

JFM

Japan Finance Organization for Municipalities



Himeji Castle, Hyogo Prefecture

ANNUAL REPORT 2017

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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 2017, the final day of the fiscal year, which was JPY 112.05 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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ONTENTS

Profile of JFM	02
Management Philosophy	03
Message from President and CEO	04
JFM at a Glance	06
Outline of JFM Operations	08
Capital	09

Review and Plan

Review of Operations for Fiscal 2018	12
1. Lending Operations	12
2. Funding Operations	14
3. Financial Review	16
Management Plan for Fiscal 2019	18
1. Lending Operations	18
2. Funding Operations	18
3. Scheduled Payment to the National Treasury	19

Operations

Lending Operations	22
1. Outline	22
2. Loan Interest Rates	24
3. Credit Check System	26
4. Trends in Lending Operations	26
5. Lending Operations by Business	29
Funding Operations	32
1. Issue Type	32
2. Basic Funding Policy	33
3. Features of JFM Bonds	34
4. Trends in Funding Operations	35

Management Structure

Corporate Governance	38
1. Corporate Governance	38
2. Internal Control over Financial Reporting	40
3. Internal Audit	40
General Account and Management Account	41
Risk Management	43
Compliance	50
Disclosure	51

JFM's Role in Local Government Finance

1. Japanese Local Government System	52
2. Local Government Finance Programme	53
3. Local Allocation Tax	54
4. Local Government Borrowings	54
5. Security of Local Government Borrowings	54
6. Local Government Borrowing Programme	55
7. JFM Funds in Local Government Borrowing Programme	56

Financial Section

Financial Statements	58
Independent Auditor's Report	98

Appendix / JFM Data

Appendix	100
JFM Data	111
Organization History	111
Organization Chart	112
Directors and Corporate Auditors/ Contact Information	113

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 (Law No. 64 of 2007, as amended)
Address	Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo
President and CEO	Kinya Takino
Capital	USD 148.2 million
Number of Employees	90 (as of April 2017)
Outstanding Loans as of 31 March 2017	USD 211.7 billion
Outstanding Bonds and Bank Loans as of 31 March 2017	USD 179.6 billion
Credit Ratings as of 31 March 2017	S&P: A+ Moody's : A1 R&I: AA+

Management Philosophy

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 needs 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



Kinya Takino
President and CEO
2017

Kinya Takino

|| Introduction

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, JFM focuses on equal beneficiary and repayment sharing among the generations with its long-term lending up to 40 years at low interest rate.

Second, JFM's long-term lending is to operate fiscal management in designed and sound manner. JFM primarily issues 10-year bonds to raise funds while its 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, JFM maintains 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, JFM offers 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 rates have 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, JFM has annually issued more

than JPY 2 trillion (USD 17.8bn) of JFM bonds in domestic and international market to satisfy funding requirements by local governments. As for our funding operations, JFM focuses more on flexible funding approaches under volatile and uncertain financial markets.

Review of fiscal 2016

In fiscal 2016, JFM experienced uncertain and volatile financial market condition in Japan as well as outside of Japan such as the persistent low interest rate environment due in part to the advanced monetary policy easing by the Bank of Japan with the introduction of negative interest rate, the inauguration of new administration of the United States, and the growing concern about political conditions in certain European countries including, for example, the United Kingdom's upcoming exit from European Union as a result of the referendum.

On funding front, under the volatile circumstance, JFM raised JPY 2.05 trillion (USD 18.4bn) during fiscal 2016 which included our first 30-year domestic public bonds and USD 1.5bn benchmark bonds in April 2016 as a result of our market-oriented funding operations.

As for lending side, JFM disbursed a total of JPY 1.72 trillion (USD 15.4bn) loans during the fiscal year for public projects operated by local governments including social infrastructure renewal and disaster management and mitigation in response to funding needs by local governments.

Initiatives for fiscal 2017

For fiscal 2017, JFM plans to lend JPY 1.74 trillion (USD 15.5bn) of long-term and low-interest rate funds to local governments based on the LGBP. Our

funding plan is to raise JPY 2.11 trillion (USD 18.9bn) in the forthcoming fiscal year and aims to continue funding diversification under the prolonged low interest rate and unstable market condition. In our local government support, JFM plans to extend practical support based on requests from the local governments.

Furthermore, in light of its solid business operations, JFM plans to pay JPY 100 billion (USD 0.9bn) to the national treasury during fiscal 2017 as scheduled followed by additional payment with up to JPY 800 billion (USD 7.1 bn) from fiscal 2017 through fiscal 2019 from its reserve in the management account. All of the payment will be a part of local allocation tax and contribute to local governments for regional revitalization.

As a joint funding organization contributed by whole Japanese local governments

Japanese local governments have faced fast population decrease and have consulted on regional revitalization proposed by the Cabinet. JFM expects increasing funding demands by local governments as repair and renewal are required for various public infrastructure facilities built after the World War II. JFM also understands that its financial support for local governments will be more significant given uncertain domestic and international financial markets. JFM as a joint funding organization will continue to focus on meeting financial expectations from 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 the 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

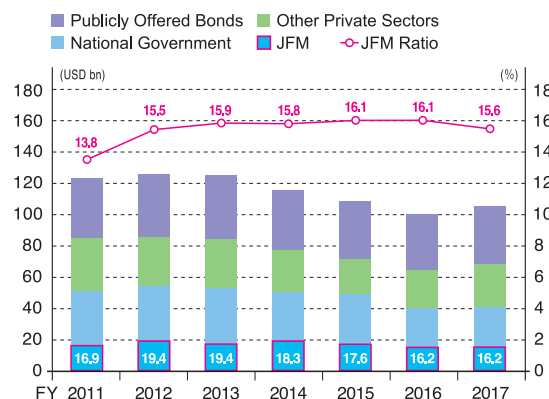
- Japanese local governments include 47 prefectures and a total of 1,741^{*1} cities and special wards of Tokyo, government-designated cities, as well as towns and villages
- Revenue sources for the local governments are secured by the national government
 - The national government allocates a part of 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, a consent or an approval must, in principle, be obtained from the relevant authority
- 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

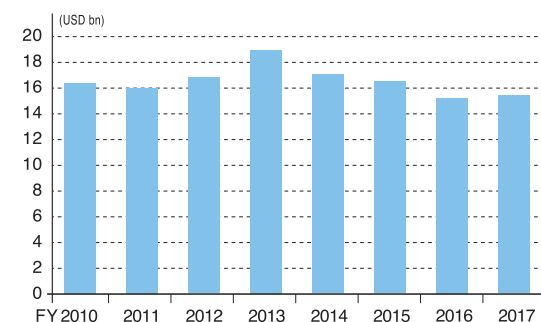
- JFM funds have accounted for around 16% of the LGBP
- JFM provides loans to almost all local governments
- Loans planned to be made in fiscal 2017 ending 31 March 2018 are amounted to USD 15.5 bn
- Maximum term to maturity of JFM loans is 40 years

Note: Figures in USD are converted at USD 1 = JPY 112.05 as of 31 March 2017, unless otherwise noted

LGBP - Funding Sources for Local Governments

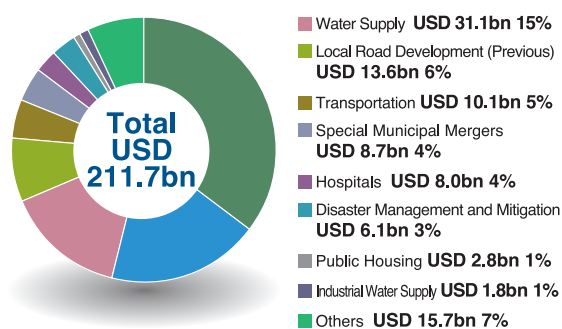


Annual Lending Volume

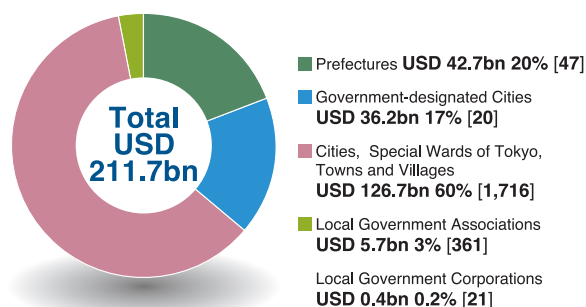


*Planned amount; subject to change depending on market conditions and other factors.

Outstanding Loans by Business



Outstanding Loans by Borrower



Funding

- Leading issuer in the Japanese bond market with an average annual funding volume of USD 18 – 19 bn
- Aiming to diversify its funding sources and expand its investor base – continues to access the international market through benchmark transactions as well as private placements, making use of its MTN Programme
- In the international market, only non-government guaranteed bonds will be issued
- In fiscal 2016, JFM issued a total of USD 2.6 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 30.2 bn of reserves for interest rate volatility for the purpose of dealing with interest rate risk resulting from a duration gap between lending (8.53 years) and funding (7.34 years)
- The duration gap of 1.19 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 2017.

*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 non JPY denominated bonds, the value is determined by respective authorities in each country.

Funding Plan

Type of Funding Instruments	FY2017 (plan) ⁽¹⁾	FY2016 (achieved)
Non-Guaranteed Bonds	USD 12.0 bn	USD 12.6 bn
Domestic Public Offerings	USD 4.9 bn	USD 6.2 bn
Domestic Private Placements	USD 4.5 bn	USD 3.8 bn
Overseas Offerings - GMTN	USD 1.8 bn	USD 2.6 bn ⁽²⁾
Benchmark		USD 2.5 bn
Uridashi Bonds		USD 133 mm ⁽²⁾
Private Placements		—
Open Issuance ⁽³⁾	USD 0.8 bn	—
Guaranteed Bonds⁽⁴⁾	USD 6.8 bn	USD 5.4 bn
Long-Term Bank Loans	USD 0.1 bn	USD 0.4 bn

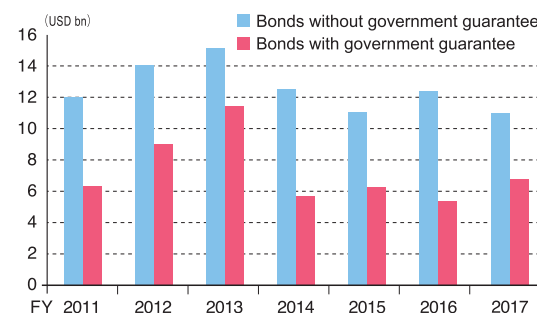
(1) Planned amount; subject to change depending on lending status, market conditions and other factors.

(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.

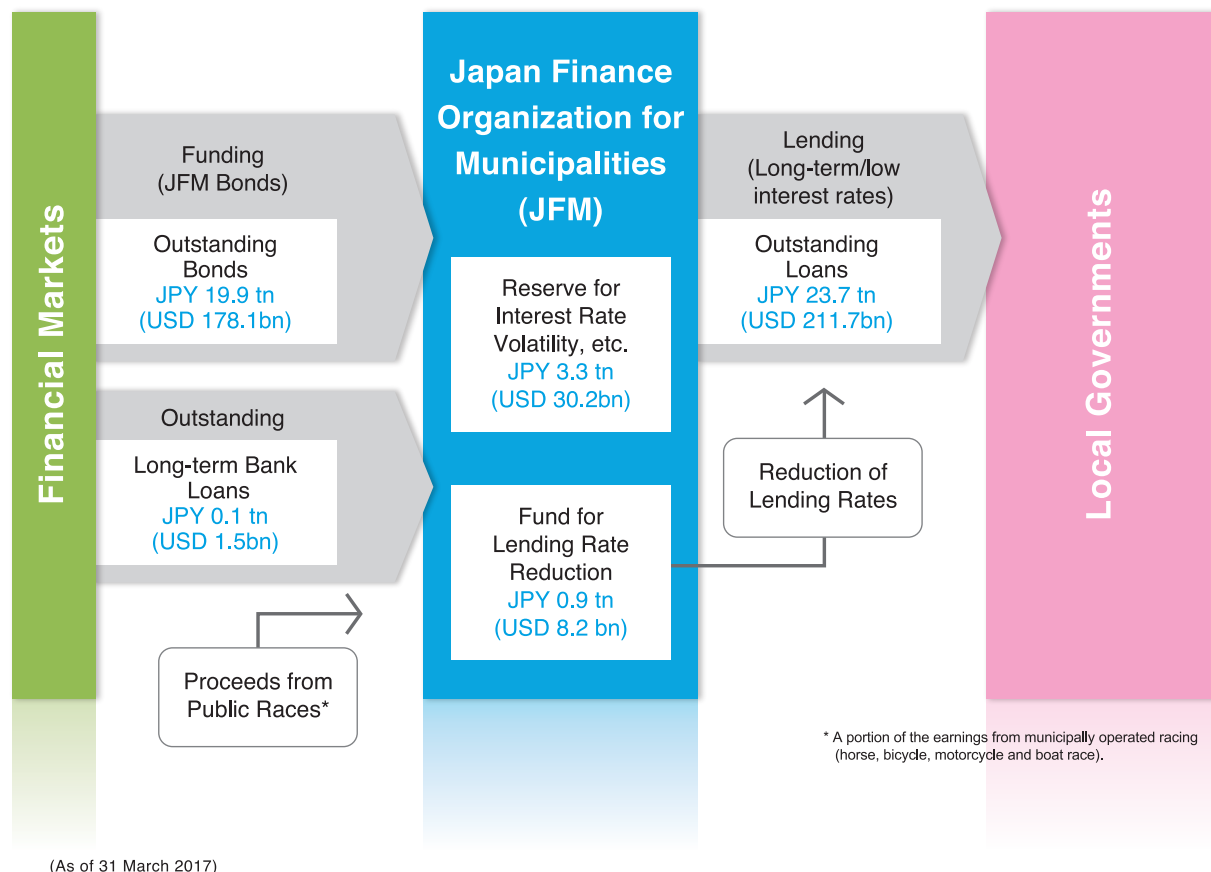
Bond Issuance



*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
12.Apr.17	USD	1,000 mm	2.625	5y
25.Oct.16	USD	1,000 mm	2.125	7y
13.Apr.16	USD	1,500 mm	2.125	5y
12.Feb.16	USD	500 mm	2.125	5y
21.Apr.15	USD	1,000 mm	2.000	7y
13.Feb.15	USD	1,000 mm	2.375	10y
22.Sep.14	EUR	1,000 mm	0.875	7y
6.Mar.14	USD	1,000 mm	2.125	5y
12.Sep.13	USD	1,500 mm	2.500	5y
5.Feb.13	USD	1,000 mm	1.375	5y
12.Sep.12	USD	1,000 mm	1.500	5y



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 in principle receive consents or approvals 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 potential negative margin caused by the interest payable exceeding the interest receivable), JFM maintains reserves for interest rate volatility.

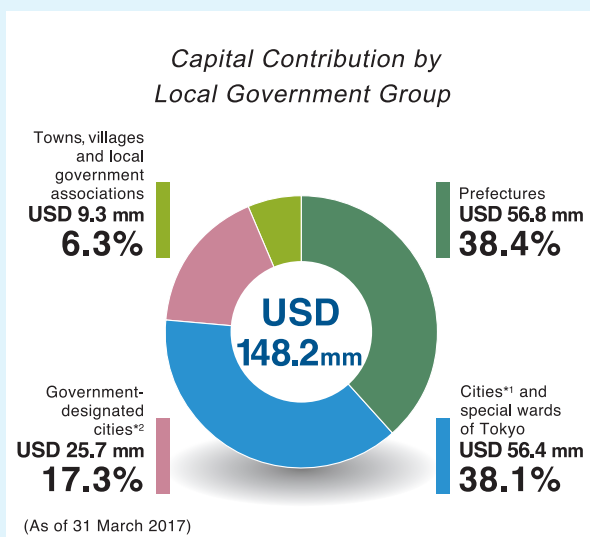
Reduction of Lending Rates by Utilizing the Fund for Lending Rate Reduction

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

Capital

As of 31 March 2017, JFM's capital was USD 148.2 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.

R eview and Plan

Review of Operations for Fiscal 2016

- 1. Lending Operations 12
 - 2. Funding Operations 14
 - 3. Financial Review 16
-

Management Plan for Fiscal 2017

- 1. Lending Operations 18
- 2. Funding Operations 18
- 3. Scheduled Payment to
the National Treasury 19



Nabegataki Waterfall - Kumamoto Prefecture



1 Lending Operations

In fiscal 2016, JFM provided loans totaling USD 15.4 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 special municipal mergers.

General account-related loans totaled USD 4.3 billion, or 28% of the total lending volume, mainly represented by national disaster prevention and special municipal mergers. Loans for temporary financial countermeasures funding* were USD 5.2 billion (34%), followed by municipal enterprise-related loans in the amount of USD 5.8 billion (38%), of which sewerage and water supply businesses were the main contributors.

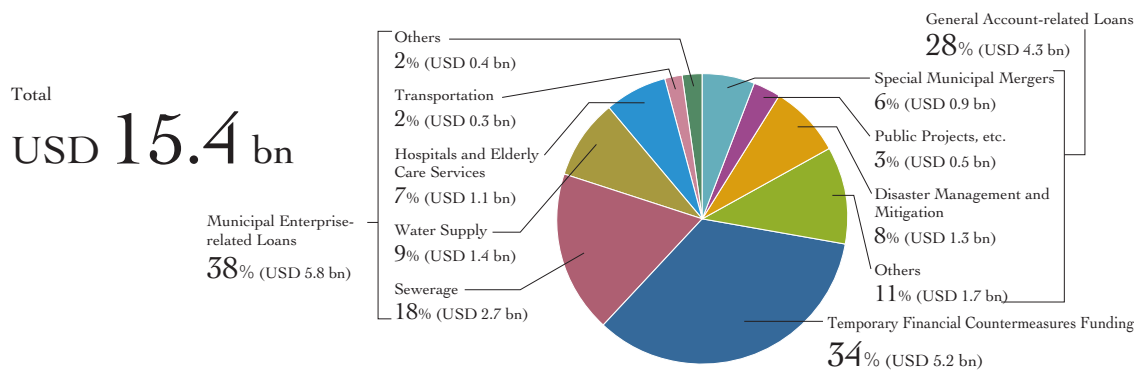
Note: Represents local government funding to cover shortfalls in local government revenue sources pursuant to the provisions of the Local Government Finance Law (Act No. 109 of 1948, as amended).

