

Fiscal 2011

(April 1, 2011 to March 31, 2012)

Japan Finance Organization for Municipalities

Financial Statements

Contents

Financial Statements

| | |
|--|---|
| Balance Sheets | 2 |
| Statements of Income | 3 |
| Statements of Appropriation of Profit [General account/Management account] | 4 |
| Statements of Changes in Net Assets | 6 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 |

Financial Statements

Balance Sheets

(Millions of yen) (Thousands of U.S. dollars)

(As of March 31, 2011 and 2012)

| Item | Fiscal 2010 (March 31, 2011) | Fiscal 2011 (March 31, 2012) | | Item | Fiscal 2010 (March 31, 2011) | Fiscal 2011 (March 31, 2012) | |
|----------------------------------|------------------------------------|---------------------------------|---------------|--|------------------------------------|---------------------------------|---------------|
| | Amount | | | | Amount | | |
| Assets | | | | Liabilities | | | |
| Loans (Note 4) | ¥22,231,856 | ¥22,387,411 | \$271,329,669 | Bonds (Notes 7 and 8) | ¥18,327,190 | ¥18,176,696 | \$220,296,886 |
| Securities (Note 18) | 457,590 | 762,987 | 9,247,212 | Borrowed money (Note 9) | - | 30,000 | 363,592 |
| Cash and bank deposits | 516,633 | 172,250 | 2,087,627 | Other liabilities | 17,698 | 15,373 | 186,318 |
| Other assets | 17,033 | 14,894 | 180,523 | Reserve for bonuses (Note 10) | 41 | 47 | 580 |
| Tangible fixed assets (Note 6) | 2,918 | 2,563 | 31,067 | Reserve for directors' bonuses (Note 10) | 6 | 6 | 84 |
| Intangible fixed assets (Note 6) | 756 | 600 | 7,278 | Reserve for retirement benefits (Notes 10 and 13) | 195 | 146 | 1,780 |
| | | | | Reserve for retirement benefits for directors and corporate auditors (Note 10) | 27 | 23 | 291 |
| | | | | Fund for improvement of operations of municipalities | 915,823 | 919,871 | 11,148,604 |
| | | | | Basic fund for improvement of operations of municipalities (Note 12) | 908,104 | 911,935 | 11,052,420 |
| | | | | Additional fund for improvement of operations of municipalities (Note 12) | 7,719 | 7,936 | 96,184 |
| | | | | Reserve under special laws | 3,896,421 | 4,104,844 | 49,749,662 |
| | | | | Reserve for interest rate volatility (Note 11) | 660,000 | 880,000 | 10,665,374 |
| | | | | Management account reserve for interest rate volatility (Note 11) | 3,136,532 | 3,137,557 | 38,026,385 |
| | | | | Reserve for interest rate reduction | 99,889 | 87,287 | 1,057,903 |
| | | | | Total liabilities | 23,157,405 | 23,247,010 | 281,747,797 |
| | | | | Net Assets | | | |
| | | | | Capital | 16,602 | 16,602 | 201,213 |
| | | | | Retained earnings | 13,860 | 29,393 | 356,238 |
| | | | | General account surplus reserve | 13,860 | 29,393 | 356,238 |
| | | | | Valuation, translation adjustments and others | (8,645) | (5,964) | (72,291) |
| | | | | Management account surplus reserve | 47,565 | 53,666 | 650,419 |
| | | | | Total net assets | 69,382 | 93,696 | 1,135,579 |
| Total assets | ¥23,226,787 | ¥23,340,707 | \$282,883,376 | Total liabilities and net assets | ¥23,226,787 | ¥23,340,707 | \$282,883,376 |

See notes to financial statements.

Statements of Income

(For the years ended March 31, 2011 and 2012)

(Millions of yen) (Thousands of U.S. dollars)

| Item | Fiscal 2010 (April 1, 2010 to March 31, 2011) | Fiscal 2011 (April 1, 2011 to March 31, 2012) | |
|---|---|--|-------------|
| | Amount | Amount | |
| Income | ¥539,997 | ¥511,805 | \$6,202,949 |
| Interest income | 539,812 | 511,641 | 6,200,967 |
| Fees and commissions | 134 | 128 | 1,561 |
| Other income | 50 | 34 | 421 |
| Expenses | 292,428 | 281,749 | 3,414,734 |
| Interest expenses | 283,177 | 274,320 | 3,324,690 |
| Fees and commissions | 269 | 275 | 3,334 |
| Other operating expenses | 4,418 | 4,539 | 55,016 |
| General and administrative expenses | 2,374 | 2,385 | 28,911 |
| Other expenses | 2,187 | 229 | 2,783 |
| Transfer to fund for improvement of operations of municipalities (Note 12) | 2,187 | 216 | 2,629 |
| Others | - | 12 | 154 |
| Ordinary income | 247,569 | 230,055 | 2,788,215 |
| Special gains | 233,994 | 232,601 | 2,819,072 |
| Reversal of management account reserve for interest rate volatility (Note 11) | 220,000 | 220,000 | 2,666,343 |
| Reversal of reserve for interest rate reduction | 13,994 | 12,601 | 152,729 |
| Special losses | 465,489 | 441,024 | 5,345,101 |
| Provision for reserve for interest rate volatility (Note 11) | 220,000 | 220,000 | 2,666,343 |
| Provision for management account reserve for interest rate volatility (Note 11) | 245,489 | 221,024 | 2,678,758 |
| Net income | ¥16,074 | ¥21,632 | \$262,186 |

See notes to financial statements.

Statements of Appropriation of Profit [General account]

(For the year ended March 31, 2011)

(Millions of yen)

| | | |
|--------------------------------------|--------|--------|
| 1 Profit available for appropriation | | ¥8,025 |
| Net income | ¥8,025 | |
| Accumulated deficit brought forward | - | |
| 2 Profit appropriated | | |
| Surplus reserve | 8,025 | 8,025 |

Statements of Appropriation of Profit [General account]

(For the year ended March 31, 2012)

(Millions of yen)

| | | |
|--------------------------------------|---------|---------|
| 1 Profit available for appropriation | | ¥15,532 |
| Net income | ¥15,532 | |
| Accumulated deficit brought forward | - | |
| 2 Profit appropriated | | |
| Surplus reserve | 15,532 | 15,532 |

(Thousands of U.S. dollars)

| | | |
|--------------------------------------|-----------|-----------|
| 1 Profit available for appropriation | | \$188,249 |
| Net income | \$188,249 | |
| Accumulated deficit brought forward | - | |
| 2 Profit appropriated | | |
| Surplus reserve | 188,249 | 188,249 |

Notes: 1. Profit was appropriated at the end of this fiscal year in accordance with the provisions of Article 39, Section 1 of the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the "Law").
2. Surplus reserve appropriated was posted as general account surplus reserve on the balance sheets.

See notes to financial statements.

Statements of Appropriation of Profit [Management account]

(For the year ended March 31, 2011)

(Millions of yen)

| | | |
|--------------------------------------|--------|--------|
| 1 Profit available for appropriation | | ¥8,048 |
| Net income | ¥8,048 | |
| Accumulated deficit brought forward | - | |
| 2 Profit appropriated | | |
| Surplus reserve | 8,048 | 8,048 |

Statements of Appropriation of Profit [Management account]

(For the year ended March 31, 2012)

(Millions of yen)

| | | |
|--------------------------------------|--------|--------|
| 1 Profit available for appropriation | | ¥6,100 |
| Net income | ¥6,100 | |
| Accumulated deficit brought forward | - | |
| 2 Profit appropriated | | |
| Surplus reserve | 6,100 | 6,100 |

(Thousands of U.S. dollars)

| | | |
|--------------------------------------|----------|----------|
| 1 Profit available for appropriation | | \$73,937 |
| Net income | \$73,937 | |
| Accumulated deficit brought forward | - | |
| 2 Profit appropriated | | |
| Surplus reserve | 73,937 | 73,937 |

Notes: 1. Profit was appropriated at the end of this fiscal year in accordance with the provisions of Article 13, Section 8 of the supplementary provisions of the Law.

2. Surplus reserve appropriated was posted as management account surplus reserve on the balance sheets.

See notes to financial statements.

Statements of Changes in Net Assets

(For the year ended March 31, 2011)

(Millions of yen)

| | Stockholders' equity | | | | Valuation, translation adjustments and others | Management account surplus reserve | Total net assets |
|--|----------------------|--|-------------------------------|----------------------------------|--|---|------------------------|
| | Capital | Retained earnings | | Total stockholders' equity | Unrealized gain/ (loss) from hedging instruments | | |
| | | General account surplus reserve | Total retained earnings | | | | |
| Balance at April 1, 2010 | ¥16,602 | ¥5,834 | ¥5,834 | ¥22,436 | ¥(1,340) | ¥39,517 | ¥60,613 |
| Changes during accounting period | | | | | | | |
| Net income | - | 8,025 | 8,025 | 8,025 | - | 8,048 | 16,074 |
| Net changes during accounting period in items other than stockholders' equity | - | - | - | - | (7,305) | - | (7,305) |
| Net changes during accounting period | - | 8,025 | 8,025 | 8,025 | (7,305) | 8,048 | 8,768 |
| Balance at March 31, 2011 | ¥16,602 | ¥13,860 | ¥13,860 | ¥30,462 | ¥(8,645) | ¥47,565 | ¥69,382 |

(For the year ended March 31, 2012)

(Millions of yen)

| | Stockholders' equity | | | | Valuation, translation adjustments and others | Management account surplus reserve | Total net assets |
|--|----------------------|--|-------------------------------|----------------------------------|--|---|------------------------|
| | Capital | Retained earnings | | Total stockholders' equity | Unrealized gain/ (loss) from hedging instruments | | |
| | | General account surplus reserve | Total retained earnings | | | | |
| Balance at April 1, 2011 | ¥16,602 | ¥13,860 | ¥13,860 | ¥30,462 | ¥(8,645) | ¥47,565 | ¥69,382 |
| Changes during accounting period | | | | | | | |
| Net income | - | 15,532 | 15,532 | 15,532 | - | 6,100 | 21,632 |
| Net changes during accounting period in items other than stockholders' equity | - | - | - | - | 2,681 | - | 2,681 |
| Net changes during accounting period | - | 15,532 | 15,532 | 15,532 | 2,681 | 6,100 | 24,314 |
| Balance at March 31, 2012 | ¥16,602 | ¥29,393 | ¥29,393 | ¥45,995 | ¥(5,964) | ¥53,666 | ¥93,696 |

(For the year ended March 31, 2012)

(Thousands of U.S. dollars)

| | Stockholders' equity | | | | Valuation, translation adjustments and others | Management account surplus reserve | Total net assets |
|--|----------------------|--|-------------------------------|----------------------------------|--|---|------------------------|
| | Capital | Retained earnings | | Total stockholders' equity | Unrealized gain/ (loss) from hedging instruments | | |
| | | General account surplus reserve | Total retained earnings | | | | |
| Balance at April 1, 2011 | \$201,213 | \$167,989 | \$167,989 | \$369,202 | \$(104,785) | \$576,482 | \$840,899 |
| Changes during accounting period | | | | | | | |
| Net income | - | 188,249 | 188,249 | 188,249 | - | 73,937 | 262,186 |
| Net changes during accounting period in items other than stockholders' equity | - | - | - | - | 32,494 | - | 32,494 |
| Net changes during accounting period | - | 188,249 | 188,249 | 188,249 | 32,494 | 73,937 | 294,680 |
| Balance at March 31, 2012 | \$201,213 | \$356,238 | \$356,238 | \$557,451 | \$(72,291) | \$650,419 | \$1,135,579 |

See notes to financial statements.

