





Japan Finance Organization for Municipalities



Profile of JFM

Name Japan Finance Organization for Municipalities (JFM)

Establishment 1 August 2008 (Reorganized on 1 June 2009)

Governing Law Japan Finance Organization for Municipalities Law

(Act No. 64 of 2007, as amended)

Address Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo

President and CEO Yuji Watanabe

Capital USD 176 million

Number of Employees 90 (as of 1 April 2013)

Outstanding Loans as of 31 March 2013 USD 240 billion

Outstanding Bonds and Bank Loans as of 31 March 2013 USD 198 billion

Credit Ratings S&P: AAas of 31 March 2013 Moody's : Aa3 R&I: AA+

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CONTENTS

JFM Annual Report 2013

Message from the President and CEO	02
Management Philosophy	03
JFM at a Glance	04
Outline of JFM Operations	06
Capital	07
Review and Plan	
Review of Operations for Fiscal 2012	
1. Lending Operations	
2. Funding Operations	
3. Financial Review	14
Management Plan for Fiscal 2013	
1. Lending Operations	
2. Funding Operations	17
3. Payment to National Treasury of Managem	nent
A control December 6 of Laterant Date Malacelet	47
Account Reserve for Interest Rate Volatility	17
Operations	17
Operations	20
Operations Lending Operations	20
Operations Lending Operations 1. Outline	20 20 22
Operations Lending Operations 1. Outline 2. Interest Rates of Loans	20 20 22
Operations Lending Operations 1. Outline 2. Interest Rates of Loans 3. Credit Check System	20 20 22 24
Operations Lending Operations 1. Outline 2. Interest Rates of Loans 3. Credit Check System 4. Trends in Lending Operations	20 22 24 27
Operations Lending Operations 1. Outline 2. Interest Rates of Loans 3. Credit Check System 4. Trends in Lending Operations 5. Lending Operations by Business Type	20 22 24 24 30
Operations Lending Operations 1. Outline 2. Interest Rates of Loans 3. Credit Check System 4. Trends in Lending Operations 5. Lending Operations by Business Type Funding Operations	20 22 24 27 30
Operations Lending Operations 1. Outline 2. Interest Rates of Loans 3. Credit Check System 4. Trends in Lending Operations 5. Lending Operations by Business Type Funding Operations 1. Issue Type	20 22 24 27 30 31

Management St	ructure
---------------	---------

Corporate Governance	- 36
1. Corporate Governance	- 36
2. Internal Control over Financial Reporting	- 38
3. Internal Audit	- 38
General Account and Management Account	- 39
Risk Management	- 41
Compliance	- 46
Disclosure	- 47
JFM's Role in Local	
_	
Government Finance	
Japanese Local Government System	- 48
2. Local Government Finance Program	- 49
3. Local Allocation Tax	- 50
4. Local Government Borrowings	- 50
5. Safety of Local Government Borrowings	- 50
6. Local Government Borrowing Program	- 51
7. JFM Funds in Local Government Borrowing	
Program	- 52
Financial Section	
Financial Statements	- 54
Independent Auditor's Report	
and the second s	
Appendix /JFM Data	
Appendix	- 96
JFM Data	
or in Data	.01

Organization History------ 107
Organization Structure ------ 108

Contact Information ----- 109

Directors and Corporate Auditors/

Message from the President and CEO

Yuji Watanabe President and CEO, Japan Finance Organization for Municipalities June 2013

Yuji Watanabe

Review of Fiscal 2012

Fiscal 2012 has seen hopeful signs of recovery for the Japanese economy since the second half of the year. We have seen changes such as a hike in share prices and the correction of the yen's excessive appreciation, on the back of rising expectations for a policy turnaround. At the same time, there were difficult challenges to capital markets, such as prolonged financial turmoil in Europe, nuclear power issues, and so on.

Under such an environment, JFM continued to be responsive to the needs of the regions as a reliable provider of long-term funding for local governments at low-interest rates.

In terms of lending activities, JFM provided a total of JPY 1,886.4 billion (USD 20 billion) to local governments, which marked the largest volume since JFM's establishment.

On the funding front, among other capital market transactions, we successfully issued our inaugural public USD benchmark bonds without government guarantees, and AUD denominated Uridashi Bonds targeting Japanese retail investors. Through those efforts, we pursued further diversification of our funding options as well as the expansion of our investor base. Consequently, the total issue volume amounted to JPY 2,526.8 billion (USD 27 billion), the largest volume since JFM's establishment.

Initiative for Fiscal 2013

The Japanese government has implemented the three pillars of Prime Minister Abe's economic policy – bold monetary easing, fiscal stimulus and a growth strategy. We foresee various public works projects to be implemented, related to reconstruction due to the Great East Japan Earthquake, disaster prevention, local revitalization or other issues, which address individual regional challenges. JFM will continue to play an important role in local government funding, securely providing long-term and low-interest funds, as well as supporting restoration and reconstruction of the



earthquake-affected regions through JFM special lending initiatives.

Reflecting on the diversified needs of the regions, both of our lending and funding volumes for fiscal 2013 are planned to be greater than those for fiscal 2012.

Furthermore, in light of our solid business operations, a portion of JFM's reserve has been set to be transferred to the national government over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring JPY 1 trillion (USD 11 billion). This payment is to be used to secure local allocation tax grants to be distributed to local governments. In fiscal 2013, JFM plans to pay JPY 650 billion (USD 6.9 billion) to the national treasury, following JPY 350 billion (USD 3.7 billion) paid in fiscal 2012. Through this move, we believe that we can further contribute to overall local government finances.

JFM for Local Governments

JFM will continue to be committed to support local government projects which are essential to the daily lives of citizens, with concerted efforts by our management and employees.

Thank you for your understanding and continued support for our endeavors.

Management Philosophy

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

1

Ensuring Responsible Corporate Governance as a Joint Organization of Local Governments

JFM ensures responsible corporate governance through prudent risk management, monitoring and recommendations by the Supervisory Committee, as well as audits by external accounting auditors.

2

Being Responsive to Local Government Financial Needs

As a reliable provider of long-term and low-interest funds for local governments, JFM closely supports local government funding based on their need as well as the environment.

3

Building Market Confidence toward JFM

JFM aims to build market confidence through proactive disclosure as required in capital markets, as well as its sound financial standing maintained through prudent risk management, thereby securing low-cost funding. Furthermore, JFM, as a leading public-sector bond issuer, is committed to contributing to the sound development of capital markets.



The Joint Funding Organization for All Japanese Local Governments

- Wholly owned by Japanese local governments, with the capital contribution from 1,790^{*1*2} local governments
- Operates as a non-profit organization with the objective to provide long-term and low-interest rate loans exclusively to Japanese local governments
- Originally established in 1957 as a government financial institution. In 2008, as part of a policy-based financial reform conducted by the Japanese national government, the new JFM was established under the special law by succeeding to substantially all rights and obligations of the predecessor

Japanese Local Governments

- Japanese local governments include 47 prefectures and a total of 1,742^{*1} cities and special wards of Tokyo, government-designated cities, as well as towns and villages
- Revenue sources for the local governments are secured by the national government
 - ▶ The national government allocates a part of national tax revenue to the local governments, in order to adjust the imbalance of revenue sources among the local governments
 - ► The national government also prepares the Local Government Borrowing Program each fiscal year, which specifies the amount of local government funding as well as funding sources
 - ▶ In the case of each local government funding, consent or approval must, in principle, be obtained from the relevant authorities
 - Financial conditions of the local governments are monitored under the legal framework for early warning and reconstruction of fiscal soundness
- Thus, none of the local governments has defaulted
- BIS 0% risk weight for Japanese local governments*3

Notes: *1. As of 31 March 2013.

- *2. 1,790 local governments, encompassing all of the prefectures, cities and special wards, government-designated cities, towns and villages, as well as some local government associations.
- *3. Value for investors in Japan. For international investors, values are determined by respective country authorities.

Amount of Capital Contribution (As of 31 March 2013)



Contributed by 1,790 Japanese local governments

- (1) Excludes government-designated cities
- (2) Government-designated cities:

Cities with populations of 500,000 or more designated in accordance with Paragraph 1, Article 252-19 of the Local Autonomy Act.

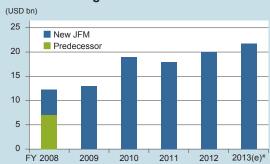
Such government-designated cities are allowed to administer certain matters such as social welfare, food safety, urban planning and so on, for which prefectures are responsible in principle.

Financial Highlights

	Financial Highlights FY2012				
	(JPY mm) YoY (USD bn) Y				
Total Assets	23,704,919	+346,212	251	+3.9	
Loans	22,668,634	+281,223	240	+3.0	
Total Liabilities	23,591,399	+344,389	250	+3.7	
Bonds	18,676,401	+499,705	198	+5.3	
Reserves under Special Laws	3,947,086	-157,758	42	-1.7	
Capital	16,602	0	0.2	0	
Ordinary Income	213,070	-16,985	2.3	-0.2	

As of 31 March 2013.

Annual Lending Volume



*Planned amount; subject to change depending on market

Funding

- Leading issuer in the Japanese bond market with an average annual funding volume of JPY 2 tn (USD 21 bn)
- Aiming to diversify its funding sources and expand its investor base – continues to access the international market through benchmark transactions as well as private placements, making use of its MTN Program
- In the international market, only non-government guaranteed bonds will be issued
- In FY2012, JFM issued a total of USD 2.7 bn worth of international bonds through 2 benchmark transactions, 3 private placements and an issuance of Uridashi Bonds

Support Structure

- Under the JFM Law, if JFM is to be dissolved and its obligations cannot be satisfied in full with its assets, local governments bear all costs necessary to satisfy the relevant obligations in full via payment to JFM
- Along with the solid institutional framework to support the local governments, we believe JFM bonds are generally regarded as a secure investment

Credit Ratings

- Aa3 (Moody's), AA- (S&P)
- The ratings of JFM are the same as those of the Japanese sovereign
- BIS risk weight: 10% for JFM bonds (non-guaranteed) denominated in JPY, 20% for those denominated in foreign currencies³

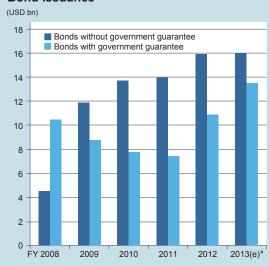
Note: A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agencies.

Funding Plan

Type of Bonds	FY 2013 (plan) ⁽¹⁾	FY 2012 (achieved)
Guaranteed	USD 13.6 bn	USD 10.9 bn
Non-Guaranteed	USD 15.9 bn	USD 16.2 bn
Domestic Issuance	USD 13.6 bn	USD 13.5 bn
MTN		USD 2.7 bn ⁽²⁾
Benchmark	USD 2.3 bn	USD 2 bn
Private Placements	000 2.3 011	USD 557 mm
Uridashi Bonds		AUD 100 mm

- (1) Planned amount; subject to change depending on market circumstances.
- (2) Includes AUD 100 mm Uridashi Bonds, converted at USD 1 = AUD 1.0419 as of 31 March 2013 (based on the exchange rate of the last business day of March, 29 March 2013).

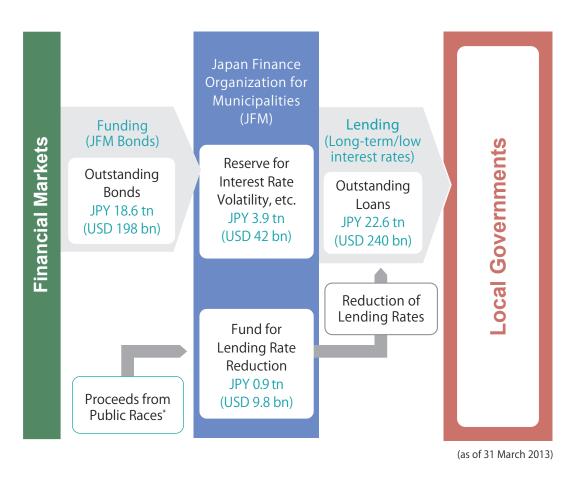
Bond Issuance



*Planned amount; subject to change depending on market circumstances.

Note: *3. Value for investors in Japan. For international investors, values are determined by respective country authorities.





st : A portion of the earnings from municipally operated racing (horse, bicycle, motorcycle and speedboat).

Public Institution Wholly Owned by Japanese Local Governments

JFM is a joint funding organization for all local governments, wholly owned by Japanese local governments under the Japan Finance Organization for Municipalities Law (Act No. 64 of 2007, as amended; the "JFM Law").

JFM loans are provided exclusively to local governments, and local governments must receive the consent or approval of the Minister for Internal Affairs and Communications or their respective prefectural governors when they borrow from JFM. Within this structure, JFM has never had a default since its establishment.

Joint Funding Organization for All Local Governments

JFM contributes to the sound financial operation of local governments and improve the welfare of local residents, with the aim of efficiently and effectively complementing local government fund-raising, by providing long-term funding at low-interest rates to local governments.

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

In response to this situation, JFM issues bonds in capital markets with a wide variety of maturities ranging from medium-term to super long-term to provide stable and low-interest funds to local governments.

Under the JFM Law (Article 52, Paragraph 1), local governments have an obligation to bear the cost necessary to satisfy all JFM obligations in the event JFM is to be dissolved and its obligations remain unpaid.

Solid 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 duration gap between lending and funding. 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 reserves for interest rate volatility.

Reduction of Lending Rates by Utilizing the Fund for Lending Rate Reduction

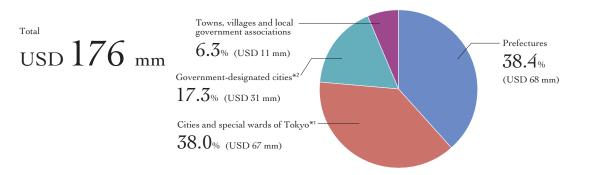
JFM receives a portion of the earnings from various racing events (horse, bicycle, motorcycle and speedboat) operated by local governments, which are directed to the Fund for Lending Rate Reduction. The fund is managed to generate gains to lower interest rates on loans provided to local governments.

Capital

As of 31 March 2013, JFM's capital was USD 176 million contributed by 1,790 Japanese local governments, i.e., all of the prefectures, cities, special wards of Tokyo, government-designated cities, towns and villages, as well as some local government associations.

The amount of capital contribution from each local government is decided based on 1) outstanding JFM loans to each local government, and 2) the amount of revenue of each local government (mainly comprised of local taxes, local allocation taxes and Temporary Financial Countermeasures Funding).

Capital Contribution by Type of Local Government



Notes: 1. Excludes government-designated cities.

2. Government-designated cities: Cities with populations of 500,000 or more designated in accordance with Paragraph 1, Article 252-19 of the Local Autonomy Act. Such government-designated cities are allowed to administer certain matters such as social welfare, food safety, urban planning and so on, for which prefectures are responsible in principle.

Review and Plan

Review of Operations for Fiscal 2012	10
1. Lending Operations	10
2. Funding Operations	12
3. Financial Review	14
Management Plan for Fiscal 2013	16
1. Lending Operations	16
2. Funding Operations	17
3. Payment to National Treasury of Management Account	10
Reserve for Interest Rate Volatility	17







Review of Operations for Fiscal 2012

1 Lending Operations

1. Lending Operations

In fiscal 2012, JFM provided loans totaling USD 20.0 billion, which marked the largest volume since JFM's establishment. Loans for Temporary Financial Countermeasures Funding were USD 7.5 billion, which accounted for 37% of the total, followed by loans for the sewerage business in the amount of USD 3.4 billion, representing 17% of the total. In addition, loans were made for the special municipal mergers and other general account-related businesses in the amount of USD 5.3 billion, which accounted for 27% of the total. Municipal enterprise-related loans were USD 6.7 billion, which made up 34% of the total, mainly via sewerage and water supply businesses.

In fiscal 2012, it is notable that restoration and reconstruction projects in connection with the Great East Japan Earthquake as well as disaster management and mitigation projects were carried on a full scale, resulting in the lending volume of USD 1.2 billion for these projects.

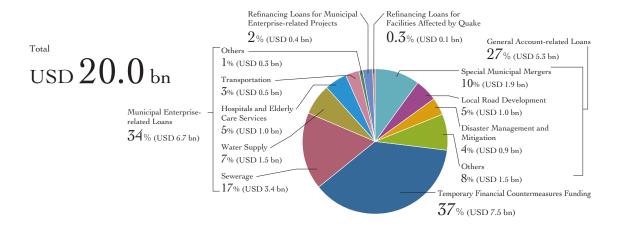
- Notes: 1. Represents the local government funding to cover shortfalls in local government revenue sources pursuant to the provisions of the Local Government Finance Law (Act No. 109 of 1948, as amended).
 - 2. Disaster management and mitigation business strives to build disaster-resistant communities by managing such as the renovation for quake-resistant public facilities, development of emergency shelters as well as wireless communication systems for disaster prevention, etc. This business category, established in fiscal 2011, is required to be funded through public funds, and in fiscal 2012, JFM lent this category USD 0.9 billion.

Results of Lending Operations by Business in Fiscal 2012

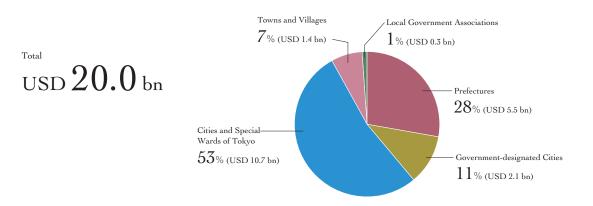
Business	Number of Loans Made	Loan Amount (millions of USD)		
Dusilless	Number of Loans Made		% of total	
General Account-related Loans				
Public Projects, etc.	290	588	3	
Public Housing	107	160	1	
Disaster Management and Mitigation	613	869	4	
Educational Facilities Development	8	38	0	
Social Welfare Facilities Development	146	198	1	
General Projects	75	101	1	
Regional Revitalization	114	100	0	
Disaster Prevention	284	318	2	
Local Road Development	744	1,049	5	
Special Municipal Mergers	685	1,917	10	
Subtotal	3,066	5,336	27	
Municipal Enterprise-related Loans				
Water Supply	1,074	1,469	7	
Industrial Water Supply	83	112	1	
Transportation	37	550	3	
Electricity and Gas Supply	32	52	0	
Port Facilities	30	48	0	
Hospitals and Elderly Care Services	350	959	5	
Markets and Slaughterhouses	34	52	0	
Sewerage	1,978	3,434	17	
Tourism and Others	5	23	0	
Subtotal	3,623	6,699	34	
Refinancing Loans for Municipal Enterprise-related Projects	355	417	2	
Refinancing Loans for Facilities Affected by Earthquake	453	63	0	
Temporary Financial Countermeasures Funding	885	7,489	37	
Total	8,382	20,004	100	

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

FY 2012 Lending Volume by Business Type



FY 2012 Lending Volume by Borrower Type



Review of Operations for Fiscal 2012

2 Funding Operations

1. Amount Raised*1

In fiscal 2012, JFM's total bond issuance amounted to USD 27.1 billion. This amount included USD 16.2 billion in JFM bonds (non-guaranteed), and USD 10.9 billion in government-guaranteed bonds for the repayment of existing bonds issued by the Predecessor.