Lending Operations by Business in Fiscal 2016

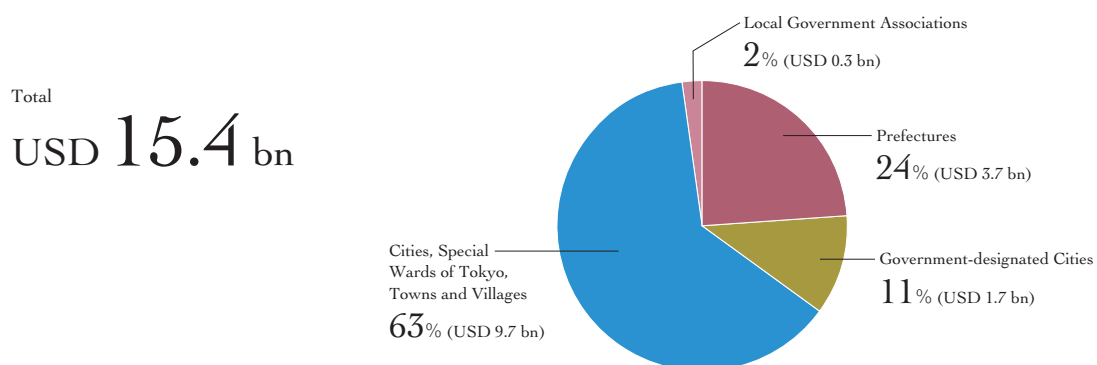
Business	Number of Loans Made	Loan Amount (USD in millions)	
			% of total
General Account-related Loans			
Public Projects, etc.	608	463	3.0
Public Housing	170	186	1.2
National Disaster Prevention	502	513	3.3
Educational Facilities Development	140	56	0.4
Social Welfare Facilities Development	135	98	0.6
General Waste Disposal	78	78	0.5
General Projects	107	168	1.1
Regional Revitalization	177	79	0.5
Disaster Prevention	244	127	0.8
Local Road Development	375	328	2.1
Special Municipal Mergers	486	922	6.0
Disaster Management and Mitigation	1,283	1,285	8.3
Optimization of the Public Facilities	15	21	0.1
	1	1	0.0
Subtotal	4,321	4,322	28.1
Municipal Enterprise-related Loans			
Water Supply	1,187	1,366	8.9
Industrial Water Supply	123	118	0.8
Transportation	41	290	1.9
Electricity and Gas Supply	60	75	0.5
Port Facilities	26	26	0.2
Hospitals and Elderly Care Services	477	1,098	7.1
Markets and Slaughterhouses	62	139	0.9
Sewerage	1,946	2,710	17.6
Tourism and Others	14	8	0.1
Subtotal	3,936	5,830	37.9
Refinancing Loans for Facilities Affected by Earthquake	8	1	0.0
Temporary Financial Countermeasures Funding	639	5,243	34.1
Total	8,904	15,396	100.0

Note: Totals may not add up due to rounding.

FY2016 Loans Extended by Business Type



FY2016 Loans Extended by Borrower Type



Note: Totals may not add up due to rounding.

2 Funding Operations

1. Overview^{*1}

In fiscal 2016, JFM raised a total of USD 18.4 billion including USD 12.6 billion in JFM bonds (non-government guaranteed), and USD 5.4 billion in government-guaranteed bonds for the repayment of existing bonds issued by Japan Finance Corporation for Municipal Enterprises (the "Predecessor"). And, with the aim of diversifying funding source, JFM raised USD 0.4 billion through long-term bank loans.

With regard to JFM bonds, a total of USD 8.8 billion was raised by the regular issuance of 5-year, 10-year, 20-year and 30-year domestic bonds, as well as opportunistic issuances through JFM's Flexible Issuance Programme ("FLIP") and the MTN Programme.

As for domestic public offerings, a total of USD 6.2 billion was issued in the fiscal year. In order to cope with highly volatile market condition through the period, JFM increased 5-year, 20-year of the regular issuance and FLIP from the initial plan by utilizing the budget of Open Issuance scheme.

In overseas offerings, JFM issued USD denominated benchmark bonds in 5-year tenor (USD 1.5 billion) in April 2016, followed by the second issuance of 7-year bonds (USD 1 billion) in October 2016. In addition to these successful public offerings, JFM issued a total of USD 133 million equivalent Uridashi Bonds in two tranches (USD 53 million and AUD 106 million) targeting Japanese retail investors. Through these activities, the total volume of international bonds issued for fiscal 2016 amounted to USD 2.6 billion^{*2}.

The private placements with the pension funds for local government officials were totaled USD 3.8 billion which consisted of 10-year and 20-year bonds.

As a result, JFM's outstanding bonds were USD 178.2 billion, including the Predecessor's bonds to which JFM succeeded. Outstanding long-term bank loans totaled USD 1.5 billion as of 31 March 2017.

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 unique framework for domestic bond issuance which is similar to the MTN programme in some ways. JFM issues domestic bonds under the FLIP, in order to meet both the needs of investors in the domestic market and the borrowing needs of local governments in a timely and flexible manner. FLIP permits minimum and maximum issue sizes of JPY 3 billion (USD 26.8 million) and JPY 20 billion (USD 178.5 million), respectively.

Funding in Fiscal 2016

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 6.2 bn
10-year	USD 2.1 bn	USD 2.1 bn
20-year	USD 1.1 bn	USD 1.2 bn
5-year	USD 0.2 bn	USD 0.3 bn
30-year	USD 0.2 bn	USD 0.2 bn
Opportunistic Issuance	USD 1.8 bn	USD 2.4 bn
Overseas Offerings - MTN	USD 2.0 bn	USD 2.6 bn
Open Issuance ^{*2}	USD 1.2 bn	-
Total	USD 8.5 bn	USD 8.8 bn

(2) Private Placements with Pension Funds for Local Government Officials

Type of Bonds	Plan	Achieved
10-year	USD 1.7 bn	USD 1.7 bn
20-year	USD 2.1 bn	USD 2.1 bn
Total	USD 3.7 bn	USD 3.8 bn

Notes: 1. Figures in Plan (Initial) column show initially planned amounts. In November 2016, 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.

2. Government-guaranteed Domestic Bonds

Type of Bonds	Plan	Achieved
10-year	USD 2.1 bn	USD 2.1 bn
8-year	USD 1.1 bn	USD 1.1 bn
6-year	USD 1.8 bn	USD 1.8 bn
4-year	USD 0.4 bn	USD 0.4 bn
Total	USD 5.4 bn	USD 5.4 bn

3. Long-term Bank Loans

Type of Bonds	Plan	Achieved
Long-term Bank Loans	USD 0.3 bn	USD 0.4 bn

2. Issue Spreads

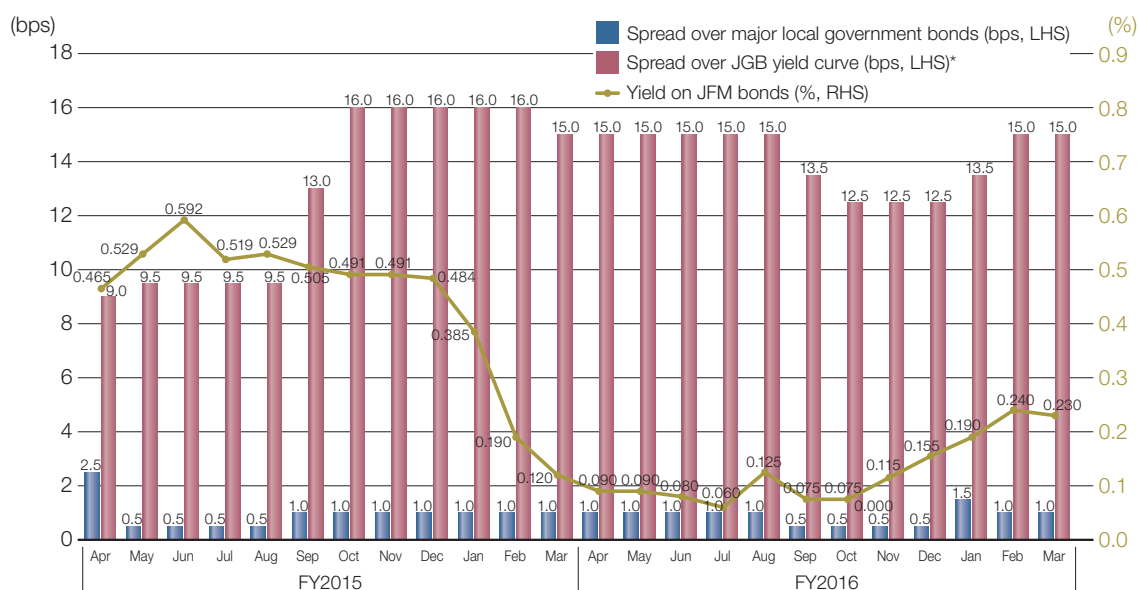
In the domestic market, the pricing method of JFM 10-year domestic bonds was changed from “Spread Pricing” to “Coupon-based Pricing” on the back of the introduction of Quantitative and Qualitative Monetary Easing with Negative Interest Rate by the Bank of Japan on January 2016, pushing 10-year JGB yield into negative territory. The Coupon-based Pricing method has been adopted to the 10-year domestic bonds from April 2016 to July 2016 and the Spread Pricing has returned back after August 2016 with setting minimum interest rate. The premium of JFM 10-year domestic bonds over respective JGB yield curve had tightened from 15.0 bps recorded in August 2016, and the premium recorded at 12.5 bps in October 2016 and then widened from January 2017 and peaked at 15.0 bps in February 2017.

5-year bonds, as substitutes for JGB, had captured solid investor demands while 20-year and 30-year bonds were supported by strong demands looking for relatively higher yields under low JGB yield market throughout the year. After the introduction of the negative interest rate policy, yield for JFM domestic 10-year and 20-year bonds hit record low at 0.060% and 0.180% respectively in July 2016 and 5-year bonds also hit record low at 0.001% in October 2016.

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

Note: See pages 106-109 for the terms of issuances in fiscal 2016.

Issue Conditions of JFM 10-Year Domestic Bonds



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

3 Financial Review

1. Income Statement

In fiscal 2016, JFM's income was USD 3.4 billion, a decrease of USD 0.3 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 the 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 249 million.

*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 2017, JFM's total assets amounted to USD 221.2 billion, up USD 1.3 billion from the previous year. This mainly resulted from an increase in outstanding loans by USD 0.5 billion due to the amount of new loans for local governments exceeding that of loans repaid.

Total liabilities were up USD 1.1 billion to USD 219.1 billion. This increase primarily reflected an increase of USD 1.4 billion in outstanding bonds as a result of the issue amount exceeding the redemption amount which was partially offset by a decrease of USD 0.6 billion in the reserves under special laws reflecting USD 1.8 billion of the payment to the national treasury.

Total net assets were USD 2.2 billion, up USD 0.2 billion. This mainly reflected net income of USD 0.2 billion in the general account being recorded as the general account surplus reserve.

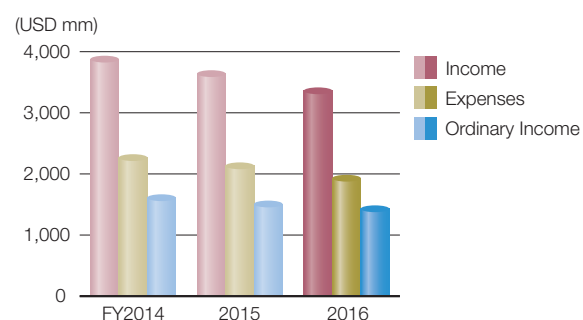
Financial highlights since fiscal 2014 are on the next page.

Financial Highlights

1. Income Statement

(USD Millions)

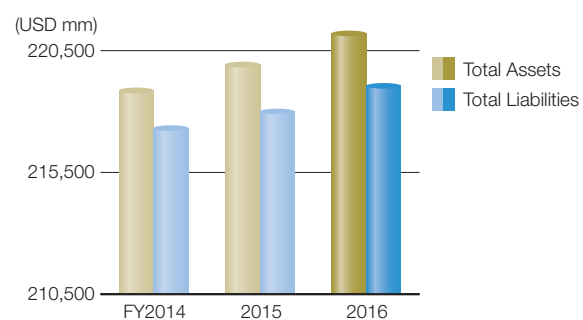
	FY2014	FY2015	FY2016	YoY
Income	3,878	3,641	3,360	-281
Expenses	2,267	2,133	1,930	-203
Ordinary Income	1,611	1,508	1,430	-78
Net Income	276	269	249	-21



2. Balance Sheet

(USD Millions)

	End of FY2014	End of FY2015	End of FY2016	YoY
Total Assets	218,869	219,932	221,207	1,275
Loans	209,171	211,196	211,691	495
Others	9,698	8,736	9,516	780
Total Liabilities	217,321	218,003	219,056	1,053
Bonds	174,412	176,704	178,095	1,392
Cash collateral received for financial instruments	1,626	1,156	992	-164
Fund for lending rate reduction	8,213	8,213	8,213	-
Reserves under special laws	32,201	30,761	30,157	-604
Reserve for interest rate volatility	13,744	15,707	17,671	1,963
Management account reserve for interest rate volatility	17,952	14,623	12,121	-2,502
Reserve for interest rate reduction	505	431	366	-65
Others	869	1,169	1,598	429
Total Net assets	1,548	1,929	2,152	222



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 15.5 billion in fiscal 2017, USD 0.4 billion or 3.0% increase from fiscal 2016.

Lending Plan

	FY2017	FY2016	YoY
Planned Amount	USD 15.5 bn	USD 15.1 bn	3.0%

JFM Funds in Local Government Borrowing Programme

	FY2017	FY2016	YoY
JFM Funds	USD 16.2 bn	USD 16.2 bn	-0.2%
General Account-related Loans	USD 4.5 bn	USD 4.5 bn	0.3%
Municipal Enterprise-related Loans	USD 6.6 bn	USD 6.8 bn	-3.0%
Refinancing Loans for Facilities Affected by Earthquake	-	USD 0.01 bn	-100.0%
Temporary Financial Countermeasures Funding	USD 5.1 bn	USD 5.0 bn	3.2%

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

2. See page 56 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 2017, JFM plans to issue USD 7.5 billion of JFM bonds through these methods.

In addition, private placements with pension funds for local government officials are projected to amount to USD 4.5 billion, an increase of USD 0.8 bn from the initially projected amount in fiscal 2016. In addition to issuing JFM bonds, JFM plans to raise USD 0.1 billion through long-term bank loans.

As for government-guaranteed bonds, JFM plans to issue USD 6.8 billion, which includes USD 3.6 billion of scheduled payment to the national treasury during fiscal 2017 from a portion of JFM's reserves for interest rate volatility maintained in the management account.

Funding Plan for FY2017

1. JFM Bonds (Non-government Guaranteed)

(1) Domestic and Overseas Offerings

Type of Bonds	FY2017 (Plan)	FY2016 (Achieved)
Domestic Public Offerings	USD 4.9 bn	USD 6.2 bn
10-year	USD 1.9 bn	USD 2.1 bn
20-year	USD 0.9 bn	USD 1.2 bn
5-year	USD 0.2 bn	USD 0.3 bn
30-year	USD 0.2 bn	USD 0.2 bn
Opportunistic Issuance	USD 1.8 bn	USD 2.4 bn
Overseas Offerings - MTN	USD 1.8 bn	USD 2.6 bn
Open Issuance	USD 0.8 bn	-
Total	USD 7.5 bn	USD 8.8 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 Funds for Local Government Officials

Type of Bonds	FY2017 (Plan)	FY2016 (Achieved)
10-year	USD 2.1 bn	USD 1.7 bn
20-year	USD 2.4 bn	USD 2.1 bn
Total	USD 4.5 bn	USD 3.8 bn

2. Government-guaranteed Domestic Bonds

Type of Bonds	FY2017 (Plan)	FY2016 (Achieved)
10-year	USD 5.4 bn	USD 2.1 bn
8-year	-	USD 1.1 bn
6-year	-	USD 1.8 bn
4-year	USD 1.4 bn	USD 0.4 bn
Total	USD 6.8 bn	USD 5.4 bn

3. Long-term Bank Loans

Type of Loans	FY2017 (Plan)	FY2016 (Achieved)
Long-term Bank Loans	USD 0.1 bn	USD 0.4 bn

3 Scheduled Payment to the National Treasury

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 USD 5.4 billion over this period. Furthermore, it has been also determined that an additional amount of up to USD 7.1 billion from fiscal 2017 through fiscal 2019 shall be attributed to the government.

In fiscal 2016, USD 1.8 billion was transferred to the national treasury by JFM and, in fiscal 2017, USD 3.6 billion is scheduled to be transferred to the national treasury to secure financial resources of the local allocation tax for regional revitalization.

O_{perations}

Lending Operations

1. Outline	22
2. Loan Interest Rates	24
3. Credit Check System	26
4. Trends in Lending Operations	26
5. Lending Operations by Business	29

Funding Operations

1. Issue Type	32
2. Basic Funding Policy	33
3. Features of JFM Bonds	34
4. Trends in Funding Operations	35



Kiyomizu-dera Temple - Kyoto Prefecture



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 2017			
			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 2016, approximately 99% of outstanding JFM loans consisted of special interest rate loans.

The trends of JFM loan interest rates since April 2015 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.

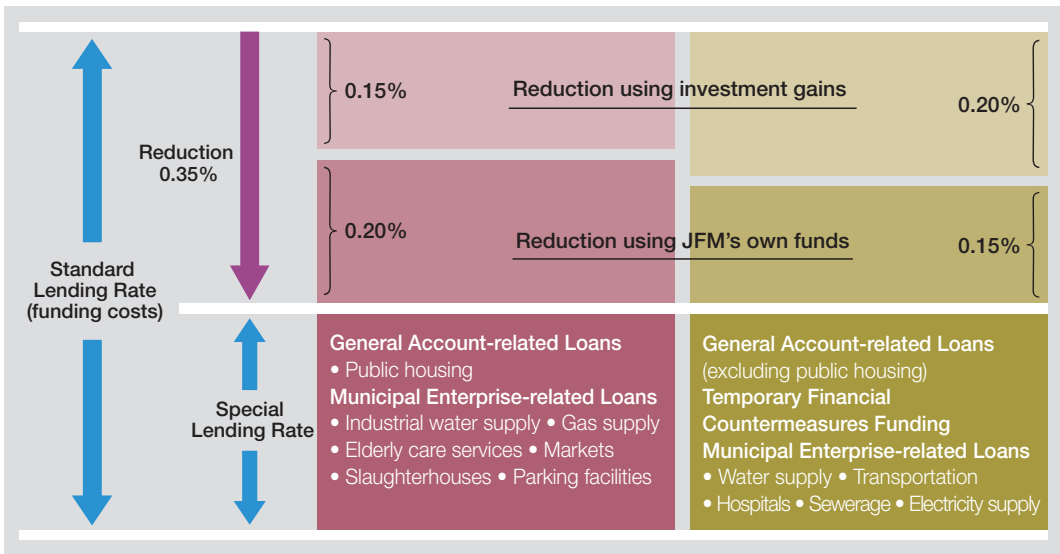
Trends of Lending Rates



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 is comprised of payments by local governments of a portion of the proceed they earn from municipally operated racing in accordance with the Local Government Finance Law, and also JFM's own funds.

