

Annual Report 2011

Japan Finance Organization for Municipalities





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Profile

Name	Japan Finance Organization for Municipalities (JFM)
Establishment	August 1, 2008 (Reorganized on June 1, 2009)
Governing Law	Japan Finance Organization for Municipalities Law (Law No. 64 of May 30, 2007)
Address	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo
President and CEO	Yuji Watanabe
Capital	¥16.6 billion
Number of Employees	85 (as of April 2011)
Outstanding Loan Amount as of March 31, 2011	¥22,231.8 billion
Outstanding Bond Amount as of March 31, 2011	¥18,346.1 billion
Ratings (as of August 31, 2011)	S&P: AA- Moody's: Aa3 R&I: AAA

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

Information contained in this Annual Report is, in general, current as of March 31, 2011, unless otherwise indicated.

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Toward Restoration from the Damage Caused by the Great East Japan Earthquake

The Great East Japan Earthquake, which occurred on March 11, 2011, due to its devastating magnitude and the subsequent tsunami, caused unprecedented disaster. Many precious lives were taken and the whereabouts of many people is still unknown. The disaster further led to accidents at the Fukushima Daiichi nuclear power plant, and many people are still experiencing difficult and inconvenient lives in the evacuation zones. We express our sincere condolences to the victims of this disaster.

At the Japan Finance Organization for Municipalities (JFM), we established a disaster countermeasure headquarters immediately after the disaster and set up a consultation office for disaster-stricken local governments.

Although it will take a long time before the stricken areas are restored to their original state, we intend to do all that we can to support the disaster-stricken local governments.

We wish for the quick recovery and restoration of the stricken areas.



President and CEO's Message

Review of Fiscal 2010

JFM is a public organization established in August 2008 with capital contributed by all local governments in Japan (prefectures, cities, wards, towns and villages).

JFM issues bonds to raise funds in the capital markets and then provides local governments with long-term loans at low interest rates.

In fiscal 2010, we moved ahead with various initiatives. In lending operations, we addressed a significant increase in loan amounts along with the expansion of project categories for JFM Lending and implemented measures to reduce local governments' debt. In fund-raising operations, in addition to the continuing monthly issuance of JFM bonds, we conducted various funding measures such as the issuance of JFM's first international bonds and the Flexible Issuance Program (FLIP). We also newly launched local government support operations.

Through these measures, our operations proceeded smoothly, and market confidence in JFM has been increasingly strong.

I would like to offer my sincere gratitude to everyone who has supported us this year.

Initiatives in Fiscal 2011

In fiscal 2011, we plan to make loans in the amount of ¥1,843.1 billion based on the Local Government Borrowing Program FY2011. In the continuing harsh financial conditions for local governments, JFM intends to fulfill its role as a joint fund-raising organization to fund local government bonds to meet the expectations of local governments.

In fund-raising, we will strive to use diverse fund-raising measures including the issuance of international bonds without government guarantees, while raising necessary funds at low cost in the capital markets in a stable manner, thereby contributing to the sound development of the capital markets.

To meet the needs of local governments, we will conduct full-fledged local government operations through four core areas—training for local government staff, research, administrative support and information services.

JFM's Role as an Organization of Local Governments, by Local Governments and for Local Governments

As a joint fund-raising organization of local governments, by local governments and for local governments, with all of the management staff of JFM 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,
Japan Finance Organization for Municipalities
June 2011



Management Philosophy

The Japan Finance Organization for Municipalities (JFM), as “a joint fund-raising organization of local governments, by local governments and for local governments,” set forth the following three policies as its management philosophy for business execution.

1

Ensure Corporate Governance Befitting a Joint Organization of Local Governments

To establish a system for the responsible and autonomous management by local governments and ensure corporate governance through appropriate risk management and checks/audits by the Supervisory Committee and external accounting auditors.

2

Proactively Address Local Governments' Financial Needs

We aim to proactively provide meticulous services, mainly through supplying long-term and low-interest funds, to address the local governments' financial needs and the changes in the environment surrounding the local government funding.

3

Gain the Solid Confidence of the Capital Markets

To gain the solid confidence of the capital markets by maintaining our sound financial standing through appropriate risk management and fulfilling accountability through proper disclosure to the capital markets, thereby raising funds at advantageous terms in a stable manner. To contribute to the sound development of the capital markets as a core issuer in the public bond market.



1. Review of Operations for FY2010

Based on the fiscal 2010 lending plan, JFM made 8,655 loans to local governments in the amount of ¥1,832.9 billion with the consent or approval of the Minister for Internal Affairs and Communications or prefectural governors.

In particular, JFM made nine loans, for a total of ¥1.2 billion, to social welfare facilities that became eligible for JFM loans in fiscal 2010. We also provided 957 loans, in the amount of ¥766.2 billion, for Extraordinary Financial Countermeasures Funding to make up for a shortfall in “the Local Allocation Tax,” which is allocated to local governments by the national government every fiscal year. As such, we appropriately met the needs of local governments.

To fund these loans, JFM issued ¥900 billion* in JFM bonds (public offering bonds), ¥400 billion* in bonds underwritten by the Pension Fund Association for Local Government Officials and ¥735.7 billion* in government-guaranteed bonds to refinance the bonds of the Predecessor to smoothly manage the assets that JFM assumed from the Predecessor.

In addition, JFM formulated an implementation policy for its local government support operations and started to provide training for local government staff, administrative support, research and information services related to local governments’ fund-raising.

* face value

2. FY2010 Financial Statements

(1) Profit/loss statement

In fiscal 2010, JFM posted ¥539.9 billion in income (consisting primarily of ¥539.8 billion in interest income) and ¥292.4 billion in expenses (consisting primarily of ¥283.1 billion in interest expenses). As a result, ordinary income amounted to ¥247.5 billion in fiscal 2010.

Pursuant to the relevant laws, part of the income generated by refinancing bonds is provided to the Management Account reserve for interest rate volatility. As a result of such provisions and other measures, JFM's net income was ¥16.0 billion for fiscal 2010.

(2) Assets

As of March 31, 2011, JFM's total assets amounted to ¥23,226.7 billion, up ¥41.7 billion over fiscal 2009.

Assets increased mainly because loans increased ¥201.6 billion despite a ¥159.5 billion decrease in the total of securities and cash and bank deposits.

(3) Liabilities

As of March 31, 2011, JFM's total liabilities stood at ¥23,157.4 billion, up ¥33 billion over fiscal 2009.

Although bonds decreased ¥207.2 billion, the total of the reserve for interest rate volatility and the Management Account reserve for interest rate volatility increased by ¥245.4 billion.

(4) Net assets

Net income of the General Account of ¥8.0 billion was posted as "General Account surplus reserve" and net income of the Management Account of ¥8.0 billion was posted as "Management Account surplus reserve," resulting in total assets of ¥69.3 billion as of March 31, 2011.

(Refer to page 15 for the General Account and the Management Account.)



Management Plan for FY2011

Review of Operations

1. Loan Amounts

JFM's lending plan is formulated based on the amounts of local government borrowing for which the consent or approval is scheduled to be given by the Minister for Internal Affairs and Communications or prefectural governors under the Local Government Borrowing Program (LGBP) FY2011. A JFM fund of ¥1,893 billion has been earmarked in LGBP for fiscal 2011, down ¥266 billion from a year earlier.

Based on the above, the planned loans for fiscal 2011 amount to ¥1,843.1 billion, down ¥90 billion from the preceding fiscal year.

Loan Amounts Planned by JFM

(Billions of yen)

	FY2011 (A)	FY2010 (B)	Increase/decrease (A) – (B) = (C)	Increase/ decrease ratio (C)/(B)
Planned Loan Amounts	1,843.1	1,933.1	△ 90.0	△ 4.7%

The JFM Fund under the Local Government Borrowing Program FY2011

(Billions of yen)

Item	FY2011 (A)	FY2010 (B)	Increase/decrease (A) – (B) = (C)	Increase/ decrease ratio (C)/(B)
JFM Fund	1,893.0	2,159.0	△ 266.0	△ 12.3%
Breakdown				
General Account–Related Loans	460.8	498.1	△ 37.3	△ 7.5%
Municipal Enterprise–Related Loans	742.2	804.9	△ 62.7	△ 7.8%
Refinancing Loans for Municipal Enterprise-related Projects	30.0	30.0	0.0	0.0%
Extraordinary Financial Countermeasures Funding	660.0	826.0	△ 166.0	△ 20.1%

2. Increasingly Diverse Fund-Raising Methods

For fiscal 2011, JFM plans to issue JFM bonds (public offering bonds) of ¥900 billion, which is the same amount as the previous fiscal year, and private placement bonds underwritten by the Pension Fund Association for Local Government Officials of ¥300 billion (¥400 billion for the previous fiscal year).

To secure stable fund-raising, JFM issues 10-year bonds every month. 10-year bonds account for approximately 40 percent of the bonds issued via public offering, and JFM also issues bonds flexibly with various terms and structures including five-year bonds and 20-year bonds.

To manage the assets from the Predecessor, JFM plans to issue government-guaranteed bonds of ¥710 billion.

Flexible Issuance Program (FLIP)

A program, akin to the MTN Program, to issue bonds of a certain range quickly and flexibly with flexible amounts and maturities to address the needs of investors brought in by securities companies

Euro Medium-Term Note (EMTN) Program

A program that enables the issuance of bonds with diverse structures, maturities, currencies and amounts in the euro markets

3. Risk Management and Internal Control

To maintain a sound and healthy financial standing and gain the solid confidence of the capital markets, JFM appropriately manages various risks including interest rate risks, as well as manages and evaluates internal control over our financial reports to ensure appropriate financial statements, etc.

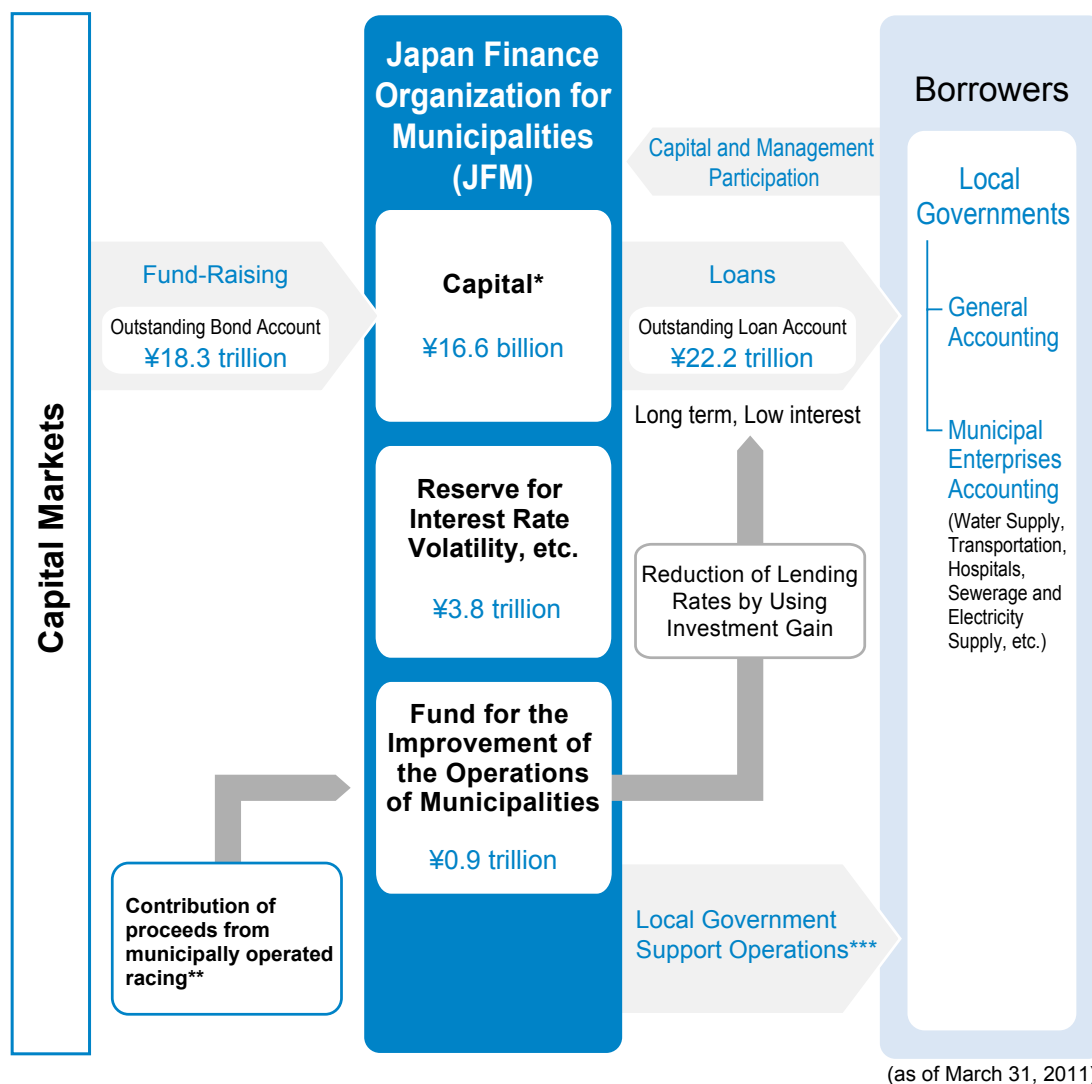
4. Local Government Support Operations

In fiscal 2011, JFM begins full-fledged development of local government support operations in four core areas—training for local government staff, research, administrative support for fund-raising and information services—so that local governments can accurately cope with changes in the environment for the issuance of local government bonds and effectively raise funds in the capital markets.

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Basic Flow of Lending and Fund-Raising Operations



Notes: * Capitalized by all governments in Japan

** Portion of revenues from municipally operated racing (horse, bicycle, motorcycle and speedboat)

*** Support for local governments' fund-raising in capital markets

Joint Fund-Raising Organization for Local Governments

Given that it takes a long time to recoup the capital expenditures for improvements to local governments' social infrastructure and the burden should be shared across generations, long-term fund-raising is usually desirable. However, local governments generally raise funds in the capital markets for terms of 10 years or less.

Because of this, we raise funds by issuing the JFM bonds, which are public-offering bonds that are not guaranteed by the national government. These bonds thus ensure a stable supply of long-term and low-interest funds to local governments, thereby providing valuable supplementary measures for each local government's fund-raising in the capital markets.

Sturdy Financial Foundation

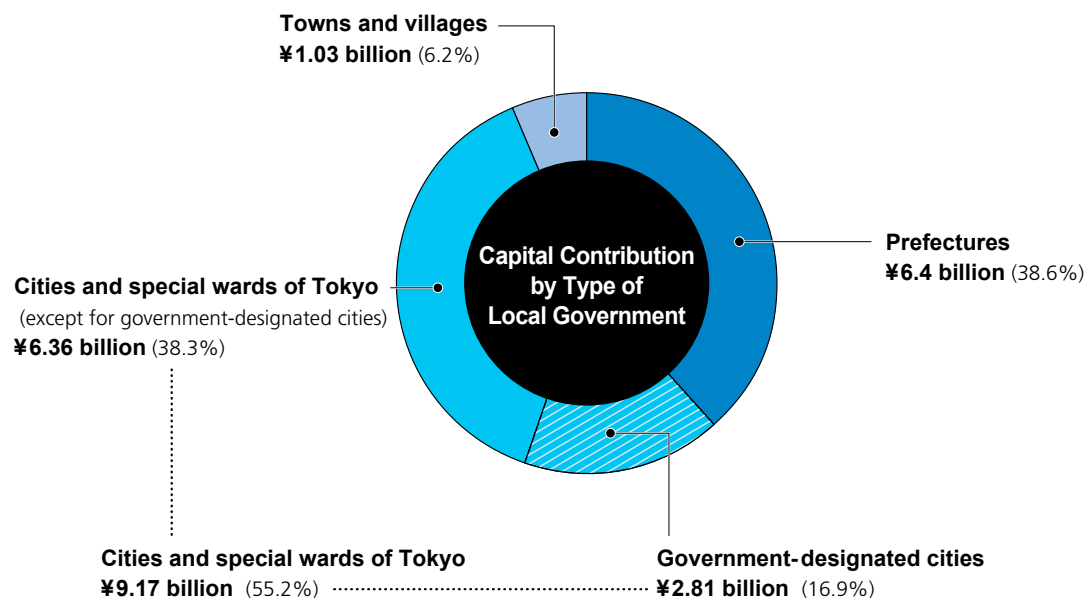
JFM primarily issues 10-year bonds to raise funds and extends long-term (maximum maturity of 30 years) loans to local governments, which creates a maturity gap between funding and lending. To cope with the interest rate fluctuation risk associated with the refinancing of bonds (a negative margin caused by the interest payable exceeding the interest receivable), JFM maintains the necessary financial foundation including the reserve for interest rate volatility.

Reduction of Lending Rates by Utilizing the Fund for the Improvement of the Operations of Municipalities

JFM receives a portion of the earnings from various racing events (horse, bicycle, motorcycle and speedboat) operated by local governments, which are directed to the Fund for the Improvement of the Operations of Municipalities. The investment gains from the fund is used to lower interest rates on loans provided for local governments.

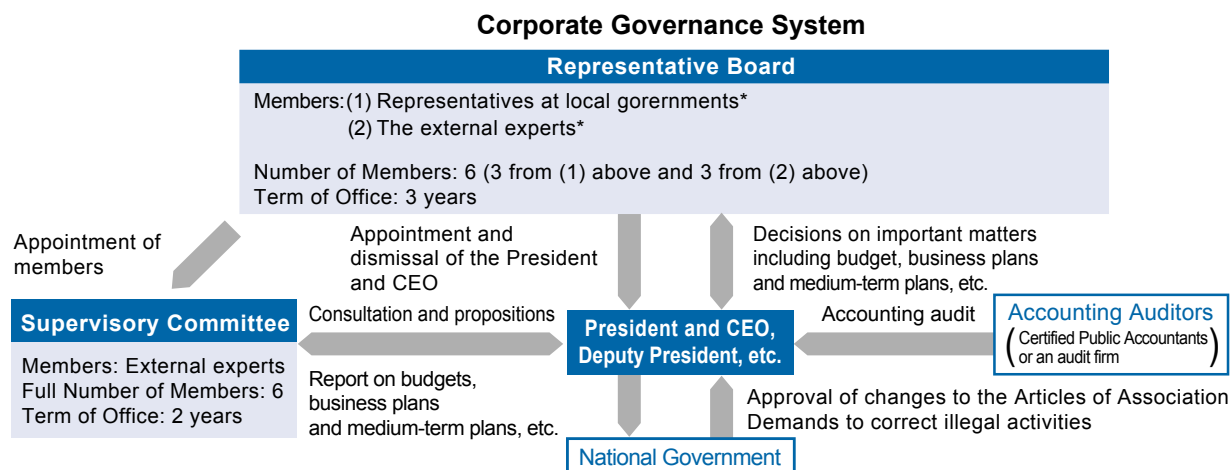
Given the fact that JFM was established by local governments as an autonomously managed organization, capital participation is limited to local governments.

As of March 31, 2011, JFM had received capital in the amount of ¥16,602.1 million from Japan's 1,797 local governments encompassing prefectures, cities, towns, villages and special wards of Tokyo.



Note: The total of contribution amounts does not add up exactly due to rounding off.

JFM ensures responsible corporate governance through the participation of external experts on the Representative Board and the Supervisory Committee and audits by the external accounting auditors.



Note: * elected by the National Association of the governors of prefectures, the mayors of cities, and the head of villages and towns

1. Representative Board

As an organization autonomously managed by local governments, JFM has the Representative Board as its supreme decision-making body.

To ensure independence and transparency, the Representative Board consists of one prefectural governor, one city mayor, one town/village mayor and three members from among experts in local administration, 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. As 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 address illegal activities.

Representative Board (as of April 1, 2011)

Representatives at Local Governments

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

External Experts

Junko Obata (Chairperson of the Juries Doctor Program, Graduate School of Law, Sophia University)
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)

* denotes the Chairperson.

2. Supervisory Committee

Given that JFM, a lender of funds, was founded by local governments, which are also its borrowers, highly transparent management that incorporates the objective and unbiased opinions of external parties and responsible corporate governance is vital. To establish such a managerial structure, the Supervisory Committee has been in place as a deliberative committee comprising external experts.

The Representative Board appoints the members of the Supervisory Committee from among experts in local administration, economics, finance, law or accounting, and other experts in the academic world.

The Supervisory Committee has the function of monitoring the operations of JFM and may offer its opinions on important matters related to JFM's operations including budgets, settlement of accounts and business plans, etc. The Committee may also, if necessary, request that the President and CEO report on those matters. The President and CEO must respect and report the Committee's opinions to the Representative Board.

Supervisory Committee Members (as of April 1, 2011)

Takuya Kayamori

(Director, JIJI PRESS LTD.)

