JFM only owns Held-to-maturity securities in treasury discount bills and negotiable certificates of deposit, which are carried at amortised cost (straight-line method).

For securities with readily determinable fair values, if the fair value of a security at a measurement date has declined by more than 50 per cent. of its cost, JFM recognises an impairment loss in the carrying amount of the security since the decline in fair value is deemed to be other than temporary. If the fair value of the security has declined by an amount ranging from 30 per cent. to 50 per cent. of its cost, JFM must evaluate the probability of recovery of fair value in order to determine whether an other-than-temporary impairment has occurred. The judgment of the likelihood and magnitude of a future recovery in fair value relies on management's subjective views concerning market uncertainties, the categories of the issuers of the securities classified by our self-assessment processes and various other factors.

### ***Hedge Accounting***

JFM follows the Accounting Standards for Financial Instruments issued by the ASBJ and guidelines issued by the JICPA regarding the application of hedge accounting to derivative financial instruments. Under such accounting standards and guidelines, derivative financial instruments designated as hedging instruments are recognised as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are deferred until gains or losses on hedged items are realised.

Over the life of a hedging instrument, changes in the fair value or cash flows of the hedged item can be expected to be almost fully offset by changes in the fair value or cash flows of the hedging instrument, making the net impact on profit over time relatively small. However, if the item to be hedged is one that would normally not be recorded at fair value (for instance if it is held at cost less impairment) but the hedging instrument is a type that would normally be accounted for at fair value, there could be substantial differences in the profit and loss affect for the two items during specific accounting periods, although over the whole life of the instrument these differences would be expected to balance out. Applying hedge accounting means that changes in the fair values of designated hedging instruments affect net income in a period based on the economic effectiveness of each hedge. However, JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions to offset bond and borrowed money market fluctuation risks. Accordingly, JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, JFM omits a periodic assessment of hedge effectiveness for interest rate swaps, currency swaps and forward contracts that qualify for deferral hedge accounting when the exceptional accrual method is applied.

### **Results of Operations**

The table below sets forth JFM's results of operations for the years ended 31 March 2016, 2017 and 2018:

	<b>For the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>(Billions of yen)</b>		
Interest income.....	¥404.8	¥372.7	¥343.3
Interest expenses .....	230.5	208.8	187.9
Net interest income.....	174.3	163.9	155.3
Fees and commissions .....	0.1	0.1	0.0
Fees and commissions expenses.....	0.3	0.3	0.3
Net fees and commissions.....	(0.2)	(0.2)	(0.2)
Other operating income .....	0.0	0.0	0.0
Other income.....	3.0	3.5	4.0
Other operating expenses.....	4.4	3.8	3.9
General and administrative expenses.....	3.8	3.2	3.2

	For the year ended 31 March		
	2016	2017	2018
	(Billions of yen)		
Ordinary income.....	168.9	160.2	151.9
Reversal of management account reserve for interest rate volatility.....	520.0	420.0	620.0
Reversal of reserve for interest rate reduction.....	8.2	7.3	6.4
Special gains .....	528.2	427.3	626.4
Provision for reserve for interest rate volatility.....	220.0	220.0	220.0
Provision for management account reserve for interest rate volatility.....	146.9	139.6	132.3
Payment to national treasury.....	300.0	200.0	400.0
Special losses .....	666.9	559.6	752.3
Net income.....	¥30.1	¥27.8	¥26.1

### *Description of Select Income Statement Items*

*Net Interest Income.* Net interest income is the difference between JFM's interest income and interest expenses, and is a function of:

- the amount of interest-earning assets and interest-bearing liabilities;
- the spread (the difference between the rate of the interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities);
- the general level of interest rates; and
- the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

JFM's principal interest-earning assets are loans and, to a lesser extent, cash and bank deposits and securities. JFM's principal interest-bearing liabilities are bonds. JFM's interest expenses also include interest paid on other liabilities.

*Net Fees and Commissions.* Net fees and commissions comprise commission income and commission expenses. Commission income includes income received from and to be received for services provided to third parties. Commission expense includes fees paid or to be paid for services rendered by third parties in relation to loans and credit facilities.

*Other Operating Income.* Other operating income comprises interest received on cash collateral paid for financial instruments.

*Other Income.* Other income primarily comprises contributions JFM received from the fund for lending rate reduction.

*Other Operating Expenses.* Other operating expenses primarily comprise bond issuance costs.

*General and Administrative Expenses.* General and administrative expenses include staff costs and other administrative expenses. Other administrative expenses includes the cost of outsourcing, rent and maintenance of property and equipment, printing costs, training expenses and advertising costs.

*Other Expenses.* Other expenses primarily comprise the expense for lending rate reduction.

*Special Gains and Losses.* Pursuant to the relevant laws, part of the revenue generated from bond refinancings is provided to the reserve for interest rate volatility within the management account. Depending on the circumstances, a certain amount of prior fiscal year reserves may be reversed, creating additional income, and a certain amount of ordinary income may be allocated to the reserve for interest rate volatility within the general and management accounts thereby reducing net income.



### ***Net Interest Income***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* JFM's net interest income decreased by ¥8.5 billion, or 5.2 per cent., from ¥163.9 billion in the year ended 31 March 2017 to ¥155.3 billion in the year ended 31 March 2018. This decrease was mainly due to a decrease in interest income caused by a decrease in the average interest rate on loans as a result of redemptions of loans made in the past with relatively high interest rates. The decrease in interest income was partially offset by a decrease in interest expenses caused by a decrease in the average interest rate on bonds as a result of the maturity of bonds issued in the past with relatively high interest rates.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* JFM's net interest income decreased by ¥10.4 billion, or 6.0 per cent., from ¥174.3 billion in the year ended 31 March 2016 to ¥163.9 billion in the year ended 31 March 2017. This decrease was mainly due to a decrease in interest income in the management account caused by a decrease in the average interest rate on loans as a result of redemptions of loans made in the past with relatively high interest rates. The decrease in interest income was partially offset by a decrease in interest expenses in the management account caused by a decrease in the average interest rate on bonds as a result of the maturity of bonds issued in the past with relatively high interest rates.

### ***Net Fees and Commissions***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* JFM's net fees and commissions were relatively unchanged in the year ended 31 March 2017 compared to the year ended 31 March 2018.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* JFM's net fees and commissions were relatively unchanged in the year ended 31 March 2017 compared to the year ended 31 March 2016.

### ***Other Operating Income***

JFM's other operating income was *de minimis* in the years ended 31 March 2016, 2017 and 2018.

### ***Other Income***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* JFM's other income increased by ¥0.4 billion or 12.8 per cent., from ¥3.5 billion in the year ended 31 March 2017 to ¥4.0 billion in the year ended 31 March 2018. The increase primarily reflected an increase of contributions from fund for lending rate reduction.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* JFM's other income increased by ¥0.5 billion or 18.8 per cent., from ¥3.0 billion in the year ended 31 March 2016 to ¥3.5 billion in the year ended 31 March 2017. The increase primarily reflected an increase of contributions from fund for lending rate reduction.

### ***Other Operating Expenses***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* JFM's other operating expenses were relatively unchanged in the year ended 31 March 2017 compared to the year ended 31 March 2018.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* JFM's other operating expenses decreased by ¥0.5 billion, or 12 per cent., from ¥4.4 billion in the year ended 31 March 2016 to ¥3.8 billion in the year ended 31 March 2017. The decrease was due primarily to a decrease in bond issuance costs caused by a decrease in bond issuance in the management account.

### ***General and Administrative Expenses***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* JFM's general and administrative expenses were relatively unchanged in the year ended 31 March 2017 compared to the year ended 31 March 2018.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* JFM's general and administrative expenses decreased by ¥0.5 billion, or 15.2 per cent., from ¥3.8 billion in the year ended 31 March 2016 to ¥3.2 billion in the year ended 31 March 2017. The decrease was due primarily to a decrease in administrative costs.

### ***Ordinary Income***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* JFM's ordinary income decreased from ¥160.2 billion in the year ended 31 March 2017 to ¥151.9 billion in the year ended 31 March 2018, a decrease of ¥8.2 billion or 5.1 per cent. The decrease was due primarily to a decrease of net interest income in the management account.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* JFM's ordinary income decreased from ¥168.9 billion in the year ended 31 March 2016 to ¥160.2 billion in the year ended 31 March 2017, a decrease of ¥8.7 billion or 5.2 per cent. The decrease was due primarily to a decrease of net interest income in the management account.

### ***Special Gains and Losses***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* JFM's special gains increased from ¥427.3 billion in the year ended 31 March 2017 to ¥626.4 billion in the year ended 31 March 2018, an increase of ¥199.1 billion or 46.6 per cent. The increase primarily reflected an increase in reversal of management account reserve for interest rate volatility due to the payment to the national treasury in the year ended 31 March 2018. Special losses increased from ¥559.6 billion in the year ended 31 March 2017 to ¥752.3 billion in the year ended 31 March 2018, an increase of ¥192.6 billion or 34.4 per cent. The increase primarily resulted from an increase in payment to the national treasury in the year ended 31 March 2018.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* JFM's special gains decreased from ¥528.2 billion in the year ended 31 March 2016 to ¥427.3 billion in the year ended 31 March 2017, a decrease of ¥100.8 billion or 19.1 per cent. The decrease primarily reflected a decrease in reversal of management account reserve for interest rate volatility due to a decrease in required payment to the national treasury in the year ended 31 March 2017. Special losses decreased from ¥666.9 billion in the year ended 31 March 2016 to ¥559.6 billion in the year ended 31 March 2017, a decrease of ¥107.2 billion or 16.1 per cent. The decrease primarily reflected a decrease in payment to the national treasury in the year ended 31 March 2017.

### ***Net Income***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* As a result of the foregoing, JFM's net income decreased from ¥27.8 billion in the year ended 31 March 2017 to ¥26.1 billion in the year ended 31 March 2018, a decrease of ¥1.7 billion, or 6.3 per cent.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* As a result of the foregoing, JFM's net income decreased from ¥30.1 billion in the year ended 31 March 2016 to ¥27.8 billion in the year ended 31 March 2017, a decrease of ¥2.3 billion, or 7.7 per cent.

### ***Appropriation of Profit to the General and Management Accounts***

Profits for each of the three years ended 31 March 2018 were appropriated to the general account in accordance with the provisions of Article 39, Section 1 of the JFM Law, and to the management account in accordance with Article 13, Section 8 of the Supplementary Provisions to the JFM Law.

#### ***General Account***

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* Profits allocated to the general account (and appropriated to the general surplus reserve) decreased from ¥27.8 billion in the year ended 31 March 2017 to ¥26.1 billion in the year ended 31 March 2018.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* Profits allocated to the general account (and appropriated to the general surplus reserve) decreased from ¥30.1 billion in the year ended 31 March 2016 to ¥27.8 billion in the year ended 31 March 2017.

## Management Account

*Year Ended 31 March 2017 Compared to Year Ended 31 March 2018.* No profits were allocated to the management account (and appropriated to the management surplus reserve) during the years ended 31 March 2017 and 2018.

*Year Ended 31 March 2016 Compared to Year Ended 31 March 2017.* No profits were allocated to the management account (and appropriated to the management surplus reserve) during the years ended 31 March 2016 and 2017.

## Financial Condition

### Overview

The table below summarises selected balance sheet items of JFM as of 31 March 2016, 2017 and 2018:

	As of 31 March		
	2016	2017	2018
	(Billions of yen)		
<b>Assets:</b>			
Loans .....	¥23,664.5	¥23,720.0	¥23,768.2
Securities.....	235.0	166.0	170.0
Cash and bank deposits.....	711.6	861.2	747.7
Cash collateral paid for financial instruments.....	16.2	24.3	56.2
Total assets.....	24,643.3	24,786.2	24,755.8
<b>Liabilities:</b>			
Bonds.....	19,799.6	19,955.5	20,284.5
Borrowed money .....	120.5	170.5	159.5
Cash collateral received for financial instruments.....	129.5	111.1	12.2
Other liabilities.....	10.3	8.3	6.6
Fund for lending rate reduction .....	920.2	920.2	920.2
Reserves under special laws.....	3,446.8	3,379.1	3,105.0
Total liabilities .....	24,427.1	24,545.1	24,488.4
<b>Net Assets:</b>			
Capital.....	16.6	16.6	16.6
Retained earnings .....	137.9	165.7	191.8
General account surplus reserve .....	137.9	165.7	191.8
Valuation, translation adjustments and others.....	8.0	5.0	5.2
Management account surplus reserve .....	53.6	53.6	53.6
Total net assets .....	¥216.1	¥241.0	¥267.4

*Assets.* In the year ended 31 March 2018, JFM's total assets decreased by ¥30.4 billion to ¥24,755.8 billion compared to ¥24,786.2 billion in the year ended 31 March 2017 and ¥24,643.3 billion in the year ended 31 March 2016. The decrease in the year ended 31 March 2018 was mainly due to a decrease in cash and bank deposits, partially offset by an increase in loans and cash collateral paid for financial instruments.

*Liabilities.* In the year ended 31 March 2018, JFM's total liabilities decreased by ¥56.7 billion to ¥24,488.4 billion compared to ¥24,545.1 billion in the year ended 31 March 2017 and ¥24,427.1 billion in the year ended 31 March 2016. The decrease in the year ended 31 March 2018 was mainly due to a decrease in reserves under special laws in correspondence to the payment to the national treasury, partially offset by an increase in bonds in the general account.

*Net Assets.* In the year ended 31 March 2018, JFM's total net assets increased by ¥26.3 billion to ¥267.4 billion compared to ¥241.0 billion in the year ended 31 March 2017 and ¥216.1 billion in the year ended 31 March 2016. The increase in the year ended 31 March 2018 was mainly due to an increase in general account surplus reserve.

As of 31 March 2018, JFM's capital was ¥16.6 billion from 1,789 of Japan's local governments. Set forth below are certain data relating to the capital contribution received by JFM by type of local government:

Type of local government	As of 31 March 2018	
	Amount of capital contribution	Percentage of total capital contribution
	(Billions of yen, except for percentages)	
Cities and special wards of Tokyo .....	¥9.1	55.4%
Prefectures .....	6.3	38.3
Towns, villages and local government associations .....	1.0	6.3
Total .....	¥16.6	100.0%

As of 31 March 2018, JFM's retained earnings were ¥191.8 billion.

### ***Loan Operations***

JFM distinguishes between general loans and entrusted loans, although more than 99 per cent. of all such loans are general loans. General loans are loans extended by JFM to local governments, which are not entrusted loans. Entrusted loans are loans extended by JFM using funds entrusted to JFM by the JFC. Such entrusted funds are loaned by JFM to local governments for financing the maintenance of public forests and improvements of pastures.

Historically, municipal enterprise-related businesses such as sewerage and water supply businesses accounted for almost all of JFM's general loans. However, due to the reorganisation on 1 June 2009, JFM became generally eligible to extend loans for general account related businesses, such as special municipal mergers and temporary financial countermeasures funding. As a result, JFM's proportion of loan amounts by business type has changed significantly. Temporary financial countermeasures funding are funds extended to local governments to cover general resource shortfalls pursuant to the provisions of the Local Government Finance Law. The amounts to be paid for the payment of the principal and interest of temporary financial countermeasures funding by borrowed by local governments are to be included in calculating the amount of the local allocation tax grant to be granted to such local governments.

The following tables provide information on JFM loans extended during the five years ended 31 March 2018 and JFM loans outstanding as of 31 March 2016, 2017 and 2018, respectively.

