

JFM

Japan Finance Organization for Municipalities



ANNUAL REPORT 2016



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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 2016, the final day of the fiscal year, which was JPY 112.63 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.

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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	Kinya Takino
Capital	USD 147.4 million
Number of Employees	90 (as of April 2016)
Outstanding Loans as of 31 March 2016	USD 210.1 billion
Outstanding Bonds and Bank Loans as of 31 March 2016	USD 177.0 billion
Credit Ratings as of 31 March 2016	S&P: A+ Moody's : A1 R&I: AA+

Management Philosophy

The Japan Finance Organization for Municipalities (JFM), as a joint funding organization wholly contributed by all Japanese 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.

M

essage from

the President and CEO

Introduction

Japan Finance Organization for Municipalities (JFM) is a joint funding organization established by Japanese law with the objective of providing Japanese local governments with long-term funding at low interest rates. JFM's lending to Japanese local governments is recognized as a part of public funds in the Local Government Borrowing Programme along with the fiscal loan fund contributed by the national government and have following objectives;

First, our long-term lending is to achieve equal burden sharing among the generations. As benefits from social infrastructure development will cover generations to generations, we focus on equal beneficiary and repayment sharing among the generations with our long-term lending up to 40 years at low interest rate.

Second, our long-term lending is to operate fiscal management in designed and sound manner. We primarily issue 10-year bonds to raise funds while our long-term lending is maximum 40 years to local governments, which creates potential negative margin caused by the interest rate payable exceeding the interest receivable. To cope with the interest rate risk associated with bond refinancing, we maintain sufficient amount of reserves for interest rate volatility,

and as a result, local governments can operate sound fiscal management with feasible future interest payment.

Third, we offer special lending rate at a discount to the standard rates to mitigate fiscal burden for local governments. The discount is contributed by investment gains in JFM's Fund for Lending Rate Reduction. The special lending rate has been at the same level with the national government's lending rates that are applicable to loans for specific public projects (the Fiscal Loan Fund).

Furthermore, we have annually issued more than JPY 1 trillion (USD 8.8bn) of JFM bonds in domestic and international market to satisfy funding requirements by local governments. As for our funding operations, we focus more on flexible funding approaches under volatile and uncertain financial markets.

Review of fiscal 2015

In fiscal 2015, we experienced uncertain and volatile financial market condition in Japan as well as outside of Japan such as advanced monetary policy easing by Bank of Japan with introduction of negative interest rate and change in monetary policy in the United States with rate hike made by the Federal Reserve Board.

Under the volatile circumstance, JFM disbursed

Kinya Takino
President and CEO
2016

Kinya Takino



a total of JPY 1.86 trillion (USD 16.5bn) loans during the fiscal year for public projects operated by local governments including social infrastructure renewal and disaster management and mitigation. In addition, we introduced capital equal repayment method for our long-term lending and resolved that the maximum term to loans for water supply projects would be increased to 40 years in order to respond to funding needs by municipal enterprises in these projects.

On funding front, we raised JPY 2.02 trillion (USD 17.8bn) during fiscal 2015 which included our first 40-year domestic bonds in FLIP format and USD 1bn benchmark bonds in April 2015 which gained decent investor demands in the stable market.

Initiatives for fiscal 2016

For fiscal 2016, we plan to lend JPY 1.69 trillion (USD 15.0bn) of long-term and low-interest rate funds to the local governments based on the LGBP. Our funding plan is to raise JPY 2 trillion (USD 17.8bn) the forthcoming fiscal year and aims to continue funding diversification under prolonged low interest rate and unstable market condition. In our local government support, we plan to extend practical support based on requests from the local governments.

Furthermore, in light of our solid business operations, we plan to pay JPY 200 billion (USD 1.8bn) to the national treasury during fiscal 2016 following JPY 300 billion during the previous period from our reserve in the management account. All of our payment will be a part of local allocation tax and contribute to the local governments for regional revitalization.

As a joint funding organization contributed by whole Japanese local governments

Japanese local governments have faced fast population decline and have consulted on regional revitalization proposed by the Cabinet. We expect increasing funding demand by the local governments as repair and renewal are required for various public infrastructure facilities built after the World War II. We also understand that our financial support for the local governments will be more significant given uncertain domestic and international financial markets. We as a joint funding organization will continue to focus on meeting financial expectations from the local governments by complying internal control regulations and maintaining sound financial conditions with confidence from the markets.

The Joint Funding Organization for All Japanese Local Governments

- High credit quasi-sovereign issuer, wholly owned by Japanese local governments with the capital contribution from 1,789^{*1} local governments^{*2}
- Operates as a non-profit organization under JFM Law with the objective to provide long-term and low-interest rate loans exclusively to Japanese local governments
- JFM has never experienced any default on its loans

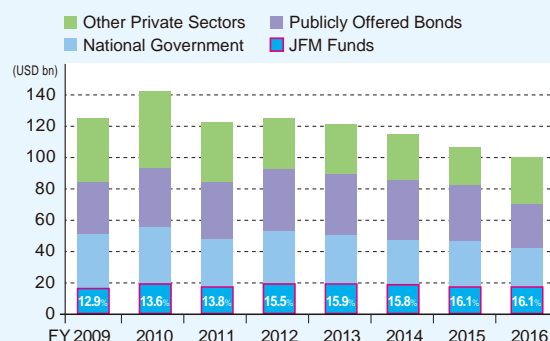
Japanese Local Governments

- Japanese local governments include 47 prefectures and a total of 1,741^{*1} cities and special wards of Tokyo, government-designated cities, as well as towns and villages
- Revenue sources for the local governments are secured by the national government
 - The national government allocates a part of national tax revenue to the local governments, in order to adjust revenue disparities among the local governments (Local Allocation Tax system)
 - The national government also prepares the Local Government Borrowing Programme (LGBP) each fiscal year, which specifies the amount of local government borrowing 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
- The national government also establishes a legal framework to monitor fiscal indices for each local government and implement early correction measures if the local governments with the indices exceeding the early warning limits or reconstruction limits shall restore their financial soundness
- Thus, none of the local governments has defaulted
- BIS 0% risk weight for Japanese local governments^{*3}

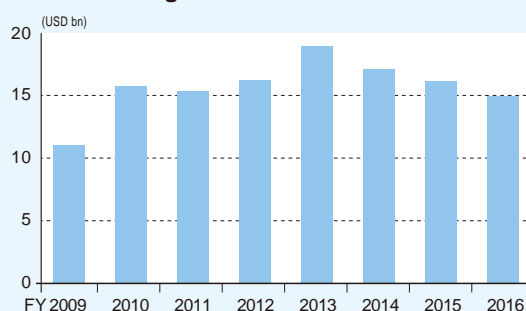
Lending

- JFM funds have accounted for around 16% of the LGBP
- JFM provides loans to almost all local governments
- Loans planned to be made in FY 2016 ending 31 March 2017 are amounted to USD 15.0 bn
- Maximum term to maturity of JFM loans is 40 years

LGBP - Funding Sources for Local Governments

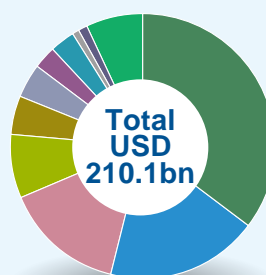


Annual Lending Volume

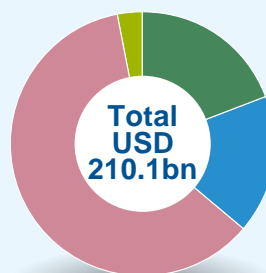


*Planned amount; subject to change depending on market conditions and other factors.

Outstanding Loans by Business



Outstanding Loans by Borrower



Note: Figures in USD are converted at USD 1 = JPY 112.63 as of 31 March 2016, unless otherwise noted

Funding

- Leading issuer in the Japanese bond market with an average annual funding volume of USD 17 – 18 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 Programme
- In the international market, only non-government guaranteed bonds will be issued
- In FY 2015, JFM issued a total of USD 1.6 bn worth of international bonds through 2 public transactions and 2 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

Solid Risk Management

- JFM maintained USD 30.6 bn of reserves for interest rate volatility for the purpose of dealing with interest rate risk resulting from a duration gap between lending (8.96 years) and funding (7.66 years)
- The duration gap of 1.30 years*¹ in the general account qualifies JFM's management target of the duration gap below 2 years

Credit Ratings

- A1 (Moody's), A+ (S&P)
- The ratings of JFM are the same as those of the Japanese sovereign
- BIS risk weight*³: 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.

*1: As of 31 March 2016.

*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 Funding Instruments	FY 2016 (plan) ⁽¹⁾	FY 2015 (achieved)
Non-Guaranteed Bonds	USD 12.2 bn	USD 11.1 bn
Domestic Public Offerings	USD 5.3 bn	USD 6.1 bn
Domestic Private Placements	USD 3.7 bn	USD 3.4 bn
Overseas Offerings - GMTN	USD 2.0 bn	USD 1.6 bn ⁽²⁾
Benchmark		USD 1.5 bn
Uridashi Bonds		USD 82 mm ⁽²⁾
Private Placements		—
Open Issuance ⁽³⁾	USD 1.2 bn	—
Guaranteed Bonds⁽⁴⁾	USD 5.3 bn	USD 6.4 bn
Long-term Bank Loans	USD 0.3 bn	USD 0.3 bn

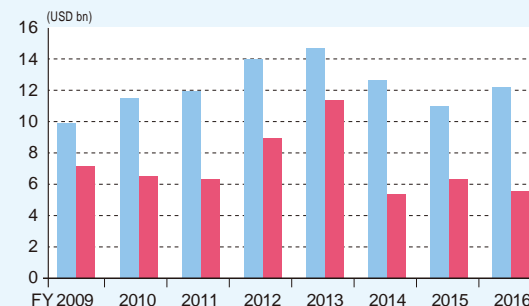
(1) Planned amount; subject to change depending on lending status, market conditions and other factors.

(2) Includes USD and AUD denominated 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.

(4) Denominated in JPY only and issued in the domestic market for refinancing our predecessor's government guaranteed bonds.

Bond Issuance

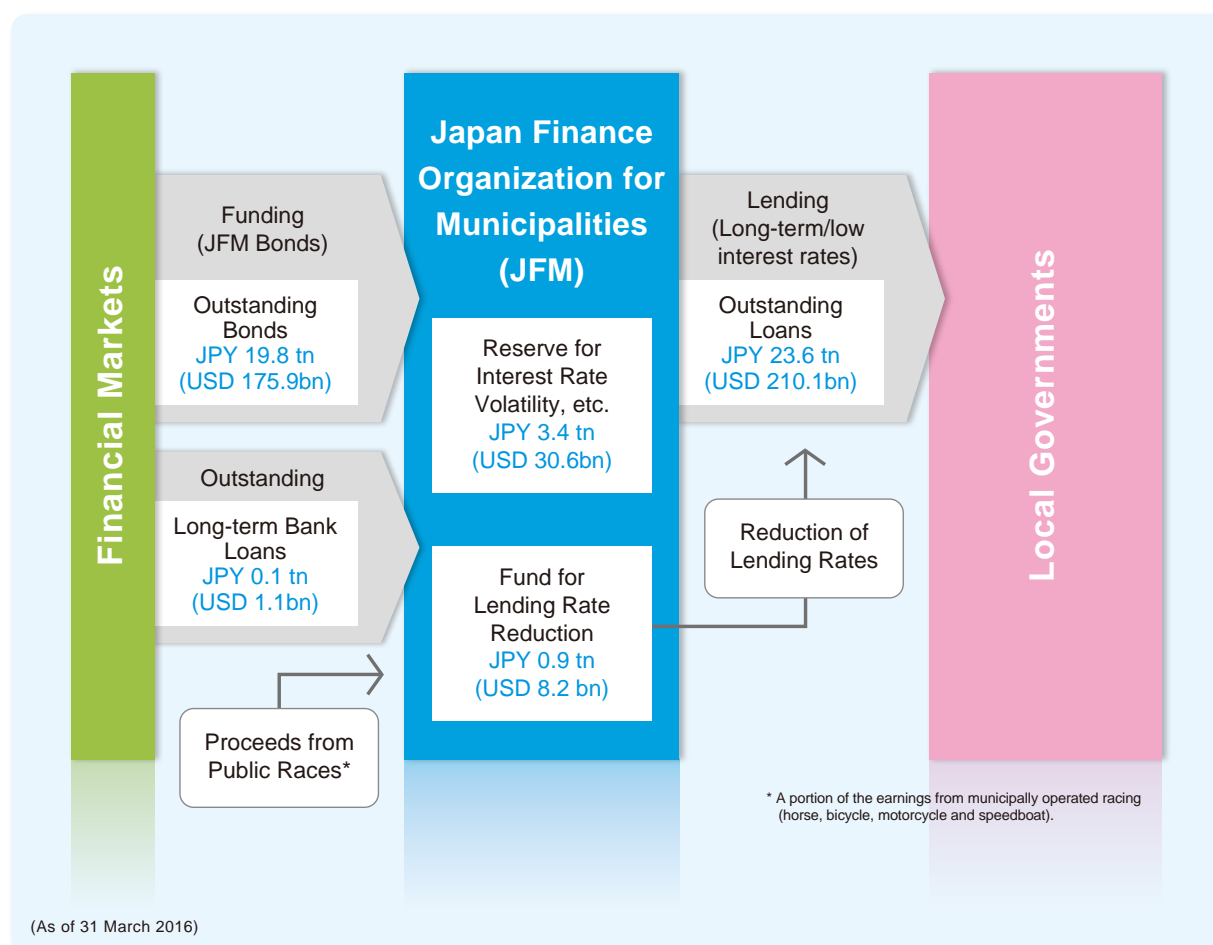


*Planned amount; subject to change depending on lending status, market conditions and other factors.

Outstanding Non-JPY Public Bonds (non-guaranteed)

Issue Date	Currency	Issue Amount	Coupon(%)	Tenor
13 Apr 2016	USD	1,500 mm	2.125	5y
12 Feb 2016	USD	500 mm	2.125	5y
21 Apr 2015	USD	1,000 mm	2.000	7y
13 Feb 2015	USD	1,000 mm	2.375	10y
22 Sep 2014	EUR	1,000 mm	0.875	7y
6 Mar 2014	USD	1,000 mm	2.125	5y
12 Sep 2013	USD	1,500 mm	2.500	5y
5 Feb 2013	USD	1,000 mm	1.375	5y
12 Sep 2012	USD	1,000 mm	1.500	5y

JFM 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 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.

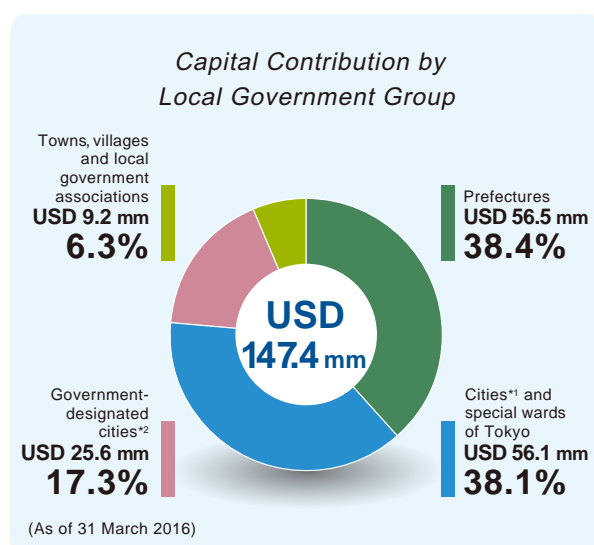
Reduction of Lending Rates by Utilizing the Fund for Lending Rate Reduction

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 2016, JFM's capital was USD 147.4 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

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1 Lending Operations

In fiscal 2015, JFM provided loans totaling USD 16.5 billion, which exceeded the initial plan by USD 0.3 billion, mainly as a result of actual lending surpassing plan in national disaster prevention and disaster management and mitigation projects.

General account-related loans totaled USD 4.7 billion, or 28% of the total lending volume, mainly represented by national disaster prevention and disaster management and mitigation. Loans for temporary financial countermeasures funding* were USD 5.8 billion (35%), followed by municipal enterprise-related loans in the amount of USD 6.0 billion (36%), of which sewerage and water supply businesses were the main contributors.

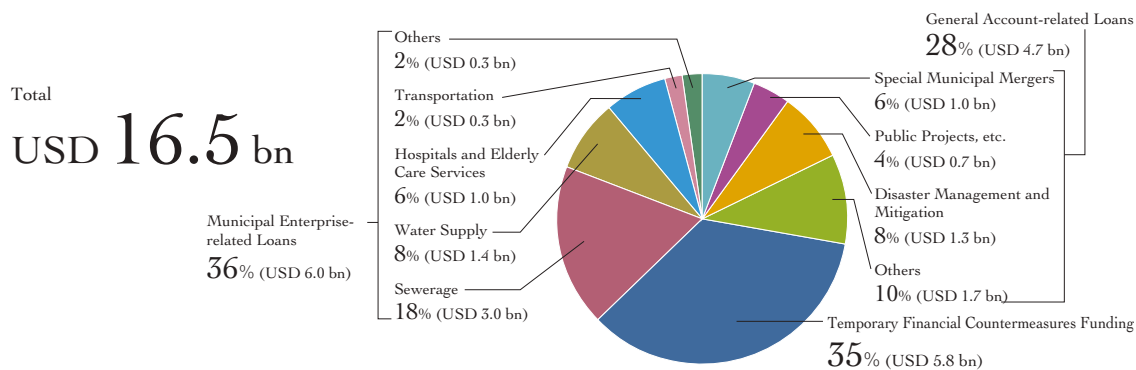
Note: Represents local government funding to cover shortfalls in local government revenue sources pursuant to the provisions of the Local Government Finance Law (Act No. 109 of 1948, as amended).