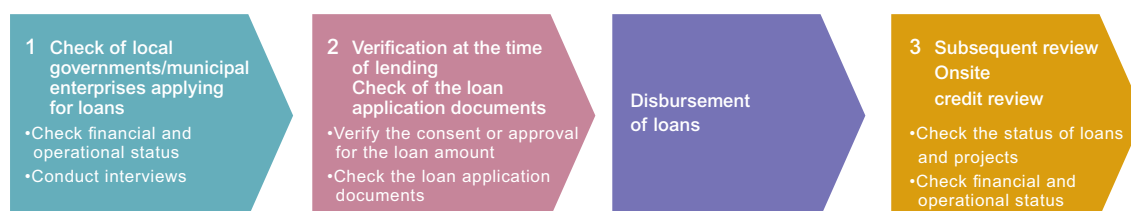


- Notes: 1. The minimum interest rates for JFM loans are set at the same level as the interest rates of the Fiscal Loan Fund provided by the national government.
2. The discount rates using the investment gains (0.15% or 0.20%) applicable to each business category are determined by the Minister for Internal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



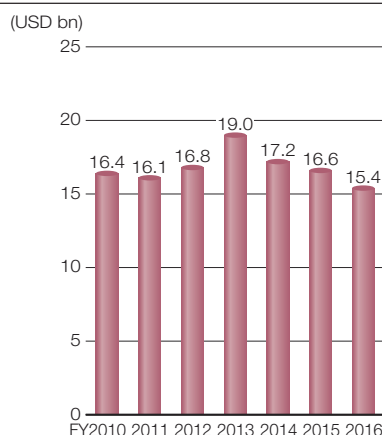
4 Trends in Lending Operations

1. Overview

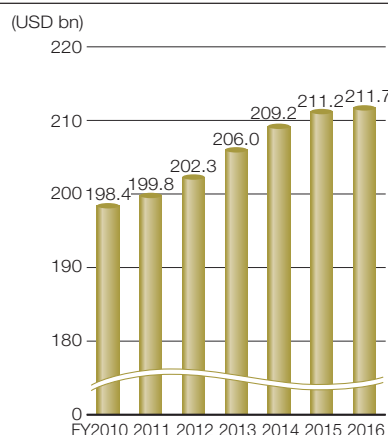
JFM's annual lending volume has dropped since fiscal 2013 due mainly to decrease in the budget of Disaster management and mitigation and Temporary financial countermeasures funding while the volume had risen from fiscal 2010 to fiscal 2013 as a result of the expansion of its lending scope to overall general account-related loans, the introduction of the Great East Japan Earthquake-related loans, and so on.

In fiscal 2016, the lending volume amounted to USD 15.4 billion. At year-end, outstanding loans were USD 211.7 billion.

Annual Lending Volume



Outstanding Loans

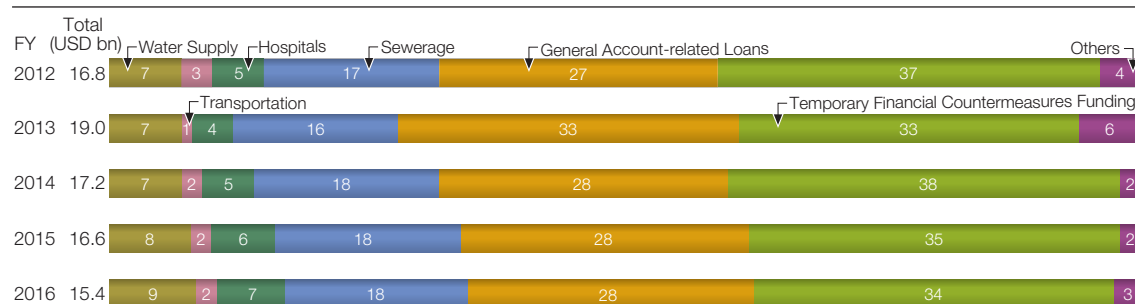


2. Annual Lending Volume by Business and Borrower

In fiscal 2016, loans for temporary financial countermeasures funding were USD 5.2 billion, accounting for the largest share of lending, at 34% of the total. Ranked next were USD 2.7 billion in the sewerage business, representing 18% of the total, and USD 1.4 billion in the water supply, for 9% of the total.

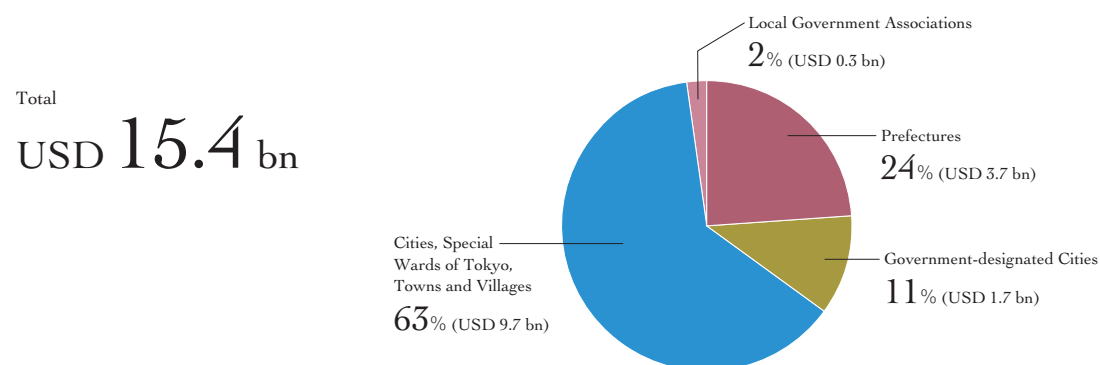
At year-end, the number of local governments with loans from JFM totaled USD 15.4 billion. Cities, Special Wards of Tokyo, Towns and Villages represented the highest share at 63% of the total, followed by prefectures at 24% and government-designated cities at 11%.

Long-Term Loans Extended by Business



Notes: 1. Pre-consent or pre-approval loans are accounted for in the year when they are converted into long-term loans.
 2. "Others" includes refinancing loans for municipal enterprise-related projects, and refinancing loans for facilities and specified local governments affected by earthquake.
 3. Totals may not add up due to rounding.

FY2016 Loans Extended by Borrower



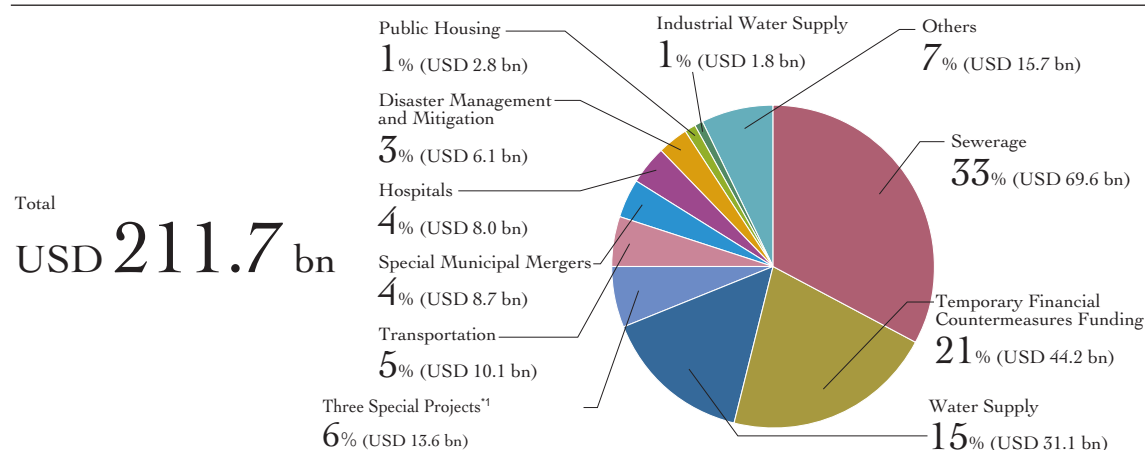
Note: Totals may not add up due to rounding.

3. Outstanding Loans by Business and Borrower

At the end of fiscal 2016, the outstanding loans were USD 211.7 billion, of which the sewerage business accounted for the largest share at 33%, followed by temporary financial countermeasures funding at 21% and water supply at 15%.

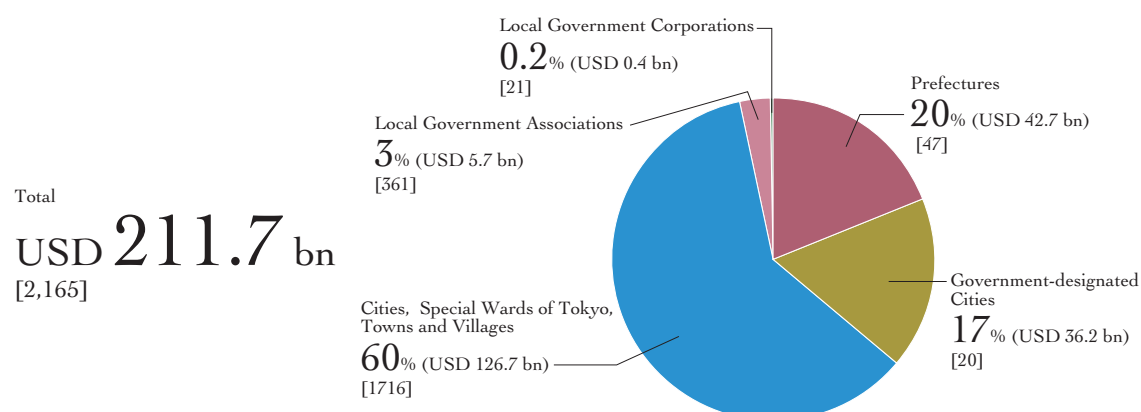
There was a total of 2,165 local governments, local government associations and corporations with outstanding JFM loans, including all prefectures. Cities, special wards of Tokyo, towns and villages accounted for the largest portion at 60% of the total, followed by prefectures at 20% and government-designated cities at 17%. Local government associations and corporations represented the remaining 3%.

Outstanding Loans by Business (as of 31 March 2017)



*1 Development projects for local roads, rivers and other waterways, and high school building.

Outstanding Loans by Borrower (as of 31 March 2017)



*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.

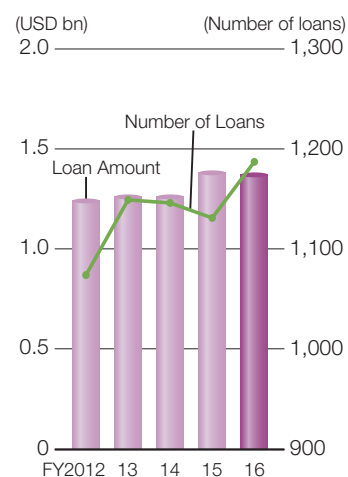
Water Supply Business

At the end of fiscal 2015, the water supply coverage was 97.9% of the population. The water supply business (including small-scale water supply) operated by local governments totaled 2,081 projects and provided about 18.1 billion cubic meters of water annually for approximately 124.4 million people.

In fiscal 2016, loans extended to the water supply business amounted to USD 1.4 billion.



Shiramizu Raw Water Reservoir (Ishigaki City, Okinawa Prefecture)



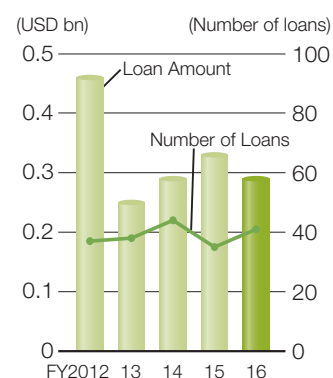
Transportation Business

At the end of fiscal 2015, the transportation projects managed by local governments totaled 87 projects and public transportation is used by approximately 4.2 billion people annually (11.63 million people on an average daily basis).

In fiscal 2016, loans extended to the transportation business amounted to USD 0.3 billion.



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



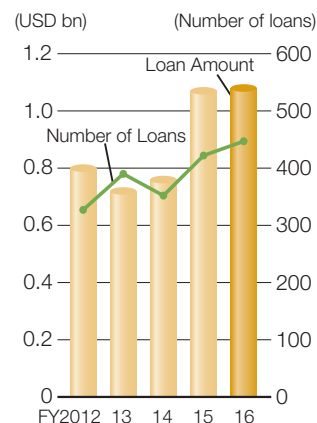
Hospitals Business

At the end of fiscal 2015, hospital projects managed by local governments totaled 637 with 812 hospitals, which included 780 general hospitals and 32 mental hospitals.

In fiscal 2016, loans extended to the hospitals business (including those run by local independent administrative institutions) totaled USD 1.1 billion.



Uwajima City Hospital (Ehime Prefecture)



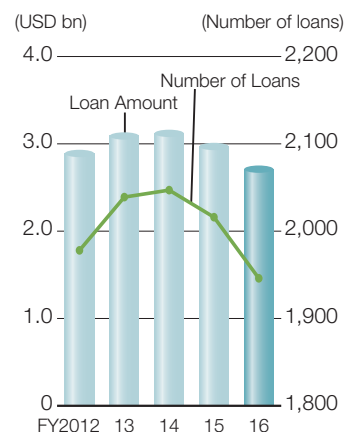
Sewerage Business

At the end of fiscal 2015, the sewerage system covered 89.9% 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 15.1 billion cubic meters serving areas with a population of nearly 104 million people.

In fiscal 2016, loans extended to the sewerage business totaled USD 2.7 billion.



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

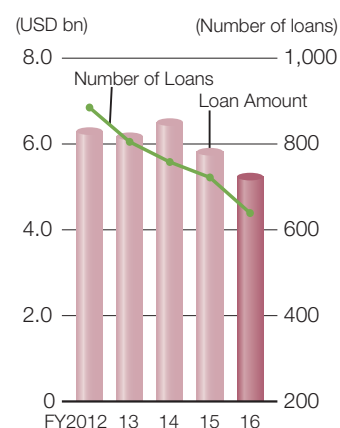


Temporary Financial Countermeasures Funding

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 2016, loans extended for temporary financial countermeasures funding amounted to USD 5.2 billion.



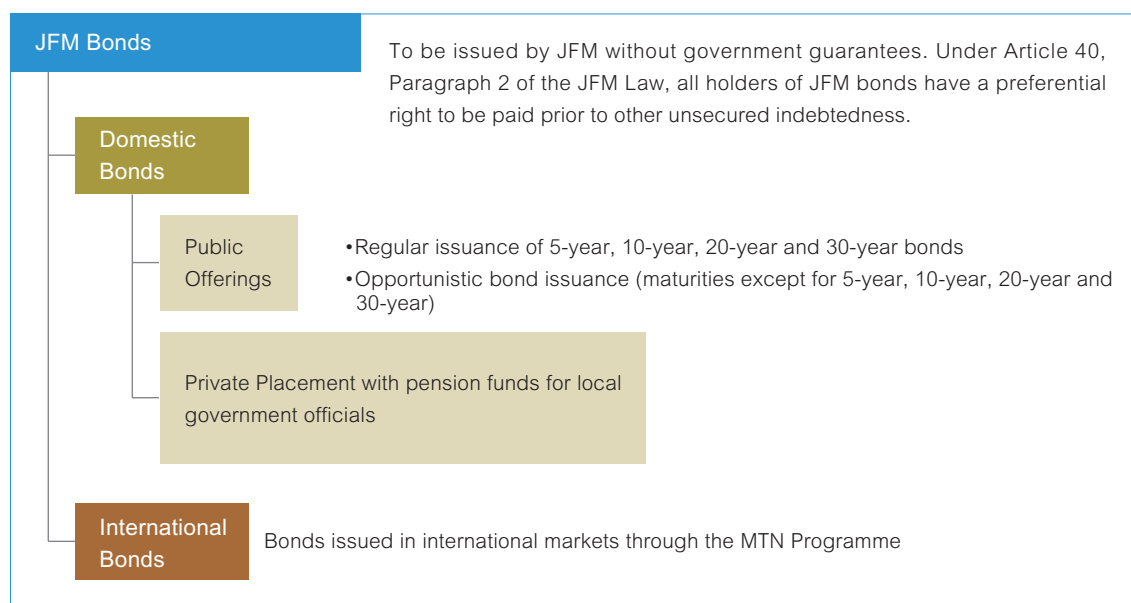
As a joint funding organization for local governments, JFM raises funds in a consistent manner to provide local governments with long-term and low-interest funds, while endeavoring to focus on market fluctuations.

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 volatile market conditions and shift in investor demands on the back of growing uncertainty over monetary policy of major central banks and, political and economic situation all over the world.

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 2017)	
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 2017)

4 Trends in Funding Operations

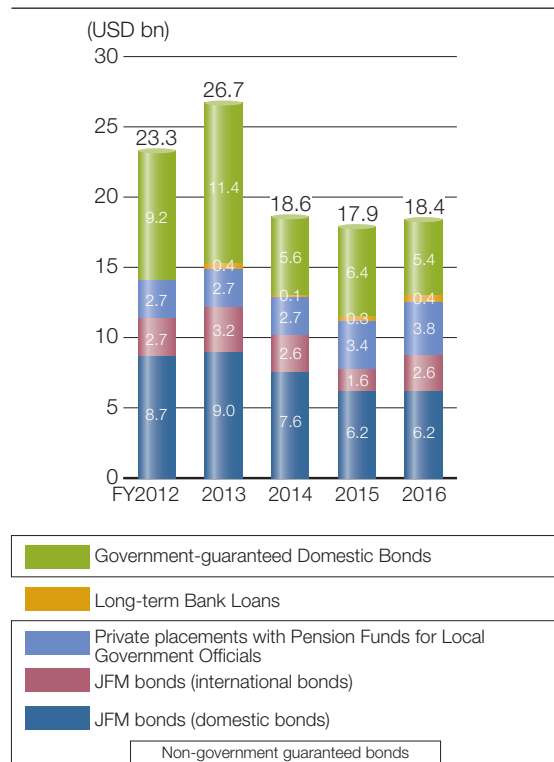
JFM issues JFM bonds (non-government guaranteed bonds to be issued through domestic public offerings or under the MTN Programme, or private placements with pension funds for local government officials) and government-guaranteed bonds for the purpose of refinancing existing government guaranteed bonds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

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, the issuance volume of government-guaranteed bonds has been gradually decreasing.

