



JFM

Annual Report 2012

Japan Finance Organization for Municipalities



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Japan Finance Organization for Municipalities

Profile

(March 31, 2012)

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	89 (as of April 2012)
Outstanding Loan Amount as of March 31, 2012	¥22,387.4 billion
Outstanding Bond Amount as of March 31, 2012	¥18,224.9 billion
Ratings	S&P: AA- Moody's: Aa3 R&I: AA+

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, 2012, unless otherwise indicated.

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President and CEO's Message

Review of Fiscal 2011

Fiscal 2011 started immediately after the Great East Japan Earthquake, which caused unprecedented disaster. Restoration and reconstruction efforts have been made in areas affected by the disaster. Meanwhile, the situation surrounding the Japanese economy has been extremely severe owing to the impacts of the European financial crisis and the yen subsequently reaching new highs.

Under these circumstances, based on our policy to do all that we can to support local governments' restoration and reconstruction efforts in the disaster-struck areas, we have responded in various ways to meet local governments' needs.

We believe that we can play an important role in ensuring safety and comfort for local areas, given that JFM funds were secured for disaster prevention and mitigation businesses nationwide in light of the earthquake.

In the year under review, we lent a total of around ¥1.8 trillion to fund water supply, sewerage, hospital, and other social infrastructure projects. We will continue to be a key source of funding for local governments.

Also during the term, we made our first issue of international bonds without government guarantees based on our Euro MTN program. We think it makes our funding more stable with favorable terms to issue international bonds flexibly.

Initiatives in Fiscal 2012

Efforts to accelerate a recovery from the Great East Japan Earthquake and rebuild the domestic economy will be a key challenge for Japan in fiscal 2012.

JFM's funds under the Local Government

Borrowing Program for fiscal 2012 are ¥2.174 trillion, up 14.8% from the previous year. This amount is the largest since our establishment. Our planned bond issuance for fiscal 2012 is also our largest ever. We believe that this growth reflects the increasingly important role we play in local government funding as well as our presence in the market. We will responsibly make further efforts to meet the expectations of local governments.

In light of JFM's favorable operating position, it was decided that some of JFM's reserves for interest rate volatility within the Management account would be attributed to the Japanese national government and that this part would be transferred to the Japanese national government's special account for local allocation tax. A transfer of ¥1 trillion is projected over three years from fiscal 2012 through fiscal 2014. In fiscal 2012, JFM has transferred ¥350 billion to the national treasury. Through this move, we believe that we can extensively contribute to overall local government finances as a joint entity for local governments.

Of Local Governments, by Local Governments, for Local Governments

Efforts are underway throughout Japan to rebuild from the disaster. As a joint entity of local governments, by local governments and for local governments, JFM funds diverse projects and seeks to accommodate regional needs. JFM also is marshaling its entire management and staff in concerted efforts to accomplish its mission of supporting local governments projects that are essential to daily lives.

We ask for your continued understanding and support for our endeavors.



Yuji Watanabe
President and CEO,
Japan Finance Organization
for Municipalities
June 2012

Yuji Watanabe

Management Philosophy

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

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

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.



Review and Plan

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Review of Operations for Fiscal 2011

1. Lending Operations

1. Fiscal 2011 lending operations

In fiscal 2011, JFM provided loans totaling ¥1,804.1 billion. The loans for Extraordinary Financial Countermeasures Funding were ¥737.8 billion, which accounted for 41% of the total, followed by the Sewerage business in the amount of ¥319.6 billion, which represented 18% 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 ¥396.1 billion, which accounted for 22% of the total. Loans for Municipal Enterprise-related projects were ¥588.6 billion, which made up 33% of the total. The proportion of loans for Municipal Enterprise-related projects has been relatively small, as lending has increased for the Special Municipal Merger Business and other General Account-related businesses/projects as well as for Extraordinary Financial Countermeasures Funding that became eligible for JFM lending in fiscal 2009.

Loans with the standard lending rate stood at ¥4.1 billion, which accounted for 0.2% of the total, while loans with 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) totaled ¥1,800 billion, representing 99.8% of the total.

Results of Lending Operations by Business in Fiscal 2011

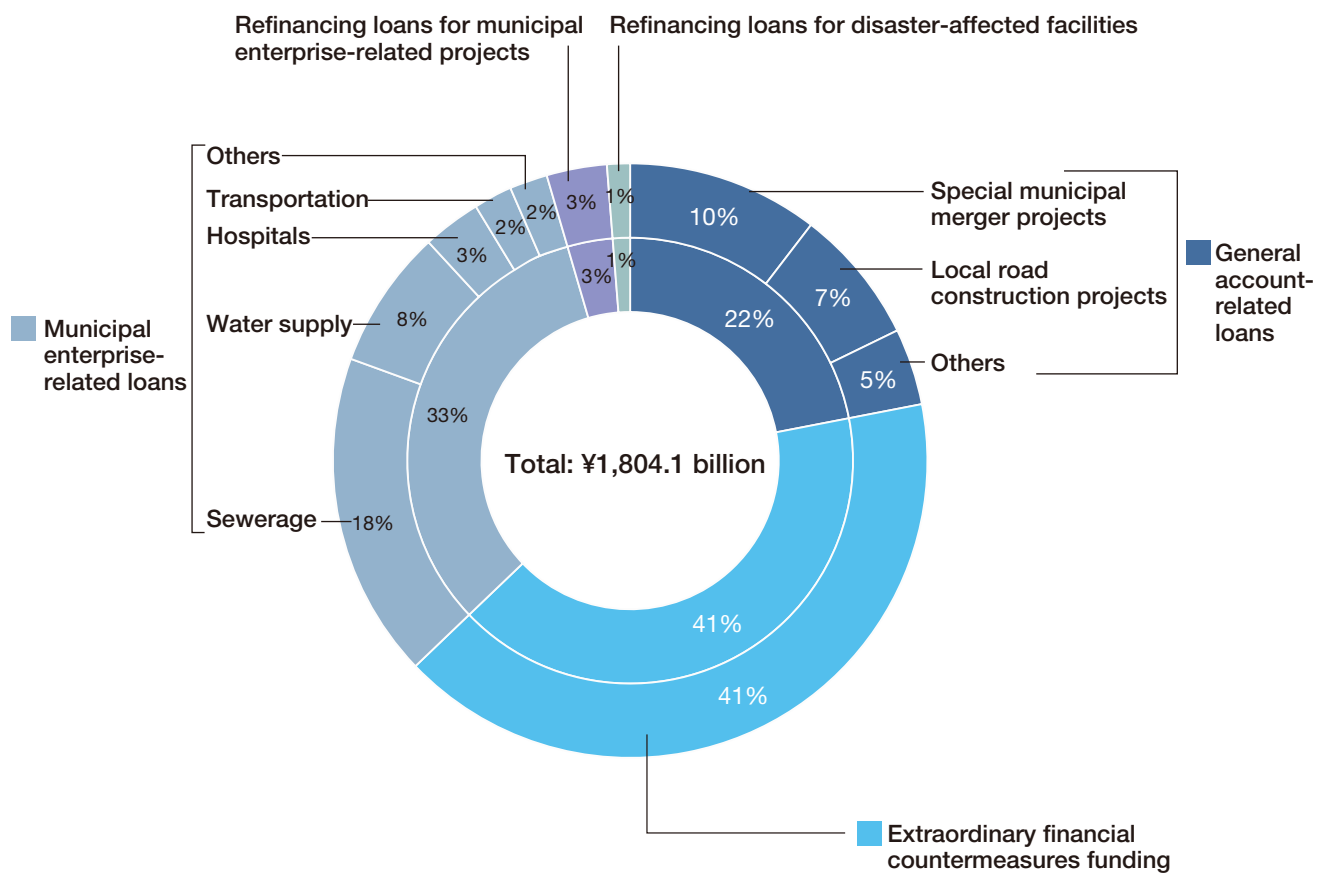
Item	Number of loans made	Loans Amount (millions of yen)		Loan interest rate types
			% of total	
General Account-Related Loans				
Public Projects, etc.	3	136	0.0	Extra-special lending rate
Public Housing	111	16,055	0.9	Special lending rate
Emergency Disaster Prevention/Mitigation Projects	1	2	0.0	Extra-special lending rates
Social Welfare Facilities Construction	150	14,454	0.8	
General Projects	69	8,458	0.5	
Regional Revitalization Projects	111	8,898	0.5	
Disaster Prevention Projects	237	27,236	1.5	
Local Road Construction Projects	1,265	132,880	7.4	
Special Municipal Merger Projects	681	187,971	10.4	
Subtotal	2,628	396,088	22.0	
Municipal Enterprise-Related Loans				
Water Supply	1,001	136,651	7.6	Extra-special lending rates
Industrial Water Supply	62	9,708	0.5	Special lending rate
Transportation	38	43,815	2.4	Extra-special lending rates
Electricity Supply/Gas Supply	34	4,014	0.2	Extra-special and special lending rates (see note 2)
Port Facilities	42	2,898	0.2	Standard lending rates
Hospitals/Elderly Care Services	297	60,736	3.4	Extra-special and special lending rates (see note 2)
Markets/Slaughterhouses	43	9,080	0.5	Special lending rates
Sewerage	1,954	319,583	17.7	Extra-special lending rates
Tourism Facilities and others	4	2,088	0.1	Standard and special lending rates (see note 3)
Subtotal	3,475	588,573	32.6	
Refinancing Loans for Municipal Enterprise-related Projects	459	59,163	3.3	(see note 4)
Refinancing Loans for Facilities Affected by Quake	964	22,523	1.2	(see note 4)
Extraordinary Financial Countermeasures Funding	971	737,775	40.9	Extra-special lending rates
Total	8,497	1,804,122	100.0	

Notes: 1. Totals may not add up exactly because of rounding off for each line item.

2. Extra-special lending rates apply for electricity supply and hospitals, while special lending rates apply for gas supply and elderly care services.

3. With tourism and other businesses (tourism facilities, industrial waste disposal, and parking facilities), standard rates apply for tourism facilities and industrial waste disposal, while special rates apply for parking facilities.

4. With refinancing loans for municipal enterprise-related projects and refinancing loans for disaster-affected facilities, rates for refinancing operations apply.



Review of Operations for Fiscal 2011

General account-related loans were ¥34.7 billion higher than a year earlier. In fiscal 2011, JFM made ¥22.5 billion in refinancing loans for disaster-affected facilities to secure advanced redemption of property damage from the Great East Japan Earthquake. Municipal enterprise-related loans were down ¥49.6 billion and extraordinary financial countermeasures funding decreased ¥28.5 billion, for an overall decline of ¥28.8 billion.

(Millions of yen)

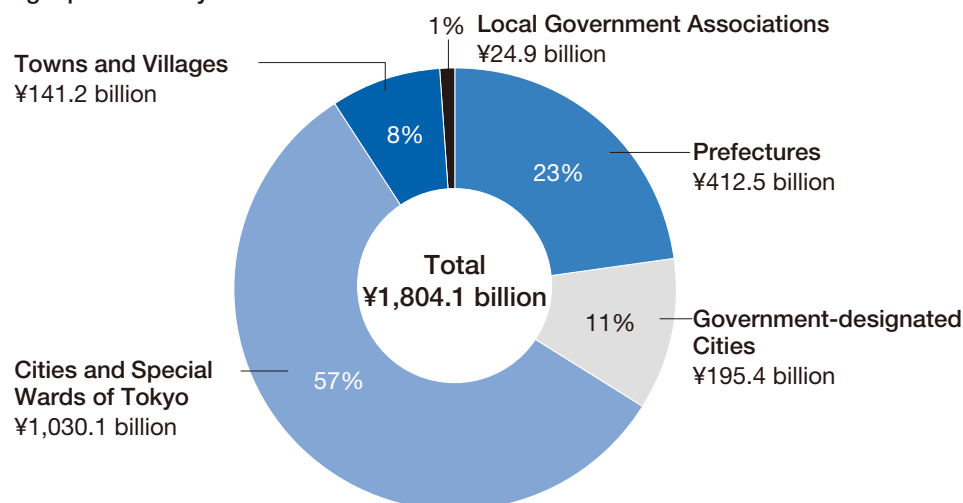
Item	Loans						Change		
	Fiscal 2011			Fiscal 2010					
	Fiscal 2011	Preceding year*	Total	Fiscal 2011	Preceding year*	Total	Fiscal 2011	Preceding year*	Total
General Account-Related Loans									
Public Projects, Etc.	136	-	136	-	-	-	-	-	-
Public Housing	21	16,033	16,055	15	16,220	16,235	6	(187)	(180)
Emergency Disaster Prevention/Mitigation Projects	2	-	2	-	-	-	-	-	-
Social Welfare Facilities Construction	1,158	13,296	14,454	1,217	-	1,217	(59)	-	13,237
General Projects	-	8,458	8,458	-	6,243	6,243	-	2,215	2,215
Regional Revitalization Projects	457	8,442	8,898	221	9,763	9,984	236	(1,321)	(1,086)
Disaster Prevention Projects	572	26,664	27,236	918	17,681	18,598	(346)	8,983	8,638
Local Road Construction Projects	569	132,311	132,880	635	125,556	126,191	(66)	6,755	6,689
Special Municipal Merger Projects	12,456	175,515	187,971	10,921	172,016	182,937	1,535	3,499	5,034
Subtotal	15,369	380,719	396,088	13,926	347,479	361,405	1,443	33,240	34,683
Municipal Enterprise-Related Loans									
Water Supply	108,793	27,858	136,651	110,312	27,987	138,299	(1,519)	(129)	(1,648)
Industrial Water Supply	8,570	1,139	9,708	8,596	1,317	9,913	(26)	(178)	(205)
Transportation	32,840	10,975	43,815	38,844	11,174	50,018	(6,004)	(199)	(6,203)
Electricity Supply/Gas Supply	3,213	802	4,014	4,970	83	5,053	(1,757)	719	(1,039)
Port Facilities	146	2,752	2,898	35	3,923	3,958	111	(1,171)	(1,060)
Hospitals/Elderly Care Services	51,976	8,761	60,736	50,093	3,614	53,708	1,883	5,147	7,028
Markets/Slaughterhouses	5,484	3,595	9,080	2,457	1,458	3,914	3,027	2,137	5,166
Sewerage	101,614	217,969	319,583	106,223	266,022	372,245	(4,609)	(48,053)	(52,662)
Tourism Facilities and Others	-	2,088	2,088	-	1,070	1,070	-	1,018	1,018
Subtotal	312,635	275,938	588,573	321,529	316,648	638,177	(8,894)	(40,710)	(49,604)
Refinancing Loans for Municipal Enterprise-related Projects	59,163	-	59,163	67,077	-	67,077	(7,914)	-	(7,914)
Refinancing Loans for Facilities Affected by Quake	22,523	-	22,523	-	-	-	-	-	-
Extraordinary Financial Countermeasures Funding	436,779	300,996	737,775	569,839	196,398	766,236	(133,060)	104,598	(28,461)
Total	846,470	957,652	1,804,122	972,371	860,524	1,832,895	(125,901)	97,128	(28,773)

* The year when local government obtained consent or approval.

Note: Totals may not add up exactly because of rounding off for each line item.

Cities and special wards of Tokyo represented the largest proportion of loans, with their amount of ¥1,030.1 billion accounting for 57% of the total. Next were prefectures, with ¥412.5 billion, or 23% of the total, and government-designated cities, with ¥195.4 billion, or 11% of the total.

Lending Operations by Borrowers



2. 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 burdens, 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. JFM allowed prepayment without penalty on loans of approximately ¥130.2 billion in fiscal 2010 and ¥98.7 billion in fiscal 2011, of which ¥67.1 billion and ¥59.2 billion were for refinancing loans for municipal enterprise-related projects, respectively.

For fiscal 2012, JFM plans to allow prepayment without penalty on loans of approximately ¥90 billion, of which ¥30 billion is for refinancing loans for municipal enterprise-related projects.

2. Earthquake Responses

As a joint entity of local governments, by local governments and for local governments, while maintaining management discipline, we have implemented measures to address the Great East Japan Earthquake based on our policy to do all that we can to support local governments' restoration and reconstruction efforts in the disaster-struck areas.

We have taken concrete measures below.

Extension of principal and interest repayment date	<p>Given that the Great East Japan Earthquake occurred immediately before the regular repayment date of March 22, 2011, we extended the principal and interest repayment date to September 20, 2011, which is the next regular repayment date, for 32 local governments that had a difficulty 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 over ¥7.2 billion. The interest and principal of loans, for which we extended the due date of payment, had been redeemed in full by the extended date.</p>
Revised lending conditions	<p>The loan maturity for the disaster-related public housing business was extended to a maximum of 30 years from 25 years.</p>
Refinancing loans for facilities affected by quake against advanced redemption	<p>In principle, we decided not to require prepayment of loans for public facilities that suffered tsunami and other damage.</p> <p>However, if the whole or a part of the properties obtained by using loans at interest rates higher than current market rates are lost owing to natural disasters, we accept prepayment in order to reduce interest rate burden of borrowers and provided lending against refinancing loans to allocate financial resources for advanced redemption.</p> <p>○Fiscal 2011 [Loans redeemed before maturity] Amount: ¥33 billion (3 prefectures, 22 municipalities and 1 corporate group) Average redemption period: 13.49 years Average rate: 2.56% [Refinancing loans] Amount: ¥22.5 billion Average redemption period: 11.07 years Average rate: 0.86%</p>

Support for underfunded municipal enterprises	<p>We provided loans to municipal enterprises so they could float funds and overcome projected shortfalls owing to fee reductions or exemptions or business suspensions due to the earthquake.</p> <p>○Fiscal 2011 ¥1.13 billion (3 municipalities)</p>
Disaster relief loans and loans for mother and child and widows welfare	<p>Subletting loans (local governments issue bonds to raise funds for businesses of corporate groups other than local governments) became eligible for JFM lending. We decided to offer loans for local governments' disaster relief and mother and child and widows welfare. The grace period is 8 years rather than 5 years.</p>
Nationwide promotion of Emergency Disaster Prevention/Mitigation Projects	<p>As a lesson of the Great East Japan Earthquake, we provide lending against quick-impact Disaster Prevention/Mitigation Projects, that need to be undertaken urgently nationwide. (fiscal 2012 planned loan amount ¥84.8 billion)</p>

3. Fundraising Operations

1. Amount Raised

The face value of JFM bonds issued in fiscal 2011 was ¥1,011.9 billion. This amount included ¥400 billion in 10-year bonds, ¥170 billion in 20-year bonds, ¥80 billion in five-year bonds, ¥293.5 billion in Flexible Insurance Program (FLIP) bonds, and ¥68.4 billion (after conversion into yen) in foreign currency denominated bonds through the Euro Medium-Term Note Program. Another ¥300 billion in 10-year private placement bonds were issued, these being underwritten by the Pension Fund Association for Local Government Officials, while ¥30 billion in long-term borrowing was made.