With regard to JFM bonds, USD 13.0 billion was issued through public offerings of 5-year, 10-year and 20-year bonds, as well as opportunistic issuance through JFM's Flexible Issuance Program ("FLIP") and the MTN Program.

As for publicly-offered JFM bonds, a total of USD 10.3 billion were issued in the Japanese domestic market. In particular, 10-year bonds were issued at the highest monthly volume in JFM's history – more than USD 424 million per month.

In international markets, JFM took a significant step toward reaching investors in September 2012 with its first non-guaranteed benchmark bonds (USD 1 billion). In addition to this successful transaction, JFM issued a total of USD 557 million through three private placements, achieving its initial funding plan for international bonds through the MTN Program. In November 2012, in response to favorable market conditions, JFM doubled its funding plan to USD 2.4 billion. Following this move, in February 2013, JFM issued its second non-guaranteed benchmark bonds (USD 1 billion), and also its inaugural Uridashi Bonds (AUD 100 million) targeting Japanese retail investors. Through these activities, the total volume of international bonds amounted to USD 2.7 billion².

The private placements of 10-year bonds with the Pension Fund Association for Local Government Officials were USD 3.2 billion.

As a result, as of the end of fiscal 2012, JFM's outstanding bonds were USD 198.2 billion, including the Predecessor's bonds to which JFM succeeded, and bank loans totaled USD 0.3 billion.

Notes: 1. Issue amounts are shown at face value.

2. Includes AUD 100 million Uridashi Bonds, converted at USD 1 = AUD 1.0419 (as of 29 March 2013)

Flexible Issuance Program ("FLIP")

FLIP is JFM's own framework for domestic bond issuance. Bond maturities range from 3 years to 30 years (except for 5-year, 10-year and 20-year fixed rate bullet bonds) with a minimum issue size of JPY 3 billion (USD 32 million).

2. Funding in Fiscal 2012

1. JFM bonds (non-guaranteed)

(1) Public offerings

Type of Bonds		Plan	Achieved	
Domestic Issuance		USD 10.3 bn	USD 10.3 bn	
	10-year	USD 4.8 bn	USD 5.1 bn	
	20-year	USD 1.7 bn	USD 1.5 bn	
	5-year	USD 0.8 bn	USD 0.6 bn	
	Opportunistic Issuance	USD 3.0 bn	USD 3.0 bn	
MTN		USD 2.4 bn	USD 2.7 bn	
Total		USD 12.7 bn	USD 13.0 bn	

Note: Funding plan for FY2012 was revised in November 2012 and increased by USD 1.1 bn.

(2) Private placements with Pension Fund Association for Local Government Officials

Type of Bonds	Plan	Achieved
10-year	USD 3.2 bn	USD 3.2 bn

Government-guaranteed domestic bonds

Type of Bonds	Plan	Achieved
10-year	USD 5.2 bn	USD 5.2 bn
6-year	USD 3.4 bn	USD 3.4 bn
4-year	USD 2.3 bn	USD 2.3 bn
Total	USD 10.9 bn	USD 10.9 bn

3. Issue Spreads

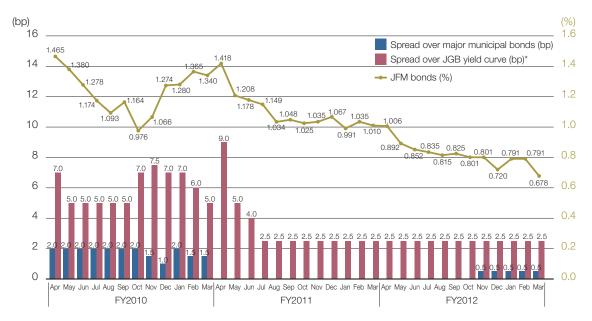
Investor demand for bonds with high credit ratings rose after the Great East Japan Earthquake interrupted the issuance of electric power bonds. As a result, since April 2011, JFM had issued 10-year bonds that offered spreads to JGBs similar to those of local governments. However, in November 2012, spreads of local government bonds to JGBs tightened by 0.5 bp to 2.0 bp, while those of JFM bonds remained at 2.5 bp, which has left 0.5 bp gap between JFM bonds and local government bonds since then.

As of March 2013, spreads on 5-year and 20-year JFM bonds continued to be similar to those of local governments.

JFM's international bonds have been issued based on investor demand and market conditions, by referring to credit spreads observed in the international primary or secondary markets at the time of pricing.

Note: See page 102 for the terms of issuances in fiscal 2012.

Issue Conditions of 10-Year JFM Bonds



Note: Spreads over the JGB curve are theoretical values calculated by JFM.



Review of Operations for Fiscal 2012

3 Financial Review

1. Profit and Loss Statement

In fiscal 2012, JFM's income was USD 5.2 billion, declined by USD 0.3 billion from the previous year. This is mainly due to a downward trend in long-term interest rates in Japan, which led to lower interest income from loans. Expenses experienced a similar trend, decreasing by USD 0.1 billion to USD 2.9 billion, on the back of reduced interest expenses with respect to bonds. Ordinary income was thus down USD 0.2 billion to USD 2.3 billion, though still maintaining JFM's income stability.

Pursuant to the relevant laws, a portion of the revenue generated by the refinancing of bonds and borrowed money of JFM* is to be directed into reserves for interest rate volatility. As a result of such provisions as well as other factors, net income amounted to USD 0.2 billion, down USD 0.01 billion.

* This revenue is calculated based on the difference between JFM's funding rates at the time the loans were made and the current refinancing rates.

2. Balance Sheet

As of 31 March 2013, JFM's total assets amounted to USD 251 billion, up USD 3.9 billion from the previous year. This mainly resulted from an increase in loans by USD 3.0 billion due to the amount of new loans for local governments exceeding that of loans repaid.

Total liabilities were up USD 3.7 billion to USD 250 billion. Despite a decrease of USD 3.9 billion in JFM's management account reserve for interest rate volatility due to the payment to the national treasury of USD 3.7 billion, this increase was mainly because bonds increased by USD 5.3 billion due to the issue amount exceeding the redemption amount.

Total net assets were USD 1.2 billion, up USD 0.2 billion. This reflected net income of USD 0.2 billion in the general account being recorded as the general account surplus reserve.

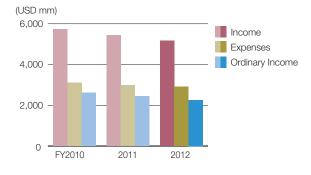
Financial highlights since fiscal 2010 are as follows.

Financial Highlights

1. Profit and Loss Statement

(thousands of USD)

	FY2010	FY2011	FY2012	
	F 12010	FTZUTI	FTZUIZ	YoY
Income	5,726,373	5,427,413	5,165,928	-261,485
Expenses	3,101,039	2,987,794	2,906,433	-81,361
Ordinary Income	2,625,334	2,439,608	2,259,495	-180,113
Net Income	170,456	229,396	220,877	-8,519

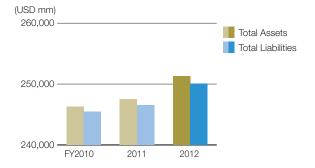


2. Balance Sheet

(thousands of USD)

					(thousands of US
		FY2010	FY2011	FY2012	
		1 12010	1 12011	1 12012	YoY
Total A	ssets	246,307,391	247,515,451	251,377,721	3,862,270
L	oans	235,756,691	237,406,267	240,388,489	2,982,222
C	Others	10,550,700	10,109,173	10,989,232	880,059
Total L	iabilities	245,571,633	246,521,845	250,173,903	3,652,058
E	Bonds	194,349,841	192,753,934	198,053,033	5,299,099
F	Fund for lending rate reduction	9,711,803	9,754,730	9,783,339	28,609
F	Reserves under special laws	41,319,417	43,529,629	41,856,694	-1,672,935
	Reserve for interest rate volatility	6,998,940	9,331,919	11,664,899	2,332,980
	Management account reserve for interest rate volatility	33,261,209	33,272,078	29,387,070	-3,885,008
	Reserve for interest rate reduction	1,059,268	925,631	804,725	-120,906
C	Others	190,551	483,542	480,837	-2,705
Total N	let assets	735,758	993,595	1,203,818	210,223

Note: Totals may not match because of rounding off.





Management Plan for Fiscal 2013

1 Lending Operations

JFM's lending plan is formulated based on the amount of local government borrowing for which the consent or approval is scheduled to be given by the Minister for Internal Affairs and Communications or the respective prefectural governors, under the Local Government Borrowing Program (the "LGBP").

For fiscal 2013, JFM funds of USD 23.0 billion have been booked in the LGBP, which is as high as the volume in fiscal 2012, on the back of new refinancing loans introduced for specified disaster-affected areas.

The planned lending volume for fiscal 2013 has expanded by USD 1.9 billion (9.9%), compared to fiscal 2012. This is mainly a result of a large increase in loans following fiscal 2012 for emergency disaster management and mitigation projects, and also refinancing loans in the case of Prepayments without Penalty* with regard to facilities affected by the Great East Japan Earthquake.

In light of the severe stagnation of local economies, the national government has been allowing local governments to prepay, without early repayment charges, high interest rate public funds, should they establish a financial soundness plan or a public enterprise management reform plan and carry out thorough administrative and management reforms. Furthermore, local governments can also choose to refinance their loans at current lending rates for the remaining maturities.

Loan Amounts (Plan-based)

	FY2013	FY2012	YoY
Loan Amounts	USD 21.0 bn	USD 19.1 bn	USD 1.9 bn

Lending Operations by Business for Fiscal 2013

Business	Loan Amount (millions of USD)		
Business		% of total	
General Account-related Loans			
Public Projects, etc.	670	3	
Public Housing	188	1	
Disaster Management and Mitigation	2,150	10	
National Disaster Prevention	4	0	
Educational Facilities Development	71	0	
Social Welfare Facilities Development	159	1	
General Projects	101	0	
Regional Revitalization	60	0	
Disaster Prevention	192	1	
Local Road Development	545	3	
Special Municipal Mergers	1,678	8	
Subtotal	5,818	28	
Municipal Enterprise-related Loans			
Water Supply	1,486	7	
Industrial Water Supply	125	1	
Transportation	442	2	
Electricity and Gas Supply	90	0	
Port Facilities	31	0	
Hospitals and Elderly Care Services	848	4	
Markets and Slaughterhouses	58	0	
Sewerage	3,544	17	
Tourism and Others	19	0	
Subtotal	6,644	34	
Refinancing Loans for Municipal Enterprise-related Projects	53	0	
Refinancing Loans for Facilities Affected by Earthquake	1,357	6	
Temporary Financial Countermeasures Funding	7,125	34	
Total	20,997	100	

^{*} Prepayment without Penalty

2 Funding Operations

In order to raise funds for lending operations, JFM primarily issues bonds through public offerings. In fiscal 2013, JFM plans to issue USD 12.7 billion of public JFM bonds, at the same volume as last year. In addition, private placements of 10-year bonds with the Pension Fund Association for Local Government Officials are projected to amount to USD 3.2 billion.

As for government-guaranteed bonds, JFM plans to issue USD 13.6 billion with an increase of USD 2.7 billion from fiscal 2012. This reflects the funding need created due to the scheduled payment of USD 6.9 billion to the national treasury from a portion of JFM's management account reserve for interest rate volatility.

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

1. JFM bonds (non-guaranteed)

(1) Public offerings

Type of Bonds		FY 2013 (Plan)	FY 2012 (Achieved)
Domestic Issuance		USD 10.4 bn	USD 10.3 bn
	10-year	USD 5.1 bn	USD 5.1 bn
	20-year	USD 1.3 bn	USD 1.5 bn
	5-year	USD 0.5 bn	USD 0.6 bn
	Opportunistic Issuance	USD 3.5 bn	USD 3.0 bn
MTN		USD 2.3 bn	USD 2.7 bn
Total		USD 12.7 bn	USD 13.0 bn

(2) Private placements with Pension Fund Association for Local Government Officials

Type of Bonds	FY2013 (Plan)	FY2012 (Achieved)
10-year	USD 3.2 bn	USD 3.2 bn

Government-guaranteed domestic bonds

Type of Bonds	FY 2013 (Plan)	FY 2012 (Achieved)
10-year	USD 7.2 bn	USD 5.2 bn
8-year	USD 2.1 bn	-
6-year	USD 3.1 bn	USD 3.4 bn
4-year	USD 1.2 bn	USD 2.3 bn
Total	USD 13.6 bn	USD 10.9 bn

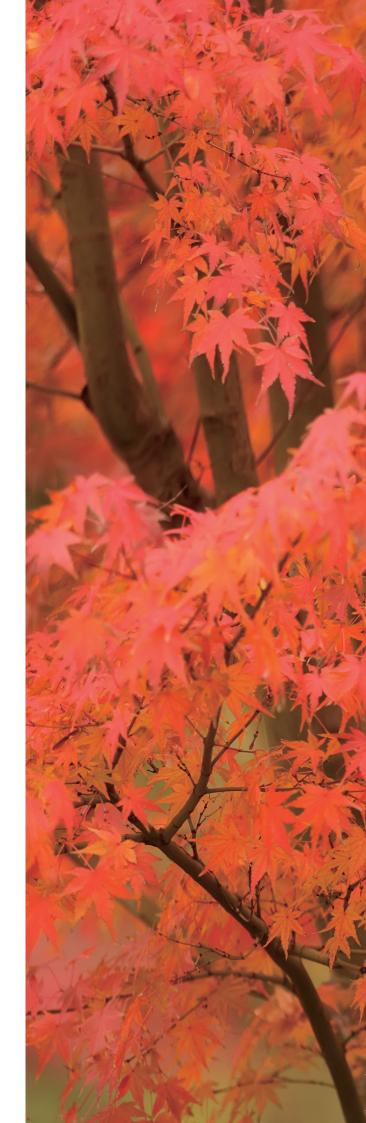
Note: Subject to change depending on lending conditions, market circumstances, and other factors.

Payment to National Treasury of Management Account Reserve for Interest Rate Volatility

In accordance with Article 14 of the Supplementary Provisions to the JFM Law, it was decided that a portion of JFM's reserve for interest rate volatility within its management account would be transferred to the Japanese national government over a period of three years from fiscal 2012 through fiscal 2014. The amount expected to be transferred over this period is JPY 1 trillion (USD 11 billion) in total. In fiscal 2012, JPY 350 billion (USD 3.7 billion) was so transferred to the national treasury, and also in fiscal 2013, JPY 650 billion (USD 6.9 billion) is scheduled to be transferred, based on an ordinance pursuant to Article 14 of the Supplementary Provisions to the JFM Law.

Operations

Lending Operations	20
1. Outline	20
2. Interest Rates of Loans	22
3. Credit Check System	24
4. Trends in Lending Operations	24
5. Lending Operations by Business Type	27
Funding Operations	30
1. Issue Type	30
2. Basic Funding Policy	31
3. Features of JFM Bonds	32
4. Trends in Funding Operations	33







Lending Operations

JFM provides long-term and low-interest funds to Japanese local governments to efficiently and effectively complement their funding in capital markets.

1 Outline

As public funds included in the LGBP, JFM loans are offered to local governments which have the consent or approval of the Minister for Internal Affairs and Communications or the respective prefectural governors.

1. Eligible Borrowers

JFM provides loans exclusively to local governments.

2. Types of Loans

- Long-Term Loans
 Loans provided to local governments that have the consent or approval, and mature in or after the second fiscal year.
- Pre-Consent or Pre-Approval Loans
 Bridge loans to cover the period up to the disbursement of Long-Term Loans for projects for which the consent or approval is assured.
- Short-Term Loans
 Loans to be repaid with revenues in the same fiscal year.

3. Lending Scopes and Maturities of Loans

JFM lends mainly to the following local government businesses with respective loan maturities.

Rusiness Type		Loans for Fiscal 2013					
		Fixed Lending Rate		Adjustable Lending Rate*1			
	Business Type		Maturity	Grace Period for Principal Repayment	Maturity	Grace Period for Principal Repayment	
	Public Projects, etc.		Within (Years) 20	Within (Years) 5	Within (Years) 20	Within (Years) 5	
ည	Public Housing		25	5	25	5	
Loar	National Disaster Prevention Educational and Social Welfare Facilities Projects General Projects Regional Revitalization Disaster Prevention Unsubsidized Projects Local Road Development			*2			
ted	Educational and Social Welfare	Educational Facilities Development	25	3	25	3	
-rela	Facilities Projects	Social Welfare Facilities Development	20	3	20	3	
ount		General Projects	20	5	20	5	
Acc		Regional Revitalization	30	5	30	5	
eral	Unsubsidized	Disaster Prevention	30	5	30	5	
Gen	Projects	Local Road Development	20	5	20	5	
		Special Municipal Mergers	30	5	30	5	
		Disaster Management and Mitigation	30	5	30	5	
	Water Supply	30	5	30	5		
	Industrial Water Supply	30	5	30	5		
		Transportation	30	5	30	5	
		Electricity Supply	30	5	30	5	
Mun	Municipal	Gas Supply	25	5	25	5	
Ente	rprise-related Loans	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	
	porary Financial ntermeasures Funding	Prefectures and Government- Designated Cities	-	_	30	3	
Cou	memeasures runding	Cities, Towns and Villages	-	_	20	3	

Notes: 1. Lending rates are reviewed every 10 years.

2. Maturities for the national disaster prevention business are determined based on the business category to which actual facilities planned for construction belongs.



Lending Operations

2 Interest Rates of Loans

JFM sets standard lending rates, which are determined to balance its funding cost, and also offers special lending rates at a discount to the standard rates making use of its Fund for Lending Rate Reduction.