Statements of Cash Flows

(For the years ended March 31, 2011 and 2012)

(Millions of yen) (Thousands of U.S. dollars)

| Item | Fiscal 2010 (April 1, 2010 to March 31, 2011) | Fiscal 2011 (April 1, 2011 to March 31, 2012) | |
|--|---|--|--------------------|
| | Amount | Amount | |
| I Cash flows from operating activities | | | |
| Net income | ¥16,074 | ¥21,632 | \$262,186 |
| Depreciation and amortization | 353 | 345 | 4,189 |
| Interest income | (539,812) | (511,641) | (6,200,967) |
| Interest expenses | 283,177 | 274,320 | 3,324,690 |
| Increase/(decrease) in reserve for bonuses | (1) | 6 | 75 |
| Decrease in reserve for directors' bonuses | (0) | (0) | (0) |
| Decrease in reserve for retirement benefits | (14) | (48) | (589) |
| Decrease in reserve for retirement benefits for directors and corporate auditors | (28) | (3) | (39) |
| Increase in fund for improvement of operations of municipalities | 2,187 | 216 | 2,629 |
| Increase in reserve for interest rate volatility | 220,000 | 220,000 | 2,666,343 |
| Increase in management account reserve for interest rate volatility | 25,489 | 1,024 | 12,414 |
| Decrease in reserve for interest rate reduction | (13,994) | (12,601) | (152,729) |
| Net (increase)/decrease in loans | (201,628) | (155,554) | (1,885,282) |
| Net increase/(decrease) in bonds | (211,245) | (154,272) | (1,869,738) |
| Net increase/(decrease) in borrowed money | - | 30,000 | 363,592 |
| Interest received | 539,475 | 513,086 | 6,218,480 |
| Interest paid | (279,095) | (271,287) | (3,287,933) |
| Others | (7,434) | 1,507 | 18,271 |
| Net cash used in operating activities | (166,498) | (43,268) | (524,408) |
| II Cash flows from investing activities | | | |
| Proceeds from redemption of securities | 6,711,500 | 4,065,600 | 49,274,027 |
| Purchases of securities | (6,184,118) | (4,370,780) | (52,972,742) |
| Purchases of tangible fixed assets | (15) | (108) | (1,320) |
| Purchases of intangible fixed assets | (195) | (75) | (920) |
| Proceeds from sales of tangible fixed assets | - | 421 | 5,106 |
| Net cash provided by/(used in) investing activities | 527,170 | (304,944) | (3,695,849) |
| III Cash flows from financing activities | | | |
| Revenue from contributions made from municipally operated racing | 6,696 | 3,830 | 46,425 |
| Net cash provided by financing activities | 6,696 | 3,830 | 46,425 |
| IV Effect of exchange rate changes on cash and cash equivalents | - | - | - |
| V Net increase/(decrease) in cash and cash equivalents | 367,368 | (344,382) | (4,173,832) |
| VI Cash and cash equivalents at beginning of year | 149,264 | 516,633 | 6,261,459 |
| VII Cash and cash equivalents at end of year | ¥516,633 | ¥172,250 | \$2,087,627 |

See notes to financial statements.

■Notes to Financial Statements

1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, "JFM") has prepared financial statements in accordance with the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the "Law"), the ordinances based on the Law and other regulations applicable to JFM and accounting principles generally accepted in Japan.

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

Amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2012, the final business day of the fiscal year, which was ¥82.51 to U.S. \$1.

2. Summary of Significant Accounting Policies

(1) Securities

Held-to-maturity securities are carried at amortized cost (straight-line method).

(2) Derivative transactions

Derivative transactions are carried at fair value with changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for hedge accounting.

(3) Depreciation

(a) Tangible fixed assets

Depreciation of tangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. The estimated useful lives of major items are as follows:

Buildings: 20 to 41 years

Others: 2 to 19 years

(b) Intangible fixed assets

Amortization of intangible fixed assets is calculated by the straight-line method based on the estimated useful lives and the residual value determined by management. Software for internal use owned by JFM is amortized over 5 years.

(4) Deferred assets

Bond issuance costs are expensed in full when incurred.

(5) Translation of assets and liabilities denominated in foreign currencies into Japanese yen

Monetary assets and liabilities denominated in foreign currencies, for which foreign currency swaps or foreign exchange forward contracts are used to hedge the foreign currency fluctuation, are translated at the contracted rate as these swap contracts or the forward contracts qualify for deferral hedge accounting.

(6) Reserves

(a) Reserve for possible loan losses

JFM has never experienced any loan losses. Accordingly, no reserve for loan losses has been maintained.

(b) Reserve for bonuses

Reserve for bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to the fiscal year.

(c) Reserve for directors' bonuses

Reserve for directors' bonuses is provided for payment of bonuses to directors, in the amount of estimated bonuses, which are attributable to the fiscal year.

(d) Reserve for retirement benefits

Reserve for retirement benefits is provided for payment of retirement benefits to employees, in the amount deemed accrued at the fiscal year-end, based on the projected retirement benefit obligation and fair value of plan assets at the fiscal year-end.

(e) Reserve for retirement benefits for directors and corporate auditors

Reserve for retirement benefits for directors and corporate auditors is provided for payment of retirement benefits to directors and corporate auditors, in the amount deemed accrued at the fiscal year-end based on the internal policies.

(7) Hedge accounting

(a) Hedge accounting method

Interest rate swaps used to hedge the risk of interest rate fluctuations that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. If swap contracts or forward contracts used to hedge the risk of foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.

(b) Hedging instruments and hedged items

(i) Hedging instruments • • • Interest rate swaps

- Hedged items Bonds and borrowed money
- (ii) Hedging instruments . . . Currency swaps
 - Hedged items Foreign currency-denominated bonds
- (iii) Hedging instruments . . . Foreign exchange forward contracts
 - Hedged items Receipt of interest and principal of foreign currency-denominated bank deposits
- (c) Hedging policy

JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract is entered into at the time of each deposit to hedge the risks.
- (d) Assessment of hedge effectiveness

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, a periodic assessment of hedge effectiveness for interest rate swaps, currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.
- (8) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of "Cash and bank deposits" on the balance sheets.
- (9) Fund for improvement of operations of municipalities

In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the fund for improvement of operations of municipalities to reserve contributions as stipulated in Article 32-2 of the Local Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, "investment income") is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.
- (10) Reserve for interest rate volatility and management account reserve for interest rate volatility

The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, "former JFM") pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Section 8 of the supplementary provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, "Ordinance on Finance and Accounting") and Article 22 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, "Preparation Ordinance").

The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the former JFM pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the supplementary provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2008; hereinafter, "Management Account Operations Ordinance") and Articles 3 and 5 of the supplementary provisions of the above ordinance.
- (11) Reserve for interest rate reduction

Reserve for interest rate reduction is set aside to reduce interest rates on the loans made by the former JFM to local governments pursuant to the provisions of Article 9, Section 13, and Article 13, Section 8 of the supplementary provisions of the Law, and Article 26, Sections 1, 3 and 4 of the Preparation Ordinance, and is calculated and accounted for based on the provisions of Article 5 of the Management Account Operations Ordinance.
- (12) Management account surplus reserve

Profits generated in the management account are accounted for as the management account surplus reserve separately from retained earnings in accordance with the provisions of Article 13, Section 8 of the supplementary provisions of the Law and Article 26, Section 2 of the Preparation Ordinance.
- (13) Consumption taxes

National and local consumption taxes are accounted for using the tax exclusion method.

3. Additional Information

Effective April 1, 2011, JFM has adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No.24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, December 4, 2009).

4. Loans

There are no bankrupt loans, non-accrual loans, past due loans (three months or more), or restructured loans. Since JFM has never experienced loan losses in the past, it does not record a reserve for possible loan loss.

Bankrupt loans represent loans to borrowers as defined in Articles 96, Section 1, Clause 3 (a) through (e) and Clause 4 of the Enforcement Ordinance of the Corporate Income Tax Law (Government Ordinance No. 97, 1965), and on which accrued interest is not accounted in revenue as there is no expectation of collection of either principal or interest because they are past due for a considerable period of time or for other reasons (excluding loans on which bad debts are written off; hereinafter, "Non-accrual loans").

Non-accrual loans represent loans on which accrued interest is not accounted in revenue, excluding loans to bankrupt borrowers and loans with grace periods for interest payments to assist in corporate reorganization or to support business.

Past due loans (three months or more) represent loans on which payment of principal or interest is in arrears for more than three months, calculated from the day following the contractual due date, excluding bankrupt loans and non-accrual loans.

Restructured loans represent loans, given certain favorable terms and conditions, such as reduction or exemption of interest, grace periods for interest or principal payments, and debt waivers, to assist borrowers in corporate rehabilitation or to support business, excluding bankrupt loans, non-accrual loans and past due loans (three months or more).

All principal and interest (2,543 million yen in total) of which due dates had been extended during the previous fiscal year ended March 31, 2011 due to the Great East Japan Earthquake, were fully repaid on or before September 20, 2011.

5. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

In order to maintain a sound and good financial standing and earn the solid confidence of capital markets, JFM needs to appropriately manage various risks including interest rate risks.

JFM adopts an integrated risk management approach to appropriately respond to various risks while endeavoring to further advance its risk analysis and management.

Accordingly, JFM has developed a system for appropriate risk management, including the establishment of the Integrated Risk Management Committee, which supervises JFM's overall risk management, and the Risk Management Office, which monitors the risks in each department. The content of risk management can then be appropriately reflected in management decisions.

(b) Details and risks of financial instruments

JFM raises funds by primarily issuing 10-year bonds, and makes loans with a maximum maturity of 30 years and with repayment of interest and principal in equal installments. Therefore, a large maturity gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond refinancing.

JFM has set aside reserves for interest rate fluctuations (reserve for interest rate volatility), and has set up the ALM Committee separately from the Integrated Risk Management Committee to comprehensively analyze and manage JFM's assets and liabilities in a timely and appropriate manner. The ALM Committee is held four times a year in principle. At the meeting, the medium- and long-term management analysis and risk analysis and evaluation are conducted through scenario analysis, VaR analysis, and duration analysis, among other methods. In addition, by reflecting the conclusions of the ALM Committee in JFM's management such as funding plans, JFM endeavors to lower interest rate risk by narrowing the maturity gap between lending and funding.

(c) Risk Management for Financial Instruments

(i) Credit risk

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

A. Credit risk on loans

JFM extends loans exclusively to local governments. Local governments have a zero Bank of International Settlements (BIS) risk weighting and JFM does not expect any default on loans made to local governments for the reasons outlined below. JFM and the former JFM have never experienced any loan losses.

- The national government of Japan includes local government debt servicing costs in the expenditure of the Local Government Finance Program, and secures the total amount of local allocation tax which balances local governments' total expenditures including debt servicing costs and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments for local governments. The national government also secures revenue sources for debt servicing for individual local governments by including a portion of local government debt servicing costs in the Standard Financial Needs when calculating local allocation tax.
- Under the consultation system for local government bonds and loans, credit reviews must include checks on the circumstances of local government debt servicing, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose debt servicing

costs and financial deficits exceed a certain level must apply for approval to issue bonds or obtain loans, so that the credit standing of local government bonds and loans is maintained.

- Under the Law Relating to the Financial Soundness of Local Governments, which was promulgated in June 2007 (No. 94), local governments whose fiscal indicators exceed the early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed the reconstruction limits must take necessary actions to restore their finances under the oversight of the national government with regard to redemption of local government bonds and loans, and other operations.
- JFM is not subject to the “Banking Law” (1981, No. 59) or the “Financial Reconstruction Law” (1998, No. 132) but performs self-assessment of loans made by the former JFM to local government road corporations in accordance with the “Financial Inspection Manual” of the Financial Services Agency (FSA).

B. Credit risk on transactions

JFM is exposed to the risk of loss arising from credit events, such as deterioration in the financial condition of a counterparty, which causes an asset to lose value or become worthless. However, JFM appropriately manages credit risk of this type by constantly monitoring counterparties’ financial standing, taking measures including suspension of new deals and cancellation of transactions in case of a deterioration of their credit standings. Moreover, JFM limits counterparties to financial institutions that achieve a certain credit rating and other criteria, and conducts transactions within the credit lines for each counterparty in order to diversify risks. In addition, JFM enters into ISDA (International Swaps and Derivatives Association) Master Agreements and CSA (Credit Support Annex) with all derivatives counterparties to reduce credit risk.

(ii) Market risk

Market risk is 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, or the risk of loss resulting from changes in earnings generated from assets and liabilities. Market risk includes interest rate risk, foreign exchange risk, inflation risk and price change risk.

A. Interest rate risk

Interest rate risk is the risk of loss resulting from fluctuations in interest rates. More specifically, it is the risk of losses incurred or decrease in profits, which would arise from fluctuations in interest rates when there is an interest rate or maturity gap between assets and liabilities.

JFM makes loans to local governments. The maximum term to maturity is 30 years, but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds, which creates 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 fund-raising.

- JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and fund-raising.
- As assets and liabilities in JFM’s general account will expand as a result of loans and fund-raising for local governments, JFM carries out an ALM analysis of this account in a timely and appropriate manner to further enhance the effectiveness of its management of interest rate risk. JFM also endeavors to reduce exposure to interest rate risk by setting the following medium-term (between fiscal 2009 and fiscal 2013) management target, such as continuously issuing super-long bonds with maturities exceeding 10 years.

a. Maintain the “outlier ratio” below approximately 20%

Notes: 1. “Outlier ratio” is the ratio of “decline in economic value” as a result of interest rate shocks to net assets including reserves for interest rate volatility and the fund for improvement of operations of municipalities.

2. “Decline in economic value” is the decline of present value after interest rate shocks (an upward or downward 200 bp parallel shift of the yield curve).

b. Maintain a duration gap of less than approximately 2 years.

