



# ANNUAL REPORT 2014

Japan  
Finance  
Organization  
for Municipalities  
**JFM**  
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 161 million
Number of Employees	89 (as of 2 April 2014)
Outstanding Loans as of 31 March 2014	USD 224 billion
Outstanding Bonds and Bank Loans as of 31 March 2014	USD 190 billion
Credit Ratings as of 31 March 2014	S&P: AA- Moody's: Aa3 R&I: AA+

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# Message from the President and CEO

Yuji Watanabe President and CEO,  
Japan Finance Organization for Municipalities June 2014



*Yuji Watanabe*

## Review of Fiscal 2013

In fiscal 2013, JFM celebrated its 5th year as the sole public sector financial institution wholly owned by Japanese local governments. Since our establishment, we have strived to fulfill our mission as a funding organization for all local governments and are delighted to have built a solid foundation for the future with strong management and confidence from the market.

In terms of lending activities, JFM continued to be responsive to the needs of the regions and provided a total of JPY 2,127.0 billion (USD 21 billion) loans, which marked the largest volume since JFM's establishment. This reflected the nation-wide rising need for disaster management and mitigation projects, and also Prepayments without Penalty and associated refinancing loans for local governments affected by the Great East Japan Earthquake.

On the funding front, we introduced a new Global MTN Program and successfully completed two global USD benchmark transactions without government guarantees, for the first time in JFM's history. This demonstrated our continuous efforts to further diversify our options in order to secure stable and low-cost funding. Consequently, the total funding volume amounted to JPY 2,953.3 billion (USD 29 billion), the largest volume since JFM's establishment.

Furthermore, in light of our solid business operations, a portion of JFM's reserve had been set to be transferred to the national government over a period of three years from fiscal 2012, with the aim of transferring JPY 1 trillion (USD 9.7 billion). Following JPY 350 billion (USD 3.4 billion) paid in fiscal 2012, JFM transferred the remaining JPY 650 billion (USD 6.3 billion) in FY2013. The funds were used to secure local allocation tax grants to

be distributed to local governments, and we believe that we have further contributed to strengthening overall local government finances.

## Initiative for Fiscal 2014

For fiscal 2014, the lending volume is planned to be JPY 1.8 trillion (USD 17 billion) based on the Local Government Borrowing Program prepared by the national government. With this target, we can make continued efforts to address individual regional challenges.

In order to implement this lending plan, we believe that more flexible funding approaches are required under the volatile market conditions. We will continue to focus on ensuring stable and low-cost funding by further expanding funding options as well as responding to market needs.

## JFM for Local Governments

JFM's objective is to contribute to the sound operation of local government financing by providing long-term funding at low interest rates, improving the welfare of local residents. JFM will continue to be committed to fulfill this mission 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

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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

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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

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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.

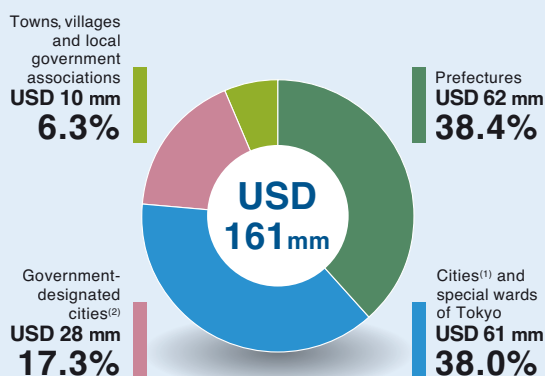
## The Joint Funding Organization for All Japanese Local Governments

- Wholly owned by Japanese local governments, with the capital contribution from 1,790<sup>1)</sup> local governments<sup>2)</sup>
- 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 1,741<sup>3)</sup> 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<sup>4)</sup>

### Capital Contribution (As of 31 March 2014)



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.

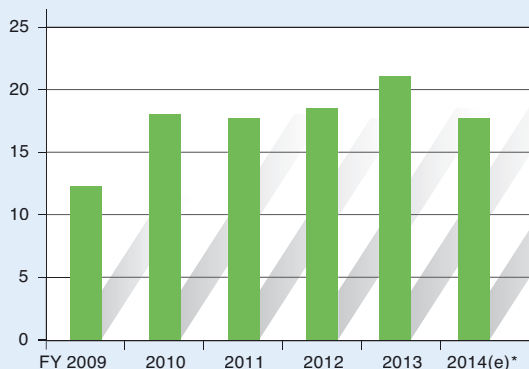
### Financial Highlights

	Financial Highlights FY2013			
	(JPY mm)	YoY (JPY mm)	(USD bn)	YoY (USD bn)
<b>Total Assets</b>	24,101,331	+396,412	234	+3.8
<b>Loans</b>	23,082,976	+414,341	224	+4.0
<b>Total Liabilities</b>	23,958,556	+367,157	233	+3.6
<b>Bonds</b>	19,423,743	+747,342	189	+7.3
<b>Reserves under Special Laws</b>	3,458,627	-488,459	34	-4.7
<b>Capital</b>	16,602	0	0.2	0
<b>Ordinary Income</b>	188,051	-25,019	1.8	-0.2

As of 31 March 2014.

### Annual Lending Volume

(USD bn)



\*Planned amount; subject to change depending on market conditions and other factors.

## Funding

- Leading issuer in the Japanese bond market with an average annual funding volume of JPY 2 tn (USD 19 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 FY2013, JFM issued a total of USD 3.2 bn worth of international bonds through 2 benchmark transactions, 5 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<sup>4</sup>: 10% for JFM bonds (non-guaranteed) denominated in JPY, 20% for those denominated in foreign currencies

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.

Notes: 1. As of 31 March 2014.

2. Local governments comprise all of the prefectures, cities and special wards, government-designated cities, towns and villages, as well as some local government associations.

3. As of 5 April 2014.

4. Value for investors in Japan. For international investors, values are determined by respective country authorities.

### Funding Plan

Type of Bonds	FY 2014 (plan) <sup>(1)</sup>	FY 2013 (achieved)
Guaranteed	USD 6.1 bn	USD 12.4 bn
Non-Guaranteed	USD 13.6 bn	USD 15.9 bn
Domestic Issuance	USD 10.0 bn	USD 12.7 bn
MTN	USD 2.1 bn	USD 3.2 bn <sup>(2)</sup>
Benchmark		USD 2.5 bn
Private Placements		USD 604 mm
Uridashi Bonds		AUD 110 mm
Open Issuance <sup>(3)</sup>	USD 1.5 bn	—

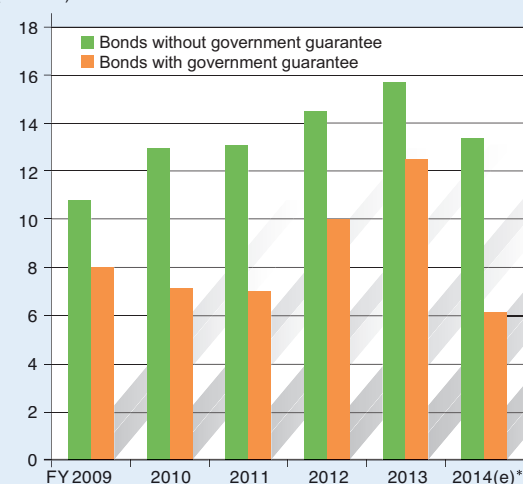
(1) Planned amount; subject to change depending on lending status, market conditions and other factors.

(2) Includes AUD denominated private placement and Uridashi Bonds, each converted at the exchange rate at the time of pricing.

(3) Details of issuance such as tenor, issue size and issue market will be determined as necessary based on the lending status, market conditions and other factors.

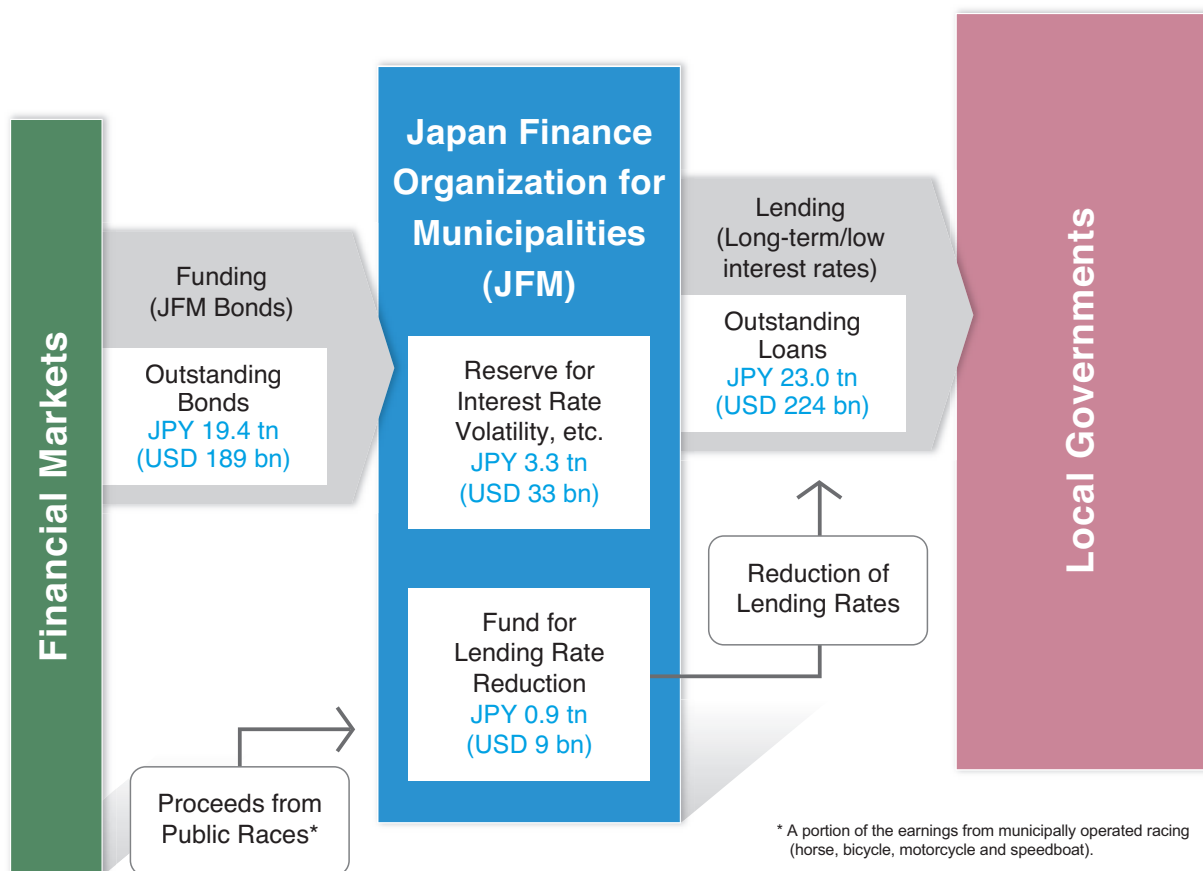
### Bond Issuance

(USD bn)



\* Planned amount; subject to change depending on lending status, market conditions and other factors.

# Outline of JFM Operations



## 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 improves 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.

For social infrastructure improvements to be implemented by local governments, long-term funding is usually desirable given that it takes a long time to recoup such capital expenditures, and also the cost



burden should be shared across generations. 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 risk associated with bond refinancing (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

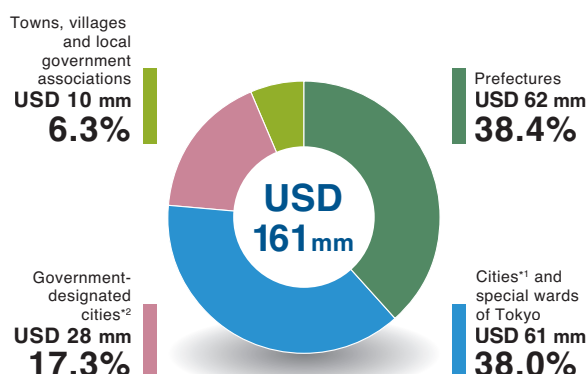
JFM receives a portion of the earnings from various racing events (horse, bicycle, motorcycle and speedboat) operated by local governments, which is directed to the Fund for Lending Rate Reduction. The investment gains from the fund are used to lower interest rates on JFM loans.

# Capital

As of 31 March 2014, JFM's capital was USD 161 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 Local Government Group*



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

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## 1 Lending Operations

In fiscal 2013, JFM provided loans totaling USD 20.6 billion, which marked the largest volume since JFM's establishment. The lending volume exceeded the plan by USD 1.4 billion, mainly as a result of actual lending surpassing plan by USD 0.6 billion in disaster management and mitigation<sup>\*1</sup>, USD 0.3 billion in special municipal mergers, and USD 0.2 billion in temporary financial countermeasures funding<sup>\*2</sup>.

General account-related loans totaled USD 6.8 billion, or 33% of the total lending volume, and represents the disaster management and mitigation business. Loans for temporary financial countermeasures funding were USD 6.7 billion (33%), followed by municipal enterprise-related loans in the amount of USD 6.1 billion (30%), of which sewerage and water supply businesses were the main contributors.

Notes: 1. In response to the Great East Japan Earthquake, disaster management and mitigation business aims to build disaster-resistant communities by managing initiatives such as the renovation for quake-resistant public facilities, development of emergency shelters, etc. Since fiscal 2013, the scope of this business category has expanded to fire defense-related facilities development.

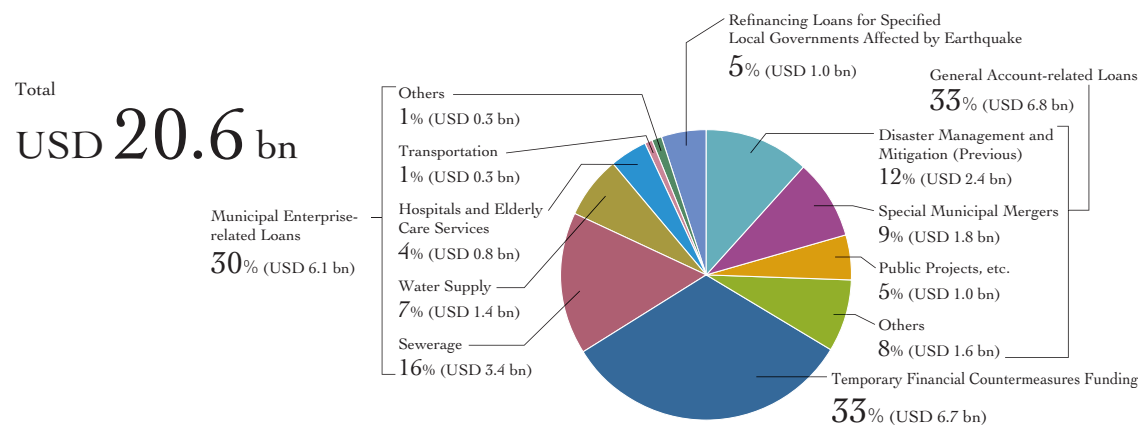
2. Represents local government funding to cover shortfalls in local government revenue sources pursuant to the provisions of the Local Government Finance Law (Act No. 109 of 1948, as amended).

### Lending Operations by Business in Fiscal 2013

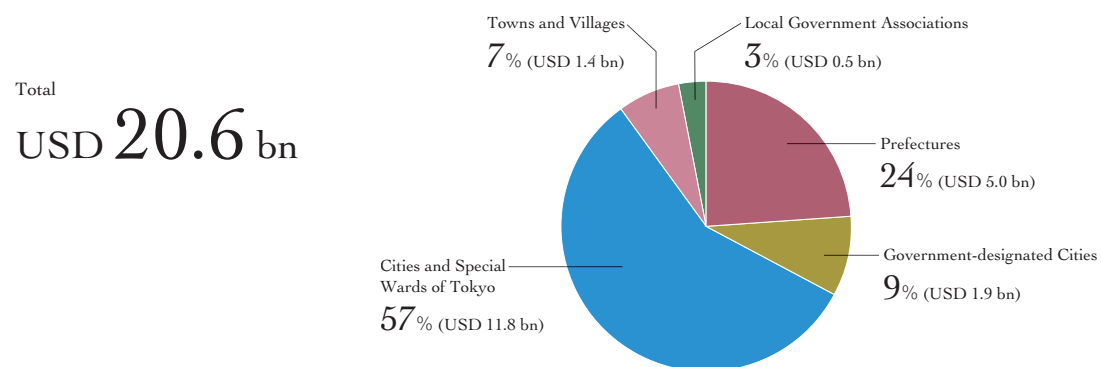
Business	Number of Loans Made	Loan Amount (USD millions)	
			% of total
General Account-related Loans			
Public Projects, etc.	464	970	4.7
Public Housing	178	184	0.9
Disaster Management and Mitigation (Previous)	1,436	2,394	11.6
National Disaster Prevention	7	13	0.1
Educational Facilities Development	124	60	0.3
Social Welfare Facilities Development	176	187	0.9
General Projects	82	77	0.4
Regional Revitalization	143	69	0.3
Disaster Prevention	327	270	1.3
Local Road Development	636	629	3.0
Special Municipal Mergers	712	1,834	8.9
Disaster Management and Mitigation	99	124	0.6
Subtotal	4,384	6,811	33.0
Municipal Enterprise-related Loans			
Water Supply	1,149	1,375	6.7
Industrial Water Supply	95	100	0.5
Transportation	38	276	1.3
Electricity and Gas Supply	45	71	0.3
Port Facilities	29	29	0.1
Hospitals and Elderly Care Services	410	804	3.9
Markets and Slaughterhouses	50	66	0.3
Sewerage	2,039	3,361	16.3
Tourism and Others	14	22	0.1
Subtotal	3,869	6,103	29.6
Refinancing Loans for Specified Local Governments Affected by Earthquake	2,167	1,016	4.9
Temporary Financial Countermeasures Funding	805	6,720	32.5
Total	11,225	20,650	100.0

Note: Totals may not add up due to rounding.

## FY2013 Loans Extended by Business



## FY2013 Loans Extended by Borrower



Note: Totals may not add up due to rounding.



## 2 Funding Operations

### 1. Overview<sup>\*1</sup>

In fiscal 2013, JFM raised a total of USD 28.7 billion, the largest volume since JFM's establishment. This amount included USD 15.9 billion in JFM bonds (non-guaranteed), and USD 12.4 billion in government-guaranteed bonds for the repayment of existing bonds issued by Japan Finance Corporation for Municipal Enterprises (the "Predecessor").

