



JFM

Annual Report 2010

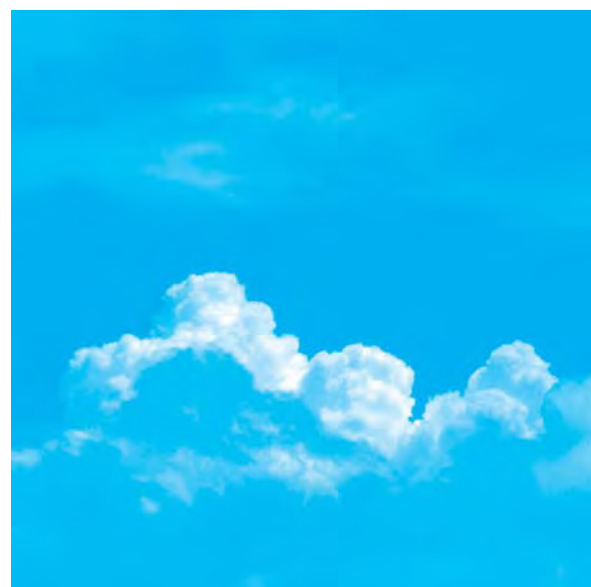
Japan Finance Organization for Municipalities



JFM

Annual Report 2010

Japan Finance Organization for Municipalities



Profile

Name	Japan Finance Organization for Municipalities (JFM)
Establishment	August 1, 2008
Governing Law	The Japan Finance Organization for Municipalities Law
Address	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo
President and CEO	Yuji Watanabe
Capital	¥16.6 billion
Number of Employees	80 (as of April 2010)
Outstanding Amount of Loan (As of March 31, 2010)	¥22,030.2 billion
Outstanding Amount of Bond (As of March 31, 2010)	¥18,554.9 billion
Ratings (As of March 31, 2010)	S&P : AA Moody's : Aa2 R&I : AAA

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

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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, 2010, which was ¥93.60 to US\$1.00.

Review of Fiscal 2009

Japan Finance Organization for Municipalities (JFM) is a public organization established with capital contributed by all local governments in Japan (prefectures, government-designated cities, cities, special wards of Tokyo, towns and villages) to serve as “a joint fund-raising organization of local governments, by local governments, and for local governments.” In this role, JFM issues bonds to raise funds in the capital market, and then provides local governments with long-term loans at low interest rates.

In fiscal 2009, we moved ahead with several initiatives, including extending loan maturity and making other improvements to loan terms, establishing the status of JFM bonds as “Super Local Government Bonds,” carrying out asset liability management (ALM) analysis for ultra long-term periods, and adopting private-sector accounting standards to JFM’s financial statements.

Despite the harsh financial and economic conditions, we have earned the market’s confidence, and our operations proceeded smoothly. I would like to offer my sincere gratitude to everyone who has supported us this year.



President and CEO's Message

Initiatives in Fiscal 2010

In fiscal 2010, we plan to make loans in the amount of ¥1,933.1 billion (US\$20.7 billion), up ¥517.6 billion (US\$5.5 billion) over the previous fiscal year, as a result of an increase in JFM funds in the Local Government Bond/Loan Program. I believe that the extremely harsh financial conditions for local governments make it all the more important that JFM fulfill its role as a joint fund-raising organization. We will step up to meet this challenge for the sake of all of our stakeholders.

Bond issuance will increase as a result of the rise in loans, but we will raise funds in a stable manner by issuing bonds in a wide range of maturities, as well as issuing international bonds while closely monitoring the market conditions.

Moreover, we will move forward with our ALM operations and internal controls, and will establish a concrete action plan for the local government support operations that are expected to start on a full scale in fiscal 2011. JFM will proceed with operations in three areas: Research and Study and Information Services, Training for Local Government Staff, and Administrative Support for Fund-Raising.

JFM's Role as an Organization of, by 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.

With all of JFM's management staff working as one to accomplish JFM's mission, we ask for your continued understanding and support of our endeavors.

Yuji Watanabe

Yuji Watanabe
President and CEO
July 2010



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.



Review of Operations and Financial Statements for Fiscal 2009

1. Review of Operations for Fiscal 2009

Based on the fiscal 2009 lending plan, JFM made 7,535 loans to local governments in the amount of ¥1,290.7 billion (US\$13,789.1 million) with the consent (approval) of the Minister for Internal Affairs and Communications and prefectural governors.

In particular, JFM made 39 loans, for a total of ¥11.6 billion (US\$123.9 million), for General Account-Related Projects such as Regional Revitalization, Disaster Prevention, and Special Municipal Merger Projects, which became eligible for JFM loans as in fiscal 2009. We also provided 397 loans, in the amount of ¥448.8 billion (US\$ 4,794.9 million), for Extraordinary Financial Countermeasures Funding to make up for a shortfall of local allocation tax. As such, we appropriately satisfied the needs of local governments.

In accordance with the fund-raising plan, on the other, JFM issued ¥721 billion (US\$7,703.0 million) public offering bonds without government guarantee (JFM bonds), ¥400 billion (US\$4,273.5 million) private placement bonds underwritten by the Pension Fund Association for Local Government Officials for this lending, and ¥823.9 billion (US\$8,802.4 million) government-guaranteed bonds to refinance the existing government-guaranteed bonds of the Japan Finance Corporation for Municipal Enterprises (hereinafter, “the former JFM”) to smoothly manage the former JFM’s assets to which JFM has succeeded.

In addition, JFM conducted research and study and provided information on local governments’ fund-raising, trained local government staff, and provided administrative support for fund-raising.

2. Fiscal 2009 Financial Statements

(1) Profit/loss statement

In fiscal 2009, JFM posted ¥558.5 billion (US\$5,967.1 million) in income (consisting primarily of ¥558.3 billion (US\$5,965.4 million) in interest income) and ¥308.3 billion (US\$3,294.4 million) in expenses (consisting primarily of ¥297.3 billion (US\$3,176.7 million) in interest expenses). As a result, ordinary income amounted to ¥250.1 billion (US\$2,672.7 million) in fiscal 2009.

Pursuant to the relevant laws, part of income generated by refinancing bonds is provided to the Management Account Reserve for Interest Rate Volatility (refer to page 13). As a result, JFM's net income was ¥8.8 billion (US\$94.7 million) for fiscal 2009.

(2) Assets

As of March 31, 2010, JFM's total assets amounted to ¥23,184.9 billion (US\$ 247,702.9 million), down ¥184.6 billion (US\$1,972.2 million) over fiscal 2008. Assets declined because the redemption of loans, which account for the majority of JFM's assets, exceeded new loans by ¥185 billion (US\$1,976.5 million).

(3) Liabilities

As of March 31, 2010, JFM's total liabilities stood at ¥23,124.3 billion (US\$ 247,055.3 million), down ¥192.1 billion (US\$2,052.4 million) over fiscal 2008.

Although the Reserve for Interest Rate Volatility increased by ¥256.3 billion (US\$2,738.2 million), liabilities decreased because redemptions exceeded new issuance, which accounts for the majority of liabilities, by ¥447.9 billion (US\$ 4,785.3 million).

(4) Net assets

¥4.5 billion (US\$48.4 million) in net income of the General Account was posted as "General Account Surplus Reserves" and ¥4.3 billion (US\$46.2 million) of the Management Account was posted as "Management Account Surplus Reserve". Total assets amounted to ¥60.6 billion (US\$647.5 million) as of March 31, 2010. (Refer to page 13 for the General Account and Management Account)

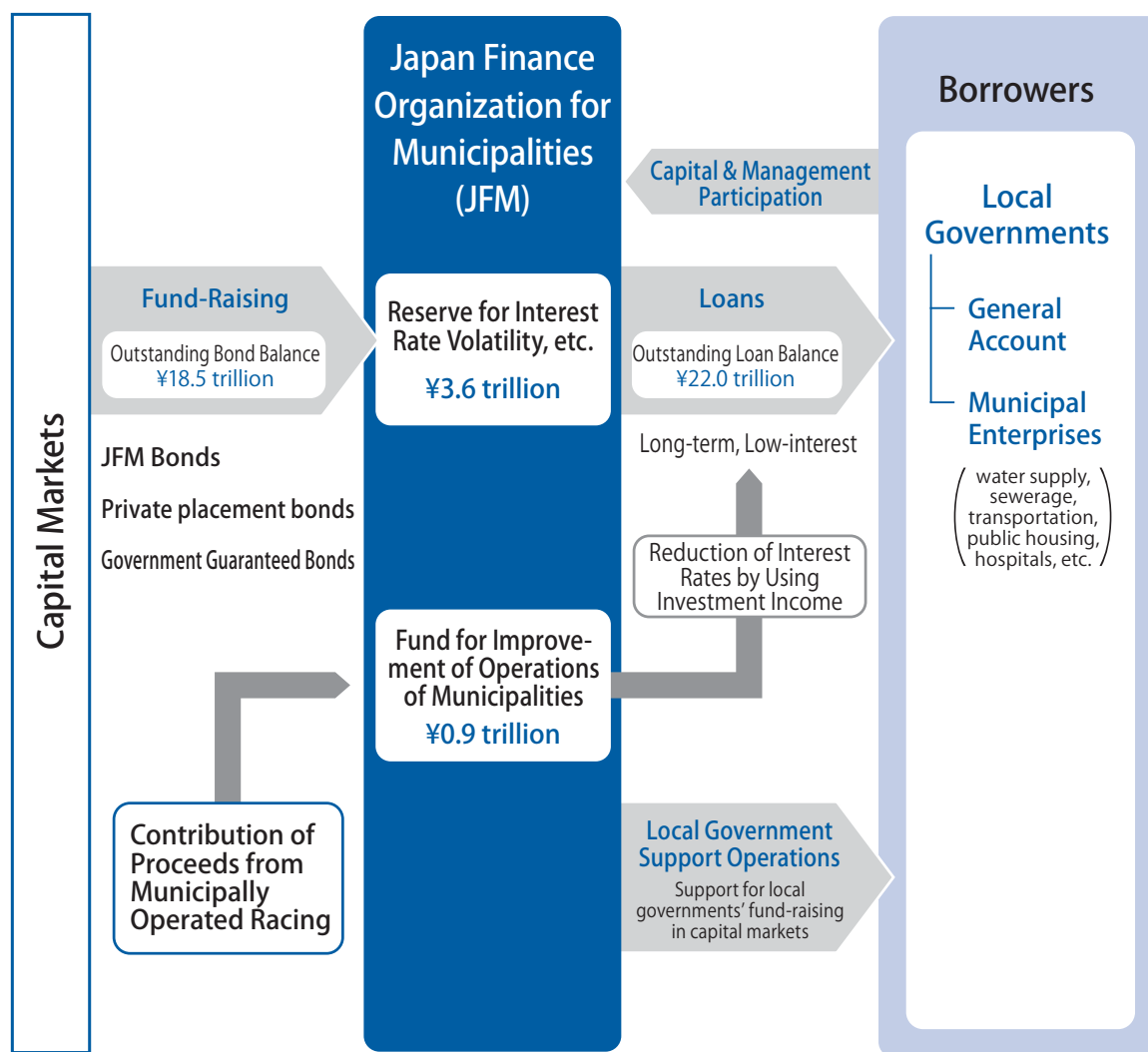
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Organization Profile

Profile of JFM

Basic Flow of Lending and Fund-Raising Operations



(as of March 31, 2010)

Joint Fund-Raising Organization for Local Governments

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, local governments generally raise funds in capital markets for terms of 10 years or less.

Because of this, we issue JFM bonds, which are publicly offered bonds that are not guaranteed by the national government. These bonds are used to raise funds in capital markets and thus ensure a stable supply of long-term and low-interest funds to local governments, thereby fulfilling our duty of complementing individual local governments' fund-raising in capital markets.

Using Reserves for Interest Rate Volatility to Address Interest Rate Risk

JFM primarily issues 10-year bonds to raise funds and extends long-term (maximum maturity of 30 years) 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 refinancing of bonds, JFM maintains the necessary financial foundation including reserves for interest rate fluctuations.

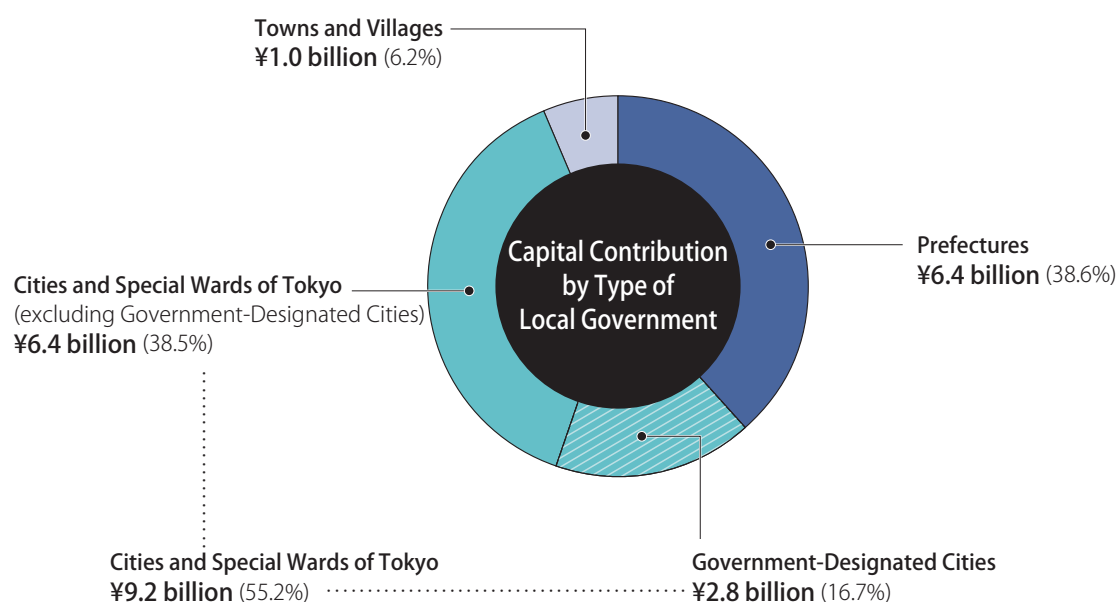
Reduction of Interest Rates by Utilizing Fund for Improvement of Operations of Municipalities

JFM receives part of the earnings made by local governments that operate various races (horse racing, bicycle racing, motorcycle racing, and speedboat racing), and contributes to the Fund for Improvement of Operations of Municipalities. The investment income of the fund is used to reduce interest rates on loans provided to local governments.



JFM was established by local governments as an autonomously managed organization and capitalized solely.

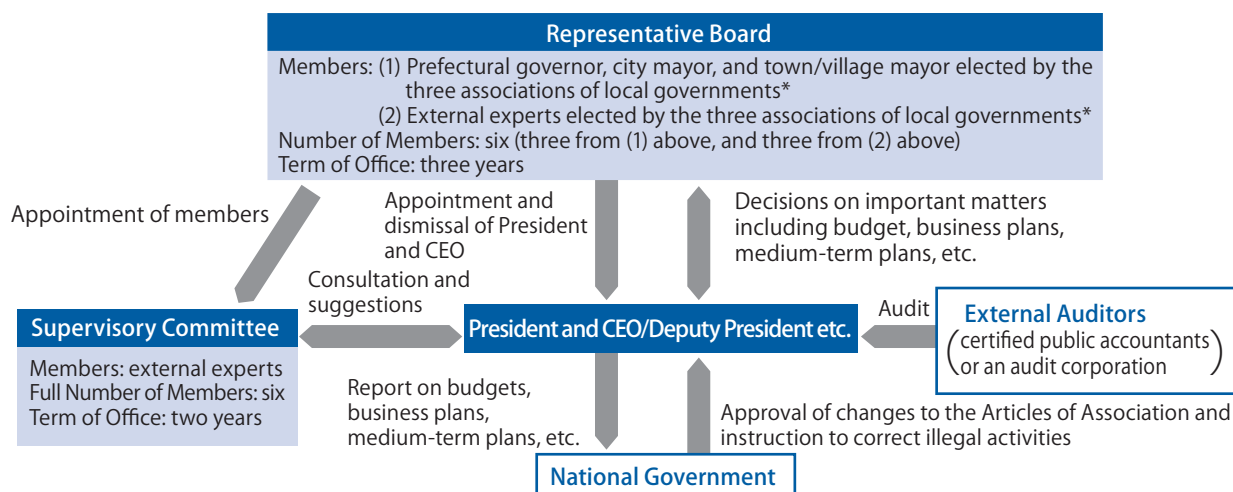
As of March 31, 2010, JFM had received capital in the amount of ¥16.6 billion (US\$177.3 million) from 1,797 of Japan's local governments encompassing prefectures, government-designated cities, cities, special wards of Tokyo, towns and villages.



*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.

Corporate Governance System



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

1. Representative Board

JFM has the Representative Board as the supreme decision-making body.

Of the six members of the Board, as an organization autonomously managed by local governments, three members are selected from among prefectural governors, city mayors and town/village mayors, respectively. The other three members are nominated from among experts in local administration and finance, economics, finance, law or accounting.

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 1, 2010) *Chairperson

(Representatives of Local Governments)

* Yuichiro Ito
 (Governor of Kagoshima Prefecture)
 Tamio Mori
 (Mayor of Nagaoka City, Niigata Prefecture)
 Tadahiko Fujiwara
 (Mayor of Kawakami Village, Nagano Prefecture)

(Representatives of External Experts)

Junko Obata
 (Dean, Sophia Law School)
 Isao Horiba
 (Professor, Aoyama Gakuin University)
 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 this context, and in order to secure transparency, incorporate the objective and unbiased opinions of external parties, and to establish responsible corporate governance, the Supervisory Committee has been established as a deliberation committee 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 JFM's operations including budgets, settlement of accounts, business plans, etc. The Committee can also, if necessary, request the president to report on those matters. The President and CEO has the duty of reporting the Committee's opinions to the Representative Board and ensuring that careful regard is given to those opinions.