1. Interest Rates of Loans

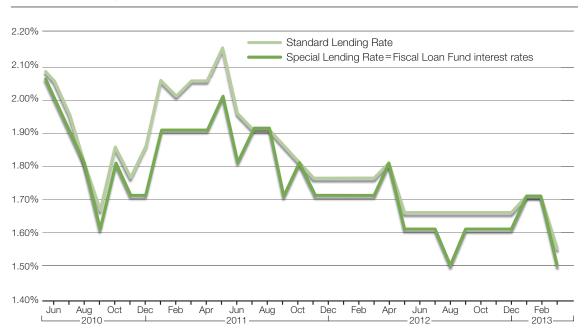
JFM offers two types of loan interest rates: the standard lending rate and the special lending rate.

The standard lending rate is calculated in order to balance JFM's funding cost with interest income from its lending. Specifically, this rate is determined in a manner that 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 repayment and repayment methods.

The special lending rate is set at a discount of 0.35% to the standard rate. At the end of fiscal 2012, it was applied to 98.5% of JFM's outstanding loans.

The trends of JFM loan interest rates are shown below. The special lending rate has been at the same level as the national government's lending rates that are applicable to loans for specific public projects (the Fiscal Loan Fund). This is due to the floor rates of the special lending rates being set equal to respective lending rates of the Fiscal Loan Fund which have identical terms on redemptions to those of JFM loans.

Trends of Lending Rates

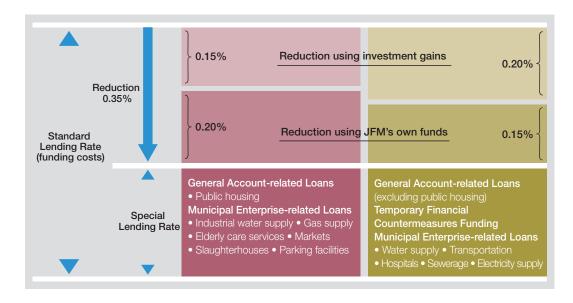


Note: The lending rates above represent a 30-year fixed rate loan with a 5-year grace period for principal repayment.

2. Lending Rate Reduction

The interest rate differentials between the special lending rates and the standard lending rates are covered by investment gains in the Fund for Lending Rate Reduction*, which consists of contributions from local governments of a portion of the earnings from municipally operated racing, and also JFM's own funds.

* From the viewpoint of equal revenue sharing among all local governments, local governments that operate horse, bicycle, motorcycle and speedboat racing contribute a portion of their earnings from the races to the Fund.



Notes: 1. The minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund.

 The discount rates using the investment gains (0.15% or 0.20%) applicable to each business category are determined by the Minister for Internal Affairs and Communications, 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).



Lending Operations

3 Credit Check System

JFM conducts the following credit check process for all loans on the assumption that the details and legality of each project as well as assurance of loan repayment have been confirmed during the consultation and checking process to obtain the consent or approval for loans.

- 1) JFM checks the financial and operational status of local governments and municipal enterprises to which it plans to lend, in light of the fiscal indicators as stipulated in the Law Relating to the Financial Soundness of Local Governments of Japan (Act No. 94 of 2007). This credit check process may include an interview of the staff of prefectures and government-designated cities.
- 2) JFM reviews loan applications submitted by local governments to determine if conditions are met. The conditions include the consent or approval, any required resolution by the local government assembly and budget appropriation for loans.
- 3) After a loan is disbursed, JFM conducts an onsite review to verify the use of funds and to check the operational status of the project and the financial and operational status of the borrower.
- 1 Check of local governments/municipal enterprises applying for loans
- Check financial and operational status
- operational status
- 2 Verification at the time of lending Check of the loan application documents

 Verify the consent or approval for the loan amount

Disbursement of loans

- 3 Subsequent review Onsite credit review
- Check the status of loans and projects
 Check financial and operational status.

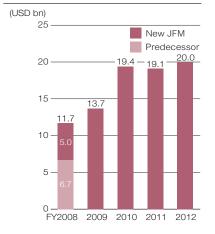
Trends in Lending Operations

1. Overview

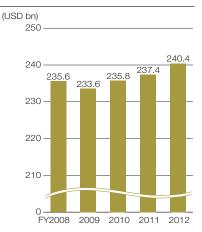
JFM's annual lending volume has risen since fiscal 2009 as a result of the expansion of its lending scope to overall general account-related loans, the introduction of the Great East Japan Earthquake-related loans, etc.

In fiscal 2012, the lending volume amounted to USD 20.0 billion. At year-end, outstanding loans were USD 240.4 billion.

Annual Lending Volume



Outstanding Loans



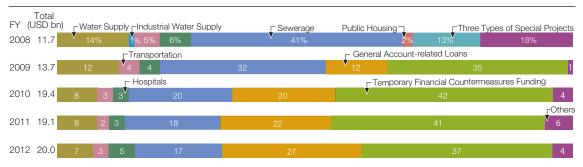
2. Annual Lending Volume by Business and Borrower Types

The general account-related businesses in its entirety and Temporary Financial Countermeasures Funding became eligible for JFM loans in fiscal 2009. As a result, the proportion of the loan amounts by business type has changed significantly.

In fiscal 2012, loans for Temporary Financial Countermeasures Funding were USD 7.5 billion, accounting for the largest share of lending, at 37% of the total. Ranked next were USD 3.4 billion in the sewerage business, representing 17% of the total, and USD 1.9 billion in special municipal mergers, for 10% of the total

At year-end, the number of local governments with loans from JFM totaled USD 20.0 billion. Cities and special wards of Tokyo represented the highest share at 53% of the total, followed by prefectures at 28% and government-designated cities at 11%.

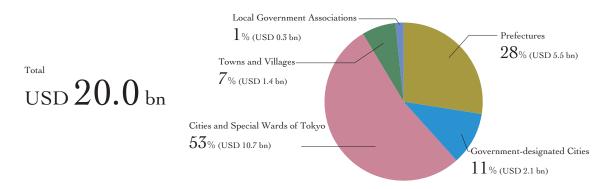
Long-Term Loans Made by Business Type



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

- 2. "Others" 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.
- $4. \ \ General\ account-related\ loans\ include\ loans\ for\ public\ housing\ and\ the\ three\ types\ of\ special\ projects.$
- 5. The three types of special projects consist of development projects for local roads, rivers and other waterways, and high school buildings at the time.

FY2012 Lending Volume by Borrower Type



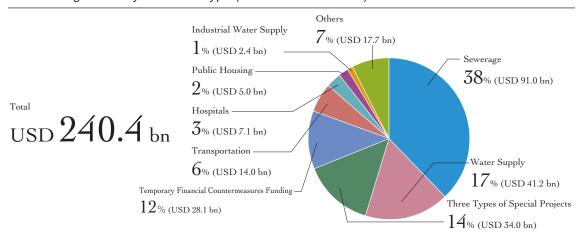
Operations



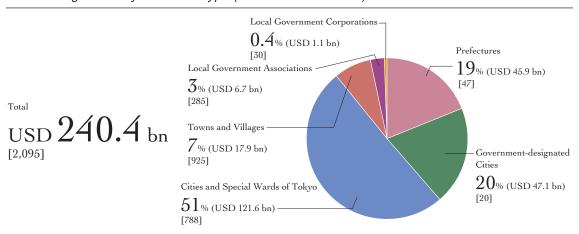
At the end of fiscal 2012, the outstanding loans were USD 240.4 billion, of which the sewerage business accounted for the largest share at 38%, followed by water supply at 17% and the three types of special projects at 14%.

There were a total of 2,095 local governments with loans from JFM, including all prefectures. Cities and special wards of Tokyo accounted for the largest portion at 51% of the total, followed by government-designated cities at 20% and towns, villages as well as local government associations and corporations at the remaining 10%.

Outstanding Loans by Business Type (as of 31 March 2013)



Outstanding Loans by Borrower Type (as of 31 March 2013)



Note: Figures in square brackets represent the number of borrowers.

5 Lending Operations by Business Type

JFM provides loans to local government businesses specified in the LGBP that the national government formulates each fiscal year.

The major JFM-funded businesses are as follows.

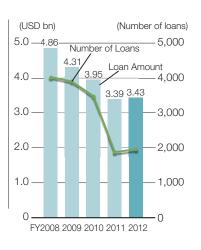
Sewerage Business

At the end of fiscal 2011, the sewerage system covered 73.9% of people in cities, towns and villages with a population of less than 50,000, or 87.6% of the nation's total population. There were 3,625 projects involved, with a total annual sewerage processing capacity (combined storm water and sewerage treatment, excluding river basin sewerage) of around 14.9 billion cubic meters serving areas with a population of 101.01 million people.

In fiscal 2012, loans extended to the sewerage business totaled USD 3.4 billion.



Chiya Sewerage Treatment Facility (Niimi City, Okayama Prefecture)



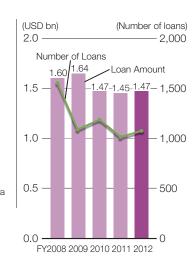
Water Supply Business

At the end of fiscal 2011, the water supply coverage was 97.5% of the population. The water supply business (including small-scale water supply) managed by local governments totaled 2,134 projects and provided about 18.5 billion cubic meters of water annually for approximately 124.77 million people.

In fiscal 2012, loans extended to the water supply business amounted to USD 1.5 billion.



Oigawa Wide Area Waterworks Association (Shizuoka Prefecture)





Lending Operations

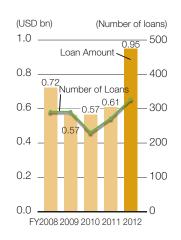
Hospitals Business

At the end of fiscal 2011, hospital projects managed by local governments totaled 652 with 863 hospitals, which included 828 general hospitals, one tuberculosis hospital and 34 mental hospitals.

In fiscal 2012, loans extended to the hospitals business (including those run by local independent administrative institutions) totaled USD 0.95 billion.



Kobe City Medical Center General Hospital (Kobe City, Hyogo Prefecture)



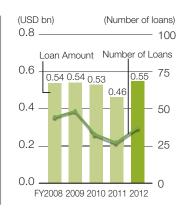
Transportation Business

At the end of fiscal 2011, the transportation projects managed by local governments totaled 98 projects, which were operated by 80 entities, and public transportation is used by approximately 4 billion people annually (10.77 million people on an average daily basis).

In fiscal 2012, loans extended to the transportation business amounted to USD 0.55 billion.



Kagoshima City Electric Tramway (Kagoshima City, Kagoshima Prefecture)



Temporary Financial Countermeasures Funding

Temporary Financial Countermeasures Funding represents the funding for local governments in order to cover general resource shortfalls pursuant to the provisions of the Local Government Finance Law.

In order to secure the payments of the principal and interest of funds borrowed by local governments under Temporary Financial Countermeasures Funding, the national government includes the entire amount of such payments in the total amount of local allocation tax grants, which are to be allocated to local governments in subsequent years.

In fiscal 2012, loans extended for Temporary Financial Countermeasures Funding amounted to USD 7.5 billion.



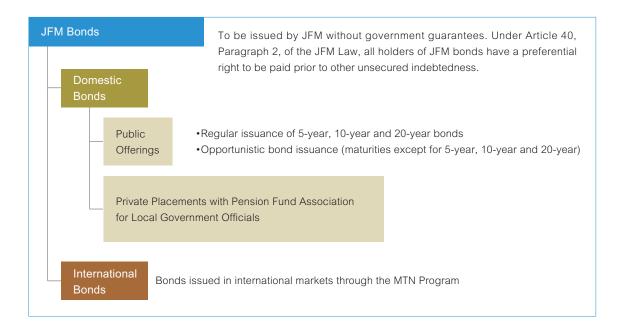
Funding Operations

As a joint funding organization for local governments, JFM raises funds in a consistent manner to provide local governments with long-term and low-interest funds, while endeavoring to reduce its funding costs.

1 Issue Type

JFM primarily issues non-guaranteed bonds (i.e., JFM bonds) through public offerings in order to raise funds for its lending operations. Private placements with the Pension Fund Association for Local Government Officials are also taken as a means of fund-raising.

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



Government-Guaranteed Bonds

To be issued only for the purpose of refinancing existing governmentguaranteed bonds of the Predecessor.

2 Bas

Basic Funding Policy

To secure stable and low-cost funding, JFM pursues diversified funding options and strives to build confidence in capital markets by proactively disclosing information and thoroughly fulfilling responsibilities. JFM also endeavors to issue bonds in response to the market environment and market needs.

1. Diversification of Funding Methods

From the viewpoint of stable funding, JFM endeavors to issue bonds 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 broaden its investor base, while also considering funding costs and risk management.

JFM's basic means of funding is the issuance of bonds. JFM accesses the domestic market through regular issuance of 10-year bonds in particular and also takes advantage of its Flexible Issuance Program (FLIP) for opportunistic funding. In addition, JFM will continue to be committed to accessing international markets with public benchmark transactions.

2. Proactive Disclosure and Investor Relations

JFM proactively discloses information on its operations, financial conditions and risk management status in order to support investment decisions by investors. In this context, JFM announces its annual funding plan in February prior to the new fiscal year and its second half-year funding plan in September.

In addition, JFM performs investor relations activities, including presentation meetings and/or one-on-one meetings with investors in both domestic and international markets. JFM thereby helps investors correctly understand JFM's management and bonds as well as strengthens market confidence toward JFM.

3. Contribution to the Sound Development of Capital Markets

While capturing funding opportunities in response to the needs of capital markets, JFM will further strengthen its role as a leading public-sector bond issuer and be committed to contributing to the sound development of capital markets.



Funding Operations

3 Features of JFM Bonds

JFM bonds are generally recognized as having high credit standing with the following features.

- JFM's assets can be deemed to be highly stable based on the fact that JFM lends exclusively to local governments, and no local governments have ever defaulted.
- JFM has a solid financial foundation, backed by its reserve for interest rate volatility and the Fund for Lending Rate Reduction prescribed in the JFM Law.
- JFM is a joint funding organization established with a capital contribution from Japanese local governments encompassing all prefectures, cities, special wards of Tokyo, government-designated cities, towns and villages, as well as some local government associations.
- Under the JFM Law, local governments have an obligation to bear the costs necessary to satisfy all JFM obligations 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 BIS risk weighting is 10% for JFM bonds denominated in yen, and 20% for those denominated in foreign currencies.

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

Issuer Credit Rating	S&P: AA- Moody's: Aa3 R&I: AA+	(as of 31 March 2013)	
BIS Risk Weighting	JFM bonds: 10% (denominated in yen) 20% (denominated in foreign currencies)	(For reference) Government-Guaranteed Bonds: 0% Japanese Government Bonds, Local Government Bonds: 0%	
Preferential Rights for JFM Bonds	All holders of JFM bonds (as well as JFM's government-guaranteed bonds) have a preferential right to be paid prior to other unsecured indebtedness, and such preferential right shall rank immediately after the general preferential rights as provided for in the Civil Code of Japan (Article 40, Paragraph 2 and Paragraph 3, of the JFM Law).		

Note: The risk weights are values for investors in Japan. For foreign investors, values are determined by respective country authorities. The risk weights for government-guaranteed bonds, JGBs and local government bonds are all 0% in terms of those denominated in yen as well as foreign currencies (as of 31 March 2013).

4

Trends in Funding Operations

JFM issues JFM bonds (non-guaranteed bonds to be issued through domestic public offerings, the MTN Program or private placements with the Pension Fund Association for Local Government Officials) and government-guaranteed bonds for the purpose of refinancing existing government-guaranteed bonds of the Predecessor.

The Predecessor had issued government-guaranteed bonds and private placement bonds subscribed by the Pension Fund Association for Local Government Officials, and for the period from fiscal 2001 to fiscal 2008, non-guaranteed FILP agency bonds¹. Then, since JFM commenced its operations in fiscal 2008, JFM has issued JFM bonds. In recent years, the issuance of government-guaranteed bonds has been decreasing, while that of JFM bonds has been increasing.

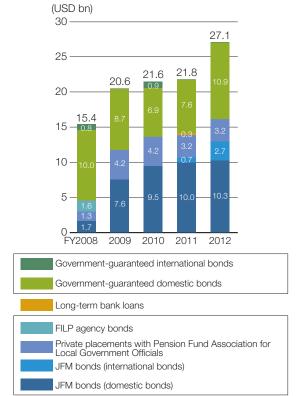
In fiscal 2012, the total bond issuance of USD 27.1 billion increased by USD 5.3 billion from the previous year, which was greater than the average annual issuance volume of USD 20 billion for the last three years. This increase was due to the payment made to the national treasury² of USD 3.7 billion funded through government-guaranteed bonds.

At year-end, outstanding bonds were USD 198.1 billion and outstanding bank loans were USD 0.3 billion, totaling USD 198.4 billion. This total amount is comprised of USD 57.5 billion in the general account and USD 140.9 billion in the management account. While the outstanding bonds and bank loans in the general account have been increasing, the management account has been decreasing. The management account is expected to gradually decrease as no new bonds, other than bonds issued to refinance Predecessor's bonds, have been issued in this account since October 2008 and equally none are expected going forward.

Notes: 1. FILP stands for Fiscal Investment and Loan Program, which is prepared by the national government and determines the allocation of funds and extent of government guarantees available for certain institutions. FILP agency bonds are non-guaranteed bonds issued under the FILP.

2. See page 40 for details.

Funding Volume



Outstanding Bonds and Bank Loans



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

Management Structure

36
36
38
38
39
41
46
47





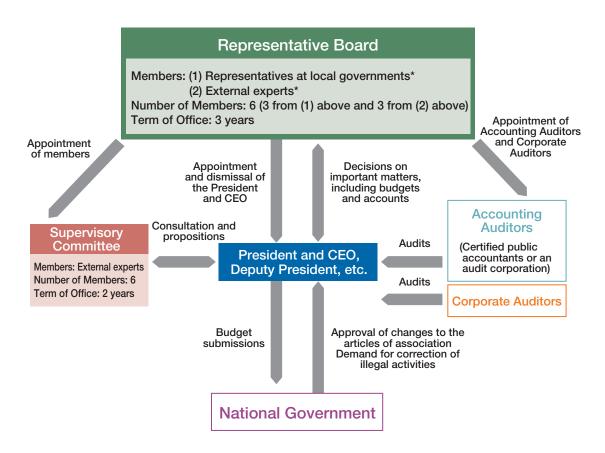


Corporate Governance

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

1 Corporate Governance

Corporate Governance System



^{*} Elected by national associations of prefectural governors, mayors of cities, and towns and villages.

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 take corrective actions with respect to any illegal or other inappropriate activities.