With regard to JFM bonds, a total of USD 13.0 billion was raised by the regular issuance of 5-year, 10-year and 20-year domestic bonds, as well as opportunistic issuances through JFM's Flexible Issuance Program ("FLIP") and the MTN Program. The amount raised by domestic public offerings and overseas offerings exceeded from the initial funding plan (USD 11.6 billion) mainly due to the growth in the lending volume.

As for domestic public offerings, a total of USD 9.8 billion was issued in line with the plan. In order to cope with high market volatility experienced during the year, JFM reduced 10-year bond issuance from the initial plan while increasing opportunistic issuance.

In pursuit of enhancing flexibility in overseas funding, in July 2013, JFM upgraded its MTN Program to the Rule 144A-eligible Global MTN Program. In September 2013, JFM issued its first global USD bonds (USD 1.5 billion), followed by a second issuance (USD 1 billion) in March 2014. In addition to these successful benchmark transactions, JFM issued a total of USD 604 million through five private placements denominated in multiple currencies and also AUD 110 million Uridashi Bonds targeting Japanese retail investors. Through these activities, the total volume of international bonds issued amounted to USD 3.2 billion<sup>\*2</sup>.

The private placements of 10-year bonds with the Pension Fund Association for Local Government Officials were USD 2.9 billion.

Furthermore, JFM also utilized bank loans as a complementary means of funding, financing USD 0.4 billion through long-term loans.

As a result, as of the end of fiscal 2013, JFM's outstanding bonds were USD 188.7 billion, including the Predecessor's bonds to which JFM succeeded. Outstanding bank loans totaled USD 0.9 billion, which consisted of USD 0.7 billion of long-term loans and USD 0.2 billion of short-term loans.

Notes: 1. Issued amounts are calculated based on issue prices.

2. Includes AUD denominated private placement and Uridashi Bonds, each converted at the exchange rate at the time of pricing.

#### 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 minimum and maximum issue sizes of JPY 3 billion (USD 29 million) and JPY 20 billion (USD 194 million), respectively.

### Funding in Fiscal 2013

#### 1. JFM bonds (non-guaranteed)

##### (1) Domestic and overseas offerings

Type of Bonds	Plan (Initial)	Achieved
Domestic Public Offerings	USD 9.5 bn	USD 9.8 bn
10-year	USD 4.7 bn	USD 4.0 bn
20-year	USD 1.2 bn	USD 1.2 bn
5-year	USD 0.5 bn	USD 0.4 bn
Opportunistic Issuance	USD 3.2 bn	USD 4.1 bn
Overseas Offerings - MTN	USD 2.1 bn	USD 3.2 bn
<b>Total</b>	<b>USD 11.6 bn</b>	<b>USD 13.0 bn</b>

Notes: 1. Figures in Plan (Initial) column show initially planned amounts. In December 2013, the above plan was revised to a total of USD 12.6 billion.

2. In addition to the total achieved figure above, USD 0.4 billion was raised through bank loans.

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

Type of Bonds	Plan	Achieved
10-year	USD 2.9 bn	USD 2.9 bn

#### 2. Government-guaranteed domestic bonds

Type of Bonds	Plan	Achieved
10-year	USD 6.6 bn	USD 6.6 bn
8-year	USD 1.9 bn	USD 1.9 bn
6-year	USD 2.8 bn	USD 2.8 bn
4-year	USD 1.1 bn	USD 1.1 bn
<b>Total</b>	<b>USD 12.4 bn</b>	<b>USD 12.4 bn</b>

## 2. Issue Spreads

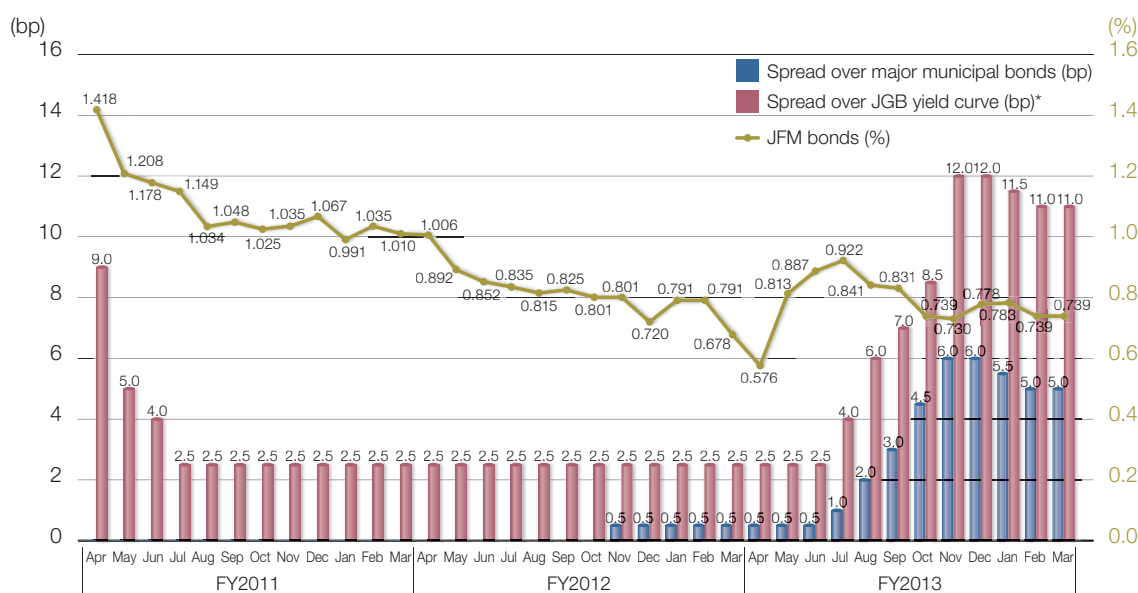
In the domestic market, investor demand for bonds with high credit ratings rose after the Great East Japan Earthquake interrupted the issuance of electric power bonds. As a result, since July 2011, JFM had issued 10-year bonds with 2.5 basis point spreads over JGB yields. However, on the back of the heightened volatility in the Japanese bond market due to the Bank of Japan's quantitative and qualitative easing announced in April 2013, the premium between JFM bonds and both JGBs and local government bonds had continuously widened since July. In November, spreads of 10-year JFM bonds to JGBs peaked at 12 bp and those to local government bonds at 6 bp. As the market environment stabilized, widening of the spreads has stopped and then tightened to some degree since January 2014.

Twenty-year JFM bonds experienced a similar trend, in that, the spreads have gradually tightened from peak levels.

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 pages 102-104 for the terms of issuances in fiscal 2013.

### Issue Conditions of 10-Year JFM Bonds



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

## 3 Financial Review

### 1. Income Statement

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In fiscal 2013, JFM's income was USD 4.4 billion, a decrease of 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 slightly to USD 2.6 billion, on the back of reduced interest expenses with respect to bonds. Ordinary income was thus down USD 0.2 billion to USD 1.8 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 0.3 billion, up USD 0.1 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

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As of 31 March 2014, JFM's total assets amounted to USD 234.0 billion, up USD 3.8 billion from the previous year. This mainly resulted from an increase in loans by USD 4.0 billion due to the amount of new loans for local governments exceeding that of loans repaid.

Total liabilities were up USD 3.6 billion to USD 232.6 billion. Despite a decrease of USD 6.8 billion in JFM's management account reserve for interest rate volatility primarily due to the payment to the national treasury\* of USD 6.3 billion, this increase reflected an increase of USD 7.3 billion in outstanding bonds as a result of the issue amount exceeding the redemption amount.

Total net assets were USD 1.4 billion, up USD 0.3 billion. This reflected net income of USD 0.3 billion in the general account being recorded as the general account surplus reserve.

Financial highlights since fiscal 2011 are as follows.

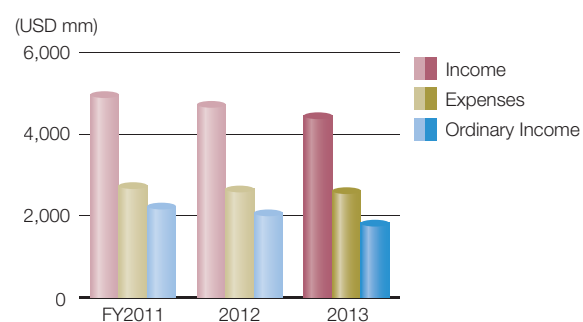
\*See page 40 for details.

## Financial Highlights

### 1. Income Statement

(USD Millions)

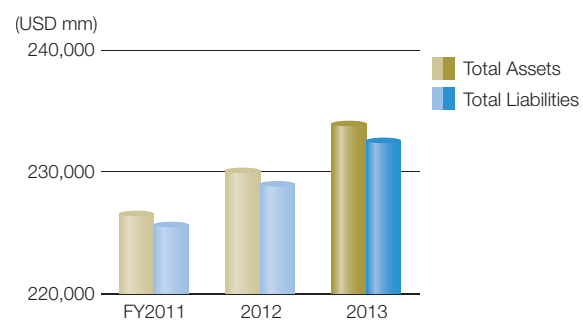
	FY2011	FY2012	FY2013	YoY
Income	4,968	4,729	4,450	-279
Expenses	2,735	2,661	2,624	-36
Ordinary Income	2,233	2,068	1,826	-243
Net Income	210	202	257	55



### 2. Balance Sheet

(USD Millions)

	FY2011	FY2012	FY2013	YoY
Total Assets	226,587	230,123	233,971	3,848
Loans	217,332	220,062	224,085	4,022
Others	9,254	10,060	9,886	-174
Total Liabilities	225,677	229,020	232,585	3,564
Bonds	176,456	181,307	188,562	7,255
Fund for lending rate reduction	8,930	8,956	8,956	-0
Reserves under special laws	39,849	38,318	33,576	-4,742
Reserve for interest rate volatility	8,543	10,679	12,814	2,136
Management account reserve for interest rate volatility	30,459	26,902	20,124	-6,779
Reserve for interest rate reduction	847	737	638	-99
Others	443	440	1,491	1,051
Total Net assets	910	1,102	1,386	284



Note: Totals may not add up due to rounding.

## 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").

Based on the LGBP, JFM plans to extend loans in the amount of USD 17.5 billion in fiscal 2014, a decrease of 9.1% from fiscal 2013. This reflects the termination of refinancing loans for specified local governments affected by the Great East Japan Earthquake.

The amount of JFM funds booked in the LGBP decreased by 5.6% from fiscal 2013 to USD 19.9 billion. This decrease is primarily due to the termination of the refinancing loans noted above, partially offset by an increased budget for disaster management and mitigation projects, newly budgeted JFM funds for general waste disposal projects, and so on.

### Lending Plan

	FY2014	FY2013	YoY
Planned Amount	USD 17.5 bn	USD 19.2 bn	-9.1%

### JFM Funds in Local Government Borrowing Program

	FY2014	FY2013	YoY
JFM Funds	USD 19.9 bn	USD 21.1 bn	-5.6%
General Account-related Loans	USD 5.4 bn	USD 4.9 bn	11.1%
Municipal Enterprise-related Loans	USD 7 bn	USD 7.3 bn	-4.4%
Refinancing Loans for Facilities Affected by Earthquake	USD 0.01 bn	USD 0.05 bn	-70.0%
Refinancing Loans for Specified Local Governments Affected by Earthquake	—	USD 1.8 bn	—
Temporary Financial Countermeasures Funding	USD 7.5 bn	USD 7.1 bn	5.8%

Notes: 1. The amount of JFM funds in the LGBP does not match JFM's lending plan due to the timing for consent or approval being different from when JFM loans will actually be extended.

2. See page 52 for more information on JFM funds in the LGBP.



## 2 Funding Operations

In order to raise funds for lending operations, JFM primarily issues non-guaranteed bonds through domestic public offerings and overseas offerings. For fiscal 2014, JFM plans to issue USD 10.7 billion of JFM bonds through these methods. In order to enhance flexibility in funding under market changes, JFM has newly created the Open Issuance category, which will be used for additional issuance of JFM bonds.

In addition, private placements of 10-year bonds with the Pension Fund Association for Local Government Officials are projected to amount to USD 2.9 billion, at the same volume as last year.

As for government-guaranteed bonds, JFM plans to issue USD 6.1 billion, a decrease of USD 6.3 billion from the amount issued in fiscal 2013. JFM does not have a scheduled payment to the national treasury in fiscal 2014, as it did in fiscal 2013, and this decrease equates the funds secured for that payment.

### Funding Plan for FY2014

#### 1. JFM bonds (non-guaranteed)

##### (1) Domestic and overseas offerings

Type of Bonds	FY2014 (Plan)	FY2013 (Achieved)
Domestic Public Offerings	USD 7.1 bn	USD 9.8 bn
10-year	USD 3.5 bn	USD 4.0 bn
20-year	USD 1.2 bn	USD 1.2 bn
5-year	USD 0.3 bn	USD 0.4 bn
Opportunistic Issuance	USD 2.1 bn	USD 4.1 bn
Overseas Offerings - MTN	USD 2.1 bn	USD 3.2 bn
Open Issuance	USD 1.5 bn	–
<b>Total</b>	<b>USD 10.7 bn</b>	<b>USD 13.0 bn</b>

Notes: 1. Subject to change depending on lending status, market conditions and other factors.

2. For Open Issuance, details of issuance such as tenor, issue size and issue market will be determined as necessary based on the lending status, market conditions and other factors.

3. In addition to the above FY2013 figures, USD 0.4 billion was raised through long-term bank loans.

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

Type of Bonds	FY2014 (Plan)	FY2013 (Achieved)
10-year	USD 2.9 bn	USD 2.9 bn

#### 2. Government-guaranteed domestic bonds

Type of Bonds	FY2014 (Plan)	FY2013 (Achieved)
10-year	USD 4.2 bn	USD 6.6 bn
8-year	–	USD 1.9 bn
6-year	USD 1.9 bn	USD 2.8 bn
4-year	–	USD 1.1 bn
<b>Total</b>	<b>USD 6.1 bn</b>	<b>USD 12.4 bn</b>

# Operations

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## Lending Operations

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## Funding Operations

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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

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JFM provides loans exclusively to local governments.

### 2. Types of Loans

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- 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.

Business Type			Loans for Fiscal 2014			
			Fixed Lending Rate		Adjustable Lending Rate <sup>1</sup>	
			Maturity	Grace Period for Principal Repayment	Maturity	Grace Period for Principal Repayment
General Account-related Loans	Public Projects, etc.		Within (Years) 20	Within (Years) 5	Within (Years) 20	Within (Years) 5
	Public Housing		25	5	25	5
	National Disaster Prevention		*2			
	Educational and Social Welfare Facilities Projects	Educational Facilities Development	25	3	25	3
		Social Welfare Facilities Development	20	3	20	3
		General Waste Disposal	15	3	15	3
	Unsubsidized Projects	General Projects	20	5	20	5
		Regional Revitalization	30	5	30	5
		Disaster Prevention	30	5	30	5
		Local Road Development	20	5	20	5
		Special Municipal Mergers	30	5	30	5
		Disaster Management and Mitigation	30	5	30	5
Municipal Enterprise-related Loans	Water Supply		30	5	30	5
	Industrial Water Supply		30	5	30	5
	Transportation		30	5	30	5
	Electricity Supply		30	5	30	5
	Gas Supply		25	5	25	5
	Port Facilities		20	5	30	5
	Hospitals		30	5	30	5
	Markets		25	5	25	5
	Slaughterhouses		20	5	20	5
	Sewerage		30	5	30	5
Temporary Financial Countermeasures Funding	Prefectures and Government-Designated Cities		—	—	30	3
	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.



## 2 Loan Interest Rates

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 by making use of its Fund for Lending Rate Reduction.

### 1. Loan Interest Rates

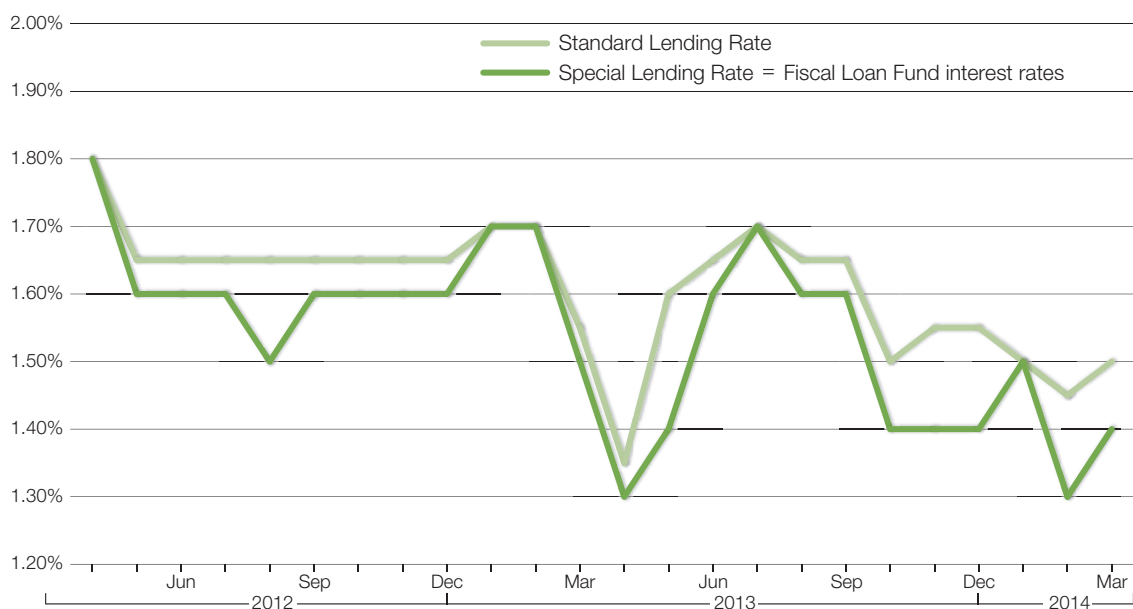
JFM offers two types of loan interest rates: the standard lending rate and the special lending rate.