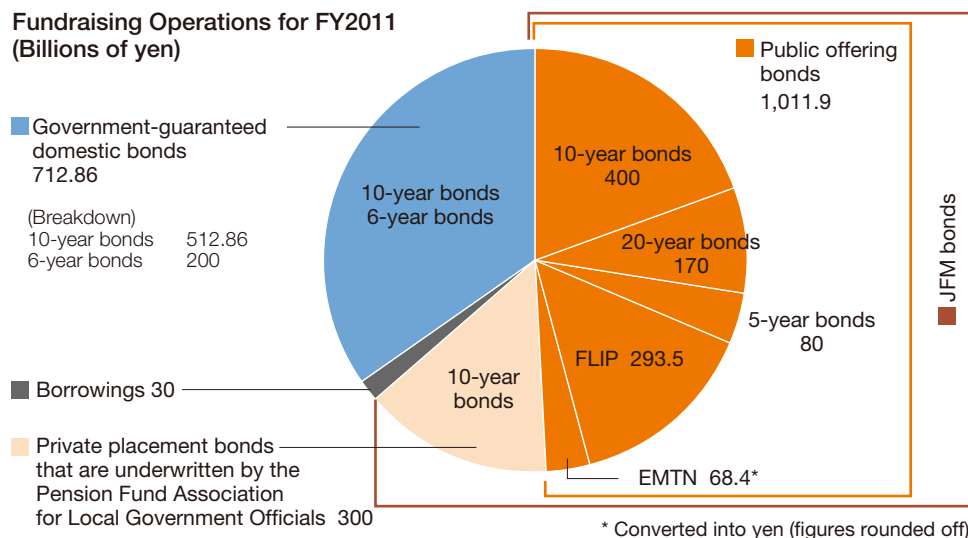
(References)

- FLIP issuances by maturity category were ¥103.0 billion for 3–9 years, ¥181.5 billion for 11–19 years, and ¥9.0 billion for 21–30 years.
- JFM used the Euro Medium-Term Note Program to issue USD, AUD and NZD denominated bonds.

Further, JFM issued government-guaranteed bonds of ¥512.86 billion in 10-year bonds and ¥200 billion in 6-year bonds to refinance the Predecessor's bonds.

As a result, as of the end of fiscal 2011, the outstanding balance of JFM's bonds amounted to ¥18,194.9 billion, including the Predecessor's bonds that JFM assumed. The outstanding balance of long-term borrowing totaled ¥30 billion.

**Fundraising Operations for FY2011
(Billions of yen)**



References:

FLIP is JFM's own framework for issuing bonds with various maturities and amounts to accommodate investor needs flexibly and swiftly.

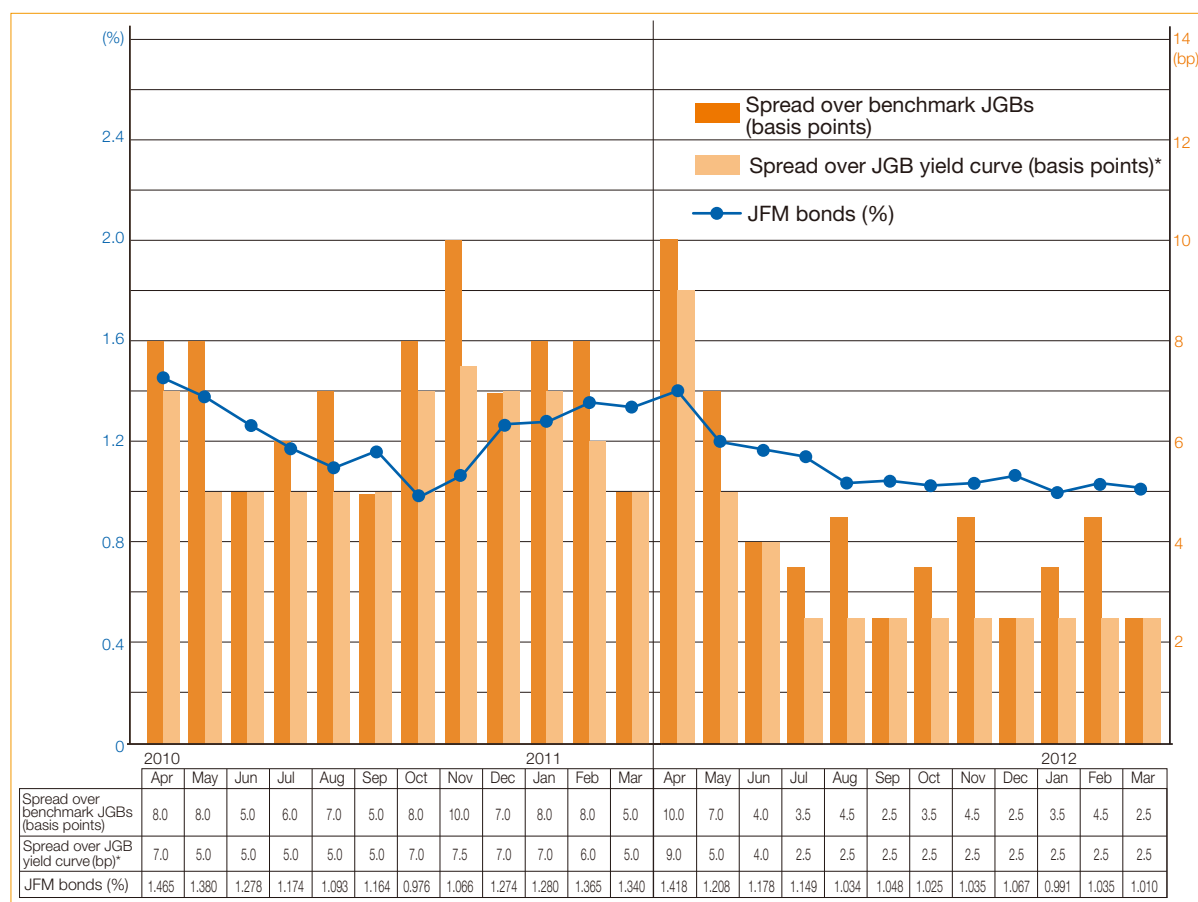
■ Bond maturities: 3–30 years (except for 5-, 10-, and 20-year fixed-rate bullet bonds)

■ Amount per bond issue: At least ¥3 billion

2. Issue terms

Investor demand for bonds with high ratings rose after the Great East Japan Earthquake interrupted issues of electric company bonds. Since April 2011, we have therefore issued 10-year bonds that offer spreads to JGBs similar to those with local governments. The spreads on our 20-year and 5-year bonds were also similar to those of local governments as of March 2012.

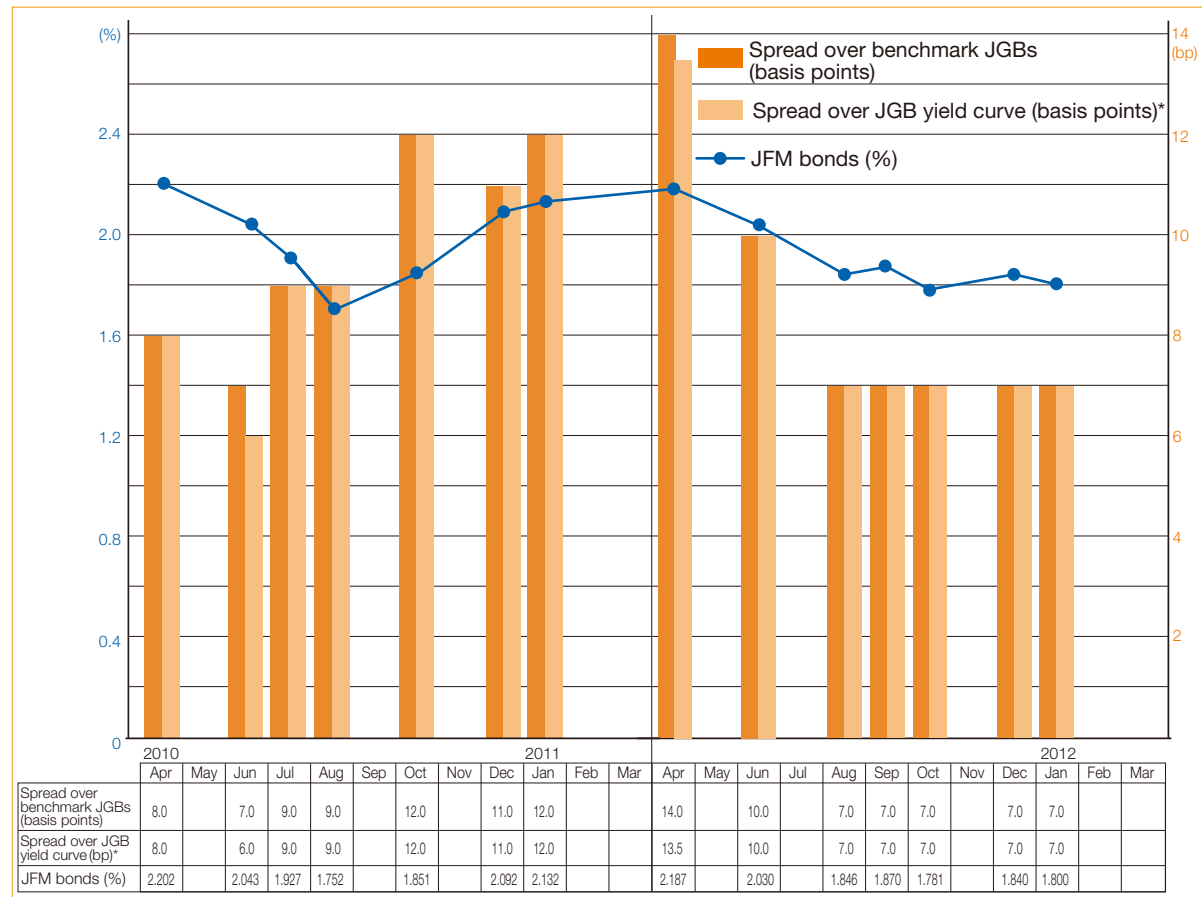
(1) Terms for Issuing 10-Year JFM Bonds



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

Review of Operations for Fiscal 2011

(2) Terms for Issuing 20-Year JFM Bonds



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

(3) Terms for Issuing 5-Year JFM Bonds



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

4. Financial Review

1. Profit/loss statement

In fiscal 2011, JFM's income declined ¥28.1 billion from a year earlier to ¥511.8 billion. This reflected declining long-term interest rates throughout the year, which led to lower interest income.

Expenses decreased ¥10.6 billion, to ¥281.7 billion, as interest expenses declined for the same reasons as those affecting income.

Ordinary income was thus down ¥17.5 billion, to ¥230.0 billion, but still solid.

Pursuant to the relevant laws, part of the income generated by refinancing loans is provided to the Management Account reserve for interest rate volatility. As a result of such provisions and other measures, net income was ¥21.6 billion, up ¥5.5 billion.

2. Assets, liabilities and net assets

As of March 31, 2012, JFM's total assets amounted to ¥23,340.7 billion, up ¥113.9 billion from a year earlier. Assets increased mainly because loans to local governments increased ¥155.5 billion with loan amount exceeding collections on loans.

JFM's total liabilities were up ¥89.6 billion from a year earlier at ¥23,247 billion as of March 31, 2012. Although bonds declined ¥150.4 billion due to redemption amounts exceeding issue amounts, the increase was mainly because the total of the reserve for interest rate volatility and the Management Account reserve for interest rate volatility increased ¥221.0 billion.

At year-end, total net assets were ¥93.6 billion, up ¥24.3 billion from a year earlier. This was because ¥15.5 billion in net income of the General Account was posted as a General Account surplus reserve, while ¥6.1 billion in net income of the Management Account was posted as a Management Account surplus reserve.

Financial highlights since fiscal 2009 are as follows.

Review of Operations for Fiscal 2011

Financial Highlights

1. Profit and Loss

(Millions of yen)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Change
Income	558,528	539,997	511,805	(28,192)
Expenses	308,357	292,428	281,749	(10,678)
Ordinary income	250,170	247,569	230,055	(17,513)
Net income	8,866	16,074	21,632	5,558

2. Assets, Liabilities, and Net Assets

(Millions of yen)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Change
Total assets	23,184,998	23,226,787	23,340,707	113,919
Loans	22,030,227	22,231,856	22,387,411	155,554
Others	1,154,771	994,931	953,296	(41,635)
Total liabilities	23,124,384	23,157,405	23,247,010	89,605
Bonds	18,534,475	18,327,190	18,176,696	(150,493)
Fund for improvement of operations of municipalities	906,939	915,823	919,871	4,047
Reserve under the special law	3,664,927	3,896,421	4,104,844	208,422
Reserve for interest rate volatility	440,000	660,000	880,000	220,000
Management account reserve for interest rate volatility	3,111,043	3,136,532	3,137,557	1,024
Reserve for interest rate reduction	113,883	99,889	87,287	(12,601)
Others	18,042	17,969	45,598	27,629
Total net assets	60,613	69,382	93,696	24,314

Note: Totals may not match because of truncation.

Management Plan for Fiscal 2012

1. Lending Operations

JFM's lending plan is formulated based on the amounts of local government borrowings 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). In light of the Great East Japan Earthquake, however, loans for emergency disaster prevention and mitigation and refinancing loans for facilities affected by quake to allocate financial resources for advanced redemption are now booked under the LGBP for fiscal 2012, and are thus subject to JFM lending. A JFM fund of ¥2,174 billion has thus been earmarked in LGBP for fiscal 2012, up ¥281 billion from a year earlier.

JFM's planned loans for fiscal 2012 are thus ¥1,801.0 billion.

■Loan Amounts Planned by JFM

(Billions of yen)

	Fiscal 2012 (A)	Fiscal 2011 (B)	Change (C)=(A)-(B)	Percentage change (C)/(B)*
Planned Loan Amounts	1,801.0	1,843.1	(42.1)	(2.3%)

■JFM Fund under Local Government Borrowing Program

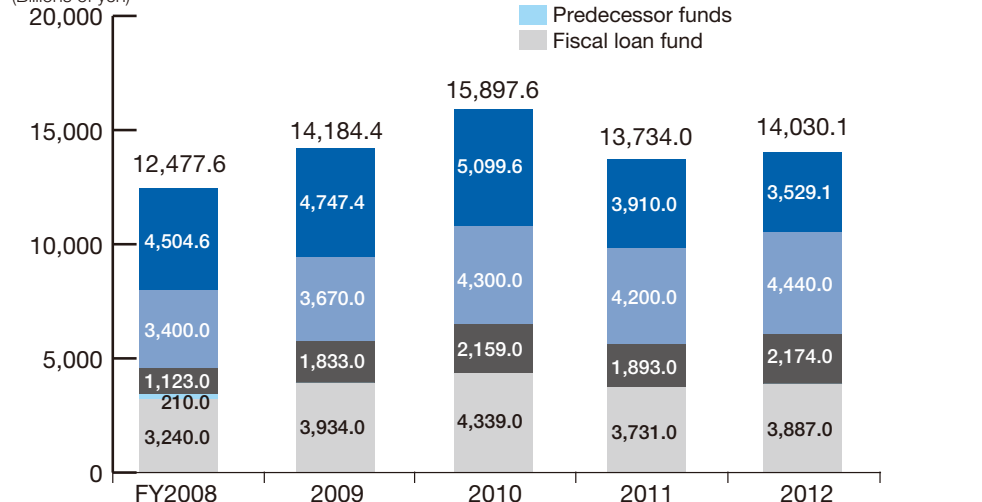
(Billions of yen)

	Fiscal 2012 (A)	Fiscal 2011 (B)	Change (C)=(A)-(B)	Percentage change (C)/(B)*
JFM Fund	2,174.0	1,893.0	281.0	14.8%
[Breakdown]				
General Account-Related Loans	620.3	460.8	159.5	34.6%
Municipal Enterprise-Related Loans	790.0	742.2	47.8	6.4%
Refinancing Loans for Municipal Enterprise-Related Projects	30.0	30.0	0	0.0%
Refinancing loans for Disaster-Affected Facilities	15.0	—	15.0	—
Extraordinary Financial Countermeasures Funding	718.7	660.0	58.7	8.9%

* Amount in the Local Government Borrowing Program and loan plan amounts are not the same, so the timing of obtaining consent or approval and providing loans may differ.

Local Government Borrowing Program Funding Components

(Billions of yen)



2. Fundraising Operations

To raise funds for lending operations, JFM mainly issues public offering bonds in the capital markets. In fiscal 2012, JFM plans to issue ¥1,100 billion in JFM bonds (public offering bonds). This will include ¥450 billion in 10-year bonds, ¥160 billion in 20-year bonds, ¥80 billion in 5-year bonds, ¥280 billion in FLIP and spot bonds and ¥130 billion in EMTNs. In addition, private placement bonds that are underwritten by the Pension Fund Association for Local Government Officials are projected to 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 2012, JFM plans to issue ¥1,030 billion in government-guaranteed bonds, consisting of ¥490 billion in 10-year bonds, ¥320 billion in 6-year bonds and ¥220 billion in 4-year bonds, taking into account that funds are needed to transfer ¥350 billion in JFM's reserves for interest rate volatility within the Management account to the national treasury.

Note: This plan may change according to lending operations, the market climate, or other developments.

■ Annual Bond Issuance Plans

1. JFM Bonds

(1) Public Offering Bonds

Bond Type	Fiscal 2012 (plan)	Fiscal 2011
10-Year Bonds	Around ¥450 billion	¥400 billion
20-Year Bonds	Around ¥160 billion	¥170 billion
5-Year Bonds	Around ¥80 billion	¥80 billion
FLIP and Spot Bonds	Around ¥280 billion	¥293.5 billion (1)
Euro Medium-Term Notes	Around ¥130 billion	¥68.4 billion (2)
Total	¥1,100 billion	¥1,011.9 billion

* Could change depending on lending conditions, market climate, and other factors.

Notes: 1. FLIP only in fiscal 2011.