2. Supervisory Committee

JFM places importance on establishing highly transparent management that incorporates unbiased opinions of external parties, and responsible corporate governance. To ensure such a governing structure, JFM has the Supervisory Committee 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.

3. Audits by Corporate Auditors

The Corporate Auditors are responsible for auditing the accounts of JFM, and may, at their discretion, submit reports to the Representative Board, the President and Chief Executive Officer and the Minister for Internal Affairs and Communications.

4. Audits by External Accounting Auditors

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

From this viewpoint, JFM has its financial statements audited not only by corporate auditors but also by external accounting auditors (certified public accountants or an audit corporation) appointed by the Representative Board.



Corporate Governance

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; the "Ordinance"), JFM has a system of internal control over financial reporting to ensure the reliability of its financial statements, and also maintains and implements 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.

In the fiscal 2012 Internal Control Report, JFM viewed its internal controls 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) that, in all material respects, evaluation results of JFM's internal controls over financial reporting were in conformity with the standards of evaluation for internal controls over financial reporting generally accepted in Japan.

3 Internal Audit

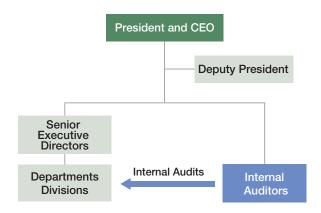
An internal auditor, who is independent from other departments, divisions and offices, examines and assesses the appropriateness and effectiveness of JFM's internal control systems, thereby helping ensure reliable financial reporting and appropriate and efficient operations.

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

If the internal auditor identifies deficiencies, related divisions and offices must immediately take the required corrective actions. The internal auditor will then submit to the president and CEO an internal audit report that includes the progress of corrective actions.

The internal auditor also performs follow-up audits and reports the results to the president and CEO as necessary.

Internal Audit System





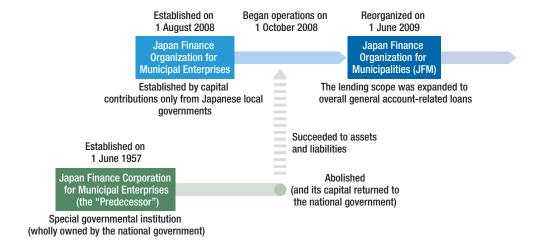
General Account and Management Account

The Japan Finance Organization for Municipal Enterprises was established on 1 August 2008, with capital contributed by all prefectures, cities, special wards of Tokyo, government-designated cities, towns and villages, as well as some local government associations, to provide funds to local governments. JFM commenced its operations after succeeding to the assets and liabilities of the Predecessor on 1 October 2008.

As a result of the reorganization on 1 June 2009, JFM's lending scope was extended to overall general account-related loans.

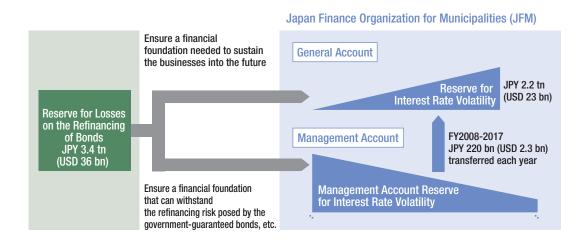
New loans made and bonds issued since JFM's operations began are accounted for in the general account of JFM, whereas operations to administer loans carried over from the Predecessor are accounted for in the management account.

With regard to the management account, JFM issues government-guaranteed bonds solely for the purpose of refinancing government-guaranteed bonds of the Predecessor.



When JFM was founded, it succeeded to the Reserve for Losses on the Refinancing of Bonds, etc., in the amount of approximately JPY 3.4 trillion (USD 36 billion) to ensure its future stable management.

Of this amount, the JPY 2.2 trillion (USD 23 billion) 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 Predecessor's bonds and loans and prepare for the risk with refinancing bonds of the Predecessor.





General Account and Management Account

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 reserve for interest rate volatility and so on are determined to exceed the amount necessary for the smooth operation of the asset management operations 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 JFM Law).

In accordance with this provision, a portion of JFM's reserve 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 a total of JPY 1 trillion (USD 11 billion). Such portion is to be transferred to the national government's special account for local allocation taxes

In fiscal 2012, JPY 350 billion (USD 3.7 billion) was transferred to the national treasury, and in fiscal 2013, JPY 650 billion (USD 6.9 billion) is scheduled to be transferred.



(as of 31 March)

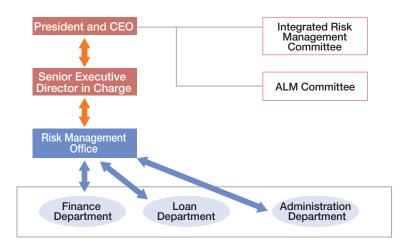
1 Overall Risk Management

1. Risk Management System

JFM adopts an integrated risk management approach to respond to various risks, while pursuing for a higher level of 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 risk management. Risk management can then be appropriately reflected in management decisions.

Risk Management System



2. Characteristics of JFM's Risks

Among other risks, JFM considers the interest rate risk associated with bond refinancing as its major risk (the risk of the negative margin caused by the interest payable exceeding the interest receivable).

JFM raises funds primarily by issuing 10-year bonds and making loans with a maximum maturity of 30 years with principal and interest payments in equal installments. Therefore, a duration gap is created between lending and funding, which causes JFM the interest rate risk.

To address such interest rate risk, JFM maintains 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-term 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.



Risk Management

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 government bonds and loans have a zero risk weighting under the regulations of the Bank for International Settlements (as of 31 March 2013). For the reasons outlined below, JFM does not expect any default on loans made to local governments. In fact, JFM and its Predecessor have never experienced any loan losses.

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. There is a duration gap between JFM's lending and funding, which exposes JFM interest rate risks associated with bond refinancing. To address such interest rate risk, JFM takes the following measures.

Managing interest rate risk

- JFM maintains reserves for interest rate volatility. At the end of fiscal 2012, the amount of the reserves stood at USD 11.7 billion in its general account and USD 29.4 billion in its management account for a total of USD 41.1 billion in both accounts.
- As assets and liabilities in the general account are expected to expand as a result of an
 increase in loans and fund-raising, JFM carries out an ALM analysis of this account in order
 to further enhance the effectiveness of its management of interest rate risk. Furthermore, JFM
 established the following medium-term management targets for five years from fiscal 2009*:
 - (1) The duration gap to be below approximately two years.
 - (2) 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 the reserve for interest rate volatility and the Fund for Lending Rates Reduction) to be below approximately 20%
- At the end of fiscal 2012, the duration gap was 1.11 years and the outlier ratio was 20.3%, both within the management target.

Notes: From fiscal 2013, the outlier ratio will not be used as a management target due to the unique situation of JFM outlier ratio being at a high level.

This unique situation exists for the following reasons:

- (i) JFM maintains the sufficient reserve for interest rate volatility in order to secure its financial soundness, and uses the reserve for its lending operations. This means that bond issuances to match lending needs are not necessary.
- (ii) JFM provides long-term fixed rate loans, thus both of its assets and liabilities have a long duration. Due to such institutional design and operational nature of JFM, a large duration gap between lending and funding is created.

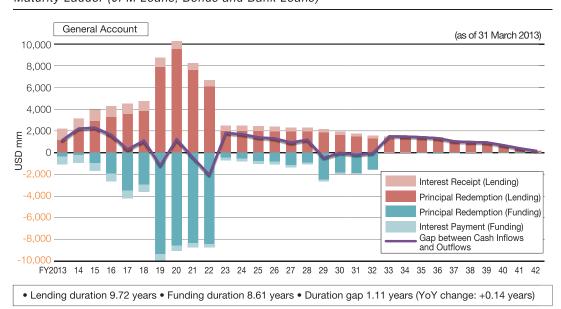
On the other hand, JFM will maintain the duration gap as described above in its renewed medium-term management target for five years from fiscal 2013, and continue to regularly issue bonds with maturities exceeding ten years to reduce its exposure to interest rate risk.

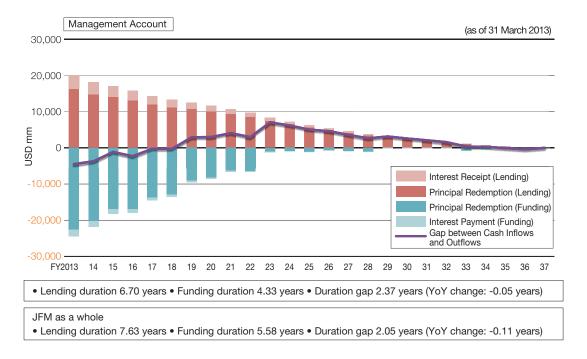
- The management account, which manages assets transferred from the Predecessor, is currently exposed to more interest rate risk than the general account. To address such risk, JFM maintains the management account reserve for interest rate volatility in the amount of USD 29.4 billion as described above. But in the future, assets and liabilities in the management account will decline over time and interest risk decline because new loans have not been made since October 2008.
- Pursuant to Article 14 of the Supplementary Provisions of the JFM Law, a portion of JFM's management account reserve for interest rate volatility will be transferred to the national government over a period of three years from fiscal 2012 to fiscal 2014. The amount of transfer 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 JFM's management account at the time of transfer and in the future in light of the conditions of the management of JFM. JFM expects that such a transfer will not have a material effect on JFM's business at the time of transfer and in the future because it will continue to maintain sufficient reserves going forward to deal with the interest rate risk even after the transfer.

Management

Structure







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 funding, 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.

4. Operational Risk

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

1) Administrative risk

Administrative risk is the risk of loss resulting from the neglect or inadequacy of attention by management and staff to properly conduct 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 assets 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.

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 incidents, disasters or malfunctions. Furthermore, in order to prepare for a contingency, JFM has a backup server outside JFM so that its business can be continued.

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 employees 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 employees must strive to earn the trust of society by appropriately disclosing information on JFM's operations.

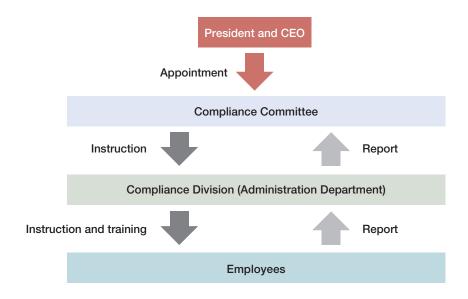
2 Compliance System

Based on the Compliance Rules, JFM has 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 has also 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.

Compliance System





Disclosure

1 Basic Stance on Information Disclosure

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

2 Materials for Disclosure

The following materials are available on JFM's website (www.jfm.go.jp/en/).

1. Materials for Disclosure Pursuant to Laws and Regulations

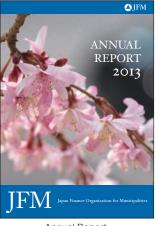
- Financial statements
- Business reports and statement of accounts (in Japanese only)
- Explanatory documents based on Article 36, Paragraph 3, of the JFM Law (Documents corresponding to annual securities reports specified in the Financial Instruments and Exchange Act and the Internal Control Report) (in Japanese only)

2. Other Documents for Disclosure

- · Budgets, business plans, funding plans, and medium-term plans on income and expenditures
- Management plan
- Funding plan
- Brochure
- Annual Report (Japanese and English)
- JFM News magazine



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



Annual Report

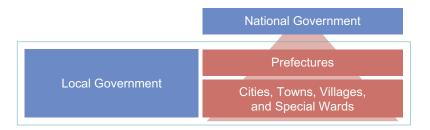
JFM's Role in Local Government Finance

1 Japanese Local Government System

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

While the national government focuses on administrative affairs for the state as a member of the international community, local governments engage in administration that relates to the daily lives of citizens. Local governments are responsible for social welfare, education, fire defense, and infrastructure such as road and waterways.

Japanese local government system adopts a two-tier system with prefectures serving broader geographic areas, and cities, special wards of Tokyo, as well as government-designated cities, towns and villages providing local services.



Number of Japanese Local Governments

Prefectures	47
Cities and special wards	1,742
Government-designated cities	20
Cities	769
Special wards	23
Towns	746
Villages	184
Total	1,789





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, each local government handles 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 2013, local government finance will total JPY 84.4 trillion (USD 895.6 billion) (based on the Local Government Finance Program (the "LGFP"), while the nation's General Account Budget for the year is JPY 92.6 trillion (USD 982.1 billion)).

Because local governments engage in numerous activities that closely relate 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 years. Accordingly, the national government formulates the LGFP each fiscal year 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 the total amount of local government revenues and expenditures in the LGFP. Under this program, revenue sources for all local governments, including local allocation tax grants as well as bonds and loans to be issued or borrowed, are secured so that local governments can ensure uniform public service standards.

Local Government Finance Program (Initial Plan for FY2013)



JFM's Role in Local Government Finance

3 Local Allocation Tax

Local governments would ideally cover the expenditures necessary to provide public services with their local tax revenues. In reality, however, tax revenues are distributed unevenly. In order to adjust disparities and secure funds for local governments that have low tax revenues, the national government distributes Local Allocation Tax, which comprises 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 to maintain an appropriate level of public services.

Local Allocation Tax System



Notes: 1. Standard financial requirements are the amount of funds necessary to provide standard public services. The requirements are calculated for each local government according to the standard specified by the Ministry of Internal Affairs and Communications.

2. Local governments have a right to impose tax in Japan, but there are regional imbalances in tax revenue.

4 Local Government Borrowings

Local government borrowings are bonds and loans to be issued by local governments for securing necessary external funds, and mature no earlier than the first fiscal year. In principle, a local government should cover expenditures with its revenues other than local government borrowings. However, local governments can finance through borrowings in the case that it is desirable to share costs with future residents such as for constructions of facilities, or that large temporary expenses are required due to disasters.

5 Safety of Local Government Borrowings

The following framework secures principal and interest payments of local government borrowings. On the back of this framework, the BIS risk weighting for local government borrowings is 0%, based on the standardized approach (as of 31 March 2013).

1) Secured funds for repayments of local government borrowings

The national government effectively secures revenue sources for repayments of local government borrowings from both macro and micro perspectives.

- (i) Local tax revenues are secured by taxation rights of local governments
- (ii) The national government includes repayments of local government borrowings (i.e., principal and interest payments) in the amount of expenditures in the LGFP
- (iii) The total amount of Local Allocation Tax grants is set aside so that the total amount of local government expenditures, including the principal and interest payments, is equivalent to the total amount of local government revenues in the LGFP
- (iv) In the calculation of Local Allocation Tax grants to be allocated to an individual local government, a portion of the principal and interest payments are included in the Standard Financial Requirements of an individual local government

Note: In (ii), (iii) and (iv) above, only the local government borrowings to which the consent or approval has been given are covered.

2) Issuance restriction

Local governments with a real debt payment ratio 18% or higher, or those with a real deficit ratio exceeding specified levels, are restricted from additional borrowings under the Local Government Finance Law.

3) Supervision of financial soundness

The Law Relating to the Financial Soundness of Local Governments of Japan, which was promulgated in June 2007, requires local governments the following measures in order to securely manage their fiscal soundness:

- (i) Specified fiscal indicators to be disclosed
- (ii) Local governments with those fiscal indicators exceeding certain early warning limits to restore fiscal soundness through their own efforts
- (iii) Local governments with those fiscal indicators exceeding certain reconstruction limits to take necessary actions under the supervision of the national government or the respective prefectural governments, in order to restore their fiscal soundness

6 Local Government Borrowing Program

The LGBP is an annual plan that the national government prepares for local government funding. The LGBP is closely linked to the LGFP and the FILP* prepared by the national government with its budget-making. The LGBP plays the following crucial roles in terms of local government finance.

*See page 33.

1) Consent (approval) based on LGBP

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

2) Secured funding sources for local government borrowings

The national government balances the amount of local government funding needs and the amount of funding sources, and specifies funding sources for each business under the LGBP.

JFM's Role in Local Government Finance

7 JFM Funds in Local Government Borrowing Program

The sources for local government funding is classified into national government funds, JFM funds and private funds.

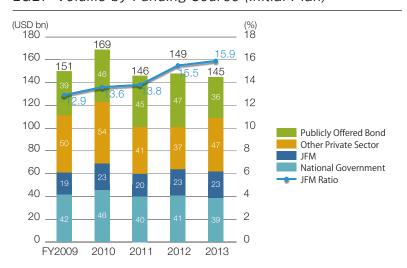
Local Government Borrowing Program

		FY2012	FY2013	
		F 12012	F12015	Share (%)
1 Drivete Funda	Publicly Offered Bond	USD 47 bn	USD 36 bn	25
1. Private Funds	Other Private Sector	USD 37 bn	USD 47 bn	32
2. Public Funds	JFM	USD 23 bn	USD 23 bn	16
2. Public Fullds	National Government	USD 41 bn	USD 39 bn	27
Total		USD 149 bn	USD 145 bn	100

Note: The figures above are the planned numbers originally published by Ministry of Internal Affairs and Communication and not the actual numbers.

The scale and proportion of JFM funds (on an initial plan basis) for fiscal 2013 is planned to stay at the same level as in the previous fiscal year.

LGBP Volume by Funding Source (Initial Plan)



Source: Ministry of Internal Affairs and Communications

Thus, JFM plays a major role in Japanese local government finance. JFM makes a substantial contribution to the project implementation and financial management of local governments.