Osamu Kurihara

(Counsel, Nishimura & Asahi)

Yukiko Shinozaki

(Representative Director, URBAN LIFE
RESEARCH INSTITUTE)

Yutaka Suzuki

(Professor, Graduate School of Professional
Accountancy, Aoyama Gakuin University,
Certified Public Accountant)

Mari Nishino

(Professor Emeritus, Meiji University)

Yoshitsugu Hayashi*

(Professor, Kwansei Gakuin University)

* denotes the Chairperson

3. Audits by the External Accounting Auditors

As JFM raises funds in the capital markets, the 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.

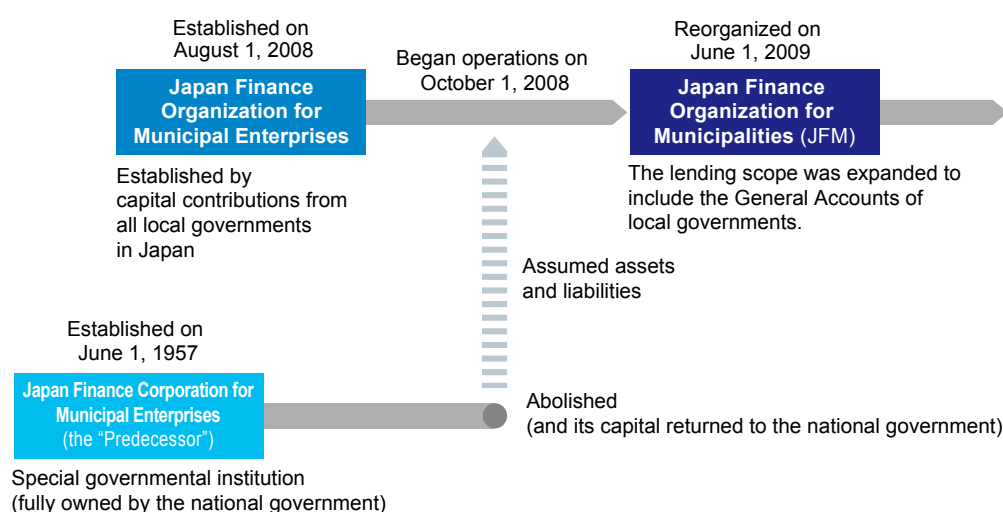
From this viewpoint, JFM is required to have its financial statements and statement of accounts audited not only by corporate auditors but also by external accounting auditors (Certified Public Accountants or an audit corporation) appointed by the Representative Board.

The Japan Finance Organization for Municipalities (JFM) was established on August 1, 2008, with capital contributed by all local governments in Japan (prefectures, cities, towns, villages and special wards of Tokyo) as a joint fund-raising organization to fund local government. JFM began operations after assuming the assets and liabilities of the Predecessor on October 1, 2008.

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

New loans made and bonds issued since JFM's operations began are accounted for in the General Account of JFM, whereas operations to administer loans carried over from the Predecessor are accounted for in the Management Account, thereby classifying each accounting.

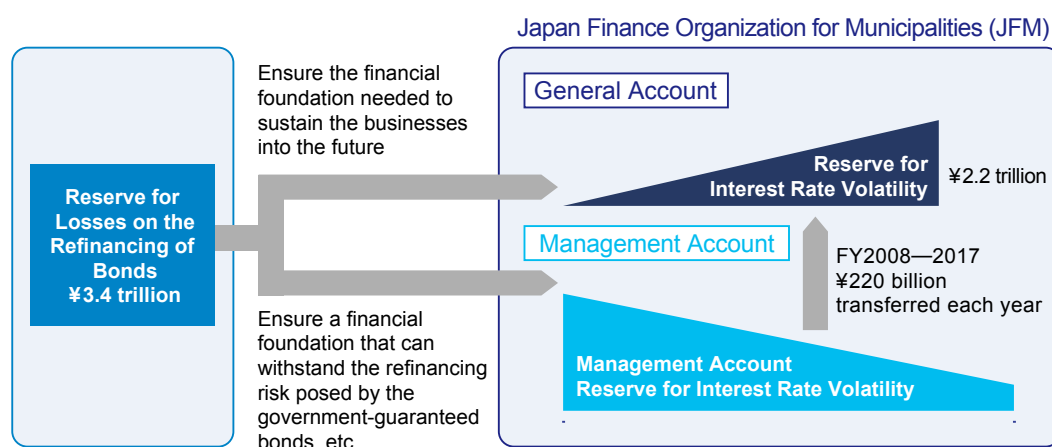
With regard to the bonds necessary for refinancing government-guaranteed bonds of the Predecessor in the Management Account, the national government can guarantee such bonds. To carry out management operations for the assets from the Predecessor, JFM formulates the Management Plan for the Assets from the Predecessor for each fiscal year under the approval of the Minister for Internal Affairs and Communications and the Minister of Finance.



When JFM was founded, it assumed the Reserve for Losses on the Refinancing of Bonds, etc., in the amount of approximately ¥3.4 trillion to ensure its future stable management.

Of this, the ¥2.2 trillion needed to ensure the future continuity of JFM's operations was to be transferred to the General Account in equal installments over 10 years, with the remainder to be transferred to the Management Account to ensure a sufficient financial foundation to appropriately manage the loans that JFM assumed from the Predecessor and the bonds of the Predecessor that JFM has assumed and prepare for the refinancing risk of the government-guaranteed bonds.

In accordance with the Japan Finance Organization for Municipalities Law, if any assets remain when the asset management operations of the Predecessor are completed and the Management Account is closed, those assets shall be returned to the national treasury.



Note: Even before the Management Account is closed, in the event that the businesses of JFM are determined to have been executed smoothly in light of the condition of the management of JFM, the Minister for Internal Affairs and Communications and the Minister of Finance shall, if the management account reserves for interest rate volatility, etc. are determined to exceed the amount necessary for the smooth operation of the asset management operation of the Predecessor in the future, cause the amount that is determined to be in excess to belong to the national treasury.

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- Provide loans as “Public Funds” as designated in the Local Government Borrowing Program.
- Provide long-term and low-interest funds to local governments to efficiently and effectively complement their fund-raising in capital markets, thereby contributing to the sound fiscal management of local governments, as well as the promotion of the welfare of people.

JFM also conducts necessary and appropriate credit checks for all loans.

1. Recipients of Loans

JFM provides loans exclusively to local governments.

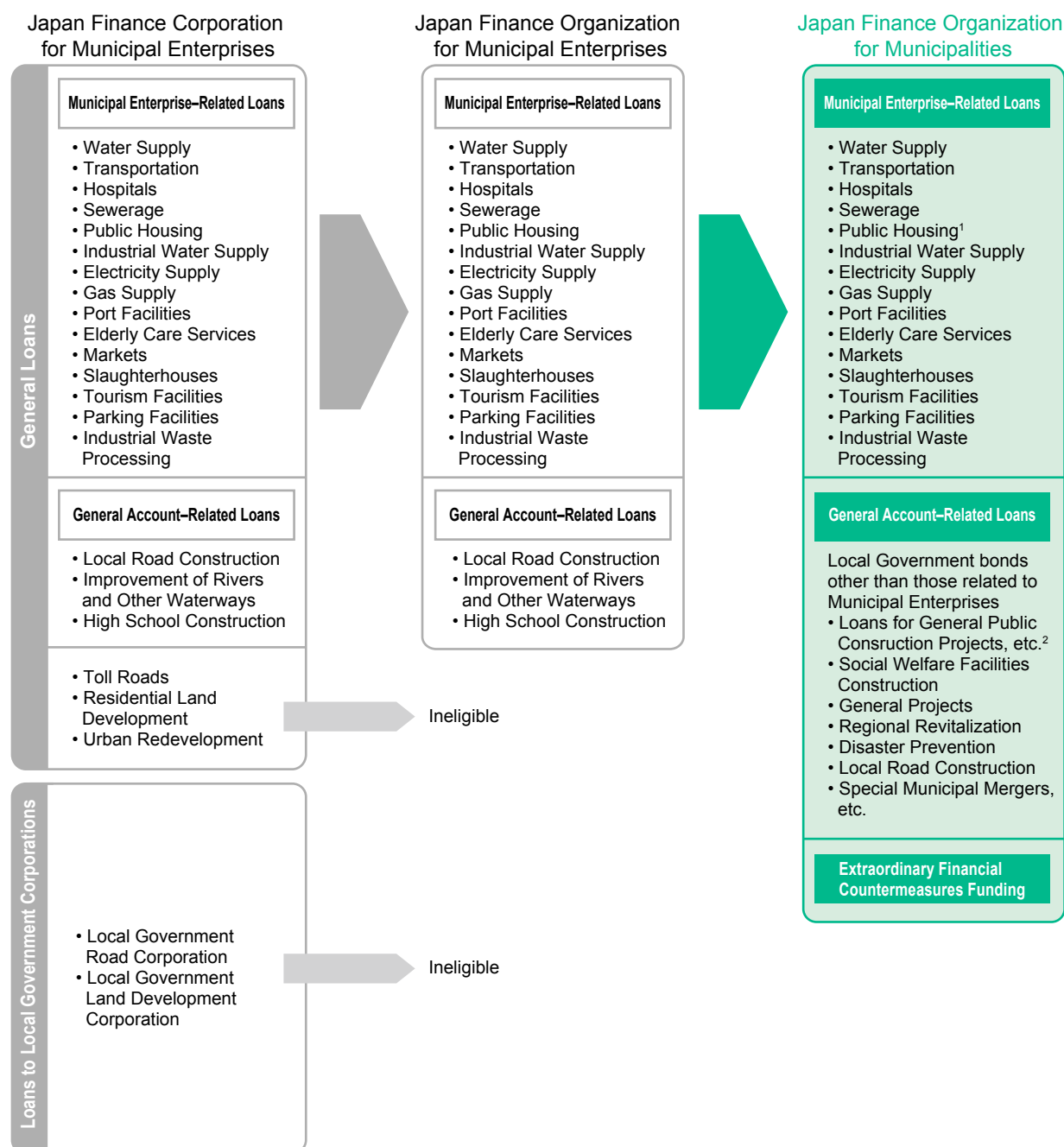
The Predecessor provided loans for 21 business categories and local government corporations. When JFM started operations in October 2008, the number of business categories was reduced to 18 and lending to local government corporations was discontinued.

As a result of the reorganization in June 2009, the businesses/projects that had previously been eligible mainly for Municipal Enterprise-related loans also became eligible for JFM's General Account-related loans.

Specifically, in fiscal 2009, the Regional Revitalization, Disaster Prevention and Special Municipal Merger projects and Extraordinary Financial Countermeasures Funding became eligible for JFM loans. In fiscal 2010, JFM made the construction of social welfare facilities eligible. In fiscal 2011, General Public Construction Projects, etc., have become eligible.

JFM will continue to meet the financing needs of local governments in a timely and appropriate manner.

Transition of Lending Scope



Notes:

1. The Public Housing business is defined as "Municipal Enterprises" in the Japan Finance Organization for Municipalities Law.
2. General Public Construction Projects, etc., have become eligible, effective in fiscal 2011.

2. Types of Loans

JFM provides two types of loans as below.

1) General Loans: long-term loans to local governments at low interest rates.

These loans are further classified into three types: “Long-Term Loans”; “Loans with Pre-Approval,” which are provided as bridge loans to cover the period up to the disbursement of Long-Term Loans for projects for which consent or approval is assured; and “Short-Term Loans” to be repaid within the same fiscal year.

2) Entrusted Loans: loans entrusted by Japan Finance Corporation.

3. Interest Rates of Loans

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

The standard lending rate represents the rate at which the discounted present value of the cash flows of the funds raised to make the loans equals the discounted present value of the cash flows to be generated by those loans with their respective terms to maturity, grace period for principal and repayment methods.

The special lending rate at a discount on the standard rate (0.3 percentage point below the standard rate) and the extra-special lending rate (0.35 percentage point below the standard rate) are applied to residential infrastructure reinforcement projects and Extraordinary Financial Countermeasures Funding. The trend of loan interest rates for fiscal 2010 is shown on the next page. During this period, the special lending rate and the extra-special lending rate were at the same level as the rates of the Fiscal Loan Fund provided by the national government.

This is because 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 Lending Rates during FY2010

Month/Year Lending Rate Type	April 2010	May 2010	June 2010	July 2010	August 2010	September 2010
Lending Rate Reset Date (Month/Day)	4/21	5/25	6/28	7/28	8/25	9/28
Standard Lending Rate (%)	2.10	2.05	1.95	1.80	1.65	1.85
Special Lending Rate (%)	2.10	2.00	1.90	1.80	1.60	1.80
Extra-Special Lending Rate (%)	2.10	2.00	1.90	1.80	1.60	1.80
Lending Rate of the Fiscal Loan Fund (%)	2.10	2.00	1.90	1.80	1.60	1.80

Month/Year Lending Rate Type	October 2010	November 2010	December 2010	January 2011	February 2011	March 2011
Lending Rate Reset Date (Month/Day)	10/27	11/24	12/21	1/26	2/23	3/18
Standard Lending Rate (%)	1.75	1.85	2.05	2.00	2.05	→
Special Lending Rate (%)	1.70	→	1.90	→	→	→
Extra-Special Lending Rate (%)	1.70	→	1.90	→	→	→
Lending Rate of the Fiscal Loan Fund (%)	1.70	→	1.90	→	→	→

Notes:

1. The lending rates above represent fixed interest rates of a 30-year maturity loan with a 5-year grace period for principal.
2. Special lending rates and extra-special lending rates are the same because the minimum interest rates are set at a level equal to the interest rates for the Fiscal Loan Fund provided by the national government with the same conditions.

4. Maturities of Loans

The loan maturity, which is set according to the business category of the loan, was previously a maximum of 28 years (25 years on average). At the time of the reorganization in June 2009, the maximum term was extended to 30 years beginning with loans that were given consent or approval in fiscal 2009, thereby extending the loan maturities overall.

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

Business Categories of the JFM Lending			Loans for Fiscal 2011					
			Fixed Lending Rate		Adjustable Lending Rate (Note)			
			Maturity	Grace Period for Principal	Maturity	Grace Period for Principal		
General Account–Related Loans	Public Projects, etc.		Within (Years) 20	Within (Years) 5	Within (Years) 20	Within (Years) 5		
	Public Housing		25	5	25	5		
	Social Welfare Facilities Construction		20	3	20	3		
	Self-Funded Projects	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 and Government-Designated Cities		—	—	30	3		
	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

Note: Lending rates are reviewed every 10 years.

5. Credit Check System

JFM conducts the following necessary and appropriate credit scrutiny for all loans on the assumption that the details, legality and probability of repayment of each project have been confirmed during the consultation and checking process to obtain consent/approval of 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 as stipulated in the Act on Assurance of Sound Financial Status of Municipalities (Law No. 94 of 2007) and, if necessary, conduct interviews with the staff of prefectures in charge of cities, towns and villages within their respective areas.
- (2) Review loan applications submitted by local governments to determine if conditions are met such as whether consent or approval was obtained for the loan, any required resolution of the local assembly for borrowing and appropriation in the budget.
- (3) After loans are made, JFM staff visit borrowers for which a loan was provided and conduct an onsite credit review to verify the use of funds, the operational status of the project/business and the financial and operational status of the borrower(s).

1. Check of Local Governments/ Municipal Enterprises Applying for Loans

- Check financial and operational status
- Conduct interviews

2. Verification at the Time of Lending

- Verify the consent or approval for the loan amount
- Check the loan application documents

Disbursement of the Loan

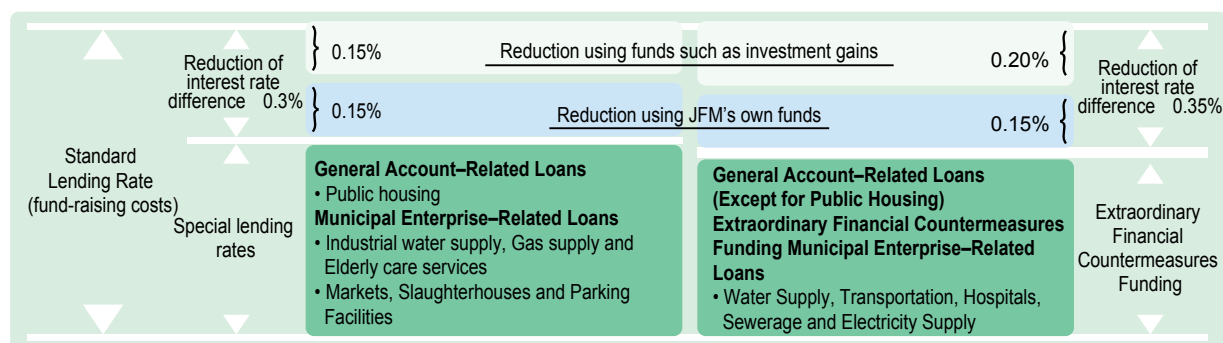
3. Subsequent Review

Conduct onsite credit review

6. Lending Rate Reduction

The interest rate differentials between special lending rates/extra-special lending rates and standard lending rates are compensated for by investment gains in the Fund for the Improvement of the Operations of Municipalities, which includes contributions of a portion of the proceeds from municipally operated racing and JFM's own funds.

From the viewpoint of equal profit sharing among all local governments, local governments that operate various races (horse, bicycle, motorcycle and speedboat) contribute a portion of the earnings to the Fund for the Improvement of the Operations of Municipalities, the investment gains from which is used to reduce loan interest rates.



Note: The minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund, which is provided by the national government with the same repayment terms.

The special lending rate and the extra-special lending rate have been set at the same level as the interest rates for the Fiscal Loan Fund since JFM was established.

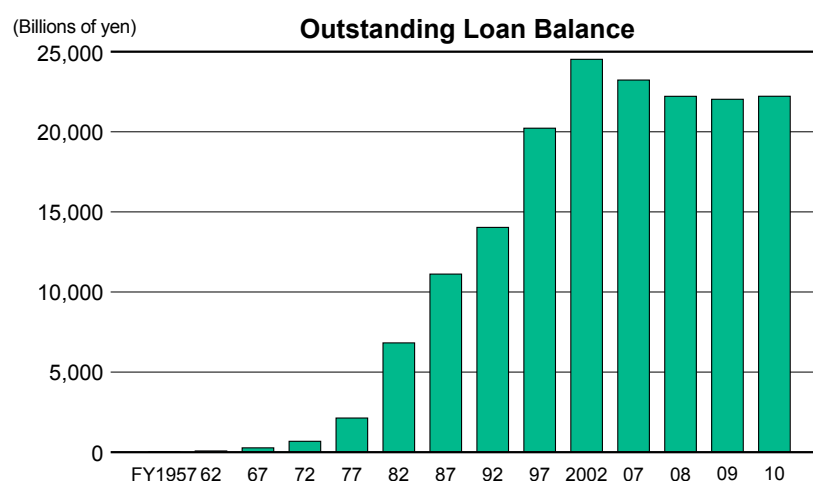
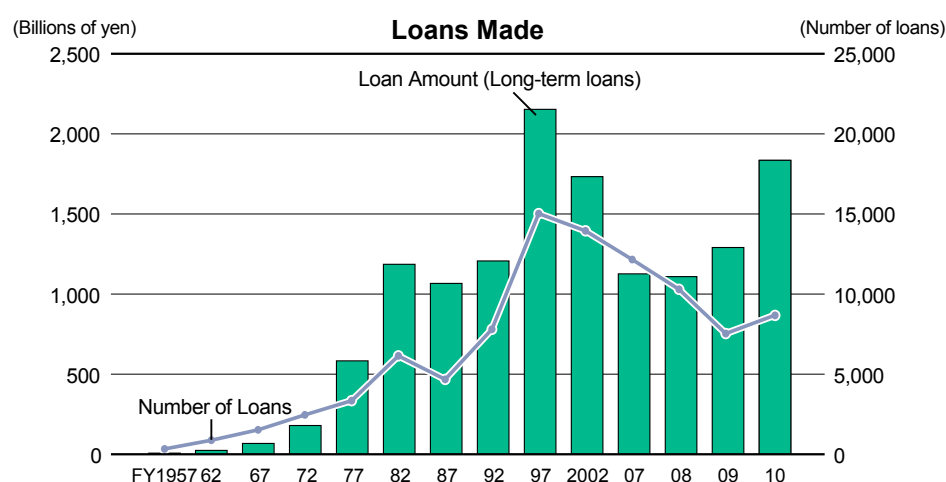
7. Review of Lending Operations

(1) Track Record of Lending Operations

At the Predecessor, the outstanding loan balance exceeded ¥1 trillion in 1974, ¥5 trillion in 1981, ¥10 trillion in 1986, ¥20 trillion in 1997 and ¥25 trillion in 2004. In October 2008, JFM assumed loans totaling ¥22,458.6 billion.

As of March 31, 2011, outstanding loans amounted to ¥22,231.8 billion.