Supervisory Committee Members (as of June 1, 2010) *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
(Former Chairperson, Naigaijoseichosakai)

3. Audit by External Auditors

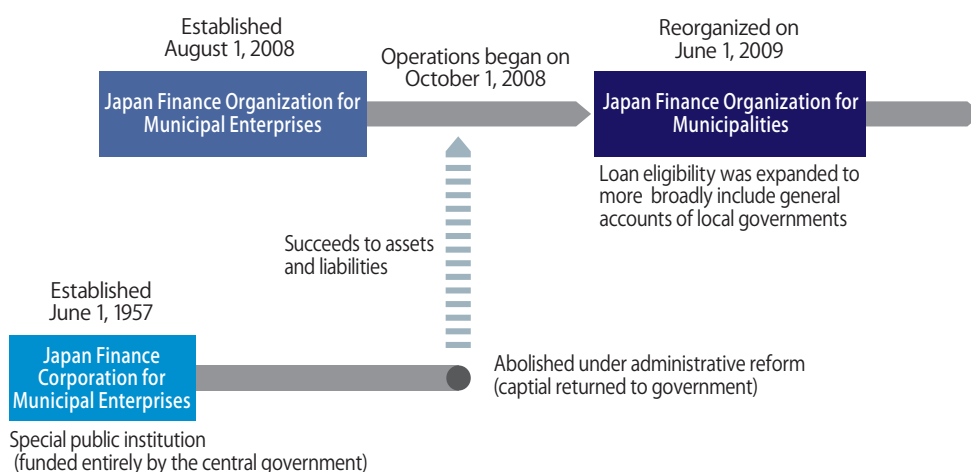
As JFM raises funds in capital markets, proper disclosure of information and external checks on accounting procedures are essential in order to earn the confidence of the markets and raise funds at low cost.

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.

JFM was established on August 1, 2008 with the whole capital contributed by all local governments (prefectures, government-designated cities, cities, special wards of Tokyo, towns and villages) as a joint fund-raising organization for local governments. JFM began operations on October 1, 2008, succeeding to the assets and liabilities of the former JFM.

As a result of the reorganization on June 1, 2009, the general accounts of local governments also became broadly eligible for JFM loans.

New loans made and bonds issued since JFM's operations began are accounted for in the General Account of JFM, while operations to administer loans carried over from the former JFM are accounted for in the Management Account, with each accounting classified accordingly.

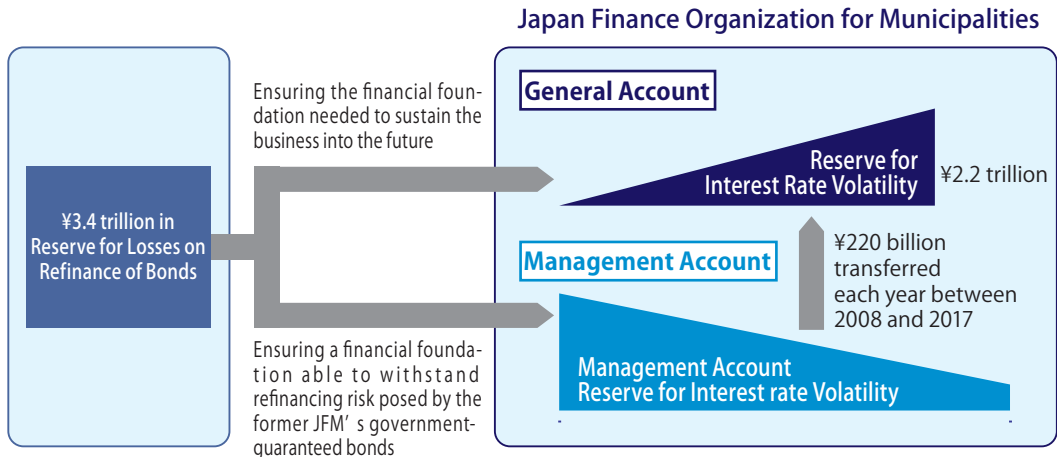


When JFM was founded, JFM succeeded to the Reserve for Losses on Refinance of Bonds etc in the full amount of approximately ¥3.4 trillion (US\$36.3 billion).

Of this, the ¥2.2 trillion (US\$23.5 billion) needed to ensure the continuity of JFM's operations into the future was to be transferred to the General Account in equal installments over ten years, with the remainder to be transferred to the Management Account to appropriately manage the former JFM's loans and bonds to which JFM has succeeded and prepare for the refinancing risk of the bonds the former JFM has issued.

JFM issues government-guaranteed bonds to refinance the former JFM bonds with government guarantee in the Management Account. We prepare the former JFM Asset Management Plan every fiscal year to manage the former JFM's assets and liabilities, and this plan must be approved by the Minister for Internal Affairs and Communications and the Minister of Finance.

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



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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 to 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. Recipients of Loans

The recipients of JFM loans are limited to local governments.

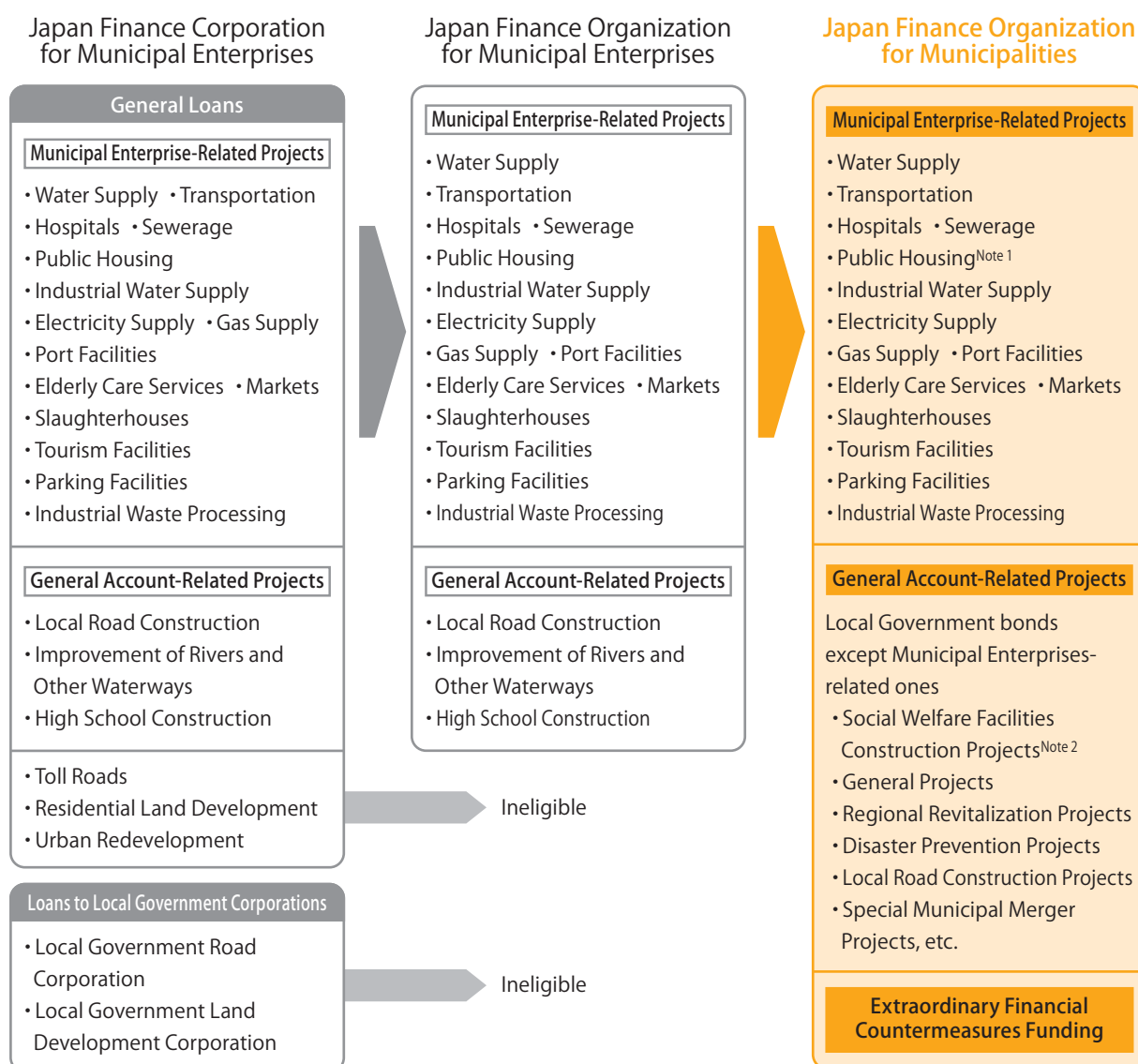
The former JFM provided loans for a total of 21 project categories and two types of local government corporations.

At JFM, on the other hand, the total was reduced to 18 project categories with lending to local government corporations discontinued.

As a result of the reorganization in June 2009, JFM is now able to provide loans for the General Account to the same extent as municipal enterprises, which have been the main targets of lending.

Specifically, in fiscal 2009, General Account-Related Projects that local governments initiate, such as Regional Revitalization, Disaster Prevention, and Special Municipal Merger Projects and Extraordinary Financial Countermeasures Funding, are now eligible for JFM loans. In addition, JFM has added projects for the construction of social welfare facilities. Thus, JFM will continue to meet the financing needs of local governments in a timely and appropriate manner.

Project Categories of JFM Lending



Notes: 1. Public Housing is defined as “Municipal Enterprise” in the Japan Finance Organization for Municipalities Law.

2. Projects for the construction of social welfare facilities were made eligible for loans in fiscal 2010.

2. Type of loans

JFM provides long-term "General Loans" to local governments at low interest rates. Loans are further classified into three types: "Long-Term Loans;" "Pre-Consent (Approval) Loans," which are provided as bridge loans to cover the period up to disbursement of Long-Term Loans for projects for which consent (approval) is assured; and "Short-Term Loans" to be repaid within the same fiscal year.

We also provide "Entrusted Loans" to local governments, which are entrusted by the Japan Finance Corporation.

3. Interest Rates of Loans

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 to be 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 the 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 the standard rate) and applicable to special projects of greater urgency and necessity to respond appropriately to the issues of the regional community.

The trend of fiscal 2009 loan interest rates is shown on 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.

This is because the standard interest rate is within 0.35% over the Fiscal Loan Fund rate throughout fiscal 2009, on the other hand, and the minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund with the same repayment terms.

■ Trends in Loan Interest Rates in Fiscal 2009

Month/Year	April '09	May '09	June '09	July '09	August '09	September '09
Interest Rate Reset Date	4/20	5/25	6/17	7/21	8/19	9/17
Standard Interest Rate	2.20%	→	2.25%	2.05%	2.20%	2.10%
Special Interest Rate	2.00%	2.10%	2.20%	2.00%	2.10%	2.00%
Extra-Special Interest Rate	2.00%	2.10%	2.20%	2.00%	2.10%	2.00%
Interest Rate of Fiscal Loan Fund	2.00%	2.10%	2.20%	2.00%	2.10%	2.00%

Month/Year	October '09	November '09	December '09	January '10	February '10	March '10
Interest Rate Reset Date	10/28	11/26	12/22	1/27	2/24	3/19
Standard Interest Rate	2.05%	2.15%	2.05%	2.15%	→	→
Special Interest Rate	→	2.10%	1.90%	2.10%	→	→
Extra-Special Interest Rate	→	2.10%	1.90%	2.10%	→	→
Interest Rate of Fiscal Loan Fund	→	2.10%	1.90%	2.10%	→	→

- Notes: 1. The figures for April 2009 and May 2009 represent the interest rates applied to loans made by JFM (fixed interest rates for loans with 28-year maturity and 5-year grace period).
 2. The figures for June 2009 to March 2010 represent fixed interest rates with 30-year maturity and a 5-year grace period.
 3. Special interest rates and extra-special interest rates are the same as the minimum interest rates set at the level equal to the interest rates for the Fiscal Loan Fund with the same conditions.

4. Maturities of Loans

The loan maturity, which is set according to the project category 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 in June 2009, the maximum term to maturity was extended to 30 years for fiscal 2009 loans.

The new loan maturities for major project categories are shown below.

Project Categories of JFM Lending			Loans for Fiscal 2010			
			Fixed Interest Rate		Adjustable Interest Rate*	
			Maturity	Grace Period	Maturity	Grace Period
General Account-Related Loans	Public Housing		Within 25	Within 5	Within 25	Within 5
	Social Welfare Facilities Construction Projects		20	3	20	3
	General Projects without State Subsidy	General Projects	20	5	20	5
		Regional Revitalization Projects	30	5	30	5
		Disaster Prevention Projects	30	5	30	5
		Local Road Construction Projects	20	5	20	5
		Special Municipal Merger Projects	30	5	30	5
Extraordinary Financial Countermeasures Funding		Prefectures	—	—	30	3
		Government-Designated Cities				
		Cities, Towns, and Villages	—	—	20	3
Municipal Enterprise-Related Loans		Water Supply	30	5	30	5
		Transportation	30	5	30	5
		Hospitals	30	5	30	5
		Sewerage	30	5	30	5
		Industrial Water Supply	30	5	30	5
		Electricity Supply	30	5	30	5
		Gas Supply	25	5	25	5
		Port Facilities	20	5	30	5
		Markets	25	5	25	5
		Slaughterhouses	20	5	20	5

*Reviewed every 10 years

5. Credit Check System

JFM conducts necessary and appropriate credit scrutiny for all loans as follows, on the assumption that the details, legality, and probability of repayment of each project have been confirmed during the process of the consultation system for borrowing.

- (1) Check the financial and operational status of local governments and municipal enterprises to which JFM plans to lend in light of 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) Check of Local Governments / Municipal Enterprises Applying for Loans

- Check financial and operational status
- Conduct interviews

(2) Check at time of Lending

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

Execution of Loan

(3) Subsequent Review

Conduct on-site credit scrutiny

6. Interest Rate Reduction

Sources of funds to compensate for the interest rate differentials between special interest rates, extra-special interest rates, and standard interest rates are investment income on the Fund for Improvement of Operations of Municipalities, which is comprised of contributions of a portion of the proceeds from municipally operated racing, and JFM's own funds.

Local governments that operate various races (horse racing, bicycle racing, motorcycle racing, and speedboat racing), contribute a portion of earnings to the Fund for Improvement of Operations of Municipalities from the viewpoint of equal profit sharing among all local governments.

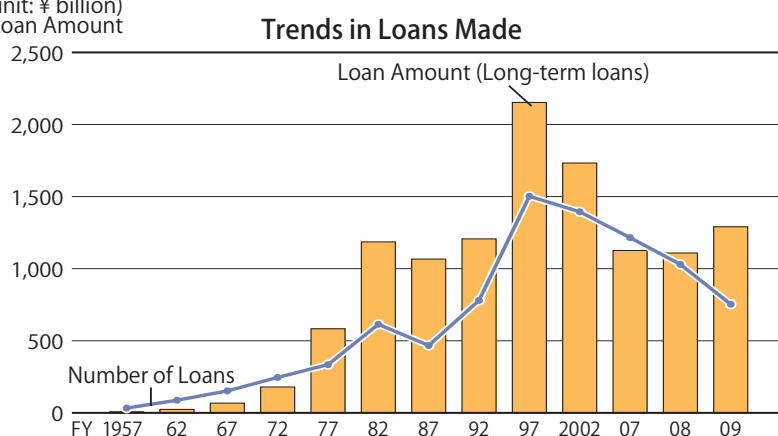
7. Review of Lending Operations

(1) Trends in Lending Operations

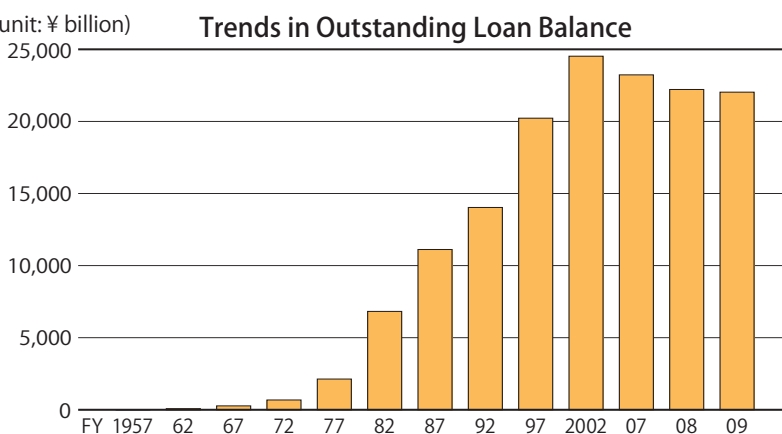
In fiscal 2009, we extended long-term loans in the amount of ¥1,290.7 billion (US\$13.8 billion), which is the total amount of loans made by JFM. As of March 31, 2010, the outstanding loan balance was ¥22,030.2 billion (US\$235.4 billion).

As of March 31, 2010, the number of local governments which have borrowed from JFM totaled 2,027, including all prefectures. Cities and special wards of Tokyo had the highest balance of ¥15,546.7 billion (US\$166.1 billion) and accounted for 71% of the total outstanding loan balance. Next came prefectures with a balance of ¥4,076.8 billion (US\$43.6 billion) or 18% of the total. Finally, towns, villages, local government associations and others had a balance of ¥2,406.7 billion (US\$25.7 billion) and accounted for 11% of the total balance.

(unit: ¥ billion)
Loan Amount



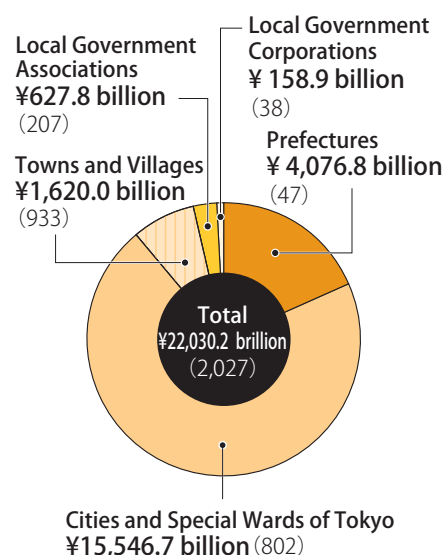
(unit: ¥ billion)



Outstanding Loan Balance by Type of Borrower

(As of March 31, 2010)
(excluding entrusted loans)

Note: Figures in parentheses are numbers of borrowers.



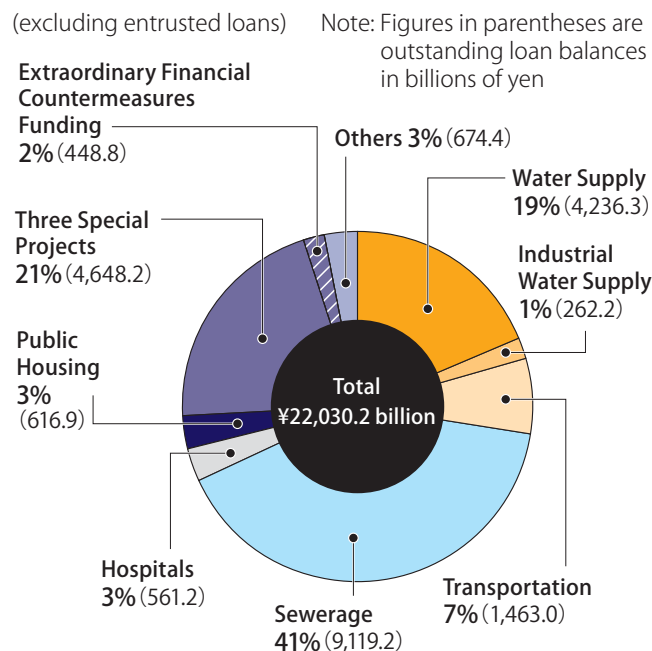
(2) Trends in Lending Operations by Project Type

Looking at JFM's past lending operations by project category, Water Supply, Electricity Supply and Port Facilities Projects were the primary recipients of loans during the mid-'50s to mid-'60s. The recipients 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 recipients 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.