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Financial Statements	54
Balance Sheets	54
Statements of Income	55
Statements of Appropriation of Profit	
[General account/Management account]	56
Statements of Changes in Net Assets	58
Statements of Cash Flows	60
Notes to Financial Statements	61
Independent Auditor's Report	93

Financial Section

Balance Sheets

(As of 31 March 2012 and 2013)

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

(As of 31 March 2012 and 2013) (Millions of yen) (Thousands of U.S. dollar				u.s. dollars)			
Item	Fiscal 2011 (31 March 2012)		al 2012 ch 2013)	Item	Fiscal 2011 (31 March 2012) Fiscal 20 ⁻ (31 March 2		
		Amount				Amount	
Assets				Liabilities			
Loans (Note 5)	¥22,387,411	¥22,668,634	\$240,388,489	Bonds (Notes 9 and 10)	¥18,176,696	¥18,676,401	\$198,053,033
Securities (Note 18)	762,987	598,994	6,352,012	Borrowed money (Note 11)	30,000	30,000	318,134
Cash and bank deposits	172,250	419,267	4,446,104	Other liabilities	15,373	15,121	160,352
Other assets	14,894	14,173	150,306	Reserve for bonuses (Note 12)	47	47	498
Tangible fixed assets (Note 8)	2,563	2,964	31,439	Reserve for directors' bonuses (Note 12)	6	5	57
Intangible fixed assets (Note 8)	600	883	9,371	Reserve for retirement benefits (Notes 12 and 15)	146	141	1,505
				Reserve for retirement benefits for directors and corporate auditors (Note 12)	23	27	291
				Fund for lending rate reduction	919,871	922,568	9,783,339
				Basic fund for lending rate reduction (Note 14)	911,935	915,698	9,710,487
				Additional fund for lending rate reduction (Note 14)	7,936	6,869	72,852
				Reserves under special laws	4,104,844	3,947,086	41,856,694
				Reserve for interest rate volatility (Note 13)	880,000	1,100,000	11,664,899
				Management account reserve for interest rate volatility (Note 13)	3,137,557	2,771,200	29,387,070
				Reserve for interest rate reduction	87,287	75,885	804,725
				Total liabilities	23,247,010	23,591,399	250,173,903
				Net Assets			
				Capital	16,602	16,602	176,056
				Retained earnings	29,393	50,221	532,576
				General account surplus reserve	29,393	50,221	532,576
				Valuation, translation adjustments and others	(5,964)	(6,970)	(73,914)
				Management account surplus reserve	53,666	53,666	569,100
				Total net assets	93,696	113,520	1,203,818
Total assets	¥23,340,707	¥23,704,919	\$251,377,721	Total liabilities and net assets	¥23,340,707	¥23,704,919	\$251,377,721

Statements of Income

(For the years ended 31 March 2012 and 2013)

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

(For the years ended 31 March 2012 and 2013)		(Millions of yen) (Thousands of U.S. doll		
ltem	Fiscal 2011 (1 April 2011 to 31 March 2012)	Fiscal 2012 (1 April 2012 to 31 March 2013)		
	Amount	Amo	ount	
Income	¥511,805	¥487,146	\$5,165,928	
Interest income	511,641	485,675	5,150,324	
Fees and commissions	128	123	1,308	
Other income	34	1,348	14,296	
Contributions from fund for lending rate reduction (Note 14)	-	1,066	11,306	
Others	34	281	2,990	
Expenses	281,749	274,076	2,906,433	
Interest expenses	274,320	265,647	2,817,046	
Fees and commissions	275	280	2,976	
Other operating expenses	4,539	5,519	58,527	
General and administrative expenses	2,385	2,629	27,884	
Other expenses	229	-	-	
Transfer to fund for lending rate reduction (Note 14)	216	-	-	
Others	12	-	-	
Ordinary income	230,055	213,070	2,259,495	
Special gains	232,601	581,402	6,165,451	
Reversal of management account reserve for interest rate volatility (Note 13)	220,000	570,000	6,044,539	
Reversal of reserve for interest rate reduction	12,601	11,402	120,912	
Special losses	441,024	773,643	8,204,069	
Provision for reserve for interest rate volatility (Note 13)	220,000	220,000	2,332,980	
Provision for management account reserve for interest rate volatility (Note 13)	221,024	203,643	2,159,530	
Payment to national treasury (Note 4 and 6)	-	350,000	3,711,559	
Net income	¥21,632	¥20,828	\$220,877	

Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2012)

(Millions of yen)

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

Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2013)

(Millions of yen)

<u>(</u>		(IVIIIIOTIO OT YOTI)
1 Profit available for appropriation		¥20,828
Net income	¥20,828	
Accumulated deficit brought forward -		
2 Profit appropriated		
Surplus reserve	20,828	20,828

(Thousands of U.S. dollars)

	,	
1 Profit available for appropriation		\$220,877
Net income	\$220,877	
Accumulated deficit brought forward -		
2 Profit appropriated		
Surplus reserve	220,877	220,877

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.

Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 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

Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2013)

(Millions of yen)

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

(Thousands of U.S. dollars)

<u> </u>		
1 Profit available for appropriation		\$-
Net income	\$-	
Accumulated deficit brought forward -		
2 Profit appropriated		
Surplus reserve	-	-

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.



Statements of Changes in Net Assets

(For the year ended 31 March 2012)

(Millions of yen)

(ivillions)							
		Stockhold	ers' equity	Valuation, translation adjustments and others	Management	Total	
		Retained	earnings		Unrealized	account surplus	net
	Capital	General account surplus reserve	Total retained earnings	Total stockholders' equity	ers' (loss) from	reserve	assets
Balance as of 1 April 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 as of 31 March 2012	¥16,602	¥29,393	¥29,393	¥45,995	¥(5,964)	¥53,666	¥93,696

(For the year ended 31 March 2013)	(Millions of yen)
	Valuation

	Stockholders' equity				Valuation, translation adjustments and others Mai	Management	Total
		Retained	earnings		Unrealized	account surplus	net
	Capital	General account surplus reserve	Total retained earnings	Total stockholders' equity	gain/ (loss) from hedging instruments	reserve	assets
Balance as of 1 April 2012	¥16,602	¥29,393	¥29,393	¥45,995	¥(5,964)	¥53,666	¥93,696
Changes during accounting period							
Net income	-	20,828	20,828	20,828	-	-	20,828
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(1,005)	-	(1,005)
Net changes during accounting period	-	20,828	20,828	20,828	(1,005)	-	19,823
Balance as of 31 March 2013	¥16,602	¥50,221	¥50,221	¥66,824	¥(6,970)	¥53,666	¥113,520

(For the year ended 31 March 2013)

(Thousands of U.S. dollars)

	Stockholders' equity				Valuation, translation adjustments and others	Management	Total	
	Capital	Retained General account surplus reserve	earnings Total retained earnings	Total stockholders' equity	Unrealized gain/ (loss) from hedging instruments	account surplus reserve	net assets	
Balance as of 1 April 2012	\$176,056	\$311,699	\$311,699	\$487,755	\$(63,253)	\$569,100	\$993,602	
Changes during accounting period								
Net income	-	220,877	220,877	220,877	-	-	220,877	
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(10,661)	-	(10,661)	
Net changes during accounting period	-	220,877	220,877	220,877	(10,661)	-	210,216	
Balance as of 31 March 2013	\$176,056	\$532,576	\$532,576	\$708,632	\$(73,914)	\$569,100	\$1,203,818	

Statements of Cash Flows

(For the years ended 31 March 2012 and 2013)

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

(For the years ended 31 March 2012 and 2013)	(Millions of yen) (Thousands of U.S. dollars)		
Item	Fiscal 2011 (1 April 2011 to 31 March 2012)	Fiscal (1 April 2012 to	
	Amount	Amo	ount
I Cash flows from operating activities			
Net income	¥21,632	¥20,828	\$220,877
Depreciation and amortization	345	354	3,757
Interest income	(511,641)	(485,675)	(5,150,324)
Interest expenses	274,320	265,647	2,817,046
Increase/(decrease) in reserve for bonuses	6	(O)	(9)
Decrease in reserve for directors' bonuses	(O)	(1)	(16)
Decrease in reserve for retirement benefits	(48)	(4)	(52)
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	(3)	3	36
Increase/(decrease) in fund for lending rate reduction	216	(1,066)	(11,306)
Increase in reserve for interest rate volatility	220,000	220,000	2,332,980
Increase/(decrease) in management account reserve for interest rate volatility	1,024	(16,356)	(173,450)
Decrease in reserve for interest rate reduction	(12,601)	(11,402)	(120,912)
Net (increase)/decrease in loans	(155,554)	(281,223)	(2,982,222)
Net increase/(decrease) in bonds	(154,272)	495,783	5,257,515
Net increase/(decrease) in borrowed money	30,000	-	-
Interest received	513,086	486,149	5,155,351
Interest paid	(271,287)	(262,457)	(2,783,214)
Others	1,507	(981)	(10,408)
Net cash provided by/(used in) operating activities	(43,268)	429,597	4,555,649
II Cash flows from investing activities			
Proceeds from redemption of securities	4,065,600	5,027,000	53,308,590
Purchases of securities	(4,370,780)	(4,862,748)	(51,566,794)
Purchases of tangible fixed assets	(108)	(450)	(4,774)
Purchases of intangible fixed assets	(75)	(145)	(1,539)
Proceeds from sales of tangible fixed assets	421	-	-
Net cash provided by/(used in) investing activities	(304,944)	163,656	1,735,483
Payment to national treasury	-	(350,000)	(3,711,559)
Revenue from contributions made from municipally operated racing	3,830	3,763	39,913
Net cash provided by/(used in) financing activities	3,830	(346,236)	(3,671,646)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase/(decrease) in cash and cash equivalents	(344,382)	247,017	2,619,486
VI Cash and cash equivalents at beginning of year	516,633	172,250	1,826,618
VII Cash and cash equivalents at end of year	¥172,250	¥419,267	\$4,446,104
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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 31 March 2013, the final day of the fiscal year, which was ¥94.30 to U.S. \$1. The approximate rate of exchange prevailing at 21 May 2013 was ¥102.77 to U.S. \$1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

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 and amortization
 - (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 47 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 possible loan losses has been maintained.
 - (b) Reserve for bonuses

The 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

The 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

The 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

The 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

Hedged items · · · · · · · · Bonds and borrowed money

- (ii) Hedging instruments · · · Currency swaps
 - Hedged items · · · · · · · Foreign currency-denominated bonds
- (iii) Hedging instruments \cdot \cdot · 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 by JFM.

- (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 lending rate reduction

In accordance with the provisions of Article 46, Section 1 of the Law, JFM has established the fund for lending rate reduction 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, the "Predecessor") 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 Predecessor 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 Predecessor 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. Accounting Standards Issued but Not Yet Effective

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued 17 May 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued 17 May 2012)

(1) Overview

In light of improvements to financial reporting and international convergence, the accounting standards have been revised, mainly focusing on (a) how unrecognized actuarial gains and losses and unrecognized past service costs should be accounted for, (b) how retirement benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

- (2) Date of Adoption
 - JFM will adopt the accounting standards as of the end of the fiscal year commencing on 1 April 2013.
- (3) Impact of adoption of the accounting standards

 JFM is currently evaluating the impact of the adoption of the accounting standards on its financial statements.

4. Additional Information

Payment to national treasury

In accordance with Article 14 of the Supplementary Provisions to the Law, a portion of JFM's management account reserve for interest rate volatility is being 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 yen. In fiscal 2013, 650 billion yen is planned to be transferred to the national treasury by JFM, based on an ordinance pursuant to Article 14 of the Supplementary Provisions to the Law for fiscal 2013 (Ordinance No. 1 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2013). (In fiscal 2012, 350 billion yen (3,712 million U.S. dollars) was transferred.)

5. 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).

6. Transfer to the National Treasury of a Portion of JFM's Management Account Reserve for Interest Rate Volatility

In accordance with the Supplementary Provisions to the Law, a portion of JFM's management account reserve for interest rate volatility is being 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 yen over this period.

In fiscal 2012, 350,000 million yen (3,712 million U.S. dollars) has been transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions to the Law for fiscal 2012 (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2012).

7. Financial Instruments

- (1) Status of financial instruments
 - (a) Policy for financial instruments

In order to maintain a sound and good financial standing, as well as 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 duration gap is created between lending and funding, and JFM is exposed to the interest rate risk associated with bond and borrowed money refinancing.

JFM has set aside reserves for interest rate fluctuations (the 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, medium- and long-term management analysis as well as risk analysis and evaluation are conducted through scenario analysis, VaR analysis, and duration analysis, among other methods. In addition, JFM reflects the findings in its bond issuance plans and other aspects of management and endeavors to reduce interest rate risk.

(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, which 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 Predecessor have never experienced any loan losses.

- The national government of Japan includes principal and interest payments of local government bonds and loans 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 principal and interest payments, and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments by local governments. The national government also secures revenue sources for principal and interest payments by individual local governments by including a portion of such principal and interest 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 repayment status of local governments, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose principal and interest payments or 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 supervision of the national government or the respective prefectural governments 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 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 losses incurred or a decrease in profits due to fluctuations in interest rates when there is an interest rate or duration 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 funding.

- JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and funding.
- As assets and liabilities in JFM's general account will expand as a result of lending to local governments
 and funding, 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 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 lending rate reduction.
 - 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 Predecessor, 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 portion 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 fiscal 2012 through fiscal 2014, 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% 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 31 March 2013 is used.



Calculation of Outlier Ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2013, 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 lending rate reduction.

Information the outlier ratio as of 31 March 2013, 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)

	O. Alian	Change in fair value in the case of 200 basis points rise in interest rates						Net assets including	
	Outlier ratio (a)=-(b)/(e)	Tota (b)=(c)		Loans Bonds and mon (c) (d)			reserve for interest rate volatility and the fund for lending rate reduction (e)		
General account	20.3% [+2.8%]	¥(422,786) [(100,794)]	\$(4,483) [(1,069)]	¥(1,325,953) [(327,039)]	\$(14,061) [(3,468)]	¥+903,166 [+226,244]	\$+9,578 [+2,399]	¥2,082,422 [+242,521]	\$22,083 [+2,572]

Note: Amounts posted in square brackets indicate the change from 31 March 2012.

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 31 March 2013 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 55,502 million yen (589 million U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2013 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 56,639 million yen (601 million U.S. dollars).

(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 31 March 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(3) Cash and bank deposits	762,987 172,250	762,979 172,250	(8)
Total assets	23,322,648	24,733,021	1,410,373
(1) Bonds (2) Borrowed money	18,176,696 30,000	18,890,039 30,072	713,343 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	-

The book value, fair value and difference between them as of 31 March 2013 are as follows.

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥22,668,634	¥24,537,510	¥1,868,876
(2) Securities held-to-maturity securities(3) Cash and bank deposits	598,994 419,267	598,995 419,267	0 -
Total assets	23,686,896	25,555,773	1,868,877
(1) Bonds (2) Borrowed money	18,676,401 30,000	19,632,909 30,860	956,508 860
Total liabilities	18,706,401	19,663,770	957,369
Derivative transactions(*1) Hedge accounting applied	240	240	-
Total of derivative transactions	240	240	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$240,388,489	\$260,206,902	\$19,818,413
(2) Securities held-to-maturity securities(3) Cash and bank deposits	6,352,012 4,446,104	6,352,020 4,446,104	8
Total assets	251,186,605	271,005,026	19,818,421
(1) Bonds (2) Borrowed money	198,053,033 318,134	208,196,287 327,256	10,143,254 9,122
Total liabilities	198,371,167	208,523,543	10,152,376
Derivative transactions(*1) Hedge accounting applied	2,545	2,545	-
Total of derivative transactions	2,545	2,545	-

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



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

Assets

(1) Loans

The fair value of loans is calculated by discounting future cash flows assuming prepayment at the discount rate calculated using the Japanese government bond rates as of 31 March 2012 and 2013.

(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 31 March 2012

(Millions of yen)

	Туре	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 Negotiable certificates of deposit	96,987 666,000	96,979 666,000	(8)
	Sub total	762,987	762,979	(8)
Total		¥762,987	¥762,979	¥(8)

As of 31 March 2013

(Millions of yen)

	Туре	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Treasury discount bills	¥44,994	¥44,995	¥O
	Sub total	44,994	44,995	0
Securities with fair values that do not exceed the balance sheet	Negotiable certificates of deposit	554,000	554,000	-
amount	Sub total	554,000	554,000	-
Total		¥598,994	¥598,995	¥O

(Thousands of U.S. dollars)

	Туре	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	Treasury discount bills	\$477,145	\$477,153	\$8
	Sub total	477,145	477,153	8
Securities with fair values that do not exceed the balance sheet	Negotiable certificates of deposit	5,874,867	5,874,867	-
amount	Sub total	5,874,867	5,874,867	-
Total		\$6,352,012	\$6,352,020	\$8

(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 31 March 2012 is as follows:

(Millions of yen)

Hedge accounting	Type of derivative	Primary hedged items	Contract	of which	Fair value	Method for calculating fair
method	transactions			1 year or more		value
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 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	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	



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 31 March 2013 is as follows:

(Millions of yen)

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Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Foir	Method for
				Of which 1 year or more	Fair value	calculating fair value
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Borrowed money	¥40,000	¥40,000	¥240	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	774,751	774,751	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency- denominated deposits	120,000	-	(*2)	
Total			¥1,029,751	¥909,751	¥240	

(Thousands of U.S. dollars)

Hedge	Type of derivative transactions	Primary hedged items	Contract amount			Method for
accounting method				Of which 1 year or more	Fair value	calculating fair value
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Borrowed money	\$424,178	\$424,178	\$2,545	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	1,007,423	1,007,423	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency- denominated bonds	8,215,817	8,215,817	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency- denominated deposits	1,272,535	-	(*2)	
Total			\$10,919,953	\$9,647,418	\$2,545	

- (*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 31 March 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	-	-	-	-	-	-	_

As of 31 March 2013

(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	¥1,584,836	¥1,567,116	¥1,589,729	¥1,547,561	¥1,477,282	¥6,486,636	¥6,953,013	¥1,462,458
Securities held-to- maturity securities	599,000	-	-	-	-	-	-	-
Deposits	419,267	-	-	-	-	-	-	-

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	\$16,806,325	\$16,618,413	\$16,858,218	\$16,411,044	\$15,665,771	\$68,787,234	\$73,732,907	\$15,508,578
Securities held-to- maturity securities	6,352,068	-	-	-	-	-	-	-
Deposits	4,446,104	-	-	-	-	-	-	-



Note 3. The repayment schedule is as follows:

As of 31 March 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 -

As of 31 March 2013

(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	¥2,164,070 -	¥1,931,670 -	¥1,680,970 -	¥1,780,228 -	¥1,626,489 -	¥7,572,183 30,000	¥1,718,450 -	¥217,000 -

(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	\$22,948,780	\$20,484,305	\$17,825,769 -	\$18,878,356	\$17,248,031	\$80,298,869 318,134	\$18,223,224	\$2,301,166 -

8. Tangible and Intangible Fixed Assets

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

Type of assets	Balance as of 1 April 2011 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2012 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2012	Depreciation and amortization during the year	Balance as of 31 March 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

Tangible and intangible fixed assets as of 31 March 2013 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2012 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2013 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2013	Depreciation and amortization during the year	Balance as of 31 March 2013 (Net book value)
Tangible fixed assets							
Buildings	¥652	¥451	¥-	¥1,104	¥195	¥46	¥908
Land	1,994	-	-	1,994	-	-	1,994
Other tangible fixed assets	102	24	12	114	53	20	61
Total tangible fixed assets	2,750	475	12	3,213	249	66	2,964
Intangible fixed assets							
Software	1,376	86	111	1,351	950	285	400
Other intangible fixed assets	0	482	-	482	-	-	482
Total intangible fixed assets	¥1,376	¥568	¥111	¥1,834	¥950	¥285	¥883

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2012 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2013 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2013	Depreciation and amortization during the year	Balance as of 31 March 2013 (Net book value)
Tangible fixed assets							
Buildings	\$6,920	\$4,792	\$-	\$11,712	\$2,074	\$488	\$9,638
Land	21,154	-	-	21,154	-	-	21,154
Other tangible fixed assets	1,090	255	131	1,214	567	218	647
Total tangible fixed assets	29,164	5,047	131	34,080	2,641	706	31,439
Intangible fixed assets							
Software	14,600	912	1,180	14,332	10,081	3,028	4,251
Other intangible fixed assets	1	5,119	-	5,120	-	-	5,120
Total intangible fixed assets	\$14,601	\$6,031	\$1,180	\$19,452	\$10,081	\$3,028	\$9,371

Note: 1. Accumulated depreciation of tangible fixed assets amounted to 186 million yen and 249 million yen (2,642 thousand U.S. dollars) as of 31 March 2012 and 2013, respectively.

