For the six months ended September 30, 2011

Japan Finance Organization for Municipalities

Interim Financial Statements

Japan Finance Organization for Municipalities

Contents

■Interim Balance Sheets (As of September 30, 2010 and 2011)

(Millions of Yen)

Item	As of September 30, 2010	As of September 30, 2011	Item	As of September 30, 2010	As of September 30, 2011
	Amount			Amount	
Assets			Liabilities		
Loans (Note 4)	¥21,987,044	¥22,238,975	Bonds (Note 7)	¥18,661,768	¥18,549,813
Securities (Note 11)	1,290,009	886,938	Other liabilities	14,186	14,145
Cash and bank deposits	141,232	421,251	Reserve for bonuses	51	51
Other assets	20,472	16,666	Reserve for directors' bonuses	8	5
Tangible fixed assets (Note 6)	2,957	2,993	Reserve for retirement benefits	204	159
Intangible fixed assets (Note 6)	796	679	Reserve for retirement benefits for directors and corporate auditors	49	22
			Fund for improvement of operations of municipalities	907,906	915,818
			Basic fund for improvement of operations of municipalities	901,407	908,104
			Additional fund for improvement of operations of municipalities	6,498	7,713
			Reserve under special laws	3,783,300	4,004,127
			Reserve for interest rate volatility	660,000	880,000
			Management account reserve for interest rate volatility	3,016,545	3,030,722
			Reserve for interest rate reduction	106,755	93,404
			Total liabilities	23,367,475	23,484,143
			Net assets		
			Capital	16,602	16,602
			Retained earnings	9,618	21,527
			General account appropriated surplus reserve	5,834	13,860
			General account interim unappropriated retained earnings	3,783	7,667
			Valuation, translation adjustments and others	5,299	(5,842)
			Management account surplus reserve	43,517	51,074
			Management account appropriated surplus reserve	39,517	47,565
			Management account interim unappropriated retained earnings	4,000	3,509
			Total net assets	75,037	83,361
Total assets	¥23,442,512	¥23,567,505	Total liabilities and net assets	¥23,442,512	¥23,567,505

■Interim Statements of Income (For the six-month periods ended September 30, 2010 and 2011)

(Millions of Yen)

Item	Six months ended September 30, 2010	Six months ended September 30, 2011
	Amount	
Income	¥272,004	¥259,307
Interest income	271,889	259,191
Fees and commissions	101	96
Other income	14	20
Amount received for fund for improvement of operations of municipalities	-	5
Other	14	14
Expenses	145,847	140,425
Interest expenses	141,258	136,930
Fees and commissions	133	133
Other operating expenses	2,290	2,132
General and administrative expenses	1,196	1,228
Other expenses	967	-
Transfer to fund for improvement of operations of municipalities	967	-
Ordinary income	126,157	118,881
Special gains	227,128	226,484
Reversal of management account reserve for interest rate volatility	220,000	220,000
Reversal of reserve for interest rate reduction	7,128	6,484
Special losses	345,501	334,189
Provision for reserve for interest rate volatility	220,000	220,000
Provision for management account reserve for interest rate volatility	125,501	114,189
Interim net income	¥7,783	¥11,176

■Interim Statements of Changes in Net Assets
(From April 1, 2010 through September 30, 2010)

(Millions of Yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account appropriated surplus reserve	Management account interim unappropriated retained earnings	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/(loss) from hedging instruments			
		General account appropriated surplus reserve	General account interim unappropriated retained earnings					
Balance at April 1, 2010	¥16,602	¥5,834	-	¥22,436	¥(1,340)	¥39,517	-	¥60,613
Changes during interim accounting period								
Interim net income	-	-	¥3,783	3,783	-	-	¥4,000	7,783
Net changes during interim accounting period in items other than stockholders' equity	-	-	-	-	6,639	-	-	6,639
Net changes during interim accounting period	-	-	3,783	3,783	6,639	-	4,000	14,422
Balance at September 30, 2010	¥16,602	¥5,834	¥3,783	¥26,220	¥5,299	¥39,517	¥4,000	¥75,037

(From April 1, 2011 through September 30, 2011)

