

# ANNUAL REPORT 2015 JFM

# 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 137.9 million
Number of Employees	89 (as of 2 April 2015)
Outstanding Loans as of 31 March 2015	USD 194.7 billion
Outstanding Bonds and Bank Loans as of 31 March 2015	USD 163.2 billion
Credit Ratings as of 31 March 2015	S&P: AA- Moody's: A1 R&I: AA+

## DISCLAIMER

By reading these materials, you agree to be bound by the following limitations:

No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information, or opinions contained herein. Neither the company nor any of the company's advisors or representatives shall have any responsibility or liability whatsoever (for negligence or otherwise) for any loss howsoever arising from any use of these materials or their contents or otherwise arising in connection with these materials. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially.

These materials are based on the economic, regulatory, market and other conditions as in effect on the date hereof. It should be understood that subsequent developments may affect the information contained in these materials, which neither the company nor its advisors or representatives are under an obligation to update, revise or affirm.

Forward-looking statements, including the company's plans in these materials, are based on information available to the company at the time they were prepared and involve potential risks and uncertainties. Actual results, therefore, may differ from those described in these materials due to changes in a variety of factors, such as market trends, economic conditions and regulations. Accordingly, investors are advised to use their own discretion and exercise great caution when making investment decisions.

These materials and the information contained herein do not constitute or form part of any offer for sale or subscription of or solicitation or invitation of any offer to buy or subscribe for any securities of the company. Securities of the company not registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), may not be offered, sold or delivered within the United States or to U.S. persons absent registration under or an applicable exemption from the registration requirements of the United States securities laws. These materials and the information contained herein are being furnished to you solely for your information and may not be reproduced or redistributed to any other person, in whole or in part. In particular, neither the information contained in these materials nor any copy hereof may be, directly or indirectly, taken or transmitted into or distributed in the United States, Canada, Australia, Japan, Hong Kong or any other jurisdiction which prohibits the same except in compliance with applicable securities laws. Any failure to comply with this restriction may constitute a violation of U.S. or other national securities laws. No money, securities or other consideration is being solicited, and, if sent in response to this presentation or the information contained herein, will not be accepted.

Message from the President and CEO	02
Management Philosophy	03
JFM at a Glance	04
Outline of JFM Operations	06
Capital	07

## Review and Plan

Review of Operations for Fiscal 2014	10
1. Lending Operations	10
2. Funding Operations	12
3. Financial Review	14
Management Plan for Fiscal 2015	16
1. Lending Operations	16
2. Funding Operations	16
3. Scheduled Payment to the National Treasury	17

## Operations

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

## Management Structure

Corporate Governance	36
1. Corporate Governance	36
2. Internal Control over Financial Reporting	38
3. Internal Audit	38
General Account and Management Account	39
Risk Management	41
Compliance	46
Disclosure	47

## JFM's Role in Local Government Finance

1. Japanese Local Government System	48
2. Local Government Finance Program	49
3. Local Allocation Tax	50
4. Local Government Borrowings	50
5. Security of Local Government Borrowings	50
6. Local Government Borrowing Program	51
7. JFM Funds in Local Government Borrowing Program	52

## Financial Section

Financial Statements	54
Independent Auditor's Report	94

## Appendix / JFM Data

Appendix	96
JFM Data	107
Organization History	107
Organization Chart	108
Directors and Corporate Auditors/	
Contact Information	109

### Note to Financial Statements

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 2015, the final day of the fiscal year, which was JPY 120.37 to USD 1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

# Message from the President and CEO

Yuji Watanabe President and CEO, Japan Finance Organization for Municipalities June 2015



*Yuji Watanabe*

## Review of Fiscal 2014

In fiscal 2014, Japanese economy suffered slump in the first half mainly due to a decline of household spending after the national consumption tax rise in April 2014, but some positive outcomes were observed in the second half such as improved corporate earnings contributed by exporters and hike in stock prices.

In terms of lending activities, JFM continued to be responsible for providing long-term funding at low-interest rate to the needs of the regions and disbursed a total of JPY 1.93 trillion (USD 16.0 billion) loans including social infrastructure projects and disaster management and mitigation projects.

On the funding front, we continued diversification of our funding sources and raised a total of JPY 2.08 trillion (USD 17.5 billion) during the fiscal year. We focused more on flexible funding operations which are highlighted by issuing super long tenors bonds subject to domestic market conditions and investor demands. In addition to our domestic funding activities, we successfully completed our inaugural non-government guaranteed Euro denominated bonds with EUR 1 billion size, which marked the largest EUR denominated bonds by a Japanese government related issuer. We believe that high profile of JFM name among the international investors supported the strong outcome.

## Initiative for Fiscal 2015

For fiscal 2015, the lending volume is planned to be JPY 1.83 trillion (USD 15.2 billion) based on the Local Government Borrowing Program prepared by the national government. In response to funding needs by municipal enterprises for longer tenor projects such as water supply and sewage, JFM resolved that the maximum term to loans for these projects would be increased to 40 years from fiscal 2015.

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.

Furthermore, in light of JFM's solid business operations, a portion of JFM's reserves will be transferred to the national treasury over a period of three years from fiscal 2015 through fiscal 2017, with the aim of transferring up to JPY 600 billion (USD 5.0 billion). JFM plans to pay JPY 300 billion (USD 2.5 billion) to the national treasury during fiscal 2015. All of our payment will be a part of local allocation tax and contribute to the local governments for regional revitalization.

## 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

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

2

## Being Responsive to Local Government Financial Needs

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

3

## Building Market Confidence toward JFM

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

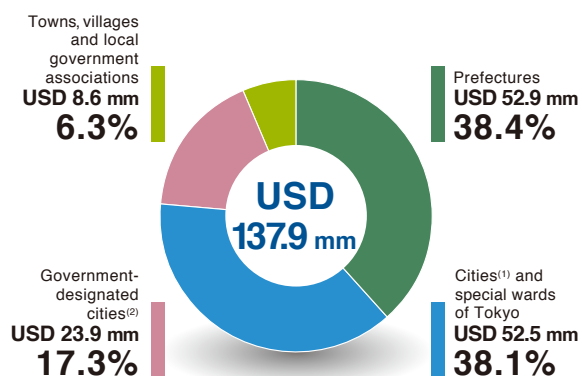
## The Joint Funding Organization for All Japanese Local Governments

- Wholly owned by Japanese local governments, with the capital contribution from 1,789<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 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>3)</sup>

### Capital Contribution<sup>1)</sup>



Contributed by 1,789 Japanese local governments

(1) Excludes government-designated cities.

(2) Government-designated cities:

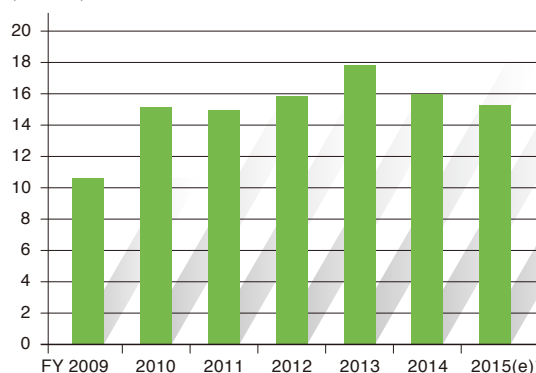
Cities with populations of 500,000 or more designated in accordance with Paragraph 1, Article 252-19 of the Local Autonomy Act. Such government-designated cities are allowed to administer certain matters such as social welfare, food safety, urban planning and so on, for which prefectures are responsible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

### Financial Highlights

	Financial Highlights FY2014 <sup>1)</sup>			
	(JPY mm)	YoY (JPY mm)	(USD bn)	YoY (USD bn)
<b>Total Assets</b>	24,524,279	+422,948	204	+3.5
<b>Loans</b>	23,437,630	+354,654	195	+2.9
<b>Total Liabilities</b>	24,350,790	+392,234	202	+3.3
<b>Bonds</b>	19,542,864	+119,121	162	+1.0
<b>Reserves under Special Laws</b>	3,608,067	+149,440	30	+1.2
<b>Capital</b>	16,602	0	0.1	0
<b>Ordinary Income</b>	180,499	-7,552	1.5	-0.1

### 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 17 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 FY2014, JFM issued a total of USD 2.6 bn worth of international bonds through 2 benchmark transactions, 3 private placements and an issuance of Uridashi Bonds

## Support Structure

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

## Credit Ratings

- A1 (Moody's), AA- (S&P)
- The ratings of JFM are the same as those of the Japanese sovereign
- BIS risk weight<sup>3</sup>: 10% for JFM bonds (non-guaranteed) denominated in JPY

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 2015.

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. Value for investors in Japan. For overseas bonds, the value is determined by respective authorities in each country.

### Funding Plan

Type of Bonds	FY 2015 (plan) <sup>(1)</sup>	FY 2014 (achieved)
Non-Guaranteed	USD 10.8 bn	USD 12.1 bn
Domestic Issuance	USD 7.6 bn	USD 9.6 bn
MTN	USD 1.8 bn	USD 2.6 bn <sup>(2)</sup>
Benchmark		USD 2.3 bn
Private Placements		USD 222 mm
Uridashi Bonds		NZD 105 mm
Open Issuance <sup>(3)</sup>	USD 1.4 bn	—
Guaranteed	USD 6.0 bn	USD 5.2 bn

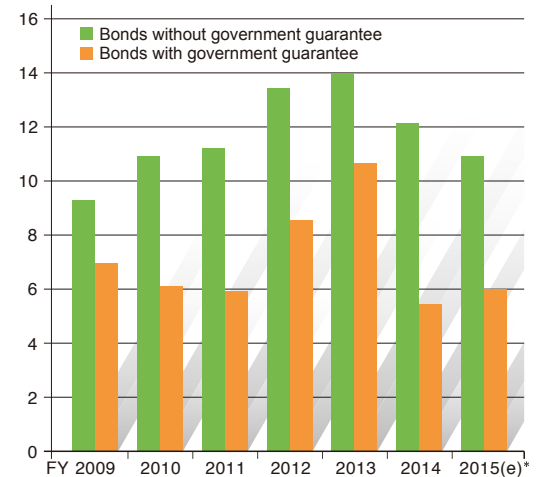
(1) Planned amount; subject to change depending on lending status, market conditions and other factors.

(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.

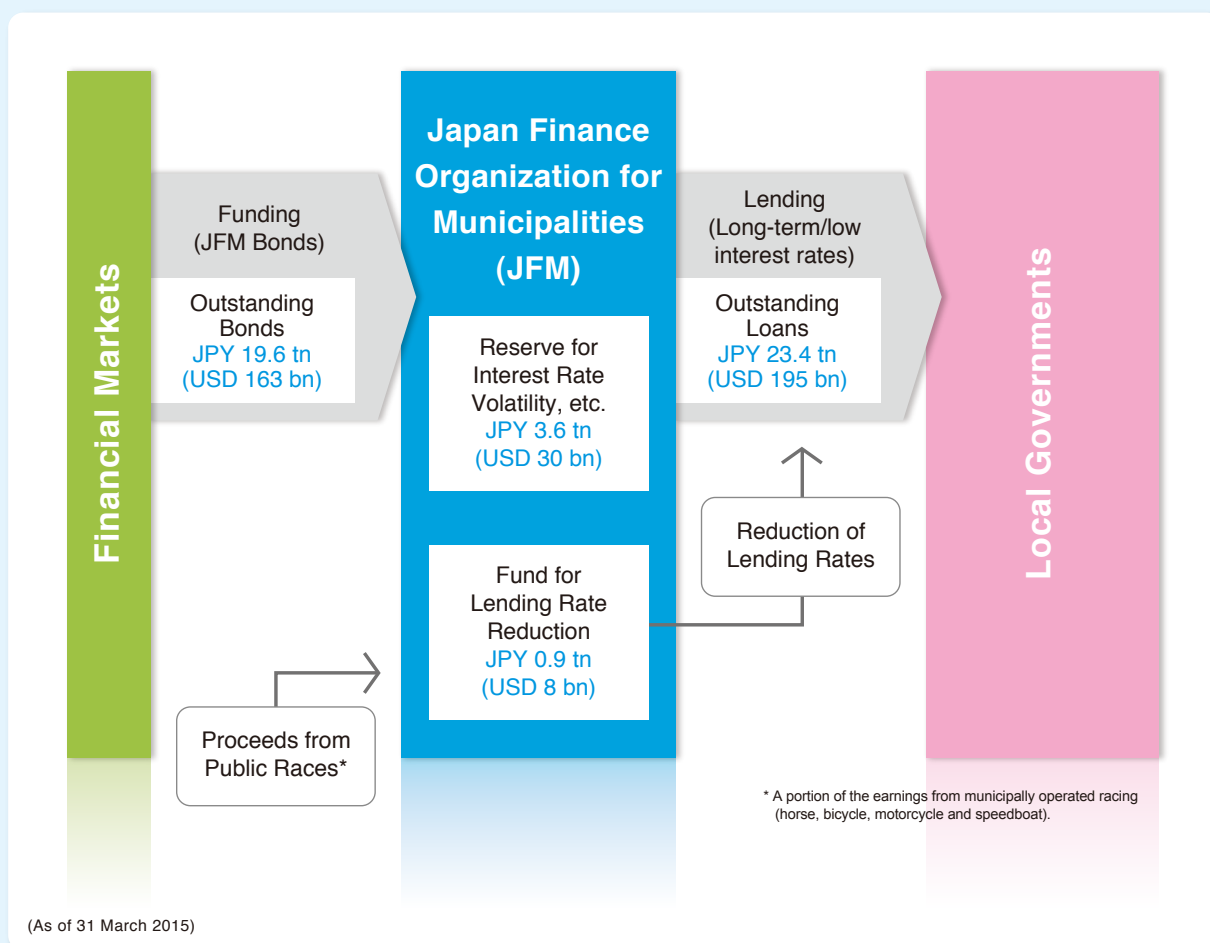
### Bond Issuance

(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 (from fiscal 2015, maximum maturity is extended from 30 years to 40 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.

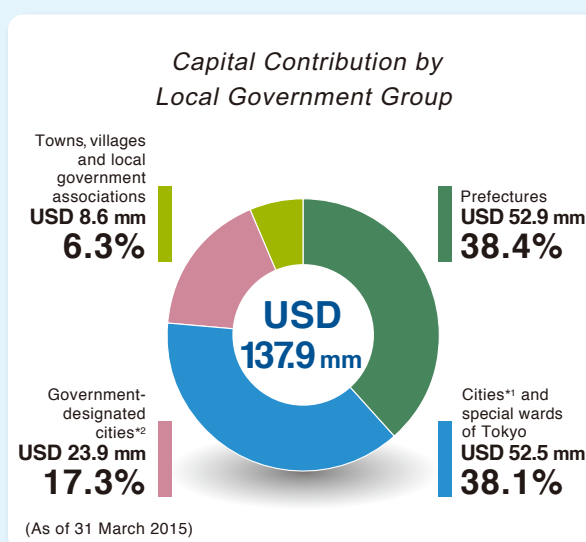
## Reduction of Lending Rates by Utilizing the Fund for Lending Rate Reduction

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 2015, JFM's capital was USD 137.9 million contributed by 1,789 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).



Notes: 1. Excludes government-designated cities.

2. Government-designated cities:

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

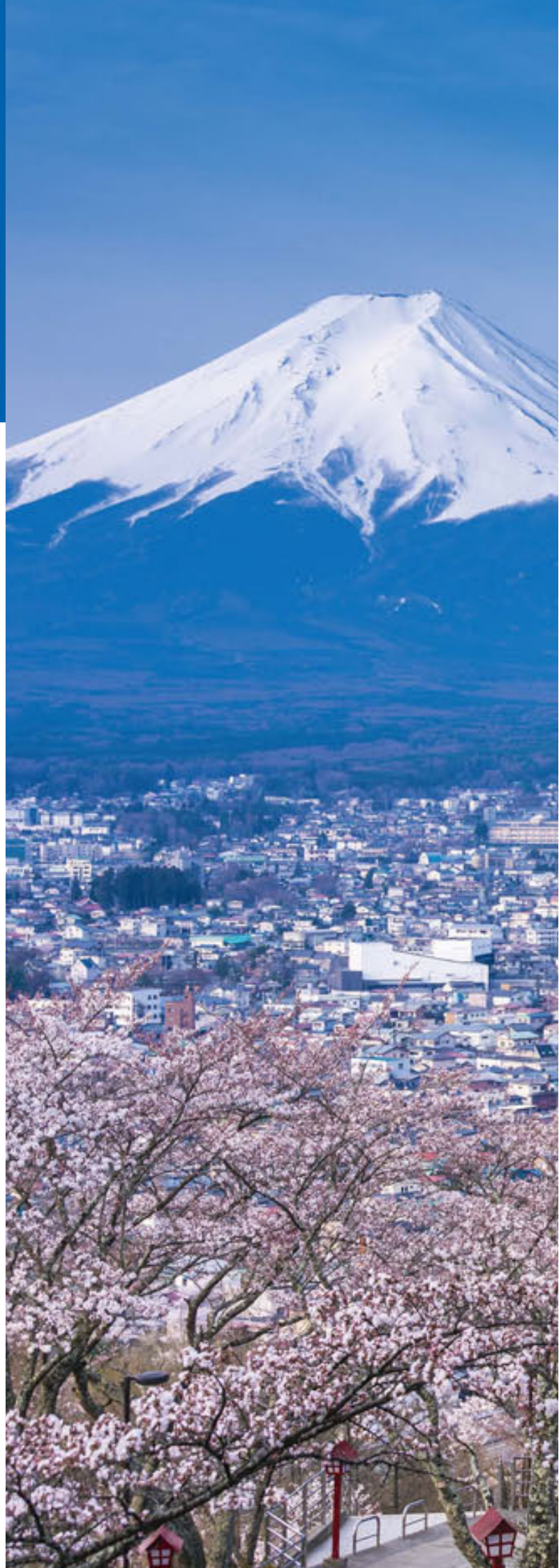
# Review and Plan

## Review of Operations for Fiscal 2014

1. Lending Operations	10
2. Funding Operations	12
3. Financial Review	14

## Management Plan for Fiscal 2015

1. Lending Operations	16
2. Funding Operations	16
3. Scheduled Payment to the National Treasury	17





## 1 Lending Operations

In fiscal 2014, JFM provided loans totaling USD 16.0 billion, which exceeded the initial plan by USD 1.0 billion, mainly as a result of actual lending surpassing plan by USD 0.3 billion in public projects, by USD 0.2 billion in national disaster prevention, by USD 0.2 billion in disaster management and mitigation, and by USD 0.3 billion in temporary financial countermeasures funding<sup>\*</sup>.