2. Converted into yen (figures rounded off).

(2) Private Placement Bonds Underwritten by the Pension Fund Association for Local Government Officials

Bond Type	Fiscal 2012 (plan)	Fiscal 2011
10-Year Bonds	¥300 billion	¥300 billion

2. Government-Guaranteed Bonds

Bond Type	Fiscal 2012 (plan)	Fiscal 2011
10-Year Bonds	¥490 billion	¥512.86 billion
6-Year Bonds	¥320 billion	¥200 billion
4-Year Bonds	¥220 billion	—
Total	¥1,030 billion	¥712.86 billion

○Spot Bonds

These bonds have maturities of other than 10, 20 and 5 years, and are issued through lead managers. The first issuance is planned for fiscal 2012.

○FLIP (Flexible Issuance Program)

The FLIP program accommodates investor needs via prescribed brokerages through flexible bond issues under certain frameworks with varying amounts and maturities.

3. Risk Management and Internal Control

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

4. Local Government Support Operations

JFM provides support for local governments to effectively raise funds in the capital markets in response to changes in the environment surrounding local government borrowings. JFM's local government support operations cover four core areas—training for local government staff, research, administrative support for fundraising, and information services. JFM has strengthened its support structure to accommodate the diverse needs of local governments, such as increasing requests for advice on fund management, training, and administrative support.

5. Transfer to the National Treasury of Interest Rate Volatility Reserves within Management Account

In accordance with Article 14 of the Supplementary Provisions to the Japan Finance Organization for Municipalities Law (Law No. 64, 2007), it was decided that part of JFM's reserves for interest rate volatility within the Management account would be attributed to the Japanese national government over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring ¥1 trillion over this period. In fiscal 2012, ¥350 billion has been so transferred to the national treasury by JFM, based on an ordinance pursuant to Article 14 of the Supplementary Provisions to the JFM Law for fiscal 2012 (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2012).



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Lending Operations

- Provide loans as “Public Funds” as designated in the Local Government Borrowing Program.
- Offer loans for which local governments have approval or consent of minister of governor.
- Provide long-term and low-interest funds to local governments to efficiently and effectively complement their fundraising in capital markets, thereby contributing to the sound fiscal management of local governments, as well as the promotion of the welfare of people.
- Offer low-interest funds based on reduced rates from the Fund for the Improvement of the Operations of Municipalities.
- Conduct necessary and appropriate credit checks for all loans.

1. Outline

1. Loan Recipient Bodies

JFM provides loans exclusively to local governments.

2. Lending Scope

Loans for the following municipal organizations.

Municipal Enterprise–Related Loans

- Water Supply
- Industrial Water Supply
- Transportation
- Electricity Supply
- Gas Supply
- Port Facilities
- Hospitals
- Elderly Care Services
- Markets
- Slaughterhouses
- Sewerage
- Tourism Facilities
- Parking Facilities
- Industrial Waste
- Public Housing*

General Account–Related Loans

- Public Projects, etc.
- Emergency Disaster Management and Mitigation Projects
- Projects for Creating Educational Facilities**
- Social Welfare Facilities Construction
- General Projects
- Regional Revitalization
- Disaster Prevention
- Local Road Construction
- Special Municipal Mergers

Extraordinary Financial Countermeasures Funding

Refinancing loans for municipal-related projects and refinancing loans for disaster-affected facilities are also available.

Notes: * The Public Housing business is defined as “Municipal Enterprises” in the Japan Finance Organization for Municipalities Law.

** Projects for creating educational facilities became eligible for funding from fiscal 2012.

3. Types of Loans

JFM loans are classified into three types.

Long-Term Loans are provided to local governments that have consent or approval, and mature in at least two fiscal years. Loans with Pre-Approval are bridge loans to cover the period up to the disbursement of Long-Term Loans for projects for which consent or approval is assured. Short-Term Loans are to be repaid within the same fiscal year.

In addition, there are Entrusted Loans that are entrusted by Japan Finance Corporation.

4. Maturities of Loans

The loan maturities for major business categories are as follows.

Business Type			Loans for Fiscal 2012			
			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
	Emergency Disaster Management and Mitigation Projects		10	2	–	–
	Educational and Social Welfare Facilities Projects	Projects for Creating Educational Facilities	25	3	25	3
		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
		Industrial Water Supply	30	5	30	5
		Transportation	30	5	30	5
		Electricity Supply	30	5	30	5
		Gas Supply	25	5	25	5
		Port Facilities	20	5	30	5
		Hospitals	30	5	30	5
		Markets	25	5	25	5
		Slaughterhouses	20	5	20	5
		Sewerage	30	5	30	5

Note: Lending rates are reviewed every 10 years.



2. Interest Rates of Loans

1. Interest Rates of Loans

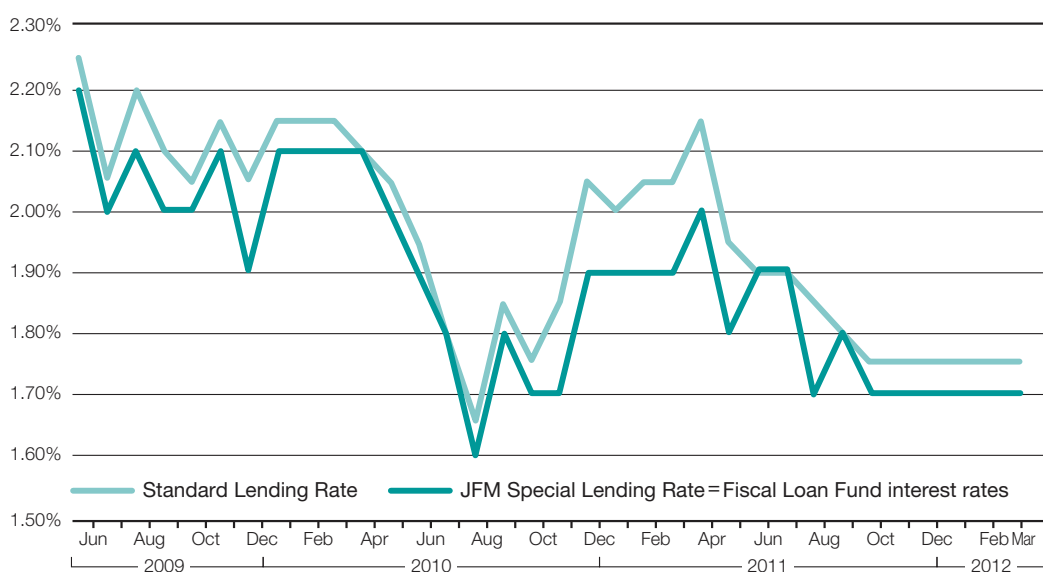
Loan interest rates consist of two types: standard lending rate and JFM special lending rate (see note below).

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 JFM special lending rate at a discount on the standard rate (0.35 percentage point below the standard rate) is applied to residential infrastructure reinforcement projects and Extraordinary Financial Countermeasures Funding.

Loan interest rate trends since JFM's establishment are shown below. The JFM special lending rate has been at the same level as the rates of the Fiscal Loan Fund provided by the national government.

Note: For fiscal 2012, the former special lending rate (0.3 percentage point below the standard rate) and the extra-special lending rate (0.35 percentage point below the standard rate) were integrated into the new JFM special lending rate. The former special and extra-special lending rates are applied to loans approved or consented in previous fiscal years.

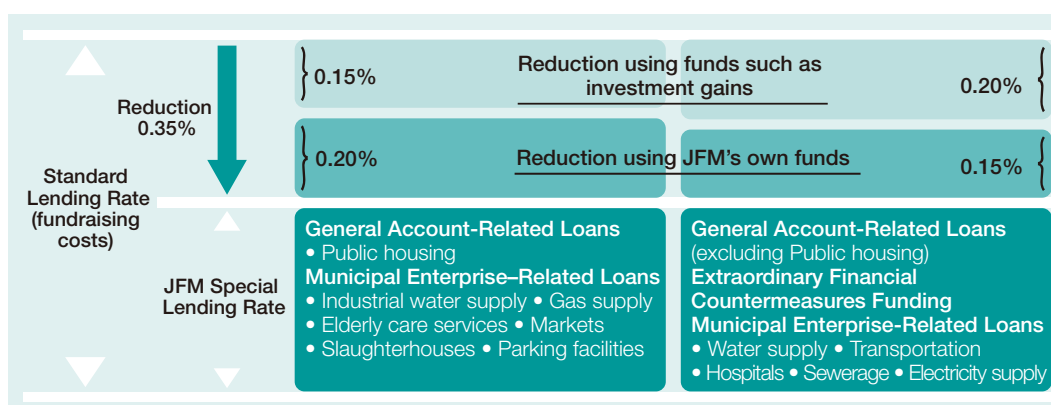


- Notes: 1. The lending rates above represent fixed interest rates of a 30-year maturity loan with a 5-year grace period for principal.
 2. Because the minimum interest rates of JFM special lending rate are set to the same level as the interest rates for the Fiscal Loan Fund provided by the national governments, both rates are the same.

2. Lending Rate Reduction

The interest rate differentials between JFM 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 interest rates of loans.



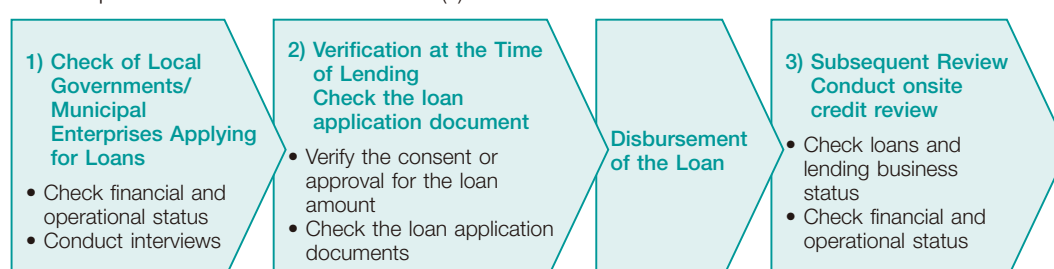
Notes: 1. The minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund, which is provided by the national government with the same repayment terms.

2. The Minister of Internal Affairs and Communications determines the scope of reductions using investment gains 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).

3. 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 and approval for loans.

- 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. If necessary, interview 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).



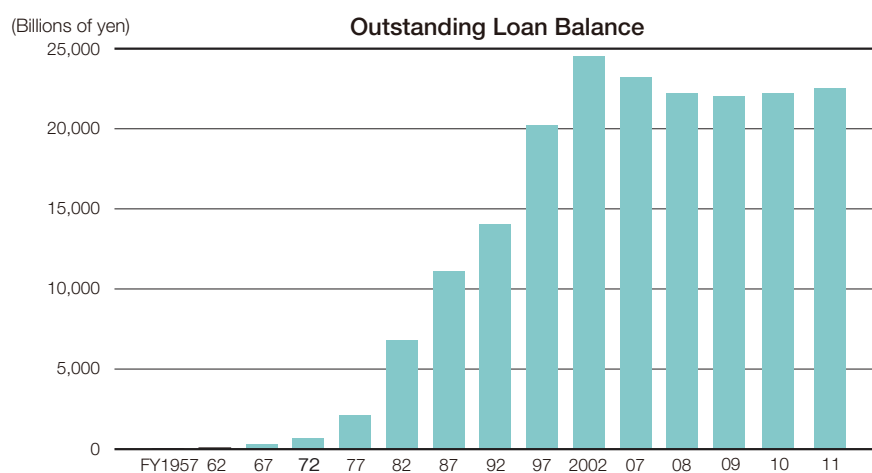
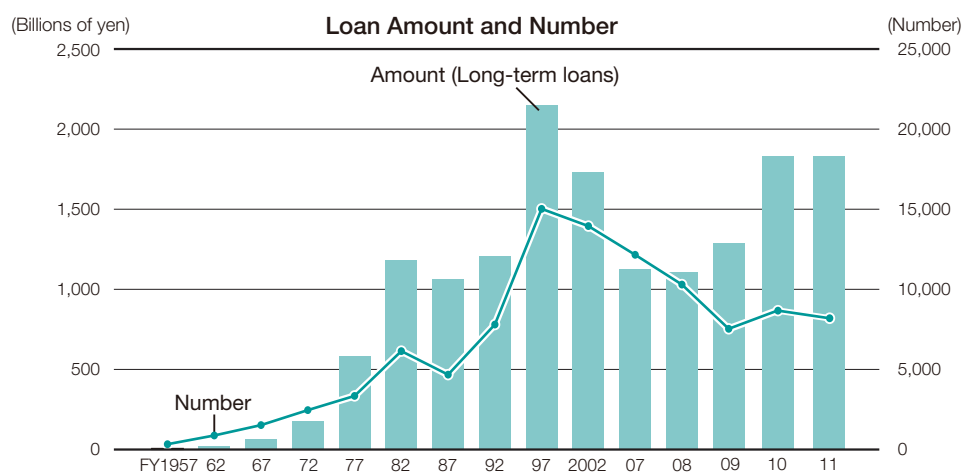


4. Trends in Lending Operations

1. Track Record of Lending Operations

Predecessor loans (long-term loans) declined after peaking at ¥2,136.9 billion in fiscal 1997, but they have risen in recent years since becoming general account-related loans.

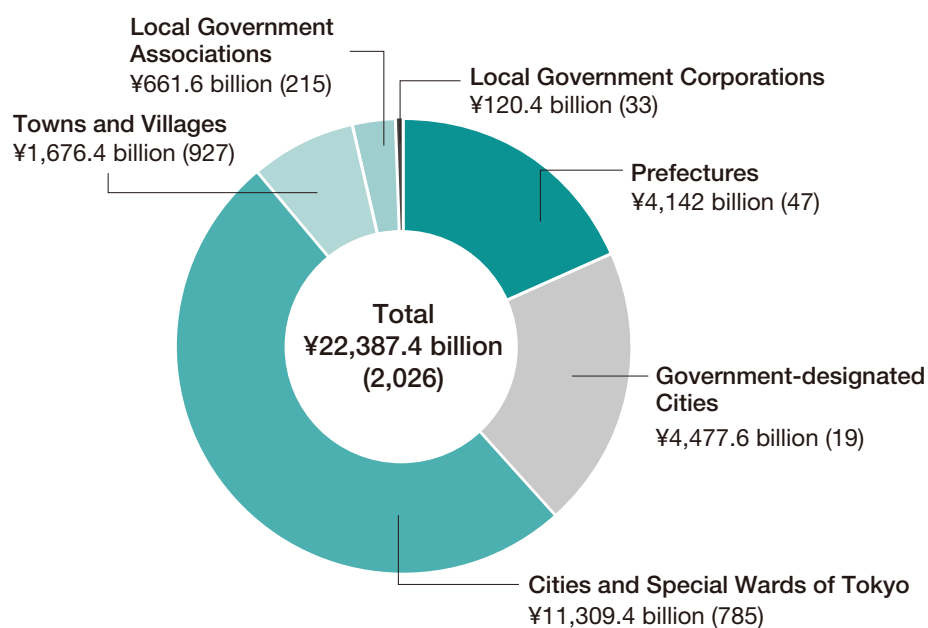
Loans totaled ¥1,804.1 billion, in fiscal 2011. Outstanding loans were ¥22,387.4 billion at year-end.



2. Lending Operations by Business Type

As of March 31, 2012, the number of local governments with loans from JFM totaled 2,026, including all prefectures. Cities and special wards of Tokyo had the highest balance, at ¥11,309.4 billion, which accounted for 51% of the total. Next came government-designated cities, at ¥4,477.6 billion, or 20% of the total. This was followed by prefectures, at ¥4,142.0 billion, or 18% of the total. Finally, the balance of towns, villages, local government associations and others was ¥2,458.4 billion, representing 11% of the total.

Outstanding Loan Balance by Type of Borrower (as of March 31, 2012)
(excluding entrusted loans)



Note: Figures in parentheses show the number of borrowers.



3. Track Record of Lending Operations by Business Type

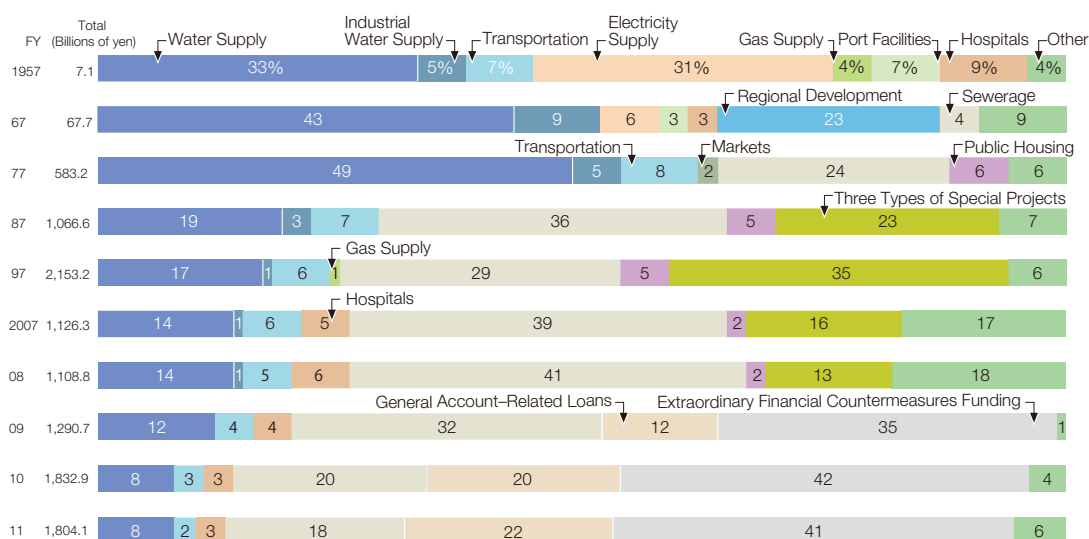
Water Supply and Electricity Supply were the primary businesses/projects for loans by the Predecessor around 1960. The trend then changed, and the primary businesses/projects shifted to Water Supply and Regional Development around 1970. Around 1980, the major businesses/projects for JFM loans were Sewerage and Water Supply. Since around 1990, Sewerage and Three Types of Special Projects (Local Road Construction, Improvement of Rivers and Other Waterways and High School Construction) 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.

In fiscal 2011, loans for Extraordinary Financial Countermeasures Funding were ¥737.8 billion accounted for the largest share of lending, at 41% of the total. Ranked next were ¥319.6 billion in Sewerage business loans, representing 18% of the total, and ¥188 billion Special Municipal Merger Business loans, for 10% of the total.