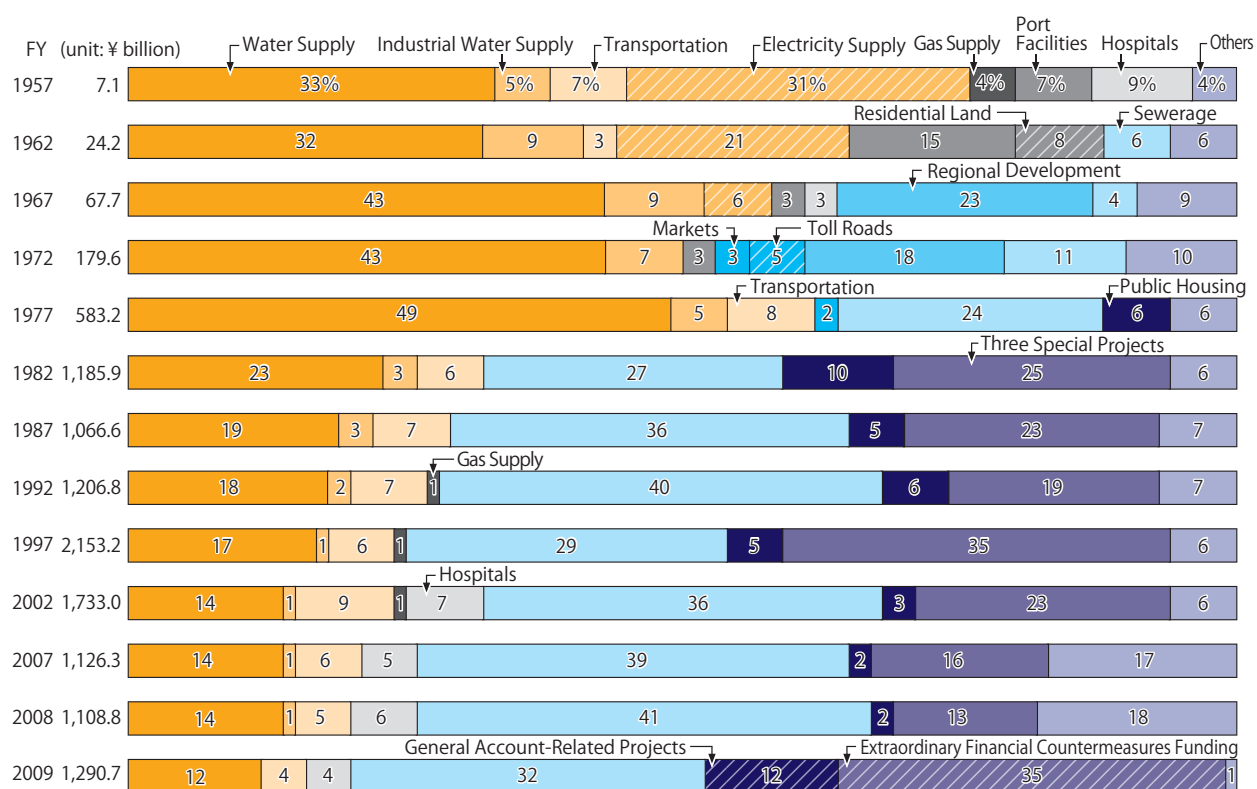
The General Account-Related Projects and Extraordinary Financial Countermeasures Funding became eligible for funding in fiscal 2009, which has significantly changed the breakdown by project.

As of March 31, 2010, the outstanding loan balance was ¥22,030.2 billion (US\$235.4 billion), and sewerage projects accounted for the largest share at 41.4% , followed by three types of Special Projects at 21.1% , and Water Supply at 19.2% of the total.

Outstanding Loan Balance by Project Type
(As of March 31, 2010)



Trends in Long-Term Loans Made by Project Type (excluding entrusted loans)



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.
 4. General Account-Related Projects include Public Housing and Three Special Projects

8. Lending Operations for Fiscal 2009

(1) Results of Lending Operations

In fiscal 2009, we made loans in the total amount of ¥1,290.7 billion (US\$13,789.1 million). The loans for Extraordinary Financial Countermeasures Funding were ¥448.8 billion (US\$4,794.8 million) and accounted for 34.8% of the total.

Next came loans for Sewerage Projects in the amount of ¥406.6 billion (US\$4,344.1 million) and a 31.5% share of the total. In addition, loans for ¥158.3 billion (US\$1,690.8 million), which accounted for 12.3% of the total, were made for General Account Projects, primarily local road construction.

(2) Lending Operations by Project Type

[Public Housing Projects]

Public housing constructed and managed by local governments totaled approximately 2.18 million units at fiscal 2008 year-end. The total amount of loans for these projects was ¥16.4 billion (US\$175.0 million) in fiscal 2009.



City Housing Karo Estate (Tottori City)

[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. Loans for General Projects amounted to ¥15.3 billion (US\$163.5 million) in fiscal 2009.



Aomori Higashi High School (Aomori Prefecture)

Note: The number of projects for each type of project is for fiscal 2008. The pictures are examples of existing loan projects and may not represent projects for which loans were made in fiscal 2009.

[Regional Revitalization Projects]

Regional Revitalization Projects represent basic infrastructure development projects conducted by local governments for regional revitalization. Loans for these projects amounted to ¥64 million (US\$0.7 million) in fiscal 2009.

[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. Loans for these projects amounted to ¥97 million (US\$1.0 million) in fiscal 2009.

[Special Municipal Merger Projects]

These projects represent projects based on a municipal construction plan and implemented by local governments that merged, and transportation infrastructure projects for merged local governments conducted by prefectural governments and deemed necessary due to the merger of the municipalities, with such mergers serving as the vision for the prefecture. Loans for these projects amounted to ¥11.4 billion (US\$122.2 million) in fiscal 2009.



Municipal Road 32-1 (Ide Town, Kyoto Prefecture)

[Local Road Construction Projects]

These are projects carried out independently by local governments to build prefectural roads, municipal roads, farm roads, and forest roads. 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. Loans for these projects amounted to ¥115.0 billion (US\$1,228.4 million) in fiscal 2009.

[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. Loans for these projects amounted to ¥448.8 billion (US\$4,794.8 million) in fiscal 2009.

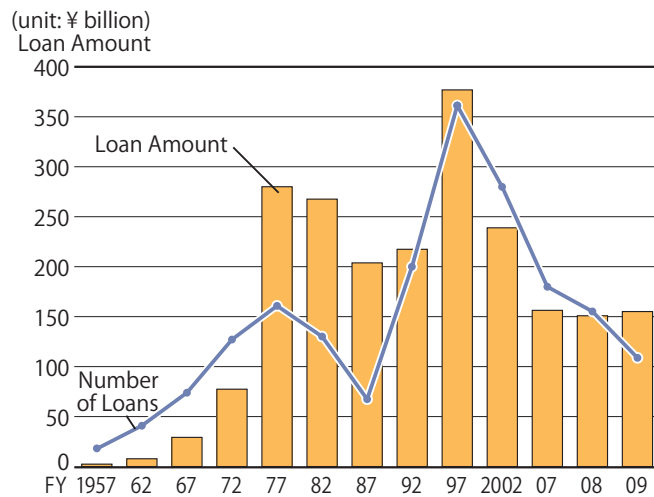
[Water Supply Projects]

Water Supply (including small-scale water supply) Projects managed by local governments totaled 2,244, and provided about 18.9 billion cubic meters of water annually for approximately 124.82 million people.

The total amount of loans that we made for these projects was ¥155.1 billion (US\$1,657.5 million) in fiscal 2009.



Oigawa Wide Area Waterworks Association
(Shizuoka Prefecture)



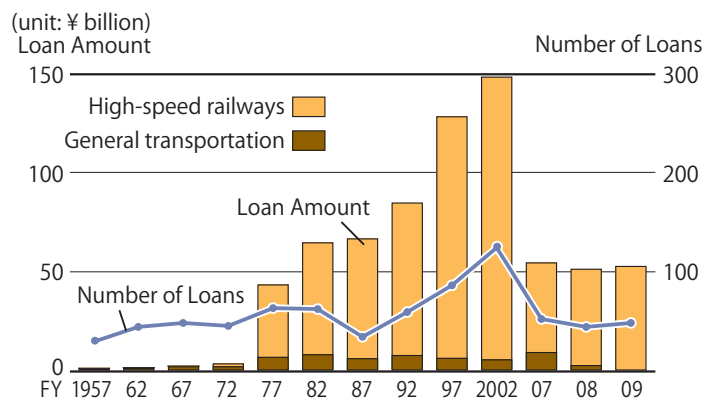
[Transportation Projects]

Transportation Projects managed by local governments totaled 101, which were operated by 83 entities and used annually by about 4 billion people in total (11.12 million people on an average daily basis). The number of passengers who used publicly managed transportation systems accounted for 24.9 % of the total bus services and 72.5 % of the total subway services on an annual basis.

The total amount of loans for these projects was ¥51.1 billion (US\$546.4 million) in fiscal 2009.



City Loop Line Tramway (Toyama City)



[Hospital Projects]

Hospital Projects managed by local governments totaled 665 with 936 hospitals which included 891 general hospitals, 1 tuberculosis hospital and 44 mental hospitals.

The total amount of loans for these projects was ¥53.3 billion (US\$569.4 million) in fiscal 2009.



Mie Prefectural Mental Medical Center
(Mie Prefecture)

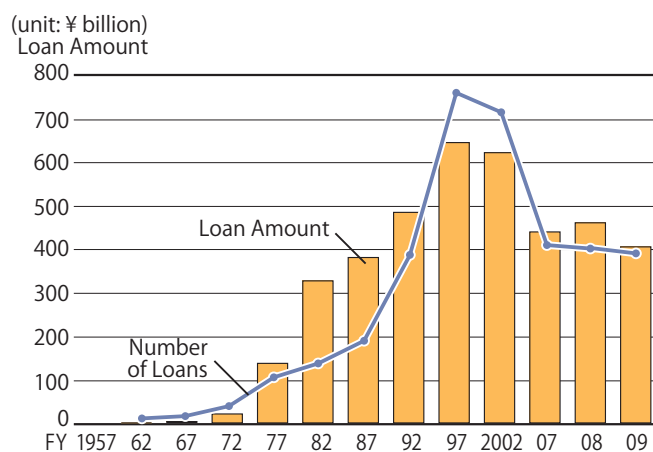
[Sewerage Projects]

Sewerage Projects managed by local governments totaled 3,687, serving areas with a population of 98.15 million, or 75.9 % of the total population at the end of fiscal 2008.

The total amount of loans for these projects was 406.6 billion (US\$4,344.1 million) in fiscal 2009, or 30 % of long-term loans.



Shimizu Area Rural Community Sewerage
(Ibigawa Town, Gifu Prefecture)



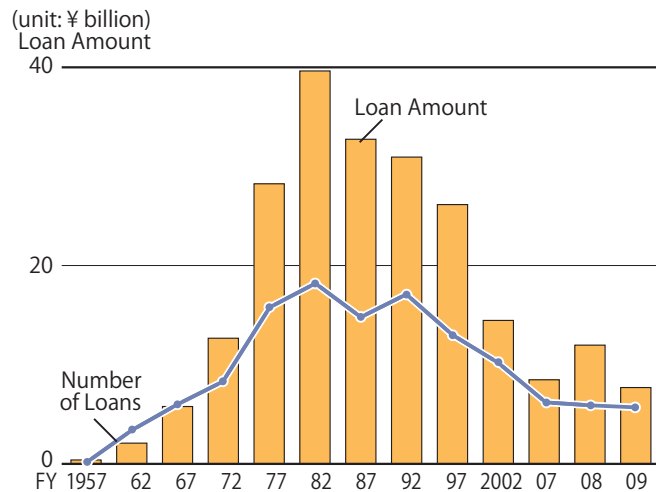
[Industrial Water Supply Projects]

Industrial Water Supply Projects managed by local governments totaled 151 with 260 facilities that provided approximately 4.7 billion cubic meters of water annually for 6,150 factories and other facilities.

The total amount of loans for these projects was ¥7.7 billion (US\$82.3 million) in fiscal 2009.



Ikuta Water Purification Plant (Kawasaki City)



[Electricity Supply and Gas Supply Projects]

Electricity Supply Projects managed by local governments totaled 70 with 388 power plants, which had a maximum power output of 3.19 million kW and generated 10.7 billion kWh annually. The 34 Gas Supply Projects managed by local governments provided 38.5 billion MJ of gas for 0.94 million households annually.

The total amount of loans for these projects was ¥1.7 billion (US\$18.6 million) in fiscal 2009.



Jinemon-yosui Power Generating Station
(Toyama Prefecture)

[Port Facilities Projects]

Port Facilities Projects managed by local governments totaled 104, which included reclamation, cargo-handling machines, sheds, warehouses, lumberyards, tugboats, etc.

The total amount of loans for these projects was ¥4.1 billion (US\$43.7 million) in fiscal 2009.



Gantry Cranes at Fukuoka Island-City Container Terminal (Fukuoka City)

[Elderly Care Services Projects]

Elderly Care Services Projects managed by local governments totaled 621. 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 ¥0.2 billion (US\$2.1 million) in fiscal 2009.



Mutagawaraguchi Welfare Facility "Otozure" (Hagi City)

[Market Projects]

Market Projects managed by local governments totaled 176, which handled 7.93 million tons of vegetables, 2.83 million tons of fruit, 4.31 million tons of seafood, and 0.81 million tons of meat and other products. These projects contributed to modernization of the distribution system of daily commodities.

The total amount of loans for these projects was ¥1.6 billion (US\$16.9 million) in fiscal 2009.



Central Wholesale Market (Morioka City)

[Slaughterhouse Projects]

Slaughterhouse Projects managed by local governments totaled 74, which processed 4.11 million heads of cattle and other animals in fiscal 2008.

The total amount of loans for these projects was ¥59 million (US\$0.6 million) in fiscal 2009.



Meat Trading Center (Kanazawa City)

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

Tourism Facilities Projects managed by local governments totaled 390 including 152 recreation and accommodation facilities, 62 ropeways, and 176 other facilities (hot springs, castles, museums, zoos, botanical gardens, etc.).

The total amount of loans for these projects was ¥423 million (US\$4.5 million) in fiscal 2009.



Asahiyama Zoo (Asahikawa City)

[Parking Facilities Projects]

Parking Facilities Projects managed by local governments totaled 233 with 681 facilities, which had a total capacity of approximately 123,000 vehicles, serving an average of about 175,000 cars per day.

The total amount of loans for these projects was ¥1.6 billion (US\$17.2 million) in fiscal 2009.



Underground Parking Lot at Kawaguchi Station (Kawaguchi City)

9. Review of Entrusted Loans for Fiscal 2009

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 2009 was ¥3,452 million (US\$36.9 million), including ¥3,294 million (US\$35.2 million) for Public Forest Improvement Projects and ¥158 million (US\$1.7 million) for Grasslands Development Projects.

Category	Public Forest Improvement Projects		Grasslands Development Projects		Total		
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount	Component ratio
	Number of Loans	Millions of Yen	Number of Loans	Millions of Yen	Number of Loans	Millions of Yen	%
Prefectures	64	2,215	3	40	67	2,255	65.3
Cities	103	725	1	52	104	777	22.5
Towns and villages	70	353	7	67	77	420	12.2
Associations and others							
Total	237	3,294	11	158	248	3,452	100.0

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

The amounts of loans for 25,818 Public Forest Improvement Projects and 1,586 Grasslands Development Projects were 337,219 million (US\$3,602.8 million) and 22,301 million (US\$238.3 million), respectively.

10. Plan of Lending Operations for Fiscal 2010

The fiscal 2010 Local Governments Loan/Bond Program was established to make provisions addressing the shortfall in local revenue sources as local finances remained extremely tight, and ensure the necessary local funding so that local governments could proactively revitalize local communities and systematically construct basic infrastructure.

As a result, the fiscal 2010 Local Governments Bond/Loan Program amounted to ¥15,897.6 billion (US\$169.8 billion) (12.1% or ¥1,713.2 billion (US\$18.3 billion) increase compared to the loans made in fiscal 2009), and included JFM loans for ¥2,159 billion (US\$23.1 billion).

Based on the fiscal 2010 Local Governments Bond/Loan Program, JFM plans to make general loans in the total amount of ¥1,933.1 billion (US\$20.7 billion) in fiscal 2010. This includes loans for ¥394.6 billion (US\$4.2 billion) for General Account-Related Projects, ¥788.7 billion (US\$8.4 billion) for Extraordinary Financial Countermeasures Funding, ¥719.8 billion (US\$7.7 billion) for Municipal Enterprise-Related Projects, and ¥30 billion (US\$0.3 billion) for Refinancing for Municipal Enterprise-Related Projects.

Additionally, JFM plans to make entrusted loans in the amount of ¥3 billion (US\$32.1 million).

11. Prepayment Without Penalty

In a provision lasting from fiscal 2007 to fiscal 2009, the national government took measures to reduce local governments' debt service burdens in the amount of ¥5 trillion (US\$53.4 billion), of which the former JFM implemented measures in the amount of about ¥1,270 billion (US\$13.6 billion) over the two years from fiscal 2007 to fiscal 2008. However, in light of the severe stagnation of local economies, the government has decided to extend this provision by three years as part of its fiscal 2010 local government finance measures.

This measure will allow local governments that establish fiscal reform plans and public enterprise management reform plan and carry out thorough administrative reform and management reforms to make prepayments without compensation on ¥1.1 trillion (US\$11.8 billion) in public funds (loans made by the former Trust Fund Bureau, former Postal Life Insurance, and former JFM) for a three-year period from fiscal 2010. This is intended to reduce the burden of debt servicing costs on local government debts, which carry high interest rates.