General account-related loans totaled USD 4.5 billion, or 28% of the total lending volume, mainly represented by the special municipal mergers. Loans for temporary financial countermeasures funding were USD 6.1 billion (38%), followed by municipal enterprise-related loans in the amount of USD 5.4 billion (34%), of which sewerage and water supply businesses were the main contributors.

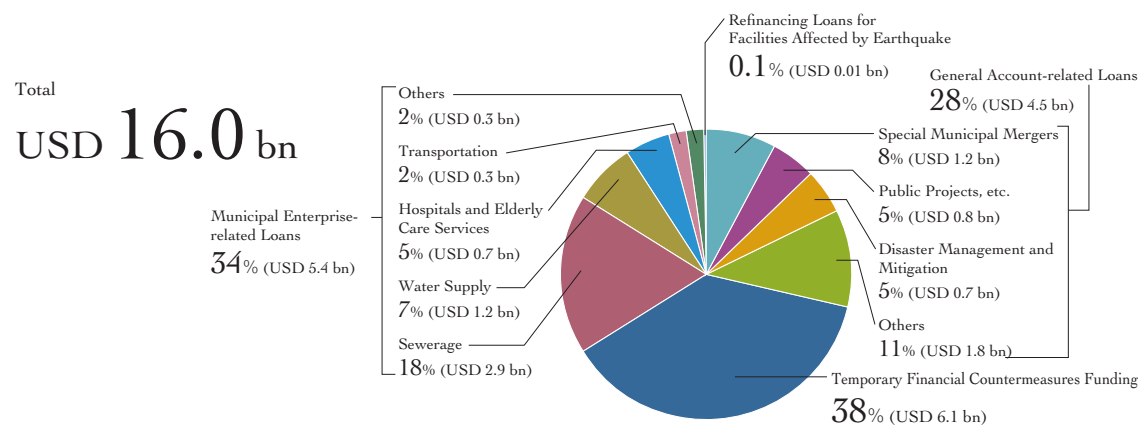
Note: Represents local government funding to cover shortfalls in local government revenue sources pursuant to the provisions of the Local Government Finance Law (Act No. 109 of 1948, as amended).

### Lending Operations by Business in Fiscal 2014

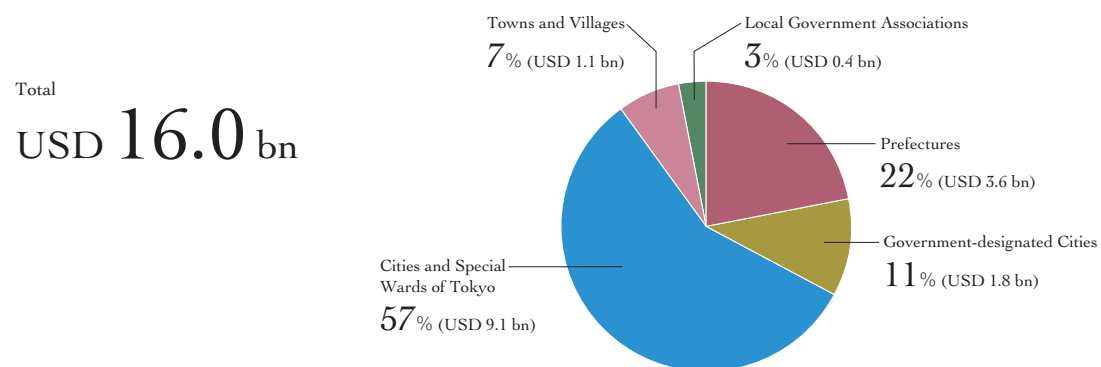
Business	Number of Loans Made	Loan Amount (USD in millions)	
			% of total
General Account-related Loans			
Public Projects, etc.	560	801	5.0
Public Housing	178	152	1.0
Disaster Management and Mitigation (Previous)	283	546	3.4
National Disaster Prevention	284	317	2.0
Educational Facilities Development	173	110	0.7
Social Welfare Facilities Development	140	109	0.7
General Waste Disposal	4	2	0.0
General Projects	71	31	0.2
Regional Revitalization	155	74	0.5
Disaster Prevention	237	183	1.1
Local Road Development	329	254	1.6
Special Municipal Mergers	634	1,219	7.6
Disaster Management and Mitigation	940	749	4.7
Subtotal	3,988	4,546	28.4
Municipal Enterprise-related Loans			
Water Supply	1,146	1,176	7.3
Industrial Water Supply	91	80	0.5
Transportation	44	273	1.7
Electricity and Gas Supply	62	106	0.7
Port Facilities	39	27	0.2
Hospitals and Elderly Care Services	376	714	4.5
Markets and Slaughterhouses	57	98	0.6
Sewerage	2,047	2,903	18.1
Tourism and Others	16	9	0.1
Subtotal	3,878	5,384	33.7
Refinancing Loans for Facilities Affected by Earthquake	6	2	0.1
Temporary Financial Countermeasures Funding	758	6,061	37.9
Total	8,630	15,994	100.0

Note: Totals may not add up due to rounding.

## FY2014 Loans Extended by Business



## FY2014 Loans Extended by Borrower



Note: Totals may not add up due to rounding.

## 2 Funding Operations

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

In fiscal 2014, JFM raised a total of USD 17.5 billion including USD 12.1 billion in JFM bonds (non-guaranteed), and USD 5.2 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 9.6 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 JFM bonds exceeded from the initial funding plan (USD 9.1 billion) mainly due to the growth in the lending volume.

As for domestic public offerings, a total of USD 7.1 billion was issued in the year. In order to cope with highly volatile market condition through the year, JFM reduced 10-year bond issuance from the initial plan while increasing opportunistic issuance.

In overseas offerings, JFM issued its inaugural Euro denominated benchmark bonds in 7-year tenor (EUR 1 billion) in September 2014, followed by another first 10-year issuance (USD 1 billion) in February 2015. In addition to these successful benchmark transactions, JFM issued a total of USD 222 million through three private placements denominated in multiple currencies and also an offering of NZD 105 million Uridashi Bonds targeting Japanese retail investors. Through these activities, the total volume of international bonds issued amounted to USD 2.6 billion<sup>\*2</sup>.

The private placements of 10-year bonds with the Pension Fund Association for Local Government Officials were USD 2.5 billion.

Furthermore, JFM also utilized bank loans as a complementary means of funding, financing USD 0.1 billion through long-term loans.

As a result, as of the end of fiscal 2014, JFM's outstanding bonds were USD 162.5 billion, including the Predecessor's bonds to which JFM succeeded. Outstanding long-term bank loans totaled USD 0.7 billion.

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

2. Includes an offering of EUR denominated benchmark bonds, two AUD denominated private placements, and an offering of NZD denominated 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 25 million) and JPY 20 billion (USD 166 million), respectively.

### Funding in Fiscal 2014

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

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

Type of Bonds	Plan (Initial)	Achieved
Domestic Public Offerings	USD 6.1 bn	USD 7.1 bn
10-year	USD 3.0 bn	USD 2.9 bn
20-year	USD 1.0 bn	USD 1.1 bn
5-year	USD 0.2 bn	USD 0.2 bn
Opportunistic Issuance	USD 1.8 bn	USD 2.7 bn
Overseas Offerings - MTN	USD 1.8 bn	USD 2.6 bn
Open Issuance <sup>*3</sup>	USD 1.2 bn	-
<b>Total</b>	<b>USD 9.1 bn</b>	<b>USD 9.6 bn</b>

Notes: 1. Figures in Plan (Initial) column show initially planned amounts. In December 2014, the above plan was revised to a total of USD 9.6 billion.

2. In addition to the total achieved figure above, USD 0.1 billion was raised through long-term bank loans.

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

Type of Bonds	Plan	Achieved
10-year	USD 2.5 bn	USD 2.5 bn

#### 2. Government-guaranteed domestic bonds

Type of Bonds	Plan	Achieved
10-year	USD 3.6 bn	USD 3.6 bn
6-year	USD 1.7 bn	USD 1.7 bn
<b>Total</b>	<b>USD 5.2 bn</b>	<b>USD 5.2 bn</b>

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.

## 2. Issue Spreads

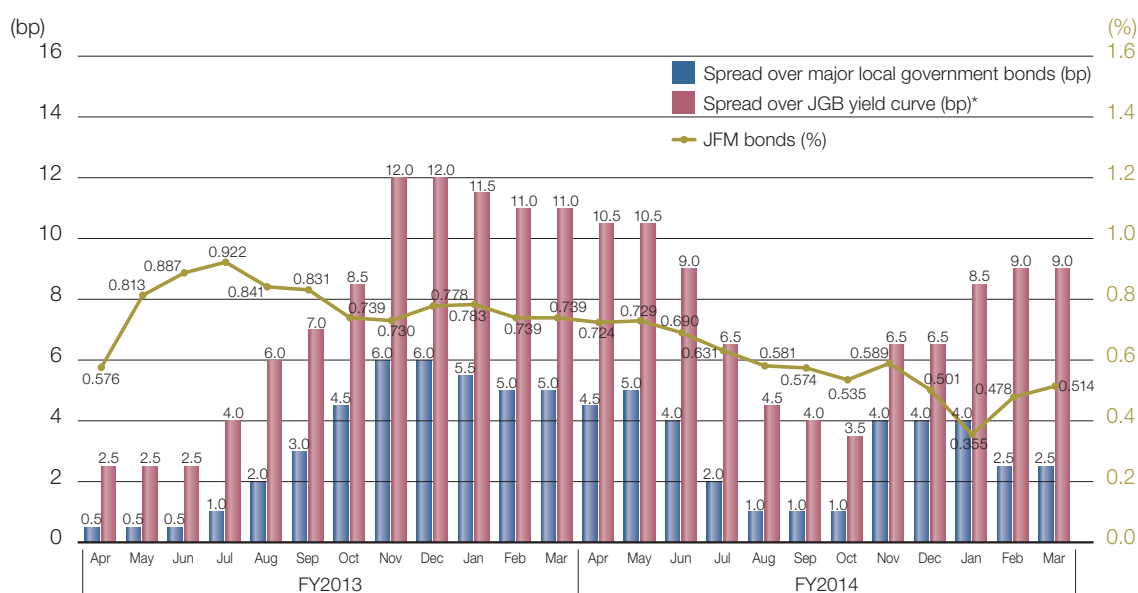
In the domestic market, on the back of the heightened volatility in the Japanese bond market due to the Bank of Japan's quantitative and qualitative easing announced in April 2013, the spreads of JFM bonds over JGB yield curve and major local government bonds had continuously widened, and the premium of 10-year JFM bonds to JGB yield curve peaked at 12 bp and those to major local government bonds at 6 bp in November 2013. As the market environment improved, the premium had tightened to 3.5 bp over JGB yield curve and 1.0 bp over those major local government bonds in October 2014. However, as volatility increased in the Japanese bond market after the Bank of Japan's additional quantitative and qualitative easing at the end of October, the premium for JFM bonds widened again to 6.5 bp over JGB yield curve and 4.0 bp over major local government bonds in November 2014 and reached 9.0 bp over JGB yield curve and 2.5 bp over major local government bonds in March 2015.

20-year JFM bonds had captured solid demands for higher yields under low interest rate market throughout the year which contributed to tighten the premium for JFM bonds.

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 2014.

### 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

---

In fiscal 2014, JFM's income was USD 3.6 billion, a decrease of USD 0.2 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 USD 0.1 billion to USD 2.1 billion, on the back of reduced interest expenses with respect to bonds. Ordinary income was thus down USD 0.1 billion to USD 1.5 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 0.03 billion.

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

#### 2. Balance Sheet

---

As of 31 March 2015, JFM's total assets amounted to USD 203.7 billion, up USD 3.5 billion from the previous year. This mainly resulted from an increase in loans by USD 2.9 billion due to the amount of new loans for local governments exceeding that of loans repaid.

Total liabilities were up USD 3.3 billion to USD 202.3 billion. This increase primarily reflected an increase of USD 1.0 billion in outstanding bonds as a result of the issue amount exceeding the redemption amount as well as an increase of USD 1.2 billion in cash collateral received for financial instruments.

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.

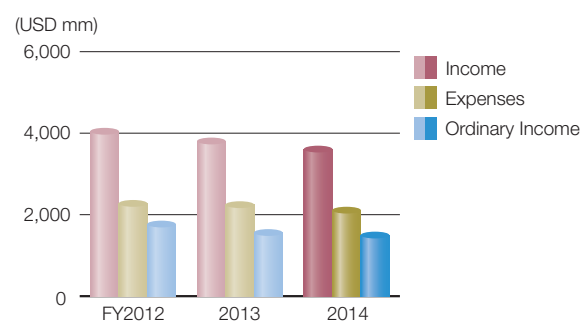
Financial highlights since fiscal 2012 are as follows.

## Financial Highlights

### 1. Income Statement

(USD Millions)

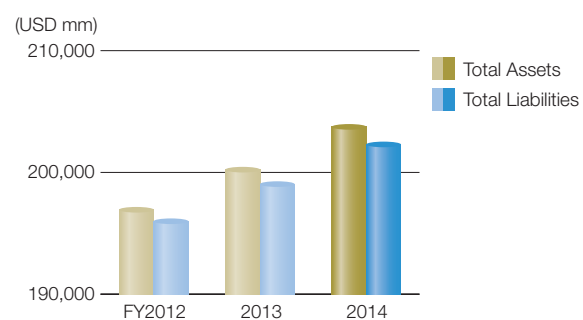
	FY2012	FY2013	FY2014	YoY
Income	4,047	3,808	3,610	-198
Expenses	2,277	2,246	2,111	-135
Ordinary Income	1,770	1,562	1,500	-63
Net Income	173	220	257	37



### 2. Balance Sheet

(USD Millions)

	End of FY2012	End of FY2013	End of FY2014	YoY
Total Assets	196,934	200,227	203,741	3,514
Loans	188,325	191,767	194,713	2,946
Others	8,609	8,460	9,028	567
Total Liabilities	195,991	199,041	202,299	3,259
Bonds	155,158	161,367	162,357	990
Cash collateral received for financial instruments	-	362	1,514	1,152
Fund for lending rate reduction	7,664	7,664	7,645	-19
Reserves under special laws	32,791	28,733	29,975	1,242
Reserve for interest rate volatility	9,138	10,966	12,794	1,828
Management account reserve for interest rate volatility	23,022	17,221	16,711	-510
Reserve for interest rate reduction	630	546	470	-76
Others	377	915	809	-106
Total Net assets	943	1,186	1,441	255



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 15.2 billion in fiscal 2015, an increase of 1.7% from fiscal 2014. This mainly reflects increased budgets for national disaster prevention projects and disaster management and mitigation projects and newly budgeted optimization of the public facilities.

The amount of JFM funds booked in the LGBP decreased by 3.9% from fiscal 2014 to USD 16.4 billion. This decrease is primarily due to a decreased budget for temporary financial countermeasures funding.

In response to funding needs by municipal enterprises for longer tenor projects such as water supply and sewage, JFM resolved that the maximum term to loans for water supply and sewage projects would be increased to 40 years from fiscal 2015.

### Lending Plan

	FY2015	FY2014	YoY
Planned Amount	USD 15.2 bn	USD 15.0 bn	1.7%

### JFM Funds in Local Government Borrowing Program

	FY2015	FY2014	YoY
JFM Funds	USD 16.4 bn	USD 17.0 bn	-3.9%
General Account-related Loans	USD 4.7 bn	USD 4.6 bn	0.5%
Municipal Enterprise-related Loans	USD 6.3 bn	USD 6.0 bn	6.0%
Refinancing Loans for Facilities Affected by Earthquake	USD 0.01 bn	USD 0.01 bn	0.0%
Temporary Financial Countermeasures Funding	USD 5.4 bn	USD 6.4 bn	-16.2%

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 2015, JFM plans to issue USD 8.3 billion of JFM bonds through these methods.

In addition, private placements with the Pension Fund Association for Local Government Officials are projected to amount to USD 2.5 billion, at the same volume as last year.

As for government-guaranteed bonds, JFM plans to issue USD 6.0 billion, an increase of USD 0.7 billion from the amount issued in fiscal 2014 due to scheduled payment to the national treasury in fiscal 2015 from a portion of JFM's reserves for interest rate volatility maintained in the management account.

## Funding Plan for FY2015

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

#### (1) Domestic and overseas offerings

Type of Bonds	FY 2015 (Plan)	FY2014 (Achieved)
Domestic Public Offerings	USD 5.1 bn	USD 7.1 bn
10-year	USD 2.2 bn	USD 2.9 bn
20-year	USD 0.8 bn	USD 1.1 bn
5-year	USD 0.2 bn	USD 0.2 bn
Opportunistic Issuance	USD 1.8 bn	USD 2.7 bn
Overseas Offerings - MTN	USD 1.8 bn	USD 2.6 bn
Open Issuance	USD 1.4 bn	–
Total	USD 8.3 bn	USD 9.6 bn

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 FY2014 figures, USD 0.1 billion was raised through long-term bank loans.