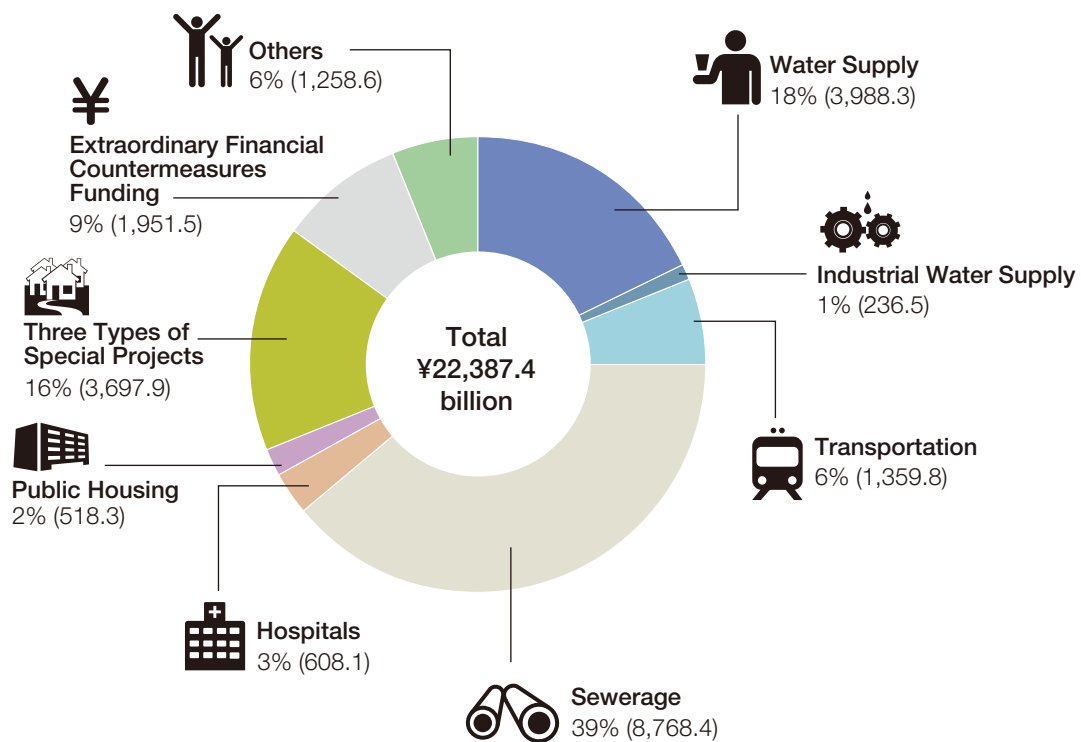
As of March 31, 2012, the outstanding loan balance was ¥22,387.4 billion, of which the Sewerage business accounted for the largest share, at 39%, followed by Water Supply, at 18% and the three types of Special Projects, at 16% of the total.

■ 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-related projects and refinancing loans for disaster-affected facilities.
 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.

Outstanding Loan Balance by Business Type (as of March 31, 2012)



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



5. Lending Operations by Business Type

JFM provides loans to projects in the Local Government Borrowing Program that the national government formulates every year as stipulated in Article 5-3, Section 6 of the Local Finance Law.

Note: The number of projects for each type of business is for fiscal 2010. The pictures are examples of loan projects and may not represent projects for which loans were generated in fiscal 2011.



Sewerage Business

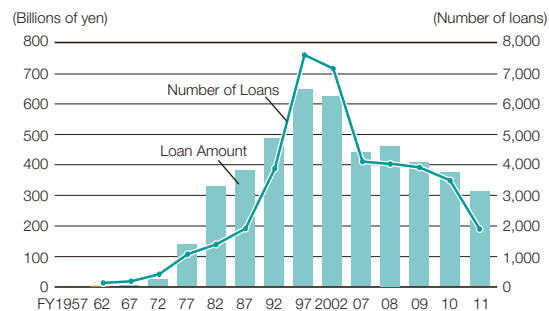
The Sewerage Business managed by local governments covered 72.2% of people in cities and towns with populations of less than 50,000, or 86.9% of the nation's total population, at the end of fiscal 2010.

There were 3,637 projects involved, with a total annual sewerage processing capacity (combined storm water and sewerage treatment, with river basin sewerage excluded) of around 14.9 billion cubic meters serving areas with a population of 100.26 million people at the end of fiscal 2010.

Loans extended to these projects totaled ¥319.6 billion in fiscal 2011.



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



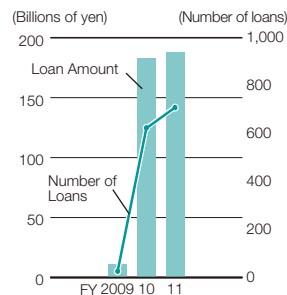
Special Municipal Merger Projects

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. These projects became subject to loans in fiscal 2009. For water supply, sewerage, and hospital projects, outlays from general accounts for merger expenditures and fundraising for municipal promotion are also eligible for loans.

Loans extended to Special Municipal Merger Projects amounted to ¥188.0 billion in fiscal 2011.



Vicinity of Terasho Station on
JR Kusatsu Line



Water Supply Business

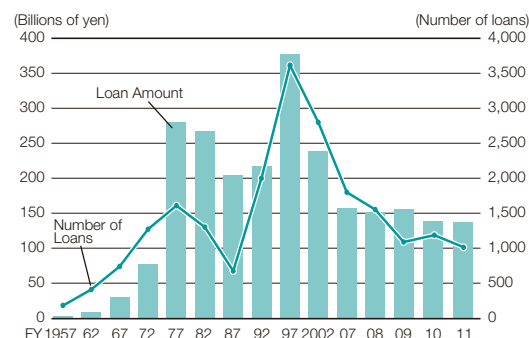
The Water Supply Business served 97.5% of the population as of the end of fiscal 2009.

The Water Supply Business (including small-scale water supply) managed by local governments totaled 2,152 projects and provided about 18.8 billion cubic meters of water annually for approximately 124.94 million people.

The total amount of loans extended to the Water Supply Business was ¥136.7 billion in fiscal 2011.



Oigawa Wide Area Waterworks Association (Shizuoka Prefecture)



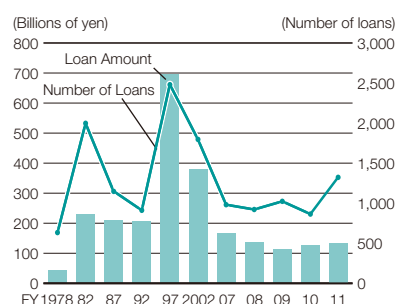
Local Road Construction Projects

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 ¥132.9 billion in fiscal 2011.



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



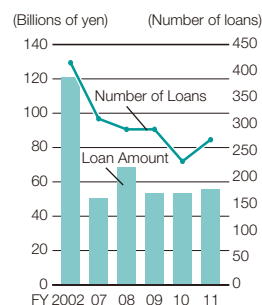
Hospitals Business

Hospital Projects managed by local governments totaled 654 with 883 hospitals, which included 846 general hospitals, one tuberculosis hospital and 36 mental hospitals.

Loans extended to these projects (including those run by local independent administrative institutions) totaled ¥57.4 billion in fiscal 2011.



Mie Prefectural Mental Medical Center (Mie Prefecture)





Lending Operations

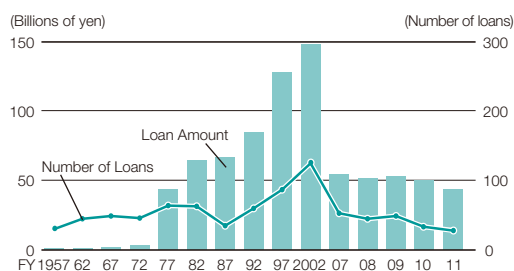
**Transportation Business**

The Transportation Business managed by local governments totaled 98 projects, which were operated by 80 entities, and public transportation is used annually by about 4 billion people (10.83 million people on an average daily basis).

The total amount of loans extended to the Transportation Business was ¥43.8 billion in fiscal 2011.



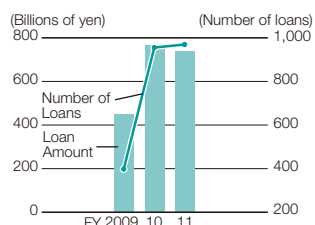
City Loop Line Tramway
(Toyama City, Toyama Prefecture)

**Extraordinary Financial Countermeasures Funding**

This represents the fundraising for local governments to cover general resource shortfalls pursuant to the provisions of the Local Finance Law.

To cover some of these shortfalls, local governments procure funding by issuing Extraordinary Financial Countermeasures Funds with all amount treated as the Local Allocation Tax in the subsequent year.

Loans extended to these projects amounted to ¥737.8 billion in fiscal 2011.

**Other Businesses****Public Projects, Etc.**

Local governments are engaged in various public projects which are essential to daily lives. JFM offers loans to the road construction projects which receive grants for social infrastructure.

Loans extended to public projects totaled ¥100 million in fiscal 2011.

Public Housing Business

Public housing constructed and managed by local governments totaled approximately 2.17 million units at the end of fiscal 2010.

The total amount of loans extended to the Public Housing Business was ¥16.1 billion in fiscal 2011.



City Housing Karo Estate
(Tottori City, Tottori Prefecture)

Social Welfare Facilities Projects

This covers social welfare facility projects for the elderly and children.

Loans extended to these projects totaled ¥14.5 billion in fiscal 2011.

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 eligible for loans include river (small- and medium-sized river) improvement projects and high school construction (such as for reconstructing high school facilities built 15 years earlier).

Loans extended to General Projects for fiscal 2011 amounted to ¥8.5 billion.



Aomori Higashi High School
(Aomori Prefecture)

Regional Revitalization Projects

These initiatives include funding for Green Government Reforms that aim to enhance the local leadership and wealth of regional communities, as well as infrastructural projects for areas that are important for community living but which have not been sufficiently covered.

Loans extended to these projects amounted to ¥8.9 billion in fiscal 2011.

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 ¥27.2 billion in fiscal 2011.



Lending Operations

Industrial Water Supply Business

The Industrial Water Supply Business managed by local governments totaled 152 projects with 260 facilities that provided approximately 4.6 billion cubic meters of water annually for 6,118 factories and other facilities.

The total amount of loans extended to the Industrial Water Supply Business was ¥9.7 billion in fiscal 2011.



Ikuta Water Purification Plant
(Kawasaki City, Kanagawa Prefecture)

Electricity Supply and Gas Supply Business

The Electricity Supply Business managed by local governments totaled 63 projects with 348 power plants, which had a maximum power output of 2.75 million kW and generated 9.4 billion kWh annually. Local governments operate 30 gas supply businesses, which provide 38.6 billion MJ of gas extended to 0.89 million households annually.

The total amount of loans for the Electricity Supply and Gas Supply Business was ¥4.0 billion in fiscal 2011.



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 ¥2.9 billion in fiscal 2011.



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 598 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 ¥3.4 billion in fiscal 2011.



Mutagawaraguchi Welfare Facility
"Otozure"(Hagi City, Yamaguchi Prefecture)

Markets Business

The Markets Business managed by local governments totaled 175 projects, which handled 7.36 million tons of vegetables, 2.43 million tons of fruit, 3.81 million tons of seafood and 0.78 million tons of meat and other products annually. These projects contributed to the modernization of the distribution system of daily commodities.

The total amount of loans extended to the Markets Business was ¥8.2 billion in fiscal 2011.



Central Wholesale Market
(Morioka City, Iwate Prefecture)

Slaughterhouse Business

The Slaughterhouse Business managed by local governments totaled 73 projects, which processed 4.17 million cattle in fiscal 2009.

The total amount of loans extended to the Slaughterhouse Business was ¥0.8 billion in fiscal 2011.



Meat Trading Center
(Kanazawa City, Ishikawa Prefecture)

Tourism Facilities Business (including the Industrial Waste Disposal Business)

The Tourism Facilities Business managed by local governments totaled 366 projects, including 136 recreation and accommodation facilities, 61 ropeways and 169 other facilities (e.g., hot springs, castles, museums, zoos, botanical gardens).

The total amount of loans extended to the Tourism Facilities Business was ¥0.1 billion in fiscal 2011.



Asahiyama Zoo
(Asahikawa City, Hokkaido Prefecture)

Parking Facilities Business

The Parking Facilities Business managed by local governments totaled 232 projects with 695 facilities, which had a total capacity of approximately 124,000 vehicles, serving an average of about 170,000 cars per day.

The total amount of loans extended to the Parking Facilities Business was ¥2.0 billion in fiscal 2011.



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



Lending Operations

New Lending Businesses in Fiscal 2012

Emergency Disaster Management and Mitigation Projects

These projects must be undertaken urgently nationwide in view of lessons from the Great East Japan Earthquake.

Loans earmarked for fiscal 2012 total ¥84.8 billion.



Educational Facilities Development Projects

These are projects that local governments undertake autonomously to develop facilities and acquire and clear land for high schools (except those designated for general projects) and kindergartens and other facilities, and to engage in large-scale remodelings of mandatory educational facilities.

Loan allocations for these projects in fiscal 2012 are ¥300 million.



General Projects

Initiatives newly eligible for loans under this category are regional general development funding projects (interest-free loans of local governments that support private sector entities engaging in regional development) and investments, loans, and contributions (disaster assistance loans).

Loan allocations for these projects in fiscal 2012 are ¥9.7 billion.

Local Government Support Operations

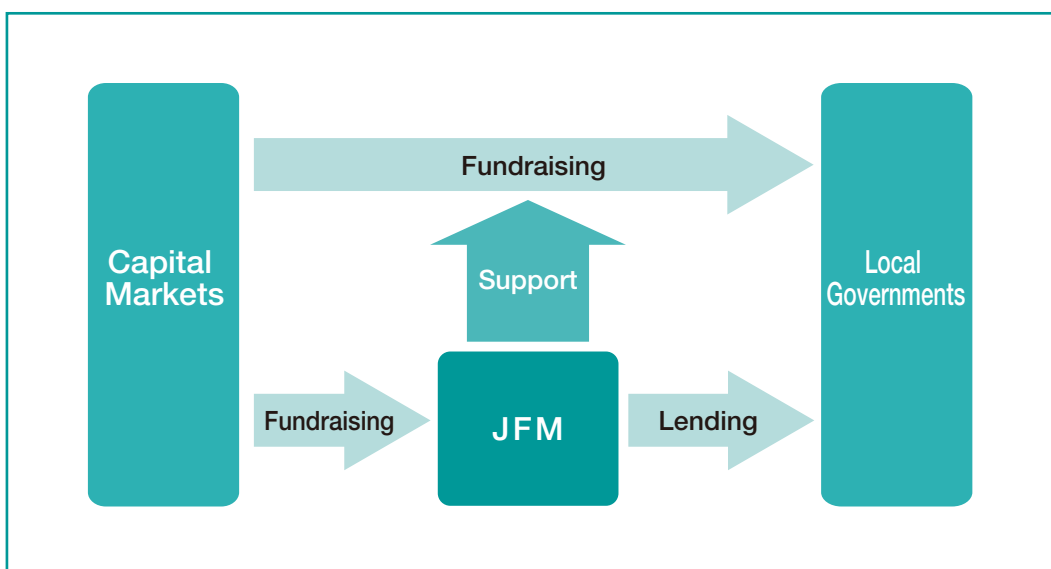
Harnessing its financial knowledge and experience gained in the capital markets, in partnership with related organizations, JFM provides support for local governments to effectively raise funds in the capital markets.

1. Basic Policy

JFM is a joint fundraising 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 support for local governments so that they can efficiently raise funds in the capital markets.

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



2. Outline

JFM assists local governments according to their needs in support operations in four core areas—training for local government staff, research, administrative support for fundraising 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 fundraising-related administrative skills and knowledge.



Local Government Support Operations

Cosponsoring Seminars (for short-term intensive training)

In cooperation with the Japan Intercultural Academy of Municipalities and the Japan Academy for Municipal Personnel, JFM holds seminars specializing in basic knowledge for local government staffers to enhance their fundraising and management skills.

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.

Textbooks on the Administrative Process for Fundraising

JFM publishes basic textbooks on fundraising.

2. Surveys and Research

JFM conducts comprehensive research into regional finance, covering such areas as the significance and roles of funding for local governments and local government finance, sharing its findings with local governments.

Surveys and Research

JFM conducts surveys and research that may be difficult for individual local governments to handle.

Holding Forums

JFM cosponsors forums with the University of Tokyo.

3. Administrative Support for Fundraising

JFM staff with financial knowledge and work experience at private financial institutions work as financial advisers to municipalities to meet their specific needs.

Dispatching Financial Advisors for Municipalities

We offer professional advice to address questions and concerns about fundraising.

Onsite Administrative Support—Administrative Support for Issuance of Local Government Borrowings Publicly Offered in Markets with Participation of Residents

Through onsite support for the issuance of bonds publicly offered to residents, JFM dispatches municipal financial advisers to provide meticulous support to local governments making their first public offers of bonds to local residents. JFM also provides support for public relations and other costs related to bond issuance.

4. Information Services

JFM provides local governments raising funds with useful economic and financial data, financial knowledge and applied techniques through its website, public relations magazines, training, and other channels.

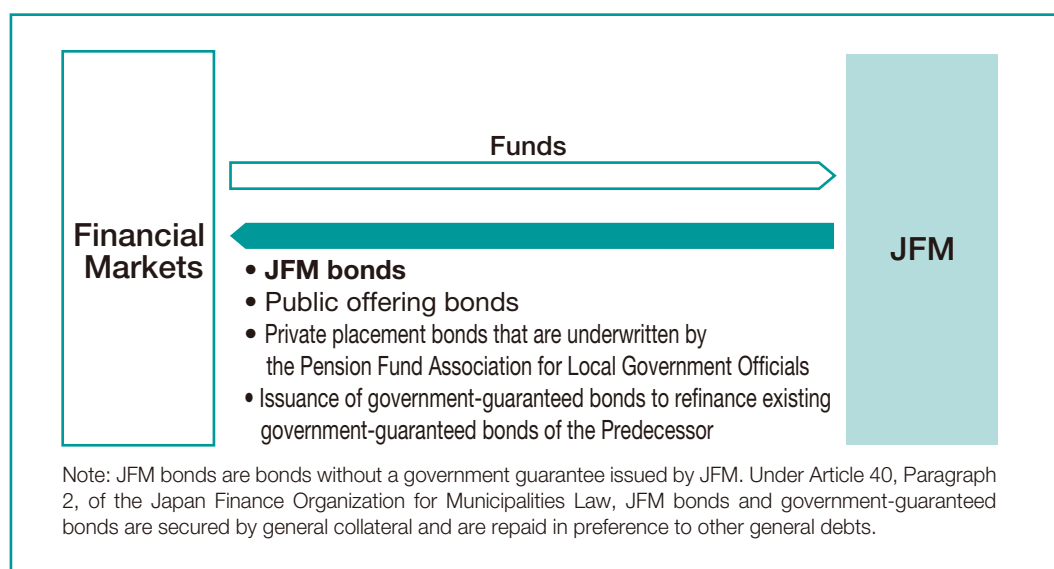
Fundraising Operations

As a joint fundraising 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 fundraising 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.