The management account, which manages assets related to money loaned by the former JFM, is currently exposed to greater interest rate risk than the general account, but JFM contributes to the required reserves for interest rate volatility as described above.

In accordance with Article 14 of the Supplementary Provisions to the Law, it was decided that a part of JFM’s reserves for interest rate volatility within the management account would be attributed to the Japanese national government. The transfer is projected to occur over a period of three years from FY2012 through FY2014, with the aim of transferring 1 trillion yen over this period.

JFM is also exposed to pipeline risk, whereby losses would be incurred or profits decreased as a result of interest rate fluctuations during the time from when JFM raises money until the point at which the money is loaned to local governments. JFM uses swap transactions to hedge against pipeline risk.

B. Foreign exchange and other risks

Various risks associated with bond principal and interest payments are hedged by swap transactions. These risks include foreign exchange risk related to foreign currency-denominated bonds, interest rate risk related to floating rate bonds, and risk of fluctuations in the amounts of principal and interest of inflation-indexed

bonds.

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 realized losses on foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle, JFM minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange contracts.

C. Quantitative information on market risk

Loans, bonds and borrowed money are primarily affected by interest rate risk, which is a major risk variable among the market risks.

With respect to general account loans, bonds and borrowed money, JFM establishes a management target and uses the outlier ratio for quantitative analysis in the management of interest rate risk.

Specifically, JFM is attempting to maintain the outlier ratio below approximately 20% from Fiscal 2009 to Fiscal 2013 by means of issuing bonds of various terms, including super long-term bonds, which have a redemption period of over 10 years, considering the composition of the remaining periods of the bonds held.

The outlier ratio is calculated based on the following conditions.

- Future Cash Flows

With respect to loans, future cash flows regarding such loans are calculated based on the type of interest rate of the loans. In addition, the advanced redemption in the future is not expected by JFM.

With respect to fixed-rate bonds, future cash flows regarding such fixed-rate bonds are calculated based on the redemption schedule. With respect to floating rate bonds hedged by interest rate swaps, that qualify for hedge accounting and meet specific matching criteria, future cash flows corresponding to such floating rate bonds are calculated in a manner similar to fixed-rate bonds.

- Indicative Interest Rate

For the assessment of loans, bonds and borrowed money, the corresponding interest rate of Japanese government bonds as of March 31, 2012 is used.

- Calculation of Outlier Ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of March 31, 2012, the outlier ratio is calculated by dividing the change in fair value in the case where the indicative interest rate (government bonds) rises across-the-board by 200 basis points (2.00%) or the change in fair value in the case such rate falls across-the-board by 200 basis points (2.00%), whichever is greater, by net assets including the reserve for interest rate volatility and the fund for improvement of operations of municipalities.

Information the outlier ratio as of March 31, 2012, is as follows:

One outlier ratio reflecting a rise of 200 basis points of the indicative interest rate is calculated as JFM has determined that the change in fair value in the case of rising interest rates would be greater than that in the case of falling interest rates.

(Millions of yen) (Millions of U.S. dollars)

| | Outlier ratio (a)=- (b)/(e) | Change in fair value in the case of 200 basis points rise in interest rates | | | | | | Net assets including reserve for interest rate volatility and the fund for improvement of operations of municipalities (e) | |
|-----------------|--------------------------------|---|------------------------|---------------------------|-------------------------|---------------------------------|----------------------|--|----------------------|
| | | Total (b)=(c)+(d) | | Loans (c) | | Bonds and borrowed money (d) | | | |
| General account | 17.5% [+2.9%] | ¥(321,992) [(88,064)] | \$(3,902) [(1,067)] | ¥(998,914) [(306,305)] | \$(12,106) [(3,712)] | ¥+676,921 [+218,240] | \$+8,204 [+2,645] | ¥1,839,901 [+242,261] | \$22,299 [+2,936] |

Note: Amounts posted in square brackets indicate the change from March 31, 2011.

With respect to loans and bonds in the management account, JFM raises funds by the issuance of bonds as necessary in order to manage existing loans until their redemption. For this reason, while JFM reports the calculation results of the quantitative information regarding the interest rate risk to the ALM Committee and confirms the status or transition, etc. of interest rate risk, JFM does not establish a management target or use the quantitative analysis in the management of interest rate risk.

With respect to these financial instruments in the management account, based on an assumption that the risk variables, except for interest rate risk, hold steady, for an indicative interest rate as of March 31, 2012 that is 10 basis points higher than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would decline by 61,644 million yen (747 million U.S. dollars). On the contrary, for an indicative interest rate as of March 31, 2012 that is 10 basis points lower than the actual rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, would increase by 62,558 million yen (758 million U.S. dollars).

(iii) Liquidity risk

Liquidity risk is the risk that JFM would incur losses due to difficulties in securing the necessary funds or the necessity of obtaining funds at far higher interest rates than under normal conditions as a result of a mismatch between the maturities of assets and liabilities or an unexpected outflow of funds (funding liquidity risk). It also includes the risk that JFM would incur losses because it is unable to conduct market transactions or is forced to conduct transactions at far more unfavorable prices than under normal conditions due to market disruption or other difficult situations (market liquidity risk).

JFM's exposure to liquidity risk is extremely low because loans are made to local governments according to a pre-set schedule, and the daily cash and liquidity management is carried out based on a quarterly plan for fund management. Moreover, JFM has entered into overdraft agreements with several financial institutions to prepare for the unexpected events, and invests surplus funds only in short-term financial products.

(iv) Supplemental remarks on fair value of financial instruments

In addition to the amount based on the market price, the fair value of illiquid financial instruments includes a value that has been rationally calculated. Since certain assumptions were made when calculating the fair value, the value may differ in the event that the assumptions change.

(2) Items related to fair value of financial instruments

The book value, fair value and difference between them as of March 31, 2011 are as follows.

(Millions of yen)

| | Book value | Fair value | Difference |
|---|-------------|-------------|------------|
| (1) Loans | ¥22,231,856 | ¥23,462,149 | ¥1,230,293 |
| (2) Securities held-to-maturity securities | 457,590 | 457,582 | (7) |
| (3) Cash and bank deposits | 516,633 | 516,633 | - |
| Total assets | 23,206,079 | 24,436,365 | 1,230,285 |
| Bonds | 18,327,190 | 18,873,549 | 546,359 |
| Total liabilities | 18,327,190 | 18,873,549 | 546,359 |
| Derivative transactions(*1) Hedge accounting applied | (789) | (789) | - |
| Total of derivative transactions | (789) | (789) | - |

The book value, fair value and difference between them as of March 31, 2012 are as follows.

(Millions of yen)

| | Book value | Fair value | Difference |
|---|-------------|-------------|------------|
| (1) Loans | ¥22,387,411 | ¥23,797,792 | ¥1,410,381 |
| (2) Securities held-to-maturity securities | 762,987 | 762,979 | (8) |
| (3) Cash and bank deposits | 172,250 | 172,250 | - |
| Total assets | 23,322,648 | 24,733,021 | 1,410,373 |
| (1) Bonds | 18,176,696 | 18,890,039 | 713,343 |
| (2) Borrowed money | 30,000 | 30,072 | 72 |
| Total liabilities | 18,206,696 | 18,920,112 | 713,416 |
| Derivative transactions(*1) Hedge accounting applied | 222 | 222 | - |
| Total of derivative transactions | 222 | 222 | - |

(Thousands of U.S. dollars)

| | Book value | Fair value | Difference |
|---|---------------|---------------|--------------|
| (1) Loans | \$271,329,669 | \$288,423,127 | \$17,093,458 |
| (2) Securities held-to-maturity securities | 9,247,212 | 9,247,113 | (99) |
| (3) Cash and bank deposits | 2,087,627 | 2,087,627 | - |
| Total assets | 282,664,508 | 299,757,867 | 17,093,359 |
| (1) Bonds | 220,296,886 | 228,942,426 | 8,645,540 |
| (2) Borrowed money | 363,592 | 364,475 | 883 |
| Total liabilities | 220,660,478 | 229,306,901 | 8,646,423 |
| Derivative transactions(*1) Hedge accounting applied | 2,695 | 2,695 | - |
| Total of derivative transactions | 2,695 | 2,695 | - |

(*1) Assets and liabilities resulting from derivative transactions are presented on a net basis with liabilities in parentheses.

Note 1. Method for calculating fair value of financial instruments and items related to marketable securities and derivative transactions

Assets

(1) Loans

The fair value of loans is calculated by discounting future cash flows assuming prepayment at the discount rate calculated using the Japanese government bond rates as of March 31, 2011 and 2012.

(2) Securities

All bonds are held until maturity, and the fair value of treasury discount bills is the market price.

Since all negotiable certificates of deposit are short-term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

As of March 31, 2011

(Millions of yen)

| | Type | Book value | Fair value | Difference |
|---|------------------------------------|------------|------------|------------|
| Securities with fair values exceeding the balance sheet amount | - | ¥- | ¥- | ¥- |
| | Sub total | - | - | - |
| Securities with fair values that do not exceed the balance sheet amount | Treasury discount bills | 86,990 | 86,982 | (7) |
| | Negotiable certificates of deposit | 370,600 | 370,600 | - |
| | Sub total | 457,590 | 457,582 | (7) |
| Total | | ¥457,590 | ¥457,582 | ¥(7) |

As of March 31, 2012

(Millions of yen)

| | Type | Book value | Fair value | Difference |
|---|------------------------------------|------------|------------|------------|
| Securities with fair values exceeding the balance sheet amount | - | ¥- | ¥- | ¥- |
| | Sub total | - | - | - |
| Securities with fair values that do not exceed the balance sheet amount | Treasury discount bills | 96,987 | 96,979 | (8) |
| | Negotiable certificates of deposit | 666,000 | 666,000 | - |
| | Sub total | 762,987 | 762,979 | (8) |
| Total | | ¥762,987 | ¥762,979 | ¥(8) |

(Thousands of U.S. dollars)

| | Type | Book value | Fair value | Difference |
|---|------------------------------------|-------------|-------------|------------|
| Securities with fair values exceeding the balance sheet amount | - | \$- | \$- | \$- |
| | Sub total | - | - | - |
| Securities with fair values that do not exceed the balance sheet amount | Treasury discount bills | 1,175,463 | 1,175,364 | (99) |
| | Negotiable certificates of deposit | 8,071,749 | 8,071,749 | - |
| | Sub total | 9,247,212 | 9,247,113 | (99) |
| Total | | \$9,247,212 | \$9,247,113 | \$(99) |

(3) Cash and bank deposits

The book value is used as the fair value for deposits without maturities. Since all deposits with maturities are short-term, the fair value approximates the book value. As a result, the book value is deemed to be the fair value.

Liabilities

(1) Bonds

The fair value of bonds issued by JFM that have a market price is based on the market price. The fair value of bonds without a market price is calculated by discounting the future cash flows using the interest rate that would be applied when issuing similar bonds with the same total principal and interest and payment term.

Deferral hedge accounting is used for currency swaps, and the fair value of foreign currency-denominated bonds is thus calculated using the total of the fair value of that bond and the fair value of the swap transaction.

Hedge accounting is used for interest rate swaps, and the fair value of floating rate bonds is thus calculated by determining the current value using the total of the corresponding interest rate swap accounted for together with the principal and interest and discounting the future cash flows using the interest rate that would be applied when issuing a similar bond.

(2) Borrowed money

The fair value of borrowed money is calculated by discounting the future cash flows using the interest rate that would presumably be applied when issuing bonds with the same total principal and interest and payment term.