As of March 31, 2011, the number of local governments that have borrowed from JFM totaled 2,030, including all of the prefectures. Cities and special wards of Tokyo had the highest balance at ¥15,661.0 billion and accounted for 70% of the total outstanding loan balance. Next came prefectures with a balance of ¥4,151.8 billion, or 19% of the total balance, followed by towns, villages, local government associations and others with a balance of ¥2,419.0 billion and accounting for 11% of the total balance.



(2) Track Record of Lending Operations by Business Type

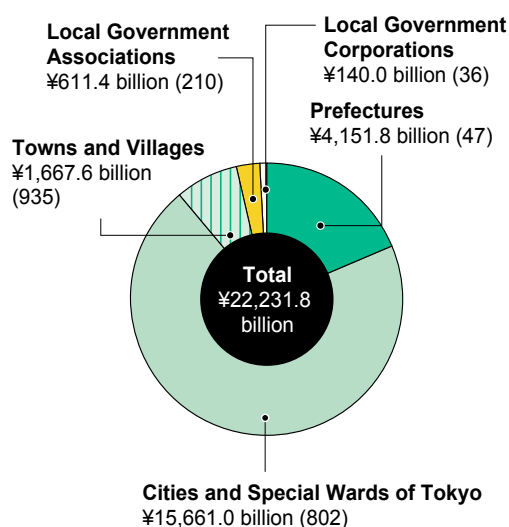
Looking at the past lending operations by the Predecessor by business category, Water Supply, Electricity Supply and Port Facilities were the primary businesses/projects for loans from the mid-1950s to the mid-1960s. The trend then changed, and the primary businesses/projects shifted to Water Supply, Regional Development and Sewerage Projects from the mid-1960s to the mid-1970s. From the mid-1970s to the mid-1980s, the major businesses/projects for JFM loans were Sewerage, Water Supply and three types of Special Projects (Local Road Construction, Improvement of Rivers and Other Waterways and High School Construction). Recently, Sewerage and three types of Special Projects have accounted for a high share of the total.

The General Account-related businesses and Extraordinary Financial Countermeasures Funding became eligible for JFM loans in fiscal 2009, thereby significantly changing the breakdown by business.

As of March 31, 2011, the outstanding loan balance was ¥22,231.8 billion, of which the Sewerage business accounted for the largest share at 40%, followed by the three types of Special Projects at 19% and Water Supply at 18% of the total.

Outstanding Loan Balance by Type of Borrower (excluding entrusted loans)

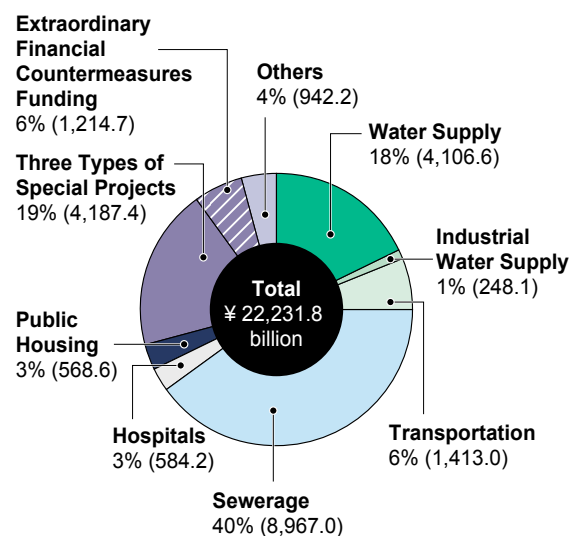
Note: Figures in parentheses show the numbers of borrowers.



(as of March 31, 2011)

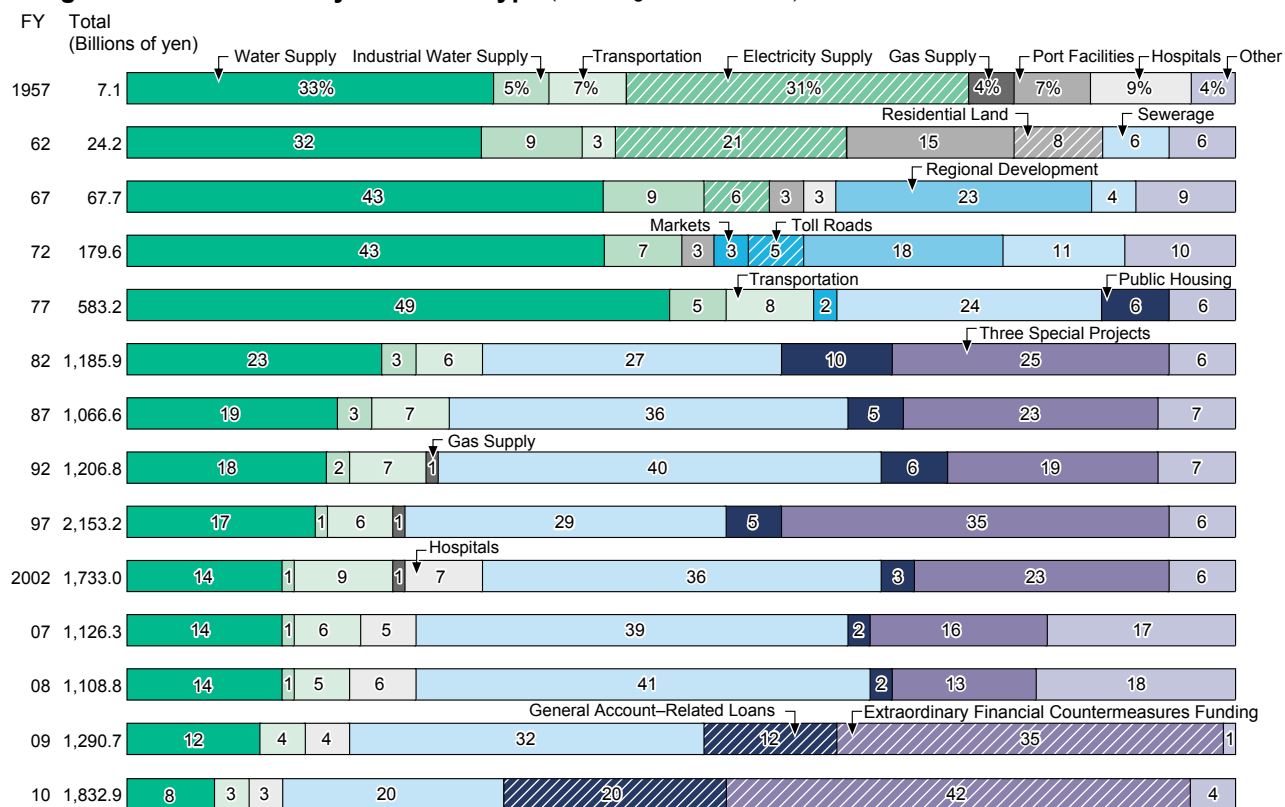
Outstanding Loan Balance by Business Type (excluding entrusted loans)

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



(as of March 31, 2011)

Long-Term Loans Made by Business Type (excluding entrusted loans)



Notes:

1. Loans with pre-consent or approval are accounted for in the year when they are converted into long-term loans.
2. "Other" includes refinancing loans for municipal enterprise-related projects.
3. Figures may not add up exactly due to rounding off.
4. General Account-Related Loans include loans for Public Housing and three types of Special Projects.

8. Lending Operations for FY2010

(1) Lending Operations FY2010

In fiscal 2010, JFM made loans totaling ¥1,832.9 billion. The loans for Extraordinary Financial Countermeasures Funding were ¥766.2 billion, which accounted for 41.8% of the total, followed by the Sewerage business in the amount of ¥372.2 billion, a 20.3% share of the total. In addition, loans were made for the Special Municipal Merger Business and other General Account–related businesses/projects in the amount of ¥361.4 billion, which accounted for 19.7% of the total.

(2) Lending Operations by Business Type

Public Housing Business

Public housing constructed and managed by local governments totaled approximately 2.17 million units at the end of fiscal 2009.

The total amount of loans extended to the Public Housing Business was ¥16.2 billion in fiscal 2010.



City Housing Karo Estate (Tottori City, Tottori Prefecture)

General Projects

General Projects represent those stipulated as eligible under Article 5 of the Local Finance Law (Law No. 109 of 1948) and, at the same time, are not covered under other specific projects in the Local Government Borrowing Program. The projects that were previously eligible for loans, including the river (small- and medium-sized river) improvement projects and high school construction (such as reconstruction of old high school buildings) are now classified as General Projects in the Local Government Borrowing Program in fiscal 2009.

Loans extended to General Projects for fiscal 2010 amounted to ¥6.2 billion.



Aomori Higashi High School (Aomori Prefecture)

Note: The number of projects for each type of business is for fiscal 2009. The pictures are examples of loan projects and may not represent projects for which loans were generated in fiscal 2010.

Regional Revitalization Projects

The Regional Revitalization Projects represents basic infrastructure development projects conducted by local governments for regional revitalization.

Loans extended to these projects amounted to ¥10 billion in fiscal 2010.

Disaster Prevention Projects

Disaster Prevention Projects represent those implemented by local governments to promote the development of disaster-resistant, secure and safe communities.

Loans extended to the Disaster Prevention Projects amounted to ¥18.6 billion in fiscal 2010.

Special Municipal Merger Projects

The Special Municipal Merger Projects represents projects implemented by merged local governments based on the municipal construction plan, projects that are necessitated due to the merger of municipalities based on the prefecture's vision and transportation infrastructure projects conducted by prefectural governments in merged municipalities.

Loans extended to the Special Municipal Merger Projects amounted to ¥182.9 billion in fiscal 2010.

Local Road Construction Projects

These are projects carried out by local governments without government subsidy to build prefectural, municipal, farm and forest roads. Former local road construction projects (construction of local roads as community roads) that were eligible for our loans were reclassified as the Local Road Construction Business in the fiscal 2009 Local Government Borrowing Program.

Loans extended to these projects amounted to ¥126.2 billion in fiscal 2010.



Town Road Uchiike-Minakuchi Line (Hino City, Shiga Prefecture)

Extraordinary Financial Countermeasures Funding

This represents the fund-raising for local governments to cover shortfalls in the Local Allocation Tax pursuant to the provisions of the Local Finance Law.

Loans extended to these projects amounted to ¥766.2 billion in fiscal 2010.

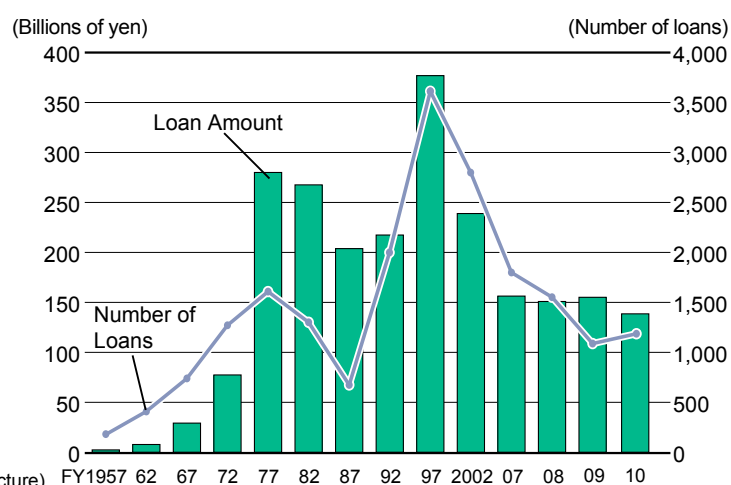
Water Supply Business

The Water Supply Business (including small-scale water supply) managed by local governments totaled 2,175 projects and provided about 18.7 billion cubic meters of water annually for approximately 124.93 million people.

The total amount of loans extended to the Water Supply Business was ¥138.3 billion in fiscal 2010.



Oigawa Wide Area Waterworks Association (Shizuoka Prefecture)



Transportation Business

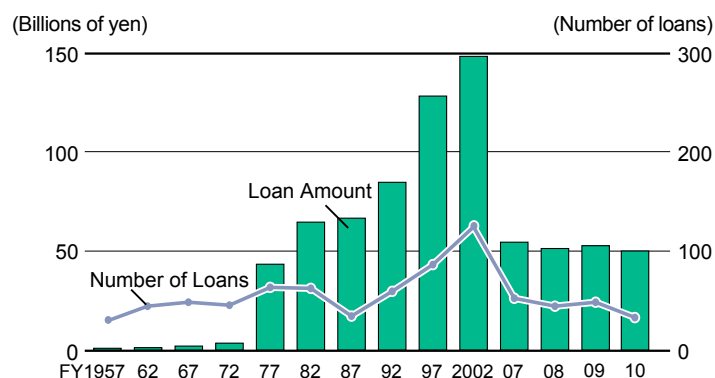
The Transportation Business managed by local governments totaled 100 projects, which were operated by 82 entities, and public transportation is used annually by about 4 billion people (10.88 million people on an average daily basis).

Of all passengers using transportation systems, 24.1% use publicly managed bus services and 73.1% use publicly managed subway services on an annual basis.

The total amount of loans extended to the Transportation Business was ¥50.0 billion in fiscal 2010.



City Loop Line Tramway (Toyama City, Toyama Prefecture)



Hospitals Business

Hospital Projects managed by local governments totaled 659 with 916 hospitals, which included 874 general hospitals, one tuberculosis hospital and 41 mental hospitals.

The total amount of loans extended to these projects was ¥53.4 billion in fiscal 2010.



Mie Prefectural Mental Medical Center (Mie Prefecture)

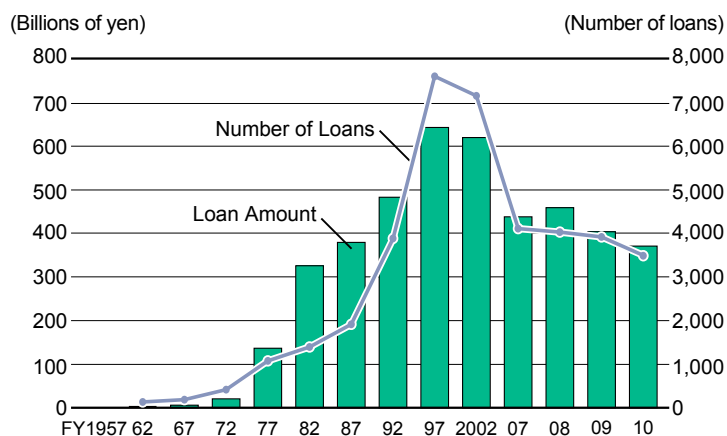
Sewerage Business

The Sewerage Business managed by local governments totaled 3,635 projects, serving areas with a population of 99.45 million, or 76.9% of the nation's total population at the end of fiscal 2009.

The total amount of loans extended to these projects was ¥372.2 billion in fiscal 2010, or about 20% of long-term loans.



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



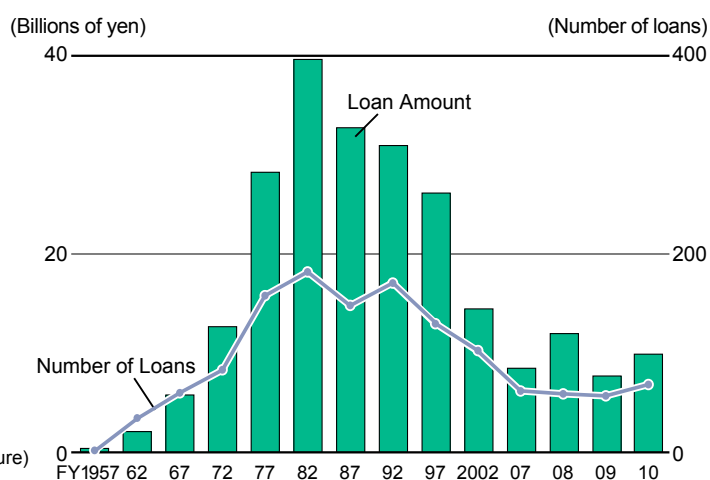
Industrial Water Supply Business

The Industrial Water Supply Business managed by local governments totaled 152 projects with 261 facilities that provided approximately 4.5 billion cubic meters of water annually for 6,166 factories and other facilities.

The total amount of loans extended to the Industrial Water Supply Business was ¥9.9 billion in fiscal 2010.



Ikuta Water Purification Plant (Kawasaki City, Kanagawa Prefecture)



Electricity Supply and Gas Supply Business

The Electricity Supply Business managed by local governments totaled 67 projects with 366 power plants, which had a maximum power output of 2.9 million kW and generated 9.2 billion kWh annually. Local governments operate 32 gas supply businesses, which provide 36.9 billion MJ of gas extended to 0.91 million households annually.

The total amount of loans for the Electricity Supply and Gas Supply Business was ¥5.1 billion in fiscal 2010.



Jinemon-yosui Power Generating Station (Toyama Prefecture)

Port Facilities Business

The Port Facilities Business managed by local governments totaled 101 projects, which included reclamation, cargo-handling machines, sheds, warehouses, lumberyards and tugboats.

The total amount of loans extended to the Port Facilities Business was ¥4.0 billion in fiscal 2010.



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

Elderly Care Services Business

The Elderly Care Services Business managed by local governments totaled 603 projects. JFM made loans for the construction of daycare centers, intensive care nursing homes and other facilities for the elderly, which are run on nursing-care benefits, and for the machines and equipment required at those facilities.

The total amount of loans extended to the Elderly Care Services Business was ¥0.3 billion in fiscal 2010.



Mutagawaraguchi Welfare Facility "Otozure" (Hagi City)

Markets Business

The Markets Business managed by local governments totaled 175 projects, which handled 7.77 million tons of vegetables, 2.82 million tons of fruit, 4.03 million tons of seafood and 0.79 million tons of meat and other products. These projects contributed to the modernization of the distribution system of daily commodities.

The total amount of loans extended to the Markets Business was ¥3.8 billion in fiscal 2010.



Central Wholesale Market (Morioka City, Iwate Prefecture)

Slaughterhouse Business

The Slaughterhouse Business managed by local governments totaled 74 projects, which processed 4.23 million heads of cattle and other animals in fiscal 2009.

The total amount of loans extended to the Slaughterhouse Business was ¥0.2 billion in fiscal 2010.



Meat Trading Center (Kanazawa City, Toyama Prefecture)

Tourism Facilities Business (including the Industrial Waste Disposal Business)

The Tourism Facilities Business managed by local governments totaled 370 projects, including 141 recreation and accommodation facilities, 59 ropeways and 170 other facilities (e.g., hot springs, castles, museums, zoos, botanical gardens).

The total amount of loans extended to the Tourism Facilities Business was ¥0.3 billion in fiscal 2010.



Asahiyama Zoo (Asahikawa City, Hokkaido Prefecture)

Parking Facilities Business

The Parking Facilities Business managed by local governments totaled 234 projects with 694 facilities, which had a total capacity of approximately 124,000 vehicles, serving an average of about 174,000 cars per day.

The total amount of loans extended to the Parking Facilities Business was ¥0.8 billion in fiscal 2010.



Underground Parking Lot at the East Exit of Kawaguchi Station (Kawaguchi City)

9. Review of Entrusted Loans for FY2010

JFM makes loans for Public Forest Improvement Projects and Grasslands Development Projects, which are entrusted to JFM by Japan Finance Corporation.

The total amount of entrusted loans made in fiscal 2010 was ¥2,826 million, including ¥2,715 million for Public Forest Improvement Projects and ¥111 million for Grasslands Development Projects.

Category	Public Forest Improvement Projects		Grasslands Development Projects		Total		
	Number of Loans	Amount (Millions of yen)	Number of Loans	Amount (Millions of yen)	Number of Loans	Amount (Millions of yen)	Component Ratio(%)
Prefectures	56	1,814	3	52	59	1,866	66.0
Cities	87	618	2	10	89	628	22.2
Towns and villages	58	284	3	49	61	333	11.8
Associations and others							
Total	201	2,715	8	111	209	2,826	100.0

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

The outstanding amounts of entrusted loans for 24,534 Public Forest Improvement Projects and 1,469 Grasslands Development Projects were ¥329,955 million and ¥20,218 million, respectively, totaling ¥350,173 million for 26,003 projects.

10. Lending Plan for FY2011

The Local Government Borrowing Program FY2011 was formulated to address the shortfall in local revenue sources in the severe environment for local governments' finance to ensure the necessary funding. Moreover local governments could provide necessary services for the region and conduct focused investments in priority fields, while continuing to promote the narrowing of priority areas in which to direct public funds and local government funding in the markets.

As a result, under the Local Government Borrowing Program FY2011, the loan amounts totaled ¥13,734.0 billion (down ¥2,163.6 billion, or 13.6%, compared with the loans made in fiscal 2010), which included JFM loans for ¥1,893.0 billion.

Based on the Local Government Borrowing Program FY2011, JFM plans to make general loans in the total amount of ¥1,843.1 billion in fiscal 2011. This includes loans for ¥438.7 billion for General Account-related loans, ¥729.8 billion for Extraordinary Financial Countermeasures Funding, ¥644.6 billion for Municipal Enterprise-Related Projects and ¥30 billion for refinancing loans for municipal enterprise-related projects.