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 2013, approximately 99% of outstanding JFM loans consisted of special interest rate 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*

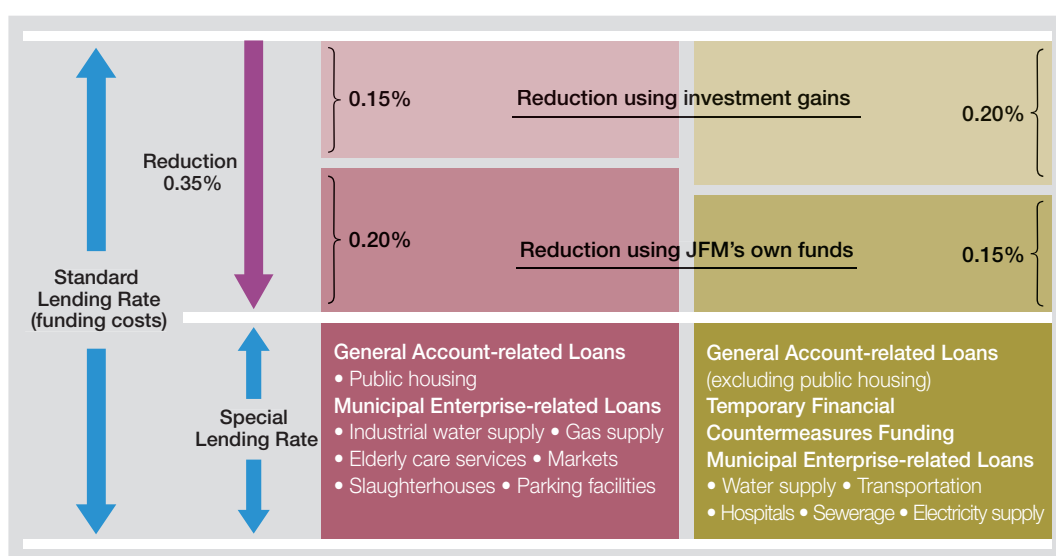


Note: The lending rates above represent a 30-year fixed rate loan with a 5-year grace period for principal repayment.

## 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.

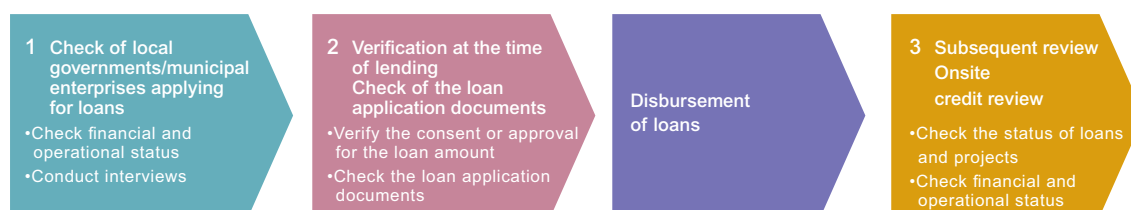


- Notes: 1. The minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund.  
 2. The discount rates using the investment gains (0.15% or 0.20%) applicable to each business category are determined by the Minister for Internal Affairs and Communications, 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).

### 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.



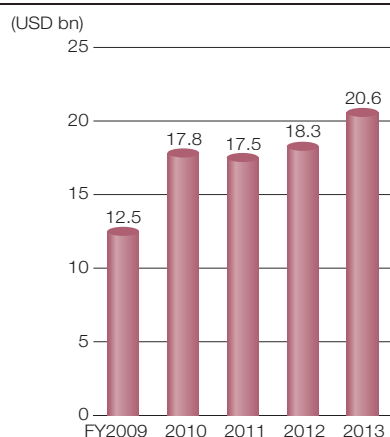
### 4 Trends in Lending Operations

#### 1. Overview

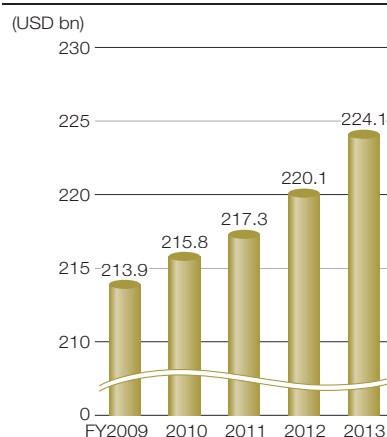
JFM's annual lending volume has risen since fiscal 2009 as a result of the expansion of its lending scope to overall general account-related loans, the introduction of the Great East Japan Earthquake-related loans, and so on.

In fiscal 2013, the lending volume amounted to USD 20.6 billion. At year-end, outstanding loans were USD 224.1 billion.

**Annual Lending Volume**



**Outstanding Loans**



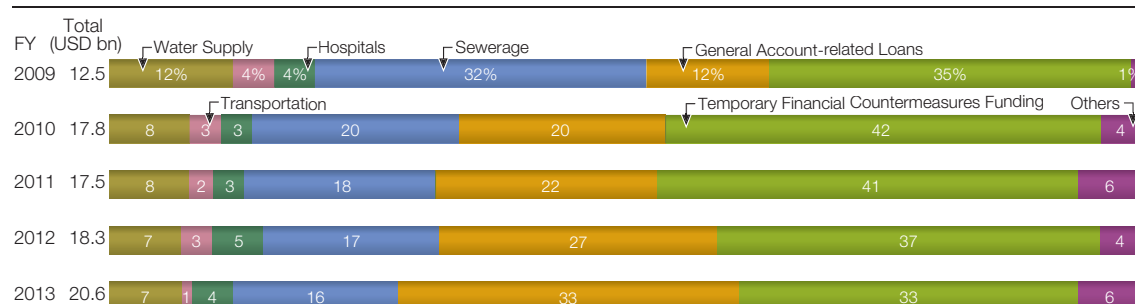
## 2. Annual Lending Volume by Business and Borrower

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 annual lending volume by business has changed significantly.

In fiscal 2013, loans for temporary financial countermeasures funding were USD 6.7 billion, accounting for the largest share of lending, at 33% of the total. Ranked next were USD 3.4 billion in the sewerage business, representing 16% of the total, and USD 2.4 billion in the disaster management and mitigation business (previous), for 12% of the total.

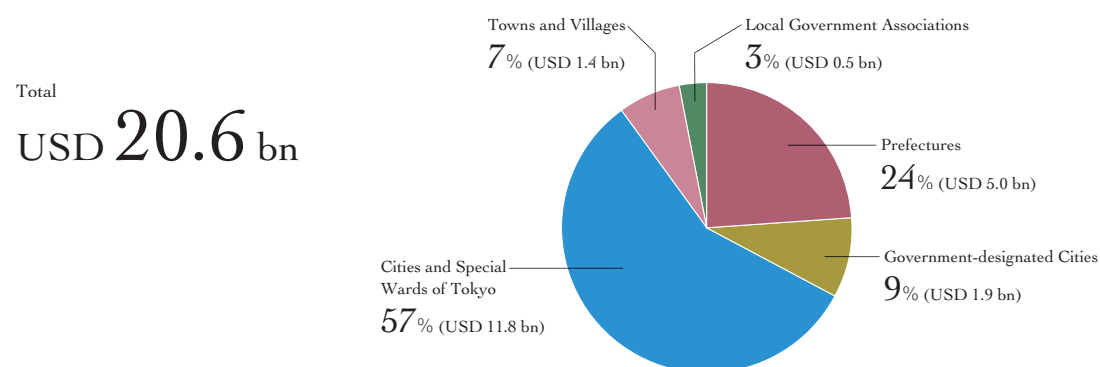
At year-end, the number of local governments with loans from JFM totaled USD 20.6 billion. Cities and special wards of Tokyo represented the highest share at 57% of the total, followed by prefectures at 24% and government-designated cities at 9%.

### Long-Term Loans Extended by Business



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 enterprise-related projects, and refinancing loans for facilities and specified local governments affected by earthquake.  
 3. Totals may not add up due to rounding.

### FY2013 Loans Extended by Borrower



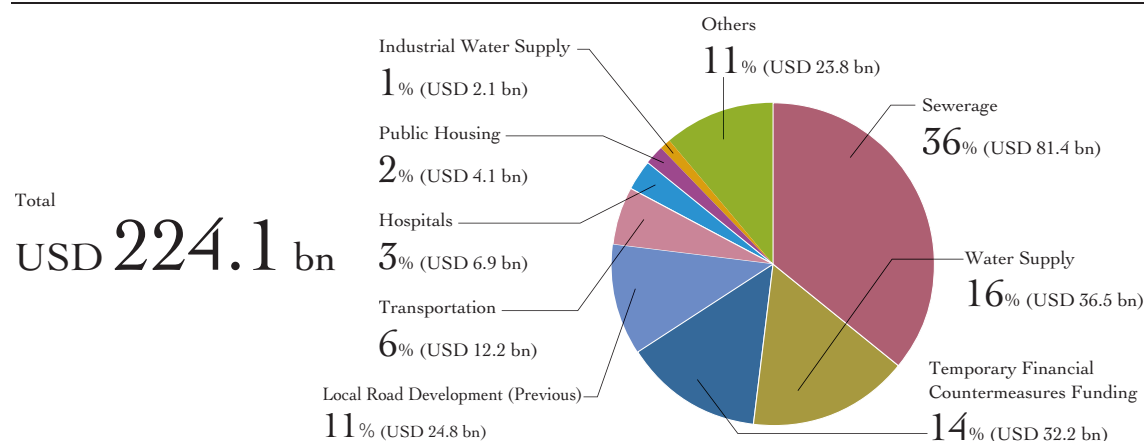
Note: Totals may not add up due to rounding.

### 3. Outstanding Loans by Business and Borrower

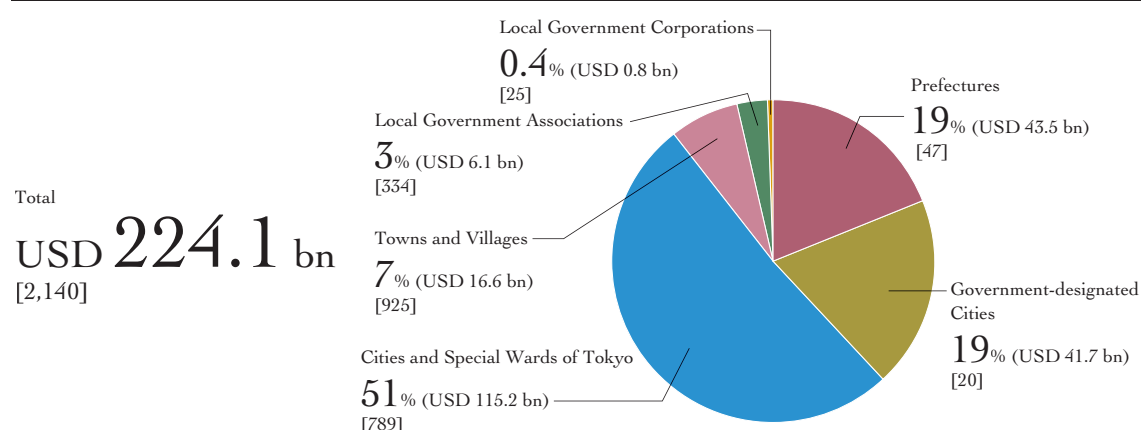
At the end of fiscal 2013, the outstanding loans were USD 224.1 billion, of which the sewerage business accounted for the largest share at 36%, followed by water supply at 16% and temporary financial countermeasures funding at 14%.

There were a total of 2,140 local governments with outstanding loans from JFM, including all prefectures. Cities and special wards of Tokyo accounted for the largest portion at 51% of the total, followed by prefectures and government-designated cities, both at 19%. Towns, villages, as well as local government associations and corporations, represented the remaining 11%.

#### Outstanding Loans by Business (as of 31 March 2014)



#### Outstanding Loans by Borrower (as of 31 March 2014)



\*Figures in square brackets represent the number of borrowers.

Note: Totals may not add up due to rounding.



## 5 Lending Operations by Business

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.

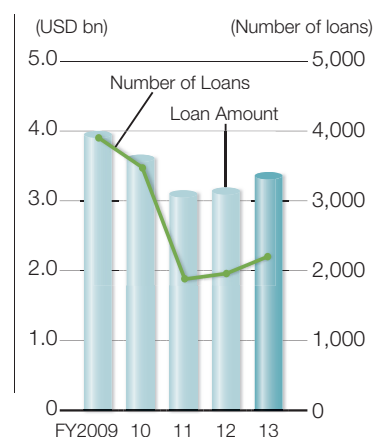
### Sewerage Business

At the end of fiscal 2012, the sewerage system covered 74.4% of people in cities, towns and villages with a population of less than 50,000, or 88.1% of the nation's total population. There were 3,633 projects involved, with a total annual sewerage processing capacity (combined storm water and sewerage treatment, excluding river basin sewerage) of around 14.7 billion cubic meters serving areas with a population of 101.73 million people.

In fiscal 2013, loans extended to the sewerage business totaled USD 3.4 billion.



Sewage Sludge Gasification System in Kiyose Water Reclamation Center (Tokyo)



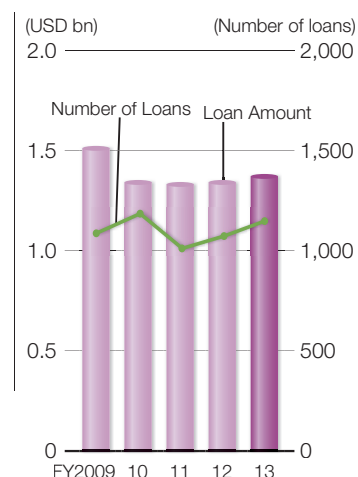
### Water Supply Business

At the end of fiscal 2011, the water supply coverage was 97.6% of the population. The water supply business (including small-scale water supply) operated by local governments totaled 2,123 projects and provided about 18.5 billion cubic meters of water annually for approximately 124.59 million people.

In fiscal 2013, loans extended to the water supply business amounted to USD 1.4 billion.



Shiramizu Raw Water Reservoir (Ishigaki City, Okinawa Prefecture)



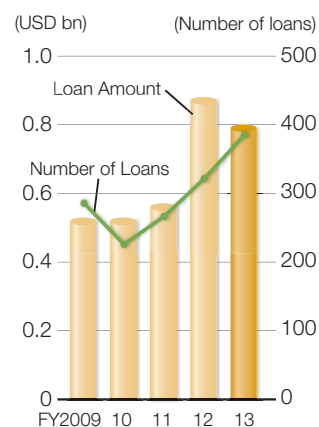
## Hospitals Business

At the end of fiscal 2012, hospital projects managed by local governments totaled 643 with 847 hospitals, which included 814 general hospitals, one tuberculosis hospital and 32 mental hospitals.

In fiscal 2013, loans extended to the hospitals business (including those run by local independent administrative institutions) totaled USD 0.8 billion.



Tokushima Prefectural Central Hospital (Tokushima Prefecture)



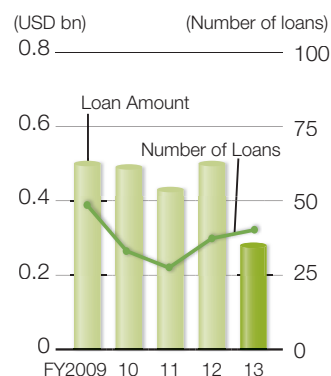
## Transportation Business

At the end of fiscal 2012, the transportation projects managed by local governments totaled 93 projects, which were operated by 75 entities, and public transportation is used by approximately 4 billion people annually (10.97 million people on an average daily basis).

In fiscal 2013, loans extended to the transportation business amounted to USD 0.3 billion.



Sendai City Subway Tozai Line (Sendai City, Miyagi Prefecture)

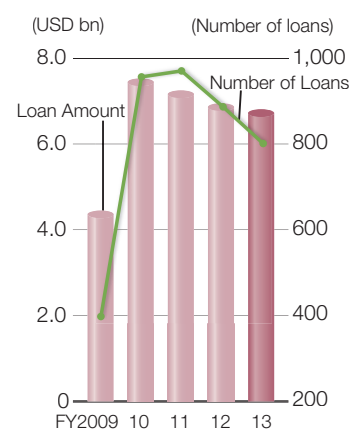


## Temporary Financial Countermeasures Funding

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 2013, loans extended for temporary financial countermeasures funding amounted to USD 6.7 billion.

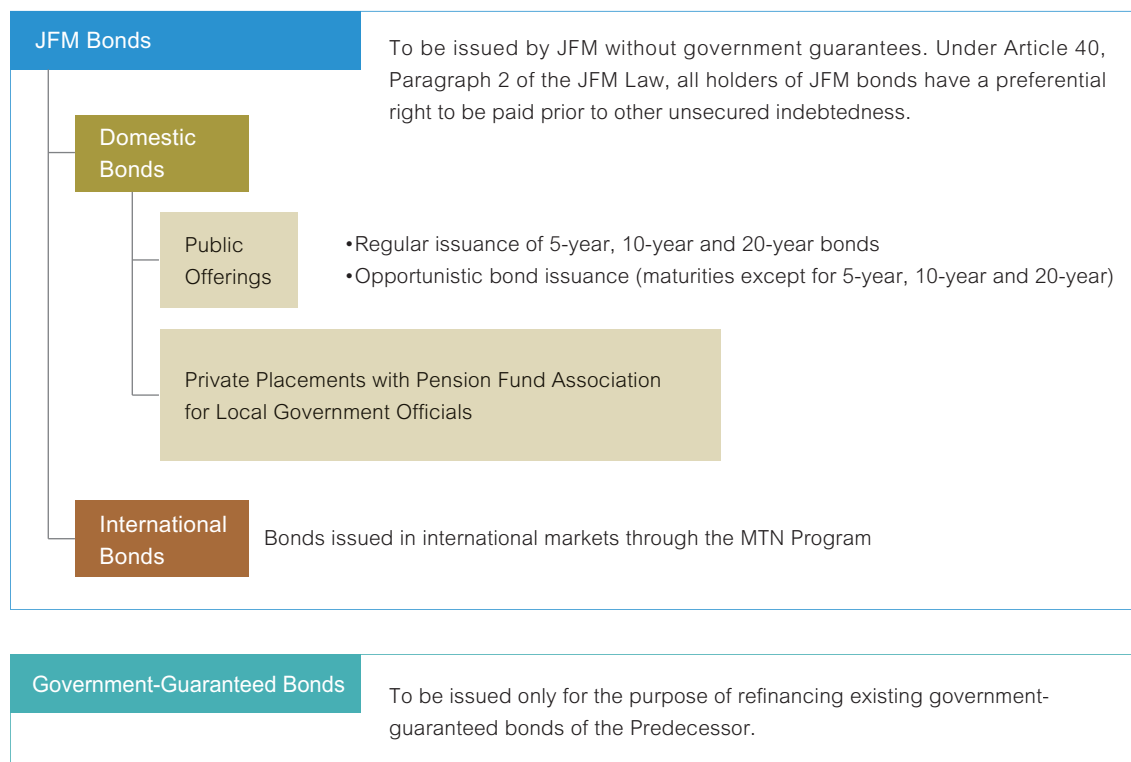


As a joint funding organization for local governments, JFM raises funds in a consistent manner to provide local governments with long-term and low-interest funds, while endeavoring to reduce its funding costs.