9. 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 and 18,676,401 million yen (198,053,033 thousand U.S. dollars) as of 31 March 2012 and 2013, respectively.
- (2) Securities in the amounts of 469 million yen and 9,238 million yen (97,973 thousand U.S. dollars) are pledged as collateral for derivative transactions as of 31 March 2012 and 2013.



10. Bonds

Bonds as of 31 March 2012 consisted of the following:

		(Millior				
Type of bond	Date of issue	Balance as of 1 April 2011	Balance as of 31 March 2012	Coupon rate (%)	Maturity	
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-34)	6/15/2009- 3/14/2012	¥1,330,908	¥1,841,660	0.9 to 1.5	10Y	
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-4)	9/27/2011- 3/26/2012	-	199,964	0.4	6Y	
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y	
Non-government guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-8)	5/25/2010- 2/20/2012	90,000	170,000	0.384 to 0.639	5Y	
Non-government guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-34)	6/18/2009- 3/19/2012	605,000	1,005,000	0.976 to 1.648	10Y	
Non-government guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-20)	6/25/2009- 1/26/2012	355,000	525,000	1.752 to 2.266	20Y	
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F109)	7/22/2009- 3/28/2012	461,000	754,500	0.185 to 2.334	3Y to 30Y	
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	15,000	15,000	Floating rate	9Y	
Non-government guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28)	1/12/2012- 3/13/2012	-	17,795 [USD 227 million]	1.84 to 2.40	5Y to 7Y	
Non-government guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27)	1/17/2012- 3/13/2012	-	50,608 [USD 591 million] [NZD 40 million] [AUD 20 million]	Floating rate	5Y	
Non-government guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A26)	7/31/2009- 3/19/2012	680,000	980,000	0.99 to 1.53	10Y	
Bonds issued by JFM - Sub-total	-	3,620,078	5,642,699	-	-	
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 4-year bonds (Series 1)	2/27/2009	299,917	299,962 (300,000)	0.7	4Y	
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008- 5/25/2009	560,362	560,636	1.3 to 1.6	10Y	
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	29,994	29,996	1.01	5Y	
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008- 5/28/2009	139,962	139,967	1.59 to 1.77	10Y	
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009- 4/30/2009	84,946	84,949	2.07 to 2.29	20Y	

Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009- 5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	1,235,183	1,235,513 (300,000)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 801-886)	4/26/2001- 6/19/2008	7,556,867	6,018,749 (1,108,390)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005- 7/18/2007	184,659	184,682	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999- 6/25/2008	923,913	723,848 [USD 2,200 million] [EUR 900 million] [GBP 150 million]	1.350 to 5.75	10Y to 20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	129,976	129,989 (130,000)	1.14	5Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 1-30)	12/26/2001- 6/16/2008	1,279,829	1,179,870 (250,000)	0.64 to 2.07	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	569,636	569,661	1.03 to 2.58	20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004- 9/20/2006	189,855	189,861	2.39 to 2.95	30Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005- 7/19/2005	40,000	40,000	0.45 to 0.47	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	43,490	41,320 (2,170)	1.39 to 2.01	28Y
Non-government guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	20,000	20,000	Floating rate	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A-58, Series Special No.1-1-No.1-30)	7/31/2001- 7/31/2008	2,513,700	2,180,500 (240,000)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	13,471,927	11,298,483 (1,730,560)	-	-
Total	-	¥18,327,190	¥18,176,696 (2,030,560)	-	-

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 in the amount of 18,176,696 million yen as of 31 March 2012.

- 2. Amounts in square brackets under "Balance as of 31 March 2012" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-government guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28)," "Non-government guaranteed bonds issued by JFM (international)—Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27)" and "Government-guaranteed bonds issued by the Predecessor (international)—Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.
- 3. Amounts in parentheses under "Balance as of 31 March 2012" are to be repaid within one year.



Bonds as of 31 March 2013 consisted of the following:

				(ons or yen,
Type of bond	Date of issue	Balance as of 1 April 2012	Balance as of 31 March 2013	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/15/2009- 3/18/2013	¥1,841,660	¥2,332,567	0.668 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-8)	9/27/2011- 1/29/2013	199,964	519,971	0.199 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-4)	5/28/2012- 2/26/2013	-	220,000	0.093 to 0.151	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bond (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-government guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-11)	5/25/2010- 10/22/2012	170,000	230,000	0.230 to 0.639	5Y
Non-government guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	-	20,000	0.446	7Y
Non-government guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/18/2009- 3/25/2013	1,005,000	1,490,000	0.678 to 1.648	10Y
Non-government guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1)	1/31/2013	-	15,000	1.334	15Y
Non-government guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-27)	6/25/2009- 1/28/2013	525,000	670,000	1.680 to 2.266	20Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F153)	7/22/2009- 1/31/2013	754,500	1,003,000 (4,000)	0.185 to 2.334	3Y to 30Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	15,000	15,000	Floating rate	9Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)	1/12/2012- 3/25/2013	17,795	196,197 [USD 2,227 million] [AUD 100 million]	1.375 to 3.65	5Y to 7Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)	1/17/2012- 11/7/2012	50,608	95,064 [USD 1,148 million] [NZD 40 million] [AUD 20 million]	Floating rate	5Y to 7Y
Non-government guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A38)	7/31/2009- 3/25/2013	980,000	1,280,000	0.69 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	5,642,699	8,169,971 (4,000)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 4-year bonds (Series 1)	2/27/2009	299,962	-	0.7	4Y
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008- 5/25/2009	560,636	560,911	1.3 to 1.6	10Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	29,996	29,998 (30,000)	1.01	5Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008- 5/28/2009	139,967	139,972	1.59 to 1.77	10Y

Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009- 4/30/2009	84,949	84,952	2.07 to 2.29	20Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009- 5/26/2009	120,000	120,000	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	1,235,513	935,835 (30,000)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 814-886)	4/26/2002- 6/19/2008	6,018,749	4,912,647 (1,395,900)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005- 7/18/2007	184,682	184,704	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999- 6/25/2008	723,848	724,131 (130,000) [USD 2,200 million] [EUR 900 million] [GBP 150 million]	1.35 to 5.75	10Y to 20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	129,989	-	1.14	5Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 2-30)	6/27/2002- 6/16/2008	1,179,870	929,908 (120,000)	0.64 to 2.07	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	569,661	569,686	1.03 to 2.58	20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004- 9/20/2006	189,861	189,867	2.39 to 2.95	30Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005- 7/19/2005	40,000	40,000	0.45 to 0.47	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	41,320	39,150 (2,170)	1.39 to 2.01	28Y
Non-government guaranteed bonds issued by the Predecessor (domestic) CMS-linked bonds (Series 1)	9/13/2006	20,000	20,000	Floating rate	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-1–No.1-31)	7/31/2002- 7/31/2008	2,180,500	1,940,500 (482,000)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	11,298,483	9,570,594 (2,130,070)	-	-
Total	-	¥18,176,696	¥18,676,401 (2,164,070)	-	-



(Thousands of U.S. of					
Type of bond	Date of issue	Balance as of 1 April 2012	Balance as of 31 March 2013	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/15/2009- 3/18/2013	\$19,529,799	\$24,735,605	0.668 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-8)	9/27/2011- 1/29/2013	2,120,520	5,514,016	0.199 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-4)	5/28/2012- 2/26/2013	-	2,332,980	0.093 to 0.151	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bond (Series 1)	1/13/2011	881,972	881,972 [USD 1,000 million]	4.0	10Y
Non-government guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-11)	5/25/2010- 10/22/2012	1,802,757	2,439,024	0.230 to 0.639	5Y
Non-government guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	-	212,089	0.446	7Y
Non-government guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-46)	6/18/2009- 3/25/2013	10,657,476	15,800,636	0.678 to 1.648	10Y
Non-government guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1)	1/31/2013	-	159,067	1.334	15Y
Non-government guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-27)	6/25/2009- 1/28/2013	5,567,338	7,104,984	1.680 to 2.266	20Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F153)	7/22/2009- 1/31/2013	8,001,060	10,636,267 (42,418)	0.185 to 2.334	3Y to 30Y
Non-government guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	159,067	159,067	Floating rate	9Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)	1/12/2012- 3/25/2013	188,715	2,080,568 [USD 227 million] [AUD 100 million]	1.375 to 3.65	5Y to 7Y
Non-government guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)	1/17/2012- 11/7/2012	536,680	1,008,109 [USD 1,148 million] [NZD 40 million] [AUD 20 million]	Floating rate	5Y to 7Y
Non-government guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A38)	7/31/2009- 3/25/2013	10,392,365	13,573,701	0.69 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	59,837,749	86,638,085 (42,418)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 4-year bonds (Series 1)	2/27/2009	3,180,938	-	0.7	4Y
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008- 5/25/2009	5,945,249	5,948,162	1.3 to 1.6	10Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	318,099	318,118 (318,133)	1.01	5Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008- 5/28/2009	1,484,276	1,484,328	1.59 to 1.77	10Y

Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009- 4/30/2009	900,847	900,879	2.07 to 2.29	20Y
Non-government guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009- 5/26/2009	1,272,534	1,272,534	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	13,101,943	9,924,021 (318,133)	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 814-886)	4/26/2002- 6/19/2008	63,825,552	52,095,939 (14,802,757)	0.5 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005- 7/18/2007	1,958,453	1,958,689	1.6 to 2.2	15Y
Government-guaranteed bonds issued by the Predecessor (international) Euro-sterling bonds (Series 4), Global-yen bonds (Series 5), etc.	8/9/1999- 6/25/2008	7,676,023	7,679,017 (1,378,579) [USD 2,200 million] [EUR 900 million] [GBP 150 million]	1.35 to 5.75	10Y to 20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	1,378,464	-	1.14	5Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 2-30)	6/27/2002- 6/16/2008	12,511,887	9,861,171 (1,272,534)	0.64 to 2.07	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	6,040,948	6,041,210	1.03 to 2.58	20Y
Non-government guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004- 9/20/2006	2,013,373	2,013,438	2.39 to 2.95	30Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	212,089	212,089	Floating rate	15Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005- 7/19/2005	424,178	424,178	0.45 to 0.47	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	438,176	415,164 (23,012)	1.39 to 2.01	28Y
Non-government guaranteed bonds issued by the Predecessor (domestic) CMS-linked bonds (Series 1)	9/13/2006	212,089	212,089	Floating rate	10Y
Non-government guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-1-No.1-31)	7/31/2002- 7/31/2008	23,123,011	20,577,943 (5,111,347)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	119,814,243	101,490,927 (22,588,229)	-	-
Total	-	\$192,753,935	\$198,053,033 (22,948,780)	-	-

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 in the amount of 18,676,401 million yen (198,053,033 thousand U.S. dollars) as of 31 March 2013.



- 2. Amounts in square brackets under "Balance as of 31 March 2013" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-government guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)," "Non-government guaranteed bonds issued by JFM (international)—Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32)" and "Government-guaranteed bonds issued by the Predecessor (international)—Eurosterling bonds (Series 4), Global-yen bonds (Series 5), etc." are denominated in foreign currencies.
- 3. Amounts in parentheses under "Balance as of 31 March 2013" are to be repaid within one year.

11. Borrowed Money

Borrowed money as of 31 March 2012 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2011	Balance as of 31 March 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	-	-

Borrowed money as of 31 March 2013 consisted of the following:

(Millions of yen)

				(IVIIIIIOTIO OT YOTI)
Classification of borrowed money	Balance as of 1 April 2012	Balance as of 31 March 2013	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	30,000	0.69	3/26/2019
Other interest-bearing liabilities	-	-	-	-
Total	¥30,000	¥30,000	-	-

Classification of borrowed money	Balance as of 1 April 2012	Balance as of 31 March 2013	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)	318,134	318,134	0.69	3/26/2019
Other interest-bearing liabilities	-	-	-	-
Total	\$318,134	\$318,134	-	-

12. Reserves

Reserves as of 31 March 2012 consisted of the following:

(Millions of yen)

Classification	Balance	Balance Increase		Decrease during the year		
of reserve	as of during the 1 April 2011 year	Intended purpose	Other	as of 31 March 2012		
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	

Reserves as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification	Balance Increase		Decrease dı	Balance as of		
of reserve	as of 1 April 2012	during the year	Intended purpose	rpose Other	31 March 2013	
Reserve for bonuses	¥47	¥47	¥47	¥-	¥47	
Reserve for directors' bonuses	6	5	6	-	5	
Reserve for retirement benefits	146	5	10	-	141	
Reserve for retirement benefits for directors and corporate auditors	23	5	1	-	27	

Classification	Balance Increase		Decrease du	Balance as of	
of reserve	as of 1 April 2012	12 year niterided Other purpose	31 March 2013		
Reserve for bonuses	\$508	\$498	\$508	\$-	\$498
Reserve for directors' bonuses	73	57	73	-	57
Reserve for retirement benefits	1,557	55	107	-	1,505
Reserve for retirement benefits for directors and corporate auditors	254	55	18	-	291



13. Reserve for Interest Rate Volatility

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

(Millions of yen)

Classification of reserve	Balance as of 1 April 2011	Increase du	ring the year Amount provided	Decrease du	ring the year Amount withdrawn	Balance as of 31 March 2012
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

Reserve for interest rate volatility as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2012	Increase du	ring the year Amount provided	Decrease du	ring the year Amount withdrawn	Balance as of 31 March 2013
Reserve for interest rate volatility	¥880,000	¥220,000	¥220,000	¥-		¥1,100,000
Management account reserve for interest rate volatility	3,137,557	203,643	203,643	570,000	220,000	2,771,200
Total	¥4,017,557	¥423,643	¥423,643	¥570,000	¥220,000	¥3,871,200

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2012	Increase du	Amount provided	Decrease du	Amount withdrawn	Balance as of 31 March 2013
Reserve for interest rate volatility	\$9,331,919	\$2,332,980	\$2,332,980	\$-		\$11,664,899
Management account reserve for interest rate volatility	33,272,079	2,159,530	2,159,530	6,044,539	2,332,980	29,387,070
Total	\$42,603,998	\$4,492,510	\$4,492,510	\$6,044,539	\$2,332,980	\$41,051,969

Note: 1. The "decrease during the year" for the "management account reserve for interest rate volatility" in the amount of 570,000 million yen (6,044,539 thousand U.S. dollars) partly consists of 350,000 million yen (3,711,559 thousand U.S. dollars) of the payment to the national treasury in accordance with an ordinance pursuant to Article 14 of the Supplementary Provisions to the Law for fiscal 2012 (Ordinance No. 2 of the Ministry of Internal Affairs and Communication, and the Ministry of Finance, 2012).

14. Fund for Lending Rate Reduction

Fund for lending rate reduction as of 31 March 2012 consisted of the following:

(Millions of yen)

	Balance as of	Increase du	ring the year	Decrease du	Balance as of	
Classification of fund	1 April 2011	Amount of reserve	Amount transferred	Amount withdrawn	Others	31 March 2012
Basic fund for lending rate reduction	¥908,104	¥3,830	¥-	¥-	¥-	¥911,935
Additional fund for lending rate reduction	7,719	-	216	1	-	7,936
Total	¥915,823	¥3,830	¥216	¥-	¥-	¥919,871

Fund for lending rate reduction as of 31 March 2013 consisted of the following:

(Millions of yen)

	Balance Increase dur		ring the year	Decrease du	Balance	
Classification of fund	as of 1 April 2012	Amount of reserve	Amount transferred	Amount withdrawn	Others	as of 31 March 2013
Basic fund for lending rate reduction	¥911,935	¥3,763	¥-	¥-	¥-	¥915,698
Additional fund for lending rate reduction	7,936	-	-	1,066	-	6,869
Total	¥919,871	¥3,763	¥-	¥1,066	¥-	¥922,568

	Balance as of		ring the year	Decrease du	Balance as of	
Classification of fund 1	1 April 2012	Amount of reserve	Amount transferred	Amount withdrawn	Others	31 March 2013
Basic fund for lending rate reduction	\$9,670,574	\$39,913	\$-	\$-	\$-	\$9,710,487
Additional fund for lending rate reduction	84,158	-	-	11,306	-	72,852
Total	\$9,754,732	\$39,913	\$-	\$11,306	\$-	\$9,783,339

- Notes: 1. The "amount of reserve" in the "increase during the year" for the "basic fund for lending rate reduction" represents 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. The "amount withdrawn" in the "decrease during the year" for the "additional fund for lending rate reduction" represents the amount reduced in the fund for interest rate reduction pursuant to the provisions of Article 46, Section 6 of the Law.



15. Reserve for Employee Retirement Benefits

As of and for the year ended 31 March 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 of employees.

(2) Projected benefit obligation

Projected benefit obligation 298 million yen

Plan assets 151 million yen

Reserve for employee retirement benefits 146 million yen

(3) Pension expenses

Pension expenses 9 million yen

Pension expenses related to lump-sum payments upon retirement 4 million yen

Pension expenses related to the Employees' Pension Fund 5 million yen

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simplified method.

As of and for the year ended 31 March 2013

(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 318 million yen (3,373 thousand U.S. dollars)

Plan assets 176 million yen (1,868 thousand U.S. dollars)

Reserve for employee retirement benefits 141 million yen (1,505 thousand U.S. dollars)

(3) Pension expenses

Pension expenses 5 million yen (54 thousand U.S. dollars)

Pension expenses related to lump-sum payments upon retirement 4 million yen (45 thousand U.S. dollars)

Pension expenses related to the Employees' Pension Fund 0 million yen (9 thousand U.S. dollars)

(4) Basis of calculation of projected benefit obligation

Projected benefit obligation is calculated by the simplified method.