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

Type of Bonds	FY 2015 (Plan)	FY2014 (Achieved)
	USD 2.5 bn	USD 2.5 bn

### 2. Government-guaranteed domestic bonds

Type of Bonds	FY 2015 (Plan)	FY2014 (Achieved)
10-year	USD 4.2 bn	USD 3.6 bn
8-year	USD 0.8 bn	–
6-year	USD 1.0 bn	USD 1.7 bn
Total	USD 6.0 bn	USD 5.2 bn

## 3 Scheduled Payment to the National Treasury

In accordance with Article 14 of Supplementary Provisions of the JFM law, it was decided that USD 5.0 billion in total of JFM's reserves for interest rate volatility in the management account would be transferred to the national treasury over three-year period from fiscal 2015 through fiscal 2017. In fiscal 2015, USD 2.5 billion shall be transferred to the national treasury to secure financial resources of the local allocation tax for regional revitalization.

# Operations

## Lending Operations

1. Outline	20
2. Loan Interest Rates	22
3. Credit Check System	24
4. Trends in Lending Operations	24
5. Lending Operations by Business	27

---

## Funding Operations

1. Issue Type	30
2. Basic Funding Policy	31
3. Features of JFM Bonds	32
4. Trends in Funding Operations	33





JFM's primary objective is to contribute to the sound operation of the local government financing and to improve the welfare of local residents by providing long-term funding at low interest rates to local governments.

## 1 Outline

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

### 1. Eligible Borrowers

---

JFM provides loans exclusively to local governments.

### 2. Types of Loans

---

JFM classifies general loans into the following three categories depending on the term.

- 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 2015			
			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* <sup>2</sup>					
	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
		Public Facilities Optimization	30	5	30	5
	Municipal Enterprise-related Loans	Water Supply	30	5	40	5
		Industrial Water Supply	30	5	40	5
		Transportation	30	5	40	5
		Electricity Supply	30	5	30	5
		Gas Supply	25	5	25	5
		Port Facilities	30	5	40	5
		Hospitals	30	5	30	5
		Markets	30	5	40	5
		Slaughterhouses	30	5	30	5
		Sewerage	30	5	40	5
Temporary Financial Countermeasures Funding	Prefectures and Government-Designated Cities		–	–	30	3
	Cities, Towns and Villages		–	–	20	3

Notes: 1. Adjustable lending rates are reviewed depending on the maturity of the loan every 5 years, every 10 years or every 15 years or 20th, or 30th anniversary of the initial disbursement. Lending rates for Temporary Financial Countermeasures Fundings are reviewed every 5 years or 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

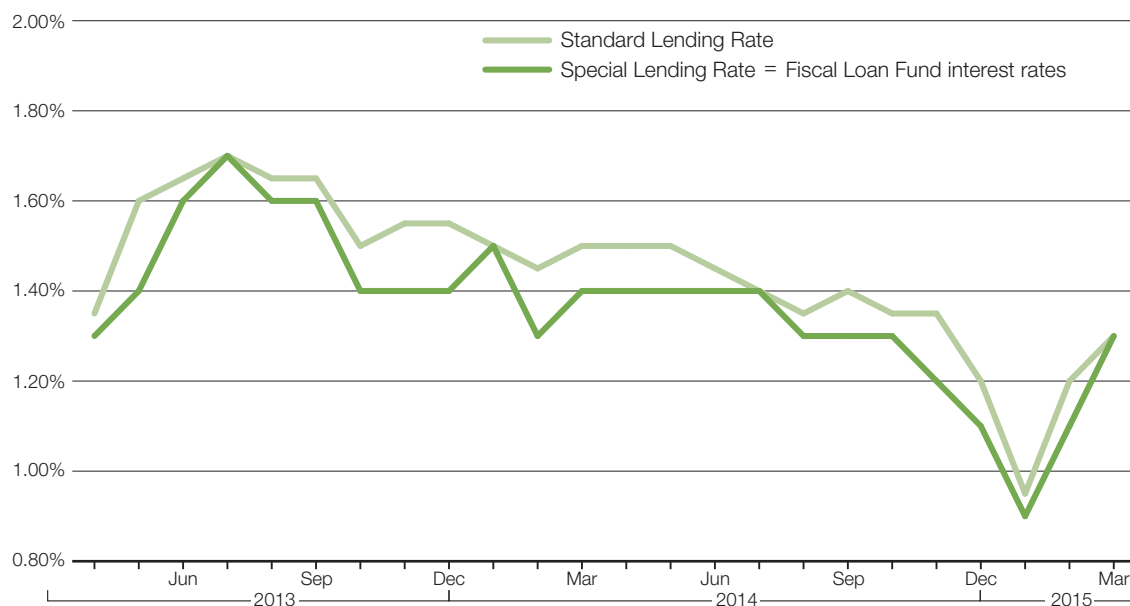
JFM offers two types of loan interest rates: the standard lending rate and the special lending rate.

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 0.35% per annum below the standard rate. At the end of fiscal 2014, approximately 99% of outstanding JFM loans consisted of special interest rate loans.

The trends of JFM loan interest rates since April 2013 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*

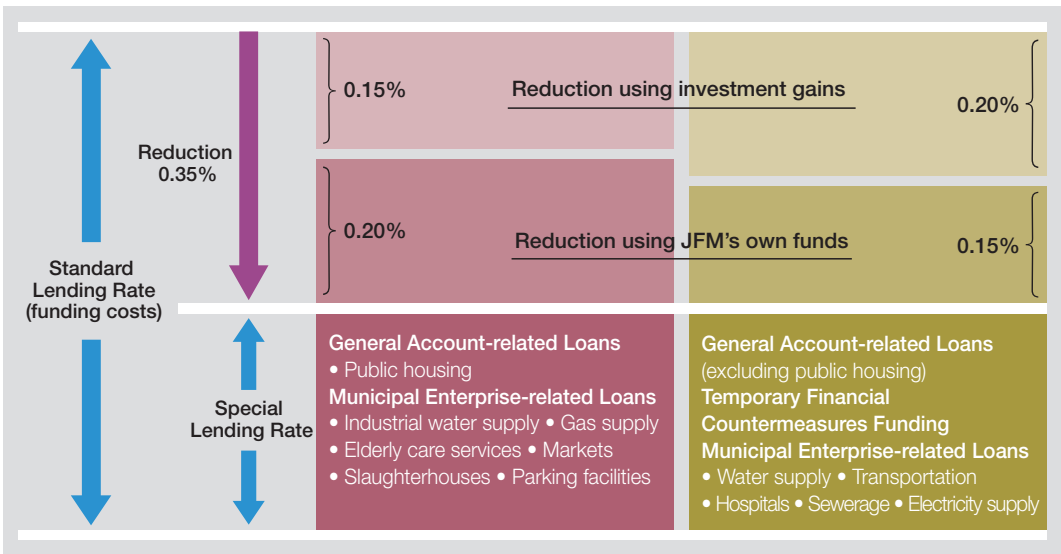


Note: The lending rates above represent a 30-year fixed rate loan with a 5-year grace period for principal repayment.

## 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, cities, towns, and villages.
- 2) JFM reviews loan applications submitted by local governments to determine if conditions are met. The conditions include the consent or approval, any required resolution by the local government assembly and budget appropriation for loans.
- 3) After a loan is disbursed, JFM conducts an onsite review to verify the use of funds and to check the operational status of the project and the financial and operational status of the borrower.

#### 1 Check of local governments/municipal enterprises applying for loans

- Check financial and operational status
- Conduct interviews

#### 2 Verification at the time of lending Check of the loan application documents

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

#### Disbursement of loans

#### 3 Subsequent review Onsite credit review

- Check the status of loans and projects
- Check financial and operational status

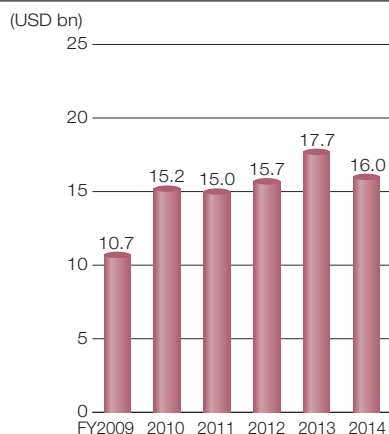
### 4 Trends in Lending Operations

#### 1. Overview

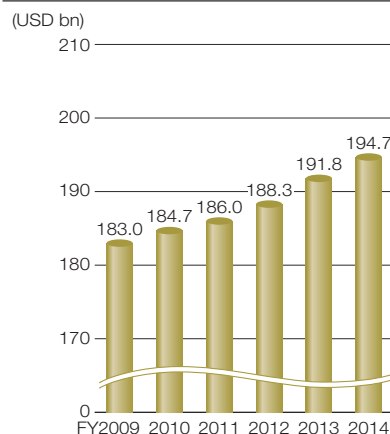
JFM's annual lending volume has risen since fiscal 2009 as a result of the expansion of its lending scope to overall general account-related loans, the introduction of the Great East Japan Earthquake-related loans, and so on.

In fiscal 2014, the lending volume amounted to USD 16.0 billion. At year-end, outstanding loans were USD 194.7 billion.

**Annual Lending Volume**



**Outstanding Loans**



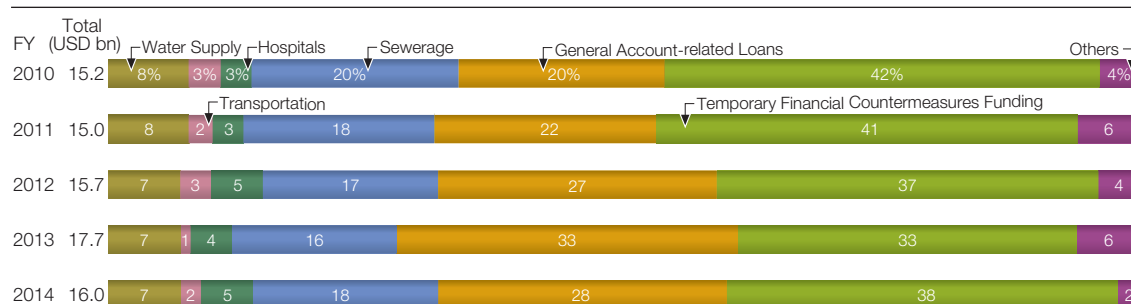
## 2. Annual Lending Volume by Business and Borrower

In fiscal 2009, JFM has become eligible to extend loans for general account related businesses and temporary financial countermeasures funding. As a result, the proportion of the annual lending amount by business types has changed significantly.

In fiscal 2014, loans for temporary financial countermeasures funding were USD 6.1 billion, accounting for the largest share of lending, at 38% of the total. Ranked next were USD 2.9 billion in the sewerage business, representing 18% of the total, and USD 1.2 billion in the special municipal mergers, for 8% of the total.

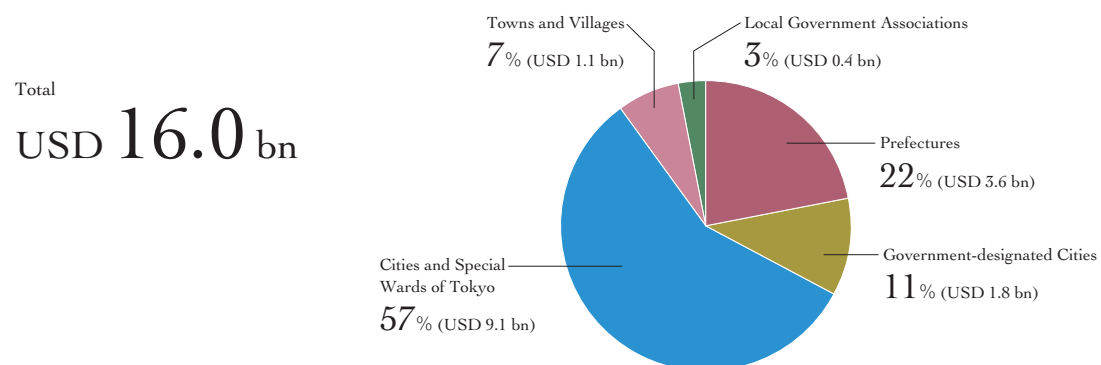
Amount of JFM loans extended to local governments during fiscal 2014 totaled USD 16.0 billion. Cities and special wards of Tokyo represented the highest share at 57% of the total, followed by prefectures at 22% and government-designated cities at 11%.

### 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.

### FY2014 Loans Extended by Borrower



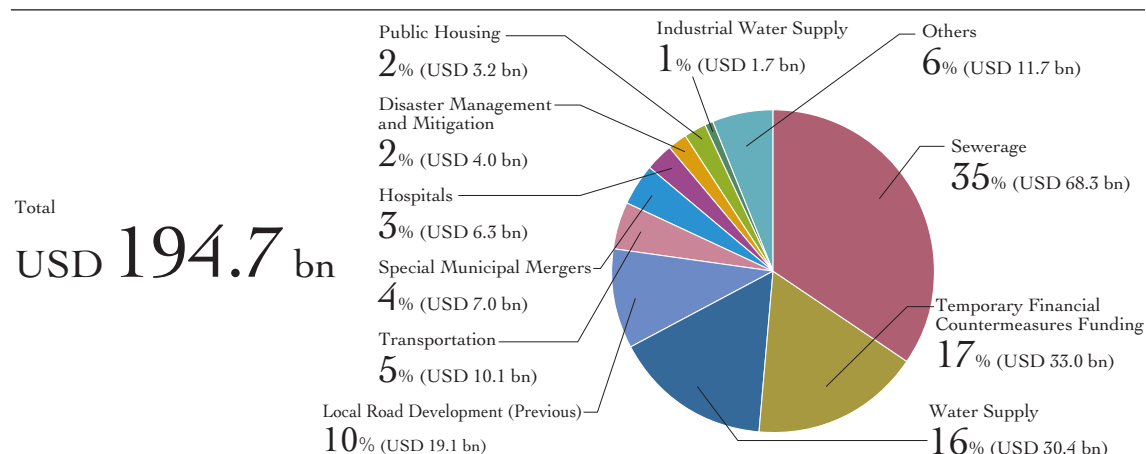
Note: Totals may not add up due to rounding.

### 3. Outstanding Loans by Business and Borrower

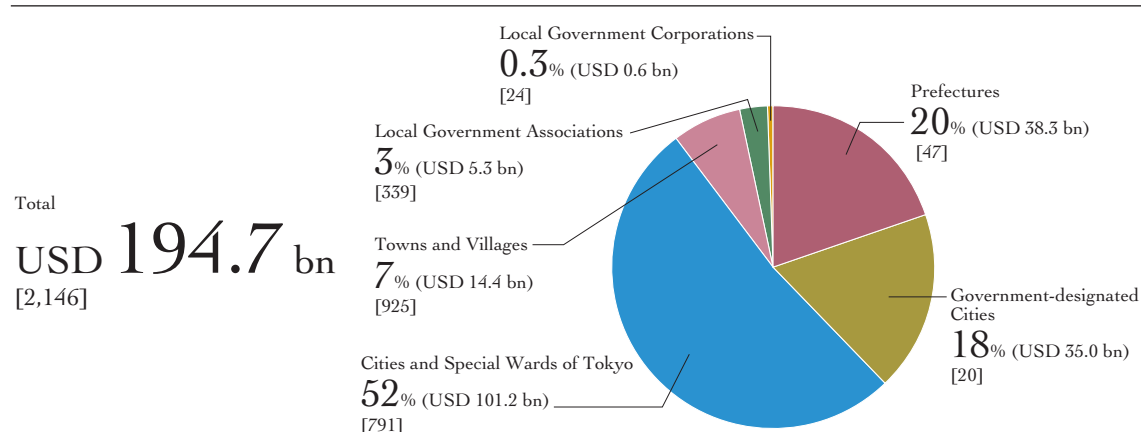
At the end of fiscal 2014, the outstanding loans were USD 194.7 billion, of which the sewerage business accounted for the largest share at 35%, followed by temporary financial countermeasures funding at 17% and water supply at 16%.

There were a total of 2,146 local governments with outstanding loans from JFM, including all prefectures. Cities and special wards of Tokyo accounted for the largest portion at 52% of the total, followed by prefectures at 20% and government-designated cities at 18%. Towns, villages as well as local government associations and corporations represented the remaining 10.3%.

#### Outstanding Loans by Business (as of 31 March 2015)



#### Outstanding Loans by Borrower (as of 31 March 2015)



\*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.

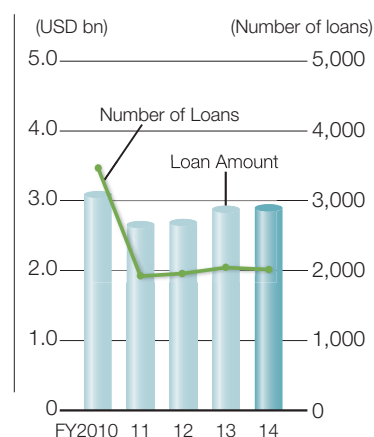
### Sewerage Business

At the end of fiscal 2013, the sewerage system covered 75.6% of people in cities, towns and villages with a population of less than 50,000, or 88.9% of the nation's total population. There were 3,640 projects involved, with a total annual sewerage processing capacity (combined storm water and sewerage treatment, excluding river basin sewerage) of around 14.9 billion cubic meters serving areas with a population of 102.4 million people.

In fiscal 2014, loans extended to the sewerage business totaled USD 2.9 billion.



