



# Annual Report 2009

Japan Finance Organization for Municipalities



Japan Finance Organization for Municipalities

## Profile

Name	Japan Finance Organization for Municipalities (JFM)
Governing Law	The Japan Finance Organization for Municipalities Law
Establishment	<p>August 1, 2008</p> <p>(JFM commenced operations on October 1, 2008, succeeding to the assets and liabilities of the former Japan Finance Corporation for Municipal Enterprises. On June 1, 2009, the name was changed to Japan Finance Organization for Municipalities from Japan Finance Organization for Municipal Enterprises.)</p>
President and CEO	Yuji Watanabe
Number of Employees	79 (as of April 2009)
Address	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo
URL	<a href="http://www.jfm.go.jp">http://www.jfm.go.jp</a>
Outstanding Loan Balance	¥22,215.2 billion (as of the end of fiscal 2008)
Outstanding Bond Balance	¥18,998.9 billion (as of the end of fiscal 2008)
Capital	¥16.6 billion (contributed by all local governments in Japan)
Ratings	<p>S&amp;P : AA (stable)</p> <p>Moody's : Aa2 (stable)</p> <p>R&amp;I : AAA (negative)</p> <p>(As of July 22, 2009)</p>

Forward-looking statements including JFM's plan in this booklet are based on information available for JFM at this time and involve potential risks and uncertainties. Actual results, therefore, may differ from those described in this booklet due to changes in a variety of factors, such as market trends, economic conditions and regulations. Accordingly, readers are advised to use their own discretion and exercise great caution when making investment decisions.

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, 2009, which was ¥98.50 to US\$1.

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# Message from the President and CEO



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## Review of Fiscal Year 2008

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Japan Finance Organization for Municipalities (JFM) was established on August 1, 2008, with capital contributed by all local governments in Japan, as “a joint fund-raising organization of local governments, by local governments, and for local governments,” with the aim of contributing to the sound fiscal management of local governments and the promotion of the welfare of local residents by providing long-term and low-interest funds for local governments.

On October 1, JFM commenced operations, succeeding to the assets and liabilities of the former Japan Finance Corporation for Municipal Enterprises (hereinafter, “the former JFM”), which was abolished as part of the reform of policy-based finance. During fiscal 2008, JFM made loans to local governments and raised the necessary funds. Since JFM succeeded to the financial foundation from the former JFM, I believe we were able to make a good start in our operations.

I would like to express my sincere appreciation to all the parties concerned.

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## Reorganization from Japan Finance Organization for Municipal Enterprises to Japan Finance Organization for Municipalities

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Shortly after we began operations, the proposal for the “creation of a financial organization jointly owned by local governments for the purpose of providing long-term and low-interest funds for local governments (general account)” was incorporated into the economic policy package put together by the national government and the ruling party on October 30, 2008. As a result of deliberations on this proposal within the national government, a bill, which included the provisions for expansion of JFM’s scope of lending and a change in the organization name, was submitted to the Diet, and was passed in March 2009.

As a result, on June 1, 2009, Japan Finance Organization for Municipal Enterprises was reorganized as Japan Finance Organization for Municipalities, and the scope of lending was expanded to include the general account of local governments, in addition to municipal enterprises as in the past. Moreover, we have improved the terms of lending, including extension of loan maturity and increased application of special interest rates.

As an organization owned jointly by local governments, JFM can now operate more independently than the former JFM, and as a result of the expansion of scope of lending, we are now able to respond to the funding needs of local governments in a more timely and appropriate manner.

### **An organization of local governments, by local governments, and for local governments**

We believe JFM's mission is to support local governments' projects, which are closely related to local residents' daily lives, by providing long-term and low-interest funds in a stable manner, and to address new needs of local governments, adapting quickly to changing times.

To accomplish this mission, we have established the following three objectives as the management philosophy of JFM.

1. Securing corporate governance befitting a joint organization of local governments
2. Responding positively to the financial needs of local governments
3. Gaining the solid confidence of capital markets

JFM's management and staff will continue to work as one to accomplish our mission. I look forward to your continued understanding and support for our efforts.



July 2009

Japan Finance Organization for Municipalities

President and CEO

*Yuji Watanabe*

# Management Philosophy

Japan Finance Organization for Municipalities (JFM) is “a joint fund-raising organization of local governments, by local governments, and for local governments,” and sets forth the following three objectives as the management philosophy.

1

## Securing Corporate Governance Befitting a Joint Organization of Local Governments

To secure a system under which local governments assume the responsibility for autonomous and independent management, and ensure corporate governance through appropriate risk management, and checks by the Supervisory Committee and external auditors.

2

## Responding Positively to Financial Needs of Local Governments

To closely follow up financial needs of local governments and the changes in the environment for their fund-raising, and positively develop appropriate services accordingly, and thus achieve the primary objective : the stable supply of long-term and low-interest funds to local governments.

3

## Gaining the Solid Confidence of Capital Markets

To gain solid confidence of capital markets by maintaining appropriate risk management, sound financial standing, and proper disclosure of information to capital markets to enable us to raise funds at advantageous terms in a stable manner; and to contribute to the sound development of capital markets as a core issuer in the public bond market.

# Organization Profile

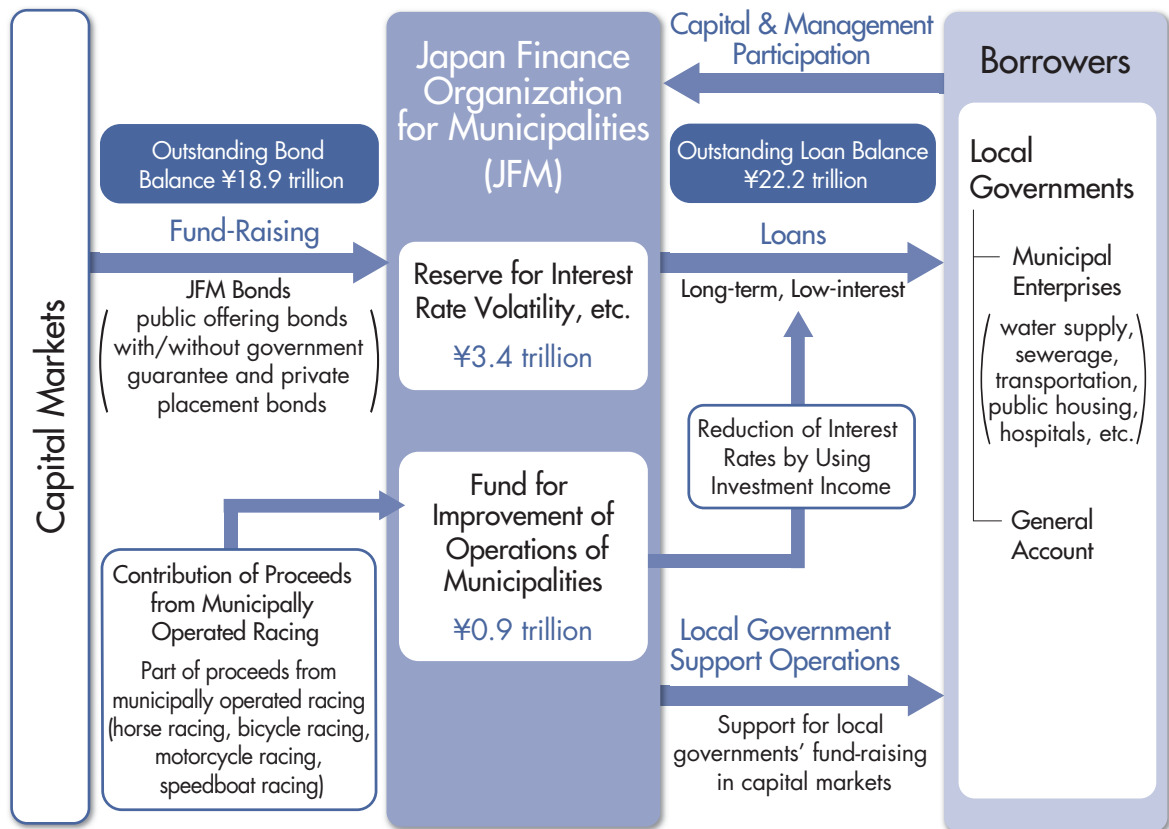
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# Organization Profile | Profile of JFM



## Basic Flow of Lending and Fund-Raising Operations



(Figures are as of the end of fiscal 2008)



## Joint Fund-Raising Organization for Local Governments

As a general rule, each local government is supposed to raise its own funds in capital markets or from private financial institutions, but it is also necessary to provide a safety net function so that local governments with weaker fiscal power do not experience difficulty in raising funds. Moreover, improvements to local governments' social infrastructure require a long period of time to recoup the capital expenditures and to equalize the burden across generations, and thus it is often desirable to raise long-term funds. However, while the number of local governments endeavoring to raise funds in capital markets for longer terms of 20 and 30 years has been increasing, a 10 years or shorter terms are still common.

Because of this, we issue JFM bonds (primarily 10-year maturity) to raise funds in capital markets and thus ensure a stable supply of long-term (average of about 25 years) and low-interest funds to local governments, thereby fulfilling our duty of complementing individual local governments' fund-raising in capital markets.

As a rule, JFM Bonds are not guaranteed by the national government. However, those bonds, which we issue to refinance the bonds originally issued by the former JFM with government guarantee, will continue to be guaranteed by the national government.

## Solid Financial Foundation

JFM primarily issues 10-year bonds to raise funds to make long-term loans to local governments, which creates a significant maturity gap between funding and lending. To cope with the risk of interest rate fluctuations associated with bond refinancing, JFM maintains the necessary financial foundation including reserves for interest rate fluctuations (Reserve for Interest Rate Volatility).

At the time of the establishment of JFM, we succeeded to the Reserve for Losses on Refinance of Bonds, which the former JFM held for the same purpose, in the full amount of approximately ¥3.4 trillion (US\$35.3 billion). Thus, JFM has a financial foundation that allows it to secure the continuity of operations into the future.

## Reduction of Interest Rates by Utilizing Fund for Improvement of Operations of Municipalities

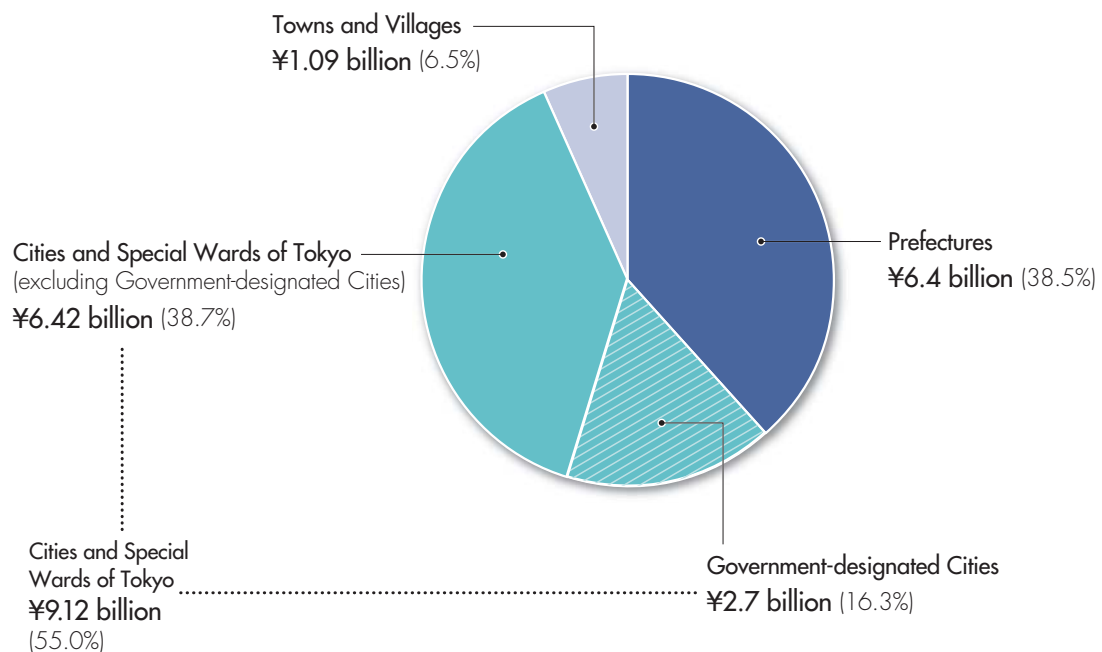
JFM also succeeded to the Fund for Improvement of Operations of Municipalities (formerly, the Fund for Improvement of Operations of Municipal Enterprises) from the former JFM. This fund is comprised of contributions made by local governments, who operate racing (horse racing, bicycle racing, motorcycle racing and speedboat racing) and contribute to the fund a portion of the resulting earnings. The investment income of the fund is used to reduce interest rates on loans made to local governments.

## Organization Profile | Capital

The former JFM was a special semi-governmental corporation whose capital was contributed entirely by the national government. In contrast, JFM was established by local governments themselves as an autonomously managed organization and thus is capitalized solely by local governments.

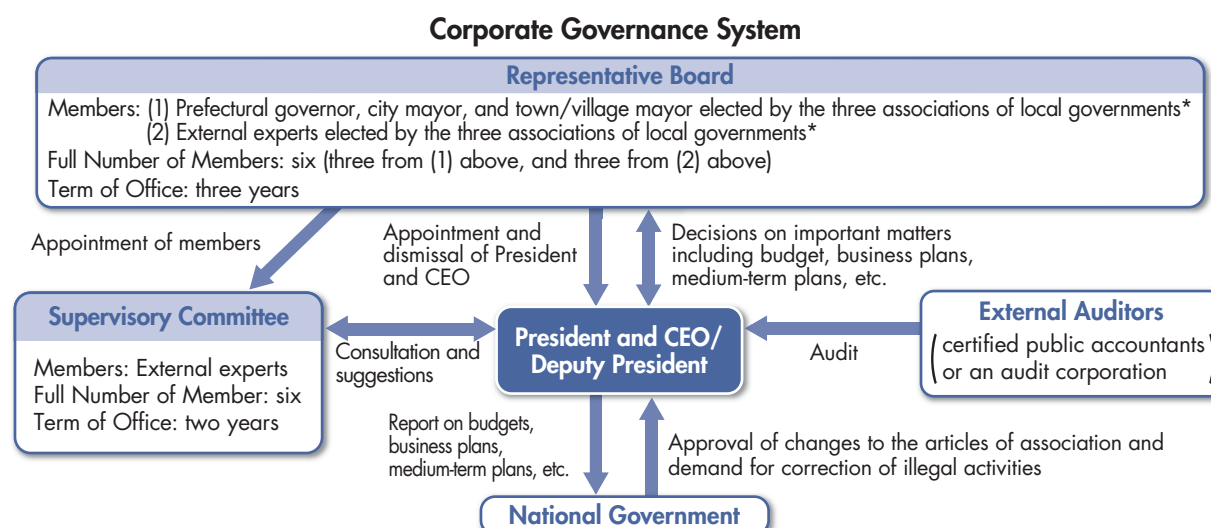
At the time of its establishment, JFM received contributions in the amount of ¥16.6 billion (US\$168.5 million) from all local governments (prefectures, government-designated cities, cities, special wards of Tokyo, towns and villages – 1,857 in total at that time).

**Capital Contribution by Type of Local Government**



\*Note: Total of contribution amounts does not add up exactly due to rounding off.

JFM secures responsible corporate governance through the participation of external experts in the Representative Board and the Supervisory Committee, and external auditors' audit.



\*Three associations of local governments are National Governors' Association, Japan Association of City Mayors and National Association of Towns and Villages.

## 1. Representative Board

As JFM is an organization managed autonomously by local governments, the Representative Board, which is comprised of representatives of local governments, is the supreme decision-making body of JFM.

Furthermore, to maximize the externality and transparency of the Board, three members, who are experts in local administration and finance, economics, finance, law or accounting, are selected, in addition to the same number of members who represent prefectural governors, city mayors, and town/village mayors, respectively.

The Representative Board has the authority to make decisions on important matters related to the overall management of JFM, including budgets, settlement of accounts, and business plans. To fulfill its supervisory function, the Board also has the authority to order the President and CEO to report on the organization's business, assets and liabilities, and to correct illegal activities.

### Representative Board (as of June 3, 2009) \*Chairperson

(Representatives of Local Governments)	(Representatives of External Experts)
*Yuichiro Ito (Governor of Kagoshima Prefecture)	Junko Obata (Dean, Sophia Law School)
Tamio Mori (Mayor of Nagaoka City, Niigata Prefecture)	Naohiko Jinno (Professor, Kwansei Gakuin University)
Fumio Yamamoto (Mayor of Soeda Town, Fukuoka Prefecture)	Tomijiro Morita (Vice Chairman, Nippon Keidanren (Japan Business Federation) and Chairman of the Board, The Dai-ichi Mutual Life Insurance Company)

## 2. Supervisory Committee

Local governments are the founders of JFM, who is a lender of funds, and are also its borrowers. In consideration of this situation, and in order to secure transparency and externality in the management of JFM, and establish responsible corporate governance, the Supervisory Committee was established as a committee for deliberation comprised of external experts.

The Supervisory Committee is comprised of experts in local administration and finance, economics, finance, law, or accounting, and other experts in the academic world, and all are appointed by the Representative Board.

The Supervisory Committee has the function of monitoring the operations of JFM, and can offer its opinion on important matters related to the operations of the organization including budgets, settlement of accounts, business plans, etc. The Committee can also, if deemed necessary, request the President to report on those matters. The President has the duty of reporting the Committee's opinions to the Representative Board and respecting those opinions.

### **Supervisory Committee Members** (as of June 3, 2009)

#### **\*Chairperson**

Osamu Kurihara  
(Counsel, Nishimura & Asahi)

Izumi Kuwano  
(Chairperson, Yufuin Hot Spring Tourism Association; Representative Director and President, Tamanoyu Corporation)

Seiji Dezuka  
(Certified Public Accountant, Dezuka Accounting Office)

Mari Nishino  
(Professor Emeritus, Meiji University)

**\*Yoshitsugu Hayashi**  
(Professor, Kwansei Gakuin University)

Seizo Wakabayashi  
(Chairperson, Naigaijoseichosakai)

## 3. Audit by External Auditors

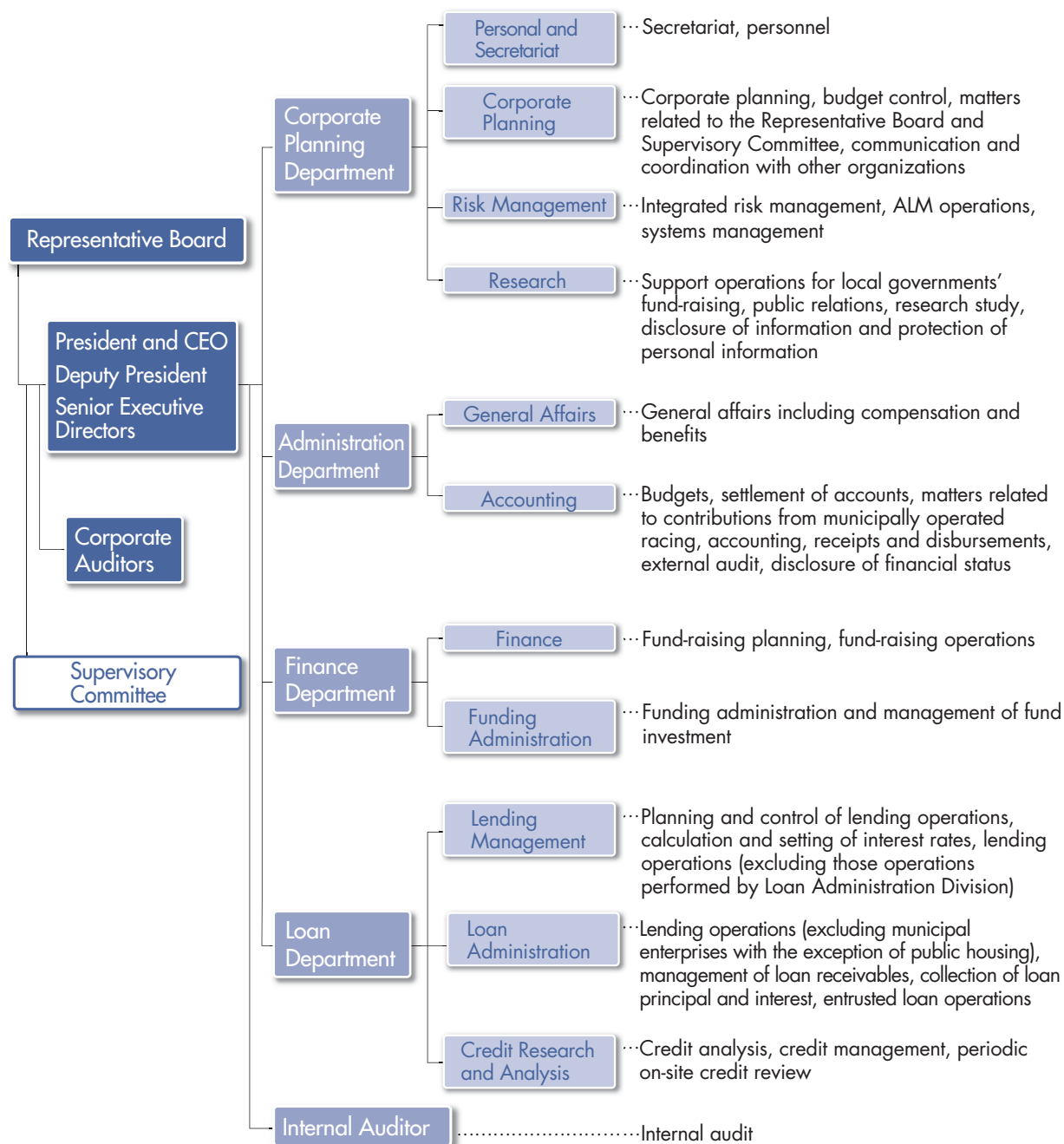
As JFM raises funds in capital markets, proper disclosure of information and external checks on accounting procedures are essential in order to earn the confidence of the markets and raise funds at low cost.