In addition, JFM plans to make entrusted loans in the amount of ¥2.7 billion.

11. Prepayment without Penalty

In a provision effective from fiscal 2007 to fiscal 2009, the national government took measures to reduce local governments' debt burden in the amount of ¥5 trillion, of which the Predecessor implemented such measures in the amount of about ¥1,270 billion in fiscal 2007 and 2008. However, in light of the severe stagnation of local economies, the national government has decided to extend this provision by three years as part of its fiscal 2010 local government finance measures.

This measure allows local governments, if they establish a "Financial Soundness Plan" or a "Public Enterprise Management Reform Plan" and carry out thorough administrative and management reforms, to make a prepayment without penalty on ¥1.1 trillion in public funds (loans from the former Trust Fund Bureau, the former Postal Life Insurance and the Predecessor) for a three-year period from fiscal 2010. The Prepayment without Penalty measure is intended to reduce local governments' burden on debt with high interest rates.

Responding to the national government's decision to reduce local governments' debt burden, JFM will accept a prepayment without penalty on a total of up to ¥320 billion in loans (including refinancing) over the three-year period from fiscal 2010 through fiscal 2012 for local governments endorsed by the national government on condition that such municipalities implement administrative and management reforms. In fiscal 2010, JFM allowed a prepayment without penalty on loans of approximately ¥130.2 billion, of which ¥67.1 billion was for refinancing loans for municipal enterprise-related projects.

For fiscal 2011, JFM will allow a prepayment without penalty on loans of approximately ¥100.0 billion, of which ¥30.0 billion is for refinancing loans for municipal enterprise-related projects.

12. Measures to Address the Great East Japan Earthquake

The Great East Japan Earthquake, which occurred on March 11, 2011, caused serious damage to the northeastern and surrounding areas. At JFM, we quickly established a countermeasure headquarters headed by the President and CEO, implemented specific measures to support the local governments in the afflicted areas.

On March 15, we set up an office to address consultation from afflicted local governments with regard to funding as well as repayment methods, that is open seven days a week including national holidays. We also revised the lending system for short-term loans to accurately meet the needs of afflicted organizations.

Given the fact that the disaster occurred immediately before the regular repayment date, which was March 22, under the internal rules of JFM and the special provision of the loans, JFM extended the repayment date to September 20, 2011, which is the next regular repayment date, for 32 local governments that had a problem with the repayment procedure due to the temporary malfunction of their administrative or financial system and/or damage to public infrastructure because of the disaster, in the total amount of principal and interest of ¥7,286.82 million.

Along with the recovery of the afflicted local governments' administrative function, repayments are also being made steadily. As of March 31, 2011, unpaid amounts of principal and interest were ¥2,543.44 million for 16 organizations, whereas as of May 31, 2011, unpaid amounts were reduced to ¥51.61 million for two organizations. The remainder is foreseen to be redeemed steadily.

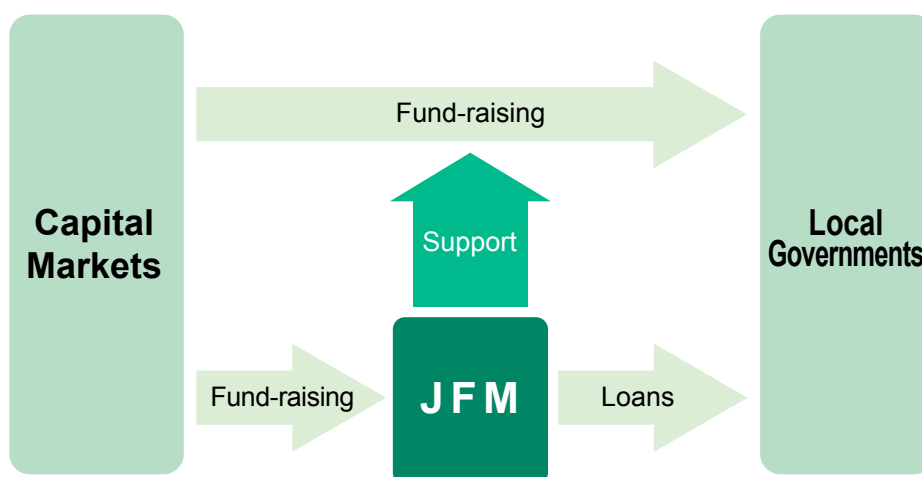
To support the restoration of local governments in the areas affected by the Great East Japan Earthquake, JFM wishes to fulfill its role through providing long-term and low-interest funds.

Harnessing its financial knowledge and experience gained in the capital markets, in partnership with related organizations, JFM provides the support to meet the needs of local governments to effectively raise funds in the capital markets. Our major support areas are training for local government staff, research, administrative support for fund-raising and related information services.

1. Basic Policy

JFM is a joint fund-raising organization of local governments that raises funds in the capital markets and as a core lender of public funds to local governments.

Harnessing its financial knowledge and experience gained in the capital markets, JFM provides the support to meet the needs of local governments so that they can efficiently raise funds in the capital markets.



2. Basic Framework of the Local Government Support Operations

(1) Framework of the Local Government Support Operations

The Local Government Support Operations is JFM's new business under the Japan Finance Organization for Municipalities Law enacted in 2007.

Toward the full-fledged development of the Local Government Support Operations beginning in fiscal 2011, we formulated the “Local Government Support Operations Implementation Policy” in October 2010. The Local Government Support Operations consist of training for local government staff, research, administrative support for fund-raising and information services. JFM provides the support to meet the needs of local governments.

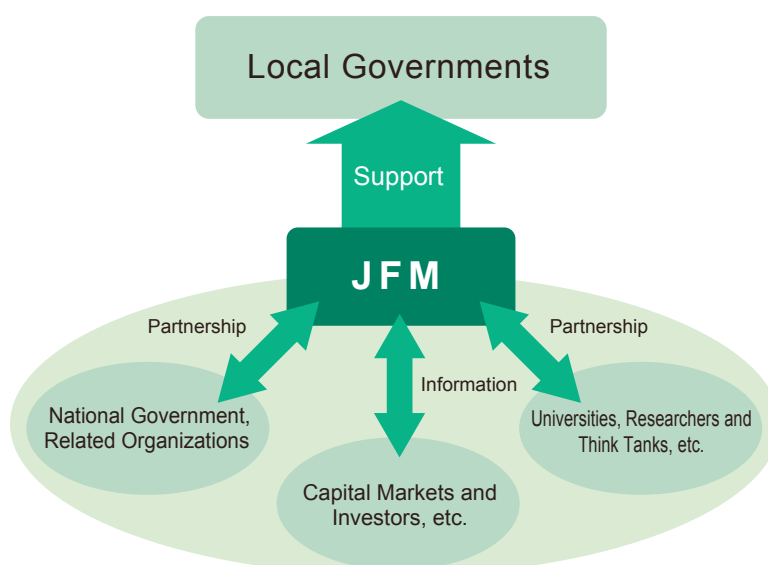
(2) Structure of Local Government Support Operations

JFM staff with work experience at private financial institutions in this section work as financial advisers to municipalities to meet the needs of those local governments that require professional financial knowledge.

In January 2011, we newly deployed a Chief Research Fellow to promote comprehensive research on the finances of local governments.

(3) Partnership with Related Organizations

JFM works in partnership with the national government, think tanks, universities, researchers and related agencies, thereby offering the support that local governments need.



3. System of the Local Government Support Operations

JFM's Local Government Support Operations consist of four core areas — training for local government staff, research, administrative support for fund-raising and information services.

(1) Training for Local Government Staff

We provide seminars not only on the basic knowledge of local finances, financing and accounting but also on fund-raising-related administrative skills and knowledge.

(2) Survey and Research

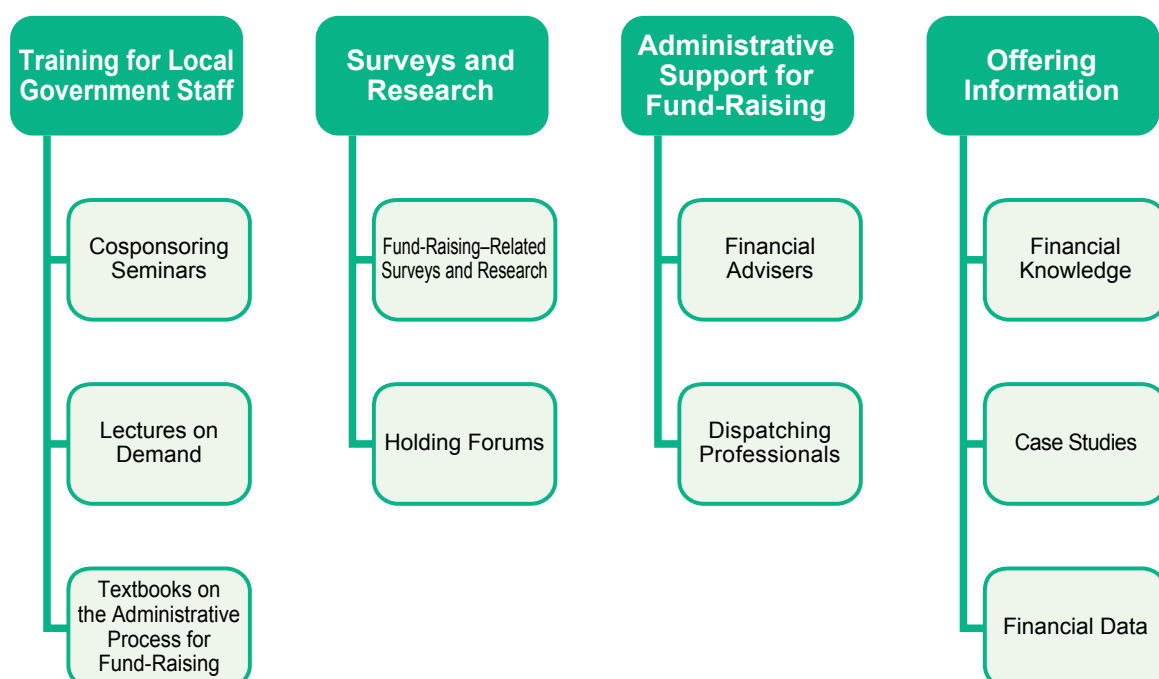
JFM conducts surveys and research on local governments' fund-raising, the results of which are fed back to local governments through our operations.

(3) Administrative Support for Fund-Raising

JFM staff with financial knowledge offer advice on fund-raising in response to the specific needs of local governments.

(4) Information Services

JFM offers financial knowledge and data, etc., and provides case studies on other local governments' fund-raising.



4. Outline of Operations

(1) Training for Local Government Staff

1) Cosponsoring Seminars

In cooperation with the Japan Academy for Municipal Personnel and the Japan Intercultural Academy of Municipalities, JFM holds seminars specializing in basic knowledge for fund-raising staff of local governments to enhance their fund-raising and management skills.

2) Lectures on Demand

JFM dispatches its staff to local governments to give lectures catered to the region's situation and the level of the audience.

3) Textbooks on the Administrative Process for Fund-Raising

JFM publishes textbooks about the basic knowledge of fund-raising for fund-raising staff.

(2) Surveys and Research

1) Fund-Raising–Related Surveys and Research

As a joint organization of local governments, JFM conducts surveys and research such as continual analyses of the funding of local governments and fixed-point observation that requires financial knowledge.

2) Holding Forums

JFM conducts comprehensive research activities concerning the administration and finances of local governments and continues to cosponsor forums with the University of Tokyo, the results of which are provided to local governments through its operations.

(3) Administrative Support for Fund-Raising

Financial advisors for municipalities with professional knowledge and experience offer support according to the specific needs of local governments.

With regard to the themes that require special knowledge, we dispatch professionals with sufficient knowledge and skills.

1) Advice

We offer professional advice to address questions and concerns about fund-raising. We also conduct analyses of market trends and offer information to meet clients' needs.

2) Participation in Seminars as an External Expert

When local governments engage in continuing surveys and research, forming specific work groups and holding seminars and workshops on particular themes related to fund-raising for a certain period, JFM participates in such seminars and workshops as an external expert.

3) Educational Training Support

To improve the financial ability of clients' fund-raising staff, JFM provides classroom-style training or one-on-one training.

We also lecture at the seminars for local organizations.

4) Information Liaison

In response to specific requests from local governments, JFM provides information on the case studies of fund-raising in a similar situation for the local government on condition that we obtain the relevant organization's permission to share such information.

5) Accumulation and Dispatch of Information

We store information obtained through specific administrative support for fund-raising and maintain a database, which is used in our Local Government Support Operations-related information services and offered widely through leaflets and other means.

6) Onsite Administrative Support—Administrative Support for the Issuance of Local Government Bonds Publicly Offered in the Markets with the Participation of the Residents

To help diversify local governments' fund-raising methods, we conduct the following businesses for local organizations that are new to the issuance of Local Government Bonds Publicly Offered in the Markets with the Participation of the Residents ("Bonds Publicly Offered to Residents").

A. Onsite Support for the Issuance of Bonds Publicly Offered to Residents

We dispatch municipal financial advisers who have worked for private financial institutions and are knowledgeable about the issuance of bonds such as those publicly offered to residents to provide meticulous support for the issuance of Bonds Publicly Offered to Residents.

B. Support for Public Relations and Other Costs Related to the Issuance of Bonds

We help organizations that receive onsite support for the issuance of bonds as mentioned above in terms of public relations and other costs for the issuance of Bonds Publicly Offered to Residents.

(4) Information Services

1) Financial Knowledge

Using seminars and other opportunities, based on the current reality of local governments, we provide easy-to-understand explanations on financial knowledge and terminology that fund-raising local government employees should know.

2) Case Studies

We provide information on case studies to local governments that need such information on condition that we obtain permission from the relevant entity to share such information.

With regard to cases that provide a good reference for many organizations, upon permission of the relevant entities, we offer the information using leaflets and other means.

3) Financial Data

We offer financial data via links on our Web site.

5. Local Government Support Operations Implemented for FY2010

Aiming for full-fledged business development in fiscal 2011 and thereafter, we positioned the period until March 31, 2011, as a period to establish the foundation for the development of Local Government Support Operations and developed various types of businesses.

(1) Training for Local Government Staff

Cosponsoring with the Japan Academy for Municipal Personnel, in November, 2010, we held a seminar, “Seminar for Fund-Raising Measures,” to provide basic financial knowledge for fund-raising staff.

JFM staff visited training sessions for city, town and village employees conducted by prefectures and explanatory meetings held by prefectures at their cities, towns or villages and gave five lectures on demand.

(2) Surveys and Research

JFM and the University of Tokyo share recognition that it is important to reinforce research and education on ideal future funding methods for municipalities, promote the significance and roles of financing in local governments’ finances and nurture human resources conducive to the development of the field of local governments’ finances. Under such common recognition, in October 2010, JFM and the University of Tokyo jointly established a lecture course as a contribution at the Faculty of Economics of the University of Tokyo.

In addition to the lecture course, JFM conducts surveys and research as to the fund-raising of local governments and actively holds symposiums and forums to facilitate a better understanding of local governments’ finances, the results of which are provided to local governments.

(3) Administrative Support for Fund-Raising

JFM provided advice and educational training support for 17 organizations and 19 cases, mainly about the following content in fiscal 2010.

- Support for the Spread Analysis of Interest Rates for Borrowing
- Advice on the Diversification of Maturity for Borrowing
- Advice on Conducting Public Bidding on Borrowing
- Advice on Fund-Raising by the Issuance of Bonds

(4) Information Services

In November 2010, we updated the Web page on our Local Government Support Operations, where textbooks for fund-raising–related administration and financial data are posted.

(5) Bonds Publicly Offered to Residents at Merged Local Governments

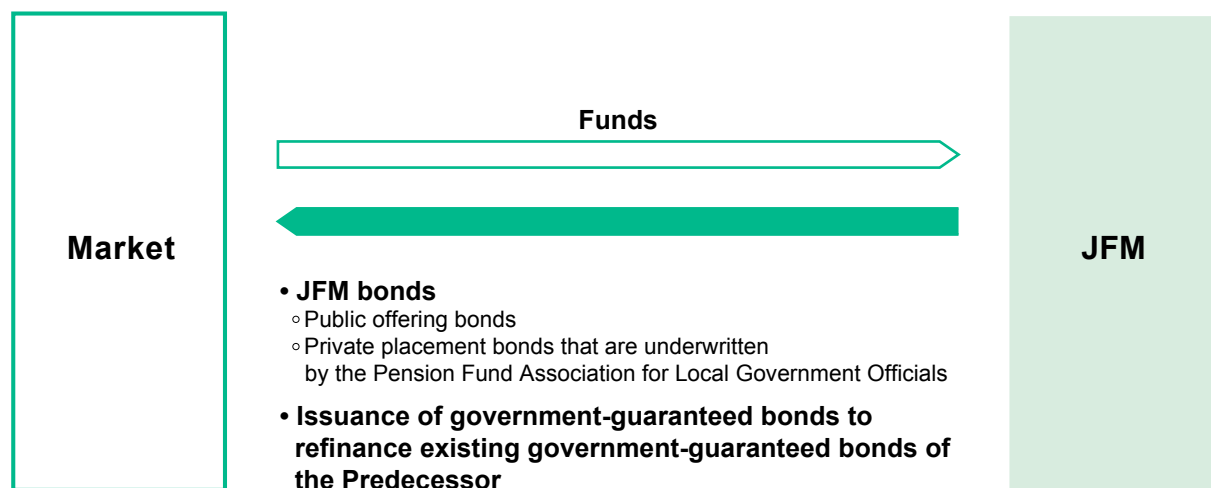
As part of our Local Government Support Operations related to fund-raising, we conducted appropriate information services and personnel support related to the issuance of bonds for two merged municipal organizations and helped them with costs for public relations and IR businesses.

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 fund-raising costs.

1. Issue Type

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

JFM issues government-guaranteed bonds only for refinancing the existing government-guaranteed bonds of the Predecessor in order to manage the Predecessor's assets that JFM has assumed.



Note: JFM bonds are bonds without a government guarantee issued by JFM. Under Article 40, Paragraph 2, of the Japan Finance Organization for Municipalities Law, JFM bonds and government-guaranteed bonds are secured by general collateral and are repaid in preference to other general debts.

2. Basic Fund-Raising Strategies

To raise funds at low cost and in a stable manner, JFM promotes the diversification of fund-raising methods and strives to gain solid confidence in the capital markets by proactively disclosing information and thoroughly fulfilling accountability. JFM also endeavors to issue bonds in a flexible manner, responding to the market environment and market needs.

(1) Diversification of Fund-Raising Methods

From the viewpoint of stable fund-raising, JFM endeavors to issue bonds flexibly with various maturities and structures including medium-term and super-long-term bonds in response to the market environment and market needs in order to expand the investor base, while also considering risk management.

Our basic means for fund-raising is the issuance of bonds. With regard to 10-year bonds, in particular, JFM endeavors to ensure continuous investor demand through regular issuance. JFM also strives to meet market needs and loan needs in a timely and flexible manner by issuing bonds under the Flexible Issuance Program (FLIP) and the Euro Medium-Term Note (EMTN) Program, as well as borrowing money as necessary.

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

(2) Thorough Disclosure of Information

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

Furthermore, JFM actively promotes investor relations activities, including explanatory meetings for and visits to investors, in order to help investors correctly understand JFM's management and JFM's bonds, and to secure solid confidence in JFM. For the issuance of bonds in international markets, we actively promote investor relations activities targeting foreign investors. JFM also publishes a bond issuance plan every six months to help investors plan for investment.

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

While raising funds in a flexible and dynamic manner in response to the needs of the capital markets, and maintaining the basic policy of placing great importance on the capital markets, JFM will further strengthen its role as a leading issuer in the market and positively contribute to the sound development of the capital markets.

Outline of the Euro Medium-Term Note (EMTN) Program

- Listing : London Stock Exchange (Main Market)
- Currency : Multi-Currencies
- Guarantee : Without Government Guarantee

3. Outline of Bonds

JFM bonds with the following features are recognized as having high credit standing and status—as high as that of local government bonds—and have become known as “Super Local Government Bonds” in Japan.

- JFM is a public fund-raising organization established jointly by local governments throughout Japan.
- Given that JFM borrowers are local governments, and no local governments have experienced default, JFM's assets can be deemed to be highly stable.
- JFM has a solid and sound financial foundation, exemplified by the reserve for interest rate volatility.
- Under the Japan Finance Organization for Municipalities Law, local governments have the obligation to bear all of the cost to satisfy the obligation in full in the event of its dissolution; thus, the redemption of JFM bonds is deemed assured.

JFM has received the highest 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 weighting for JFM is 10% for yen-denominated bonds and 20% for bonds denominated in foreign currencies.

In addition to JGBs and local government bonds, interest received by foreign investors (non-residents, foreign corporations, etc.) on JFM's domestic bonds in book-entry form and JFM's international bonds (both of which include the bonds with government guarantee) shall be exempted from Japanese income tax, subject to certain procedural requirements.