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



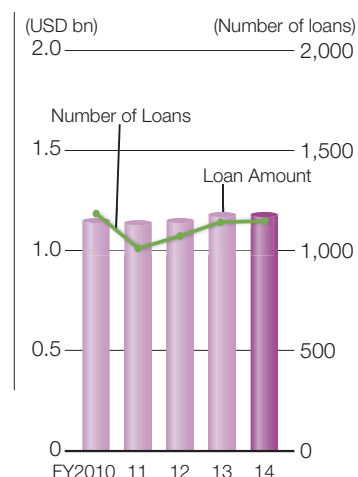
### Water Supply Business

At the end of fiscal 2012, the water supply coverage was 97.7% of the population. The water supply business (including small-scale water supply) operated by local governments totaled 2,112 projects and provided about 18.4 billion cubic meters of water annually for approximately 124.49 million people.

In fiscal 2014, loans extended to the water supply business amounted to USD 1.2 billion.



Shiramizu Raw Water Reservoir (Ishigaki City, Okinawa Prefecture)



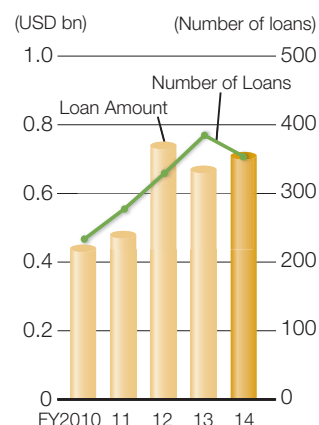
## Hospitals Business

At the end of fiscal 2013, hospital projects managed by local governments totaled 643 with 839 hospitals, which included 806 general hospitals, one tuberculosis hospital and 32 mental hospitals.

In fiscal 2014, loans extended to the hospitals business (including those run by local independent administrative institutions) totaled USD 0.7 billion.



Uwajima City Hospital  
(Ehime Prefecture)



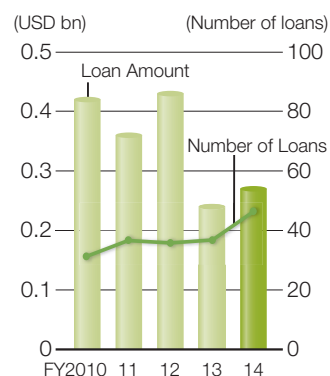
## Transportation Business

At the end of fiscal 2013, the transportation projects managed by local governments totaled 91 projects, which were operated by 74 entities, and public transportation is used by approximately 4.1 billion people annually (11.22 million people on an average daily basis).

In fiscal 2014, loans extended to the transportation business amounted to USD 0.3 billion.



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

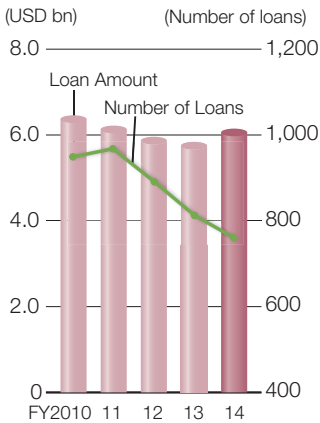


# Temporary Financial Countermeasures Funding

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 2014, loans extended for temporary financial countermeasures funding amounted to USD 6.1 billion.

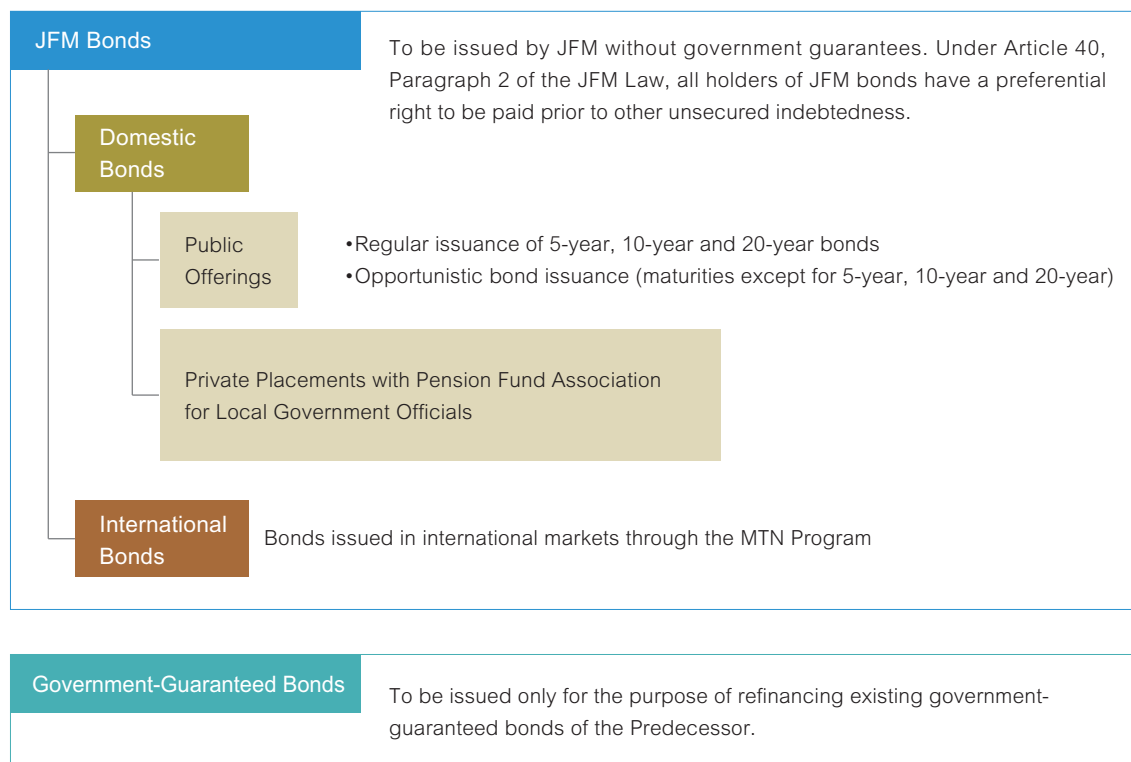


As a joint funding organization for local governments, JFM raises funds in a consistent manner to provide local governments with long-term and low-interest funds, while endeavoring to reduce its funding costs.

## 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 seek more flexible funding operations than ever in response to current low interest rate environment and movement of investor demands.

### 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). The BIS risk weighting is 10% for JFM bonds denominated in yen.

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: A1 R&I: AA+ (as of 31 March 2015)	
BIS Risk Weighting (denominated in yen)	JFM bonds: 10%	For reference: Japanese Government Bonds: 0% Japanese Government-Guaranteed Bonds: 0% 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 overseas bonds, the values are determined by respective authorities in each country (as of 31 March 2015).

## 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.

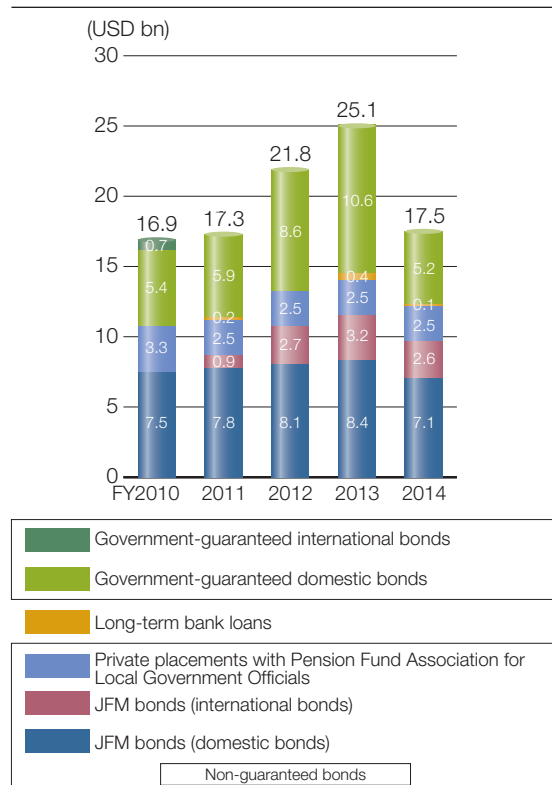
Historically, the Predecessor had issued government-guaranteed bonds and private placement bonds subscribed by the Pension Fund Association for Local Government Officials and, for the period from fiscal 2001 to fiscal 2008, non-guaranteed FILP agency bonds\*. Then, since JFM commenced its operations 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, the issuance of guaranteed bonds will gradually decrease.

In fiscal 2014, JFM raised a total of USD 17.5 billion, a decrease of USD 7.6 billion from the previous year. This decrease was mainly due to completion of the scheduled payment to the national treasury, which JFM funded USD 5.4 billion through government guaranteed bonds in fiscal 2013, and also a decrease in the annual lending volume.

At year-end, outstanding bonds were USD 162.5 billion. Outstanding bank loans totaled USD 0.7 billion. The total amount of outstanding bonds and bank loans was USD 163.2 billion, which was comprised of USD 70.4 billion in the general account and USD 92.8 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. JFM expects the amount of the management account to gradually decrease as no new bonds have been issued since October 2008 and will be issued going forward for new loan except for refinancing outstanding Predecessor's bonds.

Note: 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.

**Funding Volume**



**Outstanding Bonds and Bank Loans**



# Management Structure

## Corporate Governance

1. Corporate Governance	36
2. Internal Control over Financial Reporting	38
3. Internal Audit	38

General Account and Management Account	39
Risk Management	41
Compliance	46
Disclosure	47

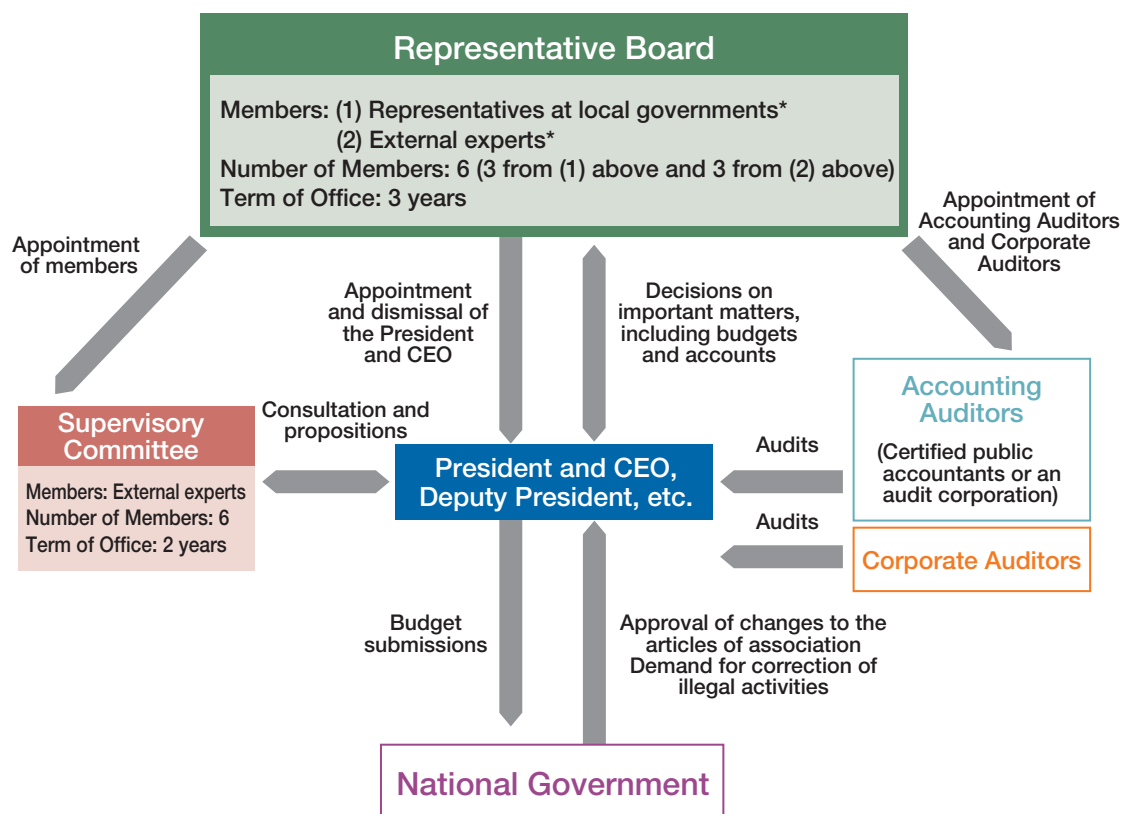




JFM ensures responsible corporate governance through the participation of external experts on the Representative Board and the Supervisory Committee and audits by external accounting auditors.

## 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

---

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 has focused 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

---

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

---

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 2014 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

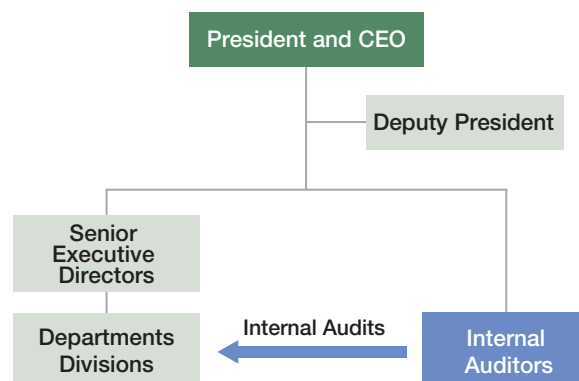
An internal auditor, who is independent from other departments, divisions and offices, examines and assesses the appropriateness and effectiveness of JFM’s internal control systems, thereby helping ensure reliable financial reporting and appropriate and efficient operations.

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*



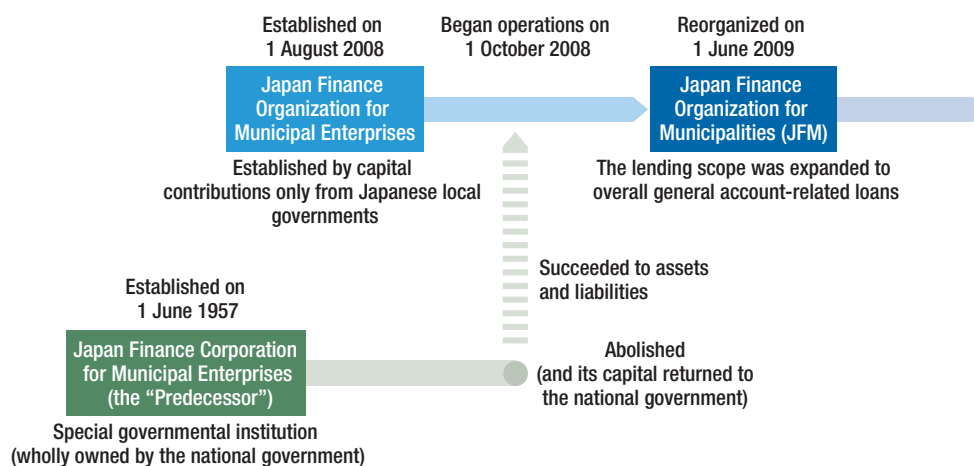
## General Account and Management Account

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.

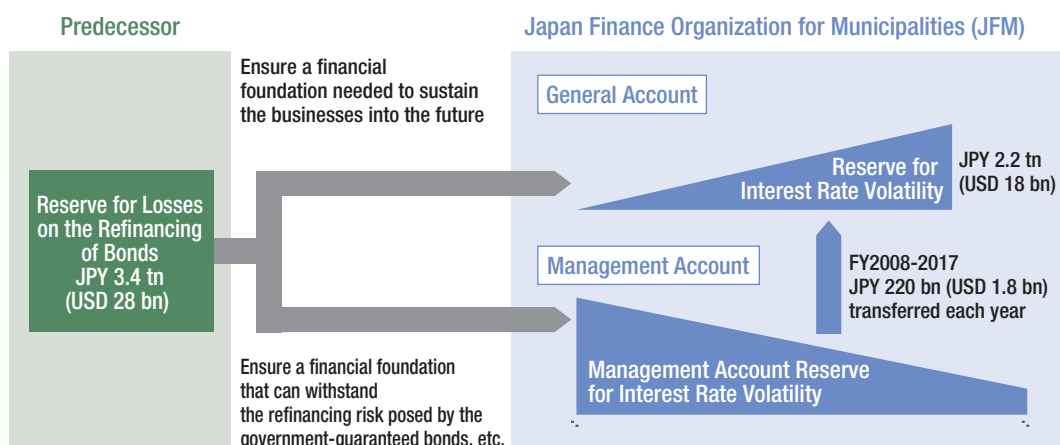
New loans made and bonds issued since JFM's operations began are accounted for in the general account of JFM, whereas operations to administer loans carried over from the Predecessor are accounted for in the management account.

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 28 billion) to ensure its future stable management.

Of this amount, the JPY 2.2 trillion (USD 18 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.



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 decided to transfer a portion of JFM's reserve for interest rate volatility within the management account to the Japanese national government over the three-year period from fiscal 2015 to fiscal 2017, with the aim of transferring up to JPY 600 billion (USD 5.0 billion). Such portion becomes financial resources for Local Allocation Tax and is distributed to the local governments for regional revitalization.

During fiscal 2012 and 2013, JFM transferred a total of JPY 1 trillion (USD 8.3 billion) to the national treasury.

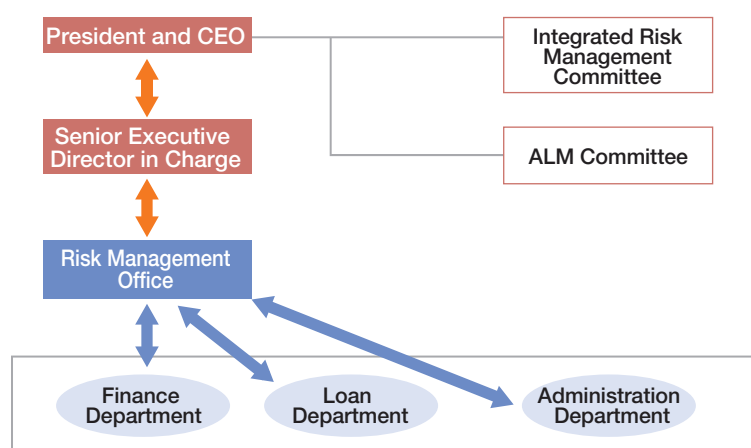
## 1 Overall Risk Management

### 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

JFM lends to local governments with the maximum maturity of 40 years while JFM raises funds primarily by issuing 10-year bonds. 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).