From this point of view, JFM is required to have its financial statements and a report on settlement of accounts audited not only by a corporate auditors, but also by external auditors (certified public accountants or an audit corporation) appointed by the Representative Board.

# Organization Profile | JFM Organization

The organization of JFM consists of the Representative Board, executive officers reporting to the Representative Board, such as President and CEO, Deputy President, Senior Executive Directors, Corporate Auditors, and four departments, eleven divisions and offices, and an internal auditor.

As of June 1, 2009



# Organization Profile | Establishment and Reorganization of JFM

## 1.Reform of Policy-based Finance and Establishment of JFM

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### (1) Reform of Special Public Institutions and Policy-based Finance

The “General Principles of Administrative Reform,” which was approved by the cabinet on December 1, 2000, stipulated that the overall business and organization of all special public institutions should be reviewed thoroughly in light of internal and external changes in society and the economy. Following these principles, the “Basic Law on Special Public Institutions” was passed in 2001, and the “Reorganization and Rationalization Plan for Special Public Institutions” was approved by the cabinet in December of the same year.

The above plan stipulated that eight government financial institutions, including the former JFM, would be subject to complete review based on the principles: (1) complement of private business; (2) minimization of fiscal expenditures; and (3) integration and rationalization of both institutions and operations. The Council on Economic and Fiscal Policy undertook this issue for further deliberations.

The Council on Economic and Fiscal Policy proceeded with deliberations in 2002 and, considering the financial and economic conditions at that time, set forth the following three-step plan for carrying out the reform in the report titled “On the Reform of Policy-based Finance” in December of the same year: (1) utilize policy-based finance for financial stability during the period of concentrated disposal of non-performing loans through fiscal 2004 year-end; (2) use the period from fiscal 2005 to fiscal 2007 to prepare for transition to the final step; and (3) move swiftly to the new system from fiscal 2008.

### (2) Priority Policy for Administrative Reform and the Administrative Reform Promotion Law

In 2005, the discussions on the reform of policy-based finance restarted and the Council on Economic and Fiscal Policy proceeded with deliberations. On November 29 of the same year, the Council on Economic and Fiscal Policy compiled the “Basic Policy on the Reform of Policy-based Finance” that included the goals of reducing by half the ratio of outstanding amount of policy-based finance to GDP in fiscal 2008, and consolidating the government financial institutions. In addition, in the area of the former JFM, the above policy stipulated that the former JFM should be abolished, and the function of joint bond issuance for local governments, which did not require the policy-based finance scheme, should be performed in a new structure that would utilize capital markets.

On the same day, the national government and the ruling party agreed to the above policy and set forth certain transitional measures to secure the necessary financial foundation in preparation for the abolition of the former JFM.

The content of the above was also included in the “Priority Policy for Administrative Reform,” which was approved by the cabinet on December 24 of the same year, and under the provisions of the “Administrative Reform Promotion Law,” which was submitted to the Diet in March and was passed in May 2006, the abolition of the former JFM was set for fiscal 2008.

### (3) Proposals from the Six Associations of Local Governments

Regarding the structure after the abolition of the former JFM, the six associations of local governments\* made a proposal to establish a joint organization of local governments as a joint fund-raising organization on a national basis, at the "Conference on Local Government Finances between the Minister for Internal Affairs and Communications and the Six Associations of Local Governments" held on May 17, 2006. Furthermore, on June 7, the six associations of local governments submitted the "Opinions about Promotion of Decentralization of Power" in accordance with the provisions of the Local Autonomy Act, and contained therein was a proposal for "establishment of a joint organization for raising funds for local governments as a whole." Based on these discussions, on June 27 of the same year, the Headquarters for the Promotion of the Reform of Policy-based Finance and the Headquarters for Administrative Reform set forth the plan titled "System Design for Policy-based Financial Reforms," which provided that the former JFM would be abolished in fiscal 2008 and a new organization for raising funds would be established jointly by local governments themselves. Additionally, it stipulated that the national government would not provide any new capital or guarantee and would not become involved in any respect under the new structure, and that the existing assets and liabilities of the former JFM would, after the due diligence process, be appropriately transferred to and managed by the new organization."

Subsequently, from August 2006, the six associations of local governments continued to give consideration to this issue. On October 31, at the "Conference on Local Government Finances between the Minister for Internal Affairs and Communications and the Six Associations of Local Governments," the "Local Governments' Proposal" for the design of the new system was submitted. The proposal included the following provisions: capital contribution by all local governments; corporate governance by a representative board comprised of prefectural governors, city mayors, and town/village mayors and a managerial discipline committee (provisional name) comprised of external experts; succession to the full amount of reserves, as the financial foundation; and local governments jointly assuming responsibility for management of the new organization.

\* The Six Associations of Local Governments are National Governors' Association, National Association of Chairpersons of Prefectural Assemblies, Japan Association of City Mayors, National Association of Chairpersons of City Councils, National Association of Towns & Villages, National Association of Chairmen of Town and Village Assemblies

### (4) Establishment of JFM

As a result of internal deliberations on the Local Governments' Proposal, the national government approved the provisions for "establishment of a new organization after abolition of the former JFM" and "securing financial foundation for the new organization after the abolition of the former JFM," which were incorporated in the fiscal 2007 local government fiscal measures. Included therein was the transfer to the new organization of the Reserve for Losses on Refinance of Bonds in the full amount of approximately ¥3.4 trillion (US\$35.3 billion) at the time of transition, in order to ensure the stable operations of the new organization in the future, as well as appropriate management of the outstanding bonds issued by the former JFM. The Japan Finance Organization for Municipal Enterprises



Bill, which incorporated the above provisions, was approved by the cabinet in February and became law in May 2007.

In November 2007, the six associations of local governments established a committee to promote JFM. The committee was comprised of the heads of the six associations of local governments, and met five times to nominate the President and CEO, to prepare the articles of association and business plan, and to solicit for capital contributions.

On June 24, 2008, authorization to establish the new organization was received from the Minister for Internal Affairs and Communications. On July 29, capital of ¥16,602.1 million (US\$168.5 million) was paid up by all the local governments, and on August 1, JFM was formally established and registered.

#### (5) Subsequent Events after the Establishment of JFM

On October 1, 2008, the former JFM was abolished, and on the same day, JFM began operations, succeeding to the assets and liabilities of the former JFM. Shortly thereafter, on October 30, the national government and the ruling party set forth the "Measures to Counter Difficulties in People's Daily Lives," which was incorporated in the economic policy package. Included therein were support measures for local governments such as emergency grants of ¥600 billion (US\$6,091.4 million) to revitalize local areas. Out of the ¥600 billion, ¥300 billion (US\$3,045.7 million) was to come from JFM, and in particular, the Management Account Reserve for Interest Rate Volatility.

This contribution to local areas was based on Article 14 of the supplementary provisions of the Japan Finance Organization for Municipal Enterprises Law, and also resulted from projections that a sound financial foundation would be maintained for smooth management of the assets of the former JFM, even if the payment were made to the national treasury.

JFM's supplementary budget including this payment to the national treasury was approved at the fourth Representative Board meeting in January 2009, and the payment to the national treasury was made in March of the same year.

## 2.Reorganization of JFM

### (1) Background of the Reorganization

The “Measures to Counter Difficulties in People’s Daily Lives,” which was approved by the national government and the ruling party in October 2008, included the proposal, as a support measure for local governments, that “establishment of a joint financial institution which could provide long-term and low-interest funds for local governments (general account) should be considered.” At the request of the Minister for Internal Affairs and Communications, the Local Public Finance Council brought this matter under deliberation, and in December 2008 made a proposal to expand JFM’s function to create a joint financial institution that could autonomously lend funds to local governments, including the general account.

Based on this proposal, and as a result of deliberations within the national government, a bill that would revise part of the Local Allocation Tax Law was submitted to the Diet. The bill included provisions that the scope of lending operations of JFM should be expanded to support local governments in raising long-term and low-interest funds for the general account, and that the name of the organization should be changed to Japan Finance Organization for Municipalities. The bill was passed and was subsequently promulgated on March 31, 2009 and became effective on June 1. As a result, “Japan Finance Organization for Municipal Enterprises” was reorganized as “Japan Finance Organization for Municipalities.”

### (2) Specific Details of the Changes

#### The organization’s name has been changed.

The organization’s name has been changed to “Japan Finance Organization for Municipalities.”

#### The scope of lending has been expanded.

The scope of lending has been expanded to include the general account, in addition to municipal enterprises, which have been the primary target of lending.

#### The terms of lending have been improved.

The maximum term to maturity has been extended to 30 years, and the extra special interest rates will be applied for funding for the general account.

### [1] Name Change

The name of the organization has been changed from “Japan Finance Organization for Municipal Enterprises” to “Japan Finance Organization for Municipalities” to reflect the fact that we can now provide funds not only for projects of municipal enterprises, but also for overall operations of local governments, as a result of the expansion of the scope of lending to include the general account. The abbreviation remains “JFM” as previously used.

### [2] Expansion of the Scope of Lending

The main target of lending used to be municipal enterprises, while lending for general account-related projects was limited to the three categories of local road construction, improvement of rivers and other waterways, and high school construction.

Now, with the inclusion of the general account into the scope of lending, JFM can respond to the financing needs of local governments in a more timely and appropriate manner. JFM can also respond flexibly to extraordinary financial countermeasure funding needs of local governments to cover shortfalls caused by disruption in domestic and international financial systems, or changes in economic conditions.

In fiscal 2009, specific targets of lending include independent general account-related projects initiated autonomously by local governments, such as regional revitalization projects, disaster prevention projects and special municipal merger projects, in addition to the existing three special projects. As for extraordinary financial countermeasure funding, which is expected to increase rapidly, JFM plans to lend mainly to cities, towns and villages, which are likely to face difficulties in raising long-term funds.

### [3] Improved Lending Terms

As a joint organization of local governments, JFM is now able to act more flexibly than the former JFM, in setting loan maturities and interest rates. At the time of the reorganization, the maximum term to maturity was extended from 28 years to 30 years. The extra special interest rates will be applied to loans for general account-related projects including the existing three special projects. JFM will endeavor to continue responding appropriately to local governments’ needs.

# Operations Overview

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- Provide loans as “Public Funds” as designated in the Local Government Bond/Loan Program.
- Provide long-term and low-interest funds for local governments to efficiently and effectively complement their fund-raising in capital markets, and by doing so contribute to the sound fiscal management of local governments as well as the promotion of the welfare of local residents. Also, conduct necessary and appropriate credit reviews for all loans.

## 1.Target of Loans

The recipients of JFM loans are limited to local governments.

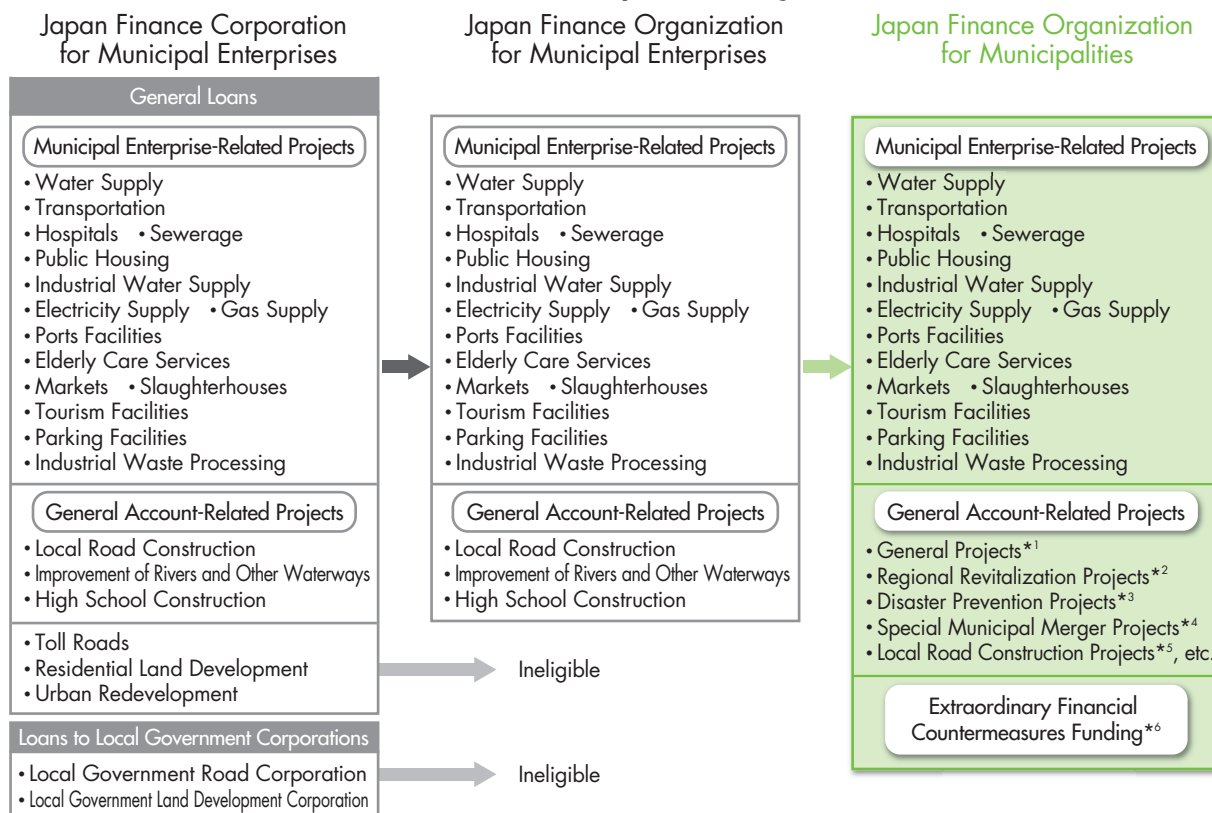
The former JFM provided loans for a total of 21 projects and local government corporations. At JFM, on the other hand, the total was reduced to 18 projects (lending to local government corporations was discontinued).

As JFM is now able to provide loans for the general account in addition to municipal enterprises, which have been the main targets of lending, JFM will respond to a wide range of financing needs of local governments in a more timely and appropriate manner.

Specifically, under the fiscal 2009 Local Government Bond/Loan Program, independent general account-related projects that local governments initiate autonomously, such as regional revitalization, disaster prevention, and special municipal merger projects, are now eligible for JFM loans.

Additionally, JFM plans to make loans for extraordinary financial countermeasures funding.

## Trend of Scope of Lending



**[\*<sup>1</sup> General Projects ]** General projects represent those stipulated as eligible under Article 5 of the Local Finance Law and, at the same time, not covered under other specific projects in the Local Government Bond/Loan Program. The projects which were previously eligible for our loans, including improvement of rivers and other waterways (small and medium-sized river improvement) and high school construction (reconstruction of old high school buildings) are now classified as general projects in the Local Government Bond/Loan Program as of fiscal 2009.

**[\*<sup>2</sup> Regional Revitalization Projects ]** Regional revitalization projects represent basic infrastructure development projects conducted by local governments for regional revitalization.

**[\*<sup>3</sup> Disaster Prevention Projects ]** Disaster prevention projects represent those implemented by local governments to promote creation of safe communities that are well prepared for natural disasters.

**[\*<sup>4</sup> Special Municipal Merger Projects ]** These projects represent those intended to promote autonomous mergers among cities, towns and villages across the nation, including construction projects implemented by local governments that merged under the provisions of the Municipal Merger Law, projects undertaken by local government that merged under the leadership of prefectural governments as stipulated in the provisions of the new Municipal Merger Law, and transportation infrastructure projects for merged local governments conducted by prefectural governments.

**[\*<sup>5</sup> Local Road Construction Projects ]** Former local road construction projects (construction of local roads as community roads) that were eligible for our loans have been reclassified as new local road construction projects in the fiscal 2009 Local Government Bond/Loan Program.

**[\*<sup>6</sup> Extraordinary Financial Countermeasures Funding ]** This represents the fund-raising by local governments to cover shortfalls in the local allocation tax pursuant to the provisions of the Local Finance Law.

## 2.Type of Loans

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JFM's loans consist of two types: (1) general loans to local governments; and (2) entrusted loans to local governments, which are entrusted by the Japan Finance Corporation, which is a policy-based financial institution wholly owned by the national government.

Loans are further classified into three types by loan term: "Long-Term Loans"; "Pre-Consent (Approval) Loans," which are provided as bridge loans to cover the period up to disbursement of loans for projects for which consent (approval) is assured; and "Short-term Loans" for temporary financing to be repaid within the same fiscal year.

## 3.Loan Interest Rates

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Loan interest rates consist of three types: standard interest rate; special interest rate; and extra-special interest rate.

### 1. Standard Interest Rate

The standard interest rate represents the rate at which the discounted present value of cash flows of the fund raised by JFM to make loans equals the discounted present value of cash flows generated by those loans with their respective terms to maturity, grace periods and repayment methods.

### 2. Special Interest Rate

The special interest rate is set at a discount on the standard rate (0.3% below standard rate) for projects that are particularly important to the livelihood of residents.

### 3. Extra-Special Interest Rate

The extra-special interest rate is set at a further discount on the standard rate (0.35% below standard rate) for special projects of great urgency and necessity to respond appropriately to the issues of the regional community.

The trend of fiscal 2008 loan interest rates is shown in the next page. During this period, extra-special interest rates were at the same level as the rates of the Fiscal Loan Fund provided by the national government.



## ■ Trend of Loan Interest Rates in Fiscal 2008

Month/Year	April '08	May '08	June '08	July '08	August '08	September '08
Interest Rate Reset Date	Apr.17	May 22	Jun.19	Jul.17	Aug.21	Sep.19
Standard Interest Rate	2.40%	2.35%	2.40%	2.45%	→	→
Special Interest Rate	2.10%	2.20%	2.30%	2.20%	2.15%	→
Extra-Special Interest Rate	2.10%	2.20%	2.30%	2.20%	2.10%	→
Interest Rate of Fiscal Loan Fund	2.10%	2.20%	2.30%	2.20%	2.10%	→

Month/Year	October '08	November '08	December '08	January '09	February '09	March '09
Interest Rate Reset Date	Oct.28	Nov.20	Dec.17	Jan.22	Feb.19	Mar.19
Standard Interest Rate	2.25%	2.35%	2.30%	2.05%	2.10%	→
Special Interest Rate	2.10%	→	2.00%	1.80%	1.90%	→
Extra-Special Interest Rate	→	→	2.00%	1.80%	1.90%	→
Interest Rate of Fiscal Loan Fund	→	→	2.00%	1.80%	1.90%	→

\*The figures for April 2008 through September 2008 are those of the former JFM. The figures for October 2008 through March 2009 represent those of JFM. In both cases, the figures are fixed interest rates for loans with 28-year maturity and 5-year grace period. The interest rates of the Fiscal Loan Fund are based on the same conditions.

\*There are some cases where special interest rates and extra-special interest rates are the same as the minimum interest rates are set at the level equal to the interest rates of the Fiscal Loan Fund with the same conditions.