Derivative transactions

Transactions for which hedge accounting is applied

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of March 31, 2011 is as follows:

(Millions of yen)

| Hedge accounting method | Type of derivative transactions | Primary hedged items | Contract amount | | Fair value | Method for calculating fair value |
|--|---|---------------------------------------|-----------------|-------------------------|------------|--|
| | | | | Of which 1 year or more | | |
| Principal accounting method | Interest rate swap transactions Receive/fixed and pay/floating | Bonds | ¥100,000 | ¥100,000 | ¥(789) | Based on prices provided by the counterparty financial institution |
| Hedge accounting for interest rate swaps | Interest rate swap transactions Receive/floating and pay/fixed | Bonds | 95,000 | 95,000 | (*1) | |
| Deferral hedge accounting for currency swaps | Currency swap transactions | Foreign currency-denominated bonds | 483,090 | 483,090 | (*2) | |
| Deferral hedge accounting for foreign exchange contracts | Foreign exchange contracts | Foreign currency-denominated deposits | 138,000 | - | (*2) | |
| Total | | | ¥816,090 | ¥678,090 | ¥(789) | |

For derivative transactions for which hedge accounting is applied, the contractual amount or the amount equivalent to the principal in the contract under each hedge accounting method as of March 31, 2012 is as follows:

(Millions of yen)

| Hedge accounting method | Type of derivative transactions | Primary hedged items | Contract amount | | Fair value | Method for calculating fair value |
|--|---|---------------------------------------|-----------------|-------------------------|------------|--|
| | | | | Of which 1 year or more | | |
| Principal accounting method | Interest rate swap transactions Receive/fixed and pay/floating | Bonds Borrowed money | ¥44,500 | ¥44,500 | ¥222 | Based on prices provided by the counterparty financial institution |
| Hedge account for interest rate swaps | Interest rate swap transactions Receive/floating and pay/fixed | Bonds | 95,000 | 95,000 | (*1) | |
| Deferral hedge accounting for currency swaps | Currency swap transactions | Foreign currency-denominated bonds | 551,494 | 551,494 | (*2) | |
| Deferral hedge accounting for foreign exchange contracts | Foreign exchange contracts | Foreign currency-denominated deposits | 125,000 | - | (*2) | |
| Total | | | ¥815,994 | ¥690,994 | ¥222 | |

(Thousands of U.S. dollars)

| Hedge accounting method | Type of derivative transactions | Primary hedged items | Contract amount | | Fair value | Method for calculating fair value |
|--|---|---------------------------------------|-----------------|-------------------------|------------|--|
| | | | | Of which 1 year or more | | |
| Principal accounting method | Interest rate swap transactions Receive/fixed and pay/floating | Bonds Borrowed money | \$539,329 | \$539,329 | \$2,695 | Based on prices provided by the counterparty financial institution |
| Hedge account for interest rate swaps | Interest rate swap transactions Receive/floating and pay/fixed | Bonds | 1,151,376 | 1,151,376 | (*1) | |
| Deferral hedge accounting for currency swaps | Currency swap transactions | Foreign currency-denominated bonds | 6,683,974 | 6,683,974 | (*2) | |
| Deferral hedge accounting for foreign exchange contracts | Foreign exchange contracts | Foreign currency-denominated deposits | 1,514,968 | - | (*2) | |
| Total | | | \$9,889,647 | \$8,374,679 | \$2,695 | |

(*1) Since interest rate swaps for which hedge accounting is applied are accounted for together with the bond being hedged, the fair value is presented together with the fair value of the relevant bond.

(*2) Since currency swaps and foreign exchange contracts for which deferral hedge accounting is applied are accounted for together with the foreign currency-denominated bond or foreign currency-denominated deposit being hedged, the fair value is presented together with the fair value of the relevant hedged item.

Note 2. The repayment schedule for monetary claims and securities with maturities is as follows:

As of March 31, 2011

(Millions of yen)

| | Within 1 year | After 1 year through 2 years | After 2 years through 3 years | After 3 years through 4 years | After 4 years through 5 years | After 5 years through 10 years | After 10 years through 20 years | After 20 years through 30 years |
|--|------------------|---------------------------------------|--|--|--|---|--|--|
| Loans | ¥1,579,622 | ¥1,551,565 | ¥1,544,319 | ¥1,510,292 | ¥1,478,709 | ¥6,288,292 | ¥6,911,416 | ¥1,367,638 |
| Securities held-to- maturity securities | 457,590 | - | - | - | - | - | - | - |
| Deposits | 516,632 | - | - | - | - | - | - | - |

As of March 31, 2012

(Millions of yen)

| | Within 1 year | After 1 year through 2 years | After 2 years through 3 years | After 3 years through 4 years | After 4 years through 5 years | After 5 years through 10 years | After 10 years through 20 years | After 20 years through 30 years |
|--|------------------|---------------------------------------|--|--|--|---|--|--|
| Loans | ¥1,555,010 | ¥1,552,019 | ¥1,548,246 | ¥1,540,203 | ¥1,481,212 | ¥6,369,714 | ¥6,939,819 | ¥1,401,184 |
| Securities held-to- maturity securities | 762,987 | - | - | - | - | - | - | - |
| Deposits | 172,249 | - | - | - | - | - | - | - |

(Thousands of U.S. dollars)

| | Within 1 year | After 1 year through 2 years | After 2 years through 3 years | After 3 years through 4 years | After 4 years through 5 years | After 5 years through 10 years | After 10 years through 20 years | After 20 years through 30 years |
|--|------------------|---------------------------------------|--|--|--|---|--|--|
| Loans | \$18,846,332 | \$18,810,080 | \$18,764,352 | \$18,666,866 | \$17,951,911 | \$77,199,306 | \$84,108,829 | \$16,981,993 |
| Securities held-to- maturity securities | 9,247,212 | - | - | - | - | - | - | - |
| Deposits | 2,087,626 | - | - | - | - | - | - | - |

Note 3. The repayment schedule is as follows:

As of March 31, 2011

(Millions of yen)

| | Within 1 year | After 1 year through 2 years | After 2 years through 3 years | After 3 years through 4 years | After 4 years through 5 years | After 5 years through 10 years | After 10 years through 20 years | After 20 years through 30 years |
|-------|------------------|---------------------------------------|--|--|--|---|--|--|
| Bonds | ¥2,176,130 | ¥2,030,560 | ¥2,164,070 | ¥1,931,670 | ¥1,680,970 | ¥6,865,040 | ¥1,286,338 | ¥211,452 |

As of March 31, 2012

(Millions of yen)

| | Within 1 year | After 1 year through 2 years | After 2 years through 3 years | After 3 years through 4 years | After 4 years through 5 years | After 5 years through 10 years | After 10 years through 20 years | After 20 years through 30 years |
|----------------------------|------------------|---------------------------------------|--|--|--|---|--|--|
| Bonds Borrowed money | ¥2,030,560 - | ¥2,164,070 - | ¥1,931,670 - | ¥1,680,970 - | ¥1,560,228 - | ¥7,058,245 30,000 | ¥1,549,120 - | ¥220,000 - |

(Thousands of U.S. dollars)

| | Within 1 year | After 1 year through 2 years | After 2 years through 3 years | After 3 years through 4 years | After 4 years through 5 years | After 5 years through 10 years | After 10 years through 20 years | After 20 years through 30 years |
|----------------------------|-------------------|---------------------------------------|--|--|--|---|--|--|
| Bonds Borrowed money | \$24,609,865 - | \$26,227,972 - | \$23,411,344 - | \$20,372,924 - | \$18,909,574 - | \$85,544,126 363,592 | \$18,774,936 - | \$2,666,343 - |

6. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets at March 31, 2011 consisted of the following:

(Millions of yen)

| Type of assets | Balance at April 1, 2010 (Acquisition costs) | Increase during the year | Decrease during the year | Balance at March 31, 2011 (Acquisition costs) | Accumulated depreciation and amortization at March 31, 2011 | Depreciation and amortization during the year | Balance at March 31, 2011 (Net book value) |
|-------------------------------|---|--------------------------------|--------------------------------|---|--|---|--|
| Tangible fixed assets | | | | | | | |
| Buildings | ¥555 | ¥12 | ¥- | ¥568 | ¥107 | ¥42 | ¥460 |
| Land | 2,403 | - | - | 2,403 | - | - | 2,403 |
| Other tangible fixed assets | 96 | 43 | - | 140 | 85 | 45 | 54 |
| Total tangible fixed assets | 3,055 | 56 | - | 3,111 | 193 | 87 | 2,918 |
| Intangible fixed assets | | | | | | | |
| Software | 1,219 | 113 | - | 1,332 | 576 | 264 | 756 |
| Other intangible fixed assets | 13 | - | 13 | 0 | - | - | 0 |
| Total intangible fixed assets | ¥1,233 | ¥113 | ¥13 | ¥1,332 | ¥576 | ¥264 | ¥756 |

Tangible and intangible fixed assets at March 31, 2012 consisted of the following:

(Millions of yen)

| Type of assets | Balance at April 1, 2011 (Acquisition costs) | Increase during the year | Decrease during the year | Balance at March 31, 2012 (Acquisition costs) | Accumulated depreciation and amortization at March 31, 2012 | Depreciation and amortization during the year | Balance at March 31, 2012 (Net book value) |
|-------------------------------|---|--------------------------|--------------------------|--|---|---|---|
| Tangible fixed assets | | | | | | | |
| Buildings | ¥568 | ¥95 | ¥10 | ¥652 | ¥149 | ¥43 | ¥502 |
| Land | 2,403 | - | 408 | 1,994 | - | - | 1,994 |
| Other tangible fixed assets | 140 | 36 | 74 | 102 | 37 | 25 | 65 |
| Total tangible fixed assets | 3,111 | 131 | 493 | 2,750 | 186 | 68 | 2,563 |
| Intangible fixed assets | | | | | | | |
| Software | 1,332 | 118 | 74 | 1,376 | 776 | 274 | 600 |
| Other intangible fixed assets | 0 | - | - | 0 | - | - | 0 |
| Total intangible fixed assets | ¥1,332 | ¥118 | ¥74 | ¥1,376 | ¥776 | ¥274 | ¥600 |

(Thousands of U.S. dollars)

| Type of assets | Balance at April 1, 2011 (Acquisition costs) | Increase during the year | Decrease during the year | Balance at March 31, 2012 (Acquisition costs) | Accumulated depreciation and amortization at March 31, 2012 | Depreciation and amortization during the year | Balance at March 31, 2012 (Net book value) |
|-------------------------------|---|--------------------------|--------------------------|--|---|---|---|
| Tangible fixed assets | | | | | | | |
| Buildings | \$6,886 | \$1,154 | \$131 | \$7,909 | \$1,813 | \$527 | \$6,096 |
| Land | 29,126 | - | 4,950 | 24,176 | - | - | 24,176 |
| Other tangible fixed assets | 1,701 | 443 | 897 | 1,247 | 452 | 308 | 795 |
| Total tangible fixed assets | 37,713 | 1,597 | 5,978 | 33,332 | 2,265 | 835 | 31,067 |
| Intangible fixed assets | | | | | | | |
| Software | 16,154 | 1,432 | 899 | 16,687 | 9,410 | 3,328 | 7,277 |
| Other intangible fixed assets | 1 | - | - | 1 | - | - | 1 |
| Total intangible fixed assets | \$16,155 | \$1,432 | \$899 | \$16,688 | \$9,410 | \$3,328 | \$7,278 |

Notes: 1. Accumulated depreciation of tangible fixed assets amounted to 186 million yen (2,265 thousand dollars) and 193 million yen as of March 31, 2012 and 2011, respectively.

7. Assets Pledged as Collateral

- (1) Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amounts of 18,176,696 million yen (220,296,886 thousand dollars) and 18,327,190 million yen as of March 31, 2012 and 2011, respectively.
- (2) Securities in the amounts of 469 million yen (5,695 thousand dollars) are pledged as collateral for derivative transactions as of March 31, 2012.

8. Bonds

Bonds at March 31, 2011 consisted of the following:

(Millions of yen)

| Type of bond | Date of issue | Balance at April 1, 2010 | Balance at March 31, 2011 | Coupon rate (%) | Maturity |
|--|----------------------|--------------------------|---|-----------------|------------|
| Government-guaranteed bonds (domestic) 1st-22th JFM bonds | 6/15/2009-3/14/2011 | ¥680,402 | ¥1,330,908 | 0.9 to 1.5 | 10Y |
| Government-guaranteed bond (international) 1st Global U.S. dollar JFM bond | 1/13/2011 | - | 83,170 [U.S. dollars 1,000,000 thousand] | 4.0 | 10Y |
| Public offering bonds without government guarantee 1st-4th 5-year JFM bonds | 5/25/2010-2/21/2011 | - | 90,000 | 0.423 to 0.639 | 5Y |
| Public offering bonds without government guarantee 1st-22nd JFM bonds | 6/18/2009-3/17/2011 | 245,000 | 605,000 | 0.976 to 1.648 | 10Y |
| Public offering bonds without government guarantee 1st-13th 20-year JFM bonds | 6/25/2009-1/24/2011 | 195,000 | 355,000 | 1.752 to 2.266 | 20Y |
| Public offering bonds without government guarantee F-1st - F-52th, F-54th - F-56th JFM bonds | 7/22/2009-2/3/2011 | 186,000 | 461,000 | 0.185 to 2.332 | 3Y to 29Y |
| Public offering bond without government guarantee F-53th JFM bond (Floating Rate Note) | 2/1/2011 | - | 15,000 | Floating rate | 9Y |
| Private placement bonds without government guarantee A-1st - A-14th JFM bonds | 7/31/2009-3/22/2011 | 280,000 | 680,000 | 0.99 to 1.53 | 10Y |
| Japan Finance Organization for Municipalities bonds - Sub-total | - | 1,586,402 | 3,620,078 | - | - |
| Government-guaranteed bond (domestic) 1st 4-year JFM bond | 2/27/2009 | 299,872 | 299,917 | 0.7 | 4Y |
| Government-guaranteed bonds (domestic) 1st-8th JFM bonds | 10/16/2008-5/25/2009 | 560,087 | 560,362 | 1.3 to 1.6 | 10Y |
| Public offering bond without government guarantee 1st 5-year JFM bond | 2/24/2009 | 29,993 | 29,994 | 1.01 | 5Y |
| Public offering bonds without government guarantee 1st-4th JFM bonds | 11/25/2008-5/28/2009 | 139,957 | 139,962 | 1.59 to 1.77 | 10Y |
| Public offering bonds without government guarantee 1st-2nd 20-year JFM bonds | 1/26/2009-4/30/2009 | 84,943 | 84,946 | 2.07 to 2.29 | 20Y |
| Private placement bonds without government guarantee A-1st-2nd JFM bonds | 4/30/2009-5/26/2009 | 120,000 | 120,000 | 1.69 to 1.73 | 10Y |
| Japan Finance Organization for Municipal Enterprises bonds - Sub-total | - | 1,234,854 | 1,235,183 | - | - |
| Government-guaranteed bonds (domestic) 788th-886th former JFM bonds | 4/27/2000-6/19/2008 | 9,220,051 | 7,556,867 (1,540,760) | 0.5 to 2.0 | 10Y |
| Government-guaranteed bonds (domestic) 1st-5th 15-year former JFM bonds | 6/22/2005-7/18/2007 | 184,637 | 184,659 | 1.6 to 2.2 | 15Y |
| Government-guaranteed bonds (international) 4th Euro sterling pound former JFM bond - 5th Global Yen former JFM bond | 8/9/1999-6/25/2008 | 1,043,458 | 923,913 (200,000) [U.S. dollars 3,200,000 thousand] [Euro 900,000 thousand] [Pound sterling 150,000 thousand] | 1.350 to 5.875 | 10Y to 20Y |