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 2015). 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 losses 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.

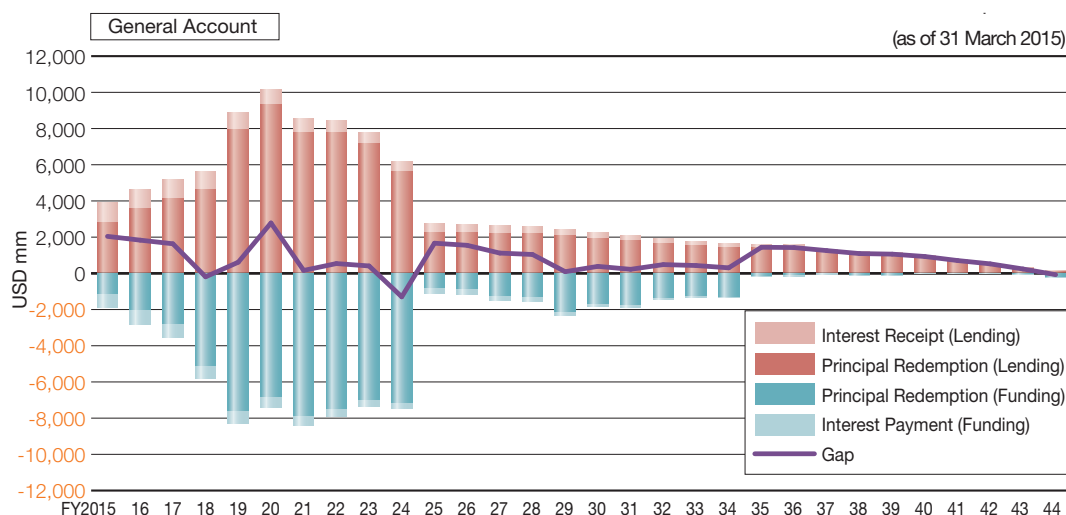
- Interest rate risk associated with a gap in lending and funding schedules

JFM generally raises funds required to finance a loan by issuing bonds prior to the loan disbursements. 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.

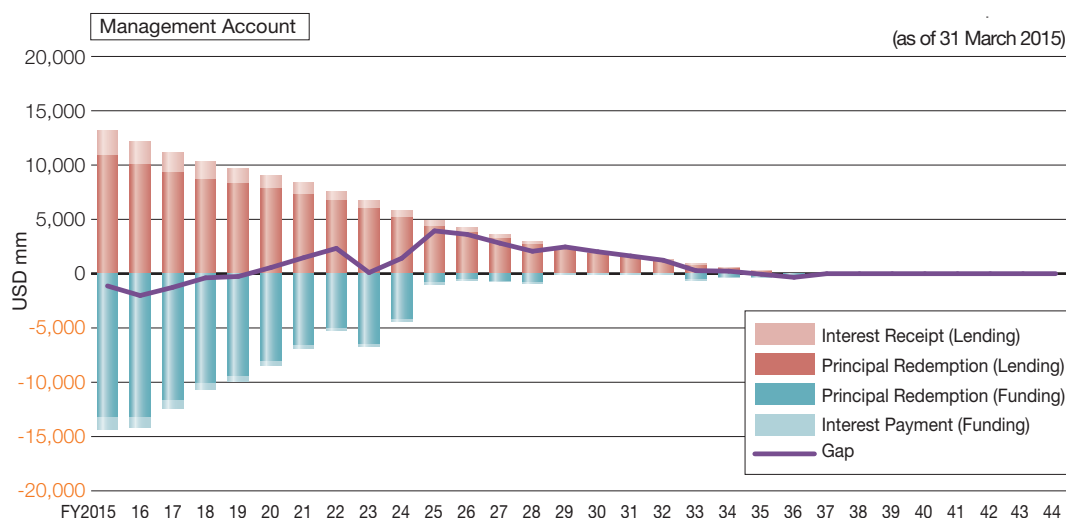
## Managing interest rate risk associated with bond refinancing

- JFM maintains reserves to prepare for interest rate risk associated with bond refinancing. At the end of fiscal 2014, the total amount of the reserves stood at USD 29.5 billion, which consisted of USD 12.8 billion in the general account and USD 16.7 billion in the management account.
- 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 JFM's outstanding loans in the general account, are revised every 5 years or 10 years depending on loans, 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 2014, the duration gap in the general account was 1.15 years, staying within the management target.
- Although JFM resolves to extend its maximum loan maturity from 30 years to 40 years will increase the duration gap, JFM's stable operations are secured by sufficient amount of the reserves. In addition, JFM will revise its lending rate by 30th year at the latest for its loans with maturities longer than 30 years.
- In the management account, which manages assets transferred from the Predecessor, JFM maintains USD 16.7 billion of the management account reserve for interest rate volatility as described above. As no new lending from the management account has been made since October 2008, JFM expects that the interest rate risk in the management account will decline overall as the size of the account declines over time.
- 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 2015 to fiscal 2017, with the aim of transferring up to JPY 600 billion. 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 2015, JFM plans to transfer JPY 300 billion (USD 2.5 billion) to the national treasury. Even after these transfers, JFM does not expect the transfers to have a material effect on JFM's business, results of operations or financial condition, due primarily to sufficient amount of the reserve for this account.

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



• Lending duration 8.98 years • Funding duration 7.83 years • Duration gap 1.15 years (YoY change: +0.08 years)



• Lending duration 6.33 years • Funding duration 4.46 years • Duration gap 1.87 years (YoY change: -0.18 years)

### JFM as a whole

• Lending duration 7.53 years • Funding duration 5.92 years • Duration gap 1.61 years (YoY change: -0.14 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

---

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.

In addition, although JFM is not required to comply with the liquidity coverage ratio requirements of Basel III, as a voluntary measure, JFM has implemented a policy to maintain a certain amount of liquid assets so that, in the event of market disruption, JFM may continue to timely make its payments of interest and principal on the bonds and other debt securities.

### 4. Operational Risk

---

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

#### 1) Administrative risk

Administrative risk is the risk of loss resulting from the neglect or inadequacy of attention by management and 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

---

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 operations 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.

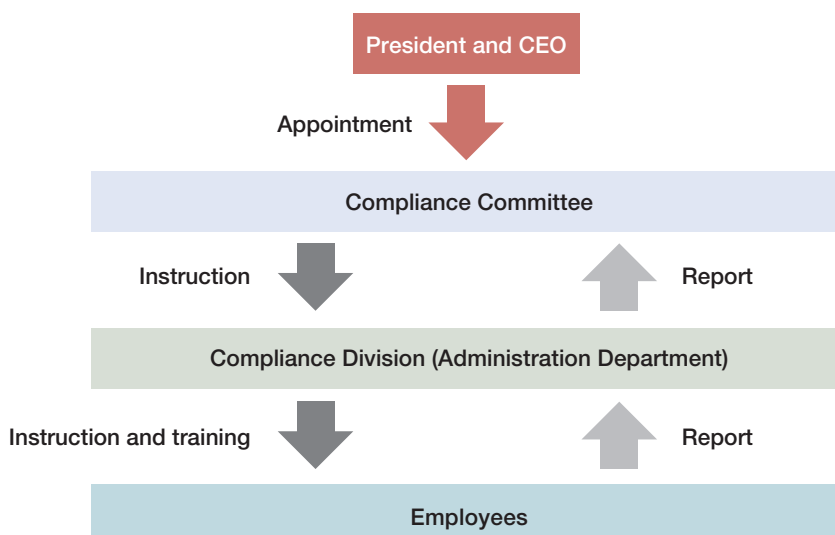
## 2 Compliance System

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

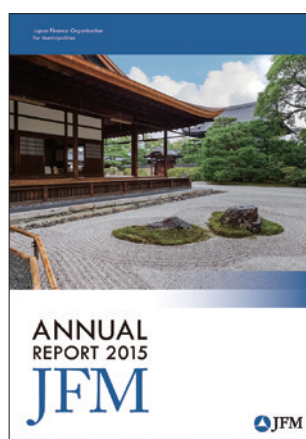
- Financial statements
- Business reports and statement of accounts (in Japanese only)
- Explanatory documents based on Article 36, Paragraph 3 of the JFM Law (Documents corresponding to annual securities reports specified in the Financial Instruments and Exchange Act and the Internal Control Report)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

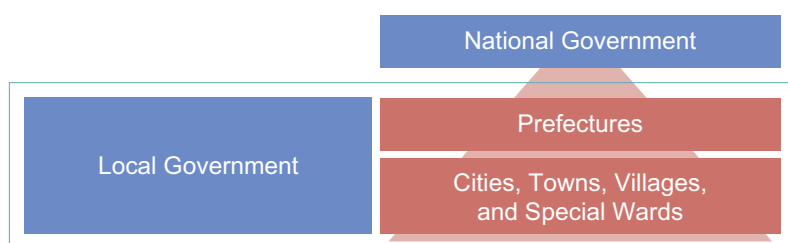
# JFM's Role in Local Government Finance

## 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 1 April 2015)



## 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 2015, local government finance will total JPY 87.8 trillion (USD 729.1 billion) (based on the Local Government Finance Program (the “LGFP”), while the nation’s General Account Budget for the year is JPY 96.3 trillion (USD 800.4 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 FY2015)

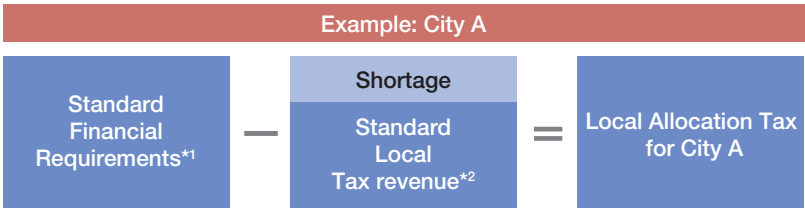
Annual Expenditure (USD 729.1 bn)	Annual Revenue (USD 729.1 bn)
<ul style="list-style-type: none"> <li>- Social welfare</li> <li>- Education</li> <li>- Fire defense</li> <li>- Infrastructure, etc.</li> </ul>	Local Tax USD 334.4 bn
	Local Allocation Tax USD 144.1 bn
	Local Government Bonds and Loans USD 81.2 bn
	Others USD 169.5 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 2015).

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.

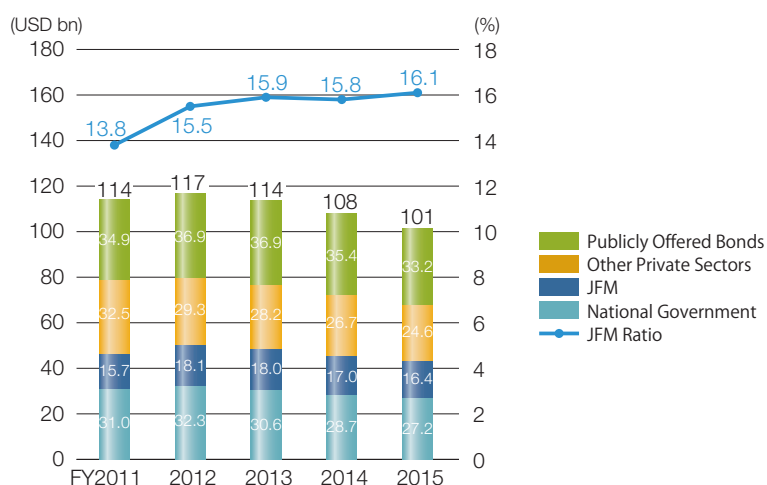
### Local Government Borrowing Program

		FY2014	FY2015	Share
1. Private Funds	Publicly Offered Bonds	USD 35 bn	USD 33 bn	33%
	Other Private Sectors	USD 27 bn	USD 25 bn	24%
2. Public Funds	JFM	USD 17 bn	USD 16 bn	16%
	National Government	USD 29 bn	USD 27 bn	27%
Total		USD 108 bn	USD 101 bn	100%

Note: The figures above are the planned numbers originally published by the 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: The Ministry of Internal Affairs and Communications

# Financial Section

<b>Financial Statements</b>	<b>54</b>
Balance Sheets	54
Statements of Income	55
Statements of Appropriation of Profit [General account/Management account]	56
Statements of Changes in Net Assets	58
Statements of Cash Flows	60
Notes to Financial Statements	61
<b>Independent Auditor's Report</b>	<b>94</b>

## Financial Statements

## Balance Sheets

(As of 31 March 2014 and 2015)

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

Item	Fiscal 2013 (31 March 2014)	Fiscal 2014 (31 March 2015)		Item	Fiscal 2013 (31 March 2014)	Fiscal 2014 (31 March 2015)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 5)	¥23,082,976	¥23,437,630	\$194,713,218	Bonds (Notes 9 and 10)	¥19,423,743	¥19,542,864	\$162,356,608
Securities (Notes 19)	533,998	670,000	5,566,171	Borrowed money (Note 11)	95,500	85,500	710,310
Cash and bank deposits	467,175	399,211	3,316,533	Cash collateral received for financial instruments	43,530	182,246	1,514,056
Cash collateral paid for financial instruments	370	437	3,630	Other liabilities	14,397	11,700	97,204
Other assets	13,036	12,384	102,890	Reserve for bonuses (Note 12)	50	50	421
Tangible fixed assets (Note 8)	2,836	2,840	23,598	Reserve for bonuses for directors and corporate auditors (Note 12)	7	7	63
Intangible fixed assets (Note 8)	938	1,776	14,757	Reserve for retirement benefits (Notes 12 and 15)	116	41	348
				Reserve for retirement benefits for directors and corporate auditors (Note 12)	22	22	190
				Fund for lending rate reduction	922,561	920,287	7,645,489
				Basic fund for lending rate reduction (Note 14)	918,775	920,287	7,645,489
				Additional fund for lending rate reduction (Note 14)	3,785	-	-
				Reserves under special laws	3,458,627	3,608,067	29,974,805
				Reserve for interest rate volatility (Note 13)	1,320,000	1,540,000	12,793,885
				Management account reserve for interest rate volatility (Note 13)	2,072,945	2,011,515	16,711,102
				Reserve for interest rate reduction	65,681	56,552	469,818
				Total liabilities	23,958,556	24,350,790	202,299,494
				Net Assets			
				Capital	16,602	16,602	137,926
				Retained earnings	76,732	107,703	894,770
General account surplus reserve	76,732	107,703	894,770				
Valuation, translation adjustments and others	(4,225)	(4,482)	(37,236)				
Management account surplus reserve	53,666	53,666	445,843				
Total net assets	142,775	173,489	1,441,303				
Total assets	¥24,101,331	¥24,524,279	\$203,740,797	Total liabilities and net assets	¥24,101,331	¥24,524,279	\$203,740,797

See notes to financial statements.

## Statements of Income

(For the years ended 31 March 2014 and 2015)

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

Item	Fiscal 2013 (1 April 2013 to 31 March 2014)	Fiscal 2014 (1 April 2014 to 31 March 2015)	
	Amount	Amount	
Income	¥458,388	¥434,569	\$3,610,284
Interest income	455,158	428,977	3,563,822
Fees and commissions	117	112	936
Other operating income	0	0	3
Other income	3,112	5,479	45,523
Contributions from fund for lending rate reduction (Note 14)	3,084	5,467	45,426
Others	28	11	97
Expenses	270,337	254,070	2,110,745
Interest expenses	260,947	246,060	2,044,199
Fees and commissions	281	294	2,446
Other operating expenses	6,509	4,632	38,483
General and administrative expenses	2,598	3,083	25,617
Other expenses	0	-	-
Ordinary income	188,051	180,499	1,499,539
Special gains	880,203	229,129	1,903,547
Reversal of management account reserve for interest rate volatility (Notes 6 and 13)	870,000	220,000	1,827,698
Reversal of reserve for interest rate reduction	10,203	9,129	75,849
Special losses	1,041,744	378,658	3,145,787
Loss on disposal of fixed assets	-	88	732
Provision for reserve for interest rate volatility (Note 13)	220,000	220,000	1,827,698
Provision for management account reserve for interest rate volatility (Note 13)	171,744	158,570	1,317,357
Payment to national treasury (Note 6)	650,000	-	-
Net income	¥26,510	¥30,971	\$257,299

See notes to financial statements.

## 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

## Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2015)

(Millions of yen)

1 Profit available for appropriation		¥30,971
Net income	¥30,971	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	30,971	30,971

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$257,299
Net income	\$257,299	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	257,299	257,299

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 2014)

(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 2015)

(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 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 2015)

(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 2014	¥16,602	¥76,732	¥76,732	¥93,334	¥(4,225)	¥53,666	¥142,775
Changes during accounting period							
Net income	-	30,971	30,971	30,971	-	-	30,971
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(256)	-	(256)
Net changes during accounting period	-	30,971	30,971	30,971	(256)	-	30,714
Balance as of 31 March 2015	¥16,602	¥107,703	¥107,703	¥124,305	¥(4,482)	¥53,666	¥173,489

(For the year ended 31 March 2015)

(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 2014	\$137,926	\$637,471	\$637,471	\$775,397	\$(35,103)	\$445,843	\$1,186,137
Changes during accounting period							
Net income	-	257,299	257,299	257,299	-	-	257,299
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(2,133)	-	(2,133)
Net changes during accounting period	-	257,299	257,299	257,299	(2,133)	-	255,166
Balance as of 31 March 2015	\$137,926	\$894,770	\$894,770	\$1,032,696	\$(37,236)	\$445,843	\$1,441,303

See notes to financial statements.