## 4.Loan Maturity

The loan maturity, which is set according to the purpose of the loan, was previously 28 years at the maximum (25 years on average). As a result of the review of the loan maturity for each purpose, which was conducted at the time of the reorganization of JFM, the maximum term to maturity was set at 30 years for fiscal 2009 loans with consent (approval). The new loan maturities for major purposes are shown below.

Loan Purpose by Project	Loans with Consent (Approval) up to Fiscal 2008				Loans with Consent (Approval) from Fiscal 2009			
	Fixed Interest Rate		Adjustable Interest Rate*		Fixed Interest Rate		Adjustable Interest Rate*	
	Maturity	Grace Period	Maturity	Grace Period	Maturity	Grace Period	Maturity	Grace Period
Public Housing	20	5	20	5	25	5	25	5
Water supply	28	5	28	5	30	5	30	5
Transportation	28	5	28	5	30	5	30	5
Hospitals	28	5	28	5	30	5	30	5
Sewerage	28	5	28	5	30	5	30	5
Industrial Water Supply	25	5	25	5	30	5	30	5
Electricity Supply	25	5	28	5	30	5	30	5
Gas Supply	20	3	20	3	25	5	25	5
Port Facilities	18	5	28	5	20	5	30	5
Markets	20	5	20	5	25	5	25	5
Slaughterhouses	18	3	18	3	20	5	20	5

\*Reviewed every 10 years.

## 5. Credit Review System

JFM conducts necessary and appropriate credit reviews for all loans as follows, on the assumption that the content, legality, and probability of repayment of each project have been confirmed during the process of the consultation system for local government bonds and loans.

- (1) Comprehend the financial and operational status of local governments and municipal enterprises to which JFM plans to lend by using the fiscal indicators stipulated in the Law Relating to the Financial Soundness of Local Governments, and also, if necessary, conduct interviews with the staff in charge at local governments.
- (2) Review loan applications submitted by local governments to determine if conditions such as consent (approval) for the loan, resolution of the local assembly and appropriation in the budget are met.
- (3) After loans are made, conduct on-site credit reviews to verify use of funds, operational status of projects, and financial and operational status of borrowers.

### (1) Review of Local Governments / Municipal Enterprises Applying for Loans

- Comprehend financial and operational status
- Conduct interviews

### (2) Check at time of Lending

- Verify consent (approval) for loan
- Review loan application documents

### Execution of Loan

### (3) Subsequent Review

- Conduct on-site credit reviews

## 6. Interest Rate Reduction by Utilizing the Fund for Improvement of Operations of Municipalities

Sources of funds to compensate for the interest rate differentials between special interest rates, extra-special interest rates, and standard interest rates include investment income on the Fund for Improvement of Operations of Municipalities (formerly the Fund for Improvement of Operations of Municipal Enterprises), which is comprised of contributions of a portion of the proceeds from municipally operated racing. Our own funds are also included as sources.

Local governments, who operate racing (horse racing, bicycle racing, motorcycle racing and speedboat racing), contribute a portion of the resulting earnings to the Fund for Improvement of Operations of Municipalities as a means of equal profit sharing. Investment income on this Fund is used to reduce interest rates on loans for projects closely related to residents' daily lives.

The overview of contributions of proceeds from municipally operated racing is given below.

Item	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Contributions of proceeds from municipally operated racing (unit: ¥ billion)	12.3	14.9	10.9	10.6	9.0	10.7	14.1	(8.1)*
Fund for Improvement of Operations of Municipalities (unit: ¥ billion)	847.5	855.8	860.6	867.6	873.9	884.3	899.7	894.7
Number of Local Governments Operating Racing	345	316	299	293	260	225	210	210
Number of Local Governments Making Contributions	225	213	212	205	190	180	161	142

\*From fiscal 2008, each local government simultaneously begins making their entire contributions by the end of November of the next year based on financial results for the year. Because of this change, the amount of contributions for fiscal 2008, the transitional year, shows a negative figure.

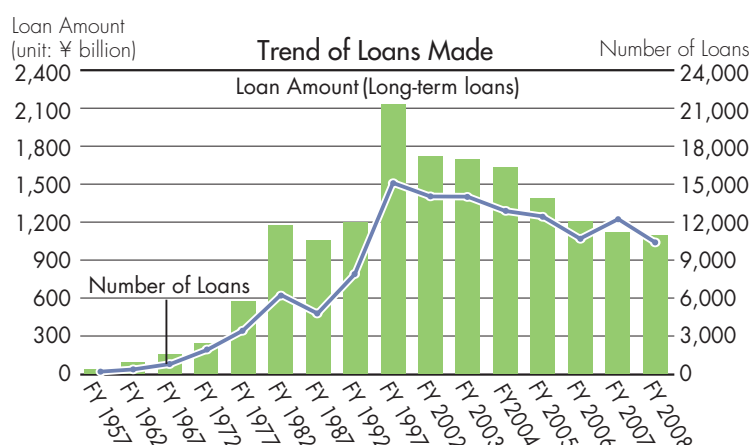
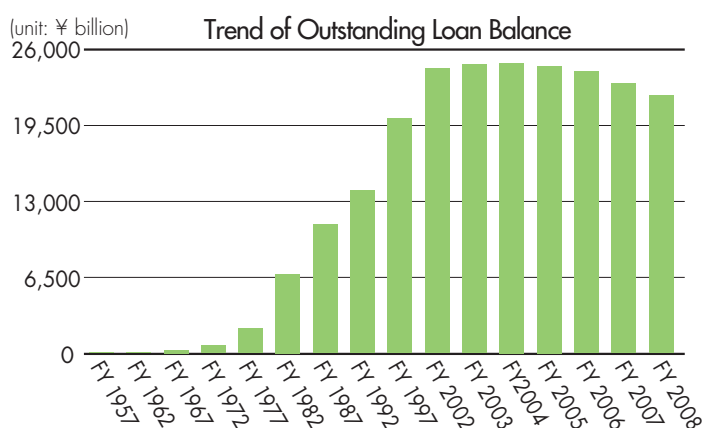
## 7. Overview of Lending Operations

### (1) Trend of Lending Operations

The outstanding loan balances of the former JFM reached ¥1 trillion (US\$10.2 billion) in 1974, ¥5 trillion (US\$50.8 billion) in 1981, ¥10 trillion (US\$101.5 billion) in 1986, ¥20 trillion (US\$203.0 billion) in 1997, ¥25 trillion (US\$253.8 billion) in 2004, and in October 2008, JFM inherited the loan balance of ¥22.4586 trillion (US\$228.0 billion) from the former JFM.

In fiscal 2008, we made long-term loans in the amount of ¥1.1088 trillion (US\$11.3 billion), which is the total amount of loans made by JFM and the former JFM. At the end of this fiscal year, the outstanding loan balance was ¥22.2152 trillion (US\$225.5 billion).

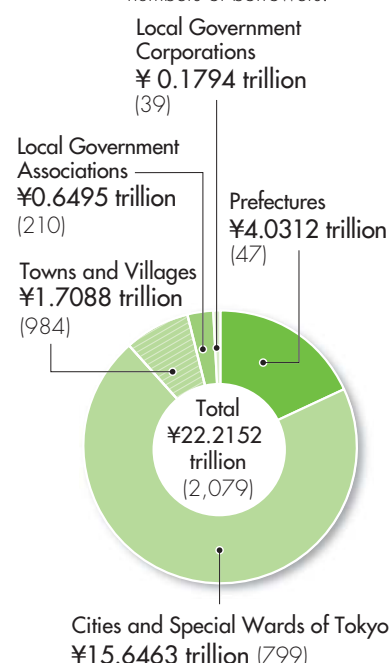
As of the fiscal 2008 year-end, the number of local governments borrowing from JFM totaled 2,079, including all prefectures. Cities and special wards of Tokyo had the highest balance of ¥15.6463 trillion (US\$158.8 billion) and accounted for 71% of the total outstanding loan balance. Next came prefectures with a balance of ¥4.0312 trillion (US\$40.9 billion) and an 18% share of the total. Finally, towns, villages, local government associations and others had a balance of ¥2.5378 trillion (US\$25.8 billion) and accounted for 11% of the total balance.



#### Outstanding Loan Balance by Type of Borrower

(As of March 31, 2009)  
(excluding entrusted loans)

Note: Figures in parentheses are numbers of borrowers.



## (2) Trend of Lending Operations by Project Type

Looking at our past lending operations by project type, water supply, electricity supply and port facilities projects were the primary targets of loans during the mid-'50s to mid-'60s. The targets shifted to water supply, regional development and sewerage projects in the mid-'60s to mid-'70s, and from the mid-'70s to the mid-'80s, the major targets were sewerage, water supply and three types of special projects. Recently, sewerage and three types of special projects accounted for a high share of the total.

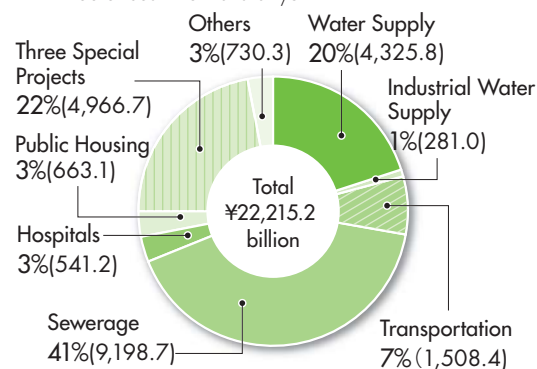
At fiscal 2008 year-end, the outstanding loan balance was ¥22,215.2 billion (US\$225.5 billion), and sewerage projects accounted for the largest share at 41.4%, followed by three types of special projects at 22.4%, and water supply at 19.5% of the total.

## Outstanding Loan Balance by Project Type

(As of March 31, 2009)

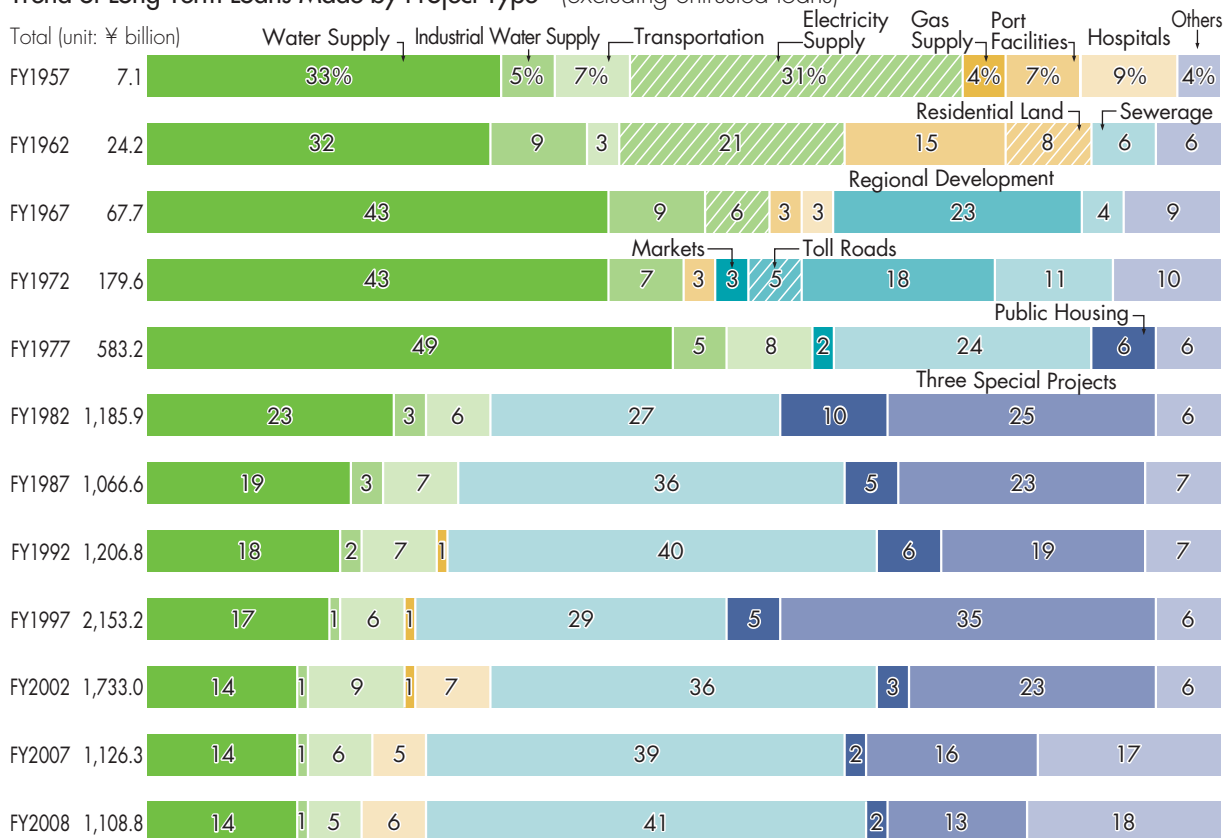
(excluding entrusted loans)

Note: Figures in parentheses are outstanding loan balances in billions of yen



## Trend of Long-Term Loans Made by Project Type (excluding entrusted loans)

Total (unit: ¥ billion)



Notes: 1. Pre-consent (approval) loans are accounted for in the year when they are converted into long-term loans.

2. Others include refinancing for municipal enterprise-related projects.

3. Figures may not add up exactly due to rounding off.

## 8.Lending Operations in Fiscal 2008

### (1) Results of Lending Operations

In fiscal 2008, we made loans in the total amount of ¥1,108.8 billion (US\$11,256.6 million). The loans for sewerage projects were ¥458.3 billion (US\$4,652.5 million) and accounted for the highest share of 41.3% of the total. Next came loans for water supply projects (including small-scale water supply) in the amount of ¥150.9 billion (US\$1,532.4 million) and a 13.6% share of the total. In addition, loans for ¥143.4 billion (US\$1,455.4 million), which accounted for 12.9% of the total, were made for three types of special projects, primarily local road construction.

### (2) Lending Operations by Project Type

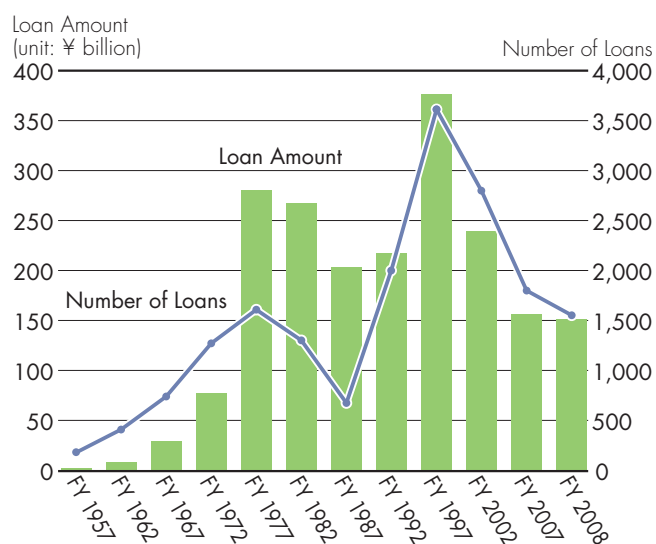
#### [Water Supply Projects]

Water supply (including small-scale water supply) projects managed by local governments totaled 2,277, and provided about 19.2 billion cubic meters of water annually for approximately 124.63 million people.

The total amount of loans that we made for these projects was ¥150.9 billion (US\$1,532.4 million) in fiscal 2008.



Shirakawa water purification plant  
(Arita Town, Saga Prefecture)



Note: Statistics of each project are those of fiscal 2007, and pictures include those of the projects for which our loans were made in the past.

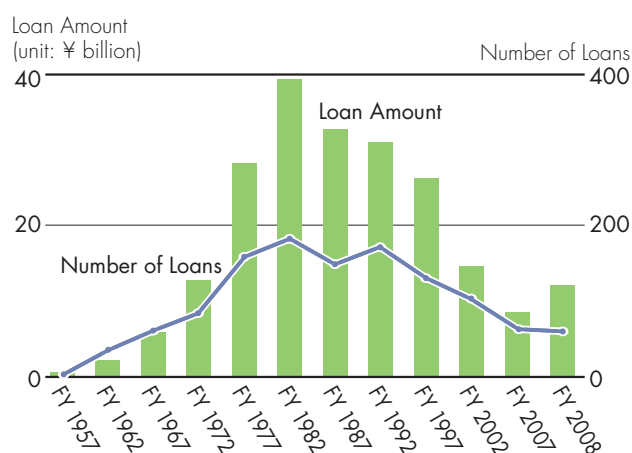
### [Industrial Water Supply Projects]

Industrial water supply projects managed by local governments totaled 152 with 266 facilities that provided approximately 4.8 billion cubic meters of water annually for 6,168 factories and other facilities.

The total amount of loans for these projects was ¥12 billion (US\$121.8 million) in fiscal 2008.



Ishikari Bay New Port Area (Hokkaido Prefecture)



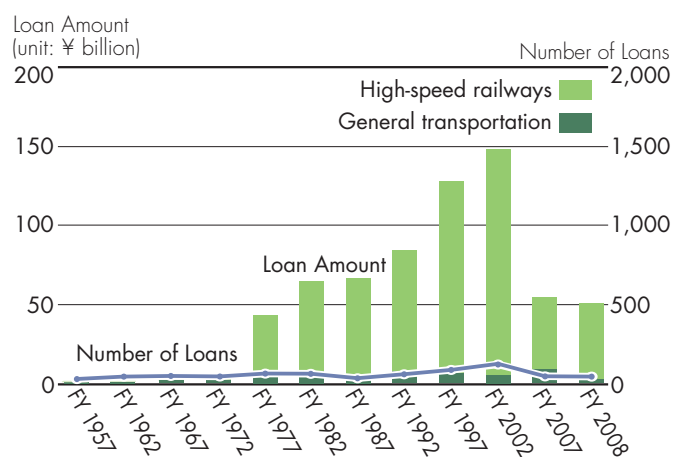
### [Transportation Projects]

Transportation projects managed by local governments totaled 103, which were operated by 84 entities and used annually by about 4 billion people in total (11.06 million people on an average daily basis). The number of passengers who used publicly managed transportation systems accounted for 25.6% of the total bus services and 72.1% of the total subway services on an annual basis.

The total amount of loans for these projects was ¥51 billion (US\$517.5 million) in fiscal 2008.



City subway (Nagoya City)





#### [Electricity Supply and Gas Supply Projects]

Electricity supply projects managed by local governments totaled 93 with 425 power plants, which had a maximum power output of 3.44 million kW and generated 11.1 billion kWh annually. The 34 gas supply projects managed by local governments provided 38.8 billion MJ of gas for 0.97 million households annually.

The total amount of loans for these projects was ¥1.3 billion (US\$13.1 million) in fiscal 2008.



Taikoyama Wind Power Station (Kyoto Prefecture)

#### [Port Facilities Projects]

Port facilities projects managed by local governments totaled 106, which included reclamation, cargo-handling machines, sheds, warehouses, lumberyards, tugboats, etc.

The total amount of loans for these projects was ¥3.7 billion (US\$37.9 million) in fiscal 2008.



Cargo-handling Machine (Kushiro City)

#### [Hospital Projects]

Hospital projects managed by local governments totaled 667, which included 911 general hospitals, one tuberculosis hospital and 45 mental hospitals.

The total amount of loans for these projects was ¥68.3 billion (US\$693.3 million) in fiscal 2008.



Miyagi Children's Hospital (Miyagi Prefecture)

### [Elderly Care Services Projects]

Elderly care services projects managed by local governments totaled 639. Loans were made for construction of day-care centers, intensive care nursing homes and other facilities for the elderly, and also for machines and equipment required at those facilities.

The total amount of loans for these projects was ¥1.6 billion (US\$16.4 million) in fiscal 2008.



Intensive Care Nursing Home Seijuen  
(Shin-Hidaka Town, Hokkaido Prefecture)

### [Market Projects]

Market projects managed by local governments totaled 179, which handled 8.06 million tons of vegetables, 2.84 million tons of fruit, 4.45 million tons of seafood, and 0.82 million tons of meat and other products. These projects contributed to modernization of the distribution system of daily commodities.

From the point of modernization of the distribution system, local governments became actively involved in construction and improvement of the markets.

The total amount of loans for these projects was ¥694 million (US\$7.0 million) in fiscal 2008.



Central Wholesale Market (Morioka City)

### [Slaughterhouse Projects]

Slaughterhouse projects managed by local governments totaled 75, which processed 4.2 million head of cattle and other animals in fiscal 2007.