2. Basic Policy

To raise funds at low cost and in a stable manner, JFM promotes the diversification of fundraising 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 Fundraising Methods

From the viewpoint of stable fundraising, 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 fundraising 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 fundraising, closely monitoring the domestic and international markets.

2. Thoroughly Disclosing and Explaining Information

JFM helps investors by properly disclosing information on its operations, financial conditions, and risk management status.

JFM actively promotes investor relations activities, including explanatory meetings for and visits to investors, to help investors correctly understand JFM's management and JFM's bonds, and to secure solid confidence in JFM. For issuing bonds in international markets, we conduct investor relations for 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.

Reference

Outline of FLIP

This is JFM's proprietary system for issuing bonds flexibly and quickly to meet investors' needs, including in terms of maturities and amounts.

- Bond maturities: 3–30 years (except for 5-, 10-, and 20-year fixed-rate bullet bonds)
- Amount per bond issue: At least ¥3 billion

3. Feature of JFM Bonds

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

- JFM is a public fundraising 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 for which JFM is liable in the event JFM is to be dissolved and its obligations remain unpaid.

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 borrowings, 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 are values for investors in Japan. For foreign investors, values are determined by respective countries’ authorities. The risk weighting for government-guaranteed bonds is 0% for either yen-denominated bonds or bonds denominated in foreign currencies (as of March 31, 2012).

* 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	S&P : AA- Moody's : Aa3 R&I : AA+ (as of March 31, 2012)	
BIS Risk Weighting	JFM bonds : 10% (denominated in yen) 20% (denominated in foreign currencies)	(For reference) Government-Guaranteed Bonds: 0% Government Bonds, Local Government Borrowings: 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.	



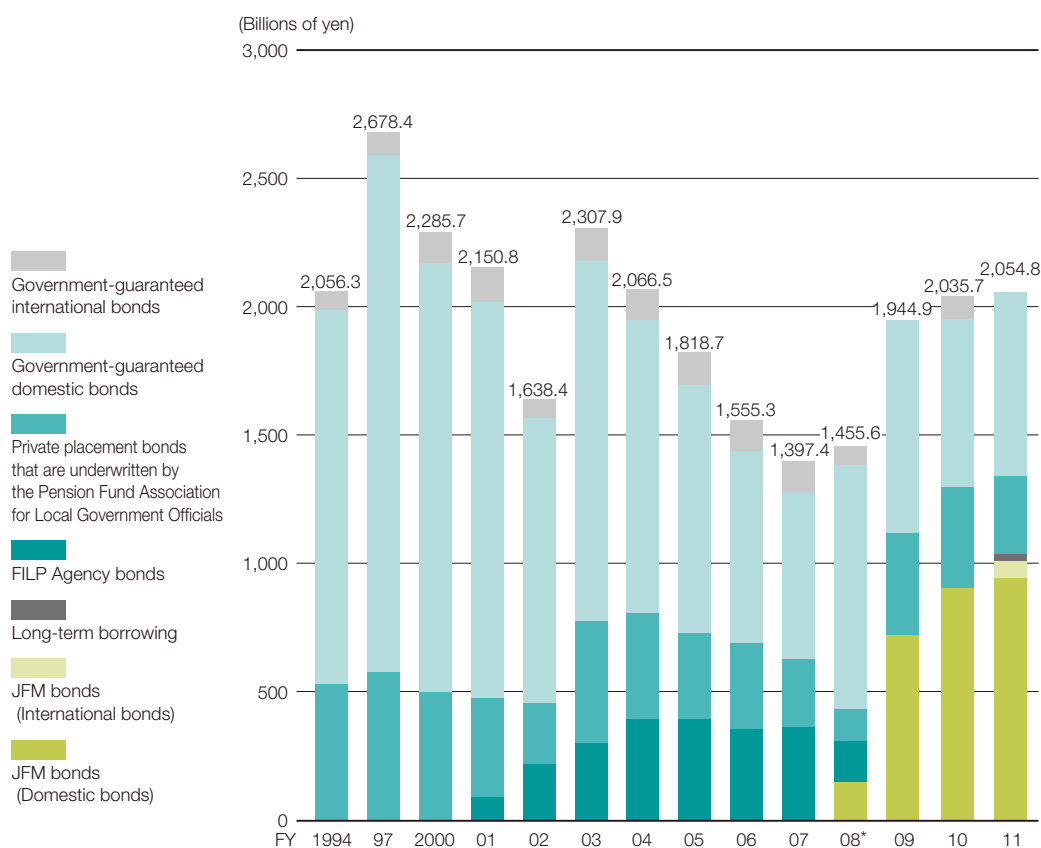
4. Trends in Fundraising Operations

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 2011, bond issuances totaled ¥2,024.765 billion. Borrowings were ¥30.0 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.



Management Structure

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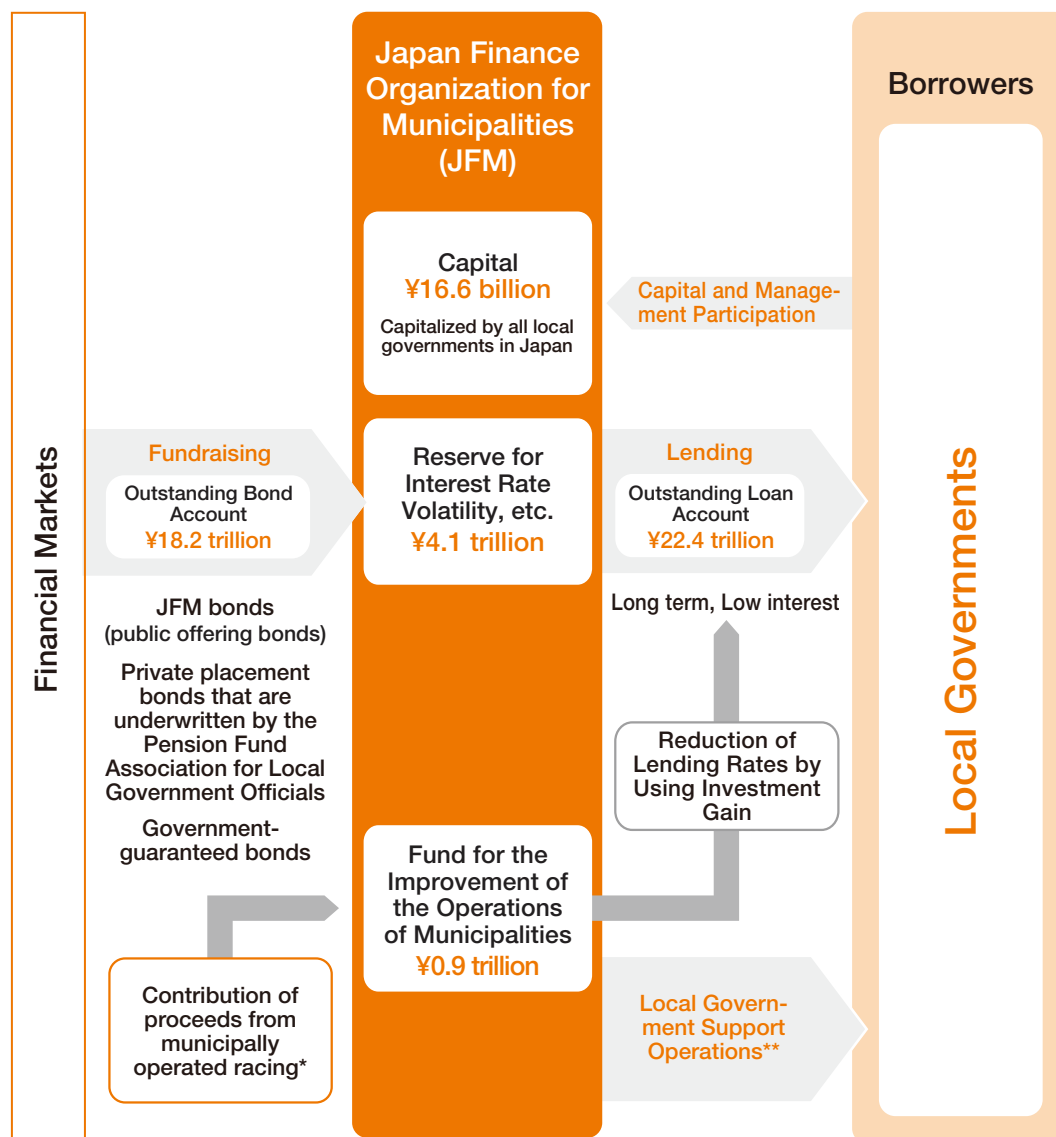
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Profile of JFM

1. Outline of JFM Operations



(as of March 31, 2012)

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

** Support for local governments' fundraising in capital markets

Joint Entity for Local Governments Owned by All Local Governments

JFM is a joint entity for local governments, capitalized solely by local governments in Japan under the JFM law.

JFM loans are provided exclusively to the local governments, and local governments must have consent or approval from a relevant minister or relevant governor when they undertake borrowing from JFM. Within this structure, JFM has never had a default since its establishment.

Joint Fundraising 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 fundraising 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 fundraising in the capital markets.

The JFM law (Article 52, Paragraph 1, of the Japan Finance Organization for Municipal Enterprises Law) obliges local governments have the obligation to bear all of the cost to satisfy the obligations for which JFM is liable in the event JFM is to be dissolved and its obligations remain unpaid.

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.

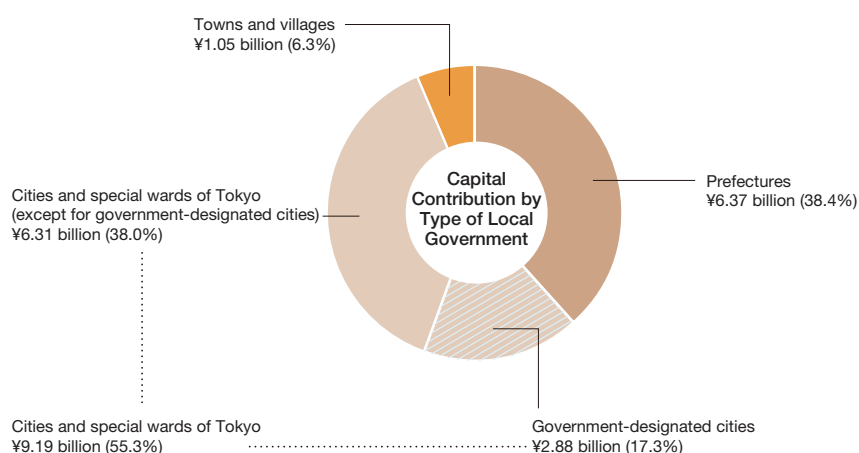
Reduction of Lending Rates by Utilizing the Fund for the Improvement of the Operations of Municipalities

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.

2. Capital

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

As of April 1, 2012, JFM had received capital in the amount of ¥16,602.1 million from Japan's 1,790 local governments, i.e., all of the prefectures, cities, special wards, towns and villages, as well as some local government associations.



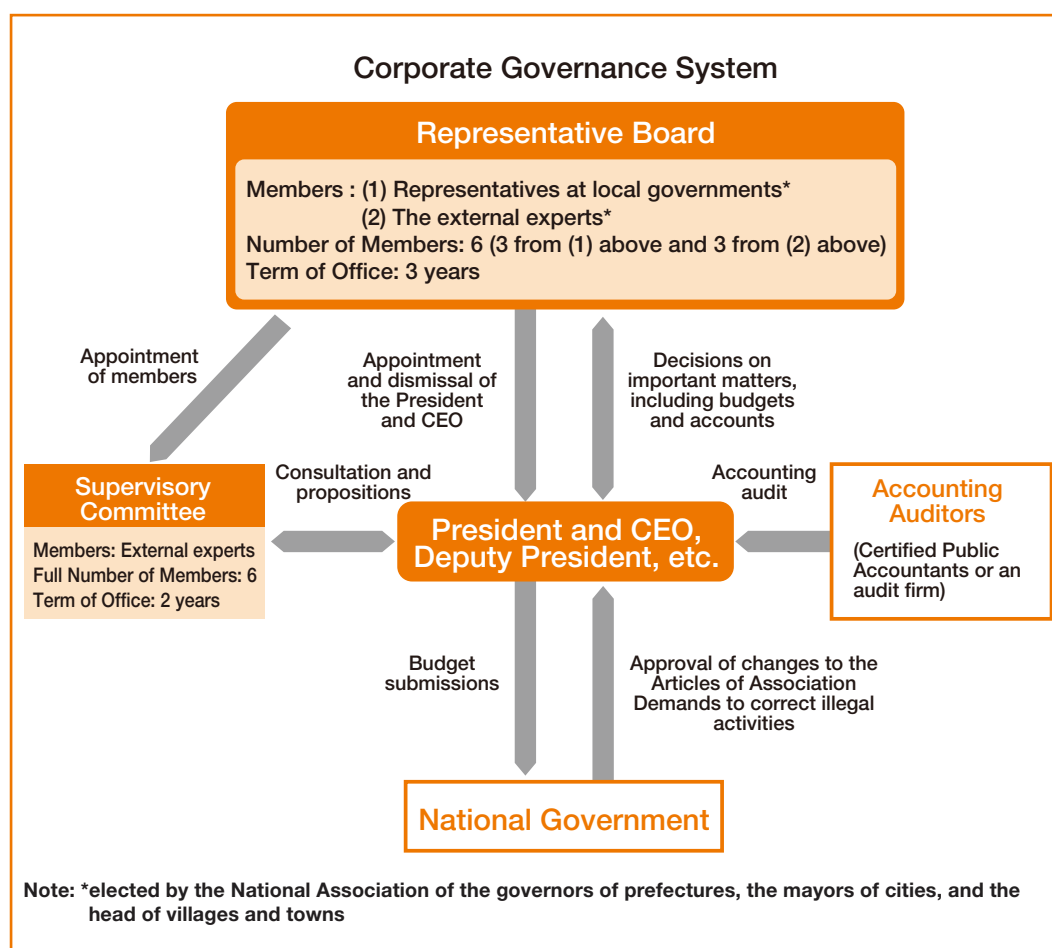
Notes: 1. The total of contribution amounts does not add up exactly due to rounding off.
2. Towns and villages include regional affairs associations.



Corporate Governance

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.

1. Corporate Governance



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, 2012)

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 (Professor of Juris Doctor Program, Graduate School of Law, Sophia University)

Isao Horiba (Professor, Aoyama Gakuin University)

Tomijiro Morita (President of the 21st Century Public Policy Institute and Special Advisor of the Dai-ichi 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, 2012)

Yoshitsugu Hayashi*

(Professor, Kwansei Gakuin University)

Tetsuya Kayamori

(Director, JJI 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)

* 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.

2. Internal Control over Financial Reporting

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 (March 31), 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 that it maintains and evaluates effectively and efficiently to ensure the reliability of financial statements.

Specifically, JFM confirms the contents below and addresses deficiencies as needed.

- That overall organizational policies and procedures are disclosed and properly maintained and managed
- That proper assessments and responses are made to address the risks of misstatements regarding important matters
- That a mechanism is in place and properly managed to reduce the risks of misstatements regarding important matters
- That a mechanism is in place and properly managed to identify true and fair information and inform the right parties in a timely manner
- That a monitoring system is in place and properly managed
- That information technology is properly handled

In the fiscal 2011 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 4, Clause 1) on the fiscal 2011 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”.

3. Internal Audits

An internal auditor, who is independent from other departments, sections, and offices, examines and assesses the appropriateness and effectiveness of JFM's internal control systems, thereby helping ensure reliable financial reporting and appropriate and efficient operations.

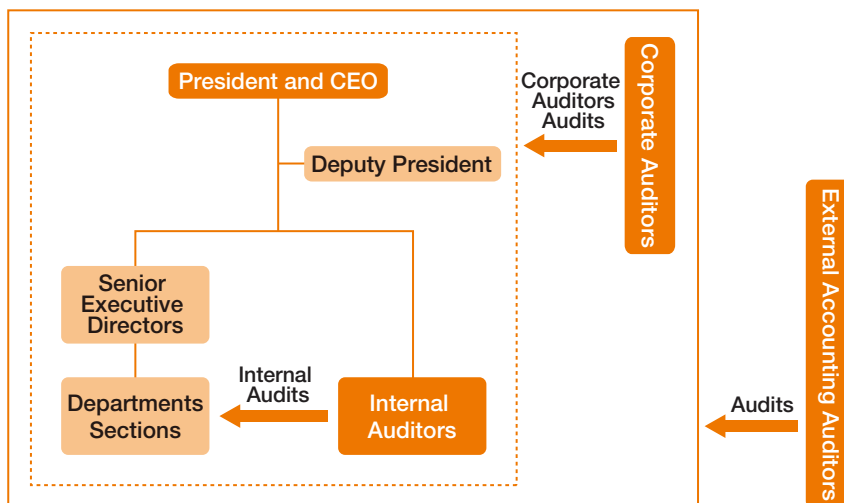
The internal auditor examines and assesses the following items.

- 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?

On completing this task, the internal auditor submits a report to the president and CEO.

If the internal auditor identifies deficiencies, related sections and offices must immediately take the required corrective action. The internal auditor will then submit 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.