Lending Operations by Business in Fiscal 2015

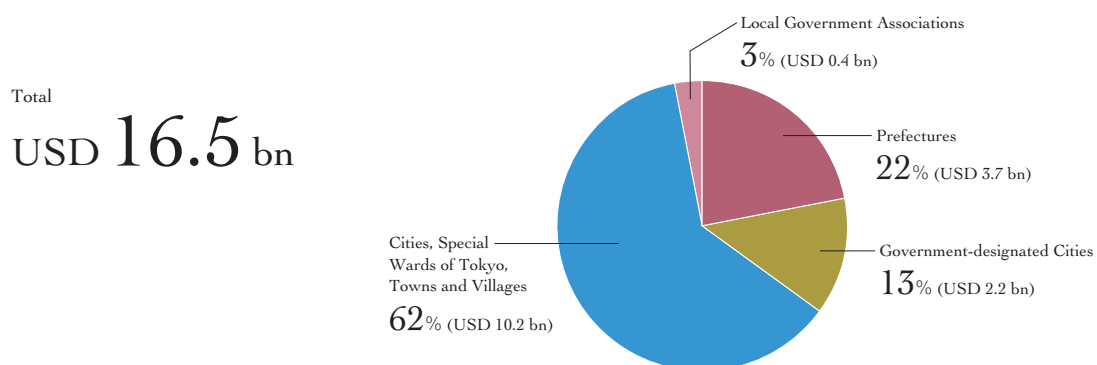
Business	Number of Loans Made	Loan Amount (USD in millions)	
			% of total
General Account-related Loans			
Public Projects, etc.	580	695	4.2
Public Housing	213	186	1.1
Disaster Management and Mitigation (Previous)	2	1	0.0
National Disaster Prevention	424	513	3.1
Educational Facilities Development	170	107	0.6
Social Welfare Facilities Development	171	140	0.8
General Waste Disposal	42	66	0.4
General Projects	84	54	0.3
Regional Revitalization	175	80	0.5
Disaster Prevention	264	185	1.1
Local Road Development	361	327	2.0
Special Municipal Mergers	563	1,040	6.3
Disaster Management and Mitigation	1,290	1,304	7.9
Optimization of the Public Facilities	-	-	-
Subtotal	4,339	4,698	28.4
Municipal Enterprise-related Loans			
Water Supply	1,131	1,371	8.3
Industrial Water Supply	93	93	0.6
Transportation	35	328	2.0
Electricity and Gas Supply	61	65	0.4
Port Facilities	34	34	0.2
Hospitals and Elderly Care Services	450	1,073	6.5
Markets and Slaughterhouses	61	98	0.6
Sewerage	2,016	2,957	17.9
Tourism and Others	18	13	0.1
Subtotal	3,899	6,030	36.5
Refinancing Loans for Facilities Affected by Earthquake	-	-	-
Temporary Financial Countermeasures Funding	722	5,793	35.1
Total	8,960	16,521	100.0

Note: Totals may not add up due to rounding.

FY2015 Loans Extended by Business



FY2015 Loans Extended by Borrower



Note: Totals may not add up due to rounding.

2 Funding Operations

1. Overview^{*1}

In fiscal 2015, JFM raised a total of USD 17.8 billion including USD 11.1 billion in JFM bonds (nonguaranteed), and USD 6.4 billion in government-guaranteed bonds for the repayment of existing bonds issued by Japan Finance Corporation for Municipal Enterprises (the “Predecessor”).

With regard to JFM bonds, a total of USD 7.7 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 Programme (“FLIP”) and the MTN Programme. The amount raised by JFM bonds decreased from the initial funding plan (USD 8.9 billion) due to shift in funding instrument in response to increased demand for private placements with pension and mutual aid funds for local government officials.

As for domestic public offerings, a total of USD 6.1 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 20-year bonds and FLIP.

In overseas offerings, JFM issued USD denominated benchmark bonds in 7-year tenor (USD 1 billion) in April 2015, followed by 5-year public offering (USD 500 million) with the first time bond listing on TOKYO PRO-BOND Market in February 2016. In addition to these successful public bond offerings, JFM issued a total of USD 82 million equivalent Uridashi Bonds in two tranches (USD 16 million and AUD 95 million) targeting Japanese retail investors. Through these activities, the total volume of international bonds issued for fiscal 2015 amounted to USD 1.6 billion^{*2}.

The private placements with the pension and mutual aid funds for local government officials were totaled USD 3.4 billion which consisted of the initially planned 10-year bonds with the Pension Fund Association for Local Government and a total of USD 0.5 billion of 10-year and 20-year private placements with other pension and mutual aid funds for local government officials.

Furthermore, JFM also utilized bank loans as a complementary means of funding, financing USD 0.3 billion through long-term bank loans.

As a result, although JFM decreased amount of publicly offered bonds, JFM raised initially planned amount of USD 17.8 billion by the end of fiscal 2015. As of 31 March 2016, JFM’s outstanding bonds were USD 175.9 billion, including the Predecessor’s bonds to which JFM succeeded. Outstanding long-term bank loans totaled USD 1.1 billion.

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

2. Includes an offering of AUD denominated Uridashi Bonds, converted at the exchange rate at the time of pricing.

Flexible Issuance Programme (“FLIP”)

FLIP is JFM’s own framework for domestic bond issuance. Bond maturities range from 2 years to 40 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 27 million) and JPY 20 billion (USD 178 million), respectively.

Funding in Fiscal 2015

1. JFM bonds (non-government guaranteed)

(1) Domestic and overseas offerings

Type of Bonds	Plan (Initial)	Achieved
Domestic Public Offerings	USD 5.4 bn	USD 6.1 bn
10-year	USD 2.4 bn	USD 2.3 bn
20-year	USD 0.9 bn	USD 1.2 bn
5-year	USD 0.2 bn	USD 0.2 bn
Opportunistic Issuance	USD 2.0 bn	USD 2.5 bn
Overseas Offerings - MTN	USD 2.0 bn	USD 1.6 bn
Open Issuance ^{*2}	USD 1.5 bn	-
Total	USD 8.9 bn	USD 7.7 bn

(2) Private placements with pension and mutual aid funds for local government officials

Type of Bonds	Plan	Achieved
10-year	USD 2.7 bn	USD 3.0 bn
20-year	-	USD 0.5 bn
Total	USD 2.7 bn	USD 3.4 bn

2. Government-guaranteed domestic bonds

Type of Bonds	Plan	Achieved
10-year	USD 4.4 bn	USD 4.4 bn
8-year	USD 0.9 bn	USD 0.9 bn
6-year	USD 1.1 bn	USD 1.1 bn
Total	USD 6.4 bn	USD 6.4 bn

3. Long-term bank loans

Type of Bonds	Plan	Achieved
Long-term Bank Loans	-	USD 0.3 bn

Notes: 1. Figures in Plan (Initial) column show initially planned amounts. In November 2015, the above plan was revised to a total of USD 8.7 billion.

2. 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. Planned amount for the private placement with pension and mutual aid funds for local government officials was revised up to USD 3.4 billion in November 2015.

2. Issue Spreads

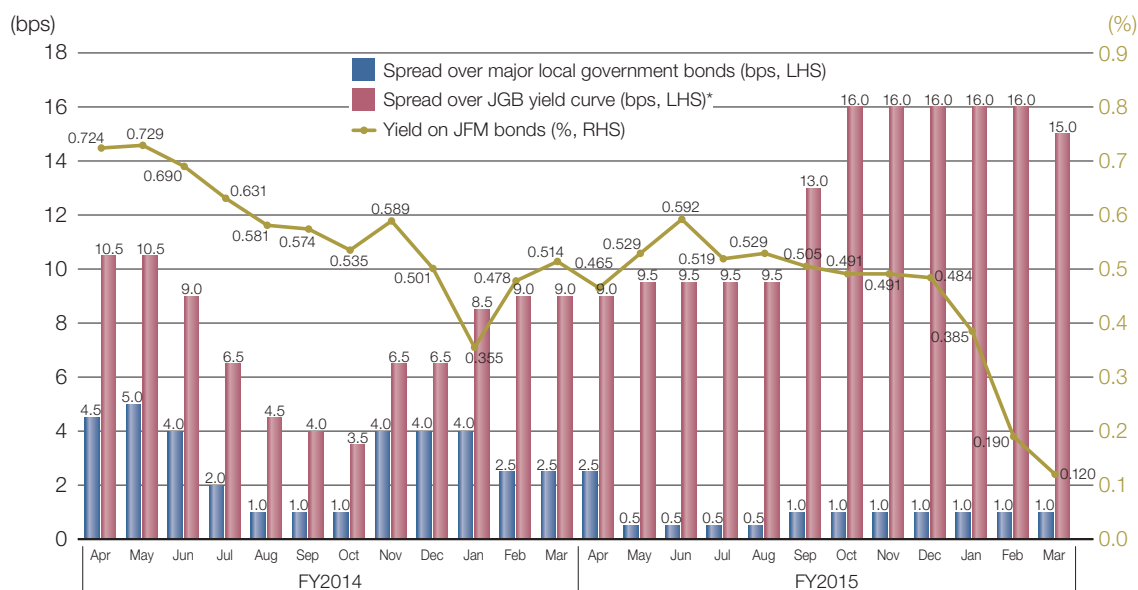
In the domestic market, investor demand for JFM 10-year domestic bonds was dropped on the back of lower JGB yield level with highly fluctuate market conditions after introduction of additional quantitative and qualitative monetary easing policy by the Bank of Japan in October 2014. The premium of JFM 10-year domestic bonds over respective JGB yield curve had widened, and the premium over respective JGB yield curve recorded at 9.5 bps in May 2015 and peaked at 16 bps in October 2015. After the Bank of Japan introduced negative interest rate policy in January 2016, JGB yield across the curve significantly declined, and yield for JFM 10-year domestic bond recorded the lowest in the history at 0.120% in March 2016. While premium over JGB yield curve was widened, the premium of 10-year JFM domestic bonds over major local government bonds had remained at 1.0 bp since September 2015.

20-year domestic bonds had captured solid investor demands to look for relatively higher yields under low JGB yield market throughout the year. After introduction of the negative interest rate policy, yield for JFM domestic 20-year bonds also shrank and hit record low at 0.530% in March 2016.

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

Note: See pages 104-106 for the terms of issuances in fiscal 2015.

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 2015, JFM's income was USD 3.6 billion, a decrease of USD 0.2 billion from the previous year. This decrease was mainly due to a decrease in interest income caused by a decrease in the average interest rate on loans as a result of redemptions of loans made in the past with relatively high interest rates. The decrease in interest income was partially offset by a decrease in interest expenses caused by a decrease in the average interest rate on bonds as a result of the maturity of bonds issued in the past with relatively high interest rates.

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 remains similar level to the previous year at USD 0.3 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 2016, JFM's total assets amounted to USD 218.8 billion, up USD 1.1 billion from the previous year. This mainly resulted from an increase in outstanding loans by USD 2.0 billion due to the amount of new loans for local governments exceeding that of loans repaid.

Total liabilities were up USD 0.7 billion to USD 216.9 billion. This increase primarily reflected an increase of USD 2.3 billion in outstanding bonds as a result of the issue amount exceeding the redemption amount which was partially offset by a decrease of USD 1.4 billion in reserves under special laws reflecting USD 2.7 billion of the payment to the national treasury.

Total net assets were USD 1.9 billion, up USD 0.4 billion. This mainly reflected net income of USD 0.3 billion in the general account being recorded as the general account surplus reserve.

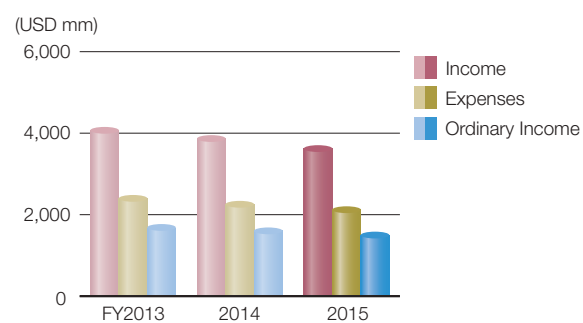
Financial highlights since fiscal 2013 are as follows.

Financial Highlights

1. Income Statement

(USD Millions)

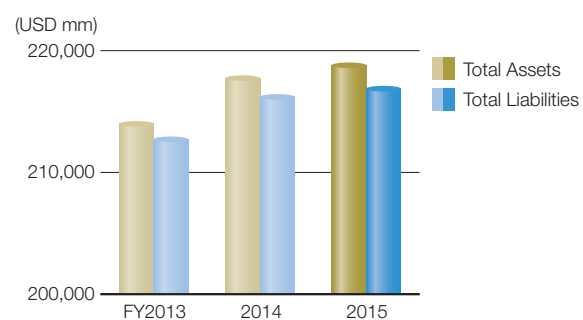
	FY2013	FY2014	FY2015	YoY
Income	4,070	3,858	3,622	-236
Expenses	2,400	2,256	2,122	-133
Ordinary Income	1,670	1,603	1,500	-103
Net Income	235	275	268	-7



2. Balance Sheet

(USD Millions)

	End of FY2013	End of FY2014	End of FY2015	YoY
Total Assets	213,987	217,742	218,799	1,057
Loans	204,945	208,094	210,108	2,014
Others	9,042	9,648	8,691	-957
Total Liabilities	212,719	216,202	216,880	678
Bonds	172,456	173,514	175,794	2,280
Cash collateral received for financial instruments	386	1,618	1,150	-468
Fund for lending rate reduction	8,191	8,171	8,171	-
Reserves under special laws	30,708	32,035	30,603	-1,432
Reserve for interest rate volatility	11,720	13,673	15,626	1,953
Management account reserve for interest rate volatility	18,405	17,859	14,547	-3,312
Reserve for interest rate reduction	583	502	429	-73
Others	977	864	1,163	299
Total Net assets	1,268	1,540	1,919	379



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 Programme (the "LGBP").

Based on the LGBP, JFM plans to extend loans in the amount of USD 15.0 billion in fiscal 2016, USD 1.2 billion or 7.7% decrease from fiscal 2015. This mainly reflects decreased budgets for national disaster prevention projects and temporary financial countermeasures funding.

For your reference, the amount of JFM funds booked in the LGBP also decreased by 7.9% from fiscal 2015 to USD 16.1 billion. This decrease is primarily due to a decreased budget for temporary financial countermeasures funding.

Lending Plan

	FY2016	FY2015	YoY
Planned Amount	USD 15.0 bn	USD 16.2 bn	-7.7%

JFM Funds in Local Government Borrowing Programme

	FY2016	FY2015	YoY
JFM Funds	USD 16.1 bn	USD 17.5 bn	-7.9%
General Account-related Loans	USD 4.4 bn	USD 5.0 bn	-10.8%
Municipal Enterprise-related Loans	USD 6.7 bn	USD 6.8 bn	-0.7%
Refinancing Loans for Facilities Affected by Earthquake	USD 0.01 bn	USD 0.01 bn	-73.3%
Temporary Financial Countermeasures Funding	USD 4.9 bn	USD 5.7 bn	-13.6%

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 (booked amount in the LGBP) being different from JFM's plan for disbursements during the corresponding period.
2. See page 54 for more information on JFM funds in the LGBP.

2 Funding Operations

In order to raise funds for lending operations, JFM primarily issues non-government guaranteed bonds through domestic public offerings and overseas offerings. For fiscal 2016, JFM plans to issue USD 8.4 billion of JFM bonds through these methods.

In addition, private placements with pension and mutual aid funds for local government officials are projected to amount to USD 3.7 billion, an increase of USD 1.1 bn from the initially projected amount in fiscal 2015. In addition to issuing JFM bonds, JFM plans to raise USD 0.3 bn through long-term bank loans.

As for government-guaranteed bonds, JFM plans to issue USD 5.3 billion, which includes USD 1.8 billion of scheduled payment to the national treasury during fiscal 2016 from a portion of JFM's reserves for interest rate volatility maintained in the management account.

Funding Plan for FY2016

1. JFM bonds (non-government guaranteed)

(1) Domestic and overseas offerings

Type of Bonds	FY 2016 (Plan)	FY2015 (Achieved)
Domestic Public Offerings	USD 5.3 bn	USD 6.1 bn
10-year	USD 2.1 bn	USD 2.3 bn
20-year	USD 1.1 bn	USD 1.2 bn
5-year	USD 0.2 bn	USD 0.2 bn
30-year	USD 0.2 bn	-
Opportunistic Issuance	USD 1.8 bn	USD 2.5 bn
Overseas Offerings - MTN	USD 2.0 bn	USD 1.6 bn
Open Issuance	USD 1.2 bn	-
Total	USD 8.4 bn	USD 7.7 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.

(2) Private placements with pension and mutual aid funds for local government officials

Type of Bonds	FY 2016 (Plan)	FY2015 (Achieved)
10-year	USD 1.7 bn	USD 3.0 bn
20-year	USD 2.0 bn	USD 0.4 bn
Total	USD 3.7 bn	USD 3.4 bn

2. Government-guaranteed domestic bonds

Type of Bonds	FY 2016 (Plan)	FY2015 (Achieved)
10-year	USD 2.1 bn	USD 4.4 bn
8-year	USD 1.1 bn	USD 0.9 bn
6-year	USD 1.8 bn	USD 1.1 bn
4-year	USD 0.4 bn	-
Total	USD 5.3 bn	USD 6.4 bn

3. Long-term bank loans

Type of Loans	FY 2016 (Plan)	FY2015 (Achieved)
Long-term Bank Loans	USD 0.3 bn	USD 0.3 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 5.3 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 2.7 billion was transferred to the national treasury and USD 1.8 billion shall be transferred during fiscal 2016 to secure financial resources of the local allocation tax for regional revitalization.

Operations

Lending Operations

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Funding Operations

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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 2016			
			Fixed Lending Rate		Adjustable Lending Rate ¹	
			Maturity	Grace Period for Principal Repayment	Maturity	Grace Period for Principal Repayment
General Account-related Loans	Public Projects, etc. ²		Within (Years) 20	Within (Years) 5	Within (Years) 20	Within (Years) 5
	Public Housing		25	5	25	5
	Educational and Social Welfare Facilities Projects	Educational Facilities Development ²	25	3	25	3
		Social Welfare Facilities Development	20	3	20	3
		General Waste Disposal	15	3	15	3
	Unsubsidized Projects	General Projects ²	30	5	30	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 ²		30	5	40	5
	Electricity Supply ²		30	5	30	5
	Gas Supply		25	5	25	5
	Port Facilities ²		30	5	40	5
	Hospitals ²		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. Figures represent maximum maturities and grace period for principal payment.