| | | | | | |
|--|----------------------|-------------|----------------------------|------------------|-----|
| Public offering bond without government guarantee 1st 5-year former JFM bond | 2/29/2008 | 129,963 | 129,976 | 1.14 | 5Y |
| Public offering bonds without government guarantee 1st-30th former JFM bonds | 12/26/2001-6/16/2008 | 1,279,786 | 1,279,829 (100,000) | 0.64 to 2.07 | 10Y |
| Public offering bonds without government guarantee 1st-25th 20-year former JFM bonds | 7/30/2002-6/16/2008 | 569,611 | 569,636 | 1.03 to 2.58 | 20Y |
| Public offering bonds without government guarantee 1st-10th 30-year former JFM bonds | 1/29/2004-9/20/2006 | 189,848 | 189,855 | 2.39 to 2.95 | 30Y |
| Public offering bond without government guarantee 1st floating rate former JFM bond | 10/31/2002 | 20,000 | 20,000 | Floating rate | 15Y |
| Public offering bonds without government guarantee 1st-2nd inflation-indexed former JFM bonds | 3/2/2005-7/19/2005 | 40,000 | 40,000 | 0.45 to 0.47 | 10Y |
| Public offering bonds without government guarantee 1st-3rd former JFM bonds with scheduled repayment | 2/14/2003-6/9/2004 | 45,660 | 43,490 (2,170) | 1.39 to 2.01 | 28Y |
| Public offering bond without government guarantee 1st CMS-linked floating rate former JFM bond | 9/13/2006 | 20,000 | 20,000 | Floating rate | 10Y |
| Private placement bonds A series 55th - Special No. 1 series 31st former JFM bonds | 4/28/2000-7/31/2008 | 2,970,200 | 2,513,700 (333,200) | 0.67 to 2.18 | 10Y |
| Former JFM bonds - Sub-total | - | 15,713,218 | 13,471,927 (2,176,130) | - | - |
| Total | - | ¥18,534,475 | ¥18,327,190 (2,176,130) | - | - |

Notes:1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds for 18,327,190 million yen at March 31, 2011.

2. Amounts in square brackets under "Balance at March 31, 2011" for "Government-guaranteed bond (international) 1st Global U.S. dollar JFM bond" and "Government-guaranteed bond (international) - 4th Euro sterling pound former JFM bond - 5th Global Yen former JFM bond" are denominated in foreign currencies.

3. Amounts in parentheses under "Balance at March 31, 2011" are to be repaid within one year.

Bonds at March 31, 2012 consisted of the following:

(Millions of yen)

| Type of bond | Date of issue | Balance at April 1, 2011 | Balance at March 31, 2012 | Coupon rate (%) | Maturity |
|--|----------------------|--------------------------|---|-----------------|-----------|
| Government-guaranteed bonds (domestic) 1st-34th JFM bonds | 6/15/2009-3/14/2012 | ¥1,330,908 | ¥1,841,660 | 0.9 to 1.5 | 10Y |
| Government-guaranteed bonds (domestic) 1st-4th 6-year JFM bonds | 9/27/2011-3/26/2012 | - | 199,964 | 0.4 | 6Y |
| Government-guaranteed bond (international) 1st Global U.S. dollar JFM bond | 1/13/2011 | 83,170 | 83,170 [U.S. dollars 1,000,000 thousand] | 4.0 | 10Y |
| Public offering bonds without government guarantee 1st-8th 5-year JFM bonds | 5/25/2010-2/20/2012 | 90,000 | 170,000 | 0.384 to 0.639 | 5Y |
| Public offering bonds without government guarantee 1st-34th JFM bonds | 6/18/2009-3/19/2012 | 605,000 | 1,005,000 | 0.976 to 1.648 | 10Y |
| Public offering bonds without government guarantee 1st-20th 20-year JFM bonds | 6/25/2009-1/26/2012 | 355,000 | 525,000 | 1.752 to 2.266 | 20Y |
| Public offering bonds without government guarantee F-1st - F-52th, F-54th - F-109th JFM bonds | 7/22/2009-3/28/2012 | 461,000 | 754,500 | 0.185 to 2.334 | 3Y to 30Y |
| Public offering bond without government guarantee F-53th JFM bond (Floating Rate Note) | 2/1/2011 | 15,000 | 15,000 | Floating rate | 9Y |
| International without government guarantee 2nd, 3rd, 7th, 14th-16th, 19th, 28th JFM bonds | 1/12/2012-3/13/2012 | - | 17,795 [U.S. dollars 227,000 thousand] | 1.84 to 2.40 | 5Y to 7Y |
| International without government guarantee 1st, 4th-6th, 8th-13th, 17th, 18th, 20th-27th JFM bonds | 1/17/2012-3/13/2012 | - | 50,608 [U.S. dollars 591,000 thousand] [NZ dollars 40,000 thousand] [AU dollars 20,000 thousand] | Floating rate | 5Y |
| Private placement bonds without government guarantee A-1st - A-26th JFM bonds | 7/31/2009-3/19/2012 | 680,000 | 980,000 | 0.99 to 1.53 | 10Y |
| Japan Finance Organization for Municipalities bonds - Sub-total | - | 3,620,078 | 5,642,699 | - | - |
| Government-guaranteed bond (domestic) 1st 4-year JFM bond | 2/27/2009 | 299,917 | 299,962 (300,000) | 0.7 | 4Y |
| Government-guaranteed bonds (domestic) 1st-8th JFM bonds | 10/16/2008-5/25/2009 | 560,362 | 560,636 | 1.3 to 1.6 | 10Y |
| Public offering bond without government guarantee 1st 5-year JFM bond | 2/24/2009 | 29,994 | 29,996 | 1.01 | 5Y |
| Public offering bonds without government guarantee 1st-4th JFM bonds | 11/25/2008-5/28/2009 | 139,962 | 139,967 | 1.59 to 1.77 | 10Y |
| Public offering bonds without government guarantee 1st-2nd 20-year JFM bonds | 1/26/2009-4/30/2009 | 84,946 | 84,949 | 2.07 to 2.29 | 20Y |
| Private placement bonds without government guarantee A-1st - A-2nd JFM bonds | 4/30/2009-5/26/2009 | 120,000 | 120,000 | 1.69 to 1.73 | 10Y |
| Japan Finance Organization for Municipal Enterprises bonds - Sub-total | - | 1,235,183 | 1,235,513 (300,000) | - | - |

| | | | | | |
|---|--------------------------|-------------|--|------------------|---------------|
| Government-guaranteed bonds (domestic) 801th-886th former JFM bonds | 4/26/2001- 6/19/2008 | 7,556,867 | 6,018,749 (1,108,390) | 0.5 to 2.0 | 10Y |
| Government-guaranteed bonds (domestic) 1st-5th 15-year former JFM bonds | 6/22/2005- 7/18/2007 | 184,659 | 184,682 | 1.6 to 2.2 | 15Y |
| Government-guaranteed bonds (international) 4th Euro sterling pound former JFM bond - 5th Global Yen former JFM bond | 8/9/1999- 6/25/2008 | 923,913 | 723,848 [U.S. dollars 2,200,000 thousand] [Euro 900,000 thousand] [Pound sterling 150,000 thousand] | 1.350 to 5.75 | 10Y to 20Y |
| Public offering bond without government guarantee 1st 5-year former JFM bond | 2/29/2008 | 129,976 | 129,989 (130,000) | 1.14 | 5Y |
| Public offering bonds without government guarantee 1st-30th former JFM bonds | 12/26/2001- 6/16/2008 | 1,279,829 | 1,179,870 (250,000) | 0.64 to 2.07 | 10Y |
| Public offering bonds without government guarantee 1st-25th 20-year former JFM bonds | 7/30/2002- 6/16/2008 | 569,636 | 569,661 | 1.03 to 2.58 | 20Y |
| Public offering bonds without government guarantee 1st-10th 30-year former JFM bonds | 1/29/2004- 9/20/2006 | 189,855 | 189,861 | 2.39 to 2.95 | 30Y |
| Public offering bond without government guarantee 1st floating rate former JFM bond | 10/31/2002 | 20,000 | 20,000 | Floating rate | 15Y |
| Public offering bonds without government guarantee 1st-2nd inflation-indexed former JFM bonds | 3/2/2005- 7/19/2005 | 40,000 | 40,000 | 0.45 to 0.47 | 10Y |
| Public offering bonds without government guarantee 1st-3rd former JFM bonds with scheduled repayment | 2/14/2003- 6/9/2004 | 43,490 | 41,320 (2,170) | 1.39 to 2.01 | 28Y |
| Public offering bond without government guarantee 1st CMS-linked floating rate former JFM bond | 9/13/2006 | 20,000 | 20,000 | Floating rate | 10Y |
| Private placement bonds A series 58th - Special No. 1 series 31st former JFM bonds | 7/31/2001- 7/31/2008 | 2,513,700 | 2,180,500 (240,000) | 0.67 to 2.18 | 10Y |
| Former JFM bonds - Sub-total | - | 13,471,927 | 11,298,483 (1,730,560) | - | - |
| Total | - | ¥18,327,190 | ¥18,176,696 (2,030,560) | - | - |