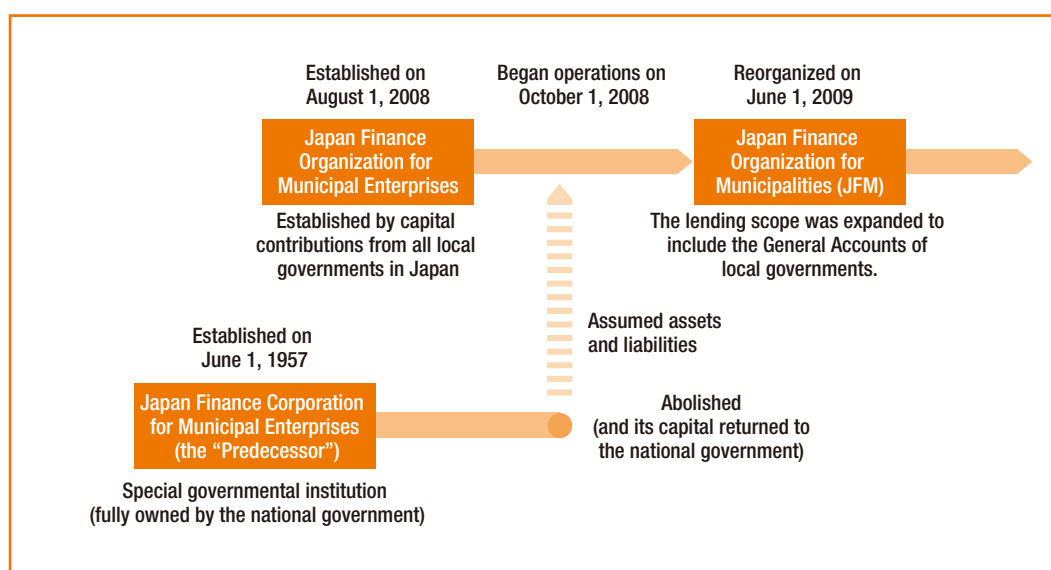
General Account and Management Account

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 fundraising 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.

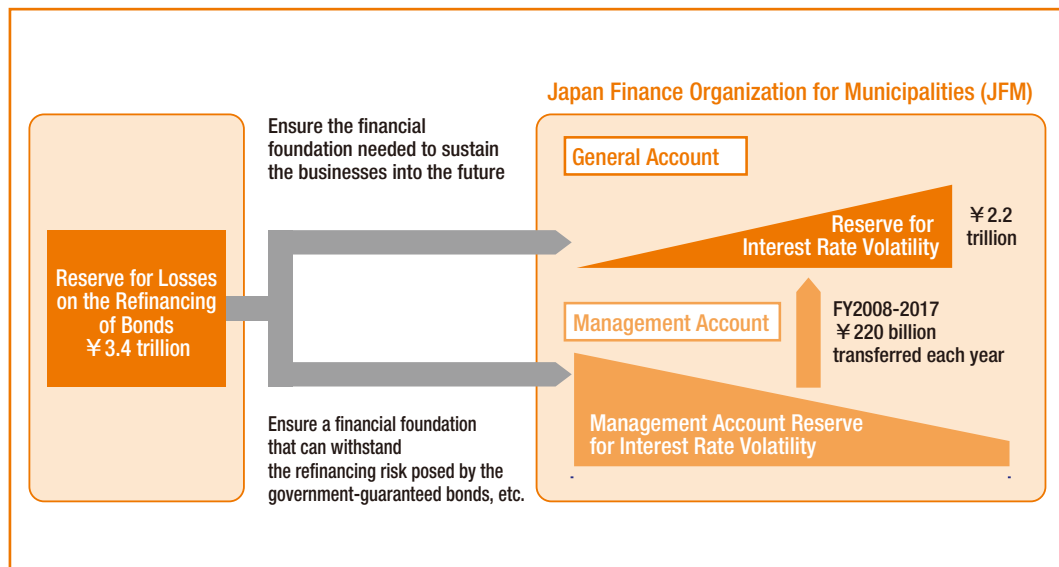
New loans made and bonds issued since JFM's operations began are accounted for in the General Account of JFM, whereas operations to administer loans carried over from the Predecessor are accounted for in the Management Account, thereby classifying each accounting.

JFM issues bonds with government guarantees only for refinancing bonds issued by the Predecessor in the Management Account.



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.



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.

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 and so on 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 (Article 14 of the Supplementary Provisions to the Japan Finance Organization for Municipalities Law).

In accordance with this provision, part of JFM's reserves for interest rate volatility within the Management account are set to be attributed to the Japanese national government over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring ¥1 trillion over this period. Such part is to be transferred to the Japanese national governments' special account for local allocation tax. In fiscal 2012, ¥350 billion has been so transferred to the national treasury by JFM.

In fiscal 2008, ¥300 billion was transferred to the national treasury by JFM, and used as a special grant for regional revitalization and lifestyle assistance.



Risk Management

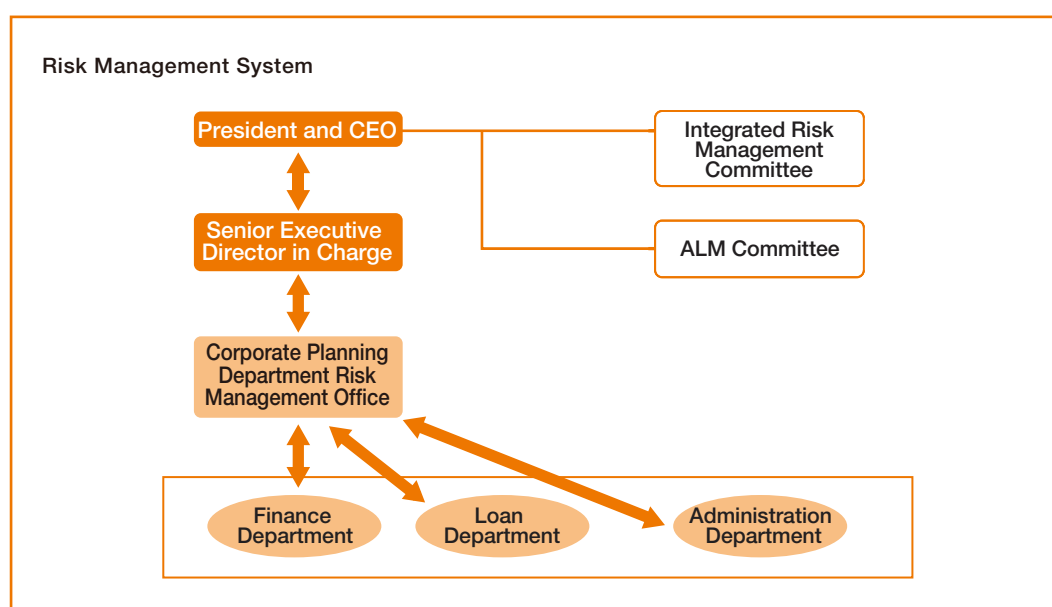
1. Overall Risk Management

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.



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 instalments. 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.

The ALM Committee conducts medium- and long-term management and risk analysis through scenario, Value at Risk, duration, and other analyses. JFM reflects the findings in its bond issuance plans and other aspects of management and endeavors to lower interest rate risk.

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. Loans and financial transactions involve credit risk.

1) Credit risk associated with loans

JFM lends exclusively to local governments. Local governments have a zero risk weighting under the regulations of the Bank for International Settlements. JFM does not expect any default on loans made to local governments for the reasons outlined below. JFM and its Predecessor have never experienced any loan losses.

- The Japanese 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 when calculating Local Allocation Tax.
- Under the consultation system for local government borrowings, credit reviews must include checks on the status 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 obtain prior approval from the Minister for Internal Affairs and Communications or the relevant prefectural governor to obtain borrowings, so that the credit standing of local government borrowings is maintained.
- Under the Financial Soundness of Local Governments Law, local governments must make their own efforts toward achieving fiscal soundness when their fiscal indicators exceed the early warning limits. In addition, local governments must take necessary actions to restore the soundness of their finances under the oversight of the Japanese national government with regard to redemption of local government borrowings and other operations when their fiscal indicators exceed the reconstruction limits.

For organizations experiencing repayment difficulty owing to the impact of the Great East Japan Earthquake of March 11, 2011, JFM extended to September 20, 2011, the principal and interest repayment dates totaling more than ¥7.2 billion for 32 accounts. All of the above principal and interest was redeemed as of that date.

(Loan assets)

As of March 31, 2012, JFM's total outstanding loans stood at ¥22,387.4 billion, of which ¥120.4 billion, or 0.5%, 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.



Risk Management

2) Credit risk associated with market transactions

JFM is, however, 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. JFM works to appropriately manage credit risk of this type by constantly monitoring counterparties' financial standings and taking measures including suspension of new deals and cancellation of transactions with counterparties that have come to poor credit standings. Moreover JFM limits counterparties to financial institutions that meet the credit rating and other criteria, and conducts transactions within the credit lines for each counterparty in order to diversify risks.

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.

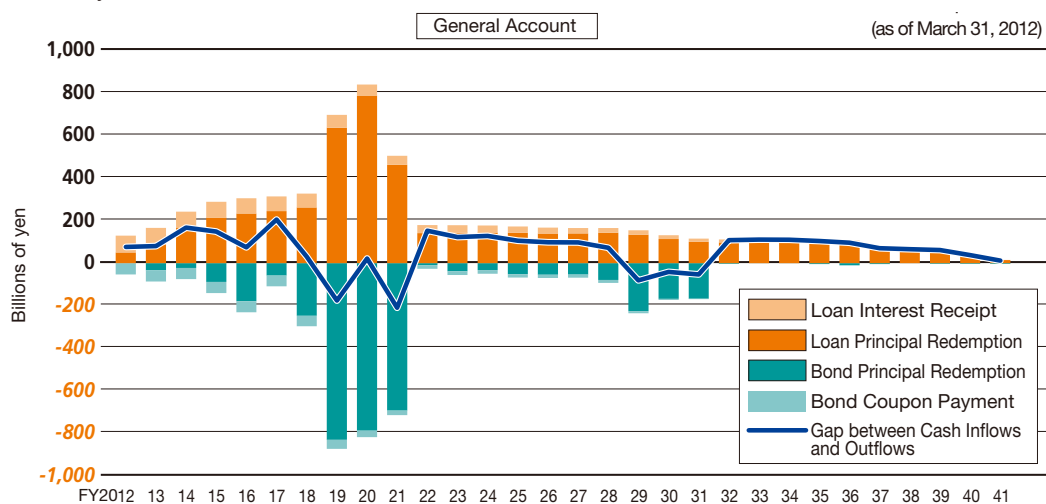
JFM's loans to local governments are for maximum maturities of 30 years. The majority of funds for these loans is through issuance of 10-year bonds. These expose JFM interest rate risks associated with bond refinancing.

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

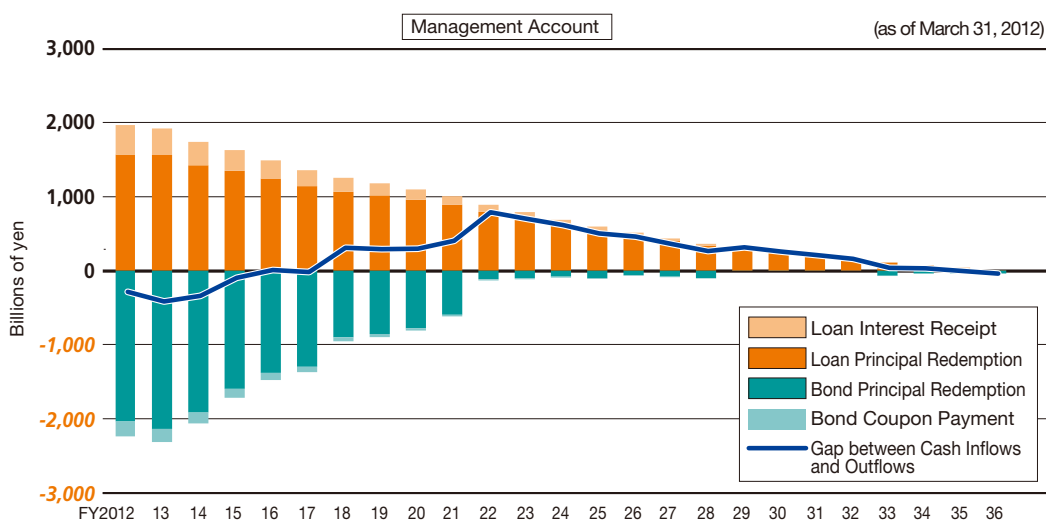
Managing interest rate risk

- JFM maintains necessary reserves for interest rate volatility to cope with the interest rate risk resulting from a duration gap between lending and fundraising. The amount of the above reserves stood at ¥880 billion in the General Account and ¥3,137.5 billion in the Management Account for a total of ¥4,017.5 billion in both accounts at the end of March 2012.
- As assets and liabilities in JFM's General Account are expected to increase as a result of the loans and fundraising 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 three 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 2011 was 17.5% and the duration gap was 0.97 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 ¥3,137.5 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.
- It was decided that a part of JFM's Reserves for Interest Rate Volatility would be attributed to the Japanese national government from within JFM's Management Account over a period of three years from fiscal 2012 to fiscal 2014 pursuant to Article 14 of the Supplementary Provisions of the JFM law. The amount of attribution is to be within the amount which the Minister for Internal Affairs and Communications and the Minister of Finance deem as an amount exceeding the requisite amount of reserve necessary for smooth operation of the Management Account at such point or in the future in light of the conditions of the management of JFM, and the amount expected to be attributed over the above three fiscal years is ¥1,000 billion in total. JFM believes that, even if such transfers to the national treasury take place, this will not affect the smooth operation of JFM's business at such point or in the future because JFM will have enough reserve to deal with the interest rate risk even after such attribution.

Maturity Ladder of Loans and Bonds



• Loan duration 10.10 years • Bond duration 9.13 years • Duration gap 0.97 years (YoY change: -0.15 years)



• Loan duration 6.81 years • Bond duration 4.39 years • Duration gap 2.42 years (YoY change: -0.08 years)

JFM as a whole

• Loan duration 7.57 years • Bond duration 5.41 years • Duration gap 2.16 years (YoY change: -0.20 years)

Maturity Ladder

The maturity amount and interest repricing for assets (such as for loan recoveries) and liabilities (such as bond redemptions) are presented chronologically for each period.



Risk Management

Because of mismatches between the timing of loans and financing for local governments, interest rate fluctuations in the meantime pose pipeline risks—that lower earnings or losses could result. JFM uses swaps to hedge against pipeline risks.

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 reduces 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 of difficulty in fundraising, or because of funding at far higher interest rates than under ordinary conditions. It also includes the risk that JFM would incur losses because of the inability to conduct market transactions or because of transactions at prices far more unfavorable than under normal conditions due to market disruption or other situations. However, JFM's current exposure to liquidity risk is low because loans are made based on a pre-set schedule, and the daily cash and liquidity management is carried out. Moreover, JFM has entered into overdraft agreements with a wide range of financial institutions to prepare for unexpected fund shortfalls, and invests surplus funds only in short-term financial products. However, if severe circumstances relating to liquidity unforeseen by JFM were to occur, JFM's funding costs, results of operations and financial condition may be adversely affected.

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.



Compliance

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.

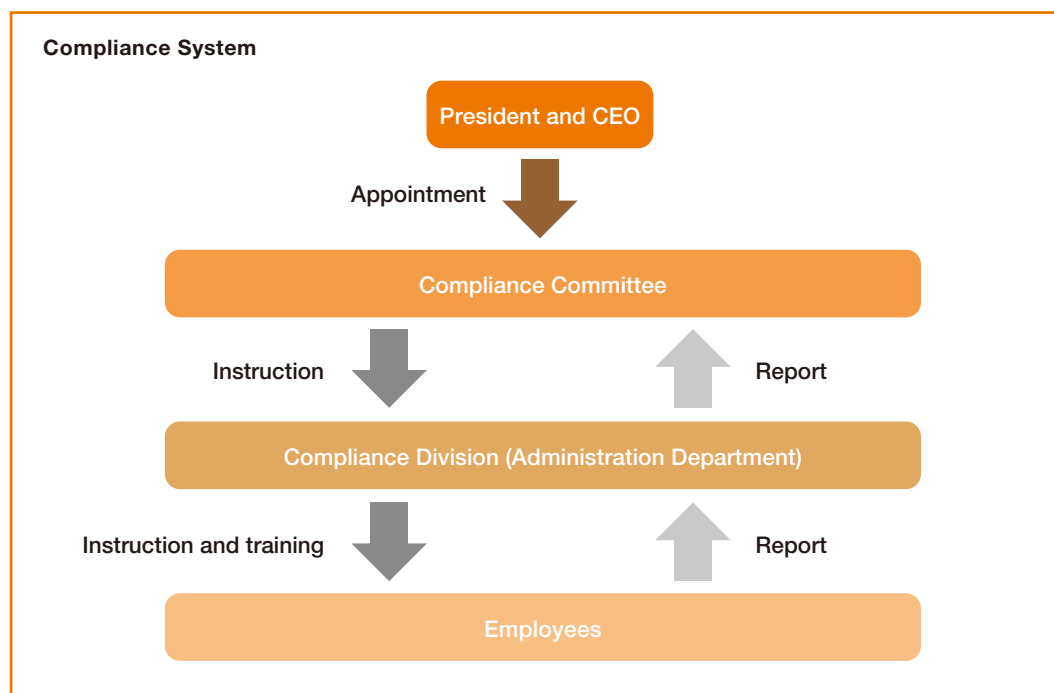
- Management and staff must be aware of JFM's social responsibility and public mission and realize that a breach of laws or regulations would cause a great hindrance to JFM's business operations, such as a loss in credibility of JFM as a whole. Management and staff must also observe laws and regulations 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.

JFM established the Compliance Division to oversee compliance arrangements. This unit deploys compliance-based initiatives (providing system guidance and training or producing manuals) in keeping with the committee's guidelines.



Disclosure

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 Municipalities Law

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

Business reports

Financial statements

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)

JFM News magazine



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



JFM's Role in Local Government Finance

1. Japanese Local Government System

Local governments are responsible for extensive areas of administration for the public welfare of citizens.

While the national government focuses on administration for the state as a member of the international community, local governments engage in administration that relates to daily lives. Local governments handle large parts of social welfare, school education, fire-fighting roles, and infrastructural work such as road and waterways.

Local governments comprise prefectures, cities, special wards, towns and villages. Cities, towns and villages handle administrative issues related to their respective regions. Prefectures are broader-based local governments.

2. Local Government Finance Program

Each local government is unique in terms of its natural and historic situations, industrial structures, population sizes, and other attributes. As a result, these governments handle diverse administration. The term "local government finance" collectively refers to funding for individual local governments engaging in such administration. Just as with national finance, local government finance plays a major role in the nation's economy and the lives of citizens. In fiscal 2012, local government finance will total ¥81.9 trillion (based on the Local Government Finance Program (LGFP), while the nation's General Account Budget for the year is ¥90.3 trillion).