## 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.



## 2 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 the regular issuance of 5-year, 10-year and 20-year bonds, and also continues to take advantage of its Flexible Issuance Program (FLIP) for opportunistic funding as well as bank loans. JFM also utilizes the MTN Program, being committed to the regular issuance of benchmark bonds to the international investors and Uridashi Bonds to Japanese retail investors.

### 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 prior to the start of 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.



### 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 2014)	
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 (Law No. 89 of 1896, as amended). (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 2014).

## 4 Trends in Funding Operations

JFM issues JFM bonds (non-guaranteed bonds to be issued through domestic public offerings or under 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.

Historically, 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 bonds<sup>1</sup>. Then, since JFM commenced its operations in fiscal 2008, JFM has issued JFM bonds. In recent years, the issuance of JFM bonds has been increasing, and this trend is expected to continue for the future. On the other hand, aside from an increase over the last two years due to the scheduled payment to the national treasury<sup>2</sup>, the issuance of guaranteed bonds will gradually decrease.

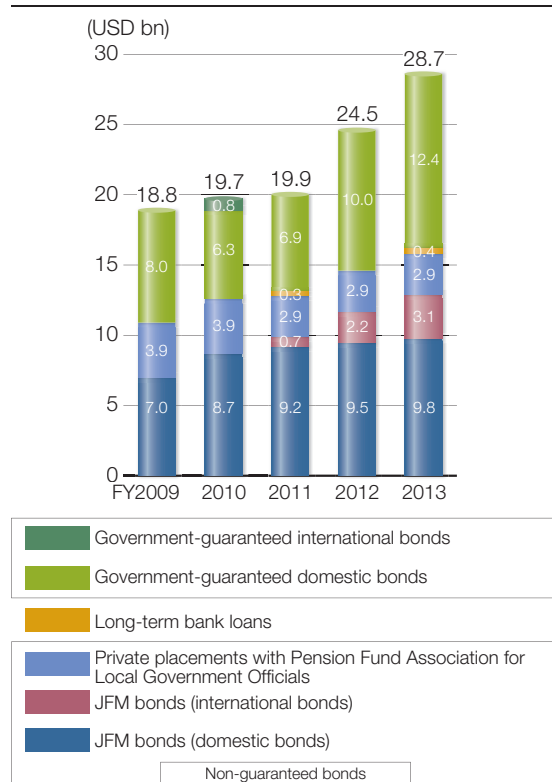
In fiscal 2013, JFM raised a total of USD 28.7 billion, an increase of USD 4.2 billion from the previous year. This increase was due to the payment made to the national treasury of USD 6.3 billion funded through government-guaranteed bonds, and also an increase in the annual lending volume.

At year-end, outstanding bonds were USD 188.7 billion. Outstanding bank loans totaled USD 0.9 billion, which consisted of USD 0.7 billion of long-term loans and USD 0.2 billion of short-term loans. The total amount of outstanding bonds and bank loans was USD 189.6 billion, which was comprised of USD 68.7 billion in the general account and USD 120.9 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.

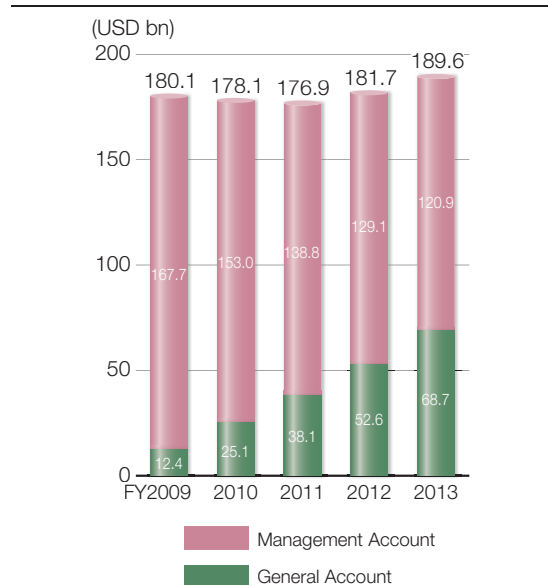
Notes: 1. FILP stands for Fiscal Investment and Loan Program, which is prepared by the national government and determines the allocation of funds and extent of government guarantees available for certain institutions. FILP agency bonds are non-guaranteed bonds issued under the FILP.

2. See page 40 for details.

**Funding Volume**



**Outstanding Bonds and Bank Loans**



# Management Structure

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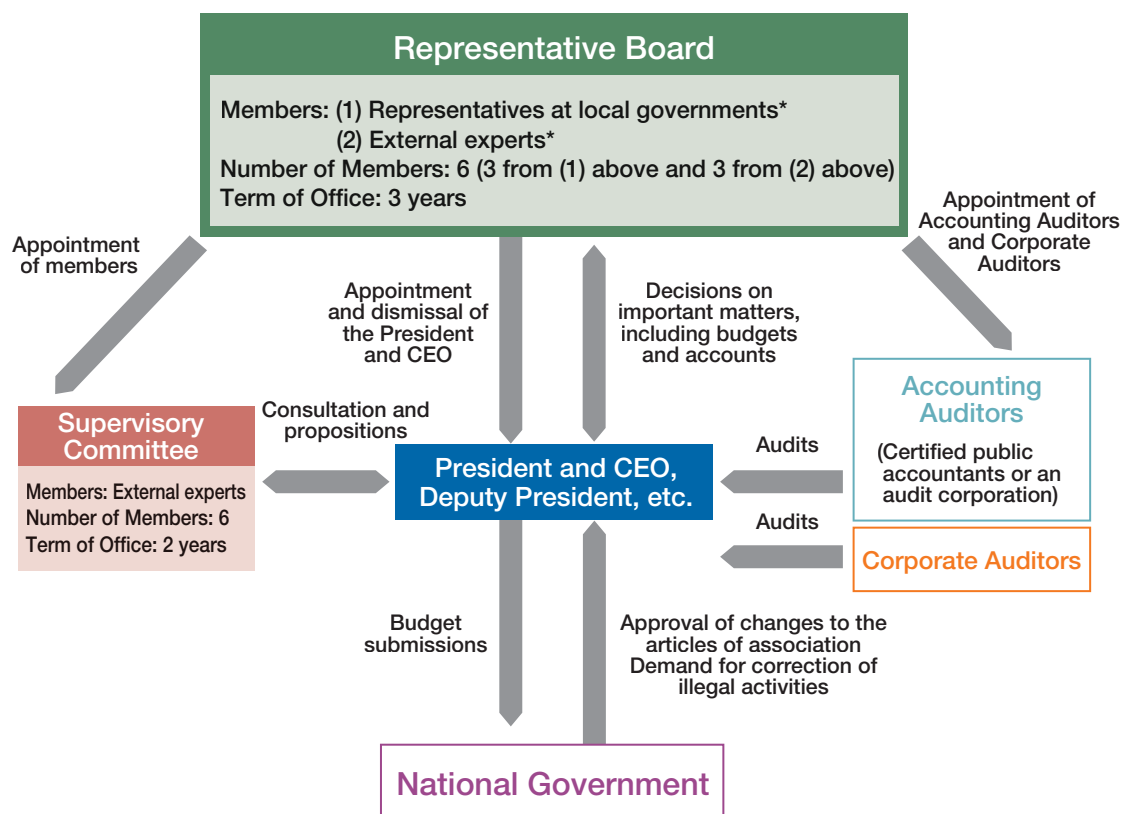




JFM ensures responsible corporate governance through the participation of external experts on the Representative Board and the Supervisory Committee and audits by external accounting auditors.

## 1 Corporate Governance

### Corporate Governance System



\*Elected by the national associations of prefectural governors, mayors of cities, and mayors of towns and villages.

## 1. Representative Board

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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 such as JFM's operations including budgets, settlement of accounts and business plans. 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

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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 CEO and the Minister for Internal Affairs and Communications.

## 4. Audits by External Accounting Auditors

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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.



## 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 2013 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

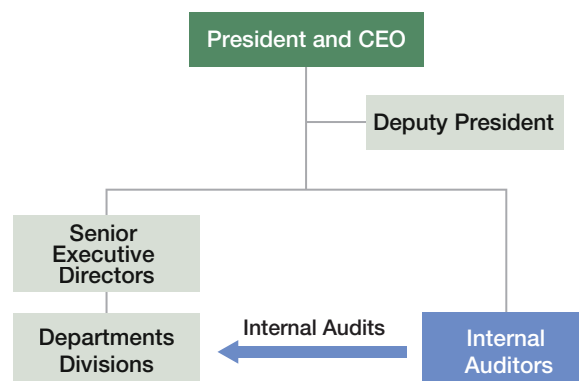
An internal auditor, who is independent from other departments, divisions and offices, examines and assesses the appropriateness and effectiveness of JFM’s internal control systems, thereby helping ensure reliable financial reporting and appropriate and efficient operations.

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*



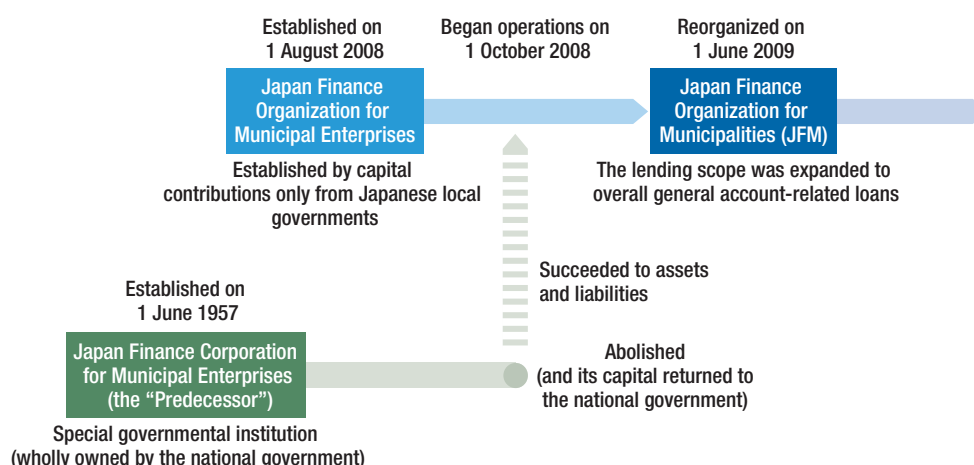
## General Account and Management Account

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.

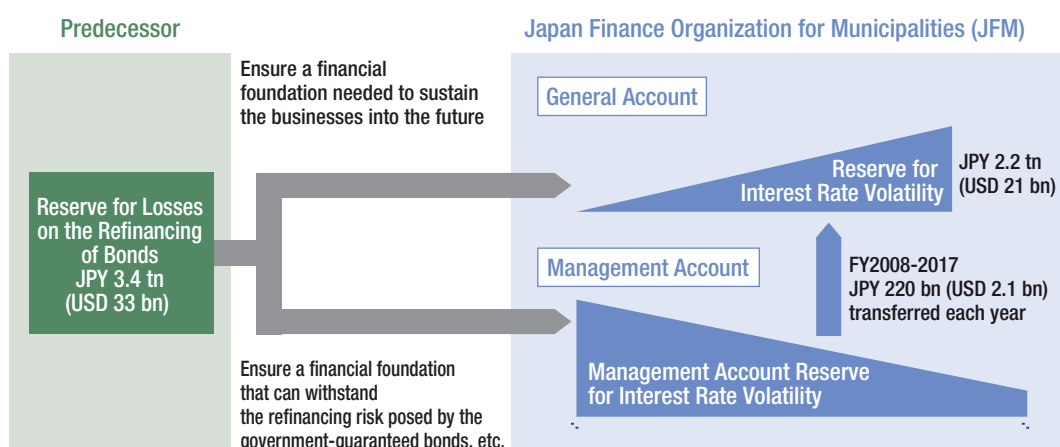
New loans made and bonds issued since JFM's operations began are accounted for in the general account of JFM, whereas operations to administer loans carried over from the Predecessor are accounted for in the management account.

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 in the amount of approximately JPY 3.4 trillion (USD 33 billion) to ensure its future stable management.

Of this amount, the JPY 2.2 trillion (USD 21 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 of the JFM Law).

In accordance with this provision, the Ministers required that a portion of JFM's reserve for interest rate volatility within the management account be transferred to the Japanese national government over the three-year period from fiscal 2012 to fiscal 2014, with the aim of transferring a total of JPY 1 trillion (USD 10 billion). Such portion is to be transferred to the national government's special account for local allocation taxes.

In fiscal 2012, JFM transferred JPY 350 billion (USD 3.4 billion) to the national treasury, followed by JPY 650 billion (USD 6.3 billion) in fiscal 2013. JFM is not currently aware of and does not anticipate further transfers in fiscal 2014.

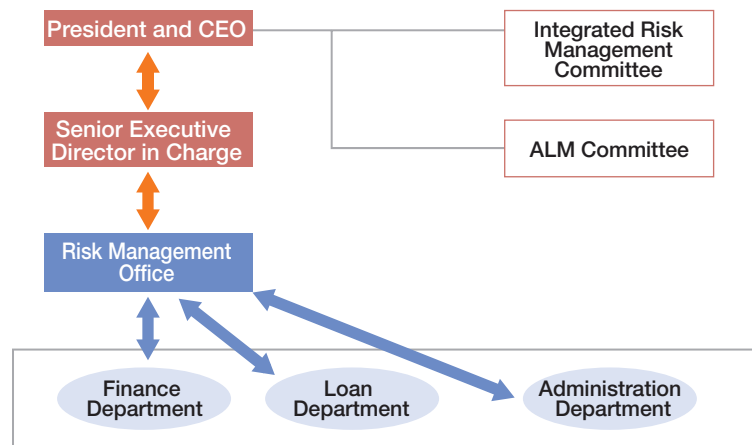
## 1 Overall Risk Management

### 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.

## 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 2014). 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 associated with bond refinancing

JFM is exposed to the interest rate risk resulting from a duration gap between lending and funding. To address such risk, JFM takes measures described on page 43.

- Interest rate risk associated with a gap in lending and funding schedules

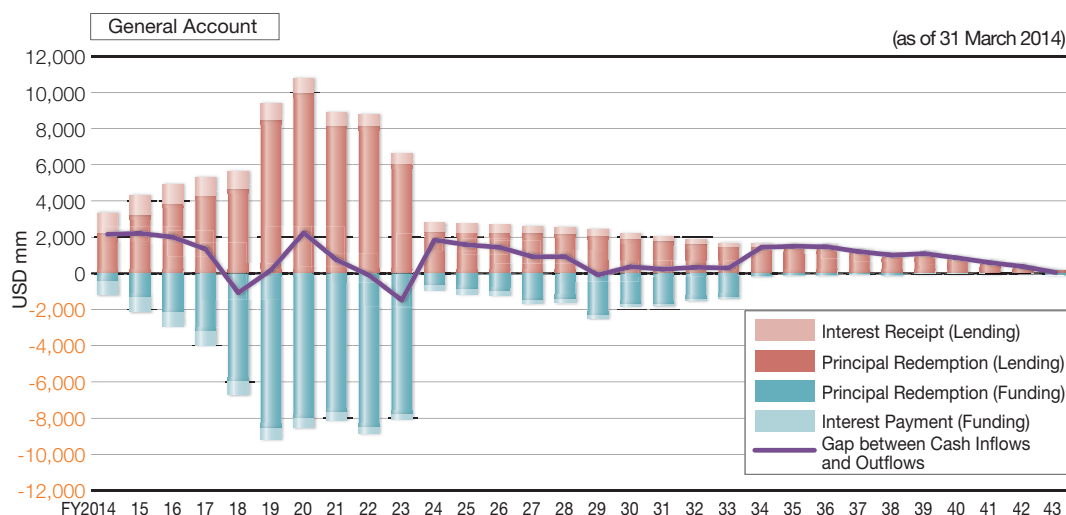
JFM generally raises funds required to finance a loan by issuing bonds prior to making the loan. Proceeds from bond issuances may not be earmarked for a particular loan. Thus, fluctuations in interest rates in the period where lending and funding schedules differ affect the profitability of loans ("pipeline" risk). In order to hedge against pipeline risk, JFM utilizes interest rate swaps.

## Managing interest rate risk associated with bond refinancing

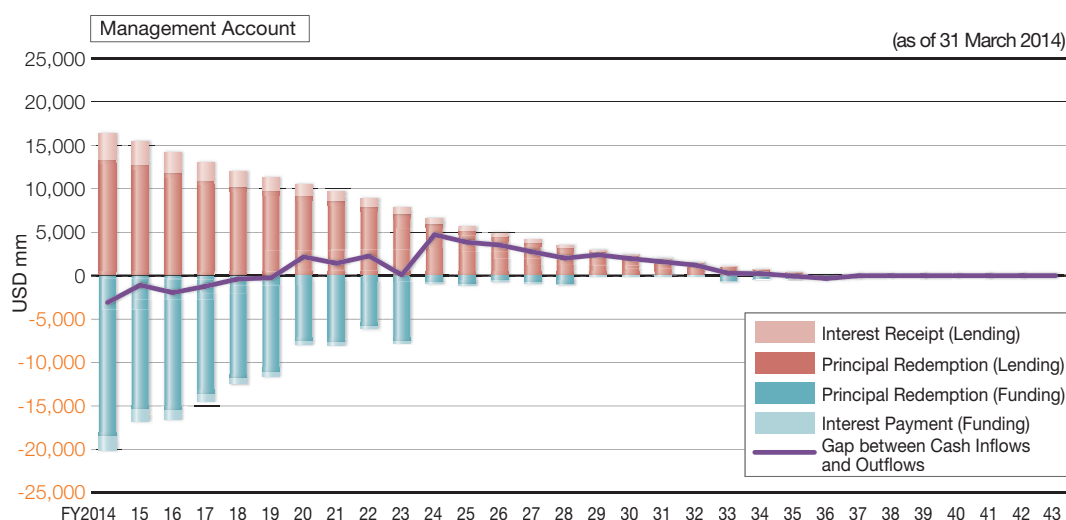
- JFM maintains reserves to prepare for interest rate risk associated with bond refinancing. At the end of fiscal 2013, the amount of the reserves stood at USD 12.8 billion in its general account and USD 20.1 billion in its management account for a total of USD 32.9 billion in both accounts.
- As assets 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 interest rate risk management. Furthermore, JFM has established a medium-term management target of five years from fiscal 2013, in which the duration gap is maintained below two years. In order to implement the management target, JFM takes the following measures:
  - (1) Controlling lending duration – Lending rates for loans for temporary financial countermeasures funding, which account for approximately 40% of outstanding JFM loans in its general account, are revised every 10 years, while maturities of the loans are set to be a maximum of 30 years.
  - (2) Extending funding duration – Utilizing its FLIP and Open Issuance scheme, JFM aims to extend the funding duration by carefully choosing maturities of bonds to be issued e.g., continuously issuing long-dated bonds with maturities over 10 years.
- At the end of fiscal 2013, the duration gap was 1.07 years, staying within the management target.
- 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 32.9 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 was set to be transferred to the national government over the three-year period from fiscal 2012 to fiscal 2014, with the aim of transferring a total of JPY 1 trillion. 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 the smooth operation of JFM's management account at the time of transfer and in the future, in light of JFM's financial condition. In fiscal 2012, JFM transferred JPY 350 billion (USD 3.4 billion) to the national treasury, followed by JPY 650 billion (USD 6.3 billion) in fiscal 2013. Even after these transfers, JFM maintains sufficient reserves to deal with the interest rate risk, and no material effect has been experienced, or is expected, on JFM's business.