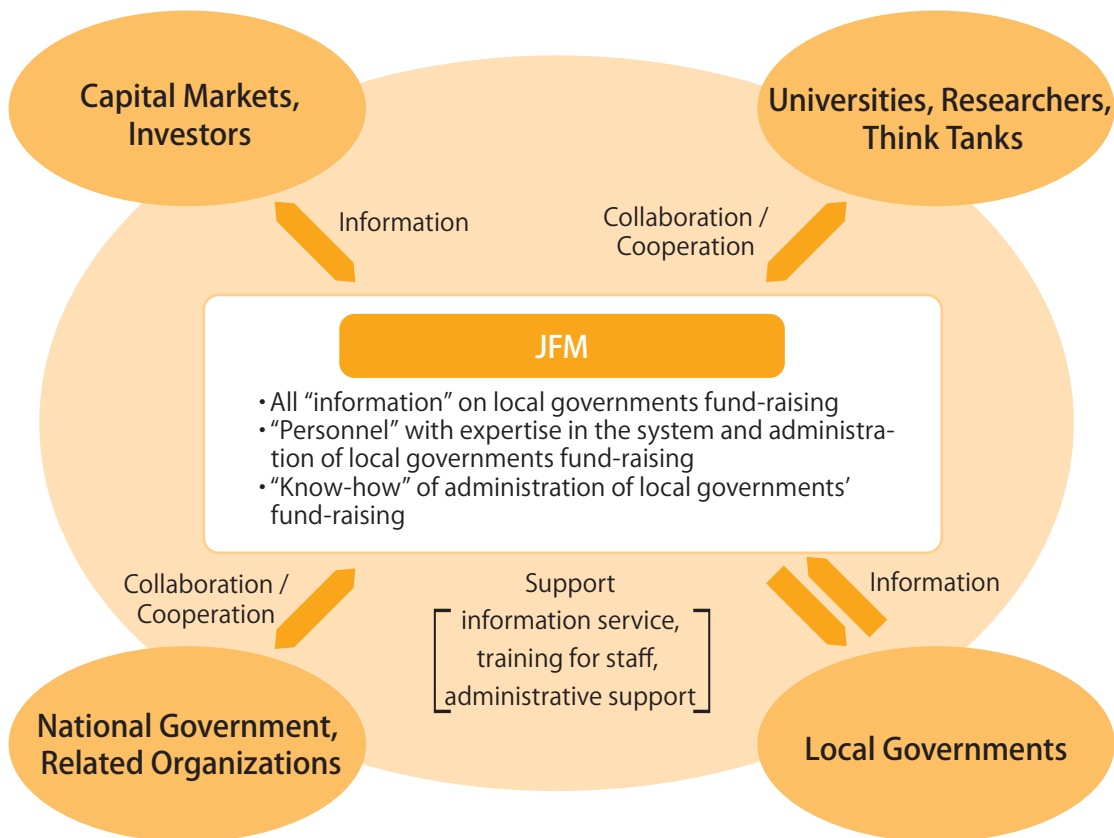
JFM will accept prepayment without penalty on a total of ¥320 billion (US\$3.4 billion) or less in loans (including refinancing) over the three-year period from fiscal 2010 through fiscal 2012 for local governments endorsed by the government for their decision to take measures to reduce debt servicing costs and implementation of administrative reforms and management reforms. In fiscal 2010, JFM will allow prepayment without penalty on about ¥100 billion (US\$1.1 billion) in loans (of which ¥30 billion (US\$0.3 billion) yen in loans for refinancing for Municipal Enterprise-Related Projects).



JFM will provide support for local governments to enable them to respond appropriately to the changing environment and thereby to efficiently raise funds in the capital market.

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

Specifically, JFM will carry out studies and research on local governments' fund-raising, and will offer information of the results as part of its "Research and Study, and Information Service," as well as provide basic knowledge on local administration and budgets, finance, economics and accounting. In addition, JFM will offer "Knowledge Development Training for Local Government Staff," which has been expanded to include skills and expertise for fund-raising operations, and "Administrative Support for Fund-Raising," which supports local government staff in raising funds in collaboration with related groups.



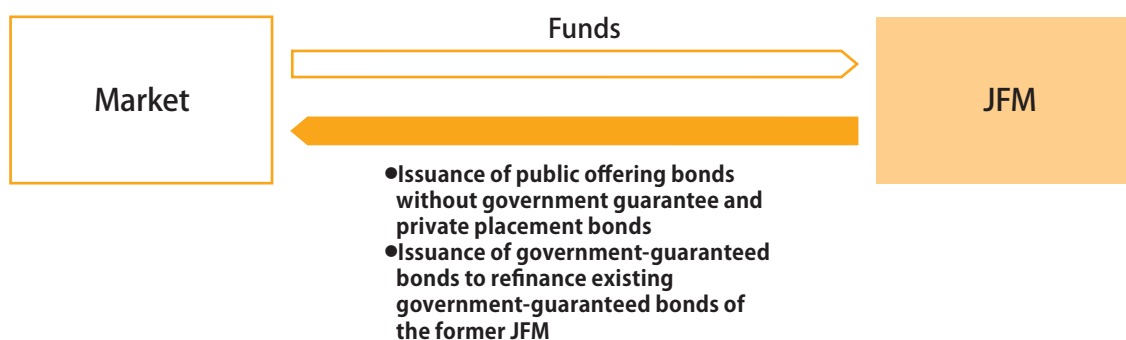


As a joint fund-raising organization for local governments, JFM raises funds in a stable manner to provide local governments with low-interest and stable funds, while endeavoring to reduce the cost of funds.

1. Type of JFM Bonds

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

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



2. Basic Stance on Issuance of JFM Bonds

The basic policy for the issuance of bonds is to raise funds in a stable manner, maintaining the solid confidence of the capital market 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 investor 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 medium-term and extra-long-term bonds in response to market conditions and investor needs in order to expand the investor base, while also considering risk management and fund-raising costs.

When issuing bonds, JFM endeavors to ensure continuous investor demand through the monthly issuance of 10-year bonds in particular, and also issues bonds in a timely and flexible manner to meet market needs arising from time to time by utilizing the Flexible Issuance Program (FLIP).

JFM endeavors to issue bonds in a variety of markets to reduce the cost of fund-raising, closely monitoring conditions of domestic and overseas markets.

For reference: Flexible Issuance Program

JFM's own program to issue domestic bonds quickly and flexibly in accordance with investor needs

- Bond maturity: 3 years to 29 years (excluding 5, 10, 20 years, maturities of benchmark bonds)
- Minimum issue amount: ¥3 billion
- JFM will decide quickly whether to issue or not based on the proposal of the nominated dealers

(2) Comprehensive Disclosure of Information

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

Furthermore, JFM promotes investor relations activities, including meetings with and visits to investors, in order to help investors correctly understand JFM's management and credit standing, 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 the capital market, and maintaining the basic policy of attaching great importance to the capital market, JFM will further strengthen its role as a leading issuer in the market, and positively contribute to the sound development of the capital market.

3. Characteristics of JFM Bonds

JFM bonds with the following features, are recognized as extremely high credit standing and status, so we call "Super Local Government Bonds".

- JFM is a public joint fund-raising organization established by Japan's all local governments.
- As no local government has gone into default, JFM's assets can be said to be highly stable.
- JFM has a sound financial foundation. Under the Japan Finance Organization for Municipalities Law, local governments have the ultimate obligation to repay JFM's debts in the event of its dissolution, thus the redemption of JFM bonds is deemed assured.

JFM has received the highest grade credit rating among the 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.

In addition to JGBs and local government bonds, interest received by foreign investors on JFM's domestic bonds in book-entry form shall be exempted from Japanese income tax on the following conditions, subject to certain procedural requirements.

Notes:1. Qualified bonds for tax exemption :

JFM bonds* in book-entry form issued in the domestic market on or before March 31,2013

* JFM bonds include bonds issued by the former JFM

2. Applicable periods :

This tax exemption rule shall apply to the interest which calculation periods starting on or after June 1, 2010, and the profit from redemption of the bonds acquired on or after June 1, 2010

Issuer Rating	<div>As of March 31, 2010</div> <div>S&P : AA</div> <div>Moody's : Aa2</div> <div>R&I : AAA</div>	
BIS Risk Weight	Non-guaranteed Bonds: 10%	<div>(For reference)</div> <div>Government Guaranteed Bonds : 0%</div> <div>Government Bonds : 0%</div> <div>Local Government Bonds : 0%</div>
Rank	<div>A holder of the JFM Bonds shall have the right to receive repayment of his or her claim with respect to the property of JFM in preference to other creditors.</div> <div>The preferential right specified in the immediately preceding paragraph shall rank next to after the general preferential rights under the provisions of the Civil Code. (Article 40 Japan Finance Organization for Municipalities Law)</div>	

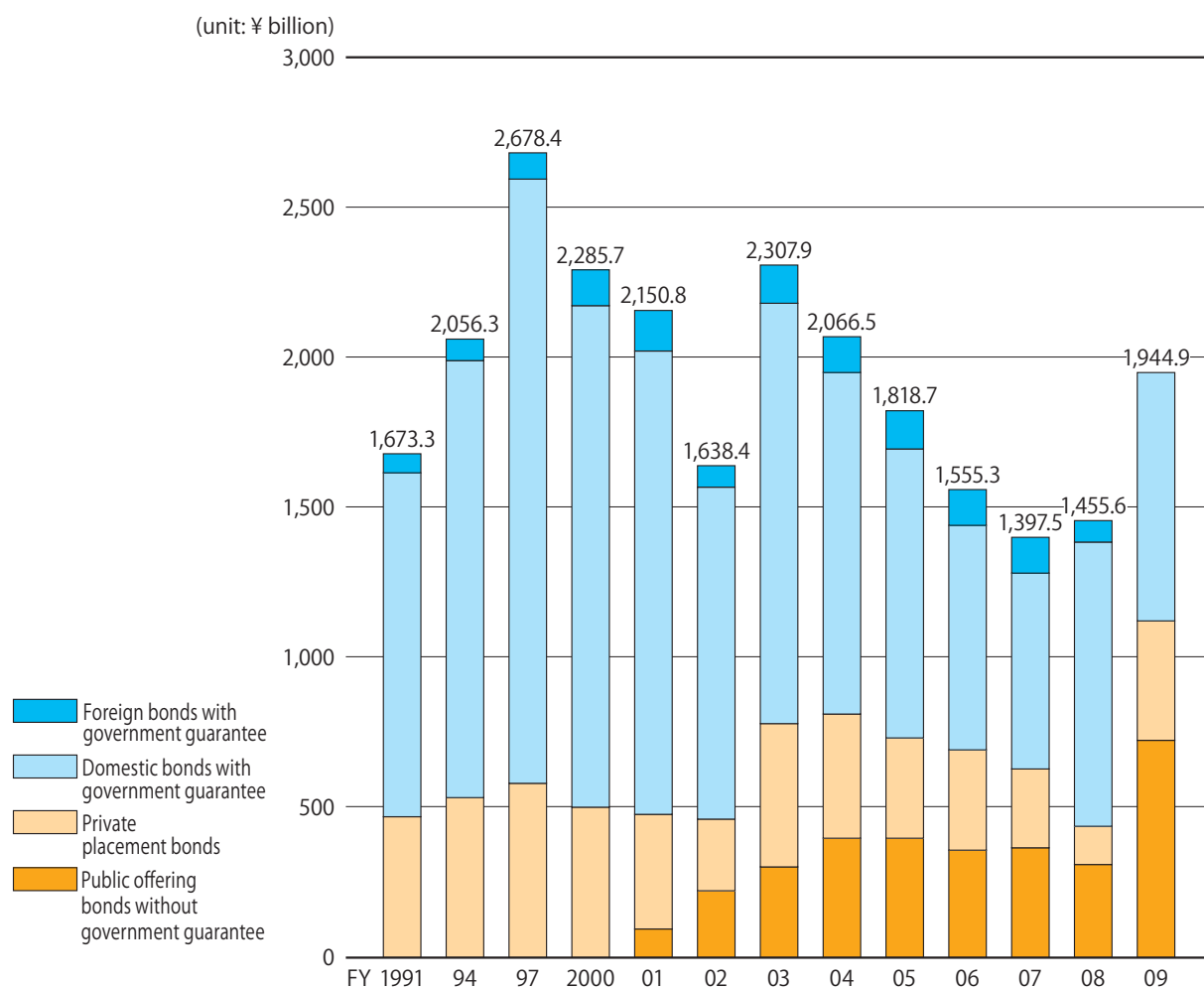
4. Trends in Fund-Raising Operations

JFM issues government-guaranteed bonds and non-government guaranteed bonds.

Until fiscal 2000, the former JFM had issued government-guaranteed bonds and private placement bonds.

As for public offering bonds without government guarantee, the former JFM had issued FILP Agency bonds since fiscal 2001, and JFM has issued JFM bonds since JFM began operations in fiscal 2008.

In fiscal 2009, the total amount of bonds issued by JFM was ¥1,944.9 billion (US\$20.8 billion).

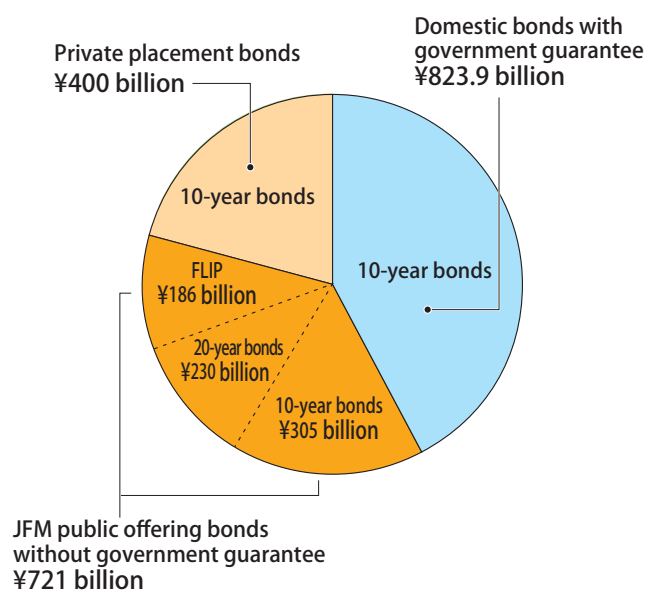


5. Fund-Raising Operations for Fiscal 2009

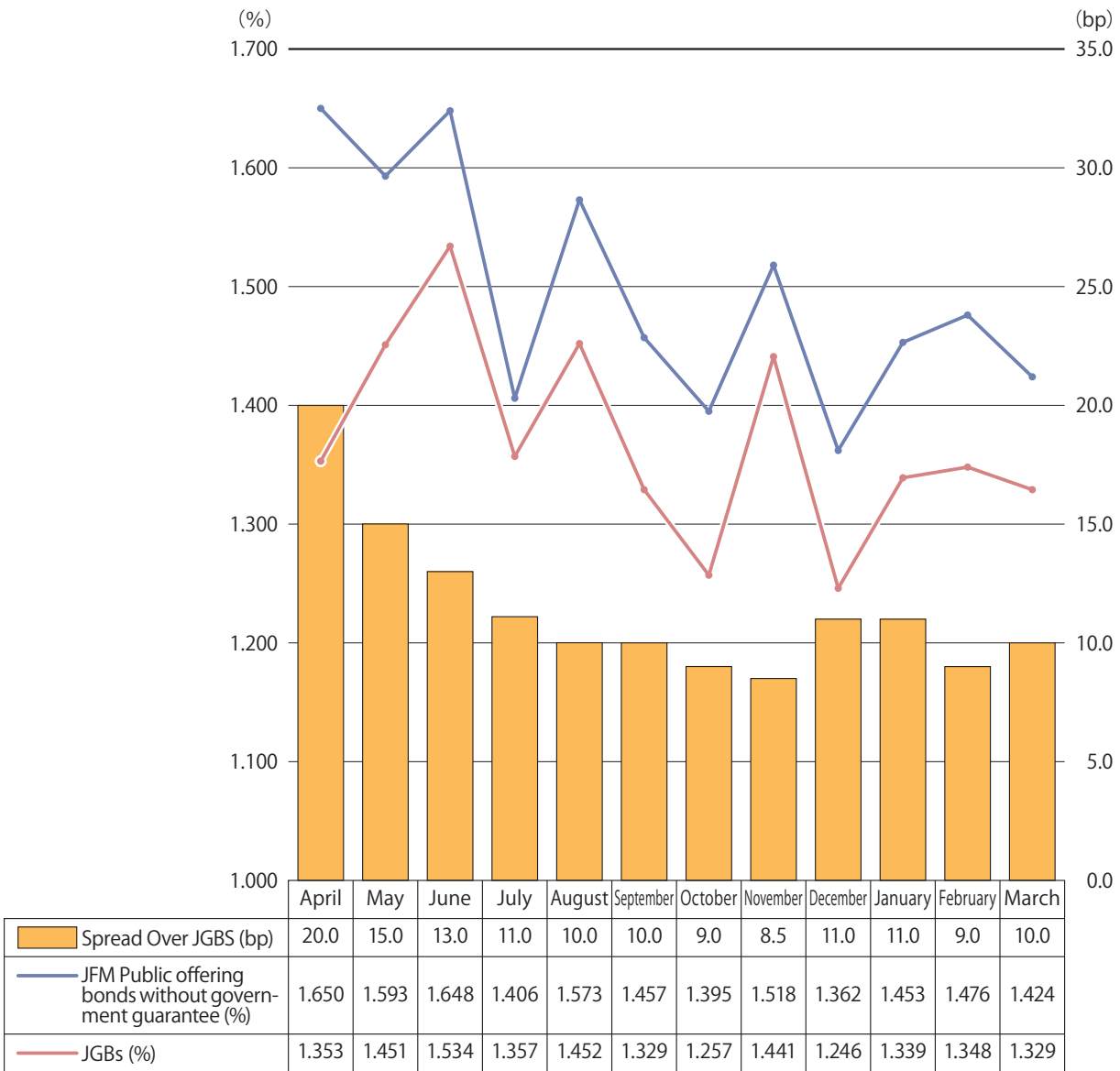
In fiscal 2009, the amount of public offering bonds without guarantee totaled 721 billion (US\$7,703.0 million) (face value), of which ¥305 billion (US\$3,258.5 million) were 10-year bonds, ¥230 billion (US\$2,457.3 million) were 20-year bonds, and ¥186 billion (US\$1,987.2 million) were FLIP. JFM also issued ¥400 billion (US\$4,273.5 million) in 10-year private placement bonds which are underwritten by the Pension Fund Association for Local Government Officials.

In addition, JFM issued ¥823.9 billion (US\$8,802.5 million) in government-guaranteed bonds to refinance the former JFM bonds with government guarantee.

As a result, the outstanding loan balance of JFM bonds amounted to ¥18,554.9 billion (US\$198.2 billion), including the former JFM's bonds to which JFM has succeeded, as of March 31, 2010.