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

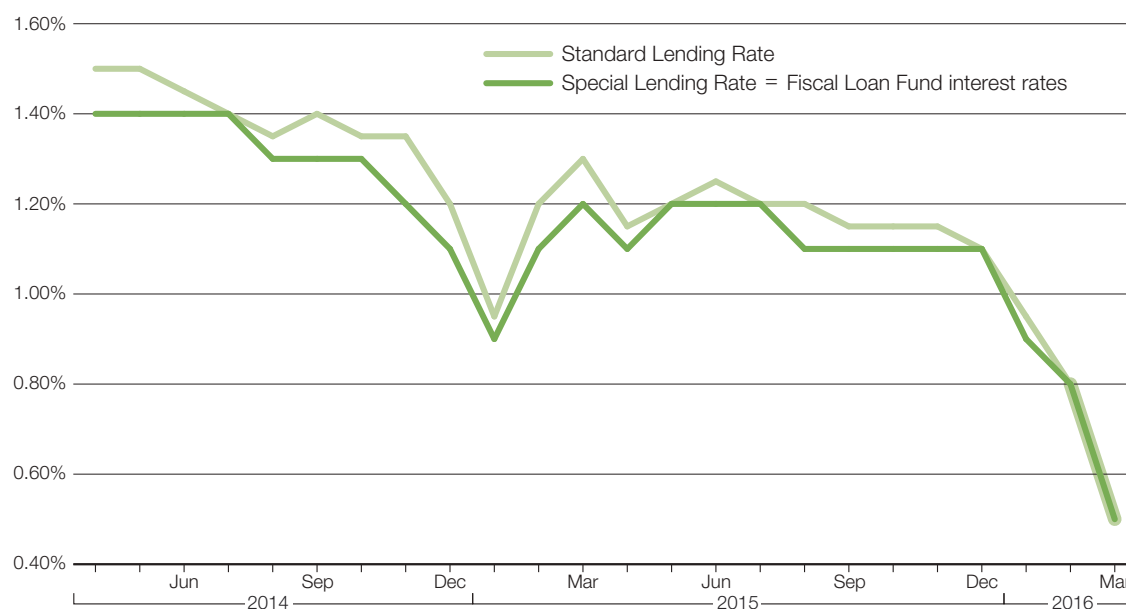
JFM offers two types of loan interest rates: the standard lending rate and the special lending rate.

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 2015, approximately 99% of outstanding JFM loans consisted of special interest rate loans.

The trends of JFM loan interest rates since April 2014 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.

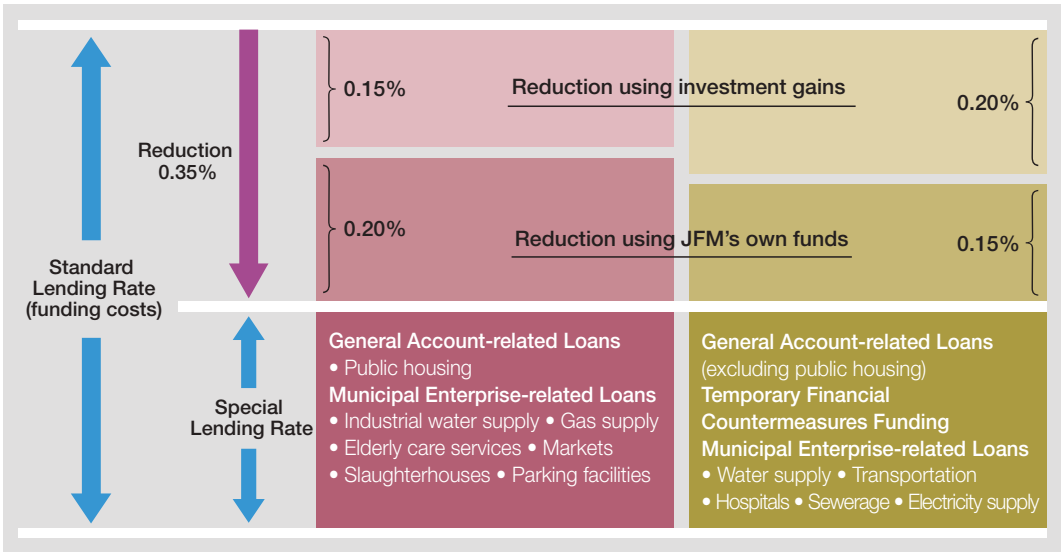
Trends of Lending Rates



Note: The lending rates above represent a 30-year fixed rate loan with a 5-year grace period for semi-annually equal total payment.

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. The fund consists of contributions from local governments of a portion of the earnings from municipally operated racing in accordance with the Local Government Finance Law, and also JFM's own funds.

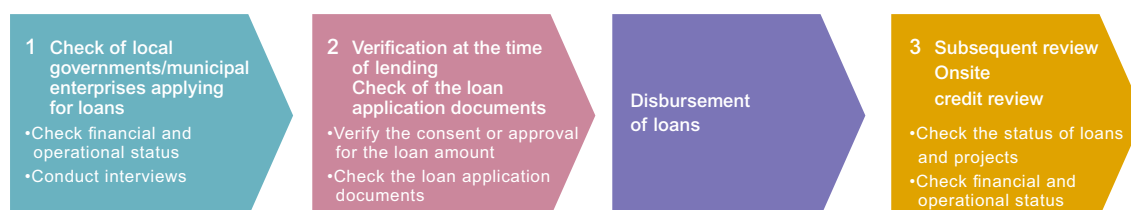


Notes: 1. The minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund.
 2. The discount rates using the investment gains (0.15% or 0.20%) applicable to each business category are determined by the Minister for Internal Affairs and Communications, pursuant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



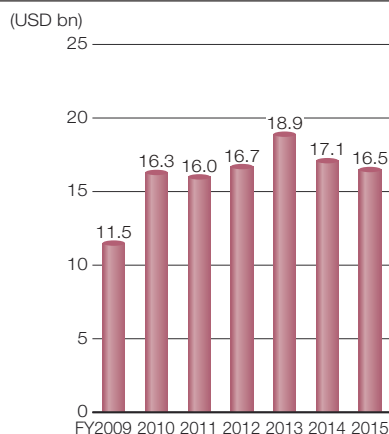
4 Trends in Lending Operations

1. Overview

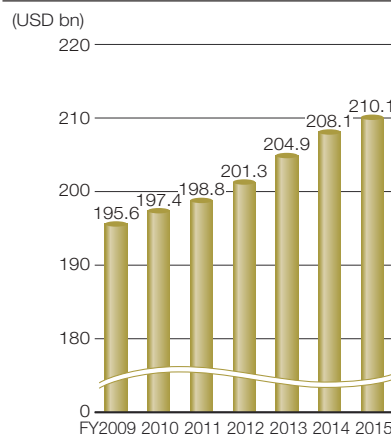
JFM's annual lending volume has risen since fiscal 2009 as a result of the expansion of its lending scope to overall general account-related loans, the introduction of the Great East Japan Earthquake-related loans, and so on.

In fiscal 2015, the lending volume amounted to USD 16.5 billion. At year-end, outstanding loans were USD 210.1 billion.

Annual Lending Volume



Outstanding Loans



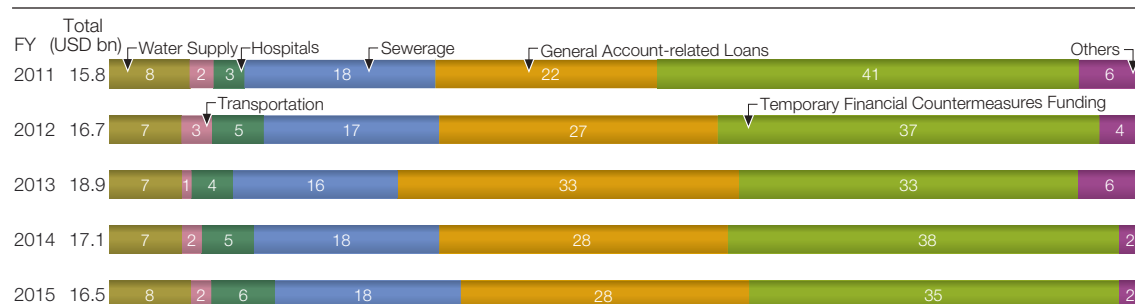
2. Annual Lending Volume by Business and Borrower

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 2015, loans for temporary financial countermeasures funding were USD 5.8 billion, accounting for the largest share of lending, at 35% of the total. Ranked next were USD 3.0 billion in the sewerage business, representing 18% of the total, and USD 1.4 billion in the water supply, for 8% of the total.

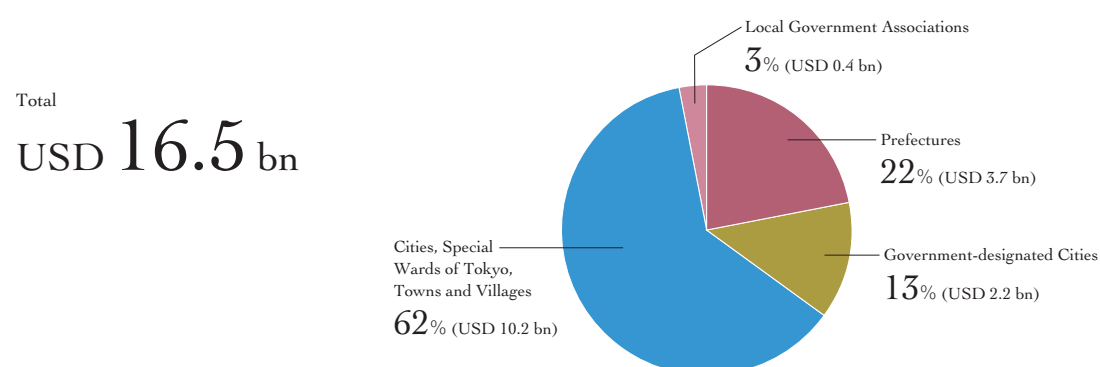
At year-end, the number of local governments with loans from JFM totaled USD 16.5 billion. Cities, Special Wards of Tokyo, Towns and Villages represented the highest share at 62% of the total, followed by prefectures at 22% and government-designated cities at 13%.

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.

FY2015 Loans Extended by Borrower



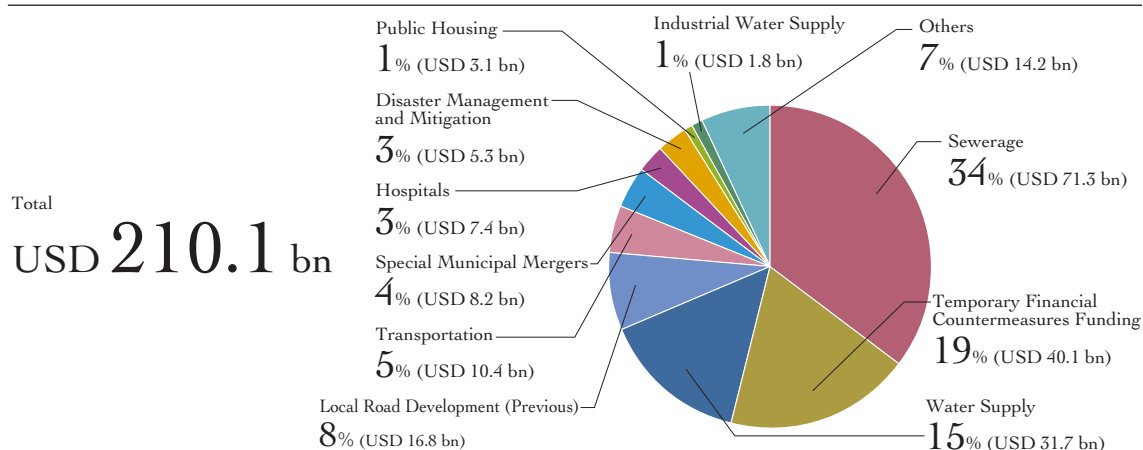
Note: Totals may not add up due to rounding.

3. Outstanding Loans by Business and Borrower

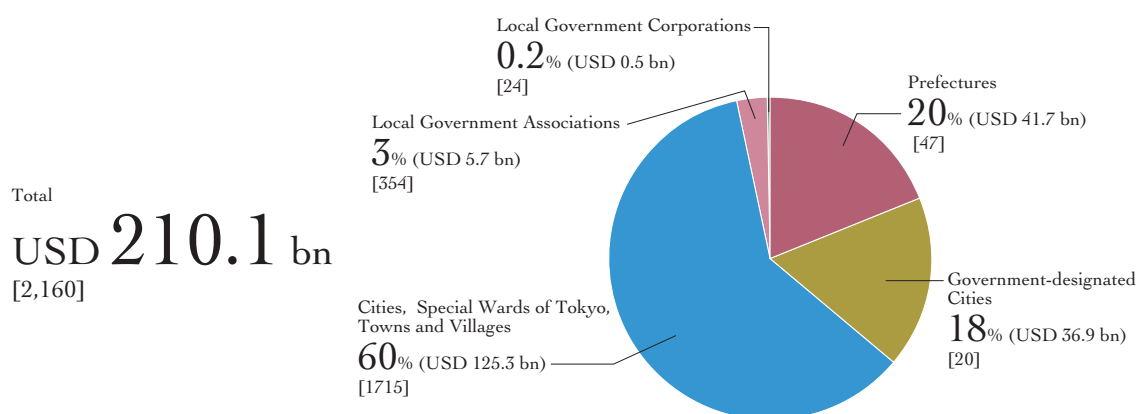
At the end of fiscal 2015, the outstanding loans were USD 210.1 billion, of which the sewerage business accounted for the largest share at 34%, followed by temporary financial countermeasures funding at 19% and water supply at 15%.

There were a total of 2,160 local governments, local government associations and corporations with outstanding JFM loans, including all prefectures. Cities, special wards of Tokyo, towns and villages accounted for the largest portion at 60% of the total, followed by prefectures at 20% and government-designated cities at 18%. Local government associations and corporations represented the remaining 3.2%.

Outstanding Loans by Business (as of 31 March 2016)



Outstanding Loans by Borrower (as of 31 March 2016)



*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.

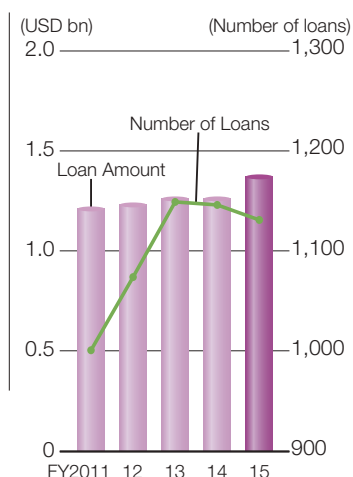
Water Supply Business

At the end of fiscal 2014, the water supply coverage was 97.8% of the population. The water supply business (including small-scale water supply) operated by local governments totaled 2,097 projects and provided about 18.1 billion cubic meters of water annually for approximately 124.4 million people.

In fiscal 2015, loans extended to the water supply business amounted to USD 1.4 billion.



Shiramizu Raw Water Reservoir (Ishigaki City, Okinawa Prefecture)



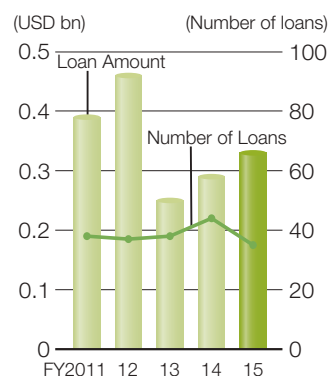
Transportation Business

At the end of fiscal 2014, 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 (11.35 million people on an average daily basis).

In fiscal 2015, loans extended to the transportation business amounted to USD 0.3 billion.



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



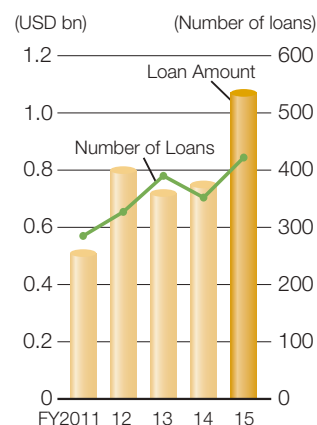
Hospitals Business

At the end of fiscal 2014, hospital projects managed by local governments totaled 639 with 816 hospitals, which included 784 general hospitals and 32 mental hospitals.

In fiscal 2015, loans extended to the hospitals business (including those run by local independent administrative institutions) totaled USD 1.1 billion.



Uwajima City
Hospital
(Ehime Prefecture)



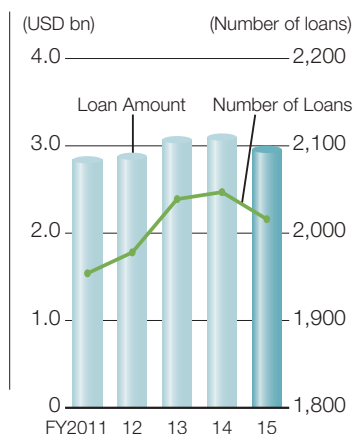
Sewerage Business

At the end of fiscal 2014, the sewerage system covered 89.5% of the nation's total population. There were 3,639 projects involved, with a total annual sewerage processing capacity (combined storm water and sewerage treatment, excluding river basin sewerage) of around 15.0 billion cubic meters serving areas with a population of nearly 103 million people.

In fiscal 2015, loans extended to the sewerage business totaled USD 3.0 billion.



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

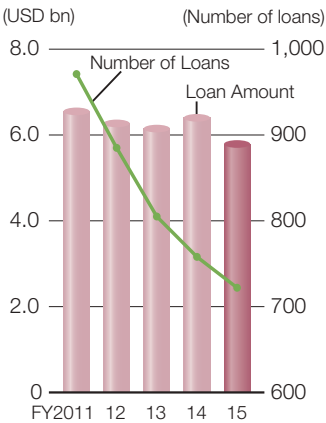


Temporary Financial Countermeasures Funding

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 2015, loans extended for temporary financial countermeasures funding amounted to USD 5.8 billion.