## Maturity Ladder (JFM Loans, Bonds and Bank Loans)



• Lending duration 9.11 years • Funding duration 8.04 years • Duration gap 1.07 years (YoY change: -0.04 years)



• Lending duration 6.49 years • Funding duration 4.44 years • Duration gap 2.05 years (YoY change: -0.32 years)

### JFM as a whole

• Lending duration 7.50 years • Funding duration 5.75 years • Duration gap 1.75 years (YoY change: -0.30 years)

## 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

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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

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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 employees 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

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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.

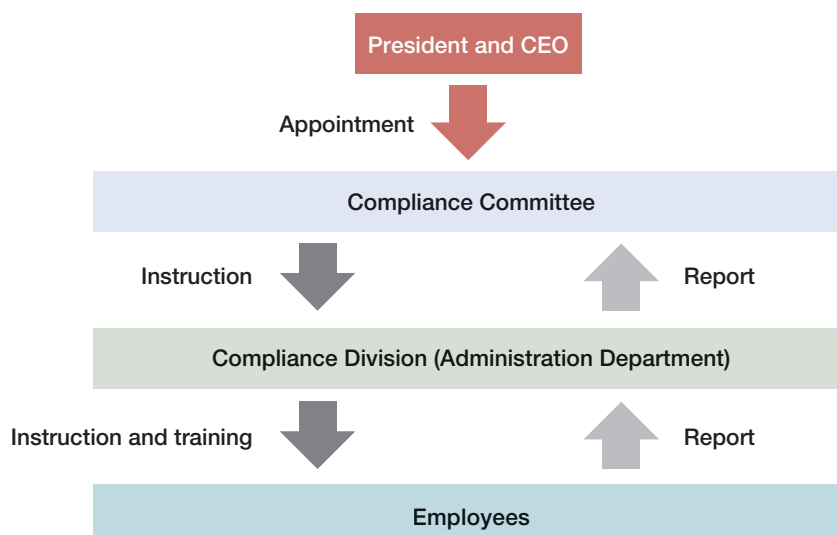
## 2 Compliance System

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*



## 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/](http://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
- JFM News magazine



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



Annual Report

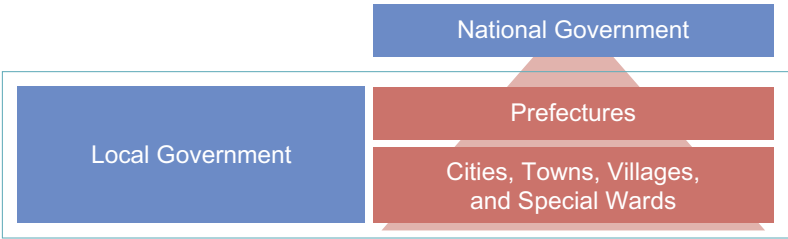
# JFM’s Role in Local Government Finance

## 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, special wards, etc.	1,741
Government-designated cities	20
Cities	770
Special wards	23
Towns	745
Villages	183
Total	1,788

(as of 5 April 2014)





## 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 2014, local government finance will total JPY 85.6 trillion (USD 830.7 billion) (based on the Local Government Finance Program (the “LGFP”), while the nation’s General Account Budget for the year is JPY 95.9 trillion (USD 930.8 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 FY2014)

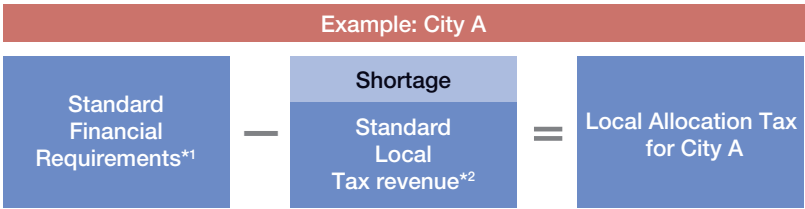
Annual Expenditure (USD 830.7 bn)	Annual Revenue (USD 830.7 bn)
<ul style="list-style-type: none"> <li>- Social welfare</li> <li>- Education</li> <li>- Fire defense</li> <li>- Infrastructure, etc.</li> </ul>	Local Tax USD 367.3 bn
	Local Allocation Tax USD 170.6 bn
	Local Government Bonds and Loans USD 103.9 bn
	Others USD 188.9 bn

Note: The above program includes Great East Japan Earthquake related budgets.

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 taxation rights in Japan, but there are regional imbalances in tax revenues.

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 Security 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 2014).

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 are classified into national government funds, JFM funds and private funds.

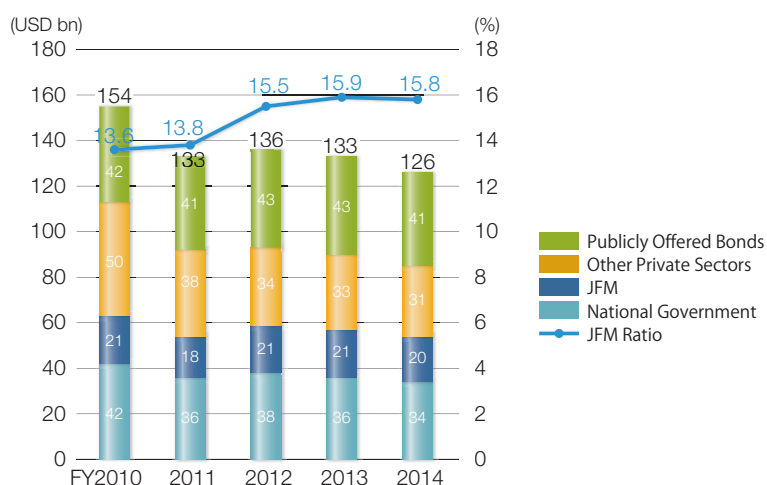
### Local Government Borrowing Program

		FY2013	FY2014	Share
1. Private Funds	Publicly Offered Bonds	USD 43 bn	USD 41 bn	33%
	Other Private Sectors	USD 33 bn	USD 31 bn	25%
2. Public Funds	JFM	USD 21 bn	USD 20 bn	16%
	National Government	USD 36 bn	USD 34 bn	27%
Total		USD 133 bn	USD 126 bn	100%

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

Since fiscal 2012, JFM funds have accounted for around 16% of the LGBP. JFM plays a major role in Japanese local government finance, making a substantial contribution to project implementation and financial management of local governments.

### LGBP Volume by Funding Source (Initial Plan)



Source: Ministry of Internal Affairs and Communications

# Financial Section

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## Financial Statements

## Balance Sheets

(As of 31 March 2013 and 2014)

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

Item	Fiscal 2012 (31 March 2013)	Fiscal 2013 (31 March 2014)		Item	Fiscal 2012 (31 March 2013)	Fiscal 2013 (31 March 2014)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 5)	¥22,668,634	¥23,082,976	\$224,084,812	Bonds (Notes 9 and 10)	¥18,676,401	¥19,423,743	\$188,561,726
Securities (Notes 9 and 19)	598,994	533,998	5,183,952	Borrowed money (Note 11)	30,000	95,500	927,094
Cash and bank deposits	419,267	467,175	4,535,241	Cash collateral received for financial instruments	-	43,530	422,580
Cash collateral paid for financial instruments	-	370	3,592	Other liabilities	15,121	14,397	139,763
Other assets	14,173	13,036	126,555	Reserve for bonuses (Note 12)	47	50	493
Tangible fixed assets (Note 8)	2,964	2,836	27,532	Reserve for bonuses for directors and corporate auditors (Note 12)	5	7	71
Intangible fixed assets (Note 8)	883	938	9,111	Reserve for retirement benefits (Notes 12 and 15)	141	116	1,129
				Reserve for retirement benefits for directors and corporate auditors (Note 12)	27	22	222
				Fund for lending rate reduction	922,568	922,561	8,956,040
				Basic fund for lending rate reduction (Note 14)	915,698	918,775	8,919,286
				Additional fund for lending rate reduction (Note 14)	6,869	3,785	36,754
				Reserves under special laws	3,947,086	3,458,627	33,575,644
				Reserve for interest rate volatility (Note 13)	1,100,000	1,320,000	12,814,290
				Management account reserve for interest rate volatility (Note 13)	2,771,200	2,072,945	20,123,726
				Reserve for interest rate reduction	75,885	65,681	637,628
				Total liabilities	23,591,399	23,958,556	232,584,762
				Net Assets			
				Capital	16,602	16,602	161,170
Retained earnings	50,221	76,732	744,902				
General account surplus reserve	50,221	76,732	744,902				
Valuation, translation adjustments and others	(6,970)	(4,225)	(41,019)				
Management account surplus reserve	53,666	53,666	520,980				
Total net assets	113,520	142,775	1,386,033				
Total assets	¥23,704,919	¥24,101,331	\$233,970,795	Total liabilities and net assets	¥23,704,919	¥24,101,331	\$233,970,795

See notes to financial statements.

## Statements of Income

(For the years ended 31 March 2013 and 2014)

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

Item	Fiscal 2012 (1 April 2012 to 31 March 2013)	Fiscal 2013 (1 April 2013 to 31 March 2014)	
	Amount	Amount	
Income	¥487,146	¥458,388	\$4,449,942
Interest income	485,675	455,158	4,418,587
Fees and commissions	123	117	1,142
Other operating income	-	0	0
Other income	1,348	3,112	30,213
Contributions from fund for lending rate reduction (Note 14)	1,066	3,084	29,939
Others	281	28	274
Expenses	274,076	270,337	2,624,379
Interest expenses	265,647	260,947	2,533,227
Fees and commissions	280	281	2,728
Other operating expenses	5,519	6,509	63,197
General and administrative expenses	2,629	2,598	25,223
Other expenses	-	0	4
Ordinary income	213,070	188,051	1,825,563
Special gains	581,402	880,203	8,544,836
Reversal of management account reserve for interest rate volatility (Note 13)	570,000	870,000	8,445,782
Reversal of reserve for interest rate reduction	11,402	10,203	99,054
Special losses	773,643	1,041,744	10,113,041
Provision for reserve for interest rate volatility (Note 13)	220,000	220,000	2,135,715
Provision for management account reserve for interest rate volatility (Note 13)	203,643	171,744	1,667,259
Payment to national treasury (Note 6)	350,000	650,000	6,310,067
Net income	¥20,828	¥26,510	\$257,358

See notes to financial statements.

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2013)

(Millions of yen)

1 Profit available for appropriation		¥20,828
Net income	¥20,828	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	20,828	20,828

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2014)

(Millions of yen)

1 Profit available for appropriation		¥26,510
Net income	¥26,510	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	26,510	26,510

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$257,358
Net income	\$257,358	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	257,358	257,358

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

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

See notes to financial statements.

## Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2013)

(Millions of yen)

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

## Statements of Appropriation of Profit [Management account]

(For the year ended 31 March 2014)

(Millions of yen)

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

(Thousands of U.S. dollars)

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

See notes to financial statements.

## Statements of Changes in Net Assets

(For the year ended 31 March 2013)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/ (loss) from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance 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 2014)

(Millions of yen)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/ (loss) from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance as of 1 April 2013	¥16,602	¥50,221	¥50,221	¥66,824	¥(6,970)	¥53,666	¥113,520
Changes during accounting period							
Net income	-	26,510	26,510	26,510	-	-	26,510
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	2,744	-	2,744
Net changes during accounting period	-	26,510	26,510	26,510	2,744	-	29,255
Balance as of 31 March 2014	¥16,602	¥76,732	¥76,732	¥93,334	¥(4,225)	¥53,666	¥142,775

(For the year ended 31 March 2014)

(Thousands of U.S. dollars)

	Stockholders' equity				Valuation, translation adjustments and others	Management account surplus reserve	Total net assets
	Capital	Retained earnings		Total stockholders' equity	Unrealized gain/ (loss) from hedging instruments		
		General account surplus reserve	Total retained earnings				
Balance as of 1 April 2013	\$161,170	\$487,544	\$487,544	\$648,714	\$(67,664)	\$520,980	\$1,102,030
Changes during accounting period							
Net income	-	257,358	257,358	257,358	-	-	257,358
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	26,645	-	26,645
Net changes during accounting period	-	257,358	257,358	257,358	26,645	-	284,003
Balance as of 31 March 2014	\$161,170	\$744,902	\$744,902	\$906,072	\$(41,019)	\$520,980	\$1,386,033

See notes to financial statements.

## Statements of Cash Flows

(For the years ended 31 March 2013 and 2014)

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

Item	Fiscal 2012 (1 April 2012 to 31 March 2013)	Fiscal 2013 (1 April 2013 to 31 March 2014)	
	Amount	Amount	
<b>I Cash flows from operating activities</b>			
Net income	¥20,828	¥26,510	\$257,358
Depreciation and amortization	345	294	2,855
Interest income	(485,675)	(455,158)	(4,418,587)
Interest expenses	265,647	260,947	2,533,227
Increase/(decrease) in reserve for bonuses	(0)	3	37
Increase/(decrease) in reserve for bonuses for directors and corporate auditors	(1)	1	19
Decrease in reserve for retirement benefits	(4)	(25)	(249)
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	3	(4)	(44)
Decrease in fund for lending rate reduction	(1,066)	(3,084)	(29,939)
Increase in reserve for interest rate volatility	220,000	220,000	2,135,715
Decrease in management account reserve for interest rate volatility	(16,356)	(48,255)	(468,456)
Decrease in reserve for interest rate reduction	(11,402)	(10,203)	(99,055)
Net (increase)/decrease in loans	(281,223)	(414,341)	(4,022,347)
Net increase/(decrease) in bonds	495,783	743,787	7,220,535
Net increase/(decrease) in borrowed money	-	65,500	635,861
Interest received	486,149	455,628	4,423,151
Interest paid	(262,457)	(214,605)	(2,083,342)
Others	(981)	3,025	29,375
Net cash provided by/(used in) operating activities	429,597	630,020	6,116,114
<b>II Cash flows from investing activities</b>			
Proceeds from redemption of securities	5,027,000	4,189,000	40,665,955
Purchases of securities	(4,862,748)	(4,123,929)	(40,034,265)
Purchases of tangible fixed assets	(450)	(37)	(361)
Purchases of intangible fixed assets	(145)	(558)	(5,422)
Proceeds from sales of tangible fixed assets	-	335	3,253
Net cash provided by/(used in) investing activities	163,656	64,809	629,160
<b>III Cash flows from financing activities</b>			
Payment to national treasury	(350,000)	(650,000)	(6,310,067)
Revenue from contributions made from municipally operated racing	3,763	3,105	30,149
Refund of contributions made from municipally operated racing	-	(28)	(280)
Net cash provided by/(used in) financing activities	(346,236)	(646,923)	(6,280,198)
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	-	-	-
<b>V Net increase/(decrease) in cash and cash equivalents</b>	247,017	47,907	465,077
<b>VI Cash and cash equivalents at beginning of year</b>	172,250	419,267	4,070,164
<b>VII Cash and cash equivalents at end of year</b>	¥419,267	¥467,175	\$4,535,241

See notes to financial statements.

## Notes to Financial Statements

### 1. Basis of Presentation

Japan Finance Organization for Municipalities (hereinafter, "JFM") has prepared financial statements in accordance with the Japan Finance Organization for Municipalities Law (Law No. 64, 2007; hereinafter the "Law"), the ordinances based on the Law and other regulations applicable to JFM and accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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

Amounts less than 1 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 2014, the final day of the fiscal year, which was ¥103.01 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 bonuses for directors and corporate auditors

The reserve for bonuses for directors and corporate auditors is provided for payment of bonuses to directors and corporate auditors, 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. The retirement benefit liability and pension expenses are calculated using the simplified method, which assumes JFM's retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment 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 long-term borrowed money

## (ii) Hedging instruments . . . Currency swaps

Hedged items . . . Foreign currency-denominated bonds

## (iii) Hedging instruments . . . Foreign exchange forward contracts

Hedged items . . . 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 market fluctuation risks associated with bonds and long-term borrowed money. 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 and 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 Government 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, Sections 8 and 10 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 and 23 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 Communications, 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. Change in Presentation

Effective fiscal 2013, JFM has adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued May 17, 2012, hereinafter "Retirement Benefits Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued May 17, 2012, hereinafter "Retirement Benefits Guidance"), excluding Clause 30 of the Retirement Benefits Standard and Clauses 52 to 60 of the Retirement Benefits Guidance. Due to this adoption, the presentation in the notes with regard to employee retirement benefits has been changed.

### 4. Additional Information

JFM obtained the approval of the Minister of Health, Labour and Welfare, dated 1 April 2013, for the transfer to the Japanese national government of the future payment obligation of the substitutional portion of the Employees' Pension Fund established under the Japanese Welfare Pension Insurance Law.

The total amount of the refund (minimum policy reserve) measured in the Employees' Pension Fund as of 31 March 2014 was 55,980 million yen (543,446 thousand U.S. dollars). Based on the assumption that the refund was paid at the fiscal year-end, JFM estimates that its profit and loss will not be affected in the event that Clause 46 of Retirement Benefits Guidance is applied.

### 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 Article 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. Payment to the National Treasury of a Portion of JFM's Management Account Reserve for Interest Rate Volatility

In accordance with the Supplementary Provisions of 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 2013, 650,000 million yen (6,310,067 thousand U.S. dollars) was transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2013 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2013).