The total amount of loans for these projects was ¥46 million (US\$0.5 million) in fiscal 2008.



Meat Distribution Center (Kanazawa City)

[Tourism Facilities Projects (including industrial waste processing projects)]

Tourism facilities projects managed by local governments included 160 recreation and accommodation facilities, 64 ropeways, and 180 other facilities (hot springs, castles, museums, zoos, botanical gardens, etc.).

The total amount of loans for these projects was ¥171 million (US\$1.7 million) in fiscal 2008.



Asahiyama Zoo (Asahikawa City)

[Parking Facilities Projects]

Parking facilities projects managed by local governments totaled 236 with 684 facilities, which had a total capacity of approximately 123,000 vehicles, serving an average of about 186,000 cars per day.

The total amount of loans for these projects was ¥1.4 billion (US\$13.8 million) in fiscal 2008.



A parking lot at Hashimoto Station (Sagamihara City)

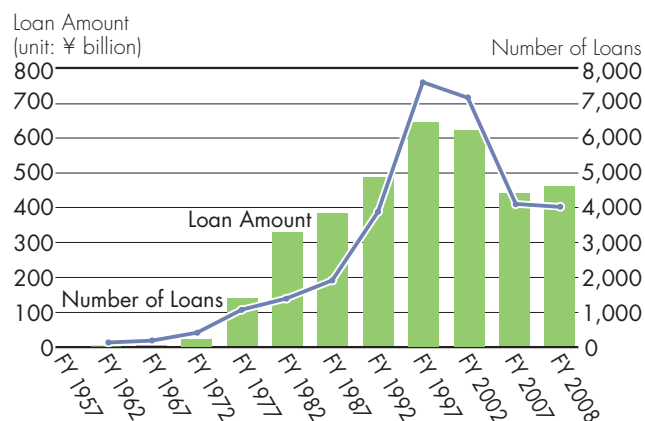
[Sewerage Projects]

Sewerage projects managed by local governments totaled 3,705, serving areas with a population of 96.72 million, or 74.8% of the total population at the end of fiscal 2007.

The total amount of loans for these projects was ¥458.3 billion (US\$4,652.5 million) in fiscal 2008, or 41.3% of long-term loans.



Shirone Central Sewage Purification Center (Niigata City)



### [Public Housing Projects]

Public housing constructed and managed by local governments totaled approximately 2.18 million units at fiscal 2007 year-end.

The total amount of loans for these projects was ¥16.5 billion (US\$167.9 million) in fiscal 2008.



Prefectural Housing Funaoka Estate (Kochi Prefecture)

### [Three Special Projects]

The three special types of projects include local road construction (construction of local roads as community roads), improvement of rivers and other waterways, and high school construction (reconstruction of old high school buildings). These projects were added to the scope of lending for the former JFM in 1978.

The total amount of loans for these projects was ¥143.4 billion (US\$1,455.4 million) in fiscal 2008.

#### ■ Local Road Construction Project



Ichikawa-Misato Minobu Road (Yamanashi Prefecture)

#### ■ Improvement of Rivers and Other Waterways Project

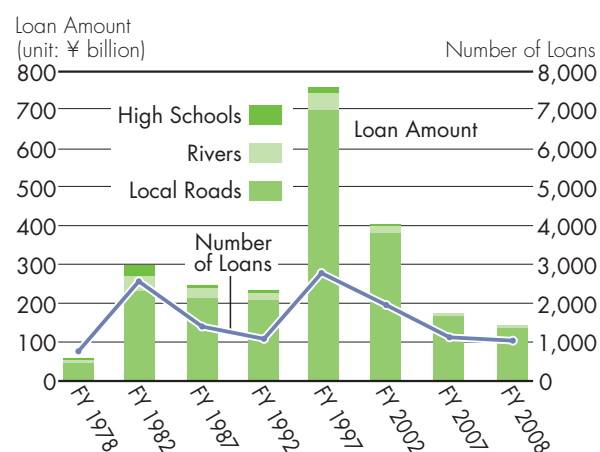


Sasaya Shinsui Park (Nihonmatsu City)

#### ■ High School Construction Project



Aomori Higashi High School (Aomori Prefecture)





## 9. Overview of Entrusted Loans in Fiscal 2008

JFM makes loans for public forest improvement projects and grasslands development projects, which are entrusted to us by the Japan Finance Corporation.

The total amount of entrusted loans made in fiscal 2008 was ¥ 3,851 million (US\$ 39.1 million). The amounts of loans for public forest improvement projects and grasslands development projects were ¥ 3,689 million (US\$ 37.5 million) and ¥ 161 million (US\$ 1.6 million), respectively.

Type of Project	Public Forest Improvement Project		Grasslands Development Project		Total		
	Number of Loans	Amount (Millions of Yen)	Number of Loans	Amount (Millions of Yen)	Number of Loans	Amount (Millions of Yen)	% of Total
Prefectures	55	2,248	1	6	56	2,254	58.5
Cities	115	968	3	69	118	1,037	26.9
Towns and Villages	81	473	9	86	90	560	14.5
Associations, etc.							
<b>total</b>	<b>251</b>	<b>3,689</b>	<b>13</b>	<b>161</b>	<b>264</b>	<b>3,851</b>	<b>100.0</b>

Note: Figures may not add up exactly due to rounding off.

The total outstanding balance of entrusted loans was ¥368,508 million (US\$3,741.2 million) for 28,848 loans, which included ¥344,226 million (US\$3,494.7 million) for 27,128 loans for public forest improvement projects, and ¥ 24,282 million (US\$246.5 million) for 1,720 loans for grasslands development projects.

## 10. Plan of Lending Operations for Fiscal 2009

Based on the fiscal 2009 Local Governments Bond/Loan Program (Revised Version), which includes JFM loans for ¥1,883 billion (US\$19.1 billion), JFM plans to make general loans in the total amount of ¥1,429 billion (US\$14.5 billion) for fiscal 2009. This includes loans for ¥279.8 billion (US\$2.8 billion) for general account-related projects, ¥300 billion (US\$3.0 billion) for extraordinary financial countermeasures funding, and ¥849.2 billion (US\$8.6 billion) for municipal enterprise-related projects.

Additionally, JFM plans to make entrusted loans in the amount of ¥4.1 billion (US\$41.6 million).

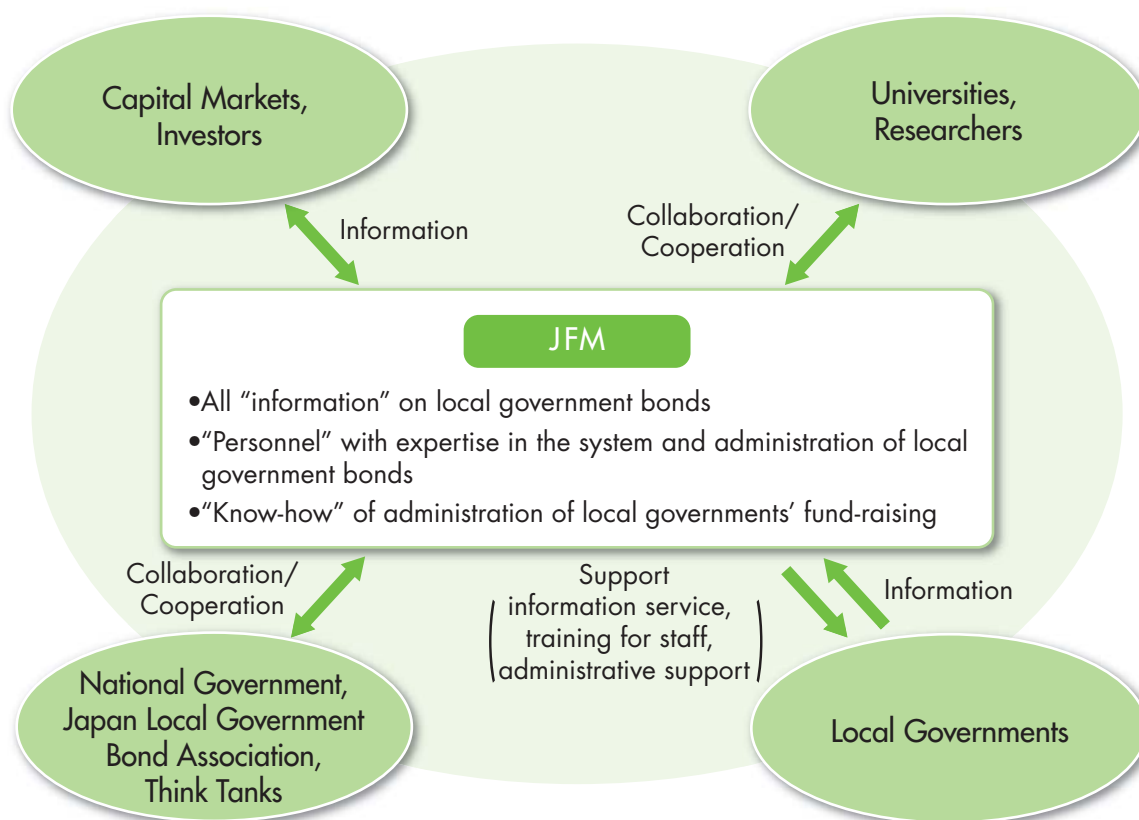
# Operations Overview | Local Government Support Operations

## 1. Basic Policy

JFM will provide support for local governments, to enable them to respond appropriately to the changing environment for local government bonds including the prospective further liberalization of the primary market, and also to efficiently raise funds in the capital market.

In preparation for the full implementation of the support operations, which are expected to start in fiscal 2011, JFM will establish a local government support network in conjunction with concerned parties to fulfill its function of communicating various information, and also enhance its resources for these operations, which includes the addition of experts from the private sector.

For the time being, JFM intends to thoroughly comprehend local governments' needs, and implement projects related to "Research and Study, and Information Service," "Training for Local Government Staff," and "Administrative Support for Fund-Raising."



## 2. Specific Action Plan

We will implement the following projects, making the best use of JFM's unique nature as the organization which is directly connected with local governments and capital markets.

(1) Research and Study, and Information Service

In cooperation with universities, JFM will conduct research on local governments' fund-raising and provide the results in plain language.

JFM will also provide local governments with information to help them deepen their understanding of conditions of capital markets, including the local government bond market.

(2) Training for Local Government Staff

JFM will provide training for local government staff, so that they acquire not only basic knowledge of local government administration and finance, financing, economics and accounting, but also skills and know-how of practical business.

(3) Administrative Support for Fund-Raising

In cooperation with concerned parties, JFM will provide information on administration of fund-raising by local governments, including investor relations and public offering of local government bonds.

### 3. Projects Planned for Fiscal 2009

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(1) Research and Study, and Information Service

The research projects include an analysis of the current conditions of private placement bonds issued by local governments and underwritten by banks and other entities in Japan, and a continuous fixed point observation and analysis of the current situation of local government bond systems and joint local government bond issuance institutions in foreign countries.

Information service includes providing information on the results of study of municipal enterprises.

(2) Training for Local Government Staff

JFM will provide support for training sessions for local government staff given by local government related entities, and also continue the on-the-job training program launched in fiscal 2008, to enable local government staff to acquire administrative competence for finance related operations.

(3) Administrative Support for Fund-Raising

JFM will hold joint investor relations meetings in Japan and abroad in conjunction with local government bond related entities and public offering bond issuing entities, and also provide support for public offering bonds targeted individual investors.

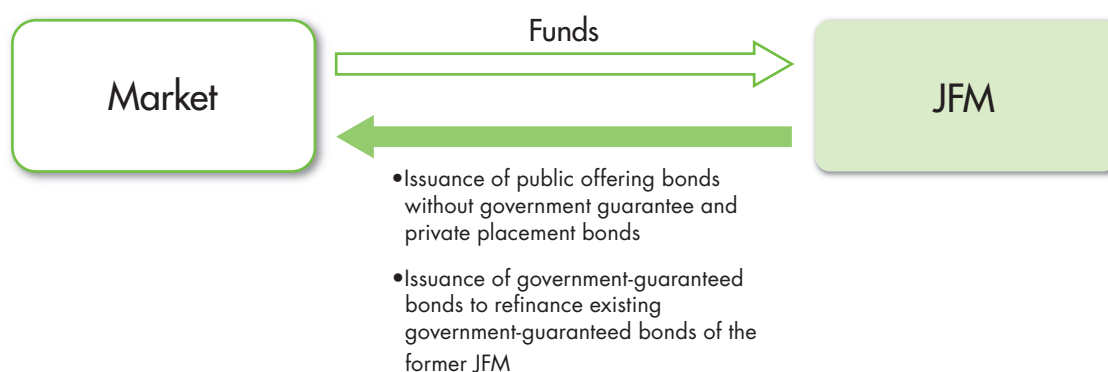


As a joint fund-raising organization for local governments, JFM raises funds in a stable manner to provide local governments with low-interest and stable funds, while endeavoring to reduce the cost of fund-raising.

## 1.Type of JFM Bonds

Basically, JFM issues public offering bonds without government guarantee to raise funds for new lending operations. JFM also issues private placement bonds which are underwritten by the Pension Fund Association for Local Government Officials.

JFM issues government-guaranteed bonds as well to refinance the former JFM bonds with government guarantee to smoothly manage the former JFM's assets that JFM has succeeded to.



## 2. Basic Stance on Issuance of JFM Bonds

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JFM issues bonds to raise necessary funds in capital markets in a stable manner, maintaining the solid confidence of capital markets by proactively disclosing information and thoroughly fulfilling accountability. JFM also endeavors to issue bonds in a timely and flexible manner, responding to market conditions and needs.

### (1) Diversification of Fund-Raising Methods

From the viewpoint of stable fund-raising, JFM primarily issues 10-year bonds, and also endeavors to issue bonds flexibly with various terms and structures including mid-term and extra-long-term bonds in response to market conditions and needs in order to expand the investor base.

JFM endeavors to issue bonds in a variety of markets to reduce the cost of fund-raising, taking advantage of the JFM brand recognition built up over many years from the time of the former JFM, and closely monitoring conditions of domestic and overseas markets.

### (2) Comprehensive Disclosure of Information

From the viewpoint of investor protection, JFM appropriately discloses information on its operations, financial conditions, and risk management status.

Furthermore, JFM promotes positive investor relations activities, including meetings with and visits to individual investors, in order to help investors correctly understand JFM's management and bonds, and to secure solid confidence in JFM. JFM also publishes a bond issuance plan every six months to help investors plan for investment.

### (3) Contribution to the Sound Development of Capital Markets

While raising funds in a timely and flexible manner in response to the needs of capital markets, and maintaining the basic policy of attaching great importance to capital markets, JFM will further strengthen its role as a core issuer in the public bond market, and positively contribute to the sound development of capital markets.

### 3.Characteristics of JFM Bonds

The bonds issued by JFM have the characteristics of “Super Local Government Bonds.” Based on the following features, JFM bonds can be said to have extremely high credit quality and status at least equal to those of local government bonds.

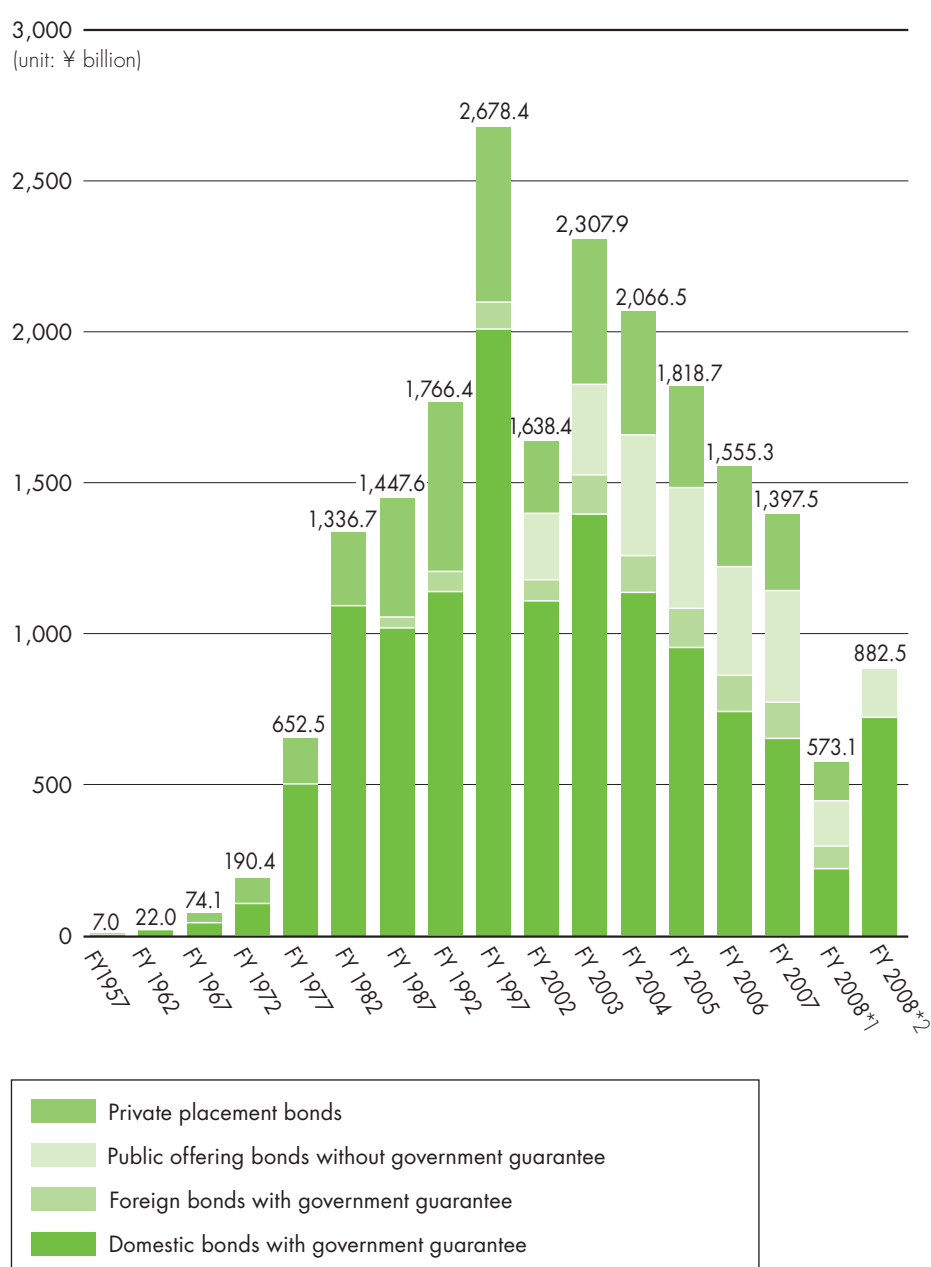
- JFM has the status of a public organization itself.
- JFM is a joint fund-raising organization owned by local governments.
- As there has never been a case of a local government going into default, JFM’s assets can be said to be highly stable.
- JFM has a sound financial foundation, and under the Japan Finance Organization for Municipalities Law, local governments have the ultimate obligation to repay JFM’s debts in the event of dissolution of JFM, thus the redemption of JFM bonds is deemed assured.
- JFM bonds are highly liquid, and JFM takes an investor-oriented stance as an issuer.

JFM has received the highest grade credit rating in Japanese public sector bond issuers from Standard and Poor’s (S&P), Moody’s Investors Service (Moody’s), and Rating and Investment Information, Inc. (R&I). Furthermore, the risk weight for JFM is in the 10% category.

<b>Issuer Rating (solicited)</b>	<div>(As of July 22, 2009)</div> <div>S&amp;P : AA (Stable)</div> <div>Moody’s : Aa2 (Stable)</div> <div>R&amp;I : AAA (Negative)</div>	
<b>BIS Risk Weight</b>	JFM Bonds: 10%	<div>(For reference)</div> <div>Government Guaranteed Bonds : 0%</div> <div>Government Bonds : 0%</div> <div>Local Government Bonds : 0%</div>
<b>Security</b>	The holders of JFM bonds have the right to be repaid from JFM assets ahead of other creditors. This lien shall be subordinate to general liens stipulated in the civil law. (Article 40, the Japan Finance Organization for Municipalities Law)	

## 4.Trend of Fund-Raising Operations

The total amount of bonds issued reached a historic high of ¥2,678.4 billion (US\$27.2 billion) in 1997. It has been showing a decreasing trend since then, and in fiscal 2008, the total amount of bonds issued by JFM was ¥882.5 billion (US\$9.0 billion), while the issue amount of the former JFM bonds totaled ¥573.12 billion (US\$5.8 billion).