Offering yields of JFM's 10-year non-guaranteed public offering bonds



■ Bonds Issued by Former JFM

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Public offering bonds without government guarantee	10 years	3rd	30	1.650	100.00	21.4.28
	10 years	4th	30	1.593	100.00	21.5.28
	20 years	2nd	35	2.290	100.00	21.4.30

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Private placement bonds	10 years	A-1st	60	1.73	100.00	21.4.30
	10 years	A-2nd	60	1.69	100.00	21.5.26

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Domestic bonds with government guarantee	10 years	7th	70	1.4	99.65	21.4.15
	10 years	8th	70	1.5	100.00	21.5.25

■ Bonds Issued by JFM

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Public offering bonds without government guarantee	10 years	1st	25	1.648	100.00	21.6.18
	10 years	2nd	25	1.406	100.00	21.7.21
	10 years	3rd	25	1.573	100.00	21.8.20
	10 years	4th	25	1.457	100.00	21.9.17
	10 years	5th	25	1.395	100.00	21.10.22
	10 years	6th	25	1.518	100.00	21.11.24
	10 years	7th	20	1.362	100.00	21.12.17
	10 years	8th	25	1.453	100.00	22.1.22
	10 years	9th	25	1.476	100.00	22.2.19
	10 years	10th	25	1.424	100.00	22.3.18
	20 years	1st	30	2.266	100.00	21.6.25
	20 years	2nd	35	2.266	100.00	21.8.13
	20 years	3rd	35	2.120	100.00	21.10.16
	20 years	4th	30	2.120	100.00	21.12.10
	20 years	5th	45	2.220	100.00	22.1.22
	20 years	6th	20	2.242	100.00	22.3.18
	8 years	F-1st	25	1.141	100.00	21.7.22
	18 years	F-2nd	10	2.077	100.00	21.7.23
	16 years	F-3rd	10	1.993	100.00	21.7.27
	21 years	F-4th	5	2.200	100.00	21.9.17

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Public offering bonds without government guarantee	17 years	F-5th	7	2.016	100.00	21.9.30
	19 years	F-6th	5	2.138	100.00	21.9.25
	7 years	F-7th	6	0.960	100.00	21.10.27
	26 years	F-8th	4	2.317	100.00	21.10.29
	27 years	F-9th	4	2.327	100.00	21.10.29
	28 years	F-10th	4	2.332	100.00	21.10.29
	17 years	F-11th	4	2.049	100.00	21.10.29
	12 years	F-12th	3	1.682	100.00	21.10.30
	19 years	F-13th	6	2.160	100.00	21.10.30
	19 years	F-14th	7	2.186	100.00	21.11.24
	9 years	F-15th	25	1.259	100.00	21.12.3
	17 years	F-16th	10	2.042	100.00	22.1.7
	12 years	F-17th	4	1.625	100.00	22.1.29
	8 years	F-18th	26	1.139	100.00	22.2.4
	8 years	F-19th	11	1.141	100.00	22.3.26
	9 years	F-20th	10	1.280	100.00	22.3.29

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Private placement bonds	10 years	A-1st	30	1.53	100.00	21.7.31
	10 years	A-2nd	30	1.48	100.00	21.10.30
	10 years	A-3rd	40	1.44	100.00	21.11.30
	10 years	A-4th	60	1.45	100.00	22.1.29
	10 years	A-5th	60	1.45	100.00	22.2.26
	10 years	A-6th	60	1.42	100.00	22.3.23

Type of Bond	Maturity	Series	Issue Amount (unit: ¥ billion)	Coupon Rate (%)	Issue Price (¥)	Issue Date
Domestic bonds with government guarantee	10 years	1st	70	1.5	99.25	21.6.15
	10 years	2nd	70	1.4	99.90	21.7.15
	10 years	3rd	70	1.5	99.90	21.8.17
	10 years	4th	70	1.3	99.35	21.9.14
	10 years	5th	70	1.2	99.15	21.10.20
	10 years	6th	70	1.4	99.15	21.11.18
	10 years	7th	70	1.2	99.35	21.12.14
	10 years	8th	70	1.3	99.25	22.1.20
	10 years	9th	60	1.4	100.00	22.2.16
	10 years	10th	63.91	1.3	99.40	22.3.15

6. Plan of Fund-Raising Operations for Fiscal 2010

For fiscal 2010, JFM plans to issue public offering bonds without government guarantee in the amount of ¥900 billion (US\$9,615.4 million): ¥360 billion of 10-year bonds; ¥240 billion of 20-year bonds; ¥200 billion of FLIP bonds and ¥100 billion of other bonds (including 5-year bonds). Additionally, private placement bonds (10-year maturity) will be issued in the amount of ¥400 billion (US\$4,273.5 million).

JFM issues government-guaranteed bonds to refinance the existing bonds with government guarantee to smoothly manage the former JFM's assets which JFM has succeeded to. For fiscal 2010, JFM plans to issue government-guaranteed bonds in the amount of ¥750 billion (US\$8,012.8 million), consisting of ¥650 billion (US\$6,944.4 million) in domestic bonds and ¥100 billion (US\$1,068.4 million) in international bonds.

Internal Management System

Risk Management

- 1. Overall Risk management
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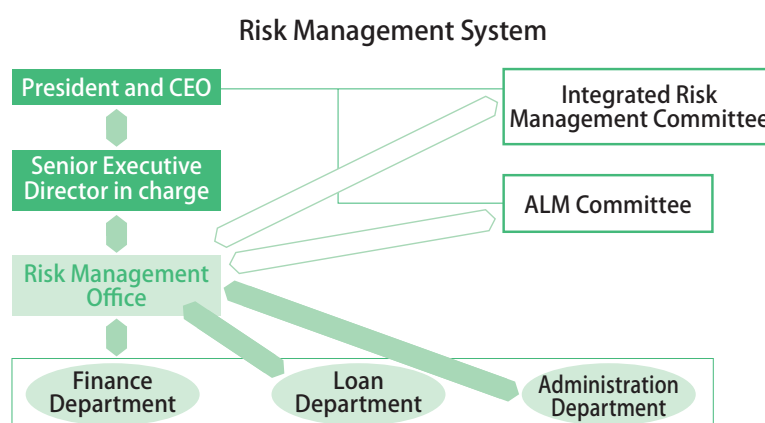
1. Overall Risk Management

(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.

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

Accordingly, JFM has developed a system for appropriate risk management, including the establishment of the Integrated Risk Management Committee, which supervises JFM's overall risk management, and the Risk Management Office, which 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 30 years and with repayment of interest and principal in equal installments. Therefore, a large maturity gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond refinancing.

JFM has set aside reserves for interest rate fluctuations (Reserve for Interest Rate Volatility), and has set up the ALM committee separately from the Integrated Risk Management Committee to comprehensively analyze and manage JFM's assets and liabilities in a timely and appropriate manner. Specifically, the medium- and long-term management analysis and risk analysis and evaluation are conducted through scenario analysis, VaR analysis, and duration analysis, among other methods. In addition, JFM endeavors to lower interest rate risk by narrowing the maturity gap between lending and funding through a variety of methods, such as issuing super-long-term bonds 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.

a). Credit risk for loans

JFM makes loans exclusively to local governments, and does not expect any default on loans made to local governments for the reasons outlined below. JFM and the former JFM have never experienced any loan losses.

- The national government 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)

As of March 31, 2010, JFM's total outstanding loans stood at ¥22,030.2 billion (US\$235.4 billion). The amount of outstanding loans made to local government road corporations by the former JFM was ¥158.9 billion (US\$1,697.6 billion) which accounted for approximately 0.7% of the total loans.

JFM is not subject to the "Banking Law" or the "Financial Reconstruction Law," but performs self-assessment of loans made by the former JFM to local government road corporations in accordance with the "Financial Inspection Manual" of the Financial Services Agency (FSA). All of these loans have been processed as unclassified 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 approximately 0.3% of the total loans.

b). Credit risk associated with market transactions

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

(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.

a). Interest rate risk

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

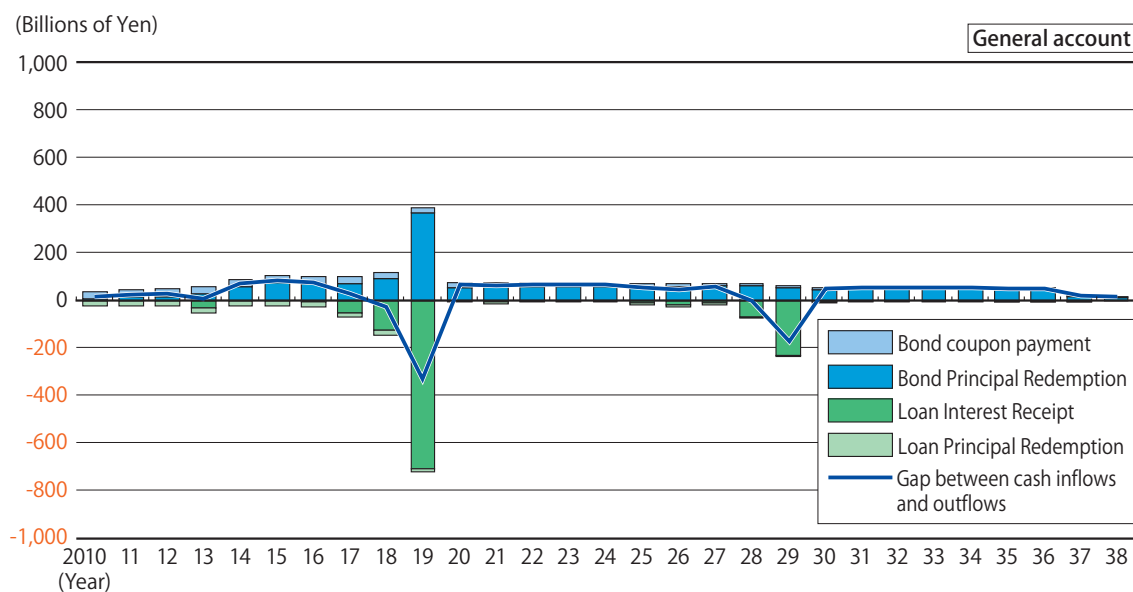
JFM makes loans to local governments. The maximum term to maturity is 30 years but, the majority of the funds for these loans is raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinance.

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 ¥440 billion (US\$4.7 billion) in the General account and ¥3,111 billion (US\$33.2 billion) in the Management account for a total of ¥3,551 billion (US\$37.9 billion) in both accounts at the end of March 2010.
- As assets and liabilities in JFM's General account are expected to expand as a result of the loans and fund-raising for local governments after JFM was established, 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 between fiscal 2009 through fiscal 2013 management target by continuously issuing super-long bonds with maturities exceeding 10 years, and by utilizing interest rate swaps. Since it had only been a year-and-a-half since JFM started its operation, both assets and liabilities were low compared to the Management account, but the outlier ratio for the end of fiscal 2009 was 8.6% and the duration gap was 1.14 years, within the management target.
 - (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 and the Fund for Improvement of Operations of Municipalities.
 2: "Decline in economic value" is the decline of present value after interest rate shocks (an upward and downward 200 bp parallel shift of the yield curve).)
 - (2) Keep a duration gap below approximately 2 years.
- The Management account, which manages assets related to money loaned by the former JFM, is currently exposed to greater interest rate risk than the General account, but JFM contributes to the required Reserves for Interest Rate Volatility as described above. The amount of the above reserves stood at ¥3,111 billion (US\$33.2 billion). But in the future, assets and liabilities will contract as time passes since new loans have not been made after October 2008, and interest rate risk will decline.

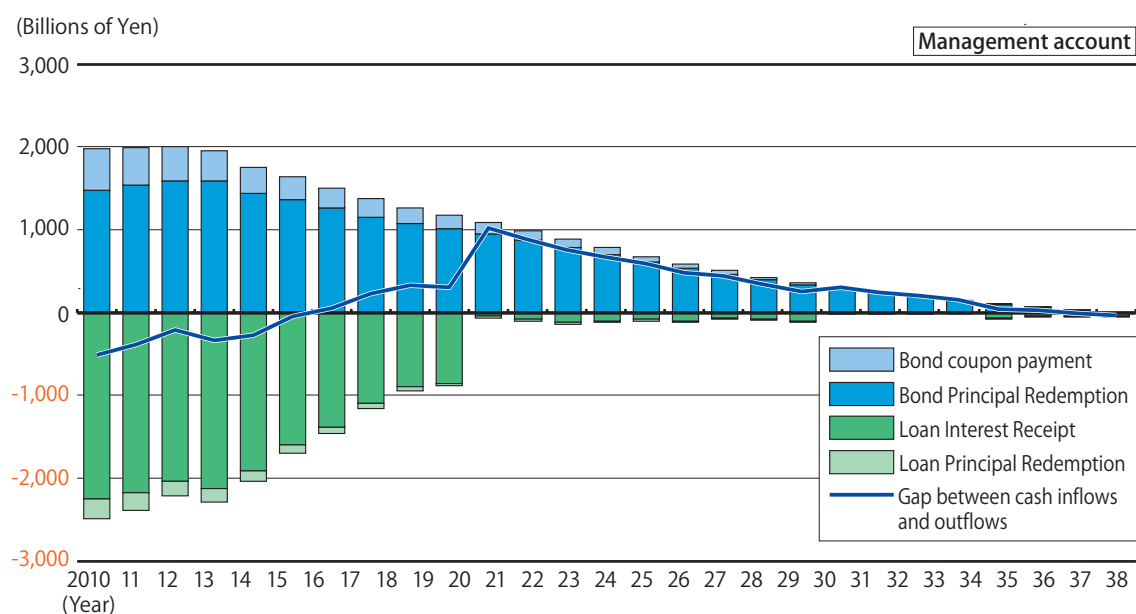
(Reference)

Maturity ladder of loans and bonds (General account; as of March 31, 2010)



• Loan duration 11.63Years and bond duration 10.49Years and duration gap 1.14 Year (YoY change, minus 1.42 years)

(Reference) Maturity ladder for loans and bonds (Management account; as of March 31, 2010)



• Loan duration 7.21Years and bond duration 4.58Years and duration gap 2.63 Years (YoY change, minus 0.25 years)

JFM as a whole, as of March 31, 2010

• Loan duration 7.55Years and bond duration 4.99Years and duration gap 2.56 Years (YoY change, minus 0.39 years)

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

b). Foreign exchange and other risks

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

JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of realized losses on foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle JFM minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange contracts.

(3) Liquidity Risk

Liquidity risk is the risk that JFM would 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 would incur losses because it is unable to conduct market transactions or is forced to conduct transactions at far more unfavorable prices than under normal conditions due to market disruption or other difficult situations (market liquidity risk).

JFM's exposure to liquidity risk is extremely low because loans are made to local governments according to a pre-set schedule, and the daily cash and liquidity management is carried out based on a quarterly plan for fund management. Moreover, JFM has entered into overdraft agreements with several financial institutions to prepare for the unexpected, 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 Municipalities” (Ordinance No.87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, “Ordinance”), JFM is intended 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.

In the Auditors’ Report on Internal Controls, the accounting editors gave their opinion on the fiscal 2009 Internal Control Report—the first that JFM had prepared—as follows: “We consider this report to conform to the standards of evaluation for internal controls over financial reporting generally recognized as fair and appropriate, and have determined that all of the important points in the evaluation of internal controls over financial reporting have been appropriately presented” (unqualified opinion pursuant to the Ministerial Ordinance No. 32, Article 4, Clause 1).



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 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.



Basic stance on information disclosure

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.

Information disclosed

Pursuant to the provisions of the JFM Law, JFM publishes financial statements in an official gazette, and 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 discloses its budgets, business plans, funding plans, and medium-term plans on income and expenditures.

Moreover, JFM discloses information on its own initiative on its home page, including business reports for each fiscal year, bond issuance plans every six months, issuance terms for each bond, bond issuance for the past five years, and rating information.

Disclosure materials

The material that JFM publishes in compliance with laws and discloses voluntarily is available on JFM's home page.

JFM also publishes pamphlets, disclosure booklet, and an annual report (in English).



<http://www.jfm.go.jp/en/>

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Financial Section

Financial Statements

■ Balance Sheets (As of March 31, 2009 and 2010)

(Millions of Yen) (Thousands of US dollars)

Item	Fiscal 2008 (March 31, 2009)	Fiscal 2009 (March 31, 2010)		Item	Fiscal 2008 (March 31, 2009)	Fiscal 2009 (March 31, 2010)	
	Amount		Amount				
Assets				Liabilities			
Loans (Note 4)	¥22,215,288	¥22,030,227	\$235,365,678	Bonds (Note 7 and 8)	¥18,978,163	¥18,534,475	\$198,017,900
Securities (Note 17)	874,832	984,477	10,517,919	Other liabilities	19,756	17,726	189,383
Cash and bank deposits	255,591	149,264	1,594,703	Reserve for bonuses (Note 9)	47	43	462
Other assets	20,051	17,159	183,328	Reserve for directors' bonuses (Note 9)	7	7	77
Tangible fixed assets (Note 6)	3,010	2,948	31,502	Reserve for retirement benefits (Note 9 and 12)	202	210	2,244
Intangible fixed assets (Note 6)	842	921	9,846	Reserve for retirement benefits for directors and corporate auditors (Note 9)	51	56	600
				Fund for improvement of operations of municipalities	894,675	906,939	9,689,522
				Basic fund for improvement of operations of municipalities (Note 11)	892,875	901,407	9,630,426
				Additional fund for improvement of operations of municipalities (Note 11)	1,800	5,531	59,096
				Reserve under special laws	3,423,622	3,664,927	39,155,205
				Reserve for interest rate volatility (Note 10)	220,000	440,000	4,700,855
				Management account reserve for interest rate volatility (Note 10)	3,074,728	3,111,043	33,237,647
				Reserve for interest rate reduction	128,894	113,883	1,216,703
				Total liabilities	23,316,529	23,124,384	247,055,393
				Net Assets			
				Capital	16,602	16,602	177,373
				Retained earnings	1,295	5,834	62,337
				General account surplus reserve	1,295	5,834	62,337
				Valuation , translation adjustments and others	-	(1,340)	(14,318)
				Management account surplus reserve	35,190	39,517	422,191
				Total net assets	53,087	60,613	647,583
Total assets	¥23,369,616	¥23,184,998	\$247,702,976	Total liabilities and net assets	¥23,369,616	¥23,184,998	\$247,702,976

Statements of Income

(For the Years Ended March 31, 2009 and 2010)

(Millions of Yen) (Thousands of US dollars)

Item	Fiscal 2008 (August 1, 2008 to March 31, 2009)	Fiscal 2009 (April 1, 2009 to March 31, 2010)	
	Amount	Amount	
Income	¥291,330	¥558,528	\$5,967,183
Interest income	291,288	558,369	5,965,481
Fees and commissions	33	140	1,505
Other income	8	18	197
Expenses	160,632	308,357	3,294,422
Interest expenses	155,235	297,347	3,176,795
Fees and commissions	134	271	2,904
Other operating expenses	2,233	4,641	49,591
General and administrative expenses	1,203	2,365	25,269
Other expenses	1,826	3,731	39,863
Transfer to fund for improvement of operations of municipalities (Note 11)	1,800	3,731	39,863
Others	26	—	—
Ordinary income	130,697	250,170	2,672,761
Special gains	307,872	235,010	2,510,800
Reversal of Management account reserve for interest rate volatility (Note 10)	300,000	220,000	2,350,427
Reversal of reserve for interest rate reduction	7,872	15,010	160,373
Special losses	418,144	476,315	5,088,837
Provision for reserve for interest rate volatility (Note 10)	—	220,000	2,350,427
Provision for Management account reserve for interest rate volatility (Note 10)	118,144	256,315	2,738,410
Payment to national treasury (Note 10)	300,000	—	—
Net income	¥20,425	¥8,866	\$94,724

■ Appropriation of Profit [General Account]

(For the year ended 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

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 Profit [General Account]

(For the year ended March 31, 2010)

(Millions of Yen)

I Profit to be appropriated			4,539
Net income		4,539	
Accumulated deficit brought down	—		
II Profit appropriated			
Surplus reserve		4,539	4,539

(Thousands of US dollars)

I Profit to be appropriated			48,495
Net income		48,495	
Accumulated deficit brought down	—		
II Profit appropriated			
Surplus reserve		48,495	48,495

Notes: 1. Profit was appropriated at the end of this fiscal year in accordance with the provisions of Article 39, Section 1 of the Japan Finance Organization for Municipalities Law (Law No. 64, 2007).