16. Net Income by Account

(For the year ended 31 March 2012)

Net income of the general account was 15,532 million yen, while net income of management account was 6,100 million yen.

(For the year ended 31 March 2013)

Net income of the general account was 20,828 million yen (220,877 thousand U.S. dollars), while there was no net income of management account.

17. Information by Account (Balance sheets)

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

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 lending rate reduction	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 lending rate reduction	919,871			919,871
Basic fund for lending rate reduction	911,935			911,935
Additional fund for lending rate reduction	7,936			7,936
Due to management account	820,207		(820,207)	
Due from general account for fund for lending rate reduction		292,831	(292,831)	
Reserves 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



Balance sheets of general account and management account as of 31 March 2013 were as follows:

				(IVIIIIIONS OF YEAR)
Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥7,175,673	¥15,492,961		¥22,668,634
Securities	598,994			598,994
Cash and bank deposits	419,267			419,267
Other assets	3,251	10,922		14,173
Tangible fixed assets	2,964			2,964
Intangible fixed assets	883			883
Due from general account		939,648	¥(939,648)	
Due to management account for fund for lending rate reduction	242,831		242,831	
Total assets	8,443,866	16,443,532	(1,182,479)	23,704,919
(Liabilities)				
Bonds	5,389,185	13,287,215		18,676,401
Borrowed money	30,000			30,000
Other liabilities	2,388	12,732		15,121
Reserve for bonuses	47			47
Reserve for directors' bonuses	5			5
Reserve for retirement benefits	141			141
Reserve for retirement benefits for directors and corporate auditors	27			27
Fund for lending rate reduction	922,568			922,568
Basic fund for lending rate reduction	915,698			915,698
Additional fund for lending rate reduction	6,869			6,869
Due to management account	939,648		(939,648)	
Due from general account for fund for lending rate reduction		242,831	(242,831)	
Reserves under special laws	1,100,000	2,847,086		3,947,086
Reserve for interest rate volatility	1,100,000			1,100,000
Management account reserve for interest rate volatility		2,771,200		2,771,200
Reserve for interest rate reduction		75,885		75,885
Total liabilities	8,384,012	16,389,866	(1,182,479)	23,591,399
(Net Assets)				
Capital	16,602			16,602
Retained earnings	50,221			50,221
General account surplus reserve	50,221			50,221
Valuation, translation adjustments and others	(6,970)			(6,970)
Management account surplus reserve		53,666		53,666
Total net assets	59,853	53,666		113,520
Total liabilities and net assets	¥8,443,866	¥16,443,532	¥(1,182,479)	¥23,704,919

(Thousands of U.S. dollars)

			(THOUSAH	ds of U.S. dollars
Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$76,094,098	\$164,294,391		\$240,388,489
Securities	6,352,012			6,352,012
Cash and bank deposits	4,446,104			4,446,104
Other assets	34,476	115,830		150,306
Tangible fixed assets	31,439			31,439
Intangible fixed assets	9,371			9,371
Due from general account		9,964,457	\$(9,964,457)	
Due to management account for fund for lending rate reduction	2,575,095		(2,575,095)	
Total assets	89,542,595	174,374,678	(12,539,552)	251,377,721
(Liabilities)				
Bonds	57,149,371	140,903,662		198,053,033
Borrowed money	318,134			318,134
Other liabilities	25,326	135,026		160,352
Reserve for bonuses	498			498
Reserve for directors' bonuses	57			57
Reserve for retirement benefits	1,505			1,505
Reserve for retirement benefits for directors and corporate auditors	291			291
Fund for lending rate reduction	9,783,339			9,783,339
Basic fund for lending rate reduction	9,710,487			9,710,487
Additional fund for lending rate reduction	72,852			72,852
Due to management account	9,964,457		(9,964,457)	
Due from general account for fund for lending rate reduction		2,575,095	(2,575,095)	
Reserves under special laws	11,664,899	30,191,795		41,856,694
Reserve for interest rate volatility	11,664,899			11,664,899
Management account reserve for interest rate volatility		29,387,070		29,387,070
Reserve for interest rate reduction		804,725		804,725
Total liabilities	88,907,877	173,805,578	(12,539,552)	250,173,903
(Net Assets)				
Capital	176,056			176,056
Retained earnings	532,576			532,576
General account surplus reserve	532,576			532,576
Valuation, translation adjustments and others	(73,914)			(73,914)
Management account surplus reserve		569,100		569,100
Total net assets	634,718	569,100		1,203,818
Total liabilities and net assets	\$89,542,595	\$174,374,678	\$(12,539,552)	\$251,377,721
		1		

Notes: 1. General account and management account

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

Management account is separated from the other account (general account) pursuant to the provisions of Article 13, Section 3 of the Supplementary Provisions of the Law.

2. General account surplus reserve and management account surplus reserve

"Net income" of 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 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 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 lending rate reduction and due to management account for fund for lending rate reduction
 - These amounts represent cash received for "Fund for lending rate reduction," which was lent to management account from the general account pursuant to the provisions of Article 9, Section 12 of the Supplementary Provisions of the Law.

18. Information by Account (Statements of income)

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

				(IVIIIIIOFIS OF YELL)
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 lending rate reduction	11,438		(11,438)	
Interest on due from general account		635	(635)	
Transfer from general account for fund for lending rate reduction		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 lending rate reduction	216			216
Others	12			12
Interest on due to management account	635		(635)	
Transfer to management account for fund for lending rate reduction	14,952		(14,952)	
Administrative fee for management account		930	(930)	
Interest on fund for lending rate reduction		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 general account		220,000	(220,000)	
Net income	¥15,532	¥6,100	¥-	¥21,632

Statements of income of general account and management account from 1 April 2012 through 31 March 2013 were as follows:

Item	General account	Management account	Offset	Total
Income	¥101,284	¥408,131	¥(22,268)	¥487,146
Interest income	91,436	394,238		485,675
Fees and commissions	123	0		123
Other income	1,348	0		1,348
Contributions from fund for lending rate reduction	1,066			1,066
Others	281	0		281
Administrative fee for management account	965		(965)	
Interest on fund for lending rate reduction	7,410		(7,410)	
Interest on due from general account		622	(622)	
Transfer from general account for fund for lending rate reduction		13,270	(13,270)	
Expenses	80,455	215,889	(22,268)	274,076
Interest expenses	61,098	204,548		265,647
Fees and commissions	61	219		280
Other operating expenses	2,914	2,604		5,519
General and administrative expenses	2,488	141		2,629
Interest on due to management account	622		(622)	
Transfer to management account for fund for lending rate reduction	13,270		(13,270)	
Administrative fee for management account		965	(965)	
Interest on fund for lending rate reduction		7,410	(7,410)	
Ordinary income	20,828	192,241	-	213,070
Special gains	220,000	581,402	(220,000)	581,402
Provision for management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		570,000		570,000
Reversal of reserve for interest rate reduction		11,402		11,402
Special losses	220,000	773,643	(220,000)	773,643
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		203,643		203,643
Transfer to general account		220,000	(220,000)	
Payment to national treasury		350,000		350,000
Net income	¥20,828	¥-	¥-	¥20,828



(Thousands of U.S. dolla					
Item	General account	Management account	Offset	Total	
Income	\$1,074,067	\$4,328,007	\$(236,146)	\$5,165,928	
Interest income	969,639	4,180,685		5,150,324	
Fees and commissions	1,308			1,308	
Other income	14,296	0		14,296	
Contributions from fund for lending rate reduction	11,306			11,306	
Others	2,990	0		2,990	
Administrative fee for management account	10,237		(10,237)		
Interest on fund for lending rate reduction	78,587		(78,587)		
Interest on due from general account		6,600	(6,600)		
Transfer from general account for fund for lending rate reduction		140,722	(140,722)		
Expenses	853,190	2,289,389	(236,146)	2,906,433	
Interest expenses	647,918	2,169,128		2,817,046	
Fees and commissions	652	2,324		2,976	
Other operating expenses	30,911	27,616		58,527	
General and administrative expenses	26,387	1,497		27,884	
Interest on due to management account	6,600		(6,600)		
Transfer to management account for fund for lending rate reduction	140,722		(140,722)		
Administrative fee for management account		10,237	(10,237)		
Interest on fund for lending rate reduction		78,587	(78,587)		
Ordinary income	220,877	2,038,618	-	2,259,495	
Special gains	2,332,980	6,165,451	(2,332,980)	6,165,451	
Provision for management account	2,332,980		(2,332,980)		
Reversal of management account reserve for interest rate volatility		6,044,539		6,044,539	
Reversal of reserve for interest rate reduction		120,912		120,912	
Special losses	2,332,980	8,204,069	(2,332,980)	8,204,069	
Provision for reserve for interest rate volatility	2,332,980			2,332,980	
Provision for management account reserve for interest rate volatility		2,159,530		2,159,530	
Transfer to general account		2,332,980	(2,332,980)		
Payment to national treasury		3,711,559		3,711,559	
Net income	\$220,877	\$-	\$-	\$220,877	

19. Fair Value of Marketable Securities

Marketable held-to-maturity securities as of 31 March 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)

Marketable held-to-maturity securities as of 31 March 2013 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥44,994	44,995	¥O	¥O	¥-
Negotiable certificates of deposit	554,000	554,000	-	-	-
Total	¥598,994	¥598,995	¥O	¥O	¥-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	\$477,145	\$477,153	\$8	\$8	\$-
Negotiable certificates of deposit	5,874,867	5,874,867	-	-	-
Total	\$6,352,012	\$6,352,020	\$8	\$8	\$-

Notes: 1. The fair value of treasury discount bills is based on 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."



20. 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 funding 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 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
 - 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 by JFM.

(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 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 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.



Independent Auditor's Report



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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, 2013 and 2012, 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

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, 2013 and 2012, 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 Shinnihon LLC

May 21, 2013

A member firm of Ernst & Young Global Limited

Appendix / JFM Data

Appendix	96
Members of the Representative Board and the	
Supervisory Committee	96
Redemption of Loans in Fiscal 2012	96
Outstanding Loans by Business (as of 31 March 2013)	97
Outstanding Loans by Borrower (as of 31 March 2013)	98
Bond Issuance in Fiscal 2012	102
Outstanding International Bonds	105
JFM Data	107
Organization History	107
Organization Structure	108
Directors and Corporate Auditors/Contact Information	109

Members of the Representative Board and the Supervisory Committee

The Representative Board members of JFM as of 31 March 2013 are as follows:

Name	Title	Background			
Yuichiro Ito	Chairman	Former Chairman of the Japan Finance Corporation for Municipal Enterprises Reform Sub-committee, National Governors' Association Governor, Kagoshima prefecture			
Tamio Mori	Deputy Chairman	Chairman, Japan Association of City Mayors Mayor, Nagaoka City, Niigata prefecture			
Tadahiko Fujiwara	Deputy Chairman	Chairman, National Association of Towns & Villages Mayor, Kawakami Village, Nagano prefecture			
Junko Obata	Member	Professor, Sophia University Law School			
Isao Horiba	Member	Professor, Aoyama Gakuin University			
Tomijiro Morita Member		President, The 21st Century Public Policy Institute, Keidanren Special Advisor, The Dai-ichi Life Insurance Company Limited			

The Supervisory Committee members of JFM as of 31 March 2013 are as follows:

Name	Title	Background		
Yoshitsugu Hayashi	Chairman	Professor, Kwansei Gakuin University		
Yutaka Suzuki Deputy Chairman		Professor, Aoyama Gakuin University Graduate School Certified Public Accountant		
Tetsuya Kayamori	Member	Former Director, Jiji Press Co.		
Yukiko Shinozaki	Member	Representative Director, Urban Life Research Institute		
Tomoko Seiichi	Member	Professor, Seinan Gakuin University		
Yasuharu Yoneda	Member	Professor, Shinshu University Law School		

Redemption of Loans in Fiscal 2012

		Prin	cipal	Interest		
Classi	Classification		Amount (millions of USD)	Number of loans	Amount (millions of USD)	
	General loans	400,882	15,934.2	468,574	5,098.2	
Regular redemption of loans	Loans to local government corporations	880	168.3	894	25.3	
	Subtotal	401,762	16,102.5	469,468	5,123.5	
	General loans	1,908	880.1	971	0.2	
Prepayment of loans	Loans to local government corporations	23	39.3	23	0.0	
	Subtotal	1,931	919.3	994	0.2	
Total		403,693	17,021.8	470,462	5,123.7	
Redemption of loans with	Redemption of loans with pre-consent or approval		_	_	_	
Redemption of	short-term loans	-	_	_	_	

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

Outstanding Loans by Business

(as of 31 March 2013)

	Rusinoss	Number of	Loan Amount (millions of USD)		
	Business	Loans Made		% of total	
	Public Projects, etc.	293	589	0.2	
	Public Housing	5,125	4,962	2.1	
	Disaster Management and Mitigation	614	869	0.4	
	Educational Facilities Development	8	38	0.0	
	Social Welfare Facilities Development	305	364	0.2	
General Account-related	General Projects	226	323	0.1	
Loans	Regional Revitalization	371	298	0.1	
	Disaster Prevention	738	796	0.3	
	Local Road Development	3,007	3,777	1.6	
	Special Municipal Mergers	2,015	5,849	2.4	
	Three Types of Special Projects	32,617	33,984	14.2	
	Subtotal	45,319	51,848	21.6	
	Water Supply	51,440	41,151	17.1	
	Industrial Water Supply	2,312	2,403	1.0	
	Transportation	947	13,976	5.9	
	Electricity and Gas Supply	983	927	0.4	
Municipal Enterprise-	Port Facilities	1,194	876	0.4	
related Loans	Hospitals and Elderly Care Services	2,857	7,319	3.0	
	Markets and Slaughterhouses	557	900	0.3	
	Sewerage	123,128	90,969	37.8	
	Tourism and Others	531	806	0.3	
	Subtotal	183,949	159,327	66.3	
Temporary Finan	cial Countermeasures Funding	3,209	28,144	11.7	
Local Governmen	t Road Corporation, Toll Roads	396	1,069	0.4	
	Total	232,873	240,388	100.0	

Notes: 1. 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

Moreover, JFM does not lend to local government road corporations.

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



Outstanding Loans by Borrower

(as of 31 March 2013)

Business	Prefe	ctures		pecial Wards okyo	Towns and Villages	
Dusiness	Number of Loans Made	Loan Amount (millions of USD)	Number of Loans Made	Loan Amount (millions of USD)	Number of Loans Made	Loan Amount (millions of USD)
Hokkaido	274	3,269	4,965	7,989	7,783	2,267
Aomori	221	478	1,902	2,486	1,381	503
lwate	232	696	2,710	2,814	797	353
Miyagi	404	1,451	4,702	4,138	2,641	633
Akita	224	358	4,472	2,410	1,144	169
Yamagata	252	771	2,620	2,061	1,901	421
Fukushima	353	787	3,503	2,870	3,047	660
Ibaraki	474	1,240	6,115	4,016	1,270	416
Tochigi	203	526	3,254	2,485	840	288
Gunma	283	684	3,571	2,238	1,767	436
Saitama	237	2,515	5,611	5,983	1,486	468
Chiba	441	1,425	4,440	5,608	718	200
Tokyo	141	2,184	1,791	2,665	199	58
Kanagawa	234	1,621	2,568	9,315	881	333
Niigata	260	514	8,119	5,264	864	220
Toyama	280	510	3,559	2,767	481	244
Ishikawa	188	314	2,721	2,461	1,152	467
Fukui	259	604	2,046	1,331	912	190
Yamanashi	149	513	3,062	1,314	1,067	197
Nagano	245	565	4,215	3,457	3,025	837
Gifu	189	1,349	4,286	2,560	1,156	389
Shizuoka	370	902	4,664	4,152	594	211
Aichi	300	2,049	5,106	7,751	824	263
Mie	410	1,408	3,806	2,848	1,007	307

	vernment iations		nment Road rations	Total		
Number of Loans Made	Loan Amount (millions of USD)	Number of Loans Made	Loan Amount (millions of USD)	Number of Loans Made	Loan Amount (millions of USD)	% of Total
291	268	-	-	13,313	13,793	5.7%
103	142	-	-	3,607	3,609	1.5%
74	45	-	-	3,813	3,908	1.6%
127	111	15	18	7,889	6,352	2.6%
3	0	-	-	5,843	2,937	1.2%
125	30	10	1	4,908	3,284	1.4%
191	252	3	3	7,097	4,571	1.9%
208	198	4	7	8,071	5,877	2.4%
7	38	10	7	4,314	3,345	1.4%
22	58	-	-	5,643	3,416	1.4%
222	185	16	16	7,572	9,167	3.8%
384	539	12	28	5,995	7,799	3.2%
25	176	-	-	2,156	5,082	2.1%
79	1,189	-	-	3,762	12,458	5.2%
135	144	-	-	9,378	6,142	2.6%
128	135	16	8	4,464	3,663	1.5%
15	21	-	-	4,076	3,263	1.4%
69	43	-	-	3,286	2,168	0.9%
148	66	2	2	4,428	2,092	0.9%
162	111	18	16	7,665	4,985	2.1%
3	2	-	-	5,634	4,300	1.8%
69	164	16	13	5,713	5,441	2.3%
117	72	54	403	6,401	10,539	4.4%
29	34	1	0	5,253	4,597	1.9%



Puoinees	Prefe	ctures		pecial Wards okyo	Towns and Villages	
Business	Number of Loans Made	Loan Amount (millions of USD)	Number of Loans Made	Loan Amount (millions of USD)	Number of Loans Made	Loan Amount (millions of USD)
Shiga	224	740	4,078	2,521	538	150
Kyoto	215	558	3,217	4,822	943	278
Osaka	122	896	4,662	14,360	735	283
Hyogo	317	3,413	7,156	9,536	1,742	821
Nara	259	1,152	2,201	1,585	1,660	508
Wakayama	113	213	1,381	1,717	1,125	502
Tottori	237	431	1,269	1,025	1,795	514
Shimane	211	935	2,388	2,181	303	95
Okayama	304	1,352	4,588	4,087	1,266	355
Hiroshima	374	1,355	4,236	5,673	905	329
Yamaguchi	434	774	4,201	2,481	516	137
Tokushima	197	557	1,255	1,000	735	260
Kagawa	243	355	2,067	1,207	779	207
Ehime	133	256	2,299	2,102	580	230
Kochi	153	687	1,332	1,352	579	167
Fukuoka	111	1,094	4,228	9,247	1,695	907
Saga	50	343	1,491	1,510	564	312
Nagasaki	148	509	2,634	2,697	591	199
Kumamoto	181	475	2,742	2,370	1,448	459
Oita	128	332	2,168	1,570	134	46
Miyazaki	180	661	2,024	1,694	689	224
Kagoshima	173	1,256	2,315	1,858	743	197
Okinawa	231	870	1,318	1,135	802	203
Total	11,361	45,945	159,058	168,713	57,804	17,912