\*1. Former JFM

\*2. JFM

## 5.Fund-Raising Operations in Fiscal 2008

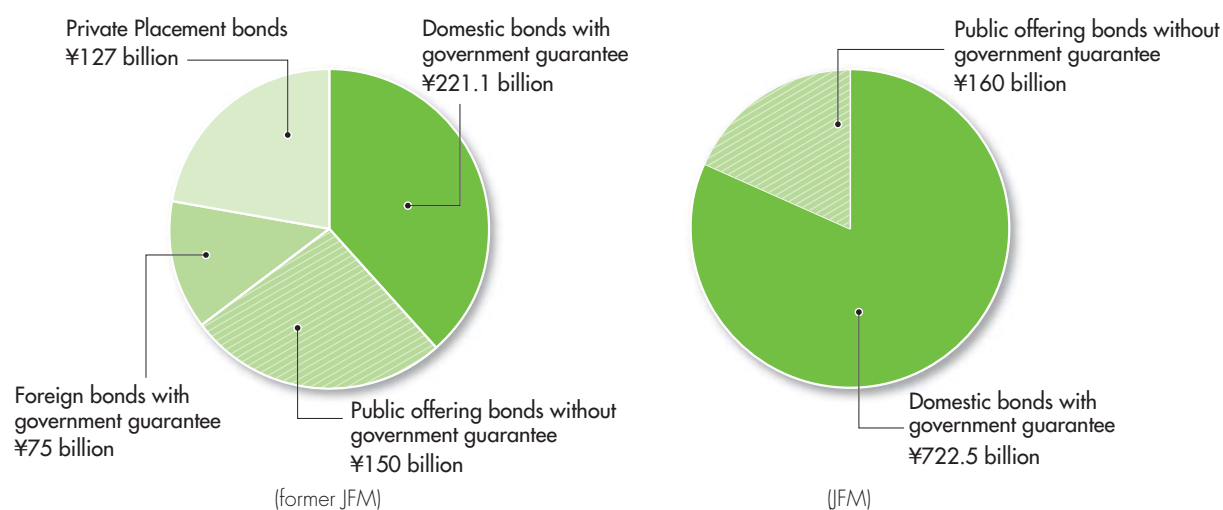
In fiscal 2008, the total amount of bonds issued by JFM was ¥882.5 billion (US\$8,959.4 million), and as for the former JFM bonds, the issue amount totaled ¥573.12 billion (US\$5,818.5 million). The total issue amount of JFM bonds was made up as follows: domestic bonds with government guarantee (10-year maturity) for ¥422.5 billion (US\$4,289.3 million); domestic bonds with government guarantee (4-year maturity) for ¥300 billion (US\$3,045.7 million); public offering bonds without government guarantee (20-year maturity) for ¥50 billion (US\$507.6 million yen); public offering bonds without government guarantee (10-year maturity) for ¥80 billion (US\$812.2 million); and public offering bonds without government guarantee (5-year maturity) for ¥30 billion (US\$304.6 million).

The total issue amount of the former JFM bonds was made up as follows : domestic bonds with government guarantee (10-year maturity) for ¥221.12 billion (US\$2,244.9 million); foreign bonds with government guarantee (10-year maturity) for ¥75 billion (US\$761.4 million); public offering bonds without government guarantee (20-year maturity) for ¥100 billion (US\$1,015.2 million); public offering bonds without government guarantee (10-year maturity) for ¥50 billion (US\$507.6 million); and private placement bonds for ¥127 billion (US\$1,289.3 million).

In fiscal 2008, the amount of domestic bonds with government guarantee issued by JFM totaled ¥722.5 billion (US\$7,335.0 million), which accounted for 22.9% of the total amount of all domestic bonds with government guarantee (¥3,141.69 billion (US\$31,895.3 million)) issued in the market.

Additionally, in fiscal 2008, the amount of domestic bonds with government guarantee issued by the former JFM was ¥221.12 billion (US\$2,244.9 million), which accounted for 7.0% of the total amount of all bonds of this type issued in the market.

At the end of fiscal 2008, the outstanding balance of bonds issued by JFM and the former JFM was ¥18,998.9 billion (US\$192,882.3 million).



■ Fiscal 2008 Bond Issuance Summary: Bonds Issued by JFM (Total Issue Amount: ¥882.5 billion)

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Domestic Bond with Government Guarantee	10years	1st	70	1.6	99.85	October 16, 2008
	10years	2nd	70	1.6	99.60	November 18, 2008
	10years	3rd	70	1.4	99.35	December 15, 2008
	10years	4th	70	1.3	99.15	January 22, 2009
	10years	5th	70	1.3	99.20	February 18, 2009
	10years	6th	72.5	1.3	99.30	March 17, 2009
	4years	1st	300	0.7	99.94	February 27, 2009
<b>Total</b>			<b>722.5</b>			

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Public Offering Bond without Government Guarantee	20years	1st	50	2.07	99.88	January 26, 2009
	10years	1st	50	1.77	99.95	November 25, 2008
	10years	2nd	30	1.59	99.92	February 20, 2009
	5years	1st	30	1.01	99.97	February 24, 2009
<b>Total</b>			<b>160</b>			

■ Fiscal 2008 Bond Issuance Summary: Bonds Issued by Former JFM (Total Issue Amount: ¥573.12 billion)

Type of Bond		Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥, %)	Issue Date
Government-guaranteed Bond	Domestic Bond	10 years	884th	100	1.4	99.25	April 17, 2008
		10 years	885th	50	1.7	99.60	May 22, 2008
		10 years	886th	71.12	1.8	99.75	June 19, 2008
	Foreign Bond	10 years	5th Global Yen	75	1.900	99.900	June 25, 2008
Total				296.12			

Type of Bond		Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Public Offering Bond without Government Guarantee		20 years	24th	60	2.29	99.85	April 25, 2008
		20 years	25th	40	2.50	99.98	June 16, 2008
		10 years	30th	50	1.97	99.98	June 16, 2008
Total				150			

Type of Bond		Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Private Placement Bond		10 years	29th	40	1.59	100.00	April 30, 2008
		10 years	30th	50	1.91	100.00	May 30, 2008
		10 years	31th	37	1.78	100.00	July 31, 2008
Total				127			

## 6. Plan of Fund-Raising Operations for Fiscal 2009

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Basically, JFM issues public offering bonds without government guarantee to raise funds for lending operations. JFM also issues private placement bonds which are underwritten by the Pension Fund Association for Local Government Officials. For fiscal 2009, JFM plans to issue public offering bonds without government guarantee in the amount of ¥600 billion (US\$6,091.4 million): ¥300 billion of 10-year bonds; ¥200 billion of 20-year bonds; and ¥100 billion of other bonds. Additionally, private placement bonds (10-year maturity) will be issued in the amount of ¥400 billion (US\$4,060.9 million).

JFM issues government-guaranteed bonds to refinance the former JFM bonds with government guarantee to smoothly manage the former JFM's assets which JFM has succeeded to. For fiscal 2009, JFM plans to issue government-guaranteed bonds in the amount of ¥820 billion (US\$8,324.9 million).



# Internal Management System

## Risk Management

### 1. Overall Risk management

- (1) Integrated Risk Management and Risk Management System .....44
- (2) Characteristics of JFM's Risks and Interest Rate Risk Management .....44

### 2. Individual Risk Management

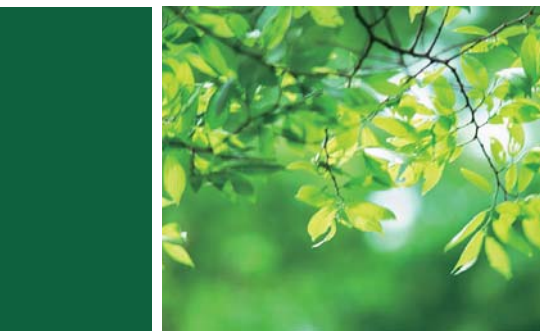
- (1) Credit Risk .....45
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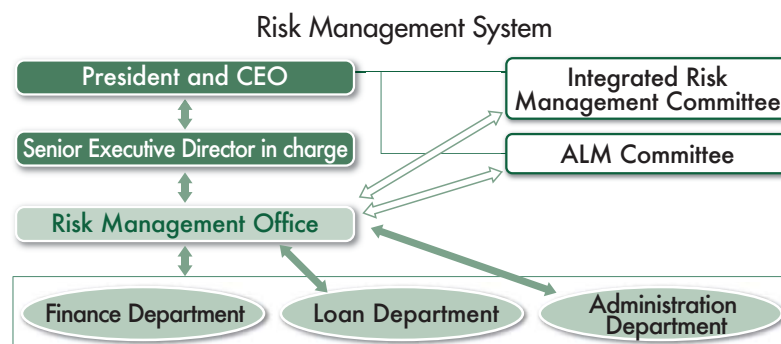
## 1. Overall Risk Management

### (1) Integrated Risk Management and Risk Management System

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.

In addition to checks by the Supervisory Committee and external auditors, JFM adopts an integrated risk management approach internally to appropriately respond to various risks while endeavoring to further sophisticate risk analysis and management.

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 is independent of other departments. The content of risk management can then be appropriately reflected in management decisions.



### (2) Characteristics of JFM's Risks and Interest Rate Risk Management

JFM raises funds by primarily issuing 10-year bonds, and makes loans with a maximum maturity of 28 years (30 years from fiscal 2009) and with repayment of interest and principal in equal installments. Because of this, a large maturity gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond refinancing.

For this reason, JFM has set aside reserves for interest rate fluctuations (Reserve for Interest Rate Volatility), and has set up an ALM committee as a separate entity 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 and utilizing interest rate swaps.

## 2. Individual Risk Management

### (1) 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.

#### ① 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 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 service 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 situations 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, 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.

#### (Loans assets)

At the end of March 2009, JFM's total outstanding loans stood at ¥22,215.2 billion (US\$ 225.5 billion). The amount of outstanding loans made to local government road corporations by the former JFM was ¥179.4 billion (US\$1,821.7 million) which accounted for slightly less than 1% of the total loans.

JFM is not subject to the "Banking Law" or the "Financial Reconstruction Law," but performs self-assessment of loans made to local government road corporations in accordance with the "Financial Inspection Manual" of the Financial Services Agency (FSA). All of these loans have been classified as normal assets based on the self-assessment.

The amount of loans made to local governments whose fiscal indicators exceeded the early warning limits or the reconstruction limits accounted for slightly more than 1% of the total loans.

## ② Credit risk associated with market transactions

JFM is exposed to the risk of loss arising from a credit event, such as deterioration in the financial condition of a counter-party, which causes an asset to lose value or become worthless. However, JFM appropriately manages credit risk of this type by constantly monitoring counter-parties' financial standing and limiting them to financial institutions that meet the credit rating and other criteria.

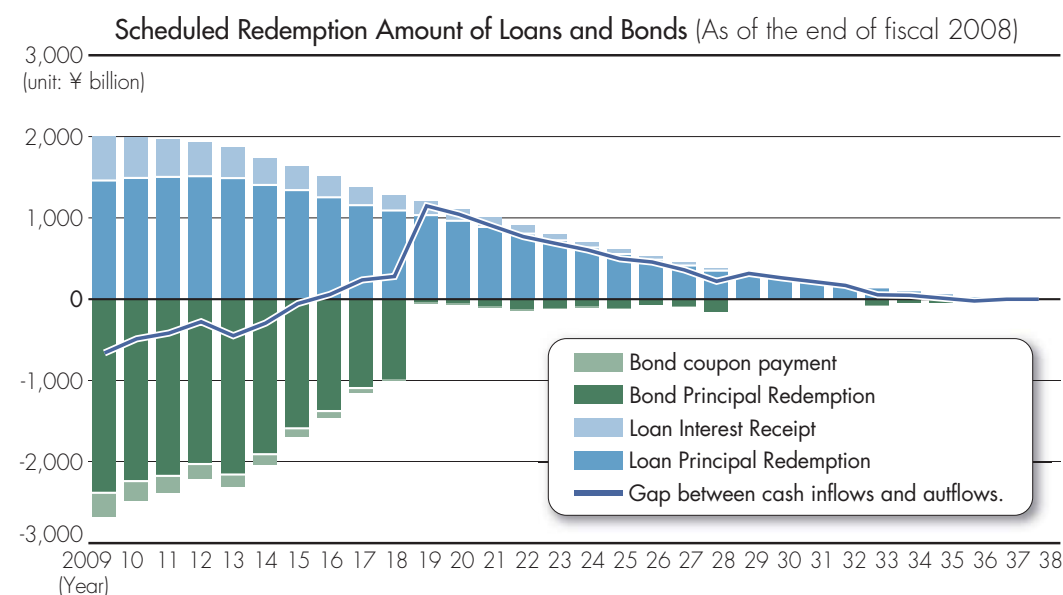
## (2) Market Risk

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.

### ① 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 28 years (30 years from fiscal 2009) and the average maturity about 25 years. On the other hand, the majority of the funds for these loans is raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinance.



As of the end of fiscal 2008

•Duration of lending: 7.71 years

•Duration of fund-raising: 4.76 years

•Duration gap: 2.95 years (0.02-year decrease from the previous year)

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 for interest rate volatility to cope with the interest rate risk resulting from a duration gap between lending and fund-raising. The amount of the above reserves stood at ¥3,294.7 billion (US\$33.4 billion) at the end of March 2009.
- As assets and liabilities in JFM's General account are expected to expand, 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 its exposure to interest rate risk by setting the following medium-term (end of fiscal 2013) management target, by continuously issuing super-long bonds with maturities exceeding 10 years, and by utilizing interest rate swaps.
  - (1) Keep 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.

2. "Decline in economic value" is the decline of present value after interest rate shocks (an upward and downward 200 bp parallel shift of the yield curve).
  - (2) Keep a duration gap below approximately 2 years.

## ② 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 notes, and risk of fluctuations in the amounts of principal and interest of inflation-indexed bonds.

JFM's policy for investing surplus funds gives priority to short-term financial products with stable returns, such as Treasury Bills, which creates little price change risk. Additionally, foreign exchange risk related to foreign currency-denominated bank deposits is hedged by foreign exchange contracts.

## (3) Liquidity Risk

Liquidity risk is the risk that JFM will incur losses because it finds it difficult to secure the necessary funds or is forced to obtain 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 will 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, and invests surplus funds only in short-term financial products.

#### (4) Operational Risk

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

##### ① Administrative risk

Administrative risk is the risk of loss resulting from the neglect by management and staff to properly conduct administrative work, accidents caused by them and violation of laws conducted by them in the course of the administrative work process.

JFM endeavors to mitigate its exposure to administrative risk by preparing operational manuals, holding educational seminars and reducing operational workload through systematization.

##### ② Systems risk

Systems risk is the risk that the confidentiality, integrity and availability of information assets will be impaired as a result of computer system inadequacies or the fraudulent use of computer systems.

JFM has established and implemented the "Systems Risk Management Policy" and the "Systems Risk Management Standard" to appropriately manage systems risk and ensure smooth business operations.

JFM has also prepared the "Contingency Plan" to minimize the scope of losses and the impact on operations and restore normal operations promptly and efficiently in the event that computer systems break down or cannot be used due to unexpected accidents, disasters or malfunctions.

##### ③ Other risks

In addition to the aforementioned risks, JFM appropriately identifies and addresses other risks, such as legal risk, personnel risk, physical asset risk and reputation risk.

# Internal Management System | Internal Control Over Financial Reporting

Pursuant to the “Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipal Enterprises” (Ordinance No.87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, “Ordinance”), JFM intends to establish the system of internal control over financial reporting to ensure the reliability of its financial statements, and also intends to maintain and implement this system appropriately. In accordance with the Ordinance, from fiscal 2009 JFM will prepare the Internal Control Report whose base data is the end of the fiscal year. This report will be audited by the external auditors and released together with financial statements.

The system of internal control over financial reporting will be established to further strengthen JFM’s organizational foundation. JFM will maintain and implement this system effectively and efficiently to ensure the reliability of financial statements which summarize financial information on JFM’s operations.

## Internal Management System | Internal Audits

Internal audits are performed by the internal auditor, who is independent from other departments, divisions and offices, to examine and assess appropriateness and effectiveness of the internal control systems of JFM. Additionally, internal audits are intended to contribute to ensuring appropriate and efficient operations, and are conducted according to the following procedure.

1. Internal audits are performed by the internal auditor.
2. The internal auditor examines and assesses the following items.
  - a. Are operations of each division or office conducted in accordance with laws, regulations and manuals?
  - b. Are job execution systems efficient?
  - c. Are risk management systems functioning appropriately and efficiently?
  - d. Are systems for managing, conveying and sharing information functioning effectively?
3. The internal auditor reports the results of an internal audit to the President and CEO when it is completed.
4. If deficiencies are identified by the internal auditor, the related divisions and offices are required to take necessary corrective actions immediately.

The internal auditor submits to the President and CEO an internal audit report which includes the status of corrective actions. The internal auditor also performs follow-up audits and reports the results to the President and CEO.



## 1. Basic Policy

JFM has prepared the “Compliance Rules” to ensure that operations are conducted in accordance with laws and regulations, and to show what actions management and staff should take when a breach of laws or regulations is identified. The rules include the basic policy on compliance, which is given below.

- (1) Management and staff must be aware of JFM’s social responsibility and public mission, and realize that a breach of laws or regulations would cause a great hindrance to JFM’s business operations, such as a loss in credibility of JFM as a whole. Management and staff must also observe laws and regulations, and fulfill their duties with integrity and fairness.
- (2) Management and staff must strive to earn the confidence of society by appropriately disclosing information on JFM’s operations.

## 2. Compliance System

Based on the Compliance Rules, JFM has established the Compliance Committee.

JFM’s Deputy President serves as the chairman of the committee, with senior executive directors and department heads serving as the committee members. The committee deliberates on important compliance issues, such as preparation and review of the Compliance Rules, and preparation of guiding principles and action plans of compliance.

## 3. Compliance Activities

JFM distributes to management and staff the updated compliance manuals which include points to note for compliance actions and related laws and regulations. JFM also gives seminars on compliance and lends educational videos to divisions and offices.

From the viewpoint of investor protection, JFM strives to ensure the transparency of management of JFM by disclosing information on its financial conditions and other relevant information.

## Disclosure System

Pursuant to the provisions of Article 36 Section 3 of the Japan Finance Organization for Municipalities Law, after submitting financial statements to the Minister for Internal Affairs and Telecommunications, JFM promptly publishes financial statements in an official gazette. JFM also opens the following materials to the public: financial statements, business reports, statements of accounts and other explanatory materials on business operations, and assets and liabilities (documents similar to financial reports). Additionally, JFM has established the disclosure system based on its disclosure rules to appropriately respond to requests for disclosure of information.

## Disclosure Materials

JFM discloses a wide range of information, offering the following disclosure materials.