Loans Extended by Business Type, Excluding Entrusted Loans

Set forth below are data relating to loans extended by JFM (excluding Entrusted Loans) in the five years ended 31 March 2018 by type of business:

Business type	For the year ended 31 March 2014			For the year ended 31 March 2015			For the year ended 31 March 2016			For the year ended 31 March 2017			For the year ended 31 March 2018		
	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers
(Billions of yen, except for percentages and borrower numbers)															
<b>General Account-related Businesses:</b>															
Public projects <sup>(1)</sup> .....	¥99.8	4.7%	464	¥96.3	5.0%	560	¥78.3	4.2%	580	¥51.9	3.0%	608	¥75.3	4.3%	729
Public housing <sup>(1)</sup> .....	18.9	0.9	178	18.3	1.0	178	20.9	1.1	213	20.8	1.2	170	21.3	1.2	197
Disaster management and mitigation <sup>(1)</sup> .....	259.3	12.2	1,535	155.8	8.1	1,223	147.0	7.9	1,292	144.0	8.3	1,283	135.7	7.8	1,487
National disaster prevention <sup>(1)</sup> .....	1.3	0.1	7	38.1	2.0	284	57.7	3.1	424	57.5	3.3	502	8.1	0.5	81
Education facilities development <sup>(1)</sup> .....	6.2	0.3	124	13.3	0.7	173	11.9	0.6	170	6.3	0.4	140	18.6	1.1	282
Social welfare facilities development <sup>(1)</sup> .....	19.2	0.9	176	13.1	0.7	140	15.7	0.8	171	11.0	0.6	135	18.0	1.0	228
General Waste Disposal.....	—	—	—	0.1	0.0	4	7.4	0.4	42	8.7	0.5	78	14.1	0.8	118
General projects <sup>(1)(2)</sup> .....	7.9	0.4	82	3.7	0.2	71	6.0	0.3	84	18.8	1.1	107	10.8	0.6	120
Regional revitalisation <sup>(1)</sup> .....	7.1	0.3	143	8.8	0.5	155	8.9	0.5	175	8.8	0.5	177	11.3	0.7	259
Disaster prevention <sup>(1)</sup> .....	27.8	1.3	327	21.9	1.1	237	20.8	1.1	264	14.2	0.8	244	17.2	1.0	294
Local road development <sup>(1)(3)</sup> .....	64.7	3.0	636	30.6	1.6	329	36.8	2.0	361	36.8	2.1	375	44.1	2.5	448
Special municipal merger <sup>(1)</sup> .....	188.8	8.9	712	146.7	7.6	634	117.1	6.3	563	103.3	6.0	486	102.1	5.9	525
Public facilities optimization.....	—	—	—	—	—	—	—	—	—	2.4	0.1	15	16.7	1.0	61
Construction of general aid facilities.....	—	—	—	—	—	—	—	—	—	0.1	0.0	1	0.8	0.0	2
Proper management of public facilities.....	—	—	—	—	—	—	—	—	—	—	—	—	1.0	0.1	9
Total.....	701.4	33.0	4,384	547.2	28.4	3,988	529.1	28.4	4,339	484.3	28.1	4,321	495.1	28.6	4,840
<b>Temporary Financial Countermeasures Funding:</b>															
Total <sup>(1)</sup> .....	692.1	32.5	805	729.6	37.9	758	652.4	35.1	722	587.5	34.1	639	563.5	32.5	641
<b>Municipal Enterprise-related Businesses:</b>															
Water supply <sup>(1)</sup> .....	141.6	6.7	1,149	141.5	7.4	1,146	154.4	8.3	1,131	153.1	8.9	1,187	152.2	8.8	1,148
Industrial water supply <sup>(1)</sup> .....	10.3	0.5	95	9.6	0.5	91	10.5	0.6	93	13.2	0.8	123	11.3	0.7	97
Transportation <sup>(1)</sup> .....	28.3	1.3	38	32.9	1.7	44	36.8	2.0	35	32.5	1.9	41	22.1	1.3	38
Electricity and gas supply <sup>(1)</sup> .....	7.2	0.3	45	12.7	0.6	62	7.2	0.4	61	8.4	0.5	60	5.1	0.3	43
Port facilities.....	2.9	0.1	29	3.2	0.2	39	3.7	0.2	34	2.9	0.2	26	3.1	3.1	30
Hospitals and elderly care services <sup>(1)</sup> .....	82.8	3.9	410	85.8	4.5	376	120.8	6.5	450	123.0	7.1	477	149.9	8.7	478
Markets and slaughterhouses <sup>(1)</sup> .....	6.8	0.3	50	11.8	0.6	57	11.0	0.6	61	15.6	0.9	62	9.9	0.6	54
Sewerage <sup>(1)</sup> .....	346.1	16.3	2,039	349.4	18.1	2,047	332.9	17.9	2,016	303.6	17.6	1,946	318.8	18.4	2,043
Tourism and others <sup>(1)</sup> .....	2.3	0.1	14	1.1	0.0	16	0.1	0.1	18	0.9	0.1	14	0.8	0.0	16
Total.....	628.6	29.6	3,869	648.2	33.7	3,878	679.1	36.5	3,899	653.1	37.9	3,936	673.4	38.9	3,947
Refinance loan relating to municipal enterprise.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Refinance loan relating to disaster-struck facilities.....	—	—	—	0.3	0.0	6	—	—	—	0.1	0.0	8	0.0	0.0	8
Local Government Road Corporation, Toll Roads.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Refinancing loan for disaster-struck local governments.....	104.7	4.9	2,167	—	—	—	—	—	—	—	—	—	—	—	—
Total.....	¥1,270.0	100.0%	11,225	¥1,925.4	100.0%	8,630	¥1,860.7	100.0%	8,960	¥1,725.0	100.0%	8,904	¥1,732.0	100.0%	9,436

Notes:

- (1) Businesses eligible for special interest rates (including the former special and extra-special interest rates).
- (2) General projects include development projects for rivers and other waterways and high school buildings at the time.
- (3) Local road development includes the former development projects for local roads.

*Loans Extended by Borrower Type, Excluding Entrusted Loans*

Set forth below are data relating to loans extended by JFM (excluding Entrusted Loans) in the five years ended 31 March 2018 by type of borrower:

Borrower type	For the year ended 31 March 2014			For the year ended 31 March 2015			For the year ended 31 March 2016			For the year ended 31 March 2017			For the year ended 31 March 2018		
	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers	Loans extended	Percentage of total loans extended	Number of borrowers
(Billions of yen, except for percentages and borrower numbers)															
Cities and special wards of Tokyo (excluding government-designated cities).....	¥1,213.2	57.0%	743	¥1,099.3	57.1%	738	¥1,019.1	54.8%	731	¥948.1	55.0%	731	¥ 975.1	56.3%	729
Cities and special wards of Tokyo (government-designated cities) .....	197.7	9.3	20	217.0	11.3	20	243.5	13.1	20	195.0	11.3	20	169.9	9.8	20
Prefectures.....	517.2	24.3	47	428.9	22.3	45	416.7	22.4	46	410.5	23.8	44	401.8	23.2	46
Towns and villages .....	147.3	6.9	655	130.2	6.8	609	133.1	7.2	634	134.0	7.8	635	141.9	8.2	649
Corporate groups and associations .....	51.5	2.4	158	49.9	2.6	136	48.1	2.6	134	37.3	2.0	118	43.0	2.5	116
Total.....	¥2,127.0	100.0%	1,623	¥1,925.4	100.0%	1,548	¥1,860.7	100.0%	1,565	¥1,725.0	100.0%	1,548	¥1,732.0	100.0%	1,560

### Loans Outstanding by Business Type, Excluding Entrusted Loans

Municipal enterprise-related businesses such as sewerage and water supply businesses have accounted for a high share of the total amount of loans outstanding.

Set forth below are data relating to the outstanding loan balances (excluding Entrusted Loans) of JFM by type of business as of 31 March 2016, 2017 and 2018:

Business type	As of 31 March 2016		As of 31 March 2017		As of 31 March 2018	
	Outstanding loan balance	Percentage of total outstanding loan balance	Outstanding loan balance	Percentage of total outstanding loan balance	Outstanding loan balance	Percentage of total outstanding loan balance
(Billions of yen, except for percentages)						
Sewerage .....	¥8,025.6	33.9%	¥7,804.2	32.9%	¥7,605.3	32.0%
Water supply .....	3,571.4	15.1	3,480.0	14.6	3,388.9	14.2
Three special projects <sup>(1)</sup> .....	1,888.0	8.0	1,528.0	6.5	1,218.4	5.1
Temporary financial countermeasures funding .....	4,513.9	19.1	4,951.5	20.9	5,327.8	22.4
Transportation .....	1,175.5	5.0	1,134.9	4.7	1,084.0	4.6
Hospitals .....	830.8	3.5	895.9	3.8	988.3	4.2
Public housing .....	344.5	1.5	315.8	1.3	293.8	1.2
Industrial water supply .....	200.9	0.9	196.2	0.8	189.6	0.8
Others .....	3,113.9	13.0	3,413.1	14.5	3,671.7	15.5
Total .....	¥23,664.5	100.0%	¥23,720.0	100.0%	¥23,768.2	100.0%

Note:

- (1) The three types of special projects consist of development projects for local roads, rivers and other waterways, and high school buildings.

### Loans Outstanding by Borrower Type, Excluding Entrusted Loans

Set forth below are data relating to the outstanding loan balances (excluding Entrusted Loans) of JFM by type of borrower as of 31 March 2016, 2017 and 2018:

Borrower type	As of March 2016			As of March 2017			As of March 2018		
	Outstanding loan balance	Percentage of total outstanding loan balance	Number of borrowers	Outstanding loan balance	Percentage of total outstanding loan balance	Number of borrowers	Outstanding loan balance	Percentage of total outstanding loan balance	Number of borrowers
(Billions of yen, except for percentages and borrower numbers)									
Cities and special wards of Tokyo (excluding government-designated cities) .....	¥12,375.3	52.3%	790	¥12,456.2	52.5%	791	¥12,541.6	52.8%	791
Cities and special wards of Tokyo (government-designated cities) .....	4,155.8	17.6	20	4,054.9	17.1	20	3,938.4	16.6	20
Prefectures .....	4,696.5	19.8	47	4,783.2	20.2	47	4,873.3	20.5	47
Towns and villages .....	1,738.5	7.3	925	1,740.1	7.3	925	1,749.0	7.3	924
Local government associations .....	639.7	2.7	354	637.2	2.7	361	626.7	2.6	367
Local government corporations .....	58.4	0.2	24	48.1	0.2	21	38.9	0.2	20
Total .....	¥23,664.5	100.0%	2,160	¥23,720.0	100.0%	2,165	¥23,768.2	100.0%	2,169

### Entrusted Loans

JFM makes loans for public forest improvement projects and grasslands development projects, which are entrusted to JFM by the JFC. The total amount of entrusted loans made in the years ended 31 March 2017 and 2018 was not significant compared to the amount of JFM general loans made in those years.

## Loan Terms

The terms and conditions applicable to JFM's loans other than entrusted loans are determined by JFM in accordance with the costs of funds procured by JFM. The terms and conditions of entrusted loans are determined by JFC.

## Interest Rates

The following two types of interest rates on JFM loans were consented to, or approved, on or after the year ended 31 March 2013:

- *Standard Interest Rate.* The standard interest rate represents the rate at which the discounted present value of the cash flows of the loans roughly equals the discounted present value of the funds raised by JFM to make loans.
- *Special Interest Rate.* The special interest rate is set at a discount on the standard rate (0.35 per cent. per annum below the standard rate) for projects that are particularly important to the livelihood of residents and temporary financial countermeasures funding.

Effective from the year ended 31 March 2013, the former special interest rate (0.3 per cent. per annum below the standard rate) and the former extra-special interest rate (0.35 per cent. per annum below the standard rate) were integrated into the new special interest rate. The former special and extra-special interest rates are applied to loans consented or approved in or before the year ended 31 March 2012.

Approximately 99 per cent. of JFM loans outstanding as of 31 March 2018 consisted of special interest rate loans. Because the lower limit of the special interest rate and the extra-special interest rate is the interest rate assigned to loans from the national government, the discount rates which apply to the special interest rate and the extra-special interest rate may be lower than the discount rates set forth above.

*Trends in Loan Interest Rates.* The trend of loan interest rates for the three years ended 31 March 2018 is shown below. During this period, the special interest rates were at the same level as the rates of the fiscal loan fund provided by the national government.

Month/year (interest rate reset date)	Standard interest rate	Special interest rate	Interest rate of fiscal loan fund
<b>Year Ended 31 March 2016:</b>			
April 2015 (April 20).....	1.15	1.10	1.10
May 2015 (May 25).....	1.20	1.20	1.20
June 2015 (June 24).....	1.25	1.20	1.20
July 2015 (July 29).....	1.20	1.20	1.20
August 2015 (August 24).....	1.20	1.10	1.10
September 2015 (September 18).....	1.15	1.10	1.10
October 2015 (October 28).....	1.15	1.10	1.10
November 2015 (November 25).....	1.15	1.10	1.10
December 2015 (December 22).....	1.10	1.10	1.10
January 2016 (January 27).....	0.95	0.90	0.90
February 2016 (February 24).....	0.80	0.80	0.80
March 2016 (March 18).....	0.50	0.50	0.50
<b>Year Ended 31 March 2017:</b>			
April 2016 (April 22).....	0.40	0.30	0.30
May 2016 (May 25).....	0.35	0.20	0.20
June 2016 (June 28).....	0.30	0.20	0.20
July 2016 (July 27).....	0.25	0.10	0.10
August 2016 (August 24).....	0.45	0.30	0.30
September 2016 (September 16).....	0.45	0.40	0.40
October 2016 (October 26).....	0.45	0.40	0.40
November 2016 (November 28).....	0.50	0.30	0.30
December 2016 (December 26).....	0.60	0.50	0.50
January 2017 (January 27).....	0.65	0.60	0.60



Month/year (interest rate reset date)	Standard interest rate	Special interest rate	Interest rate of fiscal loan fund
February 2017 (February 24) .....	0.75	0.70	0.70
March 2017 (March 17).....	0.75	0.60	0.60
<b>Year Ended 31 March 2018:</b>			
April 2017 (April 24) .....	0.70	0.60	0.60
May 2017 (May 24) .....	0.70	0.60	0.60
June 2017 (June 28) .....	0.70	0.60	0.60
July 2017 (July 26) .....	0.75	0.60	0.60
August 2017 (August 25) .....	0.70	0.60	0.60
September 2017 (September 19) .....	0.65	0.50	0.50
October 2017 (October 27) .....	0.70	0.60	0.60
November 2017 (November 28) .....	0.65	0.60	0.60
December 2017 (December 26).....	0.65	0.60	0.60
January 2018 (January 29) .....	0.70	0.60	0.60
February 2018 (February 26) .....	0.70	0.60	0.60
March 2018 (March 19).....	0.65	0.60	0.60

*Funding for Special Interest Rate.* JFM uses investment income earned on its fund for lending rate reduction in part to facilitate lending at the special interest rates (i.e., the former special interest rate and the former extra special interest rate), which are equal to or lower than the standard interest rate. The fund is comprised of payments by local governments of a portion of the proceeds they earn from municipally operated horse, bicycle, motorcycle and speedboat racing. When further funds are required, racing contributions received for the same fiscal year and JFM's own funds can be used.