As a result, a total of 1 trillion yen has been transferred to the national treasury, which includes the 350,000 million yen transferred in fiscal 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



## Financial Statements

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 long-term 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 Japanese national government 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. In order to reduce exposure to interest rate risk, JFM has established a medium-term management target for five years from fiscal 2013, in which the duration gap is to be maintained below approximately two years, and also JFM will continue to regularly issue super-long bonds with maturities exceeding 10 years.
- The management account, which manages assets related to loans extended by the Predecessor, is currently exposed to greater interest rate risk than the general account. To address such risk, JFM contributes to the required reserves for interest rate volatility as described above. In accordance with Article 14 of the Supplementary Provisions of the Law, a portion of JFM's reserve for interest rate volatility within the management account was required to be transferred to the Japanese national government. The transfer was scheduled to occur over a period of three years from fiscal 2012 through fiscal 2014, with the aim of transferring 1 trillion yen.

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, in principle, 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 amount 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 long-term borrowed money are primarily affected by interest rate risk, which is a major risk variable among the market risks.

With respect to loans, bonds and long-term borrowed money in the general account, JFM establishes a management target for the duration gap in order to manage interest rate risk appropriately. With regard to the quantitative analysis of interest rate risk, while JFM does not have a management target for the quantitative figures, it reports the results of calculating the quantitative information, such as the "outlier ratio", to the ALM Committee and tracks the status of the interest rate risk.

The "outlier ratio" is calculated by dividing JFM's "decline in economic value" as a result of hypothetical interest rate shocks by JFM's net assets, including the reserve for interest rate volatility in the general account and the fund for lending rate reduction. The "decline in economic value" is the largest possible loss in net present market value of its loans and bonds and long-term borrowings that JFM would suffer following a hypothetical 200 basis point increase or decrease in market interest rates.

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 long-term borrowed money, the corresponding interest rate of Japanese government bonds as of 31 March 2014 is used.

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- Calculation of Outlier Ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2014, 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.

JFM calculates the outlier ratio reflecting a rise of 200 basis points of the indicative interest rate as JFM understands 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.

Until fiscal 2012, the outlier ratio has been used as a management target, however, it will not be used from fiscal 2013 due to the unique situation of the JFM outlier ratio being at a high level. This unique situation exists for the following reasons:

- JFM maintains a 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.
- 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.

Information of the outlier ratio as of 31 March 2014 is as follows:

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

(millions of yen) (thousands of U.S. dollars)

	Outlier ratio (a)=- (b)/(e)	Change in fair value in the case of 200 basis points rise in interest rates						Net assets including reserve for interest rate volatility and the fund for lending rate reduction (e)	
		Total (b)=(c)+(d)		Loans (c)		Bonds and long-term borrowed money (d)			
General account	20.7% [+0.4%]	¥(482,037) [(59,251)]	\$(4,679,517) [(575,197)]	¥(1,569,733) [(243,780)]	\$(15,238,647) [(2,366,566)]	¥+1,087,695 [+184,529]	\$+10,559,120 [+1,791,370]	¥2,331,670 [+249,247]	\$22,635,433 [+2,419,697]

Note: Amounts posted in square brackets indicate the change from 31 March 2013.

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 of interest rate risk as is the case for the general account, JFM does not establish a management target or use the quantitative analysis for the management account.

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 2014 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 42,286 million yen (410,513 thousand U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2014 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 42,993 million yen (417,373 thousand 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 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	598,994	598,995	0
(3) Cash and bank deposits	419,267	419,267	-
Total assets	23,686,896	25,555,773	1,868,877
(1) Bonds	18,676,401	19,632,909	956,508
(2) Borrowed money	30,000	30,860	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	-

The book value, fair value and difference between them as of 31 March 2014 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,082,976	¥24,608,923	¥1,525,946
(2) Securities held-to-maturity securities	533,998	533,998	(0)
(3) Cash and bank deposits	467,175	467,175	-
Total assets	24,084,150	25,610,096	1,525,945
(1) Bonds	19,423,743	20,180,752	757,009
(2) Borrowed money	95,500	96,096	596
(3) Cash collateral received for financial instruments	43,530	43,530	-
Total liabilities	19,562,773	20,320,379	757,606
Derivative transactions(*1) Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$224,084,812	\$238,898,390	\$14,813,578
(2) Securities held-to-maturity securities	5,183,952	5,183,943	(9)
(3) Cash and bank deposits	4,535,241	4,535,241	-
Total assets	233,804,005	248,617,574	14,813,569
(1) Bonds	188,561,726	195,910,619	7,348,893
(2) Borrowed money	927,094	932,888	5,794
(3) Cash collateral received for financial instruments	422,580	422,580	-
Total liabilities	189,911,400	197,266,087	7,354,687
Derivative transactions(*1) Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

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

## Financial Statements

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 2013 and 2014.

## (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 2013

(Millions of yen)

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

As of 31 March 2014

(Millions of yen)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Treasury discount bills	¥19,998	¥19,998	¥(0)
	Negotiable certificates of deposit	514,000	514,000	-
	Sub total	533,998	533,998	(0)
Total		¥533,998	¥533,998	¥(0)

(Thousands of U.S. dollars)

	Type	Book value	Fair value	Difference
Securities with fair values exceeding the balance sheet amount	-	-	-	-
	Sub total	-	-	-
Securities with fair values that do not exceed the balance sheet amount	Treasury discount bills	\$194,145	\$194,136	\$(9)
	Negotiable certificates of deposit	4,989,807	4,989,807	-
	Sub total	5,183,952	5,183,943	(9)
Total		\$5,183,952	\$5,183,943	\$(9)

## (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 long-term 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.

On the other hand, the book value is used as the fair value of short-term borrowed money since both values are approximately equal as a result of each loan period being short term.

### (3) Cash collateral received for financial instruments

Cash collateral is associated with derivative transactions. The book value is used as the fair value of cash collateral received for financial instruments since both values are approximately equal as a result of each deposit period being short 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 2013 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Borrowed money	¥40,000	¥40,000	¥240	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	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	

## Financial Statements

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 2014 is as follows:

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	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	¥105,000	¥105,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,097,523	1,097,523	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	103,000	-	(*2)	
Total			¥1,305,523	¥1,202,523	-	

(Thousands of U.S. dollars)

Hedge accounting method	Type of derivative transactions	Primary hedged items	Contract amount		Fair value	Method for calculating fair value
				Of which 1 year or more		
Principal accounting method	Interest rate swap transactions Receive/fixed and pay/floating	Bonds Long-term borrowed money	-	-	-	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	\$1,019,319	\$1,019,319	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	10,654,532	10,654,532	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	999,903	-	(*2)	
Total			\$12,673,754	\$11,673,851	-	

(\*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 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	-	-	-	-	-	-	-

As of 31 March 2014

(Millions of yen)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	¥1,572,391	¥1,626,590	¥1,619,955	¥1,571,660	¥1,532,455	¥6,673,031	¥6,970,977	¥1,515,913
Securities held-to- maturity securities	534,000	-	-	-	-	-	-	-
Deposits	467,175	-	-	-	-	-	-	-

(Thousands of U.S. dollars)

	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years through 10 years	After 10 years through 20 years	After 20 years through 30 years
Loans	\$15,264,455	\$15,790,605	\$15,726,199	\$15,257,358	\$14,876,768	\$64,780,424	\$67,672,827	\$14,716,177
Securities held-to- maturity securities	5,183,963	-	-	-	-	-	-	-
Deposits	4,535,241	-	-	-	-	-	-	-

## Financial Statements

Note 3. The repayment schedule is as follows:

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

As of 31 March 2014

(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	¥1,952,196	¥1,730,970	¥1,822,228	¥1,736,489	¥1,804,268	¥8,238,330	¥1,959,780	¥193,500
Borrowed money	20,000	-	-	-	30,000	45,500	-	-

(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	\$18,951,519	\$16,803,903	\$17,689,826	\$16,857,483	\$17,515,471	\$79,976,027	\$19,025,143	\$1,878,458
Borrowed money	194,156	-	-	-	291,234	441,705	-	-

## 8. Tangible and Intangible Fixed Assets

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

Tangible and intangible fixed assets as of 31 March 2014 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2013 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2014 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2014	Depreciation and amortization during the year	Balance as of 31 March 2014 (Net book value)
Tangible fixed assets							
Buildings	¥1,104	¥20	¥29	¥1,094	¥244	¥54	¥850
Land	1,994	-	335	1,659	-	-	1,659
Other tangible fixed assets	114	282	19	377	52	18	325
Total tangible fixed assets	3,213	302	384	3,132	296	73	2,836
Intangible fixed assets							
Software	1,351	11	725	637	444	218	193
Other intangible fixed assets	482	262	-	744	-	-	744
Total intangible fixed assets	¥1,834	¥273	¥725	¥1,382	¥444	¥218	¥938

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2013 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2014 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2014	Depreciation and amortization during the year	Balance as of 31 March 2014 (Net book value)
Tangible fixed assets							
Buildings	\$10,722	\$196	\$289	\$10,629	\$2,369	\$531	\$8,260
Land	19,365	-	3,252	16,113	-	-	16,113
Other tangible fixed assets	1,112	2,745	188	3,668	509	178	3,160
Total tangible fixed assets	31,199	2,941	3,729	30,410	2,878	710	27,532
Intangible fixed assets							
Software	13,121	111	7,040	6,191	4,313	2,124	1,879
Other intangible fixed assets	4,687	2,545	-	7,232	-	-	7,232
Total intangible fixed assets	\$17,808	\$2,656	\$7,040	\$13,423	\$4,313	\$2,124	\$9,111

Note: Accumulated depreciation of tangible fixed assets amounted to 249 million yen and 296 million yen (2,878 thousand U.S. dollars) as of 31 March 2013 and 2014, 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 amount of 18,676,401 million yen and 19,423,743 million yen (188,561,726 thousand U.S. dollars) as of 31 March 2013 and 2014, respectively.
- (2) Securities in the amount of 9,238 million yen and 409 million yen (3,979 thousand U.S. dollars) are pledged as collateral for derivative transactions as of 31 March 2013 and 2014, respectively.



## Financial Statements

## 10. Bonds

Bonds as of 31 March 2013 consisted of the following:

(Millions of 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 bonds (Series 1)	1/13/2011	83,170	83,170 [USD 1,000 million]	4.0	10Y
Non-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-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	-	20,000	0.446	7Y
Non-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-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1)	1/31/2013	-	15,000	1.334	15Y
Non-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-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-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53)	2/1/2011	15,000	15,000	Floating rate	9Y
Non-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-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-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-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-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-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-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-guaranteed bonds issued by the Predecessor (domestic) 5-year bonds (Series 1)	2/29/2008	129,989	-	1.14	5Y
Non-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-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-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-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-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-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-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-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)	-	-

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 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-guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33, 34)," "Non-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)—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 2013" are to be repaid within one year.

## Financial Statements

Bonds as of 31 March 2014 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2013	Balance as of 31 March 2014	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/15/2009-3/17/2014	¥2,332,567	¥3,013,475	0.541 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-3)	9/26/2013-2/27/2014	-	200,000	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-12)	9/27/2011-3/10/2014	519,971	809,978	0.186 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	220,000	330,000	0.093 to 0.249	4Y
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-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 1)	2/19/2014	-	50,000	0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	-	20,000	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-14)	5/25/2010-10/21/2013	230,000	275,000	0.230 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	20,000	20,000	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/18/2009-3/24/2014	1,490,000	1,905,000	0.576 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	15,000	50,000	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-35)	6/25/2009-3/24/2014	670,000	795,000	1.396 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210)	7/22/2009-2/4/2014	1,003,000	1,304,514 (23,000)	0.185 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211)	2/1/2011-2/26/2014	15,000	25,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-42)	1/12/2012-3/6/2014	196,197	468,212 [USD 4,832 million] [AUD 210 million]	1.375 to 4.2	5Y to 7Y
Non-guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36-39)	1/17/2012-7/22/2013	95,064	145,599 [USD 1,548 million] [NZD 40 million] [AUD 120 million] (20,526)	Floating rate	1.5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A50)	7/31/2009-3/24/2014	1,280,000	1,580,000	0.64 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	8,169,971	11,074,950 (43,526)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	560,911	561,186	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	29,998	-	1.01	5Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,972	139,977	1.59 to 1.77	10Y

Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	84,952	84,955	2.07 to 2.29	20Y
Non-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	-	935,835	906,119	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 826-886)	4/23/2003-6/19/2008	4,912,647	3,518,536 (1,136,460)	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	184,704	184,726	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	724,131	594,406 [GBP 150 million] [USD 2,200 million] [EUR 900 million] (122,040)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 7-30)	9/19/2003-6/16/2008	929,908	809,940 (220,000)	1.31 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,686	569,710	1.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	189,867	189,873	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	20,000	20,000	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	40,000	40,000 (20,000)	0.45 to 0.47	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	39,150	36,980 (2,170)	1.39 to 2.01	28Y
Non-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-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-5-No.1-31)	5/28/2003-7/31/2008	1,940,500	1,458,500 (408,000)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	9,570,594	7,442,673 (1,908,670)	-	-
Total	-	¥18,676,401	¥19,423,743 (1,952,196)	-	-

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(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2013	Balance as of 31 March 2014	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/15/2009-3/17/2014	\$22,644,089	\$29,254,200	0.541 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-3)	9/26/2013-2/27/2014	-	1,941,559	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-12)	9/27/2011-3/10/2014	5,047,779	7,863,104	0.186 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	2,135,715	3,203,572	0.093 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	807,397	807,397 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 1)	2/19/2014	-	485,390	0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	-	194,156	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-14)	5/25/2010-10/21/2013	2,232,793	2,669,644	0.230 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	194,156	194,156	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-58)	6/18/2009-3/24/2014	14,464,615	18,493,350	0.576 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	145,617	485,390	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-35)	6/25/2009-3/24/2014	6,504,223	7,717,697	1.396 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210)	7/22/2009-2/4/2014	9,736,919	12,663,958 (223,279)	0.185 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211)	2/1/2011-2/26/2014	145,617	242,695	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-42)	1/12/2012-3/6/2014	1,904,645	4,545,314 [USD 4,832 million] [AUD 210 million]	1.375 to 4.2	5Y to 7Y
Non-guaranteed bonds issued by JFM (international) Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36-39)	1/17/2012-7/22/2013	922,869	1,413,454 [USD 1,548 million] [NZD 40 million] [AUD 120 million] (199,262)	Floating rate	1.5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A50)	7/31/2009-3/24/2014	12,425,977	15,338,316	0.64 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	79,312,411	107,513,352 (422,541)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	5,445,216	5,447,883	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 5-year bonds (Series 1)	2/24/2009	291,220	-	1.01	5Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,358,821	1,358,869	1.59 to 1.77	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	824,704	824,733	2.07 to 2.29	20Y



Non-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	1,164,935	1,164,935	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	9,084,896	8,796,420	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 826-886)	4/23/2003-6/19/2008	47,690,972	34,157,230 (11,032,521)	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	1,793,073	1,793,289	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	7,029,718	5,770,373 [GBP 150 million] [USD 2,200 million] [EUR 900 million] (1,184,739)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 7-30)	9/19/2003-6/16/2008	9,027,361	7,862,738 (2,135,715)	1.31 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	5,530,396	5,530,636	1.03 to 2.58	20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 30-year bonds (Series 1-10)	1/29/2004-9/20/2006	1,843,192	1,843,251	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	194,156	194,156	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	388,312	388,312 (194,156)	0.45 to 0.47	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	380,060	358,994 (21,066)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	194,156	194,156	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-5-No.1-31)	5/28/2003-7/31/2008	18,837,976	14,158,819 (3,960,781)	0.67 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	92,909,372	72,251,954 (18,528,978)	-	-
Total	-	\$181,306,679	\$188,561,726 (18,951,519)	-	-

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 19,423,743 million yen (188,561,726 thousand U.S. dollars) as of 31 March 2014.

2. Amounts in square brackets under "Balance as of 31 March 2014" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)—Private placements (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-42)," "Non-guaranteed bonds issued by JFM (international)—Private placements (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36-39)" 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 2014" are to be repaid within one year.

4. Annual schedule of redemption within five years after the fiscal year-end:

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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
Bonds	¥2,164,070	¥1,931,670	¥1,680,970	¥1,780,228	¥1,626,489

As of 31 March 2014

(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
Bonds	¥1,952,196	¥1,730,970	¥1,822,228	¥1,736,489	¥1,804,268

(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
Bonds	\$18,951,519	\$16,803,903	\$17,689,826	\$16,857,483	\$17,515,471

## 11. Borrowed Money

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

(Millions of yen)

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
Total	¥30,000	¥30,000	-	-

Borrowed money as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2013	Balance as of 31 March 2014	Average interest rate (%)	Repayment date
Short-term borrowed money	¥-	¥20,000	0.150	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	30,000	75,500	0.709	3/26/2019~ 3/13/2024
Total	¥30,000	¥95,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2013	Balance as of 31 March 2014	Average interest rate (%)	Repayment date
Short-term borrowed money	\$-	\$194,155	0.150	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	291,234	732,939	0.709	3/26/2019~ 3/13/2024
Total	\$291,234	\$927,094	-	-

Notes: 1. Average interest rates are calculated by dividing the total amount of interest paid by the total amount of principal multiplied by repayment years.