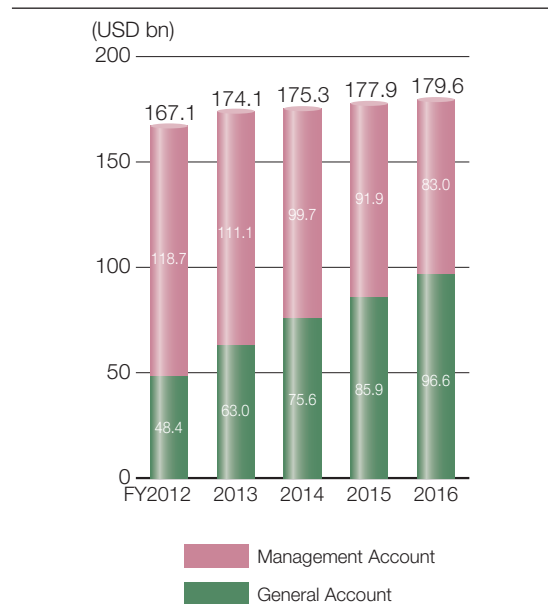
In fiscal 2016, JFM raised a total of USD 18.4 billion, nearly same volume from the previous year. This was mainly result of a increase in the amount of JFM bonds issued during fiscal 2016, which was offset by decrease in issuing government guaranteed bonds.

As of 31 March 2017, outstanding bonds were USD 178.1 billion. Outstanding long-term bank loans totaled USD 1.5 billion. The total amount of outstanding bonds and long-term bank loans was USD 179.6 billion, which was comprised of USD 96.6 billion in the general account and USD 83.0 billion in the management account. And this is the first time since JFM's establishment on 2008 that the volume of outstanding debt in the general account exceeds that of the management account as a result of the trend the management account has been decreasing while the general account has been increasing.

Funding Volume



Outstanding Bonds and Bank Loans



Management Structure

Corporate Governance

1. Corporate Governance	38
2. Internal Control over Financial Reporting	40
3. Internal Audit	40

General Account and Management Account	41
Risk Management	43
Compliance	50
Disclosure	51



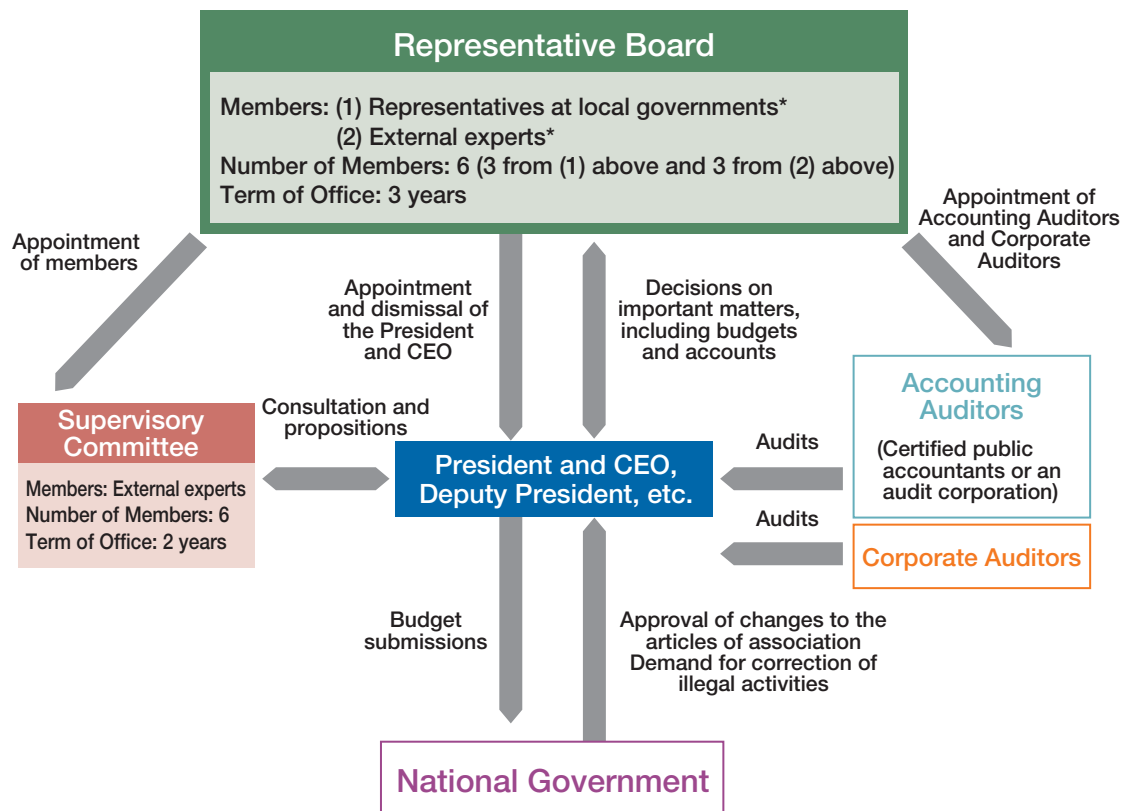
Ginzan Onsen (Hot Spring) - Yamagata Prefecture



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 is also authorized to obtain from the President and CEO information relating to JFM's operations and financial condition, and to order the President and CEO 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.

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, 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 2016 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

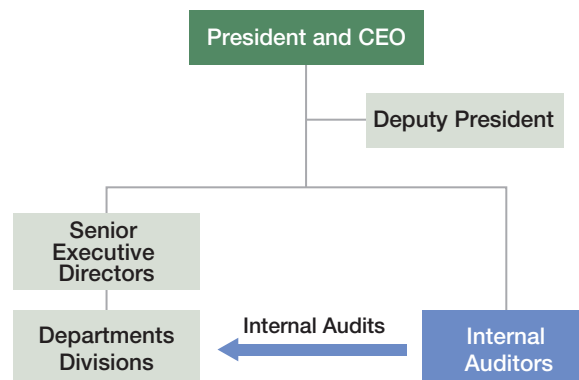
An internal auditor, who is independent from other departments, divisions and offices, examines and assesses the appropriateness and effectiveness of JFM's internal control systems, thereby helping ensure reliable financial reporting and appropriate and efficient operations.

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



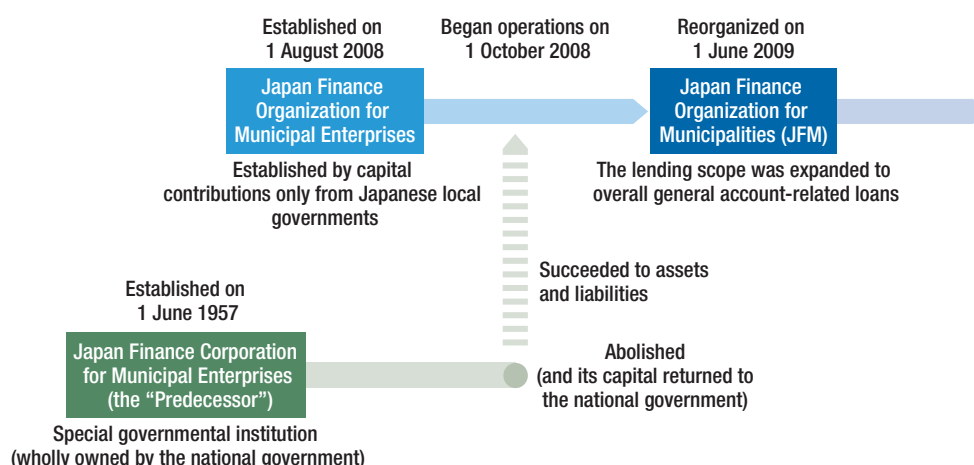
General Account and Management Account

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.

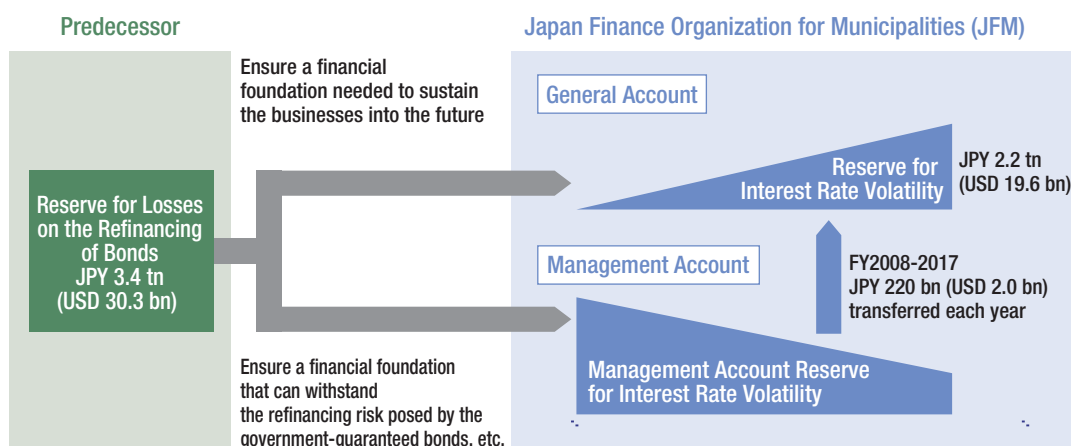
Under the JFM Law, JFM requires managing loans and bonds issued since JFM began its operations in the general account of JFM, whereas loans and operations carried over from the Predecessor are administered in the separate account known as the management account of JFM.

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 30.3 billion) to ensure its future stable management from the Predecessor.

Of this amount which was recorded in the management account, the JPY 2.2 trillion (USD 19.6 billion) needed to ensure the future continuity of JFM's operations is being transferred to the general account in equal installments over 10 years, with the remainder which is expected to remain in the management account to ensure a sufficient financial foundation to appropriately manage the Predecessor's bonds and loans and prepare for the risk with refinancing bonds of the Predecessor.



General Account and Management Account

Under the 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 the management account surplus reserve 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, JFM has transferred a portion of its reserve for interest rate volatility within the management account to the national treasury to secure financial resources of the local allocation tax for regional revitalization.

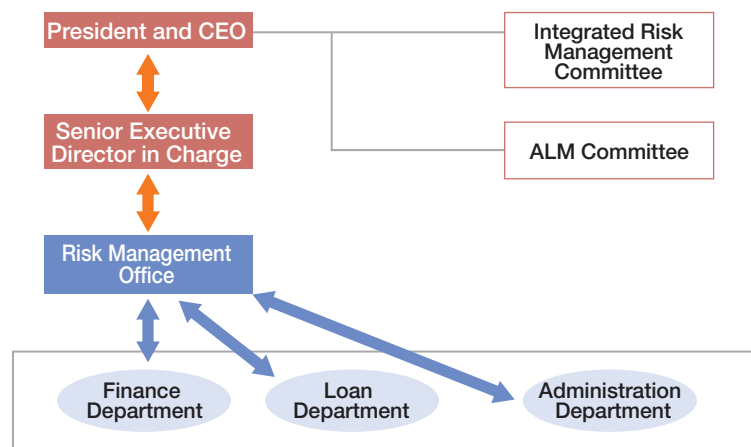
1 Overall Risk Management

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 2017). For the reasons outlined below, JFM believes it is unlikely that any of its borrowers will default those loans. In fact, JFM and its Predecessor have never experienced any loan losses.

- Financial sources for the payment of the principal and interest of local government bonds and loans are secured through the following mechanisms. First, local governments can obtain local tax revenues pursuant to their right to impose tax. Second, in addition to such local tax revenues, local allocation tax grants are allocated as follows: (i) the national government includes certain local government debt servicing costs, i.e., expenditures for the payment of the principal and interest of certain local government bonds and loans including those issued or borrowed with consents or approvals, in the amount of “expenditures” in the Local Government Finance Programme formulated by the national government; and (ii) the total amount of local allocation tax grants is calculated so that the total amount of local government expenditures, including such debt servicing costs, is equivalent to the total amount of the local government revenues, in the Local Government Finance Programme. Thus, the national government effectively secures revenue sources for the payment of principal and interest of such local governments bonds and loans in terms of the total amount. When calculating the amount of local allocation tax grants to be allocated to an individual local government, a part of the “expenditures” for the payment of the principal and interest of such local government bonds and loans are included.
- Before issuing a loan, JFM checks the financial and operational status of the local government, including its debt servicing costs, tax revenues and necessary funds. In addition, when reviewing the ability of a local government to repay the loan, where such local government’s expenditures exceed the revenue generated by local taxes, JFM takes into account the local allocation tax grants from the national government described above.
- The Early Correction Measure requires certain local governments, such as those whose debt servicing costs or financial deficits exceed specified levels, to obtain approval from the Minister for Internal Affairs and Communications or their respective prefectural governors in cases where they issue additional bonds or borrow additional loans. In addition, local governments whose fiscal indicators exceed certain early warning limits must make their own efforts toward achieving fiscal soundness, and local governments whose fiscal indicators exceed certain “reconstruction limits” must take necessary actions to restore fiscal soundness under the oversight of the national government with regard to redemption of local government bonds and loans, and other operations. This system facilitates the maintenance of the credit standing of local government bonds and loans.

As of 31 March 2017, JFM's total outstanding loans stood at USD 211.7 billion. The amount of loans outstanding made to local governments whose fiscal indicators exceeded the early warning limits or the reconstruction limits accounted for less than 0.03% in aggregate of total loans outstanding as of 31 March 2017.

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 47.

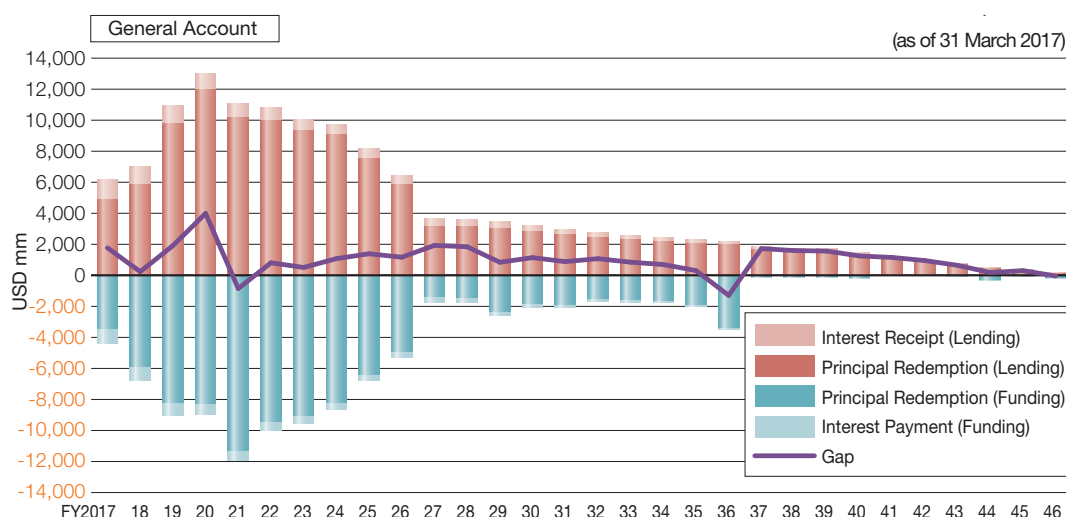
- **Interest rate risk associated with a gap in lending and funding schedules**

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.

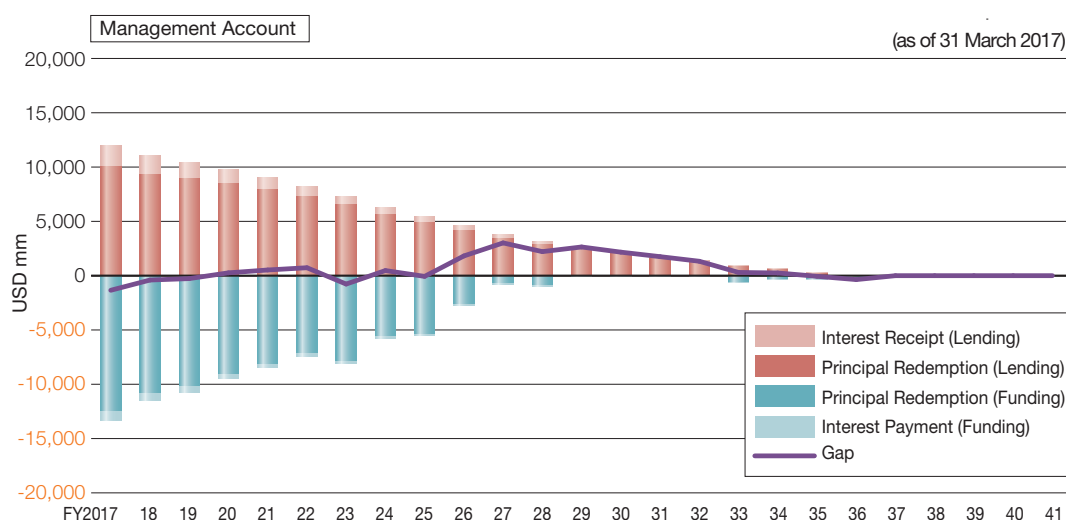
Managing interest rate risk associated with bond refinancing

- JFM maintains reserves to prepare for interest rate risk associated with bond refinancing. At the end of fiscal 2016, the total amount of the reserves stood at USD 30.2 billion, which consisted of USD 17.7 billion in the general account and USD 12.5 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) Lowering 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.
 - (2) Controlling funding duration – Utilizing its FLIP and Open Issuance scheme, JFM aims to control the funding duration by carefully choosing maturities of bonds to be issued.
- At the end of fiscal 2016, the duration gap in the general account was 1.19 years, staying within the management target.
- In the management account, which manages assets transferred from the Predecessor, JFM maintains USD 12.5 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 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 USD 5.4 billion yen over this period. Furthermore, it has been also determined that an additional amount of up to USD 7.1 billion yen from fiscal 2017 through fiscal 2019 shall be attributed to the government. 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 USD 2.7 billion in fiscal 2015, USD 1.8 billion in fiscal 2016 while USD 3.6 billion is planned to be transferred to the national treasury in fiscal 2017. 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 8.53 years • Funding duration 7.34 years • Duration gap 1.19 years (YoY change: -0.11 years)



• Lending duration 5.87 years • Funding duration 4.44 years • Duration gap 1.43 years (YoY change: -0.24 years)

JFM as a whole

• Lending duration 7.37 years • Funding duration 6.01 years • Duration gap 1.36 years (YoY change: -0.20 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 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 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, 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.

