

Amendment to Programme Information

Japan Finance Organization for Municipalities

AMENDMENT TO PROGRAMME INFORMATION

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This amendment, consisting of this cover page and the Supplement No. 1 dated 17 December 2020 to the Base Prospectus dated 7 August 2020, is filed to update the information included in the Programme Information dated 31 January 2020 as amended by the amendment dated 11 August 2020 (the "**Programme Information**"). This document constitutes an integral part of the Programme Information and shall be read together with it.



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**") is supplemental to, forms part of and must be read and construed in conjunction with, the base prospectus dated 7 August 2020 (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) update a certain risk factor relating to JFM, (ii) incorporate by reference into the Base Prospectus JFM's unaudited semiannual financial statements in respect of the six months ended 30 September 2020, (iii) provide information with regard to JFM's capitalisation and indebtedness as of 30 September 2020, (iv) provide information with regard to JFM's selected historical financial information as of 30 September 2020 and for the six months ended 30 September 2019 and 2020 and (v) provide information with regard to JFM's operating and financial review as of 30 September 2020 and for the six months ended 30 September 2019 and 2020.

This Supplement has been approved as a supplement issued in compliance with Part 2 of the rules and regulations of the Luxembourg Stock Exchange by the Luxembourg Stock Exchange in its capacity as competent authority under Part IV of the Luxembourg law of 16 July 2019 on prospectuses for securities for the purposes of giving information with regard to the issue of Notes under this Programme.

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.

Risk Factors

The sub-section "Risk Factors — Risks Relating to JFM — 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." in the Base Prospectus is replaced in its entirety by the following:

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. Prior to the outbreak of COVID-19, the domestic economy in Japan had already been showing signs of a slowdown, partially attributable to the increase in the consumption tax rate from 8% to 10% in October 2019. The Japanese economy contracted in the fourth quarter of 2019 and in January and February 2020, reversing a trend of steady improvement in recent years. The outbreak of the COVID-19 pandemic has significantly and adversely affected economic systems, global supply chains, and financial markets worldwide, causing diminished investment sentiment, sporadic volatility in global capital markets and a precipitous decline of value in stock markets around the globe.

While the Japanese and global economies face immediate challenges raised by COVID-19, a variety of other macroeconomic and geopolitical factors could weigh on economic conditions in Japan. Continued uncertainty regarding the United Kingdom's relationship with the European Union (the "EU"), geopolitical instability in other various parts of the world, material changes in regional economic or political unions or associations between countries, increased protectionism affecting trade relations globally, and the uncertain impact of the policies pursued by the presidential administration in the United States, could also contribute to economic instability in those and other regions and affect Japanese and global economic conditions.

Domestically, the long term impact of such issues as well as others (including the recent increase in the consumption tax rate) on Japan's economy, trade balance, interest rates and fiscal position (including as a result of the fiscal and monetary stimulus response to COVID-19), remains uncertain.

Other challenges for the Japanese economy also 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, or may take actions designed to support JFM's borrowers that impact JFM's loan portfolio, for example, allowing local governments to prepay, without penalty, higher interest rate loans from JFM and to refinance those loans at current lower interest rates (See "Operating and Financial Review—Factors Affecting Results of Operations—Policies of the Japanese National and Local Governments"). 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.

Document Incorporated by Reference

On 11 December 2020, JFM published its unaudited semiannual financial statements in English in respect of the six months ended 30 September 2020 (the "**Document**"). A copy of the Document has been filed with the Luxembourg Stock Exchange 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.html> and the website of the Luxembourg Stock Exchange at www.bourse.lu. 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.

Capitalisation and Indebtedness

The following table sets out the capitalisation and indebtedness of JFM as of 30 September 2020, and has been derived from JFM's unaudited semiannual financial statements as of the same date:

	As of 30 September 2020 (Millions of yen)
Indebtedness:	
Bonds ⁽¹⁾⁽²⁾	¥20,342,664
Borrowed money.....	248,000
Total indebtedness.....	<u>20,590,664</u>
Funds and Reserves:	
Fund for lending rate reduction ⁽³⁾	920,287
<i>Of which:</i>	
Basic fund for lending rate reduction.....	920,287
Reserves under special laws.....	2,829,628
<i>Of which:</i>	
Reserve for interest rate volatility ⁽⁴⁾	2,200,000
Management account reserve for interest rate volatility ⁽⁴⁾	614,784
Reserve for interest rate reduction ⁽⁵⁾	14,843
Net Assets:	
Capital	16,602
Retained earnings.....	247,965
<i>Of which:</i>	
General account appropriated surplus reserve	238,383
General account semiannual unappropriated retained earnings	9,582
Valuation, translation adjustments and others	11,235
Management account surplus reserve	57,808
Total net assets.....	<u>333,612</u>
Total capitalisation and indebtedness ⁽⁶⁾⁽⁷⁾	<u>¥24,674,191</u>

Notes:

- (1) We regularly issue senior debt securities in a variety of currencies and issuance formats, including government guaranteed bonds as well as non-guaranteed bonds similar to the notes offered hereby.
- (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 2020.

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 the indicated date and for each of the indicated periods below. Such information is derived 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	
	2019	2020
	(Billions of yen)	
Income.....	¥144.8	¥128.7
Interest income.....	144.7	128.7
Fees and commissions	0.0	0.0
Other income	0.1	0.0
Expenses.....	82.6	72.3
Interest expenses	79.5	68.5
Fees and commissions	0.1	0.1
Other operating expenses.....	1.3	2.0
General and administrative expenses.....	1.5	1.5
Ordinary income	62.2	56.4
Special gains.....	102.7	42.3
Special losses.....	155.4	89.1
Net income	¥9.4	¥9.5

Balance Sheet Data

	As of 30 September 2020 (Billions of yen)
Assets:	
Loans.....	¥23,129.5
Securities	562.0
Cash and bank deposits	975.6
Cash collateral paid for financial instruments	20.4
Total assets	24,698.6
Liabilities:	
Bonds	20,342.6
Borrowed money.....	248.0
Cash collateral received for financial instruments	19.9
Other liabilities	4.3
Fund for lending rate reduction.....	920.2
Reserves under special laws.....	2,829.6
Reserve for interest rate volatility	2,200.0
Management account reserve for interest rate volatility	614.7
Total liabilities	24,365.0
Net Assets:	
Capital	16.6
Retained earnings.....	247.9
Valuation, translation adjustments and others	11.2
Management account surplus reserve	57.8
Total net assets.....	¥333.6

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 2020 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 2020" 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 2019 and 2020 contained in the Base Prospectus.

Overview

JFM's net income for the six months ended 30 September 2020 increased by 0.9 per cent. to ¥9.5 billion compared to ¥9.4 billion in the six months ended 30 September 2019. The increase was primarily a result of a decrease in special loss, net of special gain, notwithstanding a decrease in ordinary income in the general account. JFM's ordinary income for the six months ended 30 September 2020 decreased by 9.3 per cent. to ¥56.4 billion compared to ¥62.2 billion in the six months ended 30 September 2019. The decrease was due primarily to a decrease of 11.1 per cent. in interest income to ¥128.7 billion in the six months ended 30 September 2020 partially offset by a 13.8 per cent. decrease in interest expenses to ¥68.5 billion.

Based on its lending plan, JFM extended 6,264 loans to local governments in an aggregate amount of ¥628.3 billion with the consent or approval of the Minister for Internal Affairs and Communications and prefectural governors in the six months ended 30 September 2020. These loans included:

- loans, for a total of ¥424.7 billion, for general account-related businesses such as local road construction and special municipal merger projects;
- loans, in the amount of ¥128.9 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 ¥74.6 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 2020, JFM issued ¥1,108.3 billion (issue price) of public offering bonds without government guarantee, ¥276.5 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 ¥60 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 2020. 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 response to that, 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. In response to that, JFM completed the transfers of ¥400 billion in October 2017, ¥400 billion in September 2018 and ¥100.0 billion in September 2019 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. In response to that, JFM completed a transfer of ¥0.06

billion in the year ended 31 March 2019 accordingly and plans to make an additional transfer of ¥0.13 billion during the year ending 31 March 2021. In addition, in December 2019, the Ministers made a further determination and required that JFM transfer up to ¥230 billion from JFM's reserves for interest rate volatility maintained in the management account to the national treasury over the five-year period ending 31 March 2025. In response to that, JFM completed a transfer of ¥40 billion in the six-month period ended September 2020, and plans to make additional transfers of ¥20 billion in the year ending 31 March 2021. 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 2019 and 2020:

	For the six months ended 30 September	
	2019	2020
	(Billions of yen)	
Interest income.....	¥144.7	¥128.7
Interest expenses.....	79.5	68.5
Net interest income	65.1	60.1
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	0.1	0.0
Other operating expenses.....	1.3	2.0
General and administrative expenses.....	1.5	1.5
Ordinary income	62.2	56.4
Reversal of management account reserve for interest rate volatility.....	100.0	40.0
Reversal of reserve for interest rate reduction.....	2.7	2.3
Special gains.....	102.7	42.3
Provision for management account reserve for interest rate volatility	55.4	49.1
Payment to national treasury.....	100.0	40.0
Special losses.....	155.4	89.1
Net income	¥9.4	¥9.5

Net Interest Income

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. JFM's net interest income decreased by ¥5.0 billion, or 7.7 per cent., from ¥65.1 billion in the six months ended 30 September 2019 to ¥60.1 billion in the six months ended 30 September 2020. 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 maturities 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 2019 Compared to Six Months Ended 30 September 2020. JFM's net fees and commissions expenses were relatively unchanged in the six months ended 30 September 2020 compared to the six months ended 30 September 2019.

Other Income

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. JFM's other income decreased by ¥0.1 billion from ¥0.1 billion in the six months ended 30 September 2019 to ¥0.0 billion in the six months ended 30 September 2020.

Other Operating Expenses

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. JFM's other operating expenses increased by ¥0.7 billion, or 51.3 per cent., from ¥1.3 billion in the six months ended 30 September 2019 to ¥2.0 billion in the six months ended 30 September 2020. The increase was due primarily to an increase in bond issuance and long-term borrowed money.

General and Administrative Expenses

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. JFM recorded general and administrative expenses of ¥1.5 billion in the six months ended 30 September 2020, which were relatively unchanged from the six months ended 30 September 2019.

Ordinary Income

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. JFM's ordinary income decreased from ¥62.2 billion in the six months ended 30 September 2019 to ¥56.4 billion in the six months ended 30 September 2020, a decrease of ¥5.7 billion or 9.3 per cent. The decrease was due to the factors described above.

Special Gains and Losses

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. JFM recorded special gains of ¥42.3 billion in the six months ended 30 September 2020 compared to ¥102.7 billion in the six months ended 30 September 2019, a decrease of ¥60.4 billion or 58.8 per cent., which mainly reflected a decrease in the reversal of management account reserve for interest rate volatility due to a decrease in the payment to the national treasury in the six months ended 30 September 2020. Special losses decreased from ¥155.4 billion in the six months ended 30 September 2019 to ¥89.1 billion in the six months ended 30 September 2020, a decrease of ¥66.2 billion or 42.6 per cent., which mainly reflected a decrease in the payment to the national treasury from ¥100 billion to ¥40 billion.

Net Income

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. As a result of the foregoing, JFM's net income slightly increased from ¥9.4 billion in the six months ended 30 September 2019 to ¥9.5 billion in the six months ended 30 September 2020.

Allocation of Profit to the General and Management Accounts

Profits for each of the six months ended September 2019 and 2020 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 2019 Compared to Six Months Ended 30 September 2020. Profits allocated to the general account increased from ¥9.4 billion in the six months ended 30 September 2019 to ¥9.5 billion in the six months ended 30 September 2020.

Management Account

Six Months Ended 30 September 2019 Compared to Six Months Ended 30 September 2020. Profits allocated to the management account were relatively unchanged in the six months ended 30 September 2020 compared to the six months ended 30 September 2019.