2. Annual schedule of repayments within five years after the fiscal year-end:

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
Borrowed money	¥-	¥-	¥-	¥-	¥-

As of 31 March 2014

(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
Borrowed money	¥20,000	¥-	¥-	¥-	¥30,000

(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
Borrowed money	\$194,156	\$-	\$-	\$-	\$291,234

## 12. Reserves

Reserves as of 31 March 2013 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2012	Increase during the year	Decrease during the year		Balance as of 31 March 2013
			Intended purpose	Other	
Reserve for bonuses	¥47	¥47	¥47	¥-	¥47
Reserve for bonuses for directors and corporate auditors	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

Reserves as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Decrease during the year		Balance as of 31 March 2014
			Intended purpose	Other	
Reserve for bonuses	¥47	¥50	¥47	¥-	¥50
Reserve for bonuses for directors and corporate auditors	5	7	5	-	7
Reserve for retirement benefits	141	12	28	9	116
Reserve for retirement benefits for directors and corporate auditors	27	6	3	7	22

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(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Decrease during the year		Balance as of 31 March 2014
			Intended purpose	Other	
Reserve for bonuses	\$456	\$493	\$456	\$-	\$493
Reserve for bonuses for directors and corporate auditors	52	71	52	-	71
Reserve for retirement benefits	1,378	122	279	92	1,129
Reserve for retirement benefits for directors and corporate auditors	266	59	34	69	222

## 13. Reserve for Interest Rate Volatility

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 during the year	Amount provided	Decrease during the year		Balance as of 31 March 2013
				Amount withdrawn		
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

Reserve for interest rate volatility as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2014
				Amount withdrawn		
Reserve for interest rate volatility	¥1,100,000	¥220,000	¥220,000	¥-		¥1,320,000
Management account reserve for interest rate volatility	2,771,200	171,744	171,744	870,000	220,000	2,072,945
Total	¥3,871,200	¥391,744	¥391,744	¥870,000	¥220,000	¥3,392,945

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2013	Increase during the year	Amount provided	Decrease during the year		Balance as of 31 March 2014
				Amount withdrawn		
Reserve for interest rate volatility	\$10,678,575	\$2,135,715	\$2,135,715	\$-		\$12,814,290
Management account reserve for interest rate volatility	26,902,249	1,667,259	1,667,259	8,445,782	2,135,715	20,123,726
Total	\$37,580,824	\$3,802,974	\$3,802,974	\$8,445,782	\$2,135,715	\$32,938,016

Note: The “decrease during the year” for the “management account reserve for interest rate volatility” in the amount of 870,000 million yen (8,445,782 thousand U.S. dollars) partly consists of 650,000 million yen (6,310,067 thousand U.S. dollars) of the payment to the national treasury in accordance with an ordinance pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2013 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2013).

#### 14. Fund for Lending Rate Reduction

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

(Millions of yen)

Classification of fund	Balance as of 1 April 2012	Increase during the year		Decrease during the year		Balance as of 31 March 2013
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
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

Fund for lending rate reduction as of 31 March 2014 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2013	Increase during the year		Decrease during the year		Balance as of 31 March 2014
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥915,698	¥3,105	¥-	¥-	¥28	¥918,775
Additional fund for lending rate reduction	6,869	-	-	3,084	-	3,785
Total	¥922,568	¥3,105	¥-	¥3,084	¥28	¥922,561

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2013	Increase during the year		Decrease during the year		Balance as of 31 March 2014
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,889,417	\$30,149	\$-	\$-	\$280	\$8,919,286
Additional fund for lending rate reduction	66,692	-	-	29,939	-	36,753
Total	\$8,956,110	\$30,149	\$-	\$29,939	\$280	\$8,956,040

- 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 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 of employees.

(2) Projected benefit obligation

Projected benefit obligation : 318 million yen

Plan assets : 176 million yen

Reserve for employee retirement benefits : 141 million yen

(3) Pension expenses

Pension expenses : 5 million yen

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

Pension expenses related to the Employees' Pension Fund : 0 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 2014

(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. The reserve for employee retirement benefits and pension expenses are calculated using the simplified method.

(2) Defined benefit plan

Reconciliation of outstanding amounts of reserve for retirement benefits:

Reserve for employee retirement benefits at the beginning of the fiscal year : 141 million yen (1,377 thousand U.S. dollars)

Pension expenses : 12 million yen (121 thousand U.S. dollars)

Employee retirement benefits paid : (28) million yen ((278) thousand U.S. dollars)

Contributions to the defined benefit plan : (9) million yen ((91) thousand U.S. dollars)

Reserve for retirement benefits at the end of the fiscal year : 116 million yen (1,129 thousand U.S. dollars)

(3) Retirement benefit obligation, plan assets, and reconciliation of retirement benefit asset and liability

Funded retirement benefit obligation : 305 million yen (2,968 thousand U.S. dollars)

Plan assets : (218) million yen ((2,122) thousand U.S. dollars)

Balance : 87 million yen (846 thousand U.S. dollars)

Unfunded retirement benefit obligation : 29 million yen (283 thousand U.S. dollars)

Net liability for retirement benefits in the balance sheet : 116 million yen (1,129 thousand U.S. dollars)

Reserve for employee retirement benefits : 116 million yen (1,129 thousand U.S. dollars)

Net liability for retirement benefits in the balance sheet : 116 million yen (1,129 thousand U.S. dollars)

(4) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method : 12 million yen (121 thousand U.S. dollars)

**16. Net Income by Account**

(For the year ended 31 March 2013)

Net income of the general account was 20,828 million yen, while there was no net income of management account.

(For the year ended 31 March 2014)

Net income of the general account was 26,510 million yen (257,358 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 2013 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
<b>(Assets)</b>				
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)	
<b>Total assets</b>	<b>8,443,866</b>	<b>16,443,532</b>	<b>(1,182,479)</b>	<b>23,704,919</b>
<b>(Liabilities)</b>				
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 bonuses for directors and corporate auditors	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
<b>Total liabilities</b>	<b>8,384,012</b>	<b>16,389,866</b>	<b>(1,182,479)</b>	<b>23,591,399</b>
<b>(Net Assets)</b>				
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
<b>Total net assets</b>	<b>59,853</b>	<b>53,666</b>		<b>113,520</b>
<b>Total liabilities and net assets</b>	<b>¥8,443,866</b>	<b>¥16,443,532</b>	<b>¥(1,182,479)</b>	<b>¥23,704,919</b>

## Financial Statements

Balance sheets of general account and management account as of 31 March 2014 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥9,178,637	¥13,904,339		¥23,082,976
Securities	533,998			533,998
Cash and bank deposits	467,175			467,175
Cash collateral paid for financial instruments	370			370
Other assets	3,524	9,512		13,036
Tangible fixed assets	2,836			2,836
Intangible fixed assets	938			938
Due from general account		923,486	¥(923,486)	
Due to management account for fund for lending rate reduction	192,831		(192,831)	
Total assets	10,380,311	14,837,337	(1,116,317)	24,101,331
(Liabilities)				
Bonds	6,983,259	12,440,483		19,423,743
Borrowed money	95,500			95,500
Cash collateral received for financial instruments	43,530			43,530
Other liabilities	2,667	11,729		14,397
Reserve for bonuses	50			50
Reserve for bonuses for directors and corporate auditors	7			7
Reserve for retirement benefits	116			116
Reserve for retirement benefits for directors and corporate auditors	22			22
Fund for lending rate reduction	922,561			922,561
Basic fund for lending rate reduction	918,775			918,775
Additional fund for lending rate reduction	3,785			3,785
Due to management account	923,486		(923,486)	
Due from general account for fund for lending rate reduction		192,831	(192,831)	
Reserves under special laws	1,320,000	2,138,627		3,458,627
Reserve for interest rate volatility	1,320,000			1,320,000
Management account reserve for interest rate volatility		2,072,945		2,072,945
Reserve for interest rate reduction		65,681		65,681
Total liabilities	10,291,202	14,783,671	(1,116,317)	23,958,556
(Net Assets)				
Capital	16,602			16,602
Retained earnings	76,732			76,732
General account surplus reserve	76,732			76,732
Valuation, translation adjustments and others	(4,225)			(4,225)
Management account surplus reserve		53,666		53,666
Total net assets	89,109	53,666		142,775
Total liabilities and net assets	¥10,380,311	¥14,837,337	¥(1,116,317)	¥24,101,331

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$89,104,332	\$134,980,480		\$224,084,812
Securities	5,183,952			5,183,952
Cash and bank deposits	4,535,241			4,535,241
Cash collateral paid for financial instruments	3,592			3,592
Other assets	34,212	92,343		126,555
Tangible fixed assets	27,532			27,532
Intangible fixed assets	9,111			9,111
Due from general account		8,965,018	\$(8,965,018)	
Due to management account for fund for lending rate reduction	1,871,968		(1,871,968)	
Total assets	100,769,940	144,037,841	(10,836,986)	233,970,795
(Liabilities)				
Bonds	67,792,057	120,769,669		188,561,726
Borrowed money	927,094			927,094
Cash collateral received for financial instruments	422,580			422,580
Other liabilities	25,893	113,870		139,763
Reserve for bonuses	493			493
Reserve for bonuses for directors and corporate auditors	71			71
Reserve for retirement benefits	1,129			1,129
Reserve for retirement benefits for directors and corporate auditors	222			222
Fund for lending rate reduction	8,956,040			8,956,040
Basic fund for lending rate reduction	8,919,286			8,919,286
Additional fund for lending rate reduction	36,754			36,754
Due to management account	8,965,018		(8,965,018)	
Due from general account for fund for lending rate reduction		1,871,968	(1,871,968)	
Reserves under special laws	12,814,290	20,761,354		33,575,644
Reserve for interest rate volatility	12,814,290			12,814,290
Management account reserve for interest rate volatility		20,123,726		20,123,726
Reserve for interest rate reduction		637,628		637,628
Total liabilities	99,904,887	143,516,861	(10,836,986)	232,584,762
(Net Assets)				
Capital	161,170			161,170
Retained earnings	744,902			744,902
General account surplus reserve	744,902			744,902
Valuation, translation adjustments and others	(41,019)			(41,019)
Management account surplus reserve		520,980		520,980
Total net assets	865,053	520,980		1,386,033
Total liabilities and net assets	\$100,769,940	\$144,037,841	\$(10,836,986)	\$233,970,795

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.

## Financial Statements

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 of 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 2012 through 31 March 2013 were as follows:

(Millions of yen)

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			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	215,998	(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
Transfer from 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

Statements of income of general account and management account from 1 April 2013 through 31 March 2014 were as follows:

(Millions of yen)				
Item	General account	Management account	Offset	Total
Income	¥117,626	¥360,076	¥(19,313)	¥458,388
Interest income	107,355	347,803		455,158
Fees and commissions	117			117
Other operating income	0			0
Other income	3,112			3,112
Contributions from fund for lending rate reduction	3,084			3,084
Others	28			28
Administrative fee for management account	1,035		(1,035)	
Interest on fund for lending rate reduction	6,004		(6,004)	
Interest on due from general account		314	(314)	
Transfer from general account for fund for lending rate reduction		11,958	(11,958)	
Expenses	91,115	198,535	(19,313)	270,337
Interest expenses	73,289	187,658		260,947
Fees and commissions	78	202		281
Other operating expenses	3,058	3,451		6,509
General and administrative expenses	2,415	182		2,598
Other expenses	0			0
Interest on due to management account	314		(314)	
Transfer to management account for fund for lending rate reduction	11,958		(11,958)	
Administrative fee for management account		1,035	(1,035)	
Interest on fund for lending rate reduction		6,004	(6,004)	
Ordinary income	26,510	161,540	-	188,051
Special gains	220,000	880,203	(220,000)	880,203
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		870,000		870,000
Reversal of reserve for interest rate reduction		10,203		10,203
Special losses	220,000	1,041,744	(220,000)	1,041,744
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		171,744		171,744
Transfer to general account		220,000	(220,000)	
Payment to national treasury		650,000		650,000
Net income	¥26,510	¥-	¥-	¥26,510



## Financial Statements

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,141,889	\$3,495,546	\$(187,493)	\$4,449,942
Interest income	1,042,186	3,376,401		4,418,587
Fees and commissions	1,142			1,142
Other operating income	0			0
Other income	30,213			30,213
Contributions from fund for lending rate reduction	29,939			29,939
Others	274			274
Administrative fee for management account	10,057		(10,057)	
Interest on fund for lending rate reduction	58,291		(58,291)	
Interest on due from general account		3,050	(3,050)	
Transfer from general account for fund for lending rate reduction		116,095	(116,095)	
Expenses	884,531	1,927,341	(187,493)	2,624,379
Interest expenses	711,475	1,821,752		2,533,227
Fees and commissions	765	1,963		2,728
Other operating expenses	29,692	33,505		63,197
General and administrative expenses	23,450	1,773		25,223
Other expenses	4			4
Interest on due to management account	3,050		(3,050)	
Transfer to management account for fund for lending rate reduction	116,095		(116,095)	
Administrative fee for management account		10,057	(10,057)	
Interest on fund for lending rate reduction		58,291	(58,291)	
Ordinary income	257,358	1,568,205	-	1,825,563
Special gains	2,135,715	8,544,836	(2,135,715)	8,544,836
Transfer from management account	2,135,715		(2,135,715)	
Reversal of management account reserve for interest rate volatility		8,445,782		8,445,782
Reversal of reserve for interest rate reduction		99,054		99,054
Special losses	2,135,715	10,113,041	(2,135,715)	10,113,041
Provision for reserve for interest rate volatility	2,135,715			2,135,715
Provision for management account reserve for interest rate volatility		1,667,259		1,667,259
Transfer to general account		2,135,715	(2,135,715)	
Payment to national treasury		6,310,067		6,310,067
Net income	\$257,358	\$-	\$-	\$257,358

## 19. Fair Value of Marketable Securities

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	¥0	¥0	¥-
Negotiable certificates of deposit	554,000	554,000	-	-	-
Total	¥598,994	¥598,995	¥0	¥0	¥-

Marketable held-to-maturity securities as of 31 March 2014 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	¥19,998	¥19,998	¥(0)	¥-	¥(0)
Negotiable certificates of deposit	514,000	514,000	-	-	-
Total	¥533,998	¥533,998	¥(0)	¥-	¥(0)

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Treasury discount bills	\$194,145	\$194,136	\$(9)	\$-	\$(9)
Negotiable certificates of deposit	4,989,807	4,989,807	-	-	-
Total	\$5,183,952	\$5,183,943	\$(9)	\$-	\$(9)

- 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 long-term borrowed money

**(ii) Hedging instruments: Currency swaps**

Hedged items: Foreign currency-denominated bonds

**(iii) Hedging instruments: Foreign exchange forward contracts**

Hedged items: 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 market fluctuation risks associated with bonds and long-term borrowed money.

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 restructuring costs of the transactions and the counterparties' 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, 2014 and 2013, and the statements of income, appropriation of profit, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*President's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JFM as at March 31, 2014 and 2013, 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.

May 21, 2014

*Ernst & Young ShinNihon LLC*

A member firm of Ernst & Young Global Limited



# Appendix / JFM Data

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## Members of the Representative Board and the Supervisory Committee

The Representative Board members of JFM as of 31 March 2014 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 2014 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, Ltd.
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 2013

Classification		Principal		Interest	
		Number of loans	Amount (USD millions)	Number of loans	Amount (USD millions)
Regular redemption of long-term loans	General loans	407,779	14,757	474,500	4,393
	Loans to local government corporations	771	141	772	18
	Subtotal	408,550	14,898	475,272	4,411
Prepayment of long-term loans	General loans	3,876	1,684	0	0
	Loans to local government corporations	44	44	0	0
	Subtotal	3,920	1,728	0	0
Redemption of loans with pre-consent or pre-approval		-	-	-	-
Redemption of short-term loans		-	-	-	-
Total		412,470	16,627	475,272	4,411

Note: Totals may not add up due to rounding.

## Outstanding Loans by Business

(as of 31 March 2014)

Business		Number of Loans Made	Loan Amount (USD millions)	
				% of total
General Account-related Loans	Public Projects, etc.	756	1,508	0.7
	Public Housing	4,980	4,106	1.8
	National Disaster Prevention	7	13	0.0
	Educational Facilities Development	132	94	0.0
	Social Welfare Facilities Development	481	518	0.2
	General Projects	308	369	0.2
	Regional Revitalization	514	334	0.2
	Disaster Prevention	1,065	984	0.4
	Local Road Development <sup>1</sup>	30,619	28,868	12.9
	Special Municipal Mergers	2,723	7,024	3.1
	Disaster Management and Mitigation	2,147	3,297	1.5
	Others	3,246	1,694	0.8
	Subtotal	46,978	48,810	21.8
Municipal Enterprise-related Loans	Water Supply	51,403	36,474	16.3
	Transportation	929	12,232	5.5
	Hospitals and Elderly Care Services	3,076	7,148	3.2
	Sewerage	122,736	81,426	36.3
	Industrial Water Supply	2,253	2,101	0.9
	Electricity and Gas	964	811	0.4
	Port Facilities	1,144	726	0.3
	Markets and Slaughterhouses	582	794	0.4
	Tourism and Others	470	560	0.2
	Subtotal	183,557	142,272	63.5
Temporary Financial Countermeasures Funding		4,013	32,209	14.4
Total		234,548	223,291	99.6
Local Government Road Corporation, Toll Roads <sup>2</sup>		310	794	0.4
Grand Total		234,858	224,085	100.0

Notes: 1. Includes the former development projects for local roads.

2. No loans will be extended to local government road corporations by JFM. The outstanding loans shown above was extended by the Predecessor.

3. Totals may not add up due to rounding.

## Outstanding Loans by Borrower

(as of 31 March 2014)

Borrower	Prefectures		Cities and Special Wards of Tokyo		Towns and Villages	
	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)
Hokkaido	281	3,570	4,979	7,150	7,786	2,060
Aomori	214	406	1,921	2,351	1,383	461
Iwate	232	606	2,712	2,596	742	297
Miyagi	385	1,404	4,586	3,763	2,595	555
Akita	223	304	4,497	2,312	1,134	147
Yamagata	253	746	2,619	1,830	1,899	377
Fukushima	367	753	3,420	2,572	2,962	575
Ibaraki	472	1,168	6,057	3,910	1,283	396
Tochigi	224	519	3,185	2,202	820	266
Gunma	284	591	3,581	2,070	1,794	402
Saitama	251	2,341	5,809	5,871	1,556	478
Chiba	397	1,132	4,455	5,421	756	214
Tokyo	134	1,858	1,840	2,641	193	50
Kanagawa	238	1,490	2,655	8,446	917	328
Niigata	272	468	8,142	4,894	875	197
Toyama	280	439	3,620	2,707	506	226
Ishikawa	178	252	2,728	2,240	1,168	427
Fukui	262	527	2,092	1,293	901	167
Yamanashi	151	434	3,052	1,175	1,068	175
Nagano	235	464	4,226	3,059	3,051	741
Gifu	201	1,343	4,309	2,302	1,172	365
Shizuoka	367	760	4,780	3,774	635	213
Aichi	302	1,803	5,134	6,902	837	245
Mie	404	1,364	3,861	2,694	1,034	281

Local Government Associations		Local Government Road Corporations		Total		
Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	% of Total
292	263	-	-	13,338	13,043	5.8
103	126	-	-	3,621	3,344	1.5
71	51	-	-	3,757	3,550	1.6
127	98	-	-	7,693	5,819	2.6
5	0	-	-	5,859	2,763	1.2
133	41	10	1	4,914	2,994	1.3
189	217	3	2	6,941	4,120	1.8
206	189	4	5	8,022	5,668	2.5
6	32	9	5	4,244	3,024	1.3
22	50	-	-	5,681	3,113	1.4
227	165	14	11	7,857	8,865	4.0
366	473	12	22	5,986	7,263	3.2
27	169	-	-	2,194	4,719	2.1
79	986	-	-	3,889	11,251	5.0
129	126	-	-	9,418	5,686	2.5
130	122	12	6	4,548	3,500	1.6
15	24	-	-	4,089	2,942	1.3
69	38	-	-	3,324	2,025	0.9
152	67	2	1	4,425	1,852	0.8
155	93	14	10	7,681	4,367	1.9
7	12	-	-	5,689	4,023	1.8
68	146	14	10	5,864	4,903	2.2
115	59	53	332	6,441	9,342	4.2
31	39	-	-	5,330	4,378	2.0

## Appendix

Borrower	Prefectures		Cities and Special Wards of Tokyo		Towns and Villages	
	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)
Shiga	220	727	4,125	2,344	551	139
Kyoto	215	514	3,285	4,385	970	261
Osaka	125	754	4,838	13,255	770	276
Hyogo	320	3,644	7,306	9,021	1,786	776
Nara	259	1,018	2,258	1,562	1,711	505
Wakayama	112	337	1,439	1,693	1,183	480
Tottori	264	404	1,261	949	1,802	473
Shimane	222	930	2,382	2,030	295	85
Okayama	298	1,213	4,589	3,819	1,268	322
Hiroshima	385	1,439	4,250	5,076	907	294
Yamaguchi	424	649	4,197	2,419	527	125
Tokushima	190	490	1,288	990	754	246
Kagawa	244	304	2,076	1,171	793	201
Ehime	127	278	2,303	1,977	599	228
Kochi	143	729	1,372	1,316	598	157
Fukuoka	110	1,032	4,362	8,701	1,805	885
Saga	53	323	1,517	1,464	577	289
Nagasaki	146	501	2,681	2,633	605	180
Kumamoto	176	475	2,718	2,136	1,477	442
Oita	125	289	2,190	1,431	140	46
Miyazaki	180	679	2,031	1,523	689	204
Kagoshima	172	1,228	2,345	1,732	761	190
Okinawa	230	836	1,372	1,192	821	204
Total	11,347	43,535	160,445	156,993	58,456	16,650

Note: Totals may not add up due to rounding.