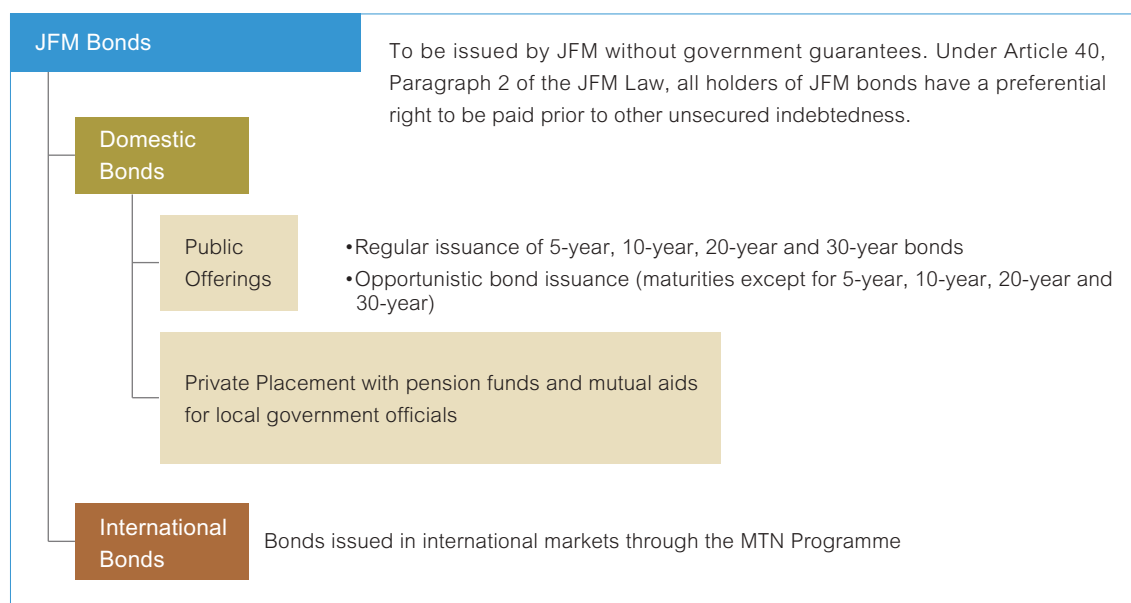
As a joint funding organization for local governments, JFM raises funds in a consistent manner to provide local governments with long-term and low-interest funds, while endeavoring to focus on market fluctuations.

1 Issue Type

JFM primarily issues non-government guaranteed bonds (i.e., JFM bonds) through public offerings in order to raise funds for its lending operations. Private placements with the pension funds 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.

In addition to issuing bonds, JFM raises money from long-term bank loans as a supplemental source for overall funding operations.



Government-Guaranteed Bonds	
	To be issued only in the domestic market denominated in Japanese Yen for the purpose of refinancing outstanding government guaranteed bonds issued by the Predecessor.

Long-term Bank Loans	
	JFM utilises long-term bank loans as a complementary means of fundraising.

2 Basic Funding Policy

To secure stable funding at fair value, 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 market fluctuations and shift in 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, 20-year and 30-year bonds, and also continues to take advantage of its Flexible Issuance Programme (FLIP) for opportunistic funding as well as long-term bank loans. JFM also utilizes the MTN Programme, 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 August.

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: A+ Moody's: A1 R&I: AA+ (As of 31 March 2016)	
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 international bonds, the values are determined by respective authorities in each country. (as of 31 March 2016)

4 Trends in Funding Operations

JFM issues JFM bonds (non-government guaranteed bonds to be issued through domestic public offerings or under the MTN Programme, or private placements with pension funds and mutual aids for local government officials) and government-guaranteed bonds for the purpose of refinancing existing government guaranteed bonds of the Predecessor. Long-term bank loans are also an important funding source for our funding operations.

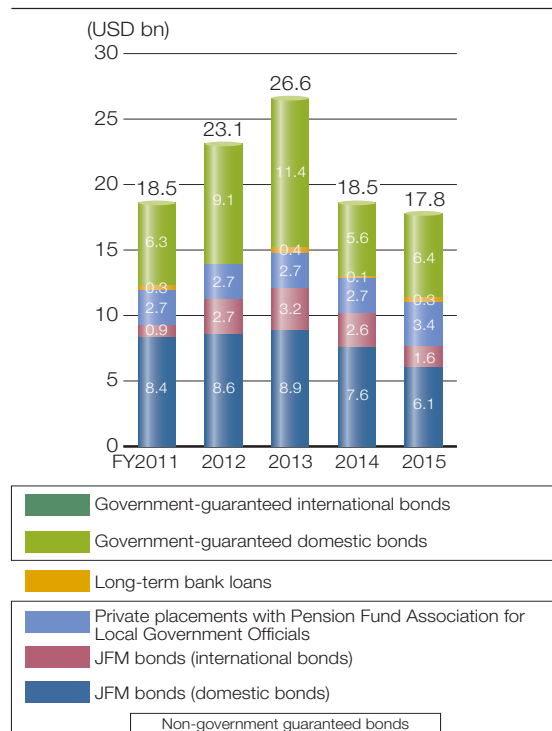
Historically, the Predecessor had issued government-guaranteed bonds and private placement bonds subscribed by pension funds and mutual aids for local government officials and, for the period from fiscal 2001 to fiscal 2008, non-government guaranteed FILP agency bonds*. Then, since JFM commenced its 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 due to the scheduled payment to the national treasury until fiscal 2017, the issuance of guaranteed bonds will gradually decrease.

In fiscal 2015, JFM raised a total of USD 17.8 billion, nearly same volume from the previous year. This was mainly result of a decrease in the amount of JFM bonds issued during fiscal 2015 in connection with the decline of annual lending volume in the same period, which was offset by increase in issuing government guaranteed bonds for payment to the national treasury and an increase of funding amount in the private placements with pension funds and mutual aids for local government officials.

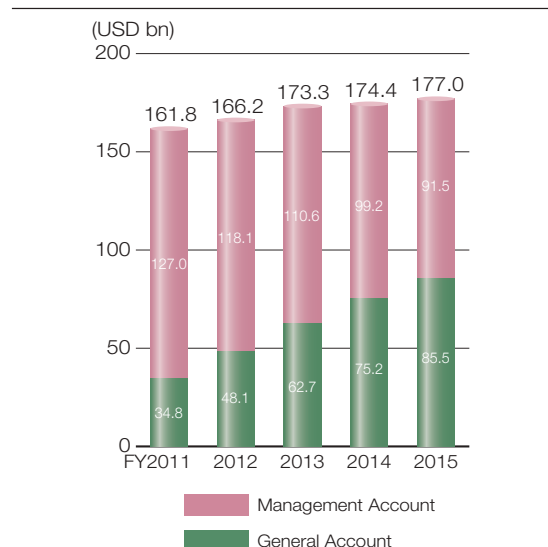
At year-end, outstanding bonds were USD 175.9 billion. Outstanding long-term bank loans totaled USD 1.1 billion. The total amount of outstanding bonds and long-term bank loans was USD 177.0 billion, which was comprised of USD 85.5 billion in the general account and USD 91.5 billion in the management account. While the outstanding bonds and long-term bank loans in the general account have been increasing, the management account has been decreasing. The management account is expected to gradually decrease as no new bonds, other than bonds issued to refinance Predecessor's bonds, have been issued in this account since October 2008 and equally none are expected going forward.

Note: FILP stands for Fiscal Investment and Loan Programme, 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-government guaranteed bonds issued under the FILP.

Funding Volume



Outstanding Bonds and Bank Loans



Management Structure

Corporate Governance

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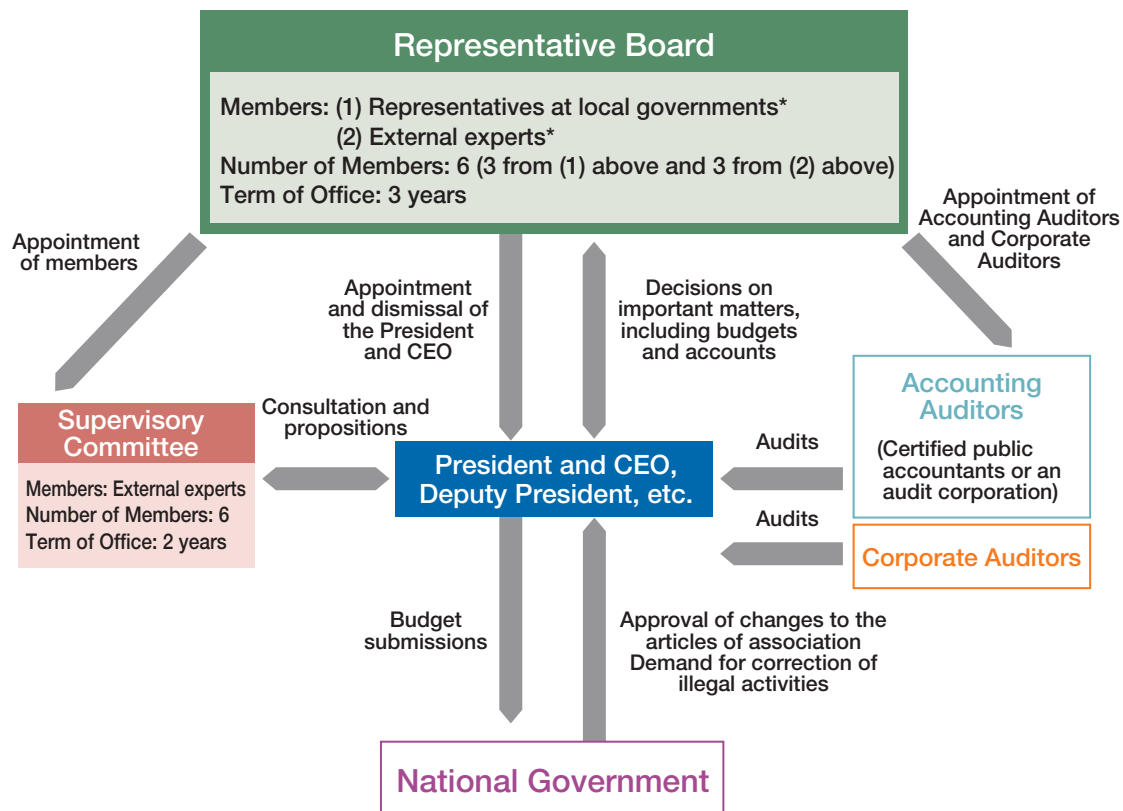




JFM ensures responsible corporate governance through the participation of external experts on the Representative Board and the Supervisory Committee and audits by external accounting auditors.

1 Corporate Governance

Corporate Governance System



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

1. Representative Board

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 and to appoint and dismiss the President and CEO as well as Corporate Auditors. 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 2015 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 5, 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

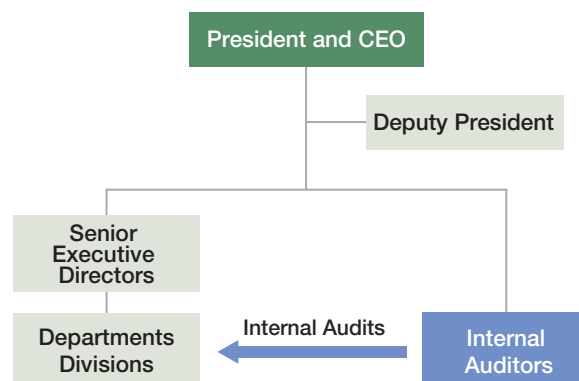
An internal auditor, who is independent from other departments, divisions and offices, examines and assesses the appropriateness and effectiveness of JFM’s internal control systems, thereby helping ensure reliable financial reporting and appropriate and efficient operations.

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



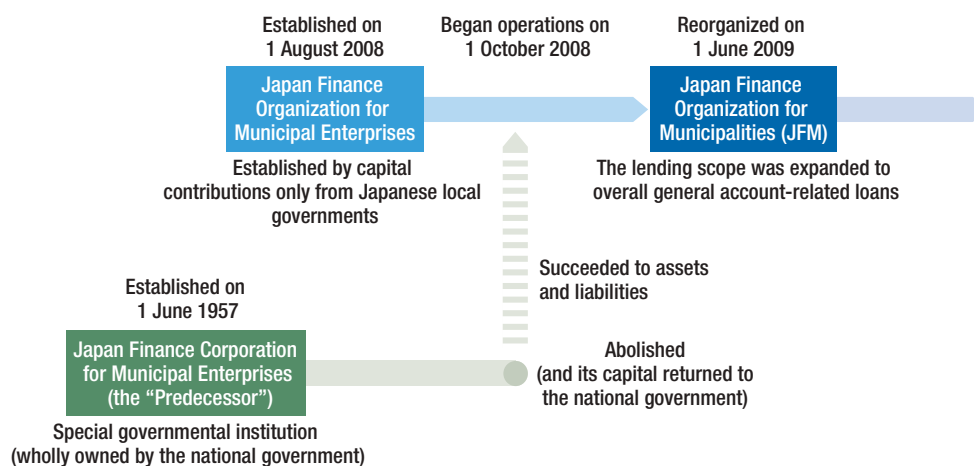
General Account and Management Account

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.

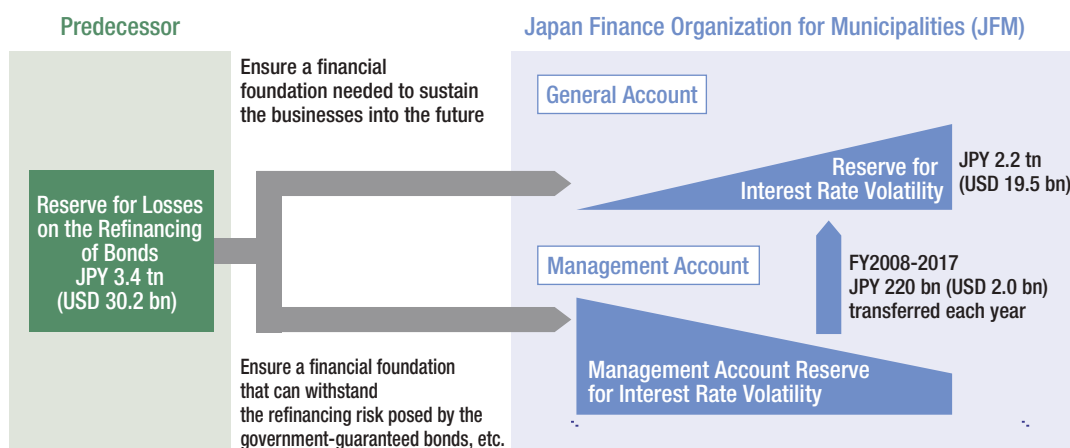
Under JFM Law, JFM requires managing loans and bonds issued since JFM began its operations in the general account of JFM, whereas loans and operations carried over from the Predecessor are administered in the separate account known as the management account of JFM.

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 30.2 billion) to ensure its future stable management.

Of this amount, the JPY 2.2 trillion (USD 19.5 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.



Under JFM Law, if any assets remain when the asset management operations of the Predecessor are completed and the management account is closed, those assets shall be returned to the national treasury.

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 5.3 billion). Such portion becomes financial resources for Local Allocation Tax and is distributed to the local governments for regional revitalization.

JFM also transferred a total of JPY 1 trillion (USD 8.9 billion) to the national treasury during fiscal 2012 and 2013 and JPY 300 billion (USD 2.7 billion) during fiscal 2008 based on the provision above.

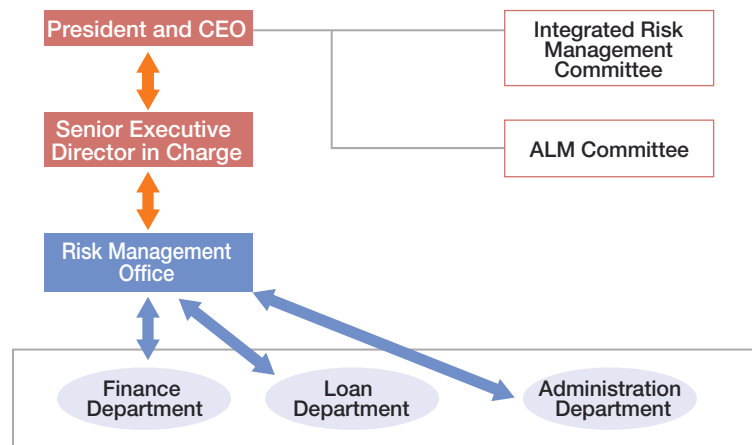
1 Overall Risk Management

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 2016). 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 45.

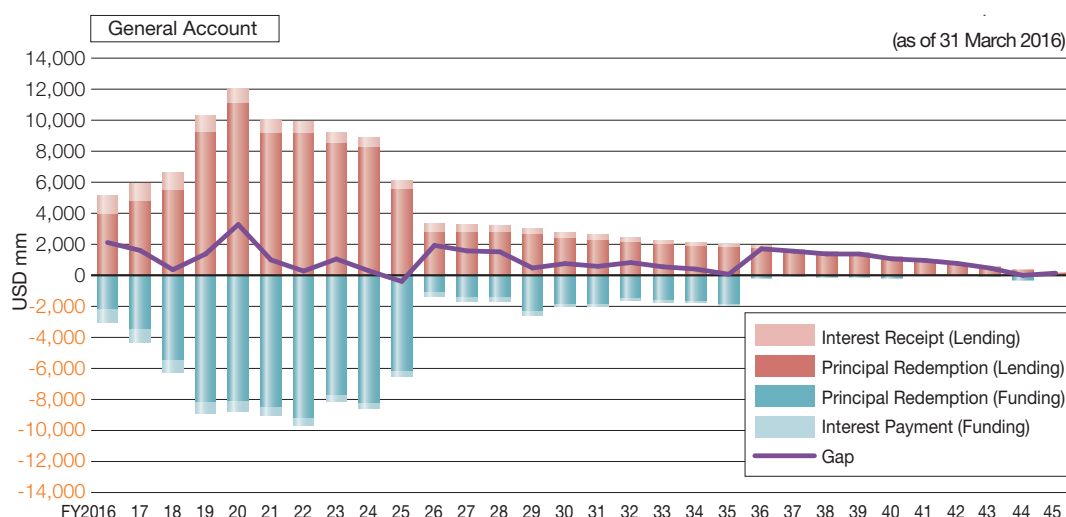
- Interest rate risk associated with a gap in lending and funding schedules

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.