Because local governments engage in numerous activities that relate closely to residents, they need to provide stable public services regardless of regional differences stemming from varying populations, industry densities, and/or tax revenue fluctuations over fiscal years. Accordingly, the national government annually creates LGFPs based on assessments of the scales of local government finance and forecasts of overall revenues and expenditures. In response to annual national budget plans, the national government balances revenues and expenditures for local governments in LGFPs. Under this program, all local governments ensure uniform public service standards through Local Allocation Tax and local government borrowings.

3. Local Allocation Tax

Local governments would ideally cover the expenditures they need to provide public services with their local taxes. However, tax revenues are distributed unevenly, necessitating a system to adjust disparities and guarantee funds for local governments that have low tax revenues. That setup is Local Allocation Tax system, which comprised certain percentages of national taxes, including personal and corporate income taxes and consumption taxes. Local Allocation Tax is an important source of funds for local governments as local taxes that the national government collects on behalf of local governments so the latter can equally fulfill their tasks.

4. Local Government Borrowings

A local government borrowing is a debt lasting more than one financial year that a local government incurs in securing necessary external funds. In principle, a local government should cover expenditures with revenues other than local government borrowings. Local governments can use these instruments, however, when it is desirable to share costs with future residents, such as for constructing facilities or to cover massive, near-term expenditures following disasters.

5. Safety of Local Government Borrowings

The following framework guarantees redemption of principal and interest from local government borrowings. The BIS risk weighting is 0%.

1) The national government's guaranteed funds for local government borrowing principal and interest redemption

The national government records totals for both local government borrowings and their redemption of principal and interest (debt servicing costs) for revenues and expenditures under the abovementioned LGFPs. The national government guarantees the funds on a macro basis by balancing total expenditures and revenue of LGFPs, including local government debt servicing costs.

The national government secures revenues for principal and interest redemptions on local government borrowings by including a portion of the principal and interest in average funding demand (standard financial requirements) for each local government when calculating Local Allocation Tax.

This system ensures that the national government can guarantee required debt servicing costs of local governments for both macro and micro financing.



JFM's Role in Local Government Finance

2) Issuance Approval System as Early Corrective Measure

Local governments can undertake borrowings after consultations with national or prefectural governments. This consultation system stipulates an early corrective measure to maintain creditworthiness, with local governments that have certain debt servicing costs or of balance sheet deficits requiring approval before raising funds. This system maintains controls to ensure trouble-free redemptions of principal and interest on local government borrowings.

In fiscal 2012, the national government introduced a prior notification system for funds raised by local governments with good financial standings. That system applies only to private funds. JFM is a public fund. So it continues to provide loans only based on the consent (approval) of the national or prefectural governments.

3) System for Soundness and Revitalization of Local Finance

The Law Relating to the Financial Soundness of Local Governments/Assurance of Sound Financial Status of Municipalities, which was promulgated in June 2007 (No. 94) requires each local government to calculate and disclose four broad debt ratios. These are the real debt payment ratio, the real deficit ratio, the consolidated real deficit ratio, and the future burden ratio. The law also requires local governments with fiscal indicators exceeding early warning limits of ratios to restore the financial soundness through their own efforts. Local government with fiscal indicators exceeding reconstruction limits should undertake more definite fiscal restoration efforts by drawing on the involvement of the national government, including for redeeming local government borrowings. This system thus guarantees the redemption of principal and interest on borrowings even if the financial position of a local government deteriorates.

6. Local Government Borrowing Program

The Local Government Borrowing Program (LGBP) is an annual plan that the national government prepares for local government borrowings. The LGBP is closely linked to the LGFP and the Fiscal Investment and Loan Program prepared by the national government with its budget-making. The LGBP plays the following crucial roles in terms of local finance.

1) Consent (Approval) Based on LGBP

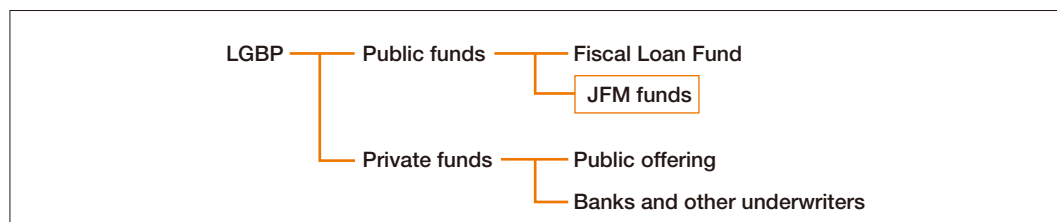
The LGBP indicates the total scheduled amount of local government borrowings including amount by business type. Typically, consent (approval) for local government borrowings is given based on the LGBP.

2) Funding Sources of Local Government Borrowings

The national government balances scheduled local government borrowing and fund amounts, and indicates funds by source and by business under the LGBP.

7. JFM Funds in Local Government Borrowing Program

One can broadly classify local government funding by underwriter into Public funds and Private funds. JFM funds are one of Public funds.



LGBP Fund Classifications

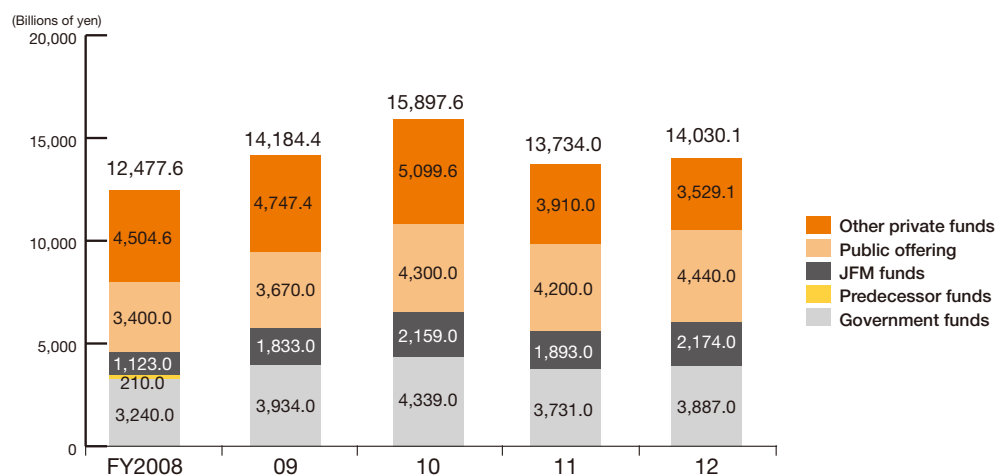
There is a legal requirement for JFM to gradually and appropriately reduce lending volume as the Fiscal Loan Fund shrinks. However, the scale and proportion of JFM funds (on an initial basis) in the fiscal 2012 LGBP was the biggest since JFM's establishment against the backdrop of the need for restoration following the Great East Japan Earthquake and national initiatives to prevent and mitigate disasters.

JFM thus plays a major role in Japan's local government finance. JFM contributes greatly to the project implementation and financial management of local governments.

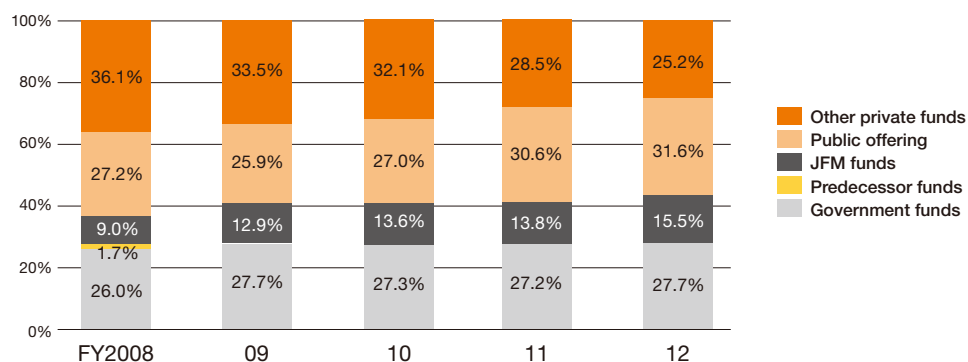


JFM's Role in Local Government Finance

Initial LGBP Volume by Fund Category



Initial LGBP by Fund Composition



* For fiscal 2012, government and JFM funds are the total of ordinary net expenses and operations related to the Great East Japan Earthquake.



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Financial Statements

Balance Sheets

(As of March 31, 2011 and 2012)

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

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

See notes to financial statements.

Statements of Income

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

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

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

See notes to financial statements.



Statements of Appropriation of Profit [General account]

(For the year ended March 31, 2011)

(Millions of yen)

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

Statements of Appropriation of Profit [General account]

(For the year ended March 31, 2012)

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

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

See notes to financial statements.

Statements of Appropriation of Profit [Management account]

(For the year ended March 31, 2011)

(Millions of yen)

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

Statements of Appropriation of Profit [Management account]

(For the year ended March 31, 2012)

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

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

See notes to financial statements.



Statements of Changes in Net Assets

(For the year ended March 31, 2011)

(Millions of yen)

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

(For the year ended March 31, 2012)

(Millions of yen)

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

(For the year ended March 31, 2012)

(Thousands of U.S. dollars)

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

See notes to financial statements.



Statements of Cash Flows

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

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

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

See notes to financial statements.

■ Notes to Financial Statements

1. Basis of Presentation

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

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

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

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

2. Summary of Significant Accounting Policies

(1) Securities

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

(2) Derivative transactions

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

(3) Depreciation

(a) Tangible fixed assets

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

Buildings: 20 to 41 years

Others: 2 to 19 years

(b) Intangible fixed assets

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

(4) Deferred assets

Bond issuance costs are expensed in full when incurred.

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

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

(6) Reserves

(a) Reserve for possible loan losses

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

(b) Reserve for bonuses

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

(c) Reserve for directors' bonuses

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

(d) Reserve for retirement benefits

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

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

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

(7) Hedge accounting

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

(i) Hedging instruments . . . Interest rate swaps



Financial Statements

- Hedged items Bonds and borrowed money
- (ii) Hedging instruments . . . Currency swaps
- Hedged items Foreign currency-denominated bonds
- (iii) Hedging instruments . . . Foreign exchange forward contracts
- Hedged items Receipt of interest and principal of foreign currency-denominated bank deposits
- (c) Hedging policy
- JFM uses hedging instruments as a means of hedging exposure to interest rate risk and foreign exchange risk. Hedged items are identified by each individual contract.
- As a means of hedging foreign exchange fluctuation risks associated with the receipt of interest and principal of foreign currency-denominated bank deposits, a foreign exchange forward contract is entered into at the time of each deposit to hedge the risks.
- (d) Assessment of hedge effectiveness
- JFM ensures hedging instruments and hedged items have the same major terms when entering into hedge transactions to offset bond and borrowed money market fluctuation risks. Accordingly, JFM deems these to be highly effective and thus does not assess effectiveness. Moreover, a periodic assessment of hedge effectiveness for interest rate swaps, currency swaps and forward contracts that qualify for deferral hedge accounting is omitted when the exceptional accrual method is applied.
- (8) Cash and cash equivalents
- Cash and cash equivalents in the statement of cash flows consist of “Cash and bank deposits” on the balance sheets.
- (9) Fund for improvement of operations of municipalities
- In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the fund for improvement of operations of municipalities to reserve contributions as stipulated in Article 32-2 of the Local Finance Law (Law No. 109, 1948). Also, pursuant to the provisions of Article 46, Section 5 of the Law, income arising from the investment of the fund (hereinafter, “investment income”) is used to reduce interest rates of the loans to municipalities, and if there is any surplus in the investment income after this interest rate reduction process, the surplus amount is added to the fund. Further, pursuant to the provisions of Article 46, Section 6 of the Law, if there is any shortfall after the interest rate reduction process, the shortfall is covered by withdrawal of the fund within the limits of the total of the additional portion to the fund made up to the previous fiscal year and the contributions made in the most current fiscal year.
- (10) Reserve for interest rate volatility and management account reserve for interest rate volatility
- The reserve for interest rate volatility is set aside to prepare for interest rate risk associated with refinancing of JFM bonds (excluding the bonds issued by the former Japan Finance Corporation for Municipal Enterprises; hereinafter, “former JFM”) pursuant to the provisions of Article 38, Sections 1 and 3 of the Law, and Article 9, Section 8 of the supplementary provisions of the Law, and is calculated and accounted for based on the provisions of Article 34 of the Ministerial Ordinance on Finance and Accounting of Japan Finance Organization for Municipalities (Ordinance No. 87 of the Ministry of Internal Affairs and Communications, 2008; hereinafter, “Ordinance on Finance and Accounting”) and Article 22 of the Government Ordinance on preparation of relevant government ordinances and provisional measures for the abolishment of the Japan Finance Corporation for Municipal Enterprises Law (Government Ordinance No. 226, 2008; hereinafter, “Preparation Ordinance”).
- The management account reserve for interest rate volatility is set aside to manage interest rate risk associated with refinancing of bonds issued by the former JFM pursuant to the provisions of Article 9, Sections 9 and 10, and Article 13, Sections 5 and 7 of the supplementary provisions of the Law, and is calculated and accounted for based on the provisions of Articles 1 through 3 of the Ministerial Ordinance on the operations of the Management Account at Japan Finance Organization for Municipal Enterprises (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2008; hereinafter, “Management Account Operations Ordinance”) and Articles 3 and 5 of the supplementary provisions of the above ordinance.
- (11) Reserve for interest rate reduction
- Reserve for interest rate reduction is set aside to reduce interest rates on the loans made by the former JFM to local governments pursuant to the provisions of Article 9, Section 13, and Article 13, Section 8 of the supplementary provisions of the Law, and Article 26, Sections 1, 3 and 4 of the Preparation Ordinance, and is calculated and accounted for based on the provisions of Article 5 of the Management Account Operations Ordinance.
- (12) Management account surplus reserve
- Profits generated in the management account are accounted for as the management account surplus reserve separately from retained earnings in accordance with the provisions of Article 13, Section 8 of the supplementary provisions of the Law and Article 26, Section 2 of the Preparation Ordinance.
- (13) Consumption taxes
- National and local consumption taxes are accounted for using the tax exclusion method.

3. Additional Information

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

4. Loans

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

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

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

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

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

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

5. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

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

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

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

(b) Details and risks of financial instruments

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

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

(c) Risk Management for Financial Instruments

(i) Credit risk

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

A. Credit risk on loans

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

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



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

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

B. Credit risk on transactions

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

(ii) Market risk

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

A. Interest rate risk

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

JFM makes loans to local governments. The maximum term to maturity is 30 years, but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinancing. JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and fund-raising.

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

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

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

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

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

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

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

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

B. Foreign exchange and other risks

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

bonds.

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

C. Quantitative information on market risk

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

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

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

The outlier ratio is calculated based on the following conditions.

- Future Cash Flows

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

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

- Indicative Interest Rate

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

- Calculation of Outlier Ratio

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

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

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

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

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

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

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

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

**Financial Statements****(iii) Liquidity risk**

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

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

(iv) Supplemental remarks on fair value of financial instruments

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

(2) Items related to fair value of financial instruments

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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



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

Assets

(1) Loans

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

(2) Securities

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

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

As of March 31, 2011

(Millions of yen)

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

As of March 31, 2012

(Millions of yen)

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

(Thousands of U.S. dollars)

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

(3) Cash and bank deposits

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

Liabilities**(1) Bonds**

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

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

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

(2) Borrowed money

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

Derivative transactions

Transactions for which hedge accounting is applied

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

(Millions of yen)

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



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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

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

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

As of March 31, 2011

(Millions of yen)

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

As of March 31, 2012

(Millions of yen)

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

(Thousands of U.S. dollars)

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



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Note 3. The repayment schedule is as follows:

As of March 31, 2011

(Millions of yen)

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

As of March 31, 2012

(Millions of yen)

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

(Thousands of U.S. dollars)

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

6. Tangible and Intangible Fixed Assets

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

7. Assets Pledged as Collateral

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



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8. Bonds

Bonds at March 31, 2011 consisted of the following:

(Millions of yen)

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

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

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

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

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



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Bonds at March 31, 2012 consisted of the following:

(Millions of yen)

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

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



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(Thousands of U.S. dollars)

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

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

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

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

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



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9. Borrowed Money

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

10. Reserves

Reserves at March 31, 2011 consisted of the following:

(Millions of yen)

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

Reserves at March 31, 2012 consisted of the following:

(Millions of yen)

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

(Thousands of U.S. dollars)

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



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11. Reserve for Interest Rate Volatility

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

12. Fund for Improvement of Operations of Municipalities

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

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



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13. Reserve for Employee Retirement Benefits

As of and for the years ended March 31, 2011

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

As of March 31, 2012

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

14. Net Income by Account

(For the year ended March 31, 2011)

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

(For the year ended March 31, 2012)

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

15. Subsequent events

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

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

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

16. Information by Account (Balance sheets)

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

(Millions of yen)

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



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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

Notes: 1. General account and management account

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

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



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2. General account surplus reserve and management account surplus reserve

"Net income" of the general account is posted as "General account surplus reserve" in accordance with the provisions of Article 39, Section 1 of the Law, while "Net income" of the management account is posted as "Management account surplus reserve" in accordance with the provisions of Article 13, Section 8 of the supplementary provisions the Law.

3. Due from general account and due to management account

These amounts represent funds lent between the general account and the management account pursuant to the provisions of Article 13, Section 4 of the supplementary provisions of the Law.

4. Due from general account for fund for improvement of operations of municipalities and due to management account for fund for improvement of operations of municipalities

These amounts represent cash received for "Fund for improvement of operations of municipalities," which was lent to the management account from the general account pursuant to the provisions of Article 9, Section 12 of the supplementary provisions of the Law.