- ① Disclosure materials required by law
  - Financial statements
  - Business reports
  - Statements of accounts
- ② Other disclosure materials
  - Annual report
  - Disclosure booklet
- ③ Additional disclosure materials
  - Pamphlets
  - Web site (<http://www.jfm.go.jp/>)



Pamphlet



Web site(<http://www.jfm.go.jp/>)

# Financial Section

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# Financial Section | Financial Statements

## ■ Balance Sheet (As of March 31, 2009)

(Millions of Yen) (Thousands of US dollars)

Item	Amount		Item	Amount	
<b>Assets</b>			<b>Liabilities</b>		
Loans (Note 3)	¥ 22,215,288	\$ 225,535,921	Bonds (Note 5 and 6)	¥ 18,978,163	\$ 192,671,714
Securities (Note 15)	874,832	8,881,550	Other liabilities	19,756	200,578
Cash and bank deposits	255,591	2,594,836	Reserve for bonuses (Note 7)	47	485
Other assets	20,051	203,570	Reserve for directors' bonuses (Note 7)	7	81
Tangible fixed assets (Note 4)	3,010	30,560	Reserve for retirement benefits (Note 7 and 10)	202	2,058
Intangible fixed assets (Note 4)	842	8,558	Reserve for retirement benefits for directors and corporate auditors (Note 7)	51	519
			Fund for improvement of operations of municipal enterprises	894,675	9,083,004
			Basic fund for improvement of operations of municipal enterprises (Note 9)	892,875	9,064,728
			Additional fund for improvement of operations of municipal enterprises (Note 9)	1,800	18,276
			Reserve under special laws	3,423,622	34,757,593
			Reserve for interest rate volatility (Note 8)	220,000	2,233,503
			Management account reserve for interest rate volatility (Note 8)	3,074,728	31,215,519
			Reserve for interest rate reduction	128,894	1,308,571
			<b>Total liabilities</b>	<b>23,316,529</b>	<b>236,716,032</b>
			<b>Net Assets</b>		
			Capital	16,602	168,549
			Retained earnings	1,295	13,153
			General account surplus reserve	1,295	13,153
			Management account surplus reserve	35,190	357,261
			<b>Total net assets</b>	<b>53,087</b>	<b>538,963</b>
<b>Total assets</b>	<b>¥ 23,369,616</b>	<b>\$ 237,254,995</b>	<b>Total liabilities and net assets</b>	<b>¥ 23,369,616</b>	<b>\$ 237,254,995</b>

# **Statement of Income** (From August 1, 2008 through March 31, 2009)

(Millions of Yen) (Thousands of US dollars)

Item	Amount	
Income	¥ 291,330	\$ 2,957,666
Interest income	291,288	2,957,240
Fees and commissions	33	342
Other income	8	84
Expenses	160,632	1,630,790
Interest expenses	155,235	1,575,992
Fees and commissions	134	1,366
Other operating expenses	2,233	22,673
General and administrative expenses	1,203	12,218
Other expenses	1,826	18,541
Transfer to fund for improvement of operations of municipal enterprises (Note 9)	1,800	18,276
Others	26	265
Ordinary income	130,697	1,326,876
Special gains	307,872	3,125,611
Reversal of management account reserve for interest rate volatility (Note 8)	300,000	3,045,685
Reversal of reserve for interest rate reduction	7,872	79,926
Special losses	418,144	4,245,125
Provision for management account reserve for interest rate volatility (Note 8)	118,144	1,199,440
Payment to national treasury (Note 8)	300,000	3,045,685
Net income	¥ 20,425	\$ 207,362

## ■ Appropriation of Profit [General Account] (March 31, 2009)

(Millions of Yen)

I Profit to be appropriated			1,295
Net income		1,295	
Accumulated deficit brought down	—		
II Profit appropriated			
Surplus reserve		1,295	1,295

(Thousands of US dollars)

I Profit to be appropriated			13,153
Net income		13,153	
Accumulated deficit brought down	—		
II Profit appropriated			
Surplus reserve		13,153	13,153

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 Municipal Enterprises Law (Law No. 64, 2007).  
2. Surplus reserve appropriated was posted as General account surplus reserve on the Balance Sheet.

## ■ Appropriation of Profits [Management Account] (March 31, 2009)

(Millions of Yen)

I Profit to be appropriated			19,129
Net income		19,129	
Accumulated deficit brought down	—		
II Profit appropriated			
Surplus reserve		19,129	19,129

(Thousands of US dollars)

I Profit to be appropriated			194,209
Net income		194,209	
Accumulated deficit brought down	—		
II Profit appropriated			
Surplus reserve		194,209	194,209

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 Japan Finance Organization for Municipal Enterprises Law (Law No. 64, 2007).  
2. Surplus reserve appropriated was posted as Management account surplus reserve on the Balance Sheet.

# **Statement of Changes in Net Assets** (From August 1, 2008 through March 31, 2009)

(Millions of Yen)

	Stockholders' equity				Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity		
		General account surplus reserve	Total retained earnings			
Balance at end of previous fiscal year	—	—	—	—	—	—
Changes during accounting period						
Contribution to capital	16,602	—	—	16,602	—	16,602
Succession to assets and liabilities of Japan Finance Corporation for Municipal Enterprises	—	—	—	—	16,060	16,060
Net income	—	1,295	1,295	1,295	19,129	20,425
Net changes during accounting period	16,602	1,295	1,295	17,897	35,190	53,087
Balance at March 31, 2009	16,602	1,295	1,295	17,897	35,190	53,087

(Thousands of US dollars)

	Stockholders' equity				Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity		
		General account surplus reserve	Total retained earnings			
Balance at end of previous fiscal year	—	—	—	—	—	—
Changes during accounting period						
Contribution to capital	168,549	—	—	168,549	—	168,549
Succession to assets and liabilities of Japan Finance Corporation for Municipal Enterprises	—	—	—	—	163,052	163,052
Net income	—	13,153	13,153	13,153	194,209	207,362
Net changes during accounting period	168,549	13,153	13,153	181,702	357,261	538,963
Balance at March 31, 2009	168,549	13,153	13,153	181,702	357,261	538,963

# ■ Statement of Cash Flows (From August 1, 2008 through March 31, 2009)

(Millions of Yen) (Thousands of US dollars)

Item	Amount	
<b>I Cash flows from operating activities</b>		
Net income	¥ 20,425	\$ 207,362
Depreciation and amortization	123	1,253
Interest income	(291,288)	(2,957,240)
Interest expenses	155,235	1,575,991
Decrease in reserve for bonuses	(5)	(58)
Increase in reserve for directors' bonuses	6	71
Increase in reserve for retirement benefits	10	105
Increase in reserve for retirement benefits for directors and corporate auditors	26	269
Increase in fund for improvement of operations of municipal enterprises	1,800	18,276
Increase in management account reserve for interest rate volatility	118,144	1,199,440
Decrease in reserve for interest rate reduction	(7,872)	(79,926)
Net increase/decrease in loans	243,369	2,470,753
Net increase/decrease in bonds	(363,477)	(3,690,123)
Interest received	289,975	2,943,913
Interest paid	(151,043)	(1,533,439)
Others	(40)	(416)
<b>Net cash provided by operating activities</b>	<b>15,388</b>	<b>156,231</b>
<b>II Cash flows from investing activities</b>		
Proceeds from redemption of securities	2,895,550	29,396,447
Purchases of securities	(2,422,893)	(24,597,907)
Purchases of intangible fixed assets	(20)	(206)
<b>Net cash provided by investing activities</b>	<b>472,635</b>	<b>4,798,334</b>
<b>III Cash flows from financing activities</b>		
Payment to national treasury	(300,000)	(3,045,685)
Refund of contributions made from municipally operated racing	(10,479)	(106,387)
Proceeds from contribution to capital	16,602	168,549
Others (Note 12)	(16,455)	(167,056)
<b>Net cash provided by financing activities</b>	<b>(310,332)</b>	<b>(3,150,579)</b>
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	<b>—</b>	<b>—</b>
<b>V Net increase in cash and cash equivalents</b>	<b>177,692</b>	<b>1,803,986</b>
<b>VI Cash and cash equivalents at beginning of year</b>	<b>—</b>	<b>—</b>
<b>VII Net increase in cash by succession to assets and liabilities</b>	<b>77,898</b>	<b>790,850</b>
<b>VIII Cash and cash equivalents at end of year</b>	<b>255,591</b>	<b>2,594,836</b>



## ■ Notes to Financial Statements

### 1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, "JFM") has prepared financial statements pursuant to the following law and ministerial ordinances:

- The Japan Finance Organization for Municipal Enterprises Law (Law No. 64, 2007; hereinafter, "Law"), which was subsequently amended by the provisions of Article 5 of the Law on the partial provision of Local Allocation Tax Law (Law No. 10, 2009).
- The Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipal Enterprises (Ordinance No.87 of the Ministry of Internal Affairs and Communications, 2008), which was subsequently amended in accordance with the provisions of Article 2 of the Ministerial Ordinance on preparation for relevant ministerial ordinances of the Ministry of Internal Affairs and Communications for partial enforcement of the Law on partial revision of the Local Allocation Tax Law (Ordinance No.49 of the Ministry of Internal Affairs and Communications, 2009; hereinafter, "Preparation Ministerial Ordinance").
- The Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities amended in accordance with the provisions of Article 2 of the Preparation Ministerial Ordinance where applied to the financial statements with respect to the year ended March 31, 2009 in accordance with the supplementary provisions of Article 2, Section 1 of the Preparation Ministerial Ordinance.

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, 2009, the final business day of the fiscal year, which was ¥98.50 to US\$1.

### 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

Depreciation 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 depreciated 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 the 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

If swap contracts or forward contracts used to hedge the foreign currency fluctuation qualify for deferral hedge accounting, foreign currency-denominated assets and liabilities are translated at the contracted rate. Interest rate swaps 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.

(b) Hedging instruments and hedged items

(i) Hedging instrument . . . . . Currency swap

Hedged items . . . . . Payment of interest and principle of foreign currency-denominated bonds

(ii) Hedging instrument . . . . . Interest rate swap

Hedged items . . . . . Payment of interest and principle of inflation-indexed bonds, and payment of interest of floating rate bonds

(iii) Hedging instrument . . . . . Foreign exchange forward contract

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 foreign exchange risk on foreign currency-denominated bonds, and interest rate risk on inflation-indexed bonds and floating rate bonds. The terms and notional amounts of these hedging instruments are set within those of the underlying transactions.

(d) Assessment of hedge effectiveness

A periodic assessment of hedge effectiveness for currency swaps is omitted since major terms of the hedging instruments and the underlying transactions are the same and the foreign currency fluctuations are therefore expected to be fully hedged at the beginning and throughout the hedging periods.

A periodic assessment of hedge effectiveness for interest rate swaps 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 Sheet.

(9) Fund for improvement of operations of municipal enterprises

In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the Fund for improvement of operations of municipal enterprises 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 relative fiscal year.

As for the current fiscal year, JFM refunded the contributions in accordance with the provisions of Article 2, Section 7 of the supplementary provisions of the Enforcement Ordinance of the Local Finance Law (Government Ordinance No. 267, 1948), which was subsequently amended by the Government Ordinance on partial revision of the Enforcement Ordinance of the Local Finance Law (Government Ordinance No. 398, 2007).

(10) Reserve for interest rate volatility and Management account reserve for interest rate volatility

Reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of our 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 Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipal Enterprises (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008) 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").

Management account reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of the bonds issued by the former Japan Finance Corporation for Municipal Enterprises 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.

(1) Reserve for interest rate reduction

Reserve for interest rate reduction is set aside to reduce interest rates on the loans made by the former Japan Finance Corporation for Municipal Enterprises 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.

(2) Management account surplus reserve

Profits generated in the Management account are accounted for as 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.

(3) Consumption taxes

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

### 3. 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).

### 4. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets at March 31, 2009 consisted of the following:

(Millions of Yen)

Type of assets	Balance at end of previous fiscal year	Increase during the year	Decrease during the year	Balance at March 31, 2009	Accumulated depreciation at March 31, 2009 or accumulated amortization	Depreciation during the year	Balance at March 31, 2009
<b>Tangible fixed assets</b>							
Buildings	—	551	—	551	21	21	529
Land	—	2,403	—	2,403	—	—	2,403
Other tangible fixed assets	—	91	—	91	13	13	77
<b>Total tangible fixed assets</b>	—	3,045	—	3,045	35	35	3,010
<b>Intangible fixed assets</b>							
Software	—	910	—	910	88	88	822
Other intangible fixed assets	—	20	—	20	—	—	20
<b>Total intangible fixed assets</b>	—	931	—	931	88	88	842

(Thousands of US dollars)

Type of assets	Balance at end of previous fiscal year	Increase during the year	Decrease during the year	Balance at March 31, 2009	Accumulated depreciation at March 31, 2009 or accumulated amortization	Depreciation during the year	Balance at March 31, 2009
<b>Tangible fixed assets</b>							
Buildings	—	5,595	—	5,595	221	221	5,374
Land	—	24,398	—	24,398	—	—	24,398
Other tangible fixed assets	—	925	—	925	137	137	788
<b>Total tangible fixed assets</b>	—	30,918	—	30,918	358	358	30,560
<b>Intangible fixed assets</b>							
Software	—	9,246	—	9,246	894	894	8,352
Other intangible fixed assets	—	206	—	206	—	—	206
<b>Total intangible fixed assets</b>	—	9,452	—	9,452	894	894	8,558

Notes: 1. "Increase during the year" includes the amount of the fixed assets inherited from the former Japan Finance Corporation for Municipal Enterprises on October 1, 2008, in accordance with the provisions of Article 10, Sections 1 and 2 of the supplemental provisions of the Law.

2. Accumulated depreciation of tangible fixed assets amounted to 35 million yen (358 thousand dollars) as of March 31, 2009.

#### 5. Assets Pledged as Collateral

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 18,978,163 million yen (192,671,714 thousand dollars).

#### 6. Bonds

Bonds at March 31, 2009 consisted of the following:

(Millions of Yen) (Thousands of US dollars)

Type of bond	Date of issue	Outstanding amount at March 31, 2009		Coupon rate (%)	Maturity
Government-guaranteed bond (domestic) 1st 4-year JFM bond	2/27/2009	¥ 299,827	\$ 3,043,934	0.7	4Y
Government-guaranteed bonds (domestic) 1st-6th JFM bonds	10/16/2008 -3/17/2009	420,057	4,264,545	1.3 ~1.6	10Y
Public offering bond without government guarantee 1st 5-year JFM bond	2/24/2009	29,991	304,481	1.01	5Y
Public offering bonds without government guarantee 1st-2nd JFM bonds	11/25/2008 -2/20/2009	79,952	811,701	1.59 ~1.77	10Y
Public offering bond without government guarantee 1st 20-year JFM bond	1/26/2009	49,940	507,013	2.07	20Y
JFM bonds — Sub-total	—	879,769	8,931,674	—	—
Government-guaranteed bonds (domestic) 775th-886th former JFM bonds	4/28/1999 -6/19/2008	10,999,234 (1,782,750)	111,667,358 (18,098,985)	0.5 ~2.0	10Y
Government-guaranteed (domestic) 1st-5th 15-year former JFM bonds	6/22/2005- 7/18/2007	184,615	1,874,266	1.6 ~2.2	15Y
Government-guaranteed bonds (foreign) 13th Eurodollar former JFM bond - 5th Global Yen former JFM bond	5/7/1999 -6/25/2008	1,125,217 (81,740) [US dollars 3,900,000 thousand] [Euro 900,000 thousand] [Pound sterling 150,000 thousand]	11,423,523 (829,848)	1.350 ~6.000	10Y ~20Y
Public offering bond without government guarantee 1st 5-year former JFM bond	2/29/2008	129,950	1,319,291	1.14	5Y

(Continued)

(Millions of Yen) (Thousands of US dollars)

Type of bond	Date of issue	Outstanding amount at March 31, 2009		Coupon rate (%)	Maturity
Public offering bonds without government guarantee 1st-30th former JFM bonds	12/26/2001 -6/16/2008	¥ 1,279,743	\$ 12,992,317	0.64 ~2.07	10Y
Public offering bonds without government guarantee 1st-25th 20-year former JFM bonds	7/30/2002 -6/16/2008	569,587	5,782,612	1.03 ~2.58	20Y
Public offering bonds without government guarantee 1st-10th 30-year former JFM bonds	1/29/2004 -9/20/2006	189,842	1,927,339	2.39 ~2.95	30Y
Public offering bond without government guarantee 1st floating rate former JFM bond	10/31/2002	20,000	203,046	Floating	15Y
Public offering bonds without government guarantee 1st-2nd inflation-indexed former JFM bonds	3/2/2005 -7/19/2005	40,000	406,091	1.248 ~1.408	10Y
Public offering bonds without government guarantee 1st-3rd former JFM bonds with scheduled repayment	2/14/2003 -6/9/2004	47,830 (2,170)	485,584 (22,030)	1.39 ~2.01	28Y
Public offering bond without government guarantee 1st CMS-linked floating rate former JFM bond	9/13/2006	20,000	203,045	1.894	10Y
Private placement bonds A series 52nd – Special No.1 series 31st former JFM bonds	7/30/1999 -7/31/2008	3,492,373 (522,253)	35,455,568 (5,302,063)	0.67 ~2.18	10Y
Former JFM bonds - Sub-total	—	18,098,393 (2,388,913)	183,740,040 (24,252,926)	—	—
<b>Total</b>	—	¥ 18,978,163 (2,388,913)	\$ 192,671,714 (24,252,926)	—	—

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 18,978,163 million yen (192,671,714 thousand dollars).

2. Amounts posted in brackets “[ ]” in the column of “Outstanding amount at March 31, 2009” for “Government-guaranteed bond (foreign) - 13th Eurodollar former JFM bond - 5th Global Yen former JFM bond” are denominated in foreign currencies.

3. Amounts posted in parentheses “( )” in the column of “Outstanding amount at March 31, 2009” are the amounts to be repaid within one year.

4. The repayment schedule for the five years from the end of this fiscal year 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
2,388,913	2,244,370	2,176,130	2,030,560	2,160,070

(Thousands of US 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
24,252,926	22,785,482	22,092,690	20,614,822	21,929,645

## 7. Reserves

Reserves at March 31, 2009 consisted of the following:

(Millions of Yen)

Type of reserve	Balance at end of previous fiscal year	Increase during the year	Decrease during the year (for intended purposes)	Decrease during the year (Others)	Balance at March 31, 2009
Reserve for bonuses	—	101	53	—	47
Reserve for directors' bonuses	—	8	0	—	7
Reserve for retirement benefits	—	202	—	—	202
Reserve for retirement benefits for directors and corporate auditors	—	51	—	—	51

(Thousands of US dollars)

Type of reserve	Balance at end of previous fiscal year	Increase during the year	Decrease during the year (for intended purposes)	Decrease during the year (Others)	Balance at March 31, 2009
Reserve for bonuses	—	1,028	543	—	485
Reserve for directors' bonuses	—	90	9	—	81
Reserve for retirement benefits	—	2,058	—	—	2,058
Reserve for retirement benefits for directors and corporate auditors	—	519	—	—	519

## 8. Reserve for Interest Rate Volatility

(1) Reserve for interest rate volatility at March 31, 2009 consisted of the following:

(Millions of Yen)

Type of reserve	Balance at end of previous fiscal year	Increase during the year	Decrease during the year	Balance at March 31, 2009
		Amount provided	Amount withdrawn	
Reserve for interest rate volatility	—	220,000	—	220,000
Management account reserve for interest rate volatility	—	3,374,728	300,000	3,074,728
<b>Total</b>	—	3,594,728	300,000	3,294,728

(Thousands of US dollars)

Type of reserve	Balance at end of previous fiscal year	Increase during the year	Decrease during the year	Balance at March 31, 2009
		Amount provided	Amount withdrawn	
Reserve for interest rate volatility	—	2,233,503	—	2,233,503
Management account reserve for interest rate volatility	—	34,261,204	3,045,685	31,215,519
<b>Total</b>	—	36,494,707	3,045,685	33,449,022

(2) During this fiscal year, Management account reserve for interest rate volatility was reversed in the amount of 300,000 million yen (3,045,685 thousand dollars) and paid to the national treasury in accordance with the Ministerial Ordinance on determination of the amount attributable to the national government for fiscal 2008 pursuant to the provisions of Article 14 of the supplementary provisions of the Law (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2009).

## 9. Fund for Improvement of Operations of Municipal Enterprises

Fund for improvement of operations of municipal enterprises at March 31, 2009 consisted of the following:

(Millions of Yen)

Type of fund	Balance at end of previous fiscal year	Increase during the year		Decrease during the year		Balance at March 31, 2009
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for improvement of operations of municipal enterprises	—	903,354	—	—	10,479	892,875
Additional fund for improvement of operations of municipal enterprises	—	—	1,800	—	—	1,800
<b>Total</b>	—	903,354	1,800	—	10,479	894,675

(Thousands of US dollars)

Type of fund	Balance at end of previous fiscal year	Increase during the year		Decrease during the year		Balance at March 31, 2009
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for improvement of operations of municipal enterprises	—	9,171,115	—	—	106,387	9,064,728
Additional fund for improvement of operations of municipal enterprises	—	—	18,276	—	—	18,276
<b>Total</b>	—	9,171,115	18,276	—	106,387	9,083,004

Notes: 1. "Amount of reserve" of "Basic fund for improvement of operations of municipal enterprises" represents the amount that JFM inherited from the former Japan Finance Corporation for Municipal Enterprises in accordance with the provisions of Article 9, Section 11 of the supplementary provisions of the Law.

2. The full amount of "Others" posted in "Decrease during the year" for "Basic fund for improvement of operations of municipal enterprises" represents the amount which was refunded in accordance with the provisions of Article 2, Section 7 of the supplementary provisions of the Enforcement ordinance of the Local Finance Law, which was subsequently amended by the Government Ordinance.

3. "Amount transferred" posted in "Increase during the year" for "Additional fund for improvement of operations of municipal enterprises" represents the amount transferred to Additional fund for improvement of operations of municipal enterprises pursuant to the provisions of Article 46, Section 5 of the Law.