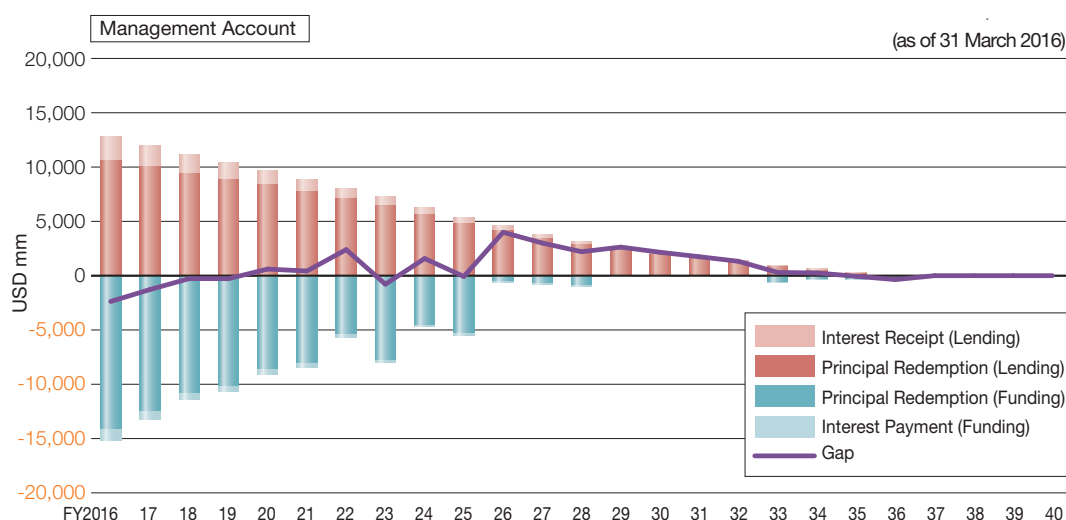
Managing interest rate risk associated with bond refinancing

- JFM maintains reserves to prepare for interest rate risk associated with bond refinancing. At the end of fiscal 2015, the total amount of the reserves stood at USD 30.6 billion, which consisted of USD 15.6 billion in the general account and USD 14.6 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. In addition, JFM will revise its lending rate by 30th year at the latest for its loans with maturities longer than 30 years, while maturities of the loans were extended to be a maximum of 40 years from April 2015.
 - (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 2015, the duration gap in the general account was 1.30 years, staying within the management target.
- In the management account, which manages assets transferred from the Predecessor, JFM maintains USD 14.6 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. JFM transferred JPY 300 billion (USD 2.7 billion) in fiscal 2015 while JPY 200 billion (USD 1.8 billion) is planned to be transferred to the national treasury in fiscal 2016. 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 8.96 years • Funding duration 7.66 years • Duration gap 1.30 years (YoY change: +0.15 years)



• Lending duration 6.19 years • Funding duration 4.52 years • Duration gap 1.67 years (YoY change: -0.20 years)

JFM as a whole

• Lending duration 7.62 years • Funding duration 6.06 years • Duration gap 1.56 years (YoY change: -0.05 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.

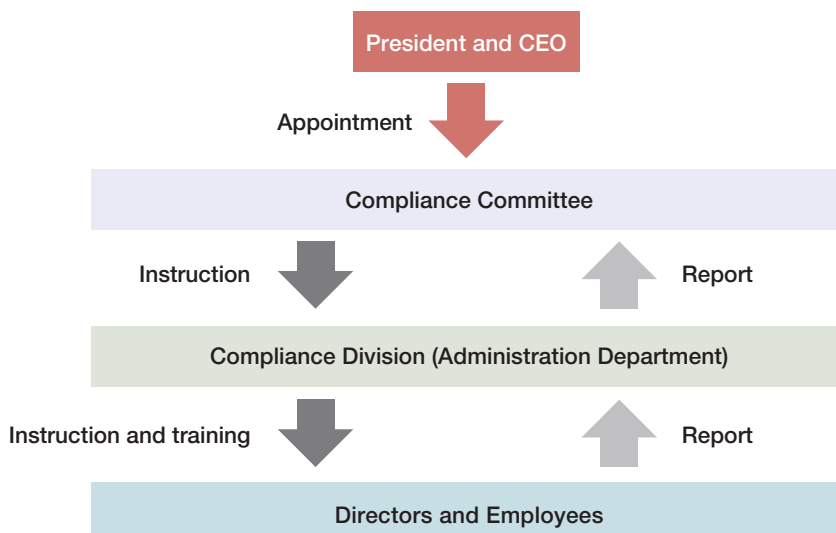
2 Compliance System

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/).

1. Materials for Disclosure Pursuant to Laws and Regulations

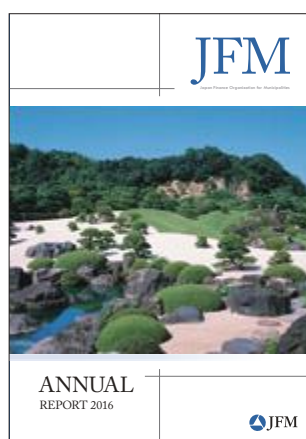
- Financial statements
- Business reports and statement of accounts (in Japanese only)
- Explanatory documents based on Article 36, Paragraph 3 of the JFM Law (Documents corresponding to annual securities reports specified in the Financial Instruments and Exchange Act and the Internal Control Report)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



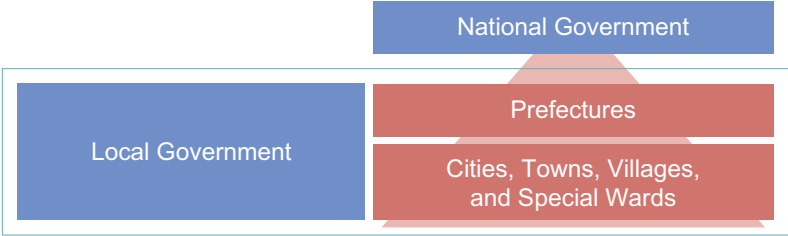
Annual Report

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.

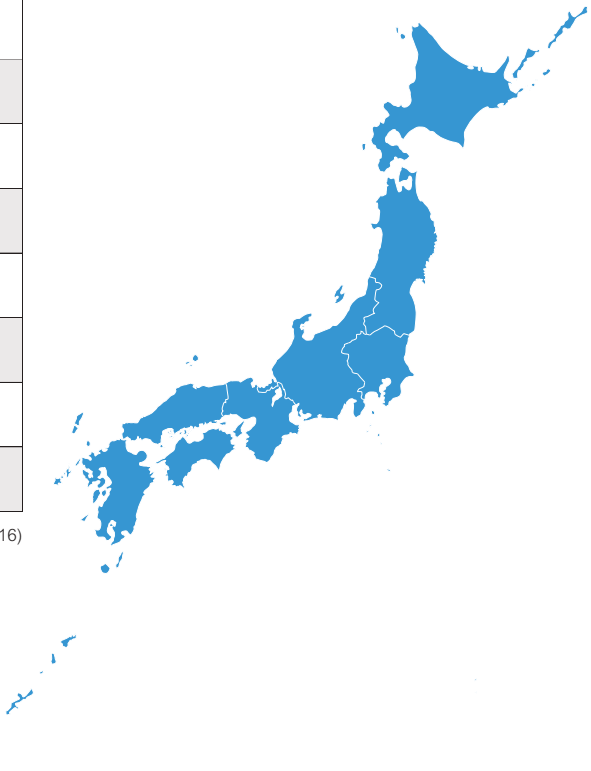
Japanese local government system adopts a two-tier system with prefectures serving broader geographic areas, and cities, special wards of Tokyo, as well as government-designated cities, towns and villages providing local services.



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 2016)



JFM's Role in
Local Government Finance

2 Local Government Finance Programme

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 2016, local government finance will total JPY 87.7 trillion (USD 778.4 billion) (based on the Local Government Finance Programme (the “LGFP”).

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 Programme, 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 Programme (Initial Plan for FY2016)

Annual Expenditure (USD 778.4 bn)	Annual Revenue (USD 778.4 bn)
<ul style="list-style-type: none"> - Social welfare - Education - Fire defense - Infrastructure, etc. 	Local Tax USD 365.9 bn
	Local Allocation Tax USD 152.5 bn
	Local Government Bonds and Loans USD 79.0 bn
	Others USD 181.0 bn

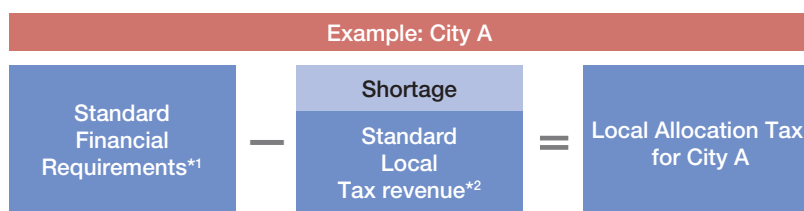
Note: The above programme includes Great East Japan Earthquake related budgets.

JFM's Role in Local Government Finance

3 Local Allocation Tax

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

Local Allocation Tax System



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

2. Local governments have 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 2016).

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 Programme

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 35.

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 Programme

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

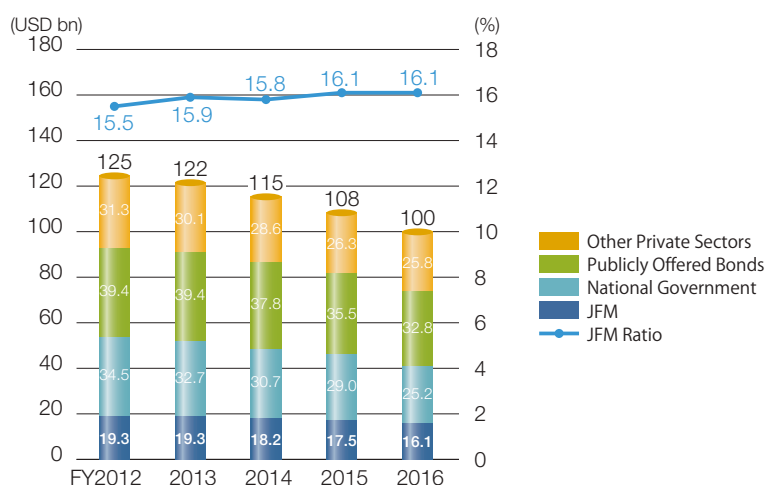
Local Government Borrowing Programme

		FY2015	FY2016	Share
1. Private Funds	Publicly Offered Bonds	USD 36 bn	USD 33 bn	33%
	Other Private Sectors	USD 26 bn	USD 26 bn	26%
2. Public Funds	JFM	USD 17 bn	USD 16 bn	16%
	National Government	USD 29 bn	USD 25 bn	25%
Total		USD 108 bn	USD 100 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

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Financial Statements

Balance Sheets

(As of 31 March 2015 and 2016)

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

Item	Fiscal 2014 (31 March 2015)	Fiscal 2015 (31 March 2016)		Item	Fiscal 2014 (31 March 2015)	Fiscal 2015 (31 March 2016)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 3)	¥23,437,630	¥23,664,512	\$210,108,432	Bonds (Notes 7 and 8)	¥19,542,864	¥19,799,634	\$175,793,615
Securities (Note 17)	670,000	235,000	2,086,478	Borrowed money (Note 9)	85,500	120,500	1,069,875
Cash and bank deposits	399,211	711,611	6,318,132	Cash collateral received for financial instruments	182,246	129,509	1,149,864
Cash collateral paid for financial instruments	437	16,277	144,517	Other liabilities	11,700	10,345	91,856
Other assets	12,384	11,550	102,550	Reserve for bonuses (Note 10)	50	52	469
Tangible fixed assets (Note 6)	2,840	2,720	24,153	Reserve for bonuses for directors and corporate auditors (Note 10)	7	7	70
Intangible fixed assets (Note 6)	1,776	1,700	15,098	Reserve for retirement benefits (Notes 10 and 13)	41	33	300
				Reserve for retirement benefits for directors and corporate auditors (Note 10)	22	9	82
				Fund for lending rate reduction	920,287	920,287	8,170,892
				Basic fund for lending rate reduction (Note 12)	920,287	920,287	8,170,892
				Reserves under special laws	3,608,067	3,446,803	30,602,890
				Reserve for interest rate volatility (Note 11)	1,540,000	1,760,000	15,626,387
				Management account reserve for interest rate volatility (Note 11)	2,011,515	1,638,462	14,547,301
				Reserve for interest rate reduction	56,552	48,341	429,202
				Total liabilities	24,350,790	24,427,184	216,879,913
				Net Assets			
				Capital	16,602	16,602	147,404
				Retained earnings	107,703	137,900	1,224,369
General account surplus reserve	107,703	137,900	1,224,369				
Valuation, translation adjustments and others	(4,482)	8,018	71,193				
Management account surplus reserve	53,666	53,666	476,481				
Total net assets	173,489	216,187	1,919,447				
Total assets	¥24,524,279	¥24,643,371	\$218,799,360	Total liabilities and net assets	¥24,524,279	¥24,643,371	\$218,799,360

See notes to financial statements.

Statements of Income

(For the years ended 31 March 2015 and 2016)

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

Item	Fiscal 2014 (1 April 2014 to 31 March 2015)	Fiscal 2015 (1 April 2015 to 31 March 2016)	
	Amount	Amount	
Income	¥434,569	¥407,972	\$3,622,237
Interest income	428,977	404,858	3,594,585
Fees and commissions	112	108	964
Other operating income	0	0	2
Other income	5,479	3,005	26,686
Contributions from fund for lending rate reduction (Note 12)	5,467	2,993	26,576
Others	11	12	110
Expenses	254,070	239,039	2,122,341
Interest expenses	246,060	230,505	2,046,573
Fees and commissions	294	324	2,884
Other operating expenses	4,632	4,405	39,112
General and administrative expenses	3,083	3,803	33,772
Ordinary income	180,499	168,933	1,499,896
Special gains	229,129	528,211	4,689,790
Reversal of management account reserve for interest rate volatility (Note 11)	220,000	520,000	4,616,887
Reversal of reserve for interest rate reduction	9,129	8,211	72,903
Special losses	378,658	666,947	5,921,577
Loss on disposal of fixed assets	88	-	-
Provision for reserve for interest rate volatility (Note 11)	220,000	220,000	1,953,298
Provision for management account reserve for interest rate volatility (Note 11)	158,570	146,947	1,304,690
Payment to national treasury (Notes 4 and 11)	-	300,000	2,663,589
Net income	¥30,971	¥30,197	\$268,109

See notes to financial statements.

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

Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2016)

(Millions of yen)

1 Profit available for appropriation		¥30,197
Net income	¥30,197	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	30,197	30,197

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$268,109
Net income	\$268,109	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	268,109	268,109

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 2015)

(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 2016)

(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 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 2016)

(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 2015	¥16,602	¥107,703	¥107,703	¥124,305	¥(4,482)	¥53,666	¥173,489
Changes during accounting period							
Net income	-	30,197	30,197	30,197	-	-	30,197
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	12,500	-	12,500
Net changes during accounting period	-	30,197	30,197	30,197	12,500	-	42,697
Balance as of 31 March 2016	¥16,602	¥137,900	¥137,900	¥154,502	¥8,018	¥53,666	¥216,187

(For the year ended 31 March 2016)

(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 2015	\$147,404	\$956,260	\$956,260	\$1,103,664	\$(39,795)	\$476,481	\$1,540,350
Changes during accounting period							
Net income	-	268,109	268,109	268,109	-	-	268,109
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	110,988	-	110,988
Net changes during accounting period	-	268,109	268,109	268,109	110,988	-	379,097
Balance as of 31 March 2016	\$147,404	\$1,224,369	\$1,224,369	\$1,371,773	\$71,193	\$476,481	\$1,919,447

See notes to financial statements.

Statements of Cash Flows

(For the years ended 31 March 2015 and 2016)

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

Item	Fiscal 2014 (1 April 2014 to 31 March 2015)	Fiscal 2015 (1 April 2015 to 31 March 2016)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥30,971	¥30,197	\$268,109
Depreciation and amortization	480	564	5,011
Interest income	(428,977)	(404,858)	(3,594,585)
Interest expenses	246,060	230,505	2,046,573
Increase/(decrease) in reserve for bonuses	(0)	2	19
Increase in reserve for bonuses for directors and corporate auditors	0	0	3
Decrease in reserve for retirement benefits	(74)	(8)	(72)
Decrease in reserve for retirement benefits for directors and corporate auditors	(0)	(13)	(121)
Decrease in fund for lending rate reduction	(5,467)	(2,993)	(26,576)
Increase in reserve for interest rate volatility	220,000	220,000	1,953,298
Decrease in management account reserve for interest rate volatility	(61,429)	(73,052)	(648,609)
Decrease in reserve for interest rate reduction	(9,129)	(8,211)	(72,903)
Net (increase)/decrease in loans	(354,653)	(226,882)	(2,014,407)
Net increase/(decrease) in bonds	116,129	254,060	2,255,710
Net increase/(decrease) in borrowed money	(10,000)	35,000	310,752
Interest received	429,619	405,693	3,602,001
Interest paid	(245,338)	(229,067)	(2,033,809)
Others	138,435	(56,171)	(498,727)
Net cash provided by operating activities	66,626	174,764	1,551,667
II Cash flows from investing activities			
Proceeds from redemption of securities	3,300,000	2,756,000	24,469,502
Purchases of securities	(3,435,994)	(2,321,000)	(20,607,298)
Purchases of tangible fixed assets	(396)	(10)	(91)
Purchases of intangible fixed assets	(1,393)	(347)	(3,082)
Net cash provided by/(used in) investing activities	(137,784)	434,642	3,859,031
III Cash flows from financing activities			
Payment to national treasury	-	(300,000)	(2,663,589)
Revenue from contributions made from municipally operated racing	3,193	2,993	26,576
Net cash provided by/(used in) financing activities	3,193	(297,006)	(2,637,013)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase/(decrease) in cash and cash equivalents	(67,964)	312,400	2,773,685
VI Cash and cash equivalents at beginning of year	467,175	399,211	3,544,447
VII Cash and cash equivalents at end of year	¥399,211	¥711,611	\$6,318,132

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 2016, the final day of the fiscal year, which was ¥112.63 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: 23 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 risk of 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 Articles 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. 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).