(Millions of Yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account appropriated surplus reserve	Management account interim unappropriated retained earnings	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/(loss) from hedging instruments			
		General account appropriated surplus reserve	General account interim unappropriated retained earnings					
Balance at April 1, 2011	¥16,602	¥13,860	-	¥30,462	¥(8,645)	¥47,565	-	¥69,382
Changes during interim accounting period								
Interim net income	-	-	¥7,667	7,667	-	-	¥3,509	11,176
Net changes during interim accounting period in items other than stockholders' equity	-	-	-	-	2,803	-	-	2,803
Net changes during interim accounting period	-	-	7,667	7,667	2,803	-	3,509	13,979
Balance at September 30, 2011	¥16,602	¥13,860	¥7,667	¥38,130	¥(5,842)	¥47,565	¥3,509	¥83,361

■Interim Statements of Cash Flows (For the six-month periods ended September 30, 2010 and 2011)

(Millions of Yen)

Item	Six months ended September 30, 2010	Six months ended September 30, 2011
	Amount	
Ⅰ Cash flows from operating activities		
Interim net income	¥7,783	¥11,176
Depreciation and amortization	172	176
Interest income	(271,889)	(259,191)
Interest expenses	141,258	136,930
Increase in reserve for bonuses	8	10
Increase/(decrease) in reserve for directors' bonuses	0	(0)
Decrease in reserve for retirement benefits	(5)	(36)
Decrease in reserve for retirement benefits for directors and corporate auditors	(6)	(4)
Increase/(decrease) in fund for improvement of operations of municipalities	967	(5)
Increase in reserve for interest rate volatility	220,000	220,000
Decrease in management account reserve for interest rate volatility	(94,498)	(105,810)
Decrease in reserve for interest rate reduction	(7,128)	(6,484)
Net decrease/(increase) in loans	43,183	(7,119)
Net increase in bonds	125,335	220,760
Interest received	273,169	261,313
Interest paid	(141,439)	(137,009)
Others	617	(608)
Net cash provided by operating activities	297,528	334,096
Ⅱ Cash flows from investing activities		
Proceeds from redemption of securities	3,033,300	1,314,600
Purchases of securities	(3,338,748)	(1,743,920)
Purchases of tangible fixed assets	(12)	(97)
Purchases of intangible fixed assets	(99)	(60)
Net cash used in investing activities	(305,560)	(429,477)
Ⅲ Cash flows from financing activities	-	-
Ⅳ Effect of exchange rate changes on cash and cash equivalents	-	-
Ⅴ Net decrease in cash and cash equivalents	(8,031)	(95,381)
Ⅵ Cash and cash equivalents at beginning of period	149,264	516,633
Ⅶ Cash and cash equivalents at end of period	¥141,232	¥421,251

■Notes to Interim Financial Statements

1. Basis of presentation

Japan Finance Organization for Municipalities (hereinafter, “JFM”) has prepared interim financial statements in accordance with the Japan Finance Organization for Municipalities Law (Law No. 64 of May 30, 2007) (hereinafter, the “Law”) and 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, the “Ordinance on Finance and Accounting”) and accounting principles and practices applicable to interim financial statements generally accepted in Japan.

The comparative information as of and for the six-month period ended September 30, 2010 was not presented in the original interim financial statements in Japanese, but is included in these interim financial statements in English solely for the convenience of the reader.

Since JFM does not have any subsidiaries or affiliates, it does not prepare interim 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.

2. Significant accounting policies

(1) Securities

As for security valuation, 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 operations, 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 risk of 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 interim period.

(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 interim period.

(d) Reserve for retirement benefits

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

(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 end of the interim period based on internal policies.

(7) Hedge accounting

(a) Hedge accounting method

Interest rate swaps used to hedge the risk of interest rate fluctuations and which 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

(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 resulting from bond issuances. 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, foreign exchange forward contracts are entered into at the time of deposit.