*The risk weightings mentioned are values for investors in Japan. For foreign investors, values are determined by the respective country's authority. The risk weighting for government-guaranteed bonds is 0% for either yen-denominated bonds or bonds denominated in foreign currencies.

*The tax exemption rule shall apply to the interest and other profit on JFM's domestic bonds to be issued in book-entry form by March 31, 2013, for which the calculation period starts on or after June 1, 2010, and to the interest and other profit on JFM's international bonds (both of which bonds include these with government guarantee) .

Credit Rating	(as of August 31, 2011)	
	S&P : AA-	
	Moody's : Aa3	
	R&I : AAA	
BIS Risk Weighting	JFM bonds : 10% (denominated in yen) 20% (denominated in foreign currencies)	(For reference) Government-Guaranteed Bonds: 0% Government Bonds, Local Government Bonds: 0%
General Collateral	A holder of the JFM bonds (including government guaranteed bonds) shall have the right to receive repayment of his or her own claim from the property of JFM in preference to other general creditors (see Article 40, Paragraph 2, of the Japan Finance Organization for Municipalities Law). Article 40, Paragraph 3 of the same law provides that this statutory lien shall rank next to the general statutory lien (<i>ippan sakidori tokken</i>) provided in the Civil Code.	

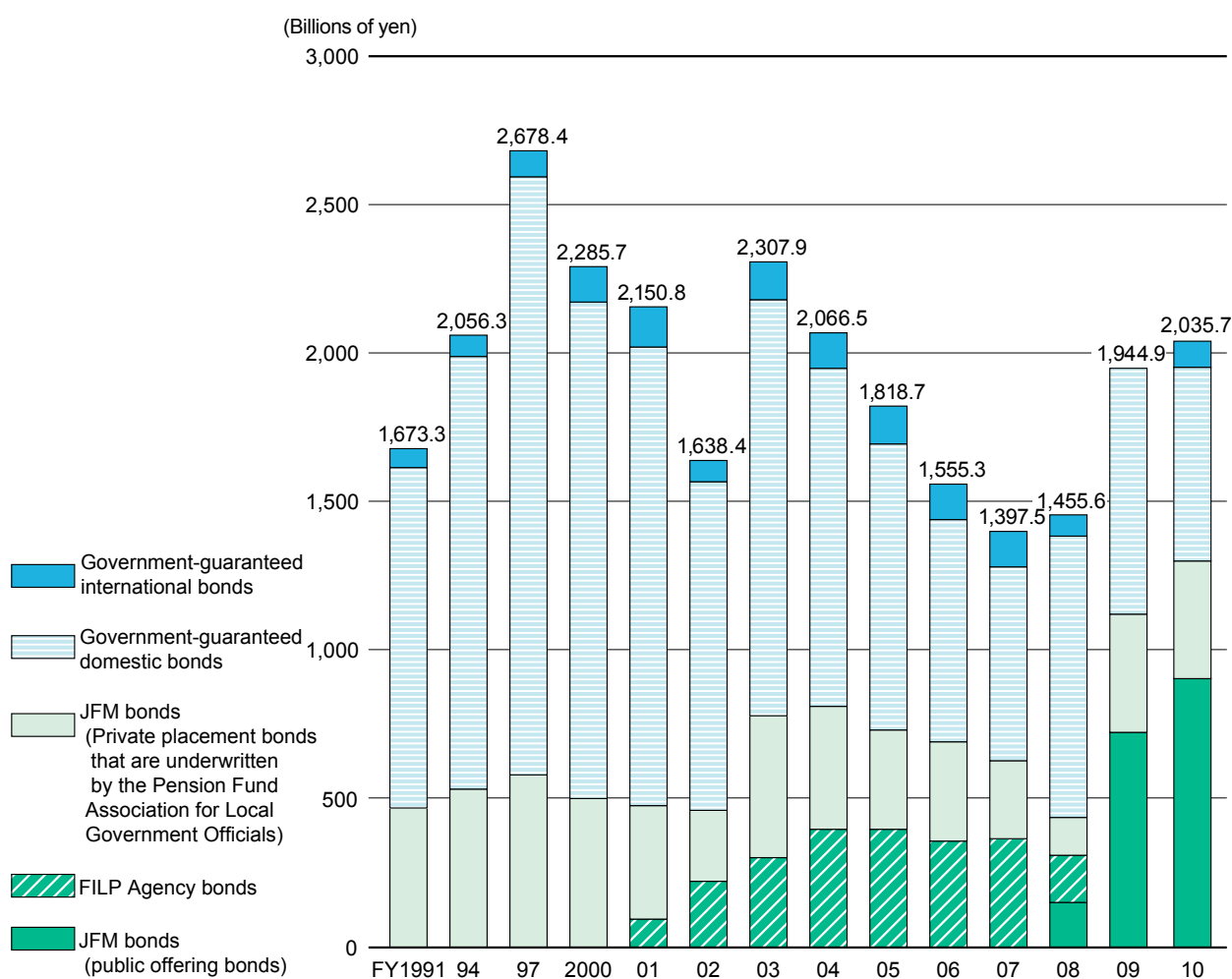
4. Trends in Fund-Raising Operations

JFM issues JFM bonds (public offering bonds and private placement bonds that are underwritten by the Pension Fund Association for Local Government Officials) and government-guaranteed bonds.

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

In fiscal 2010, the total amount of bonds was ¥2,035.7 billion.

*FILP : Fiscal Investment and Loan Program



*The amount for fiscal 2008 was a total of the Predecessor's bonds and the bonds of the Japan Finance Organization for Municipal Enterprises.

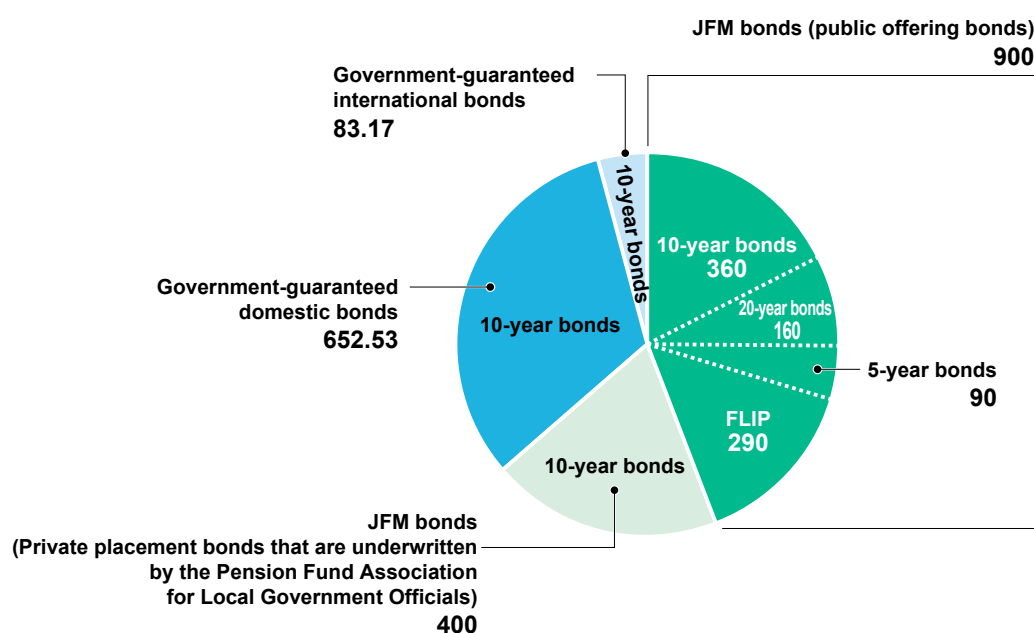
5. Fund-Raising Operations for FY2010

In fiscal 2010, the amount of JFM bonds (public offering bonds) totaled ¥900 billion (face value), which included ¥360 billion in 10-year bonds, ¥160 billion in 20-year bonds, ¥90 billion in 5-year bonds and ¥290 billion in FLIP. JFM also issued ¥400 billion in 10-year private placement bonds, which are underwritten by the Pension Fund Association for Local Government Officials.

In addition, JFM issued ¥735.7 billion in government-guaranteed 10-year bonds (of which ¥652.53 billion were in domestic bonds and ¥83.17 billion were in international bonds) to refinance the Predecessor's bonds with a government guarantee.

As a result, the outstanding balance of JFM's bonds as of March 31, 2010, amounted to ¥18,346.2 billion, including the Predecessor's bonds that JFM assumed.

(Billions of yen)

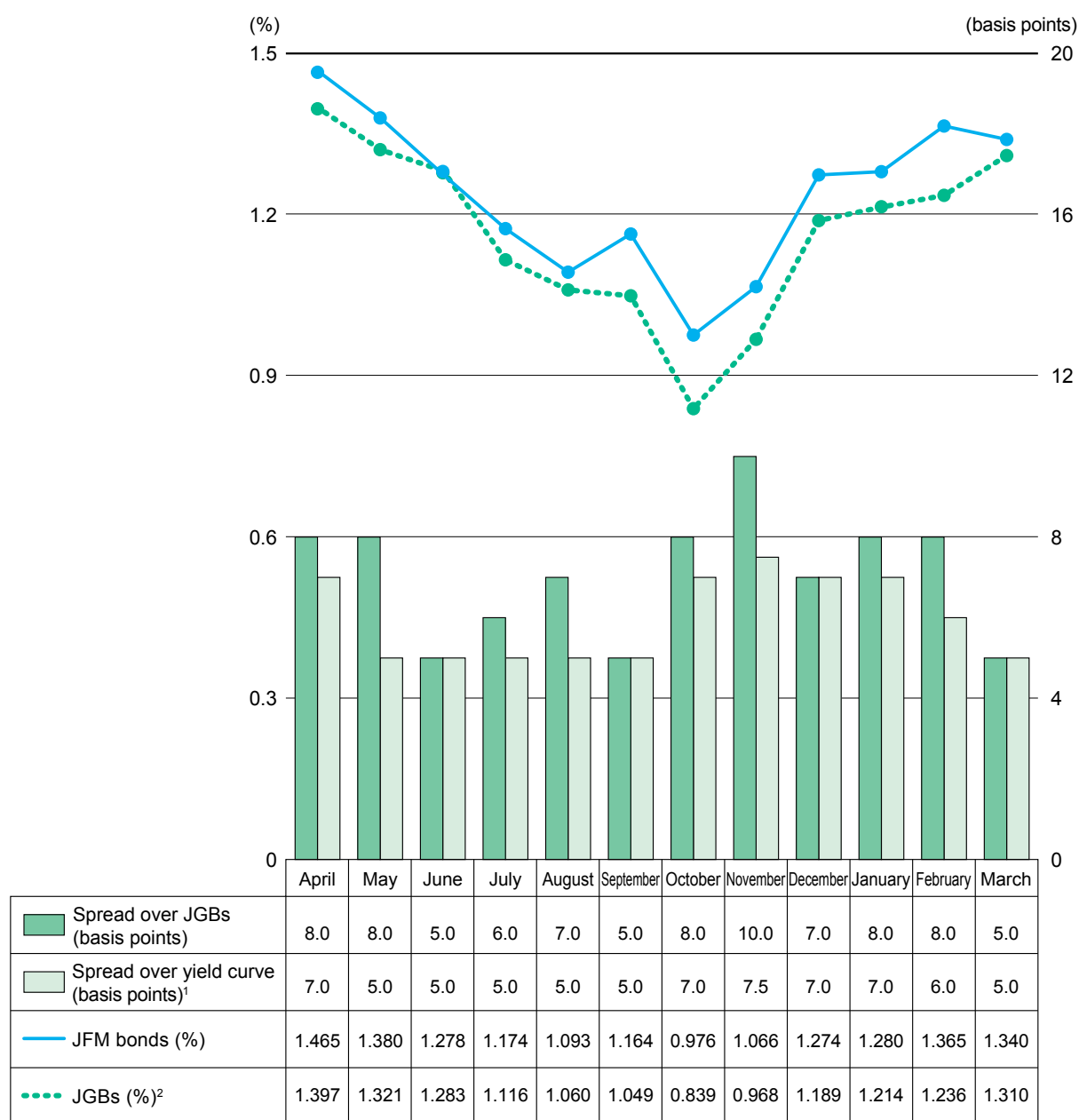


Outline of FLIP

JFM's original system, akin to the MTN Program, to issue bonds flexibly and quickly to meet investors' needs such as maturities and amounts

- Bond maturities: 3 to 30 years
(Except for 5-year, 10-year and 20-year fixed-rate bullet bonds)
- Amount of bonds to be issued at one time: ¥3 billion or more

(Reference) Yields and Spreads of JFM bonds (10-year) (FY2010)



1. Spread over yield curve ratios are theoretical values calculated by JFM.

2. JGBs (%) is the average bid yield (simple interest) for the relevant month.

1. JFM Bonds

(1) Public offering bonds

Tenor	Series	Issue amount (Billions of yen)	Coupon rate (%)	Issue price (¥)	Issue date (YY/MM/DD)
10 years	11th	35.0	1.465	100.00	10/04/22
10 years	12th	30.0	1.380	100.00	10/05/25
10 years	13th	30.0	1.278	100.00	10/06/17
10 years	14th	30.0	1.174	100.00	10/07/22
10 years	15th	30.0	1.093	100.00	10/08/19
10 years	16th	30.0	1.164	100.00	10/09/21
10 years	17th	30.0	0.976	100.00	10/10/25
10 years	18th	30.0	1.066	100.00	10/11/18
10 years	19th	30.0	1.274	100.00	10/12/20
10 years	20th	30.0	1.280	100.00	11/01/24
10 years	21st	30.0	1.365	100.00	11/02/21
10 years	22nd	25.0	1.340	100.00	11/03/17
20 years	7th	30.0	2.202	100.00	10/04/22
20 years	8th	30.0	2.043	100.00	10/06/17
20 years	9th	20.0	1.927	100.00	10/07/22
20 years	10th	20.0	1.752	100.00	10/08/19
20 years	11th	20.0	1.851	100.00	10/10/20
20 years	12th	20.0	2.092	100.00	10/12/13
20 years	13th	20.0	2.132	100.00	11/01/24
5 years	1st	20.0	0.525	100.00	10/05/25
5 years	2nd	30.0	0.423	100.00	10/09/21
5 years	3rd	20.0	0.424	100.00	10/11/18
5 years	4th	20.0	0.639	100.00	11/02/21
4 years	F-21st	20.0	0.435	100.00	10/04/28
8 years	F-22nd	6.0	1.050	100.00	10/05/10
8 years	F-23rd	9.0	1.075	100.00	10/05/12
13 years	F-24th	3.0	1.681	100.00	10/05/12
9 years	F-25th	7.0	1.255	100.00	10/05/13
7 years	F-26th	5.0	0.855	100.00	10/05/19
9 years	F-27th	25.0	1.235	100.00	10/05/27
17 years	F-28th	3.5	1.753	100.00	10/07/29
12 years	F-29th	3.0	1.347	100.00	10/07/29
6 years	F-30th	25.0	0.504	100.00	10/07/29
9 years	F-31st	25.0	1.022	100.00	10/07/29
4 years	F-32nd	3.0	0.268	100.00	10/07/29
7 years	F-33rd	3.0	0.620	100.00	10/07/29
8 years	F-34th	3.0	0.785	100.00	10/07/29
9 years	F-35th	3.0	0.962	100.00	10/07/29
9 years	F-36th	10.0	0.986	100.00	10/07/29
15 years	F-37th	3.0	1.597	100.00	10/07/29
7 years	F-38th	5.0	0.567	100.00	10/08/02
8 years	F-39th	5.0	0.808	100.00	10/08/02
3 years	F-40th	4.0	0.185	100.00	10/08/02
9 years	F-41st	25.0	0.869	100.00	10/10/28
13 years	F-42nd	4.0	1.284	100.00	10/10/28
15 years	F-43rd	3.5	1.525	100.00	10/10/28
8 years	F-44th	16.0	0.647	100.00	10/11/04
15 years	F-45th	3.5	1.520	100.00	10/11/04
15 years	F-46th	3.0	1.539	100.00	10/11/08
29 years	F-47th	3.0	2.095	100.00	10/11/08
9 years	F-48th	25.0	1.245	100.00	11/01/27
25 years	F-49th	3.0	2.332	100.00	11/01/27
9 years	F-50th	3.0	1.123	100.00	11/01/31
18 years	F-51st	3.0	2.000	100.00	11/01/31
15 years	F-52nd	3.0	1.781	100.00	11/01/31
9 years	F-53rd	15.0	*1	100.00	11/02/01
13 years	F-54th	3.0	1.588	100.00	11/02/03
15 years	F-55th	3.5	1.773	100.00	11/02/03
22 years	F-56th	3.0	2.160	100.00	11/02/03

*1. 6-month JPY LIBOR

+0.022%

(2) Private placement bonds that are underwritten by the Pension Fund Association for Local Government Officials

Tenor	Series	Issue amount (Billions of yen)	Coupon rate (%)	Issue price (¥)	Issue date (YY/MM/DD)
10 years	A-7th	60.0	1.48	100.00	10/04/27
10 years	A-8th	60.0	1.42	100.00	10/05/24
10 years	A-9th	30.0	1.20	100.00	10/07/28
10 years	A-10th	30.0	0.99	100.00	10/10/27
10 years	A-11th	40.0	1.16	100.00	10/11/26
10 years	A-12th	60.0	1.33	100.00	11/01/27
10 years	A-13th	60.0	1.42	100.00	11/02/24
10 years	A-14th	60.0	1.40	100.00	11/03/22

2 . Government-Guaranteed Bonds

(1) Domestic bonds

Tenor	Series	Issue amount (Billions of yen)	Coupon rate (%)	Issue price (¥)	Issue date (YY/MM/DD)
10 years	11th	60.0	1.4	99.75	10/04/19
10 years	12th	60.0	1.3	99.45	10/05/24
10 years	13th	60.0	1.3	100.00	10/06/14
10 years	14th	60.0	1.1	99.45	10/07/20
10 years	15th	60.0	1.0	99.30	10/08/16
10 years	16th	50.0	1.0	99.30	10/09/14
10 years	17th	50.0	0.9	100.00	10/10/21
10 years	18th	50.0	0.9	99.30	10/11/17
10 years	19th	50.0	1.2	100.00	10/12/14
10 years	20th	50.0	1.2	99.60	11/01/20
10 years	21st	50.0	1.2	99.40	11/02/15
10 years	22nd	52.53	1.3	99.80	11/03/14

(2) International bonds

Tenor	Series	Issue amount	Coupon rate (%)	Issue price (%)	Issue date (YY/MM/DD)
10 years	1st Global dollar bonds	\$1,000 million (¥83.17 billion)	4.000	99.17	11/01/13

6. Fund-Raising Plan for FY2011

To raise the funds for lending operations, JFM issues mainly public offering bonds, as well as private placement bonds that are underwritten by the Pension Fund Association for Local Government Officials. In fiscal 2011, JFM plans to issue JFM bonds (public offering bonds) in the amount of ¥900 billion: ¥360 billion in 10-year bonds, ¥160 billion in 20-year bonds, ¥80 billion in 5-year bonds, ¥200 billion in FLIP bonds and ¥100 billion in EMTN and other bonds. In addition, private placement bonds that are underwritten by the Pension Fund Association for Local Government Officials will be issued in the amount of ¥300 billion (10-year bonds).

JFM issues government-guaranteed bonds to refinance the existing bonds with a government guarantee to manage the Predecessor's assets that JFM assumed. For fiscal 2011, JFM plans to issue government-guaranteed bonds in the amount of ¥710 billion, consisting of ¥510 billion in 10-year bonds and ¥200 billion in 6-year bonds.

Note: The planned amounts may change, subject to the market condition and the lending operations.

Bond Issuance Plan Fiscal 2011

1. JFM Bonds

(1) Public Offering Bonds

Issue Type	Amounts to be issued annually (Billions of yen)
10-year bonds	360
20-year bonds	160
5-year bonds	80
FLIP	200
EMTN and other	100
Total	900

Notes: ▪ We plan to issue 10-year bonds every month, in principle.
 ▪ We plan to issue 20-year bonds three to four times every six months.
 ▪ We plan to issue 5-year bonds quarterly.
 ▪ The issuance of FLIP, EMTN and other bonds will be flexibly made within the issuance range.