4. 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 2015 through fiscal 2017, with the aim of transferring up to 600 billion yen over this period.

In fiscal 2015, 300,000 million yen (2,663,589 thousand U.S. dollars) was transferred to the national treasury by JFM, pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2015 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2015).

In fiscal 2016, 200 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 2016 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2016).

5. 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 risk.

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

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

(b) Details and risks of financial instruments

JFM makes loans to local governments. The maximum term to maturity is 40 years, 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

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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 Programme, 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" (No. 59, 1981) or the "Financial Reconstruction Law" (No. 132, 1998) 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 40 years, but the majority of the funds for these loans are raised mainly through issuance of 10-year bonds, which creates interest rate risk associated with bond refinancing. JFM takes the following measures to address the interest rate risk resulting from a duration gap between lending and funding.

- JFM maintains necessary reserves to cope with the interest rate risk resulting from a duration gap between lending and funding.
- As assets and liabilities in JFM's general account will expand as a result of lending to local governments and funding, JFM carries out an ALM analysis of this account in a timely and appropriate manner to further enhance the effectiveness of its management of interest rate risk. In order to reduce exposure to interest rate risk, JFM has established a medium-term management target for five years from fiscal 2013, in which the duration gap is to be maintained below approximately two years.
- 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 5 or 10 years. In addition, JFM will revise its lending rate by the 30th year at the latest for its loans with maturities longer than 30 years, which also contributes to moderate the duration on assets (lending).
- 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 and interest rate risk related to floating rate bonds.

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

C. Quantitative information on market risk

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

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

The "outlier ratio" is calculated by dividing JFM's "decline in economic value" as a result of hypothetical interest rate shocks by JFM's net assets, including the reserve for interest rate volatility in the general account and the fund for lending rate reduction. The "decline in economic value" is the largest possible loss in net present market value of its loans and bonds and long-term 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 2016 is used.

- Calculation of outlier ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2016, 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.

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JFM monitors the movement of the outlier ratio on a regular basis, and the calculation as of 31 March 2016 is as follows.

Information on the outlier ratio as of 31 March 2016 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	25.1% [+2.7%]	¥(713,370) [(134,394)]	\$(6,333,748) [(1,193,243)]	¥(2,164,845) [(309,036)]	\$(19,220,856) [(2,743,816)]	¥+1,451,475 [+174,641]	\$+12,887,108 [+1,550,573]	¥2,842,808 [+262,697]	\$25,240,238 [+2,332,389]

Note: Amounts posted in square brackets indicate the change from 31 March 2015.

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 2016 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 30,276 million yen (268,809 thousand U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2016 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 30,676 million yen (272,361 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, JFM has voluntarily implemented a plan to secure liquidity support assets in advance based on Basel III liquidity standards 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 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	-	-	-

The book value, fair value and difference between them as of 31 March 2016 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,664,512	¥26,360,218	¥2,695,705
(2) Securities held-to-maturity securities	235,000	235,000	-
(3) Cash and bank deposits	711,611	711,611	-
(4) Cash collateral paid for financial instruments	16,277	16,277	-
Total assets	24,627,400	27,323,106	2,695,705
(1) Bonds	19,799,634	20,984,649	1,185,014
(2) Borrowed money	120,500	124,017	3,517
(3) Cash collateral received for financial instruments	129,509	129,509	-
Total liabilities	20,049,644	21,238,176	1,188,532
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

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(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$210,108,432	\$234,042,605	\$23,934,173
(2) Securities held-to-maturity securities	2,086,478	2,086,478	-
(3) Cash and bank deposits	6,318,132	6,318,132	-
(4) Cash collateral paid for financial instruments	144,517	144,517	-
Total assets	218,657,559	242,591,732	23,934,173
(1) Bonds	175,793,615	186,314,919	10,521,304
(2) Borrowed money	1,069,875	1,101,107	31,232
(3) Cash collateral received for financial instruments	1,149,864	1,149,864	-
Total liabilities	178,013,354	188,565,890	10,552,536
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 2015 and 2016.

(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 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	-

As of 31 March 2016

(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	¥235,000	¥235,000	-
	Sub total	235,000	235,000	-
Total		¥235,000	¥235,000	-

(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	\$2,086,478	\$2,086,478	-
	Sub total	2,086,478	2,086,478	-
Total		\$2,086,478	\$2,086,478	-

(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.

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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 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	-	

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 2016 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	¥75,000	¥75,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,302,474	1,302,474	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	173,000	-	(*2)	
Total			¥1,550,474	¥1,377,474	-	

(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	\$665,897	\$665,897	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	11,564,191	11,564,191	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	1,536,003	-	(*2)	
Total			\$13,766,091	\$12,230,088	-	

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

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

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

As of 31 March 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	-	-	-	-	-	-	-

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As of 31 March 2016

(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	After 30 years through 40 years
Loans	¥1,667,182	¥1,669,864	¥1,679,686	¥1,665,312	¥1,623,644	¥6,749,347	¥6,987,580	¥1,615,733	¥6,159
Securities held-to- maturity securities	235,000	-	-	-	-	-	-	-	-
Deposits	711,611	-	-	-	-	-	-	-	-

(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	After 30 years through 40 years
Loans	\$14,802,296	\$14,826,106	\$14,913,316	\$14,785,690	\$14,415,738	\$59,924,957	\$62,040,140	\$14,345,500	\$54,688
Securities held-to- maturity securities	2,086,478	-	-	-	-	-	-	-	-
Deposits	6,318,131	-	-	-	-	-	-	-	-

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

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	-	-

As of 31 March 2016

(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	After 30 years through 40 years
Bonds	¥1,847,228	¥1,773,824	¥1,804,268	¥2,055,327	¥1,896,753	¥7,955,991	¥2,292,940	¥174,000	¥10,000
Borrowed money	-	25,000	30,000	10,000	-	55,500	-	-	-

(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	After 30 years through 40 years
Bonds	\$16,400,861	\$15,749,134	\$16,019,432	\$18,248,491	\$16,840,570	\$70,638,297	\$20,358,164	\$1,544,881	\$88,786
Borrowed money	-	221,966	266,359	88,786	-	492,764	-	-	-

6. Tangible and Intangible Fixed Assets

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

Tangible and intangible fixed assets as of 31 March 2016 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2015 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2016 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2016	Depreciation and amortization during the year	Balance as of 31 March 2016 (Net book value)
Tangible fixed assets							
Buildings	¥1,176	¥5	-	¥1,181	¥361	¥60	¥819
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	388	6	-	395	154	70	240
Total tangible fixed assets	3,224	11	-	3,236	516	131	2,720
Intangible fixed assets							
Software	2,121	356	¥37	2,440	740	432	1,700
Other intangible fixed assets	0	58	58	0	-	-	0
Total intangible fixed assets	¥2,121	¥414	¥95	¥2,440	¥740	¥432	¥1,700

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(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2015 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2016 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2016	Depreciation and amortization during the year	Balance as of 31 March 2016 (Net book value)
Tangible fixed assets							
Buildings	\$10,446	\$46	-	\$10,492	\$3,213	\$541	\$7,279
Land	14,737	-	-	14,737	-	-	14,737
Other tangible fixed assets	3,450	58	-	3,508	1,371	629	2,137
Total tangible fixed assets	28,633	104	-	28,737	4,584	1,170	24,153
Intangible fixed assets							
Software	18,834	3,167	\$331	21,670	6,572	3,840	15,098
Other intangible fixed assets	0	516	516	0	-	-	0
Total intangible fixed assets	\$18,834	\$3,683	\$847	\$21,670	\$6,572	\$3,840	\$15,098

7. 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 19,542,864 million yen and 19,799,634 million yen (175,793,615 thousand U.S. dollars) as of 31 March 2015 and 2016, respectively.

8. Bonds

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) (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) (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
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

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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)	-	-

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 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)— (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-48)," "Non-guaranteed bonds issued by JFM (international)— (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 by 31 March 2016.

Bonds as of 31 March 2016 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2015	Balance as of 31 March 2016	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-82)	6/15/2009-3/14/2016	¥3,444,382	¥3,945,290	0.020 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-5)	9/26/2013-1/29/2016	200,000	300,000	0.173 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-17)	9/27/2011-10/30/2015	1,009,984	1,129,991	0.122 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	330,000	330,000 (220,000)	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 1-3)	2/19/2014-2/19/2016	75,000	50,000 (25,000)	0.030 to 0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	20,000	20,000 (20,000)	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-18)	5/25/2010-10/19/2015	305,000	235,000 (80,000)	0.110 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 1-82)	6/18/2009-3/17/2016	2,260,000	2,515,000	0.120 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 1-50)	6/25/2009-3/17/2016	930,000	1,065,000	0.530 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1)	6/26/2014	15,000	15,000	1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F20, F22-F31, F33-F39, F41-F52, F54-F210, F212-F243, F245-F310)	7/22/2009-1/28/2016	1,562,643	1,819,772 (58,000)	0.045 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	35,000	35,000	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-52)	1/12/2012-2/12/2016	755,784	943,766 [USD 7,435 million] [AUD 460 million] [NZD 105 million] [EUR 1,000 million] (16,200)	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 39)	1/17/2012-7/22/2013	125,073	125,073 [USD 1,348 million] [NZD 40 million] [AUD 120 million] (50,608)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A74)	7/31/2009-3/24/2016	1,880,000	2,180,000	0.080 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B5)	11/24/2015-3/24/2016	-	34,000	0.080 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C5)	11/24/2015-3/24/2016	-	51,500	0.412 to 1.154	20Y

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Bonds issued by JFM - Sub-total	-	13,101,039	14,947,564 (469,808)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	561,461	561,735	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	139,981	139,986	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	84,958	84,961	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	-	906,401	906,684	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 850-886)	4/21/2005-6/19/2008	2,383,168	1,469,826 (661,750)	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	184,749	184,771	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	472,614	343,017 [GBP 150 million] [USD 1,000 million] (120,000)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 15-30)	6/20/2005-6/16/2008	589,966	399,985 (240,000)	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	569,735	569,760	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	189,879	189,885	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 2)	7/19/2005	20,000	-	0.45	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	34,810	32,640 (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 (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.1-15-No.1-31)	5/25/2005-7/31/2008	1,050,500	715,500 (333,500)	1.32 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	5,535,423	3,945,385 (1,377,420)	-	-
Total	-	¥19,542,864	¥19,799,634 (1,847,228)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2015	Balance as of 31 March 2016	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-82)	6/15/2009-3/14/2016	\$30,581,396	\$35,028,768	0.020 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-5)	9/26/2013-1/29/2016	1,775,726	2,663,589	0.173 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-17)	9/27/2011-10/30/2015	8,967,282	10,032,777	0.122 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-6)	5/28/2012-8/29/2013	2,929,948	2,929,948 (1,953,298)	0.093 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	738,436	738,436 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 1-3)	2/19/2014-2/19/2016	665,897	443,931 (221,966)	0.030 to 0.135	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	177,573	177,573 (177,573)	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 1-18)	5/25/2010-10/19/2015	2,707,982	2,086,478 (710,290)	0.110 to 0.639	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	177,573	177,573	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-82)	6/18/2009-3/17/2016	20,065,702	22,329,752	0.120 to 1.648	10Y
Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	443,931	443,931	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-50)	6/25/2009-3/17/2016	8,257,125	9,455,740	0.530 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1)	6/26/2014	133,179	133,179	1.864	30Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Series F1-F20, F22-F31, F33-F39, F41-F52, F54-F210, F212-F243, F245-F310)	7/22/2009-1/28/2016	13,874,130	16,157,084 (514,960)	0.045 to 2.334	2Y to 40Y
Non-guaranteed bonds issued by JFM (domestic) FLIP bonds (Floater, Series F53, F211, F244)	2/1/2011-7/25/2014	310,752	310,752	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-52)	1/12/2012-2/12/2016	6,710,332	8,379,353 [USD 7,435 million] [AUD 460 million] [NZD 105 million] [EUR 1,000 million] (143,834)	0.875 to 5.092	3Y to 10Y
Non-guaranteed bonds issued by JFM (international) (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 39)	1/17/2012-7/22/2013	1,110,485	1,110,485 [USD 1,348 million] [NZD 40 million] [AUD 120 million] (449,338)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1-A74)	7/31/2009-3/24/2016	16,691,823	19,355,412	0.080 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B5)	11/24/2015-3/24/2016	-	301,873	0.080 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C5)	11/24/2015-3/24/2016	-	457,249	0.412 to 1.154	20Y
Bonds issued by JFM - Sub-total	-	116,319,272	132,713,883 (4,171,259)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	4,985,006	4,987,445	1.3 to 1.6	10Y

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Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,242,848	1,242,892	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	754,317	754,344	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with Pension Fund Association for Local Government Officials (Series A1, A2)	4/30/2009-5/26/2009	1,065,435	1,065,435	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	8,047,606	8,050,116	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 850-886)	4/21/2005-6/19/2008	21,159,271	13,050,042 (5,875,433)	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	1,640,318	1,640,516	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	4,196,167	3,045,521 [GBP 150 million] [USD 1,000 million] (1,065,435)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 15-30)	6/20/2005-6/16/2008	5,238,095	3,551,323 (2,130,871)	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	5,058,470	5,058,689	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	1,685,868	1,685,922	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	177,573	177,573	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Inflation-indexed bonds (Series 2)	7/19/2005	177,573	-	0.45	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	309,065	289,798 (19,267)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	177,573	177,573 (177,573)	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with Pension Fund Association for Local Government Officials (Series Special No.1-15-No.1-31)	5/25/2005-7/31/2008	9,327,000	6,352,659 (2,961,023)	1.32 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	49,146,973	35,029,616 (12,229,602)	-	-
Total	-	\$173,513,851	\$175,793,615 (16,400,861)	-	-

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 19,799,634 million yen (175,793,615 thousand U.S. dollars) as of 31 March 2016.

2. Amounts in square brackets under "Balance as of 31 March 2016" for "Government-guaranteed bonds issued by JFM (international)—Global U.S. dollar bonds (Series 1)," "Non-guaranteed bonds issued by JFM (international)— (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-52)," "Non-guaranteed bonds issued by JFM (international)— (Floater, Series 1, 4-6, 8-13, 17, 18, 20-27, 29, 30, 32, 36, 38, 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 2016" are to be repaid within one year.

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

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

As of 31 March 2016

(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	¥1,847,228	¥1,773,824	¥1,804,268	¥2,055,327	¥1,896,753

(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	\$16,400,861	\$15,749,134	\$16,019,432	\$18,248,491	\$16,840,570

9. Borrowed Money

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	-	-

Borrowed money as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2015	Balance as of 31 March 2016	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	¥85,500	¥120,500	0.593	9/19/2017-2/27/2026
Total	¥85,500	¥120,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2015	Balance as of 31 March 2016	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	-	-	-
Long-term borrowed money (excluding repayment within 1 year)	\$759,123	\$1,069,875	0.593	9/19/2017-2/27/2026
Total	\$759,123	\$1,069,875	-	-

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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 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

As of 31 March 2016

(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	¥-	¥25,000	¥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	\$-	\$221,966	\$266,359	\$88,786	\$-

10. Reserves

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

Reserves as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2015	Increase during the year	Decrease during the year		Balance as of 31 March 2016
			Intended purpose	Other	
Reserve for bonuses	¥50	¥52	¥50	¥-	¥52
Reserve for bonuses for directors and corporate auditors	7	7	7	-	7
Reserve for retirement benefits	41	3	3	8	33
Reserve for retirement benefits for directors and corporate auditors	22	6	18	1	9

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2015	Increase during the year	Decrease during the year		Balance as of 31 March 2016
			Intended purpose	Other	
Reserve for bonuses	\$450	\$469	\$450	\$-	\$469
Reserve for bonuses for directors and corporate auditors	67	70	67	-	70
Reserve for retirement benefits	372	34	35	71	300
Reserve for retirement benefits for directors and corporate auditors	203	59	166	14	82

11. Reserve for Interest Rate Volatility

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

Reserve for interest rate volatility as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2015	Increase during the year	Decrease during the year		Balance as of 31 March 2016
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	¥1,540,000	¥220,000	¥220,000	¥-	¥1,760,000
Management account reserve for interest rate volatility	2,011,515	146,947	146,947	520,000	1,638,462
Total	¥3,551,515	¥366,947	¥366,947	¥520,000	¥3,398,462

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2015	Increase during the year	Decrease during the year		Balance as of 31 March 2016
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	\$13,673,089	\$1,953,298	\$1,953,298	\$-	\$15,626,387
Management account reserve for interest rate volatility	17,859,498	1,304,690	1,304,690	4,616,887	14,547,301
Total	\$31,532,587	\$3,257,988	\$3,257,988	\$4,616,887	\$30,173,688

Notes: The “decrease during the year” for the “management account reserve for interest rate volatility” in the amount of 520,000 million yen (4,616,887 thousand U.S. dollars) partly consists of 300,000 million yen (2,663,589 thousand U.S. dollars) of the payment to the national treasury in accordance with an ordinance pursuant to Article 14 of the Supplementary Provisions of the Law for fiscal 2015 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2015).

12. Fund for Lending Rate Reduction

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

Fund for lending rate reduction as of 31 March 2016 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2015	Increase during the year		Decrease during the year		Balance as of 31 March 2016
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥2,993	¥-	¥2,993	¥-	¥920,287
Total	¥920,287	¥2,993	¥-	¥2,993	¥-	¥920,287

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2015	Increase during the year		Decrease during the year		Balance as of 31 March 2016
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,170,892	\$26,576	\$-	\$26,576	\$-	\$8,170,892
Total	\$8,170,892	\$26,576	\$-	\$26,576	\$-	\$8,170,892

- 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.