(d) Assessment of hedge effectiveness

JFM ensures that hedging instruments and hedged items have the same major terms when making hedge transactions are entered into offset bond 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 which 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 interim statements of cash flows consist of "Cash and bank deposits" on the interim 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 rates 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 rates 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) 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 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 mitigate interest rate risk associated with refinancing of bonds issued by the former Japan Finance Corporation for Municipal Enterprise (hereinafter, "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

The 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) Consumption taxes

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

3. Additional Information

JFM has applied "Accounting Standard for Accounting Changes and Error Corrections" (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) effective April 1, 2011.

4. Loans

There are no bankrupt loans, non-accrual loans, past due loans (3 months or more), or restructured loans. Since JFM has never experienced loan losses in the past, it does not account for loan loss reserves.

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 for interest payment to assist in corporate reorganization or to support business.

Past due loans (3 months or more) represent loans on which payment of principal or interest is in arrears for more than 3 months, calculated from the day following the contractual due date, excluding bankrupt loans and non-accrual loans.

Restructured loans represent loans which are given certain favorable terms and conditions, such as reduction or exemption of interest, grace for interest or principal payment, and debt waiver, to assist borrowers in corporate rehabilitation or to support business, excluding bankrupt loans, non-accrual loans and past due loans (3 months or more).

All principal and interest (2,543 million yen in total) of which due dates were extended during the previous fiscal year ended March 31, 2011 due to the Great East Japan Earthquake, have been fully repaid by the end of September 30, 2011.

5. Financial instruments

(1) Status of financial instruments

(a) Policy on 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 on and risk 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. Specifically, 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, JFM endeavors to lower interest rate risk by narrowing the maturity gap between lending and funding through a variety of methods, such as issuing super-long-term bonds.

(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 for loans

JFM makes loans exclusively to local governments, and 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 associated with market transactions

JFM is exposed to the risk of loss arising from credit events, such as deterioration in the financial condition of a counterparty, which causes an asset to lose value or become worthless. However, JFM appropriately manages credit risk of this type by constantly monitoring counterparties' financial standing and limiting them to financial institutions that meet the credit rating and other criteria. In addition, JFM enters into ISDA (International Swaps and Derivatives Association) master agreements and CSA (Credit Support Annex) agreements with all derivatives counterparties to reduce credit risk resulting from fluctuations in the value of derivative transactions.

(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 targets, such as continuously issuing super long-term 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 an interest rate shock (an upward and downward 200 bp parallel shift of the yield curve).

b. Maintain a duration gap below 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.

JFM is also exposed to pipeline risk, whereby losses would be incurred or profits decrease as a result of interest rate fluctuations between the time JFM raises money through bond issuance and 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

In JFM, mainly loans and bonds are affected by interest risk, which is the major risk variable among market risks.

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

Specifically, JFM attempts to achieve roughly below 20% of the outlier ratio 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 ten years, considering the composition of remaining period of the bonds held.

The outlier ratio is calculated under the following conditions.

• Future cash flows

With respect to loans, future cash flows regarding such loans are calculated by classification according to type of interest rate of the loans. In addition, the advanced redemption in the future is not expected by the 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 for which hedging interest rate swaps, quality for hedge accounting and meet specific matching criteria future cash flows regarding such floating rate bonds are calculated as fixed-rate bonds.

• Indicative Interest Rate

For the assessment of loans and bonds, the interest rate of government bonds as of September 30, 2011, is used.

• Calculation of outlier ratio

Based on an assumption that variable risk, except for interest rates, is fixed as of September 30, 2011, 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 reserve for interest rate volatility and the fund for improvement of operations of municipalities.

The outlier ratio as of September 30, 2011 is as follows:

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

(Hundred Millions of Yen)

<table>
<tr><td rowspan="2"></td><td rowspan="2">Outlier ratio
(a)=-(b)/(e)</td><td colspan="3">Change in fair value when interest rate rises by 200 basis points</td><td rowspan="2">Net assets including reserve for interest rate volatility and the fund for improvement of operations of municipalities
(e)</td></tr>
<tr><td>Total
(b)=(c)+(d)</td><td>Loans
(c)</td><td>Bonds
(d)</td></tr>
<tr><td>General account</td><td>14.9%
[+5.3%]</td><td>¥(2,726)
[(1,190)]</td><td>¥(8,450)
[(3,216)]</td><td>¥+5,724
[+2,027]</td><td>¥18,281
[+2,287]</td></tr>
</table>

Note: Amounts posted in square brackets are changes from September 30, 2010.