## 10. Reserve for Employee Retirement Benefits

### (1) Outline of retirement benefits system employed

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	316 million yen (3,210 thousand dollars)
Plan assets	113 million yen (1,152 thousand dollars)
Reserve for employee retirement benefits	202 million yen (2,058 thousand dollars)

### (3) Pension expenses

Pension expenses	14 million yen (143 thousand dollars)
Pension expenses related to lump-sum payments upon retirement	2 million yen (22 thousand dollars)
Pension expenses related to the Employees' Pension Fund	11 million yen (121 thousand dollars)

### (4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simple method.

## 11. Net Income by Account

Net income of General account was 1,295 million yen (13,153 thousand dollars), while net income of Management account was 19,129 million yen (194,209 thousand dollars).

## 12. Cash Flows

### (1) "Others" in III Cash flows from financing activities section

This represents capital of the former Japan Finance Corporation for Municipal Enterprises contributed by the national government, and expenses related to Other Liabilities on the Balance Sheet of Succeeded Assets and Liabilities.

### (2) Significant non-cash transaction

On October 1, 2008, JFM succeeded to assets and liabilities of the former Japan Finance Corporation for Municipal Enterprises in accordance with the provisions of Article 9, Section 1 and Article 10, Sections 1 and 2 of the supplementary provisions of the Law.



### 13. Information by Account (Balance Sheet)

Balance sheet of General account and Management account at March 31, 2009 was as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
<b>Assets</b>				
Loans	475,313	21,739,974		22,215,288
Securities	874,832			874,832
Cash and bank deposits	255,591			255,591
Other assets	2,543	17,508		20,051
Tangible fixed assets	3,010			3,010
Intangible fixed assets	842			842
Due from general account		1,209,333	(1,209,333)	
Due from management account for fund for improvement of operations of municipal enterprises	892,875		(892,875)	
<b>Total assets</b>	<b>2,505,009</b>	<b>22,966,816</b>	<b>(2,102,209)</b>	<b>23,369,616</b>
<b>Liabilities</b>				
Bonds	159,884	18,818,279		18,978,163
Other liabilities	2,908	16,848		19,756
Reserve for bonuses	47			47
Reserve for directors' bonuses	7			7
Reserve for retirement benefits	202			202
Reserve for retirement benefits for directors and corporate auditors	51			51
Fund for improvement of operations of municipal enterprises	894,675			894,675
Basic fund for improvement of operations of municipal enterprises	892,875			892,875
Additional fund for improvement of operations of municipal enterprises	1,800			1,800
Due to management account	1,209,333		(1,209,333)	
Due to general account for fund for improvement of operations of municipal enterprises		892,875	(892,875)	
Reserve under special laws	220,000	3,203,622		3,423,622
Reserve for interest rate volatility	220,000			220,000
Management account reserve for interest rate volatility		3,074,728		3,074,728
Reserve for interest rate reduction		128,894		128,894
<b>Total liabilities</b>	<b>2,487,111</b>	<b>22,931,626</b>	<b>(2,102,209)</b>	<b>23,316,529</b>
<b>Net Assets</b>				
Capital	16,602			16,602
Retained earnings	1,295			1,295
General account surplus reserve	1,295			1,295
Management account surplus reserve		35,190		35,190
<b>Total net assets</b>	<b>17,897</b>	<b>35,190</b>		<b>53,087</b>
<b>Total liabilities and net assets</b>	<b>2,505,009</b>	<b>22,966,816</b>	<b>(2,102,209)</b>	<b>23,369,616</b>

(Thousands of US dollars)

Item	General account	Management account	Offset	Total
<b>Assets</b>				
Loans	4,825,515	220,710,406		225,535,921
Securities	8,881,550			8,881,550
Cash and bank deposits	2,594,836			2,594,836
Other assets	25,823	177,747		203,570
Tangible fixed assets	30,560			30,560
Intangible fixed assets	8,558			8,558
Due from general account		12,277,496	(12,277,496)	
Due from management account for fund for improvement of operations of municipal enterprises	9,064,728		(9,064,728)	
<b>Total assets</b>	<b>25,431,570</b>	<b>233,165,649</b>	<b>(21,342,224)</b>	<b>237,254,995</b>
<b>Liabilities</b>				
Bonds	1,623,194	191,048,520		192,671,714
Other liabilities	29,528	171,050		200,578
Reserve for bonuses	485			485
Reserve for directors' bonuses	81			81
Reserve for retirement benefits	2,058			2,058
Reserve for retirement benefits for directors and corporate auditors	519			519
Fund for improvement of operations of municipal enterprises	9,083,004			9,083,004
Basic fund for improvement of operations of municipal enterprises	9,064,728			9,064,728
Additional fund for improvement of operations of municipal enterprises	18,276			18,276
Due to management account	12,277,496		(12,277,496)	
Due to general account for fund for improvement of operations of municipal enterprises		9,064,728	(9,064,728)	
Reserve under special laws	2,233,503	32,524,090		34,757,593
Reserve for interest rate volatility	2,233,503			2,233,503
Management account reserve for interest rate volatility		31,215,519		31,215,519
Reserve for interest rate reduction		1,308,571		1,308,571
<b>Total liabilities</b>	<b>25,249,868</b>	<b>232,808,388</b>	<b>(21,342,224)</b>	<b>236,716,032</b>
<b>Net Assets</b>				
Capital	168,549			168,549
Retained earnings	13,153			13,153
General account surplus reserve	13,153			13,153
Management account surplus reserve		357,261		357,261
<b>Total net assets</b>	<b>181,702</b>	<b>357,261</b>		<b>538,963</b>
<b>Total liabilities and net assets</b>	<b>25,431,570</b>	<b>233,165,649</b>	<b>(21,342,224)</b>	<b>237,254,995</b>

Notes:1. General account and Management account

In accordance with the provisions of Article 13, Section 1 of the supplementary provisions of the Law, 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). 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 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 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 figures represent the amount of funds lent between General account and Management account pursuant to the provisions of Article 13, Section 4 of the supplementary provisions of the Law.

4. Due to General account for Fund for improvement of operations of municipal enterprises and Due from Management account for Fund for improvement of operations of municipal enterprises

These figures represent the amount of cash received for "Fund for improvement of operations of municipal enterprises," which was lent to Management account from General account pursuant to the provisions of Article 9, Section 12 of the supplementary provisions of the Law.

## 14. Information by Account (Statement of Income)

Statement of income of General account and Management account from August 1, 2008 through March 31, 2009 was as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
<b>Income</b>	17,807	298,791	(25,269)	291,330
Interest income	5,016	286,271		291,288
Fees and commissions	33			33
Other income	6	1		8
Administrative fee for management account	571		(571)	
Interest on fund for improvement of operations of municipal enterprises	12,179		(12,179)	
Interest on due from general account		2,154	(2,154)	
Transfer from general account for fund for improvement of operations of municipal enterprises		10,363	(10,363)	
<b>Expenses</b>	16,512	169,389	(25,269)	160,632
Interest expenses	572	154,662		155,235
Fees and commissions	0	134		134
Other operating expenses	485	1,747		2,233
General and administrative expenses	1,109	94		1,203
Other expenses	1,826			1,826
Transfer to fund for improvement of operations of municipal enterprises	1,800			1,800
Others	26			26
Interest on due to management account	2,154		(2,154)	
Transfer to management account for fund for improvement of operations of municipal enterprises	10,363		(10,363)	
Administrative fee for management account		571	(571)	
Interest on fund for improvement of operations of municipal enterprises		12,179	(12,179)	
<b>Ordinary income</b>	1,295	129,401		130,697
<b>Special gains</b>		307,872		307,872
Reversal of management account reserve for interest rate volatility		300,000		300,000
Reversal of reserve for interest rate reduction		7,872		7,872
<b>Special losses</b>		418,144		418,144
Provision for management account reserve for interest rate volatility		118,144		118,144
Payment to national treasury		300,000		300,000
<b>Net income</b>	1,295	19,129		20,425

(Thousands of US dollars)

Item	General account	Management account	Offset	Total
<b>Income</b>	180,790	3,033,415	(256,539)	2,957,666
Interest income	50,928	2,906,312		2,957,240
Fees and commissions	342			342
Other income	69	15		84
Administrative fee for management account	5,797		(5,797)	
Interest on fund for improvement of operations of municipal enterprises	123,654		(123,654)	
Interest on due from general account		21,878	(21,878)	
Transfer from general account for fund for improvement of operations of municipal enterprises		105,210	(105,210)	
<b>Expenses</b>	167,637	1,719,692	(256,539)	1,630,790
Interest expenses	5,814	1,570,178		1,575,992
Fees and commissions	4	1,362		1,366
Other operating expenses	4,927	17,746		22,673
General and administrative expenses	11,263	955		12,218
Other expenses	18,541			18,541
Transfer to fund for improvement of operations of municipal enterprises	18,276			18,276
Others	265			265
Interest on due to management account	21,878		(21,878)	
Transfer to management account for fund for improvement of operations of municipal enterprises	105,210		(105,210)	
Administrative fee for management account		5,797	(5,797)	
Interest on fund for improvement of operations of municipal enterprises		123,654	(123,654)	
<b>Ordinary income</b>	13,153	1,313,723		1,326,876
<b>Special gains</b>		3,125,611		3,125,611
Reversal of management account reserve for interest rate volatility		3,045,685		3,045,685
Reversal of reserve for interest rate reduction		79,926		79,926
<b>Special losses</b>		4,245,125		4,245,125
Provision for management account reserve for interest rate volatility		1,199,440		1,199,440
Payment to national treasury		3,045,685		3,045,685
<b>Net income</b>	13,153	194,209		207,362

## 15. Market Value of Marketable Securities

(1) Marketable held-to-maturity securities at March 31, 2009 consisted of the following:

(Millions of Yen)

	Balance sheet amount	Market value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Financial bills	193,958	193,954	(4)	-	(4)
Treasury discount bills	411,873	411,865	(8)	-	(8)
Total	605,832	605,819	(12)	-	(12)

(Thousands of US dollars)

	Balance sheet amount	Market value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Financial bills	1,969,125	1,969,078	(47)	-	(47)
Treasury discount bills	4,181,461	4,181,373	(88)	-	(88)
Total	6,150,586	6,150,451	(135)	-	(135)

Notes: 1. Market value is based on market prices at the end of the fiscal year.

2. "Unrealized gains" and "Unrealized losses" are components of Net unrealized gains (losses).

(2) Securities with no available market value at March 31, 2009 were as follows:

(Millions of Yen) (Thousands of US dollars)

	Amount	
Negotiable certificate of deposits	¥ 269,000	\$ 2,730,964

## 16. Derivative Information

(1) Types of derivative transactions

Derivative transactions conducted by JFM are interest rate swaps for interest rate related transactions, and currency swaps for currency related transactions.

(2) Policies and purposes of derivative transactions

JFM uses interest rate swaps and currency swaps 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 operations. Currency swaps are used to hedge exposure to foreign exchange risk associated with issuance of foreign currency-denominated bonds.

Hedge accounting is applied to interest rate swaps and currency swaps.

(a) Hedge accounting method

If derivatives used to hedge the foreign currency fluctuation qualify for deferral hedge accounting, foreign currency-denominated assets and liabilities are translated at the contracted rate. Interest rate swaps 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.

(b) Hedging instruments and hedged items

(i) Hedging instrument . . . . Currency swap

Hedged items . . . . . Payment of interest and principal of foreign currency-denominated bonds

(ii) Hedging instrument . . . . Interest rate swap

Hedged items . . . . . Payment of interest and principal of inflation-indexed bonds, and payment of interest of floating rate bonds

(iii) Hedging instrument . . . . Foreign exchange forward contract

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 foreign exchange risk on foreign currency-denominated bonds and interest rate risk on inflation-indexed bonds and floating rate bonds. The terms and notional amounts of these hedging instruments are set within those of the underlying transactions.

(d) Assessment of hedge effectiveness

A periodic assessment of hedge effectiveness for currency swaps is omitted since major terms of the hedging instruments and the underlying transactions are the same and the foreign currency fluctuations are therefore expected to be fully hedged at the beginning and throughout the hedging periods.

A periodic assessment of hedge effectiveness for interest rate swaps 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 underlying transactions. Regarding credit risk, JFM limits counterparties to the financial institutions with high credit standing, constantly monitors 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.

Additionally, the total amount of derivative transactions, the status of risks and the credit risk on counterparties are reported to executive officers periodically.

(5) Supplementary information on market value of transactions

Since hedge accounting is applied to all the derivatives transactions conducted by JFM, description of the above is not included in Notes.

## 17. Succession to Assets and Liabilities

Shown below are assets and liabilities that JFM inherited from the former Japan Finance Corporation for Municipal Enterprises in accordance with the provisions of Article 9, Section 1 and Article 10, Sections 1 and 2 of the supplementary provisions of the Law, and Management account surplus reserve is also shown based on Article 21 of the Preparation Ordinance.

### Balance Sheet of Succeeded Assets and Liabilities (As of October 1, 2008)

(Millions of Yen) (Thousands of US dollars)

Item	Amount		Item	Amount	
<b>Assets</b>			<b>Liabilities</b>		
Loans	¥ 22,458,657	\$ 228,006,674	Bonds	¥ 19,339,289	\$ 196,337,962
Securities	1,347,000	13,675,127	Other liabilities	32,108	325,976
Cash and bank deposits	77,898	790,850	Reserve for bonuses	54	552
Other assets	17,179	174,412	Reserve for retirement benefits	217	2,204
Tangible fixed assets	3,045	30,918	Fund for improvement of operations of municipal enterprises	903,354	9,171,115
Intangible fixed assets	654	6,645	Basic fund for improvement of operations of municipal enterprises	903,354	9,171,115
			Reserve under special laws	3,613,350	36,683,765
			Reserve for interest rate volatility	220,000	2,233,502
			Management account reserve for interest rate volatility	3,256,583	33,061,765
			Reserve for interest rate reduction	136,767	1,388,498
			<b>Total liabilities</b>	<b>23,888,375</b>	<b>242,521,574</b>
			<b>Net Assets</b>		
			Management account surplus reserve	16,060	163,052
			<b>Total net assets</b>	<b>16,060</b>	<b>163,052</b>
<b>Total assets</b>	<b>¥ 23,904,435</b>	<b>\$ 242,684,626</b>	<b>Total liabilities and net assets</b>	<b>¥ 23,904,435</b>	<b>\$ 242,684,626</b>

Note: "Other liabilities" includes liabilities for 16,455 million yen (167,056 thousand dollars) that is related to repayment of the capital of the former Japan Finance Corporation for Municipal Enterprises contributed by the national government.



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

## Report of Independent Auditors

To the President of Japan Finance Organization for Municipalities

We have audited the accompanying balance sheet of Japan Finance Organization for Municipal Enterprises as of March 31, 2009, and the related statements of operations, changes in net assets, appropriation of profit and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the President. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Finance Organization for Municipal Enterprises at March 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Japan (refer to Note 1 of the Notes to Financial Statements).

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

*Ernst & Young ShinNihon LLC*

June 5, 2009

A member firm of Ernst & Young Global Limited



# Financial Section | Supplementary Information

## ■ Balance Sheet (As of the Day of Succession and the End of Fiscal 2008)

(Millions of Yen)

	Day of Succession (As of October 1, 2008)	End of Fiscal 2008 (As of March 31, 2009)
<b>Assets</b>		
Loans	22,458,657	22,215,288
Securities	1,363,550	874,832
Cash and bank deposits	77,924	255,591
Other assets	17,205	20,051
Tangible fixed assets	3,045	3,010
Intangible fixed assets	654	842
<b>Total assets</b>	<b>23,921,038</b>	<b>23,369,616</b>
<b>Liabilities</b>		
Bonds	19,339,289	18,978,163
Other liabilities	32,109	19,756
Reserve for bonuses	54	47
Reserve for directors' bonuses	—	7
Reserve for retirement benefits	217	202
Reserve for retirement benefits for directors and corporate auditors	—	51
Fund for improvement of operations of municipal enterprises	903,354	894,675
Basic fund for improvement of operations of municipal enterprises	903,354	892,875
Additional fund for improvement of operations of municipal enterprises	—	1,800
Reserve under special laws	3,613,350	3,423,622
Reserve for interest rate volatility	220,000	220,000
Management account reserve for interest rate volatility	3,256,583	3,074,728
Reserve for interest rate reduction	136,767	128,894
<b>Total liabilities</b>	<b>23,888,375</b>	<b>23,316,529</b>
<b>Net Assets</b>		
Capital	16,602	16,602
Retained earnings	—	1,295
General account surplus reserve	—	1,295
Management account surplus reserve	16,060	35,190
<b>Total net assets</b>	<b>32,662</b>	<b>53,087</b>
<b>Total liabilities and net assets</b>	<b>23,921,038</b>	<b>23,369,616</b>

Note: The balance sheet as of the day of succession (October 1, 2008) includes JFM capital contributed by local governments and other items, and assets and liabilities that JFM inherited from the former Japan Finance Corporation for Municipal Enterprises on October 1, 2008.

# ■ Balance sheet [General Account] (As of March 31, 2009)

(Millions of Yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
Loans	475,313	Bonds	159,884
Securities	874,832	Other liabilities	2,908
Cash and bank deposits	255,591	Reserve for bonuses	47
Other assets	2,543	Reserve for directors' bonuses	7
Tangible fixed assets	3,010	Reserve for retirement benefits	202
Intangible fixed assets	842	Reserve for retirement benefits for directors and corporate auditors	51
Due from management account for fund for improvement of operations of municipal enterprises	892,875	Fund for improvement of operations of municipal enterprises	894,675
		Basic fund for improvement of operations of municipal enterprises	892,875
		Additional fund for improvement of operations of municipal enterprises	1,800
		Due to management account	1,209,333
		Reserve under special laws	220,000
		Reserve for interest rate volatility	220,000
		<b>Total liabilities</b>	<b>2,487,111</b>
		<b>Net Assets</b>	
		Capital	16,602
		Retained earnings	1,295
		General account surplus reserve	1,295
		<b>Total net assets</b>	<b>17,897</b>
<b>Total assets</b>	<b>2,505,009</b>	<b>Total liabilities and net assets</b>	<b>2,505,009</b>

Note: "Management account" is used to conduct management of the assets of the former Japan Finance Corporation for Municipal Enterprises (administration, collection and other related operations of the assets that JFM inherited from the former Japan Finance Corporation for Municipal Enterprises). "General account" is used to conduct all operations except "Management account" operations described above.

■ **Statement of Income [General Account]** (From August 1, 2008 through March 31, 2009)

(Millions of Yen)

Item	Amount
<b>Income</b>	<b>17,807</b>
Interest income	5,016
Fees and commissions	33
Other income	6
Administrative fee for management account	571
Interest on fund for improvement of operations of municipal enterprises	12,179
<b>Expenses</b>	<b>16,512</b>
Interest expenses	572
Fees and commissions	0
Other operating expenses	485
General and administrative expenses	1,109
Other expenses	1,826
Transfer to fund for improvement of operations of municipal enterprises	1,800
Others	26
Interest on due to management account	2,154
Transfer to management account for fund for improvement of operations of municipal enterprises	10,363
Ordinary income	1,295
<b>Net income</b>	<b>1,295</b>

# **Balance sheet [Management Account]** (As of March 31, 2009)

(Millions of Yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
Loans	21,739,974	Bonds	18,818,279
Other assets	17,508	Other liabilities	16,848
Due from General account	1,209,333	Due to general account for fund improvement of operations of municipal enterprises	892,875
		Reserve under special laws	3,203,622
		Management account reserve for interest rate volatility	3,074,728
		Reserve for interest rate reduction	128,894
		<b>Total liabilities</b>	<b>22,931,626</b>
		<b>Net Assets</b>	
		Management account surplus reserve	35,190
		<b>Total net assets</b>	<b>35,190</b>
<b>Total assets</b>	<b>22,966,816</b>	<b>Total liabilities and net assets</b>	<b>22,966,816</b>

# **Statement of Income [Management Account]** (From August 1, 2008 through March 31, 2009)

(Millions of Yen)

Item	Amount
Income	298,791
Interest income	286,271
Other income	1
Interest on due from general account	2,154
Transfer from general account for fund for improvement of operations of municipal enterprises	10,363
Expenses	169,389
Interest expenses	154,662
Fees and commissions	134
Other operating expenses	1,747
General and administrative expenses	94
Administrative fee for management account	571
Interest on fund for improvement of operations of municipal enterprises	12,179
Ordinary income	129,401
Special gains	307,872
Reversal of management account reserve for interest rate volatility	300,000
Reversal of reserve for interest rate reduction	7,872
Special losses	418,144
Provision for management account reserve for interest rate volatility	118,144
Payment to national treasury	300,000
Net income	19,129

## ■ Results of Self-Assessment as of the End of Fiscal 2008

(Millions of Yen)

Classification of borrowers under self-assessment	Problem assets based on the Financial Reconstruction Law	Risk-monitored loans under the Banking Law
Bankrupt borrowers 0	Bankrupt and quasi-bankrupt assets 0	Bankrupt loans 0
Effectively bankrupt borrowers 0		Non-accrual 0
Potentially bankrupt borrowers 0	Doubtful assets 0	Past due loans (3 months or more) 0
0	Substandard assets 0	Restructured loans 0
----- Borrowers requiring caution ----- 27,108 (0.12%)		
Normal borrowers 152,458 (0.69%)	Normal assets 22,231,941 (100%)	
Non-classified (Local governments) 22,052,375 (99.19%)		
<b>Total</b> 22,231,941	<b>Total</b> 22,231,941	<b>Total</b> 0

Notes: 1. Assets classified under self-assessment and the Financial Reconstruction Law include loans and accrued interest on loans, while risk-monitored loans under the Banking Law include loans only. (Amounts shown are those outstanding at the end of fiscal 2008.)