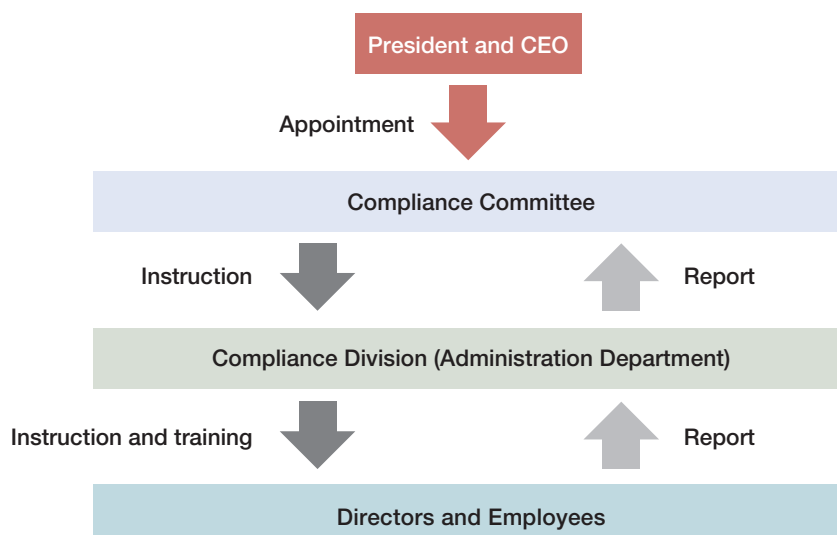
2 Compliance System

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

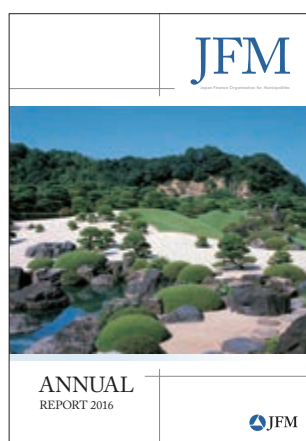
- Financial statements
- Business reports and statement of accounts (in Japanese only)
- Explanatory documents based on Article 36, Paragraph 3 of the JFM Law (Documents corresponding to annual securities reports specified in the Financial Instruments and Exchange Act and the Internal Control Report)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



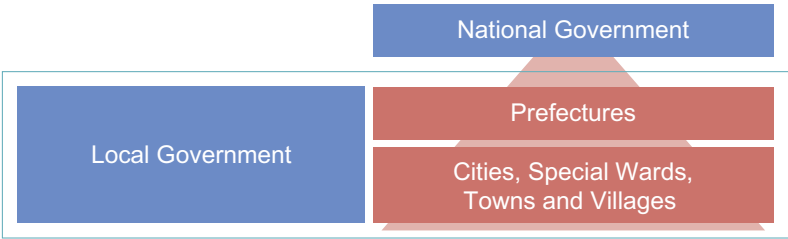
Annual Report

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.

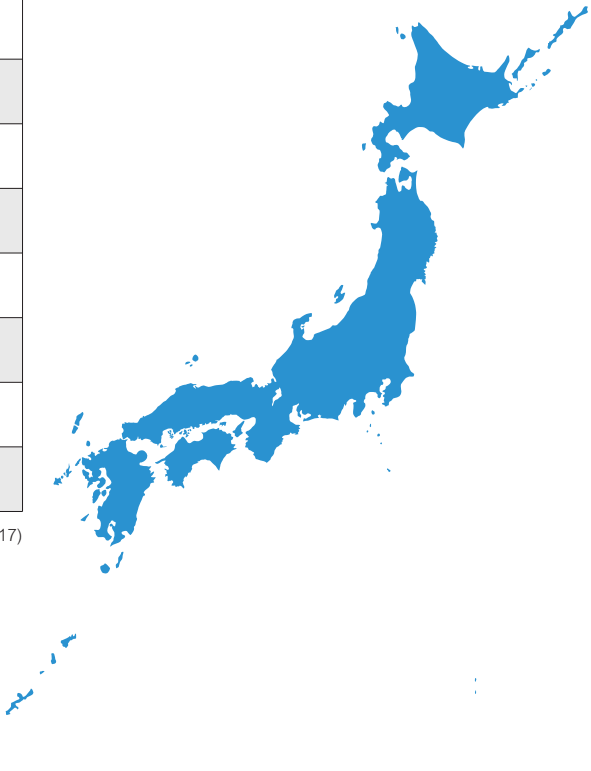
Japanese local government system adopts a two-tier system with prefectures serving broader geographic areas, and cities, special wards of Tokyo, as well as government-designated cities, towns and villages providing local services.



Number of Japanese Local Governments

Prefectures	47
Cities, special wards, etc.	1,741
Government-designated cities	20
Cities	771
Special wards	23
Towns	744
Villages	183
Total	1,788

(as of 1 April 2017)



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 2017, local government finance will total JPY 88.0 trillion (USD 785.4 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 FY2017)

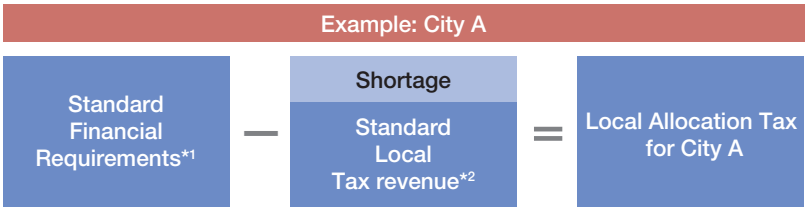
Annual Expenditure (USD 785.4 bn)	Annual Revenue (USD 785.4 bn)
<ul style="list-style-type: none"> - Social welfare - Education - Fire defense - Infrastructure, etc. 	Local Tax USD 371.9 bn
	Local Allocation Tax USD 149.8 bn
	Local Government Bonds and Loans USD 82.2 bn
	Others USD 181.5 bn

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

3 Local Allocation Tax

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

Local Allocation Tax System



Notes: 1. Standard financial requirements are the amount of funds necessary to provide standard public services. The requirements are calculated for each local government according to the standard specified by the Ministry of Internal Affairs and Communications.
2. Local governments have taxation rights in Japan, but there are regional imbalances in tax revenues.

4 Local Government Borrowings

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

5 Security of Local Government Borrowings

The following framework secures principal and interest payments of local government borrowings. On the back of this framework, the BIS risk weighting for local government borrowings is 0%, based on the standardized approach (as of 31 March 2017).

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 national government's budget making. The LGBP plays the following crucial roles in terms of local government finance.

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.

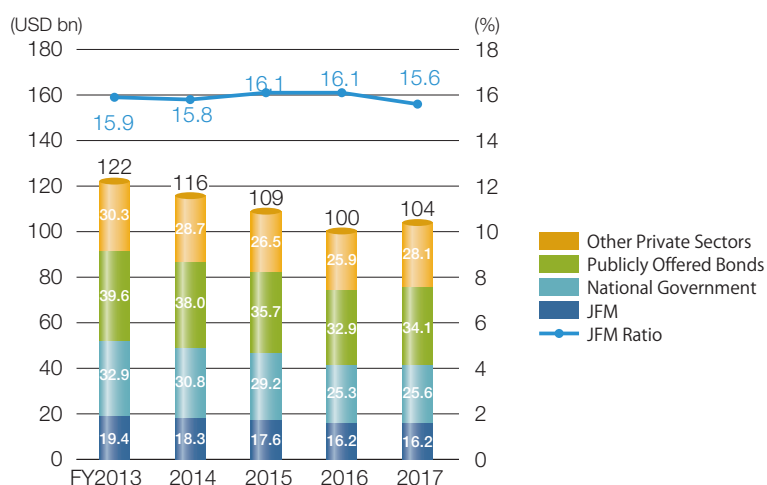
Local Government Borrowing Programme

		FY2016	FY2017	Share
1. Private Funds	Publicly Offered Bonds	USD 33 bn	USD 34 bn	33%
	Other Private Sectors	USD 26 bn	USD 28 bn	27%
2. Public Funds	JFM	USD 16 bn	USD 16 bn	16%
	National Government	USD 25 bn	USD 26 bn	25%
Total		USD 100 bn	USD 104 bn	100%

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

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

LGBP Volume by Funding Source (Initial Plan)



Source: The Ministry of Internal Affairs and Communications

Financial Section

Financial Statements	58
Balance Sheets	58
Statements of Income	59
Statements of Appropriation of Profit [General account/Management account]	60
Statements of Changes in Net Assets	62
Statements of Cash Flows	64
Notes to Financial Statements	65
Independent Auditor's Report	98

Financial Statements

Balance Sheets

(As of 31 March 2016 and 2017)

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

Item	Fiscal 2015 (31 March 2016)	Fiscal 2016 (31 March 2017)		Item	Fiscal 2015 (31 March 2016)	Fiscal 2016 (31 March 2017)	
	Amount				Amount		
Assets				Liabilities			
Loans (Note 3)	¥23,664,512	¥23,720,021	\$211,691,404	Bonds (Notes 7 and 8)	¥19,799,634	¥19,955,593	\$178,095,438
Securities (Note 17)	235,000	166,000	1,481,481	Borrowed money (Note 9)	120,500	170,500	1,521,642
Cash and bank deposits	711,611	861,226	7,686,092	Cash collateral received for financial instruments	129,509	111,159	992,049
Cash collateral paid for financial instruments	16,277	24,327	217,108	Other liabilities	10,345	8,379	74,786
Other assets	11,550	10,616	94,745	Reserve for bonuses (Note 10)	52	55	492
Tangible fixed assets (Note 6)	2,720	2,602	23,231	Reserve for bonuses for directors and corporate auditors (Note 10)	7	8	72
Intangible fixed assets (Note 6)	1,700	1,473	13,146	Reserve for retirement benefits (Notes 10 and 13)	33	45	404
				Reserve for retirement benefits for directors and corporate auditors (Note 10)	9	17	160
				Fund for lending rate reduction	920,287	920,287	8,213,187
				Basic fund for lending rate reduction (Note 12)	920,287	920,287	8,213,187
				Reserves under special laws	3,446,803	3,379,138	30,157,416
				Reserve for interest rate volatility (Note 11)	1,760,000	1,980,000	17,670,683
				Management account reserve for interest rate volatility (Note 11)	1,638,462	1,358,120	12,120,669
				Reserve for interest rate reduction	48,341	41,017	366,064
				Total liabilities	24,427,184	24,545,185	219,055,646
				Net Assets			
				Capital	16,602	16,602	148,167
				Retained earnings	137,900	165,779	1,479,511
General account surplus reserve	137,900	165,779	1,479,511				
Valuation, translation adjustments and others	8,018	5,035	44,935				
Management account surplus reserve	53,666	53,666	478,948				
Total net assets	216,187	241,082	2,151,561				
Total assets	¥24,643,371	¥24,786,267	\$221,207,207	Total liabilities and net assets	¥24,643,371	¥24,786,267	\$221,207,207

See notes to financial statements.

Statements of Income

(For the years ended 31 March 2016 and 2017)

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

Item	Fiscal 2015 (1 April 2015 to 31 March 2016)	Fiscal 2016 (1 April 2016 to 31 March 2017)	
	Amount	Amount	
Income	¥407,972	¥376,497	\$3,360,087
Interest income	404,858	372,787	3,326,978
Fees and commissions	108	103	927
Other operating income	0	36	327
Other income	3,005	3,569	31,855
Contributions from fund for lending rate reduction (Note 12)	2,993	3,557	31,747
Others	12	12	108
Expenses	239,039	216,284	1,930,248
Interest expenses	230,505	208,872	1,864,100
Fees and commissions	324	313	2,795
Other operating expenses	4,405	3,874	34,582
General and administrative expenses	3,803	3,223	28,771
Ordinary income	168,933	160,213	1,429,839
Special gains	528,211	427,323	3,813,686
Reversal of management account reserve for interest rate volatility (Note 11)	520,000	420,000	3,748,327
Reversal of reserve for interest rate reduction	8,211	7,323	65,359
Special losses	666,947	559,658	4,994,721
Provision for reserve for interest rate volatility (Note 11)	220,000	220,000	1,963,409
Provision for management account reserve for interest rate volatility (Note 11)	146,947	139,658	1,246,394
Payment to national treasury (Notes 4 and 11)	300,000	200,000	1,784,918
Net income	¥30,197	¥27,878	\$248,804

See notes to financial statements.

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

Statements of Appropriation of Profit [General account]

(For the year ended 31 March 2017)

(Millions of yen)

1 Profit available for appropriation		¥27,878
Net income	¥27,878	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	27,878	27,878

(Thousands of U.S. dollars)

1 Profit available for appropriation		\$248,804
Net income	\$248,804	
Accumulated deficit brought forward	-	
2 Profit appropriated		
Surplus reserve	248,804	248,804

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 of 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 2016)

(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 2017)

(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 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 2017)

(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 2016	¥16,602	¥137,900	¥137,900	¥154,502	¥8,018	¥53,666	¥216,187
Changes during accounting period							
Net income	-	27,878	27,878	27,878	-	-	27,878
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(2,983)	-	(2,983)
Net changes during accounting period	-	27,878	27,878	27,878	(2,983)	-	24,894
Balance as of 31 March 2017	¥16,602	¥165,779	¥165,779	¥182,381	¥5,035	¥53,666	¥241,082

(For the year ended 31 March 2017)

(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 2016	\$148,167	\$1,230,707	\$1,230,707	\$1,378,874	\$71,561	\$478,948	\$1,929,383
Changes during accounting period							
Net income	-	248,804	248,804	248,804	-	-	248,804
Net changes during accounting period in items other than stockholders' equity	-	-	-	-	(26,626)	-	(26,626)
Net changes during accounting period	-	248,804	248,804	248,804	(26,626)	-	222,178
Balance as of 31 March 2017	\$148,167	\$1,479,511	\$1,479,511	\$1,627,678	\$44,935	\$478,948	\$2,151,561

See notes to financial statements.

Statements of Cash Flows

(For the years ended 31 March 2016 and 2017)

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

Item	Fiscal 2015 (1 April 2015 to 31 March 2016)	Fiscal 2016 (1 April 2016 to 31 March 2017)	
	Amount	Amount	
I Cash flows from operating activities			
Net income	¥30,197	¥27,878	\$248,804
Depreciation and amortization	564	619	5,528
Interest income	(404,858)	(372,787)	(3,326,978)
Interest expenses	230,505	208,872	1,864,100
Increase in reserve for bonuses	2	2	21
Increase in reserve for bonuses for directors and corporate auditors	0	0	2
Increase/(decrease) in reserve for retirement benefits	(8)	11	102
Increase/(decrease) in reserve for retirement benefits for directors and corporate auditors	(13)	8	78
Decrease in fund for lending rate reduction	(2,993)	(3,557)	(31,747)
Increase in reserve for interest rate volatility	220,000	220,000	1,963,409
Decrease in management account reserve for interest rate volatility	(73,052)	(80,341)	(717,015)
Decrease in reserve for interest rate reduction	(8,211)	(7,323)	(65,359)
Net (increase)/decrease in loans	(226,882)	(55,509)	(495,397)
Net increase/(decrease) in bonds	254,060	153,549	1,370,366
Net increase/(decrease) in borrowed money	35,000	50,000	446,229
Interest received	405,693	373,725	3,335,346
Interest paid	(229,067)	(208,543)	(1,861,169)
Others	(56,171)	(29,336)	(261,814)
Net cash provided by operating activities	174,764	277,268	2,474,506
II Cash flows from investing activities			
Proceeds from redemption of securities	2,756,000	585,400	5,224,453
Purchases of securities	(2,321,000)	(516,400)	(4,608,657)
Purchases of tangible fixed assets	(10)	(2)	(19)
Purchases of intangible fixed assets	(347)	(208)	(1,858)
Net cash provided by investing activities	434,642	68,789	613,919
III Cash flows from financing activities			
Payment to national treasury	(300,000)	(200,000)	(1,784,917)
Revenue from contributions made from municipally operated racing	2,993	3,557	31,747
Net cash used in financing activities	(297,006)	(196,442)	(1,753,170)
IV Effect of exchange rate changes on cash and cash equivalents	-	-	-
V Net increase/(decrease) in cash and cash equivalents	312,400	149,615	1,335,255
VI Cash and cash equivalents at beginning of year	399,211	711,611	6,350,837
VII Cash and cash equivalents at end of year	¥711,611	¥861,226	\$7,686,092

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 of 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 2017, the final day of the fiscal year, which was ¥112.05 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 statements 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 of 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 of 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 of 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. Furthermore, it has been also determined that an additional amount of up to 800 billion yen from fiscal 2017 through fiscal 2019 shall be attributed to the government.

In fiscal 2016, 200,000 million yen (1,784,918 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 2016 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2016).

In fiscal 2017, 400 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 2017 (Ordinance No. 2 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2017).

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.

Financial Statements

(c) Risk management for financial instruments

(i) Credit risk

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

A. Credit risk on loans

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

- The Japanese national government includes principal and interest payments of local government bonds and loans in the expenditure of the Local Government Finance Program, and secures the total amount of local allocation tax which balances local governments' total expenditures including principal and interest payments, and total revenue. Thus, the national government effectively secures revenue sources for principal and interest payments by local governments. The national government also secures revenue sources for principal and interest payments by individual local governments by including a portion of such principal and interest in the Standard Financial Needs when calculating local allocation tax.
- Under the consultation system for local government bonds and loans, credit reviews must include checks on the repayment status of local governments, and tax revenue and necessary revenue sources to be secured. Additionally, under the Early Warning System, the local governments whose principal and interest payments or financial deficits exceed a certain level must apply for approval to issue bonds or obtain loans, so that the credit standing of local government bonds and loans is maintained.
- Under the Law Relating to the Financial Soundness of Local Governments, which was promulgated in June 2007 (Law 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" (Law No. 59 of 1981) or the "Financial Reconstruction Law" (Law No. 132 of 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, and over a period of three years from fiscal 2017 through fiscal 2019, with the aim of transferring up to 800 billion yen as well.