Local Government Associations		Local Government Road Corporations		Total		
Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	Number of Loans Made	Loan Amount (USD millions)	% of Total
82	47	4	1	4,982	3,258	1.5
14	34	12	11	4,496	5,206	2.3
234	736	18	78	5,985	15,099	6.7
444	688	55	66	9,911	14,195	6.3
15	17	3	10	4,246	3,112	1.4
42	49	-	-	2,776	2,558	1.1
21	16	-	-	3,348	1,842	0.8
48	24	-	-	2,947	3,069	1.4
104	237	-	-	6,259	5,592	2.5
5	9	17	78	5,564	6,896	3.1
107	91	-	-	5,255	3,283	1.5
3	1	-	-	2,235	1,727	0.8
7	6	-	-	3,120	1,683	0.8
11	13	-	-	3,040	2,495	1.1
7	115	-	-	2,120	2,316	1.0
237	225	29	135	6,543	10,979	4.9
98	132	-	-	2,245	2,209	1.0
17	22	10	5	3,459	3,341	1.5
32	26	10	1	4,413	3,080	1.4
-	-	-	-	2,455	1,767	0.8
6	5	-	-	2,906	2,411	1.1
8	15	5	3	3,291	3,169	1.4
34	16	-	-	2,457	2,247	1.0
4,300	6,113	310	794	234,858	224,084	100.0



## Bond Issuance in Fiscal 2013

## 1. JFM bonds

## (1) International bonds

Series Number	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
35	Euro	USD	105	1.375%	99.952	18 Apr 2013	18 Apr 2018
36	Euro	AUD	100	3mBBSW+83bp	100	21 May 2013	21 May 2018
37	Euro	USD	200	3mL+17bp	100	28 May 2013	28 Nov 2014
38	Euro	USD	100	3mL+50bp	100	11 Jul 2013	11 Jul 2018
39	Euro	USD	100	3mL+65bp	100	22 Jul 2013	22 Jul 2020
40	Global	USD	1,500	2.500%	99.855	12 Sep 2013	12 Sep 2018
41	Euro	AUD	110	4.20%	99.98	26 Nov 2013	26 Nov 2018
42	Global	USD	1,000	2.125%	99.892	6 Mar 2014	6 Mar 2019

## (2) Domestic public offerings

Series Number	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
	(JPY billions)	(USD millions)				
47	40	388	0.576	100	18 Apr 2013	28 Apr 2023
48	40	388	0.813	100	23 May 2013	26 May 2023
49	40	388	0.887	100	20 Jun 2013	28 Jun 2023
50	40	388	0.922	100	22 Jul 2013	28 Jul 2023
51	40	388	0.841	100	19 Aug 2013	28 Aug 2023
52	40	388	0.831	100	24 Sep 2013	28 Sep 2023
53	40	388	0.739	100	21 Oct 2013	27 Oct 2023
54	20	194	0.730	100	25 Nov 2013	28 Nov 2023
55	25	243	0.778	100	24 Dec 2013	28 Dec 2023
56	30	291	0.783	100	27 Jan 2014	26 Jan 2024
57	30	291	0.739	100	19 Feb 2014	28 Feb 2024
58	30	291	0.739	100	24 Mar 2014	28 Mar 2024
28	15	146	1.396	100	18 Apr 2013	28 Apr 2033
29	10	97	1.725	100	20 Jun 2013	28 Jun 2033
30	10	97	1.812	100	22 Jul 2013	28 Jul 2033
31	15	146	1.744	100	24 Sep 2013	28 Sep 2033
32	15	146	1.624	100	21 Oct 2013	28 Oct 2033
33	20	194	1.668	100	24 Dec 2013	28 Dec 2033
34	25	243	1.624	100	27 Jan 2014	27 Jan 2034
35	15	146	1.569	100	24 Mar 2014	28 Mar 2034
12	15	146	0.314	100	22 Apr 2013	27 Apr 2018
13	15	146	0.360	100	22 Jul 2013	27 Jul 2018
14	15	146	0.245	100	21 Oct 2013	26 Oct 2018
1	50	485	0.135	100	19 Feb 2014	26 Feb 2016
1	20	194	0.170	100	19 Aug 2013	26 Aug 2016
2	20	194	1.161	100	24 Dec 2013	28 Dec 2028
3	15	146	1.176	100	22 Jan 2014	26 Jan 2029
F154	9	87	0.199	100	25 Apr 2013	20 Jun 2016
F155	20	194	0.618	100	25 Apr 2013	20 Jun 2022
F156	5	49	0.908	100	24 Apr 2013	28 May 2026
F157	3	29	1.122	100	25 Apr 2013	25 Apr 2028
F158	8	78	1.226	100	25 Apr 2013	19 Mar 2029
F159	6	58	1.119	100	25 Apr 2013	31 Mar 2028

Series Number	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
	(JPY billions)	(USD millions)				
F160	3	29	1.052	100	26 Apr 2013	26 May 2028
F161	3	29	1.257	100	30 Apr 2013	28 May 2030
F162	5.5	53	1.027	100	30 Apr 2013	30 Nov 2027
F163	3	29	1.050	100	30 Apr 2013	28 Apr 2028
F164	3.5	34	1.552	100	20 May 2013	28 Dec 2033
F165	10	97	0.239	100	28 May 2013	28 Jun 2016
F166	3	29	0.961	100	28 May 2013	28 May 2024
F167	3	29	1.048	100	28 May 2013	27 Jun 2025
F168	3	29	1.425	100	28 May 2013	28 May 2029
F169	3.5	34	1.753	100	28 May 2013	26 May 2034
F170	3	29	0.243	100	29 May 2013	27 May 2016
F171	5	49	0.783	100	29 May 2013	28 May 2021
F172	3	29	1.155	100	29 May 2013	29 May 2026
F173	4	39	1.276	100	29 May 2013	28 May 2027
F174	3	29	1.889	100	29 May 2013	28 May 2038
F175	20	194	0.850	100	24 Jul 2013	20 Sep 2022
F176	4	39	0.929	100	24 Jul 2013	24 Jul 2024
F177	3	29	1.299	100	24 Jul 2013	24 Jul 2028
F178	3	29	1.831	100	24 Jul 2013	27 Jul 2035
F179	3	29	0.991	100	30 Jul 2013	30 Jul 2025
F180	6	58	0.570	100	30 Jul 2013	28 Jul 2020
F181	5	49	1.109	100	30 Jul 2013	28 Jul 2026
F182	3	29	1.309	100	30 Jul 2013	28 Jul 2028
F183	3	29	1.703	100	30 Jul 2013	28 Jul 2032
F184	4	39	1.208	100	30 Jul 2013	27 Aug 2027
F185	11	107	0.50	76.60	31 Jul 2013	28 Jul 2033
F186	3	29	0.767	100	27 Aug 2013	26 Aug 2022
F187	20	194	0.713	100	23 Oct 2013	20 Dec 2022
F188	4	39	0.813	100	23 Oct 2013	29 Oct 2024
F189	3	29	1.103	100	23 Oct 2013	28 Oct 2027
F190	3	29	0.792	100	24 Oct 2013	24 Oct 2024
F191	4	39	0.990	100	24 Oct 2013	22 Jan 2027
F192	3.5	34	1.167	100	24 Oct 2013	24 Oct 2028
F193	3	29	1.685	100	24 Oct 2013	20 Sep 2035
F194	3	29	1.066	100	29 Oct 2013	26 Nov 2027
F195	3.5	34	1.325	100	29 Oct 2013	19 Mar 2030
F196	3	29	0.854	100	29 Oct 2013	29 Oct 2025
F197	5	49	1.052	100	29 Oct 2013	29 Oct 2027
F198	7	68	1.735	99.88	26 Nov 2013	28 Sep 2038
F199	20	194	0.734	100	29 Jan 2014	20 Mar 2023
F200	5	49	0.820	100	30 Jan 2014	28 Jan 2025
F201	3	29	0.983	100	29 Jan 2014	28 Jan 2027
F202	3	29	0.929	100	30 Jan 2014	26 Jun 2026
F203	3	29	1.063	100	30 Jan 2014	28 Feb 2028
F204	3	29	1.772	100	30 Jan 2014	28 Jan 2039
F205	3	29	0.922	100	30 Jan 2014	30 Jan 2026
F206	5	49	1.065	100	30 Jan 2014	28 Jan 2028
F207	3	29	1.679	100	30 Jan 2014	30 Jan 2035
F208	6.5	63	0.857	100	4 Feb 2014	4 Feb 2026
F209	3	29	0.990	100	4 Feb 2014	4 Feb 2028
F210	11	107	1.602	100	4 Feb 2014	20 Mar 2035
F211	10	97	3mL+16bp	100	26 Feb 2014	26 Feb 2044

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

Series Number	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
	(JPY billions)	(USD millions)				
A39	25	243	0.640	100	18 Apr 2013	18 Apr 2023
A40	25	243	0.910	100	23 May 2013	23 May 2023
A41	25	243	0.922	100	20 Jun 2013	20 Jun 2023
A42	25	243	0.937	100	22 Jul 2013	21 Jul 2023
A43	25	243	0.851	100	19 Aug 2013	18 Aug 2023
A44	25	243	0.832	100	24 Sep 2013	22 Sep 2023
A45	25	243	0.774	100	21 Oct 2013	20 Oct 2023
A46	25	243	0.760	100	25 Nov 2013	24 Nov 2023
A47	25	243	0.803	100	24 Dec 2013	22 Dec 2023
A48	25	243	0.808	100	27 Jan 2014	26 Jan 2024
A49	25	243	0.764	100	26 Feb 2014	26 Feb 2024
A50	25	243	0.764	100	24 Mar 2014	22 Mar 2024

## 3. Government-guaranteed domestic bonds

Series Number	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
	(JPY billions)	(USD millions)				
47	60	582	0.541	100	22 Apr 2013	21 Apr 2023
48	60	582	0.605	100	16 May 2013	16 May 2023
49	60	582	0.882	100	17 Jun 2013	16 Jun 2023
50	60	582	0.911	100	16 Jul 2013	14 Jul 2023
51	55	534	0.835	100	14 Aug 2013	14 Aug 2023
52	55	534	0.801	100	17 Sep 2013	15 Sep 2023
53	55	534	0.699	100	15 Oct 2013	13 Oct 2023
54	55	534	0.669	100	19 Nov 2013	17 Nov 2023
55	55	534	0.693	100	18 Dec 2013	18 Dec 2023
56	55	534	0.747	100	21 Jan 2014	19 Jan 2024
57	55	534	0.660	100	18 Feb 2014	16 Feb 2024
58	55	534	0.645	100	17 Mar 2014	15 Mar 2024
1	70	680	0.576	100	26 Sep 2013	24 Sep 2021
2	65	631	0.502	100	25 Dec 2013	24 Dec 2021
3	65	631	0.460	100	27 Feb 2014	25 Feb 2022
9	80	777	0.320	100	25 Apr 2013	25 Apr 2019
10	70	680	0.385	100	24 Jul 2013	24 Jul 2019
11	70	680	0.250	100	23 Oct 2013	23 Oct 2019
12	70	680	0.186	100	10 Mar 2014	10 Mar 2020
5	55	534	0.249	100	24 Jun 2013	23 Jun 2017
6	55	534	0.205	100	29 Aug 2013	29 Aug 2017

## Outstanding International Bonds

### 1. JFM bonds

(as of 31 March 2014)

Series Number	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
1	EURO	USD	105	3mL+73bp	100	17 Jan 2012	17 Jan 2017
2	EURO	USD	40	2.035%	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	1.8725%	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
29	EURO	USD	327	3mL+65bp	100	22 May 2012	22 May 2017
30	EURO	USD	130	3mL+70bp	100	6 Jun 2012	6 Jun 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%	99.99	25 Mar 2013	23 Mar 2018

## 2. Government-guaranteed bonds

(as of 31 March 2014)

Series Number	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
4	EURO	GBP	150	5.750	99.337	9 Aug 1999	9 Aug 2019
1	EURO	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).
2011	Created a new special lending rate program by integrating the existing special lending rate and the extra-special lending rate programs.

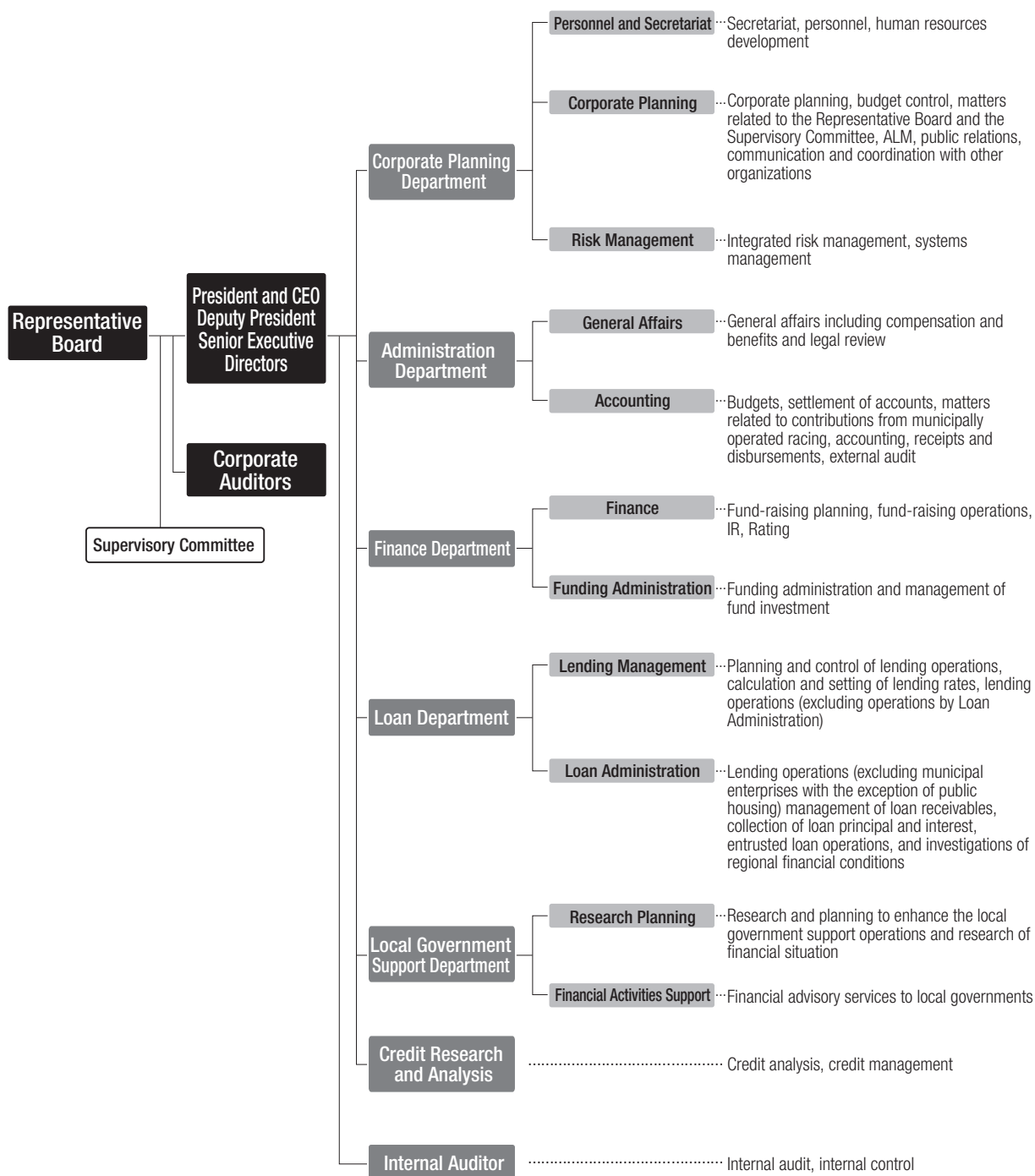
### History of the Predecessor

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 Chart

As of 1 April 2014



## Directors and Corporate Auditors

<b>President and CEO</b>	Yuji Watanabe
<b>Deputy President</b>	Noboru Mitsuhashi
<b>Senior Executive Directors</b>	Yoshiyasu Hyotani, Hitoshi Shimura, Keiichi Hikita (part-time)
<b>Corporate Auditors</b>	Yutaka Ishikawa, Masaharu Hamakawa (part-time)



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



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

## Contact Information



(Photo provided by The Tokyo Institute for Municipal Research)

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