2. Surplus reserve appropriated was posted as General account surplus reserve on the Balance Sheet.

■ Appropriation of Profit [Management Account]

(For the year ended 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

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.

■ Appropriation of Profit [Management Account]

(For the year ended March 31, 2010)

(Millions of Yen)

I Profit to be appropriated		4,326
Net income	4,326	
Accumulated deficit brought down	—	
II Profit appropriated		
Surplus reserve	4,326	4,326

(Thousands of US dollars)

I Profit to be appropriated		46,229
Net income	46,229	
Accumulated deficit brought down	—	
II Profit appropriated		
Surplus reserve	46,229	46,229

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 Law (Law No.64, 2007).

2. Surplus reserve appropriated was posted as Management account surplus reserve on the Balance Sheet.

■ Statements 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

(From April 1, 2009 through March 31, 2010)

(Millions of Yen)

	Stockholders' equity				Valuation , translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized loss from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance at end of previous fiscal year	16,602	1,295	1,295	17,897	—	35,190	53,087
Changes during accounting period							
Contribution to capital	—	4,539	4,539	4,539	—	4,326	8,866
Net changes during accounting period in items other than stockholders' equity	—	—	—	—	(1,340)	—	(1,340)
Net changes during accounting period	—	4,539	4,539	4,539	(1,340)	4,326	7,525
Balance at March 31, 2010	16,602	5,834	5,834	22,436	(1,340)	39,517	60,613

(From April 1, 2009 through March 31, 2010)

(Thousands of US dollars)

	Stockholders' equity				Valuation , translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized loss from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance at end of previous fiscal year	177,373	13,842	13,842	191,215	—	375,963	567,178
Changes during accounting period							
Contribution to capital	—	48,495	48,495	48,495	—	46,229	94,724
Net changes during accounting period in items other than stockholders' equity	—	—	—	—	(14,318)	—	(14,318)
Net changes during accounting period	—	48,495	48,495	48,495	(14,318)	46,229	80,406
Balance at March 31, 2010	177,373	62,337	62,337	239,710	(14,318)	422,192	647,584

■ Statements of Cash Flows

(For the Years Ended March 31, 2009 and 2010)

(Millions of Yen) (Thousands of US dollars)

Item	Fiscal 2008 (August 1, 2008 to March 31, 2009)	Fiscal 2009 (April 1, 2009 to March 31, 2010)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥ 20,425	¥ 8,866	\$ 94,724
Depreciation and amortization	123	294	3,150
Interest income	(291,288)	(558,369)	(5,965,481)
Interest expenses	155,235	297,347	3,176,795
Decrease in reserve for bonuses	(5)	(4)	(48)
Increase/(Decrease) in reserve for directors' bonuses	6	(0)	(8)
Increase in reserve for retirement benefits	10	7	79
Increase in reserve for retirement benefits for directors and corporate auditors	26	5	54
Increase in fund for improvement of operations of municipalities	1,800	3,731	39,863
Increase in reserve for interest rate volatility	—	220,000	2,350,427
Increase in Management account reserve for interest rate volatility	118,144	36,315	387,982
Decrease in reserve for interest rate reduction	(7,872)	(15,010)	(160,372)
Net (increase)/decrease in loans	243,369	185,060	1,977,145
Net increase/(decrease) in bonds	(363,477)	(447,921)	(4,785,488)
Interest received	289,975	557,974	5,961,261
Interest paid	(151,043)	(293,491)	(3,135,593)
Others	(40)	(325)	(3,474)
Net cash provided by operating activities	15,388	(5,520)	(58,984)
II Cash flows from investing activities			
Proceeds from redemption of securities	2,895,550	5,536,800	59,153,846
Purchases of securities	(2,422,893)	(5,645,665)	(60,316,941)
Purchases of tangible fixed assets	—	(9)	(102)
Purchases of intangible fixed assets	(20)	(463)	(4,948)
Net cash provided by investing activities	472,635	(109,338)	(1,168,145)
III Cash flows from financing activities			
Payment to national treasury	(300,000)	—	—
Revenue from contributions made from municipally operated racing	—	8,576	91,628
Refund of contributions made from municipally operated racing	(10,479)	(44)	(473)
Proceeds from contribution to capital	16,602	—	—
Others(Note 14)	(16,455)	—	—
Net cash provided by financing activities	(310,332)	8,532	91,155
IV Effect of exchange rate changes on cash and cash equivalents	—	—	—
V Net increase/(decrease) in cash and cash equivalents	177,692	(106,327)	(1,135,974)
VI Cash and cash equivalents at beginning of year	—	255,591	2,730,677
VII Net increase in cash by succession to assets and liabilities	77,898	—	—
VIII Cash and cash equivalents at end of year	¥255,591	¥149,264	\$1,594,703

■ Notes to Financial Statements

1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, "JFM") has prepared financial statements pursuant to the Japan Finance Organization for Municipalities Law (Law No. 64 of May 30, 2007) and The Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No.87 of the Ministry of Internal Affairs and Communications, 2008)

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, 2010, the final business day of the fiscal year, which was ¥93.60 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

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

(b) Hedging instruments and hedged items

(i) Hedging instruments • • • Interest rate swap

Hedged items • • • • • Bonds

(ii) Hedging instruments • • • Currency swap

Hedged items • • • • • Foreign currency-denominated bonds

(iii) Hedging instruments • • • 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 interest rate risk and foreign exchange risk resulting from bond issuances. Hedged items are identified by each individual contract.

(d) Assessment of hedge effectiveness

JFM designates hedging instruments and hedged items with the same major terms when making hedges to offset bond market fluctuations. Accordingly, JFM deems these to be highly effective and thus does not assess its effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps and currency swaps and forward contracts which qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.

(8) Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows consist of "Cash and bank deposits" on the Balance Sheet.

(9) Fund for improvement of operations of municipalities

In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the Fund for improvement of operations of municipalities to reserve contributions as stipulated in Article 32-2 of the Local Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the Fund (hereinafter, "investment income") is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rates reduction process, the surplus amount is added to the Fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rates reduction process, the shortfall is covered by withdrawal of the Fund within the limits of the total of the additional portion to the Fund made up to the previous fiscal year and the contributions made in the 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 Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, "Ordinance on Finance and Accounting") and Article 22 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, "Preparation Ordinance").

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 Enterprise (hereinafter, "former JFM") pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the supplementary provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2008; hereinafter, "Management Account Operations Ordinance") and Articles 3 and 5 of the supplementary provisions of the above ordinance.

(11) Reserve for interest rate reduction

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

(12) Management account surplus reserve

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

(13) Consumption taxes

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

3. Additional Information

(1) Notes on financial instruments

JFM has applied "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and "Guidelines for Disclosures about Fair Value of Financial Instruments" (ASBJ Guidelines No. 19, March 31, 2008) from the end of the fiscal year. In addition to the information on fair value disclosed thus far, JFM also discloses the fair value of financial instruments not usually traded in the markets. Accordingly, JFM discloses this information under "Notes on Financial Instruments" pursuant to Article 9, Section 2, of the Ordinance on Finance and Accounting.

(2) Notes on Investment and Rental Properties

JFM has adopted the "Accounting Standards for Disclosure of Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, November 28, 2008) and the "Implementation Guidelines for the Accounting Standard for Disclosures on the Fair Value of Investment and Rental Property" (ASBJ Guidelines No. 23, November 28, 2008) in the current fiscal year.

These notes are omitted since the total amount of investment and rental properties is immaterial.

4. Loans

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

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

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

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

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

5. Financial Instruments

(1) Status of financial instruments

(a) Approach to financial instruments

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

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

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

(b) Detail and risk of financial instruments

JFM raises funds by primarily issuing 10-year bonds, and makes loans with a maximum maturity of 30 years and with

repayment of interest and principal in equal installments. Therefore, a large maturity gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond refinancing.

JFM has set aside reserves for interest rate fluctuations (Reserve for Interest Rate Volatility), and has set up the ALM committee separately from the Integrated Risk Management Committee to comprehensively analyze and manage JFM's assets and liabilities in a timely and appropriate manner. Specifically, the medium- and long-term management analysis and risk analysis and evaluation are conducted through scenario analysis, VaR analysis, and duration analysis, among other methods. In addition, JFM endeavors to lower interest rate risk by narrowing the maturity gap between lending and funding through a variety of methods, such as issuing super-long-term bonds and utilizing interest rate swaps.

(c) Risk Management for Financial Instruments

(i) Credit risk

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

A. Credit risk for loans

JFM makes loans exclusively to local governments, and does not expect any default on loans made to local governments for the reasons outlined below. JFM and the former JFM have never experienced any loan losses.

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

B. Credit risk associated with market transactions

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

(ii) Market Risk

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

A. Interest rate risk

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

JFM makes loans to local governments. The maximum term to maturity is 30 years, but the majority of the

funds for these loans is raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinance. 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.
- As assets and liabilities in JFM's General account will expand as a result of loans and fund-raising for local governments after JFM was established, 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 (between fiscal 2009 and fiscal 2013) management target, by continuously issuing super-long bonds with maturities exceeding 10 years, and by utilizing interest rate swaps.

- a. 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).

- b. Keep a duration gap below approximately 2 years.

The Management account, which manages assets related to money loaned by the former JFM, is currently exposed to greater interest rate risk than the General account, but JFM contributes to the required Reserves for Interest Rate Volatility as described above.

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

B. Foreign exchange and other risks

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

JFM's investments of surplus funds are exposed to the risk of losses on the sale of securities resulting from price declines and the risk of realized losses on foreign currency-denominated deposits resulting from fluctuations in foreign exchange rates. Accordingly, in principle JFM minimizes the risk of price fluctuation by holding investments until maturity, and hedges foreign exchange risk by using foreign exchange contracts.

(iii) Liquidity risk

Liquidity risk is the risk that JFM would 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 would incur losses because it is unable to conduct market transactions or is forced to conduct transactions at far more unfavorable prices than under normal conditions due to market disruption or other difficult situations (market liquidity risk).

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

(iv) Supplemental remarks on fair value of financial instruments

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

(2) Items related to fair value of financial instruments

The balance sheet amount, fair value and difference between them on March 31, 2010 are as follows. (Millions of Yen)

	Balance sheet amount	Fair value	Difference
(1) Loans	22,030,227	23,213,516	1,183,288
(2) Securities			
Held-to-maturity securities	984,477	984,476	(1)
(3) Cash and bank deposits	149,264	149,264	—
Total assets	23,163,968	24,347,256	1,183,287
Bonds	18,534,475	19,056,723	522,248
Total liabilities	18,534,475	19,056,723	522,248
Derivative transactions ^(*)			
Qualifying for hedge accounting	(619)	(619)	—
Total of derivative transactions	(619)	(619)	—

(Thousands of US dollars)

	Balance sheet amount	Fair value	Difference
(1) Loans	235,365,678	248,007,654	12,641,976
(2) Securities			
Held-to-maturity securities	10,517,919	10,517,907	(12)
(3) Cash and bank deposits	1,594,703	1,594,703	—
Total assets	247,478,299	260,120,263	12,641,964
Bonds	198,017,900	203,597,476	5,579,576
Total liabilities	198,017,900	203,597,476	5,579,576
Derivative transactions ^(*)			
Qualifying for hedge accounting	(6,620)	(6,620)	—
Total of derivative transactions	(6,620)	(6,620)	—

(*) Net assets and liabilities resulting from derivative transactions are presented on a net basis, and items resulting in a net loss are denoted by ().

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

Assets

(1) Loans

The fair value of loans is calculated by discounting future cash flow assuming prepayment by the discount rate calculated using the Japanese government bond rate as of March 31, 2010.

(2) Securities

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

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

(Millions of Yen)

	Type	Balance sheet amount	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	—	—	—	—
	Sub total	—	—	—
Securities with fair values that do not exceed the balance sheet amount	Treasury discount bills	379,977	379,976	(1)
	Negotiable certificate of deposits	604,500	604,500	—
	Sub total	984,477	984,476	(1)
Total		984,477	984,476	(1)

(Thousands of US dollars)

	Type	Balance sheet amount	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	—	—	—	—
	Sub total	—	—	—
Securities with fair values that do not exceed the balance sheet amount	Treasury discount bills	4,059,586	4,059,574	(12)
	Negotiable certificate of deposits	6,458,333	6,458,333	—
	Sub total	10,517,919	10,517,907	(12)
Total		10,517,919	10,517,907	(12)

(3) Cash and bank deposits

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

Liabilities

Bonds

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

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

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

Derivative transactions

Transactions using hedge accounting

For derivative transactions using hedge accounting, the contractual amount or the amount equivalent to the principal in the contract for each hedge accounting method as of March 31, 2010 is as follows:

(Millions of Yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Fundamental accounting method	Interest rate swap transactions Receive/ fixed and pay/floating	Bonds	272,000	272,000	(619)	Based on price given by financial institution
Hedge account for interest rate swaps	Interest rate swap transactions Receive/ floating and pay/fixed	Bonds	80,000	80,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	514,900	395,400	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	60,000	—	(*2)	
Total			926,900	747,400	(619)	

(Thousands of US dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Fundamental accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds	2,905,983	2,905,983	(6,620)	Based on price given by financial institution
Hedge account for interest rate swaps	Interest rate swap transactions Receive/floating and pay/fixed	Bonds	854,701	854,701	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	5,501,068	4,224,359	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	641,026	—	(*2)	
Total			9,902,778	7,985,043	(6,620)	

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

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

Notes: 2. The repayment schedule from March 31, 2010 for monetary claims and securities with maturity dates is as follows:

(Millions of Yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	1,572,195	1,581,151	1,608,111	1,512,186	1,448,990	6,166,151	6,849,565	1,291,874
Securities								
Securities held-to-maturity	984,477	—	—	—	—	—	—	—
Deposits	149,264	—	—	—	—	—	—	—

(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	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	16,796,964	16,892,642	17,180,681	16,155,835	15,480,669	65,877,686	73,179,121	13,802,080
Securities								
Securities held-to-maturity	10,517,919	—	—	—	—	—	—	—
Deposits	1,594,701	—	—	—	—	—	—	—

Note 3. The repayment schedule from March 31, 2010 is as follows:

(Millions of Yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	2,244,370	2,176,130	2,030,560	2,160,070	1,908,670	6,703,240	1,122,600	209,260

(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	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	23,978,312	23,249,252	21,694,017	23,077,671	20,391,774	71,615,812	11,993,590	2,235,684

6. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets at March 31, 2010 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, 2010	Accumulated depreciation at March 31, 2010 or accumulated amortization	Depreciation during the year	Balance at March 31, 2010
Tangible fixed assets							
Buildings	551	4	—	555	65	43	489
Land	2,403	—	—	2,403	—	—	2,403
Other tangible fixed assets	91	5	—	96	40	27	55
Total tangible fixed assets	3,045	9	—	3,055	106	71	2,948
Intangible fixed assets							
Software	910	309	—	1,219	311	223	907
Other intangible fixed assets	20	13	20	13	—	—	13
Total intangible fixed assets	931	322	20	1,233	311	223	921

(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, 2010	Accumulated depreciation at March 31, 2010 or accumulated amortization	Depreciation during the year	Balance at March 31, 2010
Tangible fixed assets							
Buildings	5,888	46	—	5,934	702	469	5,232
Land	25,675	—	—	25,675	—	—	25,675
Other tangible fixed assets	974	56	—	1,030	435	291	595
Total tangible fixed assets	32,537	102	—	32,639	1,137	760	31,502
Intangible fixed assets							
Software	9,730	3,302	—	13,032	3,331	2,389	9,701
Other intangible fixed assets	217	144	217	145	—	—	145
Total intangible fixed assets	9,947	3,446	217	13,177	3,331	2,389	9,846

Notes: 1. Accumulated depreciation of tangible fixed assets amounted to 106 million yen (1,137 thousand dollars) as of March 31, 2010.

7. 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 18,534,475 million yen (198,017,900 thousand dollars).