13. Reserve for Retirement Benefits

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 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:	116 million yen
Pension expenses:	(5) million yen
Employee retirement benefits paid:	(0) million yen
Contributions to the defined benefit plan:	(68) million yen
Reserve for retirement benefits at the end of the fiscal year:	<u>41 million yen</u>

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

Funded retirement benefit obligation:	278 million yen
Plan assets:	<u>(267) million yen</u>
Balance:	11 million yen
Unfunded retirement benefit obligation:	<u>30 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>41 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>41 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>41 million yen</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: (5) million yen

As of and for the year ended 31 March 2016

(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:	41 million yen	(372 thousand U.S. dollars)
Pension expenses:	3 million yen	(32 thousand U.S. dollars)
Employee retirement benefits paid:	3 million yen	(35 thousand U.S. dollars)
Contributions to the defined benefit plan:	7 million yen	(69 thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	<u>33 million yen</u>	<u>(300 thousand U.S. dollars)</u>

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

Funded retirement benefit obligation:	291 million yen	(2,589 thousand U.S. dollars)
Plan assets:	<u>(287) million yen</u>	<u>((2,557) thousand U.S. dollars)</u>
Balance:	3 million yen	(32 thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>30 million yen</u>	<u>(268 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>33 million yen</u>	<u>(300 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>33 million yen</u>	<u>(300 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>33 million yen</u>	<u>(300 thousand U.S. dollars)</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 3 million yen (32 thousand U.S. dollars)

14. Net Income by Account

(For the year ended 31 March 2015)

Net income of the general account was 30,971 million yen, while there was no net income of management account.

(For the year ended 31 March 2016)

Net income of the general account was 30,197 million yen (268,109 thousand U.S. dollars), while there was no net income of management account.

15. Information by Account (Balance sheets)

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
(Assets)				
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)	
Total assets	12,039,104	13,388,335	(903,160)	24,524,279
(Liabilities)				
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
Total liabilities	11,919,280	13,334,669	(903,160)	24,350,790
(Net Assets)				
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
Total net assets	119,823	53,666		173,489
Total liabilities and net assets	¥12,039,104	¥13,388,335	¥(903,160)	¥24,524,279

Balance sheets of general account and management account as of 31 March 2016 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥12,374,835	¥11,289,676		¥23,664,512
Securities	235,000			235,000
Cash and bank deposits	711,611			711,611
Cash collateral paid for financial instruments	16,277			16,277
Other assets	4,096	7,453		11,550
Tangible fixed assets	2,720			2,720
Intangible fixed assets	1,700			1,700
Due from general account		746,916	¥(746,916)	
Total assets	13,346,241	12,044,046	(746,916)	24,643,371
(Liabilities)				
Bonds	9,504,061	10,295,573		19,799,634
Borrowed money	120,500			120,500
Cash collateral received for financial instruments	129,509			129,509
Other liabilities	2,342	8,003		10,345
Reserve for bonuses	52			52
Reserve for bonuses for directors and corporate auditors	7			7
Reserve for retirement benefits	33			33
Reserve for retirement benefits for directors and corporate auditors	9			9
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	746,916		(746,916)	
Reserves under special laws	1,760,000	1,686,803		3,446,803
Reserve for interest rate volatility	1,760,000			1,760,000
Management account reserve for interest rate volatility		1,638,462		1,638,462
Reserve for interest rate reduction		48,341		48,341
Total liabilities	13,183,720	11,990,380	(746,916)	24,427,184
(Net Assets)				
Capital	16,602			16,602
Retained earnings	137,900			137,900
General account surplus reserve	137,900			137,900
Valuation, translation adjustments and others	8,018			8,018
Management account surplus reserve		53,666		53,666
Total net assets	162,521	53,666		216,187
Total liabilities and net assets	¥13,346,241	¥12,044,046	¥(746,916)	¥24,643,371

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(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$109,871,579	\$100,236,853		\$210,108,432
Securities	2,086,478			2,086,478
Cash and bank deposits	6,318,132			6,318,132
Cash collateral paid for financial instruments	144,517			144,517
Other assets	36,375	66,175		102,550
Tangible fixed assets	24,153			24,153
Intangible fixed assets	15,098			15,098
Due from general account		6,631,592	\$(6,631,592)	
Total assets	118,496,332	106,934,620	(6,631,592)	218,799,360
(Liabilities)				
Bonds	84,383,036	91,410,579		175,793,615
Borrowed money	1,069,875			1,069,875
Cash collateral received for financial instruments	1,149,864			1,149,864
Other liabilities	20,799	71,057		91,856
Reserve for bonuses	469			469
Reserve for bonuses for directors and corporate auditors	70			70
Reserve for retirement benefits	300			300
Reserve for retirement benefits for directors and corporate auditors	82			82
Fund for lending rate reduction	8,170,892			8,170,892
Basic fund for lending rate reduction	8,170,892			8,170,892
Due to management account	6,631,592		(6,631,592)	
Reserves under special laws	15,626,387	14,976,503		30,602,890
Reserve for interest rate volatility	15,626,387			15,626,387
Management account reserve for interest rate volatility		14,547,301		14,547,301
Reserve for interest rate reduction		429,202		429,202
Total liabilities	117,053,366	106,458,139	(6,631,592)	216,879,913
(Net Assets)				
Capital	147,404			147,404
Retained earnings	1,224,369			1,224,369
General account surplus reserve	1,224,369			1,224,369
Valuation, translation adjustments and others	71,193			71,193
Management account surplus reserve		476,481		476,481
Total net assets	1,442,966	476,481		1,919,447
Total liabilities and net assets	\$118,496,332	\$106,934,620	\$(6,631,592)	\$218,799,360

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.

16. Information by Account (Statements of income)

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

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Statements of income of general account and management account from 1 April 2015 through 31 March 2016 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥139,456	¥281,436	¥(12,920)	¥407,972
Interest income	133,391	271,466		404,858
Fees and commissions	108			108
Other operating income	0			0
Other income	3,005			3,005
Contributions from fund for lending rate reduction	2,993			2,993
Others	12			12
Administrative fee for management account	740		(740)	
Interest on due from management account	0		(0)	
Interest on fund for lending rate reduction	2,209		(2,209)	
Interest on due from general account		28	(28)	
Transfer from general account for fund for lending rate reduction		9,941	(9,941)	
Expenses	109,259	142,699	(12,920)	239,039
Interest expenses	93,171	137,334		230,505
Fees and commissions	145	179		324
Other operating expenses	2,347	2,057		4,405
General and administrative expenses	3,624	178		3,803
Interest on due to management account	28		(28)	
Transfer to management account for fund for lending rate reduction	9,941		(9,941)	
Interest on due to general account		0	(0)	
Administrative fee for management account		740	(740)	
Interest on fund for lending rate reduction		2,209	(2,209)	
Ordinary income	30,197	138,736	-	168,933
Special gains	220,000	528,211	(220,000)	528,211
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		520,000		520,000
Reversal of reserve for interest rate reduction		8,211		8,211
Special losses	220,000	666,947	(220,000)	666,947
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		146,947		146,947
Transfer to general account		220,000	(220,000)	
Payment to national treasury		300,000		300,000
Net income	¥30,197	-	-	¥30,197

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,238,183	\$2,498,766	(\$114,712)	\$3,622,237
Interest income	1,184,337	2,410,248		3,594,585
Fees and commissions	964			964
Other operating income	2			2
Other income	26,686			26,686
Contributions from fund for lending rate reduction	26,576			26,576
Others	110			110
Administrative fee for management account	6,577		(6,577)	
Interest on due from management account	0		(0)	
Interest on fund for lending rate reduction	19,617		(19,617)	
Interest on due from general account		256	(256)	
Transfer from general account for fund for lending rate reduction		88,262	(88,262)	
Expenses	970,074	1,266,979	(114,712)	2,122,341
Interest expenses	827,235	1,219,338		2,046,573
Fees and commissions	1,292	1,592		2,884
Other operating expenses	20,846	18,266		39,112
General and administrative expenses	32,183	1,589		33,772
Interest on due to management account	256		(256)	
Transfer to management account for fund for lending rate reduction	88,262		(88,262)	
Interest on due to general account		0	(0)	
Administrative fee for management account		6,577	(6,577)	
Interest on fund for lending rate reduction		19,617	(19,617)	
Ordinary income	268,109	1,231,787	-	1,499,896
Special gains	1,953,298	4,689,790	(1,953,298)	4,689,790
Transfer from management account	1,953,298		(1,953,298)	
Reversal of management account reserve for interest rate volatility		4,616,887		4,616,887
Reversal of reserve for interest rate reduction		72,903		72,903
Special losses	1,953,298	5,921,577	(1,953,298)	5,921,577
Provision for reserve for interest rate volatility	1,953,298			1,953,298
Provision for management account reserve for interest rate volatility		1,304,690		1,304,690
Transfer to general account		1,953,298	(1,953,298)	
Payment to national treasury		2,663,589		2,663,589
Net income	\$268,109	\$-	\$-	\$268,109

17. Fair Value of Marketable Securities

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	-	-	-

Marketable held-to-maturity securities as of 31 March 2016 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥235,000	¥235,000	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	\$2,086,478	\$2,086,478	-	-	-

Notes: 1. The balance sheet amount for negotiable certificates of deposit is the fair value.

2. Difference is the net amount of “unrealized gains” and “unrealized losses.”

18. 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 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



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Independent Auditor's Report

The President of Japan Finance Organization for Municipalities

Pursuant to Article 37, paragraph 1 of the Japan Finance Organization for Municipalities Law (the "Law"), we have audited the accompanying financial statements of Japan Finance Organization for Municipalities ("JFM"), which comprise the balance sheets as at March 31, 2016 and 2015, 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, 2016 and 2015, and its financial performance and cash flows for the years then ended in conformity with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan (refer to Note 1 of the accompanying notes to the financial statements).

Convenience Translation

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

Conflicts of Interest

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

Ernst & Young ShinNihon LLC

May 23, 2016

A member firm of Ernst & Young Global Limited

Appendix / JFM Data

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Members of the Representative Board and the Supervisory Committee

The Representative Board members of JFM as of 1 August 2016 are as follows:

Name	Title	Background
Toshizo Ido	Chairman	Vice Chairman, National Governors' Association Governor, Hyogo 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
Naohiko Jinno	Member	Professor Emeritus, The University of Tokyo
Isao Sumihiro	Member	Chairman of The Hiroshima Bank, Ltd.

The Supervisory Committee members of JFM as of 1 August 2016 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 Emeritus, Shinshu University
Hitomi Tamaoki	Member	Chief Executive officer of Tsumugi Co., Ltd.
Toshiki Komatsu	Member	Corporate Director of Jiji Press, Ltd.

Redemption of Loans in Fiscal 2015

Classification		Principal		Interest	
		Number of loans	Amount (USD millions)	Number of loans	Amount (USD millions)
Regular redemption of long-term loans	General loans	426,911	14,334	485,957	3,577
	Loans to local government corporations	560	100	560	10
	Subtotal	427,471	14,434	486,517	3,588
Prepayment of long-term loans	General loans	240	73	240	0
	Loans to local government corporations	0	0	0	0
	Subtotal	240	73	240	0
Redemption of loans with pre-consent or pre-approval		-	-	-	-
Redemption of short-term loans		-	-	-	-
Total		427,711	14,507	486,757	3,588

Note: Totals may not add up due to rounding.

Outstanding Loans by Business

(as of 31 March 2016)

Business		Number of Loans Made	Loan Amount (USD millions)	
				% of total
General Account-related Loans	Public Projects, etc.	1,896	2,911	1.4
	Public Housing	4,528	3,059	1.5
	National Disaster Prevention	714	857	0.4
	Educational Facilities Development	474	304	0.1
	Social Welfare Facilities Development	791	702	0.3
	General Waste Proposal	46	68	0.0
	General Projects	461	409	0.2
	Regional Revitalization	832	435	0.2
	Disaster Prevention	1,461	1,219	0.6
	Local Road Development ^{*1}	27,301	19,941	9.5
	Special Municipal Mergers	3,800	8,167	3.9
	Disaster Management and Mitigation	4,647	5,287	2.5
	Others	2,536	1,004	0.5
	Subtotal	49,487	44,363	21.1
Municipal Enterprise-related Loans	Water Supply	52,645	31,709	15.1
	Transportation	930	10,438	5.0
	Hospitals and Elderly Care Services	3,510	7,574	3.6
	Sewerage	122,985	71,257	33.9
	Industrial Water Supply	2,262	1,784	0.8
	Electricity and Gas	896	744	0.4
	Port Facilities	1,093	556	0.3
	Markets and Slaughterhouses	654	765	0.4
	Tourism and Others	341	322	0.2
	Subtotal	185,316	125,149	59.6
Temporary Financial Countermeasures Funding		5,489	40,077	19.1
Total		240,292	209,589	99.8
Local Government Road Corporation, Toll Roads ^{*2}		253	519	0.2
Grand Total		240,545	210,108	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 2016)

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	286	3,839	5,069	6,360	7,955	1,849
Aomori	203	306	1,925	2,190	1,375	418
Iwate	232	536	2,649	2,251	699	256
Miyagi	373	1,260	4,598	3,682	2,621	489
Akita	205	222	4,554	2,267	1,120	120
Yamagata	244	717	2,660	1,586	1,889	326
Fukushima	390	660	3,507	2,336	2,966	494
Ibaraki	478	1,180	6,358	3,896	1,338	375
Tochigi	250	484	3,263	2,034	764	228
Gunma	276	457	3,539	1,816	1,825	354
Saitama	260	2,131	6,061	5,908	1,668	471
Chiba	402	901	4,788	5,656	813	213
Tokyo	127	1,448	1,967	2,720	181	40
Kanagawa	230	1,695	2,885	7,677	1,005	344
Niigata	268	480	8,154	4,418	910	181
Toyama	280	312	3,748	2,743	544	222
Ishikawa	175	252	2,751	1,942	1,196	389
Fukui	243	406	2,142	1,314	880	135
Yamanashi	152	384	3,004	1,057	1,055	149
Nagano	234	365	4,212	2,579	3,097	617
Gifu	215	1,401	4,311	2,007	1,200	320
Shizuoka	360	575	4,928	3,323	695	204
Aichi	284	2,042	5,146	6,015	863	225
Mie	389	1,295	3,930	2,554	1,061	251

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
303	235	-	-	13,613	12,284	5.8
105	122	-	-	3,608	3,035	1.4
227	170	-	-	3,807	3,214	1.5
131	80	-	-	7,723	5,510	2.6
8	3	-	-	5,887	2,613	1.2
143	43	10	1	4,946	2,673	1.3
194	197	3	1	7,060	3,688	1.8
242	209	3	2	8,419	5,662	2.7
8	26	7	3	4,292	2,775	1.3
47	69	-	-	5,687	2,696	1.3
236	150	11	5	8,236	8,665	4.1
384	401	9	15	6,396	7,186	3.4
30	162	-	-	2,305	4,370	2.1
70	713	-	-	4,190	10,429	5.0
148	133	-	-	9,480	5,212	2.5
145	129	9	3	4,726	3,409	1.6
21	23	-	-	4,143	2,605	1.2
71	32	-	-	3,336	1,887	0.9
156	64	-	-	4,367	1,654	0.8
169	131	9	4	7,721	3,696	1.8
9	13	-	-	5,735	3,741	1.8
74	106	14	6	6,071	4,213	2.0
105	43	47	236	6,445	8,560	4.1
31	51	-	-	5,411	4,151	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	663	4,191	2,183	579	130
Kyoto	209	402	3,416	4,227	1,012	255
Osaka	115	927	5,247	12,639	865	288
Hyogo	315	3,782	7,584	8,504	1,893	740
Nara	274	933	2,307	1,562	1,800	507
Wakayama	110	362	1,555	1,772	1,306	483
Tottori	301	484	1,256	926	1,801	434
Shimane	247	906	2,475	1,892	296	75
Okayama	292	996	4,561	3,350	1,266	283
Hiroshima	409	1,537	4,280	4,495	897	264
Yamaguchi	420	517	4,259	2,415	562	116
Tokushima	180	419	1,336	1,008	769	233
Kagawa	239	241	2,081	1,123	817	194
Ehime	105	204	2,289	1,803	600	211
Kochi	141	792	1,456	1,227	670	175
Fukuoka	104	1,023	4,633	8,090	1,994	878
Saga	56	291	1,560	1,430	608	268
Nagasaki	145	499	2,718	2,452	639	161
Kumamoto	162	482	2,694	1,822	1,530	426
Oita	113	202	2,222	1,316	164	50
Miyazaki	155	643	2,047	1,398	716	185
Kagoshima	172	1,215	2,321	1,533	784	196
Okinawa	243	833	1,452	1,277	848	217
Total	11,273	41,699	164,089	146,774	60,136	15,436

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
107	52	1	0	5,088	3,028	1.4
20	37	10	6	4,667	4,927	2.3
224	705	16	46	6,467	14,604	7.0
455	567	43	35	10,290	13,629	6.5
18	30	1	1	4,400	3,034	1.4
71	63	-	-	3,042	2,680	1.3
24	25	-	-	3,382	1,870	0.9
62	32	-	-	3,080	2,905	1.4
106	192	-	-	6,225	4,820	2.3
9	12	17	58	5,612	6,366	3.0
113	79	-	-	5,354	3,127	1.5
3	1	-	-	2,288	1,661	0.8
16	30	-	-	3,153	1,587	0.8
17	13	-	-	3,011	2,231	1.1
10	96	-	-	2,277	2,289	1.1
256	213	27	93	7,014	10,297	4.9
101	103	-	-	2,325	2,092	1.0
15	35	8	3	3,525	3,149	1.5
33	26	6	1	4,425	2,756	1.3
0	0	-	-	2,499	1,568	0.7
10	10	-	-	2,928	2,236	1.1
17	28	2	0	3,296	2,973	1.4
50	28	-	-	2,593	2,355	1.1
4,794	5,680	253	520	240,545	210,109	100.0

Bond Issuance in Fiscal 2015

1. JFM bonds

(1) International bonds

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
49	7	Global	USD	1,000	2.000	99.391	21 Apr 2015	21 Apr 2022
50	5	Euro	USD	13	2.01	99.99	21 Dec 2015	21 Dec 2020
51	5	Euro	AUD	95	3.06	99.99	21 Dec 2015	21 Dec 2020
52	5	Global	USD	500	2.125	99.774	12 Feb 2016	12 Feb 2021