*Maturities.* The maximum loan maturity, which is set according to the purpose of the loan, was previously 28 years. As a result of the review of the loan maturity for each purpose, which was conducted at the time of the reorganisation of JFM in June 2009, the maximum term to maturity was extended to 30 years for loans issued from the beginning of the year ended 31 March 2009. In March 2015, the maximum term of maturity was further extended to 40 years, effective from April 2015.

*Maturities for Loans Extended.* Maximum maturities for loans extended by business type over the three years ended 31 March 2018 are shown below.

Loan extended by business type	Over Three Years ended 31 March 2018			
	Fixed interest rate		Adjustable interest rate <sup>(1)</sup>	
	Maturity	Grace period	Maturity	Grace period
<b>General Account-related Businesses:</b>				
Public projects, etc.....	20	5	20	5
Public housing.....	25	5	25	5
Educational facilities development .....	25	3	25	3
Social welfare facilities development.....	20	3	20	3
General Waste Disposal .....	15	3	15	3
General projects.....	30	5	30	5
Regional revitalisation .....	30	5	30	5
Disaster prevention.....	30	5	30	5
Local road development.....	20	5	20	5
Special municipal mergers .....	30	5	30	5
Disaster management and mitigation .....	30	5	30	5
<b>Temporary Financial Counter-measures Funding:</b>				
Prefectures and government-designated cities .....	—	—	30	3
Cities, towns and villages.....	—	—	20	3
<b>Municipal Enterprise-related Businesses:</b>				
Water supply .....	30	5	40 <sup>(2)</sup>	5
Transportation .....	30	5	40 <sup>(2)</sup>	5
Hospitals .....	30	5	30	5
Sewerage.....	30	5	40 <sup>(2)</sup>	5
Industrial water supply.....	30	5	40 <sup>(2)</sup>	5

Over Three Years ended 31 March 2018				
Loan extended by business type	Fixed interest rate		Adjustable interest rate <sup>(1)</sup>	
	Maturity	Grace period	Maturity	Grace period
Electricity supply.....	30	5	30	5
Gas supply .....	25	5	25	5
Port facilities .....	30 <sup>(3)</sup>	5	40 <sup>(2)</sup>	5
Markets.....	30 <sup>(3)</sup>	5	40 <sup>(2)</sup>	5
Slaughterhouses.....	30 <sup>(3)</sup>	5	30 <sup>(3)</sup>	5

Notes:

- (1) Adjustable lending rates are reviewed depending on the maturity of the loan every 5 years, every 10 years or every 15 years, or on the 20th or 30th anniversary of the initial disbursement.
- (2) Maximum loan maturities were extended to 40 years from April 2015.
- (3) Maximum loan maturities were extended to 30 years from April 2015.

*Loans Outstanding by Maturity.* The following table sets forth information concerning the maturities of JFM's outstanding loans as of 31 March 2018.

As of 31 March 2018		
(Billions of yen, except percentages)		
Five years or less .....	¥8,609.4	36.2%
More than five years to ten years.....	6,624.1	27.9
More than ten years to 20 years.....	6,814.1	28.7
More than 20 years .....	1,720.4	7.2
Total .....	¥23,768.2	100.0%

## Liquidity and Capital Resources

JFM raises funds for its loan operations mainly by issuing non-guaranteed bonds in the overseas and domestic capital markets. JFM is permitted to issue Japanese government-guaranteed bonds to refinance previously-issued Japanese government-guaranteed bonds (including those issued by the Predecessor). The national government prepares a Fiscal Investment and Loan Program (or, "**Zaito Plan**") each year. The *Zaito Plan*, which is subject to approval of the Diet, determines the allocation of funds and extent of government guarantees available for certain institutions, including JFM.

Contributions of the proceeds from horse, bicycle, motorcycle and boat races, operated exclusively by local governments, are paid to JFM in accordance with the Local Government Finance Law. The contributions are accumulated in a separate account (the fund for improvement of operations of municipalities) and monies transferred from returns from the management of the fund to the accounts are applied to contribute to the reduction of interest rates on loans to local governments. While the local governments do not have an obligation to provide additional capital to JFM, if JFM were to be dissolved for any reason, local government borrowers would have an obligation to bear the costs necessary to satisfy all JFM obligations which are not satisfied during the dissolution process.

## Fundraising Operations for the Year Ended 31 March 2018

In the year ended 31 March 2018, JFM issued bonds in the amount of ¥2,100.6 billion (issue price, the same shall apply hereinafter this section) and raised ¥14.0 billion of long-term bank loans. Bonds issued by JFM in the year ended 31 March 2018, included:

- ¥365.0 billion of non-guaranteed domestic public offering bonds, of which ¥215.0 billion were 10-year bonds, ¥100.0 billion were 20-year bonds, ¥30.0 billion were 5-year bonds, and ¥20.0 billion were 30-year bonds;
- ¥239.0 billion FLIP bonds;
- ¥233.3 billion under its global medium-term notes programme;

- ¥300.0 billion of 10-year and 20-year private placement bonds subscribed to by the Pension Fund Association for Local Government Officials;
- ¥83.5 billion of 10-year private placement bonds subscribed to by pension funds and mutual aids for local government officials;
- ¥114.5 billion of 20-year private placement bonds subscribed to by pension funds and mutual aids for local government officials; and
- ¥765.3 billion of government-guaranteed domestic bonds to refinance government-guaranteed bonds issued by the Predecessor.

As a result, the outstanding balance of JFM bonds and bank loans amounted to ¥20,284.5 billion and ¥159.5 billion, respectively, as of 31 March 2018.

### ***Funds Available for Lending***

The following table gives details of JFM's funds available for lending during the five years ended 31 March 2018, excluding funds entrusted by JFC.

	For the year ended 31 March				
	2014	2015	2016	2017	2018
	(Billions of yen)				
Cash and bank deposits and securities at the beginning of the year .....	¥1,018	¥1,001	¥1,069	¥946	¥1,027
Government guaranteed bonds (domestic) .....	1,280	630	720	600	765
Government guaranteed bonds (foreign) .....	0	0	0	0	0
Non-guaranteed domestic public offering bonds ....	1,005	851	692	692	604
Non-guaranteed bonds issued under the Medium Term Note Programme .....	322	287	187	283	233
Non-guaranteed private placement bonds .....	300	300	385	424	498
Long-term bank loans .....	45	10	35	50	14
Short-term bank loans .....	35	64	35	0	0
Contributions of the proceeds from public races .....	3	3	2	3	4
Proceeds from collection of loans .....	1,712	1,570	1,633	1,669	1,683
Other .....	519	655	588	765	569
Subtotal .....	¥6,241	¥5,372	¥5,349	¥5,433	¥5,397
Bonds redeemed and other outflows .....	3,113	2,377	2,542	2,682	2,748
Funds available for lending .....	3,128	2,994	2,807	2,751	2,649
Total loan funds .....	¥2,127	¥1,925	¥1,860	¥1,725	¥1,732
Cash and bank deposits and securities at the end of the period .....	¥1,001	¥1,069	¥946	¥1,027	¥917

### ***Cash Flow Analysis for JFM for the Years Ended 31 March 2016, 2017 and 2018***

The following table sets out selected cash flow information for the years ended 31 March 2016, 2017 and 2018.

	For the year ended 31 March		
	2016	2017	2018
	(Billions of yen)		
Net cash provided by/(used in) operating activities .....	¥ 174.7	¥ 277.2	¥ 286.9
Net cash provided by/(used in) investing activities .....	434.6	68.7	(4.4)
Net cash provided by/(used in) financing activities .....	(297.0)	(196.4)	(395.9)
Net increase/(decrease) in cash and cash equivalents .....	312.4	149.6	(113.4)
Cash and cash equivalents at beginning of year .....	399.2	711.6	861.2
Cash and cash equivalents at end of year .....	711.6	861.2	747.7

### *Cash Flow from Operating Activities*

JFM's net cash flow from operating activities was a cash inflow of ¥286.9 billion in the year ended 31 March 2018, compared with a cash inflow of ¥277.2 billion in the year ended 31 March 2017 and a cash inflow of ¥174.7 billion in the year ended 31 March 2016. The change in the year ended 31 March 2018 as compared to the previous year was due primarily to an increase in a net cash inflow from ¥153.5 billion to ¥326.7 billion resulting from an increase in bonds issued in the year ended 31 March 2018, whereas the change in the year ended 31 March 2017 as compared to the previous year was due primarily to a decrease in a net cash outflow from ¥226.8 billion to ¥55.5 billion resulting from a decrease in loans extended in the year ended 31 March 2017.

### *Cash Flow from Investing Activities*

JFM's net cash flow from investing activities was a cash outflow of ¥4.4 billion in the year ended 31 March 2018, compared with a cash inflow of ¥68.7 billion in the year ended 31 March 2017 and a cash inflow of ¥434.6 billion in the year ended 31 March 2016. The change in the year ended 31 March 2018 as compared to the previous year was due primarily to an increase in outflows from purchases of securities, partially offset by an increase in inflows from the redemption of securities, whereas the change in the year ended 31 March 2017 as compared to the previous year was due primarily to a decrease in inflows from the redemption of securities, partially offset by a decrease in outflows from purchases of securities.

### *Cash Flow from Financing Activities*

JFM's net cash flow from financing activities was a cash outflow of ¥395.9 billion in the year ended 31 March 2018, compared with a cash outflow of ¥196.4 billion in the year ended 31 March 2017 and a cash outflow of ¥297.0 billion in the year ended 31 March 2016. The change in the year ended 31 March 2018 as compared to the previous year primarily resulted from an increase in a payment to the national treasury in the year ended 31 March 2018, while the change in the year ended 31 March 2017 as compared to the previous year was due primarily to a decrease in a payment to the national treasury in the year ended 31 March 2017.

### *Analysis of Financial Liabilities According to Remaining Contractual Terms to Maturity*

The amounts shown below represent all non-discounted future cash flows of JFM's financial liabilities as of 31 March 2018.

	<b>Due within 1 year</b>	<b>Due after 1 year through 5 years</b>	<b>Due after 5 years through 10 years</b>	<b>Due after 10 years through 20 years</b>	<b>Due after 20 years through 30 years</b>
	<b>(Billions of yen)</b>				
Bonds.....	¥1,804.2	¥8,588.0	¥6,960.4	¥2,736.6	¥175.5
Borrowed money .....	80.0	11.0	68.5	—	—

### **Off-Balance Sheet Arrangements and Contingent Liabilities**

#### *Off-Balance Sheet Arrangements*

JFM had no off-balance sheet arrangements as of 31 March 2018.

#### *Contingent Liabilities*

JFM had no material contingent liabilities as of 31 March 2018.

## TAXATION

The following is a general description of certain Japanese and U.S. federal income tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Japan, the United States or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

### Japan

The following is a general description of certain Japanese tax aspects of the Notes and does not purport to be a comprehensive description of the tax aspects of the Notes. Prospective purchasers should note that, although the general tax information on Japanese taxation is described hereunder for convenience, the statements below are general in nature and not exhaustive.

*Prospective purchasers are advised to consult their own legal, tax, accountancy or other professional advisers in order to ascertain their particular circumstances regarding taxation. The statements below are based on current tax laws and regulations in Japan and current income tax treaties executed by Japan all as in effect on the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). Neither such statements nor any other statements in this Base Prospectus are to be regarded as advice on the tax position of any beneficial owner of the Notes or any person purchasing, selling or otherwise dealing in the Notes or any tax implication arising from the purchase, sale or other dealings in respect of the Notes.*

*JFM will not issue "Taxable Linked Securities" (securities of which the amount of interest is to be calculated by reference to certain indexes (as prescribed by the Cabinet Order (Cabinet Order No. 43 of 1957) under Article 6, Paragraph 4 of the Act on Special Measures Concerning Taxation) relating to JFM or a Specially-Related Party of JFM.*

### ***Representation by Investor upon Primary Distribution (Boshu)***

The Notes are not, as part of the primary distribution (*boshu*) by the Dealers, to be, directly or indirectly, offered or sold to, or for the benefit of, any person other than a beneficial owner that is, (i) for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual nonresident of Japan or a non-Japanese corporation that in either case is a person having a "special relationship" with JFM (that is, in general terms, a party who directly or indirectly controls or is directly or indirectly controlled by, or is under direct or indirect common control with, JFM) as described in Article 6, paragraph (4) of the Act on Special Measures Concerning Taxation (a "**Specially-Related Party of JFM**"), or (ii) a Japanese financial institution, designated in Article 6 paragraph (9) of the Act on Special Measures Concerning Taxation. **BY SUBSCRIBING FOR THE NOTES, AN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED THAT IT IS A PERSON WHO FALLS INTO THE CATEGORY OF (i) OR (ii) ABOVE.**

### ***Capital Gains, Stamp Tax and Other Similar Taxes, Inheritance Tax and Gift Tax***

Gains derived from the sale of Notes outside Japan by an individual nonresident of Japan or a non-Japanese corporation having no permanent establishment within Japan are, in general, not subject to Japanese income tax or corporate tax.

No stamp, issue, registration or similar taxes or duties will, under current Japanese law, be payable in Japan by Noteholders in connection with the issue of the Notes, nor will such taxes be payable by Noteholders in connection with their transfer if such transfer takes place outside Japan.

Japanese inheritance tax or gift tax at progressive rates may be payable by an individual, wherever resident, who has acquired Notes from another individual as legatee, heir or donee.

## ***Interest Payments on Notes and Redemption Gain***

The following description of Japanese taxation (limited to national taxes) (subject always to the relevant tax treaty between Japan and the relevant country) applies exclusively to interest on the Notes and the redemption gain, meaning any difference between the acquisition price of the interest-bearing Notes of the holder and the amount which the holder receives upon redemption of such interest-bearing Notes (the "**Redemption Gain**"), where such Notes are issued outside Japan and payable outside Japan. In addition, the following description assumes that Notes are issued only in global form, and no Definitive Notes, Coupons or Individual Note Certificates that are independently traded are issued, in which case different tax consequences may apply. It does not address the tax treatment of the original issue discount of the Notes that fall under "discounted bonds" as prescribed by the Act on Special Measures Concerning Taxation. It is not intended to be exhaustive and prospective purchasers are recommended to consult their tax advisers as to their exact tax position.

### **1. Non-Japanese Resident Investors**

If the recipient of interest on the Notes or of the Redemption Gain with respect to interest-bearing Notes is an individual nonresident of Japan or a non-Japanese corporation for Japanese tax purposes, as described below, the Japanese tax consequences on such individual nonresident of Japan or non-Japanese corporation are significantly different depending upon whether such individual nonresident of Japan or non-Japanese corporation is a Specially-Related Party of JFM (as defined below). Most importantly, if such individual nonresident of Japan or non-Japanese corporation is a Specially-Related Party of JFM, income tax at the rate of 15.315 per cent. of the amount of such interest will be withheld by JFM under Japanese tax law.