## Statements of Cash Flows

(For the years ended 31 March 2014 and 2015)

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

Item	Fiscal 2013 (1 April 2013 to 31 March 2014)	Fiscal 2014 (1 April 2014 to 31 March 2015)	
	Amount	Amount	
<b>I Cash flows from operating activities</b>			
Net income	¥26,510	¥30,971	\$257,299
Depreciation and amortization	294	480	3,993
Interest income	(455,158)	(428,977)	(3,563,822)
Interest expenses	260,947	246,060	2,044,199
Increase/(decrease) in reserve for bonuses	3	(0)	(1)
Increase in reserve for bonuses for directors and corporate auditors	1	0	2
Decrease in reserve for retirement benefits	(25)	(74)	(618)
Decrease in reserve for retirement benefits for directors and corporate auditors	(4)	(0)	(0)
Decrease in fund for lending rate reduction	(3,084)	(5,467)	(45,426)
Increase in reserve for interest rate volatility	220,000	220,000	1,827,698
Decrease in management account reserve for interest rate volatility	(48,255)	(61,429)	(510,341)
Decrease in reserve for interest rate reduction	(10,203)	(9,129)	(75,849)
Net (increase)/decrease in loans	(414,341)	(354,653)	(2,946,362)
Net increase/(decrease) in bonds	743,787	116,129	964,774
Net increase/(decrease) in borrowed money	65,500	(10,000)	(83,077)
Interest received	455,628	429,619	3,569,162
Interest paid	(214,605)	(245,338)	(2,038,200)
Others	3,025	138,435	1,150,084
<b>Net cash provided by operating activities</b>	<b>630,020</b>	<b>66,626</b>	<b>553,515</b>
<b>II Cash flows from investing activities</b>			
Proceeds from redemption of securities	4,189,000	3,300,000	27,415,469
Purchases of securities	(4,123,929)	(3,435,994)	(28,545,274)
Purchases of tangible fixed assets	(37)	(396)	(3,297)
Purchases of intangible fixed assets	(558)	(1,393)	(11,573)
Proceeds from sales of tangible fixed assets	335	-	-
<b>Net cash provided by/(used in) investing activities</b>	<b>64,809</b>	<b>(137,784)</b>	<b>(1,144,675)</b>
<b>III Cash flows from financing activities</b>			
Payment to national treasury	(650,000)	-	-
Revenue from contributions made from municipally operated racing	3,105	3,193	26,534
Refund of contributions made from municipally operated racing	(28)	-	-
<b>Net cash provided by/(used in) financing activities</b>	<b>(646,923)</b>	<b>3,193</b>	<b>26,534</b>
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>V Net increase/(decrease) in cash and cash equivalents</b>	<b>47,907</b>	<b>(67,964)</b>	<b>(564,626)</b>
<b>VI Cash and cash equivalents at beginning of year</b>	<b>419,267</b>	<b>467,175</b>	<b>3,881,159</b>
<b>VII Cash and cash equivalents at end of year</b>	<b>¥467,175</b>	<b>¥399,211</b>	<b>\$3,316,533</b>

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 2015, the final day of the fiscal year, which was ¥120.37 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 reserve for retirement benefits 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 from fiscal 2013.

### 4. Additional Information

JFM obtained the approval of the Minister of Health, Labour and Welfare, dated 1 October 2014, for the transfer to the Japanese national government of the 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. 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 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).

For the three years from fiscal 2015 through fiscal 2017, a portion of JFM's reserve for interest rate volatility within the management account is to be attributed to the Japanese national government, with the aim of transferring up to 600 billion yen over this period. In fiscal 2015, 300 billion yen is scheduled to be transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2015 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2015).

### 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.

## Financial Statements

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

(b) Details and risks of financial instruments

JFM makes loans to local governments. The maximum term to maturity is 30 years (extended to 40 years from April 2015), but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds. 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. 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. The interest rate risk at JFM includes the interest rate risk associated with bond and borrowed money refinancing and pipeline risk.

##### - Interest rate risk associated with bond and borrowed money refinancing

JFM makes loans to local governments. The maximum term to maturity is 30 years (extended to 40 years from April 2015), 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.
- To achieve its objective, JFM has taken measures to decrease the duration gap by issuing longer than 10-year bonds to extend the duration on liabilities while pursuing the best bond conditions with flexible funding operations.
- JFM's lending for temporary financial countermeasures funding accounts for approximately 40% of the overall outstanding loans in the general account with the same maturities as loans to other businesses with a maximum maturity of 30 years. However, the interest rates for temporary financial countermeasures funding are revised every 10 years, which also contributes to moderate the duration on assets (lending).
- As mentioned above, JFM resolves to extend its maximum loan maturity from 30 years to 40 years, which will increase the duration gap, but JFM's stable operations are secured by a sufficient amount of reserves. In addition, JFM will revise its lending rate by the 30th year at the latest for its loans with maturities longer than 30 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 is to be transferred to the Japanese national government. The transfer is scheduled to occur over a period of three years from fiscal 2015 through fiscal 2017, with the aim of transferring up to 600 billion yen.

##### - Pipeline risk

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

## Financial Statements

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 borrowed money 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 and long-term borrowed money, future cash flows regarding such fixed-rate bonds and long-term borrowed money 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 2015 is used.

- Calculation of Outlier Ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2015, 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.

JFM monitors the movement of the outlier ratio on a regular basis, and the calculation as of 31 March 2015 is as follows.

Information on the outlier ratio as of 31 March 2015 is as follows:

(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	22.4% [+1.8%]	¥(578,975) [(96,937)]	\$(4,809,970) [(805,333)]	¥(1,855,809) [(286,075)]	\$(15,417,538) [(2,376,630)]	¥+1,276,833 [+189,137]	\$+10,607,568 [+1,571,297]	¥2,580,111 [+248,440]	\$21,434,834 [+2,063,969]

Note: Amounts posted in square brackets indicate the change from 31 March 2014.

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 in 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 2015 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 36,604 million yen (304,104 thousand U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2015 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 37,102 million yen (308,237 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.

In addition, as new Basel III liquidity standards are being applied to Japanese financial institutions, JFM has voluntarily implemented a plan to secure liquidity support assets in advance in order to prepare for potential market disruption which may prevent JFM from securing the necessary funds for scheduled bond principal and interest payments.

(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 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 Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

The book value, fair value and difference between them as of 31 March 2015 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,437,630	¥25,359,637	¥1,922,007
(2) Securities held-to-maturity securities	670,000	670,000	-
(3) Cash and bank deposits	399,211	399,211	-
(4) Cash collateral paid for financial instruments	437	437	-
Total assets	24,507,278	26,429,285	1,922,007
(1) Bonds	19,542,864	20,453,505	910,640
(2) Borrowed money	85,500	87,373	1,873
(3) Cash collateral received for financial instruments	182,246	182,246	-
Total liabilities	19,810,611	20,723,125	912,513
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

# Financial Statements

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$194,713,218	\$210,680,712	\$15,967,494
(2) Securities held-to-maturity securities	5,566,171	5,566,171	-
(3) Cash and bank deposits	3,316,533	3,316,533	-
(4) Cash collateral paid for financial instruments	3,630	3,630	-
Total assets	203,599,552	219,567,046	15,967,494
(1) Bonds	162,356,608	170,135,591	7,778,983
(2) Borrowed money	710,310	725,873	15,563
(3) Cash collateral received for financial instruments	1,514,056	1,514,056	-
Total liabilities	164,580,974	172,375,520	7,794,546
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

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 2014 and 2015.

### (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 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)

As of 31 March 2015

(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	Negotiable certificates of deposit	¥670,000	¥670,000	-
	Sub total	670,000	670,000	-
Total		¥670,000	¥670,000	-

(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	Negotiable certificates of deposit	\$5,566,171	\$5,566,171	-
	Sub total	5,566,171	5,566,171	-
Total		\$5,566,171	\$5,566,171	-

### (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.

### (4) Cash collateral paid for financial instruments

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

**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 present 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 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	-	

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 2015 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	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	¥95,000	¥95,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,243,804	1,243,804	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	135,000	-	(*2)	
Total			¥1,473,804	¥1,338,804	-	

(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	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	\$789,233	\$789,233	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	10,333,177	10,333,177	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	1,121,542	-	(*2)	
Total			\$12,243,952	\$11,122,410	-	

(\*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.

## Financial Statements

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

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	-	-	-	-	-	-	-

As of 31 March 2015

(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	¥1,636,841	¥1,653,076	¥1,633,833	¥1,614,776	¥1,582,109	¥6,722,939	¥6,990,554	¥1,603,497
Securities held-to- maturity securities	670,000	-	-	-	-	-	-	-
Deposits	399,210	-	-	-	-	-	-	-

(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	\$13,598,420	\$13,733,296	\$13,573,431	\$13,415,108	\$13,143,718	\$55,852,281	\$58,075,558	\$13,321,407
Securities held-to- maturity securities	5,566,171	-	-	-	-	-	-	-
Deposits	3,316,533	-	-	-	-	-	-	-

Note 3. The repayment schedule for bonds and borrowed money is as follows:

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	-	-

As of 31 March 2015

(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	¥1,730,970	¥1,847,228	¥1,745,824	¥1,804,268	¥2,055,327	¥8,025,684	¥2,159,110	¥187,000
Borrowed money	-	-	-	30,000	10,000	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	\$14,380,410	\$15,346,257	\$14,503,821	\$14,989,355	\$17,075,081	\$66,675,122	\$17,937,277	\$1,553,543
Borrowed money	-	-	-	249,232	83,077	378,001	-	-

## 8. Tangible and Intangible Fixed Assets

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

## Financial Statements

Tangible and intangible fixed assets as of 31 March 2015 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2014 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2015 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2015	Depreciation and amortization during the year	Balance as of 31 March 2015 (Net book value)
Tangible fixed assets							
Buildings	¥1,094	¥81	-	¥1,176	¥300	¥56	¥875
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	377	36	¥26	388	83	57	305
Total tangible fixed assets	3,132	118	26	3,224	384	114	2,840
Intangible fixed assets							
Software	637	2,035	551	2,121	345	364	1,776
Other intangible fixed assets	744	279	1,024	0	-	-	0
Total intangible fixed assets	¥1,382	¥2,314	¥1,576	¥2,121	¥345	¥364	¥1,776

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2014 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2015 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2015	Depreciation and amortization during the year	Balance as of 31 March 2015 (Net book value)
Tangible fixed assets							
Buildings	\$9,095	\$679	-	\$9,775	\$2,500	\$473	\$7,275
Land	13,789	-	-	13,789	-	-	13,789
Other tangible fixed assets	3,140	307	\$218	3,228	694	474	2,534
Total tangible fixed assets	26,024	986	218	26,792	3,194	947	23,598
Intangible fixed assets							
Software	5,298	16,909	4,584	17,623	2,867	3,028	14,756
Other intangible fixed assets	6,189	2,322	8,510	1	-	-	1
Total intangible fixed assets	\$11,487	\$19,231	\$13,094	\$17,624	\$2,867	\$3,028	\$14,757

## 9. Assets Pledged as Collateral

Pursuant to the provisions of Article 40, Section 2 of the Law, JFM's total assets are pledged as general collateral for JFM bonds in the amount of 19,423,743 million yen and 19,542,864 million yen (162,356,608 thousand U.S. dollars) as of 31 March 2014 and 2015, respectively.

## 10. Bonds

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

## Financial Statements

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)	-	-

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 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:

Bonds as of 31 March 2015 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2014	Balance as of 31 March 2015	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-70)	6/15/2009-3/16/2015	¥3,013,475	¥3,444,382	0.32 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	200,000	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-15)	9/27/2011-3/19/2015	809,978	1,009,984	0.167 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	330,000	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)	2/19/2014-3/20/2015	50,000	75,000 (50,000)	0.1 to 0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	20,000	20,000	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-16)	5/25/2010-10/21/2014	275,000	305,000 (90,000)	0.175 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 1-70)	6/18/2009-3/20/2015	1,905,000	2,260,000	0.355 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	50,000	50,000	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-42)	6/25/2009-1/23/2015	795,000	930,000	0.999 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1)	6/26/2014	-	15,000	1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210, F212-F243, F245-F264)	7/22/2009-1/28/2015	1,304,514	1,562,643	0.199 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	25,000	35,000	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, 40-48)	1/12/2012-3/18/2015	468,212	755,784 [USD 5,922 million] [AUD 365 million] [NZD 105 million] [EUR 1,000 million]	0.875 to 5.092	3Y to 10Y
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	145,599	125,073 [USD 1,348 million] [NZD 40 million] [AUD 120 million]	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-A62)	7/31/2009-3/19/2015	1,580,000	1,880,000	0.37 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	11,074,950	13,101,039 (140,000)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	561,186	561,461	1.3 to 1.6	10Y

## Financial Statements

Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	139,977	139,981	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	84,955	84,958	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	-	906,119	906,401	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 838-886)	4/26/2004-6/19/2008	3,518,536	2,383,168 (914,080)	1.2 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,726	184,749	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	594,406	472,614 [GBP 150 million] [USD 2,200 million] (129,720)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 10-30)	6/18/2004-6/16/2008	809,940	589,966 (190,000)	1.33 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,710	569,735	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	189,873	189,879	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	20,000 (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	36,980	34,810 (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.1-10-No.1-31)	6/24/2004-7/31/2008	1,458,500	1,050,500 (335,000)	1.32 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	7,442,673	5,535,423 (1,590,970)	-	-
Total	-	¥19,423,743	¥19,542,864 (1,730,970)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2014	Balance as of 31 March 2015	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-70)	6/15/2009-3/16/2015	\$25,035,101	\$28,614,959	0.32 to 1.5	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-3)	9/26/2013-2/27/2014	1,661,544	1,661,544	0.460 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-15)	9/27/2011-3/19/2015	6,729,071	8,390,670	0.167 to 0.4	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	2,741,547	2,741,547	0.093 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	690,953	690,953 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 1-2)	2/19/2014-3/20/2015	415,386	623,079 (415,386)	0.1 to 0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	166,154	166,154	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-16)	5/25/2010-10/21/2014	2,284,622	2,533,854 (747,695)	0.175 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	166,154	166,154	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-70)	6/18/2009-3/20/2015	15,826,203	18,775,442	0.355 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	415,386	415,386	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-42)	6/25/2009-1/23/2015	6,604,636	7,726,178	0.999 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1)	6/26/2014	-	124,616	1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F52, F54-F210, F212-F243, F245-F264)	7/22/2009-1/28/2015	10,837,536	12,982,000	0.199 to 2.334	3Y to 30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	207,693	290,770	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, 40-48)	1/12/2012-3/18/2015	3,889,780	6,278,846 [USD 5,922 million] [AUD 365 million] [NZD 105 million] [EUR 1,000 million]	0.875 to 5.092	3Y to 10Y
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	1,209,603	1,039,079 [USD 1,348 million] [NZD 40 million] [AUD 120 million]	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-A62)	7/31/2009-3/19/2015	13,126,194	15,618,510	0.37 to 1.53	10Y
Bonds issued by JFM - Sub-total	-	92,007,563	108,839,741 (1,163,081)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	4,662,179	4,664,461	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,162,890	1,162,931	1.59 to 1.77	10Y

## Financial Statements

Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 20-year bonds (Series 1, 2)	1/26/2009-4/30/2009	705,788	705,813	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	996,926	996,926	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	7,527,783	7,530,131	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 838-886)	4/26/2004-6/19/2008	29,231,007	19,798,693 (7,593,919)	1.2 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,534,657	1,534,843	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	4,938,158	3,926,346 [GBP 150 million] [USD 2,200 million] (1,077,677)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 10-30)	6/18/2004-6/16/2008	6,728,758	4,901,276 (1,578,466)	1.33 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	4,732,996	4,733,202	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	1,577,413	1,577,464	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	166,154	166,154	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 1, 2)	3/2/2005-7/19/2005	332,309	166,154 (166,154)	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	307,219	289,192 (18,028)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	166,154	166,154	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-10-No.1-31)	6/24/2004-7/31/2008	12,116,807	8,727,258 (2,783,085)	1.32 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	61,831,632	45,986,736 (13,217,329)	-	-
Total	-	\$161,366,978	\$162,356,608 (14,380,410)	-	-

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 19,542,864 million yen (162,356,608 thousand U.S. dollars) as of 31 March 2015.

2. Amounts in square brackets under "Balance as of 31 March 2015" 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, 40-48)," "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 2015" are to be repaid within one year.