(2) Domestic public offerings

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
71	10	25	222	0.465	100	20 Apr 2015	28 Apr 2025
72	10	25	222	0.529	100	26 May 2015	28 May 2025
73	10	20	178	0.592	100	23 Jun 2015	27 Jun 2025
74	10	20	178	0.519	100	21 Jul 2015	28 Jul 2025
75	10	30	266	0.529	100	20 Aug 2015	28 Aug 2025
76	10	20	178	0.505	100	17 Sep 2015	26 Sep 2025
77	10	15	133	0.491	100	19 Oct 2015	28 Oct 2025
78	10	20	178	0.491	100	24 Nov 2015	28 Nov 2025
79	10	20	178	0.484	100	21 Dec 2015	26 Dec 2025
80	10	20	178	0.385	100	22 Jan 2016	28 Jan 2026
81	10	20	178	0.190	100	19 Feb 2016	27 Feb 2026
82	10	20	178	0.120	100	17 Mar 2016	27 Mar 2026
43	20	20	178	1.171	100	20 Apr 2015	27 Apr 2035
44	20	30	266	1.298	100	23 Jun 2015	28 Jun 2035
45	20	20	178	1.248	100	21 Jul 2015	27 Jul 2035
46	20	15	133	1.189	100	17 Sep 2015	28 Sep 2035
47	20	10	89	1.138	100	19 Oct 2015	26 Oct 2035
48	20	20	178	1.121	100	21 Dec 2015	28 Dec 2035
49	20	10	89	0.965	100	22 Jan 2016	28 Jan 2036
50	20	10	89	0.530	100	17 Mar 2016	28 Mar 2036
17	5	10	89	0.150	100	20 Apr 2015	28 Apr 2020
18	5	10	89	0.110	100	19 Oct 2015	28 Oct 2020
3	2	25	222	0.030	100	19 Feb 2016	28 Feb 2018
F265	20	20	178	1.185	100	8 Apr 2015	28 Mar 2035
F266	11	5.5	49	0.430	100	27 Apr 2015	24 Apr 2026
F267	18	3	27	0.942	100	27 Apr 2015	28 Apr 2033
F268	21	4.5	40	1.143	100	27 Apr 2015	19 Mar 2036
F269	25	3	27	1.291	100	27 Apr 2015	27 Apr 2040
F270	30	4	36	1.465	100	27 Apr 2015	17 Mar 2045

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
F271	6	4	36	0.127	100	30 Apr 2015	28 May 2021
F272	9	20	178	0.352	100	30 Apr 2015	19 Mar 2024
F273	15	3	27	0.729	100	30 Apr 2015	28 May 2030
F274	18	3.5	31	0.937	100	30 Apr 2015	18 Mar 2033
F275	25	3	27	1.286	100	30 Apr 2015	27 Apr 2040
F276	30	3	27	1.448	100	30 Apr 2015	28 Apr 2045
F277	2	3	27	0.045	100	30 Apr 2015	28 Apr 2017
F278	18	4	36	0.962	100	30 Apr 2015	28 Apr 2033
F279	22	3	27	1.214	100	30 Apr 2015	28 Apr 2037
F280	30	5	44	1.474	100	30 Apr 2015	17 Mar 2045
F281	18	3	27	0.999	100	30 Apr 2015	21 Sep 2033
F282	19	3	27	1.058	100	30 Apr 2015	26 May 2034
F283	30	5	44	1.478	100	30 Apr 2015	17 Mar 2045
F284	21	3.5	31	1.184	100	14 May 2015	28 Dec 2035
F285	9	20	178	0.461	100	27 Jul 2015	20 Jun 2024
F286	18	3	27	1.089	100	31 Jul 2015	26 Aug 2033
F287	21	3	27	1.293	100	27 Jul 2015	27 Jun 2036
F288	25	4.5	40	1.437	100	27 Jul 2015	27 Jul 2040
F289	7	3	27	0.259	100	31 Jul 2015	28 Nov 2022
F290	8	3	27	0.353	100	31 Jul 2015	28 Sep 2023
F291	18	3	27	1.081	100	31 Jul 2015	20 Dec 2033
F292	18	6	53	1.076	100	31 Jul 2015	28 Dec 2033
F293	19	3	27	1.150	100	31 Jul 2015	20 Dec 2034
F294	25	3	27	1.392	100	31 Jul 2015	31 Jul 2040
F295	40	10	89	1.786	100	31 Jul 2015	30 Jul 2055
F296	11	6	53	0.555	100	23 Oct 2015	31 Mar 2027
F297	18	3	27	0.983	100	23 Oct 2015	23 Feb 2034
F298	19	3	27	1.064	100	23 Oct 2015	23 Feb 2035
F299	4	5	44	0.107	100	29 Oct 2015	15 Apr 2020
F300	7	8	71	0.18	100	29 Oct 2015	28 Oct 2022
F301	9	20	178	0.409	100	29 Oct 2015	20 Sep 2024
F302	11	3	27	0.550	100	29 Oct 2015	31 Mar 2027
F303	14	3	27	0.673	100	29 Oct 2015	26 Oct 2029
F304	18	3	27	0.958	100	29 Oct 2015	28 Oct 2033
F305	25	3	27	1.330	100	29 Oct 2015	26 Oct 2040
F306	12	3	27	0.605	100	29 Oct 2015	22 Mar 2028
F307	23	3	27	1.282	100	29 Oct 2015	18 Mar 2039
F308	21	3	27	1.192	100	20 Nov 2015	19 Mar 2037
F309	8	3.5	31	0.191	100	21 Jan 2016	22 Jan 2024
F310	9	20	178	0.302	100	28 Jan 2016	20 Dec 2024

Note 1. 3m¥L+10bp

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

(1) Pension Fund Association for Local Government Officials

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
A63	10	30	266	0.480	100	20 Apr 2015	18 Apr 2025
A64	10	30	266	0.525	100	26 May 2015	26 May 2025
A65	10	30	266	0.622	100	23 Jun 2015	23 Jun 2025
A66	10	25	222	0.574	100	21 Jul 2015	18 Jul 2025
A67	10	25	222	0.535	100	20 Aug 2015	20 Aug 2025
A68	10	25	222	0.515	100	18 Sep 2015	18 Sep 2025
A69	10	25	222	0.521	100	20 Oct 2015	20 Oct 2025
A70	10	25	222	0.511	100	24 Nov 2015	21 Nov 2025
A71	10	25	222	0.499	100	17 Dec 2015	17 Dec 2025
A72	10	20	178	0.400	100	22 Jan 2016	22 Jan 2026
A73	10	20	178	0.170	100	19 Feb 2016	19 Feb 2026
A74	10	20	178	0.080	100	24 Mar 2016	24 Mar 2026

(2) Other pension funds and mutual aids for local government officials

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
B1	10	4	36	0.511	100	24 Nov 2015	21 Nov 2025
B2	10	4.5	40	0.499	100	17 Dec 2015	17 Dec 2025
B3	10	10.5	93	0.400	100	22 Jan 2016	22 Jan 2026
B4	10	9	80	0.170	100	19 Feb 2016	19 Feb 2026
B5	10	6	53	0.080	100	24 Mar 2016	24 Mar 2026
C1	20	6	53	1.154	100	24 Nov 2015	22 Nov 2035
C2	20	6.5	58	1.127	100	17 Dec 2015	17 Dec 2035
C3	20	20.5	182	0.971	100	22 Jan 2016	22 Jan 2036
C4	20	11	98	0.796	100	19 Feb 2016	19 Feb 2036
C5	20	7.5	67	0.412	100	24 Mar 2016	24 Mar 2036

3. Government-guaranteed domestic bonds

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
71	10	45	400	0.391	100	27 Apr 2015	25 Apr 2025
72	10	45	400	0.509	100	25 May 2015	23 May 2025
73	10	45	400	0.484	100	15 Jun 2015	13 Jun 2025
74	10	45	400	0.557	100	15 Jul 2015	15 Jul 2025
75	10	40	355	0.440	100	17 Aug 2015	15 Aug 2025
76	10	40	355	0.425	100	14 Sep 2015	12 Sep 2025
77	10	40	355	0.386	100	15 Oct 2015	15 Oct 2025
78	10	40	355	0.381	100	18 Nov 2015	18 Nov 2025

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
79	10	40	355	0.379	100	14 Dec 2015	12 Dec 2025
80	10	40	355	0.320	100	19 Jan 2016	19 Jan 2026
81	10	40	355	0.145	100	16 Feb 2016	16 Feb 2026
82	10	40	355	0.020	100	14 Mar 2016	13 Mar 2026
4	8	50	444	0.311	100	30 Jul 2015	28 Jul 2023
5	8	50	444	0.173	100	29 Jan 2016	29 Jan 2024
16	6	60	533	0.150	100	28 May 2015	28 May 2021
17	6	60	533	0.122	100	30 Oct 2015	29 Oct 2021

Outstanding International Bonds

1. JFM bonds

(as of 31 March 2016)

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
1	5	Euro	USD	105	3mL+73bp	100	17 Jan 2012	17 Jan 2017
2	5	Euro	USD	40	2.035%	100	12 Jan 2012	12 Jan 2017
3	5	Euro	USD	57	2.00%	100	17 Jan 2012	17 Jan 2017
4	5	Euro	USD	35	3mL+75bp	100	17 Jan 2012	17 Jan 2017
5	5	Euro	USD	30	3mL+75bp	100	19 Jan 2012	19 Jan 2017
6	5	Euro	USD	51	3mL+70bp	100	18 Jan 2012	18 Jan 2017
7	5	Euro	USD	20	2.00%	100	23 Jan 2012	23 Jan 2017
8	5	Euro	USD	20	3mL+73bp	100	23 Jan 2012	23 Jan 2017
9	5	Euro	USD	20	3mL+70bp	100	19 Jan 2012	19 Jan 2017
10	5	Euro	USD	20	3mL+75bp	100	18 Jan 2012	18 Jan 2017
11	5	Euro	NZD	40	3mNZD-BBR-FRA+113bp	100	24 Jan 2012	24 Jan 2017
12	5	Euro	USD	20	3mL+69bp	100	26 Jan 2012	26 Jan 2017
13	5	Euro	USD	20	3mL+70bp	100	24 Jan 2012	24 Jan 2017
14	5	Euro	USD	25	1.84%	100	1 Mar 2012	1 Mar 2017
15	7	Euro	USD	20	2.40%	100	1 Mar 2012	1 Mar 2019
16	5	Euro	USD	25	1.8725%	100	1 Mar 2012	1 Mar 2017
17	5	Euro	USD	30	3mL+70bp	100	1 Mar 2012	1 Mar 2017
18	5	Euro	USD	25	3mL+70bp	100	1 Mar 2012	1 Mar 2017
19	5	Euro	USD	20	1.89%	100	1 Mar 2012	1 Mar 2017
20	5	Euro	USD	40	3mL+70bp	100	6 Mar 2012	6 Mar 2017
21	5	Euro	USD	30	3mL+70bp	100	6 Mar 2012	6 Mar 2017
22	5	Euro	USD	25	3mL+70bp	100	6 Mar 2012	6 Mar 2017
23	5	Euro	USD	30	3mL+70.5bp	100	6 Mar 2012	6 Mar 2017
24	5	Euro	USD	30	3mL+70bp	100	8 Mar 2012	8 Mar 2017

Appendix

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
25	5	Euro	USD	30	3mL+70bp	100	6 Mar 2012	6 Mar 2017
26	5	Euro	AUD	20	3mBBSW+115bp	100	13 Mar 2012	13 Mar 2017
27	5	Euro	USD	30	3mL+70bp	100	8 Mar 2012	8 Mar 2017
28	5	Euro	USD	20	1.85%	100	13 Mar 2012	13 Mar 2017
29	5	Euro	USD	327	3mL+65bp	100	22 May 2012	22 May 2017
30	7	Euro	USD	130	3mL+70bp	100	6 Jun 2012	6 Jun 2019
31	5	Euro	USD	1,000	1.500%	100	12 Sep 2012	12 Sep 2017
32	5	Euro	USD	100	3mL+52bp	100	7 Nov 2012	7 Nov 2017
33	5	Euro	USD	1,000	1.375%	99.544	5 Feb 2013	5 Feb 2018
34	5	Euro	AUD	100	3.65%	99.99	25 Mar 2013	23 Mar 2018
35	5	Euro	USD	105	1.375%	99.952	18 Apr 2013	18 Apr 2018
36	5	Euro	AUD	100	3mBBSW+83bp	100	21 May 2013	21 May 2018
38	5	Euro	USD	100	3mL+50bp	100	11 Jul 2013	11 Jul 2018
39	7	Euro	USD	100	3mL+65bp	100	22 Jul 2013	22 Jul 2020
40	5	Global	USD	1,500	2.500%	99.855	12 Sep 2013	12 Sep 2018
41	5	Euro	AUD	110	4.20%	99.98	26 Nov 2013	26 Nov 2018
42	5	Global	USD	1,000	2.125%	99.892	6 Mar 2014	6 Mar 2019
43	10	Euro	AUD	85	5.092%	100	1 May 2014	1 May 2024
44	10	Euro	USD	90	3.250%	99.055	1 May 2014	2 May 2024
45	7	Euro	EUR	1,000	0.875%	99.293	22 Sep 2014	22 Sep 2021
46	3	Euro	NZD	105	3.86%	99.98	20 Nov 2014	20 Nov 2017
47	10	Global	USD	1,000	2.375%	99.611	13 Feb 2015	13 Feb 2025
48	10	Euro	AUD	70	3.600%	100	18 Mar 2015	18 Mar 2025
49	7	Global	USD	1,000	2.000%	99.391	21 Apr 2015	21 Apr 2022
50	5	Euro	USD	13	2.01%	99.99	21 Dec 2015	21 Dec 2020
51	5	Euro	AUD	95	3.06%	99.99	21 Dec 2015	21 Dec 2020
52	5	Global	USD	500	2.125%	99.774	12 Feb 2016	12 Feb 2021

2. Government-guaranteed bonds

(as of 31 March 2016)

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
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

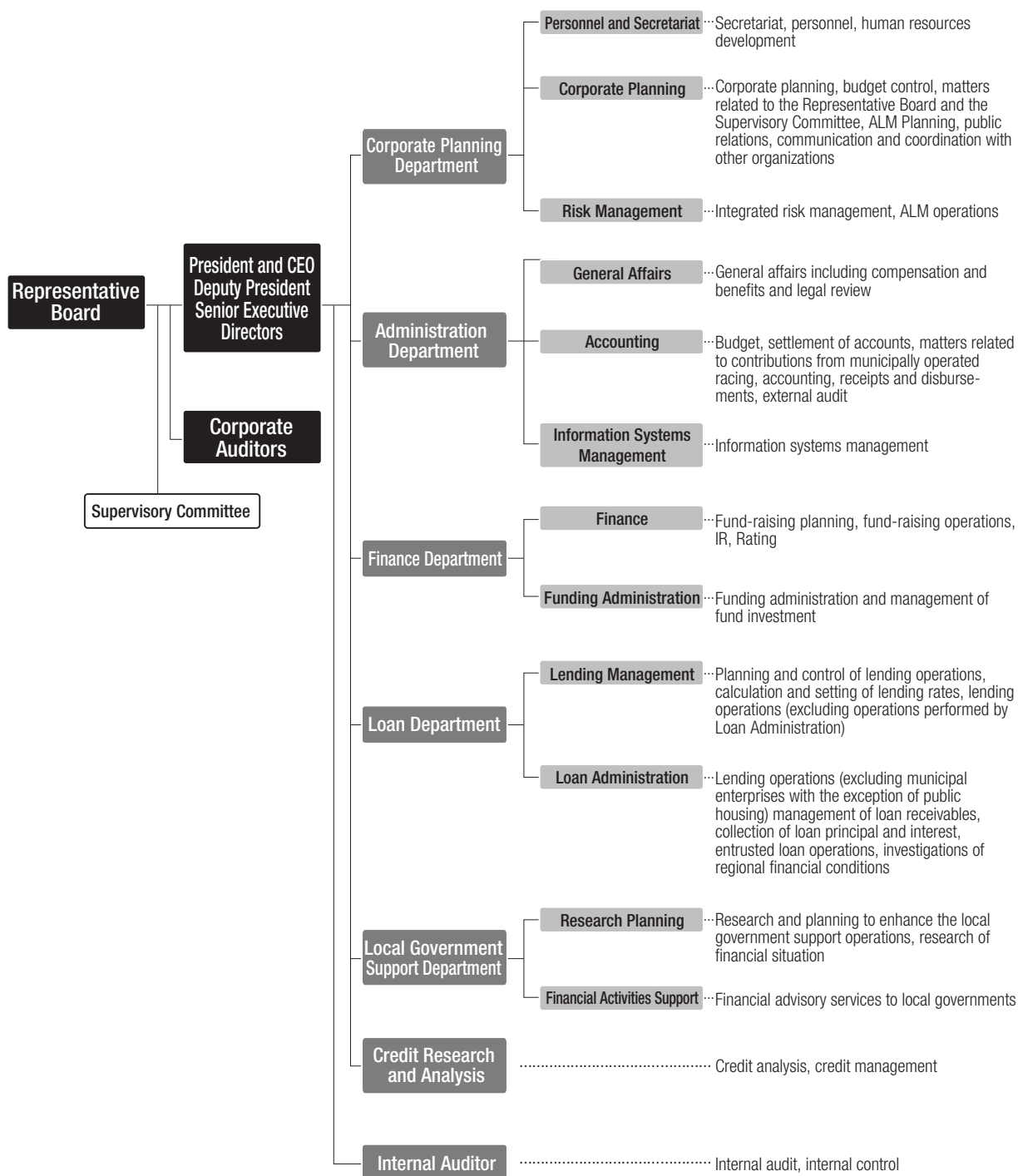
FY2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of JFM) was established pursuant to the Japan Finance Organization for Municipal Enterprises Law on 1 August 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on 1 October 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 programme by integrating the existing special lending rate and the extra-special lending rate programmes.
2015	Introduced semi-annual principal and interest equal repayment method and semi-annual capital equal repayment on JFM loans.

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 programme that applied special lending rates.
1967	Started receiving subsidies from the national treasury.
1970	Started a programme 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 programme 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 programme 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 2016



■ Directors and Corporate Auditors

(As of 1 July 2016)

President and CEO	Kinya Takino
Deputy President	Yutaka Endo
Senior Executive Directors	Eiichi Sugimura, Yasuro Narita, Junichi Yoshitake (part-time)
Corporate Auditors	Koichi Kato, Masaharu Hamakawa (part-time)

■ Contact Information



(Photo provided by The Tokyo Institute for Municipal Research)

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