#### **1.1 Interest**

- (1) If the recipient of interest on the Notes is an individual nonresident of Japan or a non-Japanese corporation having no permanent establishment within Japan or having a permanent establishment within Japan but where the receipt of the interest on the Notes is not attributable to the business of such individual nonresident of Japan or non-Japanese corporation carried on within Japan through such permanent establishment, no Japanese income tax or corporate tax is payable with respect to such interest whether by way of withholding or otherwise, if certain requirements are complied with, *inter alia*:
  - (i) if the relevant Notes or Coupons relating thereto are held through a certain participant in an international clearing organisation such as Euroclear, Clearstream, Luxembourg and DTC, or a certain financial intermediary prescribed by the Act on Special Measures Concerning Taxation and the relevant Cabinet Order (together with the Act on Special Measures Concerning Taxation and the ministerial ordinance and other regulations thereunder, the "**Law**") (each, a "**Participant**"), the requirement that such recipient provide, at the time of entrusting a Participant with the custody of the relevant Notes, certain information prescribed by the Law to enable the Participant to establish that the recipient is exempt from the requirement for Japanese tax to be withheld or deducted (the "**Interest Recipient Information**"), and advise the Participant if such individual nonresident of Japan or non-Japanese corporation ceases to be so exempted (including the case where it becomes a Specially-Related Party of JFM), and that JFM prepare and file a certain confirmation prescribed by the Law (an "**Interest Recipient Confirmation**") with the competent local tax office in a timely manner based upon the Interest Recipient Information communicated through the Participant and the relevant international clearing organisation; and
  - (ii) if the relevant Notes or Coupons relating thereto are not held by a Participant, the requirement that such recipient submit to the Fiscal Agent, Paying Agent or Registrar (as the case may be) a claim for exemption from withholding tax (*Hikazei Tekiyo Shinkokusho*) (the "**Claim for Exemption**"), together with certain documentary evidence, and that the

issuer of the Notes file the Claim for Exemption so received with the competent local tax office in a timely manner.

Failure to comply with such requirements described above (including the case where the Interest Recipient Information is not duly communicated as required under the Law) will result in the withholding by JFM of income tax at the rate of 15.315 per cent. of the amount of such interest.

- (2) If the recipient of interest on the Notes is an individual nonresident of Japan or a non-Japanese corporation having a permanent establishment within Japan and the receipt of interest is attributable to the business of such individual nonresident of Japan or non-Japanese corporation carried on within Japan through such permanent establishment, such interest will not be subject to a 15.315 per cent. withholding tax by JFM, if the requirements concerning the Interest Recipient Information and the Interest Recipient Confirmation or the Claim for Exemption as set out in paragraph 1.1(1) above are complied with. Failure to do so will result in the withholding by JFM of income tax at the rate of 15.315 per cent. of the amount of such interest. The amount of such interest will be subject to regular income tax or corporate tax, as appropriate.
- (3) Notwithstanding paragraphs 1.1(1) and (2) above, if an individual nonresident of Japan or a non-Japanese corporation mentioned above is a Specially-Related Party of JFM as of the beginning of the fiscal year of JFM in which the relevant Interest Payment Date falls, the exemption from Japanese withholding tax on interest mentioned above will not apply, and income tax at the rate of 15.315 per cent. of the amount of such interest will be withheld by JFM. If such individual nonresident of Japan or non-Japanese corporation has a permanent establishment within Japan, regular income tax or corporate tax, as appropriate, collected otherwise by way of withholding, could apply to such interest under Japanese tax law.
- (4) If an individual nonresident of Japan or a non-Japanese corporation (regardless of whether it is a Specially-Related Party of JFM) is subject to Japanese withholding tax with respect to interest on the Notes under Japanese tax law, a reduced rate of withholding tax or exemption from such withholding tax may be available under the relevant income tax treaty between Japan and the country of tax residence of such individual nonresident of Japan or non-Japanese corporation. As of the date of this Base Prospectus, Japan has income tax treaties, conventions or agreements in force, whereby the above-mentioned withholding tax rate is reduced, generally to 10 per cent. with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Hong Kong, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Switzerland and the United States of America. Under the income tax treaties between Japan and the United Kingdom or Sweden or Germany, interest paid to qualified United Kingdom, Swedish or German residents is generally exempt from Japanese withholding tax. Japan has also signed amendments to the existing income tax treaties with the United States of America, Austria and Denmark generally exempting interest from Japanese withholding tax; however, these amendments have not yet entered into force. Under the current income tax treaty between Japan and the United States of America, certain limited categories of qualified residents of the United States of America receiving interest on the Notes may, subject to compliance with certain procedural requirements under Japanese law, be fully exempt from Japanese withholding tax for interest on the Notes. Under the income tax treaties with France, the Netherlands, Switzerland and Australia, similar exemptions to those provided in the current income tax treaty between Japan and the United States of America will be available (**provided that** no exemption will apply to pension funds in the case of Australia). In order to avail themselves of such reduced rate of, or exemption from, Japanese withholding tax under any applicable income tax treaty, individual nonresidents of Japan or non-Japanese corporations which are entitled, under any applicable income tax treaty, to a reduced rate of, or exemption from, Japanese withholding tax on payment of interest by JFM are required to submit an Application Form for Income Tax Convention regarding Relief from Japanese

Income Tax and Special Income Tax for Reconstruction on Interest (as well as any other required forms and documents) in advance through JFM to the relevant tax authority before payment of interest.

- (5) Under the Law, (a) if an individual nonresident of Japan or a non-Japanese corporation that is a beneficial owner of the Notes becomes a Specially-Related Party of JFM, or an individual nonresident of Japan or a non-Japanese corporation that is a Specially-Related Party of JFM becomes a beneficial owner of the Notes, and (b) if such Notes are held through a Participant, then such individual nonresident of Japan or non-Japanese corporation would be obliged to notify the Participant of such change in status by the immediately following Interest Payment Date of the Notes. As described in paragraph 1.1(3) above, as the status of such individual nonresident of Japan or non-Japanese corporation as a Specially-Related Party of JFM for Japanese withholding tax purposes is determined based on the status as of the beginning of the fiscal year of JFM in which the relevant Interest Payment Date falls, such individual nonresident of Japan or non-Japanese corporation should, by such notification, identify and advise the Participant of the specific Interest Payment Date on which Japanese withholding tax starts to apply with respect to such individual nonresident of Japan or non-Japanese corporation as being a Specially-Related Party of JFM.

## 1.2 Redemption Gain

- (1) If the recipient of the Redemption Gain with respect to interest-bearing Notes is an individual nonresident of Japan or a non-Japanese corporation having no permanent establishment within Japan or having a permanent establishment within Japan but the receipt of such Redemption Gain is not attributable to the business of such individual nonresident of Japan or non-Japanese corporation carried on within Japan through such permanent establishment, no income tax or corporate tax is payable with respect to such Redemption Gain.
- (2) If the recipient of the Redemption Gain with respect to interest-bearing Notes is an individual nonresident of Japan or a non-Japanese corporation having a permanent establishment within Japan and the receipt of such Redemption Gain is attributable to the business of such individual nonresident of Japan or non-Japanese corporation carried on within Japan through such permanent establishment, such Redemption Gain will not be subject to any withholding tax but will be subject to regular income tax or corporate tax, as appropriate.
- (3) Notwithstanding paragraphs 1.2(1) and (2) above, if an individual nonresident of Japan or a non-Japanese corporation mentioned above is a Specially-Related Party of JFM as of the beginning of the fiscal year of JFM in which such individual nonresident of Japan or non-Japanese corporation acquired such Notes, the Redemption Gain will not be subject to withholding tax but will be subject to regular income tax or corporate tax, as appropriate, under Japanese tax law, regardless of whether such individual nonresident of Japan or non-Japanese corporation has a permanent establishment within Japan; **provided that** exemption may be available under the relevant income tax treaty.

## 2. Japanese Resident Investors

If the recipient of interest on the Notes is an individual resident of Japan or a Japanese corporation for Japanese tax purposes, as described below, regardless of whether such recipient is a Specially-Related Party of JFM, in addition to any applicable local tax, income tax will be withheld at the rate of 15.315 per cent. of the amount of such interest, if such interest is paid to an individual resident of Japan or a Japanese corporation (except for (i) a Designated Financial Institution (as defined below) which complies with the requirement for tax exemption under Article 6, paragraph (9) of the Act on Special Measures Concerning Taxation or (ii) a Public Corporation (as defined below) or a Specified Financial Institution (as defined below), to which such interest is paid through the Japanese Custodian (as defined below) in compliance with the requirement for tax exemption under Article 3-3, paragraph (6) of the Act on Special Measures Concerning Taxation).



In addition to the withholding tax consequences upon resident investors as explained in this section, resident investors should consult their own tax advisors regarding regular income tax or corporate tax consequences other than by way of withholding, bearing in mind, especially for individual residents of Japan, the change to the taxation regime relevant to Notes that took effect on 1 January 2016.

## 2.1 Interest

- (1) If an individual resident of Japan or a Japanese corporation (other than a Specified Financial Institution (as defined below) or a Public Corporation (as defined below), who complies with the requirement as referred to in paragraph 2.1(2) below) receives payments of interest on the Notes through certain Japanese payment handling agents (each a "**Japanese Payment Handling Agent**"), income tax at the rate of 15.315 per cent. of the amount of such interest will be withheld by the Japanese Payment Handling Agent rather than by JFM. As JFM is not in a position to know in advance the recipient's status, the recipient of interest falling within this category should inform JFM through a Paying Agent of its status in a timely manner. Failure to so inform may result in double withholding.
- (2) If the recipient of interest on the Notes is a Japanese public corporation or a Japanese public-interest corporation designated by the relevant law (*koukyohojin tou*) (each, a "**Public Corporation**") or a Japanese bank, a Japanese insurance company, a Japanese financial instruments business operator or other Japanese financial institution falling under certain categories prescribed by the relevant Cabinet Order under Article 3-3, Paragraph 6 of the Act on Special Measures Concerning Taxation (each, a "**Specified Financial Institution**") that keeps its Notes deposited with, and receives the interest through, a Japanese Payment Handling Agent with custody of the Notes (the "**Japanese Custodian**") and such recipient submits through such Japanese Custodian to the competent tax authority the report prescribed by the Law, no withholding tax is levied on such interest. However, since JFM is not in a position to know in advance such recipient's tax exemption status, the recipient of interest falling within this category should inform JFM through a Paying Agent of its status in a timely manner. Failure to so notify JFM may result in the withholding by JFM of a 15.315 per cent. income tax.
- (3) If an individual resident of Japan or a Japanese corporation (except for a Designated Financial Institution which complies with the requirements described in paragraph 2.1(4) below) receives interest on the Notes not through a Japanese Payment Handling Agent, income tax at the rate of 15.315 per cent. of the amount of such interest will be withheld by JFM.
- (4) If a Japanese bank, Japanese insurance company, Japanese financial instruments business operator or other Japanese financial institution falling under certain categories prescribed by the Cabinet Order under Article 6, Paragraph 9 of the Act on Special Measures Concerning Taxation (each, a "**Designated Financial Institution**") receives interest on the Notes not through a Japanese Payment Handling Agent and the requirements concerning the Interest Recipient Information and the Interest Recipient Confirmation or the Claim for Exemption as referred to in paragraph 1.1(1) above are complied with, no withholding tax will be imposed.

## 2.2 Redemption Gain

If the recipient of the Redemption Gain with respect to interest-bearing Notes is an individual resident of Japan or a Japanese corporation, such Redemption Gain will not be subject to any withholding tax.

## 3. Special Additional Tax for Reconstruction from the Great East Japan Earthquake

Due to the imposition of a special additional withholding tax of 0.315 per cent. (or 2.1 per cent. of 15 per cent.) to secure funds for reconstruction from the Great East Japan Earthquake, the withholding tax rate has been effectively increased to 15.315 per cent. during the period beginning on 1 January

2013 and ending on 31 December 2037. On or after 1 January, 2038, all references to the tax rate of 15.315% in the foregoing descriptions will read 15 per cent. There is also special additional tax imposed upon regular income tax, as referred to in the foregoing descriptions, for the period mentioned above.

Furthermore, special additional tax of 2.1 per cent. of the regular income tax amount for each year from 2013 to 2037 is also imposed in addition to regular income tax. In respect of such investors of the Notes on which regular income tax is imposed on the receipt of the interest on the Notes or the Redemption Gain of the Notes, the amount of income tax is affected by the imposition of such special additional tax.

## **United States Federal Income Taxation**

This discussion applies only to Notes in registered form. A U.S. person that acquires Bearer Notes may be subject to penalties.

The following is a discussion of certain U.S. federal income tax consequences of the ownership and disposition of Notes to the U.S. Holders described below. This discussion applies only to U.S. Holders that purchase Notes at their original issuance for their "issue price," which will equal the first price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes of the relevant series is sold for money, and hold the Notes as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a U.S. Holder in light of its particular circumstances, including the special tax accounting rules set forth in Section 451 of the Code, any alternative minimum tax and Medicare contribution tax consequences, as well as differing tax consequences that may apply to U.S. Holders that are, for instance:

- certain financial institutions;
- dealers in securities;
- traders in securities that elect to use a mark-to-market method of tax accounting;
- persons holding the Notes as part of a straddle or integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes; or
- persons holding the Notes in connection with a trade or business conducted outside the United States.

If a partnership or other entity or arrangement classified as a partnership holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding Notes and partners in a partnership holding Notes should consult their tax advisers.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this Base Prospectus may affect the tax consequences described herein, possibly with retroactive effect. U.S. persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This discussion applies only to Notes that are classified as indebtedness for U.S. federal income tax purposes. Certain types of Notes may be subject to different U.S. federal income tax consequences from those described below. Additional or alternative U.S. federal income tax consequences of owning and disposing of Notes may be addressed in a supplement to this Base Prospectus.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

### ***Stated Interest***

Stated interest on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is qualified stated interest (as defined below). Interest income earned by a U.S. Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant to a U.S. Holder in calculating the U.S. Holder's foreign tax credit limitation. Special rules governing the treatment of interest paid with respect to OID Notes, certain Variable Rate Notes and Foreign Currency Notes (each as defined below), are described under "— Original Issue Discount and Short-Term Notes", "— Variable Rate Notes" and "— Foreign Currency Notes" below.

The amount of interest will be taxable as ordinary income and will include amounts, if any, withheld in respect of Japanese taxes and, any additional amounts paid with respect thereto. Subject to applicable limitations, any Japanese income taxes withheld from interest payments on a Note (at a rate not exceeding any applicable rate under the U.S.-Japan income tax treaty) may be creditable against a U.S. Holder's U.S. federal income tax liability. Any Japanese withholding taxes on interest payments will not be creditable to the extent that Japanese tax is refundable under Japanese law or the U.S.-Japan income tax treaty, or is imposed due to a U.S. Holder's failure to provide the Interest Recipient Information or a Claim for Exemption as described in "Taxation – Japan – Non-Japanese Resident Investors – Interest". The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the availability of foreign tax credits in their particular circumstances.

### ***Original Issue Discount and Short-Term Notes***

A Note that is issued at an issue price less than its "stated redemption price at maturity" will be considered to have been issued at an original issue discount for U.S. federal income tax purposes (and will be referred to in this section as an "**OID Note**") unless the Note satisfies a *de minimis* threshold (as described below) or is a Short-Term Note (as defined below). The "stated redemption price at maturity" of a Note will equal the sum of all payments required under the Note other than payments of "qualified stated interest". "Qualified stated interest" is stated interest unconditionally payable as a series of payments in cash or property (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest or, subject to certain conditions, based on one or more floating rates or indices.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., 1/4 of one per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity, then the Note will not be considered to have original issue discount.

U.S. Holders of OID Notes will be required to include any qualified stated interest payments in income in accordance with their method of accounting for U.S. federal income tax purposes as described above under "— Stated Interest". In addition, U.S. Holders of OID Notes will be required to include original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant-yield method based on a compounding of interest. Under this method, U.S. Holders of OID Notes generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including, among other things, stated interest, original issue discount or *de minimis* original issue discount as adjusted by any amortisable bond premium) in accordance with a constant-yield method based on the compounding of interest (a "**constant-yield election**").