(2) Private placement bonds that are underwritten by the Pension Fund Association for Local Government Officials

Issue Type	Amounts to be issued annually (Billions of yen)
10-year bonds	300

2. Government-Guaranteed Bonds

Issue Type	Amounts to be issued annually (Billions of yen)
10-year bonds	510
6-year bonds	200
Total	710

Internal Management System

Risk Management

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1. Overall Risk Management

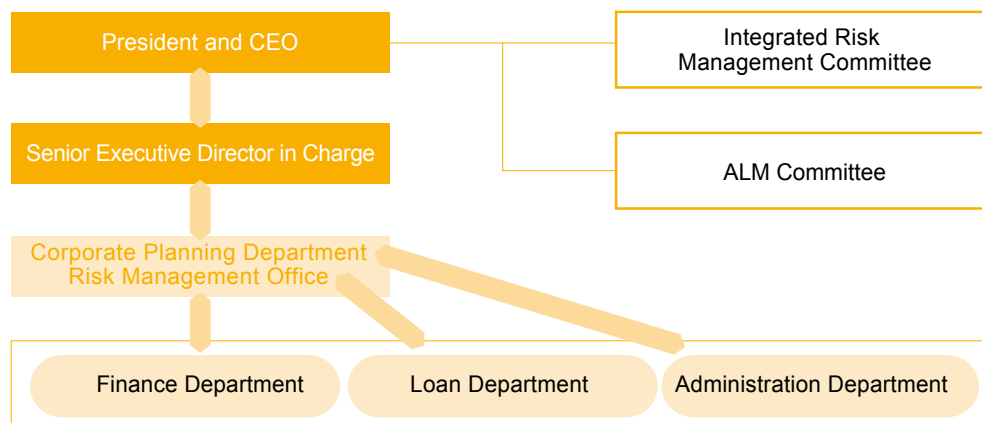
(1) Risk Management System

To maintain a sound and good financial standing and gain the solid confidence of the 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 to ensure comprehensive management of the risks. Risk management can then be appropriately reflected in management decisions.

Risk Management System



(2) Characteristics of JFM's Risks

JFM raises funds primarily by issuing 10-year bonds and making loans with a maximum maturity of 30 years with repayment of interest and principal in equal installments. Therefore, a maturity gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond refinancing (the risk of the negative margin caused by the interest payable exceeding the interest receivable).

JFM has set aside reserves for interest rate fluctuations (the Reserve for Interest Rate Volatility) and has set up the ALM 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 are conducted through scenario analysis, VaR analysis and duration analysis, among other methods. In addition, JFM endeavors to lower interest rate risk through a variety of methods such as issuing super-long-term bonds.

2. Management of Specific Risks

(1) Credit Risk

Credit risk is the risk of loss arising from deterioration in the financial condition of a borrower and other situations, which could cause an asset to lose value or become worthless.

1) Credit risk associated with 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 Predecessor have never experienced any loan losses since the Predecessor was established in 1957.

- The national government includes local government debt servicing costs (repayment of principal and interest for local government borrowings) in the budgetary expenditure under the Local Government Finance Program and guarantees the revenue source necessary for principal and interest repayments for local government borrowings by securing a total “Local Allocation Tax” to balance local governments’ total expenditures and total revenue.

When calculating the “Local Allocation Tax”, the national government also secures revenue sources for debt service for each local government by including a portion of local government debt servicing costs.

- Under the consultation system for local government borrowings, credit reviews must include checks on the local governments’ situation of debt repayments, tax revenue and necessary revenue sources to be secured. Furthermore, under the Early Warning System, the local governments for which the costs for principal and interest payments and financial deficits exceed a certain level must apply for prior approval for the issuance of bonds, so that the credit quality of local government bonds and loans is maintained.
- Under the Act on Assurance of Sound Financial Status of Municipalities, local governments for which the fiscal indicators exceed the early warning limits must make their own efforts to achieve fiscal soundness, and local governments for which the fiscal indicators exceed the financial reconstruction limits must take necessary actions to restore soundness of their finances under the oversight of the national government with regard to redemption of local government bonds and loans, and other operations.

The Great East Japan Earthquake that occurred on March 11, 2011, caused serious damage. With regard to the organizations that had problem with repayment procedures due to the disaster, JFM extended the principal and interest repayment date in the total amount of more than ¥7.2 billion for 32 accounts. As the administrative functions of these afflicted organizations are recovering, ¥51.61 million had already been redeemed as of May 31, 2011. The remainder is foreseen to be redeemed steadily.

(Loan assets)

As of March 31, 2011, JFM's total outstanding loans stood at ¥22,231.8 billion, of which ¥140.0 billion, or 0.6%, is the amount of outstanding loans made to local government road corporations by the Predecessor.

The amount of loans made to local governments for which the fiscal indicators exceeded the early warning limits or the financial reconstruction limits accounted for approximately 0.2% of the total loans.

2) 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 could cause an asset to lose value or become worthless.

To manage this risk appropriately, JFM constantly monitors counterparties' financial condition, limits transactions to those with financial institutions that meet the credit rating and other criteria, and limits each transaction amount within the credit line that has been determined for each counterparty.

In addition, JFM entered into the ISDA Master Agreement and the CSAs (Credit Support Annexes) with its derivatives counterparties to reduce the 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 fluctuation risk.

1) Interest rate risk

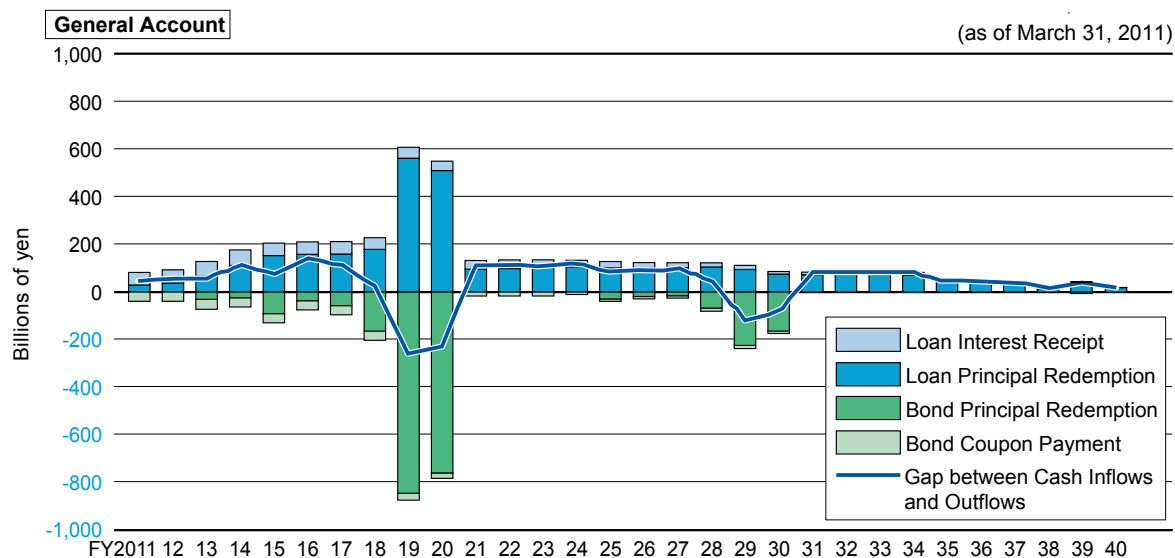
Interest rate risk is the risk of loss resulting from fluctuations in interest rates.

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

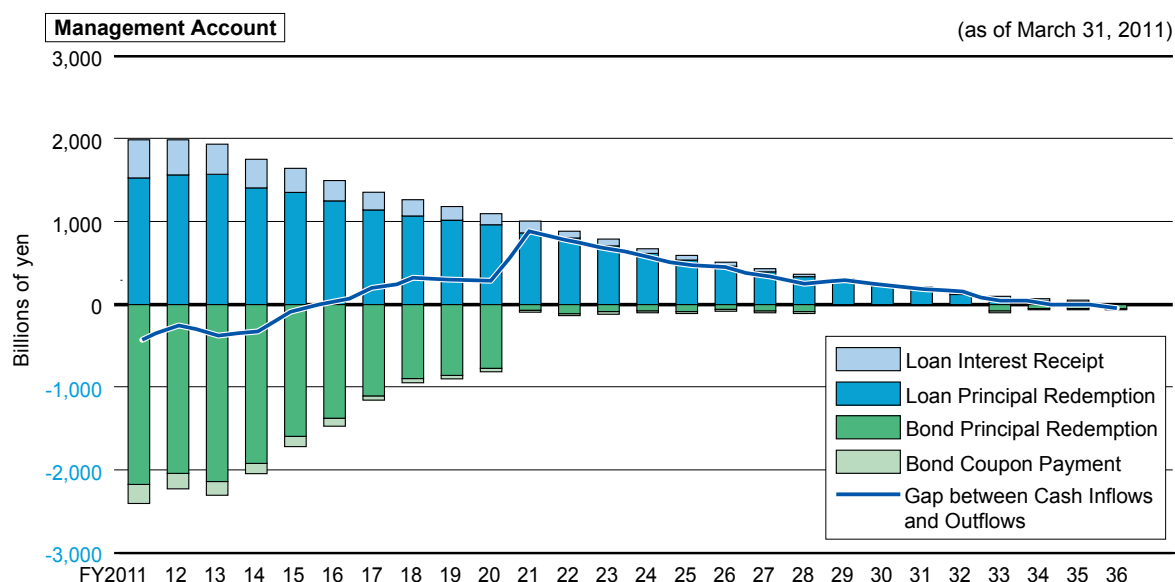
JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and fund-raising.

- 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 ¥660 billion in the General Account and ¥3,136.5 billion in the Management Account for a total of ¥3,796.5 billion in both accounts at the end of March 2011.
- As assets and liabilities in JFM's General Account are expected to increase 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 set the following medium-term management target (for five years starting with the fiscal year ended 31 March 2010) to reduce its exposure to interest rate risk by setting (1) the outlier ratio (the ratio of the interest risks (a 200-basis-point upward or downward parallel shift in the yield curve) to net assets including reserves for interest rate volatility and the Fund for Improvement of Operations of Municipalities) to be below approximately 20% and (2) the duration gap to be below approximately two years, thereby issuing super-long-term bonds. Because it is only two and a half years since JFM started its operation, whereas the size of assets and liabilities were small compared to the Management Account, whereas the outlier ratio for the end of fiscal 2010 was 14.6% and the duration gap was 1.12 years, which are within the management target.
- Although the Management Account, which manages assets transferred from the Predecessor, is currently exposed to more interest rate risk than the General Account, JFM is required Reserves for Interest Rate Volatility as described above. The amount of the above reserves stood at ¥3,136.5 billion at the end of March 2011. But in the future, assets and liabilities of the Management Account will decline over time and interest risk decline because new loans have not been made since October 2008, which will reduce the interest rate risk.

Maturity Ladder of Loans and Bonds



• Loan duration	10.66 years
• Bond duration	9.54 years
• Duration gap	1.12 years (YoY change: +0.02 years)



• Loan duration	6.99 years
• Bond duration	4.49 years
• Duration gap	2.50 years (YoY change: +0.13 years)

JFM as a whole	
• Loan duration	7.55 years
• Bond duration	5.19 years
• Duration gap	2.36 years (YoY change: +0.20 years)

JFM is also exposed to pipeline risk, whereby losses would be incurred or profits decreased as a result of interest rate fluctuations during the time from JFM raising funds through bond issuance to the funds being loaned to local governments. JFM uses swap transactions to hedge against pipeline risk.

2) Foreign exchange and other risks

Various risks associated with bond principal and interest payments are generally 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 the 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 price fluctuation risk by holding investments until maturity and hedges foreign exchange risk by using forward foreign exchange contracts.

(3) Liquidity Risk

Liquidity risk is the risk that JFM would incur losses because it becomes difficult to secure the necessary funds or is forced to raise funds at far higher interest rates than under ordinary conditions due to a gap between the investment period and the funding period 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 turmoil or other difficult situations (market liquidity risk).

JFM's exposure to liquidity risk is very 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 fund short falls, 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 neglect by management and staff in not properly conducting administrative work, accidents and/or violation of laws caused 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 training sessions, and reducing operational workload through systematization.

2) Systems risk

Systems risk is the risk of the confidentiality, integrity and availability of information being 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.

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.

(5) Contingency Measures

JFM has 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.

Furthermore, to prepare for a contingency, JFM has a backup server outside JFM so that its business can be continued despite an emergency.

Internal Control over Financial Reporting

I n t e r n a l M a n a g e m e n t S y s t e m

Pursuant to the “Ministerial Ordinance on Finance and Accounting of the Japan Finance Organization for Municipalities” (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter the “Ordinance”), JFM is required to have a system of internal control over financial reporting to ensure the reliability of its financial statements, and maintain and implement this system appropriately. In accordance with the Ordinance, JFM prepares the Internal Control Report, the base date of which is the end of the fiscal year, and it is audited by the external auditors and released together with the financial statements.

JFM has a system of internal control over financial reporting in place to further strengthen its organizational foundation. JFM maintains and evaluates this system effectively and efficiently to ensure the reliability of the financial statements.

In the fiscal 2010 Internal Control Report, we viewed our internal control on financial reporting as effective. In the Auditors’ Report on Internal Controls, the accounting auditors gave their opinion (unqualified audit opinion pursuant to Ministerial Ordinance Article 32, Paragraph 5, Clause 1) on the fiscal 2010 Internal Control Report 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”.

Internal audits are performed by the internal auditor, who is independent from other departments, sections and offices, to examine and assess the appropriateness and effectiveness of the internal control systems of JFM, thereby contributing to ensuring appropriate and efficient operations. Internal audits 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 the operations conducted in accordance with laws, regulations and rules?
 - b. Are the operations conducted efficiently?
 - c. Are the risk management systems functioning appropriately and efficiently?
 - d. Are the 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.
4. If deficiencies are identified by the internal auditor, the related sections and offices are required to take necessary corrective actions immediately.

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

1. Basic Policy

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

- 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.
- Management and staff must strive to earn the trust 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 the formulation, revision and abolition of compliance-related rules and regulations and the preparation of guidelines and action plans for compliance.

3. Compliance Activities

JFM distributes to management and staff updated compliance manuals, which include points to note for compliance actions and related laws and regulations. JFM also provides opportunity for training to employee such as seminars.

1. Basic Stance on Information Disclosure

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

2. Materials for Disclosure

1) Materials for disclosure pursuant to laws and regulations

Explanatory documents based on Article 36, Paragraph 3, of the Japan Finance Organization for Municipal Enterprises Law

(Documents corresponding to securities reports of private company, the Internal Control Report)

Business reports

Financial statements

Statements of accounts

2) Other documents for disclosure

Budgets, business plans, funding plans and medium-term plans on income and expenditures

Management plan

Bond issuance plan

Brochure

Annual Report (Japanese and English)



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

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Financial Statements

Financial Section

■ Balance Sheets (As of March 31, 2010 and 2011)

(Millions of Yen) (Thousands of US dollars)

Item	Fiscal 2009 (March 31, 2010)	Fiscal 2010 (March 31, 2011)		Item	Fiscal 2009 (March 31, 2010)	Fiscal 2010 (March 31, 2011)	
	Amount		Amount				
Assets				Liabilities			
Loans (Note 4)	¥22,030,227	¥22,231,856	\$267,145,594	Bonds (Note 7 and 8)	¥18,534,475	¥18,327,190	\$220,225,787
Securities (Note 17)	984,477	457,590	5,498,561	Other liabilities	17,726	17,698	212,666
Cash and bank deposits	149,264	516,633	6,208,040	Reserve for bonuses (Note 9)	43	41	501
Other assets	17,159	17,033	204,675	Reserve for directors' bonuses (Note 9)	7	6	83
Tangible fixed assets (Note 6)	2,948	2,918	35,065	Reserve for retirement benefits (Note 9 and 12)	210	195	2,349
Intangible fixed assets (Note 6)	921	756	9,095	Reserve for retirement benefits for directors and corporate auditors (Note 9)	56	27	327
				Fund for improvement of operations of municipalities	906,939	915,823	11,004,853
				Basic fund for improvement of operations of municipalities (Note 11)	901,407	908,104	10,912,097
				Additional fund for improvement of operations of municipalities (Note 11)	5,531	7,719	92,756
				Reserve under special laws	3,664,927	3,896,421	46,820,740
				Reserve for interest rate volatility (Note 10)	440,000	660,000	7,930,786
				Management account reserve for interest rate volatility (Note 10)	3,111,043	3,136,532	37,689,651
				Reserve for interest rate reduction	113,883	99,889	1,200,303
				Total liabilities	23,124,384	23,157,405	278,267,306
				Net Assets			
				Capital	16,602	16,602	199,497
				Retained earnings	5,834	13,860	166,555
				General account surplus reserve	5,834	13,860	166,555
				Valuation , translation adjustments and others	(1,340)	(8,645)	(103,892)
				Management account surplus reserve	39,517	47,565	571,564
				Total net assets	60,613	69,382	833,724
Total assets	¥23,184,998	¥23,226,787	\$279,101,030	Total liabilities and net assets	¥23,184,998	¥23,226,787	\$279,101,030

■ Statements of Income

(For the Years Ended March 31, 2010 and 2011)

(Millions of Yen) (Thousands of US dollars)

Item	Fiscal 2009 (April 1 , 2009 to March 31, 2010)	Fiscal 2010 (April 1 , 2010 to March 31, 2011)	
	Amount	Amount	
Income	¥558,528	¥539,997	\$6,488,794
Interest income	558,369	539,812	6,486,568
Fees and commissions	140	134	1,620
Other income	18	50	606
Expenses	308,357	292,428	3,513,918
Interest expenses	297,347	283,177	3,402,754
Fees and commissions	271	269	3,242
Other operating expenses	4,641	4,418	53,101
General and administrative expenses	2,365	2,374	28,532
Other expenses	3,731	2,187	26,289
Transfer to fund for improvement of operations of municipalities (Note 11)	3,731	2,187	26,289
Ordinary income	250,170	247,569	2,974,876
Special gains	235,010	233,994	2,811,754
Reversal of Management account reserve for interest rate volatility (Note 10)	220,000	220,000	2,643,595
Reversal of reserve for interest rate reduction	15,010	13,994	168,159
Special losses	476,315	465,489	5,593,475
Provision for reserve for interest rate volatility (Note 10)	220,000	220,000	2,643,595
Provision for Management account reserve for interest rate volatility (Note 10)	256,315	245,489	2,949,880
Net income	¥ 8,866	¥ 16,074	\$ 193,155

■ Appropriation of Profit [General Account]

(For the year ended March 31, 2010)

(Millions of Yen)

1 Profit to be appropriate			¥4,539
Net income		¥4,539	
Accumulated deficit brought down	—		
2 Profit appropriated			
Surplus reserve		4,539	4,539

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, 2011)

(Millions of Yen)

1 Profit to be appropriated			¥8,025
Net income		¥8,025	
Accumulated deficit brought down	—		
2 Profit appropriated			
Surplus reserve		8,025	8,025

(Thousands of US dollars)

1 Profit to be appropriated			\$96,443
Net income		\$96,443	
Accumulated deficit brought down	—		
2 Profit appropriated			
Surplus reserve		96,443	96,443

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, 2010)

(Millions of Yen)

1 Profit to be appropriate		¥4,326	¥4,326
Net income		¥4,326	
Accumulated deficit brought down	—		
2 Profit appropriated			
Surplus reserve		4,326	4,326

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, 2011)

(Millions of Yen)

1 Profit to be appropriated		¥8,048	¥8,048
Net income		¥8,048	
Accumulated deficit brought down	—		
2 Profit appropriated			
Surplus reserve		8,048	8,048

(Thousands of US dollars)

1 Profit to be appropriated		\$96,712	\$96,712
Net income		\$96,712	
Accumulated deficit brought down	—		
2 Profit appropriated			
Surplus reserve		96,712	96,712

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 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							
Net income	–	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, 2010 through March 31, 2011)

(Millions of Yen)

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

(From April 1, 2010 through March 31, 2011)

(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	\$199,497	\$ 70,112	\$ 70,112	\$269,609	\$ (16,105)	\$474,852	\$728,356
Changes during accounting period							
Net income	—	96,443	96,443	96,443	—	96,712	193,155
Net changes during accounting period in items other than stockholders' equity	—	—	—	—	(87,787)	—	(87,787)
Net changes during accounting period	—	96,443	96,443	96,443	(87,787)	96,712	105,368
Balance at March 31, 2011	\$199,497	\$166,555	\$166,555	\$366,052	\$(103,892)	\$571,564	\$833,724

■ Statements of Cash Flows

(For the Years Ended March 31, 2010 and 2011)

(Millions of Yen) (Thousands of US dollars)

Item	Fiscal 2009 (April 1, 2009 to March 31, 2010)	Fiscal 2010 (April 1, 2010 to March 31, 2011)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥ 8,866	¥ 16,074	\$ 193,155
Depreciation and amortization	294	353	4,250
Interest income	(558,369)	(539,812)	(6,486,568)
Interest expenses	297,347	283,177	3,402,754
Decrease in reserve for bonuses	(4)	(1)	(19)
Decreases in reserve for directors' bonuses	(0)	(0)	(3)
Increase /(decrease) in reserve for retirement benefits	7	(14)	(176)
Increase /(decrease) in reserve for retirement benefits for directors and corporate auditors	5	(28)	(348)
Increase in fund for improvement of operations of municipalities	3,731	2,187	26,289
Increase in reserve for interest rate volatility	220,000	220,000	2,643,595
Increase in Management account reserve for interest rate volatility	36,315	25,489	306,285
Decrease in reserve for interest rate reduction	(15,010)	(13,994)	(168,159)
Net (increase)/decrease in loans	185,060	(201,628)	(2,422,842)
Net decrease in bonds	(447,921)	(211,245)	(2,538,393)
Interest received	557,974	539,475	6,482,522
Interest paid	(293,491)	(279,095)	(3,353,705)
Others	(325)	(7,434)	(89,337)
Net cash used by operating activities	(5,520)	(166,498)	(2,000,700)
II Cash flows from investing activities			
Proceeds from redemption of securities	5,536,800	6,711,500	80,647,681
Purchases of securities	(5,645,665)	(6,184,118)	(74,310,487)
Purchases of tangible fixed assets	(9)	(15)	(192)
Purchases of intangible fixed assets	(463)	(195)	(2,343)
Net cash provided /(used) by investing activities	(109,338)	527,170	6,334,659
III Cash flows from financing activities			
Revenue from contributions made from municipally operated racing	8,576	6,696	80,471
Refund of contributions made from municipally operated racing	(44)	—	—
Net cash provided by financing activities	8,532	6,696	80,471
IV Effect of exchange rate changes on cash and cash equivalents			
	—	—	—
V Net increase/(decrease) in cash and cash equivalents	(106,327)	367,368	4,414,430
VI Cash and cash equivalents at beginning of year	255,591	149,264	1,793,610
VII Cash and cash equivalents at end of year	¥ 149,264	¥ 516,633	\$ 6,208,040

■ 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, 2011, the final business day of the fiscal year, which was ¥83.22 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

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

(4) Deferred assets

Bond issuance costs are expensed in full when incurred.