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 the completion of 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, on the condition that the risk variables, except for interest rate risk, hold steady, an indicative interest rate as of September 30, 2011 of 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 66.0 billion yen. On the contrary, an indicative interest rate as of September 30, 2011 of due to 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 67.0 billion yen.

(iii) Liquidity risk

Liquidity risk is the risk that JFM would incur losses due to a difficulty in securing necessary funds or the necessity of obtaining funds at far higher interest rates than under normal conditions due to 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 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 the fair value of financial instruments

The interim balance sheet amount, fair value and difference between them on September 30, 2010 are as follows.

(Millions of Yen)

	Interim balance sheet amount	Fair value	Difference
(1) Loans	¥21,987,044	¥23,856,686	¥1,869,641
(2) Securities			
Held-to-maturity securities	1,290,009	1,289,980	(29)
(3) Cash and bank deposits	141,232	141,232	-
Total assets	23,418,286	25,287,898	1,869,612
Bonds	18,661,768	19,528,882	867,113
Total liabilities	18,661,768	19,528,882	867,113
Derivative transactions(*1)			
Qualifying for hedge accounting	5,338	5,338	-
Total of derivative transactions	5,338	5,338	-

The interim balance sheet amount, fair value and difference between them on September 30, 2011 are as follows.

(Millions of Yen)

	Interim balance sheet amount	Fair value	Difference
(1) Loans	¥22,238,975	¥23,756,568	¥1,517,592
(2) Securities			
Held-to-maturity securities	886,938	886,916	(22)
(3) Cash and bank deposits	421,251	421,251	-
Total assets	23,547,166	25,064,735	1,517,569
Bonds	18,549,813	19,282,657	732,844
Total liabilities	18,549,813	19,282,657	732,844
Derivative transactions(*1)			
Qualifying for hedge accounting	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, and items corresponding to a net loss are 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 certain early repayments at a discount rate calculated using the Japanese government bond rate as of September 30, 2011.

(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 deposits are short-term, the fair value approximates the book price. As a result, the book price is deemed to be the fair value.

(As of September 30, 2010)

(Millions of Yen)

	Type	Interim balance sheet amount	Fair value	Difference
Securities with fair value exceeding the Interim Balance Sheet amount	-	¥-	¥-	¥-
	Sub total	-	-	-
Securities with fair value that do not exceed the Interim Balance Sheet amount	Treasury discount bills	899,809	899,780	(29)
	Negotiable certificate of deposits	390,200	390,200	-
	Sub total	1,290,009	1,289,980	(29)
Total		¥1,290,009	¥1,289,980	¥(29)

(As of September 30, 2011)

(Millions of Yen)

	Type	Interim balance sheet amount	Fair value	Difference
Securities with fair value exceeding the Interim Balance Sheet amount	-	¥-	¥-	¥-
	Sub total	-	-	-
Securities with fair value that do not exceed the Interim Balance Sheet amount	Treasury discount bills	425,938	425,916	(22)
	Negotiable certificate of deposits	461,000	461,000	-
	Sub total	886,938	886,916	(22)
Total		¥886,938	¥886,916	¥(22)

(3) Cash and bank deposits

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

Liabilities

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 presumably be applied when issuing similar bonds with the same total principal and interest.

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 interest rate swap in question accounted for together with the principal and interest and discounting the future cash flows using the interest rate that would presumably be applied when issuing a similar bond.

Derivative transactions

Transactions using hedge accounting

For derivative transactions using hedge accounting, the contractual amount or the amount equivalent to the principal in the contract for each hedge accounting method as of September 30, 2010 is as follows:

(Millions of Yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount	Of which 1 year or more	Fair value	Method for calculating fair value
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds	¥282,500	¥282,500	¥5,338	Based on price provided by financial institution
Hedge accounting for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	80,000	80,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	519,420	399,920	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	69,000	-	(*2)	
Total			¥950,920	¥762,420	¥5,338	

For derivative transactions using hedge accounting, the contractual amount or the amount equivalent to the principal in the contract for each hedge accounting method as of September 30, 2011 is as follows:

(Millions of Yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount	Of which 1 year or more	Fair value	Method for calculating fair value
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds	¥123,000	¥123,000	¥2,695	Based on price provided by 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	55,000	-	(*2)	
Total			¥756,090	¥701,090	¥2,695	

(*1) Since interest rate swaps under hedge accounting 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 using deferral hedge accounting 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 maturity dates

The repayment schedule from September 30, 2010 for monetary claims and securities with maturity dates is as follows:

(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	¥1,681,737	¥1,539,688	¥1,520,632	¥1,501,674	¥1,452,738	¥6,203,717	¥6,813,932	¥1,272,923
Securities								
Held-to-maturity securities	1,290,009	-	-	-	-	-	-	-
Deposits	141,232	-	-	-	-	-	-	-

The repayment schedule from September 30, 2011 for monetary claims and securities with maturity dates is as follows:

(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	¥1,542,990	¥1,533,480	¥1,552,425	¥1,527,691	¥1,478,552	¥6,351,664	¥6,935,405	¥1,316,766
Securities								
Held-to-maturity securities	886,938	-	-	-	-	-	-	-
Deposits	421,251	-	-	-	-	-	-	-

Note 3. The repayment schedule for loans

The repayment schedule from September 30, 2010 is as follows:

(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	¥2,070,470	¥2,082,530	¥2,456,560	¥2,358,110	¥1,711,350	¥6,599,420	¥1,200,236	¥203,139

The repayment schedule from September 30, 2011 is as follows:

(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	¥2,082,530	¥2,456,560	¥2,358,110	¥1,711,350	¥1,456,250	¥6,933,040	¥1,353,470	¥217,235

6. Accumulated depreciation

Accumulated depreciation of tangible fixed assets amounted to 230 million yen and 150 million yen as of September 30, 2011 and 2010, 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 18,549,813 million yen and 18,661,768 million yen as of September 30, 2011 and 2010, respectively.

(2)Securities in the amounts of 469 million yen are delivered as collateral for derivative transactions.

8. Interim net income by account

Interim net income of the general account amounted to 7,667 million yen and 3,783 million yen, while interim net income of the management account amounted to 3,509 million yen and 4,000 million yen, for the six-month periods ended September 30, 2011 and 2010, respectively.

9. Information by account (Interim balance sheets)

Interim balance sheets of the general account and the management account at September 30, 2010 were as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	2,454,719	19,532,325		21,987,044
Securities	1,290,009			1,290,009
Cash and bank deposits	141,232			141,232
Other assets	6,745	13,726		20,472
Tangible fixed assets	2,957			2,957
Intangible fixed assets	796			796
Due from general account		951,820	(951,820)	
Due to management account for fund for improvement of operations of municipalities	592,831		(592,831)	
Total assets	4,489,292	20,497,871	(1,544,651)	23,442,512
(Liabilities)				
Bonds	1,936,399	16,725,369		18,661,768
Other liabilities	1,333	12,852		14,186
Reserve for bonuses	51			51
Reserve for directors' bonuses	8			8
Reserve for retirement benefits	204			204
Reserve for retirement benefits for directors and corporate auditors	49			49
Fund for improvement of operations of municipalities	907,906			907,906
Basic fund for improvement of operations of municipalities	901,407			901,407
Additional fund for improvement of operations of municipalities	6,498			6,498
Due to management account	951,820		(951,820)	
Due from general account for fund for improvement of operations of municipalities		592,831	(592,831)	
Reserve under special laws	660,000	3,123,300		3,783,300
Reserve for interest rate volatility	660,000			660,000
Management account reserve for interest rate volatility		3,016,545		3,016,545
Reserve for interest rate reduction		106,755		106,755
Total liabilities	4,457,772	20,454,354	(1,544,651)	23,367,475
(Net Assets)				
Capital	16,602			16,602
Retained earnings	9,618			9,618
General account appropriated surplus reserve	5,834			5,834
General account interim unappropriated retained earnings	3,783			3,783
Valuation, translation adjustments and others	5,299			5,299
Management account surplus reserve		43,517		43,517
Management account appropriated surplus reserve		39,517		39,517
Management account interim unappropriated retained earnings		4,000		4,000
Total net assets	31,519	43,517		75,037
Total liabilities and net assets	4,489,292	20,497,871	(1,544,651)	23,442,512