A Note that matures one year or less from its date of issuance, taking into account the last possible date in which the Note could be outstanding in accordance with its terms (a "**Short-Term Note**") will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash-method U.S. Holder of a Short-Term Note is not required to include in income the discount for U.S. federal income tax purposes as it accrues, unless it elects to do so, but should be required to recognise stated interest, if any, when it is paid. U.S. Holders who so elect and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless an election is made to accrue the discount according to a constant-yield method based on daily compounding. Any gain realised on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant-yield method based on daily compounding) through the date of sale, exchange or retirement, to the extent not previously included in income. In addition, a U.S. Holder who is not required and who does not elect to include the discount in income currently will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry Short-Term Notes in an amount not exceeding the accrued discount that has not been included in income.

Under applicable Treasury regulations, if JFM or the U.S. Holder has an unconditional option to redeem a Note prior to its maturity, this option will be presumed to be exercised if, by utilising any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, in the case of JFM's option, the yield on the Note would be lower than its yield to maturity or, in the case of the U.S. Holder's option, the yield on the Note would be higher than its yield to maturity. If this option is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. The adjusted issue price of a note is generally the issue price of such note, increased by the amount of original issue discount includible in gross income of any investor and decreased by the amount of any payment previously made, other than a payment of qualified stated interest.

#### ***Variable Rate Notes***

All stated interest on a Variable Rate Note (as defined below) will constitute qualified stated interest if it is unconditionally payable at least annually at one of the rates described below in this paragraph throughout the term of the Note in cash or property (other than debt instruments of the Issuer). Therefore, such a Variable Rate Note will not be treated as having been issued with original issue discount unless it is issued at a "true" discount (i.e., at a price below the Note's stated redemption price at maturity where the difference equals or exceeds the *de minimis* amount described above). In general, a "Variable Rate Note" is a Note that provides for one or more qualified floating rates of interest, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate (as such terms are defined in applicable Treasury regulations), provided that the issue price of the Note does not exceed the total noncontingent principal payments due under the Note by more than an amount equal to the lesser of (x) 0.015, generally multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date and (y) 15 per cent. of the total noncontingent principal payments. Unless otherwise provided in the applicable supplement to this Base Prospectus, it is expected, and this discussion assumes, that a Floating Rate Note will qualify as a Variable Rate Note. If a Floating Rate Note does not qualify as a Variable Rate Note, then the Floating Rate Note will be treated as a "contingent payment debt instrument" and the applicable supplement to this Base Prospectus will describe certain U.S. federal income tax consequences to U.S. Holders of owning and disposing of such Notes.

In general, a "qualified floating rate" is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Rate Note is denominated. An interest rate that is based on the product of a qualified floating rate and a fixed multiple, or that subjects a qualified floating rate to a cap, floor, governor or similar restriction, may also be treated as a qualified floating rate if certain conditions are satisfied. An "objective rate" is generally a rate that is determined using a single fixed formula and that is based on objective financial or economic information. In general, a rate is a "qualified inverse floating rate" if it is equal to a fixed rate minus a qualified floating rate and the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Rate Note provides for two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Note, the qualified floating rates together constitute a single qualified floating rate. If interest on a debt instrument is stated at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value

of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate. Two or more qualified floating rates or a fixed rate and a variable rate will be conclusively presumed to meet the requirements of the preceding two sentences if the values of the applicable rates on the issue date are within 1/4 of one percentage point of each other. If a Variable Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated redemption price at maturity in excess of the *de minimis* amount described above), such discount must be allocated to a U.S. Holder's accrual periods using the constant-yield method described below by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate, the value, as of the issue date, of the qualified floating rate, or (ii) in the case of an objective rate, a fixed rate that reflects the yield that is reasonably expected for the Variable Rate Note.

In general, a Variable Rate Note that provides for (i) multiple floating rates or (ii) one or more floating rates in addition to a single fixed rate (in circumstances such that the Note is not treated as having a single qualified floating rate or objective rate as described in the preceding paragraph) will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of original issue discount and qualified stated interest on the Variable Rate Note. A Variable Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate provided for under the terms of the Variable Rate Note with a fixed rate equal to the value of the qualified floating rate as of the Variable Rate Note's Original Issue Date. In the case of a Variable Rate Note that provides for stated interest at a fixed rate in addition to one or more qualified floating rates, the fixed rate is initially converted into a qualified floating rate. Under such circumstances, the qualified floating rate that replaces the fixed rate must be such that the fair market value of the Variable Rate Note as of the Variable Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for the replaced qualified floating rate rather than the fixed rate. Subsequent to converting the fixed rate into a qualified floating rate, the Variable Rate Note is then converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of original issue discount and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general original issue discount rules described in "—Original Issue Discount and Short-Term Notes" above to the "equivalent" fixed rate debt instrument. A U.S. Holder of the Variable Rate Note will account for any such original issue discount and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest (or, in certain circumstances, original issue discount) assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that such amounts differ from the actual amount of interest accrued or paid on the Variable Rate Note during the accrual period.

### ***Amortisable Bond Premium***

If a U.S. Holder purchases a Note for an amount that is greater than the stated redemption price at maturity, the U.S. Holder will be considered to have purchased the Note with amortisable bond premium. The U.S. Holder may elect to amortise this premium, using a constant-yield method, over the term of the Note. Special rules may limit the amount of bond premium that can be amortised during certain accrual periods in the case of Notes that are subject to optional redemption. A U.S. Holder may generally use the amortisable bond premium allocable to an accrual period to offset qualified stated interest required to be included in the U.S. Holder's income with respect to the Note in that accrual period. A U.S. Holder who elects to amortise bond premium must reduce the U.S. Holder's tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations owned by the U.S. Holder during the taxable year for which the election is made and all taxable debt obligations thereafter acquired by the U.S. Holder, and may be revoked only with the consent of the Internal Revenue Service ("IRS").

If a U.S. Holder makes a constant-yield election (as described under "—Original Issue Discount and Short-Term Notes" above) for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the U.S. Holder's debt instruments with amortisable bond premium and may be revoked only with the permission of the IRS.

### ***Sale, Exchange or Retirement of the Notes***

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. Gain or loss, if any, will generally be U.S.-source for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realised does not include any amount attributable to accrued qualified stated interest, which will be treated as interest as described under "—Stated Interest" above. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in the Note, increased by any original issue discount (or discount in the case of Short-Term Notes) included in income and decreased by any bond premium previously amortised and principal payments or payments other than qualified stated interest previously received.

Except as described below, gain or loss realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note the U.S. Holder has held the Note for more than one year. Exceptions to this general rule apply in the case of a Short-Term Note, to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See "—Original Issue Discount and Short-Term Notes" above. Other exceptions to this general rule apply in the case of certain Foreign Currency Notes. See "—Foreign Currency Notes" below.

### ***Foreign Currency Notes***

The rules applicable to Notes denominated in, or the payments on which are determined by reference to, a single currency other than U.S. dollars (referred to in this section as "**Foreign Currency Notes**") could require some or all of the gain or loss on the sale, exchange or retirement of a Foreign Currency Note to be characterised as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex and their application may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of Foreign Currency Notes.

A U.S. Holder who uses the cash method of tax accounting and who receives a payment of qualified stated interest (or who receives proceeds from a sale, exchange or retirement attributable to accrued qualified stated interest) in a foreign currency with respect to a Foreign Currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined based on a spot rate on the date the payment is received) regardless of whether the payment is in fact converted into U.S. dollars at that time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency received.

An accrual-method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount, but reduced by amortisable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Foreign Currency Note during an accrual period. Absent a contrary election by the accrual-method U.S. Holder, the U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. An accrual-method U.S. Holder may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. An accrual-method U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS. The U.S. Holder may recognise ordinary income or loss (which will not be treated as interest income or expense and generally will be treated as U.S.-source income or loss) with respect to accrued interest income on the date that the interest payment or proceeds from the sale, exchange or retirement attributable to accrued interest is actually received in an amount equal to the difference between the U.S. dollar value of the foreign currency payment received (determined based on a spot rate on the date the payment is received) in respect of the accrual period and the U.S. dollar value of the interest income accrued by the U.S. Holder for the accrual period (as determined above). Rules similar to these rules apply in the case of cash-method U.S. Holders who are required to currently accrue original issue discount on a Foreign Currency Note.

Original issue discount and amortisable bond premium on a Foreign Currency Note are to be determined in the relevant foreign currency.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis will reduce interest income in units of the relevant foreign currency. Gain or loss attributable to fluctuations in exchange rates will be realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as it would have been treated if it were principal received on the sale, exchange or retirement of the Foreign Currency Note. Any exchange gain or loss will be ordinary income or loss as described below. If a U.S. Holder does not make the election to amortise bond premium, any bond premium will be taken into account in determining the overall gain or loss on the Notes and any loss realised on the sale, exchange or retirement of a Foreign Currency Note with amortisable bond premium will be a capital loss to the extent of the bond premium, subject to the discussion of foreign currency loss below.

A U.S. Holder's tax basis in a Foreign Currency Note, and the amount of any subsequent adjustment to the U.S. Holder's tax basis (including adjustments for original issue discount included as income and any bond premium previously amortised or principal payments received), will generally be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note, as discussed below, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. The amount realised on a sale, exchange or retirement of a Foreign Currency Note will generally be the U.S. dollar value of the foreign currency received (except to the extent attributable to accrued interest), determined on the date of the sale, exchange or retirement. However, if a Foreign Currency Note is traded on an "established securities market" and the U.S. Holder is a cash-basis taxpayer or an electing accrual-basis taxpayer, the U.S. dollar value of the foreign currency amount paid for such Note and the amount realised on the disposition of such Note will be determined based on the spot rate on the settlement date of the purchase or disposition. An accrual-method U.S. Holder making the election described in the preceding sentence must apply such election consistently to all debt instruments denominated in foreign currency which are traded on "established securities markets" and cannot change it without the consent of the IRS.

Gain or loss realised upon the sale, exchange or retirement of a Foreign Currency Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates ("**exchange gain or loss**") will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of; and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on Foreign Currency Notes described above. The exchange gain or loss will be recognised only to the extent of the total gain or loss realised by a U.S. Holder on the sale, exchange or retirement of the Foreign Currency Note. Exchange gain or loss for U.S. Holders will generally be U.S.-source. Any gain or loss realised by a U.S. Holder in excess of the exchange gain or loss will be capital gain or loss (except, in the case of a Short-Term Note, to the extent of any discount not previously included in the U.S. Holder's income). Any gain or loss realised by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase Foreign Currency Notes) will be ordinary income or loss.

A U.S. Holder may be required to file a reportable transaction disclosure statement with the U.S. Holder's U.S. federal income tax return, if such U.S. Holder realises a foreign currency loss on a sale or exchange of a Foreign Currency Note and such loss is greater than applicable threshold amounts, which differ depending on the status of the U.S. Holder. A U.S. Holder that claims a foreign currency loss with respect to a Foreign Currency Note should consult its tax adviser regarding the need to file a reportable transaction disclosure statement.

### ***Backup Withholding and Information Reporting***

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if the U.S. Holder fails to provide its taxpayer identification number to the payor and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. holders who are individuals and certain specified entities may be required to report information relating to debt securities issued by non-U.S. persons, or non-U.S. financial accounts through which they may be held. U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the Notes.



## BENEFIT PLAN INVESTOR CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), including entities such as collective investment funds, partnerships and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") should consider the fiduciary standards of ERISA in the context of the ERISA Plan's particular circumstances before authorising an investment in the Notes. Among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code of 1986, as amended, prohibit ERISA Plans, as well as plans (including individual retirement accounts and Keogh plans) subject to Section 4975 of the Code (together with ERISA Plans, "**Plans**"), from engaging in certain transactions involving the "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under Section 4975 of the Code (in either case, "**Parties in Interest**") with respect to such Plans. As a result of our business, we, the Dealers and our and their current and future affiliates, may be Parties in Interest with respect to many Plans. Where we or one of the Dealers (or our or its affiliate) are a Party in Interest with respect to a Plan (either directly or by reason of our or its ownership interests in our or its directly or indirectly owned subsidiaries), the purchase and holding of the Notes by or on behalf of the Plan could be a prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless exemptive relief were available under an applicable exemption (as described below).

Certain prohibited transaction class exemptions ("**PTCEs**") issued by the U.S. Department of Labor may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the Notes. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code may provide a limited exemption for the purchase and sale of the Notes and related lending transactions, provided that neither the Issuer of the Notes nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than adequate consideration in connection with the transaction (the so-called "service provider exemption"). There can be no assurance that any of these statutory or class exemptions will be available with respect to transactions involving the Notes.

Accordingly, the Notes may not be purchased or held by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "**Plan Asset Entity**") or any person investing "plan assets" of any Plan, unless such purchaser or holder is eligible for the exemptive relief available under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or the service-provider exemption or there is some other basis on which the purchase and holding of the Notes will not constitute a non-exempt prohibited transaction under ERISA or Section 4975 of the Code. Each purchaser or holder of the Notes or any interest therein will be deemed to have represented by its purchase or holding of the Notes that (a) it is not a Plan and its purchase, holding and subsequent disposition of the Notes is not made on behalf of or with "plan assets" of any Plan or (b) its purchase, holding and subsequent disposition of the Notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Certain governmental plans (as defined in Section 3(32) of ERISA), church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) ("**Non-ERISA Arrangements**") are not subject to these "prohibited transaction" rules of ERISA or Section 4975 of the Code, but may be subject to similar rules under other applicable laws or regulations ("**Similar Laws**"). Accordingly, each such purchaser or holder of the Notes shall be required to represent (and deemed to have represented by its purchase of the Notes) that its purchase, holding and subsequent disposition of the Notes will not violate any applicable Similar Laws.

None of JFM, the Agents, the Registrar, the Dealers or any of their respective affiliates (collectively, the "**Transaction Parties**") is undertaking to provide impartial investment advice, or to give advice in a fiduciary

capacity, in connection with the acquisition of any of the Notes by any Plan or Plan Asset Entity (each, a "**Plan Entity**").

If the purchaser, holder or transferee of any Note or interest therein is a Plan Entity, it will be required or deemed to represent, warrant and agree that (i) none of the Transaction Parties has provided any investment recommendation or investment advice on which it, or any fiduciary or other person investing the assets of the Plan Entity(a "**Plan Fiduciary**"), has relied in connection with its decision to purchase, hold or transfer the Notes, and none of them is otherwise acting as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, to the Plan Entity or the Plan Fiduciary in connection with the Plan Entity's acquisition, holding or disposition of Notes; and (ii) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.

This Base Prospectus is not directed to any particular investor, nor does it address the specific needs of any particular type of investor. Due to the complexity of these rules, it is particularly important that fiduciaries or other persons considering purchasing the Notes on behalf of or with "plan assets" of any Plan or Non-ERISA Arrangement consult with their counsel regarding the relevant provisions of ERISA, the Code or any Similar Laws and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1, 84-14, the service provider exemption or some other basis on which the acquisition and holding will not constitute a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of any applicable Similar Laws.