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

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

As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, we arrange a foreign exchange forward contract at the time of deposit to hedge the risks.

(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.

(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. Change of the accounting policy

Effective April 1, 2010, JFM adopted the Accounting Standard for Asset Retirement Obligations (Accounting Standards Board of Japan (ASBJ), Statement No.18 issued on March 31, 2008) and the Implementation Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No.21 issued on March 31, 2008). The effects of the change are minor. Notes have been omitted since the total amount of asset retirement obligations 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).

We extended the due date of payment of interest and principal of loans to 16 organizations (2,543 million yen, 30,562 thousand USD as of March 31, 2011) that had difficulty in processing the payment as a result of the Great Tohoku Earthquake. We believe that there is little doubt about the collectability of loans to these organizations.

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 monitors the risks in each 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.

(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 and CSA (Credit Support Annex) with all derivatives counterparties to reduce credit risk resulting from fluctuations in the value of derivative transactions.

(ii) Market Risk

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

A. Interest rate risk

Interest rate risk is the risk of loss resulting from fluctuations in interest rates. More specifically, it is the risk of losses incurred or decrease in profits, which would arise from fluctuations in interest rates when

there is an interest rate or maturity gap between assets and liabilities.

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

- 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.

C. Quantitative information on market risk

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

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

Specifically, JFM attempts to achieve roughly below 20% of the outlier ratio from Fiscal 2009 to Fiscal 2013 by means of issuing bonds of various terms, including super long-term bonds, which have a redemption period of over ten years, considering the composition of remaining period of the bonds held.

The outlier ratio is calculated under the following conditions.

- Future Cash Flows

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

With respect to fixed-rate bonds, future cash flows regarding such fixed-rate bonds are calculated based on the redemption schedule. With respect to floating rate bonds for which hedging interest rate swaps, quality for hedge accounting and meet specific matching criteria future cash flows regarding such floating rate bonds are calculated as fixed-rate bonds.

• Indicative Interest Rate

For the assessment of loans and bonds, the interest rate of government bonds as of March 31, 2011, is used.

• Calculation of Outlier Ratio

Based on an assumption that variable risk, except for interest rate, are fixed as of March 31, 2011, the outlier ratio is calculated by dividing the change in fair value in the case where the indicative interest rate (government bonds) rises across-the-board by 200 basis points (2.00%) or the change in fair value in the case such rate falls across-the-board by 200 basis points (2.00%), whichever is greater, by net assets including reserve for interest rate volatility and the Fund for Improvement of Operations of Municipalities.

The outlier ratio as of March 31, 2011, is as follows:

The outlier ratio in the case of a rise of 200 basis points of the indicative interest ratio is only calculated as JFM is aware that the change in fair value in the case of rising interest rate is greater than that in the case of falling interest rate.

(100 Millions of Yen) (Millions of US dollars)

	Outlier ratio (a)=-(b)/(e)	Change in fair value when interest rate rises by 200 basis points						Net assets including reserve for interest rate volatility and the Fund for Improvement of Operations of Municipalities (e)	
		Total (b)=(c)+(d)		Loans (c)		Bonds (d)			
General Account	14.6% [+6.0%]	¥(2,339) [(1,169)]	\$(2,810) [(1,404)]	¥(6,926) [(3,284)]	\$(8,322) [(3,946)]	+¥4,587 [+2,116]	+\$5,511 [+2,542]	¥15,976 [+2,296]	\$19,197 [+2,758]

Note: Amounts posted in "[]" are change from the previous fiscal year.

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

With respect to these financial instruments in Management account, on the condition that the risk variables, except for interest rate risk, are firm, if the indicative interest rate as of March 31, 2011 is at 10 basis points higher than the rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, decline by 68.3 billion yen (820 million US dollars). On the contrary, if the indicative interest rate as of March 31, 2011 is at 10 basis points lower than the rate, it is assumed that the fair value of the net amount (assets side), after offsetting such financial instruments with the financial liabilities, increase to grow by 69.3 billion yen (832 million US dollars).

(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 description 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)	-

The balance sheet amount, fair value and difference between them on March 31, 2011 are as follows.

(Millions of Yen)

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

(Thousands of US Dollars)

	Balance sheet amount	Fair value	Difference
(1) Loans	\$267,145,594	\$281,929,222	\$14,783,628
(2) Securities held-to-maturity securities	5,498,561	5,498,469	(92)
(3) Cash and bank deposits	6,208,040	6,208,040	-
Total assets	278,852,195	293,635,731	14,783,536
Bonds	220,225,787	226,791,026	6,565,239
Total liabilities	220,225,787	226,791,026	6,565,239
Derivative transactions ^(*) Qualifying for hedge accounting	(9,488)	(9,488)	-
Total of derivative transactions	(9,488)	(9,488)	-

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

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

Assets

(1) Loans

The fair value of loans is calculated by discounting future cash flow assuming prepayment by the discount rate calculated using the Japanese government bond rate as of March 31, 2010 and 2011.

(2) Securities

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

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

As of March 31, 2010

(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)

As of March 31, 2011

(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	86,990	86,982	(7)
	Negotiable certificate of deposits	370,600	370,600	–
	Sub total	457,590	457,582	(7)
Total		¥457,590	¥457,582	¥(7)

(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	1,045,305	1,045,213	(92)
	Negotiable certificate of deposits	4,453,256	4,453,256	–
	Sub total	5,498,561	5,498,469	(92)
Total		\$5,498,561	\$5,498,469	\$(92)

(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)	

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, 2011 is as follows:

(Millions of Yen)

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

(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	\$1,201,634	\$1,201,634	\$(9,488)	Based on price given by financial institution
Hedge account for interest rate swaps	Interest rate swap transactions Receive/ floating and pay/fixed	Bonds	1,141,553	1,141,553	(*)1	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	5,804,975	5,804,975	(*)2	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	1,658,255	—	(*)2	
Total			\$9,806,417	\$8,148,162	\$(9,488)	

(*)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.

Note 2. The repayment schedule from March 31, 2011 for monetary claims and securities with maturity dates is as follows:

(Millions of Yen)

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

(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	\$18,981,286	\$18,644,141	\$18,557,069	\$18,148,192	\$17,768,677	\$75,562,269	\$83,049,951	\$16,434,010
Securities								
Securities held-to-maturity	5,498,561	-	-	-	-	-	-	-
Deposits	6,208,036	-	-	-	-	-	-	-

Note 3. The repayment schedule from March 31, 2011 is as follows:

(Millions of Yen)

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

(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
Bonds	\$26,149,123	\$24,399,904	\$26,004,206	\$23,211,608	\$20,199,111	\$82,492,670	\$15,457,078	\$2,540,880

6. Tangible and Intangible Fixed Assets

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

(Millions of Yen)

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

(Thousands of US Dollars)

Type of assets	Balance at end of previous fiscal year (Aquisition costs)	Increase during the year	Decrease during the year	Balance at March 31, 2011 (Aquisition costs)	Accumulated depreciation and amortization at March 31, 2011	Depreciation and amortization during the year	Balance at March 31, 2011 (Net book value)
Tangible fixed assets							
Buildings	\$ 6,674	\$ 154	\$ -	\$ 6,828	\$1,296	\$ 506	\$ 5,532
Land	28,878	-	-	28,878	-	-	28,878
Other tangible fixed assets	1,159	527	-	1,686	1,031	541	655
Total tangible fixed assets	36,711	681	-	37,392	2,327	1,047	35,065
Intangible fixed assets							
Software	14,657	1,359	-	16,016	6,922	3,176	9,094
Other intangible fixed assets	163	-	162	1	-	-	1
Total intangible fixed assets	\$14,820	\$1,359	\$162	\$16,017	\$6,922	\$3,176	\$ 9,095

Notes: 1. Accumulated depreciation of tangible fixed assets amounted to 193 million yen (2,327 thousand dollars) as of March 31, 2011.

7.Assets Pledged as Collateral

○ At March 31, 2010

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 (222,716,595 thousand dollars).

○ At March 31, 2011

Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds for 18,327,190 million yen (220,225,787 thousand dollars).

8.Bonds

Bonds at March 31, 2011 consisted of the following:

(Millions of Yen)(Thousands of US Dollars)

Type of bond	Date of issue	Outstanding amount at March 31, 2011		Coupon rate (%)	Maturity
Government-guaranteed bonds (domestic) 1st-22th JFM bonds	6/15/2009- 3/14/2011	¥ 1,330,908	\$15,992,656	0.9 ~ 1.5	10Y
Government-guaranteed bonds (international) 1st Global US dollar JFM bonds	1/13/2011	83,170 [US dollars 1,000,000 thousand]	999,399	4.0	10Y
Public offering bonds without government guarantee 1st-4th 5-year bonds	5/25/2010- 2/21/2011	90,000	1,081,471	0.423 ~ 0.639	5Y
Public offering bonds without government guarantee 1st-22nd JFM bonds	6/18/2009- 3/17/2011	605,000	7,269,887	0.976 ~ 1.648	10Y
Public offering bonds without government guarantee 1st-13th 20-year bonds	6/25/2009- 1/24/2011	355,000	4,265,801	1.752 ~ 2.266	20Y
Public offering bonds without government guarantee F-1st-F-52th, F-54th- F-56th JFM bonds	7/22/2009- 2/3/2011	461,000	5,539,534	0.185 ~ 2.332	3Y ~ 29Y
Public offering bonds without government guarantee F-53th JFM bonds (Floating Rate Note)	2011/2/1	15,000	180,245	Floating rate	10Y
Private placement bonds without government guarantee A-1st -14th JFM bonds	7/31/2009- 3/22/2011	680,000	8,171,113	0.99 ~ 1.53	10Y
Japan Finance Organization for Municipalities bonds - Sub-total	—	3,620,078	43,500,106	—	—
Government-guaranteed bond (domestic) 1st 4-year JMF bond	2/27/2009	299,917	3,603,911	0.7	4Y
Government-guaranteed bonds (domestic) 1st-8th JFM bonds	10/16/2008- 5/25/2009	560,362	6,733,504	1.3 ~ 1.6	10Y
Public offering bond without government guarantee 1st 5-year JFM bond	2/24/2009	29,994	360,429	1.01	5Y
Public offering bonds without government guarantee 1st-4th JFM bonds	11/25/2008- 5/28/2009	139,962	1,681,836	1.59 ~ 1.77	10Y
Public offering bonds without government guarantee 1st-2nd 20-year JFM bonds	1/26/2009- 4/30/2009	84,946	1,020,749	2.07 ~ 2.29	20Y
Private placement bonds without government guarantee A-1st-2nd JFM bonds	4/30/2009- 5/26/2009	120,000	1,441,962	1.69 ~ 1.73	10Y
Japan Finance Organization for Municipal Enterprises bonds - Sub-total	—	1,235,183	14,842,391	—	—

Government-guaranteed bonds (domestic) 788th-886th former JFM bonds	4/27/2000- 6/19/2008	7,556,867 (1,540,760)	90,805,906 (18,514,299)	0.5 ~ 2.0	10Y
Government-guaranteed bonds (domestic) 1st-5th 15-year former JFM bonds	6/22/2005- 7/18/2007	184,659	2,218,935	1.6 ~ 2.2	15Y
Government-guaranteed bonds (international) 4th Euro sterling pound former JFM bond - 5th Global Yen former JFM bond	8/9/1999- 6/25/2008	923,913 (200,000) [US dollars 3,200,000 thousand] [Euro 900,000 thousand] [Pound sterling 150,000 thousand]	11,102,057 (2,403,268)	1.350 ~ 5.875	10Y ~ 20Y
Public offering bond without government guarantee 1st 5-year former JFM bond	2/29/2008	129,976	1,561,838	1.14	5Y
Public offering bonds without government guarantee 1st-30th former JFM bonds	12/26/2001- 6/16/2008	1,279,829 (100,000)	15,378,864 (1,201,634)	0.64 ~ 2.07	10Y
Public offering bonds without government guarantee 1st-25th 20-year former JFM bonds	7/30/2002- 6/16/2008	569,636	6,844,949	1.03 ~ 2.58	20Y
Public offering bonds without government guarantee 1st-10th 30-year former JFM bonds	1/29/2004- 9/20/2006	189,855	2,281,363	2.39 ~ 2.95	30Y
Public offering bond without government guarantee 1st floating rate former JFM bond	10/31/2002	20,000	240,327	Floating rate	15Y
Public offering bonds without government guarantee 1st-2nd inflation-indexed former JFM bonds	3/2/2005- 7/19/2005	40,000	480,654	0.45 ~ 0.47	10Y
Public offering bonds without government guarantee 1st-3rd former JFM bonds with scheduled repayment	2/14/2003- 6/9/2004	43,490 (2,170)	522,591 (26,076)	1.39 ~ 2.01	28Y
Public offering bond without government guarantee 1st CMS-linked floating rate former JFM bond	9/13/2006	20,000	240,327	Floating rate	10Y
Private placement bonds A series 55th - Special No.1 series 31st former JFM bonds	4/28/2000- 7/31/2008	2,513,700 (333,200)	30,205,479 (4,003,846)	0.67 ~ 2.18	10Y
Former JFM bonds - Sub-total	-	13,471,927 (2,176,130)	161,883,290 (26,149,123)	-	-
Total	-	¥18,327,190 (2,176,130)	\$220,225,787 (26,149,123)	-	-

Notes: 1. Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds for 18,327,190 million yen(220,225,787 thousand dollars).

2. Amounts posted in brackets "[]" in the column of "Outstanding amount at March 31, 2011" for "Government-guaranteed bond (international) - 4th Euro sterling pound 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, 2011" are the amounts to be repaid within one year.

9. Reserves

Reserves at March 31, 2011 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, 2011
Reserve for bonuses	¥ 43	¥41	¥43	¥ -	¥ 41
Reserve for directors' bonuses	7	6	7	-	6
Reserve for retirement benefits	210	5	10	9	195
Reserve for retirement benefits for directors and corporate auditors	56	6	10	24	27

(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, 2011
Reserve for bonuses	\$ 520	\$501	\$520	\$ -	\$ 501
Reserve for directors' bonuses	87	83	87	-	83
Reserve for retirement benefits	2,524	66	127	114	2,349
Reserve for retirement benefits for directors and corporate auditors	675	82	130	300	327

10. Reserve for Interest Rate Volatility

Reserve for interest rate volatility at March 31, 2011 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, 2011
			Amount provided		Amount Withdrawn	
Reserve for interest rate volatility	¥ 440,000	¥220,000	¥220,000	¥ -		¥ 660,000
Management account reserve for interest rate volatility	3,111,043	245,489	245,489	220,000	220,000	3,136,532
Total	¥3,551,043	¥465,489	¥465,489	¥220,000	¥220,000	¥3,796,532

(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, 2011
			Amount provided		Amount Withdrawn	
Reserve for interest rate volatility	\$ 5,287,191	\$2,643,595	\$2,643,595	\$ -		\$ 7,930,786
Management account reserve for interest rate volatility	37,383,366	2,949,880	2,949,880	2,643,595	2,643,595	37,689,651
Total	\$42,670,557	\$5,593,475	\$5,593,475	\$2,643,595	\$2,643,595	\$45,620,437

11. Fund for Improvement of Operations of Municipalities

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

(Millions of Yen)

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

(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, 2011
		Amount of reserve	Amount March 31, 2011 Transferred	Amount Withdrawn	Others	
Basic fund for improvement of operations of municipalities	\$10,831,625	\$80,472	\$ -	\$ -	\$ -	\$10,912,097
Additional fund for improvement of operations of municipalities	66,467	-	26,289	-	-	92,756
Total	\$10,898,092	\$80,472	\$26,289	\$ -	\$ -	\$11,004,853

Note: 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

As of and for the years ended March 31, 2010

(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

Plan assets 153 million yen

Reserve for employee retirement benefits 210 million yen

(3) Pension expenses

Pension expenses 16 million yen

Pension expenses related to lump-sum payments upon retirement 3 million yen

Pension expenses related to the Employees' Pension Fund 12 million yen

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simple method.

As of March 31, 2011

(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 344 million yen (4,141 thousand dollars)

Plan assets 149 million yen (1,793 thousand dollars)

Reserve for employee retirement benefits 195 million yen (2,349 thousand dollars)

(3) Pension expenses

Pension expenses 5 million yen (65 thousand dollars)

Pension expenses related to lump-sum payments upon retirement 2 million yen (32 thousand dollars)

Pension expenses related to the Employees' Pension Fund 2 million yen (33 thousand dollars)

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simple method.

13. Net Income by Account

(For the years ended March 31, 2010)

Net income of General account was 4,539 million yen, while net income of Management account was 4,326 million yen.

(For the years ended March 31, 2011)

Net income of General account was 8,025 million yen (96,443 thousand dollars), while net income of Management account was 8,048 million yen (96,712 thousand dollars).

14. Information by Account (Balance Sheets)

Balance sheets of General account and Management account at March 31, 2011 were as follows:

(Millions of Yen)

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

(Thousands of US dollars)

Item	General account	Management Account	Offset	Total
(Assets)				
Loans	\$43,092,107	\$224,053,487		\$267,145,594
Securities	5,498,561			5,498,561
Cash and bank deposits	6,208,040			6,208,040
Other assets	29,086	175,589		204,675
Tangible fixed assets	35,065			35,065
Intangible fixed assets	9,095			9,095
Due from General account		9,941,740	\$ (9,941,740)	
Due to Management account for Fund for improvement of operations of municipalities	5,321,214		(5,321,214)	
Total assets	60,193,168	234,170,816	(15,262,954)	279,101,030
(Liabilities)				
Bonds	31,013,026	189,212,761		220,225,787
Other liabilities	37,343	175,323		212,666
Reserve for bonuses	501			501
Reserve for directors' bonuses	83			83
Reserve for retirement benefits	2,349			2,349
Reserve for retirement benefits for directors and corporate auditors	327			327
Fund for improvement of operations of municipalities	11,004,853			11,004,853
Basic fund for improvement of operations of municipalities	10,912,097			10,912,097
Additional fund for improvement of operations of municipalities	92,756			92,756
Due to Management account	9,941,740		(9,941,740)	
Due from General account for Fund for improvement of operations of municipalities		5,321,214	(5,321,214)	
Reserve under special laws	7,930,786	38,889,954		46,820,740
Reserve for interest rate volatility	7,930,786			7,930,786
Management account reserve for interest rate volatility		37,689,651		37,689,651
Reserve for interest rate reduction		1,200,303		1,200,303
Total liabilities	59,931,008	233,599,252	(15,262,954)	278,267,306
(Net Assets)				
Capital	199,497			199,497
Retained earnings	166,555			166,555
General account surplus reserve	166,555			166,555
Valuation, translation adjustments and others	(103,892)			(103,892)
Management account surplus reserve		571,564		571,564
Total net assets	262,160	571,564		833,724
Total liabilities and net assets	\$60,193,168	\$234,170,816	\$(15,262,954)	\$279,101,030

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.