8. Bonds

Bonds at March 31, 2010 consisted of the following:

(Millions of Yen) (Thousands of US dollars)

Type of bond	Date of issue	Outstanding amount at March 31, 2010		Coupon rate (%)	Maturity
Government-guaranteed bonds (domestic) 1st-10th JFM bonds	6/15/2009- 3/15/2010	¥680,402	\$7,269,260	1.2 ~ 1.5	10Y
Public offering bonds without government guarantee 1st-10th JFM bonds	6/18/2009- 3/18/2010	245,000	2,617,521	1.362 ~ 1.648	10Y
Public offering bonds without government guarantee 1st-6th 20-year bonds	6/25/2009- 3/18/2010	195,000	2,083,333	2.120 ~ 2.266	20Y
Public offering bonds without government guarantee F1st-F20th JFM bonds	7/22/2009- 3/29/2010	186,000	1,987,179	0.960 ~ 2.332	7Y ~ 28Y
Public offering bonds without government guarantee A-1st-6th JFM bonds	7/31/2009- 3/23/2010	280,000	2,991,453	1.42 ~ 1.53	10Y
Japan Finance Organization for Municipalities bonds – Sub-total	—	1,586,402	16,948,747	—	—
Government-guaranteed bond (domestic) 1st 4-year JMF bond	2/27/2009	299,872	3,203,766	0.7	4Y
Government-guaranteed bonds (domestic) 1st-8th JFM bonds	10/16/2008/- 5/25/2009	560,087	5,983,840	1.3 ~ 1.6	10Y
Public offering bond without government guarantee 1st 5-year JFM bond	2/24/2009	29,993	320,439	1.01	5Y
Public offering bonds without government guarantee 1st-4th JFM bonds	11/25/2008- 5/28/2009	139,957	1,495,272	1.59 ~ 1.77	10Y
Public offering bonds without government guarantee 1st-2nd 20-year JFM bonds	1/26/2009- 4/30/2009	84,943	907,519	2.07 ~ 2.29	20Y
Public offering bonds without government guarantee A-1st-2nd JFM bonds	4/30/2009- 5/26/2009	120,000	1,282,051	1.69 ~ 1.73	10Y
Japan Finance Organization for Municipal Enterprises bonds – Sub-total	—	1,234,854	13,192,888	—	—
Government-guaranteed bonds (domestic) 775th-886th former JFM bonds	4/28/1999- 6/19/2008	9,220,051 (1,666,200)	98,504,829 (17,801,282)	0.5 ~ 2.0	10Y
Government-guaranteed bonds (domestic) 1st-5th 15-year former JFM bonds	6/22/2005- 7/18/2007	184,637	1,972,623	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	1,043,458 (119,500) US dollars 3,200,000 thousand Euro 900,000 thousand Pound sterling 150,000 thousand	11,148,063 (1,276,709)	1.350 ~ 6.000	10Y ~ 20Y

(Millions of Yen) (Thousands of US dollars)

Type of bond	Date of issue	Outstanding amount at March 31, 2010		Coupon rate (%)	Maturity
Public offering bond without government guarantee 1st 5-year former JFM bond	2/29/2008	¥129,963	\$1,388,495	1.14	5Y
Public offering bonds without government guarantee 1st-30th former JFM bonds	12/26/2008- 6/16/2008	1,279,786	13,672,929	0.64 ~ 2.07	10Y
Public offering bonds without government guarantee 1st-25th 20-year former JFM bonds	7/30/2002- 6/16/2008	569,611	6,085,598	1.03 ~ 2.58	20Y
Public offering bonds without government guarantee 1st-10th 30-year former JFM bonds	1/29/2004- 9/20/2006	189,848	2,028,301	2.39 ~ 2.95	30Y
Public offering bond without government guarantee 1st floating rate former JFM bond	10/31/2002	20,000	213,675	Floating rate	15Y
Public offering bonds without government guarantee 1st-2nd inflation-indexed former JFM bonds	3/2/2005- 7/19/2005	40,000	427,350	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	45,660 (2,170)	487,821 (23,184)	1.39 ~ 2.01	28Y
Public offering bond without government guarantee 1st CMS-linked floating rate former JFM bond	9/13/2006	20,000	213,675	1.894	10Y
Private placement bonds A series 52nd – Special No.1 series 31st former JFM bonds	7/30/1999- 7/31/2008	2,970,200 (456,500)	31,732,906 (4,877,137)	0.67 ~ 2.18	10Y
Former JFM bonds - Sub-total	—	15,713,218 (2,244,370)	167,876,265 (23,978,312)	—	—
Total	—	¥18,534,475 (2,244,370)	\$198,017,900 (23,978,312)	—	—

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 18,534,475 million yen (198,017,900 thousand dollars).

2. Amounts posted in brackets "[]" in the column of "Outstanding amount at March 31, 2010" 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, 2010" are the amounts to be repaid within one year.

9. Reserves

Reserves at March 31, 2010 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, 2010
Reserve for bonuses	47	43	47	—	43
Reserve for directors' bonuses	7	7	7	—	7
Reserve for retirement benefits	202	7	—	—	210
Reserve for retirement benefits for directors and corporate auditors	51	5	—	—	56

(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, 2010
Reserve for bonuses	510	462	510	—	462
Reserve for directors' bonuses	85	77	85	—	77
Reserve for retirement benefits	2,166	79	—	—	2,245
Reserve for retirement benefits for directors and corporate auditors	546	54	—	—	600

10. Reserve for Interest Rate Volatility

Reserve for interest rate volatility at March 31, 2010 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, 2010
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	220,000	220,000	220,000	—		440,000
Management account reserve for interest rate volatility	3,074,728	256,315	256,315	220,000	220,000	3,111,043
Total	3,294,728	476,315	476,315	220,000	220,000	3,551,043

(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, 2010
			Amount provided		Amount withdrawn	
Reserve for interest rate volatility	2,350,428	2,350,427	2,350,427	—		4,700,855
Management account reserve for interest rate volatility	32,849,664	2,738,410	2,738,410	2,350,427	2,350,427	33,237,647
Total	35,200,092	5,088,837	5,088,837	2,350,427	2,350,427	37,938,502

Note: During Fiscal 2008, Management account reserve for interest rate volatility was reversed in the amount of 300,000 million yen 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).

11. Fund for Improvement of Operations of Municipalities

Fund for improvement of operations of municipalities at March 31, 2010 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, 2010
		Amount of reserve	Amount March 31, 2010 transferred	Amount withdrawn	Others	
Basic fund for improvement of operations of municipalities	892,875	8,576	—	—	44	901,407
Additional fund for improvement of operations of municipalities	1,800	—	3,731	—	—	5,531
Total	894,675	8,576	3,731	—	44	906,939

(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, 2010
		Amount of reserve	Amount March 31, 2010 transferred	Amount withdrawn	Others	
Basic fund for improvement of operations of municipalities	9,539,271	91,628	—	—	473	9,630,426
Additional fund for improvement of operations of municipalities	19,232	—	39,864	—	—	59,096
Total	9,558,503	91,628	39,864	—	473	9,689,522

- Notes: 1. The "increase during the year" in the "amount of reserves" for the "Basic fund for improvement of operations of municipalities" is the payment in the amount stipulated in Article 46, Section 1 of the Law and received in accordance with Article 46, Section 2 of the Law.
2. The full amount of "Others" posted in "Decrease during the year" for "Basic fund for improvement of operations of municipalities" 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 municipalities" represents the amount transferred to Additional fund for improvement of operations of municipalities pursuant to the provisions of Article 46, Section 5 of the Law.

12. 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 363 million yen (3,886 thousand dollars)

Plan assets 153 million yen (1,642 thousand dollars)

Reserve for employee retirement benefits 210 million yen (2,245 thousand dollars)

(3) Pension expenses

Pension expenses 16 million yen (175 thousand dollars)

Pension expenses related to lump-sum payments upon retirement 3 million yen (38 thousand dollars)

Pension expenses related to the Employees' Pension Fund 12 million yen (137 thousand dollars)

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simple method.

13. Net Income by Account

Net income of General account was 4,539 million yen (48,495 thousand dollars), while net income of Management account was 4,326 million yen (46,229 thousand dollars).

14. Cash Flows

(1) Fiscal 2008

(a) "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

(b) 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.

(2) Fiscal 2009

NA

15. Information by Account(Balance Sheets).

Balance sheets of General account and Management account at March 31, 2010 were as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	1,761,614	20,268,613		22,030,227
Securities	984,477			984,477
Cash and bank deposits	149,264			149,264
Other assets	1,290	15,869		17,159
Tangible fixed assets	2,948			2,948
Intangible fixed assets	921			921
Due from General account		841,388	(841,388)	
Due to Management account for Fund for improvement of operations of municipalities	592,831		(592,831)	
Total assets	3,493,347	21,125,870	(1,434,219)	23,184,998
(Liabilities)				
Bonds	1,280,894	17,253,581		18,534,475
Other liabilities	2,712	15,013		17,726
Reserve for bonuses	43			43
Reserve for directors' bonuses	7			7
Reserve for retirement benefits	210			210
Reserve for retirement benefits for directors and corporate auditors	56			56
Fund for improvement of operations of municipalities	906,939			906,939
Basic fund for improvement of operations of municipalities	901,407			901,407
Additional fund for improvement of operations of municipalities	5,531			5,531
Due to Management account	841,388		(841,388)	
Due from General account for Fund for improvement of operations of municipalities		592,831	(592,831)	
Reserve under special laws	440,000	3,224,927		3,664,927
Reserve for interest rate volatility	440,000			440,000
Management account reserve for interest rate volatility		3,111,043		3,111,043
Reserve for interest rate reduction		113,883		113,883
Total liabilities	3,472,251	21,086,353	(1,434,219)	23,124,384
(Net Assets)				
Capital	16,602			16,602
Retained earnings	5,834			5,834
General account surplus reserve	5,834			5,834
Valuation, translation adjustments and others	(1,340)			(1,340)
Management account surplus reserve		39,517		39,517
Total net assets	21,096	39,517		60,613
Total liabilities and net assets	3,493,347	21,125,870	(1,434,219)	23,184,998

(Thousands of US dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	18,820,664	216,545,014		235,365,678
Securities	10,517,919			10,517,919
Cash and bank deposits	1,594,703			1,594,703
Other assets	13,787	169,541		183,328
Tangible fixed assets	31,502			31,502
Intangible fixed assets	9,846			9,846
Due from General account		8,989,190	(8,989,190)	
Due to Management account for Fund for improvement of operations of municipalities	6,333,669		(6,333,669)	
Total assets	37,322,090	225,703,745	(15,322,859)	247,702,976
(Liabilities)				
Bonds	13,684,768	184,333,132		198,017,900
Other liabilities	28,980	160,403		189,383
Reserve for bonuses	462			462
Reserve for directors' bonuses	77			77
Reserve for retirement benefits	2,244			2,244
Reserve for retirement benefits for directors and corporate auditors	600			600
Fund for improvement of operations of municipalities	9,689,522			9,689,522
Basic fund for improvement of operations of municipalities	9,630,426			9,630,426
Additional fund for improvement of operations of municipalities	59,096			59,096
Due to Management account	8,989,190		(8,989,190)	
Due from General account for Fund for improvement of operations of municipalities		6,333,669	(6,333,669)	
Reserve under special laws	4,700,855	34,454,350		39,155,205
Reserve for interest rate volatility	4,700,855			4,700,855
Management account reserve for interest rate volatility		33,237,647		33,237,647
Reserve for interest rate reduction		1,216,703		1,216,703
Total liabilities	37,096,698	225,281,554	(15,322,859)	247,055,393
(Net Assets)				
Capital	177,373			177,373
Retained earnings	62,337			62,337
General account surplus reserve	62,337			62,337
Valuation, translation adjustments and others	(14,318)			(14,318)
Management account surplus reserve		422,191		422,191
Total net assets	225,392	422,191		647,583
Total liabilities and net assets	37,322,090	225,703,745	(15,322,859)	247,702,976

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 from General account for Fund for improvement of operations of municipalities and Due to Management account for Fund for improvement of operations of municipalities.

These figures represent the amount of cash received for "Fund for improvement of operations of municipalities," 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.

16. Information by Account (Statements of Income)

Statements of income of General account and Management account from April 1, 2009 through March 31, 2010 was as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
Income	45,802	557,786	(45,060)	558,528
Interest income	20,689	537,679		558,369
Fees and commissions	140			140
Other income	18	0		18
Administrative fee for Management account	975		(975)	
Interest on fund for improvement of operations of municipalities	23,978		(23,978)	
Interest on due from General account		1,018	(1,018)	
Transfer from General account for Fund for improvement of operations of municipalities		19,088	(19,088)	
Expenses	41,263	312,155	(45,060)	308,357
Interest expenses	13,001	284,346		297,347
Fees and commissions	9	262		271
Other operating expenses	2,185	2,456		4,641
General and administrative expenses	2,229	135		2,365
Other expenses	3,731			3,731
Transfer to fund for improvement of operations of municipalities	3,731			3,731
Interest on due to Management account	1,018		(1,018)	
Transfer to Management account for fund for improvement of operations of municipalities	19,088		(19,088)	
Administrative fee for Management account		975	(975)	
Interest on fund for improvement of operations of municipalities		23,978	(23,978)	
Ordinary income	4,539	245,631		250,170
Special gains	220,000	235,010	(220,000)	235,010
Provision for Management account	220,000		(220,000)	
Reversal of Management account reserve for interest rate volatility		220,000		220,000
Reversal of reserve for interest rate reduction		15,010		15,010
Special losses	220,000	476,315	(220,000)	476,315
Provision for reserve for interest rate volatility	220,000			220,000
Provision for Management account reserve for interest rate volatility		256,315		256,315
Transfer to Management account		220,000	(220,000)	
Net income	4,539	4,326		8,866

(Thousands of US dollars)

General account	General account	Management account	Offset	Total
Income	489,342	5,959,260	(481,419)	5,967,183
Interest income	221,039	5,744,442		5,965,481
Fees and commissions	1,505			1,505
Other income	196	1		197
Administrative fee for Management account	10,423		(10,423)	
Interest on fund for improvement of operations of municipalities	256,179		(256,179)	
Interest on due from General account		10,881	(10,881)	
Transfer from General account for Fund for improvement of operations of municipalities		203,936	(203,936)	
Expenses	440,847	3,334,994	(481,419)	3,294,422
Interest expenses	138,903	3,037,892		3,176,795
Fees and commissions	100	2,804		2,904
Other operating expenses	23,347	26,244		49,591
General and administrative expenses	23,817	1,452		25,269
Other expenses	39,863			39,863
Transfer to fund for improvement of operations of municipalities	39,863			39,863
Interest on due to Management account	10,881		(10,881)	
Transfer to Management account for fund for improvement of operations of municipalities	203,936		(203,936)	
Administrative fee for Management account		10,423	(10,423)	
Interest on fund for improvement of operations of municipalities		256,179	(256,179)	
Ordinary income	48,495	2,624,266		2,672,761
Special gains	2,350,427	2,510,800	(2,350,427)	2,510,800
Provision for Management account	2,350,427		(2,350,427)	
Reversal of Management account reserve for interest rate volatility		2,350,427		2,350,427
Reversal of reserve for interest rate reduction		160,373		160,373
Special losses	2,350,427	5,088,837	(2,350,427)	5,088,837
Provision for reserve for interest rate volatility	2,350,427			2,350,427
Provision for Management account reserve for interest rate volatility		2,738,410		2,738,410
Transfer to Management account		2,350,427	(2,350,427)	
Net income	48,495	46,229		94,724

17. Fair value of Marketable Securities

○ Fiscal 2008

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

	Balance sheet amount	Fair value	Difference	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)

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

2. "Unrealized gains" and "Unrealized losses" are components of Difference.

2. Securities with no available fair value at March 31, 2009 were as follows:

(Millions of Yen)

	Amount
Negotiable certificate of deposits	269,000

○ Fiscal 2009

Marketable held-to-maturity securities at March 31, 2010 consisted of the following: (Millions of Yen)

	Balance sheet amount	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	379,977	379,976	(1)	—	(1)
Negotiable certificate of deposits	604,500	604,500	—	—	—
Total	984,477	984,476	(1)	—	(1)

(Thousands of US dollars)

	Balance sheet amount	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	4,059,586	4,059,574	(12)	—	(12)
Negotiable certificate of deposits	6,458,333	6,458,333	—	—	—
Total	10,517,919	10,517,907	(12)	—	(12)

Notes: 1. The fair value of Treasury discount bills is based on the market price at the end of the relevant fiscal year.

2. The balance sheet amount for negotiable certificates of deposits is the fair value.

3. The "unrealized gains" and "unrealized losses" are components of Difference.

18. Derivative Information

Status of derivative transactions

(1) Types of derivative transactions

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

(2) Policies and purposes of derivative transactions

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

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

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

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

(i) Hedging instrument: Interest rate swap

Hedged items: Bonds

(ii) Hedging instrument: Currency swap

Hedged items: Foreign currency-denominated 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 interest rate swaps and currency swaps to hedge interest rate risk and foreign exchange risk resulting from bond issuances. Hedging instruments are selected for each individual contract.

(d) Assessment of hedge effectiveness

JFM selects hedges that have hedging instruments and underlying transactions with the same major terms when making hedges to offset bond market fluctuations.

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

(3) Risks on derivative transactions

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


As for derivative transactions used for hedging purposes, market risk is offset by market risk on underlying transactions.

Regarding credit risk, JFM limits counterparties to the financial institutions with high credit standing, constantly monitors the transactions' restructuring costs and their credit profiles, and deals with multiple counterparties.

(4) Risk management system for derivative transactions

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

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



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Report of Independent Auditors

To the President of Japan Finance Organization for Municipalities

We have audited the accompanying balance sheets of Japan Finance Organization for Municipalities as of March 31, 2010 and 2009, and the related statements of operations, changes in net assets, appropriation of profit and cash flows for the years 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 Municipalities at March 31, 2010 and 2009, and the results of its operations and its cash flows for the years 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, 2010 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 Shin Nihon LLC

June 11, 2010

A member firm of Ernst & Young Global Limited

■ Internal Control Report

【Type of submission】	Internal Control Report
【Statutory basis】	Ministerial Ordinance on Finance and Accounting of Japan Finance Article 19, Organization for Municipal Enterprises Section 1, and Article 28
【Date prepared】	May, 31 2010
【Organization name】	Japan Finance Organization for Municipalities
【Name of representative executive】	Yuji Watanabe, President and CEO
【Name of highest-ranking official responsible for finances】	Not relevant
【Address of main office】	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo
【Location available for public inspection】	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo

1 【Basic framework for internal controls on financial reporting】

President and CEO Yuji Watanabe is responsible for the establishment and administration of JFM's internal control over financial reporting, and has established and administers internal controls for financial reporting in accordance with the basic framework for internal controls stipulated in the Business Accounting Council's "Setting the Standards and Practice Standards for Management Assessment and Audit of Internal Control over Financial Reporting (Council Opinion)."

The internal controls are intended to achieve this objective to a reasonable extent by organically linking each basic element of internal control to function as an integrated whole. For this reason, there is a chance that the internal controls over financial reporting may not be able to completely prevent or identify any false statements in financial reports.

2 【Scope of evaluation, evaluation date and evaluation procedures】

The base date for the evaluation of internal controls over financial reporting shall be the last date of the fiscal year, March 31, 2010. The evaluation shall be based on evaluation standards for internal controls over financial reporting that are generally recognized as fair and appropriate.