Each purchaser and holder of the Notes has exclusive responsibility for ensuring that its purchase, holding and subsequent disposition of the Notes does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any applicable Similar Laws. The sale of any Notes to any Plan Entity or Non-ERISA Arrangement is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by Plan Entities or Non-ERISA Arrangements generally or any particular Plan or Non-ERISA Arrangement, or that such an investment is appropriate for Plan Entities or Non-ERISA Arrangements generally or any particular Plan Entity or Non-ERISA Arrangement. In addition, none of the Transaction Parties shall provide any advice or recommendation with respect to the management of the Notes or any interest therein or the advisability of acquiring, holding, disposing or exchanging any of the Notes or any interest therein.

## SUBSCRIPTION AND SALE

Notes may be sold from time to time by JFM to any one or more of Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Inc., Citigroup Global Markets Limited, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, J.P. Morgan Securities plc, Merrill Lynch International, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Mizuho International plc, Morgan Stanley & Co. International plc and Nomura International plc (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by JFM to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 3 August 2018 (the "**Dealer Agreement**") and made between JFM and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by JFM in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes. The Dealers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### United States of America

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or JFM by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or JFM shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, other than pursuant to Rule 144A, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto, a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Dealer Agreement provides that the Arranger may directly or through its respective agents or affiliates arrange for the resale of Restricted Registered Notes in the United States only to qualified institutional buyers pursuant to Rule 144A.

### Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms (or the Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive (as defined in Directive 2003/71/EC (as amended)); and
- (b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

### **Selling Restrictions Addressing Additional United Kingdom Securities Laws**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) *No deposit-taking:* in relation to any Notes having a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by JFM;
- (b) *Financial promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to JFM; and
- (c) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Selling Restrictions Addressing Additional Netherlands Securities Laws**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms or Pricing Supplement in relation thereto to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive unless:

- (a) such offer is made exclusively to persons or legal entities which are qualified investors (as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*, the "**FSA**") and which includes authorised discretionary asset managers acting for the account of retail investors under a discretionary investment management contract) in The Netherlands; or
- (b) standard exemption logo and wording are disclosed as required by Article 5:20(5) of the FSA; or

- (c) such offer is otherwise made in circumstances in which Article 5:20(5) of the FSA is not applicable,

**provided that** no such offer of Notes referred to in (a) through (c) above shall require JFM or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expressions (i) an "**offer of Notes to the public**" in relation to any Notes in The Netherlands; and (ii) "**Prospectus Directive**", have the meaning given to them above in Directive 2003/71/EC (as amended).

Furthermore, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, with the Issuer that it has neither offered nor sold and will neither offer nor sell any Notes in The Netherlands other than through one or more investment firms acting as principals and having the Dutch regulatory capacity to make such offers or sales.

Notwithstanding the above, Zero Coupon Notes may not, directly or indirectly, as part of their initial distribution (or immediately thereafter) or as part of any re-offering be offered, sold, transferred or delivered in The Netherlands. For purposes of this paragraph "**Zero Coupon Notes**" are Notes that are in bearer form (whether in definitive or in global form) and that constitute a claim for a fixed sum against JFM and on which interest does not become due during their tenor or on which no interest is due whatsoever.

**Japan** The Notes are exempt from the requirement for registration under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**") and are subject to the Act on Special Measures Concerning Taxation of Japan (Law No. 26 of 1957, as amended, the "**Act on Special Measures Concerning Taxation**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold, and will not, directly or indirectly, offer or sell as part of its primary distribution (*boshu*) at any time, any Notes to, or for the benefit of, any person other than a beneficial owner that is, (i) for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual nonresident of Japan or a non-Japanese corporation that in either case is a Specially-Related Party of JFM (as defined below) or (ii) a Japanese financial institution, designated in Article 6, Paragraph 9 of the Act on Special Measures Concerning Taxation. A "**Specially-Related Party of JFM**" as used herein means an individual nonresident of Japan or a non-Japanese corporation that in either case is a party having a special relationship with JFM as described in Article 6, Paragraph 4 of the Act on Special Measures Concerning Taxation.

### **Hong Kong**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

### **Republic of Italy**

The offering of the Notes has not been registered with *Commissione Nazionale per le Società e la Borsa* (CONSOB) pursuant to Italian securities legislation and, accordingly, each Dealer has represented and

agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, save as set out below, it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in an offer to the public and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver any Notes or distribute copies of this Base Prospectus and any other document relating to the Notes in the Republic of Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998, as amended (the "Financial Services Act") and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14th May, 1999 (as amended from time to time) ("**Regulation No. 11971**"); or
- (b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must:

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29th October 2007 (to the extent applicable), CONSOB Regulation No. 20307 of 15 February 2018, as amended from time to time, and Legislative Decree No. 385 of 1st September, 1993, as amended (the "**Banking Act**"); and
- (b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Investors should also note that, in any subsequent distribution of the Notes in the Republic of Italy, Article 100-*bis* of the Financial Services Act may require compliance with the law relating to public offers of securities. Furthermore, where the Notes are placed solely with "**qualified investors**" and are then systematically resold on the secondary market at any time in the 12 months following such placing, purchasers of Notes who are acting outside of the course of their business or profession may in certain circumstances be entitled to declare such purchase void and, in addition, to claim damages from any authorised person at whose premises the Notes were purchased, unless an exemption provided for under Financial Services Act applies.

## Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, or (iii) otherwise pursuant to, and in accordance with, the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferrable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulation 2005 of Singapore.

## **Belgium**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "**Belgian Consumer**") and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

## **General**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or Pricing Supplement or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms or Pricing Supplement comes are required by JFM and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or Pricing Supplement or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with JFM. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of JFM. Certain of the Dealers or their affiliates that have a credit-related relationship with JFM routinely hedge their credit exposure to JFM consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the

purchase of credit default swaps or the creation of short positions in JFM's securities, including potentially the Notes offered under the Programme. Any such short positions could adversely affect future trading prices of the Notes offered under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.



## TRANSFER RESTRICTIONS

### Notes offered and sold in reliance on Regulation S

Each purchaser of Global Notes, Regulation S Global Registered Notes or Unrestricted Global Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:
  - (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and
  - (b) it is not an affiliate of JFM or a person acting on behalf of such an affiliate;
- (ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:
  - (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or
  - (b) to JFM; or
  - (c) in the case of Unrestricted Global Registered Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB,in each case in accordance with any applicable securities laws of any State of the United States;
- (iii) it understands that JFM, the Agents, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and
- (iv) it will be deemed to have represented and agreed that, either (i) it is not and for as long as it holds the Note (or any interest therein) it will not be, and is not and will not be acting on behalf of, an "employee benefit plan" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "plan" as defined in and subject to Section 4975 of the Code, an entity whose underlying assets are deemed for purposes of Section 406 of ERISA or Section 4975 of the Code to include "plan assets" by reason of such employee benefit plan's or plan's investment in the entity (each a "**Plan Entity**"), or any governmental, church or non-U.S. plan subject to any U.S. federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), or (ii)(a) its purchase, holding and disposition of such Note (or any interest therein) does not and will not constitute or result in a non-exempt prohibited transaction under ERISA, Section 4975 of the Code or violate any provision of Similar Law and (b) none of JFM, the Agents, the Registrar, the Dealers or any of their respective affiliates (collectively, the "**Transaction Parties**") have (1) provided any advice or recommendation with respect to the management of any interest in any Notes or the advisability of acquiring, holding, disposing or exchanging any interest in any Notes, or (2) directed any advice specifically to, or rendered any advice based on the particular needs of, any purchaser or transferee. Any purported purchase or transfer of Notes (or any interest in a Note) that does not comply with the foregoing shall be null and void *ab initio*.
- (v) if it is a Plan Entity, or the fiduciary purchasing Notes on behalf of such Plan Entity or who represents the Plan Entity with respect to such purchase, (1) none of the Transaction Parties has provided any investment recommendation or investment advice on which it, or any fiduciary or other person investing the assets of the Benefit Plan Investor (a "**Plan Fiduciary**"), has relied in connection with its decision to purchase, hold or transfer the Notes, and they are not otherwise acting as a fiduciary, as defined in Section 3(21) of ERISA or

Section 4975(e)(3) of the Code, to the Benefit Plan Investor or the Plan Fiduciary in connection with the Benefit Plan Investor's acquisition, holding or disposition of Notes; and (2) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction. Any purported purchase or transfer of Notes (or any interest in a Note) that does not comply with the foregoing shall be null and void *ab initio*.

On or prior to the fortieth day after the relevant issue date, Notes represented by an interest in an Unrestricted Global Registered Note may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Registered Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. After such fortieth day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Global Registered Note, as described above under "*Forms of the Notes*".

Notes represented by an interest in a Restricted Global Registered Note may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Registered Note, but only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Registered Note that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Registered Note will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Registered Note and become an interest in a Note represented by a Restricted Global Registered Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Registered Note. Any interest in a Note represented by a Restricted Global Registered Note that is transferred to a person who takes delivery in the form of an interest in a Note represented by an Unrestricted Global Registered Note will, upon transfer, cease to be an interest in a Note represented by a Restricted Global Registered Note and become an interest in a Note represented by an Unrestricted Global Registered Note and, accordingly, will thereafter be subject to all transfer restrictions (in particular during the distribution compliance period) and other procedures applicable to Notes represented by an Unrestricted Global Registered Note.

### **The TEFRA D Rules**

Where the TEFRA D Rules are specified in the relevant Final Terms or Pricing Supplement as being applicable in relation to any Tranche of Notes, each Dealer represents, warrants and undertakes, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, to JFM that:

- (i) *Restrictions on offers etc.*: except to the extent permitted under the TEFRA D Rules:
  - (a) *No offers etc. in United States or to United States persons*: it has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a United States person; and
  - (b) *No delivery of definitive Notes in the United States*: it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period,
- (i) *Internal procedures*: it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the TEFRA D Rules; and
- (ii) *Additional provision if United States person*: if it is a United States person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation §1.163-5(c)(2)(i)(D)(6) or any successor rules in

substantially the same form as the rules in such regulations for the purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended,

and, with respect to each affiliate of such Dealer, or other person with whom it enters into a written contract for purposes of the TEFRA D Rules, that acquires Notes from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer undertakes to JFM that it will obtain from such affiliate for the benefit of JFM the representations, warranties and undertakings contained in clauses (i), (ii) and (iii).

### **The TEFRA C Rules**

Where the TEFRA C Rules are specified in the relevant Final Terms or Pricing Supplement as being applicable in relation to any Tranche of Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer represents, warrants and undertakes, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, to JFM that, in connection with the original issuance of the Notes:

- (i) *No offers etc. in United States:* it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and
- (ii) *No communications with United States:* it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Notes.

### **Notes offered and sold in reliance on Rule 144A**

Each purchaser of Restricted Global Registered Notes in reliance on Rule 144A, by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

- (i) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or JFM and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;
- (ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to JFM or its affiliates, in each case in accordance with any applicable securities laws of any State of the United States and (2) it will, and each subsequent holder of the Restricted Global Registered Notes is required to, notify any purchaser of the Restricted Global Registered Notes from it of the resale restrictions applicable to the Restricted Global Registered Notes;
- (iii) the purchaser understands that the Unrestricted Global Registered Note and any unrestricted Individual Note Certificate (an "**Unrestricted Individual Note Certificate**") will bear a legend to the following effect, unless JFM determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS.

- (iv) the purchaser understands that the Restricted Global Registered Note and any restricted Individual Note Certificate (a "**Restricted Individual Note Certificate**") will bear a legend to the following effect, unless JFM determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF JFM THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO JFM OR ITS AFFILIATES.

THIS LEGEND WILL BE REMOVED ONLY AT THE OPTION OF JFM.

THE HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN) WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT, EITHER (I) IT IS NOT AND FOR AS LONG AS IT HOLDS THE NOTE (OR ANY INTEREST THEREIN) IT WILL NOT BE, AND IS NOT AND WILL NOT BE ACTING ON BEHALF OF, AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE TO INCLUDE "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY (EACH, A "**PLAN ENTITY**"), OR ANY GOVERNMENTAL, CHURCH OR NON-U.S. PLAN SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (II)(A) ITS PURCHASE, HOLDING AND DISPOSITION OF SUCH NOTE (OR ANY INTEREST THEREIN) DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA, SECTION 4975 OF THE CODE OR ANY PROVISION OF SIMILAR LAW AND (B) JFM, THE AGENTS, THE REGISTRAR, THE DEALERS AND EACH OF THEIR RESPECTIVE AFFILIATES (COLLECTIVELY, THE "**TRANSACTION PARTIES**") HAVE NOT (1) PROVIDED ANY ADVICE OR RECOMMENDATION WITH RESPECT TO THE MANAGEMENT OF ANY INTEREST IN THIS NOTE OR THE ADVISABILITY OF ACQUIRING, HOLDING, DISPOSING OR EXCHANGING ANY INTEREST IN THIS NOTE, OR (2) DIRECTED ANY SUCH ADVICE SPECIFICALLY TO, OR RENDERED ANY SUCH ADVICE BASED ON THE PARTICULAR NEEDS OF THE HOLDER.

EACH PURCHASER OF THE NOTES THAT IS A PLAN ENTITY OR THE FIDUCIARY PURCHASING NOTES ON BEHALF OF SUCH PLAN ENTITY OR WHO REPRESENTS THE PLAN ENTITY WITH RESPECT TO SUCH PURCHASE, WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE OF THE NOTES THAT: (1) NONE OF THE TRANSACTION PARTIES HAS PROVIDED ANY INVESTMENT RECOMMENDATION OR INVESTMENT ADVICE ON WHICH IT, OR ANY FIDUCIARY OR OTHER PERSON INVESTING THE ASSETS OF THE PLAN ENTITY (A "**PLAN FIDUCIARY**"), HAS RELIED IN CONNECTION WITH ITS DECISION TO PURCHASE, HOLD OR TRANSFER THE NOTES, AND THEY ARE NOT OTHERWISE ACTING AS A FIDUCIARY, AS DEFINED IN SECTION 3(21) OF

ERISA OR SECTION 4975(E)(3) OF THE CODE, TO THE PLAN ENTITY OR THE PLAN FIDUCIARY IN CONNECTION WITH THE PLAN ENTITY'S ACQUISITION, HOLDING OR DISPOSITION OF NOTES; AND (2) THE PLAN FIDUCIARY IS EXERCISING ITS OWN INDEPENDENT JUDGMENT IN EVALUATING THE TRANSACTION.

ANY PURPORTED PURCHASE OR TRANSFER OF NOTES (OR ANY INTEREST IN A NOTE) THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID AB INITIO.

- (v) if it is acquiring any Notes for the account of one or more QIBs the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (vi) the purchaser understands that JFM, the Agents, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (vii) it will be deemed to have represented and agreed that, either (i) it is not and for as long as it holds the Note (or any interest therein) it will not be, and is not and will not be acting on behalf of, an "employee benefit plan" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "plan" as defined in and subject to Section 4975 of the Code, an entity whose underlying assets are deemed for purposes of Section 406 of ERISA or Section 4975 of the Code to include "plan assets" by reason of such employee benefit plan's or plan's investment in the entity (each a "**Plan Entity**"), or any governmental, church or non-U.S. plan subject to any U.S. federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), or (ii)(a) its purchase, holding and disposition of such Note (or any interest therein) does not and will not constitute or result in a non-exempt prohibited transaction under ERISA, Section 4975 of the Code or any provision of Similar Law and (b) none of JFM, the Agents, the Registrar, the Dealers nor any of their respective affiliates (collectively, the "**Transaction Parties**") have (1) provided any advice or recommendation with respect to the management of any interest in any Notes or the advisability of acquiring, holding, disposing or exchanging any interest in any Notes, or (2) directed any advice specifically to, or rendered any advice based on the particular needs of, any purchaser or transferee. Any purported purchase or transfer of Notes (or any interest in a Note) that does not comply with the foregoing shall be null and void *ab initio*.
- (viii) Each purchaser of the Notes that is a Plan Entity, or the fiduciary purchasing Notes on behalf of such Plan Entity or who represents the Plan Entity with respect to such purchase, will be deemed to have represented by its purchase of the Notes that: (1) none of the Transaction Parties has provided any investment recommendation or investment advice on which it, or any fiduciary or other person investing the assets of the Plan Entity (a "**Plan Fiduciary**"), has relied in connection with its decision to purchase, hold or transfer the Notes, and they are not otherwise acting as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, to the Plan Entity or the Plan Fiduciary in connection with the Plan Entity's acquisition, holding or disposition of Notes; and (2) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction. Any purported purchase or transfer of Notes (or any interest in a Note) that does not comply with the foregoing shall be null and void *ab initio*.