15.Information by Account (Statements of Income)

Statements of income of General account and Management account from April 1, 2010 through March 31, 2011 was as follows:

(Millions of Yen)

Item	General account	Management account	Offset	Total
Income	¥ 62,302	¥512,245	¥ (34,280)	¥539,997
Interest income	45,152	494,659		539,812
Fees and commissions	134			134
Other income	50			50
Administrative fee for Management account	962		(962)	
Interest on fund for improvement of operations of municipalities	15,730		(15,730)	
Interest on due from General account		594	(594)	
Transfer from General account for Fund for improvement of operations of municipalities		16,992	(16,992)	
Expenses	54,006	272,702	(34,280)	292,428
Interest expenses	29,637	253,540		283,177
Fees and commissions	26	243		269
Other operating expenses	2,303	2,115		4,418
General and administrative expenses	2,264	109		2,374
Other expenses	2,187			2,187
Transfer to fund for improvement of operations of municipalities	2,187			2,187
Interest on due to Management account	594		(594)	
Transfer to Management account for fund for improvement of operations of municipalities	16,992		(16,992)	
Administrative fee for Management account		962	(962)	
Interest on fund for improvement of operations of municipalities		15,730	(15,730)	
Ordinary income	8,025	239,543	–	247,569
Special gains	220,000	233,994	(220,000)	233,994
Provision for Management account	220,000		(220,000)	
Reversal of Management account reserve for interest rate volatility		220,000		220,000
Reversal of reserve for interest rate reduction		13,994		13,994
Special losses	220,000	465,489	(220,000)	465,489
Provision for reserve for interest rate volatility	220,000			220,000
Provision for Management account reserve for interest rate volatility		245,489		245,489
Transfer to Management account		220,000	(220,000)	
Net income	¥ 8,025	¥ 8,048	¥ –	¥ 16,074

(Thousands of US dollars)

Item	General account	Management account	Offset	Total
Income	\$ 745,398	\$6,155,322	\$ (411,926)	\$6,488,794
Interest income	542,573	5,943,995		6,486,568
Fees and commissions	1,620			1,620
Other income	606			606
Administrative fee for Management account	11,570		(11,570)	
Interest on fund for improvement of operations of municipalities	189,029		(189,029)	
Interest on due from General account		7,138	(7,138)	
Transfer from General account for Fund for improvement of operations of municipalities		204,189	(204,189)	
Expenses	648,955	3,276,889	(411,926)	3,513,918
Interest expenses	356,129	3,046,625		3,402,754
Fees and commissions	316	2,926		3,242
Other operating expenses	27,678	25,423		53,101
General and administrative expenses	27,216	1,316		28,532
Other expenses	26,289			26,289
Transfer to fund for improvement of operations of municipalities	26,289			26,289
Interest on due to Management account	7,138		(7,138)	
Transfer to Management account for fund for improvement of operations of municipalities	204,189		(204,189)	
Administrative fee for Management account		11,570	(11,570)	
Interest on fund for improvement of operations of municipalities		189,029	(189,029)	
Ordinary income	96,443	2,878,433	–	2,974,876
Special gains	2,643,595	2,811,754	(2,643,595)	2,811,754
Provision for Management account	2,643,595		(2,643,595)	
Reversal of Management account reserve for interest rate volatility		2,643,595		2,643,595
Reversal of reserve for interest rate reduction		168,159		168,159
Special losses	2,643,595	5,593,475	(2,643,595)	5,593,475
Provision for reserve for interest rate volatility	2,643,595			2,643,595
Provision for Management account reserve for interest rate volatility		2,949,880		2,949,880
Transfer to Management account		2,643,595	(2,643,595)	
Net income	\$ 96,443	\$ 96,712	\$ –	\$ 193,155

16. Fair value of Marketable Securities

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)

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

(Millions of Yen)

	Balance sheet amount	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥ 86,990	¥ 86,982	¥(7)	¥ –	¥(7)
Negotiable certificate of deposits	370,600	370,600	–	–	–
Total	¥457,590	¥457,582	¥(7)	¥ –	¥(7)

(Thousands of US Dollars)

	Balance sheet amount	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	\$1,045,305	\$1,045,213	\$(92)	\$ –	\$(92)
Negotiable certificate of deposits	4,453,256	4,453,256	–	–	–
Total	\$5,498,561	\$5,498,469	\$(92)	\$ –	\$(92)

- 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.

17. Derivative Information

(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.

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

(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.

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

(4) Risk management system for derivative transactions

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

Additionally, the total amount of derivative transactions, the status of risks, the assessed fair value, and the credit risk on counterparties are 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, 2011 and 2010, and the related statements of income, changes in net assets and cash flows and appropriation of profit 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, 2011 and 2010, 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, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon LLC

May 20, 2011

A member firm of Ernst & Young Global Limited

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Results of Lending Operations by Business in FY2010

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	Project	Amount of loans made (Millions of yen)	Change (%)	Share (%)	Number of loans made
General Account-Related Loans	○ Public Housing	¥ 16,235	△ 0.9	0.9	121
	○ Social Welfare Facilities Construction	1,217	Across-the-board gains	0.1	9
	○ General Projects	6,243	△ 59.2	0.3	74
	○ Regional Revitalization	9,984	15,500.0	0.5	143
	○ Disaster Prevention	18,598	19,073.2	1.0	206
	○ Special Municipal Merger Projects	182,937	1,499.1	10.0	624
	○ Local Road Construction	126,191	9.8	6.9	871
	Subtotal	361,405	128.4	19.7	2,048
○ Extraordinary Financial Countermeasures Funding		766,236	70.7	41.8	957
Municipal Enterprise-Related Loans	○ Water Supply	125,652	△ 9.8	6.9	815
	○ Small-Scale Water Supply	12,647	△ 20.1	0.7	372
	○ Transportation	3,838	△ 26.0	0.2	9
	○ Urban Rapid Transit Railway	46,180	0.5	2.5	23
	○ Hospitals	53,396	0.2	2.9	231
	○ Sewerage	372,245	△ 8.5	20.3	3,470
	○ Industrial Water Supply	9,913	28.6	0.5	68
	○ Electricity Supply	529	△ 24.8	0.0	5
	○ Gas Supply	4,524	335.0	0.2	22
	Port Facilities	3,958	△ 3.2	0.2	69
	○ Elderly Care Services	312	57.6	0.0	12
	○ Markets	3,764	138.5	0.2	30
	○ Slaughterhouses	151	155.9	0.0	6
	Tourism Facilities	39	△ 44.3	0.0	2
	○ Parking Facilities	780	△ 51.6	0.0	1
	Industrial Waste Disposal	251	△ 28.9	0.0	2
	Subtotal	638,177	△ 6.6	34.8	5,137
○ Refinancing loans for Municipal Enterprise-Related projects		67,077	Across-the-board gains	3.7	513
Total		¥1,832,895	42.0	100.0	8,655

- Notes: 1. The "○" indicates projects eligible for special lending rates (including the extra-special lending rate).
2. "General Projects" include funding for Improvement of Rivers and Other Waterways and High School Construction.
3. "Local Road Construction" includes funding for Local Road Construction.
4. The totals of the individual amounts may not add up exactly due to rounding off.

Loans by Group in FY2010

Appendices

Classification	Amount of loans made in Fiscal 2010	
	Amount (Millions of yen)	Share (%)
Prefectures	¥ 448,646	24.5
Government-Designated Cities	266,533	14.5
Cities* and Special Wards of Tokyo	951,000	51.9
Towns and Villages	147,805	8.1
Corporate Groups and Associations	18,910	1.0
Total	¥1,832,895	100.0

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

* Cities excluding government-designated cities.

FY2010 Redemption of Loans

Appendices

Classification		Principal		Interest	
		Number of loans	Amount (Millions of yen)	Number of loans	Amount (Millions of yen)
Regular redemption of loans	General loans	383,831	¥1,474,979	456,560	¥532,281
	Loans to local government corporations	1,073	17,212	1,109	3,551
	Total	384,904	1,492,191	457,669	535,832
Prepayment of loans	General loans	1,321	137,400	1,318	50
	Loans to local government corporations	17	1,675	17	1
	Total	1,338	139,075	1,335	51
Total		386,242	¥1,631,266	459,004	¥535,883
Redemption of loans with pre-consent or approval		—	—	3	4
Redemption of short-term loans		—	—	—	—

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

Outstanding Loan Balance by Business for FY2010

Appendices

	Project	Number of loans	Amount (Millions of yen)	Share (%)
General Account-Related Loans	Public Housing	5,342	¥ 568,619	2.6
	Local Road Construction	31,163	3,900,914	17.5
	Improvement of Rivers and Other Waterways	3,649	209,876	0.9
	High School Construction	444	76,583	0.3
	General Projects	77	12,835	0.1
	Regional Revitalization	145	10,045	0.0
	Disaster Prevention	217	18,645	0.1
	Special Municipal Merger Projects	650	193,536	0.9
	Local Road Construction	832	123,213	0.6
	Social Welfare Facilities Construction	9	1,217	0.0
	Extraordinary Financial Countermeasures Funding	1,354	1,214,734	5.5
	Subtotal	43,882	6,330,217	28.5
Municipal Enterprise-Related Loans	Water Supply	45,802	3,931,036	17.7
	Small-Scale Water Supply	5,923	175,554	0.8
	Industrial Water Supply	2,426	248,081	1.1
	Transportation	167	21,754	0.1
	Urban Rapid Transit Railway	824	1,391,265	6.3
	Electricity Supply	736	59,638	0.3
	Gas Supply	293	41,303	0.2
	Port Facilities	1,209	98,591	0.4
	Hospitals	2,407	584,184	2.6
	Elderly Care Services	315	23,900	0.1
	Markets	466	84,410	0.4
	Slaughterhouses	59	6,015	0.0
	Tourism Facilities	74	6,442	0.0
	Industrial Waste Processing	22	9,231	0.0
	Parking Facilities	494	79,487	0.4
	Regional Development (Note 1)	64	33,719	0.2
	Sewerage	122,022	8,967,000	40.3
	Subtotal	183,303	15,761,610	70.9
Loan for Local Government Road Corporation	Toll Roads (Public Corporations)	516	140,029	0.6
	Total	227,701	¥22,231,856	100.0

- Notes: 1. Regional Development Projects are land creation projects for regional development that include the creation of coastal industrial land and other land along the shoreline, the preparation of inland industrial land, and land for distribution parks, offices, shops and housing (including land for related facilities), as well as residential land development projects for land readjustment.
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.

JFM formulates its lending plan each fiscal year based on the Local Government Finance Program and the Local Government Borrowing 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 and sanitation, school and social education, policing and fire fighting in their respective regions.

Local governments comprise prefectures, cities, towns, villages and special wards of Tokyo.

Cities, towns, villages and special wards of Tokyo are the basic units of local governments and handle administrative issues related to their respective regions.

Prefectures administer broader areas than those that cities, towns, villages and special wards of Tokyo are in charge of.

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 or mayors.

As of March 31, 2011, there were 47 prefectures, 19 government-designated cities, 1,727 cities, towns and villages nationwide and 23 special wards of Tokyo.

JFM makes loans exclusively to local governments. JFM, since the time of its Predecessor, has not experienced any default on loans it has made to date.

Local Government Finance Program (LGFP)

As local governments play an important 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 LGFP 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 from the national government to local governments is the "Local Allocation Tax (LAT)". Under the LAT System, the national government allocates a certain portion of the funds that the national government collects as national taxes so that local governments can make up for the shortfall to maintain an appropriate level of public services.

In fiscal 2011, the expenditures of local governments under the LGFP totaled ¥82.5 trillion, which accounted for about 17.3% of GDP.*

Furthermore, LAT of ¥17.4 trillion was distributed to local governments by the national government.

Local Government Borrowing Program (LGBP)

The national government also prepares the LGBP each fiscal year, based on the LGFP for the year, to give an overall picture of the local government's borrowing and to secure necessary revenue sources.

The LGBP sets the amounts of local government's borrowing each year by project and by funding source.

For fiscal 2010, the total amount of the LGBP, or the total amount of new borrowing of local governments, is ¥11.5 trillion.

The breakdown of funding sources is JFM 13.8%, the national government 27.2% and the private sector 59.1%.

Municipal Enterprises

Local governments provide certain areas of services through the municipal enterprises operated basically on their revenues other than funds from the General Account.

Water supply and sewerage services are mainly operated by municipal enterprises.

As of March 31, 2010, 1,794 local governments including all prefectures operated 8,903 municipal enterprises throughout Japan. The total expenditures of these municipal enterprises for fiscal 2009 were ¥18.5 trillion.

The total capital expenditures of municipal enterprises in fiscal 2009 was ¥3.8 trillion, of which ¥1.6 trillion was procured by borrowing, with ¥0.6 trillion provided by JFM.

Procedures for Local Governments' Borrowing

In principle, local governments can borrow only as revenue sources for the expenditures for the purposes specifically stipulated in the Local Finance Law and other related regulations, such as the expenses associated with municipal enterprises, and the construction of public facilities.

In addition, the purposes and terms and conditions of individual local government bonds and loans shall be in line with the budget 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 by the national government.

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 the payment of principal and interest of these local government debts into the LGFP. These debt services are also included in the computation of LAT.
4. If a local government undertakes bonds and loans without obtaining consent from the Minister for Internal Affairs and Communications or its respective prefectural governor, the head of the local government must report it to its respective assembly in advance.
5. Local governments and municipal enterprises with deficits exceeding certain limits, and local governments with debt payment ratios exceeding certain limits, must obtain approval from the Minister for Internal Affairs and Communications or their respective prefectural governors before borrowing.

Act on Assurance of Sound Financial Status of Municipalities

The Act on Assurance of Sound Financial Status of Municipalities, which was enacted and promulgated in June 2007, stipulates that local governments with financial indices exceeding certain levels shall expeditiously restore financial soundness. Under the Law, local governments shall disclose their financial indices, and, according to the indices, such local governments must map out their appropriate plans to restore fiscal soundness.

The Act 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.

*GDP: Annual Nominal GDP (fiscal year 2011); Department of National Accounts, Economic and Social Research Institute, Cabinet Office

History of JFM

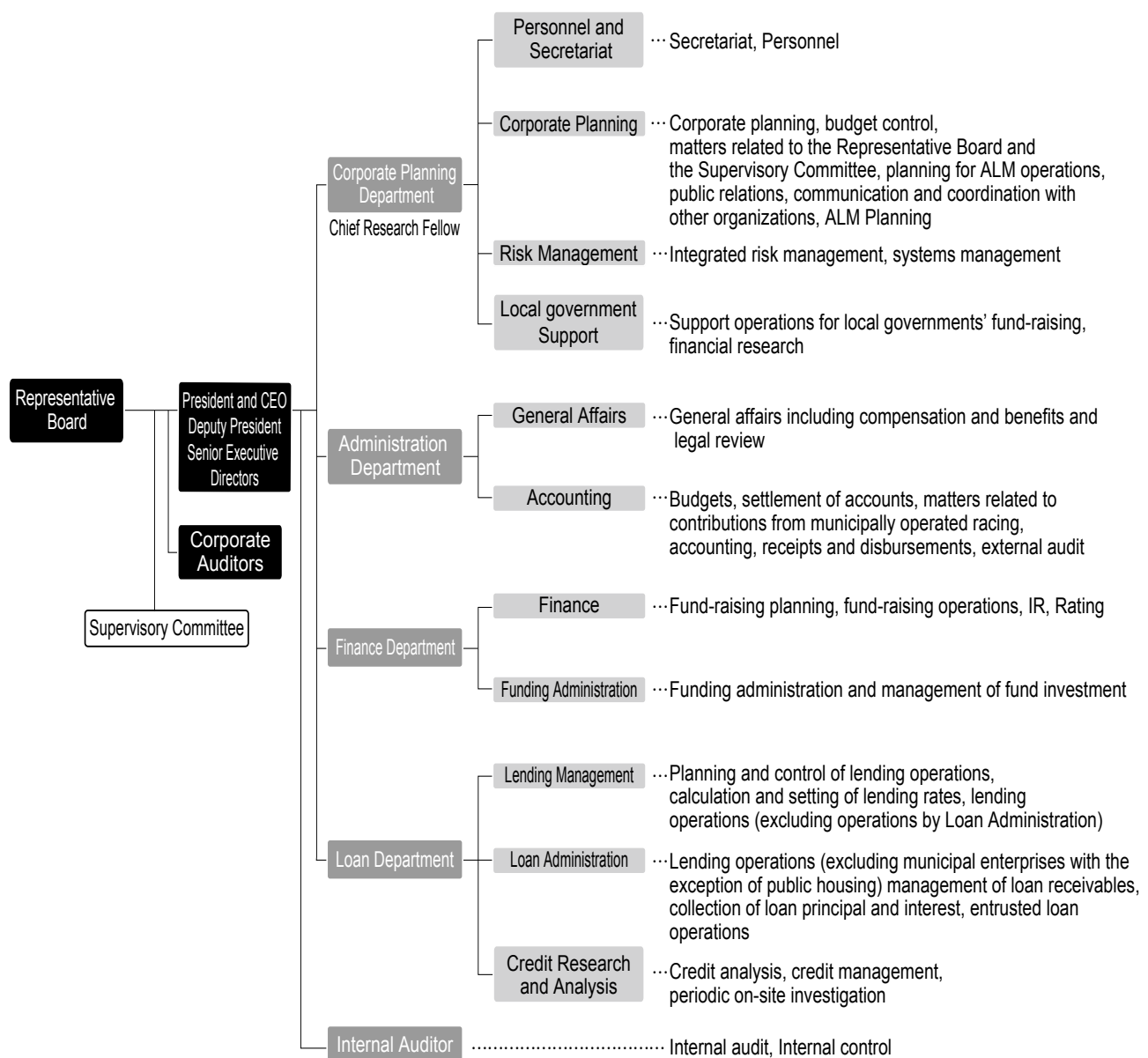
Fiscal Year	Event
2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of JFM) was established based on the Japan Finance Organization for Municipal Enterprises Law on August 1, 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on October 1, 2008.
2009	Reorganized as the Japan Finance Organization for Municipalities based on the partial amendment of the Japan Finance Organization for Municipal Enterprises Law (June 1, 2009).

History of the Predecessor

Fiscal Year	Event
1957	Established based on the Japan Finance Corporation for Municipal Enterprises Law (June 1, 1957).
1960	Started making loans entrusted by Agriculture, Forestry and Fisheries Finance Corporation.
1966	Started a lending program that applied special lending rates.
1967	Started receiving subsidies from the national treasury.
1970	Started the program of contributions of proceeds from municipally operated racing and established the Fund for the Improvement of Operations of Municipal Enterprises.
1972	Started lending to local government road corporations and local government land development corporations.
1978	Included three General Account–related special projects (Local Road Construction, Improvement of Rivers and Other Waterways and High School Construction) in the scope of lending.
1983	Started issuing foreign currency–denominated bonds.
1989	Established the Reserve for Losses on Refinancing of Bonds
1990	Started a lending program that applied extra special lending rates.
1998	Based on the policy titled “Regarding Reorganization and Rationalization of Special Public Institutions,” which was approved by the Cabinet on September 24, 1997, one part-time senior executive director was added; the Japan Finance Corporation for Municipal Enterprises Management Council was established; and we addressed the phased abolition of subsidies from the national treasury over a three-year period.
2001	Subsidies from the national treasury were abolished and the Reserve for Interest Rate Reduction was established. Started providing borrowers with the right to choose fixed or adjustable interest rates. Established a compensation program for advanced repayments. Started issuing FILP Agency Bonds. The Special Public Institutions Reform Basic Law was passed, and the Reorganizations and Rationalization Plan for Special Public Institutions was approved by the Cabinet.
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.
2005	The “Priority Policy for Administrative Reform,” which included the proposal for abolition of the Predecessor in fiscal 2008, a new structure utilizing capital markets, and transitional measures to prepare for the abolition, was approved by the Cabinet.
2006	The Administrative Reform Promotion Law was passed. The Headquarters for the Promotion of the Reform of Policy-Based Finance and the Cabinet Headquarters for the Promotion of Administrative Reform (HQPAR) set forth the plan titled “System Design Regarding the Reform of Policy-Based Finance.” The six associations of local governments submitted the “Local governments’ draft proposal for designing a new system after the abolition of the Predecessor.”
2007	The Japan Finance Organization for Municipal Enterprises Law was passed. The Act on Assurance of Sound Financial Status of Municipalities was passed. Implemented prepayment without penalty and other measures in accordance with the national government’s policy on reducing local governments’ debt service burden. The program ended in fiscal 2008.
2008	Dissolved based on the Japan Finance Organization for Municipal Enterprises Law (October 1, 2008).

Organization Structure

As of April 1, 2011



Organization Profile

Operations

International Management System

Financial Section

Appendices / JFM Data

■ Directors and Corporate Auditors

President and CEO

Yuji Watanabe

Deputy President

Masamichi Fukunaga

Senior Executive Directors

Takeji Takei, Sadaji Hiranuma, Keiichi Hikita (part-time)

Corporate Auditors

Katsuhiko Hara, Nadamu Takata (part-time)



(From left, S. Hiranuma, Senior Executive Director; M. Fukunaga, Deputy President; Y. Watanabe, President and CEO; T. Takei, Senior Executive Director; and K. Hikita, Senior Executive Director)



Photo provided by The Tokyo Institute for Municipal Research

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(From left, K. Hara, Corporate Auditor, and Nadamu Takata, 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.