2. A figure in parentheses represents a share of each category.

## ■ Classification of Outstanding Loans at the End of Fiscal 2008 under the Law Relating to the Financial Soundness of Local Governments

The table below shows outstanding loans to local governments at the end of fiscal 2008, which were classified under the Law Relating to the Financial Soundness of Local Governments.

(Millions of Yen)

Local government classification	Number of local governments	Share	Outstanding loans	Share
Local governments with fiscal indicators exceeding the reconstruction limits	3	0.16%	5,112	0.02%
Local governments with fiscal indicators exceeding the early warning limits	40	2.19%	259,823	1.21%
Other local governments	1,787	97.65%	21,121,394	98.76%
<b>Total</b>	<b>1,830</b>	<b>100.00%</b>	<b>21,386,329</b>	<b>100.00%</b>

Notes: 1. The outstanding loans above represent outstanding loans to local governments at the end of fiscal 2008, and do not include loans to local government associations and local government corporations.

The amount of the category of "Non-classified (Local governments)" under self-assessment is larger than the total of "Outstanding loans" above, because the former includes accrued interest and loans to local government associations.

2. If its fiscal indicators exceed any one or more of the reconstruction limits of the ratios, such as the real deficit ratio, consolidated real deficit ratio or real debt payment ratio, based on financial results of fiscal 2007, this local government will be designated as a "local government with fiscal indicators exceeding the reconstruction limits".

3. If its fiscal indicators exceed any one or more of the early warning limits of the ratios, such as the real deficit ratio, consolidated real deficit ratio, real debt payment ratio or future burden ratio, based on financial results of fiscal 2007, this local government will be designated as a "local government with fiscal indicators exceeding the early warning limits".

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# Appendices | Results of Lending Operations in Fiscal 2008

	Project	Amount of loans made (Millions of Yen)	Year-on-year change (%)	Share (%)	Number of loans made
Municipal enterprise-related loans	○ Water supply	133,552	-2.0	12.0	1,079
	○ Small-scale water supply	17,387	-13.6	1.6	473
	○ Industrial water supply	12,001	41.3	1.1	64
	○ Transportation	2,174	-75.3	0.2	19
	○ Urban rapid transit railway	48,796	-8.8	4.4	26
	○ Electricity supply	414	-64.9	0.0	4
	○ Gas supply	878	37.0	0.1	17
	Port facilities	3,738	-21.9	0.3	62
	○ Hospitals	68,285	-35.2	6.2	292
	○ Elderly care services	1,615	-36.9	0.1	15
	○ Markets	694	-81.5	0.1	27
	○ Slaughterhouses	46	157.3	0.0	5
	Tourism facilities	84	72.8	0.0	4
	Industrial waste processing	88	703.7	0.0	2
	○ Toll roads	0	—	—	—
	○ Parking facilities	1,363	34.7	0.1	1
	Regional development (Note 1)	0	—	—	—
	○ Sewerage	458,268	4.8	41.3	4,037
	(Sub-total)	749,381	2.8	67.6	6,127
General account-related loans	○ Public housing	16,539	0.9	1.5	86
	○ Local road construction	135,915	-18.2	12.3	928
	○ Improvement of rivers and other waterways	5,254	-19.6	0.5	108
	○ High school construction	2,189	16.4	0.2	6
	(Sub-total)	159,898	-16.3	14.4	1,128
	Refinancing for municipal enterprise-related projects (Note 2)	199,224	-0.4	18.0	3,041
Loans to local government road corporations	Toll roads	275	-95.7	0.0	1
	<b>Total</b>	<b>1,108,777</b>	<b>-1.6</b>	<b>100.0</b>	<b>10,297</b>

Notes:1. "Regional development" projects are land creation projects for regional development that include the creation of coastal industrial lands and other lands along the shoreline, and preparation of inland industrial lands, and lands for distribution parks, and lands for offices and shops, and housing lands. These projects also include the preparation of housing sites undertaken as land readjustment projects.

2. Relevant projects include water supply, industrial water supply, an urban rapid transit railway, and sewerage projects.

3. ○ designates the projects to which special interest rates or extra special interest rates are applied.

4. JFM's scope of lending does not include toll road projects, urban redevelopment projects, or residential land development projects. Moreover, JFM does not lend to local government road corporations.

5. The totals of the individual amounts may not add up exactly due to rounding off.

6. The figures in this table are the totals of the loans made by the former JFM from April to September 2008, and the loans made by JFM from October 2008 to March 2009.

# Appendices | Long-term Loans Outstanding at the End of Fiscal 2008

	Project	Number of loans made	Amount of outstanding loans (Millions of Yen)	Share (%)
Municipal enterprise-related loans	Water supply	46,949	4,172,510	18.8
	Small-scale water supply	5,196	153,310	0.7
	Industrial water supply	2,637	280,989	1.3
	Transportation	181	26,968	0.1
	Urban rapid transit railway	844	1,481,477	6.7
	Electricity supply	876	76,046	0.3
	Gas supply	330	48,354	0.2
	Port facilities	1,240	115,189	0.5
	Hospitals	2,267	541,216	2.4
	Elderly care services	312	26,331	0.1
	Markets	441	97,364	0.4
	Slaughterhouses	49	6,905	0.0
	Tourism facilities	86	9,210	0.0
	Industrial waste processing	18	12,424	0.1
	Toll roads	2	17	0.0
	Parking facilities	537	102,805	0.5
	Regional development (Note 1)	108	56,196	0.3
	Sewerage	118,688	9,198,686	41.4
	(Sub-total)	180,761	16,405,997	73.9
General account-related loans	Public housing	5,307	663,122	3.0
	Local road construction	30,779	4,615,418	20.8
	Improvement of rivers and other waterways	3,633	260,091	1.2
	High school construction	477	91,227	0.4
	(Sub-total)	40,196	5,629,859	25.3
Loans to local government road corporations	Toll roads	639	179,433	0.8
	<b>Total</b>	<b>221,596</b>	<b>22,215,288</b>	<b>100.0</b>

Notes: 1. "Regional development" projects are land creation projects for regional development that include the creation of coastal industrial lands and other lands along the shoreline, and preparation of inland industrial lands, and lands for distribution parks, and lands for offices and shops, and housing lands. These projects also include preparation of housing sites undertaken as land readjustment projects.

2. JFM's scope of lending does not include toll road projects, urban redevelopment projects, or residential land development projects. Moreover, JFM does not lend to local government road corporations.

3. The totals of the individual amounts may not add up exactly due to rounding off.

4. The figures in this table are the totals of the outstanding loans made by the former JFM up to September 2008, and the outstanding loans made by JFM from October 2008 to March 2009.



## Appendices | Long-term Loans Outstanding at the End of Fiscal 2008 (Breakdown by Prefecture)

Prefecture	Long-term loans		
	Number of loans	Amount of outstanding loans (Millions of Yen)	Share (%)
Hokkaido	13,320	1,232,974	5.6
Aomori	3,417	344,174	1.5
Iwate	3,508	358,111	1.6
Miyagi	6,666	579,513	2.6
Akita	5,881	274,761	1.2
Yamagata	4,793	325,892	1.5
Fukushima	6,611	433,481	2.0
Ibaraki	7,366	501,739	2.3
Tochigi	4,118	314,362	1.4
Gunma	5,368	319,850	1.4
Saitama	6,847	731,358	3.3
Chiba	5,725	690,782	3.1
Tokyo	2,074	459,587	2.1
Kanagawa	3,520	1,342,942	6.0
Niigata	9,216	594,087	2.7
Toyama	4,191	324,700	1.5
Ishikawa	3,888	349,398	1.6
Fukui	3,217	200,314	0.9
Yamanashi	4,287	216,038	1.0
Nagano	7,686	545,475	2.5
Gifu	5,339	340,147	1.5
Shizuoka	5,376	559,934	2.5
Aichi	6,139	1,080,012	4.9
Mie	4,955	376,564	1.7
Shiga	4,690	329,383	1.5
Kyoto	4,041	581,959	2.6
Osaka	5,653	1,578,623	7.1
Hyogo	9,224	1,205,716	5.4
Nara	3,952	273,530	1.2

Prefecture	Long-term loans		
	Number of loans	Amount of outstanding loans (Millions of Yen)	Share (%)
Wakayama	2,355	197,403	0.9
Tottori	3,267	179,692	0.8
Shimane	2,765	278,723	1.3
Okayama	5,952	620,009	2.8
Hiroshima	5,437	732,731	3.3
Yamaguchi	5,136	329,659	1.5
Tokushima	2,023	143,897	0.6
Kagawa	3,057	164,938	0.7
Ehime	2,884	248,791	1.1
Kochi	1,860	173,683	0.8
Fukuoka	5,812	1,076,997	4.8
Saga	2,085	179,754	0.8
Nagasaki	3,117	263,834	1.2
Kumamoto	4,265	319,453	1.4
Oita	2,262	192,257	0.9
Miyazaki	2,852	240,536	1.1
Kagoshima	3,168	258,228	1.2
Okinawa	2,231	149,296	0.7
<b>Total</b>	<b>221,596</b>	<b>22,215,288</b>	<b>100.0</b>

Notes: 1. The figures in the table above include loans made to cities, special wards of Tokyo, towns, villages, local government associations, and local government corporations that are located in each prefecture.

2. The totals of the individual amounts may not add up exactly due to rounding off.

3. The figures in this table are the totals of the outstanding loans made by the former JFM up to September 2008, and the outstanding loans made by JFM from October 2008 to March 2009.

## Appendices | Basics of Local Government Finance and JFM's Role

JFM formulates its lending program each fiscal year based on the Local Government Finance Program and the Local Government Bond/Loan Program, which are prepared in parallel with the national budget.

### Local Government System in Japan

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

Local governments are comprised of prefectures, cities, towns and villages. Cities, towns and villages are the basic units of local governments, and handle administrative issues related to their respective regions. Prefectures are broader-based local governments.

Each local government has an assembly, which consists of popularly elected representatives, and is granted certain legislative powers within its legal rights, in addition to the power to pass its budget. Local governments are administered by directly elected governors and mayors.

As of March 31, 2009, there were 47 prefectures, 17 government-designated cities, 1,777 cities, towns and villages, and 23 special wards of Tokyo.

JFM provides loans only for these local governments, and has never experienced any loan default cases.

### Local Government Finance Program

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

To this end, the national government formulates the Local Government Finance Program each fiscal year in parallel with the national budget to give an overall picture of the finances of local governments. Under this program, the national government secures revenue sources for local governments in such a way that local governments' total expenditure and revenue are balanced.

An important source of funds that flows from the national government to local governments is the local allocation tax grant. Under the local allocation tax system, the national government distributes a certain percentage of national tax revenue to individual local governments so that they can maintain an appropriate level of public services.

In fiscal 2008, the expenditure of local governments under the Local Government Finance Program totaled ¥83.4 trillion (US\$846.7 billion), and accounted for 15.0% of gross domestic expenditure (GDE). Further, the local allocation tax grant for ¥15.4 trillion (US\$156.4 billion) was distributed to local governments by the national government.

### Local Government Bond / Loan Program

The national government also prepares the Local Government Bond/Loan Program each fiscal year, based on the Local Government Finance Program, to give an overall picture of long-term debts of local

governments and to secure necessary revenue sources. The Local Government Bond/Loan Program sets the amounts of fund-raising by local governments by projects as well as procurement sources.

For fiscal 2009, the total amount of the Local Government Bond/Loan Program, or the total amount of new long-term debts of local governments is ¥14.6 trillion (US\$148.1 billion). The breakdown of procurement sources is; JFM 12.9%, national government 29.2%, private sector 57.9%.

## Municipal Enterprises

Local governments perform certain areas of services by utilizing the municipal enterprise structure under which revenues are applied to expenses separately from the general account. Water supply and sewerage projects are mainly operated by municipal enterprises.

As of the end of fiscal 2007, all the prefectures and 1,816 cities, towns and villages operated 9,210 municipal enterprises. Total expenditures of these municipal enterprises for fiscal 2007 totaled ¥20.4 trillion (US\$207.4 billion).

The total capital expenditure of municipal enterprises in fiscal 2007 was ¥4.1 trillion (US\$41.6 billion), of which ¥1.8 trillion (US\$18.4 billion) was procured by borrowing, with ¥0.7 trillion (US\$7.1 billion) coming from JFM.

## Procedures for Local Governments' Fund-raising

In principle, local government bonds and loans are approved as revenue sources for expenditures of local governments only when they are used for the purposes specially stipulated by the Local Finance Law and other related regulations, such as the expenses associated with municipal enterprises, and the construction of public buildings and facilities. Additionally, the purposes and terms and conditions of individual local government bonds and loans must be approved by the respective assembly.

To contribute to the sound fiscal management of local governments in undertaking bonds and loans, the following consultation system has been established.

1. Local governments must consult with the Minister for Internal Affairs and Communications or their respective prefectural governors when they undertake bonds and loans.
2. Local governments can borrow public funds, including JFM funds, only when they obtain consent from the Minister for Internal Affairs and Communications or their respective prefectural governors through the consultation.
3. As for local government bonds and loans to which consent has been given by the Minister for Internal Affairs and Communications or the respective prefectural governors, the national government incorporates the payment of principals and interests of these local government debts into the Local Government Finance Program. These debt services are also included in the computation of local allocation tax grants.

- 4.If a local government undertakes bonds and loans without obtaining consent from the Minister for Internal Affairs and Communications or its respective prefectural governor, the head of the local government must report it to its respective assembly in advance.
- 5.Local governments and municipal enterprises whose deficits exceed certain limits, and local governments whose debt payment ratios exceed certain limits must obtain approval from the Minister for Internal Affairs and Communications or their respective prefectural governors before undertaking local government bonds and loans.

## **The Law Relating to the Financial Soundness of Local Governments**

The Law Relating to the Financial Soundness of Local Governments, which was enacted and promulgated in June 2007, stipulates that local governments whose fiscal indicators exceed certain limits shall expeditiously restore financial soundness. Under the Law, the ratios of fiscal soundness of local governments are disclosed, and the relevant local governments must map out their plans to restore fiscal soundness according to the ratios. The Law is designed to ensure the fiscal soundness of local governments through administrative and fiscal measures that help them execute their plans.

Under the Law, local governments with fiscal indicators exceeding the early warning limits or reconstruction limits shall restore the fiscal soundness in a carefully planned way.



## Organization History

### ■ History of JFM

Fiscal 2008	Established based on the Japan Finance Organization for Municipal Enterprises Law (August 1, 2008). Succeeded to the assets and liabilities of the former JFM and commenced operations (October 1, 2008).
Fiscal 2009	Reorganized as Japan Finance Organization for Municipalities based on the partial revision of the Japan Finance Organization for Municipal Enterprises Law (June 1, 2009).

### History of the former JFM

Fiscal 1957	Established based on the Japan Finance Corporation for Municipal Enterprises Law (June 1, 1957).
Fiscal 1960	Started making loans entrusted by Agriculture, Forestry and Fisheries Finance Corporation.
Fiscal 1966	Started a lending program that applied special interest rates.
Fiscal 1967	Started receiving subsidies from the national treasury.
Fiscal 1970	Started the program of contributions of proceeds from municipally operated racing, and established the Fund for Improvement of Operations of Municipal Enterprises.
Fiscal 1972	Started lending to local government road corporations and local government land development corporations.
Fiscal 1978	Included three special projects (general account-related projects, such as local road construction, improvement of rivers and other waterways, and high school construction) in the scope of lending.
Fiscal 1983	Started issuing foreign currency-denominated bonds.
Fiscal 1989	Established the Reserve for Losses on Refinance of Bonds.
Fiscal 1990	Started a lending program that applied extra special interest rates.
Fiscal 1998	Based on the policy titled "Regarding Reorganization and Rationalization of Special Public Institutions," which was approved by the cabinet on September 24, 1997, the following actions were taken. <ul style="list-style-type: none"> <li>• added a part-time senior executive director.</li> <li>• established the Japan Finance Corporation for Municipal Enterprises Management Council.</li> <li>• addressed the phased abolition of subsidies from the national treasury over a three-year period.</li> </ul>
Fiscal 2001	Stopped receiving subsidies from the national treasury, and established the Reserve for Interest Rate Reduction. Started providing borrowers with the right to choose fixed or adjustable interest rates. Established a compensation program for advanced repayments. Started issuing public offering bonds without government guarantee. The Basic Law on Special Public Institutions was passed, and the Reorganizations and Rationalization Plan for Special Public Institutions was approved by the cabinet.
Fiscal 2002	The policy titled the "Reform of the Four Highway-related Public Corporations, International Hub Airports and Policy-based Finance Institutions" was approved by the cabinet.
Fiscal 2005	The "Priority Policy for Administrative Reform," which included the proposal for abolition of the former JFM, a new structure utilizing capital markets, and transitional measures to prepare for the abolition, was approved by the cabinet.
Fiscal 2006	The Administrative Reform Promotion Law was passed. The Headquarters for the Promotion of the Reform of Policy-based Finance and the Headquarters for Administrative Reform set forth the plan titled "System Design for Policy-based Financial Reforms." The six associations of local governments submitted the "Local Governments' proposal" for the design of a new system after the abolition of the former JFM.
Fiscal 2007	Japan Finance Organization for Municipal Enterprises Law was passed. The Law Relating to the Financial Soundness of Local Governments was passed. Introduced the program that allowed advanced repayments without compensation in accordance with the national government's policy on reducing local governments' debt service burden. The program ended in fiscal 2008.
Fiscal 2008	Dissolved based on the Japan Finance Organization for Municipal Enterprises Law (October 1, 2008).

## ■ Executive Officers and Corporate Auditors



Yoji Ninomiya Senior Executive Director    Masamichi Fukunaga Deputy President    Yuji Watanabe President and CEO    Shinichiro Misono Senior Executive Director    Takao Kodama Senior Executive Director



Shuichi Kadowaki Corporate Auditor    Nadamu Takata Corporate Auditor

### President and CEO

Yuji Watanabe

### Deputy President

Masamichi Fukunaga

### Senior Executive Directors

Shinichiro Misono  
Yoji Ninomiya  
Takao Kodama (part-time)

### Corporate Auditors

Shuichi Kadowaki  
Nadamu Takata (part-time)



## ■ Address

Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo  
100-0012, Japan  
Telephone: 81-3-3539-2696  
Facsimile: 81-3-3539-2615  
<http://www.jfm.go.jp/>

(Photo credits: The Tokyo Institute for Municipal Research)



The logo represents the solidarity of local governments in the establishment and management of Japan Finance Organization for Municipalities (JFM), with a single circle formed by three blocks that symbolize the senses of "stability," "trust" and "confidence," all of which are required for the execution of its business operations. Furthermore, three lines extend outward radially from the inside "triangle" derived from the "L" of local governments and the "公" of Chinese characters "地方公共団体" meaning local governments, representing local governments and JFM making a great leap toward the future.

\*"Stability" – providing long-term and low-interest funds in a stable manner.

\*"Trust" – contributing to the sound fiscal management of local governments and the promotion of the welfare of local residents.

\*"Confidence" – gaining the confidence of local governments and capital markets.





**Japan Finance Organization for Municipalities**