- 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 2017 is used.

• Calculation of outlier ratio

Based on an assumption that risk variables, except for interest rate risk, are fixed as of 31 March 2017, 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

Financial Statements

reduction.

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

JFM monitors the movement of the outlier ratio on a regular basis, and the calculation as of 31 March 2017 is as follows.

Information on the outlier ratio as of 31 March 2017 is as follows:

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

	Outlier ratio (a)=- (b)/(e)	Change in fair value in the case of 200 basis points rise in interest rates						Net assets including reserve for interest rate volatility and the fund for lending rate reduction (e)	
		Total (b)=(c)+(d)		Loans (c)		Bonds and long-term borrowed money (d)			
General account	22.5% [-2.6%]	¥(694,839) [+18,531]	\$(6,201,152) [+165,381]	¥(2,222,001) [(57,156)]	\$(19,380,442) [(510,094)]	¥+1,527,162 [+75,687]	\$+13,629,290 [+675,475]	¥3,087,703 [+244,894]	\$27,556,475 [+2,185,578]

Note: Amounts posted in square brackets indicate the change from 31 March 2016.

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 2017 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 23,175 million yen (206,827 thousand U.S. dollars). On the contrary, for an indicative interest rate as of 31 March 2017 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 23,473 million yen (209,487 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 implemented a plan to secure liquidity support assets in advance in order to prepare for potential market disruption which may prevent JFM from securing the necessary funds for scheduled bond principal and interest payments.

(iv) Supplemental remarks on fair value of financial instruments

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

(2) Items related to fair value of financial instruments

The book value, fair value and difference between them as of 31 March 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	-	-	-

The book value, fair value and difference between them as of 31 March 2017 are as follows:

(Millions of yen)

	Book value	Fair value	Difference
(1) Loans	¥23,720,021	¥25,765,279	¥2,045,257
(2) Securities held-to-maturity securities	166,000	166,000	-
(3) Cash and bank deposits	861,226	861,226	-
(4) Cash collateral paid for financial instruments	24,327	24,327	-
Total assets	24,771,575	26,816,832	2,045,257
(1) Bonds	19,955,593	20,859,021	903,427
(2) Borrowed money	170,500	173,095	2,595
(3) Cash collateral received for financial instruments	111,159	111,159	-
Total liabilities	20,237,252	21,143,276	906,023
Derivative transactions Hedge accounting applied	-	-	-
Total of derivative transactions	-	-	-

Financial Statements

(Thousands of U.S. dollars)

	Book value	Fair value	Difference
(1) Loans	\$211,691,404	\$229,944,482	\$18,253,078
(2) Securities held-to-maturity securities	1,481,481	1,481,481	-
(3) Cash and bank deposits	7,686,092	7,686,092	-
(4) Cash collateral paid for financial instruments	217,108	217,108	-
Total assets	221,076,085	239,329,163	18,253,078
(1) Bonds	178,095,438	186,158,157	8,062,719
(2) Borrowed money	1,521,642	1,544,807	23,165
(3) Cash collateral received for financial instruments	992,049	992,049	-
Total liabilities	180,609,129	188,695,013	8,085,884
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 2016 and 2017.

(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 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	-

As of 31 March 2017

(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	¥166,000	¥166,000	-
	Sub total	166,000	166,000	-
Total		¥166,000	¥166,000	-

(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	\$1,481,481	\$1,481,481	-
	Sub total	1,481,481	1,481,481	-
Total		\$1,481,481	\$1,481,481	-

(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.

Financial Statements

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 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	-	

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 2017 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	¥55,000	¥55,000	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	1,519,932	1,519,932	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	210,000	-	(*2)	
Total			¥1,784,932	¥1,574,932	-	

(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	\$490,852	\$490,852	(*1)	
Deferral hedge accounting for currency swaps	Currency swap transactions	Foreign currency-denominated bonds	13,564,768	13,564,768	(*2)	
Deferral hedge accounting for foreign exchange contracts	Foreign exchange contracts	Foreign currency-denominated deposits	1,874,163	-	(*2)	
Total			\$15,929,783	\$14,055,620	-	

(*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 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	-	-	-	-	-	-	-	-

Financial Statements

As of 31 March 2017

(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	¥1,685,559	¥1,713,372	¥1,726,862	¥1,701,612	¥1,643,242	¥6,694,321	¥6,892,616	¥1,646,741	¥15,694
Securities held-to- maturity securities	166,000	-	-	-	-	-	-	-	-
Deposits	861,226	-	-	-	-	-	-	-	-

(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	\$15,042,919	\$15,291,139	\$15,411,532	\$15,186,187	\$14,665,264	\$59,744,060	\$61,513,754	\$14,696,486	\$140,063
Securities held-to- maturity securities	1,481,481	-	-	-	-	-	-	-	-
Deposits	7,686,089	-	-	-	-	-	-	-	-

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

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	-	-	-

As of 31 March 2017

(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	¥1,773,824	¥1,804,268	¥2,058,327	¥1,951,753	¥2,185,072	¥7,459,855	¥2,556,270	¥148,500	¥26,000
Borrowed money	25,000	80,000	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	\$15,830,656	\$16,102,353	\$18,369,723	\$17,418,594	\$19,500,869	\$66,576,131	\$22,813,655	\$1,325,301	\$232,039
Borrowed money	223,115	713,967	89,246	-	-	495,314	-	-	-

6. Tangible and Intangible Fixed Assets

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

Tangible and intangible fixed assets as of 31 March 2017 consisted of the following:

(Millions of yen)

Type of assets	Balance as of 1 April 2016 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2017 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2017	Depreciation and amortization during the year	Balance as of 31 March 2017 (Net book value)
Tangible fixed assets							
Buildings	¥1,181	¥0	-	¥1,182	¥409	¥47	¥773
Land	1,659	-	-	1,659	-	-	1,659
Other tangible fixed assets	395	-	-	395	225	70	169
Total tangible fixed assets	3,236	0	-	3,237	634	118	2,602
Intangible fixed assets							
Software	2,440	273	¥21	2,692	1,219	501	1,472
Other intangible fixed assets	0	4	4	0	-	-	0
Total intangible fixed assets	¥2,440	¥277	¥25	¥2,692	¥1,219	¥501	¥1,473

Financial Statements

(Thousands of U.S. dollars)

Type of assets	Balance as of 1 April 2016 (Acquisition costs)	Increase during the year	Decrease during the year	Balance as of 31 March 2017 (Acquisition costs)	Accumulated depreciation and amortization as of 31 March 2017	Depreciation and amortization during the year	Balance as of 31 March 2017 (Net book value)
Tangible fixed assets							
Buildings	\$10,546	\$6	-	\$10,552	\$3,652	\$422	\$6,900
Land	14,814	-	-	14,813	-	-	14,813
Other tangible fixed assets	3,528	-	-	3,528	2,010	632	1,518
Total tangible fixed assets	28,888	6	-	28,893	5,662	1,054	23,231
Intangible fixed assets							
Software	21,782	2,442	\$191	24,033	10,887	4,472	13,146
Other intangible fixed assets	0	36	36	0	-	-	0
Total intangible fixed assets	\$21,782	\$2,478	\$227	\$24,033	\$10,887	\$4,472	\$13,146

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 19,799,634 million yen and 19,955,593 million yen (178,095,438 thousand U.S. dollars) as of 31 March 2016 and 2017, respectively.

8. Bonds

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 funds 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
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 funds 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

Financial Statements

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 associations 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)	-	-

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 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.

Bonds as of 31 March 2017 consisted of the following:

(Millions of yen)

Type of bond	Date of issue	Balance as of 1 April 2016	Balance as of 31 March 2017	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-94)	6/15/2009-3/15/2017	¥3,945,290	¥4,186,197	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	300,000	420,100	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-20)	9/27/2011-10/28/2016	1,129,991	1,330,732 (200,000)	0.001 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-7)	5/28/2012-6/30/2016	330,000	150,126 (110,000)	0.001 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 2-3)	3/20/2015-2/19/2016	50,000	25,000 (25,000)	0.030 to 0.100	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	20,000	-	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 5-20)	5/26/2011-10/21/2016	235,000	190,000 (60,000)	0.001 to 0.510	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 1-94)	6/18/2009-3/21/2017	2,515,000	2,755,000	0.060 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 1-58)	6/25/2009-3/21/2017	1,065,000	1,195,000	0.180 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-3)	6/26/2014-10/21/2016	15,000	35,000	0.569 to 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-F354)	7/22/2009-1/27/2017	1,819,772	2,029,401 (62,000)	0.001 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, 40-56)	1/12/2012-1/30/2017	943,766	1,211,337 [USD 9,781 million] [AUD 566 million] [NZD 105 million] [EUR 1,000 million] (188,136)	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	74,465 [USD 757 million] [AUD 100 million] (34,088)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A86)	7/31/2009-3/28/2017	2,180,000	2,330,000	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B17)	11/24/2015-3/28/2017	34,000	75,500	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C17)	11/24/2015-3/28/2017	51,500	134,000	0.190 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D12)	4/21/2016-3/28/2017	-	150,000	0.190 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	14,947,564	16,480,031 (679,224)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	561,735	562,010	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	139,986	139,991	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	84,961	84,964	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds 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	-	906,684	906,967	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 862-886)	4/20/2006-6/19/2008	1,469,826	808,536 (587,650)	1.4 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	184,771	184,793	1.6 to 2.2	15Y

Financial Statements

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	343,017	223,122 [GBP 150 million] [USD 1,000 million] (119,780)	1.9 to 5.75	10Y to 20Y
Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 20-30)	7/4/2006-6/16/2008	399,985	159,997 (110,000)	1.77 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002-6/16/2008	569,760	569,784	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	189,885	189,891	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 (20,000)	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003-6/9/2004	32,640	30,470 (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	-	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.1-20-No.1-31)	7/26/2006-7/31/2008	715,500	382,000 (255,000)	1.59 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	3,945,385	2,568,595 (1,094,600)	-	-
Total	-	¥19,799,634	¥19,955,593 (1,773,824)	-	-

(Thousands of U.S. dollars)

Type of bond	Date of issue	Balance as of 1 April 2016	Balance as of 31 March 2017	Coupon rate (%)	Maturity
Government-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-94)	6/15/2009-3/15/2017	\$35,210,086	\$37,360,086	0.005 to 1.500	10Y
Government-guaranteed bonds issued by JFM (domestic) 8-year bonds (Series 1-7)	9/26/2013-2/24/2017	2,677,376	3,749,220	0.001 to 0.576	8Y
Government-guaranteed bonds issued by JFM (domestic) 6-year bonds (Series 1-20)	9/27/2011-10/28/2016	10,084,709	11,876,241 (1,784,917)	0.001 to 0.400	6Y
Government-guaranteed bonds issued by JFM (domestic) 4-year bonds (Series 1-7)	5/28/2012-6/30/2016	2,945,114	1,339,819 (981,705)	0.001 to 0.249	4Y
Government-guaranteed bonds issued by JFM (international) Global U.S. dollar bonds (Series 1)	1/13/2011	742,258	742,258 [USD 1,000 million]	4.0	10Y
Non-guaranteed bonds issued by JFM (domestic) 2-year bonds (Series 2-3)	3/20/2015-2/19/2016	446,229	223,115 (223,115)	0.030 to 0.100	2Y
Non-guaranteed bonds issued by JFM (domestic) 3-year bonds (Series 1)	8/19/2013	178,492	-	0.170	3Y
Non-guaranteed bonds issued by JFM (domestic) 5-year bonds (Series 5-20)	5/26/2011-10/21/2016	2,097,278	1,695,672 (535,475)	0.001 to 0.510	5Y
Non-guaranteed bonds issued by JFM (domestic) 7-year bonds (Series 1)	8/20/2012	178,492	178,492	0.446	7Y
Non-guaranteed bonds issued by JFM (domestic) 10-year bonds (Series 1-94)	6/18/2009-3/17/2017	22,445,337	24,587,238	0.060 to 1.648	10Y

Non-guaranteed bonds issued by JFM (domestic) 15-year bonds (Series 1-3)	1/31/2013-1/22/2014	446,229	446,229	1.161 to 1.334	15Y
Non-guaranteed bonds issued by JFM (domestic) 20-year bonds (Series 1-58)	6/25/2009-3/21/2017	9,504,685	10,664,882	0.180 to 2.266	20Y
Non-guaranteed bonds issued by JFM (domestic) 30-year bonds (Series 1-3)	6/26/2014-10/21/2016	133,869	312,361	0.569 to 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-F354)	7/22/2009-1/27/2017	16,240,717	18,111,570 (553,324)	0.001 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	312,361	312,361	Floating rate	9Y to 30Y
Non-guaranteed bonds issued by JFM (international) (Series 2, 3, 7, 14-16, 19, 28, 31, 33-35, 40-56)	1/12/2012-1/30/2017	8,422,727	10,810,686 [USD 9,781 million] [AUD 566 million] [NZD 105 million] [EUR 1,000 million] (1,679,042)	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	1,116,233	664,569 [USD 757 million] [AUD 100 million] (304,224)	Floating rate	5Y to 7Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series A1-A86)	7/31/2009-3/28/2017	19,455,600	20,794,288	0.069 to 1.53	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series B1-B17)	11/24/2015-3/28/2017	303,436	673,806	0.069 to 0.511	10Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series C1-C17)	11/24/2015-3/28/2017	459,616	1,195,895	0.190 to 1.154	20Y
Non-guaranteed bonds issued by JFM (domestic) Private placements with pension funds for local government officials (Series D1-D12)	4/21/2016-3/28/2017	-	1,338,688	0.190 to 0.778	20Y
Bonds issued by JFM - Sub-total	-	133,400,844	147,077,476 (6,061,802)	-	-
Government-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-8)	10/16/2008-5/25/2009	5,013,261	5,015,712	1.3 to 1.6	10Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) 10-year bonds (Series 1-4)	11/25/2008-5/28/2009	1,249,325	1,249,369	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	758,249	758,275	2.07 to 2.29	20Y
Non-guaranteed bonds issued by Japan Finance Organization for Municipal Enterprises (domestic) Private placements with pension funds for local government officials (Series A1, A2)	4/30/2009-5/26/2009	1,070,950	1,070,950	1.69 to 1.73	10Y
Bonds issued by Japan Finance Organization for Municipal Enterprises - Sub-total	-	8,091,785	8,094,306	-	-
Government-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 862-886)	4/20/2006-6/19/2008	13,117,593	7,215,853 (5,244,534)	1.4 to 2.0	10Y
Government-guaranteed bonds issued by the Predecessor (domestic) 15-year bonds (Series 1-5)	6/22/2005-7/18/2007	1,649,008	1,649,207	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	3,061,286	1,991,273 [GBP 150 million] [USD 1,000 million] (1,068,987)	1.9 to 5.75	10Y to 20Y

Financial Statements

Non-guaranteed bonds issued by the Predecessor (domestic) 10-year bonds (Series 20-30)	7/4/2006- 6/16/2008	3,569,705	1,427,909 (981,705)	1.77 to 2.07	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) 20-year bonds (Series 1-25)	7/30/2002- 6/16/2008	5,084,874	5,085,095	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	1,694,649	1,694,703	2.39 to 2.95	30Y
Non-guaranteed bonds issued by the Predecessor (domestic) Floating rate bonds (Series 1)	10/31/2002	178,492	178,492 (178,492)	Floating rate	15Y
Non-guaranteed bonds issued by the Predecessor (domestic) Bonds with scheduled repayment (Series 1-3)	2/14/2003- 6/9/2004	291,299	271,932 (19,366)	1.39 to 2.01	28Y
Non-guaranteed bonds issued by the Predecessor (domestic) CMS-linked floating rate bonds (Series 1)	9/13/2006	178,492	-	Floating rate	10Y
Non-guaranteed bonds issued by the Predecessor (domestic) Private placements with pension funds for local government officials (Series Special No.1-20–No.1-31)	7/26/2006- 7/31/2008	6,385,542	3,409,192 (2,275,770)	1.59 to 2.18	10Y
Bonds issued by the Predecessor - Sub-total	-	35,210,940	22,923,656 (9,768,854)	-	-
Total	-	\$176,703,569	\$178,095,438 (15,830,656)	-	-

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 19,955,593 million yen (178,095,438 thousand U.S. dollars) as of 31 March 2017.

2. Amounts in square brackets under "Balance as of 31 March 2017" 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, 40-56)," "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 2017" are to be repaid within one year.

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

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

As of 31 March 2017

(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	¥1,773,824	¥1,804,268	¥2,058,327	¥1,951,753	¥2,185,072

(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	\$15,830,656	\$16,102,353	\$18,369,723	\$17,418,594	\$19,500,869

9. Borrowed Money

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	-	-

Borrowed money as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of borrowed money	Balance as of 1 April 2016	Balance as of 31 March 2017	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	¥25,000	0.114	9/19/2017
Long-term borrowed money (excluding repayment within 1 year)	¥120,500	¥145,500	0.550	9/26/2018-2/27/2026
Total	¥120,500	¥170,500	-	-

(Thousands of U.S. dollars)

Classification of borrowed money	Balance as of 1 April 2016	Balance as of 31 March 2017	Average interest rate (%)	Repayment date
Short-term borrowed money	-	-	-	-
Long-term borrowed money (repayment within 1 year)	-	223,115	0.114	9/19/2017
Long-term borrowed money (excluding repayment within 1 year)	\$1,075,413	\$1,298,527	0.550	9/26/2018-2/27/2026
Total	\$1,075,413	\$1,521,642	-	-

Financial Statements

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

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

As of 31 March 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	¥-

As of 31 March 2017

(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	¥80,000	¥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	\$223,115	\$713,967	\$89,246	\$-	\$-

10. Reserves

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

Reserves as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Decrease during the year		Balance as of 31 March 2017
			Intended purpose	Other	
Reserve for bonuses	¥52	¥55	¥52	¥-	¥55
Reserve for bonuses for directors and corporate auditors	7	8	7	-	8
Reserve for retirement benefits	33	19	0	8	45
Reserve for retirement benefits for directors and corporate auditors	9	10	-	1	17

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Decrease during the year		Balance as of 31 March 2017
			Intended purpose	Other	
Reserve for bonuses	\$471	\$492	\$471	\$-	\$492
Reserve for bonuses for directors and corporate auditors	70	72	70	-	72
Reserve for retirement benefits	301	178	2	73	404
Reserve for retirement benefits for directors and corporate auditors	82	94	-	16	160

11. Reserve for Interest Rate Volatility

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

Reserve for interest rate volatility as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Decrease during the year		Balance as of 31 March 2017
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	¥1,760,000	¥220,000	¥220,000	¥-	¥1,980,000
Management account reserve for interest rate volatility	1,638,462	139,658	420,000	¥220,000	1,358,120
Total	¥3,398,462	¥359,658	¥220,000	¥420,000	¥3,338,120

(Thousands of U.S. dollars)

Classification of reserve	Balance as of 1 April 2016	Increase during the year	Decrease during the year		Balance as of 31 March 2017
			Amount provided	Amount withdrawn	
Reserve for interest rate volatility	\$15,707,274	\$1,963,409	\$1,963,409	\$-	\$17,670,683
Management account reserve for interest rate volatility	14,622,602	1,246,394	3,748,327	\$1,963,409	12,120,669
Total	\$30,329,876	\$3,209,803	\$1,963,409	\$3,748,327	\$29,791,352

Notes: The “decrease during the year” for the “management account reserve for interest rate volatility” in the amount of 420,000 million yen (3,748,327 thousand U.S. dollars) partly consists of 200,000 million yen (1,784,918 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 2016 (Ordinance No. 1 of the Ministry of Internal Affairs and Communications, and the Ministry of Finance, 2016).