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

Number of Loan A (millions) 69 7 243 453		Number of Loans Made 6 13 55	Loan Amount (millions of USD) 3 15	Number of Loans Made 4,915 4,395	Loan Amount (millions of USD) 3,457	% of Total
7 243 453	33 802 797	13 55	15			1.4%
243 453	802 797	55		4,395	E 700	
453	797		149		5,706	2.4%
-	+	62		5,817	16,489	6.9%
11	3	02	87	9,730	14,654	6.1%
		4	18	4,135	3,266	1.4%
24	26	-	-	2,643	2,458	1.0%
18	8	-	-	3,319	1,977	0.8%
41	20	-	-	2,943	3,231	1.3%
107	276	-	-	6,265	6,069	2.5%
2	9	17	93	5,534	7,460	3.1%
104	99	-	-	5,255	3,490	1.5%
3	1	-	-	2,190	1,818	0.8%
7	7	-	-	3,096	1,776	0.7%
8	5	-	-	3,020	2,593	1.1%
6	127	4	1	2,074	2,334	1.0%
225	245	30	167	6,289	11,660	4.9%
103	147	1	0	2,209	2,312	1.0%
16	17	11	6	3,400	3,428	1.4%
25	24	10	2	4,406	3,331	1.4%
-	-	-	-	2,430	1,948	0.8%
5	2	-	-	2,898	2,581	1.1%
7	16	6	5	3,244	3,333	1.4%
34	18	-	-	2,385	2,227	0.9%
4,254 6	5,749	396	1,069	232,873	240,388	100.0%



Bond Issuance in Fiscal 2012

1. JFM bonds

(1) International bonds

Series Number	Format	Currency	Issue Amount (million)	Coupon	Issue Price (%)	Issue Date	Maturity Date
29	EURO	USD	327	3mL+65bp	100	22 May 2012	22 May 2017
30	EURO	USD	130	3mL+70bp	100	6 Jun 2012	6 June 2019
31	EURO	USD	1,000	1.500%	100	12 Sep 2012	12 Sep 2017
32	EURO	USD	100	3mL+52bp	100	7 Nov 2012	7 Nov 2017
33	EURO	USD	1,000	1.375%	99.544	5 Feb 2013	5 Feb 2018
34	EURO	AUD	100	3.65%	99.990	25 Mar 2013	23 Mar 2018

(2) Domestic public offerings

O de Norte	Issue A	Amount	0	D: (0/)	la Dala	Maria de Barra
Series Number	(billions of JPY)	(billions of USD)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
35	45	0.5	1.006	100	19 Apr 2012	28 Apr 2022
36	40	0.4	0.892	100	24 May 2012	27 May 2022
37	40	0.4	0.852	100	28 Jun 2012	28 Jun 2022
38	40	0.4	0.835	100	23 Jul 2012	28 Jul 2022
39	40	0.4	0.815	100	20 Aug 2012	26 Aug 2022
40	40	0.4	0.825	100	24 Sep 2012	28 Sep 2022
41	40	0.4	0.801	100	22 Oct 2012	28 Oct 2022
42	40	0.4	0.801	100	19 Nov 2012	28 Nov 2022
43	40	0.4	0.720	100	20 Dec 2012	28 Dec 2022
44	40	0.4	0.791	100	28 Jan 2013	27 Jan 2023
45	40	0.4	0.791	100	25 Feb 2013	28 Feb 2023
46	40	0.4	0.678	100	25 Mar 2013	28 Mar 2023
21	25	0.3	1.812	100	19 Apr 2012	28 Apr 2032
22	20	0.2	1.687	100	12 Jun 2012	28 Jun 2032
23	20	0.2	1.680	100	23 Jul 2012	28 Jul 2032
24	20	0.2	1.702	100	18 Sep 2012	28 Sep 2032
25	20	0.2	1.701	100	23 Oct 2012	28 Oct 2032
26	20	0.2	1.724	100	20 Dec 2012	28 Dec 2032
27	20	0.2	1.785	100	28 Jan 2013	28 Jan 2033
9	20	0.2	0.340	100	19 Apr 2012	28 Apr 2017
10	20	0.2	0.280	100	24 May 2012	26 May 2017
11	20	0.2	0.230	100	22 Oct 2012	27 Oct 2017
1	20	0.2	0.446	100	20 Aug 2012	28 Aug 2019
1	15	0.2	1.334	100	31 Jan 2013	28 Jan 2028
F110	3	0.0	0.562	100	26 Apr 2012	25 Apr 2019
F111	20	0.2	0.891	100	26 Apr 2012	18 Jun 2021
F112	4	0.0	1.486	100	26 Apr 2012	28 Apr 2027

	Issue Amount					
Series Number	(billions of JPY)	(billions of USD)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
F113	4	0.0	0.449	100	26 Apr 2012	26 Apr 2018
F114	3	0.0	0.557	100	26 Apr 2012	20 Mar 2019
F115	6	0.1	1.186	100	26 Apr 2012	26 Apr 2024
F116	3	0.0	1.481	100	26 Apr 2012	23 Apr 2027
F117	3	0.0	1.698	100	26 Apr 2012	26 Apr 2030
F118	3	0.0	1.411	100	1 May 2012	19 Jun 2026
F119	4	0.0	1.533	100	1 May 2012	26 Oct 2027
F120	4	0.0	1.346	100	30 May 2012	28 Aug 2026
F121	4	0.0	1.414	100	31 May 2012	28 May 2027
F122	3	0.0	1.412	100	31 May 2012	18 Jun 2027
F123	3	0.0	1.600	100	31 May 2012	19 Mar 2030
F124	6	0.1	1.418	100	4 Jun 2012	4 Jun 2027
F125	3	0.0	1.620	100	4 Jun 2012	28 Nov 2029
F126	20	0.2	0.707	100	26 Jul 2012	21 Sep 2021
F127	3	0.0	0.917	100	30 Jul 2012	20 Dec 2023
F128	3.5	0.0	1.024	100	30 Jul 2012	20 Dec 2024
F129	3	0.0	1.070	100	31 Jul 2012	29 Jul 2025
F130	5	0.1	1.275	100	31 Jul 2012	28 Jul 2027
F131	4.5	0.0	1.546	100	30 Jul 2012	30 Jul 2031
F132	4	0.0	1.090	100	30 Jul 2012	30 Jul 2025
F133	5	0.1	1.231	100	30 Jul 2012	27 Nov 2026
F134	3	0.0	1.348	100	30 Jul 2012	17 Mar 2028
F135	3	0.0	0.525	100	31 Jul 2012	18 Sep 2020
F136	3	0.0	1.065	100	31 Jul 2012	31 Jul 2025
F137	4.5	0.0	1.222	100	31 Jul 2012	5 Mar 2027
F138	3	0.0	0.983	100	1 Aug 2012	20 Sep 2024
F139	4	0.0	1.082	100	1 Aug 2012	19 Sep 2025
F140	20	0.2	0.343	100	20 Sep 2012	20 Sep 2018
F141	20	0.2	0.746	100	30 Oct 2012	20 Dec 2021
F142	3	0.0	1.016	100	31 Oct 2012	28 Nov 2024
F143	5.5	0.1	1.351	100	30 Oct 2012	25 Aug 2027
F144	3	0.0	0.562	100	31 Oct 2012	28 Oct 2020
F145	3	0.0	1.059	100	31 Oct 2012	19 Mar 2025
F146	3	0.0	1.134	100	31 Oct 2012	28 Oct 2025
F147	4.5	0.0	1.291	100	31 Oct 2012	19 Mar 2027
F148	3.5	0.0	1.689	100	31 Oct 2012	30 Jan 2032
F149	6	0.1	1.145	100	1 Nov 2012	19 Dec 2025
F150	4	0.0	1.238	100	5 Nov 2012	5 Nov 2026
F151	3.5	0.0	1.348	100	5 Nov 2012	5 Nov 2027
F152	5	0.1	1.438	100	1 Nov 2012	1 Nov 2028
F153	20	0.2	0.689	100	31 Jan 2013	18 Mar 2022



2. Private placements with Pension Fund Association for Local Government Officials

Series Number	Issue Amount (billions of JPY) (billions of USD)		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
A27	30	0.3	1.02	100	19 Apr 2012	19 Apr 2022
A28	20	0.2	0.93	100	24 May 2012	24 May 2022
A29	30	0.3	0.87	100	28 Jun 2012	28 Jun 2022
A30	30	0.3	0.86	100	23 Jul 2012	22 Jul 2022
A31	30	0.3	0.87	100	20 Aug 2012	19 Aug 2022
A32	30	0.3	0.85	100	24 Sep 2012	22 Sep 2022
A33	20	0.2	0.82	100	22 Oct 2012	21 Oct 2022
A34	20	0.2	0.82	100	19 Nov 2012	18 Nov 2022
A35	20	0.2	0.76	100	20 Dec 2012	20 Dec 2022
A36	20	0.2	0.81	100	28 Jan 2013	27 Jan 2023
A37	30	0.3	0.81	100	25 Feb 2013	24 Feb 2023
A38	20	0.2	0.69	100	25 Mar 2013	24 Mar 2023

3. Government-guaranteed domestic bonds

Carias Number	ies Number Issue Amount		Courses (9/)	Janua Bridge (0/)	Janua Data	Maturity Data	
Series Number	(billions of JPY)	(billions of USD)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date	
35	45	0.5	0.977	100	23 Apr 2012	22 Apr 2022	
36	45	0.5	0.901	100	21 May 2012	20 May 2022	
37	40	0.4	0.895	100	18 Jun 2012	17 Jun 2022	
38	40	0.4	0.839	100	17 Jul 2012	15 Jul 2022	
39	40	0.4	0.801	100	15 Aug 2012	15 Aug 2022	
40	40	0.4	0.819	100	18 Sep 2012	16 Sep 2022	
41	40	0.4	0.791	100	18 Oct 2012	18 Oct 2022	
42	40	0.4	0.805	100	14 Nov 2012	14 Nov 2022	
43	40	0.4	0.734	100	17 Dec 2012	16 Dec 2022	
44	40	0.4	0.834	100	22 Jan 2013	20 Jan 2023	
45	40	0.4	0.815	100	19 Feb 2013	17 Feb 2023	
46	40	0.4	0.668	100	18 Mar 2013	17 Mar 2023	
5	80	0.8	0.383	100	26 Apr 2012	26 Apr 2018	
6	80	0.8	0.245	100	30 Jul 2012	30 Jul 2018	
7	80	0.8	0.250	100	29 Oct 2012	29 Oct 2018	
8	80	0.8	0.199	100	29 Jan 2013	29 Jan 2019	
1	55	0.6	0.151	100	28 May 2012	27 May 2016	
2	55	0.6	0.130	100	30 Aug 2012	30 Aug 2016	
3	55	0.6	0.130	100	26 Nov 2012	25 Nov 2016	
4	55	0.6	0.093	100	26 Feb 2013	24 Feb 2017	

Outstanding International Bonds

1. JFM bonds

Series Number	Format	Currency	Issue Amount (million)	Coupon	Issue Price (%)	Issue Date	Maturity Date
1	EURO	USD	105	3mL+73bp	100	17 Jan 2012	17 Jan 2017
2	EURO	USD	40	2.04%	100	12 Jan 2012	12 Jan 2017
3	EURO	USD	57	2.00%	100	17 Jan 2012	17 Jan 2017
4	EURO	USD	35	3mL+75bp	100	17 Jan 2012	17 Jan 2017
5	EURO	USD	30	3mL+75bp	100	19 Jan 2012	19 Jan 2017
6	EURO	USD	51	3mL+70bp	100	18 Jan 2012	18 Jan 2017
7	EURO	USD	20	2.00%	100	23 Jan 2012	23 Jan 2017
8	EURO	USD	20	3mL+73bp	100	23 Jan 2012	23 Jan 2017
9	EURO	USD	20	3mL+70bp	100	19 Jan 2012	19 Jan 2017
10	EURO	USD	20	3mL+75bp	100	18 Jan 2012	18 Jan 2017
11	EURO	NZD	40	3mNZD-BBR- FRA+113bp	100	24 Jan 2012	24 Jan 2017
12	EURO	USD	20	3mL+69bp	100	26 Jan 2012	26 Jan 2017
13	EURO	USD	20	3mL+70bp	100	24 Jan 2012	24 Jan 2017
14	EURO	USD	25	1.84%	100	1 Mar 2012	1 Mar 2017
15	EURO	USD	20	2.40%	100	1 Mar 2012	1 Mar 2019
16	EURO	USD	25	1.87%	100	1 Mar 2012	1 Mar 2017
17	EURO	USD	30	3mL+70bp	100	1 Mar 2012	1 Mar 2017
18	EURO	USD	25	3mL+70bp	100	1 Mar 2012	1 Mar 2017
19	EURO	USD	20	1.89%	100	1 Mar 2012	1 Mar 2017
20	EURO	USD	40	3mL+70bp	100	6 Mar 2012	6 Mar 2017
21	EURO	USD	30	3mL+70bp	100	6 Mar 2012	6 Mar 2017
22	EURO	USD	25	3mL+70bp	100	6 Mar 2012	6 Mar 2017
23	EURO	USD	30	3mL+70.5bp	100	6 Mar 2012	6 Mar 2017
24	EURO	USD	30	3mL+70bp	100	8 Mar 2012	8 Mar 2017
25	EURO	USD	30	3mL+70bp	100	6 Mar 2012	6 Mar 2017
26	EURO	AUD	20	3mBBSW+115bp	100	13 Mar 2012	13 Mar 2017
27	EURO	USD	30	3mL+70bp	100	8 Mar 2012	8 Mar 2017
28	EURO	USD	20	1.85%	100	13 Mar 2012	13 Mar 2017



2. Government-guaranteed bonds

Series Number	Format	Currency	Issue Amount (million)	Coupon	Issue Price (%)	Issue Date	Maturity Date
4	EURO	GBP	150	5.750	99.337	9 Aug 1999	9 Aug 2019
3	GLOBAL	JPY	130,000	1.350	99.860	26 Nov 2003	26 Nov 2013
1	GLOBAL	EUR	900	4.500	99.857	27 May 2004	27 May 2014
2	GLOBAL	USD	1,200	4.625	99.045	21 Apr 2005	21 Apr 2015
4	GLOBAL	JPY	120,000	2.000	99.838	9 May 2006	9 May 2016
3	GLOBAL	USD	1,000	5.000	99.278	16 May 2007	16 May 2017
5	GLOBAL	JPY	75,000	1.900	99.900	25 Jun 2008	22 Jun 2018
1	GLOBAL	USD	1,000	4.000	99.170	13 Jan 2011	13 Jan 2021



Organization History

History of JFM

FY2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of JFM) was established pursuant to the Japan Finance Organization for Municipal Enterprises Law on 1 August 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on 1 October 2008.
2009	Reorganized as the Japan Finance Organization for Municipalities based on the partial amendment of the Japan Finance Organization for Municipal Enterprises Law (1 June 2009).

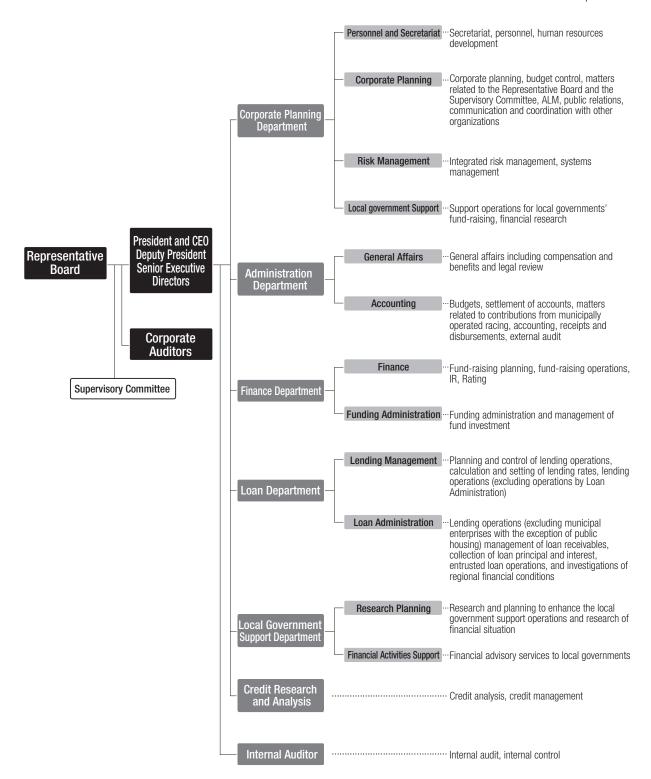
History of the Predecessor

FY1957	Established pursuant to the Japan Finance Corporation for Municipal Enterprises Law (1 June 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 a program of contributions of the earnings from municipally operated racing and established the Fund for Lending Rate Reduction.
1972	Started lending to local government road corporations and local government land development corporations.
1978	Included the three types of special projects (in the general account-related business category) 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 24 September 1997, one part-time senior executive director was added; the Japan Finance Corporation for Municipal Enterprises Management Council was established; and JFM 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 offering borrowers two interest rate options: fixed rates or adjustable rates. Established the prepayment with penalty system. 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 (1 October 2008).



Organization Structure

As of 1 April 2013



Directors and Corporate Auditors

President and CEO Yuji Watanabe

Senior Executive Directors Yoshiyasu Hyotani, Hitoshi Shimura, Keiichi Hikita (part-time)

Corporate Auditors Yutaka Ishikawa, Masaharu Hamakawa (part-time)



(From left, H. Shimura, Senior Executive Director; Y. Watanabe, President and CEO; Y. Hyotani, Senior Executive Director; and K. Hikita, Senior Executive Director)



(From left, Y. Ishikawa, Corporate Auditor, and M. Hamakawa, Corporate Auditor)

Contact Information



(Photo provided by The Tokyo Institute for Municipal Research)

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