17. Information by Account (Statements of income)

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

(Millions of yen)

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

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

(Millions of yen)

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



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(Thousands of U.S. dollars)

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

18. Fair Value of Marketable Securities

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

(Millions of yen)

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

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

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

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

3. Difference is the net amount of "unrealized gains" and "unrealized losses."



19. Information on Derivative Transactions

(1) Types of derivative transactions

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

(2) Policies and purposes of derivative transactions

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

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

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

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

(i) Hedging instruments: Interest rate swaps

Hedged items: Bonds and borrowed money

(ii) Hedging instruments: Currency swaps

Hedged items: Foreign currency-denominated bonds

(iii) Hedging instruments: Foreign exchange forward contracts

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

(c) Hedging policy

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

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

(d) Assessment of hedge effectiveness

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

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

(3) Risks on derivative transactions

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

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

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

(4) Risk management system for derivative transactions

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

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

Report of Independent Auditors



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Independent Auditor's Report

The President of Japan Finance Organization for Municipalities

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

President's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Conflicts of Interest

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

Ernst & Young Shin Nihon LLC

May 18, 2012

A member firm of Ernst & Young Global Limited

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Fiscal 2011 Redemption of Loans

Classification		Principal		Interest	
		Number of loans	Amount (Millions of yen)	Number of loans	Amount (Millions of yen)
Regular redemption of loans	General loans	393,499	1,485,418	463,760	506,900
	Loans to local government corporations	984	16,627	1,009	2,941
	Subtotal	394,483	1,502,045	464,769	509,841
Prepayment of loans	General loans	2,736	143,513	1,355	5
	Loans to local government corporations	20	3,009	11	0
	Subtotal	2,756	146,522	1,366	5
Total		397,239	1,648,567	466,135	509,847
Redemption of loans with pre-consent or approval		—	—	2	3
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 Fiscal 2011

	Project	Number of loans	Amount (Millions of yen)	Share (%)
General Account-Related Loans	Public Projects, Etc.	3	136	0.0
	Public Housing	5,301	518,326	2.3
	Emergency Disaster Management and Mitigation Projects	1	2	0.0
	Social Welfare Facilities Construction	159	15,671	0.1
	General Projects	148	21,113	0.1
	Improvement of Rivers and Other Waterways	3,567	180,245	0.8
	High School Construction	407	67,136	0.3
	Local Road Construction	30,605	3,450,547	15.4
	Local Road Construction Business	2,215	257,381	1.2
	Regional Revitalization	257	18,908	0.1
	Disaster Prevention	454	45,686	0.2
	Special Municipal Merger Projects	1,331	378,024	1.7
	Extraordinary Financial Countermeasures Funding	2,325	1,951,474	8.7
	Subtotal	46,773	6,904,649	30.9
Municipal Enterprise-Related Loans	Water Supply	45,273	3,804,271	17.0
	Small-Scale Water Supply	6,139	184,042	0.8
	Transportation	141	15,879	0.1
	Urban Rapid Transit Railway	815	1,343,886	6.0
	Hospitals	2,414	608,055	2.7
	Sewerage	122,527	8,768,382	39.2
	Industrial Water Supply	2,336	236,528	1.1
	Electricity Supply	698	54,166	0.2
	Gas Supply	307	39,521	0.2
	Elderly Care Services	331	25,648	0.1
	Markets	476	83,507	0.4
	Slaughterhouses	67	6,292	0.0
	Parking Facilities	461	69,316	0.3
	Port Facilities	1,254	89,507	0.4
	Tourism Facilities	67	5,541	0.0
	Industrial Waste Disposal	21	7,234	0.0
	Regional Development (Note1)	47	20,595	0.1
	Subtotal	183,374	15,362,369	68.6
Loan for Local Government Road Corporation	Toll Roads (Public Corporations)	451	120,393	0.5
	Total	230,598	22,387,411	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.

Appendices

Bond Issuance in Fiscal 2011

1. JFM Bonds

(1) Domestic Public Offering Bonds

Term	Series	Issue amount (Billions of yen)	Coupon rate (%)	Issue price (yen)	Issue date (YY/MM/DD)
10 years	23rd	40.0	1.418	100.00	2011/4/21
10 years	24th	30.0	1.208	100.00	2011/5/26
10 years	25th	35.0	1.178	100.00	2011/6/27
10 years	26th	30.0	1.149	100.00	2011/7/25
10 years	27th	30.0	1.034	100.00	2011/8/18
10 years	28th	30.0	1.048	100.00	2011/9/20
10 years	29th	30.0	1.025	100.00	2011/10/24
10 years	30th	30.0	1.035	100.00	2011/11/17
10 years	31st	30.0	1.067	100.00	2011/12/19
10 years	32nd	35.0	0.991	100.00	2012/1/26
10 years	33rd	40.0	1.035	100.00	2012/2/20
10 years	34th	40.0	1.010	100.00	2012/3/19
20 years	14th	30.0	2.187	100.00	2011/4/27
20 years	15th	35.0	2.030	100.00	2011/6/9
20 years	16th	20.0	1.846	100.00	2011/8/18
20 years	17th	20.0	1.870	100.00	2011/9/20
20 years	18th	20.0	1.781	100.00	2011/10/24
20 years	19th	20.0	1.840	100.00	2011/12/19
20 years	20th	25.0	1.800	100.00	2012/1/26
5 years	5th	20.0	0.510	100.00	2011/5/26
5 years	6th	20.0	0.435	100.00	2011/7/25
5 years	7th	20.0	0.385	100.00	2011/11/17
5 years	8th	20.0	0.384	100.00	2012/2/20
9 years	57th FLIP	20.0	1.297	100.00	2011/4/27
9 years	58th FLIP	3.0	1.203	100.00	2011/4/27
19 years	59th FLIP	6.0	2.164	100.00	2011/4/27
14 years	60th FLIP	10.0	1.715	100.00	2011/5/10
30 years	61st FLIP	3.0	2.334	100.00	2011/5/10
13 years	62nd FLIP	10.0	1.491	100.00	2011/5/31
14 years	63rd FLIP	3.0	1.579	100.00	2011/5/31
15 years	64th FLIP	5.0	1.683	100.00	2011/5/31
14 years	65th FLIP	3.0	1.583	100.00	2011/6/6
15 years	66th FLIP	3.0	1.649	100.00	2011/6/6
16 years	67th FLIP	3.0	1.805	100.00	2011/6/6
30 years	68th FLIP	3.0	2.243	100.00	2011/6/6
9 years	69th FLIP	20.0	1.027	100.00	2011/7/28

Term	Series	Issue amount (billions of yen)	Coupon rate (%)	Issue price (yen)	Issue date (YY/MM/DD)
7 years	70th FLIP	20.0	0.673	100.00	2011/10/26
16 years	71st FLIP	5.0	1.637	100.00	2011/10/27
12 years	72nd FLIP	6.0	1.274	100.00	2011/10/27
15 years	73rd FLIP	3.0	1.569	100.00	2011/10/31
7 years	74th FLIP	5.0	0.663	100.00	2011/10/31
12 years	75th FLIP	8.0	1.244	100.00	2011/10/31
14 years	76th FLIP	4.0	1.448	100.00	2011/10/31
15 years	77th FLIP	3.5	1.519	100.00	2011/10/31
13 years	78th FLIP	3.0	1.331	100.00	2011/11/7
15 years	79th FLIP	6.0	1.507	100.00	2011/11/7
17 years	80th FLIP	5.5	1.658	100.00	2011/11/7
8 years	81st FLIP	4.5	0.761	100.00	2011/11/14
13 years	82nd FLIP	3.0	1.381	100.00	2011/11/14
15 years	83rd FLIP	3.0	1.571	100.00	2011/11/7
16 years	84th FLIP	10.0	1.640	100.00	2011/12/20
16 years	85th FLIP	10.0	1.630	100.00	2011/12/26
7 years	86th FLIP	20.0	0.631	100.00	2012/1/31
12 years	87th FLIP	3.0	1.259	100.00	2012/1/31
15 years	88th FLIP	6.0	1.546	100.00	2012/1/31
15 years	89th FLIP	3.0	1.602	100.00	2012/1/31
16 years	90th FLIP	3.0	1.609	100.00	2012/1/31
7 years	91st FLIP	4.5	0.602	100.00	2012/2/2
12 years	92nd FLIP	3.0	1.259	100.00	2012/2/2
25 years	93rd FLIP	3.0	1.944	100.00	2012/2/2
7 years	94th FLIP	3.0	0.597	100.00	2012/2/2
13 years	95th FLIP	7.0	1.336	100.00	2012/2/6
15 years	96th FLIP	3.0	1.546	100.00	2012/2/2
13 years	97th FLIP	3.0	1.345	100.00	2012/2/7
16 years	98th FLIP	4.0	1.583	100.00	2012/2/7
7 years	99th FLIP	3.0	0.554	100.00	2012/2/28
11 years	100th FLIP	3.0	1.111	100.00	2012/3/7
12 years	101st FLIP	3.0	1.220	100.00	2012/3/6
16 years	102nd FLIP	3.0	1.620	100.00	2012/3/6
12 years	103rd FLIP	3.0	1.205	100.00	2012/3/7
13 years	104th FLIP	4.0	1.314	100.00	2012/3/7
12 years	105th FLIP	3.0	1.210	100.00	2012/3/12
12 years	106th FLIP	3.0	1.259	100.00	2012/3/27
13 years	107th FLIP	3.0	1.388	100.00	2012/3/27
15 years	108th FLIP	4.5	1.580	100.00	2012/3/28
16 years	109th FLIP	4.0	1.675	100.00	2012/3/28

Appendices

(2) Private Placement Bonds Underwritten by Pension Fund Association for Local Government Officials

Term	Series	Issue amount (Billions of yen)	Coupon rate (%)	Issue price (yen)	Issue date (YY/MM/DD)
10 years	A-15th	40.0	1.46	100.00	2011/4/21
10 years	A-16th	40.0	1.25	100.00	2011/5/26
10 years	A-17th	30.0	1.19	100.00	2011/6/27
10 years	A-18th	30.0	1.17	100.00	2011/7/25
10 years	A-19th	30.0	1.12	100.00	2011/8/18
10 years	A-20th	20.0	1.07	100.00	2011/9/20
10 years	A-21st	20.0	1.06	100.00	2011/10/24
10 years	A-22nd	10.0	1.05	100.00	2011/11/17
10 years	A-23rd	10.0	1.09	100.00	2011/12/19
10 years	A-24th	10.0	1.03	100.00	2012/1/26
10 years	A-25th	20.0	1.06	100.00	2012/2/20
10 years	A-26th	40.0	1.04	100.00	2012/3/19

(3) EMTNs

Issue Number	Term	Currency	Coupon type	Issue amount		Coupon (%)	Price (%)	Issue date (YY/MM/DD)
				Local denomination (Millions)	After translation into yen (Billions of yen)			
1	5 years	US\$	Variable	105	8.1	3m USD Libor + 73bp	100.00	2012/1/17
2	5 years	US\$	Fixed	40	3.1	2.0350%	100.00	2012/1/12
3	5 years	US\$	Fixed	57	4.4	2.0000%	100.00	2012/1/17
4	5 years	US\$	Variable	35	2.7	3m USD Libor + 75bp	100.00	2012/1/17
5	5 years	US\$	Variable	30	2.3	3m USD Libor + 75bp	100.00	2012/1/19
6	5 years	US\$	Variable	51	3.9	3m USD Libor + 70bp	100.00	2012/1/18
7	5 years	US\$	Fixed	20	1.5	2.0000%	100.00	2012/1/23
8	5 years	US\$	Variable	20	1.5	3m USD Libor + 73bp	100.00	2012/1/23
9	5 years	US\$	Variable	20	1.5	3m USD Libor + 70bp	100.00	2012/1/19
10	5 years	US\$	Variable	20	1.5	3m USD Libor + 75bp	100.00	2012/1/18
11	5 years	NZ\$	Variable	40	2.4	3M NZD-BBR-FRA + 113bp	100.00	2012/1/24
12	5 years	US\$	Variable	20	1.5	3m USD Libor + 69bp	100.00	2012/1/26
13	5 years	US\$	Variable	20	1.5	3m USD Libor + 70bp	100.00	2012/1/24
14	5 years	US\$	Fixed	25	2.0	1.8400%	100.00	2012/3/1
15	7 years	US\$	Fixed	20	1.6	2.4000%	100.00	2012/3/1
16	5 years	US\$	Fixed	25	2.0	1.8725%	100.00	2012/3/1
17	5 years	US\$	Variable	30	2.4	3m USD Libor + 70bp	100.00	2012/3/1
18	5 years	US\$	Variable	25	2.0	3m USD Libor + 70bp	100.00	2012/3/1
19	5 years	US\$	Fixed	20	1.6	1.8900%	100.00	2012/3/1
20	5 years	US\$	Variable	40	3.2	3m USD Libor + 70bp	100.00	2012/3/6
21	5 years	US\$	Variable	30	2.4	3m USD Libor + 70bp	100.00	2012/3/6
22	5 years	US\$	Variable	25	2.0	3m USD Libor + 70bp	100.00	2012/3/6
23	5 years	US\$	Variable	30	2.4	3m USD Libor + 70.5bp	100.00	2012/3/6
24	5 years	US\$	Variable	30	2.4	3m USD Libor + 70bp	100.00	2012/3/8
25	5 years	US\$	Variable	30	2.4	3m USD Libor + 70bp	100.00	2012/3/6
26	5 years	A\$	Variable	20	1.7	3m AUD-BBR-BBSW + 115bp	100.00	2012/3/13
27	5 years	US\$	Variable	30	2.4	3m USD Libor + 70bp	100.00	2012/3/8
28	5 years	US\$	Fixed	20	1.6	1.8500%	100.00	2012/3/13

Note: Issue amounts after converted to yen for each series are rounded down to the nearest ¥100 million.

2. Government-Guaranteed Bonds (Domestic Bonds)

Term	Series	Issue amount (billions of yen)	Coupon rate (%)	Issue price (yen)	Issue date (YY/MM/DD)
10 years	23rd	40.0	1.3	99.70	2011/4/18
10 years	24th	40.0	1.1	99.35	2011/5/25
10 years	25th	40.0	1.2	100.00	2011/6/14
10 years	26th	40.0	1.1	99.15	2011/7/19
10 years	27th	40.0	1.0	99.30	2011/8/15
10 years	28th	55.0	1.0	99.10	2011/9/14
10 years	29th	40.0	1.0	99.85	2011/10/18
10 years	30th	40.0	1.0	99.50	2011/11/15
10 years	31st	40.0	1.1	100.00	2011/12/14
10 years	32nd	40.0	0.9	99.25	2012/1/25
10 years	33rd	40.0	0.9	99.20	2012/2/15
10 years	34th	57.86	0.9	99.15	2012/3/14
6 years	1st	50.0	0.4	99.88	2011/9/27
6 years	2nd	50.0	0.4	100.05	2011/11/29
6 years	3rd	50.0	0.4	99.94	2012/1/30
6 years	4th	50.0	0.4	100.05	2012/3/26

JFM Data

JFM Data

Organization History

History of JFM

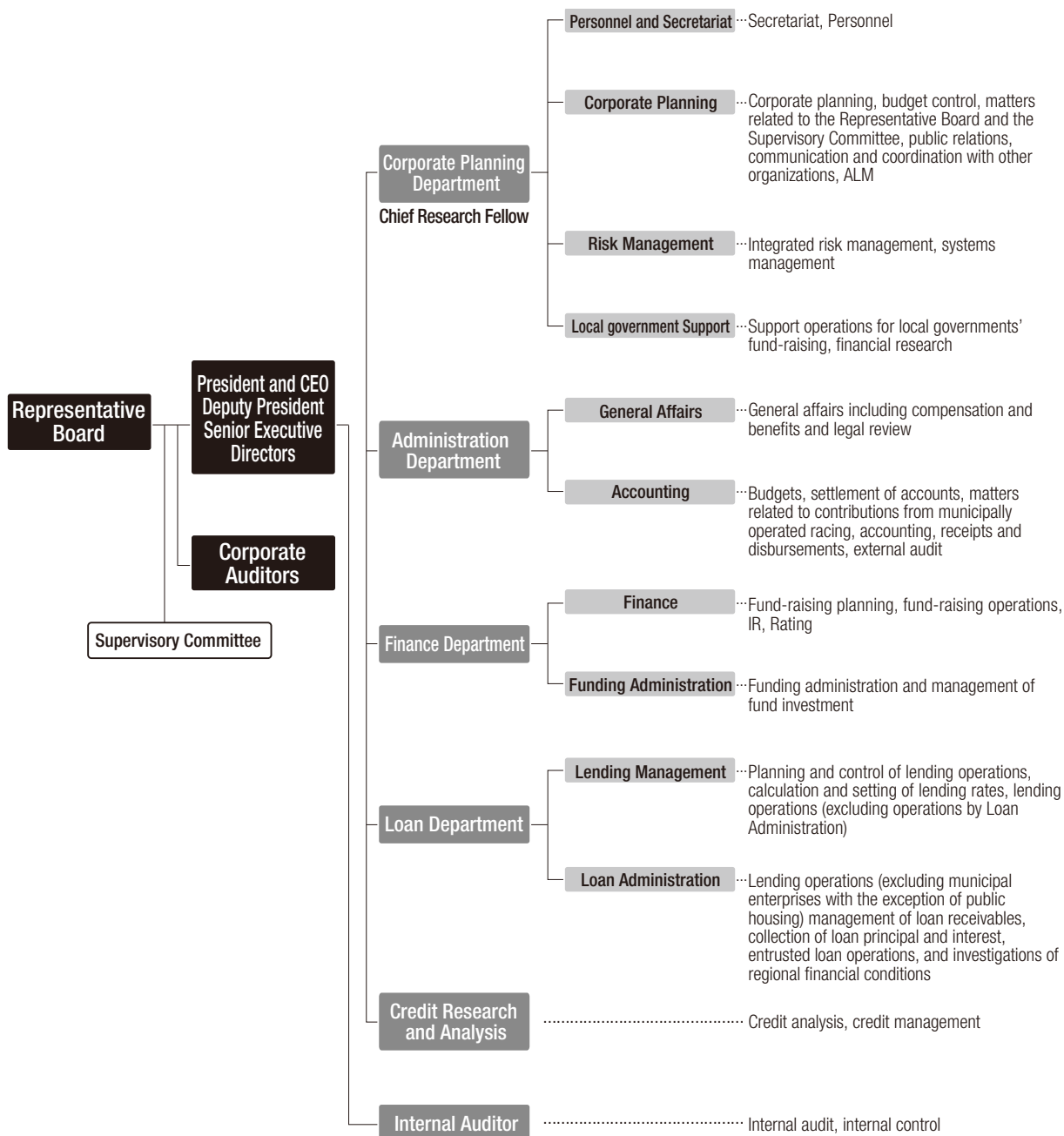
2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of JFM) was established based on the Japan Finance Organization for Municipal Enterprises Law on August 1, 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on October 1, 2008.
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

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, 2012



■ Directors and Corporate Auditors

President and CEO	Yuji Watanabe
Deputy President	Kenji Tanigawa
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; K. Tanigawa, 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



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

■ Address:

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Tokyo 100-0012, Japan
<http://www.jfm.go.jp/en/>



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.