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

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

As of 31 March 2015

(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	¥1,730,970	¥1,847,228	¥1,745,824	¥1,804,268	¥2,055,327

(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	\$14,380,410	\$15,346,257	\$14,503,821	\$14,989,355	\$17,075,081

## 11. Borrowed Money

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	-	-

Borrowed money as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2014	Balance as of 31 March 2015	Average interest rate (%)	Repayment date
Short-term borrowed money	¥20,000	-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	75,500	85,500	0.675	3/26/2019~3/13/2024
Total	¥95,500	¥85,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2014	Balance as of 31 March 2015	Average interest rate (%)	Repayment date
Short-term borrowed money	\$166,154	-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	627,233	\$710,310	0.675	3/26/2019~3/13/2024
Total	\$793,387	\$710,310	-	-

## Financial Statements

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 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

As of 31 March 2015

(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	¥-	¥-	¥-	¥30,000	¥10,000

(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	\$-	\$-	\$-	\$249,232	\$83,077

## 12. Reserves

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

Reserves as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2014	Increase during the year	Decrease during the year		Balance as of 31 March 2015
			Intended purpose	Other	
Reserve for bonuses	¥50	¥50	¥50	¥-	¥50
Reserve for bonuses for directors and corporate auditors	7	7	7	-	7
Reserve for retirement benefits	116	1	0	75	41
Reserve for retirement benefits for directors and corporate auditors	22	6	1	4	22

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2014	Increase during the year	Decrease during the year		Balance as of 31 March 2015
			Intended purpose	Other	
Reserve for bonuses	\$422	\$421	\$422	\$-	\$421
Reserve for bonuses for directors and corporate auditors	61	63	61	-	63
Reserve for retirement benefits	966	11	2	627	348
Reserve for retirement benefits for directors and corporate auditors	190	53	14	39	190

### 13. Reserve for Interest Rate Volatility

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	Decrease during the year		Balance as of 31 March 2014
			Amount provided	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	2,072,945
Total	¥3,871,200	¥391,744	¥391,744	¥870,000	¥3,392,945

Reserve for interest rate volatility as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2014	Increase during the year	Decrease during the year		Balance as of 31 March 2015
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	¥1,320,000	¥220,000	¥220,000	¥-	¥1,540,000
Management account reserve for interest rate volatility	2,072,945	158,570	158,570	220,000	2,011,515
Total	¥3,392,945	¥378,570	¥378,570	¥220,000	¥3,551,515

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2014	Increase during the year	Decrease during the year		Balance as of 31 March 2015
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	\$10,966,187	\$1,827,698	\$1,827,698	\$-	\$12,793,885
Management account reserve for interest rate volatility	17,221,443	1,317,357	1,317,357	1,827,698	16,711,102
Total	\$28,187,630	\$3,145,055	\$3,145,055	\$1,827,698	\$29,504,987

## Financial Statements

## 14. Fund for Lending Rate Reduction

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

Fund for lending rate reduction as of 31 March 2015 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2014	Increase during the year		Decrease during the year		Balance as of 31 March 2015
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥918,775	¥3,193	¥-	¥1,681	¥-	¥920,287
Additional fund for lending rate reduction	3,785	-	-	3,785	-	-
Total	¥922,561	¥3,193	¥-	¥5,467	¥-	¥920,287

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2014	Increase during the year		Decrease during the year		Balance as of 31 March 2015
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$7,632,928	\$26,534	\$-	\$13,973	\$-	\$7,645,489
Additional fund for lending rate reduction	31,453	-	-	31,453	-	-
Total	\$7,664,381	\$26,534	\$-	\$45,426	\$-	\$7,645,489

- 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 "basic fund for lending rate reduction" represents the payment of the amount reduced in the fund for interest rate reduction pursuant to the provisions of Article 46, Section 6 of the Law.
3. 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 Retirement Benefits

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 retirement benefits and pension expenses are calculated using the simplified method.

### (2) Defined benefit plan

#### (a) Reconciliation of outstanding amounts of reserve for retirement benefits:

Reserve for retirement benefits at the beginning of the fiscal year:	141 million yen
Pension expenses:	12 million yen
Employee retirement benefits paid:	(28) million yen
Contributions to the defined benefit plan:	(9) million yen
Reserve for retirement benefits at the end of the fiscal year:	<u>116 million yen</u>

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

Funded retirement benefit obligation:	305 million yen
Plan assets:	<u>(218) million yen</u>
Balance:	87 million yen
Unfunded retirement benefit obligation:	<u>29 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>116 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>116 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>116 million yen</u>

#### (c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 12 million yen

As of and for the year ended 31 March 2015

### (1) Outline of retirement benefits system

JFM has a defined benefit plan that contributes to the Corporate Pension Fund and offers lump-sum payments upon retirement of employees and a defined contribution plan. The reserve for retirement benefits and pension expenses are calculated using the simplified method.

### (2) Defined benefit plan

#### (a) Reconciliation of outstanding amounts of reserve for retirement benefits:

Reserve for retirement benefits at the beginning of the fiscal year:	116 million yen	(966 thousand U.S. dollars)
Pension expenses:	(5) million yen	((48) thousand U.S. dollars)
Employee retirement benefits paid:	(0) million yen	((2) thousand U.S. dollars)
Contributions to the defined benefit plan:	<u>(68) million yen</u>	<u>((568) thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>41 million yen</u>	<u>(348 thousand U.S. dollars)</u>

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

Funded retirement benefit obligation:	278 million yen	(2,317 thousand U.S. dollars)
Plan assets:	<u>(267) million yen</u>	<u>((2,220) thousand U.S. dollars)</u>
Balance:	11 million yen	(96 thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>30 million yen</u>	<u>(252 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>41 million yen</u>	<u>(348 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>41 million yen</u>	<u>(348 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>41 million yen</u>	<u>(348 thousand U.S. dollars)</u>

#### (c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: (5) million yen ((48) thousand U.S. dollars)

## 16. Net Income by Account

(For the year ended 31 March 2014)

Net income of the general account was 26,510 million yen, while there was no net income of management account.

(For the year ended 31 March 2015)

Net income of the general account was 30,971 million yen (257,299 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 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

Balance sheets of general account and management account as of 31 March 2015 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
<b>(Assets)</b>				
Loans	¥10,868,072	¥12,569,557		¥23,437,630
Securities	670,000			670,000
Cash and bank deposits	399,211			399,211
Cash collateral paid for financial instruments	437			437
Other assets	3,935	8,449		12,384
Tangible fixed assets	2,840			2,840
Intangible fixed assets	1,776			1,776
Due from general account		810,328	¥(810,328)	
Due to management account for fund for lending rate reduction	92,831		(92,831)	
<b>Total assets</b>	<b>12,039,104</b>	<b>13,388,335</b>	<b>(903,160)</b>	<b>24,524,279</b>
<b>(Liabilities)</b>				
Bonds	8,378,442	11,164,422		19,542,864
Borrowed money	85,500			85,500
Cash collateral received for financial instruments	182,246			182,246
Other liabilities	2,352	9,348		11,700
Reserve for bonuses	50			50
Reserve for bonuses for directors and corporate auditors	7			7
Reserve for retirement benefits	41			41
Reserve for retirement benefits for directors and corporate auditors	22			22
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	810,328		(810,328)	
Due from general account for fund for lending rate reduction		92,831	(92,831)	
Reserves under special laws	1,540,000	2,068,067		3,608,067
Reserve for interest rate volatility	1,540,000			1,540,000
Management account reserve for interest rate volatility		2,011,515		2,011,515
Reserve for interest rate reduction		56,552		56,552
<b>Total liabilities</b>	<b>11,919,280</b>	<b>13,334,669</b>	<b>(903,160)</b>	<b>24,350,790</b>
<b>(Net Assets)</b>				
Capital	16,602			16,602
Retained earnings	107,703			107,703
General account surplus reserve	107,703			107,703
Valuation, translation adjustments and others	(4,482)			(4,482)
Management account surplus reserve		53,666		53,666
<b>Total net assets</b>	<b>119,823</b>	<b>53,666</b>		<b>173,489</b>
<b>Total liabilities and net assets</b>	<b>¥12,039,104</b>	<b>¥13,388,335</b>	<b>¥(903,160)</b>	<b>¥24,524,279</b>

## Financial Statements

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$90,288,879	\$104,424,339		\$194,713,218
Securities	5,566,171			5,566,171
Cash and bank deposits	3,316,533			3,316,533
Cash collateral paid for financial instruments	3,630			3,630
Other assets	32,697	70,193		102,890
Tangible fixed assets	23,598			23,598
Intangible fixed assets	14,757			14,757
Due from general account		6,731,983	\$(6,731,983)	
Due to management account for fund for lending rate reduction	771,218		(771,218)	
Total assets	100,017,483	111,226,515	(7,503,201)	203,740,797
(Liabilities)				
Bonds	69,605,738	92,750,870		162,356,608
Borrowed money	710,310			710,310
Cash collateral received for financial instruments	1,514,056			1,514,056
Other liabilities	19,540	77,664		97,204
Reserve for bonuses	421			421
Reserve for bonuses for directors and corporate auditors	63			63
Reserve for retirement benefits	348			348
Reserve for retirement benefits for directors and corporate auditors	190			190
Fund for lending rate reduction	7,645,489			7,645,489
Basic fund for lending rate reduction	7,645,489			7,645,489
Due to management account	6,731,983		(6,731,983)	
Due from general account for fund for lending rate reduction		771,218	(771,218)	
Reserves under special laws	12,793,885	17,180,920		29,974,805
Reserve for interest rate volatility	12,793,885			12,793,885
Management account reserve for interest rate volatility		16,711,102		16,711,102
Reserve for interest rate reduction		469,818		469,818
Total liabilities	99,022,023	110,780,672	(7,503,201)	202,299,494
(Net Assets)				
Capital	137,926			137,926
Retained earnings	894,770			894,770
General account surplus reserve	894,770			894,770
Valuation, translation adjustments and others	(37,236)			(37,236)
Management account surplus reserve		445,843		445,843
Total net assets	995,460	445,843		1,441,303
Total liabilities and net assets	\$100,017,483	\$111,226,515	\$(7,503,201)	\$203,740,797

Notes: 1. General account and management account

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

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

2. General account surplus reserve and management account surplus reserve

"Net income" of the general account is posted as "General account surplus reserve" in accordance with

the provisions of Article 39, Section 1 of the Law, while “Net income” of management account is posted as “Management account surplus reserve” in accordance with the provisions of Article 13, Section 8 of the Supplementary Provisions 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 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

Statements of income of general account and management account from 1 April 2014 through 31 March 2015 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥133,507	¥317,463	¥(16,401)	¥434,569
Interest income	122,477	306,500		428,977
Fees and commissions	112			112
Other operating income	0			0
Other income	5,479			5,479
Contributions from fund for lending rate reduction	5,467			5,467
Others	11			11
Administrative fee for management account	774		(774)	
Interest on fund for lending rate reduction	4,663		(4,663)	
Interest on due from general account		94	(94)	
Transfer from general account for fund for lending rate reduction		10,869	(10,869)	
Expenses	102,448	168,023	(16,401)	254,070
Interest expenses	85,610	160,449		246,060
Fees and commissions	104	189		294
Other operating expenses	2,844	1,787		4,632
General and administrative expenses	2,925	158		3,083
Interest on due to management account	94		(94)	
Transfer to management account for fund for lending rate reduction	10,869		(10,869)	
Administrative fee for management account		774	(774)	
Interest on fund for lending rate reduction		4,663	(4,663)	
Ordinary income	31,059	149,440	-	180,499
Special gains	220,000	229,129	(220,000)	229,129
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		220,000		220,000
Reversal of reserve for interest rate reduction		9,129		9,129
Special losses	220,088	378,570	(220,000)	378,658
Loss on disposal of fixed assets	88			88
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		158,570		158,570
Transfer to general account		220,000	(220,000)	
Net income	¥30,971	¥-	¥-	¥30,971

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,109,145	\$2,637,400	\$(136,261)	\$3,610,284
Interest income	1,017,505	2,546,317		3,563,822
Fees and commissions	936			936
Other operating income	3			3
Other income	45,523			45,523
Contributions from fund for lending rate reduction	45,426			45,426
Others	97			97
Administrative fee for management account	6,437		(6,437)	
Interest on fund for lending rate reduction	38,741		(38,741)	
Interest on due from general account		782	(782)	
Transfer from general account for fund for lending rate reduction		90,301	(90,301)	
Expenses	851,115	1,395,891	(136,261)	2,110,745
Interest expenses	711,228	1,332,971		2,044,199
Fees and commissions	871	1,575		2,446
Other operating expenses	23,630	14,853		38,483
General and administrative expenses	24,303	1,314		25,617
Interest on due to management account	782		(782)	
Transfer to management account for fund for lending rate reduction	90,301		(90,301)	
Administrative fee for management account		6,437	(6,437)	
Interest on fund for lending rate reduction		38,741	(38,741)	
Ordinary income	258,031	1,241,508	-	1,499,539
Special gains	1,827,698	1,903,547	(1,827,698)	1,903,547
Transfer from management account	1,827,698		(1,827,698)	
Reversal of management account reserve for interest rate volatility		1,827,698		1,827,698
Reversal of reserve for interest rate reduction		75,849		75,849
Special losses	1,828,430	3,145,055	(1,827,698)	3,145,787
Loss on disposal of fixed assets	732			732
Provision for reserve for interest rate volatility	1,827,698			1,827,698
Provision for management account reserve for interest rate volatility		1,317,357		1,317,357
Transfer to general account		1,827,698	(1,827,698)	
Net income	\$257,299	\$-	\$-	\$257,299

**19. Fair Value of Marketable Securities**

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)

Marketable held-to-maturity securities as of 31 March 2015 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥670,000	¥670,000	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	\$5,566,171	\$5,566,171	-	-	-

- 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 in the 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



Ernst & Young ShinNihon LLC  
Hibiya Kokusai Bldg.  
2-2-3 Uchisaiwai-cho, Chiyoda-ku  
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015

*Ernst & Young ShinNihon LLC*

A member firm of Ernst & Young Global Limited

# Appendix / JFM Data

<b>Appendix</b>	<b>96</b>
Members of the Representative Board and the Supervisory Committee	<b>96</b>
Redemption of Loans in Fiscal 2014	<b>96</b>
Outstanding Loans by Business	<b>97</b>
Outstanding Loans by Borrower	<b>98</b>
Bond Issuance in Fiscal 2014	<b>102</b>
Outstanding International Bonds	<b>105</b>
<b>JFM Data</b>	<b>107</b>
Organization History	<b>107</b>
Organization Chart	<b>108</b>
Directors and Corporate Auditors/Contact Information	<b>109</b>

## Members of the Representative Board and the Supervisory Committee

The Representative Board members of JFM as of 31 March 2015 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
Isao Sumihiro	Member	Chairman of The Hiroshima Bank, Ltd.

The Supervisory Committee members of JFM as of 31 March 2015 are as follows:

Name	Title	Background
Yoshitsugu Hayashi	Chairman	Professor, Kwansei Gakuin University
Yutaka Suzuki	Deputy Chairman	Professor Emeritus, Aoyama Gakuin University
Tomoko Seiichi	Member	Professor, Seinan Gakuin University
Yasuharu Yoneda	Member	Professor, Shinshu University Law School
Hitomi Tamaoki	Member	Chief Executive officer of Tsumugi Co., Ltd.
Toshiki Komatsu	Member	Corporate Director of Jiji Press, Ltd.

## Redemption of Loans in Fiscal 2014

Classification		Principal		Interest	
		Number of loans	Amount (USD millions)	Number of loans	Amount (USD millions)
Regular redemption of long-term loans	General loans	415,508	12,843	479,246	3,542
	Loans to local government corporations	614	100	614	12
	Subtotal	416,122	12,943	479,860	3,554
Prepayment of long-term loans	General loans	424	107	144	0
	Loans to local government corporations	0	0	0	0
	Subtotal	424	107	144	0
Redemption of loans with pre-consent or pre-approval		-	-	-	-
Redemption of short-term loans		-	-	-	-
Total		416,546	13,050	480,004	3,554

Note: Totals may not add up due to rounding.

## Outstanding Loans by Business

(as of 31 March 2015)

Business		Number of Loans Made	Loan Amount (USD millions)	
				% of total
General Account-related Loans	Public Projects, etc.	1,316	2,086	1.1
	Public Housing	4,774	3,161	1.6
	National Disaster Prevention	291	326	0.2
	Educational Facilities Development	304	189	0.1
	Social Welfare Facilities Development	621	544	0.3
	General Waste Proposal	4	1	0.0
	General Projects	379	341	0.2
	Regional Revitalization	662	348	0.2
	Disaster Prevention	1,251	1,003	0.5
	Local Road Development <sup>*1</sup>	28,961	21,570	11.1
	Special Municipal Mergers	3,303	6,994	3.6
	Disaster Management and Mitigation	3,362	4,045	2.1
	Others	2,896	1,181	0.6
	Subtotal	48,124	41,791	21.5
Municipal Enterprise-related Loans	Water Supply	51,951	30,397	15.6
	Transportation	926	10,083	5.2
	Hospitals and Elderly Care Services	3,247	6,494	3.3
	Sewerage	123,100	68,262	35.1
	Industrial Water Supply	2,243	1,729	0.9
	Electricity and Gas	909	713	0.4
	Port Facilities	1,117	566	0.3
	Markets and Slaughterhouses	623	700	0.4
	Tourism and Others	397	377	0.2
	Subtotal	184,513	119,321	61.3
Temporary Financial Countermeasures Funding		4,769	33,022	17.0
<b>Total</b>		237,406	194,134	99.7
Local Government Road Corporation, Toll Roads <sup>*2</sup>		282	579	0.3
<b>Grand Total</b>		237,688	194,713	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 2015)

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	285	3,423	5,025	6,014	7,876	1,751
Aomori	208	312	1,915	2,043	1,382	394
Iwate	228	489	2,639	2,135	697	236
Miyagi	382	1,220	4,599	3,337	2,599	463
Akita	213	234	4,526	2,052	1,131	119
Yamagata	250	663	2,644	1,526	1,898	314
Fukushima	379	639	3,465	2,181	2,961	473
Ibaraki	470	1,059	6,201	3,556	1,303	342
Tochigi	238	461	3,275	1,875	762	215
Gunma	281	469	3,557	1,739	1,803	336
Saitama	256	2,004	5,954	5,302	1,619	432
Chiba	403	909	4,613	5,021	788	195
Tokyo	129	1,472	1,899	2,418	188	40
Kanagawa	234	1,385	2,750	7,167	956	297
Niigata	267	394	8,149	4,190	889	166
Toyama	281	339	3,714	2,473	530	209
Ishikawa	176	188	2,738	1,881	1,185	368
Fukui	251	414	2,121	1,157	890	134
Yamanashi	152	340	3,042	989	1,070	144
Nagano	232	363	4,225	2,520	3,072	606
Gifu	209	1,236	4,318	1,947	1,195	311
Shizuoka	361	600	4,852	3,180	664	187
Aichi	295	1,847	5,131	5,768	852	210
Mie	391	1,182	3,892	2,342	1,042	239