Interim balance sheets of the general account and the management account at September 30, 2011 were as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	4,426,370	17,812,605		22,238,975
Securities	886,938			886,938
Cash and bank deposits	421,251			421,251
Other assets	4,830	11,836		16,666
Tangible fixed assets	2,993			2,993
Intangible fixed assets	679			679
Due from general account		1,153,035	(1,153,035)	
Due to management account for fund for improvement of operations of municipalities	442,831		(442,831)	
Total assets	6,185,895	18,977,478	(1,595,867)	23,567,505
(Liabilities)				
Bonds	3,202,908	15,346,904		18,549,813
Other liabilities	1,604	12,540		14,145
Reserve for bonuses	51			51
Reserve for directors' bonuses	5			5
Reserve for retirement benefits	159			159
Reserve for retirement benefits for directors and corporate auditors	22			22
Fund for improvement of operations of municipalities	915,818			915,818
Basic fund for improvement of operations of municipalities	908,104			908,104
Additional fund for improvement of operations of municipalities	7,713			7,713
Due to management account	1,153,035		(1,153,035)	
Due from general account for fund for improvement of operations of municipalities		442,831	(442,831)	
Reserve under special laws	880,000	3,124,127		4,004,127
Reserve for interest rate volatility	880,000			880,000
Management account reserve for interest rate volatility		3,030,722		3,030,722
Reserve for interest rate reduction		93,404		93,404
Total liabilities	6,153,607	18,926,403	(1,595,867)	23,484,143
(Net Assets)				
Capital	16,602			16,602
Retained earnings	21,527			21,527
General account appropriated surplus reserve	13,860			13,860
General account interim unappropriated retained earnings	7,667			7,667
Valuation, translation adjustments and others	(5,842)			(5,842)
Management account surplus reserve		51,074		51,074
Management account appropriated surplus reserve		47,565		47,565
Management account interim unappropriated retained earnings		3,509		3,509
Total net assets	32,287	51,074		83,361
Total liabilities and net assets	6,185,895	18,977,478	(1,595,867)	23,567,505

Notes:1. The general account and the 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 Japan Finance Corporation for Municipal Enterprises (management of the assets of the former Japan Finance Corporation for Municipal Enterprises).

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. The general account interim unappropriated retained earnings and the management account interim unappropriated retained earnings

"Interim net income" of the general account is posted as "General account interim unappropriated retained earnings, " while "Interim net income" of the management account is posted as "Management account interim unappropriated retained earnings. "

3. Due from the general account and due to the management account

These figures represent the amount of 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 the general account for fund for improvement of operations of municipalities and due to the management account for fund for improvement of operations of municipalities

These figures represent the amount of cash received for the "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.

10. Information by account (Interim statements of income)

Interim statements of income of the general account and the management account from April 1, 2010 through September 30, 2010 were as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
Income	28,973	260,254	(17,223)	272,004
Interest income	20,532	251,356		271,889
Fees and commissions	101			101
Other income	14			14
Administrative fee for the management account	435		(435)	
Interest on funds for improvement of operations of municipalities	7,890		(7,890)	
Interest on due from the general account		158	(158)	
Transfer from the general account for fund for improvement of operations of municipalities		8,738	(8,738)	
Expenses	25,190	137,880	(17,223)	145,847
Interest expenses	12,928	128,330		141,258
Fees and commissions	11	122		133
Other operating expenses	1,246	1,043		2,290
General and administrative expenses	1,138	58		1,196
Other expenses	967			967
Transfer to fund for improvement of operations of municipalities	967			967
Interest on due to the management account	158		(158)	
Transfer to the management account for fund for improvement of operations of municipalities	8,738		(8,738)	
Administrative fee for the management account		435	(435)	
Interest on fund for improvement of operations of municipalities		7,890	(7,890)	
Ordinary income	3,783	122,373		126,157
Special gains	220,000	227,128	(220,000)	227,128
Provision for the management account	220,000		(220,000)	
Reversal of the management account reserve for interest rate volatility		220,000		220,000
Reversal of reserve for interest rate reduction		7,128		7,128
Special losses	220,000	345,501	(220,000)	345,501
Provision for reserve for interest rate volatility	220,000			220,000
Provision for the management account reserve for interest rate volatility		125,501		125,501
Transfer to the management account		220,000	(220,000)	
Interim net income	3,783	4,000		7,783