(Thousands of U.S. dollars)

| Type of bond | Date of issue | Balance at April 1, 2011 | Balance at March 31, 2012 | Coupon rate (%) | Maturity |
|--|----------------------|--------------------------|---------------------------|-----------------|-----------|
| Government-guaranteed bonds (domestic) 1st-34th JFM bonds | 6/15/2009-3/14/2012 | \$16,130,273 | \$22,320,447 | 0.9 to 1.5 | 10Y |
| Government-guaranteed bonds (domestic) 1st-4th 6-year JFM bonds | 9/27/2011-3/26/2012 | - | 2,423,524 | 0.4 | 6Y |
| Government-guaranteed bond (international) 1st Global U.S. dollar JFM bond | 1/13/2011 | 1,007,999 | 1,007,999 | 4.0 | 10Y |
| Public offering bonds without government guarantee 1st-8th 5-year JFM bonds | 5/25/2010-2/20/2012 | 1,090,777 | 2,060,356 | 0.384 to 0.639 | 5Y |
| Public offering bonds without government guarantee 1st-34th JFM bonds | 6/18/2009-3/19/2012 | 7,332,445 | 12,180,342 | 0.976 to 1.648 | 10Y |
| Public offering bonds without government guarantee 1st-20th 20-year JFM bonds | 6/25/2009-1/26/2012 | 4,302,509 | 6,362,865 | 1.752 to 2.266 | 20Y |
| Public offering bonds without government guarantee F-1st - F-52th, F-54th - F-109th JFM bonds | 7/22/2009-3/28/2012 | 5,587,202 | 9,144,346 | 0.185 to 2.334 | 3Y to 30Y |
| Public offering bond without government guarantee F-53th JFM bond (Floating Rate Note) | 2/1/2011 | 181,796 | 181,796 | Floating rate | 9Y |
| International without government guarantee 2nd, 3rd, 7th, 14th-16th, 19th, 28th JFM bonds | 1/12/2012-3/13/2012 | - | 215,681 | 1.84 to 2.40 | 5Y to 7Y |
| International without government guarantee 1st, 4th-6th, 8th-13th, 17th, 18th, 20th-27th JFM bonds | 1/17/2012-3/13/2012 | - | 613,367 | Floating rate | 5Y |
| Private placement bonds without government guarantee A-1st - A-26th JFM bonds | 7/31/2009-3/19/2012 | 8,241,425 | 11,877,348 | 0.99 to 1.53 | 10Y |
| Japan Finance Organization for Municipalities bonds - Sub-total | - | 43,874,426 | 68,388,071 | - | - |
| Government-guaranteed bond (domestic) 1st 4-year JFM bond | 2/27/2009 | 3,634,923 | 3,635,468 (3,635,923) | 0.7 | 4Y |
| Government-guaranteed bonds (domestic) 1st-8th JFM bonds | 10/16/2008-5/25/2009 | 6,791,446 | 6,794,776 | 1.3 to 1.6 | 10Y |
| Public offering bond without government guarantee 1st 5-year JFM bond | 2/24/2009 | 363,531 | 363,553 | 1.01 | 5Y |
| Public offering bonds without government guarantee 1st-4th JFM bonds | 11/25/2008-5/28/2009 | 1,696,308 | 1,696,367 | 1.59 to 1.77 | 10Y |
| Public offering bonds without government guarantee 1st-2nd 20-year JFM bonds | 1/26/2009-4/30/2009 | 1,029,533 | 1,029,569 | 2.07 to 2.29 | 20Y |
| Private placement bonds without government guarantee A-1st - A-2nd JFM bonds | 4/30/2009-5/26/2009 | 1,454,369 | 1,454,369 | 1.69 to 1.73 | 10Y |
| Japan Finance Organization for Municipal Enterprises bonds - Sub-total | - | 14,970,110 | 14,974,102 (3,635,923) | - | - |
| Government-guaranteed bonds (domestic) 801th-886th former JFM bonds | 4/26/2001-6/19/2008 | 91,587,292 | 72,945,698 (13,433,402) | 0.5 to 2.0 | 10Y |
| Government-guaranteed bonds (domestic) 1st-5th 15-year former JFM bonds | 6/22/2005-7/18/2007 | 2,238,029 | 2,238,299 | 1.6 to 2.2 | 15Y |

| | | | | | |
|--|--------------------------|---------------|-------------------------------|------------------|------------|
| Government-guaranteed bonds (international) 4th Euro sterling pound former JFM bond - 5th Global Yen former JFM bond | 8/9/1999- 6/25/2008 | 11,197,591 | 8,772,863 | 1.350 to 5.75 | 10Y to 20Y |
| Public offering bond without government guarantee 1st 5-year former JFM bond | 2/29/2008 | 1,575,278 | 1,575,435 (1,575,566) | 1.14 | 5Y |
| Public offering bonds without government guarantee 1st-30th former JFM bonds | 12/26/2001- 6/16/2008 | 15,511,199 | 14,299,733 (3,029,936) | 0.64 to 2.07 | 10Y |
| Public offering bonds without government guarantee 1st-25th 20-year former JFM bonds | 7/30/2002- 6/16/2008 | 6,903,850 | 6,904,149 | 1.03 to 2.58 | 20Y |
| Public offering bonds without government guarantee 1st-10th 30-year former JFM bonds | 1/29/2004- 9/20/2006 | 2,300,994 | 2,301,068 | 2.39 to 2.95 | 30Y |
| Public offering bond without government guarantee 1st floating rate former JFM bond | 10/31/2002 | 242,395 | 242,395 | Floating rate | 15Y |
| Public offering bonds without government guarantee 1st-2nd inflation-indexed former JFM bonds | 3/2/2005- 7/19/2005 | 484,790 | 484,790 | 0.45 to 0.47 | 10Y |
| Public offering bonds without government guarantee 1st-3rd former JFM bonds with scheduled repayment | 2/14/2003- 6/9/2004 | 527,088 | 500,788 (26,300) | 1.39 to 2.01 | 28Y |
| Public offering bond without government guarantee 1st CMS-linked floating rate former JFM bond | 9/13/2006 | 242,395 | 242,395 | Floating rate | 10Y |
| Private placement bonds A series 58th - Special No. 1 series 31st former JFM bonds | 7/31/2001- 7/31/2008 | 30,465,398 | 26,427,100 (2,908,738) | 0.67 to 2.18 | 10Y |
| Former JFM bonds - Sub-total | - | 163,276,299 | 136,934,713 (20,973,942) | - | - |
| Total | - | \$222,120,834 | \$220,296,886 (24,609,865) | - | - |

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds for 18,176,696 million yen (220,296,886 thousand dollars) at March 31, 2012.

2. Amounts in square brackets under "Balance at March 31, 2012" for "Government-guaranteed bond (international) 1st Global U.S. dollar JFM bond", "International without government guarantee 2nd, 3rd, 7th, 14th-16th, 19th, 28th JFM bonds", "International without government guarantee 1st, 4th-6th, 8th-13th, 17th, 18th, 20th-27th JFM bonds" and "Government-guaranteed bond (international) - 4th Euro sterling pound former JFM bond - 5th Global Yen former JFM bond" are denominated in foreign currencies.

3. Amounts in parentheses under "Balance at March 31, 2012" are to be repaid within one year.

9. Borrowed Money

Borrowed money at March 31, 2012 consisted of the following:

(Millions of yen)

| Classification of borrowed money | Balance at April 1, 2011 | Balance at March 31, 2012 | Average interest rate (%) | Repayment date |
|--|--------------------------|---------------------------|---------------------------|----------------|
| Short-term borrowed money | ¥- | ¥- | - | - |
| Long-term borrowed money (repayment within 1 year) | - | - | - | - |
| Long-term borrowed money (excluding repayment within 1 year) | - | 30,000 | 0.69 | 3/26/2019 |
| Other interest-bearing liabilities | - | - | - | - |
| Total | ¥- | ¥30,000 | - | - |

(Thousands of U.S. dollars)

| Classification of borrowed money | Balance at April 1, 2011 | Balance at March 31, 2012 | Average interest rate (%) | Repayment date |
|--|--------------------------|---------------------------|---------------------------|----------------|
| Short-term borrowed money | \$- | \$- | - | - |
| Long-term borrowed money (repayment within 1 year) | - | - | - | - |
| Long-term borrowed money (excluding repayment within 1 year) | - | 363,592 | 0.69 | 3/26/2019 |
| Other interest-bearing liabilities | - | - | - | - |
| Total | \$- | \$363,592 | - | - |

10. Reserves

Reserves at March 31, 2011 consisted of the following:

(Millions of yen)

| Classification of reserve | Balance at April 1, 2010 | Increase during the year | Decrease during the year | | Balance at March 31, 2011 |
|--|--------------------------|--------------------------|--------------------------|-------|---------------------------|
| | | | Intended purpose | Other | |
| Reserve for bonuses | ¥43 | ¥41 | ¥43 | ¥- | ¥41 |
| Reserve for directors' bonuses | 7 | 6 | 7 | - | 6 |
| Reserve for retirement benefits | 210 | 5 | 10 | 9 | 195 |
| Reserve for retirement benefits for directors and corporate auditors | 56 | 6 | 10 | 24 | 27 |

Reserves at March 31, 2012 consisted of the following:

(Millions of yen)

| Classification of reserve | Balance at April 1, 2011 | Increase during the year | Decrease during the year | | Balance at March 31, 2012 |
|--|--------------------------|--------------------------|--------------------------|-------|---------------------------|
| | | | Intended purpose | Other | |
| Reserve for bonuses | ¥41 | ¥47 | ¥41 | ¥- | ¥47 |
| Reserve for directors' bonuses | 6 | 6 | 6 | - | 6 |
| Reserve for retirement benefits | 195 | 9 | 47 | 9 | 146 |
| Reserve for retirement benefits for directors and corporate auditors | 27 | 4 | 5 | 1 | 23 |

(Thousands of U.S. dollars)

| Classification of reserve | Balance at April 1, 2011 | Increase during the year | Decrease during the year | | Balance at March 31, 2012 |
|--|--------------------------|--------------------------|--------------------------|-------|---------------------------|
| | | | Intended purpose | Other | |
| Reserve for bonuses | \$505 | \$580 | \$505 | \$- | \$580 |
| Reserve for directors' bonuses | 84 | 84 | 84 | - | 84 |
| Reserve for retirement benefits | 2,369 | 114 | 582 | 121 | 1,780 |
| Reserve for retirement benefits for directors and corporate auditors | 330 | 51 | 72 | 18 | 291 |

11. Reserve for Interest Rate Volatility

Reserve for interest rate volatility at March 31, 2011 consisted of the following:

(Millions of yen)

| Classification of reserve | Balance at April 1, 2010 | Increase during the year | | Decrease during the year | | Balance at March 31, 2011 |
|---|--------------------------|--------------------------|-----------------|--------------------------|------------------|---------------------------|
| | | | Amount provided | | Amount Withdrawn | |
| Reserve for interest rate volatility | ¥440,000 | ¥220,000 | ¥220,000 | ¥- | | ¥660,000 |
| Management account reserve for interest rate volatility | 3,111,043 | 245,489 | 245,489 | 220,000 | 220,000 | 3,136,532 |
| Total | ¥3,551,043 | ¥465,489 | ¥465,489 | ¥220,000 | ¥220,000 | ¥3,796,532 |

Reserve for interest rate volatility at March 31, 2012 consisted of the following:

(Millions of yen)

| Classification of reserve | Balance at April 1, 2011 | Increase during the year | | Decrease during the year | | Balance at March 31, 2012 |
|---|--------------------------|--------------------------|-----------------|--------------------------|------------------|---------------------------|
| | | | Amount provided | | Amount Withdrawn | |
| Reserve for interest rate volatility | ¥660,000 | ¥220,000 | ¥220,000 | ¥- | | ¥880,000 |
| Management account reserve for interest rate volatility | 3,136,532 | 221,024 | 221,024 | 220,000 | 220,000 | 3,137,557 |
| Total | ¥3,796,532 | ¥441,024 | ¥441,024 | ¥220,000 | ¥220,000 | ¥4,017,557 |

(Thousands of U.S. dollars)

| Classification of reserve | Balance at April 1, 2011 | Increase during the year | | Decrease during the year | | Balance at March 31, 2012 |
|---|--------------------------|--------------------------|-----------------|--------------------------|------------------|---------------------------|
| | | | Amount provided | | Amount Withdrawn | |
| Reserve for interest rate volatility | \$7,999,031 | \$2,666,343 | \$2,666,343 | \$- | | \$10,665,374 |
| Management account reserve for interest rate volatility | 38,013,970 | 2,678,758 | 2,678,758 | 2,666,343 | 2,666,343 | 38,026,385 |
| Total | \$46,013,001 | \$5,345,101 | \$5,345,101 | \$2,666,343 | \$2,666,343 | \$48,691,759 |

12. Fund for Improvement of Operations of Municipalities

Fund for improvement of operations of municipalities at March 31, 2011 consisted of the following:

(Millions of yen)

| Classification of fund | Balance at April 1, 2010 | Increase during the year | | Decrease during the year | | Balance at March 31, 2011 |
|---|--------------------------|--------------------------|-----------------------------------|--------------------------|--------|---------------------------|
| | | Amount of reserve | Amount March 31, 2011 Transferred | Amount Withdrawn | Others | |
| Basic fund for improvement of operations of municipalities | ¥901,407 | ¥6,696 | ¥- | ¥- | ¥- | ¥908,104 |
| Additional fund for improvement of operations of municipalities | 5,531 | - | 2,187 | - | - | 7,719 |
| Total | ¥906,939 | ¥6,696 | ¥2,187 | ¥- | ¥- | ¥915,823 |

Fund for improvement of operations of municipalities at March 31, 2012 consisted of the following:

(Millions of yen)

| Classification of fund | Balance at April 1, 2011 | Increase during the year | | Decrease during the year | | Balance at March 31, 2012 |
|---|--------------------------|--------------------------|-----------------------------------|--------------------------|--------|---------------------------|
| | | Amount of reserve | Amount March 31, 2012 Transferred | Amount Withdrawn | Others | |
| Basic fund for improvement of operations of municipalities | ¥908,104 | ¥3,830 | ¥- | ¥- | ¥- | ¥911,935 |
| Additional fund for improvement of operations of municipalities | 7,719 | - | 216 | - | - | 7,936 |
| Total | ¥915,823 | ¥3,830 | ¥216 | ¥- | ¥- | ¥919,871 |

(Thousands of U.S. dollars)

| Classification of fund | Balance at April 1, 2011 | Increase during the year | | Decrease during the year | | Balance at March 31, 2012 |
|---|--------------------------|--------------------------|-----------------------------------|--------------------------|--------|---------------------------|
| | | Amount of reserve | Amount March 31, 2012 Transferred | Amount Withdrawn | Others | |
| Basic fund for improvement of operations of municipalities | \$11,005,995 | \$46,425 | \$- | \$- | \$- | \$11,052,420 |
| Additional fund for improvement of operations of municipalities | 93,555 | - | 2,629 | - | - | 96,184 |
| Total | \$11,099,550 | \$46,425 | \$2,629 | \$- | \$- | \$11,148,604 |

Note: 1. The "increase during the year" of the "amount of reserves" applicable to "Basic fund for improvement of operations of municipalities" is the payment of the amount stipulated in Article 46, Section 1 of the Law and received in accordance with Article 46, Section 2 of the Law.