12. Fund for Lending Rate Reduction

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

Fund for lending rate reduction as of 31 March 2017 consisted of the following:

(Millions of yen)

Classification of fund	Balance as of 1 April 2016	Increase during the year		Decrease during the year		Balance as of 31 March 2017
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	¥920,287	¥3,557	¥-	¥3,557	¥-	¥920,287
Total	¥920,287	¥3,557	¥-	¥3,557	¥-	¥920,287

(Thousands of U.S. dollars)

Classification of fund	Balance as of 1 April 2016	Increase during the year		Decrease during the year		Balance as of 31 March 2017
		Amount of reserve	Amount transferred	Amount withdrawn	Others	
Basic fund for lending rate reduction	\$8,213,187	\$31,747	\$-	\$31,747	\$-	\$8,213,187
Total	\$8,213,187	\$31,747	\$-	\$31,747	\$-	\$8,213,187

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.

13. Reserve for Retirement Benefits

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 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:	41 million yen
Pension expenses:	3 million yen
Employee retirement benefits paid:	3 million yen
Contributions to the defined benefit plan:	7 million yen
Reserve for retirement benefits at the end of the fiscal year:	<u>33 million yen</u>

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

Funded retirement benefit obligation:	291 million yen
Plan assets:	<u>(287) million yen</u>
Balance:	3 million yen
Unfunded retirement benefit obligation:	<u>30 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>33 million yen</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>33 million yen</u>
Net liability for retirement benefits in the balance sheet:	<u>33 million yen</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 3 million yen

As of and for the year ended 31 March 2017

(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:	33 million yen	(301 thousand U.S. dollars)
Pension expenses:	19 million yen	(178 thousand U.S. dollars)
Employee retirement benefits paid:	0 million yen	(2 thousand U.S. dollars)
Contributions to the defined benefit plan:	8 million yen	(73 thousand U.S. dollars)
Reserve for retirement benefits at the end of the fiscal year:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>

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

Funded retirement benefit obligation:	298 million yen	(2,662 thousand U.S. dollars)
Plan assets:	<u>(288) million yen</u>	<u>((2,571) thousand U.S. dollars)</u>
Balance:	10 million yen	(91 thousand U.S. dollars)
Unfunded retirement benefit obligation:	<u>35 million yen</u>	<u>(313 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>
Reserve for retirement benefits at the end of the fiscal year:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>
Net liability for retirement benefits in the balance sheet:	<u>45 million yen</u>	<u>(404 thousand U.S. dollars)</u>

(c) Profit and loss associated with employee retirement benefits

Pension expenses calculated based on the simplified method: 19 million yen (177 thousand U.S. dollars)

14. Net Income by Account

(For the year ended 31 March 2016)

Net income of the general account was 30,197 million yen, while there was no net income of management account.

(For the year ended 31 March 2017)

Net income of the general account was 27,878 million yen (248,804 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 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			
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

Balance sheets of general account and management account as of 31 March 2017 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	¥13,638,714	¥10,081,307		¥23,720,021
Securities	166,000			166,000
Cash and bank deposits	861,226			861,226
Cash collateral paid for financial instruments	24,327			24,327
Other assets	4,064	6,551		10,616
Tangible fixed assets	2,602			2,602
Intangible fixed assets	1,473			1,473
Due from general account		671,876	¥(671,876)	
Total assets	14,698,408	10,759,735	(671,876)	24,786,267
(Liabilities)				
Bonds	10,654,660	9,300,933		19,955,593
Borrowed money	170,500			170,500
Cash collateral received for financial instruments	111,159			111,159
Other liabilities	2,382	5,997		8,379
Reserve for bonuses	55			55
Reserve for bonuses for directors and corporate auditors	8			8
Reserve for retirement benefits	45			45
Reserve for retirement benefits for directors and corporate auditors	17			17
Fund for lending rate reduction	920,287			920,287
Basic fund for lending rate reduction	920,287			920,287
Due to management account	671,876		(671,876)	
Reserves under special laws	1,980,000	1,399,138		3,379,138
Reserve for interest rate volatility	1,980,000			1,980,000
Management account reserve for interest rate volatility		1,358,120		1,358,120
Reserve for interest rate reduction		41,017		41,017
Total liabilities	14,510,991	10,706,069	(671,876)	24,545,185
(Net Assets)				
Capital	16,602			16,602
Retained earnings	165,779			165,779
General account surplus reserve	165,779			165,779
Valuation, translation adjustments and others	5,035			5,035
Management account surplus reserve		53,666		53,666
Total net assets	187,416	53,666		241,082
Total liabilities and net assets	¥14,698,408	¥10,759,735	¥(671,876)	¥24,786,267

Financial Statements

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
(Assets)				
Loans	\$121,719,898	\$89,971,506		\$211,691,404
Securities	1,481,481			1,481,481
Cash and bank deposits	7,686,092			7,686,092
Cash collateral paid for financial instruments	217,108			217,108
Other assets	36,272	58,473		94,745
Tangible fixed assets	23,231			23,231
Intangible fixed assets	13,146			13,146
Due from general account		5,996,220	\$(5,996,220)	
Total assets	131,177,228	96,026,199	(5,996,220)	221,207,207
(Liabilities)				
Bonds	95,088,445	83,006,993		178,095,438
Borrowed money	1,521,642			1,521,642
Cash collateral received for financial instruments	992,049			992,049
Other liabilities	21,261	53,525		74,786
Reserve for bonuses	492			492
Reserve for bonuses for directors and corporate auditors	72			72
Reserve for retirement benefits	404			404
Reserve for retirement benefits for directors and corporate auditors	160			160
Fund for lending rate reduction	8,213,187			8,213,187
Basic fund for lending rate reduction	8,213,187			8,213,187
Due to management account	5,996,220		(5,996,220)	
Reserves under special laws	17,670,683	12,486,733		30,157,416
Reserve for interest rate volatility	17,670,683			17,670,683
Management account reserve for interest rate volatility		12,120,669		12,120,669
Reserve for interest rate reduction		366,064		366,064
Total liabilities	129,504,615	95,547,251	(5,996,220)	219,055,646
(Net Assets)				
Capital	148,167			148,167
Retained earnings	1,479,511			1,479,511
General account surplus reserve	1,479,511			1,479,511
Valuation, translation adjustments and others	44,935			44,935
Management account surplus reserve		478,948		478,948
Total net assets	1,672,613	478,948		2,151,561
Total liabilities and net assets	\$131,177,228	\$96,026,199	\$(5,996,220)	\$221,207,207

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.

16. Information by Account (Statements of income)

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

Financial Statements

Statements of income of general account and management account from 1 April 2016 through 31 March 2017 were as follows:

(Millions of yen)

Item	General account	Management account	Offset	Total
Income	¥137,984	¥248,271	¥(9,758)	¥376,497
Interest income	133,591	239,196		372,787
Fees and commissions	103			103
Other operating income	36			36
Other income	3,569			3,569
Contributions from fund for lending rate reduction	3,557			3,557
Others	12			12
Interest on due from management account	683		(683)	
Interest on due from general account		30	(30)	
Transfer from general account for fund for lending rate reduction		9,044	(9,044)	
Expenses	110,106	115,936	(9,758)	216,284
Interest expenses	95,523	113,349		208,872
Fees and commissions	147	165		313
Other operating expenses	2,277	1,597		3,874
General and administrative expenses	3,082	141		3,223
Interest on due to management account	30		(30)	
Transfer to management account for fund for lending rate reduction	9,044		(9,044)	
Administrative fee for management account		683	(683)	
Ordinary income	27,878	132,334	-	160,213
Special gains	220,000	427,323	(220,000)	427,323
Transfer from management account	220,000		(220,000)	
Reversal of management account reserve for interest rate volatility		420,000		420,000
Reversal of reserve for interest rate reduction		7,323		7,323
Special losses	220,000	559,658	(220,000)	559,658
Provision for reserve for interest rate volatility	220,000			220,000
Provision for management account reserve for interest rate volatility		139,658		139,658
Transfer to general account		220,000	(220,000)	
Payment to national treasury		200,000		200,000
Net income	¥27,878	-	-	¥27,878

(Thousands of U.S. dollars)

Item	General account	Management account	Offset	Total
Income	\$1,231,457	\$2,215,719	\$(87,089)	\$3,360,087
Interest income	1,192,251	2,134,727		3,326,978
Fees and commissions	927			927
Other operating income	327			327
Other income	31,855			31,855
Contributions from fund for lending rate reduction	31,747			31,747
Others	108			108
Interest on due from management account	6,097		(6,097)	
Interest on due from general account		276	(276)	
Transfer from general account for fund for lending rate reduction		80,716	(80,716)	
Expenses	982,653	1,034,684	(87,089)	1,930,248
Interest expenses	852,504	1,011,596		1,864,100
Fees and commissions	1,318	1,477		2,795
Other operating expenses	20,327	14,255		34,582
General and administrative expenses	27,512	1,259		28,771
Interest on due to management account	276		(276)	
Transfer to management account for fund for lending rate reduction	80,716		(80,716)	
Administrative fee for management account		6,097	(6,097)	
Ordinary income	248,804	1,181,035	-	1,429,839
Special gains	1,963,409	3,813,686	(1,963,409)	3,813,686
Transfer from management account	1,963,409		(1,963,409)	
Reversal of management account reserve for interest rate volatility		3,748,327		3,748,327
Reversal of reserve for interest rate reduction		65,359		65,359
Special losses	1,963,409	4,994,721	(1,963,409)	4,994,721
Provision for reserve for interest rate volatility	1,963,409			1,963,409
Provision for management account reserve for interest rate volatility		1,246,394		1,246,394
Transfer to general account		1,963,409	(1,963,409)	
Payment to national treasury		1,784,918		1,784,918
Net income	\$248,804	\$-	\$-	\$248,804

Financial Statements

17. Fair Value of Marketable Securities

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	-	-	-

Marketable held-to-maturity securities as of 31 March 2017 consisted of the following:

(Millions of yen)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	¥166,000	¥166,000	-	-	-

(Thousands of U.S. dollars)

	Book value	Fair value	Difference	Unrealized gains	Unrealized losses
Negotiable certificates of deposit	\$1,481,481	\$1,481,481	-	-	-

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, 2017 and 2016, 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, 2017 and 2016, and its financial performance and cash flows for the years then ended in conformity with the Law and regulations applicable to JFM and accounting principles generally accepted in Japan (refer to Note 1 of the accompanying notes to the financial statements).

Convenience Translation

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

Conflicts of Interest

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

May 18, 2017

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Appendix / JFM Data

Appendix	100
Members of the Representative Board and the Supervisory Committee	100
Redemption of Loans in Fiscal 2016	100
Outstanding Loans by Business	101
Outstanding Loans by Borrower	102
Bond Issuance in Fiscal 2016	106
Outstanding International Bonds	109
JFM Data	111
Organization History	111
Organization Chart	112
Directors and Corporate Auditors/Contact Information	113

Members of the Representative Board and the Supervisory Committee

The Representative Board members of JFM as of 1 August 2017 are as follows:

Name	Title	Background
Toshizo Ido	Chairman	Vice Chairman, National Governors' Association Governor, Hyogo prefecture
Gaku Kamiya	Deputy Chairman	Chairman, Finance committee of Japan Association of City Mayors Mayor, Anjo City, Aichi prefecture
Yasuomi Araki	Deputy Chairman	Chairman, National Association of Towns & Villages Mayor, Kashima Village, Kumamoto 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 2017 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 2016

Classification		Principal		Interest	
		Number of loans	Amount (USD millions)	Number of loans	Amount (USD millions)
Regular redemption of long-term loans	General loans	433,701	14,710	491,669	3,319
	Loans to local government corporations	501	92	501	8
	Subtotal	434,202	14,802	492,170	3,328
Prepayment of long-term loans	General loans	199	98	71	0
	Loans to local government corporations	-	-	-	-
	Subtotal	199	98	71	0
Redemption of loans with pre-consent or pre-approval		-	-	-	-
Redemption of short-term loans		-	-	-	-
Total		434,401	14,900	492,241	3,328

Note: Totals may not add up due to rounding.

Outstanding Loans by Business

(as of 31 March 2017)

Business		Number of Loans Made	Loan Amount (USD millions)	
				% of total
General Account-related Loans	Public Projects, etc.	2,501	3,357	1.6
	Public Housing	4,212	2,818	1.3
	National Disaster Prevention	1,215	1,358	0.6
	Educational Facilities Development	613	354	0.2
	Social Welfare Facilities Development	926	774	0.4
	General Waste Proposal	124	145	0.1
	General Projects	567	566	0.3
	Regional Revitalization	999	494	0.2
	Disaster Prevention	1,635	1,300	0.6
	Local Road Development ^{*1}	25,288	17,210	8.1
	Special Municipal Mergers	4,231	8,691	4.1
	Disaster Management and Mitigation	5,919	6,052	2.9
	Others	2,230	819	0.4
	Subtotal	50,460	43,938	20.8
Municipal Enterprise-related Loans	Water Supply	53,131	31,058	14.7
	Transportation	940	10,129	4.8
	Hospitals and Elderly Care Services	3,810	8,197	3.9
	Sewerage	122,741	69,650	32.9
	Industrial Water Supply	2,293	1,752	0.8
	Electricity and Gas	908	748	0.4
	Port Facilities	1,056	505	0.2
	Markets and Slaughterhouses	692	833	0.4
	Tourism and Others	281	261	0.2
	Subtotal	185,852	123,133	58.2
Temporary Financial Countermeasures Funding		6,127	44,190	20.9
Total		242,439	211,262	99.8
Local Government Road Corporation, Toll Roads ^{*2}		219	430	0.2
Grand Total		242,658	211,691	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 2017)

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	284	4,001	5,116	6,355	7,975	1,842
Aomori	199	320	1,959	2,225	1,383	418
Iwate	234	522	2,681	2,258	719	261
Miyagi	361	1,215	4,647	3,730	2,566	462
Akita	205	214	4,570	2,328	1,108	117
Yamagata	229	725	2,677	1,547	1,891	317
Fukushima	412	713	3,545	2,317	2,988	499
Ibaraki	479	1,222	6,489	3,978	1,362	380
Tochigi	263	536	3,235	1,990	774	234
Gunma	273	418	3,425	1,730	1,764	329
Saitama	256	2,191	6,108	5,942	1,660	471
Chiba	400	843	4,933	5,869	834	221
Tokyo	123	1,332	2,033	2,736	180	49
Kanagawa	223	1,807	2,993	7,785	1,059	368
Niigata	268	471	8,145	4,355	926	179
Toyama	273	285	3,740	2,751	558	220
Ishikawa	167	279	2,766	1,880	1,219	402
Fukui	240	380	2,153	1,346	860	126
Yamanashi	151	388	2,959	1,040	1,041	144
Nagano	241	348	4,177	2,495	3,115	599
Gifu	217	1,426	4,288	1,953	1,215	325
Shizuoka	354	540	4,991	3,293	719	215
Aichi	274	2,098	5,163	5,882	866	226
Mie	396	1,319	3,976	2,656	1,054	249

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
301	250	-	-	13,676	12,449	5.9
110	127	-	-	3,651	3,090	1.5
229	169	-	-	3,863	3,210	1.5
130	75	-	-	7,704	5,482	2.6
8	2	-	-	5,891	2,661	1.3
149	50	7	0	4,953	2,640	1.2
193	189	3	1	7,141	3,720	1.8
255	214	2	1	8,587	5,796	2.7
10	26	7	2	4,289	2,788	1.3
204	182	-	-	5,666	2,659	1.3
314	175	9	3	8,347	8,781	4.1
393	388	8	12	6,568	7,333	3.5
30	157	-	-	2,366	4,273	2.0
68	631	-	-	4,343	10,591	5.0
155	132	-	-	9,494	5,137	2.4
146	128	9	2	4,726	3,386	1.6
24	29	-	-	4,176	2,589	1.2
71	32	-	-	3,324	1,884	0.9
157	60	-	-	4,308	1,632	0.8
173	132	7	3	7,713	3,577	1.7
10	12	-	-	5,730	3,716	1.8
74	94	9	4	6,147	4,146	2.0
99	38	43	204	6,445	8,447	4.0
32	47	-	-	5,458	4,272	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	200	683	4,203	2,149	589	130
Kyoto	198	353	3,509	4,319	1,037	258
Osaka	112	1,277	5,450	12,665	923	310
Hyogo	322	3,881	7,694	8,613	1,968	758
Nara	273	944	2,317	1,618	1,841	522
Wakayama	113	388	1,616	1,830	1,362	502
Tottori	315	558	1,254	944	1,798	423
Shimane	274	899	2,541	1,910	297	73
Okayama	286	931	4,554	3,314	1,257	268
Hiroshima	415	1,618	4,280	4,484	883	267
Yamaguchi	419	473	4,241	2,475	584	114
Tokushima	189	443	1,351	1,024	785	247
Kagawa	229	206	2,079	1,102	839	203
Ehime	98	182	2,262	1,809	599	211
Kochi	139	807	1,509	1,241	700	185
Fukuoka	101	1,147	4,731	8,136	2,077	891
Saga	57	311	1,580	1,451	621	268
Nagasaki	144	516	2,719	2,478	650	165
Kumamoto	161	501	2,677	1,815	1,552	422
Oita	107	209	2,217	1,307	176	57
Miyazaki	151	652	2,018	1,358	713	178
Kagoshima	172	1,228	2,304	1,521	785	204
Okinawa	244	889	1,479	1,354	853	223
Total	11,241	42,689	165,354	147,356	60,725	15,530