Financial Condition

Overview

The table below summarises selected balance sheet items of JFM as of 31 March 2020 and 30 September 2020:

	As of 31 March 2020	As of 30 September 2020
	(Billions of yen)	
Assets:		
Loans.....	¥23,399.6	¥23,129.5
Securities.....	365.5	562.0
Cash and bank deposits	557.4	975.6
Total assets	24,346.7	24,698.6
Liabilities:		
Bonds	20,013.4	20,342.6
Borrowed money.....	203.0	248.0
Cash collateral received for financial instruments	58.0	19.9
Other liabilities	5.0	4.3
Fund for lending rate reduction.....	920.2	920.2
Reserve under special laws	2,822.7	2,829.6
Total liabilities.....	24,022.8	24,365.0
Net Assets:		
Capital.....	16.6	16.6
Retained earnings.....	238.3	247.9
<i>Of which:</i>		
General account appropriated surplus reserve.....	238.3	238.3
General account semiannual unappropriated retained earnings	—	9.5
Valuation, translation adjustments and others	11.1	11.2
Management account surplus reserve	57.8	57.8
Total net assets.....	¥323.8	¥333.6

Assets. In the six months ended 30 September 2020, JFM's total assets increased by ¥351.9 billion to ¥24,698.6 billion as of 30 September 2020 compared to ¥24,346.7 billion as of 31 March 2020. The increase in total assets in the six months ended 30 September 2020 was mainly due to increases in securities and cash and bank deposits, which was partially offset by a decrease in loans.

Liabilities. In the six months ended 30 September 2020, JFM's total liabilities increased by ¥342.2 billion to ¥24,365.0 billion as of 30 September 2020 compared to ¥24,022.8 billion as of 31 March 2020. This increase was mainly due to the increase in bonds.

Net Assets. In the six months ended 30 September 2020, JFM's total net assets increased by ¥9.7 billion to ¥333.6 billion as of 30 September 2020 compared to ¥323.8 billion as of 31 March 2020. The increase in total net assets in the six months ended 30 September 2020 was mainly due to an increase in retained earnings recorded in the general account. As of 30 September 2020, JFM's retained earnings were ¥247.9 billion.

Liquidity and Capital Resources

Fundraising Operations for the Six Months Ended 30 September 2020

In the six months ended 30 September 2020, JFM issued bonds in the amount of ¥1,444.8 billion (issue price, the same shall apply hereinafter in this section) and incurred ¥45 billion of long-term borrowed money. Bonds issued by JFM in the six months ended 30 September 2020, included:

- ¥335.0 billion of non-guaranteed domestic public offering bonds, of which ¥190.0 billion were 10-year bonds, ¥95.0 billion were 20-year bonds, ¥10.0 billion were 5-year bonds, ¥30.0 billion were 30-year bonds and ¥10.0 billion were 40-year bonds;
- ¥424.5 billion FLIP bonds;
- ¥348.8 billion under its medium-term notes programme;

- ¥135.0 billion of 10-year private placement bonds and ¥141.5 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
- ¥60 billion of government-guaranteed domestic bonds to refinance government-guaranteed bonds issued by the Predecessor.

As a result of issuance and repayments, the outstanding balance of JFM bonds and long-term borrowed money amounted to ¥20,342.6 billion and ¥248.0 billion, respectively, as of 30 September 2020.

Cash Flow Analysis for JFM for the Six Months Ended 30 September 2019 and 2020

The following table sets out selected cash flow information for the six months ended 30 September 2019 and 2020.

	For the six months ended 30 September	
	2019	2020
	(Billions of yen)	
Net cash provided by operating activities	¥115.6	¥654.8
Net cash provided by/(used in) investing activities	(107.2)	(196.5)
Net cash provided by/(used in) financing activities	(99.8)	(40.0)
Net increase/(decrease) in cash and cash equivalents	(91.4)	418.2
Cash and cash equivalents at beginning of period	870.4	557.4
Cash and cash equivalents at end of period	779.0	975.6

Cash Flow from Operating Activities

JFM's net cash flow from operating activities was a cash inflow of ¥654.8 billion in the six months ended 30 September 2020 compared with a cash inflow of ¥115.6 billion in the six months ended 30 September 2019. The change in the six months ended 30 September 2020 was due primarily to an increase in bond issuances.

Cash Flow from Investing Activities

JFM's net cash flow from investing activities was a cash outflow of ¥196.5 billion in the six months ended 30 September 2020, compared with a cash outflow of ¥107.2 billion in the six months ended 30 September 2019. The change in the six months ended 30 September 2020 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 ¥40.0 billion in the six months ended 30 September 2020 compared with a cash outflow of ¥99.8 billion in the six months ended 30 September 2019 due primarily to a decrease in the amount of payments to the national treasury.