2. Amount transferred in "Increase during the year" applicable to "Additional fund for improvement of operations of municipalities" represents the amount transferred to "Additional fund for improvement of operations of municipalities" pursuant to the provisions of Article 46, Section 7 of the Law.

13. Reserve for Employee Retirement Benefits

As of and for the years ended March 31, 2011

- (1) Outline of retirement benefits system
JFM has a defined benefit plan that contributes to the Employees' Pension Fund and offers lump-sum payments upon retirement of employees.
- (2) Projected benefit obligation
Projected benefit obligation 344 million yen
Plan assets 149 million yen
Reserve for employee retirement benefits 195 million yen
- (3) Pension expenses
Pension expenses 5 million yen
Pension expenses related to lump-sum payments upon retirement 2 million yen
Pension expenses related to the Employees' Pension Fund 2 million yen
- (4) Basis of calculation of projected benefit obligation
Projected benefit obligation is calculated by the simplified method.

As of March 31, 2012

- (1) Outline of retirement benefits system
JFM has a defined benefit plan that contributes to the Employees' Pension Fund and offers lump-sum payments upon retirement.
- (2) Projected benefit obligation
Projected benefit obligation 298 million yen (3,613 thousand dollars)
Plan assets 151 million yen (1,833 thousand dollars)
Reserve for employee retirement benefits 146 million yen (1,779 thousand dollars)
- (3) Pension expenses
Pension expenses 9 million yen (113 thousand dollars)
Pension expenses related to lump-sum payments upon retirement 4 million yen (49 thousand dollars)
Pension expenses related to the Employees' Pension Fund 5 million yen (64 thousand dollars)
- (4) Basis of calculation of projected benefit obligation
Projected benefit obligation is calculated by the simplified method.

14. Net Income by Account

(For the year ended March 31, 2011)

Net income of the general account was 8,025 million yen, while net income of the management account was 8,048 million yen.

(For the year ended March 31, 2012)

Net income of the general account was 15,532 million yen (188,249 thousand dollars), while net income of the management account was 6,100 million yen (73,937 thousand dollars).

15. Subsequent events

Transfer to the National Treasury of a Part of JFM's Reserve for Interest Rate Volatility within the Management Account

In accordance with the supplementary provisions to the Law, a part of JFM's reserve for interest rate volatility within the management account is to be attributed to the Japanese national government over a period of three years from FY2012 through FY2014, with the aim of transferring 1 trillion yen over this period.

In FY2012, 350 billion yen has been transferred to the national treasury by JFM, pursuant to Article 14 of the supplementary provisions to the Law for FY2012 (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2012).

16. Information by Account (Balance sheets)

Balance sheets of general account and management account at March 31, 2011 were as follows:

(Millions of yen)

| Item | General account | Management account | Offset | Total |
|--|-----------------|--------------------|--------------|-------------|
| (Assets) | | | | |
| Loans | ¥3,586,125 | ¥18,645,731 | | ¥22,231,856 |
| Securities | 457,590 | | | 457,590 |
| Cash and bank deposits | 516,633 | | | 516,633 |
| Other assets | 2,420 | 14,612 | | 17,033 |
| Tangible fixed assets | 2,918 | | | 2,918 |
| Intangible fixed assets | 756 | | | 756 |
| Due from general account | | 827,351 | ¥(827,351) | |
| Due to management account for fund for improvement of operations of municipalities | 442,831 | | (442,831) | |
| Total assets | 5,009,275 | 19,487,695 | (1,270,183) | 23,226,787 |
| (Liabilities) | | | | |
| Bonds | 2,580,904 | 15,746,285 | | 18,327,190 |
| Other liabilities | 3,107 | 14,590 | | 17,698 |
| Reserve for bonuses | 41 | | | 41 |
| Reserve for directors' bonuses | 6 | | | 6 |
| Reserve for retirement benefits | 195 | | | 195 |
| Reserve for retirement benefits for directors and corporate auditors | 27 | | | 27 |
| Fund for improvement of operations of municipalities | 915,823 | | | 915,823 |
| Basic fund for improvement of operations of municipalities | 908,104 | | | 908,104 |
| Additional fund for improvement of operations of municipalities | 7,719 | | | 7,719 |
| Due to management account | 827,351 | | (827,351) | |
| Due from general account for fund for improvement of operations of municipalities | | 442,831 | (442,831) | |
| Reserve under special laws | 660,000 | 3,236,421 | | 3,896,421 |
| Reserve for interest rate volatility | 660,000 | | | 660,000 |
| Management account reserve for interest rate volatility | | 3,136,532 | | 3,136,532 |
| Reserve for interest rate reduction | | 99,889 | | 99,889 |
| Total liabilities | 4,987,458 | 19,440,129 | (1,270,183) | 23,157,405 |
| (Net Assets) | | | | |
| Capital | 16,602 | | | 16,602 |
| Retained earnings | 13,860 | | | 13,860 |
| General account surplus reserve | 13,860 | | | 13,860 |
| Valuation, translation adjustments and others | (8,645) | | | (8,645) |
| Management account surplus reserve | | 47,565 | | 47,565 |
| Total net assets | 21,816 | 47,565 | | 69,382 |
| Total liabilities and net assets | ¥5,009,275 | ¥19,487,695 | ¥(1,270,183) | ¥23,226,787 |

Balance sheets of general account and management account at March 31, 2012 were as follows:

(Millions of yen)

| Item | General account | Management account | Offset | Total |
|--|-----------------|--------------------|--------------|-------------|
| (Assets) | | | | |
| Loans | ¥5,351,164 | ¥17,036,246 | | ¥22,387,411 |
| Securities | 762,987 | | | 762,987 |
| Cash and bank deposits | 172,250 | | | 172,250 |
| Other assets | 2,628 | 12,266 | | 14,894 |
| Tangible fixed assets | 2,563 | | | 2,563 |
| Intangible fixed assets | 600 | | | 600 |
| Due from general account | | 820,207 | ¥(820,207) | |
| Due to management account for fund for improvement of operations of municipalities | 292,831 | | (292,831) | |
| Total assets | 6,585,025 | 17,868,720 | (1,113,038) | 23,340,707 |
| (Liabilities) | | | | |
| Bonds | 3,892,818 | 14,283,877 | | 18,176,696 |
| Borrowed money | 30,000 | | | 30,000 |
| Other liabilities | 1,872 | 13,500 | | 15,373 |
| Reserve for bonuses | 47 | | | 47 |
| Reserve for directors' bonuses | 6 | | | 6 |
| Reserve for retirement benefits | 146 | | | 146 |
| Reserve for retirement benefits for directors and corporate auditors | 23 | | | 23 |
| Fund for improvement of operations of municipalities | 919,871 | | | 919,871 |
| Basic fund for improvement of operations of municipalities | 911,935 | | | 911,935 |
| Additional fund for improvement of operations of municipalities | 7,936 | | | 7,936 |
| Due to management account | 820,207 | | (820,207) | |
| Due from general account for fund for improvement of operations of municipalities | | 292,831 | (292,831) | |
| Reserve under special laws | 880,000 | 3,224,844 | | 4,104,844 |
| Reserve for interest rate volatility | 880,000 | | | 880,000 |
| Management account reserve for interest rate volatility | | 3,137,557 | | 3,137,557 |
| Reserve for interest rate reduction | | 87,287 | | 87,287 |
| Total liabilities | 6,544,995 | 17,815,054 | (1,113,038) | 23,247,010 |
| (Net Assets) | | | | |
| Capital | 16,602 | | | 16,602 |
| Retained earnings | 29,393 | | | 29,393 |
| General account surplus reserve | 29,393 | | | 29,393 |
| Valuation, translation adjustments and others | (5,964) | | | (5,964) |
| Management account surplus reserve | | 53,666 | | 53,666 |
| Total net assets | 40,030 | 53,666 | | 93,696 |
| Total liabilities and net assets | ¥6,585,025 | ¥17,868,720 | ¥(1,113,038) | ¥23,340,707 |

(Thousands of U.S. dollars)

| Item | General account | Management account | Offset | Total |
|--|-----------------|--------------------|----------------|---------------|
| (Assets) | | | | |
| Loans | \$64,854,736 | \$206,474,933 | | \$271,329,669 |
| Securities | 9,247,212 | | | 9,247,212 |
| Cash and bank deposits | 2,087,627 | | | 2,087,627 |
| Other assets | 31,860 | 148,663 | | 180,523 |
| Tangible fixed assets | 31,067 | | | 31,067 |
| Intangible fixed assets | 7,278 | | | 7,278 |
| Due from general account | | 9,940,702 | \$(9,940,702) | |
| Due to management account for fund for improvement of operations of municipalities | 3,549,042 | | (3,549,042) | |
| Total assets | 79,808,822 | 216,564,298 | (13,489,744) | 282,883,376 |
| (Liabilities) | | | | |
| Bonds | 47,179,959 | 173,116,927 | | 220,296,886 |
| Borrowed money | 363,592 | | | 363,592 |
| Other liabilities | 22,696 | 163,622 | | 186,318 |
| Reserve for bonuses | 580 | | | 580 |
| Reserve for directors' bonuses | 84 | | | 84 |
| Reserve for retirement benefits | 1,780 | | | 1,780 |
| Reserve for retirement benefits for directors and corporate auditors | 291 | | | 291 |
| Fund for improvement of operations of municipalities | 11,148,604 | | | 11,148,604 |
| Basic fund for improvement of operations of municipalities | 11,052,420 | | | 11,052,420 |
| Additional fund for improvement of operations of municipalities | 96,184 | | | 96,184 |
| Due to management account | 9,940,702 | | (9,940,702) | |
| Due from general account for fund for improvement of operations of municipalities | | 3,549,042 | (3,549,042) | |
| Reserve under special laws | 10,665,374 | 39,084,288 | | 49,749,662 |
| Reserve for interest rate volatility | 10,665,374 | | | 10,665,374 |
| Management account reserve for interest rate volatility | | 38,026,385 | | 38,026,385 |
| Reserve for interest rate reduction | | 1,057,903 | | 1,057,903 |
| Total liabilities | 79,323,662 | 215,913,879 | (13,489,744) | 281,747,797 |
| (Net Assets) | | | | |
| Capital | 201,213 | | | 201,213 |
| Retained earnings | 356,238 | | | 356,238 |
| General account surplus reserve | 356,238 | | | 356,238 |
| Valuation, translation adjustments and others | (72,291) | | | (72,291) |
| Management account surplus reserve | | 650,419 | | 650,419 |
| Total net assets | 485,160 | 650,419 | | 1,135,579 |
| Total liabilities and net assets | \$79,808,822 | \$216,564,298 | \$(13,489,744) | \$282,883,376 |

Notes:1. General account and management account

In accordance with the provisions of Article 13, Section 1 of the supplementary provisions of the Law, the management account is used to conduct administration, collection and other related operations of the assets that JFM inherited from the former JFM (management of the assets of the former JFM).

The management account is separated from the other account (general account) pursuant to the provisions of Article 13, Section 3 of the supplementary provisions of the Law.

2. General account surplus reserve and management account surplus reserve
 "Net income" of the general account is posted as "General account surplus reserve" in accordance with the provisions of Article 39, Section 1 of the Law, while "Net income" of the management account is posted as "Management account surplus reserve" in accordance with the provisions of Article 13, Section 8 of the supplementary provisions the Law.
3. Due from general account and due to management account
 These amounts represent funds lent between the general account and the management account pursuant to the provisions of Article 13, Section 4 of the supplementary provisions of the Law.
4. Due from general account for fund for improvement of operations of municipalities and due to management account for fund for improvement of operations of municipalities
 These amounts represent cash received for "Fund for improvement of operations of municipalities," which was lent to the management account from the general account pursuant to the provisions of Article 9, Section 12 of the supplementary provisions of the Law.