This evaluation assessed the internal controls (company-wide internal controls) that have a major impact on JFM's financial reporting overall, and operational processes to be subjected to the evaluation are selected based on the results of this evaluation. In the evaluation of these operational processes, the selected operational processes are identified, and the effectiveness of the internal controls are evaluated by identifying the key aspects of control that have an important influence on the reliability of financial reporting and evaluating the establishment and administration of these key aspects.

The necessary scope of the evaluation of internal controls over financial reporting was decided in terms of the importance of the impact that a particular process has on the reliability of financial controls. The importance of the impact on the reliability of financial reporting is determined based on the importance of the financial and qualitative impact, and the scope of the evaluation of internal controls over operational processes is decided logically based on the evaluation results of the company-wide internal controls.

Since JFM has one office, it was decided that the operation processes for loans and bonds—account items significantly related to JFM's objectives—would be included in the scope of the evaluation of internal controls over operational processes. Furthermore, operational processes related to projects and operations that involve operational processes and highly risky transactions related to important account items involving estimates and projections, which are likely to result in important false statements, were added to the scope of the evaluation as very important operational processes in light of their impact on financial reporting.

3 [Notes on evaluation results]

The results of the aforementioned evaluation demonstrated that JFM's current internal control system for financial report is effective, as of the last day of the fiscal period under review (March 31, 2010).

4 [Additional notes]

Not applicable.

5 [Special notes]

Not applicable.

■ Classification of Outstanding Loans as of March 31, 2010 under the Law Relating to the Financial Soundness of Local Governments

Notes: 1. Outstanding Loans at End-Fiscal 2009 are classified according to the Law Relating to the Financial Soundness of Local Governments.

Notes: 2. The number in parentheses next to the number for local governments is based on the fiscal 2007 financial statements.

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

1 [Classification of Outstanding Loans under the Law Relating to the Financial Soundness of Local Governments]

(Millions of Yen)

	Borrowers at end of fiscal 2009		Fiscal 2008		Fiscal 2009		Change	
	Number of local governments	Share	Outstanding loans	Share	Outstanding loans	Share	Outstanding loans	Share
Local governments with fiscal indicators exceeding the reconstruction limits	1 (3)	0.06%	5,112	0.02%	2,112	0.01%	△2,999	△0.01%
Local governments with fiscal indicators exceeding the early warning limit	21 (40)	1.18%	259,823	1.21%	68,340	0.32%	△191,483	△0.89%
Healthy local governments	1,760 (1,787)	98.77%	21,121,394	98.76%	21,173,101	99.67%	51,707	0.91%
Total	1,782 (1,830)		21,386,329		21,243,553		△142,776	

Notes: 1. The number of local governments refers to the number of prefectural, city, town and village governments, and does not include local government associations and local government corporations.

2. The amount of loans under self-assessment at the end of fiscal 2009 would be ¥22,046,881 when adding ¥627,758 million in loans to local government associations (207), ¥158,916 million in loans to local government road corporations (38), and ¥16,653 million in accrued interest to the balance of loans made to local governments.

3. 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 2008, this local government will be designated as a "local government with fiscal indicators exceeding the reconstruction limits".

4. 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 2008, this local government will be designated as a "local government with fiscal indicators exceeding the early warning limits".

5. If its fiscal indicators do not exceed any 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 2008, this local government will be designated as a "local governments with sound fiscal indicators."

2 【Classification of Outstanding Loans by Municipal Enterprises' Financial Shortfall Rate】

(Millions of Yen)

	All projects (18)							
	Borrowers at end of fiscal 2009		Fiscal		Fiscal		Fiscal	
	Number of project operators	Share	Fiscal 2008	Share	Fiscal 2009	Share	Change	Share
Sound management standard applied	27 (82)	0.54%	317,726	1.94%	177,599	1.10%	△140,127	△0.84%
Sound companies	4,928 (4,964)	99.46%	16,088,271	98.06%	15,961,216	98.90%	△127,055	0.84%
Total	4,955 (5,046)		16,405,997		16,138,815		△267,182	

Notes: 1. The number of project operators indicates the number of local governments presiding over each project. The number in parentheses is based on fiscal 2007 financial statements.

2. When adding ¥5,732,496 million for the General account and ¥158,916 million for local government road corporations (38) and ¥16,653 million for accrued interest to the outstanding loans for all projects, outstanding loans as the results of self-assessment at the end of fiscal 2009 are ¥22,046,881 million.

3. The number of project operators to whom the sound management standard applies is the number of project operators with municipal enterprise finances that exceed the sound management standard based on fiscal 2008 financial results (financial shortfall rate of 20%); the outstanding loan balance is the balance for the particular fiscal period.

4. The number of project operators of sound companies is the number of project operators with municipal enterprise finances that are below the sound management standard based on fiscal 2008 financial results (financial shortfall rate of 20%); the outstanding loan balance is the balance for the particular fiscal period.

■ Results of Self-Assessment as of March 31, 2010

(Millions of Yen)

Classification of borrowers under self-assessment	Problem assets based on the Financial Revitalization 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	
0 Borrowers requiring caution 13,646 (0.06%)	Substandard assets 0	Past due loans (3 months or more) 0 Restructured loans 0
Normal borrowers 145,382(0.66%)	Normal assets 22,046,881(100%)	
Non-classified (Local governments) 21,887,853 (99.28%)		
Total 22,046,881	Total 22,046,881	Total 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. (A mounts shown are those outstanding at the end of fiscal 2009).

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

Appendices/JFM data

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Results of Lending Operations by Project in Fiscal 2009

	Project	Amount of loans made (Millions of Yen)	Rate of change (%)	Share (%)	Number of loans Made (Number)
General Account-Related Projects	○Public Housing	16,376	△ 1.0	1.3	91
	○General Projects	15,305	105.6	1.2	109
	○Regional Revitalization Projects	64	Across-the-board gains	0.0	2
	○Disaster Prevention Projects	97	Across-the-board gains	0.0	11
	○Special Municipal Merger Projects	11,440	Across-the-board gains	0.9	26
	○Local Road Construction Projects	114,980	△ 15.4	8.9	1,030
	Sub-Total	158,262	△ 1.0	12.3	1,269
○Extraordinary Financial Countermeasures Funding		448,795	Across-the-board gains	34.8	397
Municipal Enterprise- Related Projects	○Water Supply	139,311	4.3	10.8	1,061
	○Small-Scale Water Supply	15,833	△ 8.9	1.2	366
	○Transportation	5,183	138.4	0.4	27
	○Urban Rapid Transit Railway	45,964	△ 5.8	3.6	22
	○Hospitals	53,296	△ 22.0	4.1	291
	○Sewerage	406,610	△ 11.3	31.5	3,913
	○Industrial Water Supply	7,706	△ 35.8	0.6	57
	○Electricity Supply	703	69.8	0.1	7
	○Gas Supply	1,040	18.5	0.1	17
	Port Facilities	4,090	9.4	0.3	61
	○Elderly Care Services	198	△ 87.7	0.0	6
	○Markets	1,578	127.4	0.1	30
	○Slaughterhouses	59	28.3	0.0	5
	Tourism Facilities	70	△ 16.7	0.0	3
	○Parking Facilities	1,613	18.3	0.1	1
	Industrial Waste Processing	353	301.1	0.0	2
	Sub-Total	683,607	△ 8.8	52.9	5,869
Total		1,290,664	41.9	100.0	7,535

Notes: 1. The "○" indicates projects eligible for special interest rates (including extra-special interest rates).

2. "General Projects" includes funding for Improvement of Rivers and Other Waterways and High School Construction that received consent (approval) for fiscal 2008.

3. "Local Road Construction" includes funding for Local Road Construction that received consent (approval) for fiscal 2006-2008.

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

Appendices

Fiscal 2009 Loans by Group

Classifications	Results of Lending in Fiscal 2009	
	Amount (millions of yen)	Share (%)
Prefectures	383,831	29.7
Government-Designated Cities	211,234	16.4
City and Special Ward	589,230	45.7
Towns and Villages	83,768	6.5
Corporate Groups and Associations	22,601	1.7
Total	1,290,664	100.0

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

Appendices

Fiscal 2009 Redemption of Loans

Classifications		Principal		Interest	
		Number of loans	Amount	Number of loans	Amount
Long-term loans Regular redemption	General loans	373,142	1,445,166	450,342	549,439
	Loans to local government corporations	1,182	18,012	1,239	4,271
	Total	374,324	1,463,178	451,581	553,710
Long-term loans Prepayment	General loans	242	10,042	242	6
	Loans to local government corporations	19	2,505	19	1
	Total	261	12,547	261	7
Total		374,585	1,475,725	451,842	553,717
Redemption of pre-consent (approval) loans		—	—	—	—
Redemption of short-term loans		—	—	—	—

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

Appendices

Long-Term Loan Balance by Project at the End of Fiscal 2009

	Project	Number of loans (number)	Amount (millions of yen)	Share (%)
General Account- Related Projects	Public Housing	5,312	616,914	2.8
	Local Road Construction ^(※1)	31,439	4,324,601	19.6
	Improvement of Rivers and Other Waterways	3,690	237,816	1.1
	High School Construction	467	85,753	0.4
	General Projects	4	6,840	0.0
	Regional Revitalization Projects	2	64	0.0
	Disaster Prevention Projects	11	98	0.0
	Special Municipal Merger Projects	26	11,440	0.1
	Local Road Construction Projects ^(※2)	4	176	0.0
	Extraordinary Financial Countermeasures Funding	397	448,795	2.0
	Sub-Total	41,352	5,732,496	26.0
Municipal Enterprise-Related Projects	Water Supply	46,639	4,069,874	18.5
	Small-Scale Water Supply	5,556	166,454	0.8
	Industrial Water Supply	2,589	262,227	1.2
	Transportation	187	24,575	0.1
	Urban Rapid Transit Railway	840	1,438,433	6.5
	Electricity Supply	785	67,044	0.3
	Gas Supply	296	42,251	0.2
	Port Facilities	1,216	106,689	0.5
	Hospitals	2,336	561,216	2.5
	Elderly Care Services	311	25,132	0.1
	Markets	465	89,541	0.4
	Slaughterhouses	53	6,413	0.0
	Tourism Facilities	77	7,927	0.0
	Industrial Waste Processing	20	10,935	0.0
	Parking Facilities	511	91,941	0.4
	Regional Development (Notes: 1)	84	48,938	0.2
	Sewerage	120,844	9,119,223	41.4
	Sub-Total	182,809	16,138,815	73.3
Local Government Road Corporation	Toll Roads (public corporations)	571	158,916	0.7
	Total	224,732	22,030,227	100.0

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 land for offices and shops, and housing lands. These projects also include the 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.

(※ 1) Implemented by Japan Finance Organization for Municipal Enterprises.

(※ 2) Implemented by Japan Finance Organization for Municipalities.

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 citizens, including social welfare, public health, school education, social education, policing and fire fighting in their respective regions.

Local governments are comprised of prefectures, cities, 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, 2010, there were 47 prefectures, 19 government-designated cities, 1,727 cities, towns and villages, and 23 special wards of Tokyo.

JFM can provide loans only to these local governments and has provided loans to 97% of Japan's local governments.

Local Government Finance Program

As local governments play a significant role in the national economy, the national government takes 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 with a view to giving an overall picture of the finances of local governments. Under this program, the national government secures revenue sources for local governments to balance their revenue and expenditures as a whole.

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 the money that is necessary to make up for the shortfall to maintain an appropriate level of public services.

In fiscal 2009, the expenditure of local governments under the Local Government Finance Program totaled ¥82.6 trillion (US\$882.0 billion), and accounted for 17.4% of gross domestic expenditure (GDE). Further, the local allocation tax grant for ¥15.8 trillion (US\$169.0 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 2010, the total amount of the Local Government Bond/Loan Program, or the total amount of new long-term debts of local governments is ¥15.9 trillion (US\$169.8 billion). The breakdown of procurement sources is; JFM 13.6%, national government 27.3%, private sector 59.1%.

Municipal Enterprises

Local governments provide certain areas of services through the municipal enterprises operated basically upon their revenues, not on money supplied from the general account. Water supply and sewerage services are mainly operated by municipal enterprises.

As of March 31, 2009, all the prefectures and 1,800 cities, towns and villages operated 9,096 municipal enterprises throughout Japan. Total expenditures of these municipal enterprises for fiscal 2008 totaled ¥20.3 trillion (US\$217.0 billion).

The total capital expenditure of municipal enterprises in fiscal 2008 was ¥4.0 trillion (US\$42.8 billion), of which ¥1.7 trillion (US\$18.1 billion) was procured by borrowing, with ¥0.6 trillion (US\$6.6 billion) provided by JFM.

Procedures for Local Governments' Fund-raising

In principle, borrowings can be approved as revenue sources for expenditures of local governments only when the proceeds are used for the purposes specifically provided in 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 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 part or the whole of 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 to borrow money 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 raising funds.

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 financial indices exceed certain levels shall expeditiously restore financial soundness. Under the Law, financial indices of local governments shall be disclosed, and the relevant local governments must map out their plans to restore fiscal soundness. 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 financial indices exceeding the early warning limits or reconstruction limits shall restore their fiscal soundness in a carefully planned manner.

History of JFM

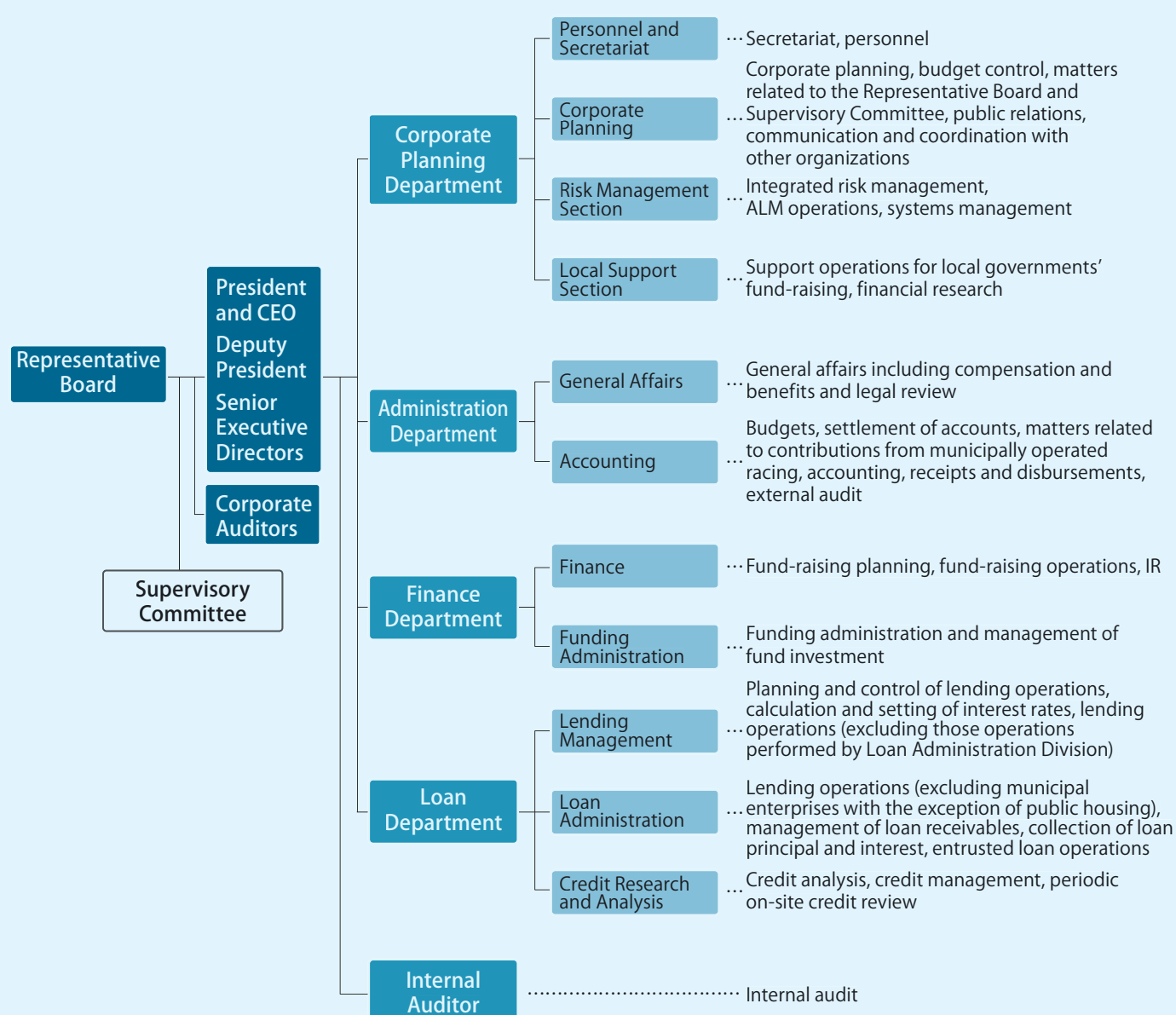
Fiscal 2008	Established based on the Japan Finance Organization for Municipal Enterprises Law on August 1, 2008. Succeeded to the assets and liabilities of the former JFM and commenced operations on October 1, 2008.
Fiscal 2009	Reorganized as Japan Finance Organization for Municipalities based on the amendment 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.
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. ·added a part-time senior executive director. ·established the Japan Finance Corporation for Municipal Enterprises Management Council. ·addressed the phased abolition of subsidies from the national treasury over a three-year period.
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).

The Representative Board is the ultimate authority within JFM's organizational structure. Below the Representative Board, JFM consists of executive officers such as the president and CEO, deputy president, senior executive directors, corporate auditors, and four departments, eleven divisions and offices, and an internal auditor organized in accordance with the following chart.

As of April 1, 2010



■ Executive Officers and Corporate Auditors

President and CEO	Yuji Watanabe
Deputy President	Masamichi Fukunaga
Senior Executive Directors	Takeji Takei Yoji Ninomiya Takao Kodama (part-time)
Corporate Auditors	Shuichi Kadowaki Nadamu Takata (part-time)



Yoji Ninomiya Masamichi Fukunaga Yuji Watanabe Takeji Takei Takao Kodama
Senior Executive Director Deputy President President and CEO Senior Executive Director Senior Executive Director



(Photo credits: The Tokyo Institute for Municipal Research)

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Shuichi Kadowaki Nadamu Takata
Corporate Auditor Corporate Auditor



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.



The color universal design used in this report is certified by the non-profit Color Universal Design Organization (CUDO) as easy to view for a broad range of people and its usability is not affected by individual differences in color perception.