Interim statements of income of the general account and the management account from April 1, 2011 through September 30, 2011 were as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
Income	39,741	233,681	(14,115)	259,307
Interest income	33,445	225,746		259,191
Fees and commissions	96			96
Other income	20			20
Amount received for fund for improvement of operations of municipalities	5			5
Other	14			14
Administrative fee for the management account	423		(423)	
Interest on funds for improvement of operations of municipalities	5,756		(5,756)	
Interest on due from the general account		196	(196)	
Transfer from the general account for fund for improvement of operations of municipalities		7,739	(7,739)	
Expenses	32,074	122,467	(14,115)	140,425
Interest expenses	21,694	115,235		136,930
Fees and commissions	19	113		133
Other operating expenses	1,245	887		2,132
General and administrative expenses	1,178	50		1,228
Interest on due to the management account	196		(196)	
Transfer to the management account for fund for improvement of operations of municipalities	7,739		(7,739)	
Administrative fee for the management account		423	(423)	
Interest on fund for improvement of operations of municipalities		5,756	(5,756)	
Ordinary income	7,667	111,214		118,881
Special gains	220,000	226,484	(220,000)	226,484
Provision for the management account	220,000		(220,000)	
Reversal of the management account reserve for interest rate volatility		220,000		220,000
Reversal of reserve for interest rate reduction		6,484		6,484
Special losses	220,000	334,189	(220,000)	334,189
Provision for reserve for interest rate volatility	220,000			220,000
Provision for the management account reserve for interest rate volatility		114,189		114,189
Transfer to the management account		220,000	(220,000)	
Interim net income	7,667	3,509		11,176

11. Fair value of marketable securities

Marketable held-to-maturity securities at September 30, 2010 consisted of the following:

(Millions of Yen)

	Interim balance sheet amount	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥899,809	¥899,780	¥(29)	-	¥(29)
Negotiable certificates of deposit	390,200	390,200	-	-	-
Total	¥1,290,009	¥1,289,980	¥(29)	-	¥(29)

Marketable held-to-maturity securities at September 30, 2011 consisted of the following:

(Millions of Yen)

	Interim balance sheet amount	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥425,938	¥425,916	¥(22)	-	¥(22)
Negotiable certificates of deposit	461,000	461,000	-	-	-
Total	¥886,938	¥886,916	¥(22)	-	¥(22)

Notes: 1. The fair value of treasury discount bills is based on the market price at the end of the relevant interim period.
2. The balance sheet amount for negotiable certificates of deposits the fair value.
3. Difference is the net amounts of "unrealized gains" and "unrealized losses".

12. Information on derivative transaction

Status of derivative transactions

(1) Types of derivative transactions

Derivative transactions conducted 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 and which qualify for hedge accounting and meet specific matching criteria are not measured at market 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, foreign currency-denominated assets and liabilities are translated at the contracted rate.

(b) Hedging instruments and hedged items

(i) Hedging instrument: Interest rate swaps

Hedged items: Bonds

(ii) Hedging instrument: Currency swaps

Hedged items: Foreign currency-denominated bonds

(iii) Hedging instrument: Foreign exchange forward contracts

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

(c) Hedging policy

JFM uses interest rate swaps and currency swaps to hedge interest rate risk and foreign exchange risk resulting from bond issuances. Hedging instruments are selected for 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, JFM enters into a matching foreign exchange forward contract at the time of deposit.

(d) Assessment of hedge effectiveness

JFM selects hedges for which the hedging instruments and underlying transactions have the same major terms when making hedges to offset bond 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 which qualify for deferral hedge account 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 market risk on the underlying transactions.

JFM enters into ISDA master agreements and CSA agreements with financial institutions, which are 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.