17. Information by Account (Statements of income)

Statements of income of general account and management account from April 1, 2010 through March 31, 2011 were as follows:

(Millions of yen)

| Item | General account | Management account | Offset | Total |
|---|-----------------|--------------------|-----------|----------|
| Income | ¥62,032 | ¥512,245 | ¥(34,280) | ¥539,997 |
| Interest income | 45,152 | 494,659 | | 539,812 |
| Fees and commissions | 134 | | | 134 |
| Other income | 50 | | | 50 |
| Administrative fee for management account | 962 | | (962) | |
| Interest on fund for improvement of operations of municipalities | 15,730 | | (15,730) | |
| Interest on due from general account | | 594 | (594) | |
| Transfer from general account for fund for improvement of operations of municipalities | | 16,992 | (16,992) | |
| Expenses | 54,006 | 272,702 | (34,280) | 292,428 |
| Interest expenses | 29,637 | 253,540 | | 283,177 |
| Fees and commissions | 26 | 243 | | 269 |
| Other operating expenses | 2,303 | 2,115 | | 4,418 |
| General and administrative expenses | 2,264 | 109 | | 2,374 |
| Other expenses | 2,187 | | | 2,187 |
| Transfer to fund for improvement of operations of municipalities | 2,187 | | | 2,187 |
| Interest on due to management account | 594 | | (594) | |
| Transfer to management account for fund for improvement of operations of municipalities | 16,992 | | (16,992) | |
| Administrative fee for management account | | 962 | (962) | |
| Interest on fund for improvement of operations of municipalities | | 15,730 | (15,730) | |
| Ordinary income | 8,025 | 239,543 | - | 247,569 |
| Special gains | 220,000 | 233,994 | (220,000) | 233,994 |
| Provision for management account | 220,000 | | (220,000) | |
| Reversal of management account reserve for interest rate volatility | | 220,000 | | 220,000 |
| Reversal of reserve for interest rate reduction | | 13,994 | | 13,994 |
| Special losses | 220,000 | 465,489 | (220,000) | 465,489 |
| Provision for reserve for interest rate volatility | 220,000 | | | 220,000 |
| Provision for management account reserve for interest rate volatility | | 245,489 | | 245,489 |
| Transfer to management account | | 220,000 | (220,000) | |
| Net income | ¥8,025 | ¥8,048 | ¥- | ¥16,074 |

Statements of income of general account and management account from April 1, 2011 through March 31, 2012 were as follows:

(Millions of yen)

| Item | General account | Management account | Offset | Total |
|---|-----------------|--------------------|-----------|----------|
| Income | ¥83,092 | ¥456,669 | ¥(27,957) | ¥511,805 |
| Interest income | 70,563 | 441,078 | | 511,641 |
| Fees and commissions | 128 | | | 128 |
| Other income | 31 | 3 | | 34 |
| Administrative fee for management account | 930 | | (930) | |
| Interest on fund for improvement of operations of municipalities | 11,438 | | (11,438) | |
| Interest on due from general account | | 635 | (635) | |
| Transfer from general account for fund for improvement of operations of municipalities | | 14,952 | (14,952) | |
| Expenses | 67,560 | 242,146 | (27,957) | 281,749 |
| Interest expenses | 46,922 | 227,397 | | 274,320 |
| Fees and commissions | 43 | 231 | | 275 |
| Other operating expenses | 2,503 | 2,035 | | 4,539 |
| General and administrative expenses | 2,272 | 113 | | 2,385 |
| Other expenses | 229 | | | 229 |
| Transfer to fund for improvement of operations of municipalities | 216 | | | 216 |
| Others | 12 | | | 12 |
| Interest on due to management account | 635 | | (635) | |
| Transfer to management account for fund for improvement of operations of municipalities | 14,952 | | (14,952) | |
| Administrative fee for management account | | 930 | (930) | |
| Interest on fund for improvement of operations of municipalities | | 11,438 | (11,438) | |
| Ordinary income | 15,532 | 214,523 | - | 230,055 |
| Special gains | 220,000 | 232,601 | (220,000) | 232,601 |
| Provision for management account | 220,000 | | (220,000) | |
| Reversal of management account reserve for interest rate volatility | | 220,000 | | 220,000 |
| Reversal of reserve for interest rate reduction | | 12,601 | | 12,601 |
| Special losses | 220,000 | 441,024 | (220,000) | 441,024 |
| Provision for reserve for interest rate volatility | 220,000 | | | 220,000 |
| Provision for management account reserve for interest rate volatility | | 221,024 | | 221,024 |
| Transfer to management account | | 220,000 | (220,000) | |
| Net income | ¥15,532 | ¥6,100 | ¥- | ¥21,632 |

(Thousands of U.S. dollars)

| Item | General account | Management account | Offset | Total |
|---|-----------------|--------------------|-------------|-------------|
| Income | \$1,007,061 | \$5,534,722 | \$(338,834) | \$6,202,949 |
| Interest income | 855,214 | 5,345,753 | | 6,200,967 |
| Fees and commissions | 1,561 | | | 1,561 |
| Other income | 376 | 45 | | 421 |
| Administrative fee for management account | 11,279 | | (11,279) | |
| Interest on fund for improvement of operations of municipalities | 138,631 | | (138,631) | |
| Interest on due from general account | | 7,706 | (7,706) | |
| Transfer from general account for fund for improvement of operations of municipalities | | 181,218 | (181,218) | |
| Expenses | 818,812 | 2,934,756 | (338,834) | 3,414,734 |
| Interest expenses | 568,693 | 2,755,997 | | 3,324,690 |
| Fees and commissions | 527 | 2,807 | | 3,334 |
| Other operating expenses | 30,347 | 24,669 | | 55,016 |
| General and administrative expenses | 27,538 | 1,373 | | 28,911 |
| Other expenses | 2,783 | | | 2,783 |
| Transfer to fund for improvement of operations of municipalities | 2,629 | | | 2,629 |
| Others | 154 | | | 154 |
| Interest on due to management account | 7,706 | | (7,706) | |
| Transfer to management account for fund for improvement of operations of municipalities | 181,218 | | (181,218) | |
| Administrative fee for management account | | 11,279 | (11,279) | |
| Interest on fund for improvement of operations of municipalities | | 138,631 | (138,631) | |
| Ordinary income | 188,249 | 2,599,966 | - | 2,788,215 |
| Special gains | 2,666,343 | 2,819,072 | (2,666,343) | 2,819,072 |
| Provision for management account | 2,666,343 | | (2,666,343) | |
| Reversal of management account reserve for interest rate volatility | | 2,666,343 | | 2,666,343 |
| Reversal of reserve for interest rate reduction | | 152,729 | | 152,729 |
| Special losses | 2,666,343 | 5,345,101 | (2,666,343) | 5,345,101 |
| Provision for reserve for interest rate volatility | 2,666,343 | | | 2,666,343 |
| Provision for management account reserve for interest rate volatility | | 2,678,758 | | 2,678,758 |
| Transfer to management account | | 2,666,343 | (2,666,343) | |
| Net income | \$188,249 | \$73,937 | \$- | \$262,186 |

18. Fair Value of Marketable Securities

Marketable held-to-maturity securities at March 31, 2011 consisted of the following:

(Millions of yen)

| | Book value | Fair value | Difference | Unrealized gains | Unrealized losses |
|------------------------------------|------------|------------|------------|------------------|-------------------|
| Treasury discount bills | ¥86,990 | ¥86,982 | ¥(7) | ¥- | ¥(7) |
| Negotiable certificates of deposit | 370,600 | 370,600 | - | - | - |
| Total | ¥457,590 | ¥457,582 | ¥(7) | ¥- | ¥(7) |

Marketable held-to-maturity securities at March 31, 2012 consisted of the following:

(Millions of yen)

| | Book value | Fair value | Difference | Unrealized gains | Unrealized losses |
|------------------------------------|------------|------------|------------|------------------|-------------------|
| Treasury discount bills | ¥96,987 | ¥96,979 | ¥(8) | ¥- | ¥(8) |
| Negotiable certificates of deposit | 666,000 | 666,000 | - | - | - |
| Total | ¥762,987 | ¥762,979 | ¥(8) | ¥- | ¥(8) |

(Thousands of U.S. dollars)

| | Book value | Fair value | Difference | Unrealized gains | Unrealized losses |
|------------------------------------|-------------|-------------|------------|------------------|-------------------|
| Treasury discount bills | \$1,175,463 | \$1,175,364 | \$(99) | \$- | \$(99) |
| Negotiable certificates of deposit | 8,071,749 | 8,071,749 | - | - | - |
| Total | \$9,247,212 | \$9,247,113 | \$(99) | \$- | \$(99) |

- Notes:1. The fair value of treasury discount bills is based on the market price at the end of the fiscal year.
2. The balance sheet amount for negotiable certificates of deposit is the fair value.
3. Difference is the net amount of "unrealized gains" and "unrealized losses."

19. Information on Derivative Transactions

(1) Types of derivative transactions

Derivative transactions entered into by JFM are interest rate swaps for interest rate related transactions, and currency swaps and foreign exchange forward contracts for currency related transactions.

(2) Policies and purposes of derivative transactions

JFM uses interest rate swaps, currency swaps and foreign exchange forward contracts as a means of hedging exposure to interest rate and foreign exchange fluctuation risks, and does not enter into derivatives for speculative purposes.

Interest rate swaps are used to hedge exposure to interest rate risk on fund-raising activities. Currency swaps and foreign exchange forward contracts are used to hedge exposure to foreign exchange risk associated with issuance of foreign currency-denominated bonds and foreign currency-denominated deposits.

Hedge accounting is applied to interest rate swaps, currency swaps and foreign exchange contracts.

(a) Hedge accounting method

Interest rate swaps used to hedge the risk of interest rate fluctuations that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. If swap contracts or forward contracts used to hedge the foreign currency fluctuation qualify for deferral hedge accounting, the foreign currency-denominated assets and liabilities are translated at the contracted rate.

(b) Hedging instruments and hedged items

(i) Hedging instruments: Interest rate swaps

Hedged items: Bonds and borrowed money

(ii) Hedging instruments: Currency swaps

Hedged items: Foreign currency-denominated bonds

(iii) Hedging instruments: Foreign exchange forward contracts

Hedged items: Receipt of interest and principal of foreign currency-denominated bank deposits

(c) Hedging policy

JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract at the time of deposit is entered into by JFM.

(d) Assessment of hedge effectiveness

JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions are to offset bond and borrowed money market fluctuations.

Accordingly, JFM deems these to be highly effective and thus does not assess their effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps and currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.

(3) Risks on derivative transactions

Major risks on derivative transactions are market risk and credit risk. Market risk is the risk of future revenue fluctuations due to market value changes. Credit risk is the risk of losses incurred when counterparties are unable to fulfill their contracts due to bankruptcy or other reasons.

As for derivative transactions used for hedging purposes, market risk is offset by the corresponding change into underlying hedged items.

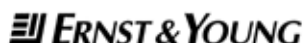
JFM enters into ISDA Master Agreements and CSA Agreements with financial institutions, which are its derivative transactions counterparties, to reduce credit risk. Moreover, JFM constantly monitors the transactions' restructuring costs and their credit profiles, and deals with multiple counterparties.

(4) Risk management system for derivative transactions

Execution and management of derivative transactions are conducted by the Finance Department of JFM with the approval of persons in charge in accordance with the operational guidelines which specify transaction authority and limits on the transaction amount.

Additionally, the total amount of derivative transactions, the status of risks, the assessed fair value, and the credit risk on counterparties are regularly reported to the Integrated Risk Management Committee.

Report of Independent Auditors



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

Independent Auditor's Report

The President of Japan Finance Organization for Municipalities

Pursuant to Article 37, paragraph 1 of the Japan Finance Organization for Municipalities Law (the "Law"), we have audited the accompanying financial statements of Japan Finance Organization for Municipalities ("JFM"), which comprise the balance sheets as at March 31, 2012 and 2011, and the statements of income, appropriation of profit, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

President's Responsibility for the Financial Statements

The President of JFM is responsible for the preparation and fair presentation of these financial statements in accordance with the Law, the ordinances based on the Law and other regulations applicable to JFM (collectively hereinafter, the "Law and regulations applicable to JFM") and accounting principles generally accepted in Japan, and for designing and operating such internal control as the President determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the President, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JFM as at March 31, 2012 and 2011, and its financial performance and cash flows for the years then ended in conformity with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan (refer to Note 1 of the accompanying notes to the financial statements).

Convenience Translation

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 1.

Conflicts of Interest

There is no interest in JFM which should be disclosed in compliance with the Certified Public Accountants Act.

Ernst & Young Shin Nihon LLC

May 18, 2012

A member firm of Ernst & Young Global Limited