Upon the transfer, exchange or replacement of a Restricted Global Registered Note or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, JFM will deliver only a Restricted Global Registered Note or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to JFM and the Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by JFM that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Registered Note that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Registered Note will, upon transfer, cease to be an interest in a Restricted Global Registered Note and become an interest in an Unrestricted Global Registered Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Registered Note.

**Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Global Registered Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

## BENCHMARKS REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain benchmarks.

Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of the Benchmarks Regulation (the "**ESMA Benchmarks Register**") are set out below.

<b>Benchmark</b>	<b>Administrator</b>	<b>Administrator appears on ESMA Benchmarks Register?</b>
LIBOR	Intercontinental Exchange Benchmark Administration Ltd	Yes.
EURIBOR	European Money Markets Institute	No.  As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).
TIBOR	JBA TIBOR Administration	No.  As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the JBA TIBOR Administration is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

## **GENERAL INFORMATION**

### **Listing and Admission to Trading**

The price of the Notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that any Tranche of Notes intended to be admitted to listing on the Official List and admitted to trading on the Regulated Market will be so admitted to listing and trading upon submission to the FCA and the London Stock Exchange of the relevant Final Terms and any other information required by the FCA and the London Stock Exchange, subject in each case to the issue of the relevant Notes. Prior to official listing and admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

It is expected that any Tranche of Notes intended to be admitted to listing on the TOKYO PRO-BOND Market will be so admitted to listing upon submission to the Tokyo Stock Exchange of the relevant "issuance conditions of the bonds pertaining to the initial listing application" (including the relevant Final Terms) and any other information required by the Tokyo Stock Exchange, subject in each case to the issue of the relevant Notes.

### **Authorisation**

JFM has obtained all necessary consents, approvals and authorisations in connection with the update of the Programme. JFM has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. Generally, an approval from JFM's President is required in respect of each issue of Notes.

### **Legal and Arbitration Proceedings**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which JFM is aware) during the period of the 12 months prior to the date of this Base Prospectus which may have, or have had in the recent past, significant effects on JFM's financial position.

### **Immunity**

As a matter of English law, while JFM is not immune from the jurisdiction of the English courts in connection with the Notes as it has submitted to the jurisdiction of such courts in connection therewith, in view of the absence of a specific consent thereto, JFM may be immune from any relief by way of an injunction or order for specific performance or for the recovery of land or other property and its property may be immune from any process for the enforcement of a judgment or arbitration award or, in an action *in rem*, for its arrest, detention or sale (except, in cases where Section 13(4) of the State Immunity Act 1978 applies, for property which is in use or intended for use for commercial purposes) to the extent that it is held by the courts not to have consented to such process or relief (within the meaning of Section 13 of that Act).

### **Significant Change**

There has been no significant change to the public finance and trade position of JFM since 31 March 2018.

### **Independent Auditor**

The annual financial statements of JFM as of 31 March 2016, 31 March 2017 and 31 March 2018 and for the years then ended, incorporated by reference in the Base Prospectus, have been audited by Ernst & Young ShinNihon LLC, the independent auditor to JFM, a member of the Japanese Institute of Certified Public Accountants, as stated in their report appearing therein.

### **Documents on Display**

Copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent (currently at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AN, United Kingdom) for 12 months from the date of this Base Prospectus:

- (i) the Agency Agreement (which includes the forms of the Notes in global and definitive form);



- (ii) the Deed of Covenant;
- (iii) the Issuer-ICSDs Agreement;
- (iv) a certified true and correct English translation of the JFM Law (such English translation being a direct and accurate translation and in the event of discrepancy between the Japanese language version of the JFM Law and the corresponding English translation, the Japanese language version of the JFM Law will prevail);
- (v) the audited annual financial statements of JFM for the financial years ended 31 March 2016, 31 March 2017 and 31 March 2018, together with the audit reports thereon;
- (vi) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to JFM and the Fiscal Agent as to its holding of Notes and identity);
- (vii) each Pricing Supplement (only to be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to JFM and the Fiscal Agent as to its holding of Notes and identity); and
- (viii) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus.

The Base Prospectus, the Final Terms for Notes that are listed on the Official List and admitted to trading on the Regulated Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).

## **Material Contracts**

There are no contracts which have been entered into by JFM outside the ordinary course of its business, which are, or may be, material and contain provisions under which JFM has an obligation or entitlement which is, or may be, material to the ability of JFM to meet its obligations in respect of the Notes.

## **Clearing of the Notes**

The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg as specified in the Final Terms or Pricing Supplement. The address of DTC is 55 Water Street, New York, New York, 10041-0099, United States of America. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The appropriate common code, the ISIN, CUSIP (if applicable), FISN (if applicable) and CFI code (if applicable) in relation to the Notes of each Tranche will be specified in the relevant Final Terms or Pricing Supplement. The relevant Final Terms or Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

## **Yield**

The yield on the Notes is calculated at the Issue Date on the basis of the Issue Price as may be specified in the relevant Final Terms or Pricing Supplement. It is not an indication of future yield.

## **Legal Entity Identifier (LEI)**

The Legal Entity Identifier (LEI) code of JFM is: 5493007YYYNZ4NMEOD64.

## **REGISTERED OFFICE OF JFM**

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

## **ARRANGER**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

## **DEALERS**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**Citigroup Global Markets Inc.**  
388 Greenwich Street  
New York, New York 10013

**Daiwa Capital Markets Europe Limited**  
5 King William Street  
London EC4N 7AX

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

**Merrill Lynch International**  
2 King Edward Street  
London EC1A 1HQ

**Mizuho International plc**  
Mizuho House  
30 Old Bailey  
London EC4M 7AU

**Nomura International plc**  
1 Angel Lane  
London EC4R 3AB

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP

**Merrill Lynch, Pierce, Fenner & Smith  
Incorporated**  
One Bryant Park  
New York, New York 10036

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
Canary Wharf  
London E14 4QA

**FISCAL AGENT, PAYING AGENT, TRANSFER AGENT AND REGISTRAR**

**MUFG Bank, Ltd., London Branch**

Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AN

*also acting through*

**MUFG Union Bank, N.A.**

Attn: Corporate Trust Department  
1251 Avenue of the Americas  
19th Floor  
New York, NY 10020

**LEGAL ADVISERS**

*To JFM as to Japanese law*

**Nagashima Ohno & Tsunematsu**

JP Tower  
7-2, Marunouchi 2-chome  
Chiyoda-ku, Tokyo 100-7036

*To the Dealers as to English law*

**Clifford Chance**

**(Gaikokuho Kyodo Jigyo)**  
Palace Building, 3rd Floor  
1-1, Marunouchi 1-chome  
Chiyoda-ku, Tokyo 100-0005

*To JFM as to U.S. law*

**Davis Polk & Wardwell LLP**

Izumi Garden Tower 33F  
1-6-1 Roppongi  
Minato-ku, Tokyo 106-6033

*To the Dealers as to U.S. law*

**Clifford Chance**

28th Floor  
Jardine House  
One Connaught Place  
Hong Kong SAR

**INDEPENDENT AUDITOR TO JFM**

**Ernst & Young ShinNihon LLC**

1-1-2 Yurakucho  
Chiyoda-ku, Tokyo 100-0006





## JAPAN FINANCE ORGANIZATION FOR MUNICIPALITIES

*(Incorporated under the Japan Finance Organization for Municipalities Law of Japan)*

**¥3,000,000,000,000**

### **Global Medium Term Note Programme**

This Supplement (the "**Supplement**") constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**") and is supplemental to, forms part of and must be read and construed in conjunction with, the base prospectus dated 3 August 2018 (the "**Base Prospectus**") and is prepared by Japan Finance Organization for Municipalities ("**JFM**") in connection with its Global Medium Term Note Programme (the "**Programme**") for the issuance of up to ¥3,000,000,000,000 in aggregate principal amount of notes ("**Notes**"). Terms given a defined meaning in the Base Prospectus shall, unless the context otherwise requires, have the same meaning when used in this Supplement.

This Supplement is issued in order to (i) incorporate by reference into the Base Prospectus JFM's unaudited semiannual financial statements in respect of the six months ended 30 September 2018, (ii) update the Base Prospectus to note certain changes in JFM's executive officer and corporate auditor, (iii) provide information with regard to JFM's capitalisation and indebtedness as of 30 September 2018, (iv) provide information with regard to JFM's selected historical financial information as of and for the six months ended 30 September 2017 and 2018, (v) provide information with regard to JFM's operating and financial review as of and for the six months ended 30 September 2017 and 2018, (vi) add information regarding the product classification of Notes pursuant to Section 309B of the Securities and Futures Act (Chapter 289 of Singapore), and (vii) replace the Singaporean selling restrictions.

This Supplement has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a base prospectus supplement issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom.

JFM accepts responsibility for the information contained in this Supplement and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in, or incorporated by reference into, the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, no significant new fact, material mistake or inaccuracy relating to the information included in the Base Prospectus which is capable of affecting the assessment of the Notes issued under the Programme has arisen or been noted, as the case may be, since publication of the Base Prospectus.

Investors should be aware of their rights under Section 87Q(4) of the FSMA.

#### **Document Incorporated by Reference**

On 13 December 2018, JFM published its unaudited semiannual financial statements in English in respect of the six months ended 30 September 2018 (the "**Document**"). A copy of the Document has been filed with the FCA and, by virtue of this Supplement, the Document is incorporated in, and forms part of, the Base Prospectus.

Copies of the Document incorporated by reference in the Base Prospectus by virtue of this Supplement can be obtained without charge from the registered office of JFM, JFM's website at [http://www.jfm.go.jp/en/investors/financial\\_information/F.S/S.F.S\\_2018.pdf](http://www.jfm.go.jp/en/investors/financial_information/F.S/S.F.S_2018.pdf) and the website of the Regulatory New Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. Information contained in or accessible from the websites set out above does not form part of and is not incorporated by reference into this Supplement. For the avoidance of doubt, the exclusion from this Supplement of information contained in or accessible from the websites referred to above does not apply to the Document being incorporated by reference.

## Change in Officers

Effective 30 September 2018, Mr Eiichi Sugimura resigned as an executive officer of JFM and, effective 1 October 2018, Mr Yuji Tsukada was appointed as an executive officer of JFM. Also effective 30 September 2018, Mr Koichi Kato resigned as a corporate auditor of JFM and, effective 1 October 2018, Mr Hidehiko Ouchi was appointed as a corporate auditor of JFM.

## Capitalisation and Indebtedness

The following table sets out the capitalisation and indebtedness of JFM as of 30 September 2018, and has been extracted without material adjustment from JFM's unaudited semiannual financial statements as of the same date:

	<b>As of 30 September 2018 (Millions of yen)</b>
<b>Indebtedness:</b>	
Bonds <sup>(1)(2)</sup> .....	¥20,347,665
Borrowed money .....	154,500
Total indebtedness .....	20,502,165
<b>Funds and Reserves:</b>	
Fund for lending rate reduction <sup>(3)</sup> .....	920,287
<i>Of which:</i>	
Basic fund for lending rate reduction .....	920,287
Reserves under special laws .....	2,763,504
<i>Of which:</i>	
Reserve for interest rate volatility <sup>(4)</sup> .....	2,200,000
Management account reserve for interest rate volatility <sup>(4)</sup> .....	538,140
Reserve for interest rate reduction <sup>(5)</sup> .....	25,363
<b>Net Assets:</b>	
Capital .....	16,602
Retained earnings .....	199,035
<i>Of which:</i>	
General account appropriated surplus reserve .....	189,436
General account semiannual unappropriated retained earnings .....	9,598
Valuation, translation adjustments and others .....	4,172
Management account surplus reserve .....	57,808
Total net assets .....	277,618
Total capitalisation and indebtedness <sup>(6)(7)</sup> .....	¥24,463,575

### Notes:

- (1) JFM issued ¥65,000 million (face value) in aggregate principal amount of government-guaranteed bonds and ¥330,000 million (face value) in aggregate principal amount of non-guaranteed bonds from 30 September 2018 to 9 January 2019.
- (2) Includes current maturities.
- (3) Funds for lending rate reduction pursuant to the JFM Law. This has been included in the above table although, under the JFM Law, this item is presented as a liability on JFM's balance sheets.
- (4) Reserves to prepare for interest rate risk associated with refinancing of bonds pursuant to the JFM Law. This has been included in the above table although, under the JFM Law, this item is presented as a liability on JFM's balance sheets.
- (5) Reserve for interest rate reduction pursuant to the JFM Law. This has been included in the above table although, under the JFM Law, this item is presented as a liability on JFM's balance sheets.
- (6) Total capitalisation and indebtedness comprises the aggregate of bonds, borrowed money, fund for lending rate reduction, reserves under special laws and total net assets.
- (7) Other than as described above, there has been no material change in JFM's capitalisation and indebtedness since 30 September 2018.

## Selected Historical Financial Information

The following table, which supplements the selected historical financial information of JFM set out in the Base Prospectus, shows selected financial information of JFM as of each of the indicated dates and for each of the indicated periods below. Such information is extracted without material adjustment from JFM's unaudited semiannual financial statements as of the indicated date and for each of the indicated periods below. This information is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes to the financial statements, that are included elsewhere or incorporated by reference in the Base Prospectus.

## Statements of Income Data

	For the six months ended 30 September	
	2017	2018
	(Billions of yen)	
Income.....	¥174.5	¥160.6
Interest income.....	174.4	160.5
Fees and commissions.....	0.0	0.0
Other income.....	0.0	0.0
Expenses .....	99.2	90.8
Interest expenses .....	95.1	87.3
Fees and commissions.....	0.1	0.1
Other operating expenses .....	2.3	1.6
General and administrative expenses .....	1.6	1.5
Ordinary income.....	75.3	69.7
Special gains .....	223.3	403.1
Special losses .....	287.3	463.3
Net income .....	¥11.3	¥9.5

## Balance Sheet Data

	As of 30 September 2018
	(Billions of yen)
<b>Assets:</b>	
Loans.....	¥23,408.2
Securities .....	142.0
Cash and bank deposits .....	914.6
Cash collateral paid for financial instruments .....	28.4
Total assets .....	24,505.4
<b>Liabilities:</b>	
Bonds .....	20,347.6
Borrowed money.....	154.5
Cash collateral received for financial instruments.....	35.5
Other liabilities.....	6.1
Fund for lending rate reduction .....	920.2
Reserves under special laws .....	2,763.5
Reserve for interest rate volatility .....	2,200.0
Management account reserve for interest rate volatility.....	538.1
Total liabilities .....	24,227.8
<b>Net Assets:</b>	
Capital.....	16.6
Retained earnings .....	199.0
Valuation, translation adjustments and others .....	4.1
Management account surplus reserve.....	57.8
Total net assets .....	¥277.6

## Operating and Financial Review

The following operating and financial review of JFM, which forms the remainder of the Supplement, is based on information contained in the unaudited semiannual financial statements of JFM as of and for the six months ended 30 September 2018 and, with respect to the amounts of loans under "— Overview" below and the amounts of bonds issued under "— Liquidity and Capital Resources — Fund-Raising Operations for the Six Months Ended 30 September 2018" below, the accounting records of JFM, and is intended to convey management's perspective on the operating performance and financial condition of JFM as of the date and during the period under review, as measured in accordance with Japanese GAAP. The following supplements the operating and financial review as of and for the years ended 31 March 2017 and 2018 contained in the Base Prospectus.