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
111	54	-	-	5,103	3,017	1.4
24	46	9	5	4,777	4,981	2.4
222	672	15	35	6,722	14,960	7.1
447	538	36	24	10,467	13,814	6.5
26	55	-	-	4,457	3,139	1.5
81	69	-	-	3,172	2,788	1.3
28	26	-	-	3,395	1,950	0.9
67	35	-	-	3,179	2,917	1.4
110	177	-	-	6,207	4,690	2.2
11	15	17	52	5,606	6,436	3.0
114	75	-	-	5,358	3,137	1.5
3	1	-	-	2,328	1,715	0.8
21	49	-	-	3,168	1,561	0.7
16	12	-	-	2,975	2,214	1.0
10	91	-	-	2,358	2,323	1.1
259	209	26	79	7,194	10,461	4.9
99	102	-	-	2,357	2,132	1.0
15	33	7	2	3,535	3,193	1.5
37	26	5	0	4,432	2,764	1.3
-	-	-	-	2,500	1,573	0.7
11	10	-	-	2,893	2,197	1.0
18	27	-	-	3,279	2,980	1.4
54	28	-	-	2,630	2,493	1.2
5,119	5,687	219	430	242,658	211,692	100.0

Bond Issuance in Fiscal 2016

1. JFM bonds

(1) International bonds

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
53	5	Global	USD	1,500	2.125	99.780	13 Apr 2016	13 Apr 2021
54	7	Global	USD	1,000	2.13	99.30	25 Oct 2016	25 Oct 2023
55	5	Euro	USD	53	2.39	99.99	30 Jan 2017	28 Jan 2022
56	5	Euro	AUD	106	3.040	99.990	30 Jan 2017	28 Jan 2022

(2) Domestic public offerings

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
83	10	20	178	0.090	100	21 Apr 2016	28 Apr 2026
84	10	20	178	0.090	100	24 May 2016	28 May 2026
85	10	20	178	0.080	100	13 Jun 2016	26 Jun 2026
86	10	20	178	0.060	100	22 Jul 2016	28 Jul 2026
87	10	20	178	0.125	100	19 Aug 2016	28 Aug 2026
88	10	20	178	0.075	100	20 Sep 2016	28 Sep 2026
89	10	20	178	0.075	100	21 Oct 2016	28 Oct 2026
90	10	25	223	0.115	100	25 Nov 2016	27 Nov 2026
91	10	20	178	0.155	100	19 Dec 2016	28 Dec 2026
92	10	20	178	0.190	100	24 Jan 2017	28 Jan 2027
93	10	15	134	0.240	100	20 Feb 2017	26 Feb 2027
94	10	20	178	0.230	100	21 Mar 2017	26 Mar 2027
51	20	20	178	0.377	100	21 Apr 2016	28 Apr 2036
52	20	15	134	0.288	100	13 Jun 2016	27 Jun 2036
53	20	15	134	0.180	100	22 Jul 2016	28 Jul 2036
54	20	15	134	0.390	100	20 Sep 2016	26 Sep 2036
55	20	15	134	0.443	100	21 Oct 2016	28 Oct 2036
56	20	20	178	0.569	100	19 Dec 2016	26 Dec 2036
57	20	15	134	0.645	100	24 Jan 2017	28 Jan 2037
58	20	15	134	0.721	100	21 Mar 2017	27 Mar 2037
19	5	20	178	0.020	100	21 Apr 2016	28 Apr 2021
20	5	15	134	0.001	100	21 Oct 2016	28 Oct 2021
2	30	10	89	0.569	100	21 Apr 2016	27 Apr 2046
3	30	10	89	0.610	100	21 Oct 2016	26 Oct 2046
F311	3	3	27	0.015	100	27 Apr 2016	26 Apr 2019
F312	5	20	178	0.020	100	27 Apr 2016	27 May 2021
F313	6	3	27	0.030	100	27 Apr 2016	10 Nov 2021
F314	6	3	27	0.041	100	27 Apr 2016	26 Nov 2021
F315	6	6	54	0.041	100	27 Apr 2016	29 Nov 2021

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
F316	6	3	27	0.041	100	27 Apr 2016	30 Nov 2021
F317	7	20	178	0.068	100	27 Apr 2016	20 Mar 2023
F318	21	3	27	0.321	100	27 Apr 2016	28 Apr 2037
F319	25	3	27	0.385	100	27 Apr 2016	19 Mar 2041
F320	5	15	134	0.020	100	28 Apr 2016	26 Feb 2021
F321	6	3	27	0.036	100	28 Apr 2016	19 Nov 2021
F322	6	3	27	0.041	100	28 Apr 2016	26 Nov 2021
F323	6	3	27	0.041	100	28 Apr 2016	29 Nov 2021
F324	6	3	27	0.041	100	28 Apr 2016	30 Nov 2021
F325	6	6	54	0.030	100	28 Apr 2016	28 Apr 2022
F326	6	3	27	0.010	100	27 Jul 2016	15 Feb 2022
F327	6	3	27	0.009	100	27 Jul 2016	25 Feb 2022
F328	6	3	27	0.009	100	28 Jul 2016	28 Feb 2022
F329	6	3	27	0.010	100	27 Jul 2016	27 Jul 2022
F330	7	3	27	0.025	100	27 Jul 2016	27 Jul 2023
F331	7	3	27	0.025	100	28 Jul 2016	28 Jul 2023
F332	13	3	27	0.081	100	28 Jul 2016	20 Feb 2029
F333	23	3	27	0.183	100	27 Jul 2016	28 Jul 2039
F334	5	5	45	0.001	100	28 Jul 2016	27 Aug 2021
F335	6	5	45	0.023	100	27 Jul 2016	28 Feb 2022
F336	6	5	45	0.023	100	28 Jul 2016	28 Feb 2022
F337	6	3	27	0.023	100	29 Jul 2016	28 Feb 2022
F338	7	20	178	0.044	100	28 Jul 2016	20 Jun 2023
F339	17	6	54	0.130	100	28 Jul 2016	28 Feb 2033
F340	29	3	27	0.232	100	28 Jul 2016	26 Jan 2046
F341	40	10	89	0.485	100	28 Jul 2016	28 Jul 2056
F342	7	20	178	0.050	100	27 Oct 2016	27 Oct 2023
F343	12	3	27	0.115	100	27 Oct 2016	27 Oct 2028
F344	19	3	27	0.404	100	27 Oct 2016	19 Mar 2036
F345	40	3	27	0.779	100	27 Oct 2016	27 Oct 2056
F346	5	15	134	0.001	100	28 Oct 2016	26 Nov 2021
F347	5	7.5	67	0.001	100	28 Oct 2016	28 Jan 2022
F348	11	3	27	0.051	100	31 Oct 2016	31 May 2027
F349	19	3	27	0.406	100	31 Oct 2016	31 Mar 2036
F350	29	3	27	0.596	100	28 Oct 2016	27 Apr 2046
F351	40	3	27	0.771	100	28 Oct 2016	27 Oct 2056
F352	9	20	178	0.189	100	27 Jan 2017	19 Dec 2025
F353	15	3	27	0.427	100	27 Jan 2017	28 Jan 2032
F354	21	3	27	0.681	100	27 Jan 2017	18 Sep 2037

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)				
A75	10	20	178	0.100	100	21 Apr 2016	21 Apr 2026
A76	10	20	178	0.115	100	26 May 2016	26 May 2026
A77	10	20	178	0.105	100	20 Jun 2016	19 Jun 2026
A78	10	10	89	0.069	100	22 Jul 2016	22 Jul 2026
A79	10	10	89	0.105	100	19 Aug 2016	19 Aug 2026
A80	10	10	89	0.125	100	20 Sep 2016	18 Sep 2026
A81	10	10	89	0.105	100	21 Oct 2016	21 Oct 2026
A82	10	10	89	0.145	100	25 Nov 2016	25 Nov 2026
A83	10	10	89	0.185	100	19 Dec 2016	18 Dec 2026
A84	10	10	89	0.220	100	24 Jan 2017	22 Jan 2027
A85	10	10	89	0.270	100	20 Feb 2017	19 Feb 2027
A86	10	10	89	0.260	100	28 Mar 2017	26 Mar 2027
D1	20	20	178	0.382	100	21 Apr 2016	21 Apr 2036
D2	20	20	178	0.338	100	26 May 2016	26 May 2036
D3	20	20	178	0.293	100	20 Jun 2016	20 Jun 2036
D4	20	10	89	0.190	100	22 Jul 2016	22 Jul 2036
D5	20	10	89	0.432	100	19 Aug 2016	19 Aug 2036
D6	20	10	89	0.453	100	20 Sep 2016	19 Sep 2036
D7	20	10	89	0.463	100	19 Oct 2016	17 Oct 2036
D8	20	10	89	0.493	100	25 Nov 2016	25 Nov 2036
D9	20	10	89	0.589	100	16 Dec 2016	16 Dec 2036
D10	20	10	89	0.665	100	24 Jan 2017	23 Jan 2037
D11	20	10	89	0.778	100	20 Feb 2017	20 Feb 2037
D12	20	10	89	0.741	100	28 Mar 2017	27 Mar 2037

(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)				
B6	10	2	18	0.100	100	21 Apr 2016	21 Apr 2026
B7	10	2	18	0.115	100	26 May 2016	26 May 2026
B8	10	2.5	22	0.105	100	20 Jun 2016	19 Jun 2026
B9	10	4	36	0.069	100	22 Jul 2016	22 Jul 2026
B10	10	5.5	49	0.105	100	19 Aug 2016	19 Aug 2026
B11	10	2.5	22	0.125	100	20 Sep 2016	18 Sep 2026
B12	10	2	18	0.105	100	21 Oct 2016	21 Oct 2026
B13	10	4	36	0.145	100	25 Nov 2016	25 Nov 2026
B14	10	2.5	22	0.185	100	19 Dec 2016	18 Dec 2026
B15	10	6	54	0.220	100	24 Jan 2017	22 Jan 2027
B16	10	5	45	0.270	100	20 Feb 2017	19 Feb 2027
B17	10	3.5	31	0.260	100	28 Mar 2017	26 Mar 2027
C6	20	4.5	40	0.382	100	21 Apr 2016	21 Apr 2036
C7	20	4.5	40	0.338	100	26 May 2016	26 May 2036
C8	20	5	45	0.293	100	20 Jun 2016	20 Jun 2036

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
C9	20	12.1	108	0.190	100	22 Jul 2016	22 Jul 2036
C10	20	8.9	79	0.432	100	19 Aug 2016	19 Aug 2036
C11	20	4.5	40	0.453	100	20 Sep 2016	19 Sep 2036
C12	20	4	36	0.463	100	19 Oct 2016	17 Oct 2036
C13	20	6.5	58	0.493	100	25 Nov 2016	25 Nov 2036
C14	20	4.9	44	0.589	100	16 Dec 2016	16 Dec 2036
C15	20	14.6	130	0.665	100	24 Jan 2017	23 Jan 2037
C16	20	7.5	67	0.778	100	20 Feb 2017	20 Feb 2037
C17	20	5.5	49	0.741	100	28 Mar 2017	27 Mar 2037

3. Government-guaranteed domestic bonds

Series Number	Tenor (yr)	Issue Size		Coupon (%)	Issue Price (%)	Issue Date	Maturity Date
		(JPY billions)	(USD millions)				
83	10	20	178	0.020	100	18 Apr 2016	17 Apr 2026
84	10	20	178	0.020	100	23 May 2016	22 May 2026
85	10	20	178	0.010	100	25 Jun 2016	15 Jun 2026
86	10	20	178	0.005	100	19 Jul 2016	17 Jul 2026
87	10	20	178	0.010	100	16 Aug 2016	14 Aug 2026
88	10	20	178	0.010	100	14 Sep 2016	14 Sep 2026
89	10	20	178	0.005	100	18 Oct 2016	16 Oct 2026
90	10	20	178	0.005	100	21 Nov 2016	20 Nov 2026
91	10	20	178	0.085	100	14 Dec 2016	14 Dec 2026
92	10	20	178	0.115	100	19 Jan 2016	19 Jan 2027
93	10	20	178	0.174	100	15 Feb 2016	15 Feb 2027
94	10	20	178	0.145	100	15 Mar 2016	15 Mar 2027
6	8	60	535	0.001	100.18	27 Sep 2016	27 Sep 2024
7	8	60	535	0.095	100	24 Feb 2016	24 Feb 2025
18	6	70	625	0.001	100.32	30 May 2016	30 May 2022
19	6	70	625	0.001	100.62	29 Jul 2016	29 Jul 2022
20	6	60	535	0.001	100.3	28 Oct 2016	28 Oct 2022
7	4	40	357	0.001	100.4	30 Jun 2016	30 Jun 2020

Outstanding International Bonds

1. JFM bonds

(as of 31 March 2017)

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

Appendix

Series Number	Tenor (yr)	Format	Currency	Issue Size (in millions)	Coupon	Issue Price (%)	Issue Date	Maturity Date
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
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
37	1.5	Euro	USD	200	3mL+17bp	100	28 May 2013	28 Nov 2014
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	2.13%	99.774	12 Feb 2016	12 Feb 2021
53	5	Global	USD	1,500	2.13%	99.78	13 Apr 2016	13 Apr 2021
54	7	Global	USD	1,000	2.13%	99.297	25 Oct 2016	25 Oct 2023
55	5	Euro	USD	53	2.39%	99.99	30 Jan 2017	28 Jan 2022
56	5	Euro	AUD	106	3.040%	99.99	30 Jan 2017	28 Jan 2022

Organization History

History of JFM

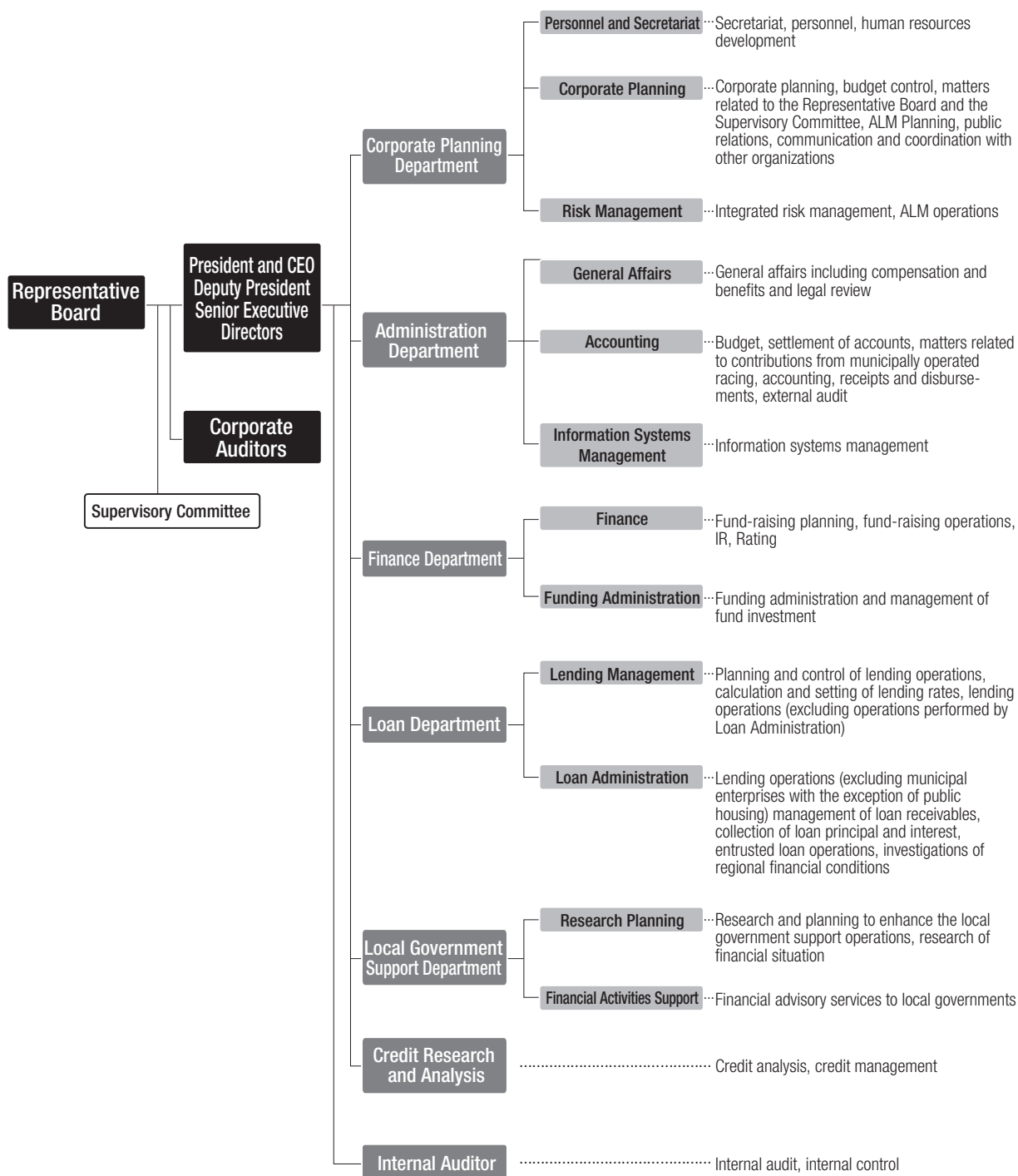
FY2008	The Japan Finance Organization for Municipal Enterprises (the Predecessor of JFM) was established pursuant to the Japan Finance Organization for Municipal Enterprises Law on 1 August 2008. Succeeded the assets and assumed the liabilities of the Predecessor and commenced operations on 1 October 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 2017



Directors and Corporate Auditors

(As of 1 July 2017)

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

Contact Information



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