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
298	225	-	-	13,484	11,413	5.9
104	117	-	-	3,609	2,866	1.5
217	142	-	-	3,781	3,002	1.5
128	79	-	-	7,708	5,100	2.6
7	2	-	-	5,877	2,407	1.2
136	39	10	1	4,938	2,544	1.3
191	188	3	2	6,999	3,483	1.8
220	181	4	3	8,198	5,141	2.6
7	26	8	4	4,290	2,581	1.3
31	49	-	-	5,672	2,594	1.3
234	141	13	7	8,076	7,885	4.0
371	388	11	16	6,186	6,529	3.4
28	146	-	-	2,244	4,075	2.1
74	753	-	-	4,014	9,602	4.9
139	122	-	-	9,444	4,872	2.5
138	109	10	4	4,673	3,133	1.6
18	21	-	-	4,117	2,457	1.3
68	32	-	-	3,330	1,738	0.9
153	62	-	-	4,417	1,536	0.8
159	118	10	6	7,698	3,613	1.9
7	10	-	-	5,729	3,503	1.8
69	111	14	7	5,960	4,086	2.1
111	45	51	252	6,440	8,122	4.2
31	42	-	-	5,356	3,805	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	210	609	4,183	2,047	565	120
Kyoto	212	409	3,351	3,867	988	232
Osaka	116	580	5,012	11,599	812	254
Hyogo	314	3,494	7,425	7,827	1,825	679
Nara	265	874	2,289	1,418	1,753	456
Wakayama	112	323	1,485	1,576	1,252	443
Tottori	288	407	1,259	842	1,819	404
Shimane	233	823	2,416	1,744	293	68
Okayama	291	995	4,578	3,206	1,270	267
Hiroshima	393	1,355	4,261	4,263	904	249
Yamaguchi	414	519	4,233	2,176	544	106
Tokushima	182	405	1,313	915	764	213
Kagawa	241	238	2,078	1,034	798	172
Ehime	117	214	2,294	1,680	599	196
Kochi	141	679	1,415	1,172	636	154
Fukuoka	107	900	4,506	7,528	1,890	795
Saga	55	280	1,542	1,301	593	249
Nagasaki	145	423	2,713	2,338	623	155
Kumamoto	168	427	2,703	1,767	1,501	388
Oita	118	217	2,212	1,221	150	43
Miyazaki	164	607	2,047	1,301	701	172
Kagoshima	171	1,088	2,340	1,463	771	171
Okinawa	236	745	1,414	1,106	840	189
Total	11,264	38,251	162,313	136,203	59,243	14,354

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
89	45	3	0	5,050	2,822	1.4
16	31	11	7	4,578	4,546	2.3
230	629	17	54	6,187	13,115	6.7
458	561	49	44	10,071	12,605	6.5
16	15	2	4	4,325	2,766	1.4
57	55	-	-	2,906	2,396	1.2
22	21	-	-	3,388	1,673	0.9
53	25	-	-	2,995	2,660	1.4
102	193	-	-	6,241	4,661	2.4
7	8	17	61	5,582	5,936	3.0
108	77	-	-	5,299	2,878	1.5
3	1	-	-	2,262	1,535	0.8
9	7	-	-	3,126	1,451	0.7
11	10	-	-	3,021	2,101	1.1
7	94	-	-	2,199	2,098	1.1
252	202	28	101	6,783	9,526	4.9
98	105	-	-	2,288	1,934	1.0
14	27	9	3	3,504	2,945	1.5
32	23	8	1	4,412	2,605	1.3
0	0	-	-	2,480	1,481	0.8
9	9	-	-	2,921	2,090	1.1
13	23	4	1	3,299	2,746	1.4
41	17	-	-	2,531	2,056	1.1
4,586	5,326	282	580	237,688	194,714	100.0

## Bond Issuance in Fiscal 2014

## 1. JFM bonds

## (1) International bonds

Series Number	Format	Currency	Issue Size (in millions)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
43	EURO	AUD	85	5.092	100	1 May 2014	1 May 2024
44	EURO	USD	90	3.250	99.055	1 May 2014	2 May 2024
45	EURO	EUR	1,000	0.875	99.293	22 Sep 2014	22 Sep 2021
46	EURO	NZD	105	3.86	99.98	20 Nov 2014	20 Nov 2017
47	GLOBAL	USD	1,000	2.375	99.611	13 Feb 2015	13 Feb 2025
48	EURO	AUD	70	3.600	100	18 Mar 2015	18 Mar 2025

## (2) Domestic public offerings

Series Number	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
	(JPY billions)	(USD millions)				
59	30	249	0.724	100	17 Apr 2014	26 Apr 2024
60	30	249	0.729	100	26 May 2014	28 May 2024
61	35	291	0.690	100	23 Jun 2014	28 Jun 2024
62	30	249	0.631	100	17 Jul 2014	26 Jul 2024
63	30	249	0.581	100	19 Aug 2014	28 Aug 2024
64	30	249	0.574	100	22 Sep 2014	27 Sep 2024
65	30	249	0.535	100	21 Oct 2014	28 Oct 2024
66	25	208	0.589	100	21 Nov 2014	28 Nov 2024
67	30	249	0.501	100	22 Dec 2014	27 Dec 2024
68	30	249	0.355	100	23 Jan 2015	28 Jan 2025
69	30	249	0.478	100	20 Feb 2015	28 Feb 2025
70	25	208	0.514	100	20 Mar 2015	28 Mar 2025
36	25	208	1.566	100	17 Apr 2014	28 Apr 2034
37	25	208	1.535	100	23 Jun 2014	28 Jun 2034
38	20	166	1.487	100	17 Jul 2014	28 Jul 2034
39	20	166	1.425	100	22 Sep 2014	28 Sep 2034
40	15	125	1.381	100	21 Oct 2014	27 Oct 2034
41	15	125	1.273	100	22 Dec 2014	28 Dec 2034
42	15	125	0.999	100	23 Jan 2015	26 Jan 2035
15	15	125	0.230	100	17 Apr 2014	26 Apr 2019
16	15	125	0.175	100	21 Oct 2014	28 Oct 2019
1	15	125	1.864	100	26 Jun 2014	28 Jun 2044
2	25	208	0.100	100	20 Mar 2015	28 Mar 2017
F212	4	33	0.497	100	24 Apr 2014	23 Mar 2022
F213	3	25	0.782	100	24 Apr 2014	27 Jun 2025
F214	5	42	0.940	100	24 Apr 2014	28 Apr 2027
F215	6.5	54	1.218	100	24 Apr 2014	21 May 2030
F216	3	25	1.384	100	24 Apr 2014	24 Feb 2032
F217	4	33	1.749	100	24 Apr 2014	28 Apr 2039
F218	20	166	0.634	100	24 Apr 2014	17 Mar 2023
F219	4	33	0.766	100	24 Apr 2014	25 Apr 2025

Series Number	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
	(JPY billions)	(USD millions)				
F220	3	25	1.106	100	24 Apr 2014	22 Mar 2029
F221	5	42	1.198	100	24 Apr 2014	26 Apr 2030
F222	3	25	1.610	100	24 Apr 2014	24 Apr 2035
F223	5.5	46	0.527	100	30 Apr 2014	27 May 2022
F224	4	33	0.862	100	30 Apr 2014	30 Apr 2026
F225	3.5	29	1.044	100	30 Apr 2014	30 Aug 2028
F226	5	42	1.096	100	30 Apr 2014	28 Feb 2029
F227	6	50	1.396	100	30 Apr 2014	28 Apr 2032
F228	4	33	1.269	100	30 Apr 2014	20 Mar 2031
F229	3	25	0.635	100	30 Apr 2014	20 Jun 2023
F230	3	25	1.111	100	30 Apr 2014	27 Apr 2029
F231	4.5	37	1.176	100	30 Apr 2014	30 Apr 2030
F232	6	50	1.293	100	30 Apr 2014	25 Apr 2031
F233	6.5	54	1.592	100	15 May 2014	28 Dec 2034
F234	5.5	46	1.605	100	30 Apr 2014	27 Apr 2035
F235	20	166	0.562	100	24 Jul 2014	20 Sep 2023
F236	4	33	1.079	100	24 Jul 2014	26 Mar 2030
F237	3	25	1.194	100	24 Jul 2014	25 Jul 2031
F238	4	33	1.574	100	24 Jul 2014	25 Jul 2036
F239	6	50	1.844	100	24 Jul 2014	26 Jul 2044
F240	10	83	1.069	100	25 Jul 2014	28 Feb 2030
F241	4.5	37	1.074	100	25 Jul 2014	26 Apr 2030
F242	3	25	1.188	100	25 Jul 2014	25 Jul 2031
F243	3.5	29	1.285	100	25 Jul 2014	21 Jul 2032
F244	10	83	"1	100	25 Jul 2014	25 Jan 2034
F245	3.5	29	1.017	100	25 Jul 2014	26 Feb 2030
F246	3	25	1.196	100	25 Jul 2014	25 Feb 2032
F247	4	33	1.309	100	25 Jul 2014	28 Jul 2033
F248	3.5	29	1.512	100	25 Jul 2014	25 Jul 2036
F249	6	50	1.605	100	25 Jul 2014	28 Jul 2039
F250	4	33	1.779	100	25 Jul 2014	26 Jul 2044
F251	20	166	0.280	100	30 Oct 2014	17 Sep 2021
F252	3	25	0.845	100	30 Oct 2014	27 Oct 2028
F253	6	50	1.119	100	30 Oct 2014	27 Feb 2032
F254	3	25	1.146	100	30 Oct 2014	26 Mar 2032
F255	3	25	1.196	100	30 Oct 2014	28 Oct 2032
F256	3	25	1.281	100	30 Oct 2014	28 Oct 2033
F257	3	25	0.335	100	30 Oct 2014	28 Sep 2022
F258	3	25	0.650	100	30 Oct 2014	30 Oct 2026
F259	3	25	1.002	100	30 Oct 2014	30 Oct 2030
F260	6	50	1.099	100	30 Oct 2014	28 Oct 2031
F261	3	25	1.061	100	30 Oct 2014	28 Mar 2031
F262	3	25	1.109	100	30 Oct 2014	30 Oct 2031
F263	3	25	1.194	100	30 Oct 2014	28 Oct 2032
F264	20	166	0.249	100	28 Jan 2015	20 Dec 2023

Note 1. 3m¥L+10bp

## 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)				
A51	25	208	0.754	100	17 Apr 2014	17 Apr 2024
A52	25	208	0.750	100	26 May 2014	24 May 2024
A53	25	208	0.715	100	23 Jun 2014	21 Jun 2024
A54	25	208	0.651	100	17 Jul 2014	17 Jul 2024
A55	25	208	0.597	100	19 Aug 2014	19 Aug 2024
A56	25	208	0.594	100	22 Sep 2014	20 Sep 2024
A57	25	208	0.555	100	21 Oct 2014	21 Oct 2024
A58	25	208	0.629	100	25 Nov 2014	25 Nov 2024
A59	25	208	0.511	100	18 Dec 2014	18 Dec 2024
A60	25	208	0.370	100	26 Jan 2015	24 Jan 2025
A61	25	208	0.518	100	23 Feb 2015	21 Feb 2025
A62	25	208	0.583	100	19 Mar 2015	19 Mar 2025

## 3. Government-guaranteed domestic bonds

Series Number	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
	(JPY billions)	(USD millions)				
59	55	457	0.669	100	14 Apr 2014	12 Apr 2024
60	50	415	0.660	100	21 May 2014	21 May 2024
61	55	457	0.644	100	16 Jun 2014	14 Jun 2024
62	50	415	0.601	100	16 Jul 2014	16 Jul 2024
63	50	415	0.556	100	18 Aug 2014	16 Aug 2024
64	30	249	0.544	100	16 Sep 2014	13 Sep 2024
65	30	249	0.539	100	16 Oct 2014	16 Oct 2024
66	30	249	0.495	100	18 Nov 2014	18 Nov 2024
67	20	166	0.466	100	15 Dec 2014	13 Dec 2024
68	20	166	0.320	100	20 Jan 2015	20 Jan 2025
69	20	166	0.414	100	17 Feb 2015	17 Feb 2025
70	20	166	0.450	100	16 Mar 2015	14 Mar 2025
13	80	665	0.202	100	24 Apr 2014	24 Apr 2020
14	80	665	0.199	100	18 Jun 2014	18 Jun 2020
15	40	332	0.167	100	19 Mar 2015	19 Mar 2021

## Outstanding International Bonds

### 1. JFM bonds

(as of 31 March 2015)

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
35	EURO	USD	105	1.375%	99.952	18 Apr 2013	18 Apr 2018

Series Number	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
36	EURO	AUD	100	3mBBSW+83bp	100	21 May 2013	21 May 2018
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. Government-guaranteed bonds

(as of 31 March 2015)

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
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

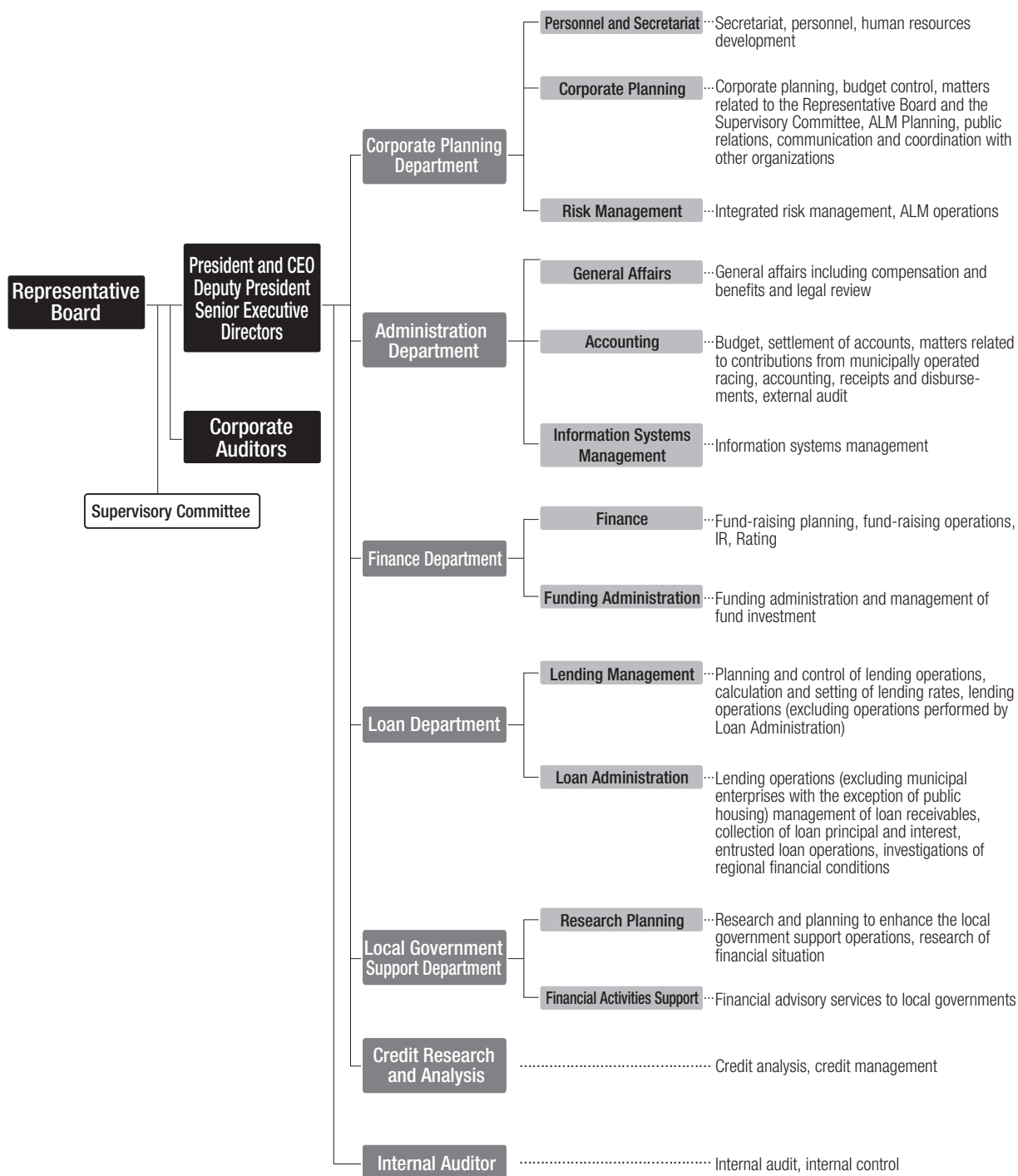
FY2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of JFM) was established pursuant to the Japan Finance Organization for Municipal Enterprises Law on 1 August 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on 1 October 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 2015



## Directors and Corporate Auditors

<b>President and CEO</b>	Yuji Watanabe
<b>Deputy President</b>	Kinya Takino
<b>Senior Executive Directors</b>	Eiichi Sugimura, Yasuro Narita, Junichi Yoshitake (part-time)
<b>Corporate Auditors</b>	Aiichirou Hiraguchi, Masaharu Hamakawa (part-time)

## Contact Information



(Photo provided by The Tokyo Institute for Municipal Research)

Postal address: Shisei Kaikan, 1-3 Hibiya Koen,  
Chiyoda-ku, Tokyo 100-0012, Japan

Tel: +81-3-3539-2697

Fax: +81-3-3539-2615

E-mail: [funds-d@jfm.go.jp](mailto:funds-d@jfm.go.jp)

Bloomberg ticker: JFM Govt



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