## Overview

JFM's net income for the six months ended 30 September 2018 decreased by 15.4 per cent. to ¥9.5 billion compared to ¥11.3 billion in the six months ended 30 September 2017. The decrease was primarily a result of a decrease in ordinary income as described below partially offset by a slight decrease in net special losses. JFM's ordinary income for the six months ended 30 September 2018 decreased by 7.4 per cent. to ¥69.7 billion compared to ¥75.3 billion in the six months ended 30 September 2017. The decrease was due primarily to a decrease of 8.0 per cent. in interest income to ¥160.5 billion in the six months ended 30 September 2018 partially offset by a 8.1 per cent. decrease in interest expenses to ¥87.3 billion.

Based on its lending plan, JFM extended 6,046 loans to local governments in an aggregate amount of ¥692.2 billion with the consent or approval of the Minister for Internal Affairs and Communications and prefectural governors in the six months ended 30 September 2018. These loans included:

- loans, for a total of ¥398.6 billion, for general account-related businesses such as local road construction and special municipal merger projects;
- loans, in the amount of ¥137.9 billion, for temporary financial countermeasures funding to make up for a shortfall of local allocation tax pursuant to the provisions of the Local Government Finance Law; and
- loans, for a total of ¥155.6 billion, for municipal enterprise-related businesses such as sewerage and water supply.

In accordance with its fund-raising plan, during the six months ended 30 September 2018, JFM issued ¥645.6 billion (issue price) of public offering bonds without government guarantee, ¥264.0 billion of private placement bonds without government guarantee subscribed to by pension funds and mutual aids for local government officials, including the Pension Fund Association for Local Government Officials for lending, and ¥130.0 billion (issue price) of government-guaranteed bonds to refinance the existing government-guaranteed bonds of the Predecessor to smoothly manage the Predecessor's assets to which JFM has succeeded.

## Factors Affecting Results of Operations

### *Reduction of JFM's Reserves for Interest Rate Volatility*

JFM manages assets and liabilities succeeded from the Predecessor in its management account. JFM manages its other assets and liabilities in its general account. For a breakdown, see note 10 to JFM's unaudited semiannual financial statements for the six months ended 30 September 2018. Total assets and liabilities in the management account are expected to decline as time passes because no new loans or bonds (other than bonds issued to refinance Predecessor bonds) have been issued in this account since October 2008 and no such loans or bonds are expected to be issued.

In January 2015, the Minister for Internal Affairs and Communications and the Minister of Finance (the "**Ministers**") made a determination and required that JFM transfer up to ¥600 billion from JFM's reserves for interest rate volatility maintained in the management account to the national treasury over the three-year period ending 31 March 2018. In October 2015 and on 7 October 2016, ¥300 billion and ¥200 billion were transferred by JFM to the national treasury, respectively. In December 2016, the Ministers made a further determination and required that JFM transfer up to ¥900 billion from JFM's reserves for interest rate volatility maintained in the management account to the national treasury over the three-year period ending 31 March 2020, including a transfer of ¥400 billion in the year ending on 31 March 2018 of which the transfer of ¥100 billion is pursuant to the January 2015 determination. JFM completed the transfers of ¥400 billion in October 2017 and an additional ¥400 billion in September 2018 accordingly. Furthermore, it was also determined that an additional amount of up to ¥1.5 billion would be transferred by JFM to the national treasury over the six-year period ending 31 March 2024. The completed transfers have not had, and JFM does not expect any planned transfers to have, a material effect on JFM's business, results of operations or financial condition. This is due primarily to the fact that the margins on the management account loan portfolio are generally improving in the current low interest rate environment because bonds are being refinanced at lower rates and that interest rate risk in the management account is expected to decline overall as the size of that portfolio declines over time.



## Results of Operations

The table below sets forth JFM's results of operations for the six months ended 30 September 2017 and 2018:

	For the six months ended 30 September	
	2017	2018
	(Billions of yen)	
Interest income .....	¥174.4	¥160.5
Interest expenses .....	95.1	87.3
Net interest income.....	79.3	73.1
Fees and commissions.....	0.0	0.0
Fees and commissions expenses.....	0.1	0.1
Net fees and commissions .....	(0.0)	(0.0)
Other income .....	0.0	0.0
Other operating expenses .....	2.3	1.6
General and administrative expenses .....	1.6	1.5
Ordinary income.....	75.3	69.7
Reversal of management account reserve for interest rate volatility .....	220.0	400.0
Reversal of reserve for interest rate reduction.....	3.3	3.1
Special gains .....	223.3	403.1
Provision for reserve for interest rate volatility .....	220.0	—
Provision for management account reserve for interest rate volatility.....	67.3	63.3
Payment to national treasury .....	—	400.0
Special losses .....	287.3	463.3
Net income .....	¥11.3	¥9.5

### Net Interest Income

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* JFM's net interest income decreased by ¥6.1 billion, or 7.8 per cent., from ¥79.3 billion in the six months ended 30 September 2017 to ¥73.1 billion in the six months ended 30 September 2018. This decrease was mainly due to a decrease in interest income caused by a decrease in the average interest rate on loans as a result of redemptions of loans made in the past with relatively high interest rates. While the decrease in interest income was offset by a decrease in the interest expense caused by a decrease in the average interest rate on bonds as a result of the maturity of bonds issued in the past with relatively high interest rates, the offset was only partial due to the longer average term of the maturing loans compared to the average term of the maturing bonds.

### Net Fees and Commissions

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* JFM's net fees and commissions expenses were relatively unchanged in the six months ended 30 September 2018 compared to the six months ended 30 September 2017.

### Other Income

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* JFM's other income was relatively unchanged in the six months ended 30 September 2018.

### Other Operating Expenses

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* JFM's other operating expenses decreased by ¥0.6 billion, or 28.3 per cent., from ¥2.3 billion in the six months ended 30 September 2017 to ¥1.6 billion in the six months ended 30 September 2018. The decrease was due primarily to a decrease in costs relating to bond issuance caused by a decrease in issuance of government-guaranteed bonds.

### ***General and Administrative Expenses***

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* JFM recorded general and administrative expenses of ¥1.5 billion in the six months ended 30 September 2018, which were relatively unchanged from the six months ended 30 September 2017.

### ***Ordinary Income***

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* JFM's ordinary income decreased from ¥75.3 billion in the six months ended 30 September 2017 to ¥69.7 billion in the six months ended 30 September 2018, a decrease of ¥5.5 billion or 7.4 per cent. The decrease was due to the factors described above.

### ***Special Gains and Losses***

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* JFM recorded special gains of ¥403.1 billion in the six months ended 30 September 2018 compared to ¥223.3 billion in the six months ended 30 September 2017, an increase of ¥179.8 billion or 80.5 per cent., which mainly reflected an increase in the reversal of management account reserve for interest rate volatility due to the payment to the national treasury in the six months ended 30 September 2018. Special losses increased from ¥287.3 billion in the six months ended 30 September 2017 to ¥463.3 billion in the six months ended 30 September 2018, an increase of ¥176.0 billion or 61.3 per cent., which mainly reflected the payment of ¥400 billion to the national treasury, partially offset by the absence of a provision for reserve for interest rate volatility and, to a lesser extent, a decrease in provision for management account reserve for interest rate volatility.

The special gains and losses for the six months ended 30 September 2017 reflect the transfer of ¥220.0 billion from the management account reserve for interest rate volatility to the general account reserve for interest rate volatility as required by the JFM Law and the Cabinet Order concerning the Preparation of the Related Cabinet Orders and Transitional Measures in connection with the Abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Cabinet Order 226 of 2008, as amended). See "Japan Finance Organization for Municipalities — Risk Management — Market Risk — Interest Rate Risk" in the Base Prospectus for greater detail.

### ***Net Income***

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* As a result of the foregoing, JFM's net income decreased from ¥11.3 billion in the six months ended 30 September 2017 to ¥9.5 billion in the six months ended 30 September 2018, a decrease of ¥1.7 billion, or 15.4 per cent.

### ***Allocation of Profit to the General and Management Accounts***

Profits for each of the six months ended September 2017 and 2018 were allocated to the general account as general account semiannual unappropriated earnings and to the management account as management account semiannual unappropriated earnings.

#### ***General Account***

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* Profits allocated to the general account decreased from ¥11.3 billion in the six months ended 30 September 2017 to ¥9.5 billion in the six months ended 30 September 2018.

#### ***Management Account***

*Six Months Ended 30 September 2017 Compared to Six Months Ended 30 September 2018.* Profits allocated to the management account were unchanged in the six months ended 30 September 2018 compared to the six months ended 30 September 2017.

## Financial Condition

### Overview

The table below summarises selected balance sheet items of JFM as of 31 March 2018 and 30 September 2018:

	As of 31 March 2018	As of 30 September 2018
	(Billions of yen)	
<b>Assets:</b>		
Loans.....	¥23,768.2	¥23,408.2
Securities.....	170.0	142.0
Cash and bank deposits .....	747.7	914.6
Total assets.....	24,755.8	24,505.4
<b>Liabilities:</b>		
Bonds .....	20,284.5	20,347.6
Borrowed money.....	159.5	154.5
Cash collateral received for financial instruments.....	12.2	35.5
Other liabilities.....	6.6	6.1
Fund for lending rate reduction .....	920.2	920.2
Reserve under special laws.....	3,105.0	2,763.5
Total liabilities .....	24,488.4	24,227.8
<b>Net Assets:</b>		
Capital.....	16.6	16.6
Retained earnings .....	191.8	199.0
General account appropriated surplus reserve.....	191.8	189.4
General account semiannual unappropriated retained earnings.....	—	9.5
Valuation, translation adjustments and others .....	5.2	4.1
Management account surplus reserve.....	53.6	57.8
Total net assets .....	¥267.4	¥277.6

**Assets.** In the six months ended 30 September 2018, JFM's total assets decreased by ¥250.3 billion to ¥24,505.4 billion as of 30 September 2018 compared to ¥24,755.8 billion as of 31 March 2018. The decrease in total assets in the six months ended 30 September 2018 was mainly due to decreases in loans and securities, which was partially offset by an increase in cash and bank deposits.

**Liabilities.** In the six months ended 30 September 2018, JFM's total liabilities decreased by ¥260.5 billion to ¥24,227.8 billion as of 30 September 2018 compared to ¥24,488.4 billion as of 31 March 2018. This decrease was mainly due to the decrease in reserves under special laws, which was partially offset by increases in bonds and other liabilities.

**Net Assets.** In the six months ended 30 September 2018, JFM's total net assets increased by ¥10.1 billion to ¥277.6 billion as of 30 September 2018 compared to ¥267.4 billion as of 31 March 2018. The increase in total net assets in the six months ended 30 September 2018 was mainly due to an increase in retained earnings recorded in the general account, which was partially offset by a decrease in valuation, translation adjustments and others. As of 30 September 2018, JFM's retained earnings were ¥199.0 billion.

## Liquidity and Capital Resources

### Fundraising Operations for the Six Months Ended 30 September 2018

In the six months ended 30 September 2018, JFM issued bonds in the amount of ¥1,039.6 billion (issue price, the same shall apply hereinafter in this section) and incurred ¥20.0 billion of long-term borrowed money. Bonds issued by JFM in the six months ended 30 September 2018, included:

- ¥230.0 billion of non-guaranteed domestic public offering bonds, of which ¥140.0 billion were ten-year bonds, ¥70.0 billion were 20-year bonds, ¥10.0 billion were five-year bonds and ¥10.0 billion were 30-year bonds;
- ¥181.0 billion FLIP bonds;
- ¥234.6 billion under its medium-term notes programme;

- ¥124.0 billion of ten-year private placement bonds and ¥140.0 billion of 20-year private placement bonds subscribed to by pension funds and mutual aids for local government officials, including the Pension Fund Association for Local Government Officials; and
- ¥130.0 billion of government-guaranteed domestic bonds to refinance government-guaranteed bonds issued by the Predecessor.

As a result, the outstanding balance of JFM bonds and long-term borrowed money amounted to ¥20,353.6 billion and ¥154.5 billion, respectively, as of 30 September 2018.

#### ***Cash Flow Analysis for JFM for the Six Months Ended 30 September 2017 and 2018***

The following table sets out selected cash flow information for the six months ended 30 September 2017 and 2018.

	<b>For the six months ended 30 September</b>	
	<b>2017</b>	<b>2018</b>
	<b>(Billions of yen)</b>	
Net cash provided by operating activities.....	¥452.6	¥539.0
Net cash provided by investing activities.....	49.7	27.9
Net cash provided by/(used in) financing activities.....	0.0	(400.0)
Net increase in cash and cash equivalents.....	502.4	166.9
Cash and cash equivalents at beginning of period.....	861.2	747.7
Cash and cash equivalents at end of period.....	1,363.6	914.6

#### ***Cash Flow from Operating Activities***

JFM's net cash flow from operating activities was a cash inflow of ¥539.0 billion in the six months ended 30 September 2018 compared with a cash inflow of ¥452.6 billion in the six months ended 30 September 2017. The change in the six months ended 30 September 2018 was due primarily to increases in bonds and others and a decrease in loans, partially offset by decreases in borrowed money and interest received.

#### ***Cash Flow from Investing Activities***

JFM's net cash flow from investing activities was a cash inflow of ¥27.9 billion in the six months ended 30 September 2018, compared with a cash inflow of ¥49.7 billion in the six months ended 30 September 2017. The change in the six months ended 30 September 2018 was due primarily to an increase in purchases of securities, partially offset by an increase in proceeds from redemption of securities.

#### ***Cash Flow from Financing Activities***

JFM's net cash flow from financing activities was a cash outflow of ¥400.0 billion in the six months ended 30 September 2018 compared with nil in the six months ended 30 September 2017 due primarily to the payment to the national treasury.

#### **Product Classification Pursuant to Section 309B of the Securities and Futures Act (Chapter 289 of Singapore)**

The Final Terms in respect of any Notes may include a legend entitled "Singapore Securities and Futures Act Product Classification" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA"). JFM will, to the extent required, make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Final Terms will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

The following new paragraph is inserted in the Form of Final Terms (as the third paragraph):

"[**Singapore Securities and Futures Act Product Classification:** Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Regulation 3(b) of the Securities and Futures (Capital Markets Products) Regulations 2018 (the "SF (CMP) Regulations")) that the Notes are "prescribed capital markets

products" (as defined in the SF (CMP) Regulations) and "Excluded Investment Products" (as defined in the Monetary Authority of Singapore ("MAS") Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]"

### **Singaporean Selling Restrictions**

The sub-section "Singapore" within the section "Subscription and Sale" in the Base Prospectus is deleted in its entirety and replaced with the following:

#### **"Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018."